

Retail Equity Research (South India Focus) Avanti Feeds Ltd

Aquaculture

BSE CODE: 512573

NSE CODE: AVANTIFEED

Bloomberg CODE: AVNT:IN

SENSEX: 53,055

Buy

12Month Investment period Rating as per Small Cap

CMP Rs. 624 TARGET Rs. 760 RETURN 22%
(Closing: 07-07-21)

KEY CHANGES:

TARGET ↑

RATING ↔

EARNINGS ↓

Favourable culture conditions provide better outlook...

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 maintain Buy rating by revising our Target to Rs. 760 (earlier Rs. 610) considering improving outlook.
- Q4FY21 revenue grew by 6%YoY (+20% QoQ) mainly aided by 16.4%YoY growth in Feed segment while Exports de-grew by 23% YoY.
- EBITDA de-grew by 31.4% YoY due to decline in EBITDA margin by 430bps YoY to 7.8% on account of surge in raw material & marketing costs and discontinuation of export incentive (MEIS) by the government.
- Raw material prices of Feed have seen a sharp increase in recent months and impacting the margins. The company has taken price hike of around Rs.8.8 (12.8%) for Feed which will partially reduce the impact.
- Demand outlook has improved given better shrimp culture conditions, better farm-gate & export prices and re-opening of export markets.
- Revenue/PAT to grow at 18%/23% CAGR over FY21-23E. We value AFL at FY23E P/E of 19x considering healthy growth & RoE, and no debt.

Revenue growth aided by healthy growth in feed volumes

For Q4FY21, revenue grew by 6% YoY on account of 16%YoY growth in Feed segment while Exports de-grew by 23%YoY. Feed volumes improved by 14%YoY while export volumes declined by 19%YoY mainly due to disruption in marine logistics, weak demand, and recall of certain products sold in USA. As restaurants & malls are re-opening, demand is picking up which is supporting prices also. Better farm-gate prices are encouraging farmers and AFL's increasing market share in Feed segment (48%-50%) will support future volumes. The price hike taken in recent months will also support realisation and expecting revenue CAGR of 18% over FY21-23E.

Recall of certain products sold in US during Oct-Nov 2020

In June 2021, USFDA advised Avanti to voluntarily recall certain products processed between 23.10.2020 and 09.11.2020 (18 days) which were identified as potential for contamination for containing Salmonella. Avanti has taken several measures to eliminate potential recurrence and has sufficient product liability insurance coverage in the event of any claim. Since the extent of products under recall are insignificant, the company do not expect any stress on it considering the longstanding and reliable customers network in USA. Any adverse results will have high risk on demand.

Surge in RM prices impacts margins, price hike reduces the impact

EBITDA de-grew by 31%YoY, EBITDA margin declined by 430bps due to higher RM prices, ocean freight, marketing expenses and reversal of Rs.12cr export incentive due to withdrawal of MEIS scheme. RM prices in Feed segment have witnessed a sharp increase in recent months and is impacting the margins. AFL has taken price hikes for Feed (Rs.8.8 per kg during Q4FY20 & Q1FY21) which will partially reduce the impact. The new scheme RoDTEP (Remission of Duties and Taxes on Export Products) to replace MEIS is expected, but the rates are yet to announce. Any positive development related to the new scheme will aid margin improvement.

Valuation & Outlook

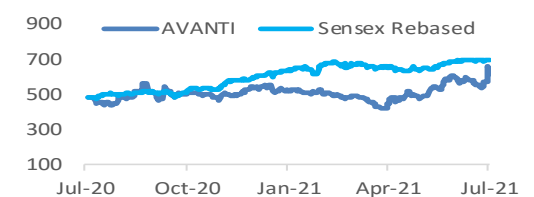
Demand outlook is improving given the re-opening of hotels & malls in export markets along with better export & farm gate prices and favourable shrimp culture conditions. We value AFL at 19x FY23E P/E to arrive at a revised Target of Rs.760 (Rs610 earlier), and maintain Buy rating considering healthy growth & RoE and no debt.

Company Data	
Market Cap (Rs.cr)	8,529
Enterprise Value (Rs.cr)	7,834
Outstanding Shares (cr)	13.6
Free Float	38%
Dividend Yield	1.0%
52 week high Rs.	675
52 week low Rs.	412
6m average volume (cr)	0.06
Beta	1.2
Face value Rs.	1

Shareholding %	Q2FY21	Q3FY21	Q4FY21
Promoters	43.7	43.7	43.7
FII's	31.8	32.6	33.1
MFs/Insti	4.1	3.8	3.1
Public	15.1	14.4	14.9
Others	5.2	5.3	5.2
Total	100	99.79	100
Promotor pledge	NIL	NIL	NIL

Price Performance	3 Month	6 Month	1 Year
Absolute Return	30.0%	17.8%	27.1%
Absolute Sensex	6.3%	8.4%	44.2%
Relative Return*	23.7%	9.4%	-17.1%

*over or under performance to benchmark index



Consolidated (cr)	FY21E	FY22E	FY23E
Sales	4,101	5,126	5,672
Growth (%)	-0.4	25.0	10.6
EBITDA	461	497	724
EBITDA Margin (%)	11.2	9.7	12.8
Adj. PAT	361	375	546
Growth (%)	4.2	3.8	45.5
Adj. EPS	26.5	27.5	40.0
Growth (%)	4.2	3.8	45.5
P/E	23.6	22.7	15.6
P/B	4.8	4.1	3.3
EV/EBITDA	15.7	14.1	8.8
ROE (%)	22.8	19.4	23.1
D/E	0.0	0.0	0.0

Vincent Andrews
Research Analyst

Quarterly Financials (Consolidated)

Profit & Loss

Rs cr)	Q4FY21	Q4FY20	YoY Growth (%)	Q3FY21	QoQ Growth (%)	FY21	FY20	YoY Growth (%)
Sales	1,098	1,035	6.1%	915	20.0%	4,101	4,115	-0.4%
EBITDA	85	125	-31.4%	92	-7.4%	460	454	1.4%
EBITDA margins %	7.8%	12.0%	(430bps)	10.1%	(230bps)	11.2%	11.0%	120bps
Depreciation	10	10	6.8%	12	-12.3%	41	38	8.5%
EBIT	75	115	-34.6%	81	-6.6%	419	416	0.7%
Interest	1	1	8.6%	0	53.3%	2	2	-15.6%
Other Income	18	12	57.1%	28	-35.3%	93	70	31.8%
Exceptional Items	0	0	0.0%	0	0.0%	0	0	0.0%
PBT	93	126	-26.3%	108	-13.7%	510	485	5.1%
Tax	23	27	-16.9%	21	5.9%	112	99	13.9%
Share of profit from associates	0	0	NA	0	NA	0	0	NA
Minority interest	0	12	-96.0%	11	-95.8%	37	40	-6.3%
Reported PAT	70	87	-19.9%	75	-7.1%	360	346	3.9%
Adjustments	0	0	NA	0	NA	0	0	0.0%
Adj PAT	70	87	-19.9%	75	-7.1%	360	346	3.9%
No. of Shares	14	14	0.0%	14	0.0%	14	14	0.0%
Adj EPS (Rs)	5.1	6.4	-19.9%	5.5	-7.1%	26.4	25.4	3.9%

Change in Estimates

Year / Rs cr	Old estimates		New estimates		Change %	
	FY22E	FY23E	FY22E	FY23E	FY22E	FY23E
Revenue	4,848	NA	5,126	5,672	5.7%	NA
EBITDA	580	NA	497	724	-14.3%	NA
Margins (%)	12.0%	NA	9.7%	12.8%	(10bps)	NA
Adj. PAT *	434	NA	375	546	-13.6%	NA
EPS	31.9	NA	27.5	40.0	-13.7%	NA

PROFIT & LOSS

Y.E March (Rs. cr)	FY19E	FY20E	FY21	FY22E	FY23E
Revenue	3,488	4,116	4,101	5,126	5,672
% change	2.8	18.0	-0.4	25.0	10.6
EBITDA	407	454	461	497	724
% change	-40.4	11.6	1.6	7.8	45.6
Depreciation	36	38	41	44	47
EBIT	371	416	420	453	676
Interest	3	2	2	0	0
Other Income	54	70	93	92	102
PBT	428	485	511	545	778
% change	-39.2	13.3	5.5	6.7	42.7
Tax	121	99	112	127	181
Tax Rate (%)	28.4%	20.3%	23.3%	23.3%	23.3%
Reported PAT	274	347	361	375	546
Adj*	5	0	0	0	0
Adj PAT	268	347	361	375	546
% change	-40.0	29.2	4.2	3.8	45.5
No. of shares (cr)	13.6	13.6	13.6	13.6	13.6
Adj EPS (Rs.)	20.1	25.5	26.5	27.5	40.0
% change	-40.0	29.2	4.2	3.8	45.5
DPS (Rs.)	2	2	2	2	2
CEPS (Rs.)	22.3	28.2	29.5	30.7	43.5

CASH FLOW

Y.E March (Rs. cr)	FY19E	FY20E	FY21E	FY22E	FY22E
Net inc. + Depn.	309	384	402	419	593
Non-cash adj.	154	141	150	172	234
Other adjustments	3	2	2	0	0
Changes in W.C	-99	-168	34	-124	53
C.F. Operation	184	178	383	340	699
Capital exp.	-24	-34	-43	-44	-40
Change in inv.	-23	-25	-499	-250	-400
Other invest.CF	21	33	7	0	0
C.F - Investment	-27	-26	-535	-294	-440
Issue of equity	0	0	0	0	0
Issue/repay debt	0	-10	-2	0	0
Dividends paid	-99	-149	-2	-33	-33
Other finance.CF	-6	17	15	0	0
C.F - Finance	-106	-141	15	-33	-33
Chg. in cash	51	-42	31	13	226
Closing cash	58	16	47	60	286

BALANCE SHEET

Y.E March (Rs. cr)	FY18E	FY19E	FY20E	FY21E	FY22E
Cash	58	16	47	60	286
Accounts Receivable	49	89	67	79	82
Inventories	379	544	555	661	667
Other Cur. Assets	163	223	42	50	59
Investments	630	680	1,235	1,485	1,885
Gross Fixed Assets	365	381	440	480	520
Net Fixed Assets	292	271	288	285	277
CWIP	9	26	6	10	10
Intangible Assets	0	0	4	4	4
Def. Tax (Net)	23	17	23	23	23
Other Assets	12	14	12	15	17
Total Assets	1,615	1,880	2,280	2,673	3,311
Current Liabilities	213	263	273	274	344
Provisions	15	13	16	20	23
Debt Funds	8	0	0	0	0
Other Liabilities	173	199	229	275	328
Equity Capital	14	14	14	14	14
Reserves & Surplus	1,192	1,390	1,748	2,090	2,603
Shareholder's Fund	1,206	1,404	1,761	2,103	2,616
Total Liabilities	1,615	1,880	2,280	2,673	3,311
BVPS (Rs.)	88	103	129	154	192

RATIOS

Y.E March	FY19E	FY20E	FY21E	FY22E	FY23E
Profitab. & Return					
EBITDA margin (%)	11.7	11.0	11.2	9.7	12.8
EBIT margin (%)	10.6	10.1	10.3	8.8	11.9
Net profit mgn.(%)	7.7	8.4	8.8	7.3	9.6
ROE (%)	24.0	26.6	22.8	19.4	23.1
ROCE (%)	17.2	21.2	17.9	14.9	17.7
W.C & Liquidity					
Receivables (days)	5.2	6.1	6.9	5.2	5.2
Inventory (days)	47.3	40.9	48.9	43.3	42.7
Payables (days)	31.1	22.2	26.0	20.5	21.2
Current ratio (x)	5.1	5.5	6.3	7.6	7.9
Quick ratio (x)	0.5	0.4	0.4	0.5	1.0
Turnover & Leverage					
Gross asset T.O (x)	9.8	11.0	10.0	11.1	11.3
Total asset T.O (x)	2.2	2.4	2.0	2.1	1.9
Int. coverage ratio (x)	141.3	209.6	250.6	2024.1	3018.9
Adj. debt/equity (x)	0.0	0.0	0.0	0.0	0.0
Valuation					
EV/Sales (x)	2.3	1.9	1.8	1.4	1.1
EV/EBITDA (x)	19.3	17.2	15.7	14.1	8.8
P/E (x)	31.8	24.6	23.6	22.7	15.6
P/BV (x)	7.1	6.1	4.8	4.1	3.3



Recommendation Summary (Last 3 Years)



Source: Bloomberg, Geojit Research

Dates	Rating	Target
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
08-July-20	Buy	760

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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