

Huhtamaki India Ltd.

Revenue declined YoY; Gross margins flat on QoQ; decline in employee cost led QoQ improvement in EBITDA margins; reported loss due to one-time VRS outgo

Posted subdued Q3CY21 performance with ~2.5% YoY de-growth in Net revenues at Rs 6,687 mn (5.9% below est.). The high raw material prices continue to impact the YoY operating performance of the company for the fourth quarter in a row, i.e. over Q4CY20 to Q3CY21. The Gross margins are down ~700bps from a level of ~35% achieved during 9MCY20. The company reported a loss of Rs 218.4 mn during Q3CY21, mainly due to one-time VRS outgo of ~Rs 310 mn and partially due to increase in interest cost (up ~13.3% YoY) and decline in Other income (down ~65% YoY). On a positive side, the revenues were up marginally by ~0.9% on QoQ, while the Gross margins remained flat. Due to decline in SG&A cost (down ~4% YoY & QoQ), the company managed to improve its EBITDA margins by ~125bps QoQ at ~4.7% (~558bps below the est. of ~10.3%). Despite the improvement in business environment during Q3CY21, the company has failed to pump-up its sales, rather it is struggling on passing on commodity price increase to the customers. We cut our rating to "Reduce" on the stock.

Q3CY21 revenue declined YoY; Marginal improvement in EBITDA margins on QoQ

- Net revenues for Q3CY21 declined by ~2.5% YoY at Rs 6,687 mn. On QoQ, revenues were up marginally by ~0.9%. Gross margins remained flat on QoQ at ~28%, while declined ~693bps on YoY.
- The employee cost fell ~15% YoY & ~9% QoQ at Rs 604 mn; other expenses were up by ~4.9% YoY at Rs 953 mn, which led to ~125bps QoQ improvement in EBITDA margins at ~4.7%.
- The interest cost increased by ~13.3% YoY & ~11% QoQ at Rs 70 mn; while the depreciation expenses declined ~6.1% YoY & ~2.1% QoQ at Rs 230 mn. PBT from operations stood positive at Rs 13 mn against a loss of Rs 71 mn QoQ. On YoY basis, PBT from operations declined ~97.3%.
- Further, due to the decline in other income during the quarter (~64.9% YoY at Rs 10 mn) and impact of one-time item (Rs 309.8 mn vs nil), the company reported a loss of Rs 287 mn at PBT level.
- Despite a tax reversal of Rs 69 mn (mainly due to deferred tax item of Rs 70 mn), company reported a net loss of Rs 218.4 mn for Q3CY21 against a profit of Rs 369 mn YoY.

Q3CY21 results included one-time expenses of ~Rs 310 mn towards VRS scheme for Thane plant

- The Company has shut its operations at the Thane plant recently, following a MPCB order in Nov-18. It has announced a **Voluntary Retirement Scheme (VRS)** during July-21 for its eligible employees at the Thane plant. The VRS scheme involved a **pay-out cost of Rs 309.8 mn, which has been disclosed as 'Exceptional Item' during Q3CY21.**
- The Thane plant was located on the Ghodbunder Road, Majiwade area of Thane. The land area is believed to be at least ~5-6 acre in size. We believe that company may monetize the land and utilize the proceeds for debt repayments/ dividends.

Near to medium term outlook uncertain; cut rating to "Reduce"

The near to medium term performance looks uncertain due to volatile RM cost and frequent instances of management changes. Post Q3CY21 earnings; we have revised our **price target at Rs 247** over a period of 12-18 months, valuing the stock **15x CY22E EPS of Rs 16.5**. At our target price, the stock offers a **downside of ~4.9%**. We have cut our rating to "Reduce" on the stock.

Y/E Mar (Rs mn)	Q3CY21	Q3CY20	YoY (%)	Q2CY21	QoQ (%)	Q3CY21e	Var. (%)
Total Income	6,687	6,859	-2.5	6,626	0.9	7,105	-5.9
Gross Margins (%)	72.0	65.1	693 bps	72.0	0 bps	-	-
SG&A Expenses	1,557	1,619	-3.8	1,626	-4.2	-	-
EBITDA	313	774	-59.6	227	37.7	729	-57.1
EBITDA margin (%)	4.7	11.3	-661 bps	3.4	125 bps	10.3	-558 bps
Depreciation	230	245	-6.1	235	-2.1	-	-
Interest	70	62	13.3	63	11.0	-	-
Other Income	10	29	-64.9	25	-59.6	-	-
PBT (bef. EOI)	23	496	-95.4	-46	149.2	-	-
Extra-ordinary item	310	0	-	0	-	-	-
PBT	-287	496	-157.9	-46	-522.8	-	-
Tax Expenses	-69	127	-154.0	-11	-518.9	-	-
Effective tax rate	na	25.7	na	na	na	-	-
Reported PAT	-218	369	-159.2	-35	-524.0	348	-162.8
PAT margin (%)	-3.3	5.4	-864 bps	-0.5	-274 bps	4.9	-816 bps

Y/E Mar (Rs mn)	Revenue	YoY (%)	EBITDA	EBITDA (%)	PAT	YoY (%)	EPS	RoE (%)	RoCE (%)	P/E (x)	EV/EBITDA (x)
CY18	23,691	11.2%	2,214	9.3%	349	-45.2%	4.6	6.3%	16.0%	56.2	10.5
CY19	25,990	9.7%	2,929	11.3%	1,700	387.4%	22.5	27.1%	23.1%	11.5	7.5
CY20	24,627	-5.2%	2,336	9.5%	960	-43.5%	12.7	13.1%	14.5%	20.4	9.2
CY21e	25,796	4.7%	1,273	4.9%	-158	-116.4%	-2.1	NA	4.1%	NA	16.8
CY22e	28,842	11.8%	2,757	9.6%	1,243	NA	16.5	15.6%	18.1%	15.8	7.4

*Source: Company, SMIFS Research



Rating: Reduce

Downside: -4.9%

Current Price: 260

Target Price: 247

Earlier recommendation

Previous Rating:	Hold
Previous Target Price:	280

Market data

Bloomberg:	HUIN IN
52-week H/L (Rs):	352/256
Mcap (Rs mn/USD mn):	19,609/262
Shares outstanding (mn):	75.5
Free float:	32.27%
Daily vol. (3M Avg. In `000):	113,86
Face Value (Rs):	2.0
Group:	Nifty 500
Source: Bloomberg, ACE Equity, SMIFS Research	

Shareholding pattern (%)

	Sep-21	Jun-21	Mar-21	Dec-20
Promoter	67.73	67.73	67.73	66.94
FIIIs	4.28	4.24	4.20	3.99
DIIIs	1.08	1.28	1.58	1.47
Public/others	26.92	26.75	26.48	27.60

Source: BSE

Price performance (%)

	1M	3M	12M	36M
Nifty 500	2.7	12.7	58.0	79.6
Huhtamki	(3.9)	(17.2)	(13.3)	20.9

*as on 22nd Oct-2021; Source: AceEquity, SMIFS Research

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Outlook and Valuation

For Q3CY21, Huhtamaki India has posted a **subdued performance with a ~2.5% YoY de-growth in Net revenues** at Rs 6,687 mn. The high raw material prices continue to impact the **Gross margins of the company (down ~700bps from a level of ~35% achieved during 9MCY20 to ~28% for Q3CY21)**. On a positive side, the **Net revenues were up marginally by ~0.9% QoQ, while the Gross margins remained flat**. The company managed to **improve EBITDA margins by ~125bps QoQ at ~4.7%**, but eventually **reported a loss of Rs 218.4 mn**, mainly due to one-time VRS outgo of ~Rs 310 mn during the quarter.

The company has failed to pump up its revenues despite an overall improvement in economic and business scenario during the quarter.

As the Thane plant is shut now following a closure notice by 'Maharashtra Pollution Control Board', **we believe that company may monetize the Thane land parcel going forward and utilize the proceeds for debt repayments/ dividends payments**. The Thane plant was located on the Ghodbunder Road, Majiwade area of Thane and the land area is believed to be at least ~5-6 acre in size. Since the land is at good location, it may fetch good value.

Other than the financial performance, the company has witnessed frequent instances of management changes in the recent past. Also it has received few whistle blowing complaints during the Q3CY21 and Q2CY21. However, the company has provided poor disclosures so far related to these issues, including that to the closure of Thane plant.

Going forward, we expect demand to improve from Q4CY21 onwards being a festive season and easing of lockdown restrictions across the country. However, volatility in RM prices and a third wave of Covid may further dampen the demand pose stricter margin challenges.

Post Q3CY21 earnings; we have revised our **price target at Rs 247** over a period of 12-18 months, valuing the stock **15x CY22E EPS of Rs 16.5**. At our target price, the stock **offers a downside of ~4.9%**. We have cut our rating to **"Reduce"** on the stock.

Key risks for the company include volatility in raw material prices (polymers), increase in competition and decline in FMCG consumption.

Details on recent management changes:

Mr. Sudip Mall has resigned from the position of Managing Director of the Company. The Board of Directors of the Company has accepted the resignation, effective end of day, 30- Nov-21. He was appointed as Managing Director of the Company w.e.f. 04-Jan-21 for a period of 5 years. (Source: BSE announcement, 24-Sept-21)

Mr Ranjeev Lodha, Executive Director and CFO of the company submitted his resignation with effect from 30-Sept-2021. (Source: BSE announcements, 30-Jun-21)

Marco Hilty, Ph.D. (Business Administration) was appointed President, Flexible Packaging and a member of the Global Executive Team at Huhtamaki as of 01-Sep-2021. (Source: Huhtamaki Oyj H1CY21 press release). **Mr. Marco Hilty** was also appointed as an Additional & Non-Executive Director of the Company, liable to retire by rotation, w.e.f. 24th September, 2021.

Statement on recent whistle-blowing complaints by the company

"Huhtamaki Oyj, the ultimate holding company of the Company and the Company have received certain whistle-blowing complaints during the current and previous quarter regarding potential irregularities at some of the Company's locations and potential non-adherence to Policies of the Company. The Company has undertaken and will continue undertaking thorough reviews of the complaints made and based on the findings, take necessary preventive and corrective actions. Based on the fact-finding exercise conducted so far, the Company has assessed that any potential financial impacts involved are not material and there is no material impact on the financial results for the current reporting period and comparative periods presented in the financial results. The Company is committed to upholding the highest standards of corporate governance and to improve the compliance environment to the extent required." (Source: Q3CY21 result release)

Quarterly financials, operating metrics and key performance indicators

Fig 1: Quarterly Financials

Y/E March (Rs mn)	Q4CY19	Q1CY20	Q2CY20	Q3CY20	Q4CY20	Q1CY21	Q2CY21	Q3CY21
Net Revenue	6777	5783	6408	6859	5577	6323	6626	6687
Cost of goods sold	4621	3722	4192	4466	3746	4237	4773	4817
Gross Profit	2155	2061	2216	2393	1831	2086	1853	1870
Employees Cost	617	664	766	711	619	704	664	604
Other Expenses	878	898	802	908	857	960	962	953
EBITDA	660	500	648	774	355	423	227	313
Depreciation	220	248	247	245	238	230	235	230
Interest cost	-7	63	71	62	66	55	63	70
PBT from operations	447	189	330	467	50	138	-71	13
Other Income	41	53	31	29	28	61	25	10
PBT (bef. EOI)	487	242	360	496	78	199	-46	23
Extra ordinary item	0	0	0	0	0	0	0	310
PBT	487	242	360	496	78	199	-46	-287
Tax	-194	-31	93	127	27	37	-11	-69
Tax rate (%)	-39.9	-12.9	25.9	25.7	34.5	18.6	24.1	-302.6
Net Profit	682	273	267	369	51	162	-35	-218
EPS (In Rs)	9.03	3.62	3.54	4.88	0.67	2.14	-0.46	-2.89
YoY Growth (%)								
Net Revenue	10.5	-8.1	1.1	5.5	-17.7	9.3	3.4	-2.5
EBITDA	0.4	-42.7	-9.5	17.0	-46.3	-15.3	-65.0	-59.6
Reported PAT	279.6	-35.0	-4.3	15.6	-92.5	-40.8	-113.1	-159.2
QoQ Growth (%)								
Net Revenue	4.2	-14.7	10.8	7.0	-18.7	13.4	4.8	0.9
EBITDA	-0.2	-24.3	29.7	19.5	-54.2	19.2	-46.3	37.7
Reported PAT	113.7	-59.9	-2.2	38.0	-86.2	218.3	-121.6	-524.0
Margin (%)								
Gross	31.8	35.6	34.6	34.9	32.8	33.0	28.0	28.0
EBITDA	9.7	8.6	10.1	11.3	6.4	6.7	3.4	4.7
PAT	10.1	4.7	4.2	5.4	0.9	2.6	-0.5	-3.3

Source: Company, SMIFS Research

Financial Statements (Consolidated)

Income Statement					
Y/E March (Rs mn)	CY18	CY19	CY20	CY21e	CY22e
Net Revenue	23,691	25,990	24,627	25,796	28,842
% Growth	11.2	9.7	-5.2	4.7	11.8
Cost of goods sold	16,077	17,285	16,124	18,199	19,246
% of revenues	67.9	66.5	65.5	70.6	66.7
Gross Profit	7,614	8,705	8,503	7,597	9,596
Gross margin (%)	32.1	33.5	34.5	29.5	33.3
Employee Cost	2,352	2,517	2,761	2,550	2,706
% of revenues	9.9	9.7	11.2	9.9	9.4
Other Expenses	3,048	3,259	3,406	3,774	4,133
% of revenues	12.9	12.5	13.8	14.6	14.3
EBITDA	2,214	2,929	2,336	1,273	2,757
EBITDA margin (%)	9.3	11.3	9.5	4.9	9.6
Depreciation & Amortisation	854	869	979	986	1,040
EBIT	1,361	2,060	1,357	286	1,717
Interest Cost	391	211	261	210	192
PBT from operations	969	1,848	1,096	77	1,525
Other Income	167	167	80	127	137
PBT (Bef. EOI)	1,136	2,016	1,176	203	1,662
Extra-ordinary item	-	-	-	310	-
PBT	1,136	2,016	1,176	-106	1,662
Tax Expenses	787	315	216	51	418
Effective tax rate (%)	69.3	15.6	18.4	-48.1	25.2
Reported PAT	349	1,700	960	-158	1,243
No. of shares (mn)	75.5	75.5	75.5	75.5	75.5

Source: Company, SMIFS research estimates

Balance Sheet (Consolidated)					
Y/E March (Rs mn)	CY18	CY19	CY20	CY21e	CY22e
Source of funds					
Share Capital	151	151	151	151	151
Reserves & Surplus	5,414	6,822	7,498	7,393	8,244
Shareholder's funds	5,565	6,973	7,649	7,544	8,395
Total Borrowings	3,995	2,688	2,460	2,360	2,230
Other financial liabilities	8	12	440	440	442
Provisions	34	44	77	54	66
Other non-current liabilities	111	78	89	97	100
Total non-current liabilities	4,148	2,822	3,067	2,951	2,838
Total Equity & Liabilities	9,713	9,796	10,716	10,494	11,233
Application of funds					
Gross Block	7,530	7,859	9,371	9,927	10,381
Accumulated Depreciation	-2509	-3156	-3903	-4717	-5547
Net Fixed Assets	5,020	4,702	5,469	5,211	4,835
Capital WIP	44.52	82.844	165	165	165
Intangible assets	157	162	138	117	96
Other non-current assets	403	768	919	971	1,001
Inventories	2,122	1,819	2,288	1,956	2,083
Trade Receivables	5,702	6,185	5,338	5,800	6,247
Cash and Cash Equivalents	478	446	671	613	1,455
Other Current assets	583	976	841	670	757
Total Current Assets	8,885	9,425	9,137	9,039	10,542
Trade payables	3,617	4,296	4,098	3,881	4,209
Other Current Liabilities	1,180	1,049	974	1,088	1,158
Total Current Liabilities	4,797	5,345	5,073	4,969	5,367
Net Current Assets	4,088	4,080	4,065	4,070	5,176

Source: Company, SMIFS research estimates

Key Ratios					
Y/E March (Rs mn)	CY18	CY19	CY20	CY21e	CY22e
Growth (%)					
Net Revenue	11.2	9.7	-5.2	4.7	11.8
EBITDA	1.4	32.3	-20.2	-45.5	116.7
PAT	-45.2	387.4	-43.5	-116.4	-888.9
Margins (%)					
Gross Margin	32.1	33.5	34.5	29.5	33.3
EBITDA Margin	9.3	11.3	9.5	4.9	9.6
PBT Margin	4.8	7.8	4.8	0.8	5.8
PAT Margin	1.5	6.5	3.9	-0.6	4.3
Return Ratios (%)					
RoE	6.3	27.1	13.1	-2.1	15.6
RoCE	16.0	23.1	14.5	4.1	18.1
RoA	2.4	11.5	6.2	-1.0	7.7
Working Capital Days					
Inventory Days	46	42	43	42	41
Debtors days	84	83	84	84	83
Creditors Days	83	84	83	83	82
Cash Conversion period	48	42	44	43	42
Turnover Ratios (x)					
Asset Turnover	1.6	1.8	1.6	1.6	1.8
Fixed Asset Turnover	5.4	6.0	6.0	6.6	8.0
Solvency/ Liquidity Ratio (x)					
Debt/Equity	0.7	0.4	0.3	0.3	0.3
Net Debt/Equity	0.6	0.2	0.2	0.2	0.1
Interest Coverage Ratio	3.9	10.5	5.5	2.0	9.7
Dividend					
DPS (Rs)	3.0	3.0	3.0	-0.6	4.9
Dividend Yield (%)	1.2	1.2	1.2	-0.2	1.9
Dividend Payout (%)	64.9	13.3	23.6	30.0	30.0
Per Share Data (In Rs)					
EPS	4.6	22.5	12.7	-2.1	16.5
BVPS	73.7	92.3	101.3	99.9	111.2
CFS	13.4	37.7	22.4	11.8	28.9
Valuation Ratios (x)					
P/E	56.2	11.5	20.4	-124.4	15.8
P/BV	3.5	2.8	2.6	2.6	2.3
EV/ EBITDA	10.5	7.5	9.2	16.8	7.4
EV/ Sales	1.0	0.8	0.87	0.8	0.7

Source: Company, SMIFS research estimates

Cash Flow Statement					
Y/E March (Rs mn)	CY18	CY19	CY20	CY21e	CY22e
PBT	1,136	2,016	1,176	203	1,662
Depreciation & Amortisation	854	869	979	986	1,040
Interest expense	391	210	256	210	192
Interest & dividend Income	-23	-11	-10	-17	-14
Changes in working capital	-606	495	-201	-131	-277
Taxes Paid	-730	-602	-437	-51	-418
Others	-10	-133	-71	-310	-
Cash Flow from Operating Activities	1,012	2,844	1,693	890	2,185
Capital Expenditure	-626	-555	-433	-707	-643
Other Investments	316	-332	-303	-	-
Interest & Dividend Received	13	11	10	17	14
Cash Flow from Investing Activities	-296	-875	-727	-691	-629
Net borrowings	-29	-1,307	-248	-100	-130
Dividend paid (including tax)	-272	-273	-228	52	-392
Interest expense	-384	-422	-234	-210	-192
Cash Flow from Financing Activities	-685	-2,001	-710	-257	-714
Net change in cash	31	-33	257	-58	841
Opening cash balance	444	476	445	670	612
Cash of acquired subsidiary	2	-	-	-	-
Closing Cash Balance	476	443	702	612	1,453

Source: Company, SMIFS research estimates

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Analyst holding in stock: **NO**

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