



HIDDEN GEMS

UNEXPLORED MULTIBAGGER SMALL CAP STOCKS

EQUITY RESEARCH REPORT

TCPL PACKAGING LTD.	BSE CODE: 523301
Industry: Paper & Paper Products	CMP: Rs. 74.85 (31/01/2013)
Market Cap: 651.19 (INR in Millions)	Target Price: Rs. 160.00
Date: January 31, 2013	Time Period: 18 – 24 months



Saral Gyan Capital Services

www.saralgyan.in

An Independent Equity Research Firm

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1. Company Background

TCPL Packaging Ltd., (formerly known as Twenty-First Century Printers Ltd) was promoted by the Kanoria family, and began commercial production in April 1990. It is one of India's largest manufacturers of printed folding cartons, and one of the few listed packaging companies in India.



Today, TCPL Packaging Ltd. operates out of its six manufacturing units ; three in Silvassa, 180 kms from Mumbai in Western India ; two in Haridwar, 200 kms from Delhi in Northern India ; and one in Goa, 600 kms from Mumbai in Western India. All the plants are ISO 9001: 2008, ISO 22000: 2005 certified and are also compliant with BRC/IoP Global Standard-Packaging Issue 3, which is suitable for direct food contact. In addition, plants at Silvassa and Haridwar are also FSC certified & SEDEX Compliant.

TCPL is one of the largest exporters of printed cartons from India. It regularly caters to consumers in countries like UK, The Netherlands, UAE, Bangladesh etc. Exports constitute about 17% of TCPL's annual revenues.

TCPL is the country's second largest carton manufacturer after ITC. While ITC manufactures carton for captive consumption, TCPL biggest clients are Godfrey Philips India, Nestle India, Colgate, Godrej, HLL, Seagram and Jagatjit Industries. TCPL prints Shells and Hinge Lid Blanks required by cigarette manufacturing companies and Cartons, Boxes & other packaging material for various companies in the booming liquor, FMCG, Food & Beverages segment and others.

TCPL won several awards for excellence in printing from Paper, Film & Foil Converters Association for cartons manufactured for various customers. TCPL has core manufacturing business and enjoys reputation of a reliable packaging company for supply of various types of packaging materials to large foreign and domestic companies. It is presently consolidating its operations and working on new product offerings.

As part of its expansion plans, TCPL recently purchased an additional plot of land in the vicinity Haridwar plant to set up a corrugation unit that will mainly produce E-flute corrugated cartons. The unit commenced operation by Q1FY13.

For the financial year ended 31st March 2012, TCPL's revenues were Rs.295.68 crores (US\$ 59 million) registering a CAGR in excess of 20% over the past five years. TCPL is currently converting approx. 3500 tons of paperboard every month, making TCPL one of India's largest converters of paperboard.

Production Facilities

The Silvassa Factory



TCPL Packaging is now operating three plants at Silvassa. Of the three plants, one houses the web fed gravure machines, the second houses sheet fed offset machines and the third is a dedicated facility for corrugated cartons. As a result the Silvassa operations are extremely versatile allowing TCPL to offer printing on a variety of substrates and combinations thereof, as also capability to cater to a variety of requirements depending on the nature of the job in terms of volume and print appearance

Gravure Packaging Unit: This exclusive gravure printing facility was set-up in January 2010 and houses three 10 colour gravure presses all with inline die cutting facilities. Of the three presses, two have been imported earlier from Komori Chambon and the third and latest one is imported from ATN Industrie, France. Two of the above three presses have the capability to rotary die cut and emboss inline besides printing in one operation. The plant is also equipped with a specialised Bobst offline die cutting and foil stamping machinery besides facilities for lamination of film to board. The printing machines are also equipped with online defect detection camera to guarantee 100% defect free supplies.

Offset Packaging Unit: This unit houses three MAN Roland 700 offset presses all of which are six colour with inline coaters. The plant is also equipped with multiple line Bobst folder-glueers and die-cutters as well as window patching machines. Besides, the facility also has equipments for hot foil stamping, automatic film lamination and every other conceivable finishing capability. Of the three offset machines, one is equipped with interdeck UV driers capable of printing on plastic and non-absorbent substrates. The die-cutter and folder glueers are also similarly equipped to handle plastic substrates. In addition, a sheet fed gravure printing machine has also been recently commissioned, enabling the plant to print by both offset and gravure or in combination thereof.

Fluted Carton Unit: This unit set-up in March 2010 is a dedicated facility for production of E / F fluted cartons. It houses 2 lines of E/F fluting corrugation single facers, Litho Laminator, three special die cutting equipment designed for fluted cartons and specialised folder glueers from Bobst equipped for gluing/folding of fluted cartons. The plant is also equipped with a hot room for control of moisture and is fully equipped to handle sophisticated requirements of E / F fluted cartons.

The Haridwar Factory



TCPL Packaging is now operating two plants at Haridwar. Of the two plants, one houses the sheet fed offset machines, and the second one is a dedicated facility for corrugated cartons.

Offset Packaging Unit

Printing: Haridwar plant is equipped with two Mitsubishi LX six color sheet fed offset printing machines, one KBA 106 six color sheet fed offset printing machine equipped with in-line coaters besides a sheet-fed gravure printing machine to enable it to print offset-gravure combination jobs.

Die-cutting: Multiple number of state-of-art die cutters from Bobst with in-line stripping facility.

Folding & Glueing: Multiple lines of high speed folding and glueing facilities from Bobst equipped with crash lock bottom devices.

Folding & Glueing equipment at Haridwar plant is equipped with a Code Reader Xtend Series from Baumer HHS in combination with lower glue line detection.

Window Patching / Liner Capability: Three Heiber & Schroder Window Patching machines with liner capability.

Fluted Carton Unit

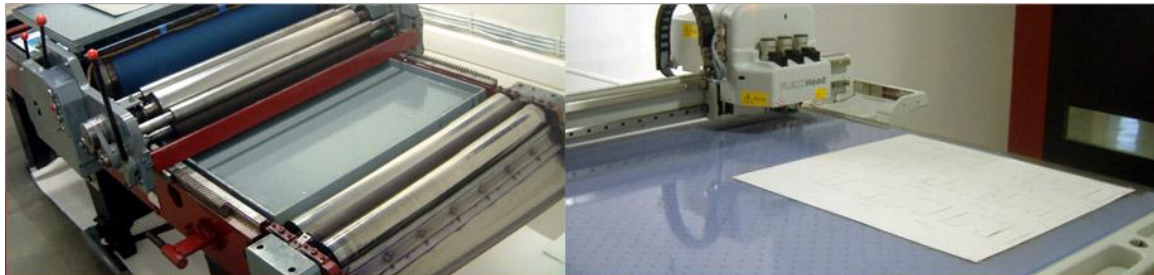
This unit set-up in March 2012 is a dedicated facility with state-of-the art technology for production of E / F fluted cartons. It houses one line of E / F fluting corrugation single facer, Litho Laminator with all latest and automated features, special die cutting equipment designed for fluted cartons and specialised and renowned folder gluer equipped for gluing/folding of fluted cartons. The plant is also equipped with latest testing equipments for quality assurance and a hot room for control of moisture and is fully equipped to handle sophisticated requirements of E / F fluted cartons.

The Goa Factory



TCPL operates one plant at Goa. This unit set-up in July 2012 is a dedicated facility for production of E/F/N fluted cartons. It houses 2 lines of E/F/N fluting corrugation single facers, Litho Laminator, three special die cutting equipment designed for fluted cartons and specialized folder gluers from Bobst equipped for gluing E/F/N and straight line glued cartons at high speed. The plant is also equipped with a hot room (de- humidifier) for control of moisture and is fully equipped to handle sophisticated requirements of E/F/N fluted cartons.

The Prepress Centre



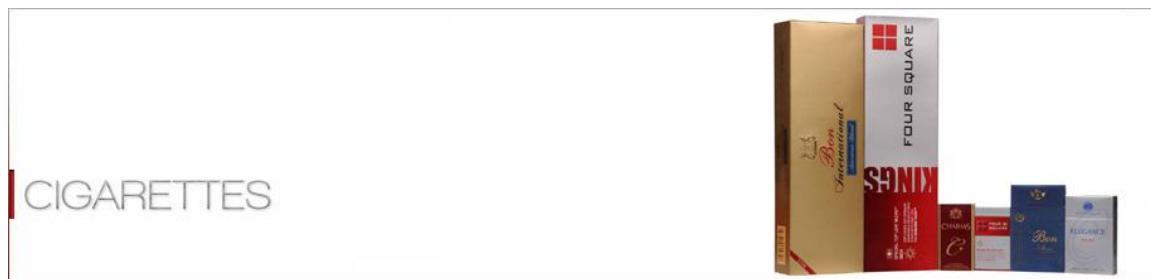
TCPL always put best of its efforts to exceed customer expectations. It is with this objective that TCPL has promoted a company viz. Accura Reprotech Pvt. Ltd., (ART) based out of Mumbai which is responsible for prepress and repro activities of the company. ART has been set-up to focus on areas such as structural and graphic design, use of varied raw material and suggesting to customers, different types of finishes to be incorporated in their packaging.

This centre is located in heart of Mumbai making it easy for customers to visit the centre and experiment with different possibilities.

ART is equipped with Esko Graphics Suite 10 PDF enabled workflow and has all facilities under one roof geared up for designing, editing and processing of jobs. The facility is also equipped with the latest Kongsberg Sample Table for the production of printed / unprinted cartons including complete proofing facility.

ART is connected to both manufacturing plants by dedicated leased lines and to customers via FTP (File transfer protocol)

Product Portfolio



1. CIGARETTES: TCPL Packaging Ltd. is currently catering to the Phillip Morris and BAT associate companies in India and other leading cigarette manufacturers in the region.

TCPL can undertake both long and short run jobs either by gravure or offset process. The packs are subject to stringent quality checks such as GC tester and crease stiffness tester which are available at its laboratories.

In the financial year ended 31st March 2012, TCPL produced in excess of 2.2 billion packs for the tobacco industry.

The significant benefit that TCPL can offer its customers in the cigarette industry is its capability to offer value additions by way of UV varnishing, offset gravure combination, matt/gloss varnishes etc.



2. LIQUOR: TCPL is currently one of the largest manufacturers of liquor cartons in India, catering to all liquor majors in the industry. With its versatile printing facility, it can manufacture liquor cartons with inline UV varnish as well as die cutting in a single operation.

A significant amount of its revenues comes from sales to liquor majors such as Pernod Ricard, Diageo, United Spirits, Radico Khaitan, Jagatjit Industries, Allied Blenders, Bacardi and other liquor producers.

TCPL possesses the unique capability of printing by a combination of offset and gravure thereby enhancing the look of the pack in a very cost effective manner.



3. FOOD: TCPL is a regular and approved vendor to leading food and beverage manufacturing companies in India such as Nestle, General Mills, Ferrero, GSK, Kellogg India, Heinz, Amul, Hindustan Unilever, Tata Global Beverages, Cadbury/Mondelez International and many other smaller Indian companies. Besides, TCPL is a regular exporter to the food and bakery industry in UAE, Netherlands and UK.

Amongst TCPL's capabilities include conversion of 4 and 6 corner glued cartons and liner cartons.

It is one of the few Indian packaging companies to have achieved BRC and SEDEX certification



4. FMCG: Having online coating and expertise in surface printing on metallised polyester laminated board and plastic substrates. TCPL caters to a large number of clients in the FMCG sector.

Besides, TCPL also assists its customers in product innovation and design. Its extensive expertise in providing customers with both structural & graphic design is a big advantage for its customers to offer value added and unique packaging for the market place.

TCPL has been increasing its customer base in this arena and catering to a wide variety of companies. Amongst its many customers are Hindustan Unilever, Emami, Anchor, Colgate, Godrej Sara Lee, Godrej Consumer Products, Cavin Kare, Marico, Johnson & Johnson, S.C.Johnson, Cholayil, Hygeinic Research, etc.

Both offset plants are equipped to print on met pet substrates besides having hot foil stamping capabilities and capability to glue with hot melt as well as PUR based adhesives.



5. OTHERS: TCPL's clients include host of other customers in segments such as automobile, stationery, pharmaceuticals and the airline industry.

TCPL is already supplying to highly reputed international airline companies such as Gulf Air, KLM and Indian airline companies such as Kingfisher and Jet Airways.

In the stationery segment, TCPL caters to one of the largest stationery products manufacturer in the country, Hindustan Pencils Ltd.

In the automobile industry, TCPL is an established supplier to industry leaders, Mico Bosch & Tata Motors.

CUSTOMERS:**Tobacco****Liquor****Food**

FMCG

Others

Achievements

TCPL won several awards for excellence in printing from Paper, Film & Foil Converters Association for cartons manufactured for various customers. TCPL has core manufacturing business and enjoys reputation of a reliable packaging company for supply of various types of packaging materials to large foreign and domestic companies.

Partner to Win award by Hindustan Unilever Ltd (HUL) received in 2012

TCPL is one of the lead packaging suppliers to Hindustan Unilever Ltd (HUL), driving the sustainability agenda through various projects like sheet optimisation which helps HUL reduce usage of paper board, usage of recyclable plastic CFC for transfer of materials, dimension optimisation of carton flaps, board GSM optimisation by engaging with feedstock suppliers or replacement of Met Pet films etc.

TCPL won the Partner to Win Award under the Winning through Sustainability category at the Partner to Win Summit 2012 organised by HUL in Mumbai in September, 2012.



Indian Institute of Packaging Indiarstar Awards received in 2012

TCPL won 3 awards for various cartons printed for their customers at India Star 2012 organised by Indian Institute of Packaging.

IFCA Star Awards received in 2011

TCPL won 6 awards for various cartons being printed for their customers at IFCA Star 2011 organised by The Indian Flexible Packaging and Carton Manufacturers Association (IFCA), formerly known as Paper Film & Foil Converters' Association

2. Recent Development

TCPL Packaging inks technical collaboration agreement with AR Packaging Group

TCPL Packaging has signed a technical collaboration agreement with AR Packaging Group AB, Lund Sweden. The objective of the agreement is a strategic partnership mainly in the manufacturing, sourcing and sales and marketing in India for solid folding cartons. The board at its meeting held on November 10, 2012 has taken the note of it.

AR Packaging Group AB, offers packaging and packaging machinery solutions, cardboard packaging and folding cartons to various market segments. The company also offers solid board solutions as secondary packaging for brewery products, and solutions for various consumer products, including confectionery, cereals, fast food, frozen food, tobacco, pet food, and non food. The manufacturing activities are carried through 14 production plants in eight European countries alongside operating sales offices in Asia, Europe, Africa and the US. It is headquartered at Malmo, Sweden.

Capacity Expansion to meet customer needs and to offer Innovative packaging solutions

During the FY12, TCPL added a third printing machine at Haridwar. During the last 5 years, TCPL has spent about 150 crore and enhanced its capacity to 50,400 TPA from 21,000 TPA in FY07. TCPL's corrugated cartons plant at Haridwar commenced production from March 2012. Besides, TCPL is also adding a new facility for manufacturing of corrugated cartons at Goa. The total Capex incurred at various locations was to the tune of 33 crore for the year 2011-12.

TCPL Packaging Ltd, one of the largest manufacturers and leading exporter of printed cartons in India. TCPL has three manufacturing units in Silvassa and two in Haridwar, Uttarakhand and one in Goa. TCPL is an ISO 9001:2008, ISO 22000:2005, BRC/IoP certified and SEDEX Compliant packaging company. TCPL also produces a wide range of products such as printed blanks & others, Folding Cartons, Litho Lamination, Plastic cartons, Blister paper, Shelf ready packaging. It caters to the segments like Cigarette, Liquor, Food, FMCG etc.

3. Financial Performance

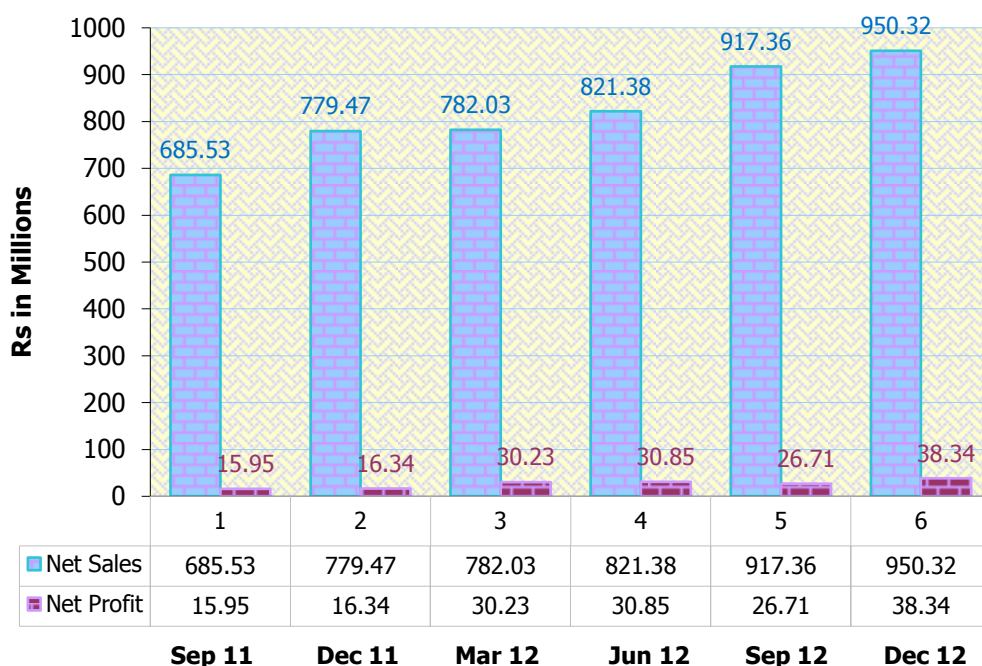
TCPL Packaging net profit rises 134.97% in the December 2012 quarter

Net profit of TCPL Packaging rose 134.97% to Rs 38.3 million in the quarter ended December 2012 as against Rs 16.3 million during the previous quarter ended December 2011. Sales rose 21.91% to Rs 950.3 million in the quarter ended December 2012 as against Rs 779.5 million during the previous quarter ended December 2011.

TCPL Packaging net profit rises 67.92% in the September 2012 quarter

Net profit of TCPL Packaging rose 67.92% to Rs 26.7 million in the quarter ended September 2012 as against Rs 15.9 million during the previous quarter ended September 2011. Sales rose 33.83% to Rs 917.4 million in the quarter ended September 2012 as against Rs 685.5 million during the previous quarter ended September 2011.

Last 6 Quarters Net Sales & Profit



Current & Expected Earnings

Quarterly Ended Profit & Loss Account

Particulars (Rs in Millions)	Mar 2012	Jun 2012	Sep 2012	Dec 2012	Mar 2013 E	Jun 2013 E
Audited / UnAudited	UA	UA	UA	UA	UA	UA
Net Sales	782.03	821.38	917.36	950.32	975.85	1013.48
Total Expenditure	652.81	694.62	788.29	803.95	813.53	825.47
PBITD (Excl OI)	129.22	126.76	129.07	146.37	162.32	188.01
Other Income	0	0	0	0	0	0
Operating Profit	129.22	126.76	129.07	146.37	162.32	188.01
Interest	29.96	32.21	36.41	36.83	37.27	38.42
Exceptional Items	0	0	0	0	0	0
PBDT	99.26	94.55	92.66	109.53	125.05	149.59
Depreciation	49.43	49.2	50.16	54.15	60.12	71.34
Profit Before Tax	49.83	45.35	42.5	55.38	64.93	78.25
Tax	19.6	14.5	15.79	17.04	19.91	24.16
Provisions and contingencies	0	0	0	0	0	0
Profit After Tax	30.23	30.85	26.71	38.34	45.02	54.09
Extraordinary Items	0	0	0	0	0	0
Prior Period Expenses	0	0	0	0	0	0
Other Adjustments	0	0	0	0	0	0
Net Profit	30.23	30.85	26.71	38.34	45.02	54.09
Equity Capital	87	87	87	87	87	87
Face Value (IN RS)	10	10	10	10	10	10
Reserves						
Calculated EPS	3.47	3.55	3.07	4.41	5.17	6.22
Calculated EPS (Annualised)	13.9	14.18	12.28	17.63	20.70	24.87
No of Public Share Holdings	4463171	3895901	3895901	3895901	NA	NA
% of Public Share Holdings	53.45	44.78	44.78	44.78	NA	NA

Expected Earnings for FY 2012-13:

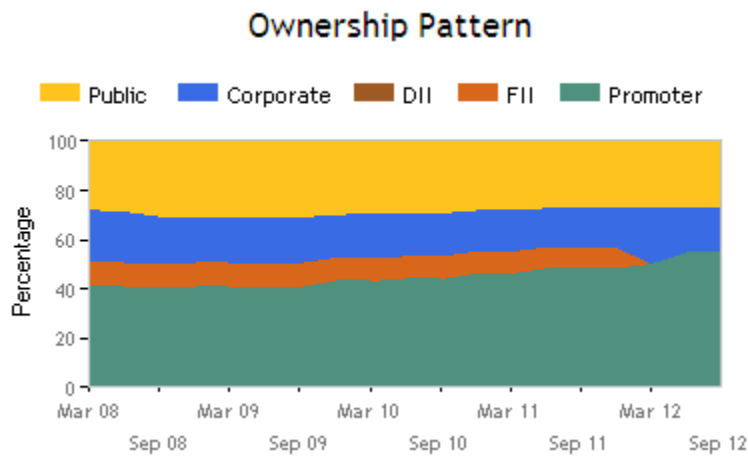
During Q3FY13, sales advanced by 22% to 950 million but net profit rose by 138% to 38 million. OP and NP margin stood at 15.4% and 4.1% against 13.2% and 2.1% respectively in the corresponding period last year. Q3FY13 EPS stood at Rs. 4.4.

TCPL has grown at CAGR of over 20% in the last 5 years. Riding high on the demand of its products, TCPL aims to achieve sales of 1000 crore in the next 5 years. We believe company will continue to deliver topline growth above 20% and higher profits with better operating margins.

4. Charts & Graphs

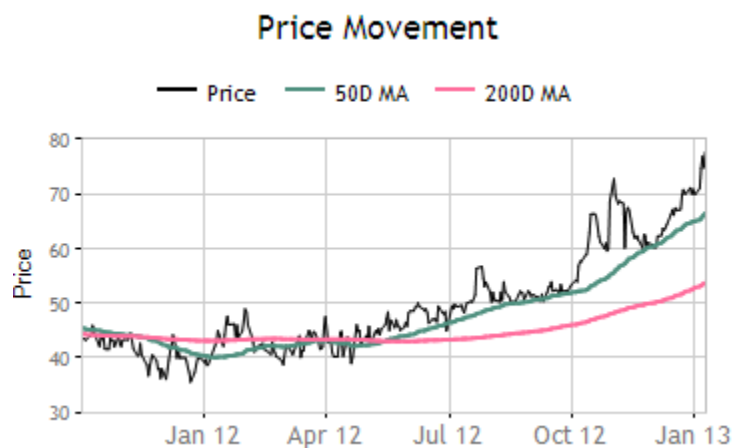
i) Share holding Pattern:

Promoters share holding is 55.2%. FII exposure is nil where as DII exposure is negligible at 0.04%.



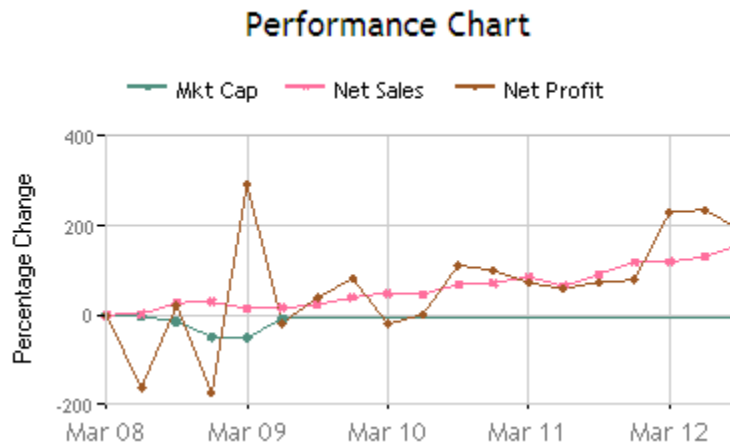
ii) Share Price Moving Average:

TCPL is currently trading above its 50 and 200 day price moving average. Stock has good support at Rs 60.



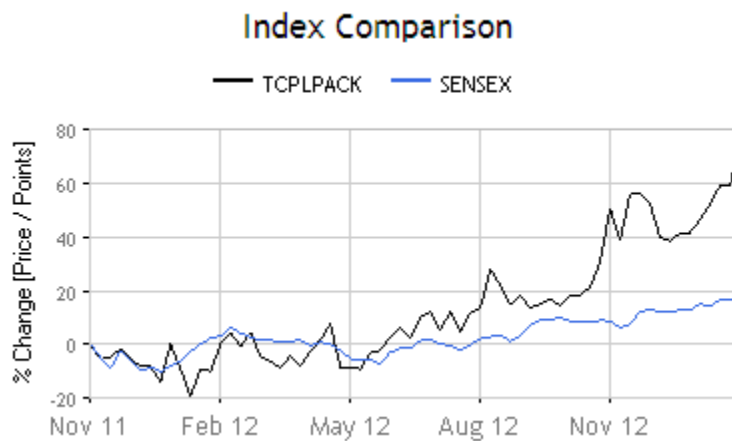
iii) Performance Chart:

Company has shown consistent growth in net sales but net profits. Profit margins of the company were low due to high raw material prices and limited pricing power for its products.



iv) Comparative Graph:

TCPL has given positive returns of 93.9% compared to Sensex returns of 12.36% in last one year.



5. Peer Group Comparison

PEER GROUP	TCPL Packaging	Emami Paper	Rama Newsprint	Sirpur Paper
CMP	74.85	31.85	12.11	31.40
52 W H/L	81.00/36.10	42.95/23.05	17.30/7.05	51.40/29.05
Market Cap	651.19	1926.89	704.29	516.06
Results (in Million)	Sep-12	Sep-12	Sep-12	Sep-12
Sales	95.03	1218.4	769.6	877.6
PAT	38.34	27.9	-172.2	-191.5
Equity	87.0	121.0	581.6	158.8
EPS	14.50	-0.06	-8.72	-34.89
P/E	5.11	0.00	0.00	0.00

6. Key Concerns / Risks

- The company's customers are large and price setters and may have limited pricing power in times of high cost pressures. This may result in shrinking margins which can adversely affect the bottomline of the company.
- The Company being a manufacturer of the packaging material required for cigarette and liquor is always exposed to the general risks such as government regulations and policies, statutory compliances, economy related, market related.
- New projects at Haridwar and Goa and increase in customer demand simultaneously leads to pressure on the profit margins as the Company has to face competition from various manufacturers in the domestic market.

7. Saral Gyan Recommendation

- ✚ Packaging industry in India is one of the fastest growing Industries, which has its influence on all industries directly or indirectly. The Indian packaging industry is above \$ 20 billion with a growth rate of above 15% per annum which is expected to increase further and offers great business opportunity for TCPL Packaging Ltd.
- ✚ Packaging of essential products like food, beverage and pharmaceuticals are the key driving segments because of the huge domestic consumption. India is ranked 15th in the world for its paper and paperboard consumption and is expected to improve its rank in the future. In India, per capita paper consumption is still only 10 kg as compared to 42 kg in China and world average of 57 kg.
- ✚ Growth in use of packaged goods as life style changes (urbanization) and manufacturing off-shoring from developed countries increase need for packaging Materials. Other factors affecting growth of packaging industry in India are urbanisation, increasing health consciousness, changing food habits, global trends for plastic substitution in many end use applications and cost advantage.
- ✚ Company's debt to equity is high and interest coverage ratio is also low. This combination is generally not a good signal and doesn't warrant a value investment. But we expect higher interest coverage ratio and lower debt over next 1/2 years which will strengthen balance sheet and support higher valuations for the stock.
- ✚ Considering recent expansion and growth opportunities in the industry, we expect TCPL to deliver bottom line of 141 million for FY'12-13 and 216 million for FY'13-14 with estimated annualized EPS of Rs. 16.2 & 24.9 respectively. Company has paid consistent dividend year after year and dividend yield at CMP is 2.7%.
- ✚ On equity of Rs. 87 million, the estimated annualized EPS for FY 12-13 works out to Rs. 16.20. Book value per share is Rs. 87.43 and stock price to book value is 0.86. At current market price of Rs. 74.85, share is trading at a P/E of 4.6X on FY 12-13 and 3.0X on FY 13-14 which makes stock valuations attractive with a medium to long term view of 18-24 months.

Considering attractive valuations and long term growth potential, Saral Gyan Team recommends **"BUY"** on **TCPL Packaging Ltd** for a target of Rs. 160 over a period of 18-24 months.

Buying Strategy:

- 70% at current market price of Rs. 74.85
- 30% at price range of Rs. 50 – 60

8. Disclaimer

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