Avanti Feeds Ltd.: Q4FY18 Result Update

Continuing to deliver in spite of challenges

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In spite of strong headwinds Avanti deliveries strongest Q4 till date, however margins come under pressure. Avanti business has seasonality and way forward both businesses will complement each other over seasonality. The shrimp processing business is seasonally weakest in Q4, however, its feed business do healthy business in Q4. The company had also taken onetime shut down of its processing plant for renovation for two month in Q4FY18. Revenues grew by 24% at INR 834 cr in Q4FY18 from INR 672 cr in Q4FY17, below our estimation. EBITDA margin stood at 14% in Q4FY18 (down 470bps y-o-y) were also below our estimates of 16%. AVANTI has reported EBITDA of INR 117cr for Q4FY18 (down 7% y-o-y). PAT at INR 86 cr in Q4FY18 was lower by 3% compared to INR 89 cr of Q4FY17. We are revising our earnings estimates downward by 14% for FY19E and ~ 20% for FY20E considering sector headwinds in shrimp processing business and reduction in gross margins in feed business. We are re-iterating "BUY" with a revised target price of INR 2,600 (earlier INR 3,300).

Feeds Business – Steady march towards 47% market share.

The total volume of feed sales for the Q4FY18 and FY18 was 104,394 MT and 430,314 MT respectively. This implies an 11% and 26% growth over Q4FY17 and FY17 respectively. The total revenues of feed sales for the Q4FY18 and FY18 were INR 725 cr (up 19% y-o-y) and INR 2,810 cr (up 26% y-o-y), respectively. These were the highest volumes and revenues achieved by the company for Q4 and financial year till date. However, EBIT margins in feed business for the quarter contracted by 470 bps y-o-y to 14% and EBIT de-grew by 10% y-o-y to INR 102cr mainly due to sharp increase in raw material prices specially fish meal and soya bean price. The fish meal prices increased to INR 120 per Kg compared to the average price for FY18 of INR 90 per Kg. However, it has normalized to range of INR 95-99 per Kg and is expected to decline further, management has guided for an average rate of INR 95 per Kg for FY19. The soya bean prices rose to more than INR 42 per Kg in Q4FY18 and it's also currently declined to INR 35-40 per kg. We believe it will be around INR 35 per kg for FY19 against INR 30 per Kg in FY18. We expect the strong revenue and volume growth to continue in FY19 with the company achieving net sales of 520,000 MT and EBITDA margins of ~17%.

Shrimp processing business – Bigger, Faster, Stronger

The total volume of processed shrimp's sales for the Q4FY18 and FY18 was 1,578 MT and 7,856 MT, respectively. This implies an 81% and 52% growth over Q4FY17 and FY17 respectively. The total revenue for Q4FY18 and FY18 was INR 109 cr and INR 581 cr, respectively. This implies a 73% and 50% growth over Q4FY17 and FY17 respectively. These too were the highest volumes and revenues achieved by the company for Q4 and financial year till date in shrimp processing business. It must be noted that the company was able to achieve these numbers in spite of plant shut down for a period of two months during Q4FY18. The EBIT margins for the quarter contracted by 660 bps y-o-y to ~7%, mainly due to two month shut down of old plant and price correction. We continue to believe that the processing business will rapidly grow with its new plant of 15,000 MT on stream, taking the overall capacity to 22,000 MT, furthermore this plant will enable the company to make value added cooked/ready-to-eat products which will fetch higher realizations. We expect the company to repeat its stellar performance in FY19 with the company achieving sales volume of 16,000 MT and EBITDA margins of ~16%.

Outlook and valuations; Re-iterate – BUY

Avanti feeds is the undisputed leader in the shrimp feeds business with 43% market share, with its expansion in shrimp processing will ensure robust future revenue growth. Its partnership with Thai Union of Thailand in both its business are added positives. We assign a target multiple of 20x FY20E P/E and hence arrive at a Target Price of INR 2,600 (INR 3,300 earlier).

Year to March (INR cr)	Q4FY18	Q4FY17	% change	Q3FY18	% change	FY18	FY19E	FY20E
Net sales	834	672	24.2%	706	18.1%	3,393	4,534	5,270
Growth (%)								
EBITDA	117	126	-7.0%	154	-23.5%	683	772	906
PAT	83	86	-3.5%	100	-17.0%	445	497	599
Dil. EPS (INR)	18.3	18.9	-3.2%	22.13	-17.5%	98	109	132
Diluted P/E (x)								
EV/EBITDA (x)								
ROACE (%)						53.4%	40.0%	35.1%

Bloomberg:	AVNT:IN
52-week range (INR):	2,940/1,235
Share in issue (cr):	9.08
M cap (INR cr):	8,700
Avg. Daily Vol. BSE/NSE :('000):	100
Promoter Holding (%)	43.78

Date: 11th June 2018

Q4FY18 Result Highlights

Particulars	Q4FY18	Q4FY17	% change	Q3FY18	% change	FY18	FY19E	FY20E
Income from operations	834	672	24%	706	18%	3,393	4,534	5,270
Cost of goods sold	640	481	33%	480	34%	2,410	3,373	3,911
Employee expenses	26	22	18%	26	-2%	111	136	158
Other expenses	51	42	21%	47	8%	301	390	453
Total operating expenses	717	545	31%	553	30%	2,710	3,762	4,364
EBITDA	117	126	-7%	154	-24%	683	772	906
Depreciation and amortization	8	4	103%	7	10%	24	29	29
EBIT	110	123	-10%	147	-25%	659	743	877
Interest expenses	0	2	-89%	1	-78%	3	3	3
Other income	15	10	52%	16	-7%	48	65	102
PBT	125	131	-5%	162	-23%	704	805	976
Provision for tax	38	43	-10%	56	-32%	238	266	322
Core profit	86	89	-3%	105	-18%	466	539	654
Minority Interest	3	3	2%	5	-32%	-21	-43	-55
Adjusted net profit	83	86	-3%	100	-17%	445	497	599
No. of shares (Cr)	9	9		9		9	9	9
Diluted EPS (INR)	18.26	18.87		22.13		98	109	132

P&L sensitivity metrics – Avanti Feeds

Feeds	Impact (%) FY19E				Impact (%) FY20E			
	INR/Volume	Sales	EBITDA	EPS	INR/Volume	Sales	EBITDA	EPS
Feeds Prices (INR per kg)	65.3				65.3			
Impact of INR 1 increase		1%	6%	6%		1%	6%	6%
Impact of INR 2 increase		2%	12%	13%		2%	12%	12%
Impact of INR 1 decrease		-1%	-6%	-7%		-1%	-6%	-7%
Impact of INR 2 decrease		-2%	-12%	-14%		-2%	-12%	-14%
Feed Volume (MT)	5,20,000				5,82,000			
Impact of +5% increase		4%	3%	3%		4%	3%	3%
Impact of +10% Increase		7%	7%	7%		7%	7%	6%
Impact of -5% decrease		-4%	-3%	-4%		-4%	-3%	-4%
Impact of -10% decrease		-7%	-7%	-7%		-7%	-7%	-7%

Through this part of the note, we have tried to address some of concerns rasied in the past few days.

Concern 1. Over Supply of shrimp globally leading to price correction.

What has caused this correction?

There has been heavy inventory pile up in the US in Q3. Following which production of shrimp was higher in China, Thailand, and Vietnam as well as in India. This production growth has been achieved by taking effective disease control measures adopted by EMS affected countries. As a result, there was an oversupply. The season for shrimps in India was also preponed by a month and started early this year, when the farmers went in for an early harvest due to the panic cause by the fall in prices adding to the problem of oversupply.

How deep is the damage?

As per media report the shrimp production is expected to drop to 2.5 lakh tonne this year from 4 lakh tonne. The current production of shrimp in the country is over 6 lakh tonne as per government record. However, the drop to 2.5 lakh tonne from 6 lakh tons is irrational said two highly reputed experts from the industry we spoke too. They believe that shrimp production will only grow, may be at lower rate than FY18.

What is the way ahead?

China remains an Importer of shrimp and is on its way to become the largest Importer of shrimp in the coming years. China will slash import tariffs on over 200 seafood products including shrimps on July 1,2018; as part of a wider tariff reduction on consumer goods. The overall tariff reduction across all products amounts to a drop from 15.7% to 6.9%. Both Vietnam and Thailand are cutting back on the second crop this season. Also, it has being observed that they will maximum achieve 2 lakh tonne in year and not 7 lakh which was the highest they did 4 years back prior to EMS breaakout. Experts believe that the situation related to global shrimp demand should normalize by August – September this year, when the demand picks up for the holiday season and Chinese New-year.

Concern 2. US hits shrimp exporters with non-tariff barrier (SIMP)

What is SIMP?

The Seafood Import Monitoring Program (SIMP) establishes, for imports of certain seafood products, the reporting and recordkeeping requirements needed to prevent illegal, unreported and unregulated (IUU) fishing and/or misrepresented seafood from entering U.S.

Will SIMP hurt Indian Shrimp exports?

No, it will instead boost exports from India. As India's farmed shrimp is traceable to the source of its farms.

When will SIMP come into effect?

SIMP will come into effect from January 1, 2019.

What are the Indian authorities doing?

The Marine Products Export Development Authority (MPEDA) has enrolled about 42,000 aqua farmers in the coastal districts of Andhra Pradesh. Officials are planning to distribute identity cards to the shrimp farmers shortly.

The Aqua Farm Enrolment Card is like a master card with a QR Code which carries complete information of the producer and the pond or the farm including the survey number and the GPS location, the ownership/lease documents, the phone number, the photograph and the type of culture [species].

Key takeways from management meeting

1. **Market-share:** The management expected that India to continue to gain market share in all major markets across the globe, due to the quality of Indian Shrimp and the marginally lower prices.

2. **Explore other markets:** For the growth in shrimp Aquaculture in India to grow the country will have to look at other markets than US. The company has got good orders from China.

3. **Domestic Feed Market-share:** Avanti is gaining shrimp feed market share in all shrimp produing states. Avanti has 55%/50%/43%/50% market share in AP/TN/Orissa/WB, respectively of which the company has gained significant market share in WB & Orrisa from nearest big player,who is continuously loosing market share. Also, Avanti is aggressivly looking to gain market share in Gujarat by proving lot of technical supports to farmers. Avanti expected to increase India feed market-share up to 52% in near future.

4. **Domestic Feed prices:** The prices were constant from past several years, last price increase was taken in FY14 by INR 9 per kg. The company has not taken any reduction in prices and expected not to take in near future.
    a. The company has achieved a FCR of 0.9, which nobody else has done till date, while keeping its quality and prices superior than other players.

5. **Raw material prices**: The prices of major raw material for shrimp feed has stablised as per management from their peak at the start of CY18. The fishmeal prices has come down to INR 93 per kg from high of INR 120 per kg. The soyabean prices have also strated correcting with the new season.

6. **Shrimp Prices:** As per management, the export prices have come down by 10% and farm gate prices by 25%. The supply and demand determine the export prices of Shrimp and accordingly the farm gate prices move, which has bottomed out as per management.

7. **Avanti - Shrimp processing business:**
    a. Chicken-of-the-sea will give first preference to Avanti against other players, as per management. Avanti is getting orders from China as well with the new capacity.
    b. Avanti is buying shimps from all farmers irrespective of whether they are using Avanti feeds or not, however, ~60% of the farmers are using Avanti Feeds only.
    c. The new plant capacity can be doubled without much capex.

8. **Others:**
    a. The company does not believe in any rash decides, and will study any market or product before investing its existing cash. The company is planning to bring in aquaculture products which are currently not there in India. The company is also contemplating entering newer markets outside of India.
    b. The company does not have any maintenance capex. The company will incur a capex of INR 10 cr in FY19 for building a hatchery.

Financials

Income statement (INR crs)

Year to March	FY16	FY17	FY18	FY19E	FY20E
Income from operations	2,018	2,733	3,393	4,534	5,270
Direct costs	1,555	2,105	2,410	3,373	3,911
Employee costs	58	73	111	136	158
Other expenses	233	296	301	390	453
Total operating expenses	1,788	2,401	2,710	3,762	4,364
EBITDA	230	332	683	772	906
Depreciation and amortisation	10	14	24	29	29
EBIT	220	318	659	743	877
Interest expenses	3.4	4.9	3	3	3
Other income	21	22	48	65	102
Profit before tax	238	335	704	805	976
Provision for tax	79	108	238	266	322
Core profit	159	227	466	539	654
Extraordinary items	-4	-1	0	0	0
Profit after tax	155	226	466	539	654
Minority Interest	-1	-0	-21	-43	-55
Share from associates	0	0	0	0	0
Adjusted net profit	153	226	445	497	599
Equity shares outstanding (Cr)	5	5	5	5	5
EPS (INR) basic	34	50	98	109	132
Diluted shares (Cr)	5	5	5	5	5
EPS (INR) fully diluted	34	50	98	109	132
Dividend per share	6	7	18	16	20
Dividend payout (%)	16	14	18	15	15

Common size metrics- as % of net revenues

Year to March	FY16	FY17	FY18	FY19E	FY20E
Operating expenses	88.6	87.9	79.9	83.0	82.8
Depreciation	0.5	0.5	0.7	0.6	0.6
Interest expenditure	0.2	0.2	0.1	0.1	0.1
EBITDA margins	11.4	12.1	20.1	17.0	17.2
Net profit margins	7.6	8.3	13.1	11.0	11.4

Growth metrics (%)

Year to March	FY16	FY17	FY18	FY19E	FY20E
Revenues	13.3	35.4	24.2	33.6	16.2
EBITDA	26.3	44.1	105.7	13.1	17.3
PBT	32.4	40.7	110.1	14.3	21.2
Net profit	36.4	42.6	105.6	15.7	21.2
EPS	(73.6)	47.1	97.4	11.6	20.5

Ratios

Year to March	FY16	FY17	FY18	FY19E	FY20E
ROAE (%)	45.8	42.8	53.4	40.0	35.1
ROACE (%)	57.3	53.0	67.6	52.4	45.4
Debtors (days)	6	3.1	5.4	15.0	16.0
Current ratio	2.3	1.5	1.9	2.3	2.5
Debt/Equity	0.0	0.0	0.0	0.0	0.0
Inventory (days)	52	48	56	60	60
Payable (days)	31	38.8	35.1	35.0	35.0
Cash conversion cycle (days)	27	11.8	26.7	40.0	41.0
Debt/EBITDA	0.0	0.1	0.0	0.0	0.0
Adjusted debt/Equity	(0.1)	(0.0)	(0.0)	(0.0)	(0.1)

Valuation parameters

Year to March	FY16	FY17	FY18	FY19E	FY20E
Diluted EPS (INR)	33.8	49.7	98.1	109.4	131.9
Y-o-Y growth (%)	*(73.6)*	*47.1*	*97.4*	*11.6*	*20.5*
CEPS (INR)	36.9	52.9	103.3	115.7	138.3
Diluted P/E (x)	57.9	39.3	19.9	17.9	14.8
Price/BV (x)	21.0	14.0	8.6	6.1	4.5
EV/Sales (x)	4.4	3.2	2.6	1.9	1.7
EV/EBITDA (x)	38.3	26.6	13.0	11.4	9.7
Diluted shares O/S	4.5	4.5	4.5	4.5	4.5
Basic EPS	33.8	49.7	98.1	109.4	131.9
Basic PE (x)	57.9	39.3	19.9	17.9	14.8
Dividend yield (%)	0.3	0.4	0.9	0.8	1.0

Balance sheet (INR cr)

As on 31st March	FY16	FY17	FY18	FY19E	FY20E
Equity share capital	9	9	9	9	9
Preference Share Capital	0	0	0	0	0
Reserves & surplus	414	626	1,022	1,445	1,954
Shareholders funds	423	635	1,031	1,454	1,963
Secured loans	7	17	9	9	9
Unsecured loans	3	0	0	0	0
Borrowings	11	17	9	9	9
Minority interest	0	98	118	161	216
Sources of funds	**434**	**751**	**1,159**	**1,624**	**2,188**
Gross block	161	228	403	415	415
Depreciation	57	68	91	112	113
Net block	104	160	312	303	302
Capital work in progress	42	94	2	0	0
Total fixed assets	146	254	314	303	302
Unrealised profit	0	0	0	0	0
Investments	33	360	584	734	1,134
Inventories	286	356	525	745	866
Sundry debtors	35	23	50	186	231
Cash and equivalents	73	45	16	71	136
Loans and advances	18	9	19	45	53
Other current assets	0	0	0	0	0
Total current assets	411	433	609	1,048	1,286
Sundry creditors and others	171	290	326	435	505
Provisions	10	0	0	11	13
Total CL & provisions	180	290	326	446	518
Net current assets	230	143	283	602	768
Net Deferred tax	-5	-13	-26	-26	-26
Misc expenditure	29	7	4	10	10
Uses of funds	**433**	**751**	**1,159**	**1,624**	**2,188**
Book value per share (INR)	93	140	227	320	432

Cash flow statement

Year to March	FY16	FY17	FY18	FY19E	FY20E
Net profit	163	228	466	539	654
Add: Depreciation	10	14	24	29	29
Add: Misc expenses written off/Other	-30	23	3	-6	0
Add: Deferred tax	-1	8	13	0	0
Add: Others	-1	-0	-21	-43	-55
Gross cash flow	141	272	485	519	628
Less: Changes in W. C.	34	-60	170	264	101
Operating cash flow	107	332	316	255	527
Less: Capex	66	123	83	18	28
Free cash flow	**40**	**209**	**232**	**237**	**500**

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Rating	Expected to
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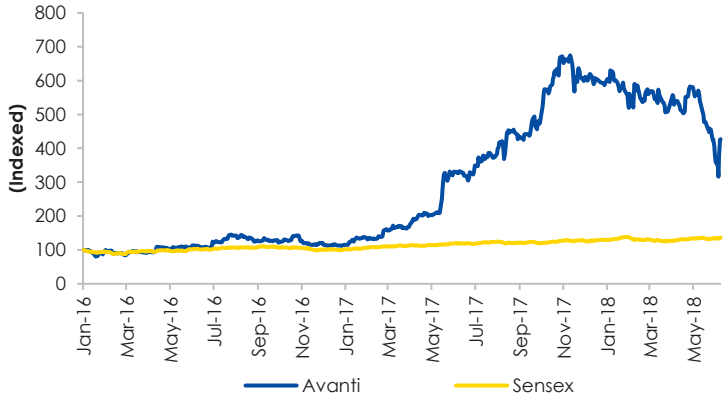
Reduce	Return below 5% over a 12-month period



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