



Q2CY22 Result Update | Packaging | 24 July 2022

Huhtamaki India Ltd.

Decent sales performance, Margin under pressure

Q2CY22 revenue of Huhtamaki India grew by 19.6% YoY & 9% QoQ to Rs7.92bn. Gross margin contracted by 175bps YoY & 206bps QoQ to 26.2% in Q2CY22. The QoQ contraction in the gross margins is majorly because of rise in raw material prices. EBITDA grew by 52% YoY but declined by 32% QoQ to Rs345mn in Q2CY22. EBITDA margins expanded by 92bps YoY but contracted by 261bps QoQ to 4.4% in Q2CY22. Sequential decline in margins is because of gross margin contraction & higher employee costs. Consol PAT declined by 67% QoQ to Rs81mn in Q2CY22. The company has also given an approval to monetize the freehold land and building situated at Majiwade, Thane, Maharashtra, subject to necessary formalities being completed. We assign "BUY" rating on the stock with a target price of Rs 222 per share which offers 18% upside.

Q2CY22 revenue grew ~20% YoY & 9% QoQ; Gross/ EBITDA margins contracted QoQ basis

- The company's Q2CY22 revenue grew by ~20% YoY & 9% QoQ to Rs 7.92bn. The growth is majorly led by strong demand from end user industrie like FMCG. Despite strong revenue, gross margins witnessed pressure declining by 206bps QoQ to 26.2% for the quarter, majorly led by rising raw material prices of PE films, biaxially oriented polyethylene etc.
- The employee cost increased by ~16.5% QoQ to Rs676mn and stood at 8.5% of sales in Q2CY22 as compared to 8% in Q1CY22, leading to 50bps decline in operating margins while the other expenses increased by ~8.6% QoQ to Rs974mn and stood at 13.3% of sales in Q2CY22 as compared to 13.4% in Q1CY22. Higher raw material & employee cost led to EBITDA margins witness decline of 261bps QoQ to 4.4% for Q2CY22.
- The interest cost went up by ~23% YoY & 7% QoQ to Rs78mn; while the depreciation expenses were lower by ~7% YoY & 0.6% QoQ to Rs220mn.

Monetizing freehold land and building's at Majiwade, Thane

- The Board of Directors of the Company have given their in-principle approval for monetizing the Company's freehold land and building situated at Majiwade, Thane, Maharashtra. The Thane plant was located on the Ghodbunder Road, Majiwade area of Thane.
- As per our analysis, the Thane land is of ~5-6 acre in size and considering the current rates it could fetch Rs 40-50 crore.
- Also, earlier the company had closed its thane plant and announced a VRS scheme which involved a pay-out of Rs 309.8 mn in CY21 and now they decided to monetize it completely.

Cost savings measure to help company cut down on fixed cost and stabilize margins

- The company has embarked on 'Project Parivartan' (Transformation Project) which focuses on cost transformation, stronger price realisation and better quality of growth to turnaround its performance. It focuses on improving efficiency of manufacturing network, labour productivity and reduce wastages from operations to boost company's long-term competitiveness.
- The recent monetization of Thane and Ambernath plant will cut down on fixed cost and will help to stabilize the margins in the long term.

Valuation

- Post Q2CY22 earnings, we assign "BUY" rating on the stock. We have upwardly revised our price target to Rs 222, valuing the stock 15.5x CY23E EPS of Rs 14.4. At our target price, the stock offers an upside of ~18%.

Y/E Mar (Rs mn)	Q2CY22	Q2CY21	YoY (%)	Q1CY21	QoQ (%)
Total Income	7,927	6,626	19.6	7,285	8.8
Cost of raw materials	5,848	4,773	22.5	5,225	11.9
Employee cost	676	664	1.7	580	16.5
Other expenses	1,058	962	9.9	974	8.6
EBITDA	345	227	51.9	507	(32.0)
EBITDA margin (%)	4.4	3.4	92 bps	7.0	(261) bps
Depreciation	220	235	(6.7)	221	(0.6)
Other income	58	25	133.6	126	(53.5)
Finance Cost	78	63	23.2	72	7.2
Exceptional items	-	-	NA	-	NA
PBT	106	(46)	NA	340	(68.7)
Taxes paid	25	(11)	NA	93	(73.4)
Effective tax rate (%)	23.3	24.1	(75) bps	27.5	(418) bps
Reported PAT	81	-35	NA	246	(66.9)

Y/E Mar (Rs mn)	Revenue	YoY (%)	EBITDA	EBITDA (%)	Adj. PAT	YoY (%)	Adj. EPS	RoE (%)	RoCE (%)	P/E (x)	EV/EBITDA (x)
CY20	24,627	-5.2%	2,336	9.5%	960	-43.5%	12.7	13.1%	14.5%	14.8	6.9
CY21	26,253	6.6%	1,090	4.2%	83	-91.4%	1.1	-3.1%	2.5%	NM	16.0
CY22E	30,151	14.8%	2,300	7.6%	955	1052%	12.6	12.7%	14.4%	14.9	7.1
CY23E	30,751	2.0%	2,665	8.7%	1,084	13.5%	14.4	13.0%	15.1%	13.1	5.8
CY24E	31,689	3.1%	2,974	9.4%	1,251	15.4%	16.6	13.5%	15.6%	11.4	4.6

*Source: Company, SMIFS Research

Rating: BUY Upside: 18%

Current Price: 189 Target Price: 222

Earlier recommendation

Preivous Rating: Accumulate
Previous Target Price: 210

Market data

Bloomberg:	HUIN IN
52-week H/L (Rs):	328/148
Mcap (Rs mn/USD mn):	14,303/179
Shares outstanding (mn):	75.5
Free float:	32.27%
Daily vol. (3M Avg. In `000):	238.36
Face Value (Rs):	2.0
Group:	Nifty 500

Source: Bloomberg, ACE Equity, SMIFS Research

Shareholding pattern (%)

	June-22	Mar-22	Dec-21	Sep-21
Promoter	67.73%	67.73%	67.73%	67.73%
FIIIs	3.85%	4.23%	4.30%	4.28%
DIIIs	0.44%	0.44%	0.90%	1.08%
Public/others	27.98%	27.60%	27.07%	26.92%

Source: BSE

Price performance (%)*

	1M	3M	12M	36M
Nifty 500	9.9%	-3.8%	4.9%	55.9%
Huhtamki	22.1%	4.3%	-39.7%	-20.3%

*as on 23 July 2022; Source: AceEquity, SMIFS Research

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Outlook and Valuation

In the last several quarters except Q1CY22, Huhtamki India’s performance has been adversely affected due to the unprecedented increase in raw material prices on back of the world-wide inflationary commodity cycle. Higher Ocean freight rates from mid of 2021 and erratic vessel/container schedule affected exports. The impact of the Covid pandemic, consumption is yet to fully recover and reach pre Covid levels, has put pressure on volumes, pricing & product mix.

During Q2CY22, revenue grew by ~20% YoY & 9% QoQ to Rs 7.92b. The growth is majorly led by strong demand from end user industrie like FMCG. Despite strong revenue, gross margins witnessed pressure declining by 206bps QoQ to 26.2% for the quarter, majorly led by rising raw material prices of PE films, biaxially oriented polyethylene etc. EBITDA grew by 52% YoY & declined by 32% QoQ to Rs345mn in Q2CY22. EBITDA margins expanded by 92bps YoY & contracted by 261bps QoQ to 4.4% in Q2CY22. Sequential decline in margins is because of gross margin contraction & operating deleverage. Consol PAT declined by 67% QoQ to Rs81mn in Q2CY22.

Although, on QoQ basis gross margins has witnessed contraction largely led by rising raw material prices which are directly linked to crude oil prices. Also, the company was struggling to pass-on commodity price increase to the customers since last few quarters. Considering, the crude price softening and cost inflation build in most of the long term contracts, the company should be comfortable to pass on the raw material prices and this should improve the margins for the coming quarters.

Going forward, we expect demand to improve during CY22 led by strong demand from FMCG segment and easing geopolitical tensions to kick in recovery in exports market.

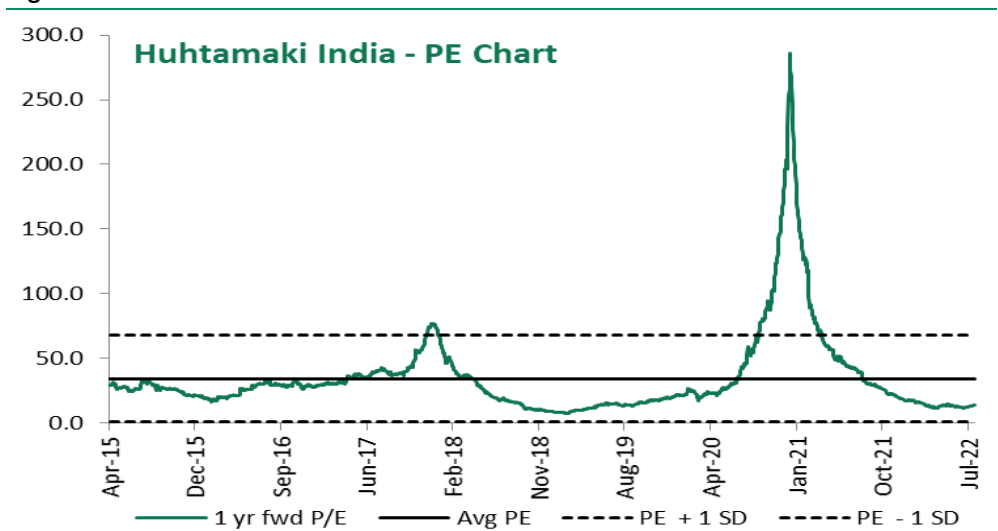
Post Q2CY22 earnings, we assign “BUY” rating on the stock. We have upwardly revised our price target to Rs 224, valuing the stock 15.5x CY23E EPS of Rs 14.4. At our target price, the stock offers an upside of ~18%.

Key risks for the company include volatility in raw material prices like PE films & biaxially oriented polyethylene (polymers), increase in competition and decline in FMCG consumption.

Disclosures by the company

The company approved the appointment of Mr. Dhananjay Salunkhe, (DIN: 09683886) as the Managing Director and Key Managerial Personnel of the company w.e.f. 12th August 2022.

Fig 1: Huhtamaki India – PE Chart



Source: Company, SMIFS Research

Quarterly financials, operating metrics and key performance indicators

Fig 2: Quarterly Financials

Y/E March (Rs mn)	Q3CY20	Q4CY20	Q1CY21	Q2CY21	Q3CY21	Q4CY21	Q1CY22	Q2CY22
Net Revenue	6859	5577	6323	6626	6687	6616	7285	7927
Cost of goods sold	4466	3746	4237	4773	4817	4895	5225	5848
Gross Profit	2393	1831	2086	1853	1870	1721	2061	2078
Employees Cost	711	619	704	664	604	605	580	676
Other Expenses	908	857	960	962	957	1007	974	1058
EBITDA	774	355	423	227	309	109	507	345
Depreciation	245	238	230	235	230	226	221	220
Interest cost	62	66	55	63	70	81	72	78
PBT from operations	467	50	138	-71	9	-198	214	48
Other Income	29	28	61	25	14	17	126	58
PBT (bef. EOI)	496	78	199	-46	23	-181	339	106
Exceptional item	0	0	0	0	310	0	0	0
PBT	496	78	199	-46	-287	-181	339	106
Tax	127	27	37	-11	-69	-46	93	25
Tax rate (%)	25.7	34.5	18.6	24.1	-302.6	25.3	27.5	23.3
Reported Net Profit	369	51	162	-35	-218	-135	246	81
Adjusted Net Profit	369	51	162	-35	91	-135	246	81
EPS (In Rs)	4.88	0.67	2.14	-0.46	-2.89	-1.79	3.26	1.08
Adjusted EPS (In Rs)	4.88	0.67	2.14	-0.46	1.21	-1.79	3.26	1.08
YoY Growth (%)								
<i>Net Revenue</i>	5.5	-17.7	9.3	3.4	-2.5	18.6	15.2	19.6
<i>EBITDA</i>	17.0	-46.3	-15.3	-65.0	-60.1	-69.4	19.9	51.9
<i>Reported PAT</i>	15.6	-92.5	-40.8	-113.1	-159.2	-366.1	52.2	332.9
QoQ Growth (%)								
<i>Net Revenue</i>	7.0	-18.7	13.4	4.8	0.9	-1.1	10.1	8.8
<i>EBITDA</i>	19.5	-54.2	19.2	-46.3	36.1	-64.9	367.4	-32.0
<i>Reported PAT</i>	38.0	-86.2	218.3	-121.6	-524.0	38.1	282.0	-66.9
Margin (%)								
<i>Gross</i>	34.9	32.8	33.0	28.0	28.0	26.0	28.3	26.2
<i>EBITDA</i>	11.3	6.4	6.7	3.4	4.6	1.6	7.0	4.4
<i>PAT</i>	5.4	0.9	2.6	-0.5	-3.3	-2.0	3.4	1.0

Source: Company, SMIFS Research

Financial Statements (Consolidated)

Income Statement						
Y/E March (Rs mn)	CY19	CY20	CY21	CY22e	CY23e	CY24E
Net Revenue	25,990	24,627	26,253	30,151	30,751	31,689
% Growth	9.7	-5.2	6.6	14.8	2.0	3.1
Cost of goods sold	17,285	16,124	18,722	21,166	21,310	21,802
% of revenues	66.5	65.5	71.3	70.2	69.3	68.8
Gross Profit	8,705	8,503	7,530	8,985	9,440	9,887
Gross margin (%)	33.5	34.5	28.7	29.8	30.7	31.2
Employee Cost	2,517	2,761	2,578	2,556	2,565	2,573
% of revenues	9.7	11.2	9.8	8.5	8.3	8.1
Other Expenses	3,259	3,406	3,862	4,129	4,211	4,339
% of revenues	12.5	13.8	14.7	13.7	13.7	13.7
EBITDA	2,929	2,336	1,090	2,300	2,665	2,974
EBITDA margin (%)	11.3	9.5	4.2	7.6	8.7	9.4
Depreciation & Amortisation	869	979	922	966	1,033	1,098
EBIT	2,060	1,357	169	1,334	1,632	1,876
Interest Cost	211	261	268	308	343	381
PBT from operations	1,848	1,096	-100	1,026	1,289	1,496
Other Income	167	80	94	251	160	176
PBT (Bef. EOI)	2,016	1,176	-6	1,277	1,449	1,672
Extra-ordinary item	-	-	310	-	-	-
PBT	2,016	1,176	-316	1,277	1,449	1,672
Tax Expenses	315	216	-89	321	365	421
Effective tax rate (%)	15.6	18.4	28.1	25.2	25.2	25.2
Reported PAT	1,700	960	-227	955	1,084	1,251
Adjusted PAT	1,700	960	83	955	1,084	1,251
No. of shares (mn)	75.5	75.5	75.5	75.5	75.5	75.5

Source: Company, SMIFS research estimates

Balance Sheet (Consolidated)						
Y/E March (Rs mn)	CY19	CY20	CY21	CY22e	CY23e	CY24E
Source of funds						
Share Capital	151	151	151	151	151	151
Reserves & Surplus	6,822	7,498	7,009	7,734	8,622	9,646
Shareholder's funds	6,973	7,649	7,160	7,885	8,773	10,421
Total Borrowings	2,688	2,460	2,987	3,271	3,689	4,039
Other financial liabilities	12	12	3	11	9	8
Provisions	44	77	62	72	81	78
Other non-current liabilities	78	518	638	650	656	657
Total non-current liabilities	2,822	3,067	3,690	4,004	4,435	4,782
Total Equity & Liabilities	9,796	10,716	10,850	11,889	13,207	15,203
Application of funds						
Gross Block	7,859	9,371	9,990	10,590	11,312	12,008
Accumulated Depreciation	-3,156	-3,903	-4,719	-5,503	-6,367	-7,294
Net Fixed Assets	4,702	5,469	5,272	5,087	4,945	4,714
Capital WIP	83	165	429	396	456	443
Intangible assets	162	138	99	75	49	20
Other non-current assets	768	919	1,281	1,323	1,319	1,339
Inventories	1,819	2,288	3,475	2,934	2,910	2,764
Trade Receivables	6,185	5,338	6,295	6,248	6,747	6,917
Cash and Cash Equivalents	446	671	322	1,465	2,428	4,548
Other Current assets	976	841	910	763	890	938
Total Current Assets	9,425	9,137	11,002	11,409	12,974	15,168
Trade payables	4,296	4,098	5,738	4,977	5,048	4,891
Other Current Liabilities	1,049	1,014	1,495	1,424	1,487	1,590
Total Current Liabilities	5,345	5,112	7,233	6,402	6,536	6,481
Net Current Assets	4,080	4,025	3,769	5,008	6,439	8,687
Total Assets	9,796	10,716	10,850	11,889	13,207	15,203

Source: Company, SMIFS research estimates

Key Ratios						
Y/E March (Rs mn)	CY19	CY20	CY21	CY22e	CY23e	CY24E
Growth (%)						
Net Revenue	9.7	-5.2	6.6	14.8	2.0	3.1
EBITDA	32.3	-20.2	-53.3	110.9	15.9	11.6
PAT	387.4	-43.5	-123.6	521.0	13.5	15.4
Adj. PAT	387.4	-43.5	-91.4	1,052	13.5	15.4
Margins (%)						
Gross Margin	33.5	34.5	28.7	29.8	30.7	31.2
EBITDA Margin	11.3	9.5	4.2	7.6	8.7	9.4
PBT Margin	7.8	4.8	-0.0	4.2	4.7	5.3
PAT Margin	6.5	3.9	-0.9	3.2	3.5	3.9
Return Ratios (%)						
RoE	27.1	13.1	-3.1	12.7	13.0	13.5
RoCE	23.1	14.5	2.5	14.4	15.1	15.6
RoA	11.5	6.2	-1.3	5.3	5.7	6.1
Working Capital Days						
Inventory Days	42	46	56	54	50	47
Debtors days	83	85	81	81	81	81
Creditors Days	84	95	96	91	87	83
Cash Conversion period	42	37	41	43	44	45
Turnover Ratios (x)						
Asset Turnover	1.8	1.6	1.5	1.7	1.6	1.6
Fixed Asset Turnover	6.0	6.0	6.7	8.3	9.1	11.2
Solvency/ Liquidity Ratio (x)						
Debt/Equity	0.4	0.3	0.5	0.4	0.4	0.4
Net Debt/Equity	0.2	0.2	0.4	0.3	0.1	-0.1
Interest Coverage Ratio	10.5	5.5	1.0	5.1	5.2	5.4
Dividend						
DPS (Rs)	3.0	3.0	1.0	2.5	2.2	2.5
Dividend Yield (%)	1.6	1.6	0.5	1.3	1.1	1.3
Dividend Payout (%)	13.3	23.6	30.0	20.0	15.0	15.0
Per Share Data (In Rs)						
EPS	22.5	12.7	-3.0	12.6	14.4	16.6
Adj EPS	22.5	12.7	1.1	12.6	14.4	16.6
BVPS	92.3	101.3	94.8	104.4	116.2	129.7
CFPS	37.7	22.4	-3.7	28.0	26.1	33.5
Valuation Ratios (x)						
P/E	8.4	14.8	NM	14.9	13.1	11.4
Adj. P/E	8.4	14.8	171.9	14.9	13.1	11.4
P/BV	2.0	1.9	2.0	1.8	1.6	1.5
EV/ EBITDA	5.6	6.9	16.0	7.1	5.8	4.6
EV/ Sales	0.6	0.65	0.7	0.5	0.5	0.4

Source: Company, SMIFS research estimates

Cash Flow Statement						
Y/E March (Rs mn)	CY19	CY20	CY21	CY22e	CY23e	CY24E
PBT	2,016	1,176	-6	1,277	1,449	1,672
Depreciation & Amortisation	869	979	922	966	1,033	1,098
Interest expense	210	256	268	308	343	381
Changes in working capital	495	-201	-942	-108	-450	-151
Taxes Paid	-602	-437	-148	-321	-365	-421
Extraordinary item	-	-	310	-	-	-1
Cash Flow from Operating Activities	2,845	1,693	-277	2,112	1,973	2,529
Capital Expenditure	-555	-433	-760	-724	-925	-201
Other Investments	-332	-303	184	-	-	-
Cash Flow from Investing Activities	-875	-727	-559	-715	-888	-153
Net borrowings	-1,307	-248	1,009	284	417	351
Dividend paid (including tax)	-273	-228	-227	-231	-196	-226
Interest expense	-422	-234	-252	-308	-343	-381
Cash Flow from Financing Activities	-2,001	-742	486	-255	-122	-256
Net change in cash	-32	225	-349	1,143	963	2,120
Opening cash balance	476	445	670	321	1,464	2,427
Closing Cash Balance	445	670	321	1,463	2,427	4,547

Source: Company, SMIFS research estimates

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