



“CCL Products India Limited  
Q1 FY 23 Earnings Conference Call”

**August 05, 2022**



**MANAGEMENT:**

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*CCL Products India Limited  
August 05, 2022*

**MODERATOR: MR. ABHISHEK NAVALGUND - NIRMAL BANG  
EQUITIES PRIVATE LIMITED**

**Moderator:** Ladies and gentlemen, good day and welcome to the CCL Products India Limited, Q1 FY'23 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 '\*' and '0' on your touchtone telephone. 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, sir.

**Abhishek Navalgund:** Thank you, Cathy. Good evening, everyone. On behalf of Nirmal Bang Institutional Equities I welcome all the participants to CCL Products India Limited 1Q FY'23 earnings conference call. Management is represented by Mr. Challa Srishant, Managing Director, Mr. Praveen Jaipurkar, CEO, Mr. V. Lakshmi Narayanan, CFO, Ms. Sridevi Dasari, Company Secretary, and Mr. P. S. Rao, Consultant Company Secretary on the call. Without further ado I would like to hand over the call to Mr. Praveen for his opening comments and we'll open the floor for question and answers post that. Thank you and over to you, sir.

**Praveen Jaipurkar:** Thank you, Abhishek. And welcome all to this conference call. The group has achieved a turnover of INR 509.51 Crore for the first quarter of '22 - '23, as compared to INR 326.22 Crore for the corresponding quarter of the previous year. And the net profit stands at INR 52.74 Crore as against INR 43.85 Crore for the corresponding quarter of the previous year. The EBITDA is at INR 88.77 Crore and the profit before tax is INR 66.64 Crore. I welcome you all for the question and answer session. Please feel free to ask any questions you feel like.

**Moderator:** Thank you very much, sir. Ladies and gentlemen, we will now begin the question and answer session. The first question is from the line of Faisal Hawa from H.G Hawa and Co. Please go ahead.

**Faisal Hawa:** So, sir, what is the ROC and ROE of our company in this quarter? And can you give some guidance on the volume as well as the revenue growth in for FY'23 ended.

**V. Lakshmi Narayana:** This is Lakshmi Narayana here, for RO, return on capital employed it is 16% for this quarter. Hello?

**Faisal Hawa:** Yes, I can hear you, sir.

**V. Lakshmi Narayana:** Return on capital employed it was 16% and return on equity is at 17%.

**Faisal Hawa:** Any guidance you can give for FY'23 ended on volume as well as value growth?

**Praveen Jaipurkar:** So the volume growths that we got this quarter was approximately 25% and that's the guidance for the full year as well. We are looking to end the year at somewhere between 20 to 25% volume growth, and there will be approximately 10 to 15% upside on the price, which means that we will end up the year at close to 40%, value growth.

**Faisal Hawa:** Thank you, sir.



*CCL Products India Limited  
August 05, 2022*

- Moderator:** Thank you. The next question is from the line of Ankush Agarwal from Surge Capital. Please go ahead.
- Ankush Agarwal:** Yes. Hi, sir. Thank you for taking my question. A couple of things, firstly, just confirming our capacity numbers, so as of FY'22 we were at 38,500 tons and by FY'23 and given to the sum capital extension, we are expecting 55,000 tons. Is that right?
- Praveen Jaipurjar:** Yeah, absolutely right.
- Ankush Agarwal:** Yes. And this additional 16,000 tons that we have seen, got approval for, when do we expect this to commission?
- Praveen Jaipurjar:** So we are looking to commission it in the last quarter of this year.
- Ankush Agarwal:** Okay.
- Praveen Jaipurjar:** Vietnam capacity, yes.
- Ankush Agarwal:** Broadly at the same time Vietnam capacity will come on stream.
- Praveen Jaipurjar:** No. Okay. So this I was talking about Vietnam capacity.
- Ankush Agarwal:** No, no. I'm talking about new capacity announced
- Praveen Jaipurjar:** The new capacity will be one year later, which is FY'24.
- Ankush Agarwal:** Got it. So, a question caution on similar line. So, what I wanted to understand is if I look at CCL history over last 5 - 7 years, so broadly till FY'21, we were broadly around 30 - 35,000 tons capacity or for last 4 - 5 years, previous to that. But if I see it from FY'20 onwards, we are now increasing a capacity to more than 70,000 tons, so it is like doubling up capacity after a period of wherein we can expanded capacity. So what is giving us the confidence of increasing such a large step up increasing the capacity?
- Praveen Jaipurjar:** So this is actually the confidence is coming from 3 - 4 fronts. One is that, constantly our domestic market has been growing in a very steady space. And 3 - 4 years, if you see, we had started to see growth in the domestic market. We were not very sure in what direction the growth will go to and what kind of capacities we'll require. But now we are confident that we have achieved a certain turnover, we have achieved a certain volume and this volume is expected to grow by 30 to 40% in the next 3 - 4 years. So that is giving confidence that we will require new capacity. Also in the international market we have been able to secure a lot of new businesses across the geographies.
- And that has again given us a lot of confidence that we will be able to or we will be requiring these kind of enhanced capacity in the future. And as we are growing, what is happening is that our ability to offer or be competitive in the international market also is becoming very, very strong and that is helping us gain new businesses. So all of them put together we are very confident that we will be requiring these kind of capacities going forward.
- Ankush Agarwal:** So how much of our capacity currently would be being utilized for the domestic branded business and what kind of number that should be on the expanded capacity couple of years down the line? A broad idea would suffice, 5%, 10%, whatever.



*CCL Products India Limited  
August 05, 2022*

- Praveen Jaipurjar:** So currently we are at 10%, but going forward the 10% capacity is likely to double in three years, yes, for domestic market. So if it is going to double in 3 years, let's say I'm just giving you a ballpark number. Approximately 4,000 metric tons we are looking right now, which is kind of double in 2 to 3 years, which means that with the new capacity that we have announced, half of that will be immediately taken up by the domestic market itself. So that is the kind of numbers that we are looking on and therefore, we are very keen to expand the capacity.
- Ankush Agarwal:** Just to get, so what you're saying at the moment 10% of the capacity is being used for domestic.
- Praveen Jaipurjar:** Yes.
- Ankush Agarwal:** But going ahead also you are saying on the expanded, say 70,000 capacity, it would be roughly around 10% volume is what you are saying?
- Praveen Jaipurjar:** Yes, because we are almost doubling it the next 2, 2 and a half years. So the volumes also will double, so it'll be in the same percentage, maybe 10 it'll move up to 12 or 13%, but as I was telling you that's not the only reason, the other reason is that we are also getting new export orders, new clients, and therefore we are looking to fill up the rest of the capacity with the export business.
- Ankush Agarwal:** Sir, lastly, just to clarification, so when you say we have grown a volume by 25% this quarter, but if I see our profits have only gone by about 20%. So the remaining 5% deficit is largely because of the domestic volume growth, which obviously don't contribute a lot to the profit or this 20,000 volume growth is of entire export business.
- Praveen Jaipurjar:** No, couple of points are there. One is, of course, the domestic market, which right now we are investing back to promote the brand and all, and second is that couple of percentage points here and there probably will be because of other input cost increase. But if you look at from volume of 25, and if you look EBITDA, EBIDTA is at 23, so they're like very close to each other. So a lot of price increases we have been able to mitigate efficiencies in the system and therefore, that difference is not much actually 25 versus 23.
- Ankush Agarwal:** Okay. So this 20 - 25% volume growth is for balance FY
- Moderator:** Excuse me, this is the operator, Mr. Agarwal, may we request you to please rejoin the queue for follow up. We have other participants waiting in the queue.
- Ankush Agarwal:** Okay. Thank you.
- Moderator:** The next question is from the line of Richard D'Souza from SBI Mutual Fund. Please go ahead. Richard D'souza, your line is unmuted. Please go ahead with your question. As there is no response from the current participant, we move to the next question from the line of Kashyap Javeri from Emkay Investment Managers. Please go ahead.
- Kashyap Javeri:** Two questions from my side, one, when you mentioned that this year the value growth could be significantly higher because of the price increase, can it lead to ROC dilution because we will have higher working capital requirement, that's one. And second is clarification on your working, on the domestic side, you mentioned that today domestic is about 10% of the volume, and next 3 years you expect it to double to about 4,000 tons, but at 10% today itself it should be about slightly more than 3000 tons already. So doubling would mean about 6,000 tons. Is that math correct?



*CCL Products India Limited  
August 05, 2022*

- V. Lakshmi Narayana:** I said, today it is at approximately 4,000 tons, doubling would mean 8,000 tons.
- Kashyap Javeri:** Okay. Sorry. So you, that 4,000 tons was number as of today?
- V. Lakshmi Narayana:** As of today, yes.
- Kashyap Javeri:** Okay. And on the ROE side, because of working capital, any comments over there?
- V. Lakshmi Narayana:** That the sufficient working capital is in place
- Kashyap Javeri:** Let's say about to 40, 45%, then it means that the working capital requirement will also be slightly larger.
- V. Lakshmi Narayana:** Yeah. The working capital requirement is likely to enhance almost by 50%, which we have taken the precautions to enhance the requirement.
- Kashyap Javeri:** So then it could be slightly sort of detrimental to our ROE number, unless we are going to reduce the number of days of working capital?
- V. Lakshmi Narayana:** No, actually if you look at it on ROE basis my thoughts of funds are approximately around the INR 1.5 per share. It will not have a major impact on our profitability, even despite our increase in working capital requirement.
- Kashyap Javeri:** But sir, what I'm saying is that say your EBIDTA growth because of the volume growth is because we look at usually EBIDTA per ton or EBITDA per kg, EBIDTA growth would be roughly about anywhere between 20 to 25% or slightly higher. But in terms of working capital like you said, the expansion would be almost about 50%, I mean, it's just a mathematical equation, but it could be ROE dilutive.
- V. Lakshmi Narayana:** It'll not be because we will work it out on the credit period which we are offering to our buyer. So it will take care of my working capital requirements, if any additional burden is going to be there, with increase in the volume of working capital.
- Kashyap Javeri:** So, versus sales growth, can we expect working capital growth to be lower than the sales growth? Is that possible?
- V. Lakshmi Narayana:** It is not exactly, if you look at it, our revenue growth which we are expecting around the 20 to 25% and we on a real utilization basis it is going to be somewhere around the 15 to, in between 15 to 20%, definitely it will be less than the sales growth.
- Kashyap Javeri:** Okay. Okay. Yes, that's it from my side. I'll come back in the queue. I have a few more questions, while I'll come back in the queue. Thank you.
- Moderator:** Thank you. The next question is from the line of Richard D'Souza from SBI Mutual Fund. Please go ahead.
- Richard D'Souza:** Yeah, good evening. Am I audible now?
- Moderator:** Yes, you are. Yes.
- Richard D'Souza:** Thank you. So sir, just wanted to understand one is on the green bean cost, I mean, how much would it have gone up by and how much have we passed it onto the consumers?



*CCL Products India Limited  
August 05, 2022*

- Praveen Jaipuria:** So at a point-to-point level it has actually gone up in the last 1 to one and a half years by almost 50% to 60%. And whenever we do a contract, what we do is we pass on everything to the customer, so we don't absorb the price increases in the green coffee. And that's the reason you are seeing such, almost 20 to 25% upside on the value growth versus the volume growth.
- Richard D'Souza:** So, is this the quarter when this increased bean prices hit us?
- Praveen Jaipuria:** I'll tell you what, if you would have tracked our performance and what we have been telling the market is that a lot of our contracts are long term contracts. Yes.
- Richard D'Souza:** Yes.
- Praveen Jaipuria:** So, even if I would have started, let's say the price started increasing in last one year. In the last one year, I have been actually executing at a lot of contracts, which probably I did two years ago. Yes. So, much of price increases you did not see in the last few quarters, maybe 4 to 5% that was there in the last quarter or so, but now that last year's contracts have started getting executed, we are seeing this kind of price increase.
- Richard D'Souza:** Okay. Just one more question on this. If we look at the console performance, the standalone and the subsidiaries performance, your raw material cost as a percentage of sales has gone up by about approximately about 8 to 10%. So that means we haven't passed on the complete escalation in raw material pricing. Am I right to understand that?
- Praveen Jaipuria:** Raw material, come again? I'm just missing your point. You were saying raw material cost has gone by...
- Richard D'Souza:** Sir, I was saying that the raw material cost as a percentage of net sale has gone up by about 8 to 10% on your console level, stand alone and also on subsidiaries level. So, am I right to understand that we haven't able to pass on the complete increase in prices? Or is it because of your business model that, I mean, we see that difference?
- Praveen Jaipuria:** No. In fact, we completely passed on everything, but what happens is that, a lot of my contracts will be average of some of the things that I've done in the past. So therefore, we may not see it in full effect in the P & L itself. But if you average out in the, if you ever to average out 3 - 4 quarter results, you will start to see that how our model works actually. Yes. So sometimes it happens that we will get more value growth. Sometimes it may also happen that we will not get the value growth, we'll only get volume, this thing, and in spite of that, our profits would increase. So that kind of a play happens and therefore one, we always tell the market that please see the performance in a little longest period of time.
- Richard D'Souza:** Okay. Well, I was seeing the trend over past 4 - 5 quarters, so that is why this question, but maybe I'll come back later on this. The second question is on your other expenses and especially, the logistic and packaging costs. So how have this, those behaved in quarter by because logistic costs seem to be coming down, the shipping rates seem to be coming down?
- Praveen Jaipuria:** Yes. So some of them, there has been a little bit of a down trend. However, it is still more expensive than the pre-COVID or the pre-Russia-Ukraine war. So that is an impact that we have to take care or take into account.
- Richard D'Souza:** Okay.



*CCL Products India Limited  
August 05, 2022*

- Praveen Jaipurkar:** Yes.
- Richard D'Souza:** Yes. Thanks a lot. Maybe I'll come back later.
- Praveen Jaipurkar:** Sure.
- Moderator:** Thank you. The next question is from the line of Vidit Shah, from IIFL Securities. Please go ahead.
- Vidit Shah:** Hi, good evening. And thank you for taking my question. So my first question was on the, this new Capex that we, board has approved, you said this will be up by the 4th quarter of FY'24, is this right?
- Praveen Jaipurkar:** Yes.
- Vidit Shah:** Okay. And what is the ROE that we can expect on this? Would it be similar in the lines of 16% that we're doing right now? Could it be higher or low?
- V. Lakshmi Narayanan:** The ROE is expected around 20% on this new facility.
- Vidit Shah:** Okay. And why would this ROE be higher than what the company is currently doing? I mean, is there any efficiency built into this new plant or anything like that?
- V. Lakshmi Narayanan:** It would be an upgraded technology, which we are going to implement under the new facility because the existing facilities are age old, and lot of technology development has been happened, due to that we look for some optimization for the efficiency levels.
- Vidit Shah:** Okay, understood. Sir, my second question was, so in an opening, so in your earlier remarks actually you mentioned that you're getting more competitive in the international market and thus winning order. So I could you just shed some light on why and how the company is very more competitive versus let's say Brazilian competitors or other competitors as?
- Praveen Jaipurkar:** So, a lot of these companies, let's say the Brazilian this thing, now Brazil it has become a little non-competitive, especially in the European market because of the various reasons, the Brazilian coffee prices, the freight costs and things like that. So we have been able to win some of those accounts and that is leading to better performance for us. Also if you start increasing the volumes, you actually are seeing as our CFO pointed out the new facility and what we are doing in Vietnam now with our, the expanded, the expansion that we did last year, and we are going to do, these are all leading to better economies of scale. And therefore, our efficiencies are improving and we are getting better and better in terms of our competitive in the international market.
- Vidit Shah:** Okay, understood. Sir, just one last point on if you could share the capacity utilizations during 1Q for the domestic market and the Vietnam unit as well if possible.
- Praveen Jaipurkar:** So, on paper it would be 85%, but 85% is actually full utilization. We are full to the brim and utilizing every bit of it.
- Vidit Shah:** And this is across the three units including Vietnam?
- Praveen Jaipurkar:** Yes, all across three units we are running at full capacity.



*CCL Products India Limited  
August 05, 2022*

- Vidit Shah:** So would it be fair to assume that from these levels the growth will only come sequentially only once 4Q, as the Vietnam unit is commissioned in 4Q. So versus 1Q, 2Q and 3Q could potentially be flat.
- Praveen Jaipurjar:** No. 4Q and 3Q, our Vietnam capacity started to the extended one, see from Vietnam we went from 9 to 13.5, which is like third quarter last year. Yes?
- Vidit Shah:** Yes.
- Praveen Jaipurjar:** So, Q1, Q2 that 3.5 will come to us which will give us growth. And from Q4 onwards will get that additional 16,000 annual capacity from Vietnam. So that will drive growth for the next 3 - 4 years. And just to add a little thing to you, we are also, in the last 2 quarters, we have ended up outsourcing coffee as well from a lot of smaller players. So that has also added to our capacity. And in fact, so the generic products that we supply to some of our clients who use very generic products, we are taking from smaller suppliers and we are fulfilling that demand. So in fact, when we are expanding the capacity, certain portion of our, actually utilization we are already building it up in the next 2 - 3 quarters.
- Vidit Shah:** Okay. Understood. Thank you so much for taking my questions and all.
- Moderator:** Thank you. The next question is from the line of from Akhil Parekh from Centrum Broking. Please go ahead.
- Akhil Parekh:** Hi. Thanks for opportunity and congratulations on a very healthy phase...
- Moderator:** Excuse me Mr. Parekh, we are unable to hear you clearly. Can you speak a little closer to the phone? It's not audible.
- Akhil Parekh:** Is it better now?
- Moderator:** Yeah, this is better. Thank you.
- Akhil Parekh:** Okay. Congratulations sir, on a very good sales number, especially on the sales front. My first question on the margin, 70 odd percent, so you clarified a bit that the entire impact of increase in price realizations will be felt across next 3 - 4 quarters, but is there a factor that conscious decision is being made by the company to kind of aggressively grow on sales front probably sacrificing a margins a bit?
- Praveen Jaipurjar:** So, just to correct you, I don't think so that we have sacrificed the money. Actually the margin that you are seeing, reduction, which is at 17% that you said is only because of the, it's an optical thing because you are measuring it against the top line, which has got 20 to 25% of price increase. So if you peg it at volume, so our volume growths are 25 and our EBIDTA growth is 23. So perfectly in line with our volume growth.
- So as we always say, our per kg EBIDTA wouldn't have changed at all. So we are not sacrificing margins at all. So it's not like we are growing volumes on back of sacrificing margins. It only appears to be lower because you've got a price advantage. The price advantage is giving you 55% top line growth. So on that top line, the percentage of EBIDTA looks to be lower, but in terms of per kg EBIDTA, in terms of your growth in EBIDTA, it's exactly in line with the volumes.
- Akhil Parekh:** Sure. Got it. Okay. Got it. And second on the branded business, if you can quantify like what kind of numbers we clock for the quarter and what we are expecting for the entire year?





*CCL Products India Limited  
August 05, 2022*

- Praveen Jaipuria:** So in the first quarter, we clocked, the domestic sales clocked INR 50 Crore, out of which almost 70% is branded business. And this grew by almost 55%, when we compare to the last year, same quarter. So, and on the share front we have been constantly gaining shares. We are looking to expand distribution, as I had mentioned in the last call, we are looking to now expand the distribution beyond south and looking to make our presence felt in other markets as well, beginning with large towns first, and then we'll penetrate to tier two towns. So that is the scenario, we are going at a very healthy pace and on track for whatever we had set our objectives on.
- Akhil Parekh:** Okay. Domestic, if I just kind of at INR 50 Crore or run rate, it comes at INR 200 Crore probably for the year, which is broadly in line with last year, wouldn't that be correct?
- Praveen Jaipuria:** Yeah. But these first two quarters are lean quarters because of seasonality. In India coffee consumption is pretty high during the second half. So almost first half will contribute, in fact, first quarter will contribute to 15 to 20% of the sales only.
- Akhil Parekh:** Okay. So should you maintain the 30, 35% of a growth level for the entire year?
- Praveen Jaipuria:** Yeah, definitely. Definitely we'll maintain that 30 to 40% growth level for the year.
- Akhil Parekh:** Okay. Anything on the plant based proteins, like what are the steps we are taking off next 1 year or so?
- Praveen Jaipuria:** So really nothing new from what we announced, because it's only been a month since we announced our entry. And we have just, as we had mentioned last time that we will target to launch only the, test launch, in fact, in three cities. So that's what we have done. Today we are just placing the product because it's a frozen product. It has to be carefully placed in only those outlets where you have these kind of infrastructure. So we are just placing the product, trying to do a lot of sampling and see what are the consumer responses. There'll be a lot of learnings as we go along in terms of our product, product development, concept, pricing. So all that, so it's almost like a learning phase for us. There aren't any new things to share on this front at this moment.
- Akhil Parekh:** Got it, sir. Thanks a lot and best luck for coming.
- Praveen Jaipuria:** Thank you, so much.
- Moderator:** Thank you. The next question is from the line of Himanshu Nayyar from Systematix. Please go ahead.
- Himanshu Nayyar:** Yeah. Hi, sir. Good afternoon. Thanks for taking my question. Sir, firstly, on the recently set up packing in agglomeration unit, just wanted to understand what sort of utilization ramp up we have seen on that side in terms of small pack volumes?
- Praveen Jaipuria:** So, on this small pack unit almost 30% is getting utilized by the domestic market itself. Out of the 12,000 tons capacity that we had put, 3 to 4,000 is being utilized by the domestic market, which is almost 25 to 30% and another 20% by the international market. So as of now we are 50 to 55% utilization for this small pack unit.
- Himanshu Nayyar:** Understood. And secondly, sir, on our overall Capex, if you can just, I mean, guide us once again. So what's the, I mean, including the ongoing Vietnam plant and the new announcement. So FY'23 and '24, what sort of Capex overall are we looking at?



*CCL Products India Limited  
August 05, 2022*

- V. Lakshmi Narayana:** So FY'23, as we stated earlier the expansion has been with 30 Million USD investment out of which 10 million we are contributing from our internal approvals, and coming to the '23 - '24 and which we are proposing to take up the new Greenfield Project, which may cost somewhere around 300 to 315 between. And our contribution may be somewhere around INR 100 to 120 Crore. So all put together, if you look at it around a INR 190 to 200 Crore is our contribution on '22 - '23 and '23 - '24.
- Himanshu Nayyar:** And maybe a slightly higher amount of debt as well, which will be taking up, right?
- V. Lakshmi Narayana:** Yes, the new facility, which we are planning to take up, which has the red component also.
- Himanshu Nayyar:** Got it. And sir, final question is on the India business, you talked about the top line, but can you share something on the profitability front as well? I know we are in reinvesting back in the business, but along with growth are we able to, I mean, any number that you can share on the sort of drain that it is on our overall financials in terms of loss or is it gone completely?
- Praveen Jaipurkar:** So as we, sorry, are you able to hear, hello?
- Moderator:** Yes, we can hear you, sir.
- Praveen Jaipurkar:** Yeah. Okay. So, on the domestic front, we maintain the fact that we are ploughing back all the money back to the business, especially because this year we are going to take major distribution expansion initiatives. So there won't be, uh, any drain per se, as because we are looking to break even like what we did last year, this year also will be looking to break even. So there isn't any drain per se, uh, on the company's side.
- Himanshu Nayyar:** And what sort of gross margins would we be making in this business, if you can share that number?
- Praveen Jaipurkar:** See, typically on the branded side, you would be getting to anything between 30, 35% and the bulk side will be closer to 20%.
- Himanshu Nayyar:** Okay. Got it, sir. So that's all I had today. Thank you and all the best.
- Praveen Jaipurkar:** Thank you.
- Moderator:** Thank you. The next question is from the line of Bhavesh Chauhan from IDBI Capital. Please go ahead.
- Bhavesh Chauhan:** So my question is on supplies from Russia to Europe and even globally, how has that impacted the supplies globally and are we benefiting out of it?
- Praveen Jaipurkar:** So yes, the supplies which were affected in the last quarter, Jan-March quarter is now seems to be easing up. So now we have liners who are taking supplies to Russia and Ukraine both. So there isn't any issue right now that we are seeing in the market.
- Bhavesh Chauhan:** Sir, my question was actually supplies from Russia to global markets. So if that has been cut off, which we are seeing in some of the sectors, are we seeing in coffee exports as well, that Russia, because of sanctions that Russia is not able to supply to many of the developed countries. So are we benefiting out that?



*CCL Products India Limited  
August 05, 2022*

- Praveen Jaipuriar:** No, not really. We're not benefiting out of that, but as I told you, we are benefiting more from our more competitiveness in the market. So it's not that Russia is not able to supply therefore, we are, because Russia mostly is a more of a consumer of coffee rather than supplier of a coffee.
- Bhavesh Chauhan:** Okay, sir, that's it for me. Thank you.
- Moderator:** Thank you. The next question is from the line of M.Srinivasa Rao, from Healthcare Global Enterprises. Please go ahead. Mr. Rao line is unmuted. Please go ahead with your question.
- M.Srinivasa Rao:** My questions were already answered, thank you.
- Moderator:** Thank you, sir. The next question is from the line of Ankush Agarwal from Surge Capital. Please go ahead.
- Ankush Agarwal:** Yes. Hi. So thanks for the opportunity again. So, sir, again something on similar lines what another participant asked on the working capital. So what I'm trying to understand over here is let's say, for example, the coffee price you mentioned are up by 50 or percent. So for the same amount of volume that we do, I think our review number is higher. Wouldn't we investing more in terms of inventory value and in terms of the debtors that are standing outside. So wanted to understand in such a scenario where the coffee prices are very high for the same number of volume our investment in the working capital would be higher that mean a higher debt and then that might stress our balance in terms of ROC calculation or something, interest cost as well. So can you throw some light on that how it affects our business from that perspective?
- V. Lakshmi Narayana:** Yeah. As you rightly said the working capital requirement will be increased in line with increased volume of revenue. But here it is not exactly in the same percentage of revenue growth the working gap will be increased, it will not, because the receivable credit period will have a decent approach to reduce the credit period, and which will help us to minimize the working gap utilization. And at the same time, it'll not have a complete impact of interest burden because we utilize the working capital under the export finance only, which is very competitive in terms of the rupee funding.
- Ankush Agarwal:** So what is the cost of borrowing on that?
- V. Lakshmi Narayana:** Export finance, it'll cost, net to net it is around the 2%.
- Ankush Agarwal:** Sorry, I didn't get.
- V. Lakshmi Narayana:** It is at 2%.
- Ankush Agarwal:** 2%?
- V. Lakshmi Narayana:** Yes.
- Ankush Agarwal:** Okay. So, any expectation in terms of in this high coffee prices, the prices reducing over next, this year or so, any idea in that?
- Praveen Jaipuriar:** So as of now, we don't see any trend, which tells us that there'll be a reduction in prices. It looks to be stabilizing at this level, but really depends on many factors. A lot of countries, the crop will come in around December, so we'll have to wait and watch and



*CCL Products India Limited  
August 05, 2022*

see what happens after December, but till December, which is really short term, we are not seeing any decline.

- Ankush Agarwal:** Lastly, sir, recently there has been this fluctuation on the Euro versus Dollar, so have been impacted on that front, the currency fluctuation to extent? Hello?
- Praveen Jaipurjar:** Lakshmi, can you just address that question, I think he has asked question on Dollar versus Euro?
- V. Lakshmi Narayana:** There is no impact because if you look at it, predominantly, almost 99% of our business is in USD. It'll not have an impact on our operations at all.
- Ankush Agarwal:** So, 99% of business is with USD.
- V. Lakshmi Narayana:** Yes.
- Ankush Agarwal:** Got it, that was helpful.
- Moderator:** Thank you. The next question is from the line of Kashyap Javeri from Emkay Investment Managers. Please go ahead.
- Kashyap Javeri:** Yes. Three questions from my side. One, what is the gross debt as of June 30 and what is the cost? Second is, if I heard you clearly then the CIS countries, or let's say Russia and surrounding countries volume growth would've been same as what it was for the overall groups? And third question is that in terms of new client edition and ramp up in US and Europe, what's the update over there? So these are the three questions.
- Praveen Jaipurjar:** Hello?
- V. Lakshmi Narayana:** Regarding the date on 30th June, it was INR 160 Crore with the total long term debt. And we have the working capital based on utilization, which is around INR 225 Crore. So all put together around INR 400 Crore is the total debt- working capital, as well as the term loan.
- Kashyap Javeri:** And the cost?
- V. Lakshmi Narayana:** Cost will vary from facility to facility, on an average it will walk at out around 5%.
- Kashyap Javeri:** Okay. And if I heard you correctly, then CIS, or let's say Russia around country growth would've been same as the overall volume will through this quarter?
- V. Lakshmi Narayana:** Yes.
- Kashyap Javeri:** Last question is -- in US, which you had in last 18 months, what's been the ramp up and also in Europe if you can give some highlighters any new client edition over there also?
- Praveen Jaipurjar:** Any ramp up in US or in Europe new clients?
- V. Lakshmi Narayana:** So in the US that usual growth is there, year-on-year we are growing volumes over there. So the same pace of growth is continuing. We are getting into more of small packs and all also in the US market right now. As far as Europe is concerned we've added with our existing supermarket itself. We've increased volumes almost sevenfold, and going



*CCL Products India Limited  
August 05, 2022*

forward we are in the process of adding some more supermarkets as well. So the Europe business also is expected to grow.

**Kashyap Javeri:**

Yes, sir. I'm done. Thank you.

**Moderator:**

Thank you. The next question is from the line of Ritu Modi from IIFL. Please go ahead.

**Ritu Modi:**

Sorry, I joined a bit late, so apologies if I'm being repetitive in the question. Just wanted to understand the margin compression that we've seen on a YOY basis, despite the very strong growth in terms of volumes that we've seen. So is it only to do with the coffee price volatility that we've seen or are there some other reason as well?

**Challa Srishant:**

So fundamentally, one should understand that business model for the last 25 years has been very simple model. We work on a fixed margin basis. So no matter what the green coffee prices, our margins remain constant, which is why our per kg realization also has been constant. So in the current situation, also a per kg realization is still the same. The volume increase as in the value increase that you're seeing is because of the raw material. And if you calculate on a percentage basis, yes, there will be a reduction.

And this guidance we have projected more than a year ago. We made it very clear that because there is a substantial increase in green coffee prices on a percentage basis the EBIDTA margin appears to come down, though in reality, on a per kg basis, there is no variation. The fact that the EBIDTA growth and the bottom line growth is also proportionate to each other will give you a clear indication that there is a volume growth accordingly, same volume growth is there.

**Ritu Modi:**

Understood. So if I again understand this correctly in FY'22, we did see on a per kg or a spread basis, we did see tapering off versus what we had in FY'22, given the fact that freeze dried was a lower component as such. So, is that trend continuing even now or are we seeing some improvement in the spread versus FY'22 levels, average FY'22 levels.

**Challa Srishant:**

So FY'22 and FY'23, whatever we are producing will be the exact same volume. The only difference that had come up are the exception that came up is Russia war was declared in March, which has resulted in deferment of contracts from the last week of March to the first week of April. Because of that the booking of the contracts gets transition from the previous financial year to the current financial year. That is the only change that is there, there is no other change.

**Ritu Modi:**

Yeah, I understand that. But I'm just talking in terms of the spreads that we talk about, like the per kg EBIDTA, FY'22, did see a decline in the per kg EBIDTA because of the mix, really being more towards spray dried. So is that still continuing? Like, are we still, also basically in one queue, is the spread similar to what we had in FY'22 as well?

**Challa Srishant:**

Yes. No, the spread is getting corrected in this year because of the simple reason that the dispatches are taking place normally. Last, I mean, the previous quarter as in quarter four of last financial year, because of that deferment and because freeze dried is a higher margin product we saw that impact temporarily.

**Ritu Modi:**

Understood. Okay. Secondly, this, with the new plant, which is likely to come through in the fourth quarter, is any change in our volume guidance per se because of this new plant, let's say we're likely to put through, which will start contributing probably in 1Q FY'25, from a longer term volume guidance perspective.



*CCL Products India Limited  
August 05, 2022*

- Challa Srishant:** So the earlier guidance that we had given was 15 to 20% assuming the existing capacities, but now since this existing expansion is on track, we are hoping that we should come closer to a 20 - 25% volume increase for the current financial year. Value wise it'll be significantly higher, it'll be 50% plus, but I'm talking about on a volume basis and EBIDTA basis and on bottom line basis, it'll be in the range of maybe 20 to 25%.
- Ritu Modi:** Understood. Okay. And, sorry, my last question is also on the small pack capacity because I heard, you'll said it is being operated at almost 55% utilization. So, would it be right to assume that as when we the utilization levels of this keeps on improving, you're going to be seeing an improvement in the EBIDTA per kg as well from an entire company perspective?
- Challa Srishant:** Yes, there will be an improvement in utilization for both...
- Praveen Jaipurjar:** Domestic itself will improve by 30 - 40% volume that we are growing and we are also looking to add new clients, especially for small packs. So we are looking to fill up this capacity very fast.
- Ritu Modi:** Understood. Thanks. I'll just join back in case I have any further questions. Thanks.
- Moderator:** The next question is from the line of Divanshu from Yes Securities. Please go ahead.
- Divanshu:** Yes. Hello, sir. Good evening. So, I just have two questions. So with these new order wins and the ramp up and Capex that we are doing, would this allow us to increase a proportion of higher value added products category, and as a result allow us to move towards our intended EBIDTA per kg target of 125, 130, or would it not be right for us to expect the same given that the saliency of the spray dried would be on the rise?
- Praveen Jaipurjar:** Yes. So we do intend to move towards that, and that's the reason we are aggressively targeting small packs. So as and when small pack goes up the EBIDTA per kg will definitely start improving from here. In the last two- three years, we also had seen a higher EBIDTA because of the fact that our freeze dried volumes increased more in proportion to our spray dried volume, which has not been the case in the last year and maybe a couple of years going forward as well. So, so that's the whole, there is not just one factor pulling up or pulling down. There are multiple factors playing onto it, but we are very confident that with the higher proportion of small packs that we are targeting moving forward our EBIDTA should improve.
- Divanshu:** Sure. Okay. And can you give me a sense of your client and geography concentration right now and given the outlook and the order books that you have with the new order wins, how do you envisage this to change once you are ongoing capex comes on stream entirely, so FY'24 onwards, if you can give a sense of that?
- Challa Srishant:** As of now there's not much of a change. There's no over-dependence on any one particular geography or territory. We are spread out across the world. Right now we're in about hundred different countries and going forward also there could be some marginal changes here and there from one country to another, but we are not foreseeing any significant variation as such. There's no overdependence on any one country that we foresee going forward.
- Divanshu:** Sure. Then just the last question from my side and also an observation that I made here in Mumbai. So it seems that in the branded business, there are obviously, the company is going aggressive when it comes to the smaller pack, obviously to Indians, more and more



*CCL Products India Limited  
August 05, 2022*

small, trials, so can you give a sense on how the mix is between smaller packs or trial packs versus the larger the larger packs that we are seeing in the market?

**Praveen Jaipurjar:**

Okay. So, in the international market when we talk about small packs it is actually the 200 gram jars and then cans and things like that, in domestic market the scenario is completely different. Here when we say small packs, we really mean single serve sachets or maybe 3 - 4 use sachets which is Rs.10 and below price point. So as of now, because our distribution is largely, when you start your distribution it is from the top of outlets. So you are distributing first in the larger outlets. So therefore, our proportion of larger pack is higher as of now, which is like almost 70% and 30% is our proportion of these smaller packs, which is INR 10 and below SKUs.

**Divanshu:**

Got it.

**Challa Srishant:**

Yes.

**Divanshu:**

Okay. Thank you, sir. And wishing you all the very best.

**Challa Srishant:**

Thank you.

**Moderator:**

Thank you. The next question is from the line of Himanshu Nayyar from Systematix. Please go ahead.

**Himanshu Nayyar:**

Yes, sorry. Thanks for another opportunity. Just a clarification, on the new capex this we have planned, I mean is the land cost also included in this, because 320 for a 16,000 ton capacity for a Greenfield, I mean, looks on the lower side.

**Praveen Jaipurjar:**

INR 320 Crore is for everything. It is a Greenfield Project so land is...

**Challa Srishant:**

Actually the land portion, we've already bought the land under CCL. So we'll be leasing out this to the new company and then setting it up. So the land component is not included in this.

**Himanshu Nayyar:**

Okay. So that is already with the company, you're saying.

**Challa Srishant:**

Yes, it's already there. We bought this hundred acres of land in Tirupati district, that's where we're planning on doing this expansion.

**Himanshu Nayyar:**

Okay. And just one final question. I think, I mean, if you can address this, I mean, we are seeing all incremental capacity edition only in spray dried coffee. So is it that, I mean, the competitive intensity is quite limited here and there is some amount of down trading or consumers don't want to spend too much on the premium side that's why there's more demand for spray dried. I mean, is that reason or it's more about demand supply dynamics for freeze dried and spray dried. And whether going forward also, you expect that spray dried would be the dominant variant going forward?

**Challa Srishant:**

I can give you clarity for the next one year, at least, how things are. Right now with the green coffee prices, last year, there were at 1300 levels. Today it's at 2000 levels. So there's a substantial increase in raw material commodity prices from last year to now. So this has resulted in a trend where people are preferring spray over freeze, because they don't have that kind of spending capacity. As in raw materials itself has gone up so much and when it comes to the final branded product, the difference is significantly larger. So that's one main reason why that the demand for freeze dried hasn't really increased that much.





*CCL Products India Limited  
August 05, 2022*

That said, two years ago when things were looking up for freeze dried, several companies have already bought the equipment. They've actually completed the installation. They've come online either in the last year or current year or they will be coming online next year as well. Now, the thing with freeze dried coffee is you need to have a cold room with minus 60 degrees temperature. So based on running that plant, you have to run the plant, you have to take orders, whether you get lower margin or higher margin becomes secondary after a certain point.

If you need to run the plant efficiently, you have to secure orders, which is why we foresee that some of these new players are going to find it very difficult to sustain, and it could lead to a price walk, which is why we are not confident at this point in time to go in for freeze dried expansion. We do have infrastructure and place, we can easily go in for expansion. If we decide to go in for expansion, it'll be only if we have that confidence that there's certain customers who are partnering with us are committing to certain volumes. Otherwise it doesn't make sense for us to look at freeze dried expansion at this point in time.

**Himanshu Nayyar:**

Got it. And just then final question in this regard only, so our EBIDTA per ton or per kg that we make, as you were talking about, how different it is for, on average basis, say for freeze dried and spray dried, just to get an impact on the overall number that we do.

**Challa Srishant:**

In freeze fried as of now we have only vanilla type product, there are only certain limited qualities that we are selling. So your margins are more or less uniform over there. Spray dried is a completely different animal. There are certain spray dried products we have five times the margin of that of freeze dried. Five times I'm talking about. And there's several other products, which will be, maybe 1/10th of what we are running in freeze dried. So the spread is huge in spray dried.

**Himanshu Nayyar:**

So for our current portfolio, it should not make too much of a, it should not have too much of a negative impact. That's what you, that's what I can sort of take away.

**Challa Srishant:**

Yes. Not too much of a negative impact for us.

**Himanshu Nayyar:**

Got it. That's it. Thanks. Thanks for answering my questions.

**Moderator:**

Thank you. The next question is from the line of Jenish Karia from Antique Stock Broking Limited. Please go ahead.

**Jenish Karia:**

Yes. Thank you for the opportunity. Sir, you mentioned that volume for the quarter was 25%. Can you just break it up into India volumes and Vietnam volumes and further down to SDC and FDC volumes?

**Praveen Jaipurjar:**

No, we'll not be able to break and give volume. You know, we generally don't share so much of volume data. Just for you to understand that how the profits have moved in line with volumes, we shared this data with you.

**Jenishi Karia:**

Okay. No problem. Thank you.

**Moderator:**

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

**Manish Mahawar:**

Yes. In terms of guidance, Srishant and Praveen, you upgraded to maybe 15-20% to 20-25% and you said the reason that you are up with a capex in a Vietnam. So, in terms of a customer perspective, wanted to know, have you got any new customer tie-up, actually in





*CCL Products India Limited  
August 05, 2022*

opening remarks Praveen highlighted about few new customers. So can you throw some light on our customer side?

**Praveen Jaipurjar:**

No, we can't take names and tell you the exact thing, beyond the thing that we told you that we are getting, and it's not just about now, it has been our endeavour always. And that's how we have operated that how can we get new customers and how can we improve volumes for our current customers. So that's been our model, that's how we have been working. And that's how we keep working in the future as well. The reason why I said these new customers are because of the fact that somebody had asked that what gives us confidence to fill up this all new capacity. So that's the reason I said that because we are getting new customers as well. We are very confident that from the existing customers and from the new customers and domestic market, all put together, we are very confident to fill up this capacity. And therefore we are so aggressively building up capacity.

**Manish Mahwar:**

Okay. No, Praveen, why I am asking because a few months back, three-months back I think you have given a 15-20% volume growth guidance, now 20-25 and our project timelines are even same. So what has, I wanted to get what has changed in the last three-months we upgrade the guidance, that's the perspective.

**Praveen Jaipurjar:**

Okay. So the simple perspective as I told you, while answering to one of the queries, I had mentioned that we have started actually outsourcing coffee, some of the generic products and that we did not have, we were not anticipating this 2 quarters ago, but now that we are doing it, actually this has given a little bump in the Q1 and Q2 as well, which means that, therefore, we are upping this number and that's the reason I'm seeing that, we are in fact more confident that from the day one when we, the capacity gets enhanced, we'll be up and running to fill that capacity.

**Manish Mahwar:**

Okay. Understood. And in terms of capex perspective in Tirupati, so just wanted to know if suppose land will be included to the capex number so capex should be around INR 400 - 450 Crore if the land is included. Why I am asking is, for the expansion of our plant your capex looks low. So that's why I want to understand?

**Challa Srishant:**

So, Manish that is one of the USP that we have with respect to the technology, as you are already aware, we don't give our factory building to any one manufacturer on an OEM basis. All the other companies might be doing that, but for us, we build things ourselves. There's certain equipments that we build ourselves. There's certain procurements. We buy equipment from almost eight or nine different countries. We do the integration in house. So the way, we know how to build factories very efficiently. So that is one of our biggest strengths basically.

**Manish Mahawar:**

Okay. And any reason we have not done the capex in Chitpur, I think we have in Chitpur extra land as well. We wanted to keep that for FDC purpose in the future.

**Praveen Jaipurjar:**

For LTC.

**Manish Mahawar:**

No. In a Chittoor I think we have extra land as well. In the Chitpur plant?

**Challa Srishant**

Yeah. That's why they're setting up this unit. No.

**Manish Mahawar:**

It is the same land bank, is it?

**Challa Srishant:**

Yes, same land bank that we already have. We have SEZ, EOU two units and next to EOU we are setting up this Unit.



*CCL Products India Limited  
August 05, 2022*

- Manish Mahawar:** Okay.
- Challa Srishant:** Next to the EOU facility.
- Manish Mahwar:** Okay, I got confused. That summarizes. Thanks and all the best.
- Challa Srishant:** Thank you.
- Moderator:** Ladies and gentlemen, this was the last question for today. I now hand the conference over to the management for your closing comments, over to you, sir.
- Praveen Jaipurjar:** Yes. Thank you everyone for joining us. And we'll look forward to meet you all in the next call.
- Moderator:** Thank you, members of the management. Ladies and gentlemen on behalf of Nirmal Bang Equities, that concludes this conference call. Thank you for joining us and you may now disconnect your line.