



India

REDUCE (previously ADD)

Consensus ratings*: Buy 5 Hold 0 Sell 0

Current price: Rs389
 Target price: ▼ Rs353
 Previous target: Rs584
 Up/downside: -9.3%
 InCred Research / Consensus: -33.6%

Reuters: AVNT.NS
 Bloomberg: AVNT IN
 Market cap: US\$649m
 Rs52,993m
 Average daily turnover: US\$1.7m
 Rs137.3m
 Current shares o/s: 136.2m
 Free float: 57.0%

*Source: Bloomberg

Key changes in this note

- Revise our PAT estimates by -0.9% / -23.7% for FY23F/24F.
- Revise our P/E multiple to 15x from 20x.
- Revise our target price to Rs353 from Rs584 and downgrade our rating to REDUCE from ADD.



Source: Bloomberg

Price performance	1M	3M	12M
Absolute (%)	(14.2)	(16.6)	(28.0)
Relative (%)	(17.4)	(21.2)	(34.0)

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

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Avanti Feeds Ltd**Shrimp industry derails, thanks to Ecuador**

- Ecuador's shrimp industry raises 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.
- Downgrade our rating on Avanti Feeds to REDUCE with a sharply lower target price of Rs353 (Rs584 earlier) or 15x FY24F EPS (20x FY24F EPS earlier).

What went wrong?

The thesis of a strong environment for shrimp demand is weakening along with a case for reversion to mean EBITDA for shrimp feed companies.

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 has pumped up shrimp exports beyond market limits, as seen in Fig.4, pulling down shrimp prices lower. India tackled all this via an intensive shrimp culture which requires electricity to be made available at a negligible cost. However, Andhra Pradesh (AP) government has 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 favorable demand-supply equilibrium. No crop means no feed sales, no seed sales and lower raw material stock 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 (have already started) shrimps from Ecuador. Indian processors can 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 feel is likely, at least in the rest of FY23F.

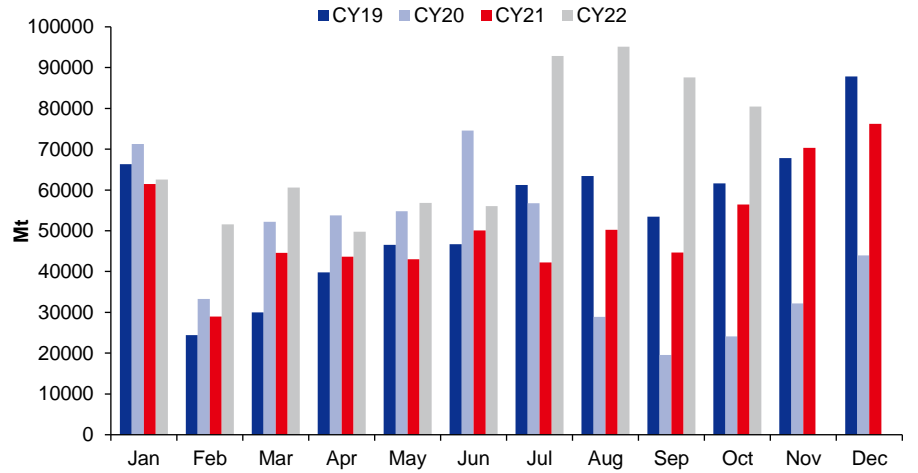
Downgrade our rating to REDUCE with lower target price of Rs353

We revise our PAT estimates by -0.9% / -23.7% for FY23F/24F, respectively, based on the events post 2QFY23 results and notably, 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 or pet food project to diversify revenue source. We downgrade our rating on the stock to REDUCE (from ADD earlier) with a sharply lower target price of Rs353 (Rs584 earlier) or 15x FY24F EPS (20x FY24F EPS earlier). Upside risk: The tables could turn quickly if there is a shrimp disease breakout in Ecuador.

Financial Summary	Mar-20A	Mar-21A	Mar-22A	Mar-23F	Mar-24F
Revenue (Rsm)	41,153	41,006	50,360	52,844	56,921
Operating EBITDA (Rsm)	4,539	4,602	3,220	3,261	5,308
Net Profit (Rsm)	3,460	3,605	2,311	2,068	3,009
Core EPS (Rs)	25.4	26.5	18.5	15.5	22.1
Core EPS Growth	6.8%	4.2%	(30.1%)	(16.0%)	42.2%
FD Core P/E (x)	15.32	14.70	22.94	25.63	17.61
DPS (Rs)	5.1	5.3	3.3	3.0	4.4
Dividend Yield	1.31%	1.36%	0.84%	0.78%	1.14%
EV/EBITDA (x)	12.06	11.91	17.01	16.98	10.32
P/FCFE (x)	95.45	644.17	19.56	819.12	44.67
Net Gearing	(1.0%)	(2.4%)	(3.5%)	(2.5%)	(7.6%)
P/BV (x)	3.78	3.01	2.80	2.57	2.30
ROE	26.5%	22.8%	13.8%	10.7%	13.8%
% Change In Core EPS Estimates				(0.60%)	(0.50%)
InCred Research/Consensus EPS (x)					

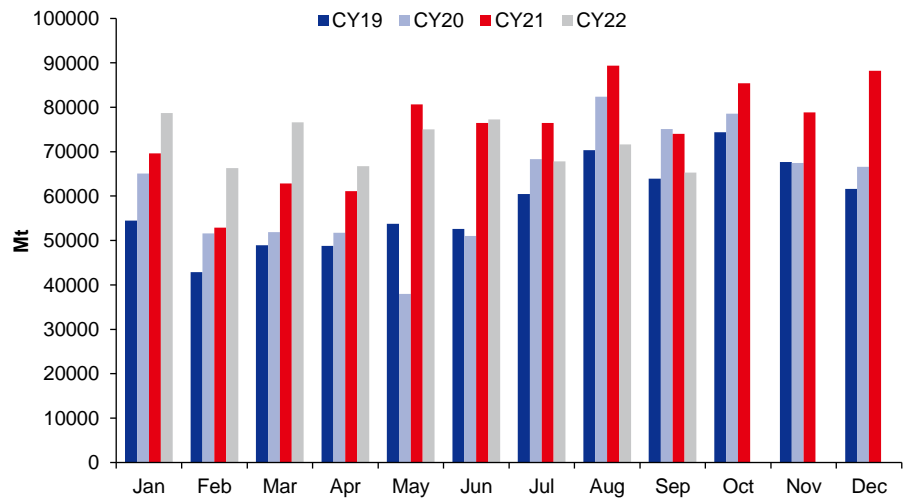
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 1: China's shrimp imports



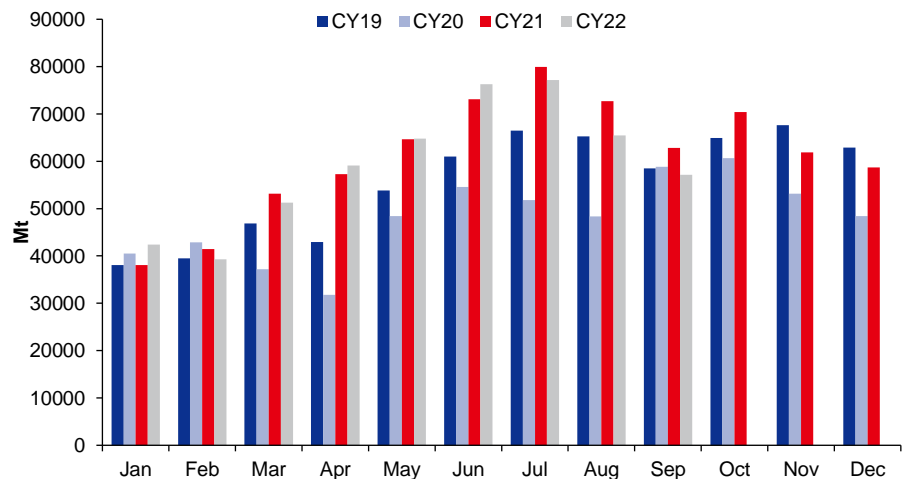
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 2: fUSA's shrimp imports



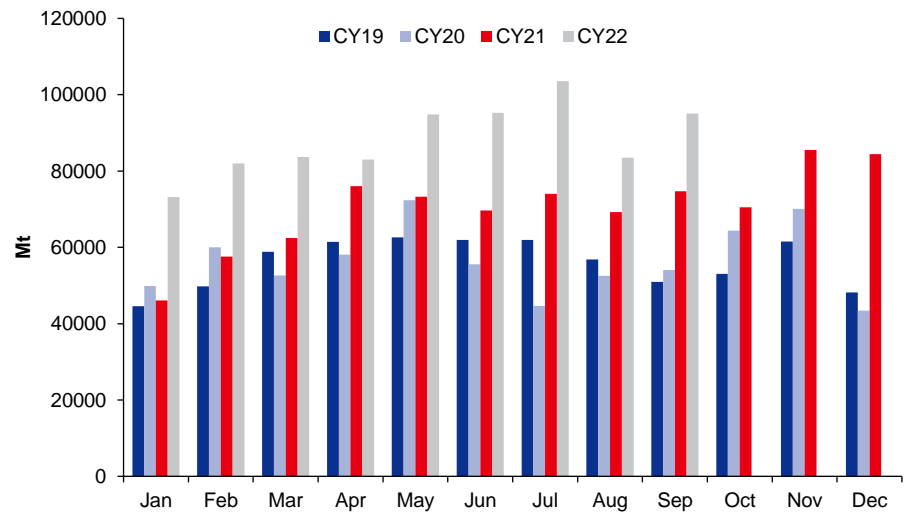
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 3: India's shrimp exports



SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 4: Ecuador's shrimp exports



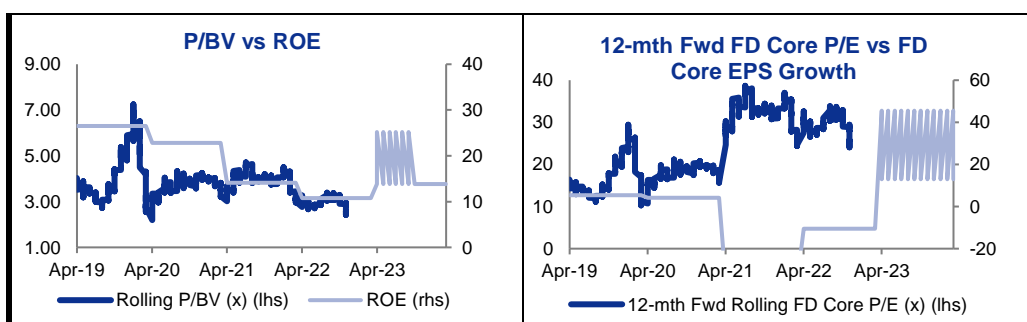
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 5: Our revised earnings estimates

Rs m	Old estimates		New estimates		Change (%)	
	FY23F	FY24F	FY23F	FY24F	FY23F	FY24F
Revenue	50,927	59,386	52,844	56,921	3.8%	-4.2%
EBITDA	3,194	6,586	3,261	5,308	2.1%	-19.4%
EBITDA Margin (%)	6.3%	11.1%	6.2%	9.3%	-10bp	-177bp
PAT	2,017	3,981	2,068	3,009	2.5%	-24.4%
EPS (Rs)	15	29	15	22	-0.9%	-23.7%

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	52,844	56,921
Gross Profit	8,511	8,956	7,981	9,146	11,809
Operating EBITDA	4,539	4,602	3,220	3,261	5,308
Depreciation And Amortisation	(377)	(410)	(408)	(447)	(719)
Operating EBIT	4,162	4,192	2,812	2,814	4,588
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	3,421	5,088
Exceptional Items			(275)	(66)	
Pre-tax Profit	4,844	5,100	3,334	3,355	5,088
Taxation	(985)	(1,123)	(787)	(847)	(1,221)
Exceptional Income - post-tax					
Profit After Tax	3,859	3,977	2,547	2,508	3,867
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	2,068	3,009
Recurring Net Profit	3,460	3,605	2,521	2,117	3,009
Fully Diluted Recurring Net Profit	3,460	3,605	2,521	2,117	3,009

Cash Flow

(Rs mn)	Mar-20A	Mar-21A	Mar-22A	Mar-23F	Mar-24F
EBITDA	4,539	4,602	3,220	3,261	5,308
Cash Flow from Invt. & Assoc.					
Change In Working Capital	(1,779)	345	(4,074)	1,342	(542)
(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)	(847)	(1,221)
Cashflow From Operations	1,757	3,814	(1,081)	3,923	3,186
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)	(413)	(603)
Preferred Dividends					
Other Financing Cashflow		32	(209)	262	857
Cash Flow From Financing	(1,563)	13	(650)	(150)	254
Total Cash Generated	(930)	97	2,057	(85)	1,441
Free Cashflow To Equity	555	82	2,710	65	1,186
Free Cashflow To Firm	653	101	2,727	73	1,187

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	591	2,038
Total Debtors	888	666	1,137	2,244	2,417
Inventories	5,435	5,551	9,893	7,022	7,563
Total Other Current Assets	401	286	370	294	317
Total Current Assets	6,883	6,974	12,147	10,151	12,335
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	2,476	2,667
Other Current Liabilities	435	272	456	483	483
Total Current Liabilities	2,610	2,665	3,503	2,959	3,150
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	69	73
Total Liabilities	2,852	2,927	3,707	3,031	3,226
Shareholders Equity	14,037	17,612	18,954	20,604	23,016
Minority Interests	1,911	2,283	2,520	2,960	3,818
Total Equity	15,948	19,896	21,474	23,564	26,834

Key Ratios

	Mar-20A	Mar-21A	Mar-22A	Mar-23F	Mar-24F
Revenue Growth	18.0%	(0.4%)	22.8%	4.9%	7.7%
Operating EBITDA Growth	10.9%	1.4%	(30.0%)	1.3%	62.7%
Operating EBITDA Margin	11.0%	11.2%	6.4%	6.2%	9.3%
Net Cash Per Share (Rs)	1.16	3.45	5.47	4.32	14.94
BVPS (Rs)	103.03	129.27	139.12	151.23	168.93
Gross Interest Cover	207.77	247.16	139.94	359.72	16,374.75
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	11.67	14.94
Inventory Days	51.58	62.56	66.51	70.64	59.00
Accounts Payables Days	24.02	26.01	23.43	23.07	20.81
ROIC (%)	59.7%	56.7%	39.1%	22.0%	35.2%
ROCE (%)	32.6%	28.5%	17.5%	15.2%	20.2%
Return On Average Assets	18.3%	14.7%	8.4%	7.6%	11.9%

SOURCE: INCRED RESEARCH, COMPANY REPORTS

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