

Retail Equity Research Avanti Feeds Ltd

Aquaculture

BSE CODE: 512573

NSE CODE: AVANTIFEED

Bloomberg CODE: AVNT:IN

SENSEX: 38,840

BUY

12M Investment period

Rating as per Small Cap

CMP Rs.473

TARGET Rs.565

RETURN 20% ↑

(Closing: 10-09-20)

KEY CHANGES:

TARGET ↑

RATING ↔

EARNINGS ↑

Covid-19 impacts volumes but better than expected...

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 with a revised Target of Rs.565 due to better than expected volumes amid challenges and strong fundamentals.
- Q1FY21 revenue de-grew by 12.6%YoY impacted by decline in volumes (Feed-19%YoY, Processing-7%YoY), due to Covid-19 led disruptions.
- However, EBITDA de-grew by 5.7% YoY, supported by improvement in EBITDA margin (by 100bps YoY to 13.5%) due to reduction in 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.
- MEIS (export incentive scheme) changes will impact incentive receipts. The company has to adjust this gap with farm-gate & export prices without affecting competitiveness.
- Expect Revenue/PAT to grow at 9%/14% CAGR over FY20-22E. We value AFL at FY22E P/E of 19x considering healthy growth & RoE and no debt.

Covid-19 impacts volumes but better than expected

For Q1FY21, revenue de-grew by 12.6% YoY impacted by decline in volumes in both Feed (-19%YoY) & Processing (-7%YoY) segments. Panic harvesting by farmers and non-availability of shrimp seed during lock-down period impacted Feed volumes. However, Feed realisation grew by 6% YoY aided by price hike while rupee depreciation supported 2% growth in export realisation. Covid-19 led disruptions are expected to impact FY21 volumes, but the current relaxation in restrictions and improvement in export prices along with AFL's increasing market share in Feed segment will support future volumes. We expect revenue to de-grow by ~3% in FY21 but to grow at 9% CAGR over FY20-22E.

Margin improves on reduction in RM and overhead costs

Blended EBITDA margin improved by 100bps YoY to 13.5%, aided by reduction in farm-gate prices and overhead costs. PAT grew by 12%YoY supported by increase in other income (+52%YoY, due to surge in returns from surplus funds and foreign exchange gain) and reduction in income tax. AFL has reduced feed price by Rs.1/Kg in July to support farmers, but expects RM prices to come down which will offset this reduction in feed price. Expect EBITDA to grow at 11%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 company will have to adjust the gap with farm-gate & export prices without impacting the competitiveness which will exert some pressure on margins in the short-term.

Valuation & Outlook

Demand outlook remains uncertain in the short-term but is expected to witness healthy recovery in FY22E. We value AFL at 19x to arrive at a revised Target of Rs.565 (Rs550 earlier), and maintain Buy rating considering healthy RoE & NIL debt.

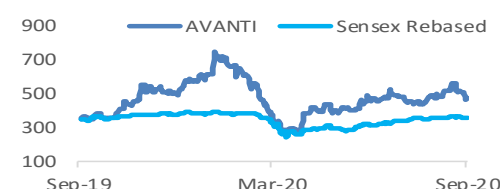
Company Data

Market Cap (Rs.cr)	6453
Enterprise Value (Rs.cr)	3275
Outstanding Shares (cr)	13.6
Free Float	28%
Dividend Yield	0.02%
52 week high Rs.	770
52 week low Rs.	250
6m average volume (cr)	0.09
Beta	1.6
Face value Rs.	1

Shareholding %	Q3FY20	Q4FY20	Q1FY21
Promoters	43.7	43.7	43.7
FII's	31.1	33.3	32.7
MFs/Insti	3.6	2.2	3.0
Public	15.4	15.1	14.4
Others	6.2	5.7	6.2
Total	100	100	100
Promotor pledge	NIL	NIL	NIL

Price Performance	3 Month	6 Month	6 Month
Absolute Return	0.4%	50.1%	36.9%
Absolute Sensex	14.4%	13.4%	3.7%
Relative Return*	-14.0%	36.8%	33.2%

*over or under performance to benchmark index



Consolidated (cr)	FY20A	FY21E	FY22E
Sales	4,116	4,008	4,837
Growth (%)	18.0	-2.6	20.7
EBITDA	454	481	555
EBITDA Margin (%)	11.0	12.0	11.5
Adj. PAT	346	356	414
Growth (%)	28.8	3.1	16.2
Adj. EPS	25.4	26.2	30.4
Growth (%)	28.8	3.1	16.2
P/E	18.7	18.1	15.6
P/B	4.6	3.7	3.1
EV/EBITDA	12.7	11.1	8.9
ROE (%)	26.5	22.8	21.6
D/E	0.0	0.0	0.0

Vincent Andrews
Research Analyst

Quarterly Financials (Consolidated)

Profit & Loss

Rs cr)	Q1FY21	Q1FY20	YoY Growth (%)	Q4FY20	QoQ Growth (%)
Sales	955	1093	-12.6%	1035	-7.7%
EBITDA	129	137	-5.7%	125	3.6%
EBITDA margins %	13.5%	12.5%	100bps	12.0%	150bps
Depreciation	9	9	2.1%	10	-1.7%
EBIT	120	128	-6.2%	115	4.0%
Interest	0	0	-35.7%	1	-61.8%
Other Income	27	18	51.7%	12	135.5%
Exceptional Items	0	0	0.0%	0	0.0%
PBT	147	145	1.2%	126	16.7%
Tax	31	44	-29.2%	27	13.7%
Share of profit from associates	0	0	NA	0	NA
Minority interest	12	8	39.7%	12	1.2%
Reported PAT	104	93	12.0%	87	19.7%
Adjustments	0	0	NA	0	NA
Adj PAT	104	93	12.0%	87	19.7%
No. of Shares	14	14	0.0%	14	0.0%
Adj EPS (Rs)	7.6	6.8	12.0%	6.4	19.7%

Change in Estimates

Year / Rs cr	Old estimates		New estimates		Change %	
	FY21E	FY22E	FY21E	FY22E	FY21E	FY22E
Revenue	3,967	4,897	4,008	4,837	1.0%	-1.2%
EBITDA	428	532	481	555	12.4%	4.4%
Margins (%)	10.8%	10.9%	12.0%	11.5%	120bps	60bps
Adj. PAT *	315	395	356	414	13.0%	4.8%
EPS	23.1	29.0	26.2	30.4	13.2%	4.8%

PROFIT & LOSS

Y.E March (Rs. cr)	FY18A	FY19A	FY20A	FY21E	FY22E
Revenue	3,393	3,488	4,116	4,008	4,837
% change	29.7	2.8	18.0	-2.6	20.7
EBITDA	683	407	454	481	555
% change	107.0	-40.4	11.6	6.0	15.3
Depreciation	24	36	38	37	39
EBIT	659	371	416	444	516
Interest	3	3	2	0	0
Other Income	48	54	70	72	87
PBT	703	428	485	516	603
% change	109.8	-39.2	13.3	6.4	17.0
Tax	238	121	99	120	141
Tax Rate (%)	33.8%	28.4%	20.3%	23.3%	23.3%
Reported PAT	447	274	346	356	414
Adj*	-1	5	0	0	0
Adj PAT	447	268	346	356	414
% change	108.7	-40.0	28.8	3.1	16.2
No. of shares (cr)	13.6	13.6	13.6	13.6	13.6
Adj EPS (Rs.)	32.8	20.1	25.4	26.2	30.4
% change	108.7	-40.0	28.8	3.1	16.2
DPS (Rs.)	2	2	2	2	2
CEPS (Rs.)	34.6	22.3	28.1	28.9	33.2

CASH FLOW

Y.E March (Rs. cr)	FY18A	FY19A	FY20A	FY21E	FY22E
Net inc. + Depn.	470	309	383	394	453
Non-cash adj.	250	140	146	161	191
Other adjustments	3	3	2	0	0
Changes in W.C	-167	-103	-219	22	-61
C.F. Operation	281	228	214	457	442
Capital exp.	-79	-23	-33	-9	-25
Change in inv.	-202	-46	-50	-200	-200
Other invest.CF	12	0	0	0	0
C.F - Investment	-269	-69	-83	-209	-225
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
C.F - Finance	-45	-37	-56	-33	-33
Chg in cash	-34	122	75	214	184
Closing cash	7	58	16	230	414

BALANCE SHEET

Y.E March (Rs. cr)	FY18A	FY19A	FY20A	FY21E	FY22E
Cash	7	58	16	230	414
Accounts Receivable	50	49	89	71	66
Inventories	525	379	544	538	607
Other Cur. Assets	28	163	223	221	226
Investments	584	630	680	880	1,080
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	13	16
Total Assets	1,526	1,615	1,880	2,241	2,683
Current Liabilities	323	213	263	257	264
Provisions	18	15	13	16	19
Debt Funds	5	8	0	0	0
Other Liabilities	148	173	199	240	291
Equity Capital	9	14	14	14	14
Reserves & Surplus	1,022	1,192	1,390	1,714	2,095
Shareholder's Fund	1,031	1,206	1,404	1,727	2,109
Total Liabilities	1,526	1,615	1,880	2,241	2,683
BVPS (Rs.)	227	88	103	127	155

RATIOS

Y.E March	FY18A	FY19A	FY20A	FY21E	FY22E
Profitab. & Return					
EBITDA margin (%)	20.1	11.7	11.0	12.0	11.5
EBIT margin (%)	19.4	10.6	10.1	11.1	10.7
Net profit mgn.(%)	13.2	7.7	8.4	8.9	8.6
ROE (%)	53.7	24.0	26.5	22.8	21.6
ROCE (%)	36.2	17.2	21.1	17.5	16.6
W.C & Liquidity					
Receivables (days)	4.0	5.2	6.1	7.3	5.2
Inventory (days)	47.4	47.3	40.9	49.3	43.2
Payables (days)	40.6	31.1	22.2	25.3	20.5
Current ratio (x)	3.4	5.1	5.5	7.0	8.4
Quick ratio (x)	0.2	0.5	0.4	1.1	1.7
Turnover & Leverage					
Gross asset T.O (x)	11.8	9.8	11.0	10.2	11.6
Total asset T.O (x)	2.6	2.2	2.4	1.9	2.0
Int. coverage ratio (x)	222.3	141.3	209.6	1666.5	2305.9
Adj. debt/equity (x)	0.0	0.0	0.0	0.0	0.0
Valuation					
EV/Sales (x)	1.7	1.7	1.4	1.3	1.0
EV/EBITDA (x)	8.6	14.2	12.7	11.1	8.9
P/E (x)	14.4	24.0	18.7	18.1	15.6
P/BV (x)	2.1	5.3	4.6	3.7	3.1

Recommendation Summary



Dates	Rating	Target
31-Jan-19	Buy	427
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

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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