

Retail Equity Research

Avanti Feeds Ltd

Aquaculture

BSE CODE: 512573

NSE CODE: AVANTIFEED

Bloomberg CODE: AVNT:IN

SENSEX: 58,992

BUY

12 Months Investment period

Rating as per Small Cap

CMP Rs. 340

TARGET Rs. 420

RETURN 24%

(Closing: 31-03-23)


KEY CHANGES:
TARGET ↓

RATING ↑

EARNINGS ↓

Capacity expanded...margin gradually improves.

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. 420 (Rs. 548) due to current demand slowdown and higher input prices but upgrade to BUY rating factoring gradual improvement in margins and attractive valuation.
- Revenue grew by 3%YoY, mainly due to higher realisation (+6%YoY) in the feed segment while volumes were flat. However, processing segment revenue declined by ~7%YoY due to de-growth volumes (-18%YoY).
- EBITDA grew by 19%YoY as EBITDA margin improved by 100bps to 7.3%. Soyabean meal prices have come down by ~30% from its peak, but wheat & fish meal prices are still on the higher side.
- AFL has added new capacity of 1.75 lakh MT in feed and is adding 7,000MT in processing segment by FY24.
- Q3FY23 witnessed sluggishness in shrimp culture activity due to demand slowdown in export markets. However, shrimp culture is expected to pick up in the subsequent months as farm-gate prices rise.
- Revenue/PAT to grow at 11%/37% CAGR over FY23E-25E. We value AFL at 12x FY25E PE (3Yr avg=15) factoring current slowdown in demand.

Demand slowdown in export markets impacted feed volumes

For Q3FY23, consolidated revenue grew by 3% YoY, supported by higher realisation in the feed segment while volumes were flat. The processing segment reported ~7%YoY decline in revenue due to 18%YoY drop in volumes on account of higher inventory position at the buyers' end. Shrimp culture activities witnessed a slowdown during the quarter, and the stocking went down by ~27% YoY. The shrimp culture is expected to pick up in the subsequent months to make up the shortfall as the farm-gate prices are improving, which will support feed volumes. 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. We expect a revenue CAGR of ~11% over FY23E-24E.

Margins to recover gradually as some input prices are still high.

EBITDA margin improved by 100bps YoY to 7.3% (6.5% QoQ) due to higher feed prices, along with a decline in input prices & freight costs. Soybean prices have come down by ~30% from its peaks, but wheat & fishmeal prices are still at higher levels. Any further correction in input prices will be positive for margins.

Status of Recall of certain products sold in US

Last year, 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. 31.56cr paid towards claims settled. After being satisfied with several preventive measures taken by AFL USFDA had communicated (in May 2022) the termination of the recall of the products.

Valuation & Outlook

Despite the current slowdown in demand in export markets, an improvement in farm-gate prices suggests that shrimp culture activities are expected to improve. AFL is prepared for the next stage of growth with new capacity. We value AFL at 12x FY25EP/E (3Yr avg=15x) to arrive at a Target of Rs. 420, upgrade to Buy rating due to correction in valuation.

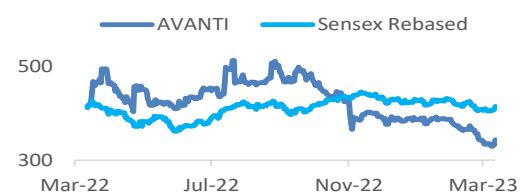
Company Data

Market Cap (Rs.cr)	4,619
Enterprise Value (Rs.cr)	3,924
Outstanding Shares (cr)	13.6
Free Float	29%
Dividend Yield	1.3%
52 week high (Rs.)	528
52 week low (Rs.)	321
6m average volume (cr)	0.03
Beta	0.2
Face value (Rs.)	1

Shareholding (%)	Q1FY23	Q2FY23	Q3FY23
Promoters	43.7	43.3	43.3
FII's	14.0	14.1	12.7
MFs/Insti	8.7	8.6	8.8
Public	13.4	14.1	15.3
Others	20.3	20.0	20.0
Total	100.0	100.0	100.0
Promotor pledge	Nil	Nil	Nil

Price Performance	3 Month	6 Month	1 Year
Absolute Return	-10.9%	-26.7%	-16.7%
Absolute Sensex	-3.2%	2.6%	0.6%
Relative Return*	-7.7%	-29.3%	-17.3%

*over or under performance to benchmark index



Consolidated (cr)	FY23E	FY24E	FY25E
Sales	5,146	5,784	6,380
Growth (%)	2.2	12.4	10.3
EBITDA	353	478	616
EBITDA Margin (%)	6.9	8.3	9.7
Adj. PAT	259	365	484
Growth (%)	3.5	40.7	32.7
Adj. EPS	18.4	26.8	35.5
Growth (%)	3.5	40.7	32.7
P/E	17.8	12.7	9.5
P/B	2.2	2.0	1.7
EV/EBITDA	9.4	6.4	4.2
ROE (%)	13.1	16.7	19.3
D/E	0.0	0.0	0.0

Vincent Andrews
 Research Analyst

Quarterly Financials (Consolidated)

Profit & Loss

Rs. (cr)	Q3FY23	Q3FY22	YoY Growth	Q2FY23	QoQ Growth	9MFY23	9MFY22	YoY Growth
Sales	1,103	1,069	3.1%	1,322	-16.6%	3,994	3,704	7.8%
EBITDA	81	68	19.2%	75	7.6%	260	205	26.6%
EBITDA margins	7.3%	6.3%	100bps	5.7%	160bps	6.5%	5.5%	100bps
Depreciation	11	10	3.9%	10	7.3%	30	31	-2.0%
EBIT	70	57	22.0%	65	7.6%	229	174	31.6%
Interest	0	0	-53.2%	0	-50.6%	1	2	-37.1%
Other Income	29	19	56.9%	26	10.1%	68	65	3.9%
Exceptional Items	-2	-6	0.0%	-1	0.0%	-8	-28	0.0%
PBT	96	66	45.5%	90	7.5%	287	203	41.4%
Tax	26	22	15.7%	23	11.4%	76	50	52.9%
Share of profit from associates	0	0	NA	0	NA	-1	0	NA
Minority interest	8	4	116.6%	10	-22.3%	25	16	56.7%
Reported PAT	62	40	55.4%	56	11.5%	185	137	34.7%
Adjustments	2	6	NA	1	NA	8	28	0.0%
Adj PAT	64	46	37.7%	57	11.6%	193	165	17.1%
No. of Shares	14	14	0.0%	14	0.0%	14	14	0.0%
Adj EPS (Rs)	4.7	3.4	37.7%	4.2	11.6%	14.2	12.1	17.1%

Change in Estimates

Year / Rs cr	Old estimates		New estimates		Change	
	FY23E	FY24E	FY23E	FY24E	FY23E	FY24E
Revenue	5,775	6,566	5,146	5,784	-10.9%	-11.9%
EBITDA	538	707	353	478	-34.4%	-32.4%
Margins	9.3%	10.8%	6.9%	8.3%	(250bps)	(250bps)
Adj. PAT	362	498	259	365	-28.4%	-26.8%
EPS	26.5	36.5	18.4	26.8	-30.5%	-26.7%

PROFIT & LOSS

Y.E March (Rs. cr)	FY20A	FY21A	FY22A	FY23E	FY24E	FY25E
Revenue	4,116	4,101	5,036	5,146	5,784	6,380
% change	18.0	-0.4	22.8	2.2	12.4	10.3
EBITDA	454	461	323	353	478	616
% change	11.6	1.6	-29.9	9.1	35.4	28.9
Depreciation	38	41	41	44	62	67
EBIT	416	420	283	309	415	549
Interest	2	2	2	0	0	0
Other Income	70	93	82	97	127	160
PBT	485	511	335	398	542	708
% change	13.3	5.5	-34.5	18.8	36.4	30.6
Tax	99	112	79	102	126	165
Tax Rate	20.3%	22.0%	23.3%	23.3%	23.3%	23.3%
Reported PAT	347	361	223	251	365	484
Adj*	0	0	-28	-8	0	0
Adj PAT	347	361	250	259	365	484
% change	29.2	4.2	-30.7	3.5	40.7	32.7
No. of shares (cr)	13.6	13.6	13.6	13.6	13.6	13.6
Adj EPS (Rs.)	25.5	26.5	16.4	18.4	26.8	35.5
% change	29.2	4.2	-30.7	3.5	40.7	32.7
DPS (Rs.)	2	6	8	8	8	8
CEPS (Rs.)	28.2	29.5	21.4	22.2	31.3	40.4

BALANCE SHEET

Y.E March (Rs. cr)	FY20A	FY21A	FY22A	FY23E	FY24E	FY25E
Cash	16	47	65	37	61	33
Accounts Receivable	89	67	114	99	95	105
Inventories	544	555	988	806	825	859
Other Cur. Assets	223	42	46	47	49	54
Investments	680	1,235	931	1,156	1,406	1,906
Gross Fixed Assets	381	440	463	733	823	848
Net Fixed Assets	271	288	271	498	525	483
CWIP	26	6	40	10	10	10
Intangible Assets	0	4	3	3	3	3
Def. Tax (Net)	17	23	21	21	21	21
Other Assets	14	12	35	29	23	25
Total Assets	1,880	2,280	2,515	2,713	3,027	3,507
Current Liabilities	263	273	351	341	338	372
Provisions	13	16	14	19	22	24
Debt Funds	0	0	0	0	0	0
Other Liabilities	199	229	254	300	354	416
Equity Capital	14	14	14	14	14	14
Reserves & Surplus	1,390	1,748	1,882	2,038	2,301	2,682
Shareholder's Fund	1,404	1,761	1,895	2,052	2,314	2,695
Total Liabilities	1,880	2,280	2,515	2,713	3,027	3,507
BVPS (Rs.)	103	129	139	150	170	198

CASH FLOW

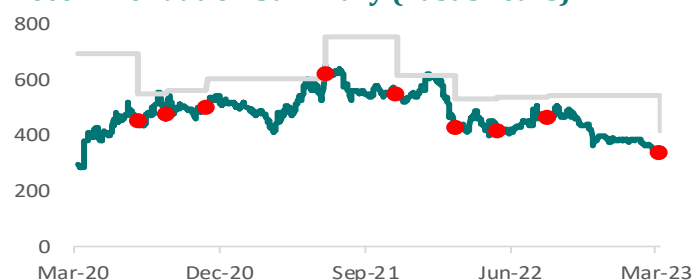
Y.E March (Rs. cr)	FY20A	FY21A	FY22A	FY23E	FY24E	FY25E
Net inc. + Depn.	384	402	291	295	427	551
Non-cash adj.	141	150	88	149	180	227
Other adjustments	2	2	-3	0	0	0
Changes in W.C	-168	34	-436	198	-14	-13
C.F. Operation	178	383	-212	539	467	600
Capital exp.	-34	-43	-55	-240	-90	-25
Change in inv.	-25	-499	341	-225	-250	-500
Other invest.CF	33	7	9	0	0	0
C.F - Investment	-26	-535	295	-465	-340	-525
Issue of equity	0	0	0	0	0	0
Issue/repay debt	-10	-2	-2	0	0	0
Dividends paid	-149	-2	-86	-102	-102	-102
Other finance.CF	17	15	19	0	0	0
C.F - Finance	-141	15	-68	-103	-103	-103
Chg. in cash	-42	31	18	-29	24	-28
Closing cash	16	47	65	37	61	33

RATIOS

Y.E March	FY20A	FY21A	FY22A	FY23E	FY24E	FY25E
Profitab. & Return						
EBITDA margin (%)	11.0	11.2	6.4	6.9	8.3	9.7
EBIT margin (%)	10.1	10.3	5.6	6.0	7.2	8.6
Net profit mgn.(%)	8.4	8.8	5.0	5.0	6.3	7.6
ROE (%)	26.6	22.8	13.7	13.1	16.7	19.3
ROCE (%)	21.2	17.9	10.6	9.8	12.8	14.8
W.C & Liquidity						
Receivables (days)	6.1	6.9	6.5	7.5	6.1	5.7
Inventory (days)	40.9	48.9	55.9	63.6	51.5	48.2
Payables (days)	22.2	26.0	23.4	26.1	23.0	21.8
Current ratio (x)	5.5	6.3	5.6	5.6	6.5	7.2
Quick ratio (x)	0.4	0.4	0.5	0.4	0.4	0.3
Turnover & Leverage						
Gross asset T.O (x)	11.0	10.0	11.2	8.6	7.4	7.6
Total asset T.O (x)	2.4	2.0	2.1	2.0	2.0	2.0
Int. coverage ratio (x)	209.6	250.6	140.8	1104.2	1483.4	1960.6
Adj. debt/equity (x)	0.0	0.0	0.0	0.0	0.0	0.0
Valuation						
EV/Sales (x)	1.0	0.8	0.7	0.6	0.5	0.4
EV/EBITDA (x)	8.6	7.2	11.2	9.4	6.4	4.2
P/E (x)	13.3	12.8	18.4	17.8	12.7	9.5
P/BV (x)	3.3	2.6	2.4	2.2	2.0	1.7



Recommendation Summary (Last 3 Years)



Source: Bloomberg, Geojit Research

Dates	Rating	Target
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
31-Mar-23	Buy	420

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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