



**Avanti Feeds Limited
H1 And Q2 FY23 Earnings Call**

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CORPORATE PARTICIPANTS:

Mr. C. Ramachandra Rao,
Joint Managing Director,

Mr. A Venkata Sanjeev,
Executive Director,

Mr. Alluri Nikhilesh,
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Mrs. Santhi Latha,
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Ms. Lakshmi Sharma,
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Q&A PARTICIPANTS:

1. **Depesh Kashyap** : Equirus Capital
2. **Nitin Awasthi** : Incred Equities
3. **Harsh Dedhia** : Individual Investor
4. **Chokalingam Narayanan** : ICICI Prudential PMS

Moderator

Good evening, ladies and gentlemen. I'm Kritika moderator for the conference call. Welcome to Avanti Feeds Ltd. Q2 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. A Venkata Sanjeev, Executive Director, Mr. Alluri Nikhilesh, Executive Director, Mrs. Santhi Latha, GM Finance and Accounting and Ms. Lakshmi Sharma, Manager Corporate Affairs. As a reminder, all participants 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 and over to you Sir.

C Ramachandra Rao

Thank you Kritika. Good evening, ladies and gentlemen. We extend a warm welcome for this investors conference call to review the unaudited financial results for Q2 FY23. Along with me here are Mr. Nikhilesh Alluri, Executive Director, Avanti Frozen Foods Pvt. Ltd. and Mr. A. Venkata Sanjeev Executive Director, Avanti Feeds Ltd. and other team members. The results of Q2 FY23 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 to our discussions today.

CONSOLIDATED FINANCIAL RESULTS FOR Q2FY23:

Q2FY23 RESULTS:

First let me take up the consolidated financial results for a comparative performance of Q2 FY23 with that of Q1 FY23. The gross income in Q2 FY23 is Rs. 1,349 crores as compared to Rs. 1,582 crores in the previous quarter Q1 FY23 a decrease of Rs. 233 crores, which represents 15%. Compared to Q2 FY22 gross income of Rs.1,252 crores, there is an increase of Rs. 97 crores, which represents 8%. The PBT is Rs. 90 crores in Q2 FY23 as compared to the Rs. 100 crores in Q1 FY23 as a decrease of Rs. 10 crores, representing 10% and when compared to Q2 FY22 PBT of Rs. 38 crores, there is an increase of Rs. 52 crores by which represents 137%.

The Consolidated results indicate net impact of several factors such as increase, decrease in income expenditure and the exceptional items etc. Waiting to be unfrozen for divisions, which have been discussed in the division wise performance later.

STANDALONE FINANCIAL RESULTS OF FEED AND PROCESSING DIVISIONS:

A. FEED DIVISION: Q2FY23 RESULTS:

Let me take first, the standalone financial results of feeds and processing division. The gross income Q2FY23 is Rs. 1,040 crores as compared to Rs. 1,311 crores in the previous quarter Q1 FY23, decreased by Rs. 271 crores representing a decrease by 21%, mainly due to decrease in the quantity of feed sales and early harvesting on account of disease, rains, decrease in farm gate by bigger size to smaller size.

The gross income in Q2FY23 increased to Rs.1,040 crores from Rs.982 crores in the corresponding quarter of Q2FY22 increased by Rs.58 crores representing 6% which is due to increase in sales price and marginal decrease in the average raw material costs.

That PBT of Q2FY23 is Rs.52 crores as compared to Rs. 77 crores in Q1FY23 a decrease of 25 crores representing 32%, mainly due to decrease in feeds sales volume. The Feed sales reduced to 1,26,034 metric tons in Q2FY23 as compared to 1,61,343 metric tons in Q1FY23. The PBT in Q2FY23 has increased by 30 crores from Rs. 22 crores in Q2FY22 representing 136 %.

As you know, the cost of raw materials constitutes a major share cost of Feed production particularly Fishmeal, Soyabean meal and Wheat Floor. The average raw material cost in terms of percentage over feed sale price was 88.11% in Q2FY23 as compared to 93.58% in Q2 FY22, indicating a marginal decrease by about 5.48% in the average raw material cost. However, compared to Q1FY23, it is more or less at the same level at 87.74% in Q1FY23. The average cost takes into consideration volatility of the major raw materials like Fishmeal, Soybean meal and wheat Floor, sometimes increasing and sometimes decreasing during the respective quarters. The present rates of Fishmeal, Soybean meal and Wheat Flour are Rs.105 per Kg, Rs. 57 per kg and Rs. 34 per kg, respectively.

I would like to share with you that the prices of these major raw materials along with related products like Fish oil, soya lecithin, etc., keep changing from time to time depending upon the seasonality, production, global trends etc., which has direct impact on the raw material cost of the feed.

Another important factor to be taken into consideration is that most of the products particularly Fishmeal, Soybean meal and Wheat Flour have been brought under the levy of GST, (less than 25kg pack, branded Wheat Flour), resulting in increase of raw material costs without adjustment to output and input tax mechanism since the final product should be exempt from GST. Now, the only reliving factor is that wheat and wheat products have been banned for export to check the increase in prices after the government experimenting with export of wheat and wheat products which resulted in steep hike in wheat and wheat products in India.

B. SHRIMP PROCESSING DIVISION: Q2FY23 RESULTS:

- Now, let me take up the shrimp processing division. The gross income for Q2FY23 is Rs. 310 crores as compared to Rs.273 crores in Q1FY23, an increased by 37 crores representing 14% due to increase in sales volume by 232 metric tons representing 7% in foreign exchange gains due to depreciation of Indian rupee against US dollar and average sales realization due to margin increase of export price.
- The gross income in Q2FY23 increase to Rs.310 crores from Rs. 273 crores compared to corresponding quarter Q2FY22, an increase of Rs. 37 crores representing by 14% along with increase in average export realization by \$0.5 per kg and foreign exchange gain due to depreciation of INR against USD.
- The Profit Before Tax (before the exceptional item) for the Q2FY23 is Rs. 40 crores as compared to Rs. 30 crores in Q1 FY23 an increased by Rs. 10 crores representing 33% mainly due to increase in average sales realization. The PBT in Q2FY23 is Rs. 40 crores, decreased from Rs. 41 crores in corresponding quarter of Q1 FY22.

Present Status of Termination of Recall and reinstating Green List Status:

I'm happy to share with you that USFDA has removed cooked shrimp products from FDA import alert list from 21st October, 2022, this year. This will enable the company to accelerate the growth, accelerate the exports of value-added products but it could ship to USA.

I would like to assure the stakeholders that your company gives utmost importance to Food Safety and Compliance with Global Regulatory requirements and leaves no stone unturned to achieve this objective.

Provision in the Financial Statements:

Coming to provisional in the financial statements for this recall to Q2FY23 an additional provision of Rs. 1.30 crores has been made as an exemption item towards value of returned/ destroyed products and other related expenses with cumulative provision of Rs. 34.10 crores till 30th September, 2022, out of which an amount of Rs. 26 crores has been paid on the basis of claims leaving the balance Rs. 8.10 crores as a provisional in the financial statements. We have assessed that almost all the claims so far have been received and as far as the returned and destroyed products are concerned, and we would like to continue the final closing of this provision till 31st March, the existing provision as of now Rs. 8.10 crores and we will wait till 31st March, 2023 and then we right back this excess provision in the financial statements.

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

The information required by the surveyors itself have been asked us for the payments and that will provided in due course.

INDUSTRY OVER VIEW – FUTURE OUTLOOK:

Industry overview and future outlook is like this, at the start of this year 2022 the environment for shrimp culture in the country started favorably and the shrimp culture commenced promisingly.

However due to floods, deceases, decrease in farm gate prices and sluggish export market during end of 1st and main crop, shrimp culture did not register expected growth. On the other hand, it has shown a de-growth compared to the corresponding period of the previous year. This sluggish shrimp culture activity is likely to continue even in second crop due to decrease in demand for shrimp exports, report of petition in USA, Europe and lockdown in China, due to Zero COVID policy. In addition, Ecuador is now the biggest shrimp producer, a key export competitor, and is able to ship shrimp at lower rates due to the proximity of the US market. All of these factors are expected to contribute to for a decrease in production. Moreover, in this kind of situation, some of the farmers are planning to go for a crop holiday till April'23.

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

SHRIMP FEED CONSUMPTION:

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

The Company's feed sales during the FY22 was about 5.41 lakh mts as compared to 4.73 lakhs mts in FY 21. It is expected that for FY23 it would remain more or less the same as in FY22 unless large number of farmers decide to go for crop holiday. At this stage, I would like to share with you that company has limited choice to increase the Feed price as and when the RM cost increases. Before resorting to any increase in price, the Company has to consider the farmer's feasibility to take on the increase, sustaining the margins on the farm gate prices that receives from the processes, exporters. In addition, the off let the Government Andhra Pradesh of this state has also been holding consultative

meetings with the farmers and the field manufactures to arrive at a price workable to the farmers and advising the field manufactures to moderate prices taking into consideration, the hardship faced by farmers. The feed manufacturers are cooperating with the government and also watching for the sustenance of this industry in the interest of the farmers.

SHRIMP PROCESSING & EXPORT:

The country's Shrimp production and export is likely to come down in CY22 to about 6.50 – 7 lakh Mts, as compared to 8.50 lakh Mts in CY21.

The Company's Shrimp exports during the FY22 was about 12,836 mts as compared to 11,518 mts in FY21. It is expected for FY23 would be around the same level of 13,000 mts.

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.

Before concluding, I would like to share with you that the Indian Shrimp Culture industry is facing unprecedented crisis due to steep fall in exports due to recession in US, Europe and lock down in China coupled with severe competition in export price from Ecuador.

To face this crisis which is expected to be temporary, to ensure sustainability of the industry, the shrimp exporters, led by Sri A. Indra Kumar, as President of Seafood Exporters Association of Andhra Pradesh Region, at the initiative of the Andhra Pradesh Government represented by Sri B. Masthan Rao, Hon'ble Member of Parliament (Rajya Sabha), are holding discussions with the farmers of A.P. Region to find solution to the crisis. The Seafood Exporters Association and the Government are advising the farmers not to go for crop holiday which is not in the interest of the industry. Instead, advising crop rotation and lower stocking density and culture big size shrimps. The Shrimp Exporters have assured the farmers that the raw shrimps would be purchased at the Government fixed prices which is Rs.210/- per kg for 100 count and Rs.380/- per Kg for 30 count. It is hoped that all the stakeholders like farmers, exporters, feed manufacturers, hatcheries work harmoniously to get over the present crisis and ensure sustainable growth.

Thank you.

Now we will take up Questions and Answers:

Moderator

Thank you, Sir. Ladies and gentlemen. We will now begin the question-and-answer session. If you have a question, please press * and 1 on your telephone keypad and wait for your turn to ask a question. If you would like to withdraw your request, you may do so by pressing * and 1 again. First question comes from Depesh Kashyap from Equirus Capital. Please go ahead.

Depesh Kashyap

Thank you for taking my questions. Sir, you're given the current raw material prices, can you please give the average price value for the last quarter please, Fishmeal, Soyabean meal and the Wheat Flour?

C Ramachandra Rao

The average cost of raw materials remains unchanged from the previous quarter.

Santhi Latha

111 is Fishmeal.

C Ramachandra Rao

You want the raw material price or raw material cost ?

Depesh Kashyap

Sir the individual raw material prices, fish meal, soya meal.

C Ramachandra Rao

Okay.

Santhi Latha

The fish meal is around Rs. 111, it was the same in the earlier quarter also, soya is around Rs. 52 and wheat flour has gone up to Rs.29. But the present raw material cost is different from what I'm telling you. Rao Sir has already told you.

C Ramachandra Rao

Rs. 33 to Rs. 34 is the present wheat flour cost.

Santhi Latha

And fish meal remains the same.

C Ramachandra Rao

Currently, Fishmeal costs about Rs.100. The prices are likely to go up because of lot of demand for exports. Because of depreciation of Rupee, the exporters are getting very good realization from their exports because of the rivalry from the export market, fish meal export prices are therefore expected to increase in the future as well unless some type of discipline is introduced.

Depesh Kashyap

Okay. So, if I got the number correctly, you said soya meal last quarter was Rs. 52 now, it is Rs. 57 and wheat last quarter was Rs.29. Now, it is Rs.34 and I also understand that you have rolled back the Rs. 2 price hikes right. So, do you think the margins will further go down in the next quarter?

C Ramachandra Rao

There are two things to consider. The first is the soya price, which we must continue to monitor. If soya prices decline, there should not be much variation in the margins because the September and October new crop has come, some of the expectation of some exports and things like that the sort of hoarding is taking place and definitely in months to come in November, December and January, we are going to receive more quantities of Soyabean meal and that could in fact the stabilize the price and whatever the price it is there now, It's likely to remain impacted well.

As far as fish meal is concerned again, we are looking at export market but the market information that the price, the exports to countries that have come down particularly Taiwan and other countries which has come down because they crop is over now, so they are not exports of fishmeal any longer. So, with that, I think that also should get stabilized in due course. As far as wheat flour is concerned, we don't see any change, because the next crop is expected only in March.

Depesh Kashyap

Got it Sir. Secondly, if I look at the consolidated employee cost number, I think that has increased by 15, 16 crores YoY, just want to understand this is because the change in formula that you did for your

management remuneration or it is because the new employees of the new treatment that you're coming

C Ramachandra Rao

Both.

Depesh Kashyap

Okay, largely because of the Change in formula. Sir I just want to ask the guidance number for processing, you have given on 13,500 tons for FY23. Now, given your first half number, it seems that you're factoring in a 4 to 5% decline in the second half in the processing division. So, now that you're also got the US FDA clearance, still you think there will be decline in second half, in this processing volumes?

Nikhilesh Alluri

Hi, this is Nikhilesh, to answer that question, there are two factors. One is that we've got the green ticket, but actually we've never actually stopped selling goods products, value-added products to the US market. We were selling at a lower pace, because it has added testing in the US, when it reaches the containers it will reach the US geography. Now, the market also very weak. The customers in the US, the larger retailers, food service companies are sitting on lots of inventory. So, we need to see how fast they clear their inventory. And then they're able to we'll be able to send out more products. And for the coked products. We've already started looking a lot of orders. So, it's compensating on the weaker market. But we need to see how it pans out in the next two to three months. Because this is the holiday season and the primary place where most of the sales occur. So, we need to wait and watch no definitive answer at the moment.

Depesh Kashyap

Got it. Lastly Rao Sir what is the reason for the delay in the starting the feed plant because I think it's the entire capex is already sitting in the balance sheet right. So, what is the reason for the delay?

C Ramachandra Rao

See the government is clearances are awaited. It's ready for production. In fact, we have taken the trial productions also successfully, but actually couple of government approvals have to come nothing else, just we are waiting for the approval once we get we start, I mean, I've been dispatches from that new plant.

C Ramachandra Rao

Got it Sir. Thank you very much.

Moderator

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

Nitin Awasthi

Hello Sir, I wanted to ask you about a component of the feed. Other aqua companies have started to use DDGS as their component to be substituting some amount of soya and wheat, are we also looking at to do something similar because of the price differential?

C Ramachandra Rao

We don't want to compromise on the quality of the feed, we are now sticking to the formula which we are following. We are only making some combinations of the variants in a Soybean meal for example, we have a protein percentage were varying and seeing that they ultimately it meets the requirements standards that we have been supplying with the company to the farmers earlier, we don't want to compromise on the quality of feedback just for the sake of cost buy in at cheaper raw materials, we do not want to go do that.

Nitin Awasthi

Okay, so secondly, all the other aquaculture major feed companies who are into aquaculture are getting into shrimp if they're not into shrimp, they're expanding that fish feed business. Also, and we don't seem to be expanding into any other category of the fish feed segment. So, when will we start doing something similar because unless and until we do that, we won't grow further, and the competition will keep eating up our share or at least putting cost pressures.

C Ramachandra Rao

Now we're well aware of this. In fact, we have all the necessary formula and all for fish feed also we can start the fish feed at any time it will not take but only thing is we're just waiting for the stabilization of the fish feed market it is because the fish feed market is not consistent, sometimes it is high sometimes it is low and the department's they see the they go for a cheaper raw materials and cheaper feed. So, unless we have sure because when you bring that technology, the new technology giving higher age, they should be able to do it, will be more expensive than what they are making now. Once we have confident of the market, then definitely, we'll bring that fish feed also we are ready with everything to start the fish feed, we are also waiting for the appropriate time.

Nitin Awasthi

Okay. So, what changes in the market were you looking at to bring this forward this product into your company portfolio because company is much smaller than you are putting up massive capacity. That's why I asked this question.

C Ramachandra Rao

You are right, see we have a larger capacity to do it that we cannot just start like that. When we do it, we do it with a very definitive formula and also to service to the farmers to get the age where to do very systematically it is easy to start, a small fish feed plant is very simple to start it will not take much CapEx or much the formula they depend on the how much protein and how much you are giving to the fish feed if you give more nutritious feed, it will be expensive, if you give a less nutritious feed it will be cheap. So, we are trying to see that when is the market is right to take the nutritious food with the qualities that will produce, we not want into it cheap feed and suddenly got the market comes down. If a fish market comes down, they'll stop using the quality fish I mean quality feed. That's the reason why we are just keeping on hold otherwise, as I told you we are ready to start anytime.

Nitin Awasthi

Okay, so last question from my side. The farming holiday, are the farmer convinced of not going for it or are you looking for a certain key percentage of definitive farmers stopping and going for late farming next calendar year?

C Ramachandra Rao

Lot of debate is going on that particular subject, because today we are facing a lot of crises, in the crisis naturally the farmers think that going for a crop holiday is a good option not to just go till, not to do anything till April 23, but it is not correct also. So, the exporters and also the government they are advising the farmers to go for crop rotation, and also to do it in such a way that all suddenly you don't increase the production. And also, they are saying go for a bigger size, less stocking density. So, there are certain visions that are being advised by the seafood exporters as well as the government so that the farmer survives this crisis. Just declaring crop quality does not really help the industry. That's what yesterday's meeting the government as well as the seafood exports have advice the farmers. So, a lot of debate is taking in place. I think it will take another 15 days or 1-month time to take a decision on this.

Nitin Awasthi

Okay Sir, continuation of that, other feed manufacturers, the processors and the government on the same page, or is there a difference of opinion between the state government and the corporates?

C Ramachandra Rao

No, they are all on the same page only, it is a panic reaction, it is a knee-jerk reaction by the farmers to suddenly stop because they are not getting good price. But the government has assured under exporters have also assured the farmers that we will buy the price at which the government has advised like 100 count at Rs. 210, they said they will buy. So, they are asking them not to stop but only don't produce in a big way at a time, do it in a fish manner.

Nikhilesh Alluri

Listen, I just want to rephrase the same thing. So, I pretty much a very well researched into the shrimp market, I think it was also seen reports across the world, including the largest producer, Ecuador that the prices of shrimp are plummeting. So, the government and the corporates, everybody is very much on the same page, which is to ensure that the farmers don't lose their livelihood on the lower prices. So, there's some sort of minimum support given to the farmers so that they kind of almost breakeven or kind of make, depending on their efficiencies, a little bit margin and, but there's also a lot of farms also given by the government saying that this is only to support at the bottom stage, but once the market rebounds, then there will be no involvement as per.

And this is the same in pretty much every other market and this is being governed only mostly by the end market dynamics, especially with US market, very weak China market. So, this is what is governing, it's one things rebound. I'm pretty sure the farmers will come back into going into, like full scale farming right now since there's excess supply globally and peak demand. So, there's a slowdown in production to kind of balance the scales. But I think it's a phenomenon that we're seeing in every kind of industry.

Think a week ago target, a large retailer in the US also reported their results, which was very, very low margins and also high inventory that's the same as every other retail chain in the US not pertaining only to seafood, but all other categories. So, we're also seeing a weak macro-economic dynamic where the recession fears, there's also layoffs in many of these big tech firms and also people worrying about getting into impulsive buying and only going to necessary products. So, this is just running by the macroeconomic situation and things will get better. That's what we can foresee.

C Ramachandra Rao

This is a temporary phase. That's what the industry of view that it is only the temporary phase and it will pick up shortly that is what the government as well as the exporters are giving confidence to the farmers to that let them not take any get depressed about the prices and all that keep the culture going in a different rather in a growth manner not in a big way, but slowly start to pick up a little automatically as Mr. Nikhilesh said, it will pick up in the course of time.

Nitin Awasthi

Okay, sir, understood. Thank you.

Moderator

Thank you, Sir. Ladies and gentlemen, if you have a question, please press * and 1 on your telephone keypad. I repeat, if you have a question, please press * and " on your telephone keypad. We will wait for a moment while the question queue assembles. Next question comes from Harsh Dedhia an Individual Investor. Please go ahead.

Harsh Dedhia

Hi, I have seen that one thing in some very well, in terms of execution in process shrimps to non-US markets. I think non-US sales is now accounting for about 40% of processed shrimp exports. So, can you talk more about your marketing strategy in the non-US markets?

Nikhilesh Alluri

So, I think this was always a strategy to kind of diversify from the US market. We are focusing on requirements globally, apart from the US market, that can be clearly seen in the last three to four quarters, especially when we have the FDA issues from last year. So that's working out well. So, we are also working on launching products, which are focused on other Asian markets, so that we can further reduce our reliance on the US market.

So, not only are we diversifying our product categories for other global markets, but we're also focusing on developing customers and increasing sales to the same customers in European and Asian market, but also finding new customers in those markets. So, we will continue to focus on that. But also, I would like to say the US has been among the key market for the last 25 years. So, we will continue to work in that market with the same aggression, but also at the same time, develop new markets also.

Harsh Dedhia

Thanks for the clarification. And for these non-US markets. How are the realizations and what kind of shrimps are we selling? Like is it loss shrimps? Or is it value added shrimps?

Nikhilesh Alluri

We're selling all kinds of like all product types to all markets, depending on the requirements. To China, it's mostly commodity shrimps, very basic, commodity shrimps, but the remaining market we are selling pretty much all our product category.

Harsh Dedhia

Okay, my next question is about the longer-term trajectory. So, if you look for the last four, five years, Avanti has maintained its market leadership in the feed segment, and it has turned out to be one of the biggest companies in the shrimp processing segment, despite the industry growth going through certain headwinds in the last three, four years. So, I would like to applaud the management for this, but if you also look at the share prices last five years, I think we are still down 60% from our peaks, and we have a lot of cash on our books, is the management thinking off of a strategic buyback at lower share prices, which can be value uplifting to their shareholders remain invested or something along those lines?

C Ramachandra Rao

So, the, now the as you said, the management has been consistently giving the dividends and as far as the cash reserves are concerned, we have told earlier also that one we are using that money for working capital requirements, seasonal requirements like when we have more inventory of raw materials and the finished goods also in the case of feed and because the raw materials are subject to high volatility. So, when the new crop comes in and the prices come down, we make more inventory, and they take, and we'll find that this is definitely cheaper in cost compared to the bank borrowing with all the conditions to tax and to very high cost.

So, whereas this is the best way of funding the working capital requirements and coming to the expansions, we are being thinking of expansion and driving discussing in the board meeting several times, but we are yet to come to some, the confident level to go for a new project, there's several projects, which we are discussing, we will come back to the investors at the right time. In way, the board takes a decision to go for the expansion.

Harsh Dedhia

Thanks for the clarification. Is there a point beyond which, like cash in the books starts to come in return, diluted, in terms of ROEs, like is that a strategy target we have in mind like 1,000 crores, 1,200 crores because there has to be an upper limit to how much cash the company keeps?

C Ramachandra Rao

We see bigger. That's what I've been telling you, when you are looking at the 31st March, balance sheet differently, it will have forecasts, so the when you see the seasonal requirement of the intend, the cash reserves are very less in compared to the season purchase of our inventory is maintaining, higher inventories of raw materials and finished goods for the following season. So, at a point, we cannot take that at a particular point of time, it is showing huge cash. So, we don't have a plan, how to do those reserves.

I don't think it's the right way to think and it is because of the demand for our raw materials, which is cash and carry, we have been able to get a very good prices competitive prices compared to the market, which is ultimately is the benefit of the investor which is the increases the profit. So it is not just go buy investment without ensuring the growth and the value for the investment. So that is the reason why we are just keeping that expansion of our going for diversification projects on hold. And you can take confident level is that we're using this money only for rotation into working capital. So, absolutely the safety is there, and we are not taking any risk on it.

Harsh Dedhia

That makes sense, like as long as it's used to funded, working capital and if it provides us strategic benefits, I understand things. My last question was about our margin levels. If you see the question, feed margins have been taken the past few quarters, which makes sense because the raw material prices have increased, but structurally do we see the 12% margins which we used to do at some point of time coming back? And if yes, what is the timeframe in which the management can think of?

C Ramachandra Rao

See, the raw material price constitutes more than 80% of the production of feed. So, that being the case, the lot depends on the margin, a lot depends on the raw material price, if it goes up naturally margins come down to add it to that, so earlier when, which you are referring to, we were not having the GST on the raw materials. For example, fish meal was duty free there is no sales tax, there was no sales tax on soyabean, there was no sales tax on wheat flour, almost all geometries, we use as many as 15 to 16 raw materials, all raw materials, straight back shall not subject to 18% tax, so all these things will add up to the cost because there is no mechanism for us to input, output tax, because

the final product is exempt from GST. So, whatever is coming is, is going to the cost and it reduces the profit.

Harsh Dedhia

Yes, it so it's kind of beyond that constraints.

C Ramachandra Rao

We have constraints, one is price of the cost of raw material, cost of production. Now, we have no control on raw material prices, we have no control on the GST on the other side the feed, feed prices also we cannot increase that our choice to match the margins. Because as I explained, when I discussed about the subject, as the government comes in way, and also the farmer sustainability is the most important thing for the industry. We always see that the farmer gets a benefit.

Then only will continuously shrimp culture. If he doesn't make profit margins between the farm gate price to the cost of production, then there is no purpose, the industry will not have a sustainable growth. So, these are the factors which are contributing to, there are some sort of limitations, constraints and we should I in spite of all these things, but we measure that we are taking, we are able to maintain a margin of depending upon the raw material cost from between 9 and 11% we are trying to match the margins.

Harsh Dedhia

Yeah, thanks for that clarification. And that's it for myside. Good luck to the company.

C Ramachandra Rao

Thank you.

Moderator

Thank you, Sir. We are having a follow up question from Depesh Kashyap from Equirus Capital. Please go ahead.

Depesh Kashyap

Thanks for the follow up Sir. Just trying to understand that, we are seeing a lot of interference if I can use the word by the state government of Andhra Pradesh, but how are in other states, are you having a different feed pricing formula in other states like Gujarat or Odisha or you are selling at the same price?

C Ramachandra Rao

See nearly 60% of the total production of shrimp is in Andhra Pradesh. So, the Andhra Pradesh is the nerve center for the aquaculture, most of the culture is done by the small and medium farmers. So, naturally the government is interested in the interests of the farmers, and we feed manufacturers are also interested in the farmers because they should continue the activity. So, we don't call it as some sort of policing, but it is some sort of trying to balance between all these things like stakeholders should survive the market should be there.

This what we can take into consideration while fixing the price of the feed that is one thing but the government has its own agenda, they will have to take care of the welfare of the state farmers and like other dependent population they have to take it, So, naturally we cannot say that they are interceding but we can say that they are also playing the role of the moderator they're commonly called both feed manufacturers as well as the farmers then consult and try to strike a balance, this what's happening.

Depesh Kashyap

Got it Sir but in other states are you able to price the feed?

C Ramachandra Rao

No other states there is no, see if you take each state like Gujarat is very uncertain, Gujarat has got only one, the one crop and then West Bengal then Odisha, these are the three, four biggest states and feed manufacturers are all mostly Andhra Pradesh and we're not doing Tamil Nadu it is mostly a concentrated in Andhra Pradesh itself.

Depesh Kashyap

Sir so you are largely saying that whatever you're selling in Andhra Pradesh the same price you get in Gujarat also, is that understanding, correct?

C Ramachandra Rao

Well naturally it's not correct though we have to extend the same price to the other farmers also.

Nikhilesh Alluri

Otherwise, the farmers, it's unfair for them right different costs same product.

Depesh Kashyap

Got it. And Sir, I got the raw material part and the employee expense got just one you understand the other expense's part also that in this quarter if I look at a standalone in the feed segment, your other expenses increased to 52 odd crores versus 36 crores, that's a big jump of 43%. So, is there any oneoff or anything you can highlight in this number?

C Ramachandra Rao

What we are trying to do is we are encouraging farmers to convert our feed to increase our market share, we have given some farmer schemes. So, the farmer schemes those who come to our feed will be given an extra benefit for conversion from the other feed our feed we are, that is a expense which we have booked now.

Depesh Kashyap

And it is expected to continue Sir?

C Ramachandra Rao

No, it is not, clearly depends upon the season how the market is reacting to such things if the price is its criteria, we give that price, we give the instead of reducing the price what we do we give a farmer scheme to encourage them, if you achieved so much target we give them a percentage of the value of the say purchase that they make that will percentage we give them the scheme view is there are 70 varieties sometimes we give them the items, or sometimes we say you can redeemable coupons. They can buy their feeds by redeeming the coupons. But there are two, three varieties of really incentivizing the farmers to come for our feed, that's how the expenditure is coming there for the marketing.

Depesh Kashyap

Got it. Sir lastly, Nikhilesh, just wanted your opinion about US and Europe market we kind of understand what is happening but just wanted to call a color from a Chinese market. We understand that the consumption in China is lower right now because of the lockdowns, but how is the production level there? Do you think when it opens up there will be a massive demand which can give a positive surprise next year?

Nikhilesh Alluri

Yes, on that point about the Chinese lockdowns, continued lockdowns and the lower demand. Yes, that's a definite problem that we're finding. The second thing is that I feel that this sitting on a lot of

inventory even now. We can only know that once, probably December, early Jan when they start buying for the Chinese New Year. The third point is that the Chinese market to be very frank has been very, very dicey for the past 6-8 months a lot of renegotiations, a lot of backouts by the buyer when selling the product.

It's been very difficult with the market but the seasoning that the buyers are giving is that the lockdowns and even weak economic conditions in China itself. So, will it recover? Yeah, definitely. We see it recovering. I see China continue to grow. Once they pass lockdown which I think we're all very certain way like the rest of the world. They will also remove these lockdowns at some point. Once they start doing that and the consumption starts increasing, then I'm pretty sure it will become a dominant market like the US and with its proximity towards in distance to India, it will be a good gain for India in the long run.

Depesh Kashyap

Got it. Thank you for answering my question. Thank you very much.

Moderator

Thank you, Sir. Next question comes from Chokalingam Narayanan from ICICI Prudential PMS. Please go ahead.

Chokalingam Narayanan

Thanks a lot for taking my question. How much is the proportion of Cooked Shrimps that we sell today?

Nikhilesh Alluri

Just give me a second. So, when we do value-added products, we actually clubbed couple of products into the value-added product. So right now, the cushion is about Cook Shrimp, about 16%, I think we used to do about 30% before and like I think Depesh asked that question before, we have still been supplying Cook Shrimp, but just at a lower pace. So that will accelerate now.

Chokalingam Narayanan

Okay I understood. With regards to the different expenses that were I've seen increase, if you could kind of quantify an employee cost how much is related to the management related remuneration increase and how much is related to the new plant? If you could quantify.

Santhi Latha

1,75,000

C Ramachandra Rao

The expenditure is how much is it relating to. Can you just come back on the question, please.

Chokalingam Narayanan

No, I asked in versus last year, when you look at the increase in employee cost, what quantum in absolute crores is relating on Q2 this year versus Q2 last year, what proportion is, what quantum inputs is relating to the change in managerial remuneration and what is relating to the new plant?

Santhi Latha

See around Rs. 9 crores is towards the managerial remuneration and Rs. 3 crores towards the employee benefits. The new plant is only operational for three months instead of the full six months, and the new employees are only being hired since we are now hiring for the new plant.

Chokalingam Narayanan

So, the Rs. 9 crores number is for first half or one quarter?

Santhi Latha

It's for the first half.

Chokalingam Narayanan

First half. Okay, understood. Second is with regards to the other expenses, you mentioned something with regards to, the schemes for farmers, what is the quantum in the first half and second quarter? If you could quantify.

Santhi Latha

It is there only in the second quarter; it is not there in the first half. And the same expenditure was not there in the previous year, So, it is around Rs. 5.5 crores.

Chokalingam Narayanan

Understood. And lastly, on the container rates having come down? Have you started to see the benefit of that on the freight cost? What was the freight cost processing business? And if the rates were to currently prevail, what sort of savings could you see?

Nikhilesh Alluri

I don't have it with me right now. But I can, because on a comparative note, I don't know. Like, I don't have it on hand. But I can tell you that, at the peak, we were paying about \$14,500 to LA, and now it's reduced, the lowest code that we're getting is about 6000. So, that's a substantial decrease. But however, our contracts are a combination of long-term contracts and also spot market contracts. And due to uncertainty, this year, and last year, most of the contracts by the customers were short term, because it was a lot of unpredictability, and high volatility of raw material price.

And also, most importantly, they were not able to get the market demand since they're sitting on high inventory. So, I would say yes, we will get a benefit of the freight reduction. But it won't show a substantial impact, because most of the contracts that we have are also spot market contracts. On the outlook, I think I feel the freight rates would continue to go down. I think it is by another \$1,500 to \$4500 to LA that's what I am predicting. Hopefully, that does come through so that the consumer at the end can start really seeing the price reductions and the cost of protein and go down.

Chokalingam Narayanan

If you could help in terms of even if you don't have the absolute crore number, it's a percentage of revenues, if you could kind of say, a broad ballpark that will kind of help.

Nikhilesh Alluri

Okay. So, I actually I do have it. I think maybe I spoke ahead of time. But on this quarter, we paid an average of \$12,000 of freight compared to \$7,000 last year, but since the prices have started coming down, so, next quarter, we can see, start seeing low freight costs.

Chokalingam Narayanan

Understood and what is the progress with regards to your PLI policy facilities.

Nikhilesh Alluri

So, we have completed the land acquisition and we've also started kind of filling up the land to get it to a level before we start off construction and civil activities in December. So, you we have the Hindu

tradition, we have the Mahurat, and all those things scheduled for December for that before that the filling in the land and ordering all the necessary materials finalizing the plans. So, we are going ahead with that in hand because we have, we do feel that our product continues to have strong demand in the market. So, and we also take it as an opportunity given by the government of India to help us kind of consolidate our position.

C Ramachandra Rao

To add what Mr. Nikhilesh said, we have applying for this first years of PLI because we have achieved it, we are applying it. It will be scrutinized and maybe by first week of January we will know the results of that, but we are not making any provision in the accounts for the PLI, after only the government's approval only we will take into account and one more thing we have got approval for another operation screams long term interventions of the Ministry of Food processing industry of government of India.

They have another scheme, that the government has announced for subsidizing their investments on post-harvest processing facilities and we have made an application in principle in place we have received application only today, the approval but we are working on that, but we have been selected for the scheme that announce by the government and under particular the operation greens, they are calling it. It gives some subsidy on the investment.

Chokalingam Narayanan

Okay, this is for new plants, is it?

C Ramachandra Rao

Yes.

Chokalingam Narayanan

Okay, this will be on top of PLI?

C Ramachandra Rao

On top of PLI. PLI is for the achieving the incremental sales, whereas this is for the investment itself.

Chokalingam Narayanan

Okay, Understood. And on the PLI, you've already applied for it. So, what could be the quantum that you might be eligible if you could give a ballpark?

C Ramachandra Rao

No, it will take some more time to give the number the day. We are just working on it. And we'll submit in by two, three days, we'll submit that. I think maybe next year, we'll be able to give you the exact figures for it.

Chokalingam Narayanan

Understood Sir, that will be helpful. Thank you.

C Ramachandra Rao

Thank you.

Moderator

Thank you, Sir. Due to the time constraints, that would be the last question for the day. Now I hand over the floor to the management for the closing comments.

Nikhilesh Alluri

Thank you, everybody for taking time to attend the investors call. We value your time, and we will continue to work to give solid performance in the coming quarters. Have a good day and a pleasant weekend.

Moderator

Thank you, Sir. Ladies and gentlemen, 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 investor and analyst 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 Conference Call service. You may disconnect your lines now. Thank you. 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.