

Retail Equity Research (South India Focus)

Avanti Feeds Ltd

Aquaculture

BSE CODE: 512573

NSE CODE: AVANTIFEED

Bloomberg CODE: AVNT:IN

SENSEX: 54,647

Buy

12Months Investment period Rating as per Small Cap

CMP Rs. 429 TARGET Rs. 535 RETURN 25% ↑
(Closing: 09-03-22)

KEY CHANGES:

TARGET ↓

RATING ↑

EARNINGS ↓

Positive demand outlook, cost inflation impacts margin

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 revised down our Target to Rs.535 (earlier Rs. 620) but upgrade to Buy (from Accumulate) factoring positive demand outlook and attractive valuation.
- Q3FY22 revenue grew by 17%YoY aided by growth in both Feed (18%YoY) & Processing segments (12%YoY).
- EBITDA de-grew by 27% YoY due to decline in EBITDA margin by 380bps YoY to 6.3% (3.5% in Q2FY22) on account of sharp surge in Feed raw material (RM) prices. Gross margin declined to 17% Vs 22.1% YoY.
- AFL has taken price hike Feed to reduce the impact of steep input price inflation. RM prices likely to ease when the supply issues normalize.
- 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 11%/32% CAGR over FY22E-24E. We lower valuation to 16x (3Yr avg=20) on FY24E EPS to factor margin pressure.

Revenue growth aided by healthy growth in Feed & Processing

For Q3FY22, revenue grew by 17% YoY on account of 18%YoY growth in Feed segment and 12%YoY growth in Processing segment. Disruption in marine logistics and recall of certain products sold in USA has impacted exports in recent quarters. As restaurants & malls are re-opening, demand is picking up and is supporting shrimp prices. 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 the recent months will support realisation. AFL has announced capacity expansion of 1.75 Lakhs MT with a capex of 125cr by Q1FY23. Expect revenue CAGR of ~13% over FY22E-24E.

Recall of certain products sold in US

In June & August 2021, USFDA advised Avanti to voluntarily recall certain products processed between 23.10.2020 and 09.11.2020 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. First recall was worth Rs.16cr and second for ~Rs.50cr. AFL has made provisions for ~Rs.27.5cr during 9MFY22 towards this and do not expect any stress on it considering the longstanding and reliable customers network in USA.

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

EBITDA de-grew by 27%YoY, EBITDA/Gross margin declined by 380bps/510bps to 6.3%/17% due to higher RM prices & ocean freight, and lack of export incentive. (New incentive scheme RoDTEP is with lower rates and has not provided during Q3FY22). RM prices in Feed segment have witnessed a sharp increase and AFL has taken price hikes for Feed (Rs.3.8 per kg during Q4FY20, Rs.5.15 in Q1FY22 & Rs.4.25 in August 2021) which has partially reduced the impact. RM prices witnesses high volatility but is expected to ease when the supply issues stabilizes.

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. Considering current high volatility in RM prices, we lower our valuation to 16x FY24EP/E (3Yr avg=20) factoring margin pressure to arrive at a Target of Rs.535, but upgrade to Buy considering positive demand outlook and attractive valuation.

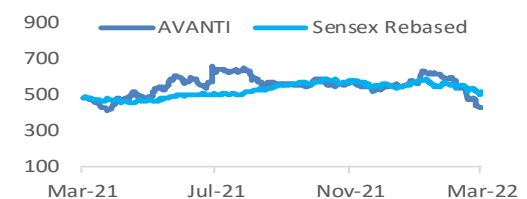
Company Data

Market Cap (Rs.cr)	5,845
Enterprise Value (Rs.cr)	5,150
Outstanding Shares (cr)	13.6
Free Float	29%
Dividend Yield	1.5%
52 week high (Rs.)	675
52 week low (Rs.)	412
6m average volume (cr)	0.02
Beta	1.0
Face value (Rs.)	1

Shareholding %	Q1FY22	Q2FY22	Q3FY22
Promoters	43.7	43.7	43.7
FII's	33.1	33.1	32.6
MFs/Insti	4.4	5.2	6.2
Public	14.0	13.5	12.9
Others	4.7	4.6	4.7
Total	100	100	100
Promotor pledge	NIL	NIL	NIL

Price Performance	3 Month	6 Month	1 Year
Absolute Return	-20.9%	-23.4%	-11.9%
Absolute Sensex	-7.1%	-6.3%	7.1%
Relative Return*	-13.8%	-17.2%	-19.0%

*over or under performance to benchmark index



Consolidated (cr)	FY22 E	FY23 E	FY24 E
Sales	4,983	5,639	6,194
Growth (%)	21.5	13.2	9.9
EBITDA	348	518	621
EBITDA Margin (%)	7.0	9.2	10.0
Adj. PAT	261	383	457
Growth (%)	-27.7	46.7	19.2
Adj. EPS	19.2	28.1	33.5
Growth (%)	-27.7	46.7	19.2
P/E	22.4	15.3	12.8
P/B	2.9	2.5	2.1
EV/EBITDA	12.8	8.0	5.8
ROE (%)	13.9	17.7	17.9
D/E	0.0	0.0	0.0

Vincent Andrews
Research Analyst

Quarterly Financials (Consolidated)

Profit & Loss

Rs cr)	Q3FY22	Q3FY21	YoY Growth (%)	Q2FY22	QoQ Growth (%)	9MFY22	9MFY21	YoY Growth (%)
Sales	1,069	915	16.8%	1,226	-12.8%	3,704	3,002	23.4%
EBITDA	68	92	-26.7%	43	58.4%	205	375	-45.3%
EBITDA margins %	6.3%	10.1%	(380bps)	3.5%	280bps	5.5%	12.5%	(630bps)
Depreciation	10	12	-12.3%	10	-1.5%	31	31	1.1%
EBIT	57	81	-28.8%	32	77.7%	174	344	-49.4%
Interest	0	0	-2.1%	1	-38.7%	2	1	66.4%
Other Income	19	28	-34.1%	26	-27.3%	65	74	-11.9%
Exceptional Items	-6	0	0.0%	-17	0.0%	-28	0	0.0%
PBT	66	108	-38.4%	38	73.5%	203	417	-51.3%
Tax	22	21	4.5%	5	333.6%	50	90	-44.7%
Share of profit from associates	0	0	NA	0	NA	0	0	NA
Minority interest	4	11	-66.5%	9	-58.0%	16	37	-55.8%
Reported PAT	40	75	-46.4%	24	66.7%	137	290	-52.7%
Adjustments	6	0	NA	17	NA	28	0	0.0%
Adj PAT	46	75	-38.1%	41	12.6%	165	290	-43.3%
No. of Shares	14	14	0.0%	14	0.0%	14	14	0.0%
Adj EPS (Rs)	3.4	5.5	-38.1%	3.0	12.6%	12.1	21.3	-43.3%

Change in Estimates

Year / Rs cr	Old estimates		New estimates		Change %	
	FY22E	FY23E	FY22E	FY23E	FY22E	FY23E
Revenue	5,011	5,673	4,983	5,639	-0.6%	-0.6%
EBITDA	419	665	348	518	-17.0%	-22.1%
Margins (%)	8.4%	11.7%	7.0%	9.2%	(140bps)	(260bps)
Adj. PAT *	317	498	261	383	-17.6%	-23.0%
EPS	23.3	36.5	19.2	28.1	-17.7%	-22.9%

PROFIT & LOSS

Y.E March (Rs. cr)	FY20A	FY21A	FY22E	FY23E	FY24E
Revenue	4,116	4,101	4,983	5,639	6,194
% change	18.0	-0.4	21.5	13.2	9.9
EBITDA	454	461	348	518	621
% change	11.6	1.6	-24.6	48.9	20.0
Depreciation	38	41	44	56	68
EBIT	416	420	304	462	554
Interest	2	2	1	0	0
Other Income	70	93	90	102	111
PBT	485	511	393	563	665
% change	13.3	5.5	-23.0	43.2	18.1
Tax	99	112	92	131	155
Tax Rate (%)	20.3%	22.0%	23.3%	23.3%	23.3%
Reported PAT	347	361	261	383	457
Adj*	0	0	0	0	0
Adj PAT	347	361	261	383	457
% change	29.2	4.2	-27.7	46.7	19.2
No. of shares (cr)	13.6	13.6	13.6	13.6	13.6
Adj EPS (Rs.)	25.5	26.5	19.2	28.1	33.5
% change	29.2	4.2	-27.7	46.7	19.2
DPS (Rs.)	2	2	2	2	2
CEPS (Rs.)	28.2	29.5	22.4	32.2	38.5

CASH FLOW

Y.E March (Rs. cr)	FY20A	FY21A	FY22E	FY23E	FY24E
Net inc. + Depn.	384	402	305	439	525
Non-cash adj.	141	150	134	182	210
Other adjustments	2	2	1	0	0
Changes in W.C	-168	34	-121	50	-9
C.F. Operation	178	383	227	541	571
Capital exp.	-34	-43	-74	-190	-25
Change in inv.	-25	-499	-100	-300	-500
Other invest.CF	33	7	0	0	0
C.F - Investment	-26	-535	-174	-490	-525
Issue of equity	0	0	0	0	0
Issue/repay debt	-10	-2	-1	0	0
Dividends paid	-149	-2	-33	-33	-33
Other finance.CF	17	15	0	0	0
C.F - Finance	-141	15	-33	-33	-33
Chg. in cash	-42	31	20	18	13
Closing cash	16	47	67	84	97

BALANCE SHEET

Y.E March (Rs. cr)	FY20A	FY21A	FY22E	FY23E	FY24E
Cash	16	47	67	84	97
Accounts Receivable	89	67	76	82	90
Inventories	544	555	660	666	698
Other Cur. Assets	223	42	49	59	63
Investments	680	1,235	1,335	1,635	2,135
Gross Fixed Assets	381	440	480	700	725
Net Fixed Assets	271	288	285	449	406
CWIP	26	6	40	10	10
Intangible Assets	0	4	4	4	4
Def. Tax (Net)	17	23	23	23	23
Other Assets	14	12	15	17	19
Total Assets	1,880	2,280	2,555	3,029	3,545
Current Liabilities	263	273	273	344	379
Provisions	13	16	20	22	25
Debt Funds	0	0	0	0	0
Other Liabilities	199	229	272	323	378
Equity Capital	14	14	14	14	14
Reserves & Surplus	1,390	1,748	1,976	2,326	2,751
Shareholder's Fund	1,404	1,761	1,990	2,340	2,764
Total Liabilities	1,880	2,280	2,555	3,029	3,545
BVPS (Rs.)	103	129	146	171	203

RATIOS

Y.E March	FY20A	FY21A	FY22E	FY23E	FY24E
Profitab. & Return					
EBITDA margin (%)	11.0	11.2	7.0	9.2	10.0
EBIT margin (%)	10.1	10.3	6.1	8.2	8.9
Net profit mgn.(%)	8.4	8.8	5.2	6.8	7.4
ROE (%)	26.6	22.8	13.9	17.7	17.9
ROCE (%)	21.2	17.9	10.7	13.6	13.7
W.C & Liquidity					
Receivables (days)	6.1	6.9	5.2	5.1	5.1
Inventory (days)	40.9	48.9	44.5	42.9	40.2
Payables (days)	22.2	26.0	20.5	20.4	21.9
Current ratio (x)	5.5	6.3	7.1	6.6	7.4
Quick ratio (x)	0.4	0.4	0.5	0.5	0.5
Turnover & Leverage					
Gross asset T.O (x)	11.0	10.0	10.8	9.6	8.7
Total asset T.O (x)	2.4	2.0	2.1	2.0	1.9
Int. coverage ratio (x)	209.6	250.6	543.4	1650.1	1977.7
Adj. debt/equity (x)	0.0	0.0	0.0	0.0	0.0
Valuation					
EV/Sales (x)	1.3	1.1	0.9	0.7	0.6
EV/EBITDA (x)	11.3	9.9	12.8	8.0	5.8
P/E (x)	16.9	16.2	22.4	15.3	12.8
P/BV (x)	4.2	3.3	2.9	2.5	2.1

Recommendation Summary (Last 3 Years)



Source: Bloomberg, Geojit Research

Dates	Rating	Target
10-Feb-20	Accumulate	700
20-Jul-20	Buy	550
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

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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