

Q4FY21 result review
and TP change

Dairy

Target price Rs860

Earnings revision

(%)	FY22E	FY23E
Sales	↑ 0.6	↑ 0.6
EBITDA	↓ 4.8	↓ 3.7
EPS	↓ 3.1	↓ 4.9

Target price revision

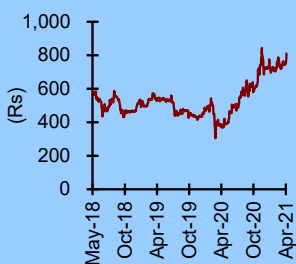
Rs860 from Rs800

Shareholding pattern

	Sep '20	Dec '20	Mar '21
Promoters	74.1	74.1	74.1
Institutional investors			
MFs and others	10.0	10.0	10.0
Banks/FIs	5.9	5.9	5.9
FIs	0.0	0.0	0.0
FIs	4.1	4.1	4.1
Others	16.4	15.9	15.9

Source: BSE

Price chart



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Hatsun Agro Products

ADD

Maintained

Rs810

Strong growth in ice-cream business

Three pointers from Q4FY21: (1) The company reported revenue growth of 23.9% YoY, highest in past 16 quarters, (2) higher revenues of ice-cream along with favorable base of Q4FY20 resulted in higher revenue growth and (3) The company has accumulated large SMP inventory which will arrest decline in EBITDA margin in case of steep inflation in milk procurement prices. We model Hatsun to report an earnings CAGR of 20.7% over FY21-FY23E with: (1) high single-digit growth in milk procurement, (2) commencement of three plants and (3) lower effective tax rate in FY22E. We remain structurally positive on the company due to its competitive advantages and strong growth opportunity in South India. Maintain **ADD** with a DCF-based revised target price of Rs860 implying target P/E of 52x FY23E (Earlier TP: Rs800).

- ▶ **Q4FY21 performance:** Hatsun reported revenue growth of 23.9% YoY. We believe increase in ice cream sales, healthy growth in milk sales and favorable base of Q4FY20 led to strong revenue growth. The EBITDA margin expanded 270bps due to lower milk procurement prices and cost saving initiatives. With higher effective tax rate, the PAT grew 331.5% YoY.
- ▶ **Increase in milk procurement prices in FY22E:** We note milk procurement prices increased QoQ in Q4FY21. There will be some reduction in milk procurement prices due to ongoing localized lockdowns. Anticipating likely increase in milk procurement prices, Hatsun has accumulated large SMP inventory at end of Mar'21. We believe low priced SMP inventory will help to arrest EBITDA margin decline in FY22E.
- ▶ **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%.
- ▶ **Update on new production units:** (1) Solapur, Maharashtra plant commenced production during Jan'21, (2) Dharapuram, Tamil Nadu plant also commenced production in Jan'21. The company plans to invest in milk processing unit too which will commence production in June'21 and (3) Sangareddy district, Telangana plant will commence production of Ice cream in Sept'21. The capex guidance is Rs3.11bn.
- ▶ **Maintain ADD:** We model Hatsun to report PAT CAGR of 20.7% over FY21-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 maintain **ADD** rating with a DCF-based revised target price of Rs860 (implied P/E 52x FY23E; Earlier TP: Rs800).

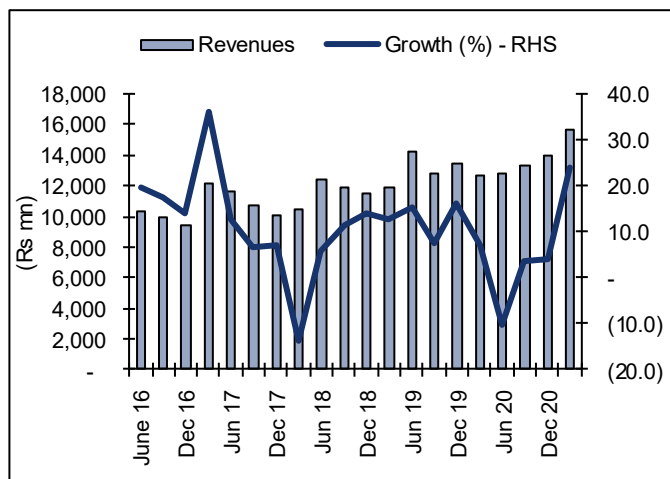
Market Cap	Rs175bn/US\$2.3bn	Year to March	FY20	FY21P	FY22E	FY23E
Reuters/Bloomberg	HAPL.BO / HTSMF IN	Revenue (Rs mn)	53,083	55,697	64,585	74,327
Shares Outstanding (mn)	215.6	Adj. Net Profit (Rs mn)	1,123	2,464	2,760	3,589
52-week Range (Rs)	842/303	Dil. Rec. EPS (Rs)	5.2	11.4	12.8	16.6
Free Float (%)	25.9	% Chg YoY	(3.4)	119.4	12.0	30.0
FII (%)	4.1	P/E (x)	155.7	71.0	63.4	48.7
Daily Volume (US\$'000)	781	CEPS (Rs)	19.0	25.8	29.8	36.1
Absolute Return 3m (%)	14.6	EV/EBITDA (x)	34.0	24.0	23.0	20.0
Absolute Return 12m (%)	122.4	Dividend Yield (%)	0.4	0.7	0.8	0.9
Sensex Return 3m (%)	3.4	RoCE (%)	12.9	21.3	20.3	26.7
Sensex Return 12m (%)	55.8	RoE (%)	12.3	24.0	23.8	26.9

Table 1: Q4FY21 financial performance*(Rs mn, year ending March 31)*

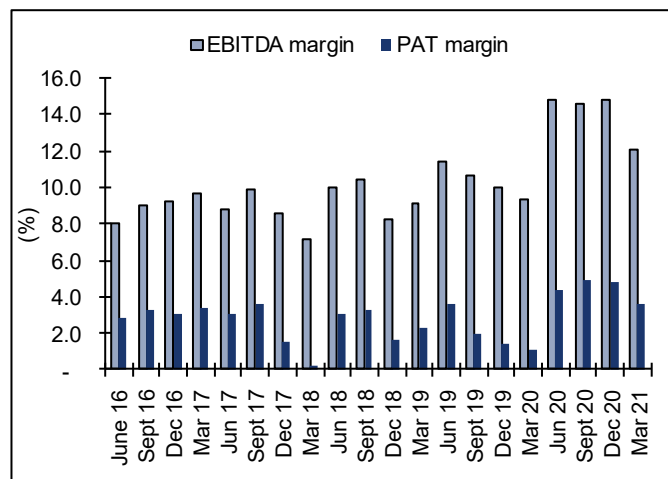
Y/E March	Q4FY21	Q4FY20	YoY gr.	Q3FY21	QoQ gr.
Revenue	15,689	12,664	23.9	13,946	12.5
Expenditure					
Raw materials	10,970	9,088	20.7	9,342	17.4
% of revenue	69.9	71.8		67.0	
Employee cost	466	432	7.9	468	(0.4)
% of revenue	3.0	3.4		3.4	
Other expenditure	2,361	1,961	20.4	2,066	14.3
% of revenue	15.0	15.5		14.8	
Total expenditure	13,797	11,481	20.2	11,876	16.2
EBITDA	1,892	1,183	59.9	2,070	(8.6)
EBITDA margin	12.1	9.3		14.8	
Other income	15	15	3.0	12	27.6
PBDIT	1,907	1,198	59.2	2,082	(8.4)
Depreciation	769	781	(1.5)	784	(1.9)
PBIT	1,138	417	172.9	1,298	(12.3)
Interest	264	279	(5.1)	289	(8.5)
PBT	874	138	531.6	1,009	(13.4)
Prov for tax	302	6	5,010.4	336	(9.9)
% of PBT	34.6	4.3		33.3	
Adjusted PAT	571	132	331.5	673	(15.1)
Extraordinary items	(8)	40	(119.9)	4	(312.5)
Reported PAT	563	172	226.7	677	(16.8)

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)*

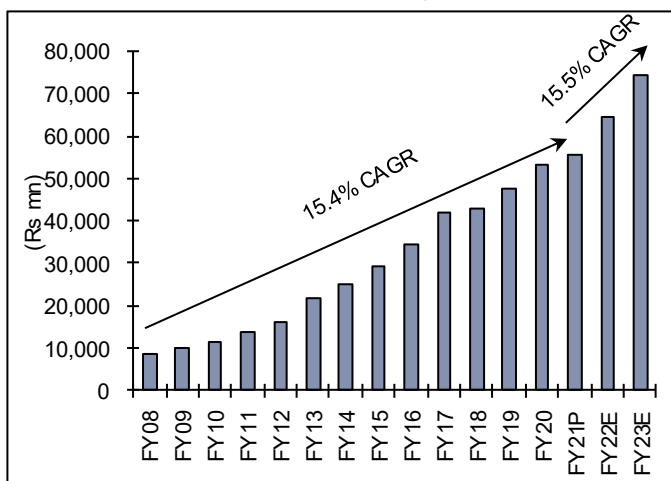
Y/E March	Q4FY21	Q4FY20	YoY gr.	Q2FY21	QoQ gr.
Revenues					
Milk	14,525	11,714	24.0	12,709	14.3
Others*	1,164	950	22.5	1,237	-5.9
Total	15,689	12,664	23.9	13,946	12.5
EBIT					
Milk	1,222	613	99.3	1,383	-11.6
Others*	(89)	(229)	-61.0	(83)	7.9
Total	1,132	384	194.9	1,300	-12.9
EBIT Margin (%)					
Milk	8.4	5.2		10.9	
Others*	-7.7	-24.1		-6.7	
Total	7.2	3.0		9.3	

Source: Company data, I-Sec research

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

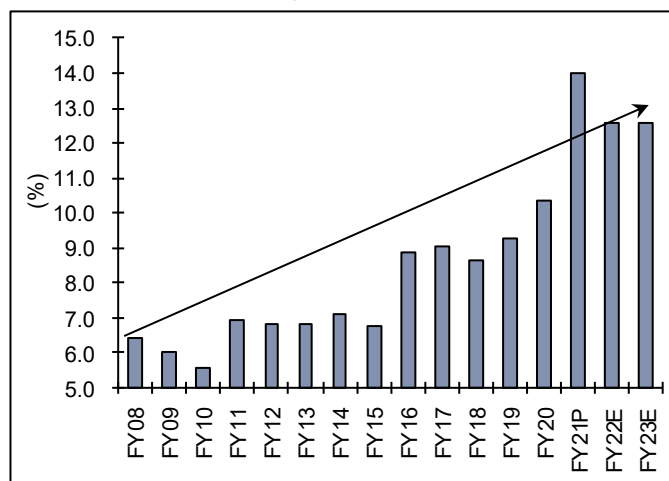
Key ratios – Annual

Chart 3: Revenue and revenue growth



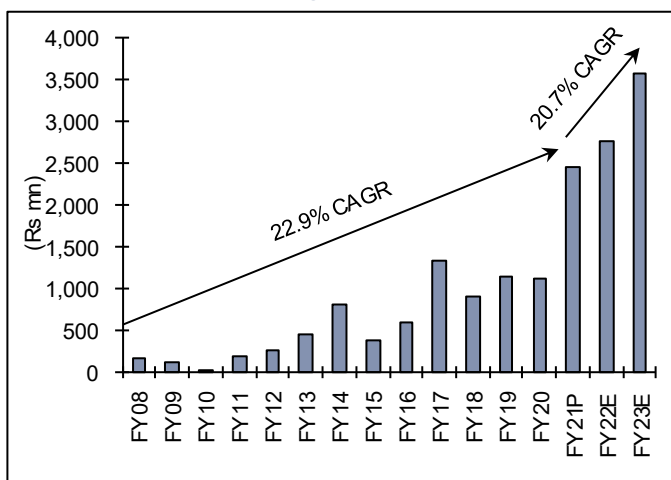
Source: Company data, I-Sec research

Chart 4: EBITDA margin



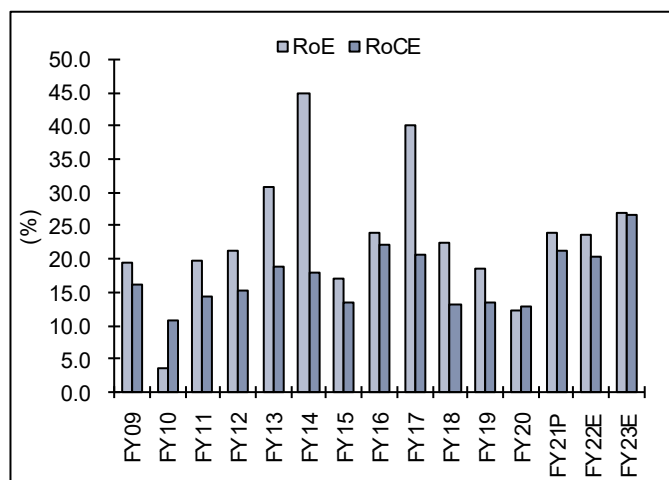
Source: Company data, I-Sec research

Chart 5: PAT and PAT growth



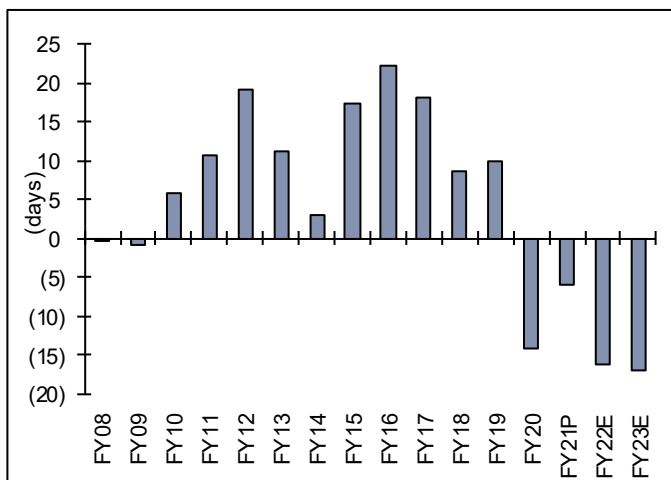
Source: Company data, I-Sec research

Chart 6: RoE and RoCE



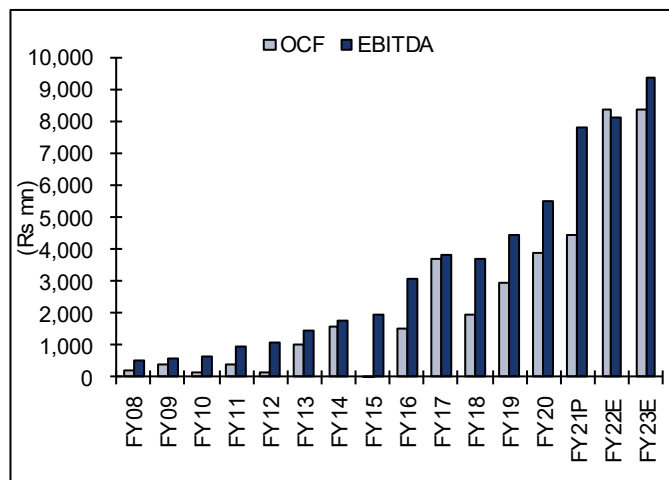
Source: Company data, I-Sec research

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 15.5% and 20.7% over FY21-FY23E and RoE to move to 26.9% in FY23E from 24% in FY21. At our DCF-based target price of Rs860, the implied P/E works out to 52x FY23E EPS. Maintain ADD.

Table 3: DCF-based valuation

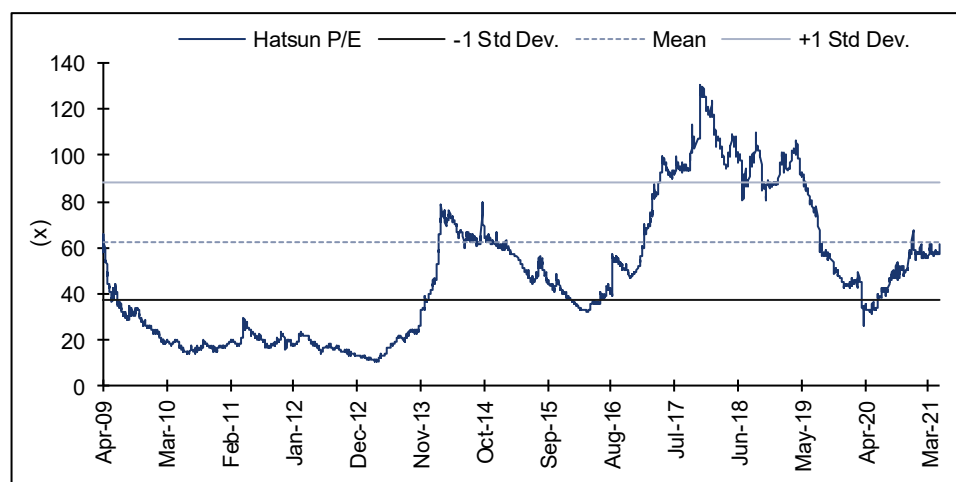
Particulars	Amt (Rs)
Cost of Equity (%)	11.0
Terminal growth rate (%)	4.0
Discounted interim cash flows (Rs mn)	62,263
Discounted terminal value (Rs mn)	1,23,155
Total equity value (Rs mn)	1,85,418
Value per share (Rs)	860

Source: Company data, I-Sec research

Mean P/E and standard valuation

The stock has traded at an average P/E of 63x over the past eight 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	FY21P	FY22E	FY23E
Net Sales	53,083	55,697	64,585	74,327
Operating Expenses	47,583	47,910	56,455	64,974
EBITDA	5,501	7,787	8,130	9,354
% margins	10.4	14.0	12.6	12.6
Depreciation & Amortisation	2,965	3,099	3,658	4,204
Gross Interest	1,059	1,104	985	562
Other Income	87	58	218	230
Recurring PBT	1,564	3,642	3,705	4,818
Less: Taxes	441	1,178	945	1,228
Less: Minority Interest	-	-	-	-
Net Income (Reported)	1,123	2,464	2,760	3,589
Extraordinaries (Net)	(16)	0	-	-
Recurring Net Income	1,106	2,464	2,760	3,589

Source: Company data, I-Sec research

Table 5: Balance sheet

(Rs mn, year ending March 31)

	FY20	FY21P	FY22E	FY23E
Assets				
Total Current Assets	4,983	7,180	6,208	6,428
of which cash & cash eqv.	447	392	560	78
Total Current Liabilities & Provisions	6,606	7,713	8,525	9,811
Net Current Assets	(1,623)	(533)	(2,317)	(3,383)
Investments	1,056	2,722	2,722	2,722
Net Fixed Assets	17,558	17,424	20,111	18,657
Capital Work-in-Progress	3,546	3,844	-	-
Total Assets	20,536	23,457	20,516	17,996
Liabilities				
Borrowings	10,940	12,519	8,219	3,619
Deferred Tax Liability	552	723	723	723
Minority Interest	-	-	-	-
Equity Share Capital	162	216	216	216
Face Value per share (Rs)	10	10	10	10
Reserves & Surplus*	8,883	9,999	11,358	13,438
Less: Misc. Exp. n.w.o.	-	-	-	-
Net Worth	9,045	10,215	11,574	13,653
Total Liabilities	20,536	23,457	20,516	17,996

Source: Company data, I-Sec research

Table 6: Quarterly trend

(Rs mn, year ending March 31)

	Jun 20	Sept 20	Dec 20	Mar 21
Net sales	12,793	13,270	13,946	15,689
% growth (YoY)	(10.1)	3.8	4.1	23.9
EBITDA	1,890	1,936	2,070	1,892
Margin (%)	14.8	14.6	14.8	12.1
Other income	14	17	12	15
Extraordinaries (Net)	1	3	4	(8)
Adjusted Net profit	562	661	677	563

Source: Company data, I-Sec research

Table 7: Cashflow statement

(Rs mn, year ending March 31)

	FY20	FY21P	FY22E	FY23E
Operating Cashflow	3,668	5,563	6,418	7,793
Working Capital Changes	228	(1,145)	1,951	585
Capital Commitments	(5,399)	(3,264)	(2,500)	(2,750)
Free Cashflow	(1,503)	1,154	5,868	5,627
Cashflow from Investing Activities	(3)	(1,666)	-	-
Issue of Share Capital	1,052	-	-	-
Inc (Dec) in Borrowings	1,694	1,580	(4,300)	(4,600)
Dividend paid	(1,160)	(1,122)	(1,401)	(1,509)
Change in Deferred Tax Liability	155	171	-	-
Chg. in Cash & Bank balance	80	(55)	167	(482)

Source: Company data, I-Sec research

Table 8: Key ratios

(Year ending March 31)

	FY20	FY21P	FY22E	FY23E
Per Share Data (Rs)				
EPS	5.2	11.4	12.8	16.6
Cash EPS	19.0	25.8	29.8	36.1
Dividend per share (DPS)	3.0	6.0	6.5	7.0
Book Value per share (BV)	44.5	50.7	57.0	66.7
Growth (%)				
Net Sales	11.5	4.9	16.0	15.1
EBITDA	24.6	41.6	4.4	15.1
PAT	(2.2)	119.4	12.0	30.0
DPS	100.0	100.0	8.3	7.7
Valuation Ratios (x)				
P/E	155.7	71.0	63.4	48.7
P/CEPS	42.8	31.4	27.2	22.4
P/BV	18.2	16.0	14.2	12.2
EV / EBITDA	34.0	24.0	23.0	20.0
EV / Sales	3.5	3.4	2.9	2.5

Operating Ratios

Raw Material / Sales (%)	70.9	68.3	69.7	69.7
Employee cost / Sales (%)	3.2	3.4	3.4	3.4
SG&A / Sales (%)	2.0	2.0	2.0	2.0
Other Income / PBT (%)	5.5	1.6	5.9	4.8
Effective Tax Rate (%)	28.2	32.3	25.5	25.5
Working Capital (days)	(14.2)	(6.1)	(16.3)	(17.0)
Inventory Turnover (days)	25.7	37.3	25.6	25.6
Receivables (days)	1.0	0.6	0.7	0.7
Payables (days)	45.0	49.7	47.5	47.5
Net D/E (x)	1.1	1.1	0.6	0.2

Profitability Ratios (%)

Net Income Margins	2.1	4.4	4.3	4.8
RoACE	12.9	21.3	20.3	26.7
RoAE	12.3	24.0	23.8	26.9
Dividend Payout	57.6	52.5	50.8	42.1
Dividend Yield	0.4	0.7	0.8	0.9
EBITDA Margins	10.4	14.0	12.6	12.6

Source: Company data, I-Sec research

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