

18th August 2020

CMP – ₹480/-

View – ACCUMULATE ON DIPS

Company Background

Incorporated in 1993, Avanti Feeds Ltd (AFL) is a leading manufacturer of Shrimp Feeds and Shrimp Processor & Exporter. The company has a strong technical and marketing tie-up with the Thai Union Group Public Company Ltd (equity participation of ~25%), the world's largest seafood processors and leading manufacturer of prawn and fish feeds in Thailand. Company has 5 shrimp feed manufacturing units in India (4 in Andhra Pradesh & 1 in Gujarat), with feed manufacturing capacity of 6,00,000MT and shrimp processing capacity of 22,000MT and is now setting up a shrimp hatchery with a capacity of 400 million seeds in Andhra Pradesh (in 2 phases) with the technical expertise from Thai Union.

Why we like the company?

- Government's thrust for fishery development with fund of ₹200,000mn to improve company's topline
- Market leadership with strong client base globally
- Technical and marketing tie-up with Thai Union Group provides global reach
- Backward integration into shrimp processing and shrimp hatchery business and entry into newer value added products to improve profitability
- Healthy balance sheet and strong return ratios provides us comfort

Investment Thesis

- **Blue revolution including budget allocation of ₹200,000mn to provide push** – The government in Budget 2020 allocated a dedicated fund of ~₹200,000mn to bring about Blue Revolution through sustainable development of fisheries sector over next five years. It also aims to double the income of fishers, fish farmers and fish workers by 2024 through the PMMSY scheme. This scheme to address the critical gaps in the fisheries sector and realise its potential thus augmenting fish production and productivity at a sustained average annual growth rate of ~9% to achieve a target of 22 million tonne by FY25 through sustainable and responsible fishing practices. We believe, these initiatives by government to not only benefit fishery industry but also improve economy. We expect, Avanti feeds to benefit the most from this scheme as it is involved in all stages of shrimp production and is a market leader.
- **Tie-up with Thai Union, lowest FCR helps sustain market share** – Avanti Feeds is the leader in the shrimp feed segment with a market share of 50% as of FY20 (~39% in FY17, 43% in FY18 and 47% in FY19) followed by CP Aqua Feeds with a market share of ~40%. The full utilisation of its existing capacities and the aggressive expansions are showing its ability to gain market share.

Over the years, Avanti Feeds Ltd expanded its market share by supplying quality products with best in class Feed Conversion Ratio (quality of feed is critical for shrimp farmers because poor or inconsistent quality may impact the entire culture and jeopardize their investment.) to its clients globally. The technical support from Thai enables the company to have ideal feed formulation which gives best Feed Conversion Ratio to farmers.

Company's continuous engagement with the farmers, knowledge sharing initiatives, assistance in their farming, pond preparation, seed selection, and providing culture practices helps it maintain relationship with farmers and achieve best FCR.

- **Backward integration ensures supply and aids overall profitability** – Since 2009, the company has increased capacity 15x and maintained utilization level above 60% since 2013. From the core Feed business segment,

Important Statistics

M.Cap (₹ mn)	₹65,929
52 Week H/L (₹)	770.00/250.50
NSE Code	AVANTIFEED
BSE Code	512573

Financials

(₹ mn)

Particular	FY20	FY19
Total Revenue	41,153	34,878
EBITDA	4,539	4,073
PAT	3,863	3,066
EPS (₹)	25.4	20.1
P/E (x)	18.9	23.9
EV/ EBITDA (x)	15.7	13.9
RoE (%)	24.2%	22.6%
ROCE(%)	24.2%	22.1%
Net Debt/Equity	0.0	0.0

Shareholding pattern (%)	June'20
Promoters	43.7%
FII	33.3%
DII	2.2%
Public & Others	20.8%

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Avanti Feeds Ltd has expanded to the processing segment (with installed capacity of 22000MTPA) and is now in the process of setting up a shrimp hatchery with a capacity of 400 million seeds in Andhra Pradesh for capex of ₹120mn. The plant will be operating in two phases with 200 million seeds in each phase. The company is also exploring the possibility of more diversification into fish feed and other feeds for cultivation of fish species like Seabass which has great export potential, going ahead. Thai Union has proven technology for producing feed for these species that can be readily adopted by the company. We believe, company's backward integration strategies, proven technology for producing feed and expansion into shrimp processing will ensure supply and aid profitability.

- **Strong financials and healthy balance sheet provides comfort** – Avanti Feeds Ltd has a strong track record of growing above industry as its feed segment volume has grown at a CAGR of 33% while industry grew at ~20%. Company's revenue/EBITDA/PAT have grown at 18%/20%/27% CAGR over FY15-FY20 on account of higher volume growth, better capacity utilisation etc. Driven by growth in topline and operational efficiencies, company's return ratios (ROE and ROCE) stand above 25%. Despite huge expansions, the company has been successful in being debt free and has huge cash pile of ~ ₹2000mn.
- **Q4FY20 better, FY21E to be impacted** – For Q4FY20, revenue grew by 20.7% YoY to ₹10,348mn driven by growth in the shrimp feed segment by 15.4% YoY and processing segment by 38.4% YoY. Feed segment volumes grew by ~10%YoY while Processing volume growth was strong at ~27% YoY. Realisation grew by 5%/9% YoY for Feed/Processing segments.

Gross profit in Q4FY20 increased by 24.8% YoY with better sales mix in processing and increase in feed sales.

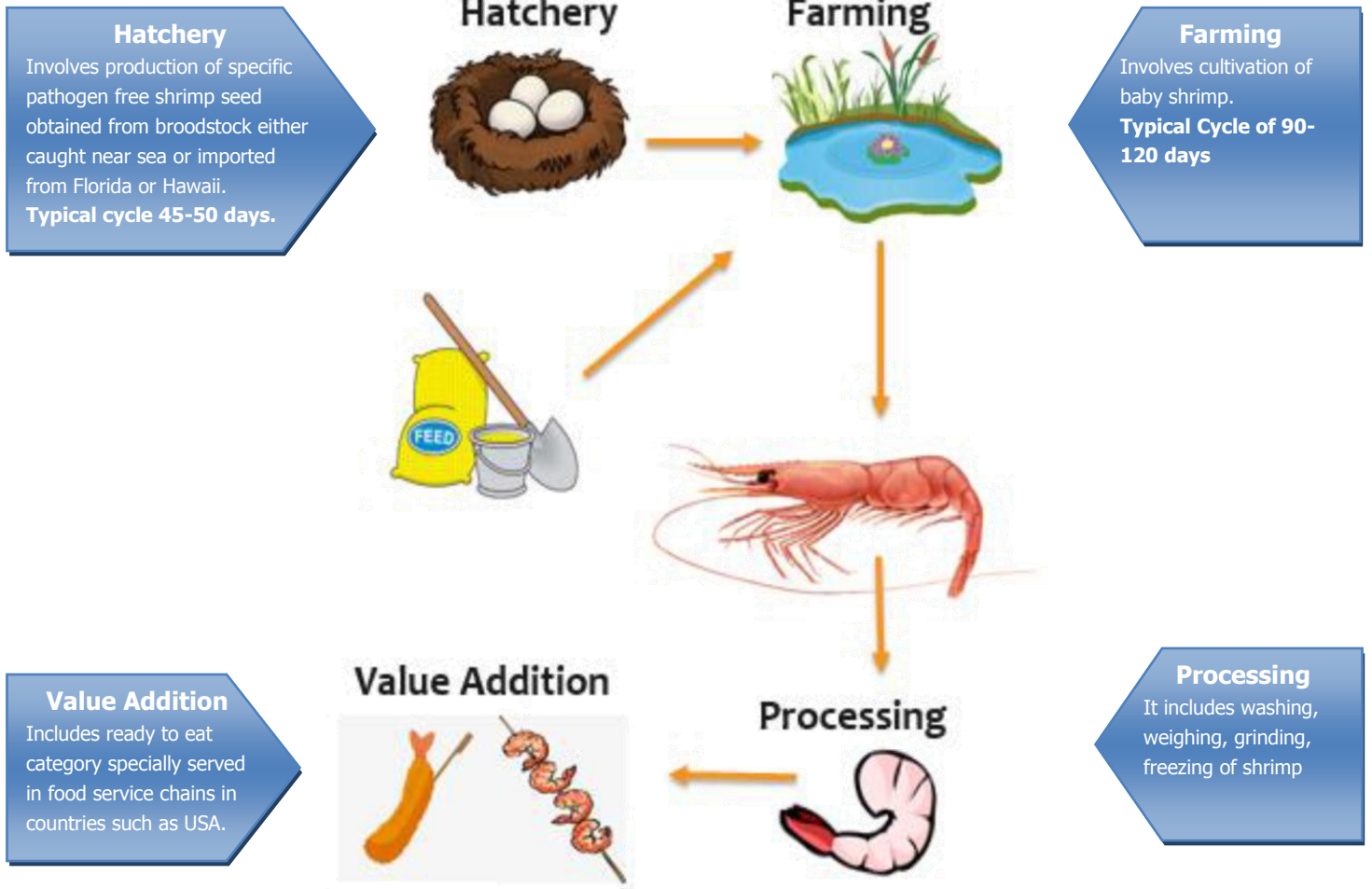
The company had taken a price hike of ₹4.80/kg for passing on the increase in raw material (RM) cost at the end of January which also supported revenue growth. However, Covid-19 pandemic led global lockdown has disrupted the supply-chain of the industry which is expected to impact FY21 volumes. Farmers waited for the situation to stabilise which along with unavailability of brood stocks has delayed the sowing. Now, with relaxation in restrictions and the resultant improvement in farm-gate prices is encouraging farmers which along with AFL's increasing market share will support volumes.

EBITDA margins improved by 114bps YoY (517bps QoQ) to 12% aided by hike in RM prices. While, PAT after minority interest in Q4FY20 rose by 26% YoY and 81% QoQ to ₹867 mn with increase in sales volume and opting for reduced tax rates.

View

AFL posted strong growth in terms of Rev/EBITDA/PAT (in Q4FY20) due to robust performance of shrimp feed and shrimp processing businesses. We expect the company's volumes to be subdued in FY21E but will recover in FY22E on the back of robust performance of shrimp feed and shrimp processing business while savings in other expense and lower fixed costs will sustain EBITDA margins. Additional capacity in shrimp processing business coupled with commencement of shrimp hatchery business in FY21E and favorable demand and supply ensures robust growth post FY21E. Company's market leadership, technical expertise, strong client base globally, healthy balance sheet, strong return ratios, further provides us confidence and makes it an attractive bet. **At CMP of ₹480, company is trading at ~19x P/E FY20 which is at discount to its listed peers and thus we recommend the stock as "Accumulate On Dips".**

Shrimp Value Chain



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Consolidated Financials

Particulars	(₹ mn)				
	Q4FY20	Q3FY20	Q4FY19	YoY	QoQ
Net Sales	10,348	9,227	8,577	20.6%	12.1%
Total Expenses	9,102	8,593	7,642	19.1%	5.9%
EBITDA	1246.3	634	935	33.3%	96.6%
EBITDA Margins	12.0%	6.9%	10.9%	114bps	517bps
Depreciation	96	91	90	6.7%	5.5%
EBIT	1150.3	543	845	36.1%	111.8%
EBIT Margins	11.1%	5.9%	9.9%	126bps	523bps
Interest	6.8	7	11	-38.2%	-2.9%
Other Income	116.2	196	195	-40.4%	-40.7%
PBT	1259.7	732	1029	22.4%	72.1%
Tax	273	142	263	3.7%	92.1%
PAT before MI	987	590	766	28.8%	67.3%
MI	120	110	80	50.0%	9.1%
PAT after MI	867	480	686	26.4%	80.6%
PAT margins	8.4%	5.2%	8.0%	37.9bps	318bps
EPS (₹)	6.37	3.53	5.04	26.4%	80.6%

Source: Company Data, Way2Wealth Inst Equity

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Disclosure of Interest Statement Avanti Feeds Ltd (ATFL) as on August 18th, 2020

Name of the Security	Avanti Feeds Ltd (ATFL)
Name of the analyst	Yogita Desai
Analysts' ownership of any stock related to the information contained	NIL
Financial Interest	
Analyst :	No
Analyst's Relative : Yes / No	No
Analyst's Associate/Firm : Yes/No	No
Conflict of Interest	No
Receipt of Compensation	No
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