

Transcript

Conference Call of Avanti Feeds Limited

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Presentation Session

Moderator: Good evening Ladies and gentlemen. I am Shyamala moderator for the conference call. Welcome to Avanti Feeds Q2FY18 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. Milan Bavishi from KARVY Computershares Private Limited. Over to you Sir.

Milan Bavishi: Good afternoon, on behalf of KARVY Computershare, I extend a warm welcome to all of you. Today from the Avanti Feeds management side, we have Mr. C. Ramachandra Rao, Joint Managing Director; Mr. Venkateswara Rao, GM – Corporate Affairs and Mr. P.V. 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. Milan. Good evening Ladies and gentlemen, I am pleased to extend a warm welcome to all of you for this investor's conference call. This time, you have the financial results of the Company for the Q2 FY18 and I am sure you would have already gone through them. However, I will present to you some salient points. The consolidated revenue from operations during Q2FY18 was 854.02 crores compared to 684.53 crores during the corresponding quarter of FY17 registering a growth of 24.76% on year on year basis. The profit before tax during Q2FY18 was Rs.191.28 crores compared to Rs.62.34 crores during the corresponding quarter of the previous year recording a growth of 206.83%. The significant contribution for improvements in bottom line during Q2FY18 compared to Q2FY17 comes from increase from in profit from feed sales. In terms of volume the Feed sales during Q2FY18 went upto 1,02,498 metric tons from 84,193 metric tons during corresponding quarter of Q2 financial year 17 registering a growth of 22%. The revenue from feed business during Q2FY18 stood at Rs.652.89 crores compared to Rs.555.13 crores during Q2FY17 recording a growth of 17.61% while the profit rose to Rs.148.57 crores in Q2FY18 from Rs.41.27 crores in Q2 financial year '17 from the feed business, with a growth of 260%. 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 the decrease in raw material prices compared to the corresponding period of the previous year. As you know compared to Q1, the sales volume of Q2 would be lesser as Q1 happens to be the peak season for shrimp culture activity.

Shrimp processing and exports: You may notice that the revenue for Q2FY18 stood at Rs.200.37 crores as compared to this Rs.129.01 crores during Q2 financial year '17



registering a growth of 55%. The bottom line also increased to Rs.32.67 crores in Q2FY18 as compared to Rs.14.26 crores in Q2FY17 registering a growth of 117%.

Now I would like to share with you the present status of shrimp culture and profits for the rest of the season. In the months of October to December normally which is corresponding to Q3, the winter season starts setting in and the shrimp culture activity slows down gradually. The shrimp culture is being actively continued in only some pockets of Tamil Nadu and Andhra Pradesh. In the other states it is in a low key. As a result the volume of feed sales decreases in this quarter compared to earlier quarters. However, it is expected that the sales volume of Q3FY18 would be better than the corresponding quarter of the previous year and it is expected to register a good growth. The main culture activity will start in February – March months of the year. As per the reports, almost all states undertaking shrimp culture receives good rains and as such the industry expects that the shrimp culture will be good during the main season of March – July of 2018. Overall we expect the industry to grow by about 10% to 15% in 2018 compared to 2017.

Expansion of feed capacity: The expansion of capacity of feed production by 1,75,000 metric tons at Bandapuram feed plant is under progress and it is scheduled to commence production by February – March '18 to catch up with the peak season of 2018. This additional capacity will cater to the increasing demand for feed. With this addition, the total feed capacity will be 6 lakh tons per annum.

Shrimp processing and export business: As you know the new state of the art shrimp processing plant established at Yerravaram, East Godavari District, Andhra Pradesh with a capacity of 15000 tons per annum has commenced commercial production and exports from August '17. This plant is equipped with facility to process value added products in addition to traditional IQF and block freezing. The new plant is in the process of stabilization to achieve optimal capacity utilization and planned to contribute significantly to the performance of the Company.

Exports to European Union: There have been mails and phone calls from some investors regarding tightening of norms for shrimp exports from India to EU. In this context, we would like to clarify that there is no specific development now creating any issue for export of shrimps to EU. In 2016, the EU had introduced inspection of 50% of the Indian shrimp imports which is continuing now. The visit of EU team takes place bi-annually and the visit is not only for shrimp exports but also other products. Holding talks with their counter parts like EIA & EIC authorities of India periodically is a routine process which is a part of bilateral trade. There is no need for attaching any significance for this.

So with this general information, I would like to take up the questions.

Question and Answer Session

Moderator: 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. Depesh Kashyap from Equirus Securities. Please go ahead.



Depesh Kashyap: Hi Sir good evening and thank you for the opportunity. Sir you shared the volume numbers in the feed business; can you please share the same in processing as well? What was the volumes you did?

Management: It is 2600 metric tons this quarter.

Ramachandra Rao: Yes, this quarter 2600 metric tons is the exported quantity.

Management: And in the corresponding previous quarter it was 1680 metric tons.

Depesh Kashyap: Okay and Sir in the feed business you said the volume growth has been 22%, so the revenue growth is slightly lower, that means you have dropped the realizations in the feed? Is that true?

Management: We could not get....you feel 22% is not enough growth?

Depesh Kashyap: Okay. 22% is the volume growth you said right and 18% is the revenue growth? So have we dropped the realizations of the feed in this quarter?

Management: There is no price reduction. It is an average price which is a combination of variety of feeds....different types of feeds are there with varying prices.

Ramachandra Rao: Price realization varies depending upon the variety of the feed. It could be starters or growers or finishers....

Depesh Kashyap: Okay understood, it is mainly due to the mix. Can you help me with the soya meal and fish meal prices? What are they currently?

Ramachandra Rao: Fish meal prices are on the increase now. It is around 87 to 88 rupees per kilo, that is what is the rate that is being quoted now for Soya bean meal is Rs 32500 to Rs 33000 per metric ton is the soya bean meal.

Depesh Kashyap: Okay. Sir in your opening remark, you also talked about that the margin expansion has been due to increase in volume sales and also due to the drop in the raw material prices. So I just want to understand that if the raw material prices go back, what can be our margins because the volumes are going to increase right? So what is the sustainable margins in your view in the feed business?

Ramachandra Rao: The raw material prices depend upon the nature. You know that the major raw materials we use in the production of feed are fish meal, soya and wheat flour. These are the three major raw materials that go into the feed production. So all the three products are dependent on nature. The fish availability is dependent purely on fish catches from season to season. In the last few days, may be a month or so which we expected there would be good catches, it was not as expected giving a rise in the fish meal price. Similarly in the soya bean meal also, one is the minimum support price of the soya bean meal has gone up, number one. Number two, the Government has increased the import duty on soya bean meal from 25% to 30%. As a result, there is an increase in the price of soya bean meal in the last few days. So it is very difficult to exactly say what is going to be the future price and what is the margin that we are going



to get in the coming next one year or so....it is very difficult Mr. Depesh. In our view, sustainable margin in feed business is about 10-15%.

Depesh Kashyap: Understood Sir. Sir lastly on the processing margins like in this quarter your processing EBIT margins have been 16% which is kind of all-time high. What was the reason for the same?

Ramachandra Rao: I think it is in the same line as in the first quarter...that's what I thought.....

Depesh Kashyap: No, in the processing you have an EBIT margin of 16% and in the first quarter I think you had 9% in processing segment....

Management: Processing?

Depesh Kashyap: Yes.

Ramachandra Rao: Now the new plant has come into production, so when the production volumes increase naturally the overhead absorption and the capacity utilization will be more. Added to that there was decrease in price of raw shrimps which contributed to higher margin.

Depesh Kashyap: Okay. Are we doing any value added products also in our new capacity ?

Ramachandra Rao: We have just started, it will take time to pick up. We've just started.

Depesh Kashyap: The value added products you are saying? Are you doing that?

Ramachandra Rao: Yes, we have started value added products but we have to pick up. It takes some time to establish the market of our value added products in the global market. It will take time.

Depesh Kashyap: Sir but what kind of margins can value added products have? Will they be like 15%, 16%?

Ramachandra Rao: No we can't exactly tell the percentage; it depends upon the customer and the type of product. It may range from 10% to 15%, we are yet to know exactly what is going to be the percentage but we expect it will be in double digits whereas in the raw products it will be less.

Depesh Kashyap: Okay understood. Sir last question....we have a net cash of around 650 crores sitting on the balance sheet now. Have we finalized any plans how we plan to invest it back into our business or return to shareholders?

Ramachandra Rao: Brainstorming sessions we are doing here to utilize and as we told you we had the idea of going for diversification starting fish feed also....we are working on that....a team is working on that and we will be able to come to some



conclusion depending on their studies - may be by next year. However, the surplus funds will be utilized for working capital during peak season.

Management: But Depesh it is nothing related to the Cash Reserves. We don't invest only because we have reserves.

Depesh Kashyap: Yes Sir, that will never happen. All the best and thank you Sir.

Ramachandra Rao: Okay thank you.

Moderator: Thank you Sir. Next question comes from Nitin Gosar from Investco.

Nitin Gosar: Hi good afternoon Sir. My question is pertaining to EU norms. I understand our Company could be in a very good position in complying with those norms; but from academics point of view, I just wanted to understand couple of aspects of the EU norms. Typically how frequent are these inspectors coming and visiting companies? Do they come once in a year, twice in a year or...?

Ramachandra Rao: It is twice a year, bi-annually they come. That is part of their bilateral trade. They come and they have discussions, they visit some units, some plants, ports and some locations. They have discussions with their counterparts like Export Inspection Council and Export Inspection Agency. I was reading in news today that yesterday the EU team visited Paradeep Port; they have gone and they are very much satisfied with the facilities of fish landing and storage etc. That's what I was reading in the news today. Periodically, they visit and naturally it is healthy to have... Being a food item, they would like to see that the processes that are followed here before the export are hygienic and make sure that they get good products. They see processes and records maintained.

Nitin Gosar: Right. Is their visit restricted only to the port or do they come and visit the Company facility also?

Ramachandra Rao: It depends upon their plans. If they have any scheduled plan, to visit they come; otherwise they won't come normally, with the officials they will discuss. Sometimes if they wish they will come to plants.

Nitin Gosar: In a scenario if any Company's consignment is not complying with the quality norms as these guys are selling, what happens? Is the Company required to pay a penalty or their license is cancelled permanently?

Ramachandra Rao: No, I don't think....I think it is an imaginary situation to the Company. Normally what happens is, they may reject that consignment that's what they do.

Management: And sometimes they blacklist.

Ramachandra Rao: It all depends upon the circumstances.



Nitin Gosar: Okay if there is any observation for a particular consignment the application will be limited only to the consignment.

Ramachandra Rao: Yes correct and the exporter.

Nitin Gosar: It is not spread over on Company level....?

Ramachandra Rao: It will be only confined to that Company. Not others.

Nitin Gosar: Does EU and US quality norms differ or they are almost at par with each other?

Ramachandra Rao: I am not able to hear.

Nitin Gosar: These three quality norms which are set by EU are similar to US or they have a different quality norms?

Ramachandra Rao: We have to check. I think they are more or less stringent since both are on the same line.

Management: We never heard from our technical people saying it is difficult or US exporting is problematic. We export freely to all the countries.

Ramachandra Rao: We have been exporting to all the countries including EU. We have no problem so far.

Nitin Gosar: Right Sir. Last question pertaining to processing margin; the margins which we are seeing, that is 16%, you had highlighted it is more to do with the utilization level which are at peak or maybe on the higher end. Do we have any other benefit which could be related to procurement cost or any other....?

Ramachandra Rao: It is a combination of several factors, not only the economies of scale will work and like higher production and this thing....it will naturally overhead absorption.... And also raw material prices and export price.

Management: Some raw material cost is also there during....

Ramachandra Rao: It is a combination of several factors.

Nitin Gosar: But would it be right to assume there is no material change in the raw shrimp cost....?

Ramachandra Rao: Material change means what? The prices of raw materials keep fluctuating. It is not stable like - you fix the price like shrimp feed price once you fix, it is there for a considerable time. Raw shrimp prices keeps fluctuating on an almost day-to-day basis.

Nitin Gosar: Okay and typically second quarter is peak when it comes to processing of shrimp?

Ramachandra Rao: Yes.



Nitin Gosar: Okay, out of four quarters, second quarter is the peak quarter?

Ramachandra Rao: Yes correct.

Nitin Gosar: Okay thank you, it was helpful.

Moderator: Thank you Sir. We have the next question coming from Gaurav Agarwal from ENR Advisors. Kindly go ahead with your question.

Gaurav Agarwal: Thank you so much Sir for giving the opportunity. I have a question regarding shrimp processing side. I was going through your presentation, it says that by FY22 you want to become a billion dollar revenue Company and on that revenue 40% will come from the shrimp processing side.

Ramachandra Rao: Yes, that is what is our vision; target, yes.

Gaurav Agarwal: Sir if I work on the numbers from FY17 to FY22 the growth comes to 46% CAGR. What trend has changed in the industry or what are the emerging trends in this industry that you are looking at such high growth? Is there any change in the trends or some underlying factor which is leading to this kind of high growth?

Ramachandra Rao: Basically, we are focusing on the value add products where the margins are better compared to raw shrimps and there is a tremendous demand for value-added products. So we were focusing on that and we are confident that with the support of Thai Union; where they are experts in that, so we will be able to...this 40% will be a possible target for us to achieve. Coupled with Feed, the Group turnover is targeted to reach USD 1 Bn.

Gaurav Agarwal: But Sir, has anything changed in the last six months to one year which is giving you such kind of confidence that you can achieve 45% kind of growth and whether it is new market which you are looking to enter or something in terms of trends would have changed in US or in Europe where you export most of these products. Any trend which has changed which has given you that kind of confidence?

Ramachandra Rao: The thing is, if you look at the general global scenario, the trend is that there is a growth in the consumption of shrimps. Being a nutritious food product, there is a constant growth in that. Also as you know India is one of the largest exporters of shrimps. So with the value added products we are confident we will achieve....this is a possible target which we can work out.

Gaurav Agarwal: Okay. Sir just one last question, which are the other countries that you compete with for this continued consumption? India is one of them, Thailand is another, what are the other countries?

Ramachandra Rao: Vietnam, Indonesia, Ecuador etc.,

Gaurav Agarwal: Got it Sir. Thank you very much for your time.



Moderator: Thank you Sir. WE have the next question coming from Aditya Wagle from Equitas Investment consultancies. Kindly go ahead with your question Aditya.

Aditya Wagle: Good evening Sir. On the raw material prices trend only, most of my questions have been answered. I just wanted to know what was soya prices around this time last year.

Ramachandra Rao: It was actually high. Let me just check up, you ask your next question, I will try to get it checked.

Aditya Wagle: Most of my other questions have been answered thank you.

Ramachandra Rao: It was around Rs.42. Hello?

Moderator: He dropped out Sir. We have the next question from Punit Mittal from Globe Core Capital.

Punit Mittal: Hi thank you. Can you give me a bit more color on your processing business in terms of the geographical distribution you have; the client ties that you have in the export market? Just a little more color on that business would be great.

Ramachandra Rao: At present our major exports from 75% to 80% is to US. We have other countries like Canada, Japan, South Africa, EU and Middle-East where this 20% is distributed and we are focusing more to develop these markets, that is our focus now. We are trying to improve our market from these countries also.

Punit Mittal: In terms of the client, are you mainly selling it to distributors or the big retail giants or big restaurants directly...what's your business model there?

Ramachandra Rao: Basically, these are the people who give us consistent business through our exports having their brands and we are now focusing on developing the individual markets for our products. It is a challenging task and it takes a long time. As of now, it is advantageous to follow the present model.

Punit Mittal: Are you planning to create your own brand and distribute under your own brand name as well?

Ramachandra Rao: That would be the real challenge which we are working on that. It depends upon mostly on US, the traditional markets and we have to make special efforts and we are confident that in time to come we will be able to establish ourselves - our own individual brands; that is our endeavor. But for the present this market model is advantageous to the Company.

Punit Mittal: Okay and in terms of the quality control of our raw shrimps that you procure, how do you ensure the quality of your procurements?

Ramachandra Rao: We have a system in place. We check every farmer....whenever the harvest takes place, the material comes to the processing plant,



we check for all the qualities including the antibiotics and then only we purchase. If QC (Quality Control) is not approved, we reject that.

Punit Mittal: So every time you purchase from a particular farm, you check or is it you do random checks for the farm.

Ramachandra Rao: We do more than 50%...we check.

Punit Mittal: Okay. The next question is, in terms of the backward integration, you have the feed business, you have the processing business, would you be looking at going into your own farming or lease farming as well or do you have contract at this stage with the farms that all the procurement would be sourced by you?

Ramachandra Rao: We have contract farming with well established farmers. We have entered into some contract farming already. We are also considering to have some farms of our own to meet the requirement of...particularly to answer the traceability and all those factors and also in the long-term to come, we want to establish and strengthen this contract farming. We are thinking on these lines, but contract farming we are already having. Our farming, we have to study the feasibility.

Punit Mittal: Okay understood. One more question from me. Feed we understand that of course the raw material prices have been going down for the feed business and that's why naturally your margins on the feed business has been good. But does that trickle down on the processing business also in the sense that because of the soft raw material prices are the prices of the raw shrimps also get pressed down or is it independent of the feed business? My point is that the margins of the feed business and processing business are they in anyway linked?

Ramachandra Rao: No it won't sync. Because the raw material prices of shrimps keeps fluctuating on a day to day basis and also likewise the export prices also depends upon the global market. So both the export price as well as the raw material price keeps fluctuating. Unlike in feed business, supposing the feed price which we fix, normally is not changed. We have not increased or decreased the price for the last three years. Consistently, for the last three four years we have been maintaining the prices whereas in the case of the shrimp exports, the prices keep fluctuating depending upon the global market. So it won't sync. It is possible, that if there is a significant increase in the input cost of the feed, it is possible to increase the price to some extent and to some extent we absorb. It has happened 3-4 years back when there was a steep hike in the fish meal price and soya prices; we increased the price of feed to absorb the additional cost.

Punit Mittal: Understood, great. We read in a recent article from the MD of the Company that the Company is trying to make efforts to improve the efficiency of the feed; in the sense that, currently it takes about 1.5 kg of feed to produce 1 kg of shrimp and he would like to bring that down to 1.3 kg of feed which is fantastic. So how else are you helping the farmers in the sense we know that you provide technical knowhow, you assist the farmers, you are trying to improve efficiencies - but what else can Avanti do to help the farmers and in a way try to increase the gap or the edge that Avanti has compared to the competition?

Ramachandra Rao: What you are talking about is the FCR; the feed to the mass; it is 1:1.2. We have already achieved that 1.2 to 1.4 that is the average FCR of our feed.



If the FCR is low, then the cost of production of the shrimp will be less for the farmer. That is one aspect of it. The second aspect is feed formulation. Feed formulation depends upon several factors; water condition, nature....what is applicable in Andhra Pradesh may not be applicable in Gujarat and it may not be applicable in West Bengal. So what we have in-house is continuous R&D work in collaboration with Thai Union to keep our feed formulation modifying to the requirement of the farmer depending upon the conditions of the farm. So like that....and apart from that we have a good team of technicians who visit the farms frequently and guide the farmers as to what are the measures he has to get the good productivity. It is in the form of guidance feeding the shrimp - how to feed, what are the water conditions, what is the aeration requirements, what is the medicines that he has to apply. For all these things we have a good technical team which is supporting the farmer. So with these measures we will be able to increase the profitability of the farmer.

Punit Mittal: Okay understood, thank you so much.

Moderator: Thank you Sir. We have the next question coming from R.K. Laddha from Yash Investments. Please go ahead with your question.

R.K. Laddha: Thank you, thank you for giving me this opportunity. Upto now, all my queries have been answered so thanks and have a great future to Avanti Feeds.

Ramachandra Rao: Thank you very much.

Moderator: Thank you Sir. We have the next question coming from Akhil Parekh from Nirmal Bang. Kindly go ahead with your question Akhil.

Akhil Parekh: Thank you for providing the opportunity. Sir a couple of questions, one regarding the fish feed market. Would you be able to shed some more light on the fish feed market, how big it is in India, who are the big players and the margin profiles as against the shrimp feed?

Ramachandra Rao: Yes, Mr. Laddha, as I told you, we are working on that because fish feed is a large market because there is a lot of in-house feed manufactured by the fish farms. So formulated feed what is the demand - supply and what is going to be the margins that are available, all these things have to be studied, because we do not want to invest in any project without going into these aspects. There is no point in, just like my colleague told, just because we have money go on investing in some projects; we don't want to do that. In fish feed we are undertaking a lot of data collection and only when we are fully satisfied that it is a profitable activity, then only we want to take it up.

Akhil Parekh: Okay fair enough. Okay, the other question I think I've missed because I missed the earlier part of the call; in terms of the capacity addition, we are expected to start our added capacity of 1.75 lakhs by Feb or March of 2018. So how much are we anticipating in terms of inflation level for say for next fiscal year FY19 from the new capacity?

Ramachandra Rao: I think we would be able to utilize if we start from March 2018. As we know March, April, May, June, the first quarter of 2018 is going to be the



peak season. We are expecting that we should be able to do it around 5,25,000 MTs to 5,50,000 MTs.

Akhil Parekh: For the FY19 right?

Ramachandra Rao: Yes FY19.

Akhil Parekh: Okay got it. Last question, in terms of geographic segmentation of volumes of sales for feed and processing, will you be able to shed some light on it, like how much we sell it in US market, how much we sell it in European market....directly?

Ramachandra Rao: Just now I answered this question. We sell almost like 75% to 80% in the US market and the balance is distributed over the other markets like Canada, Japan, South Africa, European Union and Middle-East. We are now focusing to improve these markets in the course of time.

Akhil Parekh: Okay got it. Sir this is feed or processed shrimps?

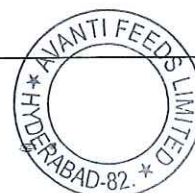
Ramachandra Rao: This is the processed shrimp. Feed means we have presence in all mari-time States. For example Andhra Pradesh is the largest consumer of.....because the largest producer of shrimp in India is Andhra Pradesh. Apart from Andhra Pradesh we have Gujarat, West Bengal, Orissa, Tamil Nadu, Karnataka, Goa, all these states have aqua culture and we sell our feed to all these states. Feed is not exported.

Akhil Parekh: Okay got it. That's all from my side.

Moderator: Thank you Sir. We have the next question coming from Deepan Shankar from Trust Line. Kindly go ahead with your question.

Deepen Shankar: Thanks a lot for the opportunity. I just wanted to understand the disease pattern of this vannamei species; so for example Thailand got this disease attack in 2010; at that time they used to produce around 685000 but even after 10 years they are somewhere closer to 3 lakh tons only. So what kind of patterns these diseases are having and how prone India is to these same kind of diseases?

Ramachandra Rao: EMS disease which has actually struck Thailand and the other countries. Touch wood - we have no EMS fear in India and we are taking all the precautions like bio security measures and all those things, good seed and all the steps are being taken by our farmers and that's the reason why we feel there is no threat of EMS for India. So that's what is our hope that there should not be any....because of the measures that are being taken. Scientifically there is a lot of work going on in that and Thailand is also trying to find answer to EMS and gradually they are also trying to improve that. One of the reasons they find that it is coming from the seed, that is one of the reports; they say that it is because the culture practices are not good, that is why....it is the greediness of the farmer having more stocking densities not following good aqua culture practices. That also leads....there are different type of reports and different views are there on this. But I think for India there is no such thing because we are taking all steps, we are educating all the farmers to follow the good aqua culture practices and we hope that the EMS will not affect India.



Deepen Shankar: Does Thailand also import broods from America itself?

Ramachandra Rao: Yes, they have tie up with them and they have their own brood stock development and multiplication centers.

Deepen Shankar: Okay. So we have also seen that the CIBA has found some indigenous vannamei Species; so can our feed cater to those kind of species also and how good is that kind of species?

Ramachandra Rao: There is a report that locally these people have developed white legged shrimp from Indian origin. That's what they are claiming - but it is yet to be proved. As far as the feed is concerned, there is no specific requirement for that it should be on par with the similar protein contents what is required for the shrimp should be the same. There should not be much difference. This report what we have seen, has to be proved and I think it is in the very preliminary stage.

Deepen Shankar: Okay Sir, sure Sir, thank you and all the best.

Moderator: Thank you Sir. We have the next question coming from Onkar Kulkarni an individual investor. Kindly go ahead with your question Sir.

Onkar Kulkarni: Hello Sir? Could you help me with the current shrimp prices globally?

Ramachandra Rao: The price of 16-20 count shrimp is around \$6.1 or so, it keeps varying.

Onkar Kulkarni: It has increased or decreased in the last one year?

Ramachandra Rao: Compared to?

Onkar Kulkarni: Last year same quarter.

Ramachandra Rao: It is almost stable....5% that side or this side is always there, but largely it remains the same.

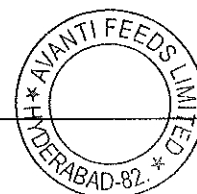
Onkar Kulkarni: Okay. One more thing, your receivable days have increased a lot from 23 Cr to 115 Cr, what is the reason for that?

Ramachandra Rao: I couldn't get it, can you repeat it please?

Onkar Kulkarni: Your receivable days have increased from 23 crores to 115 crores....

Management: Trade receivables increase because the exports have increased. The exports are realized in 45-50 days.

Ramachandra Rao: The cycle is, you are looking at the consolidated figures right?



Onkar Kulkarni: Yes.

Ramachandra Rao: As you know we have the feed business and the shrimp export business. The feed business, the trade receivables will not be much - because almost 90% of our sales are cash basis. In case of shrimp exports, normal realization time is about 45 days, because the payment is received only after clearance of US FDA by the importer and then only he makes the payment. Normally at a particular point of time you will find 45 days to 50 days sales receivables as the trade outstanding debtors.

Management: The more we export the more will be the debtors.

Ramachandra Rao: But we are getting all the realizations within 45 to 50 days.

Onkar Kulkarni: Okay. Last quarter you mentioned you were short of capacities. So this time it is not the high season for Avanti Feeds. So what were the capacity utilization this time?

Ramachandra Rao: Which one, shrimp feed or processed shrimp.

Onkar Kulkarni: Shrimp feed and processed shrimp; both.

Ramachandra Rao: We had 475000 tons capacity and we should have done 425000 to 430000.

Onkar Kulkarni: Okay what about processed?

Ramachandra Rao: Processing, Yerravaram, we have started...the new plant has started commercial production from August, so initial stages we will have around 15% to 20% capacity utilization and it will gradually improve. Whereas in the case of the existing plant, we are getting around 75% to 80% capacity utilization.

Onkar Kulkarni: Okay. And another thing, you had said that you will be considering...what will be your capital allocation policy by the end of fiscal year or end of this current year?

Ramachandra Rao: See, as I just mentioned, we have CAPEX per Hatchery of about Rs. 25 crores which we have earmarked for setting up of the Hatchery, in the next year- that is going to be our CAPEX. But as far as the shrimp processing and feed are concerned, Rs.50 crores is being spent on enhancing the capacity of feed by 175000 tons that is the existing 425000 to 600000 tons, that Rs.50 crores is being spent now. Another Rs. 25 crores will go for hatcheries and beyond that we are working on what are the requirements that we have in the coming year, '18, we have not yet finalized that.

Onkar Kulkarni: But still you will be left with around 600 crores of cash, right?

Ramachandra Rao: See, just because we have reserves, it is not necessary that you put in some project or the other. We have to carefully study the merits and demerits of various projects, diversifications, all these things we have to study and then only take a decision about the expansions or new projects.



Onkar Kulkarni: That's what I am asking, what are your options available for you to deploy this cash?

Ramachandra Rao: See, one is that naturally as an entrepreneur, you will have so many options here, either you strengthen your own core area where you are, like, shrimp processing, and fishery products, and develop on that, that is one area. Or think of a totally different area, which we are not in a mood to think at this point of time. There is no proposal to think anything else at this point of time. Only which we are looking at is the fish feed, which we are working on that and it will take some time to get the relevant data and coordinate that and find out and analyze the advantages of this project and profitability and future of this feed business, then only we have to go with the investment.

Onkar Kulkarni: Okay. Maybe you can try to increase the dividend payout, that might be one option you have?

Ramachandra Rao: See, the dividend policy is already mentioned by the Board. We have already decided what should be the dividend policy. Regarding how much should be dividend pay out, we will think of that at the appropriate time.

Onkar Kulkarni: Okay. Yes, and one last question Sir, what do you think the sustainable growth for Avanti Feeds could be for the next five years? 15% to 20%, is it manageable?

Ramachandra Rao: Yes, 15% to 20%, - because the food industry, particularly shrimp, being highly compared to protein rich and compared to other meats, it is preferred, globally demand is increasing preferred food, so we expect a compounding annual growth rate of about 7% globally and India has got the advantage of good infrastructure facilities and capabilities to increase the production with a large area, a long coastline is there, and there is still lot of unexploited acreage is there for aquaculture and nodal agencies like MPEDA are going to the State Governments and asking them to encourage the aquaculture so that it has foreign exchange earnings and provides employment to large number of people, unemployed youngsters. So I think these are the measures, which will increase our production and our exports also will increase. So we are sure that about 15% to 20% growth rates should be possible.

Onkar Kulkarni: Okay, and the market share is, currently Sir?

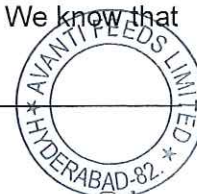
Ramachandra Rao: Market share of what?

Onkar Kulkarni: You said last time it was around 46%, 47%.

Ramachandra Rao: Yeah, it is around...because we have not increased our feed production, we have fully utilized our capacity, so next year (2018) we will target another 3 to 4%, because additional capacity is coming we will try to have more market share.

Onkar Kulkarni: And in terms of processed Sir, processed shrimp, what is the market share?

Ramachandra Rao: Processed, I think, compared to market share- market is too big and our share is very small. I think, we will have to work out some details, because I tried to get this data available, global market what is the situation and all. We know that



India is exporting about 434000 tons of shrimps, that is what is the shrimp exports of India. Our present exports would be about 8,000 – 8,500 TPA.

Onkar Kulkarni: Okay. And Sir, what is your highest raw material you have, in the percentage-wise?

Ramachandra Rao: Pardon me?

Onkar Kulkarni: In terms of percentage, which is the highest raw material, the cost for raw material Sir, like soya is the highest, or fish meal is the highest, or wheat flour is highest?

Ramachandra Rao: Fish meal is the highest.

Onkar Kulkarni: Okay, so that you said Rs.87 to Rs.88 per kg, right?

Ramachandra Rao: Yes.

Onkar Kulkarni: As compared to, how much it was?

Ramachandra Rao: It was Rs.114 to Rs.115 last year.

Onkar Kulkarni: Last year and it has increased by quarter-on-quarter Sir?

Ramachandra Rao: Yeah, quarter-on-quarter it has increased slightly, it was around Rs.70, so it has increased to Rs.80, Rs.85 in the last one month.

Onkar Kulkarni: Okay, thanks a lot Sir, thank you.

Moderator: Thank you Sir. We have the next question coming from Ashutosh, an individual investor.

Ashutosh Das: Hi, thank you so much for giving opportunity. Hi Mr. Rao, first of all congratulations for...am I audible?

Ramachandra Rao: Just wait, now, yes.

Ashutosh Das: First of all congratulations for being on Forbes India 2017 list, a big congratulations to you Sir.

Management: Thank you, thank you very much.

Ashutosh Das: Sir, my basic question from the point of view of small and retail investors, looking at the current market price of Avanti Rs 2627 as of today, I see small retail investors like me, they are little hesitant and reluctant to get into Avanti at this point of time and especially the advantage is being taken by water-base and APEX frozen. What are your plan of action to increase the liquidity or any Corporate Action in near future?

Ramachandra Rao: We will have to think on that, because the share prices have gone up because of the performance and once we have split the share into two rupees,



that is what we tried to have more liquidity in the market. But going further we have to study this aspect and we should come to the conclusion...we are debating on that, how to do that, but no decision has yet been taken on that.

Ashutosh Das: Okay, thank you so much for your answer Sir.

Moderator: Thank you Sir. We have the next question coming from Yogansh Jeshwani, individual investor. Kindly go ahead with your question Sir.

Yogansh Jeshwani: Sir good evening. Thanks for the opportunity. So Sir, my question is more related to the competitive landscape. So seeing at the profitability that feed offers, it looks like a very lucrative sector, so do you see any competition coming in or do you see any existing players trying to up their game or something like that? A bit commentary on the competitive landscape for feed.

Ramachandra Rao: See, there have been new entrants, quite a number of new entrants and everyone claims their own merits of their products. But as far as our product is concerned - we have very strong points like we maintain the quality and we give the quality feed that the farmer requires for good productivity, FCR etc., We have a good formulation team in collaboration with Thai Union; we keep a good formulation and give a good feed to the farmer, that is No1. No 2 - we have a good team of about 180 to 200 technical sales officers who are all fisheries graduates and post graduates who are well-trained by us. They go to farms very frequently and give the advice to the farmer, give technical assistance to the farmer, right from selection of seeds till he achieves good productivity and good harvest i.e., continuously we assist the farmer. These are the unique features of our feed, which has kept us in the market as leaders so far. And we believe that this is going to be continued. After all farmer is interested in two aspects, one is that he wants a good feed, which gives him good FCR and the second thing he wants a constant advice that throughout the farming period, season, that various stages what he should do, and get a good productivity. This two we take care of.

Yogansh Jeshwani: Understood Sir, fair point Sir. Sir, moving on to my second question, as you mentioned previously, in the previous con calls that processing business is sustainable on the margin guidance that you had given in the past was in the range of 5% to 8%. In last quarter we clocked around 9%, 10% and we have also clocked 12%, in this quarter we inched up to 16% and that is an almost double the margin guidance that we have given. So, what exactly happened in there, because this is such a contrasting number, so there has to be few drivers apart from the point that you mentioned, because if another capacity has come up, so will the overheads. Right? So correct me if I am wrong on that.

Ramachandra Rao: There are two aspects, One is, let me answer your question with regard to the feed. The sustainable margin we told will be about 10% to 12%. For our Company what happened was that there was very good response from the farmers for our feed this season. The last season there was a tremendous growth in the aquaculture itself, because the areas in West Bengal, Andhra Pradesh, Orissa - there was a significant increase in the area and culture area and the conversion - from earlier they were doing black tiger completely shifting to - Vannamei, with the result what happened, there was a phenomenal increase in the consumption of the feed. With the result what happened, they chose our feed, among all other feeds, they said Avanti Feed



is doing well. So there was an increase in volume for our feed, which was not anticipated, No.2 is correspondingly the raw material prices have come down marginally. Due to these two aspects, there was increase in the profitability margin.

Yogansh Jeshwani: Sir, this is, you are talking about the feed. My question was more on the processing side. Processing we had guided for 5% to 8%, if I am not wrong, and we have clocked 9%, 12%, and now 16%. So, processing, what has worked in our favor, because capacity, as you mentioned the new capacity is operating at only 15%, 20% utilization, and that if we count, in that - there will be some overheads that have gone into that. So, can you explain us what went in our favor in the processing side of it, how are the margins such....?

Ramachandra Rao: Volumes have gone up. See, 20% of 15000 is the capacity utilization. We are able to do 30 to 35 tons per day initially in new plant and with already existing capacity we have increased volumes. There was almost, the overhead absorption levels have really added to the contribution. Apart from that, the pricing also has played...here and there the prices of exports have little marginally gone up and also our mix has really contributed for our profitability. Different counts, where we get more margin and the productivity also has contributed to the increase in the margin. The prices of raw materials have also decreased contributing to margin.

Yogansh Jeshwani: Understood Sir. And Sir, just a follow-up on the same processing side; so, now that we have an existing capacity and an additional capacity on-stream and we are looking to work on the processing side and our target is to reach a 60:40 revenue share, and 60 for processing. So, are we looking at any backward integration in terms of farming, aqua farming, and given that we have such good technically equipped employees and every technical knowhow, we are very well aware, we are the ones who are guiding farmers on what to do and what not to do, so given such assets, do you think farming can be helpful as a backward integration and also giving us a bit of 200, 300 basis points extra margin in the processing side of the business, any comments on that?

Ramachandra Rao: We have to study this. Because earlier, if you remember, in early 1990s when most of this integrated aquaculture units started, they had lot of problems in farming. They started like integrated aquaculture. Many companies came with IPO in, I think, 1993, '94, '95, that time, when we started only with the feed. In integrated aquaculture what happens is the hatcheries, farming, feed, processing, and export, all the activities under one roof. There were several problems. Now the situation has changed and one by one we have to examine, because we have now stabilized in the feed, and we are stabilized in the processing. We have contract farming arrangement with well established farmers. We are looking into that. We will see how it works, because farming is a little different ballgame, it is not like, in organized industry like feed or shrimp processing. It has to be more...you have to put more attention to that and it is like a small child, how you bring up the child. It is a very focused activity. We are debating among us what should we do, whether there is a need for it, how to go about it? May be in course of time, we will come out with some policy on this.

Yogansh Jeshwani: Understood Sir. Fair point Sir. And Sir lastly my third question will be, so this is on the feed business. So, according to you, was this quarter for feed bit below expectations, because of the seasonal vagaries, I am talking about your expectations for Q2. So was it subpar or you are happy with the volumes.....?



- Ramachandra Rao:** I mean, compared to that it is a good growth.
- Management:** You see, it is as per our expectations only, there is nothing...
- Ramachandra Rao:** Compared to Q2 of '17, it is a very comfortable growth.
- Yogansh Jeshwani:** Understood Sir. Okay Sir, that's it from my side Sir. Thank you. Great talking to you.
- Moderator:** That will be the last question for the day. Thank you so much for your participation. Now, I hand over the floor to Mr. Milan Bavishi for closing comments. Thank you and over to you Milan Sir.
- Milan Bavishi:** Thank you Shyamala. I would like to take this opportunity to express my gratitude to the management of Avanti Feeds. Thank you so much. And I would also like to thank the investor and analyst community for showing so much of interest in the Company. Thank you everyone and have a nice day ahead.
- Ramachandra Rao:** Thank you Mr. Milan. Thank you very much.
- Milan Bavishi:** You are welcome.
- Moderator:** Thank you Sir. Ladies and gentlemen, this concludes your conference for today. Thank you for your participation and for using Door Sabha's conference call service. You may all disconnect your lines now. Thank you and you all have a pleasant day ahead.

Note:

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

