



“Apex Frozen Foods Limited Q3 & Nine Months FY’18 Post-Earnings Conference Call”

**February 12, 2018**



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**Moderator:**

Ladies and gentlemen. good day and welcome to the Q3 & Nine Months FY'18 Post-Earnings Conference Call of Apex Frozen Foods Limited. As a reminder, all participants lines will be in the listen-only mode, and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal the operator by pressing '\*' then '0' on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Subrahmanya Chowdary. Thank you and over to you, sir.

**Subrahmanya Chowdary:** Thank you. Good Afternoon, everyone. A Warm Welcome to our Post-Earnings Conference Call for the Quarter and Nine Months ended December 2017.

I have with me on call Mr. Vijaya Kumar – our CFO and Stellar IR Advisors, our investor relation advisor.

I hope you all have received the 'Updated Investor Presentation'. We have also made arrangement for uploading the same on our website for your reference.

We shall share "Key Updates on the Business" first, followed by a "Brief Summary of our Financial Performance" which will be presented to you by our CFO and thereafter we shall take "Questions."

To begin with, as most of you would be aware, the company is setting up a new processing facility at Ragampeta in East Godavari district which will have a total capacity of 20,000 MTPA. In terms of capital outlay, of the planned Rs.90 crores, Rs.18 crores has been deployed as of December 31, 2018. The piling, plinth and structural works have been completed; pre-engineered sheets, insulated wall panels, roof panels are in the process of being installed at this point and purchase orders for many imported machinery and a few indigenous machinery have already been placed and accordingly as per the terms advances also have been paid there. We expect the trial production to commence in Q2 of financial year FY'19. The industry dynamics that we currently operate in give us the confidence that we will be able to optimally utilize the additional capacity within three to four quarters of it being operational.

I also wish to inform you that the company has received, from CRISIL rating agency, a credit rating of 'A2+' for our export funding and 'A-/Stable' for term loans. We believe this will help us in streamlining our interest cost going forward.

Further on the sector part, Aquaculture exports from India have continued its ongoing growth trajectory and gaining market share globally on the back of its quality produce and competitive pricing. Key markets remain USA, Southeast Asia and European Union. However, there have been some concerns as reported in the media regarding the rejection of consignments from India by the EU and delisting of certain shrimp exporters. In this regard, I would like to inform you all that as far as our company is concerned, none of the consignments have been rejected –



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thanks to the right systems and protocols in place for checking the product prior to harvest and post-harvest and pre-export for the banned substances. In fact, EU's share in our revenue mix has grown from almost 18% to close to 24% in comparison between the financial year FY'17 and nine months of FY'18.

Now, I would now like to forward this call to our "CFO, Mr. C.H. Vijaya Kumar who will give you a Brief Detail of the Financial Performance of the Q3 and Nine Months."

**CH. Vijaya Kumar:**

Hello, everyone. Let me now come to the Financial Performance of Q3 & Nine Months of Financial Year 2017-18. Our total income including other operational income for Q3 of financial year 2017 was reported at Rs.267.2 crores and the same stood at Rs.812.5 crores in the nine months of financial year 2017-18 versus Rs.709.7 crores in full financial year 2016-17. While there has been a decline of 8.5% QoQ, which is on account of seasonality, on year-to-date basis, the growth has resultant from higher volumes and improving product mix. We sold a total of 11,169 MT of finished goods in nine months of financial year 2017-18 as compared to 9,898 MT of sales in full year of financial year 2016-17.

At the EBITDA level, we reported Rs.34.3 crores in Q3 of financial year 2017-18 and Rs.102.3 crores in nine months of financial year 2017-18 Vs Rs.55.8 crores in full year of financial year 2016-17, translating into EBITDA margin of 12.9%, 12.6% and 7.9% respectively. Profit after tax stood at Rs.18.8 crores for Q3 of financial year 2017-18 and Rs.59.2 crores for nine months of financial year 2017-18 as compared to Rs.24.3 crores for full year of financial year 2016-17. PAT margin stood at 7.1%, 7.3% and 3.4% respectively. The drop in profitability on sequential basis is in line with the decline in top line during the quarter; however, on year-to-date basis, profit margins have expanded on account of operational leverage as we fully utilized our capacities, backward integration and improving product mix.

Now, I am forwarding call to our Executive Director, Mr. Chowdary.

**Subrahmanya Chowdary:**

Thank you, Vijaya. Going forward, we expect demand to remain firm and our capacities to continue to be optimally utilized. We continually try to reduce our costs through backward integration and enhance our product offerings to customers via value addition thereby improving profitability of the business.

That is all from my side. I will now request the moderator to open the call for "Question-and-Answer." Thank you again.

**Moderator:**

Thank you. Ladies and gentlemen, we will now begin the Question-and-Answer Session. We will take the first question from the line of Chintan Modi from Motilal Oswal Securities. Please go ahead.



**Chintan Modi:** A few questions from my end. One is on the new processing facility which is like 20,000 MTPA. Can you give a split between what would be the capacity of the block and what would be for the raw IQF?

**Subrahmanya Chowdary:** Mr. Chintan, actually the capacities have been split into two – One is ready-to-cook and ready-to-eat. Now, in ready-to-eat, of course, it is all on cook product, in the ready-to-cook, like you said it is split between IQF and freezers. Among the IQF, the capacity just to give on a per day basis it will be around 35 tons per day while the block capacity will be 10 tons per day.

**Chintan Modi:** Typically, how many days operational do you assume for this – 300-days?

**Subrahmanya Chowdary:** Yes, we are assuming 300-days and as you know there maintenance schedule which will be there, so we have to consider that point.

**Chintan Modi:** The total outlay is Rs.90 crores you mentioned. Do we have any capital subsidy from the government for this?

**Subrahmanya Chowdary:** At this point, there is a grant by the Ministry of Food Processing, of course the company has not applied for that at this point, but yes, there is a grant which is there for Rs.10 crores, depends, there is also interest subvention also which is there. Right now, the entire project is being funded by the proceeds of the IPO, Rs.90 crores.

**Chintan Modi:** What is the peak level of revenue that you can achieve from this investment?

**Subrahmanya Chowdary:** With regard to the revenue as you know current year we are planning to start commencing the operations in Q2 of FY'19. We are looking at utilization of 50% capacity utilization in the first year and subsequently in FY'20 onwards we look forward to utilize 75% optimum. So accordingly, the revenue will also be planned. The main focus for enhancement of revenue is just not capacity utilization and quantity but also by doing enhanced products, whether it is in ready-to-cook category, whether it is in the raw format or in the ready-to-eat category of cook product. So the whole objective of enhancing the revenues also got to do with the product scope which is being addressed.

**Chintan Modi:** So I just wanted to understand like from an ROC perspective, if you are able to do an x-amount of revenue, what would be the EBIT level margins and considering the working capital and the investment you are doing, what is the maximum ROC that you can make – would that be northwards of 25% or something?

**Subrahmanya Chowdary:** I will provide you that answer a little later.

**Chintan Modi:** Secondly, we have seen a significant rise in the margins over the last year. So first, what were the reasons for the same and do you think this is sustainable over a period of some time?



**Subrahmanya Chowdary:** The main reason for the company achieving these margins is of course it has a significant enhancement in the integration part, whether it is with regard to the increase of farming area significantly or adding up more hatcheries as we speak and also into the future we are adding more hatcheries to improvise on the seed supply for the company's farms as well as supplying the seed to its farmers located on the East Coast of India. The integration process is one of the main reasons. Apart from that the major point is we are producing higher value products even in the ready-to-cook category, that is, the present category to markets like the USA and United Kingdom which is part of European Union as we speak at this point. So these are the two main reasons – one is the integration part which is significantly helping the company reducing its cost aided by the efficiencies of operations which are there, that is one of the reasons why the cost in the manufacturing side also have been coming down by optimum utilization, and the product scope which is there which is helping the company to increase its margins. Now, regarding sustainability, our entire sector deals with sustainability and we are looking forward for sustaining this. So we do not want this to be a one-off situation and we should be doing it on a continuous basis. That is the objective of focusing more on both forward and backward integration.

**Chintan Modi:** Do we have any export incentives in these margins?

**Subrahmanya Chowdary:** There is an export incentive of (MEIS) Merchandize Exports from India Scheme which will be there, which of course was 5% of the FOB value and it has been enhanced to 7% but that is not fully covered in this. Apart from that, there is a duty drawback which has been reduced recently. It is basically whatever has been enhanced in Merchandize Exports has been reduced in the duty drawback accordingly. So there is export incentive also.

**Moderator:** Thank you. We will take the next question from the line of Dipesh Kashyap from Equirus Securities. Please go ahead.

**Dipesh Kashyap:** Sir, just wanted to know what was the export sales numbers excluding the export benefits in third quarter FY'18 please?

**Subrahmanya Chowdary:** The export sales numbers will be Rs.233 crores.

**Dipesh Kashyap:** Sir, just wanted to be clear that the entire nine-month benefit of Rs.71 crores of the change in accounting policy has been recognized in this particular quarter, right?

**Subrahmanya Chowdary:** Yes, that is correct, the results going to be even going forward also.

**Dipesh Kashyap:** So the MEIS has increased to 7% and you are saying the duty drawback has reduced. So going forward, can we take 8-9% benefits because that will neutralize each other, right, it will be same going forward?



**Subrahmanya Chowdary:** Yes, it will be the same going forward, that is true, but again as you know it is subject to government policy and as I had informed to you also in the last quarterly results call that by integrating ourselves further, whether or not the incentive is there, eventually we need to move into a situation where that we are independent of those, so we have to achieve margins by our operations, by the type of business we are doing.

**Dipesh Kashyap:** But there is no danger of the export incentives getting reduced, right?

**Subrahmanya Chowdary:** The same question was asked by you even in the last call, in fact, after you have asked they have increased it.

**Dipesh Kashyap:** The next question is the employee expenses have increased like 26% QoQ. Can you give some color on that?

**Subrahmanya Chowdary:** Some of the manufacturing expenses have actually reduced and the employee expenses have increased. Of course, one of that is as you know, typically in our area the bonuses are given during the month of December and January because Pongal time is our annual festival time.

**Dipesh Kashyap:** Is it that the contract labor charges that you used to recognize in the manufacturing expenses, now that you are recognizing in employee expenses?

**Subrahmanya Chowdary:** No, some part of the manufacturing expenses got transferred to employee expenses... salaries and wages, that is true because earlier it was on a weekly basis and daily basis, those got transferred. Apart from that the bonuses of December, January significant part that will be adding during these two quarters because it is done usually in our area during the pongal time as I said. So that is the reason.

**Dipesh Kashyap:** Out of the planned CAPEX of Rs.90-odd crores, till now we have done only Rs.18-odd crores. Do you think we remain on track to start trial operations by second quarter FY'19?

**Subrahmanya Chowdary:** Actually Rs.18 crores is the expenditure already incurred but there is a significant amount of advances and also LCs which have opened actually. Actually, most of the imported goods are being procured on LP terms. So naturally those amounts are actually sitting with our bank but they have all been backed up by LCs. We are on track actually. So, it is just the delivery of equipment is being planned from this month end and March. So as they come by, we are on track, that is how we are looking for commissioning during the second quarter as mentioned.

**Dipesh Kashyap:** How many months it takes to get all the approvals to begin the commercial operations?

**Subrahmanya Chowdary:** At the most it may take around one month to start off for regular markets. Now with regard to USFDA and EU and all that, since we are already well versed with the procedures and experience in all those protocols, we will be able to complete that also maybe in another one, two weeks extra. So to export to all markets should be looking at 30-45 days max once we commence the operations.



**Moderator:** Thank you. We will take the next question from the line of Punit Mittal from Global Curve Capital. Please go ahead.

**Punit Mittal:** I wanted to ask regarding your farming operations which currently forms about 18-20% of your total raw material that you require. With the increased capacity, are you also looking to increase your farming activity?

**Subrahmanya Chowdary:** Mr. Puneet, at this point we are looking forward to improvise our yields of our existing farming area so that we enhance the yield, so that we produce more quantity by bringing in new techniques. So, as I was explaining, we are looking at implementing new techniques to enhance the yield of the produce from the existing farmed area itself currently and we are actually looking forward to bring out more quantities out of the existing farming area. As far as new area is concerned, we have not yet made any decisions of enhancing from the existing area. What you said is true, that based on the enhanced capacities of processing, farming output will be increasing accordingly, we are trying to look forward to maximum provide this 18-20%, we will maintain around this 20% at this point enhancing our yields.

**Punit Mittal:** Two related questions; One is by how much percentage would you be able to increase the yield and if you can give some color of how would you be able to do that? Two, if the percentage of procurement from in-farming reduces, does that impact the margin? So I just want to understand what will be the margin differential of your in-house farming activity which is backward integrated versus procuring from the market?

**Subrahmanya Chowdary:** With regard to improvement of yields are concerned or improving the output from the farms, there are new techniques which is being implemented which is the nursery growth format, the seed is going to be grown out for 20-30-days in the nursery stage and subsequently being transferred to the growth pond, thereby eliminating the risks of any sort of mortality and enhancing its output ability. So that is the key part apart from the water management and the farming practices which are already being implemented. Now, with regard to the gap between the own farming and the outside procurement, our own farming as you know very well that since we have already efficiently been implementing that, yes, the cost difference is there between own farming and outside farming to the extent of approximately a range of Rs.50-80 difference on each size is what are being harvested, so it depends on how it is there. But as we increase our output and as well as increase our own output, we will definitely be looking at things improving the margins, but the margins of the company will not be just based on the farm output as it is a dual approach, it is also based on the value added component where including higher value product, we also look forward for margins there. As you must be understanding that the ready-to-eat has not yet been started. Once that starts, we look at further rise in the margins also which will be helping the company to not only maintain its margins but also improvise its margins.

**Moderator:** Thank you. We will take the next question from the line of Nitin Awasti from Edelweiss. Please go ahead.



**Nitin Awasti:** Sir, just like to ask if I see the trend of export from India, normally Q4 has been where the drop comes in and then it picks up again in Q1. So will you also be a victim to the cyclicity of the business?

**Subrahmanya Chowdary:** It is not really being a victim but the trade trend is such that the producers whoever are producing shrimp in aquaculture stock the seed during mid-December and onwards so that once the winter effect is closed down, the stocking of the seed happens. So it is the natural phenomenon that the output is increasing significantly from the last quarter of the financial year and it goes to its peak during the first quarter and second quarter of every Indian financial year. So it is not that we being a victim, it is the general trend of the trade. I think that is how it will be even this year but as I had mentioned in my earlier call last time that since the growth of aquaculture is happening throughout the country, and we believe that this is going to be an year round supply because of the different climatic conditions in different regions of the country and they are not always all the same. So end of the day it is going to be throughout the year effect, it is just the point is that there may be marginal deviations by around just 8-10% level as far as supply is concerned.

**Nitin Awasti:** So the difference is happening because of the supply. The demand is constant throughout the year?

**Subrahmanya Chowdary:** Demand has been there, yes, the only difference is now Indian export is no longer dependent predominantly only on the US or European Union markets but Southeast Asia is also significant player so the demand has been there. Yes, there are times when the same similar to supplies, there are times when the demands will be at its peak, for example, when the overseas markets want to stock the product prior to the holidays time, that is starting from Thanksgiving onwards till the end of Chinese New year which is going on right now and length period, so there are times where they stock in product more, otherwise the demand has been quite stable and it is going to be there. It is just that there are times of a year where the demand will be significantly higher because they have to plan to stock the product much in advance.

**Nitin Awasti:** Sir, my second question is what would be the yield that you would be able to realize per Kg from value added products roughly?

**Subrahmanya Chowdary:** On the realization part, it will be ranging anywhere between Rs.800-950 depends on the products and the size is what we do, I am just giving an average number, but it will be varying based on the products and the sizes what we do, so it is an approximately Rs.150-200 more.

**Nitin Awasti:** The increase of sales which have come in this time, how much of it has come in from new customers and how much of it is part of the existing customers expanding their orders from you?

**Subrahmanya Chowdary:** The increase in business is entirely got to do with existing customers increasing their business with us. Significant amount of new customers have not been roped in and there are very few



players they are not so significant. It is the existing customers who have been dealing with us for years together, we have been developing new strategies and we have increased the business with a mutual support from our end as well as from their end.

**Moderator:** Thank you. We will take the next question from the line of N Samraj from Dwaraka Wealth Managers. Please go ahead.

**N Samraj:** On Friday, coincidentally the entire aquaculture published their results. What we found out when we did analysis was that, Apex Frozen Foods has got little bit more than 400 bps, about 4% plus in gross margins compared to Avanti Frozen Foods. So, we just wanted to find out sir what is this magic sauce that is if you want to answer the question if it is not proprietary techniques otherwise you can skip it?

**Subrahmanya Chowdary:** Mr. Samraj, thanks for your confidence in our company. But I would like to tell you it is a mere coincidence that all the 3 companies have announced their results on the same day. But I am not in a position to comment or making any sort of comparisons with other companies. We can actually comment only on our company's performance and it is going to get impacted in the positive side or negative side. I personally do not know why their result is like that but as I have been giving out our explanations, clarifying on our performance and our goal is to sustain these margins and sustain this growth. That is the ultimate goal for everybody in the company. I hope you would appreciate that.

**N Samraj:** Now just wanted to know sir because the industries are same just wanted to know whether the industry ...

**Subrahmanya Chowdary:** Industry is not the same. Mr. Samraj, industry is not the same there are some segments of the industry where some companies are doing significantly higher. There are some segments of the industry where some companies are doing significantly lower. So we cannot really have an exact comparison on this. So, that Apex Frozen Foods is involved primarily, and the core activity is processing and export. It is only being aided by other segments of the industry whether it is farming, hatchery or anything else. It is only being aided, the core activity will be processing and export for Apex. And yes as much as possible it is being aided by other segments. So, I cannot really make comparisons with other company do not mind.

**N Samraj:** We just thought it could be some specialized proprietary patented techniques on your part which perhaps you may not want to share with us. Now right up till last year we were tracking the garment industry, export garment industry very closely sir, what we find is from the marketing point of view as you was rightly mentioning about optimising capacity utilization sir would it be be considering as a marketing policy to go and for mass volume sales to perhaps the Far East China, Taiwan and all these other places where regulatory problems also not that much and niche marketing just like you have embroidery, tailored garmenting and they specialized knitting production. So, similarly niche products Ready-to-Cook and Ready-to-Eat



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for the EU and the US would that be considered so that you could get a very good utilization upwards of maybe 18%-19%.

**Subrahmanya Chowdary:** Yes, Mr Samraj, the choice of markets for the company was based on where the company would benefit the most and yes, it is a natural phenomenon for any industry in the world that if you are being paid the best value for a product naturally it is there is a tendency that they have the most stringent conditions in place which we have to abide by. You have to follow them. You have to implement the right systems so that you deliver in the way they want otherwise you will not be able to get those realizations or you will not be able to produce those products for those markets. Now that is one of the reason why the company is focused primarily in the USA, European Union, United Kingdom, Canada markets and is not at all having much of any business at all to be precise in the South East Asia at this point. I would not rule out that we will not do in the future, but end of the day whatever business is done it will be in the interest of the company if there is a better value, better realization, better profitability definitely we will explore that. But for now I can confirm to you that the company is developing more business with these markets like USA and European Union to have a better realization and also better margins. So, that it will be the stand and will continue to do in that manner.

**Moderator:** Thank you. The next question is from the line of Chintan Modi from Motilal Oswal Securities. Please go ahead.

**Chintan Modi:** Just one thing I wanted to understand like since there are lot of players in the Andhra belt and most of them also exports to US and the ecosystem is also much well-developed over there. How do you create a differentiating factor between the peers and what basically keeps you ahead of the industry? If you can throw some light on that be helpful.

**Subrahmanya Chowdary:** Mr. Chintan, it is very right on your part to know how we maintain ourselves in comparison to other players in the industry but at the same time you need to appreciate that there will be some key points which where we would have had a better proficiency or better understanding or maybe we are able to deliver in a much better manner. So, if I give out or throw any light, it would look like us I am making comparisons with somebody which is not the right point and in general Mr. Chintan the Indian sea food industry is doing very well. It has established its mark with regards to quality number one when compared to its Asian peers as well as South American peers located in Ecuador and in Mexico and that is one of the reasons why worldwide everybody is looking for towards shrimp supply from India because of the consistency in which it is being delivered. And yes we are very fortunate enough that our company is part of this countries sea food exports and we are also doing our best to keep up that mark and we will be continuing to do that. So, it is only about consistency to be precise. That is what I will give you that what I will not be able to tell much more than that.

**Chintan Modi:** Secondly, from a client perspective how many clients do we have today and how much top 10 clients would be contributing to our revenue some highlights on that if you may?



**Subrahmanya Chowdary:** Yes, we, of course have totally around 25 to 30 clients in totality between the US, European Union, Canada and the United Kingdom which is part of European Union, some in the Middle East. But yes the top 5 clients pretty much takes up 60% of our revenue they are the ones whom we as I had mentioned to one of the other callers in the call that we have been strategizing with these existing customers and improvising our business with our existing customers on a much bigger scale. So that we not only look at volume metric business but also we look at realizations and marginal getting higher margins also. So, that is how it has been. No, the top 5 customers pretty much take up 65% of our revenue.

**Chintan Modi:** And in terms of revenue mix what would be the split between the Ready-to-Cook and the Ready-to-Eat?

**Subrahmanya Chowdary:** Sir, at this point there is no Ready-to-Eat. The Ready-to-Eat is going to come from the new facility once it is started in Q2 of the next fiscal. So, at this point it is only Ready-to-Cook. However, in the Ready-to-Cook there is a difference between how the products are the kind of products which are mostly cater to the South East Asian markets and products which are cater to the western markets like USA, Europe, Canada or in the Middle East where they fetch a higher value. That is where the value addition is the key which is totally aided to the company by its enhanced expanded capacities which are actually helping the company and delivering those kind of products and enabling the company to focus on those markets.

**Chintan Modi:** Are you also planning breaded facilities for in the Ready-to-Eat segment?

**Subrahmanya Chowdary:** Yes, that is also there on the cards and we will be focusing on that the moment new facility is started. There has been place which left for it and which I will be able to provide more details after 2 quarters. I am sure I will be able to give you more details about it at that time.

**Moderator:** Thank you. The next question is from the line of Harsh Saraswat from Girik Capital. Please go ahead.

**Harsh Saraswat:** I just wanted to ask are there any new developments on our own brands?

**Subrahmanya Chowdary:** Our own brands, Harsh we are very straight on this even though we would be promoting our own brand, we actually consider ourselves to be privileged that we are actually doing in a private label which are the end retails and the food service companies' and as you know as such in those countries they would want to have it most of the product in their brands. So, we are mostly doing the products in their brands only. However, we are putting our efforts both within the USA and primarily in the European Union where our brands have been doing well. I mean they have been increasing, they are on the rise but when it comes to USA it is mostly private label and retail brands in which it goes.

**Harsh Saraswat:** In European Union any country has picked up?



**Subrahmanya Chowdary:** United Kingdom and France are two of the countries where our brand is going in higher. We have been developing using our existing customers who have the confidence in the company as well as its products who are accepting more of our brands.

**Moderator:** Thank you. The next question is from the line of Dhiraj Sachdev from HSBC. Please go ahead.

**Dhiraj Sachdev:** Just one thing are you capturing working capital trends, what is the working capital cycle at this point of time for the 9 months and the quarter and how has it improved over the last year if you can just give me some numbers?

**Subrahmanya Chowdary:** The working capital cycle has been largely the same. On the creditors it has been at almost 10 days, it has been maintaining at that level. On the debtors it is around 35 days and inventory at around 35 to 40 days maximum. So, overall if you look at it I think all put together it is around 60 to 65 days or so maximum, but it is in different stage. As far as the debtors are concerned there has been a reduction in the debtors' cycle period because we have also renegotiating our terms with our clients in getting our payments much sooner upon invoicing to be precise and not upon delivery and even some of our European businesses also changed which was earlier more into 60 days or 75 days LC terms are now being reduced to 30 days payment upon delivery. So, those changes have been made with our team buyer customers who have been there with us for the last past few years. With regards to the inventory yes, we have been bringing it down the inventory cycle as you would be aware that the most of the inventories anyway already backed up with the orders which are already planned well ahead and the inventory is any way being funded with of course with pre-shipment funding taken in Libor basis which is also helping in reducing the interest cost significantly.

**Dhiraj Sachdev:** Is there any conservative number that can be reduced from our working capital cycle from 65 days to say 55-60 days; is there any scope for improvement?

**Subrahmanya Chowdary:** I think this total working capital cycle if you see it is very much reasonable. It is in the industry further reducing, of course as I mentioned we are still discussing with our end customers. We are looking forward to have more of our customers to pay us upon invoicing and rather or maybe upon delivery rather than taking it to 60-75 days. So, that way, yes we may be able to gain another 5 to 7 days minimum in the next fiscal for sure because they are also as the confidence improves and increases on the company the customers are also willing to get into those kind of change their payment terms because they understand the company better every years as we do more and more business with them.

**Dhiraj Sachdev:** No, that is good because in that case it will improve the cash flow from operations or after working capital changes as you go. And just on the other part which is the status on the leased premise, can we sustain that continuing?

**Subrahmanya Chowdary:** The leased premises will be continuing, as there are some technical points for bringing in our own facilities to optimum utilization in the first year that is why we have considered 50%



utilization only and 75% utilization in the subsequent year and hence we need these lease facilities to back us up. The leased facility will be continuing. It will be backing us up through the entire next fiscal. There on it is entirely depended on how our business strategy will be working with our existing customers primarily because they are the ones who understand us fully and apart from that more new customers as we add a new market which we add which is something I will be able to give a better clarity in the next fiscal once this financial year is completed and has the new facility is getting ready because as well as newer markets. So, if at all the business requires it we will continue the lease facility also and apart from our own facility even in FY20 depending on the business growth which is there and it is entirely depended on the business. But for now we are looking forward to utilize these lease facilities until we get our own facilities under our control to the optimum level of 75% utilization as mentioned.

**Moderator:** Thank you. The next question is from the line of Risabh Chaturvedi from Edelweiss. Please go ahead.

**Risabh Chaturvedi:** As per disclosure the amount raised for general corporate purposes was close to 30 crores and we have utilized the full amount in Q3. Sir if you can tell me how it was utilized?

**Subrahmanya Chowdary:** No, it was the entire amount was not for general corporate purposes. They were also issue expenses in that to the extent of around 8.5 crores which was there, which was payable to various departments as well as the merchant bankers and the legal party and apart from that we have been doing some brand registrations because we have also been adding a brand also been getting the trade mark done. So it was the entire 30 crores did not go towards general corporate purpose. It was split up between both issue expenses and general corporate purposes.

**Risabh Chaturvedi:** And one more last question. So what will be your full year sales volume, if you can give me a rough estimate?

**Subrahmanya Chowdary:** Sir, it will be maintaining to tell you the truth it will be maintaining around the same level, so we look forward to around the same level as it is you can just if you look at the last 9 months it will be based on the same level, it will be maintaining even for the last quarter.

**Moderator:** Thank you. The next question is from the line of Ayush Mittal from Mittal and company. Please go ahead.

**Ayush Mittal:** Sir as the industry would be starting on this new season for this calendar year now, can you give us some insights on how the industry is shaping up what kind of growth are you looking forward for this coming season?

**Subrahmanya Chowdary:** Mr. Ayush, as I had mentioned earlier to some of the other participants in the call, India has been growing very consistently and hopefully it will be maintaining because we have access to quality seed unlike the past years, earlier years. So season is something which is there yes,



summer time is the optimum time for everybody to go for stocking but however the season is, it is going to be throughout the year. So it is not that yes the peak will be we see the most amount of produce being produced starting from March to all the way till July, June to July in Andhra but then other states also like Orissa, Gujarat and Bengal with precise apart from Goa and Maharashtra which are also adding up. So as such the growth for next year is being planned where as we are planning to utilize our existing facilities own as well as lease which are there in the optimum level like we did in this physical almost 90% plus because we have to get our new facility up and running in the Q2 until we will be utilizing and we will ensure that new season of the current year will be exploited to the best possible level that capacities by optimum utilization of the capacities. So we look forward for that we will be maintaining our double digit growth which will be there for the next financial year also aided of course primarily by the season which we are referring to but as I mention it is going to be a throughout the year scenario. So we look forward for the growth.

**Ayush Mittal:**

And sir, of late we are seeing lot of focus by the government also for this sector wherein the first India was the budget outlay anything that you have seen at your end, happening money flowing into this sector and how it is flowing? Any government side has support.

**Subrahmanya Chowdary:**

Sir, I have no clarity at this point where the allocation of that money is going to be placed by the government of India and if it is really going to impact the infrastructure it is a great move, we really appreciate and thank the government of India to consider aquaculture as it, finally they are considering, I can use words they are start considering that this is the sector and it is a very good thing and we look forward for their support. I hope it will be helping the infrastructure capabilities in the states where there are problems or there are issues also and it will be aiding the entire countries growth of aquaculture and shrimp exports primarily that we look forward for that. I do not know exactly where it is because I do not know if you have, you can throw some light if you have some information, I personally do not have any information on where the allocation is going to be placed or which state or in what segment exactly. Whether it is a farm, hatcheries or research but I am sure it is end of the day the government has considered it is a good thing it is a very good sign, positive sign for our industry and we look forward for their support in the future also. We are doing good thing it is a win-win situation for everybody in the industry.

**Moderator:**

Thank you. We will move on to the next question that is from the line of Dipesh Kashyap from Equirus securities. Please go ahead.

**Dinesh Kashyap:**

In one of the slides you have mentioned that you are going to open a new hatchery. So I just wanted to know when that will happen and what is the planned CAPEX for that?

**Subrahmanya Chowdary:**

The CAPEX for it was from the internal accruals only of course it will be around 8.5 crores. It is already being completed and we are looking forward to complete it and open it by March end if not, for sure by April end because there is a procedural requirement; we just submitted our applications to the Coastal Aquaculture Authority to approve it. They will have to come do



the visit. We look forward to running it by the end of this fiscal before the end of this fiscal mostly if not it will be done the first month of next fiscal.

**Dinesh Kashyap:** Sir, this will be majorly used for your in-house farms or you will be selling it outside also?

**Subrahmanya Chowdary:** We will be doing both. It will be majorly used for our inhouse farms, our farms itself will be the demo for our shrimp seed which is produced from our hatcheries, actually will be catering to the farms primarily post in surplus of whatever is being catered to the farms or at times and the farms may not require. The seed, the hatchery will be selling the seed to the farmers located in Andhra as well as the state of Orissa and Bengal because this new hatchery which you are referring to is located closed to the boarder of Orissa in the north Eastern part of Andhra Pradesh.

**Dinesh Kashyap:** Any major revenue we can expect from these operations next year?

**Subrahmanya Chowdary:** As such the revenue with this hatchery alone will be not very significant, currently the company is very significantly dependent on seed supply from outside hatcheries and as I mentioned most of the seed will be utilized for the company but there is another hatchery also which is being planned which will be up and running sometime in the next fiscal once that is up and running we will also look the hatchery operations to be a significant, I mean at least I should not say significant considering the processing and the export being on a very high number at least it will be a reasonable revenue generator the hatchery operations itself. We can start considering it as a segment hopefully from the next fiscal year as an independent operation.

**Dinesh Kashyap:** And the CAPEX for that is included in the 8.5 crores that you already mentioned, right or that will be another CAPEX that will be doing for that?

**Subrahmanya Chowdary:** That we will be doing additionally for the ....

**Dinesh Kashyap:** How much ...

**Subrahmanya Chowdary:** That is the same. It will be around the same level.

**Dinesh Kashyap:** 8.5 crores?

**Subrahmanya Chowdary:** It is 8 crores to 10 crores maximum it will not be much more.

**Dinesh Kashyap:** And sir lastly the lease charges that you paid to Royal Marine just wanted to clarify on that. So, that is a fixed in nature or you that depends on the volume that you would do from that. Sir, how do you should we think about it with the lease charges in FY19?

**Subrahmanya Chowdary:** It is actually based on the volume. In our industry the lease charges are based on the volume actually.



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**Dinesh Kashyap:** What is the run rate like in the 9 months how much you have paid for that like last year we have paid around 10 crores to them. So, this year how much will be paying them?

**Subrahmanya Chowdary:** For 9 months the processing charges for 9 months it was totally it is already been 10 crores, yes 10.5 crores approximately.

**Moderator:** Thank you. Ladies and gentlemen, that was the last question. I now hand the conference over to the management for their closing comments.

**Subrahmanya Chowdary:** So, thank you everybody. I really appreciate your patience and with the call disconnection and technical troubles which we had, so I really look forward for any further questions if you have you can always get back to us directly on [ir@apexfrozenfoods.com](mailto:ir@apexfrozenfoods.com) or you can reach out to Stellar Investor Relations. You can feel free to contact either of the companies to get more information. We have uploaded the results presentation once more in our site.

**Moderator:** Thank you, ladies and gentlemen, with that we conclude today's conference. Thank you for joining us and you may now disconnect your lines, thank you.