

Transcript

Conference Call of Avanti Feeds Limited

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Presentation Session

Moderator: Good evening ladies and gentlemen. I am Honeyla George, moderator for the conference call today. Welcome to Avanti Feeds Limited Q1FY19 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 now would like to hand over the conference to Mr. Milan Bavishi from Karvy Computershare Private Limited. Over to you sir.

Milan Bavishi: Thank you. Hi everyone, thank you so much for joining the Q1FY19 results conference call of Avanti Feeds. On behalf of Karvy Computershare and all the participants, I welcome the management of Avanti Feeds. From the management side, we have Mr. C. Ramachandra Rao, the Joint Managing Director, Mr. M. V. Rao, GM, Corporate Affairs, and Mr. P. V. Rajasekhar, DGM, Finance and Accounts. I now hand over the call to the management. 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 today to review the un-audited financial results of Q1 FY 19. The results for this quarter are already with you for quite some time and I am sure you would have already gone thru them. However, I would like to share with you some of the key indicators from the results.

COMPARISON OF FEED BUSINESS PERFORMANCE IN Q1 FY 19 WITH Q1 FY 18 :

During Q1FY19, the feed business resulted in a profit of Rs.117.24 crores as compared to a profit of Rs. 217.04 crores in Q1 FY18, a decrease of profit by Rs.99.80 crores. The feed sales turnover increased to Rs.915.25 crores during Q1 FY 19 as compared to Rs.881.28 crores during Q1 FY18 registering a marginal increase of Rs.33.97 crores. However, the decrease in profitability is on account of significant increase in prices of main raw materials i.e. Fishmeal, Soya DOC and Wheat Flour as under and also other raw materials like Vitamin Premixes.



<u>Raw material</u>	<u>June, 2018 (Rs.per KG)</u>	<u>June, 2017 (Rs.per KG)</u>
Fish meal	96.44	77.81
Soya DOC	38.67	30.60
Wheat Flour	21.38	20.99

As we have been maintaining that the high profit margin during FY 18 was mainly on account of significant decrease in the above mentioned main raw materials during FY 18 compared to FY 17. The prices of these raw materials have gone up in FY 19. A comparative statement of the prices during Q1 of FY17, FY 18 and FY 19 is as under :

<u>Raw material</u>	<u>Q1 FY 19 (Rs.per KG)</u>	<u>Q1 FY 18 / average for FY 18 (Rs.per KG)</u>	<u>Q1 FY17 / average for FY 17 (Rs.per KG)</u>
Fish meal	96.44	77.81 / 84.46	102.10 / 94.30
Soya DOC	38.67	30.60 / 32.35	42.30 / 37.96
Wheat Flour	21.38	20.99 / 21.14	21.23 / 21.58

After a steep increase in fish meal price during the end of 2017 and in first quarter of 2018 i.e. Jan to March, the price started stabilising and now it is around Rs.80/- to Rs.82/- per KG. The Soyabean price which was Rs.30.60 per KG in June'17 had gone up to Rs.38.70/- in June'18 and it is now stabilising at around Rs.36/- to Rs.37/- per KG. Not much decrease took place in soya bean prices due to increase in Minimum Support Price (MSP) by the Government and pick up in export market due to increase in subsidies. In case of Wheat Flour also the prices kept increasing due to MSP.

As a result, the profit margins decreased as there was no corresponding increase in feed price for the reasons stated earlier.

PERFORMANCE OF SHRIMP PROCESSING & EXPORT BUSINESS:

Q1FY19 COMPARED TO Q1FY18:

As regards shrimp processing and exports, the revenue for Q1FY19 stood at Rs.126.83 crores as compared to Rs.116.40 crores during Q1 FY18 registering a



growth of 9%. The PBT also increased to Rs.14.52 crores as against Rs.9.42 crores in Q1 FY18, registering a growth of 54%.

Industry Overview :

Now, let me share with you the current status of the aqua culture industry in India. Almost, since beginning of the year, the export prices of shrimps started declining at fast pace due to extended winter in USA which is a major export market for India. Added to this, the production of shrimps in most of the South East Asian and other countries was stable increasing the global supply of shrimps. Though, India has been able to increase its exports during the first 6 months of the year i.e. till June'18, the export prices have been at about 15-20% lesser than previous year prices. The farm gate prices of shrimps have also declined steeply by 20-25% during this period, creating apprehensions among the farmers of a further fall in prices, resulting in large scale harvesting of shrimps at a smaller size and also delay in fresh stockings during the first crop of the current year upto July.

This situation during first half of the year, reminds us of similar situation in 2008-09 when the shrimp culture reduced due to sharp fall in export prices of shrimps then. The shrimp culture picked up again in 2009-10 followed by introduction of Vannamei culture in 2010-11. There was no look back since then till now as the shrimp culture kept growing almost consistently over the past decade.

Coming back to the present status of the industry in this year, I am happy to share with you that the farm gate prices are increasing significantly over the past one month bringing much needed confidence in the farmers to resume shrimp culture again in full swing. The farmers are in the process of resuming shrimp culture in large areas by undertaking stocking during this month and next month. An indicative survey shows that till end of July, 6,737 Mn seeds have been stocked as compared to 8,286 Mn by end of July in 2017. A decrease of about 19% over earlier year which is due to delay in stocking for the reasons mentioned above. In 2016, the stocking was at 6,949 Mn seeds by end of July'16. The present stocking is marginally less than the level as in July'16. However, the stockings are expected to be increased in coming months. A comparison of actual feed sales from Jan- June in 2016, 2017 and 2018(estimate) indicates a total shrimp feed sales in India is about 4,30,000 Mt, 5,75,000 Mt and 5,80,000 Mts respectively which means the feed sales in the current 7 months is more or less on the same level as in corresponding period of 2017. Going forward, the total feed sales in India is estimated at 9,50,000 Mts as compared to 10,00,000 Mts in 2017. Though, the stockings are expected to resume now, due to delay in stockings, earlier resulted in reduction of total feed sales. However, your company's market share is expected to grow upto 47%. Please note that these figures are based on calendar year and will not tally with figures of financial year. The export prices have also started showing improvement while the volumes of exports have continued to increase. As of now, there is no dearth of export



orders for whatever produced in the country. This development in both production and exports should reinstate the confidence in the long term sustainability of the industry.

We, therefore, would like to emphasize that the long term outlook for the shrimp culture and exports from India will be growth oriented and sustainable.

Projected performance of the Company :

SHRIMP FEED :

The feed sales during the year FY 19 is expected to remain at more or less same level as in FY 18 due to the reduction in shrimp culture by about 25% to 30%. However, your Company is expected to increase its market share from 43% in FY 18 to 46% to 47% in FY19 as the market share during Q1 FY19 was at this level.

As regards profitability, I would like to draw your attention to the profit margin on feed in FY17 which is comparable to trend in FY19. The prices of major raw materials i.e. Fish meal and Soya DOC were marginally less in FY17 compared to present prevailing prices. For instance, the average fishmeal price in FY17 was about Rs.94.30/- per KG and we are expecting the average price at less than Rs.98/- in FY19. The average Soyabean meal price is expected to be around Rs.39 to 40/- per KG in FY19 as compared to about Rs.38/- in FY17. The average RM cost was Rs.51.84 per KG in FY17 and we expect the average RM cost around Rs.52/- to Rs.53/- per KG. Assuming other costs remaining at the same level as in FY17, which would be our endeavour, the PBT is expected to be around 12%.

As you may all aware that the rainfall is good and well spread in the current monsoon in most of the States. This is a positive indication of a good agricultural crops like Soya, and Wheat which are important for us and may have positive impact on prices.

SHRIMP PROCESSING AND EXPORT :

Due to the developments that took place during the first half of 2018, resulting in lower production of shrimps during FY 19 the processing and export of shrimps is now projected at around 11,000 -12,000 Mts, representing a capacity utilisation of above 50 - 55% (total capacity 22,000Mts). Our endeavour is to focus on value added products and achieve a minimum of 50 - 60% export of these products and the balance on other regular products. As you know, the export prices and raw material prices are highly dynamic and volatile, the precise pricing of them cannot be estimated at this juncture. However, considering the past trends and composition of future exports, a PBT of 12 -15% appears achievable. I think with this information, we will move on to 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 the question. If you would like to withdraw your request, you may do so by pressing * and 1 again.

The first question comes from Mr. Puneet Mittal from Global Core Capital. Please go ahead.

Puneet Mittal: Hi, thank you for the time. The first question, if I understand correctly, from what you said is that you are projecting... earlier you had guided for a high utilization of your feed capacity as well as processing capacity, but now you are guiding it lower, is that correct?

C. Ramachandra Rao: Yes, you are right.

Puneet Mittal: So, can I just... can you please reconfirm the numbers, what were the feed sales in FY17 that, sorry, '18 that you said you will do the same level in FY19?

C. Ramachandra Rao: It was around 4,30,000 metric tons shrimp feed sales we did in FY18.

Puneet Mittal: Okay. So, you expect the same numbers for this year, right?

C. Ramachandra Rao: Yes, almost. It will be 5% this side or that side.

Puneet Mittal: The second question is, I understand that your goal is to achieve one billion in revenue by 2022. Given that your existing feed capacity and processing capacity will not naturally take you to that level, so what is your strategy to achieve that target?

C. Ramachandra Rao: See, Mr. Puneet, I think, it is too early to say that the achievement of that by '22 is not possible. What we are going through in the current year, we all believe that this is a temporary phenomenon and the demand will soon pick up and as we know that the global shrimp consumption is growing, it is steeply growing, then naturally the feed consumption, the aqua culture also increases, the shrimp production increases. Also... we are targeting other geographical areas for the exports and with all that we should be able to fully utilize the shrimp feed capacity going forward. It may not be possible in the current year, as it stands today, but definitely it is possible in the next year. In FY19 this is the situation, FY20 will be totally different.

Puneet Mittal: No, I understand, in fact my question is that, I do believe that you will use the capacity to the full extent in FY20 and I also believe that you will probably achieve the full capacity on the processing side also in FY20. My question is even after doing the full capacity; you will not achieve the one billion target because that capacity will not take you to one billion. So, my question is, what is your strategy...

C. Ramachandra Rao: There are two approaches to achieve the target of 1 bn USD revenue by 2022. Supposing in FY20 we are able to achieve the full capacity and we need expansion, we will go for that. That is one way which we are thinking. We have provided for infrastructure for the expansion of the value-added products within a short span of time in our Processing Unit. In shrimp feed, we have now at 6 lakh tons capacity this we will fully utilize and then in a very short time we will be able to expand. Secondly,



we are looking into other areas like fish feed and also the other pet animals feed. We are just looking into that, we are examining it. We will get into those areas once we are convinced about the feasibility of these projects. By this we should be able to achieve the target.

Puneet Mittal: Okay, understood. Yeah, got it. Thank you so much.

Moderator: Thank you sir. The next question comes from Supriya Madhye from East India Securities. Please go ahead.

Supriya Madhye: Hello sir, this is Supriya Madhye. I just wanted to understand the industry scenario from next two to three year perspective. We had seen there was a hike in duty and that has dampened the demand, now again we are seeing the duty has come down, like, how...and US being the major importer of the shrimp and that is the major market for us, how we are placed going forward for next two to three years, this is one thing, how you would like to guide on this fish meal costing going forward, which will have an impact on our margin? And we also see there is a decrease in the production in the country, how, what would be the driver going forward for the business to achieve our targets?

C. Ramachandra Rao: Okay, let me just answer the first question. See, you asked about next two to three years, what is going to be the market strategy. See, again, just now I said that what has happened in this year need not necessarily happen again and again. See, what I just quoted in my speech I address that the reduction in export price of shrimps happened 10 years back, we had a similar situation when the prices went down, the culture reduced. In the current year, the situation is improving with increase in farm gate prices. There was specific reasons why it happened this year, and we do not foresee such things next year, and it will be the normal year. whatever that we have lost in this year it will be coming back in the next year.... And going forward, you were asking about two to three years. Two to three years is a fairly long period and where we can increase our total production, our exports, and we should be able to grow, about 10%. That is what we are expecting. That is the first question answered and what was your second question?...

Supriya Madhye: Sir, my question was, in our company strategy, my question was the demand perspective coming from our main market USA. How you foresee the market going forward?

C. Ramachandra Rao: See, US market is, is one of our stable markets with a large share, I think, it will continue for short to medium term, it will continue to be the large buyer. But simultaneously we are expanding our market, we are going into the new areas, and in fact in the last quarter, we have increased our exports to non-US markets also. With the Thai Union support we are strengthening our market share in US itself. See, the US is definitely a large market and we have an advantage, and definitely we focus on US market to increase our exports. In addition to that, we are expanding our market in other areas, like Europe, the other non-US countries also. That is going to be our strategy. Coming to the fish meal prices; the fish meal prices are dependent on nature. Fish meal is one of the most important ingredients for the shrimp growth. So, it is necessary to use fish meal for a good protein source for the shrimp. But fish meal prices depend on the sea catches. When sea catches are good, the prices are reasonably within the workable limits, and if there is shortage it reduces, and if catches



are very good then the prices reduce, that is what happened in the last year. So, this continues to be a natural product, like any other natural product, this also will be there. ...Without fish meal it is very difficult to have a natural source of protein for the shrimp. So, we cannot avoid this, we need to use fish meal. We cannot find readily a substitute for fish meal overnight. It takes long time, the research is going on, but it will take time. We continue to depend on fish meal as one of the main source of protein for the shrimp growth. ...what was the third question?

Supriya Madhye: Yeah. And in the meantime, I just wanted to understand that the fish meal, you said it depends on the catches and the prices will keep moving, in that case then you have to waive that costs, because I believe you will not be able to pass this on to the farmers. Am I right?

C. Ramachandra Rao: As and when the prices of the farm gate prices go up and the export prices go up, and the farmer starts making the adequate profits, then we will also increase the shrimp feed price. As of now, we have to wait for that time. What we foresee is, in course of time, correction will take place, then naturally the price of feed also can be increased.

Supriya Madhye: Sir, but we are already saying this is reduction in the production due to lack of demand and if there is already reduction in the production, and if the raw material prices keep rising, what would be the impact on the culture will happen? Obviously, we believe that the farming will not go for the more production seeing there is a low demand coming up and also the high prices are coming...

C. Ramachandra Rao: I think, madam, you have not followed what I was talking all along. The thing is that this situation has come after almost, like, 10 years. See, the shrimp prices have come down and because of this culture has come down. Otherwise, there was no issue at all. That is the reason why, the farmers did not dare to undertake the culture in apprehension that the prices may further go down. That was a very rare situation. It will not be repeated.

Management: Supriya, it is just short term problem, and we are seeing that this problem is almost on its way out.

C. Ramachandra Rao: Yes, the shrimp prices have bottomed out, now it is on the increase. The farm gate prices today are fantastic; That is the reason why they are going for the stockings now. The situation is completely changed now. What you are talking is about some time back, that was in the first six months what has happened. But now in July, August, September, going forward, the story is different.

Supriya Madhye: Okay sir. And secondly, what I want to understand is on the Vietnam perspective, like the disease has broken out there and that is why there is shortage of the culture and the supply coming from Vietnam has been affecting, helping India to improve upon the supply side as well as the prices. So, what is your expectation or what is your reading from the Vietnam, going forward?

C. Ramachandra Rao: Madam, it is market dynamics, it keeps on changing. The disease will be very short-lived. It comes in a particular area, and it goes off. It does not mean that India has an opportunity. The shrimp markets are increasing. India has lot of



opportunities to export. We don't feel any shortage in dearth in orders for export orders. Even today we have full of orders, there is no dearth of orders for exports.

Supriya Madhye: Okay sir. Thank you so much. That's it from my side.

Moderator: Thank you ma'am. The next question comes from V. V. Bajaj from Bajaj Shares and Securities. Please go ahead.

V. V. Bajaj: Yeah. Thanks for taking my call. Q1 results revenues are good, it is almost 5% up, but margin has come down to almost 40%. What it was elaborated till now and I could get it, lot of segments are there where we are feeling the price down and margins are low. So, my first question is that last year we covered almost total revenue of 3400 crores. So, going forward, with all the ifs and buts about the market condition and going 10 years back and two years back, Mr. Rao sir, can you make 3400 crore this year, total revenue? That is first question. Second question is, there was an announcement on stock exchanges about the steep fall in the prices where you have justified and given the reasons. So, one was steep rise in the material price, then farm gate prices falling, and other than that there was an offtake in USA, it was low. So, now, this was 1st June, so, how the conditions have been changed from 1st June your statement and today? These are the two questions sir, please.

C. Ramachandra Rao: Okay. The first question is, comfortably, we should be crossing 3000 crores consolidated revenues. That is for the first question. With regard to second question, what we said that overall exports were actually higher, in the first five, six months was more, actually to the USA. But the prices went down and that was due to the stocks pile up in US because of extended winter in USA. The consumption had come down, so that has now changed. The consumption has picked up and also now imports have started by USA in a large scale, and they have booked orders, this thing, completely the situation has changed now.

V. V. Bajaj: If so, sir, revenue growth for this year, you are confident, it is very good sir, 3000 crores, and I am worried about the margins sir. Because in your announcement you said about 8% to 10% margin will be there, EBITDA, so by going Q1 to Q1, the margins have fallen to 40%, so how do you justify this sir? Please.

C. Ramachandra Rao: If you are comparing with FY18, with that of '19, we have been maintaining that the kind of fall in the raw material price, which happened in FY18 was rather unexpected and unusual, which we did not anticipate, and normally the...if you look at the earlier year, that is FY17, the prices of raw materials, what they are today, they are more comparable compared to FY18. FY18 we had good catches of fish and abundant raw material was there, there was a drop in price and soya prices also went down. So, these raw materials prices have gone up again in FY19. As of now, they are at same levels as in FY17. So, what my request to all the investors is that you please take note of this. That was something like a jackpot year, FY18, where there was a big drop in the raw material prices, like fish meal and soya, which may not happen every year. Recently the Government has announced Minimum Support Price for Soya Wheat and other 14 or 15 agricultural products were announced. So, the prices have shot up since then.

V. V. Bajaj: Can we maintain the margin 8% to 10%, that is what...



C. Ramachandra Rao: Yeah, yeah, that can be maintained. That's what we are confident. Already we have given 13% for the Q1 FY19,

V. V. Bajaj: No, Q1 to Q1 suppose we compare, then it is a fall sir, so...

C. Ramachandra Rao: Yeah, Q1 to Q1 of FY18 and '19, definitely there will be fall.

V. V. Bajaj: Yeah, yeah, correct sir. So, good luck.

C. Ramachandra Rao: Thank you very much Mr. Bajaj.

Moderator: Thank you sir. Ladies and gentlemen, if you have any question, please press * and 1 on your telephone keypad. I repeat, if you have any question, please press * and 1 on your telephone keypad. The next question comes from Chintan Modi from MOSL. Please go ahead sir.

Chintan Modi: Yeah, hi sir. Thank you for the opportunity. Sir, as you mentioned, that in the whole business value chain, farmers are very critical, can you tell us, like, before this price fall in the shrimp, what was the margins that farmers were making, and post this fall, how much they would be making? And what is the sustainable level of margins they should make for their survival?

C. Ramachandra Rao: Sorry, it depends upon perception of the farmer to what level...if you, supposing as an investor, if you ask that whether 15% return on your investment is okay, supposing I am comfortable it is fine. If I say that, no, 15 is not sufficient for me, I need 25%, so 25% you should be able to get, then only he is satisfied. Like that, what has happened was, in FY18, the farmers made huge margins, everybody made profit. The farmer made profit, the feed business made profit, the processor made profit, the ultimate consumer also made profit. So, in the chain, everybody made good profits out of the business. But the situation has slightly changed now in '18. So, the correction has to take place. So, everybody should know that this is, supposing I get 50% or 60% return on my investment, then I am extremely happy. Supposing it comes down suddenly to 20%, 25%, then I am perturbed. So, my expectations are 20% to 25%, so what we feel is, generally 20 to 25% they should be happy to continue culture and they are ready, they are ready to do that.

Chintan Modi: Okay sure. And if we compare it to global suppliers, farmers in other countries, where would our farmers stand? Are they much better off or I mean, just to understand what will be the kind of gap?

C. Ramachandra Rao: No, because we don't have exactly the statistics of the farmers in other countries, because Thailand also has faced a similar situation this year, there also the farm gate prices went down, and in other countries also, everywhere they had this problem. But we do not have the exact details about that Mr. Chintan Modi. I think, we are not able to give you exactly what is the status of the other farmers of other countries.

Chintan Modi: Okay. So, next question is, I actually missed some of your opening remarks. I don't know whether you shared this data. How much shrimp exports industry is estimating for FY19, for CY19?



C. Ramachandra Rao: See, again, this year what happened is the exact industry level exports for FY19 we do not have any figures. Sir, unfortunately, even globally also, it is very difficult to get any authentic statistics. Even the so-called global aquaculture alliance, they are not able to give us any up-to-date information. We have to actually ascertain what is the global situation...

Management: But we feel it will be 10% to 15% less than previous year as such.

Chintan Modi: I am asking about India exports.

C. Ramachandra Rao: India export, last year it was 5.6 lakhs MT in FY18, this year we feel it will be 10% to 15% less than previous year.

Chintan Modi: Okay, so there is a de-growth in volumes.

C. Ramachandra Rao: Yeah.

Chintan Modi: Sure. And that is why you are expecting flattish feed sales.

C. Ramachandra Rao: Yeah, yeah.

Chintan Modi: Okay, sure. Thank you. That's it from my end.

Moderator: Thank you sir. The next question comes from Mr. Deepesh Kashyap from Equitas Securities. Please go ahead.

Deepesh Kashyap: Hi sir, good afternoon.

C. Ramachandra Rao: Good afternoon Deepesh Kashyap.

Deepesh Kashyap: Sir, I have a couple of questions on your processing segment. Sir, in the processing segment, our revenue has grown by around 9% in this quarter, whereas the volume growth has been on 30%. So, what is the reason for this 15%, 16% drop in realization while our competitors have seen only 3, 4% decline in their realizations.

C. Ramachandra Rao: Can you please repeat Deepesh?

Deepesh Kashyap: Yeah, the volume growth was 30% and the revenue growth was only 9%. So, what was the reason for this, like, drastic drop in the realizations?

C. Ramachandra Rao: Yeah, Deepak, the international prices dropped for our export, our international export prices reduced, that's why, inspite of volume growth, the revenues didn't grow.

Deepesh Kashyap: Yes, but there was no positive impact of the rupee depreciation we saw in this quarter?

C. Ramachandra Rao: Rupee depreciation it is a strategic this one, because we take a long term view



C. Ramachandra Rao: Coming to the margins out of the currency fluctuations normally we hedge the currencies as soon as the orders are confirmed. Most of our exports are covered the moment the orders are confirmed. We don't keep the dollar realization completely open to the volatility of the market, because we are sure that this is the price at which we are quoting, and this is the realization, that is the market spot price, and this is the forward premium, and this is how we do that.

Management: But Deepesh Dollar started moving from the month of June only, April and May and most part of June, the rupee was almost stable, there was not much depreciation, it started depreciating from mid of June.

Deepesh Kashyap: No, one of our listed competitors have just reported decline of 3% to 4% in the realization, so that's why I was just asking, was there change in mix of our products, for example, did we do higher count of shrimps in this quarter, which had lower elevation, which is why our total average realization dropped by 15%, 16%, was there any change in mix?

C. Ramachandra Rao: Was there any change in mix....?

Deepesh Kashyap: For example if you did more of 100 counts perhaps your average realization will drop right because they will have a lower realization. Was there any change in that?

C. Ramachandra Rao: Those financials we don't have Deepesh, I think we will check and come back to you.

Deepesh Kashyap: Okay no problem. The next question is, basically if I look at your processing segment, per se in the last couple of quarters; your gross margin has improved, mainly because of the fall in the farm gate prices. But if I look at your other expenses, they have actually taken a very sharp increase. For example in this quarter they were around 20% of your sales. If your farm gate prices go back to normal level, our EBITDA margins may fall around 6%, 7%. So I just wanted your thoughts, why the other expenses in the processing segment increased so much in this quarter?

C. Ramachandra Rao: Processing side....just....we will check and come back to you.

Deepesh Kashyap: I am basically looking at consol minus the standalone numbers; so that is basically your processing segment right?

C. Ramachandra Rao: Yeah. Processing segment I think it is not separately given in the published account. It is the consolidated and feed alone.

Deepesh Kashyap: Yeah the consol minus standalone will be broadly your processing segment, so I was looking that ways.

C. Ramachandra Rao: Right . You are comparing on quarter on quarter basis.?



Deepesh Kashyap: No, on the absolute basis, if I look at your consol minus standalone other expenses that comes to around 20% of your sales which seems very high. It used to be around 10%, 15%. If the gross margins normalize back to here around 23%, 24% numbers....

C. Ramachandra Rao: Yeah Deepesh, let me check once more....

Deepesh Kashyap: Was there any forex impact over here like any India sales you did forward contracts that you did? Maybe because of that was there any....?

Management: There is mark-to-mark loss of foreign currency that has added upto the other expenses.

Deepesh Kashyap: Okay that is not a one-off right? That might continue going forward so...

Management: That is just an accounting entry....it may not be there in the next quarter.

Deepesh Kashyap: Okay, okay sure. Please to ahead sir.

C. Ramachandra Rao: Mark-to-market losses that we have shown as per Ind AS, I think that is showing the other expenses more....

Deepesh Kashyap: Okay sure. Lastly, sir my question is how much hatchery capacity they are building this year and the next year and what should be the CAPEX for the same in FY 19 and FY20?

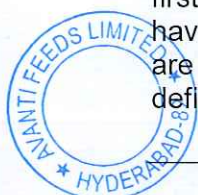
C. Ramachandra Rao: Hatchery has now started, construction is going on, it will take about 10 months to one year to commence commercial production. In the first phase we'd be doing about 200 million seed, it depends again, the prices are volatile; we cannot exactly tell what is the gross turnover....CAPEX about 12 crores, 6 crores for first phase and another 6 crores for the second phase.

Deepesh Kashyap: Oh that is very nominal. Okay thank you and all the best.

Moderator: Thank you sir. The next question comes from Puneet Mittal from Global Core Capital; please go ahead.

Puneet Mittal: This is Puneet. So we were saying that because of the farm gate prices have come down and because international prices came down, there was a bit of a stress in the industry. Are you seeing any acquisition opportunity in this market because the industry is stressed? Do you see any acquisition opportunity?

C. Ramachandra Rao: No, Mr. Puneet. I think it is too short a time and it is too early to think of that because it is only one season that we have bad condition, that too in the first half it has happened. We have to see gradually how the things develop. As we have been telling that in August and September stocking will be taking place again. We are expecting that because the farm gate prices are really increasing significantly and definitely there will be large scale stockings hereafter. It is only one crop in the current



season is over. So I think it is even too early to even guess whether there will be any consolidation or any other acquisition and all. There should be some cause of action to think on those lines at this point of time. We have to see the sustainability of the companies in the long-term....how they are going to sustain this kind of market fluctuations and performance. How many feed companies are going to....or how many process are able to withstand this? These are all the things which we have to see and it takes time. It is too short for us to even think of any acquisition at this point of time.

Puneet Mittal: Okay, second question is, naturally I think it is on the minds of a lot of investors, there is a lot of cash on the book and naturally you are generating pretty good cash in the regular course of business as well and from what you've said so far, it doesn't look like you have major CAPEX plan, so what's the Board thinking about the cash utilization?

C. Ramachandra Rao: This debate is going on; as we said we have some CAPEX and all those things, we are still thinking how to go about it. The board is apprised of this matter, but we have to think and move forward. But as of today the cash reserves cannot be spent on CAPEX. We have to think and then take a decision about that. The situation is not right to immediately take a decision on that. So we are watching and seeing what developments we can think of. As of now we have no decision on that.

Puneet Mittal: Okay, one last question; naturally I think you said that your order book is full for processing on the processing side, naturally you must have taken the orders before the specific price or down going price and now the farm gate prices are going up. How does that impact the margins of the company?

C. Ramachandra Rao: Mr. Puneet when we took the orders, definitely we will take into account what could be the prices, we know the culture situation what is happening, how market supply-demand position is and we always take into consideration the prices that are likely to be in the future, that also has been taken into account while quoting the orders.

Puneet Mittal: Okay again for patiently answering the questions, I appreciate it, thanks so much.

Moderator: Thank you sir. The next question comes from Mr. Puneet Kumar from Reliable Investment, please go ahead.

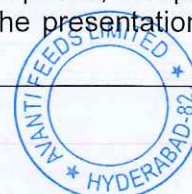
Puneet Kumar: Good afternoon sir.

C. Ramachandra Rao: Good afternoon Mr. Puneet Kumar.

Puneet Kumar: Number one, I must congratulate you in terms of the market leadership and you are talking about the market share going up from 42% to 46%. That is a very good improvement.

C. Ramachandra Rao: Thank you.

Puneet Kumar: Now, the negative portion starts. We have had a very bad six months, as you would agree price has probably fallen from ex-bonus prices, ex-split prices from 1000 to 450 now. The sad part seems to be that during the presentation,



there is nobody from the marketing side, that's point number one. Point number two is, nobody is talking about branding, nobody is talking about how to build a value chain into the organization for stable realization or increased realization. Today, as the market leader, Avanti also has the responsibility of setting the industry on the right track. Probably we seem to be cribbing more about the price increases than about a long-term good profitable (not clear) to the customer. I would like to have some views of the management on this.

C. Ramachandra Rao: Your first question is about the brand? You know that there are two activities that we are having. One is the feed market and we are leaders in the market and Avanti brand is well-established. That is the reason why we have been able to be the market leader and we have been able to consistently maintain that and in fact we are increasing year after year. So that is the brand that we have created in the shrimp feed market in India. Is it okay? That is number one. Coming to the processing side, we are not actually the market leaders in the processing sector. Nevertheless, we are increasing our exports year after year and coming to the brand, it is not so easy as this is an export market mostly to US market. To establish a market brand in the overseas market is very difficult because the local brands are very popular and we do most of the brands, almost everybody do it on the buyer's brand. These are the brands well-established in countries like US. It is very difficult to have our own brand established; it takes a lot of time and it is not so easy. The customers in the overseas markets do not readily accept these brands. They have loyalty to the local brands. It is very difficult; we have to try and it takes a long time to do a brand establishment; but definitely the quality is important, the delivery schedule is important, the processing plant our Chairman & Managing Director Mr. Alluri Indra Kumar had the opportunity to interact with some of the US buyers who came to our plant and they were mentioning that ours is one of the best plants in the world. That's what they were commenting about our processing facility. So naturally in all these respects if you can establish your own identity in the overseas market, to the ultimate buyers like Red Lobster or Darden restaurants, CISCO all these people when they come they visit the plants and comment that Avanti plant is one of the best plants in the world, that itself a brand creation, our own identity in the global market...particularly in the US market. I think first we have to establish ourselves in the right direction and then go for the product evaluating. What was your next question?

Puneet Kumar: The question is today if you see what happened to Thai Union and Wal-Mart, they ended up paying 30 million....are you aware of that case?

C. Ramachandra Rao: Yeah.

Puneet Kumar: So we could get into those kinds of problems in case we are totally dependent only on...there are two things; today to build a competitor advantage, you say world class plant; I have not read anywhere. We are leaders agreed, we are the biggest agreed; but talking in terms of world standards we are not even....what market share do we have? Not even 5%.

C. Ramachandra Rao: The facility I am talking about; ..the facility that we have established now which was started....

Puneet Kumar: That is a small capital expenditure boss compared to the world scale, that's what I wanted to say.



C. Ramachandra Rao: No, no, ..let me put it this way. It is very important that the processing facility has to be accepted by the buyer, that is the foremost thing. If the processing facility is not in accordance with the global standards and the quality standards they will not accept and it becomes impossible to export the products from our plant. That is very important. That is number one. These things are not published; because this is an investor's call and you are our investor we are disclosing to you that our buyers have said that this is one of the best plants in the world. That's what we are trying to share with you. It is not published in the papers that the best plant in the world is Avanti. I am not saying that. It is the assessment by the buyer.

Puneet Kumar: You can arrange for a press conference or something to ensure Avanti gets a good name because of that.

C. Ramachandra Rao: See this is a market....they will be visiting....

Puneet Kumar: Oh yes, I am not saying you do it, what I am saying is that in terms of marketing activity there is nothing being done in terms of capital expenditures and time commitments.

C. Ramachandra Rao: Whenever it is necessary we will do it, it is not that capital expenditure should be done for marketing. We are already working on that to establish a regular business with the top buyers. We are working on that, because we have started the new plant and we are working on the value added products and establishing our identity in the global market; all these things are taking place. It will take time, it cannot happen overnight.

Puneet Kumar: You can at least print the photographs of those visits in the annual report if not in the news papers.

C. Ramachandra Rao: We will consider that and do that.

Puneet Kumar: Right, thank you.

Moderator: Thank you sir, participants are requested to ask two questions in the initial round and may join the queue for more questions. Thank you. The next question comes from Amit Rupani, an individual investor, please go ahead.

Amit Rupani: Thank you for the opportunity. One of the previous participants have already asked this question, but I would like you to elaborate a little bit more on this. So, I wanted some more insights on your procurement model for the processing business. Is there any price-risk that we have when we purchase shrimps for processing and exports or the long-term contracts that we have the changes in price are factored into those long-term contracts? If you can give some insight that will be great.

C. Ramachandra Rao: Your first question is about the process of buying. Most of the purchases are on the basis of day to day pricing, fixed generally by all the buyers; the prices are announced and at that price the procurement takes place. As far as the payment terms are concerned; almost next day the payments are released from our side. Almost the third day the farmer gets the payment from our side. That is the format we are following, that is a very healthy practice we are doing now. But there is no long-



term contract as far as the purchase is concerned but we have some selected farms where we have tied up and the supplies comes from them to us. It is in a limited way we are doing that.

Amit Rupani: So in other words you confirm order first and then you purchase the shrimps or it is the other way round?

C. Ramachandra Rao: We confirm the orders, we will tell the price to the farmer and confirm the price and he supplies and then when it comes....there are different counts and the quality of the products it comes, it is weighed, the quality is determined and then we pay them according to the price we have agreed depending upon the count.

Amit Rupani: Got it, that is helpful sir. My last question is, in your slide number 12, industry highlights, you have shared that India has about 11.9 lakhs potential of land, of that only 1.53 lakhs is currently being used. So out of this 1.53 lakhs hectares of land which is currently being used, it is hovering around the same number for quite a while now, this number I have not seen going up at least in the last two to three years, so do you see this number growing in the next three to five years? What is your opinion on this because that will increase the pie for the industry as well for you being the market leader?

C. Ramachandra Rao: Yeah, exactly, when there is a potential; infact national agencies like MPEDA, NFDB, these agencies' endeavor is also that India increases, the production also increases, definitely there has been increase, in Orissa, West Bengal, there has been increase in the area and definitely increase is taking place year after year. There should be support from the other governmental agencies also NFDB and MPEDA and these people are discussing with the local governments asking them to provide land to maritime states to provide to the shrimp culture farmers the land and facilities and these things are happening and we hope these efforts will give results in the years to come. Definitely the production will go up, the area will increase.

Amit Rupani: Okay thank you all the best.

C. Ramachandra Rao: Right thank you.

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. Milan Bavishi for closing comments. Over to you sir.

Milan Bavishi: Thank you very much to the entire team of Avanti Feeds for taking out time for the call. Thank you to all the participants. Have a nice weekend ahead.

C. Ramachandra Rao: Thank you Mr. Milan, thank you Honeyla, thank you everybody.

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 have a pleasant evening everyone.



Note:

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



