

16 July 2024

India | Equity Research | Q1FY25 results review

Hatsun Agro Products

Dairy

Strong margin expansion led by lower milk procurement prices

Hatsun reported strong Q1FY25 numbers led by volume-driven revenue growth and a 14-quarter high EBITDA margin. We reckon the deflationary trend in milk procurement prices persisting Q1FY25 and is likely the chief driver of gross/EBITDA margin expansion. We also believe there is likely strong revenue growth in ice cream sales YoY. We model the margin expansion to continue through FY25 led by: (1) lower input prices; (2) utilisation of low-prices SMP inventory; and (3) better capacity utilisation at Govindapuram/ Solapur plants. Hatsun, in Jun'24, also cut prices for some of its milk and curd variants – may result in market share gains in FY25-26E, in our view. We remain positive on Hatsun due to its competitive advantages, mainly, established brands, distribution and direct milk procurement. We raise FY25E/26E earnings by 4.4%/4% to factor in the better-than-expected Q1FY25 results. Maintain **BUY**.

Q1FY25 results

Hatsun reported revenue/EBITDA/PAT growth of 10.4%/38.9%/62.9% YoY. We believe the revenue growth was largely volume led. Gross margin (GM) expanded 376bps YoY/96bps QoQ due to lower milk procurement prices. Similarly, EBITDA margin expanded 285bps YoY/269bps QoQ led by higher GM. Interest cost rose 36.6% with the accumulation of SMP on its balance sheet (accumulated at lower milk procurement prices).

Price cuts and possibility to gain market shares

Hatsun shaved prices by INR3/INR6 ([link](#)) on some milk/curd variants in Jun'24. Price cuts shall reduce the differential between private players and co-operatives' milk selling prices, and likely aid Hatsun gain market share. In FY25, we see profitability staying strong in spite of price corrections due to likely strong growth in milk production.

Lower milk procurement prices aid margin expansion

Robust GM expansion (+376bps YoY) points to milk procurement prices having likely declined in Q1FY25 YoY. While scope for further correction seem limited, Hatsun may continue to report buoyant margins led by: (1) utilisation of low-priced inventory; and (2) better capacity utilisation at its Solapur and Govindapur facilities.

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	11,308	12,855
EBITDA Margin (%)	9.7	11.3	12.3	12.2
Net Profit	1,659	2,673	4,151	5,487
EPS (INR)	7.4	12.0	18.6	24.6
EPS % Chg YoY	(35.3)	61.2	55.3	32.2
P/E (x)	159.5	99.0	63.7	48.2
EV/EBITDA (x)	40.1	32.1	24.4	21.1
RoCE (%)	8.3	10.2	13.8	19.2
RoE (%)	13.0	17.7	24.6	27.8

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Market Data

Market Cap (INR)	264bn
Market Cap (USD)	3,163mn
Bloomberg Code	HTSMF IN
Reuters Code	HAPL.BO
52-week Range (INR)	1,233 /956
Free Float (%)	23.0
ADTV-3M (mn) (USD)	1.2

Price Performance (%)	3m	6m	12m
Absolute	19.2	2.7	23.1
Relative to Sensex	9.3	(7.3)	1.0

Earnings Revisions (%)	FY25E	FY26E
Revenue	-	-
EBITDA	2.1	2.1
EPS	4.4	4.0

Previous Reports

23-04-2024: [Q4FY24 results review](#)

22-01-2024: [Q3FY24 results review](#)

Maintain BUY

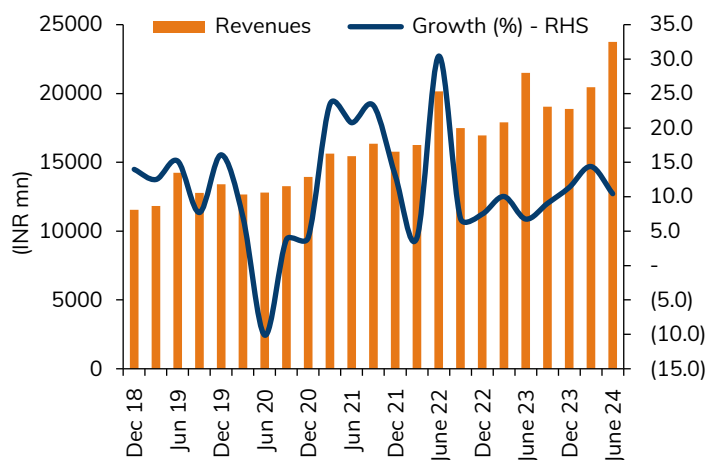
We model Hatsun to report FY24–26E revenue/PAT CAGRs of 14.7%/43.3%. Our DCF-based revised TP to INR 1,400 (earlier INR 1,190), implies a P/E of 57x FY26E. Retain **BUY**. Key risks: Higher competitive pressures; and material inflation in RM prices.

Exhibit 1: Q1FY25 financial performance

Y/e March (INR mn)	Q1FY25	Q1FY24	YoY gr.	Q4FY24	QoQ gr.
Revenue	23,751	21,506	10.4	20,469	16.0
Expenditure					
Raw materials	16,241	15,515	4.7	14,193	14.4
% of revenue	68.4	72.1		69.3	
Employee cost	590	558	5.8	604	(2.3)
% of revenue	2.5	2.6		3.0	
Other expenditure	3,616	3,054	18.4	3,375	7.1
% of revenue	15.2	14.2		16.5	
Total expenditure	20,448	19,128	6.9	18,173	12.5
EBITDA	3,303	2,379	38.9	2,296	43.9
EBITDA margin	13.9	11.1		11.2	
Other income	22	22	(2.4)	22	0.2
PBDIT	3,325	2,401	38.5	2,318	43.5
Depreciation	1,110	975	13.9	1,109	0.1
PBIT	2,214	1,426	55.2	1,209	83.2
Interest	459	336	36.6	500	(8.2)
PBT	1,756	1,091	61.0	709	147.7
Prov. for tax	450	289	55.8	187	140.4
% of PBT	25.7	26.5		26.4	
Adjusted PAT	1,305	802	62.9	522	150.3
Extra ordinary items	9	(4)	-	(24)	-
Reported PAT	1,314	798	64.7	497	164.2

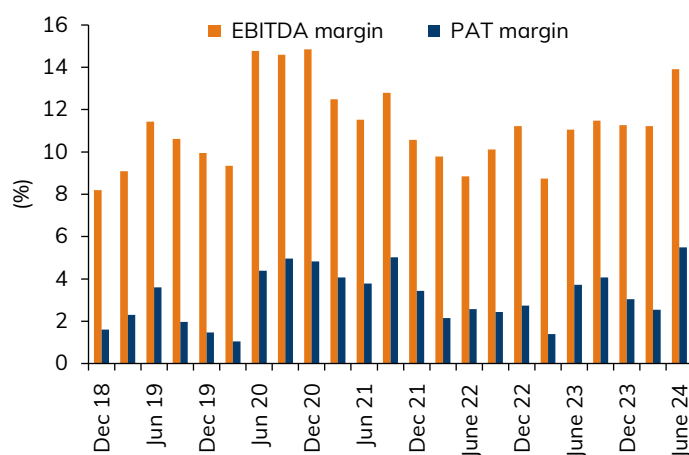
Source: Company data, I-Sec research

Exhibit 2: Revenue growth trend



Source: Company data, I-Sec research

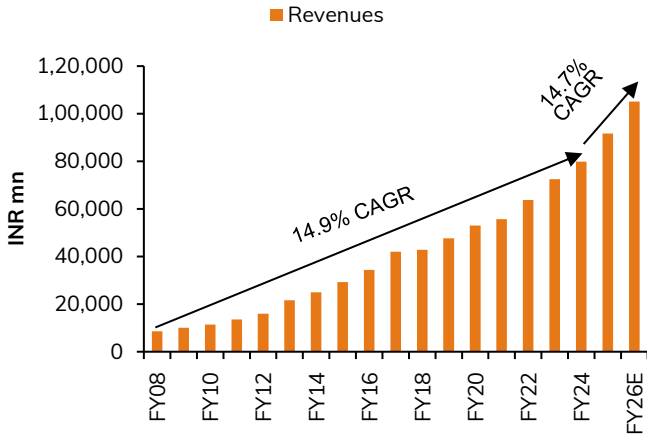
Exhibit 3: EBITDA and PAT margin trend



Source: Company data, I-Sec research

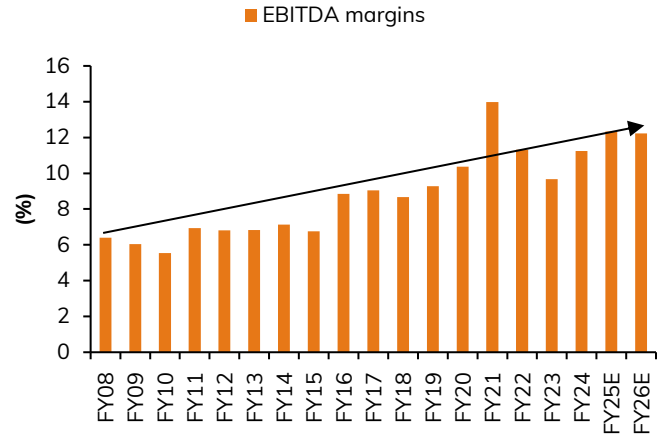
Key highlights – Annual

Exhibit 4: Revenue and growth rates



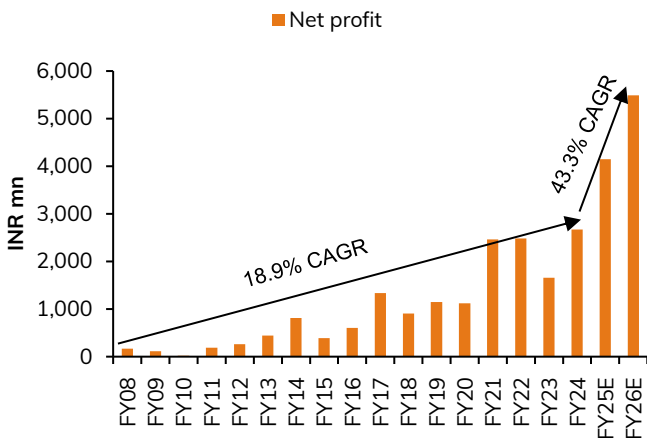
Source: Company data, I-Sec research

Exhibit 5: EBITDA margins



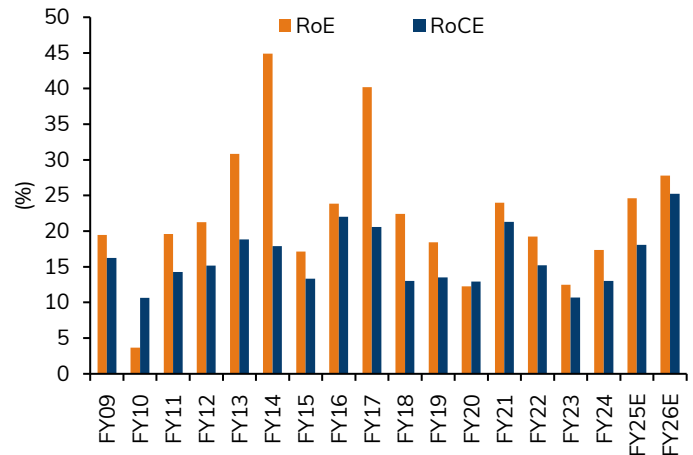
Source: Company data, I-Sec research

Exhibit 6: PAT and growth rates



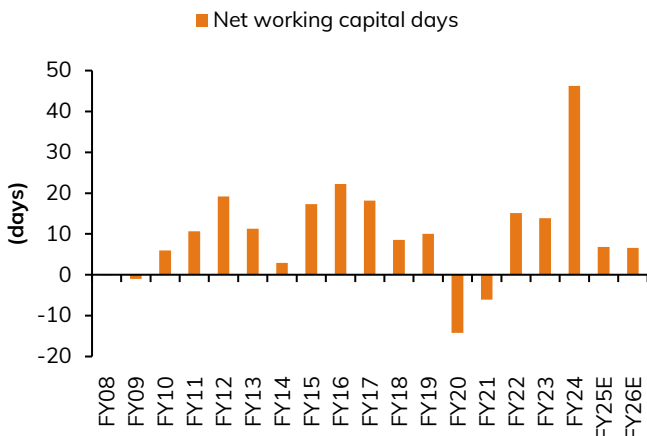
Source: Company data, I-Sec research

Exhibit 7: RoE and RoCE



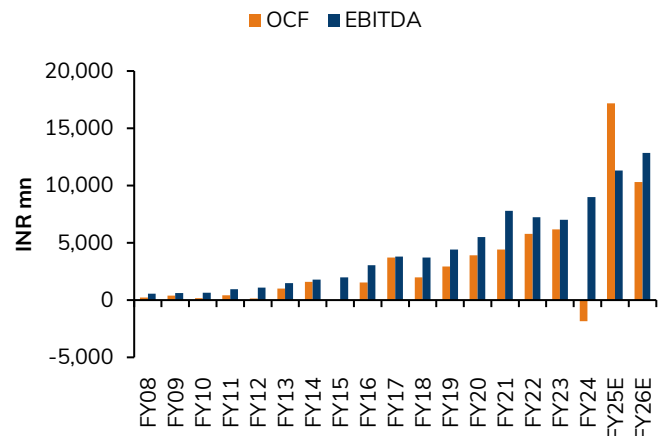
Source: Company data, I-Sec research

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

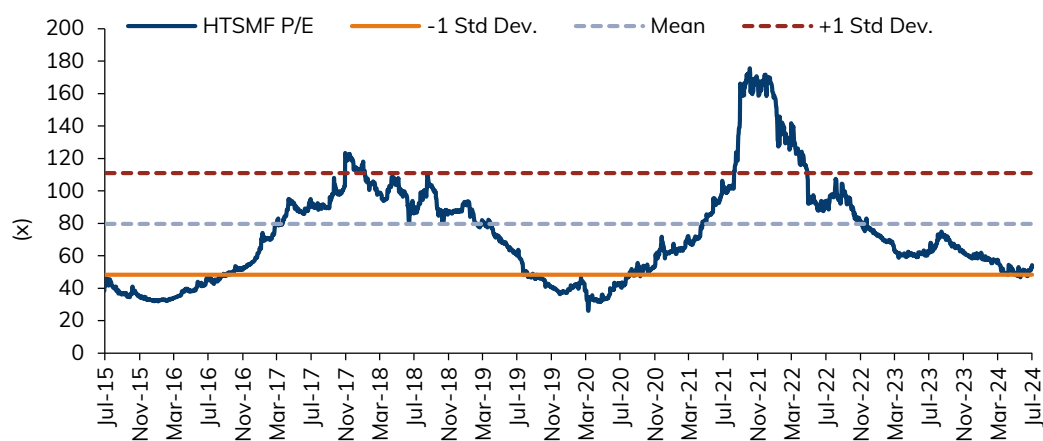
We model Hatsun to report revenue and PAT CAGRs of 14.7% and 43.3% over FY24-FY26E, respectively, and RoE to move to 27.8% in FY26E, from 17.7% in FY24. At our DCF-based revised target price of INR 1,400 (earlier INR1,190), the implied P/E works out to 57x FY26E EPS. Maintain **BUY**.

Exhibit 10: DCF-based valuation

Particulars	
Cost of equity (%)	11.0%
Terminal growth rate (%)	5.0%
Discounted interim cash flows (INR mn)	1,38,022
Discounted terminal value (INR mn)	1,73,880
Total equity value (INR mn)	3,11,902
Value per share (INR)	1,400

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

%	Dec'23	Mar'24	Jun'24
Promoters	73.1	73.2	73.2
Institutional investors	12.8	12.7	12.7
MFs and others	9.4	9.6	9.6
FIs/Banks	0.0	0.0	0.0
Insurance	0.0	0.0	0.0
FIIIs	3.3	3.1	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	80,315	92,214
EBITDA	7,014	8,990	11,308	12,855
EBITDA Margin (%)	9.7	11.3	12.3	12.2
Depreciation & Amortization	3,615	4,095	4,613	5,000
EBIT	3,399	4,895	6,694	7,855
Interest expenditure	1,259	1,542	1,368	773
Other Non-operating Income	106	226	135	137
Recurring PBT	2,246	3,579	5,461	7,220
Profit / (Loss) from Associates	-	-	-	-
Less: Taxes	587	906	1,311	1,733
PAT	1,659	2,673	4,151	5,487
Less: Minority Interest	-	-	-	-
Extraordinaries (Net)	(14)	(21)	-	-
Net Income (Reported)	1,645	2,652	4,151	5,487
Net Income (Adjusted)	1,659	2,673	4,151	5,487

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	8,876	10,326
of which cash & cash eqv.	419	533	565	863
Total Current Liabilities & Provisions	4,421	5,246	6,597	7,565
Net Current Assets	3,178	10,659	2,280	2,761
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	31,857	30,339
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	17,757	21,238
Total Net Worth	14,407	15,723	17,979	21,461
Minority Interest	-	-	-	-
Total Liabilities	33,087	42,100	31,857	30,339

Source Company data, I-Sec research

Exhibit 16: Quarterly trend

(INR mn, year ending March)

	Sept-23	Dec-23	Mar-24	Jun-24
Net Sales	19,054	18,875	20,469	23,751
% Growth (YoY)	9.0	11.3	14.4	10.4
EBITDA	2,188	2,127	2,296	3,303
Margin %	11.5	11.3	11.2	13.9
Other Income	141	41	22	22
Extraordinaries	8	(1)	(24)	9
Adjusted Net Profit	776	574	522	1,305

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)	17,176	10,302
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)	14,426	7,302
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	32	297
Closing cash & balance	371	507	565	863

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	18.6	24.6
Adjusted EPS (Diluted)	7.4	12.0	18.6	24.6
Cash EPS	23.7	30.4	39.3	47.1
Dividend per share (DPS)	5.8	6.0	8.5	9.0
Book Value per share (BV)	64.7	70.6	80.7	96.3
Dividend Payout (%)	78.0	50.0	45.6	36.5
Growth (%)				
Net Sales	13.8	10.3	14.7	14.7
EBITDA	(2.8)	28.2	25.8	13.7
EPS (INR)	(35.3)	61.2	55.3	32.2
Valuation Ratios (x)				
P/E	159.5	99.0	63.7	48.2
P/CEPS	50.2	39.1	30.2	25.2
P/BV	18.4	16.8	14.7	12.3
EV / EBITDA	40.1	32.1	24.4	21.1
P / Sales	3.7	3.3	2.9	2.5
Dividend Yield (%)	0.5	0.5	0.7	0.8
Operating Ratios				
Gross Profit Margins (%)	28.5	29.7	30.9	30.9
EBITDA Margins (%)	9.7	11.3	12.3	12.2
Effective Tax Rate (%)	26.1	25.3	24.0	24.0
Net Profit Margins (%)	2.3	3.3	4.5	5.2
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	0.5
Profitability Ratios				
RoCE (%)	8.3	10.2	13.8	19.2
RoE (%)	13.0	17.7	24.6	27.8
RoC (%)	8.3	10.2	13.8	19.2
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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