



“Apex Frozen Foods Limited Q1 FY-21 Earnings  
Conference Call”

**August 31, 2020**



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**Moderator:** Ladies and gentlemen, good day and welcome to the Q1 FY21 Earnings Conference Call of Apex Frozen Foods Limited. 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 an operator by pressing ‘\*’ then ‘0’ on your touchtone phone. Please note that this conference is being recorded.

I now hand the conference over to Mr. Subrahmanya Chowdary, Executive Director from Apex Frozen Foods Limited. Thank you and over to you, Sir.

**Subrahmanya Chowdary:** Good evening everyone and a warm welcome to our post-earnings conference call for the quarter ended June 30, 2020. I have with me on call Mr. Vijaya Kumar, our CFO, and Mr. Prasad, our Senior Accounts Manager and Stellar IR Advisors, our Investor Relations Advisor.

Our updated investor presentation has been uploaded on the stock exchanges and I hope you would have had some time to go through the same. It has been a short while since we last met and we hope that everyone continues to be safe along with their families as things are opening up during this pandemic age. The Government of India has announced unlock 4.0 and we hope that this, along with the vaccines under development will finally bring this challenging chapter to an end.

We had a fairly detailed discussion on the last call about how the operations of the company have been doing since April 2020 and permit me to reiterate a few aspects as we tell you about how we have fared in the Q1 of what continues to be a challenging year, that is, FY21.

First, let me make you understand about the operations. The company’s focus has been on ensuring continuity of operations while adhering to the strict SOPs set in place by the Government both Central as well as the State Governments for prevention of COVID-19.

In this process, one of the key challenges that we faced was the continued availability of labor as the pandemic had created pockets of fear that resulted in high absenteeism, especially during the initial days of the lockdown. Every week was sequentially better and as we have put out in our presentation our month-on-month production and sales continue to improve and hopefully by the end of this quarter or the middle of next quarter we should be at normal levels of operations.

The other key challenges that we continue to see is the slow recovery of demand from key markets due to the low out-of-house consumption, which was set off by strong retail demand but only to a certain extent as it could not replace the shortfall in the food service segment completely. The other bright spot for us was the demand from China which continues to be strong. Our decision to foray into the Chinese market, in hindsight given the pandemic was done at an opportune time.



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With regards to the USA market and the European market, things are getting back to normal but there were also rounds of lockdown 2.0 in some of those places because of the rise in number of cases but at the same time similar to India, all other countries are trying to keep the economic activity on high priority along with curtailing the impact of the pandemic. We have noticed that few of the larger restaurants have been filing or preparing to file for bankruptcies and some are closed down; but then the at-home consumption has been increasing steadily and the retail has been going quite aggressive in demand but however I would reaffirm that it is not really substituting the entire loss in demand of the food service sector. So, the retail is going quite steady and fortunately for us, our strategy is working very well that we are aligned more in the direction of the retail markets. Same is the case in Europe.

And in the case of China I would like to clarify in this opening remarks itself that there were some sort of non-tariff barriers which were being created by the Chinese market with regard to seeing presence of COVID-19 on the packages of shrimp products or meat products and various imported products from other countries especially from Ecuador and they were doing all sorts of testing. Of course, there have been a lot of deliberations between many countries and government authorities about the presence of COVID-19 virus on the packages. However, now China has removed all sort of restrictions which were there on the facilities from Ecuador and at the same time even the Indian companies along with others have been taking the necessary steps to ensure that there are no potential rejections when their products enter the Chinese market. Other than this, the demand from China has been picking up slowly in a phased manner after the unlocking of the Chinese market. We need to see how things move as we move into the future.

With regard to the raw material aspects of the business, as we had updated you last time, there was irrational panic at the farmer's end due to the sudden stoppage of the movement within the country - between the states as well as within the states. At this time, we thought it was fit to procure as much of their produce to soothe their nerves and importantly to secure raw material for our processing plants at a reasonable rate. We did support the farmers especially to ease their panic and of course that also supported the company in having the required amount of product in the present months when there is a shortage of product in general within the raw material supply market.

The purchasing which began in the last week of March continued in April as well. The inventory that we have purchased was processed and dispatched during the first quarter with quite a significant amount of inventory consisting of semi-processed and unfinished shrimp products being utilized in the current quarter and there could be some spillovers to the next quarter. But most of it is being planned to be utilized in the current quarter itself.

This of course is in addition to the fresh purchases that we have been doing, may be at a lower level, but we have been doing on a continuous basis from the states of Bengal and Orissa as the supply in the Andhra market has been depleting but again the farmers are just going for restocking again in Andhra. So the increased level of inventories has obviously resulted in a



slightly stretched working capital cycle. But we believe that not only would this even out, but should also help with our costs going forward.

So, the current ground level situation is that farmers have begun to gain confidence due to the stable shrimp prices and have resumed stocking which I just mentioned. They have again started buying seed from the hatcheries and are starting to growing their next crop in the current year. We understand that the shrimp culture is operating at near normalcy in most of the states even in Bengal and Orissa as they have also stocked for their second crop in 2020.

That was mostly about the industry updates. I will now take you through the brief highlights of our financial performance.

On the revenue front, there has been a minimal impact when compared to the corresponding quarter of last year. While the shipments of our finished products were impacted due to the COVID-19 pandemic because of the logistical issues which we had informed you in the previous concall, an increase in average realization supported by rupee depreciation helped in reducing the fall in overall revenues. For the quarter ended June 30<sup>th</sup> 2020, our net revenues came in at Rs. 218 crores which was only 2% lower Year-on-Year from Rs. 222 crores in Q1 FY20. The geographic break up of our volumes sold, that is, almost 3,200 metric tons, is as follows: almost 66% to the United States, about 14% to the European Union and the balance 20% was to China.

The Chinese market's share has increased in our revenues this quarter. This year we will continue to supply the commodity products to China, only as and when the market supports it because as you are aware, our company's core focus continues to be on producing value added products so that we can have better dollar sales and of course in tandem with that, have better margins. However, we will not ignore the Chinese market and many other Asian markets where the commodity product will be sold so we will continue to do that and from now onwards we will be pursuing those markets too.

Profitability in the quarter took a hit due to a unique set of factors:

Firstly, the contribution of value added products within sales was lower mainly on account of scarcity of workers due to the restrictions during the lockdown period of April and May where the workers were restricted by the local authorities and other authorities of the governments involved, which eased out subsequently, thanks to the State Government of Andhra Pradesh who considered seafood processing industry to be as a part of the essential products requirements. So, it did help us to certain extent however, it was only sufficient for us to do semi processed products rather than a complete value-added product.

Secondly, increase in Forex related expenses due to volatile currency movement was also there which was mainly because of the restatement of course and is more of notional in nature but it did have a significant impact on the profitability.



Then there was this increase in finance cost for carrying the higher than normal level of semi as well as unprocessed inventory, which was one of the major factors for dip in profits. So all of these resulted in our EBITDA coming in at Rs. 21.2 crore, forming a margin of 9.6% which is although higher on a Year-on-Year basis, it was lower than our average run rate.

As our new plant became fully operational, depreciation increased Year-on-Year and as explained earlier finance cost too increased. As a result, our PAT for the quarter came in at Rs. 8.5 crore versus Rs. 8.3 crore in Q1 of FY20.

Let me now give you a few updates on our facilities. As you are aware the new plant is up and running. We have been doing exports to the United States as well as the Chinese market except that the European Union approval has not yet been given because from the government authorities as we believe that the consultation process between the Government of India and the Government of EU may have been kept on hold for certain reasons relating to the pandemic situation.

On our hatchery operations, we have discontinued the leased facility which was located in the south of Vishakhapatnam and we are constructing the phase-2 of our recently commissioned hatchery at Ongole. We are hopeful that this will come online in this fiscal and with this all our hatcheries are now owned and operated by the company.

With that I would like to thank you once again for joining the call. I now request Nirav, the moderator, to open the floor for questions. Thank you.

**Moderator:** Thank you very much. We will now begin the question-and-answer session. The first question is from the line of Depesh Kashyap from Equirus. Please go ahead.

**Depesh Kashyap:** Sir, can you please help me with the export incentive number for the quarter, please?

**Subrahmanya Chowdary:** It was 12.32 crore.

**Depesh Kashyap:** Okay 123.2 million.

**Subrahmanya Chowdary:** Yes.

**Depesh Kashyap:** Okay. Sir, if I look at the gross margin number, I was hoping that since you purchased a lot of inventory in the month of March and also in the starting part of April when the farm gate prices crashed. So the gross margins should have been better, but they are actually lower on quarter-on-quarter. Can you just explain how that happened?

**Subrahmanya Chowdary:** The main thing for the Q1, Mr. Depesh, was that, if you look at it, the raw materials what we have purchased on quantity wise was at a higher level. If you see the cost of such raw material it was of course at a very lower level comparatively, it was at Rs. 267 per kg. Another main



reason for gross margin fall was the sales value, which you have noticed that it was at a lower level when compared to the purchase volume, which was significantly higher. Our raw material purchases were at around Rs 1,432 million which was among the highest in any quarter. So the gross margin falling of course was more because of the purchases which were there and added to this, other costs which have come up.

**Depesh Kashyap:** Can you just quantify the other one-offs that are there in the other expenses in this quarter? The FX expenses that you told; how much was the number?

**Subrahmanya Chowdary:** It was I think Rs. 5.6 crores approximate with regard to the foreign exchange. That was more of a restatement. It was more of notional value as you know, which we need to give quarterly based on the accounting policies.

**Depesh Kashyap:** Okay. I just want to understand this other expense number in detail. For the last two quarters, this number has been high, but our understanding was that since our leased facility has been let gone, your other expenses would have reduced by Rs. 2 crores to Rs. 2.5 crores per quarter, but that is not visible till now, so when will the advantages had to?

**Subrahmanya Chowdary:** This Rs. 5.6 crores of FX is actually in the other expenses. That is the major one which has actually impacted. The other expenses, otherwise are of course not so significant. We do have some welfare measures, which were taken for the workers on a temporary basis during the quarter because of additional measures or actually bringing them on at additional costs and some of those costs which were not placed under the employee related expenses are also part of the other expenses. Otherwise the other expenses would have actually come down in a normal state.

**Depesh Kashyap:** Understood. Sir, lastly given the overall decline that is expected in production in FY21 and so given your order book that you see right now, what kind of volumes you expect to do this year? Last year we did around 12,200 something volume, so do you think you will do more than that this year?

**Subrahmanya Chowdary:** Mr. Depesh, we are definitely supposed to be doing that, subject to utilization of our capacities in the present pandemic; definitely we should be looking at doing that hopefully but in a normal situation, because we have a completely owned facility and without any limitations and with additional capacity, the additional lines as well as additional capabilities also. So we should be doing definitely higher volume, however, we need to add a caveat to that with regard to the pandemic impact. We do have some of our employees who have been affected by COVID-19 and as I was telling somebody else today that the COVID-19 cases have increased tremendously in the month of July and they continue to be on rise in the state of Andhra Pradesh and in the East Godavari district, which is where all our three facilities are located. So we are having a rise in number of cases in our area, which actually affects the overall worker attendance as well as staff attendance.



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So, we are definitely looking forward for it. Let us see how things go by, but also the volume of raw materials from Andhra now have been a little low, but we have been taking care of that reduction in volume with the help of the supply from Orissa and Bengal. Although the Andhra farmers have again started stocking the seed, it is too premature to exactly put a number of how much percentage they have actually come back with the stocking. So we are very hopeful, actually we are very positive. As far as our export demands are concerned, they are being very consistent. So, to answer your question, yes, we should be looking forward to it, subject to our capacity utilization in the present pandemic age.

**Moderator:** Thank you very much. Next question is from Nitin Awasthi from East India Securities. Please go ahead.

**Nitin Awasthi:** Just had a question on the export incentive front. So we have been hearing a lot of confusing news on the MEIS side, so just wanted to understand from you on the ground what is actually happening and what are you hearing from the authorities and are your payments, are your certificates being issued, are you being able to sell them? If you could just share some light on that?

**Subrahmanya Chowdary:** Yes Mr. Nitin, the MEIS is at 5% for this first quarter. However, considering the various constraints, the Government of India has its limitations and there have been certain technical glitches for almost five to six months of the last financial year. In this year we have opened up around the end of first quarter. We started getting all our licenses and we are able to sell those licenses of last year as well as current year. But however current year they have capped it mainly because of I guess the budgeting constraints of the Government of India with regard to each scheme, as the country is trying to keep up with the pandemic as such.

The Government of India has put a kind of a stipulation or rather a cap saying that it will be around Rs. 9,000 crores or something, but we have not had a real clarity. As of now we have been technically told that the present year's MEIS licenses will be available as and when the Government of India has sufficient funds. This is as per the official response which we get on the portal where we apply for MEIS; so, based on the funds availability the Government of India will be making it available. However, the scheme exists. There is no doubt on the scheme as of now because it is as a support to promote exports.

Of course we have been having a lot of deliberations with the new scheme, which would be more of WTO compliant. So, we basically need to wait when that opens up and so we are just awaiting eagerly for further clarity from the Government.

**Nitin Awasthi:** As of now sir, if I may ask how much is the amount which should have been cleared in normal course of time and has not been cleared and is still been pending, certificates not been issued to you for MEIS?



**Subrahmanya Chowdary:** Most of the MEIS of FY20 has been cleared. FY21 there are issues, for the past let us say even five months of the current fiscal FY21, hardly anything has been issued yet. We are still waiting because of the hold-up by the Government of India. Most likely they may change the policy as I had explained. So, at this point, most of the MEIS which is due from the government is yet to be released for the current financial year.

**Nitin Awasthi:** And would not that be putting undue stress, which is not been planned for in this time of pandemic on the company and on the industry as a whole?

**Subrahmanya Chowdary:** Can you repeat that question? I am sorry.

**Nitin Awasthi:** So being this amount is significant and would not that be putting the whole industry in stress to some point that this amount which has not been computed for something which was regularly received is not being received right now, is not that putting undue stress on the whole industry and the company?

**Subrahmanya Chowdary:** Well, I do not know if you are aware about our company's view with regard to those benefits. I am not sure if you were there with us around two years ago where we have been saying from the time the Government of India has been contemplating to replace the MEIS with some other scheme, which is WTO compliant and also that with regard to uncertainties of how soon or at what time they would totally phase out the scheme. Our company has been looking at increasing its margins without the MEIS support as much as possible and we are working on that front with increasing our realization to the best possible.

Yes, definitely there could be certain amount of impact, but however, we are trying to look at higher value-added products and higher margin products so that we can be independent of such schemes. But definitely it is one of the key aspects to our business and we are confident that the Government of India will bring up an alternative scheme, which is WTO compliant, soon.

So that neither the government faces any problem at WTO level and nor the industry as well as other industries face any problem with regard to the compliance of the scheme. So, we are looking forward for more clarity on the policy and we look forward for the support from the government. However, we are also working and trying to be as much as possible, self-reliant and are actually working closely with our customers and having higher value products so that we can have better margins as much as possible.

**Nitin Awasthi:** Okay sir and just lastly on the hatchery front. If you could just share some light as to how much was the sales and you said that farmers in Andhra Pradesh have been stocking again, so is there a good pickup seen in the hatchery segment, which is going to be seen in the coming quarters?

**Subrahmanya Chowdary:** Yes, we are seeing pickup in the sales of the seed slowly, but farmers are stocking with caution as such because of the uncertainties in the market like the climate which is soon approaching





like we are going to have the winter coming up in another two months. So whatever stocking happens would be mostly completed within the next two months and then again farmers start stocking in the months from December and towards the end of December and January as usual. So, there will be a marginal gap of around one to one-and-a-half month because of the cold climate when they will be stocking less, but otherwise overall, yes, they have picked up.

There are certain issues with regard to the farming operations in general because with regard to the financing part which is not our forte. It is different other segments, which are involved whether it is feed or the finances of the farmer. So otherwise they are very motivated by the current market prices and they are looking forward to being successful in their crop. Their stocking of the seeds has been coming down so that they can mitigate their risks like the diseases or any sort of virus spread within the farms. So, they are actually going at a lesser stocking density compared to the past.

**Moderator:** Thank you very. Next participant is Abhishek Jain from BP Wealth. Please go ahead.

**Abhishek Jain:** My question is right now we have a capacity of 29,000 tons, when we are going to see the capacity being used 80% to 90%? any timeline for the management? And what are the sustainable margins? And third question, how the prices have moved up in last one month? Can you throw some light and what is the management expectation going forward?

**Subrahmanya Chowdary:** Can you repeat your third question please?

**Abhishek Jain:** How the prices have moved up in last one month? Sorry I have joined late, so I may be missing some part of this presentation and what is the management expectation?

**Subrahmanya Chowdary:** No problem, you wanted to know the price movement in the last one month? Okay, the first question is about the capacity utilization. We have originally envisaged that we would be utilizing a minimum of 50% of our new capacity, the newly installed 20,000 metric tons in the first year and of course we continue to do our optimum utilization of 80% to 85% of our older capacity, which brings the blend of around 55% to 60% of the total capacity which we were planning. That was firstly planned for the first year and of course from the second year we were planning to utilize 75% to 80% of the total capacity of 29,000 metric tons.

However, now in the first year because of the pandemic and its impact on workers and staff availability as well as the certain market demand issues on certain fronts, this year we are definitely putting in all our efforts and we are making use of every opportunity available. So, we are pretty much confident that we may be looking forward towards that 50% hopefully of the new facility, subject to the raw material as well as the employee availability in the present crisis. If it was not for the pandemic, for sure, the company would have been doing a lot better because of the available resources, capacities and capabilities. That is with regard to the capacity



utilization. So it is all subject to how the employees and quality supply comes up for the rest of the year.

Your second question was about the sustaining margins. With regard to that, we have explained in the past also, so normally if we are at around say 7% to 8%, around 8% of PAT margins for example. We were looking at 2% higher margin levels once we move in into our own facility as we have these value added products, which add up to the value, so that we could move up to around 9% to 10% that was the idea. But these increase in costs in the current year, with regard to the pandemic, were not envisaged by anybody in the industry as a whole and was a totally unforeseen crisis period. So there are effects on that front too. As we utilize every opportunity and as we put in all efforts to utilize all the capacity which is available to the best possible, we are very much confident that we will be working at bringing back our margins and we will be getting better margin going forward in the next few quarters because it is just that some of the one-off issues like these higher employee costs or including higher welfare maintenance which were taken with regard to employees in the first quarter as well as the foreign exchange fluctuations and certain finance costs, which were all mentioned in my opening remark, were the major reasons, which have affected the margins in the first quarter.

Now the third question which you mentioned was about the rise in prices in the last one month. After the dip in the export prices during the lockdown period there was a steady growth in the pricing, which are back to the pre lockdown period. The prices were normal, this has happened even towards the end of the first quarter. So the entire second quarter pretty much is at pricing of the pre lockdown period, so it is not that the pricing currently has any major impact because of the COVID-19. It has been steady. The demand has also been quite steady and consistent from various markets. It is just the supplying and the employees' availability which makes it feasible for utilizing such opportunities. So as I mentioned we will utilize every opportunity to utilize the capacity aided by the capability and shall retain our margins.

**Abhishek Jain:**

So what will be the margin expansion we are getting into ready to cook segment and how is the labor cost right now because I have seen the fresh cases of COVID happening in Andhra Pradesh right now? So do you see this can be a bigger risk going forward?

**Subrahmanya Chowdary:**

See typically there is a margin expansion of around \$0.30 to \$0.50 approximately with regard to ready-to-eat. I will just correct your question. There is no margin expansion significantly on ready-to-cook, it is in ready-to-eat segment and that is around \$0.30 to \$0.50 cents per kilo in a normal case. With regard to the cost escalation, with regard to the employee cost escalation which you are saying we have had higher costs of labor during the first quarter.

In the second quarter the costs are normal, however, certain welfare measures like covering employees with COVID-19 insurance and some minor steps are being taken up. So except those marginal costs with regard to workplace because now the country has opened up and unlock 4.0 is going on right now and everybody is moving around and there are no hindrances between



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interstate as well as intrastate transportation, so we also have employees coming in from other states also. Since there are no restrictions on the worker, we do not believe that the costs of employees will be significantly higher than the normal in the way it is supposed to be. But however we will take certain welfare measures as I mentioned with regard to COVID-19 insurance or supporting them during their tough times of this pandemic when they and their families are affected or impacted and as you rightly said the State of Andhra Pradesh is unfortunately having a higher number of COVID-19 cases compared to the past. This has been rising significantly since July and we are also in the one of the hotspots of the State of Andhra Pradesh that is the East Godavari District.

We are working together with the authorities. We are taking care, taking all the measures and ensuring that our employees and staff are not affected, but that care and measures will be at our facility, very much within our facilities and our transport vehicles. However, as you would know very well that their normal life movement is not under our control, so as much as we take the measures and we diagnose them regularly, however, we do sporadically have cases coming in here and there, but on the large front, we do not believe that we are going to have anymore major impact with regard to lack of workers as such.

We will not have any major issues because even the workers, employees everybody they are also focused on their livelihood. They are also taking care to a large extent with regard to this pandemic and they are appearing for work. So that way our cost of employees will not be going up significantly like it did in the first quarter. Even though there is any increase in cost that will be more towards the increase in production because we would anyway require more number of workers to handle the higher amount of production which has been taken up as I speak at our new facility.

**Moderator:** Thank you. Next question is from Samir Rachh from Nippon India Mutual Fund. Please go ahead.

**Samir Rachh:** I had a little broader question. So last few years, after IPO you have been working on putting up a new capacity, then expanding into value added products, backward integration. So we have achieved all of them, unfortunately markets are now to be bad, thanks to COVID. So in terms of strategic priority what is our strategic priority for the current financial year and then going ahead what are your thoughts to take this company to the next level, what all things you have in mind in terms of more value added products or in terms of market expansion or like having different kind of distribution model, new countries, if you can just broadly take us your through the strategic thoughts, medium to long term?

**Subrahmanya Chowdary:** Mr. Samir, thank you for joining us today and I hope you are all keeping safe, you and your family. With regard to the new capacity, like you said, we did complete everything and bring it up, made it ready for the starting of this year. That is why we did expect that we will be able to



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utilize this capacity with the additional capability of ready-to-eat from April of this financial year. Unfortunately the pandemic has had its effect.

But otherwise with regard to strategically how we are growing our business or what plans we have, we have been really utilizing our capability of ready-to-eat products in various markets, of course the USA mainly. And we are looking forward for the EU approvals. So the ready-to-eat right now is going at a full capacity. Within the capacity of that 20,000 metric tons, the ready-to-eat capacity is being utilized at a full level. As such we have been informing all of you for the past two years, or actually since the IPO, and as the facility's construction has been coming up, and when it was getting ready to open, we were also giving you the feeling that we were going to utilize the ready-to-eat capability much sooner than originally envisaged.

And as mentioned in the past, we are utilizing that capability to the full extent and we will continue to utilize that capability. And how sooner we will be able to add any additional capacity of such capability of ready-to-eat is, we just need to see the next few months because of this pandemic issue.

So thereby, with regard to the value realization is concerned, the ready-to-eat is very much going to help the company. The ready-to-eat products mostly are sold or are distributed through the retail channels where we were aligned to for most of our business. The retail channels mostly in the USA as well as the European Union, absorb all these ready-to-eat products because it is basically the convenience given to an end consumer to prepare or rather consume the food at their homes with lesser amount of preparation or lesser amount of struggle as such with regard to preparing products. So the ready-to-eat is more of an at-home consumed product rather than at a restaurant.

The pandemic as such definitely may have a larger, on a broader basis, impact on the industry in general or the food service segment, the restaurant chains in majority; But the retail sales have not dropped. And it is the retail sales which actually support, as I mentioned, support these ready-to-eat products. So our alignment towards the retail segments have been very well placed and our strategy has been working very well in that direction. And we are confident that we will look forward to utilizing every newer opportunity which is coming our way. And hopefully as volumes increase in ready-to-eat, we will look forward to enhance the capacity of such ready-to-eat also within the same facility without a significant CAPEX as such. We would have a marginal CAPEX with regard to that.

So our strategy with retail markets have really worked in the favor of the company. And we are also dealing with some e-commerce companies and are looking forward to their support. But I would not want to get into the details on this call of such customers.

But as such our new capacity and capability will be absorbed with regards to the US market, it will be absorbed mostly by the retail segment. And these tough times of the pandemic have



proven that the retail segment will not be affected when it is compared to the food service segment.

So our strategy has been very well placed and it has been working in our favor. So definitely this should be helpful in growing our business not only on volume terms, but also on value terms. And the sooner we would decide on expanding our capacity of the ready-to-eat product also, hypothetically, I do not know, sometime later this year or next year, once we take a decision we will look at adding additional 5,000 metric tons line in the ready-to-eat segment. Because the company has good demand from that segment. And it is better to look in that direction.

Of course we will continue to do the ready-to-cook products as much as possible and as I mentioned to one of the earlier callers, we would continue to also look at the Chinese market when the market is favorable for selling such products. However, our core focus will continue to be on the value-added, especially the ready-to-eat. And we are very happy and proud to inform that we are able to utilize our ready-to-eat capacity. We are able to use that capacity in the first six months itself to its optimum level. And we are confident that we will be utilizing it to the fullest extent for the rest of the year too.

**Moderator:** Thank you very much. Next question is from Vincent Andrews from Geojit Financial Services. Please go ahead.

**Vincent Andrews:** Most of the questions have been answered already. Only two questions. Actually you are diversifying your regional risk, now China, as per the presentation is 20% of the mix. So I want to understand the impact of realization also in this front. Actually when the things are becoming normal, I want to understand for Q1, what is the average realization you got from US market, Chinese and Europe? Separately, is it possible for you give?

**Subrahmanya Chowdary:** Sorry, at this point I do not have it, but I will provide you that answer offline. But average realization as such for the shrimp was \$8.22 per kilo. Of course the USA and European markets would be at a higher level. I did not have the breakup of that market-wise realization. I will provide it to you offline, and from the next call onwards we will ensure that that data is also available for all the callers. The average realization between the markets for that specific quarter or that specific period of the company.

At this point I would be able to give you the information that it was \$8.22 per kilo, compared to \$8.08 in Q1 FY20. So even though the Chinese products have taken up 20%, our realization overall, if you look at it, has been at a higher level compared to Q1 FY20 or Q4 FY20, or even the entire full year of FY20, \$8.04. Because as I had just mentioned to the previous caller, the ready-to-eat products are increasing and they will continue to increase the average realization of the company going forward. So I will definitely provide you that breakup offline and I will also provide it from the next call, okay?



**Vincent Andrews:** Okay, that is okay. I will check offline. And one more question I have, as a continuation of the previous question, that you had mentioned in the other expenses, the foreign exchange expense as well as some other additional expenses has been included. So excluding that one off items, other expenses would have been at what level, normal level, can you please, or on a per kg basis how much it will be for factoring, for us to factor in the future?

**Subrahmanya Chowdary:** Other expenses as I said, to one of the previous callers, it had significantly been affected by around Rs. 5 crores for the quarter alone, primarily because of the foreign exchange losses. If you ask me, I would say it is more notional, more as per the accounting procedures. Also there were some staff welfare expenses which specifically had to be taken up during the lockdown period apart from their regular costs of wages and salaries, to encourage workers to come in and to do even that whatever extent of processing happened during that period. Those welfare expenses are not going to be there at that level for sure from Q2 end onwards. So yes, you can accordingly calculate.

**Vincent Andrews:** How much it will be for the welfare, additional?

**Subrahmanya Chowdary:** The welfare expenses were as of Q1 FY21, there was additionally Rs. 1.1 crores approximately.

**Moderator:** Thank you very much. Next question is from the Depesh Kashyap from Equirus Securities. Please go ahead.

**Depesh Kashyap:** I just need few quick data points. Sir, out of the 3,196 tons that you have sold in this quarter, what was the ready-to-eat products that you sold in this quarter?

**Subrahmanya Chowdary:** I will just provide it to you, Depesh. The 3,196 tons was the total. So in the first quarter, the ready-to-eat product was not significant. I think it was around 10-12% actually. It was not significant but in Q2 it is picking up significantly. Anyway that I will discuss with you on the next call about how the ready-to-eat has picked up.

But in the Q1 it was not so significant because you should understand that the more value added it is, it requires more number of employees and workers. So what I was mentioning to the previous caller specifically was that our ready-to-eat today definitely has come up and we are utilizing it fully in the present period as we speak. However, unfortunately it was not attributed to the Q1 specifically. It was very insignificant to be precise, on the ready-to-eat front. But that is actually picking up now.

**Depesh Kashyap:** Sir, so the 5,000 tons, the annual capacity that you have, you are confident that you will be able to do fully in the remaining nine months, right? So that is what you have been guiding?



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**Subrahmanya Chowdary:** For the rest of the nine months of the year, proportionately yes. We are going to utilize the ready-to-eat capacity fully for the financial year. We already have the order book and it is being filled up as the market develops.

**Depesh Kashyap:** Great sir, that is encouraging. Sir, lastly as I just want like, what is the external hatchery sales number in the quarter?

**Subrahmanya Chowdary:** That is 141 million, quantity, 141 million was the seed sales; Mr. Vijaya Kumar is giving the value, one minute.

**Vijaya Kumar:** Rs. 5.82 crores.

**Depesh Kashyap:** Okay, right. And then lastly, can you give the inventory and the debt number as on June '20 please?

**Subrahmanya Chowdary:** You wanted the inventory? Sorry, can you repeat that question please?

**Depesh Kashyap:** Yes sir. The inventory numbers spiked up in the month of March, so I just want to understand what is the number at the end of June?

**Subrahmanya Chowdary:** In the inventory as of March ending it was some Rs. 184 crores total. Yes, for closing stock, including farm and hatchery work-in-progress, finished goods, it was Rs. 184 crores in the end of 31<sup>st</sup> March and now it is Rs. 197 crores, including the farm and hatchery work-in-progress and other, all totally. If you ask only inventory, about only the finished goods and semi-finished goods of export products it was lesser. I mean, it increased marginally, compared to the previous quarter.

**Moderator:** Thank you very much. Ladies and gentlemen, we will take the last question from the line of Abhishek Jain from BP Wealth. Please go ahead.

**Abhishek Jain:** I have one question on this, sir. I was looking at the US numbers moving up right now. Do you see any sharp rise in prices in the next few weeks or something like this? How exactly the prices can move because there is lot of interest, there is a sharp jump in the restaurants since last one month, especially in the US markets right now. So any comment on the same, sir?

**Subrahmanya Chowdary:** Sir, I really want to share the optimism you have in the markets with regards to any sort of increase in prices which we can have from the US market or any other markets on the global front. However, you need to keep in mind the pandemic does have its affect. And it has its impact on the markets, on consumption in general.

Of course it is a food product. It is very good that we are a part of the supply chain of the food product, which are still consumed. Whether or not they are consumed in a segment of food service, that is restaurant chains or whether it is consumed in the retail, that is a different topic.



But when there is a drop in consumption in general, with regard to some areas where people are not going and eating regularly in restaurant chains where the consumption is significantly higher in a normal period, definitely the question of price rise does not actually occur.

But we are very positive and we want to at least ensure that we continue to have these prices which we have. At least those price levels which have been there, which I mentioned to an earlier caller also that at least those price levels which were there since pre-COVID levels. At least that way we are very positive and we are not really looking at any significant prices rises with regard to export markets. Because globally all the markets are affected and with regards to price rises it has got to do with the larger topic of economic scenario, unemployment rate and for example, the country and the market you are talking about, the USA, is right now suffering with its own high unemployment rate at this point because several of them have lost their jobs.

So, the question of price rise does not occur. However, we want to be optimistic at least to have these prices continuing and this demand at least be steadily being maintained, if not significantly increasing in the present year. Hopefully as research and developments happen with regard to vaccine development, and once the pandemic can be addressed with proper vaccines and hopefully life comes to normalcy, sometime next year, yes, we expect things to be better.

But as long as economies are affected globally, they will definitely have an impact on the spending power of every individual, which you know very well. Thereby it also has an impact at what level they can spend on food products also. And because of that we do not have to really foresee a great increase or any sort of significant increase. We will only increase our price as we create higher value products within our processing facilities. Otherwise the market would not be really giving any great price rise.

**Abhishek Jain:** Sir last, just a second only. Sir, I just want to understand how the inventories are there in the system right now at this point of time in the US especially?

**Subrahmanya Chowdary:** You mean for our company or you mean in the US?

**Abhishek Jain:** Overall. Not for your company, but I am talking about the US market, how they are like, how the shrimp inventories have built up in their system right now? Whether they are holding large inventories, I just want to. So whatever your interactions with the....

**Subrahmanya Chowdary:** In the US markets, whatever our interactions with the customers out there in the US have been, nobody is speculating out there. None of the customer are speculating. They are maintaining the inventories to the best possible levels of their requirement, in consideration and in deliberation with their customers. So, they are not piling up their inventories more than what is required, like they would have done in a normal business scenario.





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Because of the economic crisis in general, and the high unemployment rate which is there, naturally that is affecting the consumption of the all food and other products and added to that even the shrimp products. So, the customers are very cautious in the way they are holding up their inventory. They are buying what is on a needed basis. And they are actually playing a very safe game, to be precise.

Of course there will be few customers, certain importers who might be having higher inventories in their regular course. But most of the customers whom we deal with are very cautious. And they have placed the orders to our company only as per their requirements. They are not doing anything on speculation basis in the present pandemic age, unfortunately.

**Moderator:** Thank you very much. I will now hand the conference over to Mr. Subrahmanya Chowdary for closing comments.

**Subrahmanya Chowdary:** Thank you all for joining us. We hope you continue to stay safe with your families. If you have any further questions, and also the offline responses which we were supposed give, please reach out to our investor relations team Stellar IR Advisors and also send it to us directly at [ir@apexfrozenfoods.com](mailto:ir@apexfrozenfoods.com). Thank you very much and have a good night.

**Moderator:** Thank you very much. On behalf of Apex Frozen Foods Limited, that concludes this conference. Thank you for joining us and you may now disconnect your lines.