

Ref: AFL/BSE & NSE/2019-20

02.03.2020

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Sub: Avanti Feeds Limited – Audio Conference Call for Investors conducted on 6th February, 2020 – Transcript of Audio Conference call – Reg.


Ref: Our letter No: AFL/BSE & NSE/2019-20 dated 05.02.2020 & 06.02.2020

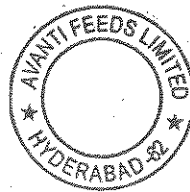
Further to our letter cited, we enclose herewith the transcript of Audio Conference Call for Investors conducted on 6th February, 2020 in connection with Un-audited Financial Results for the Quarter Ended 31st December, 2019.

This is for your information and record.

Thanking you,

Yours faithfully,
for AVANTI FEEDS LIMITED


C. RAMACHANDRA RAO
JOINT MANAGING DIRECTOR,
COMPANY SECRETARY & CFO



Encl: As above.

Transcript

Conference Call of Avanti Feeds Limited

Event Date / Time : 6th February 2020, 04:30 PM IST
 Event Duration : 01 hr 05 min 01 sec

Presentation Session

Pavitra: Good evening, Ladies and Gentlemen. I am Pavitra, moderator for the conference call. Welcome to the Avanti Feeds Limited 3Q FY 2020 Post Results Discussion Conference Call, hosted by KFin Technologies Private Limited. At this moment, all participants are in listen-only mode. Later, we will conduct a Question-and-Answer Session. At that time, if you have a question, please press * and 1 on your telephone keypad. Please note, this conference is recorded.

I would now like to hand over the floor to Mr. Sherwin Fernandes from KFin Technologies. Over to you, Sir.

Sherwin Fernandes: Thank you, Pavitra. A very warm welcome to all present on the call. We thank you for your participation in the Q3 FY 2020 post results earnings call.

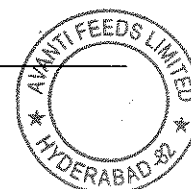
Firstly, on behalf of Avanti Feeds Limited and KFin Technologies, we would like to wish each one of you a prosperous 2020. The call will be initiated with the management remarks on Q3 results, followed by the Q&A.

Management team is represented by Mr. C. Ramachandra Rao, Joint Managing Director; Mr. Alluri Nikhilesh, Executive Director - Avanti Frozen Foods Private Limited; Mr. M. Venkateswara Rao, GM - Corporate Affairs; and Mr. K. Paidi Raju, GM - Finance and Accounts.

I would now hand over the call to Mr. C. Ramachandra Rao. Thank you, and over to you, Sir.

C. Ramachandra Rao: Thank you, Mr. Sherwin. Good evening, Ladies and Gentlemen. We extend a warm welcome to you for this investors conference call today to review the unaudited financial results of Q3 FY 20.

Along with me here are Mr. K. Paidi Raju, GM - Finance and Accounts, Mr. M. V. Rao, GM - Corporate Affairs and other team members. Mr. Nikhilesh Chowdary - the Executive



Director, is joining through conference call as he is out of station today.

The results of Q3FY20 are already with you for some time now, and we are sure that you would have gone through them.

Before taking up the analysis of results, I would like to make a mention of some of the key indicators from the financial results.

Consolidated financial results:

The comparative performance of Q3FY20 with that of Q2FY20 and Q3FY19 have been given in the presentation already circulated. Gross revenue from the operations and other income of the Q3FY20 has marginally decreased compared with Q2FY20 and it marginally increased when compared to the Q3FY19.

However, considering the nature of the industry, it would be more appropriate to compare the performance of 9 (Nine) months of FY20 with that of Nine months of FY19, as this would show a comprehensive performance for the first Nine months of the FY20.

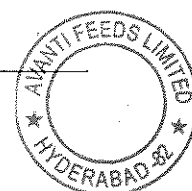
The gross income for the nine months of FY20 is Rs. 3,139.10 crores as compared to Rs. 2,664.46 crores for corresponding period of previous year, registering a growth of 17.81%.

For the same period, the PBT is Rs. 358.86 crores as compared to Rs. 325.51 crores in the corresponding period of previous year, with an increase of Rs. 33.35 crores. The PBT decreased to 11.43% on gross income from 12.22% over the previous period, mainly due to increase in raw material prices in both feed and processing business.

The PAT also grew from Rs. 230.42 crores in nine months of FY19 to Rs. 287.57 crores in nine months of FY20, registering an increase of Rs. 57.15 crores. The PAT increased to 9.16% from 8.65% on gross income, which is mainly due to opting for reduced tax under new tax ordinance -- new tax regime in AFL.

Feed financial results:

The gross income for nine months of FY20 is Rs. 2,445.06 crores as compared to Rs. 2,107.51 crores in the corresponding period of the previous year, registering a growth of Rs. 337.55 crores at 16.02%.



The PBT for the nine months of FY20 has been increased to Rs. 280.45 crores as compared to Rs. 255.28 crores, including exceptional items in the corresponding period of the previous year with a marginal decrease to 11.47% from 12.11% on gross income.

The PAT went up from Rs. 167.75 crores in nine months of FY19 to Rs. 216.72 crores in nine months of FY20, with an increase of Rs. 48.97 crores, with an increase to 8.86% from 7.96% on the gross income.

Now we come to the reasons for steep fall in the gross profit and PBT in Q3FY20 compared to Q2FY20 and also Q3FY19 for feed business.

You must have been surprised to see a steep fall in the gross profit of Avanti Feeds in Q3FY20 compared to Q2FY20 and also Q3FY19, which is to the extent of Rs. 76 crores and Rs. 42 crores, representing a drop of 56% Quarter-on-Quarter and 42% on a Year-on-Year basis, respectively.

The major contributing factors are increase in the raw material price, discounts given to dealers on sales and further due to decrease in sales volume. The composition of these three factors is-

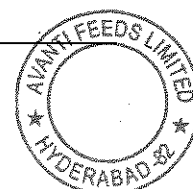
	Rs. in Crores
1. Increase in RM prices:	31.00
2. Increase in Discounts	17.00
3. Decrease in Sales	<u>28.00</u>
Total :	<u>76.00</u>

Now let me explain what each one of them really mean.

Increase in raw material prices:

If you look at the RM cost per tonne of feed in Q3FY20 compared to Q2FY20, it shows that the RM cost per tonne is Rs. 55,240 per ton in Q3FY20 as compared to Rs. 52,220 per ton in Q2FY20, an increase by about Rs. 3,020 per tonne. This increase in cost has accounted for Rs. 31 crores reduction in the margin of Q3FY 20 over Q2FY20 on the sale of 103,874 tonnes of feed in Q3 FY20.

However, over a period of past three years, the raw material cost has gone up by about Rs. 4,500 per metric tonne due to increase in RM prices alone. In order to recover the increase in RM cost, the sale prices of all varieties of shrimp



feed has been increased by Rs. 4,800 per metric tonne effective from 27th January, 2020.

In this context, I would like to share with you that the prices of soya bean meal kept on increasing unabatedly during Q2 and Q3FY20, in spite of the fact that the fresh crop arrives into market by end of October and in November, which is delayed during the period in which normally the prices tend to come down. This is attributed to shortage of soya bean crop by about 25% to 30% this year due to unseasonal rains and floods and also lesser oil content in the seed.

Further, the Minimum Support Price was also increased by the Government by 10%. As a cumulative effect, the soya bean meal price increased by about Rs. 4 per Kg in these two quarters.

The prices of fish meal also increased due to reduced catches and also shortage for about 45 days due to agitation by fish meal manufacturers against imposition of 5% GST on fish meal. The increase was about Rs. 3 per Kg in Q3FY20.

The wheat flour also kept increasing month-on-month basis, adding to the cost of raw materials. So overall, the cost has increased.

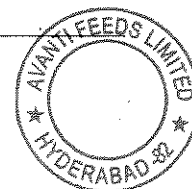
Increase in discounts:

Now coming to the other contributing factor is the discount. The margin in Q3FY20 decreased by about Rs. 17 crores compared to Q2FY20 due to increase in the amount of discounts given to the feed dealers. It is a trade practice that the discounts are crystallized on the basis of volume of sales made by a dealer during a calendar year i.e. January to December.

During 2019, the discounts accounted for Rs. 15,196 per tonne as against Rs. 14,849 per tonne in previous year i.e. 2018, with an increase of Rs. 347 per tonne.

In order to increase the sales volume, market share and improved sales against payment in the highly competitive and credit market environment, the company had to increase the discounts in the form of turnover discount, early or prompt payment discount by undertaking rationalization of discount structure in 2019.

This has resulted in increase of discounts by about Rs. 347 per tonne. As the crystallization of actual discounts are made as on 31st December of every year on the basis of the actual sales, any increase gets loaded into this quarter,



which is almost applicable for throughout the year. This is a normal practice, and since there is an increase in discounts in 2019 over 2018, the impact is seen in Q3.

This strategy of rationalizing the discount structure worked out effectively, which could be seen from the increase in sales of 2019 at 4,74,294 metric tonnes as compared to 4,20,334 metric tons in 2018, registering an increase of 50,960 metric tonnes. This discount structure is reviewed every year and formulated taking into consideration the market situation and other factors.

The third and other important contributing factor for decrease in the margin is decrease in sales volume. The reduction in profit to the extent of about Rs. 28 crores is attributable to the decrease in volume Q3FY20 as against Q2FY20. The decrease in sales is a seasonal factor. And normally in the October, November, December, it is a receding season for shrimp culture as all of you know.

Shrimp processing financial results:

The gross income during the nine months of FY20 grew to Rs. 695.91 crores from Rs. 560.53 crores in nine months of FY 2019, registering an increase of Rs. 135.38 crores at 24.15%.

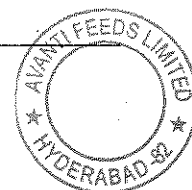
The PBT in the nine months of FY20 is Rs. 77.72 crores as compared to Rs. 69.50 crores in nine months of FY19, with an increase of Rs. 8.22 crores. However, in terms of percentage, the PBT has declined to 11.17% on gross income from 12.40% on the corresponding period of the previous year, mainly due to increase in RM prices without corresponding increase in the export realization.

Shrimp Hatchery:

Long-awaited and much delayed hatchery with 200 million seed capacity - as the first phase, the construction has almost been completed, awaiting certain statutory clearances to start. It is expected to commence production in a couple of months from now.

Industry overview:

In the just completed 2019 year, the shrimp culture in India saw much needed stabilization compared in highly volatile and uncertain conditions in 2018. The shrimp production estimated to have registered a growth of about 9% to 10% over 2018 at 7.40 lakh tonnes compared with about 6.75 lakh tonnes in 2018. Shrimp feed consumption is estimated



to have registered growth of about 8% at 11,50,000 tonnes in 2019 compared to 10,20,000 tonnes in 2018.

Feeds Sales of Avanti Feeds Ltd:

Coming to the sales of the company. As you know, the company has not only been keeping its farmers base intact, it is also adding new farmers and new areas to its sales network year-after-year.

As a result, the market share of the feed has gone up from 45% to 48% during the nine months of FY20 and this will assure about 5 lakh tonnes sales as against 4.22 lakh tonnes in FY19 as the culture scenario is not expected to have major changes during this quarter of Q4FY20.

Shrimp processing and exports:

As per the presentation made at Global Aquaculture Alliance (GOAL), during the last quarter in Chennai, shrimp aquaculture production is projected at CAGR of 4.9% from 2015 to 2021.

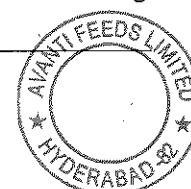
According to this report, after recording a growth of 5% in 2018 over 2017, (6% to 11%), the growth is projected flat with a nominal increase of 1% in 2019. Thereafter, it is projected to grow at 5% annually till 2021.

However, basing on shrimp production and exports from India in 2019, which is estimated to be around 7.50 lakh tonnes to 8 lakh tonnes. It is estimated that in 2020, the shrimp production may go up to 8.00 lakh tons - 8.50 lakh tons with an anticipated growth by 8.25% over 2019, subject to stable export market and shrimp prices and favorable shrimp culture environment.

As far as the Company is concerned, during the nine months of FY20, 9,781 tons of processed shrimps were exported as compared to 8,215 tonnes during the corresponding period of FY19, registering an increase of 1,566 tonnes with a growth of 19.06%.

The combined capacity utilization of both the plants during nine months of FY20 is 66% as compared to 50% during the corresponding period of FY19. The company envisages to achieve a combined capacity utilization of about 70% by end of FY20.

During nine months of FY20, 2,712 tonnes of value-added products were exported as compared 2,021 tonnes during



the corresponding period of FY19, registering a growth of 34.19%. It is endeavor of the company to focus on export of value-added products will also increase export to other than U.S. markets.

Government support:

As anticipated, recent budget presented in the Lok Sabha by Honorable Finance Minister on 1st February, 2020, emphasis has been laid on the need for focus on growth of fisheries sector with a target of fishing product exports to Rs. 1 lakh crores by 2024-2025 and proposed to involve youth in fishery extension through 3,477 Sagar Mitra and 500 fish farmer producer organizations.

Further details of the measures going to be adopted by the Government is awaited. Hopefully, these measures implemented in the right earnest will go a long way in the growth of the seafood industry.

With this preamble, now we will take up the questions from you.

Pavitra:

Thank you, sir. Ladies and gentlemen, we will now begin the Question-and-Answer Session. If you have a question, please press * and 1 on your telephone keypad and wait for your turn to ask the question. If you would like to withdraw your request, you may do so by pressing * and 1 again. Participants are kindly requested to restrict with two questions in the initial round and join back the queue for further questions.

Pavitra:

We have first question from Falguni Dutta from Jet Age Securities. Please go ahead with your question. Sir, it looks like participant line is not active. I am moving to the next question. We have next question from Ayush Mittal from NAPL Value Investing Fund. Please go ahead.

Ayush Mittal:

Good afternoon, sir.

C. Ramachandra Rao:

Hello.

Ayush Mittal:

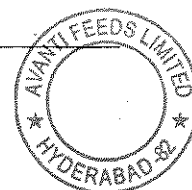
Yes. Good afternoon, sir. Can you hear me?

C. Ramachandra Rao:

Good afternoon. Yes.

Ayush Mittal:

Sir, in reference to the price increase taken by the company to offset the raw material price increase, can you share more about how the price increase has been taken by the market?



Other players also have increased the price or only Avanti has increased the price as of now? And how is the reaction as of now from your dealer network?

C. Ramachandra Rao: See, we know till now, almost all the feed manufacturers have increased their prices, I am talking about big players. They all have increased.

Ayush Mittal: It is a uniform increase of Rs. 4 to Rs. 5 approximately per kg?

C. Ramachandra Rao: No, that we cannot say. Because each company has its own policy of pricing. Therefore, naturally it differs from company to company. So, more or less, we can say between, Rs. 4.80 and Rs. 5, within that range, everybody has taken. Again, it depends upon the individual structuring of the pricing and all, the increase will be determined. There is no uniform increase like that.

Ayush Mittal: Okay. Sir, second question is, like, now we are in February and this is the start of the new key season that starts. So as per you estimate, you have shared about that you are expecting 10% industry growth. Is that the right number? What kind of expectation are you seeing for the upcoming season, basically?

C. Ramachandra Rao: See, the coming season means, I would put it this way, Mr. Ayush Mittal. The culture, as you know, is on the basis of calendar year. We always take it from January to December. So, we had about 4,27,000 tonnes of feed sales in 2019. We are expecting about slightly- may be more than about 5 lakh tons. So that would mean about 75,000 tons increase in the sales, which accounts for about roughly 12%.

C. Ramachandra Rao: About 12% increase it is -- this 5 lakh tonnes.

Ayush Mittal: In -- volume increase of 12% you are expecting for the coming year, calendar year 2020 - 2021?

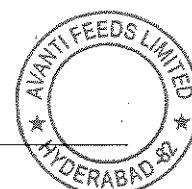
C. Ramachandra Rao: Yes, 2020-2021.

Ayush Mittal: Okay. Fantastic. Sir, in reference to the coronavirus in Chinese market, has this impacted any of the export market or the pricing as of now?

C. Ramachandra Rao: Which one?

Company Speaker: Chinese.

Alluri Nikhilesh Chowdary: Hi.



Ayush Mittal: Hi.

Alluri Nikhilesh Chowdary: So Ayush, it is very, very preliminary to answer anything. There is no movement in the market. It is stable right now. The Chinese are not working because the government has extended the Lunar holiday. And the only news that we have from the Chinese market right now is that they are not working any containers on the -- on transits and asking for the extra free time for demurrage because even the ports and everything, the country is in a kind of a crisis at the moment. So, they are just waiting to see how it progresses. But as of now, the market is stable.

Ayush Mittal: Okay. Nikhilesh, one more question for you on the processing side. As we can see from the numbers and performance, we are doing very well on the processing side and doing more value-added products. What is your expectation for the coming year on the processing side?

Alluri Nikhilesh Chowdary: So, as we have said in the past several investor calls, we expect to keep building on this. That is what we are looking at in the coming quarters as well, coming years as well. We are still building up our capacity utilization, adding more accounts into our company and adding more products. And that is the focus going forward as well. And I am very confident we can move as positively as we are moving today.

Ayush Mittal: Okay. And any risk on the incentive that we get from the government on this side?

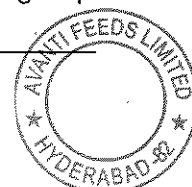
Alluri Nikhilesh Chowdary: The government has already given their idea saying that they are going to remove certain export incentives, but they have also said with the same breath that they will compensate on -- in other ways and they are working on it. So, there is nothing for me to comment at the moment.

Ayush Mittal: Okay, thank you.

Alluri Nikhilesh Chowdary: Thank you.

Pavitra: We have next question from Sahil Doshi from Birla Sun Life. Please go ahead.

Nitesh: This is Nitesh over here, not Sahil. I do not know why it is -- I mean, still calling in. May be because the number is on his name. Any which way, sir, thank you very much for the call. So, I have two questions. Number one is on the movement of raw material prices, both the soya as well as fish meal. What is the trend now? I mean, are they continue to go up



even in Jan and Feb? Or they are at the similar level what you witness in Q3?

C. Ramachandra Rao: Yes. See, the present situation is that the crop is down by about 20% - 25%. but we are expecting that the prices will stabilize because of the other suppliers like Brazil and all the U.S. suppliers of soya bean meal, the import is not allowed into India because they are all GMO soya bean meal. So that is why the Indian product is, to the extent whatever is available, is only for Indian consumption. So, the soya processors expect that price will stabilize 5% that way or this way in the coming months. See, because normally, the crop comes in the month of October, November. So, whatever that is there, it is now being raised but there was a holding in the initial stages. But we expect that this holding of seed, will now ease because there was a rumor that the Government again go for another increase of MSP. But so far, nothing has happened. We are expecting that the prices will more or less stabilize at this level, may be 5% this way or that way.

Nitesh: Okay. And what about fish meal, sir?

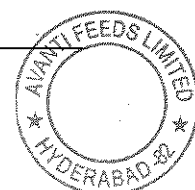
C. Ramachandra Rao: Yes. Fish meal - They have levied 5% GST from 1st October, 2019. So, the catches are now stable. In the last couple of months, there was shortage of catches also. Now it is slightly improved. But still the catches are not stable, they are on and off because the shortage is there. But the price is same, around Rs.98 per Kg- Rs.99 per Kg, it is around that.

Nitesh: Okay. So just to put it, I mean, in some other words, the price hikes, the feed price hike which you have taken, I mean, from January, does it adequately compensate for the increase in raw material prices which you have seen in Q3 as well as in, say, Jan, Feb?

C. Ramachandra Rao: Yes.

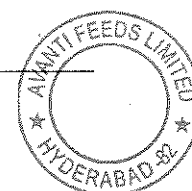
Nitesh: Or what more details are required?

C. Ramachandra Rao: See, as you know that we have not resorted to price increase for the past five years. We have been just waiting because we are supporting the farmers, the industry, the aquaculture activity for five years. But the situation has come to the state that it is beyond limit -- I mean beyond our control to really hold on to that side. So, we had to take the increase and we have convinced the dealers and the farmers also. They are also for the prices are going up. But here, I would like to say that the price component is around Rs. 4.50/ Kg over the past three to four years and there is a GST



component which is coming to around Rs. 2.5 to Rs. 3, which still we are taking into our account because we have not been able to pass on this GST, because the GST is not there on Feed. Feed is exempt from GST. So, this Rs. 2.5 to Rs.3 is still borne by us. But this has already been factored into our accounts ever since the GST has been introduced. Only addition is the fish meal which is another 5%. But we continue to take that burden. And nevertheless, we will be able to maintain the margins. We have been maintaining in 2017- 2018 and 2018-2019 because these factors have already been taken into account. As far as the raw material price increase is concerned, this increase, we hope will take care of it fully.

- Nitesh:** Great. Lovely. All right, sir. Thank you very much.
- Pavitra:** Thank you, sir. We have next question from Anirudh Joshi from ICICI Securities. Please go ahead.
- Anirudh Joshi:** Yes. Sir, regarding the Chinese market, so are we also impacted in terms of, means, our revenues are also impacted in China? And the second question, is the company has taken some increase in price hikes? So, is the price hike equivalent to the entire increase in raw material prices? Basically, per tonne, have we raised the same prices already now?
- C. Ramachandra Rao:** See, I will first answer this -- your question regarding the price, then Mr. Nikhilesh will answer you about the Chinese market.
The price that we have taken now will fully take care of the raw material price increase. Only that which is uncovered is the GST portion of it. GST will remain to be absorbed by the company. As far as the raw material price increase, the increase in Feed price will take care of it.
- Anirudh Joshi:** Okay. So, if the GST is implemented and there is no GST on our products, right? So, we cannot really set off the GST that we are paying with any GST that we can spend?
- C. Ramachandra Rao:** Correct. So, as per some quarters, it is being proposed to levy GST on the feed also. But because being an agri-based product, rural economy, they may or may not levy the 5% GST. If they levy 5% GST, then we will set off the entire GST that we are paying on the inputs. We will get the credit for it, so the entire amount will be ending up paying only Re. 0.50 to Re. 0.75 on per ton - per kg GST on Feed.
- Anirudh Joshi:** Okay. And sir, in terms of China, do you see the demand from China hurting entire global demand-supply cycle of shrimp?



Alluri Nikhilesh Chowdary: So, coming into the Chinese market, there are a two things that you have asked. The first one, whether it impacts the company directly? So, if you see the presentation that we have provided, the total exports that goes to Chinese market are 4% of the total sales. So, the volume exposure is very little. But then the potential of the market to grow in China and it being a driver for the growth of the company is very high because we have been telling this for a long time. But I do not see any large impact. If anything, it can be only a temporary effect. Because on the long-term, Chinese market will continue to consume. Seafood is the big driver in the Chinese market, big population, good buying power, lot of openness of eating seafood predominantly. So, nothing -- no major impact in the long run, definitely would not see anything. And on the flip side, I am looking at it more optimistically. Once all this is over, I think there will be more demand since they have to replace all the products which is produced in China or what is there in the existing markets with products from outside. That is what how I see it.

Anirudh Joshi: Okay, thank you.

C. Ramachandra Rao: I will add to what Mr. Nikhilesh said. See as far as our company is concerned, our exposure to Chinese market is very minimal because we have exports mostly going to U.S. So, there is no -- practically no impact on our exports market. Am I right, Nikhilesh?

Alluri Nikhilesh Chowdary: Yes, sir. Only 4% that can be easily diverted to another market.

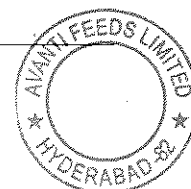
C. Ramachandra Rao: Yes. So, it is negligible. And moreover, what we see in the news and all, there is lot of effort being made to contain the spread of this Corona Virus and I am sure that Chinese will be capable of doing it. And once this is controlled, I think normalcy will be restored. And as Mr. Nikhilesh said, it will pick up again in a short while from now.

Alluri Nikhilesh Chowdary: Thanks.

Anirudh Joshi: Okay. Okay, thank you.

Pavitra: Thank you, sir. We have next question from Nitin Awasthi East India Securities. Please go ahead.

Nitin Awasthi: Thank you for the opportunity. Just taking ahead, the question that was asked before, although our exposure to China seems limited, and I agree that in the whole space of things, we are a more U.S. focused company. I just wanted your thoughts on whether Ecuador's product could hurt the



market because Ecuador could be in a season where it was proposed to supply a lot to China and because this halt has happened, could that hurt the overall thing -- scheme of things?

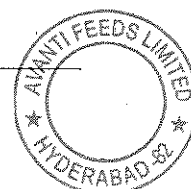
Alluri Nikhilesh Chowdary: Hi, Nitin. I hope you are doing well. To answer your question, Ecuador's primary export market is China. They do not produce a large portion, I mean, more than 70%, 80% of the production is the head-on, shell-on or the headless shell-on which they do not really get into the value-added products. So, for them, like I was saying before this, what we see in the Chinese position is a very temporary thing. It is not a long-term effect. But even for them to go into the U.S. market, they are not equipped to get into the value addition processes. It is too short for them to get in overnight. So, I do not see a major effect. But definitely, we need to look at how the virus and everything is panning out over the next several weeks because that would alter the dynamics not only of the seafood business but the whole global trade situation.

Nitin Awasthi: And Nikhilesh, if I could add, as to the previous question, how are the inquiries for the U.S. after the new year, the post new year inquiries which you are getting for the product? Have they halted? Or have they started in resuming the -- picking up product for the new year?

Alluri Nikhilesh Chowdary: So, this season traditionally is the low season. The inquiries are lower compared to the previous quarters. That is, historically, it is the same. There is no big change, the demand that we are seeing - the inquiries that we are getting is more stable. The thing that even we need to focus on is even the buyers in the U.S., the whole trade, they are looking at how this virus pans out because even in the U.S., there is an emergency; even in China there is emergency. So, even they are trying to assess what is happening. Right now, people are assessing. But inquiries are still there. We are still getting inquiries. We are still talking to customers. We are still sending out samples for next year to for the new contracts. So, the business is as normal. But on the inquiries, people are seeing what is happening in the market before concluding any big deals, and that is very, very, very normal.

Nitin Awasthi: Okay. And sir, just last -- one last question. On the export incentives, what is the current rate that we got for the quarter?

Alluri Nikhilesh Chowdary: Can we check and get back? I am not in the office right now.



C. Ramachandra Rao: See, at present, we are getting the MEIS of 7% and 2.7% of duty drawback. These are the incentives now.

Nitin Awasthi: Okay, sir. Thank you so much, I will join back the queue.

Pavitra: Thank you, sir. We have next question from R. K. Laddha from Yash Investments. Please go ahead.

R. K. Laddha: Thank you, sir for giving me the opportunity. I just want to know that is there any there area under cultivation is increasing?

Pavitra: Sir, could you please repeat your question, sir?

R. K. Laddha: Can you hear me now, sir? Can you hear me, sir?

C. Ramachandra Rao: Now it is better. Yes.

R. K. Laddha: Hello. Whether there is area under cultivation is increasing substantially or it is very slow process?

C. Ramachandra Rao: There is no significant increase in the area but the production is increasing because the farmers are going for bigger size of shrimps with the tonnage going up. That is how the feed consumption as well as the production goes up. The area still remains more or less on the same level. We have to see this season. This current year, we have to wait and see. But the last year, there was no big increase in the area.

R. K. Laddha: Okay. Okay. Sir, and next question is, what are the farm gate prices trend?

C. Ramachandra Rao: Farm gate prices, I think...

Alluri Nikhilesh Chowdary: The farm gate prices are stable.

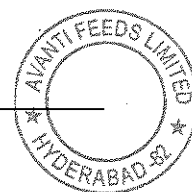
C. Ramachandra Rao: Yes, stable.

R. K. Laddha: Are they about 450 to 480?

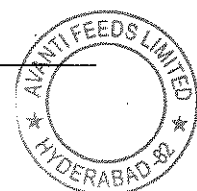
Alluri Nikhilesh Chowdary: It depends on what size you are looking at.

R. K. Laddha: Okay. Thank you, sir.

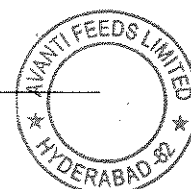
Pavitra: Thank you, sir. We have next question from Shalini Gupta from Quantum Securities. Please go ahead.



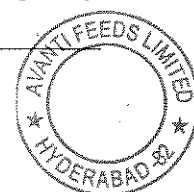
- Shalini Gupta:** Sir, I just wanted to be sure about what is your outlook for the year, i.e. calendar year 2020. Sir, if I have understood it correctly, you are saying there is going to -- likely going to be a 12% increase in volumes and you have taken a price hike. So, you should be able to maintain margins. Is that correct?
- C. Ramachandra Rao:** Yes.
- Shalini Gupta:** Okay. And sir, I wanted to understand, I mean, this year, your margins have broadly -- if I look at it on a long-term basis, this year, your margins are back to where they have been on a long-term basis. So, these are the kind of margins we should expect going forward?
- C. Ramachandra Rao:** See, the margins will be the same. It will not -- neither decrease nor increase. It will be the same level because whatever the price increase that we have taken is only to recover the raw material prices. So, the -- percentage -- the profit in terms of percentage remains almost stable in 2020.
- Shalini Gupta:** Sure. And sir, the second question is that, see, we have had one soya bean crop in around October, November. Now when is the next soya bean crop expected?
- C. Ramachandra Rao:** There is only one crop, madam, per year, which comes in October. The sowing starts somewhere in March, April -- April, it comes in September, October. That is the only one crop.
- Shalini Gupta:** Okay. So -- and we cannot import?
- C. Ramachandra Rao:** We cannot import because there is a ban on import of GMO soya. Mostly all countries, other countries, they are making only GMO soya.
- Shalini Gupta:** Okay. And sir, lastly, if you can give the breakup of raw material into soya and fish meal?
- C. Ramachandra Rao:** Madam, that is a combination. We cannot share that information. It is a proprietary information.
- Shalini Gupta:** That is fine, sir. Just for our modeling, I mean, if you can say 60% soya bean and 40%. I mean, you do not have to give me exact numbers at all, just give me approximate.
- C. Ramachandra Rao:** So, we gave you the major raw material cost, madam. Please do not ask us to give the breakup and the details which we cannot share. It is completely confidential.
- Shalini Gupta:** Okay. Let me just ask you. Soya is a bigger component or fish meal is the bigger component?



- C. Ramachandra Rao:** Madam, whichever way you put the question, the answer is the same. See, the permutations and combinations depend on so many factors. It is done by a team of formulators, experts on that, taking into account the protein requirement, etc. So, we cannot tell you what exactly is proportion and whether it is more or less. I am sorry for it.
- Shalini Gupta:** Sure. No. No. No problem, sir. I understand. Sir, what is the outlook on fish meal prices now? Fish meal is basically wheat, right?
- C. Ramachandra Rao:** Fish meal is, what?
- Shalini Gupta:** Wheat, wheat.
- C. Ramachandra Rao:** No. No.
- Shalini Gupta:** No?
- C. Ramachandra Rao:** No, it is fish meal. when the fish is caught from the sea, it is cooked under, they take out the oil from it. And whatever is remaining, that they spray dry it and convert it into meal, fish-meal.
- Shalini Gupta:** Okay. But sir, there is a shortage of fish and...
- C. Ramachandra Rao:** Oil is extracted from that. Right. Yes.
- Shalini Gupta:** Sir, there is a shortage of fish because of overfishing and all that. So, fish meal prices will always keep going up. There is no way you can actually increase the supply of fish -- fish in the sea.
- C. Ramachandra Rao:** Madam, may I ask you why you asked this question? Because if you look at -- if you look at the Budget given by Madam Nirmala Sitharaman, the fisheries, they want to increase the fishing - particularly fishing in sea. There are several measures, for example, in the countries like Chile and Peru, they control a lot to see the growth of the fish in the sea, right from the juvenile fish is not caught and they fix the range in which a fishing boat can go for fishing, all these restrictions and the seasonality, and they take all care to see that the fish grows. And that is what, in fact the Government of India is also thinking on that. There is a huge budget given to this particular sector in this Budget. We are awaiting the details shortly. But definitely, the efforts are being made to increase ocean fish also. That is being a focus area by the government now. It is not that we cannot increase. We can increase.

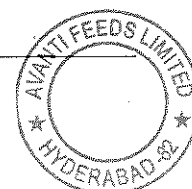


- Shalini Gupta:** Okay. So, sir, right now, outlook on...
- Pavitra:** Could you please join back the queue for further questions, ma'am, sorry.
- Shalini Gupta:** Just one last question. Is the outlook on fish meal prices stable now?
- C. Ramachandra Rao:** Yes, yes. It is stable now.
- Pavitra:** Thank you, ma'am. We have next question from Puneet Mittal from Global Core Capital. Please go ahead.
- Puneet Mittal:** Hi. Hello, can you hear me?
- C. Ramachandra Rao:** Yes. Yes, we can hear you. Please go ahead.
- Puneet Mittal:** Yes. Thank you for the opportunity. I think I am just taking forward on some of the questions that are being asked on the raw material. And from what I understand is that you have taken a price hike which is proportionate to the increase in raw material price, but you still have an impact of about Rs. 2 to Rs. 3 of the GST input, which you do not get credit for. Is that correct?
- C. Ramachandra Rao:** Yes, you are right.
- Puneet Mittal:** So, does that mean, because the Rs. 2 to Rs. 3 per kg is still and about 3% to 5% impact on your gross margin. So, I think the last year's gross margin was about 20 odd percent and EBITDA margin was about 15 odd percent. Do you think we will be able to keep those margins? Or the new normalized margins are lower than those margins, given the raw material prices stay here?
- C. Ramachandra Rao:** Yes. The GST impact is not so much. It is not 5%. It is hardly less than 1% maximum. It is not more than 1%. And we hope that -- the other thing is that the crops - agri-based products like wheat flour or soya bean meal keep changing, the prices keep changing when the good crop comes. It was unfortunate that the last October, the soya crop was less because of the unseasonal rains, floods, etc. But in the next year, the good rains -- and also good crop, the prices will come down. So, this is a fluctuation. Similarly, in case of fish meal also, if the fish catches are good, fish meal prices get stabilized. Even in the wheat flour, now we are going to get new wheat crop in another 15 days to 20 days. And as of now, the information is that we are going to get a record crop of wheat this year. So, once wheat comes out, definitely, we are expecting the wheat prices would marginally come down. It is not in a big drop, but definitely the prices will marginally



come down which will be in our favour. So, considering all these factors, we expect that the price of the raw materials keeps stable and whatever the price hike that we have taken will take care of the price hike in the future also for the whole of this year.

- Puneet Mittal:** Okay. Great. That is a very clear explanation. Thank you, The second question is that if I look at the assets of under your shrimp feed has gone up dramatically from Rs. 634 crores to Rs. 845 crores. So, is there some reclassification of the assets? Or what is that related to?
- C. Ramachandra Rao:** Just let us check with you, sir. Sorry, could you repeat the question, please?
- Puneet Mittal:** If I see the breakdown that you have given of shrimp feed assets and liabilities from September 30th, it has gone up...
- C. Ramachandra Rao:** Shrimp feed assets. Yes.
- C. Ramachandra Rao:** Hello. Hello?
- Puneet Mittal:** Yes.
- C. Ramachandra Rao:** We will check and come back on this point. We are just verifying. We will go to the next question in the meanwhile.
- Puneet Mittal:** Sure. Sir, one last question, I think this has been highlighted on previous conference calls as well. It is naturally the question of the cash utilization and given the changes in DDT, there is probably an arbitrage on buyback now. Is the management, I mean, probably it is too early, but you would request the Board to consider buyback given the situation with the arbitrage that is there in the market now against DDT. So that is just a request to seriously reconsider that buybacks of shares. Thank you. That is all from me. Thank you.
- C. Ramachandra Rao:** Sure. We will place it to before the Board.
- Pavitra:** Thank you, sir. We have next question from Jogansh Jeswani from Mitylene Company. Please go ahead.
- Jogansh Jeswani:** Hi, sir. Thanks for the opportunity. Sir, can you please share the average raw material cost of soya and fish meal for Q3? What was it?
- C. Ramachandra Rao:** Yes. We will tell you. Yes. The average -- one second. See, the average cost -- Q3 the soya cost per kg is Rs. 44.



The Q2, it was Rs. 40. And Q1 2020, it was Rs. 41. Q4 2019, it was Rs. 39 per Kg.

Jogansh Jeswani: Okay.

C. Ramachandra Rao: Okay. You would like to go back further or -- Q3 2019, it was Rs. 37.

Jogansh Jeswani: That will be good, sir. And fish meal, sir, similarly.

C. Ramachandra Rao: Yes. Fish meal, let us see. Yes, fish meal. Q320 is Rs. 94 per Kg. Q2, it was Rs. 88 per Kg.

Jogansh Jeswani: Okay.

C. Ramachandra Rao: And it was Rs. 86 per Kg in Q1 20.

Jogansh Jeswani: Okay. And sir, what is it currently, both soya and fish?

C. Ramachandra Rao: Pardon me.

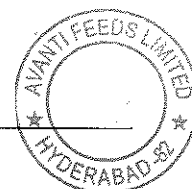
Jogansh Jeswani: January end what would be soya and fish meal prices, sir?

C. Ramachandra Rao: January prices are almost -- fish meal is at about Rs. 98- Rs. 99 per Kg. And this is about Rs. 45 – 46 per Kg present soya.

Jogansh Jeswani: Okay. Understood, sir. Sir, so if I understood your price hike correctly, so earlier we have maintained our guidance that in feed segment around 12% operating margin is sustainable. And now because of this RM price hike that we saw and the price hike we have taken in feed. So, do we think we will be again able to go back to that 12%, 13% operating margin for feed segment?

C. Ramachandra Rao: Yes, it should be around 10% to 12%, we should be able to maintain. It should not be a problem. I am talking about going forward. Because the price hike we have taken was really -- it will reflect only in February and March of this Q4 and rest of the year, 2020. So, the impact will be more in the coming year, 2021.

Jogansh Jeswani: Understood, sir. And sir, lastly, my question is around cash balance that we have. So, any plans of management of utilizing that cash in terms of any other project that we want to take up? Because in the past, we have mentioned about taking up few other projects. But so far, we have not heard anything. So, any thoughts of management around utilization of that?



- C. Ramachandra Rao:** The management is ceased of the matter. We are investing in Mutual Funds whatever the cash reserves are there. But we cannot invest in the projects without going thoroughly under the present circumstances. We want to see whatever the investments we make, we should give a better yield and also better value addition to stakeholders. That is the objective. that is why we are still working on the projects, the viability of the projects for any future investments. So still, it is under progress, of identifying the suitable projects.
- Jogansh Jeswani:** Fair enough, sir. That is it from my side, sir. Good luck. Thank you.
- C. Ramachandra Rao:** Thank you very much.
- Pavitra:** Thank you, sir. We have next question from Manoj Garg from White Oak Capital. Please go ahead.
- Manoj Garg:** Yes. Good evening, and thanks for taking my question. So Nikhilesh, like if we look at the export data, shrimp export from India, we have been seeing over the last couple of months, a very strong growth of around 20% to 25% kind of range. But if we look at our numbers for this quarter, we have shown around 16%, 17% kind of growth despite like we have a lot more focus on the value additions. So, could you please throw some light on this?
- Alluri Nikhilesh Chowdary:** So, are you talking about the exports from India -- the exports from India or any particular market?
- Manoj Garg:** So, I am talking about overall shrimp export across geographies. And even U.S. also has been pretty strong.
- Alluri Nikhilesh Chowdary:** Sir, from what I am seeing in export data and also our export data where we are in line of what is happening, we have demonstrated a double-digit growth in our exports. We are building the business continuously. And I firmly believe that in line with the total export market and we will continue to grow so. There are maybe some exports which I am not sure, what category of exports that you are talking about, the whole seafood category or only the shrimp category, but I do not know how that data has affected, but normally in line from what I am seeing, we are increasing the sales to our existing consumers and also adding new customers and also adding more products which is enabling us to sell -- keep up the double-digit growth. And that is a very healthy growth for a company. And this growth is being demonstrated every quarter for the last, I think, 8 to 12 quarters as well. So, you can expect that we can still continue to build the business step by step.

Manoj Garg: Yes. Sir, I was only referring to shrimp export only, but maybe I will just see, you know, because I think this is largely towards the U.S. market where last two, three months the growth has been between 20% to 25% kind of range.

Alluri Nikhilesh Chowdary: Can I take a look at it. I am not sure what numbers you are referring to.

Manoj Garg: Sure, sure. Yes. I will do that. The second thing, like, while you have taken the price hike only on the 28th of Jan, and it is just 10 days. But if you can highlight about the initial reaction of the farmers, given the farmer -- farm gate prices have been still, you say, more or less stable. So that means that the cost of feed is going to increase at least 7%, 8% to them. And given feed is a major cost component, do you think that there may be some slowdown which may happen or there may be some impact on the profitability of farmer because of this?

C. Ramachandra Rao: So, we do not foresee that because before taking this price increase, we had extensive discussions with the dealers and farmers. And as you know that we have not increased the price for the past five years and we have been taking the entire burden on account of increasing the price ourselves. And this has been well received by the farmers also. There was no resistance at all, neither from the dealers nor from the farmers. They are fully understood and they are cooperating and we do not foresee any resistance and -- from the farming community or the dealers as far as the feed is concerned.

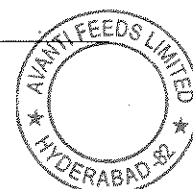
Manoj Garg: Sure. And sir...

Alluri Nikhilesh Chowdary: Sir just to add, I am sorry to interrupt, just to go back, I just pulled out the figures very quickly. Year-to-date, I see the exports from India to the U.S. up 15%, but I think our company has done better than that. We cannot take only the last few months into account because the last few months our product is still in transit. So, we have not realized the sale yet.

Manoj Garg: Okay. Okay. Got it. Got it.

Alluri Nikhilesh Chowdary: So, it was in line, a little bit better than what is being exported out of India.

Manoj Garg: Sure. That is very helpful. So, Mr. Rao, like just to the question, basically, if you look at few competitors have a little higher price in terms of their feed. I think we used to sell it around Rs. 65 per kg and some of the competitors are selling around Rs. 70, Rs. 71, though they offer maybe



higher receivable or credit days to the distributor. But do you think that may be some of your competitors' resort to taking the hit on the margins at the cost of may be gaining the volume share? Have you seen any such kind of behavior from your competitors so far in the feed business?

C. Ramachandra Rao: The present situation is that no feed manufacturer is in a position to take hit on both sides. Number one, on the increase in the raw material side; the second is extending credit. See, once the credit is extended - the recovery is a big problem. So invariably, they have to offer the pricing. As far as the farmer is concerned, it has to be may be few -- 4% or 5% this way or that way, the price has to be the same for the farmer as far as the purchase of feed cost is concerned. He cannot afford to give more nor the supplier cannot increase the price just because giving on credit. It is very difficult for both of them. And recovery is going to be a very big challenge for the suppliers on credit. So, coming to the backtracks it -- the price at the -- to the farmer should be more or less same from all the feed manufacturers, about 4% to 5% difference, a variance at the side or that side. But most important is the the quality of the feed that has to be consistent and they should be able to get better FCR. Number two, the as far as farmer is concerned, that is very important. As far as the manufacturer is concerned, they have to be very careful about credit and also as much as possible cash. Say, I mean, partly payment or prompt payment should get it from the dealers. And through them, the farmers have to cooperate with them and by on cash. So, on account of price, there cannot be much they leave it for playing by the manufacturers.

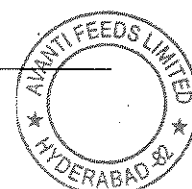
Manoj Garg: Sure. That is very helpful. Sir, just the last question from my side, sir. Given that February, you get a good sense in terms of the first cropping, which is likely to start in few weeks. I just want to get your sense that how you see the first cropping at this time, overall?

C. Ramachandra Rao: It is very good, very encouraging. The stockings have already started in the January itself. The January, February stockings are very encouraging and the feed movement is also picking up. So, we see a good production in the first crop.

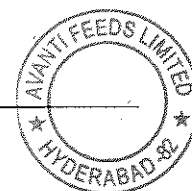
Manoj Garg: Great, sir. Wish you all the best. And that is all from my side.

C. Ramachandra Rao: Thank you very much.

Pavitra: Thank you, sir. Last question for the day comes from Dipesh Kashyap from Equirus Securities. Please go ahead.



- Dipesh Kashyap:** Sir, can you tell me what are the applicable tax rates in the feed and the processing segment, please?
- C. Ramachandra Rao:** The tax rate, the -- in the feed, it is 25% - 25% is that we have opted for reduced tax which -- that was introduced last year because we do not have any deductions as such. So, we have gone for the 25% tax slab option. But as far as the processing division is concerned, we are continuing old regime since the processing plant has 100% exemption for first five years which is around 30 plus.
- Dipesh Kashyap:** So, processing will be 17% MAT rate, right? In the next period?
- C. Ramachandra Rao:** Yes.
- Company Speaker:** That is 15%.
- Company Speaker:** 15%
- C. Ramachandra Rao:** It will be 15% plus surcharge.
- Dipesh Kashyap:** Yes, plus surcharge and everything else.
- C. Ramachandra Rao:** Yes.
- Dipesh Kashyap:** Right. Sir, the hatchery business that you are setting up, will that part of your subsidiary or your standalone business?
- C. Ramachandra Rao:** It is part of the Avanti Feeds itself.
- Dipesh Kashyap:** Okay. So standalone business.
- C. Ramachandra Rao:** Hatchery division, yes.
- Dipesh Kashyap:** Sir, are we planning to do increase of processing of feed capacity in the coming year? Are there any CapEx plans?
- C. Ramachandra Rao:** We are just working on that. We have to see -- you know the first crop will really give us an indicator, how it is going to be. We will come out with more details basing on the moment of feed, the demand for feed in the first crop.
- Dipesh Kashyap:** Right. So right now, sir, we are almost done with setting up of the 200 million seed hatchery capacity, right?
- C. Ramachandra Rao:** Yes. Yes.



- Dipesh Kashyap:** So, what kind of revenue can we expect from that, sir in the next year?
- C. Ramachandra Rao:** It is not much. Actually it is Rs. 0.35.
- Company Speaker:** Rs. 0.35 to 200 million.
- Dipesh Kashyap:** So Rs. 7 crores, you are saying. Rs. 7 crores we can expect from this.
- C. Ramachandra Rao:** Yes, Rs. 7 crores.
- Dipesh Kashyap:** And sir, the margins typically in this are around 50%. Am I right, sir?
- C. Ramachandra Rao:** Yes. You know it all depends upon the season. If the season is good then -- you know -- there is a lot of cut throat competition. There are several hatcheries, so it will add service to the farmers than a big revenue earner to the company. We want to have brand image of Avanti; we will give the best feed and we have best processing plant. These are the things which go as a brand image than real big income coming out of hatchery.
- Dipesh Kashyap:** Cool. Understood, sir. Thank you and all the best.
- Pavitra:** Thank you, sir. That would be the last question for the day. Now, I hand over the floor to Mr. Sherwin Fernandes for closing comments. Over to you, sir.
- Sherwin Fernandes:** Thank you the entire team of Avanti Feeds for giving us the opportunity, and I would also like to thank the investors and analyst for taking the time to attend the call. Thank you.
- C. Ramachandra Rao:** Thank you, Mr. Sherwin.
- Alluri Nikhilesh Chowdary:** Thank you.
- Pavitra:** Thank you very much, sir. Ladies and gentlemen, on behalf of KFin Technologies Private Limited, that concludes this conference call. Thank you for joining us. You may disconnect your lines.

Note:

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

