

# Huhtamaki India Ltd.

## Strong operational performance, Upgrade to ACCUMULATE

The company reported strong show on its operational part although revenue was slightly lower than estimates. The revenue declined by 10% QoQ & gross margin expanded by 181bps YoY & 278bps QoQ to 27.8% in Q4CY22. The expansion in gross margins is majorly because of decline in raw material prices & cost pass on to its end user industries. Despite revenue growth of 5% YoY, EBITDA grew by ~351% YoY because of lower raw materials and operational expenses. EBITDA margins expanded by 542bps YoY & 407bps QoQ to 7.1% in Q4CY22. At the PBT level, the company reported profit of Rs161mn in Q4CY22 vs loss of Rs47mn in Q3CY22. The company has also given an approval to monetize the freehold land and building situated at Majiwade, Thane, Maharashtra, subject to necessary formalities being completed. We upgrade to ACCUMULATE rating from earlier SELL rating on the stock with a target price of Rs 213 per share which offers upside of 7.1% from current valuations.

### Q4CY22 revenue declined by 10% QoQ; Gross/ EBITDA margins expanded QoQ basis

- The company's Q4CY22 revenue declined by ~10% QoQ to Rs 6.92bn (Slightly lower than our estimates of Rs7.11bn). As per our estimates, the de-growth should be led by decline in realization. Gross margins expanded by 181bps YoY & 278bps QoQ to 27.8% for the quarter, majorly led by declining raw material prices of PE films, biaxially oriented polyethylene etc.
- The employee cost increased by ~3% YoY & declined by ~5% QoQ to Rs623mn and stood at 9.0% of sales in Q4CY22 as compared to 9.2% in Q4CY21 & 8.5% in Q3CY22, while other expenses declined by ~19% YoY & ~21.6% QoQ to Rs815mn and stood at 11.8% of sales in Q4CY22 as compared to 15.2% in Q4CY21 & 13.5% in Q3CY22. Lower raw material & lower operating expenses led to EBITDA margins witness improvement of 407bps QoQ to 7.1% for Q4CY22.
- The interest cost went up by ~6% YoY & declined by 2% QoQ to Rs86mn; while the depreciation expenses were lower by ~7% YoY & flattish on QoQ to Rs210mn.

### Cost savings measure to help company cut down on fixed cost and stabilize margins

- The company has embarked on 'Project Parivartan' (Transformation Project) which focuses on cost transformation, stronger price realisation and better quality of growth to turnaround its performance. It focuses on improving efficiency of manufacturing network, labour productivity and reduce wastages from operations to boost company's long-term competitiveness.
- The recent monetization of Thane and Ambernath plant will cut down on fixed cost and will help to stabilize the margins in the long term.

### Valuation

- Post Q3CY22 earnings, we assigned SELL rating on the stock and thereafter the stock has also reached our previous quarters target price. Considering strong performance in current quarters and anticipation of strong quarters ahead, we have upgraded our price target to Rs 213, owing to pass on raw material prices & green shoots of pickup in demand valuing the stock 14.5x CY24E EPS of Rs 14.7. At our target price, the stock offers an upside of ~7.1%, thereby, assigning ACCUMULATE rating on the stock.

Y/E Mar (Rs)	Q4CY22	Q4CY21	YoY (%)	Q3CY22	QoQ (%)	Q4CY22E	Var(%)
<b>Total Income</b>	<b>6,927</b>	<b>6,616</b>	<b>4.7</b>	<b>7,690</b>	<b>-9.9</b>	<b>7,115</b>	<b>(2.6)</b>
Operating	6,438	6,507	-1.1	7,461	-13.7		
<b>EBITDA</b>	<b>489</b>	<b>109</b>	<b>350.5</b>	<b>230</b>	<b>113.0</b>	<b>320</b>	<b>52.7</b>
EBITDA	7.1	1.6	542 bps	3.0	407 bps	4.5	256 bps
Depreciation	210	226	-7.1	210	-0.2		
Interest	86	81	6.1	88	-2.3		
Other Income	-33	17	-294.1	21	-255.5		
<b>PBT</b>	<b>161</b>	<b>-181</b>	<b>-188.7</b>	<b>-47</b>	<b>440.5</b>		
Tax Expenses	-8	-46	-83.2	-48	na		
Effective tax	-4.8	25.3	-3014 bps	na	na		
<b>Reported PAT</b>	<b>168</b>	<b>-135</b>	<b>-224.6</b>	<b>0.4</b>	<b>42000.0</b>	<b>32</b>	<b>422.8</b>
PAT margin	2.4	-2.0	447 bps	0.01	243 bps	0.5	198 bps

Y/E Mar (Rs mn)	Revenue	YoY (%)	EBITDA	EBITDA (%)	Adj. PAT	YoY (%)	Adj. EPS	RoE (%)	RoCE (%)	P/E (x)	EV/EBITDA (x)
CY20	24,627	-5.2	2,336	9.5	960	-43.6	12.7	13.1	11.6	19.7	9.0
CY21	26,253	6.6	1,090	4.2	83	-91.4	1.1	1.1	1.7	252.4	22.6
CY22	29,829	13.6	1,570	5.3	496	500.3	6.6	6.7	6.8	29.0	11.5
CY23E	30,959	3.8	2,049	6.6	775	56.2	10.3	9.9	8.9	19.4	8.9
CY24E	32,534	5.1	2,550	7.8	1,110	43.3	14.7	13.0	10.9	13.5	6.7

\*Source: Company, SMIFS Research



Rating: ACCUMULATE

Upside: 7.1%

Current Price: 199

Target Price: 213

### Earlier recommendation

Previous Rating:	SELL
Previous Target Price:	196

### Market data

Bloomberg:	HUIN IN
52-week H/L (Rs):	237/148
Mcap (Rs bn/USD bn):	15.3/0.2
Shares outstanding (mn):	75.5
Free float:	32.0%
Daily vol. (3M Avg. In mn):	0.11
Face Value (Rs):	2.0

Source: Bloomberg, ACE Equity, SMIFS Research

### Shareholding pattern (%)

	Dec-22	Sept-22	June-22	Mar-22
Promoter	67.7%	67.7%	67.7%	67.7%
FII's	1.0%	1.3%	3.9%	4.2%
DII's	0.5%	0.5%	0.4%	0.4%
Public/others	30.8%	30.5%	28.0%	27.7%

### Pro. Pledging (%)

Pledging	0.0	0.0	0.0	0.0
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Source: BSE

### Price performance (%)\*

	1M	3M	12M	36M
Nifty 50	1.2%	-1.6%	4.6%	49.5%
Nifty 500	-1.2%	-3.4%	2.3%	51.8%
Huhtamki	2.8%	4.2%	7.2%	-18.7%

\*as on 16<sup>th</sup> Feb 2023; Source: AceEquity, SMIFS Research

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## Outlook and Valuation

In the last several quarters, Huhtamaki India's performance has been adversely affected due to the unprecedented increase in raw material prices on back of the world-wide inflationary commodity cycle. Higher Ocean freight rates from mid of 2021 and erratic vessel/container schedule affected exports. The impact of the Covid pandemic, consumption is yet to fully recover and reach pre Covid levels, has put pressure on volumes, pricing & product mix.

Q4CY22 revenue grew by 5% YoY but degrew by 10% QoQ to Rs6.92bn. Sequential decline is majorly led by decline in realization. Gross margin expanded by 181bps YoY and 278bps QoQ to 27.8% in Q4CY23 as raw material prices declined during the quarter. EBITDA grew by 351% YoY and 113% QoQ to Rs489mn in Q4CY22. EBITDA margins expanded by 542bps YoY and 407bps QoQ to 7.1% in Q4CY22 majorly led by gross margin contraction and lower other expenses. The company reported profit of Rs168mn in Q4CY22 as compared with Rs0.4mn in Q3CY22.

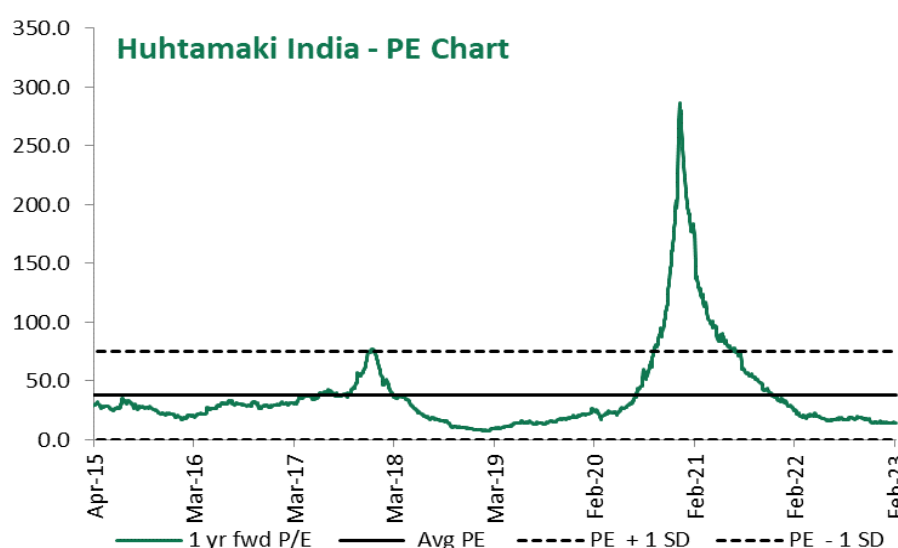
**Although, on QoQ basis gross margins has witnessed expansion which is largely led by lower raw material prices & cost pass on to end customers. Also, the company was struggling to pass-on commodity price increase to the customers since last few quarters.** Considering, the crude price softening and cost inflation build in most of the long term contracts, the company should be comfortable to pass on the raw material prices and this should improve the margins for the coming quarters.

**Going forward, we expect demand to improve in the coming quarters and strong rural demand growth in the FMCG segment.**

Post Q3CY22 earnings, we assigned SELL rating on the stock and thereafter the stock has also reached our previous quarters target price. Considering strong performance in current quarters and anticipation of strong quarters ahead, we have upgraded our price target to Rs 213, owing to pass on raw material prices & green shoots of pickup in demand valuing the stock 14.5x CY24E EPS of Rs 14.7. **At our target price, the stock offers an upside of ~7.1%, thereby, assigning ACCUMULATE rating on the stock.**

Key risks for the company include volatility in raw material prices like PE films & biaxially oriented polyethylene (polymers), increase in competition and decline in FMCG consumption.

**Fig 1: Huhtamaki India – PE Chart**



Source: Company, SMIFS Research

## Quarterly financials, operating metrics and key performance indicators

**Fig 2: Quarterly Financials**

Y/E March (Rs mn)	Q1CY21	Q2CY21	Q3CY21	Q4CY21	Q1CY22	Q2CY22	Q3CY22	Q4CY22
<b>Net Revenue</b>	<b>6323</b>	<b>6626</b>	<b>6687</b>	<b>6616</b>	<b>7285</b>	<b>7927</b>	<b>7690</b>	<b>6927</b>
Cost of goods sold	4237	4773	4817	4895	5225	5848	5765	5000
<b>Gross Profit</b>	<b>2086</b>	<b>1853</b>	<b>1870</b>	<b>1721</b>	<b>2061</b>	<b>2078</b>	<b>1926</b>	<b>1927</b>
Employees Cost	704	664	604	605	580	676	657	623
Other Expenses	960	962	957	1007	974	1058	1039	815
<b>EBITDA</b>	<b>423</b>	<b>227</b>	<b>309</b>	<b>109</b>	<b>507</b>	<b>345</b>	<b>230</b>	<b>489</b>
Depreciation	230	235	230	226	221	220	210	210
Interest cost	55	63	70	81	72	78	88	86
<b>PBT from operations</b>	<b>138</b>	<b>-71</b>	<b>9</b>	<b>-198</b>	<b>214</b>	<b>48</b>	<b>-68</b>	<b>193</b>
Other Income	61	25	14	17	126	58	21	-33
<b>PBT (bef. EOI)</b>	<b>199</b>	<b>-46</b>	<b>23</b>	<b>-181</b>	<b>339</b>	<b>106</b>	<b>-47</b>	<b>161</b>
Exceptional item	0	0	310	0	0	0	0	0
<b>PBT</b>	<b>199</b>	<b>-46</b>	<b>-287</b>	<b>-181</b>	<b>339</b>	<b>106</b>	<b>-47</b>	<b>161</b>
Tax	37	-11	-69	-46	93	25	-48	-8
<i>Tax rate (%)</i>	<i>18.6</i>	<i>24.1</i>	<i>-302.6</i>	<i>25.3</i>	<i>27.5</i>	<i>23.3</i>	<i>100.8</i>	<i>-4.8</i>
<b>Reported Net Profit</b>	<b>162</b>	<b>-35</b>	<b>-218</b>	<b>-135</b>	<b>246</b>	<b>81</b>	<b>0</b>	<b>168</b>
<b>Adjusted Net Profit</b>	<b>162</b>	<b>-35</b>	<b>91</b>	<b>-135</b>	<b>246</b>	<b>81</b>	<b>0</b>	<b>168</b>
<b>EPS (In Rs)</b>	<b>2.14</b>	<b>-0.46</b>	<b>-2.89</b>	<b>-1.79</b>	<b>3.26</b>	<b>1.08</b>	<b>0.01</b>	<b>2.23</b>
<b>Adjusted EPS (In Rs)</b>	<b>2.14</b>	<b>-0.46</b>	<b>1.21</b>	<b>-1.79</b>	<b>3.26</b>	<b>1.08</b>	<b>0.01</b>	<b>2.23</b>
<b>YoY Growth (%)</b>								
<i>Net Revenue</i>	<i>9.3</i>	<i>3.4</i>	<i>-2.5</i>	<i>18.6</i>	<i>15.2</i>	<i>19.6</i>	<i>15.0</i>	<i>4.7</i>
<i>EBITDA</i>	<i>-15.3</i>	<i>-65.0</i>	<i>-60.1</i>	<i>-69.4</i>	<i>19.9</i>	<i>51.9</i>	<i>-25.7</i>	<i>350.5</i>
<i>PAT</i>	<i>-40.8</i>	<i>-113.1</i>	<i>-159.2</i>	<i>-366.1</i>	<i>52.2</i>	<i>332.9</i>	<i>100.2</i>	<i>224.6</i>
<b>QoQ Growth (%)</b>								
<i>Net Revenue</i>	<i>13.4</i>	<i>4.8</i>	<i>0.9</i>	<i>-1.1</i>	<i>10.1</i>	<i>8.8</i>	<i>-3.0</i>	<i>-9.9</i>
<i>EBITDA</i>	<i>19.2</i>	<i>-46.3</i>	<i>36.1</i>	<i>-64.9</i>	<i>367.4</i>	<i>-32.0</i>	<i>-33.5</i>	<i>113.0</i>
<i>PAT</i>	<i>218.3</i>	<i>-121.6</i>	<i>-524.0</i>	<i>38.1</i>	<i>282.0</i>	<i>-66.9</i>	<i>-99.5</i>	<i>42000</i>
<b>Margin (%)</b>								
<i>Gross</i>	<i>33.0</i>	<i>28.0</i>	<i>28.0</i>	<i>26.0</i>	<i>28.3</i>	<i>26.2</i>	<i>25.0</i>	<i>27.8</i>
<i>EBITDA</i>	<i>6.7</i>	<i>3.4</i>	<i>4.6</i>	<i>1.6</i>	<i>7.0</i>	<i>4.4</i>	<i>3.0</i>	<i>7.1</i>
<i>PAT</i>	<i>2.6</i>	<i>-0.5</i>	<i>-3.3</i>	<i>-2.0</i>	<i>3.4</i>	<i>1.0</i>	<i>0.0</i>	<i>2.4</i>

Source: Company, SMIFS Research

**Fig 3: Change in Estimates**

	New estimates		Old estimates		Change (%)	
	CY23E	CY24E	CY23E	CY24E	CY23E	CY24E
Revenue	30959	32534	30536	32079	1%	1%
EBITDA	2049	2550	1964	2455	4%	4%
EBITDA Margin (%)	6.6%	7.8%	6.4%	7.7%	19 bps	18 bps
PAT	775	936	624	926	24%	1%
EPS (Rs)	10	12	8	12	24%	1%

Source: Company, SMIFS Research Estimates

## Financial Statements (Consolidated)

Income Statement						
Y/E March (Rs mn)	CY19	CY20	CY21	CY22e	CY23e	CY24E
<b>Net Revenue</b>	<b>25,990</b>	<b>24,627</b>	<b>26,253</b>	<b>29,829</b>	<b>30,959</b>	<b>32,534</b>
Raw Materials	17,285	16,124	18,722	21,837	21,981	22,774
% of sales	66.5	65.5	71.3	73.2	71.0	70.0
Employee Cost	2,517	2,761	2,578	2,536	2,595	2,656
% of sales	9.7	11.2	9.8	8.5	8.4	8.2
Other Expenses	3,259	3,406	3,862	3,886	4,334	4,555
% of sales	12.5	13.8	14.7	13.0	14.0	14.0
<b>EBITDA</b>	<b>2,929</b>	<b>2,336</b>	<b>1,090</b>	<b>1,570</b>	<b>2,049</b>	<b>2,550</b>
Other Income	167	80	94	172	134	116
Depreciation & Amortisation	869	979	922	861	962	1,032
<b>EBIT</b>	<b>2,227</b>	<b>1,437</b>	<b>262</b>	<b>882</b>	<b>1,221</b>	<b>1,633</b>
Interest Cost	211	261	268	323	348	382
<b>Core PBT</b>	<b>1,848</b>	<b>1,096</b>	<b>-100</b>	<b>387</b>	<b>739</b>	<b>1,135</b>
Exceptional item	-	-	310	-	-	-
<b>PBT</b>	<b>2,016</b>	<b>1,176</b>	<b>-316</b>	<b>559</b>	<b>873</b>	<b>1,251</b>
Tax Expenses	315	216	-89	63	98	141
Effective tax rate (%)	15.6	18.4	28.1	11.2	11.2	11.2
<b>Reported PAT</b>	<b>1,700</b>	<b>960</b>	<b>-227</b>	<b>496</b>	<b>775</b>	<b>1,110</b>
<b>Adjusted PAT</b>	<b>1,700</b>	<b>960</b>	<b>83</b>	<b>496</b>	<b>775</b>	<b>1,110</b>

Source: Company, SMIFS research estimates

Key Ratios						
Y/E March (Rs mn)	CY19	CY20	CY21	CY22e	CY23e	CY24E
<b>Growth (%)</b>						
Net Revenue	9.7	-5.2	6.6	13.6	3.8	5.1
EBITDA	32.3	-20.2	-53.3	44.0	30.5	24.4
Adj. PAT	387.7	-43.6	-91.4	500.3	56.2	43.3
<b>Margins (%)</b>						
Gross Profit Margin	33.5	34.5	28.7	26.8	29.0	30.0
EBITDA Margin	11.3	9.5	4.2	5.3	6.6	7.8
EBIT Margin	8.6	5.8	1.0	3.0	3.9	5.0
Core PBT Margin	7.1	4.4	-0.4	1.3	2.4	3.5
PBT Margins	7.8	4.8	-1.2	1.9	2.8	3.8
Adj PAT Margin	6.5	3.9	0.3	1.7	2.5	3.4
<b>Return Ratios (%)</b>						
RoE	27.1	13.1	1.1	6.7	9.9	13.0
RoCE	19.5	11.6	1.7	6.8	8.9	10.9
<b>Turnover Ratios (x)</b>						
Gross Block Turnover (x)	3.5	3.0	2.8	3.0	2.8	2.8
Adj OCF / Adj PAT (%)	192	204	23	344	351	211
Inventory	42	46	56	54	50	47
Debtors	83	85	81	81	81	81
Creditors	84	95	96	91	87	83
Cash Conversion Cycle	42	37	41	43	44	45
<b>Solvency ratio (x)</b>						
Debt/Equity	0.4	0.4	0.6	0.5	0.6	0.5
Net Debt/Equity	0.2	0.3	0.5	0.5	0.4	0.2
Gross Debt / EBITDA	0.9	1.3	3.8	2.6	2.2	1.9
Current ratio	1.7	1.9	1.7	1.9	1.9	2.2
Interest Coverage Ratio	10.5	5.5	1.0	2.7	3.5	4.3
<b>Dividend</b>						
DPS (Rs)	5.0	3.0	1.0	2.0	2.0	2.0
Dividend Yield (%)	2.2	1.2	0.4	1.1	1.0	1.0
Dividend Payout (%)	22.2	23.6	91.4	30.4	19.5	13.6
<b>Per Share Data (In Rs)</b>						
Basic EPS (reported)	22.52	12.71	-3.00	6.6	10.3	14.7
Adj EPS	22.5	12.7	1.1	6.6	10.3	14.7
CEPS	34.0	25.7	13.3	18.0	23.0	28.4
BVPS	92.3	101.3	94.6	100.2	107.3	119.5
<b>Valuation Ratios (x)</b>						
Adj. P/E	10.1	19.7	252.4	29.0	19.4	13.5
P/BV	2.5	2.5	2.9	1.9	1.9	1.7
EV/ EBITDA	6.4	9.0	22.6	11.5	8.9	6.7
EV/ Sales	0.7	0.9	0.9	0.6	0.6	0.5
Adj Mcap / Core PBT	8.7	16.4	-206.2	36.0	18.6	10.7
Adj Mcap / Adj OCF	4.9	9.2	1058.6	8.2	5.0	5.2

Source: Company, SMIFS research estimates

Balance Sheet (Consolidated)						
Y/E March (Rs mn)	CY19	CY20	CY21	CY22e	CY23e	CY24E
<b>Source of funds</b>						
Share Capital	151	151	151	151	151	151
Reserves & Surplus	6,822	7,498	6,996	7,419	7,949	8,877
<b>Shareholder's funds</b>	<b>6,973</b>	<b>7,649</b>	<b>7,147</b>	<b>7,570</b>	<b>8,100</b>	<b>9,028</b>
<b>Total Debt</b>	<b>2,688</b>	<b>2,929</b>	<b>4,122</b>	<b>4,097</b>	<b>4,515</b>	<b>4,865</b>
Other non-current liabilities	134	178	153	146	185	181
<b>Total Liabilities</b>	<b>9,796</b>	<b>10,756</b>	<b>11,422</b>	<b>11,813</b>	<b>12,800</b>	<b>14,074</b>
<b>Application of funds</b>						
Gross Block	7,592	9,058	9,680	10,477	11,372	12,218
Net Block	4,300	4,983	4,746	4,164	4,588	3,778
Capital WIP	83	165	429	350	480	523
<b>Investments</b>	<b>608</b>	<b>184</b>	<b>6</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Other non-current assets</b>	<b>1,332</b>	<b>1,543</b>	<b>1,895</b>	<b>2,369</b>	<b>2,133</b>	<b>2,211</b>
Inventories	1,819	2,288	3,475	2,980	3,002	2,870
Sundry Debtors	6,185	5,338	6,295	6,587	6,734	7,034
Cash and Bank Balances	446	671	322	432	1,306	2,906
Other Current assets	368	657	904	624	847	896
<b>Total Current Assets</b>	<b>8,817</b>	<b>8,954</b>	<b>10,996</b>	<b>10,623</b>	<b>11,889</b>	<b>13,706</b>
Sundry Creditors	4,296	4,098	5,738	4,780	5,208	5,078
Other Current Liabilities	1,049	974	913	914	1,082	1,066
<b>Total Current Liabilities</b>	<b>5,345</b>	<b>5,073</b>	<b>6,650</b>	<b>5,694</b>	<b>6,290</b>	<b>6,144</b>
<b>Net Current Assets</b>	<b>3,472</b>	<b>3,881</b>	<b>4,346</b>	<b>4,929</b>	<b>5,599</b>	<b>7,563</b>
<b>Total Assets</b>	<b>9,796</b>	<b>10,756</b>	<b>11,422</b>	<b>11,813</b>	<b>12,800</b>	<b>14,074</b>

Source: Company, SMIFS research estimates

Cash Flow Statement						
Y/E March (Rs mn)	CY19	CY20	CY21	CY22e	CY23e	CY24E
<b>Operating profit before WC changes</b>	<b>2,953</b>	<b>2,331</b>	<b>1,123</b>	<b>1,752</b>	<b>1,992</b>	<b>2,550</b>
Net changes in working capital	495	-201	-942	-294	480	-447
Taxes Paid	-602	-437	-148	-132	-98	-141
<b>Cash Flow from Operating Activities</b>	<b>2,845</b>	<b>1,693</b>	<b>-277</b>	<b>1,327</b>	<b>2,374</b>	<b>1,962</b>
Adj OCF	3,267	1,960	19	1,709	2,722	2,345
Capital Expenditure	-555	-433	-760	-912	-1,516	-265
Adj FCF	2,712	1,526	-741	797	1,206	2,080
<b>Cash Flow from Investing Activities</b>	<b>-875</b>	<b>-727</b>	<b>-558</b>	<b>-896</b>	<b>-1,381</b>	<b>-148</b>
Debt	-1,271	-211	1,027	144	417	351
Dividend	-273	-228	-227	-78	-182	-182
Interest and lease	-422	-266	-296	-382	-348	-382
<b>Cash Flow from Financing Activities</b>	<b>-2,001</b>	<b>-742</b>	<b>486</b>	<b>-316</b>	<b>-113</b>	<b>-214</b>
<b>Net change in cash</b>	<b>-32</b>	<b>225</b>	<b>-349</b>	<b>115</b>	<b>880</b>	<b>1,600</b>

Source: Company, SMIFS research estimates

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