

Retail Equity Research Avanti Feeds Ltd

Aquaculture

BSE CODE: 512573

NSE CODE: AVANTIFEED

Bloomberg CODE: AVNT:IN

SENSEX: 58,803

Accumulate

12Months Investment period

Rating as per Small Cap

CMP Rs. 465

TARGET Rs. 548

RETURN 18% ↑

(Closing: 02-09-22)

KEY CHANGES:

TARGET ↑

RATING ↓

EARNINGS ↓

Ready with expanded capacity...margin pressure continues

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

- We downgrade to Accumulate rating factoring current margin pressure with a revised Target Price of Rs. 548.
- Strong growth in the processing segment (shrimp exports volume grew by 33%YoY) aided consolidated revenue growth of 11% YoY in Q1FY23.
- Due to higher input prices, the EBITDA margin fell by 10bps YoY to 6.6% (8.8% QoQ). Soyabean prices have come down by 20% from its peak, but wheat & fish meal prices are still on the higher side.
- AFL has taken an average price hike of Rs.13.4/Kg for Feed in FY22. Any additional price increases or ease in input prices will improve margins.
- Demand outlook has improved given the re-opening of export markets and better farm-gate & export prices. AFL has added new capacity, 1.75 lakh MT in feed and is adding 7,000MT in Processing segment by FY24.
- Revenue/PAT to grow at 14%/46% CAGR over FY22E-24E. We value AFL at 15x (3Yr avg=20) on FY24E EPS.

Strong growth in Processing segment

For Q1FY22, consolidated revenue grew by 11% YoY aided by strong growth in Processing segment. Shrimp exports volume grew by 33%YoY while feed segment volume declined by 7%YoY due to a high base. Disruption in marine logistics and recall of certain products sold in USA had impacted exports last year. As restaurants & malls have re-opened, export demand is picking up. Better farm-gate prices are encouraging farmers and AFL's increasing market share in the feed segment (48%-50%) will support feed volumes. AFL has completed a new feed capacity expansion of 1.75 lakhs MT (commercial production by Sept 2022) and is also adding new processing capacity of 7,000MT by FY24. We expect a revenue CAGR of ~14% over FY22E-24E.

Status of Recall of certain products sold in US

Last year, the company had to recall some of the consignments of cooked shrimp products, found to be contaminated with Salmonella by 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.32.8cr related to return & destroyed value of the products out of which Rs17.55cr paid towards claims settled. In May 2022, after satisfied with several preventive measures taken by AFL USFDA communicated the termination of the recall of the products. AFL's petition for removal of 'import alert' on cooked shrimps is currently under process with USFDA.

Input prices at elevated levels, price hike reduces margin pressure

EBITDA margin declined by 10bps YoY to 6.6% (8.8% QoQ) due to a sharp surge in raw material (RM) prices. To compensate for feed cost inflation, AFL has raised prices (~Rs.13.4/ kg in FY22). Soyabean prices have come down by 20% from its peak, but wheat & fishmeal prices are still at higher levels. Any additional price increases or correction in input prices will be positive for margins.

Valuation & Outlook

Demand outlook has improved given the re-opening of hotels & malls in export markets along with better export & farm gate prices. AFL is prepared for the next stage of growth with new capacity. We value AFL at 15x FY24EP/E (3Yr avg=20x) to arrive at a Target of Rs. 548, but downgrade to Accumulate rating due to margin pressure and limited upside from current price.

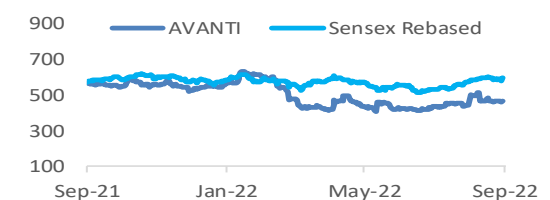
Company Data

Market Cap (Rs.cr)	6,295
Enterprise Value (Rs.cr)	5,600
Outstanding Shares (cr)	13.6
Free Float	29%
Dividend Yield	1.3%
52 week high (Rs.)	638
52 week low (Rs.)	385
6m average volume (cr)	0.03
Beta	0.6
Face value (Rs.)	1

Shareholding %	Q3FY22	Q4FY22	Q1FY23
Promoters	43.7	43.7	43.7
FII's	17.1	15.2	14.0
MFs/Insti	6.2	8.2	8.7
Public	12.9	12.8	13.4
Others	20.2	20.1	20.2
Total	100	100	100
Promotor pledge	NIL	NIL	NIL

Price Performance	3 Month	6 Month	1 Year
Absolute Return	10.6%	-1.3%	-18.1%
Absolute Sensex	7.5%	8.0%	4.7%
Relative Return*	3.1%	-9.3%	-22.8%

*over or under performance to benchmark index



Consolidated (cr)	FY22A	FY23E	FY24E
Sales	5,036	5,775	6,566
Growth (%)	22.8	14.7	13.7
EBITDA	323	538	707
EBITDA Margin (%)	6.4	9.3	10.8
Adj. PAT	250	367	498
Growth (%)	-30.7	46.5	35.7
Adj. EPS	16.4	26.5	36.5
Growth (%)	-30.7	46.5	35.7
P/E	25.1	17.2	12.6
P/B	3.3	2.9	2.5
EV/EBITDA	16.4	9.4	6.5
ROE (%)	13.7	18.1	21.1
D/E	0.0	0.0	0.0

Vincent Andrews
Research Analyst

Quarterly Financials (Consolidated)

Profit & Loss

Rs. (cr)	Q1FY23	Q1FY22	YoY Growth (%)	Q4FY22	QoQ Growth (%)
Sales	1,569	1,409	11.4%	1,332	17.8%
EBITDA	104	95	9.7%	117	-11.1%
EBITDA margins %	6.6%	6.7%	(10bps)	8.8%	(220bps)
Depreciation	10	10	-5.2%	10	0.5%
EBIT	94	84	11.5%	107	-12.1%
Interest	0	0	-3.0%	0	-27.3%
Other Income	12	21	-42.1%	16	-24.1%
Exceptional Items	-5	-4	0.0%	0	0.0%
PBT	101	99	2.4%	121	-16.5%
Tax	27	22	21.1%	29	-8.1%
Share of profit from associates	-1	0	NA	0	NA
Minority interest	7	4	93.2%	7	-7.3%
Reported PAT	66	73	-9.1%	84	-21.4%
Adjustments	5	4	NA	0	NA
Adj PAT	72	77	-7.1%	84	-15.2%
No. of Shares	14	14	0.0%	14	0.0%
Adj EPS (Rs)	5.3	5.7	-7.1%	6.2	-15.2%

Change in Estimates

Year / Rs cr	Old estimates		New estimates		Change (%)	
	FY23E	FY24E	FY23E	FY24E	FY23E	FY24E
Revenue	5,975	6,692	5,775	6,566	-3.3%	-1.9%
EBITDA	586	704	538	707	-8.1%	0.5%
Margins (%)	9.8%	10.5%	9.3%	10.8%	(50bps)	30bps
Adj. PAT *	441	524	367	498	-16.8%	-5.0%
EPS	32.4	38.5	26.5	36.5	-18.1%	-5.1%

PROFIT & LOSS

Y.E March (Rs. cr)	FY20A	FY21A	FY22A	FY23E	FY24E
Revenue	4,116	4,101	5,036	5,775	6,566
% change	18.0	-0.4	22.8	14.7	13.7
EBITDA	454	461	323	538	707
% change	11.6	1.6	-29.9	66.5	31.4
Depreciation	38	41	41	48	60
EBIT	416	420	283	490	648
Interest	2	2	2	0	0
Other Income	70	93	82	52	79
PBT	485	511	335	536	726
% change	13.3	5.5	-34.5	60.3	35.4
Tax	99	112	79	125	169
Tax Rate (%)	20.3%	22.0%	23.3%	23.3%	23.3%
Reported PAT	347	361	223	362	498
Adj*	0	0	-28	-5	0
Adj PAT	347	361	250	367	498
% change	29.2	4.2	-30.7	46.5	35.7
No. of shares (cr)	13.6	13.6	13.6	13.6	13.6
Adj EPS (Rs.)	25.5	26.5	16.4	26.5	36.5
% change	29.2	4.2	-30.7	46.5	35.7
DPS (Rs.)	2	6	8	8	8
CEPS (Rs.)	28.2	29.5	21.4	30.4	40.9

CASH FLOW

Y.E March (Rs. cr)	FY20A	FY21A	FY22A	FY23E	FY24E
Net inc. + Depn.	384	402	291	409	557
Non-cash adj.	141	150	88	177	231
Other adjustments	2	2	-3	0	0
Changes in W.C	-168	34	-436	95	1
C.F. Operation	178	383	-212	557	620
Capital exp.	-34	-43	-55	-240	-25
Change in inv.	-25	-499	341	-200	-500
Other invest.CF	33	7	9	0	0
C.F - Investment	-26	-535	295	-440	-525
Issue of equity	0	0	0	0	0
Issue/repay debt	-10	-2	-2	0	0
Dividends paid	-149	-2	-86	-102	-102
Other finance.CF	17	15	19	0	0
C.F - Finance	-141	15	-68	-103	-103
Chg. in cash	-42	31	18	14	-8
Closing cash	16	47	65	79	72

BALANCE SHEET

Y.E March (Rs. cr)	FY20A	FY21A	FY22A	FY23E	FY24E
Cash	16	47	65	79	72
Accounts Receivable	89	67	114	111	108
Inventories	544	555	988	896	934
Other Cur. Assets	223	42	46	51	55
Investments	680	1,235	931	1,131	1,631
Gross Fixed Assets	381	440	463	733	758
Net Fixed Assets	271	288	271	493	459
CWIP	26	6	40	10	10
Intangible Assets	0	4	3	3	3
Def. Tax (Net)	17	23	21	21	21
Other Assets	14	12	35	32	26
Total Assets	1,880	2,280	2,515	2,834	3,323
Current Liabilities	263	273	351	347	377
Provisions	13	16	14	22	24
Debt Funds	0	0	0	0	0
Other Liabilities	199	229	254	306	367
Equity Capital	14	14	14	14	14
Reserves & Surplus	1,390	1,748	1,882	2,146	2,541
Shareholder's Fund	1,404	1,761	1,895	2,160	2,555
Total Liabilities	1,880	2,280	2,515	2,834	3,323
BVPS (Rs.)	103	129	139	158	187

RATIOS

Y.E March	FY20A	FY21A	FY22A	FY23E	FY24E
Profitab. & Return					
EBITDA margin (%)	11.0	11.2	6.4	9.3	10.8
EBIT margin (%)	10.1	10.3	5.6	8.5	9.9
Net profit mgn.(%)	8.4	8.8	5.0	6.4	7.6
ROE (%)	26.6	22.8	13.7	18.1	21.1
ROCE (%)	21.2	17.9	10.6	13.9	16.2
W.C & Liquidity					
Receivables (days)	6.1	6.9	6.5	7.1	6.1
Inventory (days)	40.9	48.9	55.9	59.5	50.9
Payables (days)	22.2	26.0	23.4	23.5	21.4
Current ratio (x)	5.5	6.3	5.6	5.9	6.7
Quick ratio (x)	0.4	0.4	0.5	0.5	0.4
Turnover & Leverage					
Gross asset T.O (x)	11.0	10.0	11.2	9.6	8.8
Total asset T.O (x)	2.4	2.0	2.1	2.2	2.1
Int. coverage ratio (x)	209.6	250.6	140.8	1751.8	2313.3
Adj. debt/equity (x)	0.0	0.0	0.0	0.0	0.0
Valuation					
EV/Sales (x)	1.4	1.2	1.1	0.9	0.7
EV/EBITDA (x)	12.3	10.9	16.4	9.4	6.5
P/E (x)	18.2	17.4	25.1	17.2	12.6
P/BV (x)	4.5	3.6	3.3	2.9	2.5



Recommendation Summary (Last 3 Years)



Source: Bloomberg, Geojit Research

Dates	Rating	Target
11-Sep-20	Buy	565
27-Nov-20	Buy	610
08-July-21	Buy	760
23-Nov-21	Accumulate	620
10-March-22	Buy	535
30-May-22	Buy	540
05-Sep-22	Accumulate	548

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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Geojit Financial Services Ltd, Registered Office: 34/659-P, Civil Line Road, Padivattom, Kochi-682024, Kerala, India. Phone: +91 484-2901000, Website: www.geojit.com. For investor queries: customercare@geojit.com, For grievances: grievances@geojit.com, For compliance officer: compliance@geojit.com.

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