

Transcript

Conference Call of Avanti Feeds Limited

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Presentation Session

Moderator: Good evening Ladies and Gentlemen. Welcome to the Avanti Feeds Q4FY17 post results discussion conference call hosted by KARVY Computershare 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 floor to Mr. Anand from KARVY Computershare Private Limited. Thank you and over to you Sir.

Anand: A very good afternoon to all of you. On behalf of KARVY Computershare, I extend a warm welcome. Today from the Avanti Feeds management, we have Mr. Ramachandra Rao, Joint Managing Director, Mr. Venkateswara Rao, General Manager – Corporate Affairs and Mr. Rajashekar, Deputy General Manager – Finance and Accounts. Without taking much of your time, I would like to hand over the call to Mr. Ramachandra Rao. Over to you Sir.

Ramachandra Rao: Thank you Mr. Anand. Good Afternoon Ladies and Gentlemen, On behalf of Avanti Feeds Ltd., I extend a warm welcome to all of you for this Investors Conference Call. This time, you have the financial results of the company for the Q4 FY2017 and also the results of the year ended 31st March'17. These results are already with you for some time now and I am sure you would have already gone thru them. However, I will present you some broad figures.

First, let me take up review of current year i.e. FY 2017 performance compared to FY 2016 performance. The consolidated total revenue for FY17 stood at Rs.2754.74 crores as against Rs.2034.84 crores in FY16, registering a growth of 35.36%. The PAT for FY2017 is Rs.226.75 crores as against Rs.158.98 crores in FY 2016 recording a growth of 42.63%. The main reason for increase is due to increase in sales volume of feed as well as shrimps. The Board has recommended a dividend of Rs.9/- per share of Rs.2/- fully paid representing 450%.

Coming to the performance of Q4, the consolidated gross income from operations during Q4 FY17 was Rs.704.42 crores compared to Rs.468.83 crores during the corresponding quarter of FY16 registering a growth of 50.25%. The profit before tax and exceptional income during Q4FY17 was Rs.130.09 cores compared to Rs.48.47 crores during the corresponding quarter of the previous year, Q4FY16 recording a growth of 168.39%.

The significant contribution for impressive increase in profits of Q4FY17 has come from feed business. The revenue from feed business during Q4FY17 stood at Rs.638.93 crores compared to Rs.410.84crores during Q4FY16 recording a growth of 55.52% while the profit rose to Rs.121.27 crores in Q4FY17 from Rs.42.39 cores in Q4FY16 from the feed business with a growth of 186.08%. the main reason for significant increase in profit from feed business is on account of increase in volume of sales and decrease in raw material prices compared to the corresponding period of the previous year.

Dear Friends, beyond this I would not like to dwell much upon these numbers as these financials are already with you. I would like to share with you the present status of aquaculture and prospects for the rest of the season. As you have seen 2016 was a very good year for aquaculture as the culture was successful and also the shrimp prices remained reasonably constant throughout the year. The farmers are happy with the performance.

Coming to the current calendar year(2017), as is evident from the results of Q4FY17, the shrimp culture started with a good note. Increase in area of culture in States like West Bengal, Orissa and East and West Godavari Districts of Andhra Pradesh coupled with favourable climate have contributed significantly for improved sales and also improved profitability during the first quarter of 2017. As the weather men have predicted normal monsoon this year, it is expected that the shrimp culture will be successful during rest of this year also.

Further expansion of feed capacity :

As you know, a new shrimp feed plant with a capacity of 1,25,000 MTA was set up at Bandapuram, in West Godavari Dist of Andhra Pradesh which commenced commercial production in August'16. As the demand for the feed is growing, a further expansion of this plant has been made adding 50,000 MTA capacity. The total feed production capacity for all the units put together is 4,50,000 MTA as on date.

Shrimp Processing and Export business :

As you know, the shrimp processing and export business has been hived off from AFL and transferred to Avanti Frozen Foods Pvt Ltd. After completing the statutory and related transfer formalities, AFFPL is now independently carrying on the processing and export business. AFFPL has completed implementation of new state-of-art shrimp processing plant at Yerravaram in East Godavari Dist., with a processing capacity of 15000 TPA. The trial production is on and commercial production is scheduled by end of this month.

The existing processing plant has recorded an export of Rs.65.30 crores during the Q4FY17 as compared to Rs.57.39 crores during Q4FY16 registering a marginal growth of 13.78%. This is due to seasonal factor. The revenue for FY17 was Rs.385.39 crores

as compared to Rs.286.06 crores during FY16 registering a growth of 34.72%. The profit for FY17 stood at Rs.31.48 crores compared to FY16 Rs.23.53 crores with an increase by 33.79%.

GST :

The GST Council of the Govt. of India has announced the GST rates for commodities on 18/05/2017 and shrimp feed (aquatic feed) is exempt from GST. As regards GST on inputs, the Soyabean meal and Wheat and Wheat products which are major inputs exempt from GST. With regard to GST on other inputs, a study has been undertaken and appropriate action will be taken.

As you know, we have created additional capacity for feed as well as processing, with the setting up of new shrimp processing plant. With consistent maintenance of high quality of feed and technical support to farmers and improvement in feed technology, in-house, we are confident of utilizing the feed capacity fully in FY18. Our endeavour is to fully utilise the shrimp processing capacity and grow in export business and maximize the returns with the support of Thai Union. You might have seen that presently the ratio between the feed revenue and the shrimp export revenue is in the ratio of 85:15. It is our endeavour to improve our exports and make it to 60:40. It is our goal to achieve one billion dollar by 2022.

With this information we will now take up questions from you.

Question and Answer Session

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 your question. If you would like to withdraw your request you may do so by pressing * and 1 again. I also request the participants to limit their questions to two at a time and if you have more questions please come back in the queue. Sir the first question comes from Mr. Viraj Mehta from Equirus. Please go ahead.

Viraj Mehta: Hello? Sir congratulations for a great set of numbers. Just a few questions. Sir historically the margins that we have done in the feed business have been in the range of 10%, 11%. Should we treat this quarter's margin as a kind of aberration and probably even Q1 because we know the fish meal prices and soya prices have been the same in Q4 and Q1, but what is the long-term sustainable margin in the feed business?

Ramachandra Rao: Long term sustainable margin is between 7-1/2 to 10% because as you rightly said, there is aberrations because of the raw material prices because most of the raw materials are based on the agriculture and also fish catch from sea and fish meal is completely depends upon the nature.

Viraj Mehta: But Sir, with so much excess capacity in the market, why have we been able to charge such premium and get 17%, 18% EBIT margins....I mean why is that the case?

Ramachandra Rao: If you look at the profit and loss account, there are two reasons Mr. Viraj Mehta, one is that we maintain good quality, so we always retain consistently not only our existing client base, customer base, we also keep increasing the customer base because the farmer converts from other feed to our feed because of the quality and also the technical support we give. That is number one. Number two, coming to the profitability, almost the prices of feed has been stable. There was no increase. However, the raw material prices have come down and that has happened in late '16 and early '17 with the result the profits have gone up much more than what we anticipated. Basically because of the customer support that we have, we keep growing constantly.

Viraj Mehta: Sure Sir. Just the last question, on your exports, you said that you want to make it a 40% part of a billion dollar revenue, so close to 2,500 crores revenue over the next four years, what is the road map of that in the sense if you can just tell us something about the next one or two years, what is the kind of scale up that you are seeing and if you have any firm orders or any kind of clarity on that part will be very helpful.

Ramachandra Rao: When I said million dollars, it consists of the three pronged approach that we have discussed last time also. One is stabilizing the feed and increasing the feed market. We are already having about 42% to 45% market, it is our objective is to go beyond 50%-55%. That is one approach of increasing the volumes. The second being the processing. As I told you that the processing capacity, we have added 15,000 tons per annum and this has got facility to produce value added products. Value added products have got better pricing and better margins than raw products. So our endeavor is to increase the value added products and utilization of 15,000 tons capacity we aim at achieving it by three years we should be able to achieve this capacity utilization fully. Third is, we are exploring the possibility of getting into the fish feed business. Fish feed has got a lot of promising future, like Sea Bass and all, culture of it, the Government of India is supporting through NFDB and other agencies, they are ramping up and encouraging fish culture. So for exportable fish, there is going to be a good demand of feed in future and we are actually studying the total supply demand position and we will get into that feed manufacturing business in the future. With this, we are confident that we should be able to reach our goal.

Viraj Mehta: Okay Sir, lastly, (not clear) crores cash that we have on books, what is going to be the utilization of that because we keep generating 200 odd crores capital or cash flow from our Company and our CAPEX is very limited. So what is the use of that cash going forward Sir?

Ramachandra Rao: At present for short period, we are using it for working capital limits because one of the reason for high profitability is that we don't have any loans and our entire working capital requirements is met out of this surplus cash and we have some short-term deposits we are keeping with mutual funds. So we are working out the CAPEX plans, particularly fish feeds and further expansions we are working out. I think next one year or so we should be able to come out with some strategic planning.

Viraj Mehta: Okay thank you and best of luck.

Moderator: Thank you Sir. Participants are requested to ask two questions in the initial round and may join the queue for more questions. Sir the next question comes from Aditya Wagle from Equitas Investment Consultancy. Please go ahead.

Aditya Wagle: Hi Sir, I would like to ask you, the raw material prices which you said have come down and you expect them to effect margins in the current quarter...Q1?

Ramachandra Rao: There is no much of variance, it is stable. In the first quarter and second quarter also, the raw material prices have not undergone any basic change. They are almost stable with slight variance, slight increase and decrease and almost remains stable.

Aditya Wagle: We can expect around 18% EBITDA margins for the current quarter also?

Ramachandra Rao: That I cannot tell you. We have to see. As of now there is no much difference.

Aditya Wagle: Okay. Secondly can you elaborate why your purchasing revenues have dipped in the current quarter?

Ramachandra Rao: Pardon me?

Aditya Wagle: Your shrimp processing revenue, sequentially they were down. You mentioned some seasonal factors....

Ramachandra Rao: Yes because shrimp season starts now on. In January, February, March there will not be much culture. December there is no season. February, March is the beginning of the culture season, so the harvest will come from April, May onwards the harvest will come and then the processing will start.

Aditya Wagle: Okay alright Sir. And just to follow up on the previous participant's question, the two to three years you are expecting to achieve full capacity utilization in the processing segment right?

Ramachandra Rao: Pardon me?

Aditya Wagle: You mentioned that in two to three years you will achieve full capacity utilization in the processing segment?

Ramachandra Rao: Yeah.

Aditya Wagle: Alright thank you Sir.

Moderator: Thank you Sir. We have the next question from Mr. Darshit Shah from Nirvana Capital. Please go ahead.

Darshit Shah: Hi Sir. Congratulations for a very good set of numbers. Sir my question pertains again to the margins what we did this quarter. Sir we understand your raw material prices probably softened a bit that helped but Sir if you look at the historical raw material prices of fish meal and soya-meal prices have been in this range probably a year and half or two years back, but then at that point of time our margins were not at this level. So, is it that the economy of scale is probably helping us to get this kind of margins because we thought historical high margins what we have done and no one in the industry has been able to do this kind of margin; so can you throw bit of light on that?

Ramachandra Rao: Definitely Mr. Darshit. The volumes....economy of scale also makes some difference. But basically, our major raw materials are fishmeal, soya and wheat flour. These are the three major raw materials. If you look at the prices a couple of years back, one and a half years back or last year itself it went very high. The prices of fishmeal went very high....Rs.110 per kg whereas it is now around Rs.80, Rs.90 per kg. Similarly soya also went up but thanks to the good soya crop, the prices remained stable. The prices have come down last year and they are stable now. So both are contributing factors for the improvement in the profitability.

Darshit Shah: Okay got it. And Sir, on the processing side, what kind of margins do we envisage to make down the line since we are talking about value added products.

Ramachandra Rao: Yeah, see normally the raw products we are expecting a sustainable margin between 5% and 7-1/2%; it may be slightly more upto 10% for cooked products. We are still working on that because we have just started trial runs there are a lot of enquiries for the cooked products also. We have to stabilize the process. We are working the economics of that.

Darshit Shah: Right. This is my last question Sir. Do we kind of intend to utilize the feed capacity fully this year?

Ramachandra Rao: Yeah we are. We are already using 80% to 85% and definitely we will be able to fully utilize that.

Darshit Shah: Thank you so much Sir.

Moderator: Thank you Sir. We have the next question from Nishar Vakharia from Lucky Investment Managers. Please go ahead.

Nishar Vakharia: Good evening gentlemen and thank you for holding this conference call and congratulations on a very good set of results.

Ramachandra Rao: Thank you Mr. Vakharia.

Nishar Vakharia: Sir, firstly I wanted to ask you, you said that over the longer term the margins in the feed business is sustainable is about 10% to 11%; is that right what I heard?

Ramachandra Rao: Yeah 7-1/2% to 10%.

Nishar Vakharia: Okay. Secondly I wanted to ask you what is the growth rate of the feed market in India while you have 40% plus market share.

Ramachandra Rao: See the average growth rate is expected to be between 10% to 15% feed business. Because of our quality feed we are able to take the increase, not only increase and also we are able to get the existing customers also converted to our feed, customers of other feed to our feed.

Nishar Vakharia: Okay. Thirdly Sir, the processing business from what I understand, you may correct me if I am wrong, is more of financing business. The end shrimp pricing is also quite volatile. So the prices can go up and the prices can go down and secondly also there is the impact of the currency. So as of now, the shrimp pricing is on the higher side or lower side when you export?

Ramachandra Rao: Shrimp pricing is stable. It is more or less stable. It is slightly less but it is remaining stable for the last almost 8 to 10 months.

Nishar Vakharia: Okay over five year period Sir, the shrimp pricing is on the higher or lower side?

Ramachandra Rao: Higher or lower side is a market dynamics, it depends upon the world wide situation. The prices were low, it has improved, it has come down and it is the reason why it is called volatile. It is not stable. It is highly varying, fluctuating.

Nishar Vakharia: Okay. Sir, also lot of people have always had concerns on the way this EMS has come about globally in the countries like Thailand and China and all, and from what I understand, is that (not sure) is a complicated breed to do and you guys have done an exceptional job. Again we see a huge boom in terms of the aqua culture that is happening in India. Is this always the eminent risk that can come about in this business because we have gone through this cycle once in India, we have had this problem...what's to say that it may or may not happen again?

Ramachandra Rao: See as I said, the disease is always there but as far as India is concerned because the Indian farmers have learnt lessons from Thailand and they are taking all precautions. That is the reason why we feel that so far there has not been EMS in India and we hope that the steps that's been taken, the precautionary measures that are being taken and also in any case the farmer has to strictly follow the best aqua culture practices, the chances of EMS coming is remote. So we hope that it will not touch India. Luckily we have not seen EMS anywhere in India.

Okay Sir, this Vannamei is....how big is the category growing when you are exporting? I am assuming you are exporting to a lot of the developed economies, what is the category growth and has the exports again started from the countries where there was this EMS problem or regardless of them exporting the market is still growing?

Ramachandra Rao: See, in Thailand they have controlled to some extent the EMS problem. They have been struggling for the last three years. They are taking all measures because one of the reasons they say is because of the brood stock and the seed....seed is the genesis for the EMS problem, so lot of studies have been undertaken by them and they have brought some improvement. They have improved their

performance in the last couple of years. So definitely they will keep exporting to Europe, USA, Japan and Australia.

Nishar Vakharia: But Sir annually what would be the growth rate of demand in this particular shrimp variety?

Ramachandra Rao: It is say about 7%, 6% to 7%.

Nishar Vakharia: So the market is growing only at 7%?

Ramachandra Rao: Yes.

Nishar Vakharia: Okay. Sir thank you, I will attend the queue for more questing.

Moderator: Thank you Sir. We have the next question from Mr. Ayush Mital from Mitalene Company. Please go ahead.

Ayush Mital: First of all Sir congratulations on an excellent set of performance.

Ramachandra Rao: Thank you Mr. Ayush.

Ayush Mital: Sir one thing that we have seen over the years is the way the Company has gained market share in the feed segment. We have also been able to get much better terms from a dealer network in terms of advances, much lower working capital requirement. Infact our working capital is almost negative. With the margins increasing in the feed segment as of now, are you seeing more competition or more lucrative terms, discounts or price reductions being offered by the completion or something on that? Any comments on that?

Ramachandra Rao: There are as many as 20 feed companies today with a capacity of nearly 20 lakhs tons in India. With all that we have been able to take 45% of the market share. We are keeping our prices firm. We are on par with any other competitor's price and also extending other terms like discounts etc. So we are competitive in that angle also. We don't foresee, because as long as the quality of the feed is good, we are confident that the market will remain with us.

Ayush Mital: You are not seeing any price reductions? You are still able to grow despite better terms by others or something on those lines?

Ramachandra Rao: Yeah, absolutely, here and there naturally you will have those companies that are not able to sell; they may offer a little bit more credit and all those things. But we stick to our principles. Because of our quality and technical support, we have a strong customer base. Loyalty of the customers so we are confident that we will be able to maintain this status.

Ayush Mital: This 50,000 additional capacity that you are putting, will this come up in near-term or will it happen in the second half of this year?

Ramachandra Rao: We have already implemented that. It is operational.

Ayush Mital: Okay. So this year are we looking at....on 4,50,000 are we looking at 85%, 90% utilization....is that right?

Ramachandra Rao: Yeah about 85%, 90%.

Ayush Mital: Okay that's great. Any...can you provide us the advance from the dealer network that you would be having in FY17?

Ramachandra Rao: Advance from dealer network? I could not understand Mr. Mittal, what exactly is the question? Please repeat?

Ayush Mital: In your balance sheet there is this figure of advance from dealer network which was around 25 crores last year. Has it grown again this year...I just wanted this number if you have?

Management: We never had that kind of advances from the dealers....

Ayush Mital: I think in the current balance sheet it shows, advance from dealer network or advance from customer...

Ramachandra Rao: It is only 4,not 5 crores also....Is it in the consolidated balance sheet?

Ayush Mital: Maybe I'll share those details with you and take it offline. Okay. On the processing side, I think we were expecting this commissioning to happen in March....any delay on that front or is it normal in line with our expectations?

Ramachandra Rao: There was slight delay. We expected that it will go into production by March, but some clearances had to come...statutory approvals and all those things. Those things have come now and trial production has started and we should be able to start exports by the end of this month and early June.

Ayush Mital: And as this season is going very well are you looking at greater revenue than what you anticipated from before or you are still speaking with 300, 350 crores sort of target?

Ramachandra Rao: You are talking about shrimp exports?

Ayush Mital: Yeah.

Ramachandra Rao: Is it from the new plant? We are expecting that we should be able to reach a capacity of 25% to 30% in the first year of operation which will be about 350 to 400 crores.

Ayush Mital: Okay and Sir anything on the industry? When we see the industry it is growing much faster, maybe 25% this year is that right? There's also a lot of talk about incentives by the local government and all those things which can maintain the growth; any comments on that?

Ramachandra Rao: Local governments got some relief in the power tariff. They are giving some supports but no specific financial encouragements, no such things by the state government. But they have set up a task force for encouraging aquaculture. That's what's happening in Andhra Pradesh.

Ayush Mital: Okay Sir thank you, wish you all the best.

Moderator: Thank you Sir. We have the next question from Mr. Dhires Pathak from Goldman Sachs. Please go ahead.

Dhires Pathak: Thank you for the opportunity. I think you mentioned that you are exploring the fish feed market as well. Can you just explain that opportunity, the size of the market, how big is the market, what are the characteristics of this market? The shrimp feed business we understand better because we have been following your Company. But can you help us to understand fish feed market?

Ramachandra Rao: Fish feed we are still studying. There are several fish varieties of Sea Bass, Tilapia and all and there is market there. The MPEDA is encouraging the shrimp, fresh fish culture and we are yet to assess....because India has got a long coast line of 8000 kms. Definitely there is umpteen opportunities of fish culture both coastal districts and inland also. Now MPEDA is focusing more in inland, land locked area also fish culture can be done. We are making the study to know exactly what is going to be the demand for fish feed, what are the types of fish that are economically feasible for exportable purpose and make remunerative to the farmer and that kind of detailed scientific study is being made. So only once we complete that we will be able to share with you the further details on this fish feed Mr. Dhires.

Dhires Pathak: Do you have some ballpark number like for example the shrimp feed

Ramachandra Rao: No, I am sorry I don't have any.

Dhires Pathak: Okay have you committed any capitals to this, right now or you are studying....?

Ramachandra Rao: No, not yet.

Dhires Pathak: Okay alright thank you.

Moderator: Thank you Sir, the next question comes from Mr. Dheepesh Kashyap from Equirus Securities. Please go ahead.

Dheepesh Kashyap: Hi Sir, thank you for the opportunity. I was just going though the numbers in the last quarter, again the shrimp exports have increased by 33%, your feeds sales have grown up by 56% but the underlying total imports from Europe has actually declined by 1%. So clearly India has gained market share and Avanti also has further gained market share which is very good. But I was just worried about the underlying demand. Can you just enlighten how the underlying demand in the US is going to grow?

Ramachandra Rao: Generally after New Year and Christmas period, there is a slight reduction in demand in America and it is an up and down thing that happens. Overall there is a growth. Definitely the demand for sea food is growing worldwide including America.

Dheepesh Kashyap: Yes Sir 6%, 7% demand we are seeing but clearly US is not able to grow in that range. Any other country you are focusing where demand is growing to increase like China or something else.

Ramachandra Rao: We have opportunities in other countries also like Europe, China, Japan, Australia...we have a lot of opportunities, we are exploring the export market of these countries also.

Dheepesh Kashyap: Okay Sir. One more thing, I wanted some clarity on your capacity numbers. According to the TUF presentation, your capacity is 25 tons per day which you are tripling to 75 tons per day. So according to that your capacity should increase from (not clear). So why are you saying it is going from 6000 to 21,000 per annum. Can you (not clear) anomaly of what I am missing here?

Ramachandra Rao: What is TUF saying?

Dheepesh Kashyap: Bring the capacity from 25 to 75 tons per day and you are saying you are increasing capacity from 6000 tons per annum to 21,000. So....

Ramachandra Rao: The existing capacity is 7000 tons per annum and the new plant is 15,000 per annum....

Dheepesh Kashyap: Okay so per day....? Because what I have heard is that....

Ramachandra Rao: Per day depends upon the number of working days. Because seasonality is involved, it is not that the shrimp is available uniformly throughout the year.

Dheepesh Kashyap: Okay, so you are basically saying your existing capacity is 7000 tons?

Ramachandra Rao: Right.

Dheepesh Kashyap: One last question is we have talked about introduction of value added products which is going to increase the margins; but when I look at the TUF numbers which has already doing this value added products, the gross margins are like 14%, 15% whereas our margins are around 22%, 23% and the returns are also very low as compared to Avanti's numbers. So can you explain the difference why....is there any difference between India and Thailand operations that is the reason why TUF makes lower profits than Avanti does?

Ramachandra Rao: No it is not like that. We will have to see, there are not much value added product exports from India. We are bringing state-of-the-art technology and we are getting technology from Thai Union. There are branded products and unbranded products, based on customer needs we do it. So the profit margin depends upon....if you have your own brands then perhaps the margins will be higher. If you are doing an

unbranded product you will say that the brand of your customers then the margins will be less. It will keep varying.

Dheepesh Kashyap: Yes that's what I am saying TUF is already into the branded products, so again margins should be higher than Avanti but right now their margins are actually lesser, so that's what confuses me why the margins are actually less. So is there any reason like because they import the raw materials from other countries that's why their margins are less...something like that? I am not able to really...?

Ramachandra Rao: We have to study that. We will be having more information about the market of cooked products next time.

Dheepesh Kashyap: Okay Sir. One last question if I may squeeze in Sir, what is the inventory days and receivable days for processing business?

Ramachandra Rao: Processing business we keep about 1 months' stock.

Dheepesh Kashyap: So you don't do cold storage on your own? Generally like.....

Ramachandra Rao: We have our own cold storage.

Dheepesh Kashyap: Okay, so one month is inventory days and receivable days will be how much?

Ramachandra Rao: 45 days or 50 days.

Dheepesh Kashyap: Okay, thank you so much and all the best.

Moderator: Thank you Sir. Ladies and gentlemen if you have any questions please press * and 1 on your telephone keypad. I repeat, if you have any questions please press * and 1 on your telephone keypad. Sir we have the next question from Mr. Vivek from GGs Investments. Please go ahead.

Vivek: Sir first of all congratulations for a fantastic set of numbers. Second thing Sir is about the opportunity size of India, at least we have totally penetrated Andhra Pradesh, but what about other states like Karnataka, Kerala, Gujarat, Maharashtra, all the other coastal belt what is the opportunity size in India for our feed business Sir? Feed including fish also...including fish feed.

Ramachandra Rao: Actually coastal maritime states are all undertaking the shrimp culture. Apart from Andhra Pradesh you have Gujarat, West Bengal, Orissa, Karnataka, Maharashtra. We have got shrimp culture in all these states. Gujarat is very promising. West Bengal and Orissa have really grown phenomenally in the last one year.

Vivek: There is our neighboring country of Bangladesh also where black tiger and black shrimp are cultured. Are we exploring exporting to that country also Sir?

Ramachandra Rao: We are trying to export feed to Bangladesh, but there are several regulations and also transportation issues we are facing. Anyway whatever we produce we are not able to meet our own local demands so we are not making much effort on that line because of the several issues involved. Nevertheless I think in future, may be, in the next one year we may have to explore the possibilities of exports as well.

Vivek: Opportunities size remains very good for feed business in India....

Ramachandra Rao: Pardon me?

Vivek: The opportunity size is very good, big and large enough for feed business in India so are we reaching a saturation phase Sir?

Ramachandra Rao: No, as long as there is demand for sea food which is growing worldwide, there is no scarcity, infact the Marine Products Export Development Authority and the governmental agencies are encouraging to grow more and more. Fresh water shrimp culture also they are encouraging in the land locked areas.

Vivek: Fantastic. Any chance of having income tax exemption like for the other agricultural produce? Most of the farmers are shifting to shrimp and (not clear) identified (not clear).

Management: That is a long-standing demand of shrimp culture and fish culture sector to be treated as Agriculture.

Moderator: Hello Mr. Vivek? We lost the connection Sir. I will move on to the next question that comes from Suma Venkatraju from CPF India Pvt. Ltd. Please go ahead.

Suma Venkatraju: Good evening Sir, congratulations.

Ramachandra Rao: Thank you madam.

Suma Venkatraju: Actually today in Moneycontrol.com I saw that there was a concall so I took this number and to check it I called. I am so happy to be able to speak to you today evening. The thing is I very recently I picked up your share and I am very glad that the Company has come out with a good result and all and looking forward to the future growth of the Company Sir. We wish all of you the very best Sir. Sir my only request is, I was reading in Money conrol.com that you are planning to issue the bonus....

Ramachandra Rao: That is not a decision we can take immediately. We have to see so many factors there.

Suma Venkatraju: Okay thanks for speaking to me Sir.

Ramachandra Rao: Thank you very much.

Moderator: Sir we have a follow-up question from Mr. Dhires Pathak from Goldman Sachs, please go ahead.

Dhires Pathak: Thank you. On the processing side of the business, you have about 22,000 tons of capacity. Would you also have any backward integration like the farming also on your own land or leased land?

Ramachandra Rao: Yes we have plans on two counts. One is backward integration we want to start the hatchery. We have already acquired land; 21 acres of land near Vizag, a place called Gudivada. We have applied and we are going to start implementation of 400 million per annum capacity hatchery with technical support of Thai Union. We are going to start that in a month or so. It will take about a year for completion. We will go into commercial production next year. That is, we want to supply good quality seed to the farmer, so that one advantage is that it will support our feed and the farmer will get good quality seed also the benefit on our side is that we will be able to establish the traceability for our buyers, right from the seed to the prawn. This has got a lot of advantages in the overseas market. That is one aspect of it. The second aspect is shrimp culture. We have already acquired land on lease. On leased land we have started shrimp culture. This is also advantage for traceability.

Dhires Pathak: Yeah, but over time is your thought process to do complete backward integration, that is to have your own culture feed into your processing facility?

Ramachandra Rao: Pardon me?

Dhires Pathak: A large of the risk in the business on the processing side, you've been mitigating the shrimp price risk, and that part of it can be mitigated by having your own shrimp farms which you don't have as of now but you are saying you are getting into them. So I am asking over a longer period of time, is your philosophy to be fully integrated into having your farms feed into your processing unit so as to mitigate that risk completely is that your thought process?

Ramachandra Rao: No we don't have any plan to have a total integrated unit like hatchery, farm, feed and processing, but independently we want to manage them. There is no integrity at all and each one will be an independent activity.

Dhires Pathak: Right, but the volatility in the shrimp prices in your processing part of the business I am asking. How do you mitigate the risk of the shrimp price in your processing business?

Ramachandra Rao: See the processing business is very dynamic and the export prices of shrimp depends on the world market. So we have to adjust, to the market dynamics. What happens is, over a period of time, automatically the prices of raw material, because nearly 85% to 90% of the cost of shrimp is only raw shrimp. So the pricing will get adjusted....the shrimp prices will get adjusted the raw shrimp to the processed shrimp. That is how the market works.

Management: So pricing volatility is inherent in this, because supplies from some other countries and demand in western countries all these things keep on changing.

Ramachandra Rao: See what we are trying to do at our end; our endeavor is to increase the productivity, that's what we are doing. Improve the yields and also workmen productivity if you increase that is going to add to the margins.

Dhires Pathak: Okay and Sir, has Thai Union underwritten any of your propensity or they will just do an arms length transaction and be a share holder?

Ramachandra Rao: It will be on arms length transaction.

Dhires Pathak: Okay Sir. Any visibility into contracts that you have signed with end clients other than Thai Union who would be taking the position....?

Ramachandra Rao: No we don't sign any contract with Thai Union, they will only help us in marketing. We don't have any contract with them as far as the marketing is concerned. What we do is we have two types of market arrangements, one is in the spot market where we take orders on a regular basis and we fulfill the orders. Short term we take three months order, six months order, we take the quantities, we process, fix the rate and export it. Like that we offer it.

Dhires Pathak: No, I am just saying like apart from Thai Union where you may be having existing relationship if you are not having with the large retail chain in the US, or restaurant chain in the US....

Ramachandra Rao: We have Red Lobsters, GMRI, we have got about 15 companies, chains and malls in the US.

Dhires Pathak: Okay with these large retail chains, or restaurant chains is there any....is the contract spot contract or they are contracts wherein you commit to a particular price for fixed month, two months....how does it work? Can you explain a little bit?

Ramachandra Rao: Both are there. We have got spot contracts as well as short-term contracts.

Dhires Pathak: In short-term contracts, you will commit to a particular quantity, particular container, particular ton output of certain processed packaged product at a particular price and then if the raw shrimp price changes either in the positive or negative direction, that is the risk that you will take right?

Ramachandra Rao: Yes. These contracts generally within a period of two months we execute, the short-term contracts. Long term contracts are less in volume but still some parties give and they extend between 8 to 10 months period.

Dhires Pathak: Yes so in that long term contract you don't fix the price eight months before right? The price is spot?

Ramachandra Rao: Umer Barry prices we fix.

Management: For long-term contracts, Umer Barry price is taken as a base.

Dhires Pathak: Okay how do you mitigate the prices for raw shrimp? You agree to a particular price, let's say, eight months in advance...

Ramachandra Rao: Eight months and all we don't have many contracts like that.

Management: But by then we plan. Whenever prices are less, we buy, process and keep them looking at the price chart. That's where experience counts, that's where long experience works in our favor.

Dhires Pathak: Alright Sir, thank you.

Moderator: Sir, the next question comes from Mr. Aman Vaij from Astute Investments. Please go ahead.

Aman Vaij: Good evening Sir. A couple of questions from my side.

Ramachandra Rao: Your voice is not audible Mr. Aman.

Aman Vaij: Is it better now or still not audible?

Ramachandra Rao: Now it is better.

Aman Vaij: The first question is what was the CAPEX in FY 17 and could you divide it in processing and feed and also what is your plan for CAPEX in FY18.

Ramachandra Rao: 170 was our 16-17 CAPEX, out of which 70 crores had gone for feed new unit and 100 crores for new processing plant.

Aman Vaij: Okay.

Ramachandra Rao: 2018 we will commence it, the hatchery would cost 25 crores. It will be commenced sometime in the next one month or so. May be we will be able to invest before the end of the year about 10 crores.

Aman Vaij: Okay. This 70 crores in feed expansion includes 50,000 tons expansion or....

Ramachandra Rao: Yes it includes.

Aman Vaij: Okay thanks for that. The next question was, what was the feed sales in FY17 in tons?

Ramachandra Rao: 3,46,000 tons if I am not wrong. In quantity terms you want or value?

Aman Vaij: Quantity.

Ramachandra Rao: It is around 3,40,000 tons.

Aman Vaij: Okay thank you for that. And Sir, you mentioned that we require some working capital although working capital on 31st March is normally lower,

but we require working capital for our business, and that is why we keep around 200, 300 crores of cash. What is the working capital required throughout the year if we see it as a percentage of sales?

Ramachandra Rao: In peak season we will need more working capital Mr. Aman. In normal period we may keep around 45 days of stock that is not much, most of the sales is cash sales, around 80% is cash sales, 20% debtors, that is also one month debtor. So we can say that 45 days stock and nearly 10 to 15 days of debtor, that's all the working capital required. But in the peak season the working capital requirement goes up, when we extend credit to dealers, so nearly with extended capacity and all those things it is around 400 to 450 crores of working capital requirement.

Aman Vaij: This number is peak working capital right? Including the June season?

Ramachandra Rao: Yes.

Aman Vaij: Okay. Last question is on the raw material, fishmeal costs. What was the fishmeal cost per kg for us in Q4 as well as for full year?

Management: For full year it was 100 to Rs.110/- and sometime it went beyond, upto Rs.150 also. In the last quarter it was around Rs.80 near to Rs.90

Aman Vaij: Okay but if I see the current price it is closer to Rs.80 right?

Management: Yes.

Aman Vaij: Okay and the same for soya?

Ramachandra Rao: Soya is much more volatile, it keeps like stock market, it goes up and comes down. But not much variance in last quarter about 10% variance is there. Otherwise it is stable.

Aman Vaij: Okay, it is closer to 24 or closer to the old rates of Rs.38, Rs.40?

Ramachandra Rao: Not old rate, it has decreased, it is around Rs.27, Rs.28 Ex-factory.

Aman Vaij: Okay it is still at Rs.27, Rs.28.

Ramachandra Rao: Let me check up the soya rates because I don't remember.

Aman Vaij: I think wheat is Rs.25 so it should be around Rs.23, Rs.24.

Ramachandra Rao: Yeah that's correct.

Aman Vaij: Okay, last question is Sir, we will be doing a utilization or Rs.20% to 25% from the new shrimp processing plant. This will be as of....raw, uncooked not cooked as of now or will it include some value added also?

Ramachandra Rao: What we are planning is 20% cooked and 80% raw.

Aman Vaij: For this year itself?

Ramachandra Rao: Yeah for this year itself 20% and 80%.

Aman Vaij: Okay.

Ramachandra Rao: Soya cost is Rs.24 only.

Moderator: Sir Mr. Aman has withdrawn his request Sir. We have the next follow up question from Mr. Ayush Mital from Mitelene Company. Please go ahead.

Ayush Mital: Sir just to confirm the number. What is the quantity of feed you sold in FY17, it is 3,40,000 or 46,000?

Ramachandra Rao: 3,40,000.

Ayush Mital: What was it in Q4?

Ramachandra Rao: It is around 93,000.

Ayush Mital: Okay Sir, thank you.

Moderator: Thank you Sir, that will be the last question for the day. I would now like to hand over the floor to Mr. Anand for closing comments. Please go ahead.

Moderator: I would like to take this opportunity to express gratitude to the management of Avanti Feeds, for sparing some of their valuable time to enlighten the investor community. I would also like to thank all the investors for attending the call and showing interest in the Company. Thank you one and all.

Management: Thank you. Thank you Mr. Anand. Thank you moderator.

Moderator: Thank you Sir. Thank you ladies and gentlemen. On behalf of KARVY Computershare Private Limited, that concludes your conference call for today. You may all disconnect your lines now. Thank you and have a good day every one.

Note:

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