

## Waterbase (WATERB)

₹ 110

### Aquaculture play; on path of consolidation...

We recently met Ramakanth V Akula, Chief Executive Officer of The Waterbase Ltd (TWL) to get an insight into the domestic aquaculture market and the company's role in the value chain. TWL is an aquaculture company established in 1987 in Nellore (Andhra Pradesh), belonging to the Karan Chand Thappar Group. It is primarily involved in manufacturing shrimp feed for the domestic market and export of processed shrimps. TWL has an installed capacity to manufacture 35000 tonne of shrimp feed annually. In FY16, TWL sold 42000 tonne of shrimp feed (including traded quantity) realising a topline of ₹ 290 crore with blended realisations at ₹ 70/kg. Shrimp feed sales constitute a majority (94%) of sales. In FY13-16, sales grew at a CAGR of 26.6% to ₹ 318.6 crore while EBITDA grew at a CAGR of 27.6% to ₹ 25.2 crore in FY16. TWL realises steady EBITDA margins of ~10%. FY16 was a subdued year for TWL due to occurrence of floods in AP resulting in a loss of stock and damage to plant & machinery resulting in marginal ₹ 0.7 crore profit at the PAT level. With amalgamation of Pinnae Feeds (capacity 75000 tonne) on the cards and being a pioneer in the shrimp feed space, TWL is set for a robust growth journey ahead with increasing sales and profitability, going forward. Occurrence of diseases while cultivating shrimps in farmland and adverse weather pattern poses perennial risks to TWL's business model.

#### Amalgamation of Pinnae Feeds to provide requisite scale for growth!

In CY10-15, when the Indian shrimp feed industry was growing at an exceptional rate, TWL could not encash on the same due to limitation of capacity and its inability to expand organically. However, in 2012, the promoter group established a manufacturing facility for manufacturing shrimp feed in their personal capacity. The said facility had a capacity of 75000 tonne with the only modus operandi of supplying the shrimp feed to TWL, which, in turn, was sold by TWL in the open market under its own brand name (trading). The intent of the promoter group was to merge the same with the parent company i.e. TWL post settlement of its dispute with its lenders. The same is now in the execution stage with the company awaiting final approval for the same. As per agreed valuations and board of director's approval; this amalgamation will result in dilution of equity with issuance of 0.28 crore shares to promoters in TWL.

#### Healthy balance sheet and return ratios!

TWL has a debt free balance sheet with surplus cash of ₹ 11 crore as of FY16. However, post amalgamation, it will inherit ₹ 46 crore as debt from Pinnae Feeds with debt: equity < 0.5x (on expanded equity). Net working capital was at 68 days as of FY16. TWL realises healthy return ratios in the range of ~20% with FY15 RoE at 20% and FY16 RoIC at 28%.

#### Exhibit 1: Financial Performance

(₹ Crore)	FY12	FY13	FY14	FY15	FY16*
Net Sales (₹ crore)	103.5	157.0	228.2	277.6	318.6
EBITDA (₹ crore)	10.5	12.1	23.7	30.9	25.2
Net Profit (₹ crore)	5.6	6.0	13.6	19.5	0.7
EPS (₹)	2.2	2.3	3.5	5.1	0.2
P/E (x)	50.3	47.1	31.3	21.8	NM
Price / Book (x)	8.0	7.2	5.0	4.3	4.3
EV/EBITDA (x)	39.6	34.1	17.4	13.4	16.4
RoE (%)	10.6	10.2	15.9	19.9	NM
RoIC (%)	14.4	13.8	31.3	39.3	27.5

Source: Company, ICICIdirect.com Research

#### Rating Matrix

Rating	:	Unrated
Target	:	NA
Target Period	:	NA
Potential Upside	:	NA

#### Key Financials

(₹ Crore)	FY13	FY14	FY15	FY16*
Net Sales	157.0	228.2	277.6	318.6
EBITDA	12.1	23.7	30.9	25.2
Net Profit	6.0	13.6	19.5	0.7
EPS (₹)	2.3	3.5	5.1	0.2

\*TWL incurred extraordinary expense amount to ₹ 20 crore in FY16 due to loss of stock in floods and one time settlement with its lenders

#### Valuation Summary

(x)	FY13	FY14	FY15	FY16*
P/E	47.1	31.3	21.8	NM
EV / EBITDA	34.1	17.4	13.4	16.4
P/BV	7.2	5.0	4.3	4.3
RoNW (%)	10.2	15.9	19.9	NM
RoIC (%)	13.8	31.3	39.3	27.5

NM: Not meaningful

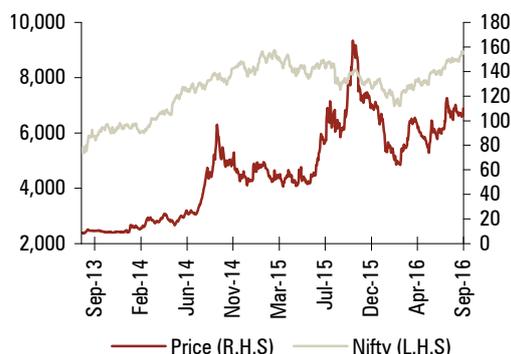
#### Stock Data

Particular	Amount
Market Capitalization	₹ 425 crore
Total Debt (FY16)	₹ 11 crore
Cash (FY16)	₹ 22 crore
EV	₹ 414 crore
52 week H/L (₹)	177 / 60
Equity capital	₹ 38.6 crore
Face value	₹ 10
FII Holding (%)	0.0
DII Holding (%)	0.0

#### Price Performance

Return (%)	1M	3M	6M	12M
Waterbase	(0.5)	19.9	37.1	15.7
Avanti Feeds	(7.9)	17.0	34.3	(2.5)

#### Price Movement



#### Research Analysts

Chirag J Shah  
shah.chirag@icicisecurities.com

Shashank Kanodia, CFA  
shashank.kanodia@icicisecurities.com

### Brands:



### Other Highlights

- Shrimp is the largest seafood commodity in value terms
- Total consumption of shrimps annually is ~4.5 million tonne (MT) with 40% constituted by Wild Cash. The remaining 60% is cultivated in farmlands (2.7 MT). Consumption has grown at a CAGR of 5% in CY11-15 and is expected to grow at a similar rate, going forward (CY15-18E), with increasing share of cultivated type
- Current price of processed shrimp is in the range of ~₹ 550-600/kg i.e. US\$ 8-8.2/kg
- Global average feed conversion ratio is 1.5 i.e. for attaining a desired 1 kg of cultivated shrimp weight 1.5 kg of shrimp feed is consumed. This leads to total shrimp feed market size of 4.1 MT globally. Average realisation of shrimp feed is ~₹ 60-70/kg i.e. ~US\$1/kg. This leads to a total shrimp feed market size of US\$4 billion
- There are three main shrimp species, which are used for cultivation i.e. P Vannamei, P Monodon & M Rosenbergi with P Vannamei the dominant species cultivated worldwide. It was introduced in India in 2009. Thereafter, there was an exponential industry growth in Indian in CY10-15
- Total size of the domestic shrimp feed industry is pegged at 7 lakh tonne (~₹ 5000 crore in value terms) with total capacity at 2 MT, implying huge overcapacity. It is expected to grow at a CAGR of 10.0% over the next three years
- The closest competitor of TWL is Avanti Feeds, which has a market share of 36% domestically (2.5 lakh tonne sales in FY16)
- Total marine exports from India in FY16 were at US\$4.7 billion, 66% of which is constituted by frozen shrimps implying export sales of US\$3 billion (3.7 lakh tonne in volume terms)
- India is one of the preferred locations for shrimp farming due to a long coastline, favourable climatic conditions and inexpensive labour
- In FY16, shrimp feed constituted 94% of sales, followed by processed shrimps, which comprised 5% and others (1%)
- TWL plans to tap the entire value chain of shrimp farming with plans to set up hatcheries (supplying right seed variety) and supplements (pro biotic etc)
- TWL has a stronghold in Tamil Nadu, Andhra Pradesh and Telangana. In search of sales growth, it will be entering West Bengal, Gujarat and Odisha
- Against the loss of stock and plant & machinery damage witnessed due to floods in FY16, TWL has submitted a claim to insurance companies to the tune of ₹ 19.1 crore. Settlement against the same is expected in H2FY17E

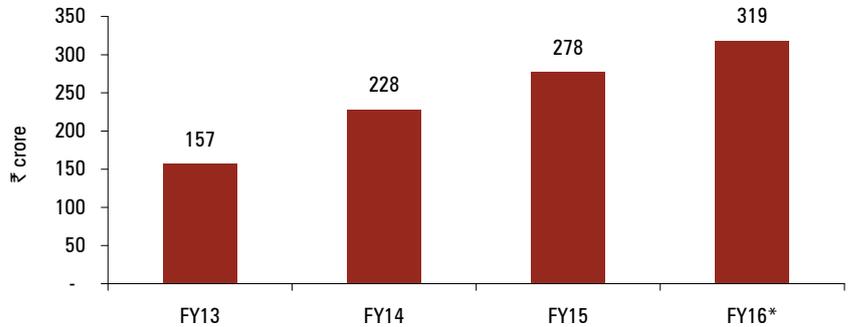
### Key financials

Revenues have grown at 26.6% CAGR in FY13-16 to ₹ 319 crore in FY16 (₹ 157 crore in FY13). Revenues can be sub-divided into manufactured goods (₹ 171 crore in FY16) and traded sales (₹ 140 crore in FY16).

Trading sales mainly constituted the contract manufacturing undertaken at Pinnæ Feeds on behalf of TWL

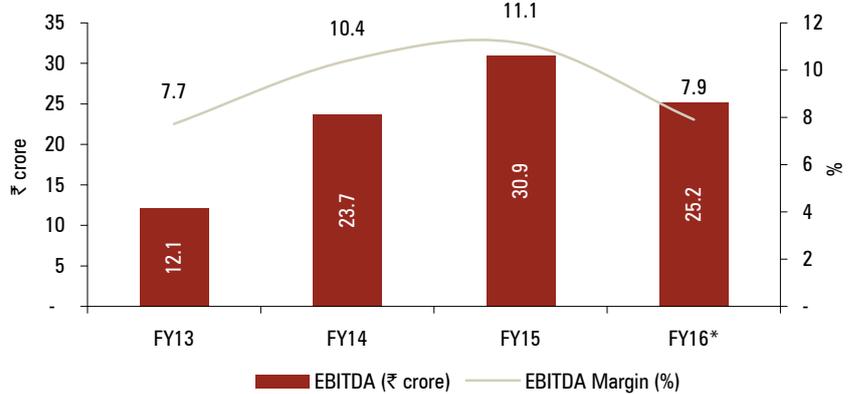
TWL realises EBITDA margins in the range of 8-11%. The company has guided for steady 10-11% EBITDA margins, going forward

**Exhibit 2: Revenue trend; grows at CAGR of 26.6% in FY13-16**



Source: Company, ICICIdirect.com Research

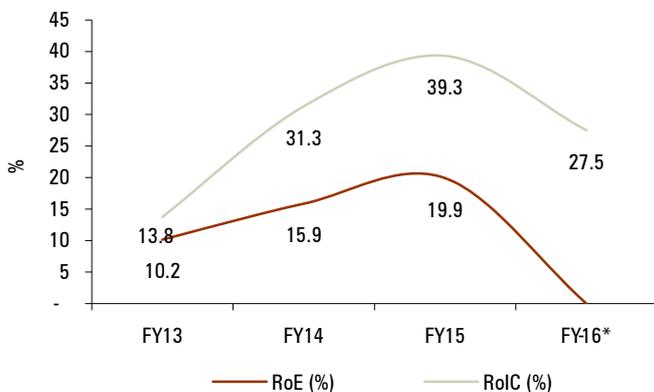
**Exhibit 3: EBITDA & EBITDA margins (EBITDA grows at CAGR of 27.6% in FY13-16)**



Source: Company, ICICIdirect.com Research

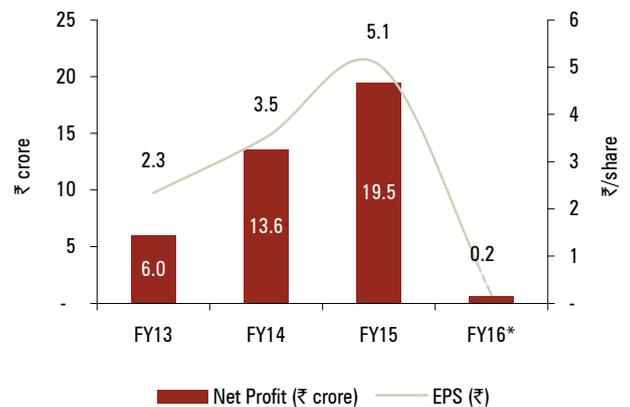
High asset turnover and a steady EBITDA margin profile resulted in healthy return ratios. The FY13-16 average RoIC was at 28%.

**Exhibit 4: RoCE & RoE trend**



Source: Company, ICICIdirect.com Research

**Exhibit 5: PAT trend in FY13-16**



Source: Company, ICICIdirect.com Research

## **RATING RATIONALE**

ICICIdirect.com endeavours to provide objective opinions and recommendations. ICICIdirect.com assigns ratings to its stocks according to their notional target price vs. current market price and then categorises them as Strong Buy, Buy, Hold and Sell. The performance horizon is two years unless specified and the notional target price is defined as the analysts' valuation for a stock.

Strong Buy: > 15%/20% for large caps/midcaps, respectively, with high conviction;

Buy: > 10%/15% for large caps/midcaps, respectively;

Hold: Up to +/-10%;

Sell: -10% or more;



**Pankaj Pandey**

**Head – Research**

**pankaj.pandey@icicisecurities.com**

**ICICIdirect.com Research Desk,  
ICICI Securities Limited,  
1<sup>st</sup> Floor, Akruiti Trade Centre,  
Road No. 7, MIDC,  
Andheri (East)  
Mumbai – 400 093**

**research@icicidirect.com**

## Disclaimer

### ANALYST CERTIFICATION

We */I, Chirag Shah PGDBM; Shashank Kanodia CFA MBA (Capital Markets)*, Research Analysts, authors and the names subscribed to this report, hereby certify that all of the views expressed in this research report accurately reflect our views about the subject issuer(s) or securities. We also certify that no part of our compensation was, is, or will be directly or indirectly related to the specific recommendation(s) or view(s) in this report.

### Terms & conditions and other disclosures:

ICICI Securities Limited (ICICI Securities) is a Sebi registered Research Analyst having registration no. INH000000990. ICICI Securities Limited (ICICI Securities) is a full-service, integrated investment banking and is, *inter alia*, engaged in the business of stock brokering and distribution of financial products. ICICI Securities is a wholly-owned subsidiary of ICICI Bank which is India's largest private sector bank and has its various subsidiaries engaged in businesses of housing finance, asset management, life insurance, general insurance, venture capital fund management, etc. ("associates"), the details in respect of which are available on [www.icicibank.com](http://www.icicibank.com).

ICICI Securities is one of the leading merchant bankers/ underwriters of securities and participate in virtually all securities trading markets in India. We and our associates might have investment banking and other business relationship with a significant percentage of companies covered by our Investment Research Department. ICICI Securities generally prohibits its analysts, persons reporting to analysts and their relatives from maintaining a financial interest in the securities or derivatives of any companies that the analysts cover.

The information and opinions in this report have been prepared by ICICI Securities and are subject to change without any notice. The report and information contained herein is strictly confidential and meant solely for the selected recipient and may not be altered in any way, transmitted to, copied or distributed, in part or in whole, to any other person or to the media or reproduced in any form, without prior written consent of ICICI Securities. While we would endeavour to update the information herein on a reasonable basis, ICICI Securities is under no obligation to update or keep the information current. Also, there may be regulatory, compliance or other reasons that may prevent ICICI Securities from doing so. Non-rated securities indicate that rating on a particular security has been suspended temporarily and such suspension is in compliance with applicable regulations and/or ICICI Securities policies, in circumstances where ICICI Securities might be acting in an advisory capacity to this company, or in certain other circumstances.

This report is based on information obtained from public sources and sources believed to be reliable, but no independent verification has been made nor is its accuracy or completeness guaranteed. This report and information herein is solely for informational purpose and shall not be used or considered as an offer document or solicitation of offer to buy or sell or subscribe for securities or other financial instruments. Though disseminated to all the customers simultaneously, not all customers may receive this report at the same time. ICICI Securities will not treat recipients as customers by virtue of their receiving this report. Nothing in this report constitutes investment, legal, accounting and tax advice or a representation that any investment or strategy is suitable or appropriate to your specific circumstances. The securities discussed and opinions expressed in this report may not be suitable for all investors, who must make their own investment decisions, based on their own investment objectives, financial positions and needs of specific recipient. This may not be taken in substitution for the exercise of independent judgment by any recipient. The recipient should independently evaluate the investment risks. The value and return on investment may vary because of changes in interest rates, foreign exchange rates or any other reason. ICICI Securities accepts no liabilities whatsoever for any loss or damage of any kind arising out of the use of this report. Past performance is not necessarily a guide to future performance. Investors are advised to see Risk Disclosure Document to understand the risks associated before investing in the securities markets. Actual results may differ materially from those set forth in projections. Forward-looking statements are not predictions and may be subject to change without notice.

ICICI Securities or its associates might have managed or co-managed public offering of securities for the subject company or might have been mandated by the subject company for any other assignment in the past twelve months.

ICICI Securities or its associates might have received any compensation from the companies mentioned in the report during the period preceding twelve months from the date of this report for services in respect of managing or co-managing public offerings, corporate finance, investment banking or merchant banking, brokerage services or other advisory service in a merger or specific transaction.

ICICI Securities or its associates might have received any compensation for products or services other than investment banking or merchant banking or brokerage services from the companies mentioned in the report in the past twelve months.

ICICI Securities encourages independence in research report preparation and strives to minimize conflict in preparation of research report. ICICI Securities or its analysts did not receive any compensation or other benefits from the companies mentioned in the report or third party in connection with preparation of the research report. Accordingly, neither ICICI Securities nor Research Analysts have any material conflict of interest at the time of publication of this report.

It is confirmed that *Chirag Shah PGDBM; Shashank Kanodia CFA MBA (Capital Markets)*, Research Analysts of this report have not received any compensation from the companies mentioned in the report in the preceding twelve months.

Compensation of our Research Analysts is not based on any specific merchant banking, investment banking or brokerage service transactions.

ICICI Securities or its subsidiaries collectively or Research Analysts do not own 1% or more of the equity securities of the Company mentioned in the report as of the last day of the month preceding the publication of the research report.

Since associates of ICICI Securities are engaged in various financial service businesses, they might have financial interests or beneficial ownership in various companies including the subject company/companies mentioned in this report.

It is confirmed that *Chirag Shah PGDBM; Shashank Kanodia CFA MBA (Capital Markets)*, Research Analysts do not serve as an officer, director or employee of the companies mentioned in the report.

ICICI Securities may have issued other reports that are inconsistent with and reach different conclusion from the information presented in this report.

Neither the Research Analysts nor ICICI Securities have been engaged in market making activity for the companies mentioned in the report.

We submit that no material disciplinary action has been taken on ICICI Securities by any Regulatory Authority impacting Equity Research Analysis activities.

This report is not directed or intended for distribution to, or use by, any person or entity who is a citizen or resident of or located in any locality, state, country or other jurisdiction, where such distribution, publication, availability or use would be contrary to law, regulation or which would subject ICICI Securities and affiliates to any registration or licensing requirement within such jurisdiction. The securities described herein may or may not be eligible for sale in all jurisdictions or to certain category of investors. Persons in whose possession this document may come are required to inform themselves of and to observe such restriction.