

Buisness Quality Insights

Avanti Feeds Limited

Avanti Business Quaiy Insights

Strategic Assets		Distinctive Architecture		
<p>➤ Thai Union Frozen (TUF), Largest Sea Food company by value, 25% Strategic shareholder. Relationship strengthened with 60:40 Avanti: TUF JV for value-added processed shrimp, 15000T +8000T existing</p>		Competitive Forces/ Bargaining Power	Customers	<p>➤ Shrimp Feed: B2C: Farmers - industry growth critically dependent on farmer viability; modest pricing power in good times, costs pass-through in normal. Corporate farmers and small scale farmers ratio 40:60. Increasing brand pull with market share rising to 40-45% by 2015</p> <p>➤ Shrimp Processing: B2B: Diirect relationships with Large Retail - based on competitive global pricing</p>
<p>➤ Largest Feed capacity - 285,000 MT; 40000T expansion redied for next Summer crop; 1.25 LT expansion planned</p>			Segments	<p>➤ Feed:Processing - Revenues 80-20 skewed at the moment</p> <p>➤ Renewed Focus on value-added processing segment through 60:40 JV with TUF. Planned 15000T new capacity after shifting existing 8000T capacity to JV. Hatchery operations also starting 2016 Avanti aspires to 40:40:20 revenue contribution from feed, processing and hatcheries in 3-5 years.</p>
<p>➤ Feed formulation with lowest FCR in industry. Established brand pull with 45% market share</p>			Suppliers/ Vendors	<p>➤ Shrimp Feed - Fish meal, soya, wheat - RM sourcing mainly from India; Peru, Chile global suppliers for fish meal; As per some players as fish meal prices go north, RM (marginal) advantage shifts to India.</p> <p>➤ Shrimp Processing - Farmer Costing @ Rs. 180-200/Kg (30 Count); still viable @ current mrket pricing >= Rs. 280/kg</p>
<p>➤ Consistent investments made in Farmer Knowledge Sharing/Training and Technical Support. aery strong farmer relationship led from front by MD. Credit Appraisal/selection of best Farmers done based on first-hand knowledge</p>			Dealers/ Distributors	<p>➤ Strong dealer/distributor network in key markets</p> <p>➤ Credit Risks borne by Dealers. Avanti selects dealers with strong financial muscle who will adhere to T&C. Farmer selection/credit appraisal provided by Avanti</p>
<p>➤ Moving towards completey Integrated Operations in 2-3 years. Shrimp Hatchery, Feed, Value-Added Processing. Feed and Processing plants in nerve centre of Vannamie farming in AP</p>			Industry/ Competition	<p>➤ 14 LT annual Feed production; Consumption is only 7 LT; 70-75% market share among Avanti and CP Feeds; Waterbase distant third; MNCs like Growbest (Taiwan), Corporates like Godrej Agrovet have failed to make a mark</p> <p>➤ Oligopoly situation; informal pricing agreement seen among Top 3? Ability to take price hikes to pass on RM increases even in a difficult market, as seen recently</p> <p>➤ Seen as a healthy alternative, next 40-50 years Shrimp Aquaculture slated to keep growing, 2-4 % CAGR, 40LT global consumption today. Aquaculture can be broadly considered an evergreen industry, globally.</p>
<p>➤ Strong dealer/distributor network in key markets</p>				<p>➤ India-youngest in Vannamei culture, just 5 yrs compared to 20 yrs Vietnam, Mexico, Equador. 1L Hectares under cultivation vs 6.5L Hectare aqua-culture-fit. Last 3-4 years, India invested in Best Practices; Robust Regulatory framework has aided in stabilising industry.</p> <p>➤ Production in country slated to jump from 4-4.5LT in 2015 to 6.5LT in next 2 years. Organised players moving to set up Hatcheries which will ensure adequate supply of certified seeds (currently, problem area). AP Govt Fisheries Policy 2015-2020 expected to provide big impetus (AP 70% share)</p>
<p>Disproportionate Future?</p>				
<p>➤ In developed world, eating Shrimp is considered a delicacy and healthy. China, a Net Exporter turned a Net-Importer as local population adapted to eating Shrimps.</p> <p>➤ 99% of India produce exported. If Aquaculture Industry keeps growing consistently - shrimp consumption in India is bound to catch on with higher income levels ?</p>				
What can go wrong?	Mitigation?			
<p>↘ Global demand/supply based price dips</p>	Global production is stable among major producers; Long term trend is of equilibrium			
<p>↘ Natural Calamity - Cyclone, Flood, significant change in weather</p>	Cyclones effect focal area. Impact generally 1 crop. History shows industry stable despite hiccups			
<p>↘ Disease Outbreaks</p>	Normal prices counterbalance farmer greed; Robust Regulations	New Products/ Innovation/ Branding	<p>➤ Avanti Feed products - great brand pull - industry best FCR (Claims of 1.2-1.5 vs 1.5-1.7 of other leading brands); Market share has climbed form under 10% in 2010 to over 45% by 2015</p> <p>➤ Unable to supply demand in summer crop, Avanti adding 1.25LT capacity. Indications of further gains in market share, provided market conditions remain benign, non-adverse</p> <p>➤ Processed Shrimp commoditised; JV with TUF will mark the foray into value-added and Ready-to-Eat (RTE) markets; share of value-added/RTE unlikely to be more than 30% in product mix</p>	
<p>↘ Counter-availing duties/Anti-dumping</p>	Looks remote after reversal			
<p>↘ Poor Seed Quality - Illegal Hatcheries</p>	Organised players setting up Hatcheries			

Avanti Business Quality Insights (2)

Business Value Drivers		Growth Rates	EBITDA Margin	Capital Turnover	ROIC	Invested Capital	EPA/Sales	EPA/Sales - future value creation lead indicator
	3 Yr Average	65%	9.28%	4.73	51.00%	239.88	5.27%	Strong Future Value creation
	5 Yr Average	80%	8.70%	3.62	39.00%	197.35	3.00%	(Refer the VP EPA discussion)
BQ Bottomline	Earnings Quality	Capital Efficiency; High Dividend Payout; Free Cash Flows			High ROCE - 50-70% since last 2-3 years. Fixed Asset Turns improved drastically from 3x to 21x in last 5 years. Debtor days improved from 35-40 days to almost Nil. Advance from customers has increased from 4 Cr to 18 Cr. Consistent dividend payout over 20%			
	Nature of Industry:	Competitive Intensity? Industry Growth rates?			Local production expected to grow 25% CAGR for next 2-3 years. Protected Oligopoly in Feed Segment for Top players like Avanti with Industry best FCR. Processing segment is commoditised			
	Opportunity Size:	How big is the runway? How many years out?			Global Shrimp consumption has been very stable over last fifteen years. Seen as a delicacy and healthy alternative, global demand should be stable and growing. Feed segment sales growth for Avanti may taper down to low double digits after 3-5 years (high base effect). Value-Added processing and Hatcheries would start contributing higher growth from a very low base, in same timeframes			
	Capital Allocation:	Able to invest large Capital at high ROIC?			Demonstrated capabilities with feed business enjoying very high capital turns with high margins. As product mix shifts to 40:40:20 Feed:Processing:Hatchery in 3-5 years, RoIC expected to be lower, but still very attractive			
	Predictability:	How many variables in the Business?			Many variables cloud the picture - global demand supply based pricing, Raw material volatility, country specific counter-availing duties, disease outbreaks, cyclones; Industry expectation is of stable long term trend with occasional hiccups in some crops/years			
	Sustainability:	How hard is it to dislodge from its perch?			Avanti Entrenched as the dominant Shrimp Feed supplier. Ground level checks indicate very strong position. Difficult task for any new player to acquire reasonable share. Various new players established capacities but are unable to compete effectively.			
	Disproportionate Future:	disproportionate future? Do multiple Optionalities exist?			Value-Added, RTE Processed Shrimp/Retail success is a distinct possibility in the medium to longer term. Strengthening TUF Investment/Relationship gives confidence			
	Business Strategy & Planned Initiatives:	Is the company likely to grow efficiently & emerge stronger in next 2-3 years?			If Industry grows by 20-25% in next 2-3 years as expected, Avanti feed business should maintain a higher momentum. Besides Hatchery and Processing will start kicking in stronger			
	Key Monitorables	Next 2-3 years – what are the key monitorables, key health indicators?			1. Global shrimp pricing 2. Diseases 3. Processing/Hatchery progress			
	Near Term Visibility:	Next 2-3 years – how strong is the visibility?			Strong 25-30% CAGR visibility over next 2-3 years			
	Long Term Visibility:	5-10 years on - how likely to survive & prosper?			At ~1800 Cr FY15 Sales and the Capital efficiency it now operates at, Business is more mature to handle adversities, survive bumps and still prosper. An Integrated player soon with Hatcheries/Value-Added Processing play. If TUF has survived and become stronger over a few decades, no reason not to expect Avanti to follow admirably with Investment/Support from TUF			
BQ Spotlight?	BQ Category:	Laborious? Or Disproportionate Smarts?			Demonstrated disproportionate smarts in last 5 years growing ~20x (90 Cr to 1775 Cr). In next 5-10 years successful foray in Value-Added/RTE and Retail could surprise			
	Business Transition Track Record:	Managed significant business transition to its advantage? What impresses most?			Huge growth with consistently increasing EBITDA Margins and Capital Turns; Reducing debt; Great reduction in working capital requirements; High Dividend Payouts			
	Performance vs Perception GAP:	Current P/E or Perception captures business quality/performance? How big is the GAP?			CMP 2600 Trailing PE: 17x	Stable PE Range:15-20x	Perception swings will occur from time to time, on account of short-term hiccups. Margin of safety will come from superior understanding of the business/management quality	