



“CCL Products (India) Limited Q3 FY 2021 Earnings Conference Call”

January 28, 2021



MANAGEMENT: **MR. CHALLA SRISHANT – MANAGING DIRECTOR, CCL PRODUCTS (INDIA) LIMITED**
MR. K.V.L.N. SARMA – CHIEF OPERATING OFFICER, CCL PRODUCTS (INDIA) LIMITED
MR. V. LAKSHMI NARAYANA – CHIEF FINANCIAL OFFICER, CCL PRODUCTS (INDIA) LIMITED
MR. P.S. RAO – CONSULTANT, COMPANY SECRETARY, CCL PRODUCTS (INDIA) LIMITED
Ms. SRIDEVI DASARI – COMPANY SECRETARY, CCL PRODUCTS (INDIA) LIMITED

MODERATOR: **MR. HIMANSHU NAYYAR – YES SECURITIES**



*CCL Products (India) Limited
January 28, 2021*

Moderator: Ladies and gentlemen, good day, and welcome to the Q3 FY 2021 Earnings Conference Call of CCL Products (India), hosted by YES Securities. 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 '1' on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Himanshu Nayyar from YES Securities. Thank you and over to you, sir.

Himanshu Nayyar: Thank you, Rutuja. On behalf of YES Securities, I would like to thank the management for giving us the opportunity to host them and welcome all the participants to CCL Products Earnings Call.

In our view, CCL has come up with a resilient performance in a very challenging environment. And management obviously can answer all investor queries.

So from the company we have Mr. Challa Srishant – Managing Director; Mr. K.V.L.N. Sarma – Chief Operating Officer; Mr. Praveen Jaipurkar – CEO of Continental Coffee; Mr. V. Lakshmi Narayana – CFO; Mr. P.S. Rao – Consultant, Company Secretary; and Ms. Sridevi Dasari – Company Secretary on the call.

Without further ado, I would like to hand over the call to the management for their opening comments. And then we will open the floor for Q&A. Thank you, and over to you, Srishant.

Challa Srishant: Thank you for the introduction. The Group has achieved a turnover of Rs. 296.22 crores for the third quarter of financial year 2021, as compared to Rs. 302.71 crores for the corresponding quarter of the previous year. And the net profit is Rs. 47.11 crores as against Rs. 47 crores from the previous year. The EBITDA is Rs. 72.43 crores as against Rs. 84.83 crores from the previous year.

For the nine months ended, the Group has achieved a turnover of Rs. 907.57 crores for the nine months ended 31st December 2020, as compared to Rs. 874.57 crores for the corresponding period of the previous year, and the net profit is Rs. 133.06 crores as against Rs. 123.74 crores. The EBITDA is Rs. 212.97 crores as against Rs. 216.78 crores from the previous year.

I also wanted to just add one point saying that this particular quarter we have been impacted by two main points, that is, one, the logistics issues that we have faced. This is a global problem that I think most of the people are already aware of, non-availability of containers, suddenly prices shooting up and not being able to dispatch the product in a timely manner. That is one of the reasons for a substantial stock buildup also at our end, which will get liquidated during this quarter.



*CCL Products (India) Limited
January 28, 2021*

Secondly, the MEIS proceeds were also not realized. If you notice, in the previous year same quarter we had realized around Rs. 11 crores of MEIS proceeds, and this year it was zero. One of the reasons is also because the portal has not opened yet, that amount has accrued to the company. But as a company's policy, until we actually receive it, we would not show it in our books.

We can open the floor for questions now. Thank you.

Moderator: Thank you very much. We will now begin the question-and-answer session. The first question is from the line of Kashyap Javeri from Emkay Investment Managers. Please go ahead.

Kashyap Javeri: Congratulations for fairly resilient performance. I have a couple of questions, one, you mentioned about the container's availability problems. So, how much of that sales could have got postponed probably to next quarter? Or how should one look at the sales, which we probably we had to under record because of the consignment issue? That's question number one.

Second question is on our gross margins. If I look at our gross margins, they have dramatically gone up versus last year, as well as the previous quarter also. What could have driven that number?

Third question is on our other OPEX, which has also gone quite substantially up. So, any one-off in the same quarter last year or any one-off in this particular quarter? And then container issue was largely confined to India ops, because if I look at Vietnam, Vietnam has done phenomenally well even in this quarter. So, these are my questions.

Challa Srishant: Mr. Sarma will just answer this.

K.V.L.N. Sarma: See, one is on the logistics issue, logistics issue as well as the containers availability, particularly food grain containers availability was very scarce this quarter. In fact, the freight we were getting in a day or two, during last quarter, we experienced that there was a delay of 15 to 20 days in getting the containers and more as well. So, because of this certain contaminants, certain dispatches are to be postponed. On a broader perspective, approximately about 50 to 60 crores of dispatches could not be made on account of this, which perhaps during this quarter we will be doing gradually. So, the impact from the turnover would be around that. And the majority of this is availability problem.

Kashyap Javeri: Sir if I could ask one question here. Actually, I mean, it's a daily consumption commodity which may also be sort of perishable. So, let's say, if a consignment has not gone to the customer, he would have bought it from some other place to make up for that, right? So, is this sale for this particular quarter a loss for us or it would be client will probably take that delivery also as a part of overall supplies for the year?



*CCL Products (India) Limited
January 28, 2021*

K.V.L.N. Sarma: Let me clarify this. One is, this is not a perishable product, instant coffee's shelf life is two years plus

Kashyap Javeri: Sorry, not perishable, but I mean if I have to consume it today, I will have to buy it from someplace, I will not wait for probably...

K.V.L.N. Sarma: Correct. But normally what we do is, we take all the lead times into account while they are ordering also. Secondly, this is not a problem specific to India, this is a universal problem that has occurred. So, in this case, in many of the cases the contracts were on an FOB basis. So, it will be the customer who has to organize for the containers and lift them, they themselves could not do it, that is why in fact we could avoid any penal clauses or non-performances on that. And not only this, if they are not able to get a product which is already manufactured, transported to their place, so for them to go to another supplier, seek product manufacture and getting it will be rare. So people are appreciative of the problem. In fact, in many cases, customers are paying extra amounts to get containers and get the product lifted. So, we are not seeing any loss of order book position or loss to any other supplier on this. Customers' orders are intact, only thing is that there is a short supply of material because of this situation, which is universal.

Challa Srishant: I just want to add one small point here. Any customer who wants to order or replace our product with some other product, it will take them a minimum of three months lead time for them to procure from anybody else. The delay we are seeing because of logistics is going to be maybe a month or month and a half maximum. So, customers are not likely to try and order from somebody else because this is a worldwide phenomenon.

Kashyap Javeri: Okay. Right. About the gross margins and other OPEX, I mean, in gross margins there is dramatic expansion, whereas if I look at other manufacturing expenses, there is a sharp increase. So, any reclassification, any one-off, anything in both these line items?

K.V.L.N. Sarma: You must have seen that we were able to maintain the turnover levels and the profit levels there, despite holding on to large amount of FDs, because we were also able to increase our small packs sales this quarter. Since the FD orders were not getting dispatch faster, we were able to execute more of the small pack orders. So, the packing material etc., will be an additional which has gone into other expenses, the majority of the increase in other expenses is on account of packing material and to a small extent the freight cost also.

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

Jignesh Kamani: Just want to know on the Russia order prescribed from the Indian operation, it got delayed from first quarter to, you can say, second half. So just want to check whether the shipment has happened in the third quarter or we see that got further delay to fourth quarter?



*CCL Products (India) Limited
January 28, 2021*

Challa Srishant: No, so the Russia business and all, whatever orders that we had at the beginning of the year, everything has gotten pushed accordingly. So, whatever we were supposed to execute in the first half, that has gotten pushed by a couple of months, and the whole thing has gotten pushed also to quarter four also. There will be some spillover that comes into quarter one as well. So, the whole thing got pushed a little bit.

Jignesh Kamani: Sir, in third quarter there was an order, or the quantum was very low and probably we will see large part in the fourth quarter?

Challa Srishant: Well, third quarter, most of the impact has been because of the transport issue only. To a very limited extent, like the postponement requests that we were getting at the beginning during lockdown was significantly higher. Now slowly things are coming back to normal in most of other countries also. So, they started picking up the volumes that they had postponed in the past. But because of the logistics issues that are currently there, we are not able to supply to them on a timely way.

Jignesh Kamani: And are we facing logistics issue only on the export or on the import also, because we also import our coffee from Vietnam?

Challa Srishant: Both, we are facing issue on both exports as well as imports. Imports, what we have done is, because that is in our control and we have sufficient space to store, we have ensured that we have the coffee with us in order to take up production. So, we have managed to increase our inventory a little bit so that in case there is any sudden one-off case and some containers get delayed, it's not going to impact our production in any way. But once the product is produced, the export portion is actually in a customers' scope, because these are FOB contracts mainly, and they are also not able to arrange for the containers.

Jignesh Kamani: Understood. Second thing, MEIS got, you can say, scrapped from December and from January new scheme got introduced. So any colour on the new scheme, what was the impact on the margin or the export incentives, if any?

Challa Srishant: Frankly, that's a big question mark for us also, because the current scheme has clearly mentioned that we are not, as EOUs and SEZs are not covered under this new scheme right now. But the government has given a clarification saying that anytime you are filing shipping bills, you tick mark a certain box so that in the future when the government does give a clarification, you will be eligible for the incentive. Which means that they are considering giving some incentive, but we don't know what that is yet. So that is one reason why it's a big question mark for all of us as to how that's going to impact us. We don't know if MEIS is going to be 100% replaced by this new scheme, whether 50% is going to be replaced or whether there is zero replacement. We have no idea at this point in time.



*CCL Products (India) Limited
January 28, 2021*

Jignesh Kamani: How you are dealing with the client, because the entire benefit, as of now assuming zero benefit from the client end, and asking client to partly increase the pricing and compensate or how is the thought process right now?

Challa Srishant: So as far as pricing and all that is concerned, also we are pricing our products based on the market situation. If you look at globally, other countries, they may not have MEIS, they will have their own pricing mechanisms. For every country, depending on the competition, we price ourselves. So if we are competing mainly with other Indian manufacturers, since everyone is in the same boat, we can command a higher price. If, for instance, we are competing with a Brazilian company, then we know that whatever pricing the Brazilians are offering, we have to offer competitively. So it's a question about a case-to-case basis, how we offer our pricing.

Jignesh Kamani: And whenever it would be known, it will be effective from January or probably two, three months whenever, for example...

Challa Srishant: From January 1st is what we were informed.

Jignesh Kamani: Understood. And anything on the expansion plan, both India and Vietnam? What is the deadline right now considering because of the COVID there is some delay?

Challa Srishant: Yes, so the India plant, as we mentioned I think last time also, by the end of this financial year, the structure everything will be completed. By quarter one of next financial year, we will come into operation of the new packing facility. For Vietnam also, it's a similar situation, by the end of this financial year we should finish the installation and everything, and the final commissioning will take place in quarter one of next financial year.

Moderator: Thank you. Next question is from the line of Rajesh Kothari from Alfa Accurate. Please go ahead.

Rajesh Kothari: My first question is, what about the container availability currently? Is it the normal or it is still facing the same issues?

Challa Srishant: We are still facing the same issue. In fact, we are expecting this entire situation to continue for the next couple of months, we are trying to book containers well in advance and block space, we are trying our best to mitigate this issue that has come up. The shipping lines have increased prices, they are not honoring existing confirmed rate contracts also, they are asking us to pay the spot price. Unfortunately, that is something which the entire industry is facing, as in not only our industry but the entire food industry is facing the same problem. So we don't see an immediate solution coming for this.



Rajesh Kothari: Sure. I am talking from the export perspective, because in case if they ask for the higher price or whatever, of course, the customer has to decide what customer wants to do. So, keeping in mind that this issue is likely to continue for next two, three months, how do you see fourth quarter? Because it means that Rs. 50 crores, Rs. 60 crores whatever revenue is lost, you will do it in fourth quarter, but then fourth quarter revenue also will be lost because you have the container issue which continues. So, how do you see FY 2021?

K.V.L.N. Sarma: FY 2021, I would say that we should come back to normalcy in the next quarter to certain extent, more than 50% to 60%, because we have also changed our model and our plans for dispatches. What we are doing is we are timing our imports; we are speaking to our freight forwarders and the DHAs and we are timing our imports correlating to our dispatch schedules. Suppose I have a dispatch to, say, Indonesia or somewhere else, when I am getting containers from Vietnam or somewhere which are bringing green coffee to us, earlier there was no mechanism to time them on both ways. Now, what we are doing is we are utilizing all those import containers for reexports. Sometimes there is a transshipment, sometimes we are able to get location to location specific containers and all that, and we were able to solve to a certain extent in that fashion. Now that we have an experience on this particular method, we have increased our number of freight forwarders and discussing with them to organize in such a way that our imports containers are then reused for exports also, in addition to our regular bookings. This is improving the system, I would not say it has solved the system entirely, but definitely it has improved the system, and in the fourth quarter since we already have experience in this, we should be able to do much better than what we have done in third quarter.

Rajesh Kothari: What is your nine months volume?

K.V.L.N. Sarma: Volume figures, we are maintaining at the same level as it was last year, we will not be very specific on the volume.

Rajesh Kothari: So when you say nine months volume, are you saying it is equivalent to last year nine months volume?

Challa Srishant: Yes.

Rajesh Kothari: Okay. And in terms of the small pack revenue, since you mentioned that you are focusing more on small packaging revenue, at the same time if you will look at your other expenditure, it is almost up like 50%. So, are you trying to say that small pack revenue would have gone up like 50%, 60%, 70% from your mix perspective?

K.V.L.N. Sarma: No. Actually, percentages you are comparing expenditure percentage vis-à-vis revenue percentage, revenue denominator is Rs. 300 crores and expenditure denominator is Rs. 50 crores. Normally, as I have been telling earlier also that there will be a value addition of about Rs. 100



crores or so on the turnovers on value addition on the small packs. And as we go on increasing the turnover levels also will suitably increase. Of course, cost associated with packing activities only packing materials, because the primary product already is there. So obviously, when we are going in for a small pack capacity, the packing expenses will be high. Within that I think it was to the extent of about Rs. 12 crores to Rs. 15 crores packing material was accounted for.

Rajesh Kothari: Basically, what you are saying is Rs. 54 crores other OPEX would have gone up by Rs. 12 crores, Rs. 15 crores because of the increase in small pack revenue, correct?

Challa Srishant: Correct.

Rajesh Kothari: So in small cap, revenue would be how much?

K.V.L.N. Sarma: Not just revenue, it is expenditure on the packing material. Revenue could have been much more, if you broadly add another 20% on EBITDA margin and all that, on a broader ballpark figure you can say the expenditure has gone up by Rs. 12 crores on packing material and other packing expenses to the extent of about Rs. 3 crores, Rs. 4 crores. And on a ballpark figure, the turnover would have gone up by about Rs. 20 crores or so.

Rajesh Kothari: I see. And currently sir, small pack revenue would be how much of our revenue currently?

Challa Srishant: I think we have increased, I mean, let's not go into specific revenue breakup, but this year we have increased our small pack capacity on a quarter-to-quarter basis by about 40%. Yes, about 40% improvement was there on small pack capacity.

Rajesh Kothari: Sorry, I don't understand. In terms of the revenue I am saying, how much would be the ballpark small pack revenue as a percentage of your total revenue, 20%, 15%, 10%, any ballpark number?

Challa Srishant: Percentage wise the small pack capacity would be approximately about 15% to 20%.

Rajesh Kothari: That is basically for third quarter of for nine months?

Challa Srishant: Third quarter.

Rajesh Kothari: Okay. And sir, last year in terms of MEIS incentives, what was the total incentives received for the full last year, FY 2020?

K.V.L.N. Sarma: Rs. 33 crores.

Rajesh Kothari: So basically what you are trying to say is that even if one doesn't receive the EMIS incentive, let's assume zero MEIS incentive, then how do you see the margins as we move into the next year, hopefully situation becomes normal?



*CCL Products (India) Limited
January 28, 2021*

K.V.L.N. Sarma: See, as on date the scheme is not there, but there is an accumulated arrears of about Rs. 28 crores on MEIS, which we are eligible for further exports that have already been done. So, we are expecting to realize at least some part of that during the fourth quarter. So, to be very honest on the export incentive aspect, we are not very clear at this stage, because we have realizations available, but the portal is not ready to accept the applications, because it is a process where I have to upload an application and get this trip abroad. So currently, it is not operating. We are hoping that once there is a clarity on this new scheme, the portal gets updated and we will be able to realize it. In any case, next two to three quarters we should be realizing approximately Rs. 28 crores of accumulated MEIS benefit.

Rajesh Kothari: Got it. Sir basically as we move into the next year, as we move into the normal year, how do you see in terms of the capacities, in terms of the production, how do you see FY 2022? Do you think like earlier in the conference call you are talking about possibility of roughly 32,000 tonnes to 35,000 tonnes possibility in FY '22, how do you see the environment now in terms of the volumes for next year?

K.V.L.N. Sarma: The production capacities are there, currently order book position looks to be comfortable for those quantities. And by the first quarter, we should begin completing the line balancing in our Vietnam plant and we will have the capacity. So on the production and on the order book position we are not anticipating any major hurdle as of now. But as we experienced all through this year, several things are coming up. So, currently, we are not envisaging any major hurdle for either production or order book position or for that level of operations.

Rajesh Kothari: I see. So basically you are targeting around 35,000 which basically we are mentioning.

K.V.L.N. Sarma: Should be doable.

Rajesh Kothari: And the margins, assuming zero MEIS, because anyway these are one-time thing, after one year there will be no arrears. So on a normalized basis, without considering MEIS margins, considering increase in small pack revenue, can you tell us in terms of the margin how it will look like?

K.V.L.N. Sarma: See, Rs. 28 crores anyways have to be realized. If you are speaking about new scheme, perhaps in some point of time we will get that exactly.

Rajesh Kothari: No, I am saying before MEIS incentive, because anyway that Rs. 28 crores will not be recurring in FY 2023, correct, because it is a one-time thing, whatever the arrears you will need, that's fine. Let's assume it is zero MEIS incentive in the new scheme.

K.V.L.N. Sarma: By that time, we would be very clear about the new scheme and whatever we are going to get it, or at least a clarity that we will not get anything on that. And secondly, in the meanwhile we will



*CCL Products (India) Limited
January 28, 2021*

also try to push our prices because many of our existing contracts we have taken MEIS benefit in the costing also. So with some of those customers we were sharing this and so we will be able to push back into those customers prices. Plus, during this period, during the next one or two years we will be completing our packing projects and we will be doing value addition. So of course, MEIS if you are saying it is zero, it should be zero. But we will not go down substantially because we are adding capacities, we are adding value addition prepositions also in the next two, three years.

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

Nitesh: So, basically my question to Srishant is on the performance of the India operations. So, I mean, despite doing Rs. 350 crores odd expansion in FDC plant in India, for the nine months the revenues for the India operations are down, they are like Rs. 570 crores versus Rs. 650 crores last year nine months. And whereas the consolidated revenue is flat, so the growth has come from the Vietnam operations. Now, the question here is, Srishant, when do you see these Indian operations coming back to the growth plan? It could be because of the container shortage, it could be because of some COVID related disruption in the FDC unit, but when do you see a Rs. 225 crores, Rs. 240 crores type of revenue run rate for the Indian operation? This is my question number one.

K.V.L.N. Sarma: I don't think we have ever seen Rs. 250 crores from Indian operations till date.

Nitesh: Rs. 225 crores.

K.V.L.N. Sarma: Rs. 225 crores also...

Nitesh: We have done that in the past.

K.V.L.N. Sarma: Okay, last quarter.

Nitesh: See, if I see the revenues of Indian operation, for March 2020 it was Rs. 170 crores, Rs. 176 crores then Rs. 205 crores. And then again in this quarter, I was expecting that it should be near the previous run rate of Rs. 220 crores, Rs. 225 crores, but again it came in at Rs. 185 crores. So, something is fundamentally wrong here or these are like some short-term container related disruption or something else, I want to just figure it out.

K.V.L.N. Sarma: If you can add this dispatch quantity of about Rs. 50 crores or so, we will be in that range only.

Nitesh: Okay. So, should we assume that, I mean, if this container problem gets resolved, then in Q4 we will be hitting this kind of run rate?



*CCL Products (India) Limited
January 28, 2021*

- K.V.L.N. Sarma:** We should, obviously.
- Nitesh:** Okay. And secondly, would you still believe or reiterate the guidance which you had given in previous quarters of about 10% volume growth for the company as a whole? Would you believe that it is doable or would you, I mean, revise it downwards because of the problems?
- K.V.L.N. Sarma:** No, as far as the volumes whatever we are looking at, we are quite confident that we can achieve it, subject to these aspects being in place. So, there are a couple of things which are currently not in our favor, that is ensuring that the product gets dispatched in a timely manner and all that. In spite of all the postponements and all that, we have seen a better off take that is coming from Vietnam. With all these changes, we are quite confident that we should be able to achieve that volume growth. But unfortunately, I am not 100% sure how it's going to get reflected in our books this year. Because one factor that we had gone on an assumption while giving our projections was, that whatever is the MEIS amount that we are eligible for, we will get it in a timely manner. That is something which has not happened till date, there is almost Rs. 28 crores of backlog which is there which is still new to us. Secondly, from January 1st onwards also we have no clarity as to what our eligibility is going to be. These two factors are definitely going to impact the top-line also partially and the bottom-line also will definitely get impacted with these two main factors. As far as the general operational performance is concerned, we are fully on track with respect to that.
- Nitesh:** Okay. And can you share what was the capacity utilization for the India operations as well as Vietnam, for both FDC and the Duggirala, as well as Vietnam during the quarter? Approximately capacity utilization, was it 60%, 70%?
- K.V.L.N. Sarma:** Vietnam, we utilized to the extent of 90%. In our FDC plant in also we were able to utilize to the extent of 80% to 85%. In our Duggirala plant, about 60% to 65%.
- Nitesh:** All right. And I have one last question on the same, I mean Indian operations. So, the EBITDA margin for this particular part of business is like quite volatile, for example, for last year last quarter it was around 30% and then 28%, then 20% then 21% for last couple of quarters. So, assuming that there is no MEIS benefit, okay, what could be the steady state EBITDA margin one should assume, given the proportion of spread in FDC and also the small pack strategy which you are following up? So will it like 20%, 21% type or 25% type?
- K.V.L.N. Sarma:** 25% is possible because substantial quantities of FDC was withheld with us, that is not reflecting. Once the FDC gets dispatched then it will revert to the last year's figure of about 25% or so.
- Moderator:** Thank you. The next question is from the line of Lokesh Manik from Vallum Capital. Please go ahead.



*CCL Products (India) Limited
January 28, 2021*

Lokesh Manik: My question one was on coming back to the other expenses, like a lot of participants mentioned that there is a jump of about Rs. 20 crores and you attributed a majority of that part to the increase in the small pack mix in the revenue. But just some clarification on whether we were not able to pass on that cost to the customer because our revenue was flat Y-o-Y, slightly 2% down and the expense is up Rs. 20 crores.

K.V.L.N. Sarma: See, while analyzing this particular part, you have to take into account the un-dispatched quantity also, the turnover levels we were able to maintain because of the small pack capacity, and small packs are also profitable business. So, if you add, say, about another Rs. 30 crores, Rs. 40 crores of freeze-dried that we would have dispatched in the normal course, then obviously the actual position would have got reflected.

Lokesh Manik: Okay. So, you booked the expenses upfront and a part of your sale is still lying in your inventory, which will not require that expense in Q4, is that a correct understanding?

K.V.L.N. Sarma: In respect of freeze-dried product, since there are no small packs things, small pack expenditures have come in the other expenses. Only manufacturing expenses we account for taking the value of the closing inventory. So, that is how there will not be any small pack cost attributable to the finished FDC.

Lokesh Manik: Understood. And in Q4 this should not occur, right?

K.V.L.N. Sarma: Obviously. If we are increasing small pack capacity...

Lokesh Manik: Yes, on a like-to-like basis.

K.V.L.N. Sarma: That will be there, but there will not be major variation, you are comparing vis-à-vis other expenses exclusively?

Lokesh Manik: Right, right.

K.V.L.N. Sarma: Once this product gets dispatched, that variation will not be there.

Lokesh Manik: Okay. Understood. Sir, second question was on the branded business side, the B2C business, just if you can provide some update on how that is progressing in Q3 and what changes you have seen after the pandemic and after unlocking just in terms of since we started, we were mainly focusing on below the line activities, we were heavily involved in wet samplings, as I understand, during the lockdown that would have come to a standstill. So, how has that marketing happened?

K.V.L.N. Sarma: Today because of a very important meeting, Praveen could not join the call, so I will explain to a large extent on his performance. Till the third quarter end, the domestic marketing, including



some billing that has to be done from the parent company, APO, army purchases, organization, etc. will be billed from a parent company. On a mass level, domestic market achieved about Rs. 105 crores turnover, of which approximately about Rs. 70 crores are on branded business. We are seeing an encouraging trend in the branded business, both on e-commerce and the general trade also. So, in-house consumption looks to be increasing continuously. While we are not able to reach to our desired improvement in the institutional business, since offices, everything, many of these are closed, the institutional business has not increased, so the entire increase, whatever has been there during this quarter has come from small packs only. Looks to be encouraging for this year.

Lokesh Manik: Alright. And the ad expenses, are they still continuing?

K.V.L.N. Sarma: The committed expenditure of approximately Rs. 14 crores for the year will be met during this year also.

Moderator: Thank you. Next question is from the line of Dikshit Mittal from LIC Mutual Fund. Please go ahead.

Dikshit Mittal: Sir, my question is on volume, at least production volume growth that you have mentioned that you can still get around 10% growth this year. So, that leads us to around 26,000 tonnes of production. And for next year you are guiding for 35,000 tonnes. So, what gives you the confidence of such a large jump next year, going from 26,000 tonnes to 35,000 tonnes? Do you have any firm orders in hand or on what like basis are you projecting this kind of growth?

K.V.L.N. Sarma: 35,000 tonnes is the current installed capacity we have, next year we will be getting another 3,500 tonnes on board. So, normally our aim will be to reach to a utilization levels of about 80% to 85%. So, that should be in the range of about 33,000 tonnes plus. The 35,000 tonnes that was mentioned was on the installed capacity. Of course, there is a provision for better top-line, because we will be increasing our granulation capacity as also our small pack capacity.

Dikshit Mittal: But sir, still, going from 26,000 tonnes to 33,000 tonnes, that's around more than 25% volume growth. So, do you have firm orders in hand for that kind of growth?

K.V.L.N. Sarma: Yes, we have. See, in Vietnam we are feeling an inadequacy of capacity that is why we have expanded the capacity. In fact, we just did the line balancing and expanded the capacity, in fact, customers are also premium customers. So we are expecting that we will be able to utilize the capacity to a larger extent with better margins as well.

Dikshit Mittal: Okay. And lastly, you mentioned that first nine-month volumes are basically flat year-on-year. And if I just roughly see, around Rs. 50 crores of deferred sales, so that translates around 1,000 tonnes of volume that has been pushed to Q4. But still for a 10% growth we need to do around



*CCL Products (India) Limited
January 28, 2021*

8,000 tonnes kind of volumes in Q4. So is it possible based on current visibility that you have in Q4?

K.V.L.N. Sarma: Volume increase is there already, it may not be 9,000 tonnes but let's not go specific into the volume figures as of now, you yourself have a lot of fingers with you. So, we should be able to do. Because last year also we were holding substantial stocks which we have liquidated during this year. If you see our last year closing stocks also, we were holding substantial stock. With all this, we still expect that we should be able to achieve on the volumes.

Dikshit Mittal: Okay. And sir lastly, just a small clarification. So whatever incremental volumes that have been pushed forward, so gross margin will flow to the PBT level, right, because you have booked most of the expenses in this quarter itself?

K.V.L.N. Sarma: Yes, true.

Moderator: Thank you. The next question is from the line of Nikhil from SIMPL. Please go ahead.

Nikhil: Just three questions, sir. One is like, you mentioned that because of these delays with the containers and which is a global thing which is happening, just wanted to get a sense that because on our order book filling for next year, because what I understand from the previous calls is like by Q3 or Q4 of year we start booking our capacities for next year. So, is there any ramification of this whole issue which is happening on the future order booking? Or you are still comfortable with the order bookings?

K.V.L.N. Sarma: No, I would say, there is no impact on the order book, because there is no reduction in the coffee consumption. It is only a logistics issue, which our clients are also trying to solve along with us. So, as I told you earlier, most of these contracts are on FOB basis, so in some cases where they are desperate for the stock, they are paying more freight, in fact sometimes even double the freight also and getting the containers. So the next level of activity, both for our customers and us, will be to find out a mechanism of regulating the logistics. But the consumption per se of the coffee has not decreased, so there is no effect on the order book position as such.

Nikhil: Okay. Second, you mentioned, Rs. 70 crores of the India branded business, that is for this quarter or for nine months?

K.V.L.N. Sarma: For the whole nine months.

Nikhil: Okay. And lastly on the Swiss facility, I think till second half we were getting a good order book there and the business was showing up with the changes we have brought, if you can just share any thoughts over there, have we added more clients or how is the future looking over there now?



*CCL Products (India) Limited
January 28, 2021*

K.V.L.N. Sarma: Trading activities at our Switzerland plant have improved. In fact, during this year they were able to do some profitable operations. Of course, right now perhaps we must not have added any new retail chain as such, for getting into new retail sales a minimum of two years supply experience has to be there into that market, which we have covered during this year. So, from next year onwards, we should be able to get additional supermarkets online which will substantially improve, that is the very reason why we are also augmenting our packing capacity to meet all that requirement.

Nikhil: Okay. And just one clarification, sir on domestic branded business, as I understand, in second half we were talking that the branded business itself could be like Rs. 125 crores or Rs. 130 crores range. Has there been some slower off take in third quarter?

K.V.L.N. Sarma: No, Rs. 125 crores to Rs. 130 crores are total domestic business, which includes private label, institutional business and branded together, along with army purchases. Now that I mentioned Rs. 70 crores only on the branded business, we are continuing with our institutional and private label business. Sir, the total domestic business for the third quarter is about Rs. 105 crores and against Rs. 125 crores or Rs. 130 crores, the relevant figure could be in the range of about Rs. 140 crores or so.

Challa Srishant: In other words, there is an upward guidance that we are given for the domestic market compared to what we had given at the beginning of the year.

Moderator: Thank you. Next question is from the line of Dhiral from PhillipCapital. Please go ahead.

Dhiral: Sir, have we seen any recovery in freeze side business?

K.V.L.N. Sarma: Dhiral, there has been no major debt into the business for a recovery.

Dhiral: Okay. But sir, this we have seen higher offtake of spray-dried, right?

K.V.L.N. Sarma: Correct.

Dhiral: So, have this spray-dried business recovered?

K.V.L.N. Sarma: A higher offtake of spray-dried business is mainly on account of our Vietnam operations going to the full capacity. And better offtake in the domestic market or army purchase organization. These things have added into the spray dried.

Dhiral: Okay. And sir next year for the incremental capacity expansion that we did in Vietnam, what kind of capacity utilization we are expecting?

K.V.L.N. Sarma: We are expecting about 70% to 75% on the expanded capacity.



- Dhiral:** Of 3,500 tonnes, right?
- K.V.L.N. Sarma:** Correct.
- Dhiral:** And sir, with this small pack capacity coming onstream from next year and freeze-dried business also getting some kind of a recovery, do we see EBITDA margin ranging between 26% to 28%?
- K.V.L.N. Sarma:** Too early. Without even getting the plant operational should we be commenting on that? Let's maintain that. The current levels of 25% will continue. Yes, there is a potential when we operate the small pack capacity, the value addition vis-à-vis the EBITDA margins are definitely likely to increase. On the expanded capacity in Vietnam, it will be a normal EBITDA margin, because there is no value addition, there it is a bulk only.
- Dhiral:** Okay. And sir, one of your competitors have seen some kind of volume and pricing pressure because of the lower demand in the European market because of this intermediate lockdown. So, have you also seen that kind of an impact in our business?
- K.V.L.N. Sarma:** I don't know how competitor has given such an impression, but for us the volumes that we are doing, we have not been impacted as such. You have seen our Switzerland facilities operations have improved over the last few quarters.
- Dhiral:** Okay. And sir, lastly, what kind of B2C guidance you are giving for FY 2022, this year we may end at around Rs. 135 crores to Rs. 140 crores, so can we see 25% to 30% growth even next year with cash breakeven?
- K.V.L.N. Sarma:** Let Praveen return and he will commit on it. Today Praveen is not available, so on his behalf I would commit un-hesitantly. But it is him who will comment on it.
- Moderator:** Thank you. The next question is from the line of Kaushal Shah from Dhanki Securities. Please go ahead.
- Kaushal Shah:** Sir, just one clarification needed on the EBITDA margin, that was discussed during some questions some time back. Sir, if we for a moment presume that MEIS benefits will be reduced going forward, or in a worst-case scenario, even kind of completely done away with, what will be the sustainable EBITDA margin for us without the MEIS benefit?
- K.V.L.N. Sarma:** See, we have also introduced premium products during this year, like cold brew sales and all that. And along with that, when we bring our packing facility into operation, it should at least sustain whatever loss has been there, if at all there is no MEIS benefit at all, it should sustain that 25% or 28% level un-hesitantly.
- Kaushal Shah:** Okay. So, what you are saying is that 25% is kind of possible to maintain?



*CCL Products (India) Limited
January 28, 2021*

K.V.L.N. Sarma: For the coming year, at least for the year 2022 since we are hopeful of realizing all those Rs. 28 crores, which is an accumulated benefit as existing today, it should be almost in the range of what we were getting on a yearly basis. So, 2022 we may not be impacted largely on account of MEIS, because we are an accounting it on a cash basis and we will be realizing it. By 2023 we should have been better placed on our packing facility and our additional capacities and all that. So we should be able to absorb if there is a loss on account of MEIS.

Kaushal Shah: So even in that scenario, sir, in 2023 when our Vietnam additional facility will also be well utilized, we will have the packing in place, even our FDC as well as Duggirala will be well utilized. So, in your opinion, even if we, in a worst-case scenario exclude the MEIS, CCL can sustain a 25% kind of a margin is possible?

K.V.L.N. Sarma: At least current level of operations is possible even without that.

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

Jignesh Kamani: For the distribution reach in the branded business, we were close to around 75,000 outlets in the second quarter, any color at what level we are right now? And what kind of loss we will incur on the banded business this for the full year?

K.V.L.N. Sarma: Currently the loss on domestic market is marginal. At this stage there is a margin of Rs. 1.2 crores, we should be breaking in on the domestic operations in the current year.

Jignesh Kamani: Understood, sir. From next year it will be profit making, right?

K.V.L.N. Sarma: Next year should normalize, should be profitable.

Jignesh Kamani: Understood. And the distribution outlet?

K.V.L.N. Sarma: Outlets, currently I think we are covered into 75,000 outlets. Exact information Praveen might be able to give, it is not there with us as of now.

Jignesh Kamani: And some of the premium product, how is it accepted in the market? Like we are working on the cold brew with some of the client in U.S., and hopeful that it can ramp up to close to 100 tonnes this year, maybe 500 tonnes next year. So how is the response from some of the clients in the cold brew and premium products?

Challa Srishant: In the export market you are referring to?

Jignesh Kamani: Yes.



*CCL Products (India) Limited
January 28, 2021*

Challa Srishant:

Yes, so the response has been really good. So in fact, cold brew, I don't know if you have seen, Trader Joe's has launched a cold brew, instant cold brew product in their supermarket shelves. So we are doing everything in the small pack, we are giving them the final finished product that is being put on the shelf. So they are the first ones in the U.S. to launch this in the retail segment. And the response has been exceptionally good over there. They have already taken substantial volumes in last calendar year and they have already signed the contract with us for this current financial year as well. Seeing the response in the U.S., we have started getting inquiries for the same products, similar quality from other countries as well, including Europe, Russia, and other places. Fortunately for us, because we have the first mover advantage, anybody else who tries to get into this segment will take a minimum three to five years with the substantial investment to get into this segment. Because we have that first mover advantage, we are trying to create a new market segment, and this is also giving us entry into new customers as well.

As you already know, instant coffee business is a very sticky business and it's not very easy to convince a customer to transition from their existing supplier over to us. We are now able to do that by showcasing the range of products that we have, and saying that nobody else can supply you this product, if you want to have the first mover advantage in your territories, then you have to come to us. So that strategy is working quite well for us. So that's one of the reasons that the volumes in that segment, the premium segment, is also growing. Absolute volumes are still small, because we just launched last year, but it is growing quite rapidly.

Jignesh Kamani:

On the U.S. segment, since last one, one and a half year we started getting into small volumes, if I recall, with the help of our partners. Any colour how this business is going?

Challa Srishant:

Well, volume wise, we have almost doubled the volume that we have done in the U.S. market in the last one year itself, compared to what we were doing for the last 15, 20 years. So things are moving positively in that segment. So whatever is the volume growth that we are seeing also is mainly coming from the U.S. segment as well.

Jignesh Kamani:

And there we will continue to support, you can say, partner at better payment terms and higher receivable terms for the time being, right?

Challa Srishant:

Yes, currently the agreement that we have in place with our associates over there is that we will give that extended credit and all that. But they are giving us a guarantee that there will not be any issue of bad debts or unrecoverable amounts and all that. So from our side, we were okay with this arrangement, because that will enable us to capture more volumes. Especially when you are targeting supermarkets and all, it's a standard policy for asking for 60 days to 90 days payment terms by supermarkets and all of them. And considering the lead time from supply onwards, we have to give them a little bit of extended credit for that market. But we are perfectly fine doing that, because that's enabling us to increase our volumes.



*CCL Products (India) Limited
January 28, 2021*

Jignesh Kamani: And probably I think next year based on the order visibility, everything, you will be hitting almost maximum capacity both at India and Vietnam. And Vietnam, I think we have enough infrastructure to double the capacity, any plan to double it? Because at least it will take nine months to 12 months' time.

Challa Srishant: Yes, we are loving that as well. With the current enhanced capacity for next year, we will have sufficient volumes in place. But we have already initiated steps to look at further enhancing the capacity in Vietnam for the subsequent financial years.

Jignesh Kamani: And that will be at much lower cost than the greenfield because many of the infrastructure is already in place?

Challa Srishant: Yes, because the infrastructure is already in place. It's only the equipment installation that has to be done. A lot of the equipment we have the capability of building in-house as well. So we will be able to do the plant also at a significantly lower cost than what it would cost another person to do it.

Jignesh Kamani: Understood. And that will be, again, a large-scale bulk operation as we are doing right now or probably similar to India where we do small pack and a small, small basis also when you double the capacity at Vietnam?

Challa Srishant: We are also considering doing maybe a little extent of small packs also from Vietnam, because we have been getting some inquiries over there also, we thought we will just experiment in a smaller scale. Because the certain customers are very particular that they want product directly from Vietnam only. So for those customers we have anyway put some space aside for that expansion, we are not going to be spending any substantial amounts, but initially we will test the markets for small packs from there. Our primary small black market is going to come out from India itself.

Jignesh Kamani: Understood. My last question on the U.S., there is a lot of substandard equality they get from Mexico and other things. And earlier as you said there was a U.S. regulation already got in place, I can say executed, but implementation was very weak in that part. With change of government, do you think there is a scope that there will be much more restriction on Mexico and Brazil you can say in the wake of it which can benefit us?

Challa Srishant: So one thing that we have seen is, irrespective of which government is there, U.S. doesn't grow coffee nor does it manufacture any coffee internally. So they import almost everything from different parts of the world. So the U.S. does not plan on putting any restrictions when it comes to coffee. So whichever government is there, actually the original FSMA guidelines were introduced by Obama, and then subsequently the implementation was supposed to be done by the Trump Government. They did not strongly implement it, but they did give indications saying



*CCL Products (India) Limited
January 28, 2021*

that they might implement it. Which is why most of the big corporates, they did not want to take a risk. Though there is nothing restricting them, they have consciously decided to transition over from the non-coffee's over to pure coffee, which is also why we got an opportunity to enter that market. And that's also one of the reasons why our volumes are growing. Now that some of the big players have started doing this, everybody is getting jittery saying that, okay, these guys are getting geared up to take on any strong implementation by the government. So the others are also slowly falling in line, which is why we are getting more and more inquiries in that market. But in reality, what is happening is, yes, the same type of products that were being imported in the past, they are still being imported, though that volume has started to come down now.

Moderator: Thank you. Ladies and gentlemen, due to time constraints, that was the last question for today. I would now like to hand the conference over to the management for closing comments.

Challa Srishant: Thank you all for joining us and this Conference Call. Looking forward to speaking with all of you during the next conference call after our Q4 Results are out. Thank you.

Moderator: Thank you. On behalf of YES Securities, that concludes this conference. Thank you for joining us. And you may now disconnect your lines.