



## Rating Rationale

Huhtamaki PPL Limited

14 Jan 2019

Brickwork Ratings reaffirms “BWR AA-” for Huhtamaki PPL Limited’s (‘HPPL’ or the Company) outstanding, unsecured, redeemable NCD issues of Rs. 385.00 Crs (amount raised against rated amount of Rs. 550.00 Crs in Dec 2014), with a tenor of 5 Years

### Particulars:

Instrument	Issue Date	Amount Rs. Crs	Coupon	Maturity Date	ISIN Particulars	Rating History (25/01/2018)	Present Rating <sup>1</sup> (Jan 2019)
NCD	Jan 27 2015	385.00	7.00%	Jan 27 2020	INE275B08013	BWR AA- Outlook: Stable	<b>BWR AA-</b> (Pronounced BWR Double A Minus)  <b>Outlook : Stable</b>  <b>Reaffirmed</b>
<b>Total</b>		<b>385.00 (INR Three Hundred And Eighty Five Crores only)</b>					

<sup>1</sup> Please refer to BWR website [www.brickworkratings.com](http://www.brickworkratings.com) for definition of the ratings

### Rating reaffirmed

#### Rationale/Description of Key Rating Drivers/Rating sensitivities:

BWR has principally relied upon the audited financials of the Company upto FY17, unaudited 9MFY18 financials, projections upto FY19, publicly available information and information/clarifications provided by the Company’s management.

The rating reaffirmation, inter alia, has factored the strong financial support from the Netherland based holding Company (Huhtavefa B.V.), professional and experienced management, established market position in the flexible packaging business, integrated operations, reputed clientele and comfortable credit profile marked by healthy debt protection metrics and working capital cycle. The rating strengths are partially offset by the decline in profitability in FY18, susceptibility of profitability to volatility in raw material prices and limited bargaining power of the Company with clients and suppliers due to the intensely competitive nature of the industry.



Going forward, the Company's ability to achieve optimal capacity utilisation in all its plants, increase its scale of operations, effectively manage raw material volatility and strengthen its overall credit profile would be the key rating sensitivities.

### **Rating Outlook: Stable**

BWR believes HPPL's business risk profile will be maintained over the medium term. The 'Stable' outlook indicates a low likelihood of rating change over the medium term. The rating outlook may be revised to 'Positive' in case the revenues and profit margins show sustained improvement. The rating outlook may be revised to 'Negative' if the revenues go down and margins show lower than expected figures.

### **Key rating drivers**

- **Support from the Holding Company:** Huhtavefa B.V. (a Netherlands based subsidiary of Huhtamaki Oyj) is the holding Company of Huhtamaki PPL. It acquired 51% equity of the erstwhile 'The Paper Products Limited' in 1999 and subsequently changed the name to Huhtamaki PPL Limited in May 2014. Currently, Huhtavefa B.V. holds 66.94% stake in HPPL and offers strong operational and financial support to HPPL. Huhtamaki Group is a global food packaging specialist, headquartered in Espoo, Finland.
- **Experienced management:** The Company is managed by a qualified and experienced team of professionals. Further, the Company benefits from its promoters' established presence and experience in global food packaging industry.
- **Established Market Position and Long Standing Track Record:** Huhtamaki PPL Limited (Formerly known as The Paper Products Ltd.) was incorporated in 1950 and is one of the leading consumer packaging and labelling materials companies in India. The Company has acquired 51% stake in India's leading manufacturer of labels for the Pharmaceuticals sector - 'Webtech Labels Pvt. Ltd.', in 2012 and 100% stake in 'Positive Packaging India Ltd.', in 2015, helping the Company towards its growth. Post merger of 'Positive Packaging Industries Limited' (PPIL) and 'Webtech Labels Pvt. Ltd.' (WLPL), with HPPL, HPPL has emerged as one of the largest entities in the flexible packaging industry in Afro-Asian region, excluding Japan. Further the company has acquired the business of Ajanta Packaging through Business Transfer Agreement on a slump sale, at an enterprise value of Rs.100.30 crs, on a cash-free debt-free basis during FY18. This acquisition will help the Company in consolidating its position in 'Pressure Sensitive Label' business. The Company caters to reputed and large clientele such as Hindustan Unilever Limited, Mondelez International, Nestlé India, Coca Cola, Britannia Industries Limited etc.



- **Integrated operations:** HPPL operates with seventeen state of the art, fully integrated manufacturing facilities at Thane, Silvassa, Hyderabad, Rudrapur, Navi Mumbai, Parwanoo, Khopoli, Taloja, Ambernath, Bengaluru, Guwahati, Sikkim, Daman and Baddi. Over the past two years, the Company has integrated its key functions of marketing, R&D, procurement and supply chain which lead to strong operational synergies.
- **Liquidity position :** Bank lines (funded) utilisation was marginal over the past twelve months. Internal accruals and unutilized bank lines are expected to be sufficient to fund its incremental working capital requirements and to meet debt obligations. The company has no major debt funded expansion plans over the medium term. The company has an efficient working capital cycle (39 ) and comfortable Current Ratio of 1.98 times as on FY17. Cash and cash equivalents were Rs. 44.69 crs as on 31 Dec 2017 and Rs. 29 crs as on 30 Sep 2018. Current investments were Rs. 62 crs as on 30 Sep 2018. However, debt repayments are in the range of ~ Rs.3.85 crs for FY19 & ~ Rs 389 crs for FY20 (which includes redemption of the rated NCDs, which are expected to be serviced by way of refinancing through borrowings).
- **Ongoing litigation on closure of Thane Plant :** The Company has received Closure directions from Maharashtra Pollution Control Board (MPCB) on 20 Nov 2018 for its manufacturing activities, in relation to its Thane Plant for alleged violations of Maharashtra Plastic and Thermocol Products (Manufacture, Usage, Sale, Transport, Handling and Storage) Notification dated 23rd March, 2018 and Maharashtra Non-Biodegradable Garbage (Control) Act, 2006. The Company had filed an appeal before National Green Tribunal, Pune and subsequently withdrawn it based on discussions with MPCB (with liberty to file a fresh appeal, if required, depending upon the outcome of the MPCB's review) which has been accepted by the Hon'ble National Green Tribunal, Pune. Any adverse outcome resulting from this development could affect the Company's operating performance.
- **Decline in profitability :** PAT was Rs. 16.93 crs for 9MFY18 as compared to Rs. 42.68 crs for 9MFY17, mainly due to the provision of ~Rs. 21 crs and ~Rs. 9.00 crs towards disputed income tax and interest thereon which has affected the profitability in FY18. Further, the profitability has also been affected due to raw material price increases. The sector as a whole is subject to susceptibility of profitability to volatility in raw material prices [raw materials (films and polyethylene granules), which are basically petrochemical based by-products and their prices are linked to crude oil]. HPPL has limited bargaining power with clients and suppliers; due to competitive nature of the industry and presence of both organized and unorganized players in the sector.



## **Analytical approach**

While assigning the ratings, BWR has applied its rating methodology as detailed in the Rating Criteria (hyperlinks provided at the end of this rationale). The company does not have any subsidiaries and hence the rating is assessed on a standalone basis.

## **About the Company**

Huhtamaki PPL Limited (formerly known as The Paper Products Ltd.) was incorporated in 1950 by late Mr. Sardarilal Talwar. In 1999, Huhtavefa B.V., Netherlands (a Huhtamaki Group Company) acquired 51% of equity of the erstwhile 'The Paper Products Limited'. Subsequently, in May 2014 the Company has changed its name from 'The Paper Products Ltd.' to 'Huhtamaki PPL Limited'. Currently, Huhtavefa B.V. holds 66.94% stake in HPPL. HPPL is listed both in NSE & BSE. During FY18, the Company has acquired the business of Ajanta Packaging through Business Transfer Agreement on a slump sale. HPPL is engaged in manufacture and sale of printed laminates of plastic, aluminium foil and paper-based films that are used as flexible packaging materials. HPPL offers a wide portfolio of packaging solutions that include flexible packaging, labelling technologies and specialised cartons. HPPL operates seventeen state of the art, fully integrated manufacturing facilities pan India, with total installed capacity of 1,53,981 Tonnes per annum and approximate capacity utilization in the range of 75%-80%.

Dr. Arup Basu is the Managing director and Mr. Murali Sivaraman is the Chairman of the Company.

## **Financial Performance**

The Company follows January to December as its financial year and has adopted Indian Accounting Standard (Ind AS) from January 01, 2017. HPPL reported total operating income of Rs. 2133.25 Crs in FY17 (Jan 01 2017 - Dec 31 2017) against Rs. 2181.16 Crs in FY16 (Jan 01 2016 - Dec 31 2016). PAT for FY17 was Rs. 63.62 Crs. as against Rs. 81.54 Crs in FY16. Tangible Net-worth as on 31st Dec 2017 was Rs. 538.20 Crs against Rs. 495.11 Crs in FY16. Total debt was Rs. 405.74 Crs as on 31 Dec 2017. D/E ratio was low at 0.75 times as on Dec 31 2017 against 0.88 times in FY16. For 9MFY18 (Jan 01 2018 - Sep 30 2018 - unaudited), the Company reported total operating income and PAT of Rs. 1756 Crs and Rs. 16.93 Crs respectively as against Rs. 1667.78 Crs and 42.68 Crs in 9MFY17 (unaudited).

*Key financial indicators are summarized in Annexure I.*



**Rating History for the last three years:**

SI No	Instrument	Current Rating (Jan 2019)			Rating History with BWR*		
		Type	Amount (Rs. Crs)	Rating	25/01/2018	23/02/2017	30/03/2016
1.	NCD	Long Term	385.00	<b>BWR AA- (Outlook: Stable)</b>  <b>Reaffirmed</b>	<b>BWR AA- (Outlook: Stable)</b>  <b>Reaffirmed</b>	<b>BWR AA- (Outlook: Stable)</b>  <b>Reaffirmed</b>	<b>BWR AA- (Outlook: Stable)</b>  <b>Reaffirmed</b>
Total		385.00 (INR Three Hundred And Eighty Five Crores only)					

\* BWR had initially rated proposed, unsecured, redeemable NCDs of Rs. 550.00 Crs on 30/12/2014 at BWR AA- (Outlook - Stable), out of which the Company had raised Rs. 385.00 Crs on 27/01/2015. Hence the subsequent ratings were carried out for Rs. 385.00 Crs.

**Status of non-cooperation with previous CRA: Not Applicable**

**Any other information: Not Applicable**

**Hyperlink/Reference to applicable Criteria:**

- [General Criteria](#)
- [Manufacturing Companies](#)
- [Approach to Financial Ratios](#)

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**Huhtamaki PPL Limited**  
**Annexure I - Key Financial Indicators**

Particulars	Unit	31 Dec 2016	31 Dec 2017
<b>Total Operating Income</b>	<b>Rs. Crs</b>	<b>2181.16</b>	<b>2133.25</b>
<b>OPBDIT</b>	<b>Rs. Crs</b>	<b>251.18</b>	<b>222.70</b>
<b>PAT</b>	<b>Rs. Crs</b>	<b>81.54</b>	<b>63.62</b>
<b>Tangible Net-worth</b>	<b>Rs. Crs</b>	<b>495.11</b>	<b>538.20</b>
<b>Total Debt/ TNW</b>	<b>Times</b>	<b>0.88</b>	<b>0.75</b>
<b>Current Ratio</b>	<b>Times</b>	<b>1.80</b>	<b>1.98</b>

*Note - The Company follows calendar year (Jan-Dec Cycle) as its financial year.*

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**Note on complexity levels of the rated instrument:**

BWR complexity levels are meant for educating investors. The BWR complexity levels are available at [www.brickworkratings.com/download/ComplexityLevels.pdf](http://www.brickworkratings.com/download/ComplexityLevels.pdf) Investors queries can be sent to [info@brickworkratings.com](mailto:info@brickworkratings.com).

**About Brickwork Ratings**

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BWR has its corporate office in Bengaluru and a country-wide presence with its offices in Ahmedabad, Chandigarh, Chennai, Hyderabad, Kolkata, Mumbai and New Delhi along with representatives in 150+ locations.

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