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Q3FY21 results review
and TP revision

Agriculture

Target price Rs560

Earnings revision

(%)	FY21E	FY22E
Sales	↓ 6.5	↓ 6.5
EBITDA	↑ 1.5	↓ 3.1
EPS	↑ 1.5	↓ 2.7

Target price revision

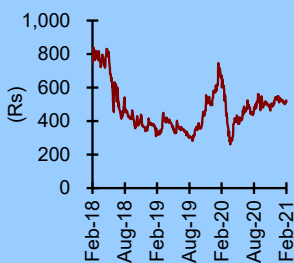
Rs560 from Rs590

Shareholding pattern

	Jun '20	Sep '20	Dec '20
Promoters	43.7	43.7	43.7
Institutional investors	20.3	20.5	29.9
MFs and others	2.5	3.7	3.3
Banks, FIs	0.1	0.0	0.0
FIs	17.7	16.8	17.6
Others	36.0	35.8	35.4

Source: BSE

Price chart



INDIA

Avanti Feeds

ADD
Maintained

Muted off-take but lower input prices lift margins **Rs513**

Takeaways from Q3FY21: (1) There is reduction in shrimp off-take in key market of USA which impacted Processed shrimp segment. It reported revenue decline of 9.8% YoY, (2) Shrimp feed reported 2.9% revenue growth. We believe Avanti is well poised to gain market shares in shrimp feed from smaller players and (3) With stability in input prices and selective price hikes, the EBITDA margin is likely to stabilize ~12.5% in FY21-22 (FY20: 11%). Slow-down in Avanti's key market (USA) and lower off-take by HoReCa segment (~50% shrimp consumption in USA) continue to hurt Avanti's exports. We model Avanti to report PAT CAGR of 13.1% over FY20-23 and maintain ADD rating with target price of Rs560 (15x FY23E; Earlier TP-Rs590).

- **Q3FY21 results:** Avanti reported revenue decline of 0.8% YoY. Shrimp feed revenues were up 2.9% but Processed shrimp segment reported revenue decline of 9.8%. We believe there is reduction in consumption in USA due to increase in covid cases and repeated lockdowns. EBITDA margin was up 320bps due to lower input prices and cost saving initiatives. Due to 44% increase in other income, the PAT was up 56.7%, YoY.
- **Lower demand from HoReCa segment USA may impact Avanti:** The company exports c.85% of shrimps to USA. As c.7% of USA citizens are now suffering due to Covid-19, we believe there is likely concern of lower consumption of premium non-veg products like shrimp. Also, lower buying by HoReCa reduces the demand for shrimp. While this issue may impact all shrimp exporters, we expect an established player like Avanti to gain market share from smaller players.
- **Stability emerging in margins:** Avanti's EBITDA margins moved up from ~12% levels over FY16-FY17 to 20.1% in FY18 and declined back to 11.7% in FY19. However, we believe, considering stable input prices; EBITDA margins are sustainable at 11-12%. We expect the company to report an EBITDA margin of 12.5% in FY21 as well as in FY22 (vs. 11% in FY20).
- **Sales to other countries:** Avanti is also in process to reduce the dependence on USA and has started exports to other countries such as China and Europe. While the demand is impacted in USA, recovery in other markets such as China will help to improve volume off-take. Non USA exports are c.14% of total shrimp exports
- **Maintain ADD:** We expect Avanti to report revenue and PAT CAGRs of 8% and 13.1% over FY20-FY23 and also expect its RoE to be stable over the same timeframe. We maintain our ADD rating with a DCF-based target price of Rs560 (implied P/E 15x FY23E EPS).

Market Cap	Rs69.9bn/US\$958mn	Year to March	FY20	FY21E	FY22E	FY23E
Reuters/Bloomberg	AVNT.BO/AVNT IN	Revenue (Rs mn)	34,878	41,153	44,179	49,513
Shares Outstanding (mn)	136.2	Adj. Net Profit (Rs mn)	2,685	3,502	3,774	4,485
52-week Range (Rs)	669/261	Dil. Rec. EPS (Rs)	19.7	25.7	27.7	32.9
Free Float (%)	56.3	% Chg YoY	(40.0)	30.5	7.8	18.8
FII (%)	17.6	P/E (x)	28.2	21.6	20.0	16.9
Daily Volume (US\$'000)	3,954	CEPS (Rs)	22.3	28.5	30.1	35.7
Absolute Return 3m (%)	7.1	EV/EBITDA (x)	16.9	15.2	13.6	11.5
Absolute Return 12m (%)	(22.5)	Dividend Yield (%)	0.7	0.9	0.9	1.1
Sensex Return 3m (%)	24.7	RoCE (%)	28.5	27.6	26.6	26.0
Sensex Return 12m (%)	25.6	RoE (%)	23.9	26.5	24.3	23.9

Please refer to important disclosures at the end of this report

Research Analyst:

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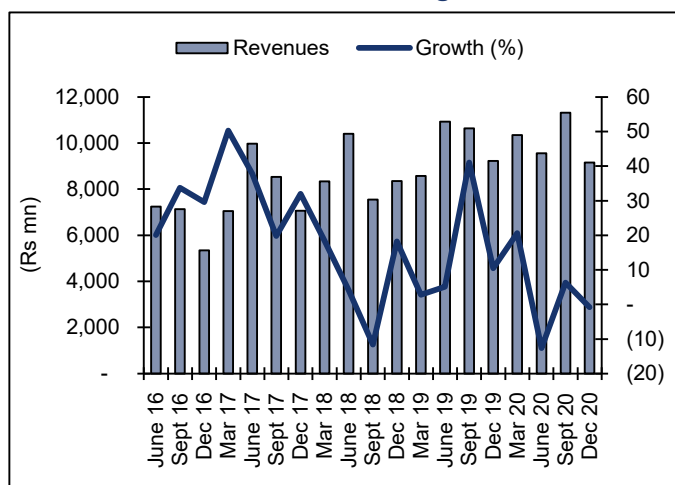
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Table 1: Q3FY21 financial performance*(Rs mn, year ending March 31)*

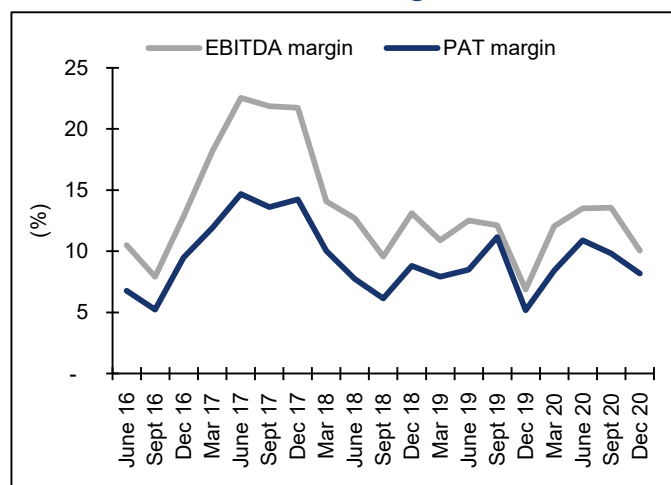
Ye March	Q3FY21	Q3FY20	YoY gr.	Q2FY21	QoQ gr.
Revenue	9,154	9,227	(0.8)	11,316	(19.1)
Expenditure					
Raw materials	7,135	7,623	(6.4)	8,652	(17.5)
% of revenue	77.9	82.6		76.5	
Employee cost	293	245	19.7	358	(18.0)
% of revenue	3.2	2.7		3.2	
Other expenditure	803	725	10.8	773	3.9
% of revenue	8.8	7.9		6.8	
Total expenditure	8,232	8,593	(4.2)	9,782	(15.8)
EBITDA					
EBITDA	922	634	45.4	1,534	(39.9)
EBITDA margin	10.1	6.9		13.6	
Other income	282	196	44.0	187	50.6
PBDIT	1,205	830	45.1	1,721	(30.0)
Depreciation	117	91	28.1	96	22.4
PBIT	1,088	739	47.2	1,626	(33.1)
Interest	5	7	(27.9)	2	140.4
PBT	1,083	732	47.9	1,624	(33.3)
Prov for tax	214	142	50.7	372	(42.5)
% of PBT	19.8	19.4		22.9	
Adjusted PAT	869	590	47.2	1,252	(30.6)
Extra ordinary items	(16)	(4)	289.4	2	(973.2)
Minority interest	119	112		138	
Reported PAT	734	474	54.7	1,115	(34.2)

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

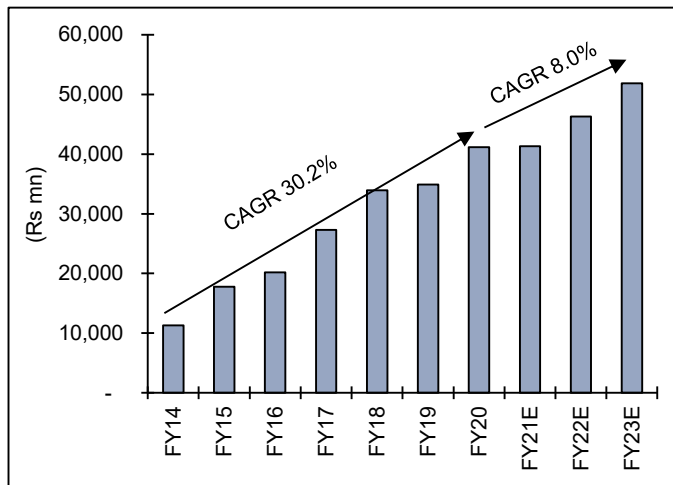
Segmental details

Revenues (Rs mn)	Dec 18	Mar 19	June 19	Sept 19	Dec 19	Mar 20	June 20	Sept 20	Dec 20
Shrimp feed	6,067	6,620	9,068	8,321	6,575	7,646	7,774	8,964	6,768
Processed shrimp	2,284	1,955	1,876	2,317	2,650	2,706	1,793	2,358	2,391
Power & others	2	2	(9)	6	2	(4)	(12)	(5)	(4)
Total	8,353	8,577	10,935	10,643	9,227	10,348	9,554	11,316	9,154
Growth (%)									
Shrimp feed	10.1	-8.7	-0.7	50.7	8.4	15.5	-14.3	7.7	2.9
Processed Shrimp	47.2	79.0	47.9	14.8	16.0	38.4	-4.4	1.8	-9.8
Power & others	-11.9	-1.3	-437.4	-21.7	-7.2	-349.8	41.1	-189.8	-372.5
Total	18.2	2.8	5.1	41.1	10.5	20.7	-12.6	6.3	-0.8
As % of Total									
Shrimp feed	72.6	77.2	82.9	78.2	71.3	73.9	81.4	79.2	73.9
Processed Shrimp	27.3	22.8	17.2	21.8	28.7	26.2	18.8	20.8	26.1
Power & others	0.0	0.0	-0.1	0.1	0.0	0.0	-0.1	0.0	0.0
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
EBIT (Rs mn)									
Shrimp feed	713	679	1,072	990	271	847	950	1,053	586
Processed Shrimp	294	167	202	198	273	305	245	382	220
Power & others	(1)	(2)	1	5	(1)	(1)	1	3	(1)
Total	1,006	844	1,276	1,193	543	1,150	1,197	1,438	805
As % of Total									
Shrimp feed	70.9	80.4	84.0	83.0	49.9	73.6	79.4	73.2	72.8
Processed Shrimp	29.2	19.8	15.9	16.6	50.3	26.5	20.5	26.6	27.3
Power & others	-0.1	-0.2	0.1	0.4	-0.2	-0.1	0.1	0.2	-0.1
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
EBIT margin (%)									
Shrimp feed	11.8	10.2	11.8	11.9	4.1	11.1	12.2	11.7	8.7
Processed Shrimp	12.9	8.5	10.8	8.5	10.3	11.3	13.7	16.2	9.2
Power & others	-68.0	-99.1	-13.9	88.5	-71.1	34.0	-11.0	-49.3	14.4
Total	12.0	9.8	11.7	11.2	5.9	11.1	12.5	12.7	8.8

Source: Company data, I-Sec research

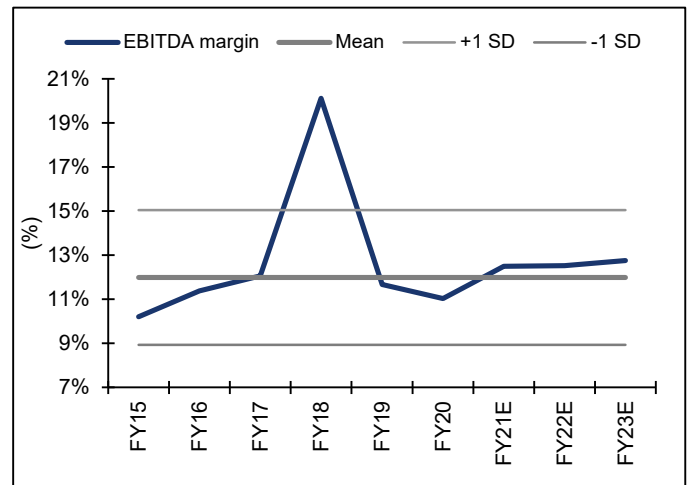
Key operational highlights – Annual (Consolidated)

Chart 3: Revenues and growth rates



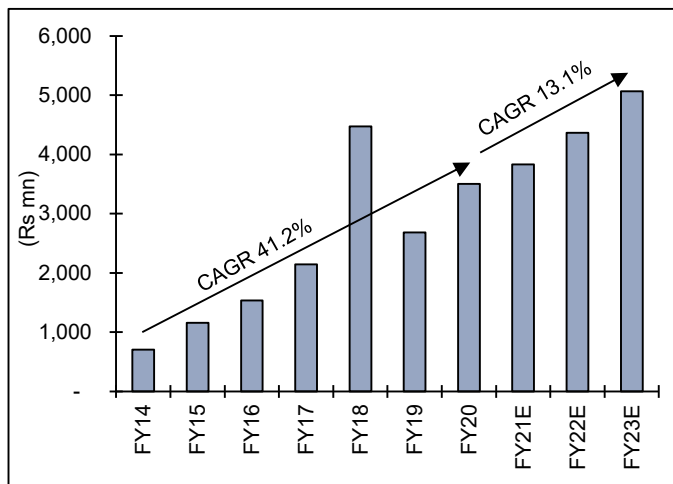
Source: Company data, I-Sec research

Chart 4: EBITDA margin



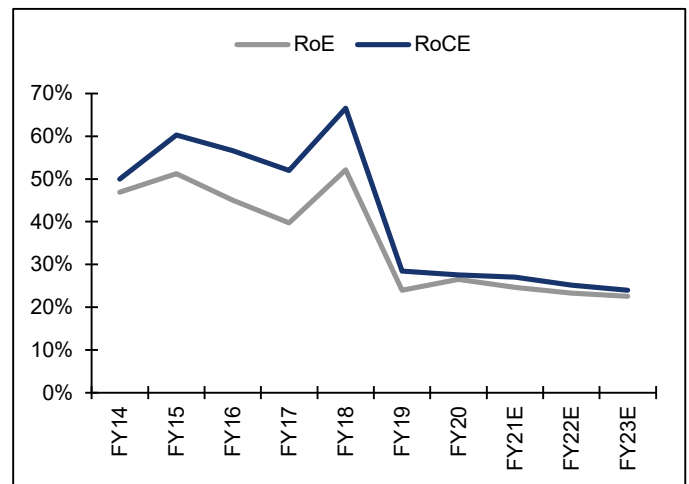
Source: Company data, I-Sec research

Chart 5: PAT and growth rates



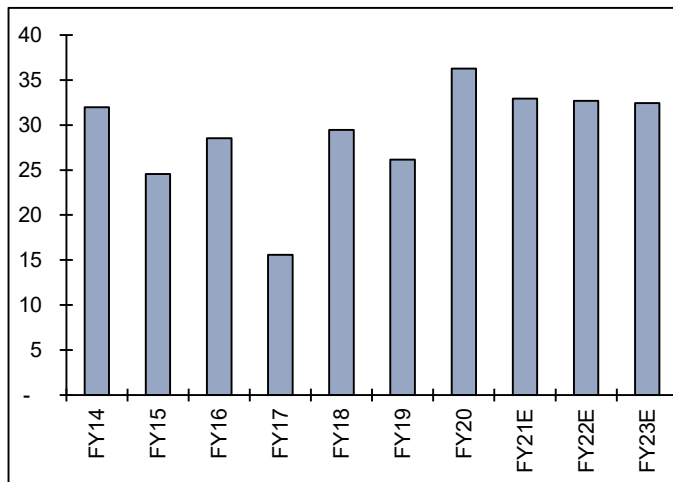
Source: Company data, I-Sec research

Chart 6: RoE & RoCE



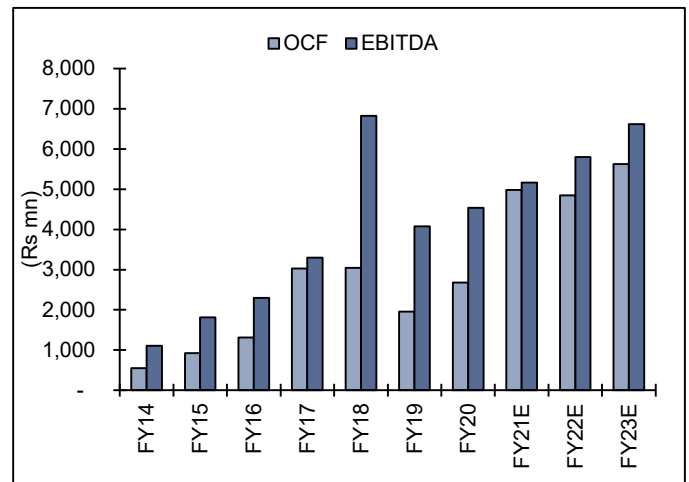
Source: Company data, I-Sec research

Chart 7: Net working capital days



Source: Company data, I-Sec research

Chart 8: OCF and EBITDA



Source: Company data, I-Sec research

Valuation and risks

We expect Avanti to report revenue and PAT CAGRs of 8% and 13.1% over FY20-FY23 and expect RoE to move to 22.5% in FY23 from 26.5% in FY20. We value the stock on DCF basis with a target price of Rs560 (earlier: Rs590). At the target price, the implied P/E works out to 15x on FY23E EPS. Maintain ADD.

Table 2: DCF-based valuation

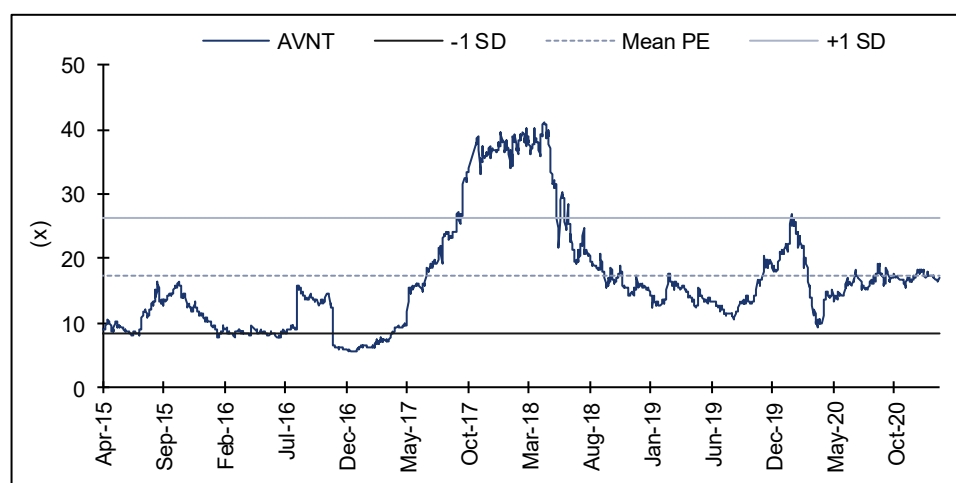
Particulars	Amt (Rs)
Cost of Equity	12.4
Terminal growth rate	3.0
Discounted interim cash flows	37,931
Discounted terminal value	38,366
Total equity value	76,297
Value per share (Rs)	560

Source: Company data, I-Sec research

Mean P/E and standard valuation

The stock has traded at an average P/E of 18x over the past four 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	FY21E	FY22E	FY23E
Net Sales	41,153	41,309	46,286	51,877
Operating Expenses	36,614	36,148	40,490	45,258
EBITDA	4,539	5,161	5,796	6,619
% margins	11.0	12.5	12.5	12.8
Depreciation & Amortisation	377	331	377	417
Gross Interest	20	15	15	15
Other Income	702	929	1,147	1,416
Recurring PBT	4,844	5,744	6,550	7,602
Less: Taxes	986	1,465	1,670	1,939
Less: Minority Interest	356	447	516	594
Net Income (Reported)	3,502	3,832	4,364	5,069
Extraordinaries (Net)	(10)	-	-	-
Recurring Net Income	3,492	3,832	4,364	5,069

Source: Company data, I-Sec research

Table 4: Balance sheet

(Rs mn, year ending March 31)

	FY20	FY21E	FY22E	FY23E
Assets				
Total Current Assets	8,709	7,328	8,463	10,464
of which cash & cash eqv.	1,986	711	1,079	2,222
Total Current Liabilities & Provisions	2,634	2,892	3,240	3,631
Net Current Assets	6,075	4,437	5,223	6,833
Investments	7,123	12,123	15,123	18,123
Net Fixed Assets	2,709	3,037	3,159	3,242
Capital Work-in-Progress	259	-	-	-
Total Assets	16,165	19,596	23,505	28,198
Liabilities				
Borrowings	172	172	172	172
Deferred Tax Liability	45	45	45	45
Minority Interest	1,911	2,368	2,893	3,498
Equity Share Capital	136	136	136	136
Face Value per share (Rs)	10	10	10	10
Reserves & Surplus*	13,901	16,874	20,258	24,346
Less: Misc. Exp. n.w.o.	-	-	-	-
Net Worth	14,037	17,011	20,394	24,482
Total Liabilities	16,165	19,596	23,505	28,198

Source: Company data, I-Sec research

Table 5: Quarterly trend

(Rs mn, year ending March 31)

	Mar 20	June 20	Sept 20	Dec 20
Net sales	10,348	9,554	11,316	9,154
% growth (YoY)	20.7	(12.6)	6.3	(0.8)
EBITDA	1,246	1,291	1,534	922
Margin (%)	12.0	13.5	13.6	10.1
Other income	116	274	187	282
Extraordinaries (Net)	3	(3)	2	(16)
Adjusted Net profit	873	1,038	1,115	734

Source: Company data, I-Sec research

Table 6: Cashflow statement

(Rs mn, year ending March 31)

	FY20	FY21E	FY22E	FY23E
Operating Cashflow	4,267	4,620	5,267	6,091
Working Capital Changes	(1,592)	364	(418)	(467)
Capital Commitments	(329)	(400)	(500)	(500)
Free Cashflow	2,346	4,584	4,349	5,124
Cashflow from Investing Activities	(473)	(5,000)	(3,000)	(3,000)
Issue of Share Capital	-	-	-	-
Inc (Dec) in Borrowings	(109)	-	-	-
Dividend paid	(834)	(858)	(981)	(981)
Change in Deferred Tax Liability	-	-	-	-
Chg. in Cash & Bank balance	930	(1,275)	368	1,143

Source: Company data, I-Sec research

Table 7: Key ratios

(Year ending March 31)

	FY20	FY21E	FY22E	FY23E
Per Share Data (Rs)				
EPS	25.7	28.1	32.0	37.2
Cash EPS	28.5	30.6	34.8	40.3
Dividend per share (DPS)	5.1	5.3	6.0	6.0
Book Value per share (BV)	103.4	125.2	150.0	180.0
Growth (%)				
Net Sales	18.0	0.4	12.0	12.1
EBITDA	11.5	13.7	12.3	14.2
PAT	30.5	9.4	13.9	16.2
Cash EPS	27.5	7.3	13.9	15.7
Valuation Ratios (x)				
P/E	19.6	17.9	15.7	13.5
P/CEPS	17.7	16.5	14.5	12.5
P/BV	4.9	4.0	3.4	2.8
EV / EBITDA	13.6	12.0	10.7	9.3
EV / Sales	1.5	1.5	1.3	1.2
Operating Ratios				
Raw Material / Sales (%)	79.3	78.1	77.8	77.6
Employee cost / Sales (%)	2.8	2.8	3.0	3.0
SG&A / Sales (%)	1.4	1.4	1.4	1.4
Other Income / PBT (%)	14.5	16.2	17.5	18.6
Effective Tax Rate (%)	20.3	25.5	25.5	25.5
Working Capital (days)	9.9	9.0	9.0	8.9
Inventory Turnover (days)	48.2	47.5	47.5	47.5
Receivables (days)	7.9	7.3	7.3	7.3
Payables (days)	23.2	23.7	23.7	23.7
Net D/E (x)	(0.5)	(0.6)	(0.6)	(0.7)
Profitability Ratios (%)				
Net Income Margins	9.4	10.4	10.5	10.9
RoACE	27.6	27.0	25.1	24.0
RoAE	26.5	24.6	23.3	22.5
Dividend Payout	19.8	18.7	18.7	16.1
Dividend Yield	1.0	1.0	1.2	1.2
EBITDA Margins	11.0	12.5	12.5	12.8

Source: Company data, I-Sec research

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