



# “Apex Frozen Foods Q2 & H1 FY-18 Earnings Call”

**November 17, 2017**



**MANAGEMENT: MR. KARUTURI SUBRAHMANYA CHOWDARY –  
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**Moderator:**

Good day, ladies and gentlemen and welcome to the Q2 & H1 FY '18 Earnings Conference Call of Apex Frozen Foods. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during this conference call, you may signal an 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. Chowdary. Thank you and over to you, sir.

**Subramanya Chowdary:**

Thank you, Mallika. Good evening everyone, and a warm welcome to our first earnings conference call for the quarter and half year ended September 2017. I have with me on call Mr. Vijaya Kumar, our CFO and representatives from Stellar IR Advisors, our Investor Relations Advisor. We hope you all have received the updated investor presentation. We have also uploaded that on our website for your reference. We will do a brief summary of our operational and financial performance and thereafter we will be taking questions.

To begin with, we recently got listed on the BSE and the NSE on the fourth of September 2017. We raised the total amount of Rs. 152.3 crores, of which 25.4 crores was through offer for sale and the balance Rs. 126.9 crores through fresh issue of equity share capital. The fund raising was done to primarily set up a new processing plant at G. Ragampeta, East Godavari district in the state of Andhra Pradesh having a total capacity of 20,000 metric tonnes per annum, construction of which is underway and is scheduled to be completed by around the end of the first quarter of FY19. This would enhance our capacity from the current 15,240 metric tonnes per annum. In line with our focus on value-added products, the new capacity of 20,000 metric tonnes per annum would include value-added products frozen capacity of 5,000 metric tonnes per annum. The industry dynamics that we currently operate gives us the confidence that we will be able to optimally utilize the additional capacity within 3 to 4 quarters of its being operational.

Now speaking about the aquaculture industry, the global demand has been increasing from different parts of the world with regard to aquaculture products because it is part of the sea food category which is being looked at as the alternative protein and as you know that the ocean led resources worldwide have been depleting, land based aquaculture is the key for the future to take care of the seafood consumption requirement. So the global demand has been increasing across North America, European Union and China and also other parts of South East Asia. Aquaculture in India is growing at a very robust pace and there are expectations of the supply in India growing to around 5.5 lakh to 6 lakh metric tonnes in the current period. The raw materials and finished goods prices have been quite stable for the past 3-4 quarters with mild fluctuations which were not of the significant impact in any manner. We were able to actually gain advantage by increasing our in-house farm production and also focusing on producing high value products for our clientele.



Let me now discuss our financial performance for the Q2 and first half of financial year 2017-18. Our total income including net revenue and other operating income for Q2 FY18 was reported at Rs. 292.2 crores and the same stood at Rs. 545.3 crores for the half year of financial FY18 versus Rs. 709.7 crores in the full year of FY17. The significant increase in income during the first half year of the current fiscal on an annualized basis has resulted from higher volumes while average realization remains largely stable between H1 FY18 and full year FY17. We sold a total of 7,598 metric tonnes of finished products (frozen shrimp) in first half of the financial year as compared to 9,898 metric tonnes of sales in full year of last fiscal. At the EBITDA, we reported Rs. 37.9 crores in Q2 of the current fiscal and Rs. 68 crores in the half year of the current fiscal versus 55.8 crores in the full year of FY17 translating into an EBITDA margin of 13%, 12.5% and 7.9% respectively.

Profit after tax stood at Rs. 22 crores for the first quarter of the current fiscal and Rs. 38.7 crores for half year of the current fiscal as compared to Rs. 24.3 crores for the full year of last fiscal. The PAT margin has improved to 7.5% in Q2 of the current fiscal year and 7.1% in the first half of the current fiscal vis-à-vis 3.4% in the full year of last fiscal. The profit margins have expanded on account of operational leverage as we optimally utilized our capacities, an increase in the share of high margin frozen shrimp products and lower raw material costs as the share of our inhouse farming also has been increasing as we expanded our farming operations.

Going forward, we expect demand to remain firm and our capacities to continue to be optimally utilized. We continually try to reduce our cost through backward integration and enhance our product offering to customers via value addition, thereby improving profitability of the business. That is all from our side and I would now request the moderator to open the call for Q&A. Thank you very much for being on this call.

**Moderator:** Thank you very much, sir. Ladies and gentlemen, we will now begin the question and answer session. The first question is from the line of Dipesh Kashyab from Equirus Securities. Please go ahead.

**Dipesh Kashyab:** Just wanted to ask like you recently attended the GOAL conference in Ireland. So just wanted to know your take on the stance of EU and UK importers on the Indian shrimp. Is there any possibility that they may stop imports from India?

**Subramanya Chowdary:** Thank you very much firstly Mr. Dipesh to come on to this call and with regard to your question, yes, we have been participating actively at the GOAL conferences every year as we are one of the sponsors and the topic of discussion at that conference also was of course about the EU and the UK and basically European Union testing Indian shrimp products. Now with regard to testing of the products being imported by any country is always the prerogative of that importing country. Now when European Union including the United Kingdom as it is part of it right now as we speak has clearly laid down the speculation of how they want the product to meet the quality norms or with regard to the residues which are allowable, which are not allowable or the ban substances which are not supposed to be there in the product. We have to



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implement those regulations and accordingly, India has been doing a very good job consistently over the past years, thanks to the co-ordination and in fact the strong efforts being put up by Export Inspection Council and the Marine Products Export Development Authority of India. With regard to our company, we do actually test all our products prior to processing, in fact to tell you the truth our business to the European Union also has reasonably increased over the last three quarters giving more confidence to our customers and engaging with newer customers too. So we do not really see that the EU is going to ban. As far as EU visiting India it is a part and parcel of their regular procedure where they would be doing it on an annual basis or a biennial basis and they have been there last year, they have been to even our company specifically around 2 years ago, they have very much appreciated the protocols and the systems which are in place and it is more of a confidence building measure during those visits. We do not really foresee that there will be a ban as such with regard to your question and we are confident that the measures being implemented by the government of India as well as the respective companies in the industry will ensure that nothing of such sort happens.

**Dipesh Kashyab:**

Sir, just wanted to understand like when the EU delegates actually visit a plant, so they will ban a particular plant as it happens the pharma companies or they can have a blanket ban on Indian exports. So how do they function in these shrimps?

**Subramanya Chowdary:**

Mr. Dipesh, as far as EU and authorities visit or concern to India, they do not visit plants unlike pharma companies, they also visit landing centers, fishing harbours, farms, laboratories both government owned as well as private and they audit all facilities which are responsible for maintaining the quality standards of the product which are being catered to the European market. When they visit, yes if they find any sort of issues or any noncompliances, they do inform the regulatory authorities in India which is of course Export Inspection Council to ensure that those issues are sorted out and whatever noncompliant matters are there, are taken care of and everything is brought into compliance. Now as of last 20 years, EU has been visiting, of course they have been giving out their concerns with regard to the presence of antibiotics and Indian authorities have in fact set up a very strong system and it is evolving, it is a continuous process. As you know very well that India's aquaculture production is increasing year-on-year. Definitely, as newer farms get started or more farming areas get created, naturally as factories and people are expanding capacities given the laboratories are being set up, so all these measures definitely under the control of EIA will take care will ensure that the right systems are in place and when EU comes, we are very confident, that the EU will be very confident and happy about the way the systems are implemented in India with regard to antibiotic testing. So we do not really expect like a factory ban or yes, if there are issues on an individual company, they put on hold for some time and subsequently when that company proves or evidences that everything has been set into order and the system is being implemented, they restore it back. As such, there has not been a country ban or company ban as such in the recent past. There are some companies which are actually put on hold for certain time, so they can rectify if there are any issues with regard to the protocol we are implementing.



- Dipesh Kashyab:** Okay, so understood. Moving onto US, I was looking at the last 15-year growth data of US imports, so they have grown just a 3% CAGR for the last like 15 years. But certainly this year if you see the growth in imports has been in double digits. So just wanted your thoughts like what has changed in this single year and is it sustainable next year or years forward?
- Subramanya Chowdary:** Sir, as I mentioned earlier, worldwide the consumption and the demand for shrimp is increasing and now you know very well that there is also a domestic industry of the wild caught or captive fisheries in all countries. USA also has a similar industry and as the product globally is often caught, resources get depleted, naturally the dependence on aquaculture product gets increased whether it is shrimp or fish. So now the US imports as it is concerned, this year of course there has been a higher increase of the dependence of Indian products primarily I believe you are referring to the growth of Indian products being imported into USA.
- Dipesh Kashyab:** No, I am just referring to entire US imports as a whole, they have actually increased in double digit this year and the previous 15 years they have grown just at a CAGR of 3%.
- Subramanya Chowdary:** The preference of shrimp and seafood of course is increasing year-on-year as I mentioned earlier. The averseness to red meat is increasing also. So naturally they are looking at seafood as an alternate protein and in seafood of course, shrimp has been looked at as a delicacy and thanks to Vannamei, the shrimp is available at an affordable cost when compared to black tiger shrimps which are there in the limited scale in the present scenario so that is the reason it is supporting the import of or it is enhancing the demand of shrimp requirements in the US.
- Dipesh Kashyab:** Sir also like total exports to US last year were around 1.5 lakh tonnes and if I just add the capacity, the new capacities that you, Avanti, and Devi seafoods are building up, so it comes to around 75,000 tonnes. So next year these three players will have 75,000 tonnes. Now sir the total pie is not going at that much pace. So just wanted your thoughts on how such increased capacity will get absorbed?
- Subramanya Chowdary:** I personally cannot comment on how the other capacities are going to get absorbed, but as far as our company is concerned, yes, we have been enhancing our own farming area and I am pretty sure you are aware that the shrimp aquaculture is also increasing tremendously in all parts of India, not just the state of Andhra Pradesh which is the major contributor of aquaculture production in India, but also in the state of Orissa, Bengal and Gujarat apart from South Tamil Nadu and Maharashtra and Goa, so the most important point is many countries in the world today are dependent on India with regard to shrimp products. I am just not talking about the high value consuming markets like North America, USA, Canada or European Union, but I am also talking about China, Vietnam, Thailand apart from the traditional market of Japan, many countries are now dependent on India and I am pretty sure all these expanded capacities of the industry will be supported by the supply which is also consistently growing and improving because now states like Orissa have brought in a new food processing policy and they are also encouraging their farming activity thereby even the state of Andhra Pradesh,



aquaculture is a major contributor for its GDP growth. So naturally I am pretty sure that all these capacities will be taken care of by the supply which is getting created over the period of time.

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

**Dhiraj Sachdev:** My question pertains to the realization. Are we looking the realization at about 650 per kg and what has been our procurement cost in the last 6 months or so?

**Subramanya Chowdary:** In the last 6 months or so, the procurement cost has been quite stable at around 350-380 level as far as per kg basis and the improvement in the realization is because we have been looking at higher value that is enhancing the realization not only in rupee terms, but also in dollar terms.

**Dhiraj Sachdev:** And the value-added product that we mean, is it the ready to eat segment that we were catering to, we are entering into?

**Subramanya Chowdary:** Yes, with the new project which is right now under construction and which will get completed hopefully by the end of first quarter, it is going to take care of ready to eat projects. For that we have 5,000 metric tonnes capacity out of the 20,000 metric tonnes that will take care of the ready to eat.

**Dhiraj Sachdev:** And my guess is that the realization here in ready to eat segment will be about Rs. 200 per kg higher, right?

**Subramanya Chowdary:** It should be around that level and in fact it can grow much higher dependent on the products what you produce and the kind of packing and the forms in which you produce for the end customer requirement, yes.

**Dhiraj Sachdev:** So we can have an additional contribution of 110 to 150 despite yield of extra packaging that we may require.

**Subramanya Chowdary:** That is based on the present scenario. It should be but, but as I mentioned the realization with regard to value added products is totally subject to the kind of products we enable and it will be approximately around that level.

**Dhiraj Sachdev:** And in the ready to cook which is in normal steady state or what kind of volume growth are we looking at? Once the expansion is completed, what kind of volume growth can we expect next year?

**Subramanya Chowdary:** So in the 20,000 metric tonnes, 15,000 metric tonnes will be ready to cook. In that category also, there are other products in the ready to cook segment which are high realization earners there are certain products like vacuum packaging and there are certain end use products which



are required by the customers in their end retail packing which will ensure higher realization also and that 15,000 metric tonnes in the new facility will be taking care of that part.

**Dhiraj Sachdev:** You mentioned the expansion will be completed at the end of the first quarter of next financial year right?

**Subramanya Chowdary:** Yes.

**Dhiraj Sachdev:** So we can expect second quarter onwards will the commercial production starts.

**Subramanya Chowdary:** We are expecting it to be commissioned around second quarter of next fiscal. Of course as you know, gestation period will be lower also with regard to the approvals and not only domestically within the country, but also overseas the required approvals will be taking a month or two. However, we have only considered 50% capacity utilization for the next fiscal. So we are pretty much sure that by the end of next fiscal, we will be reaching a stage of optimally utilizing our enhanced capacity.

**Dhiraj Sachdev:** And one more thing lastly from my side that the backward integration for setting up our own farms actually, how much will it lead to cost reduction?

**Subramanya Chowdary:** With regard to the backward integration, we are enhancing our farming area, but as you know very well and the present scenario it is mostly on land based and the more area we had the aquaculture production will be enhanced accordingly for our inhouse farming. So in the present scenario, the farm level cost, there is a range approximately depending on it subjective to output and also the climatic conditions. So approximately a range of around Rs. 60 to Rs. 80.

**Moderator:** Thank you. The next question is from the line of Nitin Gosar from Invesco Mutual Fund. Please go ahead.

**Nitin Gosar:** The presentation quality of the data that you have disclosed in presentation is excellent, appreciate that. So there are couple of questions. One is with regard to the gross margins that is revenue minus the raw material cost, if keeping in mind the realization which has been shown in the presentation which talks about almost being flat as compared to last year in FY17? There seems to be a sharp jump in the gross profit that we do on per kg basis. Would you mind highlighting what is the reason behind this, sharp improvement in the gross profit per kg?

**Subramanya Chowdary:** First thing is with regard to the realization is concerned, you also have to keep in mind there are rupee appreciations and depreciations which also play a factor. As such, our realization in dollar terms have been increasing on a quarter-on-quarter basis in the last three quarters as we notice, I mean last year as well as the current 2 quarters and has been increasing and that is basically as we produce more of the high value products, the realization in dollar terms will be increasing and the rupee fluctuations of course which have been anyway taken care with the



help of our forward contracts. But the gross margin increase is more of course has got to do with our inhouse farming as well as optimum utilization of our capacities both own as well as lease. So that is actually enhancing, as you know that the costs are still, they are not going to be increased on par or they are not going to increase pro rata with regard to the sales. As production increases, you also reduce your cost at the processing level and also optimum productivity at the inhouse farm production. Apart from some of the produced which had been purchased domestically from some states of India also being at a lower level, all put together there were multiple factors, we see multiple factors which were there which had supported the company to improve and enhance its gross margins.

**Nitin Gosar:** Fair point, got it sir. And has the cost of procurement per se changed as compared to FY17?

**Subramanya Chowdary:** Compared to FY17, there has been a marginal reduction because as not significantly, but in between the first quarter, of course the pricing has been stable and it has been going up because now there was demand from all different parts of the world as I mentioned earlier and just not USA or European Union. So the pricing has remained quite stable actually in the last 2-3 quarters, but the procurement cost for the company of course buying from different parts of the country and also certain sizes for which we are also working on programs with some of our farmers where we have got a committed volume from them and so that is also helping us in maintaining our lower cost of procurement.

**Nitin Gosar:** Sir leased capacity is as I have seen your presentation you have highlighted it will continue for FY19, the 6000 metric tonnes. Can we see it also being there in FY20 or once the new plant is commissioned, the leased facility will be not in use thereafter?

**Subramanya Chowdary:** At this point, as you know very well Mr. Nitin, the new facility once it is up and running, there is still gestation period which is required for various approvals and getting the utilization of the new facility up and running, the leased facility at this point we have not yet decided on that. We will be deciding on it once we are concretely set up and running, then we will decide that. Right now to tell you the truth, we have not yet made a decision of discontinuing it or continuing it at this point. So we will be focusing on that point more towards the end of this current fiscal.

**Nitin Gosar:** And sir one last question with regard to your opening comments where you mentioned that the exports from India can even reach 5.5 to 6 lakh tonnes.

**Subramanya Chowdary:** I will interrupt you, actually I did not mention that the exports will increase, I said the production level of shrimp, the raw material is expected is being forecasted at around 5.5 lakhs to 6 lakhs metric tonnes.

**Nitin Gosar:** What would be the number right now, 5.5-6 which is expected?

**Subramanya Chowdary:** It should be around 5.5 lakhs approximately.





- Moderator:** Thank you. The next question is from the line of Shikhar Mundra who is an individual investor. Please go ahead.
- Shikhar Mundra:** I see that you have been backward integrating, so any plans of going into shrimp feed manufacturing?
- Subramanya Chowdary:** Sir at this point, we have not made any decision in that angle. Of course as you know integration both forward and backward is a continuous process. Whenever we believe it is appropriate, we may look into it, but at this point we have not yet taken in any decision on that part.
- Shikhar Mundra:** Sir want to know like who are your major suppliers in the shrimp feed because I believe it is very important part of your farming, right?
- Subramanya Chowdary:** Our supply is actually divided among 4 different suppliers, there are few companies in the country, of course few of them are also listed and few of them are not listed.
- Shikhar Mundra:** I see that your margins have jumped to like 12%-14%, EBITDA margins 12%-13% and these to be like 6%-8% for many years. So what is the reason and are they sustainable, what is the reason behind this?
- Subramanya Chowdary:** We are actually enhancing, improvising on our margins as I stated to the earlier investor call also we are enhancing them with by optimum capacity utilization that is one part and also looking at enhancing our realization by producing higher value products which has always been our motto for the past one year and we are looking at producing more and also we increase our own inhouse farming, I believe that we will be able to sustain them. and we strongly believe in sustainability not only of our sector, of our business also.
- Shikhar Mundra:** So but is that some industry level change because couple of your competitors also have given good margins in the past 6 months in shrimp processing. So is it some industry level some macro change or you think it is something which is applicable only to you?
- Subramanya Chowdary:** I would say of course industry also has been moving very positively and as I mentioned earlier, in my opening remarks that the demand for shrimp products in general has been increasing globally. But also the Indian product has been establishing itself very strongly in overseas countries primarily in the North America and European Union. I am talking about processing and export. I cannot comment about other sectors of our trade. So both US and Europe, India has strongly established and in fact they are appreciating the fact that Indian quality has been much better than other competitive players from Asia as well as South America and there we are hearing lot of good remarks and appreciation from our customers even old ones as well as the new ones and I am pretty sure that is not just for our company but entire Indian product in which we are proud of.



**Shikhar Mundra:** Do we demand the premium pricing compared to other countries since our quality is better? Is it like a commodity product?

**Subramanya Chowdary:** It is of course, it will be balance between in a commodity as well as a premium because there are certain segments of the market which actually give a premium or actually provide a premium for certain products, so it just depends on how much percentage of your product are we catering to those kind of markets and as we grow them further and you develop such markets, the premiums will also get established. For example, there are some certified products, certain sustainably certified products which actually ensure better margins. So the mode of such products you can cater to your customers, definitely it guarantees better premiums for sure.

**Moderator:** Thank you. The next question is from the line of G. Vivek from GS Investment. Please go ahead.

**G. Vivek:** What about the risk factor of our sector and what steps you are taking to mitigate them, the cyclone, what else you would like to say?

**Subramanya Chowdary:** The risk factors with regard to weather conditions or climatic conditions of course with regard to sector are there, will be there but at the same time India as such is not a small country and all the climatic conditions all over India are not the same. We need to accept the fact that just because there is a flood or a cyclonic situation in some part of south of Andhra doesn't mean the entire state of Andhra Pradesh gets affected, Orissa, Bengal and Gujarat get affected at the same time. So aquaculture has been growing steadily even though there are issues with regard to climatic changes and climatic conditions, fluctuations on weather or cyclonic weathers in certain parts of the country, but they do not impact rest of the country similar to how that means or any sort of contamination in one part of the country or one particular state doesn't impact the rest of the areas where the aqua agriculture is low.

**G. Vivek:** Then what about the incentives given by the Andhra government. Any specific steps, special steps we are taking to incentivize and what about the other income component in your income that means incentives given by Central Government and State Government?

**Subramanya Chowdary:** Sorry, can you repeat that question.

**G. Vivek:** Focus of Chandrababu Naidu government on the aquaculture in Andhra, number one, Number two, how much is the other income component of your total income, in the form of incentives and tax benefits and other things?

**Subramanya Chowdary:** For the first question I would like to answer to you that the state government of Andhra Pradesh of course is very much focused on the aquaculture sector as I mentioned earlier, it is the major contributor of GDP growth of the state and hence they are, the honorable Chief Minister and the government is very much focused and they are in fact encouraging the



farming and they are creating of course zoning right now with regard to aquaculture. So they are very positive of our sector and they are also right now creating new policy with regard to food processing also whereas the food processing society which is also providing certain incentives and encouragement to the sector. That is with regards to the State Government and as far as your question to other income is concerned in our books, the other income was actually more pertaining to the foreign exchange gain which we had. So that is as you know very well that our realizations are not accounted at the actual rate. So the difference of exchange with what we are realizing and of course as far as the accounts how it is booked in the accounts, that difference is being shown in the other income.

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

**Harsh Sarawat:** What is the current interest rate which we are having?

**Subramanya Chowdary:** The current interest rate depends which kind of funding it pertains to, if it is rupee based it would be around 9.5% and if it is dollar based it will be around 3%-3.5%. So that depends on what kind of funding we are actually taking.

**Harsh Sarawat:** So is there any fall in the interest rate from the previous year?

**Subramanya Chowdary:** No. First of all, the company's reserves are anyway going to take care of most of the funding requirements of the working capital going forward into the future also. And as far as whatever borrowing is there, we didn't really see any significant reduction in the interest rates as such, but as I mentioned to you, if the more dollar based funding is done, naturally the interest cost will be at a much lower rate because they are based on LIBOR basis.

**Harsh Sarawat:** So in absolute terms it will come down?

**Subramanya Chowdary:** Yes, correct. It is entirely dependent on that, Yes.

**Moderator:** Thank you. The next question is from the line of N Samraj from Dwarka Wealth Managers. Please go ahead.

**N Samraj:** Sir, no participant has raised this but we just wanted to tell you at Dwarka Wealth Managers apart from doing research and planning, the finances of our investors, we also do lot of case studies and we have both guest lecturers in the local MBA institute. So some of the questions I will be asking you in those terms, sir. So now when the IPO took place sir, not only did you leave a beautiful tasty prawn dish on the table for investors, you had a lot of gap between the market value and what you had proposed in the IPO. So just wanted to ask you is, 'content in regional language'



**Subramanya Chowdary:** In the interest of the other participants, Samraj was asking that whether our motto and motive is to take care of the interest of the investors. I believe that was the way and considering the gains, I think that was what you were asking?

**N Samraj:** Correct.

**Subramanya Chowdary:** So, we are very much appreciative of the fact that significant number of investors have put in their confidence in our company and they believed us and they trusted us. And of course we even keep up their trust and confidence, we will not let them down. And we are putting all our efforts to perform and grow well and thereby I am pretty sure that would also be beneficial over a period of time to the investors also.

**N Samraj:** Okay. Sir you have mentioned in your presentation now, we are marketing basically to chicken, seafood for Walmarts and all. Sir, just wanted to ask you, ITC is going into marketing of shrimps, end use product. They are designing some product mixes. So would you be also trying to tie up with ITC which is a very well-known consumer marketing place in the market?

**Subramanya Chowdary:** So Samraj, Apex's core activity is processing and export which is out of India and naturally in the interest of the company and in the present scenario and including the interest of the investor community which is all who has stake in the company, the idea is to improve and enhance the export realization and the margins as such by doing in a better manner with regard to exports market. At this point, the company is not really focused on the domestic market.

**N Samraj:** And then just my second last question is, one of the individual investors I don't get his name. He has asked you about the shrimp feed manufacturing, so we basically did a case study in our institute on, we put it as ASF Limited, what we came up with is that any consultant or anyone advising you into future businesses and growth on projects is saying that okay, almost 80% to 90% of our shrimps comes as imports as contract processing. The Devi Sea Foods coming out with 40,000 metric tonnes feed shrimp in our backyard in Kakinada and also Avanti going on for another expansion, why would we give our captive market share to others and specifically when it would definitely reduce on our input cost increase of margins, the debt to equity ratio, the cash flows etc. enhancing. So it would be, management if suppose would give a serious consideration to this.

**Subramanya Chowdary:** Mr. Samraj, as I had mentioned earlier to one of the other participants too, there has not been any concrete decision at this point with regard to the seed. I cannot comment with regard to other fellow companies and other company seed manufacturers in the industry. As far as Apex is concerned, at this point no decision has been taken; however, the company's idea and the motive is to integrate backward and forward. So it is a long drawn process, it is not something which is exactly on me. So I cannot really commit or comment at this point about the strategies which are not confirmed at this point.



- N Samraj:** So just a last point to the forum, what we just did one more on the financials was that we have come out with about 292 crores of sales of this quarter. Just as an information Avanti did about 200 crores, our net profit margins we have doubled since last year, there is almost equalized. Now Avanti basically gets the market cap of 2,846 crores of ratio to proportion on the sales. So going by just this, I just wanted to give some additional information to the forum, then fair value of our company sir Apex Frozen Foods should be around Rs. 912 just as a matter of case studies, I wanted to just inform you.
- Subramanya Chowdary:** Mr. Samraj, I am sorry but I need to interrupt you here. As I mentioned to you earlier, we are not here to discuss about those points or other companies. If anything regarding Apex's results, the first half year results, we shall discuss them please.
- N Samraj:** This is the additional information I wanted to give the forum sir because we are on investing forum over here, that is all sir.
- Moderator:** Thank you. The next question is from the line of Sunil Jain from Nirmal Bang. Please go ahead.
- Sunil Jain:** My question relates to more of a volume. Right now, you are doing in the first half of around 7,600 tonnes of the production and sales and the full year, I think you are utilizing your current capacity fully. So next year with the new capacity you said that the 50% more volume you can do, so do you see the market opportunity, that type of opportunities available in the market for you?
- Subramanya Chowdary:** Sir, first thing I would like to correct you, I did not say that, what I replied earlier was that we are looking at utilizing 50% of the enhanced capacity next year and because as it takes time with regard to the gestation period will be there, even though we start the facility sometime in the early second quarter of the next fiscal. So we are only looking at 50% utilization for the entire year on an annualized basis, that is what I implied and with regard to your question of whether we have the market of such an enhanced capacity, we can clearly state that we can tell that right now we are not in a position to cater to our customers' requirements because of the lack of capacity. So it has been a well-planned, well-drawn out plan for the future expansion keeping in mind of our customer needs and requirements and also keeping them in the loop with regard to our plans of execution. We are doing it in coordination with our customers to be precise.
- Sunil Jain:** And then this expansion capacity of 20,000 tonnes, when you expect it to reach to full capacity utilization?
- Subramanya Chowdary:** As I had mentioned, the next year we look at 50% utilization and the second year that is FY20, we look at around 70%-75%. So we should be optimally utilized in the subsequent year as you know as 75%-80% is quite optimum for any manufacturing facility as such.



**Moderator:** Thank you. The next question is from the line of Saravanan Viswanathan from Unifi Capital. Please go ahead.

**Saravanan Viswanathan:** Just wanted to clarify this antidumping duty is now completely removed or it has got reduced?

**Subramanya Chowdary:** Antidumping duty has been reduced, it is not removed completely, it has been reduced to 0.84%. So that has not been completely removed.

**Saravanan Viswanathan:** Are there difference in subcategories like between ready to eat or this is the uniform rate of 0.84%?

**Subramanya Chowdary:** In the ready to eat category at this point as of today with regard to the US government policy, all breaded end products are not part of this scope of antidumping order. So as we look forward for such expansion and production of such value added products in the future, we will be under that, we do not need to pay antidumping duties with regard to those products at that point.

**Saravanan Viswanathan:** That is good to know. And the rates for Vietnam and Thailand also have been reduced or it is only happen for India, reduction in antidumping?

**Subramanya Chowdary:** I think pretty much if you see, they have all been at the similar level, around this 1% -2%, not significantly higher or it has pretty much been around this 1%-2% in the last few years and even for those countries, it has been the same.

**Saravanan Viswanathan:** And just last question. The previous participant's question about utilization of the new capacities that is coming up, are you expecting to use 50% in the first year of commercialization sir?

**Subramanya Chowdary:** That is what we are targeting, close to 50% utilization of our capacities.

**Saravanan Viswanathan:** Taking into the account the time required for the approvals from the regulatory agencies?

**Subramanya Chowdary:** Yes, that is correct.

**Saravanan Viswanathan:** That is what we are planning for.

**Moderator:** Thank you. The next question is from the line of Nitin Gosar from Invesco Mutual Fund. Please go ahead.

**Nitin Gosar:** Sorry about this, wanted to double check on the numbers, we delivered around Rs. 70 a kg kind of EBITDA of the first half versus last year closing roughly around Rs. 50 a kg. Is it fair to just believe that this 70 number, Rs. 70 a kg that you reported for the first half to continue with the kind of utilization we are seeing?



**Subramanya Chowdary:** Nitin, we are actually as I had mentioned earlier to many of the participants and you also in the past that our focus is to enhance on the realization part and as well as reduce on the cost part and we will be aiming to maintain this around these levels. So even if there are mild fluctuations, but that is our objective and we will be striving for that. So more enhanced value products we do, whatever form they are and the more cost reduction we can do by way of own farming or also by optimum utilization of our capacities. I am pretty confident that we should be able to, but again it is all subject to different conditions, but as you know very well that there can be changes at certain point, but we are looking at maintaining around the present levels.

**Moderator:** Thank you. The next question is from the line of Pratyush Mittal from Mittal & Company. Please go ahead.

**Pratyush Mittal:** As our company also does a contract in-house farming, I wanted to know a bit more about this. Like as we are doing farming on almost 150 acres and then lease farming, so what kind of numbers does this thing generate for us in terms of quantum or value or margins?

**Subramanya Chowdary:** Sorry, I don't know. You mentioned a number of 150, I thought...?

**Pratyush Mittal:** I mean, some of it is like your own land and then there is the lease land that you have, so I was mentioning those two numbers from your presentation.

**Subramanya Chowdary:** Okay. Actually the point is, it is only the land which is lease. The farming whatever is being done by the company which is around 1,800 acres odd is actually whether it is on own or lease, the entire farming operations including the capital investments, except the land part on the lease land is entirely being borne and maintained by the company, not that the farming is restricted to 150 acres of own land and remaining is contracted. The entire farming is being done by the company whereas the land is leased for a long period of 6 to 7 years. So with regard to the contribution of own farming, I believe that was your question, it is currently ranging at around 18% to 20% when we look at around 20%-25% that is what we look at, we look forward to the raw material including the enhanced capacities of the future, we look forward for a contribution of 25% of the raw material requirement of the company being taken care by the company's farming activities.

**Pratyush Mittal:** So if we have to think about this farming part then what kind of quantity do we produce the shrimp so like I think for a company if you are doing 1,500 tonnes kind of volume, then 20%-25% of this will be by way of your own farming, is that right?

**Subramanya Chowdary:** That is what we are aiming for. Right now, it is at around 20%.

**Pratyush Mittal:** So what kind of a turnover and margins does this give us, I am asking because to be able to differentiate from other players, the kind of edge we have.



**Subramanya Chowdary:** It is only around 20%, it is not a significant part of the raw material requirements. It is only around 20% and maybe max, it may max out to be around 25%. And as far as the farming is concerned, the capacity is what you are talking about are finished product capacities, whereas the farming of course is the raw materials. So I had mentioned this earlier to another participant it ranges depending on the situation of each crop and site of the farming location.

**Pratyush Mittal:** The approximate number that we can put around this of the margins, because the margins would be much higher if we think from the farmers perspective also, what I have heard is that the ROI on farming is as high as 15%-17% per season. Is that right?

**Subramanya Chowdary:** It depends, as I said because it depends on how the farming practices are and also how at what level are their costing is. So it will be around that level actually, but as far as the range is concerned, it would be around for a farming activity as such.

**Pratyush Mittal:** So can we consider this like this as a farming growth and the contribution increases, so this is a high margin area and hence overall profitability will continue to increase. Is that the right thing, is this what you are aiming?

**Subramanya Chowdary:** Well as you know very well that there are limitations to everything and anything and we don't really look at having the entire produce of the company or the requirement of the company being taken care by company's to whatever extent possible and in that, the changes as we also discussed earlier with the other participants, climatic conditions, weather conditions and also disease, all of them play a role. So it is not that it is the same every year or every quantum with regards to farming. There will be changes. So it is not that it will be in the same momentum all the time. So that is the reason we are looking at a broad spectrum of enhancing our abilities on all fronts and it is just not on farming or just on processing or on marketing. So it is on all fronts we want to ensure an optimum performance as such.

**Moderator:** Thank you. The next question is from the line of Dipesh Kashyab from Equirius Securities. Please go ahead.

**Dipesh Kashyab:** Sir, just want to understand, we have been paying Rs. 10 crores for the last two years as a processing charges to the Royal Marine. So just wanted to understand if this payment is fixed in nature or it depends on the volumes?

**Subramanya Chowdary:** It is dependent on the volumes, actually.

**Dipesh Kashyab:** Okay. So we have doubled the volumes this year, so this payment can be 20 crores this year you are saying?

**Subramanya Chowdary:** Well, it depends. Yes, maybe, but little bit, not exactly 20 crores, but it will be varying, yes.





- Dipesh Kashyab:** And I just wanted to understand the additional capacity that you are building. So you are saying you are adding 20,000 tonnes, out of which 5,000 will be value added products. So effective volume we will have 15,000 or 20,000 that is what I wanted to know?
- Subramanya Chowdary:** The effective volume is 20,000 metric tonnes, out of which 5,000 metric tonnes will be ready to eat products.
- Dipesh Kashyab:** Okay. And sir lastly sir, can you please break your sales number into exports and export incentives please?
- Subramanya Chowdary:** Exports and export incentives, actually the net revenue for the half year was 532.7 crores, of which, export revenues were around 505-508 crores and export incentive was around 27-28 crores.
- Dipesh Kashyab:** Okay, fine. Understood. Sir can you please tell me why the employee expenses have increased so much this year, because we have not grown our capacities right now. So why the employee expenses have grown so much?
- Subramanya Chowdary:** See the most important point is, the company has done a CAPEX last year with regard to pre-processing facility which actually enables and enhances the company's ability to do higher value products for markets which we discussed earlier and mostly that does require additional employment. So that is the reason that CAPEX of pre-processing facility is also is a contributor to the enhanced employee expenses as such.
- Dipesh Kashyab:** So this run rate will continue for the year you are saying?
- Subramanya Chowdary:** It will be continuing at that level, of course however at the same time as I am always mentioning in this call, optimum utilization and better efficiencies would ensure that the cost on a percentile basis shouldn't be significant or rather it should be stabilizing.
- Moderator:** Thank you. The next question is from the line of Krishna Arjun from Infosys. Please go ahead.
- Krishna Arjun:** I have two questions for you today. So one regarding the EU ban or the possibility of EU ban. How much of your revenue is exposed to EU?
- Subramanya Chowdary:** See, first thing, as we had mentioned earlier, we are not really looking to any sort of EU ban on Indian shrimp products. The government of India in coordination with the industry is taking the necessary steps to ensure and to address the concerns of the EU Health Authorities. And yes, if they are having any particular concern, they will definitely bring it out to the notice of the Indian authorities and it will be taken care in coordination with the industry. Now, we don't really foresee a new ban as such. We would want to clear that out. And with regard to our exposure, in fact we don't have any issues with regard to EU. We have been increasing our business with EU over the past two years. It was around 15% to 18%. Now it is already 25%.



We are actually increasing our business and we are ensuring that the required protocols and systems required by the EU Health Authorities is communicated through the Export Inspection Council are being taken care by the company and as I mentioned earlier, the products are tested prior to harvest and prior to production and the company is ensuring that only such products are exported. Therefore, the company is not really worried about the testing which is happening in the EU because we will be more focused on taking care of those requirements at in-house. So by ensuring that the testing is done here appropriately.

**Krishna Arjun:**

Okay. The second question, sir Vannamei has been like a lifesaver for the aquaculture industry in AP after the Tiger shrimps robust. So it has been in our country for a decade or so and still now. Do you think Vannamei is in the decline, or just a matter of time the problems of other east Asian company is going to come up in India and are you looking at different varieties of shrimps such as pink shrimp are here which is coming up now.

**Subramanya Chowdary:**

Vannamei truly itself to be a very stable species with regard to the growth and also being lucrative for the primary producer and as far as the industry is concerned, India has been focusing on producing that quality feed which also ensures that a better growth happens. It is quite reliable at this point as there is no other species right now which we are looking at. We will continue to improve and enhance our export and production of Vannamei shrimp. Also whatever little bit of, we still do black tiger shrimp which we will be doing on a regular basis to whatever extent required by our customers and to whatever extent the supply is available to us.

**Moderator:**

Thank you. The next question is from the line of Pratyush Mittal from Mittal & Company. Please go ahead.

**Pratyush Mittal:**

Sir, it was the question I was discussing earlier regarding your inhouse farming. Also, wanted to understand about the risk part of this like in past we have seen there have been lots of failures for corporates which are ventured into farming if things go wrong there is a much bigger loss and so is the rewards and things are going like. Your thoughts on the same?

**Subramanya Chowdary:**

The farming as far as aquaculture is concerned, there are lot of differences between how the farming activities are being conducted way back in the 1990s and today whereas lot of biosecurity protocols which are implemented with regard to farming today in today's scenario in India and also other parts of Asia and these biosecurity protocols will ensure that the farming is being done in an appropriate manner and also supported by the quality feed which I mentioned earlier to the earlier participant that the quality feed supply assisted and supported by the right biosecurity protocols in the farming level will ensure consistent production that is how it is being done compared to the way in 1990s when the supply of quality feed was not available. So there were problems at that time, but now it is all SPF seed being produced out of SPF stock which is Specific Pathogen Free. So thereby quality feed guided and supported by biosecurity protocols at the farm level should be ensuring that the farming is consistent.



**Pratyush Mittal:** And sir second question is about would love to hear some of your thoughts about your expectations on the industry and evolution from 2-3 year perspective for the coming time? What kind of growth do you see for the Indian shrimp industry to see or what are the key developments that you will see going forward given that every other company is trying to expand in this area. So some thoughts on that?

**Subramanya Chowdary:** So shrimp industry as such I had mentioned earlier also, it is dependent on the demand of course overseas and due to the averseness to red meat and other categories of meat, lot of western countries are focusing on seafood category as an alternate protein which is going to take care of their protein requirements and in the seafood category, we are very much proud to see that our primary product which is the shrimp is a part of and we are very much confident that the growth of the demand from across the globe not only the western countries, but also other parts of the Asia and Middle East will ensure that there is a consistent requirement and demand for this product. It only needs to be seen how much we can actually cater to or supply to those markets and to those demands to be precise.

**Pratyush Mittal:** Like there are industry numbers which are being put at potential of 8-9-10 lakhs tonnes kind of production in next 3 or 5 years. So is that something that you see quite achievable or are those kind of growth rates that we are looking at for the industry?

**Subramanya Chowdary:** See, everybody would want to have a positive outlook for sure. But we also need to see the various circumstances of difference places, in different regions of the country, but as an industry it is the possibility is there. It just depends as I mentioned various factors which will be impacting both on positive side as well as negative side. But we are confident that the growth should be there in a consistent manner in that level.

**Moderator:** Thank you. The next question is from the line of Nagesh Motamarri who is an Individual Investor. Please go ahead.

**Nagesh Motamarri:** I understand you have appointed internal auditors. The name Karuturi and Praturi are a little related, nowhere related like in transaction?

**Subramanya Chowdary:** No, that is Praturi That is a different, that is an audit firm based out of Hyderabad we have appointed because of well-experienced team which we have and we thought they will help in keeping everything in order and ensuring that we meet all the compliance requirements.

**Nagesh Motamarri:** This is just on a lighter side, related party transaction.

**Subramanya Chowdary:** Not really.

**Moderator:** Thank you. The next question is from the line of Omkar Kulkarni who is an Individual Investor. Please go ahead.



- Omkar Kulkarni:** At 100% capacity utilization of the new plant, what could be the maximum revenue generation?
- Subramanya Chowdary:** Sir, I cannot really comment about the revenue generation at this point, but as you are already noticing that the present 15,000 odd metric tonnes between the own and the lease, we are already noticing the revenue which is possible with an optimum utilization and once the new capacity comes into play, we are confident that the value-added products which we can produce, the better revenue generation will be there because of better realizations. So it is totally it will be in tandem to the capacity utilization and as I had mentioned earlier to the earlier participants also that the first year is what we are looking at approximately around 50% utilization and subsequent year, second fiscal that is FY20, we look at around 70% to 75%. So it will be in tandem to that totally.
- Omkar Kulkarni:** And the second question is what would be your say medium to long term vision for Apex?
- Subramanya Chowdary:** To tell you the truth, we, Apex, would want to grow as a sustainable aquaculture company on all fronts integrating both forward as well as backward and ensuring that the entire supply chain on broader base is in the company's forum. So I am not really giving you any numbers as such, but yes we want to be among the leading players in the country and also in the world the way things are going and how our expansion plans are. We want to be among the leading potential companies in the world and we will be doing it by integrating as I mentioned both forward as well as backward.
- Omkar Kulkarni:** Just wanted to know this because what would be the sustainable rate of growth leaving aside the cyclone and other part, raw materials and all that?
- Subramanya Chowdary:** Yes, but it is true. It is just that we are basically contemplating to ensure that we maintain our growth in a steady manner. Of course whatever this present level is there, we would definitely want to sustain those and we look at growing in a consistent manner, maybe I have to tell you the truth and of course it will be a double digit growth to be precise, I can't give you the exact number, but we are hoping to maintain that and also by the various steps which will be taken by the company.
- Moderator:** Thank you. We will be taking the last question from the line of Y. Jeswani who is an Individual Investor. Please go ahead.
- Y. Jeswani:** So as we mentioned that you are looking to grow from here growth forward as well as backward integration, so my question to you is more on a forward integration front. So for a company like Apex which sells its product in US through distributors, retailers, private liaisons and does not have its own brand or network as such. So what are the dynamics like in such a scenario and what kind of margin does that create?



**Subramanya Chowdary:** Apex Frozen Foods does have its own brands, which is the Bay Harvest, Bay Fresh and Bay Premium which we are catering quite significantly into the European Union markets as well as the American market; however, as we deal with the significant number of retail companies and the goods services companies who would want the product to be produced in their own packaging and in their own brands. We are looking at a forward integration also but for which the plans have not been finalized or actually concretely been decided at this point. We look forward to evolve those plans and create a strong strategy for ourselves. So I can't give out much details at this point. May be in the next quarter or so, we will be able to give out those once in we take a concrete decision with regard to how the new set of marketing plans for the company can be done and how they can ensure a robust growth for the company in the future.

**Y. Jeswani:** And giving the current scenarios, what is the kind of margin difference that is what I am trying to understand? What is the kind of you see on margin difference that you see on an average?

**Subramanya Chowdary:** See it depends, because we have not yet fully studied the other side which is basically on the forward side at this point. So as we would be in a much better position to be precise maybe at a later stage, maybe by the end of this year when we will have a clear cut understanding of how well, how better the margins can be enhanced with regard to on a forward integration basis, how it can help and to what level. So we have still not yet finalized anything of that sort. So I have to tell you the truth, we have not even concluded with regard to how well it can enhance our margins. So as we finished that study by the end of this current fiscal, we will be able to spill out the beans to precise.

**Y. Jeswani:** Understood sir. And sir lastly what was your utilization on H1 FY18?

**Subramanya Chowdary:** It was ranging at around 85% to 90% to be precise. We have had adding additional shift in our existing capacity to enhance our productivity. That is one of the reason because of the growth in demand and requirements continuously flowing from our customers, we had to also run additional shift thereby we would have also utilized 100% of our existing capacity. We will be continuing to do that dependent on the needs and requirements and the order book and once we have our new facility, I am sure that we will be helping us a lot on start of next year.

**Y. Jeswani:** Understood sir. Sir, as I understand this year we have added 3,000 tonnes of more leased capacity. So is it a new leased capacity that we are putting or is it because of the extra shift that you are working?

**Subramanya Chowdary:** The 3,000 metric tonnes is actually additional leased capacity of that facility which we have been leasing out for the past two years. But what I mentioned or referred to about the additional shift, I am referring to the existing our own capacity of that 9,200, that could have actually that got little bit enhanced because of running this additional shift, so thereby ensuring that it is 100% utilization. So that additional shift is actually in our own facility. So that 9,200 could actually go up to around by another 2,000-3,000. So it depends on how the shifts are being run. As I said, it is all need based and not on a regular basis.



**Y. Jeswani:** Sir, in news article that there were talks of export benefits being expiring in coming times, so any impact or any comments that you would like to make on that front?

**Subramanya Chowdary:** The export benefits may or may not be but at this point, they are available and it is in the interest of the company to enhance its own profitability, its own better realization, its own margins, to isolate itself at some point of time from such government benefits if at all even if they are removed, the company wants to sustain itself of its own operating margins without not to do much with the incentives. At this point, we have not heard of any such, even if any such decision is taken, we are pretty confident we will be able to maintain and sustain. As I mentioned, we want to ensure that we want to have our own growth of operating margins independent of such incentives, even though we are definitely welcoming those incentives which are there, but as I said it is totally, it is a government policy which I can't really comment about. As of now, I am not aware of any such government decision at this point.

**Moderator:** Thank you. Ladies and gentlemen, that was the last question. I would now like to hand the conference over to Mr. Subramanya Chowdary for his closing comments.

**Subramanya Chowdary:** Thank you everyone for your participation in our earnings call for Q2 and the first half of the current fiscal. We have uploaded the results presentation on our website. In case of any further query, you may get in touch with Stellar Investor Relations or feel free to get in touch with us at [ir@apexfrozenfoods.com](mailto:ir@apexfrozenfoods.com). Thank you very much and have a nice weekend.

**Moderator:** Thank you very much members of the management. Ladies and gentlemen, on behalf of Apex Frozen Foods Limited that concludes this conference. Thank you for joining us and you may now disconnect your lines

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