



**SMIFS
LIMITED**
LEGACY | TRUST | GROWTH

INITIATING COVERAGE REPORT

February 16, 2021



**Huhtamaki
India Limited**

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Brief Overview

CMP (INR) (As on 15-Feb-21)	317
Target (INR)	407
Upside(%)	~28.4%
Recommendation	STRONG BUY

BSE Code	509820
NSE Code	HUHTAMAKI
Reuters Ticker	HUHT.NS
Bloomberg Ticker	HUIN:IN

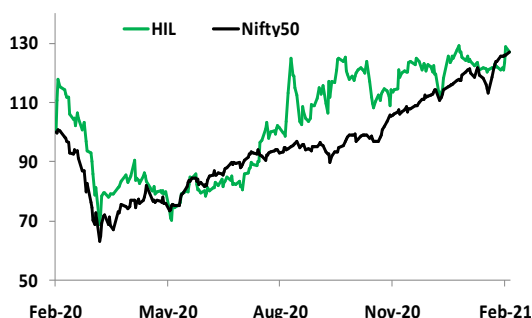
Stock Scan

Market cap (INR Mn)	23,971
Outstanding Shares (Mn)	75.5
Face Value (INR)	2.00
Dividend Yield(%)	0.95%
P/E (x) (CY19)	14.1X
P/B (x)	3.4x
Debt/Equity (x)	0.39X
Beta vs. Nifty	0.70X
52 Week High/ Low (INR)	162/ 338
1Yr-Avg. Daily Volume (NSE)	148,151

Shareholding Pattern (%)

	Dec 2019	Sep 2020	Dec 2020
Promoters	66.94%	66.94%	66.94%
Institutions	6.70%	4.98%	5.46%
Non-Institution	26.36%	28.08%	27.60%

Exhibit 1: HIL vs. Nifty-50 (Relative Returns)



Source: NSE, SMIFS Research

A proxy play on domestic FMCG and Pharma consumption

Huhtamaki India Ltd. (HIL), is a leading provider of innovative and sustainable primary consumer flexible packaging and decorative labelling solutions, catering to food & beverages, home & personal care, healthcare and other speciality segments.

HIL offer unique pack designs and formats through a comprehensive portfolio of packaging solutions, including a) *barrier and recyclable laminates*, b) *specialised pouching, such as shaped, 5 and 6 panel pouches*, c) *thermoforms*, d) *decorative labels*, e) *digitally printed laminates for pack personalisation* and f) *tube laminates*.

Established in 1935 as The Paper Products Limited (PPL), HIL was later acquired by the Finland-based global food packaging major Huhtamäki Oyj in 1999, which currently owns ~66.94% in the company.

HIL employs 3675 people and has a pan-India presence with 18 manufacturing sites, 2 R&D centres and 5 sales offices.

We initiate coverage on HIL with a “Strong Buy” recommendation and a price target of Rs 407 over a period of 12-18 months, valuing the stock at PE of 15x on its CY22E EPS of Rs 27.2.

- **Proxy play on FMCG and Pharma consumption:** HIL's volume is highly co-related with FMCG and Pharma sector (CY18 Volume Growth% at ~9%; In-line with growth reported by industry majors). Indian FMCG sector is expected to grow at a CAGR of ~15% to reach USD220 billion by 2025E. Covid-19 pandemic has lead to increase in demand for FMCG and Pharma products. We expect continued growth in demand for FMCG and Pharma, leading to increase in demand for flexible packaging.
- **Focus on Innovation to improve margins:** HIL offers range of innovative products with unique and customized offerings as per client needs. HIL has extended its role from just being a supplier to a major contributor in the growth of consumer products. The innovative products contributes ~25% to total sales (CY2018). HIL has focus on increasing share of premium innovative products, which will help to increase realizations and margins.
- **Exports provide geographical diversification, higher margins:** HIL derives ~20% of its revenues from exports to countries like, Africa, Middle East, SEA, North and South America, LATAM. HIL to focus on increasing export share, which is more lucrative, provides geographical diversification and natural forex hedge.
- **Strong foot prints across the country:** HIL has a pan-India presence with 18 state of the art manufacturing plants (installed capacity of ~1,58,000 MT) across the country. Many of them are strategically located near client's manufacturing site, which facilitates quick turnaround, irrespective of logistical issues.

Exhibit 2: Financial Performance at a glance

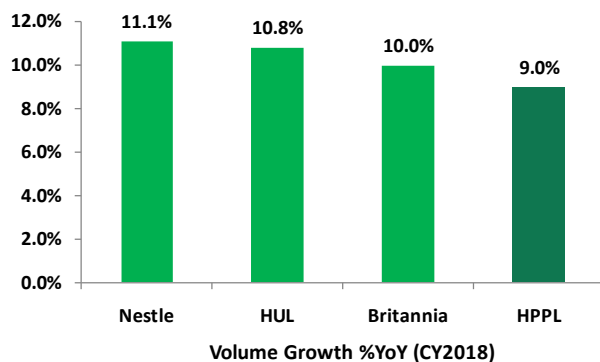
INR Million

Particulars	CY18	CY19	CY20E	CY21E	CY22E
Net Sales	23,691	25,824	26,885	29,574	32,520
Growth %	11.2%	9.0%	4.1%	10.0%	10.0%
EBITDA	2,214	2,929	2,917	3,302	3,795
EBITDA Margin (%)	9.3%	11.3%	10.9%	11.2%	11.7%
Net Profit	349	1,700	1,426	1,686	2,052
Net Profit Margin (%)	1.5%	6.6%	5.3%	5.7%	6.3%
EPS (In Rs)	4.6	22.5	18.9	22.3	27.2
BVPS (In Rs)	73.7	92.3	104.4	118.6	136.0
P/E (x)	68.7x	14.1x	16.8x	14.2x	11.7x
P/BV (x)	4.3x	3.4x	3.0x	2.7x	2.3x
ROE (%)	6.3%	27.1%	19.2%	20.0%	21.3%
ROCE (%)	16.0%	23.1%	21.1%	23.0%	25.3%

Source: Company Data, SMIFS Research

Investment Rationales

Exhibit 3: HIL's Volume growth vs FMCG majors



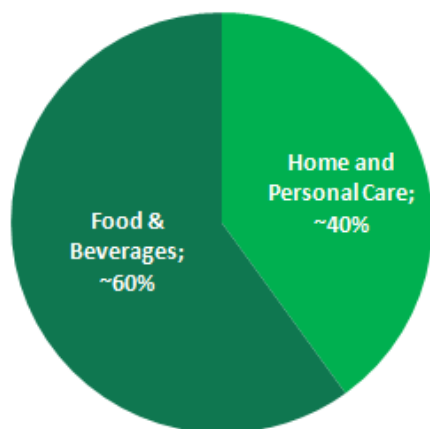
Source: HIL Concall, SMIFS Research

Proxy play on FMCG and Pharma consumption

HIL mainly caters to FMCG and pharma industry, which requires flexible packaging for most of their products. The volume growth of HIL is highly co-related with the growth of these two sector. Thus, **FMCG and Pharma could be termed as best proxies** in terms of growth of flexible packaging sector and the HIL itself. **For CY2018, HIL has reported a volume growth of ~9%, which was in-line with the volume growth reported by major FMCG companies during the same period.**

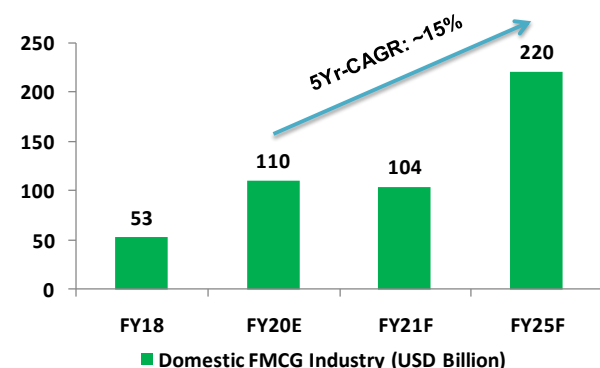
HIL's clientele includes top FMCG brands like **Nestle, HUL, P&G, Cadbury, Britannia, Coca-Cola, Pepsi, ITC, Dabur, Emami, Marico, Tata Tea, Perfetti, Kellogs, Mars, Hershey** etc. In the pharma space, it serves MNC players such as **Cipla, GSK, Reckitt Benckiser** etc.

Exhibit 4: Segment-wise HIL's focus



Source: HIL Concall

Exhibit 5: FMCG sector size forecasted to grow at CAGR of ~15% over FY20-25 at USD 220 bn



Source: IBEF FMCG Report (Dec-2020)

The Company also has **labels business**, which contributes **~17-19% of total revenues** (Q1-CY19 concall). The labels business also serves both pharma and FMCG sectors. HIL has strengthened its position in premium labels business with acquisition of Webtech Labels and Ajanta Packaging.

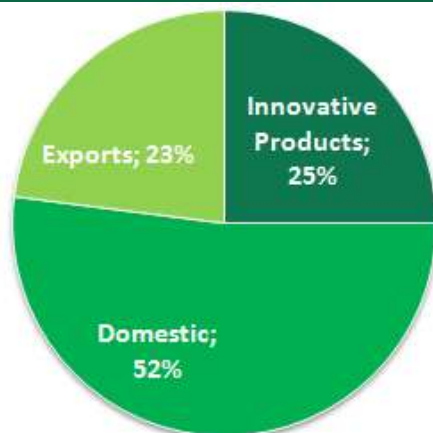
In terms of segment, **HIL emphasis on 'Food & Beverages' category is ~50-60%**, while on **'Home and Personal Care' it is ~40-50%**. As the Company's area of focus is flexible packaging, it has a significant scope for growth, on the back of FMCG. Also there is large amount of food and non-food items which is sold loose, which is gradually migrating to packed. The **migration from loose to packed** to lend additional support to demand for flexible packaging.

According to forecast, Indian FMCG industry is expected to grow at a CAGR of ~15% to reach USD 220 billion by 2025E from USD 110 billion in 2020E. With the growth in Indian FMCG industry, the demand for flexible packaging is expected to rise.

We expect that, over the next two years HIL's EBITDA margin to expand by ~80bps to 11.7% in CY22E from 10.9% in CY20E, while the ROE and ROCE are expected to improve from 19.2% and 21.1% in CY20E to 21.3% and 25.3% in CY22E, respectively, largely due to strong demand backed by FMCG and pharma sector and increasing share of innovative products and exports.

Investment Rationales

Exhibit 6: Revenue Diversification



Source: HIL Annual Report, Result Concall

Due to growing environmental awareness, the FMCG companies and also the consumers want to buy products that are packed in a recyclable packaging without losing the convenience and the protection of the product inside.

Innovative products contributes ~25% to sales; Focus on increasing share to led improvement in margins

Since last eight decades, HIL has been **working to develop innovative packaging solutions** to provide safe and secure products to consumers. HIL's product innovation strategies range from **creating unique and customized offerings** as per client needs. The **brand packages are required to be differentiated** as the consumer hardly spend few seconds to decide on whether to pick a pack from a shelf or ignore it. **Hence, making packaging the deal-breaker in the discovery of new products.**

With this, **HIL extends its role from just being a supplier of solutions to a major contributor in the growth of consumer products.** The innovative products accounts for ~25% of the overall sales (CY2018).

With NASP (**New Applications, Structures, Products/ Processes**) in HIL's DNA, the Company has continued to deploy **new pack formats, innovative labels, specialty laminates** with features like **high barrier, functionality and improved aesthetics**. These are designed to creatively advertise brand propositions and help products navigate through snap judgements at retail. HIL offered **flexible solutions that enhanced consumer experiences (vada batter pouch with special spout/booklet labels with braille)** to encourage trials and trust.

Exhibit 7: Awards won by HIL in 2019

Awards	Winning Entries
2019 Dow Packaging Innovation Awards	<ul style="list-style-type: none"> Syngenta bag-in-bag pouch Akulon barrier & drop resistant bulk bag
World Star Awards 2020	<ul style="list-style-type: none"> Meera registered holograms ID 'Do it Yourself' vada batter pouch Syngenta bag-in-bag pouch
India's Most Trusted Company Award 2019	<ul style="list-style-type: none"> Huhtamaki PPL Limited
IFCA Star Awards 2019	<ul style="list-style-type: none"> Myst recyclable paper-based air-freshener pack Bisleri two-faced jar label Zero-stain embossed cube wraps Easter limited-edition shampoo pack Royal Khajoor shaped pouch Syngenta bag-in-bag pouch Akulon recyclable and drop-resistant bulk bag ID Coffee Decoction profile pouch
SIES SOP Star Awards 2019	<ul style="list-style-type: none"> Ferrero Banderolla Royal Khajoor shaped pouch
14th National Awards for Excellence in Printing	<ul style="list-style-type: none"> Cornetto embossed cone sleeves Meera registered holo sachet
2019 Asian Packaging Excellence Awards	<ul style="list-style-type: none"> Recyclable see-through snack pack
The Economic Times Polymers Awards 2020	

Source: HIL Annual Report

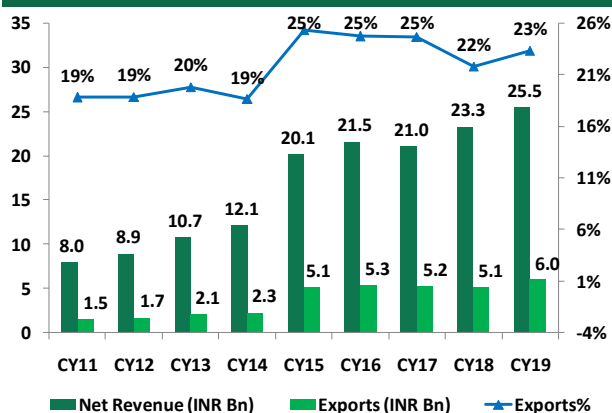
HIL has great amount of **capability in creating anti counterfeit features** in the products. It has **offered anti-counterfeit solutions for brand security and consumer protection (unique registered holographic sachets for a major shampoo brand)** while experimenting with a **combination of technologies for improved pack presentation and consumer engagement (cartons being replaced by five and six panel pouches/flexible + label offering).**

HIL deploys solutions that **use energy reducing technologies, lower carbon footprint, save waste and water** while maintaining packaging efficiency and performance. Some of its noteworthy efforts include **transformation of packages from rigids to flexibles for diverse applications, reduction in package layers, shifts to paper-based solutions and easy recyclable offerings.**

HIL's innovations is backed by strong R&D, which is driven by a) **customers need in-terms of innovations and new look according to their branding needs** and b) **sustainability theme aims at making recyclable structures. Higher portion of innovative products helps reduces raw material cost as they command premium pricing. Innovation also help increase its wallet share with brands. As the company increases its premium/ innovative packaging offerings, it will help increase realizations and margins.**

Investment Rationales

Exhibit 8: Exports accounts for ~23% of total revenues; HIL is focused to increase exports



Source: HIL Annual Reports, SMIFS Research

Focus on increasing exports share to aid margins; Exports provides geographical diversification and natural hedge against adverse dollar movement

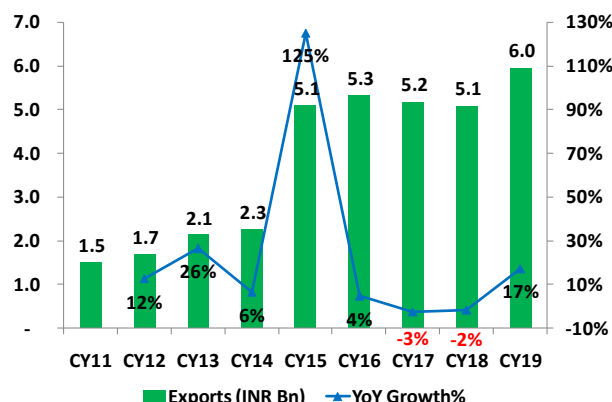
Apart from deriving revenues from domestic markets, HIL also garners a **considerable portion of its revenues from exports**, as the company has expanded its business to foreign markets over the past few years.

Currently, HIL export its products to **Africa, the Middle East, South East Asia, North and South America, Latin America.**

The export business compensate for the revenue shortfall, in case any unfavorable business circumstances arises in India business.

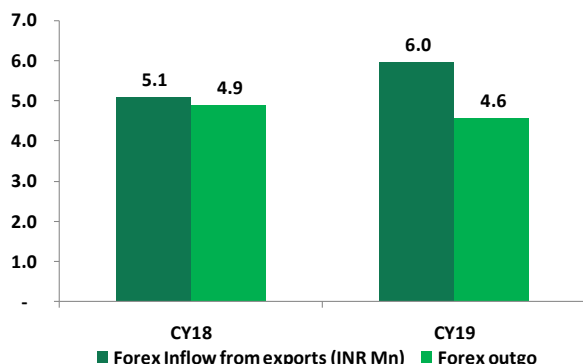
Over CY11-19, **exports have grown at a CAGR of ~21.3%**, against the revenue CAGR of ~16% during the same period. For CY2019, **HIL's exports revenue stood at INR 5954 million, up ~17% over INR 5086 million reported in CY2018.** The contribution to total income was **~23% for the year.**

Exhibit 9: HIL's Exports grew 17% in CY2019



Source: HIL Annual Reports, SMIFS Research

Exhibit 10: HIL is net exporter; naturally hedged against USD adverse movement



Source: HIL Annual Reports, SMIFS Research

The growth in CY2019 export revenue was mainly due to the **increase in share with key accounts** and further **penetration of the soup cube across SEA and LATAM.** HIL also experienced **few headwinds in the West Africa and in ME markets** due to intense competition from local suppliers. The export share dropped to ~22% in CY18 as the company witnessed headwinds primarily due to the geopolitical unrest in Africa, which is one of its largest markets.

In terms of volume growth in export market, the Company has maintained stability and focused on markets where the collections were not at risk like Sri Lanka, Thailand, the Philippines, Turkey and Mexico.

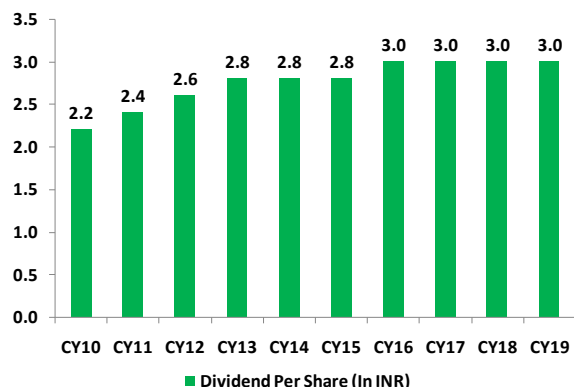
HIL supplies to Africa despite the parent company's presence in Africa, as being an MNC, if a group entity has certain competitive manufacturing capabilities, the parent is keen to use that to go elsewhere.

HIL is a **net exporter as the export receivables generally higher** than the imports payables, which also provides a natural hedge to it in case of appreciation in dollar. For CY2019, the foreign exchange earnings stood at ~INR 5,954 million, against the forex outflow of INR 4574 million, resulting in a net forex earning of INR 1380 million.

The export realizations are higher than domestic sales and thus are a bit more lucrative in terms of margins. Going forward, the company will continue to increase its exports. In terms of geographies, HIL to focus more on markets like North America, UK and Latin America.

Investment Rationales

Exhibit 11: HIL has regularly paid dividends



Source: HIL Annual Report, SMIFS Research

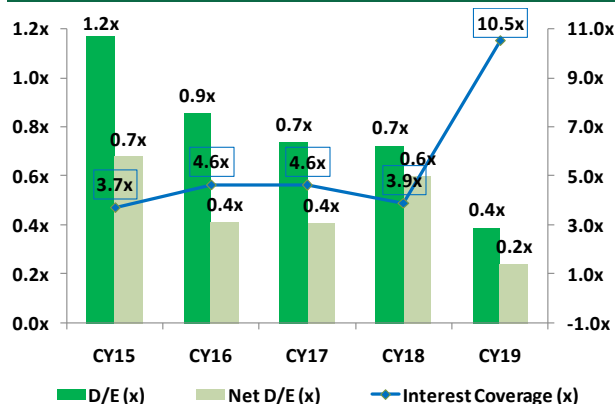
HIL is a regular dividend paying company

HIL has maintained consistency in dividend payment and also it has gradually increased its dividend payments over the years. In the last 4 years, HIL has distributed ~13 - 65% of its profits as dividends.

Due to current economic slowdown consequent to Covid-19 pandemic, HIL has revised its FY2019 dividend payment to Rs 3/ share from Rs 5/ share announced earlier, with a view to conserve its financial resources.

Going forward, We expect the dividend payout ratio to increase to ~30% over CY20E-22E from 13.3% in FY19, due to strong cash flow generation and normalization of Covid pandemic situation.

Exhibit 12: D/E ratio down significantly at 0.4x; Interest coverage ratio jumped to ~11x in FY19



Source: HIL Annual Report, SMIFS Research

Debt/equity profile improved over CY15-19, led by redemption of NCDs

In the last 5 years, the solvency profile of HIL has improved considerably. The debt/ equity ratio is down at 0.39x in FY19 from 1.17x in FY15, as the long-term debt level has come down from INR 4343 million in CY15 to INR 1018 million in CY19. The Net D/E ratio has improved to 0.24x in CY19 from 0.68x in CY15.

The interest coverage ratio has improved significantly from 3.7x in CY15 to 10.5x in CY19, led by increase in profitability and redemption of NCDs.

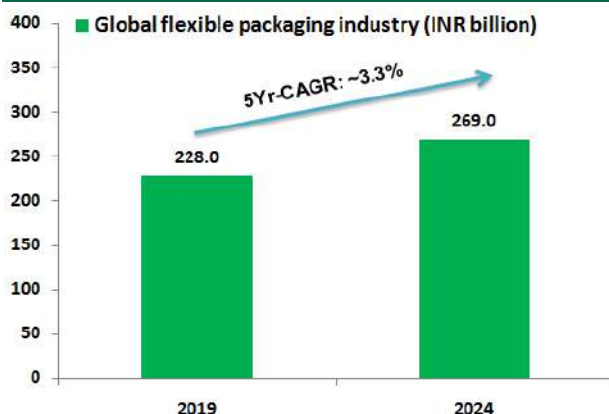
Redemption of NCDs

In CY2015, HIL had issued and allotted 3850 NCDs aggregating to INR 3850 million to Huhtalux S.á r.l. (a Huhtamaki group entity). These were issued for a period of 5 years @7% interest p.a. The proceeds of the issue was utilized towards acquisition of Positive Packaging Industries Limited. On 20-December-2019, HIL had redeemed these NCDs along with the interest thereon amounting to INR 109.6 million (amount net of tax).

After the redemption of NCDs worth Rs 3850 million, We expect the D/ E ratio for the company to further improve to 0.22x over CY20E-22E.

Industry Overview

Exhibit 13 - Global flexible packaging industry estimated to grow at ~3.3% CAGR over 2019-24



Source: MD&A, HIL Annual Report, SMIFS Research

Global flexible packaging industry

The global flexible packaging industry is estimated to be worth \$228 billion in 2019. Flexible packaging is a rapidly growing segment in the global packaging industry. The demand for flexible packaging has gone up considerably due to **a) increasing urbanization, b) growth of e-commerce and c) technological advancements in barrier protection, active packaging and digital printing.** At the same time, sustainability of demand continues to be a major concern.

The global flexible packaging industry is expected to grow at a CAGR of ~3.3%, reaching \$269 billion in 2024.

The food, healthcare and personal care industries are the major demand drivers for flexible packaging, especially in Asia-Pacific (APAC) countries.

Japan is expected to provide high growth opportunities to the flexible packaging market due to the increased demand for packaged food from the elderly population (above 65 years).

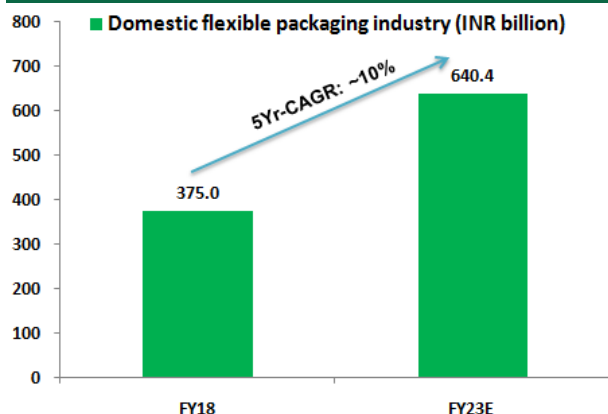
China, India, and other Southeast Asian countries are emerging as growth drivers for the APAC region. In North America and Europe, the flexible packaging industry is expected to continue its strong volume performance in Tier 1 cities and soon gain momentum in Tier 2 and Tier 3 cities.

People are increasingly recognising the benefits of flexible packaging, which include extended shelf life, improved cost economics and lower pack weights and transport costs.

Compared to traditional packaging such as glass jars and metal cans, these require less energy and resources in comparison to other packaging types, which reduces the cost of production per packaging unit. Further, flexible packaging uses recyclable materials, reducing the usage of the conventional virgin polymer. It serves well for brands due to the growing sustainability consciousness among customers.

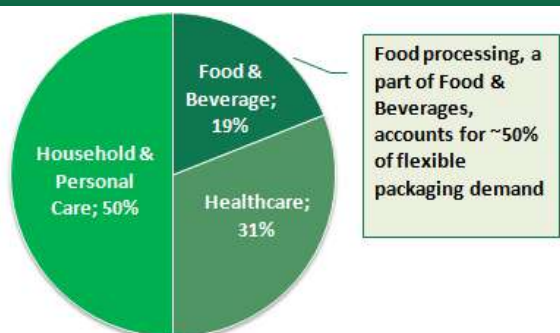
Industry Overview

Exhibit 14: Indian flexible packaging industry estimated to grow ~10% CAGR over FY18-23



Source: MD&A, HIL Annual Report, SMIFS Research

Exhibit 15: FMCG: Segment-wise breakup



Source: IBEF FMCG report

Rural consumption contributes ~36% to the overall FMCG spending.

Indian flexible packaging industry

The Indian flexible packaging industry size is expected to reach at a value of **INR 640.4 billion by FY2023** from INR 375 billion in FY2018, growing at a **CAGR of ~10%** over FY2018-23. The two key factors driving the growth in domestic flexible packaging industry are **a) increased use of flexible packaging at food service outlets** and **b) higher demand for packaged beverages**.

Flexible packaging is preferred over rigid packaging being **lighter, easily disposable and as their impact on the environment is significantly lower**.

Flexible packaging is one of the rapidly growing segments of the packaging industry, combining the highest qualities of film, paper, and aluminum foil to provide a wide range of protective characteristics.

FMCG sector drives the flexible packaging demand

The demand for flexible packaging is mainly driven by FMCG sector, which is the fourth-largest sector in the Indian economy. There are three main segments in the FMCG sector, i.e., **i) food and beverages (accounts for ~19% of the sector; ii) healthcare (~31% of the share); and iii) household and personal care (~50% share)**.

The food processing, part of the food and beverages segment of the sector, accounts for over 50% of the total demand for flexible packaging.

Going forward, growth in organized sector with increasing brand consciousness and growth in modern retail, low penetration level of branded food products, readily availability of grocery and food products due to increasing online grocery and online retail stores, increase in rural consumption with rise in income level will boost the FMCG market.

Indian FMCG industry is expected to grow at a CAGR of ~15% to reach USD 220 billion by 2025E from USD 110 billion in 2020E. With the growth in Indian FMCG industry, the demand for flexible packaging is expected to rise.

India is the fifth-largest preferred retail destination in the world. It is expected to generate a revenue of INR 71,986.2 billion by 2020. The growth of the retail industry will directly lead to the **expansion of the flexible packaging industry** in India.

The informal retail sector is contributing significantly to the growth in demand for flexible packaging. Many brands are offering their products in small and affordable sizes, such as sachets, to tap the lower-end market.

India is increasingly becoming aware of the hazards of plastic, with 20 states launching a blanket ban on use of plastic items such as one-time-use bags, spoons, PET, and PETE bottles. **Flexible packaging, on the other hand, uses recyclable plastic, and other environment-friendly materials.**

Industry Overview

Key advantages of flexible packaging

Benefits of production : Flexible packaging help in minimizes wastages and use of energy during the production process. Flexible packaging not only uses significantly less material compared to hard containers/ boxes, they also require less energy to be formed into a packaging product. Flexible packaging is more environment friendly solutions as the manufacturing process produces less greenhouse gas emissions.

Recycling Benefits: Flexible packaging promotes recycling and helps keep used pouches or bags out of landfills. Some flexible packaging like zipper and seal top closures are designed in such a way that they can be reused. This allows consumers to use them for multiple things before discarding them. In most of the circumstances, Flexible packaging are fully recyclable and could easily be put back into the system to be made into new materials.

Packaging design benefits: With flexible packaging, multiple designs can be offered, which are not possible in case of traditional packaging. These design benefits make it easy for the companies to differentiate their product on the shelf with unique, eye-catching packaging. This is important for food or beverage companies, that have tough competition.

Customization Benefits: Flexible packaging provides many customization benefits as it can be printed with high-quality colors and logos. One can add virtually anything on its flexible packaging with modern printing techniques that create crisp, clear imagery. This presents a huge branding opportunity for those looking to create awareness of their products/ services.

Product preservation benefits: Most flexible packaging products comes with some type of barrier protection, whether through their own material design or the addition of a thin layer of protection on the inside. This barrier provides resistance to moisture, vapors, dust, and even UV light. This allows flexible packaging to keep products fresher for longer duration.

Consumer convenience benefits: Flexible packaging is not only easy to handle when doing shopping at the store, but it also takes up less room in the pantry. The lightweight nature of flexible packaging helps consumers carry more with less effort. Flexible packaging improves customer's shopping experience, thus the companies who capitalize on convenience, can get ahead of the competition by choosing to use flexible packaging.

Shipping and handling benefits: Flexible packaging offers lightweight storage and shipping, which allows companies to cut back on their distribution spending. Flexible packaging can weight up to 70% lighter than their rigid counterparts. Thus it involves less freight and shipping charges for their products, allowing companies to ship more with higher profit margins.

Flexible packaging provides a broad range of protective properties to products.

Offers convenience, cost reductions and smart branding opportunities.

It's a great option for businesses looking to revamp their packaging designs and find creative ways to reduce overall operating costs.

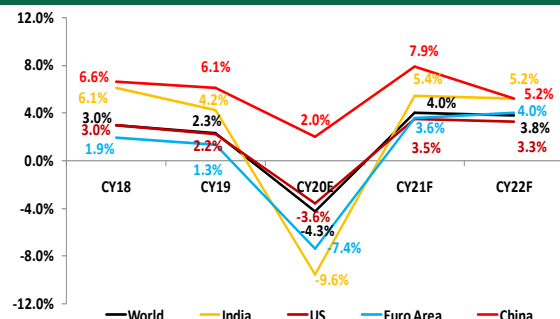
Industry Overview

Key drivers of flexible packaging

- During the Eleventh Five-Year Plan period (2007-2012), the Government initiated major infrastructure development programmes, such as establishment of mega food parks, cold chains, and facilities required for value addition, preservation and modernisation – which are impacting the economy even today.
- Departmental retail is a key driver of flexible packaging in the urban foods markets, while the rural demand is driven by unit packaging needs.
- Growing consumer preferences for ready-to-eat food, juices, processed fruits and vegetables; increase in the spread of organised retail; increasing population of working women; conducive government policies; and investments by international and domestic companies are contributing to the growth of the flexible packaging market.
- The food packaging industry is expected to gain further as consumers are increasingly convinced of the health, quality and the longer shelf-life of packaged foods.
- Innovations in new packaging materials serve to maintain nutritional content, flavours, textures and taste of various foods while extending shelf-life.
- Readymade meals or foods that reduce the long preparation time of traditional dishes, continue to gain consumer acceptance owing to modern lifestyle influences and preferences for greater convenience.

India Economy Overview

Exhibit 16: World GDP Forecast



Source: World Bank Report (Jan-21); For India, CY20e means FY21e

Exhibit 17: India GDP & GDP Growth

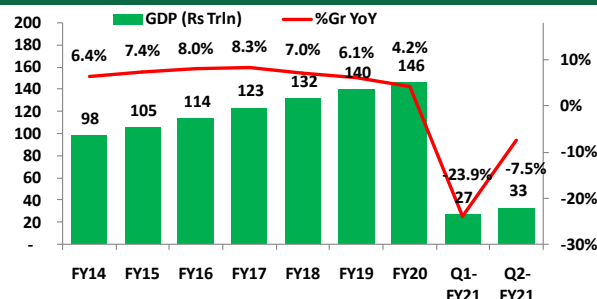


Exhibit 18: Per capita income in India

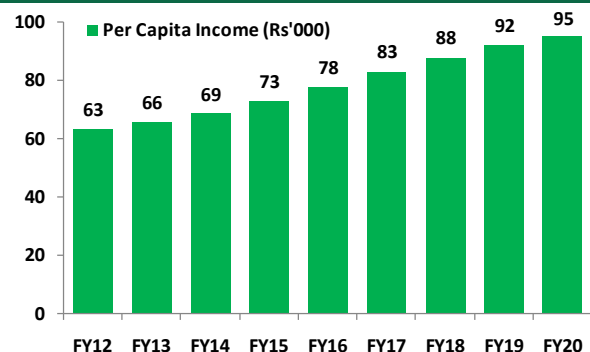
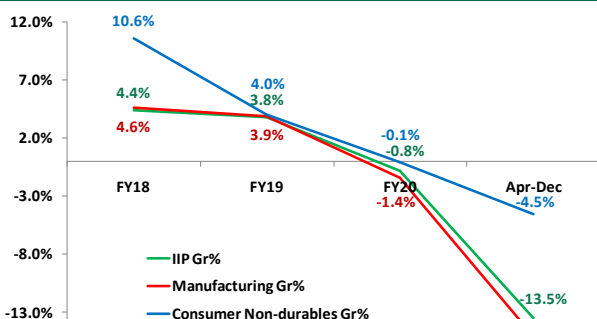


Exhibit 19: Industrial Production



Source: MOSPI

CY20E World GDP expected to contract by -4.3% led by US, Euro Area, Japan and China; India seen to decline by 9.6% for FY21E

The rebound in economic activities for Q3-CY20 across the countries, post easing of lockdowns were much faster than expectations. As we are in the starting month of CY21 and Covid 19 vaccine has been rolled out globally, which might ease the crisis by middle of CY2021 leading to a recovery in global economies. However, the recovery is expected to be slow.

World Bank has revised its CY20E and CY21F GDP forecast for major global economies. The CY20E GDP for US and Euro Area are now expected to contract by -3.6% and -7.4%, respectively, before showing a growth of 3.5% and 3.6%, respectively for CY21F. China is expected to grow by 2% in CY20E and then 7.9% in CY21F. India's GDP is expected to decline by 9.6% for FY21E, while a 5.4% growth is forecasted for the year FY22F.

India's Q2-FY21 GDP contraction was lower than estimates

Due to imposition of strict nationwide lockdown, India's Q1FY21 GDP saw record contraction of 23.9%. However, the Q2FY21 economic activities rebounded post easing of lockdowns and onset of festive season. India's GDP fell 7.5% in Q2-FY21, against RBI's estimate of -8.6%. It is expected to contract by 9.4% for FY21, while a rebound in at 11% expected for FY22.

India's per capita income growth is steady at ~6%

India's GDP (at constant 2011-12 prices) was estimated to be Rs 146 trillion (USD 2.06 trillion) for FY20, growing 4.2% over FY19. It has grown at a healthy 6-Year CAGR of 6.8% over FY14-20.

At Rs 23.2 trillion, the manufacturing sector contributed ~17% to the GDP (against ~38% by the service sector).

The per capita income, a major indicator of income level, has increased steadily at 6-Yr CAGR of 5.6% over FY14-20 to ~Rs 95000. The growth in per capita income was highest during FY15-18, when it grew between 6.2-6.9%.

IIP growth in positive zone again during Dec-20 after declining in the previous month

The IIP grew 1% during the month of Dec-20, after declining 2.1% in the previous month of Nov-20. This shows the uneven trajectory of industrial revival. Before that, after declining for six consecutive months, IIP had turned positive during Sep-20 (+1%). The IIP growth for the period Apr-Dec-20 remained in negative territory at -13.5%, while the YTD manufacturing growth stood at -15.1%.

For the month of Dec-20 and Apr-Dec'20, the growth in Consumer durables stood at 4.9%/-24.7%, Capital Goods at 0.6%/-27.5%, Infrastructure/ construction goods was 0.9%/-15.2%, while Consumer non-durable growth was 2%/-4.5%.

Company Overview

HP Indigo 20000 Printer Installed for digital printing

In 2018, HIL has made a significant investment in Digital Printing by installing a HP Indigo 20000 digital press at its Thane plant, becoming the first Company in India to do so. Digital is a zero-waste technology, capable to deliver high-quality, personalised, secured, just-in-time, packaging of any nature.

Huhtamaki India Limited (HIL), is a leading provider of innovative and sustainable primary consumer **flexible packaging** and **decorative labelling** solutions in India, catering to **food and beverages, home and personal care, healthcare** and other speciality segments.

HIL was established in 1935 as 'The Paper Products Limited (PPL)'. PPL went public in 1950 and got listed on the Bombay Stock Exchange. In 1960, HIL commissioned its first Flexible Plant unit in Thane. Later in the year 1999, HIL was acquired by the Finland-based global food packaging major Huhtamäki Oyj, which took controlling stake of 51% in the company. In 2014, The Paper Products Ltd was renamed as Huhtamaki PPL Ltd., and subsequently to Huhtamaki India Limited in Nov-2020. **Huhtamäki Oyj owns ~66.94% in HIL.**

HIL offers unique pack designs and formats through a comprehensive portfolio of flexible packaging solutions that include **a) barrier and recyclable laminates, b) specialised pouching, such as shaped, 5 and 6 panel pouches, c) thermoforms, d) decorative labels, e) digitally printed laminates for pack personalisation and f) tube laminates.**

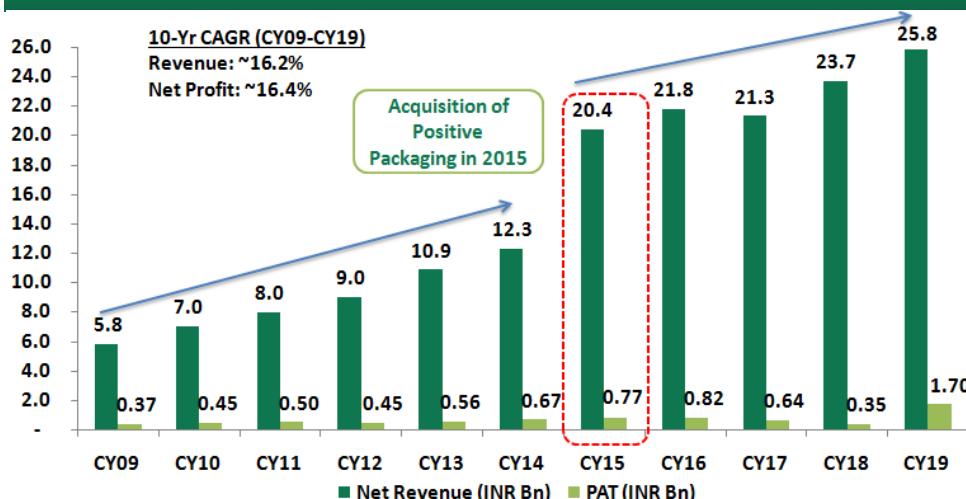
HIL's clientele includes top FMCG brands like **Nestle, HUL, P&G, Cadbury, Britannia, Coca-Cola, Pepsi, ITC, Dabur, Emami, Marico, Tata Tea, Perfetti, Kellogs, Mars, Hershey** etc. In the pharma space, it serves MNC players such as **Cipla, GSK, Reckitt Benckiser** etc.

HIL **employs 3675 people** and has a pan-India presence with **18 manufacturing sites (with installed capacity of ~1,58,000 MT)**, 2 R&D centres and 5 sales offices across **Andhra Pradesh, Assam, Dadra & Nagar Haveli, Daman, Himachal Pradesh, Karnataka, Maharashtra, Sikkim, Telangana, Uttarakhand and Maharashtra.**

HIL also export to **Africa, the Middle East, South East Asia, North and South America, Latin America**, which **contributes ~20%** to total revenues.

In the last one decade, HIL has **grown considerably through acquisitions**, which includes **Webtech Labels (2012), Positive Packaging (2015), Val Pack Solutions (2016), Ajanta Packaging (2018) and Mohan Mutha Polytech (2020).**

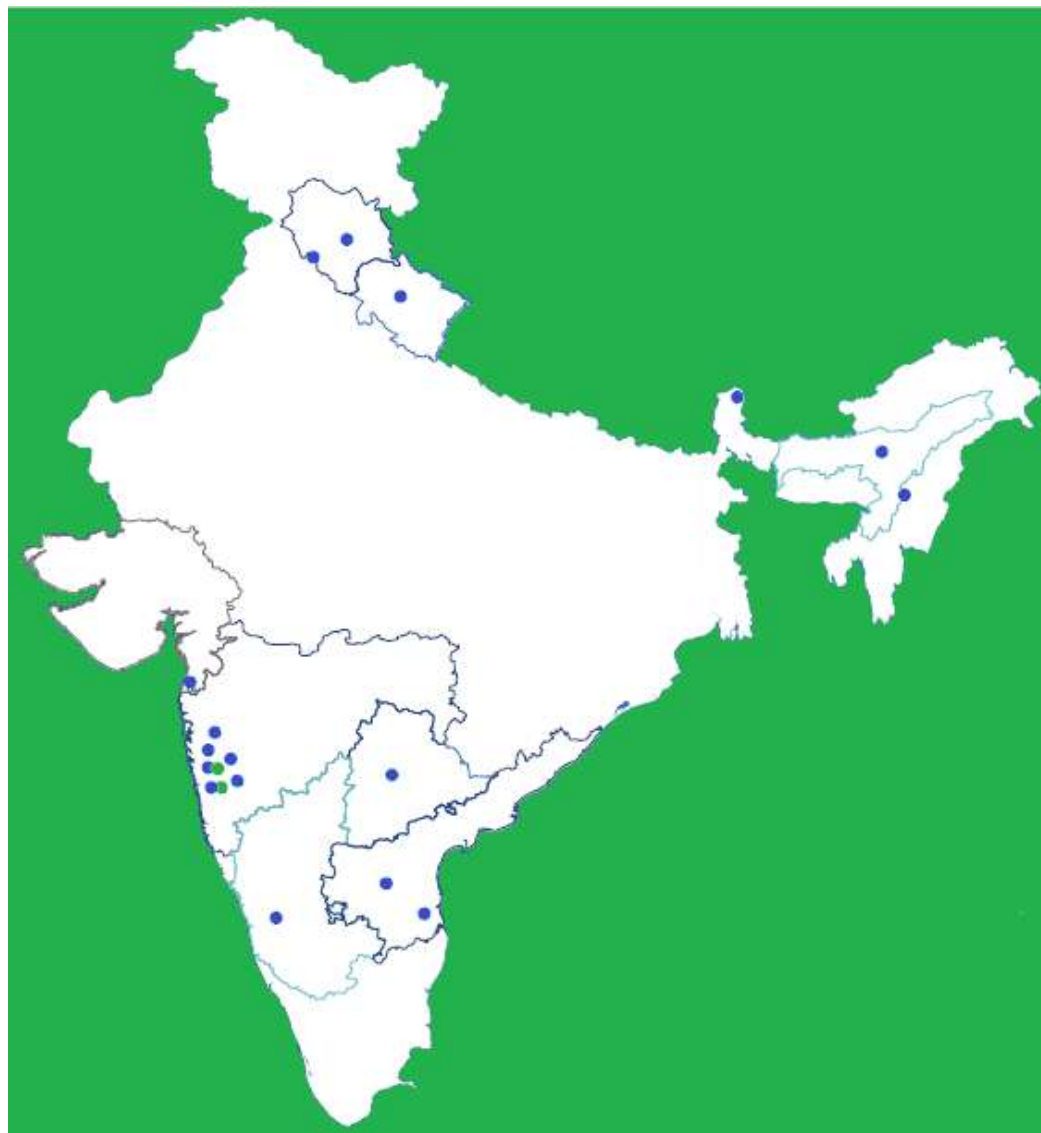
Exhibit 20: 10 Year Revenue and Growth



Over the last 10 years, HIL's revenue has grown from INR 5.8 billion in CY09 to INR 25.8 billion in CY2019, registering a CAGR of ~16.2%.

Source: HIL Annual Report

Exhibit 21: Plant Location on Map



Source: HIL Annual Report

Manufacturing Unit Location

Andhra Pradesh

Sri City

Assam

Guwahati

Dadra & Nagar Haveli

Silvassa

Daman

Daman

Himachal Pradesh

Parwanoo

Baddi

Karnataka

Bengaluru Unit I & II

Maharashtra

Mahape

Thane

Ambernath Unit I & II

Khopoli

Taloja

Sikkim

Gangtok

Telengana

Hyderabad Unit I & II

Uttarakhand

Rudrapur

R&D Centres

Maharashtra

Thane

Khopoli

● 18 manufacturing units

● 2 R&D Centres

HIL has one of the largest installed capacity of flexible packaging at ~1,58,000 MT.

HIL's capacity got a boost in year 2015, when it acquired Positive Packaging. With the acquisition of Positive Packaging, the installed capacity of HIL increased from ~52,000 MT to ~97,000 MT in 2015. Post that, HIL acquired Val Pack Solutions in 2016 and then Ajanta Packaging in 2018, which helped company to reach an installed capacity of ~1,58,000 MT.

Exhibit 22: Timeline

From a paper packaging player to a leading innovative flexible packaging and labeling solution provider

- Huhtamaki India Limited (HIL) was established in the year 1935 as 'The Paper Products Ltd' (PPL).
- In the year 1960, the company moved from manufacturing packaging products using paper to using cellophane-based products for bread and biscuit packs, along with twist wraps. In the 1980s, the Company started polymer-based packaging and developed finished materials for commercial use in the form of flexible packaging.
- Later in the year 1999, 'The Paper Products Ltd.' was acquired by Finland based **Huhtamäki Oyj**, *which is a 100 years old company operating in 35 countries and having 81 sites around the world. Huhtamäki Oyj has ~18,600 employees. For CY2020, the company has reported revenues of EUR 3.3 billion. Huhtamäki Oyj is listed on Nasdaq Helsinki Ltd.*

Year	Event
1935	Established as The Paper Products Limited (PPL)
1950	PPL goes public and is listed on the Bombay Stock Exchange
1960	Flexible Plant - I commissioned in Thane
1996	Flexible Plant - II commissioned in Silvassa
1998	Flexible laminates and carton manufacturing Plant – III with takeover and extensive refurbishing of A&R Packaging at Hyderabad
1999	PPL becomes a member of Huhtamaki Packaging Worldwide with the later buying 51% stake in it
2006	Flexible laminate Plant - IV commissioned at Rudrapur
2007	High end pouching solutions at Silvassa
2010	New Thane plant – transformation into a world class facility
2012	Consolidation of its position in labelling in India through acquisition 51% stake in Webtech Labels Private Ltd
2014	Major capability and capacity expansion at Silvassa plant.
2014	The Paper Products Ltd was renamed as Huhtamaki PPL Ltd.
2015	Acquired 100% stake in Positive Packaging Industries Ltd.
2016	Continued expansion into new technologies and geographies
2016	Acquired 51% stake in Val Pack Solutions Private Ltd.
2017	Legal merger of 'Positive Packaging Industries Ltd.' and 'Webtech Labels Private Ltd.' with Huhtamaki-PPL
2017	Commissioned two new plants at Sikkim and Guwahati
2018	Acquired 100% stake in Ajanta Packaging (India)
2020	Acquired flexible packaging business of Mohan Mutha Polytech Private Ltd (MMPPL)
2020	Huhtamaki PPL Ltd. was renamed as Huhtamaki India Limited

 **Greenfield**

 **Acquisition**

Source: HIL Annual Report

Segment-wise Products

Exhibit 23: Food Packaging



Biscuits & snacks



Cereals



Confectionery



Soups & sauces



Dairy & babyfood



Ice cream



Ready meals

Exhibit 24: Beverages



Coffee



Juices & non alcoholic drinks



Liquor & Cocktails



Powdered beverages & nutrition drinks



Tea

Segment-wise Products

Exhibit 25: Pet Food



Dry petfood



Wet petfood

Exhibit 26: Tube Laminates



Beauty care



Oral care



Others

Exhibit 27: Packaging for personal care & household products



Personal care

Segment-wise Products

Exhibit 28: Healthcare & pharma packaging



Liquids, balms, cremes, gels or dermatology



Medical devices



Solids and powdery products



Transdermal patches & wound dressings

Exhibit 29: Shrink sleeves & Labels



Heat transfer



Heat transfer



Pressure sensitive



Shrink sleeves



Wet strength



Wrap around

Segment-wise Products

Exhibit 30: Other specialties



Digital printing solutions



Engraved cylinders



Promotions & security



Specialized pouches



Thermoforms



Other non food

Exhibit 31: Recyclable packaging solutions



Double gusseted bags



Dry food solutions



Paper-based outer bags



Pillow snack packs



Plastic barrier tube laminates



Single serves

Huhtamäki Oyj - Acquisition Details

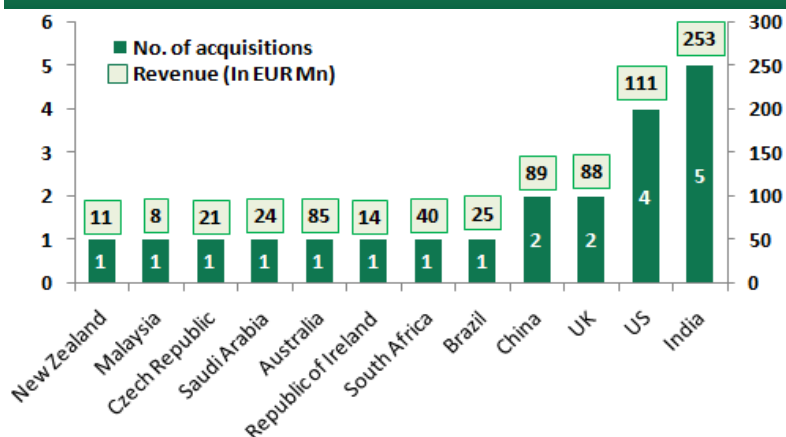
Huhtamäki Oyj, the parent company of HIL, has grown by adding capacities and doing regular acquisitions globally. Since 2011, **Huhtamaki has done 21 acquisitions across the globe including countries like India, US, UK, China etc.** The objective is to help quality and innovative products reach more people with ease. **India markets has remained a focus area for Huhtamaki** due to immense scope in flexible

Exhibit 32: Details of Huhtamaki's global acquisition since 2011

Sr No.	Date	Acquired Company	Country	Acquiring segment	Revenue (Mn EUR)	Personnel
1	Sep-11	Paris Packaging, Inc.	US	North America	43	300
2	Nov-11	Ample Industries, Inc.	US	North America	45	230
3	Apr-12	Josco (Holdings) Ltd.	China	Foodservice E-A-O	70	1350
4	Aug-12	Winterfield, LLC	US	North America	23	100
5	Nov-12	Webtech Labels Private Ltd.	India	Flexible Packaging	10	-
6	Nov-13	BCP Fluted Packaging Ltd.	UK	Foodservice E-A-O	18	120
7	Aug-14	Interpac Packaging Ltd.	New Zealand	Foodservice E-A-O	11	85
8	Jan-15	Positive Packaging	India	Flexible Packaging	220	2500
9	Apr-15	Butterworth Paper Cups	Malaysia	Foodservice E-A-O	8	120
10	Jul-15	Pure-Stat Technologies, Inc.	US	North America	-	12
11	Feb-16	FIOMO	Czech Republic	Flexible Packaging	21	120
12	Mar-16	Arabian Paper Products Company (JV expansion)	Saudi Arabia	Foodservice E-A-O	24	-
13	May-16	Delta Print and Packaging Ltd.	UK	Foodservice E-A-O	70	300
14	Jul-16	Val Pack Solutions Private Ltd.	India	Foodservice E-A-O	4	100
15	Sep-17	2 foodservice packaging manufacturing units (from International Paper)	China	Foodservice E-A-O	19	200
16	Apr-18	Tailored Packaging (65% ownership)	Australia	Foodservice E-A-O	85	130
17	May-18	CupPrint (70% ownership)	Republic of Ireland	Foodservice E-A-O	14	110
18	Jun-18	Ajanta Packaging, business in India	India	Flexible Packaging	10	170
19	Dec-19	Everest Flexibles (70% ownership of business)	South Africa	Flexible Packaging	40	460
20	Jan-20	Mohan Mutha Polytech, assets and operations	India	Flexible Packaging	9	160
21	Mar-20	Laminor S.A. (JV acquired fully)	Brazil	Flexible Packaging	25	130

Source: Huhtamaki Website

Exhibit 33: India forms significant portion of global portfolio



Source: Huhtamaki Website, SMIFS Research

Since 2011, Huhtamaki has done 21 acquisitions globally with revenues totaling ~EUR 769 million.

Highest no. of acquisitions, i.e., 5 were done in India only.

Combined revenues for Indian acquisitions at ~EUR 253 million; ~33% of the total.

Acquisition Details

Exhibit 34: Indian acquisitions at a glance



HIL has been able to penetrate markets and build a diversified and sustainable revenue profile in the domestic market.

Mohan Mutha Polytech Private Limited (MMPPL)-2020

HIL acquired the flexible business of Mohan Mutha Polytech Private Limited (MMPPL) in January-2020. MMPPL is a comprehensive packaging solutions provider for marquee clientele in the domestic and export markets. With the acquisition, **HIL expanded its product portfolio** adding more advanced products that includes *cold seal laminates, peelable films and collision shrink films*.

The acquisition was done for a debt free **consideration of INR 741.1 million** on a slump sale basis and includes MMPPL's **manufacturing unit located in Sri City, Andhra Pradesh**.

The **strategic location of Sri City**, one of India's most well-run private industrial estates, offers the leverage to tap the flexible packaging market in Andhra Pradesh and other regions in South India through sea routes. HIL to have a significant opportunity to improve service levels to its existing customers and forge new client relationships across Southern India.

The acquisition to improve HIL's agility in the South India region, accelerating it's growth by improving its capability and responsiveness in serving customers located in South India.

Acquisition Details

Ajanta Packaging (India) - 2018

During June-2018, HIL acquired the entire business of **Ajanta Packaging (India)**, a partnership firm specializing in **manufacturing Pressure Sensitive Labels**, catering mainly to the FMCG sector.

The acquisition of Ajanta Packaging enhanced HIL's Pressure Sensitive Labels manufacturing capacity and also **provided it with new customers and synergies in purchasing**.

The acquisition was done as a going concern, on slump sale basis for a **net consideration of INR 907.8 million**, which included payment of INR 467.1 towards Goodwill arising on acquisition, which comprises the value of expected synergies arising from acquisition, trained manpower and established earning capacity of the business.

From the date of acquisition, Ajanta Packaging has contributed INR 550.9 million to revenues and INR 68.3 million to the profit before tax.

Val Pack Solutions Private Limited—2016

In July-2016, HIL acquired 51% of **Val Pack Solutions Private Limited**, a privately held paper cup manufacturer based in Mumbai, India. With the acquisition Huhtamaki **entered the growing foodservice packaging market in India**, where many of its key customers were already operating.

With the acquisition of Valpack, a well-established company with high manufacturing standards, HIL is able to serve many of its global and regional customers operating in India.

At the time of acquisition, Valpack's annualized net sales were ~EUR 4 million and ~100 employees in its manufacturing unit in the Mumbai area. The debt-free **acquisition price was ~EUR 2 million**. The business became part of Huhtamaki's Foodservice Europe-Asia-Oceania business segment.

Positive Packaging Industries Limited-2015

HIL acquired 100% stake in of **Positive Packaging Industries Limited** on 30-January-2015 at an **enterprise value of INR 7937 million** inclusive of debt and debt like items of INR 2875 million.

Acquisition Details

Positive Packaging manufactures quality flexible packaging from **six manufacturing plants** with installed capacity of 45,000 MT located around Mumbai and Bengaluru. Positive Packaging **contributed INR 8264 million to revenues** and INR 244 million towards net profit during CY2015 (*for 11 months*). Positive derives a significant proportion of its turnover from exports to Africa.

The acquisition contributed significantly by enhancing synergy in technology, market performance and customer satisfaction.

Webtech Labels Private Limited

HIL acquired 51% in **Webtech Labels Private Limited** at a cost of **~EUR 7 million (INR 388 million)** on 09-November-2012. Webtech Labels is **specialized in manufacturing high-end Pressure Sensitive Labels**, especially to pharmaceutical customers. The annual net sales of the company was ~EUR 10 million (INR 750 million) at the time of acquisition.

The acquisition complemented the Flexible Packaging segment's existing product portfolio.

Later, on 6-April-2017, HIL acquired the remaining 49% in the Webtech by way of scheme of arrangement, where it issued and allotted 28,10,000 equity shares to the shareholders of Webtech for 10,000 shares held by them in the share capital of Webtech in the ratio of 281:1, eventually merging Webtech with itself .

Exhibit 35: Acquisition details for HIL

Year	2012	2015	2016	2017	2018	2020
Target	Webtech Labels Private Limited	Positive Packaging Industries Limited	Val Pack Solutions Private Limited	Webtech Labels Private Limited	Ajanta Packaging	Mohan Mutha Polytech Private Limited
Valuation	EUR 7 million (INR 388 million)	INR 7937 million (Including debt of INR 2875 million)	EUR 2 million	Share swap in the ratio 281:1	EUR 13 million (INR 907.8 millionn)	EUR 10 million (INR 741.1 millionn)
Stake purchased	51%	100%	51%	49%	100%	100%
Business	Specialized in manufacturing high-end pressure sensitive labels, especially for pharmaceuticals	Manufactures quality flexible packaging	Paper cup manufacturer based in Mumbai	-	Manufacturer of pressure sensitive labels in India	Flexible packaging manufacturer located in Sri City, Andhra Pradesh
Annual Revenue	EUR 10 million	~INR 10 billion	EUR 4 million	-	EUR 10 million	EUR 9 million

Source: Huhtamaki Annual Reports, SMIFS Research

Key Management Team

■ Mr. Murali Sivaraman, Chairman & Non-executive Independent Director

Mr. Murali Sivaraman is a **CA, MBA from the IIM, Ahmedabad** and has also completed an **Advanced Management Program from Harvard**.

Mr. Sivaraman is an accomplished business leader who **has worked for most of his career with global MNCs including Philips and Akzo Nobel in India, Singapore, China, Canada and the UK**. His last position with Signify Innovations India Limited (formerly known as Philips Lighting India Limited) was President for Growth Markets based out of Singapore.

■ Mr. Sudip Mall, Managing Director

Mr Sudip Mall is a **graduate from XLRI** with a PGD in Business Management. He also holds a **B. Tech in Mechanical Engineering from the IIT, BHU, Varanasi, India**. Mr. Sudip Mall brings in more than **25 years of extensive E2E domain knowledge of consumer good industry and senior leadership experience in managing businesses in India & International markets**. He is a seasoned business leader with a track record of building and growing businesses in emerging Asian markets (South & South East Asia) with leading MNC firms such as Campbell Soup/Arnott's, LEGO, Mondelez/Kraft, Cadbury and ConAgra. In his most recent assignment at the Arnott's Group in Jakarta, Sudip worked as a General Manager, Greater Indonesia Cluster, where he held the Strategic & E2E P&L responsibility for a cluster of ASEAN & North Asia markets.

■ Dr. Arup Basu, Non-Executive Director

Dr. Arup Basu holds a **Ph.D in Technology, Composite Materials from the University of Manchester, Institute of Science and Technology (UMIST), UK** and a **Bachelors Degree in Material Science and Engineering from Imperial College, London, UK**. He also has an International Baccalaureate Diploma from United World College (UWC) of Atlantic, Wales, UK. He **has almost two decades of senior level industry experience**. Before joining HIL, he **was holding the position of President and Chief Technology Officer in Tata Chemicals Ltd (TCL)** and was responsible for new business, technology and innovation.

■ Mr. Ranjeev Lodha, Executive Director & Chief Financial Officer

Mr. Ranjeev Lodha, is an **Associate Member of the ICAI of India, Member of The Institute of Certified Management Accountants, Australia** and holds a PGD in Management of Business Finance (MBF) from Indian Institute of Finance, Delhi. **Prior to joining HIL, he held the position of Vice President and Group Corporate Controller at Tata Chemicals Ltd., (TCL)**. During his tenure in TCL, he worked on various assignments in the areas of project accounting, financial reporting, strategic finance, internal controls, acquisition & divestments. He **also worked with Mahindra & Mahindra Ltd., and has over 30 years experience** in handling Finance & Accounts Function.

Key Risks

- **Increase in competition:** The packaging sector is highly fragmented in India, with existence of many smaller unorganized players along with large players. The increase in competition from peers may impact margins for the company.
- **Volatility in key raw material prices:** The key raw material for the company is polymers, which are highly correlated to the movement in crude prices. Though the company has a pass-through mechanism in place up-to some extent, a significant increase in crude/polymer prices can result in rise in raw material cost leading to lower gross margins.
- **Growth in FMCG consumption:** The demand for flexible packaging is highly co-related with the growth of FMCG sector, which is the key user industry. Any unfavorable scenario like bad monsoon during a year, which might impact FMCG demand will have negative impact on the demand for flexible packaging, leading to lower revenues and decreased profitability for the company.
- **Ongoing litigation related to Thane Plant:** HIL had had received a closure notice on 20th November, 2018 from Maharashtra Pollution Control Board, in relation to its Thane manufacturing facility. The Company has filed an appeal with the National Green Tribunal against that. On 14th December, 2018 the company withdrew its appeal before the NGT, with liberty to file appeal, which has been accepted by NGT. The Company is expects withdrawal of the closure notice by MPCB and awaiting the formal communication for the same. Any adverse outcome on this Thane plant matter could affect the company's business .

Exhibit 36: Income Statement (Quarterly)
In Rs Million

	Q4-CY18	Q1-CY19	Q2-CY19	Q3-CY19	Q4-CY19	Q1-CY20	Q2-CY20	Q3-CY20	YoY%	QoQ%
Net Revenue	6131	6294	6338	6501	6732	5746	6408	6859	5.5%	7.0%
Cost of goods sold	4099	4096	4152	4335	4577	3684	4192	4466	3.0%	6.5%
<i>% of Revenue</i>	<i>66.9%</i>	<i>65.1%</i>	<i>65.5%</i>	<i>66.7%</i>	<i>68.0%</i>	<i>64.1%</i>	<i>65.4%</i>	<i>65.1%</i>	<i>-157bps</i>	<i>31bps</i>
Employees Cost	576	588	666	646	617	664	766	711	10.1%	-7.2%
<i>% of Revenue</i>	<i>9.4%</i>	<i>9.3%</i>	<i>10.5%</i>	<i>9.9%</i>	<i>9.2%</i>	<i>11.6%</i>	<i>12.0%</i>	<i>10.4%</i>	<i>43bps</i>	<i>159bps</i>
Other expenses	799	738	803	859	870	898	802	908	5.7%	13.2%
<i>% of Revenue</i>	<i>13.0%</i>	<i>11.7%</i>	<i>12.7%</i>	<i>13.2%</i>	<i>12.9%</i>	<i>15.6%</i>	<i>12.5%</i>	<i>13.2%</i>	<i>3bps</i>	<i>-72bps</i>
EBITDA	658	873	716	662	669	500	648	774	17.0%	19.5%
<i>EBITDA margin%</i>	<i>10.7%</i>	<i>13.9%</i>	<i>11.3%</i>	<i>10.2%</i>	<i>9.9%</i>	<i>8.7%</i>	<i>10.1%</i>	<i>11.3%</i>	<i>111bps</i>	<i>-118bps</i>
Depreciation	220	216	214	219	220	248	247	245	12.3%	-0.8%
Interest	82	68	69	81	-7	63	71	62	-24.1%	-12.9%
EBT	355	589	433	362	455	189	330	467	29.1%	41.6%
Other Income	39	88	27	30	33	53	31	29	-3.4%	-5.6%
PBT	394	676	461	392	487	242	360	496	26.7%	37.7%
Provision for tax	215	256	181	73	-194	-31	93	127	75.1%	36.6%
<i>% Tax rate</i>	<i>54.4%</i>	<i>37.8%</i>	<i>39.3%</i>	<i>18.6%</i>	<i>-39.9%</i>	<i>-12.9%</i>	<i>25.9%</i>	<i>25.7%</i>	<i>710bps</i>	<i>20bps</i>
Net Profit	180	420	279	319	682	273	267	369	15.6%	38.0%
<i>Net profit margin%</i>	<i>2.9%</i>	<i>6.7%</i>	<i>4.4%</i>	<i>4.9%</i>	<i>10.1%</i>	<i>4.8%</i>	<i>4.2%</i>	<i>5.4%</i>	<i>47bps</i>	<i>-121bps</i>
EPS (In Rs)	2.4	5.6	3.7	4.2	9.0	3.6	3.5	4.9	15.6%	38.0%

Source: Company Data, SMIFS Research

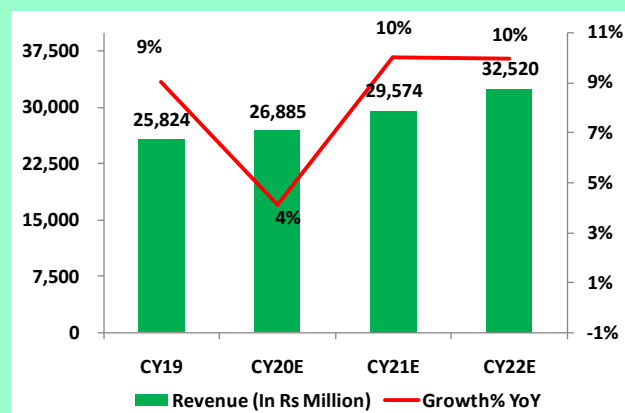
Exhibit 37: SWOT Analysis


Source: Annual Reports, SMIFS Research

Key Performance Indicators

Exhibit 38: Revenue (Rs Mn)

Revenue is expected to grow from Rs 25,824 million in CY19 to Rs 32,520 million in CY22E, registering a CAGR of ~8%.

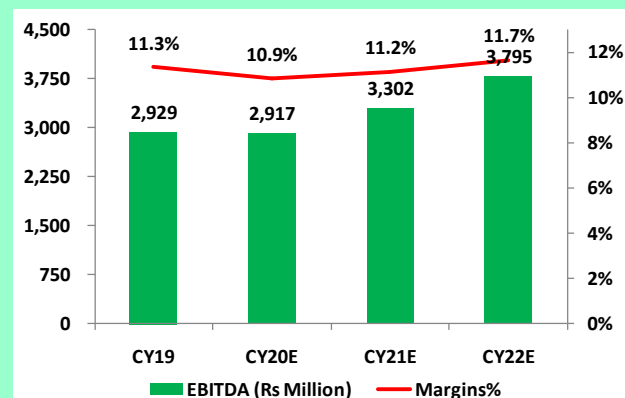


Source: Company Data, SMIFS Research

Exhibit 39: EBITDA (Rs Mn)

EBITDA is expected to grow at a CAGR of 9% over CY19 - CY22E at Rs 3,795 million, from Rs 2,929 million reported in CY19.

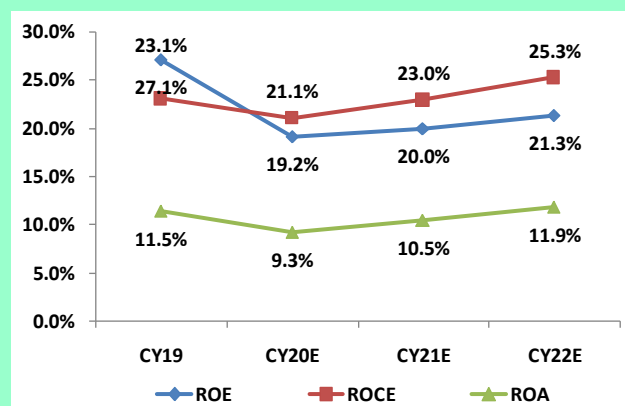
Margins expected to improve by ~80bps to 11.7% in CY22E from 10.9% in CY20E.



Source: Company Data, SMIFS Research

Exhibit 40: ROE, ROCE & ROA (%)

ROE and ROCE are expected to improve from 19.2% and 21.1% in CY20E to 21.3% and 25.3% in CY22E, respectively.



Source: Company Data, SMIFS Research

Outlook & Valuation

- HIL's is a proxy play on India's growing consumption story. HIL's volume is highly co-related with FMCG and Pharma sector. As the Indian FMCG sector is expected to grow at a CAGR of ~15% to reach USD 220 billion by 2025E, HIL is expected to benefit. **The Covid-19 pandemic has lead to increase in demand for FMCG and Pharma products. With the growth in FMCG and Pharma industry, the demand for flexible packaging is expected to rise, thereby benefitting company like HIL.**
- HIL offers a range of innovative products with unique and customized offerings as per client needs, which accounts for ~25% to total sales (CY2018). HIL management is keen on increasing its revenue share from premium innovative products. About ~20% of HIL's revenues comes from exports, which are more lucrative in terms of margins. HIL's management is keen on increase its revenue from innovative products and exports. This will help increase realizations and margins going forward. **We expect that HIL's EBITDA margins to gradually improve from 10.9% in CY20E to 11.2%, 11.7% in CY21E, CY22E, respectively, largely due to strong demand backed by FMCG and pharma sector and increasing share of innovative products and exports.**
- HIL's return ratios expected to decline during the current CY20E, as H1-CY20 financials took a hit due to pandemic. However, **over CY20-22E, HIL's ROE is expected to improve from 19.2% in CY20E to 20%, 21.3% in CY21E, CY22E and ROCE is expected to improve from 21.1% in CY20E to 23%, 25.3% in CY21E, CY22E, respectively.**
- HIL is expected to generate strong Free Cash Flow (FCF) of ~Rs 4201 million over CY20-22E, which will equip the company to do further expansion/ acquisition.
- With increase in profitability and strong FCF generation, we expect HIL to increase its dividend payout to ~30% over CY20E-22E from ~13% in CY19.
- We initiate coverage on HIL with a "Strong Buy" recommendation and a price target of Rs 407 over a period of 12-18 months, valuing the stock at PE of 15x on its CY22E EPS of Rs 27.2. At our target price, the stock offers an upside of ~28.4%.**

Exhibit 41: Peer Analysis

Company Name	CMP (Rs)	Market Cap (Rs Mn)	EPS (Rs)	BVPS (Rs)	PE (x)	PB (x)	EV/ EBITDA (x)	MCap/ Sales (x)	Net D/E x	ROE %	RoCE %
EPL Ltd	229	72,080	6.7	49	34.1	4.7	13.4	2.6	0.18	14.5%	29.3%
Uflex	355	25,631	51.2	650	6.9	0.5	5.2	0.3	0.66	8.2%	18.2%
Huhtamaki	317	23,980	22.5	92	14.1	3.4	8.8	0.9	0.24	27.1%	32.5%

Company Name	Revenue (Rs Mn)	EBITDA (Rs Mn)	EBDITA margin%	PAT (Rs Mn)	PAT margin%	Eq. Capital (Rs Mn)	Promoter Holding%	Face Value (Rs)	Promoter Holding%
EPL Ltd	27,601	5,574	20.2%	2,116	7.7%	630.9	51.96%	2.0	51.96%
Uflex	74,048	10,804	14.6%	3,698	5.0%	722.1	44.02%	10.0	44.02%
HPPL	25,824	2,929	11.3%	1,700	6.6%	151.1	66.94%	2.0	66.94%

Source: Company Annual Report, SMIFS Research

Financial Details

Income Statement (Consolidated)					INR Mn
Particulars (Y/E December)	CY18	CY19	CY20E	CY21E	CY22E
Net Revenue	23,691	25,824	26,885	29,574	32,520
Growth% YoY	11.2%	9.0%	4.1%	10.0%	10.0%
COGS	16,077	17,119	17,713	19,446	21,340
Gross Profit	7,614	8,705	9,172	10,128	11,180
Gross Profit Margin%	32.1%	33.7%	34.1%	34.2%	34.4%
SG&A	5,400	5,776	6,254	6,827	7,385
EBITDA	2,214	2,929	2,917	3,302	3,795
Growth% YoY	1.4%	32.3%	-0.4%	13.2%	14.9%
EBITDA Margin%	9.3%	11.3%	10.9%	11.2%	11.7%
Depreciation & Amortisation	854	869	973	1,043	1,111
Other Income	167	167	156	161	185
EBIT	1,527	2,227	2,100	2,420	2,869
Interest Cost	391	211	195	167	127
PBT	1,136	2,016	1,905	2,252	2,742
PBT Margin%	4.8%	7.8%	7.1%	7.6%	8.4%
Tax Expenses	787	315	480	567	690
Tax Rate%	69.3%	15.6%	25.2%	25.2%	25.2%
Net Profit	349	1,700	1,426	1,686	2,052
Growth% YoY	-45.2%	387.4%	-16.2%	18.2%	21.7%
Margin%	1.5%	6.6%	5.3%	5.7%	6.3%
Adj. Net Profit	739	1,508	1,426	1,686	2,052
No. of Shares	75.5	75.5	75.5	75.5	75.5

Balance Sheet (Consolidated)					INR Mn
Particulars (Y/E December)	CY18	CY19	CY20E	CY21E	CY22E
Share Capital	151	151	151	151	151
Reserves & Surplus	5,414	6,822	7,732	8,808	10,118
Networth	5,565	6,974	7,883	8,959	10,269
Total Borrowings	3,995	2,688	2,302	1,926	1,532
Other non-current liabilities	153	182	187	201	226
Trade payables	3,617	4,295	4,001	4,243	4,629
Other Current Liabilities	1,180	1,002	1,220	1,278	1,359
Total Equity & Liabilities	14,510	15,141	15,593	16,608	18,015
Net Block+CWIP	4,501	4,221	4,090	3,810	3,472
Intangible assets	157	162	126	91	55
Goodwill	564	564	624	624	624
Other non-current assets	403	768	820	829	875
Inventories	2,122	1,819	2,052	2,139	2,291
Trade Receivables	5,702	6,185	6,138	6,536	7,145
Cash and Cash Equivalents	478	446	689	1,513	2,441
Other Current assets	583	976	1,054	1,067	1,110
Total Current Assets	8,885	9,425	9,933	11,254	12,988
Total Assets	14,510	15,141	15,593	16,608	18,015

Source: Company Data, SMIFS Research

Financial Details

Cash Flow Statement (Consolidated)					INR Mn
Particulars (Y/E December)	CY18	CY19	CY20E	CY21E	CY22E
PBT	1,136	2,016	1,905	2,252	2,742
Depreciation & Amortisation	854	869	973	1,043	1,111
Interest expense	391	211	195	167	127
Interest & dividend Income	-23	-11	-10	-17	-35
Changes in working capital	-606	495	-387	-192	-361
Taxes Paid	-730	-602	-480	-567	-690
Others	-10	-133	-	-	-
Cash Flow from Operating Activities	1,012	2,845	2,197	2,687	2,894
Capital Expenditure	-626	-555	-125	-729	-737
Other Investments	316	-332	-741	-	-
Interest & Dividend Received	13	11	10	17	35
Cash Flow from Investing Activities	-296	-875	-856	-712	-702
Net issuance of equity	-	-	-	-	-
Net borrowings	-29	-1,307	-387	-375	-394
Dividend paid (including tax)	-272	-273	-516	-610	-742
Interest expense	-384	-422	-195	-167	-127
Cash Flow from Financing Activities	-685	-2,001	-1,098	-1,152	-1,263
Net change in cash	31	-32	243	823	929
Opening cash balance	444	476	445	688	1,511
Cash of acquired subsidiary	2	-	-	-	-
Closing Cash Balance	476	445	688	1,511	2,440

Source: Company Data, SMIFS Research

Financial Details

Key Ratios (Consolidated)

Particulars (Y/E December)	CY18	CY19	CY20E	CY21E	CY22E
Per Share Data (In Rs)					
EPS	4.6	22.5	18.9	22.3	27.2
BVPS	73.7	92.3	104.4	118.6	136.0
CFS	13.4	37.7	29.1	35.6	38.3
DPS	3.0	3.0	5.7	6.7	8.1
Valuation Ratios (x)					
P/E	69.6	14.3	17.0	14.4	11.8
P/BV	4.4	3.5	3.1	2.7	2.4
EV/ EBITDA	12.6	9.1	8.9	7.5	6.2
P/CFS	24.0	8.5	11.0	9.0	8.4
Profitability Ratios (%)					
RoE	6.3%	27.1%	19.2%	20.0%	21.3%
RoCE	16.0%	23.1%	21.1%	23.0%	25.3%
RoA	2.4%	11.5%	9.3%	10.5%	11.9%
Liquidity Ratios					
Current Ratio	1.8	1.4	1.5	1.7	1.9
Quick Ratio	1.4	1.1	1.2	1.4	1.6
Solvency Ratio (x)					
Debt/Equity	0.72	0.39	0.29	0.22	0.15
Net Debt/Equity	0.60	0.24	0.13	-0.02	-0.15
Interest Coverage Ratio	3.90	10.54	10.75	14.45	22.61
Working Capital Days					
Inventory Days	46	42	43	42	41
Debtors days	84	84	85	85	84
Creditors Days	83	84	84	83	83
Cash Conversion period	48	42	44	43	42

Du-Pont Analysis (Consolidated)

Particulars	CY18	CY19	CY20E	CY21E	CY22E
PAT Margin	1.5%	6.6%	5.3%	5.7%	6.3%
Asset Turnover(x)	1.6	1.7	1.7	1.8	1.9
Financial Leverage(x)	2.6	2.4	2.1	1.9	1.8
ROE	6.3%	27.1%	19.2%	20.0%	21.3%

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