

23 April 2024

India | Equity Research | Q4FY24 results review

Hatsun Agro Products

Dairy

Strong volume led revenue growth and margin tailwinds; Upgrade to BUY

Hatsun reported highest gross margins in past 10 quarters underlining the cyclical recovery in margins due to lower milk procurement prices. We believe margins may expand even in FY25 as (1) the company has accumulated large inventory of low priced SMP at end of FY24. We model Hatsun to utilize it if milk procurement prices inch upwards, (2) higher utilization of Govindapuram (AP) and Solapur (Maharashtra) plants and (3) higher revenue share of ice cream. The company has also introduced chocolates under the brands Hanobar and Havia in FY24. We believe success of chocolates will likely be margin and DCF accretive. We remain positive on Hatsun due to competitive advantages such as established brands, distribution and direct milk procurement. We marginally raise FY25E and FY26E earnings by 0.4% and 3.3%, respectively.

With 10% stock price correction over past six months and earning tailwinds, we upgrade stock to **BUY** from HOLD with a DCF-based TP of INR 1,190 (implied P/E of 50x FY26E; earlier TP: INR 1,145).

Q4FY24 results

Hatsun reported revenue, EBITDA and PAT growth of 14.4%, 46.8% and 108.7%, respectively, YoY. Revenue was led by the volumes as there were no price hikes in past 12 months. Gross and EBITDA margin expanded 386bps and 248bps, respectively YoY largely due to commodity deflation. PAT growth was 108.7% YoY in spite of higher depreciation (+16.1% YoY) and interest cost (+68.5% YoY).

Margin expansion likely to continue in H1FY25E

The deflationary trend in procurement prices seem to have continued in Q4FY24 as the company has reported highest gross margin of 30.7% in past 10 quarters. We believe EBITDA margin expansion may continue even in FY25 due to: (1) lower milk procurement prices; (2) higher revenue share of ice cream, (3) accumulation of low priced inventory and (4) improved capacity utilisation at Solapur and Govindapur facilities. We model EBITDA margin to be 12.1% in FY25E compared to 11.3% in FY24.

Accumulation of SMP inventory at lower prices

Hatsun's inventory at end of FY24 has increased 2.5x YoY. We believe the company is prudently utilising the deflationary trend in commodity prices to accumulate the SMP inventory. We believe it will likely help to maintain profitability if the milk procurement prices inch upwards in H2FY25.

Financial Summary

Y/E March (INR mn)	FY23A	FY24A	FY25E	FY26E
Net Revenue	72,470	79,904	91,623	1,05,070
EBITDA	7,014	8,990	11,079	12,592
EBITDA Margin (%)	9.7	11.3	12.1	12.0
Net Profit	1,659	2,673	3,976	5,278
EPS (INR)	7.4	12.0	17.8	23.7
EPS % Chg YoY	(35.3)	61.2	48.8	32.7
P/E (x)	137.8	85.5	57.5	43.3
EV/EBITDA (x)	35.0	28.1	21.7	18.7
RoCE (%)	8.3	10.2	13.3	18.7
RoE (%)	13.0	17.7	23.7	27.1

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Market Data

Market Cap (INR)	228bn
Market Cap (USD)	2,743mn
Bloomberg Code	HTSMF IN
Reuters Code	HAPL.BO
52-week Range (INR)	1,233 /826
Free Float (%)	23.0
ADTV-3M (mn) (USD)	0.3

Price Performance (%)	3m	6m	12m
Absolute	(6.5)	(9.5)	20.8
Relative to Sensex	(9.6)	(22.1)	(2.7)

Earnings Revisions (%)	FY25E	FY26E
Revenue	1.4	1.9
EBITDA	7.9	6.2
EPS	0.4	3.3

Previous Reports

22-01-2024: [Q3FY24 results review](#)
20-10-2023: [Q2FY24 results review](#)

Launch of new brands in chocolates

The company has introduced two chocolate brands as Hanobar and Havia in FY24. We believe success in chocolates to be margin and value accretive in medium term.

Drought in Karnataka may impact consumer off-take

Drought in Karnataka may impact consumer off-take and we reckon high probability for lower farmer income and higher procurement prices in the region. As Karnataka is a key operating market (~10% of sales) for Hatsun, the impact of drought may act as a near-term headwind, in our view.

Upgrade to BUY

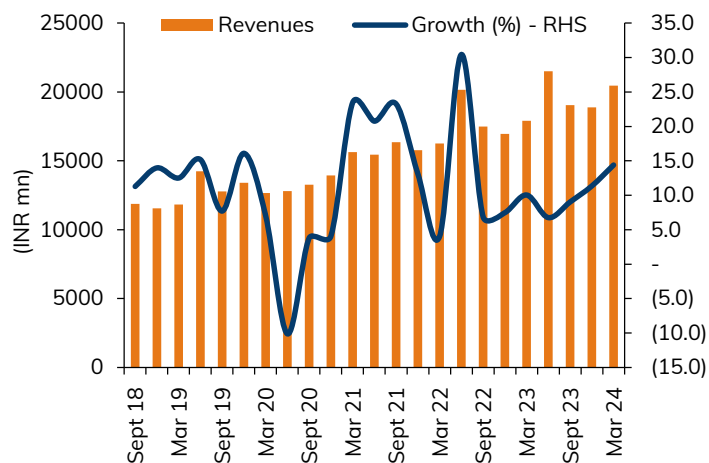
We model Hatsun to report revenue and EBITDA CAGR of 14.7% and 18.4%, respectively over FY24-FY26E. At our revised DCF-based TP to INR 1,190, the implied target P/E works out to be 50x FY26E. Upgrade to **BUY** from earlier **HOLD**.

Key risks are higher competitive pressures and raw material prices.

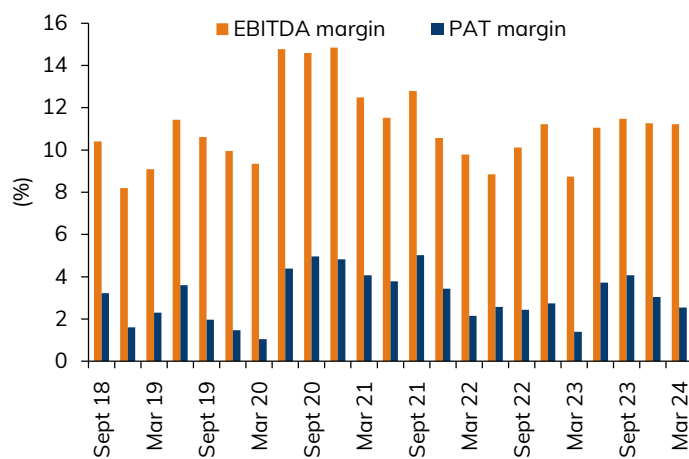
Exhibit 1: Q4FY24 financial performance

Y/e March (INR mn)	Q4FY24	Q4FY23	YoY gr.	Q3FY24	QoQ gr.
Revenue	20,469	17,895	14.4	18,875	8.4
Expenditure					
Raw materials	14,193	13,100	8.3	13,145	8.0
% of revenue	69.3	73.2		69.6	
Employee cost	604	588	2.7	551	9.8
% of revenue	3.0	3.3		2.9	
Other expenditure	3,375	2,642	27.7	3,052	10.6
% of revenue	16.5	14.8		16.2	
Total expenditure	18,173	16,330	11.3	16,748	8.5
EBITDA	2,296	1,564	46.8	2,127	8.0
EBITDA margin (%)	11.2	8.7		11.3	
Other income	22	16	33.3	41	(46.9)
PBDIT	2,318	1,581	46.6	2,168	6.9
Depreciation	1,109	955	16.1	1,016	9.1
PBIT	1,209	625	93.3	1,151	5.0
Interest	500	297	68.5	385	29.9
PBT	709	329	115.6	767	(7.5)
Prov. for tax	187	79	137.3	193	(2.7)
% of PBT	26.4	24.0		25.1	
Adjusted PAT	522	250	108.7	574	(9.1)
Extra ordinary items	(24)	(14)	72.6	(1)	-
Reported PAT	497	236	110.9	573	(13.2)

Source: Company data, I-Sec research

Exhibit 2: Revenue growth trend

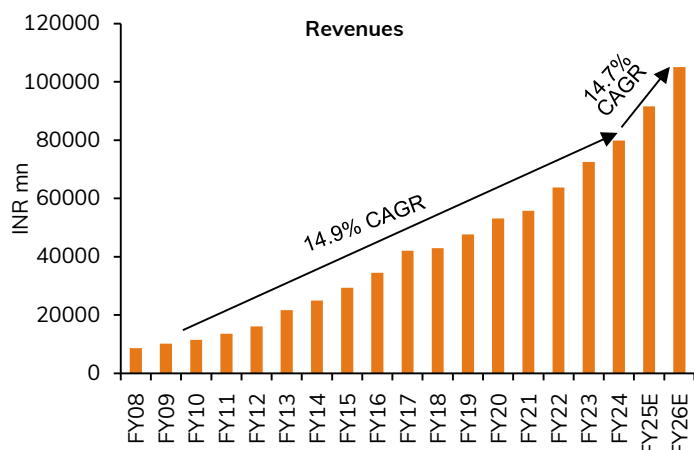
Source: Company data, I-Sec research

Exhibit 3: EBITDA and PAT margin trend

Source: Company data, I-Sec research

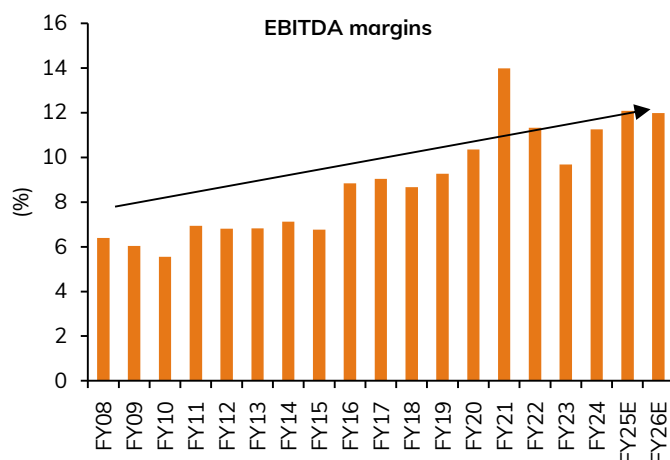
Key highlights – Annual

Exhibit 4: Revenue and growth rates



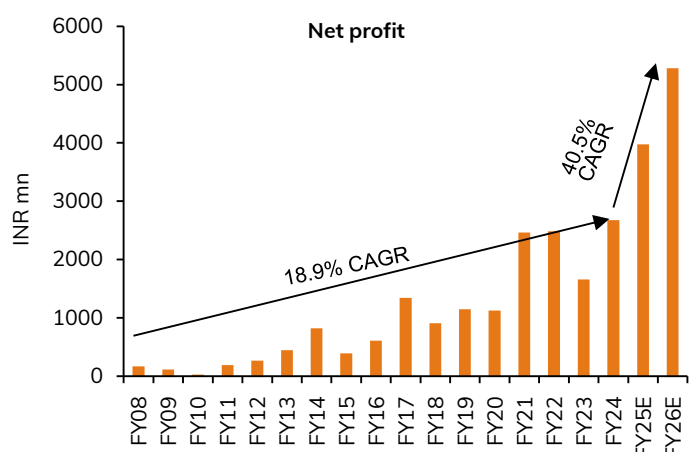
Source: Company data, I-Sec research

Exhibit 5: EBITDA margins



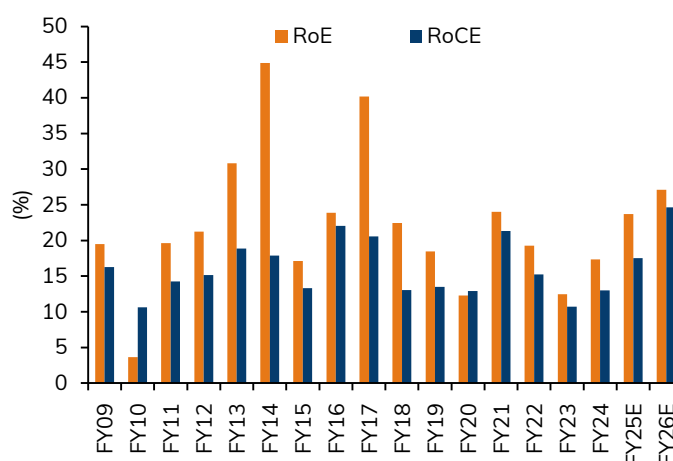
Source: Company data, I-Sec research

Exhibit 6: PAT and growth rates



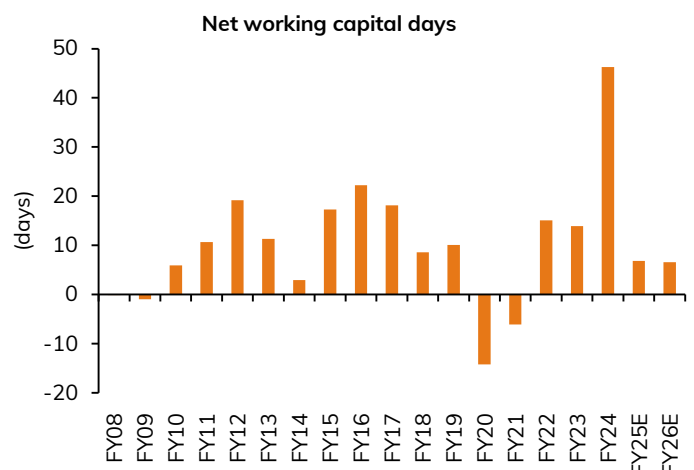
Source: Company data, I-Sec research

Exhibit 7: ROE & RoCE



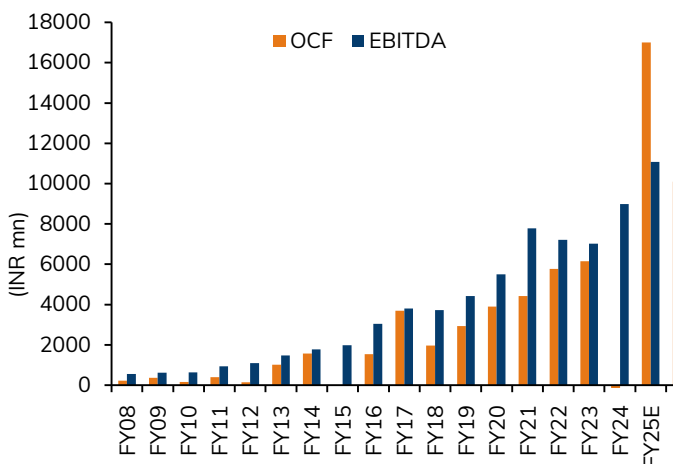
Source: Company data, I-Sec research

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

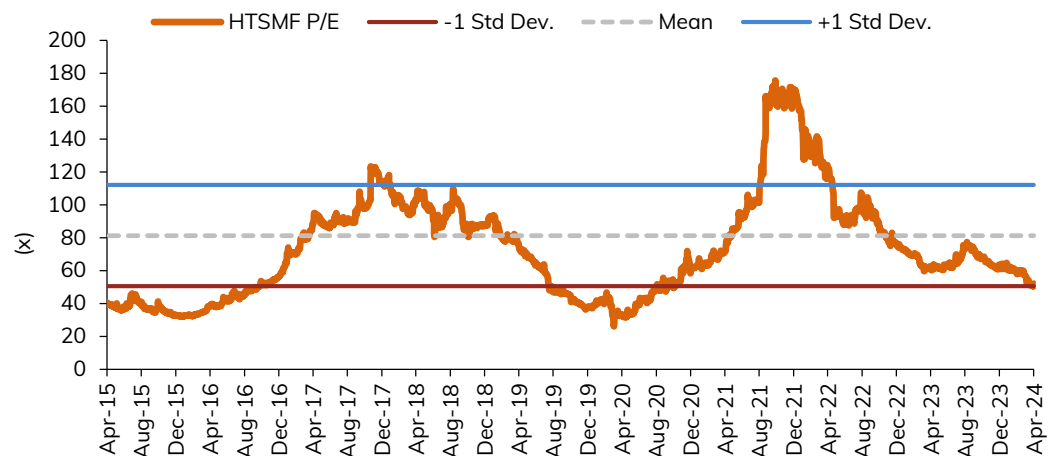
We model Hatsun to report revenue and PAT CAGRs of 14.7% and 40.5% over FY24-FY26E, respectively, and RoE to move to 27.1% in FY26E from 17.7% in FY24. At our revised DCF-based target price of INR 1,190, the implied P/E works out to 50x FY26E EPS. Upgrade to **BUY** from earlier HOLD.

Exhibit 10: DCF-based valuation

Particulars	Amt (INR)
Cost of equity	11.0%
Terminal growth rate	5.0%
Discounted interim cash flows (INR mn)	96,928
Discounted terminal value (INR mn)	1,68,188
Total equity value (INR mn)	2,65,117
Value per share (INR)	1,190

Source: Company data, I-Sec research

Exhibit 11: Mean PE (x) and standard deviations



Source: Company Data, I-Sec research, Bloomberg

Risks

Sharp increase in input prices and competitive pressures

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

Delays in launch of new plants/products

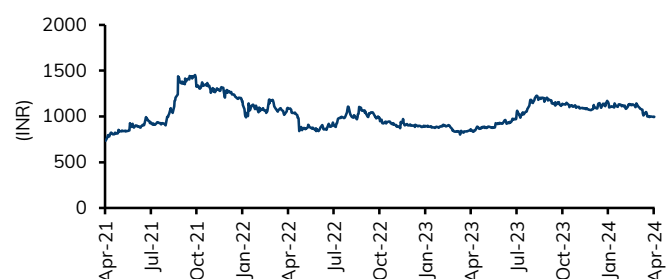
Any delays in launch of new products and/or plants may result in lower earnings than estimated.

Exhibit 12: Shareholding pattern

%	Sep'23	Dec'23	Mar'24
Promoters	73.1	73.1	73.2
Institutional investors	12.8	12.8	12.7
MFs and others	9.5	9.4	9.6
FIs/Banks	0.0	0.0	0.0
Insurance	0.0	0.0	0.0
FIIIs	3.3	3.3	3.1
Others	14.1	14.1	14.1

Source: Bloomberg

Exhibit 13: Price chart



Source: Bloomberg

Financial Summary

Exhibit 14: Profit & Loss

(INR mn, year ending March)

	FY23A	FY24A	FY25E	FY26E
Net Sales	72,470	79,904	91,623	1,05,070
Operating Expenses	65,455	70,914	80,544	92,477
EBITDA	7,014	8,990	11,079	12,592
EBITDA Margin (%)	9.7	11.3	12.1	12.0
Depreciation & Amortization	3,615	4,095	4,613	5,000
EBIT	3,399	4,895	6,465	7,593
Interest expenditure	1,259	1,542	1,368	773
Other Non-operating Income	106	226	135	125
Recurring PBT	2,246	3,579	5,232	6,945
Profit / (Loss) from Associates	-	-	-	-
Less: Taxes	587	906	1,256	1,667
PAT	1,659	2,673	3,976	5,278
Less: Minority Interest	-	-	-	-
Extraordinaries (Net)	(14)	(21)	-	-
Net Income (Reported)	1,645	2,652	3,976	5,278
Net Income (Adjusted)	1,659	2,673	3,976	5,278

Source Company data, I-Sec research

Exhibit 15: Balance sheet

(INR mn, year ending March)

	FY23A	FY24A	FY25E	FY26E
Total Current Assets	7,600	15,905	8,702	9,943
of which cash & cash eqv.	419	533	391	480
Total Current Liabilities & Provisions	4,421	5,246	6,597	7,565
Net Current Assets	3,178	10,659	2,105	2,378
Investments	1,218	1,390	1,390	1,390
Net Fixed Assets	26,068	27,590	28,110	26,110
ROU Assets	-	-	-	-
Capital Work-in-Progress	2,545	2,384	-	-
Total Intangible Assets	77	77	77	77
Other assets	-	-	-	-
Deferred Tax assets	-	-	-	-
Total Assets	33,087	42,100	31,683	29,956
Liabilities				
Borrowings	18,278	26,361	13,861	8,861
Deferred Tax Liability	402	17	17	17
provisions	-	-	-	-
other Liabilities	-	-	-	-
Equity Share Capital	223	223	223	223
Reserves & Surplus	14,184	15,500	17,583	20,855
Total Net Worth	14,407	15,723	17,805	21,078
Minority Interest	-	-	-	-
Total Liabilities	33,087	42,100	31,683	29,956

Source Company data, I-Sec research

Exhibit 16: Quarterly trend

(INR mn, year ending March)

	Jun-23	Sept-23	Dec-23	Mar-24
Net Sales	21,506	19,054	18,875	20,469
% growth (YOY)	6.8	9.0	11.3	14.4
EBITDA	2,379	2,188	2,127	2,296
Margin %	11.1	11.5	11.3	11.2
Other Income	22	141	41	22
Extraordinaries	(4)	8	(1)	(24)
Adjusted Net Profit	798	784	573	497

Source Company data, I-Sec research

Exhibit 17: Cashflow statement

(INR mn, year ending March)

	FY23A	FY24A	FY25E	FY26E
Operating Cashflow	6,152	(1,862)	17,002	10,093
Working Capital Changes	1,027	(8,480)	8,412	(184)
Capital Commitments	(4,712)	(5,353)	(2,750)	(3,000)
Free Cashflow	1,441	(7,215)	14,252	7,093
Other investing cashflow	284	1,436	-	-
Cashflow from Investing Activities	(4,428)	(3,917)	(2,750)	(3,000)
Issue of Share Capital	2,968	-	-	-
Interest Cost	-	-	-	-
Inc (Dec) in Borrowings	(3,399)	7,251	(12,500)	(5,000)
Dividend paid	(1,293)	(1,336)	(1,894)	(2,005)
Others	-	-	-	-
Cash flow from Financing Activities	(1,725)	5,915	(14,394)	(7,005)
Chg. in Cash & Bank balance	0	136	(142)	88
Closing cash & balance	371	507	391	480

Source Company data, I-Sec research

Exhibit 18: Key ratios

(Year ending March)

	FY23A	FY24A	FY25E	FY26E
Per Share Data (INR)				
Reported EPS	7.4	12.0	17.8	23.7
Adjusted EPS (Diluted)	7.4	12.0	17.8	23.7
Cash EPS	23.7	30.4	38.6	46.1
Dividend per share (DPS)	5.8	6.0	8.5	9.0
Book Value per share (BV)	64.7	70.6	79.9	94.6
Dividend Payout (%)	78.0	50.0	47.6	38.0
Growth (%)				
Net Sales	13.8	10.3	14.7	14.7
EBITDA	(2.8)	28.2	23.2	13.7
EPS (INR)	(35.3)	61.2	48.8	32.7
Valuation Ratios (x)				
P/E	137.8	85.5	57.5	43.3
P/CEPS	43.3	33.8	26.6	22.2
P/BV	15.9	14.5	12.8	10.8
EV / EBITDA	35.0	28.1	21.7	18.7
P / Sales	3.2	2.9	2.5	2.2
Dividend Yield (%)	0.6	0.6	0.8	0.9
Operating Ratios				
Gross Profit Margins (%)	28.5	29.7	30.7	30.7
EBITDA Margins (%)	9.7	11.3	12.1	12.0
Effective Tax Rate (%)	26.1	25.3	24.0	24.0
Net Profit Margins (%)	2.3	3.3	4.3	5.0
NWC / Total Assets (%)	8.3	24.1	5.4	6.3
Net Debt / Equity (x)	1.2	1.6	0.7	0.3
Net Debt / EBITDA (x)	2.4	2.7	1.1	0.6
Profitability Ratios				
RoCE (%)	8.3	10.2	13.3	18.7
RoE (%)	13.0	17.7	23.7	27.1
RoC (%)	8.3	10.2	13.3	18.7
Fixed Asset Turnover (x)	1.9	1.9	1.9	2.0
Inventory Turnover Days	31	70	31	31
Receivables Days	0	0	1	1
Payables Days	23	24	27	27

Source Company data, I-Sec research

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