



# **“CCL Products (India) Limited Q1 FY 2016 Earnings Conference Call”**

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**Moderator:** Ladies and gentlemen, good day and welcome to the CCL Products (India) Limited Q1 FY'16 earnings conference call hosted by Nirmal Bang Equities Private Limited. 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 conference call, please signal an operator by pressing "\*" and then "0" on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Jignesh Kamani from Nirmal Bang Equities. Thank you and over to you Mr. Kamani.

**Jignesh Kamani:** Thank you Margreth. Good morning ladies and gentleman, very warm welcome for the first quarter FY'16 result conference call of the CCL. From CCL we have entire team members of the board, starting from Mr. Rajendra Prasad Challa - Executive Chairman of the Company, Mr. Srishant Challa, Managing Director of the Company, Mr. K.V.L.N. Sarma, CFO, Ms. Sridevi Dasari, Company Secretary and Mr. Rao, Advisor to the Company. Congratulation for a very good set of numbers sir and thank you very much for your time. I request Mr. Rajendra Prasad Challa to provide an overview on the current dynamics and the result, which went by and then we will start with Q&A. Over to you sir!

**R.P. Challa:** Thank you everybody for joining this conference. As we had predicted last time and what we have told we have now the numbers for the first quarter, which you will agree that this was the best quarter of all our past results. We have done Rs. 219.65 Crores against Rs. 175.62 Crores, which is almost more than 25% on the top line. Similarly bottom line is 49.29 compared to 36.82, which has given us about 34%. Tax also has gone up, which we have paid going to be about 9.62 against 5.68, so the net profit was 30.22, which earlier was only 20 Crores 21 Lakhs, so on this basis, the EPS was 2.27 compared to last year of 1.52. Going forward whatever coffee we have booked we feel that this year we should cross Rs. 1000 Crores turnover on a consolidated basis. Whatever expansions we have taken up last year to take the ramp up of the capacity of Indian operation from 15,000 to 20,000, it is happening as we speak before this end of December, everything will be in place, so that we can produce and export around 17 to 17,500 tonnes from India. Overall we are expecting from last year's 20,000 tonnes, we have a schedule to do around 25,000 tonnes for the current year, so I leave the floor for any questions, only make sure that the new SEBI guidelines whatever we are saying, do not ask something which we cannot answer, we should not answer that. Thank you Jignesh.

**Moderator:** Thank you very much. We will now begin with question and answer session. The first question is from the line of Sudarshan Padmanabhan from Sundaram Mutual Fund. Please go ahead.

**S. Padmanaban:** Good morning and congratulation for a very good set of numbers. Sir what I would like to understand is while we had expected and you had also guided for very good recovery in the Vietnam business, but what has really surprised us positively is also the growth on standalone and also the EBITDA margin on the standalone business,

which was much higher than last year and higher than our own expectation. Now what I would like to understand is what has really driven the top line and what is the kind of capacities that we have on the standalone business and whether this kind of EBITDA margins are sustainable on the longer-term specifically the standalone business?

**R.P. Challa:**

Yes, if you recall some of the businesses was last year's which we had postponed to this year, that has kicked in, because if you recall last quarter of last year there were some businesses done, but the dispatches did not happen and whatever we have told you at that time everybody had a question mark whether this would reflect on next quarter that was in the first quarter, so this exactly happened and also there is some additional advantage of some of the products what we had done earlier and that has given us some advantage and also there is a slight advantage of the rupee depreciation also, which overall if you really see it should, we always maintain that because our imports and exports are in US dollar, but once in a while we get advantage. Going forward because of our ramping up the capacity in India standalone should do quite well this year also.

**S. Padmanaban:**

The order flow through that had been shifted from fourth quarter to the first quarter, was it on the standalone or the Vietnam because if I recall I think the fourth quarter was a little bit weak on the Vietnam side and recovery was expected on the Vietnam subsidiary business as well, so just if I am looking at it if I adjust for the spillage of the business of the fourth quarter then probably how would we see the numbers at this time?

**K.V.L.N. Sarma:**

I am Sarma here. Overall improvement was both on account of improvement in Vietnam as well as in standalone. In standalone operations this particular quarter we have executed a few contracts which were mostly beneficial whose margins are slightly better, whereas in Vietnam as you said some part of the last year turnovers percolated and on a standalone basis also Vietnam also the overall production and sales growth increased, so anyway you will accept that Vietnam operations are bound to increase this quarter and quarter-on-quarter from hereon. In respect of standalone, the realizations are much better and last year when we were tying up for this lean season, we have tied up with contract well in advance and the green coffee was purchased on most competitive price, so that has resulted in better realizations compared to the quarter from last year and the improvement in the EBITDA margin. We hope to sustain these EBITDA margins for this year.

**S. Padmanaban:**

If you can throw some color on the volumes, the realizations has really provided a fillip this quarter, how was the volumes been both on the standalone and the Vietnam side in terms of growth?

**K.V.L.N. Sarma:**

Volumes we have already told that we will be doing 20,000 tones and we did achieve the 20,000 tonnes last year, so this year we are telling that we are going to do 25,000, we will do it, giving split is not good for you or for us, we will achieve. Whatever we have told we always achieved because it is very difficult then we will go wrong, till dispatch, till we get the BL on that day that is the policy of the company that we will achieve.

- Moderator:** The next question is from the line of Abhijit Akela from IIFL. Please go ahead.
- Abhijit Akela:** Hello good morning sir. Thank you so much for taking my questions and congratulations on a good quarter.
- Abhijit Akela:** Sir first of all, I am sorry, I missed part of your answer I think Sarma Garu's answer to the previous question just on the India I think he mentioned that you had tied up the capacities for the June quarter last year itself and therefore you had got good realizations as well as locked in the price of green coffee, so was that, what the reason was for the good margins this quarter?
- K.V.L.N. Sarma:** It is like this, to overcome the non-utilization or under utilization of capacity we have been for the past three to four years making our efforts to tie up contract for the first quarter also, so that we will achieve volumes thereby the total capacity. So during this process we have tied up enough quantities to keep the plants fully engaged for the first quarter also and since we have taken the action well in advance and during coffee season, as you are aware from December to April, it is a peak season for coffee in India and elsewhere, so we could tie up green coffee in a most competitive way. Obviously, there was better realization and we have also exported with new contracts for better realization particularly in respect of **(indiscernible) 11.26** so these two three factors contributed to the better quantities, better turnover, better realization in standalone, which contributed to this improvement in EBITDA margin.
- Abhijit Akela:** So the EBITDA margin improvement that we witnessed this quarter you would expect that to sort of continue to a significant extent going forward also?
- K.V.L.N. Sarma:** As we have always been telling it should be on overall yearly basis.
- R.P. Challa:** Our company Abhijit is year to year, we should never take it on a quarter to quarter then we will go wrong. Our endeavor is always to get better margin, better things that is all depends on the market. Again, I tell you yesterday in the AGM one of our former Directors, Jonathan Feuer was there, as a shareholder he attended. One of the meetings, he said they are all shocked how we are able to perform this. I only said this is with only God's grace. Strategies are laid out well in advance and yes, there is some amount of risk, but we minimize our risk by not buying green coffee, but always try to do all kinds of value addition. Future also we are confident that we should be able to sustain whatever margins we have in the first quarter **(indiscernible) 13.22** that is why with confidence we tell that next year we can do that is the current year of 2015-2016, we will end up with 25,000 tonnes and the topline should increase to go to Rs.1000 Crores plus
- Abhijit Akela:** The order deferral at Vietnam that had happened last quarter, how much was that, that was booked this quarter, how much was the spillover impact, is it possible to give us that?

- K.V.L.N. Sarma:** That was about 280 tonnes, it is about Rs.13 Crores or so on rupee terms.
- Abhijit Akela:** Because for example what I was thinking was that Q4 was abnormally small, but we could go back to maybe Q3 kind of run rate in this quarter, but we came in a little bit lower than that, so just wondering how we should think about the ramp up going forward in Vietnam?
- K.V.L.N. Sarma:** No, no Q4 and Q1 are not comparable, they are the extremes. In respect of the coffee business, the Q1 and Q4 are the extremes, we are trying to overcome the leak, the lean effect on Q1, but comparison of Q4 and Q1 is not an apple to apple comparison, still despite that in Q4 we have done even on quantities and volumes also much better than or at least equivalent to Q4 of last year even if you make adjustment for approximately 300 tonnes, which has percolated into this.
- Abhijit Akela:** So from an order booking perspective, you are very happy with the traction we are seeing in Vietnam in terms of new customer wins?
- R.P. Challa:** Yes, yes, yes, that is why with confidence we are saying that for the current year we will cross 75% of our capacity utilization both in production and execution.
- Abhijit Akela:** That is great to hear. Any color you could give qualitatively in terms of which regions.
- R.P. Challa:** No that is very difficult. There are 80 countries, we are very fortunate that the Gods have been very kind to the company where if one client goes other client is there, we area always, our job is 24x7, sell immediately cover the green cost, so we cannot really say one client, there are so many instances, one country has taken, it is not something new, 20 years we have been doing the same business.
- Abhijit Akela:** Fantastic Sir, one last thing just on the branded coffee initiative in India, any update you could provide on that?
- R.P. Challa:** Yes we are doing that, last year also we did around close to Rs.50 Crores and this year we expect to do anything from Rs.60 Crores to Rs.65 Crores and what we are doing again we repeat saying that we are not in a hurry to patch up with advertisement things and all that but this is three to five years we are looking at development on a sustainable basis, plough back whatever profit we make because we make additional profits in the market, into the advertisement so that we will be in a better situation than spend what we are earning elsewhere. We are clearly in a distribution system, so we have hired people with little experience in the market, but we are not doing what we did in 1997, though it is slow, but it will be sustainable, so you see in next three to four years we will be in a very strong wicket.
- Abhijit Akela:** Just to clarify this Rs.50 Crores includes institutional as well as retail sales?

- R.P. Challa:** All the domestic sales.
- Moderator:** Thank you. The next question is from the line of Sangam Iyer from Subhkam Ventures. Please go ahead.
- Sangam Iyer:** Hi Sir, congratulations on a great set of numbers. I just wanted to understand, Sir could you give us the volume numbers for this quarter, how much was it?
- R.P. Challa:** It is like this, one thing you should respect that it is better not to go into that, overall year volume only we can give, better not to get into these kinds of details.
- Sangam Iyer:** No issues Sir, because whatever trying to reconcile is when I look at the overall...
- R.P. Challa:** No need, because you see what we did last year, before that, this year, we did 13,000, 15,000, 16,000 tonnes, so we are selling this year 25.
- Sangam Iyer:** In your guidance when I look at we are talking about Rs.1000 Crores turnover, if I look at the average realization for last year with the volumes that we did of 19,600 tonnes and assuming the same realization, minimum of Rs.1100 Crores of topline is coming in.
- R.P. Challa:** That is true, it could happen but always that is one thing we will never predict, we are very conservative company, it will happen, whatever we have told from the beginning we have always outperformed that is the philosophy of the company.
- Sangam Iyer:** It is assuring to hear from you like that and secondly on the mix of supply between Vietnam and India when I look at it last year Vietnam was 23% of the overall supply that is moving up to 30% plus, so that should have a multiple effect both on your EBITDA as well as profit and part of it is already visible in Q1, so should we see that kind of EBITDA per tonne or EBITDA margin continuing?
- R.P. Challa:** Absolutely, our endeavor is always there because once we do that then we are selling to many clients because next expansion after two years or so will happen in Vietnam, from 10,000 tonnes we will become 20,000 tonnes so what we are doing we are selling some of our old clients to start moving from India to Vietnam because we have some plans for India to go domestic and all that and that will give us the flexibility and advantage is we have a 100% tax benefit for next at least three more years to go and now the laws in Vietnam are also changing and once they have changed this they have cut down the tax rate itself is 50% and now net tax is only 8% earlier it used to be 50% now it has come down to 50% and also Government of Vietnam is also looking at the possibility of any kind of expansion we do we should be getting for that concession, tax benefit.

- Sangam Iyer:** So the incremental expansion the raw material for that would already be available in the same vicinity like what we would expect.
- R.P. Challa:** That is one thing in coffee, coffee in big quantity is available and also they just like India though Vietnam is the second largest producers of green coffee we are allowed to import duty free for any kind of additional requirement, so we **(indiscernible) 21.59** also for some of the blends we do imports on very high expensive coffees into the country duty free. So the raw material is not an issue at all.
- Sangam Iyer:** Sir how sustainable do you think is this Q1 margins?
- R.P. Challa:** We are hoping it should be because what we have already booked orders and take the green coffee movement we foresee that we should be able to sustain these figures at least in this year.
- Moderator:** Thank you. The next question is from the line of Anuj Jain from Value Quest Capital. Please go ahead.
- Anuj Jain:** Sir I have a very small question, do you have any further update on the big client which we added in Europe last quarter any further updates on that?
- R.P. Challa:** That is of the reasons as Sarma was explaining this is a very high-end product which we develop for the client in Europe and we are hoping that by third or fourth quarter of this year itself with all the trials which are very successfully being implemented and that also will kick in.
- Moderator:** Thank you. The next question is from the line of Bobby Jairam from Frunze Investments. Please go ahead.
- Bobby Jairam:** I have two questions, the first one is how do you see competition in Vietnam going forward, I understand Olam is expanding capacity there and there is also some talk of Chinese players setting up plants, that is the first question.
- R.P. Challa:** I cannot talk about competitors. We have been there in business in instant coffee for more than 20 years. They are all new entrants, some aberrations will come but we are okay. Our track record talks, till now we have not defaulted on whatever we have said.
- Bobby Jairam:** The reason for asking was do you see an oversupply kind of the situation with a lot of players?
- R.P. Challa:** It is obvious, not now, oh my god that means you did not understand our business, there is always a oversupply not from now there is a 100% oversupply of already instant coffee worldwide, so it is only the clients what you talk about, our business is slightly different than what we were, everywhere every plant in the world utilization is less than 50%, you should make a study on that, instant coffee is already oversupplied, there is no shortage, if somebody tells that there is a shortage of production then they are wrong. Brazil produces more than 100,000

tonnes, every plant in the world because one it is a seasonal thing is there, because of our personal relationships and our collaborators and we being in the market for so long always new clientele comes with the technology what we have reported, the blends, see our USP is the blend what we do, you will be surprised to know more than 200 different blends we do, not too easy to copy, anybody can put up a plant, you see the history of the company what you just now mentioned, see their numbers, bottom line, anybody can put up instant coffee factory, no problem, in fact they also buy from us.

- Moderator:** Thank you. The next question is from the line of Kashyap Jhaveri from Capital 72 Advisors. Please go ahead.
- Kashyap Jhaveri:** I just wanted to do sort of recheck the numbers you mentioned this year volume to be about 35000 tonnes did I hear it correct?
- R.P. Challa:** 25000 tonnes.
- Kashyap Jhaveri:** And the same number last year was 19600 tonnes.
- R.P. Challa:** That is right.
- Kashyap Jhaveri:** And in one of the questions you also mentioned about the market size for instant coffee business I missed out the numbers.
- R.P. Challa:** No, what I said is there is every plant in the manufacturing of instant coffee real utilization is not more than 50% that is what my information is for the past 20 years in the instant coffee business, so there is already over production so it all depends on the clientele, very few people in the world, I know, have gone in for expansion, I have seen companies, they have come in to instant coffee manufacturing, see their growth, see how they are, first is the **(indiscernible) 28.18** to put up an instant coffee factory the numbers what we see history says we are the best manufacturer cost wise, we are able to compete and also retain the clientele because of our marketing collaborator strength and standing in the market because all these companies whom we deal with are more than 100 year old companies, many brands they buy from us end of the day our coffee is blended with different products they put their own brands.
- Kashyap Jhaveri:** And as you mentioned there is overcapacity with some of the manufacturers so...
- R.P. Challa:** It is there from every plant is the world. There is no plant which runs 90% or 100% capacity that is the truth, you can check.
- Moderator:** Thank you. The next question is from the line of Aditya Ahluwalia from Invesco. Please go ahead.

- Aditya Ahluwalia:** I am sorry for the repetition, 25000 for FY 2016 any guidance on FY17 volumes?
- R.P. Challa:** It all depends, after this only we will do it, the reason is we are expecting to expand this existing capacity of our plant from 15,000 to 30,000 so we expect to do maybe around our target is to do at 30000 but let's see that we will come only closer after we close next year.
- Aditya Ahluwalia:** And 2016, 25000 is that correct.
- R.P. Challa:** That is right, that we are confident because already 75% of our coffee has been booked because we do the coffee sales before we buy raw material.
- Aditya Ahluwalia:** On the EBITDA margins are we guiding for any improvement in 2016 and 2017?
- R.P. Challa:** We should be able to maintain this normally what happens is the more capacity utilization the more bottom-line that is what we have seen?
- Aditya Ahluwalia:** But on the margins we did about 19.5% in FY 2015.
- R.P. Challa:** Yes, we have improved now, because we are doing more value addition and specialty products there are some major clients who have been coming now. I always maintained one thing, this is just like any stock, when the stock price is suppose Rs.100, the clients with big funds how they come once it crosses Rs.150 same there is a bigger client bigger the game plan changes, same thing in coffee also in our experience access to clientele is much better and also the big clients feel that they must be doing something better and you know what happens one of the advantages what we have proven to the instant coffee markets worldwide that we are doing something better than the existing one we have proved to several of the manufacturers, I do not know whether you are aware that many clients of ours are our competitors also, major ones but still they have been buying so something we might be doing good if they are benefiting we do not look at only profit to make ourselves, we make sure that our clients make it, sometimes the brand owners make much more profit than what we make.
- Aditya Ahluwalia:** I appreciate that, but it is just that margins have practically doubled in the last five, six years.
- R.P. Challa:** No, always it happens. I think Sarma can answer better than me.
- Aditya Ahluwalia:** No I am just saying that if I build in a 100 basis points improvement.
- R.P. Challa:** It is not doubled.
- Aditya Ahluwalia:** Is that too aggressive or is it possible?

- K.V.L.N. Sarma:** No the present level of EBITDA margins are sustainable (**indiscernible**) **33.13** but do not think in five years period the EBTIDA margins have doubled, they have been on a consistent range, our effort you must have seen, last year for the similar period our EBITDA margin was 21% and it improved by 100 basis points this quarter and our efforts will continue with gradual improvement by offering various speciality products. These EBITDA margins are sustainable. We are expecting that it will be sustainable for this year we would make an effort to improve the product profile further so that next year we will be able to improve further on the EBITDA margin.
- Aditya Ahluwalia:** Can you please guide on the tax rates for 2016 as well as 2017 on the overall company consolidated basis?
- R.P. Challa:** Of the top-line is it or is that tax rate.
- Aditya Ahluwalia:** Yes.
- K.V.L.N. Sarma:** Tax rate, as we are improving our Vietnam operations the tax rate will definitely get lesser and lesser, we are expecting that by the year end effective tax rate will be about 25%.
- Aditya Ahluwalia:** And FY17 it will be even lower.
- K.V.L.N. Sarma:** Obviously yes, but by the time we would improve our quantities and our operations in India also so in Indian operations are also simultaneously increasing the tax rate will not be so much.
- R.P. Challa:** We do not mind paying tax as long as we are making money.
- Aditya Ahluwalia:** Just one last question from my side just on the dividend policy can you tell me a little bit?
- R.P. Challa:** We have consistently maintained, this year we did quite well, in fact we just had yesterday the AGM many shareholders spoke and there were some friends who attended, they were really surprised that there was a huge jump in fact some of the shareholders wanted us to keep some reserves for our expansion, then we explained to them, dividend policy consistently we will improve because there are not much of expansions borrowing coming from outside so we will maintain this dividend policy maybe we do better we will increase it further. It all depends on the percentage.
- Moderator:** Thank you. The next question is from the line of Nitin Gosar from Religare Invesco. Please go ahead.
- Nitin Gosar:** On Vietnam we are right now at 10000 tonnes capacity and possibly the kind of guidance we have will be hitting 75% mark next year on utilization, in past you had mentioned that whenever you hit this 75% - 85% kind of benchmark on production you look for the further trench of expansion and we have the liberty to go for further expansion is it right to assume that in FY 2016 itself the new incremental Capex on expansion will start off?

- R.P. Challa:** No what we have done is we have already started the negotiation, dialogues with the Asian manufacturers We will be very confident to do that in 2017 and 2018 because the infrastructure is already there, the part of the expansion is infrastructure which is already inbuilt, it is only the equipment which we have to bring in so we are already negotiating, started talking, it takes around six to eight months to finally see what exactly, **(indiscernible) 37.46** manufacturer what we are doing because some has to be integrated with the existing equipment also. So that will come only in 2017 and 2018, but negotiations 50% of the expansion is already in.
- Nitin Gosar:** You have mentioned 2017 and 2018 so that should be next year calendar.
- R.P. Challa:** Yes by 2017, 2018 see we now we are in 2015, in 2016 we order it takes around 12 months for equipment to be delivered and start so 2017, 2018 realistically the expansion will be there so by that time we will also know which country, what many clients whom we have been their consistently they are there or not they are very, very careful whenever we build up the capacity.
- Nitin Gosar:** So between 2017 like we will have Vietnam only for 10000 tonnes till 2017 and once the new capacity comes in, in 2018 we will go for further trench of the uptake in volumes.
- R.P. Challa:** I did not get that.
- Nitin Gosar:** Sir till 2017 we are locked with India having 20000 and Vietnam having 10000 so 30000.
- R.P. Challa:** That is right, right now correct.
- Nitin Gosar:** Till FY 2017 and once the new set of capacity comes in our machinery gets installed in FY 2018 we will have this 30000 going to overall 40000 as an overall capacity.
- R.P. Challa:** 20000 to 40000 that is right.
- Moderator:** Thank you. The next question is from the line of Manish Mahawar from Edelweiss. Please go ahead.
- Manish Mahawar:** I have couple of questions, one especially the volumes you would never guide on a quarterly basis but it is possible like your standalone growth is 19% in the quarter and can you break it up on how much of this 19% growth in the standalone comes from the volumes and pricing?
- R.P. Challa:** The pricing we cannot tell, what is that what volume.
- Manish Mahawar:** Mainly the contribution of this 19% growth from volume and the pricing.

- K.V.L.N. Sarma:** On a quarter-to-quarter basis the volume improvement has been around 15%. It is a combination of better realization, green coffee, raw material cost management and the volumes.
- Manish Mahawar:** Yes that I understood Mr. Sarma but I just wanted to know if you look at a YoY basis last year to now this year 19% growth right and you said it is both combination of volumes as well as realization and which is supported by as well the Forex part you said earlier how much is the volumes 19% growth is driven by volume on a YoY basis last year Q1 to now this year Q1?
- K.V.L.N. Sarma:** It is about 10%.
- Manish Mahawar:** Okay volume was 10% rest is our realization as well as supported by Forex part right.
- K.V.L.N. Sarma:** Balance is on account of better realizations and better realizations you can take it as improved realization and cost management.
- Manish Mahawar:** Mr. Prasad I just wanted to know what is the status of liquid coffee plant now?
- R.P. Challa:** The liquid coffee last time itself we have told that it is still on, we are hoping that we should be able to actually produce, because the samples have come out very nicely. As we speak the Danish people are working on that, before this yearend itself before December 31 we should add some volumes to that because some of the coffees what we are using all the liquid coffee we are again adding back into the extraction and taking up better product, that is what we are talking premium product. Liquid coffee, specially for somebody like us we can use that for instant coffee drying also, also we can sell as liquid as it is because the Japanese are so finicky about the final product so I do not know how many times we have done trials but we are okay we are also patiently waiting once you are there then the everything changes.
- Manish Mahawar:** But what guidance we have given 1000 of top-line this year we have not considered the contribution from liquid plant and I think so.
- R.P. Challa:** No, that is right we always don't do that after sale only we will talk.
- Manish Mahawar:** Okay that will be upside risk.
- R.P. Challa:** God willing it will happen, that also.
- Manish Mahawar:** And what about the Switzerland sir now?

- R.P. Challa:** Switzerland is one thing, if you have seen that we made a marginal loss that we are confident that this year everything should come out of it we are still negotiating with some of these governmental agencies but I think we should be okay coming forward because now most of the debt is not there we are going to increase the volumes there.
- Manish Mahawar:** And last question on a continental brand you already said like domestic revenue last year was 50 Crores and this year you are expecting about 65 Crores of revenue and that is more of a study that how the expansion in the continental brand I think last year that we started with...
- R.P. Challa:** Yes that is what we do not want to do anything more than what we are doing with the existing staff, visibility we are planning, getting into many small hotels and chains where we are giving our own branded coffee, if you see in North India there are few hotel chains which are already putting our coffee there and they are all appreciating the product because of the quality, so we have now added some more these two brand sachet packing and also most of the places wherever the coffees are available we are doing our sampling liquid sample.
- Manish Mahawar:** And geographical wise or asset wise have we add any other further state, earlier we were in Andhra and UP only.
- R.P. Challa:** We are right now in six states and we should go very slowly because there most of the places they are not major coffee drinking places.
- Manish Mahawar:** And the six states mainly are more of in the North part right North India.
- R.P. Challa:** Yes, South and North actually the maximum coffee consuming state in the country is Chennai, Tamil Nadu state, but what we are doing is we are going to nontraditional which is northern state, we are getting good responses and we are again concentrating more on bulk sales coming from Army Purchase Organization, we are now targeting different defense forces with our own brand we are not selling unbranded there also we are selling continental brand.
- Manish Mahawar:** My last question to Mr. Sarma, Sarma sir can you give me your gross debt number loans in our books as on June 30.
- K.V.L.N. Sarma:** 20 million in Vietnam books.
- Manish Mahawar:** And in India.

- K.V.L.N. Sarma:** As we are speaking we have paid up another 2.3 million out of that but as on June 30 it was 20 million, in India there are no long-term loans so only on a working capital I think about 16 million in foreign currency spend, and there is no debt even on long-term.
- R.P. Challa:** Manish and another very interesting I do not know whether you remember that out of that 20 million 10 million we are using for our working capital that is it is 100% secured.
- Moderator:** Thank you. The next question is from the line of Sandeep Patel from IL&FS. Please go ahead.
- Sandeep Patel:** I just wanted to get a flavor of your international competitors, how are your competitors faring and could you give us the picture on how the international business is looking like?
- R.P. Challa:** I will tell you one thing, very important when we talk about competitors is only the country which we compete with, individuals we do not, so nobody is anywhere close to us strategically wise or anybody, most of our big competitors in the world are our clients also small, small wise come and go but we do not even know about that.
- Sandeep Patel:** And just to ask about on the client side is there some sort of a strategy in place to supply to the top 10 brands barring probably first two or three globally or something like that?
- R.P. Challa:** No I didn't understand what was that.
- Sandeep Patel:** When we supply coffee to branded players, players who own their brands and who probably get their coffee manufactured with us if one were to look at the top 10 brands probably the first two, or three brands might be having in house manufacturing but would all the other be your clients?
- R.P. Challa:** Most of our top clients they are all brand owners and also manufacturers. So I cannot tell the names unfortunately, you name the country the biggest client in the world they are our clients not now for the past several years for scientific reasons they do not want to be disclose where they are buying because they are all blending again what happens is the brand owners, we have proved in this last 20 or 25 years that India and CCL groups can produce better coffee at a much better realization where we make more profit the cost in Europe or in US or in Canada or in Brazil compared to that we are better off so the brand owner they do manufacture part of the coffee then they blend our coffee ultimately nobody knows what coffee is going, this has been continuing year-on-year for the past 20 years not now, many of our clients many of our now so-called competitors have been our clients of some other materials, see our balance sheet, these all happens but fortunately we have stood above them because our philosophy, there is enough market in the world, it all depends on the service what you give, the sustainability, the coffee every batch is different so consistently to get something we have different things. The track record should answer many of your questions.

- Moderator:** Thank you. The next question is from the line of Dhwani Shah from IWealth Managers. Please go ahead.
- Dhwani Shah:** Sir most of the questions have been answered just one small question was again on the margins I am sorry but, sir so as we had said in the last quarter that the 13000 spillover effect has will come in the first quarter in the subsidiary that is in Vietnam right.
- R.P. Challa:** Yes.
- Dhwani Shah:** So sir adjusting to that now our margins on the subsidiary level it is coming around 26% and you are saying that this kind of margins are sustainable so is the assumption right that this 26% on a subsidiary level is that margins are sustainable or this is one off or if you could just tell.
- K.V.L.N. Sarma:** No it is not an one-off situation, in Vietnam as we have always been saying the product is marketed as a superior product, so obviously the margins on a standalone basis it would also be better compared to the Indian product Indian standalone basis but at both the places even in India we are improving our product profile to such an extent that the majority of this specialty coffees are also marketed but in Vietnam the margins are sustainable.
- Daniel Shah:** So sir 20% or 25% is this sustainable is that we are saying.
- R.P. Challa:** Definitely. Thank you. Margaret if we are okay I think we have to go because we have one more conference call.
- Moderator:** Thank you. We will go to our next question which is from the line of Sagar Karkhanis from Nirmal Bang. Please go ahead.
- Sagar Karkhanis:** Just wanted to know what has been the feedback from the US customers since we will have to scale up our business from the US clients as well as going forward.
- R.P. Challa:** Going forward very well in fact the US or Mr. Jonathan Feuer was here last four days who did the attended though he is no more on the board of CCL he has given a good assurance that going forward still US will be our focus for next couple of years now.
- Moderator:** Thank you. Ladies and gentlemen due to time constrain that was the last question. I would now like to hand the floor over to Mr. Jignesh Kamani for closing comments.
- Jignesh Kamani:** Thanks Margreth. Thank you very much ladies and gentlemen for participating in the conference call. I would like to thank Mr. Rajendra Prasad and his entire team for taking time out from his schedule and providing detailed information about the company and our guidance. Thank you very much sir. We will touch by see you again next question.

**R.P. Challa:** Thank you Jignesh, if anybody has any questions please most welcome to contact Sarma, me, or Srishant, Rao anytime either with mail or on phone call we will be happy to answer. Thank you.

**Moderator:** Thank you. On behalf of Nirmal Bang Equities Private Limited that concludes this conference. Thank you for joining us and you may now disconnect your lines.