"Apex Frozen Foods Limited Q4 and FY '18 Post Earnings Conference Call"

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MANAGEMENT: MR. SUBRAHMANYA CHOWDARY – EXECUTIVE DIRECTOR, APEX FROZEN FOODS LIMITED
MR. VIJAYA KUMAR – CFO, APEX FROZEN FOODS LIMITED

Moderator: Ladies and Gentlemen, Good Day and Welcome to the Q4 and FY '18 Post 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 '*' and then '0' on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Subrahmanya Chowdary. Thank you and over to you, Sir.

Subrahmanya Chowdary: Thank you and Good Morning everyone and a warm welcome to our post-earnings conference call for the quarter and year ended March 31, 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 Q4 and FY '18 investor presentation and gone through the same. We have also updated it on our website for your reference.

Now, we understand that the recent happenings in the Aquaculture industry globally and more so in India has led to a bit of worry in the minds of many investors and analysts with regards to its consequences on industry players like ourselves. Therefore, we would be happy to take this opportunity to update you all on certain on-ground trends of the industry and also address any queries that you may have on the same. We will begin the call by sharing key updates on our Business first, followed by an update on the Industry and then a summary of our operational and financial performance for the financial year FY '18, post which we could open the floor for Q&A, please.

On Business update, first and foremost on our new project - The construction work of the processing area and other support facilities is on track and we expect it to be ready by the end of Q2 FY '19, so the commissioning is likely to be completed by Q3 to be precise. The cold storage facility is nearing completion. Also some of the imported machineries have been shipped and are being dispatched through at the new processing plant location. As for the CAPEX incurred, of the total plant outlay of almost Rs 90 crores, Rs 27.3 crores has been incurred till the end of March 2018 and further some part of the proceeds are in the machinery which is in transit.

On our existing business front, this year has been very good for the company wherein we achieved a new milestone of crossing the 1000 crore mark in our total income. Our profitability too was bolstered this year by the culmination of our backward integration efforts like setting up hatcheries, and enhancing in-house farming operations. We added one new hatchery last year and also increased our in-house farming land by almost 600 acres in FY '18 to almost 1800 acres currently. Further, as most of you would be aware that we are a 100% export-oriented business and have major share of revenues coming from the USA. As a conscious effort towards favorably diversifying our revenue mix, we were successful in increasing our business from European Union last year. The share of EU market in the overall revenue mix increased from almost 18% in FY'17 to almost 24% in FY'18, despite the strict quality norms and checks on banned substances like antibiotics placed by EU on Indian processing companies. We aim to better the mix further in the coming year with proper systems and checks in place.

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 in the new markets that we plan to foray into. We look forward to and would strive for reaching a revenue mark of Rs. 1400 crores in the next two years subject to processed shrimp price stability at the current levels.

Lastly, as a way of rewarding our shareholders for the trust they have reposed in us and for the good year that we have had, the Board has recommended a dividend of 20% of the face value that is Rs. 2 per equity share as compared to 10% last year.

That is largely on the business update from our side.

Now coming to **Industry update**: As you know there are a couple of variables that are key in our business. The first is the demand-supply scenario globally and the resultant pricing of finished products, which is Shrimp prices. The second is the primary producers sustainability matters.

On the demand-supply scenario, the last financial year started with high demand, however, towards the second half, we saw a tapering off of demand due to the extended winter. Parallel, the supply of shrimps increased due to increased production by India and on-streaming of supply from South-east Asian countries. This resulted in a correction in prices of shrimp, which started in the second half year of FY ‘18. As of now, shrimp prices on an average might have corrected in the range of 15% to 20% year-on-year. Now, while this may have an impact on realization and in-turn on revenues, we believe that such price corrections could lead to increased consumption of shrimp and thereby boost the volumes sold. We are already starting to witness a gradual pick up in the consumption in the past four weeks and are foreseeing a strong pick up again from Q2 of FY‘19 onwards. As far as the profitability is concerned, our margin, as also displayed in Q4 of FY’18, does not get impacted hugely as price corrections in shrimp are normally passed on to the primary production level.

Now, on the primary producer's sustainability, as you must have read, farmers have seen a fall in farm gate prices as a result of the aforementioned demand-supply scenario. While this may be true, but it has not yet translated into farmers moving out of the business. In fact, some states have decided to support the farmer community by supplying electricity at a unit rate of Rs. 2. Furthermore, we believe that there is significant headroom for cost rationalization at the farmers end which once implemented would arrest the margin erosion for them. We are hopeful that the situation would stabilize soon.

Now, our CFO, Mr. Vijaya Kumar, will explain the **Financial performance** for the year.

Vijaya Kumar: Good Morning everyone. Now, I will present the financial performance of our company for the Financial Year 2017-18. Our total income include net revenue and other operating income for the full year Financial Year 2017-18 was Rs. 1,018.5 crores versus Rs. 709.30 crores, a growth of 43.6% on year-to-year basis. The significant increase in income was resultant from higher volume while the average realization remained flat between Financial Year 2017 and Financial Year '18. In the full-year, Financial Year '18, we sold a total of 14,146 metric tons of processed shrimp as compared to 9,897 metric tons of sales in year FY '17.

At the EBITDA level, we reported Rs. 129.9 crores for the full year FY '18 versus Rs. 55.8 crores in FY '17, a growth of 136.5% on year-to-year basis. EBITDA margin stood at 12.8% in FY '18, that is, 7.7% last year. Profit after tax stood at Rs. 79.1 crores for FY '18 as compared to Rs. 25.1 crores in FY '17 a growth of 214.8% on year-to-year basis. The PAT margin improved to 7.8% from 3.4% in FY '17. The profit margins have expanded on account of operational leverage as we fully utilized our capacities, increase in the share of high margin value added products and our backward integration efforts.

Going forward, we expect demand to remain firm and our capacity to continue to be optimally utilised. We continuously strive to reduce our costs through backward integration and enhance our product offering to customer 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 very much. We will now begin with the question and answer session. We take the first question from the line of Aniruddha Joshi from ICICI Securities. Please go ahead.

Aniruddha Joshi: Sir, the question is regarding the shrimp prices, so where do you see the shrimp prices settling by end of this year FY '19, and basically what is the outlook on shrimp prices?

Subrahmanya Chowdary: The shrimp prices have pretty much bottomed out, as such; actually it is more of a correction of prices rather than collapse, which has happened and which was imminent to happen based on the supply and demand. As you know, price increases also happen due to the supply and demand, so this correction was imminent as the supply was increasing and also based on the demand which was there in the later part of last year. As of now, the shrimp price correction is pretty much completed and it has stabilized now, and in fact we are looking forward for the demand to be increasing because at these levels, the end consumers are also looking forward to consume more shrimp because they are finding a better value in the products.

Moderator: Thank you. The next question is from the line of Rehan from Nirmal Bang. Please go ahead.

Rehan: Sir, in the presentation you have given the realization for this year as well as last year, so with that perspective for FY '18, the realizations given is Rs. 720 per Kg, so currently what is the rate, over the past one month what would have been the approximate rate?

Subrahmanya Chowdary: The correction, it is approximately around Rs. 680. You also need to understand that the realization is an average of various products and various sizes, so in that same manner if we look at it currently, it is around 660 to 680 per Kg

Rehan: Was it year-on-year lets say in H1 FY '18, this number was Rs. 718?

Subrahmanya Chowdary: Correct.

Rehan: Accordingly has there been a fall in procurement cost as well or that is where it was?

Subrahmanya Chowdary: The procurement cost also has been corrected accordingly. As such, even as we had mentioned in our opening remarks, the industry in India is pretty much dependent on the export market, so based on the export markets realizations only, the farm gate prices are dependent and naturally when there is a correction overseas, the same corrections happen here. If there is a price rise overseas, naturally the price will get reflected at the farm gate level too.

Rehan: Sir, if we were to look at it this way, our selling price per Kg and if we subtract the procurement cost, so the margin that we get, will it be stable like what it was for FY '18 or that margin has also come down slightly?

Subrahmanya Chowdary: The margins will not come down, they will be stable, the reason is as I had been reaffirming, any reduction, any changes in the realization including the fluctuations in the foreign currency and overseas selling prices will have its relative impact at the costing of the raw material, so naturally the margins are not meant to be impacted unless there is an adverse change in the cost, but when you have the entire aquaculture sector dependent on export market, it is in tandem to how the export markets had done.

Rehan: One more thing is on this Seafood Import Monitoring Program which the US has implemented, what will be the implication for our company, have we been tracking it already or we will be putting things in place?

Subrahmanya Chowdary: First thing is Seafood Import Monitoring Program is a new system which has been developed by the US Government to ensure traceability of the products being produced at foreign locations at the origin, so in the case of USA there are primarily looking at traceability. What we need to understand is that traceability is already in place with all the processing facilities within the country and especially if we talk about our company that is already been there and we have details of the primary source that is the harvest link location, the farm from which the produce has been harvested, the details are available. It is already maintained, it is just that the United States Government has never asked for those details, which they are going to implement from January 1, 2019, which is not at all an issue for the seafood processing companies in India to actually affect it, because those systems were already in place for the requirements as per the Indian Government regulations and the EU norms for quite many years.

Moderator: Thank you. The next question is from the line of Shashank Kanodia from ICICI Securities. Please go ahead.

Shashank Kanodia: Sir, my question is previously in FY '17 our industry used to enjoy some 6% to 8% kind of EBITDA margins. In FY '18, we did around 13% so what was structural things into play that benefit us and in our industry internal because your competitors have also clocked in double digit margins?

Subrahmanya Chowdary: With regard to the growth in the EBITDA margins, I need to inform you that there are different factors which affect the EBITDA margin of the company. The first and foremost which I have given in certain details in the opening remarks is about the increase in the in-house farming area by almost 600 acres in the last financial year, which also added significantly to the in-house production. Added to that for the full year of last year if you look at it, we have added an additional pre-processing facility which not only enhanced the volume sales of the company, but it also enabled us to produce higher value products in the Ready-to-Cook category, which is our present product category. Apart from this, there was also increase in pricing from the overseas market whereas the cost of the raw material also to certain extent was lower, so there were multiple factors for our company as such even though I will not be able to comment on other companies or their factors or the variables how they work for them, but in our case these are the major reasons which helps the company to maintain this of the higher EBITDA levels, and we are very pretty confident with the integration on the backward which is continuing and also the steps being taken for forward integration, that is, producing higher value products, we are confident that we will be maintaining those levels of EBITDA.

Shashank Kanodia: Sir, our CAPEX is due to commissioned at the end of Quarter-2, right, this financial year?

Subrahmanya Chowdary: Yeah, we are completing that, so we are looking at trial production in the third quarter and to be precise, it will be fully available for full production as such for the CAPEX with all the systems and the teams in place, it should be available more in the third and fourth quarter, and for FY '20, the facility is completely available for the full year.

Shashank Kanodia: Sir, so what is the volume guidance for FY '19, what kind of volumes do we foresee to clock this year?

Subrahmanya Chowdary: On the volume front, we are actually looking at almost 20% kind of growth in the current fiscal. However, the added point is once the new facility comes, the increase in volumes will not only be the Ready-to-Cook category, but also Ready-to-Eat, so the volume growth aided by the additional value-added products will also affect the financials there accordingly.

Shashank Kanodia: So we should be looking something like 17,000 to 18,000 metric tons this year, right?

Subrahmanya Chowdary: Yes, approximately.

Shashank Kanodia: Sir, what about FY '20, what kind of volumes do you foresee there?

Subrahmanya Chowdary: FY '20 our target would be to add another 25% y-o-y growth in volumes sold

Shashank Kanodia: We should be able to grow something like Rs 1,400 crores of turnover this year itself, right, but you mentioned it to be achievable over two-year time horizon, right?

Subrahmanya Chowdary: But you also need to understand that there have been price corrections at the same time, so what we have guided for is after considering the recent price corrections.

Shashank Kanodia: Sir, lastly what about the leased capacity of 6000 odd tons, we will stop producing from that or it will still continue?

Subrahmanya Chowdary: The idea is to phase out of those operations as we bring in our new facility into complete usage, so basically the decision of that will be done for the year FY '20 as this is happening in phases, it is not something which will happen in a short span of time because we need to get the new facility also under control and have the respective team and also have the required approval by not only by the Foreign Government, but also the respective customers who audit the facility also.

Moderator: Thank you. The next question is from the line of G. Vivek from GS Investments. Please go ahead.

G. Vivek: Sir, just wanted to ask about the problem which is encompassing our industry, is it due to the overproduction due to large number of farmers in India moving into shrimp farming, and secondly about the supplies, similar sort of supply increasing in Indonesia, Ecuador, Vietnam, and that has led to price crashing worldwide and how long this situation is expected to remain in this condition?

Subrahmanya Chowdary: Sir, with regard to the situation of the supply, which you have mentioned whether it is in India or the production in other countries of Southeast Asia, the product supply, yes, definitely has increased. Now, if these price corrections which you are referring to, should lead to higher consumption. In fact the product consumption has picked up and it is continuing to pick up through the year, that is what we foresee based on our requirements from our customers and the demand which are being raised because once the prices have corrected, in fact the end consumers are also are looking forward to more shrimp than what they were usually consuming in the past, so naturally when you would want the product to be consumed at a higher rate of volumes, the price corrections are imminent and when the supply is there, the focus of our company primarily is to promote more shrimp consumption by working together and coordinating with our customers, distributors, to promote more shrimp consumption.

G. Vivek: Basically, whatever capacity India and our company are going to produce, can be easily absorbed in US and in China, any breakthrough in Japan?

Subrahmanya Chowdary: The capacity of India will be absorbed by all the various importing countries in the market whether it is USA, Europe, which is of course pertaining to the major markets where our company is focused on or let us talk about China or other parts of Southeast Asia whether it is Vietnam, Thailand, and even Japan. Added to that, there is South Korea, Russia, and East Europe which are also taking up more shrimp products from India nowadays and the Government is already negotiating to restart the exports of shrimp to both Australia and Saudi Arabia, so overall when we look at it, the global markets whether by the efforts of the Government or by the efforts of the individual companies, the global markets are opening up and with this price correction in general we are looking ahead for higher consumption and thereby the demand picking up. It is good even the Government is putting up its efforts to look at Australia and Saudi Arabia, so that is also a positive feedback. South Korea has also added up buying regularly from India at this point.

G. Vivek: Basically, coming to the present down cycle in shrimp, so farmers are the biggest losers, but whereas for the companies like us we are still able to maintain our margin and if we are into some long-term contracts already entered into certain customers in US and Europe, that means can it be a big bonanza also sort of for company like us where we have entered at a higher price few months back or one year back?

Subrahmanya Chowdary: Yes, for those contracts which are entered few months back, I would not use the word one year but at least few months back, definitely it is helping the company like us to have some advantages, but at the same time we also need to look at the sustainability of the primary production and that is the reason we are also working in tandem with our primary producers, so that they also be sustainable and as I mentioned in my opening remarks, there are also cost rationalizations which are happening at their level whereby they also do not lose and they make decent amount of margins in their production cycle with efficient production outputs and cost reduction, so that way whether it is the primary producer or the exporters and also the importer, all of them would be working on making decent margins, reasonable margin and at the same time having a good volume sales.

Moderator: Thank you. The next question is from the line of Srinath Sridhar from ICICI securities. Please go ahead.

Srinath Sridhar: Sir, the first question is you are going to come into Ready-to-Eat category of 5000 tons, so what is the additional realization from that?

Subrahmanya Chowdary: We are approximately looking at around $ 2 to $ 4 per Kg, additional higher, additional realization on those products.

Srinath Sridhar: In each year how much would you be targeting to sell, how will you ramp up this?

Subrahmanya Chowdary: We are actually looking forward to utilize the maximum capacity of the 5000 metric tons in FY '20 when the facility is fully available while the overall plant capacity utilization, we are looking at almost 75% in FY '20. Also based on the demand and business from our customers, we are also looking at the possibilities of adding additional lines in the next year, so once the project is up and running, we will be making a decision on that.

Srinath Sridhar: In this $ 2 to $ 4, how much will you be able to retain, I am trying to understand the margin?

Subrahmanya Chowdary: The sale price will be approximately increasing by $ 2 to $ 4, but at the same time, there is also a costing which will be there and additional yield loss of 10% to 20% which will be there and additional costing which will be more.

Srinath Sridhar: How much is the yield, sorry I did not get that?

Subrahmanya Chowdary: It is approximately around 20% and depends on the size.

Srinath Sridhar: What is the retention out of this $ 2 to $ 4?

Subrahmanya Chowdary: Overall, we look at it as around $ 1 approximately overall retention, that is dependent on obviously different sizes and the products, so I just gave you a range of 2 to 4 $ on realisation.

Srinath Sridhar: Sir, what is the guidance on the tax rate, this year it reduced to 30% from 33% last year?

Subrahmanya Chowdary: They could have changed based on the Ind-AS presentation, but actually there is no reduction in the tax rate for the company for FY '18. For FY '19 and FY '20, based on the new facility which is upcoming there are some tax benefits, the details of which will be provided once the operations are fully up and running.

Srinath Sridhar: Sir, this other income why do you include the other income as part of your revenue to calculate realization, is it in sync with your revenues or is it?

Subrahmanya Chowdary: The other income is largely the foreign exchange difference between the realization benefits which the company has due to the fluctuation of the foreign exchange, but because of the accounting standards, we are showing it as other income.

Moderator: Thank you. The next question is from the line of Aman Vij from Astute Investment Management. Please go ahead.

Aman Vij: Sir, I was asking you the realization as well as sustainable margins assuming today's prices across the three categories, which is normal frozen versus Ready-to-Eat versus Ready-to-Cook?

Subrahmanya Chowdary: I think there is some confusion with regard to how you classify the products. To be precise, Ready-to-Cook is nothing but frozen, actually all products are frozen anyway, so currently whatever the company is producing is Ready-to-Cook or the raw category which is frozen, but within the raw category, we do have different kinds of products which some are going into the commodity market where you make low margins or rather very less margins and some products where you make higher margins. The company's focus has always been in trying to enhance more of the higher value or higher margin making or higher value realization products which are there even in the Ready-to-Cook category. So as such there are only two categories - Ready-to-Cook and Ready-to-Eat and dependent on the sizes and also the products which are there, the difference between the two categories will be around $ 2 to $ 4 per Kg, but that again depends on the price corrections. So when the price correction will be there, naturally the difference also would be reduced accordingly, and as I also explained that there is additional costing involved along with yield losses which are there, so those will also have an impact on the additional margins, which are there between the Ready-to-Eat and the Ready-to-Cook. Even though also to state to you that Ready-to-Cook as I mentioned earlier, it involves multiple products of multiple prices, similar way in the Ready-to-Eat also which is multiple sizes and multiple products, it depends on what category of product and what sizes are you producing for you to get higher realization or higher margins.

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

Depesh Kashyap: Sir, few book keeping questions, first what are the volumes in 4Q FY '18, please?

Subrahmanya Chowdary: Volumes in?

Depesh Kashyap: Volumes in 4Q FY '18, in the last quarter how much volumes you actually sold?

Subrahmanya Chowdary: 3006 metric tons

Depesh Kashyap: Sir, what was the actual export revenues, if you exclude the incentives from Q4 number?

Subrahmanya Chowdary: Actual export revenue numbers was Rs 185 crores.

Depesh Kashyap: Sir, there was some confusion regarding the incentives in your press release, so I just wanted to be sure, so you said like Rs 12.7 crores were recognized in FY '18 for the prior period, out of which Rs 7 crores were recognized in 3Q and remaining Rs 5 to 6 crores in 4Q, is that understanding correct?

Subrahmanya Chowdary: Yes, that is correct.

Depesh Kashyap: Sir, can you help me with the amount you paid to Royal Marine in FY '18?

Subrahmanya Chowdary: Approximately around Rs 16 to 17 crores.

Depesh Kashyap: That number should be similar in FY '19 as well?

Subrahmanya Chowdary: It will continue, in fact it may go up little bit as we enhance our production and volumes for FY '19.

Depesh Kashyap: Sir, last question on the farmer economic side, I just want to understand like the main problem that I am hearing is that the farmers are paying very high lease rentals due to which the profitability has decreased, so can you help me like since you own farms, how much lease rentals the farmers are paying in right now per acre of land?

Subrahmanya Chowdary: I am not really sure, the farm lease rentals are totally dependent on the facilities and the infrastructure of that farm, the location of the farm and also it is the decision-making of the individual farmers based on what they think is apt for the realization of the products which they produce, so of course overall on an average, the industry average was between Rs 30,000 to 50,000-60,000, but of course, yes there were cases where some of the farmers went high and have been paying higher lease rentals because it has got to do more with the higher realization they were having for their produce and that was the reason they could have got tempted to give higher lease rentals, which as I mentioned in my opening remarks, lot of cost rationalization is also in the process and it has happened and we expect it to be rationalised by the end of this calendar year where the farmers also will be changing their decision or accordingly making the right decisions based on the market scenario, at what rates they can give.

Depesh Kashyap: Sir, this 30,000 to 50,000 number that you gave that is per acre, right, per month or per year?

Subrahmanya Chowdary: Yes, per year per acre.

Depesh Kashyap: Per year they do two crops in this, right?

Subrahmanya Chowdary: That is subjective, some areas they do two crops, some areas they do only one crop in the country. As you know the aquaculture is widely spread out in the country, different areas based on the climatic condition and the salinity parameters, they do conduct the crop accordingly. There are two crops in majority of the areas, but like number of areas they do only one crop, but it is extended for six months.

Moderator: Thank you. The next question is from the line of Srikanth P.V.S from Spark One Advisors. Please go ahead.

Srikanth P.V.S: Sir, I have couple of questions, what is the operating cash flow for FY '18?

Subrahmanya Chowdary: I will be providing that to you in a short while.

Srikanth P.V.S: Sir, what is the CAPEX guidance for FY '19 and '20?

Subrahmanya Chowdary: FY '19, major is of course the new processing plant which is there to the extent of Rs 90 crores and added to it, an additional Rs 10 crores could be looked at, the Rs 10 to 12 crores could be looked at for additional pre-processing facility and as well as new hatchery construction, which is the fourth hatchery which is in process right now, so all put together we look at around Rs 100 to 105 crores as the total CAPEX for FY '19. For FY '20, dependent on once these facilities come in, we will be taking the decision of further CAPEX requirements of FY '20 more towards the end of this year.

Srikanth P.V.S: Sir, this 90 does it include the 27-28 what we have spent already?

Subrahmanya Chowdary: Yes, it includes, correct.

Srikanth P.V.S: Sir, what is the outlook on working capital cycle?

Subrahmanya Chowdary: Working capital cycle has been maintained quite low, in fact we have the working capital cycle in the total has been brought down to 52 days, from 60 days because of some of our realizations have been made much earlier and we are working on the terms with our customers, who have earlier realizations payments upon shipments, so basically we are reducing our debtor cycle to be precise.

Srikanth P.V.S: Sir, do you see any savings further this year?

Subrahmanya Chowdary: Naturally, the savings will be on the cost of funding from the banks, which is anyway come down as you can already see difference between the FY '17 and FY '18. We will continue to add more savings to that in FY '19 stabilizing with our total working capital cycle at around 50 days approximately.

Srikanth P.V.S: Sir, one more question, prices for farmers, so what will be the prices say for current price versus last quarter for the last year same quarter?

Subrahmanya Chowdary: The prices of farmers or even prices of exports as such, I will give you on an average if we look at it earlier we were buying at around Rs. 350 on an average approximately. Now, that will be coming down to under Rs. 300, around Rs. 290 to Rs. 300 approximately, so the farmer prices are because there are multiple prices involved, it depends on what sizes they harvest, so in the first quarter of current financial year, it is more of small sizes which were being harvested. From second and third quarter, the farmers are looking forward to harvest more of medium and large size, so naturally accordingly the prices also will be realizing based on that, but just to give you on a market perspective, last quarter the pricing was around Rs. 300 plus or Rs. 330-340, now currently it is at 280-290.

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

Harsh Saraswat: Sir, when I go through the presentation I see Europe has contributed to 17% this year from 10%, what have been the key reasons for this with all the European headwinds which we have been hearing?

Subrahmanya Chowdary: Mr. Harsh, if you see in our presentation we have been showing United Kingdom out of EU, but actually it is combined, UK is part of the EU as on date until the Brexit is completed, so yes, because both UK as well as European markets, they are governed by the same health regulations as on date and their testing mechanism, their testing protocol of having 50% testing on Indian shrimp consignments, pretty much they are continuing to do that, which they have been doing for the past one to one-and-a-half years, and we are in order to ensure that we need their requirements, we are taking care of by testing the products prior to harvest and also prior to processing, thereby ensuring that we do not pack, process, or export in antibiotic positive product and thereby we have been looking forward to increase our business in EU irrespective of the conditions stipulated by the EU health authorities, and when we need to do more business with such markets, we need to ensure that we meet their standards by having the required systems and protocols in place within our own sourcing and processing systems.

Harsh Saraswat: Europe is a more value-added India market compared to US for us?

Subrahmanya Chowdary: Yes, correct, for us it is more of a value-added market.

Harsh Saraswat: Going forward, you see EU volumes moving up only?

Subrahmanya Chowdary: We are looking forward to increase our EU volumes even in the current financial year and we are looking forward to, even in the enhanced volumes we look forward for EU to play a major role, EU including the United Kingdom to play a major role in our business.

Moderator: Thank you. The next question is from the line of Punit Mittal from Global Core Capital. Please go ahead.

Punit Mittal: You just mentioned Rs. 330-Rs. 340 last year, what count shrimps were you talking about?

Subrahmanya Chowdary: I was talking about 40 counts.

Punit Mittal: The next question is related to that in your vast experience that you have in this industry, what is the lowest price that you encountered for farm gate prices?

Subrahmanya Chowdary: The 40 count was at I think around Rs. 180 or Rs. 170 way back in the year 2012, the 30 count was 200, so 40 count was around 170 or something, but at that time the supply was different, the consumption was different, so many markets were not available, so there are various factors. In fact, the demand has been more aggressive than the supply in the last five years.

Now, the supply has been sufficiently been made available whether it is from India or other Southeast Asian countries to take care of such a demand and now when the supply is also increasing more than the demand, the price corrections are imminent which is the reason why this price corrections have happened and it is more of a booster for increasing the volume or increase the preference of the end consumers to shift from other protein to more favorable products of shrimp. As you know, the shrimp is the most preferred seafood product in the United States for example which is one of the major consuming nation, consuming markets, so that way we are looking forward for a good positive outcome of this price correction because there is lot of demand, which is picking up, demand aided by the consumption, so not just based on just imports or distribution, but also consumption, that is the main key part, consumption has to improve and consumption is increasing as we speak today.

Punit Mittal: Sir, the farmers at this stage, are they making losses or are they just breaking even or what is the status of the farmer at this stage with these prices?

Subrahmanya Chowdary: Depending on their costing and outputs, their production yield out of their farms, they will be breaking even at the same time they will also be making some very low margins, but of course there are some people who might be losing. As I said, it is all dependent on the costing. Like, if you see one of the previous questions asking about the lease rentals, if the lease rentals are significantly higher and if the costing of inputs for them has been significantly higher and the output was significantly lower, naturally their final products cost of production will be high, so now because of this price correction, of course, even though the Government are aiding the industry is supporting, the farmers are also looking at cost rationalization, for example, they have been buying earlier seed at 70 to 80 paisa, now they are looking to buy at 20 paisa, thereby the necessary steps by the primary producer are being taken to rationalize their cost whereby they can make decent margins, that is what we are looking forward to, but at the same time it is subject to various farmers located at various locations and how their costing is, so I will not be able to generalize as such, but your question was of course quite general asking whether they are not able to breakeven or they are going to make money or they are going to lose money, it is all dependent on the individuals locations, so definitely a cost rationalization was required and now that has happened as we speak.

Moderator: Thank you. The next question is from the line of Aditya Yadav from Transient Capital. Please go ahead.

Aditya Yadav: Sir, I just wanted to understand a bit on the scaling of the Ready-to-Cook and Ready-to-Eat segment, how much of this involves manual labor work because what roughly I know is this involves a lot of training for labor to cut the shrimp and to prepare it for the Ready-to-Eat and Ready-to-Cook products, so if you can give an idea on that, how will the scaling go a bit?

Subrahmanya Chowdary: The labor which is required whether it is for Ready-to-Eat or Ready-to-Cook, labor is the same, but of course there is a lot of training involved which will be required, which will be provided. It is already provided; in fact the company's additional preprocessing facility will be taking care of the requirement of making the product available for this Ready-to-Eat also. However, there are some additional skills which are required in the Ready-to-Eat dependent on what products they are. If it is cooked product, it is more based on the machinery, the cooking facility equipment line which is available. If it is breaded product, you also require additional manpower and lot of skill development for which of course, we are already being guided and looking forward to the support of our customers who are currently buying those products from countries like China and Thailand, who are willing to support us because of the presence of the raw material and the strength of our company, so naturally the skill development of the workers will be done by the company and that will enable us to produce more of the Ready-to-Eat products, it depends on what kind of products they are as I mentioned.

Aditya Yadav: Sir, my second question is I wanted to get your thoughts on, in the past four to five years what has happened was India was able to actually catch a lot of the incremental market growth what happened in the world demand, so going forward as the production has stabilized in other three to four large producers also, so will you be able to capture same kind of incremental growth in the market or it will be more distributed across the various top producing nations, what are your thoughts on this?

Subrahmanya Chowdary: I am not sure about other countries stabilizing their last supply as such or coming back into supplying to the full fold of where they were in the past, but as far as India is concerned, India as a supplying nation of shrimp products has established itself as a quality producer, consistently producing throughout the year. In fact, foreign markets whether they are located in North America or even in Europe or East Europe or Africa or other parts of Asia including Japan, South Korea, and China; China is a major factor for Indian products in the last three years, which were one of the main reason why Southeast Asia is absorbing more than 30% of India's shrimp products and primarily because of China which is of course and also Vietnam, Thailand, all put together, so these markets are already encouraging India supply to grow, they are aiding factors for India supply to grow and they are absorbing the products and going forward also because of the price correction and the shrimp being available at a much reasonable level and it being a very delicacy for quite a significant population globally, where they relish the shrimp products.

Naturally, when we want to have higher consumption of the products, you definitely have to give it at a reasonable pricing, so that is how the markets are going to absorb these products and we do not really foresee any issue for India to market. Now, when the price corrections have happened, the markets are also demanding more of these products, so that is why, for example, X dollars of price the consumption was Y percentage where I look at it X minus 20% or X minus 15%, the consumption is increasing from Y to 20%, Y to 15%, that is how you should see the relative impact and when we are looking forward to increase in supply, more production coming up in the forthcoming years, we should also look forward for higher consumption levels, so these markets are supporting, all these markets are actually supporting, so that way India, Indonesia, and Ecuador are doing fairly well and China being the net importer is also importing significantly from India, so all these factors are going to aid the country as a whole.

Moderator: Thank you. The next question is from the line of Pratyush Mittal from Mittal and Company. Please go ahead.

Pratyush Mittal: Sir, I would like to understand about the damage done by this current season, by these current falling prices, about what is the situation in April and May in terms of volumes like how much has the farm area decreased and how are the volumes currently?

Subrahmanya Chowdary: The farm area has not really decreased, but the strategy of the farmers will be changing where, for example, in April and May if they have produced more of smaller sized shrimp, now they are looking forward to produce more of medium and large sized shrimp going forward. They are changing their strategies, they are going for lower stocking densities so that they can produce more of medium and large size shrimp, so that they can have a lower cost of production compared to the past and still make good margins, so we cannot really see it as a damage, it is more of the price correction has changed the respective strategies of those primary producers located in different states of the country, and as I mentioned to a previous question, the price correction is also aiding the consumption of the product much more than what it would be consumed in the past. We will see the impact of that by the end of this calendar year as we see more shrimp volumes being absorbed from the various supplying issues, so I do not really see the damage is whatever are there, whatever people claim to be are more of a short-term and there is a cost rationalization happening and also the price correction as I mentioned have bottomed out and now we look forward for an increase in pricing as the demand is also picking up.

Pratyush Mittal: Sir, what will be the volumes for April and May compared to last year, is there significant fall in the volumes produced by the farmers also?

Subrahmanya Chowdary: Sir, the volumes in April and May have little bit marginally would have got affected because they have produced smaller sizes significantly. The inflow was more of in the smaller sizes, so we should actually look at, we will not be able to look at it as a monthly basis or on a quarterly basis, but the first crop of course we have had some damages also happening and that is the reason, it is nothing to do with price correction and more to do with the crop conditions and there were more small sizes which were produced, and naturally, the volumes have also come down little bit, but they are getting stabilized and now we are actually looking forward to our second crop also. First crop, in Andhra there was lot of small sizes harvest, whereas in Orissa and Bengal and Gujarat, we are looking forward for more of medium and large sized shrimp harvest.

Moderator: Thank you. The last question is from the line of Nitin Awasthi from Edelweiss. Please go ahead.

Nitin Awasthi: Sir, just wanted to ask you about the situation in China, China was importing large sums of shrimp, but then suddenly they had restricted imports of shrimp, so what is actually happening in China as far as the imports go?

Subrahmanya Chowdary: China has not restricted imports of shrimp as a country, however, China has restricted products through Vietnam, which was the case in the last two to three years and to tell you the truth, in fact the Chinese authorities have reduced their import tariffs just last week on several products which includes aquaculture and fishing products and other various products which they import whether it is footwear, headgear apparel, and in fact the duty from 15.2% to 6.9%, so that is one of the major step taken by China to encourage direct imports into their country thereby this is a major aiding factor for the shrimp exports out of India and other countries, in fact the China's direct imports are going to increase thereby we should also look forward for higher volume consumption and drive a higher volume requirement directly coming out of China because of the reduction in duty, they would not need to transit their shipment or transit their products through Vietnam or any other market.

Nitin Awasthi: Currently, the tariff is at 6% and it was previously at 15%, did I get that correct?

Subrahmanya Chowdary: The tariff was 15.2%, now they have issued a notification just last week and starting next month, so I think this will be effective in June or July to be more precise, the rate is being reduced to 6.9%.

Moderator: Thank you very much. We will take that as the last question. I would now like to hand the conference back to Mr. Subrahmanya Chowdary for closing comments.

Subrahmanya Chowdary: Thank you everyone for your participation in our results update call. In case of any further queries, you may get in touch with Stellar Investor Relations or feel free to get in touch with us at ir@apexfrozenfoods.com. Thank you very much and have a good day.

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