

# Retail Equity Research Avanti Feeds Ltd.

Aquaculture

BSE CODE: 512573

NSE CODE: AVANTIFEED

Bloomberg CODE: AVNT:IN

SENSEX: 62,918

**BUY**

12 Months Investment period Rating as per Small Cap

CMP Rs. 388 TARGET Rs. 469 RETURN 21% ↑  
(Closing: 15-06-23)

KEY CHANGES:

TARGET ↑

RATING ↔

EARNINGS ↑

## Margin improves as input prices stabilise.

Avanti Feeds Ltd. (AFL) is a leading manufacturer of shrimp feeds with a capacity of 7,75,000 MT and a shrimp processor & exporter with a capacity of 22,000 MT. AFL has a tie-up with Thai Union Group, Thailand.

- We revise our target price to Rs. 469 (from Rs. 420) and maintain BUY rating factoring in improvement in margins.
- Revenue declined by 18%YoY, mainly due to volume declines in both feed (-22%YoY) and processing (-19%YoY) segments.
- The shrimp production in the country is expected to come down by ~5-6% in 2023, and the company has guided for flat to -7% YoY downside in feed volumes and flat growth for the processing segment.
- EBITDA grew by 14%YoY as EBITDA margin improved by 340bps YoY to 12.2% (7.3% QoQ) due to stabilization in raw material prices.
- AFL has added new capacity of 1.75 lakh MT in feed in Dec 2022 and is adding 7,000MT in the processing segment by the end of FY24.
- Revenue/PAT to grow at 5%/29% CAGR over FY23E-25E. Factoring in the current demand slowdown, we value AFL at 13x FY25E PE (3Yr avg=15).

## Demand slowdown in export markets impacted feed volumes.

For Q4FY23, consolidated revenue declined by 18%YoY, mainly due to volume declines in both feed (22%YoY) and processing (-19%YoY) segments on account of demand slowdowns. Shrimp culture activities currently witnesses a slowdown, and the stocking is down by ~30% in the first four months of the year. However, the company expects the farmers to go for stocking in a phased manner and expects the shrimp culture to pick up in the subsequent months. However, the company expects the shrimp production to come down by ~5-6% from last year and has guided for flat to -7% volume decline for feed segment and flat growth for processing segment for FY24. AFL has added capacity of 1.75 lakhs MT (production started in Dec 2022) and is also adding new processing capacity of 7,000MT by FY24 end. We downgraded our revenue estimates and expect a revenue CAGR of ~5% over FY23E-25E.

## Margins improve as input prices stabilise.

EBITDA margin improved by 340bps YoY to 12.2% (7.3% QoQ) on account of stabilization of raw material prices, higher feed realisation and decline in freight costs. Prices of soybean and wheat have come down by ~30%/20%, respectively from their peaks, but fishmeal prices are still highly volatile due to a significant demand-supply gap on account of spurt in export demand from China, Taiwan and Vietnam and shortage of fishmeal in Chile and Peru. Any stabilization will be positive for margins.

## Status of Recall of certain products sold in US

In FY22, the company had to recall some of the consignments of cooked shrimp products, that were found to be contaminated with Salmonella by the USFDA and CDC (in June & Aug 21). Avanti has sufficient product liability insurance coverage in the event of any claim. Total provision has been made for Rs.35.62cr related to return & destroyed value of the products, of which Rs. 32.57cr paid towards claims settled. After being satisfied with several preventive measures taken by the AFL USFDA communicated (in May 2022) the termination of the recall of the products.

## Valuation & Outlook

The weakness in shrimp production is likely to continue in FY24. However, the stability in the farm-gate prices suggests that shrimp culture activities are expected to gradually improve. Factoring in the current demand slowdown, we value AFL at 13x FY25E EPS (3Yr avg=15x) to arrive at a target price of Rs. 469, and maintain BUY rating due to improvement in margins.

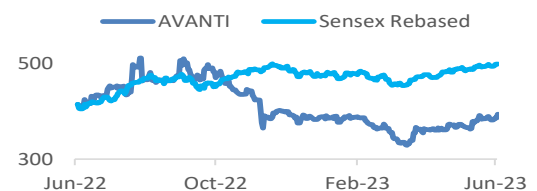
## Company Data

Market Cap (Rs.cr)	5,286
Enterprise Value (Rs.cr)	4,247
Outstanding Shares (cr)	13.6
Free Float	29%
Dividend Yield	1.6%
52 week high (Rs.)	528
52 week low (Rs.)	321
6m average volume (cr)	0.02
Beta	0.6
Face value (Rs.)	1

Shareholding (%)	Q2FY23	Q3FY23	Q4FY23
Promoters	43.3	43.3	43.3
FII's	14.1	12.7	12.7
MFs/Insti	8.6	8.8	9.5
Public	14.1	15.3	14.9
Others	20.0	20.0	19.6
Total	100.0	100.0	100.0
Promotor pledge	Nil	Nil	Nil

Price Performance	3 Month	6 Month	1 Year
Absolute Return	15.1%	0.4%	-5.0%
Absolute Sensex	9.0%	3.1%	20.3%
Relative Return*	6.0%	-2.7%	-25.3%

\*over or under performance to benchmark index



Consolidated (cr)	FY23A	FY24E	FY25E
Sales	5,087	4,858	5,570
Growth (%)	1.0	-4.5	14.7
EBITDA	393	489	623
EBITDA Margin (%)	7.7	10.1	11.2
Adj. PAT	294	387	492
Growth (%)	17.5	31.4	27.2
Adj. EPS	20.6	28.4	36.1
Growth (%)	17.5	31.4	27.2
P/E	18.0	13.7	10.7
P/B	2.5	2.2	1.9
EV/EBITDA	10.8	7.9	5.6
ROE (%)	14.7	17.3	19.1
D/E	0.0	0.0	0.0

Vincent Andrews  
Research Analyst

## Quarterly Financials (Consolidated)

### Profit & Loss

Rs. (cr)	Q4FY23	Q4FY22	YoY Growth	Q3FY23	QoQ Growth	FY23	FY22	YoY Growth
Sales	1,093	1,332	-18.0%	1,103	-0.9%	5,087	5,036	1.0%
EBITDA	133	117	14.2%	81	65.6%	393	322	22.0%
EBITDA margins	12.2%	8.8%	340bps	7.3%	490bps	7.7%	6.4%	130bps
Depreciation	12	10	24.9%	11	14.6%	43	41	4.4%
EBIT	121	107	13.2%	70	73.4%	350	281	24.6%
Interest	1	0	134.1%	0	368.2%	2	2	0.4%
Other Income	24	16	48.1%	29	-17.6%	92	82	12.7%
Exceptional Items	-5	0	0.0%	-2	0.0%	-13	-28	0.0%
PBT	140	121	16.0%	96	45.2%	427	324	31.9%
Tax	39	29	33.1%	26	49.5%	115	79	45.6%
Share of profit from associates	0	0	NA	0	NA	-1	0	NA
Minority interest	8	7	9.7%	8	-0.4%	34	24	42.0%
Reported PAT	93	84	10.7%	62	49.4%	278	222	25.5%
Adjustments	5	0	NA	2	NA	13	28	0.0%
Adj PAT	99	84	16.8%	64	54.0%	291	249	17.0%
No. of Shares	14	14	0.0%	14	0.0%	14	14	0.0%
Adj EPS (Rs)	7.2	6.2	16.8%	4.7	54.0%	21.4	18.3	17.0%

### Change in Estimates

Year / Rs cr	Old estimates		New estimates		Change	
	FY24E	FY25E	FY24E	FY25E	FY24E	FY25E
Revenue	5,784	6,380	4,858	5,570	-16.0%	-12.7%
EBITDA	478	616	489	623	2.4%	1.2%
Margins	8.3%	9.7%	10.1%	11.2%	180bps	150bps
Adj. PAT	365	484	387	492	5.9%	1.6%
EPS	26.8	35.5	28.4	36.1	5.9%	1.7%

**PROFIT & LOSS**

Y.E March (Rs. cr)	FY20A	FY21A	FY22A	FY23A	FY24E	FY25E
<b>Revenue</b>	<b>4,116</b>	<b>4,101</b>	<b>5,036</b>	<b>5,087</b>	<b>4,858</b>	<b>5,570</b>
% change	18.0	-0.4	22.8	1.0	-4.5	14.7
<b>EBITDA</b>	<b>454</b>	<b>461</b>	<b>323</b>	<b>393</b>	<b>489</b>	<b>623</b>
% change	11.6	1.6	-29.9	21.6	24.5	27.4
Depreciation	38	41	41	43	56	61
<b>EBIT</b>	<b>416</b>	<b>420</b>	<b>283</b>	<b>350</b>	<b>434</b>	<b>562</b>
Interest	2	2	2	2	2	2
Other Income	70	93	82	92	97	117
<b>PBT</b>	<b>485</b>	<b>511</b>	<b>335</b>	<b>427</b>	<b>529</b>	<b>677</b>
% change	13.3	5.5	-34.5	27.6	23.8	27.9
Tax	99	112	79	115	123	158
Tax Rate	20.3%	22.0%	23.3%	23.3%	23.3%	23.3%
<b>Reported PAT</b>	<b>347</b>	<b>361</b>	<b>223</b>	<b>281</b>	<b>387</b>	<b>492</b>
Adj*	0	0	-28	-13	0	0
<b>Adj PAT</b>	<b>347</b>	<b>361</b>	<b>250</b>	<b>294</b>	<b>387</b>	<b>492</b>
% change	29.2	4.2	-30.7	17.5	31.4	27.2
No. of shares (cr)	13.6	13.6	13.6	13.6	13.6	13.6
<b>Adj EPS (Rs.)</b>	<b>25.5</b>	<b>26.5</b>	<b>16.4</b>	<b>20.6</b>	<b>28.4</b>	<b>36.1</b>
% change	29.2	4.2	-30.7	17.5	31.4	27.2
DPS (Rs.)	2	6	8	8	8	8
CEPS (Rs.)	28.2	29.5	21.4	24.7	32.5	40.6

**CASH FLOW**

Y.E March (Rs. cr)	FY20A	FY21A	FY22A	FY23A	FY24E	FY25E
<b>Net inc. + Deprn.</b>	<b>384</b>	<b>402</b>	<b>291</b>	<b>324</b>	<b>442</b>	<b>553</b>
Non-cash adj.	141	150	88	149	144	187
Other adjustments	2	2	-3	2	2	2
Changes in W.C	-168	34	-436	152	116	-105
<b>C.F. Operation</b>	<b>178</b>	<b>383</b>	<b>-212</b>	<b>451</b>	<b>581</b>	<b>480</b>
Capital exp.	-34	-43	-55	-159	-100	-25
Change in inv.	-25	-499	341	-283	-350	-350
Other invest.CF	33	7	9	27	0	0
<b>C.F - Investment</b>	<b>-26</b>	<b>-535</b>	<b>295</b>	<b>-416</b>	<b>-450</b>	<b>-375</b>
Issue of equity	0	0	0	0	0	0
Issue/repay debt	-10	-2	-2	-2	-2	-2
Dividends paid	-149	-2	-86	-85	-102	-102
Other finance.CF	17	15	19	23	0	0
<b>C.F - Finance</b>	<b>-141</b>	<b>15</b>	<b>-68</b>	<b>-65</b>	<b>-105</b>	<b>-105</b>
Chg. in cash	-42	31	18	-30	27	0
Closing cash	16	47	65	35	62	62

**BALANCE SHEET**

Y.E March (Rs. cr)	FY20A	FY21A	FY22A	FY23A	FY24E	FY25E
Cash	16	47	65	35	62	62
Accounts Receivable	89	67	114	122	106	122
Inventories	544	555	988	805	707	770
Other Cur. Assets	223	42	46	281	281	288
Investments	680	1,235	931	1,005	1,355	1,705
Gross Fixed Assets	381	440	463	632	756	781
Net Fixed Assets	271	288	271	397	466	429
CWIP	26	6	40	34	10	10
Intangible Assets	0	4	3	0	0	0
Def. Tax (Net)	17	23	21	16	16	16
Other Assets	14	12	35	38	35	40
<b>Total Assets</b>	<b>1,880</b>	<b>2,280</b>	<b>2,515</b>	<b>2,735</b>	<b>3,040</b>	<b>3,444</b>
Current Liabilities	263	273	351	323	323	306
Provisions	13	16	14	14	13	15
Debt Funds	0	0	0	0	0	0
Other Liabilities	199	229	254	303	324	353
Equity Capital	14	14	14	14	14	14
Reserves & Surplus	1,390	1,748	1,882	2,082	2,366	2,755
Shareholder's Fund	1,404	1,761	1,895	2,095	2,380	2,769
<b>Total Liabilities</b>	<b>1,880</b>	<b>2,280</b>	<b>2,515</b>	<b>2,735</b>	<b>3,040</b>	<b>3,444</b>
<b>BVPS (Rs.)</b>	<b>103</b>	<b>129</b>	<b>139</b>	<b>154</b>	<b>175</b>	<b>203</b>

**RATIOS**

Y.E March	FY20A	FY21A	FY22A	FY23A	FY24E	FY25E
<b>Profitab. &amp; Return</b>						
EBITDA margin (%)	11.0	11.2	6.4	7.7	10.1	11.2
EBIT margin (%)	10.1	10.3	5.6	6.9	8.9	10.1
Net profit mgn.(%)	8.4	8.8	5.0	5.8	8.0	8.8
ROE (%)	26.6	22.8	13.7	14.7	17.3	19.1
ROCE (%)	21.2	17.9	10.6	10.9	13.3	14.7
<b>W.C &amp; Liquidity</b>						
Receivables (days)	6.1	6.9	6.5	8.4	8.6	7.5
Inventory (days)	40.9	48.9	55.9	64.3	56.8	48.4
Payables (days)	22.2	26.0	23.4	25.9	27.0	22.9
Current ratio (x)	5.5	6.3	5.6	6.6	7.4	9.1
Quick ratio (x)	0.4	0.4	0.5	0.5	0.5	0.6
<b>Turnover &amp; Leverage</b>						
Gross asset T.O (x)	11.0	10.0	11.2	9.3	7.0	7.2
Total asset T.O (x)	2.4	2.0	2.1	1.9	1.7	1.7
Int. coverage ratio (x)	209.6	250.6	140.8	173.9	213.7	250.8
Adj. debt/equity (x)	0.0	0.0	0.0	0.0	0.0	0.0
<b>Valuation</b>						
EV/Sales (x)	1.1	1.0	0.8	0.8	0.8	0.6
EV/EBITDA (x)	10.1	8.7	13.2	10.8	7.9	5.6
P/E (x)	15.2	14.6	21.1	17.9	13.6	10.7
P/BV (x)	3.8	3.0	2.8	2.5	2.2	1.9

## Recommendation Summary (Last 3 Years)



Source: Bloomberg, Geojit Research

Dates	Rating	Target
08-Jul-21	Buy	760
23-Nov-21	Accumulate	620
10-Mar-22	Buy	535
30-May-22	Buy	540
05-Sep-22	Accumulate	548
31-Mar-23	Buy	420
16-Jun-23	Buy	469

## 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/Neutral			

### 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/Neutral:** 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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