

Hatsun Agro Products

HOLD
Maintained
Rs609

Expect better margins in FY21

Three pointers from Q4FY20: (1) Revenue growth was largely led by price hikes and volumes were flat, YoY, (2) Aggressive investments in Oyalo and impact of lockdown on Oyalo, (Oyalo & Wind mill segment reported EBIT loss of Rs229mn in Q4FY20) and (3) Hatsun managed to stabilize volumes in spite of multiple challenges such as lockdown, steep increase in procurement price and aggressive price hikes in FY20. We model Hatsun to report earnings CAGR of 39.1% over FY20-22 with (1) high single digit growth in milk procurement, (2) correction in milk procurement prices post commencement of lockdown and (3) commencement of three plants in FY21. While we remain structural bull on Hatsun, we believe the stock price upside is capped at current valuations. Retain HOLD with a DCF-based TP of Rs579 (Implied P/E of 43x FY22E; Earlier TP Rs535).

- **Price hikes drive revenue growth:** Hatsun has raised prices by ~10% in FY20. We believe the revenue growth in Q4FY20 was largely price led and volumes were flat YoY. As the company's revenue contribution from B2B customers and HoReCa is negligible, there is limited impact of lockdown on Hatsun's business.
- **Milk business EBIT margin remains strong:** Price hike, Ind-AS 116 adjustment and reduction in ad-spend (our view) were the chief reasons for 30bps higher EBITDA margin YoY. While milk segment reported 70bps expansion in EBIT margin, Other segment (Wind mill and Oyalo pizza) reported losses of Rs229mn at EBIT level. Implementation of Ind-AS 116 impacted Q4FY20 PAT by Rs27mn.
- **Capex plan on track:** Solapur plant for milk, ice cream and cattle feed, Dharapuram, Tamil Nadu plant for milk and Govindapur, Andhra Pradesh plant for ice cream will be operational in FY21. We expect improvement in return ratios with commencement of three plants of Hatsun.
- **Expect some impact on Ice cream sales in Q1FY21:** Ice cream sales are expected to be lower with lockdown in Q1FY21. Summer season accounts for ~60% ice cream revenues. Lower revenues in key quarter will hurt ice cream segment in FY21. However, we do not expect any inventory losses or write offs as (1) Hatsun focusses largely on B2C consumers and (2) Ice cream has shelf life of 9-12 months depending on variant. Hatsun can recover some lost sales in H2FY21.
- **Maintain HOLD:** We expect Hatsun to report PAT CAGR of 39.1% over FY20-FY22E with RoE higher than cost of capital. Though we remain positive on the company's business model due to the established moats and growth opportunities, we believe upside is limited at current valuations. Hence, we retain **HOLD** with a DCF-based target price of Rs579 (implied P/E 43x FY22E).

Market Cap	Rs103bn/US\$1.4bn	Year to March	FY19	FY20P	FY21E	FY22E
Reuters/Bloomberg	HAPL.BO / HTSMF IN	Revenue (Rs mn)	47,603	53,083	56,992	68,303
Shares Outstanding (mn)	161.7	Adj. Net Profit (Rs mn)	1,148	1,123	1,373	2,172
52-week Range (Rs)	746/404	Dil. Rec. EPS (Rs)	7.2	6.9	8.5	13.4
Free Float (%)	26.4	% Chg YoY	20.4	(3.4)	22.3	58.2
FII (%)	3.9	P/E (x)	84.7	87.7	71.7	45.3
Daily Volume (US\$'000)	176	CEPS (Rs)	19.7	25.3	30.3	38.9
Absolute Return 3m (%)	48.8	EV/EBITDA (x)	24.4	19.8	17.0	14.0
Absolute Return 12m (%)	(14.7)	Dividend Yield (%)	0.3	0.7	0.7	0.8
Sensex Return 3m (%)	36.7	RoCE (%)	13.5	12.9	14.2	19.1
Sensex Return 12m (%)	(8.7)	RoE (%)	18.5	12.3	13.8	19.6

Q4FY20 result review and earnings revision

Dairy

Target price Rs579

Earnings revision

(%)	FY21E	FY22E
Sales	↓ 7.6	↓ 4.6
EBITDA	↑ 2.1	↑ 5.9
EPS	↓ 8.0	0.0

Target price revision

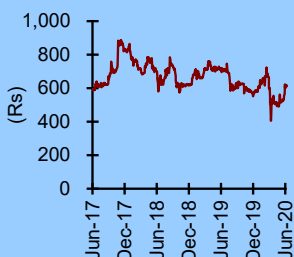
Rs579 from Rs535

Shareholding pattern

	Sep '19	Dec '19	Mar '20
Promoters	73.5	73.6	73.6
Institutional investors			
MFs and others	9.5	9.6	9.8
Banks/FIs	3.9	5.9	5.9
FII	0.0	0.0	0.0
Others	5.6	3.7	3.9
Others	16.9	16.8	16.6

Source: BSE

Price chart



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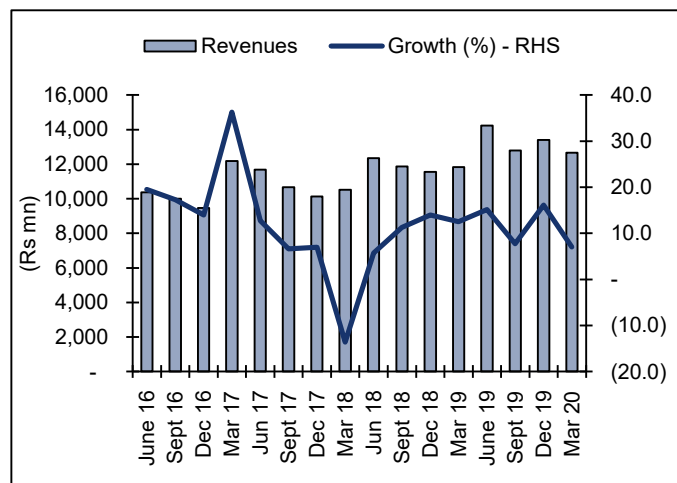
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Table 1: Q4FY20 financial performance*(Rs mn, year ending March 31)*

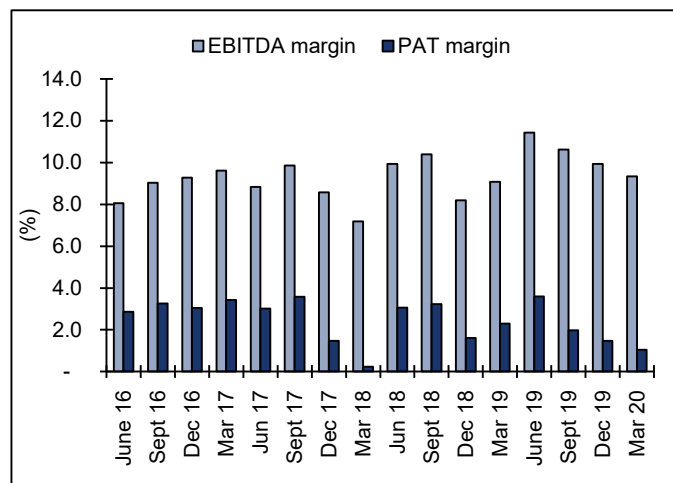
Y/E March	Q4FY20	Q4FY19	YoY gr.	Q3FY20	QoQ gr.
Revenue	12,664	11,830	7.0	13,402	(5.5)
Expenditure					
Raw materials	9,088	8,245	10.2	9,577	(5.1)
% of revenue	71.8	69.7		71.5	
Employee cost	432	400	8.0	412	4.7
% of revenue	3.4	3.4		3.1	
Other expenditure	1,961	2,110	(7.1)	2,080	(5.7)
% of revenue	15.5	17.8		15.5	
Total expenditure	11,481	10,755	6.7	12,069	(4.9)
EBITDA	1,183	1,075	10.0	1,333	(11.2)
EBITDA margin	9.3	9.1		9.9	
Other income	15	33	(55.2)	21	(28.8)
PBDIT	1,198	1,108	8.1	1,353	(11.5)
Depreciation	781	535	45.9	777	0.5
PBIT	417	573	(27.2)	576	(27.6)
Interest	279	219	27.1	277	0.5
PBT	138	354	(60.9)	299	(53.7)
Prov for tax	6	82	(92.8)	102	(94.2)
% of PBT	4.3	23.1		34.2	
Adjusted PAT	132	272	(51.3)	197	(32.7)
Extraordinary items	40	(77)	(152.3)	82	(51.2)
Reported PAT	172	195	(11.8)	279	(38.1)

Source: Company data, I-Sec research

Key performance highlights

Chart 1: Revenues and revenue growth

Source: Company data, I-Sec research

Chart 2: Profitability margins

Source: Company data, I-Sec research

Table 2: Segment-wise performance*(Rs mn, year ending March 31)*

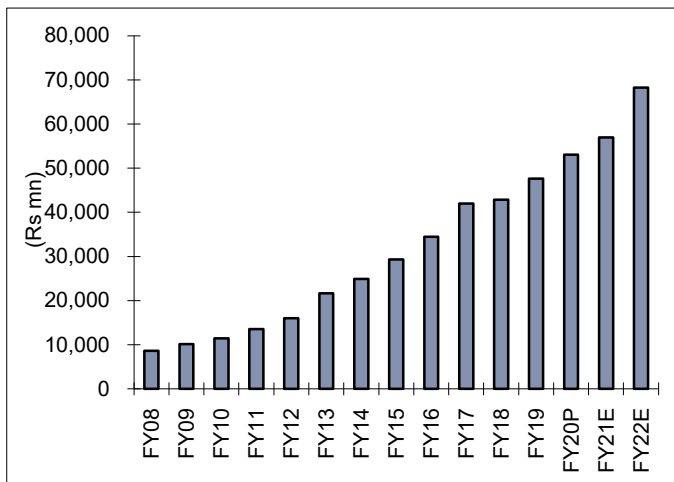
Y/E March	Q4FY20	Q43FY19	YoY gr.	Q3FY20	QoQ gr.
Revenues					
Milk	11,714	11,021	6.3%	12,289	-4.7%
Others	950	809	17.4%	1,112	-14.6%
Total	12,664	11,830	7.0%	13,402	-5.5%
EBIT					
Milk	613	495	23.8%	740	-17.2%
Others	(229)	(14)	1558.1%	(192)	19.2%
Total	384	481	-20.2%	548	-29.9%
EBIT Margin (%)					
Milk	5.2%	4.5%		6.0%	
Others	-24.1%	-1.7%		-17.3%	
Total	3.0%	4.1%		4.1%	

Source: Company data, I-Sec research

Note: Others include cattle feed, wind mill & Oya/o pizza

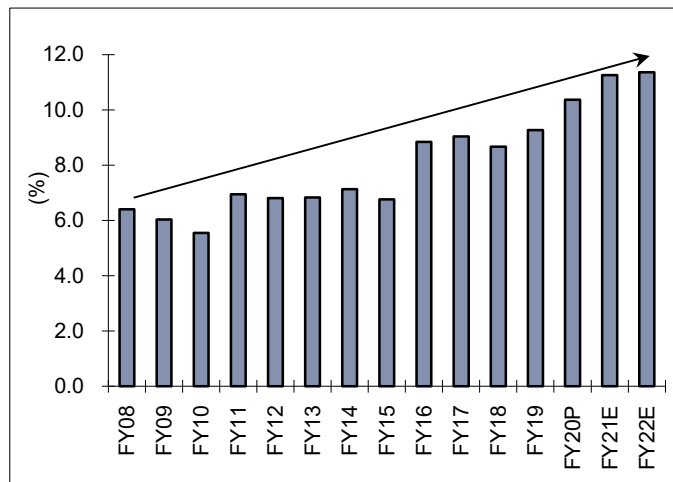
Key Ratios – Quarterly

Chart 3: Revenues



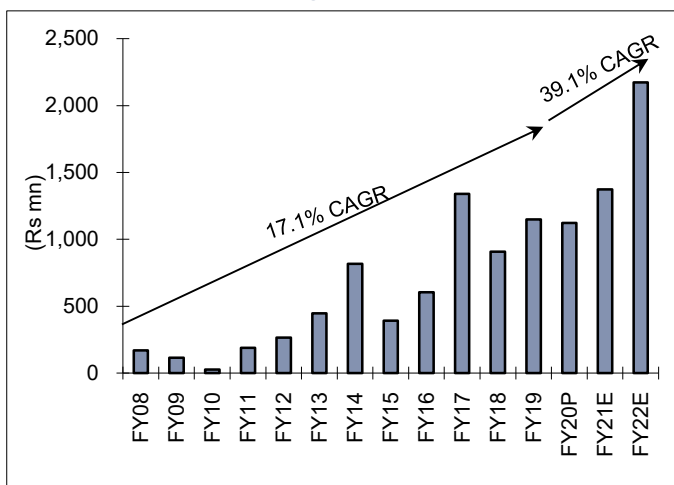
Source: Company data, I-Sec research

Chart 4: EBITDA margin



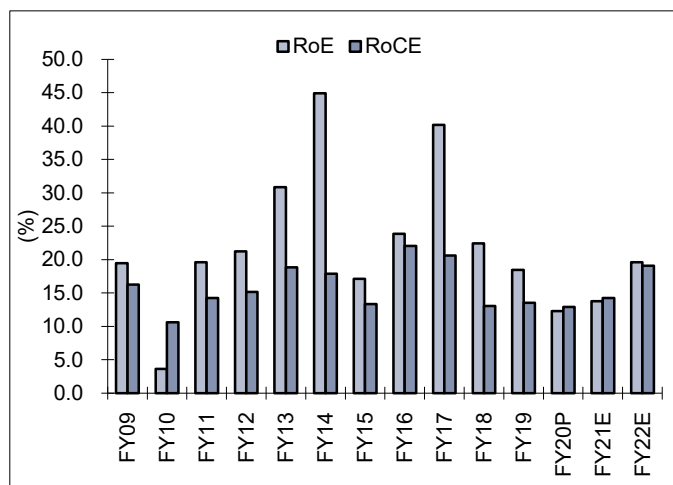
Source: Company data, I-Sec research

Chart 5: PAT and PAT growth



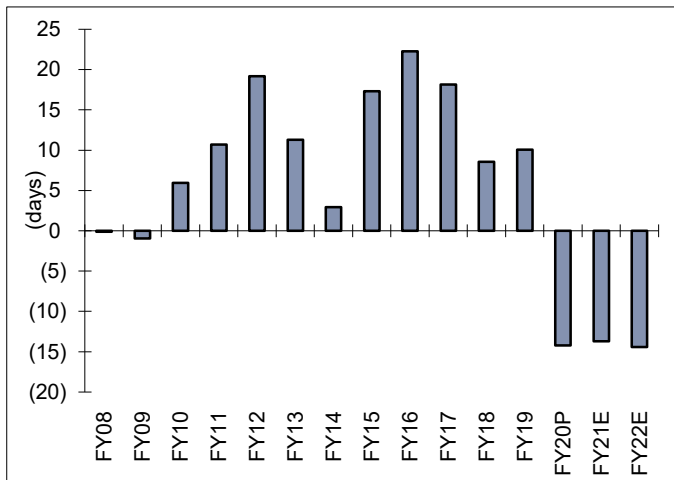
Source: Company data, I-Sec research

Chart 6: RoE and RoCE



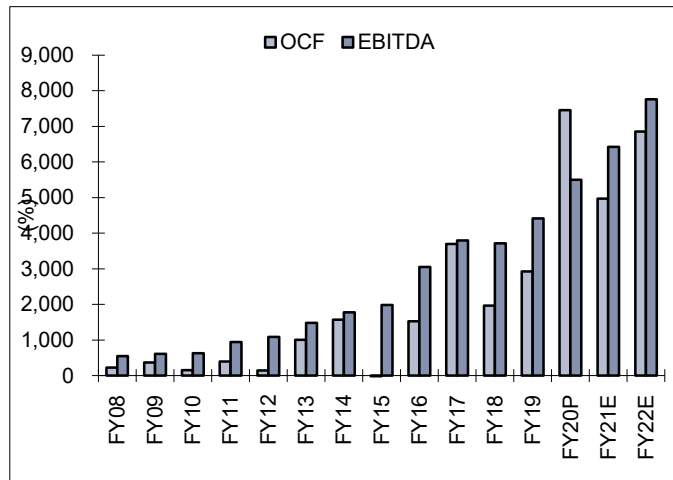
Source: Company data, I-Sec research

Chart 7: Net working capital days



Source: Company data, I-Sec research

Chart 8: OCF and EBITDA



Source: Company data, I-Sec research

Valuation and risks

We expect Hatsun to report revenue and PAT CAGRs of 13.4% and 39.1% over FY20-FY22E and RoE to move to 19.6% in FY22 from 12.3% in FY20. At our DCF-based target price of Rs579 (earlier: Rs535), the implied P/E works out to 43x on FY22E EPS. Retain **HOLD**.

Table 3: DCF-based valuation

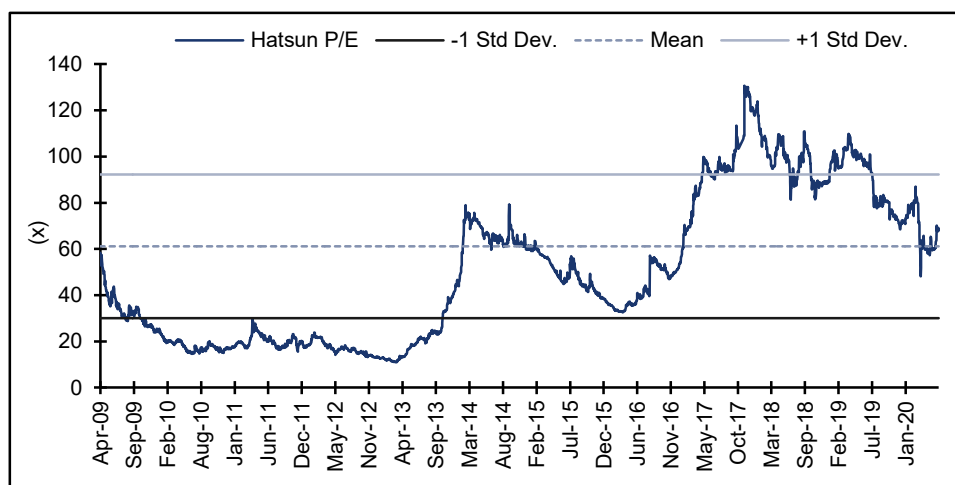
Particulars	Amt (Rs)
Cost of Equity (%)	12.3%
Terminal growth rate (%)	3.0%
Discounted interim cash flows (Rs mn)	35,418
Discounted terminal value (Rs mn)	58,156
Total equity value (Rs mn)	93,574
Value per share (Rs)	579

Source: Company data, I-Sec research

Mean P/E and standard valuation

The stock has traded at an average P/E of 60x over the past eight years. Considering the similar earnings growth now and similar return ratios, we expect the company to trade at similar multiples.

Chart 9: Mean P/E and standard deviation



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 will 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.

Financial summary

Table 4: Profit & Loss statement

(Rs mn, year ending March 31)

	FY19	FY20P	FY21E	FY22E
Net Sales	47,603	53,083	56,992	68,303
Operating Expenses	43,188	47,583	50,574	60,543
EBITDA	4,415	5,501	6,418	7,760
% margins	9.3	10.4	11.3	11.4
Depreciation & Amortisation	2,006	2,965	3,528	4,125
Gross Interest	857	1,059	1,034	799
Other Income	60	87	105	79
Recurring PBT	1,612	1,564	1,962	2,916
Less: Taxes	463	441	588	744
Less: Minority Interest	-	-	-	-
Net Income (Reported)	1,148	1,123	1,373	2,172
Extraordinaries (Net)	(6)	(16)	-	-
Recurring Net Income	1,142	1,106	1,373	2,172

Source: Company data, I-Sec research

Table 5: Balance sheet

(Rs mn, year ending March 31)

	FY19	FY20P	FY21E	FY22E
Assets				
Total Current Assets	5,407	4,983	4,827	5,846
of which cash & cash eqv.	364	447	73	277
Total Current Liabilities & Provisions	3,729	6,606	6,896	8,265
Net Current Assets	1,678	(1,623)	(2,069)	(2,419)
Investments	641	1,056	1,056	1,056
Net Fixed Assets	14,078	17,558	21,075	19,451
Capital Work-in-Progress	2,332	3,546	-	-
Total Assets	18,729	20,536	20,063	18,088
Liabilities				
Borrowings	10,285	10,940	9,740	6,240
Deferred Tax Liability	397	552	552	552
Minority Interest	-	-	-	-
Equity Share Capital	160	162	162	162
Face Value per share (Rs)	10	10	10	10
Reserves & Surplus*	7,887	8,883	9,609	11,135
Less: Misc. Exp. n.w.o.	-	-	-	-
Net Worth	8,047	9,045	9,771	11,296
Total Liabilities	18,729	20,536	20,063	18,088

Source: Company data, I-Sec research

Table 6: Quarterly trend

(Rs mn, year ending March 31)

	June 19	Sept 19	Dec 19	Mar 20
Net sales	14,232	12,785	13,402	12,664
% growth (YoY)	15.2	7.7	16.1	7.0
EBITDA	1,627	1,358	1,333	1,183
Margin (%)	11.4	10.6	9.9	9.3
Other income	87	17	21	15
Extraordinaries (Net)	-	(4)	82	40
Adjusted Net profit	512	249	279	172

Source: Company data, I-Sec research

Table 7: Cashflow statement

(Rs mn, year ending March 31)

	FY19	FY20P	FY21E	FY22E
Operating Cashflow	3,276	4,071	4,901	6,297
Working Capital Changes	(350)	3,384	71	554
Capital Commitments	(3,424)	(7,659)	(3,500)	(2,500)
Free Cashflow	(497)	(203)	1,473	4,351
Cashflow from Investing Activities	(25)	(415)	-	-
Issue of Share Capital	4,185	1,056	-	-
Inc (Dec) in Borrowings	(2,716)	654	(1,200)	(3,500)
Dividend paid	(936)	(388)	(647)	(647)
Change in Deferred Tax Liability	116	155	-	-
Chg. in Cash & Bank balance	11	83	(374)	204

Source: Company data, I-Sec research

Table 8: Key ratios

(Year ending March 31)

	FY19	FY20P	FY21E	FY22E
Per Share Data (Rs)				
EPS	7.2	6.9	8.5	13.4
Cash EPS	19.7	25.3	30.3	38.9
Dividend per share (DPS)	2.0	4.0	4.0	5.0
Book Value per share (BV)	52.8	59.3	63.8	73.3
Growth (%)				
Net Sales	11.0	11.5	7.4	19.8
EBITDA	18.8	24.6	16.7	20.9
PAT	26.4	(2.2)	22.3	58.2
DPS	(50.0)	100.0	-	25.0
Valuation Ratios (x)				
P/E	84.7	87.7	71.7	45.3
P/CEPS	30.9	24.1	20.1	15.6
P/BV	11.5	10.3	9.5	8.3
EV / EBITDA	24.4	19.8	17.0	14.0
EV / Sales	2.3	2.1	1.9	1.6
Operating Ratios				
Raw Material / Sales (%)	70.2	70.9	69.9	69.8
Employee cost / Sales (%)	3.3	3.2	3.2	3.2
SG&A / Sales (%)	2.2	2.2	2.2	2.2
Other Income / PBT (%)	3.8	5.5	5.4	2.7
Effective Tax Rate (%)	28.7	28.2	30.0	25.5
Working Capital (days)	10.1	(14.2)	(13.7)	(14.4)
Inventory Turnover (days)	30.9	25.7	25.6	25.6
Receivables (days)	0.6	1.0	0.7	0.7
Payables (days)	28.3	45.0	43.8	43.8
Net D/E (x)	1.2	1.1	0.9	0.5
Profitability Ratios (%)				
Net Income Margins	2.4	2.1	2.4	3.2
RoACE	13.5	12.9	14.2	19.1
RoAE	18.5	12.3	13.8	19.6
Dividend Payout	27.8	57.6	47.1	37.2
Dividend Yield	0.3	0.7	0.7	0.8
EBITDA Margins	9.3	10.4	11.3	11.4

Source: Company data, I-Sec research

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