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Operator

Thank you standing by and welcome to the CCL Products India Limited Conference Call presented by Mr. Akhil Parekh from Nirmal Bang Institutional Equities. At this time all participants are in a listen-only mode. There will be a presentation followed by a question-and-answer session [Operator Instructions] Please be advised this conference is being recorded today.

I would like to hand the conference over to Mr. Akhil Parekh. Thank you and over to you sir.

Akhil Parekh

Thanks Basu. Good afternoon everyone. On behalf Nirmal Bang Institutional Equities, I welcome you all for CCL's Second Quarter FY 2018 Conference Call. We have with us management of CCL, which is Mr. Srishant, Managing Director; Mr. Sarma, CFO; Ms. Sridevi, Company Secretary; and Mr. P.S. Rao, Consultant Company Secretary. So without much time, I will hand it over to management for the opening remarks, post which we will have Q&A session. Over to you Srishant.

Challa Srishant

Yeah, thank you. The company has achieved the turnover of Rs.296.63 crores, the EBITDA is Rs.57.91 crores, the profit before tax is Rs.47.21 crores, and the net profit is Rs.33.53 crores for the second quarter. For the half year ended 30 September 2017, the company has achieved the turnover of Rs.544.61 crores, the EBITDA is Rs.106.17 crores, profit before tax is Rs.85.38 crores, and the net profit is Rs.50.57 crores. Any questions, we can take them up now.

Question-and-Answer Session

Operator

Shall we open the line for Q&A?

Challa Srishant

Yes, please

Operator

[Operator Instructions] First question comes from Jignesh Kamani from GMO. Your line is unmated.

Jignesh Kamani

Hi, Srishant and entire team, congratulations for a good set of numbers.

Challa Srishant

Thank you.

Jignesh Kamani

Srishant, I just want to know update on the Vietnam plant on the agglomeration capacity. Is it commissioned now and what is the status and setting up customer from the India to Vietnam for this capacity?

Challa Srishant

Yeah, it has already been commissioned last month itself. And now, we are in the process of doing this transition.

Jignesh Kamani

Okay.

Challa Srishant

And this quarter onwards, we will start supplying to this customer from Vietnam only.

Jignesh Kamani

Okay, so, do that extend or there will a value-added capacity available in India, which can be utilized?

Challa Srishant

Yeah, exactly.

Jignesh Kamani

Okay. And last quarter [indiscernible] which put pressure on this product industry and the capability.

Challa Srishant

Yeah.

Jignesh Kamani

How is the current status on the utilization level?

Challa Srishant

It's more than the same. That's why as you can see that our same strategy what I mentioned last time...

Jignesh Kamani

Sure.

Challa Srishant

We are implementing that. And that's why we have seen that volume growth also...

Jignesh Kamani

Sure.

Challa Srishant

And that's along with some green coffee prices increases to further 4%, so turnover went up a little more. But otherwise if you look on us on a six months basis, the bottom line also is on par with what we had come with it.

Jignesh Kamani

So till what time we expect this competitive pressure will remain intense?

Challa Srishant

To be frank we are expecting this to be there year-on-year, what – one of those significant positive contributors for us in the future will be won the – from next year and the branded business two, three years down the line. These two things have started giving more positive contribution, but the current pressure will definitely be there. The instant coffee market is growing globally at the rate of about 2.5% year-on-year. We're I think one of the only companies in the world that's growing at the 30% rate of growth.

Jignesh Kamani

Sure, and one accounting, what kind of export density we book this quarter?

Challa Srishant

We did about Rs.7 crores this quarter.

Jignesh Kamani

Okay, thanks a lot. If I have a question, I will come in queue.

Challa Srishant

Sure.

Operator

Thank you, Jignesh. [Operator Instructions] Next question comes from Abhijit Akela from IIFL. Your line is unmuted.

Abhijit Akela

Good evening, thanks a lot for taking my question. So just picking on the comment you made a minute ago, regarding the volume growth and the price increases is it possible to just break down, how much of this quarter's growth was because of volumes and prices.

Challa Srishant

Actually it is a little difficult to explain, but if you compare to last quarter, maybe about 10% to 15% is increased in green coffee price.

Abhijit Akela

Okay, just from 1Q to 2Q.

Challa Srishant

From Q2 of last year, to Q2 of this year.

Abhijit Akela

Okay, I understand. I got it. And we have seen a decrease in the gross margin. The raw material cost as a percentage of sales has gone up. So is that because of the increased competition or ...

Challa Srishant

That is the same thing what we had mentioned last time also, because of not an increased competition because of us wanting to addressably fill our production capacity to have better utilization. So we are pricing ourselves also more aggressively in the market.

Abhijit Akela

Understand. And so, and then on the other expenses there has been an increase compared to last quarter, it has gone up from about 37 crores to 52 crores. What would that be due to?

Challa Srishant

The other expenses, I think most of them are CSR expenses and little bit of marketing expenses, we had some BDL activities and all that we had done recently. So both these things combined.

Abhijit Akela

Okay, is it possible to just tell us how much the CSR expense was this quarter.

Challa Srishant

We will just tell you one moment.

Abhijit Akela

Thank you.

Operator

[Operator Instructions] Next question comes from Ankit Agarwal. Your line is unmuted.

Ankit Agarwal

First of all, I just wanted to understand, if I look at globally the consumption of soluble coffee, then the trend in larger markets like Russia, U.S. et cetera the consumption of soluble coffee is coming down. So do you think that is the reason possibly why, you are going sort of cautious on your expansion especially in Vietnam and all.

Challa Srishant

Actually throughout the developed countries from instant coffee people are moving to other products as well, where the population reduction in several countries as well which is resulting in de-growth in instant coffee consumption at certain regions. But developing countries the coffee consumption is actually increasing.

Ankit Agarwal

Sir how have you kept instant coffee market for players like us, especially in markets like China and Philippines where the consumption [indiscernible] Sir how have you seen the trend or to the

market for us especially in markets like China and Philippines, where the consumption of coffee, instant coffee is going up.

Challa Srishant

These are markets which are still emerging markets. To be frank our volumes are not extremely high over here. In the existing established markets that you were referring to – actually the US market and the Russia market and all these markets, they are currently consuming close to something like 80,000 tons per country.

So it is like U.S. would be close to 80,000 tons, Russia will be maybe in the range of 45,000 to 50,000 tons. Europe again is similarly quite large with about 60,000 tons, 70,000 tons. So considering this kind of a volume consumption that is taking place over there, there is still a large portion, a large area where we can tap into, which is also one of the reasons why in these existing markets our market share is still growing.

We are still very small, if you look at the instant coffee consumption in the world. So there is still a good potential of growth.

Ankit Agarwal

In spite of markets like U.S. where the consumption has gone down below I think almost close to 5% of soluble coffee.

Challa Srishant

Actually, it is not 5%, it is closer to 1% or 2% reduction, which is there in soluble coffee consumption. But that also the single serve segment in soluble coffee has picked up substantially. The roast and ground segment has also picked up, cold brew has picked up in the U.S. So overall, coffee consumption has actually gone up. It is one segment, which has come down. What we are also doing is we are tapping in to multiple segments. We are not restricting ourselves only to instant coffee.

Ankit Agarwal

Okay. And sir, just want to understand on the Vietnam there was earlier a plan. So just to understand the current capacity we have around 10,000 tone of spray dried capacity there and 5,000 tone of liquid which is convertible to 2,000 tone of solid capacity.

Challa Srishant

Yeah.

Ankit Agarwal

So sir, we had earlier a plan of adding another 10,000 tone.

Challa Srishant

Yeah.

Ankit Agarwal

So when is this coming in or are we refereeing it to so the fair expansion plan?

Challa Srishant

Right from the beginning the plan was once we achieve about 80% to 90% capacity utilization in Vietnam, that's when we decided that we will go in for further expansion. Right now we are first focusing on filling additional capacity with freeze dried coffee, next year we'll be coming on line with that additional 5,000 tones. So we will have a combined capacity of what 35,000 tones of instant coffee. So our primary objective is to fill this capacity as quickly as possible. A year or two latter, that's when we'll start the expansion process of Vietnam.

Ankit Agarwal

Okay. And sir what is the status on the Swiss facility? Have we – we're seeing better traction over there?

Challa Srishant

Yes we are, in fact one of the things that we have seen is we have appointed a new Swiss Director over there and he's been able to tap into the local market quite effectively. So he's trying to establish us more strongly in these regions. So by – in fact this year itself we had given him a target of doing a breakeven in GSC. And as of now it looks like we are on track. From next year hopefully we should see a positive contribution coming in from this entity as well.

Ankit Agarwal

And sir, when we are exporting from the Swiss facility to EU we are not at any duty disadvantage, right? Sir we...

Challa Srishant

No this is – like if it is within Switzerland there's no duty as disadvantage, because there is zero duty on products from India and Vietnam. If you are supplying to EU, we are supplying usually the contract may be taken by the Swiss entity, but we are doing the transaction directly from India, Vietnam to the customers in EU, which gives us the advantage of rich – it ensures that we don't have to pay that additional duty. If we physically take a product into Switzerland, that's when the additional duty becomes optable.

Ankit Agarwal

Okay. So as of now we don't have to pay any additional duty?

Challa Srishant

Right now we don't have to.

Ankit Agarwal

Because the contract is a Swiss company and the Swiss from Swiss is not, is 0% duty.

Challa Srishant

Yes, the contract, so the duty from India and Vietnam to Switzerland is 0% duty, but if you are supplying from India to EU, like France or any of the other European countries, it is 3.1% duty. If you supply France, Switzerland through EU, it's a 9% duty. So by executing orders directly from India and Vietnam to EU, we're paying only the 3.1% duty.

Ankit Agarwal

Okay.

Challa Srishant

So though we are getting contracts through the Swiss entity, we are still doing the execution directly from Indian and Vietnam to this entity. Only smaller quantity contracts which is more profitable and all only those products we are routing through those Swiss entities.

Ankit Agarwal

Okay. And sir just one thing I wanted to understand if I look at the coffee prices, from FY'16 end, so just going a little bit back, they had almost 30%, 40% decrease to FY'17. So the coffee – but if look – our realization and revenue trend, assuming that FY'17 we did more or less similar volumes as compared to FY'16, we don't see a sharp jump in realizations in FY'17. What would be the reason for that?

Challa Srishant

We've done a substantial increase in volumes in FY – actually this is FY'18, you are asking about FY'16 and FY'17, right?

Ankit Agarwal

Yes sir, FY'16 to FY'17, I'm asking you.

Challa Srishant

FY'16 to FY'17, again there is a lot of factors assigned to them including when the contracts was entered into. So depending on the timing of the customers who have entered into the contract, at that point in time you'll have a variation that comes in because of the green coffee prices.

Ankit Agarwal

Okay, because, I mean, if I look at it the jump what almost 40%, from 2016 to 2017, [indiscernible].

Challa Srishant

40% increase in raw materials prices.

Ankit Agarwal

Yes sir.

Challa Srishant

No, no. You are talking about FY'16 and FY'17.

Ankit Agarwal

Right, right.

Challa Srishant

There is no 40% increase. I mean, coffee and [indiscernible] it was around – the hike in prices were robust, hike of prices, are around 75.6, it's around in March 2016. And even the coffee board prices if you see about...

Ankit Agarwal

Okay, okay, I understand where you are coming from. So usually so what has happened two years ago was, there was this rumor that was created in Brazil that resulted in a sharp crash in the market. So there was a huge differential pricing that got created. So normally what happens is the way the coffee market works, we have two exchanges that take care of the coffee pricing that is – one is the London market, one is the New York market.

Whatever the price which is reflected in these markets depending on actual demand and supply there is a differential basis that people can buy the coffee. When – two years ago what happened is because of certain market rumors and all that, there is a huge gap that got created, there is a apparent increase in green coffee price but the actual sale was taking place at a much lesser price.

So we don't go for that at all, we go for whatever is the market price, anybody who's there in the coffee market, they have access to this information as to what is the price that as the green coffee traders and farmers are willing to sell their coffee and that is the basis on which we do our contract as well.

That's why it may appear that there is a 40% variation but in reality, the green coffee for 2016 and 2017 was more or less on parcels, there is only a slight variation and our volumes also more or less the same, which is why our results also came up the way the result.

Ankit Agarwal

Great, and just to reconfirm so we are maintaining the guidance of 15% to 20% volume growth and a 10% bottom line growth for FY2018.

Challa Srishant

Volume growth will be more than 20% is what we had revised ourselves, and bottom line we are saying we are within 10% to 15%.

Ankit Agarwal

Okay, thanks. I'll come back in the queue.

Operator

Thank you, Ankit. Next question comes from Nitin Gosar from Invesco Mutual Fund. Your line is unmuted.

Nitin Gosar

Hello, good afternoon sir. Just wanted to check your earlier comment where you mentioned the competition is increasing, would you mind highlighting whatever you are talking in terms of magnitude?

Challa Srishant

We are talking in terms of?

Nitin Gosar

Magnitude of this competition how big it is going to be?

Challa Srishant

Magnitude data?

Nitin Gosar

Yes.

Challa Srishant

No, we are talking about the global competition what we are talking about.

Nitin Gosar

Yeah, I think you mentioned earlier reference to the competition because of which the...

Challa Srishant

Yeah, I was mentioning earlier that one of the questions that was asked is what was the main reason for the provision and strategy, from this year onwards what I have mentioned earlier also, last quarter also I had mentioned this. So that there are a number of changes that are taking place in the global markets, one of them being that's a number of manufacturers has increased which is making competition a bit more fierce in this market, when we want to grow at a disproportionate rates to the market growth, one of the ways that we can achieve the desired result is by being very competitive in the market.

So what we have done is in order to achieve more than 20% volume growth in this year, we have sacrificed our margin to an extent and that coupled with another factor that in increased expenses in the domestic market. These two things put together we have revised our guidance to 10% to 15% in this year.

Nitin Gosar

And the past conference call you have highlighted that right now, our strategy would be to fill in all the orders as best as possible for this 5,000 ton incremental capacity that is going to come up in 2019?

Challa Srishant

Yes, one will be filling that additional capacity as quickly as possible in this year plus next year also we want to focus on volume growth and filling that additional capacity also as quickly as possible, which is also one of the reasons why we are being very aggressive in the market this time, impact last quarter also I had mentioned this that in order to get entry for certain companies we have to be aggressive in our pricing this year.

Nitin Gosar

Okay, and you had mentioned that in terms of aggression you mean the spray dried will be at a lower price and freeze dried may not be meaningfully at a lower price, is that a right way to?

Challa Srishant

Yeah, that is correct to an extent even freeze dried, we were already presold for freeze dried in this financial year. And now we have already started selling for next financial year. So from next financial year we are seeing a little bit more aggressive even in the freeze dried pricing, because the additional freeze dried capacity that has come online in other parts of the world as well. So competition is slowly picking up in this segment as well.

Nitin Gosar

Okay.

Challa Srishant

So within the next year or two, it is in our interest to ensure that we fill the capacity to the maximum extent which is why we are being quite aggressive in our pricing both in spray and freeze for next financial year.

Nitin Gosar

Would you mind helping us to understand when player like you which is now a reasonable size goes aggressive on pricing how does it reflect the other guys, do they run into losses, do they also equally still make money?

Challa Srishant

Normally, yes, they will. They go into losses if they have to compete with us on these prices because their economy of scale will be significant lower. There are a lot of companies that have actually shut down or they're in the process of shutting down because of these reasons. In fact, one or two customers have actually, they were manufactures, they have shut down and transferred production to us instead of competing with us.

Nitin Gosar

Okay, okay. So should FY2019 be looked as a year of consolidation where in the new guys comes in and rescale, tries to bring down the price so that the fringe players they got up market?

Challa Srishant

Actually, yes, in fact, this 2018 financial year also is supposed to be a year of consolidation as we're ramping up the volumes and ensuring that we're geared up for the growth which is going to come from next year onwards. So next year with the new FD unit coming in there will be a significantly higher rate of growth.

Nitin Gosar

And in FY2019 we should be looking at good utilization of the new 5,000 ton capacity data coming up?

Challa Srishant

Yes, we're trying to ensure that we have at least about 50% utilization next year itself.

Nitin Gosar

Okay. Typically when the competition abides, or how much time it takes for the competition to abide whenever this kind of consolidation phase comes in?

Challa Srishant

There will be an immediate impact in the same year itself to be frank.

Nitin Gosar

In terms of abiding of competition?

Challa Srishant

In terms of the reaction – for competitors normally what happens is it depends on where they are positioned, depends on which category that they're positioned in and where they're facing that competition. Again, each one has their own model. Some companies which have their own brand which will help them sustain. If it's purely private label competitors then they find it that much more difficult to sustain this.

Nitin Gosar

Okay, okay. And the pricing power that right now we're shifting to them because of the excess capacity globally, this pricing power will come back by which year according to your assessment?

Challa Srishant

This pricing power, so where we're looking at it once this branding and everything takes part, then I think within the next two to three years time we should be able to get that affiliation done.

Nitin Gosar

Okay, okay. All right, sir. Thank you.

Operator

Thank you, Nitin. Next question comes from Rahul Kundanani from Mahindra MF. Your line is unmuted. Please ask your question.

Rahul Kundanani

Sir, thanks for the opportunity. I just have one question on Continental Coffee. Can you just through some light on how much business has Continental done in this quarter and what is your way with power for the same?

Challa Srishant

So Continental Coffee, for the domestic business we have managed to do about Rs. 20 crores – Rs. 30 crores. Rs. 25 crores. We have done about Rs. 25 crores in this in the first six months. And we're targeting to do around between Rs. 75 crores to about Rs. 85 crores in this financial year.

Rahul Kundanani

Yes. And what's the strategy on the same? How do you plan to do it?

Challa Srishant

Yeah. So this year our initial plan is just to do actually a couple of things. So first we're going to be introducing a couple of new brands in the market as well towards Q4 of this financial year. In the meantime, we're also doing some BTL activities and ensuring that after existence there are more retail outlets. So we're setting up for a brighter distribution network and that's also – by doing this BTL activities, the response that we've received was excellent actually.

Rahul Kundanani

Okay.

Challa Srishant

So without doing Above The Line advertising or activities we're able to actually achieve the kind of growth that we're seeing.

Rahul Kundanani

Okay.

Challa Srishant

For the brand and segment especially it's growing quite well. And once we have these things in place that's when we'll start Above The Line activities. So next financial year is when we'll be seeing a little bit power of it coming in for establishing the brand.

Rahul Kundanani

Okay. Sir, just Rs. 75 crores will in FY2018 itself? Rs. 75 crores from branded Continental Coffee?

Challa Srishant

No, from the entire domestic business.

Rahul Kundanani

From the entire domestic business. And how much would be Continental Coffee of this?

Challa Srishant

So Continental, two years ago we were in Rs. 4 crores which became Rs. 12 crores last year. This year we are targeting about Rs. 35 crores to Rs. 40 crores in the branded B2C segment by excluding institutional branded business. If you include the institutional branded business, it will go up to about Rs. 55 crores or so.

Rahul Kundanani

Okay. And then in how many states have you launched this branded Continental Coffee?

Challa Srishant

We have currently presented about 11 states right now. But our primary focus at this point in time is only in Andhra Pradesh. Other states, we started placing our products in a very slow manner. We're not doing any activities over there. We wanted to first experiment with the AC market and then it should be expanded to other regions.

Rahul Kundanani

Okay. So this Rs. 35 crore, Rs. 40 crore, how much do you see the size becoming in the next two or three years?

Challa Srishant

Remains two, three years, it should cross Rs. 100 crore easily.

Rahul Kundanani

Okay. All right, sir. That's it from me. Thank you so much.

Operator

Thank you, Rahul. Next question comes from Rahul from IDBI Mutual Fund. Your line is unmuted. Please go ahead.

Rahul Nahtshwary

Hello, good evening. Thank you for the opportunity. I have three questions. First of all, as in previous quarter you told that as a strategy will be more towards the volume growth, so that you can add more new customer than – from the new customer you might be there entire value chain right form premium product and higher value-added. So in the current quarter, how much incremental growth was from new plant?

Challa Srishant

We got at least about – that about two or three customers that we have added because of this, but these two, three customers by close to about 4,000 to 5,000 tons each in vessels are total capacity that they are nominate by year-on-year. To be managed to get entry into these companies.

Rahul Nahtshwary

Okay.

Challa Srishant

And we started with smaller volumes where we're doing when you have got 500 to 1,000 tons and all. But now that we have entry into these companies this one year, if you can establish our service well. From next year onwards, we will be able to actually bridge for the entire business. And it's unlikely that they – these kind of companies they don't normally as a policy give the entire business to any one company, this split at between two, three suppliers. So we could be one of the primary suppliers by next year.

Rahul Nahtshwary

So making your best in that you have added the 4,000 to 5,000 tons is for two to three customers, and going forward they would be expecting you to be one of those two to three level major business to come. How much capacity would be coming? How much volume of it would be there from at least these two, three customers? Just to want to understand the volume that would becoming as a delta from single customer as a sense.

Challa Srishant

Yeah. So these customers we will have to potential of supplying close to almost 7,000 or 8,000 tons to these new port customers itself. That is the quantity which will be available for us to bridge for. Depending on how aggressive we want to be. So this is something that keeps changing from time to time. So it's very difficult to predict at this point in time. But these kind of

companies unless you have an established track record, they will not transfer the entire business to you over night. So they need to have a comfort level. They need to ensure that irrespective of green coffee fluctuations you are able to supply at the contracted price.

The several manufacturers who are there across the world when the green coffee price suddenly changes, they also revised a prices. So even customers are very afraid to what companies like that which will what all of them follow simple process. They evaluate the customers. They evaluate the suppliers over a period of time and then only they grow volumes. We're doing the same thing with these people.

Rahul Nahtshwary

But that's volume that which we're especially from next one or two years they are the massive from these customers. It would be gone up basic one or it would be more towards the value-added coffee.

Challa Srishant

It's going to be a combination. So the value-added components will be around 40% of the business. The bulk business is usually around 60%. That's the usual split that is there for the customers. It may vary 5%, 10% clear in there.

Rahul Nahtshwary

Okay.

Challa Srishant

Initially any customer or any new supplier they usually risk only with the volume business, which is low margin business.

Rahul Nahtshwary

Okay.

Challa Srishant

They don't take a risk with the premium products.

Rahul Nahtshwary

Okay.

Challa Srishant

So we will be able to offer the premium products only from next year onwards.

Rahul Nahtshwary

So just to want to get that was a very good data points to 40%, 60% a peak, but as a basic coffee is that actually suppose at x the time, and if you are 60%, if it is a value-added kind of thing. So how much can that x go up to how many times to 2x, 3x, in terms of margin, because the basic coffee is a low margin product. And so value-added is like the combination, so how much margin is in terms of x can we go?

Challa Srishant

Yeah. So the 60% business I was telling you about was the low margin business and the 40% being the higher margin business. And the low margin business it's actually – if it's again in this 60% business we have again different tough categories. If you are talking about spray dried coffee, we have plan vanilla types, spray dried coffee, and you also have premium versions of this spray dried coffee. So after the 60% maybe about 20% will be the premium spray dried and then other 40% will be the volume business.

Rahul Nahtshwary

Okay.

Challa Srishant

Your volume business you will have margins between 0% to 5% usually.

Rahul Nahtshwary

Okay.

Challa Srishant

It's very difficult to get anything more from that for that type of business.

Rahul Nahtshwary

Okay.

Challa Srishant

So for more premiums trade wide business can go between 5% to even 15%, 20%, depending on what product that this.

Rahul Nahtshwary

Okay, and in both of these – and premium straight drive the cost, which is being involved is almost similar or because the still get a sense that how much...

Challa Srishant

No, actually the input cost will be different and manufacturing cost will be different, the technology and process that you use will be different as well. So one of the advantages that we have is that we have a huge range of products with us, which enabled us to off a multiple qualities to the same customers, depending on the requirements.

Now that enables us to have differential pricing depending on the product as well. Vennila type product is products, where you have a lot of competition. So with that I recommending this as scale will give us one added advantage. If any other competitor has to touch for this business will have to end up maintaining a loss over there. So that is a big advantage that we have.

Rahul Nahtshwary

And for 40% which is the higher margin, what kind of margin can we get any range type of it.

Challa Srishant

The 40% business you can have margins that go up in some cases up to even 50%, 60%, but is very where that you'll find something like that, it's very premium product but the other really specialty product, which is there. Customers are willing to pay that kind of a margin as well.

Rahul Nahtshwary

Okay. But on a general basis, because this 50% is only for the few of the premium – super premium, I can say for – general 40% basis, what kind of margin can be expected.

Challa Srishant

It's very difficult to answer that question without knowing, which product we're talking about, again, the range of product that we have, you can have a 0% to 5% margin business to even or 50%, 60% margin business. So everything depends on what product, what volumes we're looking at, there's lot of moving parts, so it's very difficult to come up with an exact number. Because everything depends on what that customer is looking for at the end of the day.

Rahul Nahtshwary

Okay. And second thing, during the current quarter – can you – how much is volume, because they're still get a same that we are in the line of 20% plus volumes.

Challa Srishant

Yeah, there's about 20% volume growth approximately.

Unidentified Analyst

For [indiscernible], okay.

Challa Srishant

Yeah, for the first half compared to last year six months, so this year's six month. So I think around 20% volume growth as well.

Rahul Nahtshwary

And for this quarter – how much...

Challa Srishant

This quarter actually would not be a fair comparison, because last year...

Rahul Nahtshwary

Yeah, I understand – was shutdown of because of the maintenance.

Challa Srishant

Yeah.

Rahul Nahtshwary

But – okay, fine. And any pricing strategy going forward, because our entire focus is on driving more customers, more volume growth. But how we would keep a balance on a price increase.

Challa Srishant

So pricing wise also like on an EBITDA basis, I'd mention that we'll be reducing our margins most of our 3% or so. So that's what we have done from last year to now. That is the average impact that is the...

Rahul Nahtshwary

Okay. So our volume will take – will offside the – how much over the pricing cut which we – at least on the bottom line income.

Challa Srishant

Yeah. So in order to – yeah, exactly, so we'll be doing additional volumes in order to achieve the targets for this year.

Rahul Nahtshwary

Okay. Any specific outlook on your specific, because from last two quarters, we were expecting the U.S. business to pickup in terms of because we are still at 2,000 tons kind of and 50,000 tons more than 3,000 ton is a market. Can you give an outlook that how additional customers, how we are trying to capture the market...

Challa Srishant

The U.S. is actually last couple of times also. There's still a lot of things which are influx at this point in time. And there's no change of the ground level, there's new legislation that has been passed, but unfortunately it's not being enforced. There's a rule which talks about economic adulteration, which has been enacted as a law. But there's no implementation that has been put in place.

Without implementation people are not incentivize to shift over. There – we're taken samples, that taken prices they're ready to shift over, but unless there's an enforcement that takes place within the U.S. it's unlikely that they're like – that they're going to shift over suddenly. We're still putting a lot of pressure on the government, we're trying to create awareness they're representing to be NCA body over there as well. So start awareness is created over the next couple of months or so. There is a potential possibility of enforcement is start taking place. They're hoping that maybe from next year onwards that volume growth should come in from the U.S. also.

Rahul Nahtshwary

What can be the conservative estimate according to – you're not just for one – but for next – still FY 2020 kind of things, we're a 2,000 ton – volumes. It can double in the next three years.

Challa Srishant

It's simple number that I can give you. See, there's a U.S. market itself is 80,000 ton market out of which about 60% of the market is economically adulterated. And out of the balance 40% market, about 30% is there – 30% to 35% is with the big France. So only less than 5% of the market that we are currently operating in, if the entire market becomes uniform we are talking about the potential ability to red spot literally 20% to 30% tons in that market. That is the size of the market that becomes open overnight.

Rahul Nahtshwary

Okay. And this is achievable in next three years time period timeframe.

Challa Srishant

Yes. There is no timeframe that we confirm, but we're hoping that within a year's time we should be able to slowly terrapin to this market.

Rahul Nahtshwary

And there is a statistic to start the U.S. market.

Challa Srishant

If this change takes place earlier than anticipated we can immediately go on for additional expansion in Vietnam and cater to this additional volume.

Rahul Nahtshwary

And how long it will take to Vietnam to make...

Challa Srishant

Eight months.

Rahul Nahtshwary

Okay, sir. Thank you so much for answering.

Challa Srishant

Yeah.

Operator

Thank you, Rahul. Next question comes from Akhil Parekh. Your line is unmuted sir.

Akhil Parekh

Hi, Srishant congratulations on a good set of numbers. Just couple of questions, one regarding the freeze dried plan in Chittoor. Could you just give the status like where exactly we stand right now?

Challa Srishant

The Chittoor plant is suppose to come into production by Q2 of next financial year and we have already started the construction work and everything and we are on track for the plant to come online.

Akhil Parekh

Okay. And how much kind of utilization level should we expect for FY2019 from this new plant?

Challa Srishant

About 50% is what we are targeting right now.

Akhil Parekh

So we are around 2,500 tons right?

Challa Srishant

Yes. We'll lose quarter one, yes between 2,000 to 2,500 tons is what we are looking at.

Akhil Parekh

In terms of order book rate, so you said we have already filled up for FY2018 and for FY2019 we are started filling it up so of the total 7,500 ton which we will be having for FY2019. How much have we filled for FY2019 for order book?

Challa Srishant

For FY2019 we've done about 30% of the capacity as of now. Yes, around 30% is already filled up. Usually in the month of November is when we start getting the order confirmation. So towards this month end hopefully that 30% should become closer to 50% to 60%.

Akhil Parekh

Okay. And in terms of demand, like last couple of quarters you have been mentioning that we are seen healthy freeze dried demand – healthy demand for the freeze dried coffee. So which geographies exactly like where are we seeing this demand right?

Challa Srishant

To be frank right across the world because freeze dried coffee is now being consumed everywhere expect in developing countries. Except India and China the emerging markets. These are markets which are still in the baby stages, so first it will start with spray dried once the consumption increases and people start understanding and appreciating coffee that's when the demand will start. So apart from this markets all other markets from U.S., Europe, Russia, CIS countries, Middle East all these regions we have very good freeze side demand. Where ever you are purchasing power is more people want more of a premium product and a better known brand, which why they are willing to pay that premium especially for coffee.

Akhil Parekh

Okay. And in terms of operating margins right, so first half on consolidated it's almost 19% plus. So would you be able to tell like, should we see similar kind of margins for rest half of the FY2018 and it maybe some improvement in FY2019 as well given that we will adding the unit in Vietnam and a freeze dried plant in Chittoor. So I mean would it would be reasonable to say that 20% of margins are achievable for next financial year.

Challa Srishant

Yes. Next financial year there should be an improvement because the freeze dried units will be coming online and we'll be introducing a lot of new premium products as well. So there should be a slight improvement from next financial year. This financial year to be on the state side we are saying 19% to 20% also, so we should be able to achieve that.

Akhil Parekh

And one last question, regarding CapEx guidance. So for FY2018 and for FY2019 would you be able to give like a rough ballpark number how much it would be?

Challa Srishant

Yes. So for the current project we're doing about Rs. 300 crore, yes, so the current as we said. About Rs. 300 crore is what we are spending. And apart from that there are no other major investments that are going to be taking place right now. So the other thing we see as – the Vietnam expansion and other \$10 million to \$15 million maybe required depending on whenever we fill that additional capacity. So if your thing walks out, we may have to fill it earlier than expected. If fillings go as per what we are anticipating, we are looking at going in for their expansion in FY2019 or 2020.

Akhil Parekh

Okay, so of the 300 crores, how have we spent already for this...

Challa Srishant

We have already spent about 100 crores.

Akhil Parekh

Okay. So 200 crores will be spread across like half of FY2018 and FY2019. Is that be fair?

Challa Srishant

Yes, that's correct.

Akhil Parekh

Okay. And so Vietnam, sir, like, so say if example, if we don't have parity from U.S. right now. So would be require any kind of expansion for like next 1.5 years, 2 years. If the further demand, then come up from U.S.

Challa Srishant

Not clearly. Right now, we don't need to go in for expansion. Because we have this capacity with us right now. Now, with techno rated capacity as well. We will be able to create at the current demand quite easily. What we are doing is that between India and Vietnam, we're managing the capacities in such a manner, so that we can efficiently fill volume on a combined basis. Once we reach that peak utilization method, that's when we would like to going in further expansion. And one thing, we don't have worry about is because of the volume strategies that we following right now, if we really get some very good profitable although from U.S or anywhere else, we can always reduced the best profitable business and created to grow all those. And by time, we coming to – like when we finish our expansion, we can get back those volumes in business as well, if we want.

Akhil Parekh

Okay. As this is Vietnam plant, would there running at approximately 65% odd pass in utilization level, right?

Challa Srishant

Yes. As of now.

Akhil Parekh

Okay, all right. That's all for me. Thank you.

Operator

Thank you, Akhil. Next question comes from Nitin Gosar from Invesco Mutual Fund. Your line is unmuted.

Nitin Gosar

Hi, sir. Clarification on your earlier statement, so the module that we're seen which has seen a drop of around 400 bps trading the year because of the aggressive strategy to up the volumes and the utilization level. So from FY2019 onwards, because of the new product introduction and conglomerate and pre-stage capacity coming up, why then should bottom out share on 19%, 20% that we are seeing right now or it looks like...

Challa Srishant

It would definitely increase, it will not go down.

Nitin Gosar

Okay, okay. Got it. That was the only question.

Operator

Thank you, Nitin. Next question comes from Sneha Talreja from Edelweiss Company. Your line is unmuted. Please go head.

Sneha Talreja

Good evening, sir. Thanks a lot for taking my question. It was actually more of clarification, the first question, we said conglomerate capacity is already commissioned from next quarter onwards, we are going to transfer the orders, am I correct in that sense.

Challa Srishant

No, no from this quarter, as in from Q3 onwards, they are doing the transition.

Sneha Talreja

So Q3 onwards we will be supplying it from Vietnam.

Challa Srishant

Yes. We will be transitioning that customer whom we got from Vietnam to India, we are transitioning that person to back to Vietnam.

Sneha Talreja

Okay. So got it. Secondly on a strategy though we have changed data in the last quarter, we were mentioning that there will be no impact on the current customers on pricing front. So just wanted to session we had phenomenal growth in volume terms this quarter, has it been any pricing impact on the existing customers that we have seen.

Challa Srishant

No, not at all. Existing customers because of the product that we have been supplying to them, there is no issue. Because the kind of product range that we have is so wide. That all the premium products, we were able to maintain the same margins then these customers they do not have the option of buying this same quality from anybody else. The reason for this reduction...

Sneha Talreja

Okay, so more or less the strategy is working?

Challa Srishant

Yes. So the reason for the reduction in margins on the consolidated basis is because of new customers that we are adding. They are doing traditional volumes of Vennila-type product. Product that another manufacturer can make as well, so by doing this additional volume, we will get that advantage of economic of sale as well. You should remain – they work for us.

Sneha Talreja

Okay, sir. Got it. Thanks a lot, sir.

Operator

Thank you, Sneha. Next question comes from Dhruv Bhatia from AUN Adviser. Your line is unmuted.

Dhruv Bhatia

Hi. So when are you talking your next shutdown – extra timeframe for that.

Challa Srishant

We are not planning any long shutdown, any longer, like last year the shutdown that we had done was done after 9 years. So for the next at least six, seven years, we don't have any major shutdown plans. We will have regular maintenance shutdown and all in this.

Dhruv Bhatia

Okay. But they have could be as long as – I mean, tell me what 15 days your maintenance should not be.

Challa Srishant

No, maintenance have balanced here, in the year normally about 15 days, 20 days is what accumulatively for 15 days, 20 days is what we normally do. And the only exception to this, I think any new equipment of making some modifications are anything. If we do that now the shutdown will be dependent or whatever we are adding.

Dhruv Bhatia

Okay. What are the India utilization had for the quarter?

Challa Srishant

We are actually reaching almost peak utilization in India, more than 98% is being utilized right now. Again that pressure is because of this customer from Vietnam have got transitioned here. So hopefully from this quarter we get freed up a little bit through more volumes for other customers.

Dhruv Bhatia

Rupees about 5,000 a quarter right, something like that?

Challa Srishant

Yes, yes.

Dhruv Bhatia

Okay. And can you update on your higher value added things like Japan liquid and our products looking at last year?

Challa Srishant

Yes. So most of these customers frankly does not too much development over there. Whoever we have already supplying to, we just continuing to supply with them. Most of the other customers one of the changes that we've been seeing in the Japanese market also. If people are becoming more price conscious especially with respect to – now with respect to the increase in competition over that. So nobody is actually willing to pay that additional premium to buy liquid in liquid from in reefer containers which is more expensive, which is why they're still continuing to buy a premium product in soluble form itself.

Dhruv Bhatia

And I see respective earlier response. So India is kind of full utilization, full growth will now come from Vietnam right?

Challa Srishant

Actually, what we are doing is, we once we do this transition and all from India to Vietnam and once we free up some additional capacity over here, we'll be able to better utilize the combined capacity that is coming into both places. So as far as the numbers and all are concerned, yes there will be an additional growth coming in from Vietnam.

Dhruv Bhatia

Okay. And going forward did you see margin sustaining FY 2019, just in the rest of the year EBITDA margin?

Challa Srishant

Yes. So this rest of the year, whatever we are maintaining right now, I think that is on the most conservative side. So I don't think it will go down below this, if anything that will be only a positive impact. But in this financial year, I'm not saying there will be positive saying from next financial year onwards.

Dhruv Bhatia

Okay. Current level you mean this quarter? Or this first half?

Challa Srishant

Like whatever we've had in the first half. Actually first Q1 and Q2 again are more or less comparable if you look at the percentage basis.

Dhruv Bhatia

Fair enough.

Challa Srishant

Yes.

Dhruv Bhatia

Okay. And any other development on the U.S., I think there were some distributor issue, which had happened?

Challa Srishant

Distributor issue?

Dhruv Bhatia

Looking for some distributors in the U.S...

Challa Srishant

We have the partner in the U.S. was taking care of the entire sales for us. There is no issue with them as such.

Dhruv Bhatia

So the growth is still not come through right, in an meaningful manner?

Challa Srishant

That's one of the questions that are actually answered little earlier in the call. What is happened in the U.S. market is that, there is a legal issue that is currently bad, one there is a change in law that has taken place. There is a new legislation that has come in place called SSMA that talks about prevention of economic adulteration. Unfortunately that law is not being enforced right now, because that law has not being enforced, we are not able to pass into the U.S. market more effectively. Even we are expecting over the next year are so hopefully that implementation will start taking place. If it takes place earlier we will be able to ramp up volumes also earlier to give to that market.

Dhruv Bhatia

So, I guess what you're saying is that just not therefore adulterated or can mix copies being sold in that, I will think is mainly Brazilian or?

Challa Srishant

Yes. It's mainly Brazilian and Mexican.

Dhruv Bhatia

Okay.

Challa Srishant

Because these two countries they have a lot of disadvantages including the fact that they grow in the other bigger country which is 10% more expensive then robust of our field, that gives them a severe disadvantage compared to Asian manufactures. The only way they could find the way to sustain in the market is by economically adulterating and dumping copy in the U.S. market. Unfortunately that is the only market in the world right now, which is completely unregulated when it comes to finish product.

Dhruv Bhatia

Thank you.

Operator

Thank you. Next question comes from Siddharth Singhvi from Centrum Capital. Your line is unmuted.

Siddharth Singhvi

Hello. Hello.

Challa Srishant

Yes, Siddharth. Please go ahead with your question.

Siddharth Singhvi

I just wanted to understand about the continental business, so how are you planning your distribution strategy and your marketing strategy along with like how much will you be spending there?

Challa Srishant

So we have recently taken new person on board as the CEO of the company. And so one of the process – thinking processes that we have is for this year what he's planning is just focusing on creating a distribution network, which is existing contacts and network.

Siddharth Singhvi

Right.

Challa Srishant

He is ensuring that we place our products and more outlets and we're doing some BTL activities in each of the major states where they are seeing good response actually. Once which has done, he is looking at creating a totally different brand architecture, he is planning and introducing some new products which are not currently present in the Indian market. Certain differentiated products will be introduced. Once that has done there will be a – there will be a higher ad spend, there will be a – there will be a bigger investment that will be making towards next financial year.

Siddharth Singhvi

Okay.

Challa Srishant

That should help us achieve much faster pace of growth than what we are seeing right now.

Siddharth Singhvi

Right, correct. So when do you plan to breakeven?

Challa Srishant

Actually to be frank at this point in time we've already broken even.

Siddharth Singhvi

Okay.

Challa Srishant

Because we're not spending too much on advertising. Next year when we start spending the money we're looking at a breakeven within three years or so.

Siddharth Singhvi

Okay, okay. Thank you.

Operator

Thank you. Next question comes from Abhijeet Akela from IIFL. Your line is unmuted. Please go ahead.

Abhijeet Akela

So one clarification Srishanth. We've guided to about 10% to 15% profit growth for the full year, which by my math would require us to do about you know 147 or 152 crores are thereabouts.

Challa Srishant

Correct.

Abhijeet Akela

In the first half we've done a – so that would require us to do us substantially higher number in the second half. So do you think you know number of say I mean 85, 90 crores in the second half is achievable, especially since you're saying that margins won't improvement from current level. So you know how – what would the roadmap for that be?

Challa Srishant

Yes. So for the next two quarters that's one of the reasons while we're focusing on these larger volumes, if you've noticed last year Q3 we managed to achieve almost a 45 crore bottom line comes out of databases. So if we have the similar performance for Q3 and Q4 we'll achieve a necessary target.

Abhijeet Akela

Okay. But, I mean that 45 crores in 3Q last year was at EBITDA margins of 27% almost?

Challa Srishant

Yes, that's correct. So this time they're going to be doing larger volumes than you bring. If you look at the plus six months growth, we're going to continue this similar type of growth for the next two quarters as well is not more.

Abhijeet Akela

And is there also a backlog of export incentives that can help in achieving this target?

Challa Srishant

Yes, that's tough, I guess.

Abhijeet Akela

Okay, okay. All right. And next year what's the kind of quantum of margin improvement that we could be looking at once you know let may not next year, but whenever the free state capacity is fully used up?

Challa Srishant

Yes.

Abhijeet Akela

By how much could that possibly move up the margins Q3?

Challa Srishant

See, to be frank next year will be a little difficult for me to comment on right now, because there are lot of moving fast including additional spends that may coming through the domestic entity. If you're excluding the domestic spend, yes, there could be an improvement at least 2%, 3% more than what we're currently doing. But once you include the domestic spend not sure right now. Hello? Hello?

Abhijeet Akela

Yes, your voice is audible.

Challa Srishant

Yes, the question been answered?

Operator

Thank you, Abhijeet. As there are no further questions from the participants. Now, I would like to hand floor back to Mr. Akhil Parekh for the final remarks. Thank you, and over to you sir.

Akhil Parekh

Thanks a lot. Thank you to all the participants and the management of CCL for answering all the questions patiently. Srishanth, in case if we have any closing remarks.

Challa Srishant

I just wanted to thank all the participants for taking part in the conference call. Hope to see you all of you again next time as well next quarter. Thank you.

Operator

Thank you. That does conclude our conference for today. Thank you for participating on the conference bridge. You may all disconnect now. Thank you all.

{End of Transcript}