



“CCL Products (India) Limited  
Q2 FY2020 Earnings Conference Call”

October 23, 2019



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*CCL Products (India) Limited  
October 23, 2019*

**Moderator:** Good day ladies and gentlemen, and a very warm welcome to the CCL Products India Limited Q2 FY2020 Earnings Conference Call hosted by Nirmal Bang Equities Private Limited. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing “\*” then “0” on your touchtone phone. Please note this conference is being recorded. I now hand the conference over to Mr. Vishal Punmiya from Nirmal Bang Equities Private Limited. Thank you and over to you Sir!

**Vishal Punmiya:** Thanks Ali. Good afternoon everyone. On behalf of Nirmal Bang Equities, I would like to welcome you all to the second quarter FY2020 Results Conference Call of CCL Products India Limited. The management is represented by Mr. Challa Srishant, Managing Director, Mr. KVLN Sharma, COO, Mr. V. Lakshmi Narayana, CFO, Ms. Sridevi Dasari, Company Secretary and Mr. P.S. Rao, Consultant Company Secretary. I would now hand over the floor to Mr. Challa Srishant for his opening remarks, post which will be followed by a Q&A. Thank you and over to you Sir!

**Challa Srishant:** Thank you for the introduction. I just wanted to add that we have Mr. Praveen Jaipurian here as well, our CEO for the domestic market.

Moving on to the opening remarks, this year Q2, we have done a consolidated turnover of 299.1 Crores. The EBITDA was 61.99 Crores. The net profit was 42.07 Crores. Most of you would have already noticed that there was an increase in expenditure, so I thought I will address that first. There is an additional 11 Crores expenditure for the domestic market in this quarter itself compared to last year. Now we have started the ATL advertising with a known celebrity is the reason for this expenditure in the second quarter so that we can take advantage of this in the next two quarters hoping for increase in sales. Apart from this, there is a 4 Crore interest in depreciation, an additional expenditure that has come in due to the SEZ operations and apart from that, there is another 5 Crore MEIS licenses revenue that has to come, which we normally would have applied in this particular quarter, but we did not, because of some technical glitch with the system in the government department, so that will come subsequently. It will get reflected in the subsequent quarters.

That is it from our side, we can go ahead for the question and answer session.



*CCL Products (India) Limited  
October 23, 2019*

**Moderator:** Thank you very much. Ladies and gentlemen, we will now begin the question and answer session. The first question is from the line of Kaushal Shah from Dhanki Securities. Please go ahead.

**Kaushal Shah:** Sir, from your comments, is it correct to presume that going forward in Q3 and Q4 as your numbers improve and obviously this higher ad spends will not be there, so it is correct to presume that our margin numbers will look better?

**Challa Srishant:** Yes, they will look better in the subsequent quarters.

**Kaushal Shah:** Sir, if you can share some more colour on production at the SEZ unit and where do we see the current year's numbers? Also some thoughts on our Vietnam expansion, is it on stream and when we are likely to begin production from there?

**Challa Srishant:** As far as the SEZ is concerned, we had given a projection of about 50% utilization during this year and we are on track for that. Q1 and Q2, the volumes were a little lesser and Q3 and Q4 we are expecting a higher volumes coming in. We already have the orders in hand and everything, so we are on track with whatever we have projected. As far as Vietnam is concerned, we have started that expansion process now. It is expected to compete in Q1 of next financial year. Payments were made to all the suppliers and all and we are proceeding as per the plan.

**Kaushal Shah:** There were also these two other expansions or units the agglomeration and the packing unit which were also kind of on schedule, so how is that progressing?

**Challa Srishant:** That also is the same case. We have already started the work on that and now we will come online. Again, we are expecting in Q1 of next financial year.

**Kaushal Shah:** Sir, some thoughts on the overall demand scenario, how are we seeing demand from various regions. We have lost one large customer in the last year, so any news on that front. There was a possibility that some volumes from that customer could again come back to us, so some thoughts on the overall demand scenario and this particular one customer coming back to us?

**Challa Srishant:** Overall, if you look at the global markets, yes, there is a lot of new development that is taking place in the market. First with respect to this customer, I think I have mentioned this



*CCL Products (India) Limited  
October 23, 2019*

earlier also, we are in touch with that customer. He did place an order with us for one of our premium products, but the volumes that we used to supply, because he has his own plant, it is unlikely that he will transition that volume away from his own unit. By virtue of producing within that country, he is getting a duty advantage also, so he would rather take advantage of that at his end.

As far as the global market is concerned, one significant development that has taken place over the last couple of months is that Brazil has become extremely competitive with respect to their pricing because of a bumper crop in Brazil. Vietnam on the other hand, there is a very good crop in Vietnam as well, but a lot of funds have invested in the stocks, so they are artificially inflating the prices over there as of now. So, that is enabling Brazil to be more aggressive in certain markets, but fortunately for us, the quality that is already established, people cannot just automatically shift over from one quality to another origin quality very easily. So, that is one advantage that we have, which is why we are able to maintain our volumes.

**Kaushal Shah:**

One final question, I think there was also this think about duties being imposed on Vietnam exports to EU which I think is nonexistent in case of Brazil and therefore Brazil has a little edge versus Vietnam exports. So any new development on that?

**Challa Srishant:**

Actually, that information is not entirely accurate. Brazil to EU is currently 9%, it has been 9%, it is also currently 9%. There was a trade agreement that was signed a couple of months ago with the intention to bring down from 9% to zero over a period of time, over four to five years, but that was not ratified by the respective countries, so that deal has not gone through, which means that Brazil will continue to be at that 9%. So, if they have to be more aggressive then again they have to take advantage of lower green coffee prices. Even if they do all that, 9% is the additional cost that the customer has to bear. As far as Vietnam is concerned, the Vietnam to EU is 3.1%, just the way India to EU is 3.1%, but Vietnam also at the same time, in fact before Brazil negotiated this deal, Vietnam had negotiated a deal with the EU saying that they will reduce 3.1% to 0%, but even that deal has not yet been ratified till now, but it was not rejected the way that the Brazilian deal was rejected. So, if this goes through, then there will be an added advantage of supplying from Vietnam to the EU market.

**Kaushal Shah:**

Thank you Sir, this was very helpful. Thank you so much.



*CCL Products (India) Limited  
October 23, 2019*

**Moderator:** Thank you. The next question is from the line of Himanshu Nayyar from Systematix. Please go ahead.

**Himanshu Nayyar:** To start with, can you just share this revenue growth that we have got, what would the volume growth have been broadly?

**Challa Srishant:** The volume numbers are something that we are not giving out Himanshu. You already know that.

**Himanshu Nayyar:** No, no. At least just wanted to have some sense whether at least our broad utilization rates are on track or if there is a significant uptake or a miss in this quarter, that is what I was looking to?

**Challa Srishant:** That is on track. If you recall, this is something we have mentioned earlier also. The first half of last year was exceptional for us. If you look at the track record of the company for the last 25 years, Q1 and Q2 is usually the lean quarter. Q3 and Q4 usually a much better quarter for us. Last year was an exception and now also if we are doing a comparison, the fact that we are meeting more or less last year's numbers shows that we are on track and this year we are expecting Q3 and Q4 to be better along the lines of what we have projected.

**Himanshu Nayyar:** On green coffee, if you can share the current prices? Do they continue to fall even now?

**Challa Srishant:** Terminal market price as of now is in the range of \$1250 per ton as oppose to a couple of months ago, it was in the range of about \$1350 to \$1400, so there is a reduction, but the variation that has taken place, the differential has changed. Earlier the differentials were, the people were working with was, may be +10, +30, now they have gone up to +200. So which basically means that farmers are not willing to sell the coffee below a certain price point. Though there is a terminal market reduction, the absolute reduction is marginal.

**Himanshu Nayyar:** Where were these prices same time last year broadly?

**Challa Srishant:** Last year was a little higher, may be around 5% to 10% higher. It depends on the origin, the country, it varies from region to region.

**Himanshu Nayyar:** And you do not see this improving anytime soon, at least this year?



*CCL Products (India) Limited  
October 23, 2019*

**Challa Srishant:** No, we are not expecting any drastic changes or anything, terminal markets they are very volatile. It is a commodity market at the end of the day. Anything can happen at any point in time. But, it is not like there is any drastic negative news or drastic positive news to significantly change one way or the other.

**Himanshu Nayyar:** Secondly, we were focusing a lot on expanding our business in US, so if you could just share some update on how we are progressing there and how is this year going to be there?

**Challa Srishant:** As far as US is concerned, we are again on track with whatever we have planned. In fact, we have made some changes with the way that we operate there over in the US as well. The credit terms also we have changed a little bit in order to help grow the business over there. Going forward, there are a couple of large customers that we are speaking to over there and we are expecting that impact to come in from next financial year itself. The approvals process usually takes about six months to a year. We have already started that process about a month and a half ago and hopefully, that impact will come in from next financial year.

**Himanshu Nayyar:** Next on the India business, could you share a update of how much revenue we have done for this quarter?

**Challa Srishant:** I will hand over to Praveen, he can answer this.

**Praveen Jaipuria:** In the first half we have done a business of 35 Crores. If you remember in the first quarter we had done a business of 15 Crores, so this quarter we have done a business of 20 Crores, so first half we have done a business of 35 Crores in the domestic business. Most of the incremental business that is happening is on account of retail sales. last year same period we have done a business of approximately 25 Crores, so all this additional growth that has come is on the account of retail market. So, that is where we are as of now.

**Himanshu Nayyar:** One more thing, the 11 Crores that you guys mentioned, expenses on the domestic market, the advertisement etc., so would that be booked in the standalone other expenses or the consolidated because when I see the numbers, I sub tracked and in standalone I do not see that sort of number getting booked there?

**Praveen Jaipuria:** This has been accounted for under standalone other expenses.



*CCL Products (India) Limited  
October 23, 2019*

**Himanshu Nayyar:** No, but I thought that the India business is in a separate subsidiary right, but these expenses are booked in the standalone?

**Challa Srishant:** The brand is owned by the parent company itself, so all the advertising expenses and all that also we are only bearing that cost, because we are building the brand for the company as a whole.

**Himanshu Nayyar:** Okay, so that will be in the books, understood. Final question on the tax rate, just wanted to understand Q2 obviously, there has been a significant decrease there, so just wanted to know on a sustainable basis for this year and the next, what is the tax rate that we should be looking at post the changes?

**K V L N Sarma:** New tax rates are 22% which we are going to avail and the other two tax rate is at 21% now.

**Himanshu Nayyar:** So it would be 21% this year and the next year both right?

**K V L N Sarma:** That is right.

**Himanshu Nayyar:** So what about the SEZ benefits for Chittoor, you are including those in the account?

**K V L N Sarma:** You cannot avail SEZ benefits if you opt for 22%.

**Himanshu Nayyar:** Right, so our effective number would be now 21%?

**K V L N Sarma:** Right.

**Himanshu Nayyar:** Alright, that is all from me Sir. Thanks and all the best.

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

**Tanvi Shetty:** Sir I wanted to ask that in spite of falling coffee prices sequentially, why do we see a fall in gross margins. I mean, with your SEZ operations being commercialized in Q1, the share of higher margin product should have supported the gross margins in this quarter as well?



*CCL Products (India) Limited  
October 23, 2019*

**K V L N Sarma:** The prices of coffee as it is, of no relevance for us because we are a cost plus manufacturer, so the falling prices will not exactly reduce or increase our margins as such. SEZ had come into operation, but as we are informing, after coming into commercial operations, there were some customer audits that will take place for selling the products from SEZ directly. So out of the 50% that we projected that is about 2500, majority of it is booked for dispatch during Q3 and Q4. By this time, we have completed the client audits in total. We have done some small quantities from there, but the difference of SEZ coming into being will be seen very perceptibly between third and fourth quarter.

**Tanvi Shetty:** Okay and Sir, your guidance of 15% to 20% EBITDA and volume level still holds right Sir, you still maintain that?

**K V L N Sarma:** The thing is there are several caveats during this year, like the MEIS whether it will continue or will get abandoned and what will be the scheme that will be in place subsequent to December is one thing and tax rate of course is decreased, but we cannot get the entire thing because SEZ waiver we cannot claim. So there are several things that are in place which we are analyzing, but broadly we are confident that we should be able to stick to our initial guidance, that may not be grossly varying right now. There are some positives, there are some negatives, at best they can be neutralized and we should be sticking to our guidance as such.

**Tanvi Shetty:** Okay, that is helpful. Thank you so much Sir and wish you a very happy Diwali in advance and all the best.

**Moderator:** Thank you. The next question is from the line of Rama Krishna from Zen Securities. Please go ahead.

**Rama Krishna:** I have a couple of questions which respect to your domestic market initiatives. First thing is just if you can help us understand the brand traction since you have launched the products in Indian market that is the first question. Second question in terms of sharing a perceptible what is the overall market size of the product categories that you have introduced, you know, may be in terms of market share and all those things and may be finally, some thoughts with respect to the broader strategy to the domestic market, how do you want to actually gain market share or increase the penetration given the higher competition already existing in the market? Thank you.



*CCL Products (India) Limited  
October 23, 2019*

**Praveen Jaipuria:**

I just will begin with giving you a broad outlook on the categories in Indian market and then will let you know about our initiatives. Basically if you see the instant coffee market is about 2000 Crores in India and there is a separate segment for filter coffee wherein a lot of data is not available, so we do not exactly know how big is that market, but that will very small when compared to instant market. So that is how the market is.

We have launched products in three categories. One is in the instant category. Then we have launched a product in the roast and ground, which is the filter coffee market and a product in the premix category, which is very nascent in India. Right now the sales are almost negligible for this category, but this category is an upcoming category and hopefully in future it will become big. So that is a broad overview of the market. As of now, to begin with, we are focusing on south of India, the four states of Southern India and we have launched our products. We have got a sales team to reach out a certain number of outlets and it is only very recently from the last couple of quarters, we have started building awareness through mass media advertising. Although this is only the initial phases of our brand launch, however we have started seeing decent traction for the brand. The brand has now started to get picked up in retail audit data, we are getting some shares in some markets and we are seeing share gains and our sales are moving quarter by quarter, which is a good sign for most of our products. That was from my side. Anything else you would like to know?

**Rama Krishna:**

You have mentioned that market share are still very small as of now? So I just wanted to understand before wrapping from my side, any feedback over the last, may be whatever time period that you have launched the products in the Indian market, particularly South India, any product based feedback and based on that feedback any improvisation, so if you can share some thoughts on that in terms of product enhancement and such initiatives?

**Praveen Jaipuria:**

When we had launched the product, we had gone through a very stringent product test with consumers and only after we got positive feedback from consumers at ground level we had launched the product. Even after launch, the reviews have been pretty good. We purposefully kept our products distinctive from what the competition is there in the market and accordingly we are getting very good feedback. Till now there has been no reason for us to change the product because we already had tested the product and we have found it good. Yes, there would be a certain set of consumers who may not like our products, but in FMCG category, it is not correct to change the products so often. But at an overall level, we



*CCL Products (India) Limited  
October 23, 2019*

have got very positive feedback. If you go to Amazon site, most of our products have got extremely good reviews. So, product feedback has been pretty good overall.

**Rama Krishna:** Sure thanks, this helps.

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

**Lokesh Manik:** My question pertains to the expenses. One is, you have mentioned that when we initially launched into the B2C segment, we had budgeted about expense of 25 Crores to 30 Crores, which the parent company would support and that activities are mainly pertaining to BTL activities that is below the line. Now that we have moved above the line, has this budget changed now going forward?

**Praveen Jaipurjar:** Fundamentally, it has not changed. What we have said that is we will spend around 30 Crores for the domestic market, out of which we have envisaged that approximately 13 Crores to 14 Crores would be supported by the parent company, so that was the ATL expenses which Srishant also mentioned a little while ago. Since the domestic operation is a nascent operation and we have to monitor each and everything not only on a quarterly basis, but say on a monthly basis. So as we go along, probably we will see if there are certain changes required, because that is when we will decide. So we are taking quarter by quarter. We have spent around 11 Crores. Next quarter also we will spend some money and then subsequently see how things pan out in the fourth quarter.

**Lokesh Manik:** On an average about 10 Crores a quarter, would that be a correct estimate?

**Praveen Jaipurjar:** When you speak of overall expenses, everything is included, ATL, BTL all SNM expenses and below the line expenses, then probably yes, 10 Crores a quarter could be a fair estimation. But if you talk about media, it could be close to between 14 Crores to 17 Crores, 18 Crores and that is all dependent on how our sales go through in the season.

**Lokesh Manik:** Another question was on the expenses pertaining to the SEZ operations and the licenses, just for clarification, these are one time expenses?

**V. Lakshmi Narayana:** These are revenues, not expenses. Licenses amount, which we are mentioning about during this quarter is on the revenue side. Because of some glitch in the software at DGFT, they



*CCL Products (India) Limited*  
*October 23, 2019*

have been delayed. So we have short received revenue side licenses to the extent of about 5 Crores during this current quarter.

- Lokesh Manik:** Okay and the SEZ operation about 4 Crores, that is again included in this?
- K V L N Sarma:** Currently these two quarters, we operated at lower capacity but that will be covered in coming quarters.
- Moderator:** Thank you. We have the next question from the line of Kaushal Shah from Dhanki Securities. Please go ahead.
- Kaushal Shah:** On the retail side, India business, since we are spending aggressively on ad spent now, would you want to sort of re-visit or have a higher target for the retail business, or we should continue with the earlier number that we had shared?
- Praveen Jaipurjar:** When we say higher spends, only the phasing of spends have changed. So, if you remember, we had given guidelines that we will be probably spending around 14 Crores on topline, which is on TV. The only thing is that, instead of spending late in the season, we have preponed a little, so that we are able to capture the season well. So, therefore spends have not more than what we have envisaged, which means that we will stay on track with whatever said earlier.
- Kaushal Shah:** Both in terms of the topline, meaning the revenue for that business as well as the expenses. We will not kind of continue on the same trajectory?
- Praveen Jaipurjar:** Yes.
- Kaushal Shah:** Thank you Sir.
- Moderator:** Thank you. The next question is from the line of Ayush Bhutada from Aequitas. Please go ahead.
- Ayush Bhutada:** Sir, I just wanted to understand on our balance Capex plans of the agglomeration for packing unit and Vietnam line balance, so all those will be funded by internal accruals right?



*CCL Products (India) Limited  
October 23, 2019*

- Challa Srishant:** Majority of the expenditure will be made from internal accruals only.
- Ayush Bhutada:** Continuing on the domestic side, you have guided for a 110 Crores sales for the full year, so is that on track?
- Praveen Jaipurjar:** Yes, as I was telling earlier, we are on track of it. However, we are new brand, a lot of things work in our favor, a lot of things do not work in our favor. We will be able to give a better guidance as we move along. But, as of now, till now, we are on track. We have done 35 Crores of sales already and we are yet to approach the season, sales happen during the winter time, so we are looking forward to achieve the guidance that we have given.
- Ayush Bhutada:** Overall expenditure on the branded business will be in the range of 30 Crores to 40 Crores right? As you mentioned.
- Praveen Jaipurjar :** Yes.
- Ayush Bhutada:** I just wanted to clarify on the other expenses front that you mentioned in the beginning. The 4 Crores interest and depreciation additional expenditure, could you just repeat that part?
- Moderator:** Sir I am sorry, you are not audible.
- V. Lakshmi Narayana:** Initial expenditure on account of interest and depreciation, is related to the SEZ , which has come into operation.
- Ayush Bhutada:** Okay, so that is going to a part of the other expenses separately, right?
- V. Lakshmi Narayana:** Interest and depreciation are different. Other expenditure, which includes an expenditure incurred on account of advertisement etc., which we have stated in the beginning.
- Ayush Bhutada:** That would be 11 Crores right?
- V. Lakshmi Narayana:** Yes.
- Ayush Bhutada:** So 11 Crores part is the additional expenditure included in the other expenditure.
- V. Lakshmi Narayana:** Yes.



*CCL Products (India) Limited  
October 23, 2019*

- Ayush Bhutada:** Okay Sir, thank you so much.
- Moderator:** Thank you. The next question is from the line of Bharat Gupta from Edelweiss. Please go ahead.
- Bharat Gupta:** Sir, I just wanted to ask about the Vietnam utilization levels, so at what levels are we currently operating?
- K V L N Sarma:** As you know, the optimum utilization is about 90% considering the seasonal nature. At SEZ the utilization at first half been lower and overall for the year, we will be doing about 50% utilization in SEZ and other places, they are at optimal. In fact, our base unit, the utilization has been around 90% and then in Vietnam, on an annualized basis, we are around 70% utilization.
- Bharat Gupta:** Okay, but I think on the guidance front, we were guided that the Vietnam capacity utilization will reach by 80% in FY2020, so are we on track on that?
- K V L N Sarma:** Correct, the second half, the utilization will pick up being the season and on an annualized basis, we will be able to achieve it.
- Bharat Gupta:** My next question pertains to the coffee consumptions. Like in the European markets, we export close to 7000 tons of coffee, so I just wanted to get a clarity like what has been the contribution of instant coffee on that side?
- Challa Srishant:** It is only the instant coffee that we are exporting. What else do we export?
- Bharat Gupta:** In the MDA section in the annual report, it was stated that the coffee consumption in the European market has been increasing by close to 1.5%. So while the market remains optimistic for the instant coffee consumption, so I just wanted to get a sense about what are the factors which are driving out the instant coffee consumption in the European region?
- Challa Srishant:** In the last couple of years, usually up to 1.5 to 2.5% is the growth that has always been there in the instant coffee sales. In the current year, what we are seeing is that there is a degrowth, especially in the spray drying sector and roasted coffee segment is actually growing a little bit more. We were talking about may be 1% change and this is also accountable because of the decrease in population also in EU.



*CCL Products (India) Limited  
October 23, 2019*

- Bharat Gupta:** Okay, thank you Sir.
- Rohan Koshy:** Just a couple of questions from my side, one is on this SEZ operation you said that right now you are meeting the demand from the current facility only and it will be entirely shifted only in phase 2, right?
- Challa Srishant:** Both the plants will run through the optimum.
- Rohan Koshy:** Till the current quarter we have not ....
- Challa Srishant:** In the current quarter, this certification process is going on, the utilization was lesser, but on an annual basis, we will reach 50% utilization even at SEZ side.
- Rohan Koshy:** We can now start supplying from the new facility?
- Challa Srishant:** Sorry
- Rohan Koshy:** I was asking all the customers approvals are taken care and we can start supplying now from the new facility?
- Challa Srishant:** Not all the customers, but to the extent that we intent to shift to SEZ, we have taken care of the certification process. Now, the capacity at SEZ can be fully operated among the customer profiles that we intent to supply from SEZ.
- Rohan Koshy:** Sir, just a clarification on the other expenses. You mentioned that it was 11 Crores with regards to advertising and Rs.5 Crores MEIS license fee is also included in other expenses?
- V. Lakshmi Narayana:** No, MEIS is not an expense. Actually, these are two different aspects. MEIS licenses that we did not realize is on the revenue side.
- Rohan Koshy:** Okay which we did not realize. Rs.5 Crores which we are yet to realize?
- V. Lakshmi Narayana:** During this quarter, we did not realize due to the software glitches at DGFT.
- Rohan Koshy:** Okay. Just once again some clarification on this only. So Sir, this India base facility, you said that this first half have not operated at full utilization or slightly low because of the seasonality factor only or less demand?



*CCL Products (India) Limited  
October 23, 2019*

**K V L N Sarma:** Can you come again on the question?

**Rohan Koshy:** Sir, the base facility India, in first half did not operate at 100% utilization, it was lower in terms of utilization level?

**K V L N Sarma:** That operation is 80% utilization.

**Rohan Koshy:** Yes, but you mentioned that it was operating below maximum utilization, was it mainly because of lower demand?

**K V L N Sarma:** There is a seasonality factor, also since it is a batch process, we cannot reach the 100% utilization capacity. So, optimum itself is about 90% of which we have already achieved 80% during the first two quarters and we will make up for the balance in the coming quarter when the season picks up the utilization will be better. Overall we will be dealing at 85% utilization.

**Rohan Koshy:** Sir, just last, so you mentioned that the global scenario which is very volatile right now with the Brazil, they are offering a competitive pricing for their products while Vietnam is still maintaining them, so how you see that it is going to affect your procurement of green coffee prices? And is there any sort of that we will have any pressure on margins?

**Challa Srishant:** These challenges are always going to be there, the pressure on margins also will definitely be there, it is not an easy market to be in and as you must have already seen, where literally only companies in the instant coffee space that is actually growing and recently in fact, our Chairman also got that recognition and award for contribution to the soluble coffee industry, a lifetime achievement award. The reason also for this recognition is unheard of in the instant coffee space to see the kind of growth that we have. The main reason for our growth is because of the ability to customize and the right partners we have in different geographies with which we have been able to grow volumes over the years and the same strategies, we are hoping will help us grow volumes in the future as well. It is constant innovation that is taking place. We are not just doing one single standard vanilla size product. When we say instant coffee, lot of people have the misconception that the instant coffee will be only single quality or blend. We have numerous qualities and blends that we do which enables us to ensure that this growth continues in a sustained manner.



*CCL Products (India) Limited  
October 23, 2019*

**Rohan Koshy:** Sure, that we understand about the company's business and the robust business process that you have already set up. I was just asking that the current scenario, especially from the Brazil which is looking very competitive in terms of pricing, so is there any risk to the margin which we are so far now happy in maintaining?

**Challa Srishant:** Yes, I would not say there is no risk at all, but then again that 30% excess capacity in the world, so we have always had that risk even in the past, there is no new risk as such which has come in. Also, one thing we should keep in mind is Brazil, whoever is buying a generic product where they can transition from one origin to another, they might consider Brazil as a serious option, but that is only a small percentage of the market. The rest of the people who have certain brands or blends which are established in the market, it will not be easy for them to change over because Brazilian green coffee taste profile is completely different from the profile in Indonesia, Vietnam, India and other origins.

**Rohan Koshy:** Sure Sir, thank you very much.

**Moderator:** Thank you. We will take the next question from the line of Anurag Patil from Roha Asset Management. Please go ahead.

**Anurag Patil:** Sir, we were planning to launch a new product called Cold Pro, so can you throw some light on that front, how is it going and addressable market and opportunity in this segment?

**Challa Srishant:** We have actually introduced this product in the EU and US market as of now and the initial response that we have got has been quite good. We are working with some customers for some product modifications and development. We are hoping that the initial orders will start coming in from Q3 onwards. Because it is a new product, all customers will require some time to create a new product category in that market, so we are not expecting any sudden spike in volumes or anything in the immediate future, but we are confident that over the years, that volume will come in. Because of the R&D that we have done, it is literally unique only for our company. There is nobody else in the world who can offer this same product.

**Anurag Patil:** What can be the gross margin for this product, will it be relatively higher compared to the current margins?



*CCL Products (India) Limited  
October 23, 2019*

- Challa Srishant:** It is actually a little tricky for me to tell because it is a new product that we are trying to introduce. Whatever we mention over here is again public information, so it will be actually detrimental for us to give information specifically to a product.
- Anurag Patil:** Okay, that was from my side, thank you.
- Moderator:** Thank you. The next question is from the line of Kavaldeep Singh from Ambit Capital. Please go ahead.
- Kavaldeep Singh:** Sir, I wanted to get a sense on any working capital changes which have been there in the last six months, because the last time when your annual report came out, we saw that receivables had increased especially for the Vietnam subsidiary and even now, I actually see that the standalone receivables have increased, but on a consolidated level, it is more or less the same, so if you just throw some light on this increase period which you had extended to the US customers if those receivables which are more than 90 days, whether they are coming in?
- Challa Srishant:** Our objective has been to grow that volume in the US market. Our partner over there was also explaining that the tradition that they follow in the US market is to offer that extent of credit. As far as we are concerned, our customer is still our partner in the US, but if he is able to extend credit, he was confident that he can grow volumes for us in the future. So, that is the reason why we took a business decision saying that we will start extending that credit in order to establish more volumes in the future.
- Kavaldeep Singh:** Right understood, so there is no case of any bad debts due to this extension of credit, right?
- Challa Srishant:** No question about bad debts or anything.
- Kavaldeep Singh:** Okay and the increase in the receivables from the Indian parent, is that also to the US customer or some new customers have been onboarded?
- Challa Srishant:** Sorry, I did not get it, can you repeat that.
- Kavaldeep Singh:** Sir, there is an increase in receivables for the standalone entity of around 40 Crores, so is that because of a new client addition or is that also being extended to the US customer?



*CCL Products (India) Limited  
October 23, 2019*

**Challa Srishant:** Actually, partially because of the US business and partially there is another bigger customer that we have added as well. So, because of their business model, we have to offer him credit as well. It is a very well established company, there is no risk, but the credit is essential for us to get that business.

**Kavaldeep Singh:** Right, so I mean my concern was basically on the cash conversion, because I saw that cash conversion has deteriorated over the last one year, so you are saying that there is an extension of credit, yes, but cash conversion should remain healthy and there should be no problem over the next six months or one year right?

**KVLN Sarma:** The cash position is likely to be improved in a year's time, one is as of now because of the extended credit to another client to whom we have developed the US market, and as well as second is the capex programme is completed and in a year's time the cash position is going to be bright.

**Kavaldeep Singh:** Okay right, thank you Sir. Sir, also on the Swiss subsidiary, has there been any new traction in terms of business which you expect over the next year also?

**Challa Srishant:** We mentioned last time that our director over there, we have targeted for some business for local supermarkets, we have started doing that and the equations have started about six months ago. That is continuing as per our plan. Now that we have introduced our products in these units, that should enable us to get access to some new supermarkets also for the next couple of years. We have already got the contract with the existing guys for the next financial year as well, so that is already in place. They place an order usually 12 months in advance, so that also has come in. So, we are on track with the Swiss subsidiary as well.

**Kavaldeep Singh:** Right, Sir any sales target for this year for the Swiss subsidiary, if you can share that with us?

**Challa Srishant:** It is actually a little difficult to answer because it is a subsidiary company everything gets consolidated anyways, so it is very difficult for me to give you a clear number over here.

**Kavaldeep Singh:** Okay, right Sir. Thank you. That will be all from my end.

**Moderator:** Thank you. The next question is from the line of Anish Jobalia from Banyan Capital. Please go ahead.



*CCL Products (India) Limited  
October 23, 2019*

**Anish Jobalia:** Actually I have a couple of questions and most specially like data points. So, I just wanted to know at the SEZ plant, what would be the fixed cost for the half year, can you share that number?

**V. Lakshmi Narayana:** Around 22 Crores which includes depreciation and interest.

**Anish Jobalia:** I am talking from the other expenses, like I mean above the EBITDA line, do you have any fixed cost in the first phase?

**V. Lakshmi Narayana:** Fixed cost, you can take it in three components, one is salaries and wages & Admin exp. which is around 6 Crores. Interest is around 4 Crores and depreciation is around 12 Crores, so total it is around 26 Crores for the whole year.

**Anish Jobalia:** So you are expecting this much for the full year, that is what you are saying right?

**V. Lakshmi Narayana:** That is the whole year, that is right.

**Anish Jobalia:** Second question is regarding the retail business. You mentioned about the advertising expenses, but apart from that, are there any expenses which is there on the P&L apart from that 20 Crores for the half year, is there anything more than that for the retail business, if you can just share that?

**Praveen Jaipuria:** I do not think there is anything more than that. That is the only part which is on the brand building side, that is the only amount, nothing else.

**Anish Jobalia:** Alright, thank you so much.

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

**Akhil Parekh:** You work on cost price basis, could you just give us a sense of how the gross profit per kg, how it has been for first half of FY2020 versus first half of FY2019?

**K V L N Sarma:** Last year the second quarter was a peak, there was exceptional improvement in the profit last year. We have almost met, but it is not exactly same, it is 2 basis point vis-à-vis last year. That also accounts for expenses and other things.



*CCL Products (India) Limited  
October 23, 2019*

- Akhil Parekh:** My question was on realization, which we had guided for Rs.600 per kg, are we seeing similar kind of realizations at current point of time?
- K V L N Sarma:** You are asking about a specific figure of realization for SEZ?
- Akhil Parekh:** Yes, initially when we did the Capex, we had maintained 300 Crores of Capex will have similar kind of sales on the new SEZ unit which roughly converts into Rs.600 per kg for the freeze dried coffee, so I am just saying are we seeing similar kind of realization for the freeze dried coffee or is it declining?
- K V L N Sarma:** On a yearly basis, we will receive those figures, quarter-to-quarter, they might change between party to party depending on the volumes we get, but the guidance figure remains the same, there is no decline on the guidance.
- Akhil Parekh:** One last question on guidance. My question is on the sales and PAT growth guidance for FY2020, we have maintained that we will do around 5% to 10% of growth, do we stick to that guidance?
- K V L N Sarma:** Yes, we stick to that guidance.
- Akhil Parekh:** Okay, thank you so much.
- Moderator:** Thank you. The next question is from the line of Anshul Mittal from Care Portfolio Managers. Please go ahead.
- Anshul Mittal:** Can you throw some highlight on the coffee production in India scenario of it due to heavy rainfall and floods which we have been hearing in Southern India? So can you highlight on the fact?
- Challa Srishant:** Yes, because of that, the green coffee prices within India is going up, because of that, even the brands have increased their prices in the market. You would have noticed that.
- Anshul Mittal:** Yes, but can you give a highlight on the number, what would be the production figures or how badly it has been impacted?



*CCL Products (India) Limited  
October 23, 2019*

**Challa Srishant:** Frankly, we do not have that much in depth data, we know that at least almost 20% of the production was negatively affected within the country and out of which, that has also resulted in a price increase. So, whatever is the terminal market price, the Indian differentials have gone up substantially because of that.

**Anshul Mittal:** Okay, that is from my side Sir. Thank you.

**Moderator:** Thank you. The next question is from the line of Suvarna Joshi from Axis Securities. Please go ahead.

**Suvarna Joshi:** Most of my questions have been answered, but just had one quick question. We had been as part of our strategy focusing more on small packs and for the last two quarters, we have not heard much on this particular part of the business, so if you could just highlight something on how this particular strategy is working for us and what is the contribution to revenues coming from small packs as of H1 of FY2020 versus the similar period last year, that would be really helpful?

**Challa Srishant:** The main reason for us to focus on small packs is also because it is more sustainable business in the long run. Earlier, our primary focus used to be on bulk business, to re-packers and resellers and these people used to do it into small packs and then supply to the retailers. What we are doing is we are transitioning some of that business from bulk to small packs. During the transition, sometimes we may even end up forgoing some bulk business in order to ensure that we get small packs, which is growing year on year. From last year to now, we have seen a substantial increase in our small packs already. All the Switzerland business that we are doing right now is entirely small packs. The bulk business would be very small. The reason for this new packing facility is also because of the extent that the small packs are growing both in the domestic market as well as in the export market. As Praveen was mentioning earlier, B2C segment is what is growing at almost 100% rate of more, so the small packs basically are increasing quite substantially even in India. So, we need to be geared up for the next few years which is why we are setting this new facility as well.

**Suvarna Joshi:** Sir, just a followup on that, you mentioned about again entire business to Swiss geography is being through small packs, so how much would that contribution be to our total revenue per se and how much is the current contribution of overall small packs in our business?



*CCL Products (India) Limited  
October 23, 2019*

- Challa Srishant:** As far as Switzerland is concerned, may be less than 5% will be through this company in small packs and overall I would say may be around 20% of what we are doing is in small packs.
- Suvarna Joshi:** Sure and we remain focused on the target of achieving small pack revenue profile to be around 30% to 35% over the next couple of years?
- Challa Srishant:** Yes, we are.
- Suvarna Joshi:** Sure Sir, great. Thank you so much and wish you all a very happy Diwali and a Prosperous New Year and good luck for the future.
- Moderator:** Thank you. The next question is from the line of Kavaldeep Singh from Ambit Capital. Please go ahead.
- Kavaldeep Singh:** Sir, we note that your receivables for standalone have actually gone up, but on a consolidated level, your receivables are broadly where they are, so what can explain this difference?
- Challa Srishant:** I think I have already mentioned this earlier, for the US business, in order to build volumes for the long run....
- Kavaldeep Singh:** Yes but then the consolidate should also go up right?
- V. Lakshmi Narayana:** Kavaldeep, the realizations have been substantially better in Vietnam and other subsidiaries also. We are able to realize the receivables faster, so on a consolidated level, the difference is not as much.
- Kavaldeep Singh:** Okay, thank you Sir.
- Moderator:** Thank you. The next question is from the line of Vaibhav Bhagoria, an individual investor. Please go ahead.
- Vaibhav Bhagoria:** My question is on the line of other expenses. So, as we know the consolidate other expense during this quarter was around 61 Crores, whereas in the last year, same quarter was around



*CCL Products (India) Limited  
October 23, 2019*

43, so around a difference of 18 Crores, so do you think that this other expenses of 61 Crores is going to continue in the next Q3 and Q4 as well, will it be on the similar line?

**K V L N Sarma:** They might slightly come down because substantial advertisement costs have been made during this quarter, but we do not know if the response is very good and we are able to get better business in the domestic market, there may be some more expenses in the coming quarters for the advertisement and brand building.

**Vaibhav Bhagoria:** So more or less it will be somewhere around this number itself?

**K V L N Sarma:** Slightly lesser.

**Vaibhav Bhagoria:** Slightly lesser, okay and what kind of growth in revenue and PAT numbers do you expect in Q3 and Q4 versus last year?

**V. Lakshmi Narayana:** We are expecting the PAT level growth around 5% to 10% as we stated already to your previous question.

**K V L N Sarma:** To answer the earlier question, there are several things, several uncertainties, positives and negatives happening in respect of taxation, export incentives and all that, so right now we are confident that we should be able to get the guidance that we have given earlier to be adhered to. Exact figures of what will be the Q3, Q4 development, we are not able to exactly explain now, but say on the MEIS side there is a negative news, but on the taxation side there is a positive news and we have come up with a new company which is a packing project, the taxation would be further less. So we are taking into account all these figures and at the present we wish to stick to our earlier guidance that was given.

**Vaibhav Bhagoria:** Alright, that is all from my side. Thank you.

**Moderator:** Thank you. We have the last question from the line of Ashok Shah from LFC Securities. Please go ahead.

**Ashok Shah:** Regarding our head spend of 11 Crores, are we spending anything on distribution setup as I was travelling to Southern India, there were a lot of distributors, but our product was not available at supermarkets and also in Western India, it is not available at all?



*CCL Products (India) Limited  
October 23, 2019*

**Praveen Jaipuria:** Out of this 11 Crores, as Srishant had mentioned earlier, we had started advertising a little earlier in the season this year and out of which a large portion was on advertisement and certain portion is also we have taken a celebrity on board and also those payments have been made at the start of the contract. So this is for that payment and advertising and we are largely right now focusing in south states, because we have just launched the brand and we want to establish our success factors here and then subsequent to this we will move to other states because you know that generating awareness and generating pull for the brands in non-south states becomes difficult because you have to advertise on national channels and that becomes a very expensive exercise, so right now we have not started distributing in other states except for the south states.

**Ashok Shah:** Okay, thank you.

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

**Challa Srishant:** I just wanted to wish everybody on the conference call a Happy Diwali to you and to your respective family. Thank you and will talk to you again next quarter.

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