



“CCL Products (India) Limited
Q3 FY2019 Earnings Conference Call”

February 14, 2019



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Moderator: Ladies and gentlemen, good day and welcome to the CCL Products India Limited Q3 FY2019 Earnings Conference Call hosted by Nirmal Bang Equities Private Limited. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing “*” then “0” on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Mohit Khanna from Nirmal Bang Equities Private Limited. Thank you and over to you Mr. Khanna!

Mohit Khanna: Thank you Bharat. Good evening everyone and welcome to the CCL Products call without taking much time, I would like to call Mr. Challa, the Managing Director of CCL Products to come out forward for the opening comments. Thank you.

Challa Srishant: Thank you Mr. Khanna for the introduction. In today’s call, we have with us our COO, Mr. KVLN Sarma, our CFO Mr. Lakshmi Narayanan, our CEO Mr. Praveen Jayasuriya, Company Secretary Ms. Sridevi, and our consultant company secretary Mr. P.S. Rao as well. Starting of about the company’s performance, the group has achieved a turnover of Rs.234.98 Crores for the third quarter of 2018-2019 as compared to Rs.274.39 Crores for the corresponding quarter of the previous year and the net profit is Rs.32.6 Crores as against Rs.40.42 Crores.

The EBITDA is Rs.55.21 Crores and profit before tax is Rs.43.37 Crores. For the nine months ended 2018-2019, the group has achieved a turnover of Rs.821.87 Crores as against Rs.820.33 Crores for the corresponding period of financial year 2018-2019 and the net profit is Rs.119.25 Crores as against Rs.100.88 Crores of the previous year. One of the other points that I wanted to mention is that the term loan availed from EXIM bank for a Vietnam subsidiary has been cleared and we have received no due certificate from the bank so the Vietnam entity is now tax free. Our guidance for the year remains the same and we can go ahead with the questions now.

Moderator: Thank you very much. We will now begin the question and answer session. The first question is from the line of Nihil Parekh from Dhanki Securities Private Limited. Please go ahead.

Nihil Parekh: Good evening Sir and thank you for the opportunity. Sir if you can share your thoughts on the quarterly sale numbers, this is I think the first time in the last some quarters may be four or five quarters we have reported year-on-year drop in numbers so if you can elaborate some reasons on that?



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- Challa Srishant:** Yes first thing first one fundamental thing that you need to understand about the company is we never look at business on quarter-to-quarter basis, if you look at our business just to give an example two years ago our Q3 was best performing quarter, last year our Q4 was the best performing quarter, this year Q1 and Q2 itself we have shown 40% growth so we normally look at it on year-to-year basis, we do our entire planning for the year and budgeting everything based on the order position that is there with us so because we have executed the contracts in Q1 and Q2, the rest of the contracts are also being executed in this Q3.
- Nihil Parekh:** And Sir if you can share some thoughts on the expansion plan, there is SEZ plant, which is coming on stream in the next few months so is that online and what is the kind of outlook that we are likely to see for the coming year that is financial year 2019-2020?
- Challa Srishant:** The SEZ plant the installation work everything has been completed and we are in the process of doing the necessary trials over there, we are taking a trial production over there now. We were scheduled to come into commercial production from April 1, 2019 and we are 100% on track for that, capacity utilization the guidance that we have given is approximately around 50% in the first year and we are quite confident that we will be able to achieve that.
- Nihil Parekh:** And Sir if you can also throw some light on the Vietnam expansion and the operations there?
- Challa Srishant:** Yes Vietnam this year will be, we are operating closer at about 80% capacity utilization and by next year we are planning and going in for some additional expansion by next financial year. We will enhance the capacity for another approximately 3500 tonnes.
- Nihil Parekh:** Sure. That was very helpful Sir. Thank you so much.
- Moderator:** Thank you. The next question is from the line of Lokesh Manik from Vallum Capital Advisors. Please go ahead.
- Lokesh Manik:** Thank you for the opportunity. Sir my question is mainly on the blend so you have mentioned in your previous conference call that the USP of the company lies in the blends created from the R&D efforts over the years and decades, so I just wanted to understand how easy or difficult would it be for a competitor to reverse engineer our blends, a process, which is common in other commodity business?



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Challa Srishant: One thing you need to understand is the major companies today the bigger brands that have manufacturing capabilities, they may have the technology and knowhow to reverse engineer the blends that we are doing, but we would normally not do that because their business model is to sell one single branded product. Our USP is we supplied to brands across the world and we come up with unique blends for each of our customers. Now for another private label company to do this is not very easy because you have to invest substantially in R&D, you need to invest in the right equipment and the right team and experiment with multiple raw materials from multiple origins, nothing is impossible if you have the necessary resources and the technical knowhow. It is theoretically possible to replicate exactly what we are doing, but it is not very easy either. We have grown in an organic manner over the years so whenever our customers have asked us to develop blends we have invested in that R&D and we have commercialized then and there that is how we have been able to grow and because we have been able to create unique blends for customers and because we work in a transparent basis we have been able to retain our customers also for the longtime and we have also been able to grow our customer base accordingly.

Lokesh Manik: Okay and do we possess some hedge in terms of the process that we follow while we are creating these blends, are they differentiated on the processes or the country of origin of raw materials or would it be a mix of both?

Challa Srishant: It is actually a combination of this plus a couple of others things as well starting with the origin of raw material based on the soil conditions, the taste profile of the raw material itself varies, after you get the raw material based on the roasting profile, the roast profile will determine the output quality than the extraction process, aroma recovery there are multiple other production parameters that we have to keep in mind when we are producing the product.

Lokesh Manik: Not really an easy task for a competitor.

Challa Srishant: Exactly and also one of the biggest strength that we have is, we have the ability to import raw materials from anywhere else in the world if you look at countries like Brazil they are the largest manufacturers of the instant coffee in the world, but they are obligated to use only domestically grown green coffee, which means that is kind of product that they can produce gets restricted a lot. We do not have any such restrictions that also enable us to source cheaper raw materials from other origins and create blends for customers.

Lokesh Manik: Okay. Sir another question is a bit macro, so as you also mentioned that the consumption of instant coffee in the developed economies that the growth is not quite well and we have also



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focusing on developing economies for the same so would it be fair to assume that the demand would be more for Robusta as compared to Arabica given the price difference?

Challa Srishant: Yes there are two parts that you have asked. The developing countries yes there is a decline, but there is a decline in consumption because of the decline in population, it is not because of the reduction in coffee consumption per person it is only because of the decline in population. Developing countries with the increase in younger population that is that the coffee consumption is also increasing that is also one of the reasons why we are focusing more on the developing countries as of now. As far as consumption of what type of quality is concerned this completely changes from region to region, but on a broad level if you look at our portfolio I say about 85% to 90% of what we do is Robusta product predominantly Robusta products because there is a cost advantage over here. Again if you compare to Brazil, which is the main competitor and Arabica, which itself is much more expensive.

Lokesh Manik: Right. That is all from my side Sir. I will come back in the queue. Thank you so much.

Moderator: Thank you. The next question is from the line of Nishit Shah from Edelweiss. Please go ahead.

Nishit Shah: Good afternoon Sir. Thank you for the opportunity. I had a question regarding the macro picture so in 2018 there was a slow down in the coffee exports, but in the first two hours we were able to grow by quite a bit so what is the reasons for the same and going forward what is your outlook?

Challa Srishant: So actually previous year itself I had mentioned that earlier or two years ago we were not really focusing too much on the volume growth, but last year onwards we changed our strategies for multiple reasons we decided to focus on the volume growth so that is the reason last year, this year also there was a substantial volume this financial year and there is a volume growth and next year also there will be a good volume growth because of the new capacities that we are adding.

Nishit Shah: Okay and another question was regarding Vietnam so for Vietnam in this quarter on Y-o-Y basis the revenue has gone down quite a bit so what could be the reason for the same?

Challa Srishant: If you look at it on a nine month basis, there is a substantial increase not a small increase more than 40% increase if I am not mistaken.

Nishit Shah: Just for the quarter for Q3?



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- Challa Srishant:** As I mentioned at the beginning itself looking at it on a quarter-to-quarter basis would not give you a clear picture because specifically there is a customer who would have taken coffee last year in Q3 and Q4 this time he may have taken it in Q1 and Q2.
- Nishit Shah:** Okay so basically the outlook for the next year remains the same and we would continue to grow as guidance?
- Challa Srishant:** Exactly that is it.
- Nishit Shah:** Okay thanks a lot. That is it from my side.
- Moderator:** Thank you. The next question is from the line of Suresh Kamate who is an Individual Investor. Please go ahead.
- Suresh Kamate:** My question is your branded coffee business is a threat to a private level market share of CCL?
- Challa Srishant:** The branded coffee business right now is very small and we are focusing only on the Indian market. In India we have two verticals, one is private label and the second is branded business, the private label we are supplying to the supermarkets let it be Reliance, Spencer, Big Bazaar, all these are private label customers. We sell our brand to the same supermarket just the way our competitors also sell to the same supermarkets so there is no conflict over here. We are now supplying to any of the other big brands, so we are not competing with anybody.
- Suresh Kamate:** The blend what private labels use and what branded under blends comes in the different team?
- Challa Srishant:** We have to maintain the difference so that customers also can easily make us that it is significantly different, so many blends are giving two different blends is not a big deal for us.
- Suresh Kamate:** Okay so my next question what would be your net asset turnover ratio for Vietnam and this plan separately?
- Challa Srishant:** That I think our CFO can answer.
- Lakshmi Narayana:** Yes gentlemen it is 1:1.



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- Suresh Kamate:** My final question is if I look at nine month to nine month topline growth, it is almost flat so do you see the same flat even in Q4 if I talk FY by FY?
- Challa Srishant:** Yes because the green coffee prices have come down from last year to this year and 70% of our product cost is raw material, so we normally do not focus too much on the turnover only because of this reason, one year the green coffee prices could even double and one year it could come down that is the demand and supply changes literally on a minute to minute basis green coffee prices so what is more important as an indicator is a bottomline growth.
- Suresh Kamate:** Thanks.
- Moderator:** Thank you. The next question is from the line of Binoy Jariwala from Sunidhi Securities. Please go ahead.
- Binoy Jariwala:** Thank you for the opportunity. I would like your thoughts on how are the continental coffee retail sales doing both B2B as well as B2C side of it and are you on track to meeting about Rs.100 Crores of sales in this year?
- Challa Srishant:** I will just pass on this question to Mr. Praveen Jaipurkar, CEO who is in charge of the domestic market.
- Praveen Jaipurkar:** Branded business and the bulk domestic business both of them put together that you asked will reach a figure of approximately Rs.80 Crores this year.. We have done pretty well in the branded business, just to give you an idea the branded retail part of it, last year we had done a business of around Rs.9 Crores, which we touch a turnover of around Rs.36 Crores this year, which is almost four times a turnover of last year and the rest of it is including bulk supplies private label and army supplies so that has been the business outlook for this year.
- Binoy Jariwala:** Okay and what is the sales already done for nine months?
- Praveen Jaipurkar:** So we have already done Rs.55 Crores for the nine months.
- Binoy Jariwala:** And of this how much would be the retail part?
- Praveen Jaipurkar:** The retail part is approximately Rs.23 Crores.
- Binoy Jariwala:** In half year we have done about Rs.40 Crores and in this quarter we have done another Rs.15 odd Crores, would we be on track to make this even Rs.80 Crores target or do you think there could be some?



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- Praveen Jaipuriar:** While we have given an indication of Rs.40 Crores, it was actually around Rs.37 Crores the final figures during the half year and we are pretty confident because January itself we have done a business of around Rs.7 Crores so we are already now at Rs.62 Crores to Rs.63 Crores so next two months and there is an army order as well so all of them put together we will definitely do Rs.80 Crores.
- Binoy Jariwala:** Sure and last time you mentioned that we have received an enquiry from DMart for the private label business is there any traction on that, have we started supplying them?
- Praveen Jaipuriar:** We still have not closed the deal for their private label business.
- Binoy Jariwala:** Okay is it expected to close in this quarter, next quarter any thoughts on that?
- Praveen Jaipuriar:** We are actively pursuing it a lot depends on the kind of rates, margins and a lot of things will go into it so while we are actively pursuing it we are keeping our fingers crossed it may happen, it may not happen, but we are confident that it will go through.
- Binoy Jariwala:** Sure. Next question is for Srishant, Srishant I would like your thoughts on Nestle has acquired the out of home business of Starbucks globally and with this do we see any impact on our business with them?
- Challa Srishant:** It is actually a good thing for us also because more coffee consumption will take place across the world, one of the things that we have to acknowledge clearly is that Nestle has been the market leader for coffee globally for several years from the coffee technology onwards everything they are the market leaders for several years and by doing whatever they are doing their object is also to increase coffee sales because they keep extremely high margins even Starbucks for that matter, Starbucks keeps may be much, much higher margins and even Nestle so if they keep expanding the market then it is actually very good for companies like us because we have a huge area to play around well.
- Binoy Jariwala:** And is our association with Nestle, where we also associated with Starbucks one and in our association with Nestle only for certain markets or is it for all the markets globally?
- Challa Srishant:** We were associated with Nestle till 1997, but subsequently we started doing more of private label business competing with Nestle supplying to Nestle's competitors, so from 1997 onwards there is no direct relationship with them and as far as Starbucks is concerned there is some small business that we are doing with them, but again it is only a small quantity that we do.



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Binoy Jariwala: So then per se this particular deal should not have any impact for us right since you have not associated in a major manner with Starbucks?

Challa Srishant: We were never associated in a major manner, but in fact what I am saying is going to be positive is that the market is going to expand. Whatever we have seen till now all new products introductions the Nestle has done, they advertise a lot, they spend a lot of money in growing the coffee consumption and the more they grow the coffee consumption the more alternatives people start requesting for, so we feel that it is a very good thing for companies like us because the category itself will be growing.

Binoy Jariwala: Understood. That is it from my side. Thank you so much.

Moderator: Thank you. The next question is from the line of Kanwalpreet Singh from Ambit Capital. Please go ahead.

Kanwalpreet Singh: Sir my question was regarding competition in general in the sense that I appreciate the fact that our margins on a gross level or in EBITDA level do not fluctuate that much with coffee prices, but I just wanted to get a sense of how that is with the competition so if prices rise suddenly and given the fact that our business is probably more sticky if for other competitors would sudden sharp rises in coffee prices some sort of consolidation and beginning of certain competitors?

Challa Srishant: This is actually a very difficult question to answer because lot of our competitors each one has their own strategy internally, some companies may follow the exact same business model as us, but there are several other people who may be willing to take this with respect to speculation in coffee, so everything depends on that particular company some companies if they will speculate once in a while they could get a benefit when the prices go up or down and when the trend reverses they may lose out, so several companies that do just speculation in coffee they are dedicated only for future trading and speculation, so it is very difficult for me to say that okay this is going to impact in the green coffee prices going up or down is going to impact in a specific manner. As far as we are concerned we are not really worried about competition for one simple reason, we have economies of scale, we have access to raw material in developing countries, our production costs are lower than what it is in other geographies, this makes us more aggressive and more competitive than everybody else and our strategy has always been low margins higher volumes and we have always partnered with the right people in multiple geographies, which has also helped us grow volumes consistently in each of these geographies.



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- Kanwalpreet Singh:** Right okay thank you Sir. Sir second question I had was I was actually checking the annual report of your subsidiary in Vietnam and I just wanted to get some sense on the suppliers and customers in the sense that I believe some of your customers might be there on both sides, they might provide you raw material and then take the final product, which is instant coffee from you so in that sense when you have such a customer on one side of the trade where they are providing you raw material is there some sort of a limit as to what they will provide so what I am asking you is if they are providing you raw coffee that raw coffee is meant only for them or can that also be used for another customer?
- Challa Srishant:** Okay we have two types of customers in this category that you are talking about, one type they provide the raw material and they specifically want to give it to us on a tolling basis so there is a fixed cost associated to this, we have a long-term contract with that particular customer so whatever raw material that they supply to us we will process that for the fixed cost from margins are fixed, everything gets fixed and the green coffee fluctuation prices everything is none of our concern, all that risk is borne by that particular customer. The second type what you are talking about are there are some major in fact manufacturers also in Vietnam whom we have a tie-up with where we buy raw material, but that raw material that we buy we use for it other customers and we also use it for their own product production. We do not have to specify what raw material we are using for them. The finished product, there is a certain quality standard that they approve as long as we meet that quality standard they are happy.
- Kanwalpreet Singh:** Right, but for the second type of customers the margins may not be fixed exactly?
- Challa Srishant:** That depends on again what quality they want, some products could be high margin products, some could be lower margin products.
- Kanwalpreet Singh:** Okay right and could it be possible that your competitor in this field who also does only B2B sales could at some time due to manufacture in case they have some sort of supply constraint?
- Challa Srishant:** That is happening even on a regular basis even till date we supply to our competitors, we supply to our customers or our competitors and suppliers in several instances, so we always maintain good relations with our customers/competitors.
- Kanwalpreet Singh:** Another question, which I had was taking ahead question, which was asked earlier on domestic sales in the nonbranded or the B2B segment in domestic sales has there been some sort of slow down this year?



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Praveen Jaipuriar: So on the B2B business let us say if we divide the business into private label so private label, there is a growth, there is actually 10% to 12% growth on private label and on the bulk business there is a growth of around again 15% to 20% is not that there is a slow down, the only fact is that the branded business since we are focusing a lot on that, that has gone up four times since last year. In army business because it is a tender based business that is stagnant every year because they order for fixed quantity so that part of the business is stagnant for last some years.

Challa Srishant: We are not counting it as branded business.

Kanwalpreet Singh: Right that would not come under the continental brand?

Challa Srishant: It is under continental brand, but we are not counting it under the branded B2C sales, but whatever numbers Praveen has mentioned though this is branded sale because it is a tender based sale, he is not including this as a B2C sale.

Kanwalpreet Singh: Okay right so would it be possible for you to share some sort of targets, which you have for your continental B2C business for next year?

Praveen Jaipuriar: Better time would be when we end this quarter because things are fluid, we have started advertising three months ago and we are just seeing, because three months is a very short time to assess the kind of offtakes that are happening in the market in all likelihood when we end March we will be able to envisage it better that what could be our target for next year.

Kanwalpreet Singh: Right of course and last question of course B2C business is very small right now and I guess from what I had read in the last few concalls you said that it might not flow down to PAT for the next three to four years to built it because there will be a lot of marketing in advertising front, but if you take longer term view would you be able to share any thought of margin guidance on that compared to your B2B business, which you have presently?

Challa Srishant: Long-term definitely the margins would be much, much significantly better than the B2B business, this will be consumer sales. As you rightly said the next three to four years will be about building the brand and a lot of margins in fact all of it probably will be reinvested back into the brand so we will not get the advantages for the next may be two or three years, but definitely beyond that point then what will happen is because if the margins will be significantly higher and what will happen is that as we start building the brand, our ability to get more margins and better margins will also improve on the branded business, so may



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be three years down the line we are looking at significantly higher margins than the B2B business.

Kanwalpreet Singh: Right but at this time you would not like to give number?

Challa Srishant: Numbers is something because directionally speaking yes we know that it will be significantly better, but we will have to see a couple of years that how to things shape up in this market because we know all said and done we have a tough challenge going forward for two years.

Kanwalpreet Singh: Absolutely okay. Thank you so much Sir.

Moderator: Thank you. The next question is from the line of Akhil Parekh from Elara Capital. Please go ahead.

Akhil Parekh: Hi Srishant my question is on the Indian operation standalone business, we see a decline of almost 10% to 11% of the topline, one of the reasons I am assuming is because of the declining raw material prices, but that is not getting reflected in our EBITDA margin, if you look at EBITDA margins Y-o-Y basis they are flat, so how much the decline in the topline is because of the drop in volumes?

Challa Srishant: CFO is answering this question.

Lakshmi Narayana: Because of the drop in the volume in terms of the production and sales volume if you look at it, it is the same like nine months of the previous year and this year, there is no variation.

Akhil Parekh: Nine months of 2018 is same as nine months of 2019 in terms of volume.

Lakshmi Narayana: In terms of the volume, in terms of the value both is at the same level.

Akhil Parekh: But quarter wise I am assuming for this particular quarter it would have dropped right?

Lakshmi Narayana: Yes, as we stated earlier, we have to look at these things on yearly basis, cannot be lucrative on quarterly basis.

Akhil Parekh: But is there any structural changes overall if I look at it the India's export volumes have declined for this particular quarter, so it will not something specific to the CCL phenomena I am assuming, so was it specific reason for decline in Indian export volume?



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- Lakshmi Narayana:** It is not directly related to the overall export, Indian exports versus CCL exports because as we can see that there are many of the times when the exports are down and the CCL does well.
- Challa Srishant:** We just look at it on a yearly basis end of the day, some customers they may want coffee to be delivered and say Q1 or Q2 or Q3 or Q4, as you know we plan on a yearly basis again, we do not bother looking at it on a quarterly basis. Same question like in fact last time one of the questions that was asked to us is in six months we have shown a 40% growth are you saying that you are going to continue that same growth for the next two quarters. We categorically said no we have already given that guidance as 15% to 20% growth and we are sticking to that.
- Akhil Parekh:** Background behind this question was like any of the country had shifted from Indian exporters to the other country exporters that is my question?
- Challa Srishant:** Who are shifted from Indian exports?
- Akhil Parekh:** I am asking, is there any country, which are specifically moved away from the Indian exporters?
- Challa Srishant:** Nothing like that.
- Akhil Parekh:** Second is I missed the initial part, the new FD utilization rate first year end how much it would be approximately?
- Challa Srishant:** 50% is what we had mentioned.
- Akhil Parekh:** The order book looks like we should be able to achieve that kind of?
- Challa Srishant:** Yes.
- Akhil Parekh:** Second thing on the Vietnam you said utilization range is 80% of FY2019 is it?
- Challa Srishant:** Yes.
- Akhil Parekh:** How much capacity we are planning to add because we had mentioned last quarter that we are doing some kind of rebalancing?
- Challa Srishant:** Around 3500 tonnes is what we are planning to add by maybe next year.



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- Akhil Parekh:** The cost was around \$8 million.
- Challa Srishant:** Correct.
- Akhil Parekh:** On the agglomeration unit you had mentioned in last concall that we are adding capacity in India from 3500 to 8500?
- Challa Srishant:** Yes that is a new plant, but we have not started the process yet that also we are initiating the process in next financial year.
- Akhil Parekh:** But at the end of FY2020 we should see 8500 tonnes?
- Challa Srishant:** Towards the end of FY2020 or may be beginning of FY2021.
- Akhil Parekh:** One last question, for nine months we did Rs.55 Crores on the domestic business, Rs.23 Crores is branded and how about the private label versus bulk?
- Challa Srishant:** Around Rs.7 Crores, Rs.8 Crores.
- Akhil Parekh:** The rest would be the bulk business.
- Challa Srishant:** Rs.12 Crores of bulk approximately.
- Akhil Parekh:** We are confident of achieving this 20% growth, we should give FY2019 on the PAT level?
- Challa Srishant:** Yes.
- Akhil Parekh:** Thank you so much.
- Moderator:** Thank you. The next question is from the line of Ayush Bhutada from Aequitas Investment Consultancy Private Limited. Please go ahead.
- Ayush Bhutada:** Most of my questions have been answered. Just wanted to have some general answers regarding how is our Malgudi and premix that we launched in this quarter like what is the response?
- Praveen Jaipuria:** As I told you we launched it in the month of September and we started building awareness from the month of November, so frankly speaking it has just been two, three months of activities that we have done, but the initial response has been good, we have got very good feedback from the market, but it will take some time to kind of build it, so process just



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begin, but the initial response has been pretty positive and we are very confident that we have been able to build a lot on that which is about Malgudi. On the premix, so that we are going very selective launch, so we are not spreading it thin because it is a very niche category, so we rightly sit in the top OFO in the modern trade outlets and selling largely through e-commerce, so that has been the approach, so why the sales have not been the volume sales are not there, but from these channels we have got quite encouraging response.

Ayush Bhutada: Okay and also we are now focusing more on small packs right, so how is that going?

Praveen Jaipuriar: The large part of market is small packs because that is what the Indian consumers consume, but having said that because small pack is a penetration strategy and it sells through all small outlets and small kirana stores, so it will take some time for us to build an equity there because we are a new setup and when we do a new setup the first distribution goes through the top 10% or 20% of the outlet, so it is only when your wholesale penetration grows and your brand becomes much, much stronger then indirect distribution starts and then the sachet sales pickup very strongly, so as we speak we are continuously developing that; however, that will be a little longer process, so bottle sales are the ones, which now have picked up and we are seeing a lot of traction from the top outlets, from the modern trade outlets and things like that.

Ayush Bhutada: This 3500 capacity addition in Vietnam?

Challa Srishant: Approximately by FY2020 end correct.

Ayush Bhutada: And PAT guidance we maintained for the year of 15%, 20%?

Challa Srishant: Yes, we do.

Ayush Bhutada: Okay Sir. Thank you.

Moderator: Thank you. The next question is from the line of Dhiral Shah from Asit C. Mehta Investment. Please go ahead.

Dhiral Shah: Good evening Sir. Thanks for the opportunity. My question is regarding how is the coffee price right now because last quarter you have stated that it was down 20%, so has there any improvement in the coffee prices?

Challa Srishant: It is similar rate like last quarter.



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- Dhiral Shah:** It is still down to 20%.
- Challa Srishant:** It is still at the same level, 20% lower from last year.
- Dhiral Shah:** Same time?
- Challa Srishant:** Yes.
- Dhiral Shah:** Okay, second Sir, for the next year you are again guiding for 15% to 20% growth?
- Challa Srishant:** For next year I think we will give the guidance at the end of this quarter.
- Dhiral Shah:** But topline you can maintain 10% to 15% growth?
- Challa Srishant:** Yes, we can because once the FD unit also will come and at least 2500 tonnes extra we will be doing, so there will be a volume as well as topline growth because of that.
- Dhiral Shah:** Okay and Sir lastly you have stated the domestic business will end around Rs.80 Crores of business, so can we expect may be more than 30% growth in the domestic business?
- Challa Srishant:** For next year?
- Dhiral Shah:** Yes.
- Challa Srishant:** Next year, Praveen is saying that he will give us the guidance at the end of the quarter.
- Dhiral Shah:** Okay.
- Challa Srishant:** 20% growth should be there.
- Dhiral Shah:** Okay. Thank you and that is it from my side.
- Moderator:** Thank you. The next question is from the line of Lokesh Manik from Vallum Capital Advisors. Please go ahead.
- Lokesh Manik:** Thank you for your time again Sir. Just coming to the question of consumption of coffee in India, sometime back you had mentioned that team India would be available for somewhere around Rs.6 a cup and coffee would be Rs.12 and we can actually make coffee available for probably Rs.5 or even less than that, so I just wanted to understand how would that be possible or are we looking at something on that front?



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- Challa Srishant:** We have actually introduced some products for the institutional segment with vending machines in fact if you come down to our office sometime we can give you a good cup of coffee may be and so what we have done is all these institutional packs we are making sure that we can give the coffee at Rs.5 price point.
- Lokesh Manik:** Would this be a low margin business for us or our margin would still be?
- Challa Srishant:** Praveen you can answer.
- Praveen Jaipurjar:** On institutional business is low margin, but just to add what Srishant was saying, not only institution when we have launched our premix coffee, it is priced at Rs.10, this is a very convenient price point and compares very well with a tea price point, so that is one of the endeavour we are trying to lower down the cost of per cup of coffee and making comparable to tea, so that the cost factor gets removed. So we must also acknowledge the fact that tea, coffee are pretty sticky categories and these are habit forming categories and changing a habit is a long drawn process, but at least in this process when we are moving forward we remove one of the greatest barrier, which is the price. So even with consumers we are taking it ahead with price point, which is very affordable and this business is when we are taking into consumer the margins are pretty high in fact higher than the B2B business.
- Lokesh Manik:** In the Rs.10 premix segment.
- Praveen Jaipurjar:** We are not too concerned of the B2C segment in the Rs.10 price point for the margins.
- Lokesh Manik:** Okay and also in your annual report a few years back I read that we had a joint venture with Jyothy Labs and I was not able to get any update on that post?
- Challa Srishant:** That was actually I think 2006 or 2007.
- Lokesh Manik:** 2007.
- Challa Srishant:** So that time before we had launched our products in the domestic market we were not very confident about building up a full fledged distribution network by ourselves, so we entered into tie up with them this was before Jyothy Labs became public as well and they had Godrej tea also in their portfolio, so we had some discussions with them and we thought let us see if we can introduce coffee as well, so what we did is we initially test marketed the product and at that point in time in 2007 we were already operating at peak capacity, we had I think about 15000 tonne production capacity and we were already at peak capacity at



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that time and when we introduced also we introduced near 100% pure coffee with Jyothy Labs and they start a placing the product in the market to see what feedback we get from the market.

Lokesh Manik:

Okay.

Challa Srishant:

The initial feedback what they got is at consumers especially in South India who are requesting more for a chicory coffee blend than a pure coffee blend. So they came back to us and asked us if we can supply a chicory coffee blend, unfortunately since we were already at peak capacity at that time we said that we cannot do this and it is better to put this product launch and everything on hold that is why we did not proceed further, so both sides we decide let us stop this experiment at that stage. Frequently several years later we were again exploring this option about introducing our brand and at this point in time we thought let us do it ourselves directly we will start in a small way and depending on the market feedback we can scale up when required because we started getting good traction that is why we have decided to consciously create a separate subsidiary company and grow the business with the professional team in place.

Lokesh Manik:

Also we are managing the capacity efficiently over the past decade or so and I just wanted to understand that you also mentioned that we are willing to sacrifice least profitable business over a good profitable business during some period, so looking at that and then also looking at your customers who are more than 25 years old and who have been associated with you, how would you be able to balance say a customer who is that old and we would probably be giving you a least profitable business and giving your capacity utilization, which is most of the time running at its peak?

Challa Srishant:

Most cases where customers who buy this no profit or low profit products, they also buy premium products from us, so the plain vanilla type products where any manufacturer can manufacture, these are the products where we will sell with low margin or no margin in some cases, but in order to retain the customer we have to offer.

Lokesh Manik:

Thank you so much for your time Sir.

Moderator:

Thank you. The next question is from the line of Shreyansh Talesara from Vallum Capital Advisors. Please go ahead.

Shreyansh Talesara:

Good evening sir. Thank you for the opportunity. My question is what type of products with beverage company like Coca-Cola and may be procuring for the caffeine requirements from



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us, would there be commodity in nature or would it be like value added in nature, could you give just a fair bit of idea on that?

Challa Srishant: One thing I cannot reveal the exact blend that we are supplying to them, but what I can mention is it is a premium blend that they are buying. They have a very specific formulation that they have requested us to make for them which we are not supplying to anybody else in the domestic market.

Shreyansh Talesara: And Sir one more question on average what would be your sales exposure towards purely coffee customers like private labels, coffee chains versus like other customers of coffee that is dairy industry, ice cream players, chocolate manufacturers, etc, what would be the exposure to what sales towards these players?

Challa Srishant: It is very difficult to give the exact numbers, but our range of customers include direct brand owners, people let it be private label for supermarkets for other brands. The ice creams and other ingredient like let it be perfumes, ice creams and other ingredient manufacturers we may do around may be 10% to 15% of whatever business that we do goes to them and we also supply a large quantities to re-packers and re-sellers in different geographies, so people who are in the private label business without manufacturing capabilities, they just have blending and packing capabilities, we supply to them and they supply in their particular regions. We do good volumes to such people as well.

Shreyansh Talesara: Got an idea. Thank you for the opportunity.

Moderator: Thank you. The next question is from the line of Nikhil Parekh from Dhanki Securities Limited. Please go ahead.

Nikhil Parekh: My questions have been answered. Thank you so much Sir.

Moderator: Thank you. The next question is from the line of Suresh Kamate, who is an individual Investor. Please go ahead.

Suresh Kamate: One more question, so I wanted to know, these receivable days are increasing linearly from couple of years, so do we have any plan or settle to ramp it down?

Challa Srishant: If you look at it the topline is increasing year-on-year basis, you could see the growth in that obviously the receivables also in proportion to the topline growth is increasing.

Suresh Kamate: Okay and on consolidated basis, this volume growth nine month to nine month, what is the percentage of growth you have seen now?



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- Challa Srishant:** Topline it is same as the previous year and as far as the bottomline is concerned there is a growth of 19%.
- Suresh Kamate:** I wanted to know value wise growth, not revenue.
- Challa Srishant:** Value wise, nine months it is Rs.821 Crores of this year and last year of Rs.819 Crores.
- Suresh Kamate:** Sorry, you have misunderstood my question, what I want is volume in tonnes?
- Challa Srishant:** 15% is the volume growth.
- Suresh Kamate:** Thank you Sir.
- Moderator:** Thank you. The next question is from the line of Lakshminarayana Ganti from SBICAP Securities. Please go ahead.
- Lakshminarayana G:** Just couple of questions, most of them have been answered, first is it is a six year low for coffee prices and Vietnamese farmers are struggling, do you see the government step into given the incentive for instant coffee manufacturers like yourself cannot exporting more of processed coffee than raw green bean?
- Challa Srishant:** They are already giving incentives for anyone who is doing value addition in Vietnam, so I do not really see them giving any additional incentives, but as far as coffee farmers and all that is concerned also one thing that you have to understand is that at the current level you cannot actually say that the farmers are not making money, a coffee plant lifecycle is about 40 years and most of the plants have already been there for quite some time, so there is no question about farmers making any loss. One thing is as far as the farmers and Vietnam are concerned, they have a good holding capacity and if you have raw material the government gives very low interest loans to them, so none of the farmers are desperate to set, they have the ability to build up inventory and when the prices go up they will dump stock in the market, we have seen this happened in the past as well.
- Lakshminarayana G:** And any colour on which geographies initially would give you the growth as we look out into 2020?
- Challa Srishant:** If you are asking for us as a company I think it is more or less spread throughout. There is no particular country specifically that we are looking at, we are growing in frankly every region that we are supplying coffee to.



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Lakshminarayana G: Okay and there were supposed to be a free trade of agreement between Vietnam and EU suppose you have come through last year, but it got delayed, we are in then the duty would not be there for processed beans or some such arrangements right because today Germany exports a lot of instant coffee, but they do not have any manufacturing, so that European Union agreement or treaty has that come through or is it supposed to come?

Challa Srishant: Not yet as of now it has been, in fact now everyone is busy with the Brexit. There is a lot of confusion and chaos with respect to the Brexit and now they are talking about countries individually negotiating with other countries for specific trade arrangements, so there is a lot of confusion at this point in time. Good thing for us is for both India and Vietnam at this point in time, we are still under the concessional rate of 3.1% duty. If you go to Brazil for example, they have to still pay 9%, so that also gives us an added advantage in this market.

Lakshminarayana G: Sure and the Swiss facility was supposed to be turning around and new fee you have to run that for you there and anything to report whatever the developments there?

Challa Srishant: The new CEO after he took over there is a lot of work that he has done over there. First thing he has done is he has created a bonded warehouse in our facility, which has resolved duty issue that I think almost everyone is aware of, so he managed to find a final solution for that and with that he was also able to secure very good orders for the next three years, we took part in certain tenders and we were able to secure these orders for the next three years to supply from the Swiss entity, so we will start seeing a positive impact frankly from this particular quarter onwards from this Q4 of this financial year onwards.

Lakshminarayana G: Okay and is it safe to assume that most of your future capacity ratios would happen out of Vietnam and you talked about some agglomeration facility?

Challa Srishant: In India, we will be setting up an agglomeration and packing facility to do a lot of small packs, we wanted to do more automation and we wanted to start doing more small packs. Again keeping in mind that for the next three years our volumes through Swiss entity itself is growing quite a bit and also because our domestic volumes are growing at the rate of 20%, 30%, we really need to gear up with an additional packing facility, so we are doing an agglomeration and packing facility in next financial year within India. Apart from this base product manufacturing spray-dried expansion will take place in Vietnam.

Lakshminarayana G: You are post for 3500 that you talked about anything if at all the large meaningful increases would happen out of Vietnam is it?



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- Challa Srishant:** Yes, here there will be value addition that takes place, small packs and more premium products from within India.
- Lakshminarayana G:** And one last question if allowed, the premium price that freeze dried used to enjoy has that still maintained over the spray-dried coffee that you sell?
- Challa Srishant:** Freeze is definitely more premium than spray, but the premium that we had enjoyed two years ago has come down last year itself.
- Lakshminarayana G:** Thanks. That is all from my side.
- Moderator:** Thank you. The next question is from the line of Nikhil Upadhyay from Securities Investment Management Private Limited. Please go ahead.
- Nikhil Upadhyay:** Thanks for the opportunity. Most of the questions have answered. Just one thing on the tax part of it, on the Vietnam even with the new expansion, which we do for the new capacity for the same capacity, would that tax rate remain in the same 0% bracket or any idea if you can give?
- Challa Srishant:** Yes, that will remain the same at 0%.
- Nikhil Upadhyay:** And how long because you said it would be more on a year-on-year negotiations?
- Challa Srishant:** Yes, as of now based on the government policy and all there is no sunset loss that is in place, so we fall within a certain criteria where we are generating X amount of employment within Vietnam, we are in the least developed areas, there is a certain criteria that we are following, because of which we are able to get this benefit, so that will continue until if the government policy changes only then it will get discontinued, but as of now there are no indications that it will change.
- Nikhil Upadhyay:** The freeze dried capacity in India, which we are putting that would be at marginal tax rate of MAT of 18%?
- Challa Srishant:** Yes, there is a MAT of 18% and income tax is 0. For the first five years we have a tax holiday.
- Nikhil Upadhyay:** Thanks a lot.
- Moderator:** Thank you. The next question is from the line of Bharat Gupta from Edelweiss Financial Services. Please go ahead.



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- Bharat Gupta:** Thanks for taking my question. I wanted to get a clarification regarding Brownfield capacity expansion, which we would be doing in Vietnam, so what would be the approximate capex and how are we going to fund for it?
- Challa Srishant:** It is about \$8 million that we are projecting for this increase in capacity and now as I mentioned in the beginning of the call we are already debt free in Vietnam and based on the profits that we have already accumulated in the past with internal accrual itself we can go on for this expansion.
- Bharat Gupta:** Regarding the Indian facility, freeze dried capacity, so it would be a freeze dried capacity which would be having higher margin, so we can assume that going forward our margins which would be in the range of 25% so it would be sustainable?
- Challa Srishant:** Yes, it will be.
- Bharat Gupta:** Thank you Sir. That is it from my side.
- Moderator:** Thank you. The next question is from the line of Akhil Parekh from Elara Capital. Please go ahead.
- Akhil Parekh:** My questions have been answered. Thank you.
- Moderator:** Thank you. The next question is from the line of Vikas Kasturi who is an Individual Investor. Please go ahead.
- Vikas Kasturi:** If I look at your past four, five years profits right, so the net profits have grown faster than the topline, so what is the reason for this Srishant?
- Challa Srishant:** One major reason is because of the green coffee price is reducing. A couple of years ago what it happened is there was a shortage of green coffee, there was a drought in Brazil because of which the coffee supplies had reduced in the world market, so across the board the coffee prices even touched about \$3 a kg that is \$3000 a tonne, today we are at literally half cut price, so there is a substantial reduction that has started taking place as the issues started getting resolved.
- Vikas Kasturi:** But Srishant your business model does not depend on the green coffee prices right?
- Challa Srishant:** Exactly, our volumes have been growing year-on-year, the volume growth does not get 100% reflected in the turnover because the green coffee prices come down, but because we are growing volumes our profit also is growing proportionately.



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- Vikas Kasturi:** So my question was that your profits are growing faster than the sales and I am guessing is what to do with scale economics and the fact that you are selling more premium products, is that correct?
- Challa Srishant:** Not entirely, we are increasing in volumes like every year we are increasing in volumes and our profitability for that volume is more or less fixed.
- Vikas Kasturi:** I got it. Thank you Srishant.
- Moderator:** Thank you. Ladies and gentlemen that was the last question for today. I would like to hand the conference over to the line of management for closing comments.
- Challa Srishant:** I would like to thank you all for attending this conference call. I would like to thank Nirmal Bang team for organizing this so well. That is it from our side. Thank you. See you next quarter.
- Moderator:** Thank you. On behalf of Nirmal Bang Equities Private Limited that concludes this conference. Thank you for joining us. You may now disconnect your lines.