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Q3FY21 result review
and reco change

Dairy

Target price Rs800

Earnings revision

(%)		FY21E		FY22E
Sales	↓	1.8	↓	1.8
EBITDA	↑	4.8	↑	1.2
EPS	↑	11.8	↑	3.5

Target price revision

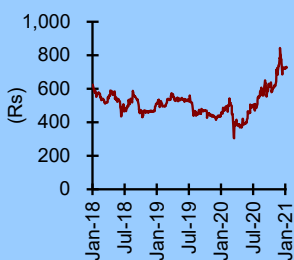
Rs800 from Rs623

Shareholding pattern

	Jun '20	Sep '20	Dec '20
Promoters	73.6	74.1	74.1
Institutional investors	9.9	10.0	10.0
MFs and others	5.9	5.9	5.9
Banks/FIs	0.0	0.0	0.0
FIs	4.0	4.1	4.1
Others	16.5	16.4	15.9

Source: BSE

Price chart



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Hatsun Agro Products

ADD

Upgrade from Hold

Commencement of three plants and lower tax rate to boost return ratios in FY22 and beyond

Rs753

Three pointers from Q3FY21: (1) dairy business reported 3.4% revenue growth with almost flat volumes, (2) lower milk procurement prices led to 450bps higher gross margin, and (3) Hatsun managed to stabilize volumes despite multiple challenges such as lockdown, extreme weather conditions and volatile procurement prices. We model Hatsun to report an earnings CAGR of 49.8% over FY20-FY23E with: (1) high single-digit growth in milk procurement, (2) lower milk procurement prices, (3) commencement of three plants in FY21E and (4) lower effective tax rate in FY22E. We remain structurally positive on the company. Upgrade to ADD (from HOLD) with a DCF-based revised target price of Rs800 implying P/E of 46x FY23E (Earlier TP: Rs623).

- **Dairy business reports low single-digit growth:** Hatsun reported 4.2% revenue growth in Q3FY21. Milk and milk product revenues grew 3.4% while other businesses (cattle feed, *Oyalo* pizza etc.) grew 11.2%. Considering the carryover effect of price hikes in FY20, we believe volumes were flattish during the quarter.
- **Expect EBITDA margin to remain elevated in H1CY21E:** Selective price hikes, lower input prices and some cost-saving measures will lead to higher EBITDA margins in H1CY21E. We model Hatsun's EBITDA margin at 14.3% for FY21E vis-à-vis 10.4% in FY20.
- **Update on new production units:** (1) Solapur, Maharashtra plant is expected to commence commercial production during Jan'21, (2) Dharapuram, Tamil Nadu plant will commence commercial production of paneer in Jan'21. The company plans to invest in milk processing unit too which will commence production in Mar'21, and (3) Sangareddy district, Telangana plant will commence production of Ice cream in Mar'21. The capex guidance has increased to Rs3.11bn from Rs2.45bn.
- **FY22 earnings drivers:** (1) Ice cream business is expected to return to normalcy and report strong growth in FY22E on favorable base of FY21, (2) the three production units are likely to report revenues of more than Rs4bn in our view, and (3) the migration to new tax regime will result in reduction of effective tax rate to 25.5%.
- **Upgrade to ADD:** We model Hatsun to report PAT CAGR of 49.8% over FY20-FY23E with RoE higher than the cost of capital. We remain positive on the company's business model due to the established moats and growth opportunities. We upgrade rating to **ADD** (from Hold) with a DCF-based revised target price of Rs800 (implied P/E 46x FY22E; Earlier TP: Rs623).

Market Cap	Rs162bn/US\$2.2bn	Year to March	FY20	FY21E	FY22E	FY23E
Reuters/Bloomberg	HAPL.BO / HTSMF IN	Revenue (Rs mn)	53,083	53,557	64,183	73,866
Shares Outstanding (mn)	215.6	Adj. Net Profit (Rs mn)	1,123	2,307	2,848	3,775
52-week Range (Rs)	842/303	Dil. Rec. EPS (Rs)	5.2	10.7	13.2	17.5
Free Float (%)	25.9	% Chg YoY	(3.4)	105.5	23.5	32.5
FII (%)	4.1	P/E (x)	144.6	70.4	57.0	43.0
Daily Volume (US\$'000)	770	CEPS (Rs)	19.0	26.5	31.8	37.5
Absolute Return 3m (%)	17.9	EV/EBITDA (x)	31.4	22.6	20.2	17.8
Absolute Return 12m (%)	68.8	Dividend Yield (%)	0.4	0.8	0.8	0.8
Sensex Return 3m (%)	22.4	RoCE (%)	12.9	20.5	23.0	30.3
Sensex Return 12m (%)	19.2	RoE (%)	12.3	22.8	25.0	28.2

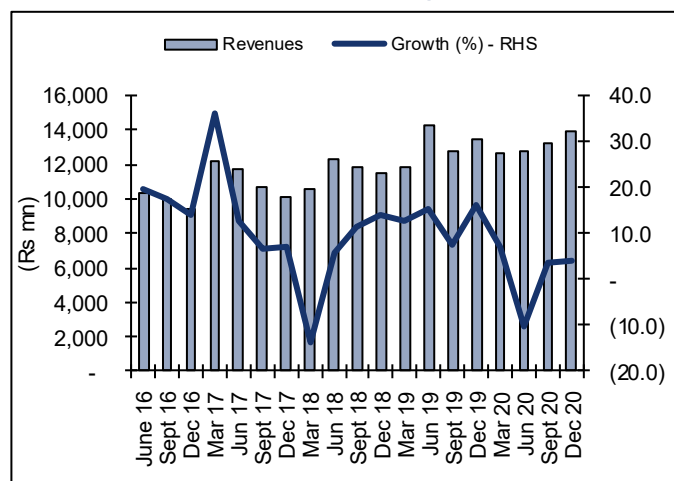
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Table 1: Q3FY21 financial performance*(Rs mn, year ending March 31)*

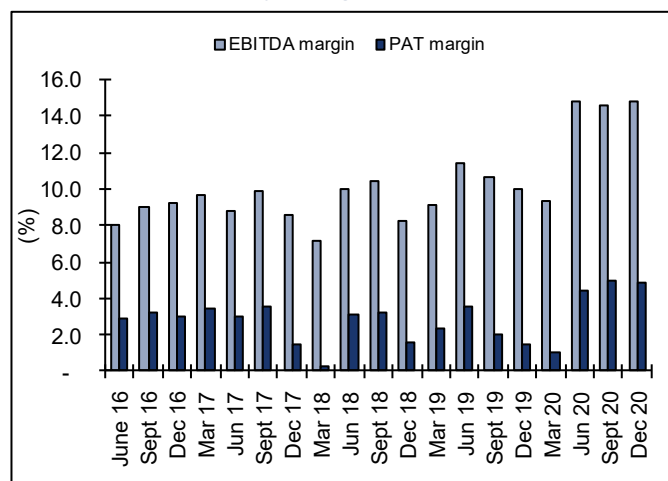
Y/E March	Q3FY21	Q3FY20	YoY gr.	Q2FY21	QoQ gr.
Revenue	13,946	13,402	4.1	13,270	5.1
Expenditure					
Raw materials	9,342	9,577	(2.4)	8,848	5.6
% of revenue	67.0	71.5		66.7	
Employee cost	468	412	13.5	486	(3.8)
% of revenue	3.4	3.1		3.7	
Other expenditure	2,066	2,080	(0.7)	2,000	3.3
% of revenue	14.8	15.5		15.1	
Total expenditure	11,876	12,069	(1.6)	11,334	4.8
EBITDA	2,070	1,333	55.3	1,936	6.9
EBITDA margin	14.8	9.9		14.6	
Other income	12	21	(42.5)	17	(28.8)
PBDIT	2,082	1,353	53.8	1,952	6.6
Depreciation	784	777	0.9	746	5.1
PBIT	1,298	576	125.2	1,207	7.6
Interest	289	277	4.3	276	4.7
PBT	1,009	299	237.5	931	8.4
Prov for tax	336	102	228.5	273	23.0
% of PBT	33.3	34.2		29.3	
Adjusted PAT	673	197	242.2	658	2.3
Extraordinary items	4	82	(95.4)	3	10.5
Reported PAT	677	279	142.8	661	2.4

Source: Company data, I-Sec research

Key performance highlights

Chart 1: Revenue 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)*

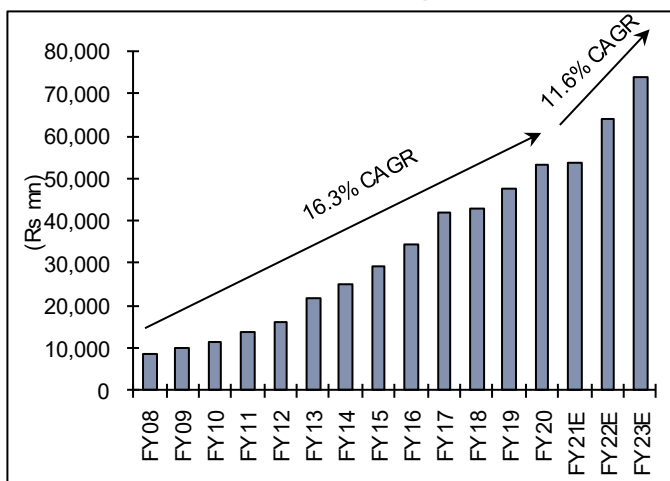
Y/E March	Q3FY21	Q3FY20	YoY gr.	Q2FY21	QoQ gr.
Revenues					
Milk	12,709	12,289	3.4%	11,944	6.4%
Others*	1,237	1,112	11.2%	1,326	-6.8%
Total	13,946	13,402	4.1%	13,270	5.1%
EBIT					
Milk	1,383	740	86.8%	1,220	13.3%
Others*	(83)	(192)	-56.9%	(16)	431.2%
Total	1,300	548	137.2%	1,205	7.9%
EBIT Margin (%)					
Milk	10.9	6.0		10.2	
Others*	-6.7	-17.3		-1.2	
Total	9.3	4.1		9.1	

Source: Company data, I-Sec research

Note: * Others include cattle feed, wind mill & Oyo/pizza

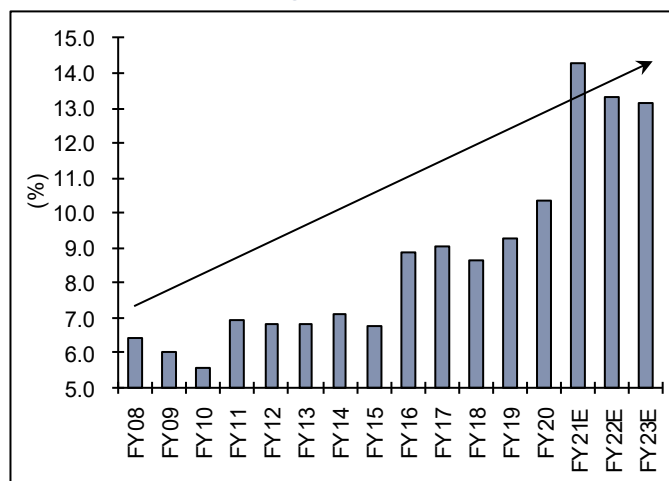
Key ratios – Annual

Chart 3: Revenue and revenue growth



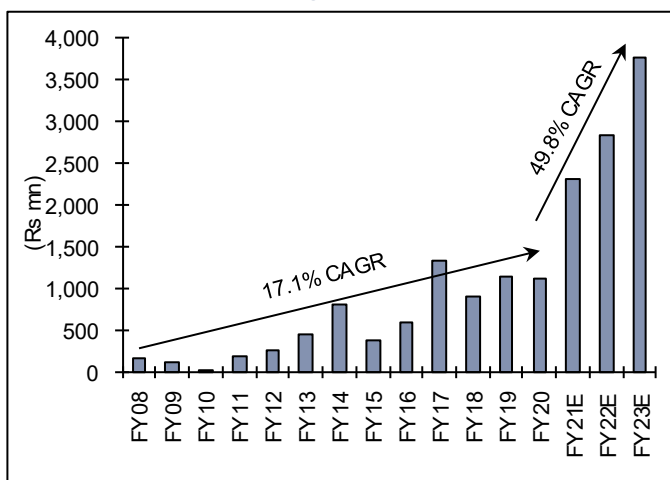
Source: Company data, I-Sec research

Chart 4: EBITDA margin



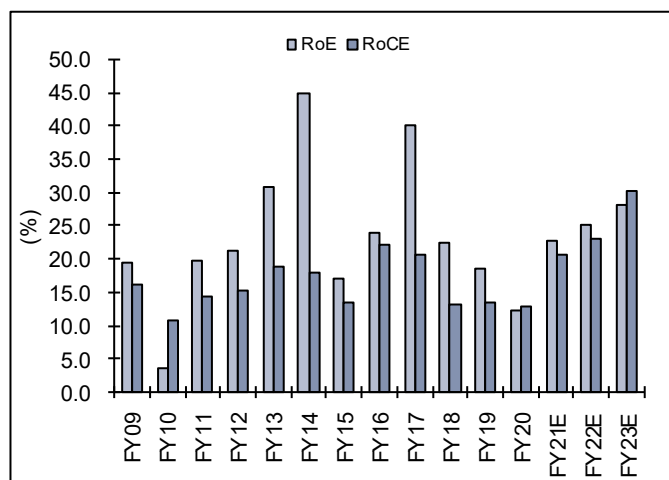
Source: Company data, I-Sec research

Chart 5: PAT and PAT growth



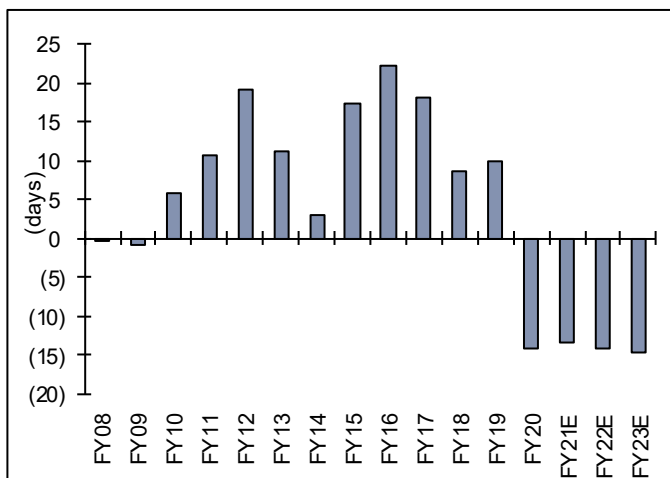
Source: Company data, I-Sec research

Chart 6: RoE and RoCE



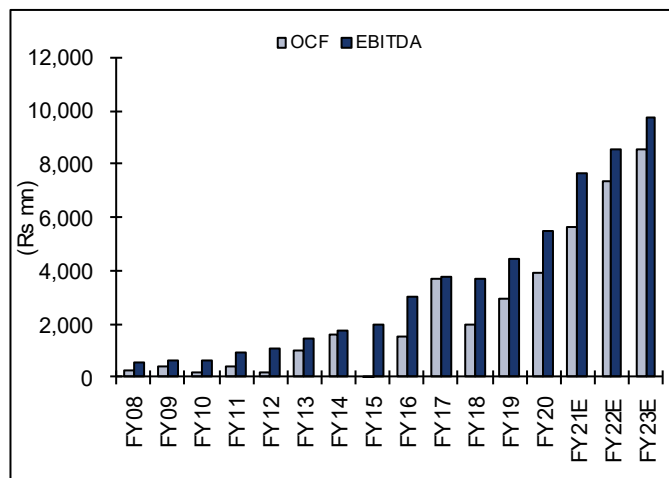
Source: Company data, I-Sec research

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 model Hatsun to report revenue and PAT CAGRs of 11.6% and 49.8% over FY20-FY23E and RoE to move to 28.2% in FY23E from 12.3% in FY20. At our DCF-based target price of Rs800, the implied P/E works out to 46x FY23E EPS. Upgrade to ADD.

Table 3: DCF-based valuation

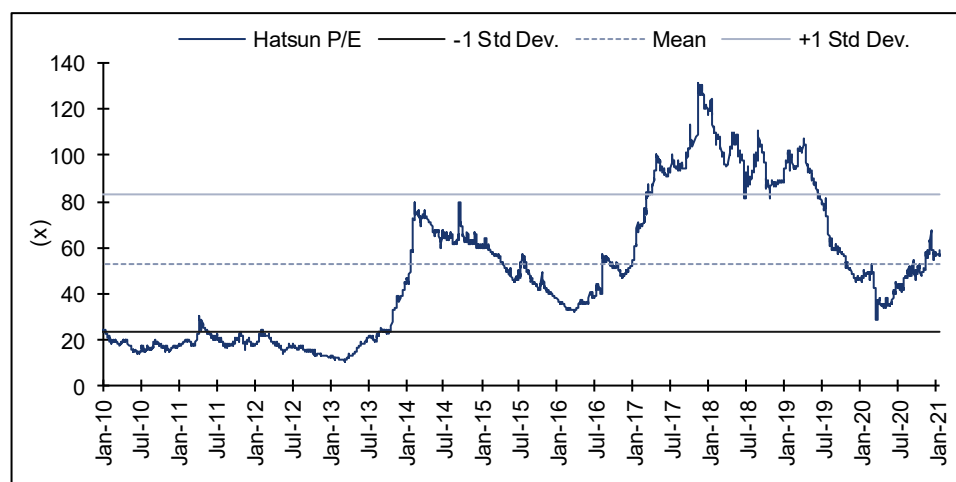
Particulars	Amt (Rs)
Cost of Equity (%)	11.0%
Terminal growth rate (%)	4.0%
Discounted interim cash flows (Rs mn)	59,507
Discounted terminal value (Rs mn)	113,017
Total equity value (Rs mn)	172,524
Value per share (Rs)	800

Source: Company data, I-Sec research

Mean P/E and standard valuation

The stock has traded at an average P/E of 53x over the past ten years. Considering strong earnings growth now and improving return ratios, we expect the company to trade at closer to historical 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)

	FY20	FY21E	FY22E	FY23E
Net Sales	53,083	53,557	64,183	73,866
Operating Expenses	47,583	45,894	55,642	64,148
EBITDA	5,501	7,663	8,542	9,717
% margins	10.4	14.3	13.3	13.2
Depreciation & Amortisation	2,965	3,414	3,999	4,305
Gross Interest	1,059	1,059	834	444
Other Income	87	105	114	99
Recurring PBT	1,564	3,295	3,823	5,067
Less: Taxes	441	989	975	1,292
Less: Minority Interest	-	-	-	-
Net Income (Reported)	1,123	2,307	2,848	3,775
Extraordinaries (Net)	(16)	-	-	-
Recurring Net Income	1,106	2,307	2,848	3,775

Source: Company data, I-Sec research

Table 5: Balance sheet

(Rs mn, year ending March 31)

	FY20	FY21E	FY22E	FY23E
Assets				
Total Current Assets	4,983	5,084	5,623	7,081
of which cash & cash eqv.	447	577	351	1,112
Total Current Liabilities & Provisions	6,606	6,480	7,766	8,938
Net Current Assets	(1,623)	(1,396)	(2,143)	(1,857)
Investments	1,056	1,056	1,056	1,056
Net Fixed Assets	17,558	21,190	19,691	17,886
Capital Work-in-Progress	3,546	-	-	-
Total Assets	20,536	20,850	18,604	17,086
Liabilities				
Borrowings	10,940	10,240	6,440	2,440
Deferred Tax Liability	552	552	552	552
Minority Interest	-	-	-	-
Equity Share Capital	162	162	162	162
Face Value per share (Rs)	10	10	10	10
Reserves & Surplus*	8,883	9,896	11,451	13,932
Less: Misc. Exp. n.w.o.	-	-	-	-
Net Worth	9,045	10,058	11,613	14,094
Total Liabilities	20,536	20,850	18,604	17,086

Source: Company data, I-Sec research

Table 6: Quarterly trend

(Rs mn, year ending March 31)

	Mar 20	Jun 20	Sept 20	Dec 20
Net sales	12,664	12,793	13,270	13,946
% growth (YoY)	7.0	(10.1)	3.8	4.1
EBITDA	1,183	1,890	1,936	2,070
Margin (%)	9.3	14.8	14.6	14.8
Other income	15	14	17	12
Extraordinaries (Net)	40	1	3	4
Adjusted Net profit	172	562	661	677

Source: Company data, I-Sec research

Table 7: Cashflow statement

(Rs mn, year ending March 31)

	FY20	FY21E	FY22E	FY23E
Operating Cashflow	3,668	5,721	6,847	8,080
Working Capital Changes	228	(97)	521	474
Capital Commitments	(5,399)	(3,500)	(2,500)	(2,500)
Free Cashflow	(1,503)	2,124	4,868	6,054
Cashflow from Investing Activities	(3)	-	-	-
Issue of Share Capital	1,052	-	-	-
Inc (Dec) in Borrowings	1,694	(700)	(3,800)	(4,000)
Dividend paid	(1,160)	(1,294)	(1,294)	(1,294)
Change in Deferred Tax Liability	155	-	-	-
Chg. in Cash & Bank balance	80	130	(226)	761

Source: Company data, I-Sec research

Table 8: Key ratios

(Year ending March 31)

	FY20	FY21E	FY22E	FY23E
Per Share Data (Rs)				
EPS	5.2	10.7	13.2	17.5
Cash EPS	19.0	26.5	31.8	37.5
Dividend per share (DPS)	3.0	6.0	6.0	6.0
Book Value per share (BV)	44.5	49.2	56.4	67.9
Growth (%)				
Net Sales	11.5	0.9	19.8	15.1
EBITDA	24.6	39.3	11.5	13.8
PAT	(2.2)	105.5	23.5	32.5
DPS	100.0	100.0	-	-
Valuation Ratios (x)				
P/E	144.6	70.4	57.0	43.0
P/CEPS	39.7	28.4	23.7	20.1
P/BV	16.9	15.3	13.3	11.1
EV / EBITDA	31.4	22.6	20.2	17.8
EV / Sales	3.3	3.2	2.7	2.3

Operating Ratios

Raw Material / Sales (%)	70.9	67.8	68.8	68.9
Employee cost / Sales (%)	3.2	3.2	3.2	3.2
SG&A / Sales (%)	2.0	2.0	2.0	2.0
Other Income / PBT (%)	5.5	3.2	3.0	1.9
Effective Tax Rate (%)	28.2	30.0	25.5	25.5
Working Capital (days)	(14.2)	(13.4)	(14.2)	(14.7)
Inventory Turnover (days)	25.7	25.6	25.6	25.6
Receivables (days)	1.0	0.7	0.7	0.7
Payables (days)	45.0	43.8	43.8	43.8
Net D/E (x)	1.1	0.9	0.5	0.1

Profitability Ratios (%)

Net Income Margins	2.1	4.3	4.4	5.1
RoACE	12.9	20.5	23.0	30.3
RoAE	12.3	22.8	25.0	28.2
Dividend Payout	57.6	56.1	45.4	34.3
Dividend Yield	0.4	0.8	0.8	0.8
EBITDA Margins	10.4	14.3	13.3	13.2

Source: Company data, I-Sec research

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