

Date: 29.12.2020.

To
The General Manager,
Department of Corporate Services,
Bombay Stock Exchange Limited,
PhirozeJeejeebhoy Towers,
Dalal Street, Mumbai- 400001.

Scrip Code : 540692

To
The General Manager,
Listing Department,
National Stock Exchange of India Limited
Exchange Plaza, Plot No C/1, G Block,
BandraKurla Complex,
Bandra (East), Mumbai - 400 051.
Scrip Symbol : APEX

Dear Sir's,

Subject: Transcript of Q2FY21 Earnings Conference Call held on 19th November, 2020

Pursuant to Regulation 30 of the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015, kindly find enclosed a transcript of the Q2FY21 Earnings Conference Call which was held on Thursday, 19th November, 2020.

The aforementioned Earnings Conference Call, as per the transcript enclosed, incorporates mainly the highlights of financial results of the Quarter and Half Year ended September 30, 2020 and other related information which is already in public domain and/or made available / uploaded on the Company's website.

Please take the same on your records.

Thank You,
For **Apex Frozen Foods Limited**



S.Sarojini
Company Secretary & Compliance officer



“Apex Frozen Foods Limited
Q2 & H1 FY2021 Earnings Conference Call”

November 19, 2020



**MANAGEMENT: MR. K. SUBRAHMANYA CHOWDARY - EXECUTIVE
DIRECTOR - APEX FROZEN FOODS LIMITED
MR. VIJAYA KUMAR – CHIEF FINANCIAL OFFICER -
APEX FROZEN FOODS LIMITED
MR. DURGA PRASAD - SENIOR MANAGER, ACCOUNTS -
APEX FROZEN FOODS LIMITED**



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Moderator: Ladies and gentlemen, good day and welcome to the Apex Frozen Foods Limited Q2 & H1 FY2021 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 an operator by pressing “*” then “0” on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Subrahmanya Chowdary, Executive Director from Apex Frozen Foods. Thank you and over to you Sir!

Subrahmanya C: Thank you Steve. Good morning everyone and a warm welcome to our post earnings conference call for the quarter and half year ended September 30, 2020. I have with me on call Mr. Vijaya Kumar, our CFO and Mr. Durga Prasad - Senior Manager, Accounts and Stellar IR Advisors, our Investor Relations Advisor.

We hope that everyone continues to be safe as things are opening up during this pandemic. Our updated investor presentation has already been uploaded on the stock exchanges and I hope you would have had some time to go through the same. After being on quarterly update calls for companies within and outside our sector, I am sure you are all aware of the enormity of challenges that the businesses across the world have faced due to the pandemic. It is heartening to note that there is some amount of stability returning as the days pass by.

During our previous calls after the pandemic, we had updated you on the challenges that we have faced on the operational front. Key amongst them being the availability of workforce, the subdued demand, and the supply of raw shrimp. I will give you an update on the status in each of these areas currently.

On the workforce availability, that is the labor availability, the level of fear with respect to the pandemic seems to have abated and while there were spikes in intermittent lockdowns during the first quarter end, we have been seeing good attendance and availability of labor from the middle of the second quarter. Although our key facilities are located in the East Godavari district, which had major issue with regard to the COVID cases in the month of July, as you may be aware that being in the frozen food sector, we already followed protocols with respect to the food safety, which helped the SOPs for the pandemic to be easily adopted by our workforce as this is not a new concept for the workforce of the company.

On the demand front, as you are aware our product mix has been retail-focused and while demand from the institutional side, the food service sector that is the restaurant and catering



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has been subdued, catering demand and in-home consumption continues to be steady and strong. The key markets that we export to that are US and European Union have seen COVID-19 cases spiking and there have been targeted lockdowns but on the whole the demand in the past quarter has been good. Further our recently launched ready-to-eat products have been received well by our customers and we are hopeful of the momentum continuing in the near future, both in the short-term as well as long-term. As we have been mentioning, our focus will continue to be on value added products, which garner higher realization and are also margin accretive.

A quick update on the key consumption markets - the US market and European Union markets; in the present day, we are observing the second wave of COVID cases and as I mentioned partial lockdowns have been happening, indoor dining being suspended in the United States in most of the states around the country, so the kind of impacts of the March, April, May months are again noticed in the present period because of what they call a second wave of COVID-19 cases. If this will be the case in new virus, it is much more serious as it is going to a stage of full of lockdowns in many of the countries. In the case of China where we have been marginally present since the last two years, mostly it is all the commodity products. China has been very careful and very protective with regard to their imports and after the various non-tariff barriers, which also they were trying to enforce on the imported products as well as like trying to express concern on traces of COVID on the outer packaging of the finished products. So with all these issues China also has been having a subdued demand as such so we need to see how it will be stabilizing during this upcoming holiday period, but in China there were holidays only in February the Chinese spring festival that we need to see how it will play out going into the future.

On the supply side, during the initial days of the lockdown the farmers had resorted to panic harvesting resulting in size and supply mismatch. As you are aware our company of course stocked up on inventory in that period and the same was utilized in the quarter gone by as well as to a certain extent in the present quarter, as I speak. The decision of purchasing the raw material from the farmers was for supporting them, but at the same time trying to take the advantage as much as possible with regard to the pricing which was available and that definitely helped us to reduce the cost of raw material during the quarter. This early harvest however has caused a change in the cropping cycle. Now in this case of the early harvest, which was predominantly happening in the months of April and May, by the primary producers - the farmers, anticipating that the raw materials will not be purchased in the near future, led to a premature harvest of many of the products in the farms especially in the state of Andhra Pradesh, which basically made it tough in the subsequent months with regard to the availability of raw material because most of the sizes, which were harvested at that time



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were all smaller sizes. Secondly, because of the disease and also the rains, which caused a havoc because of cyclone, which had hit the state of Andhra Pradesh in the latter part of second quarter, we have been having an issue with the supply. We need to now observe carefully how it will move going forward as the impact of COVID-19 cannot be envisaged in a clear fact manner as we are evolving and witnessing some more issues, which are happening as we conduct our services.

The other important point with regard to the COVID-19 impact is, for example, in the last four to five weeks there has also been logistics issues and this was observed even during the end of second quarter where a significant amount of our shipments, which would have garnered revenue for the company as well as enhanced margins, had to be postponed because of the logistics issues due to the non-availability of equipment for doing shipment, that is, the non-availability of containers and this is a global problem and it is not India specific or seafood specific or Apex specific, it has been a global problem across the countries.

Coming to the update on our facilities. As you are aware, the new plant is up and running and we are focusing on the manufacturing of value-added products. With regard to the EU approval, we still waiting for the committee at EU and an approval from the Export Inspection Council with regards to the approval and I think they attributed the delay more due to the pandemic issues and we are still waiting for that. However, for the US, as I mentioned, has been a quarter long back and we are also doing our ready-to-eat products regularly from the new facilities, in fact the volume is picking up from the second quarter onwards and if we look forward, we had envisaged certain part of expansion in the ready-to-eat, which we are right now seriously planning up and which will be taken up very soon, hopefully before the end of this financial year. So as stated last time, we have discontinued the lease facility and the construction of the phase 2 of the hatchery at Ongole is nearing completion. We are hopeful that this will come online in this fiscal. With this all our hatcheries are owned and operated by the company.

With regards to farming of the company, we have been consolidating the extent of the area which we are currently operating. In this year there has been a significant consolidation taking place as we want to focus more on the core activity of processing and export assisted by some of the hatchery business, which is basically going to help us to develop our relationship much stronger with the primary producer of farmers by giving them quality feed and able to do a buyback of the raw materials from them.



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With that I now request Mr. Vijay Kumar, our CFO to take you through the brief highlights of our financial performance. Over to you Vijay Kumar!

Vijaya Kumar:

I shall brief you on the financial highlights of the quarter and half year gone by.

As mentioned earlier, our product mix has been improving with a higher proportion of retail and the value-added products, which have aided the overall realizations, also supported by weakening rupee on a year-on-year basis. For the quarter ended September 30, 2020 our export sales revenue grew by 2% year-on-year to Rs.2,480 million despite a 2% year-on-year drop in sales volume to 2671 metric tonnes. The breakup of our volumes sold in Q2 FY2021, which was 2671 metric tonnes is as follows, 83.7% comes from the US, 14.7% from European Union and the balance 1.6% from China.

Profitability in the quarter improved primarily on account of increasing the contribution of value-added products in the sales coupled with lower material cost, as explained earlier. Our EBITDA therefore grew 4% year-on-year to Rs.441 million resulting in a margin of 16.7% in Q2 FY2021 as compared to a margin of 15.4% in Q2 FY2020 and 9.6% in Q1 FY2021. For the half-year FY2021 our EBITDA grew by 11% year-on-year to Rs.654 million and margin expanded to 13.5% from 11.7% in H1 FY2020. Higher depreciation due to the new plant coupled with increased finance cost and even a higher inventory resulted in the marginal decline at the PBT level; however, lower tax rate as compared to the corresponding last year resulted in growth in PAT. The PAT for the quarter came in at Rs.252 million versus Rs.219 million in Q2 FY2020. For H1 FY2021, the PAT stood at Rs.337 million as against Rs.302 million in H1 FY2020.

This is all from our side and I now request the moderator to open the floor for questions.

Moderator:

Thank you very much. We will now begin the question and answer session. The first question is from the line of Ashwini Agarwal from Ashmore. Please go ahead.

Ashwini Agarwal:

Congratulations on a pretty decent set of numbers in a very challenging environment. The question I have is that your opening remarks appear to indicate that shrimp availability is still a challenge arising from excessive monsoons, early harvest that happened and so on and so forth, so would you sort of try and outline what we should expect to see over the next three to six months or is it that all those challenges have already been addressed in Q2 and Q3 and Q4 are more likely to be normal at least from a shrimp supply perspective?



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Subrahmanya C:

With regard to your question on the shrimp supply, I had mentioned in the opening remarks about it being affected because of the premature and panic harvest in the earlier part of first quarter and part of the second quarter that I said had an impact with regard to the size availability especially now in the third quarter because most of the supply, which was supposed to be harvested in second and third quarter has been prematurely harvested in the first quarter and this is primarily pertaining to the supply in the state of Andhra Pradesh. Now the states of Odisha, Bengal and Gujarat are continuing to produce their part of shrimp in the aquaculture areas; however, that was also limited because of the impact of the lockdown during the April and May months, which had made the transportation of the shrimp difficult to those areas, so the point is that what has happened for the last six months. Now going forward, we are noticing that the farmers are stocking up again post the cyclone and all these monsoon issues. Now we are looking forward for the supply to be improving, but when I mentioned that we do have supply issues especially it did happen in the second quarter and we have them right now also, but as things are going to improve we expect them to be improving over the next one month and then onwards we should look for better supply in the next three months. We should actually wait and watch as this year there have been multiple effects, one is the pandemic and the other is the indirect impact of the pandemic where seeding has been at a lesser number and the reaction of the primary producer to the market forces. Right now as we speak, the raw material pricing is at a very steady and firm level at a high level because of the shortage in the supply as such and the demand being there at a very high level because of the orders, which have been coming in from the overseas markets whether it is the United States or European Union, so we are eagerly waiting for how the supply will be going forward and for an improvement in supply over the next one month, towards December end onwards. So we do expect things to be normal, but definitely you need to understand that it is for first crop of the year or rather the first summer crop of the year, which is always at the highest level, so typically winter crop does have its impact in general at a lesser level and this year with the pandemic effect also, we should see how it is going to affect. With regards to the next six months or the next second half if you are asking it has not been exactly going on as it is supposed to be originally because of the supply related issues, which have been percolating from the first half so hopefully it is going to get stabilized now as we speak and we are looking forward for much more better improvements from December month onwards.

Ashwini Agarwal:

Another question I had I could not hear your opening comments clearly you mentioned that EU approval is awaited but the USFDA approval is in place did I hear you right?

Subrahmanya C:

Yes you are right, you heard it correct, the USFDA approval is in place even during the first quarter towards the end of first quarter when we had our Q1 concall.



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Ashwini Agarwal: In your Q1 you had mentioned that you were running your ready-to-cook at full capacity is that still the case?

Subrahmanya C: Ready-to-eat.

Ashwini Agarwal: Ready-to-eat sorry.

Subrahmanya C: Yes, I mentioned it during the Q1 concall, which was I think sometime in the middle of Q2 sometime in August I guess, yes, that is true and we are continuing to utilize it, but again whether it is ready-to-eat or ready-to-cook utilization, it is the supply which also matters, so as such our order book is full with regard to ready-to-eat and that is one of the reasons why I also mentioned in my opening remarks that we are looking forward for expanding our ready-to-eat capacity in the near-term that is most likely in the Q1 of next financial year itself, but yes of course this year supply is crucial. But at least we are planning from the next financial year for having a higher capacity. As I said our order book is good with regard to ready-to-eat; we currently are having some supply issues and as the supply picks up we will continue to utilize it to the maximum.

Ashwini Agarwal: Ready-to-eat how much what is the kind of tonnage you are looking to add and how much will it cost that is my last question?

Subrahmanya C: It will be double the capacity if once we take a final call on that, currently the ready-to-eat is 5000 metric tons which means it will be 10000 metric tons once the additional capacity is fully installed hopefully by early next. Sorry what was your next question?

Ashwini Agarwal: How much will it cost and how much time does it take?

Subrahmanya C: It is approximately budgetary wise it takes around 6 to 7 Crores or should be even lesser, but it is just that we have already purchased the back end of the equipment in the initial run itself so I do not know if you are aware or if you would have heard me on previous calls, the ready-to-eat capacity was being planned to expand much before the commissioning of the factory and keeping in mind that we should just get it on a plug-and-play basis, so that is how it was planned. So once we plan, it is going to be like six months to get it fully installed and the budget is around 6 to 7 Crores max.

Ashwini Agarwal: Thank you Sir all the best.

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



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Nitin Gosar: Sir couple of things you mentioned that ready-to-eat facility which is 5000 capacity is going on a good utilization, but on ready-to-cook from new facility have we commissioned any production from that part?

Subrahmanya C: Mr. Nitin the ready-to-cook is the one which starts first actually, we did commission it, but whether that was actually transferring into the entire volume is not yet factored in because of the current year scenario, which is going on, so we have commissioned both ready-to-eat as well as ready-to-cook at the same time.

Nitin Gosar: So the earlier facility which is around 9250 metric ton that would be running at full utilization and the new ready-to-cook facility, which has got added during the year, what would be the utilization we would be seeing today?

Subrahmanya C: If you remember from the past our idea was that we would be churning the new facility around 50% capacity for the first year and thereby moving it to 50% to 70% in the second year and basically 75%, 80% is the optimum utilization, which we look forward to in our both facilities. Now for the new facility of course we were really looking forward as we got everything set by March and this year was supposed to be with a big bang at all fronts, but unfortunately the pandemic has kicked in affecting everybody's life unfortunately, otherwise originally as planned we are supposed to utilize this 50% of that capacity and utilizing 75%, 80% of our existing old 9000 metric tons capacity that is how it was planned so right now it is a little bit of that part that is why you see a marginal drop in the volume even compared to last year, we were originally targeting for a higher volume y-o-y.

Nitin Gosar: Sir second question is do we have some clarity now on MEIS or the export incentives and what would be the numbers then you would have booked for the quarter?

Subrahmanya C: Yes, the number Mr. Vijaya Kumar will just give it to you. You said for the first quarter or the second quarter?

Vijaya Kumar: Second quarter export incentives was at 5 Crores 88 lakhs and the half year ended it will be around 18 Crores 20 lakhs.

Nitin Gosar: Yes, got it Sir.

Subrahmanya C: With regard to your question on policy, the Government of India has not withdrawn the MEIS scheme as such; however, through various notifications and communications sent by the Government of India's concerning departments to our company as well as to the trade



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bodies they have sighted that either because of the pandemic or whatever it is, there is some sort of a shortage of funds as such and original allocation for this scheme was 5000 Crores as of August 31, 2020 as per notification we got on September 1, 2020. But however just last week we got another notification from Government of India enhancing the MEIS fund allocation from 5000 to 15000 Crores for period April 1, 2020 to Dec 31, 2020 and they also informed us through that notification.

Moderator: Sir sorry to interrupt but Mr. Nitin is disconnected. The next question is from the line of Ayush Mittal from Mittal Analytics. Please go ahead.

Ayush Mittal: So in continuation with what you were trying to explain to the previous participant I would like you to complete that part and provide us the clarity on the MEIS thing?

Subrahmanya C: Yes, I was saying the government has enhanced the fund allocation for this scheme from 5000 to 15000 Crores and added to that the notification, which was issued last week also confirmed that any pending licenses or any of the licenses, which cannot be applied by the exporters in the current financial year for the obvious reasons of the fund allocation they can be applied even in the subsequent financial year, so that is what gives a holistic picture of the present treatment of the MEIS scheme for the current year. We would of course definitely be watching closely as to how the Government of India is going to deal with this scheme and we will accordingly be treating our strategy and planning our business.

Ayush Mittal: Thanks for this update. So for the month of September have we accounted the MEIS at the rate we used to account for before or not?

Vijaya Kumar: We have accounted the same.

Ayush Mittal: At the same rate?

Vijaya Kumar: Same rate.

Subrahmanya C: For all three months of this quarter we have accounted MEIS at the same rate as before as there was no change in the policy.

Ayush Mittal: For this coming quarter also you will be applying the same rate?

Subrahmanya C: We will, as I said we just got a notification last week we will be applying only based on the Government of India's instructions and their notification so we will be watching for the stand of the Government of India as it has been changing every month or two months so we



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are just waiting cautiously as it is totally dependent on the Government of India's initiative whether to continue, how they would continue and to what extent.

Ayush Mittal:

So as of today what is the status?

Subrahmanya C:

As on today, as I said they have allocated additional funds and they also mentioned that they would be applying even for this year's pending licenses even in the next financial year in a mechanism which they have expected that they will be stipulating as we go into the future. So we need to wait for the government's policy to take a concrete decision, as and when government gives more clarity we will be choosing in the way we account for sure.

Ayush Mittal:

Sir as this has been a overhang that merely says a substantial part of the profitability that all these shrimp processor earns and it is a big part for the whole industry people remain concerned what if there is a substantial reduction, how does the industry cope up or what did you see in the month of September, how did the prices adjust or something happened when this case happened around this policy?

Subrahmanya C:

Yes with regard to MEIS it is definitely a good part of the profitability of the company or the sector, not just retail sector, but many export sectors in the country and we have been pursuing to trade bodies also with the Government of India to continue this scheme. Considering the global scenario as such we were supposed to have a replacement scheme for MEIS under a different nomenclature - Refund of duties and taxes, for which of course the rates have not yet been finalized; we would have had the change in the scheme to make it WTO compliant hopefully. In the beginning of this year unfortunately I think the pandemic had affected the government's plan and we could not get an alternative scheme or a reasonable alternative scheme in place and hence they are continuing MEIS at this point as of the current year and we need to see how they will go by.

With regards to the concerns you were mentioning about the MEIS or the export incentives, yes they are a good part of the margins; however, we have been elaborating this over the past six to nine months that our dependence on MEIS has or rather our dependence of profit margins on MEIS has to be overall coming down going into the future because we already are aware that the scheme is being either replaced or being substituted with something else and even if MEIS is removed how we address that is by doing more of higher margin products so that we can safeguard ourselves with regard to any such withdrawal of any such schemes. So it is the long-term value addition of the product which is the only key to have higher margins and independent of such schemes going in the future, but as I said it is a long-term process and we are starting initially with our new capacity of the ready-to-eat and



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value-added products, which will be garnering us higher margins thereby we will be able to absorb any sort of issues, which we may face if at all such schemes are withdrawn. However we are confident that the Government of India is focused on export sectors and they are looking forward to either replace it with a different scheme; however, as of now we have information that they are going to continue it in some way or the other it may not be MEIS as I said it is going to be a different nomenclature, it may be a different methodology of direct credit like duty drawback or whatever, but as of now we have confirmation that it is going to continue considering the priority on export sectors by the Government of India.

Ayush Mittal:

Also can you share some comments on what do you expect for the growth of the industry on the production side, shrimp production side going forward I missed your initial comments actually?

Subrahmanya C:

The production side actually we have had issues this year, which I had explained because of the premature harvesting as well as the weather-related issues, which we had in the first half year of the current financial year. We do see certain bit of shortages currently and we believe they will be improving and it will be much better from December onwards; however, going to 2021 because of the supply issues as such I mean the pricing which has been so firm and stable at this point, we are confident that several producers will be going in for stocking during the months of December, January and February and onwards, thereby expecting a great extent of supply improvement in the first quarter of FY2022 for sure because of the way the market is right now moving ahead.

Ayush Mittal:

Okay. Thank you.

Moderator:

Thank you. The next question is from the line of Samir Rachh from Nippon India Mutual Fund. Please go ahead.

Samir Rachh:

Sir I just wanted to get your thoughts on outlook for FY2022 so you just explained in reply to previous question that you expect better supplies from farmers in FY2022 so on demand side if things stabilize because the vaccines are progressing pretty well do you think FY2022 will be very good year and we can reach the peak capacity utilization for both the plants?

Subrahmanya C:

FY2022 is going to be definitely a better year than FY2021 for sure because FY2021 has been significantly impacted by various reasons and especially the pandemic which is a different scenario altogether, but FY2022 is bound to be in a much better position for sure, as of now what we envisage is that today if you consider the raw material pricing and the



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stable market and the demand, which is being there, but we do not have all the required supply and added to that we have troubles of not being able to ship to our customers because of the logistics issues, which I also mentioned in my opening remarks, so there have been quite a number of unforeseen challenges in the present year and your question is definitely valid and we also look forward for a positive FY2022; however, we do not know how the pandemic is going to be.

Samir Rachh: Pandemic is not in our hand but if supply becomes normal then you could certainly see increase in demand.

Subrahmanya C: Definitely, but demand as such is there even today for us. When I mentioned about previous issues with regard to restaurant closures or improvement in retail, our order book is still good as on today and we are pretty sure when things get normal in FY2022 hopefully from this pandemic issues, hopefully the new markets like USA and European Union, I think will try to get back onto their normal business lives hopefully these vaccines kicking in before the end of 2020 which we hear every day on the news, we are confident that the demand will further increase next year and we will be able to do a lot better next year, but I am not able to put any sort of quantification to that and excuse me on that at this point.

Samir Rachh: My second question is related to this expansion of seed capacity so having done pretty well in the first phase so I just wanted to understand from you what could be the financial benefit of this doubling of food capacity how do you see that adding to our bottomline?

Subrahmanya C: With regard to the business point as such we are looking forward to almost increase our present seed business by like 50% to 60% for next year once it picks up; however, with regard to the profitability from hatcheries, we are not really looking at a major benefit to the company, but rather we are focused on developing and enhancing our relationships with the primary producer. Definitely we are having additional revenue, we are going to have more margins from there, but our core focus of retaining the hatchery business and increasing it further and plans for this expansion is mainly to improve our relationship with our primary producers even the old ones or the existing ones as well as the new ones across India because we have also been supplying seed to the state of Gujarat and Surat through air shipments, so we want to develop and increase our farmer base, which is the ultimate solution for our exports which will be with the support of the primary producer and we thank them for all the support they have been giving us for the past many years.

Samir Rachh: Right so more strategic in nature that will help us strengthening our relationship with farmers which will ensure good supply and thereby help us increasing overall volumes?



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- Subrahmanya C:** Yes definitely that is the main objective, but as a sign if it really has a significant impact on the P&L of the company in a holistic manner we will definitely keep you posted, but we know for sure it will be the processing and export which will be dominating the business of the company as such that is the core activity this seed business is more of aiding tool or a supporting tool to grow our relationships with the farmers.
- Samir Rachh:** Yes, thank you so much ChowdaryJi and all the best and I will come back in queue.
- Moderator:** Thank you. The next question is from the line of Depesh Kashyap from Equirus. Please go ahead. Mr. Kashyap we are so sorry to interrupt but your voice is breaking up so may we request you to move to a better reception area please.
- Depesh Kashyap:** Sure I will come back in the queue.
- Moderator:** Thank you. The next question is from the line of Nitin Awasthi from East India Securities. Please go ahead.
- Nitin Awasthi:** I just had a few questions on the financials, so the MEIS exact amount booked during the quarter would be?
- Nitin Awasthi:** Net of 5.88 and 18.2 right?
- Vijaya Kumar:** Yes.
- Nitin Awasthi:** So roughly 12.3 Crores would be the MEIS book during the quarter now out of this how much was booked in September any idea because the notification that we have in our hand there is a cap on the amount you can book from September to December?
- Vijaya Kumar:** Yes in September we have booked 12 Crores 66 lakhs and drawback is 13 Crores 34 lakhs.
- Nitin Awasthi:** Sorry the MEIS booked in September would be?
- Vijaya Kumar:** For half year we have booked 12 Crores 66 lakhs and for the quarter we have booked 7 Crores 3 lakhs.
- Nitin Awasthi:** Apart from this what would be the hatchery income this quarter around?
- Vijaya Kumar:** Hatchery income around 6 Crores.



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Nitin Awasthi:

Lastly I want to understand something on the industry which is that right now because of the things you mentioned we are seeing a very different scenario where internationally we are seeing exports and markets contracting and prices of shrimps falling to the lowest levels whereas the farm gate prices in India are rising as if there is a boom time going on, now because of this the processor is going to feel going ahead because we had inventory with us which was not exhausted because of the previous opportunity that we grabbed because of the panic harvest, now going ahead do we still have inventory from that and if not then are we going to see a gross profit margin shrinkage going ahead?

Subrahmanya C:

Yes, the first thing is with regard to the low-priced inventory, which was accumulated during the first quarter of the current financial year and we got it at a very low price, that is point number one; point number two, international prices were low at that time right now they have also raised, yes I do acknowledge that the prices have not raised on par with how the Indian raw material prices are. The Indian raw material prices are increasing at a much higher level because of the demand overall from all the industry players in the country and because of the shortage of supply and this phenomena is there every year where it happens this year maybe we have a muted number as the overseas demand is at a much lesser level because of the closures and lockdowns and whatever shutting down of various food service sectors, etc., but the difference between the overseas market and the domestic market has always been there at certain time of the year and yes we are seeing that currently where the raw material prices have gone much beyond than what the overseas markets actually are presenting they are not raising on par, so our Indian domestic prices have gone much higher than what the overseas price increase has been, we are looking forward for an increase in the price meanwhile as supply stabilizes, we look forward for a reduction in our raw material prices going forward. Naturally that will definitely have certain impact on certain products, which are produced by various companies and it depends on which market and what products they are producing, so it is not that the impact will not be there, but as the supply improves it should be getting to normalcy, right now it is a shortage of supply and this phenomena is there every year; there are certain times in different months and right now we are seeing it more because of the pandemic aftermarket.

Nitin Awasthi:

Great Sir. Thank you so much for explaining the situation patiently and best of luck going ahead.

Moderator:

Thank you. The next question is from the line of Depesh Kashyap from Equirus. Please go ahead. Seems like we lost the connection for Mr. Depesh Kashyap. We move to the next question from the line of Punit Mittal from Global Core Capital. Please go ahead.



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Punit Mittal:

I had two questions one was that you mentioned that the farm gate prices are higher than the global shrimp prices or it has gone off higher than the global shrimp prices, now do you think because of this because of the farmers would be encouraged with the high prices and do a better stocking and harvesting next year and also for the second crop I mean and also because the prices are high and they may correct they may again have a panic harvesting which means again there may be a supply squeeze for the second harvest?

Subrahmanya C:

Right now the pricing is very attractive and lucrative for the primary producers number one, it will definitely encourage them to look at better stocking; however, that is not going to reflect in the present year entirely in the present financial year it will only be towards the end of the financial year because whatever stocking has to be harvested in the next two to three months has already been done so we are looking at a crop of 60 days to 100 days so whatever has to be harvested between December, January has already been stocked in the last one to two months max and that is one of the reason why I had told one of the earlier participants that because of the firming up of the raw material pricing here in the country, we look forward for a lot of primary producers or farmers being enthusiastic of going for a good amount of stockings for the 2021 summer crop and that is the reason which I had mentioned that we are very confident as of now at this point based on the present scenario that 2021 will definitely be a far better year for the industry, but again we just need to watch out how things will turn out especially with regard to this pandemic, otherwise definitely it will be a good scenario for next year for sure. I think that answers your question.

Punit Mittal:

Yes that makes sense. The second I remember last year winter, our post winter there was an issue where there the inventory was very high with the stockist in the overseas market and because of which the demand was a bit lower than usual how is the inventory situation of finished products in the overseas market one and as you said because we have supply squeeze from our end in India who is fulfilling that gap that we are not able to supply in the overseas market?

Subrahmanya C:

The overseas market demand is also affected by the pandemic it is not the same as what it has been in the earlier years. So even though India had its lockdown for three months almost, that does not mean that the supply to the overseas markets got attracted from countries like Thailand, Vietnam or Indonesia. For that matter, they continue to export from their side, apart from that the demand from overseas markets is stable right now, there are sufficient number of orders, but we expected a much more in a normal year had it been the food service and restaurant chains running at a normal level. As things ease out, as things get better hopefully this so-called second wave of COVID cases comes to an end or at least it comes to normalcy in the near future, we look forward for better consumption of the food



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products. We need to see how things will be changing over the next few weeks because of the second wave of cases, which have been reported regularly both from the European Union and from the United States.

Punit Mittal:

If I can squeeze one more question, you said that your order book is full and there is a supply squeeze of the raw materials for you, in this scenario where you are unable to fulfill the order because you do not have enough supply of the proper size of shrimp that you need how does that work are you penalized or is there an impact for in terms of how does that work for your P&L because if you have committed orders and you are now able to fulfill them?

Subrahmanya C:

Yes, the first thing is this is not an Apex specific problem, this is an industry problem. The second point is we are in coordination with our customers with whom we share a long-term relationship and we have been explaining them the situation and they are also very understanding that is how it is done when you have a long-term relationship and we have been providing them the products as much as possible and they also are able to understand the present scenario, so they are not in a position to actually increase their prices in a full level manner based on the raw material prices out here in India, but that is more of an India specific problem and as the supply improves more towards the end of this month and December we think things will get stabilized. Currently which I also mentioned to the earlier participant that there definitely will be certain extent of margin effect in the present period, but we look forward for change in that as we go towards the end of this month and then the supply picks up. Now there would not be any penalties, there is nothing like penalties as such because as I said these customers know the ground realities and they understand the scenario, we are doing our best, we also do their part on their side so they are also cautious about what they are buying and they are not buying anything unnecessary as they also do not want to get stuck with those inventories like which they have been getting stuck in the past years especially during this pandemic age they do not want to be stuck with any unnecessary products, so they have also been very cooperative and they have been coordinating with us based on the supply scenario. We are doing fine with them so there is no issue as of now, we are keeping them informed and they have been quite reasonable with the way things are.

Punit Mittal:

Okay understood. Thank you so much and all the very best.

Moderator:

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



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Depesh Kashyap: Sir, I just wanted your thought from this new aquaculture bill that the Andhra Pradesh government has passed, so are there any changes on the ground that you are seeing because of this?

Subrahmanya C: Mr. Depesh that is more of a initiative by the Government of Andhra Pradesh to maybe have a holistic effect and approach towards the sector as we consider the aquaculture sector to be one of the core sectors for the government of Andhra Pradesh. So in that process they have been trying to get everybody into the field of processing, farming, hatcheries, seed, everybody. In the case of our activity, which is processing and export we are definitely under the purview and being under the monitoring of the central government departments, which are part of both Ministry of Commerce and Ministry of Agriculture, we have been coordinating with them, so as such as on date I will not be able to really give any comments specifically because even though the bill has been passed, the implementation is a bit challenging and we have also kept the central government departments in the loop as an industry, and this is not company specific, so I cannot really comment how the government of Andhra Pradesh will be approaching or how they will be implementing as of now, but since we have been into the export activity we fall under the domain and under the purview of the central government to the largest extent with regard to processing and export or the activity of export, so that is what I can actually answer to you with regard to this.

Depesh Kashyap: But Sir are there any talks to have a minimum support price for the farmers just like in other agricultural products they have, are there any talks around that?

Subrahmanya C: Yes, the government of Andhra Pradesh has been asking like that, since you are asking that question, but I am pretty sure you will also be aware that today's prices are far higher than what the government of Andhra Pradesh even asked, but the point is which everybody would be aware of is that this is all about demand support which is not domestic, the demand is from overseas markets, so if the US or the China market or European market does not give the required pricing, there is no way in which any sort of support can be given unless maybe the government of Andhra Pradesh has its own ideas of supporting the farmer by reimbursing them or compensating them and as I said I cannot really make any full-fledged comments because we do not know what are the final intentions of the government of Andhra Pradesh with regard to these support schemes or assistance.

Depesh Kashyap: Sir like on your P&L the employee expenses and other expenses have not increased as much as expected with the new plant and the value addition that you are doing now so are there any one off in this or do you expect a similar number going forward?



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Subrahmanya C:

Firstly this year's volumes if you see it has not really grown up significantly, so the new factory of course the other expenses is more dominated with the foreign exchange differences and all that, so keeping aside that topic, the employee expenses have not significantly grown as of now, but going into the future as we do more business and as we produce more volume there will be a marginal increase. Remember we just shifted everything from our leased operation eventually to the owned operation so it is more of a lot of transfer of staff and some of the workforce, which you could get from the other place, so we will be seeing an increase in the employee expenses much later as we grow our volumes much higher for sure. Also, like as I said, in July the workers got affected, April, May we had to take care of additional costs for encouraging the workers to come at work; The government of Andhra Pradesh has been taking initiative to let the workers work in simple processing plants, which were key essential for safeguarding the farmers, so that is the situation. In the second quarter, July has had a major impact because we are restricted on the Andhra Pradesh State where the COVID cases were significantly higher and it was more of a care among the workers at that point of time, but subsequently in August they started picking up so definitely it will go up as the volumes pick up, but it will be in relation to that it is not going to be something for hiring.

Depesh Kashyap:

Sir lastly my question is we talked about the ready-to-eat doubling capacity, now as I understand this is the ready-to-eat is just an extension of the cooking facility to the existing lines, so will there be any reduction in the ready-to-cook facilities?

Subrahmanya C:

No they will not be, I guess we could not guide this point in the past. We have mentioned that the new additional capacity of ready-to-eat would be more on a plug-and-play basis. I do not remember in which concall I had mentioned that, but we did mention that and it is more on plug and play, which means everything is pretty much ready and the back end is also ready, we just need to bring in the line and do it. However since most of the components of this line are to be sourced from overseas, it takes time and that is why when one of the earlier participants asked me the timeframe for implementing this doubling of the capacity, I told them it takes around six months from the date of finalizing. So we are right now in the planning stage, we have not taken a hard decision at this point so we will be working on it in the next few weeks and we will accordingly take a decision so that we are geared up very well for FY2022.

Depesh Kashyap:

So the overall capacity from 29000 will be come around 34000 that is what you are saying right impact happens?

Subrahmanya C:

That is correct yes that is after the expansion.



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- Depesh Kashyap:** Thank you Sir and all the best.
- Moderator:** Thank you. The next question is from the line of Jagdish, an Individual Investor. Please go ahead.
- Jagdish:** First question regarding our own farming, so we are having some supply constraints or other farm gate price increase something like that right, so how we can increase with own farming maybe adding some new technology or controlling like larger shrink on size so how we can manage it once coming?
- Subrahmanya C:** Mr. Jagdish I guess maybe sorry you might have missed my earlier remarks both in the opening as well as the other participants. We as such have been consolidating our farming activity in the present financial year and which actually means that we are bringing it down to certain extent so that our focus can be on the core activity across the export and whatever own farms which we have I mean either in own land or new plant whatever we will continue to have and we will be producing to the extent they can produce. With regard to sizes and growth of larger sizes and what you are mentioning, we will be able to coordinate that better with many of our primary producers with whom our relationships are being built with and also enhance it with the support which we can give with the seed supply, so that is how we are looking forward to.
- Jagdish:** Yes, my second question is regarding the domestic shrimp consumption, we can see some online aggregators and other aggregators are actually booming a lot in metro cities also so is there any alliance or something partnership we can do with that online aggregator, so I think the presence also seems interesting in metro cities especially so maybe we cannot take it as a major thing, but maybe we can start it right so this can be in a long-term it can give a boost to our revenue right so can you please throw light on that?
- Subrahmanya C:** Yes, but as on date the company does not do anything significantly for domestic, in fact the entire activity for the past more than 20 years has been more of export only - almost 99%; however, we would not rule out at this point because that we need to see how things will be going into the future hopefully in FY2022 or FY2023 I cannot comment about it right now, but we would not rule it out totally, we will look at it whenever there is a good opportunity, we will see how we can develop it in the domestic side also.
- Jagdish:** Can I ask last question if you allow me?
- Subrahmanya C:** Yes.



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Jagdish: Why we are not starting any feed business so is there any restriction on margin reduction or something we are looking?

Subrahmanya C: Our company has never focused on the feed business and just in case maybe I will just make you aware that there is quite a good amount of capacity of feed in the country already by several players and we do not really look in that direction as of now. Even though we did have some plans in the past but we dropped those plans and we wanted to focus more on processing and in fact that is the reason we even went public and we built this facility and focus more on processing and export of shrimp products to overseas markets. So we have not really looked at it and there is no plan at this point on that.

Jagdish: Yes, thank you.

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

Subrahmanya C: Thank you Steve. Thank you all for joining us. We hope you continue to stay safe along with your family during this pandemic age. If you have any queries please reach out to Stellar IR Advisors, our investor relations team directly at ir@apexfrozenfoods.com. Thank you very much and have a good day.

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