



“CCL Products (India) Limited
Q2 FY2019 Earnings Conference Call”

October 22, 2018



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CCL Products (India) Limited
October 22, 2018

Moderator: Ladies and gentlemen, good day and welcome to CCL Products India Limited Q2 FY2019 Earnings Conference Call hosted by Nirmal Bang Equities. As a reminder, all participants' lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing "*" and then "0" on your touchtone telephone. Please note that this conference is being recorded. I now hand the conference over to Mr. Abhishek Navalgund from Nirmal Bang Equities. Thank you and over to you Sir!

Abhishek Navalgund: Good afternoon everyone. On behalf of Nirmal Bang Institutional Equities I welcome you all on this Q2 FY2019 earnings call of CCL Products India Limited so from management side, we have with us Mr. Challa Srishant, the Managing Director, Mr. V. Lakshmi Narayana, the CFO of the Company, Ms. Sridevi, Company Secretary and Mr. P. S. Rao, Consultant Company Secretary of the company so we will begin the call with the opening remarks on the management and then will open the floor for Q&A so over to you Sir.

Challa Srishant: Thank you for the introduction. The group has achieved turnover of Rs.292.11 Crores for the second quarter of 2018-2019 as compared to Rs.296.63 Crores for the corresponding quarter of the previous year and the net profit is Rs.47.18 Crores as against Rs.33.42 Crores.

The EBITDA is Rs.77.62 Crores and the profit before tax is Rs.65.59 Crores. For the half-year ended 2018-2019, the group has achieved a turnover of Rs.586.89 Crores as against Rs.545.94 Crores for the corresponding period of financial year 2017-2018 and net profit is Rs.86.64 Crores as against Rs.60.46 Crores.

During this quarter, the company has executed some more profitable contracts from Vietnam, which has also contributed, significantly to the bottomline. Regarding the SEZ plant, we have commenced trial production in this Q3 and we are applying for the necessary permissions for the certification by the end of this quarter and by Q4 we are expecting to receive all the necessary client approval as well as certifications and we are targeting to start commercial production from April 1, 2019.

In light of the above, we are also revising guidance for this year from earlier 10% to 20% bottomline where increasing it to 15% to 20% bottomline, topline has still expected to be in the range of 5% to 10%. That's it we can go over to the questions.

Moderator: Thank you very much Sir. We will now begin the question and answer session. The first question is from the line of Jignesh Kamani from GMO Group. Please go ahead.



CCL Products (India) Limited
October 22, 2018

Jignesh Kamani: Just to have a view on the volume growth both in India and Vietnam. I think in India we were running almost full capacity despite of our EBITDA grew by around 20% so volume growth was very healthy or production was far superior?

Challa Srishant: Actually in India, we were operating at full capacity but yes, we started doing a little bit more of small pack orders in this year, which is also contributing to further value addition so there is also a little bit of margin expansion that we are seeing because of that. Next year onwards we are also planning for a new packaging facility and we are going for more value addition. Predominantly today we are selling mostly bulk coffee that is the majority of our business, but we are moving more in more to small packs and this makes the business also more sticky because we are supplying to supermarkets and brand owners in that brand name.

Jignesh Kamani: Same client is shifted to more or you can say small pack order or we are getting new client which lead to better?

Challa Srishant: We are getting new clients in some business that we are trying to get for a couple of years that has translated into orders now and some of our existing customers are also buying some more additional small packs from us.

Jignesh Kamani: Understood so that can do profitability more sustainable?

Challa Srishant: Yes that is correct.

Jignesh Kamani: How is the volume growth in Vietnam?

Challa Srishant: Vietnam we are on track. It is almost about 15% or so was the volume growth that we have seen.

Jignesh Kamani: Okay and just on the new freeze-dried unit based on the interaction with the client what kind of utilisation we can achieve in the next year?

Challa Srishant: Next year we are targeting around 50% utilization.

Jignesh Kamani: With what about the margin we used to report in past on the baseline or there is dilution is the margin?

Challa Srishant: No the same similar margin.

Jignesh Kamani: Thanks a lot.



CCL Products (India) Limited
October 22, 2018

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

Nitin Gosar: Congrats on a good set of numbers. The guidance on the underlying commercial economics of the business couple of quarters back we were struggling to see profitability vis-à-vis with the expectation that we had set, this year the first half we have seen the profitability has sharply improved versus the expectation. I was trying to understand is it the underlying business for freeze, which has improved wherein we had some concern that globally more capacities are coming and which would be exerting some bit of profitability pressure?

Challa Srishant: I understood the question. If you go to the earlier transcripts also one of the thing is last year and the year before that we were focusing mainly on the volume growth and especially in the last financial year, we were focusing mainly on the volume growth and we were adding new customers as well and that was supposed to be the foundation for getting new customers on board and today now we are realizing that whatever strategic decision we have taken last year we are reaping the benefits from this year onwards. Some of these customers whom we supplied in bulk last year, they have established us as a consistent supplier and they have started giving orders for small packs as well, which is also one of the reasons why we are seeing growth this year onwards.

Nitin Gosar: On this same is there a way to understand how much percentage of businesses right now still in bulk and how much is in small packs?

Challa Srishant: Around 70% will be the bulk business in India and about 30% of the India business is right now in small packs. Vietnam almost everything is in bulk.

Nitin Gosar: There is high degree of profitability, which can be expected if more clients get skewed towards the smaller packs?

Challa Srishant: That is correct.

Nitin Gosar: For them to shift small packs what is the advantage they get?

Challa Srishant: For them they are buying from only one single person. Earlier they used to buy from resellers, we used to supply to resellers in different geographies, they used to pack the product at their margin and then supply. By buying directly from us they are getting an advantage of buying directly from the manufacturer so depending on the volumes that they are buying they will get the price advantage also, as opposed to buying from many of the resellers or third parties.



CCL Products (India) Limited
October 22, 2018

Nitin Gosar: One last question on freeze-dried facility, which is coming up for commercialisation. In past whenever the new facility used to come up, we used to see a jump in volume, but a dip in margins or the profitability. Should we expect a similar kind of outcome for the next two years when the facility will be available?

Challa Srishant: Not really. Not a significant dip in margins or anything like that. If you look at Vietnam also when we started utilizing the plant initially we had less than 50% utilization because we had introduced Spray Dried Coffee in Vietnam where there was already a lot of competition. Now in India we are setting up Freeze Drying plant where the demand is much more and Freeze Dried is a significantly more premium product and we are introducing products, which are in Freeze Dried categories, there are several subcategories of more premium products that we are introducing. So the main purpose of setting up this plant also was to expand our offerings in Freeze Dried, not just the plain vanilla type Bulk Freeze Dried that we used to manufacture, but now we can do a wider range of products as well, which is one of the reasons why we are quite confident that we can maintain the same margins.

Nitin Gosar: Got it Sir. Thank you.

Moderator: Thank you. The next question is from the line of Ronak Morjaria from Edelweiss Asset Management. Please go ahead.

Ronak Morjaria: Good afternoon. Congratulations on a good set of numbers. Sir, if you could throw some light on our retail domestic operations? What has been the revenue this quarter?

Challa Srishant: For the first half now, I we have done about Rs.40 Crores as revenue from the domestic market. Last month we have launched Malgudi and THIS brand for a 3 IN 1 premix, we have started placing the products in the market and online. Our projection for this year is about Rs.100 Crores and this Q3 and Q4 will give us a clearer picture as to the response of the products in the market. Current projections are at Rs.100 Crores, so we will know towards the end of Q4 what we are really able to achieve out of this.

Ronak Morjaria: Out of this Rs.40 Crores like roughly 50% would be directly the B2C and balance would be to B2B?

Challa Srishant: Yes that is correct.

Ronak Morjaria: Sir, are we having any plans for any further expansion on Vietnam side in the next one year or two?



CCL Products (India) Limited
October 22, 2018

Challa Srishant: Vietnam we are doing a little bit of line balancing to enhance the capacity because this year we will be reaching that optimal utilization in Vietnam, so we need some additional capacity over there, so with the minimum amount of investments we can do some line balancing and increase the capacity to around additional 3500 tonnes by next year.

Ronak Morjaria: Okay so that would be ready by the end of FY2020 you are saying?

Challa Srishant: Yes.

Ronak Morjaria: And roughly how much would it cost for us?

Challa Srishant: Around \$8 million is what we are projecting on the higher side.

Ronak Morjaria: Thank you and all the best Sir.

Moderator: Thank you. The next question is from the line of Rahul Ranade from Goldman Sachs Asset Management. Please go ahead.

Rahul Ranade: Thanks for the opportunity. I just wanted to understand this proportion of bulk versus small pack what was this say a year ago in the India business?

Challa Srishant: A year ago, I will say may be around between 20% and 25% in India was in small packs.

Rahul Ranade: Which has moved up to 30% then?

Challa Srishant: Yes, around 30% and now with the domestic market volumes also increasing, but likely to go up even further going forward.

Rahul Ranade: Just looking at some historical data from the company's quarterly, the last two years actually saw very significant spike up in the EBITDA margins during the December quarter, which has kind of happened in the September quarter this time around, so I just wanted to understand whether there is any seasonality inward that we should kind of know of?

Challa Srishant: Actually for our type of business you have to look at it on a year-to-year basis only because customer sometimes they may want to place orders in one particular quarter as opposed to another quarter, so in Q2 this time we have actually executed some more profitable contracts that we would have otherwise executed in Q3 or Q4. That is one of the main reasons why we have seen a substantial hike this year.



CCL Products (India) Limited
October 22, 2018

- Rahul Ranade:** Sure, so it might kind of got preponed more profitable orders?
- Challa Srishant:** Yes, so whatever guidance that we are giving, we look at it on an annualized basis and since we have more or less good visibility for the whole year, we are able to give more or less accurate guidance.
- Rahul Ranade:** Thank you.
- Moderator:** Thank you. The next question is from the line of Akhil Parekh from Elara Capital. Please go ahead.
- Akhil Parekh:** My question is on the raw material front. We are seeing the coffee prices are hitting all time low right now, so how much the improvement in margin is because of the small packs of the change in the product mix versus the declining trend is the raw material prices?
- Challa Srishant:** Akhil as you know our business model itself is such that the green coffee prices really do not impact us because we have already sold coffee before hand. We are covered on a back-to-back basis, so whether the prices go up or down, it really does not make too much of an impact, where it does make an impact is with that percentage appears to increase because the turnover is coming down. That is the only impact.
- Akhil Parekh:** What you are saying is basically the realizations, the flattish topline might be because of the decline in the realization?
- Challa Srishant:** Yes, there is almost 20% decline in green coffee prices compared to last year, in spite of that decline we have managed to maintain more or less the similar turnover, which clearly shows that we have done more than 20% additional volume growth also this year for the first six months.
- Akhil Parekh:** So directionally the EBITDA per tonne would have improved, right that is what I am assuming?
- Challa Srishant:** Yes.
- Akhil Parekh:** On Y-o-Y basis?
- Challa Srishant:** Yes it has.



CCL Products (India) Limited
October 22, 2018

- Akhil Parekh:** My second question is on the utilization level for first half at India and Vietnam so should we able to continue with 95% in India, around 75% to 80% in Vietnam by the end of the calendar year?
- Challa Srishant:** Between 90% and 95% I am factoring shut down period for maintenance and everything, 90% to 95% is what we are doing in India, and we are going to continue with the same thing, Vietnam we are seeing an increase in utilization around 75% to 80% as what we are targeting this year.
- Akhil Parekh:** The maintenance shutdown you are saying it is going to happen in the second half?
- Challa Srishant:** The maintenance shutdown has already completed in the first half itself.
- Akhil Parekh:** Okay. How many days it was?
- Challa Srishant:** About 20 days.
- Akhil Parekh:** My question is on the private label side. So we have seen some TV commercial in the south right, so are we planning anything on ad spend in Hindi medium?
- Challa Srishant:** Actually we are. I think not in Hindi medium. We are now doing in the south only in the four states Tamil Nadu, Karnataka, Telangana and AP in Tamil, Kannada and Telugu , three languages that we are doing the ads, we are targeting only the southern states because this is where we are selling Malgudi Filter Coffee. North India the filter coffee itself is negligible, so we are not targeting that market. If we start targeting that market our ad spent amount also will increase substantially, which did make sense at this point in time.
- Akhil Parekh:** Got it. So we should not expect Malgudi in D-mart, Big Bazaar in Mumbai maybe?
- Challa Srishant:** That I am not too sure because most of the biggest chains they are asking us to keep the product there, and our offtake in the D-marts and all is actually quite good, the response has been so good, they are asking us to do the private label as well.
- Akhil Parekh:** Just last question, in terms of expense last time we have maintained at whatever we are going to earn from Continental Coffee Private Limited is going to go in the ad spent, ad in promotion plus 10 Crores from the CCL right, do we stay with the guidance?
- Challa Srishant:** Right. We are 100% on track for that. There is no change.



CCL Products (India) Limited
October 22, 2018

- Akhil Parekh:** Sorry one more question if I can squeeze in, in terms of margin obviously there has been a sharp improvement for first half now almost 24% of the margins were hitting versus 21% last year, so any colour on the margin guidance Sir?
- Challa Srishant:** No, so frankly, this is only it appears to have increased. Our per kg realization is still the same. It is only because of the raw material prices coming down on a percentage basis it appears that we are getting a higher margin. So this as you know when coffee green prices go up then this margin percentage as such will also come down.
- Akhil Parekh:** Thank you so much for answering my questions.
- Moderator:** Thank you. The next question is a followup from the line of Nitin Gosar from Invesco Mutual Fund. Please go ahead.
- Nitin Gosar:** My followup question is on the small pack line, I guess in your starting commentary you made a note on the packaging lines, which we were going to put on additional, could you highlight how much is the capex, which will be involved on there and how it will change the revenue profile or the earnings profile?
- Challa Srishant:** Yes, we are setting up an agglomeration and packing unit by next financial year, the investment is approximately around \$12 million.
- Nitin Gosar:** Okay. This is in India?
- Challa Srishant:** In India. This is outside the SEZ in Sullurpet. The SEZ is 30 acres of land. We already purchased some additional land also four years ago, so in that balance portion we are setting up this unit.
- Nitin Gosar:** Sorry let me put it in this way so whatever revenue or the output that we generate out of Chittoor plant, we will push it through the new unit for agglomeration and packaging and may garner more value-added product sort for that facility?
- Challa Srishant:** The SEZ plant is a separate unit that is catering to the export market. The unit that we are proposing to set up is a DTA unit because of the increased volume in the domestic market mainly. Now the number of SKUs that we have introduced in the domestic market also has increased substantially apart from this, even our export orders for small parts have been increasing, so keeping these two requirements in mind, we are setting up a DTA unit outside the SEZ unit.



CCL Products (India) Limited
October 22, 2018

Nitin Gosar: This \$12 million capex that we are going to do, this will be able to suffice what kind of quantity that you produce in India like say 20000 tonne is the capacity?

Challa Srishant: What we are going to do is we are setting up an agglomeration capacity of about 5000 tonnes and the packing capacity also will be similar around between 3000 and 5000 tonnes is the packing capability that we are going to setup, so there is no additional product that will come, but we see value addition that comes in because of this investment. It will be more or less fully automated packing line.

Nitin Gosar: Okay and what would be the incremental realization that we should be expecting for this?

Challa Srishant: There should be an incremental realization maybe around additionally maybe 5% more at least we should get because of the small packs.

Nitin Gosar: Okay and for additional 2% or 3% expense is that the way?

Challa Srishant: Yes, something like that.

Nitin Gosar: Last question is with regard to INR depreciation, now the existing numbers that we are seeing, are we having any kind of INR depreciation benefits in terms of better realization and better profitability?

Challa Srishant: One because we are buying our raw material in dollars and we are selling our finished product in dollar, there is a natural hedge, for at least 70% of our product cost is raw material, because there is a natural hedge over here, automatically, only in the balance 30% where we are doing the conversion aspect over there, there will be a marginal benefit that we are getting.

Nitin Gosar: Got it. Sorry I have one more question. Globally a couple of quarters back when we used to discuss there used to be a worry about the incremental capacities, which are coming up on Sprayed Dried where we are putting up pressure on the realization, as that scenario changed, moderated or has worsened any kind of update on that?

Challa Srishant: Additional capacities were always there. There was more than 50% excess capacity in the past and even now that is the same situation. There are new capacities constantly coming on broad as well, but one thing what even the people who are building new capacities realizing is that just having a production facility is not sufficient to generate sales. When you are working with coffee brands, there is a lot of R&Ds that required, there is a lot of product development that is required all this is quite expensive and time consuming, on top of all



CCL Products (India) Limited
October 22, 2018

this, you need the right partners and multiple geographies who can help introduce your product in these markets, what we have initiated more than 20 years ago, the relationships that we have built more than 20 years ago, we have been able to get consistent repeat business because of that. So whatever we do like even last year what we had done was in light of the additional competition and all we were trying to be more aggressive in the market and we were successful in adding more volume to our business. Now we are able to take that relationship to the next level as well. So this is an ongoing process that is going to be there and going forward also we are not expecting the competition to reduce. We have multiple advantages because of the plant being 20 years old and we also have lot of product development that we have done, we have economies of sale, so there are multiple advantages that we have, that is enabling us to be competitive. Going forward also because we are constantly expanding our capacities, we do not see any problem in selling more volumes in the future as well.

- Nitin Gosar:** Perfect. Thank you Sir.
- Moderator:** Thank you. The next question is from the line of Ankit Jain from Mirae Asset Management. Please go ahead.
- Ankit Jain:** You have mentioned that India business volume growth has been at around 20% this quarter?
- Challa Srishant:** India, more than that actually because last year we have done about 46 Crores in the whole year, this year in the first six months we have done about 40 Crores.
- Ankit Jain:** No. I am not talking about consumer business, I am talking about B2B business for the standalone entity for which the revenues are flat, so there the volume growth is around 20%?
- Challa Srishant:** No, the volume growth is not 20% I think in the range of maybe 10% or so.
- Ankit Jain:** Secondly that if I look into I mean in your balance sheet the entire increase pertains to CWIP/capital work-in-progress is towards the Freeze-Dried capacity?
- Challa Srishant:** Yes, that capital work-in-progress is towards the Freeze-Dried.
- Ankit Jain:** Okay, so as on September end, does the entire amount has been spent pertains to that plant?
- Challa Srishant:** I will just ask our CFO to answer this.



CCL Products (India) Limited
October 22, 2018

- Lakshmi Narayana:** Yes, majority of the amount i.e., 90% has been met, and remaining all will be incurred in another quarter.
- Challa Srishant:** The whole amount what you are showing in the balance sheet taking the expenditure, which he is asking? Can you just repeat the question?
- Ankit Jain:** What I am trying to understand is as on September end balance sheet, the entire amount pertains to that plant has been capitalized?
- Lakshmi Narayana:** No it is still under the capital work-in-progress and since we are not yet declared the commercial operation.
- Ankit Jain:** So basically interest and depreciation pertains to that, it is still sitting in CWIP that is still not?
- Lakshmi Narayana:** Yes, interest and Preoperative expenses are sitting under capital work-in-progress. Since the Commercial Operations are not declared, as of now, accounting for depreciation does not arise.
- Ankit Jain:** After this plant I mean what is the capex requirement now because just now you have mentioned \$12 million towards agglomeration unit and apart from that some bit we are also doing in Vietnam, so what would be the total capex let us say next one year?
- Challa Srishant:** \$8 million is what we projected for improvement of line balancing at Vietnam, which may add around 3500 tonnes capacity and another \$12 million dollars which we are intended to go for investment to for agglomeration facility and automized packing facility in India adjacent to our DTA unit at Chittoor.
- Ankit Jain:** Sure and anything else part from let say this \$20 million, \$12 plus \$8, maybe some small maintenance capex might?
- Challa Srishant:** Maintenance capex will be there as part of the regular process, but that is not much actually.
- Ankit Jain:** Thanks and all the best.
- Moderator:** Thank you. The next question is from the line of Ritika Garg from Equitas Investments. Please go ahead.



CCL Products (India) Limited
October 22, 2018

- Ritika Garg:** Good afternoon Sir. Sir I wanted to know regarding your B2C business, so we are planning to grow at 100% in FY2019 and what will we project for FY2020?
- Challa Srishant:** End of Q4, we will be able to answer that question because today we have just done the product launch. We are placing the product in the markets and all, the initial consumer panel tests, we got positive response, actual consumer offtake what we will be able to achieve, will only know at the end of Q4 and that point in time, we will be able to give a more realistic projection for next year.
- Ritika Garg:** For Freeze Dried the margins are better in Vietnam or in India?
- Challa Srishant:** Freeze Dried we have only in India. The Freeze Dried manufacturing is there only in India and Vietnam we have only Spray Dried manufacturing.
- Ritika Garg:** The margins are better in Vietnam or in India?
- Challa Srishant:** In Vietnam because the technology that we incorporated in Vietnam also is state-of-the-art technology and we are able to offer a much wider range of premium products from Vietnam, so strategically we setup the plant over there also, we had done substantially higher investment in Vietnam also on day one, so that we can get better realizations over there.
- Ritika Garg:** Okay and so our current Vietnam capacity utilization is 75% to 80%?
- Challa Srishant:** This year we are targeting 75% to 80%.
- Ritika Garg:** And what was it in FY2018?
- Challa Srishant:** That was 60% to 70%.
- Ritika Garg:** Could you also throw some light on like the global production of Robusta and Arabica and their prices?
- Challa Srishant:** Global production wise, today there are number of factors, which are there, which is resulting in the fluctuation in prices. There is a bumper crop this year in Brazil as well as Vietnam, which is why the coffee prices have been under pressure for the last couple of months, but in the last week or so, the market started recovering mainly because of the Brazilian elections. And the party is expected to come into power it is supposed to be more probe business and that is why the Rial started strengthening as well because of which the green coffee prices have also started going up, Brazil being the largest producer of coffee in



CCL Products (India) Limited
October 22, 2018

the world. So the green coffee prices now there is new news in the market saying that there is a coffee rust that is impacting the crop, ground level reality is a different story all together, so at this point in time the coffee prices are under pressure, next year we will know only after November when the new crop comes, what is the realistic situation is going to be.

Ritika Garg: Do we sell our products on online channels also through Amazon and so who are our competitors because our price points are pretty low compared to the others?

Challa Srishant: Actually it is comparable because our MRP is almost in fact in some cases higher than the competition also, and as far as the products are concerned, end of the day as far as coffee is concerned, our quality is something, which is significantly different from what our competitors are selling. Our products are available online.

Ritika Garg: Yes, I have actually ordered your coffee.

Challa Srishant: Whether it is better or worse is something I cannot comment on because it is an individual choice, so what we have seen is lot of people have given us positive feedbacks saying that they have liked our coffee as a good alternative.

Ritika Garg: So who will be our direct competitors?

Challa Srishant: In India you have a duopoly that is mainly Nescafe and HLL. So that is Bru, so these are two brands, which are selling in India right now. Significant third competition in the market is basically us.

Ritika Garg: So we plan to take market share from them?

Challa Srishant: Actually we were planning and growing the market also. We are introducing a lot of new products. There is almost a 15% to 20% growth of coffee consumption within India. India today only in less than 20000 tonnes is being consumed in India today. If you look at U.S., they are consuming 80000 tonnes, Japan consumes 35000 tonnes so the potential for growth and coffee consumption is huge in India provided, we can also introduce products at a right price point. We have recently introduced this coffee, which is a 3 In 1 premix at a Rs.10 price point, so that is a good alternative at the hot beverage to even tea. So we are just targeting coffee as a competition, we are looking at a hot beverage market.

Ritika Garg: Okay, and where do we see B2C business as a percentage of our total revenues?



CCL Products (India) Limited
October 22, 2018

Challa Srishant: B2C business today will be less than 1% - 2%, but we are hoping that is to grow consistently like if you look at our domestic business from last year to now, our B2C business has grown more than 100%. In the first six months itself compared to last year, it has grown more than 100%, so from where something as we seem to be doing right, so hopefully the trend will continue.

Ritika Garg: What is our advertising spend for FY2019?

Challa Srishant: This year, we are targeting around Rs.20 Crores for advertising.

Ritika Garg: 20 Crores, and the estimates that you gave for FY2019, you revised the downwards for packs to 15% to 20%?

Challa Srishant: No, upwards earlier I said 10% to 20%.

Ritika Garg: Okay. Now it is 15% to 20%.

Challa Srishant: 15% to 20%.

Ritika Garg: All right. Thank you so much.

Moderator: Thank you. The next question is from the line of Nikhil Upadhyay from Securities Investment Management. Please go ahead.

Nikhil Upadhyay: Thanks for the opportunity and congrats on a good set of numbers. Sir three questions, one is on the currency benefit, which you said like around 30% of it is open, so when we go for the contracts for the next year, do we need to pass on that complete benefit to the customer or how does the pricing worked in?

Challa Srishant: It is not necessary that we have to pass on, but depending on whom we are targeting. If there is another Indian supplier who is supplying to that particular company and if you want to be more aggressive, they are passing on the benefit, we may also have to pass on, but usually that will not always be the case because we are doing large volumes across the world, the portion of these that we will be competing from India is again very small. It is global competition that we should be more concerned about. And this has really – mean the currency devaluation is one thing I would not say is really helping us that much also because currency has devalued in other countries as well. Because the dollar has strengthened, it is not only us getting the benefit, it is others who are getting that benefit as well. So that completion as such is still there.



CCL Products (India) Limited
October 22, 2018

- Nikhil Upadhyay:** So net-net basically that means - so my point was that it is more driven by the market pricing based on which our decision of passing on or not depends as well as the customer pushing?
- Challa Srishant:** Yes, that is correct.
- Nikhil Upadhyay:** Okay. Secondly, if I look at our sequential numbers on the standalone, and so I am just trying to infer if I look at June quarter and September quarter, our sales was 218 to 214 Crores and if I look at the coffee prices, the coffee prices sequentially were on an average down by 10%, which means that we got a benefit of around 8% to 9% which then should be basically the improvement, which we got from the smaller packs along with the volumes, would that be a correct information?
- Challa Srishant:** Yes that is correct.
- Nikhil Upadhyay:** Other than this 130 Crores of capex, do you foresee any other capex for 2021?
- Challa Srishant:** No, not right now. 2021 is a different story all together. We are focusing on certain customers at this point in time, if those volumes come through and the demand for Spray Dried increases substantially, then we might go in for additional expansion in Vietnam for another 10000 tonnes, but at this point in time we are planning maybe two years to three years down the line.
- Nikhil Upadhyay:** Okay, so this \$20 million is the immediate capex, which we have?
- Challa Srishant:** Yes, by next financial year we will be spending this.
- Nikhil Upadhyay:** Lastly when we say we are going smaller packs, I am just trying to understand so the throughout of the core plant, which is 20000 tonnes?
- Challa Srishant:** That remains the same and by doing agglomeration also it is just conversion of the product into granules, so out of that 20000 tonnes approximately around 14000 tonnes is Spray-Dried coffee, out of that 14000 as spray we are already agglomerating around 3500 tonnes but now that the demand for agglomerated coffee is also increasing. We are enhancing the agglomeration capacity by another 5000 tonnes, so it is value-addition that we are getting now.
- Nikhil Upadhyay:** But the number of cycle changes in order to create the blend and all that will remain the same, and it is just the value addition and there is no capacity addition in this, right?



CCL Products (India) Limited
October 22, 2018

- Challa Srishant:** Yes.
- Nikhil Upadhyay:** That is the only difference we are doing?
- Challa Srishant:** Correct.
- Nikhil Upadhyay:** Thanks a lot Sir.
- Moderator:** Thank you. The next question is from the line of Abhijeet Akela from India Infoline. Please go ahead.
- Abhijeet Akela:** Good afternoon. Thank you so much for taking my questions. I wanted to seek a couple of clarifications. One is your export incentives for the quarter if it is possible to just help us on that how much that was?
- Lakshmi Narayana:** Quarter one it is at Rs.9 Crores and the quarter two it is at Rs.12 Crores. It is Rs.21 Crores in the first half year.
- Abhijeet Akela:** Okay. Got it and from a full year perspective, do you expect more to come in the second half?
- Challa Srishant:** Yes, we will get more on the second half as well.
- Abhijeet Akela:** Then just on the Freeze-Dried market, I mean there has been some sort of concern that a lot of capacities are being added I mean beside yourself a few other companies have announced some additions, so just wanted to get your thoughts on the health of the market there, do you see the demand and supply sort of balancing out at the end of all of this or is there a some risk of maybe moderation in freeze-dried margins?
- Challa Srishant:** One with respect to the demand increasing, there is definitely an increase in demand because this is like a cycle, couple of years ago when Freeze-Dried capacity was not sufficient, the prices of Freeze-Dried became significantly higher and people they were willing to the consumers, the end consumers are not willing to pay that kind of high premium, they started transitioning to Spray Dried. Now the capacities started getting built from last year onwards, the transition is now taking place more towards Freeze Dried now again in the market and that is also one of the reasons for next year we have already started doing contracts more than 50% of our capacity for next year already presold now, I am talking about the enhanced capacity. So that is also one of the reasons why we are quite confident that we will be able to do some additional volumes at least 50% utilization of the new plant will be there from next year onwards, next financial year onwards and yes



CCL Products (India) Limited
October 22, 2018

margins also we are expecting to continue with the same margins that we have this year because the correction has already taken place from last year to this year.

Abhijeet Akela: That is great to hear. Just last thing was in terms of the total debt taken on for the Chittoor project, how much is it out of this Rs.360 Crores capex?

Challa Srishant: Rs.180 Crores is the loan component.

Abhijeet Akela: The rest is all funded internally?

Challa Srishant: That is correct.

Abhijeet Akela: Right and last one quick thing, the PAT guidance change we have made, we have increased the PAT guidance to 15% to 20%, so that is largely because of a higher percentage of value-added products, is that the reason?

Challa Srishant: Yes, that is correct.

Abhijeet Akela: Thank you so much and wish you all the best.

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

Akhil Parekh: Just two questions, one is on the US FMCG company, last quarter we were speaking about, we were expecting some kind of traction over there, so because the Ecom trader has shutdown its facility, are we seeing any positive traction from that company?

Challa Srishant: We have already started supplying to them, but again small volumes as of now. Going forward could go up but one of the thing is that they are asking for is again small packs, so we wanted to build some additional capacity of small packs before going after that business.

Akhil Parekh: Is that the reason why we are building up the packaging facility in India?

Challa Srishant: Not only because of that, but that is also one of the reasons.

Akhil Parekh: Okay. So we will be supplying its from India for that particular US based client?

Challa Srishant: Yes.



CCL Products (India) Limited
October 22, 2018

- Akhil Parekh:** In tonnage would you be able to share like how much maybe like in percentage wise, how much you are supplying right now?
- Challa Srishant:** See the tonnage of what you mean?
- Akhil Parekh:** For that particular U.S., client, for that particular U.S. client?
- Challa Srishant:** No right now we are doing again small volumes, less than about 300 or 500 tonnes.
- Akhil Parekh:** That we expect around maybe 2000 that is what I think you mentioned?
- Challa Srishant:** Yes, it has a potential of growing up to 2000, but that again depends on multiple factors, so better not to comment on that right now.
- Akhil Parekh:** Just one last question in terms of the margin differential or the per tonne differential between the agglomerated versus Spray-Dried, how much that would be?
- Challa Srishant:** I would say about 4% to 5% more we will get for the agglomerated compared to the Spray-Dried.
- Akhil Parekh:** Got it. Thank you so much.
- Moderator:** Thank you. The next question is from the line of Dhiral Shah from Asit C Mehta. Please go ahead.
- Dhiral Shah:** Good afternoon Sir. Congratulations for the good set of numbers. Sir what is the margin gap between small package and bulk package?
- Challa Srishant:** Frankly that is the difficult question to answer because it depends on customer to customer, usually I can range between 5% to even 20%-25%.
- Dhiral Shah:** That much of difference.
- Challa Srishant:** Yes, it is a huge variation depending on customer to customer, depending on the markets that we are targeting, if we are either taking part in tenders, it will be a different costing, if it is brand owner, it will be a different costing, so all these factors are there.
- Dhiral Shah:** Okay and Sir secondly we are spending around \$12 million for adding 5000 tonnes of agglomeration capacity, right?



CCL Products (India) Limited
October 22, 2018

- Challa Srishant:** Agglomeration and packing - automated packaging.
- Dhiral Shah:** Okay. So this would be adding 5000 tonnes right?
- Challa Srishant:** Yes, 5000 tonnes.
- Dhiral Shah:** Thank you so much Sir. That is it from my side.
- Moderator:** Thank you. The next question is from the line of Anuj Jain from Value Quest Capital. Please go ahead.
- Anuj Jain:** Thanks for the opportunity. I have few broad questions. Number one, who are our main competitors in the instant coffee contract manufacturing space?
- Challa Srishant:** There are several people across the world. In Brazil you have Cacique, COCAM, you have LCafé, Olam, earlier we had Super, now there is another Chinese company called Jiahe as well and in India you have almost five or six manufactures who are there, so across the world, every geographies that is growing coffee there are a lot of manufactures who are already in the space.
- Anuj Jain:** Except Olam, you mentioned completely, can you just like tell me again, like I missed the names?
- Challa Srishant:** Cacique in Brazil, LCafé and Ecuador, you have in China Jiahe that is King Flower.
- Anuj Jain:** King Flower and approximately what kind of capacities these players have?
- Challa Srishant:** The highest capacity I think will be in the range of 25000 tonnes. UK has around between 20000 tonnes and 25000 tonnes.
- Anuj Jain:** That is useful. My second question is like till last five years, the incremental revenues which we have like we were doing it around Rs.650 Crores in 2013 and we did around Rs.1150 Crores in 2018, so for this incremental Rs.500 Crores, can we have a split of revenues coming from new clients versus business from the existing clients?
- Challa Srishant:** Most of it is from Vietnam. The additional incremental is from Vietnam and all the Vietnam customers are new clients as in they could have been buying from us in India, but it is additional business for they were giving us from Vietnam.
- Anuj Jain:** Like purely new clients, the new names, which we have added in last five years?



CCL Products (India) Limited
October 22, 2018

Challa Srishant: New customers, we constantly add at least about maybe 10 to 15 customers every year out of which volume guys will be may be two to three people that we keep adding every year.

Anuj Jain: How is our sales effort is broken between the existing client as well as the new clients?

Challa Srishant: Existing clients also keep increasing their volumes with us. In some cases, if you are adding a new customer in one year, the second or the third year, the volumes with that particular customer can go up by even 50%-60% because initially they will just want to test us out like last year the new customers that we added we did some basic bulk products with them vanilla type products, which was not very complicated. Now that they have that trust and confidence that we can supply whatever they want within the timeframe they want, they will increase the orders to small packs and other products with us now. They are going up the value chain.

Anuj Jain: One last book keeping question, any particular reason for increase in personal expenses in this quarter?

Challa Srishant: Personal expenses, I think our CFO can answer that.

Lakshmi Narayana: That is essentially the commissions that have been accounted for. The proportionate commission payable to the whole time directors, we have made a provision on constant basis instead of taking it upon approval, we are spreading it to over a period of month on month basis.

Anuj Jain: Thank you. That's it from my end and best of luck.

Moderator: Thank you. We have moved to the next from the line of Lakshminarayana Ganti from SBICAP Securities Limited. Please go ahead.

Lakshminarayana G: Just one question on what explains the increase in demand for agglomeration based coffee?

Challa Srishant: Pardon?

Lakshminarayana G: Why demand for agglomerated coffee is rising?

Challa Srishant: Why it is increasing is, in India if you look at most of the products that are being sold today, like you have two main products, one is the pure coffee, which is being sold in agglomerated form by Nestle and the second is Spray-Dried powder, which is being sold in chicory coffee blend by Bru. What we are doing is we have introduced our continental extra, which is an agglomerated Spray-Dried coffee and our volumes of this product has



CCL Products (India) Limited
October 22, 2018

also been increasing at the domestic market. Based on the projections that our domestic team has given us, we needed to double the capacity by next year. So that is one significant reason, apart from that we have our other export customers also there are certain specific markets, once we started doing more or small packs, most of the small pack the customers are asking the supply with agglomerated coffee. Earlier when we used do in bulk, we used to give Spray-Dried powder, agglomeration used to be done by the re-packer or reseller, and then they used to sell to the customer. Now we are only doing that agglomeration at our end and doing the small packs and supplying to customers as well. One thing you need to understand is global market if you look at out of the 750000 tonnes instant coffee market that is there, around 250000 tonnes to 300000 tonnes will be Nestle and they are right now selling everything in agglomerated coffee only. Anyone who is competing against Nestle also in the small pack business, they prefer to have agglomerated coffee.

Lakshminarayana G: Is it that the customer perceives them to be better quality?

Challa Srishant: Yes, it is just a physical change in appearance, but while making agglomerated coffee, we also do certain processes to enhance the aroma, to have better binding of the granules, so we do some slightly value additions. It gives the premiumness. Agglomerated coffee is also called the poor man's Freeze-Dried coffee so the perception that it is more premium has always been there.

Lakshminarayana G: Last question, how much is your estimate of global Freeze-Dried capacity and how much in terms of supplies coming through in the next two years?

Challa Srishant: My thinking maybe between 150000 tonnes and 200,000 tonnes would be the Freeze-Dried consumption today in the world and at this point in time there is just sufficient capacity to meet the demand. If the Freeze-Dried mix is increasing, then automatically the capacity also has to increase because of the high capital cost, there are not many people who have come into this field, but now they are slowly entering.

Lakshminarayana G: But you sense a differential growth rate for slightly better growth rate for Freeze-Dried?

Challa Srishant: Yes, we are seeing a much better growth rate, because people across the world also they want more premium products including in freeze dried also. In freeze, we have a lot of sub-characterizations, which are there, more premium product under the Freeze-Dried end. So these are the areas where we have seen more growth actually.

Lakshminarayana G: Thank you and good luck.



CCL Products (India) Limited
October 22, 2018

- Moderator:** Thank you. The next question is from the line of Nidhi Agarwal from Angel Broking. Please go ahead.
- Nidhi Agarwal:** Thanks for taking my question. I have just a question on second half, we have seen a 40% increase in profits in first half, and so are we seeing any slow down in second half?
- Challa Srishant:** Second half, one thing we have been a little more conservative because we have executed like normally like we do everytime, customers decide when they want us to execute certain contracts, so some of the more profitable contracts have been executed in Q2 itself, which is also one of the reasons why we are expecting more or less similar trend as what we have done last year, Q3 and Q4, we are focusing on certain contracts, which we will get a little bit more clarity on at the next couple of months. If the things pan out, then our guidance will be hitting the higher number basically closer to the 20%.
- Nidhi Agarwal:** Another question on B2C business, we are seeing a lot of discounts in continental products, is this Asia phase or are you selling at loss or we will stop seeing such one-on-one free kind of deals?
- Challa Srishant:** The reason why we are giving that initially buy one get one free offers are as an introductory offer. We wanted the people to try the product at least once, which is why we have introduced with these kind of offers. These offers are gradually being phased off, even buy one get one free there is no loss as such, there is no significant margin that we may have but we are not facing any loss over there. Going forward, the offers are also getting revised in fact from this quarter onwards we will be seeing the revised packs in the supermarket shelves as well.
- Nidhi Agarwal:** Thanks for taking my questions.
- Moderator:** Thank you. The next question is from the line of Vikas Kasturi, an Individual Investor. Please go ahead.
- Vikas Kasturi:** My question is about two years back, the Annual Report mentioned that we have about 200 blends, now you say that we have about 1000 blends, so is it possible to come up with an additional about 800 blends in such a short period of time?
- Challa Srishant:** Yes, because we have increased our portfolio of offerings, we have added three in one products into our product mix as well. There are so many permutations and combinations, which are possible. We have started offering these products to different customers even – like customer want a sweeter coffee or darker coffee or a lighter coffee it could be any kind



CCL Products (India) Limited
October 22, 2018

of requirements that the customer gives, that has resulted in us creating new products for those customers. So we have created these products not just like previous vanilla type of Spray Dried coffee or Freeze-Dried coffee. Today apart from the usual Arabica, Robusta blends, we have specialty coffee, we have organic, Fair Trade, Rainforest, we have three in one, two in one, we have microground coffees, we have cold coffees, cold brews. The list goes on and now we have also introduced some tea products as well. There is no product in coffee that we cannot manufacture today. There is no other manufacturer in the world you name it even the biggest brand in the world has the kind of flexibility to make the number of products that we are currently making. So we can basically match any product manufactured by any manufacturer anywhere across the world. So that is the capability that we are built up over the last 25 years.

- Vikas Kasturi:** Thank you Srishant. That is all I had.
- Moderator:** Thank you. The next question is from the line of Nikhil Upadhyay from Securities Investment Management. Please go ahead.
- Nikhil Upadhyay:** Thanks for the followup. Just one question on Vietnam like I think in one or two calls back, you had mentioned that this tax holiday which we were getting it could be extended for next five years, so any updates over there?
- Challa Srishant:** Yes, as of now we did receive an extension, so that same tax holiday is continuing now. As per the current government policy we got this extension, so every year I think we will have to keep applying for this.
- Nikhil Upadhyay:** Okay and deadline I am not sure?
- Challa Srishant:** They have not given the deadline yet.
- Nikhil Upadhyay:** Okay. Thanks a lot Sir.
- Moderator:** Thank you. The next question is from the line of Anuj Jain from Value Quest Capital. Please go ahead.
- Anuj Jain:** One last question, in the last call, you have spoken about the new overseas client, who is buying continental coffee from us and selling overseas, any update on that relationship?
- Challa Srishant:** Yes, that is whatever volumes have they taken that volume is still being sold in these markets, I do not want to get into details about this specifics here, we are seeing a good relationship getting built over there as well.



CCL Products (India) Limited
October 22, 2018

- Anuj Jain:** Do you want to tell about the tonnages, we have supplied any incremental volume?
- Challa Srishant:** This is again small. It is a branded business again for export will be only like one container at a time, so it is very, very small.
- Anuj Jain:** Thank you.
- Moderator:** Thank you. The next question is from the line of Manu Agarwal, Individual Investor. Please go ahead.
- Manu Agarwal:** Regarding the Rs.160 Crores capex that we have given for the next year, how much that we are looking to raise for it?
- Challa Srishant:** There is no additional debt that we are looking at raising. I think mostly through internal accruals itself, we should be able to fund this.
- Manu Agarwal:** Thank you. That's it from my side.
- Moderator:** Thank you. We will take the last question from the line of Anant Jain, an Individual Investor. Please go ahead.
- Anant Jain:** Thanks for the opportunity. Srishant two questions here. First question is you said that the new plant Chittoor would be operational next financial year, so do you see any tax differences because that is an SEZ and currently our plant is not in SEZ, so do you think there is a tax differential between what we do here or what we export from the current plant at Duggirala versus Chittoor?
- Challa Srishant:** Yes, there will be – because we have five-year tax holiday from the SEZ, only MAT has to be paid by us.
- Anant Jain:** Okay MAT has to be paid by us, we would also be moving from capacity from Duggirala to there, would that be a fair assumption, because of better taxing?
- Challa Srishant:** No, I would not say that we will be moving capacity over there, but if there is any maintenance or anything that we have to do in Duggirala next year, so that flexibility we are keeping open.
- Anant Jain:** Okay and there is another question, which is more of a book keeping, we have a total other comprehensive income, which is significant for if you look at this year it is Rs.25.44 Crores, so if I look at total other comprehensive income that comes total comprehensive



CCL Products (India) Limited
October 22, 2018

income comes to Rs.112 Crores and it has that Rs.25.44 Crores of total other comprehensive income, what is that?

Lakshmi Narayana: The comprehensive income it is the consolidated, which you are seeing the number, number one and two is that we have the investment in Vietnam subsidiary and Switzerland subsidiary and the Singapore subsidiary wherein at the time of investment, the rupee versus the present rupee which amounts to an appreciation, so that amounts to 25.44 Crores as of September 30.

Anant Jain: That's it my side. Thank you.

Moderator: Thank you. Ladies and gentlemen, with this I now hand the conference over to Mr. Abhishek Navalgund. Please go ahead with your closing comments Sir.

Abhishek Navalgund: Thank you to all the participants and management of the CCL Products for answering all the questions patiently. I will just handover the call to you for your closing remarks. Thank you.

Challa Shrishant: On behalf of CCL, I would like to thank Nirmal Bang team and all the participants for taking part in this conference. I think we will talk to you again next quarter. Thank you.

Moderator: Thank you very much Sir. Ladies and gentlemen, on behalf of Nirmal Bang Equities that concludes this conference call. Thank you for joining us. You may now disconnect your lines.