Volume No. I Issue No. 32

Huhtamaki PPL Ltd

July 15th, 2015

BSE Code: 509820 NSE Code: PAPERPROD Reuters Code: HUHT.NS Bloomberg Code: HPPL:IN

Established in the year 1935, Huhtamaki PPL (then Paper Products Ltd.), is amongst the most prestigious flexible packaging companies in India. The company became a part of the Huhtamaki Packaging Worldwide in 1999, which is one of the top 10 consumer packaging companies in the world. PPL offers a wide portfolio of packaging solutions that include Flexible Packaging, Labelling Technologies and Specialised Cartons. All this supported by the Packaging Machine Division to provide the customer with Total packaging solutions. With three state of the art, fully integrated manufacturing facilities at Thane, Silvassa, Rudrapur and Hyderabad, Huhtamaki PPL (HPPL) is capable of working with the customer from product inception to the super market.

Investment Rationale

- **Acquisition of PPIL to add to HPPL's manufacturing capabilities, thereby positively impacting its revenues:** HPPL's takeover of Positive Packaging Industries Ltd. (PPIL) in January 2015 is expected to increase the manufacturing capabilities of the company. HPPL's capacity stood at ~52,000 MT before the acquisition and is expected to be ~97,000 MT post the takeover, which will have a positive effect on the revenue. Further the acquisition would also aid HPPL in gaining further bargaining power, achieve better economies of scale, extend its customer network and would also help synergies in sourcing of inputs and upgradation in technology.

- **Favourable economic conditions drive EBITDA growth in Q1CY15:** HPPL has reported a moderate growth of 4.4% YoY in its standalone revenue in Q1CY15 at Rs. 283 Crore. Since the company's 65% of revenues come from flexible packaging industry which mainly caters to the FMCG segment, favorable economic conditions like consistent inflation rate of ~5.1%, better monsoon rains than expected etc. led to the aforementioned revenue growth. EBITDA for the same period stood at Rs. 36.3 Crore grew at the rate of 31.3% YoY primarily due to fall in the operating expenses of the company. PAT rose to Rs. 18.3 Crore in Q1CY15 showing an increase of 11.1% on a YoY basis. The growth in the bottom-line was as a result of better operational performance and also due to increase in other income by 118% on a YoY basis offsetting the increase in depreciation, interest and tax expenses.

- **NASP program proving as a key growth driver for HPPL:** The creativity program of HPPL, NASP (New Applications, Structures and Products/Processes) is a major driver of growth for the Company. During CY14 the NASP sales contribution to the overall sales was around 29%, helping to drive growth. The NASP exercise creates new business, but as importantly, it also protects or even improves existing business share from a customer by creating improved packaging solutions, or improving cost competitiveness.

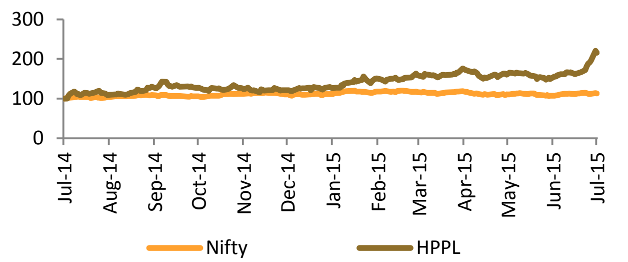
Market Data

Rating	**BUY**
CMP (Rs.)	314
Target (Rs.)	**360**
Potential Upside	~15%
Duration	Long Term
Face Value (Rs.)	2.0
52 week H/L (Rs.)	331.9/141.1
Adj. all time High (Rs.)	331.9
Decline from 52WH (%)	5.4
Rise from 52WL (%)	122.5
Beta	0.6
Mkt. Cap (Rs. Cr)	2,282.8
Enterprise Value (Rs. Cr)	2,306.0

Fiscal Year Ended

Y/E	CY13A	CY14A	CY15E	CY16E
Revenue (Rs. Cr)	1,085.5	1,225.3	1,990.5	2,073.8
Net profit (Rs. Cr)	56.2	66.6	129.8	137.4
EPS (Rs.)	9.0	9.2	17.9	18.9
P/E (x)	35.0	34.3	17.6	16.6
P/BV (x)	0.8	0.6	0.5	0.4
ROE (%)	14.4	11.7	19.3	17.5

One year Price Chart



Shareholding Pattern	Mar-15	Dec-14	Chg.
Promoters	68.8	68.8	0.0
FII	1.5	1.4	0.1
DII	5.6	5.3	0.3
Others	24.2	24.6	(0.4)

HPPL is amongst the most prestigious flexible packaging companies in India. The company became a part of the Huhtamaki Packaging Worldwide in 1999 which is one of the top 10 consumer packaging companies in the world.

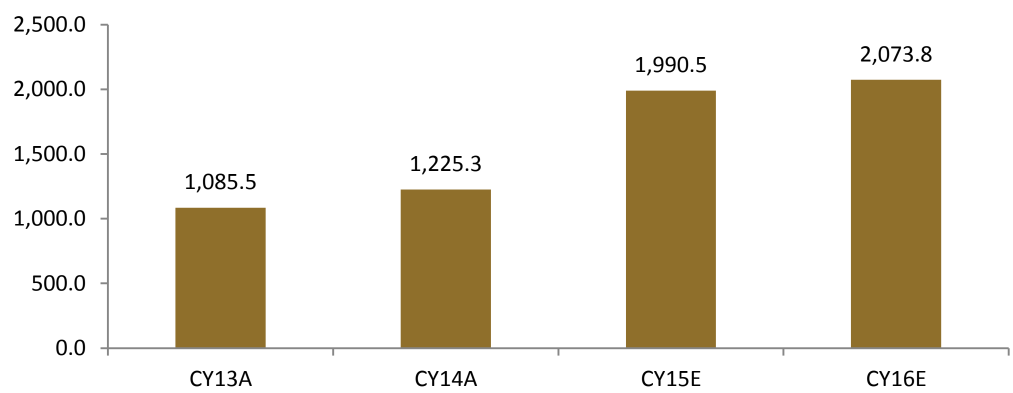
Huhtamaki-PPL

Established in the year 1935, Huhtamaki PPL (then Paper Products Ltd.), is amongst the most prestigious flexible packaging companies in India. The company became a part of the Huhtamaki Packaging Worldwide in 1999, which is one of the top 10 consumer packaging companies in the world. PPL offers a wide portfolio of packaging solutions that include Flexible Packaging, Labelling Technologies and Specialised Cartons. And all this supported by the Packaging Machine Division to provide the customer with Total packaging solutions. With three state of the art, fully integrated manufacturing facilities at Thane, Silvassa, Rudrapur and Hyderabad, PPL is capable of working with the customer from product inception to the super market.

Consolidating its position as India's most prominent packaging institution, HPPL expanded its business into promising overseas markets with a view to benchmark itself with the global competition. Overseas, HPPL has presence across 4 continents (South Asia, Africa, Middle East, Europe and Central America) & provides service to over 50 customers worldwide. HPPL has its International Business Division (IBD) set up as a separate business group servicing large Multinational accounts across 4 continents and over 50 customers worldwide. In 2014, the company entered into a deal to acquire 100% stake in the Positive Packaging Industries Ltd for Rs.794 Crore. Positive Packaging Industries was a part of Nigeria-based Enpee Group with operations spanning in nine countries including India, UAE, Kenya, Egypt, Nigeria, South Africa, Ghana, UK and the US. The company has technology-transfer arrangements with Dennison Manufacturing Company, US, for heat transfer of labels on plastic containers and with Fuji Seal Company, Japan, for shrink sleeve technology for labelling.

HPPL renders services to the entire major fast moving consumer goods (where it derives almost 97% of its top-line) such as Soaps and Detergents, Shampoos, Noodles, Biscuits, Baby Foods, Chocolates, Coffee, Tea, Milk powder and Juices. Its top most clientele includes Unilever, Nestle, Cadbury, Britannia, Glaxo Smith Kline, Coca Cola, Perfetti, Dabur, Marico, P&G and Colgate Palmolive. Company's top 10 clients contribute ~60% of the revenues. Around 80% of HPPL's revenues originate from the domestic market, while exports account for the rest 20%.

Revenue to grow at a CAGR of ~30% during CY14-16E (Rs. Crore)



Acquisition of Positive Packaging boost its manufacturing capabilities

In July 2014, HPPL proposed to acquire Positive Packaging Ltd. for a sum of ~ Rs. 794 Crore and completed the takeover deal in January 2015. Positive Packaging Industries has an annual turnover of approximately Rs. 1,000 crore and 6% market share.

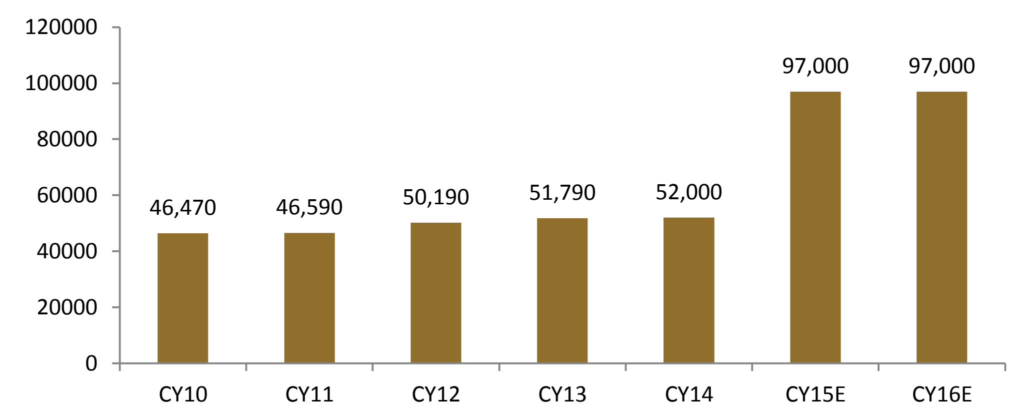
With the acquisition, the company will gain hold of industrial and pharmaceutical product packaging thereby diversifying product coverage and strengthening its integrated capabilities.

It is a privately owned flexible packaging company with nine manufacturing facilities in India and the UAE as well as significant business in Africa and other export markets.

With the completion of the acquisition, Huhtamaki is looking forward to improving its flexible packaging manufacturing capabilities into Middle East and expects to double its sales in Africa. The benefits are likely to be reflected in its CY15 numbers. The current installed capacity of HPPL is 52,000 MT and the utilisation rate is 75-80%. PPIL's total installed capacity stood at 45000 MT. After the completion of this acquisition, HPPL's total manufacturing capabilities will stand at ~97,000 MT, thereby increasing the utilisation rate of the company, henceforth impacting the revenues positively.

It will also enable HPPL to gain further bargaining power with its customers, to achieve better economies of scale, to extend its customer network and would also help synergies in sourcing of inputs and upgradation in technology. We believe that along with the desired manufacturing capabilities, the company will gain hold of industrial and pharmaceutical product packaging thereby diversifying product coverage and strengthening its integrated capabilities.

HPPL's installed capacity over the years (TPA)



Strong parentage bodes well for the company

HPPL has been able to leverage its parent's position and has attained a significant export market as ~20% of its top-line is attributed to export sales

In Feb' 2014, HPPL's promoter, Huhtamaki Oyj increased its stake in the company to the tune of 68.8% as compared to 60.8% thereby affecting change in the company's name from Paper Products Ltd. to Huhtamaki-Paper Products Ltd. Huhtamaki Oyj is amongst the top 10 consumer packaging companies in the world and has 61 manufacturing units. Some of the major customers of Huhtamaki include Costco, Kraft, McDonald's, Nestle, Unilever etc. The Group has strong position in fast growing emerging markets and has plans to strengthen this further. In 2013, 26% of the Group's net sales and 46% of its employees were in emerging markets. In 2013, net sales growth in emerging markets (in constant currencies) was 8% with Russia, India and the Czech Republic being the most important growth countries. HPPL has been able to leverage its parent's position and has attained a significant export market as ~20% of its top-line is attributed to export sales.

Going forward, we believe that in the coming years PPL will be able to revive its products offerings and also take advantage of already established capabilities in order to widen its product portfolio in the domestic market as well.

NASP program driving growth for HPPL

The HPPL creativity program, called NASP (New Applications, Structures and Products/Processes) is one of the major drivers of growth for the Company. The Company maps the sales of NASP products introduced into the market using a 3 year cycle, and calls these NASP sales. During CY14, the NASP sales contribution to the overall sales was around 29%, helping to drive growth. The Company's management in their NASP program has jointly worked with their customers to deliver cost savings using smart ideation and technology wherein a wide array of products, tea, coffee, shampoo, confectionery, pickle, etc. are available at a price of one rupee.

The first NASP objective is to create new business through finding new applications and markets for existing structures and technology processes. The second objective is to introduce new packaging products and structures and technology processes not only for new applications and markets, but also to offer new technically superior solutions or solutions which add value to the brand being packaged, or, importantly, solutions which offer cost advantage without compromising performance.

Hence, the NASP exercise creates new business, but as importantly, it also protects or even improves existing business share from a customer by creating improved packaging solutions, or improving cost competitiveness.

Flexible packaging industry: A key growth trigger

HPPL commands ~65% market share in the high-end flexible packaging industry in India, through reputed clientele like HLL, Colgate and Nestle etc. With the constant and increasing demand in the packaging industry, a wide spread of customers & a distributed product portfolio, PPL is quite confident to gain advantage from the projected growth rate of 15% per annum in the flexible packaging industry. Further, the government's bold decision to retain 51% Foreign Direct Investment in multibrand retailing will further boost the entire packaging industry to record a sustained growth in the coming years.

Riding high on industrial growth

HPPL being one of the largest players in India commanding ~10% of the total packaging market and close to 65% of the flexible packaging market share is a key beneficiary of the changing dynamics in the packaging industry.

Ranked 11th largest in the world, Indian packaging industry is among the fastest growing sectors spanning across almost every industry segment. It is currently valued at US$13 billion and is expected to grow to US$ 16.5 billion by 2016. The development in the packaging industry in India is mainly driven by the food and the pharmaceutical packaging sectors. Growing Indian middle class coupled with the growth in organized retailing in the country are propelling growth in the packaging industry. Another factor, which has provided substantial stimulus to the packaging machinery industry, is the rapid growth of exports, which requires superior packaging standards for the international market. With this the need for adopting better packaging methods, materials and machinery to ensure quality has become very important for Indian businesses. One of the most vital factors has been declining inflation trend in the country translating into declining prices of the food and beverages (constituting ~49% of the WPI).

HPPL has surpassed the FMCG and Pharma industry growth rate over last three years growing at an average rate of 16.3% as compared to 14.8% growth in the former and ~11% growth in the latter. Moreover, India is striving to become a technology transfer driven country by rejuvenating the use of agricultural by-products for packaging. This will aid the packaging industry growth propelling the growth rate from current 15% annually to more than 20%.

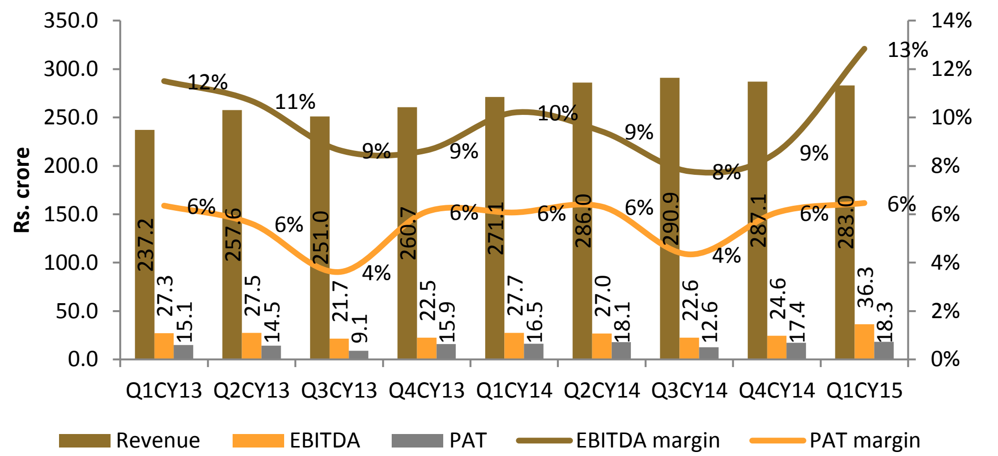
On standalone basis, HPPL's topline showed a moderate increase of 4.4% on a YoY while stood at Rs. 36.3 Crore increasing by more than 31% as a result of decreasing stock pile-up and declining raw material prices.

We believe that HPPL being one of the largest players in India commanding ~10% of the total packaging market and close to 65% of the flexible packaging market share is a key beneficiary of the changing dynamics in the packaging industry.

Considerable EBITDA growth achieved in Q1CY15 on positive economic conditions

HPPL has reported a moderate growth of 4.4% YoY in its standalone revenue in Q1CY15 at Rs. 283 Crore. Since the company's 65% of revenues come from flexible packaging industry which mainly caters to the FMCG segment, favorable economic conditions like consistent inflation rate of ~5.1%, better monsoon rains than expected etc. led to the aforementioned revenue growth. EBITDA for the period under review stood at Rs. 36.3 Crore showing a growth of 31.3% YoY mainly due to decrease in the stock pileup of the Company that declined by 44.7% and fall in expenses on raw materials by 1.7%. PAT was reported at Rs. 18.3 Crore in Q1CY15 showing an increase of 11.1% on a YoY basis. The growth in the bottom-line in Q1CY15 was as a result of an increase in other income by 118% on YoY basis offsetting the increase in depreciation, interest and tax expenses.

Quarterly performance trend



Key Risks:

- Increasing inflation can adversely affect the revenues of the firm as it derives ~97% of its revenues from the FMCG segment.
- Uneven monsoon can also impede the company's revenues as it directly affects the production of consumer goods.
- The company is prone to client concentration risk as the top 10 clients of the company account for ~60% of its sales. Hence, client retention is a vital component of the company's business in order to maintain its revenues.

Balance Sheet (Consolidated)

Y/E(Rs. Crore)	CY13A	CY14A	CY15E	CY16E
Share Capital	12.5	14.5	14.5	14.5
Reserve and surplus	378.3	552.9	657.9	770.5
Net Worth	**390.8**	**567.5**	**672.4**	**785.0**
Minority Interest	20.1	22.0	22.0	22.0
Long term borrowings	39.9	35.4	36.3	34.8
Deferred tax liability	1.0	5.5	18.9	83.3
Long-term provisions	1.3	1.4	1.4	1.5
Current Liabilities	209.4	248.3	391.3	456.8
Total Equity & Liabilities	**662.5**	**880.1**	**1,142.4**	**1,383.5**
Fixed Assets	223.2	261.7	286.1	288.5
Goodwill	19.6	19.6	19.6	19.6
Long term loans and advances	16.8	25.2	37.1	55.2
Deferred Tax Assets	0.0	0.0	0.0	0.0
Other non-current assets	4.3	0.3	0.3	0.3
Current Assets	398.7	573.5	799.3	1,019.9
Total Assets	**662.5**	**880.1**	**1,142.4**	**1,383.5**

Profit & Loss Account (Consolidated)

Y/E (Rs. Crore)	CY13A	CY14A	CY15E	CY16E
Net Sales	**1,085.5**	**1,225.3**	**1,990.5**	**2,073.8**
Expenses	970.9	1,106.3	1,776.4	1,849.5
EBITDA	**114.6**	**119.1**	**214.1**	**224.3**
Other Income	4.9	9.3	9.3	9.3
Depreciation	42.0	43.9	46.0	46.0
EBIT	**77.4**	**84.4**	**177.3**	**187.6**
Interest	3.8	3.1	3.1	3.1
Exceptional Item	7.1	6.3	0.0	0.0
Profit Before Tax	**80.7**	**87.6**	**174.2**	**184.5**
Tax	22.9	19.1	44.4	47.0
Minority Interest	(1.6)	(1.9)	0.0	0.0
Net Profit	**56.2**	**66.6**	**129.8**	**137.4**

Key Ratios (Consolidated)

Y/E	CY13A	CY14A	CY15E	CY16E
EBITDA Margin (%)	10.6	9.7	10.8	10.8
EBIT Margin (%)	7.1	6.9	8.9	9.0
NPM (%)	5.2	5.4	6.5	6.6
ROCE (%)	12.4	10.5	17.3	14.8
ROE (%)	14.4	11.7	19.3	17.5
EPS (₹)	9.0	9.2	17.9	18.9
P/E (x)	35.0	34.3	17.6	16.6
BVPS(₹)	62.3	78.1	92.5	108.0
P/BVPS (x)	0.8	0.6	0.5	0.4
EV/EBITDA (x)	20.2	19.4	10.7	10.4

Valuation and view

Huhtamaki PPL Ltd. is one of the most prestigious flexible packaging companies in India and is continuously taking up new initiatives to expand its presence overseas to tap the vast potential in the global markets. With the recent acquisition of Positive Packaging Ltd., the manufacturing capabilities of HPPL are expected to increase considerably which in turn will increase the revenues for the Company. The Company is a market leader in the flexible packaging industry in India and has reputed clients like HLL, Colgate, Nestle, etc. It is expected that the projected growth rate of 15% in the flexible packaging industry will positively impact HPPL in the future.

At the current market price (CMP) of Rs. 314, the stock trades at a P/E of 17.6x CY15E and 16.6x CY16E. We recommend ‘BUY’ with a target price of Rs. 360, which implies a potential upside of ~15% to the CMP from 12 months perspective.

Disclaimer : This document has been prepared by Funds India and Dion Global Solution Ltd. (the company) and is being distributed in India by Funds India. The information in the document has been compiled by the research department. Due care has been taken in preparing the above document. However, this document is not, and should not be construed, as an offer to sell or solicitation to buy any securities. Any act of buying, selling or otherwise dealing in any securities referred to in this document shall be at investor's sole risk and responsibility. This document may not be reproduced, distributed or published, in whole or in part, without prior permission from the Company.

Contact Us:

Funds India
H.M Center, Second Floor, 29,
Nungambakkam High Road, Nungambakkam,
Chennai - 600 034.
T: +91 7667 166 166
Email: contact@fundsindia.com