

## Key risks to investing in I-direct Instinct

- It is a quick pitch note, which captures the essence of an idea in brief
- Instinct idea may be based on management interaction or some immediate triggers that may have a positive impact on the future of the company
- Target price is based on forward estimates, which will be published along with Detailed Coverage Report or Nano Nivesh report as the case may be
- The intent is to capture price action by coming out with a gist, which may or may not be an interim report between management interaction and publication of the final report
- The fair value of I-direct Instinct stocks is subject to expected growth potential in the future. Though due diligence has been done to a fair extent, the actualisation of growth still has a degree of uncertainty attached to it. Customers are advised to allocate a small proportion of their investible income to these stocks and diversify well

## On the cusp of recovery...

Huhtamaki India (HIL) is one of the leading manufacturers of flexible packaging company in India. The company is backed by strong parent group Huhtamaki Oyj (~68% stake in HIL), which helps HIL to leverage its technical know-how and launch sustainable packaging solutions for its clients. Going forward, under its 2030 strategy HIL aims to 1) regain market share through launch of innovative and sustainable packaging solutions 2) Drive profitability through cost optimisation measures 3) achieve efficient working capital management by strengthening supply chain management. We believe strong client base (such as Nestlé, Coca-Cola, Unilever, etc), launch of innovative products (backed by strong R&D of parent) & focus on profitable growth will drive the overall performance of HIL. On a favourable base, HIL may witness 3x growth in its PAT over CY22-24E, supported by revenue CAGR of ~6% and EBITDA margin recovery of ~300 bps.

### Triggers

#### Focus on sustainability, innovation to drive performance

The Indian flexible packaging industry is likely to grow at 10.6% CAGR to ~US \$12.7 billion from FY21-25 led by strong demand from F&B, pharma and consumer goods segment. Riding on these industry tailwinds, HIL is enhancing its focus on developing sustainable & innovative packaging solutions, scaling up its core businesses and plans expanding in the emerging markets. The company is consistently focusing on creating circular sustainable packaging solution under its "Blueloop" product category. To cater its major customers' commitments to achieve 100% recyclable packaging solutions, HIL also plans to launch various other innovative products over CY22-24E. All these factors combined are likely to aid the company in regaining its market share. In addition, HIL's revenue from exports has grown at a CAGR of ~11% over CY19-22 and now contributes ~28% to its overall revenue. We believe robust global supply chain network along with strong backing of parent in launching innovative products will aid HIL in gaining market share globally.

#### Easing raw material prices to aid margin recovery

HIL's EBITDA margin saw a sharp decline from its pre-Covid level of 11.3% in CY19 to 5.3% in CY22. EBITDA margin contraction was mainly on account of lower gross margin amid sharp increase in raw material prices & delay in taking price hikes. However, prices of LDPE & PVC have seen a sharp dip from their peak of ₹ 145 & ₹ 126 in CY22 to ₹ 96 & ₹ 90 levels, respectively, as on date. We believe easing raw material prices coupled with focus on innovative products will help drive EBITDA margin up by ~300 bps over CY22-24E. In addition, HIL is undertaking various cost optimisation measures under its 'Project Parivartan', which will further aid in EBITDA margin recovery.

#### Improved profitability to drive return ratios

HIL's return ratios witnessed a sharp fall in CY19-22 dragged by lower profitability and higher debt/equity led by increased working capital requirements. Going forward, we believe recovery in profitability & stringent working capital management will help drive RoCE, RoE to ~19%, ~17% by CY24E. We also believe monetisation of land banks (near Mumbai) will further help reduction in overall debt level.

### Valuation & Outlook

In the last two years, HIL has faced EBITDA margin pressure due to sharp increase in raw material prices and delay in price hikes. Going forward, we believe that easing of raw material prices, focus on launching innovative products will be key drivers of revenue & margin recovery in CY23-24E. On the balance sheet front, the company has maintained a stable debt/equity ratio of 0.5x along with efficient working capital. We believe improved profitability will help in driving return ratios, going forward. We value the stock at ₹ 280 i.e. 15x P/E on CY23E-24E average EPS of ₹ 19. We re-initiate coverage on the company with a **BUY** rating on the stock.

## Huhtamaki

### Particulars

Particular	Amount
Market Cap (₹ Crore)	1,759.2
Total Debt (CY22) (₹ Crore)	366.2
Cash & Inv (CY22) (₹ Crore)	42.6
EV (₹ Crore)	2,082.7
52 week H/L	237/152
Equity capital (₹ Crore)	15.1
Face value (₹)	2.0

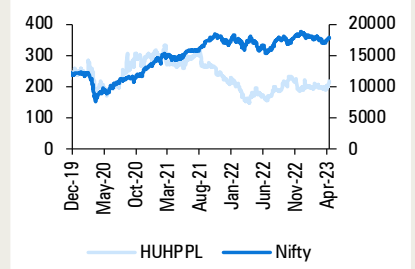
### Key Highlights

- Focus on launching innovative & sustainable packaging solutions
- Easing raw material prices to aid margin recovery
- Assign BUY rating to stock, valuing it at 15x average CY23E-24E average EPS of ₹ 19 with target price of ₹ 280/share

### Risks to our call

- 1) Delay in passing on higher raw material prices to customer may lead to flattish EBITDA margin
- 2) Slowdown in overseas market may impact export revenue

### Price performance



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Key Financial Summary

P&L Account (₹ crore)	CY21	CY22	CY23E	CY24E
Net Sales	2625.3	2982.9	3090.7	3339.2
EBITDA	109.0	157.0	244.2	282.2
EBITDA Margin (%)	4.2	5.3	7.9	8.5
Net Profit*	-22.7	49.6	135.3	148.2
EPS (₹)	-3.0	6.6	9.2	17.9
Balance Sheet (₹ crore)	CY21	CY22	CY23E	CY24E
Equity	15.1	15.1	15.1	15.1
Net worth	716.0	757.0	736.8	857.8
Gross Debt	298.7	366.2	346.2	296.2
Gross Debt: Equity (x)	0.4	0.5	0.5	0.3
Net Debt	266.5	323.6	307.4	206.3
Return ratios(%)	CY21	CY22	CY23E	CY24E
RoE	-0.1	6.6	18.4	17.3
RoCE	2.4	7.5	17.3	18.9
RoIC	1.8	7.8	20.2	23.3
Valuations (x)	CY21	CY22	CY23E	CY24E
P/E	-74.6	34.1	12.5	11.4
P/BV	2.4	2.2	2.3	2.0
EV/EBITDA	18.0	12.8	8.2	6.7


Source: Company, ICICI Direct Research

Exhibit 1: Recognized innovative products


**Dow Silver Awards for Packaging Innovation**




Bulk Barrier Bag



Retortable Profile Pouch




**Dow Gold Award for Packaging Innovation**




Bag-in-Bag Pouch


**WORLDSTAR WINNER 2019 Worldstars**



Haldiram's Kesar Laddu Gift-Pack




Mono-layer Twist-wrap



Profile Pouch with Special Spout


**THE ECONOMIC TIMES POLYMERS Awards 2020**

Excellence in packaging (Large Enterprises)




Recyclable see-through snack pack

**Asian Packaging Excellence Awards**




Embossed Cone Sleeves




Registered Holographic Sachet


**SIES SOP Star Awards**




Single-serve Coffee Decoction Pack




6 Panel Box Pouch



5 Panel Pouch with Camouflage




Bag-in-Bag with High Drop-resistance




ID Coffee Decoction Profile Pouch


**IFCA Star Awards**




Recyclable paper-based air-freshener




Zero-stain embossed cube wraps



Two-faced jar label



Limited-edition Easter pack



Royal Khajoor Shaped Pouch

Source: Company, ICICI Direct Research

## RATING RATIONALE

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Buy: >15%

Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%



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