

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

Innovator in flexible packaging industry...

Huhtamaki India (HIL) was incorporated in 1935 as Paper Product Ltd. In 1999, Huhtamaki Oyj acquired majority stake (currently ~67%) from the erstwhile promoter and changed the name accordingly. HIL is the leading player in the flexible packaging industry, providing packaging & labelling solutions to its clients through its ~18 plants and two R&D centres across India. The major client includes Nestlé, HUL, P&G, Mondelez, Coca Cola, etc. Further, we believe strong client base, launch of innovative products (backed by strong R&D of parent) & focus on expansions (organic+ inorganic) would help HIL expand its footprint in the domestic & international markets. As a result, HIL may witness revenue, PAT CAGR of 10%, 20%, respectively, in CY20E-22E supported by higher margin and saving in interest costs.

Triggers

Focus on premium products to help drive margin for HIL

HIL has a strong support from its parent (Huhtamaki Oyj) to launch innovative user friendly packaging solutions for its key clients. It has launched various innovative packaging products such as packaging for Paper Boat, ID vada batter, Kinder Joy, stand-up pouches with closures (for rice brands), cone sleeves (Cornetto). Huhtamaki's 'blueloop' is another innovative packaging solution launched in CY19, which can be recycled and is well accepted by coffee, confectionery, dry food, personal & home care, etc, industries. Currently the premium product contributes ~25% in overall topline, which commands higher margin (I-direct estimate: ~800 bps compared to company level margin). HIL aims to increase the proportion of premium products in total revenue in the coming years, which would help it to drive overall EBITDA margin up by ~100 bps in CY20E-22E.

F&B industry: Key driver for innovative flexible packaging

The flexible packaging industry in India is likely to grow at 10% CAGR to ₹ 64,000 crore by FY23 from ~₹ 37500 crore in FY18 led by increased demand from the food and beverages (F&B) industry. The F&B industry contributes ~60% of total flexible packaging demand while the rest comes from the pharmaceutical, industrial chemical, personal care and other industries. We believe rising demand for packaged food among consumers, to maintain hygiene amid pandemic, and increasing government focus on food processing industry in India would help drive demand for flexible packaging, going forward, thereby benefitting a strong player like HIL.

Strong growth in exports business

HIL's export revenue grew at 29% CAGR in the last five years led by client additions and penetration of soup cube across South East Asia and LatAm regions. Over the last five years, HIL has added various overseas clients in its portfolio through acquisition of business of Positive Packaging, Ajanta Packaging and Mohan Mutha Polytech. We believe robust global supply chain network along with strong backing of parent in launching innovative products would aid HIL in gaining market share globally.

Valuation & Outlook

A leadership position in the domestic flexible packaging industry, strong client base and focus on launching innovating products will be key drivers of revenue & PAT growth in CY20E-22E. Healthy balance sheet (D/E: 0.4x, RoE: ~25%, RoCE: ~24%) and backing of a strong promoter strengthen our belief on Huhtamaki India to command higher valuation. We value the stock at ₹ 375 i.e. 16x P/E on CY21E-22E average EPS of ₹ 23. We assign a **BUY** recommendation to the stock.

Huhtamaki

Particulars

Particular	Amount
Market cap (₹ crore)	2349.9
Total Debt (₹ crore)	268.8
Cash & Inves (₹ crore)	13.6
EV (₹ crore)	2605.1
52 Week H/L	336/165
Equity Capital (₹ crore)	15.1
Face Value(₹)	2.0

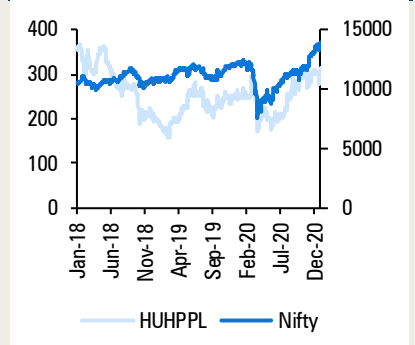
Key Highlights

- Leading flexible packaging company in India with strong promoter pedigree
- Focus on launching innovative packaging solution
- Assign BUY rating to stock, valuing it at 16x average CY20E-22E average EPS of ₹ 23 with target price of ₹ 375/share

Risks to our call

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

Price performance



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Key Financial Summary

P&L Account (₹ crore)	CY19	CY20E	CY21E	CY22E
Net Sales	2582.4	2623.2	2851.3	3173.2
EBITDA	292.9	282.6	334.9	378.3
EBITDA Margin (%)	11.3	10.8	11.7	11.9
Net Profit*	139.1	132.4	163.6	189.6
EPS (₹)	18.4	17.5	21.7	25.1
Balance Sheet (₹ crore)	CY19	CY20E	CY21E	CY22E
Equity	15.1	15.1	15.1	15.1
Net worth	666.4	660.8	778.9	923.1
Gross Debt	268.8	238.0	208.0	158.0
Gross Debt: Equity (x)	0.4	0.4	0.3	0.2
Net Debt	255.2	224.2	180.3	118.1
Return ratios(%)	CY19	CY20E	CY21E	CY22E
RoE	24.7	20.0	21.0	20.5
RoCE	23.6	21.1	24.2	25.1
RoIC	25.2	23.0	26.5	28.4
Valuations (x)	CY19	CY20E	CY21E	CY22E
P/E	16.9	17.8	14.4	12.4
P/BV	3.5	3.6	3.0	2.5
EV/EBITDA	8.7	9.0	7.4	6.3


Source: Company, ICICI Direct Research *PAT has been adjusted for one time gain of ~ ₹ 31 crore in CY19

Exhibit 1: Recognised 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
WPO WORLD PACKAGING ORGANIZATION Worldstars



Haldiram's Kesari 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

ICICI Direct endeavors to provide objective opinions and recommendations. ICICI Direct assigns ratings to its stocks according to their notional target price vs. current market price and then categorizes them as Buy, Hold, Reduce and Sell. The performance horizon is two years unless specified and the notional target price is defined as the analysts' valuation for a stock

Buy: >15%

Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%



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