

Hatsun Agro Ltd.



Hatsun Agro Ltd.

Back on Track

CMP Target Potential Upside Market Cap (INR Mn) Recommendation
INR 630 **INR 652** **3-4%** **103,377** **HOLD**

Sector
FMCG - Dairy

Result highlights

Revenue in Q1FY19 stood at INR 12.3 Bn (+5.9% YoY), which was marginally below our estimates of INR 12.9 Bn. The top line was mainly driven by value added products, Aroon Ice-creams and better demand across all the categories. EBITDA stood at INR 1.2 Bn (+18.9% YoY), with OPM at 9.9% (+108 bps YoY). The reduction in milk prices and purchase of other finished goods has resulted in better operating margins. PAT stood at INR 378.6 Mn (+7.6% YoY), with NPM at 3.1% (+5 bps YoY).

MARKET DATA

Shares outs (Mn)	161
EquityCap (INR Mn)	162
Mkt Cap (INR Mn)	103377
52 Wk H/L (INR)	957/562
Volume Avg (3m K)	36.2
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	3,740.5	4,220.8	4,802.5
PAT	391.6	605.0	1,354.0	932.3	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	2.2	2.2	2.3
EPS (Rs.)	3.6	5.6	8.9	6.1	7.0	8.0
P/E (x)	87.5	73.7	57.7	113.1	89.7	78.3
RoE (%)	17.7	26.2	38.8	25.3	27.9	31.1

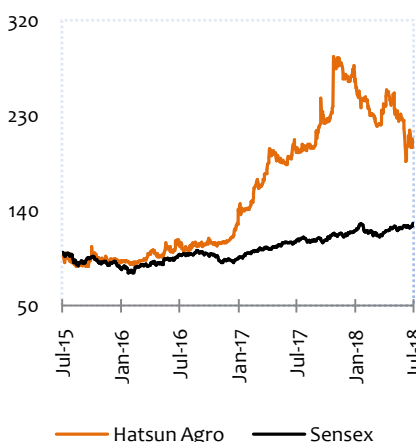
Source: Company, KRChoksey Research

Volume based growth: Hatsun Agro Ltd posted its Q1FY19 results which were marginally below expectations. We saw growth in revenue by 5.9% YoY due to increase in volume sales and also change in mix between milk and value added products. During Q1FY19 Hatsun Agro's revenue stood at INR 12.3 Bn as compared to INR 11.6 Bn in Q1FY18, we believe that the trade is yet to come out of GST effect which resulted in subdued volume growth in past quarters. The revenue from Milk and Milk products stood at INR 11.6 Bn (+5.8% YoY), the milk and milk products contributes around 94.5% of the total revenue however, the revenue share of milk and milk products marginally increased by 92 bps QoQ and 7 bps YoY.

EBITDA outperforms, PAT under pressure: Hatsun Agro Ltd reported Q1FY19 EBITDA at INR 1.2 Bn (+18.9% YoY), with OPM at 9.9% (+108 bps YoY). The reduction in milk prices and purchase of other finished goods (-77% YoY) has resulted in better operating margins. PAT for Q1FY19 stood at INR 378.6 Mn (+7.6% YoY), with NPM at 3.1% (+5 bps YoY). PAT was affected due to higher interest cost (+27% YoY) and lower other income (-72% 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 630, the stock is trading at P/E of 78x for FY20E. We assign a P/E multiple of 81x and recommend **'HOLD'** rating on the stock with the target price of **INR 652** representing an **upside of 3.4%**.

SHARE PRICE PERFORMANCE

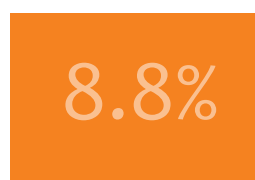


MARKET INFO

SENSEX	36496
NIFTY	11010

SHARE HOLDING PATTERN (%)

Particulars	Jun 18	Mar 18	Dec 17
Promoters	72.51	72.51	72.51
FIIIs	5.83	5.22	4.85
DIIIs	3.35	3.17	3.02
Others	18.32	19.09	19.62
Total	100	100	100



Revenue CAGR between FY17 and FY20E



PAT CAGR between FY17 and FY20E

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Q1FY19 Result Snapshot

Exhibit 1 – Q1FY19 Quarterly Income Statement (INR Mn)

Particulars	Q1FY19	Q4FY18	Q1FY18	Q-o-Q	Y-o-Y
Net Sales & Other Operating Income	12,356.8	10,515.8	11,663.1	17.5%	5.9%
Total Expenditure	11,128.2	9,759.6	10,629.8	14.0%	4.7%
Cost of Raw Materials	8,152.0	7,686.4	7,860.3	6.1%	3.7%
Purchase of Finished Goods	1.0	1.7	4.2	-42.8%	-77.2%
(Increase)/ Decrease In Stocks	508.9	-115.5	558.8	-540.8%	-8.9%
Employee Cost	384.1	372.3	355.5	3.2%	8.0%
Operating & Manufacturing Expenses	2,082.3	1,814.7	1,851.0	14.7%	12.5%
EBIDTA	1,228.5	756.2	1,033.3	62.5%	18.9%
EBITDA Margins (%)	9.9%	7.2%	8.9%	275 bps	108 bps
Depreciation	484.0	445.8	404.7	8.6%	19.6%
EBIT	744.6	310.4	628.5	139.9%	18.5%
Other Income	7.0	21.3	24.6	-67.2%	-71.6%
Interest	259.5	259.8	204.2	-0.1%	27.1%
PBT	492.1	71.9	448.9	584.1%	9.6%
Tax	113.5	47.1	97.0	141.0%	17.1%
PAT after Exceptional	378.6	24.8	351.9	1424.5%	7.6%
PAT Margin (%)	3.1%	0.2%	3.0%	283 bps	5 bps
EPS	2.5	0.2	2.3	1424.5%	7.6%

Source: Company, KRChoksey Research

Exhibit 2 – Segment – wise Revenue (INR Mn)

Particulars	Q1FY19	Q4FY18	Q1FY18	Q-o-Q	Y-o-Y
Milk & Milk Products	11,672.9	9,837.1	11,032.4	18.7%	5.8%
Others	683.8	678.7	655.0	0.8%	4.4%
TOTAL	12,356.8	10,515.8	11,687.4	17.5%	5.7%

Source: Company, KRChoksey Research

Exhibit 3 – Segment – wise EBIT (INR Mn)

Particulars	Q1FY19	Q4FY18	Q1FY18	Q-o-Q	Y-o-Y
Milk & Milk Products	663.8	192.4	641.7	245.0%	3.4%
Others	97.4	80.6	16.8	20.8%	478.6%
Total EBIT	761.2	273.0	658.6	178.8%	15.6%
Less: Interest Exp	259.5	259.8	204.2	-0.1%	27.1%
Add/Less: (Others)	-9.6	58.7	-5.5	-116.4%	75.9%
PBT	492.1	71.9	448.9	584.1%	9.6%

Source: Company, KRChoksey Research

Exhibit 4 – Segment – wise EBIT Margins (%)

Particulars	Q1FY19	Q4FY18	Q1FY18	Q-o-Q	Y-o-Y
Milk & Milk Products	5.7%	2.0%	5.8%	373bps	-13bps
Others	14.2%	11.9%	2.6%	236bps	1167bps

Source: Company, KRChoksey Research

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Exhibit 5 – Income Statement (INR Mn)

Income Statement	FY16	FY17	FY18	FY19E	FY20E
Total Revenue from Operations	34,445.9	41,975.9	42,873.7	48,018.5	54,020.8
Cost of Goods Sold	24,889.0	30,489.7	30,837.8	34,578.1	38,900.4
Cost of Materials Consumed	25,306.1	29,967.2	31,835.1	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	6,828.7	7,683.0	8,643.3
Total Expenses	31,399.2	38,195.7	39,133.2	43,797.7	49,218.4
EBITDA	3,046.8	3,780.2	3,740.5	4,220.8	4,802.5
EBITDA Margin (%)	8.8%	9.0%	8.7%	8.8%	8.9%
Depreciation and Amortization Exps	1,070.9	1,428.7	1,736.4	1,920.7	2,160.8
EBIT	1,975.9	2,351.4	2,004.0	2,300.1	2,641.6
EBIT Margin (%)	5.7%	5.6%	4.7%	4.8%	4.9%
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
EBT	1,339.7	1,717.3	1,210.8	1,379.1	1,580.1
Total Tax Expenses	734.8	363.3	278.4	310.3	355.5
PAT for the year	605.0	1,354.0	932.3	1,068.8	1,224.5
PAT Margin (%)	1.8%	3.2%	2.2%	2.2%	2.3%
Basic EPS	5.6	8.9	6.1	7.0	8.0

Source: Company, KRChoksey Research

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Exhibit 5 – Balance Sheet (INR Mn)

Balance Sheet	FY16	FY17	FY18	FY19E	FY20E
EQUITY AND LIABILITIES					
Shareholders' funds					
Share Capital	108.7	152.2	152.2	152.2	152.2
Reserves and Surplus	2,198.1	3,333.9	3,527.1	3,671.9	3,787.7
Net Worth	2,306.9	3,486.1	3,679.3	3,824.1	3,939.9
Non-Current Liabilities					
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
Current Liabilities					
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
	6,695.3	8,414.4	11,749.8	12,521.5	14,302.5
Total	11,559.8	15,877.2	21,138.2	22,969.6	25,912.7
ASSETS					
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
	7,238.6	11,675.9	15,600.1	16,565.6	17,984.9
Current Assets					
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	473.5	648.3
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
	4,321.2	4,201.3	5,514.1	6,404.1	7,927.7
Total	11,559.8	15,877.2	21,114.2	22,969.6	25,912.7

Source: Company, KRChoksey Research

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Exhibit 5 - Cash flow statement

Cash Flow Statement	FY16	FY17	FY18	FY19E	FY20E
Net profit before tax	1,339.7	1,717.3	1,210.8	1,379.1	1,580.1
Adjustments for :					
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	3,230.0	2,379.0	3,629.8
Direct Taxes Paid	326.7	371.8	278.4	310.3	355.5
Cash from Operating Activities (A)	2,185.8	4,410.4	2,951.6	2,068.7	3,274.3
Capital Expenditure on Fixed Assets including Capital Advances	-1,402.4	-5,789.1	-2,252.3	-604.4	-1,269.3
Cash from Investing Activities (B)	-1,341.3	-5,782.7	-2,169.2	-508.4	-1,161.3
Cash Financing activities (C)	-783.4	1,631.0	-983.2	-1,439.3	-1,938.3
Net increase / (decrease) in cash and cash equivalents (A+B+C)	61.1	258.8	-200.8	121.1	174.7
Cash and cash equivalents at the beginning of the year	233.4	294.5	553.2	352.4	473.5
Cash and cash equivalents at the end of the year	294.5	553.2	352.4	473.5	648.3

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	4.7	4.8	4.9
Net Profit Margin (%)	1.8	3.2	2.2	2.2	2.3
Net Debt/Equity (x)	3.1	2.8	3.8	4.2	4.7
RoE (%)	26.2	38.8	25.3	27.9	31.1
EPS (Rs.)	5.6	8.9	6.1	7.0	8.0
BVPS (Rs.)	21.2	22.9	24.2	25.1	25.9
PE (x)	73.7	57.7	113.1	89.7	78.3
DPS (Rs.)	5.1	1.0	4.0	5.0	6.0
EV/EBITDA (x)	17.0	23.2	31.9	26.6	23.8
EV/Sales (x)	1.5	2.1	2.8	2.3	2.1

Source: Company, KRChoksey Research

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Hatsun Agro Ltd.				Rating Legend	
Date	CMP (INR)	TP (INR)	Recommendation	Our Rating	Upside
23-Jul-18	630	652	HOLD	Buy	More than 15%
7-Jun-18	720	752	HOLD	Accumulate	5% – 15%
16-Jan-18	875	973	ACCUMULATE	Hold	0 – 5%
16-Oct-17	705	776	ACCUMULATE	Reduce	-5% – 0
14-Jul-17	652	693	ACCUMULATE	Sell	Less than – 5%
28-Apr-17	619	693	ACCUMULATE		
19-Jan-17	400	432	ACCUMULATE		
10-Jan-17	387	405	HOLD		

ANALYST CERTIFICATION:

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