

India

**ADD** (no change)

Consensus ratings\*: Buy 1 Hold 0 Sell 0

Current price:	Rs262
Target price:	Rs1,002
Previous target:	Rs1,334
Up/downside:	282.4%
InCred Research / Consensus:	-24.9%
Reuters:	COAS.BO
Bloomberg:	CTW IN
Market cap:	US\$39m
	Rs3,213m
Average daily turnover:	US\$0.3m
	Rs21.0m
Current shares o/s:	13.5m
Free float:	63.0%

\*Source: Bloomberg

**Key changes in this note**

- Revise our PAT estimates by - 8.6% / -1.4% for FY23F/24F.
- Cut our P/E multiple to 15x from 20x for the shrimp segment.
- Cut our target price to Rs1,002 from Rs1,334.



Source: Bloomberg

Price performance	1M	3M	12M
Absolute (%)	(14.4)	(28.4)	5.9
Relative (%)	(17.6)	(32.3)	(2.9)

Major shareholders	% held
Promoter & Promoter Group	41.1
	0.0
	0.0

**Analyst(s)**



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# Coastal Corp. Ltd

## Ecuador plays spoilsport

- Ecuador's shrimp industry increases supply over demand, thereby pulling down prices.
- Andhra Pradesh government withdraws subsidy on electricity supply for the aquaculture industry and starts interfering in the industry's working.
- Retain ADD rating with a lower target price of Rs1,002 (Rs1,334 earlier) or 15x (20x earlier) FY24F P/E for the shrimp processing segment and 10x FY24F P/E for the distillation segment.

**What went wrong?**

The thesis of a strong environment for shrimp demand is weakening. However, shrimp processing companies can sail the storm but with lower sales.

**Why did it happen?**

Major players in the shrimp business are importers like China and USA and exporters such as India and Ecuador. China is in a Covid-19-related lockdown, but its demand for shrimp on a YoY basis is much higher, as can be seen in Fig.1. USA is holding fort with steady demand, as seen in Fig.2. India has steadily upped its game, as seen in Fig.3. However, a confident Ecuador with its secret sauce pumped up shrimp exports beyond market limits, as seen in Fig.4, pulling down shrimp prices lower. India tackled this via an intensive shrimp culture which requires electricity to be made available at a negligible cost. However, Andhra Pradesh (AP) government changed its power policy suddenly and the entire profit margin of shrimp farmers got wiped out. When the farmers began to protest, the blame game started. The state government brought in price controls over the main components of the shrimp business, such as the feed and the seed.

**The way forward**

With shrimp prices pushed lower by Ecuador, Indian farmers are planning a crop holiday to bring back the favourable demand-supply equilibrium. No crop means no feed sales, no seed sales and a lower stock of raw material in the country for processing. However, the biggest drawback is the prisoner's dilemma at play. Indian farmers have planned a crop holiday, but Ecuador's farmers see an opportunity to grab market share from India. A more dangerous trend is Indian processors importing shrimp (which has already started) from Ecuador. Indian processors will ride the tide by adopting the Vietnamese model of processing imported shrimp and then exporting them if things worsen on the supply side, which we believe is likely, at least in the rest of FY23F.

**Retain ADD rating with lower target price of Rs1,002**

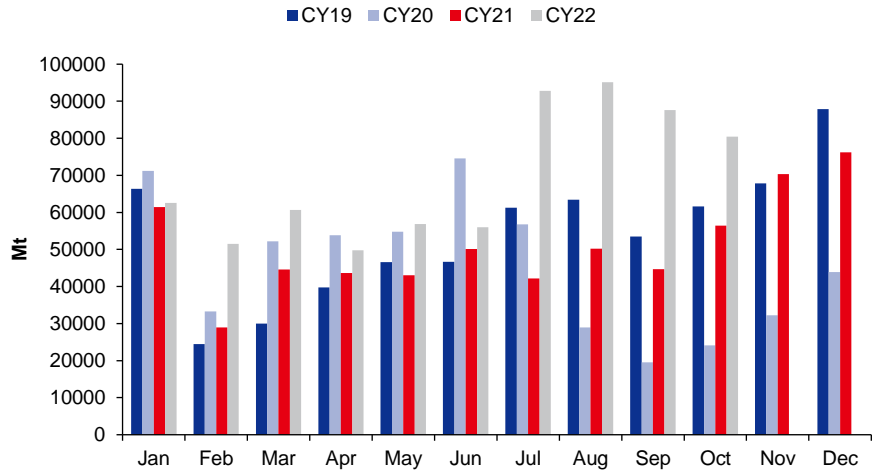
We revise our PAT estimates for Coastal Corporation or CCL by -8.6%/-1.4% for FY23F/24F, respectively, based on the events post 2QFY23 results and notably, high probability of a crop holiday and oversupply of shrimp from Ecuador. Retain ADD rating on CCL with a lower target price of Rs1,002 (Rs1,334 earlier) or 15x FY24F EPS (20x FY24F EPS earlier) for the shrimp segment. Downside risks: Drop in demand for shrimp and shrimp products, hindrance in shrimp supply in the domestic market, and any trade barriers imposed on India or CCL's products.

**Financial Summary**

	Mar-20A	Mar-21A	Mar-22A	Mar-23F	Mar-24F
Revenue (Rsm)	6,043	4,735	4,911	5,488	13,282
Operating EBITDA (Rsm)	400	255	164	541	1,493
Net Profit (Rsm)	341	184	136	356	932
Core EPS (Rs)	33.5	17.7	12.2	28.4	69.0
Core EPS Growth	(43.8%)	(47.3%)	(31.1%)	132.8%	143.3%
FD Core P/E (x)	7.81	14.81	21.49	9.23	3.79
DPS (Rs)	0.0	0.0	2.3	5.3	12.5
Dividend Yield	0.00%	0.00%	0.89%	2.01%	4.77%
EV/EBITDA (x)	8.30	14.19	26.48	9.83	4.11
P/FCFE (x)	354.26	15.21	(9.47)	15.79	(14.35)
Net Gearing	45.9%	50.7%	70.2%	72.5%	72.9%
P/BV (x)	1.86	1.59	1.48	1.26	0.99
ROE	26.6%	11.5%	7.1%	14.7%	29.3%
% Change In Core EPS Estimates				(0.36%)	(0.33%)
InCred Research/Consensus EPS (x)					

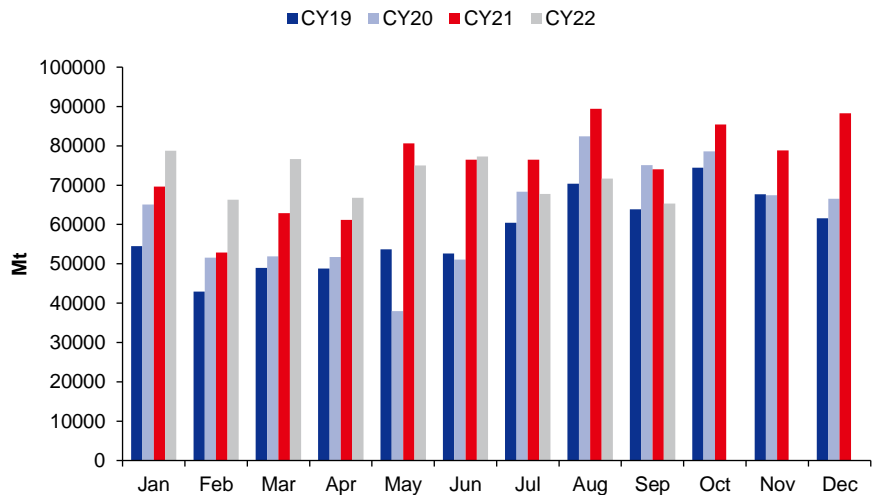
SOURCE: INCRED RESEARCH, COMPANY REPORTS

**Figure 1: China's shrimp imports**



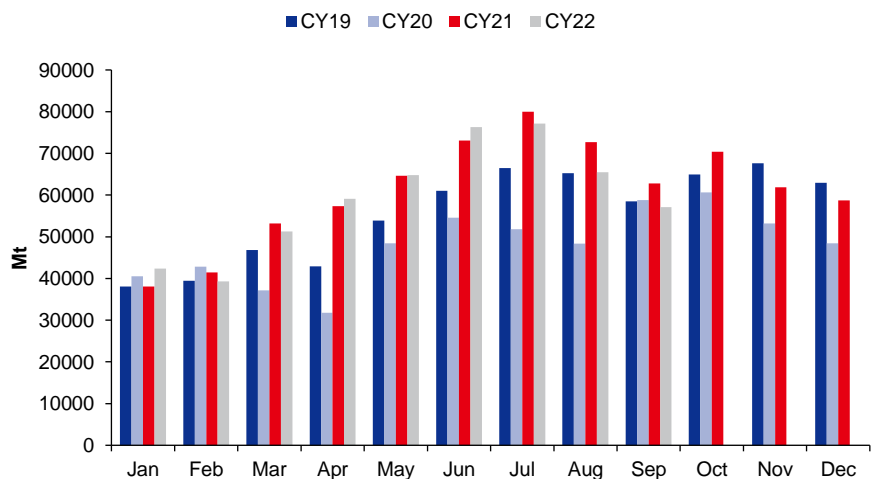
SOURCE: INCRED RESEARCH, COMPANY REPORTS

**Figure 2: USA's shrimp imports**



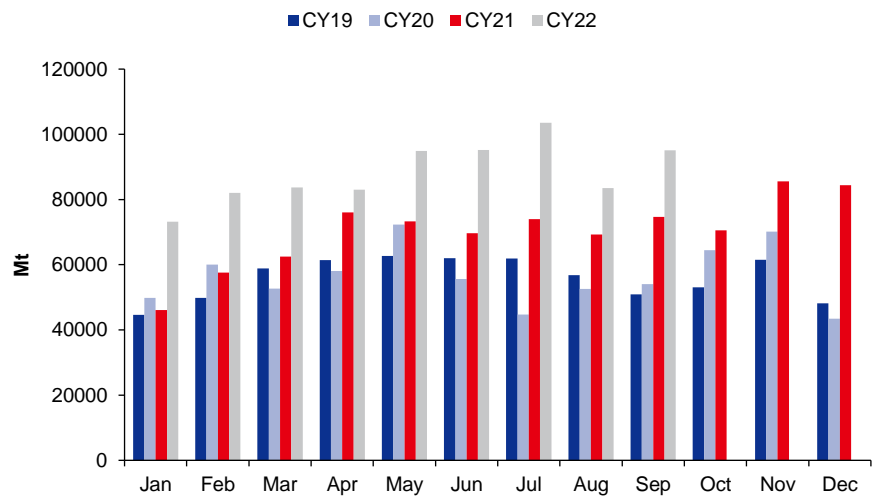
SOURCE: INCRED RESEARCH, COMPANY REPORTS

**Figure 3: India's shrimp exports**



SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 4: Ecuador's shrimp exports



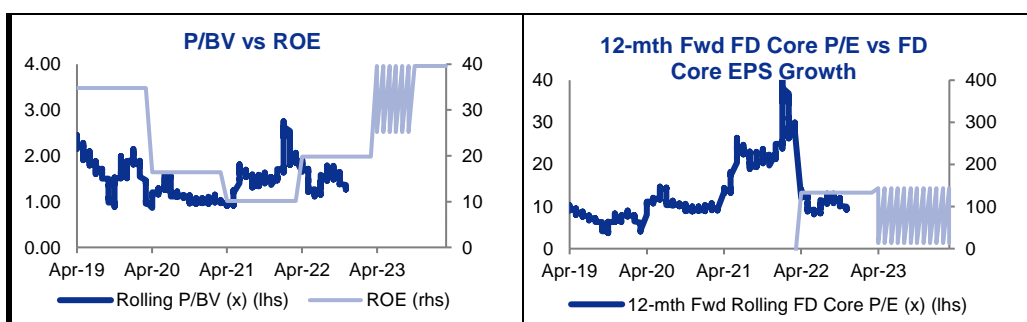
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 5: Our revised earnings estimates

Rs m	Old estimates		New estimates		Change (%)	
	FY23F	FY24F	FY23F	FY24F	FY23F	FY24F
Revenue	5,871	12,998	5,488	13,282	-6.5%	2.2%
EBITDA	581	1,514	541	1,493	-7.0%	-1.4%
EBITDA Margin (%)	9.9%	11.7%	9.8%	11.2%	-6bp	-41bp
PAT	389	945	356	932	-8.6%	-1.4%
EPS (Rs)	29	70	26	69	-8.6%	-1.4%

SOURCE: INCRED RESEARCH, COMPANY REPORTS

BY THE NUMBERS



Profit & Loss

(Rs m)	Mar-20A	Mar-21A	Mar-22A	Mar-23F	Mar-24F
<b>Total Net Revenue</b>	<b>6,043</b>	<b>4,735</b>	<b>4,911</b>	<b>5,488</b>	<b>13,282</b>
<b>Gross Profit</b>	<b>1,564</b>	<b>1,305</b>	<b>1,700</b>	<b>1,883</b>	<b>4,280</b>
<b>Operating EBITDA</b>	<b>400</b>	<b>255</b>	<b>164</b>	<b>541</b>	<b>1,493</b>
Depreciation And Amortisation	(33)	(35)	(43)	(104)	(214)
<b>Operating EBIT</b>	<b>367</b>	<b>220</b>	<b>121</b>	<b>436</b>	<b>1,279</b>
Financial Income/(Expense)	80	42	72	44	(20)
Pretax Income/(Loss) from Assoc.					
Non-Operating Income/(Expense)					
<b>Profit Before Tax (pre-EI)</b>	<b>446</b>	<b>261</b>	<b>193</b>	<b>480</b>	<b>1,259</b>
Exceptional Items					
<b>Pre-tax Profit</b>	<b>446</b>	<b>261</b>	<b>193</b>	<b>480</b>	<b>1,259</b>
Taxation	(106)	(77)	(58)	(125)	(327)
Exceptional Income - post-tax					
<b>Profit After Tax</b>	<b>341</b>	<b>184</b>	<b>136</b>	<b>356</b>	<b>932</b>
Minority Interests					
Preferred Dividends					
FX Gain/(Loss) - post tax					
Other Adjustments - post-tax					
<b>Net Profit</b>	<b>341</b>	<b>184</b>	<b>136</b>	<b>356</b>	<b>932</b>
Recurring Net Profit	341	184	136	356	932
<b>Fully Diluted Recurring Net Profit</b>	<b>341</b>	<b>184</b>	<b>136</b>	<b>356</b>	<b>932</b>

Cash Flow

(Rs mn)	Mar-20A	Mar-21A	Mar-22A	Mar-23F	Mar-24F
<b>EBITDA</b>	<b>400</b>	<b>255</b>	<b>164</b>	<b>541</b>	<b>1,493</b>
Cash Flow from Invt. & Assoc.					
Change In Working Capital	(112)	131	(122)	(80)	(1,542)
(Incr)/Decr in Total Provisions					
Other Non-Cash (Income)/Expense					
Other Operating Cashflow					
Net Interest (Paid)/Received	80	42	72	44	(20)
Tax Paid	(140)	(77)	(58)	(125)	(327)
<b>Cashflow From Operations</b>	<b>227</b>	<b>350</b>	<b>57</b>	<b>380</b>	<b>(396)</b>
Capex	(54)	(431)	(706)	(1,372)	
Disposals Of FAs/subsidiaries					
Acq. Of Subsidiaries/investments					
Other Investing Cashflow					
<b>Cash Flow From Investing</b>	<b>(54)</b>	<b>(431)</b>	<b>(706)</b>	<b>(1,372)</b>	
Debt Raised/(repaid)	(165)	261	341	1,200	150
Proceeds From Issue Of Shares		95	9	19	
Shares Repurchased					
Dividends Paid	(37)		(27)	(71)	(169)
Preferred Dividends					
Other Financing Cashflow	(62)	(29)	(61)	(93)	(130)
<b>Cash Flow From Financing</b>	<b>(264)</b>	<b>327</b>	<b>263</b>	<b>1,055</b>	<b>(149)</b>
Total Cash Generated	(91)	245	(386)	63	(545)
<b>Free Cashflow To Equity</b>	<b>8</b>	<b>179</b>	<b>(308)</b>	<b>208</b>	<b>(246)</b>
<b>Free Cashflow To Firm</b>	<b>241</b>	<b>(38)</b>	<b>(588)</b>	<b>(899)</b>	<b>(266)</b>

SOURCE: INCRED RESEARCH, COMPANY REPORTS

**BY THE NUMBERS...cont'd**

<b>Balance Sheet</b>					
<b>(Rs m)</b>	<b>Mar-20A</b>	<b>Mar-21A</b>	<b>Mar-22A</b>	<b>Mar-23F</b>	<b>Mar-24F</b>
Total Cash And Equivalents	460	486	282	888	473
Total Debtors	376	287	395	451	938
Inventories	1,033	1,009	1,090	1,053	1,998
Total Other Current Assets	177	319	312	349	712
<b>Total Current Assets</b>	<b>2,045</b>	<b>2,101</b>	<b>2,080</b>	<b>2,741</b>	<b>4,122</b>
Fixed Assets	355	442	444	2,920	2,706
Total Investments	110	118	133	133	133
Intangible Assets					
Total Other Non-Current Assets	282	610	1,318	110	110
<b>Total Non-current Assets</b>	<b>746</b>	<b>1,170</b>	<b>1,896</b>	<b>3,164</b>	<b>2,950</b>
Short-term Debt	1,115	1,223	1,468	1,668	1,868
Current Portion of Long-Term Debt					
Total Creditors	228	99	159	120	334
Other Current Liabilities					
<b>Total Current Liabilities</b>	<b>1,343</b>	<b>1,322</b>	<b>1,627</b>	<b>1,789</b>	<b>2,203</b>
Total Long-term Debt	2	154	251	1,251	1,201
Hybrid Debt - Debt Component					
Total Other Non-Current Liabilities	13	26	30	30	30
<b>Total Non-current Liabilities</b>	<b>15</b>	<b>180</b>	<b>281</b>	<b>1,281</b>	<b>1,231</b>
Total Provisions	1	11	22	36	75
<b>Total Liabilities</b>	<b>1,359</b>	<b>1,514</b>	<b>1,930</b>	<b>3,105</b>	<b>3,508</b>
Shareholders' Equity	1,432	1,758	2,046	2,800	3,563
Minority Interests					
<b>Total Equity</b>	<b>1,432</b>	<b>1,758</b>	<b>2,046</b>	<b>2,800</b>	<b>3,563</b>

<b>Key Ratios</b>					
	<b>Mar-20A</b>	<b>Mar-21A</b>	<b>Mar-22A</b>	<b>Mar-23F</b>	<b>Mar-24F</b>
Revenue Growth	(1.9%)	(21.6%)	3.7%	11.8%	142.0%
Operating EBITDA Growth	(31.6%)	(36.2%)	(35.6%)	229.1%	176.3%
Operating EBITDA Margin	6.6%	5.4%	3.3%	9.8%	11.2%
Net Cash Per Share (Rs)	(64.61)	(83.49)	(124.09)	(150.33)	(192.15)
BVPS (Rs)	140.81	164.60	176.68	207.24	263.76
Gross Interest Cover	5.35	5.11	2.00	4.67	9.83
Effective Tax Rate	23.6%	29.5%	29.9%	26.0%	26.0%
Net Dividend Payout Ratio			14.0%	14.8%	13.4%
Accounts Receivables Days	21.09	25.53	25.34	28.13	19.09
Inventory Days	88.86	108.68	119.34	108.46	61.84
Accounts Payables Days	29.09	17.41	14.65	14.13	9.22
ROIC (%)	18.7%	11.0%	4.7%	12.8%	26.9%
ROCE (%)	16.0%	7.7%	3.5%	9.2%	20.7%
Return On Average Assets	13.2%	7.2%	3.3%	8.8%	19.7%

SOURCE: INCRED RESEARCH, COMPANY REPORTS

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