



September 05, 2024

Department of Corporate Services  
**BSE Limited**  
Phiroze Jeejeebhoy Towers  
Mumbai – 400 001  
**BSE Scrip code – 509820**

The Listing Department  
**National Stock Exchange of India Ltd**  
Exchange Plaza,  
Bandra Kurla Complex  
Bandra (East),  
Mumbai 400 051  
**NSE symbol – HUHTAMAKI**

**Sub: Disclosure under Regulation 30 of the Securities and Exchange Board of India (Listing Obligations and Disclosure Requirements) Regulations, 2015 ('SEBI Listing Regulations') – Credit rating**

Pursuant to Regulation 30 of SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2023 ("SEBI Listing Regulations"), we hereby inform that CRISIL, the rating agency, has revised the rating outlook for the credit facilities availed by the Company as under:

Total Bank Loan Facilities Rated	Rs. 175 Crore
Long Term Rating	CRISIL A+/Positive (Outlook revised from 'Stable'; Rating Reaffirmed)
Rs.150 Crore Commercial Paper	CRISIL A1+ (Reaffirmed)

The detailed rating rationale issued by the rating agency is enclosed.

Sharing this for your information and further dissemination on your websites please.

Thanking you,

Yours faithfully,  
**For Huhtamaki India Limited**

Abhijaat Sinha  
Company Secretary & Legal Counsel

Encl.: As above

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## Rating Rationale

September 04, 2024 | Mumbai

### Huhtamaki India Limited

Rating outlook revised to 'Positive'; Ratings Reaffirmed

#### Rating Action

<b>Total Bank Loan Facilities Rated</b>	<b>Rs.175 Crore</b>
<b>Long Term Rating</b>	<b>CRISIL A+/Positive (Outlook revised from 'Stable'; Rating Reaffirmed)</b>

<b>Rs.150 Crore Commercial Paper</b>	<b>CRISIL A1+ (Reaffirmed)</b>
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Note: None of the Directors on CRISIL Ratings Limited's Board are members of rating committee and thus do not participate in discussion or assignment of any ratings. The Board of Directors also does not discuss any ratings at its meetings.

1 crore = 10 million

Refer to Annexure for Details of Instruments & Bank Facilities

#### Detailed Rationale

CRISIL Ratings has revised its outlook on the long-term bank facilities of Huhtamaki India Ltd (HIL) to '**Positive**' from 'Stable' while reaffirming the '**CRISIL A+**' rating. The rating on the commercial paper programme has been reaffirmed at 'CRISIL A1+' rating.

The revision in outlook follows a similar rating action on the ultimate parent, Huhtamaki Oyj, Finland (Huhtamaki), by S&P Global Ratings (S&P). On August 29, 2024, S&P revised its outlook on the rating of Huhtamaki to 'Positive' while reaffirming the rating at 'BB+' owing to improving credit metrics. Any rating action on Huhtamaki has a bearing on the rating of HIL.

Revenue saw a decline in 2023 owing to lower volumes. However, operating margin improved to 7.7% in 2023, as against over 5.5% in 2022. This improvement was driven by lower volatility in raw material prices and favourable customer and product mix, contributed by improvement in productivity. Operating income stood at Rs 1,250 crore and operating margin at 5.8% in the first six months of 2024. The operating margin was affected by sales mix as well as supply chain issues arising out of the Red Sea situation.

HIL concluded two land sales at Thane and Ambarnath (in Maharashtra), enhancing liquidity. Utilisation of the proceeds will remain monitorable.

The ratings continue to reflect the company's established position in the flexible packaging industry, healthy financial risk profile and operational and financial support from Huhtamaki. These strengths are partially offset by exposure to intense competition, regulatory risks and volatility in raw material prices.

#### Analytical Approach

CRISIL Ratings has applied the parent notch-up criteria to factor in the operational and financial support from Huhtamaki, which owns 67.73% stake in HIL.

#### Key Rating Drivers & Detailed Description

##### Strengths

##### Established market position in the premium flexible packaging market

HIL is an established player in the domestic flexible packaging industry. Its established market position is supported by a diversified product range, which comprises flexibles, labels and cylinders. Strong and diverse customer profile will continue to support the business risk profile over the medium term. The company's innovation and product development capabilities are enhanced by its parent providing support in product development.

##### Healthy financial risk profile

The financial risk profile is supported by healthy networth of Rs 1,177 crore and debt of ~Rs 209 crore (external commercial borrowing from Huhtamaki including accrued interest) as on June 30, 2024, resulting in gearing below 0.2 time. Additionally, healthy cash accruals will be sufficient to meet capital expenditure (capex) and working capital requirement over the medium term.

##### Operational and financial support from the parent

HIL receives support from Huhtamaki for product development, along with operational and financial support. The parent has provided financial support to the company in the form of external commercial borrowing amounting to Rs 200 crore at competitive rates and also provided corporate guarantees to the bankers of HIL.

##### Weaknesses

### **Decline in the operating margin and subdued return indicators**

In 2023, the operating margin improved to 7.7% but remained below 9-11% seen in 2021. This improvement in margin was owing to lower volatility in raw material prices, favourable customer and product mix, and improvement in productivity. Operating margin dipped by over 500 basis points to 4.5% in 2021 owing to continued sharp increase in the prices of raw materials and lag in fully passing on these escalations to customers. The operating margin was subdued at 5.5% in 2022 owing to volatility in crude prices as well as competitive pressures. For the first half of 2024, operating margin moderated to ~5.8% owing to unfavorable sales mix, higher competition and issues owing to the geopolitical tensions in the Red Sea. The operating margin will continue to be a key monitorable.

### **Exposure to intense competition in the fragmented flexible packaging industry and regulatory risks**

The flexible packaging industry puts pressure on the profitability of players. Though the industry is highly consolidated in terms of catering to the fast-moving consumer goods (FMCG) and pharmaceutical customers, intense competition restricts pricing flexibility. Also, these players have limited bargaining power against large FMCG and pharmaceutical players. The company is also exposed to regulatory risks due to increasing focus on environmental issues. Adverse regulatory changes, impacting the credit risk profile of HIL, will be monitorable.

### **Susceptibility to volatility in raw material prices**

Raw material cost accounts for 65-75% of the operating income. The prices of key raw materials, such as films, polyethylene granules and biaxially oriented polyethylene, are linked to crude oil prices, which are volatile and are factored into pricing terms with customers. Susceptibility to fluctuations in input cost is likely to persist.

### **ESG profile**

The environment, social and governance (ESG) profile of HIL supports its credit risk profile.

The packaging sector has moderate environmental and social impact driven by its raw material sourcing strategies, waste-intensive processes and direct impact on the health and wellbeing of customers.

### **Key ESG highlights:**

- HIL aims to be carbon neutral by 2030. The company is working on several projects to reduce energy use and consequent greenhouse gases emissions while increasing the proportion of renewable energy.
- The company undertakes measures for water conservation and optimal use of water through measures such as reuse, recycle, treatment and discharge. The company is working towards reaching zero-liquid discharge at all its sites, with four of its facilities already operating at that level.
- It is focused on sustainable sourcing. HIL has mentioned its commitment to sourcing materials sustainably and the company also undertakes ESG monitoring of suppliers.
- Its governance structure is characterised by 38% of the board comprising independent directors, split in chairman and managing director positions and extensive disclosures.

There is growing importance of ESG among investors and lenders. Continued commitment of HIL to ESG principles will play a key role in enhancing stakeholder confidence given shareholding by foreign portfolio investors and access to both domestic and foreign capital markets.

### **Liquidity: Strong**

HIL enjoys strong liquidity supported by unutilised fund-based bank lines and healthy cash and liquid surplus, led by consideration received from sale of land and building in Thane and Ambernath. Expected net cash accrual for 2024 to 2026 will be sufficient to meet annual capex and working capital requirement. The utilisation of proceeds from sale of land parcels will be a key monitorable.

### **Outlook Positive**

CRISIL Ratings believes HIL will maintain a healthy business risk profile over the medium term and will continue to benefit from the operational and financial support from its parent, Huhtamaki.

### **Rating sensitivity factors**

#### **Upward factors**

- Substantial improvement in business performance leading to improvement in operating profitability to 7-8% on a sustained basis
- Improvement in the credit risk profile of the parent

#### **Downward factors**

- Sustained weakening in operating performance, with operating margin at 3.5-4.0%
- Large, debt-funded capex/acquisition or any adverse regulatory change
- Weakening in the credit risk profile of the parent

### **About the Company**

Set up in 1935, HIL is one of the market and technology innovation leaders in the domestic flexible packaging industry. The company manufactures flexibles, labels and cylinders. Its parent, Huhtamaki, held 67.73% equity stake in HIL as on June 30, 2024.

HIL has 10 manufacturing facilities in Maharashtra, Dadra and Nagar Haveli, Uttarakhand, Assam, Karnataka, Andhra Pradesh and Himachal Pradesh.

### **Key Financial Indicators**

As on / for the period ended December 31	Units	2023	2022
Revenue	Rs Crore	2550	2984
Profit after tax (PAT)	Rs Crore	410*	50
PAT margin	%	16.1	1.7
Adjusted debt / adjusted networkth	Times	0.18	0.53
Interest coverage	Times	6.8	5.16

Note – owing to exceptional income arising out of sale of land parcels

**Any other information:** Not applicable

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

CRISIL Ratings` complexity levels are assigned to various types of financial instruments and are included (where applicable) in the 'Annexure - Details of Instrument' in this Rating Rationale.

CRISIL Ratings will disclose complexity level for all securities - including those that are yet to be placed - based on available information. The complexity level for instruments may be updated, where required, in the rating rationale published subsequent to the issuance of the instrument when details on such features are available.

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**Annexure - Details of Instrument(s)**

ISIN	Name Of Instrument	Date Of Allotment	Coupon Rate (%)	Maturity Date	Issue Size (Rs. Crore)	Complexity Levels	Rating Outstanding with Outlook
NA	Commercial Paper	NA	NA	7-365 days	150.00	Simple	CRISIL A1+
NA	Working Capital Facility	NA	NA	NA	88.00	NA	CRISIL A+/Positive
NA	Proposed Term Loan	NA	NA	NA	87.00	NA	CRISIL A+/Positive

**Annexure - Rating History for last 3 Years**

Instrument	Current			2024 (History)		2023		2022		2021		Start of 2021
	Type	Outstanding Amount	Rating	Date	Rating	Date	Rating	Date	Rating	Date	Rating	Rating
Fund Based Facilities	LT	175.0	CRISIL A+/Positive	31-01-24	CRISIL A+/Stable	01-02-23	CRISIL A+/Stable	24-03-22	CRISIL AA-/Stable	29-04-21	CRISIL AA-/Stable	CRISIL AA-/Stable
			--		--		--		--		--	CRISIL AA-/Stable
Non-Fund Based Facilities	ST		--		--		--		--		--	CRISIL A1+
Commercial Paper	ST	150.0	CRISIL A1+	31-01-24	CRISIL A1+	01-02-23	CRISIL A1+	24-03-22	CRISIL A1+	29-04-21	CRISIL A1+	CRISIL A1+

All amounts are in Rs.Cr.

**Annexure - Details of Bank Lenders & Facilities**

Facility	Amount (Rs.Crore)	Name of Lender	Rating
Proposed Term Loan	87	Not Applicable	CRISIL A+/Positive
Working Capital Facility	88	Axis Bank Limited	CRISIL A+/Positive

**Criteria Details**

Links to related criteria
<a href="#">CRISILs Approach to Financial Ratios</a>
<a href="#">Rating criteria for manufacturing and service sector companies</a>
<a href="#">CRISILs Bank Loan Ratings - process, scale and default recognition</a>
<a href="#">CRISILs Criteria for rating short term debt</a>
<a href="#">Criteria for Notching up Stand Alone Ratings of Companies based on Parent Support</a>

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