

Transcript

Conference Call of Avanti Feeds Limited

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Presentation Session

Moderator: Good evening ladies and gentlemen. I am Honeyla moderator for the conference call. Welcome to the Avanti Feeds Q1FY18 post results discussion conference call hosted by KARVY Computershares Private Limited. At this moment, all participants are in the 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. Anand from KARVY Computershares Private Limited. Over to you sir.

Anand: A very good afternoon. On behalf of KARVY Computershare, I extend a warm welcome to all of you. Today from the Avanti Feeds management, we have Mr. Ramachandra Rao, Joint Managing Director; Mr. Venkateswara Rao, General Manager – Corporate Affairs and Mr. Rajashekar, Deputy General Manager – Finance and Accounts. I will now handover the call to Mr. Ramachandra Rao. Over to you sir.

Ramachandra Rao: Thank you Mr. Anand. Very good afternoon to all of you; 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 Q1 FY2018 and I am sure you would have already gone thru them. However, I will present to you some broad figures.

The consolidated gross income from operations during Q1 FY18 was Rs.1004.35 crores compared to Rs.726.22 crores during the corresponding quarter of FY17 registering a growth of 38.30%. The profit before tax and exceptional income during Q1 FY18 was Rs.226.46 crores compared to Rs.74.98 crores during the corresponding quarter of the previous year, recording a growth of 202.03%.

The significant contribution for highly impressive performance during Q1 FY18 compared to Q1 FY17 comes from increase in feed sales to 1,38,532 MT in Q1 FY18 compared to sales of 96,706 MT in Q1 FY17, registering a growth of 41,826 MT which is 43.25% above corresponding previous year quarter.

The revenue from feed business during Q1 FY18 stood at Rs.881.28 crores compared to Rs.631.24 crores during Q1 FY17 recording a growth of 39.61% while the profit rose to Rs.210.15 crores in Q1F Y18 from Rs.67.80 cores in Q1 FY17 from the feed business with a growth of 209.95%. The reason for significant increase in profit from feed business is mainly on account of increase in volume of sales and to some extent due to decrease in raw material prices compared to the corresponding period of the previous year.



Dear Friends, beyond this I would not like to dwell much upon these numbers as these financials are already with you. I would like to share with you the present status of aquaculture and prospects for the rest of the season.

Coming to the current calendar year(2018), first crop of Shrimp culture in the current year started a bit early and was very good and second season is in progress. A healthy growth of 10% -15% of the industry is expected because of increase in the area of culture, conversion from fish culture to shrimp culture and favourable climatic conditions. Your Company's Q1 results are reflecting the trend of shrimp culture in general and your Company's performance in particular. The international shrimp prices also reasonably remunerative enough for the farmers to undertake shrimp culture. It is expected that the shrimp culture will achieve this growth rate successfully during rest of this year also.

Further expansion of feed capacity :

As you know, the new shrimp feed plant at Bandapuram, in West Godavari Dist of Andhra Pradesh commenced commercial production in August'16. As the demand for our feed kept continuously growing, year after year, particularly, during the peak season, a further expansion of this plant is being undertaken now adding 1,75,000 MTA capacity at the existing feed plant at Bandapuram. The total feed production capacity for all the units put together, after this expansion will be 6,00,000 MTA.

Shrimp Processing and Export business :

As you know, the existing shrimp processing and export business has been hived off from AFL and transferred to Avanti Frozen Foods Pvt Ltd, subsidiary of AFL, to focus on processing and export of shrimp business and also establish Brand image for our products globally. In addition to the existing processing plant with a capacity of 7000 MTs per annum, AFFPL has completed implementation of new state-of-art shrimp processing plant at Yerravaram in East Godavari Dist., with a processing capacity of 15000 TPA. The trial production is on and commercial production is scheduled by end of this month.

GST :

As informed to you during the previous Investors Conference Call, the GST has been implemented w.e.f. 01st July'17. The GST on feed sales is NIL and the major inputs like Fishmeal, Soyabean meal and Wheat flour are exempt from GST. The GST on other inputs and spares is not significant. As such, there is no significant impact of GST on AFL.

As you know, we have created additional capacity of feed production by further expansion and also expanded shrimp processing by setting up of a new shrimp processing plant. With consistent maintenance of high quality of feed and technical support to farmers and improvement in feed technology, in-house, we are confident of utilizing the feed capacity fully in FY18. Our endeavour is to fully utilise the shrimp processing capacity and grow in export business and maximize the returns with the support of Thai Union. You might have seen that presently the ratio between the feed revenue and the shrimp export revenue is in the ratio of 87:13. It is our endeavour to



improve our exports and make it to 60:40 between shrimp feed, shrimp exports. It is our goal to emerge as a billion dollar Company by 2022.

I think with this information, we will start now the question and answer session.

Question and Answer Session

Moderator: Thank you 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 your question. If you would like to withdraw your request you may do so by pressing * and 1 again. We have the first question from Mr. Deepesh Kashyap from Equirus Securities. Please go ahead.

Deepesh Kashyap: Hi, thank you for the opportunity sir. I have three quick questions. What is the current feed manufacturing capacity that we have; Is it 4.5 lakh tons or 4.25 lakh tons?

Ramachandra Rao: We have 4.25 lakh tons. We are going to add 1.75 lakh tons and it will be 6 lakh tons.

Deepesh Kashyap: Okay. Secondly what was the fish meal and soya meal prices in Q1 and what are they currently now?

Ramachandra Rao: Q1 prices are ranging between Rs.70 to Rs.80.

Deepesh Kashyap: The fish meal you are saying?

Ramachandra Rao: Yes, per kg fish meal.

Deepesh Kashyap: Where are the prices currently sir?

Ramachandra Rao: Current prices...in July there was a fishing ban so August, first 15 days, parties are going out for fishing and only now fish started coming. We are expecting that the prices may marginally come down. That's what is our expectation is.

Deepesh Kashyap: Okay. Generally speaking when you put up a new processing plant, how much time it generally takes to get all the specifications and start commercial operations?



Ramachandra Rao: For processing plant?

Deepesh Kashyap: Yes sir.

Ramachandra Rao: There are several approvals that are required for starting the processing plant, starting with local MPEDA, EIA, and Food Safety and Security Authority of India and also we have to get US FDA, European Union...all these...it will take about six months' time.

Deepesh Kashyap: Okay sir, thank you and all the best.

Ramachandra Rao: Thank you.

Moderator: The next question comes from Mr. Punit Mittal from Global Core Capital. Please go ahead.

Punit Mittal: Hi, good evening. We have been reading in some news about the EU ban on Indian shrimps, do you have any information on that and what do you see as an impact if that ban comes?

Ramachandra Rao: See EU has not banned Indian shrimps. What they have done is, earlier they were checking 10%, that they have increased to 50% and this has been taken up by the Sea Food Exporter's Association and also concerned nodal agencies like MPEDA, they have taken it up with the Government of India and through diplomatic channels, they are discussing with them. It is not that it is banned. Only thing is checking of these consignments from 10% to 50% they have made.

Punit Mittal: Okay. The second question is relating to your shrimp processing and export business. Of course we know that Thai Union is a joint partner in that business and Thai Union also holds or basically has major stakes in some of the largest importers or sea food businesses in the US. So would you be getting any priority on exporting your shrimps to these companies?

Ramachandra Rao: We are having our own channels of exports. We have our own marketing set up and we have established our own marketing net work in the US already. Thai Union is going to support us for strengthening our marketing channels in US and other countries because of their presence already.

Punit Mittal: But they have not committed any purchases from you?

Ramachandra Rao: No, they don't commit to purchase anything from us.

Punit Mittal: Okay. The last question is, if I may, on your feed capacity as well as shrimp processing capacity; as we see in the industry, there's a lot of capacity coming up. So what's your take in terms of basically...are we seeing capacity growing more than the demand or would the industry be able to consume all the capacity that is building up?

Ramachandra Rao: It is very important what kind of facility that we have. There might be several facilities but there are not many who are strictly compliant with the



international standards. There may be about 10 or 15 companies which comply with the global standards. Our company has got the international standard quality products so as far as the demand is concerned; we continuously have demand for our products.

Punit Mittal: Okay. If I may squeeze in one more, in terms of the margins, of course you have got the tailwind of the lower raw material prices in Q1, or even Q4 of last year. Do you see that continuing in Q2 and Q3 of this year?

Ramachandra Rao: Are you referring to the feed or the shrimp processing?

Punit Mittal: The feed business.

Ramachandra Rao: Feed depends upon the....margins will depend upon the raw material cost as well as the volumes. The raw material cost depends upon the....because most of the products which we have, major raw materials like fish meal, soya-bean meal and wheat flour are basically agri related products. It depends upon the crop. Supposing we get a good harvest of fish, catches of fish, prices are likely to go down marginally. Similarly in October we are going to get new soya crop and if the crop is good; last year, what happened was the crop was very good and the prices reduced considerably. Similarly if we have a good crop, naturally the prices also will be stable. It will not come down below last year's prices, but there is a chance of marginal increase because of the other factors like soya (audio break) and all those things because they are joint products like oil and soya bean meal, so the prices keep adjusting or changing between these two products.

Punit Mittal: Okay understood. Thank you so much.

Moderator: Thank you sir. We have the next question from Mr. Darshit Shah from Nirvana Capital, please go ahead.

Darshit Shah: Hello sir and first of all congratulations for a great set of results. My question pertains to the kind of margins that we have made; one of the highest we have seen in our history. Can you quantify how much of that is due to raw material prices and how much was that due to the volume of operations we did in feed business. And sir, with a lot more capacity coming up, what would be the sustainable margins going ahead?

Ramachandra Rao: As far as the feed business is concerned, we feel that around 10% to 12% is a sustainable margin. As far as the processing is concerned, about 5% to 7% is the sustainable margin. With regard to your question regarding quantifying how much due to raw material prices and how much was due to volume of operations, I don't think we can give you a straight answer for that because it is a combination of volume of raw materials and raw material prices. The raw material prices keep fluctuating, it is not that it is stable and only because of increase in volume, we have got so much in our margin it is because of price reduction; raw material cost reduction we have got so much of margin. It is a balance between these two things.

Darshit Shah: Okay got it sir. One more thing; is it kind of possible for us to stock more of raw materials say soya-meal or we cannot kind of stock it beyond a certain point?



Ramachandra Rao: I am not able to make out. Your voice is breaking.

Darshit Shah: Sorry sir, I was asking, is it possible for us to source more raw material like soya-meal and stock it for the future or that is not possible.

Ramachandra Rao: It is possible, but it is important to follow the price pattern also. If we keep three months' stock of soya in the godown, unnecessarily it is a carrying cost and if the prices go down, we will be at a loss. What we do is, we closely monitor the market scenario and we keep one month as the raw material stock for indigenous products. So when prices are low, when the new crop comes, our season also starts. In October, November, December you get the new crop; when the crop is available the prices will be slightly lower. What we do is, we keep more stock; there will be two to three months' stock for the season. When the season is over, we will come back to one month level.

Darshit Shah: Got it sir, thank you.

Moderator: Thank you sir. We have the next question from Mr. Shiva Kumar from Unified Capital. Please go ahead.

Shiva Kumar: Thank you sir for the opportunity. My question is regarding the upcoming capacity of some of the shrimp that quote us....currently in the process of setting up their own feed plants and maybe even though they are saying it is for their in-house utilization, they might actually extend it to their contract farmers also and supply feed to their contract farmers. Do you see a threat emerging from those guys?

Ramachandra Rao: No Mr. Shiva Kumar, one of the important aspect, you know already there is an in-built capacity of more than 20 lakhs tons feed, but still we have been able to do 100% to 110% capacity utilization. It is because of the quality and the technical support we give to the farmers we enjoy the leading position in the market. There are a lot of conversions from other feeds to our feed even going on today. Last season we have not been able to supply to the demand in the market. So we don't foresee any threats from these.....so many companies which are coming. It is very important that the formulation is good and you get the good FCR and farmer should be satisfied with the technical support that we provide and these are all the criteria which we have been maintaining consistently for the last so many years. So we have our position stable in the market; the leading position. We don't foresee any threat.

Shiva Kumar: Right. Sir my second question is regarding the shrimp processing segment, I know you answered a bit of it in the earlier question but I wanted you to elaborate. What is the seasonality when it comes to the procurement of the shrimp for processing? Do you do a lumpy procurement in some of the months....because I have been hearing from the market that now the cyclicality has come down and you have farmers not aligning to a single cycle and they are actually spreading out across the year and you can actually spread your procurement also throughout the year. Is that a realistic assumption?

Ramachandra Rao: My answer to your question is yes and no. Yes, in the sense that seasonality is relatively reduced and the farmers are stocking immediately one crop after the other. Vannamei being a crop which they can afford; but what happens is, in the peak season, that is during March, April, May and June; that is the first season, is



always, the climatic conditions, the growth of the shrimp is very good; so you get more material if you look at the performance also over the years, you see the first crop, the first quarter results, the sales are exceedingly good because of the seasonality. That season you will have more consumption, more production. Coming to the second season, production will be there but it will be relatively less. If you come to December, January it will be still less. Again somewhere around middle of February the stockings will start for the fresh crop. That is the pattern. So we will have relatively less material during non peak season.

Shiva Kumar: Okay, you are saying that procurement will be a little challenging towards the end of the year compared to (not clear).

Ramachandra Rao: Yes and also it depends upon the demand. What happens is that for Christmas there will be in October, November, December exports will be more towards meeting the requirement of Christmas demand. So it is an adjustment that takes place between supply and demand.

Shiva Kumar: Right. Sir my last question is on your '20-'22 vision. So now you are looking to increase the 13% share to 40% in shrimp exports but how do you want to do that when your higher margin segment is firing really well, why do you want to get into a segment wherein the quality trails are much harsher and just look at the focus point of view...why should you actually move from 13% to 40%?

Ramachandra Rao: See we have set up the capacities and we are going for value added products more, so in value added products, margins also will be very better. We want to focus more on the export of value added products.

Shiva Kumar: Will it be comparable to the feed margins sir?

Ramachandra Rao: We hope so. Because we have not yet really started in a big way the cooked product export but what we learnt from Thai Union is the margins are much better than the raw products.

Shiva Kumar: 10% to 12% is a realistic assumption sir, of the value added products?

Ramachandra Rao: Yeah, 10% to 12%.

Shiva Kumar: Okay thank you sir.

Moderator: Thank you sir. We have the next question from Abhishek Doshi from Badjate Stocks. Please go ahead.

Abhishek Doshi: Hello? Sir my question is that the growth rate that you have achieved in the first quarter this year, how confident are you that you will be able to maintain the same growth for the next three quarters?

Ramachandra Rao: We cannot give prediction on this. As I was telling just now, the first quarter reflects the peak season of shrimps during the whole year. March, April, May, and June is the maximum consumption if you look at our performance for the past so many years, this is the peak season, so naturally the sales in subsequent period will



be less than the first season. If we can achieve the same level, it is very good. It all depends upon the culture situation. For example in the first crop, some places in Andhra Pradesh and Tamil Nadu aqua culture was very bad because of lack of rains and water problems and all. But this time, the second crop, good rains were there and full way they are stocking now. So there will be demand from Tamil Nadu and these places also. So it may be relatively less, but it will be good for the second season, third again it will be slightly less. It will be less in December and January.

Abhishek Doshi: Okay sir, thank you so much, all the best sir.

Moderator: Thank you sir. We have the next question from Mr. Gaurav Maheshwari from Unilazer Ventures. Please go ahead.

Gaurav Maheshwari: Hello? Sir first of all congrats on an extremely good set of numbers. I just want to understand a couple of things sir. One is when we go through your annual report, your volumes that you would have consumed on your raw material side in shrimp has fallen significantly, so any changes that you have made to the raw material issues because of the volumes have fallen drastically...?

Ramachandra Rao: Where did you find significant fall in the raw material? In the annual report?

Raj Shekhar: Mr. Gaurav shrimp is a product itself. Avanti Feeds bought raw shrimp and process it and exported it. From the current year onwards it has hived off and is a separate company and that's why the purchases of shrimp is reduced but shrimp purchase has nothing to do with feed raw material.

Gaurav Maheshwari: Got it sir. It must be the consol thing that has happened.

Ramachandra Rao: Mr. Gaurav, in the last two years we were in the transition stage. You might be knowing that we have hived off the processing and export business from feed business. So we have set up a subsidiary company and we have transferred this business to the subsidiary company. Till the last two years, we have been doing exports on behalf of the frozen foods subsidiary company. Now they are doing independently.

Gaurav Maheshwari: Got it sir, so basically if you see the console, it gives the right picture.

Ramachandra Rao: Right.

Gaurav Maheshwari: Sir, second thing, this was with reference to the last quarter, so what was the fish meal cost....average?

Ramachandra Rao: Fish meal cost was between Rs.70 to Rs.74 to Rs.80/- per KG.

Gaurav Maheshwari: It is almost at similar levels now also?



Ramachandra Rao: It is slightly less. We will have to see because there was a ban. The supplies have resumed, we have to see how it will be, whether there will be a marginal decrease or same... stable. We expect it will be more or less stable.

Gaurav Maheshwari: Okay so around Rs.80 is what you expect it to be?

Ramachandra Rao: Yes.

Gaurav Maheshwari: Got it sir. On the hatchery what is the update? When do you expect that to be operational?

Ramachandra Rao: We have purchased land. There were some clearances which we were awaiting. We are expecting the clearance will come in a month's time and we will start. May be it will take one year's time to implement the project. May be next July – August we should be able to start the production.

Gaurav Maheshwari: Got it sir, thank you sir.

Moderator: Thank you sir. The next question comes from Verti Raju from Equity Analyst. Please go ahead.

Verti Raju: Thanks for taking my question. I have a couple of questions. One is,

Moderator: Sorry to interrupt, but could be a little louder?

Ramachandra Rao: Yes we are not able to hear.

Verti Raju: Okay, I have a couple of questions, one is how is the fish feed prices, that is our sale product prices of the feed and the shrimps compared to Q4 for July 1st till now....how is our product prices with the customers? Are they firm or stable or low?

Ramachandra Rao: We produce and sell shrim feed, not fish feed.. Our price of shrim feed is stable. We do not produce / sell fish feed.

Verti Raju: Okay. This is with respect to Q1 to Q2, how is it with respect to Q2 of FY17?

Ramachandra Rao: As far as the feed prices are concerned, it is stable. We have not changed the shrimp feed price at all.

Verti Raju: Okay. How is it in the raw material front, that is....you answered the shrimp feed, how is it in terms of soya and in terms of maize and so on; compared to Q1 and compared to Q2 of last year?

Ramachandra Rao: Last year the prices were high, this year prices are little low and it had come down and slightly it has gone up again in the last few days because the Government has increased the minimum support price of soya by 10%, also the GST has been levied on soya seed. Due to this, there is a slight increase in the price of soya.



Verti Raju: But compared to Q2 of FY17 is it low or high or stable?

Ramachandra Rao: Low.

Verti Raju: Okay so it is high compared to Q1 this year?

Ramachandra Rao: Yes correct.

Verti Raju: Okay that's it from me thank you.

Moderator: Thank you sir. Ladies and gentlemen if you have any questions please press * and 1 on your telephone keypad. We have the next question from Mr. Omkar Kulkarni an individual investor. Please go ahead.

Omkar Kulkarni: Hello? Your raw material prices, can you bifurcate the percentage of soya (audio break)?

Ramachandra Rao: No we can't disclose formulations. So we cannot disclose that information.

Omkar Kulkarni: Okay the percentage, how much it contributes...20%, 30% like that?

Ramachandra Rao: No, Mr. Omkar this cannot be revealed.

Omkar Kulkarni: Okay no problem. You have said that the feed prices are stable from Q4 to Q1 an Q2 of last year to the current season that is Q2 of FY18. What about the shrimp processing like the export? How is the pricing there?

Ramachandra Rao: Pricing has been stable almost throughout 2016. Shrimp export prices have been stable and we are seeing till now also it is more or less stable....the international prices.

Omkar Kulkarni: Like \$6 to \$7?

Ramachandra Rao: It depends upon the count. If you take 31, 40 count it is somewhere around \$4.8 to \$4.9. If you take 41, 50 it is \$4.65 to \$4.75; for the PDTO. It is different, ranging from 6.40 to 6.50; it comes down depending upon the count.

Omkar Kulkarni: So what is the average realization for you?

Ramachandra Rao: It may be around \$4.5 to \$5.

Omkar Kulkarni: That you are saying is stable?

Ramachandra Rao: Yeah it is stable.

Omkar Kulkarni: Okay in terms of....you have said in your opening remarks that the second season has started well and the second and third quarter you should expect good sales right as compared to Q2 and Q3 of last year.



Ramachandra Rao: We are expecting that. It all depends upon the climatic condition. Normally last year we had cyclone and all those things in Nellore and other areas. It depends upon the climatic conditions. Just let me correct, the average price will be above \$5, \$5 to \$5.5.

Omkar Kulkarni: Export price you are saying for your shrimps?

Ramachandra Rao: Correct.

Omkar Kulkarni: What I was asking was the demand....you said you fell short to provide for the demand right in Q1. So that means you are saying that the demand is good.

Ramachandra Rao: Correct.

Omkar Kulkarni: There is no problem in terms of demand?

Ramachandra Rao: Correct.

Omkar Kulkarni: Okay so the only problem is supply from your side?

Ramachandra Rao: Correct.

Omkar Kulkarni: Which will get corrected in due course of time as you improve your capacities? Am I correct on that?

Ramachandra Rao: Yes.

Omkar Kulkarni: Okay. Can you explain how collaboration with Thai Union will be advantageous to you in terms of shrimp processing in the long-term?

Ramachandra Rao: Thai Union is a well established shrimp processor and exporter from Thailand. One thing you see, technology regarding value-added products...producing value added products for which they have very good technology and they will help us to develop the technology here to produce value added products in shrimps that is number one. Number two is, they will help us to market our value-added products and raw products in the global market, because they have a much wider presence.

Omkar Kulkarni: Okay, so your....

Moderator: Sorry to interrupt sir, but for more questions, can you please join the queue?

Omkar Kulkarni: Yeah sure.

Moderator: Thank you. Sir we have the next question from Zeeshan Bhagwan from L&T Mutual fund. Please go ahead.



Zeeshan Bhagwan: Hello sir, thank you for taking my question. Sir my first question was regarding the capacity expansion which you are doing. Do you see this expanded capacity being fully utilized over next year?

Ramachandra Rao: Yes, sure we are very confident because in the peak season we are unable to meet the market demand; so we will be able to fully utilize that.

Zeeshan Bhagwan: And sir this will be applicable both for the feed as well as the processing business?

Ramachandra Rao: No, they are two different things. What we have expanded now is the feed business and we have set up a new processing plant which is going to come into commercial production soon. The trial production is on. So we have to improve our exports. We are confident that we will achieve that.

Zeeshan Bhagwan: Okay. So sir what kind of revenue potential do you see from these expansions and the new plant that you have set up?

Management: Totally we expect about Rs.600 crores.

Zeeshan Bhagwan: Okay and sir for the exports business?

Ramachandra Rao: Export business we have to see because the capacity utilization in the initial year we are expecting around 30% capacity utilization. I think we will do a little bit of home work, we will work and let you know; about Rs. 300 to 350 crores.

Zeeshan Bhagwan: Okay. Sir my second question is regarding your cash flows. Now that you have pretty strong cash flows, are you looking to increase the dividend payout? Just wanted to understand from your capital allocation point of view, what would be your plans going forward with this excess cash which you would be having?

Ramachandra Rao: The dividend policy is defined. We have got a dividend policy adopted by the Board and we will go by that; from year on year we decide on that. As far as the CAPEX is concerned, we are expecting about Rs.50 crores of capital CAPEX we will be incurring for our feed expansion in the next about four to six months.

Zeeshan Bhagwan: Okay and sir any additional CAPEX that you will be doing to meet this one billion revenue targets by '20-'22 that you have on the drawing board...just the bigger picture as you have guided us on the revenue front like any firm CAPEX programs that you will be doing going ahead to achieve these kind of revenues?

Ramachandra Rao: Our endeavor is to maximize the present feed and processing capacities and also we are looking for diversifying into fish feed. We are studying on that and depending upon that we will start fish feed also - depending upon the outcome of our studies.

Zeeshan Bhagwan: Okay sir, thank you that's all from my side.

Moderator: Thank you sir. We have the next question from Mr. Ayush, individual investor. Sir please go ahead.



Ayush: Very good evening sir, can you hear me?

Ramachandra Rao: Yes Mr. Ayush.

Moderator: Sorry to interrupt sir, Mr. Ayush, could you please speak a bit louder please?

Ayush: Sir some number currently on my part, a ton of shrimp feed, you will be easily able to do it Rs.4000 crores of shrimp feed revenue, Is that right?

Ramachandra Rao: Yeah, we hope and we wish.

Ayush: I don't know, this is the price and this is the production capacity, is it a fair assumption?

Ramachandra Rao: Six lakh tons, roughly around Rs.3,500 to 4000 crores we should be able to do if we fully utilize that.

Ayush: Okay by some estimates, you are talking of shrimp processing export revenue of roughly the same amount?

Ramachandra Rao: It will take time, the volumes of this range; it will take at least three to four years' time.

Ayush: Right. Going by your present performance, you just indicated that this performance cannot be repeated all the time, am I right?

Ramachandra Rao: What I told - this is a seasonality business depending upon the climatic conditions, you cannot expect that every quarter....just because the first quarter is excellent, it should be repeated. That I said you cannot expect.

Ayush: Right and what is the trend of raw material prices sir in the last two months since the first quarter has gone by? Have they gone up or have they gone down?

Ramachandra Rao: It has been stable all along, the main raw material but soya, last 15, 20 days there has been a slight increase because the Government has increased the minimum support price, there is an increase, about 5% to 10% increase is there.

Ayush: Right. What impact of the rupee on your export revenues?

Ramachandra Rao: We have hedging mechanism. When we book the order, immediately we hedge our dollars depending upon our pricing. So we don't see much impact on the margins because of the variance in the dollar rate.

Ayush: Great to hear that, thank you then.

Moderator: Thank you sir. The next question comes from Mr. Ramesh Acharya from Star Finvest. Please go ahead.



Ramesh Acharya: Thank you sir, it has been very great that you are conducting this concall. I just wanted to know when is the new capacity for frozen foods 15000 metric tons going to come in because last year also in the concall you told that it is under trial production and I was expecting...

Ramachandra Rao: The trial production is going on but we need to start exports for which we need some approvals. We are in the process of getting the approvals. Once the approval comes most probably it will start by the last week of this month or early first week of next month.

Management: Mr. Ramesh, we want to correct you, last year we told it was the feed plant that was under trial production.

Ramesh Acharya: No sir, last concall you told the frozen foods is going to...

Ramachandra Rao: You are right. Just then we had started trial production to stabilize product, it takes some time is it not? We have to cater to the international standards.

Ramesh Acharya: Okay sir, thank you.

Moderator: Thank you sir. The next question comes from Mr. Yogansh Jeswani an individual investor. Please go ahead.

Yogansh Jeswani: Firstly congratulations on a good set of numbers. Sir I wanted to understand on this Rs.50 crore expansion figure that you have mentioned. This Rs.50 crore is inclusive of the 175000 tons capacity that we have installed for feed?

Ramachandra Rao: Correct.

Yogansh Jeswani: Will there be any additional requirement for CAPEX for this plant?

Ramachandra Rao: No. We are extending this facility in the existing plant. We are not going to build a plant for this; we are going to only install the machinery. Only minor civil works will be there; it is not significant.

Yogansh Jeswani: Okay and sir, just to get a fair sense of the scenario; how much CAPEX is really required for a green field one lakh feed capacity? Just to get a sense on how much we are selling and how much we are saving?

Ramachandra Rao: It may go to Rs.75 to 80 crores. Because we have already built the buildings and we are only adding the machinery here, that we are able to set up the expanded capacity only by investing Rs.50 crores.

Yogansh Jeswani: Okay sir. Secondly to understand on the raw material side; as you have claimed several times on the call, just to get a sense on that, we have been seeing raw material prices come down but the sale prices have been at the same level. So don't you want to pass on the cost benefit or something of that sort?



Ramachandra Rao: Since the raw material prices keep fluctuating up and down, we don't change feed price. For the last two years, we have not changed our feed prices. We are certainly stable. When the prices went up also last year, we have not increased the price, we have absorbed the additional cost.

Yogansh Jeswani: Okay. Sir, I just wanted to understand, since the raw material prices are so low, are we seeing any unhealthy competition wherein the competitors are trying to bring down their margins and eat into our share?

Ramachandra Rao: We don't foresee on account of that. We have our market well-established because of our quality of the feed, its performance and our quality of technical support that we give to the farmers. The farmer's first choice is our feed. So we don't feel any threat from any angle as far as it is concerned.

Yogansh Jeswani: Okay so sir from this I understand that maybe we are selling at a premium in the market given the quality and the relationship that we have with the farmers, so can you quantify on percentage terms how much premium are we selling in the market compared to....?

Ramachandra Rao: No, no we are not selling at premium; we are at par with other feed marketers. We are superior in quality and technical support. These are our strong points.

Yogansh Jeswani: Okay, thank you so much sir, that's it and all the best.

Moderator: Thank you sir. The next question comes from Vinod Kotari, retail investor, please go ahead.

Vinod Kotari: Good evening sir. With respect to the increasing threat from Europe and America regarding the increasing finding of antibiotic in the shrimp; how do you plan to address this risk from our company level point of view? What efforts are you making to improve the quality or to mitigate this concern?

Ramachandra Rao: To answer your question, there are two things. One is that as you said the European Union has increased the check of the Indian consignments from 10% to 50%. That is one thing and the Government of India, MPEDA and Sea Food Exporters Association point of view and as a company Avanti Feeds we are holding seminars, conducting farmers' meetings and telling them not to use antibiotics. Sometimes what happens is without their knowledge they use. Some quacks they say you use this medicine it will improve the productivity of your shrimps and all those things. Not knowing also they do it. But the Government of India through their agencies like Coastal Aquaculture Authority or MPEDA and also the Sea Food Exporters Association, from their angle, as a stake holder, we also get in touch with the farmers and educate them not to use any antibiotics and checks are conducted. Before taking the shrimp, antibiotic test is conducted and a certificate is issued. So we are taking all precautions to eliminate any antibiotic traces in our export consignments and we hope that Government of India will also have a diplomatic channels; they will discuss with the European Union to bring back to the 10% check levels, that effort is also going on.

Vinod Kotari: So sir, today itself I read one report where the concern was raised from European shrimp importers that India is not making enough efforts in this



direction...so my next question is related to this...in worst case scenario, if Europe and subsequent to Europe, America decide to ban the import of shrimp from India what will be the effect on our company's revenue and profitability?

Ramachandra Rao: So you are asking an imaginary situation. Do you think that all will keep quiet? When every one bans, how will they do it, there are so many other things playing in a diplomatic relationship, there are so many factors which will play a vital role. The US is the largest importer. Today, if you look at India's shrimp products export, India is number one; today the position of India's export is 485000 tons of shrimps have been exported in 2016. That stood at number one. Globally we stand number one.

Vinod Kotari: Right sir, I see your answer like this...you perceive little risk in the possibility of Europe and America banning the imports from here, right?

Ramachandra Rao: We take all measures to control the antibiotics and also have a diplomatic channel discussions with the European Union and see that our exports comeback to the normal levels.

Vinod Kotari: Right sir, okay thanks a lot.

Moderator: Thank you sir. The next question comes from Valli Nath, individual investor. Please go ahead.

Valli Nath: Good evening sir. Thanks for the opportunity. Can you please guide us as to what will be the EBITDA margin compared to Q1 of this year and Q2 of last year in the second quarter for this year?

Ramachandra Rao: What do you want....the EBITDA margin of...?

Valli Nath: EBITDA margin for the Q2 of this year compared to Q1 of this year and Q2 of last year?

Ramachandra Rao: Q2 we cannot give today because it depends upon the culture situation.

Valli Nath: Your expectation, assessment....already we are 1-1/2 months into the quarter?

Ramachandra Rao: We cannot make any estimation or expectation. We just closely monitor the developments that's all. We don't foresee that we are going to get so much income and all. We can't do that.

Valli Nath: To put it differently, are we likely to improve our EBITDA margins compared to last year's Q2?

Ramachandra Rao: Both are the same. That's what I am telling if my EBITDA margin is better in Q2, it will be better than last year's. If it is less than that, it will be less than last year's.



Valli Nath: Why I am asking you is the first quarter has been a great quarter because this first quarter you have done a bumper results; second quarter obviously from what you have answered, it is not the peak period, the first quarter is the peak season. The second and third quarter slowly as the quarters go on the margins also will drop correspondingly we can expect the margins also to slightly drop. So I just wanted to know when compared to last year's second quarter, are we better off in terms of margins or worst off in terms of margins?

Ramachandra Rao: We never expected that. We will be able to record 41000 tons increase in the Q1 compared to the last year. This was a phenomenal performance because of so many reasons. Nobody expected that in Orissa, West Bengal and in some areas of Andhra Pradesh the culture area will increase and there will be demand for feed. The prices are very stable and whatever the stocking the farmers did, they got good results, so these are all the reasons which had contributed to increase in the volumes and profit margins. We cannot expect the same climatic conditions to continue in Q2. It all depends. I was telling just now, that in Q1 in Nellore and some areas suffered, some areas did exceedingly well and some areas suffered because of want of rains and water problems like Tamil Nadu, Ongole, Nellore and all they suffered. In Q2 they got good rains and we are expecting that the demand will pick up from Tamil Nadu and Nellore and Ongole also. So we cannot say, the industry is like that.

Valli Nath: That I agree. The demand may be slightly lesser when compared to the Q1 because in Q1 you had bumper demand. But in terms of how you place your margins, of course there is an operating leverage, when the demand is slightly less; the margin will be less to some extent. But last year Q2 the demand was not very high like this year's first quarter. I'm just talking about last year's Q1 to this year's Q1; you've got a bumper demand so therefore margins are good and profitability has been good. Last year's Q2 there was not so much of bumper demand, so compared to that quarter; second quarter was to give a guidance.

Ramachandra Rao: We are hoping that it will be slightly better than last year's Q2...this year's Q2 will be slightly better, that's what we are expecting.

Valli Nath: Both in volumes and margins?

Ramachandra Rao: That we cannot tell.

Valli Nath: Okay. Thank you sir, thank you so much and congratulations for a great performance.

Moderator: Thank you sir. The last question for the day will be from Mr. Akash Manghuani from Bank of India. Please go ahead.

Akash Manghuani: Thank you for taking my question. This is Akash from Bank of India Mutual fund. There are a couple of questions. First of all, as of FY17 and Q1FY18, what will be your market share in the feed business in the country?

Ramachandra Rao: It is around 43-45% now. It has gone up by about 4% to 5%.

Akash Manghuani: This market share gain would be from which player primarily?



Ramachandra Rao: It is a combination of both. To some extent from CP and to some extent from other feed manufacturers also. It is a combination.

Akash Manghuani: Okay. One is that. The other is, if I see the data for shrimp exports, I don't have what's in the data for Q1, but FY17 and I am sure Q1 will also be different but the shrimp feed business for you has grown much faster as compared to the overall shrimp exports data for the country. You are half the market virtually. So is it so that in the last 1-1/2 to 2 years the FCR ratio has increased due to some reason?

Ramachandra Rao: FCR ratio? I didn't get your...

Akash Manghuani: Feed conversion?

Ramachandra Rao: Yeah Feed conversion ratio is very good for our feed. Your question was the processing and export business was less, that's what was your question. Is it not?

Akash Manghuani: Not for you but if I look at the feed consumption for India and the shrimp exports...there should be some sort of co-relation right? However it seems like the feed consumption has increased at a much faster pace over the last year and a half as compared to the processed shrimp exports. So what I am gathering is that it could be that the feed conversion ratio would have increased over the last year and a half.

Ramachandra Rao: It is a combination of several factors. One is that whatever you feed in the pond is not, definitely consumed 100% by the shrimps, to a great extent it goes to the shrimp and some feed is wasted. Number two, it is precisely difficult...it is ranging between 1.5 to somewhere around 2.5 depending upon the quality of the feed. The quality of feed is 1.5 FCR; you will get a better yield. If it is 2.5 you don't get a good yield. So naturally if you look at the overall consumption of the feed versus what is the total production, definitely the feed conversion ratio will be high.

Akash Manghuani: So has that increased, the FCR ratio from 1-1/2 to 2-1/2 which you are saying right now in the last two years...was it much lower? In the quality of scale has it deteriorated?

Ramachandra Rao: No, no it has not deteriorated. Sometimes what happens is that the farmers over feed...that does not go to the shrimp, it gets wasted; but if you look at the mass versus the feed that he has put into the pond, the ratio will be high.

Akash Manghuani: Okay and so is it fair to say that the FCR ratio has been more or less stable over the last three years?

Ramachandra Rao: Yeah it is stable. It is ranging between 1.5 to 2.5

Akash Manghuani: Okay and the FCR...what will be the number in other south eastern countries, China for that matter? I believe it is much lower than India?

Ramachandra Rao: See their stocking densities are different. What I was reading, their stocking densities are much higher.



Akash Manghuani: Okay. The other thing is what would be the industry growth rate in Q1 in the feed business?

Ramachandra Rao: 10% to 15% is the sustainable growth rate in feed business.

Akash Manghuani: So how come your growth rate is high. there has to be something you are doing very different in your areas of operation so that you are achieving 2-1/2 to 3 fold the industry growth rate? So what are those things that you are doing differently? One is you said, was the technical support that you provide...

Ramachandra Rao: Yes.

Akash Manghuani: Is it only that or any other....what are the attributes that will help you attain twice the industry growth rate even going forward?

Ramachandra Rao: The quality of the feed. Apart from providing the good technical support to the farmer, we maintain very high quality of the feed where the FCR is somewhere around 1.2 to 1.3 we are able to get versus the others average of 2.

Akash Manghuani: Okay, got it. So the other thing is, in the shrimp processing business, let's assume peak capacity utilization in a couple of years, what should be the ROC that you will be able to do in that business? I believe that is slightly more manpower intensive and a number of personnel are required in order to be integrated with the hatchery and....your feed business has a very lucrative return ratios. What will be comparable return ratio for the processing business?

Ramachandra Rao: In processing business in the raw products we are expecting 5% to 7% is the sustainable margin. In the value added products it may go upto 10%; that's what the estimate.

Akash Manghuani: That's the EBITDA margin but what is the ROC...like how would you sort of put it? Can that be at par with company average?

Ramachandra Rao: It will be less than feeds.

Akash Manghuani: Can you give me some ballpark range like what will it be?

Ramachandra Rao: You send a mail to us and we will reply to you.

Akash Manghuani: Okay.

Ramachandra Rao: I don't have right now with me the numbers. You please send a mail to us and we will respond to you.

Akash Manghuani: Okay sir, thank you so much.

Moderator: Thank you sir and that will be the last question for the day. I would now like to hand over the floor to Mr. Anand for closing comments. Over to you sir.



Anand: Thank you Honeyla. I would like to take this opportunity to express gratitude to the management of Avanti Feeds. I would also like to thank all the investor community for showing so much of interest in the company. Thank you one and all.

Management: Thank you.

Moderator: Thank you sir. Thank you ladies and gentlemen. On behalf of KARVY Computershare Private Limited, that concludes your conference call for today. You may all disconnect your lines now. Thank you and have a good day every one.

Note:

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

