"Apex Frozen Foods Limited Q2 and H1 FY19 Earnings Conference Call"

November 15, 2018

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Moderator: Ladies and gentlemen, good day and welcome to the Apex Foods Limited Q2 and H1 FY19 Earnings Conference Call. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal the operator by pressing "*" then "0" on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Subrahmanya Chowdary. Thank you and over to you, sir.

Subrahmanya Chowdary: Thank you Lizann. Good evening, everyone and a warm welcome to our post-earnings conference call for the quarter and half year ended September 30th, 2018. I have with me on call, Mr. Vijaya Kumar - our CFO and Stellar IR advisors - our Investor Relations advisor. We hope that you all have received our Q2 FY19 investor presentation and gone through the same. We have also uploaded it on the stock exchanges for your reference. We will begin the call by sharing key updates on our business and industry followed by a summary of our operational and financial performance, post which we could open the floor for question and answer session.

First and foremost on our new project, the civil construction work which got delayed due to the inclement weather is now moving on track and we expect to complete major works by the end of Q3 FY19 or calendar year 2018.

The current work status is as follows:

1. Construction of the cold storage building has been completed
2. The civil work of the processing building is in progress while the prefabricated structures are nearing completion
3. Some of the equipments like cold storage units, ice makers, etc. are currently being installed
4. The machinery room is also close to completion and the work pertaining to the power line has commenced
5. Dormitories for workers and other staff members are under construction

Overall, we expect and are looking forward to start the trial production sometime in the last quarter of the current financial year, that is, Q4 FY19. We expect the full capacity of 20,000 metric tonnes from this new plant to be fully available for the entire fiscal year FY20.

As for the CAPEX incurred, of the total planned outlay of almost Rs. 90 crores, Rs.62.5 crores has been incurred as of 30th September, 2018.

Now, on our existing business front, we would like to highlight that when compared year-on-year, the past quarter and H1 of the current fiscal has been a little lower. This is on account of 2 key reasons:

1. The incremental festive sales, especially to the US, which falls typically in the Q2 and partially in Q3 of fiscal year were lower than expected on account of utilization of most of the piled up inventory in the warehouses and also shortage of certain prices during the last quarter, impacted the volumes which could be produced
2. Secondly, as a conscious strategy, we remained selective in executing orders which met our pricing and profitability threshold

Nonetheless, we have been able to largely maintain our volumes sold at 7,368 metric tonnes in first half of FY19 as against 7,598 metric tonnes in the same period of last year. Consequently, and also on account of our integrated model and favorably diversifying revenue mix, we were able to maintain our profit margins too. Further in line with our aim to diversify geographically the share of European Union in the overall revenue mix increased to 25% during the first half of FY19 from 18% in the entire year of FY17, despite the strict quality norms and checks placed by the European Union authorities on Indian processers. We aim to better the mix further in the coming years.

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 the new markets that we plan to foray into.

Lastly, given the current demand supply and pricing scenario along with our growth strategies in place, as of now we continue to look forward to reaching a revenue mark of Rs. 1,400 crores for FY20. However, we request you to note this as only an estimate and we may provide you with the more realistic guidance towards the beginning of next fiscal in line with the expected industry or business environment for the next year.

Now, coming onto the industry updates, we had mentioned in the last quarter's conference call that the shrimp prices which had hit the recent bottom in March and April of 2018, had started to inch up and is stabilizing at current levels. Similarly, farm gate prices have improved and the farmers have stocked seed for the winter crop, for which the harvests are taking place and would continue to take place over the next few months. Overall, we expect the business to normalize given the number of promotions being taken up by our end customers both in retail and food service segments.

Now our CFO, Mr. Vijaya Kumar, will explain the financial performance of the quarter and the half year ended September 2018.

Vijaya Kumar: Good evening, everybody. I will present to you the key highlights of the last quarter and the first half of FY19:

<u>H1 FY19 key highlights:</u>

Our total income including net revenue and other income stood at Rs. 508.2 crores as against Rs. 545.3 crores in the same period of last fiscal. The volume sold stood at 7,368 metric tonnes, when compared to 7598 metric tonnes in H1 FY18. The average realization was Rs. 690 per kg versus Rs. 718 per kg in H1 FY18. At the EBITDA level we reported Rs. 70.6 crores as compared with Rs. 68 crores in the same period of last fiscal, thereby recording a growth of 3.9% year-on-year. EBITDA margin rose to 13.9% in H1 FY19 versus 12.5% in H1 FY18. Profit after tax and before other comprehensive income stood at Rs. 41.1 crores as compared with Rs. 38.7 crores in the same period of last fiscal, recording a growth of 6.2% year-on-year. PAT margin improved by ~ 100 bps year-on-year to 8.1% in H1 FY19 versus 7.1% in H1 FY18.

Now, coming to Q2 FY19 key highlights:

Our total income including net revenue and other income stood at Rs. 264.2 crores as against Rs. 292.2 crores in the same period of last fiscal. The volume sold stood at 3,688 MT when compared to 3,941 MT in Q2 FY18. The average realization was Rs. 716 per kg versus Rs. 741 per kg in Q2 FY18. At the EBITDA level, we reported Rs. 33.6 crores as compared with Rs. 37.9 crores in the same period of last fiscal. EBITDA margin remain largely stable at 12.7% in Q2 FY19 versus 13% in Q2 FY18. Profit after tax and before comprehensive income stood at Rs. 19.8 crores as compared with Rs. 22 crores in the same period of last fiscal. PAT margin was maintained at 7.5% year-on-year.

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

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

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

Nitin Gosar: I think I heard it where the demand was muted in the international market especially US?

Subrahmanya Chowdary: Yes, I said the demand was muted for the incremental sales festive season which was supposed to happen did not happen and they were mostly being taken care by the existing inventories which were already piled up at the warehouses at the foreign locations. That is primarily in the US because the inventories were already more out there than what the market could absorb at that point of time or for the price level at which they are stored at. So that was the main reason where of course the volumes sold had reduced marginally. And also, of course I also mentioned that certain sizes were not available.

Nitin Gosar: And what would be the estimate in terms of inventory in the end market? whether the inventories are high, low, medium?

Subrahmanya Chowdary: Well, we will not be able to get a number precisely. It is more like this - the requirements of the market being taken care more by the product which is already available at the overseas locations than a new requirement arising for the finished product from the origin. You understand what I am saying. So, naturally the demand at that point of time was already been catered by the inventories which were present at the destinations. So that means there was more product at the destination than what could have been absorbed or there was more product at a certain price levels which could be absorbed. That is the reason it took time and the customers, of course where basically buying only on need to basis to be precise. So, they were buying only those products which were not part of their inventories.

Nitin Gosar: And what would be the reason for staff cost to be high on first half basis. First half that is for the first 2 quarters the staff cost is somewhere close to 24 crores but this last year of 17 crores. What could be the reason for this jump?

Subrahmanya Chowdary: The most important point is, of course apart from adding more hatcheries and farm which we have done so far, is that there were quite a part of employees or workers who are working on causal labor basis or rather on a daily basis and we were actually bringing them on to the rolls of the Company. Because we needed more people who were there who are working consistently because you would want to have a lesser turnaround of the manpower, not in terms of staff but it is mostly pertaining to workers. Because most of the staff are all very much part of the team; it is the workers who were working on casual labor basis. To be precise earlier it was part of the other expenses. They were the once who had got transferred into the employee that is the reason employee benefit it looks like manpower expenditure has increased. It is actually more of a transfer from the manufacturing expenses to employee related expenses.

Nitin Gosar: And last question is on the facility - once new facility comes up probably we may do a trial commissioning by January or may be February. Should we be seeing full year the facility to be available for commercial production?

Subrahmanya Chowdary: Yes, as I mentioned in my opening remarks for FY20 it will be fully available. Because once the facility is ready and even though we start the trial production there are quite a number of certifications and audits which needs to be completed. So, we are very much sure that we will be able to keep everything ready. By the end of March hopefully we will be completing and meanwhile we can start. We will start for example the first initial business once it is up and running in the fourth quarter sometime in February or March. So, we can even first start doing for non-US markets for example. And as the audits and certification get over that is the reason I mentioned it will be fully available for the financial year 2019-2020.

Nitin Gosar: And in the very first year, the facility should do what kind of utilization?

Subrahmanya Chowdary: We are looking at around 70% utilization mostly because we are going to look at phased wise transfer of utilization from our lead facilities also as of now. So, already immediately 6,000 metric tonnes will be immediately be utilized and ready-to-eat products also, for which the customers have already started working with our QA team on the specifications. So, once we start the operations we will be able to start executing those orders and working more on those programs. So, yes, that way it should be an optimum utilization of 70% in the first year is what we are looking at.

Nitin Gosar: What is the guidance we should be going back on the revenue front for FY20?

Subrahmanya Chowdary: I think, I also mentioned …

Nitin Gosar: 1,400?

Subrahmanya Chowdary: That was 1,400 what we had expected. But of course as you also see the unit prices for example current year it had corrected, if you notice compared to last 4-5 years the unit prices are correcting. So more of the value added products, since we are going to do the cooked products which I explained in the past calls also. So, more of ready to eat products also should aid in achieving such a target. But subject to even the exchange rate fluctuations and the market conditions, we will be more realistic to be precise by the end of this financial year.

Nitin Gosar: Just mathematically putting, right now we are doing realizations somewhere between Rs. 670 to Rs. 700. And keeping in mind the kind of utilization we may land up seeing in the very first year. We should be easily overshooting 1,500 crores-1,600 crores, right? Or is there some concern which is been built in and that is why the guidance of 1,400?

Subrahmanya Chowdary: See, even though 70% of the new one is being envisaged to be utilized. The transfer of manpower, transfer of staff and one of the key parts is also getting the audits done because some of the audits of the new facility are also not done when we need or when we want. So, some of them do take time. So, in case some of the customers are not going to accept the products immediately or right in the first quarter or second quarter it may rather the audits those customers audits will get completed in the second half of the year. That is the reason considering those concerns that we may not be able to do everything or rather achieve all the value correctly that is the reason we have given this number. That was the idea.

Moderator: Thank you. The next is from the line of Vincent Andrew from Geojit Financial. Please go ahead.

Vincent Andrew: I have a couple of questions I have. I shall limit 2-3 questions now and will come in the queue. Say, first one is on the volume side. After the industry data US imports from India have grown by around 14% in the quarter but we see our volume growth was it was de-growth only. Means, any market share loss in US we have, we are facing?

Subrahmanya Chowdary: We have not had any loss in the market share but the most important point is we have also been having certain sizes which were not available in fact the order book which was kind of buildup orders of pertaining from the Q1 are still to be executed in Q3 as on date as we speak because some of the sizes were difficult to be which the company has taken up in the best interest of the company as I mentioned more on the pricing as well as profitability. So, those sizes which were not available and in order to the company not to just buy those sizes on at a much higher prices or rather reducing its profitability the company has decided to work with the customers to rather postponed those orders and execute them at a subsequent stage like as we speak currently in the present day. So, that we can as the availability of supply is much more presently that is helping those orders to get completed. So, it is not really a loss of market share but more of volume drop mostly as I said because overall sales for our customers who we have been working with in the US they already have had inventories and certain sizes which we were working also were of course smaller sizes which were having an impact on the production. And the most important point availability of certain sizes was very less which made us to take a call to postpone those orders to subsequent dates. So, these were the reasons and in general like you are mentioning about the increase in the volume to the US which is imports, the imports what you are referring to in Q1 and Q2 are more pertaining to the volumes which have been exported in Q4 and Q1, Q1 for a current year and Q4 of last financial year. So, the import data is also almost like a 30-45 days, it is an indication of 30-45 days lag period from the export to the import. Some of them are 60 days.

Vincent Andrew: Now subsequent quarters we can expect we will make up the volume in the subsequent quarters?

Subrahmanya Chowdary: Yes, we are definitely expecting the volume to be made up in the subsequent quarters as we also have pending orders and we have working with our customers as I had mentioned in my opening remarks that on both retail and the food service segments lot of promotions are being done to encourage and rather to motivate consumers to eat more shrimp providing the value of shrimp products. Simultaneously, we are also working on newer products with our customers offering so that we can show a difference in value of newer products both in ready to eat and ready to cook category. So, those steps will definitely take care of increasing and maintain the volume as such similar to on par with what has been there last year.

Vincent Andrew: The receivables have increased by around 38 crores to 106 crores in the first half and I think correspondingly the short term borrowings also increased by 27 crores. So, any particular reason for this?

Subrahmanya Chowdary: Actually the receivables of course, which is also got to do with the markets which we are working with since you know that we have also increased our market share in Europe from 18% of last year to 25% and we are still continuing to do that as we speak. The terms of payment with those countries with European markets primarily is on a much higher at a more number of days when compared to the number of days in the US. But we are working with our customers so that we can minimize those.

Vincent Andrew: So, in US it is more than 30 days, 30 to 33 …

Subrahmanya Chowdary: In US it will be around 30 to 40 days max. 30 to 40 days but we have customers with whom we are working in US who also pay us upon invoicing basically upon email of invoices. So, we are working on the payment terms with our customers at present.

Vincent Andrew: So, it is basically because of the days in terms of increase in days with Europe?

Subrahmanya Chowdary: Yes, the increase in sales in Europe has an impact on receivables because customer, the European payments are mostly stretched to 45 days-60 days actually.

Vincent Andrew: So should we assume the same receivable day is in the subsequent quarter or by the end of the year 30 to 40 days? Now it is around the 50 days last year.

Subrahmanya Chowdary: It will be maintained around these 30 to 40 days but as I mentioned we are also simultaneously working with our customers to improvise on the payment terms. And like I mentioned with regard to our US customers we get paid upon invoice in same way we are also working with some of our European customers. We are confident that we will be maintaining at the 30-35 days. So, it will be yes that most of our debtors will be there on that part.

Vincent Andrew: Sir, my next question is regarding to raw material. Can you give the raw material shrimp purchase price and the in-house cost separately for the quarter, if possible with quantity also?

Subrahmanya Chowdary: I will, yes, I will get back to you on those details just give me some time. I will get back to you.

Moderator: Thank you. The next question is from the line of Mansi Nene, an individual investor. Please go ahead.

Mansi Nene: This is regarding what will happen to the lease facility once you start with your new facility?

Subrahmanya Chowdary: Yes, this as of now we have not yet finally decided whether we are going to completely exit them. But our idea is that we will transfer all the operations and business to our own facility and since it does not happen overnight, it will be transferred in phases because we need to bring the new facility into order and as it comes into order we will be moving all our operations into the new facility. However, it is more of a final decision will be depended on the market scenario, our order book and the demand growth in FY20 where we may opt to keep one facility even if at a lower capacity to take care of such a demand. That is when we will have more clarity of that by the end of this year, by the end of the financial year because that is when the we will have a better idea of both supply as well as demand scenario and how our order book will be placed.

Mansi Nene: And one more question, are we planning to export to new countries like South Korea?

Subrahmanya Chowdary: We do have enquiries already coming in from South Korea as well as China which we will be opening up more because our current capacities were mostly being absorbed by 2 major markets. Once the new capacity is available for us it also not only gives us the ability to diversify into products but also diversify into other markets like South Korea and China which is the major market right now for Indian shrimp products, taking up almost 30% of the India's exports. So, we are focusing on those markets too. But we will be mostly focused into those markets to supply value added products whether it is in the raw form or the cooked but not base commodity products.

Mansi Nene: One more question. You were talking about the unavailability of the certain sizes. Do you think that will be the same thing during quarter 3 or you will be able to get those sizes?

Subrahmanya Chowdary: We are already getting the sizes.

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

Deepesh Kashyap: Sir, can you please give me the export incentive number for the quarter, please?

Subrahmanya Chowdary: Export incentive number for the quarter is around 17 crores net.

Deepesh Kashyap: And sir, if I look at the quarter-on-quarter the P&L statement the cost of goods increased by 17% quarter-on-quarter but your other expenses have reduced by 6%. So, can you please give some colour on these 2 line items and how should we think about that going forward?

Subrahmanya Chowdary: In the case of raw material expenses it has come down. That is what, so the cost of goods has come down because of course also that also lot to do with the volume but also the sizes which we were handling the smaller sizes.

Deepesh Kashyap: Sir, volume was in the first quarter it was 3,680 tonnes and in second quarter is 3,688 tonnes, right. So, it is almost similar but your cost of goods have actually increased by around 17% quarter-on-quarter. So, is it linked to your farm gate prices that have increased sharply in the second quarter?

Subrahmanya Chowdary: Yes of course, one of the major reasons, of course is the farm gate pricing but also the sizes. Typically, the first quarter of the financial year will be dominated with small sized harvest typically, unless they have been stocked early. So in our case, in our companies case first in this financial year the first quarter was of course having mostly the smaller size. That is one point added to the volume. But then the other point is, of course the value the farm gate price also has stabilized. It has improved which is one of the major reasons for the farmers to gain confidence to stocking back their ponds again for the winter crop and of course making their decisions right now and the next month for their first crop of FY, the calendar year 2019.

Deepesh Kashyap: And sir, other expenses in the first quarter you spoke about the increase in logistic cost because like you are not able to find the raw material in the Andhra Pradesh itself and you have to go to other state something like that. So, now that are actually come off little bit. So, what is the guidance going forward of the other expenses?

Subrahmanya Chowdary: The other expenses will, of course would be maintained around this level. But it is also depended on the sizes availability in the state of Andhra Pradesh, of course this year we had focused more outside Andhra Pradesh we had been sourcing volume on par within the state of Andhra Pradesh we have also been sourcing the equal amount of volume from outside Andhra Pradesh which we will be continuing to do in the first crop of next year. Currently in this second crop of 2018 we anticipate good volumes coming in within the state of Andhra Pradesh itself. So, our other expenses pertaining to transportation for logistics cost should be coming down in this year and in the last quarter. That is what based on the volume availability which is there currently in the state of Andhra Pradesh.

Deepesh Kashyap: Sir, lastly next year you have given the revenue guidance but in terms of the margins like with your new value-added facility coming and also the processing charges are expected to reduce. So, can we expect around 150-200 bps margin improvement next year?

Subrahmanya Chowdary: I would not want to give you any firm guidance at this point in terms of margin percentage as it would depend on the unit value and in-turn revenue. However, despite volatility in prices and demand, we expect maintained EBITDA per kg on the back of more products from the ready to eat category. Of course in a stable market scenario, the same should help us in enhancing the profitability and we are looking forward to improve it further.

Deepesh Kashyap: And sir, how much capacity utilization looking for ready to eat category that is the 5,000 tonnes?

Subrahmanya Chowdary: Almost 90% to 100% to be precise FY20.

Deepesh Kashyap: And in this year you are almost, I think we are going to say around 18 crores as processing charges, right. So, if that will go off next year, so definitely the margins shall go like …

Subrahmanya Chowdary: Yes, there are as I told in my opening remarks we will have much better clarity more towards the end of the year because there are multiple things savings on costs paid to new facility additional realization from ready to eat products savings on taxation part from the new facility based on the government policy which is applicable. So, there are multiple factors which I am sure we will be able to give a more realistic guidance towards the end of the year.

Deepesh Kashyap: So, lastly your revenue guidance of 1,400 crores that excludes the incentive part or that includes the incentive part?

Subrahmanya Chowdary: That will be actually including.

Deepesh Kashyap: Sir, this quarter your export incentives reduced to around 7% of sales, so is it what going forward will the case or it should be around 8%-8.5%.

Subrahmanya Chowdary: Actually this will be the 7% to 8% but as part of the incentive is also got to do with premium and MEIS scrip sales which are there. So, that is one point and but with regard to the anti-dumping duty which has fixed is not going to be changing for now. So, we will maintain around these same levels for the next 2-3 quarters also, 2 quarter at least.

Moderator: Thank you. The next question is from the line of Gaurav Arora from Arora Investments. Please go ahead.

Gaurav Arora: Sir, I just wanted to ask one question related to the current season and what sizes are we looking for?

Subrahmanya Chowdary: The current season, right now the arrivals have started improving. As I had just mentioned to one of the earlier participants in the call after the prices improving and stabilizing many primary producers, farmers have started stocking and thereby the improvement of supply has begun. And the sizes are typically the 40 count which was not that available around 2 months ago. Now that has started picking up and we are looking forward for a continuous supply of that size of 40 count primarily and 30 count because there was some issues with those sizes which will be available, we believe so because now the prices for those sizes are attractive for the farmers also to grow. And I think that is how they have also evolved their strategies for stocking in their ponds.

Gaurav Arora: And sir, do we see any improvement in the realization next 2 quarters for the year?

Subrahmanya Chowdary: We could not significantly see improvement in the realization. First point is on the unit value Dollar terms, of course based on our increase in volume and value added that is in the ready to cook segment value added products definitely that margin whatever increase will be there that will anyway be there. But we also have to keep track with regard to the realization in Rupee. We have to keep a track on where the Rupee is also moving. For example, as we speak it is marginally slightly appreciating on a day to day basis when we compare it to the depreciation which had happened around 45-60 days back. So, we do not see a significant increase in the realization further for the current year in the present context of ready to cook products which we are exporting.

Gaurav Arora: Sir, last participant who mentioned that the anti-dumping duty structure will remain the same. So, can you elaborate on this same thing?

Subrahmanya Chowdary: The anti-dumping duty till August, around July August of 2019 we will continue to repaying in the United States an anti-dumping duty of 1.35% that will continue to be the same. That is what I was telling him because there is no review on our company for the present year. So, that is the reason we will have the same. Actually, I am sorry, I need to correct my sentence we will be paying 1.35% up till July 2020 not in 2019 as there was a mistake. It is up till July 2020 we will be paying that 1.35% only with regard to anti-dumping duty. However, our sales to the European Union and other markets are also going to increase as we work. So, in the increased volume naturally the products which are sold to Europe and other markets are not subject to anti-dumping duties or any duties tariffs on our account. So, I believe the more you increased in that the impact of the anti-dumping payment could be minimized a little bit based on our volumes being done to those markets.

Gaurav Arora: Sir, one last question. There was one news article stating that the export to China via Vietnam has been impacted due to some restriction from the Chinese people. So, would there be any impact on Indian market from that front?

Subrahmanya Chowdary: Actually in one way it was good that the for the Indian market it is good because Vietnam earlier the products going to China were being routed through Vietnam through their Hai Phong Port because they were the products being entered through Vietnam were duty free. Now the Chinese importers are visiting India. They are buying directly out of India and in fact India had started exporting directly to China. So, very soon hopefully in the next 6 to 9 months we should see that the exports to South East Asia from India in generally even though our company does not do any but exports to South East Asia will be coming down. That is Vietnam, Thailand and it will be increasing significantly to China. We believe because now the Chinese are allowing the imports directly from India even though there are some tariffs out there. But I am pretty sure that is only, it is only in the interest of the Indian industry.

Moderator: Thank you. The next question is from the line of Manish Poddar from Reliance AIF. Please go ahead.

Manish Poddar: I just had one question. I understand you were saying that you will revise your guidance by the end of year for FY20 of this 1,400 odd crores revenue. And you are also alluding that your realisation per kg will improve because the mix of the product will improve. So, the volumes which are seeing 70% utilization for the new facility even if I assume of 50% utilization, the revenues significantly higher than your given guidance. So, are you factoring any currency or any other factor which probably we are missing?

Subrahmanya Chowdary: Of course, I explained that to one of the previous participants to, one is of course currency is one point. But I have also explained that the entire production, the entire capacity even though we are envisaging to be utilizing 70% optimum but we also would have constraints the products which we are gearing up to do or the markets which we are gearing. Some of the customers will not be able to take the products from us right away because we started at, we started the facility and we are running, so there are audits to be completed. So during that period we do see that there will be an issue with regard to which cliental basis we can sell to, first point. Second point, of course we would also have some maintenance and related issues pertaining to our existing facility also. So, that is the reason we have actually given a more of conservative number. So, we will be more realistic as I said by the end of this year because we will have more clarity on the demand and also how our customers are going to accept the new facilities when the audits get completed the certification get completed and naturally, we can look at better volume growth and as well as the revenue growth. But I am also having, we also factored in the concern of the existing facility also consolidating its operations are little bit because we will be taking up some maintenance works. So, that is the reason. So, of course currency is still a major part we cannot ignore that. Definitely is currency set 75 plus it has its own impact and if it is at 65-66 it has its own relating impact, so yes.

Manish Poddar: Just one more small thing if I may, let us say this 45 day of this period post results, has it is your realization per kg is still declining about 4% to 5% or has that materially changed?

Subrahmanya Chowdary: The realization per kg will be stabilized. Actually, in the third quarter, which I cannot really talked about much but it will be if the prices have stabilized there was the prices have significantly corrected during the last quarter and the first quarter of this financial year. And they have increased and now they are actually stabilizing. So, we expect the realization to be more on to be précised on a flattish not significant drop and not significant improvement because now we are looking forward for some bigger sizes which also have a higher value to be realized. That helps in having a better realization overall even though we would have all other sizes also and the small size products. And also some now we are also preparing ourselves stepping ourselves to enter into the markets like China and South Korea which I explained to one of the other participant. So, those also those because of the lower realization lower unit value out there combined with larger value unit value realization from the western countries. It will pretty much maintain the same. We believe we are going to maintain the same. Currently it is the same it is around the same level. There is no significant rise nor there was a marginal rise but that is kind of stabilized now. So, it is going to be around the same level.

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

Nitin Goswar: Did you mention that we are going to be some kind of maintenance activity in our existing plant?

Subrahmanya Chowdary: Yes, that will be looked at once the whole new facility comes in into utilization. Then we would be planning up; we have not yet planned it up currently because we cannot start any of such activity or any sort of rectifications until we have the entire facility up and running, I mean fully available with us. So, that is the reason I was stating that, that is one of the reasons where even though we have 70% utilization in the new facility but there could be some marginal correction in the existing facility which will have an impact. So, I was giving the basis on which I was trying to explain on how the number has been given because either you or the other participant were more looking at based on the utilization of the new facility you were expecting a higher revenue number. That is the reason I was giving that reasoning for that.

Nitin Goswar: And typically how long these maintenance activity go?

Subrahmanya Chowdary: It takes approximately around 30 to 45 days. That is when we actually decide to do that is we would not be doing anything immediately. We do not have any plans but once we have everything up and running but again that is why it is too premature to say at this point because if such any interruption happens that is why we have not given a complete guidance with regard to exiting out of any lease arrangement we have completely. The reason is that also. So, now you understood why there are multiple reasons, so one is market demand then the other thing is the maintenance schedule which will be required still which may still require our capacity to be available. So, we may still maintain some of this arrangement. So, that will be decided at the right time much prior, so that we do not hamper our business activity or the business growth in general.

Nitin Goswar: And typically, you would also be picking into account which are the lean period which we want to factor in and go for the maintenance activity, right?

Subrahmanya Chowdary: True, exactly. That is why it is nothing has been but definitely on a whole year when you see it will be some impact but that will be mitigated by taking the necessary measures.

Nitin Goswar: Sir, question was more pertaining to currently we are running of 15,000 capacity plant both ours as well as the leased one and the kind of cost we are looking at fixed cost which I am referring to that is the staff cost as well as the other expenditure which we generally report on quarterly statement both put together works out to be around 180 crores-190 crores for FY18. Do we see similar kind of number, I think added up because of the new facility which is comes up or is it the incremental cost going to be lower than the existing cost?

Subrahmanya Chowdary: Incremental cost would be, there will be an incremental cost of course, right. But it is not that it is going to be doubled. So, for example some of the team members who are required for the new projects or in the new facility are already with us. So, like those things people are getting trained up and the team is getting formed. So those, it is not that the entire costs will be doubled of course certain expenditure with regard to power and the electricity those will be of course increasing pro-rata to the volumes which are being going to be done. So, I do not see the cost to be doubling in any manner. It will be increased pro-rata with regard to the volume being done.

Nitin Goswar: It is more of a variable cost now we are talking?

Subrahmanya Chowdary: Yes, it is more of a variable cost, yes.

Nitin Goswar: And sir, one final bit if you could help us understand the realization in raw material trend over last 2 quarters or maybe the one that you reported and as of today where it stands?

Subrahmanya Chowdary: The realization for the half year in Dollar terms it was $8.2 was the realization. No, you are asking in Dollar terms or …

Nitin Goswar: Whatever is comfortable ...

Subrahmanya Chowdary: Yes, sorry, for H1 FY19 average was actually I think around $8.7 was the realization and the other one what you asked me, sorry raw material cost?

Nitin Goswar: Raw material, yes.

Subrahmanya Chowdary: That was an average of Rs. 330-340. I will give you that number again. Let me, Nitin, I will get back to you on that.

Nitin Goswar: And where does it stand as on today, sir?

Subrahmanya Chowdary: The average raw material price?

Nitin Goswar: Average raw material price and average …

Subrahmanya Chowdary: Yes, it is Rs. 380-Rs. 390 actually.

Nitin Goswar: And realization would be somewhere around 9, 8.2 would be …

Subrahmanya Chowdary: No, $8.8 - $8.9 around. Actually, the last quarter, that is Q2 FY19 was also on the same level

Moderator: Thank you. The next question is from the line of Vincent Andrew from Geojit Financial. Please go ahead.

Vincent Andrew: Sir, my question regard to the cost again like you mentioned the last quarter the shrimp raw material price was around 340 and now it is …

Subrahmanya Chowdary: Sorry that was wrong. The raw material cost was 380 that was a mistake, sorry.

Vincent Andrew: I think 2 quarter before it was around as per industry that it is showing around 300 levels.

Subrahmanya Chowdary: That depends on which sizes were used, yes that depends on …

Vincent Andrew: It 40 count, I think.

Subrahmanya Chowdary: That was 2 quarters ago, 40 count …

Vincent Andrew: In July it is showing in July 40 count the raw material price is around 288.

Subrahmanya Chowdary: Actually it had gone up. I think July itself it had gone up. So but with regard to the cost, see the 40 count currently is at 380 it had gone up almost to Rs. 430. It had come down now up to 380 but that is where we have that is the market scenario but we have been buying also from different places other than the state of Andhra Pradesh which I had explained in the past. So, that brings down our cost of purchases also. But our average cost for all the raw material was around Rs. 330, sorry and own farm I think that was the question which you put the own farming cost which you asked was around Rs. 250. So, that was the 2 major questions. Sorry, I think I have to correct even the previous participant who has asked about it.

Vincent Andrew: So, in this quarter it was 330 direct purchase average costs for you and for in house it is 250. So, now it has increased to 380 and 400 levels. So, …

Subrahmanya Chowdary: See, do not get confused. I mean, I am saying average cost it is a mix of several sizes and it is a weighted average of the quantity which is used. So, we were using smaller sizes there. So, a 40 count of 380 today or a 40 count of Rs. 440 three weeks ago is not the bearing for the entire raw material average cost for the company or the industry. Like you mentioned in July you are saying Rs. 300 or something it was actually by July in August it started picking up, started rising. It went to a low of Rs. 260 almost. So, when we mention about raw material cost it is an average of all the sizes based on the volume which we used which we do. So, if we use small sizes we will be having a lower raw material cost but if we do more of a larger sizes for example if we do only 20 count. Our average cost will be sitting at Rs. 500. You get the point and of course, our realization also will be there in accordance to that. Naturally it depends on the sizes what you produced and what you said, right. So, naturally, so based on that but also same is the case with our own farming. So, it is an average cost of Rs. 250 is based on the volume and the sizes which were harvested.

Vincent Andrew: So, there is no need of concern on the margin impact so it is average it is 330 and 250, understood. And sir, for the one more point is that like the demand supply in US can we assume it will take some more time because the industry data for shrimp prices it is now stabilized but not bottom out yet. And when I checked the supply side from imports from China and Ecuador it has been increasing for the last 2 months or 2 months from China and Ecuador also and from India it is around 14% in the quarter. So, the supply side it is there and demand can we expect in the coming festive season. The demand supply mismatch will be better in December or it will take some more time?

Subrahmanya Chowdary: First thing, I did not really understand what you mean by the imports from China and Europe. China …

Vincent Andrew: Sir, the US imports of shrimp from China and Ecuador it has increased in the last 2 months by around 30% and 40% something. India has also improved from a de-growth in the previous 2 months, last 2 months it was around 14%. So, the supply is there continuously it is increasing. So, the concern is like a supply is increasing more. So, do you think in the coming festive season it will improve the demand supply mismatch will improve?

Subrahmanya Chowdary: Well, yes. First thing is, with regard to what you mention about increase from China to USA or Ecuador to USA. If you look at it China hardly ships much volume when you compared to India, India is the largest. So, for example January to September 2018 it was 175,000 metric tonnes vis-à-vis January to September 2017 it was 151,000 metric tonnes. So, which is, of course like it is on similar lines to what is said around 15%-16% growth on a 9 month period if you see, whereas the next the nearest exporting nation after India is that 96,000 metric tonnes. So, we are almost talking about India having almost a double of the nearest supplying nation to USA is Indonesia, the second biggest supplying nation which is at 96,000 metric tonnes while we are at 175,000 metric tonnes. So, India has its presence well established in the US market. There is no doubt to that. It is just that there are certain products which they have been buying like you mentioned China they do buy certain products from China which are breaded and ready to eat products which have not been taking up much well from India until now but that is there India is going to look forward to mostly I believe so at least our company is looking into that going in to the future mostly ready to eat products. The other important point we have to also consider is you are talking about statistics of the past but you also have to consider that there is a 10% duty started being levied on Chinese exports, sea food exports from China to the USA. And that is going to be changed to 25% from January 1st, 2019, I think. So, all these factors are also there. So, as such Indian supply to USA will be the major as I had mentioned in a 9-month period it is 175,000 metric tonnes for the present year. That will be there and India's products are the one's which are occupying the most amount of shell space or plate space whatever table space we can call in the United States as far as that is concerned. And the demand supply, there were some issues with regard to supply, of course there are some issues with regard to demand too. That is where I had mentioned almost 2-3 times during this call that there were a good set of promotions which have been taken up by the end customers both at retail as well as food service segments. So, that there is more shrimp consumption to take care of the supply. So, we believe this is the stable environment we should expect the shrimp to be consume more which is the only way for the product to be absorbed in whatever form it is ready to eat, ready to cook, big, small size whatever it is peeled or whole shrimp whatever it is. So, we are looking forward to that naturally we have we do compete with other proteins. Whether it is poultry or the red meat whatever it is. So, right now the promotions are being done and pretty much the same thing is happening in Europe also. And as far as our company is concerned, we have also diversifying into other markets like we increase by 7% from last year to Europe we are looking forward to increase that further not only into Europe but other countries also. So, we may be looking at bringing down our US business to anywhere around 70% or lower while we distribute the balance 30% and odd to other markets across the globe. We will have a better understanding of that more in the last quarter of this financial year because we will also have our new facility and the capabilities in place, so that we can access those kinds of markets also.

Moderator: Thank you. Ladies and gentlemen, that was the last question. I now hand the conference over to Mr. Chowdary for his closing comments.

Subrahmanya Chowdary: Thank you, everyone for your participation. In case of any further query, you may get in touch with Stellar Investor Relations or feel free to get in touch with us at ir@apexfrozenfoods.com. Thank you and have a good evening ahead. Thank you.

Moderator: Thank you. Ladies and gentlemen, on behalf of Apex Frozen Foods Limited, that concludes today's conference. Thank you for joining us and you may now disconnect your lines. Thank you.