

Ref: AFL/BSE & NSE/2019-20

25th November, 2019

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Sub: Avanti Feeds Limited – Audio Conference Call for Investors conducted on 31st October, 2019 – Transcript of Audio Conference call – Reg.

Ref: Our letter No: AFL/BSE & NSE/2019-20 dated 25.10.2019

Further to our letter cited, we enclose herewith the transcript of Audio Conference Call for Investors conducted on 31st October, 2019 in connection with Un-audited Financial Results for the Quarter Ended 30th September, 2019.

This is for your information and record.

Thanking you,

Yours faithfully,
for AVANTI FEEDS LIMITED



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



Encl: As above.



“Avanti Feeds Limited Q2 FY ‘20 Earnings Conference Call”

October 31, 2019



MANAGEMENT: MR. C. RAMACHANDRA RAO – JOINT MANAGING DIRECTOR,
AVANTI FEEDS LIMITED
MR. ALLURI NIKHILESH – EXECUTIVE DIRECTOR,
AVANTI FROZEN FOODS PRIVATE LIMITED
MR. M. VENKATESWARA RAO – GM (CORPORATE AFFAIRS),
AVANTI FEEDS LIMITED
MR. K. PAIDI RAJU – GM (FINANCE & ACCOUNTS),
AVANTI FEEDS LIMITED
MS. LAKSHMI SHARMA – CS,
AVANTI FROZEN FOODS PRIVATE LIMITED

MODERATOR: MR. NITIN AWASTHI – EAST INDIA SECURITIES LIMITED





Avanti Feeds Limited
October 31, 2019

Moderator: Ladies and Gentlemen, Good Day and Welcome to the Avanti Feeds Limited Q2 FY '20 Earnings Conference Call hosted by East India Securities Limited. As a reminder, all participant lines will be in the listen-only mode. There will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing '*' and then '0' on your touchtone telephone. Please note that this conference is being recorded. I now hand the conference over to Mr. Nitin Awasthi from East India Securities. Thank you and over to you, Sir.

Nitin Awasthi: Thank you. Good Morning everyone. On behalf of East India Securities, I would like to Welcome you all to the Q2 FY '20 results earnings conference call of Avanti Feeds. We would like to thank the management for giving us this opportunity to host the call. We have with us the senior management of Avanti Feeds Mr. C. Ramachandra Rao – Joint Managing Director; Mr. Alluri Nikhilesh – Executive Director, Avanti Frozen Foods Private Limited; Mr. M. Venkateswara Rao – GM (Corporate Affairs); Mr. K. Paidi Raju – GM (Finance & Accounts); and Ms. Lakshmi Sharma – CS, Avanti Frozen Foods Private Limited.

I would now like to hand over the call to the management for their opening remarks. Thank you and over to you, Sir.

C. Ramachandra Rao: Thank you, Mr. Nitin. Good Morning, Ladies and Gentlemen, we extend a warm Welcome to all of you for this investor's conference call today, to review the unaudited financial results of Q2 FY 2020. Along with me here are Mr. Nikhilesh – Executive Director, Avanti Frozen Foods Private Limited; Mr. Paidi Raju – GM (Finance & Accounts); and Mr. M. V. Rao – GM (Corporate Affairs); and Ms. Lakshmi Sharma – Company Secretary, Avanti Frozen Foods Pvt. Ltd. and other senior Finance and Accounts executives.

The results of Q2 FY '20 are already with you for some time now and we are sure that you would have already gone through them. However, I would like to share with you some of the key indicators from the results. This I will deal with consolidated financial results, the comparative performance of Q2 FY '20 with that of Q1 FY '20 and Q2 FY '19 have been given in the presentation already circulated to you, which indicates the significant growth in the gross income PBT and also PAT quarter-on-quarter basis.

However, it would be more appropriate to compare the performance of first half -year of FY '20 with that of first half- year of FY '19 as this would show the comprehensive performance for the first six months in this year compared to the corresponding period of the previous year.

The gross income for the first half-year was Rs. 2196.81 crores as compared to Rs. 1815.18 crores corresponding to previous year registering a growth of 21.02%. The PBT is Rs. 285.81 crores in the first half year as compared to Rs. 211.32 crores of the corresponding period of the previous year, registering an increase of Rs. 74.49 crores.



The PBT increased to 13.01% on gross income from 11.64% of the previous period. The PAT also grew from Rs. 145.10 crores to Rs. 228.72 crores registering an increase of Rs. 83.62 crores. The PAT increased to 10.41% from 7.99% on gross income, which is mainly due to opting for reduced tax under new tax ordinance.

Feed financial results:

The gross income during first half -year is Rs. 1771.53 crores as compared to Rs. 1487.18 crores in the corresponding period of the previous year registering a growth of Rs. 284.35 crores at 19.12%. The PBT during first half is Rs. 237.82 crores as compared to Rs. 170.95 crores in the corresponding period of the previous year, registering an increase to 13.42% from 11.50% on the gross income. The PAT went up from Rs. 112.01 crores to Rs. 185.29 crores with an increase of Rs. 73.28 crores registering an increase through Rs.10.46 from Rs. 7.53 on gross total income. Coming to shrimp processing financial results, the gross income in the first half of the year grew to Rs. 427.03 crores from Rs. 331.25 crores, registering an increase of Rs. 95.78 crores at 28.92%. The PBT in the fast half of the current year is Rs. 47.23 crores as compared to Rs. 39.86 crores, i.e. an increase of Rs. 7.37 crores, However, in terms of percentage the PBT has declined marginally to 11.06% on gross income from 12.03% during the corresponding period of the previous year.

Shrimp hatchery: The construction of shrimp hatchery Phase 1 with a capacity of 200 million seeds per annum is in the advanced stage of construction and commercial production is expected to be commenced by end of this year.

Industry overview:

Let me share with you the current status of the shrimp culture industry in India. Indeed, it is a matter of great relief that since beginning of this year, shrimp export prices started stabilizing and farm gate prices of shrimps are also improved significantly assuring the farmer of the sustainability of the shrimp culture in the long run and provide much needed confidence to resume shrimp culture at normal levels. But for this development, the shrimp culture would have declined further in this year also, However, even with this positive environment, the expectation as per the Global Aquaculture Alliance in the recent seminar, the significant growth is not likely to happen in the shrimp production in this year. But however, they expect that there would be growth in the future. We expect that the production would be around 6 lakh tons as in this year also. This is evident from the estimated consumption of about 7.75 lakh tons of feed from January to September compared to 8 lakh tons consumption during the corresponding period of 2018. It is estimated that a further 3 to 3.5 lakhs tons would be consumed during October to December, 2019 bringing the total consumption to about 11 lakh tons which is on same level as in the last year.



Coming to the Avanti Feed sales - In spite of expectations of a degrowth by about 10% to 12% in shrimp production during 2019 as per the GOAL survey, the present trend indicates that the shrimp production in India is likely to be same as in the last year, which is about 6 lakh tons. Correspondingly, the feed consumption also is likely to be around 10.5 lakh tons to 11 lakh in 2019 also as in 2018. As you know, Avanti has not only been keeping its farmer's base intact, it is also adding new farmers and new areas to its sales network year after year. As a result, the market share of feeds have gone up from 45% to 48% during the first half of this year and this will assure about 4.75 lakh tons sales as against 4.22 lakhs tons in FY '19 for the whole year with approximately 10% growth, provided the existing shrimp culture environment continues for the rest of the season, which appears to be quite possible in the second crop also. Coming to the shrimp processing and exports, as per the presentations made at GOAL last week in Chennai, the shrimp aquaculture production is projected at CAGR of 4.9% during the period from 2015 to 2021. According to this report, after recording a growth of about 5% in 2018 over 2017, i.e. from 6% to 11%, the growth is projected to be flat with normal increase of about 1% in 2019 over 2018. Thereafter, it is projected to grow at about 4.9% annually, till 2021.

The global production is projected to be about 4.8 million tons in 2019 and production by India is projected to be about 0.55 million to 0.6 million tons in this year. As per our estimate also, the production is expected to be about 0.6 million tons in this year in India same as in the previous year. During the first half- year of FY '20, 6139 tons of processed shrimp were exported by us compared to 5041 tons during the corresponding period of FY '19, registering a growth of 1098 tons at 21.78%. The combined capacity utilization of both the plants during the first half of FY '20 is 63% as compared to 52% during corresponding period of FY '19. The Company envisages to achieve a combined capacity utilization of about 70% by end of FY '20. During the first half of FY '20, 1670 tons of value-added products were exported as compared to 1039 tons during the corresponding period of FY '19 registering a growth of 54.82% as we stated earlier, we are focusing on the value-added products. It is the endeavour of the Company to focus more on the exports of value-added products and also increase exports to other markets other than US market.

Coming to the Government support, in our previous investors call, we had told you that several measures are being taken by the Central and State Governments to lay thrust on the development of fisheries, which is identified as a potential growth sector for employment creation and exports. However, the specific measures contemplated for growth of this sector are yet to be announced by the Government and it is hoped that it will materialize in due course. As we stated earlier, a separate Ministry has been created by the Government of India, but still the full active involvement in the development of the fisheries and allocation of files, the distribution of funds through the nodal agencies like MPEDA, CAA is yet to come from the Government. I think with this brief note on the present status, we will now take up the questions from you to answer.



Moderator: Thank you very much, Sir. Ladies and Gentlemen, we will now begin the question and answer session. The first question is from the line of Mr. Vimal Gohil from Union Mutual Fund. Please go ahead.

Vimal Gohil: Sir, just wanted some clarity, the feed volume growth guidance earlier was about 5% to 10%, for the first half of FY '20 you have already achieved 19%, Would you like to update this particular guidance or would you want to keep it the same and if it is the same, why is it so?

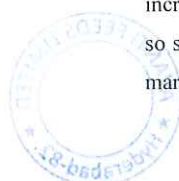
C R Rao: Normally the feed sales depend upon the movement of the culture and how it is taking place. One quarter over the other quarters sometimes what happens is the culture gets extended. For instance, earlier they were harvesting at a smaller size, now they are going for a bigger size, So naturally the duration of the crop itself gets extended, so that is the reason why in the first half we have registered a very impressive growth, but normally the last quarter that is October-November-December, if you look at the past record, it is normally the declining season because as the winter approaches the culture activity comes down, but we find that this year the culture is likely to be continued because in some of the places in India which were starved of rain in the last couple of years like in Andhra Pradesh, Nellore districts and other surrounding areas and also in Tamil Nadu where the rains were not there last year. This year we are getting good rains now. So we expect that the same trend would continue, but we cannot assure that it will be 19%, but definitely it will be slightly better than the corresponding quarters of the previous year, that is what our expectation is. Of course, too much rain also sometimes is not good, we expect but this will help the culture in this quarter also of October-November-December quarter. This will continue for the next quarter also that is Jan-Feb-March Q4 of FY '20. This will have an impact there also because culture continues there also, so we will have sales even in that quarter compared to better than earlier year quarters.

Vimal Gohil: Would you want to slightly increase your volume growth guidance outlook for the full year of FY '19 from 5% to 10%?

C R Rao: What we told is, last year around 420 we made and we expect about 460 to 470 this year, which means it is about 10% to 12% on an average for the whole year. If we get good culture it goes till January-February also, we may even cross that, it may go to 12% to 13%, so average would be 14% to 15% growth will be there.

Vimal Gohil: Sir, the second question is on shrimp processing- on the margins, despite the healthy sales growth of 15%, the margins are going down why, can I get some clarity on that?

Alluri Nikhilesh: There are two aspects to this - one definitely the market is becoming competitive as well as increasing the sales, we are getting into new accounts so basically we need to build the business, so sometimes to enter the account we are building the business and that is the first point, the market is very competitive. The second is most of our products which just happened to be that



they are in transit, so that is the second reason. Usually, you can expect the same 10% to 12% level like that is the normal level that we normally guide.

Vimal Gohil:

Sir, lastly on Bangladesh expansion what are the updates there?

C R Rao:

The performance for our first consignment which we have sent for the first crop, the performance was exceedingly good and the response from the farmers, recently we had farmers meet also there and this is quite encouraging. But only thing is in Bangladesh only Black Tiger culture is allowed and Vannamei - there is a lot of effort being made by the farmers and also dealers to get the Vannamei culture introduced into Bangladesh that is before the Government of Bangladesh. If the Vannamei culture is allowed, then we will be having a very good market and a big market from Bangladesh also. As of now, the market is around 10,000 Tons to 15,000 Tons now, and we are confident that definitely in the next crop, our share there also will increase and once the Vannamei is introduced, certainly we will have a very good market there because the adjacent Bengal their performance is exceedingly well, our feed and the Bangladesh farmers have very good interaction with the Bengali farmers and they know about our product and all, so definitely the Vannamei culture comes, we will have a big market in Bangladesh also. We hope that in the coming months in the second crop and all, we are trying to target more there in the Bangladesh market.

Moderator:

Thank you. The next question is from the line of Mr. Nitesh Jain from Birla Mutual Fund. Please go ahead.

Nitesh Jain:

Sir, basically I have two questions, number one on the similar lines the export opportunity for the feed business, so on the Bangladesh market as Mr. Rao Sir mentioned, I want to know like how big is the market like India for example is like 6 lakh tons, similarly how big is the entire Bangladesh market and is it predominantly the Black Tiger shrimp?

C R Rao:

Yes.

Nitesh Jain:

Thirdly, like who are the competitors, who is supplying feed currently there, this is the first question?

C R Rao:

Let me answer this question and then we will go to the next question. The Bangladesh market - as of now, it is around 15,000 tons which is only Black Tiger. They do not have Vannamei, so the Vannamei definitely will have a much more peak consumption, so lot of efforts are being made to introduce Vannamei in Bangladesh, we hope that it will be approved by the Government soon. If we increase it will definitely go beyond two to three times easily will go once they start Vannamei culture.

Nitesh Jain:

Like who are the current feed supplier?



- C R Rao:** CP is the main supplier there now.
- Nitesh Jain:** Sir, this 15,000 tons per annum or per month?
- C R Rao:** 15,000 per annum.
- Nitesh Jain:** That is a very small market I mean?
- C R Rao:** Very small market because of Black Tiger, once Vannamei is introduced, they will have more consumption and they are trying to undertake culture in more areas also, they have also large areas there, they want to do it, but they are looking for support from the Government.
- Nitesh Jain:** Secondly, Sir on the raw material side, usually you give an update in the beginning of the call only, Can you update us what is the situation there on the Soya meal and fish meal and other things, I mean slightly they have gone up?
- C R Rao:** Your observation is correct. Slightly it has gone up but nevertheless by our own formulations and combinations, we have been able to maintain the same level of performance for the feed in spite of the marginal increase. I hope that the soya crop is now due, it is almost ready for harvest. It starts coming in November somewhere around 10-11th November 2019, the new crop starts coming, but this year the production is likely to be slightly lesser than last year, but the rumors are making round that it is around 25% down, but in fact it is not so. It is about 10% to 15% may be reduction in the production, but the price- wise, one good news is that the Indian market the price is likely to be stable or remain slightly less than that. It is not likely to increase much because of good crop elsewhere in the world also like Brazil and US, they have also good crop not much of price increase we contemplate in the rest of this year. We hope that more or less same price level will be maintained. On the fish meal side, it did go up actually in the last this thing, but it again came down. The quality which we use is around Rs. 41 now, which went from 38 to 41 about Rs. 3 it went up mainly because of the Minimum Support Price being announced by the Government. The Central Government announced this last time Minimum Support Price, so that has really taken the price up and there are lot of stocks available and exports are not taking place now, because they are not competitive compared to global markets like the US or Brazil, so that is why I think we expect that the prices will not go up much, more or less they remain on the same levels as in the last year.
- Nitesh Jain:** Sir, broadly basically this PBT or EBIT or whatever I mean the EBITDA margin would by and large be maintained for the period we expect?
- C R Rao :** Yes, it should be more or less that.



Nitesh Jain: Lastly, how do you read the current shrimp prices which like have gone up for at least for the larger sizes, so you think there could be a big boost to the first crop in 2020 calendar year if the current buoyancy sustains?

Alluri Nikhilesh: Definitely, that is what we feel but normally when we talk with the farmers, they say prices are low, even if it goes up Rs. 100 tomorrow, they are going to still say the price is low, but anyway that is our expectation, honestly that is what happens now.

Nitesh Jain: Global shrimp prices are sustaining at higher levels, so far?

Alluri Nikhilesh: From the last investor call till now, they have been more or less stable. I think from the last seven weeks, some sizes are 1% down, some sizes are 1% up, but overall it has been more stable and that is what all of us want.

C R Rao: The bigger sizes of shrimps are grown now, they are waiting, farmers earlier in panic last year they did harvest at smaller sizes, but this year they are waiting so the prices are also good, they are able to make that.

Alluri Nikhilesh: I would not say that they are good prices, definitely better prices than last year, I think it is a comparatively fair price, it is covering their cost of production which it was not covering last year, but again it depends on a multitude of things right about how the farmer does manage his crop, what sizes he targets and which feed he uses and things like that, but overall I think we are in a better situation than last year definitely, but if you say we are in a very good position, I would not say we are in a very good position, I would say it is in comfortable level.

Nitesh Jain: Lastly, Mr. Nikhilesh can you comment on the export market for the processing business, I mean this entire inventory hangover which was there last year is now completely out in US and the material is moving freely, what is your sense?

Alluri Nikhilesh: Again, this you can say like a casual discussion when we ask our buyer what is the situation, they always say that there is lot of products and because of course they are trying to negotiate for a better price, But honestly on cumulative I think product is moving well in the US, product is being sold I think because my personal opinion is that the economy is a good, lot of jobs and unemployment level is very low, so I think lot of people have enough money and they are earning money to spend on a premium category product like shrimp, so it is moving well and product that has been held up from last year, most of it has been moved out and most of the new products are being moved out now. From what I see, it is very healthy not only the US market, the other markets like China and Japan, there also they seem very healthy this year.

Moderator: Thank you. The next question is from the line of Mr. Praveen Sahay from Edelweiss Broking. Please go ahead.



Praveen Sahay: Sir, my query on the volume of the feed as in the previous question you had mentioned that the feed volume would be in the range of around 4,60,000 Tons to 4,70,000 Tons for a year, if I consider those the second half you are expecting a no growth, a flat number?

C R Rao: What I said was the total consumption for the year as such would be same as the last year which is about total 11 lakh tons in India. Our share last year it was 4,20,000 Tons which will go up to 4,50,000 Tons to 4,75,000 Tons, which means it is about 10% growth -that is what I said.

Praveen Sahay: For the second half then that will be flat, some 2% to 3% of growth if I just calculate on the basis of your number?

C R Rao: If you look at the past trends, normally the first- second quarter is the peak quarter, second and third that is the April-May-June and July-August-September normally they are the peak, April-May-June is the best quarter if you look at the past records, but what we are trying to see the trend that now is that it is continuing even in the third quarter, which is October-November-December and which will also have an impact on fourth quarter January-February-March, So total together we said there will be about 10% to 12% growth will be there, over the last year, that is what I was mentioning earlier.

Praveen Sahay: Basically, I am not asking for an entire year, I am just saying for the second half because you had already delivered a 19% of growth in the first half and the total volume of around 2,67,000 metric tons, if I will go with your numbers, it will be second half of around 2,11,000, so that will be a growth of around 6% to 7%, so is it the way actually you are guiding way forward in the year?

C R Rao: Let me explain to you again, I just explained this earlier also that the aquaculture does not happen on quarter-on-quarter basis measurements. It will depend upon the culture situation.

In this year what happened earlier the April-May-June was less and it picked up in subsequent quarters and the culture continued for that and now the stockings are taking place. It will continue up to January-February that is what our expectation is. If you look at the past this never happened like that, November-December it gradually comes down, again the fresh stockings start in the month of February, that is normal trend of aquaculture. It is not like in any other industry where you can specifically say quarter-on-quarter growth, that is the reason in my initial note, I just mentioned that instead of comparing on quarter-on-quarter basis it is always better to compare a cumulative on six months or nine months basis so that you can have a better idea about what is the growth. If the first quarter spills over to second quarter, then you will find a big jump in the second quarter which happened now compared to the corresponding quarter of the previous year or corresponding previous quarter, so that is not the correct assessment in aquaculture. We have to see the total cumulative performance, then feed sales also has to be taken only on that basis. Taking that into consideration, we said that the last year sales was 4,20,000; this year it



will be around 4,60,000 to 4,70,000 somewhere in that range which means about 10% to 15% growth.

Praveen Sahay: Coming back to the last year number of FY '19 as you were explaining that is 11 lakh metric ton of total market last year, you did of around some 4,20,000 metric ton, but that is not give you a 48% or 49% of market here, the lower?

C R Rao: It will be like 11 lakh tons does not mean that exactly it is the feed conversion ratio will be between 1.5 to 2 depending upon feed. Our feed consumption is that we give a better conversion rate, entire 11 lakh tons will not convert into 7 lakh Tons of production, so what we have to see, we go by the average numbers. These 11 lakh or 10.5 lakhs Tons, we do not have a precise figures as to exactly how much, but we calculate on the basis of the region wise and aggregate the total consumption and we arrive at the total estimated our share in the market. There is no official data available to say that so much feed has been consumed, No agency, Government agency or private agency, has maintained the total feed consumption, It is the estimates made by each company so it is around maybe 1% or 2% variance is always there.

Praveen Sahay: Sir, if I look at in your fourth quarter call and the presentation you mentioned 49% of market share, so look at the calculation, if I look at for 4,20,000 metric tons of US 49% it comes out to flat 60,000 metric tons of our total market and if you are saying of 11 lakh metric tons then it is a big variation actually for the entire market?

C R Rao: What I told is 7.75 lakh tons till now plus another 3,25,000 tons for the rest of the year put together it is 11 lakhs that is what I told. These numbers feed consumption as I told you, we do not have exactly how much each company is selling the feed nor we have each farm how much feed is being consumed- these are all the estimates. The variance of 5% to 10% at present is quite possible. We go by the market data, we do our own survey and the production is 11 lakh tons is estimated sales, it could be 10.80 or it could be 11.20, and second thing is the survival rate also counts. If the survival rate is high, the consumption will be high, if the survival rate is low, the consumption will be low.

Alluri Nikhilsh: Also just to add to this - it also depends on the counts that are being in the farm , it is more complex than just like putting a number onto the paper, it depends on what counts are in the farm bigger counts consume more feed, lower counts consume less feed and also the second point also being that we usually tone down our market share number when we are giving it out from our internal estimate, So we try to give a best estimate when we are providing something to our investors.

Moderator: Thank you. The next question is from the line of Mr. Nitin Gosar from Invesco Mutual Fund. Please go ahead.



Nitin Gosar: The question is pertaining to the raw material, you touched upon soya, can you please touch upon fish meal and wheat flour, how is the environment?

C R Rao: Fish meal also is likely to be on the same level this year. The only thing is what we are seeing is recently the Government has levied 5% GST on it. We are trying to represent the Government not to charge 5% on that, but Finance Minister recently has given that from July 1, 2017, to September 30, 2019, it is exempted from GST. So we are now again making representation to continue the status, not to charge GST on fish meal because this is going into the production of shrimp which is for ultimate export purpose, so this is what we are trying. If that 5% is levied then the cost will go up, but for that by and large the price remain at around Rs. 89 to Rs. 91 per Kg of fish meal, that is the range. The catches are also not exceedingly good, but they are okay, they are able to produce the fish meal because now the season has started, fish catches are reasonably good, now and then it is less but by and large the rate is likely to be between Rs.89 and Rs. 91 per kg.

Nitin Gosar: Flour?

C R Rao: Flour it is around Rs. 29 per Kg, whenever the Government announces minimum support price, the prices of wheat flour tend to shoot up, so we are expecting that it will be around Rs. 27 to Rs. 29 per Kg., that is the range which we are looking for. Again, I am saying that they are going to announce Minimum Support Price to all the wheat and etc., but we do not know what they are going to do, but it will be around Rs. 27 to Rs. 29 and an average of Rs. 28 per Kg.

Nitin Gosar: The question pertains to shrimp export industry, so last one year has been quite slow for the industry in terms of the present behavior have been on the end realization, so with recent improvement in realization, is it good enough to say that the farmer profitability is back and probably the production will be in-line plus the export realization are also healthy?

Alluri Nikhilesh: Just one thing- I think one of the concepts that you have got is not accurate. The realizations are lower actually because the raw material prices moved up higher than our realization price in the export market, so the profit the company realizes is actually lower for the packers. For the farmer like I answered the previous question, it is not like the farmer community is more comfortable than they were last year, but I would not say that they are very happy about the current price levels and everybody expects pricing level to go higher, but it is in a good level from what I see as a personal opinion, so normally from what I say if we just take a look at the trend, last year the prices were not good so the first crop was down and then once the prices move to a more comfortable range, the farmers came forward and started their activity again, and there is stability now and looking at all these factors in the business I feel that there is definitely a more comfortable situation for them to continue farming and increase their farming size. There are lot more farmers who take in a holiday and if all of them come forward, definitely we can expect a higher crop and there is potential in India that is the most important thing for new farmers and also existing farmers, so overall long-term I feel it is a very healthy industry for India.



- Moderator:** Thank you. The next question is from the line of Mr. Manoj Garg from White Oak Capital. Please go ahead.
- Manoj Garg:** Nikhilesh, if we look at your shrimp processing business, I think we have been highlighting time and again that obviously the focus is more on the value-added and even on the opening remarks also, Mr. Rao had indicated the same thing, however, little bit surprised in terms of the realization in the margins for the quarter, I think despite the high sales I think the previous participants also asked this question that despite the higher sales, the margin probably in the processing business is lowest in the last four to five quarters, so if you can put some more light out there?
- Alluri Nikhilesh:** What we have seen - the raw material price increased about 4% to 5% higher than the realization side, just in a broader picture because we increased the number of value-added products, we did not get impacted as much as we should have because the first thing is that about a majority of about 70% to 75% of our cost is the raw material prices, it is an expense of commodity. If the price of this commodity increases a lot, that means that our sales price also has to increase relatively.
- But in this instance what happened was the raw material increased 5% to 6% but the realization increased much less. So that was the gap that we saw reduction in margin, actually from just a calculation that I think our margin should have fallen to 8%, but since we increased our value-added products we actually were able to maintain it in the guidance that we always give, which is 10% to 12%, but the other thing is that we are continuing to increase our value-added products not only the existing products that we do, but we are also working on adding new line to make sure any competitiveness in this commodity business does not affect our margins.
- Manoj Garg:** Second thing like you have been indicating in the past instances that we have started putting lot more efforts on the Japanese market and probably we have got an entrance through one customer, so if you can take us through how the progress out there and how do we see the scope in terms of processing business was out there?
- Alluri Nikhilesh:** First of all, it is not only one customer there are few customers that we are working with and the reason why I highlighted this was not because this business is a substantial business, but it is only that we are focusing on new markets. The existing business that we have in the market, our existing customers are very happy with our supplies and also we are working on increasing our customers over there where they are very specific on certain products we are increasing the production capacity of those products. The second, we are also introducing some new products which are specific to these markets, it is not machinery mainly it takes a multitude of things because it is new product development, it takes probably like six months to one year to introduce a new product, so we are working on it right now. We are working towards that, once we reach I think in future probably in the next six months or 12 months or 18 months, you can see that we are doing more volume to these markets, But another thing that I want to also point out is these markets are something that we are improving and adding into our account to reduce our risk of



dependency on the US market, But this quarter our performance in the US market has been very good. One thing is because of it even providing very good quality of products, our customers are very happy with the quality they are receiving from us, our on-time deliveries are multitude of factors which come into the business and also we are opening a lot with new accounts, so we have seen good increase in the US markets which is very healthy because it is already a very big market and we are also increasing in it, so it is not still we have not saturated, we are still growing very well in these markets as well.

Manoj Garg:

This question is for Mr. Rao, Sir like are we going to get any benefits of this new tax regime, which Government has announced and even like are we looking to take advantage of the newer tax regime for the new manufacturing, can we participate in the new tax regime also in any way?

C R Rao:

The new tax regime- as mentioned earlier that Avanti Feeds is opting the new tax regime, which means is a lesser tax by about 9.7% to 10%, approximately 10% less tax. Since we do not have any MAT tax credit or we do not have any carry forward losses or additional depreciation, none of these benefits which are not available under the new regime are not there for Avanti Feeds. So we are going to opt for it, we get the advantage of that 10% less tax that is one thing which we are doing. As far as the frozen is concerned since we are availing the 80-IB which is the tax holiday for first five years, we are in the middle of it, this is the third year, so we are almost the new plant whatever the profits generated by the new plant is exempted from tax till 2022, so we will not take that option and we take the 80-IB benefit, the tax holiday and will have to review at that time because still we will have MAT credit. We expect that we will have about Rs.70-80 crores of MAT credit also will be available at the end of that year then we will have to see whether it is advantageous to go for the option or continue this, we will give you at that time but for the time being, Avanti Feeds has opted for the new tax regime and Avanti Frozen is continuing with the existing tax structure.

Moderator:

Thank you. The next question is from the line of Mr. Dheeresh Pathak from Goldman Sachs. Please go ahead.

Dheeresh Pathak:

Sir, if you do not mind can you repeat the guidance for the shrimp feed volume for the full year FY '20, at one question you gave 10% and you mentioned 15 and then you gave some other number, so if you can repeat that guidance again?

C R Rao:

First, let me share with you the absolute quantities that are going to be consumed in India versus our Avanti Feed sales. The total estimated sales for FY '20 is 11 lakh tons of which we hope to get about 4,65,000 to 4,70,000 tons that is what we have. So far we have done 2,67,000 up to six months, so the balance we will make up and by end of the year we will be reaching about 4,60,000 to 4,70,000 tons.

Dheeresh Pathak:

On the volume on the processing side, if you can give the guidance how much we expect to do for the full year?



- Alluri Nikhilesh:** You can expect 10% increase from last year minimum.
- Dheeresh Pathak:** Sir, this is much lower than what you had, sorry I understood last time you had given about some 25% to 26% growth guidance?
- Alluri Nikhilesh:** No, I do not think we gave that guidance.
- Dheeresh Pathak:** So only 10%, so can you just explain?
- Alluri Nikhilesh:** Minimum 10%, When it comes to the frozen business, it is a contract basis, so we finish the contract for the December sales, so that is their year end, about if you see 80% of our product goes to the US market and coming December all the products which is the peak season November and December for their sales which is basically Thanksgiving, Christmas, New Year, they call this the holiday season sale, once all these sales go into the US after December once they finish their holidays, everybody is going to get back to the office and review their stock positions and give the new contracts only in the mid or end of January or early February, so it is very hard to predict right now because we need to see how much it will sell over there also, so it is very hard to give, so next quarter will give you better update.
- Dheeresh Pathak:** Last question for the raw material typically you gave the quarter average prices, Can you share those numbers for the three raw materials the average cost for you for the quarter?
- C R Rao:** Feed raw material- I said that it is expected to be more or less it will be on the same level as in the last year in the first and second quarters also, the third quarter also it will be the same level.
- Dheeresh Pathak:** Actual per Kg cost for Q2 FY '20 that you incurred in this quarter?
- C R Rao:** Q2 it is around Rs. 52.5 per Kg, we take only major three, soya, wheat flour and fish meal, Rs. 52.3 per Kg that is what the raw material cost is.
- Dheeresh Pathak:** What was the individual breakup, soya, fish and wheat?
- C R Rao:** The prices are there, but not the percentage, combined only we can tell you, the rate I can give you that the Q2 average rate of fish meal was about Rs. 89.25 per Kg and soya was Rs. 41.60 per Kg, wheat flour was Rs. 24.51 per Kg.
- Moderator:** Thank you. The next question is from the line of Ayush Mittal from MAPL Value Investing Fund. Please go ahead.
- Ayush Mittal:** Sir, first question is around the GST which might get introduced on the fish meal, if that happens will we be increasing the feed prices?



C R Rao: Definitely, marginal increase will be there, but compared to the previous quarter than last year if the fish catches are good and the prices come down which happened two years back, then it will be at the same level, But it will have some impact 5% would mean about Rs. 3 to Rs. 4 on the per KG cost.

Ayush Mittal: Sir, second is the question which we have asked earlier also around the cash balance that we have, but we keep seeing that nothing has been done on the utilization of the same, it is a request that the dividend payout should be increased because on this cash generation is pretty high?

Alluri Nikhilesh: Ayush, I think for the last many conference calls you brought out the question we gave in the same reply every time that we are looking for good opportunities to utilize the cash or the reserves that we have, so that we can grow the company.

Our focus is to grow the company because you know very well it is so hard to raise money and the interest levels are very high, Every quarter the interest rates have not changed now, so even now raising capital at low interest rate is very difficult and we have been saying we have been looking for new opportunities.

Ayush Mittal: We do not want the company to have debts, but the thing here is that even if you do something on the acquisition or may be on expansion, the capital outlays or not that high in the industry and given the cash surplus we are sitting on and the cash we generate, perhaps there is a need to relook at the dividend payout ratio?

Alluri Nikhilesh: It depends on what industry, I mean I cannot say what type of opportunities we are looking, but they are all big, medium and larger, looking at all types of scale.

C R Rao: Let me just add to what Mr. Nikhilesh said, tell me that today on any investment, what is the pre-tax and post-tax returns that you can expect. Can you tell me any industry today, we are in the month of almost in October-November. Today, looking at the economic situation- sluggish economy with this present situation, what is the Return On Investment that you can expect, you please let me know the industry which has got the highest Return On Investment and what is the reasonable return that an investor can expect not compromising on the safety and liquidity. Please let me know which are the industry. We are also seized of this matter very well, at the Board level we discuss almost every time but we will have to see. Today, if you look at an average Return On Investment that we are making, our post tax is about 5.5% to 6.5% is the Return On Investment. The policy of the company is that the first priority is given to the, we have told already as Nikhilesh mentioned, is the security of the principal the investment as such, secondly is the liquidity, we should be able to liquidate our investment and get the cash back as and when we require. The return is given the third priority. Considering these aspects, we decide our investment policy and you tell me, we are looking for such an industry where our investors value goes up and we get a good consistent, sustainable returns on the investments made. It is the endeavour of the Company to take care of the investors and at the same time money which



we have hard earned money we keep it, we do not want to invest without going into all aspects of the risks involved in the new projects, that is the reason why we are taking time as Nikhilesh said, definitely we are working on that we will communicate at the appropriate time.

Moderator: Thank you. We move to the next question from the line of Mr. Dipesh Kashyap from Equirus Securities. Please go ahead.

Dipesh Kashyap: Sir, just couple of questions, do we have any CAPEX plans this year or next year?

Alluri Nikhilesh: We do not have any large CAPEX plans, there are some CAPEX plans from feed side, Mr. Rao will update. For the processing side, we are working on CAPEX plans on some new equipment and also establishing new lines, but it is not large CAPEX, it is very small CAPEX but not any substantial amount right now.

C R Rao: We are working on the feed also, we have been telling you that one of the Fish Feed and other types of the animal feed, we are working on that. Definitely, in due course, we will come with some concrete proposal, that projects we are working on that, we will come to you at the appropriate time, but as Nikhilesh said it will not be a big huge investment like that, which we do not want to risk at this point of time, we are reading the markets.

Dipesh Kashyap: That I understand, I just wanted to know that in this year we are targeting around 70% utilization of our processing capacity, is that right?

Alluri Nikhilesh: Yes, you can expect 70% and also you can expect it to keep growing for the at least next five to six quarters.

Dipesh Kashyap: So 70% - 80% utilization is kind of optimum capacity, so you may have to increase your capacity in processing, by how much can that increase, 10,000 -15,000, not worried about the CAPEX because I know the number will not be huge, but how much capacity can you increase like without taking any more land or any new plant?

Alluri Nikhilesh: Just on this Mr. Dipesh, We are focusing more on value-added products, so it is more you do not expect like large increase in the quantity or the tonnage of the finished products, it would be smaller but better margins that is what we are targeting and we do not want to fight with the commodity side of the business with everybody, we are looking to do more specialty products where people look to partner with the good company such as ours, so that is our target because the commodity space has become very, very competitive right now. We are doing a lot of that business, we are going to grow that side of the business as well but the larger focus is going to be put on value-added products.

C R Rao: I may add to what Nikhilesh said. Dipesh, the thing is that we do not have to do much investment on the infrastructure. By and large, we have all the investments, the infrastructure available and



we may have to add may be some machinery and processing equipment to go for high end value-added products which we can do in a very short span of time. It is the moment that we get the orders and we look at potential market, we are ready to take that up immediately that will help us to increase the capacity utilization and also total volume of exports that we can do.

- Dipesh Kashyap:** Sir, last question, you gave a number of 15,000 tons per annum in Bangladesh to a previous caller, just want to understand is it your size or the total market size you talked about?
- C R Rao:** It is the market size Dipesh, it is not ours. We have just started. The first crop we have done this year it has come up very nicely, the results were exceedingly good, the farmers are very happy. We are able to get lot of farmers attend the meeting, so they are all willing to changeover and come to Avanti Feeds and we are planning for the next season also.
- Dipesh Kashyap:** Sir, according to UN data, the total shrimp production in Bangladesh is around 3 lakh tons and I think 15,000 tons is less than the Nellore area you are doing?
- C R Rao:** Three lakh tons maybe sea-caught also.
- Alluri Nikhilesh:** You should really toned down these reports, because organized sector where they use feeds, where they have farms, where they have infrastructure is very less like where they are doing multiple species in one pond or they are getting sea-caught is different.
- Dipesh Kashyap:** For 15,000 tons, is it worth to go to Bangladesh because I think you can target more market in Orissa or West Bengal, because 15,000 tons?
- C R Rao:** We are already doing in Orissa and all, we are increasing Dipesh. The thing is that we are targeting because shortly they are likely to go to Vannamei culture Bangladesh also. They are going to increase the area of culture and also shift to Vannamei from Black Tiger, so once they shift to Vannamei culture definitely the consumption will be much higher.
- Moderator:** Thank you. The next question is from the line of Mr. C. Narayanan from BNP Mutual Fund. Please go ahead.
- C. Narayanan:** Sir, if you can throw some light on Indonesia the joint-venture, if you can speak about it one, and second on the fish side also we were trying to start a business, so if you can talk about that as well?
- Alluri Nikhilesh:** On the Indonesian side, I think there is progress, but we do not want to comment more about it right now because majority of the project is owned by Thai Union, which is a public listed company and they are planning, it is confidential information so I do not want to comment more about it now, but we can give out more in the future calls. Right now it is not a good time to discuss about that.

- C R Rao:** I can add to what Nikhilesh said. We have only 5% investment and the major investment comes from Thai Union, so they are monitoring and we do not have the updated information on that. We will share with you as and when we get it, perhaps next.
- Alluri Nikhilesh:** But definitely on that side, the project is moving forward.
- C. Narayanan:** How big is the market there?
- Alluri Nikhilesh:** Indonesia is a very, very big market. In the Southeast Asian producing countries, it is the second-largest producer.
- C. Narayanan:** On the fish side?
- Alluri Nikhilesh:** Fish - again this is a new project that we have been working on, that is actually to be clear we had a meeting, recently in past one week regarding it as well moving this project forward, but as of now, there is no meaningful update to give right now, but we are working on. There is a lot of background formulation work, partnership, market update. If you see the fish market, it is not an export market, it is a domestic market predominantly, so it is a different ball game altogether, so we are working doing market analysis, see what is the right time of our launches, what species and things like that.
- C. Narayanan:** How big is the domestic market be for fish?
- Alluri Nikhilesh:** At the moment, it is not very large, we do not have the exact number because actually if you see the fish market, it is not like the prawn market where there is only one species dominating the whole market. In fish there are several markets like Fungsi, Tilapia, Sea Bass, there are so many which are segregated, so at the moment we are looking at one or two species, meaningful species which we see good potential in the domestic market in the long-term, so we are working on it, but as of now, there is no meaningful update to give.
- Moderator:** Thank you. The next question is from the line of Mr. Nitin Gosar from Invesco Mutual Fund. Please go ahead.
- Nitin Gosar:** Sir, one book-keeping question, what is the export incentives that has been booked for the quarter?
- Alluri Nikhilesh:** It is Rs.19.3 crores.
- Moderator:** Thank you. The next question is from the line of Mr. Manish Poddar from Nippon India AIF. Please go ahead.



Manish Poddar: Sir, can you provide the guidance on the processing segment because in one place you had mentioned that we will go at 70% utilization and in other place you had mentioned that we will try to do at best 10% growth in volumes, so what is let us say the guidance for the full year as such?

Alluri Nikhilesh: Basically, like I have told, normally this period is very grey area to ask for a guidance right now, the reason being that we are coming to the year-end for the US market which is the largest, so right now usually when I ask my customers or my clients in the US for their guidance and I can provide my guidance. But right now everybody is in the position of moving their stocks and they would only get back with a guidance next year, so for the next call I can give a guidance, but right now I can tell minimum healthy percentage of 10% increase you can expect.

Manish Poddar: When you say 10%, it is second half of last year versus second half of this year, that is what you mean?

Alluri Nikhilesh: For the full year.

Manish Poddar: For the full year, because if you build in 10% that is largely flat, there is no growth in the second half that is what you are trying to suggest?

Alluri Nikhilesh: That is not what I am trying to suggest, what I am suggesting is, I would need to give you an update next time because right now we are in a grey area, but I can tell that I am confident on a minimum of 10%.

Manish Poddar: One more thing, this question was asked earlier also, when you are looking at the processing business and pricing per ton let us say the data which is available for the last four to five years keeps on moving up and down badly because of either the mix or the season, so is it the right way to look at that segment in terms of EBITDA per ton or how should one look about it?

Alluri Nikhilesh: I am sorry I did not get your question.

Manish Poddar: Let us say, if I will take processing pricing per ton in the processing segment because of mix and because of the order sizes and the regions which you will be catering to, the pricing per metric ton keeps on varying, so let us say in FY '16 it was somewhere around 6500 per metric ton, in FY '18 it was 7400 per metric ton and this number now in this quarter in the first half was about 6800 per metric ton, so is there a right way to look at it from an EBITDA per metric ton because of the mix in sizes?

Alluri Nikhilesh: To be frank, you cannot monitor it in such a way because this market or this business is more dynamic- it changes two times per week minimum, the price goes up or down, like it keeps changing every week, it changes every month, so it is very hard to monitor it in such a way, a good way to monitor it is to look at the guidance of the company, so what we try to do when we



are selling or buying or anything is to maintain a minimum 10% to 12% margin in the business like that is the guidance that we provide. So I think that is how you should be looking at it as well and also another thing is to monitor the raw material prices which is a major constituent of the cost.

Manish Poddar: So effectively if the end product price, the share prices let us say a few when you are giving a quote to the customer, you will do an X plus 10% or 12% that is how?

Alluri Nikhilesh: We do not do that, it depends on the mix of the product and what is the market situation, what are the acceptable levels in the market, our cost, there are multiple things, but it is not X plus 12%.

Manish Poddar: I am just trying to understand what is the interest rate let us say which is charged for the sector at large?

C R Rao: Interest rate were LIBOR plus 0.55 for our export (PCFC) packing credit, it is around 11% on the other CCs, we do not use any of this - you know that we are not using much of these facilities.

Moderator: Thank you. The next question is from the line of Mr. Ashish Thakkar from Motilal Oswal. Please go ahead.

Ashish Thakkar: Nikhilesh, you have been saying that we are focusing on value creation so is there any scope for margins to expand from current levels in either of the businesses?

Alluri Nikhilesh: That is where our focus is at. We want to increase the margins in the business and at the same time, it is a whole mix, we want to do value-added, we want to do commodity. Right now, our business is more commodity like the rest of the Indian exports but we want to get in more value addition where this value addition is being mostly done in countries like Vietnam and Thailand. So we want to get that value addition, high-value products into India into our factory, so we can give a broad range of products to our customers, number one, and also we can realize better margins with the mix. But both businesses are very, very important, why we are saying value-added is that, we have been building up that business from almost zero from the last two years, so we are trying to get the right mix. If you have too much only value-added products then it is very slow moving product, no volume, high overhead, but of course great margin, so we need to have a good mix of everything into the company that is what we are trying to build.

Ashish Thakkar: Okay, this may not necessarily come at the cost of volume, right?

Alluri Nikhilesh: Definitely not the cost of volume that is what I am saying we need to give the right mix. We should have perfect mix of everything in the business.

Ashish Thakkar: On the processing side two questions, is Bangladesh a good market for the processing business?

- Alluri Nikhilesh:** Do you mean to process or to export?
- Ashish Thakkar:** To export?
- Alluri Nikhilesh:** No, it is not.
- Ashish Thakkar:** Last question on the US side of the market, are we looking to change any structural in the way we operate in the US just like some other companies might be having their own distribution in the US, is this something on our mind?
- Alluri Nikhilesh:** As of now, we want to stick to our existing business model, but of course like you asked, we are watching all the changing business environment very cautiously to see how the business models are progressing in the industry. But we need to take a very decisive call when doing something like because it changes the model of the business itself, but we are closely monitoring the changing business model in the industry.
- Moderator:** Thank you. We take the last question from the line of Mr.Ashutosh G. from Avendus Wealth. Please go ahead.
- Ashutosh G.:** Sir, just wanted to understand the impact of these trade benefits being withdrawn for Thailand by US, how does this impact us, would impact us positively but will the slow in maybe in short-term or long-term how basically it works for us?
- Alluri Nikhilesh:** You are talking about the removal of GST for Thailand, So first of all the same GST has been removed from India in March. This GST, when the US Government has given out that they are removing GST, it has a list of products under the GST regime and shrimp is not included in that either for Thailand or India-so there is no net impact for both the countries.
- Moderator:** Thank you. Ladies and Gentlemen, that was the last question for today. I now hand the conference over to Mr. Nitin Awasthi for his closing comments, over to you, Sir.
- Nitin Awasthi:** Thank you. On behalf of East India Securities, I would like to thank the management for their time and also the opportunity to host the call that was given to us. I would also like to thank everyone for participating in the call.
- Moderator:** Thank you very much members of the management. Ladies and Gentlemen, on behalf of East India Securities Limited, that concludes this conference call. Thank you for joining us and you may now disconnect your lines.



