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Operator

Gentlemen, good day and welcome to CCL Products India Limited Q1 FY18 Earnings Conference Call, hosted by Nirmal Bang Equities Private Limited. As a reminder, all participant line will be in the listen-only mode, and there will be an opportunity for you to ask the questions after the presentation concludes. [Operator Instructions] Please note, that this conference is being recorded.

I'll now hand over the call to Mr. Akhil Parekh from Nirmal Bang Equities; thank you and over to you, sir.

Akhil Parekh

Thanks, Basu. Good morning everyone. Thanks everyone for joining the call. We have with us Mr. Srishant Challa, Managing Director; Mr. Sarma, CFO; Ms. Sridevi, Company Secretary; and Mr. PS Rao, Consultant Company Secretary. Without taking much time will hand it over to management for the opening comments, after which we'll move on to the Q&A session. Over to you, Srishant.

Srishant Challa

Yeah. Good morning everyone. The opening comments I'm starting with; the company has achieved a turnover of Rs. 247.98 crores for the first quarter of 2017, 2018, as compared to Rs. 215.99 crores for the corresponding quarter of the previous year. And the net profit is Rs. 27.03 crores, as against Rs. 20.27 crores. The EBITDA is Rs. 48.24 crores and profit before tax is Rs. 38.17 crores.

Keeping in mind that we have an additional 5,000 ton capacity coming online by next financial year, the company is focusing on volume growth from this year itself to gain access to new customers. We are maintaining the same projected bottom line growth up 10% to 15%. However, we are revising our growth guidance from 10% to 15% to 20% growth. We have successfully managed to add new customers who will play a significant role in filling volumes in the future years. Since the agglomeration is expected to come online in Q2 as originally planned, we should be able to start the transition of our customers back to Vietnam by the end of this quarter.

In the domestic market, despite temporary postponements due to lack of clarity on GST, we managed to achieve more than 100% growth in first quarter compared to last quarter, last year first quarter. We would also like to bring to your attention that we have appointed Mr. Praveen Jaipuria as CEO of Continental Coffee Private Limited on 3, July. Prior to this he was heading one of the marketing divisions in Dabur. He's in the process of taking charge of all the operations in the domestic market. Thank you.

Can we go ahead with the questions.

Question-and-Answer Session

Operator

Yes. Sure, sir. We'll look on the queue in the line.

Thank you very much. We will now begin the question-and-answer session. [Operator Instructions] First question comes from Jignesh from GMO. You can ask question.

Jignesh

Hi, Srishant. I just want to know in the raw material front. Last quarter some – there was a disturbance on the import from the coffee from Vietnam because of the government regulation, and we've build up high inventory from domestic market at high price. So is there any impact of high cost inventory which put pressure on the domestic margin?

Srishant Challa

The domestic margin, there's no pressure at all. In fact, the reason for this higher raw material cost is because the customers that's we're targeting right now are customers who will us volumes next financial year.

Jignesh

Sure.

Srishant Challa

We've already did sold about 80% to 85% of our production capacity for this year and we're still just starting Q2.

Jignesh

Sure.

Srishant Challa

So we've now already started selling for next financial year as well. And if you want entry into certain companies, we'll have to ship them certain other products again at lower margins.

Jignesh

Sure.

Srishant Challa

So that's the reason in Q1, we targeted these customers and we're giving them more premium products, which is why normally if we're using lower grades of beans, we're using slightly better quality beans also for these customers.

Jignesh

Understood. That is for spray-dry or freeze-dry?

Srishant Challa

For spray. Freeze-dry was already pre-sold last year itself, so there's nothing that we can change now.

Jignesh

Sure.

Srishant Challa

So we're just executing the contract as we've already completed last year. Now we've started the sales for next year, and next year we will have additional 5,000 ton capacity in freeze dried sides.

Jignesh

Sure.

Srishant Challa

But keeping that in mind, we're focusing on these companies now.

Jignesh

Sure. But any impact that you can say higher of domestic content of coffee because import was not allowed?

Srishant Challa

Yes. Last year – in fact, last quarter and Q4, if you remember, we had procured some coffee in the domestic market, additional coffee seeds were procured.

Jignesh

Sure.

Srishant Challa

So that coffee we've already pre-sold at that point of time itself.

Jignesh

Understood.

Srishant Challa

So that inventory levels and all that will get invested during this financial year.

Jignesh

Sure. Have you currently spent on the brand invention in the first quarter or there is any loss on the brand invention?

Srishant Challa

Any loss on the branded side? Yes, we faced – it was in the brand – again, in this quarter also we started doing some retail activities and all that. So whatever overall consolidated guidance that we had given, we had given keeping in mind this brand spend as well.

Jignesh

Understood. So, which is putting pressure on the domestic margins?

Srishant Challa

Yes, yes.

Jignesh

Understood. And what is happening on the Vietnam right now? The volume would stays slightly longer time than ramp up, is purely because the client are waiting for the agglomeration capacity to provide a more value added product or how is the situation?

Srishant Challa

Actually that is the main reason. In fact, last year in quarter one that same customer had taken substantial volumes, so now we've actually managed to come close to the previous volume even though that customer shifted to India. So with new customers that we're adding in Vietnam of these 350 new customers we have to be very competitive, that's why we have to sacrifice on margins as well. But the benefit from these customers will be seen in the longer run. But that's one of the reasons that we have changed our volume guidance also from 10% to around 20%.

Jignesh

Sure. And what was the concept of export incentive booked in this quarter?

Srishant Challa

This quarter we didn't book anything actually.

Jignesh

So we won't book any export incentive?

Srishant Challa

Yeah. We didn't book any export incentive this time. We will be booking it the subsequent quarters; from this year quarter onwards we will be booking it.

Jignesh

Understood, okay. Thanks a lot. If I have more questions I will come on the queue.

Srishant Challa

Sure.

Operator

Thank you Jignesh. Next question comes from Nitin Ghosar from Invesco Mutual Fund. Your line is un-muted.

Nitin Ghosar

Hi sir. I missed on the explanation which you gave to the earlier participation – participant. The question was more pertaining to the top-line miss that we had during the quarter. And I believe you answered that it's more to do with the customer acquisition mode that you are getting into wherein you have to provide certain products at the lower realization. Is this the understanding?

Srishant Challa

What was mentioned in the opening comments also was that for this financial year we are already pre-sold by almost 80% to 85% and we are still at the start of Q2. So what – we've already started selling coffee for next financial year as well. Most of the customers they do long-term contract, so they need to buy – they need to ensure that they are volumes are tied up well in advance. So in order to get access to these customers we've changed our strategy this year.

We are now trying to get entry into certain companies by offering certain products that we can offer, like spray dried coffee. And we want to introduce these type of coffees to customers by next year. So that's the reason why we have changed our volume guidance also from earlier 10% to now around 20%. Our bottom line guidance, still remains the same. So in other words we will be sacrificing on margin in order to retain these new customers.

Nitin Ghosar

Just slightly more clarification, the new capacities that we are going to see next year, in FY'18 pertaining to the freeze dried.

Srishant Challa

Yes.

Nitin Ghosar

And right now we…

Srishant Challa

Additional capacity of 5,000 tons will come in to freeze dried by next financial year.

Nitin Ghosar

Perfect. And right now we are trying to get an access into the new customer account, who via selling the spray dried products.

Srishant Challa

Spray dried yes, because initially what happens is, any of these big customers they will have a huge spread of products. They will have spray dried and freeze dried, they will have premium products, they will also have certain base products which are very easy to replicate, but at the same time they will several suppliers for these products. So you have to actually bid for the business and show that they are getting a value proposition out of this.

Nitin Ghosar

Okay.

Srishant Challa

So initially we start with a more basic products and then subsequently later on we will go in for the premium products.

Nitin Ghosar

Okay.

Srishant Challa

So this is sort of giving us entry into these companies this year itself.

Nitin Ghosar

Okay. So margin wise we will be seeing a slight bit of dip during FY'18 because we are in more of a customer acquisition mode. It will surely improve once things start normalizing may be by FY'19 onwards.

Srishant Challa

Exactly.

Nitin Ghosar

Okay got it sir. Thank you.

Operator

Thank you. Next question comes from Pritesh from Lucky Investments. Your line is un-muted.

Pritesh Chheda

May be I joined the line a bit late. Last couple of quarters you had highlighted about green coffees stocking done by you on slightly higher pricing and some issues on supply from Vietnam, et cetera. So if you could update us on that and you could update us on the gross profit per kg, which has slipped for the last couple of quarters now, last two, three quarters. So what's the reason and what's your though incrementally on these two parts?

Sarma

Again what is happening is this information whatever we are passing on is something that has to be put on record. And including our customers and our competitors will also have access to this data. So that is something which is going to be decremental for the company, which is the main reason that we are not giving this information.

Pritesh Chheda

Didn't get the answer sir. I asked there was a green coffee import issues in the last two, three quarters and we had a…

Sarma

Yes, in Q4 it was there.

Pritesh Chheda

Yes Q4 it was there and it seems it's visible. Is it there in Q1 also?

Sarma

No, no, no, not at all. Q4 was something which was again something that has to do with the Government of India policy change which happened in the first week of March. And it was resolved within two weeks itself. Within that two-week period so that our production does not get affected, we procured coffee in the domestic market and we executed the contracts. And we subsequently sold that coffee also.

Q1 onwards there were basically surprises or anything at our end, we just changed our strategy to focus on customer acquisition and we are focusing on volumes.

Pritesh Chheda

Okay.

Sarma

So our bottom line items and all remains 100% the same.

Pritesh Chheda

Q1 doesn't have any green coffee higher prices-related issue, it's just that the spread has contracted because of lower selling price.

Sarma

Actually the green coffee prices being higher is because of a kind of product blends that we are doing. There are certain customers where we may be doing a more premium product, we may use plantation coffees, for example, instead of lower grades of coffee. It depends on what blend the customer wants. So it's actually that keeps changing from quarter-to-quarter, it depends on the order book and order position. What we do is, we look at it on a blended basis, because you can look it on a quarter-to-quarter basis or on a month-to-month basis, it will not give a clear representation.

Pritesh Chheda

Okay. And what's your guidance which you gave out now you said that your volumes will grow 20%.

Sarma

20% yes.

Pritesh Chheda

Okay, instead of 10% earlier.

Sarma

Yes that's correct.

Pritesh Chheda

And correspondingly it should be adjusted with a lower gross profit, per kg., or whatever.

Sarma

Exactly, yes.

Pritesh Chheda

Right, that's how it is?

Sarma

Yeah. Yes that's correct.

Pritesh Chheda

And what is the – last question what is the status on the expansion that we were doing in utilization of it?

Sarma

The expansion will get completed by next financial year. By Q2 of next financial year we will be coming into production. And we are on track for that.

Pritesh Chheda

Okay. This was the spray dried…

Sarma

Freeze dried unit, yes.

Pritesh Chheda

Freeze dried given. Okay, thank you.

Operator

Thank you. [Operator Instructions] Next question comes from Suhas Naik from IL & FS.

Suhas Naik

Yeah, good morning, thanks for the question opportunity. I have one question with regarding, you added, you are now expanding the market, you are trying to get new customers that's why you are selling it a bit cheaper and this is why you say the incremental margins could be lower. But what happens to the existing other business? The existing business also will have a fall in the margin profile or you will continue to enjoy the high margins that you used to earlier?

Srishant Challa

That's a good question. The existing business we are continuing with the same margins because most of the contracts were already done last year itself.

Suhas Naik

Okay.

Srishant Challa

So we had a clear visibility for that. What we are doing now is we are actually not focusing more on this year, we are focusing more on next financial year sales.

Suhas Naik

Okay.

Srishant Challa

So in order to achieve next year's targets to increase the volume growth, we started selling additional volumes this year and we are being more aggressive. So overall on a blended basis, it's coming down. So whatever profitable business that is already there will continue to be there.

It's the additional business that we trying to get that we are doing it very aggressively in the market. And because of the economies of scale that we have, we already have on advantage but we want to get a much better value proposition for the customers, so that we can retain them for a long time.

Suhas Naik

Okay, but then in category your Vietnam operations would go back to the original profitability, when the thing settles down, when the plant comes back?

Srishant Challa

Actually original profitability will be difficult because when your volumes increase the way they are increasing right now, it will come down a bit, because quarter one and quarter two, the one of our most profitable customers we've shifted them to India.

Suhas Naik

Okay.

Srishant Challa

And we are loosing half the year because of this and the new people that we are adding right now, they are coming in with much lower margins.

Suhas Naik

Okay.

Srishant Challa

So the volumes are going to go up, so the effective bottom line will also go up, but there is going to be – the EBITDA margin is going to come down.

Suhas Naik

Okay. But there is no impact on this raw, supposedly raw material price increase as green coffee plantation.

Srishant Challa

No the raw material prices will not impact us for the simple reason that we, whatever decisions we have made, we buy and sell at the same point in time.

Suhas Naik

Okay.

Srishant Challa

So, if you are willing work with zero margin also if required to acquire customers.

Suhas Naik

Okay.

Srishant Challa

Yes.

Suhas Naik

So next year FY'19 you will then have 5,000 tons of freeze-dried available for you, which you would like to book now in the next two three quarters. Correct?

Srishant Challa

Yes.

Suhas Naik

And if that happens, and if you manage to sell this coffee for the next year, then actually your burn rate should go up, because freeze-dried will have a higher margins I guess.

Srishant Challa

Yes, that's correct.

Suhas Naik

Okay. So that's why 2019 could be a very good year for us, if we fall in place. Okay.

Srishant Challa

Yes.

Suhas Naik

Okay, great. Thanks for the update.

Srishant Challa

Yes.

Operator

Thank you Suhas. [Operator Instructions] Next question comes from Rahul Maheshwari from IDBI Mutual Fund, your line is unmated.

Rahul Maheshwari

Good morning, thank you for the opportunity. Three questions currently, as in your opening remarks you had told that your capacity current in quarter one itself has gone to 85% to 87% and you are targeting for the next year, when your capacity would be also coming, so in going forward in the second half of the year or in quarter two, how you would manage your, if the orders are more excess, because you are currently with your maximum optimum capacity right now.

And the second question is on the CC, Continental Coffee, in current quarter what was the growth and what was the strategy and going forward any guidance for the year, that how much would come up?

Srishant Challa

So first question with respect to the current utilization is that we already at that peak levels right now. If you notice in the history of the company, usually Q1 and Q2 are the lean quarters and Q3 and Q4 are going to be the peak quarters.

Rahul Maheshwari

Okay.

Srishant Challa

So this year Q2 itself we have booked substantial orders, so Q2 onwards we will be filling additional volumes.

Rahul Maheshwari

Okay.

Srishant Challa

So that's how we will be able to cater to the existing demand. And once this equipment instillation is completed this customer will be shifting back to Vietnam, so that we can focus on the volume growth in Vietnam accordingly. And from India we will have that additional SUR capacity to do that additional growth within India as well. So…

Rahul Maheshwari

But then Vietnam as you told that once the customer gets shifted to Vietnam plant the current rates are 10,000 ton plant and we are at 60% to 65% capacity utilization. So don’t you think they once the customers get shift, we may loose a opportunity loss, if we can’t have sufficient capacity.

Srishant Challa

No, in fact once this satellite, this 60% is what we had done last year, which means in quarter one, there was in fact substantial quantity that we have supplied to this particular customer which we have executed this year from India.

Rahul Maheshwari

Right.

Srishant Challa

So we added some new customers in Vietnam that enabled us to do what we have done in this quarter at least.

Rahul Maheshwari

Okay.

Srishant Challa

So that is one of the reasons why we have to sacrifice margins in Vietnam in this quarter. And once this customer comes back to Vietnam next quarter onwards, automatically we will start seeing that benefit. And overall our prudential end objective or our end target is on a bottom line basis there should be a…

Rahul Maheshwari

Bottom line the situation would be the same because it would be offsetted by – means higher volume growth would be there and lower realization. So in FY‘19 once the capacity comes your effective bottom line would increase actually the margins per se.

Srishant Challa

Yes, so the topline and bottom line will not be the same ratio as it was earlier.

Rahul Maheshwari

Okay.

Srishant Challa

I think the EBITDA margins were much higher last year, so that margin will come down. But the effective bottom line will be higher than what it was last year.

Rahul Maheshwari

Okay. And then Continental Coffee can you give some data points that during the quarter what was it and guidance for the year.

Srishant Challa

Okay, so the broad numbers for the domestic brand actually for the domestic market was around Rs. 50 crores.

Rahul Maheshwari

Okay.

Srishant Challa

Rs. 50 crores was what we had done that includes branded sales, that includes institutional sales, it includes private label sales as well buying everything thing in the domestic market.

Rahul Maheshwari

Okay.

Srishant Challa

So overall that Rs. 50 crores were expecting it to be between Rs. 85 crores to Rs. 100 crores this year. And the actual branded sale two years ago what was Rs. 4 crores, last year we did about Rs. 12 crores in the B2C segment.

Rahul Maheshwari

Right.

Srishant Challa

That Rs. 12 crores we are right now we plan them doing around Rs. 35 crores this year.

Rahul Maheshwari

In B2B?

Srishant Challa

Yes, not B2B, in the branded segment, B2C segment.

Rahul Maheshwari

It's a B2C segment, last year it was Rs. 12 crore and this year you might target to Rs. 35 crores?

Srishant Challa

Yeah, we should cross that but say a customer and doing as above 35.

Rahul Maheshwari

Okay. And as you told that you have done some amount of branding during the quarter. So that is why some margins got affected but your other expenses has been on an overall basis, on standalone and consolidated basis it has been on decreasing trend. So where the actual audit was the promotional kind of things which is being adjusted to the top line?

Srishant Challa

All the execution is still being done for the certain company. So we are not say it's a complete full reflection in the domestic entity because of this GST coming on board and all. Now that registration and everything it taking place we thought from Q2 and Q3 onwards we'll do the transition completely. So that is why the numbers also will not come across very clearly at this point in time. So that's right, like any doubts the questions that we have I can help out with the actual data.

Rahul Maheshwari

Okay, okay. Thanks a lot.

Operator

Thank you. Next question comes from Jayprakash from India First Life. Your line is unmuted.

Jayprakash

Good morning, sir. Thanks for the opportunity. Just trying to understand as 80% to 85% which we are booked for this year it include both spray dried and freeze dried?

Srishant Challa

It's almost 100% capacity, we've already pre-booked all this last year, the balance is in spray. So about 65% to 70% was already pre-booked in spray, overall blended basis around 80% to 85% is what I was mentioned that we are already pre-booked.

Jayprakash

Okay, and what are escalation class when we book the order I mean when did the next price raise of the margin can we see on these booked orders.

Srishant Challa

And seeing the benefits coming in.

Jayprakash

Hello?

Srishant Challa

Next year itself, we will see that benefit like this year, we are focusing on that additional volumes using spray dried and spray dried as almost everyone knows it is a lower margin business.

Jayprakash

True.

Srishant Challa

Freeze dried we don't have that capacity to offer even if we wanted to. So next year onwards since we'll have that additional freeze dried capacity as well, the margins will improve because of that.

Jayprakash

Okay. And can you highlight some competition intensity overall I mean freeze dried as well as spray dried do you seeing any people spending or building out capacities in the next two, three years?

Srishant Challa

Actually at this point in time, I don't think so because most they are more than 50% to 60% additional capacity which is already bought in the market and the people are just struggling to fill that capacity right now. The only reason that we as an exceptional case are able to grow up the space that we have been able to grow because we have multiple advantages with us one we already have this relationships that we are build up in the last 25 about years apart from that we have a good team that has created several products over the years. And we have the advantage of economies of scale but others don't.

So it's a combination of multiple things that gives us one added advantage over everyone has. So that is why if you have to increase our volume growth by say even 10% or 20% we literally just have to add about 5 or 16 customers and these are volume customers. And based on the customers they wouldn't go to any smaller guy, we need to have a minimum 50,000 to 20,000 production capability in order to taker to these customers.

Jayprakash

Okay, understood sir.

Operator

Thank you. Next question comes from Jignesh Kamani from GMO. Your line is unmuted.

Jignesh Kamani

Over strategy in much more clear as you say to focus on the next year once our freeze dried capacity is available. So we are slightly more greater in the pricing of the new customer. So its more temporary nature or the spray dried our contract which we enter into this customer. Next year or following year also the pricing will remain same for this spray dried contract or we won't supply the spray dried to them or it might be a better pricing next year.

Srishant Challa

Spray dried, where you have maximum competition which is already there in the world, we have been focusing more on premium products and all that which is why we were getting better margins. So this year also we do have that existing business the more premium business, modified business all that is there. But we are also targeting certain volume business in bike, where your margins are much lesser. So the objective again is to get new customers so that we can supply more premium products in the long run so that is where we'll get that.

Jignesh Kamani

Understood your point. So gradually are the volume contract with better pricing, we will gradually shift them to premium product and supply less of the lower end volume product or how is that?

Srishant Challa

Additionally supplied, as in water like any customer scale that we are talking about they will be procuring a range of products. They won't buy only one product, the range of products include a basic product which they can procure from anybody whoever is offering the lowest possible price. You have certain specialty blends where they have higher margins, certain products that reinstate that your margins maybe a little bit more also.

Jignesh Kamani

Okay.

Srishant Challa

So initially any customer they don't want to take a risk with high margins or high quality products because if there is any variation they have been get into it as well and they create a track record with the company by asking you to supply a base products. So that is what we are doing right now, we are showing that just whatever quantity or volume they need we can depreciately and affectably supply whatever they need and that will create a foundation of base which will enable us to do additional volumes with them, this year and in the subsequent years.

Jignesh Kamani

So in this process, let's say one or two year, once we created a foundation and make entry into premium product, which also reduce supplying into low, high volume low margin product to this customer which is right now its slightly more aggressive pricing?

Srishant Challa

We will continue to supply the same products to these customers in the future as well. It will be adding premium products as well, so there will be additional volumes coming in which will eventually pull up that margin base as well.

Jignesh Kamani

Sure, understood. Okay, thanks.

Operator

Thank you, Jignesh. Next question comes from Tushar Bohra from Reliance MF. Your line is unmuted.

Tushar Bohra

Good morning, everyone. Srishant just a clarification on a few point, so our numbers, I understand the whole concept around trying to sell more – so increasingly volume but overall our revenue has also gone down YoY. So I understand the growth not been there but why should it decline because the existing customer base is already there with us, right?

Srishant Challa

Yeah. So one of the mistakes that we're making is by looking at it in a quarter-to-quarter basis, if you look at the history of the company, Q1 is always the most lean quarter that we have. And last year was an exceptional Q1 only because we had executed Q2 orders also in Q1. We give that we were going to do a plant shutdown in Q2. And the plant shutdown which anyway since we're doing a freeze dried plant shutdown. We also wanted to do a spray dried plant shutdown because we have to do certain maintenance activities and all that. So we had executed all the orders in Q1. So last year Q1 was exceptionally high, which is not the normal trend in our company – in any profit company for that matter.

Q1 and Q2 are typically the most lean quarters so that is why it appears that there is a reduction, but in reality the facts that on a regularized quarter, the fact that we have done this kind of volume itself shows that the trend is different.

Tushar Bohra

Right. So on a regularized basis, do we have a double-digit volume growth in this quarter YoY?

Srishant Challa

Yes.

Tushar Bohra

And we maintain 15% pad growth for the full year broadly in that range for FY2018 over FY2017?

Srishant Challa

Yeah, bottom line growth, yes we have 10% to 15% is what we have projected, we're sticking to the same thing. Top line growth early as I mentioned around 10%, for now we're changing that about 15% to 20%.

Tushar Bohra

Okay, fair enough. Can you also help with an update on the U.S. market Srishant, what is our plan and is there any – there were a lot of development happening regulatory we're expecting few positives.

Srishant Challa

Yeah.

Tushar Bohra

If you can give a status update?

Srishant Challa

To be frank you know this is something which I've mentioned several times also U.S. market is something that we're not very positive about or anything at this point in time, because there is no clarity right now. There is always something on the other that is coming up and it is – there are several people who are – who have a huge vested interest over there whether doing a lot of lobbying. So I'm not sure if you will see any significant change taking place over there any time in the near future. Whatever comes in, in the U.S. will be always plus-plus. And as and when that does come, we will be able to ramp up volumes also very easily and very quickly.

So the two issues in the U.S. market; one is FSMA issue and the second is the border tax. So if border tax is impose, then Mexico who is the current biggest competitor because they have close approximately to the U.S. market. They are going to be negatively impacted. That is boost for all other countries. From the other hand is FSMA is implemented that is this economic adulteration is bang. Then Mexico and Brazil will be both severely impacted. And we will get a significant entry into the U.S. market. So at this point in time, so the awareness that can actually create this, under awareness is right now not bad.

Tushar Bohra

Fair enough. Coming to domestic business if you could just help in a bit more detail on the strategy understand we now have a new CEO for the business and also transitioning to the subsidiary fully that business by Q2 I believe you mentioned.

Srishant Challa

Yeah.

Tushar Bohra

So if you can just give more detail exactly what other plant and from a numbers perspective also, the incremental that we're seeing from Rs. 52 crore about Rs. 80 crore, Rs. 85 crore, most of this we're expecting to be driven by B2C, that’s correct?

Srishant Challa

Yes. So just a broad break up of this about Rs. 50 crore is what we're done in the domestic market that we're expecting to go up to Rs. 85 crore to Rs. 100 crore this year. That includes B2C segment, tenders, the volume business and the private label business. The private label business we're expecting maybe a 5% or 10% growth only. The tender business also maybe less than 5% growth is what we're actually expecting. The significant growth is going to come from the B2C segment. So what we did two years ago Rs. 4 crore in the B2C segment grew to about Rs. 20 crore last financial year and Rs. 12 crore to Rs. 35 crore with a target that we have for this financial year.

Tushar Bohra

And so what would be the earnest invest number we've outlined to build this business for the year?

Srishant Challa

Yeah. So the investment wise, we had actually projected to spend around Rs. 30 crore in the first three years. That is the same number that we're looking at. And the initial response that we've seen also if you've noticed in Q2, we did some promotional activities in Andhra region that's one of the things which I had mentioned earlier. So the response as then earlier we were getting the whole of Andhra Pradesh whole year, we did Rs. 2 crore what the sale. In spite of at this GST postponements and all that in Q1, we did Rs. 1.20 crore for the sale in Andhra alone. So the growth has been literally four times in this first quarter itself for the B2C segment in the branded sales. So the response has been much more than what we had originally anticipated.

Tushar Bohra

Great. And this Rs. 30 crore that we're outlined, we're in the second year now from an investment perspective.

Srishant Challa

No. This we give the first year actually. Last year we had just spent hardly Rs. 2 crore, Rs. 3 crore or something of that. So that Rs. 30 crore actually from looking at on a calendar year basis if you look at it 2017, 2018 and 2019.

Tushar Bohra

Okay.

Srishant Challa

Three years. We wanted to spend alone Rs. 30 crore to achieve significant footprint.

Tushar Bohra

Of which we would have spent maybe Rs. 10 crore already or…

Srishant Challa

No, not so much there is about maybe about Rs. 4 crore or Rs. 5 crore in that.

Tushar Bohra

Okay, sure. And so eventually we are expecting the entire to be spent coming from the same business itself or will the parent be exceeding the investment.

Srishant Challa

That again difference on a few other factors including this new accounting system that we are following. So I mean, its difficult for me to say by minus. Easier way, the final bottom line is that we are factoring in this expenditure while giving our guidance. So in other words, without this spend we will actually get that 20% growth this year also. This is spend wasn't there. So after factoring with them that's why we're same kind of looking person.

Tushar Bohra

Okay, great. Thank you so much Srishant. That's all from my side.

Srishant Challa

Thank you.

Operator

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

Akhil Parekh

Hello, Srishant. My question is agglomeration unit at Vietnam, we should start expecting the sales from that unit from third quarter, right, this year?

Srishant Challa

Pardon. I didn't get you.

Akhil Parekh

The agglomeration unit in Vietnam…

Srishant Challa

Yeah.

Akhil Parekh

So the sales we should start expecting to come from third quarter.

Srishant Challa

From this quarter itself we will start being an increase in sales. What we are doing is that because we already added some new customers over there and since we'll be transitioning this customer who came to India back to Vietnam towards the end of Q2 will be transitioning them back. So we'll start seeing that increased volumes from this quarter itself – from Q2 itself.

Akhil Parekh

Okay. And you mentioned that this clients with – two clients, which were transfer to India they were like big clients, right, in terms of volumes.

Srishant Challa

Yeah. So actually…

Akhil Parekh

Will be able to given ballpark number in terms of percentage wise how much they work with the consumer or coffee?

Srishant Challa

That will actually be a big determining for us because again you also know this information can be…

Akhil Parekh

Maybe like a program it like I'm not asking for…

Srishant Challa

But I can just say that at least about 200, 300 tons for quarter thereby.

Akhil Parekh

Okay, okay, good. In terms of – I was reading few news articles recently and Vietnam I'm seeing this news like the farmers have already presold their harvest, because the prices have good. Are we facing any trouble in terms procuring coffee beans in Vietnam?

Srishant Challa

Actually, not at all. This information is also not correct.

Akhil Parekh

Okay.

Srishant Challa

To be frank, there are a few funds which have taken position in coffee. So they're trying to disseminate wrong information to actually influence the coffee prices.

Akhil Parekh

Okay.

Srishant Challa

The ground level reality is that Brazil, there's going to be a bumper cloud this year. Vietnam also the volumes are actually gone up earlier there was wrong information disseminated same that there's some prospects going to be there and all.

Akhil Parekh

Yeah.

Srishant Challa

But at the ground level, everybody knows that nothing like that is actually there. So there's no shortage anywhere. In fact, it's the other way around, farmers are willing to come directly and sell even today. So there's absolutely no issue with respect to supply at all.

Akhil Parekh

Okay, okay, fair enough. And so in terms of new clients, right, that we are getting it right now. So how much that would be like the end of FY2018, like maybe like what kind of numbers or what kind of volumes we're expecting from like proportion whereas new versus the existing clients?

Srishant Challa

I think from where, from which…

Akhil Parekh

The new clients, which we are getting it right now.

Srishant Challa

From Chittoor plant, okay. So these going right now because of the capacity constraints we have very few limited customers with us.

Akhil Parekh

Okay.

Srishant Challa

And whatever enquiries that we are getting we actually have to say no to several people, because we didn't have that sufficient capacity. For next year, the smaller customers and all we can easily created to that's not an issue, but with 5,000 tons additional capacity we have to target customers to buy larger volumes.

Akhil Parekh

Okay.

Srishant Challa

These people are give the [indiscernible] (44:36) who are there. And these people do substantial volumes every year. Now if you want entry into anyone of these company, you need to establish a profit track record and give them a price incentive as well. So we've started that process this year by offering straight drive. We couldn't offer because we were already presold almost 100%.

Akhil Parekh

Okay.

Srishant Challa

But straight line we have been able to offer and we're saying that has established the relationship first and then once we said comes online and we can offer you that product, that's why.

Akhil Parekh

Okay. So this new clients, which we have – they're mainly from India or they're like…

Srishant Challa

No, they are just one actually. Its Vietnam also we have added new customers, India also we have added.

Akhil Parekh

Okay. So, this…

Srishant Challa

In fact even Switzerland we added. To be frank, this quarter was quite good for Switzerland also for presently.

Akhil Parekh

Okay, okay. So last question for this continental coffee brand, any new cities or states where we have rolled out our business, I mean the coffee in this quarter?

Srishant Challa

Pardon.

Akhil Parekh

For continental coffee brand, have we rolled out in any other new cities or states during this quarter?

Srishant Challa

No. We have been got any new places for the existing places itself like mainly because of the GST issue last month, in fact, in the month of June, we already had confirmed the orders of substantial quantities and all those orders they requesting for the postponement till first week of July, because until the last minute that clarity was not there. So that is why we also accepted the request and we did the dispatches in the first week of July. And in spite of this postponement we have seen almost a 100% growth in the domestic volume that we did last quarter, in Q1.

Akhil Parekh

Okay. And last question regarding the freeze dried plant, which is going to get operational by, so like, when should we start expecting the sales to come from this freeze dried plant, like…

Srishant Challa

Q2 itself, from the…

Akhil Parekh

Q2 FY2019.

Srishant Challa

We starting of the plant immediately we'll start operating it.

Akhil Parekh

Okay.

Srishant Challa

And yeah, that’s why our target is we have to fill maximum possible volume over there. So that again we have to take a call and how and that’s why we want to be. So that will depend on number of other factors till, but we will get more clarity during the year.

Akhil Parekh

Okay. So Q2 FY2019 years, okay.

Srishant Challa

Yeah.

Akhil Parekh

Okay. All right. That’s all from my side. Thank you so much.

Operator

Thank you Mr. Akhil. Next question comes from Akash from Bio AXA Investment. Your line is unmuted.

Akash Maghni

Yeah, thanks for taking the question BOI AXA. So you indicated earlier that these new clients that you’ve got on board in this quarter, so giving them your product sort of much lower margin. Is it a much lower margin or are you selling them at a loss right now. Because if I look at your gross margin that kind compression that has been there and assuming that your first 12 products were trading at similar margin, seem as though that – there is a significant loss of gross margin because of these new clients.

Srishant Challa

Lot companies that work with this model that they are willing to supply even at losses required just to acquire customers. But as of philosophy that is something that we do not do. We are willing to supply with zero margin if necessary, but we wouldn’t actually supply at a loss.

But only reason is because, yes, we are doing larger volumes with extremely low margins. That is the reason why overall blended basis, the numbers have come down as far as the bottom line is concerned.

Akash Maghni

Okay. And what will be the contribution from these new customers in this quarter – in Q1.

Srishant Challa

Actually there is a significant contribution from the new customers. Typically Q1 is always the lean quarter for us. So we have always excess capacity that is available in Q1. So we use that excess capacity to acquire these new customers. If you look at the track record last 20 years also if you see, Q1 is always most lean quarter. Last year was an exception, because Q2 we will be shut down and we executed rather than Q1. But apart from last financial year, every year Q1 is the lean quarter that we have.

Akash Maghni

So once you're BS business picks up going forward in Q2 and beyond.

Srishant Challa

Yeah.

Akash Maghni

Will you still maintain the same volume commitment to your new customers or it's still short of not committed volumes or how does that find out for the year?

Srishant Challa

No, we are because – okay, so Q1 being our usually the most lean quarter, Q2 is the second most lean quarter. So from this Q2 itself we started filling the volume. So the order position also is really good for – from Q2 onwards. So we will continue to give that volume. And once this customer comes, goes back to Vietnam, we will get some spare capacity in India, which we can utilize for our existing customers again. So we are planned everything in such a manner that Q1 and Q2 which are the lean quarters we can optimize that to maximum in this year.

Akash Maghni

And normally in your experience, when you get onboard these new clients and give them a much lower margin, how soon is it possible for you to take it back to your normalized margin?

Srishant Challa

So these customers that's one of the point that I was trying to explain earlier, any customer that they are getting in with this low margins. The customer has a wide range of products that they procure. So we are not likely to get any improvement in margins for these products in the future also. But the reason why there will be an improvement is because we will be offering them more premium products, which has higher margins as well. So in the volumes of those products increase that is when the overall blended margins also will increase for the company.

Akash Maghni

Okay. Fair enough. And the other thing is, I thing on the previous calls you have indicated that from your Chittoor plant you would expect something like Rs.300 crore odd by FY2020 if it would operate at full utilization.

Srishant Challa

Yeah.

Akash Maghni

And my sense is that the margins over there are much higher than your company average. Given that you are planning to be standing more aggressive on customer on boarding and you are okay with diluting EBITDA margins early on. So what could the margins be for this new plant, I mean, it could be starting off with significantly lesser and then it will take two, three, four years to ramp up to a company level and then go beyond or…

Srishant Challa

So this is some initially we'd thought, we will focus on – winning about 50% of the capacity in the first year itself. So that was the target, but based on the number of factors being the demand, response and competition, we may have to keep modifying this strategy during the course of this year.

So one, there are existing customers – the existing competitors are already there who do have spare capacity with them. So because of the current shortage in three state, which is there in the world. There is that additional margin that we are able to maintain or sustain at this point in time. But once we have that additional capacity we will be want to actually fill capacity 100%, we have that option of doing so, but that will significantly reduce our margins. We want to draw a balance a little bit more carefully, so that is something that we will have a little bit more clarity during the course of the year.

Akash Maghni

Okay. And based on your existing plants by when do you plan to do 80%, 90% of utilization in that new plant or you are already getting orders, I believe right for that.

Srishant Challa

Yeah. So in fact this year itself we were planning about 75% to 80% or so. So from last year 60% to 75%, 80% is the target that we have this year.

Akash Maghni

No, I'm talking about the Chittoor plant.

Srishant Challa

Oh, the Chittoor plant.

Akash Maghni

Yeah, yeah.

Srishant Challa

So Chittoor plant initially I think they are targeting around 50% in the first year and that 80% utilization we should get within the first two to three years. Three year is more…

Akash Maghni

Okay. Okay, and that should be all from my side. Thanks a lot and wish you all the best.

Operator

Thank you. Next question comes from Nitin Ghosar from Invesco Mutual Fund. Your line is unmuted. Nitin your line is unmuted, you may go ahead please.

Nitin Ghosar

Yeah, thanks. My questions have been answered, sorry.

Operator

Thank you, Nitin. Next question comes from Rahul Maheshwari from IDBI Mutual Fund. Your line is unmuted.

Rahul Maheshwari

Thank you once again. Just wanted, have you mentioned that Switzerland Agglomeration plant did well? So can we expect that last year the plant was going, and structuring was going, was taking place? So this year what kind of growth and you told that in Agglomeration you are packaging and giving at a – you are getting good margins. So can you give some quality data points for the year? And that Switzerland plant whether we would be going for more capacity kind of thing.

Srishant Challa

Yeah, obviously it has a 3000 ton capacity and whatever volumes that we are seeing, whatever growth that we have seen in this quarter also is mainly because of our local person the restructuring that we have completed. The targets that we have given our local management over there, is that this year we should at least target breaking even, right. So even if we don't – as long as we don’t make a loss, but itself should be sufficient right now. We can focused on more volume growth and couple of other things, in due course what we have planning.

Right now, breaking even itself is a major challenge, because we are targeting again local customers. End of the day, you need to be a local person to have access to the local monitored over there. But this will – Director as we have appointed, he has now gone into it. He is now targeting the local institutions as well. Like how we are doing institutional trades and brand using, so with here. He is also focusing on the institution segment over there.

And one major advantage that is there in Switzerland for us is, all products that we supplied from India to Switzerland is that we will duty it. From Europe to Switzerland will be at almost 9% duty. So because we are supplying from India, we can actually that include this local Swiss market more effectively, so we’re using all much through over advantage right now.

Rahul Maheshwari

Okay. So currently the plant in agglomeration, it’s not a similar kind, what a freeze dried plant is there? So can you give a data point that in Switzerland, what kind of market is it, I mean that in USA, it’s more robust our coffee which is there. Can you highlight that going forward? You may venture or – as you have kept our local person, who is coming into branded sales and all those things?

Srishant Challa

Yeah. Within in Switzerland, it is a blended market of freeze fried as well as agglomerated coffees. Powder is virtually – mainly agglomerated and freeze dried, and all the – only two or three main big brands which have completing in the local Swiss market over there. And that keeping extremely high margins and then selling it in the domestic market within Switzerland. So in fact our Swiss Director, he wanted to use this product advantage, he is saying that because, as there are no other competition. There are no other local manufacturers.

In coffee manufacturing, it’s basically Nestle and next is it’s us. Because nobody else over there. But these products will continue to be manufactured even in India or Vietnam. We will take this base product to Switzerland. And we will repack it within agglomerated because freeze dried is just pre-packing. And then we will sell it in the local market as much higher margins. So the data points also, if you’re looking at volume-wise, it will be very in significant. But because the margins are quite good, we will be able to hopefully breakeven on this year itself.

Rahul Maheshwari

Okay. Thanks a lot.

Srishant Challa

Yes.

Operator

Thank you, Rahul. Next question comes from Rahul Kundnani from Mahindra Mutual Fund. Your line is unmuted.

Rahul Kundnani

Hi, sir. I just had question on the Indian coffee market. How do you see it growing? What is the size in terms of instant coffee and other coffee?

Srishant Challa

So the Indian coffee market is predominantly as prescribed as it debate to two parts. One is the pure coffee segment which is agglomerated coffee and the other segment is chicory coffee blends, which is dominated by HLL. So Nescafé and HLL, they have a duopoly within the country. And the market is also divided between north and south, north playing the most pure coffee market and south playing chicory coffee in the market. What we have done is, we've actually introduced both products, we have pure coffee as well as chicory coffee blends and depending on the region, we are pushing those products which are already doing well. For example, in north we are pushing more of Continental Speciale, which is a pure coffee blends and in south, we are pushing Continental XTRA, which is chicory coffee blend.

And at this point in time, we are frankly just to challenge our brand we are giving an alternative product. We put our MRPs on par with the existing competition and people who – anytime we do a re-sampling activities or VPL activities. But people taste our products, automatically we feel that they are shifting over to us. So our growth primarily has been only because of sampling. It has not been – because pretty advertising of any soft that we will get. So it's product acceptant to something that we have seen very good response for our product.

Now going forward also, we want to introduce a wider range of products, which even the current competitors do not have. Because of what spend that CCL has, we can introduce these products at more effective price point and we will not have competition in this segment at all. So we will think that the new CEO is going introduce in the next couple of months. So we are strategizing on that right now. And whatever numbers have guide that are given also for the domestic market is excluding the potential growth that will come in because of the new CEO.

Rahul Kundnani

Sir, in terms of tons what is the size for the Indian market?

Srishant Challa

What is the price of the finish product?

Rahul Kundnani

No, no in tons, tons the size for the Indian market.

Srishant Challa

The size, the B2C segment is approximately around 10,000 tons.

Rahul Kundnani

Okay.

Srishant Challa

And if we packed-in the B2B side alone, the institutional segment and everything, it will be about maybe 14,000 to 15,000 tons.

Rahul Kundnani

Total?

Srishant Challa

Yeah, total.

Rahul Kundnani

All right, sir. Thank so much, sir.

Operator

Thank you, Rahul. Next question comes from Anuj Jain from ValueQuest Capital. Your line is unmuted.

Anuj Jain

Hi, Srishant. I have one clarification, as you explained that in Q1, Q2 because these are lean quarters for the company and to use the excess capacity. We went for basic products, which have less margins because of which our profitability got hits. So correct me, if I am wrong, my understanding is that then in Q3 and Q4, the proportion of this basic product as percentage of total sales will be less and we will be back at high margins and we will back at higher profitability. Correct me, if my understanding is wrong and…

Srishant Challa

It is correct. So what we have done this year is whatever volumes that we are getting with this new customers because there important customers for next financial year, we will be executing at least a small quantity of products in Q3 and Q4 as well. So whatever impact that we have seen now because of that higher volumes we will be making up in the form of bottom line in due course, in the next couple of quarters.

Anuj Jain

Okay. But the proportion of premium products will go up significantly in Q3 and Q4 right?

Srishant Challa

Yeah, usually that's what happens. So the premium products will go up, but because of volume basis also going up. Overall blended basis the margins we compared on a quarter-to-quarter basis, the margins will be lower than what they were last year.

Anuj Jain

Understood, understood. Thanks, thanks a lot.

Srishant Challa

Yeah.

Operator

Thank you, Anuj. Next question comes from Abhijit from IIFL. Your line is unmuted.

Abhijit

Yeah. Thanks a lot for taking my questions. Just wanted to understand – we are talking about 10 percentage points of incremental volume growth compared to what we were planning earlier. So these volumes are going to come from the India capacity or is it a faster ramp up in Vietnam that we are planning this year?

Srishant Challa

The 10 percentage the guidance that we are given at the beginning of this year, which is that 10% we've changed into 15% to 20% growth.

Abhijit

Yeah, yeah.

Srishant Challa

Earlier our projected numbers has been keeping the bottom line in mind, we were thinking of the 10% should be sufficient, but since we had already threshold for this year most of the capacity. We were actually looking at next financial year. if you're keeping next financial year in mind, the only way we could actually acquire customers is by getting a foot in the door this year, and since we had the decisional capacity in Q1 and Q2, we thought let us offer to these customers and acquire than this year. So that we'll see the benefit in the subsequent year.

Abhijit

Right. So just to clarify, the increase that we are taking about from 10% growth to 20% growth now that is coming mainly from the India capacity in 1Q and 2Q, is that correct?

Srishant Challa

Both places actually. Both India and Vietnam it's coming from.

Abhijit

Okay. Because I thought that pending this agglomeration equipment being setup in Vietnam, customers are not buying from there right now.

Srishant Challa

No, there is only one customer who is there in Vietnam, so in spite of not having that customer buy so much in Vietnam in this quarter. We still managed to do a significant volume from Vietnam this year only because we managed to add some new customers over there. So our volume guidance that's the reason why we are increasing it. Earlier we thought, okay, if we are achieving the final bottom line that should be sufficient, but now our content is not just achieving the bottom line this year, we are also looking at filling additional capacities for next year. So that is the reason for the slight change in strategies, which is why that volume or capacity utilization in Vietnam will be looking more this year.

Abhijit

Understand, that's very helpful thank you. And just one last clarification, if possible for you to put some color on this. Just on a percentage basis, would it be possible to allude to how much growth there has been in volume without putting any absolute numbers out there?

Srishant Challa

Any growth in volumes compared to when?

Abhijit

Compared to last year's 1Q.

Srishant Challa

Volumes wise it was maybe 4%, 5% lesser impact. Yeah, because last year that volume whatever we have done, we are literally combined two quarters into one quarter last year.

Abhijit

Understand.

Srishant Challa

So if you compare Q1 and Q2, as an comparative basis from last year to this year you will see much significant growth, which is more apparent. So from this quarter onwards in other words you will see actual volume growth.

Abhijit

Sure, sure, sure. So in 1Q Vietnam came close to matching last years volume, whereas India was significantly lower because of the fact that we had taken this pre-booking last year in 1Q?

Srishant Challa

Yes.

Abhijit

Understand, thank you so much. Wish you all the best.

Operator

Thank you, Abhijit. Next question comes from Gaurav Chopra from Centrum. Your line is unmuted.

Gaurav Chopra

All my questions are answered. Thanks.

Operator

Thank you. Next question comes from Sneha Talreja from Edelweiss. Your line is unmuted.

Sneha Talreja

Your participant you’ve seen 4% to 5% decline in volumes compared to last year, but that was mainly because of the high base of last year on a like to like comparison you’ve seen a double digit growth right? Hello?

Srishant Challa

We can’t hear you at all.

Sneha Talreja

Hello?

Srishant Challa

Hello?

Sneha Talreja

Sir, can you hear me now?

Srishant Challa

Yes, now its better.

Sneha Talreja

Sir my question was pertaining to the earlier participant’s question. We’ve seen 4% to 5% decline in volumes compared to last year Q1, but that was mainly because of the high base of Q1 last year. If I have to compare like to like we have seen a kind of a double digit growth right, sir?

Srishant Challa

Actually the comparing on the like to like basis is, what is going to create a bigger problem because last year there was an exceptional quarter that is Q2, because of the shutdown we’ve transferred some business, we’ve executed certain orders in Q1. So that is why, whatever profitability that is suppose to come in Q2 also came into Q1 last year. But this year it’s regular, pardon…

Sneha Talreja

Okay in the volume basis not getting down in the profitability part?

Srishant Challa

Yeah, on a volume basis, yes, so we had actually almost reached the same volume as in fact our target was to actually do a little bit more volume then what we have done in Q1. But because of the GST postponement that came in the last minute, the domestic products which was already produced, the request came into the dispatch it after the quarter end in July first week. So if you actually factor in this volume that was originally suppose to be dispatched, they would have been at least 1% or 2% volume growth in Q1 itself.

Sneha Talreja

Okay. So that benefit of 1% or 2% again additional volumes would be same in the coming quarter which is Q2?

Srishant Challa

Yes, not in the coming quarter, in this quarter, in this month, itself we will see it.

Sneha Talreja

I mean Q2, yeah this year.

Srishant Challa

Yeah.

Sneha Talreja

Got it, sir. Thanks a lot sir.

Srishant Challa

Yeah, yeah.

Operator

Thank you, Sneha. As there are no further questions from the participants now I would like to hand the floor back to Mr. Akhil Parekh for closing comments. Over to you sir.

Akhil Parekh

Thanks, Basa. Thanks Srishant for answering all the questions very patiently. I'll hand it over to you just in case if you have any closing remarks.

Srishant Challa

Thank you all for participating in the conference call. I just want to close by making one simple request again. Please look at the company on year-to-year basis and not in a quarter-to-quarter basis, because you will get a clearer picture if you do this. Thank you.

Operator

Thank you all. On behalf of Nirmal Bang Equities that does concludes this conference. Thank you for joining us and you may now disconnect your lines. Thank you all. {End of Transcript}