



“CCL Products Q2 FY17 Earnings Conference Call”

October 03, 2016



MANAGEMENT: **MR. RAJENDRA PRASAD CHALLA – EXECUTIVE CHAIRMAN, CCL PRODUCTS**
MR. CHALLA SRISHANT – MANAGING DIRECTOR, CCL PRODUCTS
MR. KVLN SARMA – CFO, CCL PRODUCTS
MS. SRIDEVI DASARI – COMPANY SECRETARY, CCL PRODUCTS
MR. P. S. RAO – CONSULTANT COMPANY SECRETARY, CCL PRODUCTS

MODERATORS: **MR. AKHIL PAREKH – NIRMAL BANG INSTITUTIONAL EQUITIES**



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Moderator: Ladies and gentlemen, good day and welcome to the CCL Products second quarter FY17 results conference call hosted by Nirmal Bang Institutional Equities. As a remainder, all the 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 '0' on your touchtone telephone. Please note that this conference is being recorded. I now hand the conference over to Mr. Akhil Parekh from Nirmal Bang Equities. Thank you and over to you Mr. Parekh.

Akhil Parekh: Thanks everyone for joining the call, will go ahead to the management for opening comments, after which we will move on to the question and answer session, over to you sir.

Rajendra Prasad Challa: Akhil, this is Rajendra Prasad, I have Srishant - Managing Director, Mr. KVLN Sarma - our CFO, Sridevi - Company Secretary. Good afternoon everybody, I am handing over to Srishant, he is going to make opening remarks, then we can answer all your questions, thank you.

Challa Srishant: Good evening everyone. The financial results for the second quarter have to be viewed in the context of planned major refurbishment of the plants at Duggirala and Vietnam that have been executed successfully during the quarter. Normal operations have since been resumed. Freeze drying is a complicated technology and we had planned to refurbish our freeze drying plants during this quarter. We had more than 150 people from 5 countries at Duggirala, focusing on upgrading and refurbishing the FD plants. It is only when you start the refurbishment to work that several other issues that are likely to come up and that was one of the reasons why the refurbishment took a one month extra period than what was originally anticipated.

For the second quarter, the company has achieved a turnover of 142.31 crores, the EBITDA is 28.92 crores, profit before tax is 18.26 crores and the net profit is 12.95 crores. For the 6 months period ended 30th September 2016, the company has achieved a turnover of 392.89 crores, the EBITDA is 91.69 crores, profit before tax is 69.74 crores and net profit is Rs. 53.22 crores.

We can go ahead with the questions.

Moderator: Thank you very much. We will now begin with the question and answer session. We have our first question from the line of Mr. Jignesh Kamani from GMO Group. Please go ahead.

Jignesh Kamani: Just wanted to check on both on the India and Vietnam, how many days have we lost on account of our plant shutdown and what kind of production loss could have we incurred in terms of tonnage?



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- Challa Srishant:** There is a 70 days shutdown that took place for the freeze drying plant. The spray drying plant also we have shut down for about 20 days and Vietnam also we have done a shutdown of about 20 days.
- Jignesh Kamani:** And after the production took time to ramp up or after I can say was running at optimally?
- Challa Srishant:** No, during this shutdown period, the plant was completely stopped. We were doing the refurbishment activities and all. So we could not produce during this period at all.
- Jignesh Kamani:** And once the production you can say commence.
- Challa Srishant:** Yes, once it is commenced, then it is regular production as commenced afterwards, just to make sure that.
- Jignesh Kamani:** Okay, so large part of, you can say, production was hit on account of that.
- Challa Srishant:** Yes, because normally what happens is for freeze drying because it is a complicated technology, we have to coordinate with multiple agencies and everyone was there at the site. So there are a couple of new things that cropped up which were not anticipated earlier also and we were addressing one after the other. So that was one of the reasons why there was a delay from the original schedule and we lost some days in freeze dried manufacturing.
- Rajendra Prasad Challa:** Also Jignesh what happened freeze dry, it is 100% when the cold room nobody knows what is happening inside unless somebody opens that. So its most of the equipments, that's why there are some equipments we upgraded and made some automation also now so that we will not have any issues in future. So these are some of the things which we are not anticipating. Nobody could know also unless we open the freeze drying cold rooms.
- Jignesh Kamani:** As we refurbished our freeze dry plant, are we say that can we increase our capacity or will there be lower cost of manufacturing on account of better equipment and efficiency?
- Rajendra Prasad Challa:** That is exactly what we are expecting.
- Jignesh Kamani:** Is it possible to quantify, you can say what will be the additional...
- Rajendra Prasad Challa:** We will know this may be in next couple of months. We expect at least there could be 5% to 10% additional capacity, we can do it. So there could be an additional capacity which can be kicking.
- Jignesh Kamani:** And how much money we have spent on the refurbishment?
- Rajendra Prasad Challa:** Total I think we have spent around 15 crores.



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- Jignesh Kamani:** Okay and on the Vietnam, any reason why the plant, you can say, it was a routine shutdown.
- Rajendra Prasad Challa:** No, that was there were some one or two issues, major thing was we had to add one or two equipments for better enhancing the product. So that has been done and most of the copy samples have gone.
- Challa Srishant:** Actually maybe I can explain a little bit more in detail. Vietnam plant has been designed to produce one vanilla type product. Our India plant, we have grown the plant from 3000 to 20,000 tonnes capacity over the years. So we have multiple lines which give us a lot of flexibility within India. So Vietnam plant has been designed with the 10,000 tonnes per year capacity which means that the production per day works out to be almost 36 tonnes per day. It is one single type of product that comes out in Vietnam. Now since we are trying to fill additional volumes, we are targeting certain big customers who are capable of taking larger volumes. Now each customer in each region has a different requirement. Because of that, we need to customize our equipment to ensure that we can cater to the customers' requirements. That is the reason why we had to make some modifications to the equipment that will enable us to produce for these customers. That is the reason why we gave a shutdown this time to meet these modifications and once we restarted the plant, we have done the trials, reduced the product and we have submitted samples as well to the customer. In fact there is some stock which is also not yet sold because we are waiting for the customer approvals.
- Jignesh Kamani:** Understood and the response has been good on the new sample which you can say produced.
- Challa Srishant:** Yes.
- Jignesh Kamani:** Customer since it took slightly longer time than estimated particularly in the India. Are we planning to stick out to consumer and customer you can say from this quarter onwards or there might be some loss you can say since inventory was very low at our end particularly on the freeze dried.
- Rajendra Prasad Challa:** No, freeze dried, most of the clients are already there. See, generally what happens of relationship business. So we told everybody knows what we do. So they also understand, especially freeze drying anybody does the refurbishing, it will take more than time what anybody have declared. So that is why we are confident that none of the clients have gone anywhere. They are all there and in fact we have quite full freeze dried, that is the reason we are in hurry to implement the new projects also very quickly. This has given us a very good opportunity to understand also because in 2004 when we did the freeze drying plant, now lot of things have changed. At that point of time also we did not know what really were going inside the plants. Now with this refurbishing, any of our boys could get hands-on experience and how things were working inside the cold room also.



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Moderator: Thank you. We have our next question from the line of Sudarshan Padmanabhan from Sundaram Mutual Fund. Please go ahead.

Sudarshan Padmanabhan: With probably 20 days getting cut in the dry spray and probably 70 days on freeze dry, just taking things forward from the previous participant, what in terms of volumes and in terms of realization, what would have been the impact because it looks like your sales has dropped far more significant than compared to the number of days that has been shut down, both on the Vietnam and the standalone side?

KVLN Sarma: Freezing plant was shut down for 70 days and for the cooling also, it takes another 5 - 6 days, for it to start cooling and achieve minus (-55). Unless it achieves minus (-55), we cannot start the process. Similarly at the time when we shutdown also, for it come to normal condition it will take. So we can almost take total quarter barring about 10 days to be the period taken for freeze drying refurbishment.

Sudarshan Padmanabhan: And what would be the volumes from this freeze dry, I am just trying to understand on year-on-year basis, what was it done last year and what was it done this year?

KVLN Sarma: No, broadly we could have done about 1000 to 1200 tonnes extra.

Sudarshan Padmanabhan: Okay, and on the other dry spray?

KVLN Sarma: Yes, then spray dried as we told, there were some samples that were to be given and here also we have carried refurbishment on spray dried. So the production that was after lost or affected was to the extent of about a maximum of 1000 tonnes or less.

Sudarshan Padmanabhan: And in terms of value, what would the loss?

KVLN Sarma: In terms of value, both where it could have been in the range of about anywhere between 50-60 crores.

Sudarshan Padmanabhan: Okay, 50-60 cores and even if you adjust for the 50-60 cores, you would have remained kind of flat for the full year or little lesser also?

KVLN Sarma: When I projected the production loss, it was an average production. As an average production if I take about 50-60 crores, at 140 it would be around 220-230.

Sudarshan Padmanabhan: Okay, in that case we should have done something like around 160 crores instead of something like around 100 crores kind of number?

KVLN Sarma: No, right now with all these, we have achieved about 145 crores.



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Sudarshan Padmanabhan: That is on the consolidation side. On the standalone side, I am just trying to break how it would look like?

KVLN Sarma: On the standalone side, we should have done around 160-170 gap.

Sudarshan Padmanabhan: Okay, standalone would be about 160 and on the consolidated, we should have done something like around 200 and little bit more probably?

KVLN Sarma: 225 to 240. Because it is not exactly, you can relate it to the production loss, there are some stock build-up with us which is yet to be dispatched and pre-shipment samples we do. There is some accretion to stocks and there is some work in progress which is almost at the edge of finishing. So these put together it would have reached whatever we have achieved last quarter that is around 250 crores.

Sudarshan Padmanabhan: Okay, sir in terms of realization, one thing that we have been reading quite a bit is the fact that coffee prices have been kind of moving up across the board. I am just trying to understand as a business, one is as your coffee price moves up and your realization will also move up to that extent you will also get a push on your topline, is my understanding right?

Rajendra Prasad Challa: Partly right, not always. For the new client, it will average out. When the prices go up, there is a defence strategy but more or less, very small percentage, up or down we will be there.

Sudarshan Padmanabhan: If we were supposed to adjust for the one-offs which I think you had mentioned earlier that 250 crores, last year we have done something like around 230-240 crores right in terms of sales? Now what I am trying to understand is there is a component of realization which would have benefited us on a year-on-year basis, so is my understanding right if the volumes this year would have been a little lower because of a higher base of the last year or something like that?

KVLN Sarma: No, it depends on various factors just not that one realization factor because it is not a vanilla product. It depends on whether we are dispatching more of freeze dried products or more of a spray dried products or within this spray dried products if we are selling more of small packs, then obviously there will be a value addition and consequently the topline will also would be higher. So that is why it is not exactly comparable on a quarter-on-quarter basis because it depends on the mix that we are dispatching during that quarter.

Challa Srishant: Going further a little bit, for example certain super markets which keep tendering for coffee every year, they take the coffee sometimes in different quarters also. This is one of the main reasons why we always mention that do not look at our company on a quarter-to-quarter basis, look at it only on year-to-year basis. In that particular financial year, the customer normally places an order one year in advance. So we know that we have to dispatch certain quantities



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and everything to that customer during that year. That is the reason why we do not look on a quarter-to-quarter basis.

Sudarshan Padmanabhan: Sure and just one last thing from my side, when the realization goes up, your coffee bean prices also move up. So I mean just to understand on how the margins move normally in a phase where your realization of the coffee price dropped, probably you maintained the EBITDA per tonnes, so optically the EBITDA margins look up, but on an upward trajectory trend, is it the reverse that your realization goes up and your coffee bean prices move up and you still maintain the EBITDA per tonnes therefore your absolute EBITDA per tonne remains constant but your margins kind of come reflect a little?

Rajendra Prasad Challa: No, Mr. Sudarshan please, this is little tricky here. The reason is our endeavour is to maximize because we do so many products, so many countries, so many client tests. For every each contract, we see that we get the best deal. So it is very difficult to quantify and tell on this quarter this happened or this client it will happen because our endeavor will always be to do more value addition products and also it could be like a supermarket to want a special product, we do that. Very unfair to ask to quantify it, it is impossible. Whatever we tell, it will be go wrong.

Moderator: Thank you. We have our next question from the line of Mr. Saurav Patwa from HDFC Mutual Fund. Please go ahead.

Saurav Patwa: Just wanted to understand, can you share the breakup of the inventory because the inventory has gone up sharply, so how much of it would be raw material, how much would be finished goods?

Rajendra Prasad Challa: No, see the inventory, most of it is all pre-sold product only. Stock, we do not keep any green coffee, very small quantity only will be there. Sarma did explain to you that unless we get the bill of lading to hand, we do not take it as sales.

Saurav Patwa: Understood sir, from March we had some Rs. 100 crores of raw material inventory on a console basis, so how much of the current 230 odd crores would be raw material?

KVLN Sarma: Yes, there is an inventory buildup now because both the plants are ready for full scale production and thus we have built up the inventory because we have to execute all the contracts at a faster pace now. We would have seen that the receivables have come down by the same token because there were no major dispatches here in this, but since we have to get ready for the full scale operations, the inventory was built up at this context.



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- Saurav Patwa:** Similarly sir, our current short term borrowings have also increased by some 20-25 odd crores, so normally since we were not, is there any specific reason, is it this because of the CAPEX which we did or maintenance expenditure..?
- KVLN Sarma:** Same answer applies when the inventory builds up, the short term borrowings are also likely to go up.
- Saurav Patwa:** So all of these are related to the maintenance.
- KVLN Sarma:** Yes, most of it is for the increase of the current assets buildup that we have used in. Also during this period we have paid a dividend and other cash outflows.
- Saurav Patwa:** Okay and sir just last thing, so post this, so how do we see the current year full year so as we understand like and we agreed to Mr. Srishant that we should not see this on a quarterly basis but how do we look at the whole year now 2017?
- KVLN Sarma:** We are still looking at targeting to achieve a 15% to 20% growth during this year as well.
- Saurav Patwa:** Growth in revenue?
- KVLN Sarma:** Both bottom line and our revenue is dependent on coffee prices, topline is dependent on coffee prices, so wherever we mentioned about the growth rate, it should be taken as profits only.
- Saurav Patwa:** So you still expect 15% marked growth in..?
- KVLN Sarma:** Yes, we are targeting like this.
- Rajendra Prasad Challa:** Yes, that is it from last year.
- Moderator:** Thank you. We have our next question from the line of Mr. Ravi Kant from Dimensional Securities. Please go ahead.
- Ravi Kant:** I just wanted a breakup of production in freeze dried and spray dried in Vietnam and India?
- KVLN Sarma:** Vietnam, there is no freeze dried product plant at all and in India also as we have just informed 80 days out of a quarter with the freeze dried product not stopped.
- Ravi Kant:** Okay, so what was the capacity production, capacity for freeze dried, annual capacity if you say?
- Rajendra Prasad Challa:** We normally do not give the numbers that has been the strategy right from the beginning. It is determinant to the company and the shareholders.



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Ravi Kant: Okay in Vietnam you have 10,000 capacity, but is that the liquid coffee capacity included on this?

Rajendra Prasad Challa: No, the liquid coffee is included in the 10,000 but that is used, the liquid is used to enhance the product of the spray dried what it is there. So we do not separate out the liquid coffee.

Ravi Kant: Okay, so now a few broader questions, when overall instant global coffee market is growing at around 4%-5% and we have been growing at around 10%-15% in terms of volume, so what is the thing that is helping us to grow above and industry growth rate?

Challa Srishant: Actually the global coffee growth is only at 2.5%, not even 4%-5 %. We have been growing at the rate of more than 10%, double digit growth for multiple reasons. One, we are already the largest private label player in the world. We have larger volumes, so we are targeting customers who consume large volumes. If we had one single customer every year, we can actually add 10% additional capacity that is the size that we have grown to. By virtue of economies of scale and by virtue of having multiple products, we are one of the only companies in the world that can do more than 200 different qualities from our factories. There is no other manufacturer who can do this. That has been a biggest trend. We have been focussing a lot on R&D and creating new products for our customers as well. So apart from this, we have right partners in various countries who are helping us grow and were growing themselves as well and they have been with us for more than 25 years.

Ravi Kant: Okay, so who are the major competitors who have at least comparable products that we are doing in Vietnam or Brazil?

Challa Srishant: You have other companies in all over the world. We have competitors and customers. Some of our customers are our own competitors as well. So we have lot of smaller people throughout the world who have been manufacturing coffee, each one is in a different segment altogether. We are in a unique position where we are able to tap into several markets because of our expertise. We are able to capitalize on our strength which is what we have shown a consistent track record for the last may be 10-15 years also where we have consistently achieved a double digit growth year-on-year.

Ravi Kant: So as you mentioned, your customers are also your competitors, even I found in some articles that clients like Nestle and Starbucks have started more outsourcing the product. So any number to share on that front sir?

Rajendra Prasad Challa: No, Starbucks does not have a real instant coffee as such okay. Starbucks has very small plant that most expensive plant in the world. The quantities are just in, may be some few hundreds of tonnes that is all they manufacture. That is only one Colombia only they produce. Nestle is a different story, Nestle is a brand owner. We used to be one of their clients, this part of the



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world Nestle used to buy suppliers, but there are many other big players in Europe and in U.S. who are competitors as well as also our clients.

Ravi Kant: Okay coming to the freeze dried versus spray dried, how are the margins at the EBITDA level sir, any number to put on that?

Rajendra Prasad Challa: Generally, what happens is this detailing margins, we normally do not give. I can just broadly tell freeze dried is a better realization.

Moderator: Thank you. We have our next question from the line of Mr. Abhishek Anand from Centrum. Please go ahead.

Abhishek Anand: Yes, just wanted to understand now we maintaining a guidance of around 15%-20%, so in the second half has to be substantially better. So just wanted to understand that if we need to do around 80 to 90 crores in the second half, a) do we have a visibility to do that much bottom line and secondly, obviously some of the customers would have met their requirements during this period when we were not supplying to them, so is there a risk to this number that we are talking about?

Rajendra Prasad Challa: Till date whatever we have talked, I think we have maintained. So we are still hoping and normally clients do not go away like that, our clients at least in instant coffee for the past 20 years we have not seen. Generally what happens is all our clients, they do not buy for next month or next day. They buy for long term, they understand the problems. So we are still hopeful that we will achieve.

KVLN Sarma: Last quarter, we did 40-41 crores profit. So on the coming two quarters are anyway peak quarters for coffee business. That is the same profitability as we achieved last quarter also, we will reach around 85 crores to 90 crores which would reach.

Rajendra Prasad Challa: However whatever we have said, we are confident still.

Abhishek Anand And sir when we started in the Q1, we were talking about this 20%-30% growth which obviously because is that which we have reduced to around 15-20 is because of largely the unanticipated delay that happened in the facility?

Rajendra Prasad Challa: Yes, that is correct, absolutely right.

Abhishek Anand: Sir earlier how much were we estimating will be the shutdown period for the plant?

Rajendra Prasad Challa: Maybe we start around 45 to 50 days.



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- Abhishek Anand:** Okay and sir if I look slight in the future, what growth are we looking at in FY18-19, what is our target over the next 2 to 3 years?
- Rajendra Prasad Challa:** 2 to 3 years, I think we will already have that freeze drying tree also in, so we will do very well. So frankly we are expecting the same 15%-20% year-on-year. Two-three years from now, we are going to do this new project in Chittoor, that also we will be in production by that time.
- Abhishek Anand:** Sir as of now today whatever capacity is that we have, what is the maximum revenue or bottom line that we can do from those?
- KVLN Sarma:** That again depends on the coffee prices.
- Rajendra Prasad Challa:** The problem is the green coffee prices go up, everything, all our numbers will go down, will go totally haywire positive only always.
- Abhishek Anand:** Sir considering today's scenario, if today like-to-like basis just on a capacity utilization basis, I just wanted to understand where do we stand?
- Rajendra Prasad Challa:** We should be good anywhere between 175 to 200 crores.
- Abhishek Anand:** This is on standalone basis?
- Rajendra Prasad Challa:** No, consolidated including Vietnam.
- Abhishek Anand:** Okay, 175 to 200 crores?
- Rajendra Prasad Challa:** Yes.
- Abhishek Anand:** And Chittor facility will add to that?
- Rajendra Prasad Challa:** That is right.
- Moderator:** Thank you. We have our next question from the line of Abhijeet Akela from IIFL. Please go ahead.
- Abhijeet Akela:** You mentioned this 15 crores amount spend on the whole maintenance exercise, so is this all entirely expensed in the P&L or if some of it capitalized?
- KVLN Sarma:** More of it, 80%-85% of it is on a revenue expense.
- Abhijeet Akela:** Okay, and besides this, were there any other maintenance expenses also or this is?



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- KVLN Sarma:** We have spent some on pollution control equipment etc. but we get 100% depreciation on that. That is to the extent about 4 to 5 crores.
- Abhijeet Akela:** Okay, and so this 15%-20% profit guidance that you are giving for the year that is inclusive of this, after considering this 15 crores expense?
- KVLN Sarma:** Yes, that is already booked into the books that is how the figure is 5 crores this quarter.
- Abhijeet Akela:** Right and this refurbishment, just trying to understand why the need to take all these things simultaneously in this quarter sir, after how many years are we doing this and now next when do you anticipate we might have to do it again?
- Rajendra Prasad Challa:** I think this we did almost first time after we started the freeze drying plant. So it is 10 years old. So we are confident for next 10 years, I do not think there should be any issue unless something major thing happens.
- Abhijeet Akela:** Okay, similarly with Vietnam?
- Rajendra Prasad Challa:** That is right, correct.
- Abhijeet Akela:** And beginning of the year we have talked about may be 12%-15% volume growth for this year, so after this shutdown, is that still achievable, do you think or?
- Rajendra Prasad Challa:** We are confident Abhijeet.
- Challa Srishant:** Volume growth is going to be mainly because of the increase in green coffee prices as well. So that is the reason why we are still maintaining the same volume.
- Abhijeet Akela:** Yes, no volume would be?
- Rajendra Prasad Challa:** No, what you said is right.
- Abhijeet Akela:** So you think you can still achieve that 12%-15% guidance?
- KVLN Sarma:** Right, we are anticipating that with this refurbishment, there might be a slight improvement in the productivities as well and the quality of the product. So the profit guidance as revised is achievable. On the volume side, anyway this manufacturing capacity which is already lost is lost but we should be able to make up most of it. If there is a slight 5% increase in production as we are anticipating, then we should be close to what we have planned at the beginning itself.
- Abhijeet Akela:** Okay and then for next year 2017-2018, whatever production targets you would have had, that should largely be unchanged, right?



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- Rajendra Prasad Challa:** Yes, absolutely correct, we will achieve.
- Abhijeet Akela:** Right, so the similar 12% to 15% volume growth should continue on a year-on-year basis going forward?
- Rajendra Prasad Challa:** Yes.
- Abhijeet Akela:** Right, great. Finally one last question sir, just on the export incentive side, looks like we have booked some revenue from export incentive this quarter, I see around 4 crores in the other operating income, so has that money started coming in and how much can we anticipate on that this year?
- Rajendra Prasad Challa:** Yes, some parts of the procedural formalities are sorted out and we started getting deals. But right now, we are not able to get exactly what would be the figure by the year end. Maybe with some procedures easing out, we should be able to get at least 10 to 15 crores this year.
- Abhijeet Akela:** Okay, understood sir, just if I may just one humble suggestion, it would be great if we could have been informed about these plant shutdowns in advance.
- Rajendra Prasad Challa:** No, one this is the problem, frankly we were little also surprised as you said, we thought it was normal but when a freeze drying plant, I am sure I do not know whether you have seen the cold room unless we open and see, then only we realize there are some of the equipments which have to be replaced. We also did not anticipate and replacing them took us some time because that has to ordered from different country. This is nobody else has done this kind of thing, so we have the only plants in the country to do freeze drying. So this is something which is unique for us also.
- Abhijeet Akela:** Right, so when is the date when it actually started resume normal production sir after the shutdown?
- KVLN Sarma:** Towards the 25th September.
- Abhijeet Akela:** So basically one week back and since then you are seeing production happening just as per the....
- Rajendra Prasad Challa:** Yes. One week we took us also for the cold room.
- KVLN Sarma:** Cooling has to take place before we start. For us to achieve minus (-)50 degree centigrade, it takes about 5 to 6 days and then the process is normal now.
- Rajendra Prasad Challa:** As we speak, most of the technicians still in the plant, or seeing lot of things, observing and all that.



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- Moderator:** Thank you. We have our followup question from the line of Mr. Saurav Patwa from HDFC Mutual Fund. Please go ahead.
- Saurav Patwa:** Just as you mentioned that this whole maintenance expenditure was taken into revenue, can you just help us like where all you would have taken in this because most of the expenses seems to be growing in line with the fall in sales?
- KVLN Sarma:** That will get reflected in the other expenditure, statement that you are getting. The other expenditure is not on a ratio proportion to the last quarter if you see. The additional expenditure is maintenance.
- Saurav Patwa:** All of this is reflected in this and we have some capital work in progress which is a very small amount but nothing to do with this maintenance CAPEX, right?
- KVLN Sarma:** No. We are establishing some pollution control equipment for which it is still in capital work in progress.
- Moderator:** Thank you. We have our next question from the line of Baidik Sarkar from Unifi Capital. Please go ahead.
- BaidikSarkar:** Could you help us quantify what the total credit of export incentives, what was the total quantum at our disposal at this point in time?
- KVLN Sarma:** Export incentive, we have to receive around 25 crores as of now.
- Baidik Sarkar:** Okay, so how much of that have we received, I see we booked close to be may be 3 or 4 crores this quarter?
- KVLN Sarma:** We booked 4 crores. We have about 2 crores or so in hand which would be receiving this today, tomorrow. But there is a lot of formalities and the formality glitches have not yet been completed, so the documentation part is taking a little more time and we are making an effort to realize as much as possible but on a conservative basis, we targeted to get at least another 10 crores by the year end.
- Baidik Sarkar:** So I am just trying to understand, it has been more than a year of memory, so it is right, what exactly are these procedural issues, like sir it has been more than a year and there still seems to be no clarity on the timelines or if you could just help to understand that?
- Sridevi Dasari:** Actually this SEZ licenses are non-EDI interface, so they have to be again rechecked with customs department which is taking almost more than a month time to realize each and every



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license. Earlier within 4 to 5 working days we used to get the amount but now even though the license are in hand, we have to wait for one, one and a half month to get it realized.

- Baidik Sarkar:** Right, so the 4 crores that we have booked in this quarter obviously pertains to FY16 right?
- Sridevi Dasari:** Yes.
- Baidik Sarkar:** Okay, so can you tell me what the balance outstanding for FY16 is and how much have you accrued in FY17 so far?
- Sridevi Dasari:** Almost 14 crores are still there.
- Baidik Sarkar:** So, 14 crores pending for FY16?
- Sridevi Dasari:** Not 14 crores, 12 crores.
- Baidik Sarkar:** 12 crores for FY16 and how much we accrued in 2017?
- P. S. Rao:** One policy we are maintaining is that we are accounting them on receipt basis, cash basis. Accrual basis, it is not being done because in this respect of licenses, some quantifications and qualifications are there were, some part of the exports they are permitting and other they are not permitting. So in respect of licenses, we are booking on a receipt basis.
- Baidik Sarkar:** No, I appreciate that Mr. Rao, I am just trying to understand in our estimate, how much do you think we are yet to receive?
- P. S. Rao:** The total receivable if all our claims are cleared would be around 25 crores, of which we have already received 4 crores or so and we are targeting to at least realize another 10 to 12 crores during this current year.
- Baidik Sarkar:** Right, okay. Second half if you could help us with the CAPEX timelines for your new Chittoor plant?
- P. S. Rao:** CAPEX, we should start implementing it from around December onwards. The first part of the advance for the major equipment was already paid during last February which is reflecting in our balance sheet also, long-term loans and advances and next part per the implementation part, the CAPEX will start being spent from December onwards.
- Baidik Sarkar:** Okay, by when do we expect the plants to be up and running?
- P. S. Rao:** 2018 January we should be completing and 2018 March – April, we should be on commercial production.



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Rajendra Prasad Challa: We are waiting for some of this SEZ. We have made part of the Chittoor land we have converted into SEZ. So that is why we are just waiting for some formality, government, the inspection, these that we have already applied. As soon as that is done, then we are ready to do the foundation and all, all the designs, drawings, everythings are ready.

Baidik Sarkar: Sure thanks. Dr. Prasad, again what would be the capacity for this be, if you could help?

Rajendra Prasad Challa: About 5000 tonnes freeze dried plant.

Baidik Sarkar: I was referring to your branded sales in the B2C market in India that is branded as CCL coffee, I am just trying to understand how that might have done so far this year?

Challa Srishant: We have seen almost 150% growth compared to last year same corresponding quarter. We have started undertaking more marketing activities, sampling, activations basically. We started with the Guntur district where we started in promotion activities and the response was fantastic. So that is one of the main reasons why we have seen a substantial offtake in brand acceptance compared to last year. And now we want to replicate the same marketing setup in other districts as well.

Baidik Sarkar: Last given that you are anywhere is still to maintain about 15% growth in bottom line this year and given that the capacities are also at close to high utilizations, any bottlenecks that we might face in the future that might prevent us from doing this from the production side of it, from the operation side of it?

Rajendra Prasad Challa: Production is now, there we should not be any issue with this especially what we have done all the refurbishing and few additional equipment for automation what we have done, production should not be an issue in future.

Baidik Sarkar: Okay and any stress that you are witnessing in realizations?

Rajendra Prasad Challa: That also should not be because the clientele as I told you that we have upgraded, some technologies are again added, then we examined all. So we should be able to easily maintain this. If at all something happens, it should happen positively and it should enhance our bottom line, not the other way round.

Baidik Sarkar: Okay, any update on the licensing resume in U.S.? How is that progressing?

Rajendra Prasad Challa: Now election is coming up, while last time also we did mention nothing moves till November ends. So may be around first quarter of next year should be the right time to talk about who comes and all, but we are very confident, our collaborators, our former director is very bullish about this. In fact, Srishant is having meetings with most of them. This month end, he is



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having meeting several including with some of the officials, so we will know more, we are confident that by next year things will have positive effects.

Baidik Sarkar: Okay sir the last question before I get back into the queue. Srishant again mentioned that the global coffee volumes are growing at a rate of more than 2.5% whereas our volume aspiration growth is 12%-15%, I am just trying to understand what is driving this incremental?

Rajendra Prasad Challa: Wholly our clients, see we have always maintain, when a new client comes, we give first a plain vanilla product, okay, he starts with the guy who does not know A, B, C, D about coffee is our client. So he starts like that, then goes to green, then he sees what he can sell, thanks to the big voice who are there in the market for more than 100 years. So the margins are good for any new guy to come which is own brand. So depending on that, then we upgrade him to the next product which is agglomerated coffee, then he goes to freeze dried. So he gets the full basket of all the 3 products. So all our growth is only coming from our existing clients. So that is where we show to the other country, other clients that is the reason if you see we have keep on adding clients and adding countries.

Baidik Sarkar: Could me help us understand what proportion of revenue say in FY15-16 and H1 FY17 might have come from new client wins, new logos?

Rajendra Prasad Challa: Whatever capacities we have added has come from that.

Baidik Sarkar: I beg your pardon, whatever capacities you have added in Vietnam?

Rajendra Prasad Challa: Always, whenever we are adding capacities, what we do, first we make the survey. We do not operate on a year-to-year basis next 3 years okay, who are the clients, what their requirement could be? Like that we keep on doing it. So there are some major super markets who we participating tenders. So these are the guys who give us indicatively. If there is a requirement of 1000 tonnes, we prefer to have an additional capacity of only 500 tonnes. So this way wherever whenever we are creating an additional capacity, by the time any plant is put up, it takes at least 2 to 3 years. So by the time, we will be full with the capacity utilization also.

Moderator: Thank you. We have our next question from the line of Kartik Mehta from Canara Robeco. Please go ahead.

Kartik Mehta: My question was that in one of the questions you answered that your normalized adjusted revenue at the console level could have been to 240 crores had this plant shutdown would not have taken place. So which would be almost at par to the last year console revenue, so that means we would not have seen the volume growth in this quarter Y-o-Y.



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P. S. Rao: No, that is what I said no. Topline is not the indicator. Topline depends on the movement of green coffee prices and also the mix of food products that we dispatch. So topline and net profit ratios are not exactly same for all the quarters uniformly.

Kartik Mehta: So you mean the volume growth would have been much higher 15% sort of adjusted for this plant shutdown if you have to look at that way.

P. S. Rao: What we have calculated and answered was in respect of the production that we lost. So last production we have calculated on an average basis. There would have been an improvement in the production as well but since it is a hypothetical figure in any case.

Kartik Mehta: So basically you are saying that 12%-15% volume growth and 18%-20% profit growth for the FY17 you are still confident.

P. S. Rao: I would always suggest that you take the indicators for the profit growth only because in respect the volume growth, there is a slight problem because we do some products which have lower productivity and higher margins. We get a price that is compensating the lower productivity and also enables higher margins. So same 1000 tonnes will not be used the same profitability and will not take the same machine type. So we would rather suggest that whatever indicators we are giving, we taken in with profit growth perspective only because there are several elements that will influence the production, the mix and the volume growth.

Kartik Mehta: And sir I probably miss this inventory explanation which you said that from 148 crores as on March, it is now 232 crores. So what could be the reason behind that?

P. S. Rao: It is because we have now got the plant ready and we have to run it at a full capacity. So we have built up enough inventory because we have already booked as you know we book orders and cover the inventory also then and there back to back. So since we have to deliver all these material, we have built up the inventory first and also as I told there is an inventory accretion, the finished goods accretion owing to non-approval of this post-shipment samples, pre-shipment samples etc. So these all put together, there has been build-up in inventory.

Kartik Mehta: Large part would be green coffee inventory right?

P. S. Rao: Large part is green coffee.

Moderator: Thank you. We have our next question from the line of Tushar Bohra from Reliance Capital. Please go ahead.

Tushar Bohra: Couple of points, a) this shutdown that we had for the refurbishment, were the clients informed in advance?



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- Rajendra Prasad Challa:** Yes, always we do.
- Challa Srishant:** We have even executed some of the orders in quarter 1 also because we did not want to hold inventory and then dispatch in the second quarter.
- Tushar Bohra:** Okay, so how much of the production was upfronted in Q1?
- Challa Srishant:** As in whatever the customers required in Q2, we have informed them and will produce it in Q1 or in Q3.
- Tushar Bohra:** Exactly, so how much of the percentage, let us say we lost about two and a half thousand tonnes across the two plants.
- Challa Srishant:** Yes.
- Tushar Bohra:** So how much of this we would have compensated for in Q1 and how much we want to do in Q3?
- Challa Srishant:** Very difficult to estimate an exact number for something like this, may be about..
- P. S. Rao:** If you take a coffee season cycle, first quarter and second quarter are slightly linear periods and we have indicated to our suppliers that we may not be able to supply the respective products for about a month and half. So accordingly, they build up inventories as they needed and some of them we said we will be able to supply only during September. We ensured that the suppliers are not put to any hardship nor would they go in for an alternative source.
- Tushar Bohra:** Okay, so I am assuming sir that because we had estimated about 45 days to 50 days of shutdown for the freeze dried specifically that is the period we would have budgeted for and may be what split equally between Q1 and Q3 in terms of supply. Is there a fair estimate?
- P. S. Rao:** It could be, it is like that but we cannot produce beyond the capacity even in Q1. So the brand owners have stocked enough inventories to carry on up to September and then first there was a slight delay for another 10-15 days, but we have started supplying them and from now onwards it will be full.
- Tushar Bohra:** In terms of the cost that we have booked, I know we mentioned 15 crores as the cost. This is only pertaining to the refurbishment or does it include let us say, the plant could have been running, there would be other expenses related to maintaining the plant that we have to book anyways like employee cost etc.



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P. S. Rao: Repairs and maintenance cost that we projected is only on account of spares and machine related expenditures made along with the contractors' payments who have attended the refurbishment work.

Tushar Bohra: So let us say if we would had a full quarter of production whatever the cost would have been incurred in terms of power expenses etc., employee expenses, etc. which would have been divided over the full quarter. In our current case in Q2, we actually divided over a much lower period?

P. S. Rao: Right, but power we may not have consumed proportionately because freeze drying plant will take lot of power. So power was proportionately reduced, employee costs remained the same and we have to distribute it among the revenue that we had.

Tushar Bohra: Okay, so just sense this 15 crores what would be the all inclusive cost that we can apportion to the refurbishment including any other loss of production or anything else. Over and above this 15 crores, what would be all-in cost?

P. S. Rao: 15 crores is all-in cost of refurbishment which includes spares, any fabrications that we have to done, the engagement of foreign technicians and the contractors to execute the work. Our staff have supervised distributing work among themselves, our staff have supervised the work being done by the contractors.

Tushar Bohra: Understood sir, I will just put it slightly differently assuming that things had gone on as normal, assuming that there was no refurbishment, would the margins for our production this quarter what would be the kind of margins we would look at?

Rajendra Prasad Challa: Assuming before refurbishment or after refurbishment, we are expecting that the operating cost will come down subsequent to the refurbishment. Earlier to refurbishment, the efficiencies have slightly come down that is why we have taken a decision to refurbish. In any case, repairs and maintenance there would have been an improvement in the profitability by another 7 to 8 crores because we do some normal maintenance also.

Moderator: Thank you so much. We have our next question from the line of Karishma Kothari from Edelweiss. Please go ahead.

Karishma Kothari: Just wanted to know how much CAPEX would be for the current year. You had said that after December you would start enquiring CAPEX for the Chittoor plant, so how much would be the quantum?



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P. S. Rao: Chittoor plant, the estimated CAPEX is about \$40 million, we have already tied up finances for that. We have already spent more than 4.5 million Euro that means about \$5 million from our side. The rest is already financial tie-up is made and we start spending it from December.

Karishma Kothari: Sir then for this year how much would be the amount which should be spent?

P. S. Rao: We tried to be as conservative as possible. We would be paying only a few advances for capital equipment for the balance equipment. We have ordered the main equipment anyway for which we have paid \$5 million advance. We might be spending another 3-4 million on giving initial advances to the supplier. Then during next year we might have to spend more amounts as and when delivery takes place.

Karishma Kothari: Okay and sir one more question, for this quarter tax rate was quite high if I am not mistaken as compared to the previous quarter, any particular reason for that?

P. S. Rao: The numerator was low, rate was high, the profitability was low.

Karishma Kothari: Sir just wanted to know for this quarter the tax rate was quite high as compared to the previous quarter, any particular reason for it?

P. S. Rao: The net profit was low.

Karishma Kothari: So the same quarter last year percentage was 26%, the tax rate and this time it is 29% and Q1 was 22%, so any reason for the difference?

P. S. Rao: There, the profit was higher and as and when Vietnam profit is larger, the tax rate would come down because Vietnam is a zero tax status. On a consolidated basis, Vietnam's contribution to the profit is larger, then the tax rate will come down. Since in Vietnam also, we have taken shutdown and the profitability has slightly come down, the net tax rate has gone.

Karishma Kothari: Sir any guidance on the full year tax rate, would it even out?

P. S. Rao: That would even out.

Karishma Kothari: Okay, sir for the full year approximately 22%-23% would be the tax rate?

P. S. Rao: It should be in the range of about 24%.

Moderator: Ladies and gentleman due to time constraint that was the last question. I now hand the conference over to Mr. Akhil Parekh for closing comments.



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Akhil Parekh: Thanks Rohan, thanks a lot everyone for attending the call. Thanks a lot to the entire management team for taking time and attending the call. Sir if you have any closing comments, please go ahead.

P. S. Rao: We would only say don't worry about this financials, all this will get even out and company is confident of achieving the revised projected level.

Rajendra Prasad Challa: Thank you everybody.

Akhil Parekh: Thank you so much.

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