

February 28, 2023

To
The Deputy General Manager,
BSE Limited,
1st Floor, New Trading Ring,
Rotunda Building, P.J. Towers,
Dalal Street, Mumbai – 400001
Maharashtra, India

BSE Code: **512573**

To
The Listing Manager,
National Stock Exchange of India Ltd.,
Exchange Plaza,
Bandra (East),
Mumbai – 400051
Maharashtra, India

NSE Symbol: **AVANTIFEED**

Dear Sir/Madam,

Sub: Transcript of post earnings Audio Conference Call for Q3 FY 2022-23.

Further to our letter dated February 23, 2023, we enclose herewith the transcript of post earnings Audio Conference Call for Investors held on February 22, 2023, in connection with unaudited financial results (Standalone and Consolidated) of the Company for the quarter and nine months ended December 31, 2022 and the same will also be available on the website of the Company at **<https://avantifeeds.com/corporate-announcement/Investor / Analyst Corner>**.

This is for your information and record.

Thanking you,

Yours faithfully,
For **Avanti Feeds Limited**

C. Ramachandra Rao
Joint Managing Director,
Company Secretary,
Compliance Officer & CFO
DIN: 00026010
Encl: As above



Avanti Feeds Limited Q3 FY23 Earnings Conference Call

22nd February, 2023, at 04:00 PM (IST) for a duration of 65 Minutes

CORPORATE PARTICIPANTS

- 1. Mr. A. Indra Kumar**
Chairman and Managing Director

- 2. Mr. C. Ramachandra Rao**
Joint Managing Director, CS & CFO

- 3. Mr. Alluri Nikhilesh**
Executive Director - Avanti Frozen Foods Private Limited

- 4. Mrs. B. Shanti Latha**
General Manager - Finance and Accounts

- 5. Ms. Lakshmi Sharma**
Sr. Manager - Corporate Affairs

Moderator

Good evening, ladies, and gentlemen. I am Vidya, moderator for the conference call. Welcome to Avanti Feeds Limited Q3 FY23 Results Conference Call, hosted by Kfin Technologies Limited. We have with us today from the management Mr. A. Indra Kumar, Chairman and Managing Director; Mr. C. Ramachandra Rao, Joint Managing Director, CS & CFO; Mr. Alluri Nikhilesh, Executive Director of Avanti Frozen Foods Private Limited; Mrs. B. Shanti Latha, GM-Finance and Accounting; and Ms. Lakshmi Sharma, Sr. Manager-Corporate Affairs.

As a reminder, all participants will be in listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need any assistance during the conference call, please signal an Operator by pressing * then 0 on your touchtone telephone. Please note this conference is recorded. I would now like to hand over the floor to the management. Thank you and over to you sir.

C. Ramachandra Rao

Thank you, Vidya. Good evening, ladies, and gentlemen. I extend a warm welcome for all, for this investor conference call to review the unaudited financial results for the Q3 FY23. Along with me here are Mr. A. Indra Kumar, Chairman and Managing Director; Mr. Alluri Nikhilesh, Executive Director of Avanti Frozen Foods Private Limited, joining from France; and other team members. The results of Q3 FY23 already are published from sometime now and we are sure that you would have gone through them.

However, I would like to share with you some of the key indicators relevant for our discussion today.

CONSOLIDATED FINANCIAL RESULTS FOR Q3 FY 23:

(A) Q3 FY 23 RESULTS

The comparative performance of Q3FY23 with that of Q2FY23 and Q3FY22 have been given in the presentation already circulated. Gross Income in Q3FY23 is INR1,132 crores as compared to INR 1,349 crores in the previous quarter Q2FY23, a decrease of INR 217 crores by 16%. Compared to Q3FY22 gross income of INR 1,088 crores, there is an increase of INR 44 crores by 4%. The PBT is INR96 crores in Q3FY23 as compared to INR 90 Crores in Q2FY23 an increase of INR 6 Crores by 7% and compared to Q3FY22 PBT of INR 66 crores, there is an increase of INR 30 Crores by 45%. The consolidated results indicate net impact of several factors, such as increase/decrease in income, expenditure and exceptional item etc., relating to Feed

and Frozen Food divisions which have been discussed in the following divisional performance of these units, individually.

STANDALONE FINANCIAL RESULTS OF FEED AND PROCESSING DIVISIONS

A. FEED DIVISION:

Q3FY23 RESULTS

The gross income for the Q3FY23 is INR 878 crores as compared to INR 1040 crores in the previous quarter of Q2FY23, decreased by INR 162 crores representing a decrease by 16% mainly due to decrease in quantity of feed sales and early harvesting on account of disease, rains, decrease in farm gate prices of bigger size shrimps compared to smaller size. The gross income in Q3FY23 increased to INR 878 crores from INR 819 crores in the corresponding quarter of Q3FY22 increased by INR 59 crores representing 7%, due to increase in sales realization.

The PBT for the Q3FY23 is INR 70 crores as compared to INR 52 crores in Q2FY23, an increase of INR 18 crores by 35%, mainly due to stabilization of prices of major Raw Materials. The Feed sales reduced to 1,06,313 Mts in Q3FY23 as compared 1,26,034 Mts in Q2 FY23. The PBT in Q3FY23 has increased by INR14 crores from INR38 crores in Q3FY22, representing by 37%.

As you know, the cost of raw materials constitutes major share of cost of Feed production, particularly, Fishmeal, Soyabean Meal and Wheat Flour. The average raw material cost in terms of percentage over feed sale price was 83.61% in Q3FY23 as compared to 87.40% in Q3FY22 and 88.11% in Q2FY23, indicating a marginal decrease by about 3.79% as compared to Q3FY22 and 4.5% in Q2FY23. The average cost takes into consideration volatility of the major raw materials like Fishmeal, Soyabean meal and Wheat Flour, sometimes increase and sometimes decrease during respective quarters The present rates of Fish meal, Soyabean meal and Wheat Flour are INR 110/-, per Kg, INR 57/- per Kg and INR 36/- per Kg, respectively.

Export of Fishmeal from India:

The export of Fishmeal from India to countries like China, Taiwan, Vietnam etc., has gone up steeply over the past 8 to 10 months, creating shortage in Fishmeal for domestic consumption. The spurt in demand for exports is due to increase in import of Fishmeal from India by China, Taiwan and Vietnam etc., due to shortage of production in Peru and also higher ocean freight from Peru compared to imports from India. Added to this, the Indian Rupee (INR) has been depreciating against USD giving

a higher sales realization to Indian exporters further the exports are incentivized by Duty Drawback @ 2.95% on FOB Value and @ 2.30% of RODTEP. The Fishmeal production in India is about 3.75 – 4 lakh Mt per annum and Shrimp Feed Industry consumes about 3 lakhs Mts per annum for feed production i.e. 75% - 80% of Fishmeal is required for feed production in India. With the present trend for export demand, almost 3 – 3.5 lakh Mt per annum are likely to be exported. This is of great dis-advantage to the domestic consumers of Fishmeal, creating shortage and pushing up the domestic prices. To mitigate this hardship, the Govt. of India is being approached to initiate measures to safeguard the domestic Shrimp Feed manufacturers in the interest of Shrimp exports earning valuable foreign exchange. In this context, it is pertinent to mention that the recent budgetary decrease of Customs Duty on import of Fishmeal to 5% from 15% is not significant and advantage to the domestic consumers.

Wheat Flour Price:

Like Fishmeal, Wheat Flour prices also increasing steeply which appears to be due to inconsistent policy of exports of Wheat and Wheat products during 2022. In anticipation of allowing exports of Wheat and Wheat products, the traders seem to hoard these products, resulting in increase of Wheat Flour price.

In order to check the rising domestic Wheat and Wheat products prices, on 25th January'23, the Govt. of India announced the sale of 30 lakhs tons of Wheat in the open market. Again, yesterday i.e. 21st February'23, the Centre announced sale of an additional 20 lakh tons Wheat in the open market to further bring down the retail price of Wheat and Wheat Flour. The Govt. has decided that State owned Food Corporation of India will off load an additional quantity of 20 lakhs Mt of Wheat under Open Market Sale Scheme. Further, this year (2022-23 crop year) the Wheat crop also estimated to rise to 112.18 Mn tons as compared to 107.74 Mn tons in the previous year (2021-22 crop year).

It is expected that the Wheat Flour prices will soften and stabilize, hereafter.

To sum up, I would like to share with you that the prices of these major raw materials along with related products like Fish oil, Soya Lecithin etc., keep changing from time to time depending upon the seasonality, production, global trends etc., which has direct impact on the raw material cost of the feed, beyond the Company's control.

B. SHRIMP PROCESSING DIVISION:

Q3FY23 RESULTS

- The gross income for Q3FY23 is INR 256 crores as compared to INR 310 crores in Q2FY23, a decrease by INR 54 crores representing 17.7% due to decrease in sales volume by 627 MT representing 18%. The significant reason for lower sales volume in Q3FY23 is postponement of shipments on Buyers request because of inventory holding at their warehouses.
- The gross income in Q3FY23 decreased to INR 256 crores from INR 270 crores compared to corresponding quarter Q3FY22, a decrease of INR 14 crores representing 5.2%. Though Sales volume decreased by 18.2%, gross total decreased by 5.2% only, due to positive impact of increase in average export realisation by \$ 0.29 per Kg and foreign exchange gain due to depreciation of INR against USD.
- The PBT for the Q3FY23 is INR 30 crores as compared to INR 40 crores in Q2FY23, decreased by INR 10 crores which represents 1.1% over gross income, mainly due to decrease in sales volume and average sales realization by \$ 0.32/kg. Having said that, the PBT has not decreased proportionately with gross income reduction. The Company could able to maintain the PBT owing to increase in foreign exchange gain and marginal decrease in ocean freight cost.
- The PBT in Q3Y23 is INR 30 Crores increased from INR 26 Crores in the corresponding quarter Q3FY22.

Provision for Recall Expenses in the Financial Statements:

In Q3FY23 Financial Statements, an additional provision of INR 1.52 Crores have been made as an exceptional item towards value of returned/destroyed product and other related expenses, with cumulative provision of INR 35.62 crores till 31st December'22 out of which an amount of INR 31.56 crores has been paid on the basis of claims leaving the balance INR 4.06 crores as a provision in the Financial Statements.

As regards the product liability claims for bodily injury caused by consuming Company's contaminated product under the recall, the Company's insurer, New India Assurance Company has appointed a Surveyor for processing of the claims. So far the Company has received 13 claims towards bodily injury which have been forwarded to the insurance surveyor for processing. Since the liability has been covered under Commercial General Liability Insurance Policy, no provision has been made in the financial statements. The extent of claims in financial terms is yet to be ascertained.

INDUSTRY OVER VIEW – FUTURE OUTLOOK:

You may notice that in Q3FY23, Feed Division resulted in an increase of profit though the sales have decreased, mainly due to stabilization of prices of major raw materials during the quarter.

The Shrimp exports have also decreased in Q3FY23 compared to Q2FY23.

The later part of the year 2022 experienced severe stress on the Shrimp Culture industry by decrease in production of shrimps, farm gate prices going down, global recession etc., The year 2022 ended with, rather a disappointing note for these reasons.

2023 Budget support to the Industry:

As far as import duties and GST are concerned, the Aquaculture Industry did not receive much support from the 2023 budget presented on 01st February'23 by the Hon'ble Finance Minister, except the following:

- The import duty on Fishmeal has been reduced to 5% from 15%. However, this decrease has not helped the Feed Industry, as explained earlier.
- The import duty on Fish Lipid Oil for manufacture of Aquatic Feed has been reduced to 15% from 30%. However, this decrease is not helpful to the Feed Industry, on the same lines as Fishmeal, explained earlier.
- The import duty on Krill Meal for manufacture of Aquatic Feed has been reduced to 5% from 15%. This also is not of much help since the imported Krill Meal cost is very high even after 5% duty.
- The import duty on Vitamin & Mineral premixes used for manufacture of Aquatic Feed has been reduced to 5% from 15% which has provided a marginal benefit to the importers of Vitamin and Mineral Premixes used for Feed manufacture.
- The import duty on Algal Prime(Flour) for manufacture of Aquatic Feed has been reduced to 15% from 30% providing a marginal relief.

The quantity of Vitamin & Mineral Premixes, Algal Prime (Flour) used in the Feed is not significant and as such the decrease of duties by 10% / 15% does not give much relief as expected by the Feed manufacturers.

Continuing this outlook, the year 2022-2023 started on a low key. The farmers did not show much interest and are reluctant to stock the seed which otherwise would have started now briskly. As per the information available, upto mid-February'23, the stocking was 5700 Mn Seed as against 7800 Mn Seed during the corresponding period of previous year according the stocking went down by 26.92% in the first 45 days of the year. However, as the farm gate prices of shrimps is increasing, the farmers are looking for stocking from March'23 onwards. It is anticipated that the shrimp culture will pick up from March'23 to make up the shortfall in first two months.

However, to be cautious, with global economy looking bleak with recession looming large throughout the world.

The Shrimp production in 2023 is likely to around 8.5 lakh Mt as against 9 lakh Mt in 2022.

SHRIMP PRODUCTION AND FEED CONSUMPTION IN FY22 AND COMPANY PLANS FOR FY23:

SHRIMP FEED CONSUMPTION:

Though, at the start of the first season, the Shrimp Feed consumption in CY22 in India is expected to grow by about 15% compared to CY21, with an estimated sales of 12 lakh Mts. However, due to the various reasons stated earlier the shrimp feed consumption in CY22 is now expected to be at 9.75 – 10 lakh Mts, as compared to 11 lakhs Mts in CY21.

The Company's feed sales during the FY22 was about 5.41 lakh mts as compared to 4.73 lakhs mts in FY 21. It is expected that for FY23 it would around 5 lakh Mt unless the shrimp culture in the rest of the year goes down steeply due to uncontrollable reasons.

The company has completed setting up of a new Shrimp Feed manufacturing facility in Bandapuram with annual installed capacity of 1,75,000 Mt with a CAPEX of INR125 crores. The new facility has commenced commercial production in December'22. With the new plant commencing production, there would not be short supply of Company's feed during the peak season this year, as in the previous year, which has resulted in short supply of Feed to the market to the extent of about 50,000 Mt.

SHRIMP PROCESSING & EXPORT:

The country's Shrimp production and export has come down in CY22 to about 6.00 – 6.50 lakh Mts, as compared to 7.00 to 7.50 lakh Mts in CY21.

The Company's Shrimp exports during the FY22 was about 12,836 mts as compared to 11,518 mts in FY21. It is expected for FY23 would be around the same level of 12,500 mts.

Avanti Frozen is in the process of expanding pre-processing and main processing as detailed:

1	Pre-processing facility in Gopalapuram (adjacent to the existing Processing plant).	Completed and awaiting final approvals to start Pre-processing with a Capex of INR 11.43 crores.
2	New processing plant and cold storage in Krishnapuram, East Godavari District with 7000 MT p.a. capacity.	Land acquired and Civil works commenced. The Estimated cost is INR 64.6 crores.

Company has been selected under two investment Incentive Schemes of the Government of India:

- 1) Sales based incentives under “Production Linked Incentive” Scheme and
- 2) Grant-in-Aid under “Operation Greens – Long Term Interventions” Scheme.

Production Linked Incentive Scheme:

- Company is eligible for incentive of 6% (Value Added Products 10%) on incremental sales over a period of 6 years from the FY2021-22 to FY2026-27, subject to maximum of INR 79.44 Crores with minimum 5% CAGR in Sales.
- The Company has made a claim application at 6% on the incremental Sales of INR57 Crores for release of incentive under PLI for FY22 and it is under review by the Ministry, this is not accounted in the books of accounts. As per the policy of the Company, such accounting will be done based on receipts.

Operation Greens Scheme:

- Approval from GOI for Grant-In-Aid, for the proposed investment in New Shrimp Processing Plant at Krishnapuram, have been received in December'22.
- Maximum Grant-in-Aid under the Scheme is INR 10 Crores.
- Grant-in-Aid will be released in 3 installments. Application for disbursement is required to be submitted 8 months, 16 months and 24 months after the date of approval of the project.

The outlook for coming quarters for the feed processing division appears to be promising on account of softening of the ocean freights, increase in value-added products, exports and also with the Chinese market promising we just hope that the processing division would do better in the coming quarters.

I think with this I close the big background with the setting the ground for discussion. Now we'll go into the question-and-answer session.

QUESTIONS & ANSWERS

Moderator

Thank you, sir. Ladies and gentlemen, we will now begin the question-and-answer session. If you have a question, please press * and 1 on your telephone keypad and wait for your turn to ask the question. If you would like to withdraw your request, you may do so by pressing * and 1 again. We will wait for a moment while the question queue assembles. The first question comes from Onkar Kulkarni, from Sri Investments. Please go ahead.

Onkar Kulkarni

Hello. My question was regarding, just now you mentioned that with the softening of raw material prices the future seems to be bright. So, what do you think, what could be your margins in the medium to long-term? I mean, we are not able to gather, like what kind of margin percentage you can deliver in the mid to long-term because of so much of volatility in all the things.

C. Ramachandra Rao

I think the question has to be split into two, one is about the feed, the other about the processing. Let me first take up the feed division. As I explained very clearly in my presentation that the raw material prices are likely to come down for further reason. But it is very uncertain, it will come down and what extent we'll be able to take advantage of that, these are all the factors which will only can be answered in the due course. The decision of the Government to release the 30+20, about 50 lakh tons of wheat, it has come very recently. So, we have to see how the market is going to react for this, whether the prices are going to come down or how it is going to happen.

Similarly, we are trying to see the exports; the fish meal has really created a great disadvantage for domestic consumers like the shrimp feed producers, because the prices are very high, export prices which we are giving it about INR 150. So, they're selling at INR 110 per kg now, fishmeal. So, whatever amount of the concession, the difference is so huge that to divert them some Government has to come with a very strategic planning to provide the comfort to the domestic industries as far as the availability of fishmeal is concerned. We are working on that. So, like soya bean is also like that. Yesterday, the prices have gone up again on soya bean meal. The reason is not known, why it has gone up.

So, these are all. As we have been telling almost in every investor's call that these raw materials are very highly volatile, and it is very-very difficult to give you a precise margins this is going to result in. And on the other side as you know that the pricing of feed is also not totally free from certain conditions, regulations by the Government. So, on the both sides we have very stringent conditions whereby we are operating. So, under these circumstances it is very difficult for giving you any specific percentage of the profit margin. Coming to the question of processing. Here also there is always a mismatch between the raw materials, the farm gate prices and the final export price. So, there also we try our best to reduce our cost of processing and maximize the profitability. I think Mr. Indra Kumar, our CMD, will explain more on this aspect.

A. Indra Kumar

Everything depends on the international market situation and the openings of the different markets. As of now, because the recession and inflation across the world, there is a pressure on the prices, and definitely within another two-three months that would come to normalcy, and in the US already they have huge inventories. And because of China declared a complete lockdown and lifted it only in the month of December. So, there has been no item was exported to China because of the lockdown and they declared 100% lockdown. Because of that there was turbulence in the market because China they are the second largest importer of seafood, mainly shrimp.

With the lockdown declaring on the exporting countries and exporters, we have looked into civil market of America, US. And as everybody knows about the Russia and Ukraine war, the European market is also very volatile. Definitely, because of that the shrimp farmers were little skeptical of stocking in the beginning of the year i.e., January, but slowly they're coming back for stocking. The prices seem to be stabilizing. And as of now, since our company is concentrated more on value-added products, we are able to sell and the margins are quite reasonable. And if we look at the supply and demand, the supply of shrimp for the processing plants is very low because in the end of 2022 because of the Cyclones, the disease and also the Chinese lockdown different, the farmers were low in stocking and so that the raw material availability has come down right now. Slowly the farmers are going back to stocking and it will stabilize.

Onkar Kulkarni

Okay, this is about the margin. But, what about the revenue front? I mean, with all the headwinds you have, what kind of revenue you are expecting for medium term, given the market conditions?

A. Indra Kumar

See, the revenues will be the same as last year maybe there won't be much increase. The revenue maybe around 5% or 10% more or similar as last year because seeing the entire world situation we cannot expect much jump in the revenues.

Onkar Kulkarni

Here I am asking you about overall revenue.

A. Indra Kumar

Yes, overall revenue. Yes.

C. Ramachandra Rao

Yes, most of our customers are a longstanding customer and they have tie ups, they are in the US long time, so we are able to cater to them. They are more consistent buyers So, as far as their demand for the product or say exports for the company is concerned, we do not foresee any big headwinds in the export market as far as the company is concerned.

Onkar Kulkarni

Yes. But my question was regarding a little bit long term, around two to three years, what kind of revenue you are expecting given all the headwinds you have?

A. Indra Kumar

The company is working on increasing the revenues. That's why we are expanding the production capacities and also going in for the value-added products and we have to see the market, situations and other situation.

Alluri Nikhilesh

Yes, just to add in on the long-term for two-three years, we are adding an additional capacity to produce more value-added products. And once we do that, these kind of value-added products require high pre-processing activity, because a lot of the preparation is being done in-house so the consumer can consume the product without

much preparation on their side. So, that's the reason there why we're expanding the pre-processing capacity. So, on two-three years horizon we have already started taking in new product orders. We have already started shipping out some of these orders that the market needs to develop for these orders, and we need to develop the recognition in the market for these kinds of products.

The trial orders have already started going out. So, for two-three years horizon, when it becomes fully commercialized, it would provide higher revenues in this segment. We've started two to three categories of value-added products which need to get into full commercialization. Once they do, we can expect a higher level of realization from the current level and also an increase in revenue. But the quantity could not increase as much the volume because we're producing high-value products, so the quantity might not increase as much, but the value will increase.

Onkar Kulkarni

With the additional capacities commencing very recently, what kind of asset ton you're expecting on them? Asset turnover ratio. How much your revenue could increase because of those additional facilities coming in?

Alluri Nikhilesh

It's very hard to put a number to it right now because like I was saying it's a step-by-step process, it's a new product that we're introducing into the market. So, we need to gain recognition for producing such kinds of products. So, I wouldn't put a number to it right now. But I would say as for the strategy is to diversify our product portfolio to enable higher margins and revenue. So, right now, I can't put a number because we are in very early stage of even the construction.

Onkar Kulkarni

Okay, that's for processing. But as far as this feed is concerned, your capacities have gone up, right? You have recently increased your capacities. So, on that also how much revenue you can produce with those increased capacities?

A. Indra Kumar

We have increased the capacity to 1,75,000 tonnes because of the product mix. And now what has happened, see, we have to upgrade the technologies what is required by the customer. So, we are gearing up to that, and definitely last year in 2022 we could not supply to our customers because we didn't have capacity. So, we have increased

the capacity, and also due to the product mix, what the product mix what we are trying doing in the market to the current requirement of the customer, say, we are gear up for all the products what is required for the shrimp culture.

In fact, say for example, earlier we used to supply the starter feed in a crumble form. Now, we are doing it in a pellet form. So, the productivity will come down, but the growth of the shrimp will be much better with the good FCINR There's a little bit apprehension by the farmers which they're coming out. So, as on the shrimp culture increases we can increase our revenues.

Onkar Kulkarni

So, at full capacity utilization, how much more revenue you can generate with additional capacity?

A. Indra Kumar

At full capacity we can generate around, I think, 25% more.

Onkar Kulkarni

Sorry, I missed the number. I missed the number which you talked about. Can you please repeat?

A. Indra Kumar

25% more on this.

Onkar Kulkarni

Okay. Another question which keeps coming back to the management for last say two-three years is the utilization of cash and there have been plans about entering into new segments which haven't fructify. You haven't been utilizing cash.

A. Indra Kumar

Yes, Mr. Kulkarni, we have expanded with our own generation and we require the funds for the working capital. Working capital requirement in this industry is very high.

Moderator

Sorry for interrupting you, sir. I request the participants to restrict with two questions in the initial round and join back the queue for more questions.

Onkar Kulkarni

Yes, I will join back the queue, but let the management answer the current question at least.

A. Indra Kumar

The capacity increase and the markets what we are planning to expand into the new segments which requires a lot of study because of the COVID reason or different market position we have to go carefully.

Onkar Kulkarni

Plans are still on, you mean?

A. Indra Kumar

Yes, plans are still on.

Onkar Kulkarni

And how much progress has been made about that?

A. Indra Kumar

Please understand, we have to go cautiously. We have to see the market and we have to supply what is required by the market and when we're diversifying into other products we need to be very careful and we need to work on success.

Onkar Kulkarni

Yes, sir, that's what I'm asking. At what level you are in terms of that.

A. Indra Kumar

We are almost, say, once the markets are right we can start the production and supply within six months.

Onkar Kulkarni

Okay. All right. Thank you. I will come back in the queue.

Moderator

Thank you, sir. The next question comes from Vishwanath Shettigar, an individual investor. Please go ahead.

Vishwanath Shettigar

Hello, my first question is that, the shrimp processing segment contribute somewhere around 2-2.5% of the total revenue. So, in terms of percentage, what do you feel that their processing segment would contribute say five years down the line?

A. Indra Kumar

No, it's not 2-2.5%, sir. We are almost 20% on the revenue.

Vishwanath Shettigar

It's 20% of the revenue?

A. Indra Kumar

Yes.

Vishwanath Shettigar

Second thing, as far as the pricing pressure is concerned with regard to increasing shrimp feed price. Like you, other players are also having similar issues that you cannot raise the price. Do you feel that when the price of raw material goes down, there will be pressure again from Government that you need to reduce the price?

A. Indra Kumar

So, definitely, we have to see the market, we have to see the customers and your competitor. First, you have to see the customer and the competitor. We have to

carefully see the pricing so that the customer is comfortable and we are able to market our products. We have competition and we have to see the one way because the Government also tries to interfere because it's more of a agriculture nation and more of a political popular schemes. So, we have to carefully handle all those things.

Vishwanath Shettigar

Okay. And last question is with regard to falling ROE and ROCE, right. If you look at the company's ROE and ROCE, it is very low, below 10, right. So, we need to work something around on that thing, because it's basically below cost of capital right now.

C. Ramachandra Rao

Yes, because as we explain it to you, the activity what you say ROE depend on the revenues that we get and the expenditure and net profit that PBT and this one. So, one is, automatically once they improve, it also improves. So, I think we have to bear with this. Unless you have better opportunities we cannot go for any investment to get a better ROI and ROC.

Vishwanath Shettigar

So, what is the management viewpoint with regard to long-term ROE, where they want to be, say, 5 years or 10 years down the line?

A. Indra Kumar

If you take in the segment of the shrimp processing, we are working out on the higher value addition and addition products, and where we are adding value to the products. And we get higher yield margins. And in the shrimp feed we are also trying to bring the working out, a lot of research is being done to reduce the cost of production, how it comes though, and improve the FCR.

Vishwanath Shettigar

Okay. The last question with regards to hatcheries. I have seen that you have started with the hatchery. So, what's the way forward on that, sir?

A. Indra Kumar

Yes, the hatchery business we've started this to provide the shrimp farmer of best quality, good quality feeds. And our hatchery capacity is not compared to the industry standards. So, we have just started it and we have started by the time we got permission and all these things it took long time. The hatchery business would be around; we can scale it up to 1 billion capacities, which way the revenue would be around approximately around INR 30 crores.

Vishwanath Shettigar

Okay. Yes, that's it. That's it from my side.

Moderator

Thank you, sir. I request the participant to restrict with two questions in the initial round and join back the queue for more questions. The next question comes from Rahil Shah from Crown Capital. Please go ahead.

Rahil Shah

My questions have kind of been answered on the guidance for the next year. So, thank you.

Moderator

Thank you, sir. The next question comes from Jasdeep Walia from Clockvine. Please go ahead.

Jasdeep Walia

Hi, thanks for taking my question. Sir, we understand there's a demand with you on account of high inventory in US. But let's say if the demand were to come back. Are there any issues with the shrimp production in India? For example, we have been hearing that there's a lot of disease issue with the shrimp, on account of which the farmers have not been able to scale up production even if they want. So, just wanted your comments on that.

A. Indra Kumar

Please come back again. Your voice is not clear and please speak slowly because we could not understand your question.

Jasdeep Walia

Sure, sir. Sir, I understand that there's a demand issue right now on account of high inventories in US, but let's say the demand were to come back. Are there any other issues in India with the concerning production? For example, we have been hearing that there is a lot of disease issue in India on account of which farmers may not be able to scale up production, let's say if the demand were to come back.

A. Indra Kumar

No, that is not right. If the demand is there and the price is there, India can scale up production.

Jasdeep Walia

Got it, sir. So, there is no broader issue with regard to disease, controlling disease.

A. Indra Kumar

Disease is there, but the disease management also is there.

Jasdeep Walia

Got it. Thanks a lot, sir. That's all.

Moderator

Thank you, sir. The next question comes from Ronav Shah from Equitas. Please go ahead.

Ronav Shah

Yes, sir. Thanks for the opportunity. So, my questions are regarding two things. First is, what is the current capacity utilization of our existing feed and processing plant, sir?

A. Indra Kumar

Feed plant, we were utilizing around 98%. And now with the expanded capacity, because just now the season has started we are around 80 %. As you talked about

today, the season has just started. Stocking has just started. We are working on an 80% capacity and with days pass by the stocking happen much more, we may touch around 90-95%.

Ronav Shah

Okay, sir. And for processing?

A. Indra Kumar

And the processing, we are operating at around 60-65% because we are concentrating more on value-added products. The capacity is there, but doing value addition is much more human intervention.

Ronav Shah

Okay.

A. Indra Kumar

Yes, because of the capacity, because if customers wants human, like the process is either you can do by machine or by hand. They want handmade. So, the capacity would not be, we cannot touch 90% or something because it is manual, human factor is there. If it is a bulk, let's say if it is a commodity side we can touch around 80-90%. But it is a value addition we are able to do around 60-65%.

Ronav Shah

Okay, sir, got it. And sir, in terms of processing division, what is the benefit in terms of if we are saying that we are focusing on the value-added products. How it benefits in terms of the realization? So, what is the incremental realization which we can get from the value-added products? And what is the current proportion of the value-added products in the processing from exports, sir?

A. Indra Kumar

Nikhilesh, are you answering?

Alluri Nikhilesh

Could you repeat, sir, please?

Ronav Shah

Yes, sir. So, what is the current proportion of the value-added products in our exports and processing division? And the second is, what is the incremental realization which we can get from the value-added products from the normal exports?

Alluri Nikhilesh

Muthyam could you give the breakup of what is the percentage of value-added exports?

A. Indra Kumar

It is around 24-25% of the value-added.

Ronav Shah

Okay.

Alluri Nikhilesh

So, out of the total exports, about 25% is value-added. On a regular day today with facing kind of price pressure, but it should develop. I think we've reached the bottom of the pricing pressure and it should start increasing from now. We can expect double-digit margin on the value-added products and commodity high-single digit margin.

A. Indra Kumar

For you to understand a little bit more, earlier what we were doing value-added has become a commodity now. Say, PDGO and PD or butterfly and all, earlier they were valued-added, now they have become commodity and we have gone on to higher products like cooked range and all these things, now they are called value-added. So, we are taking the newest products as value addition. In shrimp exports there are different things, headless shell-on is a commodity product. And further value-added, re-wheeling and de-shelling and all these things are supposed to be value-added. Now, we are not taking as value-added products further. We are taking higher products like a cook products or stews or different as a value-added.

Ronav Shah

Okay. Got it, sir. And last question from my end. Sir, USFDA case at that time we have created some provision and at that time there was incremental 80 million of provision. So, are we expecting any reversal of that in upcoming quarters?

C. Ramachandra Rao

Can you please come back? Can you repeat the question?

Ronav Shah

Yes, sir. So, in earlier quarters for the USFDA issue we have created some provision in the books of accounts and at that time we have on safer side created around 80 million of incremental provision. So, are we expecting any reversal of the same in upcoming quarters?

C. Ramachandra Rao

Not exactly reversal means. What we are doing is, depending upon the claims received from time-to-time; during a particular quarter we are making the provision. So, that particular quarter if you have any additional claims, we make a provision for that. And when the claims are settled, we take that as the expenditure from the provision. So, what we'll do, now, it has almost come to the zero level now, from which we may not be much hear after.

So, what we are intending to do is by 31st March we will close all claims that have been received so far, and how much settlement is there whatever it is, if there is an excess provision, it will be written back or if it is a shortfall we'll provide further and close it. By 31st March, we should be able to get the total liability which we have incurred on or account of the recall, that we'll be able to do it by end of this year. But we do not foresee any increase hereafter. Almost all the claims we hope that has been received already.

Ronav Shah

Okay, got it. Got it, sir. Thank you. Thank you so much.

Moderator

Thank you, sir. The next question comes from Saket Kapoor from Kapoor Company. Please go ahead.

Saket Kapoor

Namaste Sir, if you could explain to us, firstly the seasonality factor in the business. How does the seasonality factor take the place?

A. Indra Kumar

Sir, in Shrimp culture, if you take a calendar year, Shrimp farmer starts stocking after Pongal or Sankranti, because shrimp culture in the cold climate, the metabolism of shrimp doesn't work. So, actually it is a seasonal. After Pongal, after January 15th or 16th they will prepare the ponds and after 20th of January some people will gradually they stock. That goes on up to March, 10th of March. Because the temperature, higher the temperature it is good for the shrimp.

The first crop gets over, the people who stock in January they harvest in April, like that it goes on. The first crop gets over by June. And the second crop starts by again June, because people who harvested in May they stock in June. There are two crops. One is from January to April or depending on the stockings. Second crop is from June-July to September-October, this is the pattern of the shrimp culture. Hope your question is answered.

Saket Kapoor

Yes, sir. Sir, in your opening remarks you did mention about the vagaries of the raw material prices also, this feed prices and then other than the fish meal price. So, if you could give us some more color of what constitutes the raw material?

A. Indra Kumar

Raw material is fish meal, soya, soya meal, wheat flour and we have different almost 20-21 varieties of raw materials, so minute and major. The major are fish meal, soya meal and wheat flour.

Saket Kapoor

Sir, when we take this fishmeal as a major consequent, why have we not looked at backward integration in terms of developing our own fish meals and therefore, removing the element of vagaries. I think that other players in the same segment are coming up with this idea then they're also into the trading aspect into it. So, what is our thought in terms of fishmeal?

A. Indra Kumar

Fishmeal is done from the marine fish which is available on the west coast of India. The fishmeal companies are majorly specialized in that product. We cannot do everything. Fishmeal business itself is big activity which deals with the fishermen community, and a lot of concentration and a lot of this thing is required. They are specialized.

Moderator

Thank you, sir. Ladies and gentlemen, due to time constraints, we are taking two questions per participant. We have a follow up question from Onkar Kulkarni from Sri Investments. Please go ahead.

Onkar Kulkarni

Sir, if you recall 8-10 years back there was a Vannamei shrimp which were introduced and that was a game changer for Avanti as well as for the overall industry. I mean, any such opportunity arising in the future or that was just a one off?

A. Indra Kumar

See, there's lots of research and a lot of innovation is going on. Say, today Vannamei, earlier our native species Black Tiger. So, the Black Tiger there was a wild seed which was used earlier. Now, SPF seed for Black Tiger is being produced. So, the Black Tiger is also coming back into the picture, not with Vannamei, because Vannamei has been successful because of the specific pathogen free. Pathogen free Vannamei was available; the success rate was very high. Now, the specific pathogen free Black Tiger seed is also being available, because the technology we've developed the seed and now it is available and some farmers who are going for that also. And there are lot of work has been done for blue shrimp and different types of shrimp that have to come into the commercial viability.

Onkar Kulkarni

Okay. But there is no immediate or like say within a year there is nothing which is happening or on the cart?

A. Indra Kumar

Lot of work is going, sir, which I cannot or anybody cannot tell which is coming tomorrow or within one year. But Black Tiger SPF is coming. SPF seed is available. It is coming, already people have started stocking SPF for Black Tiger seed. It took almost 10 years for them to develop it.

Onkar Kulkarni

Okay. Can you just let me know what was the cash in the Company's balance sheet, as of 31st December?

C. Ramachandra Rao

Yes, we have about INR 1,100 crores.

Onkar Kulkarni

Okay. And you said majority of that you require for the working capital. May I know how much percentage of that is required generally like every year?

A. Indra Kumar

See, as we answered earlier, this is a seasonal business. In the peak season we will be requiring around INR 700-800 crores.

Onkar Kulkarni

INR 700-800 crore?

A. Indra Kumar

INR 700-800 crores or sometimes INR 900 crores because the availability of the raw material, we have to book the raw materials, seeing the prices and all these things. These things we have to look and keep the stock and keep depending on it. Availability of fishmeal or availability of soya, they are seasonal. We have to cover those and before the prices go up, we have to buy it. All these things are there.

C. Ramachandra Rao

May I add some something what CMD said, that by using these funds, we are in a much-much better advantageous position compared to going for a bank borrowing. See, because, so, one thing is that we are able to pay our raw material suppliers

immediately within three to four days of receiving the product and quality control is cleared. So, this has given us a lot of advantage in price trends to bargain for good price that is one advantage we are getting. Similarly, if we're in the season, what happens is apart from the raw materials required, but for example, now, January, February, March, the year-end what we do is we credit these discounts to our dealers.

So, the cash rotation is less in these two-three months, when we use these funds for all our raw materials.

So then, we procured the raw materials by paying from these funds. So, if you compare, really speaking, if you look at the returns today, because of the FD rates have gone up and the same time the borrowing cost has also gone up. If you are to use this it will be a disadvantage if you borrow funds. So, we use the same funds for these working capital requirements. This in fact, is an advantage to the company and the shareholders also. We were able to maintain the cost particularly interest costs, much lower almost negligible. So, this entire amount, it depends upon throughout the year, maybe a couple of months you may have some surplus, but it does not mean that we have got lot of cash surplus for a longer period. It was a short period, in almost nine-months in a year we required these funds.

A. Indra Kumar

It is a rotation; I think it's a very seasonal item when the crop of soya comes we keep purchasing and all these things. So, the money is used mostly for the working capital here.

C. Ramachandra Rao

In September – October you get Fishmeal. In March-April you get wheat flour. If sometime there is fishing brand fishmeal at the time every year they will have their own calendar. We have to manage the funds to keep the stocks.

Moderator

Thank you, sir. That will be last question for the day. Ladies and gentlemen, we would like to come to the end of this conference. Thank you for your participation. You may disconnect your lines now. Thank you and have a good day everyone.

A. Indra Kumar

Thank you.

Notes:

1. This document has been edited to improve readability.
2. Blanks in this transcript represent inaudible or incomprehensible words.