

# Huhtamaki India Ltd.

One-offs impacted profitability in Q1, On the verge of a Turnaround, Upgrade to BUY

The company reported good show excluding the one-offs. Revenue declined by ~8% YoY but grew by mere ~1% QoQ. Lower volumes on YoY basis impacted the topline. Gross margin expanded by 332bps YoY but declined by 44bps QoQ to 33.7% in Q1CY24. The expansion in gross margins on YoY basis is majorly because of decline in raw material prices & cost pass on to its end user industries. Despite revenue growth of 1% on sequential basis, EBITDA dipped by ~29% QoQ because of higher other expenses which grew by 14% YoY & 20.5% QoQ. Higher other expense is because of credit impairment which is a one-off. Adjusting for one-offs, EBITDA margins stood at 9.2% vs the reported 6.7% in Q1CY24. Last quarter the company received exceptional gains from land monetization of Thane & Ambarnath to the tune of Rs3.7bn which has been used for debt reduction & for new capital expenditures in coming years. The company "blueloop" range of products will focus on increasing value added proportion in its product portfolio. The company is banking on this new set of range of blueloop to increase its visibility & offer niche products to its customers. This strategy will help the company to regain back its lost glory & achieve double digit margins in the coming years. Accordingly, factoring the positives, we upgrade to BUY rating on the stock with a target price of Rs 434 per share.

### Q1CY24 revenue declined by ~8% YoY & grew ~1% QoQ; Gross margins expanded on YoY basis

- The company's Q1CY24 revenue declined by ~8% YoY & grew by mere ~1% QoQ. YoY decline is because of volumes which is expected to pickup in the subsequent quarters as demand starts to pick up. The company has significant room to increase volume as current utilization is mere 55-60% & its new factory of Blueloop will incrementally provide support to volumes alongwith better margins.
- The employee cost grew by ~4% YoY & declined by ~2% QoQ to Rs617mn and stood at 10.1% of sales in Q1CY24 as compared to 9% in Q1CY23 & 10.4% in Q4CY23, while other expenses grew by ~14% YoY & ~20.5% QoQ to Rs1.02bn. Higher other expense is because of credit impairment (one-offs). Adjusting for one-offs, EBITDA margins stood at ~9.2% vs reported 6.7% in Q1CY24.
- The interest cost declined by ~30% YoY & 24% QoQ to Rs48mn because of debt repayment from the land monetisation money received last quarter; while the depreciation expenses dipped by ~39% YoY & 15% QoQ to Rs95mn. Change in useful life and method of charging depreciation on certain Property, Plant and Equipment led to decline in depreciation.

### Cost savings measures, non core asset monetization & right strategy started yielding results

- The company had embarked on 'Project Parivartan' (Transformation Project) which focuses on cost transformation, value added products, stronger price realisation to enhance better quality of growth to turnaround its performance. This strategy has yielded results for the company & we believe Huhtamaki is on the verge of a turnaround.
- As the company is focussing on its value-added segment named "Blueloop" which has higher margins & better use case it also provides benefits like reducing input costs, wastage reduction, overhead optimization & improving productivity.

### Valuation

- We value the stock on CY25E & we assign price target of Rs 434, valuing the stock 18x (earlier 16.5x) CY25E EPS of Rs 24.1. We upgraded out multiple because of increased visibility of volume growth, strong balance sheet, cost optimization benefits & leveraging its blueloop brand which will increase its premium portfolio. At our target price, the stock offers upside of ~41%, thereby, we upgrade to BUY rating from earlier ACCUMULATE rating on the stock.

(Rs mn)	Q1CY24	Q1CY23	YoY (%)	Q4CY23	QoQ	Q1CY24E	Var(%)
<b>Total Income</b>	<b>6,101</b>	<b>6,615</b>	<b>-7.8</b>	<b>6,037</b>	<b>1.1</b>	<b>6,435</b>	<b>-5.2</b>
Operating exp	5,691	6,103	-6.7	5,460	4.2	-	-
<b>EBITDA</b>	<b>411</b>	<b>513</b>	<b>-19.9</b>	<b>577</b>	<b>-28.9</b>	<b>625</b>	<b>-34.3</b>
EBITDA margin	6.7	7.8	-102 bps	9.6	-283 bps	9.7	-298 bps
Depreciation	95	156	-38.9	112	-14.8	-	-
Interest	48	68	-30.0	62	-23.6	-	-
Other Income	83	63	32.5	41	104.4	-	-
Exceptional item	-	-	NA	3,717	NA	-	-
<b>PBT</b>	<b>351</b>	<b>352</b>	<b>-0.2</b>	<b>4,160</b>	<b>-91.6</b>	-	-
Tax Expenses	91	-3	NA	886	NA	-	-
Effective tax rate	25.8	-0.9	NA	21.3	NA	-	-
<b>Reported PAT</b>	<b>260</b>	<b>355</b>	<b>-26.7</b>	<b>3,274</b>	<b>-92.0</b>	-	-
<b>Adjusted PAT</b>	<b>260</b>	<b>355</b>	<b>-26.7</b>	<b>487</b>	<b>-46.5</b>	<b>392</b>	<b>-33.6</b>

Source: Company, SMIFS Research

Y/E Mar (Rs mn)	Revenue	YoY (%)	EBITDA	EBITDA (%)	Adj. PAT	YoY (%)	Adj. EPS	RoE (%)	RoCE (%)	P/E (x)	EV/EBITDA (x)
CY22	29,829	13.6	1,570	5.3	496	504	6.6	6.7	6.8	28.9	11.5
CY23	25,494	-14.5	1,947	7.6	1,188	139	15.7	12.5	10.3	15.8	9.0
CY24E	26,322	3.2	2,159	8.2	1,394	17	18.5	11.5	10.6	16.6	10.6
CY25E	29,051	10.4	2,720	9.4	1,819	30.5	24.1	13.4	12.3	12.7	7.9
CY26E	31,672	9.0	3,166	10.0	2,155	18.5	28.5	14.0	13.0	10.8	6.1

Source: Company, SMIFS Research Estimates



Rating: BUY Upside: 41%

Current Price: 307 Target Price: 434

### Earlier recommendation

Previous Rating:	ACCUMULATE
Previous Target Price:	357

### Market data

Bloomberg:	HUIN IN
52-week H/L (Rs):	371/222
Mcap (Rs bn/USD bn):	23.2/0.3
Shares outstanding (mn):	75.5
Free float:	32.0%
Daily vol. (3M Avg. In mn):	0.23mn
Face Value (Rs):	2.0

Source: Bloomberg, ACE Equity, SMIFS Research

### Shareholding pattern (%)

	Mar-24	Dec-23	Sep-23	Jun-23
Promoter	67.7	67.7	67.7	67.7
FIIIs	1.2	0.9	1.4	1.5
DIIIs	1.3	1.3	1.3	1.5
Public/others	29.8	30.1	29.6	29.3
<b>Pro. Pledging (%)</b>				
Pledging	0.0	0.0	0.0	0.0

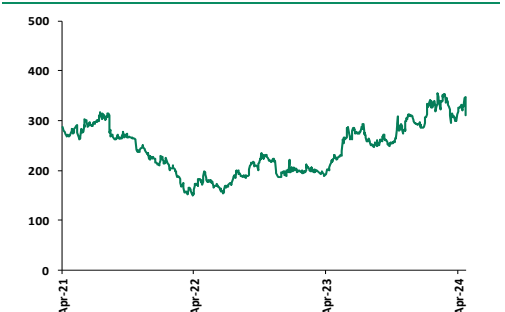
Source: BSE

### Price performance (%)\*

	1M	3M	12M	36M
Nifty 50	1.9	5.0	25.9	54.8
Nifty 500	4.2	7.5	39.0	70.6
Huhtamki	2.9	-7.9	33.1	11.5

\*as on 26<sup>th</sup> Apr 2024; Source: AceEquity, SMIFS Research

### 3 Year Price Performance Chart



Source: NSE

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## Analyst Call Highlights

**Newly launched brand Blueloop to gain traction:** The company has started its new value added product range of blueloop categories. This new range of products will replace old low value products with combination of adding new product portfolios which offers higher margins. It will also enable the company to move from packaging convertor to solution provider by adding capability in a phased manner. Currently, 20-25% of products are sold of Blueloop brand and by the year 2030 it is expected to reach around 90% of total products. The trials done by the customers is showing positive outlook.

**The company is aligned with 2030 strategy in order to become the first-choice supplier in sustainable packaging solutions which will be driven by technology and operational excellence.**

**During the quarter, demand remained bit subdued for some set of products. However, it is set to recover in the subsequent quarters.**

**Management stated that the company is focussed on achieving double digit margins**

**Capacity Utilization levels:** As on Q1CY24 the capacity utilization is around ~60% and in Q4CY23 it was around ~55-60%.

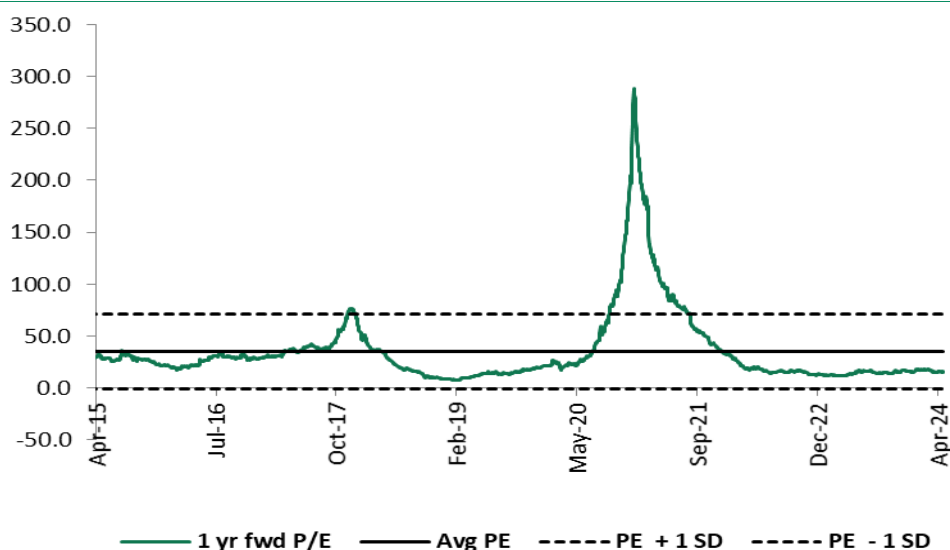
**Other business highlights:** Huhtamaki is also focusing on increasing the share of flexible packaging and restarting the sales of products which were dropped out earlier due to lower profitability. Management foresee competition in the market very intense and in order to tackle it the company is innovating its product basket, improving cost efficiencies & expanding its reach to newer set of customers.

## Outlook and Valuation

We value the stock on CY25E & we assign price target of Rs 434, valuing the stock 18x (earlier 16.5x) CY25E EPS of Rs 24.1. We upgraded our multiple because of increased visibility of volume growth, strong balance sheet, cost optimization benefits & leveraging its blueloop brand which will increase its premium portfolio. The stock offers upside of ~41%, thereby, we upgrade to **BUY** rating from earlier **ACCUMULATE** rating on the stock.

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.

**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)	Q2CY22	Q3CY22	Q4CY22	Q1CY23	Q2CY23	Q3CY23	Q4CY23	Q1CY24
<b>Net Revenue</b>	<b>7927</b>	<b>7690</b>	<b>6927</b>	<b>6615</b>	<b>6217</b>	<b>6625</b>	<b>6037</b>	<b>6101</b>
Cost of goods sold	5848	5765	5000	4608	4245	4536	3978	4047
<b>Gross Profit</b>	<b>2078</b>	<b>1926</b>	<b>1927</b>	<b>2008</b>	<b>1972</b>	<b>2089</b>	<b>2059</b>	<b>2054</b>
Employees Cost	676	657	623	593	646	686	630	617
Other Expenses	1058	1039	815	902	927	945	852	1027
<b>EBITDA</b>	<b>345</b>	<b>230</b>	<b>489</b>	<b>513</b>	<b>400</b>	<b>457</b>	<b>577</b>	<b>411</b>
Depreciation	220	210	210	156	116	108	112	95
Interest cost	78	88	86	68	100	75	62	48
Other Income	58	21	-33	63	21	30	41	83
<b>PBT (bef. EOI)</b>	<b>106.3</b>	<b>-47.2</b>	<b>160.7</b>	<b>352</b>	<b>206</b>	<b>304</b>	<b>444</b>	<b>351</b>
Exceptional item	0	0	0	0	21	0	3717	0
<b>PBT</b>	<b>106</b>	<b>-47</b>	<b>161</b>	<b>352</b>	<b>185</b>	<b>304</b>	<b>4160</b>	<b>351</b>
Tax	25	-48	-8	-3	40	-19	886	91
<i>Tax rate (%)</i>	23.3	100.8	-4.8	-0.9	21.7	-6.2	21.3	25.8
<b>Reported Net Profit</b>	<b>81</b>	<b>0.4</b>	<b>168</b>	<b>355</b>	<b>145</b>	<b>323</b>	<b>3274</b>	<b>260</b>
<b>Adjusted Net Profit</b>	<b>81</b>	<b>0</b>	<b>168</b>	<b>355</b>	<b>161</b>	<b>323</b>	<b>349</b>	<b>260</b>
<b>EPS (In Rs)</b>	<b>1.1</b>	<b>0.0</b>	<b>2.2</b>	<b>4.7</b>	<b>1.9</b>	<b>4.3</b>	<b>43.4</b>	<b>3.4</b>
<b>Adj EPS (In Rs)</b>	<b>1.1</b>	<b>0.0</b>	<b>2.2</b>	<b>4.7</b>	<b>2.1</b>	<b>4.3</b>	<b>4.6</b>	<b>3.4</b>
<b>YoY Growth (%)</b>								
<i>Net Revenue</i>	19.6	15.0	4.7	-9.2	-21.6	-13.9	-12.8	-7.8
<i>EBITDA</i>	51.9	-25.7	350.5	1.1	15.9	99.3	18.1	-19.9
<i>Adj PAT</i>	332.9	-97.1	224.6	44.2	96.9	80575.0	107.4	-26.7
<b>QoQ Growth (%)</b>								
<i>Net Revenue</i>	8.8	-3.0	-9.9	-4.5	-6.0	6.6	-8.9	1.1
<i>EBITDA</i>	-32.0	-33.5	113.0	4.9	-22.1	14.5	26.2	-28.9
<i>Adj PAT</i>	-66.9	-99.5	42000.0	110.7	-54.8	101.1	8.2	-25.5
<b>Margin (%)</b>								
<i>Gross</i>	26.2	25.0	27.8	30.3	31.7	31.5	34.1	33.7
<i>EBITDA</i>	4.4	3.0	7.1	7.8	6.4	6.9	9.6	6.7
<i>Adj PAT</i>	1.0	0.0	2.4	5.4	2.6	4.9	5.8	4.3

Source: Company, SMIFS Research

**Fig 3: Change in Estimates**

	New estimates		Old estimates		Change (%)	
	CY24E	CY25E	CY24E	CY25E	CY24E	CY25E
Revenue	26322	29051	27309	29382	-3.6%	-1.1%
Gross Profit	8423	9296	8875	9549	-5.1%	-2.6%
Gross Margin (%)	32.0%	32.0%	32.5%	32.5%	(50) bps	(50) bps
EBITDA	2159	2720	2396	2792	-9.9%	-2.6%
EBITDA Margin (%)	8.2%	9.4%	8.8%	9.5%	(57) bps	(14) bps
PAT	1394	1819	1349	1636	3.3%	11.2%
EPS (Rs)	18.5	24.1	17.9	21.7	3.1%	11.0%

Source: Company, SMIFS Research Estimates

Minor cut in topline in CY24E & CY25E. Higher other expense in current quarter Q1CY24 led to cut in EBITDA by 10% in CY24E.

Lower finance cost because of higher debt repayment & Lower depreciation because of change in method of depreciation & higher other income led to rise in PAT estimates for CY24E & CY25E.

## Financial Statements (Consolidated)

Income Statement					
Y/E March (Rs mn)	CY22	CY23	CY24E	CY25E	CY26E
<b>Net Revenue</b>	<b>29,829</b>	<b>25,494</b>	<b>26,322</b>	<b>29,051</b>	<b>31,672</b>
Raw Materials	21,837	17,367	17,899	19,755	21,537
% of sales	73.2	68.1	68.0	68.0	68.0
Employee Cost	2,536	2,555	2,526	2,654	2,788
% of sales	8.5	10.0	9.6	9.1	8.8
Other Expenses	3,886	3,626	3,738	3,922	4,181
% of sales	13.0	14.2	14.2	13.5	13.2
<b>EBITDA</b>	<b>1,570</b>	<b>1,947</b>	<b>2,159</b>	<b>2,720</b>	<b>3,166</b>
Other Income	172	155	293	311	323
Depreciation & Amortisation	861	492	398	438	474
<b>EBIT</b>	<b>882</b>	<b>1,610</b>	<b>2,054</b>	<b>2,593</b>	<b>3,015</b>
Interest Cost	323	305	193	164	137
<b>Core PBT</b>	<b>387</b>	<b>1,150</b>	<b>1,569</b>	<b>2,119</b>	<b>2,555</b>
Exceptional item	-	3,695	-	-	-
<b>PBT</b>	<b>559</b>	<b>5,000</b>	<b>1,862</b>	<b>2,429</b>	<b>2,878</b>
Tax Expenses	63	904	468	610	723
Effective tax rate (%)	11.2	18.1	25.1	25.1	25.1
<b>Reported PAT</b>	<b>496</b>	<b>4,096</b>	<b>1,394</b>	<b>1,819</b>	<b>2,155</b>
<b>Adjusted PAT</b>	<b>496</b>	<b>1,188</b>	<b>1,394</b>	<b>1,819</b>	<b>2,155</b>

Source: Company, SMIFS Research Estimates

Key Ratios					
Y/E March (Rs mn)	CY22	CY23	CY24E	CY25E	CY26E
<b>Growth (%)</b>					
Net Revenue	13.6	-14.5	3.2	10.4	9.0
EBITDA	44.0	24.0	10.9	26.0	16.4
Adj. PAT	504.3	139.3	17.4	30.5	18.5
<b>Margins (%)</b>					
Gross Profit Margin	26.8	31.9	32.0	32.0	32.0
EBITDA Margin	5.3	7.6	8.2	9.4	10.0
EBIT Margin	3.0	6.3	7.8	8.9	9.5
Core PBT Margin	1.3	4.5	6.0	7.3	8.1
PBT Margins	1.9	19.6	7.1	8.4	9.1
Adj PAT Margin	1.7	4.7	5.3	6.3	6.8
<b>Return Ratios (%)</b>					
RoE	6.7	12.5	11.5	13.4	14.0
RoCE	6.8	10.3	10.6	12.3	13.0
<b>Turnover Ratios (x)</b>					
Gross Block Turnover (x)	3.1	2.7	2.5	2.5	2.5
Adj OCF / Adj PAT (%)	190	202	-16	92	91
Inventory	36	39	40	45	45
Debtors	81	79	80	85	85
Creditors	58	67	70	70	70
Cash Conversion Cycle	59	51	50	60	60
<b>Solvency ratio (x)</b>					
Debt/Equity	0.5	0.2	0.2	0.1	0.1
Net Debt/Equity	0.5	-0.1	0.0	-0.1	-0.2
Gross Debt / EBITDA	2.6	1.3	1.1	0.7	0.6
Current ratio	1.9	2.2	2.5	2.6	2.8
Interest Coverage Ratio	2.7	5.3	10.7	15.8	22.0
<b>Dividend</b>					
DPS (Rs)	2.0	2.0	2.0	2.0	2.0
Dividend Yield (%)	1.1	0.8	0.7	0.7	0.7
Dividend Payout (%)	30.4	12.7	10.8	8.3	7.0
<b>Per Share Data (In Rs)</b>					
Basic EPS (reported)	6.6	54.2	18.5	24.1	28.5
Adj EPS	6.6	15.7	18.5	24.1	28.5
CEPS	18.0	22.2	23.7	29.9	34.8
BVPS	100.2	152.3	168.8	190.9	217.4
<b>Valuation Ratios (x)</b>					
Adj. P/E	28.9	15.8	16.6	12.7	10.8
P/BV	1.9	1.6	1.8	1.6	1.4
EV/ EBITDA	11.5	9.0	10.6	7.9	6.1
EV/ Sales	0.6	0.7	0.9	0.7	0.6
Adj Mcap / Core PBT	36.0	12.9	13.1	9.2	6.9
Adj Mcap / Adj OCF	14.8	6.2	-91.5	11.7	9.0

Source: Company, SMIFS Research Estimates

Balance Sheet					
Y/E March (Rs mn)	CY22	CY23	CY24E	CY25E	CY26E
<b>Source of funds</b>					
Share Capital	151	151	151	151	151
Reserves & Surplus	7,418	11,354	12,597	14,265	16,269
<b>Shareholder's funds</b>	<b>7,570</b>	<b>11,505</b>	<b>12,748</b>	<b>14,416</b>	<b>16,420</b>
<b>Total Debt</b>	<b>4,097</b>	<b>2,546</b>	<b>2,311</b>	<b>2,005</b>	<b>1,763</b>
Other non-current liabilities	146	184	157	175	202
<b>Total Liabilities</b>	<b>11,813</b>	<b>14,234</b>	<b>15,216</b>	<b>16,596</b>	<b>18,385</b>
<b>Application of funds</b>					
Gross Block	9,397	9,621	11,245	12,419	13,419
Net Block	4,164	4,208	5,079	5,428	4,953
Capital WIP	350	1,311	1,049	765	658
Quasi Cash Investments	-	-	-	-	-
<b>Other Investments</b>					
<b>Other non-current assets</b>	<b>2,369</b>	<b>1,883</b>	<b>2,011</b>	<b>2,091</b>	<b>2,061</b>
Inventories	2,980	2,699	2,713	2,896	3,176
Sundry Debtors	6,587	5,510	6,477	6,922	7,590
Cash and Bank Balances	432	3,120	1,797	2,819	4,809
Current Investments	-	797	797	797	797
Other Current assets	624	480	651	632	689
<b>Total Current Assets</b>	<b>10,623</b>	<b>12,607</b>	<b>12,435</b>	<b>14,067</b>	<b>17,063</b>
<b>Sundry Creditors</b>	<b>4,780</b>	<b>4,675</b>	<b>4,408</b>	<b>4,707</b>	<b>5,161</b>
Other Current Liabilities	914	1,101	950	1,049	1,188
<b>Total Current Liabilities</b>	<b>5,694</b>	<b>5,776</b>	<b>5,358</b>	<b>5,755</b>	<b>6,350</b>
<b>Net Current Assets</b>	<b>4,929</b>	<b>6,831</b>	<b>7,077</b>	<b>8,312</b>	<b>10,713</b>
<b>Total Assets</b>	<b>11,813</b>	<b>14,234</b>	<b>15,216</b>	<b>16,596</b>	<b>18,385</b>

Source: Company, SMIFS research estimates

Cash Flow Statement					
Y/E March (Rs mn)	CY22	CY23	CY24E	CY25E	CY26E
<b>Operating profit before WC</b>	<b>1,752</b>	<b>1,775</b>	<b>2,159</b>	<b>2,720</b>	<b>3,166</b>
Net changes in working capital	-294	1,226	-1,724	-275	-354
Taxes Paid	-132	-265	-468	-610	-723
<b>Cash Flow from Operating Activities</b>	<b>1,327</b>	<b>2,736</b>	<b>-32</b>	<b>1,835</b>	<b>2,089</b>
<b>Adj OCF</b>	<b>944</b>	<b>2,404</b>	<b>-225</b>	<b>1,672</b>	<b>1,952</b>
Capital Expenditure	-912	-911	-1,006	-502	108
Adj FCF	33	1,492	-1,231	1,169	2,060
<b>Cash Flow from Investing Activities</b>	<b>-896</b>	<b>398</b>	<b>-713</b>	<b>-192</b>	<b>431</b>
Debt	144	-1,631	-234	-306	-242
Dividend	-78	-152	-151	-151	-151
Interest and lease	-382	-332	-193	-164	-137
<b>Cash Flow from Financing Activities</b>	<b>-316</b>	<b>-2,115</b>	<b>-578</b>	<b>-621</b>	<b>-530</b>
<b>Net change in cash</b>	<b>115</b>	<b>1,019</b>	<b>-1,323</b>	<b>1,022</b>	<b>1,990</b>

Source: Company, SMIFS Research Estimates

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