

Hatsun Agro Ltd.



Hatsun Agro Ltd.

Better Performance Ahead

CMP INR 705	Target INR 776	Potential Upside 10.1%	Market Cap (INR Mn) 107,317	Recommendation Accumulate	Sector FMCG - Dairy
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Result highlights

Revenue in Q2FY18 stood at INR 10,668.4 Mn which de-grew by 8.7% QoQ and grew by of 6.7% YoY. Sales during the quarter were impacted mainly due GST and YoY growth in revenue was due to new product launches. EBIDTA reported was INR 1,052.2 Mn with growth of 15.6% YoY and 1.8% QoQ due to lower distribution and other expenses. EBIDTA margins stood at 9.9% in Q2FY18 as compared to 8.8% in Q1FY18, an increase of 102 bps QoQ and 77 bps YoY. PAT remained around INR 382.1 Mn with growth of 18.8% YoY and 8.5% QoQ. PAT margins stood at 3.6% in Q2FY18 as compared to 2.3% in Q1FY18, an increase of 37 bps YoY and 57 bps QoQ.

MARKET DATA

Shares outs (Mn)	152
EquityCap (INR Mn)	152
Mkt Cap (INR Mn)	107317
52 Wk H/L (INR)	825/320
Volume Avg (3m K)	39.0
Face Value (INR)	1
Bloomberg Code	HTSMF IN

KEY FINANCIALS

Particulars (INR Mn)	FY15	FY16	FY17	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%	33.2%	30.8%
Debt/Equity(x)	2.1	2.3	2.0	1.5	1.2

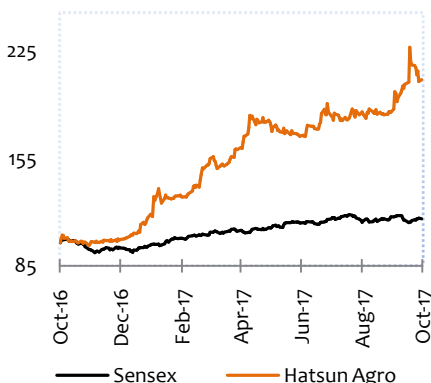
Source: Company, KRChoksey Research

Subdued Top-line: Hatsun Agro Ltd posted its Q2FY18 results which were below expectations. We saw revenue growth in single digit of around 6.6% YoY due to launch of products and also change in mix between milk and value added products. We saw de-growth of 8.7% qoq due to impact of GST implementation. During Q2FY18 Hatsun Agro's revenue stood at INR 10,668.4 Mn as compared to INR 10,009.1 Mn in Q2FY17. The revenue from Milk and Milk products stood at INR 9,975.7 Mn which grew by 5% YoY and de-grew by 9.1% QoQ, the milk and milk products contributes around 93.5% of the total revenue however, the revenue share of milk and milk products decreased by 129 bps YoY from 94.8% in Q2FY17 to 93.5% in Q2FY18. Renewable energy contributes around 1.2% of the total revenue. The revenue share of renewable segment improved by 122.4 bps YoY. During H1FY18 the company reported overall revenue of INR 22,355.7 Mn which grew by 9.7% YoY.

Improved Margins Backed by Lower Operating Cost: Hatsun Agro Ltd reported Q2FY18 EBIDTA at INR 1,052.2 Mn which grew by 15.6% YoY and 1.8% QoQ. EBIDTA margins increased by 77 bps YoY from 9.1% in Q2FY17 to 9.9% in Q2FY18, while it improved by 102 bps QoQ from 8.8% in Q1FY18 to 9.9% in Q2FY18. During H1FY18 EBIDTA was around INR 2,085.4 as compared to INR 1,741.2 Mn with a growth of 19.8% YoY. The improvement in margins was mainly due to lower raw material cost and other operating expenses which decreased by 20.6% QoQ and 13.6% QoQ, respectively. PAT for Q2FY18 stood at INR 382.1 Mn which grew by 18.8% YoY and 8.5% QoQ. Its margin remained at 3.6% with improvement of 37 bps YoY and 57 bps QoQ.

Valuations & Views: Hatsun Agro Ltd remains one of the largest and strong dairy players in south 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. We believe that the Company is into expansion mode and we expect the capex cycle to get over in next couple of quarters and it has no plans to repay the Debt in near future, depreciation and interest cost may put marginal pressure. With commissioning of new plant of milk packaging it is expected that will lead to improvement in EBIDTA and PAT margins and we expects it to reach around 9.4% and 3.5%, respectively 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 705, we recommend '**ACCUMULATE**' rating on the stock with the target price of **INR 776** and **upside of 10.1%**.

SHARE PRICE PERFORMANCE

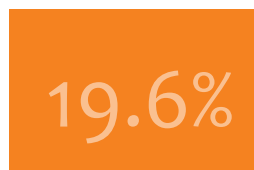


MARKET INFO

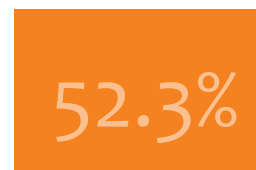
SENSEX	32634
NIFTY	10231

SHARE HOLDING PATTERN (%)

Particulars	Sep 17	Jun 17	Mar 17
Promoters	74.71	74.71	74.71
FIIIs	3.74	3.38	3.28
DIIIs	0.47	0.38	0.17
Others	21.08	21.54	21.82
Total	100	100	100



Revenue CAGR between FY15 and FY19E



PAT CAGR between FY15 and FY19E

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Q1FY18 Result Snapshot

Exhibit 1 – Q1FY18 Quarterly Income Statement (INR Mn)

Particulars	Q2FY18	Q1FY18	Q2FY17	Q-o-Q	Y-o-Y
Net Sales & Other Operating Income	10,668.4	11,687.4	10,009.1	-8.7%	6.6%
Total Expenditure	9,616.2	10,653.8	9,098.8	-9.7%	5.7%
Cost of Raw Materials	8,206.2	7,860.0	7,470.3	4.4%	9.9%
Purchase of Finished Goods	3.3	4.2	1.3	-20.6%	150.1%
(Increase) / Decrease In Stocks	-579.6	558.8	-322.2	-203.7%	79.9%
Employee Cost	366.2	355.5	303.6	3.0%	20.6%
Operating & Manufacturing Expenses	1,620.0	1,875.3	1,645.8	-13.6%	-1.6%
EBIDTA	1,052.2	1,033.6	910.3	1.8%	15.6%
EBITDA Margins (%)	9.9%	8.8%	9.1%	102bps	77bps
Depreciation	406.1	404.7	304.0	0.3%	33.6%
EBIT	646.0	628.8	606.3	2.7%	3.7%
Other Income	28.1	24.6	9.1	14.3%	209.9%
Interest	192.6	204.2	157.0	-5.7%	22.7%
PBT	481.5	449.2	458.3	7.2%	5.1%
Tax	99.5	97.0	136.7	2.6%	-27.2%
PAT	382.1	352.2	321.6	8.5%	18.8%
PAT Margin (%)	3.6%	3.0%	3.2%	57bps	37bps
EPS	2.5	2.3	2.1	8.5%	18.8%

Source: Company, KRChoksey Research

Exhibit 2 – H2FY18 Income Statement (INR Mn)

Particulars	H1FY18	H1FY17	Y-o-Y
Net Sales & Other Operating Income	22,355.7	20,382.8	9.7%
Total Expenditure	20,270.3	18,641.5	8.7%
Cost of Raw Materials	16,066.6	14,382.6	11.7%
Purchase of Finished Goods	7.5	2.5	197.0%
(Increase) / Decrease In Stocks	-20.8	333.1	-106.3%
Excise Duty	24.3	40.3	-39.7%
Employee Cost	721.7	595.6	21.2%
Operating & Manufacturing Expenses	3,471.1	3,287.3	5.6%
EBIDTA	2,085.4	1,741.2	19.8%
EBITDA Margins (%)	9.3%	8.5%	79bps
Depreciation	810.9	576.6	40.6%
EBIT	1,274.6	1,164.6	9.4%
Other Income	52.7	21.1	149.5%
Interest	396.8	312.9	26.8%
PBT	930.5	872.9	6.6%
Tax	196.5	252.3	-22.1%
PAT after Exceptional	734.0	620.5	18.3%
PAT Margin (%)	6.9%	5.3%	157bps
EPS	4.8	4.1	18.3%

Source: Company, KRChoksey Research

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Exhibit 3 -- 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 4 - 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	4764.1	6687.8
Shareholder's Funds	2214.6	2306.7	3471.1	4916.3	6840.0
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	18765.5	22486.9
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	1070.2	1673.4
Short Term Loans and Advances	587.8	735.1	695.9	504.0	837.7
Other Current Assets	7.0	35.0	23.1	50.8	61.0
Total Current Assets	3548.8	4681.6	4646.9	5681.1	7433.5
Total Assets	10556.5	11574.8	16225.8	18765.5	22486.9

Source: Company, KRChoksey Research

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Exhibit 5 - Cash flow statement

INR Mn	FY15	FY16	FY17	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	669.2	849.6	909.0
Increase / Decrease in WC	-1281.3	-537.7	940.2	751.0	104.5
Cash flow from Operations	615.1	2185.8	4385.9	4888.8	5111.8
Cash flow from Investing Activity	-1243.1	-1341.3	-5757.1	-3505.9	-4032.3
Cash flow from Financing Activity	756.2	-786.4	1630.0	-863.0	-476.3
Net change in Cash (Inflow/Outflow)	128.2	58.1	258.8	520.0	603.2
Opening Cash balance	105.2	233.4	291.5	550.2	1070.2
Closing Cash Balance	233.4	291.5	550.2	1070.2	1673.4

Source: Company, KRChoksey Research

Exhibit 6 - Ratio Analysis

INR Mn	FY15	FY16	FY17	FY18E	FY19E
EPS	3.6	5.6	8.8	10.7	13.9
BV	20.4	21.2	22.8	32.3	44.9
DPS	0.6	5.1	1.0	1.0	1.0
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)	195.8	126.7	80.1	65.8	50.9
Price/BV	34.6	33.2	30.9	21.8	15.7
EV/EBITDA	40.9	26.8	30.0	24.7	20.1
EV/Sales	2.8	2.4	2.7	2.3	1.9
ROE (%)	17.7%	26.2%	38.6%	33.2%	30.8%
Debt/Equity(x)	2.1	2.3	2.0	1.5	1.2

Source: Company, KRChoksey Research

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Hatsun Agro Ltd.				Rating Legend	
Date	CMP (INR)	TP (INR)	Recommendation	Our Rating	Upside
17-Oct-17	705	776	ACCUMULATE	Buy	More than 15%
14-Jul-17	652	693	ACCUMULATE	Accumulate	5% – 15%
28-Apr-17	619	693	ACCUMULATE	Hold	0 – 5%
19-Jan-17	400	432	ACCUMULATE	Reduce	-5% – 0
10-Jan-17	387	405	HOLD	Sell	Less than – 5%
20-Dec-16	350	405	BUY		
30-09-16	333	345	HOLD		

ANALYST CERTIFICATION:

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