

Ref: AFL/BSE & NSE/2021-22/

23.07.2021

The Deputy General Manager
BSE Limited
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Rotunda Building, P.J. Towers
Dalal Street, Mumbai – 400 001

The Listing Manager
National Stock Exchange India Ltd.
Exchange Plaza
Bandra (East)
Mumbai – 400 051.

BSE Code: 512573

NSE Code: AVANTIFEED

Dear Sir,

Sub: AVANTI FEEDS LIMITED – Transcript of Audio Conference Call for Investors on 3rd July, 2021 – Outcome - Reg.

Ref: Our letter dt: AFL/BSE & NSE/2021-22 dated 01.07.2021

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Further to our letter cited, we enclose herewith the transcript of Audio Conference Call for Investors conducted on 3rd July, 2021 in connection with Audited Financial Results for the Quarter and year ended 31st March, 2021.

This is for your information and record.

Thanking you,

Yours faithfully,
for Avanti Feeds Limited



C. Ramachandra Rao
Joint Managing Director,
Company Secretary & CFO



Encl: As above

Transcript

Conference Call of Avanti Feeds Limited

Event Date / Time : 3rd July 2021, 04:00 PM IST

Event Duration : 59 mins 59 secs

Presentation Session

Moderator: Good evening ladies and gentlemen. I am Moumita, moderator for the conference call. Welcome to Avanti Feeds Limited Q4 FY2021 conference call, hosted by KFin Technologies Private Limited. At this moment, all participants' lines are in listen-only mode. Later we will conduct a question and answer session. At that time, if you have a question please press * and 1 on your telephone keypad. Please note this conference is recorded. I would now like to handover the floor to Mr. Sherwin Fernandes from KFin Technologies. Thank you and over to you sir.

Sherwin Fernandes: Thank you Moumita. Good evening to everyone. Welcome to the Avanti Feeds Q4 and FY2021 post results earning conference concall. From the management we have with us, Mr. A. Indra Kumar, Chairman and Managing Director; Mr. C. Ramachandra Rao, Joint Managing Director; Mr. A. Venkata Sanjeev, Executive Director; Mr. Alluri Nikhilesh, Executive Director, Avanti Frozen Foods Private Limited, Mrs. Santhi Latha, GM – Finance and Accounts and Ms. Lakshmi Sharma – Company Secretary, Avanti Frozen Foods Private Limited. Now, request the management to take over the call. Thank you.

C. Ramachandra Rao: Thank you Mr. Sherwin. Good evening ladies and gentlemen. Trust all of you are safe and doing well in these tough times. We extend a warm welcome to all of you for this investor's conference call today to review the audited financial results of Q4 FY2021 as well as the audited financial results for the financial year ended 21. Along with me here are Mr. Venkata Sanjeev, Mr. Nikhilesh Chowdhary, both Executive Directors along with Mrs. Santhi Latha and Lakshmi and other finance and accounts team members. Mr. Indra Kumar is on his way and he will join shortly. Meanwhile I think we will start with brief preview of this financial results for the quarter as well as for the year. The results of Q4 FY 21 and audited financial results for FY'21 are already with you for some time now. We are sure that you would have already gone through them, here are some of the key indicators from the financial results of Q4 FY21 and FY21.

The consolidated financial results for the Q4 FY21: The comparative performance of Q4FY21 with that of Q4FY20 and Q3FY21 have been given in the presentation already circulated. Gross income in Q4FY21 is Rs. 1,116 crores as compared to Rs. 944 crores in the previous quarter Q3FY21 an increase by Rs. 172 crores at 18.22%. Compared to Q4FY20 gross income Rs. 1,046, there is a marginal increase of Rs. 70 crores at 6.69%. The PBT is Rs. 93 crores in Q4FY21 as compared to Rs. 108 crores in Q3 FY21, a decrease by 13.89%. Compared to Q4 FY20, PBT of 126 crores, there is a decrease by 26.19%. Decrease in PBT year on year basis is on account of increase in raw material prices and marketing expenses of Q4FY21.

C. Ramachandra Rao



Now coming to the annual results for FY21: the gross income for FY21 is Rs. 4,193 crores as compared to Rs. 4186 crores in FY20. With a marginal increase by about Rs. 7 crores. PBT in FY21 is Rs. 510 crores as compared to Rs. 484 crores in FY20 an increase of Rs. 26 crores. The PBT percentage increased to 12.16% on gross income from 11.56% of the previous period mainly due to better sales realization, as a result of increase in sales price in shrimp feed division. The PAT in FY21 is Rs. 397 crores as compared to Rs. 386 crores in FY20 just an increase of Rs. 11 crores and the PAT increased to 9.47% from 9.22% on gross income.

Now we come to the standalone financial results of feed and processing divisions. I will take up feed division first. First, we will discuss about Q4FY21 results. The gross income for Q4FY21 is Rs. 900 crores as compared to Rs. 778 crores in the corresponding quarter of Q4FY20 registering an increase of Rs. 122 crores at 15.68%. The PBT for Q4FY21 is Rs. 91 crores as compared to Rs. 96 crores in Q4FY20, a decrease of Rs. 5 crores.

Annual results for FY21: The gross income for the financial year is Rs. 3,307 crores as compared to Rs. 3,223 crores in the corresponding year registering a growth of Rs. 84 crores at 2.61%. The PBT for FY21 increased to Rs. 404 crores as compared to Rs. 376 crores in the FY20 with an increase of Rs. 28 crores at 7.45%. PAT in FY21 increased to Rs. 305 crores when compared to Rs. 286 crores in FY20 an increase of Rs. 19 crores at 6.64%.

Basically, we tried to analyze the reasons for the reduction in the margins. Increase in raw materials is one of the major contributing factors to the profitability of the feed division, as you know very well. Fish meal, soya bean meal, wheat four are the major raw materials consumed in the production of feed and Fish Oil or Soya Lecithin are related products used in the production.

The prices of Soyabean Meal and Soya Lecithin are steeply increasing over the past one year. The price of soya bean meal went upto Rs. 47 per kg in Q4FY21 as compared to Rs. 43.30 in Q4FY20. Fish meal went upto Rs.93.05 in Q4FY21 as compared to Rs. 90 in Q4FY20.

Now the prices of soya bean meal are Rs. 77.50 and fish meal is about Rs. 103, exorbitantly high prices of these two products definitely contribute to the effects on the margins of the feed.

Now what we have done is, increase in the shrimp feed is one of the measures that we have taken; that is, shrimp feed price has been increased in January'20 by Rs. 3.80 per kg which could absorb raw material cost increase to some extent. Thereafter another price increase of Rs. 5 per kg was made in two tranches in Q1FY22, that is in the first quarter from April to June. This increase has absorbed further increase of raw material cost to some extent. However, the prices of soya bean meal and fishmeal are increasing unabatedly.

As you know, the frequent price increase cannot be resorted to primarily in the interest of the farmers and also for the reason that the government controls are there, so that whenever we think of increasing this, the government would immediately step in.



Having said that, the Company is hoping that RM prices would stabilize at present rate for the time being as the new crop of soya is expected to come in October 21. So, we hope that the fresh crop comes in October, but we cannot say certainly as there are so many aspects here and hope we hope that some extent prices may come down. Similarly, fish meal prices also expected to stabilize once the fishing ban is lifted in the west coast and the fish catches increase from early August 21.

One of the reasons for increase in the soya bean meal is the exports. The American and Brazil soya crop failed so there was good demand for exports from India and that has really made a shortage in India, for local consumption and that had actually made the prices to go up.

The second aspect which we found is the increase in marketing expenses which has gone up. The company had to spend some additional amount on marketing expenses during Q4FY21. Sales promotion and retention of the existing Avanti farmers compared to Q4FY20. The competitors resorted to huge discounts on feed prices to increase their sales as there was general decrease in the consumption of feeds.

Further, imported shrimp feeds were available at much cheaper price than Indian feeds as the import of feed has a concessional duty of 5% against the normal duty of 25%. In order to retain the farmers shifting to other feeds and to encourage the new farmers to go for Avanti Feeds, the company spent a one-time incentive of Rs 17.25 crores with considerable results and we could retain all our farmers intact. In fact, we added some farmers to our account.

Now coming to the shrimp processing division Q4FY20 results: The gross income for Q4FY21 is Rs. 218 crores as compared to Rs. 273 crores in Q4FY20 registering a de-growth by Rs. 55 crores at 20.15%. PBT for Q4FY20 is Rs. 1.48 crores as compared to Rs. 29.95 crores in Q4FY20, a decrease of Rs. 28.47 crores.

The analysis shows that the impact of withdrawal of MEIS is one of the major reasons for the decrease in the profits. The gross income normally includes the incentives of 5% MEIS and 3% duty drawback or FOB value of exports which was contributing significantly to the PBT of the company.

However, the government of India withdrew MEIS in two faces. Firstly, restricting the MEIS incentive from September 20 to December 20, two crores for four months total and from January 21 onwards, it was completely withdrawn. On account of withdrawal of MEIS incentive, there is reduction in the income by about Rs. 14.58 crores and in addition the Rs. 12.11 crores was taken as MEIS incentive in the company's financial statements on accrual basis. However, since there is an uncertainty of receiving this MEIS incentive from the government; the company reversed the income receivable in the financial statements of Q4FY21.

We tried to analyze some of the reasons for decrease in the margin. One is steep increase in ocean freight. There was an unabated steep increase in ocean freight starting from October 20, particularly from January'20 when the average container price went from USD 3,300 to USD 3,500 during Q4FY21 which continued even now which is about USD 7100 per container. The volume of exports during Q4FY21 compared to Q4FY20 decreased on account of shortage of containers availability.



The RM cost also increased in Q4FY21 compared to Q4FY20.

Annual results of the processing division for the financial year 21: The gross income during FY21 is Rs. 888 crores from Rs. 966 crores in FY20, decrease by Rs. 78 crores that is 8.07%. The PBT in FY21 Rs. 108 crores as compared to almost the same in the previous year. Had MEIS incentive had continued, the PBT for the full year FY20 would have increased by Rs. 19.47 crores. The PAT in FY21 is Rs. 95 crores when compared to Rs.100 crores in FY20, a decrease of Rs. 5 crores.

The following are the main contributing factors for the decrease in gross income profit even though it is a marginal increase in PBT during FY21 compared to FY20. One is of course withdrawal of MEIS export incentive of 5% on FOB by the government, second is the increase in ocean freight. The third is because of the accounting standards, decrease in export volume and corresponding value due to accounting procedure of containers shipped out. As per the Indian accounting standard, the containers on high seas that is in transit or what is called on waters are taken as stock in transit at cost value. The profits on these shipments are not taken into quarterly financial results of the quarter in which they have been shipped. Such containers at the end of Q4FY21 were 105, with sales value of Rs. 114 crores whereas at the end of the corresponding quarter of the previous year Q4FY20 it was 84 containers with sales value of Rs. 90 crores. The profits of these containers will be reflected in the following quarter.

Industry overview and future outlook: The world has suffered the impact of the first wave and the effect of second wave appears to have receded to a great extent now and the economies of countries limping back to normalcy. But the threat of a third wave COVID-19 is looming large and the countries are getting ready to face it to prevent major impact.

After the first wave and before serious impact of the second wave started, most of the global economies including India have succeeded in recovering to a great extent and during the phase of second wave also the economic activity was not disturbed much though India had higher number of positive cases and fatalities.

The industrial growth also picked up in almost all the sectors except maybe industries like tourism, hospitality etc. The demand for the products and services picked up fast supporting the manufacturing sector. Seafood industry is no exception to this. The restaurants and food services got back to normalcy with increase in demand for seafood products including processed shrimps.

The first season of the shrimp culture in India started in January, February with a lot of positive developments such as good climatic conditions, remunerative farm-gate prices, availability of good quality seeds etc. During the first half of 2021 the shrimp culture has been very good and expected to continue in the second half also. The demand for the product is also likely to increase in the second half due to occasions like Thanksgiving Day, Easter, Christmas, New Year, Chinese New Year etc. Therefore, the future of the industry looks promising.

Coming to the shrimp production and feed consumption in 2021: Shrimp feed consumption in India declined to about 9.55 lakh tons in 2020 compared to 12 lakh tons in 2019; down by 20% due to the impact of COVID-19. However, as the demand for shrimp is expected to increase in 20-21, due to return of normalcy and favorable shrimp culture conditions, the shrimp feed consumption is expected to grow by about 10% to



15% over the previous year with an estimated consumption of shrimp feed around 11 lakh tons.

The company's feed sales during 2020 was about 4.55 lakh metric tons and expected to be around 5.25 lakh metric tons in 2021 an increase by about 15%. The company is expected to maintain its market share of 48% to 50% on an average.

Now I would like to give about the recall of some of the containers of shrimp shipped by Avanti frozen foods recently. The company has informed the stock exchanges and made a corporate announcement on the occurrence of an unexpected incident resulting in US FDA advising Avanti Frozen to recall voluntarily as an abundant caution some of the cooked products suspected to have contamination by presence of salmonella. This was done on the basis of reported sickness in six cases, as reported by CDC/USFDA, due to salmonella contamination in the product consumed.

As per the preliminary internal survey, it is yet to be authenticated, most of the products in the recall would have been sold and consumed by now with no report of sickness so far except the above six cases related to this particular contaminant.

The company has product liability insurance coverage, which is adequate to make the claims if any.

The company has also initiated action to engage services of a well reputed and recognized consultants and advisors, experts in food safety, public health and regulatory requirements and compliances to further strengthen the Company's systems and procedure to avoid recurrence of such instances in the future.

Since the volume of the product in connection with this incident is insignificant, the company does not foresee any impact on the image of the company.

Shrimp processing and export: Shrimp production and exports from India in 2020 was 5.75 lakhs metric tons as against estimate of 6.5 lakh metric tons, a decline by 12.5%. During the current year, 2021, the production and export of shrimps is estimated around 6.5 lakh metric tons, a growth of about 10% to 15% over the previous year.

The company's shrimp exports in 2020 is about 12,192 metric tons. The estimated export in 2021 is about 12,700 metric tons, maintaining almost the same level as in 2020.

As global markets are gradually recovering from the impact of COVID-19 and the economies are improving, the demand for shrimp consumption is also expected to pick up as customers turn out in restaurants, malls and public eating places is increasing.

Policies of the government and the impact on the industry: In line with the policy announced by the government of India allocating about 10,900 crores to the ministry of food processing industry in 2020, spanning over five years, the Ministry of Food Processing has announced a production linked incentive scheme on incremental exports of seafood products over six years commencing from 21-22.

The PLI envisages an incentive of 6% for normal products and 10% for value added products on incremental sales for six years with condition that eligibility depends on



minimum investment of Rs. 75 crores on capex during first two years and achievement of 5% minimum CAGR on sales.

The company has made an application under this scheme and awaiting response. In the place of discontinued MEIS export incentive, the government had announced to introduce Remission of Duty and Taxes on Export Products (RODTEP). However, details of the schemes are yet to be announced.

So, with this, I would like to conclude on a positive note that aqua culture industry is poised for a promising growth in 2021. Now we will take up the questions from the investors.

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. Participants are requested to restrict their questions to two per person during the initial round.

The first question comes from Mr. Ajay Thakur from Equentis Capital. Please go ahead sir.

Ajay Thakur: Hello sir, thanks for taking my questions. I had this question about, you mentioned about the new schemes, the date of that is not available. However, any idea on what kind of date will that be and once that new scheme is being implemented, will it be implemented retrospectively or will it be prospectively implemented? Any idea on that front will be helpful.

Alluri Indra Kumar: Is this regarding PLI?

Ajay Thakur: I am talking about the RODTEP scheme, which you were speaking about?

Alluri Indra Kumar: RODTEP, I think what the government has said was it will be applicable from January 2021.

Ajay Thakur: Detail from that front is still awaited right.

Alluri Indra Kumar: Nothing is available. The government has not come out, they are saying next week...we have to wait for next week.

Ajay Thakur: Okay and then you had mentioned about the reversal of MEIS benefit commenced in Q1 and Q2, which was kind of reversed amounting to Rs. 12 crores in your presentation. So this reversal is likely to be as in, so that reversed amount, we haven't if I were to assume that, then we wouldn't have benefitted on the scheme for FY21 or there is still some confusion on that front? Or have we benefitted and some part of the benefit is being reversed.



Alluri Nikhilesh: No, the scheme was available when we accounted it but we have not received the money nor is the government giving any clarity so we have reversed this income.

C. Ramachandra Rao: The government never gave any clarity on that. We have followed the practice which we were doing earlier. So, on the same lines we provided. But later on when they restricted it to two crores for September to December, four months they restricted only to two crores and completely withdrew from 1st January, then we thought that and whatever the claims that were made were kept on hold, they were not releasing it, they were not allowing even to upload the claims. That was the situation. So in consultation with our auditors, we have discussed and decided to reverse these provisions made earlier.

Alluri Indra Kumar: We thought as and when it is received, we will account it because we are not sure when the government would release it, so we had to reverse it. Until April it was smooth, things were going smooth with their site and we were getting the scripts. From April the government stopped everything. So, they said that it will be cleared. Since we had taken the provisions for the first two quarters, we had to reverse it.

Ajay Thakur: Okay, for September to December you had accounted for the same which is two crores each for the September to December months

C. Ramachandra Rao: No, no. We have not accounted for it.

Ajay Thakur: Okay so in effect we have not factored any export scheme benefit for FY21.

C. Ramachandra Rao: Yes, you are right.

Ajay Thakur: Okay fine and lastly just wanted to check on the salmonella alert from FDA, so was there any because of this would we have some sort of impact on the business in Q4 and any likelihood of that having limitation for FY22? What are the steps we are taking to prevent this kind of occurrences?

Alluri Nikhilesh: This impact is already seen. If you see, the volume has reduced in Q4FY21. So, from February since we received the notification, the shipment was slowed down on one product range. But, this is the process, we are working with the FDA and submitting all the information and this will be reviewed and we will get a response from the FDA going forward.

C. Ramachandra Rao: If I may add to what Mr. Nikhilesh said, whatever is the impact so far has been only that and beyond that we did not receive much response. As I mentioned to him earlier, the products have also been almost sold because this belonged to the January-February consignment, so distribution said, so not much impact will be there.

However, we are taking all care to completely get our facilities audited by experts in public health and regulatory requirements so that such things do not recur. That is number one. Number two, since the consignment which has been found to be having



this kind of a thing is very, very small and negligible. Most of our customers overseas understand what our stand is.

In the past 25 years we never had such kind of instance, so almost all the customers know our track record and they have all understood and they are all cooperating and we do not foresee any impact on account of this particular incident on the image of the company nor our export.

It is only a little slowdown because we want to have a double check on our quality control measures and see that more care is taken and systems are put in place so that things will not happen again, that's all. Other than that there is nothing which will really have a long-term impact on the image of the company or the products.

Ajay Thakur: Okay understandable. Thanks that's quite helpful.

Moderator: Thank you sir. The next question comes from Mr. P. Narayanan from BNP Paribas Mutual Fund. Please go ahead sir.

P. Narayanan: Thanks a lot sir. Sir first is on the inventory and revenue recognition policy. The inventory movement as far as between last year and this year between standalone and consolidated kind of suggests there is reasonable amount of inventory increase.

So on revenue recognition, just wanted to understand when do you recognize revenues for the processing business? Do you recognize it when it leaves, goes to the port here or do you recognize it when it reaches the US or whichever country the material goes to?

C. Ramachandra Rao: We recognize the sales only when it reaches the destination i.e warehouse. So, we show at the end of the quarter or end of the year as stock in transit. That is the accounting standard that we take on the cost value, though the shipments have been effected on the basis of the sale price and practically they are all sold goods only.

Only thing is the accounting standard requires that only those consignments which have reached the warehouse of the customer only it has to be recognized. Till that time, it is only treated as stock in transit on high seas. So, what happens is if the opening and closing transit value is the same, it does not affect your revenues....the top line. If the closing stock is higher, the inventory which is stock in transit which is shown; so to that extent revenue really comes down and profit also does not reflect in that particular quarter, but it reflects in the following quarter.

P. Narayanan: Sure. The question was actually in relation to the...because the volume of the processing business is actually lower but when we look at the trade data for India the exports from India has been pretty good and March US data is also kind of suggesting the same. That's why how much is your....did you have any impact on your volumes because of the congestion at the US ports this time around?

C. Ramachandra Rao: There were a couple of issues really for that quarter. One was, generally there was container unavailability, there was some sort of stress,



shortage of containers were there in that particular quarter- Q4. The second thing is that, because of the quality issue the FDA, we took more time to streamline our processes and at that particular point of time, we slowed down our exports, so we wanted to have more checks on all the quality before we dispatch.

This is one of the reasons why the volumes have come down. Because our order book is full. We've got full orders but only thing is because of these reasons it has slowed down our exports during that quarter.

P. Narayanan: Second was with regards to the PLI itself. Our current capacities themselves are underutilized so from a PLI perspective do you see so much of demand coming up for you to kind of put up that capacity? If at all when are you looking to put up the capacity...this year or next year?

C. Ramachandra Rao: If you look at the PLI scheme, it is structured in such a way that the next six years the CAGR 5% is required. That is what the basic requirement to get the eligibility for the PLI.

What it says, what we have structured in such a way that in the first two years we keep the investments on, the other condition is 75 crores which is to go for capex. What we have planned is that in the first two years we will invest on that because we are working on certain expansion plans in the sense that new products and new markets we are working on that. These two years what we will do is, we will focus on improving the capacity tradition of the existing system.

Meanwhile the investment on the new capex is taken care of in the two years and in the process we will increase our exports in the next four years, residue four years we have accelerated CAGR; so at the end of this the average CAGR remains at the 5% which is the condition of the PLI. So, we expect after two years we will be able to make the full utilization of the additional capacities also.

P. Narayanan: Sure sir. Third is with regards to the capital allocation. Roughly about 65% to 70% of our net worth is in cash. So in the earlier calls also you mentioned that in the annual results you will kind of consider with regards to possibly how to distribute the....whether to look at capex or whether to look at returning money to shareholders....it will also be earning accretive if you actually consider doing a buyback. So what does the board think of this and if you can throw some light on some of these aspects?

C. Ramachandra Rao: First thing is that the management has been very seriously considering to start two things. One is to increase the capacity of shrimp feed itself and also to increase the....I mean bring in fish feed into the market, high quality fish feed.

Now that we have the PLI scheme....we had some plan to expand those activities also. So these are the capex that we are looking for. The question of buy back has been considered couple of times at the board level but still we consider that we need to wait for some time.

We need funds for our capex in the long-term instead of completely raising the funds at this point of time when the market conditions are very tough. So, we thought that it is not time for looking at the buy back of the shares. That was at a couple of occasions the



decision was taken by the board. But the issue has been kept open and as and when the occasion arises we will be able to take a decision on that.

But as far as the present condition, we still are confident that we will be able to invest in some capex these funds. Moreover another important thing which we would like to share with you is that working capital limits, if you look at the investment returns in the projects which we are considering and how much return we are getting on that; we feel that it is still worth going for working capital utilization a portion of the reserves that we have.

So whatever that is left out, which can be considered as long-term investment, that we are under the consideration of the board, that we will take. Depending upon the opportune time...as our CMD also earlier told that some projects are on the offing and because of this COVID-19 we are not able to really implement them. We will come with those projects as and when the conditions improve.

P. Narayanan: Sure. Sir, one small request; whenever there is a one-off like changes in accounting policy in terms of reversal of MEIS or things of that sort, if you can put it in the results notes itself, that will be very helpful. Second, in the results you kind of mentioned that for the Director's achievements you mentioned that shrimp feed market share was 50%, but in the presentation you called out as 45% to 48%. If you can give better color as to what is our market share and what is the two businesses that will also help.

C. Ramachandra Rao: See the 50% is infact we achieved. It is not that everyday...it changes....it is consistent with 50% from the first day to last day; it keeps going up and down. So when we present to you on an occasion like this we give you an average percentage of 48% to 50%, It does not mean that we have reduced our share of market.

If you look at that, the total consumption of feed has reduced but infact we have increased so that itself is an indicator that definitely the market season has gone up; is it not? If you just look at the numbers that we have given, our feed sales has gone up. When the industry feed consumption has come down, we have increased our feed. It means that definitely the market share has gone up.

P. Narayanan: Appreciate it. Thank you sir.

C. Ramachandra Rao: Thank you.

Moderator: Thank you sir. The next question comes from Ashwini Agarwal from Ashmore Investment Management India Ltd. Please go ahead.

Ashwini Agarwal: Good afternoon sir. This salmonella problem, this is the first time, I believe that it is happening at Avanti Feeds. Have we been able to do a root cause analysis as to why this arose? Is it something that got contaminated in the raw shrimp that we purchase or some other reason? I joined a little late, so if you had already commented on it, I apologize for asking you to repeat that answer.

Alluri Nikhilesh: Good afternoon sir. The root cause analysis...a detailed investigation was conducted within the company. The root cause analysis and



corrective action reports were already generated earlier this month. The report was completed and submitted. We are also continuing to engage senior experts.

So, we did complete the root cause and submitted the reports. We are also continuing to put a high level of monitoring on all critical control points in the factory. Since the incident has occurred, several shipments have been checked thoroughly within the factory, both internally and we have also given it out to private labs and everything has come out clean. So we look at it as an isolated event. However, we continue to do high level of monitoring within the facility.

C. Ramachandra Rao: I may add to what Nikhilesh said. You know that the country was under severe COVID impact. People coming and going....shifted, there could have been one or two slippages here and there.

Alluri Indra Kumar: Actually this salmonella occurs as transmission from a human also. Like somebody was not hygienic or something, it may happen. But we have thoroughly checked the facilities and everything and all was clear and clean. But we don't know....maybe during the peak COVID time, the workers were coming and we were checking them...maybe somewhere it slipped...the personal hygiene.

P. Narayanan: Sir as far as the response you submitted to the US FDA, can you share with us what root cause that you identified?

Alluri Nikhilesh: At this moment we cannot disclose the root cause because it is still under evaluation because the court has not closed it yet. But, definitely after the case is closed we can then disclose.

P. Narayanan: Sir, one more question I had on the industry outlook. You mentioned that the overall feed consumption has declined. So is there a potential supply problem looming ahead in the coming quarters or years...because basically it's the shrimp feed demand has fallen then the output of raw shrimp will go down as well. Is that something you are anticipating?

Alluri Indra Kumar: Mr. Agarwal, last year because of COVID, there was a disruption in the entire supply chain and also it was because of the COVID. The brood stock was not arrived from the supply from foreign countries and the farmers also because of the lockdowns and all they could not stock the feed in time and the situation rose like that. Now it has come back to normal.

We cannot compare the last year, when we had a lockdown of almost three to four months, when people were not allowed to move and things were not moving, the farmers could not stock and the hatcheries could not operate and the factories were running at lower capacities.

So, this was the situation. But it has come down. The culture has come down, automatically the supply was less for the seed, and demand was less. Now things are becoming normal and things have improved.

P. Narayanan: From an outlook perspective, you are saying that things are slowly coming back to normal. Is that fair?

Alluri Indra Kumar: Yes.



P. Narayanan: Okay, all the best, thank you sir.

Moderator: Thank you sir. Participants are requested to limit their questions to two per person during the initial round. The next question comes from Mr. Punit Mittal from Global Core Capital. Please go ahead sir.

Punit Mittal: Hi, thank you so much for the opportunity. I have two questions. The first is you notified to the investors the changes regarding the salmonella phase and the US FDA was patient. But you also mentioned Q4 results the volumes were down in the shrimp processing business because of this issue. So, looks like the issue happened in Q4; so, if you can just give the timeline when that issue happened and when it was closed and whether things are back to normal right now?

Alluri Nikhilesh: So, the first notification was given in February. Since then, we have taken several preventive measures and corrective actions, done a root cause analyses. So we did slowdown the production, the reason being, we wanted to double check good product testified by an external lab before shipment.

So, we did review the volumes to be more careful, put in a tier-based system; as we go forward increase volume. So since then, we have been complying and working with the FDA.

Apart from that, it is not the only reason for the reduction in the volume. There was a significant shortage in the availability of containers. As you are aware the number of cases also started going higher from February – March, so we had lower footfall of workers, so there were multiple reasons why the volume has reduced.

Punit Mittal: Okay just to confirm, is that incident closed and now our processing business and shipping is back to normal except naturally for the container issue which still is persisting, I guess?

Alluri Indra Kumar: The major problem for the volume down was the shortage of containers. We were backlog on the containers because the shipping lines could not supply the containers, shipping space was not there in the vessels, and in Colombo there was as congestion – transit loads we could not ship out on time. That's the main reason and second thing as you said, we have also slowed down to find out what was the reason for the salmonella issue. All these together the volume has come down. The major was because of the shortage of containers.

Punit Mittal: Okay understood. My second question which I think was raised by an earlier participant regarding capital allocation. Some explanation you have given us now and historically. The company is naturally conservative to preserve the cash so that it can use the cash for capex, working capital, expansion or even to make sure that there is enough cushion for a rainy day basically and you don't want to go for debt. But the company is generating really decent cash flows. This year has seen a free cash flow of Rs 300 crores. So at the end of the day that cash flow and going forward if you are positive about the business should be enough to really take care of the capex and working capital. So should we understand that the company doesn't want to do buybacks because the company says that the valuation of the company is not undervalued?



Alluri Indra Kumar: See as earlier we have been saying, we have a capex which we have to put in for the expansions and all these things which has been delayed because of the COVID.

Second thing, the requirement of the working capital is also high, once we expand our requirement, we are also running short in our demand. The company has a lot of demand and there is capex requirement. Second thing as and when we see the possibility, we will look into it.

Punit Mittal: Okay one straight forward question, Do you think that the company is valued fairly at the moment?

Alluri Indra Kumar: We didn't get you.

Punit Mittal: Do you think the company is valued fairly at the moment? Do you think the company is undervalued or is it valued fairly at the moment from what the market is valuing the company?

Alluri Nikhilesh: This is the conversation I had very recently; it's my personal opinion.

Right now, to build a company with this much exposure in the aqua culture segment, in the feed meals, hatcheries, farms, processing facilities, customer base within India and abroad; I think personally with the current value, you wouldn't be able to build such a company. It is definitely that there is so much more inherent value and strength within the company.

Punit Mittal: Thank you so much for your honest answer and your willingness to state your point. All the very best. Thank you sir.

Moderator: Thank you sir. The next question comes from Mr. Sundar S. from Spark Capital. Please go ahead sir.

Sundar S.: Hello sir, thanks for the opportunity. The first question is with regards to the marketing expenses that you had mentioned in your opening comments. So this you had based it on the import feed prices being lower. But I thought import feed prices, customs duty was increased with this particular budget. So what is the situation there? On the same point you also mentioned about the restrictions that you faced by the Andhra Pradesh government. So, should we assume that we have already hit the upper limit in terms of pricing for the feed per se.

Alluri Indra Kumar: The pricing depends on the raw materials and all these things based on which we work out the pricing. I didn't understand your question. Can you please repeat it again?

Sundar S.: In your earlier comment, you had mentioned that this time we had incurred higher marketing expenses because the imported feed prices were lower and competitors reduced the prices. But I thought that imported feed prices increased after customs duties in this budget was increased from 5% to 15% on



imported feed. Logically the imported feed prices should have been higher this time, right? So, I didn't get the connection there.

Alluri Indra Kumar: What you said was right. The imported feed the duties were 25%

C. Ramachandra Rao: The customs duty on this product was normal duty is 25%, but the government had given a concessional duty of 5% on them so lot of imports were coming in and they were also announcing a lot of discount schemes with the result they were much cheaper than Indian feeds.

So, several representations were made to the government and at last only in the last budget they revised to increase it to 15.5% they have increased. Till that time the prices were very low and because of some sort of apprehension that they might lose market, many of the other competitor, feed manufacturers started giving lot of discounts to their feed. Already there was an impact of this in the feed consumption had come down and moreover with this, almost all the feed manufacturers started giving a lot of discounts.

So the question was, how to....first thing is to retain our own farmers and customers and also attract the new farmers to maintain our growth rate and our feed sales. This is a challenge before us. One of the options that we had was to introduce a one-time scheme by which we issued coupons to them and these coupons were allowed to be redeemed for purchase of feed itself.

We had fixed a scale....if so many tons of feed is purchased, we will give so much amount of coupons....like 10,000, 20,000, 30,000 and these coupons were utilized for redeeming the feed again. So that was the advantage we gained by this scheme and with the result we have been able to maintain our customers intact and moreover we have added new customers also.

The scheme was well accepted and we had a result of the scheme also under very, very tough conditions in those days. Then of course the government conceded to our request and we wanted to bring it down to the normal rate of 25% but they put it at 15% and so they increased it to 15%. This is the background of that additional expenditure on the marketing expenses.

Sundar S.: Right sir, thank you for that. My second question out here is that...last year was a bad year because of lockdown and the other events that we had. This year also you have indicated that the season has commenced on a weaker note. So, two years of wash out...so should we take this....is it a structural trend that farmers will move out after two years of bad crop....? How are you really seeing the impact on the ground for two years of no big crop coming through into the market...from a farmer's perspective.

C. Ramachandra Rao: I think in my introductory remarks I said that this year the culture has really improved and there is a lot of positive response from the farmers. The growth is good, climatic conditions are good, good quality of seeds and the farmgate prices are good, everything is good, very encouraging to the farmers and they have started right from January end and February and they are doing well.



All the growth is good and everything is good but we never said that this year is going to be a bad year. This is a good year which we anticipate and I think CMD will add to it

Alluri Indra Kumar: Actually, this year the first crop is very good compared to the previous year or 2019 calendar year. The first crop of this year is quite good and farmers were, because, last year they could not stock their farm because of non-availability of the seed and because of various reasons, as I told earlier the brood stock has to come in from Hawaii or Florida, the flights were not there, hatcheries could not operate in full scale and farmers could not get the seed.

So last year many people could not stock in time but this year first crop is very good and the harvesting is going on and the second crop also looks quite good. Now it depends on the climate conditions, the monsoons and all these things. This is the situation.

Actually, more number of farmers have come into this and expansion also have taken place in aquaculture, like Orissa and West Bengal, there is expansion of aquaculture and many people are coming into aquaculture than leaving aqua culture.

Sundar S.: Right sir. Just a clarification...you had mentioned earlier that seed consumption declined, so I presume this is referring to last year and not this year?

C. Ramachandra Rao: Yeah, last year.

Sundar S.: Okay thank you and all the best.

Moderator: Thank you sir. Ladies and gentlemen due to time constraint, that was the last question. Now I would like to hand over the floor to Mr. Sherwin Fernandes for closing comments.

Sherwin Fernandes: Thank you Moumita. On behalf of KFin Tech we thank the entire team of Avanti Feeds for allowing us to host the call. And we also appreciate the interest from the investors and the analysts and for their participation. Thank you and good day.

Moderator: Thank you sir. Ladies and gentlemen, with this we conclude our conference call 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 good evening everyone.

Note:

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

E. Ramachandra Rao

