Hatsun Agro Products

Dairy

Lower-than-expected revenue growth; margin expansion remains strong

Takeaways: (1) Hatsun reported gross/EBITDA margin expansion (+49bps/15bps YoY) in spite of Q2FY24's relatively high base. The expansion is largely led by: (i) stable milk procurement prices; and (ii) better product mix, in our view. We believe the buoyant margin trajectory may sustain in H2FY25E, considering expected stability in milk procurement prices and higher capacity utilisation. However, we believe a cyclical upturn in milk procurement prices may impact margins in Q4FY25 and beyond. (2) Lower inventory on the Sep'24 balance sheet indicates liquidation of SMP inventory in H1FY25. (3) Net debt/equity ratio stands at 1.3x vs. 1.6x in Mar'24 due to repayment of short-term debt. We remain positive on Hatsun given its competitive advantages – established brands, distribution and direct milk procurement. We cut FY25E/FY26E earnings by 10%/8% to factor in the H1FY25 results. Retain **BUY**.

Q2FY25 results

Hatsun saw revenue/EBITDA growth of 8.7%/10.2%YoY. However, PAT fell 17.1% YoY, likely due to lower other income and soft revenue growth. The rise in interest cost from accumulation of SMP inventory on its balance sheet has also led to lower earnings. Gross margin (GM) expanded 49bps YoY/15bps QoQ likely led by lower milk procurement prices and change in product mix.

Lower balance sheet inventory, likely SMP inventory liquidation

Inventory on the Sep'24 balance sheet shrunk to INR 11.5bn vs. INR 14.5bn at Mar'24. We reckon Hatsun may have liquidated SMP inventory (accumulated when milk procurement prices were lower) in H1FY25. Hatsun's net debt/equity ratio stands at 1.3x at Sep'24 vs. 1.6x at Mar'24. We note, borrowings have reduced to INR 22.4bn in Sep'24 vs. INR 26.4bn at Mar'24.

Margins may benefit from stable milk procurement prices

We expect the buoyant gross/EBITDA trajectory to continue in H2FY25E, considering the possibility of stable milk procurement prices. We believe a good flush season may result in stable milk procurement prices. Additionally, higher capacity utilisation at newly built plants may lead to margin expansion.

Maintain BUY

We see Hatsun reporting FY24–27E revenue/PAT CAGRs of 14%/37.2%. Our DCF-based revised TP of INR 1,250 (vs, INR 1,400) implies a P/E of 53x/40x FY26E/FY27E. Retain **BUY**.

Key risks: Higher competitive pressures; and material inflation in RM prices.

Financial Summary

Y/E March (INR mn)	FY24A	FY25E	FY26E	FY27E
Net Revenue	79,904	90,739	1,03,568	1,18,229
EBITDA	8,990	10,744	12,307	14,453
EBITDA Margin (%)	11.3	11.8	11.9	12.2
Net Profit	2,673	3,895	5,227	6,900
EPS (INR)	12.0	17.5	23.5	31.0
EPS % Chg YoY	61.2	45.7	34.2	32.0
P/E (x)	89.0	61.1	45.5	34.5
EV/EBITDA (x)	29.2	23.3	19.9	16.5
RoCE (%)	10.2	13.1	18.7	24.1
RoE (%)	17.7	23.3	27.0	29.6

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Market Data

Market Cap (INR)	238bn
Market Cap (USD)	2,829mn
Bloomberg Code	HTSMF IN
Reuters Code	HAPL.BO
52-week Range (INR)	1,400 /956
Free Float (%)	23.0
ADTV-3M (mn) (USD)	1.3

Price Performance (%)	3m	6m	12m
Absolute	(15.9)	(0.3)	(4.5)
Relative to Sensex	(13.2)	(6.9)	(26.9)

ESG Score	2022	2023	Change
ESG score	**48.2**	**59.8**	**11.6**
Environment	23.0	32.7	9.7
Social	36.3	60.9	24.6
Governance	76.0	78.8	2.8

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

Source: SES ESG, I-sec research

Earnings Revisions (%)	FY25E	FY26E
Revenue	(1.0)	(1.4)
EBITDA	(5.0)	(4.3)
EPS	(9.9)	(7.6)

Previous Reports

31-07-2024: Company Update

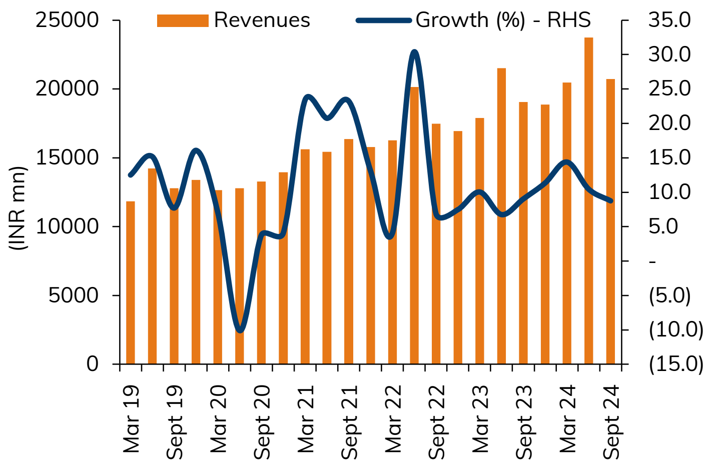
16-07-2024: Q1FY25 results review

Exhibit 1: Q2FY25 financial performance

Y/e March (INR mn)	Q2FY25	Q2FY24	YoY % chg.	Q1FY25	QoQ % chg.	H1FY25	H1FY24	YoY % chg.
Revenue	**20,721**	**19,054**	**8.7**	**23,751**	**(12.8)**	**44,472**	**40,560**	**9.6**
Expenditure								
Raw materials	14,402	13,336	8.0	16,241	(11.3)	30,643	28,852	6.2
% of revenue	69.5	70.0		68.4		68.9	71.1	
Employee cost	602	549	9.5	590	1.9	1,192	1,107	7.6
% of revenue	2.9	2.9		2.5		2.7	2.7	
Other expenditure	3,306	2,980	10.9	3,616	(8.6)	6,922	6,035	14.7
% of revenue	16.0	15.6		15.2		15.6	14.9	
Total expenditure	18,310	16,866	8.6	20,448	(10.5)	38,757	35,994	7.7
EBITDA	**2,411**	**2,188**	**10.2**	**3,303**	**(27.0)**	**5,715**	**4,567**	**25.1**
EBITDA margin	*11.6*	*11.5*		*13.9*		*12.8*	*11.3*	
Other income	66	141	(53.1)	22	205.1	88	164	(46.2)
PBDIT	**2,478**	**2,329**	**6.4**	**3,325**	**(25.5)**	**5,802**	**4,730**	**22.7**
Depreciation	1,156	995	16.1	1,110	4.1	2,266	1,970	15.0
PBIT	**1,322**	**1,334**	**(0.9)**	**2,214**	**(40.3)**	**3,536**	**2,761**	**28.1**
Interest	447	322	39.0	459	(2.5)	906	657	37.8
PBT	**875**	**1,013**	**(13.6)**	**1,756**	**(50.2)**	**2,631**	**2,103**	**25.1**
Prov. for tax	232	237	(2.2)	450	(48.5)	682	526	29.7
% of PBT	26.5	23.4		25.7		25.9	25.0	
Adjusted PAT	**643**	**776**	**(17.1)**	**1,305**	**(50.7)**	**1,949**	**1,577**	**23.5**
Extra ordinary items	(9)	8	-	9	-	(1)	5	-
Reported PAT	**634**	**784**	**(19.1)**	**1,314**	**(51.7)**	**1,948**	**1,582**	**23.1**

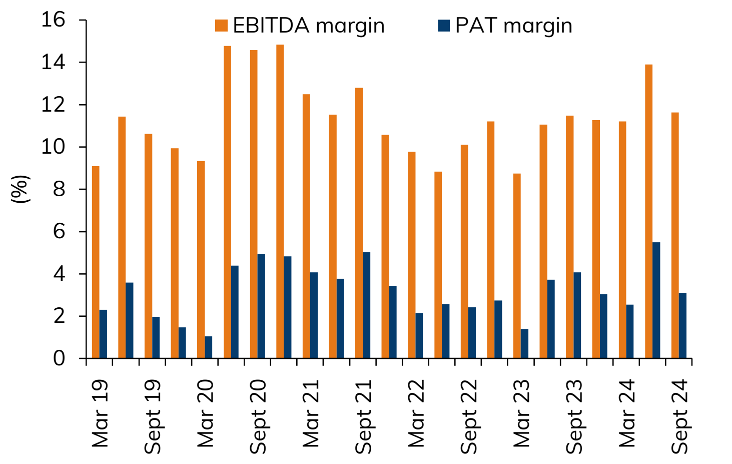
Source: Company data, I-Sec research

Exhibit 2: Revenue growth trend



Source: Company data, I-Sec research

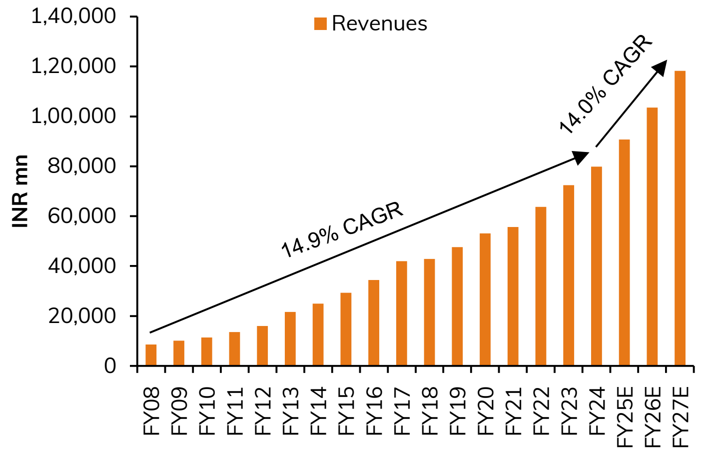
Exhibit 3: EBITDA and PAT margin trend



Source: Company data, I-Sec research

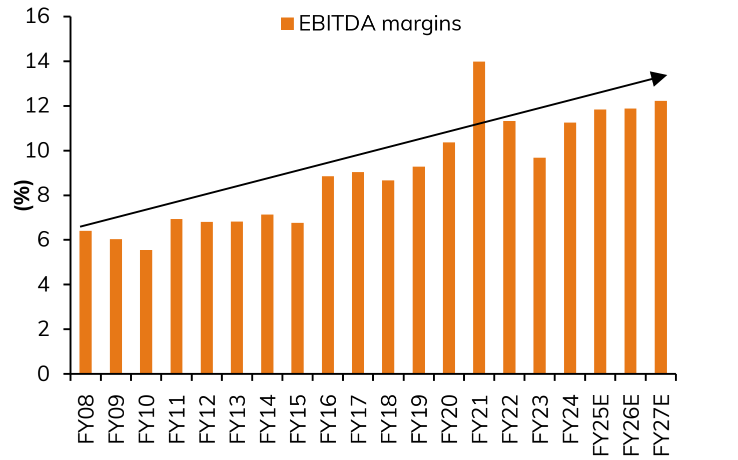
Key highlights – Annual

Exhibit 4: Revenue and growth rates



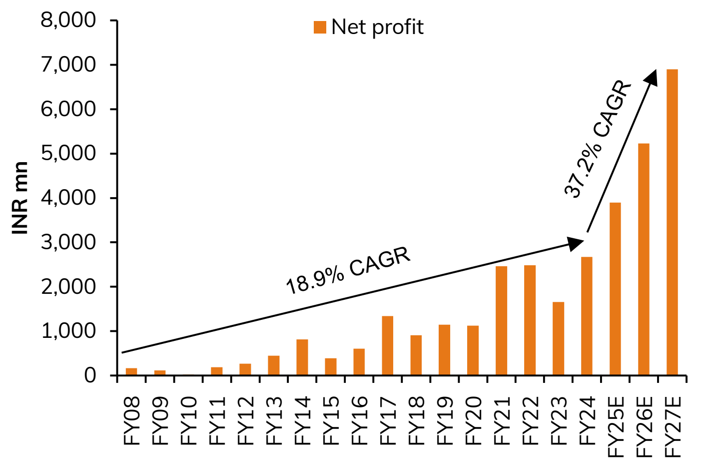
Source: Company data, I-Sec research

Exhibit 5: EBITDA margins



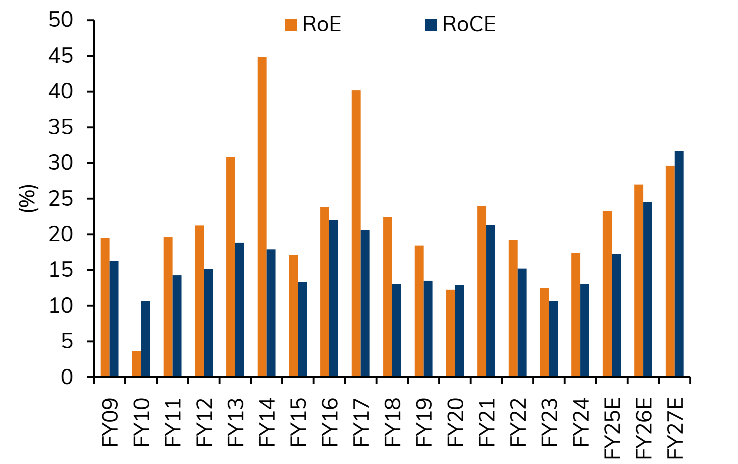
Source: Company data, I-Sec research

Exhibit 6: PAT and growth rates



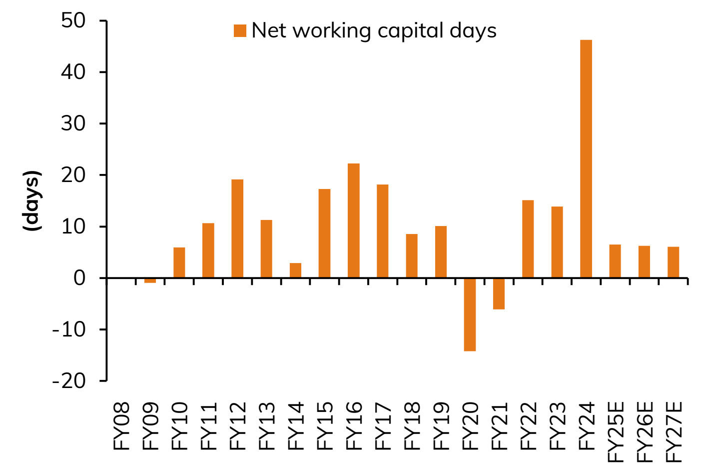
Source: Company data, I-Sec research

Exhibit 7: RoE and RoCE



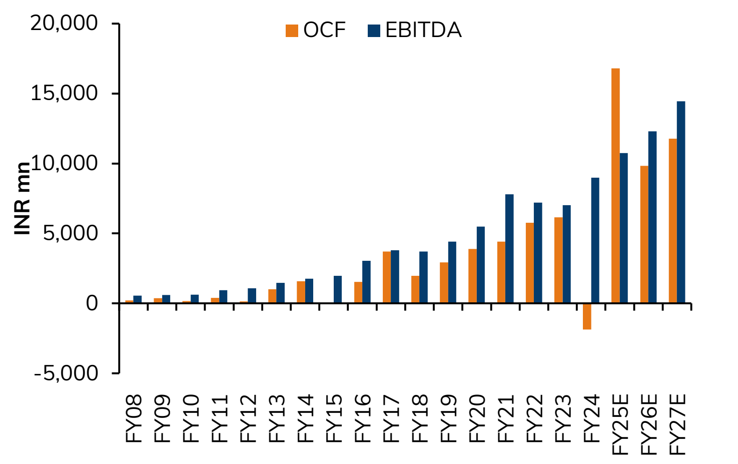
Source: Company data, I-Sec research

Exhibit 8: Net working capital days



Source: Company data, I-Sec research

Exhibit 9: OCF and EBITDA



Source: Company data, I-Sec research

Valuation and risks

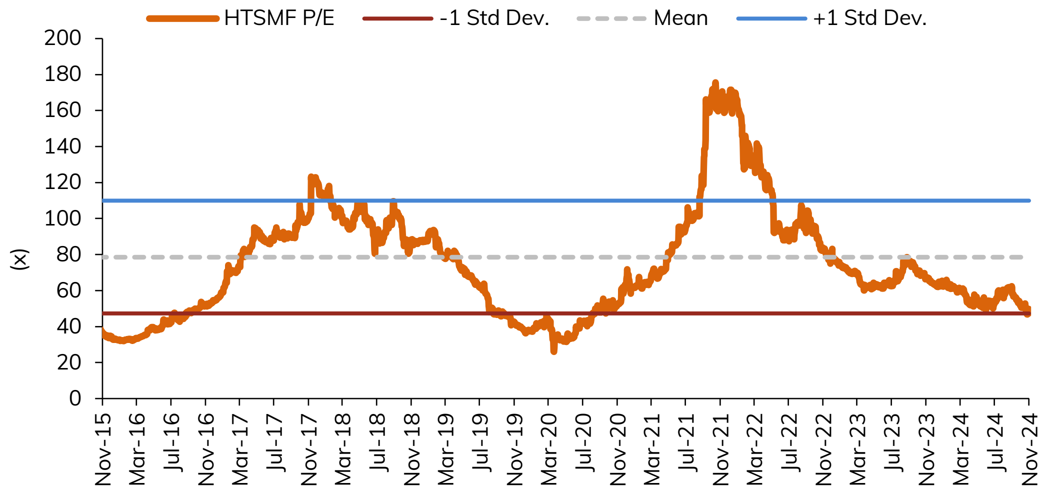
We model Hatsun to report revenue and PAT CAGRs of 14% and 37.2% over FY24-FY27E, respectively, and RoE to move to 31.7% in FY27E, from 17.7% in FY24. At our DCF-based revised target price of INR 1,250 (earlier INR1,400), the implied P/E works out to 53x/40x FY26/FY27E EPS. Maintain **BUY**.

Exhibit 10: DCF-based valuation

Particulars	
Cost of equity (%)	11.0%
Terminal growth rate (%)	5.0%
Discounted interim cash flows (INR mn)	1,27,308
Discounted terminal value (INR mn)	1,51,124
Total equity value (INR mn)	2,78,433
Value per share (INR)	**1,250**

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

%	Mar'24	Jun'24	Sep'24
Promoters	73.2	73.2	73.2
Institutional investors	12.7	12.7	13.5
MFs and others	9.6	9.6	9.9
FIs/Banks	0.0	0.0	0.0
Insurance	0.0	0.0	0.0
FIIs	3.1	3.1	3.6
Others	14.1	14.1	13.3

Source: Bloomberg

Exhibit 13: Price chart

Source: Bloomberg

Financial Summary

Exhibit 14: Profit & Loss

(INR mn, year ending March)

	FY24A	FY25E	FY26E	FY27E
Net Sales	**79,904**	**90,739**	**1,03,568**	**1,18,229**
Operating Expenses	70,914	79,996	91,261	1,03,776
EBITDA	**8,990**	**10,744**	**12,307**	**14,453**
EBITDA Margin (%)	11.3	11.8	11.9	12.2
Depreciation & Amortization	4,095	4,385	4,767	5,047
EBIT	4,895	6,358	7,540	9,406
Interest expenditure	1,542	1,368	773	433
Other Non-operating Income	226	135	110	105
Recurring PBT	**3,579**	**5,126**	**6,877**	**9,078**
Profit / (Loss) from Associates	**-**	**-**	**-**	**-**
Less: Taxes	906	1,230	1,651	2,179
PAT	2,673	3,895	5,227	6,900
Less: Minority Interest	-	-	-	-
Extraordinaries (Net)	(21)	-	-	-
Net Income (Reported)	**2,652**	**3,895**	**5,227**	**6,900**
Net Income (Adjusted)	**2,673**	**3,895**	**5,227**	**6,900**

Source Company data, I-Sec research

Exhibit 15: Balance sheet

(INR mn, year ending March)

	FY24A	FY25E	FY26E	FY27E
Total Current Assets	15,905	8,420	9,445	12,234
of which cash & cash eqv.	533	181	104	1,641
Total Current Liabilities & Provisions	5,246	6,624	7,560	8,631
Net Current Assets	**10,659**	**1,796**	**1,885**	**3,603**
Investments	1,390	1,390	1,390	1,390
Net Fixed Assets	27,590	28,339	26,472	24,425
ROU Assets	-	-	-	-
Capital Work-in-Progress	2,384	-	-	-
Total Intangible Assets	77	77	77	77
Other assets	-	-	-	-
Deferred Tax assets	-	-	-	-
Total Assets	**42,100**	**31,602**	**29,824**	**29,495**
Liabilities				
Borrowings	**26,361**	**13,861**	**8,861**	**3,861**
Deferred Tax Liability	**17**	**17**	**17**	**17**
provisions	-	-	-	-
other Liabilities	-	-	-	-
Equity Share Capital	223	223	223	223
Reserves & Surplus	15,500	17,501	20,723	25,395
Total Net Worth	**15,723**	**17,724**	**20,946**	**25,618**
Minority Interest	-	-	-	-
Total Liabilities	**42,100**	**31,602**	**29,824**	**29,495**

Source Company data, I-Sec research

Exhibit 16: Quarterly trend

(INR mn, year ending March)

	Dec-23	Mar-24	Jun-24	Sep-24
Net Sales	18,875	20,469	23,751	20,721
% growth (YOY)	11.3	14.4	10.4	8.7
EBITDA	2,127	2,296	3,303	2,411
Margin %	11.3	11.2	13.9	11.6
Other Income	41	22	22	66
Extraordinaries	(1)	(24)	9	(9)
Adjusted Net Profit	574	522	1,305	643

Source Company data, I-Sec research

Exhibit 17: Cashflow statement

(INR mn, year ending March)

	FY24A	FY25E	FY26E	FY27E
Operating Cashflow	**(1,862)**	**16,792**	**9,828**	**11,765**
Working Capital Changes	(8,480)	8,511	(165)	(182)
Capital Commitments	(5,353)	(2,750)	(2,900)	(3,000)
Free Cashflow	**(7,215)**	**14,042**	**6,928**	**8,765**
Other investing cashflow	**1,436**	**-**	**-**	**-**
Cashflow from Investing Activities	(3,917)	(2,750)	(2,900)	(3,000)
Issue of Share Capital	-	-	-	-
Interest Cost	-	-	-	-
Inc (Dec) in Borrowings	7,251	(12,500)	(5,000)	(5,000)
Dividend paid	(1,336)	(1,894)	(2,005)	(2,228)
Others	-	-	-	-
Cash flow from Financing Activities	5,915	(14,394)	(7,005)	(7,228)
Chg. in Cash & Bank balance	**136**	**(352)**	**(77)**	**1,537**
Closing cash & balance	507	181	104	1,641

Source Company data, I-Sec research

Exhibit 18: Key ratios

(Year ending March)

	FY24A	FY25E	FY26E	FY27E
Per Share Data (INR)				
Reported EPS	12.0	17.5	23.5	31.0
Adjusted EPS (Diluted)	12.0	17.5	23.5	31.0
Cash EPS	30.4	37.2	44.9	53.6
Dividend per share (DPS)	6.0	8.5	9.0	10.0
Book Value per share (BV)	70.6	79.6	94.0	115.0
Dividend Payout (%)	50.0	48.6	38.4	32.3
Growth (%)				
Net Sales	10.3	13.6	14.1	14.2
EBITDA	28.2	19.5	14.5	17.4
EPS (INR)	61.2	45.7	34.2	32.0
Valuation Ratios (x)				
P/E	89.0	61.1	45.5	34.5
P/CEPS	35.2	28.7	23.8	19.9
P/BV	15.1	13.4	11.4	9.3
EV / EBITDA	29.2	23.3	19.9	16.5
P / Sales	3.0	2.6	2.3	2.0
Dividend Yield (%)	0.6	0.8	0.8	0.9
Operating Ratios				
Gross Profit Margins (%)	29.7	30.4	30.6	30.9
EBITDA Margins (%)	11.3	11.8	11.9	12.2
Effective Tax Rate (%)	25.3	24.0	24.0	24.0
Net Profit Margins (%)	3.3	4.3	5.0	5.8
NWC / Total Assets (%)	24.1	5.1	6.0	6.7
Net Debt / Equity (x)	1.6	0.7	0.4	0.0
Net Debt / EBITDA (x)	2.7	1.1	0.6	0.1
Profitability Ratios				
RoCE (%)	10.2	13.1	18.7	24.1
RoE (%)	17.7	23.3	27.0	29.6
RoIC (%)	10.2	13.1	18.7	24.1
Fixed Asset Turnover (x)	1.9	2.0	2.1	2.2
Inventory Turnover Days	70	31	31	31
Receivables Days	0	1	1	1
Payables Days	24	27	27	27

Source Company data, I-Sec research

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