Avanti Feeds Limited

Aiding Sustainability & Reliability to Aquaculture

Ref: AFL/BSE & NSE/2018-19/

04th December, 2018

The Deputy General Manager
BSE Limited (Bombay Stock Exchange)
Corporate Relations Department
1st Floor, Phiroze Jeejeeboy Towers,
Dalaal Street, MUMBAI – 400 001
Fax: 022-2272 2041 / 22723121
**BSE Code: 512573**

National Stock Exchange India Ltd.
Exchange Plaza
Bandra (East)
Mumbai – 400 0051.
Fax: 022-26598237/38

**NSE Code: AVANTIFEED**

Dear Sir,

Sub: AVANTI FEEDS LIMITED – Audio Conference Call for Investors conducted on 20.11.2018 - Transcript of the Audio Conference Call – Reg.

Ref: 1. Our letter Ref: AFL/BSE & NSE/2018-19, dated: 16.11.2018.
2. Regulation 30 of SEBI (LODR) Regulations 2015.

* * *

Further to our letter dated 16.11.2018, we enclose herewith the transcript of the Audio Conference Call for Investors conducted on 20.11.2018 regarding the Un-Audited Financial Results for the Quarter ended 30.09.2018.

This is for your information and record.

Thanking you

Yours faithfully
for Avanti Feeds Limited

C. Ramachandra Rao

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

AVANTI FEEDS LIMITED ★ HYDERABAD-82 ★

Encl: As above.

# Transcript

## Conference Call of Avanti Feeds Limited

**Event Date / Time** : **20th November 2018, 16:00 PM IST**

**Event Duration** : **1 hour 13 minutes 36 secs**

*Presentation Session*

***Moderator:*** Good evening, ladies and gentlemen. I am Pavitra, moderator for the conference call. Welcome to the Avanti Feeds Ltd. Q2FY19 Post Results Discussion conference call hosted by Karvy Computershare Private Ltd. At this moment, all participants are in listen-only mode. Later, we will conduct a question and answer session. At that time, if you have a question, please press * and 1 on your telephone keypad. Please note this conference is recorded. I would now like to hand over the floor to Mr. Milan Bavishi from Karvy Computershare Private Ltd. Thank you and over to you sir.

***Milan Bavishi:*** Thank you, Pavitra. Good afternoon everyone. On behalf of Karvy I welcome everyone to the call. From the management side we have Mr. C. Ramachandra Rao, the Joint Managing Director; Mr. Venkateswara Rao, GM, Corporate Affairs and Mr. P.V. Rajashekar, DGM, Finance & Accounts. I'll now hand over the call to Mr. Rao. Over to you, sir.

***C. Ramachandra Rao:*** Good evening, Mr. Milan. Good evening, ladies and gentlemen. It is time now to discuss about the performance for the Q2 of FY19. The results for this quarter are already with you for quite some time and I am sure you would have already gone through them. However, I would like to share with you some of the key indicators from the results. Let me first compare the Q2FY19 performance with that of Q2FY18.

During Q2FY19, the feed sales turnover decreased to Rs.552.90 crores as compared to Rs.653.72 crores during Q2 FY18 registering a decrease of Rs.100.82 crores. The decrease in sales turnover is due to continued reduction in the shrimp culture undertaken by farmers by about 15-20% added to the about 10-15% in the previous quarter. As a result, the shrimp culture has decreased by about 25-30% during the first half of the year compared to the corresponding period of the previous year. This is mainly due to decrease in farm gate prices as a result of decrease in shrimp export prices.

The feed business resulted in a profit of Rs.48.56 crores in Q2 FY19 as compared to a profit of Rs. 157.18 crores in Q2 FY18, a decrease of profit by Rs.108.62 crores. The decrease in profitability is on account of significant increase in prices of main raw materials i.e. Fishmeal, Soya DOC and Wheat Flour as under and also other raw materials like Vitamin Premixes without increase in feed price.

AVANTI FEEDS LIMITED HYDERABAD-82.

| Raw material | September, 2018 (Rs.per KG) | September, 2017 (Rs.per KG) |
|---|---|---|
| Fish meal | 94.40 | 76.13 |
| Soya DOC | 38.42 | 31.02 |
| Wheat Flour | 22.96 | 21.32 |

As we have been maintaining that the high profit margin during previous year i.e. FY 18 was due to significant decrease in the above mentioned main raw materials during FY 18 compared to earlier year i.e. FY 17. The prices of these raw materials have gone up in FY 19. A comparative statement of the prices during Q2 of FY17, FY 18 and FY 19 is as under:

| Raw material | Q2 FY 19 (Rs .per KG) | Q2 FY 18 / average for FY 18 (Rs. per KG) | Q2 FY17 / average for FY 17 (Rs. per KG) |
|---|---|---|---|
| Fish meal | 94.40 | 76.13 / 84.46 | 108.77 / 94.30 |
| Soya DOC | 38.42 | 31.02 / 32.35 | 42.40 / 37.96 |
| Wheat Flour | 22.96 | 21.32 / 21.14 | 23.01 / 21.58 |

The fish meal prices were in a range between Rs.87 -100 per kg during the first half of FY19, with an average of Rs.95.50 per KG. It may be seen that the fish meal price remained at a same level of Rs.94.30 / Rs.94.40 during Q2 FY19 as in FY17, barring FY 18 which had seen a steep fall in fish meal price. The Soya DOC price has been around Rs.37- 41 per kg in the first half of FY 19 with a marginal increase over average price of FY17 at Rs.37.96. The prices of Wheat Flour has increased by about Rs. 1.50 per KG during Q2 FY19 compared to average of Rs.21.58 in FY 17.

It may be observed from the above analysis that the current raw material prices are more comparable with that of prices in FY17. FY18 was an unusual year with steep fall in RM prices resulting in significant fall in RM cost compared to earlier year.

At this juncture, I would like to mention that considering the seasonality of the industry and the unusual conditions that prevailed during first two quarters of FY19, it would be appropriate to compare performance for both the quarters together i.e. half yearly performance of FY19 with FY18 as well as FY17. The comparison of first half of FY19 with FY17 is more appropriate since the RM prices are more or less at the same level.

On these lines, we have made a comparison of % of RM cost over sales and % of profit margin during FY16, FY17, FY18 and 1HFY19. It is noticed that the RM % was 80%, 79.73%,71.09% and 82.15% respectively during these 4 years. The profit margin before other income was 11.08%, 12.67%, 21.61% and 10.74% respectively. From the above analysis, it may be reasonably concluded that the sustainable margins in feed business would be around 10 to 12% depending upon RM prices which constitutes significant part of cost of production of feed.



AVANTI FEEDS LIMITED ★ HYDERABAD-82 ★

Going forward, it is our view that during the rest of this financial year, the prices of above major raw materials are likely to remain at the same level.

**PERFORMANCE OF SHRIMP PROCESSING & EXPORT BUSINESS:**

**Q2FY19 COMPARED TO Q2FY18:**

As regards shrimp processing and exports, the revenue for Q2FY19 stood at Rs.201.79 crores almost at same level of turnover as in Q2 FY18. Although in volume terms exports increased from 2625 MT in Q2 of FY18 to 3055 MT in Q2 FY19, an increase of 430 MT, the sales in value terms did not increase due to decrease in export prices of shrimps, in line with global decrease in shrimp export prices.

The PBT decreased to Rs.25.43 crores as against Rs.34.08 crores in Q2 of FY 18. The decrease in profit margin by about Rs.8.65 crores is mainly on account of decrease in export prices, increase in depreciation in Q2FY19 compared to Q2FY18 on account of charging full depreciation on new plant and increase in other overheads. Though, RM prices decreased considerably, it was not in proportionate to decrease in export prices, to bridge the gap.

Comparing exports quarter on quarter basis, the export turnover increased to Rs.201.79 crores in Q2FY19 as against Rs.126.83 in Q1FY19 registering an increase of 59%. In terms of volume of exports 3055MT has been exported in Q2FY19 as against 1986MT, an increase of 54%. The PBT in Q2FY19 was 12.50% as against 11.28% in Q1FY19.

In this context, it may be mentioned that value of exports to the tune of Rs.40 crores is excluded from the export turnover and shown as goods in transit as per the Accounting Standards as these containers have not reached the overseas destination before the end of the quarter. This is a standard procedure being followed on quarter on quarter bases. Since, the value is significant this is being mentioned here.

**Industry Overview :**

Now, let me share with you the current status of the aqua culture industry in India.

The decline in global shrimp export prices which started during the beginning of this year continuing except for a small increase in October. As mentioned in previous quarter Investors Call, the decrease in global shrimp price is due to extended winter in USA in the beginning of the year with reduced consumption and adding increase in supply of shrimps from South East Asian and other countries. The shrimp exports to USA from India during 1HFY19 was 1,27,000MT as against 1,15,000 MT in 1HFY18, recording an increase of 10% over last year. The average realization per MT from exports reduced by about 18% during the 1HFY19 compared to 1HFY18. The farm gate prices of shrimps have also declined steeply by 20-25% upto September and thereafter increased significantly.

AVANTI FEEDS LIMITED HYDERABAD-82.

Now, as the farm gate prices have improved to normal level, the farmers have resumed stocking during last couple of months with the expectation that shrimp production may be marginally higher during Q3FY19 compared to Q3FY18. However, it is to be seen whether this is achievable considering winter season.

A comparison of actual feed sales from April- September in 2016, 2017 and 2018 indicates a total shrimp feed sales in India is about 5,04,000 Mt, 6,24,000 Mt and 4,98,000 Mts respectively which means the feed sales in the current 6 months is less by about 20% compared to corresponding period of FY18. Going forward, the total feed sales in India during FY19 is estimated at about 8,75,000 Mts as compared to 10,00,000 Mts in FY18. Though, the seed stockings has resumed now, due to delay in stockings earlier 6 months resulted in reduction of total feed sales. However, your company's market share is expected to grow upto 47%. During the 1HFY19 the market share is about 45% as against 43% earlier year, registering an increase of market share of 2% in spite of adverse market conditions.

It is pertinent to note that though the export prices of shrimps have reduced, the global consumption of shrimps has been growing, though in a slow pace, assuring continued demand for the product in the long term. The increasing preference for white meat compared to red meat globally supports increase in demand for shrimp consumption.

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

**Projected performance of the Company :**

**SHRIMP FEED :**

The feed sales during the year FY 19 is expected to remain at more or less same level as in FY 18 due to the reduction in shrimp culture. However, your Company is expected to increase its market share from 43% in FY 18 to 45% to 47% in FY19 .

As I mentioned earlier, assuming raw material and other costs remaining at the same level as in FY17, the PBT is expected to be around 10 to 12%.

**SHRIMP PROCESSING AND EXPORT :**

Due to the developments that took place during the first 3 quarters of 2018, resulting in lower production of shrimps during FY 19, the processing and export of shrimps is now projected at around 10,000Mts, representing a capacity utilisation of about 45% (total capacity 22,000Mts). Our endeavour is to focus on value added products and achieve a minimum of 50 - 60% export of these products and the balance on other regular products. As you know, the export prices and raw material prices are highly dynamic and volatile, the precise pricing of them cannot be estimated at this juncture. However, considering the past trends and composition of future exports, a PBT of 12 -15% appears achievable.

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

***Moderator:*** Thank you, sir.

*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 the question. If you would like to withdraw your request, you may do so by pressing * and 1 again.

The first question comes from Mr. Nithesh Jain from Aditya Birla Mutual Funds. Please go ahead, sir.

***Nithesh Jain:*** Hi, sir, good evening and thanks for the opportunity. Am I audible?

***C. Ramachandra Rao:*** Yeah. Good evening, Mr. Nithesh, please proceed.

***Nithesh Jain:*** Sir, basically you mentioned the sustainable margin in feed business given the volatility in the raw material prices will be 10%-12% on a sustainable basis, right?

***C. Ramachandra Rao:*** Yeah, 10%-12%, yes.

***Nithesh Jain:*** So this 10%-12% is EBITDA margin or PBT margin you mentioned?

***C. Ramachandra Rao:*** It is PBT.

***Nithesh Jain:*** PBT? Okay. And, yeah, so this was just the clarification I wanted. Now, secondly what could be the sustainable margin, similar PBT margin in the processing business?

***C. Ramachandra Rao:*** It will be around 12%-15%.

***Nithesh Jain:*** Okay. So processing is basically higher than the feed business.

***C. Ramachandra Rao:*** Yeah, yeah. Mr. Nithesh, the reason being that the raw material prices are going up in feed business, we cannot increase the feed price keeping in view the long-term sustenance of the aqua culture. See, once we have the a good margin for the farmers, improved farm gate prices then there is an opportunity for increase in the feed price also, so there will not be stress on the farmer, that's the reason why we are keeping on hold this price increase.

***Nithesh Jain:*** Sure. So, sir, secondly when the demand for the first crop season the stocking was very low from the farmers because of the low shrimp prices, did you reduce the shrimp feed prices for Avanti or you maintained them?

***C. Ramachandra Rao:*** We maintained the price. We have not reduced.

***Nithesh Jain:*** Even in October month, like, even in September-October you have not reduced?

AVANTI FEEDS LIMITED HYDERABAD-82.

***C. Ramachandra Rao:*** We have maintained the same price but we have announced a small discount at the end of the quarter, may be on an average it would be about 0.25% discount on the sale price.

***Nithesh Jain:*** Okay. And, sir, thirdly you mentioned that for the Avanti Feeds the feed volume will remain flat for FY19, right, in the opening remarks?

***C. Ramachandra Rao:*** Yes.

***Nithesh Jain:*** So what kind of volume growth you are looking at in, say, next year when the culture or the stocking is much better, so what kind of volume growth you are looking in for FY20, next financial year?

***C. Ramachandra Rao:*** Mr. Nithesh, I think it is a little premature to give you the projection for 2019, calendar year, as you said FY20, because this is very crucial. Normally the shrimp culture season starts from February and it continues. The main season starts from February. May be in January we should be able to see the global shrimp prices and how it is improving and project, how it is going to be, on that depends the total volume of sales. But it is a little premature to take any, call on that now.

***Nithesh Jain:*** Got it, sir, got it, not a problem. Sir, lastly, you know, I wanted to understand one very basic thing which is slightly long-term question, India as a country, India's competitiveness in the global shrimp market. So I believe that the cost of production of the Indian shrimp farmer is around on an average 250 rupees per kg, right, 250 to 300?

***C. Ramachandra Rao:*** Yeah.

***Nithesh Jain:*** Okay. So I wanted to ask you what is the cost of production in some of the competing nations like Thailand, Mexico, Vietnam or Ecuador, are they much higher than India, so that the shrimp culture is a sustainable industry and business in India for Indian farmers for, say, next five years?

***C. Ramachandra Rao:*** See, we don't have any authentic numbers on this, but certainly their cost of production is slightly more than what our cost of production is.

***Nithesh Jain:*** India is basically cost competitive in that sense.

***C. Ramachandra Rao:*** Correct, correct.

***Nithesh Jain:*** So if the global shrimp prices go down further then the first production cut can happen in the other countries than in India?

***C. Ramachandra Rao:*** That should happen, but we will have to see because the total industry has a big chain of stakeholders. 2019 is going to be the year where all the correction should take place in the entire chain, the buyer, consumer, the processor, then farmer, feed business, hatchery, everybody and should stabilize. Current year 2018, a very unusual year, because there is total disruption of the normal process, whether it is the prices or whether it is culture But we hope that next year it should settle down and India should be able to compete with any other global supplier of shrimps.

***Nithesh Jain:*** Okay. And, sir, lastly, if I can just plug in one more question you have any sense about the frozen shrimp inventory globally, has it normalized? I believe that a lot of stress came from a lot of inventory being built in the global market, so has it been normalized or it is still there, the overhang is still there?

***C. Ramachandra Rao:*** It is in the process of normalization.

***Nithesh Jain:*** In the process of normalization, but not such a huge thing which can actually disturb the next farming season as well.

***C. Ramachandra Rao:*** We don't perceive that, it will stabilize.

***Nithesh Jain:*** Alright, sir. Thank you very much for your answers. That's all from my side.

***C. Ramachandra Rao:*** Yeah.

***Moderator:*** Thank you, sir. Participants are requested to limit to three questions at a time and come back in the queue for the benefit of other participants. The next question comes from Mr. Praveen Sahay from Edelweiss Brokings. Please go ahead, sir.

***Praveen Sahay:*** Thank you for the opportunity. Sir, how are the farm gate prices in the last past quarter and currently?

***C. Ramachandra Rao:*** See, the prices have improved significantly, about 30%. Now it is very difficult to tell exactly what is the price, it keeps varying. But the farm gate prices may be around Rs.460/- per Kg to Rs.480/- per Kg, which is considered as quite remunerative. It is volatile, on day-to-day basis it changes.

***Praveen Sahay:*** Yeah, right, I can understand that, sir, day-to-day basis it changes and as per the count as well but as our realization for the processing is merely around 660, so on with relation to our farm gate prices the pricing .....what will be in the last quarter, Q2FY19?

***P.V. Raj Shekhar:*** See, prawns of different counts are priced differently. So it is very difficult to tell when the purchase composition changes the average price also changes, whereas actually there may not be any change in the farm gate prices. So according to composition of materials, if I buy larger size shrimp the prices may be higher.

***Praveen Sahay:*** Yeah, yeah, so that's why I said on an average what is our cost price or basically how much of the gross margin we earn?

***C. Ramachandra Rao:*** Rough figure I can tell you that first six months the average cost price was around Rs.280/- per KG to Rs.290/- per KG, that was the average price.

***Praveen Sahay:*** That helps, sir.

***C. Ramachandra Rao:*** Okay?

***Praveen Sahay:*** Yeah, that helps. So now the next question is as I can see that other, the competitors have also given result in the feed business and I am not seeing much deterioration in their margin and their volume numbers as compared to us, even I can understand that is in a weak season for a feed business, but why is it so, like the competition has given less correction in their margin....

***C. Ramachandra Rao:*** I am not able to get your voice clearly.

***Praveen Sahay:*** Sir, I am asking that competition has given....recorded their numbers in the feed business which is less correction in their margin as compared to ours. So if I just see your numbers from the last year same quarter 23% of margin is down to 8% in the feed business, but the competitor's margin has not fallen so significantly and also if I look at the volume numbers also that is not significantly impacted for them but ours is in 17% of de-growth, so is it due to that our geographical penetration is quite different or what exactly, because we are in Andhra Pradesh and all where impact is higher, is it like that?

***C. Ramachandra Rao:*** See, Mr. Praveen, I have just given you the price margins and raw material prices over the past almost three years and the current year's price and the margins have decreased. In FY18, margins were more and certainly it was around – 21.6%. See, it is not the benchmark, that's what we have been telling. Last year was a very unusual year that the percentage was high, but we are maintaining, what we want to stress is that between 10%-12% or 12% is the margin which is sustainable and we maintain the quality of the feed and our cost of production gives this kind of a margin. If somebody else gives more margin we cannot tell why it is giving more margin. This is what we have been maintaining for the last three years, is it not?

***Praveen Sahay:*** Okay, sir, okay. Last question is on the processing because from the last two-three quarters actually I am seeing that you are continuously reducing your volume guidance for the year. So, like, now you have given 10,000 metric ton for the processing volume within 45% of utilization, so is there a major issue going on not to utilize, that there is some order or something we expected start of the year which we are not expecting the way forward, what exactly happened in this processing business?

***C. Ramachandra Rao:*** See, the processing business, when we spoke last time we gave around 11,000 to 12,000...

***Praveen Sahay:*** Okay, sir. Right, sir.

***C. Ramachandra Rao:*** Let me complete that. See, every processor has different options, whether you go for the entire volume-based, exports or you go per the value-added products where you have better margin and better customers. See, the other market is where you with thin margin, you can increase the volumes. But what we are trying to do now is the combination of both. So we are focusing more on value-added products because we have invested on the facilities for producing the value-added products and we want to establish a brand and also we want to establish a market for this product and we want to have more of value-added products than the regular products. If just volume is required we can do any amount of value with less margins, that we can do but we do not want to, we want to make good margins and at the same time utilize the facilities, number one.

Number two, this particular year, the total production of shrimp has come down. As you know six months have already over, next two quarters, normally exports are less, because already Christmas and New Year, exports are being completed. Till March we do not expect a big jump in the sales and that is the reason why we have reduced our projection to 10,000 tons.

At the same time, we mentioned that we want to increase our value-added products to more than 50% and that's where we want to concentrate.

***Praveen Sahay:*** Okay. Thank you.

***Moderator:*** Thank you, sir. The next question comes from Mr. Goutham Jain from GVJ Wealth Managers. Please go ahead, sir.

***Goutham Jain:*** Hello? Hello? Am I audible?

***C. Ramachandra Rao:*** Yes.

***Goutham Jain:*** Yeah. Thanks for giving me the opportunity. I just wanted to know that in term of numbers how much top line do we expect for the next six months? This is my first question. Second is in relation to the buy-back that whether the company plans to dispose the cash which is there or what are the plans for the cash which is lying in the books? Does the company prefer a buy-back of shares?

***C. Ramachandra Rao:*** We will come back with the approximate revenue in next 6 months. As far as the buy-back is concerned there is no proposal at this point of time to buy-back.

***Goutham Jain:*** I mean, the prices are at all-time low and it is a very good opportunity, so wouldn't the company like to encash this opportunity and accumulate the shares from the market?

***C. Ramachandra Rao:*** No, we are not looking into that angle at all. Just because the cash reserves are there it does not mean that you go for buy-back of the shares. We will have to plan how it should be utilized. That process is going on. The Board and the Chairman & Managing Director along with the management are discussing what is to be done. This is not the time for going for any straight away investment, we are just watching the situation.

***Goutham Jain:*** Okay. The company had been one of the best performers in the last few years in terms of the profit growth and everything, this year was excellent. Do we expect the same thing to regain the lost glory which was there? I mean, we are very confident as investors. We want the management's view on this.

***C. Ramachandra Rao:*** See, the aquaculture industry is dependent on certain basic things like the climatic conditions, global prices and culture practices and production during the year, all these things are there. As far as the company is concerned we have the best quality feed which we are producing and we are sure we don't want to go for any compromise as far as the quality of the feed is concerned and our market is going to be there, because we have a very strong tie-up technically with the Thai Union. As you know and even in this stressed time also we have been able to increase our market share by about 2%, that itself shows that we have a quality of the product, that is one thing which we can assure. As far as the exports are concerned, as I just now told, we want to focus more on value added products that so that the investors get a good return and we get a good name in the global market. So these are the things which we can assure from the management side.

***Goutham Jain:*** Right. I mean, that satisfies; that gives my answer. Thank you very much.



AVANTI FEEDS LIMITED * HYDERABAD-82 *

***C. Ramachandra Rao:*** Yes.

***Vincent Andrews:*** Right, sir, thanks for the opportunity. Sir, I have a couple of questions. First one is the previous person has asked, so top line growth for H2 if it is possible to provide that and one more, for this quarter the receivables have almost doubled to Rs.103 crores, so is it because of any increase in credit period? Usually it takes around three to four days, so the credit period has increased or not or should we assume the same going forward?

***C. Ramachandra Rao:*** The question is not clear to us.

***Vincent Andrews:*** One second, sir. Sir, am I audible there?

***C. Ramachandra Rao:*** Now it is very good, yeah, fine.

***Vincent Andrews:*** Sir, the first question is any guidance for top line growth for H2, the previous participant has also asked for it, if it is possible to give that and second question is on your receivables. Actually it has almost doubled in this quarter to Rs.103 crores, is it because of any increase in credit period? Usually it is around three to four days for you, the 30 days and also the last question is other expenses have increased by around 15% in this quarter, as a percentage of sales it is almost 8.8% versus 5.2% on YoY basis, so which item has caused this increase?

***C. Ramachandra Rao:*** First let us answer one by one, one you are talking about the feed business, no?

***Vincent Andrews:*** Yes, Feed business.

***C. Ramachandra Rao:*** Feed business. Okay. So one question is that the costs have increased...

***Vincent Andrews:*** Sir, the consolidated it has gone up and more in the...

***C. Ramachandra Rao:*** If the consolidated – it is more in the processing, it is not in the feed.

***P.V.Raj Shekhar:*** See, this is almost the fag end of the peak season. The debtors of the Feed are a little bit on the higher side, Rs.19 crores in March and now it is Rs.56 crores and added to this, there are around Rs.48 crores of debtors in the processing division i.e. export debtors, so both combined together is Rs.104 crores, there is no abnormality. It is quite normal.

***C. Ramachandra Rao:*** Here I would just like to clarify, 31st March if you take that it will be less because that is almost the – the season would not have started. When you come to July -September, it is the main season that runs for about five to six months, so naturally the turnover would be more and also debtors are also more. Our policy is that most of feed sales are on cash- and -carry basis and credit is extended for nearly 30 to 40 days.

***Vincent Andrews:*** Okay. Understood. And for the last, the other expenses it has increased by 50% last quarter, so there was an increase, percentage of sales also has increased, so which item has caused this increase, that is what I want to know?

***P.V. Raj shekhar:*** See, these other expenditures include total marketing and production cost. As you know the turnover of processing division by quantitative terms has increased as stated in the initial address of our JMD that as against 2625 Mt last year corresponding quarter exports current quarter it has exported 3055 Mt so all expenditure like processing cost, the shipment charges and ADD charges all this combined together are in this other expenses. There is no real change in the nature of expenditure which has really gone up except that because of last year's profit our CSR expenditure has increased so that may have impacted a little bit, other than that we don't see any abnormal increase in the expenditure.

***Vincent Andrews:*** Okay. Understood. But as a percentage of sales also it has increased to 8.8 versus 5.2, that is why there was that doubt.

***C. Ramachandra Rao:*** Which one?

***Vincent Andrews:*** As a percentage of sales also it has increased to around, say, 300 basis points.

***P.V. Raj Shekhar:*** See, while the sale price realization has reduced, all shipment changes and all expenditures have remained at the same level. Due to which in % terms it shows increase.

***Vincent Andrews:*** Okay. That's understood. So going forward at least in this H2 also I can assume the same, around 8% as percentage of sales for other expenses. And, sir, lastly, one last question, tax percentage has decreased to 26% this quarter, any tax benefit for the new facility?

***P.V. Raj Shekhar:*** Yeah, the new facility has got tax exemption for five years.

***Vincent Andrews:*** Okay. Five years. So then this 26% we can assume going forward. Thank you, sir, thank you very much.

***Moderator:*** Thank you, sir. The next question comes from Mr. Anirudh Joshi from ICICI Securities. Please go ahead, sir.

***Mr. Anirudh Joshi:*** Yeah. Hello, sir.

***C. Ramachandra Rao:*** Anirudh, please go ahead.

***Anirudh Joshi:*** Yeah. Sir, one thing is what is our market share in the shrimp feed business now?

***C. Ramachandra Rao:*** Now it is around 45%.

***Anirudh Joshi:*** And was there any gain in market share in this quarter? I guess last quarter also you had mentioned in one of the meetings that it is around 45%?



AVANTI FEEDS LIMITED ★ HYDERABAD-82 ★

***C. Ramachandra Rao:*** It is 43%-45%. See, we are comparing half year to half year. The first half of FY18 and first half of FY19, we are comparing that and in that way that's 43%-45% it has gone up by 2%.

***Anirudh Joshi:*** Okay. Also, in terms of the shrimp exports, how much exports are to Thai Union and the third party sales, if you can give breakup of that?

***C. Ramachandra Rao:*** We don't supply anything to Thai Union. Thai Union doesn't purchase anything from us. We are directly giving to other parties.

***Anirudh Joshi:*** So we don't sell anything to Thai Union?

***C. Ramachandra Rao:*** Yeah, Thai Union has a second-level subsidiary in US i.e. Chicken of the Sea. They buy from all, it is not only from us, they buy from all suppliers from India and we are one amongst them.

***Anirudh Joshi:*** Okay. Sir, very last question, in terms of shrimp prices do you see shrimp prices getting stabilized in maybe this year or do you see any up-move in the shrimp prices this year itself?

***C. Ramachandra Rao:*** Mr. Anirudh, it is a little premature to say because we have to see next couple of months or three months how the prices move, how the consumption and clearance of the stocks etc. It is too premature to forecast the price movements and the demand in the calendar year, FY20, it is difficult at this stage. We have to wait for a couple of months. Maybe in the next quarter meeting we will be able to throw some light upon that.

***Anirudh Joshi:*** Okay. But you don't see much downside to the shrimp prices now from current levels?

***C. Ramachandra Rao:*** Hope so. We feel so.

***Anirudh Joshi:*** Okay. Sir, is the decline in prices of other meat products, like salmon or tuna or even other meat products like chicken or beef or mutton, etc., all these prices also crashed significantly, so is that a reason that probably the shrimp consumers are moving to other meat products, or at least the industrial consumer, the canteens, hotels, etc., they are pushing probably more items of the other meat products than shrimp, is that also a reason for declining shrimp consumption itself?

***C. Ramachandra Rao:*** Anirudh, we are not able to give you a ready answer for this because only we know that the preference for white meat is increasing, so the demand also goes up, but we do not know exactly what is the price comparatively and what is the reason for that we don't have that information now.

***Anirudh Joshi:*** Okay. So, the clear reason is the excess inventory in USA due to the winter situation which should self-correct itself in another two-three quarters and secondly there is a slight increase in production from other countries also.

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

***Anirudh Joshi:*** So, with fall in global shrimp prices they will get impacted as the cost of production is higher for them, though for India it is lower profitability, for others it is probably loss, so we should see reversal in that as well, so net-net in one year's timeframe we should see again higher growth rates for the industry.

***C. Ramachandra Rao:*** Yeah, yeah. We hope that it will have, you know, we would be able to see that in the future.

***Anirudh Joshi:*** Okay. Okay, sir. Thank you.

***C. Ramachandra Rao:*** Okay.

***Moderator:*** Thank you, sir. Participants are kindly requested to limit to three questions at a time and can come back in the queue for the benefit of other participants. The next question comes from Mr. Gagan Thareja from Kotak Investments. Please go ahead.

***Gagan Thareja:*** Good evening, sir. Sir, my first question is related to the supply and demand of shrimp feed in the Indian market. If you could give some statistics as to the available capacity within the system in India and how does it stack up against the demand?

***C. Ramachandra Rao:*** See, the demand, last year it was around 10 lakh tons, and this year because the culture is in a reduced volume, the consumption is expected to be around 8.75 lakhs for the FY19. The installed capacity is about almost like 80% to 100% more than what the consumption is. There are several new entrants also coming, as you might be knowing. But the main point is that we should be able to give a quality product to the farmer and too the performance of the feed. That is the why we have been able to maintain our market share. So, definitely, there will be competition and we should prove our product and pricing and compete with the market to get share of market.

***Gagan Thareja:*** And what is the capacity utilization for Avanti Feeds currently?

***C. Ramachandra Rao:*** it is around 70%.

***Gagan Thareja:*** So, I am just trying to understand, on the one side, as you said, the farmgate prices for shrimp farming came down and it was not remunerative for the farmer, which therefore meant that you could not pass on the increase in your own raw material input prices to the farmer. Even if that scenario were to normalize, as you said there is excess capacity in the system, does that not therefore mean that there are other pressures on your pricing as well, compared to the existing capacity?

***C. Ramachandra Rao:*** See, what I told was that, because of the price, we could not increase shrimp feed price in spite of the increase in raw material price, we could not increase the feed price because of the stress on the farmer. But, having said that, see we have been able to increase our market share from 43% to 45% in the first half of this year. In the next year, FY20, the situation...we expect that it will improve significantly, and the production also will go up. We are also endeavoring to export feed to other geographies, so that we will be able to utilize our capacity fully in FY20.

***Gagan Thareja:*** Okay. Sir, my second question pertains to the currency impact. If you could give us some idea over the first and the second quarter, the farmgate prices of shrimp would be dollar denominated and would have reduced by maybe 15% to 20%, but at the same time, in at last 2Q, the currency would have been favorable for you. So, if you could give some idea of the impact of currency on your P&L and Balance Sheet for the second quarter, and also if you could give some idea of whether dollar prices of shrimp are getting renegotiated, because of the currency depreciation?

***C. Ramachandra Rao:*** As you rightly said, the prices of exports are $16. What normally we do is, the moment that the price is fixed, we see that price and also the raw material prices prevailing, and the total stocks etc., and we evaluate what is the probable price of the raw material for that particular order, and we work out the costing. We see that the margins are protected by way of sometimes a part of it by forward contracts partly, by keeping them open because of the depreciation of rupee against the dollar. This is a combination, which goes on, on a continuous basis. So, we see that this balance is taken care of. It is not that 100% of the appreciation results in a profit, because it exchange rate is highly volatile... but we look into the cost versus the dollar realization versus what is the rupee conversion, and we work out the margins. That's how we manage the forex.

***Gagan Thareja:*** Okay. And sir, last question, in the last few years the shrimp exports from India grew fairly outsized as compared to the shrimp demand globally. Obviously, the market of Indian suppliers was increasing. But given that the market share is now at a significant level, and one would presume almost at a mature level, would it not be fair to presume that the growth of shrimp exports from India would therefore now track the market growth, which would mean that the shrimp feed supply would also see a volume growth of a mid-single digit in nature, in the coming years?

***C. Ramachandra Rao:*** No, can you come back on this?

***Gagan Thareja:*** Pardon me?

***C. Ramachandra Rao:*** Can you please repeat the question?

***Gagan Thareja:*** Sir, my question is that the shrimp exports from India in the last few years would have grown at a much faster pace than the aggregate shrimp market or the shrimp demand globally, simply because the market share of Indian companies was increasing at a very fast pace. But, that is not the case anymore, and therefore the shrimp exports from India would probably now grow in line with the aggregate global shrimp market, which would be a mid-single digit sort of a number to my understanding. And if that is the case, would the feed companies therefore also grow in line with that number itself, simply because the market share of the Indian shrimp suppliers may not necessarily increase anymore from here?

***C. Ramachandra Rao:*** As you rightly said, the volume of feed depends upon the volume of the production of shrimps, which is ultimately exported. That is the basic chain. So, naturally over a period of time, it cannot grow disproportionately. So, overall the culture will grow, it may not be as fast as, as you rightly said, what was there earlier. It may not grow at that fast pace, but what is more important is that there is a sustainability. We do not foresee a big jump, and giving a big profit like in FY18, it will not happen like that, that's what we forecast. There will not be sudden big jump. It will be a stable, sustainable growth. That's what we are looking for.

***Gagan Thareja:*** So, sir, finally, if I were to stack up all the three inferences that I have drawn, the market is not going to grow at the same clip as it was in the past, there is 2x the demand, there is a capacity in the system. So, your topline growth is going to sober down from past year, at the same time, simply because of the excess capacity in the system, I would presume naturally competition would cause pricing pressures to shrimp feed supplies, does that not mean that there is a dual pressure, both on sales and profitability, at least if one were to look at the market forces currently?

***C. Ramachandra Rao:*** See, the pressure on the prices will be there, because there is a competition, definitely the price is going to be a very important factor. But at the same time, the market share is going to be very important as far as the volume is concerned. See, if we can achieve about 50% of the market by way of good quality of the product and maintain good service that we give to the farmers, and we will be able to retain good market share. Definitely that pricing will be a secondary...and also one more important thing is doing lot of credit business, which we don't really encourage. Almost 80% to 90% of our business is only against cash, which is very secure business. The credit business is not advised in this industry. So, we prefer to do only cash business and maintain the margin. So, the profit margins, as we have been maintaining the sustainability of 10% to 12% for feed business, should not be a big concern for us, it should be achievable, that is what we want to reiterate again for the investors. That is a very important point.

***Gagan Thareja:*** Okay. And sir, if I am allowed, I would like to ask one more question?

***C. Ramachandra Rao:*** Yeah, please.

***Gagan Thareja:*** I mean, I would like to move on to your other business, which is the processed shrimp. So, the margins there are higher, but I would presume the capital employed would also be higher. If you could give some idea of how the working capital in this business compares to your shrimp feed business, and also the fixed capital investments probably would be higher. So, my question is one, an idea of the working capital in this business. Two, how do you look at the growth of this business per se, is this business something which can grow at a much faster pace, and if that is the case, then in aggregate, does it pull down your return ratios and cash flow generation, because of the inherent nature of this business?

***C. Ramachandra Rao:*** See, the two businesses, number one is the shrimp profits in the export and of course, the shrimp feed. See, as you said, the capital investment on feed is relatively much lesser compared to processing division. Definitely, the processing has more investment and we foresee that the exports also will increase significantly in the years to come, from the processing side. As far as the feed is concerned, the investment was much less compared to the turnovers and the margins. Definitely it is...you can see from our figures, balance sheets are given, where you can see the investment in the assets and what is the working capital also you can see. And, we have been able.to a great extent meet this working capital requirements from internal generations. So, the cost of funds, will be relatively less for us compared to the comparable industry. That way we are able to manage, the working capital limits, it should not be a problem. But, as far as receivables or stocking, inventories for the shrimp will be more compared to the feed business. Feed business, it is relatively less, we have been able to turnaround the entire sales within 30 to 50 days.

***Gagan Thareja:*** If that is the case, would you want to change your capital structure, your debt to equity structure, given that your lower return business might grow faster than your higher return business?

***C. Ramachandra Rao:*** No, we don't have any significant debts in our books.

**Gagan Thareja:** No, I understand. I am just looking at it from the cost of capital point of view. If your return on capital lean aggregate shifts because a lower return on capital business is growing faster, would you prefer to change your cost of capital also to keep your net spread fixed in this?

**C. Ramachandra Rao:** Cost of capital, see, as I told you the investment on feed business is much less. The cost of capital will also be less. Only in case of processing it is more, and we foresee that this will be taken care of from the margins in the exports.

**Gagan Thareja:** No, no, I was just sort of...my question is what I indicated it to be...I am simply saying that since on the one hand return on capital in aggregate might taper off, because a lower return on capital business grows faster than higher return on capital business. Your spread versus your cost of capital might reduce. To keep it or maintain it, would you prefer to change your capital structure to debt to equity?

**C. Ramachandra Rao:** No, no, as of now, we don't

**P.V.Raj Shekhar:** No, Mr. Gagan, our focus is on equally on both the business, wherever opportunity is there we will grow on that side, and we will try to explore all the possibilities to capture that opportunity and grow, whether in low capital intensive or high capital intensive, both are our focus.

**Gagan Thareja:** Okay. Thank you sir. That's all from my side.

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

**Deepesh Kashyap:** Thanks for the opportunity. Just two quick questions. Sir, how much is the cooked capacity for total 22000 tons do we have?

**C. Ramachandra Rao:** Cooked capacity, we have more than 50%. We have facility, depending upon requirement, we can increase the capacity. There is no issue on that.

**Deepesh Kashyap:** So, you are saying out of 22000, 11000 will be for the value-added products, right?

**C. Ramachandra Rao:** Yes.

**Deepesh Kashyap:** The guidance that you have given, around 10000 tons for this particular year, how much will be the cooked capacity that you are seeing in this year?

**C. Ramachandra Rao:** In the first half we have done 35% Deepesh. Actually, our endeavor is to get to 50%.

**Deepesh Kashyap:** 50% of the cooked capacity.

**C. Ramachandra Rao:** No, not capacity. I am telling total 10000 tons, we want to make at least 5000 tons as a cooked products export.

***Deepesh Kashyap:*** Okay, okay, great. And sir, secondly, what is the CAPEX on the hatchery that we are doing this year, and what is the revenue potential of this particular business?

***C. Ramachandra Rao:*** See, the CAPEX is around 12 to 15 crores, that is the capital. 200 million seeds at the first stage, which will result in about 6- 7 crores.

***Deepesh Kashyap:*** 6-7 crores in FY20?

***C. Ramachandra Rao:*** Yeah.

***Deepesh Kashyap:*** Okay. And sir, lastly, any updates on the product or geographical diversification that we talked about, that we were exploring earlier, any updates on that?

***C. Ramachandra Rao:*** It is progressing well. We will come out, I think, next quarter we should be able to give you some good news about that.

***Deepesh Kashyap:*** Great sir, great. Thank you and all the best.

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

***Moderator:*** Thank you sir. The last question comes from Mr. Manoj Garg from White Oak Capital. Please go ahead sir.

***Manoj Garg:*** A very good evening to all of you. If we look at the data for the last two months, I think, which is again the export to the US market, we have already started seeing a good recovery in the US market in terms of import being done from India on the shrimp side. However, when we look at your rest of the half-year guidance, I think that optimism is not coming with your guidance. So, is there anything we are missing or there is any disconnect sir?

***Manoj Garg:*** So, what I am saying, like, last two months data of US…?

***C. Ramachandra Rao:*** You are saying two months. Two months, means, you mean to say September and October?

***Manoj Garg:*** August, September. So, if you see last two, three months data, we have been seeing that there is good growth, which again has started coming from India, basically to the US market. However, when we look at your guidance for the second half, I think, you are guiding more or less repeating the same number on the processing side, what you have done in the first half. Is there any disconnect sir?

***C. Ramachandra Rao:*** No, no. See, what we have done till now, is to meet the demand for the… exports were more because of the Christmas, New Year, and this thing, season, and availability of products, we have exported more. What we foresee is, that from December onwards, like January, February, March, it will be less, because one thing is that the year end and Christmas season would have been over, and number two, that the availability of raw material is India also decreases, because it is the fag end of the season. So, till the next season starts, the availability of raw material also gets reduced. This is the reason why we have predicted less.

***P.V. Raj Shekhar:*** Yeah, Manoj, we would love it if the trend continues and if the import by US keeps continues its momentum then we will be the happiest persons, but going by last six months to eight months data, we are maintaining cautious view.

***Manoj Garg:*** Okay, fair enough. And the second thing, outside US, like, when we spoke to you last time and you guys have indicated that China is another market, which you are opening up quite well and given that they have now reduced the import duty from India, so earlier the route which was happening through Vietnam, I think now China is directly importing from India. So, how do you see that market shaping up over the next few years, and can it become a next big growth driver for the Indian shrimp industry, going forward?

***C. Ramachandra Rao:*** See, in first half of FY17, we had only about 13%, 12% to 13% of non-US exports, which is basically it was to Europe, and Canada, and in FY18, first half we have increased to 35%. We have started exports to other Asian countries.

***P.V. Raj Shekhar:*** China also, is a possibility. Going forward China market maybe bigger for Indian exports. But, whatever we have seen till now, the China market, import very less value-added products, it is just like a trading commodity, it is just shrimp head is removed and exported to them. So, we may have volumes, but we may not have big margins there, but still it may recover some overheads.

***C. Ramachandra Rao:*** It may recover overheads, volume is more.

***P.V. Raj Shekhar:*** But we have to see how the Chinese market behaves in the long run. As of now it is just a non value-added product market, it is just a basic commodity export.

***C. Ramachandra Rao:*** Our focus is to increase the value-added products where the margins are good and also utilization of our value added facilities. That is our endeavor.

***Manoj Garg:*** Sure. And sir, I think, couple of quarters ago, you shared your vision of achieving a billion dollar kind of revenue by 2022, as we understand that, obviously this year has not been good given the pressure on the raw material as well as overall demand slowdown in the US market. But where are we in that journey, and where do you see that vision coming in sir, like?

***C. Ramachandra Rao:*** See, the management and the Board have been working on that, what are the other options or opportunities that are available in the industry and how to go about it, that's what we are concentrating on. It has not yet been planned. Once we are ready with the plan, we will come out with that. Definitely we are looking at the opportunities in other areas, where we can expand our capacity, we can go for diversification, or further expansion.

***Manoj Garg:*** So, we still believe that, whatever billion dollar number which we have thought for ourselves, is achievable by 2022.

***C. Ramachandra Rao:*** We are confident. We will work for it. We have a vision, we have to work for it.

***Manoj Garg:*** Okay. And just a last question from my side sir. Like, we have done pretty well in India in the feed business, obviously, thanks to our strong connect with the farmers as well as whatever we talk about the quality of our feed. How do you see the scope of the feed business in the neighboring countries, from an export potential? And do you think that that is an addressable market, which we can do from India?

***C. Ramachandra Rao:*** We can do, we are trying that. We are exploring the export market for feed also. Maybe by next quarter or so we should be able to come out with our plans.

***Manoj Garg:*** And that market, if you can tell us in terms of size, how big that market could be sir, in terms of potential...

***C. Ramachandra Rao:*** No, that is still premature, I think, it is what we are working on that. We will know, because the season starts...most of the countries season starts the next year, early next year, so we should be able to tell you, we are working very seriously on that. Once we are through with our basic work, we should be able to tell you, share with you the work, the plans the company has in that area.

***Manoj Garg:*** Sure. That's all from my side and wish you all the best sir.

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

***Moderator:*** Thank you sir. That will be the last question for the day. Now, I hand over the floor to Mr. Milan Bavishi for closing comments. Thank you sir.

***Milan Bavishi:*** Thank you Pavithra and thank you so much the entire management team of Avanti Feeds. Thank you all the investors and entire analyst community for participating in the call. Have a nice day ahead.

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

***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 disconnect your lines now. Thank you and have a pleasant evening.

---

*Note:*

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



AVANTI FEEDS LIMITED * HYDERABAD-82 *