

Hatsun Agro Ltd.



Hatsun Agro Ltd.

Satisfying Quarter Performance

CMP INR 652	Target INR 693	Potential Upside 6.3%	Market Cap (INR Mn) 99198	Recommendation Accumulate	Sector FMCG - Dairy
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Result highlights

Revenue in Q1FY18 stood at INR 11687.4 Mn which was a growth of 12.8% yoy and de-growth of 4% qoq due to summer season from April to June where production is lower as compared to other quarters. however, sales remains above our estimates. EBIDTA reported was INR 1033.6 Mn with growth of 23.8% yoy and de-growth of 11.8% qoq due to increase in price of milk and lower production. EBIDTA margins stood at 8.8% in Q1FY18 as compared to 8.1% in Q1FY17 and 9.6% in Q4FY17. PAT remained around INR 352.2 Mn with growth of 18.9% yoy and de-growth of 18.7% qoq. PAT margins stood at 3.0% in Q1FY18 as compared to 2.9% in Q1FY17 and 3.6% in Q4FY17.

MARKET DATA

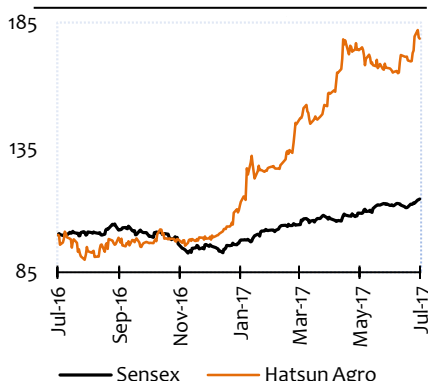
Shares outs (Mn)	152
EquityCap (INR Mn)	152
Mkt Cap (INR Mn)	99198
52 Wk H/L (INR)	680/300
Volume Avg (3m K)	28.9
Face Value (INR)	1
Bloomberg Code	HTSMF IN

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)	171.9	111.2	70.3	57.8	44.7
EV/EBITDA	36.2	23.7	26.5	22.0	18.0

Source: Company, KRChoksey Research

SHARE PRICE PERFORMANCE



Double Digit revenue growth: Hatsun Agro Ltd posted its Q1FY18 results which were above expectations. We saw Revenue growth in double digit of around 12.8% yoy due to launch of products and also change in mix between milk and value added products. We saw de-growth of 4% qoq due to lower production in Q1FY18 as compared to Q4FY17. Revenue reported at INR 11687.4 Mn as compared to INR 10365.1 Mn in Q1FY17. Milk & milk products constitutes of 93.9% of the total revenue of around 10969.1 Mn in Q1FY18 as compared to INR 9881.5 Mn (95.3% of total revenue) in Q1FY17, around 1% is got from renewable energy in Q1FY18 while around ~5% is other business like commodity both in Q1FY18 and Q1FY17.

Improvement In margins yoy while Subdued margins qoq: Hatsun Agro Ltd reported Q1FY18 EBIDTA at INR 1033.6 Mn which is the growth of 23.8% yoy and de-growth of 11.8% qoq. EBIDTA margins showed improvement with 79bps yoy while it decrease 78bps qoq. Q1FY18 margins remained around 8.8%. Margins were drag qoq due to increase in operating expense of around 12.3% yoy and 24.2% qoq and also price of raw material increase during the quarter. PAT for Q1FY18 was at INR 352.2 Mn which is the growth of 18.9% yoy and de-growth 18.7% qoq. Its margin remained at 3.0% with improvement of just 15bps yoy and decrease of 54bps qoq. With new commission of the packing plant for milk it is expected that interest cost which was around INR 204.2 Mn would further increase.

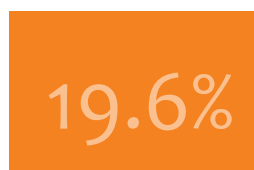
Valuations & Views: Hatsun Agro Ltd remains one of the largest and strong players in dairy sector which has its presence in southern India. We believe that its core strength lies in milk and milk products which is around 94% of the revenue. Out of which milk contributes around 65% while remaining is value added products. Company plans to change mix of milk and milk products to achieve higher revenue and growth in top line of around 19%-20% in FY18E and FY19E. Company has also started generating renewable energy and currently it is around 1% and we expect it to be around the same range in FY19. With commissioning of new plant of milk packaging it is expected that will lead to improvement in EBIDTA and PAT margins and we expect it to reach around 9.4% and 3.5% in FY19E. We remain optimistic for the growth of company and also factors which leads to expansion in industry as India being a largest producer and Consumer of Dairy, 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. At CMP of INR 652, we recommend '**ACCUMULATE**' rating on the stock with the target price of **INR 693 and upside of 6.3%**.

MARKET INFO

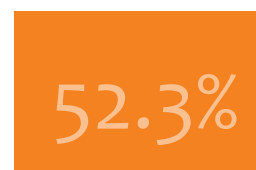
SENSEX	32037
NIFTY	9892

SHARE HOLDING PATTERN (%)

Particulars	Mar 17	Dec 16	Sep 16
Promoters	74.71	74.71	74.71
FII's	3.38	3.28	3.27
DII's	0.38	0.17	0.14
Others	21.54	21.82	21.9
Total	100	100	100



Revenue CAGR between FY15 and FY19E



PAT CAGR between FY15 and FY19E

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Q4FY17 Result Snapshot

Exhibit 1 – Q1FY18 Quarterly Income Statement (INR Mn)

Particulars	Q1FY18	Q4FY17	Q1FY17	Q-o-Q	Y-o-Y
Net Sales & Other Operating Income	11687.4	12176.5	10365.1	-4.0%	12.8%
Total Expenditure	10653.8	11004.6	9530.1	-3.2%	11.8%
Cost of Raw Materials	7860.0	7857.5	6912.3	0.0%	13.7%
Purchase of Finished Goods	4.2	2.3	1.2	82.9%	249.1%
(Increase) / Decrease In Stocks	558.8	1275.3	655.3	-143.8%	-14.7%
Employee Cost	355.5	359.1	292.1	-1.0%	21.7%
Operating & Manufacturing Expenses	1875.3	1510.4	1669.2	24.2%	12.3%
EBIDTA	1033.6	1171.9	835.0	-11.8%	23.8%
EBITDA Margins (%)	8.8%	9.6%	8.1%	-78bps	79bps
Depreciation	404.7	542.6	279.4	-25.4%	44.8%
EBIT	628.8	629.3	555.6	-0.1%	13.3%
Other Income	24.6	25.8	8.7	-4.8%	183.8%
Interest	204.2	216.4	157.3	-5.6%	29.8%
PBT	449.2	438.7	406.9	2.4%	10.4%
Tax	97.0	5.7	110.6	1615.7%	-12.3%
PAT	352.2	433.0	296.3	-18.7%	18.9%
PAT Margin (%)	3.0%	3.6%	2.9%	-54bps	15bps
EPS	2.31	2.84	1.95	-18.7%	18.5%

Source: Company, KRChoksey Research

Exhibit 2 -- Income Statement (INR Mn)

INR Mn	FY15	FY16	FY17	FY18E	FY19E
Net Sales	29330.9	34445.9	41996.6	49976.0	59971.1
EXPENDITURE :					
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
Total RM Costs	21842.0	24889.0	30489.8	36182.6	43359.1
Employee Cost	931.3	1102.3	1268.6	1499.3	1799.1
Other Expenses	4574.4	5407.9	6443.6	7696.3	9175.6
Total Expenditure	27347.7	31399.2	38202.0	45378.2	54333.9
EBIDTA	1983.2	3046.8	3794.6	4597.8	5637.3
EBIDTA Margin %	6.8%	8.8%	9.0%	9.2%	9.4%
Depreciation	940.3	1070.9	1456.0	1732.7	2079.2
Operating Profit (EBIT)	1042.8	1975.9	2338.5	2865.1	3558.1
Other Income	64.4	46.4	56.2	75.0	90.0
Interest	633.6	682.5	702.0	849.6	909.0
PBT (Excl'd Exceptional)	473.6	1339.7	1692.7	2090.5	2739.0
Exceptional Income / Expenses	0.0	0.0	0.0	0.0	0.0
Profit before Tax	473.6	1339.7	1692.7	2090.5	2739.0
Provision for Tax	82.0	734.8	353.1	459.9	630.0
Profit After Tax	391.6	605.0	1339.7	1630.6	2109.0
PAT Margin %	1.3%	1.8%	3.2%	3.3%	3.5%

Source: Company, KRChoksey Research

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Exhibit 3 - Balance Sheet (INR Mn)

INR Mn	FY15	FY16	FY17	FY18E	FY19E
EQUITY AND LIABILITIES					
Share Capital	108.7	108.7	152.2	152.2	152.2
Total Reserves	2105.9	2197.9	3318.9	4274.7	5708.9
Shareholder's Funds	2214.6	2306.7	3471.1	4426.9	5861.1
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
Total Non-Current Liabilities	3105.6	2569.5	4336.8	4696.1	4980.5
Current Liabilities					
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
Total Current Liabilities	5236.3	6698.7	8418.0	9153.1	10666.4
Total Liabilities	10556.5	11574.8	16225.8	18276.1	21508.0
ASSETS					
Non-Current Assets					
Net Block	6556.2	6797.6	10789.2	12947.0	14889.1
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
Total Non-Current Assets	7007.7	6893.2	11579.0	13084.3	15053.4
Current Assets					
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
Total Current Assets	3548.8	4681.6	4646.9	5191.7	6454.7
Total Assets	10556.5	11574.8	16225.8	18276.1	21508.0

Source: Company, KRChoksey Research

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Exhibit 4 - 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 5 - 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)	181.0	117.2	74.1	60.9	47.1
Price/BV	32.0	30.7	28.6	22.4	16.9
EV/EBITDA	38.0	24.9	27.8	23.1	18.9
EV/Sales	2.6	2.2	2.5	2.1	1.8
ROE (%)	17.7%	26.2%	38.6%	36.8%	36.0%
Debt/Equity(x)	2.1	2.3	2.0	1.7	1.3

Source: Company, KRChoksey Research

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Hatsun Agro Ltd.				Rating Legend	
Date	CMP (INR)	TP (INR)	Recommendation	Our Rating	Upside
14-Jul-17	652	693	ACCUMULATE	Buy	More than 15%
28-Apr-17	619	693	ACCUMULATE	Accumulate	5% – 15%
19-Jan-17	400	432	ACCUMULATE	Hold	0 – 5%
10-Jan-17	387	405	HOLD		
20-Dec-16	350	405	BUY	Reduce	-5% – 0
30-09-16	333	345	HOLD	Sell	Less than – 5%

ANALYST CERTIFICATION:

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