



**HIDDEN GEMS**

**UNEXPLORED MULTIBAGGER SMALL CAP STOCKS**

**EQUITY RESEARCH REPORT**

<b>WATERBASE LTD.</b>	BSE CODE: 523660
Industry: Aquaculture	CMP: Rs. 110.45 (23/07/2017)
Market Cap: 426.37 (INR in Crore)	Target Price: Rs. 230
Date: July 23, 2017	Time Period: 12 – 24 months



**Saral Gyan Capital Services**

An Independent Equity Research Firm

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## 1. Company Background



The Waterbase Ltd (incorporated in 1987) commenced business in 1993 as India's first fully integrated aquaculture company. The Waterbase Limited is headquartered in Chennai (Tamil Nadu) with a shrimp feed manufacturing plant and shrimp processing plant in Nellore (Andhra Pradesh). The Company's shrimp feed is sold across the coastal states of India. The Company also exports shrimp in different forms (IQF, block frozen and cooked) to the quality conscious geographies of Japan, USA and Europe.

The Waterbase Limited is part of the Karam Chand Thapar Group (KCT Group). Founded in 1929 as a coal mining company, the KCT Group has a highly diversified portfolio of businesses with interests in sectors ranging from coal and infrastructure to real estate, manufacturing and aquaculture

Over the years, the company has collaborated with several industry experts, as well as leading global aquaculture institutes and universities to develop industry-wide best practices through a focus on product development, R&D, farm services and animal health care.

The company's current operations comprise manufacturing of shrimp feed, processing of farmed shrimp and export of processed shrimp; incubating hatcheries and distribution of farm care products. The company has market presence in Andhra Pradesh, Telangana, Tamil Nadu, Gujarat, West Bengal and Odisha and is planning to enter new geographies and aggressively pursue customer categories to increase offtake.

Waterbase has developed model ponds in Nellore for all kinds of shrimp farming, and is proud to providing training and general awareness programmes to disseminate the most modern farming techniques which includes pond preparation, pond reconditioning and disinfection, seed selection criteria and seed stocking, effective feeding management, water management, use of probiotics, harvesting methods and maintenance.

The company has over two decades of expertise in the business which provides it a strong connect with suppliers and farmers. The company has plans to double the dealer and farmer network by 100% over the next two to three years. Its processing facilities are FDA and BAP approved, EU listed and HACCP certified to meet compliance as per global standards.

The Company's Shrimp Processing Unit combines cutting-edge technology, state-of-the-art storage facilities and ultra-modern logistics capabilities to ensure timely delivery. The shrimps processed at our facility are marketed in different forms to quality conscious markets of Japan, USA and Europe.

The company launched Bay White Enriched, a new generation shrimp feed formulated with essential nutrients required for producing healthy shrimps. It is available in all The Waterbase dealer outlets across the country.

Waterbase maintains a feed distribution network of over 100 distributors and dealers along India's coastal belt, and is committed to supporting its distribution network with qualified and trained personnel who provide 24x7 services on everything from instruction in farming techniques to advice on various developments in the Industry.

Waterbase produces wide range of aqua feeds from its plants installed with advanced pelleting technology machines and fully automated computer controlled operation. Formulations are designed by International shrimp feed nutritional experts, tested in real-time R&D farms before supplying the feeds.

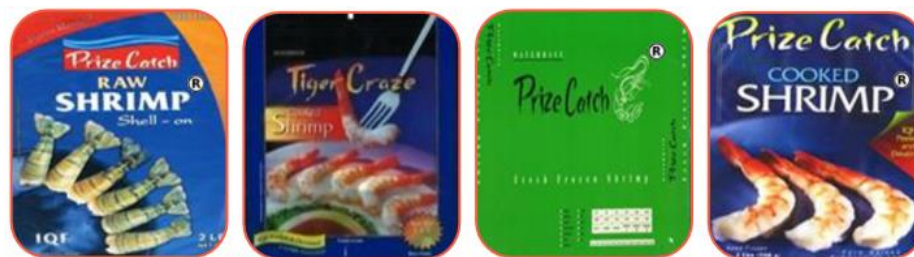
Feed ingredients sourced from indigenous and imported sources undergoes multi-layer inspection processes before issue for production. Implementation of stringent Quality Assurance protocols ensures production processes are closely monitored and controlled and finished feed quality is maintained to the guaranteed specifications.

## Products Portfolio

### i) Shrimp Feed



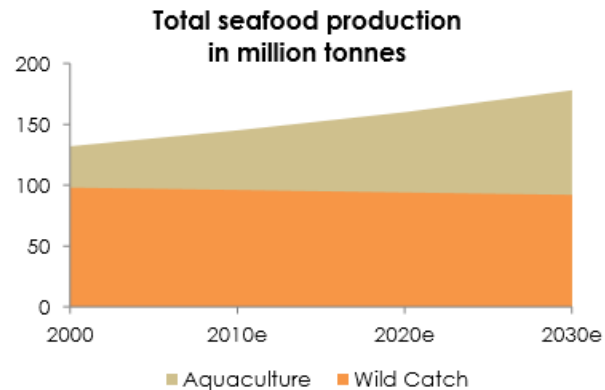
### ii) Processed Shrimp



## Industry Overview

Global sea food market has grown steadily at CAGR of 4.1% during the period from 2014 to 2016. Global sea food consumption has been increasing at 1% per annum. The per capita consumption was 17.6 kgs in 2006 which is increased to 20.5 kgs in 2016.

As per FAO (Food & Agriculture Organisation) of the United Nation, seafood production is expected to increase from 130 mn tonnes in year 2000 to ~170 mn tonnes in 2030. Within this, the share of wild catch is expected to remain stable and incremental volumes are expected largely from aquaculture (farmed production).



As per FAO estimates, the global per capita sea food consumption will increase to 21.8 kg by 2025. The report further identified that the sea food consumption in China, Middle East, East and South East Asia is increasing at a steady pace because of income growth and expansion of middle class.

India is well positioned to take advantage of increase in global sea food consumption because of the long coast line, availability of raw materials and idle land available for taking up aqua culture in large scale. Total exports of sea food from India was 11.35 lakh MT in 2016-17 as compared to 9.46 lakh MT in 2015-16 reporting an increase of 20% in volume terms. In value terms the exports were Rs. 37,871 crores in 2016-17 as against Rs. 30,420 crores in 2015-16, an increase of 24% in value terms.

Shrimp continues to be back bone of Indian sea food exports and accounted for 38% in volume terms of total sea food exports from the country as against 40% in the previous year. The total shrimp exports were around 4,34,000 MT in the year 2016-17 as compared to 3,73,868 MT in 2015-16. In value, the shrimp exports were Rs.24,415 crores as against Rs.20,045 crores in 2015-16. The major export market has been USA followed by Europe, Japan and South East Asia for shrimp exports.

For six consecutive years from 2010-11 to 2014-15 the shrimp culture industry registered CAGR of 25% on an average and have grown three fold from 1,51,465 MT in 2010-11 to 4,34,000 MT in 2016-17. Shrimp exports continue to report tremendous growth with a CAGR of ~18% in volume terms and 27% in value terms in the last 3 years.

First crop of Shrimp culture in current year is progressing well, reports indicate there is 10% growth because of increase in the area of culture in East and West Godavari Districts in Andhra Pradesh, Odisha and West Bengal. The international shrimp prices are also reasonably stable and remunerative enough for the farmers to undertake shrimp culture.

## 2. Recent Developments

### i) Scheme of Amalgamation of Pinnae Feeds Ltd with Waterbase Ltd

Pinnae Feeds Ltd belongs to the same promoter group and was formed in July 2012 to meet the capacity expansion plans for the feed manufacturing business. The expansion could not be undertaken within Waterbase due to restriction placed by one of the lenders.

Expansion was undertaken in 2 phases; Phase I completed in FY15 with capacity of 40,000 MTPA and Phase II which was completed in FY16 comprised the balance capacity of 35,000 MTPA. Capacity of 75,000 MTPA is now fully operational. The manufacturing unit is located at Nellore, Andhra Pradesh and is 70 kms away from the Waterbase factory in Nellore

Pinnae Feeds achieved revenues of Rs. 129 crores in FY17 from supply of feed to Waterbase. As of March 2017, Pinnae Feeds has a debt of Rs. 44.1 crores which includes term loans as well as working capital.

The Scheme of Amalgamation of Pinnae Feeds Ltd. with the company has reached the final stage and at the hearing held on 15th March 2017 the National Company Law Tribunal (NCLT) had posted the matter for orders. Subsequently on 5th June 17 the NCLT has sought certain clarifications / documents and has given 2 week's time to the company to furnish the same.

As per scheme of Amalgamation, Waterbase Ltd to issue 4 fully paid up equity share for every 17 equity shares held by shareholders in Pinnae Feeds Ltd. Post amalgamation, equity capital of the Waterbase Ltd will increase to 4.14 crore shares from existing 3.86 crores shares. As per management, amalgamation of Pinnae Feeds Ltd with the company is expected to be completed in Q2 of this financial year.

### ii) Waterbase bagged 2016 India Shrimp Feed Industry New Product Innovation Leadership Award by Frost & Sullivan

The Waterbase Ltd has been awarded “2016 India Shrimp Feed Industry New Product Innovation Leadership Award” by Frost & Sullivan, a leading global strategy consulting company.

Frost & Sullivan's, 2016 New Product Innovation Leadership Awards identified companies that demonstrated measured excellence in new, innovative products or product lines within their industry

The award was judged on the basis of several parameters, which involved in depth primary interviews with various industry participants and secondary research conducted by Frost & Sullivan analysts.

### 3. Financial Performance

#### Waterbase reports standalone net profit of Rs 0.82 crore in the March 2017 quarter

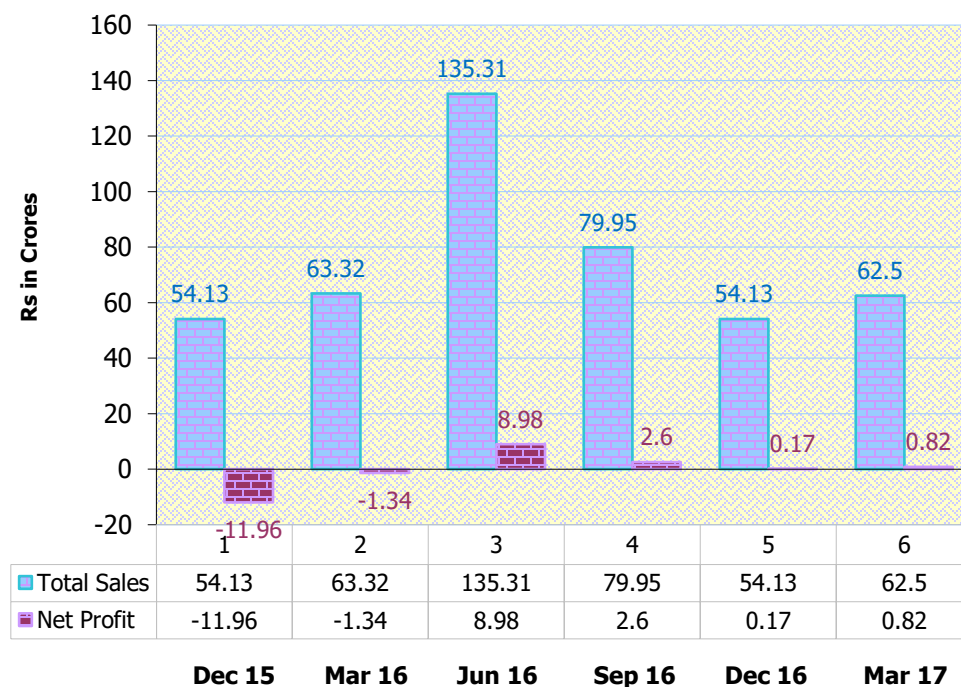
Net profit of Waterbase reported to Rs 0.82 crore in the quarter ended March 2017 as against net loss of Rs 1.73 crore during the previous quarter ended March 2016. Sales rose 12.05% to Rs 62.50 crore in the quarter ended March 2017 as against Rs 55.78 crore during the previous quarter ended March 2016.

#### Waterbase reports standalone net profit of Rs 0.17 crore in the Dec 2016 quarter

Net profit of Waterbase reported to Rs 0.17 crore in the quarter ended December 2016 as against net loss of Rs 11.37 crore during the previous quarter ended December 2015. Sales declined 3.91% to Rs 54.13 crore in the quarter ended December 2016 as against Rs 56.33 crore during the previous quarter ended December 2015.

For the FY16-17, net profit rose 803.60% to Rs 12.56 crore as against Rs 1.39 crore during the previous year ended March 2016. Sales rose 10.71% to Rs 331.89 crore in the year ended March 2017 as against Rs 299.78 crore during the previous year ended March 2016.

**Last 6 Quarters Net Sales & Profit**





## Current & Expected Earnings

### Quarterly Ended Profit & Loss Account

Particulars (Rs in Crores)	Jun 2016	Sep 2016	Dec 2016	Mar 2017	Jun 2017 E	Sep 2017 E
Audited / UnAudited	UA	UA	UA	UA	UA	UA
<b>Net Sales</b>	<b>135.31</b>	<b>79.95</b>	<b>54.13</b>	<b>62.5</b>	<b>139.42</b>	<b>88.73</b>
Other Operating Income	--	--	--	--	--	--
Total Income – Operations	135.31	79.95	54.13	62.5	139.42	88.73
Raw Materials Consumed	49.69	53.89	21.73	17.94	50.67	55.28
Purchase of Traded Goods	68.82	19.55	6.85	34.17	69.11	23.59
Increase/Decrease in Stocks	-8.94	-10.96	11.52	-2.78	-8.01	-9.92
Power & Fuel	--	--	--	--	--	--
Employees Cost	4.07	3.6	3.8	3.48	4.47	3.89
Depreciation	0.46	0.57	0.52	0.56	0.52	0.61
Provisions And Contingencies	--	--	--	--	--	--
Other Expenses	7.54	8.8	8.09	7.53	8.55	9.55
P/L Before Other Income	13.68	4.51	1.62	1.61	14.11	5.73
Other Income	0.34	0.76	0.34	-0.1	0.55	0.82
P/L Before Int., E. Items & Tax	14.01	5.27	1.96	1.51	14.66	6.55
Interest	0.26	1.52	1.41	0.4	0.3	0.63
P/L Before E. Items & Tax	13.75	3.74	0.55	1.1	14.36	5.92
Exceptional Items	--	--	--	--	--	--
P/L Before Tax	13.75	3.74	0.55	1.1	14.36	5.92
Tax	4.77	1.15	0.38	0.28	4.91	1.84
P/L After Tax – Ord. Activities	8.98	2.6	0.17	0.82	9.45	4.08
Prior Year Adjustments	--	--	--	--	--	--
Extra Ordinary Items	--	--	--	--	--	--
<b>Net Profit/(Loss)</b>	<b>8.98</b>	<b>2.6</b>	<b>0.17</b>	<b>0.82</b>	<b>9.45</b>	<b>4.08</b>
Equity Share Capital	38.6	38.6	38.6	38.6	38.6	38.6
Reserves	--	--	--	--	--	--
<b>Calculated EPS</b>	<b>2.33</b>	<b>0.67</b>	<b>0.04</b>	<b>0.21</b>	<b>2.45</b>	<b>1.06</b>
Calculated EPS (Annualised)	9.32	2.68	0.16	0.84	9.79	4.23
Public Shares Holding	16448755	15093755	15093755	15052169	15052169	NA
Public Share Holding (%)	42.61	39.10	39.10	38.99	38.99	NA

The loss of stock and plant & machinery damage witnessed due to floods in FY16 has impacted company's performance in previous years. However, the overall revenue and profitability of the company is expected to improve significantly in coming quarters considering recent efforts taken by the company towards widening its geographical reach and adding new products in the portfolio.



## 4. Peer Group Comparison

PEER GROUP	WATERBASE	AVANTI FEEDS
CMP	110.45	1650.20
52 W L/H	76.00/127.75	411.00/1670.00
Market Cap	426.37	7494.42
<b>Results (in Crores)</b>	<b>Mar-17</b>	<b>Mar-17</b>
Net Sales	62.50	639.73
PAT	0.82	80.84
Equity	38.60	9.08
EPS (TTM)	3.25	46.84
P/E	33.9	35.2

The closest competitor of Waterbase is Avanti Feeds, which is a market leader with market share of around 50%. With recent developments and management efforts towards increase its product offerings and deepening penetration in domestic market to improve its market share, we expect Waterbase to perform better in coming years.

## 5. Key Concerns / Risks

- The aqua culture activity is dependent on climatic conditions prevailing during season to season, which is unpredictable. Natural calamities like floods, cyclones, during the culture season can have serious impact on the prospects of successful culture.
- Inconsistent supply and rising cost of major ingredients of shrimp feed such as soya and fish meal can impact the margins of the company.
- In spite of technical advancement and development of Specific Pathogen Free (SPF) seed, the possibilities of the shrimps getting affected by virus and diseases cannot be ruled out, any such incidence can severe impact company's performance.
- Volatility of international prices of shrimps and fluctuating foreign exchange rates, US anti-dumping duty and US countervailing duty continues to be the major areas of risk for the industry.

## 6. Saral Gyan Recommendation

- ✚ Shrimp farming industry is governed by MPEDA and CAA and the regulatory framework. This is seen as a key factor which helped India to avert disease which impacted industry growth in neighboring South-east Asian countries. India has abundant coastline and its climatic conditions are favorable for shrimp farming. Abundant farm labour at reasonable cost, availability of other inputs such as land and power and sustained high levels of productivity have enabled India to be competitive.
- ✚ 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 CY10-16. Global prices for Vannamei shrimp is expected to remain firm like past years keeping Indian shrimp industry to be more lucrative.
- ✚ Shrimp feed sales constitute a majority in company's revenue with contribution of around 94%. The company introduced functional feed named Bay White Enriched which provides natural antibacterial action and enhanced hepatopancreas function. The company is promoting health and nutrient utilization by providing enriched nutritional packages with functional features coupled with high quality raw materials selection.
- ✚ To tap the entire value chain of shrimp farming, Waterbase has recently launched range of farm care products under the brand name Baylife. The company is also setting up hatcheries to supply good quality seeds for shrimp farming. Phase I construction of the hatchery was expected to be completed by June 2018. Waterbase has also launched frozen sea food products (processed shrimps and pasteurized crab meat) under the brand Prize Catch in Dec 2016. The company was initially selling it to Institutional customers in the Chennai market and now plan to scale up launch in other southern markets and also to add other products to widen its product portfolio. The company has diversified its revenue streams which will boost its sales in coming quarters.
- ✚ The company has registered sales CAGR of 46.8% and profit CAGR of -1.1% with ROE of 12.7% over last 5 years. FY16 financials were impacted due to flood and one time settlement with one of company's banks. The company debt to equity ratio is at 0.2.

Key Financial Parameters	Mar 2013	Mar 2014	Mar 2015	Mar 2016	Mar 2017
Return on Net Worth (%)	10.0	15.7	19.7	1.0	11.1
ROCE (%)	12.3	23.8	29.6	5.3	16.8
Operating Profit Margin (%)	8.0	11.0	11.9	6.8	5.8
Net Profit Margin (%)	3.8	6.0	7.0	0.4	3.3
Debt to Equity (%)	0.5	0.1	0.1	0.1	0.2
Working Capital Days	208	174	155	137	135

- ✚ By amalgamating with Pinnae Feeds (75,000 MT capacity), the capacity of Waterbase will be 1,10,000 MT without any cash outgo or additional investments. Amalgamation of Pinnae Feeds will bring in backward integration, operational efficiencies with optimal utilization of resources, offer business synergies, hence expected to augur well for the company with higher revenue and profitability going forward.
- ✚ Waterbase is widening its distribution infrastructure enhancing its pan-India presence. The company has entered West Bengal, Gujarat and Odisha. Simultaneously, it is also scaling up its presence and reach in current strongholds of Tamil Nadu & Andhra Pradesh. Deepening of distribution network by adding new depots, better stocking at distributor level, addition of SKUs and enhanced after-sales service will help company to improve its revenue growth going forward. Improved presence in new markets as well as existing strongholds supported by marketing efforts and new product lines should sustain the growth momentum.
- ✚ The company plans to increase its market share and grow volumes by leveraging on strength of highly skilled technical manpower, brand salience, wider product portfolio, improved distribution network and value added services. The company is now foraying into new geographies to pursue growth plans. The company has strengthened its dealer and farmer network with better services, transparency and increased sales and technical personnel. Under marketing and distribution initiatives, the company in conducting regular dealers and farmers meets.
- ✚ Waterbase produces a wide range of aqua feeds from its plants installed with advanced pelleting technology equipment. Its feed ingredients sourced from indigenous and imported sources undergo multi-layer inspection processes before issue for production. The implementation of stringent quality assurance protocols by the company ensures that production processes are closely monitored and controlled and the finished feed quality matches assured specifications.
- ✚ As of Jun'17, promoter's shareholding in the company is at 61.01%. Promoters have increased their stake by 8.58% over last 15 months, from 52.43% in March 2016 to 61.01% in Jun'17. Promoters have not pledged any shares, Institution shareholding in the company is at 1.78%. The increase in shareholding by the promoters gives confidence in terms of future growth prospects of the business.
- ✚ For FY 2014-15, the company paid dividend of Rs. 0.50 per share. The company has not paid dividend later due to impact on profit margins. FY 2015-16 was a subdued year for the company as it impacted its profitability due to occurrence of floods in AP resulting in a loss of stock and damage to plant and machinery. However, we expect company to pay regular dividends going forward considering higher sales and profits in coming years.

- ✚ As per our estimates, Waterbase can deliver PAT of 15.7 crores in FY17-18 and Rs. 23.1 crores in FY18-19 with annualized EPS of Rs 4.1 and Rs. 5.6 respectively. At current price of 110.45, stock is available at forward P/E multiple of 19.8X based on FY18-19 earnings. Company's valuation looks attractive considering robust growth outlook of shrimp farming with increase in demand of protein rich seafood globally.
- ✚ On equity of Rs. 41.4 crore post amalgamation, the estimated annualized EPS for FY18-19 works out to Rs. 5.6 and the Book Value per share is Rs. 28.84. At current market price of Rs. 110.45, stock price to book value is 3.8.

Considering positive outlook of Shrimp farming Industry in India with continuous rise in global demand for seafood, management focus towards diversification to tap the entire value chain of Shrimp farming, increasing penetration in domestic market by deepening of distribution network by adding new depots, better stocking at distributor level, addition of SKUs and improvement in operational efficiencies of the company with amalgamation of Pinnae Feeds, Saral Gyan team recommends **"Buy"** on **Waterbase Ltd** at current market price of Rs. 110.45 for target of Rs. 230 over a period of 12 to 24 months.

#### **Buying Strategy:**

- 70% at current market price of 110.45
- 30% at price range of 80 - 88 (in case of correction in stock price in near term)

**Portfolio Allocation: 3% of your equity portfolio.**

## 7. Disclaimer

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