"Apex Frozen Foods Limited
Q1 FY2019 Earnings Conference Call"

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Moderator: Good morning ladies and gentlemen, welcome to the Apex Frozen Foods Limited Q1 FY2019 Earnings Conference Call. As a reminder, all participant lines will be in the listen-only mode and 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 phone. Please note that this conference is being recorded. I will now hand the conference over to Mr. Subrahmanya Chowdary, Executive Director at Apex Frozen Foods. Thank you and over to you, Sir!

Subrahmanya C: Thank you Lizaan. Good Morning everyone and a warm welcome to our post-earnings conference call for the quarter ended June 30, 2018. I have with me on-call Mr. Vijaya Kumar, our CFO, and Stellar IR advisors, our Investor Relations advisors. We hope that you have all received our Q1 FY19 investor presentation and gone through the same. We have also uploaded it on the stock exchanges website for your reference.

We will begin the call by sharing key updates on our business and industry followed by a summary of our operational and financial performance for the quarter ended June 2018 post which we would open the floor for question and answer session.

With regard to business updates, first and foremost on our new project, the civil construction work has been affected by inclement weather and is now expecting to be ready for trial production by the end of Q3 FY19 or calendar year 2018, as against our earlier expectation of completion by the end of Q2 FY19.

The current work status is as follows: Construction of cold storage building has been completed; The foundation work for the processing building has been completed and the roof work has been started; The assembling of compressors has started in the machinery building.

As for the capex incurred, of the total planned outlay of almost Rs. 90 Crores, Rs.42.1 Crores has been incurred till the end of June 2018 and further some part of the proceeds is in the machinery which is in transit. We expect the full capacity of 20,000 metric tonnes from this new facility to be fully available to its optimum level for the entire fiscal year FY20.

On our existing business front despite a challenging business environment we have been able to maintain our volumes sold and enhance the profitability when compared to the same period of last financial year. The key reasons being - gross margin expansion on account of Value-Added focused product portfolio and lower raw material prices; Better supply arrangements due to our backward integration efforts have also helped us in enhancing our margins and a favorably diversed revenue mix which is also supporting the company.

For instance the share of European Union in the overall revenue mix increased to almost 26% during Q1 FY19 from almost 18% in FY17 despite the strict quality norms and checks placed by the European Union authorities on Indian processers. We aim to better the mix further in the coming years and diversify our markets across the globe.

Further going ahead, our upcoming facility will enable us to add new products like Ready-To-Eat category which will cater the demand for such products in our existing as well as new markets that we plan to foray into.

We continue to look forward to reaching a revenue mark of Rs.1400 Crores in the next two years subject to stability in the current demand-supply and pricing situation.

Now coming onto the industry updates:

We had mentioned in the last quarter's conference call that due to a mismatch in the demand-supply, prices of processed shrimp had started correcting from the beginning of the second half of the fiscal year FY18 and more so in the last quarter of FY18. However we had also mentioned that both demand slowdown as well as price correction has been largely arrested and we were witnessing a gradual pickup in consumption starting from May/ June 2018. We would like to point out that off late, the export prices have also started to firm up.

Now, on the raw material supply side, the price correction which is typically passed onto the primary producers, coupled with inclement weather in the past few weeks might have led to a slowdown in the availability of processed shrimp. However that seems to be a short-lived phenomenon as the recent pickup in the shrimp export prices along with improving weather conditions is building a favorable case for shrimp farmers. The farmers are again looking forward to stock seeds for the next crop of this year. We expect things to normalize and growth to revive from the second half of FY19 and continue going forward.

Now with regard to the Q1 performance, our CFO Mr. Vijay Kumar will explain the financial performance for the quarter ended June 2018.

Ch Vijaya Kumar: Good morning everybody, this is Vijaya Kumar, CFO, Apex Frozen Foods Limited. I would like to present the details for financial performance of the Q1 of the current financial year.

Our total income including net revenue and other income for Q1 of FY19 stood at Rs.244 Crores versus Rs.206 Crores in the previous quarter, that is, Q4 of FY18 recording a growth of 18.5% quarter-on-quarter. The growth was led by sales volume growth of 22.4% quarter-on-quarter to 3,680 metric tonnes of processed shrimp sold in Q1 of FY19. However the average realization fell by 3.2% quarter-on-quarter to Rs.663 per kg. In the full year FY18, we sold a total of 14,146 metric tonnes of processed shrimp as compared to 9,897 metric tonnes in full year of FY17. However the average realization remained largely flat at Rs.720 per kg in FY18 as shrimp prices has started tapering towards the second half of the last fiscal.

At the EBITDA level we reported Rs.37.1 Crores in Q1 of FY19 as compared with Rs.27.9 Crores in Q4 of FY18, thereby recording a growth of 33% on quarter-on-quarter. EBITDA margin rose to 15.2% during the quarter versus 13.5% in Q4 of FY18 primarily on account of gross margin expansion. For the full year FY18 EBITDA came in at Rs.129.9 Crores resulting in EBITDA margin of 12.8% as compared to the EBITDA of Rs.54.9 Crores and margin of 7.7% in full year of FY17.

Profit after tax stood at Rs.21.2 Crores during Q1 of FY19 as compared with Rs.17.5 Crores in the preceding quarter, recording a growth of 21.5% quarter-on-quarter. PAT margin improved by 20 bps quarter-on-quarter to 8.7% in Q1 of FY19 versus 8.5% in the preceding quarter. However post adjusting for the loss of Rs.6.5 Crores and the other comprehensive income, the profit surplus during Q1 of FY19 remained largely flat quarter-on-quarter at Rs.14.7 Crores. For the full year of FY18 profit after tax stood at Rs.79.1 Crores resulting in PAT margin of 7.8% as compared with profit after tax of Rs.25.1 Crores and PAT margin of 3.4% in full year of FY17.

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

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

Moderator: Thank you. Ladies and gentlemen, we will now begin the question and answer session. The first question is from the line of Deepesh Kashyap from Equirus Securities. Please go ahead.

Deepesh Kashyap: Sir the first question is what was your export sales excluding the incentives in this particular quarter please.

Subrahmanya C: The export sales for the current quarter not including the incentives that is what…?

Deepesh Kashyap: Yes Sir.

Subrahmanya C: That was Rs. 210 Crores.

Deepesh Kashyap: Sir, there was some antidumping duty refund of previous year's that the Indian exporters have got in this particular quarter. Can you tell me how much you have got and in which line item have you booked that?

Subrahmanya C: That was actually net off in the export benefits because we have also had a payable. We also had a payable as well as receivable so that there was a net of Rs. 11 Crores which was cleared off… because we also had to pay apart from the refund.

Deepesh Kashyap: And Sir since the new plant seems to be delayed by a quarter, are we planning to add any leased facilities?

Subrahmanya C: Our existing leased capacities are very much sufficient to take care of the current year's business which is subject to the present supply conditions which are there. So we are very much well optimally running. So we are more looking forward to complete this facility soon and so that we could complete even the trial productions and get it into running especially because we are more keenly waiting for the value added or rather Ready-To-Eat capacity to come up online so that we could take the advantage of those products for that particular business. So at this point we do not need any additional capacities where the present capacities are very much sufficient but we are adding additional shifts based on the supply of raw material this is why it is subject to the supply situation.

Deepesh Kashyap: Right. Sir, lastly what led to the sharp increase in the other expenses and how shall we think of it going forward?

Subrahmanya C: Sorry, Can you repeat that?

Deepesh Kashyap: Sir the gross margin expansion was like great due to low farm gate prices in this particular quarter but your EBITDA expansion was not in line with that. So that was mainly due to sharp increase in the other expenses line item. So can you please explain what was that?

Subrahmanya C: Yes the other expenses specifically they were… I will just revert back to you on that Deepesh I will give you the detail Deepesh.

Deepesh Kashyap: Sure, thank you so much.

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

Nitin Gosar: Congratulations for good set of numbers. Sir, my first question is pertaining to the export incentives… Sir what are the export incentives that you would have received for this quarter?

Subrahmanya C: The export benefits net off of course is totally Rs 28.5 crores for the Q1

Nitin Gosar: And this is pertaining to this quarter's number or there are some…?

Subrahmanya C: Yes, this is only pertaining to this quarter's number.

Nitin Gosar: So this Rs. 28 Crores if you continue with this volume momentum, may continue on every quarter level?

Subrahmanya C: Yes, it depends on the realizations though.

Nitin Gosar: And maybe during the call if you can just clarify, during Q3, I think you reported Rs. 7 Crores export incentives and during Q4 we reported Rs. 6 Crores export incentives.

Subrahmanya C: Actually this as you know, we also had changed the accounting policy during the last year and accordingly export incentives were being considered on. Prior to that it was considering on receipt basis, but however we had a one-time addition which was reported because of the accrual method. That was only a one-time for that financial year, but that is not there anymore.

Nitin Gosar: Thank you on this and second question is pertaining to the shrimp procurement pricing, what was the shrimp procurement pricing if you can just give a quantitative understanding for the quarter and what is it as on today?

Subrahmanya C: The shrimp procurement pricing around a month and half ago, to be precise, in the beginning of the Q1 was on an average sitting around under Rs.300 but that has picked up now to Rs.380 so there is a jump because the demand was also picking up and also the supply is reducing, so there is overseas demand also and overseas pricing also increasing slowly. The procurement prices also have increased and of course it is in tandem to the global shrimp prices. Now that the realizations are also increasing now, the raw material prices which always go in tandem with the realizations have also improved. So that was around less than Rs.300 almost in the beginning of the Q1, but now it is Rs.380 to Rs.400 it is hovering around that level.

Nitin Gosar: And during the same time period what was the export realization?

Subrahmanya C: The export realization will be on a net of 550 to 600

Nitin Gosar: And on the realization per kg that we sell which use to around $10 sometime back $10, $11.

Subrahmanya C: Yes that the realization of course unit value wise it has come down to $8.7 to $8.8 level in the Q1 that is now increasing in the Q2 because as I mentioned in the opening remarks also that the pricing has improved and since the demand also started picking up. Now it is on an average of $9 plus that is improving because as the demand also started looking on the positive side.

Nitin Gosar: Got it. Sir my third question is pertaining to the US sales since I do not have the base quarter number that is first quarter FY2018 I am just going by the understanding that the Europe would have grown but at the cost of US sales coming down.

Subrahmanya C: Actually the production has also increased. There are two aspects to this - one is the volume increase which we are looking ahead they subject to the supply conditions added to that the company's policy to diversify its market base into other markets and not being dependent on the single market even though that is a biggest shrimp buying country United States of America. So that the whole idea is to diversify further. So we are also looking ahead to move some of our business leading to the Middle East in the later part of this year and as once the new facility comes with this ready to eat products we are looking forward. So we would be definitely increasing our exposure outside the United States market more as the years go by in the next year also.

Nitin Gosar: And two years down the line you indicated we may be hitting Rs. 1400 Crores revenue market and then since there what would be the contribution that we can look from European nations.

Subrahmanya C: I would rather put it outside the United States market instead of saying only European Union because we are also looking at other markets also not just the EU whether it is the Middle East or Canada. So we are expecting that we would maintain a 35% range of non-US business to happen moving forward from FY2020 onwards. So from next year and also going into FY2021, we look at more diversed business in non-US market. So that is the idea so that we can spread out market exposure or business exposure to different markets and we can take advantages of different products and different sizes which are valued or rather which have a better demand in other markets than depending on only United States market.

Nitin Gosar: And Sir one last question is on INR since the INR is now hovering around Rs.70 a dollar what was the rate at which we booked for the FY2019 quarter number and do we have any hedging policy or the following quarter number that is second quarter, third quarter we will be booking our revenue at Rs.70 a dollar.

Subrahmanya C: Yes we do… currently we do have around 50% of our exposures being booked under forward contracts in general that has been the system. It has always been between 40% and 50% of the exposure in general having undertaking it under forward contracts. Now with regard to the exchange rate in the Q1 were of course approximately around 69 odd but now going forward because we also had certain forward contracts already by them that were taken earlier. And now going forward yes we look between the 69.5 and 70.5. We would have partial exposure booked which is already booked which will be maintained at that realization rate, exchange rate, between 69.5 and 70.5. So of course subject to if the market has which I cannot comment if the currency depreciates further significantly we would of course take advantages of that, but we still have our present exposure to the extent of 50% already secured at this present levels.

Nitin Gosar: Thank you and all the best sir.

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

Praveen Sahay: Just one clarification from your side like as you had said that you farm gate price has corrected and that is something added to your margin. So at what level like last you had given Rs.300 per kg where the farm gate prices for you with the procurement price. For what level the farmers… actually viable for them to do the farming actually?

Subrahmanya C: Mr. Praveen first thing is with regard to the farmer subject to the survivability conditions at the farm level and average dependent on the sizes what he is harvesting, he is restricting his cost to Rs.200 and lesser. This would always be advantages to him, but however due to the variations in survivability his cost keep going up by additional 10% to 20% and they always hover between around Rs.200 to Rs.250 depends on how they conduct their farming. Now based on that if you look at it, the farmer was not really loosing the money even when the market had corrected to a level of Rs.290, Rs.300 however the priorities of the farmers have changed at that point of time so that they could look at harvesting larger sizes or bigger sizes rather than harvesting smaller sizes which they were doing for the past two to three years. Now the strategies would change naturally based on market conditions so that is how now they are all looking forward to grow to larger sizes subject to weather conditions and any disease situations as such. So in general, the farmer is pretty much comfortable unit 300 and odd, so there is no issue at Rs.300 also he was fine, but of course that the uncertainly in weather condition which was like even now currently there are one or two small areas which have some impact of flood. For example naturally there because of those uncertainties the farmers have lesser return. So otherwise they are very much comfortable even at Rs.300, so there was no issue, but in fact a price of Rs.390, Rs.400 is more incentivizing to them, so that is the present situation.

Praveen Sahay: So you are talking about Rs.300 of 40 count?

Subrahmanya C: Rs.300 I was referring to yes around 40 counts correct.

Praveen Sahay: And as you had already mentioned that Rs.380 has reached so how much is the…?

Subrahmanya C: Yes this impact now it is on the way to Rs.400 to be précised it is almost reached 400 also the only difference is the markets are different as India is widely scattered. So the pricing in the state of Andhra Pradesh will not or may not have any relevance to the pricing in Bengal or in Orissa or in Gujarat, which are the next large shrimp, producing states in the country. So the prices do vary in different states but I just give you a ballpark number when I give you that Rs.300, currently it is in Andhra for example it has also reached 400 so that is the reason many of the farmers are also gung-ho of going for stocking however they want to take care with regard to disease management and so that they are implanting more new technology method so that they can have a guaranteed survivability grades.

Praveen Sahay: So major reason for this increase is the shrimp prices globally is inching up or how the demand supply is playing out in the country actually especially to India?

Subrahmanya C: Sorry please can you repeat that question?

Praveen Sahay: So I am asking like because Rs.300 of a farm gate prices reached to a Rs.380 or Rs.400 level, so the demand that has come back in the system and from where globally?

Subrahmanya C: The demand was there it is just that the orders were… in fact there was a little bit of shortage of supply in the beginning that has been also has got to go with because the prices have corrected significantly some of the farmers have delayed their stocking into their bonds for almost a month, month and a half that of course had also… since the demand was already existing there it had its relative impact once there was a little bit of shortage of supply and that had accordingly improvised the pricing added to aided by the currency depreciation also, because if the currency of course did not depreciate the farmer would not be getting this pricing. If the currency was still sitting hovering around Rs.67 for example and with the unit value… dollar unit value realization which was not so high or after its correction, farmer would not be getting these prices as because as by now you would understand that our sector is totally dependent on export market and it is the export realizations in INR with all whether it is currency or unit value realization whatever finally it is the export realization in INR which determines the raw material pricing.

Praveen Sahay: And there are no cases of the farmers going out of the system due to in the first half of realization down and all?

Subrahmanya C: The farmers have changed their strategy of stocking densities for example they have changed the way they used to stock for example in the past they use to stock around 80 pieces per square meter taking the number of shrimp in a pond to almost 200,000, 150000 now they have brought it down to 60000 to 100000. The stocking densities have been reduced so that they can grow to larger sizes and as I was telling you in the beginning when I was responding to you they would strategize based on the market conditions. When the small sizes were giving them a better realization in the past they were focused on producing smaller sizes by stocking higher densities in the pond and having shorter crop period. When the small sizes pricing has been reduced because of the correction and it was the large sizes which were or medium to large sizes which are more incentivized for them or they were having a better realization for them, they have changed strategies accordingly and now they are stocking lesser densities so that they can even have a better survivability rate naturally because as the number of shrimp which are stocked in the ponds when they are reduced naturally the you have lesser problems. Even if any sort of disease issues come up or any growth related issues come up, they all get rectified and added to that they are able to grow larger sizes for which the demand is there, so naturally they are getting better realization. So they change their strategy based on the market conditions. So it is not that they have walked out or they have moved away from the sector or they have moved away from shrimp farming. Usually the shrimp farm lands are taken on lease anywhere between three to five years or seven years so the lease is still paid so it is just that the way the crop is conducted, the way the stocking is done, the way the sizes are planned, whether it is in co-ordination with an exporting company or just based on a general market trend, they would change the strategy of how they do the crop that is the scenario. Nobody had moved away from shrimp farming as such. In fact all the land which has been brought back into shrimp farming during the early and middle of the 2017 year it is pretty much still into shrimp farming it is just that they are changing the way the farming has been done by adding in new technology so that they can have a proper disease-free output and also they can grow the sizes which are in demand in the market.

Praveen Sahay: Sir one further to this discussion as if I just recalculate on your numbers the raw material prices versus the total metric tonnes that is giving me the cost as around Rs.400, so is there something else in your raw material or just on a shrimp you consider?

Subrahmanya C: No the raw material cost is basically it is not Rs.400 from where did you get the number Rs.400 I am sorry?

Praveen Sahay: What I am doing the raw material expenses for the quarter is around 150 Crores and you have a volume of how the 3680 metric tonnes.

Subrahmanya C: No I think the volume of 3680 metric tonnes, which you are referring to, is the finished product. The raw material is much higher than that. To be precise it is over 5500 to 6000 metric tonnes. So that was the wrong impression, which you got. In fact the cost of raw material has come down to under 300 to be precise in the first quarter of the current financial year. I think you calculated wrongly with the finished product.

Praveen Sahay: I was in impression of same number. Okay Sir I got it. Thank you. I will come in the queue.

Moderator: Thank you. The next question is from the line of Harsh Saxena from Tantallon Capital. Please go ahead.

Harsh Saxena: Firstly now that your new capacity is not going to be online till end of the year and pretty much useful only for next year, how should one think to full year volume growth for the business?

Subrahmanya C: Actually if you look at it with there was a similar question in one of the earlier participant's question which is whether we added any additional capacity in order to take care of the present… because the delay which is there in the commencing of the new facility

So presently we do have the lease facilities which are there, which is still continuing is just that based on the supply, the only difference is earlier we used to mostly buy out of the state of Andhra Pradesh or of course aided by our own farms but this time with regard to supply we are also buying from other states to support the capacity utilization, even if there was a little bit of shortage of supply from the state of Andhra Pradesh for certain period. Now with the existing capacities, which are there, and adding additional shifts, we are pretty much confident that the volumes will be increased approximately by 10% to 15% for the full year this year but subject to the availability of raw material. That is the reason I had just mentioned that we are not just restricting ourselves of procuring our raw material only from the state of Andhra but we are also moving to other states. So that in total, we will be continuing to buy our material and we will be utilizing our capacities by adding additional shifts also. So approximately around 10% to 15% volume growth is definitely we are looking at it, but subject to the supply conditions. So for now we are still maintaining of whatever we have done last year we are looking forward positively for the Q3 and Q4 also, I mean Q3 and Q4 also we are looking forward for a good supply so that the existing capacities are very much sufficient enough to take care. It is just that additional shifts are being added. The only thing we are seeing unfortunately is the ready to eat which we expected to come sometime during the Q2 of this year are more into the last quarter of this year, but definitely we can I guess that is also a good thing for us; opportunity for us so that we can advance our marketing much before the capacity coming into play. So the ready to eat is the only miss which we are missing out which will be fully available which is an added benefit to the company from next year anyway fully completely apart from the last quarter of this year. So as such the capacities are sufficient and the volume growth will be there, we are only looking ahead towards supply. So it is all dependent on the supply. We are looking forward… now since the weather conditions are also changing and improvising and as I had just mentioned to the previous participant's question, the farmers are also looking forward to grow larger sizes and they are all coming back stocking shrimp because of the increased pricing which is there in the market because of the demand which is there. So we look forward for all these towards these factors to have a maintain that growth. As far as the currency is concerned, the unit value is concerned, the realization is concerned, the farm gate prices are concerned, they are all in supportive of the supplier. So hopefully we are looking forward positively for the supply to come and we will definitely take care of the growth which is there with our existing capacity.

Harsh Saxena: Second question, in a recently concluded Aquaculture Roundtable Conference in Chiang-Mai right, there have been a lot of new snippets which were quite negative for the broader Indian aquaculture in terms of what the total production would be given the white spot disease and raw material, how much should one read into this?

Subrahmanya C: See that situation has been there all the time so disease is already it has always been there. Of course at the roundtable conference in Thailand, I am pretty sure you would have noticed that that the comments are more on India than Thailand itself. So I would not really want to get into those remarks made at that conference more about India than about Thailand it is about the revival of Thailand. As such India being diverse with all its issues being there whether it is climatic conditions or any sort of disease-related issues because of the Indian farm area being so widely spread and also the cost of farming in India being very competitive when compared to these other Asian nations, I do not foresee a significant impact because of that on a medium and long-term basis. It is different in the present year yes those short-term issues whatever are there, they are anyway like for example we did have farmers not going for stocking around two months ago now who are all looking towards stocking shrimp because of the changes in the market scenario and apart from that we also have seen there were issues with related to some disease for that they have reduced their stocking densities. Now they are looking forward to grow larger sizes by reducing their risk and their exposure at the farm level. So in general, they have of course the roundtable conference in Thailand was stating about production of India being under 600000 metric tonnes which of course well it is more to be precise, we do not expect any reduction less than a 600000 metric tonnes currently but we believe it is going to maintain yes, it may not be growing like it had grown in the last two years because of certain issues. That is this is the period where you would want consolidation to happen. Naturally any growth to sustain itself would require a consolidation at some point that is happening right now and we definitely are looking forward positively into the future especially going into next year and the year after with the support of the government also. So because now the Government of India is also looking strongly into domesticating this species and setting up its multiplication centers within India so that they can support the sector. So as long as disease is taken care and the farming is being done in the right manner, we do not think this will be a problem as much as it has been a problem in Thailand to be precise. So it is more of a short term view on India when the people from Thailand speak about India. That is only my opinion.

Harsh Saxena: Thank you so much.

Moderator: Thank you. The next question is from the line of Aejas Lakhani from Edelweiss Broking Limited. Please go ahead.

Aejas Lakhani: Congratulations on a good set of numbers. Sir you mentioned during the call that realizations have, which were at the start of Q1 at about 8.8$ have moved to let us say north of 9$ you mentioned. So that is basically a 10% improve let us assume that it is $9.5 per and that is a 10% increment but you mentioned that the cost has moved up from 300 to 400 procurement prices. So while realizations at the sales level had moved up 10%, at procurement level have moved up 30% the prices. So will that result into a shrinking at the gross margin level?

Subrahmanya C: Not really if you look at it the raw material prices have dropped by more than 30% when the sales prices have actually reduced by 20% in the past. So in fact the higher shortfall in raw material prices has got corrected by 10% so pretty much it is being in tandem when I am of course referring to in dollar terms I have given you it is a north of $9 it is based on the products what you do. For example if you do smaller sizes the unit value is of course lesser. If you do larger sizes and if you do for example more value-added products the unit value also increases in tandem, but apart from the dollar value realization you also look at the exchange rate which had supported. So the increase of Rs.290, Rs.300 to Rs.380 and odd, it is not just being aided by unit value increment in dollars but also the realization due to the exchange rate depreciation which had happened. So as I had mentioned to one of the participants earlier that had the rupee been at 68 to a dollar, these raw material prices would not have been there. You understand what I am trying to say?

Aejas Lakhani: Your point is valid Sir but even if I take say 9.5$ times 70 which is the existing rate, the realizations work up to around 665 which is what we have reported in the presentation in Q1 that the realizations were averaged at 663 so and now you are saying 9.5$ times let us assume 70 so the realizations are still at the same level?

Subrahmanya C: The realization is increasing in fact that the realization is increasing I said it has already gone up over $9 and it is moving forward. Now if you do larger sizes and naturally it goes up to $10, so it depends on the quantum of the percentage of the size of the exposure or the size-wise production and sales what you do, it is based on that the unit realization also improves and increases and accordingly your cost also changes in tandem to that keep that in mind. So that 9.5 I have mentioned earlier on the call that it was moved up over $9 and it is further moving up. Actually to be precise, as we do this like I had also mentioned that the producers or the farmers are also looking at growing larger sizes which is nothing but higher pricing aided and guided by higher realization in INR which is partially dependent on exchange rate of course but primarily dependent on unit value realization. So it is, so as it moves up in fact it is moving up further so now we also doing larger… in the Q1 we did smaller size, in spite of that our realization was at 63 for example but whereas now we are doing larger size coming into the Q2 for example that is what also is going to help in increasing the dollar realization.

Aejas Lakhani: And Sir in the ready to eat and ready to cook sort of segment what is the realization difference between both these segments I mean in terms of how much do you get in terms of realizations?

Subrahmanya C: It is dependent on the product and the sizes, it is anywhere roughly between $2 to $3 approximately.

Aejas Lakhani: $2 to $3 incremental, so it will become 12 to 13.

Subrahmanya C: Yes so that is a minimum on the lower side yes it is $2 to $3 minimum increment is there, it is subject to… but of course there are also added cost to it, it is subject to the sizes what you do and the products what you do so it in fact some of the products you also get $4, $4.5 depends on how much you are able to do in those products, those critical products or more high-value products.

Aejas Lakhani: Fair enough and Sir is India very aggressive right now or is capacity being built for the ready to cook or ready to eat segments or it is still in the processing where most capacities are there?

Subrahmanya C: The most capacities in India would be in ready to cook only however established players companies which have been there for many years and have very well-established markets within their hold are looking at investing and rather enhancing their capabilities in ready to eat segment. By default whatever expansion has happened in process or is happening is all went to ready to cook and in that also most of it is in the commodity nature to be precise the base line products and not really a high value products as such whatever expansion is happening but it is the existing established players they are the ones who are looking at investing further into ready to eat.

Aejas Lakhani: So we would be the earliest entrants as compared to the more established players?

Subrahmanya C: No there are already some players who have already been there…it is that they are located in different parts of the country but they are already there, they have already been there.

Aejas Lakhani: And Sir one last question sir the export sales if you look at the export incentives as a percentage of sales it keeps varying sometimes at 9% sometimes at 12%, 13% like how it has been for this quarter so how should one really make sense of this and is it how does this work, what is the export incentive that has given but where can one read more about how one should assess the export incentives?

Subrahmanya C: Actually if you look at it, it is the export incentive is not more than the actual realization will be around 6.5% to 7% only but because the company of course this current it will not be anywhere at 12%, 13% but of course in the export benefits when you also have other net off the duty, there is a duty drawback receivable there is also an antidumping duty payable so that it is set off there depends on the component of antidumping duty payable. So in our case if the antidumping duty was paid less because of our European sales increasing or other markets non-US business increasing naturally the cost at the antidumping duty also comes down. So overall it will not be more than 6.5% to 7% overall but the point is till last year the company which of course had changed in the last quarter of last financial year till then it was being done on receipt basis but that has changed from last year. So current year it is fully on accrual basis so the company had to change because of the Ind-AS accounting methodology. So there will not be much of significant change.

Aejas Lakhani: Sure thanks.

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

Praveen Sahay: Can you give the procurement price for the last year average procurement price FY2018 and as well as for 2017.

Subrahmanya C: FY2018 it was Rs.350 to Rs.360 FY2018 but the year prior to that it was around 385, 390 it was much higher around the same level to be precise, there was a marginal difference of around Rs.20 I think approximately between FY2018 and FY2017, there was not a significant change then but of course there is a significant difference between FY2018 and FY2019 where the pricing has come down and corrected but that was also for the Q1 and it is changing again now. So it was around 350 for the full year last year. The previous year it was around 375.

Praveen Sahay: Okay and also like one data, which we are looking at, that is USA import data from India. So since last year, we have seen a significant increase in that and in the last two months, we started seeing slowdown and even in the month of June we have seen a degrowth in the volume terms from what the India…the US import from India. So what the situation now is that going to improve or improving, how is the situation?

Subrahmanya C: First thing is there has been excessive concentration on the market called United States of America by any players in India. So one of the main reason why year-on-year imports in the year FY2018 were very high when compared to FY2017 and also they were pretty much on a lifetime high was not only just because of aided by the supply increase in supply from India at the farm level but also because there was excessive concentration by players in the US market. That is the general scenario. Now that has been reducing overall because of course the US has sufficient amount of inventories and in general, the holiday sales in general during the Christmas and New Year time were not as encouraging, one of the reason why the sales were little down at that point of time in the US market. That had it is relatively impact in the way they would buy the shrimp. Apart from that, if you also look at it, it is the company's prerogative to decide or determine which market they would be working with for example as I had explained, we have moved our exposure in general of course in an increased quantity basis we have diversified our market base by additional 8% from US to non-US business of course mostly to the European Union. So for example it was 18% in FY2017 by the time we reach to Q1 of FY2019 it is 26%. So that diversification is also there. It is also happening simultaneously so reduction or rather slowing down of imports into the US market is not to be really looked at on a kind of a quarterly or a monthly basis to be precise and India will be the number one exporter to the US, it is continuing to be the number one exporter and as of now of course its weather conditions are good and of course the survivability at the farm level is good. You will have noticed that India will continue to focus on different markets and it is going to be supported by the raw material supply. So it is not really a big issue with regard to reduction in the imports of US because they have been… US does not work like other markets. US has a program in place so the US markets most of them run on program. So they book their orders in advance. They are doing it… they actually take the call on their future business much in advance. So it is based on how their market sales happen. That will have its relative impact on how they buy from the overseas. Of course their choice of preference as of today is India because of consistent supply and quality being established today Indian product is no less than compared to any other country and in fact it has been maintaining its standard much higher than other Asian peers with regard to the product what it is supplying currently. We cannot comment too much about ready to eat because as I just mentioned, India is still not at a great level with regard to supply of ready to eat but ready to cook India has been doing well and US will continue to buy. They are buying. US will be the largest market in US for India and India will continue to be the largest exporting… sorry the major imports into US will continue to come from India for now and unless the supply in any other country increases beyond India. Then it will be different scenario, which I cannot comment at this point.

Praveen Sahay: And is there the shrimp size different in the Europe consumption and US consumption like priority in the Europe is a larger size or lesser counts as compared to US is that some scenario there?

Subrahmanya C: The Europe and US do have similarities with regard to the sizes. For example US takes all the sizes big to small there is no… US is being a big market as an individual as a country by itself, it has a demand for all the sizes whereas in European Union it is mostly the medium sizes, which are in preference. Again when compared to Asian markets for example China or other South East Asian markets which have mostly smaller size preferences, very small. So that way of course so US looks at all sizes but mostly medium and large sizes go heavily but small sizes are also going good they buy very heavily but Europe is predominantly focused on medium sizes from India as such.

Praveen Sahay: Medium sizes means what count?

Subrahmanya C: Medium means I am referring in a raw material scenario it will be a 50 to 60 pieces per kg.

Praveen Sahay: Great Sir thanks a lot.

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

Deepesh Kashyap: Thanks for follow up. Just one question sir you have mentioned that your new plant will be ready by end of Q3, so let us say December so how much time will go after that for trials and approvals before we can start the actual commercial production?

Subrahmanya C: That is the commercial production will also commence from the current year itself however we would also have certain points like it takes a month for getting the EU approval for example a month, month and a half for the FDA to finish its checking on the consignments. So that is the reason we said it will be fully available for the next financial year without any… it does not mean that it is not we are not going to do any business this year, we are going to do but it is just that with all the teething troubles and these approvals and certifications to be precise which are also required which will be in place before the end of this year so that we do not need to look back for utilizing it optimally in the next financial year. So that is the situation.

Deepesh Kashyap: So the maximum benefit this year can be from one or two months right from this new plant?

Subrahmanya C: Correct.

Deepesh Kashyap: And Sir even the ready to eat that it will be that or that will take much more time?

Subrahmanya C: Ready to eat also pretty much will be let us say one month, one to one and a half months to take as half of it.

Deepesh Kashyap: So ready to eat will be start in FY2020 only?

Subrahmanya C: Yes correct that is true we will start it this year, but when you are asking me the full benefit of that I would rather pledge all that completely for the next financial year. Deepesh meanwhile just to interrupt you on that earlier question which you asked about the other expenses it was more of a grouping change. So broadly the administration incentive expenses all that have been combined in other expense in the past it was… so that they reduced the number of heads of the expenditure that was the main point, so…

Deepesh Kashyap: No sir that was fine but even if you see the group number the other expenses, the percent of sales have become around 20% of your sales whereas previously it use to be around 10% to 11% so this change I have like noted in your competitor as well so I think maybe some Ind-AS change is impacting that if you could highlight that what really the matter is?

Subrahmanya C: See GST is one key part which we should not ignore which is one of the most important part for us, if you look at it whether it is the capital goods primarily which even all the capital goods which are being imported by the company which were not subject to any duties in the past are being levied by the customs also in spite of being on EPC realization however of course it will be refunded subsequently whenever it happens as you know which as you know that the GST is kind of still not yet completely resolved with regard to their process so the GST is one of the key part which has gone into that, that is the major impact which is…

Deepesh Kashyap: And Sir also the losses on your forward contracts and losses that also booked here only right.

Subrahmanya C: See the forward contracts there were no losses. In fact the other comprehensive income was stated on MTM basis, the MTM is mostly the other comprehensive is nothing but most of it is… all of it is MTM. So that is more of a notional loss… notional income or loss which has been shown for the percentage of Ind-AS applicability and otherwise it is not a loss so in this as far as expenditure is concerned… the other expenses are concerned most of it of course GST is a part apart from that certain additional expenditure which had happened which is the increments added to the employees, number of employees being added more since now we are also having hatcheries and all that which are being added additional hatcheries and additional facilities, so naturally employees also have… it has changed so the expense is related to that.

Deepesh Kashyap: Sir my only worry was in this quarter like your gross margin expanded to now 37%. Historically it use to be around you had said 25%, 26% so if the other expenses keep like this particular quarter then the EBITDA margins when the gross margins normalize, the EBITDA margins can sold to around 6%, 7% so that was a major worry if this other expenses will be sustainable or is there any one off in this particular quarter?

Subrahmanya C: Can you repeat that you said the gross margin…?

Deepesh Kashyap: The gross margin has expanded to 37% like last quarter it was 31% so mainly due to fall in farm gate prices or your value-added products, your gross margin have expanded but similar expansion has not been seen in your EBITDA margin mainly due to sharp increase in other expenses. Now consider scenario on the gross margin goes back to normal levels and the other expense at this level your EBITDA margin will reduce to 6%, 7% so that was my main worry that I wanted to check with you?

Subrahmanya C: Deepesh, as I said in fact some of us, as you also know that we are utilizing our lease capacity other expenses increased in manufacturing expenses it will also be having… I was just going through that the lease capacity utilization has also been higher in order to take up more volume this year and both are smaller size, so all these are adding up so definitely due to as we know that the lease capacities or the additional cost which are there right now in the present scenario are not going to sustain for long once our new facility comes up so that is more of a short term, rather like you asked it is more than one off, presently it is only for the present period it is not going to be on a long-term basis for medium or….

Deepesh Kashyap: Sure I will take it offline and thank you so much.

Moderator: Thank you. As there are no further questions I now hand the conference over to Mr. Subrahmanya Chowdary for his closing comments.

Subrahmanya C: Thank you Lizaan. Thank you everyone for your participation and it is good that we could also update you on the industry as well as the present scenario of the business also giving you an idea of how more of medium and long-term is looking at… are looked at. 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 day. Thank you one and all.

Moderator: Thank you. Ladies and Gentlemen, on behalf of Apex Frozen Foods Limited, that concludes this conference. Thank you for joining us. You may now disconnect your lines.