| Huhtamaki PPL ltd. | |
|---|---|
| No. of shares (m) | 75.5 |
| Mkt cap (Rs crs/$m) | 2497/392.4 |
| Current price (Rs/$) | 331/5.2 |
| Price target (Rs/$) | 304/4.8 |
| 52 W H/L (Rs.) | 374/201 |
| Book Value (Rs/$) | 68/1.1 |
| Beta | 0.6 |
| Daily volume (avg. monthly) | 33220 |
| P/BV (CY17e/18e/19e) | 5.3/4.5/3.9 |
| EV/EBITDA (CY17e/18e/19e) | 12.5/10.2/9.1 |
| P/E (CY17e/18e/19e) | 41.5/29.6/25.0 |
| EPS growth (CY17e/18e/19e) | -28.3/30.4/18.6 |
| OPM (CY17e/18e/19e) | 10.1/10.5/10.6 |
| ROE (CY17e/18e/19e) | 13.3/15.8/16.7 |
| ROCE (CY17e/18e/19e) | 9.1/10.8/11.7 |
| D/E ratio (CY17e/18e/19e) | 0.8/0.8/0.6 |
| BSE Code | 509820 |
| NSE Code | PAPERPROD |
| Bloomberg | HPPL IN |
| Reuters | HUHT.BO |

| Shareholding pattern | % |
|---|---|
| Promoters | 66.2 |
| MFs / Banks / FIs | 1.2 |
| Foreign Portfolio Investors | 5.6 |
| Govt. Holding | 0.0 |
| Public & Others | 27.0 |
| **Total** | **100.0** |

As on December 31, 2017

**Recommendation**

**HOLD**

Phone: + 91 (33) 4488 0011

**E- mail:** research@cdequi.com

## Quarterly Highlights

- Income from operations grew by 7% q-o-q in Q3CY17 suggesting rebound in sales after offtake was marred by impact of demonetization and GST in first two quarters of current fiscal; partial impact also felt in Q3CY17. However, HPPL's revenue witnessed degrowth of 2.1% in Q3CY17 (y-o-y). For the same period, other income fell by 49.6% q-o-q- and 62% y-o-y. The sales volume growth in Q3 was in sync with its value growth.
- HPPL's raw material to sales ratio reduced by 128 bps q-o-q and 227 bps y-o-y to 66% owing to lower raw material prices that prevailed in Q3CY17. During the same period, other expenses were kept under reasonable control which led to a reduction in other expenses (including forex gain/loss) to sales ratio by 210 bps q-o-q and 38bps y-o-y to 12%. OPM as a result, rose to the highest in at least three quarters to 11.7% compared to 9.9% in the same quarter a year ago.
- Buttressed by higher margins, HPPL's PBT remarkably soared in Q3CY17 to Rs 36.17crs ($5.6m) registering a growth of 156.2% q-o-q and 30.2% y-o-y. Modest fall in depreciation expense and finance cost - both by 9% y-o-y - by 3.3% and 6.6% respectively q-o-q assisted in fortifying such margins.
- Tax liability of the company rose as HPPL's plants in Rudrapur and Parwanoo - which were enjoying tax holiday benefits until last year expired.
- HPPL in Q3CY17 operated at capacity utilization between 80-85%, while the capacity utilization in its Guwahati plant remained lower as the plant was still going into production in a phased manner. Therefore, a considerable spur in capacity utilization is expected to occur from Q1CY18.
- The stock currently trades at 29.6x FY18e earnings and 25x FY19e earnings. Revival of the domestic economy from the adverse impact of demonetization and GST would boost throughput at the pharma and FMCG companies. Expansion activities in CY18 will further assist to fortify earnings. Innovation programs like NASP and NCTD will also help to add value to products and provide additional benefits to customers. However, rising oil prices and subdued demand from Africa may suppress margins. Taking into account the recent economic stress, we cut our CY18e EPS by 26.6%. We therefore assign 'hold' rating on the stock and retain our target of Rs 304 based on 23x FY19e earnings (peg ratio: ~1) over a period of 9-12 months.

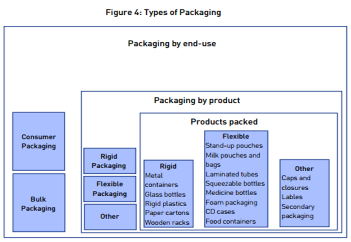
| Figures (Rs crs) | CY16 | CY17e | CY18e | CY19e |
|---|---|---|---|---|
| Income from Operations | 2177.79 | 2099.04 | 2341.74 | 2603.47 |
| Other Income | 17.23 | 16.60 | 17.60 | 18.85 |
| EBITDA (other income included) | 261.81 | 228.96 | 263.31 | 294.78 |
| Adjusted Profit | 86.85 | 64.66 | 84.29 | 99.94 |
| EPS (Rs) | 11.94 | 8.56 | 11.16 | 13.23 |
| EPS growth (%) | 12.6 | -28.3 | 30.4 | 18.6 |
| Equity | 14.54 | 15.10 | 15.10 | 15.10 |

# Outlook & Recommendation

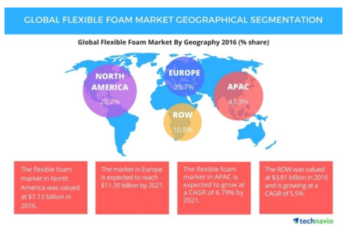
## Industry Overview

Flexible packaging has been one of the fastest growing packaging sectors globally over the past 10 years owing to increased consumer focus on convenience and sustainability. Research and Market, a market research site, postulates that the global consumer flexible packaging market will reach $138.68 bn by 2022 from $104.53 bn in 2016, at a CAGR of 4.9%. High economic growth, rising population, increase in disposable income and change in consumer preferences are the factors augmenting the demand for flexible packaging products in emerging economies. Asia Pacific region remains to be the biggest market for flexible packaging solution followed by America, Middle East and Africa.

According to a report by Smithers Pira, the total market for consumer and industrial flexible packaging was ~$230 bn in 2017 and the market is projected to grow at an annual rate of 4.3%, reaching a total value of $283 bn in 2022. The volume of consumer flexible packaging is expected to grow at an annual rate of 4.1%, increasing from 27.4 million tonnes in 2017 to 33.5 million tonnes in 2022.




Source: IMaCS Research

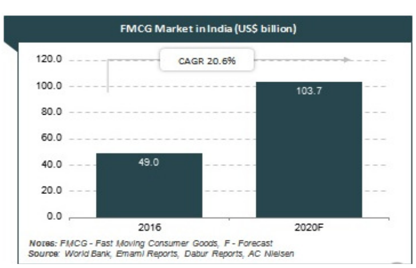



Source: Business Wire

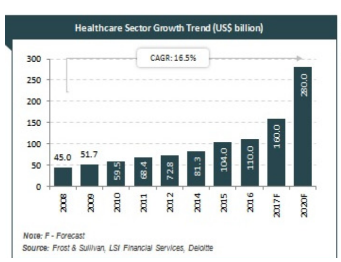
MarketsandMarkets reckons that the flexible plastic packaging market is expected to witness robust growth due to factors such as an increase in middle-class population, growth in demand from the food & beverage and healthcare sectors, and preference for convenient packaging.

Packaging has an annual global turnover of about $550 bn, and India's share is ~$16.5 bn per annum, making the Indian Packaging Industry rank 11th in the world. This sector is highly diversified, with a wide a range of products and services. According to Indian Institute of Packaging (IIP), the Indian packaging market is expected to reach $32 bn by 2020. Industry experts indicate the huge size of the market by pointing out that 50-60% of plastic and polymers produced in the country is consumed by packaging sector as raw material.

Huge untapped potential lies in the flexible packaging segment for India. The per capita packaging consumption in India is quite low at 8.7 kg compared to countries like Germany and Taiwan where it is 42 kg and 19 kg, respectively. With boom in retail and e-commerce, the future of the packaging sector appears to be upbeat. Changing lifestyle, growth of the retail sector and growth of smaller packaging will act as the main drivers of growth in the industry. Growth in the FMCG and health care sectors will galvanize growth of flexible packaging industry.



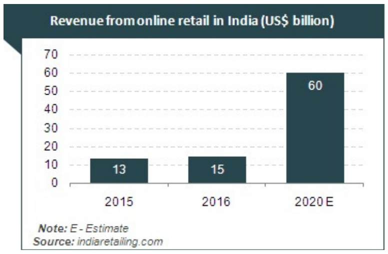

Source: IBEF




Source: IBEF


Source: IBEF

Flexible packaging is widely used in applications in the pharmaceutical, FMCG, food and beverage, and retail industries. Thus, the growth of these sectors is increasing the demand for flexible packaging solutions. Favorable demographics and rise in income level to will stimulate demand in the FMCG market in India leading to growth at a CAGR of 20.6% thereby enabling the market to reach $103.7 bn by 2020 from $49 bn in 2016. Growing per capita sales of pharmaceuticals in India offers ample opportunities for the players in this market. As a result, the per capita sales of pharmaceuticals expanded at a CAGR of 17.6% from $9 in 2008 to $33 in 2016. Economic prosperity will further improve affordability for generic drugs in the market and improve per capita sales of pharmaceuticals in India. Increased participation of foreign and private players to boost retail infrastructure will enable the revenue from online retail to grow to $60bn by 2020. (See graphs)



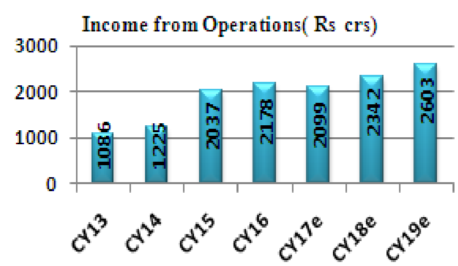

Source: IBEF


Source: IBEF

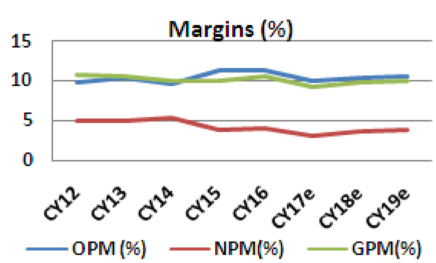
## Financials and Valuations

Subdued demand in the FMCG and pharma sector in India as a result of demonetization and GST along with lower demand from Africa as a result of lower commodity and oil prices have adversely hit the revenues of HPPL. As a result, revenues from operation in 9MCY17 dipped by 5.3% to Rs 1569.04 crs ($240.6m) from Rs 1657.79 crs ($247m) (y-o-y) and the net profit was suppressed by 38.8%. A week after the GST Council announced major tax cut on over 200 items on 10th November, 2017, Central Board of Excise and Customs or CBEC Chairperson, Vanaja Sarna, asked the FMCG companies to follow the revised MRP rate list as per the tax reduction. Since HPPL's major share of revenue comes from FMCG sector, this change in the tax regime impacted HPPL's recent order flows. However, this impact of GST is not expected to spill over to Q1CY18.

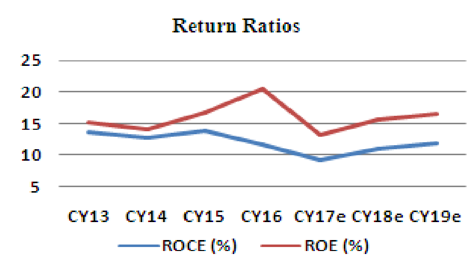
The current production capacity of HPPL stands at ~100,000 TPA up from ~96,000 TPA in CY16. While the company's planned capex was Rs 120 crs in CY17, its actual capex incurred during the period was subsequently scaled down due to issues faced by the company during the year that resulted in muted sales. However, with stabilization of the domestic economy and subsequent growth in the FMCG and health sector, HPPL intends to undertake horizontal expansion as well as new product innovation in order to capture the new wave of expected growth. With a planned capex of Rs 125 crs ($19.6m), HPPL targets brownfield expansion at most of its units in 2018.



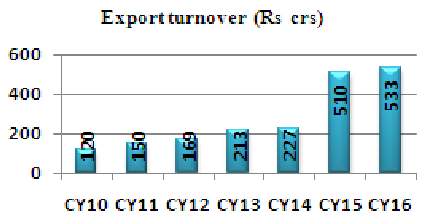

Sources: HPPL, CD Equisearch



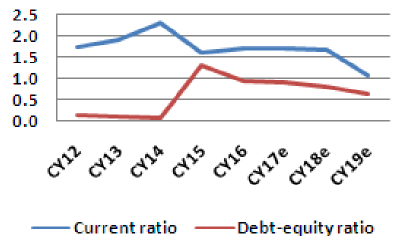

Sources: HPPL, CD Equisearch



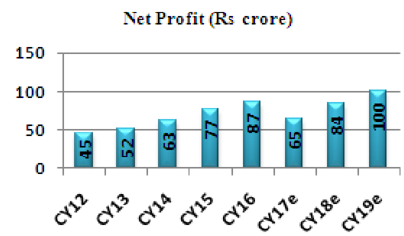

Sources: HPPL, CD Equisearch




Sources: HPPL, CD Equisearch




Sources: HPPL, CD Equisearch



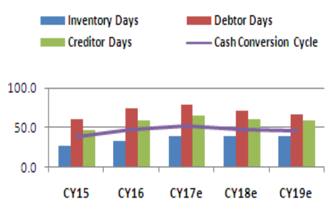

Sources: HPPL, CD Equisearch

In order to create a stronger manufacturing base, HPPL undertook two greenfield operations in North East India, namely Guwahati and Sikkim, in CY16. Many FMCG and consumer durable players have their manufacturing units in the North East region due to the fiscal benefits that the government provides to stimulate industry and job creation in the region. In order to cater to this customer base, the company directed production in both its new units in a phased manner. Flexible packaging production has started in the Guwahati plant and is expected to ramp up in 2018 albeit the cylinder packaging production got delayed and will begin in 2018. ~10 crs of additional capex will be spent on the Guwahati plant in CY18. The capacity utilization at the new plants remains faint which is expected to increase with the gradual ramp up and recovery or domestic economy.

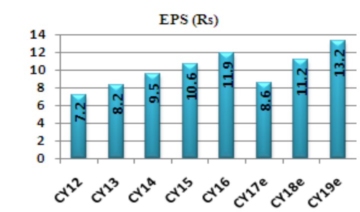
The company described CY16 to be a VUCA year- a Volatile, Uncertain, Complex and Ambiguous environment. Many commodity exporting countries were struggling as a result of low levels of crude and commodity prices which gave rise to deep rooted difficulties like hampered GDP growth, fall in purchasing power, reduced forex availability and wide fluctuations in exchange rate. These problems persisted even in CY17 which had a major impact on the exports of HPPL especially to the African continent that has been suffering from political instability, currency shortages and corruption. Such deep rooted issues are not likely to get resolved in the near term. However, HPPL believes that Africa is a market of growth and therefore is not giving up on that market and is simultaneously expanding in other markets like Europe and America.

As a consequence of the suppressed revenues and other issues faced during the year, integration of operating and software systems of HPPL with Webtech and Positive packaging has been deferred and is expected to complete by end of CY18. Relocation of the new facility, Webtech Labels in Mahape to Greater Mumbai has also been delayed and will start in CY18. The company had got into the process of reassessing the project and the legal permissions required for the project contributed to such delay. However, considerable increase in the production capacity will take place as a result of the relocation as the existing facility is rented, small and has reached a saturation point in terms of further expansion. The new owned facility will afford a scope for expansion in the future and will be equipped with modern machinery.

The stock currently trades at 29.6x FY18e earnings and 25x FY19e earnings. Revenue in CY18 is expected to resurrect as a result of growth in the packaging industry as well as stabilization in the domestic economy. Customer service and innovation programs like NCTD (New Customer Territory Development) and NASP (New Applications, Structures, and Products/Processes) will further enable the company to move into new geographies as well as improve existing business share by creating improved packaging solutions. Relocation of the new Webel facility to Greater Mumbai with other expansion and technology up gradation activities will further accentuate business growth. Synergy benefits as a result of the merger will also fortify earnings. In light of the recent economic stress, we cut our expected CY18 EPS by 26.6%. As the current valuation leaves little margin for error, we assign 'hold' rating on the stock and retain our target of Rs 304 based on 23x FY19e earnings (peg ratio: ~1) over a period of 9-12 months. For more info refer to our May report.




Sources: HPPL, CD Equisearch




Sources: HPPL, CD Equisearch

# Risks and Concerns

## Raw material

Raw material costs accounts for over three-fourths of the operating expenses of HPPL. Input cost inflation will severely impact its margins. HPPL faced favorable raw material prices in Q3CY17 as a result of short term surpluses with the suppliers as a result of demonetization and GST. 23.5% of the raw material cost in CY16 was owing to polymer. The price of polymer is highly correlated to crude oil price which is rallying as a result of OPEC production cuts and increase in demand forecasts of oil. Thus, raw material prices could surge going ahead. Lower bargaining power resulting from low entry barriers and high competition in the industry could adversely hamper the margins of HPPL. However, HPPL has passed on any persistent increase or decrease in its raw material prices to its customers in the past but, with a lag.

## Customer concentration

The top 10 customers of HPPL contribute ~60% to its sales. Further, FMCG players are its major clients. Therefore, any slowdown in its customers' business or FMCG sector can significantly impair HPPL's growth.

## Exports and currency fluctuations

HPPL generates ~25% of its revenues through exports. Any disruption in the economies of its exporting countries can impede its revenue growth. For instance, Africa's geopolitical instability and currency related issues have been negatively impacting HPPL's business. Its global nature of operations also bears currency fluctuation risk.

# Cross Sectional Analysis

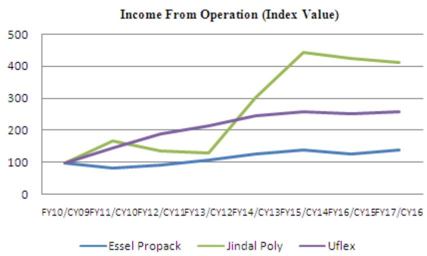
| Company | Equity | CMP | MCAP* | Sales* | Profit* | OPM% | NPM% | Int Cov | ROE% | MC/Sales | P/BV | P/E |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Essel Propack | 31 | 294 | 4617 | 2401 | 165 | 18.6 | 7.0 | 5.4 | 15.5 | 1.9 | 4.1 | 28.0 |
| Huhtamaki PPL | 15 | 331 | 2497 | 2089 | 60 | 10.1 | 2.9 | 4.7 | 13.3# | 1.2 | 4.9 | 41.8 |
| Jindal Poly Film | 44 | 377 | 1651 | 7020 | 98 | 8.2 | 2.1 | 2.7 | 4.2 | 0.2 | 0.8 | 16.8 |
| Uflex | 72 | 459 | 3315 | 6329 | 359 | 14.1 | 5.7 | 3.1 | 9.7 | 0.5 | 0.9 | 9.2 |

Calculations on ttm basis
*Figures in crores
#CY17 estimated

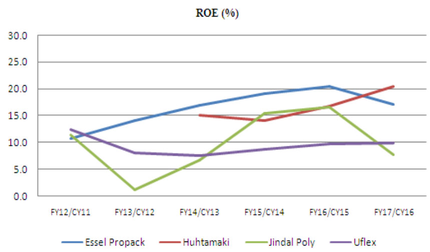
Essel Propack Limited (EPL) is a speciality packaging manufacturer of laminated plastic tubes for the FMCG and pharma sector. It registered a growth of 11.5% in its revenue in Q2FY18 due to high growth in revenues from Europe and East Asia Pacific. GST transition led to customer de stocking which depressed its revenues from India by 3.4% while revenues in Europe (excluding EDG) floundered by 12% y-o-y due to its poor off take from key European customers.

EPL is working towards its long term strategy of 20:20:20 (EBITDA margin, ROE and ROCE of 20% each) and 50:50 (increase the revenue share of its non oral care business globally to 50% of its revenue, and at the same time also grow its oral care business). Having established a global leadership in laminated tubes for oral category, the company is now pursuing bigger growth opportunity in non oral care category. Its revenue share from non oral care category, which is more profitable as compared to the oral care, increased to 40.9% in Q2FY18 as compared to 39.9% in Q2FY17.

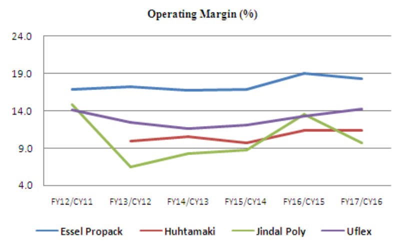
EPL acquired Essel Deutschland Germany (EDG) in September 2016, which helped fortify its revenue due to increased opportunity for synergy via enhanced cross selling opportunity in the European markets, sourcing flexibility and better capacity utilization at the Company's Europe plants. Besides, disruptive packaging innovation such as 'Mystik' (packaging premium hair colorant - commercial production line to be installed in Europe) and 'Green Maple Leaf' (fully recyclable eco-friendly laminated tube) are evidence that the company is deploying technology to increase its global presence and revitalize its business growth. The company has also undertaken expansion activities in its plastic tube manufacturing unit in Wada to house more capabilities.




Sources: Company, Ace Equity




Sources: Company, Ace Equity




Sources: Company, Ace Equity

CY for Huhtamaki PPL

Jindal Poly Films Limited is the largest manufacturer of BOPET and BOPP films in India and has the world's single largest site for production of BOPP and BOPET films at Nasik, India. The company is also a leading player in manufacturing of PP based nonwoven with a capacity of 18,000 TPA. JPFL's revenue from operations dipped by 5.7% (y-o-y) in Q2FY18. With effect from 29th December, 2017, JPF Netherlands (JPF NL) B.V. ceased to be a subsidiary of Jindal Poly Films as a result of issue of 260,000 shares of JPF NL to a third party investor that reduced the company's shareholding from 51% to 49.5%. The largest component of cost involved in making flexible packaging film is attributable to raw materials. The uptrend in crude oil prices and demand for polymers for competing applications is putting pressure on input costs and thereby the bottom line.

JPFL acquired Apeldoorn Flexible Packaging (AFP), a Netherlands-based company, for EUR 82.3m in an all-cash deal with effect from September 29, 2017. AFP is a leading player in load security films. This acquisition is expected to expand Jindal's access to new product segment and strengthen its relationship with brand owners in the food, beverage and FMCG segments. Apeldoorn had posted revenue of EUR 111m in CY16 and the company's revenue is expected to be fortified by this acquisition. JPFL also got its shareholders approval to grant inter corporate loan of up to Rs 10bn on November 7, 2017.

Uflex limited is an emerging global player that caters to markets in over 140 countries with cumulative installed capacity of more than 337,000 TPA. Uflex Limited's sales grew by 3.8% y-o-y which led to a growth of its net profit by 4.4% in Q2FY18. On November 28, 2017, chemicals business of Uflex Limited was reported to have become the first NABL accredited entity in the field of combined manufacturing of packaging inks and laminated adhesives. Uflex has successfully engineered the first Indian restorable spouted stand up pouch for cold beverages which offers a sustainable option with shelf life of 6 months and does away with the cold chain thereby resulting in much lesser emission of green house gases. Uflex also launched the low opacity, good gloss white, anti-static twist wrap polyester film recently.

In early January 2018, Uflex announced that it intends to focus on developing resource optimized packaging for essential Indian staples to extend the use of flexible packaging. Uflex has forayed into the aseptic packaging solution with a six layer packaging innovation under the brand name – ASEPTO as a part of its expansion strategy. ASEPTO is made of paperboard, aluminium, and poly-ethylene that keeps the products' freshness and nutritional value preserved along with the increased shelf life. It also provided a striking functional makeover to United Kingdom's Veetee rice packaging thereby providing a holistic solution to the obstacles faced by the product to unleash its potential. It is also planning to expand its converting machines business in the international market and to introduce new and customer friendly packaging and converting machines having better usage and utility.

## Financials

### Quarterly Results

Figures in Rs crores

| | Q3CY17 | Q3CY16 | % chg | 9MCY17 | 9MCY16 | % chg |
|---|---|---|---|---|---|---|
| **Income From Operations** | **546.42** | **558.31** | **-2.1** | **1569.04** | **1657.79** | **-5.4** |
| Other Income | 1.69 | 4.45 | -62.0 | 10.55 | 12.60 | -16.3 |
| **Total Income** | **548.11** | **562.76** | **-2.6** | **1579.59** | **1670.39** | **-5.4** |
| Total Expenditure | 482.66 | 502.77 | -4.0 | 1410.98 | 1463.19 | -3.6 |
| **EBITDA (other income included)** | **65.45** | **59.99** | **9.1** | **168.61** | **207.20** | **-18.6** |
| Interest | 7.92 | 8.70 | -9.0 | 24.93 | 28.22 | -11.7 |
| Depreciation | 21.36 | 23.51 | -9.1 | 64.09 | 70.56 | -9.2 |
| **PBT** | **36.17** | **27.78** | **30.2** | **79.59** | **108.42** | **-26.6** |
| Tax | 17.04 | 11.29 | 50.9 | 36.91 | 38.64 | -4.5 |
| **Reported PAT** | **19.13** | **16.49** | **16.0** | **42.68** | **69.78** | **-38.8** |
| Extraordinary Item | - | - | - | - | - | - |
| **Adjusted Net Profit** | **19.13** | **16.49** | **16.0** | **42.68** | **69.78** | **-38.8** |
| EPS(Rs) | 2.53 | 2.27 | 11.7 | 5.65 | 9.60 | -41.1 |

### Income Statement - Standalone

Figures in Rs crores

| | CY16 | CY17e | CY18e | CY19e |
|---|---|---|---|---|
| **Income From Operations** | **2177.79** | **2099.04** | **2341.74** | **2603.47** |
| Growth (%) | 6.9 | -3.6 | 11.6 | 11.2 |
| Other Income | 17.23 | 16.60 | 17.60 | 18.85 |
| **Total Income** | **2195.01** | **2115.64** | **2359.34** | **2622.31** |
| Total Expenditure | 1933.21 | 1886.68 | 2096.03 | 2327.53 |
| **EBITDA (other income included)** | **261.81** | **228.96** | **263.31** | **294.78** |
| Interest | 33.31 | 32.15 | 31.09 | 29.43 |
| Depreciation | 90.98 | 85.33 | 91.74 | 98.79 |
| **PBT** | **137.52** | **111.48** | **140.49** | **166.56** |
| Tax | 52.38 | 46.82 | 56.19 | 66.62 |
| **PAT** | **85.15** | **64.66** | **84.29** | **99.94** |
| Extraordinary Item | -1.70 | - | - | - |
| **Adjusted Net Profit** | **86.85** | **64.66** | **84.29** | **99.94** |
| EPS (Rs) | 11.94 | 8.56 | 11.16 | 13.23 |

**Balance Sheet - Standalone** Figures in Rs crores

| | CY16 | CY17e | CY18e | CY19e |
|---|---|---|---|---|
| **Sources of Funds** | | | | |
| Share Capital | 14.54 | 15.10 | 15.10 | 15.10 |
| Reserves | 459.30 | 523.96 | 580.98 | 653.65 |
| **Total Shareholders' Funds** | **473.84** | **539.06** | **596.08** | **668.75** |
| Long Term Debt | 408.21 | 396.00 | 394.00 | 7.00 |
| **Total Liabilities** | **882.05** | **935.06** | **990.08** | **675.75** |
| **Application of Funds** | | | | |
| Gross Block | 1343.90 | 1422.89 | 1547.39 | 1646.89 |
| Less: Accumulated Depreciation and impairment | 887.15 | 972.47 | 1064.21 | 1163.00 |
| **Net Block** | **456.75** | **450.42** | **483.18** | **483.89** |
| Capital Work in Progress | 1.99 | 3.00 | 3.50 | 4.00 |
| Investments | 195.02 | 210.00 | 235.00 | 260.00 |
| **Current Assets, Loans & Advances** | | | | |
| Inventory | 182.50 | 209.88 | 230.86 | 253.95 |
| Trade Receivables | 462.79 | 439.65 | 461.63 | 484.72 |
| Cash and Bank | 31.10 | 31.12 | 17.47 | 27.25 |
| Short term loans | 21.82 | 22.34 | 24.62 | 27.08 |
| Other Assets | 28.73 | 37.23 | 41.48 | 46.06 |
| **Total CA & LA** | **726.94** | **740.22** | **776.07** | **839.05** |
| Current Liabilities | 478.73 | 486.89 | 523.31 | 923.85 |
| Provisions-Short term | 56.82 | 29.28 | 33.16 | 37.46 |
| **Total Current Liabilities** | **535.55** | **516.17** | **556.46** | **961.31** |
| Net Current Assets | 191.39 | 224.05 | 219.60 | -122.26 |
| Net Deferred Tax | 3.14 | 13.96 | 13.96 | 13.96 |
| Net long term assets | 33.77 | 33.64 | 34.84 | 36.16 |
| **Total Assets** | **882.05** | **935.06** | **990.08** | **675.75** |

## Key Financial Ratios

| | CY16 | CY17e | CY18e | CY19e |
|---|---|---|---|---|
| **Growth Ratios (%)** | | | | |
| Revenue | 6.9 | -3.6 | 11.6 | 11.2 |
| EBITDA | 7.2 | -13.5 | 15.0 | 12.0 |
| Net Profit | 12.6 | -25.6 | 30.4 | 18.6 |
| EPS | 12.6 | -28.3 | 30.4 | 18.6 |
| **Margins (%)** | | | | |
| Operating Profit Margin | 11.4 | 10.1 | 10.5 | 10.6 |
| Gross Profit Margin | 10.6 | 9.4 | 9.9 | 10.2 |
| Net Profit Margin | 4.0 | 3.1 | 3.6 | 3.8 |
| **Return (%)** | | | | |
| ROCE | 11.7 | 9.1 | 10.8 | 11.7 |
| ROE | 20.5 | 13.3 | 15.8 | 16.7 |
| **Valuations** | | | | |
| Market Cap/ Sales | 0.8 | 1.3 | 1.1 | 1.0 |
| EV/EBITDA | 7.5 | 12.5 | 10.2 | 9.1 |
| P/E | 20.3 | 41.5 | 29.6 | 25.0 |
| P/BV | 3.8 | 5.3 | 4.5 | 3.9 |
| **Other Ratios** | | | | |
| Interest Coverage | 5.2 | 4.5 | 5.5 | 6.7 |
| Debt Equity | 0.9 | 0.8 | 0.8 | 0.6 |
| Current Ratio | 1.7 | 1.7 | 1.7 | 1.1 |
| Dividend Payout Ratio | 31.2 | 42.2 | 32.4 | 27.3 |
| **Turnover Ratios** | | | | |
| Fixed Asset Turnover | 4.5 | 4.7 | 5.1 | 5.5 |
| Total Asset Turnover | 2.6 | 2.4 | 2.5 | 3.3 |
| Debtors Turnover | 4.9 | 4.7 | 5.2 | 5.5 |
| Inventory Turnover | 11.4 | 9.6 | 9.5 | 9.6 |
| Creditor Turnover | 6.3 | 5.7 | 6.0 | 6.2 |
| **WC Ratios** | | | | |
| Debtor Days | 73.9 | 78.5 | 70.2 | 66.3 |
| Inventory Days | 32.0 | 38.0 | 38.4 | 38.0 |
| Creditor Days | 57.9 | 64.0 | 60.6 | 58.7 |
| Cash Conversion Cycle | 48.0 | 52.4 | 48.0 | 45.7 |

*For making the ratios comparable, we have considered consolidated data for CY15 in computation.

**Cumulative Financial Data**

| Rs crs | CY14-15 | CY16-17e | CY18e-19e |
|---|---|---|---|
| Income from operations | 3263 | 4277 | 4945 |
| Operating profit | 352 | 460 | 522 |
| EBIT | 240 | 317 | 368 |
| PBT | 197 | 252 | 307 |
| PAT | 140 | 152 | 184 |
| Dividends | 48.9 | 54 | 55 |
| OPM (%) | 10.8 | 10.7 | 10.5 |
| NPM (%) | 4.4 | 3.5 | 3.7 |
| Interest coverage | 5.5 | 4.8 | 6.1 |
| Debt-equity* | 1.3 | 0.8 | 0.6 |
| ROE (%) | 18.9 | 17.1 | 16.2 |
| ROCE (%) | 12.7 | 10.2 | 11.3 |
| Fixed asset turnover | 4.5 | 4.5 | 5.4 |
| Debtors turnover | 5.2 | 5.0 | 5.3 |
| Creditors Turnover | 6.7 | 6.1 | 6.1 |
| Inventory turnover | 11.7 | 10.4 | 9.5 |
| Debtor days | 70.2 | 73.3 | 68.2 |
| Inventory Days | 31.3 | 35.0 | 38.3 |
| Creditor Days | 54.6 | 59.5 | 59.7 |
| Cash Conversion | 46.9 | 48.8 | 46.8 |
| Dividend payout ratio (%) | 34.1 | 36.0 | 29.6 |

CY14-15 implies two year ending CY15.
*terminal year

Growth in domestic demand as well as expansion activities to absorb such growth will result in 1.5x increase in revenue from operations from Rs 3263 crs in CY14-15 to Rs 4945 crs in CY18e-19e. CY16-17e includes the effect of both demonetization and GST which suppressed margins and return ratios. However, margin may remain subdued on account of crude oil price rally precipitated by the retention of oil supply cut mulled by OPEC. Reduction in outstanding debt will bring down the debt equity ratio from 1.3 in CY15 to 0.6 in CY19e and thereby improve the interest coverage ratio to 6.1 in CY18e-19e from 4.8 in CY16-17e.

Revamp and expansion at various units of HPPL will spur the fixed asset turnover ratio from 4.5 in CY16-17e to 5.4 in CY18e-19e. Gradual ramp up in Guwahati and Sikkim plant as well as relocation of the Webel facility will help fortify its earnings. ROE however, would continue to be suppressed as a result of gradual recovery in earnings. Although debtor days is expected to fall, the cash conversion cycle would modestly fall due to increase in inventory days from 35 in CY16-17 to 38.3 in CY18e-19e. Dividend payout ratio is expected to fall in ensuing two years (see table).

**Financial Summary – US dollar denominated**

| | CY16 | CY17e | CY18e | CY19e |
|---|---|---|---|---|
| Equity capital | 2.1 | 2.4 | 2.4 | 2.4 |
| Shareholder's funds | 68.5 | 78.8 | 88.1 | 99.5 |
| Total debt | 64.2 | 66.4 | 66.1 | 61.9 |
| Net fixed assets (inc CWIP) | 66.3 | 69.6 | 75.2 | 75.4 |
| Investments | 28.7 | 32.9 | 36.9 | 40.9 |
| Net current assets | 28.2 | 30.8 | 30.2 | -23.5 |
| Total assets | 128.6 | 140.7 | 150.0 | 100.6 |
| Revenues | 324.0 | 322.4 | 367.9 | 409.1 |
| EBITDA | 39.4 | 35.2 | 41.4 | 46.3 |
| EBDT | 34.4 | 30.2 | 36.5 | 41.7 |
| PBT | 20.9 | 17.1 | 22.1 | 26.2 |
| Profit after MI & EO | 12.9 | 9.9 | 13.2 | 15.7 |
| EPS ($) | 0.18 | 0.13 | 0.18 | 0.21 |
| Book Value ($) | 0.94 | 1.04 | 1.17 | 1.32 |

*income statement figures translated at average rates; balance sheet at year end rates; projections for CY18 and 19 at current rates (Rs 63.64/$).

All dollar denominated figures are adjusted for extraordinary items.

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| | | | | |
|---|---|---|---|---|
| buy: >20% | accumulate: >10% to ≤20% | hold: ≥-10% to ≤10% | reduce: ≥-20% to <-10% | sell: <-20% |

**Exchange Rate Used- Indicative**

| Rs/$ | CY14 | CY15 | CY16 | CY17 |
|---|---|---|---|---|
| Average | 61.03 | 64.15 | 67.21 | 65.12 |
| Year end | 63.33 | 66.33 | 67.95 | 63.93 |

All $ values mentioned in the write-up translated at the average rate of the respective quarter/ year as applicable. Projections converted at current exchange rate. Cumulative dollar figure is the sum of respective yearly dollar value.