



“CCL Products India Limited Q2 FY2022 Earnings Conference Call”

October 28, 2021



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*CCL Products India Limited
October 28, 2021*

Moderator: Ladies and gentlemen, good day and welcome to the CCL Products India Limited Q2 FY2021 Earnings Conference Call hosted by Nirmal Bang Equities Private Limited. As a reminder, all participant 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 '*' then '0' on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Abishek Navalgund from Nirmal Bang Equities. Thank you and over to you, Sir!

Abishek Navalgund: Thank you, Bilal. Good evening everyone. On behalf of Nirmal Bang Institutional Equities, I welcome all the participants to CCL Products Q2 FY2022 earnings conference call. From the company's side, we have with us Mr. Challa Srishant - Managing Director and Mr. Praveen Jaipurari, CEO of Continental Coffee who is also appointed as CEO of CCL products in today's board meeting with effect from October 29, 2021 we also have with us Mr. V Lakshmi Narayana CFO, Mr. P.S. Rao Consultant Company Secretary and Ms. Sridevi Dasari - Company Secretary on the call. Without further ado I would like to hand over the call to Mr Srishant for his opening comments and then we will open the floor for Q&A. Thank you and over to you Sir!

Challa Srishant: Thank you for the introduction. The group has achieved a turnover of Rs.336.83 Crores for the second quarter of FY2021-2022 as compared to Rs.322.22 Crores for the corresponding quarter of the previous year and the net profit is Rs.49.34 Crores as against Rs.47.46 Crores for the corresponding quarter of the previous year. The EBITDA is Rs.82.5 Crores and profit before tax is Rs.64.78 Crores. For the half year the group has achieved a turnover of Rs.663.06 Crores as compared to Rs.611.48 Crores for the corresponding period of the previous year and the net profit is Rs.93.19 Crores as against Rs.85.95 Crores for the corresponding period of the previous year. The EBITDA is Rs.154.59 Crores and the profit before tax is Rs.118.52 Crores.

A couple of other points that I would like to mention is our expansion in Vietnam the equipment installation and the commissioning has been completed. We are trying to balance our order book as well as the trial that we need to do to fully commission the new line. With this our enhanced capacity will also be available. Right now we have achieved part of the enhanced capacity, by Q3 we should be able to get the entire capacity online. And as we have already informed last time, we did the plant shut down also in Vietnam in spite of which we were able to still have a growth in Q2 compared to last year. Apart from this there were two other changes that I would like to mention. This is regarding



*CCL Products India Limited
October 28, 2021*

personnel changes, one Mr. KVLN Sarma our COO has resigned from the company and he has transitioned everything whatever he was doing, to Mr. Praveen Jaipurkar who has now been appointed as CEO of CCL Products. We can open up the floor for questions now.

Moderator: Thank you very much. Ladies and gentlemen we will now begin the question and answer session. We have the first question from the line of Kashyap Javeri from Emkay Investment Managers. Please go ahead.

Kashyap Javeri: Thank you so much Sir for the opportunity. I have a couple of questions one after let us say the first half topline growth roughly about 8.5%, would you still retain your guidance of about 15% growth that you have been highlighting for some time and how much of it could come in let us say fourth quarter of this year from the expanded Vietnam operations that is question number one and second question is that in terms of EBITDA would our EBITDA on per unit basis would be stable despite the fact that coffee prices have gone up in this particular quarter and the third question is on our export market both in the European supermarket space where we are looking at some bit of expansion and the new client that we have signed up in US one of the large instant coffee player what is the expansion in some of this geography incrementally?

Challa Srishant: Okay the first question with regards to the guidance actually there is a slight deviation in the guidance earlier we had given a guidance of 10% to 15%, now we can confidently say that we will be significantly more than 15% for this financial year.

Kashyap Javeri: Okay and that guidance is now driven by you highlighting stronger order book?

Challa Srishant: As far as the order book is concerned, yes, we do have a stronger order book and Q3 and Q4 are typically the peak quarters for us and that is one of the main reasons why we wanted to complete all the expansion by Q2 itself so that we have that additional capacity available to execute the rest of the orders and that is one of the reasons why we are increasing the guidance given and because of the green coffee prices which are going up, there could be a disproportionate increase in topline which we will start seeing from Q4 onwards so that is another point which I just wanted to highlight. So as far as our absolute margins are concerned, we are again on track, they are going to remain constant, but after Q4 onwards you will start seeing more increase in topline because of the green coffee prices and one more point that was asked earlier about the customer in the U.S. Yes that business is going well and there could be an opportunity in the near future where



*CCL Products India Limited
October 28, 2021*

we could secure the primary supplier position also for this customer and it is a positive sign for us.

Moderator: Thank you very much. The next question is from the line of Akhil Parekh from Elara Capital. Please go ahead.

Akhil Parekh: Congratulations on a decent set of numbers. First question India operations side, we have seen a significant increase in the raw prices and you just alluded that the impact will be seen in Q4, but has not there been any change in the product mix given that we have expecting that the utilization rate will improve in coming quarters but it looks like probably the growth is only driven by volume in India and there has not been much change in the mix or early price realization?

Challa Srishant: Actually this is a good point that you pointed out but if you look at the numbers a little bit more closely, one yes our FD volumes have increased which is why the margin also has improved in this quarter, the reason why it is not getting reflected fully is because the MEIS what we got last year was about Rs.8.5 Crores and Q2 of this year was zero and the licenses were stopped as everyone is aware for quite some time and just towards the last week of last month, they started getting released so we will be selling the license on Q3 and Q4 onwards. Last year Q3 and Q4 the licenses were zero. We had only sold the licenses in Q1 and Q2, this year Q1 we sold the licenses and Q2 there was zero sale, so that itself you can see almost Rs.8.5 Crores coming in from the licenses itself.

Akhil Parekh: Okay and how much were expected since the total MEIS benefit for the entire year and how much it was in the last few quarters?

Challa Srishant: We are expecting another Rs.15 Crores approximately of licenses we already received about Rs.6 or Rs.7 Crores in Q1. In Q3 and Q4 we are expecting around Rs.15 Crores.

Akhil Parekh: Coming to utilization rate would not be able to highlight how it is in India?

Challa Srishant: India utilization was actually good, we are almost as around of 90% now.

Akhil Parekh: Okay that is what FBCS?

Challa Srishant: FD.

Akhil Parekh: How was freight rate?



*CCL Products India Limited
October 28, 2021*

Challa Srishant: Freight rate also it is similar rate this year, we are operating at more or peak capacity in all the units it will be crossing 90% that is one of the main reasons why we need to get this new additional capacity online as quickly as possible.

Akhil Parekh: On the Vietnam front, how was the situation now with the last quarter we had some impact because of the rising COVID cases and kind of military level lockdowns, has the situation improved now?

Challa Srishant: Well Vietnam the situation as in there are some new COVID cases that have come up closer to the factory also, now fortunately the government is being very vigilant over there. We are also taking the necessary steps, we provided accommodation for the employees within the premises itself because we have a completely full order book we cannot afford to default on our commitments so we have ensured that all the raw material is there with us the main issue right now is manpower. One major advantage that we have at Vietnam is that it is a fully automated plant so with minimum manpower we are able to run the plant over there and because it is mainly bulk production that is not a big issue for us in Vietnam.

Akhil Parekh: So the dispatches are kind of normal and has not been impacted is that correct?

Challa Srishant: The dispatches are more or less normal and small delays here and there will be there and freight issues are still there, but we have to live with that.

Akhil Parekh: And maybe Praveen on the branded business how is that done?

Praveen Jaipuriar: Domestic branded business we continued a good run in Q2 also. So first half, we have grown by almost 40% and this year if you remove the army operations, because this year we did not get that contract, we grew almost 45%-46%. So we are on track with our growth projection and first half we did a topline of approximately Rs.85 Crores.

Akhil Parekh: Should we expect this growth for the entire year?

Praveen Jaipuriar: As we had informed during the first quarter call that there were two months of disturbance which led to low sales. Infact, we were expecting even higher growth than 45% but that disturbance kind lingered this year as well and in fact this year it was a little more impactful. So we lost out a little bit there and some of our expansion plans, which was to begin much earlier than we had anticipated. When I say our distribution expansion beyond south states that got a little delayed so that has led to a little bit of a setback, but



CCL Products India Limited
October 28, 2021

having said so we are poised to do a good number in Q3 and Q4. So I will not be able to exactly pinpoint whether we will be able to exactly touch 200 Crores, but yes we are gunning for it and it could be Rs.5 Crores – Rs.10 Crores here and there and that is it. But yes, we are on track for that kind of a number.

Akhil Parekh:

And the profitability wise you should not so you expect any problem?

Praveen Jaipuriar:

Akhil last year we have said that we were able to break even so this year also things have been going good only but as coffee prices have increased and because we are in consumer market, and taking up price increases are not so easy and it does have a lag effect as well. Therefore there will be a little impact on margin, but that does not impact us very differently and as we had guided the last time as well that even for this year whatever profits we are making we will try and plough back into our distribution expansion and brand building activities so most of it is on track and there are no major hiccups, but these are certain aspects which I thought I will bring to your notice.

Moderator:

Thank you. The next question is from the line of Rahul Maheshwary from Ambit Asset Management. Please go ahead.

Rahul Maheshwary:

A couple of questions as you had guided in last quarter that once the Vietnam's capacity of 3500 tonne which you said on the opening remarks will be commission by Q3 and you said that within next two months the doubling of Vietnam's capacity plan would be laid out by the management so can you give further visibility on the Vietnam's capex for next one to two years how the ramp up of the capacity for doubling will take place and related to US, as you said that two to three major clients were in the pipeline, what is the status there and what kind of out of the overall capacity currently we have reached to service U.S and where we are targeting.

Challa Srishant:

So as far as the further doubling of Vietnam capacity is concerned we have already initiated that process and it is expected to be completed in a year's time, so hopefully by Q2 of next financial year we should be up and running provided there are no issues because of COVID or any other reasons. With that capacity we should be able to cater to these new customers that we are now talking to. At this point in time we do not have that kind of capacity to cater to the requirements if they give us a large order. We have actually pre-sold all the coffee for this year and we have started selling for next financial year now itself that is a kind of an exceptional situation for us so as of now the capacity is a bit tight even with this current 3000 tonnes enhancement.



*CCL Products India Limited
October 28, 2021*

Rahul Maheshwary: Can you highlight the sense of confidence you are getting to doubling the capacity whether the market size is expanding or you are gaining the share from the peers which is there because of the better quality and the types of the coffee which you can provide at an appropriate time. Can you give further color that what is driving such confidence to gain the growth at a such a high rapid way and also can you highlight some as in last quarter you said about the new products value-added products which were contributing, currently during the quarter what was the status and how the pipeline is building for the new innovative products?

Challa Srishant: Okay a lot of questions combined in one so as far as confidence about why we are going in for this kind of aggressive expansion is, one if you notice that within India the domestic market we have been doing exceedingly well and currently while being present in hardly what four states, we are gaining a good market share. Once we start going on a pan-India basis more aggressively, that capacity needs to be freed up in India and in order to do that we need to shift some of the bulk production to Vietnam. So that is what we have done in the past and that is what we need to do in the future as well and that is one thing that is giving us confidence. Secondly, yes, the market is also growing at a rate of around 2.5% or so, coffee market, but we are growing a little bit disproportionate to the market mainly because the kind of product mix that we offer, there is no other company in the world that can offer this. The entire range of products from the most economical to the most premium products we can provide from our factories so that kind of flexibility nobody is offering in the market today and because we have the technical knowhow to do this we are able to customize based on any customer's requirements and because of the advantage of economies of scale, we are able to be a little bit more aggressive in the market than anybody else.

Rahul Maheshwary: More than Indian market, the peers at the global which you are supplying to the U.S., Europe supermarkets or even to Russia or Turkey over there whether you are gaining the market share from the peers who are supplying into those markets?

Challa Srishant: Those markets we are already supplying to the major players in most of these markets. In Europe we are actually supplying to a lot of repackers and resellers and supermarket business we have created a good foothold with some supermarkets and consistently for the last three years, we have been supplying to them and we got the contracts for next year as well. We are expanding into some new supermarkets as well, but breaking into a supermarket chain is actually a very cumbersome process and you need to show a certain track record and all that. Now that we have the track record it is becoming a little more



*CCL Products India Limited
October 28, 2021*

easy for us to get listed as one of the priority suppliers. So going forward we are expecting more of small packs to come in the near future.

Rahul Maheshwary: Can you throw some light on the value-added products and the innovative pipeline which is there, which last time you said one product about the cold brew where demands from 10 countries were coming and you were not able to supply so what kind of R&D and what kind of innovative pipeline, can you witness can you give an insight on that?

Challa Srishant: So we started supplying this cold brew to Trader Joe's initially we created this product category and they were pleasantly surprised of the kind of response they got for this particular product so that volume has been consistently growing with us. Now looking at Trader Joe's there is a couple of large retailers in the U.S who have now approached us saying that they want us to do something similar for them, but we have to now create a different product, we cannot give the same face profile, so we are in the process of creating some different products for them. Now seeing the success in the U.S there are European, Chinese as well as Russian supermarkets who have expressed interest saying that they want to introduce cold brew in their supermarket as well in their own private label and because none of the big brands are doing this, the supermarkets are getting a name of being innovative, thanks to us so that is a very big plus point for us. This is one of the products that we have. There are a lot of other products that we are constantly working on as well, but it might be a little too premature to talk about it at this point in time.

Moderator: Thank you very much. The next question is from the line of Himanshu Nayyar from Yes Securities. Please go ahead.

Himanshu Nayyar: Hi good evening and all the best wishes to Praveen for his new role. So firstly just a clarification on the Vietnam bit by doubling capacity you mean doubling from the earlier 10000 or doubling from the now expanded 13500 tonnes?

Challa Srishant: Doubling from 13500.

Himanshu Nayyar: And the cost of that would be around \$10 million or \$20 million?

Challa Srishant: \$20 million.

Himanshu Nayyar: Understood and what is the status on this packing and aglo unit that we were coming up with in India and if you can highlight if we have more visibility on how much our small



*CCL Products India Limited
October 28, 2021*

pack I mean as a percentage of sales can be post commissioning because that was supposed to be an important margin driver for us?

Challa Srishant: So the new facility is actually completed now. In fact, tomorrow we have the inspection with the factory inspector and all that and we have already initiated the shifting of packing lines as well, so that process will be completed by the end of the third quarter. We are doing it in a phase-wise manner so as not to impact our existing commitments so once that is completed, we will be operating from the new unit fully.

Himanshu Nayyar: Can we say in the next couple of years once we fully utilize this?

Challa Srishant: You can go for small packs up to even 20000 tonnes by adding equipment. Initially we are putting that equipment in place for maybe around 10 to 12000 tonnes and as and when there is a requirement we will keep adding that equipment over there so it depends on what the customers are looking for, it is not possible to utilize a particular equipment 100% for the whole year. We have to always have additional packing capacity in place so that we can cater to those orders when they come in the peak period.

Himanshu Nayyar: And then one question for Praveen on the domestic business so you talked about the topline growth just wanted to understand how are things shaping up on the gross margin and PAT front if you can share some numbers because with the current inflation I think gross margins could be under pressure right now?

Praveen Jaipuria: Yes, so as I had answered to a previous question, gross margins are under pressure because we being challenger brands, for us price increases are a little difficult, because we have to follow the leader so and neither from Nestle and nor from Unilever the pricing increases have taken place, generally in consumer market these work short-term impact that will happen because over a period of time if the coffee prices do not drop then we all will take price increases so it should even out in the long run, so a couple of quarters could be impacted but since we are growing at a healthy rate, the topline is growing at 40%-45%, the bottom line impacts are not very apparent and also as we are growing, what is happening is that most of the growth has been driven by brands where the realization is better than the bulk business and the private label that we do in India, they are pretty much steady, they are not growing as much as what the brands are growing so that also helps to kind of balance out any pricing with the green coffee price increases so we are well covered on that front. so there is no major cause of worry. We are right now focusing a lot on how to grow topline and how can we expand, so as we were speaking earlier that we need to now expand into more geographies beyond South



CCL Products India Limited
October 28, 2021

because in South we are now slowly establishing ourselves as a strong number three player so now we are taking things forward in the other markets. We are all focusing on investing our resources in expansion.

Himanshu Nayyar: But we are not expecting a significant loss for the year or is it just a marginal?

Praveen Jaipuriar: No we are not expecting any significant loss for the year.

Himanshu Nayyar: And Sir just one final question what about the working capital side I believe with this high inflation at least we will see a higher number or inventory side of thing, is there any way we can reduce the working capital cycle or we will see increase only both on inventory and receivables as well.

Lakshmi Narayanan: I would like to clarify your question. Working capital requirement has gone up due to the increase in GC requirement. But, with the available limits, we are managing the whole operations. Secondly, we are focusing more on improving the collections from the receivables and we could reduce the receivables majorly from earlier level to now. This helped us to maintain our working capital requirements at existing level.

Himanshu Nayyar: Understood alright Sir that is all from me and all the best to you.

Moderator: Thank you very much. The next question is from the line of Richard Dsouza from SBI Mutual Fund. Please go ahead.

Richard Dsouza: Good evening Sir I just wanted to understand the logistics situation is it eased up for the how is the container shortage and other things going on?

Challa Srishant: Actually it is not as bad as it was earlier, things are slightly improving with respect to the availability, but prices are still much higher and prices have gone up even for the importing of green coffee. There is going to be a negative impact because of that and even the export containers the prices have still gone up. We are expecting the same thing to continue for the next couple of months at least, so there is not much of a change there.

Richard Dsouza: Okay so would it be fair to assume that most of our exports from the Vietnam plant are?

Challa Srishant: We have a combination. There are a few customers that we do have rate contracts with for those we are executing as far as possible with the old rates itself, but if there is an urgency and the customer wants to pull up a container shipment then we are passing on



*CCL Products India Limited
October 28, 2021*

those costs to the maximum extent possible or we are kind of partly sharing those costs as well.

Richard Dsouza: Okay on import green beans that is the raw material from which countries or which regions we import?

Challa Srishant: We are importing from multiple places from Africa, from Ivory Coast, from Uganda, we are importing from Indonesia and from Vietnam these are main regions.

Richard Dsouza: And would it be possible for you to share Brazilian situation as it improved and do you expect coffee prices to go down in the future or do you expect it to remain?

Challa Srishant: Actually we are not expecting the prices to go down anytime in the near future. In fact Brazil crop has been drastically impacted, they are saying that the next two years there is going to be a shortfall compared to what was there in the previous year, so that is one of the main reasons why coffee from Brazil also has become much more expensive right now and going forward even in other countries like Columbia and even in Vietnam for that matter there is a slight reduction in production so that is one of the reasons why we are expecting the prices to in fact go up a little bit more in the future.

Richard Dsouza: Okay even robusta is facing some supply problems Vietnam is primarily robusta if I am not mistaken?

Challa Srishant: Vietnam is mainly robusta. Actually in both locations we are doing around 90% to 95% of the robusta. It is only a small extent of Arabica that we use for our production for instant coffee across the world, it is primarily robusta.

Richard Dsouza: And would it be possible for you to share what could be the volume growth approximately in both Vietnam and India or is it mostly pricing growth which is happening?

Challa Srishant: Volume numbers is something that we stopped sharing a couple of years ago because that becomes detrimental to the company. Approximately I can say 15% minimum volume growth compared to the previous year and again topline will be growing a little bit more than 15% because of the green coffee.

Richard Dsouza: One last question from me, do you think in the near future over next three to four years or five years you would introduce your own brand in the developed market?



*CCL Products India Limited
October 28, 2021*

- Challa Srishant:** We are actually doing it already in a small way. We just started a couple of months ago and marketing it so we are not highlighting it anywhere because it is just feeling the market seeing the response like how we did it for India initially we want to first understand the ground level what are the challenges that we are going to face. We are laying the foundation so that in future we can focus on these markets so keeping that objective in mind I think that is one of the reasons why we have requested Praveen to do this transition from CCPL to CCL.
- Richard Dsouza:** That is good to hear Sir but earlier in one case when we expanded our product offering we had a backlash with one of the customers backing out of orders so when we enter into this market with our own brand we do not expect that kind of problem?
- Challa Srishant:** Actually finally today we found out that the same customer who backed out in 97, we are going to be supplying to them in one of the markets in the near future. Very big coincidence, but today only I found this out and you are asking the same question.
- Richard Dsouza:** Okay but do you think there is space for somebody like us in the international market because the volumes are humongous?
- Challa Srishant:** Definitely in fact our biggest strength that we can bring to the table is variety so the fact is we are able to go to a supermarket and say that okay we are not going to be competing against you and the products that you have, we want to expand your portfolio of offering with products that are not existing in your portfolio so that is what people are finding interesting and the fact that we have been already supplying to the supermarkets we already have an established track record so they understand what we are capable of so they are willing to partner with us and give us an opportunity and one good thing is if they have a strong brand right now there are only two strong brands which are there in the market, they definitely need a third player so that they can hardback game with the first, there is a vested interest in these supermarkets.
- Richard Dsouza:** Okay good to hear all these things. Thank you and wish you all the best maybe I will come later if I have any further questions.
- Moderator:** Thank you very much. The next question is from the line of Janakiraman from Franklin Mutual Fund. Please go ahead.
- Janakiraman:** So did you upgrade the volume estimate for this year in the beginning of this call?



*CCL Products India Limited
October 28, 2021*

- Challa Srishant:** Yes, earlier the estimate given was between 10% to 15% and we have confirmed that it will definitely be above 15% as far as volumes are concerned, but the topline might grow a little bit more disproportionately because of the green coffee price increase.
- Janakiraman:** Okay and where does this higher demand for CCL come from, the market growth itself has it improved or is it due to your own initiatives?
- Challa Srishant:** Well across the board various countries we are introducing our products and new territories that we are entering into as well with existing customers also we have been able to increase volumes so all these things put together is helping us grow. One of the main reasons why there are certain customers who have been with us for more than 15-20 years is because partnering with us they have been able to grow volumes substantially. I think in fact in the domestic market itself I can give a best example of Reliance, the reason why they partnered with us is because they felt that the product was better accepted and the second they transitioned to us they have been seeing a substantial growth in private label volumes so that is a similar experience that we have noticed from our customers in different parts of the world.
- Janakiraman:** Okay and the fact that you have opted to go in for an ambitious capacity expansion in Vietnam so does mean that your visibility for volume growth over the next two to three years is a bit better than what it was a year back?
- Challa Srishant:** Yes, so one we are already running out of capacity so we definitely need to add the capacity and we are quite confident that we will be able to fill this capacity also in the next couple of years so that is the main reason for this expansion.
- Janakiraman:** Okay thanks Srishant all the best.
- Moderator:** Thank you very much. The next question is from the line of Amit Zade from Antique Stock Broking. Please go ahead.
- Amit Zade:** Sir thanks for the opportunity so most of the questions are answered but on first half performance so Sir almost we have grown revenue is 8% but considering low base of last year and the fact that the FDC plant was largely not operational in the first half what explains lower topline compared on a low base?
- Challa Srishant:** Actually last year we had I mean if you look at it on an annualized basis we had a 10% topline growth last year and the green coffee was quite stable last year. In the first half as



CCL Products India Limited
October 28, 2021

of now we have a 10.97% increase in volumes actually sales value will be 10.34% so keeping what we are estimating for Q3 and Q4 we are very confident that we will be crossing that 15%.

Amit Zade: Got it Sir and so one more question there were some articles where in it was saying that you are in the SEZ where were eligible for RoDETP benefits so any status on that Sir?

Challa Srishant: I do not think we got any clarity on that yet.

Lakshmi Narayanan: Gov't of India has set up a committee to review the remission of duties exercise relating SEZ and we are yet to hear the outcome.

Amit Zade: Okay got it Sir. Thanks for the opportunity and best wishes for the festive seasons.

Moderator: Thank you very much. The next question from the line of Dhiral from Phillip Capital. Please go ahead.

Dhiral: Thanks for the opportunity, Sir for this Vietnam plan which you have done Brownfield expansion so maybe Q4 we would be utilizing that facility?

Challa Srishant: Actually we have already started utilizing for Q2 itself it is just that we have not been able to fully utilize it or commission at 100% because we still have to do some trials. Unfortunately we have not been able to do the trials because of the current order book position, there is a lot of pressure from our existing customers to keep delivering based on the schedules that we have given so anytime there is a free slot available, we are taking up trials so that is the main issue.

Dhiral: Okay so for the full year do we expect maybe full utilization since we have a stronger order book in hand?

Challa Srishant: We have already lost half a year so in the second half...

Dhiral: For FY2023 next...

Challa Srishant: Definitely next year in fact because this additional capacity will come online we should in fact be crossing the current 13500 tonnes as well.

Dhiral: Okay so next year 15% plus kind of a volume growth is it possible?



*CCL Products India Limited
October 28, 2021*

Challa Srishant: Next year very difficult to tell right now, but again I think it is safer for me to say 10% to 15% and then update once we have at least halfway down the year.

Dhiral: Okay but Sir revenue would be higher right?

Challa Srishant: Revenue will definitely be higher.

Dhiral: Okay any plan for expanding the freeze dried capacity because we are running at full capacity.

Challa Srishant: Freeze dry we are not planning right now because there are two new or three new plants which are coming online in the next year so we did not want to come online at the same time and put a lot of additional pressure in the market, we wanted to see how things pan out so that is why we are focusing on maybe products that give us better realization with freeze dry and we wanted to focus mainly on the spray dried sales at least for the next one year. Once this expansion is completed then we will consider the freeze dried expansion as well.

Dhiral: At the realization freeze dry which are the products under spray dried which is giving higher margin to you?

Challa Srishant: Under spray also again we have a very wide range of products ranging from cold brews which are extremely premium to multi-mix products so it was very difficult for me to pinpoint and say that just this one product is going to give high margins.

Dhiral: Okay and Sir what is the contribution of small pack and agglomerated coffee in the overall pipe?

Challa Srishant: Agglomerated coffee we are doing at least about 20% of our spray dried is being agglomerated today 20% to 30% of our spray dried is being agglomerated today.

Dhiral: It is a small pack?

Challa Srishant: Some of it is in small packs as well but we are also doing bulk agglomerated.

Dhiral: Okay this incremental expansion will it be purely from the internal accrual?

Lakshmi Narayanan: We are planning to proceed with a combination of debt and equity as against a project cost of USD 20 mn



*CCL Products India Limited
October 28, 2021*

- Dhiral:** How much Sir?
- Lakshmi Narayanan:** For doubling the capacity, this may cost us USD 20 million, and we will avail in the form of a Term loan for 70% of the total Project cost and balance will be contributed from internal accruals.
- Dhiral:** Okay and Sir lastly any revenue loss due to the container shortage in Q2 because our topline growth was just 4% that is why?
- Challa Srishant:** MEIS was not there in Q2 that is all so one of the reasons for the reduction, there was actually if you look at volume wise there is almost a 13% increase in volume but that became 4% because of few MEIS reduction.
- Dhiral:** Okay got your point, Sir.
- Moderator:** Thank you very much. The next question is from the line of Yogansh Jeshwani from Mittal Analytics. Please go ahead.
- Yogansh Jeshwani:** Thanks for the opportunity, lot of my questions have been already answered just one clarification or rather guidance from you so in past we have been doing within 22-24 kind of operating margin for a full year basis and now that we are putting up more small packs will be coming in and then there is the benefit of Brownfield expansion like Vietnam and all so going forward do we see a margin profile changing from 20% to 24% kind of level to 27%-30% kind of level on a sustainable basis?
- Challa Srishant:** It should actually be reducing now because the green coffee costs will be higher and we work on a per kg basis. So our margins will remain the same, profitability will remain the same, but because the green coffee is higher, the EBITDA margin should technically actually come down.
- Yogansh Jeshwani:** Will the increase 13500 tonnes of Vietnam capacity and then further doubling of capacity so what kind of incremental sales can Vietnam do?
- Challa Srishant:** You mean what kind of incremental sale can Vietnam bring?
- Yogansh Jeshwani:** Yes with the two?



*CCL Products India Limited
October 28, 2021*

- Challa Srishant:** For the second half of this year we will be utilizing that additional capacity fully and even next year that entire capacity will be utilized plus we should be getting that doubled capacity also coming online so part of that will get utilized next financial year.
- Yogansh Jeshwani:** Understood and Sir what is the asset turn like for this capex for the \$20 million what kind of asset turn do we expect?
- Challa Srishant:** Within one year it will be completed, actually we are planning on doing this in like mainly this one phase we will be doing mostly around 90%-95% of the expansion will be completed, there is a little bit of line balancing that we can further do which will be done maybe about down the line in a year or two.
- Yogansh Jeshwani:** Okay understood I think in the beginning we were saying regarding the branded domestic business and ways out on that, can help provide that?
- Praveen Jaipuriar:** So the number that I shared was approximately Rs.85 Crores for the domestic market in the first half which is a growth of approximately 39%. and on the branded side the growth is almost 44%-45%.
- Yogansh Jeshwani:** 44% to 45% for the first half?
- Praveen Jaipuriar:** Yes.
- Yogansh Jeshwani:** Yes that is it from my side Sir. Thank you.
- Moderator:** Thank you very much. The next question is from the line of Harsh Seth from HDFC Securities. Please go ahead.
- Harsh Seth:** Thanks for the opportunity. Just couple of questions with Russia again entering lockdown how is the scenario here particularly for high margin freeze-dried coffee and also if you could help us understand economics of small packs and current economic scenario of sharp inflation so would customers preferred bulks over packs as they look to remain competitive or how is it?
- Challa Srishant:** In Russia we have not actually seen any change as of now, customers are still taking the coffee as per the schedules that have been given so there is not much of a change over there at least at this point in time and as far as bulk versus small pack is concerned with most of these countries wherever we are supplying our small packs to the cost of producing locally is significantly higher so even if you factor in higher freight costs and



*CCL Products India Limited
October 28, 2021*

everything else it is still working out to be cheaper for them to buy from us rather than doing it locally in that particular territory.

Harsh Seth: Understood and then lastly in the branded coffee space domestically I mean usually we have seen quite a few venture capitalists back startups entering the coffee space over the past few months or so wanted to understand what is the outlook here I mean what could be the opportunity size and how do we plan to take on the competition with regards to distribution product launches marketing etc., if you could throw some light?

Challa Srishant: Actually I think you will be surprised to know that almost all the startups that are there we are or will be supplying to them in the near future so it is good that they are expanding the market and we are part of that expansion and anyone who wants to get into the premium space, they have understood very clearly that they have no choice but to come to us, so we are working with a lot of these startups as well so it has been a very interesting learning experience to see what they are doing and the kind of valuations that they are getting, it is quite interesting to see.

Harsh Seth: Understood but over a longer period of time I mean we would like to introduce or we would like to have a higher buyer of own products right because that could be margin according?

Challa Srishant: Yes of course that is why we have our own CCPL team which is focusing on volumes. Right now we have created a lot of niche products. We have created our own shopping cart as e-commerce website, we have done a lot at our end and we have the ability to keep introducing new products and once we have this and the distribution network that we are building that can be used to introduce multiple products as well in the future.

Harsh Seth: Understood Sir thanks that is all from my side.

Moderator: Thank you very much that was last question today and I would now like to hand the conference over to Mr. Abishek Navalgund for closing comments.

Abishek Navalgund: I would just like to thank the management and all the participants for joining in. Now I will hand over the call to Srishant Sir for his closing comments. Over to you, Sir!

Challa Srishant: Thank you all for joining us on this call hope we have been able to answer the questions. Looking forward to talking again in the next conference call. Thank you.



CCL Products India Limited
October 28, 2021

Moderator:

Thank you very much. On behalf of Nirmal Bang Equity, that concludes this conference call. Thank you all for joining us. You may now disconnect your lines.