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In the business of quality Prawn feed and Prawn Exports

Ref: AFL/BSE & NSE/2017-18/

08<sup>th</sup> March, 2018

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**BSE Code: 512573**

**NSE Code: AVANTIFEED**

Dear Sir,

- Sub: AVANTI FEEDS LIMITED - Audio Conference Call for Investors conducted on  
21<sup>st</sup> February 2018 - Transcript of the Audio Conference Call - Reg.
- Ref: 1. Our letter Ref: AFL/BSE & NSE/2017-18/ dated: 19<sup>th</sup> February 2018.  
2. Regulation 30 of SEBI (LODR) Regulations 2015.


\* \* \*

Further to our letter dated 19<sup>th</sup> February 2018, we enclose herewith the transcript of the Audio Conference Call for Investors conducted on 21<sup>st</sup> February 2018 regarding the Un-audited Financial Results for the quarter ended 31.12.2017.

This is for your information and record.

Thanking you

Yours faithfully  
for Avanti Feeds Limited

  
C. RAMACHANDRA RAO  
JOINT MANAGING DIRECTOR,  
COMPANY SECRETARY & CFO



Encl: As above.

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## Transcript

### Conference Call of Avanti Feeds

Event Date / Time : 21st February 2018 4 PM IST  
Event Duration : 1 hour 5 min 24 secs

#### *Presentation Session*

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**Moderator:** Good evening ladies and gentlemen; I am Shyamala, moderator for the conference call. Welcome to Avanti Feeds Limited Q3FY2018 post results discussion conference call hosted by Karvy Computershare Private Limited. At this moment all participants are in listen-only mode. Later, we will conduct a question and answer session. At that time, if you have a question, please press \* and 1 on your telephone keypad. Please note this conference is recorded. I would now like to hand over the floor to Mr. Milan Bavishi from Karvy Computershare Private Limited. Over to you sir.

**Milan Bavishi:** Thank you Shyamala. Good afternoon everyone and on behalf of Karvy Computershare. I extend a warm welcome to everyone. Today from the Avanti Feeds management side, we have Mr. C. Ramachandra Rao, the Joint Managing Director, Mr. M. Venkateswara Rao, GM, Corporate Affairs, and Mr. P. V. Rajashekhar, DGM, Finance and Accounts. I will now hand over the call to Mr. C. Ramachandra Rao. Over to you sir.

**C. Ramachandra Rao:** Thank you Mr. Milan.

Good Evening Ladies and Gentlemen,

I am pleased to extend a warm welcome to all of you for this Investors Conference Call. This time, you have the financial results of the company for the Q3 FY2018 and I am sure you would have already gone thru them. However, I will present to you some broad figures.

The consolidated revenue from operations during Q3 FY18 was Rs.722.61 crores compared to Rs.539.97 crores during the corresponding quarter of FY17 registering a growth of 25.28% on YoY basis. The profit before tax during Q3 FY18 was Rs.161.82 crores compared to Rs.68.98 crores during the corresponding quarter of the previous year, recording a growth of 134.60%. In terms of percentage the profit is 22.39% during Q3FY18 compared to 12.77% during the corresponding quarter of the previous year.

The significant contribution for improvement in bottom line during Q3FY18 compared to Q3FY17 comes from increase in profit from feed sales. In terms of volume the feed sales during Q3FY18 went upto 84,890MT from 67,880 MT during corresponding quarter of FY17 registering a growth of 25%.

The revenue from feed business during Q3 FY18 stood at Rs.551.02 crores compared to Rs.405.82 crores during Q3 FY17 recording a growth of 35.78% while the profit rose to





Rs.135.10 crores in Q3 FY18 from Rs.58.70 crores in Q3 FY17 from the feed business with a growth of 130.15%. The reason for significant increase in profit from feed business is mainly on account of increase in volume of sales coupled with decrease in raw material prices compared to the corresponding period of the previous year. As you know, compared to Q2, the sales volume of Q3 would be lesser as Q2 happens to be the peak season for shrimp culture activity.

As regards shrimp processing and exports, you may notice that the revenue for Q3FY18 stood at Rs.155.21 crores as compared to Rs.129.01 crores during Q3 FY17 registering a growth of 20.31%. The bottom line also increased to Rs.11.56 crores in Q3FY18 as compared to Rs.6.37 crores in Q3FY17, registering a growth of 81.48%.

As mentioned in my Q2FY18 conference call, due to winter season the shrimp culture during October to December, corresponding to Q3 was on a low key and as a result the sales volume during Q3FY18 was lower than Q2. Consequently, the profit also decreased by about Rs.15.52 crores during Q3FY18 as compared to Q3FY17.

Now I would like to share with you the present status of shrimp culture and prospects for the rest of the season.

The main culture season of the year started in February and will increase hereafter. As per the reports almost all States undertaking shrimp culture have started stocking briskly. It is anticipated that there would be increase in the area of shrimp culture and also stocking density indicating higher production this year normal conditions conducive for shrimp culture prevails during the culture period. Under the circumstances, we anticipate the industry to grow at 10-15% compared to previous year.

#### **Expansion of feed capacity :**

The expansion of capacity by 1,75,000 MT at Bandapuram feed plant is completed and the commercial production is planned to commence during this week. With this addition the total feed capacity will be 6,00,000 TPA.

#### **Shrimp Processing and Export business :**

As you know, the new state of art shrimp processing plant (Unit-2) established at Yerravaram, East Godavari Dist., Andhra Pradesh with a capacity of 15,000 TPA has commenced commercial production and exports from August'17. This plant is equipped with facility to process cooked products, in addition to traditional Ready to cook products such as IQF and block freezing of raw shrimps. The new plant has stabilized in terms of production and quality and achieved 40% capacity utilization as of now. It is expected that in 2018-19, the capacity utilization would go up to 60-65%. The Unit-1 will continue to operate with a capacity utilization of 85%.

I think, with this information we will now take up questions from the investors.

#### **Question and Answer Session**

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**Moderator:** Sure sir. Ladies and gentlemen, we will now begin the question and answer session. If you have a question, please press \* and 1 on your



telephone keypad and wait for your turn to ask the question. If you would like to withdraw your request, you may do so by pressing \* and 1 again.

We have the first question coming from Mr. Viraj Mehta from Equirus. Kindly go ahead with your question Viraj sir.

**Viraj Mehta:** Yeah, hi sir, and congratulations for great set of numbers. Sir, my first question...

**C. Ramachandra Rao:** Thank you. Your voice is very low Mr. Viraj; can you just speak a bit louder?

**Viraj Mehta:** Yes. Sir, my first question is, if you look at the raw material prices recently, there both for fish meal and for soya have gone up, so fish meal, obviously has gone up 20%, 30% and so has soya. If we talk to dealers of both your company and your competitors, there is a chatter that the entire industry is looking for a price hike after probably one-and-a-half quarter to two years. What is your sense on that sir?

**C. Ramachandra Rao:** See, you are right Mr. Viraj, the prices have gone up, but we should be very careful while resorting to increase in the prices; because the most important factor is the viability of the feed price to the farmer. So, the farmer should be able to sustain the cost. That is very important. And it is too early now. Because the soya prices have gone up only from January and fish meal prices has gone up from November and we are watching the situation and we will have an appropriate decision taken in course of time, depending upon the situation and the market conditions and culture situations.

**Viraj Mehta:** Sure sir. And sir, regarding the new feed plant that we are seeing, did I hear it correct that you said that will you be able to utilize new plant by 65% and the old plant at 85%, 90%, is that correct?

**C. Ramachandra Rao:** No, no, this is not feed. This is processing. I said about the processing. When it comes to the feed, we would be able to use about 90% capacity utilization in 2018 out of the installed capacity of about 6 lakh tons per annum.

**Viraj Mehta:** So, we are looking at from 425,000 tons, that we will do this year, we are looking at 540,000 tons next year, is that correct?

**C. Ramachandra Rao:** Yes, you are right.

**Viraj Mehta:** Okay. Sir thanks a lot and best of luck and I will come back in the queue for more questions.

**C. Ramachandra Rao:** Thank you.

**Moderator:** Thank you sir. We have the next question coming from Mr. Nitin Awasti from Edelweiss. Kindly go ahead with your question sir.

**Nitin Awasti:** Thank you for the opportunity. First of all, sir, congratulations on the great set of numbers.





**C. Ramachandra Rao:** Thank you.

**Nitin Awasti:** Yeah. I would like to know, sir, what has the company done so differently? How is our strategy different from our competitors that we have, and have you been able to garner such a big market share? So, in the past what have been our differential strategies that we have used and outdone the competition?

**C. Ramachandra Rao:** So, Mr. Nitin, there are two important factors, which we concentrate very much and focus, and which we consider that is the main reason for our having this leadership in the market. One is the quality of the feed. The quality of the feed is absolutely superior and it has performed consistently in the past. So, the farmers prefer to have our feed because he gets a good Feed Conversion Ratio (FCR). That is the one important factor, and we are giving quality feed consistently. Because, the farmer believes that if he uses the Avanti Feed, he is sure of the best harvest, best results that is one reason for us to keep this market. Number two, is the technical assistance that we give to the farmer, we have a team of technical sales officers who are all fisheries graduates and they keep in constant touch with the farmers and advises the farmer throughout the culture season of how he should take care of the culture. And we have a specialized team, called TASS, which is this Technical Assistance After Sales Service, this team will have specialized experts on this. They will supervise, they will go frequently and visit the farmers and give technical assistance, and our object is to see that the farmer gets best results. So, these two factors, of course, coupled with the other, like pricing and other things, we are able to retain this position. Okay?

**Nitin Awasti:** Yes sir. Sir, one question on your future, this is of course from the past, sir you have now made plans to enter the hatchery segment. So, we just would like to understand how this switch in with your business and where this integration comes in with the philosophy of the business. So, is it that you want to integrate it and become a leader in feeds or is it from the other side of the assistance to the farmer, which angle is the company looking at?

**C. Ramachandra Rao:** Nitin, yes, the primary object is to give a good seed to the farmer that is the primary objective. But it is such a huge market, to get the leadership in the market is going to be a very tough.. So, we have to work hard. And as of now, our preliminary objective is that we cater to the farmers with a good seed. We want to establish that Avanti Feeds can give the best quality seed which is our immediate objective. And going forward we have to see. We have not yet made any plans; we want to start the hatchery with 200 million in the first phase and another 200 million in the second phase. That is what is our immediate objective.

**Nitin Awasti:** Sir, will this 200 million capacity that comes in, will it be, what do you call, adding to our bottom-line? Will the numbers...

**C. Ramachandra Rao:** It is very marginal, Mr. Nitin, it is not much.

**Nitin Awasti:** Okay, as of now...

**C. Ramachandra Rao:** It is more like establishing Avanti's name in the quality of the seed that they can provide. It is the objective. It is not that to take the majority share of the market for Hatchery.



**Nitin Awasti:** Okay sir. Thank you so much sir. I will join the queue for further questions.

**Moderator:** Thank you sir. We have the next question coming from Mr. Darshit Shah from Nirvana Capital. Kindly go ahead with your question Darshit sir.

**Darshit Shah:** Can you let me know what are the current soya meal and fish meal prices for us?

**C. Ramachandra Rao:** I did not get you, because your voice is not clear.

**Darshit Shah:** Yeah. Sir, can you let me know the current soya meal and fish meal prices for us?

**C. Ramachandra Rao:** See, the current fish meal price is around Rs.120/- to Rs.125/- per KG, that is the price, and soya meal price is about Rs.43000/- to Rs.44000/- per metric ton.

**Darshit Shah:** Okay. Sir, and my next question pertains to, I heard your earlier reply in respect to the price rise, so sir hypothetically if you assume that the prices stays at the current level, both for the fish meal and soya meal, do you think there is appetite in the market for us to increase the feed prices?

**C. Ramachandra Rao:** No, we have to see. Because the feed price, it is what I told that the feed price very much depends on the viability for the farmers. As we go forward, since the season has started just now, we are watching the situation. We will take a decision about that at the appropriate time. It is true that the prices have gone up; we have not yet taken any decision about the increase of price.

**Darshit Shah:** Yeah, but we might think if the prices probably stays currently at this level or they might in case further increase also.

**C. Ramachandra Rao:** We have to see. Basically, soya is an agriculture product; there are so many factors, which will influence the price. For example, sometimes what happens is, in anticipation of the price increase, farmers don't release the seed in the market, farmers hoard it, withhold that, and afterwards it goes up and comes down when seed is released. So, we will have to see the average pricing. Okay?

**Darshit Shah:** Got it sir. Let me ask you...

**Moderator:** Okay. Shall we move on to the next question sir?

**C. Ramachandra Rao:** Yeah.

**Moderator:** We have the next question coming from Mr. Aman from Astute Investment Management. Please go ahead with your question Aman sir.

**Aman Vij:** Yeah. Good evening sir. I have couple of questions.

**C. Ramachandra Rao:** Good evening.





**Aman Vij:** First is basically two of our competitors have recently expanded their capacity in feeds as well as they have been under cutting the prices by 10% to 15% and they have also started giving huge credits. So, do you think we need to change our strategy as such or are you comfortable going by basically no credit policy and not worried about the expansion these two players have been doing.

**C. Ramachandra Rao:** Mr. Aman, as I told you, as long as we are confident of our quality and our market, we are not really concerned about the other's expansion or under cutting the prices. We keep our strategies; we don't really bother about these companies.

**Aman Vij:** Okay sir. Sir, my second question is, could you give an idea about our market share in the top five states, like, what is our market share in say...if I divide India into five major states, North Andhra, South Andhra, Gujarat, Orissa, and West Bengal, could you give the market size?

**C. Ramachandra Rao:** Mr. Aman, sorry, I don't have right now the state-wise figures. Please send a mail. We will give you the market share in each of these places. Okay?

**Aman Vij:** Okay sir, no issues. Next question is on the hatcheries part. So, sir, whatever understanding I have, the market is quite big, like 80 billion feed and we are not even trying to enter into million, you are talking about 1 billion number or 200 million...

**C. Ramachandra Rao:** No... 200 million and another 200 million.

**Aman Vij:** Yeah, so compared to the market size, so CP Foods, which is our main competitor, has 5 billion capacity, which is still very small, not even 10% of the market, so, why are we not more aggressive in hatcheries business sir?

**C. Ramachandra Rao:** Mr. Aman it is necessary, the first thing is that we wanted to prove the product, our quality, and give the good quality seed to our farmers. That is the first objective. The second objective, is, how we can increase the production, it is not straightaway going into build up huge capacity and going for the marketing of this product. It is necessary that we establish our product, which is very important. We want to give good quality product to the farmers. That is what our immediate objective is. We don't want to start in a big way. We will do it in a phased manner. That is the reason why we have started with first phase of 200 million and then 200 million and if everything goes well, we will also consider a further increase of the capacity.

**Aman Vij:** Okay sir. That's helpful. Last question is on the processing side and the overall growth plan of the company. So, this year you are saying feed side we will do mostly 90% utilization and processing side, FY18-'19, we will end up with 60, 65%. So, sir, what is the plan say...?

**C. Ramachandra Rao:** FY18-'19, we will be... the new plant should be able to do about 60%: 65%.



**Aman Vij:** Yes, that 60, 65 in processing and 90% in feed, I am talking about.

**C. Ramachandra Rao:** 60%, 65% in the new plant and 90% in the old plant.. Unit I.

**Aman Vij:** Yeah, yeah, that I understand, and feed overall, out of the 6 lakh, we will end up doing 5.4 lakhs that is our target, feed.

**C. Ramachandra Rao:** Correct.

**Aman Vij:** So, what is our growth plan going forward? Because we will be generating lot of cash, like 500 odd crores, and we have done the expansion of this new plant, so will we be expanding more capacity in processing or will we be exploring, you talked about fish feed sometime back, you had been repeating, but we are still, I think, in the study phase. So, two, three years down the line, what, where do you think we are targeting our growth from?

**C. Ramachandra Rao:** See, Mr. Aman, the first point, as far as the feed business is concerned, the immediate objective for '18-'19 is the 6 lakh ton, full capacity utilization is our immediate object, and during the year, we will study how is the growth. As you know, there is a great potential for aquaculture in India. On an average, 10% to 15% is anticipated growth of aquaculture in India. So, with the result, when aquaculture increases, automatically the production of shrimp increases, feed demand also increases. So, we will keep watching this year and we will take decision what to do about, how to go about further expansion. If needed, we will go for that, depending upon the circumstances as far as the feed is concerned. That is one part. Coming to the processing, the immediate focus is on two things, one is, full capacity utilization and second thing is, go for value added and cooked products, where margins are more, and it has got more value-addition. So, we are thinking, in the next, in the whole year, '18, we will be concentrating on full capacity utilization. As you know, the 15 plus 7, up to 22 tons we have the capacity and more so in Yerravaram we have got good capacity for cooked products. So, we want to concentrate, focus on these products in '18 and see the developments. Depending upon our network, the marketing network development and depending upon the demand, we will go for expansion in the next year, perhaps in '19-'20. If it is required, we will go for that and we have got sufficient space in the existing plant to go for expansion. Okay?

**Aman Vij:** Okay sir. And the last part, any CAPEX plan you have for next year as well as may be next to next year, so two years CAPEX plan?

**C. Ramachandra Rao:** As of now, we do not have specific CAPEX plan for next year. In '18, it is very important that, see, we have just started, shrimp culture season. So, over a period of time, next six months to eight months, we will be able to see what the production levels, what is the demand, how we are able to perform, and how we develop the network, and all these things we will take into consideration, and decide on the further expansion. We don't think we need much capital expenditure on civil side; it will be more on machinery, which we will be able to understand only after another five, six months.

**Aman Vij:** Okay sir. So, there is a chance we can increase the dividend also, something like that, if we don't require the capital.





**C. Ramachandra Rao:** Pardon me? Dividend increase.... the dividend policy is there for the company, and as disclosed in the policy, so many other things also will depend on dividend, things like CAPEX, on which many other things will depend, and Board takes view on the totality, and they recommend the dividend year after year. The company has a dividend policy indicating What are the parameters, which have to be considered before considering any dividend?

**Aman Vij:** Yeah. And no update on fish feed sir?

**C. Ramachandra Rao:** Fish feed, we are doing lot of work, we are trying to understand things, but as of now, not much progress. I think in time to come we will be able to do; we will be able to get some more information, so that we can really study that and take an appropriate decision.

**Aman Vij:** Okay. Thank you.

**Moderator:** Thank you sir. We have the next question coming from Mr. Sanjay Satpathi from Ampersand Capital. Kindly go ahead with your question Sanjay sir.

**Sanjay Satpathi:** Yes. Thanks sir for the opportunity. Sir, can you just explain this new business that you are getting into, that is the seed business, what kind of revenue opportunity that you are looking at and what kind of margin it can get you?

**C. Ramachandra Rao:** You are talking about seed hatcheries? As I told you, we are going with a 200 million, the estimated selling price of seed will be around, 35ps to 45ps. It is not much Mr. Sanjay, The revenue might be about Rs.6 to Rs.7 crores. There may be a margin of 8% to 10%.

**Sanjay Satpathi:** Rs.6 to Rs.7 crore of annual revenue, you said sir?

**C. Ramachandra Rao:** Yeah, it is correct.

**Sanjay Satpathi:** Okay, okay. And sir, you mentioned in the beginning itself that the overall, you are looking at the industry growth to be 10% to 15%, and the capacity that you have right now, so, it looks like you will at best grow in line with industry, is that correct to understand?

**C. Ramachandra Rao:** See... growth I said it is 10% to 15% increase of the growth of industry I think that shrimp culture in India will grow, year after year. Because we have about 14 lakh hectares of land available for aquaculture, that is as per statistics by the NFDB and MPEDA, and of this area we have only 14% of this land is now available under aquaculture now. Still, there is lot of scope for shrimp culture and the another important thing is that the Food and Agriculture Organization of United Nations, have reported that the amount of consumption of seafood is increasing gradually and in that, more interesting is that- it is the farmed seafood like shrimp and fish are increasing much more faster than the wild catch, that is another important development, which we have seen, and this is going to help us a lot in increasing the production of shrimp by the country and also there is a constant demand for shrimps and also India is treated now,

as one of the important shrimp suppliers in the world. So, there is no dearth of demand for this and there is a good opportunity for growth.

**Sanjay Satpathi:** No, as far as Avanti is concerned, what kind of sustainable growth it is targeting? My question is more about Avanti than the industry.

**C. Ramachandra Rao:** As I told you earlier, feed we have now 6 lakh tons, we will observe in '18 what is going to be the off take and what is the capacity utilization, and depending upon that - we will expand the capacity of feed also, if necessary, depending upon the growth that will come to light, during the year after the first season is under way. That is what we are doing now.

**Sanjay Satpathi:** Thanks a lot.

**C. Ramachandra Rao:** As far as, see, the processing, as I told you again, it is, this year when we utilize the present capacity fully and see the development with the market network development and the demand and supply, all these things we will consider, and on that we will expand our processing facility also.

**Sanjay Satpathi:** Okay, got it, got it. So, overall 15% to 20% growth is something, which you can...

**C. Ramachandra Rao:** Yeah, we can sustain that.

**Sanjay Satpathi:** Thanks a lot sir.

**Moderator:** Thank you sir. We have the next question coming from Mr. Ashutosh Garud from Reliance Wealth. Kindly go ahead with your question Ashutosh sir.

**Ashutosh Garud:** Hello?

**C. Ramachandra Rao:** Yes? Yes Mr. Ashutosh.

**Ashutosh Garud:** Yeah, hi. So, congratulations on a good set of numbers. So, just to understand this 5,40,000 kind of production we are expecting for FY19.

**C. Ramachandra Rao:** Yes, yes.

**Ashutosh Garud:** Okay. And this year you are expecting yourself to end at 4,25,000. Is that right?

**C. Ramachandra Rao:** Yes, it is.

**Ashutosh Garud:** Okay. And what can be the maximum utilization levels in this capacity? 90% is the peak utilization level or we can go even further?

**C. Ramachandra Rao:** We can go actually more capacity also, we can go. We can go up to 95%, 98% also you can go, depending upon the demand.





**Ashutosh Garud:** Okay. Just to understand this, 540,000, you are expecting on a normal season, if the season happens to be better than expected, you can actually produce more.

**C. Ramachandra Rao:** Yes. We have utilized capacity more earlier, nearly 100% capacity we have utilized, and it should not be a problem to achieve this in '18 also.

**Ashutosh Garud:** In this Q4 you are saying.

**C. Ramachandra Rao:** Pardon me? FY19, I mean 2018 year, calendar year.

**Ashutosh Garud:** Okay, okay. And sir, on this soya meal and fish meal prices are going up, so has these kind of scenario been there in the past and how has the price increase gone of your final product with these raw material increased prices in the past?

**C. Ramachandra Rao:** Mr. Ashutosh, if you look back to 2016, there was a price increase of raw materials, the same, fish meal and soya. We did not resort to any increase in price. But this year also again it has happened now. It is an agri product and it depends on the natural resource.... naturally there will be fluctuations in that. So we are watching the situation as of now.

**Ashutosh Garud:** Okay. So, and if you see the kind of production increase, which is happening in your main product, on the volume terms, would there be a tradeoff between a gross margin, which you would be comfortable with, which will eventually give you an operating leverage on EBITDA level purely because of the increase in the volumes. So, is this kind of thing, which management is thinking about to maintain a healthy rate on EBITDA level, would that be a comforting factor?

**C. Ramachandra Rao:** It looks like that. What you said is correct. Because the volume increase is there and we have the large scale economies advantage, with that we should be able to maintain that, that is what our working is. But it all depends, as we go forward in the main season, that determines what it is.

**Ashutosh Garud:** Okay, okay. Thank you, and all the best sir.

**Moderator:** Thank you sir. We have the next question coming from Mr. Akshay Parekh from IDBI Capital. Kindly go ahead with your question Akshay sir.

**Akshay Parekh:** Many congratulations sir on your very good and consistent performance. There is question on volumes. Could you please repeat the volumes of feed and processed shrimp for 3Q18 versus 3Q17?

**C. Ramachandra Rao:** Pardon me? I could not get your question.

**Akshay Parekh:** Could you please repeat the volume on the feeds and processed shrimp for third quarter '18 versus third quarter '17?

**C. Ramachandra Rao:** Okay. FY17, FY18 figures for processing and feed.

**Akshay Parekh:** Sir, first for quarter then for...both, for quarter as well as nine months.

**C. Ramachandra Rao:** Quarter as well as nine months, just give us some time, we will come back. Can we go to the next question, meanwhile we will collect exact figures.

**Akshay Parekh:** Okay sir, and one more question on the gross margin sir, would you be able to shed some light, like, how much is the gross margin of the feeds and for the processed shrimp?

**C. Ramachandra Rao:** Sustainable margins are about 5% to 7% for processing and 10% to 12% is sustainable margins for feeds business.

**Akshay Parekh:** No, I am talking about the gross margins, not the EBITDA margins.

**C. Ramachandra Rao:** You want the gross margins, the numbers I think we have to check. You should be able to get this figure from our results.

**Akshay Parekh:** You have mentioned your EBITDA level, right; I am just talking about the gross margin, segment-wise basically.

**C. Ramachandra Rao:** The figures he will take out and send it to you, okay?

**Akshay Parekh:** Okay. I will connect offline for this. Sir, just one last question, how much is the cash position right now?

**C. Ramachandra Rao:** We have about Rs.600 crores cash as on 31.12.2017.

**Akshay Parekh:** Okay. Thank you so much sir. I will connect offline for the numbers.

**Moderator:** Thank you sir. We have the next question coming from Mr. Saral Sate from Karvy Stockbroking. Kindly go ahead with you question Saral sir.

**Saral Sate:** Yeah. My question has been answered. Thank you.

**Moderator:** Okay sir. We have the next question coming from Mr. Raghav Basani from Dalal Street Investments. Kindly go ahead with your question Raghav sir.

**Raghav Basani:** Good afternoon sir. My question was related to processed shrimps. The current contribution is around 22% of the total revenue for quarter 3. So, going forward you said that for new capacity it would be around 60% to 65% of utilization, so how do you see this contribution going forward, from basically processed unit?

**C. Ramachandra Rao:** Yeah, because what we expect is, it will go up to 35% to 40%.

**Raghav Basani:** 35% to 40%, fair enough sir. And sir, my next question is the aggregate profit for nine-monthly period is around 380 crores, so for quarter 4, would it



be possible to add around 120 crores to the total retail earnings, so this will surpass the 500 crores of the (not clear).

**Management:** Mr. Raghav, I can't give these figures of future profitability.

**C. Ramachandra Rao:** Q4, I think, we have still time, we will give you at appropriate time.

**Raghav Basani:** Sure sir. Okay, thank you sir.

**Moderator:** Thank you sir. We have the next question coming from Mr. Prem Thakker from Unilazer Ventures. Kindly go ahead with your question Prem sir.

**Prem Thakker:** Hi sir. Congrats for good set of numbers.

**C. Ramachandra Rao:** Thank you Mr. Prem.

**Prem Thakker:** Thank you. Sir, just wanted to ask on the industry side, if we were to look at a 30-count shrimp today, I think, the sizes are around \$5.20 or \$5.30, so how much would be the cost of production for the farmers, and of that cost of production, how much could be the feed cost?

**C. Ramachandra Rao:** No, I don't have right now the figures of exactly what the farmer's cost. The 30 count head on shrimp is normally packed in 16/20 Grade. The sale price of 16/20 grade shrimp is about USD 5.65/Lb. For 30 count head on shrimp the cost of production to the farmer would be around Rs.250-280 per Kg.

**Management:** For 30 count the cost to the farmer will be around Rs.250-Rs.280/Kg..

**C. Ramachandra Rao:** It depends upon the farmer to farmer, because depending upon the shrimp culture conditions and the stocking density, and at what count he is harvesting, there are so many other factors that will go into that. And FCR, there are so many other things. Supposing if he uses feed, which has 1.5 or 2 FCR, it will be costly for him.

**Prem Thakker:** Right, right. So sir, I just...

**C. Ramachandra Rao:** For example, our feed is about 1, 1.1, the cost of production will be less.

**Prem Thakker:** Yeah, okay, so sir that was my next question. So, as compared to competitors, since our FCRs are low for our kind of feed, which is around 1.1, so how much, would we be charging extra for our feed, per head, or our prices are as comparable to the competitors?

**C. Ramachandra Rao:** No, it is as comparable to it overall FCR. We don't charge extraordinary prices for our feed, because it is superior in quality.

**Prem Thakker:** Got it and sir, just one last question. This cost of production that you mentioned around Rs.250-280 for shrimp count of 30, of this if we were to



broadly look at how much would be coming from feed, would it be safe to assume around....

**C. Ramachandra Rao:** 40% to 45% will come.

**Prem Thakker:** Okay, 40% to 45%. Okay, got it sir, got it.

**C. Ramachandra Rao:** Thanks.

**Moderator:** Thank you sir. We have the next question coming from Mr. Aseem Pant from HSBC. Kindly go ahead with your question Aseem sir.

**Aseem Pant:** Sir, my question has been answered. Thank you.

**Moderator:** Thank you sir. We have the next question coming from Harshith Patel from Equitas Securities. Kindly go ahead with your question Harshith sir.

**Harshith Patel:** Hi sir. Sir, can you break down your actual sales in export for this quarter?

**C. Ramachandra Rao:** Harshith, your voice is not at all audible.

**Harshith Patel:** Hello? Am I audible now sir?

**C. Ramachandra Rao:** Now it is better.

**Harshith Patel:** Sir, can you break down your export sales into product sales and export incentives, please?

**C. Ramachandra Rao:** Okay. He is taking out the figures, within two minutes he will give; you can go for next question Mr. Harshith.

**Harshith Patel:** Okay sir. Sir, can you give the volumes for the processed shrimp for this quarter and the same quarter last year?

**C. Ramachandra Rao:** Volume of processed shrimp this quarter and last quarter. See, the export volume, is in terms of this Q3 it is 2124mt and the previous quarter Q2 is 2625mt compared to the corresponding 2016 Q3 it was 1268 metric tons.

**Harshith Patel:** Okay sir. Thank you sir. That's all from my side.

**Management:** See, Mr. Harshith, around 9% is the incentive that it comes to in the revenues.

**Moderator:** Thank you sir. We have the next question coming from Mr. Rishab Chaturvedi from Edelweiss. Kindly go ahead with your question Rishab sir.

**Rishab Chaturvedi:** Hi sir. Sir, could you give me a breakup of the CAPEX in terms of the feed plant CAPEX and the processing plant CAPEX?





**C. Ramachandra Rao:** See, the processing plant CAPEX will be about Rs.120 crores; the feed plant will be around Rs.50 crores.

**Rishab Chaturvedi:** Okay. And sir, will there be any maintenance CAPEX?

**C. Ramachandra Rao:** Maintenance CAPEX?

**Rishab Chaturvedi:** Yes sir.

**Management:** See, that's the part and parcel of every year expenditure. We do preventive maintenance in the month of December and January. As such, we don't make a CAPEX for that; it is just a routine thing that goes on and it is a revenue expenditure.

**Rishab Chaturvedi:** Okay sir. Can you give me like a broad figure as to what the number might be, yearly?

**Management:** is it maintenance?

**C. Ramachandra Rao:** Maintenance happens throughout the year, only some preventive major kind of overhauling is done in the month of December because it is a lean season, so throughout the year, we have to see what is the exact numbers...

**Rishab Chaturvedi:** Okay sir, no problem.

**C. Ramachandra Rao:** See Mr. Rishab, see majorly, we keep changing the dies and other machinery when we take up annual maintenance and also this is a revenue expenditure that takes place. We don't incur any CAPEX for maintenance. Maintenance is always a revenue expenditure. Is it not?

**Rishab Chaturvedi:** Fine. Yes sir, sure. Sir and I had one more question that the BMR group has set up a feed capacity of 70,000 metric tons, Cargil has set up a capacity of 90,000 mts, and Devi Foods has set up a capacity of 50,000 metric tons. So, is there an over capacity in this space, and if so, how will you maintain the sales growth?

**C. Ramachandra Rao:** So, there are two questions. One is, whether there is an over capacity. See, last year, in '17 it was around 13 lakhs is the feed consumption and growth will be around 15%-- , 10% to 15% that will be there. As far as the market is concerned, it basically depends upon the quality and the sustainability, the consistency of the quality and the services that we provide, we keep our market share. There are so many feed plants, but they are not able to have the full utilization, but it all depends upon the quality and the services that we provide. Okay?

**Rishab Chaturvedi:** Okay, fine. And sir, the last question is where these companies are getting the formulation for these feeds, because I believe these feeds have a secret formula.

**C. Ramachandra Rao:** There are so many formulae. If you approach MPEDA, they have got a formula and if you see their website, they will give you a formula for feed. There are some standard feed formulae, and some of the companies have tie ups and they are able to get that through their tie ups. It is very important that how much

nutritious, is the feed.. That is very important for the shrimp growth. How much it is digestible protein? All these things are very important aspects in designing and formulating the feed. Absorption by the shrimp is very important.

**Rishab Chaturvedi:** Okay sir. Thank you so much sir and good luck.

**C. Ramachandra Rao:** Thank you very much.

**Moderator:** Thank you sir. We have the next question coming from Mr. Ayush Mittal from Mittal Company. Kindly go ahead with your question Ayush sir.

**Ayush Mittal:** Good evening sir. First of all congratulations on such an extraordinary performance. My question is, for our feed segment, can you give us an idea what would be the sales to some corporate companies, like, companies which are doing corporate farming, and how much would be to the retail farmer. Any approximate number?

**C. Ramachandra Rao:** Sir, we have about 185 dealer distribution networks and through them it goes to the individual farmers. And we have about 15 to 16 corporate farmers and that would be around 30%,-- 25% to 30% would be the sales to these corporate farmers.

**Ayush Mittal:** Okay. So, just now one of the participants asked the question, like, there is a corporate BMR, who is setting up his own feed plant, so as such, people keep trying to integrate their operation and keep setting up their feed plants, for them it might be a logical move to do this integration as they may have their own technicians and all those things. Do you see that as a risk to your model?

**C. Ramachandra Rao:** Mr. Ayush, we don't see any risk from anybody, as long as we have our strengths. Like, we have the technical superiority, the product superiority, the performance of the feeds, all these things are very important, and we do not have any apprehensions that someone will come and take away this market. That is what our philosophy has been.

**Ayush Mittal:** But is BMR our client, till now?

**C. Ramachandra Rao:** No.... see, after all, Ayush, everybody who comes to this field will try. After all, there is nothing wrong in trying, everybody will try. Why did they establish the feed plant? To get into the market and sell as much as possible, that is the objective of any company. But, what is important is, as far as Avanti Feeds is concerned, our strategy is to retain the market; we have about 42% to 43% market share now, and we target for much higher in the coming years. That is what we target. So, like that, every company will have their own targets and according to their targets they increase the capacities and they make their efforts to get into the market. Now, the fittest will survive. Whoever does give the best quality feed which is the farmer's choice, and how best harvest he is getting, all these factors, services that they are getting, these are all the factors, which will determine the market share. Is it not? That is what we are doing.

**Ayush Mittal:** Okay, great. Thank you sir and wish you all the very best.





**C. Ramachandra Rao:** Thank you very much Mr. Ayush.

**Moderator:** Thank you sir. We have the next question coming from Mr. Aditya Wagla from equitas Investment. Kindly go ahead with your question Aditya sir.

**Aditya Wagla:** Yeah sir. Actually, most of my questions have been answered. Just sir, in terms of what you said about your market share, I was assuming it was around 45%, so has there been... has your market share reduced over the last year or...?

**C. Ramachandra Rao:** No, no, it has not been, we are targeting more now. You know, some markets we are more, in some markets we are less. Like that, in an average what we are saying is, around, what we are having is 42% to 43% and we are targeting it much higher in the current FY19.

**Aditya Wagla:** Okay, any number you can put to that?

**C. Ramachandra Rao:** May be 48%, 47%- 48%, another 5% we want to add.

**Aditya Wagla:** Okay, fine. Thank you sir. Most of my questions have been answered.

**C. Ramachandra Rao:** Okay, thanks.

**Moderator:** Thank you sir. We have the next question coming from Mr. Rahul Jain an individual investor. Please go ahead with your question Rahul sir.

**Rahul Jain:** Yeah, good evening sir. Sir, I have a couple of questions. The first question, is like we have seen a sharp improvement in our gross margins from 22% level to 32% currently in the current quarter. Sir, just wanted to understand, is it mainly due to decline in the raw material prices or it can also be attributed to better product mix or improved pricing power. And sir, the second question sir, is like, what kind of a gross margin we can expect on a sustainable basis?

**C. Ramachandra Rao:** *Please* repeat your first question again, we couldn't get it. It was not clear, your first question.

**Rahul Jain:** Sir, the first question is, the reason for improvement in our gross margin...

**C. Ramachandra Rao:** You are talking about feed or you are talking about processing?

**Rahul Jain:** Sir, the overall gross margin sir that we see.....

**C. Ramachandra Rao:** Okay, overall.

**Rahul Jain:** Yeah, so we have been reporting earlier in the range of around 22% level, now it has improved to 32% in the current quarter. So, what is the reason for the improvement in the gross margin?

**C. Ramachandra Rao:** See, two reasons are there, one is, increase in the volume, and second is small variation in the raw material cost.

**Rahul Jain:** Sir, can you just explain sir, like, how the increase in the volume has impacted our gross margin?

**C. Ramachandra Rao:** See, when you increase the volume, there are two factors contributing to increase. One is, compared to the earlier period there was a marginal reduction in the major raw material prices, That is one thing. Earlier in November there was a marginal reduction, and volume also had gone up; so both have increased your margin levels.

**Rahul Jain:** And the sir, what kind of a gross margin we can expect on a sustainable basis?

**C. Ramachandra Rao:** That is what it should be ...

**Management:** In feed, sustainable margins will be around 10% to 12%

**C. Ramachandra Rao:** No, no, that is EBITDA, he wants gross margins. Gross margins, you add about, for feed around 16% to 17%.

**Rahul Jain:** Pardon sir? 16% to 17% for feed segment?

**C. Ramachandra Rao:** Yeah.

**Rahul Jain:** And for processing segment sir?

**C. Ramachandra Rao:** It should be 10% to 11%, 12% for processing.

**Rahul Jain:** Sir, this is at the gross level sir, we are expecting, on a sustainable basis.

**C. Ramachandra Rao:** Yes.

**Rahul Jain:** Okay, thank you sir.

**Moderator:** Thank you sir. We have the next question coming from Mr. Akash Manghan from BOIAXA Investment. Kindly go ahead with your question Akash sir.

**Akash Manghan:** Yeah. Thanks for taking my question. Sir, the first question on this pricing of your input costs, fish meal and soya prices, you mentioned that the current prices are at the range of Rs.43000 to Rs.44000 per metric ton soya meal and fish meal at Rs.125/- per Kg.. Could you tell me, first of all, what was the average that you got for Q3FY18 for both these commodities and what was the average for Q317, if possible?

**C. Ramachandra Rao:** We will just check that.





**Akash Manghan:** Yeah, for the quarter that you just reported and now for the comparable quarter last year.

**C. Ramachandra Rao:** It was around Rs.74/- to Rs.75/-per Kg for Q3FY18 and it was about Rs.91/-, Rs./-92 per Kg for Q3FY16, that was the price.

**Akash Manghan:** Q3FY17.

**C. Ramachandra Rao:** Yes.

**Akash Manghan:** Okay. That was for fish meal and what about soya?

**C. Ramachandra Rao:** It was Rs.33000/- per MT and it has gone up to Rs.43000 per MT now.

**Akash Manghan:** So, latest quarter average was Rs.43000.

**C. Ramachandra Rao:** Yes. That latest quarter is about...

**Akash Manghan:** So, Rs.43000 now versus Rs.33000 last year. Is it right?

**C. Ramachandra Rao:** Rs.43000 is the present ruling price that is the prevailing price of soya. Q3 of FY17 was Rs.31000, Rs.32000.,

**Management:** Previous quarter also it was in the same line only, Rs.32000.

**C. Ramachandra Rao:** Rs.32000, there was no change in the Q3FY18.

**Akash Manghan:** Okay. So, the only drop that you had in Q3 was for fish meal, that was Rs.75 per Kg versus last year of around Rs.91 per Kg.

**C. Ramachandra Rao:** Yeah, in November the fish meal prices have gone up. Whereas soya prices have gone up in January. It is in Q4.

**Akash Manghan:** Okay. So, now the last time, you have been having the benefit of falling commodity prices, all through the last three odd quarters. Looking at your EBIT margins for FY17 for the feed business was in the range of 12.5% and now latest quarter was 24.5%. So, it is obviously because of fish meal and soya falling off. Now, you are entering the peak season, I believe, starting Q1, right? So when do you take a call on price increase.

**C. Ramachandra Rao:** Q1 of FY19, yes.

**Akash Manghan:** Right, right, for Q1 of next year. So, when do you take a call on whether you would want to increase prices, or you will sort of hold on to your current prices and take a hit on the margins, when does that decision take place?

**C. Ramachandra Rao:** May be in another one month or so...by end of March we should be able to have an idea as to how the prices are moving, how the market is perceiving the increase in price, how the farmer is perceiving the price, and what will be

his viability, all these aspects we will take into consideration, we will take an appropriate decision at that time.

**Akash Manghan:** So, the last time there was such a high inflation in soya prices, I don't have the data for fish meal, was in, I think, FY13, where the average soya prices were up by some 40%, 45% versus FY12. Correct me if I am wrong and, I believe, then we were not able to pass on the prices and the EBITDA margins overall for the company dipped significantly. So, just wanted to understand, is there a possibility to take such a large price hike, or it will be more in the range of 10%, 15% where we will still have to take a hit on our margins or we have taken such large price hikes...because these two commodities are almost, I think, 45%, 50% of your overall sales, right? So, these are up by 30% to 40% over the last three months and if they happen to remain so by the time season starts, then we are looking at very high gross margin compression.

**C. Ramachandra Rao:** We will have to take into account all aspects, it is a balancing act. What our thinking is, a part of increase, how much the farmer can take which can be passed on and the balance Company has to bear., that is a very important aspect. We have to strike a balance between these two. It is not possible, if there is huge hike, that we pass on straightaway to the farmers..that will be disastrous.

**Management:** See, price increases are sometimes in temporary in nature, so during this temporary period...

**C. Ramachandra Rao:** The important thing is, as you rightly said, the main season is starting from April. It goes on up to September. What we are looking, as of now, is that, we have to see for the time being what is the price fluctuations and how the market perceives and how the farmer perceives, how much actually he can take it, how much it has to be born by the Company. This balancing act has to be done in course of time. That's what we are expecting. May be, by end of March, we should come to some sort of an idea how we should go about it.

**Akash Manghan:** Okay. And for the next season, I mean, what sort of volume growth you perceive for the industry, and has there been any increase in area under cultivation over the last year, what is your sense?

**C. Ramachandra Rao:** Yes. It is around 10% to 15% increase in area is expected this year. That is what the preliminary reports indicate. As I told earlier, the shrimp culture season has just started, and the preliminary reports have indicated that the farmers are enthusiastic and there is an increase of area also, by about 10% to 15% there should be an increase of overall aquaculture.

**Akash Manghan:** Okay. And last question is; what is the volume growth that you reported in the feed business in this quarter? I don't have that data.

**C. Ramachandra Rao:** This quarter is Q3, is it?

**Akash Manghan:** Yeah, the revenue growth was 26%, what was the volume growth?

**C. Ramachandra Rao:** I think, I have given that, in Q3, the sales has gone up in terms of volume, it went up to 84,890 from in the corresponding quarter of the previous



year. That was about 17000 tons increase compared to the corresponding quarter of the previous year.

**Akash Manghan:** Sorry, I just lost you there; your voice was a bit patchy. 84890 versus last year, what was it?

**C. Ramachandra Rao:** In Q2, we had 1,02,498 tons of sale, which has dropped to 84,890 tons because of the winter season. And that's what you wanted to know. Is it?

**Akash Manghan:** Yeah. That was Q2 and what was the number in Q3FY17, last year, last same quarter?

**C. Ramachandra Rao:** Last year it was 66,900.

**Akash Manghan:** Fine, thank you so much.

**C. Ramachandra Rao:** Thank you.

**Moderator:** Thank you sir, dear participants, do to paucity of time, we will take one last question. Last question for the day comes from Mr. Darshit Shah from Nirvana Capital. Kindly go ahead with your question Darshit sir.

**Darshit Shah:** No, sorry, almost everything has been answered. Thank you so much.

**C. Ramachandra Rao:** Questions have been answered. Okay. Thank you.

**Moderator:** Thank you sir. Now, I hand over the floor to Mr. Milan Bavishi for closing comments. Please go ahead sir.

**Milan Bavishi:** Thank you Shyamala. It was a great session. Thank you to the entire team of Avanti Feeds for taking out time for this call and thank you so much for all the investors and the entire analyst community who participated in the call. Thank you and have a nice day ahead.

**C. Ramachandra Rao:** Thank you Mr. Milan.

**Milan Bavishi:** Thank you sir.

**Moderator:** Thank you sir. Ladies and gentlemen, this concludes your conference for today. Thank you for your participation and for using Door Sabha's conference call service. You may all disconnect your lines now. Thank you and you all have a pleasant evening.

**Note:**

1. This document has been edited to improve readability.
2. Blanks in this transcript represent inaudible or incomprehensible words.

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