

Company Name: CCL Products (India) Ltd.  
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Hosted By: Nirmal Bang Equities Pvt. Ltd.  
Leader's Name: AKHIL PAREKH  
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### **Operator**

Ladies and gentlemen good day and welcome to CCL Products India Limited Q4 FY'17 Earnings Conference Call hosted by Nirmal Bang Equities Private Limited. As a reminder, all participants' line will be in a 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.

Now I hand over the conference to Mr. Akhil Parekh from Nirmal Bang Equities. Thank you. And over to you sir.

### **Akhil Parekh**

Thanks everyone for joining the call. We have Mr. Rajendra Prasad, Executive Chairman of CCL with us and his team, Mr. Shrishant and Mr. Sharma, Ms. Sridevi and Mr. P. S. Rao. Without taking much time we'll go ahead with the management for the opening comments after which we will move on to question-and-answer session. Over to you sir.

### **Shrishant**

Thank you, Akhil. Just one small correction Mr. Prasad is not with us this time.

### **Akhil Parekh**

Okay.

### **Shrishant**

Yeah. So going to the opening comments the company has achieved a turnover of Rs. 977 crores for the year 2016-2017 as compared to the Rs. 933 crores for the previous year. And the net profit for this year has been Rs. 134 crores, as compared to Rs. 122 crores for the previous year. The EBITDA is Rs. 233 crores and profit before taxes Rs. 189 crores for the full year of 2016-2017.

As previously informed we have achieved a projected net profit of more than Rs. 140 crores from CCL and nonprofit which is an increase of 14% over last year. However, after adjusting the depreciation loss of grants of green and additional branding expenses in continental coffee the Indian subsidiary the net profit and the consolidated level came to Rs. 134 crores, which is still an improvement of 10% compared to last year.

Normally we say that quarter-to-quarter comparison is not apt for our company, we would like to inform that the company has achieved a turnover of Rs. 297 crores, the EBITDA is Rs. 64 crores, and profit before tax is Rs. 53 crores and net profit is Rs. 35 crores for the fourth quarter. Thank you. Akhil you can initiate before.

**Akhil Parekh**

Meenaz are you there?

**Operator**

Yes sir.

**Akhil Parekh**

Yes we can start the question-and-answer session.

**Operator**

Okay.

**Question-and-Answer Session**

**Operator**

Thank you very much. We will now begin the question-and-answer session. [Operator Instructions] The first question comes from JigneshKamani from GMO Company. You may speak.

**JigneshKamani**

Hi. I just want to understand the Vietnam situation in more detail if you take for the full year Vietnam revenue and properties are most off light. And if you take about fourth quarter

particularly, the gross margin and EBITDA margin has become slightly biting compared to past. So how is the ramp up in the Vietnam, in the Oakland existing client how is the situation currently?

**Shrishant**

Well Jignesh as far as Vietnam is concerned we have, I mean, the growth compared to last year there was only a marginal growth mainly because some of our customers in Vietnam they've asked us to increase our range of products. They've asked us to supply long rated coffee and a couple of other products which we were not able to do from Vietnam. So though the cost is a little higher we are supplied to them from India.

**JigneshKamani**

Understood.

**Shrishant**

We've already initiated the process two months ago to install the agglomeration capacity over there that will be completed in the next two months in Vietnam. So after that we'll be able to supply with additional volumes to them as well.

**JigneshKamani**

Understood. So partly India volume increased because partly we shift from the client some of the clients from India – Vietnam to India on the valid [ph] product and agglomeration part.

**Shrishant**

Yes.

**JigneshKamani**

And after the total [ph] agglomeration capacity of the Vietnam once we install the equipment?

**Shrishant**

Pardon can you repeat that?

**JigneshKamani**

So once we do the value addition in the Vietnam what kind of additional capacity or the – we do – can do on the agglomeration part?

**Shrishant**

We'll be able to do about 3,000 tons of additional capacity in Vietnam in fact in India also we are already at peak capacity we had to actually fill North several people because we had reached the capacity in India. With the Vietnam expansion of increasing our range of products to agglomeration we'll have more flexibility to offer products from India to other customers as well.

**JigneshKamani**

Understood.And on the Vietnam any development on the U.S. regulation?

**Shrishant**

Of regarding what?

**JigneshKamani**

So there was say Brazil there were some strict struct on the Brazil and Mexican coffee on the adulteration part in the U.S. and which was suppose to benefit both India and Vietnam operation of ours and particularly Vietnam because of the entity.

**Shrishant**

Yeah.

**JigneshKamani**

So any further development in the U.S.?

**Shrishant**

Well recently what we heard is the current government is enforcing at 10% border tax on Mexican products especially most of the important check coming form Mexico this is going to severely impact to that the soluble coffee market within U.S. so what we have decided is let us be 100% clear before we go ahead to the U.S. market because these people are lobbying very

strongly to not let this border tax get implemented. So we don't know what is going to happen is especially the coffee segment in the U.S. they are consuming what 80,000 tons of coffee every year and the entire market has been controlled by the Brazilians and Mexicans.

**JigneshKamani**

Sure.

**Shrishant**

So this is going to have a very severe impact on their entire sales over there so it's important that we get some more clarity over there before we do anything.

**JigneshKamani**

Understood. And if I take about our general on operation inventory base in survival base is increased compare to last so is there any pressure form the client side, who can send the payment or are – are we increasing inventory inline with the future demand force cost are how you the

**Shrishant**

So actually that's a very good question because in quarter four in March I don't know if you remember more lot of the shareholders called us during that time, there was temporary ban which was imported, those temporary ban that was impose by the government on imports from Vietnam.

**JigneshKamani**

Yes.

**Shrishant**

So at that point in time what we did is we covered coffee within India immediately...

**JigneshKamani**

Understood.

**Shrishant**

Because we had more than 100 containers which was stuck in transit and the ban was affected immediately with one day notice

**JigneshKamani**

Understood.

**Shrishant**

So we were not sure that the clearance will come through or no so why take a chance we just covered the coffee immediately and we made a representation to the which took about two weeks to get sorted out. So during that period we already bought the coffee

**JigneshKamani**

Understood.

**Shrishant**

And as soon as the ban was lifted we started focusing on selling the additional coffee that we purchased, while that sale will get reflected only in the subsequent quarters.

**JigneshKamani**

So inventory by now is get normalized or reduce to normal level?

**Shrishant**

It's slowly reducing. It doesn't fully reduced yet but it's slowly reducing.

**JigneshKamani**

Understood. And on the domestic market if you take at fourth quarter margin has declined compared to third quarter, is there any product mix change in third quarter compared to fourth quarter?

**Shrishant**

No actually what we have done is there more marketing expenses and other things that we have booked in this quarter as we mentioned earlier also we are getting that team in place we created a

separate subsidiary company and we want to take things forward in a more that targeted and aggressive manner, so we started building the brand in the more structured manner, so that is why we are saying more expenses being reflected also in the domestic company. So that there is more transparency, we are putting everything through the domestic entities that we have created.

**JigneshKamani**

And a last question on any development on the branded venture where we applying to higher some expert and the build the entire structure in the whole team?

**Shrishant**

Yes, we have already hire that expert last quarter itself

**JigneshKamani**

Okay.

**Shrishant**

And the team building process are started so he told us it will take up to a year to complete this process and within the next month or so I think we'll make a formal announcement with respect to the CEO and everything also and we also take the board approvals and all that. So, yeah, within the next month that also will be completed.

**JigneshKamani**

Sure, thanks a lot. I will come for the more question in follow up. Thank you.

**Shrishant**

Thank you.

**Operator**

Thank you, Mr.Kamani. Next question comes form NitinGosar from Invesco. You may speak.

**NitinGosar**

Hi sir, typically you would be in a position to announce any kind of quarterly – any kind of volume number by end of year.

**Shrishant**

Yes.

**NitinGosar**

I was wondering if you are comfortable now for making those kind of announcements.

**Shrishant**

Yes. So for this year we are putting a volume or a turnover, normally we are not giving turnover projection but I can say is the range of around 10% or so increase is what we are looking at and as far as the bottom line is concern about the 10% to 15% is what we are looking at.

**NitinGosar**

Okay. My question was more pertaining through the year which is gone by what was the volume number a little bit call it out?

**Shrishant**

No, you mean for the previous financial year?

**NitinGosar**

Yeah.

**Shrishant**

No, it's actually something which we are not mentioning because again this information is going to be very detrimental because based on our data there is a lot of other issues that have been coming up to us in the past.

**NitinGosar**

Okay.

**Shrishant**

That's the reason why we are not mentioning the volume numbers specifically anywhere.

**NitinGosar**

Okay. And second question was with regard to the marketing expenditure which you mentioned are they getting a book in this standalone number or they getting booked in the subsidiary business?

**Shrishant**

I think Mr. Sharma will just answer this question.

**Sharma**

The entire business has not been shifted to the marketing company because some of the customers are insisting on continuing with the manufacturing company. So part of the expenses are being booked in at least for the past year part of the expenses have been booked in parent company and other part in marketing company. From first of this year we are shifting the entire business to the marketing company.

**Shrishant**

Okay.

**Sharma**

So other than the status of this APO and other governmental organizations bulk business the rest of the business will get shifted to the marketing business company entirely from this year.

**NitinGosar**

And on Vietnam Scent what was the volume mess with if we can highlight because of the change in customer demand?

**Shrishant**

Currently we have done about 60%, 68% to 65% capacity utilization and with the insulation of grand relation plant we are expecting that the capacity utilization would increase to about 75% to 80%.

**NitinGosar**

But what was a top line so idea was to understand the there were some bit of top line disappointment for the fourth quarter and I believe we called out that couple of customer were insisting on agglomeration product. So can you call it out what was the mess may be anticipated mess that you had witnessed during the quarter?

**Shrishant**

Actually there was not major top line mess as we are always being telling that top line is dependent on coffee prices and overall if you see we have met our profitability projections.

**NitinGosar**

And so may be not the top line but may be the volume and number there to delivered in Vietnam [indiscernible] expectation?

**Shrishant**

Volume numbers in if there has been grand relation plant and see if there we – we are supplying only powder and bulk packing only. So some part of the flexibilities at the customers wanted was not there so this year we have immediately taken steps to immediately at the grand relation plant which will gave value addition further on going ahead we will plan for some smaller fractions also.

We had expecting that this year because of this grand relation edition we should be able to do another 15%, 20% additional volumes form Vietnam.

**NitinGosar**

Okay, got it sir. Thank you.

**Shrishant**

Okay, thank you.

**Operator**

Thank you Mr.Gosar. [Operator Instructions] Next question comes from Rahul Maheshwari from IDBI Mutual Fund. You may go ahead.

**Rahul Maheshwari**

Good morning, sir. I have couple of questions. First of all, as you have said that new granulation plant would be installed within two months in Vietnam so that will take 12,000 capacity in Vietnam to 15,000 but you won on the track record by you said that 10,000 tonne capacity would be in FY2019, by FY2019 to FY2020. Once your capacity utilization touches 70% to 75%?

**Shrishant**

Actually there's a small misunderstanding than with sector over this. When we say agglomeration it's just a value added process, so its only powder that is getting converted to granules so we are not enhancing the production capacity over the – we are just doing value addition and creating another product within the same 10,000 tonne capacity.

**Rahul Maheshwari**

So if we say that the current – are you go for granulation And as you mentioned the 10% to 15% additional volume would be taken place, how it would be coming into the impact EBITDA terms and the margins fund because it's a value-added product. So what kind of increase do you found in – do you find in that segment?

**Shrishant**

Its both ways, one is there is a volume increase, the capacity utilization would be better on the account of granulation plant.

**Rahul Maheshwari**

Okay.

**Shrishant**

And since this is a value-added product, there will be a value addition and thereby there will be a better margin compared to our spray dried powder.

**Rahul Maheshwari**

So what kind of estimate range?

**Shrishant**

Both capacity utilizations and margin improvement.

**Rahul Maheshwari**

Okay. And in continental coffee as you mentioned in last quarter it was roughly Rs.55 crores to Rs. 60 crores was the ballpark number during the quarter can you tell the sales amount how much continental coffee as a branded coffee to place? And your – it was big hit as you told that you would be launching in the phases manner in Andhra you had started, so what's going forward in FY2018, would be a target market.

**Shrishant**

So as far as continental is concerned for the whole year, we have done about Rs.50 crores that is all inclusive that's a private label as well as branded business. Its not only the branded business.

**Rahul Maheshwari**

Okay.

**Shrishant**

So about 50% of that Rs.50 crores comes from the branded business.

**Rahul Maheshwari**

Okay.

**Shrishant**

And what we have done is for this year we are focusing again mainly in the – earlier we were focusing remain the South Indian states after introducing our products in North India as well.

**Rahul Maheshwari**

Okay.

**Shrishant**

Okay, so from Delhi, Punjab, from West Bengal to Allahabad as well so these places we've introduced our products.

**Rahul Maheshwari**

Okay. Can you give a ballpark number or estimate range that if continental as a coffee has done Rs.50 crores of business so by FY2018 can we expect Rs.100 crore to Rs.150 crores kind of business?

**Shrishant**

No, no that will be too aggressive too fast. What we want to do is we are building that system gradually. So we are thinking about 100% growth is something that can be achieved.

**Rahul Maheshwari**

Okay.

**Shrishant**

So from that existing this Rs.25 crores we have done, so we are targeting maybe around Rs.50 crores for this year in the branded business.

**Rahul Maheshwari**

And in private labels?

**Shrishant**

In private label we won't see that kind of a growth. We'll see maybe about 10% or 15% growth.

**Rahul Maheshwari**

Okay. So can you give a bit about how the distribution pattern will work because you had earlier quarter mentioned that the distributors are liking your product because of variety and plus more about the quality. So can you how much distributors are being added in the pipeline, what is your

target number because ultimately some cities about the distribution expansion which makes a customer reach. So that's why?

**Shrishant**

Yes, we are taking one step before this, what we are doing is we are creating an internal team that is going to set up a distribution network for us. So right now our primary focus for this whole year is to get the right people on board who will find in these regions say five to 10 distributors every month or every once a two months.

So this whole process is going to take us some time, so this is the initial stage I mean introducing a product and hardly what focused manner about four or five states we have been able to achieve this kind of volume. And to be frank we are still very, very, very small compared to the actual market potential that is there.

**Rahul Maheshwari**

Okay. So any breakeven in case after two years or what kind of internal estimate do you chart out for a continental branded business?

**Shrishant**

Actually to be frank now with – as already mentioned earlier that we have consultant on board with respect to the domestic business, he's guiding us and helping us create the team. So one of the things that he wanted us to do is to give this responsibility to a CEO, who will come on board by next month. He's already fully aware of what we are doing and exactly numbers and projections I think we will be able to give after another three months or so. Then we will be able to give a much better clearer picture with respect to what we will be doing, what our strategies are for the domestic market. In fact next time we can ask him to join us on the call as well.

**Rahul Maheshwari**

Okay. And on Switzerland plan, I can say its not a perfect plant, its agglomeration where you do much over to the packaging and all those things. But there were issues into the Switzerland plant. So now after six months how the process is there whether the resolutions are taking in place?

**Shrishant**

Yes, so in fact with respect to the Switzerland plant, we have mentioned in our last conference call that we have hired a local Swiss national as a director of the company. And he's now

looking after the Swiss plant, the couple of months what he has been doing is he has spoken to all the government officials, the efforts of the customers and slowly things are changing over there. The government is now willing to give the support for taking things forward, they'd given us reference as well. And some of them have translated to orders which will be executing in this quarter. So slowly things are changing.

**Rahul Maheshwari**

So over there the agglomeration plant is 3,000 tonne and you are telling that its appreciable that the process has taken place and the resolution has done but in FY2018 what kind of utilizations can be expected over that 3,000 tonne as of evaluation kind of things?

**Shrishant**

With respect to Switzerland, actually it's a little bit more tricky because over there we have more of premium products that we are focusing on, the margins was much better as well. So the volumes even with the smaller quantity we could breakeven faster. So that is why its very difficult for us to giving a numbers at this point in time.

**Rahul Maheshwari**

Okay. But currently the plant is shut completely or?

**Shrishant**

The plant is still we are executing orders.

**Rahul Maheshwari**

Okay.

**Shrishant**

The quantities are still quite small. And with Switzerland one of the issues that we have faced earlier was I mean last couple of years also was that you need a local person who knows the language, who can communicate to the people over there. So that's the reason why we were trying to identify the right person who can help us establish the products within Switzerland. Now we have this person on board, he's not only communicating with customers, we is also discussing with the government. So they are willing to interact with certain tax benefits and other things. If we hire more people within Switzerland so there are number of things that can be done.

So once that strategy is clear, once he also gets his bearings, we'll be able to comment and give better guidance for Switzerland.

**Rahul Maheshwari**

The last question, India business as we have found from last two years the capacity is at 20,000 tonne. So can you given the utilization range, I'm not asking for a specific number. But...

**Shrishant**

For India, we are already at peak utilization in fact if you want a simple indicator, last year you would have noticed that in Q2 we have given the plants are gone for agglomeration unit.

**Rahul Maheshwari**

Yes, yes.

**Shrishant**

So after refurbishment we will able to perform much better, so Q3 and Q4 we were able to restart optimum levels for these trends. For this year, we are expecting the same thing to continue.

**Rahul Maheshwari**

Okay.

**Shrishant**

And that itself will show on additional increase in volumes from India and Vietnam as we had mentioned because of the agglomeration unit that we are now installing, there's the additional utilization in Vietnam as well.

**Rahul Maheshwari**

And that those plant would be operational by FY2019 not from FY2018 the additional 5,000 tonne which is you are planning.

**Shrishant**

Yes, by middle of calendar year 2018.

**Rahul Maheshwari**

And that's a pure of freeze, right coffee plant which going to actually take a margins in upward direction?

**Shrishant**

Yes, hopefully.

**Rahul Maheshwari**

Thank you so much for you.

**Operator**

Thank you, Mr. Maheshwari. Next question comes from Rahul Kundani from Mahindra Mutual Fund. You may speak.

**Rahul Kundani**

Sir just wanted to know about your marketing expenses that you will be taking in FY2018.

**Shrishant**

Yes. For FY2018 as I was mentioning earlier Rahul, once we have the CFO on board maybe next quarter we can ask him to join us and he'll give a clearer picture.

**Rahul Kundani**

Okay.

**Shrishant**

The team that we are creating we wanted them to be completely independent. We want them to address the domestic market in a more focused manner. So we've given them attentive budget and we've said we've asked them to come up with detailed strategy. So I think the next three months or so and we have the next conference call that would be the – to answer this question.

**Rahul Kundani**

So this 10% to 15% pad growth would it not include the market expenses, would there be some market expense and this pad growth could go down a bit in FY2018?

**Shrishant**

Actually, FY2018 our more focus would be on creation of the system for the domestic marketing, the persons will be in place that distribution networks will be in place. So we are not anticipating too much in expenditure on advertising et cetera. And people who are into this job will slowly push the product and already we have about Rs.50 crores to Rs.75 crores of domestic market. So with this we are not anticipating as of now a major expenditure on domestic market. However, this will be clear once the CFO joins and he makes a presentation on what the intense on year wide basis. Then the things will be clear whether at what time – and all that will be more clear when he comes up with figure.

**Rahul Kundani**

Sir, in Q4 the impact of the marketing expenses would be how much in Q4?

**Shrishant**

This year?

**Rahul Kundani**

Yes, this year Q4 how much was an impact on – for the entire at 2017 – for the entire year?

**Shrishant**

Hardly, the spent about Rs.4.5 crores or so.

**Rahul Kundani**

Rs.4.5 crores for the entire year or the quarter?

**Shrishant**

Quarter.

**Rahul Kundani**

Quarter and so any other impact on the margins during the quarter?

**Shrishant**

This small increase on account of additional inputs – additional purchase of a material in the domestic market.

**Rahul Kundani**

So how much was that if we can quantify?

**Shrishant**

Not exactly could be in range of about Rs.2 crores to Rs. 3 crores.

**Rahul Kundani**

Okay, okay. All right, sir. My questions are answered. Thank you so much.

**Operator**

Next question comes from JigneshKamani from GMO. You may speak.

**JigneshKamani**

Sir, you mentioned that – this quarter and the last quarter we produced domestic import were slightly you can say under – government restriction for the couple of time and domestic coffee is slightly premium to Vietnam coffee. So there will be subsequent lows in the inventory also the lower margin.

**Shrishant**

No, actually fortunately for us the Indian coffee prices are being quite competitive.

**JigneshKamani**

Okay.

**Shrishant**

For the first time, we actually saw Indian prices slightly lower than important prices also. But now that has corrected itself, but we were fortunate. We will be able to cover at right price. We were able to sell that coffee immediately afterwards also.

**Jignesh Kamani**

Second thing, if you take out Brazilian currencies depreciated by more than 10% very recently. And they are one of the largest exporters in the various markets. So do you think that our competitiveness versus Brazil will be slightly at a downside right now.

**Shrishant**

Brazil has been focusing only on the U.S. market till now, because they are not able to, one thing is raw material prices, it's a first important factor. And the second of the cost is raw material price. Arabica prices are higher – typically higher than Robusta prices. And Brazil produces 90% only Arabica.

**Jignesh Kamani**

Sure.

**Shrishant**

So in a product cost mix you have Arabica product, which is competing against Robusta products from India and Vietnam. So there itself have an inherent disadvantage. In addition to that your production cost, conversion cost, your labor cost everything is much higher over the compare to India and Vietnam.

**Jignesh Kamani**

Sure.

**Shrishant**

So in multiple areas, we have advantages. So the only way that Brazilian companies could compete with Asian manufacturers is going to changing the product mix.

**Jignesh Kamani**

Sure.

**Shrishant**

And coming up with number of other ingredients fill us, I mean to be frank even in India, we have Chicory products which are doing exceptionally well. Its 50% of the market is Chicory coffee blend.

**JigneshKamani**

Sure.

**Shrishant**

That is also not a pure coffee. It's a price point product. Similarly Brazil also has been focusing on these products. They are food grade products. Not 100% pure coffee. So these products are selling in the U.S. In Europe and Asia and all these other countries, they are larger much, most stringent. And if any product is adulterated it can easily be detected.

**JigneshKamani**

Sure.

**Shrishant**

So that is why these products are not competing in the other markets and they are all focusing only on the U.S. market. That's the only market which is completely unregulated with respective product specifications. Anything goes over there.

**JigneshKamani**

Sure. And on the – our 5,000 ton freeze dried plant how much money we spent into FY2017?

**Sharma**

FY2017, not much. We have paid machinery advances which up to the June of about Rs. 10 crore.

**JigneshKamani**

Okay.

**Sharma**

The rest of that increase we have opened and AFC so the actual flows be around October, November.

**JigneshKamani**

Sure. So large part will be book in the FY2018 closer to Rs. 100 crore kind of.

**Sharma**

Exactly.

**JigneshKamani**

Sure. And what will have quantum of export incentive to be booked in the fourth quarter?

**Sridevi**

Rs. 8.6 crores.

**Sharma**

Rs. 8.6 crores as what we got in quarter four.

**JigneshKamani**

So we have booked Rs. 8.6 or we got it Rs. 8.6.

**Shrishant**

Pardon.

**JigneshKamani**

How much we book...

**Shrishant**

We're accounting it on receive cash basis.

**Sharma**

Yeah.

**JigneshKamani**

Yes.

**Shrishant**

So whatever is actually received is only being.

**JigneshKamani**

So Rs. 8.6 we received in fourth quarter.

**Shrishant**

Yeah.

**JigneshKamani**

Understood. Thanks a lot sir.

**Shrishant**

Thanks.

**Operator**

Thank you, Mr. Kamani. Next question comes from AdityaAluwalia from Invesco. You may speak.

**AdityaAluwalia**

Hi sir, thank you for taking questions. I'm sorry if I miss this, so for nine months FY2017 in the previous call, you said the volume growth of 13% to 15% and for the full year what has been the volume growth?

**Shrishant**

The full year you mean the projection or what we have done last...

**AdityaAluwalia**

No. No, what we have done in FY2017.

**Shrishant**

It's actually not much about 5% or so, 5% to 10% I think.

**AdityaAluwalia**

Okay. Because – I don't know, is the last quarter's number incorrect, because last nine month FY2017 was 13% to 15% volume growth?

**Shrishant**

Yeah.

**AdityaAluwalia**

That's what he said in the previous call.

**Shrishant**

Yeah. So last quarter the volume growth was lesser on account of Vietnam, what happened as I explained earlier. In India we already well at 100% capacity for agglomeration and we went it further expansion on Vietnam. Our customers in Vietnam asked for agglomerated coffee, which we didn't have the capacity in Vietnam, so we have to execute from India. So this was something which is actually unexpected initially the customer he was clearly want to buy the powder, but after seeing agglomerated coffee, he wanted to shift over to agglomerated coffee. So we didn't have a choice, we had to execute those orders from India.

**AdityaAluwalia**

I see, I see.

**Shrishant**

Yeah.

**AdityaAluwalia**

Okay, okay. That's what dragged the full year number down to 5% to 10% volume growth...

**Shrishant**

Yeah. I think that plus even quarter two because of the freeze drying shutdown. These are the two factors that drop the volume little lower than what we had anticipated.

**AdityaAluwalia**

And how is coffee pricing mean or rather realizations of the company level move, because the why revenue growth is 5% rate.

**Shrishant**

Yeah. As far as coffee price circumstances are more or less stable to be frank it's just marginal up and down. The market is also just flattish. But what we have seen in quarter four, which is unfortunate losses, ban on Vietnam coffee. So because of that there was a suddenly we had to buy more quantity of raw material in the domestic market and that's why the inventory levels also went abnormally up for us for the first time. And the ban was lifted after we made the presentation to the government and subsequently we sold the coffee also which will get reflected in the subsequent quarters.

**AdityaAluwalia**

I understand, I understand. And FY2018 you mentioned on the beginning that you see at 10% to 15% – 10% revenue growth.

**Shrishant**

Yeah.

**AdityaAluwalia**

And 10% to 15% bottom line growth.

**Shrishant**

Yeah, that's correct.

**AdityaAluwalia**

And you are assuming stable coffee prices in this 10% will be revenue growth.

**Shrishant**

Yes.

**AdityaAluwalia**

Right. And sorry, this 10% will be volume growth.

**Shrishant**

Pardon. Yeah, volume growth, exactly.

**AdityaAluwalia**

10% revenue growth will be volume growth.

**Shrishant**

Yes, yes.

**AdityaAluwalia**

Okay, okay, okay. So in the last call, we expected 12% to 15% volume geyser for FY2017, which actually came out to be at 5%. And you explain in the beginning the path that miss, that the reasons on the domestic side as well as the...

**Shrishant**

Yeah.

**AdityaAluwalia**

The issues that happened in the fourth quarter, okay. My question is on a medium-term basis. Are we – we use talk about a 20% growth from the bottom line generally and see the recent history of the company also the growth has been very strong.

**Shrishant**

Yeah.

**AdityaAluwalia**

...on top line also as well as on the bottom line. So are we – what is happening that – are we moving to a lower trend of this 10%, 15% growth. Are you think things are normalized in the medium term?

**Shrishant**

Well. Mainly because of the volumes increasing to the levels that they have is very difficult for us to keep maintaining a 20% growth. Earlier than the capacities were smaller then the volumes were lesser. It was easier for us to achieve the 20% growth. Now the so much competition of the world market, nobody is able to understand how we're able to achieve a sustained growth that we currently have. If you actually compare us to any other company in the market there is going to be a huge mismatch. So what we're doing is, we're giving more realistic numbers like until the previous year, as the 20% was possible, now where we feel that up to that 50% is – 15% is possible, which is why we're giving a better clearer picture now.

**AdityaAluwalia**

Right. And you have still guidance for that growth higher than revenue growth and somewhere...

**Shrishant**

Definitely. The reason for this if you notice last year, we're – Q2 we had given a freeze drying plant shutdown. So this year, that shutdown is not going to be bad. So we'll end that additional volumes that are going to come in, because of the freeze dried coffee itself.

**AdityaAluwalia**

I see, I see, I see. And just one last housekeeping question on the capacity expansion and the capacity utilization right now.

**Shrishant**

Well, capacity utilization in India, we're already more or less at optimum capacity, as far as that's a reason why we're going in for additional freeze dried expansion within India. As far as Vietnam is concerned, we will have better utilization after this agglomeration unit is coming on board. Right now we're at think about 65%. We're expecting that to go up to 75% to 80% after the agglomeration comes on board.

**AdityaAluwalia**

And what will be the capacity after expansion in both geographies.

**Shrishant**

It's the freeze dry powder capacity is going to remain the same as in India and in Vietnam. The difference between last year to this year is twofold. Within India we will – we have now additional freeze dried capacity, because we were operating at sub optimum levels, prior to the refurbishment. Okay. So in India, you'll see a growth thanks to the freeze dried capacity over here. And in Vietnam we'll see that growth because of agglomeration coming over there.

**AdityaAluwalia**

Actually on possible to put some numbers on this please. What will be the...

**Shrishant**

Numbers are like as far as freeze dried is concern we're saying about 10% additional growth in freeze dried numbers. And – pardon.

**AdityaAluwalia**

In freeze dried capacity.

**Shrishant**

Yeah, in freeze dried capacity. And as far – actually 10% to 15% I'd say in freeze dried over here.

**AdityaAluwalia**

Okay.

**Shrishant**

And as far as Vietnam is concerned also, we're saying from 65% to 75% to 80%, so that's also 10% to 15%. So that's why...

**AdityaAluwalia**

That is...

**Shrishant**

...the consolidated basis also the same 10% to 15%.

**AdityaAluwalia**

That is the increase in utilization, I understand. I'm just asking about capacity, are we adding...

**Shrishant**

Capacity that is – yeah, see to be frank, the capacity of the plants are exactly the same.

**AdityaAluwalia**

Okay.

**Shrishant**

The utilization is more now because last year we were not able to fully utilize because of the plant shutdown. And we were able to issue in Vietnam that we had with respect to the customer changing the requirement in the last minute.

**AdityaAluwalia**

Right.

**Shrishant**

These are the two reasons we were not able to achieve that optimum capacity last year. But this year, we're confident that we will get back.

**AdityaAluwalia**

Right. And that product will come in June 2018, the freeze dried coffee plant.

**Shrishant**

Yes. That's correct.

**AdityaAluwalia**

Are we still sticking to that timeline or is that...

**Shrishant**

Yes, yes, yes. Yeah, next year roundabout this time we should come into production.

**AdityaAluwalia**

Right. And how much is that will that be or what will...

**Shrishant**

5,000 tonnes of freeze dried.

**AdityaAluwalia**

That's okay. And apart from that no other, no new CapEx now.

**Shrishant**

No. No other new CapEx. I think we're just apart from this agglomeration we'll be doing some in-house tweaking within Vietnam, but that's about it.

**AdityaAluwalia**

Okay, okay. Thank you so much for your patience and time.

**Shrishant**

Yeah. Thank you.

**Operator**

Thank you, Mr. Aluwalia. Next question comes from RohitBalakrishnan from Rare Enterprise. You may speak.

**RohitBalakrishnan**

Hello. Hello.

**Shrishant**

Hello.

**Operator**

Yes. You may go ahead.

**RohitBalakrishnan**

I wanted to actually understand the point that you mentioning about the Brazilian market. Can you explain that a bit more? So what you are saying that the purpose on Arabica product and the price point of that is make some uncompetitive?

**Shrishant**

Yeah. So if you look at the global market, Brazil is predominantly and Arabica growing country. Vietnam which is second largest producer after Brazil, is there predominantly Robusta growing country. Now Arabica is the coffee that is used in most of the coffee shops as well its smoother to drink the coffee. Robusta has higher testing content and its which stronger. So for instant coffee frankly we prefer Robusta coffee to Arabica the coffee.

And all in fact majority of our customers also represent Robusta and Robusta Blend. So what Brazil is doing because they cannot import any coffee into the country. They are using Arabica coffee to make that product. So because the products of Arabica typically is more expensive than Robusta, automatically the product that they are offering the market also becomes more expensive. That's the reason why there hasn't been able to compete very effectively and an apple to apple basis with other manufacturers especially from Asia.

**RohitBalakrishnan**

Understood. And you also mention that the fact that in markets apart from the U.S. there is no mixing, right.

**Shrishant**

Pardon.

**RohitBalakrishnan**

In markets apart from the U.S. there is no – I mean, mix products or adulterated product products...

**Shrishant**

Well, most of the other markets are – they have very good loss and checks and balances in place. For example, entire Europe, if there's any adulterated product found in any supermarket as any given point in time, we have to do a complete products recall and destroy the product. So India also has very strict loss in place. Similarly, most of the other countries do have lot of stringent measures which are already in place. Few countries which are unregulated or the turn a blind eye that's where these guys are focusing on right now.

**RohitBalakrishnan**

Okay. And the point that you mentioned around reveal the uncompetitive and hence they do some adulteration or these two points are completely unrelated.

**Shrishant**

Actually both are related as far as Brazil is concern reflect, I mean, I was giving another example saying why Brazil, we can look at India itself. What do you mean by adulteration enter the dates. So any pillars that is added into the product. Within India, we have products like coffee and

chicory. Chicory in fact is a filler that was created during World War II time. And that was just to bring them the price of coffee. And everyone like within the country where 50% of the market is a chicory coffee market.

So similarly, what Brazilians have done or that come up with other fillers and they're incusing these products in the market. And every places they're even declaring what the fillers are on the label, they're not – anywhere. And that's created in these for themselves.

**RohitBalakrishnan**

Okay, got it. And in terms of this 5,000 ton free straight capacity. What is the overall cost that you're incurring with this.

**Shrishant**

About \$50 million.

**RohitBalakrishnan**

\$50 million. Okay, and has there be any increasing, you mentioned that overall competition has been increasing. Has that also the implication Vietnam with lot of folks coming in Vietnam in setting up plan because of favorable tax structure in shops there.

**Shrishant**

Well, the several people who was setting up factories of the several people are shutting down factories also the same time. What we have seen over the last 20, 25 odd years, is that several manufacturing companies will manufacturing for 50 years have actually shutdown operations and come to us. So these tax incentives that are being given by countries like Vietnam, to be frank, now in India also we have similar incentives with SEZs and all. So that's the reason – doing also we decided to sight up within India, we wanted to focus more on Make In India.

**RohitBalakrishnan**

Okay, thanks a lot. Always help. Thank you.

**Operator**

Thank you, Mr. Balakrishnan. Next question comes from GauravMaheshwari from Unilazer Venture. You may speak.

**GauravMaheshwari**

Hi, Shrishant.

**Shrishant**

Hi, Gaurav.

**GauravMaheshwari**

Hi. Shrishant just one thing, wanted to check on this – you mentioned during the discussion that in India, you had to refuse orders. Because – the agglomeration capacity in Vietnam. So going by that obviously, we would be shifting all of that back to Vietnam. Once we get agglomeration capacity. And given the fact that we had this please trying capacity problem by the built was slow and or let. So given all that coming back into the picture shouldn't the volume growth be much higher than 10%, shouldn't need the closet like 20%.

**Shrishant**

No, not at all, which is we are looking at about 10% – hasn't – in India what we have done last year the same thing we're going to continue. In other words we were already running of agglomeration at peak capacity. So this year also we'll be running at peak capacity. We don't have space to expand within India for agglomeration. So that is on one part, what's the reason for that increase in India what I'm saying 10% is because of the – like in quarter two what we lost out we'll be during this year. So that's the reason why I'm saying 10% within India and I'm saying the similar 10% to 15% will be there in Vietnam also, because we'll be adding agglomeration in the next couple of months.

Now the whole year is the projection that I'm given, and agglomeration will come in towards the end of Q1. So we'll having three quarters actually use the agglomeration of event. So overall blended volume growth I'm saying is 10%.

**GauravMaheshwari**

Got it. And what – I didn't get the reason behind the shop decline in margins around quarter-on-quarter basis around 27.8% to like 21.5%. So can you just repeat that part?

**Shrishant**

Okay. First – things first Gaurav you also – now we don't look in a quarter-to-quarter basis.

**GauravMaheshwari**

Yeah, yeah, obviously, obviously.

**Shrishant**

So one of the significant reasons this time was, this ban on Vietnam reports. We had more than 100 containers which are on transit and we have to cover some coffee in the domestic market to be on the safe side. So that is why the raw material pricings to that particular quarter and the stocks also gone up substantially.

Okay, so that is one of the reasons and next is we book some domestic market expenses in this quarter, because now we getting the team in place and now we are focusing more on the brand building in a such manner. Apart from that, we have this differed tax which we have to pay in this last quarter, which was much higher than what was that in the previous financial year. And last is this depreciation loss which we had booked from Switzerland plant.

**GauravMaheshwari**

So basically, when you're said that you booked some coffee in India. So did you then sell it back as it is or you converted to – then you're selling it also.

**Shrishant**

We haven't converted yet. We will be selling it like what we have done is, we entered with the contracts with customers over the next couple of weeks. So we'll be selling those – we'll be converting and selling those stocks, in this and next quarters, upcoming quarters.

**GauravMaheshwari**

Yeah, but then it shouldn't impact your margins on, so that case...

**Shrishant**

Yeah, but that sale will get reflected subsequently.

**GauravMaheshwari**

Yeah, but it won't come into the cost also, right. It would be reflect as a part of inventory.

**Shrishant**

At that point in time, we used more expensive – like the coffee that was in transit was cheaper cost.

**GauravMaheshwari**

Got it, got it, got it. Okay. And can you just give that one off marketing expense that you would have booked this quarter, which was not...

**Shrishant**

As in the regular we are retail activities and all what we are doing this samples and all that what we have to give.

**GauravMaheshwari**

Yeah, I mean something that was like one off in like Q4 which we started for continental – which was not there in last few quarters.

**Shrishant**

Yeah, that wasn't there in the previous years. I think the amount was how much about Rs. 4.5 crores as what we have spent.

**GauravMaheshwari**

Got it, thank you.

**Operator**

Thank you, Mr. Maheshwari. Mr. Akhil Parekh, you may speak.

**Akhil Parekh**

Hello, Shrishant just couple of questions, one is regarding CapEx, how much we are expecting for FY2018 and FY2019.

**Shrishant**

The CapEx for 2018-2019 – there won't be many because we would have completed our Sullurpet project by then. The majority of the CapEx should be within 2017-2018.

**Akhil Parekh**

Yeah, am I think, FY2018 and FY2019 basically. So we'll incur some CapEx during this year like 2017-2018.

**Shrishant**

Are you asking about 2017-2018 or 2018-2019?

**Akhil Parekh**

2017-2018 and 2018-2019, two years.

**Shrishant**

2017-2018, we are expecting a major CapEx, because – about Rs. 250 crores or so, for which financial tie-ups have been completed. And 2018-2019 we are not foreseeing anything other than filler upgrade and the 2018-2019, we would be focusing on stabilization on the process of the newly setup...

**Akhil Parekh**

Okay. Like, roughly any ballpark number for 2018-2019 how much still...

**Shrishant**

If it is – around Rs. 200 crores to Rs. 250 crores here, it will be another...

**Akhil Parekh**

40 to 50.okay, another thing previous calls we had mentioned right, like, Vietnam capacity also we will expanded once we reach the utilization level of 80% or so. So are we expecting the – to happen during FY2019 at Vietnam apart from agglomeration part I'm saying.

**Shrishant**

Yeah, we planning on taking a call of that point in time, like, once we achieve the desired target, then we talk we will take a call.

**Akhil Parekh**

Okay. But nothing, as of now...

**Shrishant**

As of now, we haven't planned anything. I know, there also whatever expansion we have to do – equipment installation because infrastructures already in place.

**Akhil Parekh**

Correct, correct. Okay, and one last question, any major client addition have – which has happen during FY2017.

**Shrishant**

We always keep adding customers on a regular basis, there's no specific thing that – attention.

**Akhil Parekh**

Okay, okay. No problem. That's it from my side. Thanks.

**Operator**

Thank you, sir. Next we have NitinGosar from Invesco. You may speak.

**NitinGosar**

Sir, the interest cost looks relatively high and the debt repayment has been there always. So any reason out there – interest cost high relative to your debt position.

**Shrishant**

Hello.

**NitinGosar**

Yeah, the interest outgo is high as compared to the gross debt position that the company is having, any specific out there.

### **Shrishant**

It's finance cost increase. There's a general increase in the LIBOR during this period. So there's a small increase on account of increase in LIBOR and also during this period some of the guarantees that we have to give for the being in 100% your status have come up for renewals. Those costs have been embedded in that and some healthy opening costs are also. So the finance costs slightly are more, but they're not entirely on account of interest costs.

### **NitinGosar**

Okay, okay. And second was with regard to the U.S. operations, maybe the earlier commentary use to always be that we are just reevaluating if U.S. government is able to come up with some norms with regard to the standardization of the product or the quality of the product we will consider exploring U.S. market. Then why all of us hidden the commentary on border tax to hedge our decision ongoing into U.S.

### **Shrishant**

No, no, no. This is the new develop and what we have always mentioned earlier also with respect to the U.S. market, after the new President has taken over, nobody knows what is going to happen and there's a lot of confusion that regard created. Before that we were clear that as we wanted to look at the U.S. market has a potential market for us. Now also that potential is that, it's just that we don't want to taken any unnecessary risks in the U.S.

Today what is happening is the current President; he has impose those border tax, which came across very decently. This was unexpected even by the industry over there. And this border tax is expected to change the phase of how trophies consumed within the U.S. So now our concern is we don't know – frankly, we don't know the border tax is after – Mexico and Brazil or whether is applicable to all imports into the country.

As of now, what we understood is the reason for this border tax is to make Mexico pay for the wall. So – all this controversy that's why we're not making it clear until we have complete clarity with respect to the U.S. we don't want to take any chances.

### **NitinGosar**

I mean, if the border tax comes with regard to Brazil or Mexico. End of it, it's companies like you, who'll benefit, right.

**Shrishant**

That's the – if there's no tax that is imposed on products which are coming in from India, Vietnam – biological agreements between Vietnam and U.S. provided all these are honored.

**NitinGosar**

Irrespective of border tax coming into play.

**Shrishant**

Yeah.

**NitinGosar**

The positioning of company with regard to the product quality, with regard to the cost competitive...

**Shrishant**

Yeah, we are already present in the U.S. and we're already selling good volumes in the U.S. So we are just looking at increasing our position within the U.S. that is what we wanted to focus on. And to increase our presence further we may have to make an investment within the U.S. that's the reason why we wanted to have a little bit more clarity before we make any investment. We don't want to be stuck in a situation where we made the investment and then because of government regulations we are not able to run properly. You already face this issue in Switzerland and we don't want the same thing to repeat again.

**NitinGosar**

Fair point, fair point sir. Sir, last question is with regard to the volume, you mentioned for FY2017 the volume was roughly around 5% for the year.

**Shrishant**

Yes.

**NitinGosar**

So it must be equally split between India operation as well as Vietnam.

**Shrishant**

No actually in India we have seen that volume growth what we were looking at but in Vietnam unfortunately we didn't get that because of the reasons which I explained earlier. We had a customer who came in the last minute and that they wanted to change the contract.

**NitinGosar**

Sir, Vietnam it was a flat kind of number.

**Shrishant**

Yes.

**NitinGosar**

Okay, and Vietnam we have running capacity of 10,000 or 12,000?

**Shrishant**

10,000.

**NitinGosar**

Right sir. Okay, thank you.

**Shrishant**

Yes, thank you.

**Operator**

Thank you Mr. Gosar. Next question comes from Bobby from Salcon Investment. You may speak.

**Bobby**

Yes, Hello. Is the recent rupee depreciation cost impact your offense?

**Shrishant**

Yes. Not really because for us everything all the coffee that we buy is bought in U.S. dollar and final product that we sell is also in U.S. dollar. So the rupee appreciation impact could be the only on the conversion cost component to a little extent.

**Bobby**

Thank you.

**Operator**

Thank you. Next question comes from AkashManghani from BOI AXA Investment. Thank you.

**AkashManghani**

Yes. Thanks for taking my question. So two questions. One is you mentioned on the freeze rate capacity of 5,000 ton so which will come on mid-next year, a peak utilization what could be the revenue that you could do from this plant say in FY2020 or whenever you achieve peak utilization.

**Shrishant**

Approximately around Rs.300 crores but this also would depend on the green coffee prices at that point in time. Taking current levels you can...

**Sharma**

Reach the optimum capacity by 2020.

**Shrishant**

Yes. By 2020 we should reaching our optimum capacity.

**AkashManghani**

Okay. And theoretically this can operate 100% utilization rate or at practically...

**Shrishant**

Yes, it can.

**AkashManghani**

And how much higher would the margins be then your current operating margins for this plant – maybe at a cross level or at an EBITDA level if you could give some things.

**Shrishant**

Product margins are not likely to change – sales now and the subsequent capacity will only augment to be selling quantities. The new plant will not have any extra additional margins or/and above the existing margins.

**AkashManghani**

Okay. I understand the impression that the freeze rate product would be having a higher gross margin than you...

**Shrishant**

That is compared to the freeze rate product, the other forms of the instead coffee if you compare with that then freeze rate coffee would have a better values – better margins.

**AkashManghani**

Right. So if you were to look at the gross margin for that product by itself how much higher will it be as compared to your company average using the spreads the higher so I want to understand how much higher is that.

**Shrishant**

That would be too much detail to tell at this point.

**AkashManghani**

Maybe 1%, 2%, 3% if you could give some sort of range...

**Shrishant**

That will be much more than that.

**AkashManghani**

Okay. The other thing is in this quarter or this financial year the cash generation was very poor, operating cash you alluded to inventory by low one reason. The other was receivables also jumped up significantly what is the reason for that.

**Shrishant**

Reason – see inventories you know because of the additional file that we have to do. And in the receivables towards the end of the year one of the customer sort for an extra credit limit which were to basic. It's just a 15, 20 day extra credit that we had to give but the cutoff date would be in 31 March as on that date it remind in receivables.

**AkashManghani**

Okay. But this is normalized now.

**Shrishant**

That is normalized now, in fact we needed substantial amounts during this period for investment as internal approach into the project, so we enable that the amount of cash is repeatedly available for the project during the year.

**AkashManghani**

Okay. So your working capital overall should normalize to what it was in FY2016 by the end of this fiscal.

**Shrishant**

No this – in the normal course the working capital cycle was perfect within three months to four months time only this is our normal practice. The – as on a date as I told you and for one of the reasons like this the business started.

**AkashManghani**

I also want to – extension to one of the earlier question that was asked regarding your growth rates FY2017 was 5%, 6% 7% all FY2018 adding 10% and if I look at your growth in FY2013 to FY2016 the CAGR was close to 18%, 19%. So if you look at the next three or four years are we entering a phase where we should be okay with 10%, 12% CAGR or this capacity being a constrain for the last two years or we exhausting opportunities in our existing markets. Just give some quantitative flavor on what could be the longer-term growth from a three to five year perspective.

**Shrishant**

You must appreciate the fact that the denominator has been increasing. So as the denominator increases you cannot go on continuing on the same level of growth rates. So the comparable figures year-on-year are increasing and also this is a product manufactured product. So the test will relate to the manufacturing capacity without the utilization. Based on these two factors we are suggesting that it will be so.

**AkashManghani**

So let's assume that this U.S. market doesn't open up for you in a big way and the...

**Shrishant**

No, we are not saying that, we are only cautious about getting into the market to first, see the basic strategy of the company is that we sell the product first. So we enable avenues to sell the product first, so only when we are assured that at least 60%, 70% of the capacity can be utilized we plan for the manufacturing capacity. So as of now basing on our freeze side requirements our generation requirements we are ensuring that the capacities are augmented during the current year. And obviously it will take at least one year to stabilize on the operations of new plants. During which time we will enable further market augmentation and once it is there confirmed for us then we will plan for the augmenting or manufacturing capacity.

Five year since forth I cannot right now pursue that I will able to sell say 35,000 or 45,000 without achieving this 25,000, 30,000 plus.

**AkashManghani**

Okay. So what is your revenue concentration from CIS countries in Western Europe.

**Shrishant**

We are equally split across the world from U.S., Europe, Africa, Asian countries, CIS countries. So there is no particular region that we are overly depended on. This has been an intentional strategy of a company right from day one. We are supplying coffee in the U.S., we have been supplying from day one. And in fact initially when we started the company about 70% to 80% of our product use to go to U.S. alone. But then volumes also a much, much lesser.

As the volumes have increased in other regions the U.S. volumes have been more or less flat. So if you look at it the reason for us to do this also to ensure that there is no over depended on any particular region, whatever projections that we are giving also is again more conservative productions or projections because we have to be confident that we can achieve it. We don't want to project something that we cannot achieve.

If the U.S. projects plans out there will be additional volumes that will come in and when that happens we will inform at that point. Saying that, because of this new project this is what we are expecting in the future.

**AkashManghani**

Okay. Thanks.

**Operator**

Thank you. [Operator Instructions] Next question comes from DigantHaria from Antique Stock Broking. You may speak.

**DigantHaria**

Yes. All of my questions have been answered. Thank you.

**Operator**

Thank you. Next question comes from Rohan Gupta from Edelweiss. You may speak.

**Rohan Gupta**

Sir just only one thing. You mentioned that you will be making the separate company for marketing of the domestic operations. So what the structure is likely to be followed into the marketing company.

**Shrishant**

We have already created the subsidy company from Continental Coffee Limited last year and we've created – in fact we've put all the marketing seasons in that company. Now we have created this is a 100% subsidy of CCL Products right now. So the new team that comes in will have a CEO and they own network, distribution team will be there and the whole structure is going to be built-up with the help of consultancy of taken on board last quarter.

**Rohan Gupta**

Okay. And sir since the marketing is going to be long-term affair and initially it's hardly Rs.25 crore revenues coming from this. So what is the minimum budget you have look at it over next three years because I believe that maybe probably in initial time next three years it may not contribute anything to that or at least there will be drag on the profitability. So how much money you think that you have allocated for investment in this marketing company in next three years.

**Shrishant**

Yes. Last quarter we have already taken the approvals of Rs.30 crores from the board.

**Rohan Gupta**

Rs.30 crores every year.

**Shrishant**

No Rs.30 crores for three years.

**Rohan Gupta**

Okay. So Rs.30 crores loss that what you are talking about?

**Shrishant**

No Rs.30 crores is the investment for the brand building is what we are talking about.

**Rohan Gupta**

Okay. Rs.30 crores investment for brand building only. And then – because hiring a whole team in all and everything which will be definitely coming at high cost.

**Shrishant**

Yes. All that is within this Rs.30 crores itself.

**Rohan Gupta**

That all is part of this Rs.30 crores.

**Shrishant**

Yes.

**Rohan Gupta**

Okay. So maximum probably when can expect the loss from this business may not be more than – in a first year of operation may not be more than Rs.10 crore, Rs.15 crore.

**Shrishant**

Yes.

**Rohan Gupta**

Okay. Thanks, sir.

**Operator**

Thank you, Mr. Gupta. Next question comes from AbhijeetAkela from IIFL. You may speak.

**AbhijeetAkela**

Most of my questions have been answered. Thank you. I'll just follow-up for offline. Thank you, sir.

**Operator**

Thank you. Next question comes from ManojGauri from Equirus Securities. You may speak.

**ManojGauri**

Yes. Thanks a lot most of the answer – most of the questions have been answered. Thanks a lot.

**Operator**

Thank you. Next story comes from Rahul Maheshwari.

**Rahul Maheshwari**

Hello sir. Can you as GST date has been delayed on coffee 5% and on instead coffee it's higher rate. So can you give an at current plant how much benefit is going on and once you are adding 5,000 ton freeze dried capacity in FY2019. So what is the effective rate that would be coming and how much savings would be there?

**Shrishant**

For export there is no issue, right.

**Rahul Maheshwari**

Yes.

**Shrishant**

There is no tax, so no issue for that. But for the domestic market that implication will be there. First if you read the schedule carefully at the top it's clearly says that, it mention that these are the sensitive rates and it subject to review or further review. So we are not sure that for instead coffee is going to remain in that 28% or whether it will come to 18%. Finance Minister made that very clear, saying that the taxation in fact of – not the higher than what it currently is. Currently it's 12.5% plus 5% VAT. So we should technically be in the 18% bracket.

**Rahul Maheshwari**

Okay.

**Shrishant**

So either way, whether it's 18% or 25% to be frank, because there is going to be a uniform policy across the country lot of issues, administrative issues that we work few thing until last year we'll go away. When we're trying to build the team and create a structure earlier, we have to listen the open offices in every state which is becoming a bit of challenges. So thanks to GST

all the cost and expenses need not be incurred by us at all. This is the positive run fact for us, because end of the day, the market leaders who were there, they will also end up paying the same tax as what we will be paying.

**Rahul Maheshwari**

But you're adding in FY2019 of new capacity. So there is any tax benefit incentive of – given to you for our tax consultant.

**Shrishant**

We haven't the excited zones, so there will be a tax holiday for several years.

**Rahul Maheshwari**

So how much benefit can you get – it would make impact on your total effective tax set.

**Shrishant**

Well. Today our effective tax rate is at lowest 27% or 28% something like that. So I think it will come down closer to maybe 28% or 26% or 25% over the next couple years.

**Rahul Maheshwari**

Okay. And second question, I just wanted to neither said, do you being conservative in terms of the volume growth which are expecting for the next year. And you told that in freeze rate which was short in FY2017, in quarter two, it would give 10% to 15% additional growth in this and – will give a 15% additional growth. Means, it leaving apart these two component, do you mean to this standalone will give only 5% to 7% volume growth.

**Shrishant**

No, standalone, we're saying at least 10% growth will be there, because if you compare as of previous year. We want able to utilize the – fully.

**Rahul Maheshwari**

Okay. No, leaving apart, if these two components are not being considered, what would be volume growth for the company.

**Shrishant**

As in that, what is not consider?

**Rahul Maheshwari**

If – even this 10% to 15% free additional growth, which we have expect in FY2018 and 15% additional growth from the new environment plant in Vietnam. If we don't consider these two components, what would be the...

**Shrishant**

That we're see capacity already, right. So even the additional growth is coming in because of the – if this like India growth will come in because of the new fees carrying unit that we're going to setup by next year. So from last year to this year, the growth is coming in from the after the re-foundation of the – that announced with us still going to be there. So last year to this year, the growth is because of free side note. And next year onwards growth in CPL India will come in because of this additional 5,000 ton capacity that will become operational from next financial year.

**Rahul Maheshwari**

Okay. And you're going on the fee rates is enjoying the better margin as compared to the speed ride capacity or et cetera. And the margins also higher more than 4% kind of thing, so by FY2019 or FY2020 where you told that it would reaching the peak capacity of a 5,000 ton in India. It may reach to the big capacity. So how much margin expansion or sensitivity, we can get. If we take it as a 24%, so how much margin expansion can take place by FY2020.

**Shrishant**

So again, this is very difficult question to answer. Because as number of things keeps changing in the market all the time, today, because of several reason, there is a demand for coffee which why we're able to command this margin. But they are new plants that will get built over the next couples of years and on that also. So if you give any higher end number also, we might not be setting the right expectation...

**Rahul Maheshwari**

But it would be in steady state business. You would maintaining such margin at least...

**Shrishant**

Steady state will be maintaining and improving also long-term percent is something which you can conservative on the sales possible. I missing beyond that is also possible but I don't want to commit to it at this point in time.

**Rahul Maheshwari**

Okay, okay. Thank you, sir so much.

**Shrishant**

Thank you.

**Operator**

Thank you, Mr. Maheshwari. Next question comes from ChitrangdaKapoor from Sameeksha Capital. You may speak.

**ChitrangdaKapoor**

Thank you. All my question were answered.

**Operator**

Thank you. Next question comes from Neenu Abraham from Economic Times. You may speak.

**Neenu Abraham**

Hello, good morning, sir. Shrishant, I have small question for you. I have been just seeing your shareholding pattern and the number foreign portfolio investor who are invested in your company have increased almost 3/4 in the past one financial year. That is FY2017, can you present the what is the secret behind this? What is the reason? Why is your company, so bullish?

**Shrishant**

That we have been extremely quite in the market for several years and in fact one of the biggest grounds is that we're also analysis our with us, because we don't do enough road shows.

**Neenu Abraham**

Okay, okay. Now that takes every evident in your numbers. The numbers have increased from 21% to 64% that is three folds. I mean, I would love to note three things. One is, it is because they're betting big on the fundamentals of your company. Number two, whether you have entered into major global contracts tie-ups strategic moves et cetera with foreign partners, to be whether geo political situation is making such that lot of portfolio investor are coming and betting on companies like yours.

### **Shrishant**

Okay, to be frank, it's a combination of a lot of things starting with – when we started the company. We have started with 2,000 ton capacity, which we're now expanded to more than 30,000 tons. Now this growth has largely been lead because of our customers. We have always, we've been fortunate to have the right partners as well. Coffee industries likely unique because most of the companies, the coffee manufacturers, buyers, all these companies are family own businesses. In PCL, to be frank, I'm the second generation, which has come on board over here. And most of our partners, who have been with us for more than 25 odd years, there are also on the second and third generations.

So everyone has grown and build up, the markets, that reputation and everything over the years. Today, we're the largest private label manufacturers in the world. So that has given us exposure. We are exporting to more than 85 different countries. So the fact that we would supplying to some of the largest brands, which are there in the world, has be default given us visibility with lot of funds as well. So when they study the market, they surprise. They surprise that who is that first we were rated as a contract manufacturer. Slowly, where people start to disgusting and understanding our performance year-on-year, we start getting rerated and once our visibility picked up. The several international funds also which started investing.

If you notice to be frank, we will look at the rest of the world, coffee companies doing what we're doing. I know people with fraction of our production capacity and performance also less than us are being rank a weighted higher than what we currently are. So I think, that is something most of the funds where there in other countries have realized and appreciated it, which is where they wanted to enter and hold a longer position.

### **Neenu Abraham**

But what else happened in the past one year or so. Because all the exchange have been jumped, it's being visible, what you are visible in the past one year. I'm talking specifically between March 2016 and March 2017, where the number of FB has been increased from 21% to 64%. What exactly has happened in the past one year, now what would you have described to me so

far, was something which happened over time. Now what have happened in one year, that has turned the company so bullish.

### **Shrishant**

Actually to be frank, absolutely nothing it was happened over the last one year. What is happened is companies who have come on board some are biggest FIF's which have shareholdings or even I think 1% as even after 8%. What they have done is they have invested initially and gradually briefing the stack. When they say the performance increasing and they got more confidence, they kept increasing the stack. And once people started seeing some – then the categorization or more number of funds started coming and taking a longer position. And one – I think one fact which lot of people are looking at is essentially into the domestic market as well.

There is very big potential for growth within India. Today India, we consume about 10,000 tons of instant coffee, when countries like U.S. consumer about 80,000 tons, Japan which is fraction of the population consumes 35,000 tons. Nobody has actually, seriously focus on developing coffee or instant coffee consumption in India till date. And we have access to more than – 200, 300 products, which we're supplying to people across the world. So we have the potential to introduce most these products within India. That will give us an added edge. So lot of people have realize that the kind of potential growth which is possible in the domestic market itself is quite phenomenal, which is why I think they also want to part of the same growth story.

### **Neenu Abraham**

Okay. So you said about 200, 300 product is it from your company or corporate group?

### **Shrishant**

I think from the company, I think from the group company.

### **Neenu Abraham**

You have 200% to 300% of – now you were talking about branding instead and you said that you are going to invest about 30 crore across three years. Now will you be entering into coffee of the trading, because you said that instant coffee just now you made that recent better – instant coffee retailing has some cost of out of its way in India. You be a entering that segment in a big way in say the next financial year or even after that.

### **Shrishant**

Yes, we've already started entering as we've launched our products, we've done a soft launch in several markets. We just started putting the products on the sales and we wanted to see the response. The response has been good. So we started doing some detailed activity. Now we are doing more targeted brand building activities. So last year in fact for the domestic market what we've done is about 50 crores that's a branded sales as well as private label sales. And we are expecting that growth to continue over the next couple of years as well. So to build a brand, we need to have the separate team we need that dedication and focus which is why we created subsidiary company, which is 100% own by the parent company. And this company's target is just focus on introducing our products in the domestic market, in a very professional manner. So that's what we are focusing on here.

**Neenu Abraham**

My last question, sir. Do you see more of a foreign portfolio investors SBI committee or your company with next financial year as well?

**Shrishant**

That's a difficult question to answer. Yes, I'm sure – they will be interested because we are talking to several funds or several people who, whom we've spoken to over the last couple of month. So when we're waiting to see when we were get an opportunity to enter. So I think in fact today, there were small corrections. So that will give an opportunity to several people.

**Neenu Abraham**

Okay, okay. So I scanned it, and you are positive about this, sir?

**Shrishant**

Yes.

**Neenu Abraham**

Thank you very much.

**Operator**

Thank you. As there are no further questions from the participants, I now hand over the conference to Mr. Akhil Parekh for closing remark. Over to you sir.

**Akhil Parekh**

Thanks, Meenaz. Thanks a lot to everyone who attending the call. Thanks to the entire management team for taking time and answering to all the questions, patiently. Shrishant, in case if you have any closing comments. Please go ahead.

**Shrishant**

I have no specific comments. Just thank you for organizing the call. That's it.

**Akhil Parekh**

Thank you so much.

**Shrishant**

Yes.

**Operator**

I think, shall I conclude the call, sir.

**Akhil Parekh**

Yes.

**Operator**

On behalf of Nirmal Bang Equities, that concludes this conference. Thank you for joining us. And you may now disconnect your lines. Thank you all.

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