"Apex Foods Limited Q3 & 9M FY19 Earnings Conference Call"

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Moderator: Ladies and gentlemen, Good day and welcome to the Apex Foods Limited Q3 & 9M FY19 Earnings Conference Call. 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 the operator by pressing "*" then "0" on your touchtone telephone. Please note that this conference is being recorded. I now hand the conference over to Mr. Subrahmanya Chowdary Karuturi. Thank you and over to you, sir.

Subrahmanya C. Karuturi: Thank you Karuna. Good evening everyone and a warm welcome to our post earnings conference call for the quarter and 9M ended 31st December 2018. I have with me on call Mr. Vijaya Kumar – our CFO and Stellar IR Advisors - our Investor Relation Advisor. We hope that you all have received the Q3 FY19 Investor Presentation and have gone through the same. We have also uploaded it on the stock exchanges and company website for your reference.

Before I begin discussing the financial performance, allow me to give you a broad summary of the quarter gone by. As you are aware a little over 75% of our business is driven by the United States where the winter has been harsher and longer than normal. With a muted demand and the existing inventories of our customers, we faced a challenging quarter with regard to our volume sales. However, you would be please to know that we have taken certain positive steps to foster growth by diversifying into markets other than the USA and EU.

For the first time in the current quarter we have forayed into the new markets like China, South Korea and East European countries. We look forward for a good business starting with this quarter, that is, the last quarter of current financial year itself. Further we continue to increase our presence in the EU with the share of EU growing from 17% to 18% in FY17 to 21% to 22% in 9M FY19, despite the strict quality norms and checks placed by EU authorities on Indian processes. We aim to better the mix further in the coming years as we continue to add new customers and markets. We believe that these steps will also help us in effectively utilizing our new capacities which is coming online along with our new product line under ready to eat category.

Now I would like to share updates on our capacity expansion.

First and foremost, on our new project - the last leg of the civil construction works is being done and the machinery is being installed. Construction of the cold storage building has been completed and been ready to do operation as we speak. We expect and are looking forward to start the trial production towards the end of the current quarter that is Q4 FY19. We expect the full capacity of 20,000 metric tons per annum from these new plants to be available from FY20 and hope to achieve the utilization of around 70% on the total capacity of the company in the next financial year. As for the CAPEX incurred, of the total planned outlay of almost Rs. 90 crores, Rs. 80.2 crores have been incurred as of December 31st 2018.

Secondly on our new hatcheries - we have invested into two newer hatcheries, one at Srikakulam district in the North Eastern part of Andhra Pradesh bordering the State of Orissa with a breading capacity of 115 million SPF seed per cycle and commercial production started in January 2019. The other hatchery is located near Angul Southern side of AP where a breading capacity of 135 million SPF seed per cycle is available. The construction has been completed and we are waiting for the government approvals post which we can begin commercial production. With these two new hatcheries coming online, the total count increases to 5 hatcheries having a combined breading capacity of around 1.4 million specific pathogen free seed.

Now our CFO Mr. Vijaya Kumar will explain the financial performance for the quarter and nine months ended December 2018.

Vijaya Kumar: Good evening everybody. I am hereby presenting you the highlights of the last quarter and the first nine months of FY19

Nine months of FY19 key highlights - Our total income including net revenue and other income stood at Rs. 729.2 crores as against Rs. 812.4 crores in the same period of last fiscal. The volumes stood at 10,435 metric tons when compared to 11,140 metric tons in 9M FY18. The average realization was Rs. 699 per kg versus Rs. 729 per kg in 9M FY18. At the EBITDA level we reported Rs. 93.5 crores as compared with Rs. 102.3 crore in the same period of last fiscal. While absolute EBITDA was lower year-on-year EBITDA margin rose marginally to 12.8% in 9M FY19 versus 12.6% in 9M FY18. Profit after tax stood at Rs. 52.4 crores as compared with Rs. 59.1 crore in the same period of last fiscal a year a drop of 11% year-on-year. PAT margin was largely maintained at 7.2% in 9M FY19 versus 7.3% in 9M FY18.

Now coming to the third quarter of FY19 key highlights - Our total income including net revenue and other income stood at Rs. 220.9 crores as against Rs. 267.1 crore in the same period of last fiscal. The volumes sole stood at 3067 metric tons when compared to 3542 metric tons in Q2 of FY18. The average realization was Rs. 720 per kg versus Rs. 754 per kg in Q3 FY18 almost the peak of last fiscal. At the EBITDA level we reported Rs. 22.9 crore as compared with Rs. 34.3 crore in the same period of last fiscal. EBITDA margin contracted to 10.3% in Q3 FY19 versus 12.6% in Q3 FY18. Profit after tax stood at Rs. 11.3 crores as compared with Rs. 18.8 crores in the same period of last fiscal. PAT margin stood at 5.1% versus 7% in Q3 of last fiscal.

Going forward we expect demand to improve and our capacities to continue to be optimum utilization. We continuously strive to reduce our cost via backward integration and enhance our product offering to customers by value addition thereby improving the profitability of our business.

That is all from our side. I would now request the moderator to open the call for question and answer.

Moderator: Ladies and gentlemen we will now begin the question and answer session. The first question is from the line of Nitin Gosar from Invesco Mutual Fund. Please go ahead.

Nitin Gosar: Just wanted to understand with respect to the US market, you commented that the market is going a rough seasonality phase; when should we expect this phase to stabilize and the inventory levels to normalize?

Subrahmanya C. Karuturi: Firstly, with regard to the US market, as mentioned because of the climatic conditions and overall inventory pile up, there has been a slowdown. I also mentioned in my last conference call if you remember that the prices which had corrected definitely have increased. Some of the big customers have been promoting shrimp more aggressively and in order to pick up volumes they also have been offering discounts so that consumption could also increase. So we are already seeing the impact of the correction of pricing in the current financial year reflecting at the end consumer level also so that the end consumer has more affordable shrimp and so that it creates an interest for them to consume more. So we are already seeing that results and we expect the inventories to be taken care. The first and foremost the retail is mostly absorbing these products. We believe the food service industry as well as the restaurant chain will follow suit in promoting more of the products and we expect the results to be much better once the winter gets done and now the Chinese New Year is also just getting ended we expect the consumption to be picking up. We already are seeing that our end customer (not just our main customer but also the end customers) are doing the needful to increase the consumption.

Nitin Gosar: Just a follow up on that how high is the inventory in the system, is this been abnormal if one has to compare it for a period of say 2, 3 years prior to this what was the average and what is it today now?

Subrahmanya C. Karuturi: Generally the customers were holding approximately around 2 to 3 months of inventory, but by the end of calendar year 2018 we understand that they were having inventories for almost 4 months so it was more than what it was usually which had actually prompted them also to promote the product much more so that the consumption can churn into volume growth for them also. So it is more than almost I would say it was double than the usual inventories which were there every year. So by the end of December 18 it was almost 4 months of inventories, but that is being taken care as the weather conditions are improving and the promotions which is the key part for any product to be driven in consumption, is the significant improvement or development I would say in our industry which is really helping - that is for the US market.

Nitin Gosar: Sir second question is pertaining to the diversification - how big is the market, how fruitful are the realizations and profitability if one were to talk about newer markets like the China or East European Korean that we talked about?

Subrahmanya C. Karuturi: Basically, the main idea of the new market for us is to take care of the volume growth on one hand. On the other hand, when it comes to China or South Korea or the East European country, they are of course a mix of commodity as well as value added in the ready to cook category but we are looking at enhancing the value growth in these markets too. As far as realizations are concerned, definitely the realization will be higher for products in the US and Europe, but the most important point is the cost for these markets which I just mentioned to you are lesser. So in one way even though you may not get a higher realization for these markets you are actually able to produce them at a lesser cost because of the products which are there that is with regard to the new markets which we are foraying into right now.

Nitin Gosar: In the presentation you typically show the EBITDA per kg with this new market getting added up this EBITDA per kg will it get disturbed on the lower side or it will continue to maintain at the steady state level which we are right now reporting?

Subrahmanya C. Karuturi: As I mentioned the EBITDA per kg would not be actually reducing it will be maintaining and of course due to the steps the company has been taking in moving towards more value added products definitely we will be looking at enhancement. I would rather look at it as the more value addition and the sooner we do more value added products whether it is ready to eat products which we our company has been explaining or canvassing about for the past 1 year with the new facility or even in ready to cook which we just started with some of our customers in US to enhance our realization value, the sooner we increase the profitability margin. So that way we are confident that it is going to be maintained and also be increasing.

Moderator: The next question is from the line of Harsh Saraswat from Girik Capital. Please go ahead.

Harsh Saraswat: I have few questions any particular reason for the volume dip in this quarter? If the pricing is coming down the volume should be moving up so are we losing market share here, if you can specify any reason?

Subrahmanya C. Karuturi: The volume dip has less to do with losing of market share. It has got to do more with our customers having the product already with them and could not to take any further volume because they were already having the requirements met. Also, the end customers were not taking the deliveries as envisaged especially going into the winter time which made an impact. That is one of the main reason for foraying into other markets which we have not done even till first half of this year is to ensure that we continue to look at the volume growth maintaining and not to have these dips anymore, but as such we are not really losing market share as our volumes got stalled even our customers volumes got stalled; there is no increase in buying from their end too and this is a general thing for everybody.

Harsh Saraswat: So as soon as these stocking get consumed, we should be back to the previous volumes?

Subrahmanya C. Karuturi: Yes aided by them and since the company is not going to restrict itself anymore or entirely depend on this market alone. If you remember I have been telling over the past one year we want to reduce our dependence on the United States market and grow it with other markets in the world and we have been taking steps on this which you can see; we have also increased the European union business significantly this year of course I agree that it is in the reduced overall volume, but still it is higher and similarly the other countries which I mentioned including China and South Korea (we already started producing for China) should be helping us with regard to the volume growth.

Harsh Saraswat: So we have completed 50% of Q4 are you seeing any volume pick up in the USA or from any of these countries like should I expect the volume growth going forward or the market will be tough as it is now?

Subrahmanya C. Karuturi: If you are referring to Q4 alone.

Harsh Saraswat: Yeah.

Subrahmanya C. Karuturi: It would not be a significant rise from Q3 but it will be there, but the most important point is the markets or the customers whom you are referring to are actually placing the orders and soliciting offers from us for the end of our financial year basically for them for their summer period. So basically for them the delivery should be starting in May and June which actually has an impact more towards, in our case, the end of our financial year, that is, towards the end of March and April. Whatever inquiries are being solicited right now are more for May and June shipment. So we do not really believe that the present inquires of product are going to have a major impact for the last quarter of current financial year if you are asking me; at that point it will be very much a very marginal growth, but it is not going to go less, it is going to be maintained and we are not going to see a significant rise so that is what is clear to you.

Harsh Saraswat: So how do we plan to fill the new capacities which is we have almost doubled our capacity and we are already seeing a volume dip; how do we plan to what is the company's plan on that to fill the new capacities?

Subrahmanya C. Karuturi: Of course as you would know very well that the exiting leased capacities are also going to be substituted. The proposed new capacities was partially utilized elsewhere which is going to be moved in a phase manner which we have been explaining in the past too and so even if I look at the new capacity we are not going to start from scratch in that new capacity because it is more of a transfer of business to a certain extent which was already being conducted outside that is number one point. Number two, your concern about how the additional capacity which is there in this new plant will it be addressed - So in that case where we have made some development in the present quarter as we speak and we are already looking to start the business not only in value addition scope not only into ready to eat, but also in the ready to cook where we have developed some new products which I cannot really speak very openly on the call regret for that, but that is also in the ready to cook category and we are most likely going to start the shipments for that because the inputs for that have to be received more towards the next month. The idea behind working out or developing those products with our customer was to enhance the consumption thereby creating a demand for additional product. This is company specific statement and is not pertaining to the industry. So these steps we believe are going to help us further enhance our utilization of our capacity not only the ready to eat but also ready to cook also so the new product which will develop.

Harsh Saraswat: One last question how is the competition intensity from other countries now it is increasing I guess from other countries as well in the USA market?

Subrahmanya C. Karuturi: Yes I would not use really as a competition it is more of they are also supplying and there is production growing in other countries like Ecuador and Vietnam and Indonesia, but at the same time as you would have noticed in our industry China has made a big impact for our country which was hardly any market for us around 3, 4 years back. Now if you see it is already having around 30% share of our Indian shrimp exports. So on top of that Indian quality base of products definitely has established very strongly in the western market like the US and the European Union and Canada. Of course, China which has a dearth of products for their consumer being the world largest populated country and where there is a high demand for sea food products they are also requiring shrimp products in a significant manner like never before in fact they are a bigger consumer than the US market; only thing is they consummate it in a different manner more in a commodity and semi value added unlike US and European Union where they look at more higher value added products. So when we look at this front as an industry we do not believe the competition will really have a major impact; yes the production has increased but everybody is looking forward towards promotion of shrimp consumption of course they are explaining about the health benefits so there are certain program which are been worked out between the companies the customers in the United States. The importers, distributors and also with the help of certain retailer account because it is deemed that this production has grown and the only way to move forward is to increase the consumption, to take care of this production globally whether it is Indian production, whether it is Indonesia or Ecuador or Vietnam. Of course there are certain niche products for Ecuador which is mostly head on, they do mostly head on whole shrimp they do not do any value added like other countries or origin and India is now moving more towards the value added and even though it is expected that the current year will be more of a flat year in the year 2019 as far as raw material supply is concerned it is going to be pretty much the same as 2018 or maybe little lesser that is what is expected in India, but it is all depended on how the farming progresses which it is too premature to comment at this point in the beginning of the year. So we believe with the various steps being taken by importers especially in the US because that is where those steps do work and there is already an automatic demand being created out of the Chinese market, there is no issue about really taking care of these products. Yes, the prices whatever had to be corrected have already been corrected and that should be very much be sufficient to take care of the consumption or rather absorbing the supply.

Moderator: The next question is from the line of Dipesh Kashyap from Equirus Securities. Please go ahead.

Dipesh Kashyap: A few book keeping questions to begin with sir what was the export benefits booked in this particular quarter?

Subrahmanya C. Karuturi: The export benefit was around 19 crores.

Dipesh Kashyap: Sir this export benefits 19 crores that means it is 9.6% of your sales which is actually more than your EBITDA margin this quarter, so I was just wondering like you are saying that the volume.

Subrahmanya C. Karuturi: Export benefits I have given you the net off.

Dipesh Kashyap: So you are basically saying that the volume decline is more of a demand issue, but our thinking is more of a supply issue because this is seen in the procurement cost; basically your gross margin had declined which you also talked about in the last quarter that is supply is like really tough and the second crop was like that, so do you think it is more of a supply issue than a demand issue because I think the US inventory thing which it will start showing in the numbers from the next quarter I believe.

Subrahmanya C. Karuturi: I would not say that there is no supply issue there are supply issues on certain sizes. The mismatch between the sizes in demand and the sizes in supply is still continuing from the last quarter and you can very much check it across the market. So the supply is there, the Indian production is still continuing but it is just that there has been certain mismatches in the sizes which is being produced and which has actually been produced and which has actually been required by the market. Unfortunately because of that, naturally the cost on those certain sizes has marginally gone up, that is one major point. The other important point is the sales also is an issue. So it is not just the supply part but also the sales. The market has not really picked up significantly to absorb the supply of the year 2018 so that is being taken care by the various steps which I had explained to the two previous callers on the call that is how it is. So there are supply related issues also I am not saying it was not there but major for us it was mostly and there was mismatches in the supply side that is the key part.

Dipesh Kashyap: Can you share the average procurement cost in this quarter and what proportion of the procurement was from their own leased firms?

Subrahmanya C. Karuturi: The average raw material cost was for the 9 month it was around Rs. 299.

Dipesh Kashyap: And for this quarter can you share the number please for this quarter?

Subrahmanya C. Karuturi: For this quarter alone it was around Rs. 330.

Dipesh Kashyap: And percentage is from your own farms?

Subrahmanya C. Karuturi: In the current quarter alone it was hardly around 11%. In this quarter it is less because this is the time when it was all being cleared up and being prepared for the new cycle stocking which was happening towards the December so pretty much it was cleared in the second quarter itself most of the farms.

Dipesh Kashyap: Sir your earlier guidance for the volume growth in FY20 was around like North of 50% will you change the guidance?

Subrahmanya C. Karuturi: Sorry please if you do not mind can you repeat that.

Dipesh Kashyap: Yeah earlier guidance for the volume growth in FY20 was like around 40%, 50% so will you stick with that guidance?

Subrahmanya C. Karuturi: 50% of utilization or will you say 50% growth.

Dipesh Kashyap: Volume growth.

Subrahmanya C. Karuturi: We have not given 50% as volume growth. See what we have mentioned to you was our volumes what we are doing currently after the enhanced capacity come up we are looking at 70% utilization that is what we had mentioned in the past.

Dipesh Kashyap: So 70% utilization you still stick to that?

Subrahmanya C. Karuturi: The major point is because of the ready to eat and also the new product which I just mentioned to the previous caller the ready to cook value added new products basically were not done by the company in our history are also being done right now. We believe that we will still be looking at that utilization part.

Dipesh Kashyap: Sir when can we expect the commercial production to start for the new plants?

Subrahmanya C. Karuturi: By the end of this financial year; and we are already starting the cold storage that is already prepped and being fully ready once the power supply starts in the early of March because the lines are being set-up. So we also look for starting the trial production towards the end of this fiscal year.

Dipesh Kashyap: The trial production will be how many months?

Subrahmanya C. Karuturi: You look at 15 days to 1 month so at the most we are looking at having the entire capacity available for the almost full financial year of next year and as mentioned we are hoping and we are definitely going to strive for utilizing the 70% of the entire company processing capacity for next year.

Dipesh Kashyap: Sir lastly how should we think about your employee expenses given that your own capacity will increase from 9000 odd tons to 29,000 tons so how many employees you are going to add and at what cost?

Subrahmanya C. Karuturi: I would not comment much on the cost, but I would say it will be in proportion to the addition of the employee base which will be added. We are considering putting better efficiencies in place so that we can keep our manpower requirement to the lower level. So it will be more proportional but as far as employee addition is concerned with the new facility we look at an additional employment of almost 2000 employees all put together in the first year and I would not really want to much talk about the second year but that will be another 25%, 30% addition in the subsequent year, but as far as the first year is concerned the employee addition is around 2000.

Dipesh Kashyap: Sir current employee base is how much?

Subrahmanya C. Karuturi: Current employee base which also include farming, hatchery everybody combined that is around 2,800 employees.

Dipesh Kashyap: So you are nearly doubling the employees by next year?

Subrahmanya C. Karuturi: As I mentioned current employee base includes hatcheries and farm please do not ignore that and the new facility of course if you say yes we can say. On one side you ask me that we are doubling the capacity.

Dipesh Kashyap: You are technically doubling your own capacity so that is why I was thinking.

Subrahmanya C. Karuturi: I was saying the capacity but because I said we want to do it in an efficient manner we are looking at scale of efficiency also. We are trying to do it in an optimum manner by adding also conveyors and certain points where we can reduce the labor expenses we will be doing it in that manner as I said the cost will be in proportion.

Dipesh Kashyap: Sir any final thoughts on the leased-out facility that you have will you continue with that or you will leave it once it starts?

Subrahmanya C. Karuturi: There is no going back on the earlier statement made by the company that once the new facility is up and running, we will be moving out of the leased operation in a phased manner as the transfer of employees as well as business unfortunately cannot happen overnight in a just short span of time. We are definitely going to move out and we look at utilizing our facilities completely first. Our priority is to utilize our facility into the optimum level and then what happens subsequently would happen then based on the circumstances there.

Moderator: We move to the next question from the line of Vincent Andrews from Geojit Financial. Please go ahead.

Vincent Andrews: Sir most of the questions have been answered already I have two, three data points can you repeat because you have mentioned the raw material price 330 last quarter it is direct purchase or in-house?

Subrahmanya C. Karuturi: I am sorry can you repeat that again.

Vincent Andrews: In the previous question you have mentioned Rs. 330 per kg raw material price for the last quarter Q3 so it is for the direct purchase or in house?

Subrahmanya C. Karuturi: No it is a raw material from the purchase only.

Vincent Andrews: Can you mention the in-house cost for the last quarter?

Subrahmanya C. Karuturi: The in house farming cost is that what you are asking?

Vincent Andrews: Yeah.

Subrahmanya C. Karuturi: I think it was around Rs. 265 to Rs. 270 but the volume as such was lesser in the last quarter as I mentioned to the previous caller the volume of own product was very less not so significant.

Vincent Andrews: It was 11% compared to 20% around last.

Subrahmanya C. Karuturi: Unfortunately this call is about the quarter so we would still reaffirm and restate that when it is an annual basis we definitely do around 20%.

Vincent Andrews: For the second one you mentioned it is only a phased out manner you are 6000 leased the first it will be phased out in a gradual manner so I am asking FY20 can we assume the entire 6000 metric tons will be phased out?

Subrahmanya C. Karuturi: Yes it will be phased out for sure I said I would be moving out of the lease facility within FY20 itself.

Vincent Andrews: One more question like you had mentioned last quarter about plant maintenance has it been done?

Subrahmanya C. Karuturi: I have not mentioned anything about plant maintenance when one of the caller had mentioned whether we would be utilizing old facility along with our new facility I said there could be certain plant maintenance in the next year. In spite of that as I mentioned to my previous caller we are looking at utilizing our company owned capacities to the extent of around 70%

Vincent Andrews: And for the new hatchery unit the total expenses the total cost incurred is it is you mentioned 12 crore last quarter any increase in that?

Subrahmanya C. Karuturi: There has not been any significant increase in the first hatchery it is pretty much at the same level, but the second hatchery which is ready and waiting for the government approval there was a total CAPEX of around 15 crore I believe so.

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

Nitin Gosar: Of late the corn prices have gone up and this could potentially put some pressure on the seed cost and this seed cost could put some potential pressure on the procurement cost of our raw material in the current environment how do you see?

Subrahmanya C. Karuturi: Nitin I do not think that question is related to our company the corn price going up has no direct impact on the farmer I would not be able to comment much on whether that would have a relative impact on the increase of seed prices if that is what you are trying to imply. We are not into seed manufacturing do not mind, but with regard to increase in cost at the farm level it is going to be more to do with bringing in efficiency levels trying to enhance or maintain the survival of the shrimp seed in the pond for all the farmers including those of the company farm and to get a lower cost of production at the farm level and seed is not the only factor at the farm level which you need to understand there are multiple reasons there. You have a low cost of seed however if your shrimp do not survive your cost of production would be going up significantly. So do not mind but I believe it is more appropriate if that question is posed to the seed company in the country if you do not mind.

Nitin Gosar: My intent to ask this question is only because current demand environment has been so robust, so the only worry was if the demand environment continues to remain a bit lukewarm then the pricing power of companies like us does it get challenged if farmer start up for higher procurement price?

Subrahmanya C. Karuturi: Typically, the farmers usually do not get to ask for higher procurement prices. It is like as you said the demand of the product overseas especially considering that there is no domestic market in India or which is very insignificant. It is the overseas pricing the average of overseas pricing whether it is China which is 30% odd or the United States which is 30% and European Union 20% and the rest of the world. The average of these prices which actually determine what the farmer is paid. Now with regard to your point because the demand is challenging right now and the cost increasing at the farm level, they will be able to demand for higher price that does not exactly happen like that but if you remember I had mentioned one of the previous caller saying that there is a mismatch in sizes also at certain times and in those cases there could be because there is a demand for certain sizes especially created by the demand overseas please keep that in mind. So I would not say specific to USA, Europe or China wherever it is. So it is the overseas which has the relative impact on what prices the farmers or the primary producers get in our country with regard to Shrimp farming. So I do not think it is in the hands of the primary producers to just look at demanding higher price. If there is no demand overseas definitely they got lower prices because the processors are not in a position to entirely support beyond certain extent.

Moderator: The next question is from the line of Divyesh Mehta from Dinero Wealth. Please go ahead.

Divyesh Mehta: I just had one question sir during the good time the volume growth what we have clocked is there any chance in next 2 years or even in next 3 years that we can clock that volume growth and second thing just wanted to know with the new capacity coming into commissioning you said some of the parts will be substituting your old capacity so what proportion that would be?

Subrahmanya C. Karuturi: First question I will address your first question now the volume growth what you are saying which has been there in the last year.

Divyesh Mehta: I am not saying about last year also sir prior to that also in the good time?

Choudary Karuturi: See the volume growth was more based on the demand at the prices which were prevailing then; now when the supply is say on a higher side or it is moving across the globe naturally the demand seems to be subdued thereby creating a pressure on the price so it is all relative impact. Now because of the various promotions and steps being taken by several people in the industry whether it is the importers, retailers, service company restaurant chains or exporters/processors I mean definitely the necessary steps are being taken to absorb the supply. There is no second thought that today there is good supply. Yes, it could be of certain irrelevant sizes or certain sizes which are required may not be there but end of the day there is more supply across the globe not just India that is being taken care now with various promotions at the end user level. Definitely with those measures in place volume growth is possible however our company going forward is more keen on looking at value growth and with coordination and cooperation of our customer based out of the United States and European Union even though we would be reducing our exposure in the US it is still a major market for us it will continue to be a major market for us with the support of those customers and with their cooperation we are developing newer products so that we can enhance our value not just by in the ready to eat category but also in the ready to cook category which I mentioned to one of the previous callers. So these steps will ensure that the company also has value guaranteed not just by volume but also enhance the value growth. So to be precise entire business or margins should not be depended only on volume growth over a period of time one to two years' timeframe that is what we are looking at. We should also be enhancing a value so that we realize better and earn better margins so that is your answering to your first question.

Now the second question was related to statement which I made where I said the new capacity would be substituted basically what I meant to say was it was in response to a question whether we would totally exit out of our lease facilities. So, when I mentioned the new capacities basically is going to substitute what I meant was we are going to phase out of these lease capacities and thereby the business is going to be transferred to our own facility that is what I meant. So eventually we are going to go more out of those capacities which do not belong us and we are going to operate entirely in our own capacity and when I had mentioned that we are actually not going to start from scratch of the new facility because already that business is being conducted outside company owned facility which just has to be transferred within a period of time as things progress.

Divyesh Mehta: Sir one more question for ready to eat and ready to cook category how has been the demand traction since last 2 quarters sir?

Subrahmanya C. Karuturi: Unfortunately, ready to eat as we have not yet forayed into it, but there has been a significant growth in demand even though we unfortunately were not able to encash on it in the last two quarter to be precise which you ask. The demand has picked up for the ready to eat from India especially and once we are eagerly looking forward for our owned capability to be commenced so that we can also take advantage of that because this is specifically pertaining to the US and EU markets where ready to eat products are more into preference especially considering the millennial who are existing in those markets which who do not have the time for the nitty-gritty of doing things whether it is cooking their own meals or buying ready to eat meals. We are definitely looking at we will also be able to take advantage of growth and demand further ready to eat.

Moderator: The next question is from the line of Sandeep Varghese an Individual Investor. Please go ahead.

Sandeep Varghese: Very quickly I wanted to know that from since you all you are getting into ready to eat over a period of time what do you think that will contribute to your revenue in terms of percentage?

Subrahmanya C. Karuturi: With ready to eat that will be because of the first capacity which will be there it should be taking care of around 15% initially in the beginning, but since we also made certain operational technical changes with design of the project we look forward for enhancement of that capability further and thereby increasing that part of the business much more into the future in the next coming year in the beginning that should be around 15%.

Sandeep Varghese: From a profitability stand point do you think that is more attractive going forward?

Subrahmanya C. Karuturi: Definitely ready to eat is more profitable for sure although it has more cost involved but still definitely it is more profitable. The end consumer never hesitates to pay a premium for something which is served fully prepared which you would acknowledge that is the scenario globally unlike markets like China or India where we are still involved personally in preparing our own needs pretty much so it is different out there. So those markets like US and Europe definitely ready to eat provides a better edge and better margins.

Sandeep Varghese: My last question in terms of the company that export to foreign market abroad from India where do we stand in terms of are we in the top 10, top 15, top 20?

Subrahmanya C. Karuturi: We would not know but may be in the top 10 that is there of course in the top 10, but I may not want to give you a perfect number of 5, 6 or 7 but yeah we are in the top 10 as far as Indian Shrimp exports are concerned.

Moderator: The next question is from the line of Vinayak Rao an Individual Investor. Please go ahead.

Vinayak Rao: I have been hearing to you and I find that you are very intelligent and well informed and I also came to know that because of some calamity in US we faced a bad season and it has affected our profitability now we are launching new products again now what I mean to say is are we taking proper administrative or whatever that care that these things should not be repeated probably in US seasons may not have been mentioned earlier okay this will be a very hard season or whatever, but then what I feel is we have lost money ultimately. So in case this is repeated the shareholders will be put to a loss?

Subrahmanya C. Karuturi: Vinayak I will clarify first you mixed up two things here. The comment regarding bad weather was more pertaining to the drop in sales of the third quarter number one point. Naturally drop in sales has a relative impact on the profitability of that quarter. The second point which you had referred is about developing new products in coordination and support of our customers is more to do with annual business growth. So I am sorry but this is not about one individual case in our industry unfortunately I mean we do report on quarterly as the statute mandates it but however our business is on an annual basis that we look at it. We are definitely maintaining even though we have had a subdued quarter we are looking forward to maintaining same as the previous year. Now the products which we are developing is more for the company's growth in the future so that is to enhance. See if consumers are used to eating the same products or consumer are used to basically consume the same products in the same manner and it is in coordination and cooperation of as I mentioned with our customers to develop new products so that they can consume more. Typically some xyz consumer is consuming 1 pound of Shrimp hypothetically or rather I would correct it if we eat 2 pound of Shrimp per annum we are looking at enhancing it to 2.5 pound per annum by offering it in a different manner that it is more of convincing and adding more value so that the consumer sees it to be more advantageous than what he was being offered for the past many year. So this is nothing something which the company alone is doing it by itself it is doing it in coordination and cooperation of the customer which it has.

Vinayak Rao: One last question I would like to ask you sir are we logistically ready in our plants whatever we are growing like we are increasing our plant capacity and everything is being done so logistically like transportation and everything are we ready for that also?

Subrahmanya C. Karuturi: Yes, very much. I will also again inform you may be you might have missed out but the company also is operating in facilities outside in a leased facility so the point is when the new facility is coming up naturally whether it is logistic support with regard to raw material procurement or plying of employees or shipping the finished products to the core terminals that is all being taken care so that once the new facilities or the new projects commences its production there will not be any hindrance in moving or conducting the business in a smooth manner definitely that has been taken care.

Vinayak Rao: How many trucks do we have now in our capacity in Kakinada?

Subrahmanya C. Karuturi: 110.

Vinayak Rao: Are we going to increase those trucks?

Subrahmanya C. Karuturi: We will be increasing naturally based on the distance of sourcing.

Moderator: Ladies and gentlemen due to time constraints we take the last question from the line of Dipesh Kashyap from Equirus Securities. Please go ahead.

Dipesh Kashyap: Sir why the tax rate was so high in this particular quarter and what should we think about the entire tax rate for the full year?

Subrahmanya C. Karuturi: There is no change in tax rate.

Vijaya Kumar: There is no change in tax rate actually. It includes basic rate 30%, education 3% and surcharge 11%

Dipesh Kashyap: And you just talk about like any tax benefit that we will have from the new plant going forward?

Subrahmanya C. Karuturi: Yes, the new plant I mean as per the policy of government of India we look forward to having that benefit where there is attached 100%.

Vijaya Kumar: Section 81AI will give benefits to the food processing unit rate so that we will use that benefit.

Dipesh Kashyap: So we will be effectively paying just the MAT right only the MAT will be applicable.

Moderator: I now hand the conference over to Mr. Karuturi for his closing comments.

Subrahmanya C. Karuturi: Thank you Karuna. Thank everyone for your participation. We have covered a lot of questions I believe for the last quarter which is more of a standout it is more of a one off, but however we are looking forward for bright future next year with our new facility starting towards the end of this financial year and also we look forward for a great business considering the new developments and products which are happening within the company. In case of any further query you may get in touch with Stellar Investor Relations or feel free to get in touch with us at ir@apexfrozenfoods.com. Thank you and have a good evening ahead.

Moderator: Thank you very much sir. Ladies and gentlemen on behalf of Apex Foods Limited that concludes this conference call. Thank you for joining us and you may now disconnect your lines.