

# Hatsun Agro Ltd.



# Hatsun Agro Ltd.

**Subdued Quarter**

**CMP**      **Target**      **Potential Upside**      **Market Cap (INR Mn)**      **Recommendation**  
**INR 720**    **INR 752**      **4-5%**                      **115,665**                      **HOLD**

**Sector**  
**FMCG - Dairy**

## Result highlights

Hatsun Agro Ltd reported its Q4FY18 results, revenue stood at INR of 10.5 Bn (-13.6% YoY) due to subdued volume growth. EBITDA stood at INR 756.2 Mn (-22.5% YoY), with OPM at 7.2% (-83 bps). The de-growth in margins were mainly due to higher operating expenses (+20.4% YoY). EBITDA for FY18 stood at INR 3.7 Bn (-1.7% YoY), with OPM at 8.7% (-34 bps YoY). PAT for Q4FY18 stood at INR 24.8 Mn (-94% YoY), with NPM at 0.2% (-303 bps YoY). PAT for FY18 stood at INR 908.4 Mn (-33% YoY), with NPM at 2.1% (-111 bps YoY).

## MARKET DATA

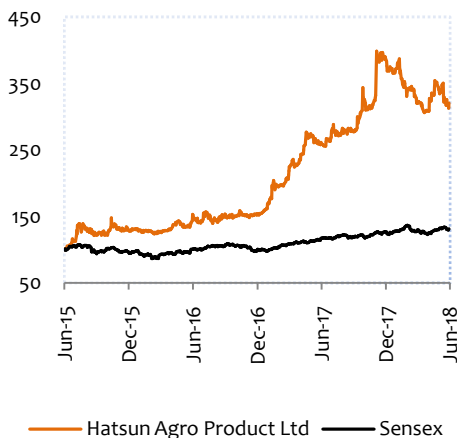
Shares outs (Mn)	161
EquityCap (INR Mn)	162
Mkt Cap (INR Mn)	115665
52 Wk H/L (INR)	957/553
Volume Avg (3m K)	34
Face Value (INR)	1
Bloomberg Code	HTSMF IN

## KEY FINANCIALS

YE March (INR Mn)	FY15	FY16	FY17	FY18	FY19E	FY20E
Revenues	29,330.9	34,445.9	41,975.9	42,873.7	48,018.5	54,020.8
EBITDA	1,983.2	3,046.8	3,780.2	3,716.5	4,220.8	4,802.5
PAT	391.6	605.0	1,354.0	908.4	1,068.8	1,224.5
EBITDA margin (%)	6.8	8.8	9.0	8.7	8.8	8.9
Net margin (%)	1.3	1.8	3.2	2.1	2.2	2.3
EPS (Rs.)	3.6	5.6	8.9	6.0	7.0	8.0
P/E (x)	87.5	73.7	57.7	116.1	102.5	89.5
RoE (%)	17.7	26.2	38.8	24.9	28.1	31.3

Source: Company, KRChoksey Research

## SHARE PRICE PERFORMANCE



## MARKET INFO

SENSEX	35463
NIFTY	10768

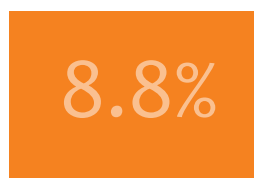
**Subdued Top-line:** Hatsun Agro Ltd posted its Q4FY18 results which were below expectations. We saw de-growth in revenue 13.6% YoY due to low volume sales and also change in mix between milk and value added products.. During Q4FY18 Hatsun Agro's revenue stood at INR 10.5 Bn as compared to INR 12.2 Bn in Q4FY17, we believe that the trade is yet to come out of GST effect which resulted in subdued volume growth. The revenue from Milk and Milk products stood at INR 9.8 Bn (-15.5% YoY), the milk and milk products contributes around 93.5% of the total revenue however, the revenue share of milk and milk products decreased by 192 bps YoY from 95.5% in Q4FY17. During FY18 the company reported overall revenue of INR 42.8 Bn (+2.1% YoY).

**Margins under pressure:** Hatsun Agro Ltd reported Q4FY18 EBITDA at INR 756.2 Mn (-22.5% YoY), with OPM at 7.2% (-83 bps YoY). EBITDA margins decreased mainly due to higher operating expenses (+20.4% YoY). During FY18 EBITDA was around INR 3.7 Bn (-1.7% YoY), with OPM at 8.7% (-34 bps YoY). PAT for Q4FY18 stood at INR 24.8 Mn (-93.8% YoY), with NPM at 0.2% (-303 bps YoY). PAT was affected due to higher interest cost (+19% YoY) and lower other income (-48% YoY). PAT for FY18 stood at INR 908 Mn (-32.9% YoY), with NPM at 2.1% (-111 bps YoY).

**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 total 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 8-10% between FY19E and FY20E. 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. 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 720, the stock is trading at P/E of 89.5x for FY20E. We assign a P/E multiple of 93.5x and recommend 'HOLD' rating on the stock with the target price of INR 752 representing an upside of 4.5%.

## SHARE HOLDING PATTERN (%)

Particulars	Mar 18	Dec 17	Sep 17
Promoters	72.51	72.51	74.71
FIIIs	5.22	4.85	3.74
DIIIs	3.17	3.02	0.47
Others	19.09	19.62	21.08
Total	100	100	100



Revenue CAGR between FY17 and FY20E



PAT CAGR between FY17 and FY20E

## ANALYST

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## Q4FY18 Result Snapshot

### Exhibit 1 – Q4FY18 Quarterly Income Statement (INR Mn)

Particulars	Q4FY18	Q4FY18	Q4FY17	Q-o-Q	Y-o-Y
<b>Net Sales &amp; Other Operating Income</b>	<b>10,515.8</b>	<b>10,129.4</b>	<b>12,169.7</b>	<b>3.8%</b>	<b>-13.6%</b>
<b>Total Expenditure</b>	<b>9,759.6</b>	<b>9,259.8</b>	<b>11,193.5</b>	<b>5.4%</b>	<b>-12.8%</b>
Cost of Raw Materials	7,686.4	8,081.8	8,048.9	-4.9%	-4.5%
Purchase of Finished Goods	1.7	5.4	2.3	-69.2%	-27.2%
(Increase) / Decrease In Stocks	-115.5	-875.6	1,275.3	-86.8%	-109.1%
Employee Cost	372.3	372.7	360.2	-0.1%	3.4%
Operating & Manufacturing Expenses	1,814.7	1,675.4	1,506.8	8.3%	20.4%
<b>EBIDTA</b>	<b>756.2</b>	<b>869.6</b>	<b>976.2</b>	<b>-13.0%</b>	<b>-22.5%</b>
<b>EBITDA Margins (%)</b>	<b>7.2%</b>	<b>8.6%</b>	<b>8.0%</b>	<b>-139 bps</b>	<b>-83 bps</b>
Depreciation	445.8	472.9	417.1	-5.7%	6.9%
<b>EBIT</b>	<b>310.4</b>	<b>396.7</b>	<b>559.1</b>	<b>-21.7%</b>	<b>-44.5%</b>
Other Income	21.3	11.9	41.1	79.0%	-48.1%
Interest	259.8	219.8	218.1	18.2%	19.1%
<b>PBT</b>	<b>71.9</b>	<b>188.8</b>	<b>382.1</b>	<b>-61.9%</b>	<b>-81.2%</b>
Tax	47.1	39.0	-15.8	20.6%	-397.5%
<b>PAT after Exceptional</b>	<b>24.8</b>	<b>149.8</b>	<b>397.9</b>	<b>-83.4%</b>	<b>-93.8%</b>
<b>PAT Margin (%)</b>	<b>0.2%</b>	<b>1.5%</b>	<b>3.3%</b>	<b>-124 bps</b>	<b>-303 bps</b>
<b>EPS</b>	<b>0.2</b>	<b>1.0</b>	<b>2.6</b>	<b>-83.4%</b>	<b>-93.8%</b>

Source: Company, KRChoksey Research

### Exhibit 2 – FY18 Income Statement (INR Mn)

Particulars	Q4FY18	Q4FY17	YoY
<b>Net Sales &amp; Other Operating Income</b>	<b>42,873.7</b>	<b>41,975.9</b>	<b>2.1%</b>
<b>Total Expenditure</b>	<b>39,157.2</b>	<b>38,195.7</b>	<b>2.5%</b>
Cost of Raw Materials	31,834.8	29,967.2	6.2%
Purchase of Finished Goods	14.6	6.2	137.0%
(Increase) / Decrease In Stocks	-1,011.9	516.4	-296.0%
Employee Cost	1,466.7	1,269.7	15.5%
Operating & Manufacturing Expenses	6,853.0	6,436.3	6.5%
<b>EBIDTA</b>	<b>3,716.5</b>	<b>3,780.2</b>	<b>-1.7%</b>
<b>EBITDA Margins (%)</b>	<b>35.3%</b>	<b>37.3%</b>	<b>-198 bps</b>
Depreciation	1,736.4	1,428.7	21.5%
<b>EBIT</b>	<b>1,980.0</b>	<b>2,351.4</b>	<b>-15.8%</b>
Other Income	83.2	67.9	22.5%
Interest	876.4	702.0	24.8%
<b>PBT</b>	<b>1,186.8</b>	<b>1,717.3</b>	<b>-30.9%</b>
Tax	278.4	363.3	-23.4%
<b>PAT after Exceptional</b>	<b>908.4</b>	<b>1,354.0</b>	<b>-32.9%</b>
<b>PAT Margin (%)</b>	<b>8.6%</b>	<b>13.4%</b>	<b>-473 bps</b>
<b>EPS</b>	<b>6.0</b>	<b>8.9</b>	<b>-32.9%</b>

Source: Company, KRChoksey Research

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# Hatsun Agro Ltd.

## Exhibit 3 -- Income Statement (INR Mn)

Income Statement	FY16	FY17	FY18	FY19E	FY20E
<b>Total Revenue from Operations</b>	<b>34,445.9</b>	<b>41,975.9</b>	<b>42,873.7</b>	<b>48,018.5</b>	<b>54,020.8</b>
<b>Cost of Goods Sold</b>	<b>24,889.0</b>	<b>30,489.7</b>	<b>30,837.5</b>	<b>34,578.1</b>	<b>38,900.4</b>
Cost of Materials Consumed	25,306.1	29,967.2	31,834.8	35,533.7	40,137.5
Purchase of Stock-in-Trade	1.5	6.2	14.6	4.8	5.4
Changes in Inventory	-418.6	516.4	-1,011.9	-960.4	-1,242.5
Employee Benefits Expense	1,102.3	1,269.7	1,466.7	1,536.6	1,674.6
Other Expenses	5,407.9	6,436.3	6,853.0	7,683.0	8,643.3
<b>Total Expenses</b>	<b>31,399.2</b>	<b>38,195.7</b>	<b>39,157.2</b>	<b>43,797.7</b>	<b>49,218.4</b>
<b>EBITDA</b>	<b>3,046.8</b>	<b>3,780.2</b>	<b>3,716.5</b>	<b>4,220.8</b>	<b>4,802.5</b>
<b>EBITDA Margin (%)</b>	<b>8.8%</b>	<b>9.0%</b>	<b>8.7%</b>	<b>8.8%</b>	<b>8.9%</b>
Depreciation and Amortization Exps	1,070.9	1,428.7	1,736.4	1,920.7	2,160.8
<b>EBIT</b>	<b>1,975.9</b>	<b>2,351.4</b>	<b>1,980.0</b>	<b>2,300.1</b>	<b>2,641.6</b>
<b>EBIT Margin (%)</b>	<b>5.7%</b>	<b>5.6%</b>	<b>4.6%</b>	<b>4.8%</b>	<b>4.9%</b>
Other Income	46.4	67.9	83.2	96.0	108.0
Finance Costs	682.5	702.0	876.4	1,017.0	1,169.6
<b>EBT</b>	<b>1,339.7</b>	<b>1,717.3</b>	<b>1,186.8</b>	<b>1,379.1</b>	<b>1,580.1</b>
Total Tax Expenses	734.8	363.3	278.4	310.3	355.5
<b>PAT for the year</b>	<b>605.0</b>	<b>1,354.0</b>	<b>908.4</b>	<b>1,068.8</b>	<b>1,224.5</b>
<b>PAT Margin (%)</b>	<b>1.8%</b>	<b>3.2%</b>	<b>2.1%</b>	<b>2.2%</b>	<b>2.3%</b>
<b>Basic EPS</b>	<b>5.6</b>	<b>8.9</b>	<b>6.0</b>	<b>7.0</b>	<b>8.0</b>

Source: Company, KRChoksey Research

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## Exhibit 4 - Balance Sheet (INR Mn)

Balance Sheet	FY16	FY17	FY18	FY19E	FY20E
<b>EQUITY AND LIABILITIES</b>					
<b>Shareholders' funds</b>					
Share Capital	108.7	152.2	152.2	152.2	152.2
Reserves and Surplus	2,198.1	3,333.9	3,503.1	3,647.9	3,763.7
<b>Net Worth</b>	<b>2,306.9</b>	<b>3,486.1</b>	<b>3,655.3</b>	<b>3,800.1</b>	<b>3,915.9</b>
<b>Non-Current Liabilities</b>					
Long-Term Borrowings	2,299.7	3,693.5	5,420.7	6,335.7	7,381.9
Deferred Tax Liabilities	253.5	275.1	280.7	280.7	280.7
Other Long-term Liabilities	4.4	8.1	7.7	7.7	7.7
	<b>2,557.6</b>	<b>3,976.7</b>	<b>5,709.1</b>	<b>6,624.1</b>	<b>7,670.3</b>
<b>Current Liabilities</b>					
Short-Term Borrowings	5,122.9	6,503.8	8,829.6	10,337.2	11,791.9
Trade Payables	1,367.8	1,700.3	1,714.3	1,942.1	2,238.1
Other Current Liabilities	155.7	191.1	1,184.8	218.6	245.9
Short-Term Provisions	49.0	19.2	21.1	23.6	26.6
	<b>6,695.3</b>	<b>8,414.4</b>	<b>11,749.8</b>	<b>12,521.5</b>	<b>14,302.5</b>
<b>Total</b>	<b>11,559.8</b>	<b>15,877.2</b>	<b>21,114.2</b>	<b>22,945.7</b>	<b>25,888.7</b>
<b>ASSETS</b>					
Fixed Assets	6,394.9	9,836.3	12,088.6	12,693.1	13,962.4
Capital Work-in-Progress	325.3	902.7	2,593.4	2,593.4	2,593.4
Goodwill	77.4	77.4	77.4	77.4	77.4
Non-Current Investments	2.6	2.5	1.3	1.3	1.3
Long-Term Loans and Advances	352.3	439.5	533.1	720.3	810.3
Other Non-Current Assets	86.0	417.4	306.3	480.2	540.2
	<b>7,238.6</b>	<b>11,675.9</b>	<b>15,600.1</b>	<b>16,565.6</b>	<b>17,984.9</b>
<b>Current Assets</b>					
Inventories	3,467.9	2,965.3	3,837.3	4,310.4	5,328.8
Trade Receivables	149.1	409.6	70.5	131.6	222.0
Cash and Cash Equivalents	294.5	553.2	328.4	449.5	624.3
Short-Term Loans and Advances	53.5	17.6	37.5	48.0	108.0
Other Current Assets	356.2	255.6	1,240.4	1,440.6	1,620.6
	<b>4,321.2</b>	<b>4,201.3</b>	<b>5,514.1</b>	<b>6,380.1</b>	<b>7,903.8</b>
<b>Total</b>	<b>11,559.8</b>	<b>15,877.2</b>	<b>21,114.2</b>	<b>22,945.7</b>	<b>25,888.7</b>

Source: Company, KRChoksey Research

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## Exhibit 5 - Cash flow statement

Cash Flow Statement	FY16	FY17	FY18E	FY19E	FY20E
<b>Net profit before tax</b>	<b>1,339.7</b>	<b>1,717.3</b>	<b>1,186.8</b>	<b>1,379.1</b>	<b>1,580.1</b>
<b>Adjustments for :</b>					
Depreciation & Amortization	1,070.9	1,428.7	1,736.4	1,920.7	2,160.8
Finance cost (Net)	682.5	702.0	876.4	1,017.0	1,169.6
Cash from operating activities	2,512.4	4,782.2	3,206.0	2,379.0	3,629.8
Direct Taxes Paid	326.7	371.8	278.4	310.3	355.5
<b>Cash from Operating Activities (A)</b>	<b>2,185.8</b>	<b>4,410.4</b>	<b>2,927.6</b>	<b>2,068.7</b>	<b>3,274.3</b>
Capital Expenditure on Fixed Assets including Capital Advances	-1,402.4	-5,789.1	-2,252.3	-604.4	-1,269.3
<b>Cash from Investing Activities (B)</b>	<b>-1,341.3</b>	<b>-5,782.7</b>	<b>-2,169.2</b>	<b>-508.4</b>	<b>-1,161.3</b>
<b>Cash Financing activities (C)</b>	<b>-783.4</b>	<b>1,631.0</b>	<b>-983.2</b>	<b>-1,439.3</b>	<b>-1,938.3</b>
<b>Net increase / (decrease) in cash and cash equivalents (A+B+C)</b>	<b>61.1</b>	<b>258.8</b>	<b>-224.8</b>	<b>121.1</b>	<b>174.7</b>
Cash and cash equivalents at the beginning of the year	233.4	294.5	553.2	328.5	449.5
<b>Cash and cash equivalents at the end of the year</b>	<b>294.5</b>	<b>553.2</b>	<b>328.5</b>	<b>449.5</b>	<b>624.3</b>

Source: Company, KRChoksey Research

## Exhibit 6 - Ratio Analysis

Ratios	FY16	FY17	FY18	FY19E	FY20E
EBITDA Margin (%)	8.8	9.0	8.7	8.8	8.9
EBIT Margin (%)	5.7	5.6	4.6	4.8	4.9
Net Profit Margin (%)	1.8	3.2	2.1	2.2	2.3
Net Debt/Equity (x)	3.1	2.8	3.8	4.3	4.7
RoE (%)	26.2	38.8	24.9	28.1	31.3
EPS (Rs.)	5.6	8.9	6.0	7.0	8.0
BVPS (Rs.)	21.2	22.9	24.0	25.0	25.7
PE (x)	73.7	57.7	116.1	102.5	89.5
DPS (Rs.)	5.1	1.0	4.0	5.0	6.0
EV/EBITDA (x)	17.0	23.2	32.1	29.8	26.7
EV/Sales (x)	1.5	2.1	2.8	2.6	2.4

Source: Company, KRChoksey Research

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# Hatsun Agro Ltd.

Hatsun Agro Ltd.				Rating Legend	
Date	CMP (INR)	TP (INR)	Recommendation	Our Rating	Upside
7-Jun-18	720	752	HOLD	Buy	More than 15%
16-Jan-18	875	973	ACCUMULATE	Accumulate	5% – 15%
16-Oct-17	705	776	ACCUMULATE	Hold	0 – 5%
14-Jul-17	652	693	ACCUMULATE	Reduce	-5% – 0
28-Apr-17	619	693	ACCUMULATE	Sell	Less than – 5%
19-Jan-17	400	432	ACCUMULATE		
10-Jan-17	387	405	HOLD		
20-Dec-16	350	405	BUY		

**ANALYST CERTIFICATION:**

We, Dhavan Shah [B.Com, MS(Finance)], research analyst and Kunal Jagda (B.com, MBA), research associate, 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.

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