

May 25, 2022

The Deputy General Manager
BSE Limited
1st Floor, New Trading Ring
Rotunda Building, P.J. Towers
Dalal Street, Mumbai – 400 001

The Listing Manager
National Stock Exchange of India Ltd.
Exchange Plaza
Bandra (East)
Mumbai – 400 051.

BSE Code: **512573**

NSE Symbol: **AVANTIFEED**

Dear Sir/Madam,

Sub: Transcript of post earnings Audio Conference Call for Q4 FY22

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Further to our letter dated May 20, 2022, we enclose herewith the transcript of post earnings Audio Conference Call for Investors held on May 19, 2022 in connection with Audited Financial Results (Standalone and Consolidated) of the Company for the quarter / year ended March 31, 2022 and the same is being uploaded on the website of the Company at www.avantifeeds.com

This is for your information and record.

Thanking you,

Yours faithfully,
For **Avanti Feeds Limited**



C. Ramachandra Rao
Joint Managing Director,
Company Secretary & CFO



Encl: As above



Avanti Feeds Limited Q4 FY22 Earnings Conference Call

19th May, 2022, 04:00 PM IST for a duration of 66 mins 20 secs

CORPORATE PARTICIPANTS:

- | | | |
|-------------------------------|---|--|
| Mr. C. Ramachandra Rao | - | Joint Managing Director, CS & CFO |
| Mr. A. Venkata Sanjeev | - | Executive Director |
| Mr. Alluri Nikhilesh | - | ED - Avanti Frozen Foods Private Limited |
| Ms. Lakshmi Sharma | - | Manager - Corporate Affairs |

A handwritten signature in blue ink, appearing to read 'C. Ramachandra Rao', is written over a faint, larger version of the same signature.



Moderator

Good evening, ladies and gentlemen. I am Moumita, moderator for the conference call. Welcome to the Avanti feeds limited Q4 FY22 results conference call hosted by KFin Technologies Limited. We have with us today from the management Mr. C. Ramachandra Rao, Joint Managing Director, Mr. A. Venkata Sanjeev, Executive Director, Mr. Alluri Nikhilesh, Executive Director - Avanti Frozen Foods Pvt. Ltd and Ms. Lakshmi Sharma, Manager – Corporate Affairs. As a reminder all participant lines will be in listen only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing * and then 0 on your touch tone telephone. Please note this conference is recorded. I would now like to hand over the floor to the management. Thank you over to you.

C. Ramachandra Rao

Good evening ladies and gentlemen, we extend a warm welcome for this investors conference call to review the audited financial results for Q4 FY 22 as well as the audited financial results for the financial year 2022. Mr. A. Venkata Sanjeev and Mr. Alluri Nikhilesh, Executive Directors are joining from the respective factories along with me here are, Ms. Lakshmi Sharma and other team Mr. K S Reddy and Mr. Muthyam Reddy. The results of Q4 FY22, an audited financial result for FY 22 are already 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 key indicators relevant for our discussion today. Firstly, let me take up the consolidated financial results for Q4 FY22.

CONSOLIDATED FINANCIAL RESULTS FOR Q4 FY22:

The comparative performance of Q4 FY22 with that of Q3 FY22 and Q4 FY21 has been given in the presentation already circulated to you all. Gross income in Q4 FY22 is ₹1,348 Crores as compared to rupees ₹1,088 Crores in the previous quarter Q3 FY22. An increase of ₹260 Crores by 24%, compared to Q4 FY21 gross income of ₹1,116 Crores, there is an increase of ₹232 Crores by 21%. The PBT is ₹121 Crores in Q4 FY22 as compared to ₹66 crores in Q3 FY22 an increase of ₹55 Crores by 83% and compared to Q4 FY21 PBT of ₹93 Crores. There is an increase of ₹28 Crores at 30%. The Consolidated results indicate net impact of several factors such as increase or decrease in income expenditure and exceptional items etc. Relating to feed and frozen divisions which have been discussed separately in the divisional performance of these units.

STANDALONE FINANCIAL RESULTS OF FEED AND PROCESSING DIVISIONS

A. FEED DIVISION - Q4 FY22 RESULTS

Let me first set up the standalone financial results of the division Q4 FY22 results.

The gross income for the Q4 FY22 is ₹1,050 crores as compared to ₹819 crores in the previous quarter of Q3 FY22 increase by ₹231 Crores by 28% mainly increase in feed sales due to

January and February season for aquaculture. The gross income in Q4 FY22 increased to ₹1,050 crores from ₹900 Crores in the corresponding quarter of Q4 FY21 increased by ₹150 crores by 17% mainly due to increase in sales volume and sales price.

The PBT for the Q4 FY22 is ₹102 crores as compared to ₹50 crores in Q3 FY22, an increase of ₹52 crores by 104%. The PBT in Q4 FY22 is increased to ₹102 crores from ₹91 crores in the corresponding quarter Q4 FY21 increased by 12%. The significant increase in PBT is due to increase in volume of feed sales coupled with increase of feed price.

Year ended 31st March 2022, it is said gross income of ₹4,108 crores as compared to ₹3,307 crores in the previous year, an increase by 24%, increase is on account of increase in sales volume by 67,439 metric tons, an increase in sales price during the FY22.

However, the PBT for the FY22 is ₹264 as compared to ₹404 crores in FY22, a decrease by ₹140 crores by 35%. That is in spite of increase in gross income due to increase in volume of feed sales and the feed price, the PBT has come down by 35% compared to the previous year, due to steep increase in raw material prices.

As you know, there are three major raw materials, the Fish Meal, Soyabean Meal and Wheat Flour, which significantly impact the RM cost of the feed.

During FY21, the Fishmeal average price was ₹93 per kg, went up to ₹101 per kg in FY22. The main reason appears to be shortage in fish catches coupled with large export demand, pushing the price upwards.

Similarly, the price of Soyabean meal also increased steeply in the past one year of FY22 compared to FY21, in spite of several steps initiated by the government, such as permitting import of Soyabean meal, but a span to check the unabated increase of soya suspending trading of soya in NCDX. Even with a good crop, the prices are not coming under control. Again, government is permitting input of Soyabean meal from 2nd May '22 to 30th September '22 to the extent of 5,50,000 metric tons. The average Soyabean meal price has been ₹67 per kg during FY 22 compared to ₹43 in FY21.

Average Wheat flour price also increased to ₹24 from the ₹22 per kg during FY 22 as compared to FY 21. However, off late Wheat prices have been going up steeply due to Ukraine war creating a global shortage of wheat, an increase in export demand for EDL Wheat. The prices of Wheat crop went up to ₹29 per kg prompting the government to ban export of Wheat from India with effect from 13th of May 2022. Presently, the price of Wheat still remains at, per Wheat crop, still remains at ₹28 per kg with not much expectation of a significant fall in prices of Wheat flour.

Increase in sales price of feed:

In spite of increase in the average feed price realization by ₹6.44 in FY22 four times increase, ₹2.00 once, ₹3.15 once, ₹4.25 and ₹4.00, due to steep increase in raw material prices, the raw material cost increased by ₹10.58 per kg leaving a difference of ₹4.14 unabsorbed.

However, in course of time during the year, the prices of Fishmeal, Soyabean Meal and Wheat Flour are expected to stabilize with the marginal increase due to actions initiated by the government in respect of Soyabean Meal and Wheat Flour.

B. SHRIMP PROCESSING DIVISION - Q4FY22 RESULTS

Now, coming to the same processing division, the gross income for Q4 FY22 is ₹300 crores as compared to ₹270 crores in Q3 FY22. Registering a growth by ₹30 crores at 11%. The gross income in Q4 FY22 increased ₹300 crores from ₹218 crores compared to corresponding quarter Q4 FY21 and increased by 38% mainly due to increase in sales volume by 21% and recognition of our or more RODTEP income of ₹16 crores pertaining to January 21 to March 22, (15 months).

However, for the year ended 31st March 22, gross income registered an increase of 15% to ₹1017 crores as compared to ₹888 crores in the previous year. The increase is mainly due to increase in sales volume by 1,318 metric tons from 11,518 to 12,836 metric tons.

The PBT for Q4 FY22 is ₹21 crores as compared to ₹26 crores in Q3 FY22, a decrease by ₹5 crores represents 20%, mainly due to increase in RM cost and marginal increase in ocean freight. The PBT in Q4 FY22 is ₹21 crores increase from ₹1.48 crores in the corresponding quarter of Q4 FY21. In fact, the PBT in Q4 FY22 of ₹21 crores inclusive of ₹13.17 crores of RODTP pertaining to earlier period leaving effective profit from the quarter at ₹7.83 crores. In Q4 FY21, MEIS incentive to the extent of ₹12 crores was reversed resulting in an effective profit of ₹13.48 crores therefore, effectively, the PBT has marginally decreased by ₹5.65 crores.

However, for the year ended, 31st March '22 the unit registered a PBT of ₹100 crores as compared to ₹108 crores in the previous year, a decrease by 7%, mainly due to increase in the ocean freight rates.

Status of recall of products by a frozen foods division.

As you are aware, the Company had to recall some of the consignments of cooked shrimp products, found to be with Salmonella contamination, by USFDA and CDC in the recalled products. The recall had to be made twice in June'21 (Initial) and August'21 (Expanded). The recalled products are not allowed to be brought back to India and they have to be destroyed in US itself.

As a result, the company is liable to compensate the US customers for recalled products and related expenses of destruction charges etc. to the extent of the products returned and destroyed. The company is also liable for the reimbursement of medical and related expenses to the consumers who fell sick and underwent treatment after consuming the recalled product.

Insurance coverage

The company has Product Liability Insurance covering the medical and related expenditure mentioned above. However, there is no insurance coverage in respect of payment of products returned and destroyed and also other related expenses such as Product Destruction charges, Call Center charges, Storage expenses etc. This cost has to be beard by the company.

Provisions in the financial statements

In FY22 accounts, provision has been made for some of ₹27.50 crores that is for the first quarter Q1 FY22 to ₹4.10 crores, then Q2 FY22 ₹17.15 crores and Q3 FY22, ₹6.25 crores as an exceptional item towards value, returned/destroyed products and other related expenses on actual basis and as and when the claims are received on a quarterly basis out of this set provision an amount of ₹9.04 crores have been refunded to the customers in FY22.

The provision in the financial statement has been made on the basis of return and destroyed value of the products together with the related expenditure as stated above, which has come to ₹27.50 crores.

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

Present status of termination of recall and reinstating a green status.

The company received communication from US FDA stating that all the information and documentation required from the company have been received by them and it will take some time to terminate the recall which will be informed in an automatic email.

The company has shipped out 5 containers of cooked shrimps and on clearance of these containers by US FDA, the green list will be restored lifting the red alert which is expected in due course. Once the red alert is lifted, the company will be in a position to accelerate export of cooked shrimps.

INDUSTRY OVERVIEW - FUTURE OUTLOOK

The recovery from impact of COVID-19 which affected global economy during the past two years, has significantly improved, which is perceivable in the growth of the global economy. You may notice that the performance of the calendar year 2021 was much better than calendar year 2020 and it is expected to be still better in calendar year 2022.

At the start of this year 2022 the environment for shrimp culture in the country started favorably and the shrimp culture commenced promisingly registering a growth of 3% during Q4 FY22. Significant growth is expected in FY23 in terms of feed sales and production of shrimps in the country, as the culture progresses in the rest of the period of this year.

The total production of the shrimp is expected to increase as the farm gate prices are at all-time high and remunerative and climatic conditions are favorable. The company estimates that India should be able to produce 8.5 lakh metric tons of shrimps with an estimated consumption of about 13 to 14 lakh metric tons of shrimp feed.

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

SHRIMP FEED CONSUMPTION:

The Shrimp feed consumption in India increased to 12 lakh metric tons in FY22 as compared to 10.5 lakh metric tons in FY21. It is expected that consumption would further increase to 14 lakh metric tons in FY23 and increase by 17%.

The company's feed sales during FY22 was about 5.41 lakh metric tons as compared to 4.73 lakh metric tons in FY21. It is expected for FY23 would be around 5.80 lakh metric tons, an increase by 7%. The company is expected to maintain its market share at about 48% - 50%.

As the demand for shrimp feed is expected to increase, the company has almost completed setting up a new shrimp feed manufacturing facility at Bandapuram with annual installed capacity of 1,75,000 metric tons with a Capex of ₹125 crores. The new facilities scheduled to commence commercial production in June '22, next month.

SHRIMP PROCESSING AND EXPORT

The shrimp production and export from India increased to 7.5 lakh metric tons in FY22 as compared to 6.5 lakh metric tons in FY21. It is expected that the shrimp production would further increase to 8.5 lakh metric ton itself in FY 23, an increase by 13%.

The company shrimp exports during FY22 was about 12,836 metric tons as compared to 11,518 metric tons in FY21. It is expected that for FY23 would be around 14,500 metric tons an increase of 13%.

Avanti Frozen is in the process of expanding pre-processing, main processing and cold storage as detailed below.

1	Pre-processing facility in Gopalapuram (adjacent to the existing Processing plant).	Completed and awaiting final approvals to start Pre-processing. Capex of Rs.11.43 crores.
2	New Cold Storage at Yerravaram Processing plant with 2000MT Capacity.	Work is in progress and the estimated cost is Rs. 17.60 crores
3.	New processing plant and cold storage in Krishnapuram, East Godavari District with 7000MT p.a. capacity.	Land acquired. Civil works to be commenced. The Estimated cost is Rs. 49 crores.

I would like to conclude with a positive note that aquaculture industry is poised for a relatively improved performance in 2022 calendar year compared to 2021. With this I conclude and now we'll take up the questions.

Moderator

Thank you, sir. Ladies and gentlemen, we will now begin the question-and-answer session. If you have a question, please press * and 1 on your telephone keypad and wait for your turn to ask the question. If you would like to withdraw your request, you may do so by pressing * and 1. Participants are requested to restrict to their questions to two per person during the initial rounds and may join the queue back for follow up questions. First question from Mr. Nitin Awasti from Incred research. Please go-ahead sir.

Nitin Awasti

Thank you for the opportunity. My first question will be relating to the incentives that go passed by the board. So, now the incentives to the management can be up to 15%. However, there is a question in most minds where only the pay to non-executive director has been capped at ₹1.00 Crore, whereas the remaining executive directors there is no cap. Hence, if you have to go by this, the remaining percentage, Avanti's Management executive payroll could become the highest paid Executive Director board in the country. So, why not put a cap to it? Let's say an absolute number like you have for the Non-Executive Director.

Sri C Ramachandra Rao

That's all your question Nitin?

Nitin Awasti

That's the first question, sir.

Sri C Ramachandra Rao

First question, okay. Right. Next question. Do you want me to answer the question and go to the next question or how is that you want to complete all your question?

Nitin Awasti

You can answer this question, then we will move to the next one.

Sri C Ramachandra Rao

Okay Nitin, let me tell you, see this managerial remuneration, the topic had come earlier in the Extraordinary General Meeting, and it has been approved. So, this case is inclusive of two components, one is the fixed salary, also the Commission on profits. So, as far as fixed salary is concerned, it is on par with what is the cost-of-living etc. and other things for the hard work that the Executive Whole-Time Directors are working that is fixed according to the standards of living and also to the general cost of living going up and this is for five years, that is one part. The second part is the commission, though we call it a certain percentage is fixed in the resolution, but the overall cap is there for up to 15% which includes the three whole time directors.

So, I would say, I think the apprehension or whatever the concern about what to expect now seems to be that if it is 400 crores or 500 crores, it will go up to 30 crores to 60 crores or 70 crores like that. So, let me tell you one thing see, as far as the fixed remuneration is concerned, it has to be given is it not? because they're working as a whole-time employment of the company, okay. That will be given on par, if you look at the resolution, which we have passed last time, the increase that is given to the directors was much less than the average increase that is given to any senior executives of the company. Senior executive gets an annual increment of 15%, whereas, we have given only got five to 6%, the average increase is given.

So, as it goes naturally, the fixed expenses go up, but the cap remains. Whatever, 15% what we fixed there is among the three directors that is inclusive of these amounts. So, if you say that if your company makes 500 crore profit naturally, what should be the top line of the company, what should be the activities. Let us say if you take 15% into 500 crores, it has to be 8000 crores, is it not? 7,500 crores, it should be the top line to get a profit. Does it happen just like that? So, the director gets the percentage of commission only when there is a profit, the increase in profit only gets, otherwise he will not get it.

See whatever is left out in the cap, only to the extent he can. Just because the resolution says that the director is entitled for 4% commission, it does not mean that 4% is straight away paid on the profits. The 4% is a total they take, consider the salary, regular salary plus the commission

and is restricted to 4%. I really see this as we have discussed several times and I've also given the reasoning for that. I really don't know the reason why you're so much concerned about it.

Nitin Awasti

Okay, sir fair enough. I'll move to my next question. My next question was on the inventory part. The inventory this time reported around close to 1000 crore. If you could give a breakup of what the inventory holds.

Sri C Ramachandra Rao

Yeah, I will do that. The inventory, Nitin, the major inventory items are Fishmeal and Soyabean Meal. As you know the raw material prices have been going up very steeply. So, we decided that for the next season, which will start from April, May, June. In fact, it started early this year maybe in the February month itself, in January. So, we started procuring raw materials Soyabean Meal particularly and also fish meal as and when it is available, because the trend was the price going up. So, as much we store the cheap stocks that the advantage would be there, that is number one.

So, that's why we started. I just give you the quantity and the values that we have, we had if you compare with the 31st March '21, we had fishmeal of 12,514 metric tons worth ₹117.78 crores as against that in '22, this year, we have 22,514 metric tons with value of ₹241.994 crores. Then coming to the soyabean meal, it was 10,274 metric tons as on 31st March '21 with a value of ₹53 crores and the current year 31st March '22, we had 28,568 worth ₹197 crores. See, these two items themselves together, you know, give an additional inventory of ₹270 crores So, this is very very important, because, if raw material costs can be taken on an average basis, the impact of the increasing will be minimal on the company, that was the policy we have taken and we have bought it. That's the reason why your balance sheet shows the higher inventory levels.

Nitin Awasti

Got it sir. Sir, last question from my side, export incentives have been booked for the quarter and if not, what is the current outstanding export inventory, sorry, export incentive and what was export incentive for the last quarter?

Sri C Ramachandra Rao

See what has happened is, Nitin, this export incentives because of uncertainty, the accounting part of it had to be adjusted in accordance with the developments that are taking place. For instance, RO DTP though it is declared it did not really come on to this you know effectiveness and claims were not accepted for a long time. Later on, so, we decided that only when the government starts releasing these scripts RO DTP then only, we will take into consideration, that was the stand taken by us in consultation with the auditors. That's how we have done it. My colleague will read out how much this RODTP is?

Sri Muthyam Reddy

For Q4, the total incentives recorded was ₹23.47 crores out of which ₹16.29 crores is the RO DTP income pertaining to 15 months' period and ₹7.18 crores duty drawback. So, in Q4 FY21 it was -6.24, because we reversed ₹12 crores of revenue incentive pertaining to FY21 up to 1st September, because there was uncertainty of getting the amount so, the recognition of revenue was postponed, and which was realized in the FY22, and we have recognized the same in Q2 of FY22.

Nitin Awasti

How much is the total amount of RODTP is yet to be recognized?

Sri Muthyam Reddy

After 31st March, entirely recognized. It is ₹16.29 crores.

Sri C Ramachandra Rao

When they started only, we started accounting it, as per 31st March, it is only ₹16.29 crores which pertains to the FY22.

Nitin Awasti

Ok sir. Got it.

Sri C Ramachandra Rao

Thank you, Nitin.

Moderator

Thank you, the next question is from Mr. Onkar Ghugadare, Sree investment. Please go-ahead sir.

Onkar Ghugadare

New plant, which you told just now that will be commissioned next month.

Sri C Ramachandra Rao

Yeah,

Onkar Ghugadare

So, just wanted to know, to start with what would be the capacity utilization for that plant for the full year you are expecting and what will be the peak capacity at 100% capacity utilization, what kind of sales it can generate?

Sri C Ramachandra Rao

See the capacity installed capacity is 1,75,000 metric tons per annum. So, as far as the utilization is concerned, we expect going by the demand that we are having today, we should be

able to 100% utilize the capacity in this year itself. So, because we are now facing lot of shortage of supplies to our farmers, so, there has been a lot of pressure to us. The project got delayed by a month. We originally thought that we should be able to catch up to the demand further in May itself which is peak season, but unfortunately, there was, you know, logistic delays and getting the capital imported machinery from Taiwan, it was delayed, and now everything is in place, and we should be able to start, in month of June. So, what we expect is that month wise if you look at the capital utilization will be 100%. Going by the demand we should be able to fully utilize the capacity. In fact, we may even, by next year there might be some shortage also, that's what our expectation is as of now.

Onkar Ghugadare

Okay and what about the shrimp feed capacity, I mean the value-added capacity which you just told what about that expanding?

Sri C Ramachandra Rao

The capacity which we are expanding the feed capacity is 1,75,000.

Onkar Ghugadare

I got that I was asking about the frozen shrimp.

Sri C Ramachandra Rao

See, we are going, you know, expansion in three phases as explained to you just now, one is the preprocessing facility in our earlier plant, Gopalpuram, it's an old plant, there by the side of that, we have started a preprocessing plant with an investment of ₹11.43 crores, actually everything is ready, we're just waiting for the clearance from the government agencies, we should be able to get it and we will start with that. That is the preprocessing capacity, so, that facilitates the faster processing procedure that's what. I think, Nikhilesh, are you there? Can you please explain these three, particularly, you know the facility when we start, we should be able to add up to the processing capacity also in Gopalapuram. Once we speed up the preprocessing facility, is it not?

Sri. Alluri Nikhilesh

Yes, sir. So, basically, the first investment is the preprocessing facility, because the Gopalpuram factory is almost, it was built in 1997. I mean, it was acquired in 1997, so it's been almost 20-25 years since we got it. So, we need in the new preprocessing area to first comply with some of the customer's requirements and also second, enhance our preprocessing capacity. So, the preprocessing capacity, when you're looking at the capacity utilization, gives you the freezer capacity. So, to utilize more of the freezer capacity, we have to enhance the preprocessing capacity, which was done. So, Gopalpuram now, from this year we are able to run almost at 100% capacity in the season, which is the high season.

Second investment is the cold store, its Yerravaram, at our new processing facility, we're just expanding the cold store. Since we are spending a lot of money to hold our finished product or raw materials in third party cold stores where they might compromise the cold chain, especially with the high fuel prices they might compromise on the cold chain and also to have more capacity to hold raw material for the offseason time. It's more like a cold store. It's more like the warehouse in the processing business. And the third one is we're building a new facility in Krishnapuram, the land acquisition has been completed. This will be, as you are aware, Avanti Frozen has been selected by the Government for the PLI scheme.

Under this scheme, we are building this facility. The total outlay as of now, as Mr. Rao has stated is about ₹50 crores. So, we're going to start the construction soon, we're just looking for the government permission to start the construction. So, this will enable us to further increase our capacity and also in our exports focus on some of the products that we have not been able to deliver to the customers, and also enable us to get an additional green ticket to help us with the regulatory passage with FDA.

Onkar Ghugadare

Okay, thank you. The second question is on the cash, which you are holding on the balance sheet, earlier you said that you are working seriously on Fish feed this time. So, what is the status on that and apart from fish feed, how do you plan to utilize the rest of the cash apart from buying in advance, the raw materials?

Sri C Ramachandra Rao

Yeah, see the thing is that this question was repeated last time, but anyway, we have to always take into consideration the two important aspects, Mr. Onkar. One is that the expansions which we are thinking we thought of this fish feed, long back, but we are ready with all the technology, and everything. In fact, we wanted to start simultaneously with this Bandapuram expansion, but somehow, we thought with the speed, which still covid effect was there, we have not been able to really plan it. Now, we are again going for this plan very vigorously we are working, and we are looking at another couple of other projects also, animal feed only. But, I would like to disclose this, as and when we are ready with the concrete numbers, there will be some expansion programs happening in the years as we progress that's number one.

Number two, coming to the available cash, certainly the working capital what we consider is a very timely funds availability for us at the time of real crisis, let me tell you. So, you may say anything, because the long-term funds should be used for long term investment, and all is fine. But in a situation like this what we are going, today raising about ₹50 Crores or ₹100 or ₹500 crores is such a big task. So, when we want ₹400 crores, ₹500 crores, what you have seen at the end of the year, but prior to that, we had invested more working capital, because what happens is in the fund circulation, we have certain discount systems are given in the end of the year. So, what happens is that we don't give them cash, we give them only credit, we'll supply the, see with the result, cash flow gets little slowed down, we don't get the cash flow. So, that

time, that is a peak time when we want cash also for our working capital needs. So, that is how where we use it.

But, we consider that this fund is really helping us a lot by providing the required funds available at the time of crisis. And particularly this year, we found the need of it, if you go to the bank and ask for ₹100 crores you know how much strain it is to get ₹100 crores from them, but comfortably we have been able to maintain the stock levels, as compared to any other field manufacturers our position was very comfortable. So, that is one important point. Coming to the expansion anyway, we will come with some concrete proposals in the course of time as which are very seriously considering, as you said the fish feed and also the animal feed which are the other opportunities that are being seen as potential will come with this in course of time.

Onkar Ghugadare

Okay. Can you give us a specific timeline to that because it has been in the pipeline for so long?

Sri C Ramachandra Rao

Sure, but the question is that we will be able to give the timeline once we are through with our plan. A roadmap has to be made, the DPR is being prepared. Once a DPR is ready, then we'll be able to give you the timeline. That's what I said it will take some time, once the decision is made that definitely it'll be shared with you.

Moderator

I'm sorry to interrupt, sir. If you could please come back in the queue for follow-up questions. Thank you. Sir, our next question from Mr. Vinayak Mohta, from Stallion Asset. Please go ahead, sir.

Vinayak Mohta

Hi good evening, sir. I majorly had a question, you know, regarding the margins on the shrimp feed business. So, you broadly had a 7% margin the last quarter and you around February, you've said that you will be going for a price increment broadly around March 1st week. I just wanted to understand given the raw material prices, you know, were already up and I like I'm not aware if they had corrected so much for the margins to expand. And, you know, what would be the trajectory of the margins going into FY23? Over the quarter like what is the trajectory you're seeing, with regards to 10% being maintained on the feeds business?

Sri C Ramachandra Rao

Mr. Mohta, your question is a really very tough to answer because there are so many uncertainties to tell you, what is going to be the percentage margin for the FY23. Because today we are in a position that none, including the government, is able to tell what is going to be the prices of the products, particularly the Agri products, which are well within the government's control supposed to be in government control which they have no clue about it. See, I can explain to you that when we told last time that the prices would come down. Definitely, because

the wheat crop was good, the anticipation was good. And we thought that the amount of the good crop that is coming and the comfortable food storage situation in India, food security laws, well, above the three months' level that is as per the Food Security Act, but four months they had stocks and with all that we thought that prices would come down, but something else happened.

The Ukraine war started, there is a shortage and prices shot up like anything. So, the price, which was there at ₹22, it went up to ₹24, we thought it will come back to ₹22. But it did not happen, it went from ₹22 to ₹28. The government of India took a decision to export wheat, which is an essential commodity, they decided to export it, they permitted it and immediately realized that wheat prices going up. On 13th May they decided to ban export of wheat, but as I was saying that already which is lying in the ports will be allowed to be exported. So, essentially what happens is that those who have already purchased the first crop of wheat plant have already taken it to wheat warehouses and kept it ready in the godowns for exports purpose, and they are permitted. Nowhere it really has brought the prices of wheat down. There is no situation difference.

So, what we're expecting is whatever left out after partnering the stocks, by the traders and exporters, whatever is left is to come into the market and it starts. On 13th May, I thought that the prices of wheat flour will come down next day morning, but it has not happened. 13th is over, today we are on 19th, still it is ₹28, ₹27.50 ~ 28 rupees, this is the situation. So, we are only hoping that in course of time the prices will start coming. The same situation with the soyabean meal. See what happens, soyabean meal, three days back it was the low, 3 rupees went up in three days. The reason, you know, what it is, because the Madhya Pradesh traders, soyabean traders, went on strike. Mandis are closed because government has stopped export of wheat. They want export of wheat. See, this is the kind of policy that's there in the government and how any company can say what is going to be the raw material price.

We are very much dependent on the wheat flour and soyabean flour. These two together will cost around 60% of our raw material costs. Coming to the fishmeal, the fishmeal also depends upon the catches and also there's a lot of export demand for fish meal. So, there are so many uncertainties, but yet, you should appreciate that your company has been able to plan to a great extent to contain the cost of raw materials by various steps that they're taking and trying to manage and give the returns as much as possible. And coming to that 7% to 10% that again, we are working very hard to see that, one way by which you can go up, the volumes can increase, so that the in absolute terms the profits can increase, so, we can pay a better dividend to the shareholder's, that's why we are trying to increase the volume by having more expansion and to keep our market intact.

In fact, we are adding we are increasing the market share by 1%, ½ percent year after year and you know that after reaching 50%, it is very tough to go further. But yet, we have been successful to some extent by getting more and more conversions to our company, and that is one way by which the volumes or the profits will go, thereby the shareholders will get a better

dividend which we can take. These are the measures we are taking as far as the, in terms of strict margin per kg, percentage 6% - 7%, it all depends again on the pricing, as you know, the percentage determines between the price of the feed and the raw material cost. The price of the feed, we cannot go liberally by increasing the price to absorb the additional cost.

There are so many regulatory agencies, the farmers are there. We should take care of the aquaculture interest of the farmers, they should carry on the farming activities, so that our sustenance depends on their sustenance, their success. So, we have to be very balanced in our approach, when we increase the price. And in addition to that, we have the regulatory agencies like the governments, which is there in the interest of the farmers they say that we cannot increase the price. So, like that there are different forces, which are working at what you will call crosscurrents. So, we are working under that situation, and it is very difficult to commit what is going to be '23 financial year, but definitely it is our endeavor to get the maximum return on our investments. And we get the better returns on our investments and pay better to our stakeholders, particularly, investors' interest. Okay.

Vinayak Mohta

Understood, just a second question would be you know, are you facing any problems on procurement of these raw materials from different places and also are the farmers and all working like there's no mismatch between the supply and demand as of now on the feed front, right?

Sri C Ramachandra Rao

In fact, we have got more demand than what we are able to supply, that is a situation now, that is the reason why we are speeding up and Mr. Venkata Sanjeev is on his toes to complete the project, because the chairman is after him, CMD is after him to complete the project. And so, we are getting calls from the dealers we're getting calls from the farmer's day in and day out, our marketing team is on toes. So, because there's a lot of pressure, we have not been able to supply the feed to the farmers, the dealers. So, almost 24x7 they're working now. See the target is that by the end of this month, they should complete everything and start off commercial production. So, they have to take the trial runs and do it, that's what they're working.

Once it sets, we'll be able to at least for the time being, we'll be able to meet the present shortage. There is no dearth of demand for our product, because our product is preferred in the market as number one product. So, there is no dearth of market for our product, it is only we have to increase the production and supply. As far as the raw material is concerned, as you know, we will maintain a good relationship with our all our suppliers and we are prompt in our payment but, we are very strict in our maintaining the standard specifications of the raw materials. So, they're very happy and we never had any problem with any of the suppliers. But, natural like the shortage of Soyabean Meal, I mean, wheat flour, shortage of fish, fish availability and all, we cannot help it. But certainly, we are on this forefront as far as, you know, the supply situation, the raw material supply situation concern compared to other feed manufacturers.

Vinayak Mohta

Understood, just one last thing, in the midst of all such a strong demand for your products and everything, is it fair to assume that you would be looking at a 20 to 25% growth for the year because you're expecting full utilization and you know, there's a lot of demand. Yeah, so, on that part?

Sri C Ramachandra Rao

See, there are several factors you know, the first thing is that there should be shrimp culture growth to that extent, then only the demand starts, okay? So, if shrimp production goes up naturally feed production goes up. See, today enough capacities are there, we should be able to supply, there's no problem in supplying the required feed, but only thing is the growth of the entire industry should be there, particularly the production of shrimp, shrimp culture should go up. If it goes up, we are always ready to supply, whether it is even 20-25-30 we don't mind, we can always supply to the needs of the farmers, to the market.

Vinayak Mohta

Understood. Okay, thank you so much. All the best.

Moderator

Thank you, sir. So, the next question from Mr. Depesh Kashyap, Equirus Capital. Please go ahead, sir.

Depesh Kashyap

Hi Sir. Thanks for taking my questions. Sir, on processing, if we take out the incentives that you have booked in this quarter, the margins in the processing segment seem very low. So, just wanted to understand the reason for the same and how should we think about going forward.

Sri C Ramachandra Rao

See, Nikhilesh will supplement whatever I say that one thing is that the margins decrease can be attributed to hold on the export of cooked shrimps due to recall which we have slowed down a little. Once we pick up the export of cooked shrimp, definitely the margins will improve, number one. Number two, the raw material costs have gone up all time high, and the export prices have not gone up proportionately, thereby leaving a gap, that is a one major reason. Number three is the ocean freights, almost, like skyrocketing, we have not been able to control it at all. These are the three major reasons what I could see the reasons for decrease in the margins.

As we progress, once we are clean with, as Nikhilesh explains, that one we are through with the you know the FDA clearance of these five containers and getting green, then naturally, we are ready to push the cooked products and the value-added products, which is where you have

more value, you know, more margins are there. That is going to be the real cream of the entire activity. I think Nikhilesh, you may please supplement.

Sri. Alluri Nikhilesh

I think Mr. Rao put it out perfectly. Those are the three main reasons, stopped shipping out some of the value-added products to the US market, which is a dominant market. But, we have, we are on application process to be reinstated on the green list. It's a procedure and I think in the next few months we should be reinstated. But of course, it depends on the regulatory department. So on the bright side about this situation has been that we have focused on introducing value added products while our cook clients in the Yerravaram plants have been down. We are about to launch our breaded products into the US market we are starting a file production etc. So, that's going off well.

So, the main important part, apart from the cooked shrimp or the ocean freight is also the high raw material prices being driven by inflation. The raw material prices and the cost including the ocean freight are much higher than the price increase with market. So, that is the main driver than the cook product like ocean freight are high, our packaging is very high now. Our electricity cost is very high, the AMC costs put in by the government has quadrupled. So, these costs have eaten into the margin, but we will continue to focus on introducing more value-added products, so that we can maintain a margin and once our cooked green ticket is back online, we should be able to move out more volume at a sustainable.

Depesh Kashyap

Got it. Thank you. Sir, second question is mainly on the, this new processing plant that is coming right? What is the timeline that you expected to come and secondly, Rao sir, if you can also talk about the price hikes you have taken in feed in the month of March and April? So, how much was that?

Sri. Alluri Nikhilesh

A large factory like our Yerravaram factory, is a smaller facility, the main target for this is to increase capacity utilization. And the second one is also to add lines, so, that we have only cooked in the Yerevan facility. So, we need another plant with cook facility and also, we have requirements for certain products to not be produced at our existing two facilities, so it will need to flow so, that's what we put up with these facilities. So, the timeline would be within the next one and a half year that we finish the whole project and into commercial production, the reason being when you were talking about the food processing facilities, a lot of regulations we need to be extremely careful, check all the water pipelines, check all the airflow, etc. the drain flow to make sure there's no cross contamination, and potential hazards out in the factory. So, one and half years is the estimated timeline.

Depesh Kashyap

Got it.

Sri C Ramachandra Rao

Coming to this feed price increase, I'll start from the, you know, the latest one. The latest one which we took in the month of April is at ₹2 per kg and earlier to that in March, we took at ₹4 per kg. These are the two recent, this thing, and earlier to that we have taken in August '21, at ₹4.25, in May ₹3.15 and in April ₹2. So, totally I would put that about ₹15 we have taken, but the cost is still, it is around another four rupees, ₹29-₹30 is cost increase that has gone up in the last one and half years. So, still there is a gap, we are trying to, somehow by other method, by cost reduction, productivity increase and all, we are trying to do to cover up, to absorb that additional cost also. We'll have to see, that is a situation

Depesh Kashyap

Got it, sir. Also, if you can give the current fish meal prices, sir. What are they going right now?

Sri C Ramachandra Rao

Current prices of the Soyabean Meal 19. Fish meal is about ₹111-₹112, Soyabean Meal is ₹69,000 per metric ton Soyabean Meal.

Depesh Kashyap

Okay, it is same as the average by the last quarter, right? So, it is similar.

Sri C Ramachandra Rao

See, we have recently we are booked with the government permitted input we have booked the 14,000 tons which we are expecting would cost us around ₹54. That is a very normal standard grade, but we don't use that grade. That grade is today in India, around ₹57-₹58. It's the imported price is ₹54, but we normally use most of our products with high protein which will be higher by ₹5,000 per metric ton. The normal plus ₹5,000 is our cost, high protein.

Depesh Kashyap

Got it, sir. Thank you and all the best.

Moderator

Thank you, sir. Ladies and gentlemen, the next question would be the last question for this call. It comes from Mr. Ayush Mittal from Mittal analytics. Please go-ahead, sir.

Ayush Mittal

Good Afternoon sir, first of all, I'd like to appreciate the company that we have done pretty well in this quarter, given the way the things were, and it's good to see that we have got back to a margins in feed, despite so much of raw material pressure when other peers have not been able to do well. So, congrats on that. Sir, two questions. First, when we look at the balance sheet, we

are having a very high inventory this time it is almost more than double of what we have, while when you have given the expectation of growth for this year, on the feed side, you have given about 10% growth, similarly on the processing 10% growth, while for the industry you are talking about a higher growth. So why is it so? Why is this mismatch there?

Sri C Ramachandra Rao

I don't know what your question is, like if there is a growth, there should not be inventory. Is it what you're trying to?

Ayush Mittal

No. What I'm trying to say is that we're talking about I think, in your opening comment, you mentioned that you're expecting 10% growth in the feed and about 10%-12% growth in processing, is that right for the FY 23? While we are talking of a higher growth in the industry, and also, we have built so much of inventory. So, why is this mismatch there like so much of inventory we have buildup, but this is only for the seasonal nature or is it that we can do bigger volumes?

Sri C Ramachandra Rao

Let me explain to you. See, the inventory is not a finished good, the inventory consists of raw materials and finished goods. In fact, the finished goods are very minimal finished goods, inventory. The inventory is mostly to raw materials as I first explain, one is the fishmeal and other is a Soyabean Meal. These two are scarce items in the country today. All the three, because Soyabean Meal, whether it is a feed manufacturers' consumption or a human consumption, there is a shortage. Similarly, there is a shortage of fishmeal for all the industries which are making this using the fishmeal. So, these two items required to be stocked in huge quantities before the season starts.

So, what you're seeing in the balance sheet is on the date of 31st March, which happens to be the financial year ending day which coincides with the commencement of our season, subsequently April, May, June, okay. So that's the reason why we keep enough stocks for production in April, May, June, but this year, we have kept more than what is required. See normally what we do is when the Soyabean was freely available in the market, we were storing around 15 to 20 days only. But now because there is a shortage of Soyabean we are we increased the stocking levels to one month now. So, because the same thing even the fish meal we had about 20-25 days stocking levels, minimum stocking levels, there we have increased to one and a half months, because of this increase in the stocking levels, naturally the inventory will go up. So, that inventory is required for utilization in the subsequent months, April, May and June.

It is not that we are keeping the inventory levels throughout the year in the same level. Okay, so the reason. If you don't really improve the inventory level at the beginning of the season, then you will end up paying higher costs during the main season. So, for example, in the month of

June, July, there is going to be the fishing ban in the western part of the country, where from we are getting huge quantities of fish meal. Once there is a ban, then you will not get fish meal in month of June and July. So, we need to keep this fish meal stock enough for our consumption in not only April and May, but June, July, August also. So, by the time the fish meal supplies start, it will be somewhere in August 15 afterwards. So, we should keep sufficient stocks. But that is the main season for shrimp culture. So, we need to utilize our production capacity.

Ayush Mittal

Sir, I understand what you're saying. What I was trying to say was that as you're expecting the industry to grow at 15% to 20% like the data that you shared.

Sri C Ramachandra Rao

Not 15 to 20%. That is wishful thinking. If really the production of Shrimp grows to 30% 25% definitely, we also register that growth. See, normally the 10% to 15% is a reasonable anticipation or expectation of growth, which we feel comfortably, we can reach.

Ayush Mittal

Okay. Sir, the cost of the inventory that you're holding this is in line with the cost that we had in Q4 of this year?

Sri C Ramachandra Rao

Q4, that is a cheaper actually. What we have is cheaper than what we have now. The present prices are higher than what inventory cost that we have as on 31st March. So, we are at the advantageous position. If we were to buy today, it would have costed much more to us.

Moderator

Thank you, sir. Ladies and gentlemen, due to the time constraints, we would like to come to the end of this conference. On behalf of KFintech, we would like to thank the entire team of Avanti Feeds for giving us the opportunity to host this call and we appreciate the interest from the investors and analysts for the participation. Thank you and if you need any further information, you may connect with Mr. Sahil Shah of KFintech at sahil.shah@kfintech.com. Thank you for using Door Sabha's conference call service. You may disconnect your lines now. Thank you and have a good evening, everyone.

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

S. C. Ramachandra Rao

