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**Date: 07.11.2022**

To  
The General Manager,  
Department of Corporate Services,  
Bombay Stock Exchange Limited,  
Phiroze Jeejeebhoy Towers, Dalal Street,  
Mumbai- 400001.  
**Scrip Code : 540692**

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

Dear Sir/Madam,

**Sub: Transcript of Q2FY23 Earnings Conference Call held on 01<sup>st</sup> November, 2022.**

**Ref: SEBI (Listing Obligations and Disclosure Requirements), Regulations 2015**

Pursuant to Regulation 30 of the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015, kindly find enclosed a transcript of the Q2FY23 Earnings Conference Call, which was held on 01<sup>st</sup> November, 2022.

The aforementioned Earnings Conference Call, as per the transcript enclosed, incorporates mainly the highlights of Un-Audited financial results of the Quarter ended 30<sup>th</sup> September, 2022, 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 record.

Yours Faithfully  
**For Apex Frozen Foods Limited**

SATYANARAYANA MURTHY KARUTURI  
Digitally signed by  
SATYANARAYANA MURTHY  
KARUTURI  
Date: 2022.11.07 18:33:29 +05'30'

**Satyanarayana Murthy Karuturi**  
**Managing Director**  
**DIN: 05107525**



“Apex Frozen Foods Limited  
Q2 FY23 Earnings Conference Call”

**November 1, 2022**



**MANAGEMENT:**      **MR. CHOWDARY KARUTURI - EXECUTIVE  
DIRECTOR**  
**MR. DURGA PRASAD - FINANCE TEAM**



*Apex Frozen Foods Limited  
November 1, 2022*

**Moderator:**

Good day, ladies and gentlemen, and welcome to Apex Frozen Foods Limited Q2 and H1 FY'23 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. Chowdary Karuturi, Executive Director. Thank you, and over to you, sir.

**Karuturi Chowdary:**

Thank you, Michelle. Good afternoon, everyone, and thank you for joining us on the investor call of the second quarter and first half of the year FY23. With us, on the call today is Mr. Durga Prasad from our finance team; and Stellar IR Advisors, our Investor Relations advisor. We have uploaded the investor presentation on the website of the stock exchanges, and we hope you have had a chance to go through it.

While the second quarter of the fiscal typically has been the best quarter due to festive season sales on a historical basis, this year, the trend has not been in line. Actually, this was primarily on account of supply-related constraints, which we had discussed in our previous quarter's concall too. The key challenge for Indian shrimp processors in Q2 FY'23 has been the raw material supply constraints. Some of the farmers had to make some premature distressed harvests which led to shortages of supply in specific sizes, especially in the medium and large sizes because distressed harvests mostly give out very small sizes into the market, which are not of much use for the export orders in general, again, because they were required for those markets in which our business was mainly based out of, that is the U.S. and the EU, the medium and large sizes. Thereby impacting our volumes sold in Q2 FY23, which stood at 3,565 metric tons, higher by 1% year-on-year, but 5% lower than Q1 FY'23. However, our net revenue posted a robust growth of 11% year-on-year at Rs 293 crore in Q2 FY23, backed by improved product mix and stable shrimp prices globally.

The cascading effect of lower raw material supply was the higher farmgate or raw shrimp prices in Q2 FY23, which impacted profitability during the quarter. However, like I just mentioned, better realization on account of higher share of value-added ready-to-eat products, along with stable global shrimp prices and benefit of the rupee depreciation, which is also a factor in our business, provided some relief. Also, please note that the Q2 of last fiscal witnessed unusually higher operating margin range.

The share of our ready-to-eat products increased to 27% in Q2 FY23 from 21% in Q2 of last fiscal. Our focus continues to be on the value-added and ready-to-eat products, underscoring our decision to expand the ready-to-eat capacity from 5,000 metric tons per annum to 10,000 metric tons per annum at our new processing plant at Ragampeta.

Coming to the half yearly performance in H1 FY23, we witnessed robust growth across revenue and profits. The total shrimp sales in H1 FY23 grew by 8% year-on-year to 7,326 metric tons, while the average realization grew by 15% year-on-year to Rs. 817 per kilo, translating into a net revenue growth of almost 24% year-on-year to Rs. 599 crore. EBITDA margins remained largely flat at around 10% due to the impact of higher raw material costs in Q2 FY23. Profit after tax grew by 27% year-on-year to Rs 32.1 crore as against Rs 25.3 crore in H1 of last fiscal.



*Apex Frozen Foods Limited  
November 1, 2022*

We are also pleased to report that our balance sheet position has improved, which was mainly impacted by the after-effects of the COVID-19 pandemic. With easing of logistical and sea transportation issues, our inventory and debtor positions are improving, leading to better working capital cycle of 115 days as of September 2022, as against around 125 days as of March 2022. We have also reduced some of our borrowings and that, along with better cash flows have led to a lower net debt by almost Rs 14 crore from Rs 158 crore as of March 2022 to Rs 144 crore as of September 2022. We are hopeful that these metrics shall improve further by the end of the current fiscal year.

Lastly, a quick update on the markets that we operate in and the demand scenario. The U.S.A. continues to be a major market for our products followed by the European Union. In the case of the U.S. market, the retail as well as food service sector, which is the restaurant chains, have been doing promotions on their end to attract consumers to consume more seafood products in general and shrimp products, of course, specifically related to our company. This has mainly got to do with also the current spending power in those markets because of higher gasoline costs and higher interest rates which are also basically limiting their spending power in general. But our retail as well as food service customers are continuing their promotions, thereby encouraging the end consumers to continue to consume the seafood products in general and shrimp products also. This is primarily in the U.S. market. Of course, there are also inventories, which have got also built up over the past 2 to 3 months because of these issues with regard to higher costs in general in that market.

On the EU front, our demand stays pretty steady and firm as far as our products are concerned. The share of our EU market in our total sales has been improving and stood at almost 21% in Q2 FY23. The ready-to-eat products that were in process of getting the regulatory certification is still ongoing. So, we hope to receive approval at the earliest and the EU market will also be opened to our company for those specific products, which we don't have right now, that is, for the ready-to-eat products.

While our key focus remains with the U.S. and the EU markets, we continue to try and capitalize on any opportunistic demand from markets like China and other Asian countries, like we did in the previous couple of quarters.

Lastly, I would like to reiterate that while we are being faced by challenges driven by external forces, we continue to have the potential for much higher revenues from our existing facilities and are geared up to capitalize on the growth opportunities in the future. Our endeavor remains to deliver growth and improved performance year-on-year.

With that, I conclude our opening remarks. And now I request the moderator to open the floor for questions. Thank you.

**Moderator:** The first question is from the line of Jinal Sheth from Awriga Capital. Please go ahead.

**Jinal Sheth:** I'm new to your company, so just wanted to understand a couple of things. One being on your business fronts, as you mentioned, U.S. and EU, are your key market, so, I presume this is a fragmented market. So, we wanted to understand your thoughts in terms of how do we go about marketing and trying to win market share, would like some thoughts on that?

**Karuturi Chowdary:** Yes. With regard to our major markets, of course, mainly being the United States of America and EU along with the United Kingdom, we do have long established relationships with our existing customers, which are primarily distributors in those markets who also do manage inventory for the end clientele, whether it is retail, large



*Apex Frozen Foods Limited  
November 1, 2022*

supermarkets or food service customers. So, we have been growing our volumes with our existing customers as well as finding potential customers, new customers in those markets and also with newer products, which we are developing in coordination with them so that we are ready for providing more ready-to-eat and rather consumer-friendly products, which are easy for them to consume and prepare which we do it in coordination with these customers of ours and located in those markets.

And with that coordination and combined marketing campaigns, which we also sponsor along with our distributor customers, we are able to keep our volumes in a consistent manner, and we'll focus on growing them further as those markets adjust to various factors, of course, subject to those factors.

**Jinal Sheth:**

If I may, if I look at your overall numbers in the last 5 years, sales have been kind of flattish.

**Karuturi Chowdary:**

Yes. The sales in numbers in value terms have been flattish. Of course, over the last 5 years, if you see the sector has been having a correction since 2018, we have had a major correction in our unit value pricing also in the overseas markets. So that is why subsequently, once we have had our new facility up and running from 2020 coincidentally during the pandemic year, we were able to grow our volumes, especially this year. We have been able to grow our volumes producing more quantities given the support of the added advantage of ready-to-eat capability, the value addition.

Originally 5 years ago, there was a major correction in the pricing in 2018. Subsequently, it has been quite stable from then onwards. And we were only looking forward to utilize our capacities to the best possible, which we were more able to do it this year, precisely, that is in FY23 with also after getting out of all those challenges, which we have had at least until last year.

**Jinal Sheth:**

Okay. And ready-to-eat, what would be that as a mix of your overall sales?

**Karuturi Chowdary:**

Out of overall sales, the ready-to-eat is Q2FY23 is 27%

**Jinal Sheth:**

And where do we see this in the next 3 to 4 years?

**Karuturi Chowdary:**

Well, we are also growing our capacity. So, we are confident that we will be able to maintain a 30% plus minimum, of course, our major product will be in ready-to-cook and further value-added products in the ready-to-cook. But with our added capacity of another 5,000 metric tons, we should look at between I would say a minimum of 30% and plus. So, as we concentrate more on those products, we will be focused mainly to produce and deliver those products into the market because that gives us better realization and better margins.

**Jinal Sheth:**

Lastly, on the inventory part, if I do look at the same 4 to 5-year period, there has been a surge in this as well. Any thoughts around that for me to understand what's the change there?

**Karuturi Chowdary:**

On the inventories, we have been working on bringing them down and we are bringing them down every quarter. We did use a good set of our older inventories, especially in Q2, and we are confident of further reducing our inventories and for the last 2 years, there is the specific impact on the inventories was also the COVID-related challenges primarily because of logistics and those issues which were there which was a major concern for the inventory buildup also. But this year, we have been focused and as situations improved over the last 6 months, we have been able to bring down our inventories, and we'll further be bringing them down over the next few quarters, and it will be coming down to a better position over next few quarters.



*Apex Frozen Foods Limited  
November 1, 2022*

- Moderator:** We have the next question from the line of Lokesh Maru from Nippon India Mutual Fund. Please go ahead.
- Lokesh Maru:** I have two questions. One is, since we have delivered close to 7,300 metric tons in the first half, any guidance on where do you foresee the next 2 quarters. Should they be equivalent or greater than what we have done for H1?
- Karuturi Chowdary:** As you know, Mr. Lokesh, the first half usually holds the better performance of the year. And even if you recollect from our previous quarterly con call, we did, in fact, give a guidance of a reduced number compared to what our original projection or estimate was in the beginning of the year, so which where we were looking at an export volume of around 14,000 metric tons by the end of the year. And currently, we are working in that direction, and we hope that we will be able to get close to that for sure, under the present circumstances.
- We are working with our customers very closely. And we are not looking at what numbers we originally expected in the beginning of the year, but pretty much would be almost similar. We wouldn't give you a forecast of a higher number than what we did in H1, if that's your question.
- Lokesh Maru:** Also on gross margins, just wanted to understand what are the drivers as such. Basically, the average gross margin for the last 5 years has been close to 32%. So, one driver, obviously, is the distributors in the U.S. and the competition there, the bidding there. Another is that pricing is done in dollars, right? And this pricing, which we do in INR, when we source our shrimps locally. So how do you balance or what is the target gross margin usually that you like to maintain as such in general?
- Karuturi Chowdary:** Actually, like you rightly asked, we do sell in dollars in foreign currency. However, our raw material costing definitely is based on Indian rupees as long as we source that product completely domestically. Now things could change if we also start sourcing product from overseas or some specific sizes from some other places or countries of origin.
- But getting to your question, we would be maintaining around the same rate as such, subject to, of course, factors like even the government policy with overall, how those factors also play but with also the incentives which are there with all that, that is which is an added support, which we also get. We have to consider our business, of course, as an incentive inclusive business. That's what we believe going in the present circumstances and the way things are looking ahead. So, we are pretty much confident that we could be maintaining at these levels, of course, subject to our planning also on foreign currency forward contracts and placing ourselves in a safer position.
- Lokesh Maru:** Lastly, on our expansion plans of the 5,000 metric ton line on ready-to-eat, is that commissioned? Are we utilizing it?
- Karuturi Chowdary:** We are awaiting the equipment yet. There were delays, and we are getting them. And as we also gave the guidance in the previous quarterly con call also that we would be getting it completely ready by December, hopefully. And the impact of it with all the trials done, and we will be looking at the impact of that capacity more towards the end of the financial year. So basically, by March 2023, we should be seeing the impact of it, where it means mostly in Q4 of the current financial year, where our ready-to-eat export volumes should be growing much further. It should be increasing much further that's what we should be looking at. But however, we are confident that it will be more effective from March 2023 onwards.
- Moderator:** We have the next question from the line of Depesh from Equirus Securities. Please go ahead.



*Apex Frozen Foods Limited  
November 1, 2022*

**Depesh Kashyap:**

Yes. On the RM prices, I wanted some clarity that the shrimp prices have started increasing from the month of August, right? And then they started to cool off in the month of October. So how many months of inventory are you still holding? So, do you think the margin will be better in the next quarter or you feel the same kind of margins that you saw in this quarter as well?

**Karuturi Chowdary:**

You have asked a valid point. You made a very valid point that from October onwards, the RM prices have been softening, of course, due to various other factors also overseas and all that demand and all that. Definitely, we should be looking at a better scenario from Q3, especially with the softening of the raw material prices, like you said. In our Q2, it was high. So, from middle of August to almost end of September, almost 50% of Q2 where raw material prices were high, which basically dented our margins for the Q2. But Q3 onwards, like you rightly said, our prices have been softening and we should be looking at better margins, for sure, compared to what it had been in Q2, that is very apt, very rightly pointed out, Mr. Depesh.

**Depesh Kashyap:**

Understood. Secondly, sir, there have been a lot of, I think, notices coming from the AP government to the industry very recently. So just want your thoughts on the recent circular that they are asking to pay Rs 20 extra for the shrimps you get from the farmers. So, what is the update on that? Are you guys actually paying higher to the farmers now?

**Karuturi Chowdary:**

So Depesh, along with the respective government as well as our industry, we want to support our primary producers who produce the shrimp products, aquaculture products. And without them, of course, our industry doesn't exist. Likewise, without exporters, the aquaculture does not grow because it's all mostly exported overseas. So, we go in tandem. However, factors like overseas demand, the currency appreciation or depreciation, government policies with regard to incentives or various government policies regarding trade barriers or non-tariff barriers, all these factors do play a role. So, at the end, it will be the various dynamics of the market conditions, which will be playing a role. And even though we would want to support, we also have to see what is being realized from the other side from overseas.

So, we all know, yes, we do definitely would have a better benefit at Rs 82 and plus per dollar today. But then, of course, we also have to see how the overall demand is structuring, out overseas supply from other nations from other parts of the world, and also, the consumption at the consumer level now typically posts September, October, the demand softens a bit, and it will be mostly picking up again during holidays.

So, these various factors are there. So, it is not like whether it is Rs 20 extra or Rs 10 extra. End of the day, it is these market factors, the dynamics which play a role. And like the producers also are business management and the processors and exporters are also businessmen. Each one's interests have to be protected to the best possible. And yes, we are supporting some of our farmers who are contracted with us prior in advance. So, I can't really comment as a general aspect.

Wherever we have prior commitments where our primary producers are having commitments to us and adhering to us for our size requirements, we are also keeping up with our commitments to such primary producers, such suppliers of us so that it is a win-win situation so that neither of us are affected. But in general, the market will go in the flow of how the market dynamics could go, right, which is a general scenario for the business. So, I wouldn't really make a comment on, I can't say that whether government asked for Rs 20 today or Rs 10 tomorrow, but end of the day, it is how the market flows. So, demand-supply always play the role, right? That is a major point which would be playing a role.

**Depesh Kashyap:**

Understood, sir. And also, I think in the previous question, you answered that you have done around 7,300 tons in the first half, and you expect the similar number for the second half also. Is that understanding correct, sir? That's what you said?



*Apex Frozen Foods Limited  
November 1, 2022*

**Karuturi Chowdary:**

Yes, that is what we said. We certainly like with the similar to the guidance what we provided in the previous quarterly Concall, we would be looking at around 14,000 metric tons. We are working in that direction. In the present, there are some issues which we are foreseeing in the demand also from the overseas side, but we are working with our customers to try and do that to the best possible. So, we are focused on that doing around 7,000 metric tons, at least that's for the remaining 6 months we are focused on that. But we do hope, but it is subject to conditions of supply. We don't know how the scenario is going to be in the fourth quarter at this time with regard to supply, right?

There are various factors which are also changing, where dynamics are also quite varying, which you know very well as you keep track of the industry. So yes, we are working in that direction with our customers as far as that is concerned.

**Depesh Kashyap:**

Sir, on the supply side, our understanding was that the second crop was harvested early because of some diseases, right? But then farmers also went for the third crop. So, the supply was expected to improve September, October onwards. Is there any change in that or the supply has not improved or has it improved? If you can just comment on that.

**Karuturi Chowdary:**

Supply is good at this time. The issue is more on our demand side where our customers are asking us to kind of hold shipments and kind of defer them by 4 to 5 weeks or 6 weeks, right now, they have a little bit of softening in their sales because of various economical-related issues, or whatever it is. And they are also expecting things to be improving, especially for the holidays starting from Thanksgiving time, which is mostly post November and the Christmas and New Year onwards. So, it is more to do with that. So as of now, supply is good currently as we speak. There are no issues. That's the reason that is the answer for your first question which you raised about softening of raw material prices, RM prices also are softening because of the supply being good.

**Depesh Kashyap:**

So, demand from the U.S. and Europe, we understand, but how about China, sir? Because China was under lockdown for many months, right? And now if they open up, I think the demand should have been very high because their supply is also under problems. So how is the demand shaping up from China?

**Karuturi Chowdary:**

Chinese demand has also been affected to a certain extent because China has not really pulled off from the zero-COVID policy completely, and there are still lockdowns in some areas. Added to that, basically the pull off of the products from the cold storages in China also has been quite slow for some period. And our consignments, even our company's consignments, which reached the destination were not able to make it to the final destination. They were stuck either in ports like Hong Kong or Shanghai for some period, which also delayed the deliveries to the customers, this happened primarily in the second quarter and even to some extent, this October month, for example.

So, there were some issues even related to China. But overall, the inquiries are there. But for them also, the inventory movement right now is a bit slow and a lot of products has been reaching China, it's like more of a pileup at the final destination because of the zero-COVID policy which China implemented or even continuing to implement even now in some of the final destination points, especially main ports like Shanghai and other ports like Hong Kong. So, there were issues. As those things ease out, for sure, and as they absorb those products even from the products which have already reached, for sure, things should be changing from there on.

**Depesh Kashyap:**

Understood. Sir, lastly, on the margin, sir, we did around 8% margin if you exclude the other income in this quarter. So, given that the incentives have decreased by 1.5 - 2% that the government used to give, and given the rupee wherever it is right now at





*Apex Frozen Foods Limited  
November 1, 2022*

Rs 82 versus dollar, how do you see the margin shaping up, sir? Do you think you can go back to around double-digit levels given that your value-added products also coming up, facility new coming up?

**Karuturi Chowdary:**

Yes. With regard to value addition capacity utilization, more towards the end of the current financial year. And if we are able to utilize it in a good way, it should be because that is definitely a big boost as such with better realizations and better margins. That will definitely help. And as far as the government incentives are concerned, the trade, the industry is working with the government in taking additional support. So, we are working with the government channels of improvising with additional support. And as we get support from government of India, which is also asking us to increase the export basket in general for seafood and shrimp also, of course, that will also be an addition to our overall margins for sure.

But considering in the present policy from our company side with the present government policy in place, more volume of our ready-to-eat products definitely would be helping us to at least be at that double-digit level. But again, we should see how things go by. Yes, with more ready-to-eat we can do, I think we should be able to maintain those margins for the volumes that we do by that time, for sure.

**Moderator:**

We have the next question from the line of Suhas Naik from Kridha Capital. Please go ahead.

**Suhas Naik:**

Yes. Regarding margins, see, already, we have got 7 - 8% depreciation of rupee in the last few weeks, actually. And in addition, all the headwinds that we faced in the last 2 - 3 years because of COVID or your container cost and freight cost and container availability plus the new government policy on incentives, all these are headwinds. Now a lot of tailwinds are behind us now like your markets are normal, pricing is good and also rupee has depreciated. So, with all these benefits that we have, why you are still saying we can at best reach double-digit? We should be doing much more in terms of margins; don't you think so?

**Karuturi Chowdary:**

Mr. Naik, you very much rightly said with all these COVID-related issues going behind and most of the headwinds going out of the way and having some good support with the tailwinds. Yes, like you said, even the freight costs, for example, are slowly coming down. Definitely when they go high, they go very fast. But when they come down, they'll be coming down in a slow manner, which is the case right now. Definitely, they are helping. But at the same time, we should not forget and ignore the fact about the impact of the overall global supply scenario, supply from other countries, whether it is countries like Ecuador or Indonesia, they are also placing their products in the same markets where we, say, our company or our country is also delivering, whether it is the U.S.A. or the EU market or even China, for that matter.

So, it is in a competitive environment. Definitely, we also have to keep that in mind. And if we have to talk about a country which produces, say, 1.2 plus million metric tons like Ecuador, definitely, we are going to compete with such countries, of course, while India is producing around 800,000 metric tons or 900,000 metric tons. Although the competition also plays a role and we keep that as a factor, which we will be watching definitely and because we are competing with them. So that is the reason I have mentioned to the earlier participant that we gave a more of on a conservative basis.

Definitely, as things would be better, our supply also improvising further and as things improve overseas, yes, we should be looking at higher margins. But in the present scenario, as we know how things are paving out with the supply coming in from other countries and the prices at which our competition from other countries is mainly our competition, Apex is competing with other companies in Ecuador or Indonesia, or Vietnam for that matter that also matters.



*Apex Frozen Foods Limited  
November 1, 2022*

Of course, on a side note, we are working with the government of India also and as many would be aware on the free trade agreements which are being that is with people, with countries like EU, U.K. and even the impacts of China. Once these are signed, that would give us an added advantage for sure because currently, our duties in these countries are ranging anywhere between 4% to 7%, while our competition like Vietnam, example, had 0%, so that definitely, currently, we are placed at a little bit of disadvantage.

I'm just saying that those are some of those key factors which will also play a role in the way our business moves, not only on volume, our customer is not willing to pay us more than a certain point because of this added burden of 4% duty, which they have to pay on our product. While they do not need to pay such additional duty or burden if they import a similar product, same product from a different country of origin like Vietnam, example, I'm just giving an example. So, these things also matter, and we are working very closely with the concerned ministry and the department officials in the government of India. And they are also very confident that these things will be in the making very soon, and we will be able to see the benefit of such FTAs too, not only with regard to our volume growth, but also like you precisely pointed out on the margin front also.

**Suhas Naik:**

Yes. The point I made in this because you are at almost out of Rs 43 crore of PBT, Rs 25, 26 crore is anyway by way of export benefits that we had received. So already more than 50% of our PBT is coming from incentive right now. And with value addition that we are talking about increasing as we go forward, what do you think in the next couple of years would be the sustainable margin in a, say, normal year?

**Karuturi Chowdary:**

With regard to incentives, the incentives have been part and parcel of our industry. And in fact, part of them is also passed on to the primary producers at times when the markets are not going in tandem. So why we are addressing this point about value addition and ready-to-eat, every quarter and every year is, naturally, it ensures or rather it protects us on margin front. And the more volume we do, it is going to give us better margins for sure. But definitely, please understand the incentives are not just something which are just adding to our profits.

**Suhas Naik:**

They're not adding to profit.

**Karuturi Chowdary:**

Yes. In fact, that is the big support, which the government has been providing indirectly to the farming community, the producing community also and the producers also. So that also is there. Please do not consider it as the major factor for our profitability alone.

**Suhas Naik:**

One last point about the sustainability and predictability of the business, where we are seeing quite a few volatility over the last few quarters or years. Now what do you see, do you have a barometer like what kind of ROE you can generate on this business? Or do you have to just treat it like a commodity and say, okay, I can't predict the percentage because every quarter is different depending on so many factors? Can this become much more predictable than this? My only point is can this become more predictable than what it is at this point of time?

**Karuturi Chowdary:**

Okay, the first point is our business activity does not go in tandem with the quarterly periods of the Indian financial year, I'm sorry to say that.

**Suhas Naik:**

No, I'm talking about annual only. I'm talking about annual rate only, no? I'm not talking about quarterly.

**Karuturi Chowdary:**

We look at it on an annual basis, except for the past 2 years, well, we have mentioned that time and again that our new facility, we started, unfortunately started in the wrong year. We had series of events which have happened, but which all got



*Apex Frozen Foods Limited  
November 1, 2022*

trashed out this year and like you mentioned, a lot of tailwinds added this year. And we have been looking for a stable and good year for sure.

So far, at least for the past 6 months, historically, it has been a good period in both volumes, revenue and of course, also on the profitability side, if you see the 6 months part. So, it's been good. And we have really been betting from the current year onwards at least the major chunk of problem going away, like you said. So, we are confident of growing further, improvising from here on. But if you ask me, how would we do it on a quarterly, no. But on an annualized basis, definitely, we are looking forward for a better improvement for sure, even on the margin front, as I mentioned. But however, please understand, factors like government incentives also do play a role. That's what we have been trying to reiterate.

**Suhas Naik:** So, you made a statement that 30% growth is what you are looking at or you're planning or probably I can say that your aim to achieve that 25% to 30%.

**Karuturi Chowdary:** So specifically, to that question was related to what extent of our ready-to-eat products, to what extent would we be selling our ready-to-eat products. That was the question from one of the earlier participants. And where we have mentioned that we are looking forward to have a minimum of 30% of our total sales today from our ready-to-eat products. That's what we said.

**Suhas Naik:** Okay. And in terms of the sales network, are we adding more markets and more distributors so that our volumes can get absorbed globally?

**Karuturi Chowdary:** Yes, sir. We are definitely adding and we are continuing to add. It's an ongoing process. And definitely, we are going to see the benefits of those too, for sure. We are adding. Yes. So, in our major markets as well as in all the other markets, which are currently have been untapped.

**Moderator:** We have the next question from the line of Yogansh Jeswani from Mittal Analytics. Please go ahead.

**Yogansh Jeswani:** Most of the questions have been answered. So, I'll just ask the follow-up questions which I have. So, if I want to just talk about this year, if I also go back to, say, 2018 onwards, so we have had a significant capacity in terms of unutilized capacity. And in past also, we have, I think, peaked out around 13,000, 14,000 kinds of volume. So, every time we see that the company tries to surpass the 18,000, 20,000 kinds of levels, but repeatedly, it gets stuck at 12,000, 13,000 kind of volume. So overall, for a 4 – 5 year period engine, what has been your experience? Is it a supply side issue that comes in, in that, probably in that region and the supply side gets into trouble? Or is it something which is in terms of the execution side that we have missed out in a couple of times in the past? So just your thoughts on why have we been able to repeatedly miss out on volume growth for 4 to 5 years.

**Karuturi Chowdary:** Sure. Mr. Jeswani, first thing is the company did not have access to 15,000 metric tons plus capacity from 2018. With FY'18, our 15,000 metric tons was the highest. That was in that date at that point, we did our highest volume in FY'18. Post that, we did not have access to that complete capacity, which we had. Remember, we had only leased capacity from 2014 almost till end of 2019. So, there were constraints with regard to utilization of our capacities at that point of time. Finally, when we got our own capacity installed and it was completely available from FY'21, to be precise, which was 2 years ago, as you remember, we have got our own capacity of this 20,000 metric tons, which also had ready-to-eat, it was fully available, which I also mentioned to the earlier participant, it was available from March 2020. Basically, FY'21, it was completely available.

But however, even though the company would want to do higher volume, wanted to do, its order book was very firm, and it was very good. In both the financial years of



*Apex Frozen Foods Limited  
November 1, 2022*

FY'21 and as well as FY'22, the challenges which have been brought forward and have been informed to many of the participants who are on the call today, primarily attributed to the logistical challenges where we could not make our shipments in time for the past 2 years. In fact, several of our shipments got delayed, even they've got delayed even into this year, and we have delivered them.

So, the major issue was there was a point where we could not produce more than what we could ship out because there are limitations. When you cannot make the sale, then you cannot ship out the product which you produced. It's basically, automatically, put the cap to what you can produce further even if the supply was good, right? So, at that time, from FY'21 onwards, when we have this 20,000 metric ton capacity, we could not really utilize it in the right manner.

The major point, the major issue between FY18 to FY20 was we were still on a 6,000 metric ton leased capacity, which we were partially utilizing because there were constraints there. That was the major issue. And FY'20, have we not had the issues of logistical issues where we could not do shipments, we could not basically deliver our products to our customers because of equipment issues and all that, which we have been discussing over the past 2 years, and now we strongly believe that we don't need to discuss those anymore because those problems are not there anymore, at least for sure, we have seen lot of cooling off even on the freight rate's part.

So that is the major change what we could notice. We knew that in the beginning of the year itself, that we could see that change this year. And that's why our sales volumes definitely increased compared to last year, so far in the first half, as you can see. And from here on, we are confident with availability, access to such capacity and also with that enhancement of ready-to-eat capacity to which we are doing currently, which will be available by the end of December and it will be available for sure. On the financial terms also, it will be available towards the end of this financial year.

We are fairly confident that we could do more volumes for sure because there are no more capacity constraints. And as long as the supply is stable and as we work more with existing as well as new customers, which we pointed out to one of the earlier participants, we are confident that we'll be able to maintain a stable growth. But in our industry, by now, it is very clear that some factors sometimes do play a role, whether it is disease or certain government policy decisions. And when we say government policy, it needn't be restricted only to government of India, please understand. We are selling to overseas markets, which also definitely have a bearing. For example, if the FTA signed, you will no longer be charging us 4.3% on our products, for example. If China stops checking for COVID traces on packages, again, so there are other issues also which play a role in general.

But as far as our company is concerned, our capacities are good, and we are utilizing them. We are continuing to focus on increasing our capacity utilization further, and we'll continue to put in all our efforts from this. We wouldn't say this when we are renting out almost 35% to 40% of our capacity prior to 2 years ago, if you remember, between FY19 and FY20, both those years, we were still in a rented leased premises at that point of time.

**Yogansh Jeswani:**

Understood, sir. Point well taken, sir. I appreciate your response. Sir, secondly, given the interventions that we are seeing of late from the government, both in terms of like asking the industry to roll back price hikes, say, for example, for seed or give higher prices to shrimp farmers for the produce to couple of years when such kind of interventions weren't there. Well, now the industry overall in the state has become such a big contribution that the time and again these interventions are coming in. So, what as per you is the impact of it in terms of the sentiment for the overall industry and the industry players like you? And also, how it is hampering your operations, if



*Apex Frozen Foods Limited  
November 1, 2022*

you could throw some light on it. And do you anticipate this to increase further such regulations and such internals or do you think this is a one-off and it will reduce going forward?

**Karuturi Chowdary:**

Well, Mr. Jeswani, it's a continuous dialogue, which the industry as such has with the respective governments of the respective states. And there, naturally, as I mentioned to the earlier participant, we basically want the primary producers to be doing well because without the primary producers, this sector is not there. And at the same time, the processing and exporters are also needed to export that product, which is produced within the country. So naturally, everybody's interest is to make it a win-win situation for everybody in the supply chain.

However, there are times where things could be a little negative or like there could be headwinds on each segment, sometimes whether it is the input costs increasing or whether it is a realization coming down because of various factors. So, well, the government want to protect naturally the primary producers also, but they are also understanding that whether it is primary producers' business, or the processing and exporters' business, end of the day, it is business and various factors play a role. We are also understanding, we are bringing it to their notice that this has got to do more with global demand-supply situation and nothing to do with local dynamics alone, especially when the product of this sector is dependent on overseas business.

I mean it is not like rice or some other commodity, which is domestically sold, which they're also understanding. The growth of aquaculture in our state and in our country, predominantly has been mainly because of export. If export markets were not there, this aquaculture growth also will not have been there, right, only considering the domestic consumption or domestic market alone. So, they are also understanding. We are bringing it to their attention, too. And so far, and we understand that they also kind of understand our trade well so far.

Beyond that, I wouldn't be able to make much comments about what they are doing. We'll continue to put in our efforts to make everybody understanding within the supply chain and as well as the respective government bodies that this is more to do with dynamics overseas, if any changes in pricing, etc, which are there. So, we are working with them also on efficient production and reducing of cost, the primary producer level. All those things are in negotiation. Those discussions are happening in the background.

**Moderator:**

We have the next question from the line of Bala Murali Krishna, an individual investor. Please go ahead.

**Bala Murali Krishna:**

I have one question regarding this capacity utilization. So as of now, in this year, we are planning for around 14,000 metric tons. At the end of the year, we'll be having capacity of around 30,000 metric tons. So, by which year, we may reach this to 100% or at least in capacity utilization at least.

**Karuturi Chowdary:**

Yes. Currently, we have 29,000 metric tons. And to correct you, by the end of the financial year, we are going to have 34,000 metric tons inclusive of 10,000 metric tons of ready-to-eat. And when I was answering that to one of the earlier participants that we are putting in our efforts to do 14,000 metric tons of sales volume, that was more to do with sales spot. Of course, production, we could be doing higher too. But as far as going to utilizing 80% of the capacity, given a choice, FY24, given a choice, if it really comes to a stage where we need to utilize more of ready-to-eat, we may be utilizing more of ready-to-eat capacity even if it is at the compromise of ready-to-cook because it makes a natural business sense. I mean, I'm just answering your question indirectly that we would be looking forward to utilize our capacity to the optimum level of 70% to 75% at least. And even like you said, 80%.



*Apex Frozen Foods Limited  
November 1, 2022*

100% is not something which is done with regard to processing as such because of various maintenance and other related issues. But however, we will be looking forward to do that as the markets play next year. So of course, our focus will be more to utilize our ready-to-eat capacity for sure. We'll be working. And normally, in a given scenario, we should be utilizing the optimum capacity within 2 years, I'd say, considering from this year when we started really utilizing, post all these other issues going by all the headwinds going away like one of the participant has mentioned. We should be able to have been utilizing at least our existing capacity to the optimum by end of next year.

Now we are also adding another 5,000 metric tons. So, we should look between FY24 to FY25, we should look at that 70% - 75% for sure. But again, as I said, if the situation warrants and if there is a situation where we need to prioritize one over the other, even if it is at a compromise of ready-to-cook capacity, we will be utilizing our ready-to-eat capacity to the highest level.

**Bala Murali Krishna:**

Yes, that's a direct explanation. I met few farmers in our area who are producing shrimps. As per their feedback, the feed rate is very much higher, that he is not able to generate much profitability through this farming. So, they are all reluctant to increase the farming capacity also. So do you have any thoughts on further on this because to increase our production capacity, we need more raw material. From farmer side, there is some reluctance in increasing that shrimp capacity, production capacity and also, we'll face a problem?

**Karuturi Chowdary:**

Okay. Apex Frozen Foods doesn't produce feeds, So I wouldn't be able to comment much on the feed cost. But yes, as any business entity is concerned, they need to look at minimizing their cost and trying to improvise on their efficiencies and safeguard their margins. Similar way, even our primary producers who are actually, as I said, who are also business men, they also would have to focus on improvising their efficiencies and reducing their costs as a company for sure, like any business entity.

And getting to your question that if the primary producers don't grow the shrimp, then our capacity utilization could get constrained. I think we indirectly answered that earlier to one of the participants. If at all, there is a situation, we are also open to importing our raw materials from other cities of origin, if need be. And if some sizes are really required, which are not able to produce domestically, we would definitely be considering such situations, such proposals too. And so if at all, there are any sort of supply constraints going forward, whether it is sometime next year or whenever it is, we need to bring in raw materials from outside, we would also be considering that, if at all such a situation come, but we are hopeful with all the support and coordination from the government departments, both state as well as central government and they also want to increase the aquaculture supply and hopefully, the primary producers also focused on cost reduction by improving their efficiencies. We are confident that we should also be surpassing 1 million metric tons from India and looking at further growth. So, for now, we are hopeful with all the efforts which are being placed, we should wait and watch for the results at the time though.

**Moderator:**

Ladies and gentlemen, this will be the last question for today, which is from the line of Vignesh Iyer from Sequent Investment. Please go ahead.

**Vignesh Iyer:**

Sir, I just want to know what percentage of the Q2 revenue would be ready-to-eat and also the EBITDA margin, if I consider ready-to-eat a separate segment, what would be the EBITDA margins coming out of that, specifically?

**Karuturi Chowdary:**

Currently, for the Q2, we have had 27% of our total sales from ready-to-eat as far as total numbers, I think. And on the whole year, I think it was 25%. But the thing is, with regard to the margins, we usually have ready-to-eat products providing us anywhere between like 50 to 60 cents per kilo additional margin over ready-to-cook



*Apex Frozen Foods Limited  
November 1, 2022*

just as a general thumb rule. That's what we work on, but again, subject to factors, but it is additionally 50 to 60 cents per kilo.

**Vignesh Iyer:**

Yes, I understand. 50 to 60?

**Karuturi Chowdary:**

Cents per kilo.

**Moderator:**

As that was the last question for today. I would now like to hand the conference over to the management for closing comments.

**Karuturi Chowdary:**

Yes. Thank you, Michelle. Thank you, one and all, for attending our Q2 & H1 FY23 quarterly con call. And we do hope you all keep safe and healthy. And for any queries, please do write to [ir@apexfrozenfoods.com](mailto:ir@apexfrozenfoods.com). Thank you very much, and have a nice day.

**Moderator:**

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