

Pandemic led disruptions hit performance...

Huhtamaki India's (HIL) Q4CY20 performance was hit by pandemic led disruptions like unavailability of containers (hit export business), logistic issues and lower volume offtake of economic packaging products. Also, labelling business took a hit in Q4CY20 due to limited outdoor activities. Further, despite significant competition in the flexible packaging business HIL has refrained from taking any price cut and kept its focus on maintaining gross margins. While gross margin was up ~82 bps YoY supported by better mix, lower operating leverage dragged overall EBITDA margin down by ~356 bps YoY to 6.4%. We continue to like Huhtamaki for its innovative packaging solutions providing capacity (backed by strong R&D of parent), strong clientele base and comfortable balance sheet position (D/E at 0.3x).

Strong recovery post eased lockdown restrictions in CY20

HIL's sales recovery was at ~95% in CY20 almost at pre-Covid level, despite ~17% revenue dip in Q4CY20. The company witnessed severe competition in the low end packaging business, which is largely price sensitive in nature. Regional players, along with other organised players have increased their market share by taking hit on realisation. However, HIL has maintained its realisation and refrained from taking any price cut for maintaining market share. According to the company, HIL has strong support from its parent (Huhtamaki Oyj) to launch innovative user friendly packaging solutions for its key clients. Huhtamaki's 'blueloop' is another innovative packaging solution, which can be recycled and is well accepted by coffee, confectionery, dry food, personal & home care, etc, industries. HIL aims to increase the proportion of premium products in total revenue in the coming years along with steps to consolidate plants to drive overall EBITDA margin. We build in ~170 bps increase in EBITDA margin in CY20-22E.

Focus on emerging markets to drive growth: Huhtamaki Oyj

Huhtamaki Oyj (parent of HIL) released vision 2030 statements in which the company set a target to accelerate growth in emerging markets (in line with GDP growth rate) by launching innovative products and scaling up capacities. The company has set a target that 100% of its products should be recyclable, compostable or reusable by 2030 (that will be high margin products). The parent also aims to maintain EBIT margin at 10%+ with payout ratio of 40-50% in the long run.

Valuation & Outlook

We revise our revenue, earnings estimates downward by ~9%, 18%, respectively, considering the current quarter performance. We value the stock at ₹ 360 i.e. 19x P/E on CY21E-22E average EPS of ~₹ 19 (earlier target price ₹ 375). We maintain our **BUY** recommendation on the stock.

Key Financial Summary

₹ Crore	CY19	CY20	CY21E	CY22E	(CAGR 20-22E)
Net sales	2599.0	2462.7	2602.6	2902.4	8.6
EBITDA	292.9	233.6	283.0	324.0	17.8
EBITDA Margin(%)	11.3	9.5	10.9	11.2	
Net Profit	139.0	95.9	127.2	146.6	1
EPS (₹)	18.4	12.7	16.9	20.3	
P/E(x)	15.1	21.9	16.5	14.6	
RoE (%)	23.6	12.5	18.0	19.6	
RoCE (%)	22.8	13.5	19.7	21.8	

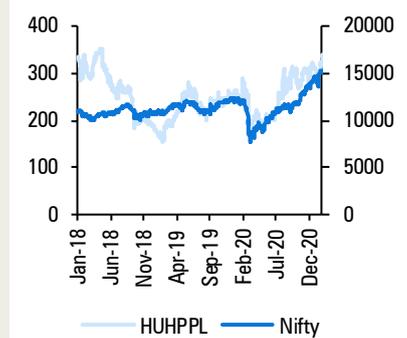
Source: Company, ICICI Direct Research

Huhtamaki

Particulars

Particular	Ammount
Market cap (₹ crore)	2098.9
Total Debt (₹ crore)	246.0
Cash & Inves (₹ crore)	67.0
EV (₹ crore)	2277.9
52 Week H/L	352/165
Equity Capital (₹ crore)	15.1
Face Value(₹)	2.0

Price performance



Risk to our call

- Delay in passing on higher raw material prices to customers may lead to flattish EBITDA margin
- Pricing pressure due to rising competition

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Exhibit 1: Variance Analysis

	Q4CY20	Q4CY19	YoY (%)	Q3CY20	QoQ (%)	Comments
Revenue	557.7	673.2	-17.2	685.9	-18.7	Logistic issues amid lockdown in domestic & export business coupled with lower volume offtake by key customers led to lower sales in Q4
Other Income	2.7	3.3	-17.2	2.9	-6	
Raw Material Exp	374.6	457.7	-18.2	446.6	-16.1	Better mix and price hikes help lead to higher gross margin (up ~80 bps YoY)
Employee cost	61.9	61.7	0.3	71.1	-13.0	
Other Expenditure	85.7	87.0	-1.4	90.8	-5.6	
Total Expenditure	522.2	606.4	-13.9	608.5	-14.2	
EBITDA	35.5	66.9	-46.9	77.4	-54.1	
EBITDA Margin (%)	6.4	9.9	-356 bps	11.3	-492 bps	Low operating leverage drags EBITDA margin
Depreciation	23.8	22.0	8.2	24.5	-2.9	
Interest	6.6	-0.7	NM	6.2	7.8	
Exceptional items						
PBT	7.7	48.7	-84.1	49.6	-84.4	
Total Tax	2.7	-19.4	-113.8	12.7	-78.9	
PAT	5.1	68.2	-92.6	36.9	-86.3	Lower sales and EBITDA margin lead to sharp decline in bottomline

Source: Company, ICICI Direct Research

Exhibit 2: Change in estimates

(₹ crore)	CY20E			CY21E			CY22E			Comments
	Expected	Actual	% Chg	Old	New	% Chg	Old	New	% Chg	
Revenue	2,623.2	2,462.7	(6.1)	2,851.3	2,602.6	(8.7)	3,173.2	2,902.4	(8.5)	Change in estimate considering current quarter's performance
EBITDA	282.6	233.6	(17.3)	334.9	283.0	(15.5)	378.3	324.0	(14.3)	
EBITDA Margin (%)	10.8	9.5	131bps	11.7	10.9	-83bps	11.9	11.2	-74bps	
PAT	132.4	95.9	(27.6)	163.6	127.2	(22.2)	189.6	154.9	(18.3)	
EPS (₹)	17.5	12.7	(27.6)	21.7	16.9	(22.3)	25.1	20.5	(18.3)	

Source: Company, ICICI Direct Research,

Financial summary

Profit and loss statement		₹ crore			
(Year-end March)	CY19	CY20E	CY21E	CY22E	
Revenue	2,599.0	2,462.7	2,602.6	2,902.4	
Growth (%)		-5.2	5.7	11.5	
Expenses					
Raw material expens	1,728.5	1,612.4	1,702.9	1,886.5	
Employee expenses	251.7	276.1	272.6	308.0	
Other expenses	325.9	340.6	344.2	383.8	
Total Operating Exp	2,306.1	2,229.1	2,319.6	2,578.3	
EBITDA	292.9	233.6	283.0	324.0	
Growth (%)		-20.2	21.1	14.5	
Depreciation	86.9	97.9	104.1	116.1	
Interest	21.1	26.1	22.1	18.3	
Other Income	16.7	8.0	13.2	17.4	
PBT	170.6	117.6	169.9	207.1	
Total Tax	31.5	21.7	42.7	52.2	
PAT	139.0	95.9	127.2	154.9	

Source: Company, ICICI Direct Research

Exhibit 3: Cash flow statement		₹ crore			
(Year-end March)	CY19	CY20	CY21E	CY22E	
Profit after Tax	170.0	95.9	127.2	154.9	
Add: Depreciation	86.9	97.9	104.1	116.1	
(Inc)/dec in Current Assets	-18.5	18.9	27.3	-92.3	
Inc/(dec) in CL and Provisions	55.9	-19.9	24.1	62.5	
Others	21.1	26.1	22.1	18.3	
CF from operating activities	315.6	219.0	304.9	259.6	
(Inc)/dec in Investments	0.0	0.0	0.0	0.0	
(Inc)/dec in Fixed Assets	-59.4	-174.4	-110.0	-120.0	
Others	-78.3	55.1	10.0	-40.0	
CF from investing activities	-137.7	-119.2	-100.0	-160.0	
Issue/(Buy back) of Equity	0.0	0.0	0.0	0.0	
Inc/(dec) in loan funds	-130.7	-22.8	-30.0	-50.0	
Dividend paid & dividend tax	-27.3	-27.3	-45.5	-45.3	
Others	-23.0	-27.2	-162.6	-18.3	
CF from financing activities	-181.0	-77.4	-238.1	-113.6	
Net Cash flow	-3.1	22.4	-33.2	-14.1	
Opening Cash	47.8	44.6	67.0	33.8	
Closing Cash	44.6	67.0	33.8	19.8	

Source: Company, ICICI Direct Research

Exhibit 4: Balance sheet		₹ crore			
(Year-end March)	CY19	CY20	CY21E	CY22E	
Liabilities					
Equity Capital	15.1	15.1	15.1	15.1	
Reserve and Surplus	682.3	749.8	691.0	800.6	
Total Shareholders funds	697.4	764.9	706.1	815.7	
Total Debt	268.8	246.0	216.0	166.0	
Other non current liabilities	9.0	52.9	53.0	52.9	
Total Liabilities	975.2	1,063.8	975.1	1,034.6	
Assets					
Gross Block	759.2	925.3	1,035.3	1,155.3	
Less: Acc Depreciation	329.1	427.1	531.2	647.2	
Total Fixed Assets	438.3	514.8	520.7	524.6	
Goodwill	56.4	62.4	63.0	63.0	
Inventory	181.9	228.8	183.3	204.4	
Debtors	618.5	533.8	570.4	636.1	
Loans and Advances	11.9	1.7	12.0	13.3	
Other CA	35.1	64.0	35.3	39.4	
Cash	44.6	67.0	33.8	19.8	
Total Current Assets	891.9	895.3	834.8	913.0	
Creditors	429.5	409.8	432.9	482.8	
Provisions	29.0	35.8	29.2	32.6	
Other CL	80.3	73.4	80.9	90.3	
Total Current Liabilities	538.9	519.0	543.1	605.6	
Net current assets	353.0	376.4	291.7	307.4	
Other non current assets	127.5	110.3	99.7	139.7	
Total Assets	975.2	1,063.8	975.1	1,034.6	

Source: Company, ICICI Direct Research

Exhibit 5: Key ratios		₹ crore			
(Year-end March)	CY19	CY20	CY21E	CY22E	
Per share data (₹)					
EPS	18.4	12.7	16.9	20.5	
Cash EPS	29.9	25.7	30.6	35.9	
BV	92.4	101.3	93.5	108.0	
DPS	3.6	3.6	6.0	6.0	
Operating Ratios (%)					
EBITDA Margin	11.3	9.5	10.9	11.2	
PAT Margin	6.3	3.9	4.9	5.3	
Asset Turnover	3.4	2.7	2.5	2.5	
Inventory Days	25.5	33.9	25.7	25.7	
Debtor Days	86.9	79.1	80.0	80.0	
Creditor Days	60.3	60.7	60.7	60.7	
Return Ratios (%)					
RoE	23.6	12.5	18.0	19.0	
RoCE	22.8	13.5	19.7	21.8	
RoIC	25.2	15.4	21.2	23.5	
Valuation Ratios (x)					
P/E	15.1	21.9	16.5	13.6	
EV / EBITDA	7.7	9.7	8.0	6.7	
EV / Net Sales	0.9	0.9	0.9	0.8	
Market Cap / Sales	0.8	0.9	0.8	0.7	
Price to Book Value	3.0	2.7	3.0	2.6	
Solvency Ratios					
Debt / Equity	0.4	0.3	0.3	0.2	
Current Ratio	1.8	1.9	1.7	1.7	
Quick Ratio	1.5	1.3	1.3	1.3	

Source: Company, ICICI Direct Research

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