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Date: 05th December, 2019

To
The General Manager,
Department of Corporate Services,
Bombay Stock Exchange Limited,
Phiroze Jeejeebhoy 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,
Bankdra (East), Mumbai - 400 051.

Scrip Symbol : APEX

Dear Sir/Madam,

Subject: Transcript of Q2 FY20 Earnings Conference Call held on 20th Nov, 2019

Pursuant to Regulation 30 of the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015, kindly find enclosed a transcript of the Q2 FY20 Earnings Conference Call which was held on Wednesday, 20th Nov, 2019.

The Earnings Conference Call held on 20th Nov, 2019, as per the transcript enclosed, incorporates mainly the highlights of financial results of the Quarter and Half Year ended 30th September, 2019 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

S.Sarojini

S.Sarojini
Company Secretary & Compliance officer

Encl:a/a

"Apex Frozen Foods Limited Q2 & H1 FY20 Earnings Conference Call"

November 20, 2019

MANAGEMENT: **MR. K. SUBRAHMANYA CHOWDARY – EXECUTIVE DIRECTOR, APEX FROZEN FOODS LIMITED**
MR. VIJAYA KUMAR – CHIEF FINANCIAL OFFICER, APEX FROZEN FOODS LIMITED

Moderator: Ladies and gentlemen, good day and welcome to the Apex Frozen Foods Limited Q2 & H1 FY20 earnings conference call.

As a reminder, all participants' lines will be in the listen-only mode, and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing '*' then '0' on your touch-tone phone. Please note that this conference is being recorded.

I now hand the conference over to Mr. Subrahmanya Chowdary – Executive Director, Apex Frozen Foods Limited. Thank you and over to you, sir.

Subrahmanya Chowdary: Good evening everyone and a warm welcome to our post earnings conference call for the quarter and half year ended September 30, 2019. I have with me on call Mr. Vijaya Kumar – CFO and Stellar IR Advisors, our investor relations advisor. We hope that you all have received our latest investor presentation and have gone through the same. We have also uploaded it on the stock exchanges and the company's website for your reference. We will begin the call with key business updates followed by a brief summary on the company's performance during the period under review and lastly move on to the question & answer session.

Firstly, we are pleased to announce that the commercial production at the new processing plant has begun. However, currently, we are processing for non-USA and non-EU markets as few of the regulatory approvals for these markets are still awaited. While we have been sharing plant updates on a regular basis, I would like to take you through the key details of this facility for the benefit of everyone on this call. This new facility for shrimp processing is located at G. Ragampeta in East Godavari district of Andhra Pradesh and has an installed capacity of 20,000 metric tons per annum which is over 2 times of our existing capacity of 9,240 metric tons per annum at the Kakinada plant. Of the 20,000 metric tons capacity, one line of 5,000 metric ton capacity is towards value-added or ready-to-eat products. This is the first time that we are processing cooked or ready-to-eat products in our business. The CAPEX incurred towards the new plant is to the tune of around 108 to 110 crores which was largely funded by the IPO proceeds and balance through the internal accruals.

Secondly, on our lease operations: As many of you would be aware that along with our Kakinada plant, we also had a leased capacity of 6,000 metric tons per annum. As mentioned earlier on quarterly calls, we plan to discontinue with the leased facility as the production at new plant stabilizes. In fact, our contract for the leased facility has ended and we have already begun to shift our setup along with some of our team members from the leased to the own plant at G. Ragampeta. We acknowledge that the completion of the new plant has been delayed due to external factors beyond our control, but we are now excitedly looking forward to stabilizing the operations and ramping up the capacity utilization.

Our other focus area in terms of expansion has been the hatchery operations. As mentioned in our earlier reports, we commenced 2 new hatcheries last fiscal, one at Srikakulam in the northeast part of Andhra Pradesh state and the other at Ongole towards the south of the state, which makes a total of 4 operational hatcheries of which one is on lease basis. We are happy to share that the output in the form of the specific pathogen free (SPF) seed from the new hatcheries has been received very well by the farmers within the state as well as the states of Odisha and Bengal, and we expect to increase our sales going forward. The construction work for phase II at the Ongole hatchery has also started recently.

Lastly, in terms of market diversification, we continue to explore newer markets and have forayed into China since the beginning of this fiscal. Although its contribution in our geographical mix is still miniscule, there has been an increase on a quarter-on-quarter basis. In the last quarter, Q2 FY20, almost 91.3% of our total sales were to the USA, about 7.3% roughly to the European union and remaining 1.4% to China. While EU sales continue to be dismal due to the market conditions in that specific market, we remain focused on exploring newer markets across geographies, especially with the operationalization of the new processing plant.

Now, on the shrimp demand-supply and pricing scenario: We have seen improvement in demand from our key markets like USA led by clearing of inventories during the 1st quarter and the beginning of the pre-holiday season. With that, the global prices of shrimp have also been improved to the extent of 10% to 12% from the lows but are still lower by around 10% from the peak. On the supply side, the situation has stabilized and initial harvest from the delayed first crop in Andhra Pradesh seems to be normalized. While it may be a bit early to comment on the crop output yet, the producers seem to be fairly optimistic subject to climatic conditions and incidence of diseases.

As far as the past quarter, i.e., Q2 FY20 is concerned, we were able to clock sales volume growth of almost 2% year on year and 4% quarter on quarter to 3,745 metric tons. This coupled with improved realizations on the back of higher prices in general and our favourable product mix in particular, led to an increase in the overall revenues for the quarter. Additionally, our farm and hatchery operations along with operational efficiency led to better profitability. When compared half yearly, please note there was a one-time refund of around Rs. 11 crores on account of anti-dumping duty in the first half of FY19, i.e., the last fiscal.

That is largely on our business and industry updates.

We continue to focus on optimally utilizing our capacities and trying to reduce cost through backward integration and value addition to product offerings.

That is all from my side. I will now hand over the line to our CFO Mr. Vijaya Kumar to brief you on the financial performance for the quarter and half year ended September 2019. Post that, we would be happy to take the question & answer session.

Vijaya Kumar: Good evening everybody. I am here presenting you the highlights of the last quarter and half year ended September 2019. In Q2 FY20, the company reported a total income including net revenue and other income of Rs. 275 crores as against Rs. 260 crores in the same period of last fiscal and Rs. 226 crores in Q1 FY20. The volumes sold in Q2 FY20 stood at 3,745 MT, marginally higher than 3,688 MT sold in Q2 FY19 and almost 4% higher than 3,606 MT sold in Q1 FY20. The average realization including other income in Q2 FY20 came in at Rs. 733 per kg versus Rs. 716 per kg in Q2 FY19.

At the EBITDA level, the company reported Rs. 42.3 crores in Q2 FY20 as compared with Rs. 33.5 crores in the same period of last fiscal and Rs. 16.4 crores in Q1 FY20. The profit after tax stood at Rs. 22 crores in Q2 FY 20 as compared with Rs. 20 crores in the same period of last fiscal and Rs. 8.2 crores in Q1 FY20.

The key figures for H1 FY20 are as follows.

Total income of Rs. 500 crores versus Rs. 508 crores in the half year of last fiscal which included one-time income of Rs. 11 crores. EBITDA of Rs. 442 crores against Rs. 438 crores in H1 FY19 and profit after tax of Rs. 30 crores against Rs. 41 crores in the same period of last fiscal. The total volumes sold in H1 FY20 were largely flat on year-on-year basis at 7,354 metric tons of shrimps sold.

That's all from our side. I would now request the moderator to open the call for question & answers.

Moderator: We will now begin the question & answer session. Anyone who wishes to ask a question, you may press '*' and '1' on your touch-tone telephone. If you wish to remove yourself from the question queue, you may press '*' and '2.' Participants are requested to use handsets while asking a question.

Ladies and gentlemen, we will wait for a moment while the question queue assembles.

The first question is from the line of Nitin Gosar from Invesco Mutual Fund. Please go ahead.

Nitin Gosar: The question is pertaining to the farm gate prices during the quarter. How did they move?

Subrahmanya Chowdary: The farm gate prices during the quarter, Nitin, have been stable but there was some higher demand than expected from the market of China and Southeast Asia in general. So, the farm gate prices actually have moved up. They firmed up actually compared to the first quarter. That's mainly because of the demand which picked up significantly from the Southeast Asian countries and mainly China especially.

Nitin Gosar: Broadly, I recollect last time when we discussed the farm gate price was around 305-310. For the quarter, it would be in the similar range or it has moved up?

Subrahmanya Chowdary: For the last quarter, in the company's case, it was almost Rs. 369; it moved up for the 2nd quarter.

Nitin Gosar: So, y-o-y would it mean a big jump? Around 10%? Procurement cost going up versus last year during the same time?

Subrahmanya Chowdary: As you would have noticed, even the export prices have jumped up which I had explained earlier. So, naturally in tandem to that, raw material prices also have moved up.

Nitin Gosar: One last question is, since now we are releasing the facility, which was on lease, this will help us to save how much? Around 16 or 20 crores?

Subrahmanya Chowdary: We have already released, and we are just moving it in phases. We are shifting the teams to the new facility and some of our infrastructure as well as some of the product stocks. Main thing is, as you are aware that we would be transferring our capacities. We are already in the process of transferring our capacity from the leased facility to the new facility. In fact, we would be saving around Rs 7 to 8 crores because the manufacturing cost would still be continuing within our own facility. You understand what I am saying? So, the actual cost which was incurred by the company at the leased premises was 16 to 20 crores. A minimum 50% of that would be saved when we are moving to our own facility. Now, when we are transferring the capacity to the new facility, the costs which are required towards the electricity and minimum costs which are required for the fixed costs which will be there, they will be expensed. We are just transferring. As we are moving them, we will be basically shifting part of our costs which are already incurring in the leased facility to here. And we will have some additional costs like electricity which you mentioned. So, indirectly we will have a saving of around 8 crores per annum compared to the past year operations.

Nitin Gosar: Sorry, I got a bit confused. You are saying 16 crores is the lease amount which we were paying on the leased facility.

Subrahmanya Chowdary: Yes, the processing charges

Nitin Gosar: And if we were to release the leased facility, we will be saving 16 crores but we are also going to incur the fixed cost on the new facility, right?

Subrahmanya Chowdary: Yes, I was saying we would save around 7 to 8 crores net by switching to our own facility.

Moderator: The next question is from the line of Ashish Thakkar from Motilal Oswal Financial Services. Please go ahead.

Ashish Thakkar: My question was on China. If you compare the realizations vis-a-vis the US market and in the same perspective if you could help us understand how the market dynamics are?

Subrahmanya Chowdary: China is traditionally a commodity market. Yes, the realizations from China would be on the lower side when you compare to the US or the European Union markets. But at the same time, there are also requirements for certain value-added products in the ready-to-cook category itself. Some of the products which are being exported to the USA and European Union are also being requested from the Chinese market which we have noticed in the past 2 months as we have started actively exploring and also started catering to their needs. The realization part, it would be a mix. Commodity to commodity, the US will be paying a little higher price. The main point is the grades which are used for Chinese market are different from the grades or the prices which are used by the US and the European markets. That is one of the major reasons why the realization also would be lower because we will be mostly dealing with smaller sizes when it comes to the Chinese market. You are understanding what I am saying? The product-to-product difference is more because of the sizes. If we are looking in that way, the realization to China would be almost like $1.5 to $2 per kg lesser when compared to the US market or the European Union market because the US and European markets mostly require medium and large sizes while the Chinese market requires smaller sizes.

Ashish Thakkar: It would be helpful if you could share some light on the European markets because I guess even those markets have not opened up for Indian players.

Subrahmanya Chowdary: The European markets are open for the Indian players. In fact, we have been doing quite well until last year. It is just that the demand situation from European Union has been a little slow in the current year but there are certain markets which we got access to and which require specific products that are certified and in compliance with certain standards. Fortunately, since we worked on those standards and certified products quite a few years ago, now we could easily gain access to those markets. The European Union overall demand has been slow but specific demands regarding specific products – certified products especially – also certain specific products is there. However, yes, overall our sales have come down to European Union and the sales for the past 2 quarters have mostly moved to the United States. But we are still looking forward to increase our European Union business now especially with the new factory coming in line. We should see going ahead how it goes.

Ashish Thakkar: Last question on the MEIS scheme. The government was about to replace this scheme. If you could help us understand how the things are panning out here.

Subrahmanya Chowdary: As you have rightly said – in fact, in your own words, you have mentioned that the government is planning to replace the scheme. And, of course, they have mentioned this point so that the scheme could be more WTO compliant. They also emphasized and mentioned that it will be replaced in such a way that the end benefit to the various industries covered under these schemes is not affected. So, we still, as of now, have not yet got any clarity on how they are going to bring it up. Most likely we may hear about it in the next foreign trade policy announcement or more towards the end of the financial year because mostly we got the news that it may be extended from December end to March end. So, before the end of the financial year, they will definitely work up on the new scheme subject to it not having any major impact on the final benefits given to the various industries across the country.

Moderator: The next question is from the line of Praveen Sahay from Edelweiss Broking Limited. Please go ahead.

Praveen Sahay: For this new plant, can you have a segregation like how much is the capacity for ready-to-cook and how much is for ready-to-eat?

Subrahmanya Chowdary: Of the total 20,000 metric tons capacity for new plant 15,000 will be ready-to-cook and 5,000 will be ready-to-eat.

Praveen Sahay: Also, as you had mentioned earlier regarding the farm gate prices, is that the RM unit cost for Apex you had mentioned or that's the farm gate price that you mentioned, Rs. 369 per kg?

Subrahmanya Chowdary: The 369 was the cost for Apex. That was the average. One important point which we need to make a note of is, whether it is the farm gate prices or the sales prices, we are looking at an average. Remember, even in the raw material scenario, it is multiple sizes of product and naturally the cost is an average of the various sizes which we have purchased. We are talking about a range of purchase starting from anywhere between Rs. 150 to Rs. 180 going all the way to Rs. 550 to Rs. 600. However, when we mention that the per kg value of raw material cost – I have just mentioned, for the last quarter, it was Rs. 369 – it is based on the average of various sizes which we have purchased during that quarter that is for our company. Now, when you ask for an industry, I don't think we will be able to answer the farm gate price in general unless it is specific to a specific size.

Praveen Sahay: We can assume the 30-count, how much is the average farm gate prices last quarter?

Subrahmanya Chowdary: Around Rs. 450 to Rs. 470.

Praveen Sahay: How much is an average 30 count for India export realization?

Subrahmanya Chowdary: Again, there, it depends on what products they are getting packed. If the 30 count is being used for a commodity product, it will be at a different level. For example, for a commodity level, it is around $10 per kg for example, but if it is going for more value addition, it goes to $10.5 to $11 and further if it is ready-to-eat, it could go to almost $12 to $13 also. So, specific sizes are one part and then also the specific products. When it comes to exports, it's also the products which affect the realization – what products we are doing. So, for China, as I mentioned, it is mostly commodity. So, base level pricing would be there for the Chinese market.

Moderator: The next question is from the line of Jatin K from Alpha Capital. Please go ahead.

Jatin K: Congrats for a decent set of results. Sir, my first question would be on this new shrimp facility. Since it is not catering to the US and EU, what all approvals we did require and in how much time would it happen and what would be the margin impact in case we do not get this US and EU approvals soon?

Subrahmanya Chowdary: Those approvals are in process and we don't really foresee a major delay in getting those. Meanwhile, however, we are utilizing the capacity for other markets. Mainly the approvals are pertaining to the Government of India and the USFDA which is there. We have just finished our USFDA registration and we are going to start our shipment soon. We are just waiting for certain clearance from the Government of India which will be done most likely this week with regards to the US and for the European Union, hopefully, before the end of this month or early next month. Otherwise, yes, we have started utilizing the capacity for other markets like mainly China, of course, commodity, and also, we are planning now to move into the Middle East.

Jatin K: Sir, Other Expense has gone down this quarter to 37 crores from 42 crores y-o-y. What was the reason and what is the sustainable rate of Other Expense should we be assuming going ahead?

Subrahmanya Chowdary: The major part of Other Expenses is regarding the storage and the processing charges which were being mainly paid to the third-party service providers whether it is public cold storage or the leased facility, for example. That is one, and the other major important point with regard to the expenses is also the foreign exchange deficit. This was higher last year when compared to this year because of the stable currency we had so far this year and not having much of any negative impact because of the forward contracts also which we have. Because of stable currency, we could minimize that loss of foreign exchange deficit which was there last year. That expenditure was higher last year. That has come down this year. But I would not be able to comment or commit anything about the foreign exchange fluctuations as you know it is beyond anyone's control. However, the expenses pertaining to storage and the processing expenses which were paid to third party are totally done with and we are not going to have them anymore, which I had also mentioned to one of the earlier callers that we would not be paying anymore lease charges since we have got our own facility. Those savings are sustainable going forward.

Jatin K: Sir, any volume, revenue and margin guidance for 2nd half as well as next year?

Subrahmanya Chowdary: At this point, we are just looking at transferring our leased capacity. The volume regarding the ready-to-eat, primarily we are really looking ahead to pick up that volume during this quarter and mostly for the last quarter of the current financial year. So, as far as the volume is concerned, at this point, we would definitely say that we are going to do more than what we did last year, but I may not be able to give you at this point specific percentages or specific numbers with regard to between the ready-to-cook and ready-to-eat. But our main aim is to produce more of the ready-to-eat because now we have that capability as well as the capacity. So, we look forward to utilize that capacity so that more volume in that category enhances realization as well as margins. So, for sure, the next half also, we would be looking at doing more volume than last year. We are already in that process. I can't get into specifics though at this point. I hope you can understand that.

Jatin K: In the balance sheet, inventory and receivables are up. Can you please explain that?

Subrahmanya Chowdary: With regards to the inventories, if you notice that our purchases also have significantly increased in the 2nd quarter, mainly the raw materials which were increased. But, of course, those inventories would translate into better sales into the subsequent quarter. But as far as receivables are concerned, as you know, we have been going more aggressively in the hatcheries also. We have had more of our customers who are mainly farmers where the hatchery seed sales have been tremendously picking up after the successful growth of the new seed being produced in these new hatcheries. So, naturally the customers or the farmers who are the primary producers, the payments to be received from them have led to higher receivables from them.

Moderator: The next question is from the line of Vincent Andrew from Geojit Financial. Please go ahead.

Vincent Andrew: Sir, you have mentioned the RM prices is around Rs. 369. Considering that it is a weighted average, can you please mention how much it was for the last quarter?

Subrahmanya Chowdary: Last quarter, it was almost Rs 300 per kg.

Vincent Andrew: So, there is a sharp increase, okay.

Subrahmanya Chowdary: With regard to the increase, I have been saying that repeatedly. It also depends on the sizes which we handle during each quarter. Overall increase could be 10% but if our sizes which we have been working with in any quarter or subsequent quarters are of different nature, they will have an impact on the raw material price. So, please keep this in mind.

Vincent Andrew: How much you expect for the full year? Any range can you tell, the weighted average?

Subrahmanya Chowdary: I wish I could tell that. Personally, we are not in a position to comment on how the market would move in the next 4 to 5 months now. Especially, there is a huge demand for this holiday sales requirements. There are a lot of orders which have been placed even from newer markets. That is one of the reasons why the raw material prices overall have increased. They could be softening a little bit and I am not very sure, but it will be hovering between the Rs 300 to Rs 360 range.

Vincent Andrew: Can you please share the purchase volume in quantity?

Subrahmanya Chowdary: The raw material quantity which was purchased during the quarter is around 5,400 metric tons.

Vincent Andrew: Sir, the fixed assets have increased by around Rs 34 crores. The capital work in progress is still around Rs 108 crores. You have mentioned in the opening remarks that the CAPEX amount for the new facility is around 110 crores. So, an additional amount of 34 crores is there in the fixed asset.

Subrahmanya Chowdary: One of the most important points is, in my opening remarks, it was primarily about the CAPEX pertaining to the greenfield processing plant. The fixed assets of the company do not constitute only the processing plant, but it also has other areas like hatcheries and farms which are also simultaneously being invested in through internal accruals. So, to tell you the truth, in fact, apart from the processing plant project which is completed now utilizing the IPO proceeds majority, there are also other projects which have been simultaneously going on and I also mentioned in my opening remarks that phase II construction of our new hatchery is also started. All these other projects also add up to this capital work in progress. It is just not the processing plant.

Moderator: The next question is from the line of Nitin Awasthi from East India Securities. Please go ahead.

Nitin Awasthi: Firstly, congratulations that the new plant has come on stream. It is really a big achievement for an organization to get a plant which is more than twice the original capacity of the organization. Kudos to that, sir. Now that the plant has come on stream, what will be the tax rate? Because I believe there are some tax benefits associated with this plant?

Subrahmanya Chowdary: Thanks, Nitin. With regards to the tax benefits, yes, there are certain tax benefits for the food processing facilities. However, we have not yet factored any of those at this point because we are still deliberating between the new tax regime which has just been brought in by the finance ministry and the existing tax benefits which is for the first 5 years; it is 100% exemption on the operating income where the MAT will be applicable. We have not yet concluded on which tax structure we would follow as of now and we would be mostly concluding that decision and implementing that tax structure by the end of this quarter, i.e., the 3rd quarter or definitely for sure before the end of the financial year by which it has to be done anyway.

Nitin Awasthi: Second question is pertaining to the hatchery business. As I am seeing that you are expanding quite rapidly in this segment. Where are the sales exactly being booked?

Subrahmanya Chowdary: It is in the "Revenue from Operations" or the Net Revenue. For the second quarter of this fiscal, the hatchery sales got around Rs 6.5 crores.

Nitin Awasthi: What was it in the previous quarter?

Subrahmanya Chowdary: For the previous quarter, it was around Rs 2.7 crores.

Nitin Awasthi: And with the existing capacity, how much is this scalable up to, sir?

Subrahmanya Chowdary: There are certain constraints also. As you know, hatcheries are pertaining to livestock. So, we should be looking at performances similar to Q2 levels, but as you know, the livestock is not stocked throughout the year. There are also seasonality and the right climatic conditions which make it conducive at the farm level. So, for sure, in a 9-month business, we should be going in a similar level of around this 6-crore odd. We should be definitely looking at it at that level every quarter. That's what you are asking, at what level it could be growing, right?

Nitin Awasthi: Yes sir, because now you said the phase II of one of your hatcheries is also going to come on stream. So, when the construction is started….

Subrahmanya Chowdary: That will be coming up only in the next financial year because it will take time. We were supposed to complete it by December, but it was stretched almost to April because some policy changes – I don't want to get into specifics, but those changes have affected it. So, it will be available from the next financial year.

Now, the other important point which I just mentioned to you is, it is pertaining to livestock. When we are also adding these additional phases in the hatchery business, it is not just to scale up the business. It is also to have continuity in business. Because in livestock, we need to have shutdown periods. It doesn't work on a continuous basis. You also need to shut it down and go through the disinfection process, etc. Otherwise, the next cycle's productivity would get affected. So, in order to have a continuity rather than having a break in our business, we have planned for this subsequent phase and that phase would definitely help us from FY21 for the full year because now we know that we will have it ready since April of next year.

Moderator: The next question is from the line of Yogansh Jeswani from Mittal Analytics. Please go ahead.

Yogansh Jeswani: Sir, my first question is with regard to the disease news that we keep hearing from the industry. How is the situation on ground? Do we see any significant impact of any disease or something or things are progressing in a normal way?

Subrahmanya Chowdary: Disease is there and it will be there. We are not surviving in a disease-free environment. How to manage the disease is the key part for any successful crop, whether it is aquaculture or agriculture. In the case of aquaculture, yes, we have been having incidences of diseases over the past years and the farmers also have been using newer techniques and strategies to manage the disease. Apart from that, now we have noticed with the new hatcheries which we have brought in and the new brood stock which we have been bringing in, we are having a good healthy brood stock compared to the past because the growth rate has been observed to be quite significant in a shorter period which thereby has a very good impact for the farmers at the cost level. Even though there is a loss of survivability because the growth is at a higher rate, it definitely gives a better result for the primary producer. Diseases are got to be managed, and each of the individual farmers across the states and the country manage it based on the infrastructure what they have and the methods which they implement.