AVANTI FEEDS LIMITED

Largest Shrimp Feed Manufacturer of India

A pioneer in the Indian Shrimp Industry with over 25 years of experience, Avanti Feeds Limited ("the Company" or "AFL") is the largest manufacturer of shrimp feed in India. The Company started its feed manufacturing business in 1994 with a capacity of 20,000 terapascal (TPA) and has now expanded 30x to 6,00,000 TPA. AFL has its presence on both eastern and western coasts of India. The subsidiary of the Company, Avanti Frozen Foods Private Limited started its operations of processing and exporting shrimp in 1999 with a mere capacity of 3,000 TPA per annum which has now expanded nearly 7x to a capacity of 22,000 TPA. The Company's feed business caters to farmers of all scale and has successfully gained a 48% market share. It also has an upcoming hatchery of 400 million seeds operational in two phases.

The Company has the following variety of shrimp feeds.

Origin of AFL

In 1991, the Government announced the economic reforms for globalization and also encouraged the commercial production of shrimp. This move aimed to increase the use of brackish water bodies that were underutilized until then and increase the country's share of seafood exports. Mr. Alluri Indra Kumar, who was then working in his family export business at Srinivasa Cystine Private Limited, sensed potential in the feed business and convinced his father to start the business.

AFL was formed in 1992 and in 1994, it began its operations in Kovvur. In the same year, AFL joined hands with Ping Tai Enterprises from Taiwan for technical collaboration. In 2002, Ping Tai chose to exit the feed business. Later on, AFL joined hands with Thai Union in 2003, for the technical know-how and feed formulation to boost the growth of the Company. In 2009, with the Government allowing commercial production of Whiteleg shrimps in India, AFL gradually expanded and emerged as the largest shrimp feed manufacturer of India.

Kumar's business motive is to sustain in the industry and promote aquaculture as aquaculture in India is still underpenetrated compared to its long coastline. AFL got listed on 15th April 2015.

Aquaculture in India

- As per Global Outlook for Aquaculture Leadership (GOAL), shrimp aquaculture production is expected to grow at a CAGR of 4.9% from 2015 to 2021.
- India has a long coastline of 7516 km spread over 10 states and Union Territories along with 311 Hatcheries, 90 Nauplii Rearing Centres (NRCs) and more than 30 feed producing companies, along with 366 Marine Products Export Development Authority (MPEDA) approved companies for exporting seafood, and 60 cold storage facilities.
- India currently has more than 1,76,000 hectares of area under shrimp farming, out of which 91% is used for Whiteleg shrimps, 8% for black tiger shrimps, and 1% for freshwater giant prawns.
- In 2019, shrimp production in the country witnessed a growth of 31% as compared to 2018 and stood at 8,04,000 tonnes. In 2019, India's shrimp exports grew by 8% making India the largest exporter of frozen seawater shrimp.
- The Budget 2020 presented by Finance Minister Nirmala Sitharaman in the Lok Sabha on 1st February 2020, emphasized on the need for focus on the growth of fisheries sector with a target of fishing product exports to Rs.1 lakh crore by 2024-2025. The budget further proposed to involve youth in fishery extension through Sagar Mitra and fish farmer producer organizations.
- India has adequate sources to expand its aquaculture production and exports and take advantage of the growing needs of aquaculture consumption.

Business Model

AFL has 2 main business verticals: Shrimp Feed and Shrimp Processing and Export. The Company will soon have a third vertical, Shrimp Hatchery that will be operational in 2 phases with 200 million seeds in each phase. This will help the Company towards the forward integration of its processes.

The feed produced by the Company has the best-in-class Feed Conversion Ratio (FCR) of 1.2 which is lower than the industrial average of 1.5. FCR is used to measure the efficiency of converting livestock to the desired output.

The three main ingredients that constitute 80-85% of the shrimp feed cost are wheat flour, Soya De-Oiled Cake (DOC), and fish meal. AFL has been making the wheat flour themselves to a certain extent to reduce the cost. But the consumption is high compared to the in-house production capacity available. Therefore, it procures the additional amount required, from other producers. The Company has 10 to 15 processors with whom it negotiates for soya bean meal and gets the best buy. Lastly, the fish meal which is a natural and seasonal product is bought from 10 to 15 fishmeal plants. The finished product is then sent to the dealers who sell it to the farmers. The Company ensures the proper supply of its product countrywide. Hence, to cater to the needs of the West coast of India, it has a 60,000 TPA capacity unit in Valsad, Gujarat.

The subsidiary of the Company, Avanti Frozen Foods Pvt. Ltd. operates through 2 units in Andhra Pradesh with a total capacity of 22,000 TPA per annum. The Company exports various varieties of raw and value-added shrimps to USA, Europe, Japan, Korea, China, Australia, and the Middle East. It buys the shrimps from some selected farms where it gets the best rate, quality, and the size that is required. The end product is delivered to restaurants and meat suppliers across the globe. USA is the largest importer of its product. The subsidiary keeps on working on new value-added products to expand its export basket.

The Company also has 4 windmills with a capacity of producing 3.2 MW of electricity in Karnataka. The output is sold to Karnataka Power Transmission Corporation Limited every year under the Power Purchase Agreement.

Impact of COVID-19

Lockdown imposed during COVID-19 has affected the shrimp culture in India due to a shortage in the supply of broodstock of Whiteleg shrimp that was imported from the USA. Production of shrimp stood at 8,04,000 tonnes while India was earlier estimated to hit the record production of 9,00,000 tonnes in FY20. Shrimp consumption is expected to fall by 15% to 20% globally due to lower consumption. The high unemployment rate will likely bring down the demand for shrimp as it is expensive than other meats available for consumption. Moreover, the demand from restaurants has also declined as a number of them are not fully operational. However, as many people are dependent on shrimp for the source of protein, the demand by the retail stores witnessed some rise.

Differentiating Strategies

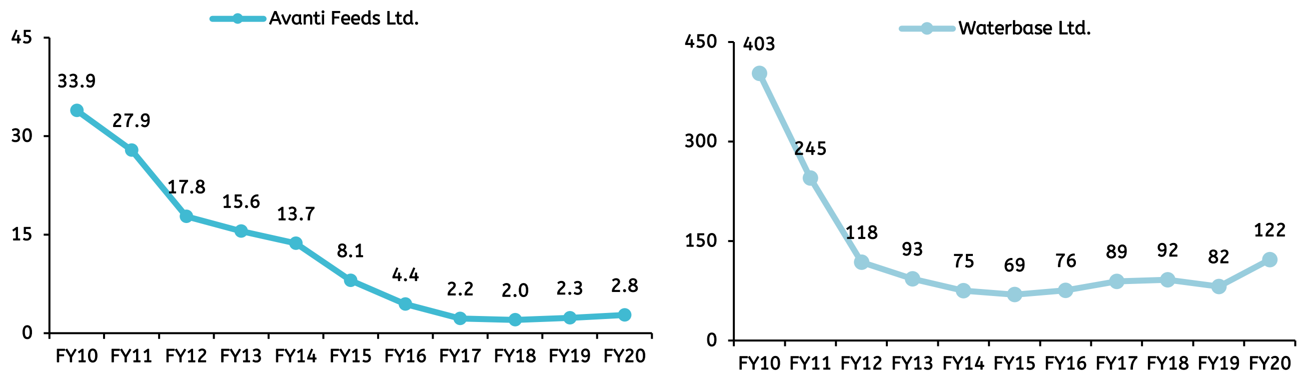
1. **Maintaining Constant Prices**
   The prices of the 3 raw materials that go into the feed as mentioned above depend on the cropping and the season. However, AFL doesn't resort to increasing the price of their products simultaneously. The Company itself bears the burden to a certain extent before passing it on to the customer. Since many small farmers are in the business, it is easy for them to get discouraged from the price increase. AFL had increased the price of its product in Q3FY20 for the first time in 5 years.

2. **Expansion**
   The Company has already started exporting its feed to Bangladesh and they are eager to diversify to other countries as well. The Company is also establishing a feed plant in Indonesia with the partnership of the Thai Union. Its subsidiary Avanti Frozen Foods Ltd. used to be hugely dependent on the USA market, however, now it has started diversifying to other countries like Japan, Korea, China, etc.

3. **No Credit Strategy**
   Before 2009, AFL used to sell the feed to dealers on credit, who would then sell the feed to the farmers on credit. But post the economic downturn of 2008, the exports fell and many farmers struggled to pay their dues. This increased the pressure on the working capital of the Company. To avoid such a situation in future, AFL adopted the policy of doing business on a cash basis rather than credit. Currently, the Company receives cash in advance for 95% of the sales done and for the remaining 5%, the cash is received within 15-20 days for which it keeps collateral as a security. By following this strategy, the

Company has become less prone to the seasonality factor as it does not have to depend on the sales done by dealers to the farmers, or the farmers produce. Therefore, the debtor days of AVANTIFEED are much less than its competitor Waterbase Ltd.

Debtor Period (Days)



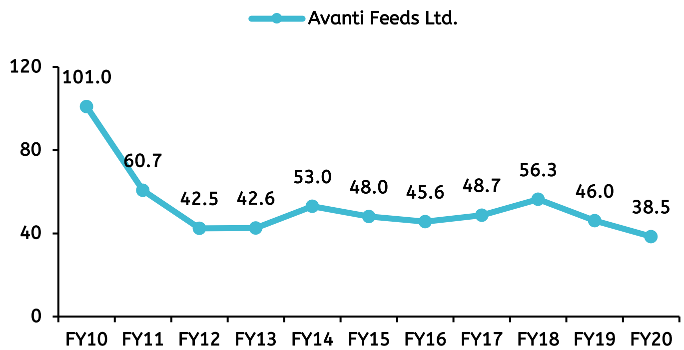
Source: Company, Leveraged Growth

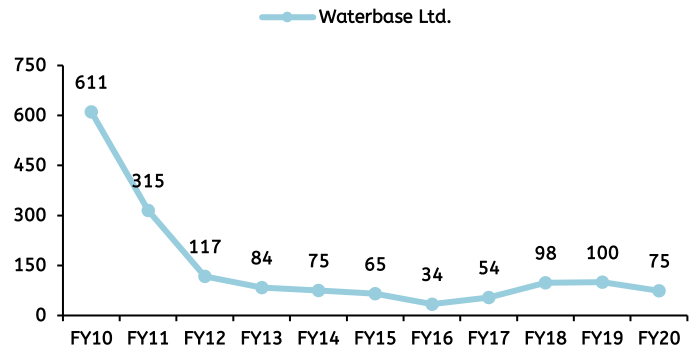
SWOT Analysis

Strengths

1. **Technical Expertise:** The varying climatic conditions of India's vast landscape calls for the need-based formulation of feed which ensures consistent performance of the Company's feed in different climates and other conditions of shrimp culture with solid a yield to the farmer. AFL possesses the required technical expertise in developing need-based feed formulation to suit the shrimp culture condition of different regions in India. Moreover, the Company provides technical assistance to the farmers for better yield in shrimp culture. Because of this, AFL has been able to maintain a strong relationship with the farmers which has helped the Company in keeping their customer base intact along with adding new customers.
2. **No-Debt:** The Company has a strategy of funding its expansion through internal accruals without raising external debt at a high interest rate. This has resulted in the Company becoming Net-Debt Free.
3. **Strong Dealership Network:** The Company enjoys a strong dealership network as it has channel partners all over India catering to the needs of the farmers. Moreover, it has feed manufacturing units on both Eastern and Western coasts of India which makes it easier to capture and cater to the regional market.
4. **Market Leader:** AFL has been in the business for over two decades now, the Company's exceptional quality of feed along with the best FCR makes sure that the farmer stays with them for a long time. This has made them the market leader with a 48% share in the industry.
5. **Quick Capacity Upscale:** On the back of its technical expertise, AFL is capable of quickly upscaling its production capacity as and when needed to benefit from the rise in demand.
6. **Efficient Inventory Management:** The Company has been able to sell its product quickly which reduces the duration of cash that is tied up in the business. This has led to efficient inventory management and quick conversion of its inventory to profits, compared to its peers.

Inventory Outstanding (Days)





Source: Company, Leveraged Growth

Weaknesses

1. **Lack of International Presence:** The Company's feed business is majorly limited to the Indian market. Although the Company has started exporting its feed to the neighbouring country of Bangladesh, the size of the market is small and is limited to the feed of Black Tiger shrimp only which has a lower survival rate and is more prone to diseases. Moreover, it has very little export potential.

Opportunities

1. **Potential products:** The Company can also expand its product basket by stepping into other aquafeeds, animal feeds, etc. The subsidiary of the Company, Avanti Frozen Foods keeps on expanding its export basket by adding different varieties of value-added products.
2. **Opportunities in the Foreign Market:** AFL along with its subsidiary Avanti frozen foods has set its foot successfully in the international market which can help the Company grow even more in the coming years. The Shrimp feed of the Company is ISO 9000:2015 certified, and the Shrimp processing and exports are certified by ISO 22000:2005, Hazard Analysis and Critical Control Points (HACCP), US Food and Drug Administration (USFDA), EU and British Retail Consortium (BRC) Global Standards, and Aquaculture Certification Council (ACC) for Best Aquaculture Practices (BAP). This makes the products acceptable in the international market. The global increase in demand for high protein food to boost immunity will drive the demand for shrimps.

Threats

1. **Seasonality:** Seasonality plays a very important role in the Company's operations. The seasonality of raw materials affects the Company's capacity utilization as they have to take advantage of the period when the raw material is available. For example, wheat crop starts coming in February, so the Company starts stocking for April, May, and June. It also affects the cost of manufacturing the feed which can vary depending on the cost and the availability of raw materials.
2. **Natural calamities:** Shrimps are generally grown in earthen ponds in coastal areas, which are severely damaged with heavy rainfall followed by floods and cyclones. This can lead to economic losses, disruption of a farming system which then discourages the farmer to continue with the culture.

Michael Porter 5-Force Analysis

Barriers to Entry

- The feed manufacturing industry is highly labour-intensive. Moreover, the customers prefer high-quality feed which requires significant technical know-how and thus, prevents the new entrants to enter the industry. AFL possesses both the factors and can also upscale production in a short period without having to raise external debt.
- Also, aquaculture is still not considered at par with agriculture and it still doesn't have adequate cold storage facilities, infrastructure, power supply, etc. Lack of proper infrastructure makes it difficult for farmers to grow and even continue farming in the long run.

Bargaining Power of Suppliers

- The main raw materials for the Shrimp industry are soya DOC, wheat flour, and fish meal. These constitute a large portion of the cost and are seasonal products. Therefore, their prices vary continuously and the volatility of the same has a significant impact on the margins.
- To overcome this issue, the Company has tried backward integration in the past but that has not worked out well, as the raw materials have various joint products like soya oil, bran, fish oil, etc. for which the Company will have to find other markets to sell these. This will divert the Company's focus from its core business activity. They have been trying to substitute their raw materials with more sustainable and readily available products so that they don't have to rely too much on these products. Hence, the bargaining power of the suppliers remains high as of now.

Bargaining Power of Buyers

- The bargaining power of the buyers is low as AFL offers the best quality products along with industry-beating FCR because of which there exists a high switching cost to the customers. If the customer switches to another company's product with high FCR, they will eventually end up increasing his cost.
- The quality and the FCR of AFL have helped the Company in increasing its market share even when the industry slowed down in FY19. AFL also showed resilience to the pandemic due to which the FY20 results of the company were not affected, implying customer preference for their products.

Rivalry among Competitors

The shrimp feed manufacturing industry is concentrated. There are few large manufacturers like CP Aqua that hold more than 32% of the market share followed by Waterbase Ltd. with 7% share. Hence, there exists high competition. Despite this AFL has been able to grow its market share significantly over the years.

Threats of Substitutes

The Company provides the farmer with the best-in-class FCR in the industry which makes it less likely for the farmer to substitute the product provided by the Company. Also, the technical assistance provided by the Company is very beneficial to the farmer which provides the farmers with suitable methods of shrimp culture and also update them on the latest developments in aquaculture, this gives the Company a competitive edge over its peers.

Branding and Other Initiatives

1. **Branding**
   Though the Company does not spend much on branding, it has managed to increase its share in the market. In FY19, the Company added 1400 new customers and also strengthened its technical support and monitoring of farms to ensure remunerative yields to farmers. This shows that the Company's products speak for themselves.

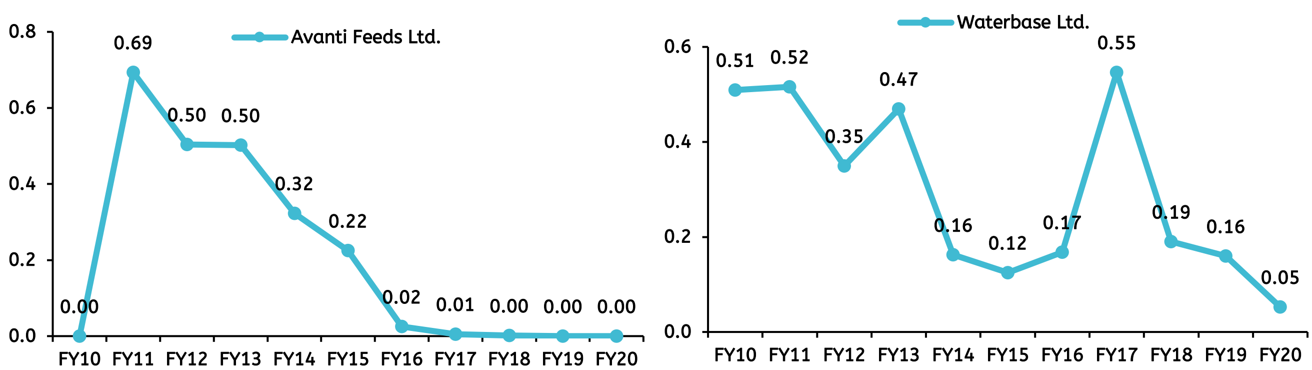
2. **Upliftment of Farmers**
   In FY19, the Company provided the shrimp farmers with equipment aerators, sludge removing pumps, and weighing scales in Andhra Pradesh, Gujarat, Odisha, Tamil Nadu, and West Bengal under Agricultural Extension Project. They also provided training and educational tours to shrimp farmers.

3. **Conservation of Energy**
   In FY19, the Company has installed new IE3 (efficiency) and IE4 (super-premium-efficiency) motors for energy conservation, enhanced the Solar Energy Capacity from 10KW to 30 KW at the Gujarat Plant, and replaced all traditional lights with LED lights.

Financial Analysis

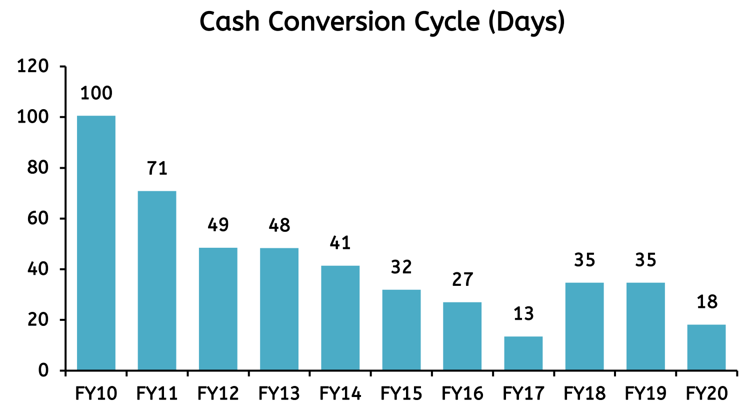
1. **Debt-to-Equity**
   The debt-to-equity ratio of AFL was highest during FY11 when it took a loan for financing the windmills for its power generation project. The ratio has been falling ever since as the Company shifted its strategy to expand through internal accruals rather than taking external debt. Whereas, the peer of the Company has been maintaining a relatively high debt-to-equity ratio over the years. AFL's strategy of no-debt provided the Company with an edge during this pandemic, as it will not have to worry about cash outflows due to interest payments, in case it faces short term illiquidity due to low sales or exports.

Debt-to-Equity Ratio (x)



Source: Company, Leveraged Growth

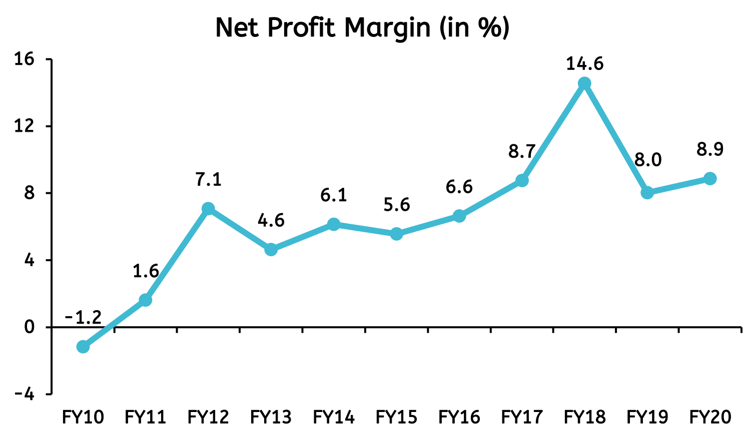
2. **Cash Conversion Cycle**
   The low cash conversion cycle indicates that the Company's working capital is not tied up for long and the business has significant liquidity. It indicates that the Company is effectively converting its inventory to cash. The low CCC is due to AFL's strategy to carry out 95% cash sales as mentioned above.



Source: Company, Leveraged Growth

3. Profitability

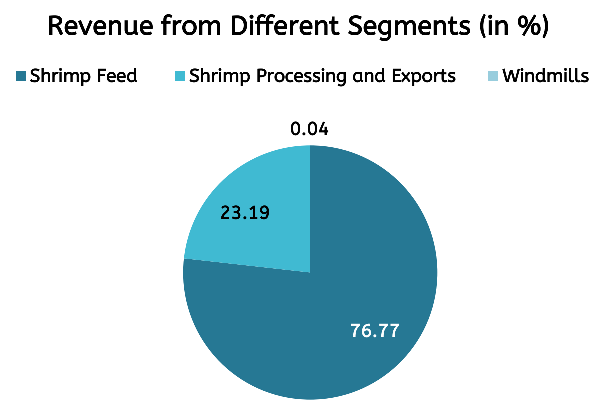
The Company's profits and margins had suffered in FY10 due to the global recession which resulted in low exports and subdued shrimp culture. Thereafter, the PAT has grown at a CAGR of 63.57% over the past 10 years. The abnormally high PAT and PAT margin in FY18 was because of the unusually suppressed raw material prices. The Company has shown nearly 28% growth in PAT in FY20 on a YoY basis, primarily due to 35.9% increase in other operating income and nearly 17.9% decrease in current taxes as the Company opted for the reduced tax under the new tax ordinance. Due to the same reason, the margins also increased. However, the Company's management is confident that it can maintain a sustainable margin of 8%-10%.



Source: Company, Leveraged Growth

4. Segmental Analysis

The majority of the Company's revenue comes from the feed business which is well established in India and is also expanding to other countries. The shrimp processing and export business is also expanding to other countries like Europe, Japan, China, the Middle East, Korea, Australia, etc. The windmills contribute a minor portion to the revenue.



Source: Company, Leveraged Growth

Summary of Credit Ratings

Sl. No.	Facility	Existing Rating	Revised Rating	Remarks
1.	Long Term Issuer Rating	IND AA-/Stable	IND AA-/Stable	Affirmed
2.	Fund Based Working Capital Limits (Rs. 75 Crores)	IND AA-/Stable	IND AA-/Stable	Affirmed
3.	Non-Fund Based Working Capital Limits (Rs. 67 Crores)	IND A1+	IND A1+	Affirmed

Risk Analysis

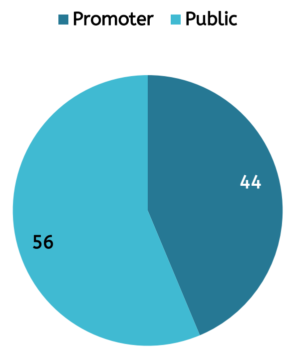
1. **Volatile Raw Material Prices:** The varying cost of raw materials puts a question mark on the Company's profitability. But because of the feed quality and industry-beating FCR, the product is liked and preferred by the farmers which makes it less substitutable and more trustworthy, this will help the Company in driving volumes.
2. **Regulatory Risk:** The regulations are changing across countries and stringent measures are being adopted which calls for the Company to comply with those measures and be efficient in doing so.
3. **Foreign Exchange Risk:** The Company has been exporting its products to various other countries, it has also been importing Squid Liver Powder which is used in manufacturing shrimp feed, and it is therefore exposed to significant foreign exchange risk. The Company does hedge a significant portion of its exposure to the change in foreign currency as soon as the export order is confirmed.

Corporate Governance

1. The Company's Board consisted of 14 Directors out of which 7 were Independent Directors and a woman director.
2. Sri A. Indra Kumar is the Chairman & Managing Director of the Company. Sri N. Ram Prasad, Director of the Company is the spouse of Sri A. Indra Kumar's sister. Sri A. Venkata Sanjeev is the son of Sri A. Indra Kumar. Except for these, none of the other Directors are related to any other Director on the Board.
3. Sri A. Indra Kumar is the Non-executive and Independent Director in Nava Bharat Ventures Limited and 3 other public companies. Sri C. Ramchandra Rao holds directorship in 2 other companies. Sri Solomon Arokia Raj IAS holds directorship in 6 other companies. Sri M.S.P. Rao holds directorship in 3 other companies. Both Sri N. Ram Prasad and, Sri. A. V. Achar hold directorship in one other company.

4. Apart from the 5 Board meetings that were held in FY19, one separate meeting was held on 11th May 2019 by the Independent Directors without the attendance of Non-Independent Directors and members of the management. The Independent Directors: (a) reviewed the performance of the Non-Independent Directors and Board, (b) reviewed the performance of the Chairperson of the Company, and (c) assessed the standard, quantity, and timeliness of the flow of information between the Company's management and therefore the Board.
5. The Company has various Familiarization Programs through which it aims to educate the Independent Directors of the Company on their roles, rights, responsibilities within the Company, nature of the industry in which the Company operates, the business model of the Company, etc.
6. The promoters have no shares pledged out of the 43.78% shares held by them.

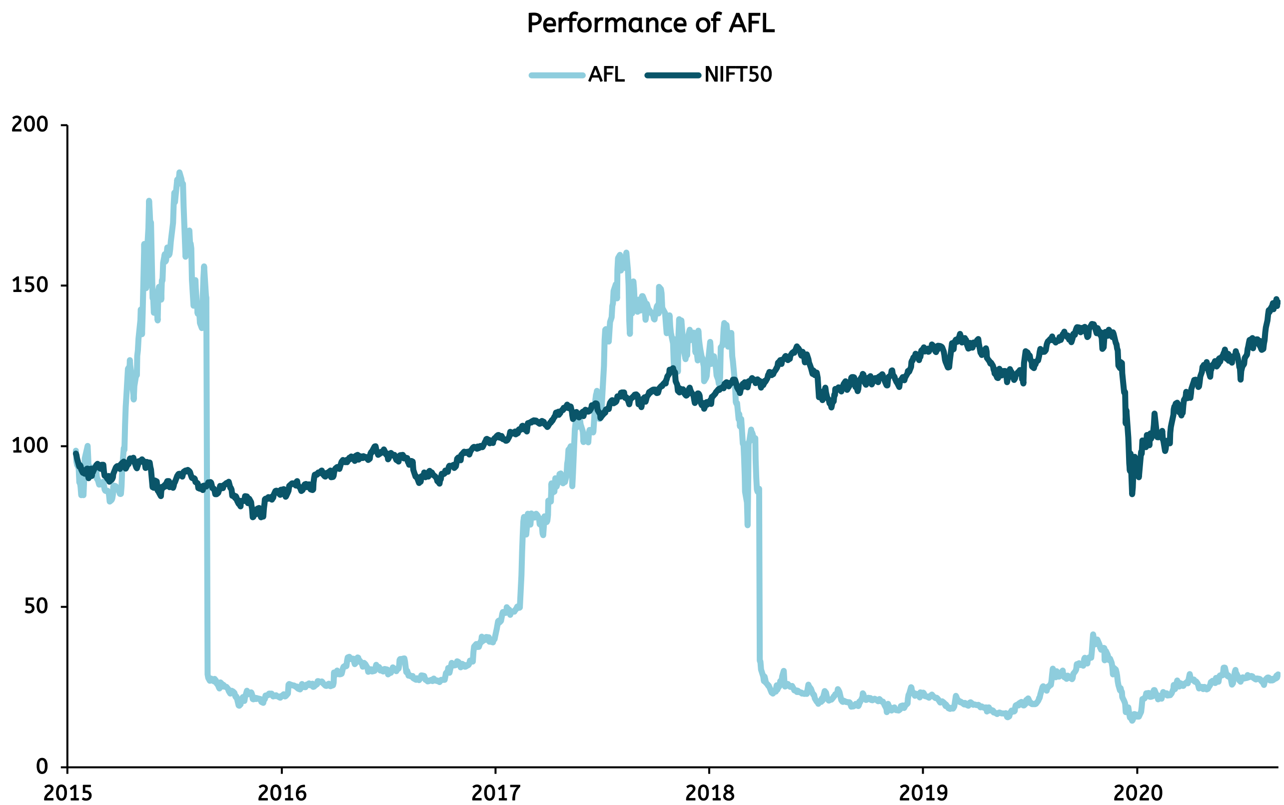
Shareholding Pattern as of Q2FY21 (in %)



Source: Company, Leveraged Growth

The End-Note

1. The historical performance of AFL has shown tremendous growth and potential. The Company has expanded itself from a 7% market share in FY09 to a 48% market share in FY19. The reason behind its success has been the quality of its products, best-in-class FCR of its feed and, the services provided by its well-qualified technicians.
2. The subsidiary of the Company, Avanti Frozen Foods Pvt. Ltd. has already established its brand name globally by exporting to other countries. However, AFL is yet to enter and compete in the industry globally.
3. There is a likelihood that AFL will diversify into other animal feeds as well, since it possesses the required technology, capacity. It also has sufficient infrastructure, equipment to increase the capacity of Avanti Frozen Foods within a short time without much investment.



Source: Company, Leveraged Growth

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