

Management Quality Insights

Avanti Feeds Limited

AVANTI MANAGEMENT QUALITY INSIGHTS

Insight	Attribute(s)	Positively Re-inforcing Evidence/Observations over few years
<p>On top of their Job</p>	<p>Firm grip on Success Metrics Operational Execution Strategic Execution</p>	<p>1. Survival of the fittest - Black Tiger downcycles - 2004-2009 Many Indian Corporates/companies entered Aquaculture market in late 90s when it was seen as a sunrise sector. More than 90% of these could not survive the severe 2004-2009 downcycle. Waterbase, survived but only barely, registered losses and had no reserves left by 2009. Avanti's performance and fiscal prudence stands out - they were still profitable in all the years and paid high dividends save 2009, and had reserves of 65 Cr on BS, which they could utilise well in the turnaround from 2010.</p> <p>2. Feed Segment - Exemplary Strategic Focus Management had the foresight to (eschew the low-margin commoditised processing segment) focus on the Feed segment and create a hugely differentiated product in the Farmers mind, delivering the best Feed Conversion Ratio (FCR) - starting from scratch where biggest MNC rival CP Feeds was at 6-8x its size. Avanti is the bigger brand today in Vannamei with ~42% market share</p> <p>3. Firm grip on Execution Top quality feed, hard-work on the field in educating/supporting farmers on Farm Management, collecting weekly FCR data (all India basis all competitors), GPS enabled trackers for corrective actions, and credit appraisal of farmers based on personal knowledge.</p> <p>4. Rapid Expansions at the right time - harnessing goodwill on the ground The numbers speak for themselves. Production went up from xx to 2.38 LT in 2015. Sales grew at an exemplary 85% CAGR over last 7 years, leaving behind Waterbase (42% CAGR) and 5x bigger CP Feeds (34% CAGR). That major expansions have been completed without stretching the BS is a great plus.</p> <p>5. Thai Union Foods (TUF) - Strengthening Strategic Tie-ups TUF the worldwide leader in Processed Shrimp Value-Added and Ready to Eat (RTE) segments has a 25% stake in Avanti. Recently the relationship has been strengthened with a 60:40 JV in favour of Avanti for focusing on Shrimp Processing segment</p>

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Special DNA	Unique Skill/Trait or, Energising Passion or, Relentless Focus that drives the Mgmt	Relentless focus on being closest to farmer/ Winning over the best farmers Providing best product/farm management support to farmer. GPS enabled trackers for technical staff visits. Data collection every week every farmer - own and competitor FCR data.
Capital Efficiency	Return on Capital Incremental Return on Capital Free Cash Flow	<ol style="list-style-type: none"> 1. Business has been generating high ROCEs - about 50-70% since last 2-3 years. 2. Fixed Asset Turns improved drastically from 3.3. in 2010 to 21.3 in 2015 3. Debtor days improved from 35-40 days to almost NIL now. Cash and carry business now? 4. Advance from customers has increased from 4 Cr to 18 Cr in 4 years 5. Business throwing out Cash. Its rare to see any business grow 20x in 6 years with very less debt. They have about 100 Cr of spare cash on balance sheet now.
Capital Allocation Track Record	Dividend Payout Buybacks Acquisitions Premium Dilutions	<ol style="list-style-type: none"> 1. Smart move by selling Equity to TUF - getting the technology and funds at turnaround time. This might have been a key reason in the initial days for improvement in market share in Vanammei. 2. Going forward they are tapping TUF - value-added procuts and setting up a 60:40 JV. 3. The comoany has maintained a consistent dividend payout of 20%. 4. Have preferred to allocate bulk of capital to growing the Feed business.
Growth Mindset	2-3 yr current product/market visibility: Strong 3-5 yr visibility: New plants 5-10 yr : Seeds being sown	<ol style="list-style-type: none"> 1. Company has grown aggressively from just 90 Cr turnover in 2010 to 1775 Cr in 2015. 2. Consistent increase in market share from probably 10% in 2009 to 45% in 2015. 3. Further expansion lined up to increase feed capacity by 30-40%. 4. Plans to set up a new processing plant and almost double the capacity, venture into value-added and Ready to Eat (RTE) segments
Self Confidence	Unique Business Model Ability to do things "differently" from Industry	<ol style="list-style-type: none"> 1. Best Quality Feed, Closest to customer, targeting and winning over the best farmers 2. Continuous aggressive expansion bets - when on the right side of cycle 3. Promoters have bought from open market last at about 1500-1600 levels
Institutionalized	Key-Promoter driven Induction of Key Professionals	<ol style="list-style-type: none"> 1. MD Indra Kumar is key person in executional operational role, and on the field 2. Deputy MD Rao is the ideal conservative foil at the Back Office - more conservative, strategic 3. Lean organisation structure - sufficient power and decision-making delegation to key people
Empowerment Culture	Employees talking like Owners Same Vision/Fire in Employees	High. One can see operational heads and key people in field share the same vision, and are energised to work very hard for achieving set goals. Street-Smart, ear-to-the-ground culture that encourages innovative homegrown solutions for operational requirements

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Negatives

1. Shrimp Processing

Company hasn't been able to scale up this segment despite making multiple attempts. They acknowledged readily that they had probably underestimated the unique challenges/single-minded focus that processing segment needed. They said they have learnt from their mistakes in handling/keeping contract labour-force engaged.

2. R&D Spends

Investments in R&D - people, processes & systems, infrastructure have not kept pace with the frenetic growth the business has seen. Consistent investments in experimentation/substitution for Feed Quality improvements and cheaper RM substitution possibilities are needed to stay ahead of the pack. Yet to see much focus/emphasis here