



“CCL Products (India) Limited Q1 FY 2017 Results Conference Call”

August 01, 2016



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Moderator: Ladies and gentlemen, good day and welcome to CCL Products India Limited 1Q FY2017 Results Conference Call hosted by Nirmal Bang Institutional Equities. As a reminder, all participants' lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing "*" and then "0" on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Rahul Arora, CEO, Nirmal Bang Institutional Equities. Thank you and over to you Sir!

Rahul Arora: Thanks for that. I would like to welcome all the participants on the first quarter call of CCL Products. I have with me the management that will be currently represented by Mr. Srishant Challa who is the Managing Director, P. S. Rao, Company Secretary and Ms. Sridevi Dasari, the Company Secretary. Mr. Rajendra Prasad Challa, Executive Chairman should be joining us in a few more minutes from now. I would request the management to make opening comments on the results and subsequent to that I guess we can open up the floor to the participants for the question and answer session. Thanks and over to you.

Srishant Challa: Thank you Rahul for the introduction. Just a brief note for the first quarter the Company has achieved a turnover of 250.58 Crores. The EBITDA is 62.76 Crores. The profit before tax is 51.48 Crores and the net profit is 40.27 Crores. The EBITDA percentage for the first quarter is 25% as against 22% for the corresponding quarter last year and the net profit is 16% as against 14% for the corresponding quarter. Thank you. Any questions.

Moderator: Thank you. Ladies and gentlemen we will now begin the question and answer session. We have a first question from the line of Jignesh Kamani from GMO. Please go ahead.

Jignesh Kamani: Srishant, congratulations for very good set of numbers. Just want to check if you take about our contract with (inaudible) 2.31 came to end last year I suppose and then we are planning to directly approach to the US and other markets. Part of the margin improvement is on account of that where the commission paid to test party has been directly aided to our Company or there is such more to do with the margin improvement.

Srishant Challa: Actually the agreement with LMC has expired earlier itself but we have been continuing our business relationship and we will continue it in the future as well. We are coming up different strategy for the US market and because they have already have the experience over there they are willing to change the business model with us. So we are currently talking to them along these lines. We have not finalized anything yet. In fact both sides we wanted to look at the impact of the FSMA, how is going to impact the US market and accordingly we will come up with an appropriate strategy. Mr. Jonathan has been a shareholder for more



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than 20 years and still he is present he passed on his share to his children but there also still shareholders event in that.

Jignesh Kamani: So if you take both domestic operation and Vietnam particularly Vietnam reported a very strong you can say margin improvement like Vietnam we were highest our margin. Is any particular to do with the blender coffee, which was there in the quarter and may be sustainable for the full year or how you can say, read to that number?

Srishant Challa: Yes, we are utilizing the liquid coffee unit more to come with premium products and that is what is contributing to the margins. So we are focusing on more premium products and that is the way that is the key and we were fortunate to be able to get some new customers now.

Jignesh Kamani: So for the full year-end sustainable basis the kind of margin if you can say can be achieved for next two, three years is not just one-off?

Srishant Challa: That is a difficult question to answer. The guidance that we are giving is between 22% and 25% is what we are expecting for this year. We cannot give an exact number right now.

Jignesh Kamani: But Vietnam operation you think the current margin are reconciled because of product mix and this product mix can be continued in future also?

Srishant Challa: But again it is a customer requirement. So it keeps changing over a period of time. This quarter we have executed some premium orders. Vietnam necessarily means that we will do the same in every quarter. There will be a percentage that we will execute. So that is why we do not look on a quarter-on-quarter basis and we are looking on a yearly basis.

Jignesh Kamani: For the quarter what is the volume growth rate you can put together?

Srishant Challa: Volumes last time also we mentioned.

Jignesh Kamani: No I am talking about the growth rate not the absolute amount.

Srishant Challa: I think may be around 10% to 15%.

Jignesh Kamani: So 10% to 15% and mainly from the Indian operation because we expanded the capacity from 15% to 20%.

Srishant Challa: Yes.

Jignesh Kamani: That capacity is running at fully right now the expanded 20000 capacity?



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- Srishant Challa:** In India, yes.
- Jignesh Kamani:** Thanks a lot. I will come with followup question if I have any.
- Moderator:** Thank you Mr. Kamani. We have a next question from the line of Abhijeet Akhela from India Infoline. Please go ahead.
- Abhijeet Akhela:** Good afternoon. Thanks so much for taking my question. Srishant just to clarify the guidance you just gave. So you are saying 22% to 25% EBITDA margin for the full year for the consolidated company, is that right?
- Srishant Challa:** Yes that is correct.
- Abhijeet Akhela:** So definitely some margin improvement from last year?
- Srishant Challa:** Of course last year yes there will definitely be a margin improvement.
- Abhijeet Akhela:** This quarter it was close to 25 you are saying that it will be in that band between 22 and 25.
- Srishant Challa:** Yes that is correct.
- Abhijeet Akhela:** Second the export incentives are still missing?
- Srishant Challa:** Yes, we actually got the export incentives last quarter about 6 Crores worth of licenses we manage to get from the government, but we did not sell it because the rate was quite low in the market. So we are waiting for a better price. So why should we compromise on getting the much from value for the license.
- Abhijeet Akhela:** So now the incentives have started coming it is just matter of when?
- Srishant Challa:** Last time I think we mentioned that the software there was a delay and it was getting into place. So now that has been implemented and we started receiving the licenses. So 6 Crores we have already received actually.
- Abhijeet Akhela:** What is the total backlog of incentive that you had due to receive from last year?
- Srishant Challa:** I think it is around 14 Crores.
- Abhijeet Akhela:** That is over and above the 6 Crores which you have already received?



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- Srishant Challa:** No this is including the 6 Crores.
- Abhijeet Akhela:** So out of 14, 6 you have received 8, 4 you are due to receive?
- Srishant Challa:** Yes the balance will receive in due course.
- Abhijeet Akhela:** When do you think the likely time when you will actually sort of sell these and put into these in the financials? Is it possible in 2Q or do you think you will have to wait till the end of the year?
- Srishant Challa:** I am not sure so it will be in this financial year. I am not sure exactly when because the market as and when the present licenses which are there in the market the realization you get will keep reducing. So if the demand is lesser then we will get a better price for the license. So in Q1 we saw that there were excess licenses, which were already there in the market, which is why we did not want to sell that brand. Whenever we get that good price and we will sell it but it will be in this financial year.
- Abhijeet Akhela:** Just one last quest and I will get back in the queue. Just with regard to your volume growth expectation, how were the key opportunities that you have been sort of eyeing and shaping up including in particular the USA or some of this liquid coffee opportunity. So how are those shaping up and how do you see your capacity utilizations ramping up? You are mentioning that India you are already at full utilization now. How is it looking for Vietnam?
- Srishant Challa:** Compared to last year with 5000 additional tonnes, we already are running at peak capacity in India. Vietnam also we have better utilization in fact we will hopefully be reaching that peak capacity this financial year but we are focusing on again more premium products like earlier we were just focused on filling volume but now we are focusing on selling more premium products. So that it helps on the bottomline of the Company and once we achieve our target for this year that is when we will think about expansion in the future. As far as new markets are concerned, we have already mentioned before as US is a very big potential market. We are talking to our partners over there and we are trying to come up the proper strategy for the US market. Unfortunately, at this point in time we do not have complete clarity because there is still no clear direction from the government as to when this FSMA will be fully implemented.
- Abhijeet Akhela:** Understand but even without that you are seeing no kind of problems in filling up your capacities. There was adequate demand?



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Srishant Challa: No, there is no issue. So that is the way we are structured even if we add say one or two customers that will easily contribute to 15% growth in the company. So we do not have to do much. We are retaining our existing customers and we just have one or two customers and we will get that 15% growth.

Abhijeet Akhela: Great thank you so much. I will get back in the queue.

Moderator: Thank you Sir. We have a next question from the line of Chitvan Oza from Nirmal Bang. Please go ahead.

Chitvan Oza: Good afternoon Sir. Thanks for the opportunity and congrats for the great set of numbers. Sir just wanted to ask you how are we doing in our retail operations in our own brand. In the last concall you had mentioned that we will be penetrating around 3 to 4 new states every year. As of now I believe we have presence in around 6 to 7 states. So how have we performed in this quarter in our retail operation Sir?

Srishant Challa: It is actually quite good. The response was fantastic. From last year to this year we have seen almost a 150% growth in sales but when you compare to the private label operations I think the export operations domestic volume is still quite less. We are now supplying to all the major institutions for the Army, Navy, Air Force to all the defense establishment we are the exclusive suppliers now and additionally we are in supermarkets, kirana stores and all those slowly pleasing our products. Now we are starting BTL activities as well. We started getting a certain minimum traction that we were looking at earlier before we start spending on advertising. Now that we received that traction now we are focusing more on brand promotion. As I mentioned even last year the idea is to make the company self-sustaining. There would not be any further contribution to the bottomline. Thanks to the domestic market because we want to build the brand faster.

Chitvan Oza: Sir, also on EBITDA per tonne basis what would be the exact I mean approximately the gap between our own brand and one which we export I mean on a blended basis?

Srishant Challa: Our own brand will definitely give us better margins but everything depends on what your advertising budget is. Advertising you can sky is the limit, you can do anything with advertising.

Chitvan Oza: Just one more question Sir regarding you did mention in the last concall so that one of our larger client from Israel we are going get some incremental business from them because their factory has incidentally now come up under urban vicinity. So have we already started getting that?



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Srishant Challa: Yes we have already started that and now they have transferred full production to us and that is going well. So there is no issue there.

Chitvan Oza: So that would be supplied from Vietnam right if I am not wrong?

Srishant Challa: Vietnam and India actually. India we are doing small parts, Vietnam we are doing bulk powder. So we supply from both factories.

Chitvan Oza: So what will be the incremental volume coming in from there.

Srishant Challa: That will be margin I mean as in usually most of the customers grow by a small percentage. The same level of growth will be there, getting substantial additional volume from the same customer.

Chitvan Oza: Just one more last question like in our geographical mix, are we planning to add any new geographies, I mean what will be the current mix in our geographies as of end of FY2016 that we had and like would we foresee that two to three years down the line?

Srishant Challa: Today we are now present in almost 90 countries across the world. We are constantly going into new countries as well and we are taking part in exhibitions and we are getting new customers and enquiries from different places and so we are spread throughout the world is actually evenly divided. There is no one particular country that we are overtly dependent on. So starting from US, Europe, Africa to Middle East to Russia, CIS countries, Asian markets the spread is throughout the world.

Chitvan Oza: So incrementally expect mainly larger volume coming in from US so once FSMA may act?

Srishant Challa: US yes, in the next year or two we will expect much more volumes coming in from that. Again that there is no clear guidance right now that I can give because even we do not have complete clarity but we are getting new enquiries from the US customers who are now becoming aware of the issues that are there within the US and the existing suppliers. So some customers who are not willing to wait until the enforcement comes along and they are willing to shift over now itself. We have seen a little bit impact of that also taking place right now.

Chitvan Oza: Thanks for answering the question. I will get back in the queue Sir.

Moderator: Thank you Mr. Oza. We have a next question from the line of Saurabh Patwa from HDFC Mutual Fund.



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- Saurabh Patwa:** Thanks for taking my question. Just wanted to understand how is the trend for revenue and EBITDA per tonne in this quarter compared to full year of FY2016?
- Srishant Challa:** This quarter as compared to FY2016. So this quarter we did EBITDA 25% EBITDA margin we manage to achieve.
- Saurabh Patwa:** I am asking about per tonne.
- Srishant Challa:** I do not know the exact numbers.
- Saurabh Patwa:** Broadly is it improvement over the last year?
- Srishant Challa:** Yes definitely there is an improvement over last year.
- Saurabh Patwa:** What about the pricing part. The blended revenue per tonne as it improved compared to last year because last year there was a fall because of the coffee-pricing fall?
- Srishant Challa:** No it has gone up by almost 3% actually.
- Saurabh Patwa:** Up by 3% okay. Just one more thing what kind of a tax guidance would you give?
- Srishant Challa:** The tax guidance actually this year our effective tax rate is going to come down because we are utilizing Vietnam plant a bit more. So it is come down from 24% to 22%.
- Saurabh Patwa:** So we are expecting to remain this for the whole year and for next year? Next year any guidance for tax?
- Srishant Challa:** Next year effect 19%.
- Saurabh Patwa:** So you expect it to fall down further?
- Srishant Challa:** Yes it will fall down further.
- Saurabh Patwa:** Thanks. That is it from my side.
- Moderator:** Thank you Sir. We have a next question from the line of Mr. Rohit Balakrishnan from Rare Enterprise. Please go ahead.



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Rohit Balakrishnan: Thank you for taking my question. I just wanted to understand a bit more about the business. So who are typically other players typically compete with in the instant coffee market. So people who would supply to your customers some other to yours?

Srishant Challa: Actually we have a lot of competition throughout the world. In fact more than 50% excess capacity for instant coffee in the world. We have competitors in countries like Brazil, Mexico, in Asia as well, in Singapore, Malaysia and now in China as well and in India also, Vietnam as well. These are the main areas where our competitors are and even in Europe. In fact Europe several of our competitors have actually started shutting down operations because they are not able to sustain in the market. The soluble coffee market per se is very competitive. The only reason that we have unable to grow because we have been focusing on relationships over the year and it is almost more than 20 years we have been focusing on relationships. So we converted even tea companies into coffee.

Rohit Balakrishnan: You converted into what?

Srishant Challa: We converted tea companies. Tea companies have a very good distribution network. We have converted them into coffee. So we have introduced coffee to them and they stuck with us for many years as well. Main reason for growth is our existing customers and one of the thing that we follow in our system is we cannot reveal the blend that we giving our customers even to our customers. We give them a unique blend and we do not offer that another competitor in the same region.

Rohit Balakrishnan: So if you can let us say for your top 10, 20 customers who you supply to how many suppliers do they typically have and how much of share would you be of the total supply?

Srishant Challa: It depends on the kind of company. Some companies will have one exclusive supplier. Some companies' source from two, three companies as the matter of policy. The other companies which buy in bulk they do the packing at their own end. So they do blending also. So they require certain percentage of our product and a certain percentage of different products like a Brazilian blend or Columbian blend from the different country to get a particular taste profile.

Rohit Balakrishnan: So would it be possible for you to share like for how many customers or what percentage of revenue from your customers you are the only supplier?

Srishant Challa: That would be very difficult for us to tell because there are several cases customers would not even tell us where else they supply and where else they are buying from. So it is very difficult for us to assess that. In fact we have certain customers who buy large volumes



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from us as well as other competitors of ours. They do the blending and supply to brands themselves. So they do further value addition at their end. So they create certain blends using different products on different origins so it is virtually impossible to de-market.

Rohit Balakrishnan:

Just on the comment that you made couple of minutes back on the excess capacity in the instant coffee market. So one is obviously you are saying that you got deep relationships but from an economics point of view is there a huge difference between the players let us say in the other markets and hence it makes sense for them to be guided from here?

Srishant Challa:

Several reasons actually first is the number of blends. Now in coffee even CCL we used to have only four or five blends for the 10 to 15 years. We invested substantially in R&D and now we have created more than 200 different blends and qualities. So with this we are able to customize different products for different customers. Now depending on the factory that you have you can usually typically produce any one to five blends in a factory. For the factory to have the kind of flexibility that we have they have to invest substantially. There has to be a lot of trial and error and whatever we have done is again thanks to our customers. We developed products, keeping our customer requirements in mind. So ours has been a very organic growth. Most companies including us would not be interested in investing millions in R&D to hopefully convert a customer because that usually does not happen. Apart from this various countries have certain advantages at different points in time. For example, if you look at Brazil, Brazil you have last year we have seen the currency devaluation-taking place. The coffee prices falling down sharply and Brazilian coffee was certainly economical, which was not there before. Earlier Arabica prices and all were much higher and Brazilian coffee was commanding I mean was actually more expensive than coffee supplied from Asian market where we are using Robusta. Raw material itself contributes a significant portion of the final selling price. So in the raw material itself is 10% more expense. Countries like Brazil could not compete with us. With the currency devaluation and all slowly that changed. They started becoming a bit more competitive than they were earlier. So you do have market dynamics like that also which impact coffee prices and coffee consumption patterns also. That said Brazilian coffee would again have a unique characteristic or taste profile, which everyone may not like if they are used to a particular product. For instant coffee most people prefer Robusta and in Brazil this year especially there is a significant drop in **(inaudible) 25.16** production. Actually 11 million bags shortage is what is estimated and that is a significant drop in Robusta production in Brazil, which means the dependence on Arabica is going to be higher. So that gives again Asian countries the bigger advantage.



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- Rohit Balakrishnan:** Typically, I mean in general for an instant coffee manufacturer or processor what kind of churn would they have from their client. Is it extremely high churn or is it fairly difficult to get and hence difficult to get out as well.
- Srishant Challa:** I did not get your question. What you mean by churn?
- Rohit Balakrishnan:** So for example let us say for assumption sake let us say you supply to a Nescafe. Would Nescafe constantly churn its suppliers?
- Srishant Challa:** Not really because once you establish a particular blend in the market is very difficult for that particular supplier that particular brand to change its blend. Sometime the customers even if there is a 5% change in blend they will just reject the product. So our customers are also very picky. They insist that we supply the exact same quality to them. That is one of the main reasons we have been successful in fact. The blend that we create is again completely in-house technology.
- Rohit Balakrishnan:** Sir two more questions from my side. On the US market so right now how much share do we have in terms of revenue how much is from US?
- Srishant Challa:** About 20%.
- Rohit Balakrishnan:** How do you see that market evolving let us say over the next three, four years horizon or what kind of growth are you looking at?
- Srishant Challa:** Frankly we are not projecting anything beyond that 20% because the volumes are also growing. So volumes in the US is also expected to grow but if this FSMA is implemented sooner rather than later we might see a more significant growth in the US market again it is too early for us to speculate at this point in time because again they have started enforcing the FSMA regulations for several products but coffee is not in the first list.
- Rohit Balakrishnan:** Globally US would be the largest coffee market in the world?
- Srishant Challa:** Yes it is the largest in the world right now.
- Rohit Balakrishnan:** Sir last bit from my side on the India piece. So if you look at your Indian operations right now. So it is still about 7%, 8% to your total revenue if I am not wrong. So you have gone on the retail side and not been successful I mean in the history. So you are taking it so I understand that but just from a thought process point of view the market how do you see the market. How faster it is growing. I believe it is just a too clear market at this point of time. So how do you see that?



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Srishant Challa: It is a too clear market and there is almost 15% growth in consumption within India if we actually look at the two players they have not report a significant growth in the coffee segment in India. We have been able to capture that market the new customers. We have been able to start supplying to them. That is one of the reasons our volume is growing in the domestic market.

Rohit Balakrishnan: But this would be again B2B right?

Srishant Challa: No this is B2C I am talking about. We have B2B business as well and we have B2C business. I am talking about the B2C business. That is where we are focusing right now.

Rohit Balakrishnan: So you are saying 15% of the market growth in terms of volume and because the other two players are not able to sort of grow at that level. You are taking away share from the others?

Srishant Challa: Yes.

Rohit Balakrishnan: I mean any sense how can you be in the domestic market in the next four, five years. Any internal aspirations if I can put?

Srishant Challa: I can give a simple number. Looking at US is currently consuming about 80000 tonnes plus for soluble coffee. Japan is consuming around say 35000 tonnes. India we are consuming around 12000 tonnes. Look at our population and look at the rest of the world consumption. So sky is the limit as far as India is concerned as well. Predominantly our country has been a tea-drinking nation and that tea drinking is also because of price. If you go to a small stall or a vandi they will sell you tea at Rs.7 and coffee at Rs.12. We can actually make coffee available for less than Rs.5.

Rohit Balakrishnan: The reason for that would be largely.

Srishant Challa: That is the technology that we have. So keeping that in mind the potential is huge in the Indian market if that strategy itself has to be completely different. So the Indian market again there is a huge potential for growth and if you actually notice the number of products, which are there in other countries in coffee, you have may be about 20 or 30 different types of coffees and products, which are there. In India as you rightly said there are only two products, which are there right now. So lot of new products that can be introduced which we feel that the Indian market is ready for.

Rohit Balakrishnan: That is it from my and very, very helpful. Thank you Sir.



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Moderator: Thank you Sir. We have a next question from the line of Nitin Gosar from Invesco Mutual Fund. Please go ahead.

Nitin Gosar: Good afternoon. Just wanted to understand recently we have seen lot of production related concern from Vietnam. Are sourcing getting impacted over there?

Srishant Challa: You mean production of green coffee?

Nitin Gosar: Yes.

Srishant Challa: There is a significant fall in output for this year. Just a while I mentioned Brazil that has fallen even Vietnam there is an estimate of almost 20% reduction from last year. So there is a fall in production but then again that is one of the main reasons why the prices have gone up as well.

Nitin Gosar: Typically how do we take care of this like you might be booking a process today quantity?

Srishant Challa: Our business model is structured in such a manner that we cover back-to-back. The day we book a contract with the customer we cover the raw material as well. We do not cover the raw material with small players in the market. We only cover usually with bigger companies who will execute irrespective of the price where they enter into a contract for coffee that is it they will deliver no matter what.

Nitin Gosar: In past 20-year cycle if one were to stretch more have you seen any kind of delinquency in terms of commitment from the large player to execute the raw coffee supply?

Srishant Challa: We have gone through the cycle every two, three years if you notice for the last more than 20 years the prices keep going up and down. There is a cyclical movement that keeps taking place and whenever trading hours commits to supplier certain quantities they always deliver so even if they have to buy at a higher price from elsewhere they will always deliver. What is happening if you actually look at the ground reality there is no shortage of coffee anywhere in the world. Even if you look at Brazil, Brazil is the best example the Brazil production was certain quantity about 1.6 million tonnes is what they had estimated. When the currency devaluation took place over there, there is almost 10% to 20% additional coffee that suddenly came into the market. So there are several farmers' have been holding coffee and there are several funds also which have taken a position on coffee, because of which the product did not come into the market earlier. Whenever they think it is more economical or viable that is when it comes into the market. Today, also the Vietnam farmers if you go to the individual houses you will see that they have a lot of quantity which



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is there in their own warehouse, in their own houses, in the garage, they will stock coffee. Whenever they feel is it an advantage for them to sell that is when they will sell in the market. So there is no shortage as such. If the trading houses want to buy they will pay a little bit more and they will procure that coffee.

Nitin Gosar: Thank you.

Moderator: Thank you Sir. We have a next question from the line of Jignesh Kamani from GMO. Please go ahead.

Jignesh Kamani: I just want to know about the two key markets Russia and UK, Europe and post of the Brexit are we seeing that some of the customers are deferring as the volume commitment or are you seeing it in particularly the UK market do you think volume of the coffee consumed will come down because there will be say new kind of price inflation in the local market?

Srishant Challa: Not really because one the British exit is going to get effect only in 2017 and the coffee consumption that has nothing to do with the British exiting. It is whatever quantities they have to procure or consumed are still consuming the same thing. They have to buy from some part of the world. UK is not a coffee manufacturer. So they have to import it. So automatically the same trend that was continuing all these years is likely to continue. That is one part and as far as Russia is concerned yes there was a currency devaluation and yes we did mention earlier that there were some customers who are deferred supplies but now they are taking it as per the contract yes the coffee consumption in Russia have come down a little bit, prices also significant factor contributing factor but it has come down a little as in a country like Russia small reduction is not much.

Jignesh Kamani: For us on the YoY basis revenue from the Russian market is or volume to Russian market has come down remain flat or increasing now?

Srishant Challa: Right now it has come down compared to last year. Our customers who are able to book a larger volume in the previous year they do not want to take a chance. So they are confirming whenever they are sure. They do not want to stock too much coffee right now.

Jignesh Kamani: When you expect the Russian coffee market volume growth will start inching upward?

Srishant Challa: The volume growth.

Rajendra Prasad Challa: Jignesh this is Rajendra Prasad. Jignesh, I just walked in. Sorry everybody that I could not be there earlier. There are two things. Remember you are talking about British and Brexit



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and all. Anytime depression happens coffee is drank more. It is proved in 2008. Every product in the world we saw that the consumption has gone down except coffee. So we hope that these guys will drink more coffee during depression and also regarding this Russian market as far as CCL is concerned, we always concentrate our endeavour and our targets are always to fill the capacity. Frankly, we do not put much of value on which country takes or which market that is why when we started CCL's history 20 years back 75% of the market used to come only from Russia. Today, it has gone down to less than may be 10% or 15%. So it is spread now. CCL is not in that league at all anymore and Russia always is the one of the more largest consumer countries in the world as far as coffee is concerned but the main effect will be for the exporters from Europe who played a significant part in this past 10, 15 years. They are the guys who will be more affected by this currency devaluation and all that. So India will always be to develop because their especially in the CIS markets we have developed some very good private label people whose volumes year-on-year because of our quality have improved and that is what happens. We always look like that.

Jignesh Kamani: African market how is because earlier we used to sell close to 1000 plus tonnes. Are we able to get good volume growth rate in African market now?

Srishant Challa: Yes we are.

Jignesh Kamani: Are we reaching to threshold level where we can set up a plant there post this year, or still too early?

Srishant Challa: No yet. It is too early and also currently stability most important it we have to be sure when we put a money we have to be stable and all kinds of guarantees and all that.

Rajendra Prasad Challa: We still have an open offer from Uganda because our friends have not gone and everything is on limbo. The government is still asking us but we are not sure. Now once the government has gone back the President of the country has gone back on his word so we cannot trust. So that is the situation. So we are not sure.

Jignesh Kamani: Sir on the domestic operation our employee cost has increased drastically on the YoY basis. So is more to do with the new hiring particularly to ramp up our retail reach or is the intake of bonus hike or can you just provide me some color on this.

Srishant Challa: What has increased?



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Jignesh Kamani: If you take our employee cost on YoY basis is gone up by close to 25% in this quarter in domestic operation?

Srishant Challa: Every year we give our increments and bonuses and everything as well. There is no significant increase in people, because of few people yes we have hired but is not that significant.

Jignesh Kamani: I think in last second half there was change in the bonus act you can say. So on account of that also we have witnessed you can say 1Q you can say because first half there was no bonus tax provision in the last year and right now you need to provide for the full year.

Rajendra Prasad Challa: We normally give bonus to our service that is the same I do not think. Yes we give one time Diwali another is year closing. The normal we have been practicing for 20 years.

Jignesh Kamani: So current employee runrate is normal there is nothing one-off on that.

Rajendra Prasad Challa: Not much of business.

Jignesh Kamani: Thanks a lot.

Moderator: Thank you Mr. Kamani. We have a next question from the line of Tushar Bohra from Reliance Capital. Please go ahead.

Tushar Bohra: Thanks for the opportunity. Mr. Prasad and Srishant congratulations on excellent set of numbers once again. Sir just couple of questions. First you mentioned about liquid coffee utilization that we have been able to get a few premium products. Just if you could qualify that in more detail because liquid coffee is something that we have been pursuing for two, three years. They were extensive trials going on. So exactly where are we in terms of utilization and in terms of outlook?

Srishant Challa: Actually last year also we had mentioned that the liquid coffee unit we started using it to create premium products in Vietnam. What we started original idea of setting the liquid coffee unit of us to supply in liquid form but thanks to the improvement in technology and everything that we have we have a low temperate spray dryer in Vietnam. We are able to create a product, which meets the requirement of our customers. So we were able to supply a product using liquid coffee as the base. That product we are supplying in solid forms in spray dried forms which is why it is cheaper to transport and more economical for the customer accordingly. So these are the products that we have been supplying in the recent past as well which is also one of the main reasons for this growth that we are seeing here.



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- Tushar Bohra:** So what would be your utilization for a liquid coffee capacity currently?
- Srishant Challa:** May be around 40% to 50%.
- Tushar Bohra:** So we at 5000 LCC capacity, which if my understanding is correct so but equivalent for solid coffee.
- Srishant Challa:** 2000 tonnes.
- Tushar Bohra:** So we should look at the capacity in terms of that 2000 tonnes we have but 50% utilization?
- Srishant Challa:** So around 1000 tonnes.
- Tushar Bohra:** Around 1000 tonnes okay and what about the outlook for this particular capacity. We expect this to be close to full utilization in the next?
- Srishant Challa:** Not immediately. I mean that will take may be a year or two at least because getting a customer who is willing to pay the premium is a major challenge. They also have to grow volumes once the produce is accepted in the market and when they grow and our utilization will also increase.
- Tushar Bohra:** But like are we seeing sufficient traction for us to think about let us say a capacity expansion in this may be in 12 months down the line?
- Srishant Challa:** No not right now in liquid coffee immediately we are not considering unless there is some sudden requirement that comes up. At this point in time it does not make sense for us to consider expanding in this segment.
- Tushar Bohra:** If you could just give a broad sense on the variant produce using liquid coffee vis-à-vis normal coffee. What would be the ballpark margins for that?
- Srishant Challa:** For liquid coffee, I think it will command at least 10%, 15% more premium than a regular product.
- Tushar Bohra:** 10% to 15% premium on realizations.
- Srishant Challa:** Yes.
- Tushar Bohra:** Second Srishant I just want to quickly verify you mentioned US is already contributing 20% of revenues?



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- Srishant Challa:** Yes that is correct.
- Tushar Bohra:** So in terms of volume that number would be similar 20 or lower?
- Srishant Challa:** Same, it is more or less similar actually.
- Tushar Bohra:** So we are saying US is close to 4000, 5000 tonnes volume for us already.
- Srishant Challa:** Yes may be little lesser but more or less that is correct.
- Tushar Bohra:** Secondly, when we say we are moving towards more premium products and rather than filling capacity, we are focusing on premium products just I wanted to get a sense whether we have actually led the business anyhow for previous clients who we have asked to reduce commitment or let go because of this constraint?
- Srishant Challa:** No not at all in fact. It is other way around. If our existing customers we have convinced them to introduce premium lines as well. They get volumes from certain products. If you look the domestic market also you have spray-dried coffee, which will be a volume product. You have freeze-dried which is a premium product. So we are focusing on convincing our customers to accept new products in addition to what they are taking, which is what has worked for us.
- Tushar Bohra:** That is great. Can you give us Srishant a quick update on the capex? I think in last concall announced plans for it. Any updates on both India as well as if any thoughts on Vietnam expansion?
- Srishant Challa:** India we have already mentioned about 260 Crores is the project cost for setting up freeze drying and that will come into play by next financial year end. As far as Vietnam is concerned we are planning on taking a call sometime next year as to what are the further expansion what is required in Vietnam. Filling capacity is actually a major challenging. As I was mentioning spray dried the reason for us to go for freeze dried right now because we feel that is the area of growth. Spray dry there is already excess production, which is there in the market. So expanding spray dry this year does not make sense for us because filling the existing capacity itself is a challenge.
- Rajendra Prasad Challa:** Existing client that is the demand from the existing clients not from any new clients. So if somebody puts up a new somebody else it is not so easy to get into that client.
- Tushar Bohra:** Sir just overall any change in the outlook for the year, which we had mentioned the beginning of last quarter?



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Srishant Challa: No we had given that indication of 20% to 30% is the range that we had given. So more or less we are sticking to that.

Tushar Bohra: Fair enough Sir that is all from my side. I will join back in the queue. Thank you so much.

Moderator: Thank you Mr. Bohra. We have a next question from the line of Manish Mahawar from Edelweiss Securities. Please go ahead.

Manish Mahawar: Good afternoon Mr. Prasad and Srishant. Srishant, just wanted to know we are expanding the capacity in India which I think is 5000 metric tonne right which you said is a 260 Crores of capex?

Srishant Challa: Yes.

Manish Mahawar: How big is the freeze dried market in India and may be I believe Nestle is importing that right in freeze dried?

Srishant Challa: Yes freeze-dried is very small in India right now. I think it will be less than 100 tonnes. It is very, very small right now because the price that they are charging right now is extremely high. They are paying more than 110% duties and then bringing it into the country. So it is a very, very small market and the same thing even that BRU exotica if you see it is there in the supermarket because they want to ensure that the product is available but they will never be able to compete effectively because that importing and since we are the only manufacturers, we have a major competitive advantage over theirs'. So we can offer more premium product and less than about 30% of the price that big brands are offering.

Manish Mahawar: Predominant this capacity is more of our export purpose right?

Srishant Challa: Mainly for export even the new unit that we are setting up is mainly for export.

Rajendra Prasad Challa: You know that right from the beginning our concentration always been only on exports.

Manish Mahawar: Vietnam wherever this expansion will think of or will take a decision it will be spray dried right in Vietnam?

Rajendra Prasad Challa: Right now we are thinking that we do not know. Do not ask us to guess something. We will think about it when it comes. It all depends. Basic question is whether we are utilizing our capacity whether there is demand both come from our clients. Whatever we tell we will go wrong.



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- Manish Mahawar:** What is the status for Switzerland plant right now?
- Srishant Challa:** Last time what we had mentioned the same thing we are exploring some new products. We are talking with the government officials over there because before we invest anything further we wanted to make sure that the product, the duty issues and all will not be there. There are some recent changes in law as well which modifies the earlier provisions. So based on the impact of this we are first negotiating with the government, coming up with the structure and then we will make the necessary changes there.
- Manish Mahawar:** Lastly on tax rate just wanted to know you said for this year tax rate will be around 22% right Srishant and next year 19% right?
- Srishant Challa:** Next year yes.
- Manish Mahawar:** Thanks and all the best.
- Moderator:** Thank you Sir. We have a next question from the line of Digant Haria from Antique Stock Broking. Please go ahead.
- Digant Haria:** Just wanted to check about this Indian capacity. So it is 20000 tonnes plus the 5000 tonnes expansion, which will come on stream on 2019 right?
- Srishant Challa:** Yes.
- Digant Haria:** Out of the Indian capacity what is the total proportion of premium products that we do if we have to classify all kinds of blends that you make into premium and non-premium what would be the proportion of premium products done out of India?
- Srishant Challa:** That actually is difficult to estimate because what you had defined as premium small parts also it is constitute premium, if it is only the quality wise, there will be certain number of products. If it is margin wise it is a different range. Sometime we may get better margins for certain specialty products but they are not exactly premium. It is because the raw material is more expensive that is the only reason why it is more expensive that is it. So it is difficult for us to come up with a exact number to tell what are the premium products that we have.
- Digant Haria:** But then let us say two years back and today how the trend in that overall proportion of say high margin coffee that we are doing. Has it gone up substantially?
- Srishant Challa:** This year it has because of what we have done in Vietnam but otherwise every year what we do is we keep trying to fill capacity even for packed products and premium products but



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the entire global market if we look at the demand for premium products is lesser than for the general product.

- Digant Haria:** That answers my question. Thank you so much and all the best.
- Moderator:** Thank you Sir. We have a next question from the line of Dikshit Mittal from Shubhkam Ventures. Please go ahead.
- Dikshit Mittal:** Good afternoon Sir. Can you tell us the utilization levels in both India and Vietnam currently?
- Srishant Challa:** Actually, this is one of the things that we mentioned earlier also that we did not want to mention because it is becoming counterproductive for the company and to the shareholders.
- Dikshit Mittal:** Sir you mentioned the tax rate will be lower next year. So what are the benefits that we are expecting to flow through?
- Srishant Challa:** What you are saying the effective tax rate you mean?
- Dikshit Mittal:** Yes Sir.
- Srishant Challa:** Because we will be supplying more in Vietnam that is why the effective tax rate will come down.
- Dikshit Mittal:** Because if I see you have expanded in India as well. So I guess proportion will rise in India right as well?
- Srishant Challa:** Yes actually in India also because the volumes are going up yes. I think if you have seen from the previous years the tax has come down from I think 29% to 27% to 22%, 24% last year.
- Rajendra Prasad Challa:** That is why our new plant in freeze-dried what we are proposing we are going to do in a SEZ?
- Srishant Challa:** That 28% to 24% we have seen a 4% reduction. Now we are seeing 24% to 22% because of the India utilization taking place in a better manner as well.
- Dikshit Mittal:** So next year it will be 19%.



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- Srishant Challa:** Yes 19% we are not saying lower than 19 because of the same reason. India also will be utilized more.
- Dikshit Mittal:** Okay so as and when your 250 Crores capex comes online so that will be tax-free for you?
- Srishant Challa:** That will be tax-free because that will be in SEZ.
- Moderator:** Thank you Mr. Mittal. Ladies and gentlemen that was the last question. I would like to hand the floor back to Mr. Rahul Arora for closing comments. Thank you and over to you Sir!
- Rahul Arora:** Thanks a lot. I just like to thank all the participants and the management for feeding the questions on because of all the investor community and I would like to wish them all the best for the future.
- Moderator:** Thank you Sir. Ladies and gentlemen on behalf of Nirmal Bang Institutional Equities that concludes this conference. Thanks for joining us. You may now disconnect your lines.