

# Avanti Feeds Analysis by Ravi K. Yendru

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**Statutory Warning:** This is NOT an investment advice to buy or sell shares. Please make your own decision, as blindly acting on anyone else's research and opinions can be injurious to your wealth. I own the stock at the moment, and my analysis can be biased, and wrong. The below is my personal analysis for Education purposes. I am not a SEBI registered research analyst

## Overview of the Company:

Avanti Feeds is engaged in the business of manufacturing Shrimp feed and processing, exporting Shrimp. The Partnership with Thai Union Company was a great decision for the company in developing feed for the Vannamei variety of Shrimp in 2009.

## Observations from Annual Report

### Chairman's Report:

Categorised into 3 divisions:

- 1) Shrimp Feed (Main Source of Income)
- 2) Shrimp Procession
- 3) Shrimp Hatcheries

Interestingly the Chairman's report was started from the past two years only (2018 and 2019). In 2018 he talks about how the company reached its peak and future expansion plans. In 2019 he talks about the headwinds faced in the all the above three segments because of Demand Supply mismatch, Diseases and increase in Raw Material cost.

The positive thing is he talks about maintaining the prices in order to retain the customers (farmers) and thereby taking a hit on the Profit Margins.

**Board's Report:** I did not observe anything noteworthy.

### Management Discussion:

Current last two years growth in shrimp is flat mainly because of Demand Supply Mismatch which is because of surplus supply because of overproduction

### Strengths:

- 1) Good Experience of 25 years
- 2) Technical Assistance to Farmers
- 3) Strong Dealership network
- 4) Ability to Ramp up production in short time frame

### Weakness:

Lack of Infrastructure like Electricity in lots of places in India for farmers. Non recognition of Aqua culture as a form of Agriculture

### Opportunities:

A reduction in Sea Shrimp catch necessities the need for Farm Shrimp and hence can contribute to the sector growth.

### Threats:

Fluctuations in climate which are unpredictable results in diseases to the Shrimp  
Export regulation like USFDA, US Anti Dumping,  
Increase in sea Shrimp catch. This will decrease the consumption of farm grown Shrimp.

**Customers:**

It is consumed in the markets of India, US, Europe and rest of the world

**Other Observations:** Till 2017 the AR was very simple, from 2018 i think they spent some money into bettering the AR, I observed some flashiness in the AR's of 2018 and 2019. It had Customer feedback and some boasting.

Shrimp Feed Share:

Domestic: 78%

Global: 22%

They are into Windmill electricity generation Business in a small way. This is beyond their area of competence.

### Industry Wise (Porter's) Analysis

**Competitive rivalry:** Good Competitive Rivalry exists. Lot of unorganized players exist. But then Avanti has advantage of Brand, Quality and Technical help to Farmers

**Buyer Power:** There does not seem to be much control on Buyers. Avanti had to keep cost intact even though profits margins were hit in the past two years in order not to loose Farmers (customers)

**New Entrants:** It does not seem to be very easy for new players to be at par with Avanti

**Threat of substitution:** Threat of Substitution is a problem for Shrimp feed Industry

**Supplier Power:** There is not much of supplier power because most of them are Farmers

Buyer power and Threat of Substitution acts as Negatives.

New Entrants, Competitive Rivalry and Supplier Power acts are Positives

**Overall** a very mild MOAT exists for Avanti in terms of Quality of the feed, extra technical help to the farmers and ability to buy Shrimp from them for the Processing industry that Avanti has.

### Balance Sheet Observations:

**Negatives:**

Equity share capital was diluted 2 times in the past 10 years.

**Positives:**

Debt is very less

Cash is good

Receivables are reducing

Inventory is maintained

**Overall** is a healthy balance sheet. Equity Dilution is not desirable.

## **P&L Observations**

### **Negatives:**

Sales growth is slowing  
Expenses are coming down

### **Positives:**

Sales is growing at steady rate  
Profit is increasing

**Observations:** NA

**Overall** it's a good P&L

## **Cash Flow Observations**

### **Negatives:**

Operating Cash flow is less than Net Profit 7 out of 10 times in the past 10 years. This indicates the quality of earnings is not good enough  
In FY11, 13 and 17 Cash Required in Investing was more than Operating Cash  
In FY11 and 13 Cash required from Financing was more than Operating Cash

### **Positives:**

Free Cash Flow is positive in spite of cyclicity of the business  
Major source of Cash seems to be from Operating since most of the years OCF is greater than Investing and financing  
Cash Flow seems to be positive and sufficient to cover CAPEX  
Operating Cash Flow seems to be coming from Operation only since its less than financing only two times in the last 10 years  
Operating Cash flow is positive but its Fluctuating  
Most of the years (7-8) in last 10 OCF was more than Investing and Financing

**Overall** the Cash Flow is good except one red flag

## **Ratio Analysis:**

Ratios Summary:

### **Positives:**

Financial Leverage --> Low  
Net Profit Margin --> Increasing

### **Negatives:**

NA

### **Neutral:**

Asset Turnover --> Maintained/Range Bound

**Overall**, the ROE average for 10 years is more than 20% (36.6%) and ROCE is 38%.  
It indicates a good management with good capital allocation ability.

## **Valuations:**

The **DCF Value** is Rs 304 and with a Margin on Safety of 30% the ideal buying range is Rs 212. So as per DCF the current CMP of Rs. 297 is attractive. (Growth Rate 12% and 10% for 1st 5 years and next 5 years)

As per **Reverse DCF** the Market is expecting a growth rate of 12% for 1st 5 years and 10% for the next 5 years at a discount rate of 10%.

As per **Dando Valuation** the lower range is 2566 Crore and upper range is 4387 crore. The current Market capitalization is 3878 crore, so the current price is in the buyable range.

As per **Expected Returns** model with Assumption in CAGR in Net Profit as 12% and Exit PE of 20 the Market Capitalization can be 6553 cr which is less than current Market Map of 6783 cr. Hence the price looks attractive

### **Checklist:**

**Less is More checklist:**

**Negatives:** A mild MOAT exists and the industry is cyclical. But the company is focussed on Feed whose production they can either increase or decrease basing on need.

**Positives:** All other aspects looks positive

**Overall** it seems to be good.

**Things to watch out for (Possible Cover-up):** None Observed

**Positive:**

**Negative:**

**Financial Shenanigans (Earnings Manipulations - Red Flags to watch out for):**

CFO < Operating/Net Profit for some Years 7 times in the past 10 years

I did not observe any other Shenanigan violated

**A Business I Understand** -> Yes

**Good Long-Term Economics** -> Company does not have ability to raise prices. Other factors like Growth, ROE seems to be good

**Good Financial Strength** -> Yes

**Psychological Checklist** ->

### **Management Analysis:**

**Positives:**

- Management has a good understanding of Strengths, Weaknesses, Opportunities and Threats.
- Management is invested in the company.
- No Conflict of Interest Observed. The Company has a subsidiary for Frozen foods but this falls into the same business on Shrimp
- News and Reportage: I did not find anything discomfoting

**Negatives:**

- Management Qualifications/Age: The Management seems to be aging (Avg 60 +) which is not a very good sign. It seems to be mainly spearheaded by the Director (A Indra Kumar). As per qualifications it does not seem to be representing the various wings of a company.
- Management Salaries: Combined salary is 29 Cr which is 7% of Net Profit which is more
- The Management does not seem to have Depth like 2nd Level persons.

**Observation:** NA

### **Competitive Landscape:**

I am not able to find players doing the exact same business as Avanti . There are players who are doing Shrimp Feed and players who are into Frozen food, but not both. I am yet to evaluate in this area

**Peer Comparison:**

**Investment Decision:**

The current price (Rs. 297) seems to be attractive and the long term trend is positive. There can be hiccup's in the short term because of the current CoronaVirus impact and it's after impacts (if the situation comes to normal soon).