

Transcript

Conference Call of Avanti Feeds Limited

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Presentation Session

Moderator: Good evening ladies and gentlemen. I am Honeyla George, moderator for the conference call today. Welcome to the Avanti Feeds Limited Q4 FY19 post results discussion conference call hosted by KARVY Fintech Private Limited. At this moment, all participants are in the listen-only mode. Later, we will conduct a question and answer session. At that time if you have a question, please press * and 1 on your telephone keypad. Please note this conference is recorded. I would now like to hand over the conference to Mr. Sherwin Fernandes from KARVY Fintech Private Limited. Over to you sir.

Sherwin Fernandes: Thank you Honeyla. Good afternoon and good evening to all present on the call. I would like to thank you for participating in the Q4 and FY19 earnings call. The call will be initiated with the management discussion for the quarter and the full year, followed by which we can bridge the gap for Q&A. The management team is represented by Mr. C. Ramachandra Rao, Joint Managing Director, Mr. Alluri Nikhilesh, Executive Director – Avanti Frozen Foods Private Limited, Mr. Venkateswara Rao, GM – Corporate Affairs and Mr. K. Paidi Raju, GM – Finance and Accounts. And I now hand over the call to Mr. C. Ramachandra Rao. Thank you and over to you sir.

C. Ramachandra Rao: Thank you Mr. Sherwin. Good evening Ladies and Gentlemen. We extend a warm welcome to all of you for this investor's conference call today, to review the audited financial results of Q4 FY19 along with the audited results of FY19. Along with me here are Mr. Nikhilesh, Executive Director, Mr. K. P. Raju, GM – Finance and Accounts, Mr. M.V. Rao, GM – Corporate Affairs, Mrs. Lakshmi – Company Secretary, Mr. Muthyam Reddy and Mr. K. S. Reddy, both of them are Finance Managers handling the two divisions.

And now, I will just give you a brief account that of the consolidated results for the financial year 2019 as well as 2018 and quarter Q4 FY19. These results have already been with you for some time now and we are sure that you would have gone through them. However, I would like to share with you some of the important indicators from the results.

Consolidated Financial Results of FY 19 as compared to FY 18 & FY 17:

You may notice that while the topline in FY19 registered a marginal increase over FY18 i.e. Rs.3541.61 Crore in FY19 & Rs.3441.15 Crores in FY18, the PBT has declined steeply to Rs.428.05 Crores in FY19 from Rs.704.50 Crores in FY18, the steep decrease was mainly due to increase in RM prices over the previous year. The PBT was 12.12% in FY19, as compared to 20.75% in FY18. However, it is very relevant to notice here that during FY18 the RM prices, unusually went down very steeply, increasing the margins phenomenally. It was something like jackpot year. However, compared with FY17 PBT 12.88%, the FY 19 PBT considered to be stable at 12.12%.

The comparative table will be displayed in the website¹. Only here I would like to mention that if you compare the 3 years i.e. FY 17, FY 18 and FY 19, we see that the sustainable margin is around 10% to 12% appears to be the sustainable margin as a consolidated industry for those individual years put together.

COMPARISON OF FEED BUSINESS PERFORMANCE IN Q4 FY19 WITH Q4 FY18 & Q3 19:

During Q4 FY19 the feed turnover was Rs.662.19 crores as compared to Rs.725.07 crores in Q4 FY18, with a marginal de-growth of 8.67%. However, if you look at the feed sales of the Company in FY19, it was down by only 3% compared to de-growth by about 15% to 20% in total feed sales (consumption) in the country in FY19 compared to FY18. This is very significant. Though the market has gone down very steeply we have been able to limit our de-growth to 8.67% only. The feed sales in Q4 FY19 was Rs.662.19 Crores as compared to Rs.606.91 Crores Q3 FY 19 - an increase by about 9%. However, compared to Q4 FY18 the feed sales in Q4 FY19 reduced to Rs.662.19 Crores from Rs.725.07 Crores.

PBT in Q4 FY19 is 12.15% on sales as compared to 13.91% in Q3 FY19 & 15.57% in Q4 FY18. The annual PBT in FY19 was 12.10% as compared to 22.42% in FY18 and 13.21% in FY17.

PERFORMANCE OF SHRIMP PROCESSING & EXPORT BUSINESS: Q4 FY19 COMPARED TO Q4 FY18:

As regards Shrimp processing and exports, the revenue for Q4 FY19 stood at Rs.195.49 crores as against Rs.109.21 crores in Q4 FY18 registering an increase by 79%. In volume terms exports increased from 1578 MT in Q4 FY 18 to 2850 MT in Q4 FY 19 with an increase of 81%.

¹ Annexue-1.

The PBT in Q4 of FY 19 is Rs.22.23 crores as against Rs.11.72 crores in Q4 FY 18. In terms of percentage the PBT has gone up by 90%.

FY19 COMPARED TO FY18:

YOY basis exports during FY 19 is Rs.752.52 crores as compared to FY 18 was Rs. 581.18 crores registering a growth of 29%. In volume terms exports increased from 7,857 MT in FY 18 to 11,065 MT in FY 19 with an increase of 41%.

YOY basis PBT during FY19 is Rs.91.73 crores as compared to PBT of FY 18 was Rs.73.84 crores, registering an increase of 24%.

The major contributing factors for significant increase in Top line as well as profits is increase in exports volume and value added products. Exports to other than U.S market has increased from 15% to 26% during FY 18 to FY 19.

SHRIMP PROCESSING & EXPORT:

Coming to the capacity utilization, as you know that there are two plants, one is the new plant is 15000 metric tons is the installed capacity, whereas the old plant's capacity, the installed capacity is 7000 tons. However, as you know because of this, considering the seasonality of the industry and the processes involved, 80% capacity utilization is achievable. If you consider that factor, the optimum capacity utilization that can be achieved is 12000 tons in Yerravaram new plant and 5600 in the old plant. Of this we have done 6572 in FY19 from Yerravaram, which is 54.77% capacity utilization, whereas in the old plant we have done 4812 metric tons giving a capacity utilization of 85.93%. The consolidated, we would have done 11384 metric tons of the 80% optimum achievable that is 17600, total 64.68% capacity utilization has been achieved during 2019. The overall exports increased by 41% in FY19 over FY18 in quantitative terms and 29% in volume terms. Continued focus on export of value added products is bearing results, which accounted for around 32% of the total exports in Q4 FY19. Going forward we endeavor to increase the export of value added products and will also focus on exports to China, Vietnam and other markets.

I think with this brief background, I will now request Nikhilesh to take questions from you and answer. Over to you Honeyla.

Moderator: Yes sir, sure.

Question and Answer Session

Moderator: Thank you. Ladies and gentlemen, we will now begin the question and answer session. If you have any questions, 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.

The first question comes from Mr. Praveen Sahai from Edelweiss. Please go ahead.

Praveen Sahai: Thank you for taking my question. Firstly on the shrimp prices...

Alluri Nikhilesh: I am sorry, you are not audible.

Praveen Sahai: Am I audible sir? Hello?

Alluri Nikhilesh: Yeah, it is better now.

Praveen Sahai: So, my first question is related to the shrimp prices and the farm gate prices, so can you give us some detail like, how is the Q4 the shrimp prices on the global international level and how has it moved now?

Alluri Nikhilesh: Since what we were telling you, telling last year, the farm gate prices have gone very low last year. They went to levels which were not encouraging for the farmer to come in to with more farming. So, from this year I think from April the prices have started to go up. I can, just to give a brief, so the larger counts have increased substantially, at least about 30% to 40% in average, the large sizes like 30 counts. So, the medium sizes have also increased by about 18% to 20%. And the very small size which is the lowest, the 100 count have also increased by 5% to 10%. So, overall there is a pick up in the farmgate prices, making it comparatively more encouraging for the farmer compared to the previous financial year. The same thing with the selling price for the whole year of last year, the price decreased by 15%. But, for the last six weeks, the price has increased, especially for the larger sizes by at least 8% to 10% in the international markets. So, we can see the translation from the farm levels, the increase in the price has been translated to the international selling markets. So, we can see a positive movement in the prices both internationally and at the farms right now.

Praveen Sahai: And secondly in the presentation you had mentioned about the delay in the stocking in February and March 2019. So, with this sort of delay, the number now will reflect in this quarter, because it is a delay of a month, the culture is going to happen in the next quarter?

Alluri Nikhilesh: I think normally, traditionally, we do two crops in the Indian market; very few of them go for three. So, they have enough time to get back for the second crop. There was a delay; the delay is just because of the supply and demand dynamics. The price levels at the farm were very low, making farmers stay away from

farming for a bit. And then prices today are encouraging them to come back into farming.

C. Ramachandra Rao: I may add to what Mr. Nikhilesh said. Definitely this year the development as in earlier, as he said they got delayed. But, slowly even the stockings are taking place. And two important things have to be noted here is that the largest size prices are very attractive and encouraging. And farmers are also allowing the crop to grow the shrimp to the size of 40 and 30, because earlier compared to 50, 40, there is a real Rs.100 difference is there. So, the Rs.100 difference which is really very attractive to the farmers, so he would rather wait for another two weeks or so, to get that 5 grams additional, so that he gets the benefit of Rs.100. This has been completely realized by the farmers and so, that directly would help our business of feed also, because the feed consumption will go up. I think that will answer your question. Hello?

Moderator: I am so sorry sir. The participant got disconnected from the call just now. Can I move on to the next question?

Moderator: The question comes from Mr. Goutham Jain from GVJ Wealth Managers. Please go ahead.

Goutham Jain: Hello?

Alluri Nikhilesh: Hi Goutham. How are you?

Goutham Jain: Yeah, good evening. I am good. How are you all?

Alluri Nikhilesh: Good, good.

Goutham Jain: I had two questions which are over there. I will place them. Before that I would just like to give the definition of an investor. An investor is a person who invests in the company, who trusts the management of the company and who is there for price appreciation. Correct? It has been observed, question number one, it has been observed that as soon as the investor gathers the confidence and starts buying the shares, the management of the company that is the Thai company, that starts selling and brings down the prices badly. If the management of the company or the partner of the company starts selling, how will any investor gain the confidence to buy the shares of the company and to retain them? Second thing, why if Thai Union has decided to bring down its stake from a certain percentage to a certain percentage, why doesn't the company bring any mechanism to allow Thai Union to reduce their stake without disturbing the market prices, like a block deal or exit at a predefined price? Because, what happens is that at the lower levels, at the 440 levels, they start selling and they bring it down to the new lows of 320 or something like that, that is against the investors and the investors lose confidence in this kind of a thing. I think the

management needs to look into this, as management needs to be investor friendly. My suggestion is that I would ask the management of the company that what are they doing for the interest of the investors.

C. Ramachandra Rao: Okay, can I answer you now?

Goutham Jain: Yes sir.

C. Ramachandra Rao: Let me first tell you. The Thai Union is a very close associate of ours and they have been with us for more than two and a half decades. So, that is number one. Number two, they have invested here as a long term investor and they are our partners. 20% to 25% is the leverage, which as a big multinational company; they cannot stick on to one particular percentage throughout. They have opted, if you remember a year ago, they gave a statement to the stock exchange, to the press also that they would maintain the shares between 20% to 25%, that is what they will maintain. So, we cannot per-se, we cannot ask them why did you sell 1% or why did you sell 50000 shares or 10000 shares. It is their prerogative to operate within the range of 20% to 25%. That is number one. Number two, they never intend to bring down the price of Avanti Feeds' share by buying when it is high and selling when it is high. It is not their intention at all. There may be some other reason for that. The financial reasons for which they would have sold the shares when the price was high and it is not a policy to buy and sell when the prices keep moving up and down in the market. That is definitely not the policy. And we have had an extensive discussion with them. And now you would have seen that they have not sold recently anything. If you remember, it happened in the month of March. So, the February-March, they did and there was a reason for that. It is not that just because the prices went up, they sold it to bring it down. It is not that. They had some other reason, they sold it. But, the thing is that they will not disturb the market with any intention. That is very clear. And they want to consolidate, they want to stay with us and cooperate with us. And moreover we have also requested them that in case they want to have higher quantity of sales; they could go by block deal. That also we have told them. They said they will consider. And they said, they promised that they will do it so.

Goutham Jain: Yeah. that would be great, because as investors we are worried when the selling comes. We start buying and then the selling comes. This is a breather that you have given us. That gives us the confidence.

C. Ramachandra Rao: You can rest assured that Thai Union will not do anything which will disturb the investors of Avanti. That is 200% sure. Please be confident about that.

Goutham Jain: Right. Thank you sir. Thank you for your comments.

Moderator: Thank you sir. The next question comes from Mr. Anirudha Joshi from ICICI Securities. Please go ahead.

Anirudha Joshi: Thanks for the opportunity. So, can you share the outlook for both the businesses that is shrimp feed as well as shrimp exports over the next three years? Do you see the growth rates returning back to the earlier levels, that is three years before levels or they will more of high single digit to low double digit kind of growth rates for both the segments? Also do you see the comfortable margins, so whether the FY19 margins in both the businesses, EBIT margin in both the businesses is a sustainable margin or there is a further scope to decline or this is extremely low margin and there should be a scope for better margin over here?

Alluri Nikhilesh: Thanks for the question. So, just to give you an outlook, I think as answered in the previous question, the most important part is the culture. So, the culture, since the farm gate prices have increased considerably, we feel that the outlook at the farm level for the farmer looks very promising. So, it is something that we are monitoring every day on how the international market is responding towards the farm level prices. So, till date for this year, this financial year it looks promising. So, that would automatically trigger the culture situation, the output in the country. So, that is the most important factor to see the outlook. Coming to the feed division, I think the most important part that we should see is that even the lower output last year FY19 or the year before, our sales have increased or almost stable. And also, with that our market share has increased in the farm level with the farmers. So, that is very promising that we see more farmers coming forward to use our products, getting the best results compared to our competitor. So, we see that by maintaining this position, we can take most advantage of the increased output. And the second division which is the frozen division, we can see consequential increase in the output, both in sales and production and substantial increase about 60% to 70% increase. So, that is very promising as well. And it will continue. We are working towards this direction to maintain these margins and also improve our growth, both top line and bottom line.

Anirudha Joshi: Okay one quick point. So generally all the companies, be it large cap or a small cap, they do the conference call on the day of the result or maybe the next day. So it will be better if we also follow the same practice from the next quarter onwards. Just my view.

Alluri Nikhilesh: We will take this into consideration.

Anirudha Joshi: Yeah, thank you sir.

Moderator: Thank you sir. The next question comes from R.K. Laddha from Yash Investments, please go ahead.

R. K. Laddha: Thank you sir for giving me the opportunity. Sir my question is about...is there any effect on the company due to the US move on GSP? Generalised system of preferences?

Alluri Nikhilesh: So shrimp is not included in the GSP, so removal of GSP wouldn't have any effect as such.

R. K. Laddha: And sir, the next question is what about our target of 2022 of one billion dollar?

Alluri Nikhilesh: So the target is still there, we are still working towards it. That is our goal to achieve the one billion dollars. We are doing the work like we can see this by expanding our capacities, looking at new opportunities and working towards that direction. That is something that we are constantly discussing about and how to reach the targets. So we are hopeful that we can reach the target.

R. K. Laddha: Okay sir, thank you, thank you. One more question sir. What is the position of raw material prices? Are they constant?

C. Ramachandra Rao: The feed prices are slightly higher than 2017. 2018 we do not consider as a comparable year because there was a steep fall in the prices. So look at 2017; the prices were about 5% to 10% higher than what it was in 2017 and we hope that the prices keep almost stable this year also. That's what we are anticipating, considering the crop situation and like soya and the catching in fish meal and wheat prices; we expect that it will be more or less on the stable....the prices which we have seen in the last quarter.

R. K. Laddha: And sir, our selling price of feed was around Rs. 65.5 per kg. last quarter, our selling price is around Rs. 63.3, is it going down....the feed selling price?

C. Ramachandra Rao: No, it is not like that. Let me tell you; the feed actually consists of 6 to 8 varieties. So when the starters are more, then the consumption will be less; if it is in the later stages, the growing stages. The consumption will be more. So the prices also depends upon the consumption pattern of the various feeds, it is not.....prices have not either reduced or increased. It is stable. The average price works out on the basis of the number of tons in which each variety of feed is consumed. i.e. the average rate that we have seen.

R. K. Laddha: Okay thank you sir and have a great future sir.

Moderator: Thank you sir. The next question comes from Ashish Thacker from MOSL AMC. Please go ahead.

Ashish Thacker: Yeah, thanks for the opportunity. Since in your opening comments you did say that China and Vietnam are the other markets you are looking at. By any means or any probability is there a chance that China may surpass US as the world's largest shrimp importer?

Alluri Nikhilesh: Sorry can you repeat? China will surpass what?

Ashish Thacker: Can China surpass US to become the world's largest shrimp importer?

Alluri Nikhilesh: Yes, yes, definitely a high possibility of that happening. The markets are growing, you can see even in the export statistics over the last couple years.....at least five years, the imports into China has been increasing year-on-year quite substantially, and being a large country with a lot of population and especially sea-food eating population where the per capita people's consumption is higher than other countries, we can expect that the consumption could one-day surpass or equal the US market. And just to assure your question, actually, it's not only China or Vietnam market it's more other market since the US is a competitive market in general since we have increased capacity and basically penetrating into new markets other than the traditional US markets. If you see our sales, our sales have increased in every market including the US market and outside the US, they have increased substantially.

Ashish Thacker: So apart from Vietnam and China, other names you would like to spell? Which are the markets looking attractive currently?

Alluri Nikhilesh: So we categorize it into basically, US, Europe and Asia. I think Europe there was a good increase in sales and also Asia, not much to Vietnam because Vietnam is not an end user as such but more towards China and other South-east Asian countries.

Ashish Thacker: Okay fair enough. So to this extent in the overall scheme of things what is the kind of production target that we have, for the processing part of the business?

Alluri Nikhilesh: Processing target, Mr. Rao has explained, the operational max capacity is at about 17 to 18000 tons. Today we have reached about most factories together about 11100. So if you see sequentially, every quarter, what you can see is,

there is development in the production and the sale. Capacity utilization has increasing and if you see the previous investor calls, what we were advised by the investors is that this is a step by step phenomenon so we are seeing in the positive direction I think in the Q4, our sales have increased by almost 81%, so we are building up on our utilization. It is a step-by-step stage which requires a lot of training since it is a labour intensive industry and also a very critical point because it is human food.

Ashish Thacker: Okay got that. Thanks for your answer and all the best.

Moderator: Thank you sir. The next question comes from Sagar Arya from White Oak Capital, please go ahead.

Sagar Arya: Just a couple of questions. Firstly, in Thai Union's presentation we noticed that they are opening our plant in Indonesia along with Avanti Feeds; so could you tell us what is the size of the market there. What are the plans for the Indonesian market? What exactly are you looking at, domestic or the exports market? So throw some light on that please.

Alluri Nikhilesh: So just to answer this question; Indonesia is one of the largest sea-food producers. They are very big in the shrimp producing countries I think...in the exporting countries after India is Indonesia if I am not wrong. Overall... of course China is number one in production but that is mostly for self-consumption and then it is India and then it is Indonesia. It is a very large market and it is a competitor to the Indian market in terms of exports. So it is a good. Market size for shrimp size is very high, I cannot give the exact number but it is easily available online so that is the reason why, it is a good opportunity for all of us.

Sagar Arya: But would we be competing with CP in Indonesia, given that they would have entrenched relationships with farmers over there? How do you plan to re-create in Indonesia what is done in India in the Feeds market?

Alluri Nikhilesh: So again, like every market in India, we compete with CP, Thai Union competes with CP in Thailand and CTF is an independent company from the CP group of Thailand, it is another company – Central Proteina Indonesia. So they have a big market share but we have been a long-time feed companies and we've shown very good performance from our product and this performance is what a farmer looks at the farm level to save cost and to have good FCRs and daily growth of shrimp. So with this we can enter the market because it is already a large market size so that should be the main thing, providing them the best quality feed which has already been tested and proved in India and also in Thailand.

Sagar Arya: Okay, my last question is on the use of cash. You have more than seven, eight crores of cash in the book, so how is that? When do you plan to utilize this, given that the re-investment opportunities are currently are low?

C. Ramachandra Rao: Yeah, in the earlier calls also we have answered this question. The Board is aware of this surplus and we are looking for investment opportunities. As you told we have some projects which we are working on. We need capex for that; so that's the reason why we are keeping that reserve for that Capex in future. We are working on the projects. At the appropriate time, we will share the details with you.

Sagar Arya: Are these projects in shrimp feed or processing or are you looking to enter new species going forward?

C. Ramachandra Rao: The first thing is strengthening what we have. For instance the shrimp processing and exports and feeds, and related feed businesses....we are looking into that. We will work out the projects, ... See there are other opportunities also which we will come out with the details at the appropriate time. Now we are working on that. The first preference is given to the areas where we are already having established brand image. We will go for that as a first preference and we will go for the others also at the appropriate time.

Sagar Arya: Okay. Thank you sir.

Moderator: Thank you sir. The next question comes from Mr. Nithesh Jain from Birla Mutual Fund. Please go ahead.

Nithesh Jain: Hi good evening Mr. Nikhilesh and Mr. Rao. Sir I have a couple of questions. Number one to Nikhilesh, if you can tell me how is the inventory shift, inventory situation in this supply chain in US? Is it light now or is it heavy which can actually push back some of the exports from the Asian countries? This is question number one, and question number two, what would actually trigger feed price hike in Indian market? Like Avanti the market share has actually improved from 43% to around 49% this year and as Mr. Nikhilesh mentioned in the opening comments, that the farm level prices have gone up recently. So would Avanti look to hike prices....feed prices in India, if not, then what are the key monitorable that you as a management look at before taking this decision? These are the two questions.

Alluri Nikhilesh: So, overall if you see, the US market inventory situation, what we have been telling through the last year or more likely what's been in the market is that the inventory levels are coming down, I think that's what we hear and I think that is true because from January, the imports into the US have reduced by 6% overall

worldwide of shrimp. So I think the inventories have been corrected and stronger demand picking upthat's what triggers the spike of prices in the international market so that is the answer for the first one. Second one as you said, I just want to correct your understanding about the farm gate prices. What I said is they have increased considerably compared to the last year. Last year it wasn't very encouraging. This year it's much better than last year. But if you compare it to the year before and before that, it is on par or a little lower than that and any increase will make this route or this direction of the market progressing on the selling price both on the farm level and the international level will eventually give some room to the feed companies and the farmers also. So that's what we can see if both move in this direction and there is a chance.....there's a room for a price increase. I guess Mr. Rao can add to this.

C. Ramachandra Rao: I would like to add to what Nikhilesh said. Basically, the sustainability of the industry is a very important aspect for all the stake holders. The first thing is that the farmers should be able to make money. As long as the farm gate prices keep changing - volatile; volatility has to stop. There should be stability and sustainable margin should come to the farmer. One season he makes money and suddenly the next season he doesn't make money, then it will be difficult for him and for us also to increase the prices. But it is a good development that slowly the prices are stabilizing and assuming that this year and next year, if things keep at the same level, definitely the farmers will have a confidence to continue that profession. You have seen the last year, what had happened- when the prices went up, almost out of panic the farmers stopped the culture itself. They postponed the culture and there was a lot of de-growth. So that kind of situation should not arise. In that backdrop, if we increase the prices, that will further add fuel to the fire. So we do not want to take any such step which will aggravate the situation. We are keeping our eyes and ears open by seeing that once the farm gate prices stabilize and cost of production also well within the control of the farmers, and he makes a reasonable profit and he is confident of pursuing that profession on a long-term and sustainable basis, we have always have the opportunity to increase the price.

Alluri Nikhilesh: We have done price increases and executed them well before, I think in the recent five years or whatever. This is not the right time for a price increase.

Sagar Arya: Sure and sir, just to summarize, basically in the presentation you have mentioned that the overall industry has witnessed a de-growth of 15% to 20% in the culture, I am saying for the whole year, FY19 over FY18. So considering on this low-base and the dynamics of US inventory and XYZ....some delay in the extended winter and all the facts put together, so what do you expect in the current farming year, say financial year FY20? How much growth can the shrimp industry witness on this lower base of FY19? Overall what is your expectation?

C. Ramachandra Rao: I was going through a report which says that the annual growth between 2014 and 2024 is around 5%. That is 5.42% or 5.43% is the CAGR; that is what the forecast is. So if that is true, definitely we will have a very good future for this. The consumption levels are gradually going up. That is a very positive development.

Alluri Nikhilesh: That is a very positive....because all traditional markets I think affordability goes up. The purchasing power for food which is viewed as sustainable, farmed sea-food is sustainable, it is healthy and opening up of new markets like China looks like a very positive outlook, but for the immediate future what we can say is that the farm prices are moving up which is promising which could trigger a positive impact on a culture situation.

Sagar Arya: Alright, thank you very much sir.

Moderator: Thank you sir. The next question comes from Mr. Puneet Mittal from Global Core Capital. Please go ahead.

Puneet Mittal: Thank you for the opportunity. One, I know it is probably early days, but can you give a little bit more color on your Indonesian venture? What's the structure? How much holding does Avanti Feeds have? What are the potential there which you see over the next three to four years?

Alluri Nikhilesh: Our exposure into the Indonesian project is very, very limited. We are not the majority holders. The majority holders are our partners Thai Union. We only own about 10% of the whole project. There is other local partner who is there to help at the ground level and who has a very good understanding of the Indonesian market and experienced player. So it is the three of us who are a part of this project and the majority of the project is owned by Thai Union who also has a long-term touch with partner. So overall if you see, the opportunity seems to be good. We had an opportunity to join hands and get into this market, so that was the view of entering this market. So for us, on an operational level, more than advisory part, our exposure is very less.

Puneet Mittal Understood. Second question, I know you mentioned that 2018 was an exceptional year because the raw material prices went down and we are talking that the current margins are more sustainable. But is there anything the company can do or re-thinking to do some sort of backward integration to include the volatility and the raw material prices that we see?

Alluri Nikhilesh: So on this, one thing; we are a fully integrated company, we have a presence in Hatchery if you have seen the update and the reports that we have released, the Hatchery is almost done....the construction is almost completed and we are going into operation so that is the backward integration to our Hatchery apart from that we are the largest feed player. Our exposure into farms are not as much because it is something that the farmer has to do and our exposure into the export business or the processing business is also quite high. We operate two factories. So we are fully integrated. The thing that's more important is once the farm level prices is definitely supply demand position, it is integrating into its....we only hope to give our best product and best resources to our farmers and this industry and our customers abroad. So that is the idea of the integration. With an understanding of the business and being a long-term player and a strong player in the market, we just want to provide better products in the supply chain.

C. Ramachandra Rao: Just for clarification - are you asking about the backward integration of raw materials or are you asking for the backward integration of the total activity as such by the company? What were you referring to?

Puneet Mittal Raw material essentially.

C. Ramachandra Rao: I'll come to that. There are three basic raw materials for feed. I remember that's what you were trying to ask. The three raw materials are basically fish meal, soya bean meal and wheat flour. These are the three basic raw materials. To a certain extent wheat flour we are making it ourselves, to reduce the cost of the wheat flour. We have our own plant where we buy wheat and make the flour. But the consumption is very high, the capacity is not sufficient, so we are buying from outside. As far as possible we are using our wheat flour. Coming to soya, we did undertake this soya processing about seven, eight years back but we found that it is a specialized field and very big project has to be established to get into that because, the soya what we use is the soya bean meal but there are other products like soya oil which determines the price of the meal. We get into that business; it will be totally different; it cannot be a backward integration for this product. So we did for one year and we found that it is not feasible for us to operate the soya plant. We did soya extraction in Indore....we did for one year and we gave it up. Coming to the fish meal, fishmeal is again a natural product which depends upon the fishermen. They go for fish catches and it is a seasonal industry completely. It is only those who are on the seashore, where the fishing community that have close contacts only they can get the fish at a reasonable price, process it and make the fishmeal. So these are the three major areas. Almost 80% to 85% of the cost of feed production is only these three products. So we thought that we are in a better position to.....because if we have our own soya plant then we will be at a disadvantageous position that whatever cost that we get it, we have to absorb

that. Instead of that now we are in a better position to negotiate terms with about 10 to 15 soya processors and get the best price out of them. Similarly the fishmeal also we are having that advantage today. About 10 to 15 fishmeal plants are there where we negotiate and the best terms we get, and the most cost effective raw material we do it. These are the advantages that we have seen and that's why we are not very keen on going into the backward integration of raw material products for the feed.

Puneet Mittal: Okay, understood, very, very insightful, thank you so much. My next question is that in the feed business, we are already at about 50%, so there is only marginal scope to increase the market share, so we possibly are dependent on the increase in the market size of the feed business. And on the processing side, we are already using around 63%- 64% of the total capacity and given that we will optimally be only able to use around 80%, hopefully you will be able to exhaust that remaining capacity in next 12 to 18 months. So, given that on both sides you will be at optimal capacity and market share, are there any plans for us to expand because expansion takes time as well on processing side, hopefully...

Alluri Nikhilesh: So, just like in previous question what I have answered, at least in the processing side, we are increasing our capacity. So, right now, definitely, like you are saying, we are at 63% to 64% utilization, there is still room to increase it. We are also working on developing new value-added products, where capacity was not a big factor; it is more about the skill. So, there is more room for doing a variety number of activities within the processing business. Even coming to the feed business, like you said, it is inching about 49% to 50% market share, first we firmly believe we can further increase the market share, because it is still...and we continue to receive very good feedback from the farm level, the farmer level, that's what triggering the increase in the market share. And also, with this technology, there is an opportunity to diversify into different types of aqua feed or other animal feed, there are opportunities...that's something like we are talking about, we have capacity, we have the technology, that's something that we are discussing about. So, we are saying it is still...we are increasing and we are growing the opportunities what we have forward and what we are evaluating today.

C. Ramachandra Rao: I may add to what Mr. Nikhilesh said. The processing capacity can be scaled up without much investment. Because we have sufficient infrastructure available already with addition of the equipment which can enhance the capacity of value added products within a short time....as and when it is required, within a short time we can expand the capacity. I can add that to what Mr. Nikhilesh said.

Puneet Mittal: That's good to know. And if I can squeeze in one more last question. The new Government that has come in power and it is not specific to the

company...has announced that they will have a special focus on fishery and animal husbandry business. Just - your thoughts on what are the steps that will really help this industry to grow sustainably for the next few years. What do you think would really help this industry?

C. Ramachandra Rao: See, last year Budget, when finance minister gave the budget, he announced that Fisheries is one of the major focus areas for one is the employment, the other is the export potential for the processed fish and fisheries products. So, in that direction they did announce something like Rs.100 crores or something like that at the initial fund. But they did not really come out with the specific modalities how it will come. But, what I understand is - one area where they were looking at is ...how to help the farmer to develop the infrastructure. Normally, the first stage of shrimp culture, the farmer has to prepare the pond; they incur lot of expenditure in the initial stages, preparation of pond and things like that. So, the Government, through NABARD and some of the institutions, they want to give concessional loan to them, very nominal interests, they want to give to them, and so that they can finance the infrastructure requirements. That is one area which, I think, the Government is very seriously working on. Number two, is the...some subsidies on the inputs. Like, in agriculture, they give the subsidies on the fertilizers and things like that, they may give subsidized inputs for the shrimp culture. The third is, the government's, like power and all, is already subsidized in Andhra Pradesh and some of the states, and a similar measure that they can always do it as a center, if they can finance the states, through the state mechanism, they can subsidize the power also. And the third and most important thing is the market development. The market development assistance, something like what they are giving now, some subsidy on the sea freight or some of the things like, where the cost of production comes down. These are the areas where the Government can help this particular shrimp sector to grow. I think, this Government will definitely take positive steps shortly on these. And earlier, this department actually was with ... Agriculture Ministry and a separate department, but there was no secretary also for Fisheries, now there is a separate secretary for the Fisheries department, who can put full time concentration on this sector and definitely take some very good measures for the growth of this industry.

Puneet Mittal: That's great to hear, I think, a lot of positives coming from all sides, and it is always great to hear your views. So, thank you so much and all the best.

Moderator: Thank you sir. The next question comes from Mr. Ishant Kavish, an individual investor. Please go ahead. Sir, there is no response, I am moving on to the next question that is from Srinivasa Rao, an individual investor. Please go ahead.

Srinivasa Rao: Hi. My question is on the local consumption in India, as of now, I think, you guys are focusing more on exporting most of your value-added products to US and other countries. Would like to hear from you guys on how are you focused on Indian market, how much you are capturing, and then increase the market share in India?

Alluri Nikhilesh: Thank you for that question. So, domestic sales are already something... we account for, it is in the others group of the pie graph, I think, in what's given out in the presentation. The market size in India is not very large. The capture of sea food consumption is low. It is very fragmented market, which requires development of the cold chain facilities throughout the country, and also the buying power of the consumer. So, both are at a very premature or very early stage, but we are definitely working in the domestic market, not much exposure, but we are looking at opportunities and working on a case-to-case basis already. So, we hope...and I hope it will develop...we take most advantage of it.

Srinivasa Rao: Okay. Thank you Mr. Nikhilesh.

Moderator: Thank you sir. The next question comes from Varun Goenka from Reliance Capital. Please go ahead.

Varun Goenka: Yes, good evening sir. I had a question around your competitive intensity, because over the last two years we have seen several people set up feed capacities, and apparently some processes also are shifting away from Avanti to few other feed manufacturers. Maybe, if you could explain, over the next two, three years, what are we doing differently to hold our market share or why somebody would not switch away from Avanti?

Alluri Nikhilesh: I think this is a very regular question. There are lot of competitors in the feed industry, there is excess capacity, there are lot of multinational players, the likes of Cargill, CP and like you were saying, there are some processers who have moved into feed manufacturing, But the thing which is the most important is the quality, the performance, the performance of these manufacturers or new entrants or even some of the old players, has not been able to match Avanti's performance. So, that is what we can clearly see that by increasing our market share, the trust and the confidence in the farmer on the brand and the performance is very high. So, some of these processers moving into feed or new entrants coming in, it is a very cyclic process, a lot of people come in and they go out, but it is not really impacting it, because their performance is not able to match, that is the bottom line. And some of the feed entry, new players that have entered the market, some are initial research and analysis and it is still not on par with what we are able to give out to our farmers.

Varun Goenka: Sure. That is very reassuring sir. Just one more question, what is the volume that the Chicken of the Sea or Red Lobster procure from Thai Union India...I am trying to get to what is the demand opportunity for the next few years on the processing side?

Alluri Nikhilesh: So, I think, I wouldn't give the exact figures. But we are one of the Chicken of the Sea and Red Lobster's largest suppliers from India. But still there is a lot of room for us to gain business from there, there are other backers and companies which are packing from them, but amongst them we have the lion's share.

Varun Goenka: Sure. So, I don't want your numbers, but would you be able to share how much are they procuring in total? I don't want Avanti's numbers...

Alluri Nikhilesh: See, we do not disclose how much they are purchasing from our competitors or infact that is confidential from the customer's side, but from what we hear is that we have the lion's share...but from our market intelligence we estimate that there is a lot more that we could get...about...it is hard to put a number, it is like I think, maybe like we are half of it?

Varun Goenka: Sure, okay. Thank you so much.

Moderator: Thank you sir. The next question comes from Akshay Saxena, an individual investor. Please go ahead.

Akshay Saxena: Hi sir, thank you for this opportunity. I wanted to know what exactly do you think has worked out well for Avanti that your competitors have not been able to replicate within India, and do you think that the same advantages will benefit you as you expand into global markets.

Alluri Nikhilesh: Thank you for that question. So, there are two main parameters in the feed business, which proves the performance. One is the FCR, which is the Feed Conversion Ratio and the other one is the Average Daily Growth of the shrimp. So, I think, on an average Avanti is at about 1.1, 1.2 today where the compared industry average is about 1.5, 1.6, so that is quite a substantial difference, and this is what is required for analyzing performance. So, that is what is working out for us in India and for the rest of the world is, I think, this can be worked out in the rest of the world as well, but we need to modify our feed in the formulation or the way we sell it depending on the market. So, yeah, there is an opportunity, definitely, because it is a proven feed for the last 25 years in the large Indian market.

Akshay Saxena: Understood. And, my second question would be, given that your margins this year was hurt because of volatility of wheat and soya, etc., going forward do you plan on doing some kind of a hedging, perhaps entering into forward contracts or something like that?

C. Ramachandra Rao: Yeah, in soya bean meal hedging is not permitted. It is only soya seed and soya oil is permitted. So, soya bean meal, no hedging is permitted.

Akshay Saxena: Thank you sir. That's all from here.

Moderator: Thank you sir. The next question comes from Ayush Mittal from Mittal and Company. Please go ahead.

Ayush Mittal: Good afternoon sir. Congratulations on getting market share in a tough year. My question is, if I hear the commentary of the company...like you mentioned that the prices of the shrimps have improved in the recent months, since April, yet when I am seeing the presentation of your company and the peers, which are listed, everyone is pointing towards a subdued year, FY20 to be a subdued year for the industry, and perhaps that is where you have indicated that key volumes may remain flat for Avanti. Why is this difference there in the expectation?

Alluri Nikhilesh: Like you were saying, the increase in the farm gate prices are more recent in the last two months since April, and also, what a farmer sees, or anybody sees who are stakeholders, is the long-term outlook of the industry. So, when we or other competitors say that there might be or say that there is a decrease in the culture, that is something that we had forecasted earlier and seeing the current market situation, but things are changing in the recent months, more attractive prices, and that's something encouraging for the farmer, but how long these prices will stand...the demand from the international market is still something people are monitoring, if everything moves in the direction that has been in the last two months, things look very positive. But, it is more about the whole industry moving together from the farm level.

C. Ramachandra Rao: If I may add to what Mr. Nikhilesh said. See, we have the two Plants, one is the feed and the other is the processing. As far as the feed is concerned, as you are seeing the numbers, with our consistent quality, performance, and the technical support we give to the farmers, we are being able to maintain or in fact increase our market share, because of the services plus performance of the feed, and the total consumption, irrespective of the de-growth in the total activities, we have been able to increase our share. That is one confidence that we have that this will...our company will be able to achieve the targeted numbers. As far as the processing is concerned, again, I will say that we have state-of-the-art plastic tank, value-added

products, and our value-added products are well-received by the US market and other European markets, and we are confident that with the collaboration with the Thai Union helping us in developing productivity and quality, we have been able to achieve the increase, which we have targeted. So, both the fronts, the performance of the company has been very consistent and growth-oriented. So, that is how we differ from the other companies.

Ayush Mittal: Okay, happy to hear that. Sir, my second question and the request is around the dividend payout ratio. Like, as per earlier participant also...it is a constant question that we all are sitting...the company is sitting on a very huge cash pile, and as we see the operation of the company, there is a very strong cash flow generation that happens every year. Even if we have to go for expansion in the processing segment, we won't require more than Rs.100, 200 crore kind of Capex. So, it is a request that this payout ratio should be increased substantially to maybe 60%, 70% of the profits, even if we are not planning to distribute the cash reserves that we have.

C. Ramachandra Rao: Yeah, we have a policy of dividend payment; because it is not that cash is important, it is the profitability...the dividend is always related to the profitability, but not to the cash reserves. That's what the philosophy, the policy of the company is. We have certain percentage, we pay every year after year, in fact, around 20% to 25% is the normal payout that we...basing on the profitability, the profits of the company, that's what the policy of the company. In fact, we have increased this time. and coming to the question of cash reserves, see the cash reserves...just paying the dividend you will be giving out your resources and we want to...not only this expansion of the processes capacity or the feed capacity, whatever it may be, we have some other projects, which we are considering, and as and when we need funds, we do not want to go to the market which is very expensive raising of funds, we have more cost effective funds available, which...see, unless we are not very confident of what we are going to...we have investment opportunities, then only we go for all these things. I don't think buy back or increase of payout is the best way of using the resources, because it is a growing company and you all said the last two-and-a-half years, the management has been excellent, so you have faith in us, we will definitely see that we get the growth. Okay?

Ayush Mittal: Okay sir. Sir, actually sir, the discussion is more from the perspective that earlier the growth was very high, it was 30% - 50% and then we were having that 20%, 25% payout ratio, which was very credible. Today when the growth has slowed down and we are generating very large amount of cash, if this cash is not being utilized, it is affecting the balance sheet and the return ratios and all those things.

C. Ramachandra Rao: I got your point. Return ratio...see, we are seized of this issue, because if you look at the investment opportunities today, what does the other industries, which are...so you have seen yesterday that the entire automobile industry is down. All the industries are down and what is the rate of return that is coming on the investment of these industries. So, if you consider that, whatever the returns that we are going to get, definitely it will be much more than what it is in average return on investment. You please have confidence in us. We will see that your investment grows, okay.

Ayush Mittal: thank you sir.

Alluri Nikhilesh: Thank you sir.

Moderator: Thank you sir. There are no further questions. I now would like to hand over the floor to Mr. Sherwin Fernandez for closing comments. Over to you sir.

Sherwin Fernandez: Thank you to the entire team of Avanti Feeds Limited for giving us the opportunity to host the call and I also thank the investors and analysts for their participation and taking time to attend the call. Thank you.

Moderator: Thank you very much sir. Ladies and gentlemen, on behalf of Karvy Fintech Limited, that concludes this conference call. Thank you for joining us.

Note:

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

Annexure-1.

Comparative Statement of Consolidated Financial results for the Quarter and Year ended 31.03.2019

S No	Particulars	Quarter Ended			Year Ended		
		31.03.19	31.03.18	31.03.17	31.03.19	31.03.18	31.03.17
1	Revenue from Operations	85,767.88	83,427.76	67,161.24	3,48,777.95	3,39,290.31	2,61,574.40
(a)	Other Income	1,946.72	1,510.37	995.17	5,382.73	4,824.82	2,351.01
	Total Income	87,714.60	84,938.13	68,156.41	3,54,160.68	3,44,115.13	2,63,925.41
(b)	Profit Before Tax (PBT)	10,254.34	12,443.75	13,137.55	42,805.38	70,450.30	33,673.65
2	PBT % on Total Income	11.69%	14.65%	19.28%	12.09%	20.47%	12.76%
3	Tax	2634.05	3,843.56	4,264.00	12,143.39	23,802.36	11,043.23
4	Net Profit After Tax (PAT)	7,620.29	8,600.19	8,873.55	30,661.99	46,647.94	22,630.42
	PAT % on Sales	8.88%	10.31%	13.21%	8.79%	13.75%	8.65%
