

# Hatsun Agro Ltd.



# Hatsun Agro Ltd.

**On progressive trend**

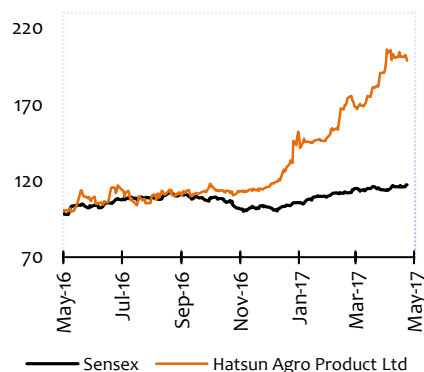
CMP <b>INR 619</b>	Target <b>INR 693</b>	Potential Upside <b>11.9%</b>	Market Cap (INR Mn) 89710.8	Recommendation <b>ACCUMULATE</b>	Sector <b>FMCG - Dairy</b>
-----------------------	--------------------------	----------------------------------	--------------------------------	-------------------------------------	-------------------------------

**Company background:**

Hatsun Agro Product Limited is engaged in manufacture and sale of milk, milk products and ice creams. The Company's dairy products include dairy whitener, skimmed milk powder, ghee, butter, cooking butter, milk, curd, Paneer and buttermilk. The Company's brands include AROKYA, which offers full cream milk, double toned milk, toned milk, curd and milk cans; Hatsun, which offers Paneer, ghee, extra cooked ghee, skimmed milk powder and dairy whitener; Arun Ice creams, which is an ice-cream brand; Hatsun Dairy, which offers milk powders and cream products, including anhydrous milk fat (AMF), butter oil, frozen cream, lactic butter, salted butter and unsalted sweet cream butter; IBACO ice creams, which offers over 36 flavors of ice-creams, and Santosa, which offers cattle feeds. The Company exports its products to around 38 countries in the American, Middle East and South East Asian Markets. Its manufacturing plants are located in Tamil Nadu, Karnataka and Andhra Pradesh.

**MARKET DATA**

Shares outs (Mn)	152
EquityCap (INR Mn)	152.2
Mkt Cap (INR Mn)	89710.8
52 Wk H/L (INR)	680/300
Volume Avg (3m K)	26.79
Face Value (INR)	1
Bloomberg Code	HTSMF IN

**SHARE PRICE PERFORMANCE**

**Q4FY17 and FY17 remains an excellent quarter with revenue growth and Improvement In margins:**

Revenue growth seen in double digit for both Q4FY17 and FY17, due to existing and new launch of products in its milk and value added segment. Growth for Q4FY17 was at 36.3% yoy and 28.6% qoq with revenue at INR 12176.5 Mn and for FY17 it posted INR 41996.6 Mn with growth of 21.9%. Q4FY17 EBITDA at INR 1172.0 Mn which showed the growth of 64.1% yoy and growth of 33.3% qoq. Its Margin for quarter remained high at 9.6% with improvement of 163bps yoy and 34 bps qoq. Margins were better due to control in the cost of raw material and other operating expense. For FY17, EBITDA stood at INR 3794.6 Mn with growth of 24.5%. Its margin remained at 9.0% with improvement of 19bps. PAT stood at INR 433.1 Mn which is the growth of 157.9% yoy and growth 50.0% qoq. Its margin remained at 3.6% with improvement of 544bps yoy and 51bps qoq. For FY17 PAT stood at INR 1339.7 Mn with growth of 121.4% and margin at 3.2% with improvement of 143 bps yoy.

**Valuations & Views:** Hatsun Agro Ltd is one of the largest and strong players in dairy segment with its presence in south India. We believe that there is a large scope for improvement in the dairy sector with many of the following factors like India being a largest producer and Consumer of Dairy, increasing population, rise in demand for different products, increase in disposable income, shift of unorganized to organized sector will bring in the progress of the dairy sector in India. Hatsun agro ltd core strength remains in the milk and milk products with milk contributing around 65% and remaining is value added products. It is present in B2C segment where in products segment includes milk, curd, Ice creams, Paneer, Butter, cattle feed etc. Also it started generating renewable energy from Q4FY17 with sales of INR 16.8 Mn. Hatsun plans to diversify and focus on the portfolio into healthy, tasty and ready to eat foods. Also it has stable brand portfolio, prominent products, brand recognition, etc in south and west India. We believe that HAL has shown healthy growth in FY17 and which will continue going ahead for FY18E and FY19E. We assume top line growth of around 20% and its EBITDA & PAT margins to be around 9-10% and 3.5% respectively for FY18E and FY19E. At CMP of INR 584, we upgrade our rating and recommend 'ACCUMULATE' rating on the stock with the target price of INR 693 and upside of 18.6%.

**KEY FINANCIALS**

Particulars (INR Mn)	FY15	FY16	FY17E	FY18E	FY19E
Sales	29330.9	34445.9	41996.6	49976.0	59971.1
EBITDA	1983.2	3046.8	3794.6	4597.8	5637.3
PAT	391.6	605.0	1339.7	1630.6	2109.0
EBITDA Margins %	6.8%	8.8%	9.0%	9.2%	9.4%
PAT Margins %	1.3%	1.8%	3.2%	3.3%	3.5%
EPS	3.6	5.6	8.8	10.7	13.9
ROE	17.7%	26.2%	38.6%	36.8%	36.0%
Debt/Equity(x)	2.1	2.3	2.0	1.7	1.3
PE (x)	162.2	105.0	66.3	54.5	42.1
EV/EBITDA	34.3	22.4	25.1	20.8	17.0

Source: Company, KRChoksey Research

**MARKET INFO**

SENSEX	30435
NIFTY	9429

**SHARE HOLDING PATTERN (%)**

Particulars	Mar 17	Dec 16	Sep 16
Promoters	74.71	74.71	74.71
FIIIs	3.28	3.27	3.26
DIIIs	0.17	0.14	0.01
Others	21.82	21.9	22.02
Total	100	100	100

19.6%

Revenue CAGR between FY15 and FY19E

52.3%

PAT CAGR between FY15 and FY19E

**ANALYST**

Nirvi Ashar, nirvi.ashar@krchoksey.com, 91-22-6696 5526

**KRChoksey Research**

is also available on Bloomberg KRCS<GO>  
Thomson Reuters, Factset and Capital IQ

91-22-6696 5555 / 91-22-6691 9569

www.krchoksey.com

# Hatsun Agro Ltd.

## Exhibit 1 – Income Statement

INR Mn	FY15	FY16	FY17	FY18E	FY19E
<b>Net Sales</b>	<b>29330.9</b>	<b>34445.9</b>	<b>41996.6</b>	<b>49976.0</b>	<b>59971.1</b>
<b>EXPENDITURE :</b>					
Cost of Materials Consumed	23414.7	25306.1	29967.2	35562.4	42616.0
Purchase of Stock In Trade	2.2	1.5	6.2	7.4	8.8
(Increase) / Decrease In Stocks	-1574.9	-418.6	516.4	612.8	734.3
<b>Total RM Costs</b>	<b>21842.0</b>	<b>24889.0</b>	<b>30489.8</b>	<b>36182.6</b>	<b>43359.1</b>
Employee Cost	931.3	1102.3	1268.6	1499.3	1799.1
Other Expenses	4574.4	5407.9	6443.6	7696.3	9175.6
<b>Total Expenditure</b>	<b>27347.7</b>	<b>31399.2</b>	<b>38202.0</b>	<b>45378.2</b>	<b>54333.9</b>
<b>EBIDTA</b>	<b>1983.2</b>	<b>3046.8</b>	<b>3794.6</b>	<b>4597.8</b>	<b>5637.3</b>
<b>EBIDTA Margin %</b>	<b>6.8%</b>	<b>8.8%</b>	<b>9.0%</b>	<b>9.2%</b>	<b>9.4%</b>
Depreciation	940.3	1070.9	1456.0	1732.7	2079.2
<b>Operating Profit (EBIT)</b>	<b>1042.8</b>	<b>1975.9</b>	<b>2338.5</b>	<b>2865.1</b>	<b>3558.1</b>
Other Income	64.4	46.4	56.2	75.0	90.0
Interest	633.6	682.5	702.0	849.6	909.0
<b>PBT (Excl'd Exceptional)</b>	<b>473.6</b>	<b>1339.7</b>	<b>1692.7</b>	<b>2090.5</b>	<b>2739.0</b>
Exceptional Income / Expenses	0.0	0.0	0.0	0.0	0.0
<b>Profit before Tax</b>	<b>473.6</b>	<b>1339.7</b>	<b>1692.7</b>	<b>2090.5</b>	<b>2739.0</b>
Provision for Tax	82.0	734.8	353.1	459.9	630.0
<b>Tax Rate %</b>	<b>17%</b>	<b>55%</b>	<b>21%</b>	<b>22%</b>	<b>23%</b>
<b>Profit After Tax</b>	<b>391.6</b>	<b>605.0</b>	<b>1339.7</b>	<b>1630.6</b>	<b>2109.0</b>
<b>PAT Margin %</b>	<b>1.3%</b>	<b>1.8%</b>	<b>3.2%</b>	<b>3.3%</b>	<b>3.5%</b>

Source: Company, KRChoksey Research

**ANALYST**

Nirvi Ashar, nirvi.ashar@krchoksey.com, 91-22-6696 5526

**KRChoksey Research**

is also available on Bloomberg KRCS<GO>  
Thomson Reuters, Factset and Capital IQ

91-22-6696 5555 / 91-22-6691 9569

[www.krchoksey.com](http://www.krchoksey.com)

# Hatsun Agro Ltd.

## Exhibit 2 - Balance Sheet

INR Mn	FY15	FY16	FY17	FY18E	FY19E
<b>EQUITY AND LIABILITIES</b>					
Share Capital	108.7	108.7	152.2	152.2	152.2
Total Reserves	2105.9	2197.9	3318.9	4274.7	5708.9
<b>Shareholder's Funds</b>	<b>2214.6</b>	<b>2306.7</b>	<b>3471.1</b>	<b>4426.9</b>	<b>5861.1</b>
Minority Interest	0.0	0.0	0.0	0.0	0.0
Long-Term Borrowings	2815.9	2303.8	3699.3	4063.1	4347.5
Deferred Tax Assets / Liabilities	284.9	261.3	629.4	629.4	629.4
Other Long Term Liabilities	4.8	4.4	8.1	3.6	3.6
<b>Total Non-Current Liabilities</b>	<b>3105.6</b>	<b>2569.5</b>	<b>4336.8</b>	<b>4696.1</b>	<b>4980.5</b>
<b>Current Liabilities</b>					
Trade Payables	1092.3	1432.5	1700.3	2379.1	2969.8
Short Term Borrowings	1917.4	2888.5	3204.9	3324.4	3557.1
Other Current Liabilities	2034.2	2287.2	3478.5	3318.4	3982.1
Short Term Provisions	192.5	90.4	34.4	131.2	157.4
<b>Total Current Liabilities</b>	<b>5236.3</b>	<b>6698.7</b>	<b>8418.0</b>	<b>9153.1</b>	<b>10666.4</b>
<b>Total Liabilities</b>	<b>10556.5</b>	<b>11574.8</b>	<b>16225.8</b>	<b>18276.1</b>	<b>21508.0</b>
<b>ASSETS</b>					
<b>Non-Current Assets</b>					
<b>Net Block</b>	<b>6556.2</b>	<b>6797.6</b>	<b>10789.2</b>	<b>12947.0</b>	<b>14889.1</b>
Capital Work in Progress	0.0	0.0	0.00	0.00	0.00
Non Current Investments	1.2	2.6	2.51	2.51	2.51
Long Term Loans & Advances	436.9	85.0	777.85	123.26	147.91
Other Non Current Assets	13.3	8.0	9.43	11.57	13.88
<b>Total Non-Current Assets</b>	<b>7007.7</b>	<b>6893.2</b>	<b>11579.0</b>	<b>13084.3</b>	<b>15053.4</b>
<b>Current Assets</b>					
Currents Investments	6.8	0.0	0.0	0.0	0.0
Inventories	2585.3	3467.9	2965.3	3568.7	4276.5
Sundry Debtors	126.3	149.1	409.6	487.4	584.8
Cash and Bank	235.7	294.5	553.0	583.5	697.4
Short Term Loans and Advances	587.8	735.1	695.9	501.3	835.0
Other Current Assets	7.0	35.0	23.1	50.8	61.0
<b>Total Current Assets</b>	<b>3548.8</b>	<b>4681.6</b>	<b>4646.9</b>	<b>5191.7</b>	<b>6454.7</b>
<b>Total Assets</b>	<b>10556.5</b>	<b>11574.8</b>	<b>16225.8</b>	<b>18276.1</b>	<b>21508.0</b>

Source: Company, KRChoksey Research

**ANALYST**

Nirvi Ashar, nirvi.ashar@krchoksey.com, 91-22-6696 5526

**KRChoksey Research**

is also available on Bloomberg KRCS<GO>  
Thomson Reuters, Factset and Capital IQ

91-22-6696 5555 / 91-22-6691 9569

[www.krchoksey.com](http://www.krchoksey.com)

# Hatsun Agro Ltd.

## Exhibit 3 - Cash flow statement

INR Mn	FY15	FY16	FY17E	FY18E	FY19E
PBT	473.6	1339.7	1692.7	2090.5	2739.0
Add: Depreciation	940.3	1070.9	1456.0	1732.7	2079.2
Add: Interest	621.2	659.6	702.0	849.6	909.0
Increase / Decrease in WC	-1281.3	-537.7	1002.0	753.7	104.5
Cash flow from Operations	615.1	2185.8	4443.5	4891.6	5111.8
Cash flow from Investing Activity	-1243.1	-1341.3	-4205.0	-3505.9	-4032.3
Cash flow from Financing Activity	756.2	-786.4	23.1	-1355.2	-965.7
Net change in Cash (Inflow/Outflow)	128.2	58.1	261.5	30.5	113.8
Opening Cash balance	105.2	233.4	291.5	553.0	583.5
Closing Cash Balance	233.4	291.5	553.0	583.5	697.4

Source: Company, KRChoksey Research

## Exhibit 4 - Ratio Analysis

INR Mn	FY15	FY16	FY17E	FY18E	FY19E
EPS	3.6	5.6	8.8	10.7	13.9
BV	20.4	21.2	22.8	29.1	38.5
DPS	0.6	5.1	3.7	3.7	3.7
EBITDA Margin (%)	6.8%	8.8%	9.0%	9.2%	9.4%
PAT Margin (%)	1.3%	1.8%	3.2%	3.3%	3.5%
Net Sales Growth %	17.6%	17.4%	21.9%	19.0%	20.0%
EBIDTA Growth %	11.6%	53.6%	24.5%	21.2%	22.6%
PAT Growth %	-52.1%	54.5%	121.4%	21.7%	29.3%
PE (x)	162.2	105.0	66.3	54.5	42.1
Price/BV	28.7	27.5	25.6	20.1	15.2
EV/EBITDA	34.3	22.4	25.1	20.8	17.0
EV/Sales	2.3	2.0	2.3	1.9	1.6
ROE (%)	17.7%	26.2%	38.6%	36.8%	36.0%
Debt/Equity %	2.1	2.3	2.0	1.7	1.3

Source: Company, KRChoksey Research

**ANALYST**

Nirvi Ashar, [nirvi.ashar@krchoksey.com](mailto:nirvi.ashar@krchoksey.com), 91-22-6696 5526

**KRChoksey Research**

is also available on Bloomberg KRCS<GO>  
Thomson Reuters, Factset and Capital IQ

91-22-6696 5555 / 91-22-6691 9569

[www.krchoksey.com](http://www.krchoksey.com)

Hatsun Agro Ltd.

Hatsun Agro Ltd.				Rating Legend	
Date	CMP (INR)	TP (INR)	Recommendation	Our Rating	Upside
19-May-17	584	693	ACCUMULATE	Buy	More than 15%
28-Apr-17	619	693	ACCUMULATE		
19-Jan-17	400	432	ACCUMULATE	Accumulate	5% – 15%
10-Jan-17	387	405	HOLD	Hold	0 – 5%
20-Dec-16	350	405	BUY	Reduce	-5% – 0
30-09-16	333	345	HOLD	Sell	Less than – 5%

ANALYST CERTIFICATION:

I, Nirvi Ashar (B.com, MBA), research analyst, author and the name subscribed to this report, hereby certify that all of the views expressed in this research report accurately reflect my views about the subject issuer(s) or securities. I also certify that no part of our compensation was, is, or will be directly or indirectly related to the specific recommendation(s) or view(s) in this report.

Terms & Conditions and other disclosures:

KRChoksey Shares and Securities Pvt. Ltd (hereinafter referred to as KRCSSPL) is a registered member of National Stock Exchange of India Limited, Bombay Stock Exchange Limited and MCX Stock Exchange Limited. KRCSSPL is a registered Research Entity vide SEBI Registration No. INH000001295 under SEBI (Research Analyst) Regulations, 2014.

We submit that no material disciplinary action has been taken on KRCSSPL and its associates (Group Companies) by any Regulatory Authority impacting Equity Research Analysis activities.

KRCSSPL prohibits its analysts, persons reporting to analysts and their relatives from maintaining a financial interest in the securities or derivatives of any companies that the analyst covers.

The information and opinions in this report have been prepared by KRCSSPL and are subject to change without any notice. The report and information contained herein is strictly confidential and meant solely for the selected recipient and may not be altered in any way, transmitted to, copied or distributed, in part or in whole, to any other person or to the media or reproduced in any form, without prior written consent of KRCSSPL. While we would endeavor to update the information herein on a reasonable basis, KRCSSPL is not under any obligation to update the information. Also, there may be regulatory, compliance or other reasons that may prevent KRCSSPL from doing so. Non-rated securities indicate that rating on a particular security has been suspended temporarily and such suspension is in compliance with applicable regulations and/or KRCSSPL policies, in circumstances where KRCSSPL might be acting in an advisory capacity to this company, or in certain other circumstances.

This report is based on information obtained from public sources and sources believed to be reliable, but no independent verification has been made nor is its accuracy or completeness guaranteed. This report and information herein is solely for informational purpose and shall not be used or considered as an offer document or solicitation of offer to buy or sell or subscribe for securities or other financial instruments. Though disseminated to all the customers simultaneously, not all customers may receive this report at the same time. KRCSSPL will not treat recipients as customers by virtue of their receiving this report. Nothing in this report constitutes investment, legal, accounting and tax advice or a representation that any investment or strategy is suitable or appropriate to your specific circumstances. The securities discussed and opinions expressed in this report may not be suitable for all investors, who must make their own investment decisions, based on their own investment objectives, financial positions and needs of specific recipient. This may not be taken in substitution for the exercise of independent judgment by any recipient. The recipient should independently evaluate the investment risks. The value and return on investment may vary because of changes in interest rates, foreign exchange rates or any other reason. KRCSSPL accepts no liabilities whatsoever for any loss or damage of any kind arising out of the use of this report. Past performance is not necessarily a guide to future performance. Investors are advised to see Risk Disclosure Document to understand the risks associated before investing in the securities markets. Actual results may differ materially from those set forth in projections. Forward-looking statements are not predictions and may be subject to change without notice. Our employees in sales and marketing team, dealers and other professionals may provide oral or written market commentary or trading strategies that reflect opinions that are contrary to the opinions expressed herein, .In reviewing these materials, you should be aware that any or all of the foregoing, among other things, may give rise to real or potential conflicts of interest.

Associates (Group Companies) of KRCSSPL might have received any commission/compensation from the companies mentioned in the report during the period preceding twelve months from the date of this report for services in respect of brokerage services or specific transaction or for products and services other than brokerage services.

KRCSSPL or its Associates (Group Companies) have not managed or co-managed public offering of securities for the subject company in the past twelve months

KRCSSPL encourages the practice of giving independent opinion in research report preparation by the analyst and thus strives to minimize the conflict in preparation of research report. KRCSSPL or its analysts did not receive any compensation or other benefits from the companies mentioned in the report or third party in connection with preparation of the research report. Accordingly, neither KRCSSPL nor Research Analysts have any material conflict of interest at the time of publication of this report.

It is confirmed that, Nirvi Ashar (B.com, MBA), research analyst, of this report have not received any compensation from the companies mentioned in the report in the preceding twelve months. Compensation of our Research Analysts is not based on any specific brokerage service transactions.

KRCSSPL or its associates (Group Companies) collectively or its research analyst do not hold any financial interest/beneficial ownership of more than 1% (at the end of the month immediately preceding the date of publication of the research report) in the company covered by Analyst, and has not been engaged in market making activity of the company covered by research analyst. Since associates (Group Companies) of KRCSSPL are engaged in various financial service businesses, they might have financial interests or beneficial ownership in various companies including the subject company/companies mentioned in this report.

It is confirmed that, Nirvi Ashar (B.com, MBA), research analyst, do not serve as an officer, director or employee of the companies mentioned in the report.

This report is not directed or intended for distribution to, or use by, any person or entity who is a citizen or resident of or located in any locality, state, country or other jurisdiction, where such distribution, publication, availability or use would be contrary to law, regulation or which would subject KRCSSPL and affiliates to any registration or licensing requirement within such jurisdiction. The securities described herein may or may not be eligible for sale in all jurisdictions or to certain category of investors. Persons in whose possession this document may come are required to inform themselves of and to observe such restriction.

Please send your feedback to [research.insti@krchoksey.com](mailto:research.insti@krchoksey.com)  
Visit us at [www.krchoksey.com](http://www.krchoksey.com)  
Kisan Ratilal Choksey Shares and Securities Pvt. Ltd  
Registered Office:  
1102, Stock Exchange Tower, Dalal Street, Fort, Mumbai – 400 001.  
Phone: 91-22-6633 5000; Fax: 91-22-6633 8060.  
Corporate Office:  
ABHISHEK, 5th Floor, Link Road, Andheri (W), Mumbai – 400 053.  
Phone: 91-22-6696 5555; Fax: 91-22-6691 9576.