"CCL Products (India) Limited Q4 FY-20 Earnings Conference Call"

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MODERATOR:	**MR. MANISH MAHAWAR – VICE PRESIDENT-RESEARCH-INSTITUTIONAL EQUITIES, ANTIQUE STOCK BROKING LIMITED**

Moderator: Ladies and gentlemen, good day and welcome to the CCL Products' Q4 FY20 Earnings Conference Call hosted by Antique Stock Broking. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing '*' then '0' on your touchtone phone. Please note that this conference is being recorded.

I now hand the conference over to Mr. Manish Mahawar of Antique Stock Broking. Thank you and over to you, sir.

Manish Mahawar: On behalf of Antique Stock Broking, I would like to welcome all the participants on the call. From the management, we have Mr. Challa Srishant – Managing Director; Mr. KVLN Sarma – COO; Mr. Praveen Jaipuriar – CEO of Continental Coffee Private Limited; Mr. V. Lakshmi Narayana – CFO; Mr. P. S. Rao – Consultant Company Secretary; and Ms. Sridevi Dasari – Company Secretary on the call. Now I would like to hand over the call to Mr. Srishant for opening remarks. Over to you, Srishant.

Challa Srishant: Thank you for the introduction. The company has achieved a revenue of Rs. 1,143.65 crores for the year 2019-20 as compared to Rs. 1,084.75 crores for the last year. And the net profit is Rs. 165.94 crores for the year 2019-20 as compared to Rs. 154.89 crores of last year. The EBITDA is Rs. 290.39 crores and the profit before tax is Rs. 225.31 crores for the full year 2019-20. For the fourth quarter the company has achieved a turnover of Rs. 267.46 crores. The EBITDA is Rs. 73.31 crores. Profit before tax is Rs. 57.67 crores and the net profit is Rs. 42.2 crores for fourth quarter.

We can go directly for the questions.

Moderator: Thank you very much. We will now begin the question-and-answer session.

The first question is from the line of Himanshu from New Securities. Please go ahead.

Himanshu: Okay, so I just wanted to get some more color on the current quarter's performance in terms of how much would this be contributed by higher realizations and maybe how much by volumes, and if you can give us some more color as to how much the new unit in our new capacity in Chittoor would have contributed to the current quarter performance?

K V L N Sarma: Current quarter in the sense last quarter of last year?

Himanshu: No, what I am saying is yes, so this quarter how much the Chittoor capacity would have contributed and if you can give us some sense of the overall revenues which we have done how much would have been contributed by higher volumes? At least some rough sense, or if you can talk in terms of capacity utilization levels where are we for the quarter?

K V L N Sarma: As indicated last year the projected and achieved capacity utilization in Chittoor is around 50%, to 53% of which majority component has come from the third and fourth quarters. It has maintained, in fact in both the quarters almost similar operational levels were maintained. Of course during the month of March as we stated earlier also the dispatches could not take place in the usual manner, and towards the end of the month we were left with substantial stocks because of the non availability of transportation facilities etcetera could not be made. Otherwise the third quarter and fourth quarter were almost on an equal footing.

Himanshu: Okay. Sir, can you give us some number in terms of how much on a company basis we would have lost because of the Covid impact?

K V L N Sarma: It is not loss as per till last year at least because the stocks were there. In fact, if you have seen the financials, there is an accretion to the stocks which could not be dispatched., In fact whole of March month these dispatches were slow. We were not getting containers on time and towards the last ten days it was almost standstill. So taking those accretion of stocks into account then there was no major impact as far as the last financial year is concerned.

Himanshu: Understood. And secondly on the margins we have seen a very sharp improvement in the margins so if you can just?

K V L N Sarma: Product composition.

Himanshu: And on the employee cost side, there is a significant jump so any one off is there sir on?

K V L N Sarma: New unit has come into operation, so SEZ employee cost all that will get added know. So you will see comparable increases in employee cost the other expenses and all that which are relatable to SEZ unit.

Himanshu: Okay because even on a sequential basis if I see from last quarter, employee cost for the quarter are Rs. 23 crores versus Rs. 16 crores last quarter. So I was just wondering if there is any one off expense which we have provisioned for that?

K V L N Sarma: No, last quarter normally our increments etcetera in Vietnam will be released during TET holidays. So that must have released the additional increments and all that would have contributed to that.

Himanshu: Understood. And finally any outlook I mean in the current environment how do we see our dispatches and any outlook that we can give for the current year that we can build in? It might be too early but if you can give us any qualitative color as well on how do you see FY '21 shaping up in terms of demand in dispatches?

K V L N Sarma: Being in Bombay I think you should advise us on how things would be for this year. We would take a guidance from you before giving a guidance to you.

Himanshu: At least you can tell us on the current status of your dispatches, have they re-started and to what extent if at all?

K V L N Sarma: See this is too early to predict everything. Yes, we are not majorly impacted but there will be an impact as you have seen we have declared on the Exchange also that during the month of April there were production outages and all that. Currently we are confident that we would be able to retrieve most part of it but at this point of time to give a clear guidance would be an adventure perhaps.

Himanshu: Understood sir. And one very small final question on the India business. Sir, if you can just share for FY'20 as a whole how much revenue and loss would we have done for the year?

K V L N Sarma: See India business we have clocked about Rs. 85 crores or so. Some part of it is built in CCL parent company, so it gets added and about Rs. 90 crores we have done on that. And a small lot perhaps around Rs. 3.5 crore loss was there in that. There was an impact on the retail side during the March month and of course towards the last 10, 15 days so there was an impact. Otherwise it would have been slightly better than this. Perhaps with more convenient circumstances they would have been at least closer to the breakeven this year. So hopefully next year they will do that.

Moderator: Thank you. The next question is from the line of Nitesh Jain from Birla Mutual Fund. Please go ahead.

Nitesh Jain: Mr. Srishant, basically I have a couple of questions. I mean the first one is, since we have now some time gone by in this crisis and the virus thing globally there are some development in India also the lockdown has been practically lifted across the Board. So the question I want to ask what is the current state of operations? I mean you mentioned in the remarks that there was some shortage of containers, then there were some logistic problems in March and April. So where are we today?

Are these problems sorted out and say suppose say in January before the virus if we were at Rs. 100 of sales of the operations level, where are we, are we at Rs. 90, are we at Rs. 95 or Rs. 110, if you can provide some input here?

Challa Srishant: We are now back to our normal production at all our units. Vietnam actually there was no real impact because of Covid. It is only the India operations that were impacted in the initial days and over the last month or so, we have come back to normal operations and we are following all the necessary precautions social distancing and testing and everything at the factory level.

Nitesh Jain: Okay. And as Mr. Sarma told in the beginning, in the earlier question that this inventory which got built up at March end has this been cleared off when we got this logistic thing sorted?

Challa Srishant: Yes, it has been cleared.

Nitesh Jain: Okay fantastic. And lastly, basically how is the impact of this I mean the whole this human health crisis on the coffee demand? Have you witnessed any of the trends, I mean has the coffee demand gone up because more people being at home and when they used to go to office or outside, it was mainly fresh and ground, and when you are at home mostly it is instant coffee. So has there been any I mean some more inquiries from the customers or less enquiry how is it, the behavior basically I want to know?

Challa Srishant: Well, it is kind of a mixed response because across the world, people consume instant coffee in both offices, in institutions, as well as in the house. Definitely the retail demand for coffee has gone up significantly but even in offices people do consume quite a bit of instant coffee or pre mixes. So that demand has come down.

So overall net impact I think there is an increase in coffee consumption, because across the world anyway the coffee consumption is increasing year-on-year. So irrespective of Covid, I think that consumption is still going to increase this year as well.

Nitesh Jain: Fantastic and lastly for our new 5,000 ton unit, the FDC plant because of this crisis have you witnessed any cancellation of orders from any of the client or they are going as per the original plan?

Challa Srishant: Well, because of the crisis some of the countries people have been asking us to delay some shipments because there are certain markets which have been hit more badly like how India initially went into a complete lockdown, you were not able to get manpower, the ports were closed more or less, and all these things were happening.

Some of the countries where we are supplying to, they were in a similar position about a month ago, and they have requested us for some postponements. So we have obviously accepted their request, so we are in a situation where for several customers we have again produced some stocks and kept it ready which we are expecting to be dispatched in the next couple of weeks or so.

Nitesh Jain: Okay but basically it is the usual, not so unusual thing, not significant one I mean, it is manageable?

Challa Srishant: Yes, it is manageable. If you look at it on an annualized basis at the end of the day we are expecting hopefully this to get resolved in due course.

Moderator: Thank you. The next question is from the line of Parth Agrawal from Purnartha Investment Advisors. Please go ahead.

Parth Agrawal: I just have a question on what is the total current capacity that you have right now in India and Vietnam?

Challa Srishant: In India we have a combined capacity of around 25,000 tons and in Vietnam we have a 10,000 ton capacity.

Parth Agrawal: Okay and in terms of expansion plan, so in Vietnam we are going to add another around 5,000 tons if I am not wrong?

Challa Srishant: 3,500 tons.

Parth Agrawal: 3,500 tons and what is the time line for this 3,500 tons?

Challa Srishant: We were originally supposed to do it in Quarter 1 of this year but due to the Covid impact and because all the supplies have gotten delayed especially because there is lot of equipment going from India, we are looking at sometime around Quarter 3 that the new capacity is going to come in.

Parth Agrawal: And what is the new capacity going to come in India?

Challa Srishant: In India there is no new capacity coming in right now. By next year we are looking at increasing agglomeration and packing capacity.

Moderator: Thank you. The next question is from the line of Nisarg Vakharia from Lucky Investment Managers. Please go ahead.

Nisarg Vakharia: Sir, this gross margins which are at the highest level that we have seen in your operating history, you said that it is because of a favorable product mix. Is this trend which will continue or is this something which comes and goes every quarter?

K V L N Sarma: Currently with our manufacturing capacity that is having the new freeze drying capacity into operations this is sustainable.

Nisarg Vakharia: So 60% gross margin is sustainable going forward from here on? We have done 60% gross margin in the quarter.

K V L N Sarma: This is because in a new plant where we have utilized almost 50% capacity utilization during this year, because of the new technology or new processes we are able to get better yields, and because of that we are able to get better margins of 50% on this. In fact that is how we said we will, we are trying to implement similar processes in our old plant also. As and when that is completed then the margin profile would be more or less sustainable.

Moderator: Thank you. The next question is from the line of Ashok Shah from LFC Securities. Please go ahead.

Ashok Shah: Sir, we had launched South Blend as a local brand I think one or two years back. So how its distribution setup and is it gone all over the India we are distributing currently to the shops or what is the situation and what is the market there we have got, what is the sale we have reached in this our branded products?

Praveen Jaipuriar: This is Praveen this side. So to answer your question, for the domestic business we did around Rs. 90 crores this year out of which the branded business was approximately 60% of that. So that is what we did as branded business. The branded business grew by almost 40% this year. So that was a pretty good run for the branded business.

The variant that you are talking about South Indian Blend is one of the instant coffee blends that we had launched specifically for South Indian market catering to the taste profile that the South Indians consumers. .

So that was launched here. Currently in terms of distribution, which is general trade and modern trade, we are focused more into South India because that is where the chunk of coffee market lies.. Once we attain a significant share here then we will slowly and steadily expand into other markets.

As far as your question on shares is concerned, we are approximately now at an overall level Nielsen is picking us up at 2% market share, but you would agree that being a small player the extrapolation becomes weaker for smaller players.. But what we feel that depending on our internal sales, we are closer to 4% to 5% market share as we speak.

Ashok Shah: So are we confident to grow at such a high rate of 40% over next few years and what distant plan we have to capture the market share?

Praveen Jaipuriar: So for the domestic market it is a combination of a lot of factors. One as you had pointed yourself, we created this blend called South Indian Blend so similarly we are operating into different segments with different blends. So coffee blending which is our strength core strength that CCL has that is one of the things we are playing up in the market and therefore we are making our coffee much distinctive to the competition. This we are accentuating through a lot of BTL wet sampling exercise.

We almost do a lakh cup of wet sampling every month to make sure that a lot of consumers do experience our products and that is leading to a lot of conversions and share gain for us. At the same time we are also doing above the line activity. We are advertising, we have got a south celebrity on board which is Nithya Menon who is advertising for our products to create awareness amongst masses. So a combination of all these factors is helping us grow at a very strong pace and we hope that this will continue in the future as well.

Ashok Shah: How is margin in the local or new brand and export market, is it comparable, or same?

Praveen Jaipuriar: So any branded business will have definitely have better margins. So that is for sure, however considering that we are spending a lot of money to gain market share right now, finding a foothold in the market we do offer a lot of schemes in the market consumer offers in the market. So therefore right now the margins are stressed. But in the long run branded business margins will be better than the bulk business.

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

Manoj Gori: Sir, couple of questions. One thing, we indicated like there were few delays in dispatches from fourth quarter. So would it be able to compensate for any impact during April month and June quarter should be a very normal quarter for us?

K V L N Sarma: Obviously June should be a normal quarter because of the carry forward stocks that we had, But during the month of April we could not run the production units. Even during a part of May also we operated only at 33% capacities. So there might be certain impact, in the first quarter but because of this carry forward stocks so it should be a normal quarter. Normally over the year on an annualized basis, we are hoping that we will be able to recover the lost production capacity.

Manoj Gori: Right sir, and what will be the situation in Vietnam today, was there any disruption because of Covid?

K V L N Sarma: No, Vietnam there was no major disruption. Only towards the end of the year around March there was some difficulty. But it soon got repaired. In fact Vietnam during the first quarter we are not experiencing any major disruptions.

Manoj Gori: Okay and coming on to the order book, so normally you get a better visibility like maybe around December or January like how the upcoming year is going to pan out. So I agree that there is lot of uncertainty, but do you have enough visibility in terms of whether this would be like eventually we would be making it up in the subsequent quarters?

K V L N Sarma: Market reactions as of now we are not very certain. Things are coming back to normal, I would not say that things are back to normalcy now. But coffee being a product which a consumer product which may not come down on a demand basis. We are hopeful that we should sufficiently augment and keep our manufacturing capacity so that we should be able to make it a normalized year.

Manoj Gori: Right. So one last question. So if you look at the Indian domestic business especially for the branded business, so like since last 3, 4 years we have been targeting and we have been aspiring big on this business. So I think even internally we would not be satisfied with the performance. So where are we lacking to scale this business significantly given that we are at a lower base?

Challa Srishant: Actually I think I should correct that. We are extremely happy with the performance of the domestic business. It is completely in line with what we had expected to be very frank. And we still believe that there is a good potential for growth and this is the initial stages where we are still placing our product, product acceptance has been exceptionally good, now products availability also has increased quite a bit.

In fact the domestic team keeps complaining to me that we are not able to deliver enough stocks in time. So those are the type of issues that we are currently facing and I do not think there is any other brand that I have seen that has actually grown at the kind of pace that we are growing over here in the domestic market right now. So we are quite happy with the progress and we are quite happy that we are able to sustain this growth, that is the most important thing.

Manoj Gori: Right. No, I do agree that the growth rates are very healthy but I think we definitely the potential is much bigger. So that is why, that was the reason that I was saying like if there are any drawbacks there nothing else?

Challa Srishant: No, the potential is definitely there but one thing you should also keep in mind is we are not focusing only on the same product that our competitors are selling. We are getting into new areas, unique products so we are in the process of creating a new market from scratch. So it is a long drawn out process. We will end up starting small but looking at what we have done in other countries we are quite confident we can do the same thing in India as well, create a completely different coffee culture over here with convenience.

Moderator: Thank you. The next question is from the line of Rishabh Sisodia of Concept Investment. Please go ahead.

Rishabh Sisodia: I had one question. I remember the management saying that there is a bit lumpiness in the bulk order compared to the brand buyers to buy from us. So if you could provide a split between in the volumes we sell to bulk buyers and the brand buyers?

Challa Srishant: Around 60% is coming from the branded business and 40% is from private label and bulk business.

Rishabh Sisodia: 40:60 split. And any update on the cash conversion cycle for the whole year and not just the quarter?

Challa Srishant: Only for the domestic market you are asking?

Rishabh Sisodia: No, for the whole company the cash conversion cycle for FY'19 versus FY'20?

K V L N Sarma: On a comparison, the cash conversion was better but as you know we are now contacting with major brands all over the world, so whose normal credit terms are a little longer. But since we have our working capital facilities and our interest rates are very minimal, we are able to extend these credits and increase our product distribution particularly among the major brands. But as of now, we still consider that the cash conversion cycle is satisfactory and manageable for us.

Moderator: Thank you. The next question is from the line of Tanvi Shetty from Axis Securities. Please go ahead.

Tanvi Shetty: Wanted to know your CAPEX which you planned out for FY'21 the amount?

Challa Srishant: It was for the packing front which anyway might be completed by the end of this year, it would be in the range of about Rs. 120 crores in India and the CAPEX in Vietnam would be about USD 8 million there, the earlier estimates that we have given holds good.

Tanvi Shetty: Okay and I also wanted to know the volume growth for FY '20 as a whole?

K V L N Sarma: Normally this is one particular aspect the volume growth or volume numbers that we do not wish to share because of the business strategy.

Tanvi Shetty: Okay alright sir. Also wanted to have an idea on the margin expansions. Would there be further margin expansion for FY'21 I mean wanted to know the mix between freeze dried and the regular coffee? Would the freeze dried orders be growing in FY'21?

K V L N Sarma: No, currently we are expecting that additional capacity utilization between spray dried and freeze dried in the current year would be almost on the equal footing. So I may not say that there will not be an increase in the margin profiles. We should be able to sustain the margin profile.

Moderator: Thank you. The next question is from the line of Dhiral Shah from Phillip Capital. Please go ahead.

Dhiral Shah: So what was the capacity utilization in India and in Vietnam for FY'20?

K V L N Sarma: Normally 80% to 85% utilization is considered to be an optimum utilization in instant coffee industry. In India we are almost close to that barring SEZ plant where we have done only 50% utilization being the first year. In Vietnam we did about 65% to 70% utilization during the current year.

Dhiral Shah: Okay and last quarter you have guided there has been some pressure in freeze dried pricing. So are that pressure is normalizing or you feel this pressure to even continue?

K V L N Sarma: Right now at this point of time we are not very clear about major changes. Right now we are anticipating that the prices will remain in the current levels. That would not depend on the quality of the product and we are always seen as a premium product supplier. So brands will depend on the source, major brands, so normally there will not be any changes on a quarter-to-quarter basis on this.

Dhiral Shah: Okay and sir lastly what would be the spending for domestic business in FY'21 for the retail coffee?

K V L N Sarma See this Year we are expecting that normally in the normal course normal circumstances prevailing we thought the local branding will breakeven and may add some. But of late we have seen our thrust has been on the retail sales and brand where the overheads and market expenses would be slightly higher. So it may be safe for the current situation that we will continue to support as we have supported during the last year as well.

Dhiral Shah: So it would be around Rs. 30 crores last year how much we have spent, sir?

K V L N Sarma: No, from the parent company we have supported to the extent of about Rs. 11 crores, Rs. 11 crores to Rs. 12 crores.

Dhiral Shah: So this would continue in current year, right?

K V L N Sarma: We are anticipating.

Dhiral Shah: Okay and what was the overall operational revenue and PAT for the year?

K V L N Sarma: Revenue it is Rs. 85 crores and the profit it is around Rs. 3.73 crores.

Dhiral Shah: And for Vietnam?

K V L N Sarma: Vietnam Rs. 268 crores is the revenue and the profit is Rs. 56 crores.

Moderator: Thank you. The next question is from the line of Ashwini Agarwal from Ashmore Investment Management. Please go ahead.

Ashwini Agarwal: A couple of questions. Earlier in answer to another question you mentioned that 60% of your product goes to brand owners. Is that globally or were you just talking about the India sale?

Challa Srishant: Only India sale.

Ashwini Agarwal: What is the split globally between brand owners and bulks and re-packers?

Challa Srishant: That is actually a very difficult question to answer. But at least almost about 50% of whatever we are currently producing is going directly to the brand owners and balance will be going for re-packers and resellers.

Ashwini Agarwal: And within the brand owners, are these all large packs or this is all like consumer packs?

Challa Srishant: No, it depends. For some brands we are doing consumer packs but for most of them we are supplying in bulk to them. They have their own packing facilities at their end. They also source production to us and they do the packing at their end.

Ashwini Agarwal: Are you seeing any change in that direction, people saying that give us the packed product and therefore your ability to add value goes up or?

Challa Srishant: Yes, we are. That is one of the reasons why we are going in for this expansion into small packs in India and the response that we have been getting in the market has been quite good which is why we thought in order to pitch for that business with several of our existing customers they have given us the specifications as to what the new packing facility should be like with the automation and several other things. So that is the reason why we are making this Rs. 120 crores investment on this new facility. That will help us get more small packs going forward.

Ashwini Agarwal: And there is still a value proposition notwithstanding that if you are doing consumer packs and glass bottles etcetera, the freight component would increase significantly on a per unit basis. But net of freights, there is still a value proposition to pack it in India?

Challa Srishant: Yes, it will be there.

Ashwini Agarwal: Okay and coming to the domestic business I mean is the branded coffee domestic business only Rs. 1,000 crores or thereabout?

Challa Srishant: Well, as of now I think Rs. 1,800 crores.

Praveen Jaipuriar: Approximately Rs. 2,000 crores is the branded coffee business.

Ashwini Agarwal: That is what I thought so I was a little surprised when you said that your share is 4% to 5% because at Rs. 55 odd crores it would be more like 2%, right?

Praveen Jaipuriar: 4%, 5% I was only mentioning for South of India because that is where we are . We are not there in the other regions. So South of India is almost 60% of the market instant coffee market so that is how the calculation was done.

Ashwini Agarwal: And last question. Is there a room for you to tie up with some brand owners overseas and if they are keen to look at the Indian market or Indian market is too consolidated for anybody to be interested here?

Challa Srishant: We did get a couple of enquiries in the past where some of our current large customers, they have come, they have done a feasibility study and all. For them this market is extremely unattractive because for them these guys are major players and Rs. 2,000 crores is virtually nothing for them. India is still predominantly a tea consuming country and coffee is still in the initial stages of growing. For us because our size is quite small right now, this Rs. 2,000 crores we still have a long way to go.

For the other companies like if you go to the US market, it will be like it is a billion dollar market billions in several other countries. Over here it is significantly lesser. And most of the other countries you have a wider range of brands which are present, because the market size is bigger. Over here you have only two major brands are there and now we are the third brand that is there. And lot of other small regional players are there in the market as of now. So they do not find it very attractive, considering these things.

Moderator: Thank you. The next question is from the line of Kuldeep Gangwar from ASK Investment Management. Please go ahead.

Kuldeep Gangwar: One question regarding the dividend from the subsidiary. Like you received close to Rs. 151 crores this year against the profit of Rs. 56 Crores. So it was some accumulated cash over there or what to expect in the coming years over there?

K V L N Sarma: See during right from 2012013 onwards as long as debt was outstanding we did not transfer any dividends because we committed to clear the debts first before transferring the money. So first 5, 6 years we did not transfer money and so it was accumulated there. So last year on a smaller scale we have started and this year we could transfer what is bound to be surplus there and required for passing on the dividend. So it is out of accumulated profits that we have transferred them.

Kuldeep Gangwar: So next year onwards the fair expectation should be if the dividends close in line with the profits over there, is it right?

K V L N Sarma: It may not be because up to current year whatever tax that we were paying on a dividend from foreign company we were getting an input credit here. So when I pass on the same to the shareholders I get an input credit. From this year onwards it is not there. So we are right now doing an expansion there for which we are utilizing these internal accruals for the current year, internal accruals also and we will decide on whether to pass on from there or from the local sources itself we meet the dividend. We shall endeavor to maintain the dividend policy as we declared.

Kuldeep Gangwar: Okay and the last bit like earlier you used to provide say revenue, EBITDA, PAT guidance so will you be providing the same for FY'21 or we will wait for that?

K V L N Sarma: Generally I mean it is slightly dicey right now but we are confident that we should be able to achieve still leaving out this one month, or one-and-a-half months shutdown of the plant also we should be able to achieve an improvement to the extent of 10% to 15% this year as well.

Kuldeep Gangwar: On profit close to about?

K V L N Sarma: Top line let us not talk about because it is mostly on the depends on the green coffee prices and all that. EBITDA levels let us say we are still confident that we will be able to achieve about 10% to 15% growth this year.

Kuldeep Gangwar: Okay and Vietnam you were getting the tax benefit if I remember correctly. So is it going to be there in FY'21 as well or it is no more there?

K V L N Sarma: Yes, it is continuing.

Kuldeep Gangwar: Any timeframe for the same like or it is a one-on-one?

K V L N Sarma: Right now there is no timeframe, it is for life.

Moderator: Thank you. The next question is from the line of Lokesh Manik from Vallum Capital. Please go ahead.

Lokesh Manik: My question was on the revenue side. If you can just give a break up or an idea in terms of revenue split between freeze dried, agglomerated and spray dried?

K V L N Sarma: We are a single product company so giving you a detailed breakup of our revenue profile is detrimental to our business interest. So I would suggest you please do not insist on this.

Lokesh Manik: No problem. Sir, just an idea on value add and non-value add split?

K V L N Sarma: Obviously this year freeze dried has increased so the product mix is towards majority of it I mean shifted to freeze dried on a better scale.

Moderator: Thank you. The next question is from the line of Jignesh Kamani from GMO. Please go ahead.

Jignesh Kamani: Just on the export incentive side. From January export incentive has reduced from 7% to 5%, right, so may be Rs. 3 crores to Rs. 4 crores negative impact on the profitability from this quarter, right?

K V L N Sarma: Correct.

Jignesh Kamani: So what was the export incentive we booked this quarter?

K V L N Sarma: Actually it is Rs. 7 crores.

Jignesh Kamani: And any clarity now what will be the you can say for next year because there was some you can say discussion going on with the government whether do we fest out completely or it will be reduced to 5%. So any color on that now?

K V L N Sarma: It will be 5% for the current year as well. It is the foreign trade policy is continuing and since it has been reduced from last quarter from 7% to 5% this 5% will continue for this year.

Moderator: Thank you. The next question is from the line of Jason Soans from Monarch Networth Capital. Please go ahead.

Jason Soans: Most of my questions have been answered. Sir, some of the revenue break up just wanted to know, what percentage of your revenue comes from your own in-house brands? Just a Continental and special Continental extra income?

Challa Srishant: Approximately around Rs. 55 crores to the entire Rs. 90 crores.

Jason Soans: Okay Rs. 90 crores come from your in-house brands?

Challa Srishant: No, Rs. 55 crores come from the in-house brands.

Jason Soans: And what is the rest of the split between the private labels and what you supply to other brands?

Challa Srishant: The rest of it is between private label bulk that is there. That will be 50:50 between them almost.

Jason Soans: 50:50 between private labels and bulk?

Challa Srishant: Correct.

Jason Soans: And that is your own brands constitute Rs. 55 crores, okay. And sir, just one thing just wanted to know that coffee being a consumable product and you know I do not see much demand impact on that. But just wanted to know from a broader point of view and probably a post-COVID thing, how do you think demand will pan out over say 3 to 6 months from now? Just would want to know your view on that.

Challa Srishant: Okay so as you rightly pointed in-home consumption demand side, there is no issue. In fact we are seeing a little bit of increase in that portfolio. However, in coffee there is another segment which is a large part of it and gets consumed at institution, out of home that we call it which is at airlines, hotels, offices, cafes.

So in these segments the coffee consumption is likely to go down. How much it will go down, it is very difficult to assess right now because we really do not know how fast things will get back to normal. But we do see an impact in the next three to six months.

Jason Soans: And sir, just wanted to reconfirm your capacity in India is around 25,000 tons and in Vietnam is around 10,000 tons?

Challa Srishant: Yes, that is correct.

Jason Soans: And just one last thing. Your dispatches I mean you know you would obviously know the estimation for a normal season. So currently you saw April, May must have been 4% but what percentage of normal would have been dispatches in say April and May and gradually improve in to today’s as in when the lockdown has been lifted?

Challa Srishant: So April we were actually dispatching whatever stuff that we had built up in March and from May onwards slowly things have started to come back to normal and now the dispatches are taking place more regularly.

Moderator: Thank you. The next question is from the line of Anuj Sharma from NC Investments. Please go ahead.

Anuj Sharma: My first question is a lot of consumers would have gone to their retail outlets would not have found their preferred brand and hence chosen our brands. What do you think any boost to our acceptance in this current disruptions?

Praveen Jaipuriar: Yes, we did see some kind of a brand replacement happening at certain outlets. But this disruption has happened for everybody. So there were outlets where our brand was not there and there were alternates where competition was not there. So as of now while we have seen a spike in sales in the retail, really how much it will sustain for the long term is something that we have to see. But we are experiencing a better throughput in some of these outlets. That is for sure.

Anuj Sharma: My second question is on your online sales. Now a large part of online sales is heavily discounted or let us suppose under promotional schemes. Under what threshold do you think you will wean off these discounts and bring it to normal pricing? And just a relative to that what percentage of our domestic brands is online?

Praveen Jaipuriar: So let us say if we were doing approximately 6% to 7% of our sales are online sales. And as you rightly said that a lot of discounts are there on online sales. But come to think of it we do save a lot on channel margins etcetera. So our profitability actually does not get impacted even after a lot of discounts online.

Having said so in the long run it will depend on how fast our brand equity goes up. Once that starts going up, we will start reducing the offers. So already in some of the packs we have started reducing the offers. And this is a gradual and a continuous progression as and when the brands are getting strengthened we will reduce the discounts.

Anuj Sharma: And if I may squeeze in a small one. Like the way you positioned yourself well in South India, do you think in the rest of the country you can play a strategy wherein let us suppose a freeze dried coffee which is at a significant premium you can play a pricing game and may be have a the cost of freeze dried would not be significantly higher it is but. So on the selling price may be reduce it and have a large market share in the rest of the country. Any thoughts on such or similar product strategy?

Praveen Jaipuriar: Yes, I think you have read our minds well. So that is something we will definitely like to explore. However, currently we were just trying to find our feet in the Southern markets which are the larger markets. But definitely a strategy like this can be on the cards.

Moderator: Thank you. The next question is from the line of Binoy Jariwala from Sunidhi Securities. Please go ahead.

Binoy Jariwala: My question is on the branded business. If you could just help me understand what is the total distribution universe in terms of outlets for the instant coffee and what is our reach per se?

Praveen Jaipuriar: So I will tell you little bit on these figures. These are mostly pre-COVID figures because things have gone a little awry in these couple of months. So before that we were actually directly ourselves reaching to around 55,000 to 60,000 outlets. So that is where our direct reach was and we intend to keep building upon this number year-on-year. So this year we are taking almost a target to reach around 75,000 to 80,000 outlets directly.

Binoy Jariwala: Okay and what is the distribution universe for this?

Praveen Jaipuriar: So the distribution universe will be around see most of the largest brands will have a direct reach of around 6 lakhs outlets and distribution reach would be around 8 lakhs to 9 lakhs outlets in Southern India. Because this 65,000 that we are covering is in the Southern India only. So that is the like-to-like figure I am quoting.

Binoy Jariwala: So when you said that the branded sales is about Rs. 55 crores this year, what was the comparable number last year?

Praveen Jaipuriar: It was around Rs. 31 crores, Rs. 32 crores last year.

Binoy Jariwala: And what was the total business from that number last year?

Praveen Jaipuriar: Last year was Rs. 61 crores like-to-like numbers.

Binoy Jariwala: So basically Rs. 61 crores have grown to about Rs. 90 crores. that right?

Praveen Jaipuriar: Yes.

Binoy Jariwala: And what would be the market share be for the top 2 players let us say Nestle and HUL?

Praveen Jaipuriar: So very simplistically put they are 50:50. That is the simplistic way you can just take it because there is no significant third player or fourth player. So these two almost kind of share the market equally between them.

Binoy Jariwala: And when you said you have Nielsen puts your market share at 2% that is the Pan India number, right?

Praveen Jaipuriar: That is the South India number.

Moderator: Thank you. The next question is from the line of Kashyap Jhaveri from Emkay Investment Managers. Please go ahead.

Kashyap Jhaveri: I have two questions. I will just repeat the full question again. The first part of the question was that in terms of your EBITDA margins and gross margins, there is about Rs. 30 crores change in stock during this quarter on consolidated basis. So how much would have that contributed in terms of gross margins and EBITDA margins because this would include some of the other costs on where we are seeing significant spike up on quarter-on-quarter basis both employee and manufacturing costs? So much could have that contributed to the EBITDA and gross margin?

Second part of the question was more a clarification. Did you mentioned during the call that our market share in the overall instant coffee market is roughly about 4%, is that is something that you mentioned?

Praveen Jaipuriar: Overall coffee market for South India is around 4%.

Kashyap Jhaveri: And in terms of gross margins and EBITDA both?

K V L N Sarma: The gross built up was in the range of about Rs. 32 crores, Rs. 33 crores. So if you take broadly on EBITDA margin of about 25% as it is there right now, this is the cost price. Stock valued at cost. So we would have got approximately plus or minus Rs. 40 crores of turnover. So if you apply the same EBITDA margin for that perhaps we would have lost about Rs. 7 crores to Rs. 10 crores EBITDA margin during this period.

Kashyap Jhaveri: Sir, I was trying to understand we see about Rs. 30 crores change in stock. So this would also besides the raw material, this would also include our other costs also, right, I mean as a total cost of production this Rs. 30 crores would include that number also, right?

K V L N Sarma: Correct.

Kashyap Jhaveri: So I am trying to understand then it would have some positive bearing on the gross margins also, right?

K V L N Sarma: It would have.

Kashyap Jhaveri: So I am just saying this on gross margin what would have been the impact?

K V L N Sarma: Other it is normally it is taken into books at cost price. This would have, if you have taken our profit margin at PBT level if you take it about 15%16%. And then this would have been about Rs. 36 - Rs. 37 crores of turnover. And then on the Rs. 36 - Rs. 37 crores turnover the EBITDA margin of I think last quarter's EBITDA margin was about 23%- 24%. That would have got converted into about Rs. 7 - Rs. 8 crores of EBITDA that would come into the subsequent quarters.

Kashyap Jhaveri: My question is little different, sir. May be I will get in touch with Ms. Dasari and get the clarification actually. I will write it to you and probably then I can.

K V L N Sarma: You can come. If you want you can ask so that I can explain.

Kashyap Jhaveri: I just like to rephrase the question again. This Rs. 29 crores change of stock in trade would include the raw material cost and it would also include the other costs which are part of cost of production, right?

K V L N Sarma: Yes, correct.

Kashyap Jhaveri: I am just trying to understand what is that other cost of production included in this funding?

K V L N Sarma: Normally going by the accounting standards whatever is ex-factory cost it will get included in that. The processing cost for power and fuel these labor got into it, all that will be there.

Kashyap Jhaveri: Can you quantify that number if possible?

K V L N Sarma: Among Rs. 32 crores what is all these you wanted to know?

Kashyap Jhaveri: The breakup of that Rs. 30 crores of change of stock in place?

K V L N Sarma: No, that will go into total accounting, I cannot separate and give that.

Moderator: Thank you. The next question is from the line of Vaibhav Gogate from Ashmore Investment Management. Please go ahead.

Vaibhav Gogate: Did we book any export incentives in this quarter?

K V L N Sarma: Rs. 7 crores.

Vaibhav Gogate: And do we expect these incentives to continue in the next year?

K V L N Sarma: Yes, current indication is they are extended by one year. So one year extension we will get at the rate of 5% from the last extension time.

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

Akhil Parekh: Just a couple of questions. One is on the raw material front. How do we see the trend now going forward and how it was it in 4Q FY20?

Challa Srishant: Raw material wise what we are seeing in the markets is that the prices have been coming down with the differentials have been increasing. So the net impact is more or less the same cost of materials as it was last year. We are not seeing a very significant change. As you know that minute by minute the prices keep changing on an average basis there is not too much of a variation from the previous years.

Akhil Parekh: And just on the US front, any update on that because last couple of quarters that we had mentioned we are expecting around 2,000 tons to 2,500 tons of volumes. Any update on that how much we did in FY20 and any change to that guidance for FY21?

Challa Srishant: Yes, actually we were targeting one major retailer in the US towards the beginning of this calendar year. And we were actually expecting the orders by may be January or February but it started materializing towards the end of March for us. From the first quarter of this financial year we have started executing those orders for the retailer. So that volume business is going to come in this year.

Akhil Parekh: Sir, tonnage wise how much it would be, any rough trend like may be how much incremental it would be compared to what it was?

Challa Srishant: Yes, like you said we are talking about I mean these customers have already placed an order with us for a good volume and it is for the whole year. So we have to keep supplying on a quarterly basis and all that. And this is again a long term relationship that we have built up with this customer.

It took us almost 3 to 4 years to take all the necessary approvals to convince them that they need to de-risk from their current supplier based in Brazil and with all the volatilities that they have seen in the past with their existing suppliers, finally they got convinced and they completed all the audit of the plant and everything and we managed to get them on board.

So this entire year will be one of the reasons why we were confident about our volumes growing in also is because of this US business. This is what we have been waiting for several years and fortunately it does make it realized now.

Akhil Parekh: Bur like quantum wise would you be able to highlight anything like we did around 2,000 tons, 2,500 tons, right in US for last year FY20?

Challa Srishant: This will almost double.

Akhil Parekh: Okay so from 2,000 tons you are saying it might go to 4,000 tons?

Challa Srishant: Closer to 5,000 tons may be, 4,500 tons to 5,000 tons.

Akhil Parekh: And this will be from Indian plants or Vietnam plants?

Challa Srishant: It is actually for the US we are supplying from both plants. It is not exclusively any one plant. We have different sets of customers some want from Vietnam, some want from India. They are very specific about what products that they want.

Akhil Parekh: And this would be largely bulk coffee right, not the small packs?

Challa Srishant: Largely bulk but we have also for the first time we have actually managed to crack the small pack market in the US as well. So our first supplies are starting by I think from next month onwards. So that is our first entry in to the small pack business in to the US now.

Moderator: Thank you. The next question is from the line of Vidit Shah from IIFL Asset Management. Please go ahead.

Vidit Shah: Most of my questions have been answered. I just have a couple. Wanted to understand the debt repayment plans of the company in the near future?

Lakshmi Narayana: We have almost around Rs. 296 crores is the debt and the repayments are commenced already. By 2023-24 it is going to be paid in full. And on an average every year around Rs. 76 crores is the repayment.

Vidit Shah: So you said operations in India were impacted in the month of May. So has June been back to optimal capacity utilization at around 80%, 85%?

K V L N Sarma: Yes, June it is almost back to normalcy. But we are still saying some cases have been reported closer to the factory. Currently we are operating at optimum but as you know every day there can be a variant on this. So right now we are back to normalcy in June. May also it was partially impacted. June it is okay.

Moderator: Thank you. The next question is from the line of Anuj Jain from ValueQuest Capital. Please go ahead.

Anuj Jain: Sorry I actually joined the call little late so I missed the initial comments. I wanted to understand what is the outlook for export business going forward considering the current pandemic which is going on?

K V L N Sarma: We are hoping that we will be able to achieve the normal operations with a growth perspective of about 10% to 15% this year.

Anuj Jain: And any update on any other client addition or losing out on any client as Srishant just mentioned regarding the US retailer which we have won? Any other update regarding from the client side?

K V L N Sarma: No, there was no losing up clients during the last year. One client that was added was also towards the end of the last year and we are not anticipating any loss of customers in the near future.

Anuj Jain: And up to what extent the Vietnam operations were impacted in Q1?

K V L N Sarma: Q1 there was no impact. Vietnam is running normally in Q1. There was a small impact during March last year, but it was for a very few days I think about 10 to 15 days. Q1 it is okay.

Anuj Jain: And what is the status of the CAPEX which was going on in Vietnam?

K V L N Sarma: We are spending that USD 8 million to augment the production capacity there. There was a delay in because the shipments etcetera are getting delayed. The equipment reaching out to Vietnam is getting delayed. So the project might get delayed by 2- 3 months.

Anuj Jain: And you also mentioned that the total domestic business which we did for FY20 is around Rs. 90 crores, right?

K V L N Sarma: Right.

Anuj Jain: And out of this Rs. 55 crores is the branded Continental Coffee?

K V L N Sarma: Correct.

Moderator: Thank you. The next question is from the line of Binoy Jariwala from Sunidhi Securities. Please go ahead.

Binoy Jariwala: Actually during this call you made a remark that you would first focus on this is regarding the standard business. So you made a remark that you would first focus on South India build up certain level of market share and then moves towards expanding to the rest of India. What is that threshold of market share you have in your mind to attain this before which you will start moving to the rest of India?

Praveen Jaipuriar: So basically we are looking to first at a sustainable level get a 5% market share. So once that starts coming in then we can expand to other markets. Because the rest of India market is much more expensive in terms of resource requirement for either awareness creation or distribution build up. So therefore we want to be very sure that our operations are well established in South before we move to the other zones.

Binoy Jariwala: So which means you are not very far away and you are already at 4%, you are just talking of 5%?

Praveen Jaipuriar: Absolutely. So as we speak we are trying to build a skeletal level of resources so that for the key cities and in those key cities key outlets can be covered in the near future. So we are already kind of building the base and creating that infrastructure. So as you rightly said yes, as soon as we are a little more strengthened in South India we quickly move to these cities.

Binoy Jariwala: So on a steady state basis if you have to attain this 5%, 6% kind of and keep on clocking that market share sustainably, what is the distribution reach that you would have to meet?

Praveen Jaipuriar: So the distribution reach that we are looking at I do not know whether you were able to hear my earlier comments where we said that we are around at 60,000, 65,000 direct reach as of today. Once you are able to reach that 1 lakhs outlet threshold directly and probably add another 50,000, 60,000 outlets through indirect distribution then your weighted distribution probably will cross that limit of around 40% to 50%. That should be decent enough for us to say that things are established in the Southern markets.

Binoy Jariwala: And at that level will you be also profitable?

Praveen Jaipuriar: Yes, we should be at that level.

Binoy Jariwala: This particular category according to you let us say when you reach about Rs. 200 crores odd of sales what kind of EBITDA margin can these categories generates?

K V L N Sarma: Right now very early to comment on both the numbers Rs. 200 crores as well as EBITDA. We are just taking in a step-by-step. This year looks to be an exceptional year considering that the cost of acquisition of any new consumer as well as cost of acquiring a new outlet will be pretty different considering the new normal that is getting established. So we will wait for a while to before we kind of predict what kind of EBITDA margins we will end up at around Rs. 200 crores.

Moderator: Thank you. The next question is from the line of Kuldeep Gangwar from ASK Investment Managers. Please go ahead.

Kuldeep Gangwar: This is regarding the fourth incentive part. So full year what was the overall number you mentioned Rs. 7 crores for the quarter, what was it for full year?

K V L N Sarma: Rs. 34 crores.

Kuldeep Gangwar: So is it fair to assume like because the export incentive will come down from 7% to 5% there will be say Rs. 13 crores, Rs. 14 crores negative impact on operating profit in FY21?

K V L N Sarma: It is only 2% difference.

Kuldeep Gangwar: Yes, so Rs. 13 crores that is the reason I mentioned. Like you had Rs. 285 crores overall operating profit this year. If it moves 7% to 5%, then what is the absolute number it could have been?

K V L N Sarma: Our turnover also and the exports are also likely to increase. So we are not anticipating a great decrease in the absolute amount.

Kuldeep Gangwar: And full year export was how much this year FY20?

K V L N Sarma: Barring that Rs. 90 crores of domestic.

Moderator: Thank you. That was the last question. I now hand the conference over to the management for closing comments.

Challa Srishant: Thank you all for taking part in this conference. Looking forward to talking to you again next quarter.

Manish Mahawar: Thank you, Srishant.

Moderator: Thank you. On behalf of Antique Stock Broking, that concludes this conference. Thank you for joining us and you may now disconnect your lines.