



Avanti Feeds Limited Q1 FY23 Earnings Conference Call

22nd August, 2022, 04:00 PM IST for a duration of 60 mins 38 secs

CORPORATE PARTICIPANTS:

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| Mr. C. Ramachandra Rao | - | Joint Managing Director, CS & CFO |
| Mr. Alluri Nikhilesh | - | ED – Avanti Frozen Foods Private Limited |
| Mrs. Santhi Latha | - | GM - Finance & Accounts |
| Ms. Lakshmi Sharma | - | Manager - Corporate Affairs. |

A handwritten signature in blue ink, appearing to be "C. Rao", with a horizontal line drawn underneath it.



Moderator

Good evening, ladies and gentlemen. I'm Krithika, moderator for the conference call. Welcome to Avanti Feeds Limited, Q1 FY23 results conference call hosted by KFin Technologies Limited. We have with us today from the management Mr. C Ramachandra Rao, Joint Managing Director, Mr. Alluri Nikhilesh, Executive Director; Mrs. Santhi Latha, GM - Finance & Accounts and Ms. Lakshmi Sharma, Manager - Corporate Affairs. As a reminder, all participant lines will be in the listen only mode, and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, face signal and operator by pressing * and then 0 on your touchtone telephone. Please note this conference is recorded. I would now like to hand over the floor to the management. Thank you and over to you.

C Ramachandra Rao

Thank you, Krithika. Good evening, ladies and gentlemen, we extend a warm welcome for this investors conference call to give you the unaudited financial results of Q1 FY23. Mr. Nikhilesh Alluri, Executive Director joining from online here along with me other team members. The results of Q1 FY23 along with the presentation of highlights circulated already is 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.

CONSOLIDATED FINANCIAL RESULTS FOR Q1 FY23:

Let me just give a review of that the company compared to performance of Q1 FY23 with that of Q4 FY22 and Q1 FY22 have been given in the presentation already circulated. Gross income in Q1 FY23 is 1,582 crores as compared to 1,348 crores in the previous quarter Q4 FY22. An increase of Rs. 234 crores which is by 17%. Compared to Q1 FY21, gross income of Rs. 1,430 crores, there is increase of Rs. 152 crores by 11%. The PBT is Rs. 100 crores in Q1 FY23 as compared to Rs. 121 crores in Q4 FY22, a decrease of Rs. 21 crores by 17% compared to Q1 FY22, PBT of Rs. 99 crores.

There is a marginal increase of Rs. 1.00 crore. The consolidated results indicate net impact of the pivoted factors such as increase decrease in income, expenditure and exceptional items etc., relation to feed in frozen divisions, which have been discussed in the following divisional performance of these units.



STANDALONE FINANCIAL RESULTS OF FEED AND PROCESSING DIVISIONS

A. FEED DIVISION:

Let me take up the standalone financial results of feed divisions for Q1 FY23. The gross income for Q1 FY23 is Rs. 1,311 crores as compared to Rs. 1,050 crores in the previous quarter of Q4 FY22 increase by Rs. 261 crores by 25% mainly increase in feed sale price during 2021-22. The gross income in Q1 FY23 increased to Rs. 1,311 from Rs. 1,257 crores in the corresponding quarter of Q1 FY22 which increased by Rs. 54 crores by 50% mainly due to increase in sale price

The PBT Q1 FY23 is Rs. 77 crores as compared to Rs. 102 crores in Q4 FY22 a decrease of Rs. 25 crores by 25%. The PBT in Q1 FY23 has decreased to Rs. 77 crores from Rs. 93 in the corresponding quarter, a decrease by 17%. The decrease in PBT is due to increase in raw material prices.

As you know, there are three major raw materials fish meal, soyabean meal and wheat crop which significantly impact the raw material cost of feed.

During Q1 FY23, fish meal average price was Rs. 111/ kg went up from Rs. 94 /kg in Q1 FY22. The main reason appears to be ban on fish catch during May to July every year pushing the prices upwards.

The average soyabean meal price is Rs. 66/kg during Q1 FY23 as compared to Rs. 65 in Q1 FY22 and Rs. 63 in Q4 FY22.

Average wheat flour price also increased to Rs. 26/kg from Rs.21/kg during Q1 FY23 compared to Q1 FY22. However, of late wheat prices have been going up increased due to Ukraine war creating global shortage of wheat and an increase in export demand for Indian wheat. The prices of wheat flour have raised up to Rs. 29/kg prompting the government to ban exports of wheat from 13th May 2022. Presently, the price of wheat remains Rs. 31/kg, even though the export ban has been imposed, still the prices are going up. The information is that there is a lot of stock available with the bigger traders, some sort of a voting is taking place that is why the traders are pushing the prices up.

We don't foresee much decrease in the prices till the next crop, which will come only after 31st March next year. So, we don't foresee much fall in this price, we could have however, Rs. 29-31/kg.



Increase in sales price of feed

In spite of increase in the wheat price by Rs. 13.40 in FY22, 4 times increase Rs. 3.15, Rs. 4.25, Rs. 4, due to steep increase in raw material prices, the raw material cost increased by Rs. 15.10 paise /kg leaving a difference of Rs. 1.63 unabsorbed.

However, in course of time, the prices of fish meal, soyabean meal and wheat flour are expected to stabilize with a marginal decrease due to actions initiated by the government in respect of soyabean meal and wheat.

B. SHRIMP PROCESSING DIVISION

The gross incomes of Q1 FY23 is Rs. 273 crores as compared to Rs. 300 crores in Q4 FY22, a decrease by Rs. 27 crores, 9% mainly due to RODTEP income of Rs. 16.29 crores pertaining to 15 months' period recognised in Q4 FY22 and decrease in sales volume by 8%. In Q1 FY23 RODTEP income pertaining to the quarter was recognized as compared to RODTEP income of 15 months i.e., Jan' 21 to Mar' 22 recognized during Q4 FY22. The gross income in Q1 FY23 increased to Rs. 273 crores from Rs. 175 crores compared to the corresponding quarter Q1 FY22 an increase by 56% mainly due to increase in its sales volume by 33% in recognition of RODTEP income of Rs. 7 crores for the quarter April to June 22 (3 months).

The PBT before exceptional items for the Q1 FY23 is Rs. 30 crores as compared to Rs. 21 crores in Q4 FY22, an increase by Rs. 9 crores represent 43% mainly due to increase in raw material cost. The PBT in Q1 FY23 is Rs. 30 crores, increase from Rs. 12 crores in the corresponding quarter Q1 FY22. The PBT in Q1 FY23 of Rs.30 crores is inclusive of Rs. 7 crores of RODTEP.

Status of recalled of products by Frozen Division

As you are aware, the company had to recall some of the consignments of cooked Shrimp products in Jun'21 (initial) and Aug'21 (expanded) found to be with Salmonella contamination, by USFDA and CDC in the recalled products. 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 US customers for recalled products and related expenses of destruction charges etc., to the extent of the products return and destroyed.

The company is also liable for reimbursement of medical and related expenses to the consumers who felt sick and underwent treatment after consuming the recalled products.



PRESENT STATUS OF TERMINATION OF RECALL AND REINSTATING GREEN LIST STATUS

I am happy to share with you that the USFDA has communicated the termination of recall on 25th May, 2022, paving way for focusing on value added product, enhancing the share of cooked products export to the US.

The company has filed petition with USFDA for removal of "import alert" on import of cooked Shrimps products from the Company, as recall has been terminated. The company's petition is under process with FDA.

I would like to assure the shareholders and stakeholders that your company gives utmost importance to food safety and compliance with regulatory requirements and leaves no stone unturned to achieve this objective.

Insurance coverage

The company's product liability insurance covering the medical and related expenditure mentioned above. However, there is no insurance coverage in respect of reimbursement of products returned and destroyed and also other related expenses such as Product Destruction, Call center, storage expenses, etc. This cost has to be met by the company.

Provision in the Financial Statements

The company has made provision in the financial statements in respect of the reliability for the return products. In Q1 FY23 accounts, provision has made for a sum of the Rs. 5.30 crores as an exceptional item towards the value of returns destroyed products and other related expenses on actual basis as against Rs. 4.10 crores during Q1 FY22. The status of provisions made in the financial statements so far on this liability and payments made against the liability as on 22nd August, 2022 is

Total provision made (including the above)	Rs.32.80 crores
Less: Claims settled and paid	Rs.17.55 crores

Balance outstanding in the provision made	Rs.15.25 crores

The above provisions in financial statement have been made on the basis of information received from the overseas customers from time to time, subject to specific repetition of the specific claims by the company. The payment is being made as and when the specific claims are received from the customer and after verification by the company.



Since more than one year has lapsed, since the recall was made in June and August 2021, the company presumes that further claims may not be received and may not be there in a significant manner, and the total liability will be to the tune of only about Rs. 33.00 crores for which the provision has already been made.

Product liability claims

As regards the claims for body injury caused by the consuming company's contaminated product, recalls, the company's insurer New India Assurance Company has appointed a surveyor for the processing of the claims. So far, the company has received 13 claims who has body injury, which have been forwarded to the insurance surveyor for processing. The total claim from 13 claimants is about USD 153,461 out of which USD 17,523 has been directly settled by the company and the claim has been made by the reimbursement from the insurance company. The balance claims are under scrutiny by the surveyor insurance company and also the audit team of the company. Since the liability has been covered, commercial general liability insurance policy, no provision has been made in the financial statements for this sort of liability claims.

INDUSTRY OVERVIEW - THE FUTURE OUTLOOK

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

As I shared with you in the previous Q4 FY22 review, I had stated that company is envisaging significant improved performance in the calendar year 2022 as the first season of shrimp culture started with the highly encouraging environment and the farmers commenced stocking in February and March 2022 in a big way compared to the previous year's first season. But, at the end of Q1 FY23, in June, the production of the shrimp during quarter was not to the anticipated levels due to excessive rains. This is in some areas and not so encouraging farm gate prices, but bigger size compared to smaller size shrimps resulting in farmers resorting to heavy harvesting.

The company estimates that India would be able to produce about 8 - 8.5 lakh MT of shrimps with an estimated consumption of about point 12.5 - 13 lakh MT 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 MT in FY22 as compared to 10.50 lakh MT in FY21 and is expected that the consumption would further increase during FY23.

The company's feed sales during FY22 was about 5.41 lakh MT as compared to 4.73 lakh MT in FY21. It is expected that FY23, would be around 5.70 lakh MT with an increase of about 6%. The company is expected to maintain its market share to 48% - 50%

As the demand of Shrimp Feed is expected to increase, the company has almost completed setting up of new shrimp feed manufacturing facilities in Varadapuram with annual installed capacity of 1,75,000 MT with a CAPEX of Rs. 125 crores. The plant is ready in all aspects awaiting certain governmental clearances. The new facility is scheduled to commence commercial production in September 22.

Shrimp Processing & Export

The Shrimp production and export from India increase to 7.50 lakh MT in FY22 as compared to 6.50 lakh MT in FY21. It is expected that the Shrimp production would further increase to 8 lakh MT - 8.5 lakh MT in FY23, an increase of about 13%.

The company's shrimp exports during the FY22 were 12,836 MT as compared to 11,518 MT in FY21. It is expected for FY23 would be around 14,500 mts, an increase of 13% as follows.

Avanti Frozen is in the process of expanding preprocessing, 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	Land acquired. Civil works to be commenced. The Estimated cost is Rs.



Godavari District with 7000MT p.a. capacity.	49 crores.
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With this, I would like to conclude with a positive note that the Aquaculture industry is poised for a relatively improved performance in 2022 compared to 2021. With this, I would like to take a break with a 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 the question. If you would like to withdraw your request, you may do too by pressing * and 1 again. I repeat, ladies and gentlemen if you have a question, please press * and 1 on your telephone keypad. First question comes to us from Adithya from Purnatha. Please go ahead. Mr. Aditya has withdrawn the question, so I am moving on to the next question. Next question comes from Trilok Agarwal from Diamond Asia, please go ahead.

Trilok Agarwal

Good evening and thanks for the opportunity. I could not understand the reason for not so strong growth in the shrimp field in the quarter gone by and could you also talk about any inventory you know sort of high costs inventory that you guys had and that has an impact on the margins in the Q1.

C Ramachandra Rao

See, I explained while you know giving the performance review that the expectation was very high in fact for this quarter, because the April, May and June, the normally the main season and at the beginning the climatic conditions and the price and everything was very good and it was started in a big way, but somehow from May onwards, there was excessive rains. So it was something like early monsoon and a lot of floods and all were there. And some parts had the diseases also. And also, the other thing was seen what happened the prices of the big size shrimps did not go up as expected while the small size shrimps' price was very good. So, most of these farmers resorted to early harvesting so that they get a better price margin because as you grow bigger size, the prices were not attractive.

So, they sorted for that early harvesting all this put together, the doors started well, our expectations were high, the actual the sale of feed was less by maybe 10 to 15% than what we expected. So, however, the positive again is that in now the prices are very good, the farmers are very enthusiastic to start. So those who have resorted to early harvests and all, they have already started stopping; stopping is going on well.



The indicator is that we are our starters are moving very fast going now that we expected this second season, normally it will be my lesser than the first season.

But if the conditions are good in the second season, that is now the August, September, October. By October, we should be able to get a good crop to be better than corresponding quarter of the last year. That is Q3 and it will be very good. That's what we are expecting that Q2 - Q3 would be a better production compared to the previous year. Overall, See, the one thing is very clear that because of the earlier season there were some shortages in the total production and consumption that we made up to some extent in the second season.

Overall, we expected last year we did about a 5,40,000 around that we expect that it will be around 5,70,000 or 5,80,000, which we thought that we'd be able to go up to 6 lakhs that's what we had estimated, but it may not be possible now because the rest of the year next 4-5 months, we are the whatever consumption taking into account we should end up somewhere around 5,70,000 - 5,80,000. That would be a reasonable estimate for the rest of the year is what it is that is the reason.

Trilok Agarwal

Okay. Thank you for the detailed answer and just to know your comment on the margin about the inventory that you had or was there any problem you are caring for the soyabean and fish meal.

C Ramachandra Rao

Just to share with you the present fish meal price is around Rs.102 which came down a little it went up but now because from August, September. We are expecting that we should be able to have more catches, fish catches. So, it will stabilize around in any case, we don't foresee much fall it will be around Rs. 96 - Rs. 97 is less than Rs. 100 that could be a reasonable estimate of the fish meal price for the rest of the year. That's what we're expecting around Rs. 96 - Rs. 97 should be the stable price for the rest of the year. Coming to the soyabean meal, it is around Rs. 62, the GST on 5% again is coming around to Rs. 65 again here see the as it stands today the crop is good.

The sowings have been very good in Indore, Madhya Pradesh and Maharashtra also. There should be good production of soya meal. But however, a lot of things depend on that. Number one, the policy of the government how they're going to allow the imports or exports or whatever it is, even now they seem to be a lot of holding taking place. If a new crop comes in the month of October, November after the sowing, with that the prices should come down, but that is again, I would say, we have to fix fingers crossed.



It is a million-dollar question how much price could come down? It will be around, see if it settles down around Rs. 61-62 it should be a good price for the rest of the year. And coming to the wheat flour; something you know some surprising things are happening in wheat trading, wheat exports, wheat flour, wheat products and all says the government has been changing its policy often. Once they set low barriers for export of wheat and wheat products, then within less than maybe I think 20-25 days they imposed ban on export of wheat as such. Then they allowed that all wheat can go except certain specified wheat like Maida and all should not go. Then again, they said the ban was put on that also.

Now, the government has come up with a policy that there is the inter-ministerial committee has been set up that every export is allowed, but subject to clearance from this inter-ministerial committee. So, they have given the responsibility to that, so, like Commerce Department, Agriculture Department or Finance Department, which is consisting of these representatives, so, they decide, how much should be exported it on case-by-case basis, they decide permissions are given only address that permission is allowed to be exported. So, the situation is quite fluid, dicey and you don't know how things are going to take shape in future, but, however, we are seeing that with the restrictions, we hope that the government will not allow much of exposure and bring it down to the anticipated price stabilization in the range of Rs. 29-30 for the rest of this year.

I hope that is going to be the wheat flour price. In General, prices for high packaging materials are skyrocketing. But the chances of coming down is very remote, we are trying to match the pricing while simultaneously arguing that the government should allow us to increase the price. We have discussed this with the manufacturers stressing the government; you may recall that the recent price rise of Rs. 2.56 paisa had to be rollback by the Government of Andhra Pradesh.

They permitted us to come for a review at the time, and they did so again in August. Now, however, we have requested a review from the government to permit us to increase the price. We must wait and see how the government makes its decision. If we are lucky, we can get government pricing fees approved, and then we should be able to bring back the margins that are far better than what we have exhibited so far in the last quarter. That's the scenario of raw materials and fish price Mr. Agarwal.

Trilok Agarwal

Sure Sir, Thank you very much for the detailed answer. Thank you.



Moderator

Thank you, Sir. Next question comes from Nitin Awasthi from Incred Equities. Please go ahead.

Nitin Awasthi

Good morning, Sir. I have a few questions. The first question is the inventory that we had during closing of the financial year which is Q4, and all that inventory being exhausted in the current quarter?

C Ramachandra Rao

Yeah, it is exhausted. You can actually just go to the next question. Meanwhile we try to figure out what is the inventory of Q1.

Nitin Awasthi

Okay. The next question is you have quoted the fish meal prices today, soya meal prices today. During the quarter what was the fish meal prices book roughly around per kg and soya meal prices.

C Ramachandra Rao

During the quarter, the average price of fish meal was Rs. 111, wheat flour was Rs. 26 and soya price was Rs. 66.

Nitin Awasthi

Thank you. Sir, the next question I have is right now wheat prices seems to be a major concern and our wheat quality that is there in India is superior and the prices of that is higher. So, are we petitioning the government as an industry to allow us to import GMO wheat because that will be available at a much cheaper rate?

C Ramachandra Rao

Mr. Nitin, as we can see India is the second largest producer of wheat in the world. So, we are producing a lot of wheat. And in fact, we are in a position to export. I mean, there is a petition already with the government to import, but it has got a customs duty of 40% on the import wheat, if I'm mistaken, will be corrected. So, it has to be balanced. The wheat production in India is very good, we are getting the sufficient wheat production not only for the consumption, but also to the stocking level, but normally the standard policy is about 3 years. As you rightly said, definitely, GMO seed much better than the non GMO seed which is grown in India.

So in terms of impact, specifically in the case of soyabean meal price, when the import was allowed, we booked the purchase because the pricing was in dollars, which came to about Rs. 65-70 at the time, now, the dollar price is Rs. 79-80. So it is natural the



prices will go up. Even while we can still hedge, it cannot happen unless we know the exact date of the arrival maybe plus or minus 1 week.

The thing is that the imported raw materials whatever it is, soyabean meal or wheat, it is again subject to so many factors and the policy of the government. Initially, we believed that the government would allow import, but they may forgive the 40% customs fee that was stated in Delhi because we had to wait for it to be imported. I don't know, because it is very difficult to get what is going to be the weak import policy of the government.

As of today, the wheat production is good, but for the export things would have been very good because, we are getting anywhere between Rs. 21 to Rs. 23. Suddenly, it has gone to Rs. 32. Therefore, a Rs. 10 increase has occurred there, which is why the government decided to export wheat as a result of the programme, many big houses cornered the entire harvest and storage in warehouses thereby, creating an artificial shortage driving the prices up. So, such things can be controlled.

Definitely, I think the prices should be around the ideal prices of Rs.27-28 should be pretty comfortable price for Indian wheat and currently, the benefits of using import wheat are not great because of the bad currency volatility. That is the reason, I believe that the government may effectively stabilise the industry by fostering appropriate policy and not allowing the trader to hold for longer than a month, or something similar. We hope that representations are being made and that this will be stabilized; there are some instances that can be brought up that can surprise us.

Nitin Awasthi

Yes, Sir, got it. Last question from my side on the industry. We are seeing a very disturbing trend in the import export data which is India started to import raw shrimp from Ecuador. Quantity is very small as of now for processing, but it just that it's a very disturbing trend what is your outlook on that?

Alluri Nikhilesh

Could you come up again with the question?

Nitin Awasthi

What was the import export data is showing us is that India started to import last month, shrimps from Ecuador, raw stream for processing, and this can hamper our whole company and the complex of the feed industry, maybe the processing industry is good for that. But for the feed industry, this could be very very negative. So, your thoughts on this, like you see the trend gets stronger? Do you see it getting more and



more viable? Because if it happened last month, it was definitely viable. But you know the industry better and hence, what are your views on the thing

Alluri Nikhilesh

Nitin, I don't think it's a long-term risk, because Ecuador's product, as such, a lot of it is going into China. So maybe some of the countries coming into India. But there's no trend as such to import products from Ecuador and we thought it's not I think maybe it was just a product that came in which was rejected from China and came into India because it's closer, but I don't foresee.

Nitin Awasthi

Okay Sir, thank you for answering all the questions.

Moderator

Thank you, Sir. Next question comes from Depesh Kashyap from Equirus Capital, please go ahead.

Depesh Kashyap

Hi Sir, thanks for taking my questions. Sir, just wanted to check on the guidance, because I think you said the feed sales in this year will be around 5.7 lakh tonnes. So just wanted to check whether that's the calendar year, you're talking about the FY23?

C Ramachandra Rao

We go by the calendar year only.

Depesh Kashyap

Okay, got it. So, obviously, for FY23, the growth can be better because the new capacity is going to come and obviously got it and also given the current Raw Material prices that you talked about and the I think Rs. 2.25 rollback rate that you did in June July right on the feed price. So, how is the current margin trending? Are they like, better than the Q1 would even worse than that?

C Ramachandra Rao

No, I think it is more or less the same, because we believed that the Rs. 2-2.25 would take care of the recent increase, which must be rolled back because it was a government decision. Because of a modest decline in some of the raw materials during the event, it has returned to the same state and the margins had little impact. Additionally, the average variance will only be between 5% and 10% it won't be higher than that.



Depesh Kashyap

Okay Sir, any try of industry to increase the prices or the government is not allowing?

C Ramachandra Rao

That's what Depesh, we have approached government because you know, that there is actually the government is taking an active part in deciding these things. So, last time when we increase it immediately, there were numerous representations from farmers and/or the government, and the government brought all the parties to the meeting and requested us to roll back the price with the assurance that they would review the situation again in August and, if necessary, would permit an increase.

So, on that basis, we have gone to approach the government again. If things work out in our favour, it would be really beneficial for us. It will benefit us much by drastically stabilizing the cost of raw materials. I think we should be much better in Q3 and Q4.

Depesh Kashyap

Understood Sir, and also the USFDA part like you talked about. So, just want to clarify because the voice was breaking that the normal shipment has started or still you are waiting for some approvals for the value of a product.

Alluri Nikhilesh

So, the recall has been ended as such or the criteria of another recall have been eliminated, in which case we are not prohibited from sending the cooked shrimp. So, we continue to put some products to the US. Right now all the necessary documentation submitted earlier this month. So, we're waiting for FDA to review it and if they have any questions they comeback.

Depesh Kashyap

Understood, and lastly, Nikhilesh, we know about the supply issues that are happening in India, but any colour on the demand like, do you see any pressure on demand from US or Europe?

Alluri Nikhilesh

The overall demand, I would say is mildly towards a weak side. But we need to see how the holiday and new year sales go. However, since the sizes are acceptable, we stop there. In the third and fourth Quarters, there was a noticeable increase in demand for specific sizes.

Depesh Kashyap

Got it Sir, thank you. All the best.



Moderator

Thank you, Sir. Next question comes from Ankur Arora from HSBC. Please go ahead.

Ankur Arora

Good evening, Sir. One question on any longer term, our market share in the feed business has been stagnated on 50% for a while. We have been gaining market share right from 2011-2012 all the way till 2018-2019 all and then tentative feed to a level of 50%, which is what you're maintaining for this year as well. What's our medium-term outlook on that? Do you think there is room to gain additional market share or move toward 60%? I mean, do we think that 50-52% is likely the kind of peak that we can reach? How do you see that? What are the internal challenges and what is internal target for that?

C Ramachandra Rao

The target is always to go up to 60% of each year, but we cannot target like that. But the question when we said 48-50%, see when the overall market consumption itself, feed consumption is coming down, our issue, if you look at that, it will be more than that. So, 48-50% is the standard that is a minimum that we strive for, our endeavor is to always go for another 2-3% by conversions. I don't want to commit anything on this because there are a lot of conversions going on. So, we expect that it should cross. That's what we are expecting this year. Because of the expectation for the first crop, if we succeeded, we would have easily passed 50. But the second half now its second season, if we are able to, we're hoping to make it up and bring it to above 50%. By setting a target in this manner, we should be able to meet the 1-2% goal we set. That will be known only after Q3.

Ankur Arora

The question which I'm trying to understand see, there are challenges which has gone in the first half and the first season was there for everybody else. The question really becomes the conversion, how much market share you can move from other people to yourself? The overall industry growth, but today we can't change the industry growth. But how much market share you can capture from the competitor is what is what is really your control to some extent. How are you looking at that, what are the steps which we taken to get the market share from the competition?

C Ramachandra Rao

Mr. Arora, let me tell you. See, there was a situation in the first season when we were unable to supply because the expansion plan was in progress. There was some unexpected delay so that was the reason why we could not increase it apart from the market. This was also one of the reasons because we could not meet the demand on a day-to-day basis. We were awaiting, because there were certain reasons why the project also got delayed because of the shipments. Some capital equipment did not



come in time. Some reason or the other where it got delayed. If we had finished a month earlier, the government would have taken effect in September. We will be prepared in August, but we must first have certain government approvals. In fact, if we had finished a few months earlier, the first season would have also received a sizable portion of the market. And we are definitely in the second season, we'll make it up, it will be definitely more than 50%.

Ankur Arora

By that logic, you will be able to use that full capacity in the second season because 1,75,000 additional would come in. In FY23 we'll get the market share we have, but in next year, you expect to reach a market share, which is significantly higher than the current year number?

C Ramachandra Rao

Market share always our market keeps increasing, in fact, is what I'm telling maybe we'll be able to be more clear on conversions that are taking place, just now, we've got an information that lot of farmers are coming to our feed now. Fresh season now has started, second season. You see, much as in business, if we have 40 farmers visit our site, then there will also be 5 or 6 partners leaving as well.

We have to take net, the percentage always keeps varying. So, we will know at the end of the season what is the total consumption of the total area and how much was Avanti Feeds then we will be able to determine the exact percentage. So, what we are expecting is that it should be more than 50% maybe 52%, By the end of the second season is what we are expecting.

Ankur Arora

And similar momentum will be hopefully maintained it next year as well, right?

C Ramachandra Rao

It is always our endeavor. That is the rationale behind our continued commitment to maintaining the high calibre of the feed and technical assistance that we offer to farmers. But you know, certain things do happen. Just as we anticipated, the first production with an enlarged capacity would be made accessible during the very first season. But the first season has ended, and we could not take advantage. There was a demand. Therefore, even if there has been a general decline, there was a greater demand for our goods, and this is why there has been a 50% increase. Only after you make up for that increase will what you are claiming about 52% or 53 percent occur.

Ankur Arora

Understood. Thank you very much.



Moderator

Thank you. Next question comes from Aditya Soni from Purnatha. Please go ahead.

Aditya Soni

Hi, thanks for taking my question. So, I just wanted your help in modelling the cost structure. So, generally you know, 80% of our sales are COGS. In that can you just give the breakup of raw material cost of soyabean, wheat flour, and fish meal, like what percentage is each of them?

C Ramachandra Rao

You know the fishmeal price will be around Rs. 107 rupees, I mean percentage I cannot give you. I can only give you the price, but not the percentage in the overall cost.

Aditya Soni

So, Sir, in your last quarter, you told that 60% of your raw material costs is soyabean and wheat flour. So, is my understanding correct about that?

C Ramachandra Rao

There are three raw materials. One is fishmeal, other is soyabean meal, and the third one is wheat flour. These three products constitute a significant part of our total cost of production. That is available in financial statements, this information is available.

Aditya Soni

I just wanted to know what percentage each of them is.

C Ramachandra Rao

No, we can't reveal that. That is a formulation. It is confidential information; we cannot give it.

Aditya Soni

Sure Sir, I understand. My second question is that you still feel as certain that the feed plant will operate at full capacity when you feed plant 1,75,000 MT?

C Ramachandra Rao

See 1,75,000, you know you can't take 1,75,000 the total, the output will go like that every month, so we have to look at the broader picture. If you take the one-year production, it may end up in 80-90%, it will not be 100%, because offseason in the month of April, May, June, July, August, September, October you will have full production when it comes to November, December, January, February, it will be less. So, we have to average that. Average annual capacity utilization will be around 80%.



Aditya Soni

So, if I just calculate 80% for 6 months or so, from October to March. So, can I reasonably assume that 6,30,000 MT of volume will sell in FY23?

C Ramachandra Rao

Yeah, definitely the target is to achieve the 6,30,000 MT. It also depends on the consumption. As I told you in the first season, there was an early harvesting, where the smaller size shrimps were harvested. So, then if the farmer allows the full season it go up to say 20 counts, 25 count, 30 count and all, you get more feed consumption. If he harvests at 60 counts, you still have the crop, thus consumption will naturally decline. So, these are all the dynamics which will work on the total capacity utilization, consumption etc. in tonnage. So, the entire thing is interdependent. So, we hope, see again why the price is not growing it depends on the farm gate price.

The farm gate pricing is significantly more appealing if he purchases shrimp at 60 count than larger sizes, such as 30 count or above, therefore he questions the need to wait for 30 count, because he has to use a lot of feed consumption and you are exposing to lots of the climatic risks and all. The farmer will sell it if he is currently making a big profit. He thus gathers it and sells it. So, it all depends on that. So, by and large, we try to maintain our feed sales targets, whether they are conversions or increasing our share in the market. New farmers coming in, conversions happening, all the things put together, we take the estimate of the feed sales.

Aditya Soni

Yes, thank you. So, one last question. If you don't mind me asking. Fishmeal price from Q1 FY23, which was Rs. 111/kg, it has now fallen to Rs. 102/kg.

C Ramachandra Rao

Yes, it is. 102 plus 5% GST. It is 107.

Aditya Soni

It was Rs. 111 to 107 is what you're saying? That is the reason why there's no significant decrease yet and our margins have not changed?

C Ramachandra Rao

Yes, exactly.

Aditya Soni

So, you've told you've taken a rollback of price increase of Rs. 2. So, will that further affect the margin?



C Ramachandra Rao

No. What you are witnessing right now might not have an impact on the margins.

Aditya Soni

Ok, Sir. We're going to maintain margins this quarter. So, one last question I had to ask. So, I was just looking at the, so earlier analysts also asked the question, but if I just look at the growth of Ecuador shrimp, they are growing at a very fast rate. So don't you think eventually Ecuador shrimp will start replacing Indian shrimps and take away the market share from us?

Alluri Nikhilesh

I would like to say that India has been for the last decade the most competitive shrimp producer in the world. Our shrimp prices are more competitive than countries like Vietnam or Thailand. So, I think risk could be greater on these countries than India. Yes, Ecuador's production is increasing. But again, the country is not as big as India. Workforce is not as much as India. I think there market is niche compared to India.

Aditya Soni

Ok, Sir. Thank you so much for answering my questions.

Moderator

Thank you, Sir. Next question is from Jasdeep Walia from Clock Vine Capital, please go ahead.

Jasdeep Walia

Good evening. Thank you for taking my question. So, my question is on the recent price cap, which has been imposed by the AP government. So now, that does it mean that in future now, if the industry has to take a price increase, it has to you know get approved by the government and without that, without the government approving the industry cannot take a price increase?

C Ramachandra Rao

Absolutely not. Although it is free and we have the opportunity to adjust the price, we always consider the big picture. We reached a compromise since the government contacted the feed makers when the price of feed increased and farmer representation objected to it. But there is no control mechanism as such in Andhra Pradesh or anywhere in the country, it is a free open market. But in all due respect to the governmental mechanism and what their interests and our own interests, all put together, we try to accommodate them. It is not mandatory.



Jasdeep Walia

Got it, Sir. You were saying earlier that, you know, to take a price increase, the deliberation with the government has to happen in August, right?

C Ramachandra Rao

Yeah, the discussions have started. We'll have to wait. But sometimes, maybe in 1 week-10 days, we should be able to know the response from the government. We keep that relationship going because the processes involving the governments, the farmers, and the feed manufacturer all fall under that. We are constrained by a number of laws and norms. And we have to cooperate with the government in their efforts to, in the interests of the farmers they're asking.

It is not mandatory or a regulatory mechanism that the governments insists to reduce or increase the prices. But we cooperate with them because in the larger interest of the society and also the government's you know, and endeavour to help the farmer.

Jasdeep Walia

And so, what is your stance on the level of Shrimp farmer profitability as of now, given the high prices.

C Ramachandra Rao

Pardon me.

Jasdeep Walia

I wanted your view on the level of shrimp farmer's profitability as of now versus past. Is it significantly below normalized levels or farmers are making as much profits as they usually do?

C Ramachandra Rao

Now it is very good profits. With this price, the prices of smaller shrimps are better, they're getting more profit on smaller shrimps as of now. So, we have to wait for bigger size also to get better price. So that there is some sort of uniformity, and we are more interested in bigger size, because the feed consumption will also go up. But at the same time, we have to look at the market, global prices of bigger and smaller size and the demand for them. As of now, the farmer is making good profits at the present price.

Jasdeep Walia

Got it, Sir. And my last question, given this inability to take price increase in AP what percentage of industry could be making losses as of now?



C Ramachandra Rao

No, I cannot answer that questions, because you ask me about our company, I will answer. But you know, it all depends upon so many factors, if you ask me about our company, I can answer you, not about the other competitors.

Jasdeep Walia

Got it, Sir. Thank you for the opportunity.

Moderator

Thank you, Sir. Ladies and gentlemen, due to the time constraint, 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 Mr. Sahil Shah of KFintech shail.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.

