

India

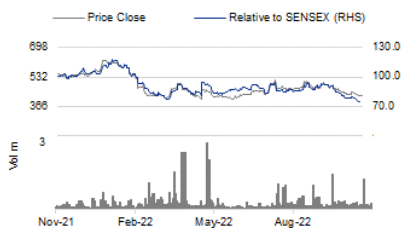
ADD (no change)

Consensus ratings*: Buy 5 Hold 0 Sell 0

Current price:	Rs424
Target price:	Rs584
Previous target:	Rs1,007
Up/downside:	37.7%
InCred Research / Consensus:	-42.0%
Reuters:	
Bloomberg:	AVNT IN
Market cap:	US\$796m
	Rs57,782m
Average daily turnover:	US\$1.6m
	Rs115.9m
Current shares o/s:	136.2m
Free float:	57.0%
*Source: Bloomberg	

Key changes in this note

- PAT estimates adjusted by -44.7% / -27.4% for FY23F/24F.
- Reduce FY24F P/E to 20x (25x earlier).
- Reduce target price to Rs584 (Rs1,007 earlier).



Source: Bloomberg

Price performance	1M	3M	12M
Absolute (%)	(8.9)	(8.8)	(22.5)
Relative (%)	(12.4)	(11.8)	(25.0)

Major shareholders	% held
Promoter Group	43.7
Thai Union Group Public Company Ltd	15.4
Thai Union Asia Invest Holding Ltd	8.8

Analyst(s)



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Avanti Feeds Ltd

Government intervention is big negative

- Avanti Feeds posted weak 2QFY23 results, below our expectations, because of delayed commissioning of its new feed plant and key input cost inflation.
- Company is losing market share in the shrimp feed business and has backtracked on its plan for the fish feed segment, which is a major negative.
- Retain ADD rating with a lower target price of Rs584, or 20x FY24F EPS.

Weak 2QFY23 performance

Avanti Feeds (AFL) posted a weak set of numbers for 2QFY23, below our expectations, yet again. AFL could not capitalize on strong demand for shrimp feed, even as India witnessed the beginning of the season and higher selling prices of feed, because of the delay in commissioning its new feed plant in Andhra Pradesh. Management stated that the plant is ready, but it is yet to get the state government's approval. The cold war between the Andhra Pradesh government and AFL could be the reason behind this stalemate, in our view. AFL's margins were also hit due to the high cost of raw materials, such as soymeal and fishmeal, along with a steady rise in the price of wheat, another raw material. The state government has intervened in the pricing of shrimp feed and forced a rollback of ~Rs2/kg. The intervention by the state government doesn't bode well for the industry.

Fails to capitalize on huge fish feed business opportunity

AFL has backtracked on its fish feed business plan. Fish feed is the fastest-growing segment in the animal feed business with above-average margins. AFL's brand name, distribution reach and technological tie-ups have placed it ahead of the curve. While AFL contemplates its next move, companies much smaller than AFL and behind the curve are on the verge of a breakthrough by investing heavily in the fish feed business. We believe the company has the potential to be a winner in the fish feed business but because of the delay/inaction it will face massive competition.

Reiterate ADD rating with lower target price of Rs584

We revise our PAT estimates by -44.7% / -27.4% for FY23F/FY24F, respectively, based on 2QFY23 results and the company's new plant not getting the state government's clearance, continuous interference by the government in this industry, and the failure to execute the fish feed project. We retain ADD rating on the stock with a sharply lower target price of Rs584 (Rs1,007 earlier) or 20x FY24F EPS (from 25x FY24F EPS earlier). The undercurrent in terms of shrimp demand has suddenly turned uncertain and a clear picture to emerge only after Dec 2022F as AFL determines its path forward even as shipment problems seem to be easing. Downside risks: Drop in demand for shrimp and shrimp products, hindrance in supply of shrimp in domestic market, and any trade barriers imposed on India or AFL's products.

Financial Summary	Mar-20A	Mar-21A	Mar-22A	Mar-23F	Mar-24F
Revenue (Rsm)	41,153	41,006	50,360	50,927	59,386
Operating EBITDA (Rsm)	4,539	4,602	3,220	3,194	6,586
Net Profit (Rsm)	3,460	3,605	2,311	2,017	3,981
Core EPS (Rs)	25.4	26.5	18.5	15.2	29.2
Core EPS Growth	6.8%	4.2%	(30.1%)	(18.0%)	92.7%
FD Core P/E (x)	16.70	16.03	25.01	28.65	14.51
DPS (Rs)	5.1	5.3	3.3	3.0	5.9
Dividend Yield	1.20%	1.25%	0.77%	0.70%	1.38%
EV/EBITDA (x)	13.12	12.95	18.50	18.80	9.00
P/FCFE (x)	104.08	702.38	21.32	345.36	37.09
Net Gearing	(1.0%)	(2.4%)	(3.5%)	(3.0%)	(8.4%)
P/BV (x)	4.12	3.28	3.05	2.81	2.43
ROE	26.5%	22.8%	13.8%	10.5%	18.0%
% Change In Core EPS Estimates				(0.61%)	(0.34%)
InCred Research/Consensus EPS (x)					

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 1: Quarterly consolidated results summary

	2QFY23	1QFY23	% QoQ	2QFY22	% YoY
Revenue From Operations	13,221	15,693	-15.8%	12,260	7.8%
Cost of Goods Sold	10,914	13,147	-17.0%	10,668	2.3%
Employee Expenses	427	400	6.6%	278	53.7%
Other Expenses	1,130	1,106	2.2%	888	27.3%
EBITDA	749	1,040	-27.9%	427	75.6%
Depreciation	99	98	1.1%	104	-4.6%
EBIT	650	942	-31.0%	323	101.5%
Other Income	265	123	115.0%	256	3.5%
Interest Expenses	4	3	37.8%	8	-42.0%
Exceptional Items	-13	-53	NA	-172	NA
Profit/(Loss) of associates	6	-11	NA	-17	NA
Profit Before Tax	903	998	-9.5%	382	136.3%
Tax Expenses	232	267	-13.0%	52	350.3%
Profit After Tax & BMI	671	731	-8.2%	331	102.9%
Minority Interest	-105	-68	NA	-89	NA
PAT	566	663	-14.6%	241	134.7%
Key Ratios	2QFY23	1QFY23	% QoQ	2QFY22	% YoY
EBITDA Margin	5.7%	6.6%	-96bp	3.5%	219bps
EBIT Margin	4.9%	6.0%	-108bp	2.6%	229bps
PBT Margin	6.8%	6.4%	47bp	3.1%	371bps
PAT Margin	4.3%	4.2%	6bp	2.0%	231bps
Tax Rate	25.7%	26.8%	-104bp	13.5%	1,222bps

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 2: Our revised earnings estimates

Rs m	Old estimates		New estimates		Change (%)	
	FY23F	FY24F	FY23F	FY24F	FY23F	FY24F
Revenue	61,816	75,975	50,927	59,386	-17.6%	-21.8%
EBITDA	5,584	8,546	3,194	6,586	-42.8%	-22.9%
EBITDA Margin (%)	9.0%	11.2%	6.3%	11.1%	-276bps	-16bps
PAT	3,645	5,488	2,017	3,981	-44.7%	-27.5%
EPS (Rs)	27	40	15	29	-44.7%	-27.4%

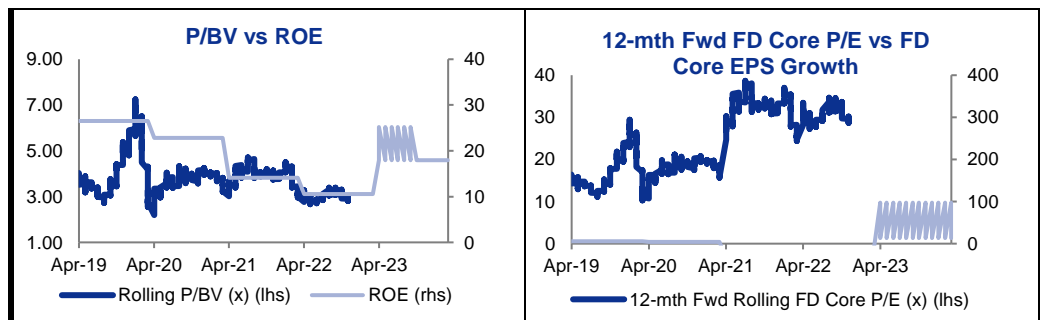
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 3: One-year forward P/E



SOURCE: INCRED RESEARCH, COMPANY REPORTS

BY THE NUMBERS



Profit & Loss

(Rs mn)	Mar-20A	Mar-21A	Mar-22A	Mar-23F	Mar-24F
Total Net Revenues	41,153	41,006	50,360	50,927	59,386
Gross Profit	8,511	8,956	7,981	8,907	13,309
Operating EBITDA	4,539	4,602	3,220	3,194	6,586
Depreciation And Amortisation	(377)	(410)	(408)	(447)	(719)
Operating EBIT	4,162	4,192	2,812	2,747	5,867
Financial Income/(Expense)	682	908	797	607	500
Pretax Income/(Loss) from Assoc.					
Non-Operating Income/(Expense)					
Profit Before Tax (pre-EI)	4,844	5,100	3,609	3,354	6,366
Exceptional Items			(275)	(66)	
Pre-tax Profit	4,844	5,100	3,334	3,288	6,366
Taxation	(985)	(1,123)	(787)	(831)	(1,528)
Exceptional Income - post-tax					
Profit After Tax	3,859	3,977	2,547	2,457	4,838
Minority Interests	(399)	(372)	(237)	(440)	(857)
Preferred Dividends					
FX Gain/(Loss) - post tax					
Other Adjustments - post-tax					
Net Profit	3,460	3,605	2,311	2,017	3,981
Recurring Net Profit	3,460	3,605	2,521	2,066	3,981
Fully Diluted Recurring Net Profit	3,460	3,605	2,521	2,066	3,981

Cash Flow

(Rs mn)	Mar-20A	Mar-21A	Mar-22A	Mar-23F	Mar-24F
EBITDA	4,539	4,602	3,220	3,194	6,586
Cash Flow from Invt. & Assoc.					
Change In Working Capital	(1,779)	345	(4,074)	1,496	(1,142)
(Incr)/Decr in Total Provisions					
Other Non-Cash (Income)/Expense					
Other Operating Cashflow	(624)	(785)	(237)	(440)	(857)
Net Interest (Paid)/Received	682	908	797	607	500
Tax Paid	(1,061)	(1,256)	(787)	(831)	(1,528)
Cashflow From Operations	1,757	3,814	(1,081)	4,026	3,558
Capex	(342)	(427)	(557)	(2,000)	(2,000)
Disposals Of FAs/subsidiaries					
Acq. Of Subsidiaries/investments	(783)	(3,303)	4,345	(1,858)	
Other Investing Cashflow					
Cash Flow From Investing	(1,125)	(3,730)	3,788	(3,858)	(2,000)
Debt Raised/(repaid)	(78)	(2)	3		
Proceeds From Issue Of Shares					
Shares Repurchased					
Dividends Paid	(1,485)	(18)	(443)	(402)	(797)
Preferred Dividends					
Other Financing Cashflow		32	(209)	262	857
Cash Flow From Financing	(1,563)	13	(650)	(140)	60
Total Cash Generated	(930)	97	2,057	27	1,618
Free Cashflow To Equity	555	82	2,710	167	1,558
Free Cashflow To Firm	653	101	2,727	175	1,558

SOURCE: INCRED RESEARCH, COMPANY REPORTS

BY THE NUMBERS...cont'd

Balance Sheet

(Rs mn)	Mar-20A	Mar-21A	Mar-22A	Mar-23F	Mar-24F
Total Cash And Equivalents	159	471	747	704	2,328
Total Debtors	888	666	1,137	2,217	2,586
Inventories	5,435	5,551	9,893	6,785	7,912
Total Other Current Assets	401	286	370	286	333
Total Current Assets	6,883	6,974	12,147	9,993	13,159
Fixed Assets	2,665	2,817	2,638	4,591	5,871
Total Investments	8,631	12,486	8,142	10,000	10,000
Intangible Assets	44	106	87	87	87
Total Other Non-Current Assets	577	437	2,167	1,766	1,766
Total Non-current Assets	11,917	15,848	13,034	16,445	17,725
Short-term Debt					
Current Portion of Long-Term Debt					
Total Creditors	2,175	2,393	3,048	2,360	2,752
Other Current Liabilities	435	272	456	483	483
Total Current Liabilities	2,610	2,665	3,503	2,843	3,235
Total Long-term Debt	2		3	3	3
Hybrid Debt - Debt Component					
Total Other Non-Current Liabilities	171	193	178		
Total Non-current Liabilities	172	193	181	3	3
Total Provisions	70	68	23	67	76
Total Liabilities	2,852	2,927	3,707	2,914	3,314
Shareholders Equity	14,037	17,612	18,954	20,563	23,753
Minority Interests	1,911	2,283	2,520	2,960	3,818
Total Equity	15,948	19,896	21,474	23,524	27,570

Key Ratios

	Mar-20A	Mar-21A	Mar-22A	Mar-23F	Mar-24F
Revenue Growth	18.0%	(0.4%)	22.8%	1.1%	16.6%
Operating EBITDA Growth	10.9%	1.4%	(30.0%)	(0.8%)	106.2%
Operating EBITDA Margin	11.0%	11.2%	6.4%	6.3%	11.1%
Net Cash Per Share (Rs)	1.16	3.45	5.47	5.15	17.07
BVPS (Rs)	103.03	129.27	139.12	150.93	174.34
Gross Interest Cover	207.77	247.16	139.94	351.14	20,936.94
Effective Tax Rate	20.3%	22.0%	23.6%	25.3%	24.0%
Net Dividend Payout Ratio	20.1%	20.0%	17.1%	19.3%	20.0%
Accounts Receivables Days	6.09	6.92	6.53	12.02	14.76
Inventory Days	51.58	62.56	66.51	72.44	58.21
Accounts Payables Days	24.02	26.01	23.43	23.49	20.25
ROIC (%)	59.7%	56.7%	39.1%	21.5%	45.5%
ROCE (%)	32.6%	28.5%	17.5%	14.9%	24.9%
Return On Average Assets	18.3%	14.7%	8.4%	7.4%	15.1%

SOURCE: INCRED RESEARCH, COMPANY REPORTS

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