

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).



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)

Nitin AWASTHI
 T (91) 22 4161 1550
 E nitin.awasthi@incredcapital.com

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%

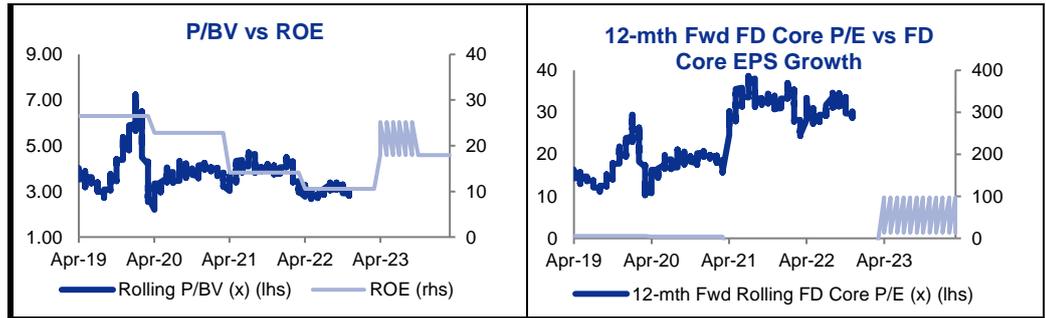
SOURCE: INCRED RESEARCH, COMPANY REPORTS

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

DISCLAIMER

This report (including the views and opinions expressed therein, and the information comprised therein) has been prepared by Incred Research Services Private Ltd. (formerly known as Earnest Innovation Partners Private Limited) (hereinafter referred to as "IRSPL"). IRSPL is registered with SEBI as a Research Analyst vide Registration No. INH000007793. Pursuant to a trademark agreement, IRSPL has adopted "Incred Equities" as its trademark for use in this report.

The term "IRSPL" shall, unless the context otherwise requires, mean IRSPL and its affiliates, subsidiaries and related companies. This report is not directed or intended for distribution to or use by any person or entity resident in a state, country or any jurisdiction, where such distribution, publication, availability or use would be contrary to law, regulation or which would subject IRSPL and its affiliates/group companies to registration or licensing requirements within such jurisdictions.

This report is being supplied to you strictly on the basis that it will remain confidential. No part of this report may be (i) copied, photocopied, duplicated, stored or reproduced in any form by any means; or (ii) redistributed or passed on, directly or indirectly, to any other person in whole or in part, for any purpose without the prior written consent of IRSPL.

The information contained in this report is prepared from data believed to be correct and reliable at the time of issue of this report.

IRSPL is not required to issue regular reports on the subject matter of this report at any frequency and it may cease to do so or change the periodicity of reports at any time. IRSPL is not under any obligation to update this report in the event of a material change to the information contained in this report. IRSPL has not any and will not accept any, obligation to (i) check or ensure that the contents of this report remain current, reliable or relevant; (ii) ensure that the content of this report constitutes all the information a prospective investor may require; (iii) ensure the adequacy, accuracy, completeness, reliability or fairness of any views, opinions and information, and accordingly, IRSPL and its affiliates/group companies (and their respective directors, associates, connected persons and/or employees) shall not be liable in any manner whatsoever for any consequences (including but not limited to any direct, indirect or consequential losses, loss of profits and damages) of any reliance thereon or usage thereof.

Unless otherwise specified, this report is based upon reasonable sources. Such sources will, unless otherwise specified, for market data, be market data and prices available from the main stock exchange or market where the relevant security is listed, or, where appropriate, any other market. Information on the accounts and business of company(ies) will generally be based on published statements of the company(ies), information disseminated by regulatory information services, other publicly available information and information resulting from our research. Whilst every effort is made to ensure that statements of facts made in this report are accurate, all estimates, projections, forecasts, expressions of opinion and other subjective judgments contained in this report are based on assumptions considered to be reasonable as of the date of the document in which they are contained and must not be construed as a representation that the matters referred to therein will occur. Past performance is not a reliable indicator of future performance. The value of investments may go down as well as up and those investing may, depending on the investments in question, lose more than the initial investment. No report shall constitute an offer or an invitation by or on behalf of IRSPL and its affiliates/group companies to any person to buy or sell any investments.

The opinions expressed are based on information which are believed to be accurate and complete and obtained through reliable public or other non-confidential sources at the time made. (Information barriers and other arrangements may be established where necessary to prevent conflicts of interests arising. However, the analyst(s) may receive compensation that is based on his/their coverage of company(ies) in the performance of his/their duties or the performance of his/their recommendations. In reviewing this report, an investor should be aware that any or all of the foregoing, among other things, may give rise to real or potential conflicts of interest. Additional information is, subject to the duties of confidentiality, available on request. The report is not a "prospectus" as defined under Indian Law, including the Companies Act, 2013, and is not, and shall not be, approved by, or filed or registered with, any Indian regulator, including any Registrar of Companies in India, SEBI, any Indian stock exchange, or the Reserve Bank of India. No offer, or invitation to offer, or solicitation of subscription with respect to any such securities listed or proposed to be listed in India is being made, or intended to be made, to the public, or to any member or section of the public in India, through or pursuant to this report.

The research analysts, strategists or economists principally responsible for the preparation of this research report are segregated from the other activities of IRSPL. Information barriers and other arrangements have been established, as required, to prevent any conflicts of interests.

The research analysts, strategists or economists principally responsible for the preparation of this research report are segregated from the other activities of IRSPL. Information barriers and other arrangements have been established, as required, to prevent any conflicts of interests.

IRSPL may have issued other reports (based on technical analysis, event specific, short term views etc.) that are inconsistent with and reach different conclusion from the information presented in this report.

Holding of Analysts/Relatives of Analysts, IRSPL and Associates of IRSPL in the covered securities, as on the date of publishing of this report

	Analyst/ Relative	Entity/ Associates
any financial interests in the company covered in this report (subject company) and nature of such financial interest	NO	NO
actual/beneficial ownership of 1% or more in securities of the subject company at the end of the month immediately preceding the date of publication of the research report or date of the public appearance;	NO	NO
any other material conflict of interest at the time of publication of the research report or at the time of public appearance	NO	NO
received any compensation from the subject company in the past twelve months for investment banking or merchant banking or brokerage services or investment advisory or depository or distribution from the subject company in the last twelve months for products/services other than investment banking or merchant banking or broker- age services or investment advisory or depository or distribution from the subject company in the last twelve months	NO	NO
managed or co-managed public offering of securities for the subject company in the last twelve months	NO	NO
received any compensation or other benefits from the subject company or third party in connection with the research report	NO	NO
served as an officer, director or employee of the subject company	NO	NO
been engaged in market making activity for the subject company	NO	NO

Analyst declaration

- The analyst responsible for the production of this report hereby certifies that the views expressed herein accurately and exclusively reflect his or her personal views and opinions about any and all of the issuers or securities analysed in this report and were prepared independently and autonomously in an unbiased manner.
- No part of the compensation of the analyst(s) was, is, or will be directly or indirectly related to the inclusion of specific recommendations(s) or view(s) in this report or based any specific investment banking transaction.
- The analyst(s) has(have) not had any serious disciplinary action taken against him/her(them).
- The analyst, strategist, or economist does not have any material conflict of interest at the time of publication of this report.
- The analyst(s) has(have) received compensation based upon various factors, including quality, accuracy and value of research, overall firm performance, client feedback and competitive factors.

IRSPL and/or its affiliates and/or its Directors/employees may own or have positions in securities of the company(ies) covered in this report or any securities related thereto and may from time to time add to or dispose of, or may be materially interested in, any such securities.

IRSPL and/or its affiliates and/or its Directors/employees may do and seek to do business with the company(ies) covered in this research report and may from time to time (a) buy/sell the securities covered in this report, from time to time and/or (b) act as market maker or have assumed an underwriting commitment in securities of such company(ies), and/or (c) may sell them to or buy them from customers on a principal basis and/or (d) may also perform or seek to perform significant investment banking, advisory, underwriting or placement services for or relating to such company(ies) and/or (e) solicit such investment, advisory or other services from any entity mentioned in this report and/or (f) act as a lender/borrower to such company and may earn brokerage or other compensation. However, Analysts are forbidden to acquire, on their own account or hold securities (physical or uncertificated, including derivatives) of companies in respect of which they are compiling and producing financial recommendations or in the result of which they play a key part.