



SHARAT INDUSTRIES LIMITED

CIN - L05005AP1990PLC011276

Regd. Off. : Feed Plant, Hatchery & Farm

Venkanna Palem Village, T.P. Gudur Mandal, Nellore - 524 002, Nellore Dist, A.P.

Processing Plant : Mahalakshampuram Village, T.P. Gudur Mandal, Nellore - 524 002, Nellore Dist, A.P.

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9th June, 2023

BSE Limited
Department of Corporate Services,
Phiroze Jeejeebhoy Towers, Dalal Street,
Mumbai – 400 001.
BSE Scrip Code: 519397

Dear Sir / Madam,

Sub: Transcript for the outcome of Analyst / Institutional Investors Conference Call Meeting under SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015

Pursuant to Regulation 30(6) of SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015, find below the transcript in reference to the schedule of Analyst / Institutional Investors Conference Call meeting held on Tuesday, 6th June, 2023 with the senior management of the Company.

The above intimations may kindly be taken on record.

Thanking You,

Yours faithfully,
FOR SHARAT INDUSTRIES LIMITED

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Membership No. A66115

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SHARAT INDUSTRIES LIMITED

Q4 & FY23

POST RESULT CONFERENCE CALL

Management Team

Sharat Reddy - Executive Director

Call Coordinator



Strategy & Investor Relations Consulting

Sharat Industries Limited (SHINDL)
Q4 & FY23 Post Earnings Conference Call
June 6, 2023 4:00 PM IST

Presentation

Vinay Pandit: Good evening, ladies and gentlemen. I welcome you all to the Q4 and FY '23 Post Earnings Conference Call of Sharat Industries Limited. Today from the management we have with us Mr. Sharat Reddy, who is a part of the Promoter Group and Executive Director.

As a disclaimer, I would like to inform all of you that this call may contain forward-looking statements and these forward-looking statements may involve risks and uncertainties. Also, this is a reminder that this call is being recorded.

I would now request the management to quickly run us through their investor presentation and give us highlights for the quarter and for the year, their plans and visions for the business in the coming years post which we can open the floor for Q&A. Over to you, Sharat.

Sharat Reddy: Thanks a lot, Vinay. And good evening everyone. I'm just going to go ahead and share my screen and we have a brief presentation which has been uploaded on the BSE site. Is my screen visible to everyone?

Vinay Pandit: Yes, Sharat. You can go ahead.

Sharat Reddy: Thank you. So we just have a brief presentation to take us through the company's journey as well as our results from the recent quarter and the financial year of '22-'23. Besides that, we have some inputs as an overview for the business as well as the sector overall. So I'm Sharat Reddy, I'm the Executive Director of Sharat Industries Limited.

We are an integrated aquaculture company based out of Nellore in Andhra Pradesh, and we are one of India's oldest aquaculture firms. We were established in 1990. We have a total of four divisions in the company namely a hatchery, a farm, a feed mill and a processing plant.

The presentation here gives us insights on the capacities of each of our divisions. Our farm, which is roughly 500 acres in size, has a capacity to produce up to 2000 tonnes of shrimp annually. We have a processing plant, which has a production capacity of roughly 7,500 tonnes per annum, and a feed mill with a production capacity of 22,500 tonnes.

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In addition to these divisions, we also have a hatchery, which has a production capacity of 500 million seedlings per annum. We have a little over two decades of experience in the export sector and have a master customer base of more than 25 different customers across more than 10 countries.

Besides this, our domestic customer base is primarily for our shrimp feed as well as the hatchery. Being an integrated player, these four divisions work in close proximity to each other. The entire operation starts off with the hatchery, where seedlings are produced. The feed mill manufactures shrimp feed and along with the seed, which...

Vinay Pandit: Sharat would you like to move to the next slide?

Sharat Reddy: Sure. With respect to the journey of our company...

Vinay Pandit: No, it's not visible on the screen, the slide change.

Sharat Reddy: I'm so sorry. Are any of the slides visible right now?

Vinay Pandit: No, no.

Sharat Reddy: Just one second. Let me quickly stop and resume the page.

Vinay Pandit: Let me do it from my end. Is this fine?

Sharat Reddy: Yes, thank you. We can proceed to the next slide. Yeah. So we were here the inputs from the farm, the input from the hatchery and the feed mills typically contribute to growth of shrimp and the farms, which is eventually transferred to the processing plant for production and exports. Next slide, please.

As mentioned, we've been in the business for a little over 30 years. We went public in '94 at a time where aquaculture was booming. Unfortunately, in the late 90s, there was extreme disease that affected the industry. But we are proud to say that we are one of the few players who has not only persisted in the industry for three decades, but also made some significant contributions. We were the first company in India to introduce Vannamei, which is now a successfully farmed shrimp species that accounts for more than 85% of all shrimp produced in India currently.

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And in doing so, we were able to contribute not just to our company's growth, but to the rest of the sector as well, because prior to that disease for earlier species was a severe threat. And all of this is possible because of our integrated approach towards operations and our ability to relentlessly continue our R&D work both at the farm and the hatchery level. Post that our focus has been primarily on the export division. Next slide, please which contributes to a little over two-thirds of our overall revenue.

This just gives a summary of the top management in the company. My father, Prasad Reddy is the Managing Director and Founding Promoter of the company. He's had about four decades of experience in the sector. I've been part of the sector for about 10 years and the company as well.

My background is in Mechanical Engineering and Industrial Engineering. I did my Masters in the U.S. and I came back, because I felt that this entire project had tremendous potential and I was excited to join the family business and take it to whatever heights as possible. Next slide please.

Next slide. So with over three decades in the sector, we have a strong brand recall, especially amongst our customers and our vendors as well. Our strategic location in Andhra Pradesh has helped us grow the business over the years as the government as well as the geographical advantages of being in the state have been beneficial for aquaculture overall.

We have a well-integrated farmer network owing mainly to the success of our hatchery. And with all these connections, we typically buyback antibiotic free shrimp, which we are able to export to premium nations, that is the U.S. as well as countries in the EU.

We vertically integrated nature of our business enables us to absorb any shocks or repurpose that the sector may face from time-to-time. And this is one of the reasons we managed to stand the best of time despite the volatility that prevails in aquaculture from time-to-time.

Besides this, the U.S. has been a major destination for our exports division and over the last 18 months we have diversified further into some countries in the EU, Russia, which has been an emerging opportunity, as well as a few countries in the Asian region.

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We are widely certified. We have a 4-star BAP accreditation, which is very rare in the sector, because all four divisions of our company are certified by international bodies. So this enables us to cater to better customers who more often than not pay a premium for the traceability that we're able to provide.

Besides this, at the feed plant level, we have a total of four varieties of shrimp feed, and in the processing division we have about 10 raw frozen varieties as well as three cooked frozen variety products that we currently export. Next slide, please.

What we believe that would be the key growth drivers for the company between now and the next four to five years are just listed here. Our current capacity utilization on average across all the division stands at about 50%, and we intend to scale it up to about 90% over the next four years.

We feel that this will contribute significantly to a profit margin, and our other intention is to integrate further with our customers that we currently work with by offering them better products, or higher value products, as we may call them in the sector.

We have recently added a cooking line to our facilities and during the course of '22-'23, we managed to gain certifications for cooked products to the U.S. And we intend to leverage all that during the upcoming financial years and current year as well to offer more ready to eat products to our customer. And we believe that this will not only ensure that we have a longstanding relationship of the next decade or so, but also significantly contribute to the profitability.

Besides this, during the course of '22-'23. We had a strategic partnership with the firm based out of Singapore, and the whole idea of associating with a biotech firm is to use their inputs for our farm division. We were able to use their biotech products to significantly improve operational yields at the farming division and we see a longstanding success with this association.

So a JV was started and that has helped us build in a lot of operational efficiency at the farms. Owing to the previous success that we have seen through our consistent efforts in R&D, we will continue to invest our time and efforts in furthering efficiency at farm levels through various technologies that currently exist, and we intend to continue to share updates in the same as the months move on. Next slide, please.

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So, overall, increasing our capacity utilization, improving the product offerings to our customers, and working backwards at the farm level to reduce risk of antibiotics and improve productivity in terms of lower cost farming, we believe that we will be able to achieve a significant growth in our EBITDA margins over the next three to four financial years.

We've seen a sizable increase during the course of the recently concluded year and have every reason to believe that we are on the right path to a long-term success. Next slide, please.

This has been covered in the previous slide, so we'll move on to the next slide.

In addition to improving operational efficiency at the core level here in aquaculture, as well as processing, we have been investing a certain amount of time towards improved traceability. Now with the advent of Internet that has permeated even this sector, we believe that customers will be able to pay us a premium for end-to-end traceability for the products that we are offering.

We've currently seen some interest and we'll intend to continue to work in this direction. Considering that renewable energy is quickly going to supplement a lot of manufacturing industries that are heavily dependent, for example our freezing or processing field. We intend to invest some time and money in the years moving forward to reduce our energy costs as we have a captive consumption that will certainly benefit from this. Next slide please.

A brief SWOT analysis of both the company as well as the sector, our strategic location in Andhra, extensive amount of land available for farming, robust farmer network for sourcing, and an extensive customer base mostly in the U.S. and other prominent regions. We feel that these are all going to continue to be strengths for the company moving forward. We do feel that innovation in the value added product range is an opportunity that is worth exploring and are currently making some efforts in that regard.

Countries like Russia have opened their markets up in a significant manner with our company and we intend to build on the ongoing Indian Russian trade relations that currently exist. Considering that very few companies in India have certification to export to Russia, we believe that under the current circumstances, it could help us differentiate ourselves with the competition.

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From a threat perspective, considering that this is a livestock-based industry, weather will always continue to play a role. International volatility or geopolitical issues can disrupt business from time-to-time, but as a company we've managed to absorb all these shocks as a result of a very agile approach that we have adopted over the last few years and we believe that despite the threats, we would be able to head in a positive direction. Next slide please.

So some key highlights from the year that has recently ended. We've reported a little over 34% in terms of year-on-year revenue, about 50% increase in our EBITDAs and almost a 90% increase in our net profit. We owe it all to the strategies that we had outlined some time back and we intend to continue this momentum and build on the same over the next few years.

We are aware of the threats that the industry is facing currently, but our strategies as well as our extensive associations with our customers and vendors will enable us to sail through the current circumstances better. Next slide, please.

This is just a further deep down into the quarterly financials with respect to Q4 of the recently concluded year as well as the previous year, and an improvement in terms of figures can be seen over the last four financial years compared to where we stood at '19-'20, I think we've come a long way.

The seafood industry overall is about \$160 billion in terms of revenue in 2021 and is expected to continue to grow. We're very happy and proud to be part of this blue revolution, both in terms of global trade as well as the progress in India. And considering in such a large market out there, we are very optimistic that there's a substantial runway for long-term success. Next slide.

Indian seafood exports have been consistently growing over the last decade. Owing to COVID, there were some minor hurdles that the power sector had to face in 2021, but bounced back strongly in '21-'22, and even '22-'23 has been largely a successful year for the most of the sector. So this has given us enough confidence to plan for the future with a lot of optimism as well.

Vannamei exports continue to dominate seafood exports from India, and we do not see that dipping in the near future. We believe that the sector may adopt more value-added products to keep the revenues

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high as well as the profitability as well, and this is a natural progression that we've seen from other countries as well over the last decade or so, and very happy to note that India is following a similar path in that regard. Next slide, please.

This brings us to the end of the presentation. We are now open for any questions.

Question-and-Answer Session

Moderator: Thanks, Sharat. We'll take the first question from Agastya Dave. Anybody else who wishes to ask a question can use the option of raise hand next to the name. Agastya, you can unmute and ask your questions.

Agastya Dave: Thank you very much. Mr. Reddy, two questions. One is historically, why have your ROEs trailed the industry leaders? I understand that you have a very small size even now, and I understand why the ROEs are low today because capacity utilizations are low. But historically, what was the reason for your business not really ramping up and profitability staying below industry average?

And my second question is the current situation. What are you seeing macroeconomically? What are the demand trends for the industry as of now? And more importantly, what are the supply trends? We believe that there is a lot of competition coming from South America. So what are you seeing on that side? And given that U.S. economy is still pretty strong, when do you see the pickup happening for the Indian industry and for your company?

Sharat Reddy: Okay, I'll answer one question at a time, if that's fine. So we've been in the sector for a little over 30 years. So in that sense, we've seen a lot of ups and downs because it has been a volatile field in the past. I've been part of the company for about 10 years and have been playing a more central role in terms of leading operations in the last four. And every year we have seen a significant improvement in terms of the numbers.

So during the course of the last five, six years, we changed our product offerings to our customers, have added a lot of auxiliary infrastructure at the processing and the feed plant level. So we've essentially undergone a transition. And now I think we are in a great path towards a long-term success. So even if our numbers perhaps might not have been optimal in the past, I think we have done much

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better and will continue to be on this path for the years moving forward.

Now with respect to demand, globally, we have seen demand contract a little over the last six months. And this is something that we expected considering that there have been so many macroeconomic factors that have been governing this. With the geopolitical tensions, I think there's been a lot of energy cost increase and that has in general impacted the frozen food sector.

But now people are -- things have stabilized in that regard. We do expect demand from the U.S. to be a little slower than historically, but we have other markets that we are currently targeting more aggressively, and Russia happens to be one of them. China too was a little slow during the course of the last calendar year, but since overcoming their COVID issues as well as the seafood ban, business to China has improved significantly. So while the EU and the U.S. may not be as attractive as the proposition in the short-term, we believe that countries like Russia as well as China will give us enough of an opportunity to balance the trade out.

As far as supply is concerned, there has been slightly lower supply from India as well as several other countries globally. Ecuador did see a tremendous increase in their production last year, but as we speak, we understand that they too are going through their own cycle of slightly lower production, diseases and so on so.

So considering that this is a commodity and we've been in it long enough to see multiple cycles that have been up and down, we are not too fazed by what's happening currently and our integrated approach towards this entire business. We'll continue to keep our revenues stable. This is our broad opinion on the subject. Is there any question that I may have left unanswered?

Moderator: Hello, Agastya.

Agastya Dave: No sir.

Sharat Reddy: You're on mute. So we can't hear you.

Moderator: We'll take the next question from Harsh Beria.

Agastya Dave: I'm there, am I audible? Hello.

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Sharat Reddy: Yes you are.

Moderator: We will take the next question from Harsh. Harsh, you can unmute and ask your question.

Harsh Beria: Hi.

Moderator: I think there is a problem in your line, you just unmute it, you can ask your question.

Harsh Beria: Hi, am I audible?

Sharat Reddy: Yes, you are.

Harsh Beria: Yeah, thanks for the opportunity sir. Sir, my first question is on the newer markets that are available to all the shrimp processors. So you did mention about Europe and Chinese markets. So just to delve a little bit more on it, so what is the overall industry's update on getting into newer markets? Because so far Indian shrimp processors have been solely focused on U.S., followed by China. But now I see a lot of the shrimp processors are talking about different markets like Saudi Arabia, European Union, South Korea and Japan. So we as Sharat, what have we done specifically? Because I think a lot of these markets have their own nuances and approvals. So where are we on those things? And also overall industry, where do you see the industry heading?

Sharat Reddy: Well in terms of approvals, I'm pleased to inform you that we are certified to export to a majority of the customer base that currently exists globally. And this includes the Middle East, the Far East, EU, and then Russia as well. In fact, we are one of the few entities in this ecosystem that has a certification for Russia, and we see that being a very good opportunity during the course of this financial year.

In the past, we have had trade relationships with certain countries like Korea, and that demand from Korea as a country has both increased and decreased over a period of time and this year, there is more opportunity than in the last few years. I think when one door opens and other closes, the U.S. markets are a little slow right now, but they still continue to dominate in terms of overall imports globally, as well as the Indian export side.

So we're just going to try and balance the trade out as effectively as possible, focus on those countries that are more profitable, and

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continue to maintain our relationships with customers that we built over a very long period of time. They've been supportive under difficult times as well, and I think it's important that we did our part.

And with respect to other companies, I'm sure everybody has their own strategies that will work out well. For us, I think Russia will play a very critical role during the course of the next two to three years. The Chinese market has also improved in many ways, and they have certain niche products that we are able to cater to. So I think that's worked out well for us.

Harsh Beria:

Got it. Then a little bit more on the Russian market, if you could talk about what kind of product profile is required there, and also maybe what kind of volumes are we looking to supply to Russia? I'm not looking for any specific numbers, but just a broad sense of things do you see suppose today 90% of our business is coming from U.S., say one year, two year down the line. Can this mix change to 20%, 30% coming from Russia or maybe some other markets. And overall, what is the kind of margin profile, is Russia market like-to-like similar with U.S. market profile -- margin profile or it is lower than that. Like, China, we understand is a more commodity market, right. So I'm just trying to get a sense on those ones.

Sharat Reddy:

Got it. So the Russian market in many ways is actually more lucrative than the U.S. market currently, I think considering that their supply from other countries has dwindled due to certain geopolitical reasons. Indian exporters to Russia have been seeing a significant premium compared to other countries.

With respect to China, yes, it has been commoditized for a while, and that is also the case sometimes when it comes to the U.S. market. It's a very competitive market out there. But so as long as there are certain niche products within the shrimp industry that companies can cater to, the margin still exist.

And last year, a majority of our focus was in the U.S. a little over 80% of our overall exports were to the U.S. and Russia made up roughly about 10%. Because we were a little cautious during the first half of the calendar year, especially when the war began. But once it was clear that there is a clear, I mean there is an opportunity here and that the trade ties had actually improved, we started increasing our offerings. This year, we see more than 20% of our overall exports to be to Russia. And so far, we are on track to that.

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Harsh Beria: That's really helpful, sir. Also, sir, if you could talk a little bit more about the competition that we saw from Ecuador, in U.S., Ecuador has been increasingly taking away market share. So what is helping them? Is it their pricing and the proximity? That is the only two reason. If yes, then how going forward, are we going to change anything? Because the proximity issue cannot be changed beyond the point the scale at which Ecuador is now, I think then economies of scale have kicked in so, again in terms of competitiveness, there will be a difficulty pushing them back. So, going forward, how do we see this competition specifically from Ecuador in U.S. market?

Sharat Reddy: There are multiple theories here and I can probably offer a few opinions from my side. The Ecuadorian market primarily catered to China, the exports from Ecuador were actually focused on the Chinese market for the most part, and when China underwent its own bans with respect to COVID and other factors, Ecuador had to look for an alternative. In doing so, they had to slash prices significantly and export product to whichever markets were available. What they have done has not been conducive for the sector, and I think a lot of exporters would reflect the same.

As we speak, the farmers and a lot of people in the supply chain in Ecuador have been facing the repercussions of this. So we don't expect the trend from the previous year to continue for a long time, as it may not be sustainable for that country. Agreed that they have the advantage of closer shipment times or shorter shipment times to the U.S. But a vast majority of the U.S. market is, it consumes retail ready products, and that is something that Ecuador has not really developed yet from a processing standpoint, they've been very strong as a farming country, but most of the product that they export typically goes for reprocess, and which is why the Chinese market was their major customer.

So when things even out, post-COVID, et cetera, we expect there to be a rebalance if I may. And in that sense, the Indian market share will not really be affected much because we've been as a country, a very strong supplier to the U.S. both in terms of quality, consistency, and price. This is a blip, and we don't see this going on for too long.

Harsh Beria: When we talk to our customers, so do we see, I'm asking this on a qualitative standpoint that do we see our customers differentiating between an Ecuadorian company supplying to them and an Indian company supplying to them? So what I'm trying to understand is, is Indian supplier considered better compared to Ecuador? So once the

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things normalize, U.S. customers will like to shift back to India. Will that be the case or there will be some pushback from the customer that we will stick to Ecuador?

Sharat Reddy:

So a lot of this depends on the type of product. Under shrimp, there are so many categories in terms of how a product can be processed and exported. I think the U.S. still prefers India for several products because we have established a consistent quality over the years. And it's also something that other countries, such as Ecuador may not be able to replicate in the short-term, because it's a highly labor intensive process, and labor is typically optimally priced in India from a global perspective.

There will be some products that we may not be able to compete with Ecuador with, both in terms of price as well as lead time. But besides that, I don't see too much of a shift because the customers are also loyal to India as a country has really been a great part of their growth journey.

Harsh Beria:

Got it. That's really helpful. If I may squeeze in one more question, or I can come back into queue, whichever way you wish.

Moderator:

You can continue, Harsh.

Harsh Beria:

Thanks. So sir just on the general industry capacity point of view. So last one, one and a half year, we saw a lot of players expanding capacity because of the expected growth that the whole industry was seeing. But suddenly things turned and now we have a situation wherein everybody's capacity has come on stream. And so first, if you could say what is the overall industry levels capacity utilization and also going forward do we see for next one year or something this excess capacity will trouble us or will this phase out in Q2, Q3?

Sharat Reddy:

Honestly, I might not be able to speak much for everybody else. I think it is true that capacities have increased, but in many cases it's quite common for people to renovate or build new capacities and close down earlier ones. So I'm not sure what the strategies of other people in the sector may be. But I think so as long as people focus more on value-added products, they can continue to build profitability. And that's the direction that I believe that most people should head in.

Harsh Beria:

All right sir. Thank you and all the best. Thank you for patiently answering.

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- Sharat Reddy:** No problem.
- Moderator:** Thanks, Harsh. We'll take the next question from Yogansh.
- Yogansh:** And sir that was me. I think Harsh is supposed to ask now. Yogansh, here I've already asked.
- Harsh Beria:** Sorry, there's been a switch between our names.
- Moderator:** Okay.
- Harsh Beria:** My first question is about when I look at our balance sheet, there is a non-current receivable items, which has been Rs. 4 crores to Rs. 5 crores in the last two, three years. What is on this respect to and what kind of provisions have we taken on these receivables?
- Sharat Reddy:** I will have to get back to you with respect to specifics. But if I had to answer this of the top of my head, I think over the last couple of years, we have had slight slowdowns with respect to receivables in some sectors, especially in the feed division, because it's a largely farmer centric market. And despite us having a lot of sales through dealers and distributors, collections had been slower than anticipated as a result of COVID.
- Unfortunately, the peak COVID waves in India over the last, I think in 2020 and 2021 coincided with what we consider the peak season in terms of shrimp as well. So while farmers were able to produce a lot of shrimp, they were unable to get paid a commensurate amount of money. So that has resulted in a little bit of a slowdown. So this account had mostly be that, but I can get back to you with further details at a later point of time.
- Harsh Beria:** Yeah, thanks for that. My next question is about the volume of processed shrimps, which we are selling. And is it possible to share those volumes?
- Sharat Reddy:** Sure. You need information from '22-'23, correct?
- Harsh Beria:** Yeah, and maybe also for FY '22? So just to compare year-on-year.
- Sharat Reddy:** Okay. Is it possible for us to do that at the end of today's discussion?
- Harsh Beria:** Yeah. All right.

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Sharat Reddy: I don't have the numbers with me right away, because we had that preset presentation, but we have it and can probably mail you after this.

Harsh Beria: Okay. And my next question is about the business breakup from a different segment. So from processed shrimp, feeds and hatchery. So what is the kind of revenue breakup we have from these segments?

Sharat Reddy: About 66 to 73, let's say a little over two-thirds to on average three-fourths of our revenue comes from the exports division. About 20% to 25% comes from the shrimp feed manufacturing division. And about 5% to 10% comes from the farm as well as the hatchery division. So it does vary based on the seasons, but on average exports is a major revenue contributor, followed by feed, and then the farm and hatchery division together.

Harsh Beria: And in a farm and hatchery business, so what is it that we do? Is it contract farming for our own entity or is it also contract farming for others?

Sharat Reddy: So currently, all our farming endeavors are for our own entity. We have a farm of which some capacity has been utilized. We intend to continue to build on that over the next couple of years. Most of the produce is transferred to the processing plant for exports.

In the event that the size or quality of the shrimp that has been produced is not suitable for our export requirement at that given point of time. We sell the product domestically either to other exporters or any other aggregators.

And from a hatchery perspective, the feed that is produced is primarily used for our own operations. And in some cases, we also sell that to other farmers who are in need of that product. So in fact, when we launched our feed commercially in 2011, we were able to sell feed and feed together and that gave a lot of farmers tremendous success. So we managed to leverage all of that goodwill eventually by sourcing the product from them consistently over the years after that.

Harsh Beria: And what percentage of our process shrimps comes from our own farms versus bought from other farmers?

Sharat Reddy: So currently, the total production at the farm to the process requirements about 10% to 15%. On one side, we have been expanding our processing offerings as well, right? So that has also had

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an impact on terms of percentage. But over the next few years, we want to get to a point where our own farms or contract farms can contribute anywhere between 25% to 30% of our overall requirements for exports.

Harsh Beria: Okay. And my last question is about our raw material. So what are the kind of pricing trends which we are seeing in fish meal nowadays?

Sharat Reddy: Fish meal has been largely stable over the years -- over the last year or so, we in fact were impacted more by soya. And since our consumption has not been very significant, we have been able to enter into contracts with some of our regular vendors. So I think on average, fish meal ranges anywhere between Rs. 90 to Rs. 110 during the course of the year. But we figured out when to be able to order a big -- I mean a large chunk of our requirements in terms of seasonal availability so.

Harsh Beria: And with the global decline in soybean prices, what are the current prices in India?

Sharat Reddy: I think we are broadly buying the product at roughly between Rs. 45 to Rs. 50 on average. Sometimes it's a little higher, and this is per kilo, but we could probably give you specifics again in an email. So as long as all your questions are specific, we'll be able to answer them as well.

Harsh Beria: Yeah, perfect. So with softening of raw material prices, is that also a lever for gross margin expansion for us?

Sharat Reddy: For the feed mill definitely compared to calendar year '21, I think '22 was a lot more stable. And we did see a significant reduction in key raw material prices. So that did contribute to the gross margin of the feeders.

Harsh Beria: Okay, I'll come back in the question queue. Thank you for answering my questions.

Moderator: Thanks Harsh. We'll take the next question from Yogansh. Harsh?

Harsh Beria: So just one question. A couple of months back there was a news article that after the prices of feed were increased, the government had stepped in and asked to roll back the prices and the industry had to do it. So now what is the situation like on ground? Is the government still getting involved into a lot of it or now that thing has passed?

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Sharat Reddy: You are right, in terms of the government intervening at an earlier point. I think at that point they just wanted to ensure that there was less volatility in the aquaculture market one way or the other, and it was largely done to protect the interests of the shrimp farmer who's very, very essential for the entire supply chain.

In the recent past, there has not been any significant involvement from the government side. So we'd like to believe that it was a one-off.

Harsh Beria: Because again, we are seeing news articles of Indian shrimp farm gate prices crashing down and so are we expecting any similar move by the government to come in and maybe this time, put a tax on the processor to do something so that the pain from the farmers can be taken away? Are we expecting something on those lines?

Sharat Reddy: That did take place briefly towards the end of the last calendar year, and while there was a lot of industry government interaction, I think people also were able to set up effective channels of communication to reduce such volatility. So currently of course, there is a reasonable amount of speculation on the prices, but we expect things to be fairly stable moving forward and that way the government and industry have been on better communication terms compared to previous year.

Harsh Beria: Got it. Thank you.

Moderator: We'll take the next question from Suman Agarwal.

Suman Agarwal: Yeah. Good evening, Mr. Reddy. Looking at the revenue breakup, we can see that 66% comes from your exports, 25% from the feed, and the rest is from farm and hatchery. So sir my question is, can you give us the margin breakup of all the verticals? And also will this vertical breakup remain the same or will there be any change in the future?

Sharat Reddy: Okay, profitability across these divisions typically changes based on seasonal parameters, ma'am. So if you look at farm, for example, there could be a scenario where we have a very good crop. Unfortunately, if the farm gate prices for the sector are not as competitive or lucrative, then the margins will be slightly lower. And the same applies both for the feed as well as the exports division.

Typically, the feed division has more steady margins. Unless, of course, we have scenarios that we've experienced last year or the year before in terms of sudden spike in raw material pricing. And the processing division again depends on whether global parameters are

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stable. So I may be able to give you some kind of an indicative range, but at least in the last two to three financial years, there have been so much volatility that none of it might hold good.

Suman Agarwal: Exactly. That is what like the question is.

Sharat Reddy: So what's really worked for us and maybe a part of good fortune as well is that every year we've noticed, especially in the last three years, that while one division may be under a little bit of duress, because of certain factors that we can't control, another division has stepped up. So last year, we had a good contribution from our farm division, and that really helped us to keep the profitability stable. So some good fortune here, and then that will probably compensate for all the other factors that we are not able to really influence small and medium company in the sector.

Suman Agarwal: Okay. And sir, does this revenue breakup remain the same in the coming years, or do we increase or decrease somewhere?

Sharat Reddy: I think broadly speaking, the exports will continue to contribute anywhere between two-thirds to three-fourths of our overall revenue, and I think the feed will also remain the same. If anything, by trying to ensure that more of our farm produce is absorbed by export division, we might see that dipping a little. So it may remain 5% or less, but may not increase towards 10%.

Suman Agarwal: Okay sir. Thank you.

Moderator: Thanks, Suman. We took the next question from Rajiv.

Rajiv: Hello. Thank you for the opportunity. My first question would be, can you throw some light on the strategic partnership that you are talking about? And which all areas would this be in?

Sharat Reddy: Okay. So the strategic partnership or the joint venture that we started last year was with a company that's into biotechnology, essentially. So this is Singapore based company that has operations in India. And while most of their products have been in the Agri sector, over the last few years, they've developed a few probiotics for aquaculture and primarily for shrimp farming.

So our objective was to use their products for our operations in the farm and reduce the risk of disease. And also improve efficiency in terms of the amount of shrimp that we grow per acre. So typically,

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tonnage or productivity has improved for us. And these pilot projects have given us a lot of insights in terms of how we can scale rapidly over the next few quarters or years.

And eventually, we hope to have a series of satellite farms, which could increase our own farm contribution to the exports division, because we believe that unless we are anywhere between 25% to about 33% own farm contribution to exports, we might not be able to effectively absorb any other ripples that may come in the future. And I think that model has been quite successful in other sectors as well.

Rajiv: Okay, my next question is, can you share your geographical revenue breakup? And with geography, could it become a major share in revenue as you grow?

Sharat Reddy: While I don't have the figures right now, I will be able to share the specifics later, maybe through an email. But broadly, about 75% to 80% of our overall revenue from exports has come from the U.S. in the last year and the year before. The rest has predominantly been the Asian market, out of which Russia is a part. And moving ahead, we might steer a little away from the U.S. and focus on other markets as well, so we could see the 75%, 80% dipping a little bit, maybe closer towards the 60s in the upcoming or the current financial year.

Rajiv: Okay. Thank you.

Moderator: Thanks, Rajiv. Anybody else who wishes to ask a question? Yes, Yogansh.

Yogansh: Yeah, so I would like to ask a few questions about a shrimp export business or what percentage of our business or what percentage of our processed shrimps do we sell to distributors versus end retailers?

Sharat Reddy: So about 80% of our product goes to distributors, primarily because they have the ability to store the product and then distribute it to the retail store based on their requirements. There are a few instances, for example, in take Russia as an instance, where we are able to sell to retailers as well, but these are very large retailers who have sufficient infrastructure to source and store the product for a few months before eventually selling.

Yogansh: And do we get better realizations when we sell directly to retailers? Because I imagine we'll be selling processed shrimps to them, like the final cooked shrimps to them?

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- Sharat Reddy:** Retailers also sell raw frozen products. There are some instances where the realizations are better when we sell to retailers, but what we have noticed is large retailers are also just as picky when it comes to price, quality, and delivery time. So since it's a very transparent industry currently and we mostly white label, we've not been able to see significant jumps between our distributors as well as some of the retail customers. I think when we are in a position to create a band of our own or go into very niche products, we could see those incremental numbers.
- This is probably good fortune from working with good distributors as well, so there's not been too much of a difference there.
- Yogansh:** Okay. And I think last year we did the CapEx for a new cooked product division, something Rs. 4 crores to Rs. 5 crores CapEx. So what's the kind of capacity that we put up for this division?
- Sharat Reddy:** So the capacity in terms of I'll give you the figure in terms of kgs per hour, but in an annual basis, I think we could produce anywhere between 1,500 to 1,800 tonnes of cooked product per year with this machine. We could scale it up a little further based on operating hours, but this is a recommended tonnage for the year. So that could represent close to about a third of our overall freezing capacity as it stands presently.
- Yogansh:** What is the kind of realization difference that we see when we sell this product versus raw frozen shrimp?
- Sharat Reddy:** Okay. On average, we have noticed that if the markets are like the U.S. for example, which are generally steady markets, except for now, there is anywhere between a 4% to 5% difference in the EBITDA. Sometimes it could be a little higher depending on the size of the shrimps as well. But this is what we've gathered especially over the -- when we've seen the data as well from importing nations over the last few years.
- Yogansh:** And have you already started selling from this capacity?
- Sharat Reddy:** We haven't sold to the U.S. But we have done some shipments to Russia and they've been fairly lucrative in fact, more than what I've just described. So we feel that moving forward, Russian market could be a great opportunity for us both in terms of cooked and blanched products.

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- Yogansh:** Perfect. That's all from my side. Thanks for answering my questions.
- Vinay Pandit:** Thanks, Yogansh. Since there are no further questions, Sharat, would you like to give your closing comments?
- Sharat Reddy:** Sure. First of all, thank you everyone for taking the time to attend today's discussion. In the call, I think many of you have been really well [Technical Difficulty] [00:51:21] a lot of this in the past as well probably worth and the way forward would be value addition. I think that is something that as a sector, we need to really absorb. Backward integration in terms of farming for every processing plant is also important, because customers are becoming more and more cautious or picky when it comes to knowing where the product comes from.
- So it would be important for the sector to adopt a few changes there. Other countries have seen spurts of growth over the last few decades as well, but typically as with the case of most livestock, these sudden spurts come with certain other repercussions in the medium to long-term. And as we speak, the same seems to be occurring to some of the competing nations as well. So all these factors put together as a company we are fairly bullish in terms of our strategies and maybe it's just something to do with the youth of today, but we remain optimistic.
- I think COVID has taught us a lot of things and that has really changed the mindset both amongst us as promoters in the company as well as the employees and the team that's been supporting us. So that's where we stand.
- But it's great to see that not only people from the sector, but everybody else is also sufficiently aware. I think that's probably testament to the fact that the shrimp industry and aquaculture overall has done fairly well over the last decade to attract everyone's attention. Thanks a lot for your time again.
- Vinay Pandit:** Thanks a lot, Sharat. And thank you all the participants for joining on this call.
- Sharat Reddy:** Thank you.