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Q1FY23 results review
and Earnings/TP
revision

Agriculture

Target price Rs510

Earnings revision

(%)	FY23E	FY24E
Sales	↑ 3.6	↑ 3.6
EBITDA	↓ 13.7	↓ 10.4
EPS	↓ 13.6	↓ 12.1

Target price revision

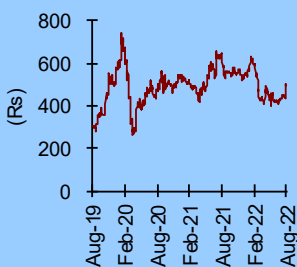
Rs510 from Rs500

Shareholding pattern

	Dec '21	Mar '22	Jun '22
Promoters	43.7	43.7	43.7
Institutional investors	23.2	23.3	22.8
MFs and others	6.1	8.1	8.6
Banks, FIs	0.0	0.0	0.0
FIs	17.1	15.3	14.2
Others	33.1	33.0	33.5

Source: BSE

Price chart



INDIA

Avanti Feeds

ADD
Maintained

Correction in commodity cost stabilizes margins **Rs470**

Led by strong growth in the processed shrimp segment (up 55% YoY), Avanti feeds reported revenue growth of 11.4% YoY during the quarter. Key takeaways: (1) EBITDA margin was largely stable YoY, despite improvement in gross margin (79bps YoY); we believe correction in soy meal and fish meal prices were chief reasons and (2) all segments reported growth YoY, ex-shrimp hatchery with improving demand with re-opening up of economy. We believe revival in HoReCA segment in USA has resulted in strong off-take of processed shrimps. Avanti's capacity expansion plans will likely result in strong volume growth for shrimp feed. We model Avanti to report a PAT CAGR of 29.5% over FY22-FY24E and maintain ADD on the stock, with a revised DCF based target price of Rs510 (implied 17x FY24E EPS; Rs500 earlier).

- **Q1FY23 performance:** Avanti reported revenue growth of 11.4% YoY. While EBITDA grew 9.7% YoY, adj. PAT was down 4.6% during the quarter. (3-year revenue and EBITDA CAGR: 12.8% and -8.7%, respectively). We believe decline in Soybean meal and fishmeal prices resulted in gross margin expansion of 79bps YoY. However, higher staff costs and other expenses as % of sales resulted in flat EBITDA margin YoY. PAT margin was down 104bps YoY, due to higher effective income tax rate.
- **Segmental performance:** Shrimp feed and processed shrimp segments reported revenue growth of 5.4% and 55% YoY respectively, in Q1FY23. We believe, strong revival in HoReCa in USA is leading to strong revenue growth in processed shrimp segment. Operating margins for the segment expanded 378bps YoY. We note Shrimp Hatchery revenue declined 9.2% YoY. We model all the segments to report steady recovery with re-opening up of economy.
- **Capacity expansion to drive volume growth:** Avanti has invested in a new facility for capacity expansion for shrimp feed in Bandapuram, Andhra Pradesh. This plant will expand capacity by 175,000mtpa. We believe the commencement of the new plant will likely result in growth of shrimp feed for the company.
- **Maintain ADD:** We model Avanti to report revenue and PAT CAGRs of 15.4% and 29.5% respectively over FY22-FY24E. We also expect its RoE to be at 19% in FY24E. Maintain **ADD** with a revised DCF-based target price of Rs510 (implied P/E 17x FY24E EPS) from Rs500 earlier. Key risks: higher than expected input inflation, and lower than expected offtake of products.

Market Cap	Rs64bn/US\$805mn	Year to March	FY21	FY22P	FY23E	FY24E
Reuters/Bloomberg	AVNT.BO/AVNT IN	Revenue (Rs mn)	41,006	50,360	57,553	67,054
Shares Outstanding (mn)	136.2	Adj. Net Profit (Rs mn)	3,601	2,491	3,425	4,180
52-week Range (Rs)	655/403	Dil. Rec. EPS (Rs)	26.4	18.3	25.1	30.7
Free Float (%)	56.3	% Chg YoY	3.9	(30.8)	37.5	22.0
FII (%)	14.2	P/E (x)	17.8	25.7	18.7	15.3
Daily Volume (US\$'000)	1,855	CEPS (Rs)	29.4	21.3	28.9	35.1
Absolute Return 3m (%)	18.0	EV/EBITDA (x)	12.4	17.7	12.6	10.2
Absolute Return 12m (%)	(18.0)	Dividend Yield (%)	1.1	1.3	1.3	1.3
Sensex Return 3m (%)	10.6	RoCE (%)	23.1	13.5	17.5	19.0
Sensex Return 12m (%)	10.2	RoE (%)	22.7	12.1	17.0	18.2

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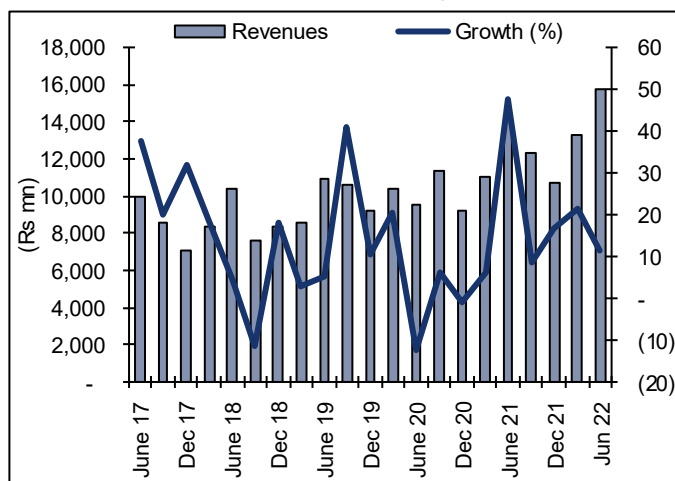
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Table 1: Q1FY23 financial performance*(Rs mn, year ending March 31)*

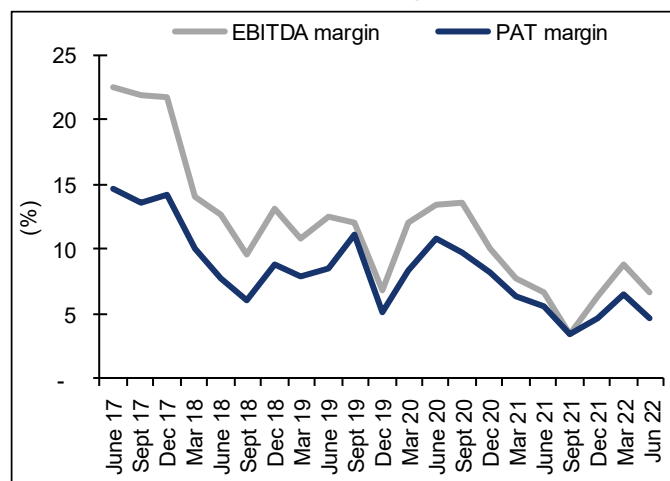
Y/e March	Q1FY23	Q1FY22	YoY gr.	Q4FY22	QoQ gr.
Revenue	15,693	14,088	11.4	13,322	17.8
Expenditure					
Raw materials	13,147	11,914	10.4	10,936	20.2
% of revenue	83.8	84.6		82.1	
Employee cost	400	351	14.1	331	20.8
% of revenue	2.6	2.5		2.5	
Other expenditure	1,106	875	26.3	886	24.9
% of revenue	7.0	6.2		6.6	
Total expenditure	14,653	13,140	11.5	12,153	20.6
EBITDA					
EBITDA	1,040	948	9.7	1,169	(11.1)
<i>EBITDA margin</i>	6.6	6.7		8.8	
Other income	123	213	(42.1)	162	(24.1)
PBDIT	1,163	1,161	0.2	1,332	(12.7)
Depreciation	98	104	(5.2)	98	0.5
PBIT	1,065	1,057	0.7	1,234	(13.7)
Interest	3	3	(2.6)	4	(26.5)
PBT	1,062	1,054	0.8	1,230	(13.6)
Prov for tax	267	221	21.1	291	(8.1)
% of PBT	25.2	20.9		23.6	
Adjusted PAT	795	833	(4.6)	939	(15.4)
Extra ordinary items	(67)	(70)	(4.3)	(14)	363.3
Minority interest	68	35		74	
Reported PAT	659	728	(9.4)	850	(22.4)

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

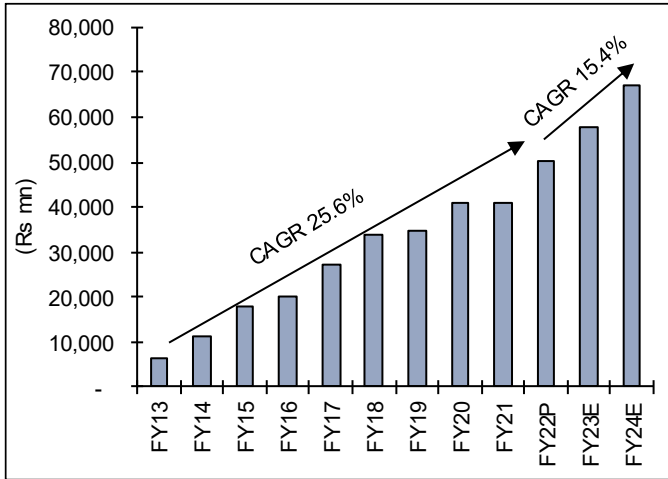
Table 2: Segmental details

Revenues (Rs mn)	June 20	Sept 20	Dec 20	Mar 21	June 21	Sept 21	Dec 21	Mar 22	Jun 22
Shrimp feed	7,774	8,964	6,768	8,807	12,361	9,599	8,074	10,363	13,025
Processed shrimp	1,793	2,358	2,391	2,089	1,700	2,655	2,622	2,939	2,636
Power & others	(12)	(5)	(4)	86	27	5	(7)	20	32
Total	9,554	11,316	9,154	10,981	14,088	12,260	10,689	13,322	15,693
Growth (%)									
Shrimp feed	(14.3)	7.7	2.9	15.2	59.0	7.1	19.3	17.7	5.4
Processed Shrimp	(4.4)	1.8	(9.8)	(22.8)	(5.2)	12.6	9.7	40.7	55.0
Power & others	41.1	(189.8)	(372.5)	(2,107.9)	(319.5)	(203.1)	57.2	(76.4)	19.1
Total	(12.6)	6.3	(0.8)	6.1	47.5	8.3	16.8	21.3	11.4
As % of Total									
Shrimp feed	81	79	74	80	88	78	76	78	83
Processed Shrimp	19	21	26	19	12	22	25	22	17
Power & others	(0)	(0)	(0)	1	0	0	(0)	0	0
Total	100	100	100	100	100	100	100	100	100
EBIT (Rs mn)									
Shrimp feed	950	1,053	586	774	768	13	404	929	742
Processed Shrimp	245	382	220	(69)	70	330	188	154	207
Power & others	1	3	(1)	47	7	(20)	(19)	(11)	(8)
Total	1,197	1,438	805	752	844	323	573	1,072	942
As % of Total									
Shrimp feed	79	73	73	103	91	4	70	87	79
Processed Shrimp	21	27	27	(9)	8	102	33	14	22
Power & others	0	0	(0)	6	1	(6)	(3)	(1)	(1)
Total	100	100	100	100	100	100	100	100	100
EBIT margin (%)									
Shrimp feed	12.2	11.7	8.7	8.8	6.2	0.1	5.0	9.0	5.7
Processed Shrimp	13.7	16.2	9.2	(3.3)	4.1	12.4	7.2	5.2	7.9
Power & others	(11.0)	(49.3)	14.4	55.1	26.1	(357.6)	265.8	(53.9)	(23.7)
Total	12.5	12.7	8.8	6.8	6.0	2.6	5.4	8.0	6.0

Source: Company data, I-Sec research

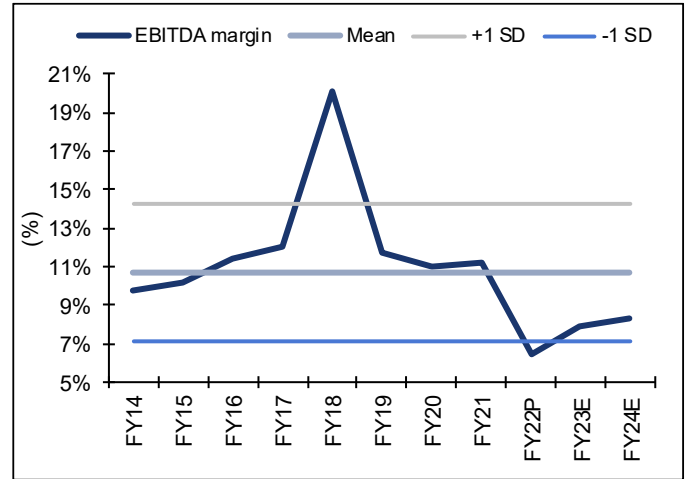
Key operational highlights – Annual (consolidated)

Chart 3: Revenues and growth rates



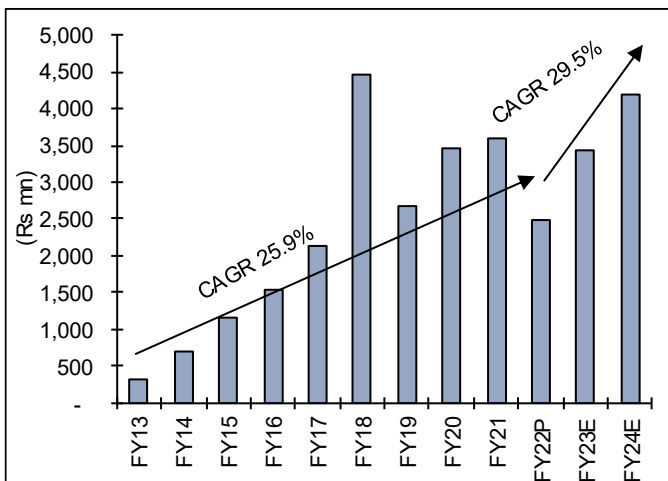
Source: Company data, I-Sec research

Chart 4: EBITDA margins



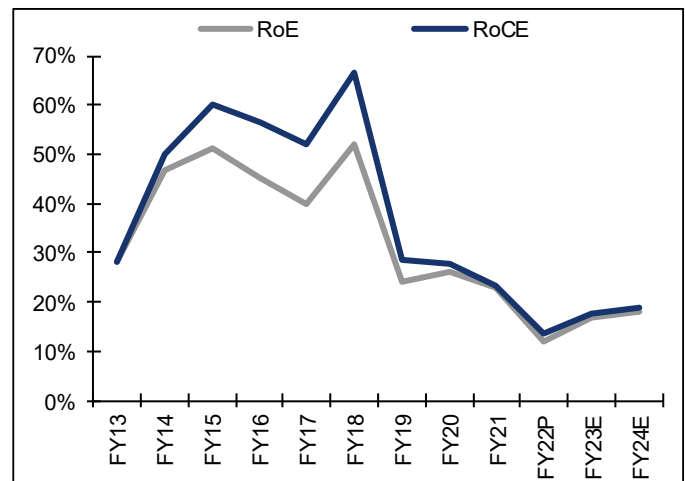
Source: Company data, I-Sec research

Chart 5: PAT and growth rates



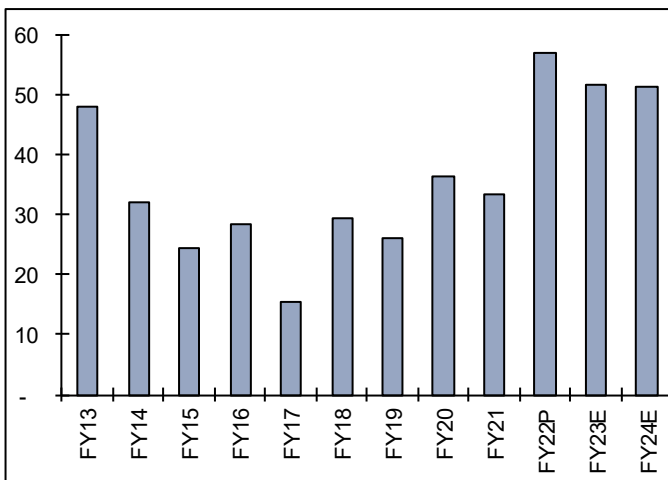
Source: Company data, I-Sec research

Chart 6: RoE and RoCE



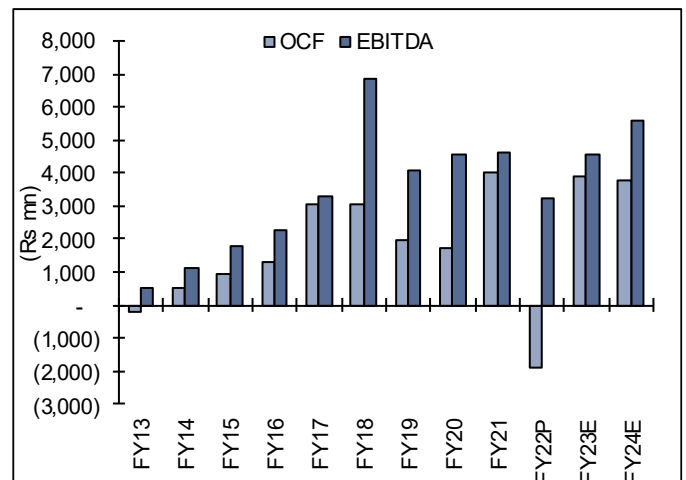
Source: Company data, I-Sec research

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 15.4% and 29.5% over FY22-FY24 and expect RoE to move to 19% in FY24E from 12.1% in FY22. We value the stock on DCF basis with a revised target price of Rs510 (earlier: Rs500). At the target price, the implied P/E works out to 17x FY24E EPS.

Table 3: DCF-based valuation

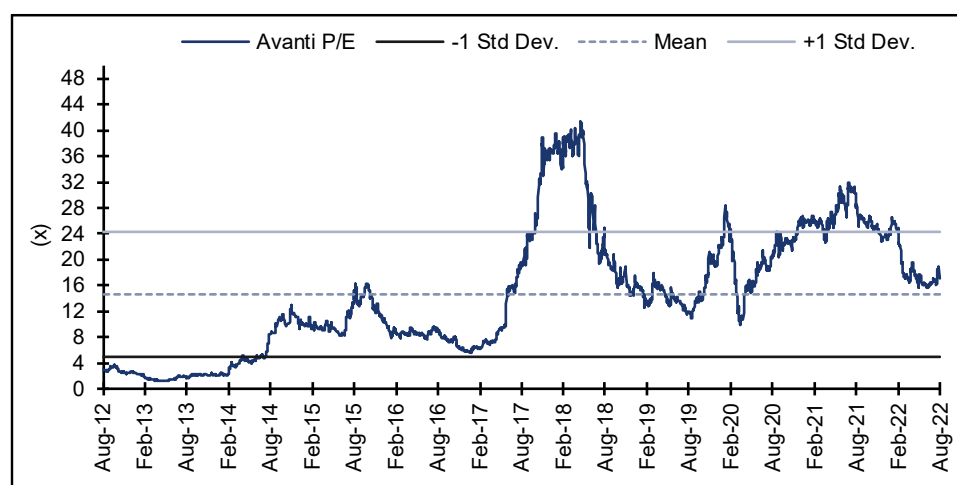
Particulars	
Cost of Equity (%)	11.9
Terminal growth rate (%)	3.0
Discounted interim cash flows (Rsmn)	33,837
Discounted terminal value (Rsmn)	35,648
Total equity value (Rsmn)	69,485
Value per share (Rs)	510

Source: Company data, I-Sec research

Mean P/E and standard valuation

The stock has traded at an average P/E of 14x over the past 10 years.

Chart 9: Mean P/E and standard deviation



Source: Company data, I-Sec research

Risks

Lower than expected offtake of value-added products

Failure of one or more 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 4: Profit & Loss statement

(Rs mn, year ending March 31)

	FY21	FY22P	FY23E	FY24E
Net Sales	41,006	50,360	57,553	67,054
Operating Expenses	36,404	47,139	53,022	61,494
EBITDA	4,601	3,220	4,531	5,560
% margins	11.2	6.4	7.9	8.3
Depreciation & Amortisation	409	408	510	598
Gross Interest	17	20	16	16
Other Income	926	817	971	1,098
Recurring PBT	5,101	3,609	4,976	6,044
Less: Taxes	1,123	787	1,269	1,541
Less: Minority Interest	377	331	282	323
Net Income (Reported)	3,601	2,491	3,425	4,180
Extraordinaries (Net)	(4)	(288)	-	-
Recurring Net Income	3,597	2,203	3,425	4,180

Source: Company data, I-Sec research

Table 5: Balance sheet

(Rs mn, year ending March 31)

	FY21	FY22P	FY23E	FY24E
Assets				
Total Current Assets	7,093	12,131	12,563	15,136
of which cash & cash eqv.	608	747	87	645
Total Current Liabilities & Provisions	2,734	3,510	4,316	5,029
Net Current Assets	4,359	8,621	8,247	10,107
Investments	12,718	9,889	12,889	14,389
Net Fixed Assets	2,924	2,726	3,215	3,367
Capital Work-in-Progress	60	400	-	-
Total Assets	20,063	21,635	24,351	27,863
Liabilities				
Borrowings	193	178	178	178
Deferred Tax Liability	(26)	(17)	(17)	(17)
Minority Interest	2,283	2,520	2,792	3,105
Equity Share Capital	136	136	136	136
Face Value per share (Rs)	10	10	10	10
Reserves & Surplus*	17,476	18,818	21,262	24,461
Less: Misc. Exp. n.w.o.	-	-	-	-
Net Worth	17,612	18,954	21,398	24,597
Total Liabilities	20,063	21,635	24,351	27,863

Source: Company data, I-Sec research

Table 6: Quarterly trend

(Rs mn, year ending March 31)

	Sept 21	Dec 21	Mar 22	Jun 22
Net sales	12,260	10,689	13,322	15,693
% growth (YoY)	8.3	16.8	21.3	11.4
EBITDA	427	676	1,169	1,040
Margin (%)	3.5	6.3	8.8	6.6
Other income	256	186	162	123
Extraordinaries (Net)	(206)	(93)	(14)	(67)
Adjusted Net profit	224	401	850	659

Source: Company data, I-Sec research

Table 7: Cashflow statement

(Rs mn, year ending March 31)

	FY21	FY22P	FY23E	FY24E
Operating Cashflow	3,684	2,497	4,207	5,091
Working Capital Changes	345	(4,358)	(287)	(1,303)
Capital Commitments	(427)	(549)	(600)	(750)
Free Cashflow	3,601	(2,411)	3,321	3,038
Cashflow from Investing Activities	(3,303)	3,452	(3,000)	(1,500)
Issue of Share Capital	-	-	-	-
Inc (Dec) in Borrowings	31	3	-	-
Dividend paid	(18)	(861)	(981)	(981)
Change in Deferred Tax Liability	-	-	-	-
Chg. in Cash & Bank balance	312	184	(660)	557

Source: Company data, I-Sec research

Table 8: Key ratios

(Year ending March 31)

	FY21	FY22P	FY23E	FY24E
Per Share Data (Rs)				
EPS	26.4	18.3	25.1	30.7
Cash EPS	29.4	21.3	28.9	35.1
Dividend per share (DPS)	5.3	6.3	6.0	6.0
Book Value per share (BV)	129.1	139.0	156.9	180.4
Growth (%)				
Net Sales	(0.4)	22.8	14.3	16.5
EBITDA	1.4	(30.0)	40.7	22.7
PAT	3.9	(30.8)	37.5	22.0
Cash EPS	4.4	(27.7)	35.8	21.4
Valuation Ratios (x)				
P/E	17.8	25.7	18.7	15.3
P/CEPS	16.0	22.1	16.3	13.4
P/BV	3.6	3.4	3.0	2.6
EV / EBITDA	12.4	17.7	12.6	10.2
EV / Sales	1.4	1.1	1.0	0.8
Operating Ratios				
Raw Material / Sales (%)	78.2	84.2	82.0	81.6
Employee cost / Sales (%)	3.1	2.5	2.9	2.9
SG&A / Sales (%)	0.9	6.9	1.0	1.0
Other Income / PBT (%)	18.1	22.6	19.5	18.2
Effective Tax Rate (%)	22.0	21.8	25.5	25.5
Working Capital (days)	33.4	57.1	51.7	51.5
Inventory Turnover (days)	49.2	71.6	69.4	69.4
Receivables (days)	5.9	8.2	7.3	7.3
Payables (days)	24.1	25.4	25.6	25.6
Net D/E (x)	(0.6)	(0.4)	(0.4)	(0.4)
Profitability Ratios (%)				
Net Income Margins	9.7	5.6	6.4	6.7
RoACE	23.1	13.5	17.5	19.0
RoAE	22.7	12.1	17.0	18.2
Dividend Payout	19.9	34.2	23.9	19.6
Dividend Yield	1.1	1.3	1.3	1.3
EBITDA Margins	11.2	6.4	7.9	8.3

Source: Company data, I-Sec research

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