



“CCL Products India Limited 4QFY18 Earnings Conference
Call”

May 21, 2018



MANAGEMENT: **MR. CHALLA SRISHANT – MANAGING DIRECTOR, CCL PRODUCTS INDIA LIMITED**
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MODERATOR: **MR. ABHISHEK NAVALGUND – NIRMAL BANG EQUITIES**



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- Moderator:** Ladies and gentlemen, good day and welcome to the CCL Products India Limited Q4 FY18 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 telephone. Please note that this conference is being recorded. I would now like to hand the conference over to Mr. Abhishek Navalgund from Nirmal Bang Equities. Thank you and over to you, sir.
- Abhishek Navalgund:** Thank you, Janis. Good afternoon everyone. On behalf of Nirmal Bang Institutional Equities, I welcome you all on the 4Q FY18 Earnings Call of CCL Products (India) Limited. We have with us from the management Mr. Srishant – Managing Director; Mr. Sarma – CFO of the company; Ms. Sridevi – Company Secretary; and Mr. P S Rao – Consultant Company Secretary. So, without wasting much time, I will hand it over to management for their opening remarks and then we can start our Q&A session. Over to you, sir.
- Challa Srishant:** Thank you, Abhishek. I will keep my opening remarks also quite brief. Our consolidated turnover for 2016-17 was 984 crores. We have managed to achieve 16.1% and we have come up with 1,142 crore turnover for this year. This is the first year that we managed to cross 1000 crores on a consolidated basis in the company. Next, the net profit which was 134.56 crores last financial year, we managed to achieve a 10.08% growth and we have come up with 148.13 crores for this financial year.
- Moderator:** Thank you very much. Ladies and gentlemen, we will now begin with the question and answer session. We take the first question from the line of Jignesh Kamani from GMO. Please go ahead.
- Jignesh Kamani:** Just wanted to check on the Vietnam. This time, we have reported a very strong revenue and profitability partly because of the two customers which shifted from India back to Vietnam and our agglomeration plant is also operational. So how sustainable this profitability at Vietnam operation or is there any one-off and that kind of margin is not sustainable?
- Challa Srishant:** What we have seen now is sustainable in Vietnam and it's not only one customer shifting back, it's also adding new customers in Vietnam that has resulted in this increase in profitability over there.
- Jignesh Kamani:** So this 30% kind of margin roughly we have reported at Vietnam can be sustainable for the full year also?
- Challa Srishant:** Yes, it is sustainable. But again, everything depends on the product mix that we come up with. So, there are a lot of variable factors that will be there as well. So, sometimes it could be, this



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time I think the profitability was also a little bit more because of the product mix that we had done.

Jignesh Kamani: Understood and same thing on the domestic operation, the profitability is declined, so partly because that client has shifted to I can say Vietnam and that volume is not utilized. So what is the scenario there?

Challa Srishant: No actually in India also as everyone already knows we were already operating a peak utilization and the green coffee prices is what has gone up significantly from the previous financial year to this financial year. So that is the main reason why there is an increase in the turnover and the profitability has been more or less maintained at the same level. There is a slight reduction that's all.

Jignesh Kamani: But if you take about both sequentially and yearly YoY basis, there is drastic reduction in the domestic profitability?

Challa Srishant: Domestic you mean, CCL India?

Challa Srishant: There is a slight reduction. It's not a drastic reduction.

Jignesh Kamani: Sure and how much CAPEX we have done for the freeze dried and considering that 2 or 3 plants are coming next year. How is the profitability in the freeze dried expected to pan out?

Challa Srishant: See for freeze dried, the demand and supply keep changing year to year. Now, we have seen a small reduction in demand for freeze dried. But fortunately for us because we put the plant setup in motion one and a half years ago, we still will be able to start filling volumes once the plant is up and running. Whatever numbers or projections that we give as I mentioned in the last conference call as well, until the plant is up and running we don't want to project anything with respect of the new plant.

Jignesh Kamani: Sure and how much CAPEX you had incurred till now in the freeze dried?

Challa Srishant: Around 240 crores is what we have already spent.

Jignesh Kamani: And it will be up and running by roughly September-October this year no?

Challa Srishant: Yes.

Moderator: Thank you. We take the next question from the line of Sneha Talreja from Edelweiss. Please go ahead.



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Sneha Talreja: Just wanted to ask you regarding the same, I think I just didn't get that. Why are we seeing a lot of margin pressure in the Indian business? Is that because of the whole agglomerated capacity was moved to Vietnam?

Challa Srishant: That's just one of the reasons as more or less Indian plant was operating at optimal capacity in the previous year and last year as well. To a small extent, a very small extent, we have shifted back this customer to Vietnam. And that's why there is a slight reduction from the previous year to now. Reason why the difference appears to be more is only because the turnover has gone up because of the raw material prices. If you compare the previous financial year to last financial year, the green coffee prices went up last year. So that was the main reason why there appears to be a huge difference.

Sneha Talreja: Sir if that's the case, then we've just taken a small extent shift as happens. So you mean in the coming quarters there will be more shift from that particular customer from India to Vietnam?

Challa Srishant: No, not at all. We are already operating the India unit at more or less optimum capacity. So we are expecting the performance to continue like this. We don't see any substantial growth in the India standalone unit. But once the SEZ comes on line, then the Indian operations will further improve. This is the year that the SEZ is supposed to come on line.

Sneha Talreja: Sir, just wanted to know what was the total revenue of Switzerland unit in FY18?

Challa Srishant: 77 crores.

Sneha Talreja: 77 crores. And that unit is currently operating at?

Challa Srishant: Switzerland is mainly doing trading activities over there. The manufacturing part we are restricting to only about 20% to 30%. Again the reason is the duty issue which almost everyone is already aware of. There is no change in law. But that Swiss unit is enabling us to get a better foothold in the EU market.

Sneha Talreja: Last question. Just wanted to understand your volume guidance and revenue guidance for the next year?

Challa Srishant: See for next year at this point in time we can give guidance of at least between 10%-20%. The range we are giving is a little wider or higher because there are a lot of variable factors which are there and we don't have clarity at this point in time. Until the new plant is up and running and we start selling coffee from the new plant, we cannot come up with the clearer number. And that will take at least another 6 months for us to get a better picture.

Moderator: Thank you. The next question is from the line of Nitin Gosar from Invesco Mutual Fund. Please go ahead.



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- Nitin Gosar:** Sir, continuing from the previous participant, you mentioned about guidance 10%-20%. That is on PAT or on volumes?
- Challa Srishant:** Actually for both. The top-line growth might be a little lesser because as we have seen from 2016-17 to '17-'18, there was an increase in green coffee. From 2017-18 to '18-'19, there is a reduction in green coffee. So because of this reduction, the top-line growth might be a little lesser this year. And as far as the bottom-line is concerned, the 10%-20% is what we are projecting keeping in mind the domestic expenditure for the brand building and also keeping in mind the regular performance of the units.
- Nitin Gosar:** And in terms of commissioning of the new project SEZ, are we bit skeptical about the commissioning of the project or it is the normal practice of allowing it to first commission?
- Challa Srishant:** No, we are not skeptical about commissioning of the project. The project will be commissioned in this year itself. What we are saying is that when we are setting up a new factory, it's a new process, its new equipment that's being installed it takes some time for the product to be stabilized and for the customers to give their approvals. There is a process that has to be followed, customer spend, their teams, their quality control, people to our factory. There is an approval process that one has to follow. So until that process is put in place, we don't want to give any projections from the new plant at this point in time. We are going to initiate the process in the next 3 to 4 months and once we initiate depending on the customer commitments that we get, within the next 6 to 7 months we will get a better picture of where we stand which is why I have given a broad range as of now. It should hopefully be better depending on other factors falling in place.
- Moderator:** Thank you. We take the next question from Abhishek Navalgund from Nirmal Bang. Please go ahead.
- Abhishek Navalgund:** Just couple of questions from my side. Actually just wanted an update on the branded business actually?
- Challa Srishant:** So for the branded business, we have done about 46 crores in the top-line and as far as the branded business is concerned, it is about 26 crores out of that 46.
- Abhishek Navalgund:** And the full year number will be?
- Challa Srishant:** This is the full year number.
- Abhishek Navalgund:** Any guidance on this front because, you have reduced the volume guidance for this business. This is what we have discussed in the last conference call and our focus will be mainly on the margin, so would like to know your thoughts on this



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Challa Srishant: So in fact earlier we had projected a higher volume guidance. That was before Mr. Praveen Jaipuria has taken over as the CEO. Once he took over, he started building a team, he has put an entire distribution network and everything in place and he has done a lot of transitioning also in this financial year. What he has further focused on is he observed that earlier we were working with about 5% to 8% gross margins in CCPL. He wanted to further increase that between 25 to 30%. And over there, he didn't want to focus only on volume growth and giving heavy discounts in the trade. So he changed a lot of things last year. And now that the system has been put in place, he is quite confident that we will be able to increase the turnover from the current 46 to at least 100 crores for next year.

Abhishek Navalgund: And one more question on a pre-booking status of the orders because in the last concall you have said that by end of March we will be booking around 60% of the orders. So, just wanted to know the status of that

Challa Srishant: Yes at given point in time, we are more than 60%. In fact, I would say a little more than 60% we have already booked as of now. The only thing is the new capacity that is what we haven't started selling yet. So I am not factoring that into the projections at this point in time.

Abhishek Navalgund: So when you will start the billing for this new freeze dried plant actually?

Challa Srishant: We should start billing it in this year itself. But, I think it is better that we keep you updated once the plant is up and running. It is based on certain variable factors which include getting the plant approved from customers and other things as well.

Moderator: Thank you. The next question is from the line of Nitin Gosar from Invesco Mutual Fund. Please go ahead.

Nitin Gosar: One clarification on this 10% to 20% growth, we are keeping in mind the new facility which is going to come in September?

Challa Srishant: No, I am not keeping that in mind when I am giving the projection because, again that's what I was mentioning earlier also. That's a variable factor. Once the plant is up and running, there is a process that we have to follow once the approvals come that is when we will factor that in. So we might revise our guidance after 6 to 7 months.

Nitin Gosar: And typically once the plant is commissioned, how much time it takes for you to run down the process and start looking out for orders and start filling in the facilities?

Challa Srishant: Normally it takes between 3 to 6 months for us to become fully up and running because it's not just one single thing that has to be done. We have to get product quality approvals, we have to submit samples to the customers, customers have to test it out in their respective markets. They have to get back to us. They have to approve of the plant facilities to the G&P audits and



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everything. After this whole process is completed, that's when they start placing consistent orders from us.

Nitin Gosar: And one last clarification, I believe this plant was slightly slated somewhere around June – July. Now we are discussing about September–October.

Challa Srishant: Actually it was supposed to come up in the second quarter of this financial year, towards the end of the second quarter. We should be up and running by the end of second quarter. There is no change in that.

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

Akhil Parekh: First question is on the margin product India. We have back to back clause right? If the realizations usually increase, our old thesis was basically we are able to pass it out to our customers. So if the margins have declined, would it be fair assumption or fair conclusion to say that EBITDA per kg has either remained same or maybe slightly improved?

Challa Srishant: See, when we are selling the coffee to the customer, we are working on usually a fixed margin basis. So, if the green coffee prices fall down drastically or whether they go up drastically, it doesn't make a difference. We are able to pass on the cost of the raw material to the customer while maintaining our profitability as it is. So, that's the same thing that we have been maintaining from the beginning and even now we have managed to achieve the same result. The reason for a slight variation which is there at this point in time is only because there was transition of see agglo customer back to Vietnam and we had to keep a little spare capacity just to be on the safe side.

Akhil Parekh: And the branded business, you said we have done sales of 46 crores but I met you few months back but our guidance was still around 70 crores to 72 crores for FY18. There was a drastic reduction because initially when we started the year the number was 80 crores, then we went to 70 crores and now it is almost 45 crores. So, are there any specific challenges that we are seeing like which you would like to highlight it to us?

Challa Srishant: Yes, so what happened is last time when we had met also, we had projected certain numbers for quarter 4 and quarter 4, Mr. Praveen Jaipuria decided to completely change the strategy. He wanted to clean up all the books completely. He did not want to give any credit to anybody any longer. He wanted to ensure that he has a good distribution system in place. To whoever we were giving extended periods of credit, we had asked them to either pay for the stock or return the stock as well. So, this entire consolidation process took place in quarter 4. So, which is why Praveen also, when he asked us we said that yes you have to focus on the long term benefit of the company. If required in quarter 4 even if there is zero performance, it does not matter is what we informed them. So, keeping that in mind, he was very strict in his processes,



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which is one of the main reasons why there was a sharp reduction. In fact, there were lot of dispatches that were done in April because we did not want to dispatch any coffee in March if we were not getting paid for it then and there.

Akhil Parekh: But then, now you are saying from 46 crore, we should be able to clock somewhere around 90-100 crores from next year, is that correct?

Challa Srishant: Yes, that is correct.

Akhil Parekh: Just last couple of question. One is, would you be able to give us the broad numbers on utilization level, how much capacity utilization we had for FY18 at India and Vietnam?

Challa Srishant: India, we are already at full utilization. For the last 2 years, we planned peak utilization. That is one of the reasons why we are going for expansion in India. The new freeze dried is additional capacity that is going to come in India. As far as Vietnam is concerned, we are at about 70% to 80% utilization last year. This year, we should be able to do a little more than that.

Akhil Parekh: When you say this year means FY19?

Challa Srishant: Yes.

Akhil Parekh: And last question at the Tata Coffee concall, the new freeze-dried unit they are saying they are putting up a plant at Vietnam for 350 crores of CAPEX and expected realization from this plant should be 450 crores to 500 crores. So, my question is are we too ambitious or are we too conservative in our numbers for the new unit?

Challa Srishant: I think we are being more realistic looking at what is happening in the market expecting from a 500 cr, at least as far as we are concerned EBITDA, I am realistic, I cannot comment on anybody else. Maybe, we are able to get better contracts.

Akhil Parekh: So, we maintain our guidance of approximately 300 crores to 350 crores for the new unit?

Challa Srishant: That is it.

Moderator: Thank you. We take the next question from the line of Lakshmi Narayan Ganti from SBI Cap Securities. Please go ahead.

Lakshmi Narayan Ganti: My question is, in all this coffee prices move up and down, the core profitability is protected, is that correct? So, even for this quarter you are basically assuring that is the profitability or an EBITDA per tonne, that number did not move down, is that the correct to say?

Challa Srishant: Yes, that is correct.



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Lakshmi Narayan Ganti: And secondly in terms of your CAPEX that you are doing for freeze dried, there is no CAPEX overrun or nothing like because...

Challa Srishant: There is no CAPEX overrun.

Lakshmi Narayan Ganti: So, it is roughly 350 odd crores.

Challa Srishant: No, 300 crores.

Lakshmi Narayan Ganti: And any update you have on the US side of the business, anything in terms of quality status, more stricter etc.?

Challa Srishant: No, as of now there is no change in the position over there. As far as the market is concerned, there is one significant change that has taken place recently that is the major manufacturer, in fact the only manufacturer in the US of soluble coffee with 10,000 tonne capacity is shutting down operations. So, there is additional volume opportunity comes in because of that and that volume is going to get spread across the world amongst multiple suppliers.

Lakshmi Narayan Ganti: Would you be open to acquiring anything if that is available at a particularly lower price in terms of distressed sale?

Challa Srishant: Acquiring what?

Lakshmi Narayan Ganti: Something like vendor shutting down, what your competitor Olam has done in Spain.

Challa Srishant: No, not at all because this unit that you are referring to, this is more than 50 years old. The plant is in a very bad stage, in fact they did the internal commercials and they found that it is not worth making the necessary investment in the plant. So, that is the reason why they are shutting down in the first place. In fact the company has deep pockets in spite of which they are not reinvesting in their own units. It is definitely most of the people in the coffee world in the developed countries has realized it is more economical to source from developing countries and coffee growing countries rather than manufacturing in the developed countries where coffee is not grown.

Moderator: Thank you. Next question is from the line of Manoj Gori from Equirus Securities. Please go ahead.

Manoj Gori: Sir, just for my understanding like when we say about 60% or more than 60% of the orders have been booked. So, this is for Vietnam and India together. And if we take the 60%-65% of the orders which have been booked as of now, so are there any repeat plans of FY18 which we actually supplied at a very low margin?



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- Challa Srishant:** There will be some customers with low margins as well that is the part of the ongoing process.
- Manoj Gori:** And sir, so coming back like you gave the guidance on the volume front like 10% to 20%, so anything like if I have missed out on the margin front that you have commented?
- Challa Srishant:** No, what I am said was that we are talking about the guidance for next year between 10% to 20% for a couple of reasons. First is the green coffee prices from last year to this year are expected to come down. What most people might be aware is there was a bumper crop in Brazil which has put a lot of pressure on the raw material prices and because of that, per kg cost of green coffee has also come down compared to last year and that is also one of the reasons why the top-line growth may not be on par with the actual additional volumes that we took. So, that is one point. Second is as far as the bottom-line is concerned, we are also factoring in additional domestic expenditure and other things for achieving this 100 crores target and after factoring and all these points, we have given a projection of between 10% to 20% for the top and bottom-line as of now. And we have not factored in the SEZ right now. That is a variable factor that we will get a little bit more clarity on the next 6 to 7 months down the line.
- Manoj Gori:** So, if I am not wrong like our SEZ plant would be operational from the end of second quarter and then we would be approaching the clients?
- Challa Srishant:** Exactly.
- Manoj Gori:** Maybe some revenues should start coming from 4th quarter or so because you said like it could take 3 months of time for approvals and all.
- Challa Srishant:** Yes, hopefully. So, we do not want to put any number right now.
- Manoj Gori:** Your orders for FY19 would be more on the fixed margin basis or of fixed EBITDA basis?
- Challa Srishant:** Fixed per kg basis.
- Moderator:** Thank you. We take the next question from the line of Abhijeet Akela from India Infoline. Please go ahead.
- Abhijeet Akela:** Just one clarification, you talked about this 46 crores turnover in FY18, of which the branded business was 26. So, this 46 actually refers to what all exactly?
- Challa Srishant:** So, apart from the branded business is 26, we have some institutional branded business as well and apart from that, we have private label business which is there. So, if you like for army and everything, it is another around 13 crores or so that we do. So, if you actually look at in our



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brand name as such, it is 26 plus 13 which has gone in a brand name into the market and the balance is mainly private label.

Abhijeet Akela: And the gross margin on all of these is now 25%-30% is it as we were targeting?

Challa Srishant: Because of branded business has gone up significantly, the overall average gross margin has gone up from what it was earlier to now between 25% to 30%.

Abhijeet Akela: And this is before your promotional spending?

Challa Srishant: Yes, this before the promotional spending, yes that is correct.

Abhijeet Akela: So, next year as we ramp up to 100 crores, the absolute profit contribution might increase in gross profit terms but it will be offset by maybe higher promotional spending as well is that a correct?

Challa Srishant: Yes, not only higher promotional spending, there will be an additional spends that will be there from the parent company as well. So, next year is the only year that we have been asked to additionally support the domestic market for marketing activities. And on the subsequent year, they will become self-sustaining.

Abhijeet Akela: And just a clarification on this announcement you made along with the results about holding the shares in Switzerland and Vietnam directly. So, just to understand will these entities now become part of the standalone entity of CCL?

Challa Srishant: No, there will be 100% subsidiaries of the entity. Earlier there were step-down subsidiaries. I do not know if you have been following what we have done several years ago in order to maintain certain confidentiality because of numerous other reasons, we had setup subsidiary company in Singapore and that company was the investment company that set up units in Vietnam as well as Switzerland. Now, there is no purpose of having that entity any longer which is why we are making the Swiss as well as the Vietnam entities as direct subsidiaries of the parent company.

Abhijeet Akela: And one last thing, just with regard to the outlook for FY19 now, the upcoming year. So, barring the freeze-dried plant, what would be the major growth drivers for the company because standalone I believe is basically matched out already in terms of capacity. So, the spare capacity at Vietnam really the only thing that is driving this sort of 10% to 20% growth for next year?

Challa Srishant: Actually, yes. So, Vietnam will be driving growth. There is a certain amount of additional volumes that will come in from our Swiss unit as well and apart from that, within India we are



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actually working on certain premium products also. So those products will also be coming on line this financial year. We have increased product portfolio range again in this year.

- Abhijeet Akela:** So, even if India's volumes do not grow, the profitability can keep on improving.
- Challa Srishant:** This can improve marginally.
- Moderator:** Thank you. We take the next question from the line of Gagan Thareja from Kotak Investment. Please go ahead.
- Gagan Thareja:** Srishant, can you give the export incentive monetized for Q4 and for the full year?
- Challa Srishant:** For Q4, we have booked about 17.9 crores and about 37 crores for the whole year.
- Gagan Thareja:** So, Q4 would have been larger party because of the MEA benefits being ramped up for 5% to 7%?
- Challa Srishant:** Yes, 5 to 7 was made only in the last quarter actually. Benefit we got was only in the last quarter and for next whole year, it is likely to be that same 7% in the whole year and absolute number is likely to increase a little bit more.
- Gagan Thareja:** So, next full year it will be 7% and because there will be some turnover growth, export turnover growth on a pro rata basis, incentives will also raise. Any updates on the ministry on the continuity of the export incentives, is this going to come up for reset or a renegotiation one year down the line?
- Challa Srishant:** As of now, they are continuing with the incentives, so there is no change over that. The government also is more interested in focusing on foreign exchange earnings. So, based on the information we have at least till 2020 the same system should hopefully continue.
- Gagan Thareja:** And you indicated that off-late you are seeing a softness in the freeze-dried market if I understood your comment correctly. Can you elaborate, I mean what changed, is it shortage of freeze-dried capacity come off in the market or is it the demand itself which has come down?
- Challa Srishant:** No, there are couple of things that have changed. One, there are 2 plants that have come on line and there are lot of other new companies that have also announced that they will be setting up plants by next year and the year after that. So, as far as customers are concerned also, they do not want to be very aggressive in their buying. They want to wait until the last minute and see whoever gives the best deal and they want to go with them. So, that is one of the reasons for the reduction in demand. The demand are such per say is there but it is not as high as it was about a year and half ago.



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- Gagan Thareja:** So, the tonnage demand I would have thought should ideally have not come down, all that would probably happen is that the prices of freeze-dried coffee would get renegotiated because of the new supply in the market, is that correct?
- Challa Srishant:** Yes, that is where we said if you reduce the margin, you could sell 100% capacity overnight. But why would anyone want to do that? You will have for selling that additional 20% capacity, why would you want to reduce 80% of your capacity is profitability.
- Gagan Thareja:** So, would it be fair to assume that the freeze dried prices are still around \$8-\$8.2 or have they come up from those levels?
- Challa Srishant:** Depending on the product mix or the quality, it can be around \$8 range plus or minus maybe 20-30 cents.
- Gagan Thareja:** And what will be A&P spend this year and what is your budget on A&P spend next year?
- Challa Srishant:** A&P front?
- Gagan Thareja:** Advertising sales and promotion spends? Marketing spends basically.
- Challa Srishant:** About 40 crores is the entire expenditure that is planned including the team expenditure plus advertising expenditure, ATL, BTL all inclusive.
- Gagan Thareja:** This is for next year?
- Challa Srishant:** For the current financial year, that is 2018-2019.
- Gagan Thareja:** And what would it have been for 2017-2018?
- Challa Srishant:** For 2017-2018, I think it was around 20 crores or so, we would have spent last year.
- Gagan Thareja:** So 20 crores additional is what you are looking forward to in the coming year. And Q4 your gross margins have come off from Q3 levels for this year. I am slightly confused have the raw green coffee prices reduced Q4 of this year versus Q4 of last year?
- Challa Srishant:** Yes, green coffee prices have started reducing from December of last calendar year. So, reduced green coffee, you can see from quarter 4 of last financial year.
- Gagan Thareja:** And the finished instant coffee prices would have reacted to a lower green price whereas your raw material inventory would have been at a higher price and which would have led to a squeeze in your gross margin, is that correct?
- Challa Srishant:** No, we are doing everything on the back to back basis. So, that will not impact us.



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- Gagan Thareja:** So, but in that case why would your gross margins come off?
- Challa Srishant:** If you do more premium products, automatically come up. Especially in Vietnam, we have executed some more premium contracts from the Vietnam facility.
- Gagan Thareja:** And going ahead would your exit gross margins of Q4 be representative of sustainable gross margins in the coming year or should we take FY18 gross margins as more full aggregators as more representative of that could happen in FY19?
- Challa Srishant:** It always better to look at it on a yearly basis rather than a quarterly basis only because this particular year the customers, they have placed an order well in advance asking for deliveries in quarter 4. Some of these customers have requested for certain deliveries in quarter 1 of this year as well. So, sometimes this variation might be there which quarter the contract gets executed, everything depends on the customers demand and supply. So, we give our projections based on the approximate commitment that the customer gives us. When he takes coffee, it is again left up to the customer.
- Gagan Thareja:** And for the new plant in the SEZ, what could be the fixed cost or the overheads for that plant?
- Challa Srishant:** I think once this plant is completed, then we will be able to give you those details.
- Gagan Thareja:** And is the Swiss entity now still in losses or is it broken even?
- Challa Srishant:** No, this year we have broken even and hopefully the same thing should continue. It is not it should start generating a little bit more revenue from next year onwards.
- Gagan Thareja:** And finally is it possible to get an idea or rough idea of tonnages done in spray and freeze dried in India and in Vietnam for the year?
- Challa Srishant:** Unfortunately, that is information, we cannot give for obvious reasons.
- Moderator:** Thank you. We take the next from the line of Akhil Parekh from Elara Capital. Please go ahead.
- Akhil Parekh:** I have question in terms of Nescafe versus the Starbucks deal which happened a month back and the deal basically Nescafe would be selling the Starbucks coffee using their own distribution channel and one of the reasons which have been cited in the news channel has been Nescafe is seeing some pressure on instant coffee and in US market and that is why they are taking this route. So, would you like to give some color on this particular thing?
- Challa Srishant:** Frankly, there is nothing much that I can mention on this. Both Nestle and Starbucks are very big companies and they are also quite transparent with respect to the strategies and how they



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approach the market. So, it is a tie up that they have, so I guess time will tell whether it works for them or no.

Akhil Parekh: But my question is like is there a pressure on instant coffee market because I think that is what the reason I have been cited by about the news channel that is why the Nescafé has gone through the....

Challa Srishant: Definitely a pressure on the instant coffee market. If you look at globally, there is a 2.5% to 3% growth in instant coffee. If you look at the western world, there is in fact a de-growth in instant coffee. The de-growth is also because of population reduction which is there in the western world. So, most people they want to focus on roasted coffee, in fact the purchasing power of people in the developed countries is higher. People are willing to pay an additional premium that is why the Nespresso Pods and more premium products they started buying. Even Starbucks for example become a status symbol for several people in the US and that is the business model that worked for them and I think that is where they find that there is some synergies if they get into the roasted coffee segment.

Akhil Parekh: Which would be the growing markets for the instant coffee specifically in Southeast Asia, US sighted that this has been the growing market. So, any specific countries where we see a growth in instant coffee market?

Challa Srishant: Actually the growth is there in the rest of the world apart from the developed country. Earlier, the maximum growth was there in the developed country. Now, there is a slight de-growth in the developed countries as a peak consumption which they have reached. But from Africa, India, China, the Asian countries, all these places there has been a significant increase in consumption including Russia and CIS countries.

Akhil Parekh: The 10,000 tonnes of capacity shut down you mentioned which is happening in US, right?

Challa Srishant: 10,000 tonnes, sir?

Akhil Parekh: There has been some capacity shutdown that is what vendors told.

Challa Srishant: No, we are having our annual maintenance shutdown, maybe you are referring to that.

Akhil Parekh: Might I have misunderstood, please clarify. You mentioned that there has been shutdown of capacity in US, right?

Challa Srishant: Yes, within US, there was one manufacturing unit that has decided to dismantle their company, the manufacturing operations are being discontinued in the US.

Akhil Parekh: So, are we seeing any tendering which has started for that present tonne of...



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- Challa Srishant:** Yes, it is already started and this process started actually about 4 or 5 months ago itself and throughout the world everybody is trying their best to grab the business. So, there is definitely an increase in competition also, everyone desperate to get that business now.
- Akhil Parekh:** So, just one last clarification you said we will be spending 20 crores on A&P this year, FY19?
- Challa Srishant:** About 40 is what we will be funding, 20 additional.
- Akhil Parekh:** Total 40 crores.
- Challa Srishant:** Yes, total 40, out of which 30 will get generated from the subsidiary company itself and maybe up to 10 that the contribution from CCL.
- Moderator:** Thank you. The next question is from Nitin Gosar from Invesco Mutual Fund. Please go ahead.
- Nitin Gosar:** Clarification on this branded business, you mentioned 20 crores incremental spend on FY18 number of 20 crores and by FY19 we will have a cumulative spend of 40 crores?
- Challa Srishant:** Yes.
- Nitin Gosar:** We plan to further subsidize or support this unit even in FY20 or ...
- Challa Srishant:** No, we do not. This financial year is the last year that we will have to support. If the response or performance is better even to the extent of this 10 crores might get reduced a bit. But to be on the safe side, we have in fact told Praveen also if the performance is really better, he can reinvest in growing the branch faster. So, this year is last year that we will have to support the domestic business, then become self-sustaining.
- Nitin Gosar:** And FY19, 40 crores is the cumulative spend which we are doing through the CCL Products into this ...
- Challa Srishant:** No, through CCPL, through the subsidiary company.
- Moderator:** Thank you. We take the next question from the line of Gagan Thareja from Kotak Investment. Please go ahead.
- Gagan Thareja:** You indicated that there is a bumper crop in Brazil and that is putting pressure in the prices of green coffee. I would presume Brazil is more Arabica's and Robusta and instant coffee probably is more Robusta and therefore probably Vietnam prices would be more significant than Brazil?
- Challa Srishant:** No, that is true to an extent. But globally if you look at it Arabica prices, so Arabica as a green coffee product is smoother in the cup and the taste profile also is better suited for coffee shops



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and for roasted coffee. When the green coffee prices of Arabica becomes too high that is when people start shifting over to Robusta. And typically Arabica prices have always been higher than Robusta prices. If the Arabica prices come down, then the Robusta prices also end up coming down. So, there is a pressure on the Robusta prices.

Gagan Thareja: And do your price negotiations with your customer is also factor in the currency?

Challa Srishant: There is a natural hedge in the currency for us because we buy the raw material in Dollar terms, we sell the finished products in Dollar terms and 70% of the product cost is in raw material itself. So, there is a natural hedge which is there.

Gagan Thareja: But with the Rupee depreciation, would your customers come back to you and ask for a renegotiation purely basis on currency movement?

Challa Srishant: No, that does not happen in the coffee world because the contract is a contract. Once you enter into a contract, there is no question about renegotiating the contract for any reason.

Gagan Thareja: No, what I mean to say is not renegotiating, what I means to say is that let us say the current contract expires and you coming in up for a new contract and the currency is moved significantly. Would that be a consideration in the bargaining that happens between you and your customer?

Challa Srishant: Some people might try to use that as this thing, but we usually tell them the same thing. We say that we are spending in Dollar to buy the raw material and supplying the finished product in Dollars as well. So, whatever the currency fluctuation is going to be relevant for us and for them and customers are happy to place an order despite that.

Gagan Thareja: On Vietnam, you indicated utilization of between 70% to 80%, is that on a name plate capacity of effective name plate capacity of 12,000 or 10,000?

Challa Srishant: Around 10,000 tonnes and this year we should be further increasing the capacity utilization over there and in fact, we are in the process of changing the product mix also which we have seen in last quarter. That is also one of the reasons why we were able to get better profitability and better output as well.

Gagan Thareja: See, if you look at Vietnam maybe, if 8% to 10% volume growth looks like a reasonable assumption, then in a couple of years' time you will be fully utilized?

Challa Srishant: Yes, so by next year we will also do a little bit of line balancing to further expand our capacity in Vietnam. We do not have to invest too much for it. Just a little bit of line balancing because infrastructure everything is in place. So, I think in another 2,500 tonnes and all should not be a problem for us.



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- Gagan Thareja:** And the interest in depreciation on the new facility will start flowing through the P&L as and when the commissioning happens in a full-fledged way?
- Challa Srishant:** Yes.
- Gagan Thareja:** And there will be a tax holiday on sales from that unit?
- Challa Srishant:** Yes, we will have tax holidays from the first year of commercial operations.
- Gagan Thareja:** So, any effective full year tax guidance for next year?
- Challa Srishant:** Not right now. So, once the plant is up and running, then we will be able to give a better guidance.
- Gagan Thareja:** In Vietnam the tax rate is nil yet or is it gone up?
- Challa Srishant:** This year we will be having the effective tax rate of 5% as of now.
- Gagan Thareja:** For FY19 or FY18?
- Challa Srishant:** For FY19. For FY18 it was zero. So, FY19 onwards for 9 years supposed to be 5% is the tax rate.
- Moderator:** Thank you. Well, that seems to be the last question. I would now like to hand the floor over to Mr. Abhishek Navalgund for his closing comments. Over to you, sir.
- Abhishek Navalgund:** Thank you to all the participants and also to the management of CCL Products for answering all the questions patiently. Over to you sir in case you have any closing remarks.
- Challa Srishant:** Nothing specific to add from our side. Thank you all for participating in the conference call. Hope we will catch up again for in the next call.
- Moderator:** Thank you. Ladies and gentlemen, on behalf of Nirmal Bang Equities that concludes this conference. Thank you for joining us, you may disconnect your lines now. Thank you.