

# Retail Equity Research

## Avanti Feeds Ltd

Aquaculture

BSE CODE: 512573

NSE CODE: AVANTIFEED

Bloomberg CODE: AVNT:IN

SENSEX: 44,260

**Buy**

12M Investment period

Rating as per Small Cap

CMP Rs.510

TARGET Rs.610

 RETURN 20% 

(Closing: 26-11-20)

**KEY CHANGES:**
**TARGET** 
**RATING** 
**EARNINGS** 

### Healthy growth & margins amidst challenges...

Avanti Feeds Ltd (AFL), is a leading manufacturer of Shrimp Feeds with a capacity of 6,00,000 MT, and Shrimp Processor & Exporter with a capacity of 22,000 MT. AFL has a tie-up with Thai Union Group, Thailand.

- We revise upward our Target to Rs.610 (from Rs565) and maintain Buy rating due to healthy performance amid challenges.
- Q2FY21 revenue grew by 6%YoY (+18% QoQ) aided by gradual stability in operations post lock-down. Export realisation improved 15%YoY on better region mix.
- EBITDA grew by 19% YoY, supported by improvement in EBITDA margin (by 150bps YoY to 13.6%) due to reduction in RM & overhead costs.
- Industry shrimp production is expected to drop by ~15%-20% in FY21 due to Covid-19 led disruptions but to improve in FY22.
- Relaxation in restrictions, improvement in export prices, regional diversification and increasing market share will support future volumes.
- Changes in MEIS (export incentive scheme) will affect the incentive receipts and likely to impact margins in the short-term.
- Revenue/PAT to grow at 9%/11% CAGR over FY20-22E. We value AFL at FY22E P/E of 19x considering healthy growth & RoE and no debt.

### Healthy revenue growth amidst challenges

For Q2FY21, revenue grew by 6% YoY on account of gradual improvement in operations post lockdown. Feed volumes improved 2.5%YoY and Feed realisation grew by 5%YoY due to price hike in previous quarter. However, Processing volumes de-grew by 11%YoY while export realisation grew by 15%YoY due to better region mix. Industry shrimp production is expected to drop by ~15%-20% in FY21 due to Covid-19 led disruptions but to improve in FY22. Relaxation in restrictions and improvement in farm-gate prices is encouraging farmers which along with AFL's increasing market share in Feed segment will support future volumes. We expect revenue growth to be flat for FY21 but to grow at 9% CAGR over FY20-22E.

### Margin improves on reduction in RM and overhead costs

Blended EBITDA margin improved by 150bps YoY to 13.6%, aided by reduction in Raw material (RM) and overhead costs. EBITDA grew by 19% YoY. Feed realisation is expected to be stable at current levels while improvement in value added products to support processing realisation. Feed raw materials, Wheat/Soya prices increased by Rs.2.5/R.5 while Fish meal prices has been stable at Rs90-91. Expect EBITDA to grow at 12%CAGR over FY20-22E.

### Changes in MEIS scheme to impact export incentives.

Recently, GoI has capped MEIS incentive for exporters to Rs2cr for Sept-Dec 2020 period post which it will be replaced with new WTO-compliant scheme called the Remission of Duties or Taxes On Export Product (RoDTEP). The rates, under the new scheme are not yet finalised. The changes in the MEIS will affect the incentive receipts and likely to impact margins in the short-term.

### Valuation & Outlook

Demand is gradually improving with more relaxations in the restrictions and is expected to witness healthy recovery in FY22E unless the impact of Covid-19 aggravates. We value AFL at 19x to arrive at a revised Target of Rs.610 (Rs565 earlier), and maintain Buy rating considering healthy RoE & NIL debt.

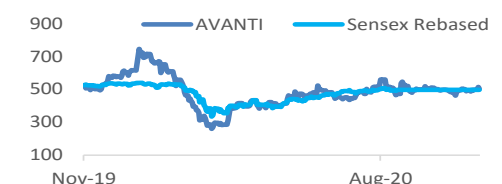
#### Company Data

Market Cap (Rs.cr)	6,935
Enterprise Value (Rs.cr)	6,240
Outstanding Shares (cr)	13.6
Free Float	38%
Dividend Yield	1.0%
52 week high Rs.	770
52 week low Rs.	250
6m average volume (cr)	0.07
Beta	1.3
Face value Rs.	1

Shareholding %	Q4FY20	Q1FY21	Q2FY21
Promoters	43.7	43.7	43.7
FII's	33.3	32.7	31.8
MFs/Insti	2.2	3.0	4.1
Public	15.1	14.4	15.1
Others	5.7	6.2	5.2
Total	100	100	100
Promotor pledge	NIL	NIL	NIL

Price Performance	3 Month	6 Month	6 Month
Absolute Return	-9.3%	21.7%	-4.0%
Absolute Sensex	-1.2%	19.2%	-5.3%
Relative Return*	-8.2%	2.4%	1.3%

#### \*over or under performance to benchmark index



Consolidated (cr)	FY20A	FY21E	FY22E
Sales	4,116	4,140	4,848
Growth (%)	20.2	0.6	17.1
EBITDA	454	519	569
EBITDA Margin (%)	11.0	12.5	11.7
Adj. PAT	346	387	425
Growth (%)	68.5	11.9	10.0
Adj. EPS	25.4	28.4	31.2
Growth (%)	68.5	11.9	10.0
P/E	20.1	18.0	16.3
P/B	5.0	4.0	3.2
EV/EBITDA	13.8	11.2	9.5
ROE (%)	26.5	24.5	21.8
D/E	0.0	0.0	0.0

 Vincent Andrews  
 Research Analyst

## Quarterly Financials (Consolidated)

### Profit & Loss

Rs cr)	Q2FY21	Q2FY20	YoY Growth (%)	Q1FY21	QoQ Growth (%)	H1FY21	H1FY20	YoY Growth (%)
<b>Sales</b>	1,132	1,064	6.3%	955	18.4%	2,087	2,158	-3.3%
<b>EBITDA</b>	153	129	18.9%	129	18.8%	282	266	6.3%
EBITDA margins %	13.6%	12.1%	150bps	13.5%	10bps	13.5%	12.3%	120bps
Depreciation	10	10	-2.0%	9	1.3%	19	19	0.0%
<b>EBIT</b>	144	119	20.6%	120	20.2%	263	247	6.7%
Interest	0	0	-12.4%	0	-22.0%	0	1	-27.2%
Other Income	19	21	-10.7%	27	-31.5%	46	39	18.1%
Exceptional Items	0	0	0.0%	0	0.0%	0	0	0.0%
<b>PBT</b>	162	141	15.4%	147	10.4%	309	286	8.2%
Tax	37	13	180.2%	31	19.9%	68	57	19.5%
Share of profit from associates	0	0	NA	0	NA	0	0	#DIV/0!
Minority interest	14	9	60.2%	12	15.7%	26	17	50.0%
<b>Reported PAT</b>	111	119	-6.2%	104	6.9%	215	212	1.8%
Adjustments	0	0	NA	0	NA	0	0	0.0%
<b>Adj PAT</b>	111	119	-6.2%	104	6.9%	215	212	1.8%
No. of Shares	14	14	0.0%	14	0.0%	14	14	0.0%
<b>Adj EPS (Rs)</b>	8.2	8.7	-6.2%	7.6	6.9%	15.8	15.5	1.8%

### Change in Estimates

Year / Rs cr	Old estimates		New estimates		Change %	
	FY21E	FY22E	FY21E	FY22E	FY21E	FY22E
Revenue	4,008	4,837	4,140	4,848	3.3%	0.2%
EBITDA	481	555	519	569	7.9%	2.4%
Margins (%)	12.0%	11.5%	12.5%	11.7%	120bps	60bps
Adj. PAT *	356	414	387	425	8.6%	2.7%
EPS	26.2	30.4	28.4	31.2	8.3%	2.7%



**PROFIT & LOSS**

Y.E March (Rs. cr)	FY18A	FY19A	FY20A	FY21E	FY22E
<b>Revenue</b>	<b>3,393</b>	<b>3,424</b>	<b>4,116</b>	<b>4,140</b>	<b>4,848</b>
% change	29.7	0.9	20.2	0.6	17.1
<b>EBITDA</b>	<b>683</b>	<b>344</b>	<b>454</b>	<b>519</b>	<b>569</b>
% change	107.0	-49.6	32.1	14.3	9.5
Depreciation	24	36	38	37	39
<b>EBIT</b>	<b>659</b>	<b>308</b>	<b>416</b>	<b>482</b>	<b>530</b>
Interest	3	3	2	0	0
Other Income	48	54	70	75	87
<b>PBT</b>	<b>703</b>	<b>364</b>	<b>485</b>	<b>556</b>	<b>617</b>
% change	109.8	-48.2	33.0	14.7	11.0
Tax	238	121	99	130	144
Tax Rate (%)	33.8%	33.3%	20.3%	23.3%	23.3%
<b>Reported PAT</b>	<b>447</b>	<b>210</b>	<b>346</b>	<b>387</b>	<b>425</b>
Adj*	-1	5	0	0	0
<b>Adj PAT</b>	<b>447</b>	<b>205</b>	<b>346</b>	<b>387</b>	<b>425</b>
% change	108.7	-54.1	68.5	11.9	10.0
No. of shares (cr)	13.6	13.6	13.6	13.6	13.6
<b>Adj EPS (Rs.)</b>	<b>32.8</b>	<b>15.4</b>	<b>25.4</b>	<b>28.4</b>	<b>31.2</b>
% change	108.7	-54.1	68.5	11.9	10.0
DPS (Rs.)	2	2	2	2	2
CEPS (Rs.)	34.6	17.7	28.1	31.1	34.0

**CASH FLOW**

Y.E March (Rs. cr)	FY18A	FY19A	FY20A	FY21E	FY22E
<b>Net inc. + Depn.</b>	<b>470</b>	<b>246</b>	<b>383</b>	<b>424</b>	<b>464</b>
Non-cash adj.	250	140	146	171	194
Other adjustments	3	3	2	0	0
Changes in W.C	-167	-103	-219	31	-32
<b>C.F. Operation</b>	<b>281</b>	<b>165</b>	<b>214</b>	<b>496</b>	<b>482</b>
Capital exp.	-79	-23	-33	-9	-25
Change in inv.	-202	-46	-50	-400	-200
Other invest.CF	12	0	0	0	0
<b>C.F - Investment</b>	<b>-269</b>	<b>-69</b>	<b>-83</b>	<b>-409</b>	<b>-225</b>
Issue of equity	0	5	0	0	0
Issue/repay debt	-11	-9	-23	0	0
Dividends paid	-49	-33	-33	-33	-33
Other finance.CF	14	0	0	0	0
<b>C.F - Finance</b>	<b>-45</b>	<b>-37</b>	<b>-56</b>	<b>-33</b>	<b>-33</b>
Chg. in cash	-34	59	75	54	224
Closing cash	7	58	16	70	294

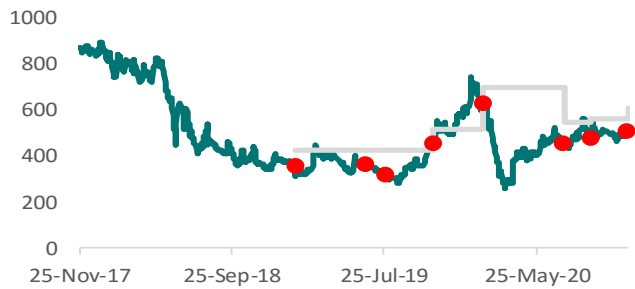
**BALANCE SHEET**

Y.E March (Rs. cr)	FY18A	FY19A	FY20A	FY21E	FY22E
Cash	7	58	16	70	294
Accounts Receivable	50	49	89	74	66
Inventories	525	379	544	527	575
Other Cur. Assets	28	163	223	222	227
Investments	584	630	680	1,080	1,280
Gross Fixed Assets	349	365	381	406	431
Net Fixed Assets	312	292	271	258	245
CWIP	2	9	26	10	10
Intangible Assets	0	0	0	0	0
Def. Tax (Net)	9	23	17	17	17
Other Assets	10	12	14	14	16
<b>Total Assets</b>	<b>1,526</b>	<b>1,615</b>	<b>1,880</b>	<b>2,273</b>	<b>2,730</b>
Current Liabilities	323	213	263	258	271
Provisions	18	15	13	17	19
Debt Funds	5	8	0	0	0
Other Liabilities	148	173	199	241	291
Equity Capital	9	14	14	14	14
Reserves & Surplus	1,022	1,192	1,390	1,744	2,136
Shareholder's Fund	1,031	1,206	1,404	1,758	2,150
<b>Total Liabilities</b>	<b>1,526</b>	<b>1,615</b>	<b>1,880</b>	<b>2,273</b>	<b>2,730</b>
<b>BVPS (Rs.)</b>	<b>227</b>	<b>88</b>	<b>103</b>	<b>129</b>	<b>158</b>

**RATIOS**

Y.E March	FY18A	FY19A	FY20A	FY21E	FY22E
<b>Profitab. &amp; Return</b>					
EBITDA margin (%)	20.1	10.0	11.0	12.5	11.7
EBIT margin (%)	19.4	9.0	10.1	11.6	10.9
Net profit mgn.(%)	13.2	6.0	8.4	9.3	8.8
ROE (%)	53.7	18.3	26.5	24.5	21.8
ROCE (%)	36.2	12.3	21.1	18.8	16.7
<b>W.C &amp; Liquidity</b>					
Receivables (days)	4.0	5.3	6.1	7.2	5.3
Inventory (days)	47.4	48.2	40.9	47.2	41.5
Payables (days)	40.6	31.1	22.2	24.6	20.8
Current ratio (x)	3.4	5.1	5.5	7.1	8.4
Quick ratio (x)	0.2	0.5	0.4	0.5	1.3
<b>Turnover &amp; Leverage</b>					
Gross asset T.O (x)	11.8	9.6	11.0	10.5	11.6
Total asset T.O (x)	2.6	2.2	2.4	2.0	1.9
Int. coverage ratio (x)	222.3	117.3	209.6	1808.6	2366.4
Adj. debt/equity (x)	0.0	0.0	0.0	0.0	0.0
<b>Valuation</b>					
EV/Sales (x)	1.9	1.8	1.5	1.4	1.1
EV/EBITDA (x)	9.3	18.2	13.8	11.2	9.5
P/E (x)	15.5	33.9	20.1	18.0	16.3
P/BV (x)	2.2	5.8	5.0	4.0	3.2

## Recommendation Summary



Dates	Rating	Target
19-Jun-19	Buy	427
29-Jul-19	Buy	427
1-Nov-19	Buy	520
10-Feb-20	Accumulate	700
20-Jul-20	Buy	550
11-Sep-20	Buy	565
27-Nov-20	Buy	610

## Investment Rating Criteria

Ratings	Large caps	Midcaps	Small Caps
Buy	Upside is above 10%	Upside is above 15%	Upside is above 20%
Accumulate	-	Upside is between 10%-15%	Upside is between 10%-20%
Hold	Upside is between 0% - 10%	Upside is between 0%-10%	Upside is between 0%-10%
Reduce/sell	Downside is more than 0%	Downside is more than 0%	Downside is more than 0%
Not rated			

### Definition:

**Buy:** Acquire at Current Market Price (CMP), with the target mentioned in the research note.

**Accumulate:** Partial buying or to accumulate as CMP dips in the future.

**Hold:** Hold the stock with the expected target mentioned in the note.

**Reduce:** Reduce your exposure to the stock due to limited upside.

**Sell:** Exit from the stock.

**Not rated:** The analyst has no investment opinion on the stock.

To satisfy regulatory requirements, we attribute 'Accumulate' as Buy and 'Reduce' as Sell.

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