



3 -160, Panasapadu, Kakinada 533 005  
Andhra Pradesh . India  
off +91 884 2383902 - 4 (3 lines)  
fax +91 884 2383905 - 6  
kkd@apexfrozenfoods.com  
CIN: L15490AP2012PLC080067

Date: 03.09.2021

To  
The General Manager,  
Department of Corporate Services,  
Bombay Stock Exchange Limited,  
PhirozeJeejeebhoy Towers,  
Dalal Street, Mumbai- 400001.  
**Scrip Code : 540692**

To  
The General Manager,  
Listing Department,  
National Stock Exchange of India Limited  
Exchange Plaza, Plot No C/1, G Block,  
Bandra Kurla Complex,  
Bandra (East), Mumbai - 400 051.  
**Scrip Symbol : APEX**

Dear Sir/Madam,

**Sub: Transcript of Q1FY22 Earnings Conference Call held on 17<sup>th</sup> August 2021**

Pursuant to Regulation 30 of the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015, kindly find enclosed a transcript of the Q1FY22 Earnings Conference Call, which was held on **Tuesday, 17<sup>th</sup> August 2021**.

The aforementioned Earnings Conference Call, as per the transcript enclosed, incorporates mainly the highlights of financial results of the Quarter ended June 30, 2021, and other related information which is already in public domain and/or made available/uploaded on the Company's website.

Please take the same on record.

Thank You,

For Apex Frozen Foods Limited

A handwritten signature in purple ink, appearing to read 'S. Sarojini', is written over a circular blue stamp.



S.Sarojini,  
Company Secretary & Compliance officer



“Apex Frozen Foods Ltd Q1FY22 Earnings Conference Call”

**August 17, 2021**



**MANAGEMENT: MR. K. SUBRAHMANYA CHOWDARY -- EXECUTIVE  
DIRECTOR, APEX FROZEN FOODS LIMITED  
MR. CH. VIJAYA KUMAR – CHIEF FINANCIAL OFFICER,  
APEX FROZEN FOODS LIMITED  
MR. DURGA PRASAD – SENIOR MANAGER (ACCOUNTS),  
APEX FROZEN FOODS LIMITED**



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**Moderator:** Ladies and gentlemen, good day and welcome to the Apex Frozen Foods Limited Q1 FY'22 Earnings Conference Call. 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 the call, please 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. Subrahmanya Chowdary, Executive Director, Apex Frozen Foods. Thank you and over to you, sir.

**Subrahmanya Chowdary:** Good morning, everyone and thank you for joining us for our Earnings Call for Q1 of Fiscal 2022. Mr. Vijaya Kumar -- our CFO and Mr. Durga Prasad – our Senior Manager, Accounts and Stellar IR Advisors, our investor relations advisor are on the call with us today.

I hope you had a chance to go through the “Investor Presentation” that has been uploaded on the website of the stock exchanges.

Before we start I hope that you and your families continue to remain safe. As we are meeting on this call within a short gap of a month and a half from our last call of Q4 FY'2 results, we will run you through a quick snapshot of the Quarter and move on to Q&A Session.

The second wave of COVID-19 that hit the country in the months of April and May saw a strong proliferation of cases across the country, and while the pace was alarming, thankfully, it peaked quickly and hopefully the worst is behind us. While the healthcare systems continue to face the brunt of the second wave, the economic activity did not seem to be as disrupted as it was in the first wave. Operationally, for Apex too, we continued work at our manufacturing facilities with little to no disruption. However, like we had mentioned on the previous concalls too, the most challenging fallout of COVID-19 for our industry that is an export-oriented industry, has been the turmoil caused in the sea transportation globally, not just India, not just for Apex. With containers in high demand and shortage of vessel space, there have been inordinate delays caused in shipments for our industry.

On the other hand, demand has been encouraging especially with the vaccination drive and gradual opening-up of restaurants and the food service sector. The demand that has been flowing from our retail customers continues to remain stable.

On the pricing front too, there has been stability with firmness too on certain products.

Now coming to our financial performance in Q1 FY'22. Despite the second wave of COVID-19, the capacity utilization in Q1 FY'22 improved to almost 58% of our overall capacity of 29,240 MT as production gathered pace on the back of our healthy order book. However due to the logistics issues which we have been repeating as a primary issue for the past few quarters which translated into a lack of container availability and vessel space, our volume sold was restricted



to around 78% to 80% of the production, that is, dispatches or sales of 3,262 MT only in Q1 FY'22. The product mix remains healthy with ready-to-eat sales forming almost 21% of the overall Shrimp sales in the first quarter of the current fiscal. The average realization for the first quarter remains stable sequentially but improved significantly when compared to year-on-year on the back of improving product mix and better global prices of Shrimp. Consequently, despite discontinuation of the MEIS benefit from the Government of India which formed close to 5% of our FOB value, our total income posted growth on year-on-year basis.

However, the gain in the revenue could not be translated into a commensurate increase in profitability on account of higher other expenses and raw material purchases that could not be translated into shipments. Part of the raw materials consumed for shipments for the first quarter of the current fiscal was procured and produced during the earlier ones when the farm gate prices were higher and could not be shipped in time due to the logistical issues. The other expenses were largely impacted due to higher export expenses which included freight costs. As we had mentioned on the previous call too, all the service contracts with major shipping lines were signed up at higher costs from the start of the current financial year, and the premium rates are being paid to reserve vessel space as we speak in the current day. Our customers too have been put on notice and they too are supporting us with regard to the increased freight costs over the past few weeks. This of course is in both of our primary markets which are USA and European Union. The European Union customers have been more proactive and they have already issued a revised budget allocation. Anyway, we do hope that things will get better soon as this has been a major deterrent for our industry and our company also. Consequently, subdued operating profitability impacted the net profits for the quarter gone by as depreciation and finance cost remained range bound.

A Quick Update on the Progress of our Other Efforts. On the Hatcheries, I have stated regarding the construction of the Phase-2 of the Hatcheries totally completed. We are awaiting the regulatory approvals and audits for the facility to commence commercial operations. With this, our entire Hatchery-related requirements are completed, and they are all resourced to build better network with the farmers and may get into more of buyback arrangements.

Now, coming to the Outlook for the Industry. With regard to the US market, as mentioned, the food service sector is back on its feet with all the holiday season with regard to summer holidays which had happened for the past two months, good consumption has happened, the demand has been very steady, the prices also have raised and they are being remaining steady even as we speak and India's market share also had gotten back to its previous stage. As these container issues get resolved, more and more shipments could happen from India and thereby of course even our company shipments also would be increasing.

The EU also has been very encouraging; the food service sector has opened-up and a lot of enquiries, firm up pricing has been coming from the EU customers and we are also appreciative of those customers within the European Union as well as the US who have proactively



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understood the current logistical nightmares and have agreed upon supporting us with regard to the increase in freight costs. We appreciate that. The EU customers have also increased their enquiries to us and we are able to continue that. You could also notice that with regard to the rise in the business to the EU market in the Q1 and we hope that we'll be maintaining a definitive market share of the EU market.

With regard to China, as such, our business to China which you all know that has been little, nothing significant. China continues to have issues. They have stopped significant number of companies out of India as well as other countries in the world like Ecuador where they are blocking shipments and several ports are delaying and releasing the containers and a lot of containers are being tested for traces of COVID-19 on the packaging, etc., So, anyway, China as such has been restricting its imports of frozen food from pretty much across the world, all the producing nations, whether it is India, Ecuador or Vietnam.

So, with that I now request Mr. Vijaya Kumar our CFO to take you through the Brief Highlights of our First Quarter of the Current Fiscal Performance. Thank you.

**Ch. Vijaya Kumar:**

Thank you. Good morning, everyone and hope all of you are keeping safe. I shall brief you on the financial highlights of the quarter gone by. As mentioned earlier, our product mix has been improving with higher proportion of retail and value-added products which have aided the overall realizations. For the quarter-ended June 31, 2021, our sale of products grew by a strong 9% year-on-year and 25% quarter-on-quarter to Rs.2169 million as against Rs.1992 million in Q1 of FY'2021 and Rs.1732 million in Q4 FY'21. The growth in sale of products was a result of volume growth of 2% year-on-year and 23% quarter-on-quarter to 3,262 MT in Q1 FY'22 and higher average realization of over \$9 per Kg of shrimp sold.

As far as the profitability is concerned, EBITDA margins were impacted considering the challenging environment comprising muted dispatches but higher production, higher export expenses and discontinuation of export incentives. The resultant EBITDA for Q1 FY'22 came in at Rs.138 million and accounted for 6% EBITDA margin as against Rs.212 million in Q1 FY'21 and Q4 FY'21. However, as production picked up pace with capacity utilization improving to 58%, depreciation and interest cost remained at a reasonable level when compared as a percentage of income. The PAT for Q1 FY'22 stood at Rs.33 million versus Rs.85 million in Q1 2021 and Rs.84 million in Q4 FY'21.

The geographical breakup of sales in Q1 FY'22 is as follows: 81% came from US, about 16% from EU while the balance 3% came from China.

With that I can conclude our opening remarks and now I request the moderator to open the floor for questions. Thank you.



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**Moderator:** Thank you very much. We will now begin the question-and-answer session. The first question is from the line of Samir Rachh from Nippon Asset Management. Please go ahead.

**Samir Rachh:** Mr. Chowdary, from your opening remarks, what I conclude is that the first quarter numbers that have happened sort of there are one-off factors and the fundamental outlook for the rest of the quarters is much better than the first quarter and first quarter is not represented enough for the outlook for the next of the year, is it correct observation?

**Subrahmanya Chowdary:** That is correct, Mr. Samir. As I had mentioned, as you have already been seeing over the past few quarters that even though the production has been completed, the shipments couldn't get completed because of the issues in the logistics. So, most of the products which were shipped in the first quarter, procurement is being done from the Q4 of last year and of course there is no change to what I have mentioned in the previous call too, there were tailwinds on either side while that call was happening and that will be reflected more into the subsequent quarters but I will not be able to give you any precise information or any numbers for you to infer, I'm sorry about that.

**Samir Rachh:** If I look at our FY'21 performance that itself was sort of affected by COVID-related factors kind of, but now with COVID-related factors receding with vaccines and all that and hoping that third wave won't be as potent as second wave, are we confident that at least we will be able to maintain FY'21 numbers or that also we'll have to wait and see?

**Subrahmanya Chowdary:** No, we should be looking at that subject to supply and yes, hopefully, there is no COVID third wave and markets continue like this overseas and of course the supply also maintaining its flow. As per our expectation, it should be much better as far as the current financial year is concerned as a whole because our business-like cannot be observed on a quarterly basis as such because it has no relevance with regard to quarters; however, we are just waiting for these issues related to shipping to get resolved because we already noticed our Q1 has had a very good productivity which I have mentioned, and we look at much better productivity subject to supply at the same time shipments too because lack of shipments do deter the level of productivity at some point. We cannot keep on continuing to produce when we cannot ship, right, once our whole storage gets full, that's exactly what has been happening for the past three months almost.

**Samir Rachh:** As far as high shipping rates are concerned, you already started getting reimbursement from your customers. Are they absorbing some of the increases?

**Subrahmanya Chowdary:** Yes, some of our customers from non-US markets who were the first ones to respond to the issue and they have actually revised their purchase orders to us. And some of our major customers in the US too have been looking at it and they have also accepted and they are working on giving us basically reimbursals even for some of the shipments which have already left so that we are going to get the reimbursements in a different way.



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**Samir Rachh:** Apart from this transport-related challenge, are there any other challenges or you think because we also heard in between the raw materials prices also shooting up significantly and that's creating some problems for the farmers, so what's your call on that, raw material for shrimp prices are going up for farmers and farmers are not very happy about it?

**Subrahmanya Chowdary:** Mr. Samir, as you know, Apex doesn't manufacture Shrimp, but I believe that is more of an answer to be given by the feed manufacturers not by us...

**Samir Rachh:** No, that's right, I am just trying to understand that will it not affect the supply of Shrimp for us because farmers if they don't get good margin, they may not produce enough and that in turn like create some shortages, etc., so is the sector that's worrying you or you think that's a good one because it causes increase in prices of...?

**Subrahmanya Chowdary:** We would look at it this way that prices at the farm gate level have steadily been raising. So, any source of increase in cost would also be taken care by that, but it is more also related to the farm level efficiency with regard to the output and productivity at the farm level which also like similar to Apex having its efficient productivity, normalizing its costs at the production level, same way even at the farm level, it depends on its productivity and they're yielding their output. So, that should be taking care of it. So, as far as the feed costs are concerned, there are several other costs which have also increased over the past six months, COVID, no-COVID, that is irrelevant but right now as the market prices are increasing and they are being steady because there's also supply issues right now for the next one, one and a half months and that's what we expect because farmers are again going for stocking as we speak right now, some of them have already gone for stocking a month ago with the certain crop stocking, it's been going on. So, they are all enthusiastic with regard to the increase in farm gate prices. Costing going up because of feed or any other input, that is based on various other parameters. I'm pretty sure the feed manufacturers are also doing their part in importing their raw materials. We have noticed some articles on that.

**Moderator:** The next question is from the line of Ashwini Agarwal from Ashmore Investment Management. Please go ahead.

**Ashwini Agarwal:** Hello, Mr. Chowdary, tough quarter, but I just wanted to understand a couple of things. The delta in other expenses when I compare it to Q1 of last year which had a similar order of revenue but even if I take the March quarter and adjust it for the growth in revenue, the delta in cost line is somewhere of the order of Rs.6 crores to Rs.7 crores. How much of that was on account of shipping and you mentioned higher export expenses, is there some other expense outside of shipping that has gone up?

**Subrahmanya Chowdary:** Primarily it was the export expenses but apart from that of course the packaging material cost and the chemical which is the additives, those costs also have gone up, but the main component





you have rightly asked in the current quarter that was 15.54 crores, so that's 155 million for the current quarter export expenses.

**Ashwini Agarwal:** And how much of that is shipping out of that Rs.15.5 crores?

**Subrahmanya Chowdary:** That entire Rs.15.5 crores is all export expenses.

**Ashwini Agarwal:** How much of a shipment goes as CIF versus FOB, is it all CIF?

**Subrahmanya Chowdary:** Everything is cost on freight only. We don't do any FOB as on date; however, thanks for putting forth that question. The trade members as well as our company is contemplating to look at shipping on FOB basis as such. We have been discussing with few of our customers whether or not that happens but as I have informed to the previous caller that already we are getting support from the customers with regard to reimbursement of the freight increase. But if things continue like this with regard to ocean freight being hiked up in a similar manner, we would be left with no choice but look at shipments to be done on FOB basis only. So, that is being discussed even among the trade members across the country.

**Ashwini Agarwal:** And the long-term agreements that you had entered into which you had referred to in your previous call and you had said that new shipping rates will be effective pretty much the start of the first quarter. Are these kinds of medium-term agreements, what is the validity -- six months, 12 months or how are they...

**Subrahmanya Chowdary:** Service contracts are taken on an annual basis. I believe you are referring to the ocean freight contracts. This year it was almost from April and May onwards it started. By then all the already rates have increased. Now even though the service contracts are entered on an annual basis, considering the present situation where the highest bidder gets a container or the highest bidder gets a vessel space, they have been even charging which I have mentioned in my opening remarks, they have been demanding premium rates for getting our containers and getting vessel space. So, to be precise, from their end I don't believe they are giving any significance to their own service contract which they have issued to us and we have signed on our part. This is the market scenario right now and this is industry wide, it has nothing to do with the food industry or shrimp.

**Ashwini Agarwal:** From what I've heard rates have only firmed up over the last three to four months, there has been no respite at all. So, this problem is only going to get worse in the current quarter?

**Subrahmanya Chowdary:** The rates have gone up; at the same time our sales prices also have gone up and at the same time there are customers who are willing to look at and some of them have already given us reimbursement towards the increase in freight costs and others are working out towards that. So, in one way, end of the day, the increase in freight cost is going to I wouldn't say entirely but even partially it is being more dealt by the companies as such because there was a limit to what





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we could have dealt with it. Now, regarding the point of how long it is going to be there? Well, there are multiple reasons for these tightness in the logistics issues, one of the main issue is blockade at various ports across the globe whether it is in USA, all the major ports in the USA have vessels standing by the sea which is the situation has been there for the past four, five months. The turnaround of containers from the destinations is also getting slower, apart from that, one of our major shipping lines whom we have a contract with also has a major contract of shipping out goods relevant, irrelevant, I am not supposed to comment but shipping out goods from Afghanistan as per the government contract issued by the major country. So, all these things particularly because when containers are blocked by a governmental agency for any specific need, those containers even though they are not reefer containers, they are going to just block the vessel space, which naturally make the vessels unavailable, that's why the usual 10 to 12 Kalinga vessels in Visakhapatnam port has also drastically been reduced to four to five, that do not guarantee, that sometimes they're cancelling. These are all multiple issues, but as things get better, as things open up in the US, as these issues related to employees, workers, longshoreman working at the port terminals come back to work, things could get better, hopefully, the turnaround of containers and turnaround of vessels happen much soon and these issues with regard to logistics and shipping would come to an end.

But well if you specifically ask us today, will it happen by the end of August or by the end of September or by the end of November, we don't have an answer because we thought it would get better in the present quarter, but that's not been happening, but we are waiting hopefully by September end we are looking for some improvement to be happening even in the ports of US because we have read several articles from there that steps are being taken to improve the situation there. So, we're just hoping that things get better and in the shortest time possible so that we can also plan our shipments, production... everybody is suffering, not just us, but our customers because we don't get our product, our end customers are not able to place the product on their shelves. So, it's not just Shrimp, we have seen it across all products, furniture, electronics, everywhere, anyway that is not relevant to our company but that's being there everywhere, all the imported products by these countries whether it is US or Europe. Even Europe, we have issues which are related to containers. We are working on that. We are paying higher freights and also we are getting the support from the customers. We hope it will get resolved soon as these things get resolved with global circumstances which are for sure we will not be able to comment or give a confirmed date or so and hopefully at least we hope things are going to get better at September and a lot better by the end of the current calendar year, that is December, but we don't know how it will be, we are just waiting. Sooner they get better, the much better it is for companies like us to do better to plan better to be precise.

**Ashwini Agarwal:**

Sir, two more things; one was relating to the pesticide residue issue with the USFDA. Bulk of your shipment still having to wait for a sort of a lab test report before they are accepted by the customer. Has there been any change in that process? And second is that on MEIS, the commerce minister said a couple of days ago that RoDTEP should be back. Will RoDTEP help you because bulk of your costs probably doesn't have a lot of taxes in it?



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**Subrahmanya Chowdary:** First thing, it's not pesticide, it's the antibiotics. We don't have any problems since March of 2021, we don't have any more shipments being kept on hold. In fact, most of the shipments which have been going through have had no issues, so we don't foresee any more problems too with regard to the antibiotic holding testing and release as such, because all the things are in order.

Then the other point is regarding MEIS and the new scheme of RoDTEP. It was told on Thursday or Friday that it will be announced on Saturday. We were eagerly looking all through the weekend but we didn't get any news. So, hopefully I don't know maybe today or as we speak or I don't know hopefully this week we should be getting some information, it will be announced, we'll know at the same time as you know. Now with regard to the component of taxes, duties. This is not pertaining to only to the inputs at the export level or at the processing level. It also has related at the raw material level basically even from the origin. So, it is even the diesel component and all the inputs wherever the duties and taxes are levied, they are all factored in. So, it's just not related to export only. So, the calculations of course have been done by the respected people in the commerce ministry and it's all based on all the inputs which are there with regard to exporting Shrimp. So, it's not just processes alone, it's just not the effect of indirect duties and taxes paid by the exporters a lot, that's what I'm trying to say, so it's included from the raw material stage. So, if it is aquaculture, even the duties levied on anything on the feed and subsequently even on the diesel inputs for example, so the inputs are not just at the processing and export level. So, we will wait hopefully today or tomorrow, hopefully this week we should get because they said they would inform us last weekend, but it did not happen. So, as we will get to hear, we will know that better and we'll be able to make a comment at that point.

**Moderator:** The next question is from the line of Nitesh Jain from Birla Mutual Fund. Please go ahead.

**Nitesh Jain:** A couple of things. So, in the last quarterly call you had mentioned that there is some tailwind for Apex as well as the other shrimp exporter, in the sense the way industry was shaping up in last six months. So, we had over-production of Shrimp that is over-supply in domestic market, at the same time we had higher demand from US market in the food service industry leading to higher Shrimp prices. This was your comment in last quarterly call as well. Now I want to know that while we totally understand the shipping and the container freight cost thing, why the benefit of this lower raw material prices did not get reflected in your margin performance in Q1? I just want to substantiate my question with some figures also, for example, in Q4 of FY'21 your raw material cost which is plain raw material divided by sales, it was around 66% and while in Q1 the latest quarter it has become 69%. So, the point is it's not just only the freight cost and the container thing, Apex as a company has taken hit on the raw material side also which is quite contrary to what is happening in the domestic shrimp industry i know. This is the entire set of questions. Please explain.

**Subrahmanya Chowdary:** You might have missed. I have informed about that part in the opening remarks, but anyway we are not saying that what we said in the concall of March quarter is wrong; it is very much true



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and we stand by that. We have had opportunities both ends and we have been having until recently. Now, of course, the shortages are there, that's a different point. But with regard to dent in the margins, I have clearly mentioned, one, of course, leave aside the export expenses. Even with regard to the raw material, currently our production and our shipments there is a lag. Just because the shipments are not happening, we did not stop our production. So, most of the shipments, in fact, I don't have an exact percentage of the raw material which was used for the shipments of Q1. In fact, part of the material which was used for Q1 which as mentioned in the opening remarks too is that it was from the Q4 that is basically Feb and March procured raw material was also utilized in the Q1. When we have discussed for the March quarterly concall, I have very clearly specified that yes, we have advantages on both sides as we are having here, there's a drop in pricing on one end, that is on the farm gate and there is also demand being picking up, it's been on the other side. So, it was coming up together. So, that was very true and it was there because that will be reflective more when those shipments actually go out. In fact a significant amount of the low-price product which was purchased during the Q1, if it is sitting in the cold storage, we would not be able to reflect that. I thought I mentioned that.

**Nitesh Jain:** Essentially, you are saying it's timing different. Those benefits should get reflected in say September quarter, right when the shipments are made?

**Subrahmanya Chowdary:** Bound to, yes, of course, it is correct.

**Nitesh Jain:** And secondly Mr. Chowdary I want to ask you one holistic question on the profitability of Apex and entire sector. I really fail to understand that a company like yours with such a modern state-of-the-art new plants and thousands of village workers coming in your factory and working hard and so much of economic efforts going in and out, and in a peak quarter you still make like Rs.4, 5 crores of profit, with the competitiveness that India offers to the global export industry in terms of labor cost, where is the problem, I mean, for a Rs.5 crores profit in a peak quarter is totally unthinkable. Do you think that all these smaller players with their cost structure should be loss-making then if Apex is making Rs.5 crores profit in a quarter?

**Subrahmanya Chowdary:** You are the only one who just now heard me saying. Issue what we have related to our company, yes, this is the issue. So, I don't know how other companies have been operating. They have their pros and cons. Now, if you are trying to take the profitability related to the employees, workers working from rural areas, this is basically as I said I think in the beginning of the call itself, thanks to one of the previous callers, he pretty much understood what it is, it is like a one-off situation for us. So, I don't know how other companies are faring well or we don't have...

**Nitesh Jain:** No problem. Let me ask you this other way. Let it be a one-off quarter but sir, what should be your normalized operating margin that you should target for your business with this kind of modern setup and low cost of production, I mean, on a longer horizon, on a yearly basis what operating margin you have in your mind to target for your company?



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**Subrahmanya Chowdary:** We have been telling you over the past several calls that we look at around 11-12% and as we reach our value-added products, we would be looking at much higher, but, meanwhile, of course, there was a withdrawal of MEIS which was also a support, but now whether it be replaced with the new scheme or not, that is irrelevant, we have to work on ourselves. So, we don't know when that scheme will come, whether it is available immediately or prospectively or retrospectively but still we have to work on ourselves. So, we are working with regard to our products and also of course hopefully the logistics issues come to an end and we can also do our volumes. Our volumes are not done until we ship it... as we have been saying again and again, I'm sorry, just because we produce it, the volume is not done, it has to be shipped so then only we also get to realize everything. So, yeah, that is the standard 11% to 12% but we will just look for it as things get better. Thanks to our customers also, as I mentioned to the previous caller, we are also getting supported with regard to some of our cost increases, the example I just told to the previous two callers that we are also increasing the rates being supported by the customers. So, we look forward to that.

**Nitesh Jain:** Thank you very much and I really hope that set up like Apex with a modern factory and management team like yours, actually never deserve like 4%, 5% type of margin even without the government. So, looking forward...

**Subrahmanya Chowdary:** Exactly, without the government support we are looking at it and if government support comes it should be higher than what I mentioned. So, that's what we are looking for and we did not expect this, last year it was COVID, this year there is no COVID for us as far as production is concerned but globally challenge issue of logistics is something which has been going on for the past six, seven months. So, even though we produced one of our highest productions, we couldn't ship it out. So, we are not able to realize our margins also because of the blockade there.

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

**Nitin Gosar:** A couple of questions. On the system level inventory side in US and Europe how should we think about it post the recovery in the market opening up in US and Europe. Has the local level Shrimp-related inventory come off or they are still alleviated there in those regional countries?

**Subrahmanya Chowdary:** As far as the inventory levels in the US are concerned, it is not meeting the requirements of the customers as far as we have been informed a few weeks ago. Basically, the product as and when it reaches the destination, it is just being absorbed. So, that's the scenario as of now. Again, that has a lot to do with summer holidays and opening up of restaurants, everybody coming out and dining. So, several factors are there. But definitely so far that is how it has been. Of course, this has also got to do with the shipments getting delayed at origins, naturally the product not reaching destinations in time and the product basically the demand is not being met. So, that answers everything.



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**Nitin Gosar:** Inventory levels at the customer end or the distributor end has depleted and now they are almost at par with whatever demand is or probably demand is outstripping the supply?

**Subrahmanya Chowdary:** Actually, the demand is outstripping the supply at the destination at this point. Now as I said this has got to do with many factors of opening up. So, when things will be slowly changing maybe they may be stabilizing out there. Right now, the demand is outstripping the supply what could reach the destination.

**Nitin Gosar:** Distributor or customer of 15 days or a month in an ideal scenario what kind of inventory they hold up?

**Subrahmanya Chowdary:** Typically, I believe they will be holding around 1 to 2 months depending on where the end customer needs and depends on whether it's all food service customer or ETF sometimes, they may hold two to three months, some products which maybe or may not be, but, as far as we know in the recent past, as I have mentioned, the demand out there is basically more than the supply what they could get. So, as, and when the product is reaching the destination, it's just being absorbed.

**Nitin Gosar:** The second question is pertaining to the India level sales. I recall it in last quarter you had highlighted that whatever India is losing on market share is more momentary or temporary and it will bounce back sharply and possibly the data there afterwards have been completely indicating that India is now regaining lot of volumes or at least have come at par. Incrementally from here if I were to look at the peer sets like Vietnam and Ecuador, what would be the thought process with regard to sourcing from those nations, the demand that they have seen over the last two, three years, would they still continue to stay elevated or as India picks up the other two nations to slightly moderate off, how should we keep in mind the combination between these three countries – India, Vietnam and Ecuador?

**Subrahmanya Chowdary:** India, Vietnam and Ecuador have their own pros and cons. Disease plays a role in two of those countries like India and Vietnam. In the case of Ecuador it is more of an extensive farming and they have been dependent on Chinese market mostly but over the last few months they have made some diversification attempts into the US market, supplying directly. Currently I would just say that it's a competition which is there, it will continue to be there, we have our own as I said each country's individual pros and cons, we just need to look at mitigating the troubles with regard to the disadvantages in our country with regard to disease for example and cost efficiency, farm level better outputs, better yielding so that we remain more competitive. Definitely, compared to those countries our cost of production we are competitive with regard to manpower. Now other factors are there which are affecting our costing. So, those... I am talking about the farm level. I believe your speech is all related to the farm level. I believe in India it is more to do with farm level output yielding, not output but not as a whole but a yielding part with regard to the survivability and the stocking densities. Over the past few years, Andhra has aggressively been doing high stocking densities. Of course, the farmers also are evaluating their strategy. I



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cannot comment much on that but in the interest of the sustainable growth and sustainability of the farming activity, I personally believe they should be relooking at their stocking densities and having a better farm management in the current risky atmosphere with regard to disease and other fluctuations.

**Nitin Gosar:** Last two questions; one is the 25% of production that couldn't be shipped this time, does this get dispatched and clubbed in the following quarters or it's an opportunity which got missed because we couldn't ship it on time so the customer would have bought it from somewhere else, how should we think about it?

**Subrahmanya Chowdary:** No, all the shrimp which couldn't be shipped, have the customers' names written on them. So, they have to go where the customers require them. So, there's nothing like it's getting stuck. So, the customers need these products and we also are waiting because we are also just stretching our inventory days and even our working capital cycle days, everything is getting stretched in this logistical crisis. So, they are bound, they are going, they are all meant for specific customers.

**Nitin Gosar:** Wanted to know the value-added tonnage this quarter if you can call it out sir?

**Subrahmanya Chowdary:** Ready-to-Eat was 21%

**Moderator:** The next question is from the line of Deepesh from Equirus. Please go ahead.

**Deepesh:** Sir, on RoDTEP, the media is saying it will get announced today, so let's hope. But just wanted to understand when it gets announced you will book the entire amount since January in the coming quarter, right? Secondly the MEIS booked in the first half of FY'21, the government has still not made the payments as we understand. So, are we looking at any provisions for them in the coming quarter?

**Subrahmanya Chowdary:** At this point, the board has not yet decided with regard to the provision of the MEIS which was not received of the last year. That is with regard to the MEIS. It is receivable and most likely we may be deciding in the present quarter or the subsequent. Mostly, we will be looking at it because this year depending on if the government acts on it or not. And with regard to the new scheme, yeah, it will be dependent on the scheme. We do not believe that we should be able to yet come to a conclusion. First of all, what will be the effective date, whether it will be retrospective or only the prospective, we don't know yet, right, I don't know, if you know anything more, please do enlighten us because we don't know.

**Deepesh:** RoDTEP is applicable since January 1<sup>st</sup>, that was understanding and whenever the dates get announced, they will be retrospectively, is that not correct understanding?

**Subrahmanya Chowdary:** The scheme was announced to be effective from January 1<sup>st</sup> as originally proposed and announced about the proposal. The final scheme announcement has to be noticed and understood



basically to know from when they will effect, and, of course, once they announce, we will accordingly bring it into the accounts. Of course, whatever comes in, it will be bringing into the books, even though it's a retrospective benefit, it can only be looked at taking into the account prospectively. So, it will be done in the current quarter once the announcement we will see the scheme what it is.

**Deepesh:**

Secondly, the overall Indian Shrimp exports if I see to US, right, they have gone quite strongly like 30%-plus was the growth, but if I look at your numbers with the other listed companies numbers there are very flattish volume growth. Just wanted to understand who is exporting so much from India and how they are able to do it when there are so much shipping issues?

**Subrahmanya Chowdary:**

Everybody is exporting out of India to the US, I would say everybody, because once the companies started having issues with China with regard to their blockades at the ports, testing, COVID issues whatever COVID traces on packaging, etc., everybody's focus has of course changed towards the western hemisphere. That's what I would say. It's being done across the country. If you ask, well, how is it possible that it is still growing whereas you and few others are remaining flattish. We are on the east coast, right, so we are dependent primarily on the port of Vishakhapatnam or we would go up till Chennai. Well, of late we have also been venturing into Nhava Sheva. But there are limitations to what we can do sitting from the east coast. Now whereas companies down the west coast who continue to get their equipment because they are on the west coast. So, it doesn't mean that if there are issues on the east coast to that port, it would be the same on the west coast. It has been across the country where shipments have been going on from across the country. Volume definitely has been going from all the ports unlike the past Visakhapatnam, was the number one reefer container export/import, but I don't know how the current situation is right now because pretty much we have vessel cancellation almost every week, so that is continuing to happen. I don't know but I know that overall the whole country the exports have been going to US because of the issues in China, a lot of diversification to the US market has also been happening even from those companies who are not traditionally exporting to US and they are not just located on the east coast or Visakhapatnam or Chennai or Kolkata. So, even those companies which are there on the west coast also have been started doing more to the US. So, overall, yes exports to the US have been increased. And by the way your question is based on the import statistics.

**Deepesh:**

Right. That has a lag?

**Subrahmanya Chowdary:**

Between the import statistics and the exports there's always a 45 to 50 day currently, earlier it was only 30 to 35 days lag but now it is 45 to 50, 55 days lag. So, basically this all reflects to the Q1 current fiscal year. Q1 imports in the US is more to be related to the exports of Q4 FY'21 and also some part of it in April, that's what it is. Trust me, there were a significant part of March exports which have reached in May into the United States. There's always a lag, and that lag has increased in the current logistical crisis from 30 to 35 days, it went up to 45 to 50, main ports itself is taking 45 to 50 days' time.





**Deepesh:** So, in a way you're saying that the data starts showing some lower growth in the coming months?

**Subrahmanya Chowdary:** Again, as I said, please understand, earlier the concentration to the US market was primarily on the east coast because that is where most of the aquaculture was, but now this year with the issues on the Chinese front, a lot of companies even on the west coast are focused on the US business I mean of course bringing in raw materials from other states.

**Deepesh:** Lastly, if you can just help me with the Hatchery sales and the export incentives booked in the quarter please?

**Ch. Vijaya Kumar:** Hatchery sales were around Rs 29.8 million for this Q1 FY'22 and this quarter we have booked only duty drawback, not MEIS, duty drawback is around 6 crores for this quarter. Net export incentives at Rs 2.5 crores for the quarter

**Moderator:** The next question is from Nitin Awasthi from Incred CIMB. Please go ahead.

**Nitin Awasthi:** I had a question on your balance sheet front. Last time around we have seen the trade receivables figure block a lot of capital which was an abnormal rise. So, I just wanted to understand how much of this money has been realized and what is the figure currently?

**Ch. Vijaya Kumar:** We will just get back to you on that please.

**Nitin Awasthi:** Just wanted to understand the momentum. Basically the days had been stretched, so something like 80 crores in March '20 had moved up to Rs.155 crores in March '21. So, this time around a lot of sales again getting stuck or you're being able to realize the money in the shorter period duration?

**Subrahmanya Chowdary:** No, of course I don't have a number with me off-hand, but with regard to receivables there is no money getting stuck, it is just that as I had mentioned to the previous caller, that the realizations are done basically upon clearance at the destination. So, on an average when the earlier clearances used to happen last year and the year prior to that, 25 to 30 days, 35 days, now it has gone up to 45, 50, 55 days, it's some of the inland destinations gone to 60 days, so not the main ports but inland destinations. So, accordingly the debtor cycle is increasing because of the time taking because of this transit time which is taking. So, that is the main reason. So, there are no issues with regard to any of the receivables as such and they are all being taken care. Export receivables are Rs.132 crores.

**Nitin Awasthi:** How much was the last time figure, Rs.155 crores was realized?

**Subrahmanya Chowdary:** We will come back to you.

**Nitin Awasthi:** Chanel check is suggesting that this time the disease has gone up in Andhra Pradesh because of which the farmer is reducing his stocking density. So, how far is that statement through?



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**Subrahmanya Chowdary:** That is a farmer's strategic call. So, this is something they have been deciding based on the scenario in the past. They could even harvest smaller sizes because there was a market to support the smaller sizes I mean volume, but now that market is affected and it's kind of having a lot of obstacles. So, there's also a change in strategy. Again, we do not know how many of these farmers would really re-look at their methodology of stocking density or their strategy regarding stocking density right away in this crop which they are already stocking or how much they will be doing it by the end of this year basically for 2022 crop season, we are not able to comment at this point. But we know that there are considerable amount of farmers who have been looking at it and they have in fact some of them did reduce their stocking density to a certain extent in order to look at growing more of medium and larger sizes.

**Nitin Awasthi:** Let me connect with you post the call for trade receivables figures and all.

**Moderator:** The next question is from the line of Nishit Jain from Prasad Investments. Please go ahead.

**Nishit Jain:** As we see there is an increase in the finished goods inventories close to Rs.52 crores and as informed this is due to basically the logistic issues, the production wasn't converted into shipments as mentioned by you. So, Rs.52 crores is almost 25% of company's quarterly revenue. So, if you can share details in terms of volumes for this Rs.52 crores to understand the price realization at which the inventory is booked as ultimately this may have a positive effect in the second quarter profits?

**Subrahmanya Chowdary:** I will let you know the average purchase price which was there for the first quarter was Rs.289.

**Nishit Jain:** The inventory in volumes can you mention -- was it 900 metric tons the 1,000 metric tons or plus/minus?

**Subrahmanya Chowdary:** We will get back to you on that please.

**Nishit Jain:** This may have an effect on the second quarter, right, basically the inventories are booked...

**Subrahmanya Chowdary:** As these inventories get translated to sales naturally because inventories are not considered with regard to selling expenses or anything, so most of it is stuck in, so, it's only on cost-based, but most of...

**Nishit Jain:** I will wait for the volume figures.

**Moderator:** The next question is from the line of Saurabh Sharma who's an individual investor. Please go ahead.

**Saurabh Sharma:** My question was regarding the competitive intensity of the industry for Shrimp exports primarily, not the feed and the inputs and all of that. You mentioned about western coast-based exporters also coming into the market because of the container availability just a while ago in



response to a previous question. So, my understanding is most of the exports are made from the east coast. Would you have a number in terms of proportion of overall exports of India that come from the east coast versus the west coast?

**Subrahmanya Chowdary:** We don't have that number but the point is seafood exports are happening across the country, it happens even from the east coast as well as from the west coast, east coast it is dominated by aquaculture and the west coast it is mostly capture fisheries.

**Saurabh Sharma:** My question is aquaculture primarily the field that the company is operating in shrimp exports primarily. Would it not be fair to assume that most of the exports are done from the east coast even in the current situation?

**Subrahmanya Chowdary:** The exports also depend on the various ports from where different companies are exporting. So, from the ports we operate from, we continue to have these logistical challenges. So, of course quite a significant exports happening both on the east coast as well as west coast. So, everybody's looking towards USA of late, because of the Chinese market issues, and as Chinese market opens up, I am pretty sure again things are going to....

**Saurabh Sharma:** Also sir, is there a target percentage we have in terms of a proportion of the overall exports happening out of India, do we track that number the proportion of overall exports that we want to control or that we want to be exporting from the company, is there a target that we have in terms of benchmarking us against competition, whether we are gaining market share from the overall exports from India because we have expanded capacity and we have 30,000 metric tons right now, but since we have expanded capacity it must have been done in expectation of at least gaining market share right.

**Subrahmanya Chowdary:** If you actually get the statistics of the overall Indian exports, I'm sorry I don't have it readily available with me on hand.

**Saurabh Sharma:** Close to 1.6 lakh metric tons.

**Subrahmanya Chowdary:** It will be available from marine products exports. Shrimp production itself is 6-7 lakh metric tons per annum.

**Saurabh Sharma:** To the USA?

**Subrahmanya Chowdary:** 30,000 metric tons approximately is our processing capacity, doesn't mean that we would be placing ourselves as you know it's not like we are looking at utilizing the entire capacity this year which we have mentioned in our previous calls too. So, this year we are looking at a minimum of 50% of the current capacity and we are on that path so far. We look forward to doing better than that. So, we are looking at using better utilization going forward. That is market share. We have our definitive customers. We have our different products which we deal with



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them. So, as we grow more and more business with those customers and those products, we will continue to grow further.

**Saurabh Sharma:** The reason I ask about market share is because in terms of the proportion of shrimp exports from India versus the overall imports into US, India seems to have reached a sort of a saturation point which is 30% to 40% of overall shrimp imports into US are being made from India. What I sense is that the incremental volumes for any player really are going to come out of winning in this competitive fragmented sort of industry. Of course, the overall size of the market might increase, but market share gains can also be made. So, is that at least something that the management is sort of working actively towards gaining market share?

**Subrahmanya Chowdary:** We are working on it. We have added newer customers, in fact, we added first-time customers, we never dealt with Shrimp in the past two years and we continue to deal with them and we are growing business on such kind of channels as I had mentioned also on newer products. So, we'll continue to work in that manner so that we improve our market share overall.

**Saurabh Sharma:** The question is about the price negotiations that happen with our customers as well as with the farmers. So, I wanted to understand the dynamics of these price relationships between the company and the farmers and the company and the customers, how are these prices determined, are they on a very short-term consignment-to-consignment basis or are they like the shipping rates that you mentioned is annual or is it somewhere in between?

**Subrahmanya Chowdary:** It is different for different customers. Where it is medium term or long term, the pricing is different. So, it's not like a standard pattern of pricing with regard to customers. With regard to farmers, it's all market-driven and of course support of our seed suppliers, we also look at buyback arrangements with them. It's different game here with regard to suppliers and farmers. And it's different out there with the customers. It's not the same with all the customers. Same way with farmers also with whom we supply seed and we buy the product, its different. So, it's not like standard cases as such. So, it depends on how the relationships have about over a period.

**Moderator:** Due to time constraints we'll be able to take the last question. We take the last question from the line of Chiragh Siroya, the shareholder. Please go ahead.

**Chiragh Siroya:** Mr. Chowdary, currently, the margin of the Apex is very low as compared to the industry. So, I understand that as you mentioned that in the current quarter due to transportation cost and all, because of that reason the margins are getting shrunk. But I want to know whether Apex has made any kind of provision in March '21 on the inventory side because considering that in subsequent period after March '21 there is a reduction in the prices of raw material plus increasing in the shipping cost and all. So, whether the company has made any provision in March '21 on finished goods and raw materials?



**Subrahmanya Chowdary:** With regard to raw materials which happened in Q1, as I've mentioned in the opening remarks also, actually the product was sitting in the cold storage and it only had been shipping out in the Q2. And also with regard to the sales which happened in Q1, it had quite a reasonable part of the products produced in the Q4 also, which was of course at a higher cost. So, please understand that the lower price raw material purchased in Q1 has not really reflected in the sales of Q1 FY22. So, yes, we are looking for shipments to happen, they are happening, we hope they happen better as happened in this quarter. We look forward for a better quarter and shipments during this quarter and so we will be able to realize all that margin which is blocked in that lower priced raw material product.

**Chiragh Siroya:** No, so my question was the cost of material that was there in Q4 was on a higher side and subsequently the shipping cost are also increasing which the inventory of Q4 was sold in Q1 of the current fiscal, correct, so I was asking whether there was any provision made in Q4 March '21 considering that subsequently cost of the products which I'm going to sell is also getting increasing and I'm not getting the margin what I was expected in normal course of business. So, I need to make the provision as per the accounting standard. Whether the company has taken any kind of provision on inventory during March '21 because currently it seems that the higher cost production was sold in the current quarter and further the shipping cost has also increased, so because of that reason the entire dent is coming in the current quarter. For that reason only I'm asking whether the company has made any provision in Q4 for finished goods which was lying in the inventory or in the stock which was sold in the current quarter?

**Subrahmanya Chowdary:** No, there is no such provision. As I was trying to say, it is the shipments which did not happen. So, it is not that we envisage that the Q1 we will continue to struggle with regard to our shipping. So, please understand. We did not made any specific provisions in Q4. With regard to the inventories whatever is there as on Q4, yes, they also got shipped out subsequently in Q1. Most of the products which got produced in Q1, of course, are being shipped out as we speak also. So, we did not make any specific provision with regard to that. Whatever inventories were there, we will ship out subsequently. So, it is because of the lack of shipments, so we could not ship out, so export sales of 200-odd crores should have been much higher, that did not happen. So, this was not foreseen in March that the shipment will not happen in the months of May and June. I hope you understood what I am trying to say.

**Chiragh Siroya:** The other thing is that you mentioned that the MEIS license that government has discontinued. So, in this regard, whatever is receivable in the books of Apex, so currently I want to know as you mentioned earlier that currently the company has not made any provision on that receivable part. So, I would like to know the quantum of that MEIS license which is recorded as a receivable in Apex book?

**Subrahmanya Chowdary:** Yeah up till August last we did not receive. Rs.22 crores is outstanding. The receivable is only last year.



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**Chiragh Siroya:** In delta variant, if you see the tax expenses are much more on a wider side. So, could you explain the reason for this variances? In March '21 around 26%, 27% of PBT for the entire year and currently it is around 30%. So, what was the reason for this increase?

**Subrahmanya Chowdary:** I guess we can take it offline.

**Chiragh Siroya:** Whether the company has any policy to minimize the losses because of this the price fluctuation of inventory and all, whether the company has adopted any kind of hedging activity?

**Subrahmanya Chowdary:** The company did not have any losses due to the currency fluctuation, number one. Regarding price fluctuation, specific to the market moves in tandem, so there are no losses as such because when the prices move high overseas, the prices also more high at the domestic side and when they fall down in tandem it also does on the farming side. So, there are no specific losses as such. As we have been saying again and again, we just could not realize our margins which were stuck in the inventory but for sure I guess regarding the question which you have asked just now also regarding the tax point, we can take it offline if you don't mind due to time constraints we have today. There were no specific losses as such because of any fluctuations. So, we adopt the prices as they come in and they move in tandem. So, it's not that we will be bearing any extra, whether we will get it in the form of support from our customers or the raw material prices are accordingly corrected. So, those corrections are going to be there. So, there will be any specific losses as such.

**Moderator:** We'll take that as the last question. I would now like to hand the conference back to Mr. Subrahmanya Chuwdary for closing comments.

**Subrahmanya Chowdary:** Thank you, everybody for joining us on this concall of Q1 FY'22 we hope that you and your families continue to keep safe. Have a nice day. Bye-bye.

**Moderator:** Thank you very much. On behalf of Apex Frozen Foods Limited, that concludes this conference. Thank you for joining us, ladies, and gentlemen. You may now disconnect your lines.