



“CCL Products India Limited
Q4 FY2022 Results Conference Call”

May 27, 2022



ANALYST: MR. ABHISHEK NAVALGUND - NIRMAL BANG EQUITIES PRIVATE LIMITED

MANAGEMENT: MR. CHALLA SRISHANT - MANAGING DIRECTOR - CCL PRODUCTS (INDIA) LIMITED
MR. B. MOHAN KRISHNA - EXECUTIVE DIRECTOR - CCL PRODUCTS (INDIA) LIMITED
MR. PRAVEEN JAIPURIAR – CHIEF EXECUTIVE OFFICER - CCL PRODUCTS (INDIA) LIMITED
MR. V LAKSHMI NARAYANA – CHIEF FINANCIAL OFFICER - CCL PRODUCTS (INDIA) LIMITED
MS. SRIDEVI DASARI - COMPANY SECRETARY- CCL PRODUCTS (INDIA) LIMITED



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Moderator: Good day ladies and gentlemen and a very warm welcome to the CCL Products (India) Limited 4Q FY2022 Results 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. Abhishek Navalgund from Nirmal Bang Equities. Thank you and over to you Abhishek!

Abhishek Navalgund: Thanks. Good morning everyone. On behalf of Nirmal Bang Institutional Equities I welcome you all to Q4 and FY2022 earnings call of CCL Products India Limited. From the management side we have with us Mr. Challa Srishant, Managing Director, Mr. B. Mohan Krishna, Executive Director, Mr. Praveen Jaipurkar, CEO of the company and Mr. V Lakshmi Narayana, CFO and Ms. Sridevi Dasari, Company Secretary on this call. Without further ado I request Srishant to start with his opening comments post which we can open the floor for Q&A. Thank you and over to you Sir.

Challa Srishant: Thank you for the introduction, Abhishek. I think opening comments will be given by Praveen this time. Praveen you can start.

Praveen Jaipurkar: Good morning everyone. Thanks Abhishek for arranging the call. The group has achieved a turnover of Rs.379.47 Crores for the fourth quarter of 2021-2022 as compared to Rs.334.55 Crores for the corresponding quarter of the previous year and the net profit is Rs.52.70 Crores as against Rs.49.20 Crores for the corresponding quarter of the previous year. The EBITDA is Rs.87.53 Crores and profit before tax is Rs.68.14 Crores.

For the FY2021-2022, the group has achieved a turnover of Rs.1466.12 Crores as compared to Rs.1245.87 Crores for the corresponding period of the previous year and the net profit is Rs.204.35 Crores as against Rs.182.26 Crores for the corresponding period of the previous year. The EBITDA is Rs.335.16 Crores and the profit before tax is Rs.261.33 Crores that is it from my side. We are open for questions from your side.

Moderator: Thank you very much. Ladies and gentlemen we will now begin the question and answer session. The first question is from the line of Lokesh Maru from Nippon India Asset Management. Please go ahead.



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Lokesh Maru: Thanks for this opportunity and congratulations on the amazing set of results. Given our exposure to Russia one would have expected some kind of degrowth, but we have only grown and that shows a lot of resilience as well. My first question quite obvious one is the dip in our gross margins and is within the subsidiaries and another is on the increase in staff costs which is quite stark, so any insights on the gross margin and staff cost front within the subsidiary?

Praveen Jaipuria: Gross margin there are a couple of reasons why gross margins got impacted and some of these are very obvious and being witnessed across the board. One of the gross tax piece is that we witnessed because of the Russia, Ukraine war some of our FD supplies got delayed and FD of course gives us better margins so that led to a little shrinkage there and then you have seen that last few months, there has been quite a bit of increase in the other input costs as well, be it energy costs and other costs so that also put some pressure and the third reason was that some of the logistics cost also was under pressure because of very high inflationary pressures, so if you combine all of these three that led to a little shrinkage in margin, but thankfully because of our model I think we have been able to kind of perform pretty well in spite of all these pressures.

Lokesh Maru: But the transport cost and everything that you had mentioned would be below that line of, should be other expenses right so anything that we have witnessed from the raw material front, any spike or anything, my point being our spreads of processing, are they the same or have weakened a bit within the subsidiary part majorly standalone remains resilient but the subsidiary front which could be Vietnam and the branded sales, anything different on that from this thing?

Praveen Jaipuria: Not really only these factors have led, because coffee prices, generally are better covered, because of our cost plus model, processing costs and all that which are part of COGS they have got impacted everywhere across the board so that has only led to a certain shrinkage in the margins.

Lokesh Maru: Sure and on the staff cost front, the spike that we see there both within India operations and subsidiaries?

Praveen Jaipuria: I do not think, beyond the topline growth increment is there, that is also almost in line with our growth percentages so that has not changed.



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- Lokesh Maru:** Staff cost has gone up by maybe 70% within subsidiary from Rs.7.5 Crores to Rs.13.5 Crores something like that? So I am guessing is there any addition of manpower for the branded sales or something like that?
- Praveen Jaipuria:** At the consolidated level it is in fact much lower than the topline growth. I will just check for the subsidiary that why it has increased and just asking Lakshmi Narayana to just check once. If you have anything else you can please go ahead.
- Lokesh Maru:** Another question is 15% to 17% growth guided, so that is on volume front or EBITDA front?
- Praveen Jaipuria:** It is on volume and obviously because of our model it will be on EBITDA front as well.
- Lokesh Maru:** Okay, understood.
- Praveen Jaipuria:** The value may grow even higher than that, but volume and the EBITDA growths will remain in that range.
- Lokesh Maru:** That is all from my side. Thank you.
- Moderator:** Thank you. The next question is from the line of Jignesh Kamani from GMO. Please go ahead.
- Jignesh Kamani:** Just want to know about how is the volume growth for the full year, any color on the how much volume we lost because of the logistic issue or a Russia, Ukrainian issue in the fourth quarter?
- Praveen Jaipuria:** Sorry, can you just come again. I just missed your first part.
- Jignesh Kamani:** For the full year what is the volume growth? I can say totally in some color in India and Vietnam utilization level and second thing on the fourth quarter because of the logistic issue and the Russia, Ukraine issue, how much volume we got lost or deferred to you can say the following quarter?
- Praveen Jaipuria:** First is volume growth, approximately 15% volume growth we got, and as far as the fourth quarter thing is there, in terms of percentages of cost that got impacted was close to around 2% and if I were to talk about volumes approximately 500 to 700 tons of FB got deferred, so if that gives you an idea of the impact that we got in the fourth quarter.



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Jignesh Kamani: Understood. Second thing our small pack capacity was supposed to commence in the fourth quarter of 12000 ton, any update on that is it commissioned or when it is expected to commission?

Praveen Jaipurjar: Yes, it is already commissioned, so now all the small pack is being done at our new unit.

Jignesh Kamani: Then next year what kind of utilization we can expect from this 12000 ton small pack?

Praveen Jaipurjar: Because of all these new things that have a kind of impacted everything, a lot of our small packs used to go to the emerging markets and that has got impacted because of the coffee price increases and all that, so right now we are ourselves gauging that what would be our capacity utilization, but a large part of that capacity utilization is coming from the domestic market which is our own branded sales, so approximately we know that out of that 12000 tons almost 50% will get utilized by the domestic market itself, so that is we are very sure of and if you add some if you get more small pack orders from outside we could be looking at a 60% to 70% kind of a utilization.

Jignesh Kamani: I want to understand right now as because of the dynamics small pack demand emerging market might be weak, but two quarters down line they might materialize and then our profitability will improve because of the higher contributions from the small pack right?

Praveen Jaipurjar: Absolutely.

Jignesh Kamani: Thanks a lot.

Moderator: Thank you. The next question is from the line of Vivek Ganguly from Nine Rivers Capital. Please go ahead.

Vivek Ganguly: Thank you for the opportunity. I had one question on volumes, so what would have been the volume that we have done in FD and SD?

Praveen Jaipurjar: We will not divulge with exact volume figures, but our FD contribution this year would be approximately 25%, it could have been a little more at this 600, 700 tons got deferred, but yes barring that approximately 25%.

Vivek Ganguly: Just a couple of other questions. One, can you give us how the continental coffee, the domestic coffee business is doing, what is the revenue that you will have done and on your new initiative in the plant-based protein segment?



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- Praveen Jaipurjar:** The domestic market last year we had on a total level which is like domestic consists of various segments, which is both branded and bulk and private label we had achieved Rs.150 Crores last year and this year we touched a figure of Rs.200 Crores out of which almost 65% to 70% in fact 70% will be pure brand sales, so that is the turnover that we achieve and the brand sales and the topline, the total sales grew by 35% approximately and the branded sales grew by 40%. And the protein based snacks we just in fact a couple of days ago we just started to launch in the market, we have only chosen three cities which is Chandigarh, Pune and Hyderabad to seed our product, so it will be a launch which is not like a big bang, but more of a seeding launch because it is a new product category and it is a new initiative for us as well so it is just couple of days since the product has gone to the market and we will keep you updated as we go along.
- Vivek Ganguly:** Thank you. That is all from my side.
- Moderator:** Thank you. The next question is from the line of Ritu Modi from IIFL Asset Management. Please go ahead.
- Ritu Modi:** Thanks a lot for taking my question. My first question is basically in terms of volume growth which you indicated of 15% and assuming that is for the year right?
- Praveen Jaipurjar:** Yes.
- Ritu Modi:** Could you just help us understand the volume growth for the quarter is because for nine months I think you would indicate it was around 18.5% so for the quarter how much sort of volume growth did we do?
- Praveen Jaipurjar:** For the quarter it will not be very high, it would be in the range of 5% to 7% that is primarily as I was mentioning earlier is because of the deferment of one big consignment to Russia and Ukraine that got little delayed, so that happened in the month of April, so the fourth quarter numbers therefore look a little muted.
- Ritu Modi:** In terms of the spreads that we would be making because if I just look at EBITDA per kg, what would that number be positive for FY2022 and how are we looking at it going for over the next two, three years?
- Praveen Jaipurjar:** Because we are not indicating the exact volumes, it is a little sensitive to share this data in terms of what will be our EBITDA per kg, otherwise also segment wise we get different EBITDA between spray dried, Agglo, FD and things like that, but one thing which I would



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like to mention is that there would be very marginal differences in the EBITDA per kg that we will witness quarter-on-quarter or year-on-year because of our cost plus model. Of course there has been a shrinkage in margins, because of things which were beyond our control like processing costs and freight costs and all that, so there has been a little bit of a shrinkage in the EBITDA per kg, but that is very marginal and we will look forward to regain that in the coming months.

Ritu Modi: Basically I was just trying to understand because we will have the small pack capacity also operational now plus FD also being a high margin, highest business, so we had indicated earlier as well from that Rs.100 approximately Rs.120, is it fair to assume that we will be seeing a gradual increase, because of all these factors which are high margin and high spread businesses like the small package at the absolute side?

Praveen Jaipurjar: Of course we will be looking at a margin improvement, but considering the situation which has become so volatile and dynamic it is very hard for us to give a very definitive kind of an answer on that. The reasons being, since the coffee prices have gone up so significantly there is also a downgrade base in at consumer level from FD to SD so we are seeing a pent up demand in the SD so that is one dynamic that is playing the other dynamic as you rightly said that we will increase our small pack volumes and that should help us improve. There could be softening of prices on the other fronts could be, so there will be multiple dynamics that will come in play going forward so while we will expect to improve definitive answer may not be yes at this moment.

Ritu Modi: Sure not an issue. Secondly, in terms of your capacity addition in Vietnam, we already have plans for around 16500 tons coming up in Vietnam, so that is likely to be commissioned by the second half, are you on track for that?

Praveen Jaipurjar: Yes, we are on track for that.

Ritu Modi: Okay and the utilization levels which would be fair to assume for Vietnam as well as India if you could give us a sense of that?

Praveen Jaipurjar: Currently at a group level we are approximately at 85% utilization today which is almost maximum kind of utilization. We are hoping that we get the new plant capacity added for at least the last three months of the year, so that will add up to the capacity, but next year if you look at the total capacity, we still could be doing around 80% of the full capacity, so that will be our utilization, so we are looking at very quickly filling up even the new capacity as well in Vietnam.



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- Ritu Modi:** Sure, understood and the guidance of 15% to 17% volume growth which we have given that we are maintaining that for FY2023 as well?
- Praveen Jaipurjar:** Yes.
- Ritu Modi:** Okay sure. I will come back in queue for more questions.
- Moderator:** Thank you. The next question is from the line of Kashyap Javeri from Emkay Investment Managers. Please go ahead.
- Kashyap Javeri:** Thank you very much and congratulations for good numbers in difficult times. Three questions from my side. One, when you highlight that the volume growth could be about 15% for FY2023, two things to probably clarify over here. One, Russia and Ukraine which are one of the sort of large markets in CIS category for us probably might not grow, but on the other side we have been talking about one large US retailer I guess besides our regular business, come into our fold, so if let us say Russia, Ukraine the pressure subside then we could do more than 15% growth also including this new US client?
- Praveen Jaipurjar:** It could be, but right now to say that we will grow more than that could be a bit of a speculation, so we will not kind of commit on that, but as you rightly said if this things ease up and there is more demand because we believe that because of this war there is also a drying up of the pipelines and things like that so there could be more demand this year and that may help us to grow more than 15%, 17% but as I told you it already mapped out on our capacities and it is only in the later part of the year that we will get traditional capacities from Vietnam, so keeping all that in mind that is giving you a figure of 15% to 17% volume growth.
- Kashyap Javeri:** What I am asking is that your 15% volume growth guidance takes both these into account?
- Challa Srishant:** Again I am not able hear, can you just repeat 15% volume?
- Kashyap Javeri:** 15% volume growth guidance is taking into account both the things that pressures could continue from Russia, but there is new client which is lined up in US?
- Challa Srishant:** If the client comes on board then of course things could change but one client coming on board, there could be some other clients dropping off the board, so net-net yes 15% is taking everything into account.



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- Kashyap Javeri:** Second question is on our balance sheet if I look at our inventory days now we have reached almost up to about 130 days just about four years ago that number would have been now half of what it is today and that is putting a lot of pressure on the cash conversion as well as consequently if I look at our debt despite strong EBITDA growth and cash conversion, we have not been able to reduce our debt also so what should one take in terms of inventory days as we go forward and is this like a quarter one phenomenon on an average both the quarters it would have been like this?
- Challa Srishant:** We have taken a call to store more green coffee keeping the logistic issues in view number one and keeping in view of the price movements that we are witnessing from quarter-on-quarter, these two issues made us to take a call to have the more inventories on book, so if you look at it on annual comparison basis normally we used to hold around two-and-a-month past but due to these said reasons it has gone up to four months, this will hopefully be by end of this current financial year, we will end up somewhere around two to three months past level.
- Kashyap Javeri:** Let us say by the year end of FY2023 could we expect that to come back to less than three months, is that possible?
- Challa Srishant:** Yes, if all the issues are getting normalized maybe in terms of the DC prices movements and the logistics issues and all obviously we may fall back.
- Kashyap Javeri:** Last question from my side in terms of geography US, Europe and CIS for the full year can you give some highlight as to what is the volume growth in geography wise?
- Challa Srishant:** Volume growth, come again?
- Kashyap Javeri:** US, Europe and CIS what would be the growth in volumes separately geography wise?
- Challa Srishant:** When our volume was at 15% this one was 10% the Russian markets because of the turmoil and all, so our US market grew pretty handsomely more than 20% and Europe market was more or less, Europe minus CIS was more or less around 15%, so our growth in US markets kind of helped us to do good numbers despite Russia, Ukraine issues.
- Kashyap Javeri:** Just one last book keeping question, in your cash flow statement I can see there is exchange rate difference which is adjustment which is about Rs.19 Crores, could you help us understand as to what would have impacted our margins also meaningfully and why this kind of Rs.18 Crores, Rs.19 Crores exchange rate loss?



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- Lakshmi Narayana:** No, there is no exchange loss in fact the conversion that we have accounted based on the shipping bill and RBI rate and at the end of the year we take the based on the forward's position and overall we have the currency gain.
- Kashyap Javeri:** What I am saying is that in the cash flow segment is added to the PBT which means that it is a non-cash expenditure which is there as a part of your P&L?
- Lakshmi Narayana:** There is in the part of P&L, there is a currency gain of almost around Rs.8.95 Crores due to the conversion, due to the currency variation. The values that we have accounted for and on March 31, the rate that is prevailing, there is 8% to 9% growth, which has been a part of the P&L.
- Kashyap Javeri:** Let me take this offline because in the cash flow statement it is slightly different number so let us say if you compare it. Thank you very much. That is all from my side.
- Moderator:** Thank you. The next question is from the line of Rohan Gupta from Edelweiss. Please go ahead.
- Rohan Gupta:** Good morning. Sir just wanted to have some more clarity about this Russian market in terms of our revenue contribution from this market and despite challenges there you mentioned that Russian market still grew this year and even volume growth for the current quarter was positive of almost 5% to 7% so just wanted to understand that are we able to meet the supplies there, the demand environment is not impacted and how do you see that the current scenario will pan out going forward. It is primarily from the Russian markets?
- Praveen Jaipuria:** To answer your question the first leg of the war, which almost lasted for approximately 30 days that was the time when everything got impacted, it has been stopped so that led to some stress in the system but however as the days have gone by and as you would also be reading in the newspapers things have started to let us say not normalize on the warfront but normalize in the logistics trans etc, because ultimately the consumption has to take place so therefore what happened is that slowly the liner started taking the containers and things started to normalize although it is not 100% normalized, but yes things have come back to let us say 75% or 80% of normalization so that is the situation currently. Going forward we really do not know is the war going to end soon or how much time will it take, but what we know is that there is a quite a bit of normalization and therefore our supplies are now, okay it is not as bad as when the war started so that is the situation and there is no drop in the demand for coffee at least that we have witnessed in these markets.



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- Rohan Gupta:** In terms of revenue contribution from Russian markets, can you just quantify that?
- Praveen Jaipurjar:** So approximately 20% is our revenue contribution from Russian markets.
- Rohan Gupta:** Okay, also second is on this Brazilian market and that is also a pretty large supplier globally in terms of coffee procurement. We are seeing that the currency appreciation and some impact on fertilizers that what we are hearing that the yield may be impacted do you also see that the Brazilian coffee market green coffee can be impacted and what impact you see on the global market on the appreciation of the Brazilian currency and how you see that this scenario is going to impact you?
- Challa Srishant:** As far as Brazil is concerned, Brazil is actually the market leader and the largest volume of green coffee is grown in Brazil so naturally if there is any impact in the production in Brazil it impacts the world terminal market prices as well. Last year we have seen a little bit of cross impact there are multiple things that have gone wrong in Brazil which is why this price increase also has come about in the market in the last one year. Going forward as of now the predictions that are coming out of the market is that things are really not going to ease up for next year maybe after another one-and-a-half years or so things might ease up, but the upcoming crop and next year's crop also might get impacted is what they are saying.
- Rohan Gupta:** Okay, just last one, how do you see that about capex plans, what is the capex plan for the current year and also if you can just mention that in our retail business what kind of infusion we are planning to do for the current year?
- Praveen Jaipurjar:** Capex for the current financial year on the Indian operations we are expecting the normal level of around Rs.30 Crores to Rs.40 Crores this year and may be based on the second half year based on the new plan that we may come out working additional requirements and getting into the MCL operation side, Vietnam operations so we have taken a call, extension with 30 million is the total capex so for enhancing the capacity from 15000 tons to 30000 tons.
- Rohan Gupta:** So \$13 million you are seeing in Vietnam.
- Praveen Jaipurjar:** \$30 million.
- Rohan Gupta:** \$30 million for Vietnam operation that will be all spent this year?
- Praveen Jaipurjar:** Yes.



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- Rohan Gupta:** Okay and 30, 40 for India? So roughly Rs.250 Crores around?
- Praveen Jaipurjar:** Out of \$30 million, \$7 million if we are going to contribute and \$20 million we are going to borrow.
- Rohan Gupta:** Sorry I did not get \$20 million going to?
- Praveen Jaipurjar:** We are going to borrow.
- Rohan Gupta:** Okay, so total spend will be Rs.250 Crores for the current year.
- Praveen Jaipurjar:** That is right at the great level.
- Rohan Gupta:** \$30 million Vietnam will give us addition 10000 tons of capacity?
- Praveen Jaipurjar:** 16500 tons additional capacity.
- Rohan Gupta:** 15500?
- Praveen Jaipurjar:** 16500 it has become 30000.
- Rohan Gupta:** Okay, got it. In terms of capacities will be available by end of this year and commercialization we can expect from FY2024?
- Praveen Jaipurjar:** Yes, in third quarter we are expecting the trial to begin and the fourth quarter onwards so the commercialization will come into it.
- Rohan Gupta:** Okay, so in terms of your growth guidance you mentioned roughly 15% that I understand is primarily driven by volume that means in the world and we have been pretty handsomely growing with a similar rate in last two years definitely we are continuously gaining market share because it is quite evident that world markets are not growing at that rate. Sir can you give some more sense that earlier you have mentioned that some of the Brazilian smaller players probably have lost market and that has had given you edge in terms of gaining market share globally and also giving more access to the US market, is this trend is still going on and that is what you are giving you confidence of growing 15% in terms of volume growth or you have got some couple of customers who are giving you confidence that you will be able to achieve this kind of growth?



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Praveen Jaipuria: So for us if you look at it in a more holistic perspective we have factories present in India and in Vietnam so both locations we have green coffee availability, we can also import raw materials and then re-export, so we have multiple advantages which are there in our favor. If you are in Brazil for instance we are dependent only on the local crop, so it becomes very difficult for anyone to actually try to import it and the local duties, taxes and everything the system is also quite complicated and in a competitive market every cent matters end of the day. Our biggest strength is we have that economies of scale advantage, the volumes that we procure is also quite high, so we usually get that first preference from suppliers as well and our customers also know that if they need whatever volumes with the shorter lead time, we can actually cater to the requirements, so all these factors is giving us that confidence that we can keep growing further. Earlier the expansion plans what we have mentioned is only up to Vietnam as of now, but I have already mentioned earlier also we are making plans to add another 16000 tonnes of production capacity, the location is something that we still have not finalized yet whether it is going to be in India or outside India that is a call that we will take in the next couple of months time once we complete our feasibility studies.

Rohan Gupta: Okay, you are saying that apart from this Vietnamese capex, you still are contemplating 16000 tons of additional capacity for that the locations is yet to be finalized?

Praveen Jaipuria: Yes.

Rohan Gupta: Are you looking for cross borders, new territories apart from India and Vietnam or it will be annually?

Praveen Jaipuria: Yes, we have, we are looking at new territory beyond, we are looking at India as an option and also outside India, because there are certain continents that we can actually capture more aggressively if you are physically present there, but things are a little complicated with any country that we go to we have to look at local situations, political, geopolitical situation, multiple things we have to look at stability, currencies, so keeping all these things and raw material most importantly, so once we evaluate all these aspects that is when we will take a call where to proceed with the expansion.

Rohan Gupta: And since it will be completely green field what kind of total investment outlay it can have Sir?

Praveen Jaipuria: It is too early for us to comment on that right now, but yes it will be totally green field.



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- Rohan Gupta:** Got it Sir and Sir this Vietnam going from increasing by \$16500 to become \$30000, what will be the breakup, they have FD and traditional?
- Praveen Jaipurjar:** Vietnam is 100% spray dry.
- Rohan Gupta:** in \$16500, there is no FD?
- Praveen Jaipurjar:** No FD at all.
- Rohan Gupta:** We had earlier that realizations were getting in favor of spray dry and FD was seeing some additional capacities coming and was seeing the pressure in the realization that was a scenario almost a year back, how you see that now, have this started reversing that you are seeing a further better margins in FD and lower in spray dry that has always been the case or spray dry is still giving you higher margin than empty?
- Challa Srishant:** So right now there is not much of a change because normally when the green coffee prices go up then all the product costs for SD as well as FD do increase, so most customers if they want to look for alternatives they will start looking at transitioning from FD to SD so considering the huge price increase that we have seen in the last one year, we could clearly anticipate that SD is where the volumes are increasing and as I mentioned earlier also going forward at least for the next year or so even if there is a price correction that if market consensus is clear that it will not be more than say \$100 down. There is still a potential upside of \$100 plus \$200 plus also so we are not looking at a steep correction or anything, anytime in the near future which means that SD demand will continuously keep growing until this gets reversed.
- Rohan Gupta:** Okay so you are not expecting that green coffee prices will fall beyond \$100 or something that will keep the spray dry demand intact?
- Praveen Jaipurjar:** Yes.
- Rohan Gupta:** Okay, Sir just one last question I have still a few more, what will be the margin difference right now between freeze dry and spray dry in terms of average dollar per kg?
- Praveen Jaipurjar:** So about we will have at least around 10% to 15% variation between the two actually more than 15%.
- Rohan Gupta:** So 15% is still higher in a freeze dry?



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- Praveen Jaipurjar:** Yes.
- Rohan Gupta:** Would it be possible to share in a dollar like we earlier used to have one dollar average in a spray dry and one-and-a-half dollar in...
- Challa Srishant:** 80 cents or something like that between 80 cents to a dollar depends on the customer that we are selling to.
- Rohan Gupta:** Okay, so SD still will be 80 cents to one dollar and freeze dry will be 15% to 20% higher than that?
- Praveen Jaipurjar:** No, I am talking about SD being 80 cents to a dollar more than...
- Rohan Gupta:** Okay and this small packaging size that we are consciously focusing on that I believe that our Australian capacities that are completely used and are you planning to put more small packaging capacities and you are going to invest some more there or what kind of about total turnover you see is coming from the small pouches and small packaging units?
- Challa Srishant:** Small part we have already made an investment of about Rs.140 crores to set up this packing facility in India and the infrastructure has been built to expand up to 20000 to 25000 tons so that is the ability as in when we add equipment we can go up to that extent. Right now the equipment that we have is in the range of about 10000, 12000 tons and tomorrow based on the response we see from the market, if we have customers who have specific requirements, we have the ability to keep expanding that capacity within the same premises.
- Rohan Gupta:** So currently we have 10000 tones kind of capacities and what is the utilization level of this small pack?
- Praveen Jaipurjar:** About 60% or so.
- Rohan Gupta:** And to go from 20000 to 25000 not much investment in plants and always be required?
- Praveen Jaipurjar:** it is only the equipment cost that we will have to look at it. If you have a specific customer saying they want automated packing we do not want to make an investment unless we are sure that there is a customer who wants a particular specific product.
- Moderator:** Thank you. The next question is from the line of Jignesh Kamani from GMO. Please go ahead.



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- Jignesh Kamani:** On the FD capacity of 11000 ton we are running optimally last year.
- Praveen Jaipurjar:** No, we still had about 10% to 20% plus.
- Jignesh Kamani:** So 15% to 7% kind of volume growth you mentioned for the next year, so FD volume also will be in Dendrite or probably because of the capacity constant FD may be single digits?
- Praveen Jaipurjar:** If you actually look at in the dispatches, the large portion of what was supposed to be dispatched in March. So that also is impacted, then FD should be a little more than last year.
- Jignesh Kamani:** Second thing, now since FDs probably will be running it optimally by the end of FY2023, any plan to expand our FD capacity because as of now Vietnam do not have FD and India will be utilizing fully?
- Challa Srishant:** Not at this point in time as I was mentioning earlier looking at how the coffee prices are, we are really not forcing that sudden sharp increase in every demand anytime in the near future and they are other companies who have already started investing in FD two years ago which will start coming online and become operational by next year, so we do not think it is the right time for us to go for FD expansion at this point in time. If the situation evolves or changes over a period of time then we may take a call to going for the expansion but as of now at least for the next six months to a year or so we are not looking at FD expansion.
- Jignesh Kamani:** So in FY2024 and probably initial of FY2025, our FD volume growth will be flattish because of the capacity constraint right?
- Challa Srishant:** FD will be constrained because of the capacity yes.
- Jignesh Kamani:** Second thing on the Vietnam, I am rechecking your \$30 million capex, will that also entail the zero income tax or do we want to pay income tax on the new capex?
- Challa Srishant:** Zero.
- Jignesh Kamani:** Understood and how is the current US demand and throw some color on the how working capital is brought up in US because earlier it used to be high credit market?
- Challa Srishant:** So US is still the same, the terms and conditions are the same, so volumes are growing, the credit terms are always the same for any US customer and volumes increase automatically that credit days also will remain the same.



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- Jignesh Kamani:** Understood and it is a small pack high margin business for us right?
- Challa Srishant:** Small parts we are increasing now in the US, we have slowly started introducing in the last two, three years and that is also growing. Our bulk is also growing in the US so both categories are growing actually.
- Jignesh Kamani:** My last question to Praveen, on the branded, last year how much profit or loss we made in the branded business close to around Rs.200 Crores and some color on the retail touch point where we are right now and some color on the next year revenue and the touch point to guidance?
- Praveen Jaipurjar:** As I have always maintained what we are doing is we are investing back into the business so for the last couple of years, we have been breaking even and last year also broke even so we invested back and therefore I will just answer one more question which was asked initially on manpower cost for subsidiaries have gone up, so these are manpower costs which have gone up for the subsidiaries and largely for the domestic market and these are the investments we are doing largely to make sure that we keep the growth momentum going so that is the answer on the profit front and second as far as the growths and are standing in the market is concerned as I told you the brand grew by 40% so that is a good rate of growth that we witnessed last year also and this year also we are looking to grow in the same range so we are looking to grow the business at 40%. One of the differences that we will see this year is our distribution expansion so the last two years because of COVID and all our distribution was pretty, we were not able to scale up our distribution, but this year we are looking to scale up, go a little more, do a little more penetration in the south and expand to other north markets which we have not been able to do in the last two years.
- Jignesh Kamani:** And from the profitability point of view when can we expect a significant profit or generation from this retail venture?
- Praveen Jaipurjar:** That is a very tough one to answer. Significant is a key word that you have used, so we are not looking to kind of significantly drive profits on the branded business because the whole idea is to keep expanding and as I had mentioned in the last call as well it is not only now India that we are looking to expand, we are also looking to expand in the other parts of the globe as well, so we are looking to keep investing in brand building as keep going along, so I do not think so in the midterm future we will be looking to start expecting a lot of profit from those business.



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Challa Srishant: Domestic business is profitable and is still growing at a healthy phase, so there is no real need of pressure to ask the domestic team to start focusing on profits rather than topline kind of reminds me the reason is that you just focus on topline growth as much as possible in a self-sustaining manner. We do not want to bleed, but at the same time we want to grow to the maximum extent possible in a sustainable way.

Jignesh Kamani: Understood and last year when 40 plus on the branded revenue growth rate, so repeat purchase will be double digit growth rate excluding the penetration?

Praveen Jaipuria: Yes, repeat purchase will be high impact, for the last year or let us say the year before also because of the COVID, the expansion growth was not much in fact a lot of our growth is coming from repeat purchaser itself and we now even if we do because if we do a soft feedback from the market what we get to hear is that people who have tried our brand kind of stuck to our brand so there is a lot of repeat purchase and our large pack sells more than the small packs so that itself is a testimony to the fact that we have got very loyal set of consumers.

Jignesh Kamani: That is encouraging. Thanks a lot.

Moderator: Thank you. The next question is from the line of Manish Mahawar from Antique Stock Broking. Please go ahead.

Manish Mahawar: Good morning Srishant and Praveen. In terms of Russia I need some qualitative in terms of comments from your side how the demand we are seeing from Russia particularly for India as a geography or a CCL as a company because what we understand globally a lot of geographies are restricting shipment to Russia right, how India or Vietnam as a country are benefiting and we as a company that is one and secondly in terms of the receivables right as we have already seen may be 300 to 500 metric ton of our shipment postponement so how do we see the receivables and collections from Russia?

Praveen Jaipuria: As far as Russia is concerned whatever contracts that we have in place from before we are executing those contracts without any problem, we are not defaulting like some other manufacturers have actually started defaulting from other countries, so there is an additional demand that has gotten created over there in Russia. As far as payments are concerned also we are not seeing any problems, in some instances we are actually receiving advance payments also from customers and then they are asking us to ship the product.

Manish Mahawar: Okay, the situation is better for India or Vietnam as a company for us right?



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Praveen Jaipuria: Both India and Vietnam because they have taken a more neutral stand I think that business is continuing with Russia so we are not forcing too much of a change in that in fact even in India and Vietnam even lot of European countries are doing a lot more business with Russia now.

Manish Mahawar: Okay I understood and in terms of a small pack a ballpark what is the contribution in terms of volume or if you can share in FY2022?

Praveen Jaipuria: Right now small pack is quite small for us because our overall volumes have been increasing a lot in the bulk space so earlier at one point in time, we were almost at around 25% for the small packs which has now come down to around 18% to 20%.

Manish Mahawar: Okay and going for how do you say because we have done a capex in this part so how is the contribution going forward?

Praveen Jaipuria: Contribution our endeavor is to go to the 25% again going forward 25% to 30%.

Manish Mahawar: In terms of EBITDA per kg...

Praveen Jaipuria: The percentages may remain small, but the small pack itself will grow because what is happening is the large packs are going equally well so that is why the percentages may look to be same, but the small packs will also grow and thanks to the domestic growth which will be at around 30% to 40%, the small pack growth will be there, so right now our capacity utilization is around 60%, it will go up by 30% to 40% definitely.

Manish Mahawar: Okay understood and in terms of EBITDA per kg we are not giving numbers in terms of EBITDA per kg, but going forward and talking about 23, 24 the EBITDA per kg ideally should improve right for us because small pack is going down FD should contribute much better?

Praveen Jaipuria: Yes it should improve as I was telling earlier also because this year probably we are looking at better FD volumes also because of this thing so we should improve but very difficult to now comment at this stage.

Challa Srishant: Because there is still a lot of pressure one should keep in mind that there are a lot of input cost increases, packing materials have increased, fuel has increased, there is not a single industry that I can think that has not been impacted by this war, by COVID some impact on the other is there and in a situation like that really focusing on improving margins is not the real key, the idea is that during this difficult time we need to support customers to increase



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the volumes, keeping our tasks to the minimum and once things stabilize that is when we can focus on increasing the margins.

Manish Mahawar: Why I asked about it is because in a B2B business right, whether it SDC or FDC, as you said it is a more of cost pass through in terms of contract and more pressure in a margin should come on a branded business right, so any dynamics has changed or we are just sharing with the customer on our course whatever is happening?

Praveen Jaipurjar: Dynamics has not clearly changed, right from the beginning the idea of creating this domestic entity also was to focus on converting CCL from a B2B player or B2C player and for that to happen we knew it is going to take some time. Fortunately things are going as for our plan right now. The only variation that we have seen now in the last year or so is, the parent company also is now expanding at a much more aggressive rate, so it will take a little longer for the domestic entity to catch up and if you look at purely on a percentage basis.

Moderator: Thank you. The next question is from the line of Dhiral Shah from PhillipCapital. Please go ahead.

Dhiral Shah: Good afternoon Sir. Thanks for the opportunity. Sir my question is what was the contribution of branded product in the over pie?

Praveen Jaipurjar: Sorry.

Dhiral Shah: What is the contribution of the continental branded product in the overall 200 Crores in the overall pie?

Praveen Jaipurjar: Almost 65% to 70% I must say.

Dhiral Shah: Okay and lastly when you are looking to expand further by 15000 tons what may give the confidence because instant coffee market itself is growing just 2% to 4% right?

Praveen Jaipurjar: Yes.

Dhiral Shah: What gives you confidence?

Praveen Jaipurjar: Actually if you would have heard Srishant in one of the questions that he answered a few minutes ago, he said that because of our economies of scale both in terms of processing and in terms of buying is giving us the edge in terms of our ability to capture more and more market share, because we have been able to capitalize on this kind of economies of scale it



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has also helped our clients, some of our clients who are loyal clients to expand their business internally, so most of our clients are able to expand their market share and which has led to these kind of growths and because of our economies of scale then because we are growing bigger and bigger, it is helping us gain these kind of market shares and therefore that confidence comes that will be able to grow at such a rapid pace and there are a lot of markets that we feel are still nascent when it comes to our presence and we are very confident that we will be able to build our presence in those markets like we did it in US market and the gain markets here.

Dhiral Shah: Okay, got your point. Thank you so much Sir.

Moderator: Thank you. The next question is from the line of Anuj Jain from ValueQuest Capital. Please go ahead.

Anuj Jain: Just for clarification, can you provide the current capacity breakup between India and Vietnam and further in SD and FD?

Praveen Jaipurkar: India we have 25000 tones and Vietnam, we have 30000 tons by the end of this year.

Anuj Jain: Okay and what is the split between SD and FD?

Praveen Jaipurkar: 11000 tons of FD rest is all SD.

Anuj Jain: Thanks a lot.

Moderator: Thank you. The next question is from the line of Hiten Boricha from Sequent Investments. Please go ahead.

Hiten Boricha: Thanks for the opportunity Sir. Most of my questions have been answered. I have only two questions. So the first question is how much does Russia contribute to our overall revenue?

Praveen Jaipurkar: 20%.

Hiten Boricha: And my second question is just wanted to understand on the prices, how are the prices of coffee shaping us like what was it last year and how was the prices currently going on or you can give some directional view on that?

Challa Srishant: So coffee prices last year in January was in the range of about \$1300 per ton, today that about \$2100 per ton for Robusta.



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- Hiten Boricha:** Arabica?
- Challa Srishant:** 90% of what we use is Robusta and for Arabica, the prices from \$1300 have gone to around \$3000.
- Hiten Boricha:** Okay, \$1300 to \$3000.
- Challa Srishant:** \$3300 in that range actually.
- Hiten Boricha:** So the Arabica, this coffee was much impacted by the Brazil drought right Sir?
- Praveen Jaipurjar:** Yes exactly.
- Hiten Boricha:** Okay so this Brazil drought would not be impacted much on our business?
- Praveen Jaipurjar:** Yes.
- Hiten Boricha:** Thank you so much.
- Moderator:** Thank you. The next question is from the line of Rishabh Sisodia from Concept Invest Wealth. Please go ahead.
- Rishabh Sisodia:** Thank you for the opportunity and most of my questions have been answered. One question is what is the guidance which the company has provided if I am wrong, two years back we talked about getting into pod segment and the capsule segment so if you could give me any color on that like how are we looking at those segments going ahead?
- Challa Srishant:** This is the segment that we have unless we have a specific customer who is interested in that particular product we usually do not supply that product. Now pods is something which is roasted ground coffee, the shelf life of roasted ground coffee is significantly lesser than that of instant and now considering if your shelf life is six months to nine months and due to the logistics issues if there are delays by two, three months then the shelf life of the product comes down drastically which is why most of the people they buy pods and all in the consuming country itself from local roasters at a higher price point right.
- Rishabh Sisodia:** But at that time the management was positive about getting into, entering this segment because it also has a very high customer base and high margin base, so are we looking to enter into that segment again as part of instant coffee products?



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- Challa Srishant:** So we have not been in this segment of pods before, we have explored it, we have the equipment all that is also there, but it is not something that we aggressively push for because there is no entry barrier for you to get into this segment at all. Anybody can do it so you will have more competition and now after the first patent ran out now there is another new patent which is currently being used, so it depends on what category that you are looking for and also there is a lot of negativity that is there towards pods because of the landfills, people are looking for more sustainable packaging especially in Europe they do not like the fact that there is so much waste that is getting created for pods.
- Moderator:** We will move to the next question from the line of Manish Mahawar from Antique Stock Broking. Please go ahead.
- Manish Mahawar:** Thanks for followup. Can it possible to share revenue, EBITDA, PAT for Vietnam as a subsidiary for FY2022?
- Lakshmi Narayana:** We have revenue of Rs.450 Crores and profit before tax is Rs.104 Crores.
- Manish Mahawar:** Can you repeat the number, your voice is not clear.
- Lakshmi Narayana:** Rs.450 Crores is the revenue for the Vietnam operation and earnings before interest and depreciation it was Rs.130 Crores and profit before tax and after tax it was Rs.104 Crores.
- Manish Mahawar:** Okay and in terms of a Continent as the brand, what is the EBITDA in FY2022 and if possible can you share the adjustments for the subsidiary?
- Praveen Jaipurjar:** We will not share the detailed numbers on that, but what we can share is the topline as I was telling you for the domestic business was Rs.200 Crores out of which 70% was branded sales and the broke even on this business last year.
- Manish Mahawar:** Broke even in terms of EBITDA or PAT?
- Praveen Jaipurjar:** In terms of PAT.
- Manish Mahawar:** Okay and last one in terms of export incentive how much of that we have booked in the FY200 and how much of remain still pending to receive.
- Lakshmi Narayana:** We have accounted for Rs.16.5 Crores, we have received during the 2022 financial year and around Rs.7 Crores is the balance eligible to receive.



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Manish Mahawar: Rs.16.5 Crores you said right?

Praveen Jaipurjar: Yes.

Manish Mahawar: FY2022.

Praveen Jaipurjar: Yes.

Manish Mahawar: That is it from my side and all the best.

Moderator: Thank you. The next question is from the line of Dhiral Shah from PhillipCapital. Please go ahead.

Dhiral Shah: Thanks for the opportunity. What was the utilization of Vietnam plant in FY2022?

Praveen Jaipurjar: By the current calendar year end it will be implemented.

Dhiral Shah: Utilization of Vietnam plant in FY2022?

Praveen Jaipurjar: It was 85%.

Dhiral Shah: And for the incremental capacity of 3500 tons?

Praveen Jaipurjar: Which includes incremental capacity, total capacity 13500 and we are at the operation of 85%.

Dhiral Shah: Okay, if you can share the Switzerland revenue and pack?

Lakshmi Narayana: Revenue Rs.450 Crores is the revenue that we have achieved at Vietnam operation.

Dhiral Shah: Switzerland operations Sir?

Lakshmi Narayana: Switzerland operations, Rs.230 Crores is the revenue that we have recorded at the operations.

Dhiral Shah: And Sir PAT?

Lakshmi Narayana: Profit is about Rs.7.05 Crores.



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- Dhiral Shah:** Rs.7.5 Crores?
- Praveen Jaipurjar:** Yes.
- Dhiral Shah:** Thank you so much.
- Moderator:** Thank you. The next question is from the line of Ankush Agarwal from Surge Capital. Please go ahead.
- Ankush Agarwal:** Thanks for taking my question. So firstly on this plant-based protein business so this would be a domestic B2C business model right?
- Praveen Jaipurjar:** Right.
- Ankush Agarwal:** In the larger scheme of things what I wanted to understand is that the whole transition from a B2B business model to a B2C, because B2B business is an extremely good business wherein we have extremely high sustainability in terms of getting fixed margins and our margins itself are quite high like 25% EBITDA and 15% PAT, so I would wanted to understand with this transition to B2C, do you think we will be able to achieve those kind of that kind of sustainable business and profitability in the B2C business given that this businesses require a lot of incubation in terms of marketing expense to create a brand and then at most maybe you will be able to get around 10%, 15% kind of PAT margins?
- Praveen Jaipurjar:** I think just to answer your question transition is not the right term, because that sets very wrong expectations. It is not that we are transitioning...
- Ankush Agarwal:** Additional business.
- Praveen Jaipurjar:** Now of course additional B2C business is not an easy one it would not give you returns in a jiffy it takes time to build brands, but if you are looking at very long term perspective that we are, we are not looking here only for a three year, five year or ten year perspective but we are looking at a 20 year, 30 year and a 40 year perspective, in that perspective if you see obviously the brand business will give you better returns than a B2C business and it is always more value gets added more if you build brands is not it, so that is the whole thought behind adding a B2C segment as well to CCL.
- Ankush Agarwal:** But is not there some kind of consideration like looking at the B2B model in existing space like even like in case of plant-based protein packs right even in that case probably we might would have looked to expand on the B2B model to start with before getting into B2C



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because what is happening is nowadays in all this segment be it coffee and the snacks a lot of B2C brands right so rather than competing with them on the front end being the backend partner manufacturing for all these guys would not that be a great business to be in?

Praveen Jaipuria: The only difference here is that unlike a segment like coffee or other snacks where there is already a huge consumer segment available where B2B players could play here the category itself is very nascent, so it would not have made sense to become a B2B player in this category and considering that we are looking to expand our B2C segment, we were looking at certain categories where we could start playing and as you rightly said there are certain categories are very cluttered, so this category although it comes in the snacking categories actually different and very nascent and evolving category and our thinking process here was completely opposite that we will seed the market with our own brand. Let us see how things evolve and probably in the future we could backward integrate and that is the time we could actually become a supplier to our own brand as well as to somebody else as well, so here our thinking process has been a little different on this.

Ankush Agarwal: So to start with we would not be manufacturing this product over?

Praveen Jaipuria: No, we are not manufacturing. We are sourcing it from a third party.

Ankush Agarwal: Domestically?

Praveen Jaipuria: Domestic right now we are launching in the domestic market that too in very limited areas in three cities and we will see how this category shapes up and how we do on in this category, again even in the B2C segment as you would have noticed, we do not really go the big bang way whether it was coffee whether it is this, so that the margins do not get depleted so all we want to do is that make it self-sustainable in three to five years time, so that the brand gets to feed itself and does not kind of have a stress on the parent company.

Ankush Agarwal: In the very long term, would it be a right understanding that CCL as a company would be more focused on venturing into additional B2C areas rather than figuring out any other B2B market wherein it could expand in terms of category?

Praveen Jaipuria: In the B2B space right now coffee we have that sense we have that economies of scale advantage.

Ankush Agarwal: Yes, coffee was obviously a natural extension.



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Praveen Jaipuria: So that is why international expansion also that is the area that we are going to keep focusing on. Now if any of the other categories that we are venturing into if our volumes increase and at that point in time based on the situation we might take a call to get into manufacturing of those products and we might consider B2B in that segment as well, but this is all a lot of speculation. As of now our focus is actually quite clear. Our focus is that on the B2B space there is still a lot that we can do and there is a lot of new areas, new territories that we can explore which is what we are focusing on now. While doing that in order to have more sustainable growth in the future, we are also focusing on our own branded presence in India and maybe a little bit outside India as well. These are the primary areas of growth, things like these plant-based foods and all these other things these are all very, very small categories by virtue of being a public company, we have to announce it which is why we announced it. But right now to be very frank we are just leading the market to see how the response is going to be, we are experimenting so future also we will keep experimenting with products, but our primary focus is still going to be on these two areas, one brand, our own continental brand for coffee and the B2B for coffee.

Ankush Agarwal: Thank you.

Moderator: Thank you. Due to time constraints that was the last question. I now hand the conference over to Mr. Abhishek Navalgund for closing comments.

Abhishek Navalgund: Thanks. I would like to thank CCL management for giving us the opportunity to host this earnings call, also thanks to all the participants for joining in. Over to you Srishant Sir for your closing comments, Srishant Sir as well as the Praveen Sir.

Praveen Jaipuria: Thank you Abhishek. I just wanted to thank you and the entire Nirmal Bang team for organizing this, looking forward to talking to all of you again next quarter.

Moderator: Thank you very much. Ladies and gentlemen on behalf of Nirmal Bang Equities Private Limited that concludes this conference call for today. Thank you for joining us and you may now disconnect your lines.