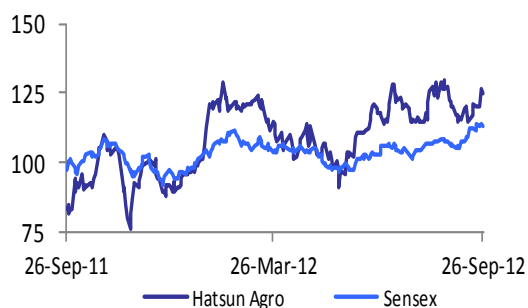


September 26, 2012

CMP	Rs. 93.00
BSE Code	531531
BSE ID	HATSUN
High/Low 1Y (Rs.)	99.7/54.7
Average Volume (3M)	4,083
Market Cap (Rs. Cr.)	1,002

Shareholding %	Jun-12	Mar-12
Promoters	71.16	69.40
DII [#]	-	-
FII [#]	-	-
Public & Others	28.84	30.60

Stock Chart (Relative to Sensex)


Stock Performance (%)	1M	6M	1Yr
Hatsun	-1.7	9.4	50.9
Sensex	5.4	9.3	16.1

Financials	FY10	FY11	FY12
Revenue	1,140.6	1,355.8	1,603.5
Y-o-Y	12.6%	18.9%	18.3%
EBITDA	63.2	94.6	109.1
Y-o-Y	3.5%	49.6%	15.3%
Net Profit	2.7	18.8	26.6
Y-o-Y	-77.5%	599.4%	41.4%
EPS (Dil.)	0.74	1.81	2.47
EBITDA Margin	5.5%	7.0%	6.8%
Net Profit Margin	0.2%	1.4%	1.7%
P/E(x)	125.7x	51.4x	37.7x

Financial year ends at March 31. All figures in Rs. crore except for per share data

[#]FII^s- Foreign Institutional Investors

[#]DII^s- Domestic Institutional Investors

Hatsun Agro Product Ltd.

Company Overview

Hatsun Agro Product Limited, established in 1970, operates in the dairy sector in India. It produces and sells a wide range of dairy products – Dairy Whitener, Skimmed Milk Powder, Agmark Certified Ghee, Butter, Cooking Butter, Milk, Varieties of Curd, Paneer and Buttermilk through the Brand Hatsun Milk & Milk Products, as well as Arokya. The company also provides various flavours of ice creams under the 'Arun' brand name. Arun Icecreams, the largest selling ice cream in South India, was also the winner of the Best Ice Cream in the country award in the Great Indian Ice Cream Contest 2008 & 2009 (National level). The company operates through eight plants located across Tamil Nadu and Karnataka. The company's board has approved a rights issue of Rs 50 crore in June 2012.

Company Fundamentals

Operational performance

There has been a constant increase in the operational revenue of the company. In FY12, the operational revenue increased by 18.3% compared to FY11. The company's revenue has been growing at a compounded annual rate of 12.14% for the past four years. Product innovation, along with hitherto unchartered markets, would offer further impetus to the company's revenues.

Favourable demand for dairy products

In India, the dairy industry has been growing rapidly to keep pace with the increasing demand for milk and milk products in the country. Being the world's largest producer and consumer of dairy products, India is one of the most lucrative dairy markets. The sales of dairy products in India are expected to nearly double in size from Rs.2.6 trillion (\$60 billion) to around Rs. 5.1 trillion (\$115 billion) by 2016.

Emerging as a national player

The company has footprints at various locations. It has established a strong and efficient supply chain management network with superior logistics and widespread distribution network, spearheaded by exclusive franchisee outlets. With the commissioning of its Belgaum plant, the company has entered into the Goa and Andaman market.

Key Strengths

- Sound operational and technological knowhow
- Robust demand for new and innovative dairy products
- Flexibility to alter product mix to improve margins
- Effective supply and cold chain management

Company Business

Hatsun Agro Product Limited's operations predominantly relate to sale of milk, milk products and ice cream. The company, established in 1970, operates in the dairy sector in India. It produces and sells a wide range of Dairy Products – Dairy Whitener, Skimmed Milk Powder, Agmark Certified Ghee, Butter, Cooking Butter, Milk, Varieties of Curd, Paneer and Buttermilk through the Brand Hatsun Milk & Milk Products and Arokya. The company exports dairy ingredients to 38 countries in the American, Middle East and South East Asian markets.

The company uses Arun brand name for their various flavours of ice creams. Arun Icecreams, the largest selling ice cream in South India, was also the winner of the Best Ice Cream in the country award in the Great Indian Ice Cream Contest 2008 & 2009 (National level). The company has also launched the brand "ibaco", through which it operates a nationwide chain of ice-cream sundae outlets.

As a proof of commitment to consistent quality assurance, Hatsun has certifications required by various international customers across different markets:

Food Safety Management System Standard of ISO 22000:2005

Quality Management System Standard of ISO 9001:2008

Environmental Management System Standard of ISO 14001:2004

Export Inspection Council of India (Ministry of Commerce & Industry Government of India) Certificate of Approval of Quality for Export of Milk Product.

The Milk and Milk Product Order MMPO -1992 Registration – FSSAI (Ministry of Health and Family Welfare, Govt. Of India)

Hatsun has established an efficient supply chain management, superior logistics and a widespread distribution network, spearheaded by exclusive franchisee outlets. All the brands enjoy strong brand equity although they play in a price-sensitive market. Arun Icecreams are sold through exclusive franchisee outlets. The brand occupies the top slot in Tamil Nadu and figures within the top brands in South India.

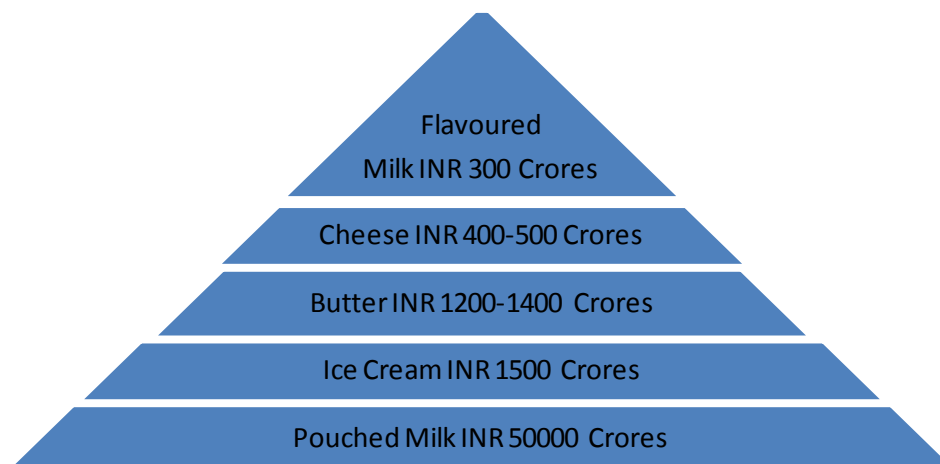
The company operates through 8 plants, six of which are located in Tamil Nadu, while 2 are located in Karnataka. With the commissioning of the Belgaum plant in Karnataka, the company has access to the Goan and Andaman markets. The company's board has approved a rights issue for existing shareholders amounting to Rs 50 crore in June 2012. During FY13, the company plans to focus on long life milk products/dairy ingredients and curd.

The company has a well defined process of procurement. Hatsun procures fresh milk directly from the farmers. To facilitate it, Hatsun has around 4,500 'Hatsun Milk Banks' (HMBs) covering over 8,000 villages. Everyday 3 lakh plus farmers pour milk at these HMBs. At the HMBs, every farmer's milk is tested for its quality. Based on the quality, per litre price of milk is determined with the help of a two way price chart. The two parameters tested for determining quality are Fat and SNF.

Industry Overview

The size of the Indian dairy industry is estimated to be Rs 2 trillion with milk production pegged at 123 million tonnes and contributing around 22% to the agricultural GDP (CLSA report). India is the largest milk producer in the world, accounting for 17% of global production. It went past the U.S. way back in 1998 and since then it has maintained its leading position. The U.S. currently produces around 100 million tonnes of milk.

Around 85% of the Indian dairy industry is in the hands of the unorganized sector. The organized sector comprises co-operative societies, Government dairies, and private dairies. The market is dominated by giants like Amul, Nestle, and Mother Dairy. Private dairies like Parag, Hatsun, and Heritage Foods are also making their presence felt. Branded products include pouched milk, butter, cheese, ice cream, flavoured milk, etc.



Source: Economic Times

The industry is growing at approximately 10% annually on the back of rising disposable income and emergence of innovative products like gourmet cheese, flavoured yogurts, etc which are gaining popularity with the urban masses. According to Associated Chambers of Commerce and Industry of India (ASSOCHAM), the Indian dairy industry is set to reach Rs 5 trillion-mark in 2015 and the milk production is estimated to reach 190 million tonnes, from the current 123 million tonnes. *

The main challenge faced by this industry is the lack of proper cold storages and other infrastructure on one hand and a non-transparent milk pricing system on the other. Stringent Government regulations act as a deterrent towards attracting investments from the private equity players.

*Source: ASSOCHAM

Competitor Analysis

We have compared Hatsun with its close peers in the glass manufacturing segment.

Company	Year End	CMP*	M Cap	Revenue	EBIT Margin	EPS	P/E
Hatsun Agro	Mar-12	93	1002	1,604	7.01%	2.47	37.7x
Nestle India	Dec-11	4,343	41872	7,514	20.58%	99.73	43.5x
Heritage Foods	Mar-12	276	318	1,393	3.91%	8.10	35.5x

Source: BSE, Capitaline, Market cap and Revenue in Rs. Crore, *CMP as on 26th September 2012

Summary Financials

Particulars (Rs crore)	FY10	FY11	FY12
Net Sales	1140.6	1352.8	1602.1
Other Op. Revenue	0.0	3.0	1.4
Total Revenue	1140.6	1355.8	1603.5
<i>Growth (%)</i>	<i>12.6%</i>	<i>18.9%</i>	<i>18.3%</i>
Cost of Goods Sold	-909.6	-1065.7	-1261.2
Gross Profit	231.0	290.1	342.3
Employee Costs	-37.3	-45.9	-52.4
Other Expenditure	-130.5	-149.6	-180.8
EBITDA	63.2	94.6	109.1
<i>Growth (%)</i>	<i>3.5%</i>	<i>49.6%</i>	<i>15.3%</i>
Depreciation	-26.8	-37.1	-41.8
EBIT Profit	36.4	57.6	67.3
Finance cost	-27.8	-35.9	-38.4
Other Income	2.9	1.5	3.3
Exceptional Items	0.0	0.0	0.0
PBT	11.5	23.2	32.2
<i>Growth (%)</i>	<i>-42.1%</i>	<i>101.3%</i>	<i>38.5%</i>
Income Tax	-8.8	-4.4	-5.6
Profit after Tax	2.7	18.8	26.6
Extra Ordinary Items	0.0	0.0	0.0
Net Profit	2.7	18.8	26.6
<i>Growth (%)</i>	<i>-77.5%</i>	<i>599.4%</i>	<i>41.4%</i>
Rep. Basic EPS	0.74	1.81	2.47
Rep. Diluted EPS	0.74	1.78	2.47
Equity Capital	6.8	7.2	10.8
Face value	2	2	1

Ratio Analysis	FY10	FY11	FY12
Margins			
EBITDA Margin (%)	5.5%	7.0%	6.8%
Net Profit Margin (%)	0.2%	1.4%	1.7%
Valuation			
P/E (x)	125.7	51.4	37.7
P/BV (x)	5.9	21.2	48.9
Profitability			
ROCE (%)	-	49.6%	52.5%
RONW (%)	5.0%	119.5%	130.0%
Solvency Ratio			
Debt/ Equity Ratio (x)	5.9	15.0	13.4
Interest Cover (x)	1.3	1.6	1.7

Bifurcation between Long Term and Short Term Debt is not available for FY09 and FY10

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