

20 July 2023

India | Equity Research | Q1FY24 results review

## Hatsun Agro Products

Dairy

### Lower milk procurement prices lead to margin expansion

We are enthused by EBITDA margin expansion posted by Hatsun in Q1FY24 YoY. Correction in milk procurement price has resulted in gross margin expansion of 110bps QoQ. We model the full benefits of lower input prices to be visible in Q2FY24. The sale of windmill assets is likely to be value accretive in our view as the RoCE on windmill operations was lower than cost of capital. We remain positive on Hatsun structurally due to competitive advantages such as brands, distribution and milk procurement. We also believe it is likely to benefit from favourable milk cycle for dairy companies. However, we need more safety on valuations and retain **HOLD** rating. We value the stock at target price of INR 1,000 (implied 50x FY25E; prior TP: INR 880) as per DCF methodology.

### Q1FY24 results

Hatsun reported revenue, EBITDA and PAT growth of 6.8%, 33.5% and 54.3% respectively, YoY. The key reasons for muted revenues were (1) flat milk procurement, (2) weak sales of value-added products such as butter and ghee and (3) strong base of Q1FY23. EBITDA margin expanded 222bps YoY due to reduction in milk procurement prices and lower ad-spend (our view).

### Model EBITDA margin recovery in FY24

We model EBITDA margin to recover in FY24 to 10.9% (FY23: 9.7%) due to (1) ~40% decline in global SMP prices, (2) stability in cattle feed prices and (3) normal monsoon. We also model EBITDA margin to benefit due to better revenue mix (higher revenues of ice cream) and operating leverage.

### Debt repayment post sale of windmill assets

The company has decided to sell its windmill assets for consideration of INR1.35bn on a slump sale basis. We expect the proceeds to be used for debt repayment. While power cost may inch up in short term, there will be savings in interest cost and depreciation.

### Retain HOLD:

We model Hatsun to report EBITDA CAGR of 24.1% over FY23-FY25E. We revise DCF-based TP to INR 1,000 (implied P/E 50x FY25E). Maintain **HOLD**.

### Financial Summary

Y/E March (INR mn)	FY22A	FY23A	FY24E	FY25E
Net Revenue	63,704	72,470	82,905	95,516
EBITDA	7,213	7,014	9,053	10,807
EBITDA Margin (%)	11.3	9.7	10.9	11.3
Net Profit	2,482	1,659	3,004	4,326
EPS (Rs)	11.5	7.4	13.5	19.4
EPS % Chg YoY	0.8	(35.3)	81.2	44.0
P/E (x)	84.8	131.1	72.4	50.3
EV/EBITDA (x)	31.6	33.3	25.2	20.8
RoCE (%)	12.6	8.4	12.6	17.6
RoE (%)	23.3	13.0	20.0	25.9

#### Aniruddha Joshi

aniruddha.joshi@icicisecurities.com

+91 22 6807 7249

#### Manoj Menon

manoj.menon@icicisecurities.com

#### Karan Bhuwania

karan.bhuwania@icicisecurities.com

#### Nilesh Patil

nilesh.patil@icicisecurities.com

#### Market Data

Market Cap (INR)	217bn
Market Cap (USD)	2,647.0mn
Bloomberg Code	HTSMF IN
Reuters Code	HAPL.BO
52-week Range (INR)	1,125 /785
Free Float (%)	23.0
ADTV-3M (mn) (USD)	0.2

Price Performance (%)	3m	6m	12m
Absolute	13.5	8.8	5.2
Relative to Sensex	13.4	11.1	24.0

ESG Disclosure	2021	2022	Change
ESG score	38.8	38.8	0.0
Environment	10.1	10.1	0.0
Social	22.6	22.6	0.0
Governance	83.6	83.6	0.0

Note - Score ranges from 0 - 100 with a higher score indicating higher ESG disclosures.

Source: Bloomberg, I-sec research

Earnings Revisions (%)	FY24E	FY25E
Revenue	(2.7)	(4.7)
EBITDA	(2.8)	(2.2)
EPS	(3.5)	(0.6)

#### Previous Reports

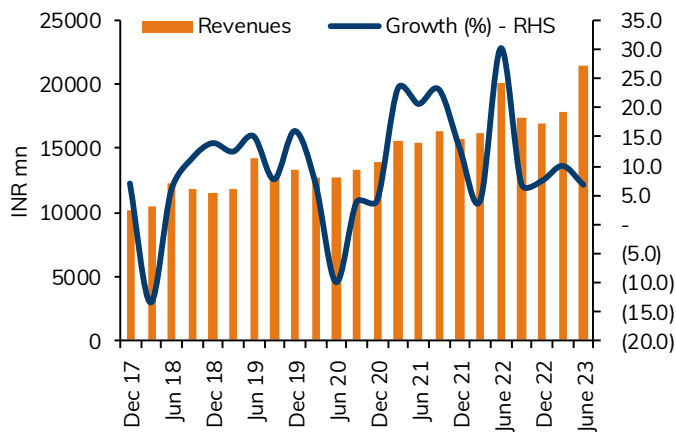
10-05-2023: [Q4FY23 results review](#)

20-01-2023: [Q3FY23 results review](#)

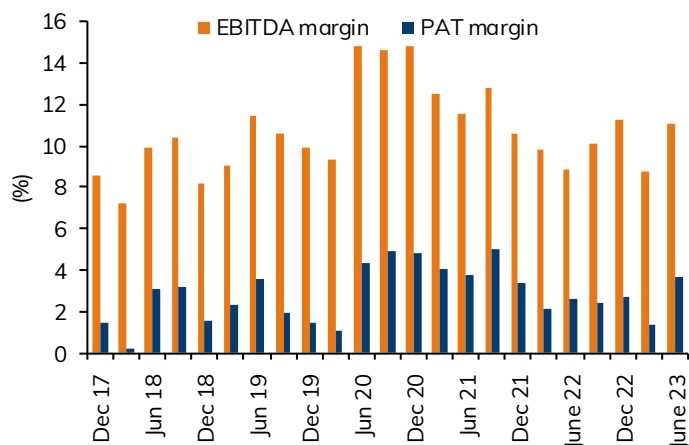
**Exhibit 1: Q1FY24 financial performance (INR mn; year ending March)**

Y/e March	Q1FY24	Q1FY23	YoY gr.	Q4FY23	QoQ gr.
<b>Revenue</b>	<b>21,506</b>	<b>20,146</b>	<b>6.8</b>	<b>17,895</b>	<b>20.2</b>
<b>Expenditure</b>					
Raw materials	15,515	14,577	6.4	13,100	18.4
% of revenue	72.1	72.4		73.2	
Employee cost	558	571	(2.2)	588	(5.1)
% of revenue	2.6	2.8		3.3	
Other expenditure	3,054	3,217	(5.0)	2,642	15.6
% of revenue	14.2	16.0		14.8	
Total expenditure	19,128	18,365	4.2	16,330	17.1
<b>EBITDA</b>	<b>2,379</b>	<b>1,782</b>	<b>33.5</b>	<b>1,564</b>	<b>52.1</b>
EBITDA margin	11.1	8.8		8.7	
Other income	22	54	(58.9)	16	36.9
<b>PBDIT</b>	<b>2,401</b>	<b>1,836</b>	<b>30.8</b>	<b>1,581</b>	<b>51.9</b>
Depreciation	975	848	15.0	955	2.0
<b>PBIT</b>	<b>1,426</b>	<b>988</b>	<b>44.4</b>	<b>625</b>	<b>128.1</b>
Interest	336	281	19.5	297	13.2
<b>PBT</b>	<b>1,091</b>	<b>707</b>	<b>54.3</b>	<b>329</b>	<b>231.7</b>
Prov for tax	289	187	54.4	79	266.1
% of PBT	26.5	26.5		24.0	
<b>Adjusted PAT</b>	<b>802</b>	<b>520</b>	<b>54.3</b>	<b>250</b>	<b>220.8</b>
Extra ordinary items	(4)	-	-	(14)	(75.0)
<b>Reported PAT</b>	<b>798</b>	<b>520</b>	<b>53.6</b>	<b>236</b>	<b>238.4</b>

Source: Company data, I-Sec research

**Exhibit 2: Revenue growth trend**

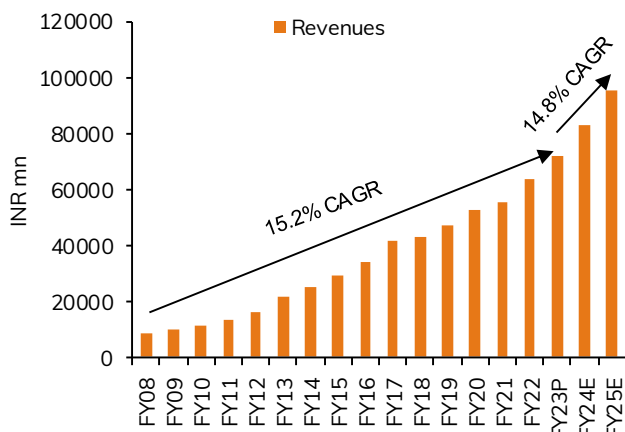
Source: Company data, I-Sec research

**Exhibit 3: Profitability margins**

Source: Company data, I-Sec research

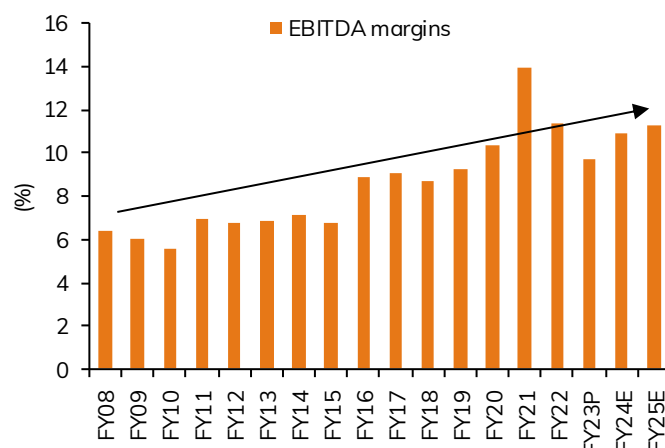
## Key ratios – Annual

**Exhibit 4: Revenue and growth rates**



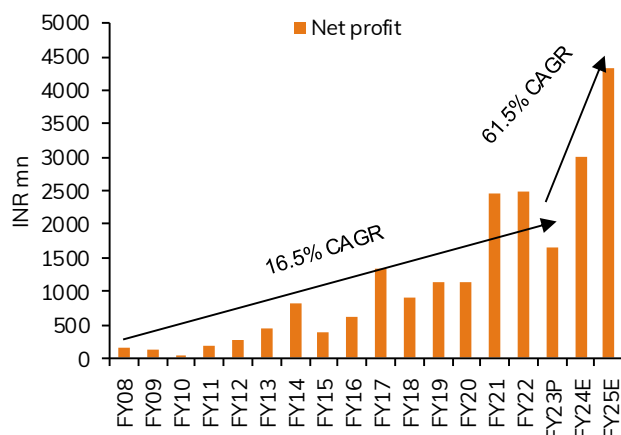
Source: Company data, I-Sec research

**Exhibit 5: EBITDA margins**



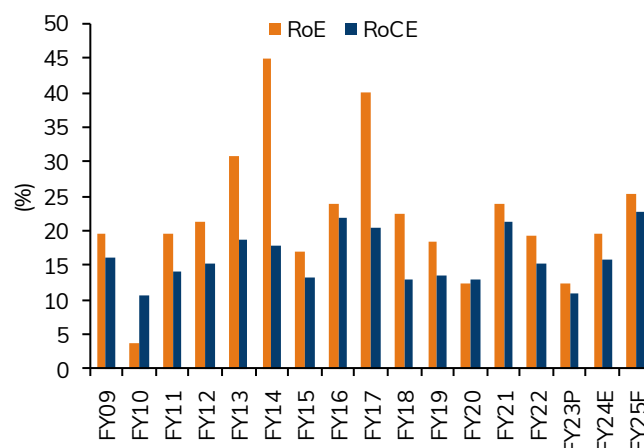
Source: Company data, I-Sec research

**Exhibit 6: PAT and growth rates**



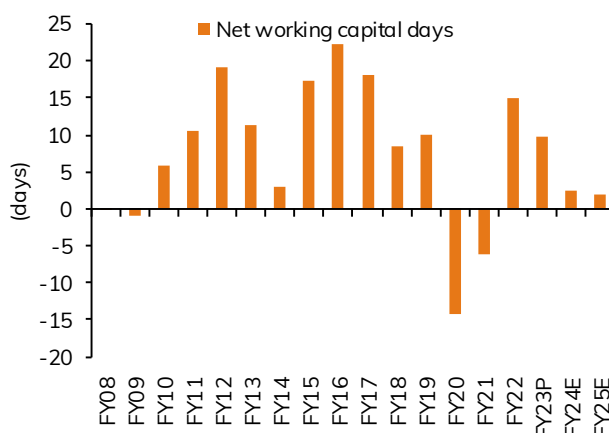
Source: Company data, I-Sec research

**Exhibit 7: ROE & RoCE**



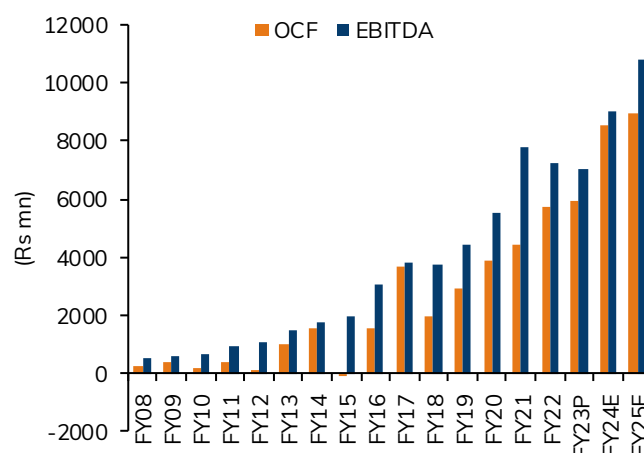
Source: Company data, I-Sec research

**Exhibit 8: Net working capital days**



Source: Company data, I-Sec research

**Exhibit 9: OCF & EBITDA**



Source: Company data, I-Sec research

## Valuation and risks

We model Hatsun to report revenue and PAT CAGRs of 14.8% and 61.5% over FY23-FY25E and RoE to move to 25.9% in FY25E from 13% in FY23. At our revised DCF-based target price of INR 1,000 (prior TP: INR 880), the implied P/E works out to 50x FY25E EPS. Maintain HOLD.

### Exhibit 10: DCF-based valuation

Particulars	Amt (INR)
Cost of equity	11.1%
Terminal growth rate	4.0%
Discounted interim cash flows (INR mn)	78,540
Discounted terminal value (INR mn)	1,44,247
Total equity value (INR mn)	2,22,787
<b>Value per share (INR)</b>	<b>1,000</b>

Source: Company data, I-Sec research

## Risks

### Sharp increase in input prices and competitive pressures

Major increase in milk procurement prices and/or increase in competitive pressures may result in downside to our estimates.

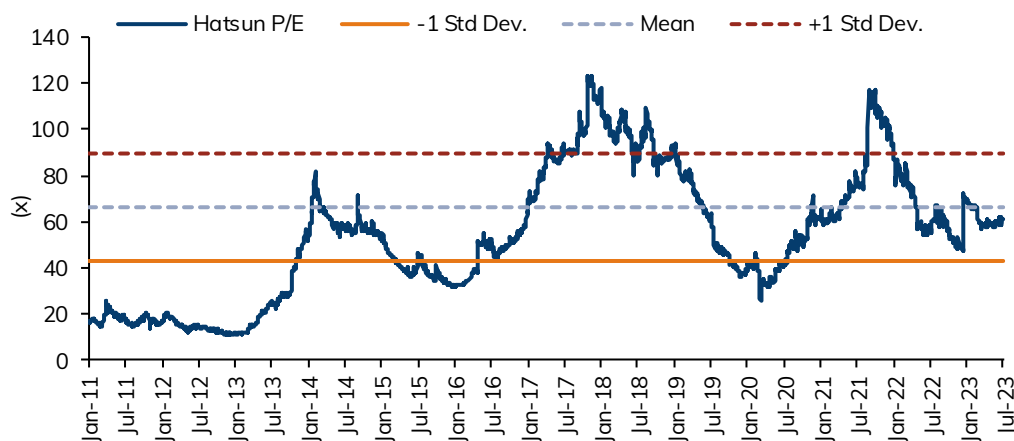
### Delays in launch of new plants/products

Any delays in launch of new products and/or plants may result in lower earnings than estimated.

### Economic recovery

Stronger economic recovery than expected.

### Exhibit 11: Mean P/E and standard deviations



Source: I-Sec research, Bloomberg

**Exhibit 12: Shareholding pattern**

%	Dec'22	Mar'22	Jun'23
Promoters	73.0	73.1	73.1
Institutional investors	12.1	12.1	12.6
MFs and other	7.9	8.0	8.2
Banks & FIs	0.0	0.0	0.0
FIIIs	4.2	4.1	4.4
Others	14.9	14.8	14.3

Source: Bloomberg, I-Sec research

**Exhibit 13: Price chart**

Source: Bloomberg, I-Sec research

## Financial Summary

### Exhibit 14: Profit & Loss

(INR mn, year ending March)

	FY22A	FY23A	FY24E	FY25E
<b>Net Sales</b>	<b>63,704</b>	<b>72,470</b>	<b>82,905</b>	<b>95,516</b>
Operating Expenses	56,491	65,455	73,852	84,709
<b>EBITDA</b>	<b>7,213</b>	<b>7,014</b>	<b>9,053</b>	<b>10,807</b>
EBITDA Margin (%)	11.3	9.7	10.9	11.3
Depreciation & Amortization	3,108	3,615	4,198	4,543
EBIT	4,105	3,399	4,855	6,264
Interest expenditure	1,066	1,259	1,016	710
Other Non-operating Income	98	106	115	138
<b>Recurring PBT</b>	<b>3,137</b>	<b>2,246</b>	<b>3,953</b>	<b>5,692</b>
<b>Profit / (Loss) from Associates</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
Less: Taxes	655	587	949	1,366
PAT	2,482	1,659	3,004	4,326
Less: Minority Interest	-	-	-	-
Extraordinaries (Net)	-	-	-	-
<b>Net Income (Reported)</b>	<b>2,482</b>	<b>1,659</b>	<b>3,004</b>	<b>4,326</b>
<b>Net Income (Adjusted)</b>	<b>2,482</b>	<b>1,659</b>	<b>3,004</b>	<b>4,326</b>

Source Company data, I-Sec research

### Exhibit 15: Balance sheet

(INR mn, year ending March)

	FY22A	FY23A	FY24E	FY25E
Total Current Assets	7,995	7,600	8,941	9,642
of which cash & cash eqv.	397	419	752	370
Total Current Liabilities & Provisions	4,963	5,257	7,627	8,787
<b>Net Current Assets</b>	<b>3,033</b>	<b>2,343</b>	<b>1,313</b>	<b>854</b>
Investments	954	1,218	1,218	1,218
Net Fixed Assets	24,019	26,068	25,865	24,422
ROU Assets	-	-	-	-
Capital Work-in-Progress	2,371	2,545	-	-
Total Intangible Assets	77	77	77	77
Other assets	-	-	-	-
Deferred Tax assets	-	-	-	-
<b>Total Assets</b>	<b>30,454</b>	<b>32,251</b>	<b>28,474</b>	<b>26,572</b>
<b>Liabilities</b>				
<b>Borrowings</b>	<b>18,896</b>	<b>17,443</b>	<b>12,443</b>	<b>8,443</b>
<b>Deferred Tax Liability</b>	<b>470</b>	<b>402</b>	<b>402</b>	<b>402</b>
provisions	-	-	-	-
other Liabilities	-	-	-	-
Equity Share Capital	216	223	223	223
Reserves & Surplus	10,872	14,184	15,406	17,504
<b>Total Net Worth</b>	<b>11,088</b>	<b>14,407</b>	<b>15,629</b>	<b>17,727</b>
Minority Interest	-	-	-	-
<b>Total Liabilities</b>	<b>30,454</b>	<b>32,251</b>	<b>28,474</b>	<b>26,572</b>

Source Company data, I-Sec research

### Exhibit 16: Quarterly trend

(INR mn, year ending March)

	Sep-22	Dec-22	Mar-23	Jun-23
Net Sales	17,477	16,952	17,895	21,506
% growth (YOY)	6.9	7.5	10.0	6.8
EBITDA	1,767	1,901	1,564	2,379
Margin %	10.1	11.2	8.7	11.1
Other Income	31	5	16	22
Extraordinaries	-	-	(14)	(4)
<b>Adjusted Net Profit</b>	<b>425</b>	<b>464</b>	<b>236</b>	<b>798</b>

Source Company data, I-Sec research

### Exhibit 17: Cashflow statement

(INR mn, year ending March)

	FY22A	FY23A	FY24E	FY25E
<b>Operating Cashflow</b>	<b>5,764</b>	<b>5,972</b>	<b>8,565</b>	<b>8,945</b>
Working Capital Changes	(1,228)	712	1,363	76
Capital Commitments	(5,651)	(5,839)	(2,800)	(3,100)
<b>Free Cashflow</b>	<b>113</b>	<b>133</b>	<b>5,765</b>	<b>5,845</b>
<b>Other investing cashflow</b>	<b>-</b>	<b>-</b>	<b>1,350</b>	<b>-</b>
Cashflow from Investing Activities	(5,651)	(5,839)	(1,450)	(3,100)
Issue of Share Capital	-	2,902	-	-
Interest Cost	-	-	-	-
Inc (Dec) in Borrowings	(82)	(1,453)	(5,000)	(4,000)
Dividend paid	-	(1,560)	(1,782)	(2,228)
Others	-	-	-	-
Cash flow from Financing Activities	(82)	(110)	(6,782)	(6,228)
<b>Chg. in Cash &amp; Bank balance</b>	<b>30</b>	<b>23</b>	<b>333</b>	<b>(383)</b>
Closing cash & balance	371	419	752	370

Source Company data, I-Sec research

### Exhibit 18: Key ratios

(Year ending March)

	FY22A	FY23A	FY24E	FY25E
<b>Per Share Data (INR)</b>				
Reported EPS	11.5	7.4	13.5	19.4
Adjusted EPS (Diluted)	11.5	7.4	13.5	19.4
Cash EPS	25.9	23.7	32.3	39.8
Dividend per share (DPS)	-	7.0	8.0	10.0
Book Value per share (BV)	51.4	64.7	70.2	79.6
Dividend Payout (%)	-	94.0	59.3	51.5
<b>Growth (%)</b>				
Net Sales	14.4	13.8	14.4	15.2
EBITDA	(7.4)	(2.8)	29.1	19.4
EPS (INR)	0.8	(35.3)	81.2	44.0
<b>Valuation Ratios (x)</b>				
P/E	84.8	131.1	72.4	50.3
P/CEPS	37.6	41.2	30.2	24.5
P/BV	19.0	15.1	13.9	12.3
EV / EBITDA	31.6	33.3	25.2	20.8
P / Sales	3.3	3.0	2.6	2.3
Dividend Yield (%)	-	0.7	0.8	1.0
<b>Operating Ratios</b>				
Gross Profit Margins (%)	30.8	28.5	30.2	30.6
EBITDA Margins (%)	11.3	9.7	10.9	11.3
Effective Tax Rate (%)	20.9	26.1	24.0	24.0
Net Profit Margins (%)	3.9	2.3	3.6	4.5
NWC / Total Assets (%)	36.4	44.7	54.9	66.7
Net Debt / Equity (x)	1.6	1.1	0.7	0.4
Net Debt / EBITDA (x)	2.4	2.3	1.2	0.6
<b>Profitability Ratios</b>				
RoCE (%)	12.6	8.4	12.6	17.6
RoE (%)	23.3	13.0	20.0	25.9
RoIC (%)	12.6	8.4	12.6	17.6
Fixed Asset Turnover (x)	2.0	1.9	1.9	2.0
Inventory Turnover Days	37	31	31	31
Receivables Days	0	0	1	1
Payables Days	29	28	35	35

Source Company data, I-Sec research

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Name of the Compliance officer (Research Analyst): Mr. Atul Agrawal, Contact number: 022-40701000, **E-mail Address** : [complianceofficer@icicisecurities.com](mailto:complianceofficer@icicisecurities.com)

For any queries or grievances: [Mr. Prabodh Avadhoot](mailto:Mr.Prabodh.Avadhoot) Email address: [headservicequality@icicidirect.com](mailto:headservicequality@icicidirect.com) Contact Number: 18601231122

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