

Higher input cost drags bottomline...

Huhtamaki India's (HIL) Q4CY21 performance was severally hit by a sharp rise in raw material costs and delay in taking price hikes. Gross margins declined ~683 bps YoY, mainly due to a sharp rise in raw material costs dragging down EBITDA margins by 473 bps YoY to 1.6%. On the topline front, revenues increased ~19% YoY to ~₹ 662 crore helped by a lower base. On a QoQ basis, revenues were down by ~1%. We believe lower revenue growth is attributable to pandemic led disruptions like unavailability of containers (hit export business), logistic issues and lower volume offtake of economic packaging products. The company reported a net loss of ~₹ 23 crore during Q4CY21 vs, a net profit of ₹ 5 crore in the base period.

Profitability to remain under pressure in near term

EBITDA margins saw a sharp decline to 4.2% in CY21 vs. 11.3% in CY19 due to a delay in passing on of higher raw material costs and low operating leverage. Gross margins fell 481 bps in the last two years and fixed costs remained elevated despite revenues being flat. HIL reported revenue of ₹ 2625 crore in CY21, almost flat on a two year CAGR basis (two year CAGR of 1% in CY19-21). We believe the company has witnessed severe competition in the low end packaging business, which is highly price sensitive in nature. Regional players, along with other organised players, have increased their market share by taking a hit on realisation. We believe while the company is likely to see an improvement in revenues, going forward, EBITDA margin is likely to stay under pressure (lower than its pre-Covid-19 level margins) owing to slow improvement in gross margins and higher operating costs. Lower bottomline, higher debt are expected to lead to lower return ratios, going forward.

Valuation & Outlook

HIL has faced severe cost pressure in the last two years, which resulted in a sharp decline in the company's bottomline in CY21. The company reported a net loss of ~₹ 23 crore in CY21 against ₹ 139 crore profit reported during CY19. We believe slow volume offtake by key FMCG players and increasing competition has restricted the company from taking price hike to offset higher raw material costs. We believe the EBITDA margin is likely to remain under pressure in the near term considering a recent spike in crude oils prices amid rising geopolitical concerns. This, coupled with higher working capital requirement resulted in increased D/E from 0.3x in CY20 to 0.4x in CY21, which led to a sharp decline in RoCE from 13.5% in CY20 to 2.4% in CY21. We believe there is limited long term growth visibility in the core business and return ratios are likely to remain subdued (due to lower profitability) which makes us drop coverage on HIL. We advise investors to switch to other small cap player such as Mold Teck Packaging, which has strong revenue growth potential and a robust balance sheet.

Huhtamaki

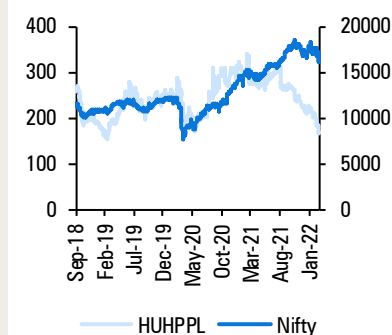
Particulars

Particular	Amount
Market cap (₹ crore)	1283.5
Total Debt (₹ crore)	246.0
Cash & Inves (₹ crore)	67.0
EV (₹ crore)	1462.5
52 Week H/L	328/151
Equity Capital (₹ crore)	15.1
Face Value(₹)	2.0

Shareholding pattern

(in %)	Dec-20	Mar-21	Jun-21	Sep-21	Dec-21
Promoter	66.9	67.7	67.7	67.7	67.7
FII	4.0	4.2	4.2	4.3	4.3
DII	1.5	1.6	1.3	1.1	0.9
Others	27.6	26.5	26.8	27.0	27.1

Price performance



Risk to our call

- Increase in market share in the flexible packaging business
- Sharp rise in EBITDA margin

Research Analyst

Sanjay Manyal
sanjay.manyal@icicisecurities.com

Hitesh Taunk
hitesh.taunk@icicisecurities.com

Key Financial Summary

(₹ crore)	CY18	CY19	CY20	CY21	CY22E	CAGR(CY20-22E)
Net Sales	2369.1	2599.0	2462.7	2625.3	2874.5	3.4
EBITDA	221.4	292.9	233.6	109.0	194.4	-12.8
EBITDA Margin (%)	9.3	11.3	9.5	4.2	6.8	
Net Profit	34.9	139.0	95.9	-22.7	60.9	-24.1
EPS (₹)	4.6	18.4	12.7	-3.0	8.1	
P/E (x)	36.8	9.2	13.4	-56.6	21.1	
RoE (%)	6.3	23.6	12.5	-0.1	9.5	
RoCE (%)	15.8	22.8	13.5	2.4	11.0	

Financial summary

Profit and loss statement		₹ crore			
(Year-end March)	CY19	CY20	CY21	CY22E	
Revenue	2,599.0	2,462.7	2,625.3	2,874.5	
Growth (%)		-5.2	6.6	9.5	
Expenses					
Raw material expens	1,728.5	1,612.4	1,872.2	2,018.6	
Employee expenses	251.7	276.1	257.8	261.6	
Other expenses	325.9	340.6	386.2	399.9	
Total Operating Exp	2,306.1	2,229.1	2,516.3	2,680.1	
EBITDA	292.9	233.6	109.0	194.4	
Growth (%)		-20.2	-53.3	78.3	
Depreciation	86.9	97.9	92.2	97.7	
Interest	21.1	26.1	26.8	27.6	
Other Income	16.7	8.0	9.4	12.4	
PBT	170.6	117.6	-31.6	81.4	
Total Tax	31.5	21.7	-8.9	20.5	
PAT	139.0	95.9	-22.7	60.9	

Source: Company, ICICI Direct Research

Exhibit 1: Cash flow statement		₹ crore			
(Year-end March)	CY19	CY20	CY21	CY22E	
Profit after Tax	170.0	95.9	-22.7	60.9	
Add: Depreciation	86.9	97.9	92.2	97.7	
(Inc)/dec in Current Assets	-18.5	18.9	-251.0	45.9	
Inc/(dec) in CL and Provisions	55.9	-19.9	210.5	-11.9	
Others	21.1	26.1	26.8	27.6	
CF from operating activities	315.6	219.0	55.9	220.2	
(Inc)/dec in Investments	0.0	0.0	0.0	0.0	
(Inc)/dec in Fixed Assets	-59.4	-174.4	-94.9	-50.0	
Others	-78.3	55.1	4.6	-0.3	
CF from investing activities	-137.7	-119.2	-90.4	-50.3	
Issue/(Buy back) of Equity	0.0	0.0	0.0	0.0	
Inc/(dec) in loan funds	-130.7	-22.8	52.7	-20.0	
Dividend paid & dividend tax	-27.3	-27.3	-9.1	-9.1	
Others	-23.0	-27.2	-43.9	-151.0	
CF from financing activities	-181.0	-77.4	-0.3	-180.1	
Net Cash flow	-3.1	22.4	-34.9	-10.2	
Opening Cash	47.8	44.6	67.0	32.2	
Closing Cash	44.6	67.0	32.2	22.0	

Source: Company, ICICI Direct Research

Exhibit 2: Balance sheet		₹ crore			
(Year-end March)	CY19	CY20	CY21	CY22E	
Liabilities					
Equity Capital	15.1	15.1	15.1	15.1	
Reserve and Surplus	682.3	749.8	700.9	629.3	
Total Shareholders funds	697.4	764.9	716.0	644.4	
Total Debt	268.8	246.0	298.7	278.7	
Other non current liabilities	9.0	52.9	64.1	64.1	
Total Liabilities	975.2	1,063.8	1,078.8	987.2	
Assets					
Gross Block	759.2	925.3	993.8	1,043.8	
Less: Acc Depreciation	329.1	427.1	519.2	616.9	
Total Fixed Assets	438.3	514.8	517.5	469.8	
Goodwill	56.4	62.4	62.4	63.0	
Inventory	181.9	228.8	347.5	252.0	
Debtors	618.5	533.8	629.5	669.4	
Loans and Advances	11.9	1.7	12.9	14.1	
Other CA	35.1	64.0	89.4	97.8	
Cash	44.6	67.0	32.2	22.0	
Total Current Assets	891.9	895.3	1,111.4	1,055.4	
Creditors	429.5	409.8	573.8	551.3	
Provisions	29.0	35.8	31.2	30.0	
Other CL	80.3	73.4	124.5	136.3	
Total Current Liabilities	538.9	519.0	729.5	717.6	
Net current assets	353.0	376.4	382.0	337.8	
Other non current assets	127.5	110.3	116.9	116.6	
Total Assets	975.2	1,063.8	1,078.8	987.2	

Source: Company, ICICI Direct Research

Exhibit 3: Key ratios		₹ crore			
(Year-end March)	CY19	CY20	CY21	CY22E	
Per share data (₹)					
EPS	18.4	12.7	-3.0	8.1	
Cash EPS	29.9	25.7	9.2	21.0	
BV	92.4	101.3	94.8	85.4	
DPS	3.6	3.6	1.2	1.2	
Operating Ratios (%)					
EBITDA Margin	11.3	9.5	4.2	6.8	
PAT Margin	6.3	3.9	0.0	2.1	
Asset Turnover	3.4	2.7	2.6	2.8	
Inventory Days	25.5	33.9	48.3	32.0	
Debtor Days	86.9	79.1	87.5	85.0	
Creditor Days	60.3	60.7	79.8	70.0	
Return Ratios (%)					
RoE	23.6	12.5	-0.1	9.5	
RoCE	22.8	13.5	2.4	11.0	
RoIC	25.2	15.4	1.8	11.0	
Valuation Ratios (x)					
P/E	9.2	13.4	-56.6	21.1	
EV / EBITDA	4.9	6.2	14.2	7.9	
EV / Net Sales	0.6	0.6	0.6	0.5	
Market Cap / Sales	0.5	0.5	0.5	0.4	
Price to Book Value	1.8	1.7	1.8	2.0	
Solvency Ratios					
Debt / Equity	0.4	0.3	0.4	0.4	
Current Ratio	1.8	1.9	1.8	1.8	
Quick Ratio	1.5	1.3	1.2	1.3	

Source: Company, ICICI Direct Research

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Pankaj Pandey

Head – Research

pankaj.pandey@icicisecurities.com

ICICI Direct Research Desk,
ICICI Securities Limited,
1st Floor, Akruti Trade Centre,
Road No 7, MIDC,
Andheri (East)
Mumbai – 400 093
research@icicidirect.com

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