



Zeal Aqua Ltd.

ZEAL AQUA LIMITED

Zeal aqua limited operates as an aquaculture company. The company specializes in shrimp farming and satellite farming activities, as well as offers shrimp feeds, shrimp seeds and other aquaculture related products. A company with a production capacity of 1600 tons of shrimp per year and one of the largest producers of shrimp in Gujarat.

CMP – Rs 535

Recommendation – Buy

Price objective – Rs 742 (upside – 39%)

Stock information	
Price / change 1D (Rs)	535/0.1%
52Wk High (11/08/2017)	600
52Wk Low (02/14/2017)	276
Market cap (Rs)	2,248 m
Shares out/ free float	4.2 m/0.84m

Share holding Pattern			
(figin %)	Sept'17	Mar'17	Sept'16
Promoter	68.4	68.4	68.4
Public	31.6	31.6	31.6
Others	--	--	--
Total	100.0	100.0	100.0

Company details	
Website	www.zealacqua.com
Chairman (CMD)	Shantilal Patel
Ex. Director	Rohan Navik
Ex. Director	Pradeep Navik

Zeal Aqua Limited – Growth story intact mainly due to focus on export market

Expanding Shrimp business, targeting a capacity of 5,000 tones

Currently the company is operating at its full capacity of 1,600 tons. Planned expansion of additional production capacity is in the final stage of completion to achieve a target of 5,000 tones. Sister concern companies have already received a sanction for a parcel of c.300 hectares land in Gujarat. This land will be utilized for setting up nursery for Nauplii breeding and shrimp harvesting PE pine and technically well designed and constructed earthen ponds. This would be the addition to the existing pond portfolio of 67 PE line and more than 160 well-constructed earthen ponds. Setting up a nursery for Nauplii should minimize the cost and risk of business by c.25%. We expect going forward the company to focus more on PE line ponds, mainly due to higher productivity. (Production of 15 to 20 tons from 1hactare size pond which is double in comparison of earthen pond).

Shifting a focus to export market - major driver to margins/ realization

The ramp up in shrimp production and trading activities more to focus on export a product. The company has already started exporting a shrimps from July'17 and it will reflect the higher realization of product and improvement in EBITDA/ EBITDA margins in upcoming quarters. We expect company to post healthy EBITDA & profit margins 8.4% &3.8% in FY18. Based on our calculations every additional sales of 500 tons shrimp sales (from own capacity + Trading) is 21-26% upside to EBITDA-PAT and upside of Rs 131 per share.

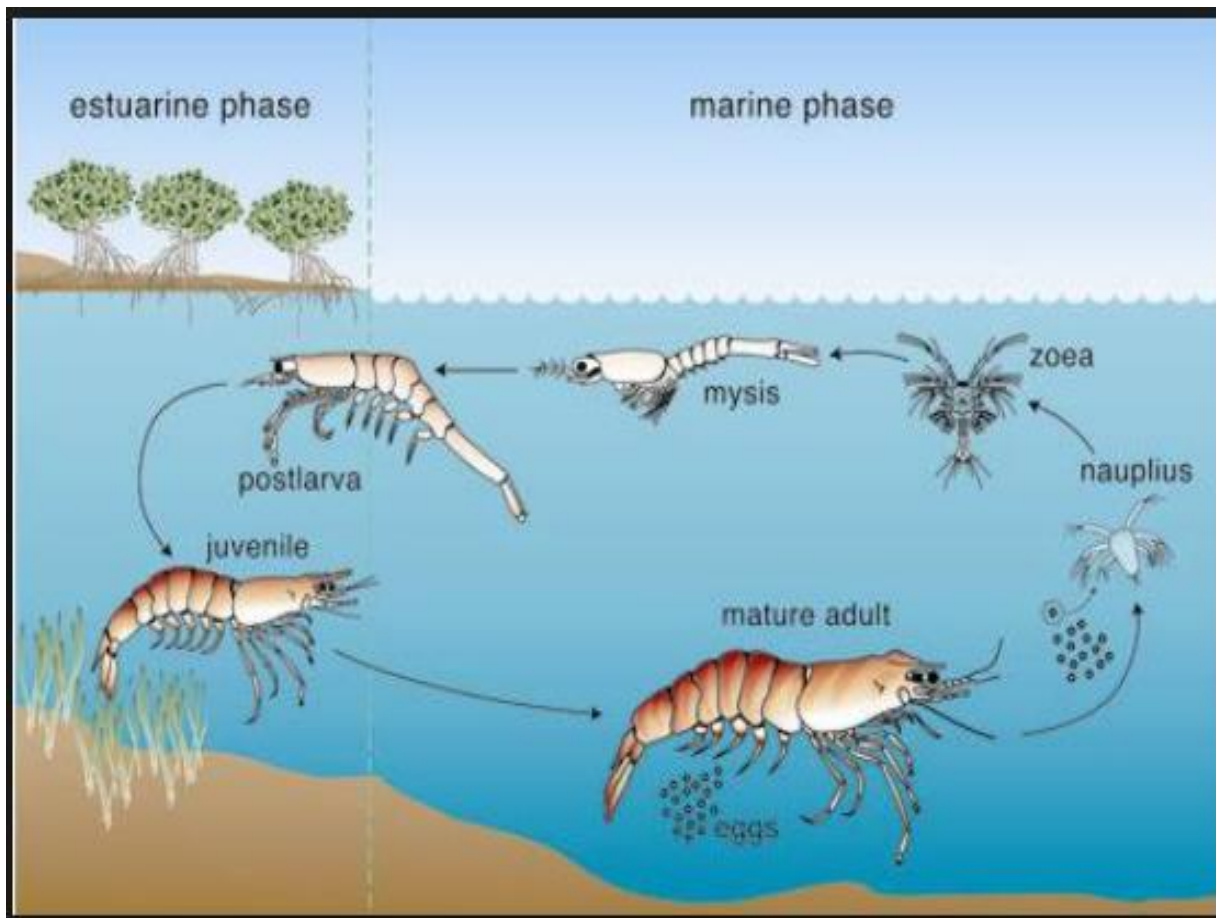
Growth is intact, attractive valuations, target price of Rs 742/share

Currently stock is trading at 25.2x PE &EV/EBITDA of 13.3x to FY18 estimates. Based on our DCF valuation at 11% WACC and terminal growth rate of 1%, stock is valued at Rs 742/share with a upside potential of 39% from CMP of Rs 535/share. The company to post a jump in return ratios with ROE/ROCE c.26/30% based on in house capacity addition to minimize the cost & risk of trading

Expanding Shrimp business, targeting a capacity of 5,000 tones

Currently the company is operating at its full capacity of 1,600 tons, to cater a complete demand of export and domestic market, company is currently purchasing 10-12 days Nauplii and breeding it into owned PE line or earthen ponds(see in detail life cycle of shrimps in below image), along with this purchasing fully mature shrimps from farmers. Now a day's company is purchasing Nauplii from southern states and lot of risks and cost pressure are involved in trading. Planned expansion is to bring down a cost and risk C.25%, Owned nursery breed Nauplii will also improve the yield of shrimps. The company expect to improvement in a quality ad survival of product after planned expansion, this improved quality of product to drive a demand from export market. Target capacity of 5,000 tons of shrimp is C.10% market size of Gujarat.

Life cycle of Shrimps from Nauplius of age 10-12 days to mature shrimp of 160-180 days.



Source: Company, Google.

Current portfolio of ponds: 67 PE line, more than 160 earthen ponds.

Planned expansion to more focus on the HDPE line ponds where we compare it with the local earthen ponds. 1 hectare PE line ponds produce 15-20 tons of shrimps compared with earthen ponds of 5-10 tones.

New expansion of shrimp production facility to cater a processing plant

The planned setup of new PE line pods on sanctioned 300+ hectare land parcel would be supportive to the current shrimp processing capacity of company which is operating at c.5,000 tons/year. Over all this will reduce the dependence of company to purchase a raw material (shrimps/prawns) for their processing unit. As per the company guidance every year 60-70 PE line ponds addition is expected to current PE line portfolio. 1,000-1,200 tonnes of additional production of shrimps from new PE line ponds should be provided to processing plants. In our base case scenario we see next 2.5 years, company's in-farm / in-pond production of shrimps/ prawns to fully cater processing units.

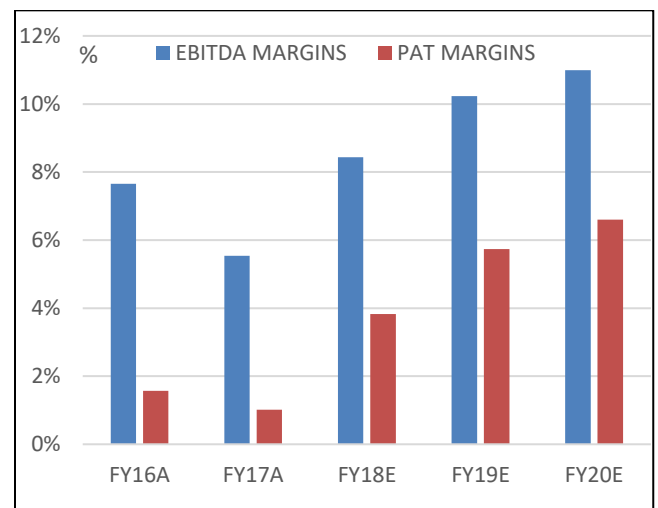
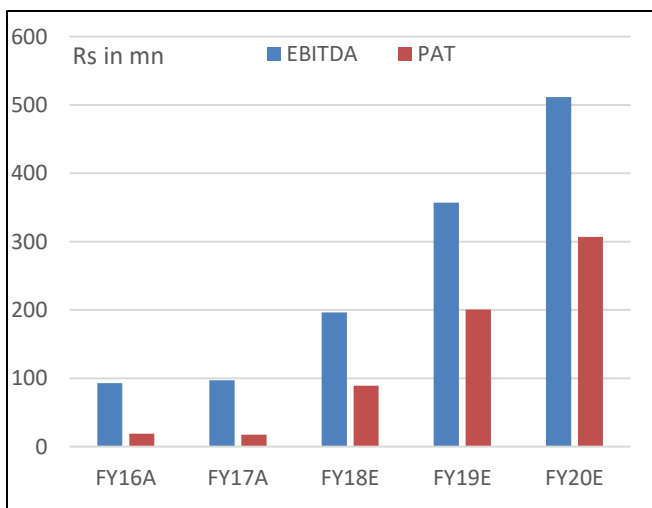
A boost to aquaculture industry: Government budgeted allocation of Rs 10,000 cr. For FY18-19.

Setting up Fisheries and Aquaculture Infrastructure Development Fund for financing infrastructure requirement of with Rs 10,000cr corpus positive for aquaculture sector and Zeal Aqua Limited. We assume the funds to assist farmers/ small industry players to set up infrastructure like PE line ponds or processing units for shrimps/aqua feeds. This move will enhance the quality of shrimp production. Considered an important sector to provide nutritional security, the fishery and aquaculture sector alone engages 14 million people, while it constitute about 1.1% to country's GDP and 5.15% to the agricultural GDP. Any further clarification on allocated amount would be upcoming catalyst for company.

Shifting a focus to export market - major driver to realization

The ramp up in shrimp production and trading activities more to focus on export a product. The company has already started exporting a shrimps from July'17. Exporting a product will provide higher realizations mainly due to lower debtor days, well organized supply chain and we see very little impact of forex. We see a product price realization to improve by 33% and 50% in FY18E and FY19E. Current export demand is robust and expected same kind of growth in upcoming period.

Charts: A jump in operating margins and profit margins with EBITDA and PAT



Source: company, Independent research

A jump in operating margins & profit margins

We expect company to post healthy EBITDA & profit margins 8.4% & 3.8% in FY18. Based on our calculations every additional sales of 500 tons shrimp sales (from own capacity + Trading) is 21%-26% upside to EBITDA-PAT and upside of Rs 131 per share

Sensitivity analysis to EBITDA, PAT, Equity value of stock for an additional capacity.

Sensitivity analysis	Capacity of trading prawns and shrimps in tonne				
	3,000	3,500	4,000	4,500	5,000
EBITDA (Fig in Rs)	337,163,460	407,474,471	477,785,482	548,096,492	618,407,503
PAT (Fig in Rs)	183,420,406	230,528,783	277,637,160	324,745,537	371,853,914
Equity value in Rs/sh	1,003	1,134	1,265	1,396	1,527

Source: Independent research

Improvement in return ratios

Rising EBITDA would be the function of increasing realization falling expenses and mitigating a risk of purchasing Nauplii. Higher EBITDA to drive ROCE from 9.9% in FY17 to 17.7% in FY18. Stable fiancé cost and healthy other incomes to improve PAT and ROE from 4.8% in FY17 to 19.5% in FY18.

Return ratios of Zeal aqua limited

Valuation Ratio	FY17A	FY18E	FY19E	FY20E	FY21E
ROE (%)	4.8%	19.5%	30.5%	31.8%	29.3%
ROCE (%)	9.9%	17.7%	25.7%	28.8%	28.9%
EV/EBITDA (x)	26.9	13.3	7.3	5.1	4.0
P/E (x)	126.7	25.2	11.2	7.3	5.6

Attractive valuations

Currently stock is trading at 25.2x PE &EV/EBITDA of 13.3x to FY18 estimates. Based on our DCF valuation at 11% WACC and terminal growth rate of 1%, stock is valued at Rs 742/share with a upside potential of 39% from CMP of Rs 535/share. Cost of debt is under control and below 9% pa. The company has not borrowed any forex debt. We see % of short term borrowing is higher to finance the debtors. Going forward additional cash flow to improve the Debt to equity ratio from current level of 0.54x to 0.48x in FY18 and 0.37x in FY19.

Equity valuation of the company based on DCF

Discounted cash flow analysis and equity value of stock (Fig in Rs)	FY17A	FY18E	FY19E	FY20E	FY21E
EBITDA (1-t)	62,627,765	131,682,764	239,364,851	342,757,135	435,693,140
Capex	(288,404,404)	(10,000,000)	(10,000,000)	(10,000,000)	(10,000,000)
Change in WC	9,858,995	(36,173,716)	(135,653,101)	(135,653,101)	(135,769,603)
FCF	(215,917,644)	85,509,048	93,711,750	197,104,034	289,923,536
NPV	488,067,729				
Terminal Value	2,990,852,382				
Terminal growth rate		1%			
WACC		11%			
Net Debt	362,202,913				
Equity value	3,116,717,198				
Shares out	4,202,200				
Equity value per share	742				
Current share price	535				
Upside potential	39%				

Source: Independent research

Peers comparison:

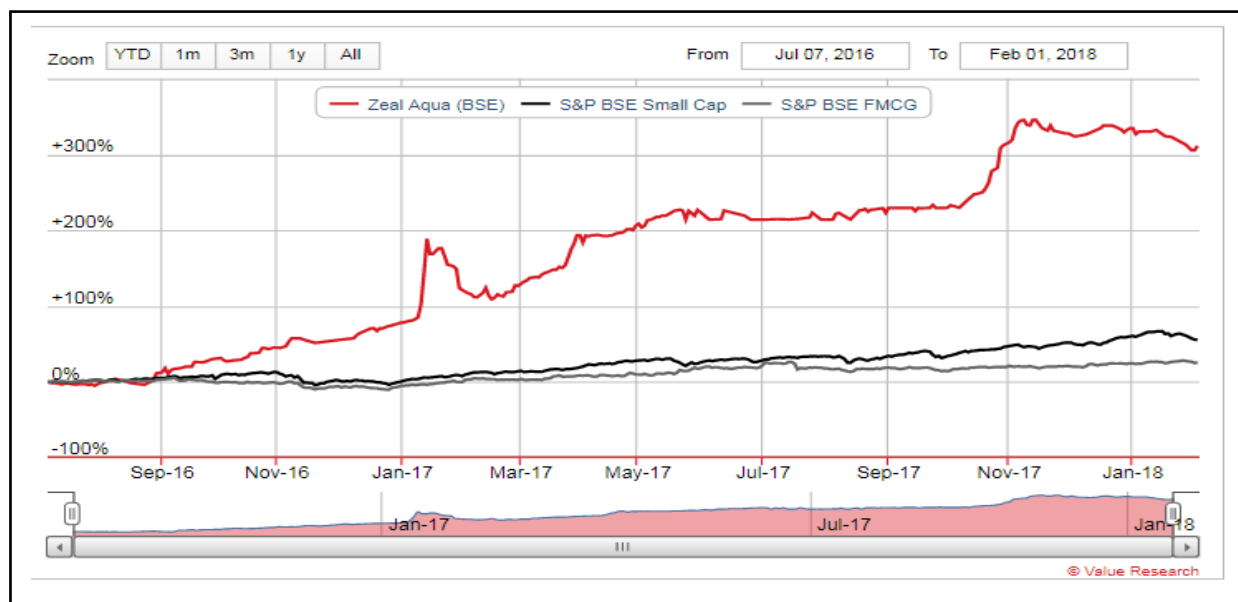
Based on our valuations, stock is trading discount to its peers. In aquaculture space, we like Zeal aqua which is trading more than 50% discount on Ev/EBITDA of FY19E to its peers. Even if we compare stocks on P/E basis in FY20E, Zeal aqua is trading more than 40% discount to its peers. Again we reiterate Buy on the zeal aqua with target price of Rs 742/share with potential upside of 39% to current market price.

Peer comparison table

Compay name	P/E (x)			EV/EBITDA (x)			ROE (%)		
	FY17A	FY18E	FY19E	FY17A	FY18E	FY19E	FY17A	FY18E	FY19E
Zeal Aqua ltd.	126.7	25.2	11.2	26.9	13.3	7.3	4.8%	19.5%	30.5%
Avanti feeds ltd.	15.6	28.4	25.5	9.4	17.2	15.5	41.8%	45.6%	36.4%
Waterbase ltd	31.9	39.2	28.1	13.4	23.9	17.6	9.7%	21.4%	22.9%

Source: company, Bloomberg consensus.

Zeal Aqua limited share price performance with BSE small cap and BSE FMCG companies, Company has outperformed



Source: company, BSE, Value research

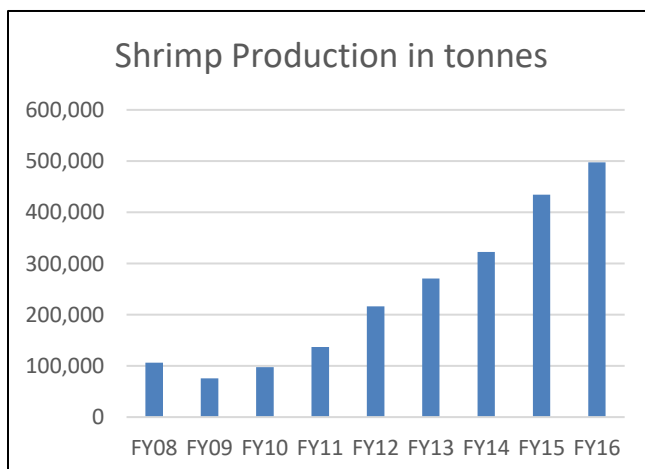
Industry Overview

India contributes 6.3% of the total global aquaculture production and ranks 2nd after China. The Indian Fisheries Industry, valued at about USD 15 billion, has emerged as a significant high-value contributor and key enabler of diversified Indian agriculture. The industry is also one of the substantial foreign exchange earners and accounted for 2% of the total export earnings of India in the last four years (FY14 – FY17; refers to the period April 1 to March 31). During FY17, the marine exports reached an all-time-high with an export value of 5.78 billion USD (compared with 4.69 billion USD in FY16) on the back of robust demand for frozen shrimps in the international market. In the marine export basket, frozen shrimps export has the lion's share, contributing 65% of the total value of marine export in FY17. Indian seafood, especially frozen shrimps, has gained popularity in the USA (accounting for 30 % in terms of USD in FY17), South East Asian countries (30%) and European Union (18 %), and over the last decade, it has enabled the sector to grow at a rapid pace. The cultured shrimp production has grown with the introduction of the Vannamei variety of shrimps in the commercial production, displacing the sales of the other major shrimp species, especially the Black tiger which is more prone to viruses. Although India has a huge marine wealth and a strong position in the global fisheries trade, the sector has been marred with few challenges with respect to domestic market value chain, stringent regulatory approvals and quality confirmations. The report provides an insight into the growth drivers that helped the seafood processing industry achieve significant size in the global market, the key challenges plaguing the industry, the supply chain dynamics, and also provides an impact analysis of recent development in the regulatory and global political environment.

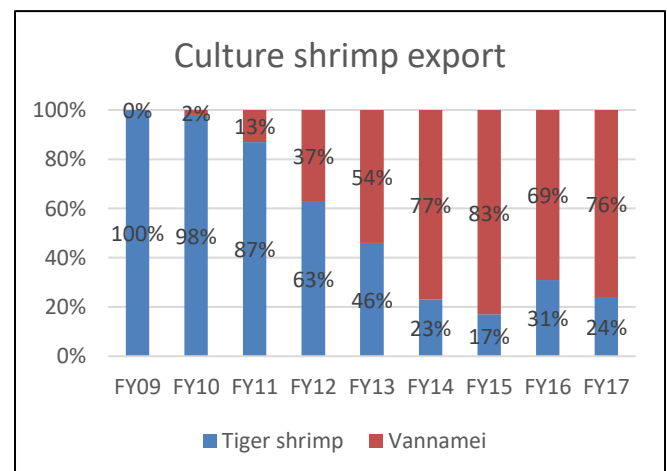
Growth drivers of shrimp culture in India

Huge marine wealth, India possesses abundant and varied resources both in marine and inland sectors which facilitate development of aquaculture business. The country has a long coastline of 8129 km in addition to vast inland water resources and hence offers scope for large exploitation of marine wealth. The overall export of shrimp during FY17 was pegged at 0.43 million tonnes (0.37 million tonnes in FY16) with a y-o-y growth by 16.21%, majorly at the back of y-o-y growth in export quantity of Vannamei shrimp by 28.46% in FY17 to 0.33 million tonnes.

India's shrimp production and export growth



Source: company



OPPORTUNITIES & THREATS

Opportunities:

- Introduction of schemes of Government to allot coastal lands for aquaculture purposes to promote this industry and generate a source of revenue.
- The demand for sea food is increasing all over the world, Particularly Indian sea food exports. One of the reasons, being seafood is considered as healthier as compare to other forms of meat. India is gifted with long coast line ideally suited for development of seafood industry.
- The shrimp harvested from the own ponds and also from satellite farming will be brought to processing unit for further processing so as to sale it to the clients for the end use and thus it will improve the top line of our business.
- The Processing unit is located at a distance of about 15 kms. From the city of Surat on State Highway connecting Olpad- Sarsa, at village- orma, which is an upcoming Industrial area on the Outskirts of Surat City due to which our Company enjoys the good connectivity with different parts of the states. The site also has connectivity to National Highway No. 8 which is also part of the upcoming Delhi-Mumbai Industrial Corridor (DMIC).

Threats:

- The Company plans to export the shrimp from the proposed processing unit. Thus, they will be exposed to the risk from foreign exchange fluctuations to the extent its export.
- The Aqua culture activity is dependent on climate conditions prevailing during season which is unpredictable. Natural Calamities like floods, cyclones, during the culture season can have serious impact on the prospects of successful culture.

Consolidated financial statement of Zeal Aqua limited

Consolidated P&L (fig in Rs)	FY16A	FY17A	FY18E	FY19E	FY20E
Income					
Revenue From Operations	1,212,858,809	1,745,543,379	2,326,131,218	3,487,779,379	4,649,427,539
Other Income	2,381,856	4,328,645	4,328,645	4,328,645	4,328,645
TOTAL REVENUE	1,215,240,665	1,749,872,024	2,330,459,863	3,492,108,024	4,653,756,184
% Growth		44%	33%	50%	33%
Expenses					
Cost of Material	1,016,266,700	1,532,419,312	2,043,225,749	3,064,838,624	4,086,451,498
Changes in Inventories	(13,319,312)	2,076,783	1,661,426	1,246,070	830,713
Employee Benefit Expense	13,248,863	17,525,128	18,401,384	19,321,454	20,287,526
Finance Costs	46,095,326	44,894,249	41,223,545	37,838,040	34,717,401
Depreciation and Amortisation	27,571,124	24,497,110	22,178,115	20,230,073	18,593,645
Other Expenses	105,981,147	100,899,806	70,629,864	49,440,905	34,608,633
Prior Period Items		83,944	-		
TOTAL EXPENSES	1,195,843,848	1,722,396,331	2,197,320,085	3,192,915,165	4,195,489,416
Finance Costs%		9%	8%	7%	7%
EBITDA	93,063,267	96,950,995	196,541,439	357,260,972	511,577,813
EBITDA MARGINS %	7.7%	5.5%	8.4%	10.2%	11.0%
Profit Before Exceptional and Extraordinary Items and Tax	19,396,817	27,475,693	133,139,778	299,192,859	458,266,768
Profit Before Extraordinary Items and Tax	19,396,817	27,475,693	133,139,778	299,192,859	458,266,768
Profit Before Tax	19,396,817	27,475,693	133,139,778	299,192,859	458,266,768
Tax expense:					
Current Tax	2,679,000	11,700,000			
Deffered Tax	(2,377,006)	(1,972,874)			
Total Tax	301,994	9,727,126	43,936,127	98,733,643	151,228,033
Tax rate	2%	35%	33%	33%	33%
Profit/(Loss) From Continuing Operations	19,094,823	17,748,567	89,203,651	200,459,215	307,038,735
Earning Per Equity Share:					
Basic	6.2	4.2	21.2	47.7	73.1
PE	85.9	126.7	25.2	11.2	7.3

SourceIndependent research, Company

Consolidated financial statement of Zeal Aqua limited

Balance sheet (fig in Rs)	FY16A	FY17A	FY18E	FY19E	FY20E
Shareholder's Fund :					
Share Capital	30,672,000	42,022,000	42,022,000	42,022,000	42,022,000
Reserve & Surplus	178,079,624	325,463,792	414,667,443	615,126,659	922,165,393
Total Equity	208,751,624	367,485,792	456,689,443	657,148,659	964,187,393
Non Current Liabilities					
Long Term Borrowings	66,972,881	193,095,530	203,095,530	213,095,530	223,095,530
Deffered Tax Liabilities (Net)	(2,034,829)	(4,007,703)	(4,007,703)	(4,007,703)	(4,007,703)
Other Long Term Liabilities	848,712	1,236,187	1,236,187	1,236,187	1,236,187
Long Term Provisions					
Total Non current liabilities	65,786,764	190,324,014	200,324,014	210,324,014	220,324,014
Current Liabilities					
Short-Term Borrowings	313,594,574	300,415,694	300,415,694	300,415,694	300,415,694
Trade Payables	43,437,357	98,228,041	130,970,721	196,456,082	261,941,443
Other Current Liabilities	3,516,847	3,837,959	5,117,279	7,675,918	10,234,557
Short-Term Provisions	9,844,198	16,548,504	16,548,504	16,548,504	16,548,504
Total Current Liabilities	370,392,976	419,030,198	453,052,198	521,096,198	589,140,198
Non Current Assets					
Fixed Assets					
(i) Tangible Assets	134,585,248	128,645,678	116,467,563	106,237,490	97,643,845
(iii) Capital Work in Progress	118,385,213	383,091,346	383,091,346	383,091,346	383,091,346
Non-Current Investments	1,029,257	1,029,257	1,029,257	1,029,257	1,029,257
Long Term Loans and Advances	3,261,420	8,321,800	8,321,800	8,321,800	8,321,800
Total Non current asset	257,261,138	521,088,081	508,909,966	498,679,893	490,086,248
Current Assets					
Current Investments					
Inventories	21,188,641	19,111,858	25,482,477	38,223,716	50,964,955
Trade Receivables	270,315,839	318,552,638	382,377,734	573,333,596	764,289,459
Cash & Cash Equivalents	36,796,792	66,100,260	141,308,311	226,344,498	416,323,777
Short-Term Loans and Advances	53,165,043	42,257,287	42,257,287	42,257,287	42,257,287
Other Current Assets	6203913	9,729,880	9,729,880	9,729,880	9,729,880
Total Current Asset	387,670,228	455,751,923	601,155,690	889,888,978	1,283,565,357

Source: company, Independent research

Management and committee members of Zeal Aqua limited

Under the guidance of Mr. Shantilal Patel, Mr. Pradeep Navik and Mr. Rohan Navik with a seamless efforts the company has achieved this milestone. Mr. Shantilal Patel and Mr. Pradeep Navik are having more than 25 years of experience in Shrimp farming and trading. Mr. Rohan Navik has joined organization in 2011, he is holding a degree in “Masters of International Business”. Management and committee members are combination of old founder members with an experience in aquaculture with new young generation with high skill set. It will drive business growth.

Key management and committee member’s details of zeal Aqua limited.

Name of Member	Designation
Mr. Shantilal I. Patel	Managing Director
Mr. Pradeep R. Navik	Whole Time Director
Mr. Rohan P. Navik	Whole Time Director
Mr. Naginbhai P. Patel	Non-Executive Director(Independent)
Mr. Maheshbhai N. Mistry	Non-Executive Director(Independent)
Mrs. Roshan. M. Kadodwala	Non-Executive Director(Independent)
Mr. Shailendrasingh Patil	Chief Financial Officer
Ms. Javanika N. Gandharva	Company Secretary & Compliance Officer

Major Events	
The major events of the company since its incorporation in the particular financial year are as under:	
Financial Year Events	
2009	Our company was incorporated and commenced the business
2010	"Best Farmer Award" for the Year 2009-10 by Central Institute of Fisheries
	Education to our Promoter Mr. Shantilal Patel.
2011	Participation in the Aquaculture Food safety Prevention Program by Promoter
	of the Company Shri. Shantilal Patel.
2011	"BhumiNirman Award" for preservation of best quality of fishery to our
	Promoter Mr. Shantilal Patel.
2011	Initiate the concept of P E Line Ponds in Gujarat.
2012	Awarded First Girnar fishery industry Shiromani by Doordarshan, Indian
	National Media Channel.
2013	Won Avanti Vaishakhi Cup.
2013	Awarded the "Best Farmer Award" by Shri NarendraModi, CM of Gujarat to our
	Promoter Mr. Shantilal Patel.
2013	Awarded for Excellence - categorized in "Best L. Vannamei Farmer" to our
	Promoter Mr. Shantilal Patel by the Marine Products Export Development
	Authority, Ministry of commerce & Industry, Government of India at the Aqua
	Aquaria India 2013.
2014	Turnover cross Rs.100 Crore.
2015	Converted Company from Private Limited to Public Limited.
2016	Listed on BSE SME
2017	Shrimp Processing Unit Commenced Production