

Q1FY22 results review
and TP revision

Agriculture

Target price Rs639

Earnings revision

(%)	FY22E	FY23E
Sales	↑ 0.9	↑ 1.9
EBITDA	↓ 8.2	↓ 6.8
EPS	↓ 8.0	↓ 6.8

Target price revision

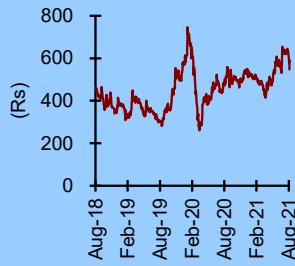
Rs639 from Rs650

Shareholding pattern

	Dec '20	Mar '21	Jun '21
Promoters	43.7	43.7	43.7
Institutional investors	20.9	20.8	21.9
MFs and others	3.3	3.0	4.3
Banks, FIs	0.0	0.0	0.0
FIIs	17.6	17.8	17.6
Others	35.4	35.5	34.4

Source: BSE

Price chart



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INDIA

Avanti Feeds

BUY
Maintained
Rs547

Higher input prices hurt margins

Takeaways from Q1FY22 result: (1) It reported revenue growth of 47.5% YoY, driven by strong growth of 59% in its feed business, (2) its processed shrimp business declined 5.2% YoY, due to lower volume off-take and (3) Inflationary pressures in input prices impacted profitability. We expect some impact on profitability as the company announced recall of some products due to potential contamination. While HoReCa segment remained impacted during the quarter, we believe it to return to normalcy with economy opening up and large vaccination drives. We believe Avanti will be a net beneficiary of RoDTEP scheme and model Avanti to report PAT CAGR of 16.1% over FY21-23 and maintain BUY rating with target price of Rs639 (18x FY23E; Earlier TP-Rs650).

- **Q1FY22 results:** Avanti reported revenue growth of 47.5% YoY (two year CAGR: 13.5%). However, EBITDA and PAT declined 26.6% and 28% YoY, respectively. Inflationary pressures in input prices led to 771bps decline in Gross margin. It reported EBITDA and PAT margin of 6.7% and 5.7%, respectively.
- **Segment Performance:** While Shrimp feed registered strong growth of 59%, processed shrimp business declined 5.2% YoY, in Q1FY22. It reported Rs40.5mn revenues in its new Shrimp Hatchery segment. Operating margins contracted 600bps and 960bps YoY in shrimp feed and processed shrimp, respectively. Its power business grew 13% YoY.
- **RoDTEP benefits:** Avanti's profitability was impacted due to closure of MelS scheme. Recommencement of exports benefits, under RoDTEP will reduce pressure on margins. RoDTEP benefits are 2.5% (subject to a cap Rs16 per kg) and lower than MelS benefits. The company believes the shortfall will be redistributed in shrimp value chain (farmers, feed manufacturers, exporters) over a period of time.
- **Sales to other countries:** USA contributed 75% of total shrimp exports in Q1FY22, against 88% in Q4FY21. We believe this will de-risk company's operations and add more volume growth opportunities for Avanti.
- **Maintain BUY:** We model Avanti to report revenue and PAT CAGRs of 13.5% and 16.1% over FY21-FY23 and also expect its RoE to be over >20% in the same timeframe. We maintain BUY rating with a DCF-based target price of Rs639 (implied P/E 18x FY23E EPS; Earlier TP-Rs650). Key risk: Higher than expected input inflation and lower than expected off-take of products.

Market Cap	Rs74.4bn/US\$999mn	Year to March	FY20	FY21P	FY22E	FY23E
Reuters/Bloomberg	AVNT.BO/AVNT IN	Revenue (Rs mn)	41,153	41,006	46,731	52,863
Shares Outstanding (mn)	136.2	Adj. Net Profit (Rs mn)	3,465	3,601	4,125	4,854
52-week Range (Rs)	655/414	Dil. Rec. EPS (Rs)	25.4	26.4	30.3	35.6
Free Float (%)	56.3	% Chg YoY	29.1	3.9	14.5	17.7
FII (%)	17.6	P/E (x)	21.5	20.7	18.1	15.4
Daily Volume (US\$'000)	5,527	CEPS (Rs)	28.2	29.4	33.7	39.4
Absolute Return 3m (%)	2.3	EV/EBITDA (x)	15.0	14.8	12.6	10.9
Absolute Return 12m (%)	6.9	Dividend Yield (%)	0.9	1.0	1.1	1.1
Sensex Return 3m (%)	12.3	RoCE (%)	27.6	23.1	22.6	22.2
Sensex Return 12m (%)	46.3	RoE (%)	26.3	22.7	21.5	21.4

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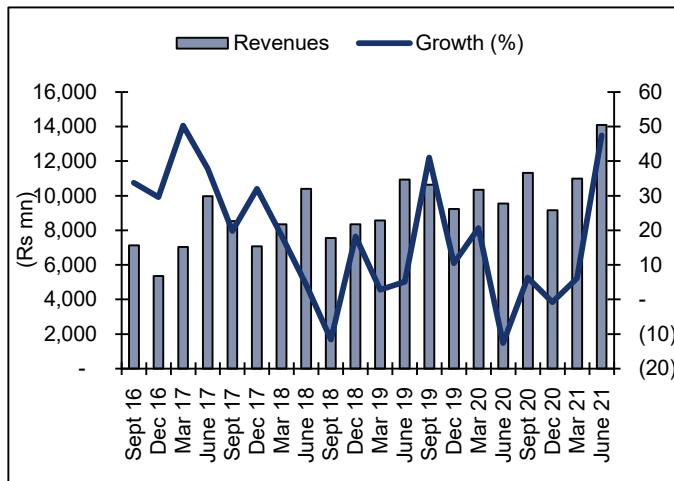
Table 1: Q1FY22 financial performance

(Rs mn, year ending March 31)

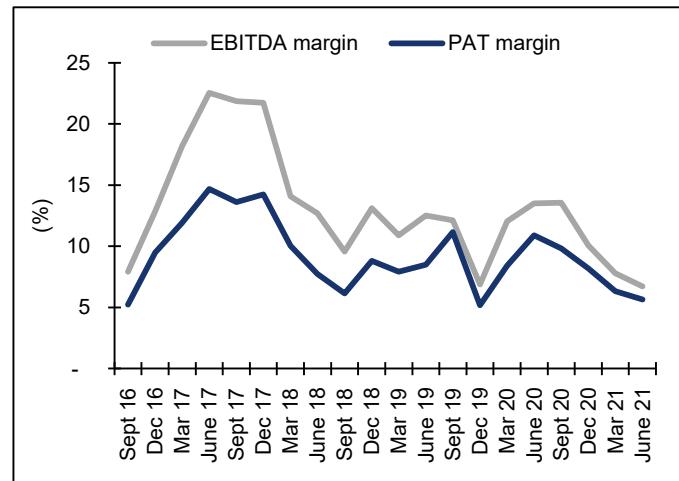
	Q1FY22	Q1FY21	YoY gr.	Q4FY21	QoQ gr.
Revenue	14,088	9,554	47.5	10,981	28.3
Expenditure					
Raw materials	11,914	7,342	62.3	8,920	33.6
% of revenue	84.6	76.9		81.2	
Employee cost	351	306	14.7	305	15.0
% of revenue	2.5	3.2		2.8	
Other expenditure	875	615	42.4	901	(2.9)
% of revenue	6.2	6.4		8.2	
Total expenditure	13,140	8,263	59.0	10,127	29.8
EBITDA	948	1,291	(26.6)	854	11.0
<i>EBITDA margin</i>	6.7	13.5		7.8	
Other income	213	274	(22.3)	183	16.5
PBDIT	1,161	1,565	(25.8)	1,037	11.9
Depreciation	104	94	9.9	102	1.1
PBIT	1,057	1,470	(28.1)	934	13.1
Interest	3	3	27.9	7	(54.9)
PBT	1,054	1,468	(28.2)	927	13.7
Prov for tax	221	310	(28.9)	227	(2.7)
% of PBT	20.9	21.1		24.5	
Adjusted PAT	833	1,157	(28.0)	700	19.0
Extra ordinary items	(70)	(3)	2,409.2	14	(585.5)
Minority interest	35	116		5	
Reported PAT	728	1,038	(29.9)	710	2.6

Source: Company data, I-Sec research

Key performance highlights

Chart 1: Revenues and revenue growth

Source: Company data, I-Sec research

Chart 2: EBITDA and PAT margin

Source: Company data, I-Sec research

Segmental details

Revenues (Rs mn)	June 19	Sept 19	Dec 19	Mar 20	June 20	Sept 20	Dec 20	Mar 21	June 21
Shrimp feed	9,068	8,321	6,575	7,646	7,774	8,964	6,768	8,807	12,361
Processed shrimp	1,876	2,317	2,650	2,706	1,793	2,358	2,391	2,089	1,700
Power & others	(9)	6	2	(4)	(12)	(5)	(4)	86	27
Total	10,935	10,643	9,227	10,348	9,554	11,316	9,154	10,981	14,088
Growth (%)									
Shrimp feed	-0.7%	50.7%	8.4%	15.5%	-14.3%	7.7%	2.9%	15.2%	59.0%
Processed Shrimp	47.9%	14.8%	16.0%	38.4%	-4.4%	1.8%	-9.8%	-22.8%	-5.2%
Power & others	-437.4%	-21.7%	-7.2%	-349.8%	41.1%	-189.8%	-372.5%	-2107.9%	-319.5%
Total	5.1%	41.1%	10.5%	20.7%	-12.6%	6.3%	-0.8%	6.1%	47.5%
As % of Total									
Shrimp feed	82.9%	78.2%	71.3%	73.9%	81.4%	79.2%	73.9%	80.2%	87.7%
Processed Shrimp	17.2%	21.8%	28.7%	26.2%	18.8%	20.8%	26.1%	19.0%	12.1%
Power & others	-0.1%	0.1%	0.0%	0.0%	-0.1%	0.0%	0.0%	0.8%	0.2%
Total	100.0%								
EBIT (Rs mn)									
Shrimp feed	1,072	990	271	847	950	1,053	586	774	768
Processed Shrimp	202	198	273	305	245	382	220	(69)	70
Power & others	1	5	(1)	(1)	1	3	(1)	47	7
Total	1,276	1,193	543	1,150	1,197	1,438	805	752	844
As % of Total									
Shrimp feed	84.0%	83.0%	49.9%	73.6%	79.4%	73.2%	72.8%	102.9%	90.9%
Processed Shrimp	15.9%	16.6%	50.3%	26.5%	20.5%	26.6%	27.3%	-9.2%	8.2%
Power & others	0.1%	0.4%	-0.2%	-0.1%	0.1%	0.2%	-0.1%	6.3%	0.8%
Total	100.0%								
EBIT margin (%)									
Shrimp feed	11.8%	11.9%	4.1%	11.1%	12.2%	11.7%	8.7%	8.8%	6.2%
Processed Shrimp	10.8%	8.5%	10.3%	11.3%	13.7%	16.2%	9.2%	-3.3%	4.1%
Power & others	-13.9%	88.5%	-71.1%	34.0%	-11.0%	-49.3%	14.4%	55.1%	26.1%
Total	11.7%	11.2%	5.9%	11.1%	12.5%	12.7%	8.8%	6.8%	6.0%

Source: Company data, I-Sec research

Key highlights from Q1FY22 result and conference call

- While the company reported revenue growth of 47.5%, its EBITDA and PAT declined 26.6% and 23.4% YoY.
- The company's profitability has taken a hit due to reduction in MeIS benefits. However, it will benefit with the new RoDTEP scheme. While MeIS benefits amounted to 5% of sales, RoDTEP will be only 2-2.5%.
- The management believes the reduction in benefits will get distributed in the value chain.
- RoDTEP benefits in Q4FY21 (Rs38.8mn) and Q1FY22 (Rs46.5mn), will be reflected in Q2FY22 results of the company.
- The company announced recall of some export containers for potential contamination.
- While the recall is open till the expiry of the products (~one year from now), it believes at maximum 25-30% of the total recall (~Rs500mn) will be received back.
- The soybean meal prices increased from Rs46/kg in Q4FY21 to Rs65/Kg in Q1FY22. It has increased further in Q2FY22.
- The company expects softening of soybean price from mid-September.
- Export volumes declined 6.1% YoY, due to lower-availability of containers.
- The management believes the production and exports of shrimp will grow 10-15% during the year.
- While the shrimp feed consumption has decreased in India, the company believes it will be back to its pre-pandemic levels.
- It guided to maintain its market share in shrimp feed at 48-50% levels.
- The company has taken few price hikes in the shrimp feed business.
- With rise in soybean prices, there is permission to import soybean meal. Thus, the company has also placed order for import of GM soybean meal. The landing costs will be in the range of Rs65-70 per kg.
- USA sales accounted for 75% of its total exports during Q1FY22, against 88% in Q4FY21.

Key operational highlights – Annual (Consolidated)

Chart 3: Revenues and growth rates

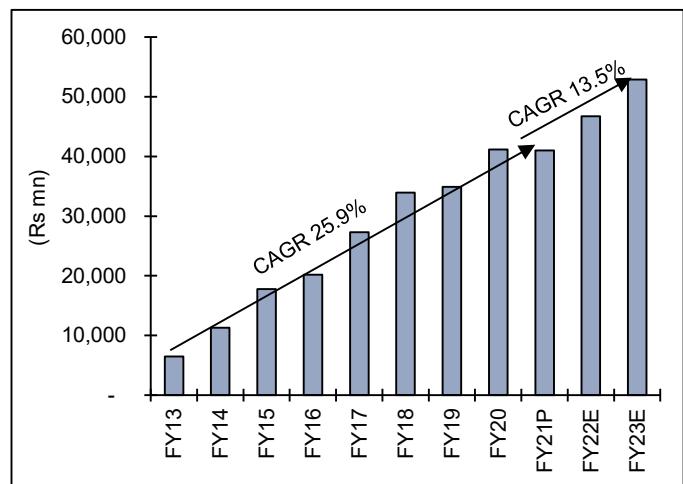


Chart 4: EBITDA margin

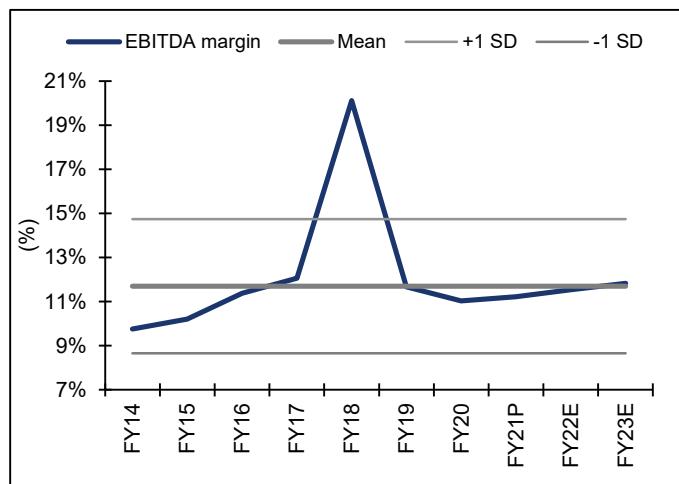


Chart 5: PAT and growth rates

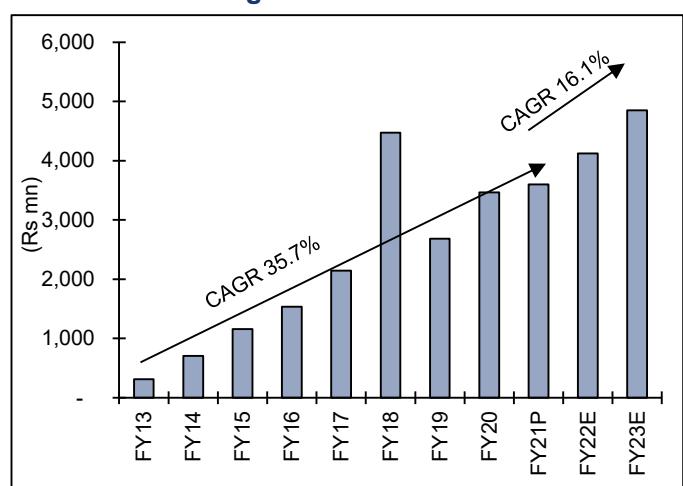


Chart 6: RoE & RoCE

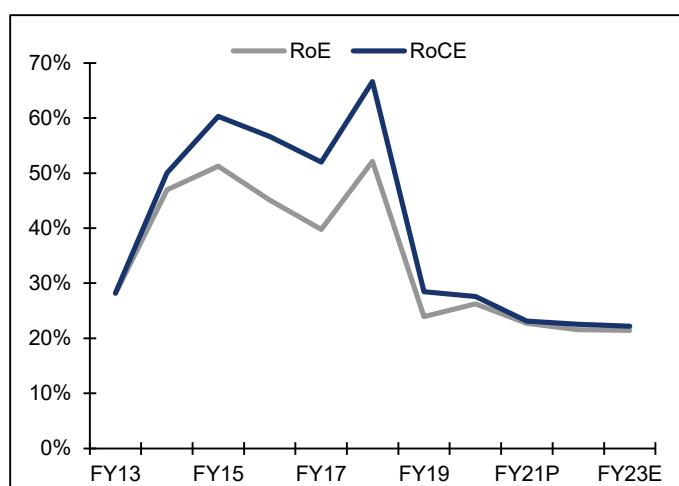


Chart 7: Net working capital days

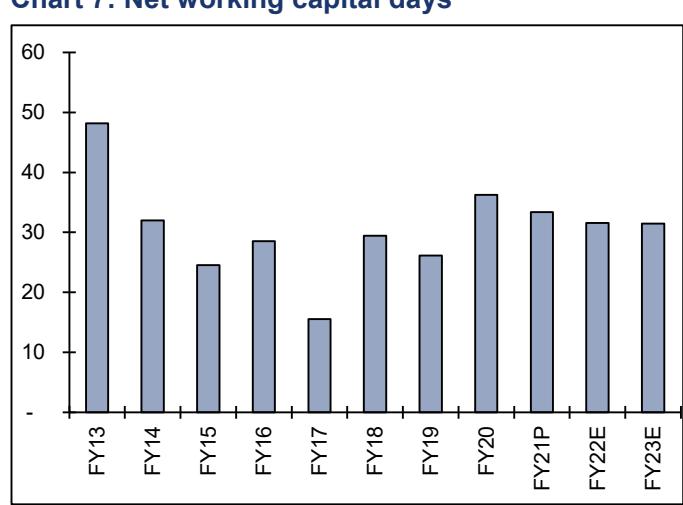
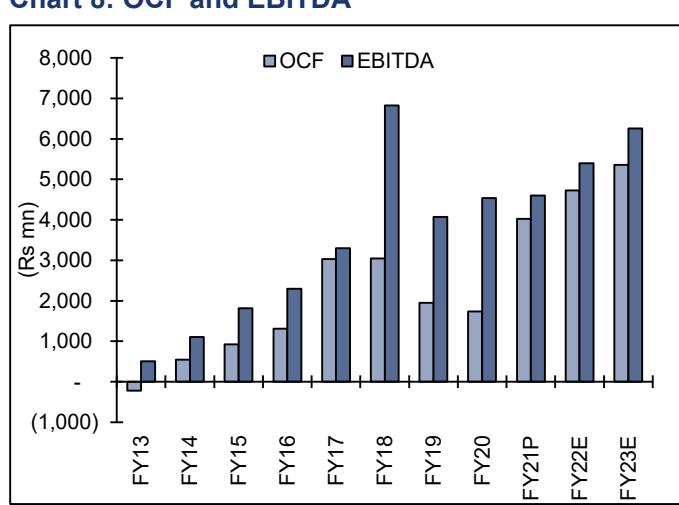


Chart 8: OCF and EBITDA



Valuation and risks

We expect Avanti to report revenue and PAT CAGRs of 13.5% and 16.1% over FY21-FY23 and expect RoE to move to 21.4% in FY23 from 22.7% in FY21. We value the stock on DCF basis with a target price of Rs639 (earlier: Rs650). At the target price, the implied P/E works out to 18x on FY23E EPS.

Table 2: DCF-based valuation

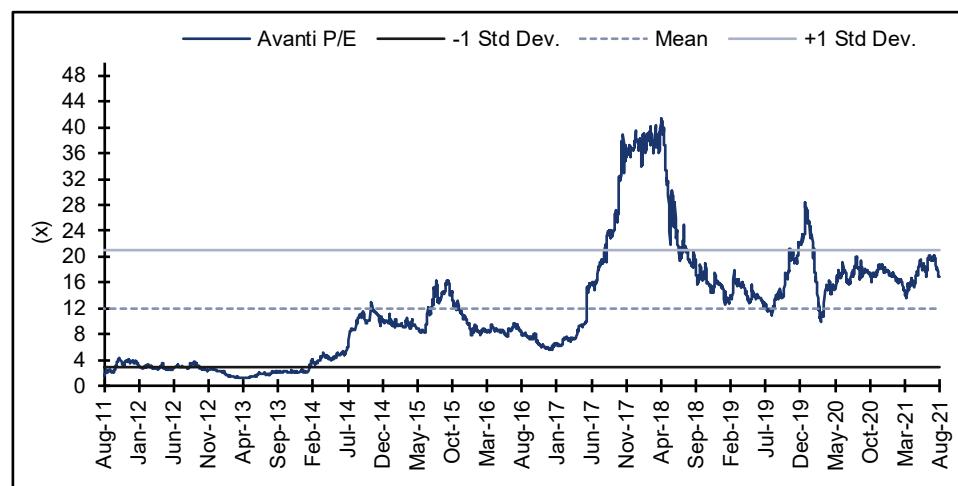
Particulars	Amt (Rs)
Cost of Equity	12.0
Terminal growth rate	4.0
Discounted interim cash flows	38,995
Discounted terminal value	48,132
Total equity value	87,127
Value per share (Rs)	639

Source: Company data, I-Sec research

Mean P/E and standard valuation

The stock has traded at an average P/E of 12x over the past ten years.

Chart 9: Mean P/E and standard deviation



Source: Company data, I-Sec research

Risks

Lower than expected offtake of value-added products

Any failure of value-added products may impact our estimates.

Sharp increase in input prices

Any major increase in commodity prices will impact our estimates.

Financial summary

Table 3: Profit & Loss statement

(Rs mn, year ending March 31)

	FY20	FY21P	FY22E	FY23E
Net Sales	41,153	41,006	46,731	52,863
Operating Expenses	36,614	36,404	41,334	46,607
EBITDA	4,539	4,601	5,397	6,255
% margins	11.0	11.2	11.5	11.8
Depreciation & Amortisation	377	409	467	521
Gross Interest	20	17	17	17
Other Income	702	926	1,186	1,446
Recurring PBT	4,844	5,101	6,098	7,163
Less: Taxes	986	1,123	1,555	1,827
Less: Minority Interest	393	377	418	483
Net Income (Reported)	3,465	3,601	4,125	4,854
Extraordinaries (Net)	(10)	(4)	-	-
Recurring Net Income	3,455	3,597	4,125	4,854

Source: Company data, I-Sec research

Table 4: Balance sheet

(Rs mn, year ending March 31)

	FY20	FY21P	FY22E	FY23E
Assets				
Total Current Assets	8,709	7,093	8,170	9,985
of which cash & cash eqv.	1,986	608	854	1,730
Total Current Liabilities & Provisions	2,634	2,733	3,271	3,700
Net Current Assets	6,075	4,359	4,899	6,285
Investments	7,123	12,718	15,718	18,718
Net Fixed Assets	2,709	2,924	3,017	2,997
Capital Work-in-Progress	259	60	-	-
Total Assets	16,165	20,063	23,635	28,000
Liabilities				
Borrowings	172	193	193	193
Deferred Tax Liability	45	(26)	(26)	(26)
Minority Interest	1,911	2,283	2,712	3,205
Equity Share Capital	136	136	136	136
Face Value per share (Rs)	10	10	10	10
Reserves & Surplus*	13,901	17,476	20,619	24,492
Less: Misc. Exp. n.w.o.	-	-	-	-
Net Worth	14,037	17,612	20,756	24,629
Total Liabilities	16,165	20,063	23,635	28,000

Source: Company data, I-Sec research

Table 5: Quarterly trend

(Rs mn, year ending March 31)

	Sept 20	Dec 20	Mar 21	June 21
Net sales	11,316	9,154	10,981	14,088
% growth (YoY)	6.3	(0.8)	6.1	47.5
EBITDA	1,534	922	854	948
Margin (%)	13.6	10.1	7.8	6.7
Other income	187	282	183	213
Extraordinaries (Net)	2	(16)	14	(70)
Adjusted Net profit	1,115	734	710	728

Source: Company data, I-Sec research

Table 6: Cashflow statement

(Rs mn, year ending March 31)

	FY20	FY21P	FY22E	FY23E
Operating Cashflow	4,045	3,684	5,020	5,867
Working Capital Changes	(2,310)	345	(293)	(511)
Capital Commitments	(342)	(427)	(500)	(500)
Free Cashflow	1,392	3,601	4,227	4,856
Cashflow from Investing Activities				
Issue of Share Capital	-	-	-	-
Inc (Dec) in Borrowings	(78)	31	-	-
Dividend paid	(1,485)	(18)	(981)	(981)
Change in Deferred Tax Liability				
Chg. in Cash & Bank balance	(422)	312	246	876

Source: Company data, I-Sec research

Table 7: Key ratios

(Year ending March 31)

	FY20	FY21P	FY22E	FY23E
Per Share Data (Rs)				
EPS	25.4	26.4	30.3	35.6
Cash EPS	28.2	29.4	33.7	39.4
Dividend per share (DPS)	5.1	5.3	6.0	6.0
Book Value per share (BV)	103.4	129.1	152.1	180.6
Growth (%)				
Net Sales	18.0	(0.4)	14.0	13.1
EBITDA	11.5	1.4	17.3	15.9
PAT	29.1	3.9	14.5	17.7
Cash EPS	26.3	4.4	14.5	17.0
Valuation Ratios (x)				
P/E	21.5	20.7	18.1	15.4
P/CEPS	19.4	18.6	16.2	13.9
P/BV	5.3	4.2	3.6	3.0
EV / EBITDA	15.0	14.8	12.6	10.9
EV / Sales	1.7	1.7	1.5	1.3
Operating Ratios				
Raw Material / Sales (%)	79.3	78.2	78.7	78.4
Employee cost / Sales (%)	2.8	3.1	2.9	2.9
SG&A / Sales (%)	1.0	7.5	1.0	1.0
Other Income / PBT (%)	14.5	18.1	19.5	20.2
Effective Tax Rate (%)	20.3	22.0	25.5	25.5
Working Capital (days)	9.9	9.1	8.7	8.6
Inventory Turnover (days)	48.2	49.2	47.5	47.5
Receivables (days)	7.9	5.9	7.3	7.3
Payables (days)	23.2	24.1	23.7	23.7
Net D/E (x)	(0.5)	(0.6)	(0.6)	(0.7)
Profitability Ratios (%)				
Net Income Margins	9.4	9.7	9.7	10.1
RoACE	27.6	23.1	22.6	22.2
RoAE	26.3	22.7	21.5	21.4
Dividend Payout	20.1	19.9	19.8	16.8
Dividend Yield	0.9	1.0	1.1	1.1
EBITDA Margins	11.0	11.2	11.5	11.8

Source: Company data, I-Sec research

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