



“CCL Products (India) Limited 3Q FY 2017
Results Conference Call”

February 02, 2017



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*CCL Products (India) Limited
February 02, 2017*

Moderator: Ladies and gentlemen, good day and welcome to CCL Products India Limited 3Q FY2017 Results Conference Call hosted by Nirmal Bang Institutional Private 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 from Nirmal Bang Institutional Equities. Thank you and over to you Sir!

Rahul Arora: Thanks a lot. I would like to extend a warm welcome and a very good morning to all the participants for this discussion on third quarter results of CCL Products. The management would be represented by Mr. Challa Rajendra Prasad, the Executive Chairman, Mr. Challa Srishant, the Managing Director, Mr. KVLN Sarma, the CFO and Ms. Sridevi Dasari, and also Mr. P. S. Rao, Company Secretary. Ladies and gentlemen, congratulations on a good set of results. I would request the management to make opening comments on how the quarter has panned out and how you see the road ahead for the next year or two and post the initial dialogue from the management, I guess, we can open it up for the questions and answers. So Mr. Prasad and your team, congratulations again on the results and I hand it over to you.

C. Rajendra Prasad: Thank you Rahul. Good morning to everybody. As everybody has the numbers, the Company has achieved a turnover of Rs.286.63 Crores. The EBITDA is 77.34 Crores. Profit before tax is 66.15 Crores and the net profit is 44.82 Crores for the third quarter. For the nine months period ending December 31, 2016 the Company has achieved a turnover of 679.51 Crores, EBITDA is 169.03 Crores, profit before tax is 135.89 Crores and the net profit after tax was 99.05 Crores.

Whatever we had lost last quarter, the FD production has been totally recovered and whatever guidelines was given on year-on-year, year beginning itself, we have achieved and net profit wise we are doing better than what we had expected. Going forward also hopefully we are expecting that this will continue and this present quarter also will be similar to what every year is the third and fourth quarter results. So the best thing is I will leave it to the questions, so we will answer one-by-one.

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



*CCL Products (India) Limited
February 02, 2017*

- Jignesh Kamani:** Mr. Prasad and Mr. Srishant and entire team congratulations for a very good set of numbers. Sir, just want to check on the domestic operations, if you take about the packaging higher cost which indicate the value addition has increased a lot in the third quarter and hence the revenue and profitability is much better. Just want to check is there any bundling up of the better production in the third quarter which lead to certain jump in the margin or it should be more structural and we think that now probably because of better client mix such kind of profitability sustainable in future also?
- C. Rajendra Prasad:** Jignesh, primary three reasons for this jump in this particular quarter is because the freeze dried coffee unit has been restarted with that improved productivity that we mentioned during last conference call. So we have managed to achieve that 25% to 30% additional productivity. So that is one significant contributor. The second is, the profitability because of the domestic market, the sale has more than doubled compared to the last year and these are the main reasons.
- Jignesh Kamani:** So this is more structural and what kind of margin we have seen in third quarter. Can we say that will continue in future also?
- C. Rajendra Prasad:** It will continue. We have also maintained that. Once we come into domestic market all numbers will change, and will change drastically.
- Jignesh Kamani:** Agreed. Second thing, if you take about Vietnam operation and second quarter we took a shutdown for 20 days which effected revenue and profitability, but in the third quarter also revenue growth rate and the margin was lower than what actually its potential has. So still we are struggling to add more clients or how is the scenario Sir?
- C. Rajendra Prasad:** It is not like that. It does not work like that. We have explained to you so many times. It does not work like that. We endeavor to use 100% capacity utilisation. Do not look CCL on a quarter-to-quarter basis, there will be an increase.
- Jignesh Kamani:** But is there any revenue loss for lower revenue booking because of the transportation? Because our plant is located in Duggirala
- C. Rajendra Prasad:** It is very negligible.
- Jignesh Kamani:** How is the scenario in the export incentive? I think we have booked close to around 8.7 Crores this quarter, but now the situation has been normal?
- C. Rajendra Prasad:** We got it back. Last time also we did mention whatever the glitches were there that all has been streamlined. That is the reason we could recover.



CCL Products (India) Limited
February 02, 2017

- Jignesh Kamani:** What is the pending export incentive yet to be booked?
- Sridevi Dasari:** Almost 25 Crores is yet to be received.
- C. Rajendra Prasad:** We said only we show it only after we receive and when we actually sell them. We do not take it on hypothetical number.
- Jignesh Kamani:** In announcement we mentioned that we have plans to infuse around 30 Crores in the subsidiary coffee over a period of time. So then entire you can say the hiring of senior management everything is in progress and everything has been done?
- C. Rajendra Prasad:** We are doing. We are on the progress. May be in a couple of months everything will be finalized.
- Jignesh Kamani:** Last question Sir, we have seen a sharp increase in the employee cost from around 6.8 Crores to around 14 Crores on the QOQ and YOY from 8 Crores to 14 Crores. So any one off there or what was the reason?
- C. Rajendra Prasad:** It is like this. When the company makes profit they are the boys who make. So we should give a lot of incentives also.
- Jignesh Kamani:** Sir, was it any bonus or any incentive amount?
- C. Rajendra Prasad:** Yes, you know what they have done is, they worked day and night to complete Freeze Dried work in record, so they have been given an additional incentive also for that particular thing.
- Jignesh Kamani:** This was mainly for this particular quarter in Freeze Dried and not structurally major?
- C. Rajendra Prasad:** That is right.
- Jignesh Kamani:** Thanks a lot.
- Moderator:** Thank you. We have the next question from the line of Atul Mehra from Motilal Oswal Asset Management. Please go ahead.
- Atul Mehra:** Good morning and thank you. Congratulations for good set of numbers. Sir, just one thing, you spoke about margins being sustainable at current levels so what would be the key reason for this because large part of gains has come in from gross margin. You were



*CCL Products (India) Limited
February 02, 2017*

indicating it is because of productivity as well. So what could be the key reason going forward and that makes confident of margins sustaining at current levels?

C. Rajendra Prasad: Two reasons; one domestic market, and also as we mentioned earlier itself that for Freeze Drying plant the capacity has also increased and whatever the backlogs of orders, those were all executed. So going forward we do not do quarter-on-quarter, we always do year-on-year. So, we are sure that we will continue.

Atul Mehra: Second thing is one question on the domestic branded business. So could you talk us through in terms of how have the net realization been for us?

C. Rajendra Prasad: Now we cannot. That always comes on year-on-year basis. Otherwise we will do mistakes.

Atul Mehra: Sir, I am saying generally...?

C. Rajendra Prasad: Generally we feel this is much better than exports.

Atul Mehra: Because where I come from is if you look at say net realization numbers what Nestle would report they would be closer to...?

C. Rajendra Prasad: Nestle, do not talk about Nestle.

Atul Mehra: I am saying what level of discount that we would be?

C. Rajendra Prasad: No, we cannot. We would prefer to be somewhere close to that rather than a discount. We are planning. Just wait for a year or so we will then know. Why give competitor an edge of what we are doing. We are sound in our exports. That will continue and we are sure what we are doing. We are planning from almost like one year and I am sure we will do a good job.

Atul Mehra: On the branded business?

C. Rajendra Prasad: Branded only I am talking of.

Atul Mehra: Sir, this year we should end at about 80 Crores for the branded business?

C. Rajendra Prasad: No, not 80 Crores, around 50 Crores that is what we have been told and I think we will make it.

Atul Mehra: That is it from my end. Wish you all the best.



CCL Products (India) Limited
February 02, 2017

- Moderator:** Thank you. We have the next question from the line of Nitin Gosar from Invesco Mutual Fund. Please go ahead.
- Nitin Gosar:** Good morning. Sorry I joined a little late. Sorry if I would have missed it. Did you make any comments on quantity of stake?
- C. Rajendra Prasad:** We never do. Quantities we will never disclose. It is detrimental to our shareholders.
- Nitin Gosar:** Just a broad indication quantity wise would it have been up YOY on YTD basis?
- C. Rajendra Prasad:** Yes.
- Nitin Gosar:** Realization how are they fetching over on YTD basis. Are they still down or they have improved?
- C. Rajendra Prasad:** Always there will be improvement. Also whenever the capacity utilisation increases, automatically the bottom line increases.
- Nitin Gosar:** When a plant would we be running at closer to their required capacity that we had initially targeted?
- C. Rajendra Prasad:** Yes, that is right.
- Nitin Gosar:** Next round of capex you envisage something in India?
- C. Rajendra Prasad:** We have already done. We have already finalized and we are putting up a Freeze Drying Plant in Chittoor. The land has already been bought and in that we are going to do a 5000 tonnes Freeze Drying Plant.
- Nitin Gosar:** What kind of capex would be envisaged for that?
- C. Rajendra Prasad:** US \$50 million.
- Nitin Gosar:** This seems to be a higher number as compared to what we have done earlier?
- C. Rajendra Prasad:** It is a Freeze Dried Product, the higher premium product. It is totally a different product.
- Nitin Gosar:** How much time it would take for this plant to come up and start?
- C. Rajendra Prasad:** We are expecting around middle of 2018 we should be in production.



*CCL Products (India) Limited
February 02, 2017*

- Nitin Gosar:** Mid of calendar year CY2018, June 2018 is something which we are targeting?
- C. Rajendra Prasad:** Yes realistically. It could be slightly earlier.
- Nitin Gosar:** This would be intended again for export market right?
- C. Rajendra Prasad:** Only for it. We never know. Export we do, we could gain always. We are going to put the same in an export SEZ unit for which we just got permission also for SEZ.
- Nitin Gosar:** Great. Anything on US?
- C. Rajendra Prasad:** US we have. Now thanks to Trump we are hoping that things will be positive towards us. If he brings a wall, it will be good for us.
- Nitin Gosar:** But we should be hopeful to hear anything on the regulation front by end of this calendar year?
- C. Rajendra Prasad:** We will not, because he has just took over, may be a year's time the things will change. He is making a lot of drastic changes. So we do not know. It might happen faster.
- Challa Shrishant:** Actually with respect to the US part we have already mentioned earlier also that it can go either way. One side he is saying deregulation and the other side he is saying with respect to increasing tariffs on products from Mexico, which is the main competitor for us in the US market. If he imposes a tariff then overnight we will have a huge base of customers there but if he removes the regulation completely then overnight we will have a lot of junk products being dumped in the market. So nobody knows what is going to happen until it actually happens.
- Nitin Gosar:** Whatever he does, we will continue.
- Challa Shrishant:** He is taking quick decision, so maybe we should in the next couple of months what stance he is going to take.
- Nitin Gosar:** Right now our business from US would be close to a nil.
- C. Rajendra Prasad:** No we are doing about maybe around 10% of our business or so.
- Nitin Gosar:** Okay and Sir last question, which would be on domestic business if I were to understand the management bandwidth that you may be having some limitation over next 24 months because we are working on domestic, we are working on new plant plus there are also



CCL Products (India) Limited
February 02, 2017

existing opportunities, which are there are in the base business. So incremental mindshare or resource allocation would be higher towards domestic business or it would be meaningfully higher on the growing of the base business. How should I look at it?

C. Rajendra Prasad: There is nothing like that. Everybody does their job. We are hiring people who are experts in domestic market and that is a totally different job. Management does not spend any time on that except taking board decision. We have enough resources. So if you have studied our balance sheet then you would have known, for somebody like CCL, resources is not a problem.

Nitin Gosar: No I was more worried about the employee pool because we are coming from the manufacturing background.

C. Rajendra Prasad: It is a different division.

Challa Shrishant: Now, we have created a subsidiary company under CCL for the marketing of domestic products within the country. So there is a separate team that has been created, a separate location that has been provided, and it is a separate company altogether.

C. Rajendra Prasad: Company has been called Continental Coffee Private Limited because the brand is Continental. See nobody knows CCL in the market. So that is why for the past one year we have been thinking how to go about. When we talked to the experts in the domestic market many consultants came forward and made presentations as all. Then we came out with this concept saying that, okay, let the company also be say 100% subsidiary of CCL called Continental Coffee Private Limited. We will be investing in that company. The whole management structure will be different.

Nitin Gosar: For that subsidiary we are through with the hiring process or are we yet to hire a part of it.

C. Rajendra Prasad: It will take a couple of months, may be a year or so.

Nitin Gosar: And right now if I were to see on the expense side for this subsidiary, it would be more of the employee side, which is high expense and the advertisement will happen at a later stage.

C. Rajendra Prasad: We did not do any advertising yet, this will be decided later.

Nitin Gosar: Great sir. Thank you.

C. Rajendra Prasad: Thank you.



CCL Products (India) Limited
February 02, 2017

- Moderator:** Thank you. We have the next question from the line of Pritesh Chheda from Lucky Investment Managers. Please go ahead.
- Pritesh Chheda:** Yes sir. Can you give some sense on the volume growth in nine month at least? Do not give the absolute number in tonnages, but if you can give some idea on the volume growth and the EBITDA per kg... is there any improvement in the EBITDA per kg, so because without these things it is difficult to analyze your company.
- C. Rajendra Prasad:** Yes that is true also. That is one of the disadvantages for us, but unfortunately that is the market. We are in a very tough... always. The guys whom we compete have the world leaders and big guys, so we have to be careful. So approximately we can say around 13%, 14%, and 15% we can say additional volumes we must have done in nine months and that should continue that is what we expect every year on year to be.
- Pritesh Chheda:** Any my second question was EBITDA per kg growth or something if you could give some sense and the mixed change for us, so mix from spray to liquids or spray to freeze or liquids. Is the mix improving and by what percentage points is it improving.
- C. Rajendra Prasad:** EBITDA per kg improvement is there in stockings?
- Pritesh Chheda:** Yes sir what is the EBITDA per kg if you could just give that number.
- C. Rajendra Prasad:** It keeps changing actually. In respect to price rise, we have achieved an economical scale because of the improvement in productivity. Spray type powder as you know is a consistent market. So the EBITDA percentage increase that has come in this quarter is mainly on account of freeze dried coffee and the domestic market.
- Pritesh Chheda:** Sir for the nine months can you give the absolute EBITDA per kg.
- C. Rajendra Prasad:** Maybe it is around 20 plus percent. We cannot really exactly tell.
- Pritesh Chheda:** What is 20 plus percent?
- C. Rajendra Prasad:** Additionally.
- Pritesh Chheda:** Per kg 20% higher that is what you want to say or 20% EBITDA growth that you want to say.
- Challa Shrishant:** Sir let us not segregate and disclose the product wise EBITDA absolute numbers, which can give a clear indication of...



*CCL Products (India) Limited
February 02, 2017*

- Pritesh Chheda:** Sir I am not asking for product wise. I am asking blended for the company. I am not asking for the product wise actually. Okay that is good. Is it directionally EBITDA per kg has improved.
- C. Rajendra Prasad:** It is.
- Pritesh Chheda:** Has the mix improved directionally on nine month.
- C. Rajendra Prasad:** Yes definitely.
- Pritesh Chheda:** Mixed has also improved.
- C. Rajendra Prasad:** Definitely.
- Pritesh Chheda:** Okay. Thank you very much Sir.
- Moderator:** Thank you. Next we have a follow up question from the line of Nitin Gosar from Invesco Mutual Fund. Please go ahead.
- Nitin Gosar:** Hello sir. From the previous participant the question was on quantity. Just harping up further on this sorry about that, we are seeing incremental growth in domestic business or it is more to do with the Vietnam piece on volume that you talked...
- C. Rajendra Prasad:** Both.
- Nitin Gosar:** Both. Okay. Right Sir thank you.
- C. Rajendra Prasad:** Thank you.
- Moderator:** Thank you. Next question is from the line of Akhil Parekh from Nirmal Bang Equities. Please go ahead.
- Akhil Parekh:** Congratulations Sir for good set of numbers. Just a couple of questions, coming again back to the volume growth thing you mentioned 13% to 15% of volume growth we have achieved for the first nine months on an overall basis. Sir any guide... like any rough ballpark number like how many it has come from.
- C. Rajendra Prasad:** No we cannot give. We would not give also. See what is that you are arriving at nothing except giving our competitors what the numbers are.



*CCL Products (India) Limited
February 02, 2017*

- Akhil Parekh:** Okay no problem. Sir in the utilization level would you be able to give like YTD how much we have achieved at Indian base Sir.
- C. Rajendra Prasad:** Same thing.
- Akhil Parekh:** Like ballpark number sir like anything... like roughly.
- Challa Shrishant:** Yes India Company it is still hovering around 85% and in Vietnam because of the special product that we are doing in absolute numbers the capacity utilization will be around 60%.
- Akhil Parekh:** Are we still firmer on guidance like which would be as mentioned on the last few calls once we achieve around 75% to 80% of utilization we will...
- C. Rajendra Prasad:** Absolutely because mostly in Vietnam also the infrastructure is already there. So it is very easy for us to expand and at a very low cost.
- Akhil Parekh:** And we expect that to come by second half.
- C. Rajendra Prasad:** May be after a year or so.
- Akhil Parekh:** Sir we are still firmer on guidance of volume growth rate 12% to 15% for the next three years.
- C. Rajendra Prasad:** Yes please that is true.
- Akhil Parekh:** Okay. That is all from my side. Thank you so much.
- C. Rajendra Prasad:** Thank you.
- Moderator:** Before we take the next question a reminder to our participants that you may press "*" and "1" to join the question queue. Next question is from the line of Abhijit Akella from IIFL. Please go ahead.
- Abhijit Akella:** Good morning gentlemen. Congratulations on a very good quarter and thanks for taking my question.
- Challa Shrishant:** Thank you Sir.
- Abhijit Akella:** So first just wanted to clarify sir on the branded business you had given the number of 50 Crores for this year. I just wanted to clarify whether that was for FY17 or next year FY18.



*CCL Products (India) Limited
February 02, 2017*

- Challa Shrishant:** No, current financial year.
- Abhijit Akella:** So this 2016-2017 is 50 Crores roughly.
- Challa Shrishant:** Yes, it is for the entire domestic business in this financial year. That is 2016-2017.
- Abhijit Akella:** Right and the branded business would be maybe roughly half of that or thereabout.
- Challa Shrishant:** More than half it will be.
- Abhijit Akella:** And what is your outlook for the branded business for next year now. Do you think you can continue to double?
- Challa Shrishant:** That I think will give the guidance next quarter. We will have a better picture at that time. We want to finish this quarter this Q4 first and then we will give the estimates for next financial year.
- Abhijit Akella:** Sure Sir and in the announcement you have said that you plan to invest 30 Crores into the branded business.
- Challa Shrishant:** In a phase wise manner. We have just taken the board pre approval at this point in time. As and when required we thought we will make the investment in a phase-wise manner. As I mentioned we have already created the subsidiary company and we are strengthening the company and recruiting the right team and putting everything in place. This will take about a year's time. So in this period, again it is going to be a phase-wise manner that is the reason we have taken a blanket approval for 30 Crores.
- Abhijit Akella:** So this 30 Crores is it mainly operating expense or is it capex.
- C. Rajendra Prasad:** It is the capex.
- Challa Shrishant:** It is capex into that subsidiary company Continental Coffee Private Limited.
- Abhijit Akella:** Okay. So this will not come under P&L. This will come directly in the manufacture.
- C. Rajendra Prasad:** That is right.
- Abhijit Akella:** Understood that is great and are we hoping for it to be profit making sir next year or will the advertising push mean that there might be...



CCL Products (India) Limited
February 02, 2017

C. Rajendra Prasad: It all depends. We never know. We are positive that it should sustain in a year's time maximum two years' time, the people whom we are getting involved with, they have been giving us good response from whatever we are doing. So that is the reason we wanted around 30 Crores.

Challa Shrishant: To be frank the exact strategy and all also depends... See depending on how aggressive we are in the market, we will be able to get a higher market shares. So there is a lot of strategies that we have to put in place and build a distribution network at the same time and also make sure that we have sufficient packing capacity available with us at the same time. So all these things need to go hand in hand, so once the team is completely in place only then we will be able to give a more clear guidance as to what to expect over the next couple of years. At this point in time, it will be too premature on our part to give any sort numbers or guidance apart from the fact that we are going to grow at the current phase that we are growing. The previous financial year we have done I think about 20 Crores and this year we have achieved around...I mean we will be doing about 50 Crores and that 50 Crores is also likely to increase in the next financial year. The exact details, we will give guidance towards the end of this quarter.

Abhijit Akella: That is fair and just to clarify the margin improvement that you have talked about you said part of it is because of the increase in domestic market sales, so we should assume that the reason it is so profitable right now is because we have not yet finished hiring the team and embarking on the advertising and all that.

Challa Shrishant: We have not started advertising. We just started focusing on BTL activities and that is giving us the best response. What started happening is when we started sampling our products more than 95% of the people have purchased the product then and there, so that has basically taught us one simple thing that we really do not need to advertise in a big way. If we ensure that we do the activation that is sufficient for us to generate sales and in the initial stages we are focusing on this BTL activities. Once we reach a certain threshold, then we will consider the advertising part.

Abhijit Akella: That is great and second, just on a couple of announcements you made here regarding setting up this domestic tariff unit in AP and also complying with against the SEZ announcement you have already talked about, but what is this domestic traffic unit that you have.

Challa Shrishant: So right now we are an 100% export-oriented unit and the new unit that we have gotten the approval for is an SEZ unit. Considering the sudden growth in volume for the domestic market and considering the range of products that we have over here, if we have to sell in



*CCL Products (India) Limited
February 02, 2017*

the domestic market, we have to give an export commitment and then 50% of that only can be sold in the domestic market. To avoid this kind of legal complication, we have decided that we will just setup a separate DTA unit and we will have the flexibility of producing products for the domestic market in this area. So that is the added advantage that we will have so that is why we have mentioned in the board, we have taken the necessary approvals from the board to setup this DTA unit.

C. Rajendra Prasad: And also we are going to do the market research. It will take a couple of months to do all the reports. Then we will decide what to do.

Abhijit Akella: Fine, but do you have a capex number in mind and a timeline in mind for this DTA unit.

Challa Shrishant: There is nothing much. There is not much of a capex that is required because it is just like a warehouse that we need to rent out and start operating like packing and all that. It is not going to cost so much. So that is why we have not mentioned anything with respect to numbers.

Abhijit Akella: Okay that is great. One last thing and I will just back Sir. So this year looks like now we are on track to hit our original guidance of 140 or 145 Crores of profit 15% to 20% growth as you had mentioned. So now from next year it is possible to give some guideline or would you prefer to do that only after Q4.

Challa Shrishant: End of this quarter we will prefer to give guidance.

Abhijit Akella: Okay. Alright great. Thank you so much and wish you all the best.

C. Rajendra Prasad: Thank you.

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

Tushar Bohra: Very good morning to everyone. Thanks for the opportunity. Sir first congratulations on an excellent set of numbers. My question relates to the numbers that you have done for this quarter. Now I believe we had lost about 100 Crores of revenue in Q2 because of the plant shutdown in both India and Vietnam. Have you actually recovered the entire bit in this quarter or is it to be spread out towards Q3 and Q4.

Challa Shrishant: Actually we have already mentioned this the last time also Tushar saying that whatever guidance that we are giving since it is on a yearly basis and the shutdown was a plant shutdown. Whatever loss that you are talking about is going to be spread out over Q3 and



CCL Products (India) Limited
February 02, 2017

Q4. So that is the reason. In fact this quarter's performance also was 100% in line with the guidance that we have given. There is no change from our side at all.

Tushar Bohra: Right fair enough. Second Sir you had mentioned earlier in the call regarding the EBITDA margins at 27% being sustainable. Just to reconfirm that, so we are saying that we should be in this vicinity now with the freeze-dried capacity being increased.

Challa Shrishant: Yes once because of the freeze-dried capacity being increased and also the domestic market performance and all that it is more or less sustainable.

Tushar Bohra: Right. Third, Shrishant can you help me with the distribution footprint now for the domestic branded initiative, what is the coverage now in terms of number of states or retail chain sector.

Challa Shrishant: Now we have covered around 15 states, but what we are doing is our primary focus to be frank is still only in Andhra. We wanted to ensure that our presence is felt more in Andhra region and then we want to look at Telangana region and after this we wanted to look at the other states, but what we started doing is we started appointing C&F agents and distributors in other states as well. They are exploring the market. They are placing our products. We are doing sampling activities in these areas as well to create that demand. So supermarkets and all to be frank we have not done any aggressive marketing yet, but in the next couple of months we will be doing some BTL activities and all that and team is going to take this forward.

Tushar Bohra: This is mainly through distributor and through them to some of these retailers, but not essentially through the modern trade format.

Challa Shrishant: Modern trade in Telangana, as we are already present in more than 110 supermarkets out of 150, we want to be present in all the supermarkets, but for us to grow that volume within Telangana also we need to do more of BTL activities and activations within the state. So that is what we are planning in the next couple of months.

Tushar Bohra: And are you seeing improvement in terms of uptake... Sir to your original plan are you seeing an accelerated adoption in the other states also where you have started to see the product.

Challa Shrishant: Yes we are, that is the reason actually we have reduced our promotion activities also because the response was much, much more than what we had anticipated. We had to increase our packaging line substantially and take things forward, so that is one of the reasons why now we are ensuring that the manufacturing side we can cater to the existing demand and cater to the future demand as well because till now like packaging for the SKUs that we need, we did not have the kind of capacity that this demand is calling for now. So that is why we are building this capacity as well and then going forward. To advertise too much earlier than the demand had come we would not have been able to cater to their demand, which would have been negative for the brand. So that is one of the reasons why we want to grow both simultaneously. We do not want to over invest in capital equipment and not utilize it fully.



*CCL Products (India) Limited
February 02, 2017*

- Tushar Bohra:** Just one last clarification on the capex bit, I believe in earlier calls, we have highlighted that capex numbers for the new freeze dried capacity to be closer to 250 Crores. This call we mentioned it as being about 50 million, which would be a bit higher than 250. So, just want to get a quick check what number is it actually that we had rebuilt in.
- Challa Shrishant:** Well one of the reasons why we have changed the numbers to around 50 million is because the current products that we are doing like as you must have seen the response we have been getting for freeze dried coffee and all, we wanted to enhance the quality a little further so there are certain technologies that we have experimented with in-house technologies that we want to incorporate in the new unit as well. So that is a little bit more expensive, but that is also likely to give us a higher premium. This is one of the reasons the guidance that we are giving is that the EBITDA margin should also improve is because of these premium products.
- Tushar Bohra::** Fair enough. Thanks a lot Sir for the opportunity.
- Moderator:** Thank you. The next question is from the line of Manish Mahawar from Religare. Please go ahead.
- Manish Mahawar:** Good morning Mr. Prasad and Mr. Shrishant. Shrishant, I just wanted to be reconfirm basically right now in India we have a capacity of 20,000 metric tonnes right and out of that I believe is 5000 is freeze-dried.
- Challa Shrishant:** Yes.
- Manish Mahawar:** Right. You said basically the margin improvement in the domestic business has improved predominantly over higher sales of you freeze dried products that is right in this quarter and also supported by the high utilization level? Okay. So this is right?
- Challa Shrishant:** Yes.
- Manish Mahawar:** Okay and secondly wanted to check with you capex wise in Indian operation only the freeze dried plant you said is 5000 metric freeze dried plant will become and which will come in by March 2018?
- Challa Shrishant:** Approximately towards the middle of 2018 this when it will come into production.
- Manish Mahawar:** Okay and secondly in the Vietnam plant you said utilization is around 60% capacity and I wanted to check how much of optimal capacity utilization will be in the Vietnam considering the current product mix?



*CCL Products (India) Limited
February 02, 2017*

- Challa Shrishant:** Well with Vietnam, the challenge over here is that because it is a single line, we have to do large volumes to make it justifiable for the customer. So our problem over there is getting only these volume customers. Now we do not have the kind of small-batch flexibility that we have in India, so that was the reason why we want to be a little bit more careful with respect to Vietnam and in fact the utilization wise is already closer to 80% like volume wise we have given you 65% number, but the utilization is actually more because the certain products as I mentioned earlier also, the productivity actually comes down to get a premium product.
- C. Rajendra Prasad:** Yes it is little complicated, just numbers wise if we go then we will go wrong.
- Manish Mahawar:** That is right Mr. Prasad, but in the Vietnam plant, when we will see next capex may be in year...?
- Challa Shrishant:** First we are going to have the freeze-dried capacity that we want to start filling over here. Plant will come as we are mentioning in 2018, so once we start filling this capacity when we are confident depending on the market response and a lot of other things. At that point in time we will take a call. So the next one-year, we are not going to invest in Vietnam for capacity enhancement. After that we will take a call, because the market is very dynamic and it keeps changing on a daily and an hourly basis also. We never know what could happen, so we do not want to set it in stone saying that no we will not do this or we will definitely do this because this has to be kept flexible until next year at least.
- Manish Mahawar:** Okay, but anyways going forward whenever we come out with expansion plan in the Vietnam it will be spray dried right?
- Challa Shrishant:** Yes, it will be spray dried.
- C. Rajendra Prasad:** As of now yes, we never know.
- Manish Mahawar:** Okay, understood. Secondly on a continental brand basically wanted to check if you compare with because this year we have seen a very phenomenal growth in our continental brand revenue right you said and anyways you are targeting around Rs.50 Crores of revenue this year. I wanted to check versus last year, March 31st 2016 and to now December 31st, how is our basically reach in a state wise or distribution wise has changed over the last nine months?
- Challa Shrishant:** Last year we were actually present in only about three or four states and we had in fact mentioned the states are also last time and now we have increased that almost around 15



CCL Products (India) Limited
February 02, 2017

states. What we started doing is, we have started appointing C&F agents and distributors in various states and they have started going to the ground level to kirana stores and all these other places and started pushing the products. The margins that we are giving are in fact higher than what our competitors are giving, so that is one of the reasons it made it more attractive for the store owners and once they started tasting the product immediately the response we got is excellent and they started placing repeat orders very quickly. So any BTL activity that we have done as I was mentioning 95% conversion we started getting. In fact just yesterday one of our marketing people was telling me that one distributor of one of our competitive products; he shifted over to our product, because his daughter said that our product is excellent. So he insisted that he wanted to shift over to us it seems. So that is the kind of response that we are getting in the market now.

Manish Mahawar: Okay and out of this maybe this year's revenue around Rs.50 odd Crores what could you breakup in terms of may be institutional sales because we are also selling to I think IRCTC as well right. What is the breakup of institutional sales and B2C for your sales actually?

Challa Shrishant: One we do not to give that breakup, because this is also part of the branded business only. There is no discounting or anything that takes place and it is the brand presence that is increasing because of this as well. So that is why it does not make sense for us to segregate everything like we have been supplying to IRCTC I do not know...for the last four, five years we have been supplying to them and we are continuing now also, that growth also is just marginally, so whatever sales that you are seeing is actually the B2C segment.

Manish Mahawar: Sure. No issues. On continent brand, I just wanted to check with you further basically that what could be size in India of this branded coffee?

Challa Shrishant: As well today's guesstimate is about...

C. Rajendra Prasad: Guesstimate not estimate.

Challa Shrishant: The instant coffee market is guesstimated to be around Rs.1700 Crores or Rs.1800 Crores and so we still have a very small share compared to what potential of growth is there, but what is more important what we find more interesting is that today the product or the per capita consumption of coffee is very less in our country. We have seen a double digit growth in coffee consumption in our country, but we are still lagging behind compared to other countries in rest of the world so that is why just looking at the current market is in fact misleading as well. We have so many products that we have that we can actually create new taste profiles for a wider range of customers which they will like, so the potential for growth is higher.



*CCL Products (India) Limited
February 02, 2017*

Manish Mahawar: But this Rs.1700 Crores to Rs.1800 Crores of market, you are also considering like chicory mix coffee as well right?

Challa Shrishant: Yes, of course.

Manish Mahawar: Last question, are we still positive on EBITDA on a continental brand as such or we have negative EBITDA coming from continental brand?

Challa Shrishant: No, the EBITDA is coming from continental brand and freeze dried coffee sales and other premium products that we are selling from the company.

C. Rajendra Prasad: Why they will be negative, I do not think there is any negative.

Manish Mahawar: I wanted to check basically I am sure at that level it should be negative right now, because we have lot of investment in this brand actually?

Challa Shrishant: No, you did not understand that. The strategy that we are following till now was that we are not advertising or doing any aggressive promotions. We are just doing BTL activities where the cost is much lesser and the response that we are getting is in fact higher than what we had anticipated, so the sales are going up as a consequence, so that is why there is a profit that is actually showing even in the domestic business.

Manish Mahawar: Okay, understood and last question on status of your Switzerland plan, are there any changes on this quarter maybe last six months in the Switzerland facility?

Challa Shrishant: In Switzerland, no there is not much of a change over there. What we have done is we have appointed one local person over there as a Swiss Director. He is a more experienced person and one of the first task that had been assigned to him is to see how to improve sales within Switzerland itself. So he just started a couple of weeks ago, so let us see in the next couple of month's maybe we could have positive impact.

C. Rajendra Prasad: So this gentleman is a family member of our technical director earlier, Mr. Sierro's son-in-law only.

Manish Mahawar: All the best for future.

C. Rajendra Prasad: Thank you.

Moderator: Thank you. We have the next question from the line of Gaurav Maheshwari from Unilazer Ventures. Please go ahead.



CCL Products (India) Limited
February 02, 2017

Gaurav Maheshwari: Congrats on a good set of numbers. I just wanted to check on the Chittoor plant earlier we had plan for \$40 million capex and during the discussion you mentioned \$50 million, so is that an increase?

Challa Shrishant: Yes, there is an increase to \$50 million because of what response that we have seen in the last quarter for the freeze dried coffee and our existing customers have come to us saying that instead of giving the same product from the new unit, they want us to increase the flexibility and create a wider range of products which are more premium. So we have already done some pilot trials in the factory in Duggirala and these in-house trial products for accepted by the customers so we have decided that we will implement this new technology in the new plant as well. So that is one of the reasons for this additional increase.

Gaurav Maheshwari: Right and this Rs.30 Crores that we intend to invest in the subsidiary would that include additional packaging facility that we will have to put in for the domestic market?

Challa Shrishant: Yes, it is excluding that. Whatever packaging equipment that we have to buy and all is going to be done under CCL itself and the packaging equipment cost is again not too much. It is mainly sachet packing that we have to invest in, because jars, cans, and everything else we already have sufficient capacity.

Gaurav Maheshwari: But we are already doing that work for some other...

Challa Shrishant: Yes, we are doing for exports as well.

Gaurav Maheshwari: No Sir, I am saying do we have sufficient capacity apart from what we are doing over there?

Challa Shrishant: Yes, we do.

Gaurav Maheshwari: Okay and did not get the last part on the domestic tariff area thing that mentioned so how does that work?

Challa Shrishant: One of the points that we are mentioning is that currently we are a 100% export-oriented unit and the SEZ that we are setting up also is again meant for exports and EOU has the option of actually selling 50% of whatever is exported in the domestic market, but today because of the response that we have seen in the domestic market and the growth in volumes. One of the points that we have discussed in the board was if you want to introduce certain new products over here we have to first export and then sell in the domestic market if you do it through the EOU. To avoid this problem, we will write or legal way to do this is



*CCL Products (India) Limited
February 02, 2017*

to setup a different DTA unit, take the necessary permissions and supply to the domestic market from this DTA unit.

Gaurav Maheshwari: But this DTA unit you also mentioned would be just a warehouse, so the manufacturing of the coffee...

C. Rajendra Prasad: No. Packing also will also take place there. Packing also is amongst the manufacturing.

Gaurav Maheshwari: But the manufacturing will happen in Duggirala only.

Challa Shrishant: That is right. This product manufacture, yes.

Gaurav Maheshwari: Thank you.

Moderator: Thank you. The next question is from the line of Gagan Thareja from Kotak Investment Advisors. Please go ahead.

Gagan Thareja: Good morning Sir. First question is on the tax rate. The tax rate for the quarter-consolidated sales is almost 30% or I think slightly higher than that. What could be the effective tax rate for the full year and thereafter for the next financial year what should we pencil in?

Challa Shrishant: Mr. Sarma will respond to this question.

KVLN Sarma: Consolidated basis tax rate thus far is around 27%... composite tax rate thus far for the nine month is 27%, we are expecting that it would be around 25% by the year end.

Gagan Thareja: Okay. So Q4, the tax rate should be lower than what we have seen at least in the third quarter and how should we think of effective tax rate going into FY2018?

KVLN Sarma: FY2018 obviously with little improvement in Vietnam's operations and tax re-status continuing for the next year also, it should come down by another 2 or 3 basis points.

Gagan Thareja: Okay. Right. The other question pertains to the cost head and other operating expenses, in the quarter, along with the employee expenses; the other expenses also seem to have moved up quite significantly. I understand it is slightly more than sales but given that this is the cost head, which would include some semi-variable, or some fixed cost also. If you could maybe elaborate and explain why there was the steep movement in other expenditure in the quarter?

KVLN Sarma: No, on a proportionate basis, on the turnover levels itself, there is an increase of 35%.



CCL Products (India) Limited
February 02, 2017

- Gagan Thareja:** Yes, so my point is that this is not completely variable cost in nature, so it should not actually move in line with the sales, it should actually be I mean generally speaking be a little lower than sales?
- KVLN Sarma:** That is true, but what happened is during this period, we have dispatched some quantities on CAO basis, so these components etc will get added to that. Secondly, the CSR expenditure during this quarter has been almost high.
- Gagan Thareja:** Which expenditure, I could not hear clearly.
- KVLN Sarma:** Corporate social responsibility, we have to spend about Rs.2.7 Crores or so during this year, so major chunk of that has come during this quarter.
- Gagan Thareja:** So this is the quarter-specific cost trend might not see it recurring into Q4?
- KVLN Sarma:** No.
- Gagan Thareja:** Okay, thank you Sir. That is all from my side.
- Moderator:** Thank you. We have the next question from the line of Baidik Sarkar from Unifi Capital. Please go ahead.
- Baidik Sarkar:** Good morning gentlemen. I am sorry this is a reputation, but could you give me a sense of what the unsold inventory of your export credit entitlements are as on date and have the administrative issues between the state bifurcation... have they been sorted out?
- KVLN Sarma:** The issue has been sorted out but they are releasing the licenses on a target basis and the amount that should be realized is around Rs.25 Crores.
- Baidik Sarkar:** So, which is net of the Rs.8.5 Crores that we have recognized this quarter; we have got Rs.25 Crores of unsold credit entitlement?
- KVLN Sarma:** Not really unsold it is some Rs.5 Crores to Rs.6 Crores is on hand to be unsold and the balance to be received, the licenses to be received, applied and to be received.
- Baidik Sarkar:** Thanks. So the gross summation of both these to put together is about Rs.25 Crores?
- KVLN Sarma:** That is right.



*CCL Products (India) Limited
February 02, 2017*

Baidik Sarkar: Could you give sense how much do you think you can liquidate every quarter obviously Rs.8 Crores is a good number that you see in Q3, but in Q4 and Q1 of next year, what do you think is the base known that we can recover, how is the demand environment for this?

C. Rajendra Prasad: We will try to make it on a uniform basis, because of the procedural problems in between there has been a gap and the amount has got accumulated. We are trying our best to get it on a uniform basis quarter wise.

Baidik Sarkar: So, is the demand environment for still reasonable?

C. Rajendra Prasad: Demand environment, particularly, during the last quarter will be slightly less. The price would come down in Q4. So we have to take a call whether to dispose at that rate or hold onto the licenses ready for the next year is something on a case-to-case basis and we will decide.

Baidik Sarkar: Thanks for that. Coming back to the Indian market, could you give me a sense of what exactly is driving volumes in the Indian markets, is it new brand acquisition or did our competition see any capacity shutdown, so just a sense of what exactly is driving India?

Challa Shrishant: For the Indian market, frankly it is product quality. What we have done is that the technology that we have installed in India has been customized through years and years of research and development. So we have the ability to actually create multiple varieties of products for our customers across the world. So each country sometimes we are supplying to competitors as well, so we have to provide them with significantly different products. What we did in India is we selected those products, which we felt was best suited for the Indian palate and that is what we launched in the market and that is the response. The response that we have seen for the product is substantial. If you actually do a one-to-one comparison between our products and our competitor's products, there will be significant difference. They have been in the market for many years, but that product quality they cannot change also, if they want to at this point in time because some people have gotten used to it. We are in a position we are creating a new standard from scratch, so that is the overwhelming response that we are seeing in the domestic market right now.

Baidik Sarkar: Right Shrishant. So what you said just now, is the growth driver for both the B2B as well as the B2C segment?

Challa Shrishant: Yes, that is correct.



*CCL Products (India) Limited
February 02, 2017*

Baidik Sarkar: In the B2B segments given that the formulations or suggestions that were given by the client and these are formulations that have been around for a very wrong time in this segment. Just wanted to know where this...

Challa Shrishant: No, that assumption itself is wrong, normally the formulations are with us, the client does not know what we do or how we do it that is part of our research and development and we do not reveal this to the client also, this is one of the reasons why the clients have to buy that particular product from us. If somebody else has to replicate the same product at the price that we are doing, it is going to be extremely difficult for the customer to do so. That is the reason why we have enable to grow the way we have been able to grow over the years.

Baidik Sarkar: Are you seeing new capacities coming up in India sans our expansion?

Challa Shrishant: Apart from our expansion, there are no other new units coming.

C. Rajendra Prasad: Does not matter if it comes also, worldwide they are coming, but still for the past 20 years CCL is the only company if you study, in instant coffee sector in the world is growing.

Challa Shrishant: And if you look at the Indian market, you have several new companies that have come in, but all of them were facing a lot of difficulties, because it is not as easy as it looks on the numbers. People think that if you just setup a plant you can start selling immediately. It does not work that way. We have to actually create relationships, we have to create proper products, have the entire end-to-end solution which is what we have been doing for the last may be 30 odd years.

Baidik Sarkar: Could you give a ballpark sense of what total capacity in India is?

C. Rajendra Prasad: It is about 50,000 tonnes, because exactly nobody knows, so...It could be between, but it includes chicory also that is the key we really do not know. It is not pure instant coffee alone.

Baidik Sarkar: Sure. How do you see the market in US and Africa opening up for us? I recollect a couple of conversation we have had earlier, you were excited about both Africa and US and little concerned what is happening?

Challa Shrishant: So Africa is a market, which is anyway growing, and that market growth we are seeing on a year-to-year basis. US is in fact more tricky situation because one of the points that we had mentioned earlier also towards the beginning of the call is that we have no idea how Trump is going to react or what new legislation he is going to coming up with. So I mean on one



*CCL Products (India) Limited
February 02, 2017*

side he says that we are going to build a wall and going to tax Mexican products at 20% then automatically that means countries like India Vietnam will be able to supply products to the US in a more competitive manner than them bringing from Mexico. Today Mexico is just across the border, people can truck it with two days' notice and we have to ship one month in advance. So if the price is going to be so significantly different then we will get a good opportunity for the US market. So until it is actually done we cannot give any comment or predict anything, so US market we have always said that there is a very good potential of growth, but it would depend on several things including the regulations. So if they put the strict regulations saying that it is only pure coffee that has to be sold in the market that is something that will also benefit the company tremendously.

C. Rajendra Prasad: Company means CCL alone. Because we have advantage with Vietnam, because they have already found their preferred supply from Vietnam.

Baidik Sarkar: Sure. Sorry for reputation again, but what is the capacity we are targeting in the SEZ and the DTA, I understand DTA is prospect with a planning stage, but rough cut idea what capacities we are targeting in both these setups?

Challa Shrishant: For the DTA we thought we will give the guidance towards the end of this quarter once we have clearer picture, we are first studying the market, doing some research and once we get more clear picture then we thought will give the guidance. With respect to the SEZ, we have already mentioned a 5000 tonnes freeze dried product.

Baidik Sarkar: Last question before I get back, any chances I might be able to sample your freeze-dried coffee somewhere in Chennai, are you...

Challa Shrishant: Yes, we are selling in Chennai and we are also selling online, so you can just place an order online, the product would be delivered to you in a few days' time.

Baidik Sarkar: Sure. I just saw thought of it. All the best.

C. Rajendra Prasad: Thank you.

Moderator: Thank you. The next question is from the line of Akhil Parekh from Nirmal Bang. Please go ahead.

Akhil Parekh: Just a couple of more questions. One is would you able to give percentage for Robusta versus Arabica how much we have processed YDT?

Challa Shrishant: Around 90% is Robusta and 10% is Arabica.



*CCL Products (India) Limited
February 02, 2017*

- Akhil Parekh:** That is for the first nine months you are saying right?
- Challa Shrishant:** Yes, normally in every year...
- C. Rajendra Prasad:** Every year it is like that, but unless there is specific requirement for any client comes. We are client specific.
- Akhil Parekh:** Okay.
- Challa Shrishant:** Normally instant coffee most people prefer Robusta, but some customers if they insist on an Arabica product for a particular blend profile changes to Arabica, so it can vary.
- Akhil Parekh:** Okay, fair enough. Is there any specific any big new plants have been added for our in India or Vietnam?
- C. Rajendra Prasad:** We keep on adding, there is no specific time, every day we do selling, every day we do coffee buying.
- Akhil Parekh:** Okay, Sir one last question, Tata coffee has made an announcement of adding freeze-dried plant in Vietnam?
- C. Rajendra Prasad:** Please ask them.
- Akhil Parekh:** So we do not see any kind of threat from them going ahead as well?
- C. Rajendra Prasad:** Yes. We are 30,000 and they are 7000.
- Akhil Parekh:** Okay, fair enough. Thank you so much, that is all from my side.
- Moderator:** Thank you very much. Due to time constraints that would be the last question. I would now like to hand the conference back Mr. Akhil Parekh from Nirmal Bang for closing comments.
- Akhil Parekh:** Thank you so much Sir for taking this call and giving us time. I will hand it over to you for any closing remarks.
- Challa Shrishant:** Thank you Akhil for the closing remarks.
- C. Rajendra Prasad:** Thank you very much. Whatever we have said we hope god willing we will do it. Thank you very much.



CCL Products (India) Limited
February 02, 2017

Moderator:

Thank you very much. On behalf of Nirmal Bang Equities that concludes this conference.
Thank you for joining us ladies and gentlemen you may now disconnect your lines.