

Incorporated in 1935, Huhtamaki India Ltd (HIL) is one of the leading players in consumer packaging industry. It offers a wide portfolio of packaging solutions which includes flexible packaging (pouching solutions, labelling technologies, shrink sleeve solutions, specialized cartons, packaging machines, tube laminates, promotional, holographic and security solutions, cylinders and specialised films for high barrier). It serves across its key clientele such as Britannia, Coca Cola, Ferrero, Glaxo Smithkline, Marico, Mondelez, Nestle, Pepsico, P&G, Unilever, etc.

Expecting reversal post restructuring

In August 2022, the company changed its key management, with the appointment of the Managing Director of the company, Dhananjay Salunkhe. During the course of his action, HIL has undergone restructuring at various levels such as optimization of manufacturing footprint (consolidated 5 manufacturing sites over 2023, manufacturing sites down from 15 to 10 at present), evasion of loss making products and Voluntary Retirement Scheme (VRS) for employees (incurred one time payment of Rs. 34 cr). It is expected to generate long term benefits from these strategic decisions which were being made at intervals.

Innovation towards sustainable packaging, a key topline growth driver

HIL aims to transform its journey from a packaging converter player towards sustainable packaging solution provider. With that, it has commissioned blueloop equipment in Q3FY24 at its owned plant and started sample manufacturing and supply to its customers for their respective clients. In addition to this, it has a solution offering under blueloop as an umbrella products which will include recyclable products i.e. 'blue light' as one of the options for reduced weight for polyolefin based structures. HIL follows the policy of sustainable, affordable and adaptable (power of 3) offerings to its customers.

Strengthened fundamentals backed by efficient operations

During Q3FY24, the management completed asset monetization with the sale of Thane and Ambernath land sale. Additionally, it has retired its total debt during the quarter except Rs. 200 cr of External Commercial Borrowing (ECB) of its parent company. The same is expected to be paid subject to statutory approval. As on Dec'23, it has retained its strong balance sheet with healthy cash at Rs. 400 cr and debt to equity ratio stood at 0.2x.

Valuation

HIL has witnessed weak performance during CY23 due to lower volumes caused from the restructuring activities. However, it is expected to generate double digit topline growth over the next 2 years. We expect the company to maintain its gross margins in the range of ~34-35% amid stability in raw material prices. As a result, EBITDA margins are expected to be in the range of ~10-11%. ROE and ROCE is expected at ~14% and 18% in CY25E, respectively. The stock is currently trading at 23.9x to TTM EPS. We assign 18x to CY25 EPS to arrive at a target of Rs. 529/share with an upside of 56% over the CMP.

Figures in Rs Cr

Year	Revenue	Growth	EBITDA	Margin	PAT	Growth	EPS	PE	EV/EBITDA	ROCE
CY22	2,983	14%	157	5%	50	NM	6.57	51.6x	19.2x	8%
CY23	2,549	-15%	195	8%	107	115%	14.16	23.9x	12.9x	12%
CY24E	2,804	10%	298	11%	192	79%	25.40	13.3x	8.4x	18%
CY25E	3,085	10%	340	11%	222	16%	29.36	11.5x	7.3x	18%

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