



“CCL Products (India) Limited Q3 FY 2016
Earnings Conference Call”

February 03, 2016



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CCL Products (India) Limited
February 3, 2016

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*CCL Products (India) Limited
February 3, 2016*

Moderator: Ladies and gentlemen good day and welcome to the CCL Products India Limited 3Q FY 2016 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 the questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing ‘*’ then ‘0’ on your touchtone telephone. Please note that this conference is being recorded. I now hand over the conference over to Mr. Krishnan Sambamoorthy from Nirmal Bang Equities. Thank you and over to you Sir!

Krishnan S.: Thanks everyone for joining the call. We will go ahead to the management for opening comments after which we will move on to the Q&A session. Over to the management.

C. Rajendra Prasad: Krishnan, good afternoon I am Rajendra Prasad. I have Srishant our Managing Director, Mr. KVLN Sarma, the CFO, Mr. P. S. Rao, Company Secretary and Ms. Sridevi, Company Secretary. I will ask pass on to Srishant to make the opening statement.

C. Srishant: Good afternoon everyone. I would like to start with the financial analysis. For the third quarter the company has achieved a turnover of Rs.212.92 Crores. The EBITDA is 46.14 Crores. Profit before tax is 36.44 Crores and net profit is 25.98 Crores.

For the nine months period ended December 31, 2015, the company had achieved a turnover of 667.62 Crores. The EBITDA is 145.06 Crores. Profit before tax is 30.76 Crores and net profit is 85.46 Crores. The EBITDA percentage for third quarter is 22% as against 19% for the corresponding quarter and net profit is 12% as against 10% for the corresponding quarter last year.

EBITDA percentage for the nine months period is 22% as against 20% for the corresponding period of the last year and net profit is 13% as against 11% for the last year. There is a reduction in turnover as compared to its corresponding quarter in the previous year for the following main reasons; one, reduction in green coffee prices from last year to this year, and two, we had given a partial plant shutdown to undertake some maintenance work as well as interface the new equipment, three the US market. The FSMA law has been enacted in the US for the specific provisions pertaining to economic adulteration have not yet been framed. This is another reason we have not been able to penetrate the US market as much as we anticipated before. Four, a few customers have requested us to reschedule the Q3 contracts by a few months. In spite of the global scenario we have very positive outlook towards the coming years for the following reasons. Once the new FSMA law and economic adulteration gets enforced it will open up a huge market for us.



*CCL Products (India) Limited
February 3, 2016*

We have already started getting enquiries from several new customers in the US who are interested in complying with the new law. We have created several new products for these customers and I have sent samples to them for evaluation and we hope to see materialization of these orders during the next financial year and beyond, so the turnover has dropped. The EBITDA percentage increased due to better margins and realizations on value added products. This can be seen in our packing cost which has increased by 208% compared to corresponding quarter last year which means that manufacturing of small pack increased and a sign of increase in margins and profitability.

Lastly we would also like to touch upon one point which we have been receiving enquiries on over the last few weeks that is regarding the Coffee Board of India data pertaining to direct exports which comes on their website. We would like to clarify that this data does not include third party sales. This data is based on fixed green coffee conversion ratio and this information is not conclusive to draw assumptions upon the volumes of the company. As everyone is well aware we manufacture more than 200 blends of coffee including certified coffee. Therefore relying solely on the Coffee Board data is only likely to create more confusion. Thank you.

Moderator: Thank you Sir. Ladies and gentlemen, we will now begin with the question and answer session. Our first question is from the line of Anuj Jain from Value Quest. Please go ahead.

Anuj Jain: Thanks for taking my question. Srishant I have like couple of questions. You talked about the partial plant shutdown. Can you throw some more light like which plant whether it was India or Vietnam and for what period it was shut down?

C. Srishant: In India we had given a partial shutdown in December and we had installed certain new equipment and we had to interface the same with the rest of the equipment.

Anuj Jain: For how long it was shut down?

C. Srishant: This was may be for a couple of weeks may be about a week and a half; it was not a complete plant shutdown. It was only certain equipment.

Anuj Jain: Can you throw some more light on the clients like you mentioned that few clients have rescheduled the contract. What sort of rescheduling it was whether it was like deferment whether we will get into new contracts or can you throw some more light on that?

C. Srishant: With each customer we have come up with a different system. I cannot get into the details of what we have done with each customer but due to certain changes in the global climate



CCL Products (India) Limited
February 3, 2016

they had no choice but to request us to postpone and because they have been longstanding customers with us and we want to retain them as customers in the long run as well we have increased volumes with them for the upcoming financial year and we have agreed for reschedulement.

Anuj Jain: The last part like you mentioned the increase in packaging cost by 208%. Are these products sold only in India or are they are exported also?

C. Srishant: Mainly it is exports. India is hardly anything. Mainly I am talking about African market, European markets where packed products are going more.

Anuj Jain: Can you also throw some light on the Continental Coffee sales during this quarter how it performed?

C. Srishant: Compared to last year we have actually increased by almost about 20% or so and now we have gone to almost four different additional states and we are slowly placing the products at the ground level, at the kirana stores, we have hired some lot of new distributors as well. In the last quarter we had appointed about almost 30 new distributors and these people are placing the products all over the place.

Anuj Jain: So is it possible to share any volume numbers regarding the continental brand sales?

C. Srishant: Unfortunately volume is something that we do not want to share because as mentioned last time also this is becoming counterproductive for us. It is creating lot of problems for us once we give that split and other data.

Anuj Jain: Regarding the overall guidance of around 25,000 metric tonnes for the year are we on track or due to rescheduling do you want to like cut the guided revenue?

C. Srishant: With respect to volumes in fact that is one of the points that we had mentioned earlier also. Once we start talking about volumes it is becoming problematic for us even with our existing customers also. So we decided we will just work on turnover basis so that it becomes easier and you can talk about the percentages, profitability and all that, broadly if you want me to say yes, there will be an impact this year because of the reschedulement but that is only to a very limited extent.

Moderator: Thank you. Our next question is from the line of Manoj Johri from Aquarius. Please go ahead.



*CCL Products (India) Limited
February 3, 2016*

Manoj Johri: Good evening Sir. I have couple of questions. One is regarding the postponement of the order. Normally these customers order at an interval of around what period because suppose today if they are ordering you every quarter and they order now if they have rescheduled the delivery by another three months, it means that the Q4 orders that you expected from these customers will be lost. Am I going on the right track?

C. Srishant: Actually no, the customers I am referring normally if it is a short term order we would not even consider a reschedulement. It is only for customers who placed an order more than a year in advance. We have several customers in fact who place an order more than a year in advance and they take deliveries over a period of time. It is only for these customers I am referring to.

Manoj Johri: So if I understand like for FY'17 if these customers place orders every year so but FY'17 sales would not be affected because of this right.

C. Srishant: No 2017 sales will in fact increase because they are facing certain difficulties in their market. We are agreeing to their request on the condition that they are willing to increase volumes or compensate us in some other manner.

Manoj Johri: This sale will be postponed means they will be delivered in the current quarter January to March.

C. Srishant: Need not be current quarter in the next financial year also it could come. It could be partially this quarter, partially next financial year as well.

Manoj Johri: So next financial year there could be a significant jump because one you will be delivering the current lot and also the new orders will be in higher volumes.

C. Srishant: Yes but we will be taking our orders also accordingly whatever orders because we had already planned for certain orders and the request has come in later we would not be able to replace that with new customers immediately with such period of time. For next year we are planning keeping our production in mind as well. So it is not as simple as whatever projection we had earlier plus this volume also. The production capacity also has to be kept in mind.

Manoj Johri: Can you share with me the number of retail sales as a percentage of total sales?

C. Srishant: Less than 10%.



*CCL Products (India) Limited
February 3, 2016*

- Manoj Johri:** We are targeting around more than 10% right?
- C. Srishant:** Over the next five years actually I cannot comment on the exact percentage because we are expecting a volume growth in export sales as well. We are expecting may be a disproportionate volume growth in the domestic sales.
- Manoj Johri:** So on Y-o-Y basis can we expect approximately 20% to 30% as the base is very small a share of 20 to 20% for this retail category.
- C. Srishant:** Definitely more than that in fact.
- Manoj Johri:** Sir the news is that you have entered the four additional states. Can you name that?
- C. Srishant:** We have gone to Goa, Kerala, Allahabad, and Lucknow. These are the areas we have launched our products and UP.
- Moderator:** Thank you. Our next question is from the line of Ashish Gupta. He is an Individual Investor. Please go ahead.
- Ashish Gupta:** Good afternoon Sir. Would you like to retain the yearly guidance of top line and bottom line growth?
- C. Rajendra Prasad:** Bottom line yes. Top line because of the green coffee prices top line it might not be so because of the green coffee but bottom line yes definitely.
- Ashish Gupta:** So 30% growth bottom line and top line we are not likely to be.
- C. Rajendra Prasad:** We are not sure because of the green coffee prices.
- Ashish Gupta:** So we are making top line right?
- C. Srishant:** We were reaching bottom line.
- C. Rajendra Prasad:** Bottom line we will, we might be exceeding the bottom line.
- Ashish Gupta:** Sir, any news on Continental front as in like activities we are doing to expand at continental in India.
- C. Srishant:** Yes we are doing in-store promotion right now and we are placing our product in more number of stores. Earlier we had launched our product only in Andhra Pradesh and



*CCL Products (India) Limited
February 3, 2016*

Telangana and over the last two quarters we have expanded to lot of other states. The four states we expanded to only in Q3 but if you factor in Q2 and Q3 now we are available in almost eight different states.

Moderator: Thank you. Our next question is from the line of Gaurav Maheshwari from Unilazer Ventures. Please go ahead.

Gaurav Maheshwari: Sir, in one of the earlier questions you mentioned that we should be able to achieve our bottom line guidance for the full year but if we see the nine months number our operating profit has grown by just 10% and for that the numbers that we will have to do would be significantly higher.

C. Rajendra Prasad: One of the things missing there is the incentives which normally every year used to come. It did not come because of some glitch in the processing. I said the incentives what we always get from Government of India was not factored in because there is some glitch in the computer system.

C. Srishant: The software has not been updated from the Government side which is why these incentives have not been processed last quarter and claiming that it will be done in this quarter.

Gaurav Maheshwari: But would that be a large number.

C. Rajendra Prasad: Yes substantial you just see.

Gaurav Maheshwari: No because the way we are looking numbers is like we have done 140 odd Crores of EBITDA in nine months and if we go by your guidance it should be least 210 Crores. So the differential is more significant.

C. Srishant: We should be doing close to 195 or so average and even on EBITDA even on net profit also. At this stage we have improved it by 18% to 19% without those export incentives and we are anticipating to close the year with an improvement of at least 25% on the net profit stage also.

Gaurav Maheshwari: So full year guidance you are saying is 25% PAT growth.

C. Rajendra Prasad: Yes.

Gaurav Maheshwari: Sir my second question pertains to what would be your capex plan for this year and next year?



*CCL Products (India) Limited
February 3, 2016*

- C. Rajendra Prasad:** What we have done we did discuss this earlier also. First we wanted to build the market may be there could be possibility of expanding our freeze drying plant but it could come may be after six months we are doing some market research, then only we will, whatever the capex come mostly it will come from internal accruals and very small borrowings because today as of now you see barring the Vietnam plant all our CCL main India is zero debt, Switzerland is zero debt so very small debt is there, not much.
- Gaurav Maheshwari:** But can you give the absolute number in terms of the capex.
- C. Rajendra Prasad:** It all depends on the plant what we are planning and capacities and all that.
- Gaurav Maheshwari:** If that happens it will happen in next financial year.
- C. Rajendra Prasad:** Yes correct the decisions will be made in next couple of months then the implementation will be in next financial too. It will take at least around 24 to 36 months to implement any plant.
- Gaurav Maheshwari:** Any broad guidance on the capex number, it will not exceed X number.
- C. Rajendra Prasad:** It is very difficult to say.
- C. Srishant:** Depending on the response we get from various markets that will help us decide how to plan our strategy going forward. If we give any numbers right now we will definitely go wrong.
- Gaurav Maheshwari:** One last question was pertaining to the working capital cycle. How has it been in given the difficulty that is in the global environment are we seeing any stress on the debtor days?
- KVLN Sarma:** No in fact the raw material prices are coming down. Raw material prices are coming down and as such there is no stress in fact we have been using lesser working capital then we were doing earlier.
- Gaurav Maheshwari:** On the debtor side?
- KVLN Sarma:** Debtor no any customer if there is a difficulty we will not even discuss now. So on the debtor side there is no problem. Any decision for reschedulement or anything will be taken prior to dispatch only before you becomes a debtor. Once he becomes a debtor once we dispatch the goods the payment terms are to be complied with. There is no exception on that.



*CCL Products (India) Limited
February 3, 2016*

- C. Srishant:** We are one of the very few companies in the world that work in a 100% advance CID basis.
- C. Rajendra Prasad:** We told you also earlier Gaurav that any credit has to be given only to the agents like L.M. Zuckerman our UK guy. They give credit. We do not give any credit to anybody.
- Gaurav Maheshwari:** Just trying to figure out as the change in the global environment.
- C. Rajendra Prasad:** No the instant coffee no.
- Gaurav Maheshwari:** Sir can you also update us on Switzerland plant what is the status there right now.
- C. Rajendra Prasad:** We are now again putting up some new products there. So may be in next six months or so we will have a better idea. As of now I think we have hardly any made a very small loss. Very small loss that is all the depreciation loss.
- Gaurav Maheshwari:** Okay but there is no cash loss in Switzerland plant.
- KVLN Sarma:** No.
- Moderator:** Thank you. Our next question is from the line of Saurabh Patwa from HDFC Mutual Fund. Please go ahead.
- Saurabh Patwa:** Thank you Sir for taking my question. I just wanted to understand our EBITDA per tonne is in line with the previous year or is it improved as our mixed has improved.
- KVLN Sarma:** Per tonne it will be on the same line. Percentage basis there is an improvement because there is a reduction in denominator.
- Saurabh Patwa:** So per tonne it is similar to what it was last year.
- KVLN Sarma:** Yes.
- Saurabh Patwa:** On revenue side realization per tonne.
- KVLN Sarma:** They will change. They are not directly comparable because of the replacement trend in the raw material prices and we are a cost plus manufacturer. So the better guide would be our margins and maintenance of the margins rather than the realizations as such. Between these two years there is a wide variation in the raw material prices. So the top line and the comparison on the average realizations would not be a right factor.



*CCL Products (India) Limited
February 3, 2016*

- Saurabh Patwa:** But EBITDA per tonne is what you would build in on a consisting basis right.
- KVLN Sarma:** Mostly yes.
- Saurabh Patwa:** So that has not improved in absolute terms but as you saying since the realizations come down imprudent in percentage terms.
- C. Rajendra Prasad:** That is right.
- Saurabh Patwa:** Secondly Sir in last quarter we had mentioned that the Vietnam capex is going in line. So far how much we have spent in this year nine months.
- C. Rajendra Prasad:** Vietnam there is no fresh capex that is being done.
- Saurabh Patwa:** So we wanted to double the capacity right.
- C. Rajendra Prasad:** No not now. That is only next year.
- Saurabh Patwa:** It will be done next year.
- C. Rajendra Prasad:** Yes 2017-2018 that also we said once we cross 75% of our utilization then only we will plan. It is only next year.
- Saurabh Patwa:** This year how much utilization you are expecting.
- C. Srishant:** We expect to do 60% to 65% closed to 70% we could do.
- Saurabh Patwa:** Next year we expect to go it higher to 85% to 90%.
- C. Rajendra Prasad:** Yes.
- Moderator:** Thank you. Our next question is from the line of Jignesh Kamani from GMO & Co. Please go ahead.
- Jignesh Kamani:** Hi Mr. Prasad, Srishant and entire team. Sir if you talk about volume growth rate assuming EBITDA per tonne remains same both in second quarter and third quarter our volume has been flat partly during the third quarter. What was the reason that in Q1 and Q3 put together volume has been flat Y-o-Y.
- C. Srishant:** We have already given the four reasons in the opening statement.



*CCL Products (India) Limited
February 3, 2016*

Jignesh Kamani: That is for third quarter but if you talk about second quarter also where the plant was you can say running at optimum level and there was a ramp up in Vietnam, despite that growth has been very flat Y-o-Y.

C. Rajendra Prasad: Very important again coming back do not look CCL on quarter-on-quarter.

Jignesh Kamani: No I combined both quarter put together Q2, Q3.

C. Rajendra Prasad: No you see 12 months then you will see everything is whatever we say it will happen.

Jignesh Kamani: Understood. Second thing you talked about FSMA Guidelines in the USA. Now USA is going for elections.

C. Srishant: I have to just clarify something here. This point about FSMA, in fact, our partner in the US has been trying to get this law passed for a really long time. He was also the President of the NCA the National Coffee Association and what has happened is there is a lot of awareness that has come out in the public saying that they are focusing so much on antiterrorist activities and everything but they are not focusing on economic adulteration and food adulteration which the citizens are consuming and getting impacted negatively. So this is because of awareness, it is not for political reason but because of the awareness that has come about within the public there has been a demand for a law to this effect. That is the reason this is coming into force. In fact the FSMA has already come into force it is only the economic adulteration portion that requires additional budgeting and specific rules to be framed and economic adulteration has not restricted to coffee alone because it pertains to lot of other products. It also involves setting up a national level lab which is important for the enforcement of this particular rules and directions. We have seen the same thing happen in Europe more than 10 years ago. Today we are one of the largest exporters of soluble coffee to Europe because of that strict law that has come into force and today the US market is about 70,000 tonne market, we are hardly present in the market and this is one of the largest markets in the world.

Jignesh Kamani: So change of election and change of guard would not have any on FSMA implementation.

C. Srishant: No.

Jignesh Kamani: So it will be consummated within three months, six months and nine months as per your estimate.

C. Srishant: Yes.



*CCL Products (India) Limited
February 3, 2016*

Jignesh Kamani: Mr. Prasad you told about the freeze dried plant that you are exploring the opportunity but if you talk about India we are running our plant, our land availability is very limited. So it will be Greenfield plant and capex may be higher or there is scope for brownfield plant?

C. Rajendra Prasad: It all depends. I told you frankly at this point of time whatever I say I will go wrong. Just wait may be six months you will have better idea.

Jignesh Kamani: If you talk about export incentive, in the first quarter we received close to around 7 Crores 7.5 Crores kind of export incentive. In the second and third we received only close to 3 Crores. So if you talk about fourth quarter also is it possible to get 20 Crores kind of export incentive for the full year?

KVLN Sarma: No that was what Mr. Srishant was explaining. Some new procedures are set in place and software has not yet been established. So it is unlikely the whole thing will come into this year itself. We are making an effort to get this as much as possible but a part of it will go over to next year.

Jignesh Kamani: Sir what is the export receivable incentives pending right now?

KVLN Sarma: It is about 14 Crores.

Jignesh Kamani: Sir right now Brazil's currency has depreciated a lot. They are now much more competitive in terms of instant coffee because they are one of the largest producer and the supplier both green coffee and instant coffee.

C. Rajendra Prasad: Yes.

Jignesh Kamani: So is it impacting the supply from the Indian manufacturer.

C. Srishant: In fact we had an interesting meeting with lot of manufacturers including the Brazilian manufacturers. What they were telling us is actually point wise. One Brazil is growing Arabica coffees which are in general around 10% higher than Robusta coffee. In any product automatically about 70% to 75% of the selling price pertains to raw material alone, which are 10% higher. Because of the currency devaluation what has taken place in the US automatically the labor cost, the conversation cost and everything else has gone up further. So the actual impact is not at 45%, it is much lesser than that. They have definitely gotten a benefit but not enough benefit to become more competitive than us. One main thing what we have to keep in mind is that the Brazilians have been supplying mainly and exclusively to the US market because of the lack of the law in place, because of that they have been



*CCL Products (India) Limited
February 3, 2016*

able to capture the US market in its entirety and they are competing against major brands in the US market and they are not competing with pure coffee. If you look at the pure coffee segment they are not able to compete with us even today which is why over the last couple of months we have been receiving several new enquiries from customers in the US who are asking us to develop and create new products for them to replace the Brazilian coffees because they are anticipating this law is going to come into force and when it does they do not have the luxury of time to start developing this later. Now these are customers whom we have never had access to in the last 20 years; people who have not even given us an appointment are now coming after us saying that these are the products that we are currently buying. We want you to replicate the same thing in pure coffee. So that is the opportunity that has presented itself now and the fact is everyone is waking up now, they are understanding that this law is going to come into force whether now or later it will come into force. The bigger companies they do not want to wait until they are forced to do it, they are taking steps now itself.

C. Rajendra Prasad: Also very important is the law very clearly in Europe says that the importer is responsible. So that is why they are more scared. So the same thing will apply in US also. Ultimately whoever is the final importer or consumer of that coffee he will be responsible. That is why they want to make sure that they buy the correct product.

Jignesh Kamani: If they want to strictly adhere to the FSMA guideline and the quality requirement procurement will increase by how much percentage any guess.

C. Srishant: We cannot estimate right now because we have to see how strongly they will enforce. For example in Europe the law says if any product is adulterated there has to be a product recall done from the supermarket shelves. The product will be seized and destroyed and the bill will be sent to the manufacturer or the importer. So because the law is so stringent none of the Brazilians or Mexicans are actually exporting to Europe. In the US we are not sure whether they are going to say that official label declaration has to be made with respect to the contents or whether they are going to completely ban this. If a label declaration is made we do not know how the consumers are going to react to it whether they will still buy the product or no.

Jignesh Kamani: But with your experience in Europe when the law was implemented any idea what was the procurement cost increase for most of the brands?

C. Srishant: The big brands are already doing pure coffee so there would not be any difference for them but more than 50% of the market is because of private label brands and for them the procurement cost will go up by an easy 20% to 30%.



*CCL Products (India) Limited
February 3, 2016*

Jignesh Kamani: In Europe when the price is increased have they taken a price hike and pass on to consumers or did they take a hit?

C. Srishant: They will always pass on to the consumers because the margins that are usually kept by the big brands are so high that all these other smaller players have a big margin to play around with, so they will be able to pass on.

Jignesh Kamani: If you talk about Russia since currency is also volatile and the crude is getting impacted any idea what has been the consumption decline in Russian market and are we getting impacted on account to that?

C. Srishant: In fact to an extent some customers, again I have mentioned about the reschedulement as well earlier. Some of these customers are from Russia but interestingly there are several other customers from the Russian market who are currently sourcing from other manufactures who are now approaching us because for them costs are very important and by virtue of being the largest and having economies of scale and everything else we are one of the most competitive in the market. So we are actually getting more inquiries from these markets to shift over to us. People who want their brand to sustain they want to shift over now. All the smaller players, small, small volumes and all lot of them are going out of business as well.

Jignesh Kamani: So net, net there is no drastic impact except postponement of order in Russia.

C. Srishant: Yes there is no drastic impact. Immediate impact has been that we have not been able to fill that volume immediately.

Jignesh Kamani: On liquid coffee is there any development?

C. Srishant: Liquid coffee as we have already mentioned earlier we are using the liquid coffee as a back process to create a more premium product from Vietnam. Earlier our intention was to sell liquid coffee in liquid form but now because everyone is looking at cost saving the same customers whom we were targeting they are slowly shifting over to coffee in powder form. So they are willing to pay a premium to buy coffee in powder form instead of liquid form. In liquid form also there are a few customers who are there but the procedures involved in getting these people and buying their liquid coffee is a bit more complicated and it will take some time for us to increase volumes there. In the meantime even in India we are doing a little bit of liquid coffee as well.



*CCL Products (India) Limited
February 3, 2016*

Jignesh Kamani: Sir any progress on the packaging plant in the US. Have you identified the location and any other you can say?

C. Srishant: In the US last year what we have done is we have gone and done a complete survey. We attended this investment summit in the US as well where lot of states has approached us; they have given us several incentives. They have given us lot of proposals and asking us to set up a unit over there. The reason why we have not taken a decision on that is because we want to have complete clarity with respect to the FSMA and based on the requirements that we see from our customers we will decide what sort of a plant that we have to set up in the US. This is again one of the reasons why we have not mentioned what is the capex that we are going to incur, what sort of project we are going to set up as well. We do not know if it is going to be a partial manufacturing unit or only packaging unit everything depends on the response that we get. Since we do not want to take a chance we want to build up that volume first from India and once we are confident that we have that volume then we will start the process of setting up something in the US.

Jignesh Kamani: Sir in one of the news article there was a concern about our domestic plant in India about environmental issues and some of the local farmers suffering on account that. Can you just elaborate more on that?

C. Srishant: Sure. First I need to bring to your attention that our company is certified under the orange category by the pollution control board because of the nature of the effluent generated at the factory. There is a zero solid discharge from the factory and the effluent water that is generated, which is again organic in nature, is treated and supplied to neighboring farmers after taking written request letters from them. The current issue we have is only with very few individuals who have ulterior motives and are trying to blackmail us for their personal gain. Earlier also they filed a PIL in the High Court and the same was dismissed by the High Court as they did not find any merits in the allegations. The CFO was granted to the company by the PCB after due consideration of the ground realities. We have taken all the necessary steps to adhere to the strict norms and directions given by the PCB. We are planning on refuting all these false allegations made against the company along with documentary proof before the appropriate forum at the appropriate time.

C. Rajendra Prasad: Till now nobody died drinking coffee.

Moderator: Our next question is from the line of Tushar Bohra from Reliance Capital. Please go ahead.

Tushar Bohra: Thank you so much for taking my question. Very good afternoon to Mr. Prasad, Srishant and team. First of all congratulations for being awarded the Instant Coffee Exporter of The



*CCL Products (India) Limited
February 3, 2016*

Year once again. Sir couple of very quick questions. If we can get a sense of let us say how much of fall in coffee price translates to the instant coffee level. So let us say a 10% drop in green coffee price would translate to what kind of prices hedge for us?

KVLN Sarma: The conversion of green coffee is ranging between 2.1 to 2.75. So depending on the product that we are doing it ranges between those proportions on the raw material component.

Tushar Bohra: So 10% impact in raw material price in green coffee would impact us by according to this about 4% on average.

KVLN Sarma: On the raw material component approximately 6%.

Tushar Bohra: Sir secondly just wanted to understand you mentioned about the working capital actually having improved because of the lower coffee prices but specifically the impact on inventory levels and whether you had any inventory loss because last quarter we mentioned that we had procured slightly higher green coffee in anticipation of some of the orders.

C. Rajendra Prasad: One minute Tushar I do not think in anticipation we do not buy anything. We do not buy any green coffee unless we book an order. Postponement and all it is only a matter of small delay that is all. We do not buy any green coffee in anticipation of any order.

KVLN Sarma: On the rescheduled contract there may be inventory carrying cost. It is very small because the borrowing cost for us is minuscule, in fact very low. So even when we are discussing for reschedulement when we are averaging it out we factor this interest or inventory carrying cost also into that and then work out for the rescheduled quantities.

Tushar Bohra: But just to get a sense how much inventory would have increased there or has there been an increase in inventory in general?

KVLN Sarma: Not really because at the same time we were contracting we were executing other contracts and since it is a routine Robusta product we were able to use it in the other contracts and we might slightly get an advantage also because now we will be procuring at a lesser price.

Tushar Bohra: Sir the shutdown that you mentioned about 1.5 to 2 weeks in terms of production capacity what capacity would have been impacted or a sales impact to it?

KVLN Sarma: The impact would be about 250 to 300 tonnes, it is not a matter of significance but these are one of the reasons we mentioned as the reasons for a lower turnover. That is all.



*CCL Products (India) Limited
February 3, 2016*

- Tushar Bohra:** What would be Vietnam utilization till date?
- KVLN Sarma:** Utilization in Vietnam is around 60% right now.
- Tushar Bohra:** Sir do we expect to meet roughly about 75% guidance that we had?
- KVLN Sarma:** We should be ending up with around 65% to 70%.
- Tushar Bohra:** Some of the deferment has actually happened on the Vietnam plant?
- KVLN Sarma:** Not on the Vietnam plant.
- Tushar Bohra:** Because we had maintained I think 75% guidance till last quarter.
- KVLN Sarma:** We are doing right now for specific customers some products where productivity is slightly lower, the quantity might come down but we are compensated for the loss in productivity.
- C. Rajendra Prasad:** What happens is we are making one specific very big client entry we gave. They have some special requirement of the coffee quality. So it is under their guidance we are producing the coffee where the quantity they wanted to be reduced so that they can get a better product for which they are compensating for the loss of production also. So overall if you look at instead of suppose I just give an example we can produce around 35 tonnes per day for them we are doing about 10% less, I suppose, 30 tonnes, so what happens is instead of conversion giving X price they will give us X plus something. This will work out in a long term because they are very big clients and who are going to be with us for long-term. This kind of facility we give.
- Tushar Bohra:** Sir overall realization and profitability perspective this would be more profitable than our high merchant products.
- C. Rajendra Prasad:** You cannot say more profitable because there is a loss of productivity which is being factored in.
- Tushar Bohra:** So I am just trying to understand whether the price realization accounts entirely for the loss of productivity.
- C. Rajendra Prasad:** That will be there. This is again an one off, once in a while it happens but in the long run the client will be there and because we are doing all this; see it is a brand new plant, so once



*CCL Products (India) Limited
February 3, 2016*

we are doing this new products, new lines what happens is then once it stabilizes same way we might get back to 35 tonnes with the same qualities.

Tushar Bohra: In which case then the higher realization will allow us to.

C. Rajendra Prasad: Exactly more profits.

KVLN Sarma: We will not negotiate then.

Tushar Bohra: Sir our existing plant in India is close to full utilization, is that understanding correct?

KVLN Sarma: Yes, as on this year yes. This year we are adding and interfacing the new machinery with the existing machinery, so next year there will be an increase in capacity and we should be able to utilize that capacity also. As on date we are utilizing to the full.

Tushar Bohra: So this new machinery would add utilization by how much Sir, about 5% or so?

C. Rajendra Prasad: It should add another 2500 to 3000 tonnes.

Tushar Bohra: The capex for which is already being done.

C. Rajendra Prasad: Yes.

Tushar Bohra: Now with this Andhra Pradesh Telangana issue being resolved and with so much incentivisation being provided for development of both the states separately do we see any opportunity for us to also to say come up with another brownfield or Greenfield expansion and get some incentives?

C. Rajendra Prasad: That is what Tushar I do not know whether Gaurav was the one who asked just now that is exactly why we are also waiting. One Telangana Andhra is not going to affect us because our head office is in Hyderabad which is in Telangana but our factory is in Andhra which is a new state, so though Chief Minister is talking so many things may be if we have better opportunity we will put up the plant here itself instead of Vietnam we do not know. That is why we are making studies and seeing what kind of benefits we will get.

Tushar Bohra: So we may actually do either one of the two not both; Vietnam or the new plant.

C. Rajendra Prasad: Vietnam is different. Vietnam, one day, it need not be this year, may be next year or the coming year because we already have the infrastructure we need only equipment. Vietnam,



*CCL Products (India) Limited
February 3, 2016*

to double the capacity, will be done very quickly and with very small capex but whereas if we do a complete brownfield or a Greenfield plant which might be done in new state of Andhra Pradesh for which we might require a more capital.

Tushar Bohra: But Vietnam just to sort of go back to a few months with that transpacific pact being signed between US and few other countries including Vietnam I would assume sir we would be a beneficiary of that pact?

C. Rajendra Prasad: Automatically, but what happens is coffee is again frankly all this pacts are only to a certain point but for instant coffee it is again a different client. Client is important. With or without pact the clients drink coffee.

Tushar Bohra: Sir you mentioned about the incentives that have not come in this quarter. So last year we booked about 26 Crores incentives but this year we have outstanding incentives not provided from government for about 14 Crores. This is Sir the second quarter running that we have actually not got the incentives is that correct Sir because last quarter also we mentioned something.

C. Rajendra Prasad: Yes because they have some problem I do not know but they are assuring that they will sort out soon.

Tushar Bohra: So are you expecting that to persist in Q4 should we expect that.

C. Rajendra Prasad: No frankly we do not know. We also want the money, I wish, we do not know yet.

Tushar Bohra: But safe to assume Sir that let us say at least the next quarter Q1 of FY'17 we should be able to get it.

C. Rajendra Prasad: That we are sure.

Moderator: Our next question is from the line of Chirag Lodhiya from Value Quest. Please go ahead.

Chirag Lodhiya: Sir can you just help with the decline in green coffee price in Y-o-Y.

KVLN Sarma: What exactly you want to know about?

Chirag Lodhiya: In a percentage term if you can just quantify.

C. Rajendra Prasad: Price or quantity?



*CCL Products (India) Limited
February 3, 2016*

- Chirag Lodhiya:** No green coffee prices.
- C. Srishant:** As of now I think around 18% to 20% decline has been there.
- Chirag Lodhiya:** In this January month January-February.
- C. Srishant:** As compared to last year very difficult basically. I think something similar.
- C. Rajendra Prasad:** Something you should understand frankly we do not do any kind of trading in green coffee and frankly does not matter at all for CCL because if suppose we are selling coffee today whatever the green coffee price we sell it is only plus, plus what we do. It is difficult to say what the actual number I do not even know.
- Chirag Lodhiya:** In last nine months what has been our volume growth if you can just mention the growth number in terms of volume.
- C. Rajendra Prasad:** Again you are coming back to the same thing.
- C. Srishant:** At the beginning of the call itself we mentioned we do not want to discuss about.
- Chirag Lodhiya:** Just lastly on capacity. So at the end of FY'16 what will be your capacities in India and Vietnam and what will be the capacities in FY'17 end in India and Vietnam?
- C. Rajendra Prasad:** We are adding another around 3000 tonnes to around 18,000 tonnes or so it's in India.
- Chirag Lodhiya:** In FY'16.
- C. Rajendra Prasad:** We can stretch it up to 20,000 though but safely between 18,000 and 20,000 depending on the product. In Vietnam right now we have 10,000 spray capacity and 5000 liquid but as we told we are converting these into powder and selling it as a powder. So the capacity in Vietnam would be 12,000 tonnes and this is on the existing set up. As we were telling if we are implementing an FD project are an expansion there we will announce at the appropriate time that would be the additional capex.
- Chirag Lodhiya:** This 12,000 is at the end of FY'16.
- C. Rajendra Prasad:** Right.
- Chirag Lodhiya:** So when we say 65% utilization so we will be targeting around.



*CCL Products (India) Limited
February 3, 2016*

- C. Rajendra Prasad:** Excluding liquid coffee.
- Chirag Lodhiya:** So basically 6000 tonne kind of volume.
- KVLN Sarma:** Liquid coffees capacity we will come into full commercial use from 2016-2017.
- Chirag Lodhiya:** Sir in FY'17 what will be the capacity in Vietnam expected capacity?
- C. Rajendra Prasad:** That depends on the expansion that we propose to take whether it is in India or Vietnam or if it is in Vietnam then that much capacity.
- Moderator:** Our next question is from the line of Gaurav Maheshwari from Unilazer Ventures. Please go ahead.
- Gaurav Maheshwari:** Srishant, just when you are explaining this US FSMA law so just wanted to get some sense on this FSMA law obviously you are saying is already being passed and economic adulteration law needs to be enacted. So does the elections in US is that impact the decision making over there or is it would not be related to anything to do with politics and to be more of.
- C. Srishant:** This is one of the points that was already asked earlier. I will repeat again. The reason for this law is because of what has happened at the ground level with the people over there in the US. There is a lot of awareness that has come about amongst the public about economic adulteration and the impact it is having on the health of the citizens. So this is the main reason why there is a lot of demand from the public for the law to be enacted sooner rather than later. The FSMA has five provisions which are there which are very important out of which the first three have already been enacted fully. The fourth and fifth are yet to be enacted. The fourth point is this economic adulteration which we understand is going to take some more time to work on the enforceability mechanisms. The rules and guidelines have to be framed. So the current mandate is already there whoever is going to come in it will not do them good to kill this project because it is for the general public end of the day.
- Gaurav Maheshwari:** I agree with that but my only point was that would it be at the back burner and would it be taken okay because they would have much more priorities to look into and this would be?
- C. Srishant:** Unlikely this is one of the main priorities because of the significant impact it has on the general population within the US. This is one idea which was not addressed before because of lack of awareness. Now there are several newspaper articles also that have come out over the last year or two which are talking about going into supermarkets testing various



*CCL Products (India) Limited
February 3, 2016*

products finding out that they have been adulterated and the impact it has on the citizens. It is very unlikely to be put on the back burner.

Gaurav Maheshwari: What is your sense on whether it would be just labeling because if I am not wrong Mr. Prasad earlier mentioned few calls back that your partner was pushing at least the labeling should happen.

C. Rajendra Prasad: Does not matter anything happens it will be advantage for CCL.

C. Srishant: Yes because even if it is a question about labeling is according to the label they want a particular product to be mixed with something like for example even putting chicory in a product amounts to economic adulteration according to the US law. So chicory product is not harmful in fact you can argue that it is also healthy but at the same time it brings the price down of the coffee that is being sold in the market. So products like this also can get introduced in the US market officially, formally and legally. So it again opens up a lot of avenues as well for CCL.

Gaurav Maheshwari: What is the size right now because it is more of a filter coffee market there in the US.

C. Rajendra Prasad: Who said that, it is the biggest market in the world coffee market, 75,000 tonnes.

Gaurav Maheshwari: What is the size of instant coffee there?

C. Rajendra Prasad: 75,000 tonnes,

C. Srishant: 70,000 to 75,000 tonnes of instant coffee is being imported.

Gaurav Maheshwari: My next question was on the 14 Crores of the export incentive you mentioned is pending but it would be accounted for on a receipt basis or you account for it on the accrued basis.

C. Rajendra Prasad: No on a receipt basis only always.

Gaurav Maheshwari: So the 10 that we have received is already received and whatever we receive further that would be accounted for this year.

C. Srishant: Yes.

Moderator: We will take the last question from the line of Dikshit Mittal from Subhkam Ventures. Please go ahead.



*CCL Products (India) Limited
February 3, 2016*

- Dikshit Mittal:** In the light of this delay rescheduling of contracts for this year what will be the volume we will be able to do because till last quarter we are targeting around 25,000. So what is the new guidance Sir?
- C. Srishant:** This is a question which we have already answered earlier as well. Volume is something that we did not want to mention because it is becoming counterproductive for us. We are just talking along the lines of top line and bottom line now.
- Dikshit Mittal:** Because Sir you were saying at least for the full year you are giving the volume guidance right or not on a quarter-on-quarter but full year you are still giving this much volume we are targeting.
- C. Srishant:** Even with respect to the full year the volume guidance is something that we did not want to give because every time we are declaring something like this we have to publicize that. We have to put it on the website and this is being used by our competitors to assess our market and go to our existing customers as well. So this is one of the main reasons why we did not want to give volume guidance at all. We were just talking along the lines of top line and bottom line and general performance in the form of ratios as well and the postponement that we are talking about also are again very small, it is not going to impact us that significantly. If you see from the numbers that we have given now the percentage of profitability has actually increased.
- Dikshit Mittal:** Sir secondly you gave the PAT guidance of around 25% growth for the full year. So have you included these export incentives in your guidance or they are over and above that.
- KVLN Sarma:** We will account that only on cash accrual basis.
- Dikshit Mittal:** So this 25% growth is purely based on the operational thing.
- C. Srishant:** Right.
- Dikshit Mittal:** So if you receive the incentive that will be over and above this guidance right.
- C. Srishant:** Correct.
- Moderator:** Thank you. I now hand over the conference over to Mr. Krishnan Sambamoorthy for closing comments.



CCL Products (India) Limited
February 3, 2016

Krishnan S.: Thanks a lot everyone for attending the call. Thanks a lot to the management for taking time out to attend the call. If the management has any closing comments you can go ahead.

C. Rajendra Prasad: Thanks for hosing this Krishnan.

Moderator: Ladies and gentlemen on behalf of Nirmal Bang Equities we conclude this conference call. Thank you for joining us. You may now disconnect your lines.