Contraire

BONANZA WEALTH MANAGEMENT RESEARCH

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28th JULY 2024

TCPL PACKAGING – BUY

CMP :Rs. 3,332
Target Price :Rs. 4,000
Upside : 20%+
Stop Loss :Rs.2,850(Closing basis)

Investment Thesis

- TCPL Packaging is a leading folding carton manufacturer and paperboard converter in India. They have currently manufacturing units across 5 locations and marketing offices in key metro cities. They've recently doubled their capacity in flexible packaging at their Silvassa and Haridwar plant to meet growing demand.
- TCPL serves a wide range of industries, including FMCG, tobacco, and liquor. While there's concentration in top industries (FMCG, F&B, and tobacco), this is mitigated by long-term client relationships and a reputable customer base. The company has expanded from a single client in tobacco to over 150 clients across multiple sectors.
- The packaging industry in India is benefiting from the country's overall growth story, driven by favorable demographics and end-industry fundamentals. The retail revolution and growth of e-commerce have created new opportunities, particularly in transit packaging.
- TCPL is focusing on several key areas for future growth: a) Enhancing penetration in existing and new customer segments, especially in hard packaging. b) Developing innovative packaging solutions, including recyclable materials, to meet changing customer needs and regulatory requirements. c) Improving commercial supplies from Innofilms, with quality stabilization attracting large MNC clients. d) Developing recyclable mono-material packaging solutions, aligning with sustainability trends.
- TPCL's ability to produce recyclable flexible packaging also gives the company an edge over its competition. As can be seen in the market today, has helped brand owners such as Unilever and Nestle launch their first mono polymer (PE) fully recyclable pouches in the past year. This market will be bound to grow in time and will propel growth of flexible packaging division, as it has scope for growth through significant capacity that has been added lately.

Financials

- TCPL's revenue has shown a consistent growth trajectory, increasing from Rs. 1,076 crore in FY22 to Rs. 1,486 crore in FY24 and further estimating it to grow to Rs. 1,880 crore in FY26E.This growth could be attributed to expansion into capacity at Silvassa and Haridwar plants.

Consl. (Rs.Cr)	FY22	FY23	FY24	FY25E	FY26E
Revenue	1,076	1,432	1,486	1,635	1,880
EBITDA	156	236	249	286	358
EBITDA Margin (%)	14%	16%	17%	18%	19%
PAT	49	118	107	123	148
EPS (Rs.)	54	129	123	135	174
P/E (x)	60	25	27	24	23
RoE (%)	14.24%	26.11%	19.81%	20.75%	22.66%

Stock Data

Market Cap (Rs. Cr)	3,032
Market Cap ($ Cr)	35.63
Shares O/S (in Cr)	0.91
Avg. Volume (3 month)	95,628
52-Week Range (Rs.)	3,500 / 1,713

Shareholding Pattern

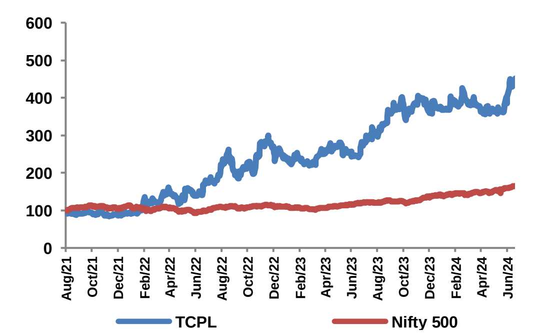
Promoters	55.74%
FIIs	0.78%
Institutions	43.25%
Others (incl. body corporate)	0.23%

Key Ratios

Div Yield	0.70%
TTM PE	27x
ROE	21.4%
TTM EPS (Rs.)	123/-

Stock Performance

Performance (%)	1M	6M	1Yr
ABSOLUTE	27.4	-0.5	79.6
NIFTY 500	1.9	113.0	38.2



- The EBITDA has also been growing steadily, from Rs. 156 crore in FY22 to Rs. 249 crore in FY24 and further estimating it to grow to Rs. 358 crore in FY26E. This suggests that the company has been able to effectively manage its operating costs and maintain profitability.
- The EBITDA margin, has shown a consistent improvement, increasing from 14% in FY22 to 17% in FY24 and further estimating at 19% in FY26E as it is expected to increase its margins on account of increase in volume from end user industries.
- The PAT, has also been growing steadily, from Rs. 49 crore in FY22 to Rs. 107 crore andfutherestimated at Rs. 148 crore in FY26E. There was dip in FY24 profits due to technicals issues in machinery followed by the crucial steps took by the company to recover in coming years.

Key Business Highlights

- TCPL has established itself as a key player in the domestic packaging industry. Their diverse client base across multiple sectors reduces risk and provides stable revenue streams. Being a preferred vendor for major companies like HUL and Nestle indicates the quality and reliability of their products.
- TCPL's strong in-house R&D team is a key asset, driving innovation in products and processes. Their development of new products for specific industries, like electric equipment manufacturers, shows their ability to tap into niche markets. The focus on innovative and sustainable packaging solutions aligns with current market trends and regulatory requirements.
- By developing recyclable mono-material packaging solutions, TCPL is aligning with global sustainability trends. This focus on eco-friendly products not only meets evolving customer demands but also positions them favorably with respect to potential future regulations.
- TCPL's scale of operations, technological capabilities, and long-standing client relationships form a strong competitive moat. Their adaptability to market needs allows them to stay relevant and preferred by clients. These advantages are crucial for maintaining and improving their market position in a competitive industry.
- TCPL boasts lowest debt-to-equity ratio in the industry at 0.87 times, indicating strong financial health and minimal leverage risk. It has demonstrated impressive growth of 28.41% in operating profit, showcasing its ability to improve profitability over time. TCPL leads the industry with the highest PBDIT and operating profit to net sales ratios, reflecting operational efficiency

Valuation

While the stock is trading at TTM P/E of 27x with an EPS of Rs.135. Revenue is expected to grow on back of new capacity addition which could boost their volume output and inturn increase its profitability.

We expect it to trade around 23.0xP/E with an FY26 EPS of Rs.174.

We are assinging a BUY rating for with a Target Price of Rs. 4,000, translating into an upside of 20%.

Risk & Concern

- Globally, prices for the main raw materials of the paper and plastics industries continue to be very volatile. Key chemicals, polymer, pulp and metal indexes such as Aluminium LME, have also fluctuated considerably, as well as shipping and transport charges.
- While the company tries to pass this on to customers and absorb some of it by improving productivity, there is still a threat of lag in passthrough that may impact margins.
- Threat in the growth of the underlying end-user industries such as FMCG, Food & Beverage, Tobacco, and Liquor due to low domestic volume growth that is not as per what is widely expected.

Graphs & Charts

Figure 1: Net Sales Trend

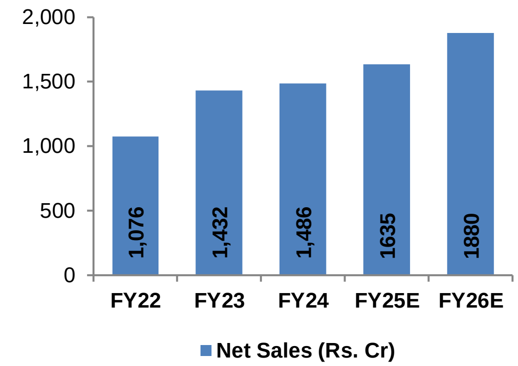


Figure 2: EBITDA & EBITDA Margin Trend

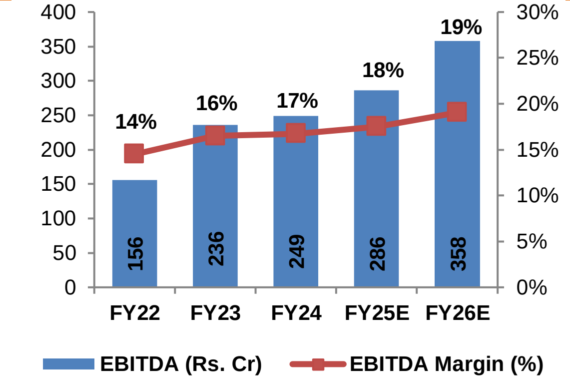


Figure 3: PAT Trend

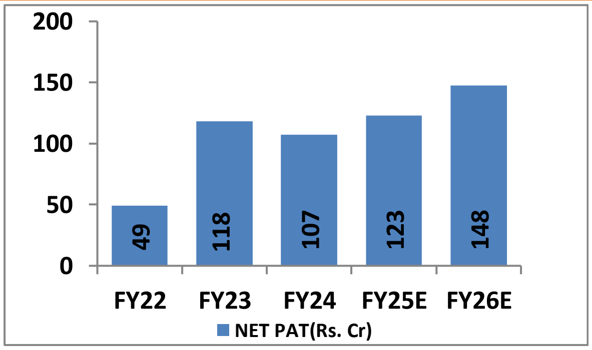
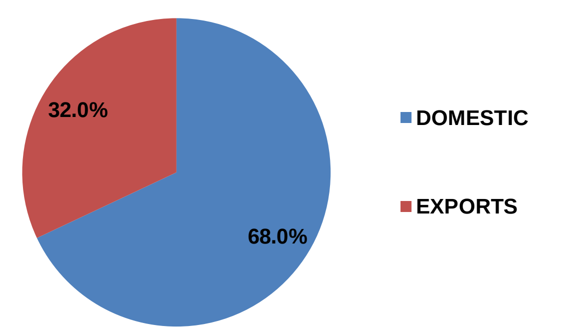


Figure 4: LOCATIONWISE BREAKUP(FY24)



Name **Designation**
Mr. Kunal Kamble **Sr. Technical Equity Research Analyst**

Kunal Naland Kamble

Digitally signed by Kunal Naland Kamble
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M/s. Bonanza Portfolio Ltd at Bonanza House, Plot No. M-2, Cama Industrial Estate. Walbhat Road, Goregaon (E), Mumbai – 400063
Web site: https://www.bonanzaonline.com

Research Analyst Regn No. INH100001666

SEBI Regn. No.: INZ000212137

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