



**“CCL Products (India) Limited
Q2 FY ‘23 Earnings Conference Call”
October 31, 2022**



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MODERATOR: **MR. ABHISHEK NAVALGUND – NIRMAL BANG
EQUITIES**



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Moderator: Ladies and gentlemen, good day, and welcome to the Q2 FY '23 Earnings Conference Call of CCL Products (India) Limited hosted by Nirmal Bang Equities Pvt. Ltd. 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 star then zero 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 Navalgund: Thank you, Yashashri. Hello, everyone. On behalf of Nirmal Bang Institutional Equities, I welcome all the participants to CCL Products (India) Limited Q2 FY '23 Earnings Conference Call. The management is represented by Mr. Challa Srishant, Managing Director, Mr. Praveen Jaipurkar, CEO, Mr. B. Mohan Krishna, Executive Director, Mr. V. Lakshmi Narayana, CFO; Ms. Sridevi Dasari, Company Secretary; and Mr. P.S. Rao, Consultant Company Secretary.

Without further ado, I would like to hand over the call to Mr. Praveen for his opening comments and then we'll open the floor for Q&A. Thank you, and over to you, sir.

Praveen Jaipurkar: Thank you, Abhishek. Good afternoon to everyone, and wishing all of you happy festivities. I will just go to in brief the result of the Group, and then we will open the floor for questions and answers.

So the Group has achieved a turnover of INR 506.83 crores for the second quarter of '22-'23, as compared to INR 336.83 crores for the corresponding quarter of the previous year, and the net profit stands at INR 57.79 crores as against INR 49.34 crores for the corresponding quarter of the previous year. The EBITDA is at INR 97.80 crores and the profit before tax is INR 73.11 crores.

The Group has achieved a turnover of INR 1,016.34 crores for the half year of '22-'23 as compared to INR 663.06 crores for the corresponding period of the previous year. And the net profit stands at INR 110.53 crores as against INR 93.19 crores for the corresponding period of the previous year. The EBITDA is INR 186.56 crores, and the profit before tax is INR 139.75 crores.

I now open the floor for questions. Please go ahead.

Moderator: Thank you, sir. Ladies and gentlemen, we will now begin with the question-and-answer-session. Anyone who wishes to ask a question may press star and one on their touchtone telephone. If you wish to remove yourself from the question queue, you may press star and two. Participants are requested to use handsets while asking a question. Ladies and gentlemen, we will wait for a moment while the question queue assembles. We have our first question from the line of Manoj Gori from Equirus Securities. Please go ahead.

Manoj Gori: My question here is like if you look at from a company's point of view, we are almost doubling our capacity over FY '23 and FY '24. So probably, I would just like you to repeat like probably



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what's the outlook on the business that gives you confidence that doubling the capacity where we can actually scale up the utilization rates and how it would be panning out in the coming years. So if you can throw some light over there, this would be helpful?

Praveen Jaipuria:

Yes. When we said doubling our capacity, it's not happening at one go. So next year, we are adding another 16,000 tonnes to our already existing capacity of 37,500. And the subsequent year, which is in '24, we'll add another 16,000 tonnes. So it will be done in a -- although it's quite quick, but in a phased manner, and as you can see from the last three quarters, four quarters, we have been growing at a healthy volume growth of around 20% to 25%, and that's the growth momentum we look to maintain. And to maintain this growth momentum, we will require these capacities to be up and running in this phased manner. And that's the reason we have been aggressively expanding our capacity.

In the last call, as we had already mentioned to you that for the last three quarters or four quarters, we also have been outsourcing some of our quantities to make sure that we are able to fulfill our commitments. And that gives us a lot of confidence that we'll be able to start fulfilling our capacities from day one itself to a certain extent.

Now where this growth is coming from? As we have mentioned a couple of times that this growth is actually quite a well-rounded growth and it is coming from all quarters. So if you see our growth coming from US markets, European markets, the domestic market, the Southeast Asian markets, it's been quite a healthy growth profile that we have got and it's coming from all quarters, largely because of the fact that as we are growing on our capacity, the economies of scale and other factors are working for us and it is helping us gain market share in these segments and add to it the domestic volumes are also growing at a healthy pace. So to make sure that we are able to fulfill all of these demands, we are looking to expand capacity.

Manoj Gori:

And sir, the visibility that you are able to get for the future volumes probably for FY '24 and FY '25? So this is coming from like, what would be the clientele like, whether they are departmental store or whether they are, for example, your coffee is being used for ice creams and chocolates. Can you throw some light on the clientele side?

Praveen Jaipuria:

So it's more on the first two aspects, Manoj, or let's say, first three aspects. We are getting good growth with our bulk customers. We are also adding a lot of departmental stores. And the domestic market is growing. So right now, we can't for sure say that it is growing as inputs to things like you mentioned, ice cream and all that. In domestic market, we have a very clear visibility. We are supplying to the top guys who use coffee, so the top cold coffee brand or the top confectionery brand, these are all buyers of our coffee. So we are seeing a growth there, but as I was mentioning to you, it's coming from all sectors. So there is no one sector that I can pinpoint that it is only coming from there. So, and this is a good sign for the company because it's a well-rounded growth.

Manoj Gori:

And sir, any trials that we can get for the near-term capacity coming into your operation?



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- Praveen Jaipurkar:** So I think from next quarter, we'll start doing some trials. And we also expect to get some commercial volumes also. So next quarter is something that we are looking at.
- Manoj Gori:** So as for the guide -- like the timeline that you had mentioned in the past, so that would be in the fourth quarter, Vietnam and India new capacity would be somewhere around end of FY '24. That's correct?
- Praveen Jaipurkar:** Not end of. Let's say, first quarter starting, financial year starting '24.
- Manoj Gori:** So '24, so that is the June, probably June '23 or '24.
- Praveen Jaipurkar:** That time, but we'll -- there is a distance to go till that time. We will kind of keep updating you about the exact timings as we go along, yes.
- Manoj Gori:** Sir, a couple of more questions if I can squeeze in. So first, it would be on the margin side. So obviously, this quarter, margins definitely looked far better even on sequential basis. So how should we look at the margins because now you would be having a better visibility on the future performance as well. So probably, should we expect the current level of margin as normalized margin? So probably there was some product mix, favorable product mix in the quarter. So can you throw some light over there?
- Praveen Jaipurkar:** So Manoj, there are three, four factors, if you see. And if I were to just dissect the margin for you, yes, it looks better on a sequential basis. But as we have always maintained that our margin growth will be exactly in line with our volume growth, and that's what we have been achieving. Now optically, what happens is that because we are getting a price advantage on topline, so the topline growth is we are getting approximately 25% to 30% additional topline because of the coffee bean prices. So as a percentage to topline, the margin looks a little squeezed. But if you look at the growth of margins, it will be exactly in line with the volume growth, and as we have been telling all of you that in the future, at least in the midterm, we are looking at this kind of volume growth to be maintained, and we will maintain the same margin profile in the coming quarters as well.
- Now as far as the product mix is concerned, I don't see a lot of changes happening here. The coffee prices are still high. There is a lot of demand that we are looking more in spray-dried than in freeze-dried. So fundamentally, the margin profile looks to be or will be similar in the coming quarters. That is the guidance we can give from our side.
- Moderator:** Thank you. Reminder to participants to press star and one to ask a question. We have a next question from the line of Jignesh Kamani from GMO. Please go ahead.
- Jignesh Kamani:** What is the volume growth for this quarter? And my question is incrementally volume growth will be more coming from the spray-dried. So, EBITDA growth will lag the volume growth because of the lower profitability at the spray-dried or it may not be the case in the future?



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Praveen Jaipuriar:

Jignesh, as I told you, there are many factors that have played. And therefore, pinpointing one factor to say that what will happen becomes very difficult, but as you had asked what is the volume growth, we are maintaining a volume growth of 20% to 25% and we got that this quarter as well. And we're looking to kind of continue this momentum. There'll be a little bit of plus or minus in subsequent quarters, but at an overall level, at an annual level, we will maintain a volume growth of 20% to 25%.

Now as far as your question is about more growth in spray-dried, that we'll have to see because now the bases are correcting. So last year still we saw a lot of growth in spray-dried first two quarters also. So we'll have to -- because that base will come into effect, so we may not get that and so we still get growth, but not more than proportionate growth in spray-dried. That may not be the case. So we don't look to kind of -- we will not expect that the margins will further decline. We're looking to maintain that. And as I was telling to -- in my answer to the earlier question of Manoj, that we are getting an all-around growth. We're getting growth now in all the types of coffees, small pack, bulk, departmental growth. So that's a good sign because we will be able to maintain this kind of margins. So that's the guidance we give you.

Jignesh Kamani:

And on the profitability-wise, more spray-dried EBITDA per kg and freeze-dried EBITDA per kg remains here or we'll see an improvement in the spray-dried spread at the freeze-dried slightly...

Praveen Jaipuriar:

No, it will remain the same. As of now, it remains the same. Not much has changed.

Jignesh Kamani:

And any color on the workable cycle because we have seen earlier we were kind of supporting our US partner, and you have seen some inventory pileup on account of increase on the receivables side. How is the currency value on the receivables side?

Praveen Jaipuriar:

It will also remain the same, I think. That won't change much because we -- again, we're supporting them. We are getting good growth. We are looking to capture more share in the US market. So all that won't change. I don't see much changing in the near and midterm.

Moderator:

Thank you. We have our next question from the line of Kashyap Javeri from Emkay Investment Managers. Please go ahead.

Kashyap Javeri:

Yes, sir. My question is in continuation of the previous question. It's about the working capital. Now in trailing 12 months, we have already invested almost about INR 300 crores additional in working capital because obviously the raw material prices have gone up, and consequently, the inventory as well as the debtors numbers have also gone up. But when we are on that CapEx mode, any savings on that working capital side? Even marginal could help a lot in terms of debt management though, I mean, it's still sort of quite manageable, but isn't reducing the working capital cycle a possibility at all for us in next about, let's say, six months to 12 months?



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And second, in terms of number of days because the inventory itself is like about 100 days kind of a number. You are at today about 80 days in terms of receivables. Anywhere it's possible to sort of reduce that number?

Lakshmi Narayana:

Kashyap, this is Lakshmi Narayana, CFO. So as we rightly said, because of an increase in the volume, value of raw materials and value of the business that has increased. So due to that, the working capital requirements have gone up. But as I rightly said that going forward, definitely, we are going to focus on working capital management further to reduce our credit cycle so that good amount of money is going to flow back into the system. So whereby that supports in two ways, one is -- further to meet the working capital, second is to meet our Capex requirements.

Kashyap Javeri:

If you can quantify number because in past we have seen that at least inventory at some point of time we used to work on about 50 days, 60 days kind of inventory. If I go back in 2018, '19 or let's say, 2017, '18 and gradually this has now moved up almost about, if I look at the previous quarter, almost about 110 days in the March quarter or March year. This was almost about 130 days, that's something, which is there in our hand, right, if not the support to the customers that we provide in terms of receivables, but at least inventory is something, which is in our hands. So is there a chance that, that 110 days, 120 days of inventory days, any possibility of curtailing that number?

Praveen Jaipuria:

Yes. So we are expecting by the end this year we are likely to end up somewhere around 90 days. Definitely, from 120 days we are working out to be at 90 days level. And coming out to receivables out there, as I stated that we are focusing more on to minimize the further reduction of the cycle of the receivables as well. So overall, if you look at it, inventory and receivables, there is a likely impact of almost 30 days to 45 days.

Kashyap Javeri:

Sorry, I didn't catch the last sentence.

Praveen Jaipuria:

So if you look at overall, the receivables part and the inventory part, inventories reducing the holding level from 120 days to somewhere around 90 days. And receivables spot somewhere around to average level of 60 days. Definitely, we are going to have a major working capital positive impact.

Kashyap Javeri:

By end of this year?

Praveen Jaipuria:

Yes. During the current financial year?

Challa Srishant:

I just wanted to add a couple of things over. The reason for the inventory levels to be the way they are is also because of COVID and there's shipping issues that we were facing for the last two years, we took a conscious call to ensure that we have enough stocks for a longer period of time because we can't afford to default on any contracts. But now slowly, as the shipping issues have started getting resolved, we've started reducing our inventory time as well. The transition will take some time because we had already confirmed several orders and all with our suppliers



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well in advance, keeping in mind back-to-back contracts. So it will take some time for it to start coming down, but it will definitely come back down to a more normalized level going forward.

And for the sales part, because our volumes have increased with certain customers who like that of the US or some of the major clients that we are dealing with, they work only on a pure credit basis. They do not work on a CAD basis. And these parties highly reliable and more of a long-term business for us. So when the volumes were increasing with these people, inventory days also was increasing. But going forward, there's going to be more volume growth coming in from other customers as well where we are working on a CAD basis. So that will also reduce this going forward.

Moderator: Thank you. We have our next question from the line of Lokesh Maru from Nippon India Mutual Fund. Please go ahead.

Lokesh Maru: I have just one question. So since last two years, our company has actually gained a lot from the, let say, marketing sales point of view or the macro point view, and so I mean, our guidance has basically seen upward signs of adjustment. So just one question on this part, what, in your opinion, are the risks to the guidance that we have right now?

Challa Srishant: To be frank, risk in every business will always be that. But fortunately, for us, coffee is one product that has seen recession, pandemics, war situation and we have survived with volume increases during all these periods. So going forward also, one thing what we can be assured of is coffee consumption as such is not going to come down respective of the coffee prices. Whether there's a shortfall in output, whether the prices double -- we've seen prices literally doubling in the last one year and our volumes have also increased in the same proportion. There's no lag over there at all.

So no matter what, coffee consumption as such will keep continuing is what we feel. And most importantly, we are dealing with instant coffee. Instant coffee is actually the lowest end of the coffee pyramid. It is the cheapest variant that a person can buy. Because of the production process it's efficient and everything. So if you go to a coffee shop that's why the amount that they charge is going to be 10 times more than what it would cost to just buy instant coffee and consume it at home. So the segment that we are in we are already at the bottom of the pyramid, so the only forward is to go up.

And to be frank, going forward with the new product that we are coming up with, with the innovations that we are coming up with the value additions that we are planning. We see that there is a higher potential of gaining more market share going forward rather than the other way around. That's one of the reasons why we are being a bit more aggressive with respect to our expansion plans also.

As a company we've always been very conservative. Until and unless we are sure that we can sell. We don't want to take a risk and going for expansion, which is why even now, we are in a



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position where we are actually outsourcing and preparing the groundwork for our new capacities to come online.

Lokesh Maru:

One thing, so one thing you mentioned was product as well, right, so which has also given me that confidence. So just curious if you can elaborate on the product side or the innovation side of things that we would have undertaken lately.

Challa Srishant:

So product innovation is something that we keep doing constantly. We used to have single, plain vanilla type products with either arabica or robusta, making a finished product and supplying the customers, but over the years, we've developed the capabilities to such an extent that we can offer the entire range of potential product like new specialty products like, say, espresso coffees or in instant format, cold brews, functional coffees, flavored coffees, you name it. So anything pertaining to soluble coffee, we can do it at our end. So this is something that doesn't happen overnight.

There's no manufacturer who could just overnight get this kind of a capability. We've actually bought equipment from almost 30 different countries. We've integrated this over the last 10 to 15 years and we have commercialized everything. And most of our growth is also with -- in innovation is customer led.

Customers come up with a project and they say, we want you to be our partner in developing something like this, can you do this? That's when we start investing in R&D and we create these products, and then we commercialize it and once we commercialize the product in one territory. We can basically offer the same product across the world, because that's what we've been doing over the years.

Moderator:

Thank you. We have our next question from the line of Richard Dsouza from SBI Mutual Fund. Please go ahead.

Richard Dsouza:

Congratulations on a decent set of numbers. I just had some questions, I'm sorry to hop back on the inventories. But over past couple of months we have seen the green bean prices having fallen quite a bit. I think on a Y-o-Y basis they are lower than what they were last year. So, and we have substantial inventories in our system. So do we envisage any risk out of that?

Challa Srishant:

Richard, we are already aware of our model. So I won't say anything. So whatever inventory we have is 100% against a back-to-back contract that we already have in place. So not only the customers that we deal with are large guys, too. They won't back out on a contract just because the prices have fluctuated a little bit here or there. So we don't see any risk over there. We've been working with almost all these customers between 10 to 20 years and nobody can afford to take the risk of not executing a contract.

Richard Dsouza:

Sir, just worried because times are a little difficult and it's possible that some of the smaller players or the smaller customers may renege on some of the contracts if they can get cheaper coffee elsewhere or...



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Challa Srishant:

No. That till date we have never faced a problem like that. So customers like that if it's a new customer or a smaller customer, we usually take advanced payment from them and if we take less 20%, 30% advance and then when we supply the product, unless we receive payment, sometimes we don't even ship the product. It depends on the payment terms if it's a new party. So we ensure that we cover our risks 100%.

And if there is any potential we feel that the customer is not going to get the coffee, though it hasn't happened, because we have that advance with us. As per the contract terms, we don't have to return that advance to the customer. So that's also one of the reasons why nobody wants to default.

Richard Dsouza:

Okay. That's a good thing to hear. The second thing is while your volume growth has been quite good and we have witnessed companies like JDE and Nestlé also getting decent volume growth. So just wanted to understand the inventory levels at your end customers, is it something that you monitor? I mean once you sell to your distributor in US and he further sells to the retail chains or the end customers the bulk consumers, do you monitor that? And is that giving you some signs of weakness or...

Challa Srishant:

So we monitor only for certain specific customers as in -- like if the person is our distributor then definitely we will end up monitoring. If it is for any other customer like a JDE, we cannot monitor. They will not give us that data for us to monitor as well and they buy from multiple other parties also. So yes, and usually, most of these companies they give us their orders, confirmed orders, with prices more than one year in advance. So our visibility is typically around 12 to 15 months with the big guys at least.

Richard Dsouza:

Okay. And generally, if you look at the consumption trends, how is out-of-home consumption versus the in-home consumption? I mean is the in-home consumption still maintaining that kind of data, which is there over the growth in out-of-home consumption?

Challa Srishant:

So in fact, it's a difficult question to answer because the out-of-home consumption also, there is a loss of instant out-of-home consumption that takes place. The offices, institutions, people don't really go for only bean-to-cup machines or beans. Offices obviously find it more economical to use instant coffee. So whether the individual is consuming that coffee in their house or in the office the overall consumption of instant coffee has been largely stable and growing.

Richard Dsouza:

Okay. That's good to hear. And we have been hearing private label has been witnessing a comeback or quite a bit of growth in both US and Europe, so have you benefited from that?

Challa Srishant:

So we do keep getting inquiries from private label and all. But most of these new players are now who are coming up with their brands their volumes are extremely small. Actual growth is coming from the, again, supermarket and these are the companies that have their own private label, have been there in the market for a long time. And people who are able to source efficiently obviously, volumes for them have been increasing, especially during this -- people who projected



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and predicted price increases that come from orders in a timely manner, they're able to sell more efficiently than those who have not projected well in advance.

Richard Dsouza: Okay. Sir, just a couple of questions more one of this is on the logistic costs. We have seen the container freight indexes having quite a bit of decline in past few quarters, past couple of quarters at least and even packaging costs would have come down, because the plastic prices have come down and other things. So have you benefited from that? Or do you think another couple of quarters down the line we'll see impact on our bottom line, because of this cost going down?

Challa Srishant: So to be frank, ours has always been a cost-plus model. So even when the prices increased we've passed it on. So when the prices reduce also we pass it on. So that is not really a profit center for us. We'd rather be very transparent with our customers to build their confidence.

Richard Dsouza: Okay. But some of the logistic costs we used to bear for certain customers, isn't it?

Challa Srishant: If it's a CIF contract, then we end up bearing that cost. So there are certain contracts. It gets averaged out eventually. If you've done a CIF contract depending on when we have done it, at some point in time maybe 50% of the contract will be more expensive and 50% will be cheaper. So it will average out eventually.

Richard Dsouza: Okay. One last one, that's on the domestic market. So what kind of growth have you witnessed in domestic market?

Challa Srishant: I think Praveen can answer this.

Praveen Jaipuriar: So we have continued to grow at around between 30% to 40%. This quarter also we got that kind of growth. We're looking to maintain this momentum at least for some periods to come. Yes, there'll be little pluses and minuses, but on an overall level at an average level that's the kind of momentum, we are looking to maintain.

This quarter as we had told last time, that we are now expanding our network at least selectively in the other zones like Northeast and West, which are quite not as big as south. But it's a growing market and it's a market we needed to cover and that's what we have begun.

We already set up the network and we're looking to capture that kind of -- those markets are a little more seasonal also in nature unlike South, which is year-round consumption. So we are looking to kind of capture this winter at least in the select towns, the larger towns, the more urban towns and see how things go there.

Richard Dsouza: And any update from the plant protein, Praveen?

Praveen Jaipuriar: Yes. So basically, this quarter, we are expanding to two more markets, Chennai and Mumbai. Chennai already we had started billing there. Initially the response is it's a mixed kind of a response. There is a certain section of people who are very excited about this. There are certain



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section of people who are still concerned about the pricing and things like that. So yes, it'll be an evolution.

We are looking to partner with a lot of these associations that have got formed up like the Plant Based Food Association of India, and things like that and looking to promote this whole endeavor. So yes, things are looking exciting at this moment. Let us see how this shapes up when we go forward.

Richard D'souza: Okay. And any other agencies we are developing or any other new products for the domestic market or some new segments are we planning together?

Praveen Jaipuria: No, right now, not because our plate is full with many things. Coffee itself we have to do a lot of activity. We have to expand make sure that we create enough awareness in the non-South zone as well. So that itself will be a mammoth task and Greenbird is something that we are looking to keep investing on and see how things goes. So right now, nothing on the plate right now. If at all something comes up, we'll surely inform you guys.

Moderator: Thank you. We have our next question from the line of Akhil Parekh from Centrum Broking. Please go ahead.

Akhil Parekh: And congratulations to the team for continuing the growth momentum. My question is again on the domestic part of the business. Do you maintain the guidance of INR 200 crore-plus top line this year in FY '23?

Praveen Jaipuria: Yes. So we will get the top line of INR 200 crores-plus out of which around 65%, 70% will be branded.

Akhil Parekh: I mean that 70% will be branded and the 30% will be...

Praveen Jaipuria: Yes. Absolutely as I was saying the same thing. Yes, absolutely, you're right. 70% will be branded business.

Akhil Parekh: Okay. And can you please quantify in Q2 how much is this in domestic?

Praveen Jaipuria: So let's say, first half crossed the milestone of INR 100 crores, almost INR 110 crores, and the growth has been 37%, Q1 was a little higher growth, Q2 is a little lower growth because of the basis. Because last year Q1 was COVID. So the basis were muted. But if you see as a growth trend, as a momentum trend, we are maintaining that kind of momentum every quarter.

Akhil Parekh: Sure. But I think absolute number, it looks better Q-on-Q basis. But I remember, Q1 was INR 50-odd crores, I believe?

Praveen Jaipuria: No. Q1 was, yes, INR 50-odd crores. Yes. So it is almost INR 60 crores now. And now it will become even better because we are approaching the season and we are trying to see if we put the kind of -- get into other zones as well. So let us see because those will be challenging in terms of



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creating awareness and distribution because the whole profile of the category is very different in other zones than what it is in South zone. But yes, that's something, which was there on our radar and we wanted to do that. And we'll be -- we'll update you on the next quarter and let's say up to the end of the year how did the venture go about.

Akhil Parekh: And if you could quantify in terms of the retail cash point how we have grown the last 12 months maybe.

Praveen Jaipuriar: Yes. So retail touch points, now we are directly servicing to almost 1, 20,000 outlets, out of which now 80% with almost a lakh outlet is still in South. We have added around 20,000, 25,000 outlets in the rest of the zones, Northeast and West and we are looking to end up at a close to 1,35,000 to 1,40,000 outlets, which we'll be directly servicing.

Akhil Parekh: Got it. And second question is on the US and small packs. How much is the contribution coming from US in terms of volume and sales and similar on the small package.

Praveen Jaipuriar: So US and I'll just -- let's talk about the small pack. The small pack is around 20% of our portfolio, yes. And we did see a little decline in the COVID times because a lot of our small pack guys are not doing well because of COVID and a lot of our small pack goes to Africa. So that market got a lot impacted because of pricing as well. So both COVID and pricing took a little bit of a toll. We are looking to build that back. And as we go along, we will keep building that portfolio as well. US market is also approximately five out of, I think five -- almost 15% to 20% of our portfolio and is growing at a similar pace as some of the other portfolios, because that's the first thing I told.

Most of our regions and most of our segments have been growing like equally. So there is not one thing which is growing at a higher speed than the other. So they're also growing at a similar pace as our group growth that is happening.

Akhil Parekh: Sure. And this percentage you told is on the volumes, right, and not on the sales?

Praveen Jaipuriar: Yes. These are all volume percentages that I am talking about.

Moderator: Thank you. We have our next question from the line of Vidit Shah from IIFL Securities. Please go ahead.

Vidit Shah: My first question was, so once we add this 32,000 tonnes of capacity across India and Vietnam and take this up to roughly 70,000 tonnes, how much of the overall instant coffee market would we be then manufacturing? Just want to understand how much market will we have and then how could growth be post this expansion?

Praveen Jaipuriar: So I think if you look at the current scenario, Vidit actually, we are at around 6% to 8% of the total instant coffee market share. So if you add another 20,000, probably 6% to 8% will go to 10% to 12%. So that's where it will be. And once we have added this capacity, then we look where do we want to -- if at all we want to add, which geography, which regions, how the growths



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are, because that -- it takes us around two to three years to or, let's say -- yes, two to three years minimum to go to around 80%, 85% utilization.

So at that point of time, you will see how do, we want to kind of make future growth from. So the next three to four years because one or two years will take us to build the capacity; another two, three years to fill it. So next four to five years we have got our tasks really hedged out and we go about making sure that we fill up as fast as we can.

Vidit Shah: Got it. And it will take two to three years across both Vietnam and India, right, to get to 85%...

Praveen Jaipuriar: After India specifically. Yes, sorry?

Vidit Shah: I was asking, will India and Vietnam would take the same time? Or will Vietnam get to 80%, 85% faster given better visibility...

Praveen Jaipuriar: Vietnam will start earlier. So next quarter, the Vietnam thing will start, and therefore, we'll have better visibility and a better system for that. India capacity is still coming next year, approximately April, June quarter times or maybe July, September, so we'll see how it goes. So there, we start getting visibility once we come closer to that date. So of course, Vietnam will be a little much faster than the Indian capacity.

Vidit Shah: So Vietnam has like a two-quarter head-start. I mean that understanding is correct?

Praveen Jaipuriar: Four to six quarters of head-start because Vietnam will start this quarter itself, it's Jan, Feb, March quarter.

Vidit Shah: So Vietnam starts Jan '23. And India starts in, what, July '23 or...

Praveen Jaipuriar: Yes. June to July '24. So it's almost six, seven quarters. Not '23- '24. That's why I said that the Vietnam will come up much faster.

Vidit Shah: Also just in terms of some data points, my line was a little patchy when you spoke about volume growth. So what would volume growth be for the current quarter?

Praveen Jaipuriar: 20% to 25%.

Vidit Shah: And would you be able to share the utilizations of freeze- and spray-dried in India?

Praveen Jaipuriar: Fully utilized. We can't go even a ton higher than what we are doing right now.

Vidit Shah: And would it be possible to get -- how much you're all outsourcing in terms of volumes?

Praveen Jaipuriar: So approximately 5% of our quantity, which is close to maybe -- till now first half, we would have outsourced approximately 1,500 to 2,000 tonnes.



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- Moderator:** Thank you. We have our next question from the line of Himanshu Nayyar from Systematix. Please go ahead.
- Himanshu Nayyar:** Firstly on the domestic business, I know we've been doing really well. Our base was also quite low. But as we become a reasonably large player, the coffee industry itself is not growing at such a pace. So in the medium term, do you think reaching, say, INR 500 crores sort of turnover, we are confident of doing that in the next three years. If we continue at this rate, we should reach almost INR 500 crores turnover in the next three years, right?
- Praveen Jaipuriar:** Yes, Himanshu. So we are looking to do that. As you rightly said, the coffee category may not be growing at such a fast pace. But we are very small, so as I've told earlier also in the instant coffee segment and in the roast and ground, which is the filter coffee segment, we look to aggressively gain shares.
- So that will be our main objective there. And we are looking to build certain categories like the premixes and see how things go. But if we are able to maintain the current growth in the midterm, there is quite a possibility that we will reach INR 500 crores a year, a year here or a year there. But that's something we are also targeting.
- Himanshu Nayyar:** And will this business becomes EBITDA or PAT positive?
- Praveen Jaipuriar:** Yes, at an MIS level, this business is actually positive only, although marginally but positive only. But as we keep growing, the whole question will come, do we want to keep investing more into this business or you want to start milking the business? I don't think so next two, three years we'll be wanting to milk the business.
- We'll keep on investing. We'll keep on increasing the distribution setup. And therefore, if this growth momentum has to be maintained, you need to keep investing on both fronts, not only creating distribution, but also to create awareness and drive preference for your brands.
- So all these will require that whatever we earn we'll plow back into the business. So that's been our strategy. We'll keep taking a stock of the situation as we go along, how things are moving and how things are shaping up. And -- but right now, I can say that probably once you cross INR 350 crores, INR 400 crores, then you start making money as well.
- Himanshu Nayyar:** And second, just a clarification when there was some confusion on the timeline that you mentioned. So Vietnam, you are saying that it will get commissioned next quarter, which is the third quarter of FY '23. And India, you were saying first quarter FY '24, FY '25?
- Praveen Jaipuriar:** '24- '25 first quarter.
- Himanshu Nayyar:** Okay. So that means the June quarter of 2024?



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- Praveen Jaipuriar:** Yes. The fourth quarter of this financial year.
- Himanshu Nayyar:** Thanks for clarifying that. So basically, after this two years of significant Capex that we do in addition to the working capital requirements, what would be the peak debt level? And, do you think we will start bringing that down now only after FY '25?
- Praveen Jaipuriar:** Yes. If you look at the increased volume of the costs for working capital requirement as well, and I'd like to say that we are -- the expansion that we must do in India, also additional long-term debt to be in place on the financial year '25, '26 somewhere wherein the repayments of the business also starts, you can keep (inaudible).
- Himanshu Nayyar:** So any number that we can look at in terms of peak debt levels?
- Praveen Jaipuriar:** Peak debt level by March '24, it is somewhere around INR 350 crores after long-term debt and around INR 450 crores is going to be the working capital, INR 450 crores to INR 500 crores.
- Himanshu Nayyar:** And final question is just on the...
- Moderator:** I request you to come back in the queue, sir. Ladies and gentlemen, in order to ensure that management is able to answer all queries, kindly restrict your questions two at a time. We have our next question from the line of Dhiral from PhillipCapital. Please go ahead.
- Dhiral Shah:** So has competitive intensity in our instant coffee business has reduced substantially because as I know that instant coffee market surplus 50% in terms of capacity.
- Praveen Jaipuriar:** Dhiral, we are not able to hear you properly. Can you please...
- Dhiral Shah:** Am I audible?
- Praveen Jaipuriar:** Yes, you are. But your voice is not clear
- Dhiral Shah:** So my question is, sir, competitive intensity in the instant coffee market worldwide has reduced because I believe this market has 50% surplus in terms of capacity.
- Praveen Jaipuriar:** Right. So actually, when you say 50% surplus, competitive intensity has increased, in fact. So there is more competitive intensity with people...
- Dhiral Shah:** Yes, sir. So we are guiding at a 20%, 25% kind of a volume growth. If I look at pre pandemic, our growth rate historically was around maybe high single digit to maybe 10%, 11% max. But now we are guiding almost doubling of that volume growth.
- Praveen Jaipuriar:** So it's our efforts, which have brought this increase, our ability to cater to different markets, to different products as Srishant was mentioning during his answer that we have invested in our



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machinery and in our equipment in such a manner that our ability to cater to the various demands in the market is competitively much better than the others.

So it's our efforts, which is helping us grow much higher than the category rather than there is a reduction in competitiveness. So when we say that there is a reduction in competitive intensity means other people have not been competitive in terms of their pricing or their marketing efforts. But that's not the case.

It's three, four factors that is working for us because of our marketing efforts, because of our product innovation, because of the fact that even prices-wise, we are very competitive because of the scale that we have built over a period of time. So all these factors are helping us gain market share in the global market.

Challa Srishant:

Just to add to that also, we have customers from across the world whom we have developed over the years also, people whom we have created unique products, which they can buy only from us. And for them, volumes will not happen overnight. It is like adding any new customer also, it's almost like a four-, five-year-old process. So whatever we have been doing over the last 5 to 10 years, we are seeing the fruits of that leading now. And then whatever we are doing now is, again, not for now, but we'll start seeing the results maybe 10 years down the line.

Dhiral Shah:

And sir, lastly, sir, how Europe and US contribute in terms of the overall volumes? And what kind of growth we have seen in some parts of India?

Challa Srishant:

Europe itself, so we have Russia, as said, which contributes around 20%. And rest of Europe will be another maybe 10% or so. And going forward, we're actually seeing increase in demand over there because of the recent crisis that has come about, the fuel crisis and all that. So they're not able to produce locally. And one of the things that we're looking at is outsourcing or buying the product from other companies. So that's where we are coming in.

Dhiral Shah:

And sir, how much US is contributing?

Moderator:

I request you to come back in the queue. Thank you. We have our next question from the line of Rohan Gupta from Nuvama. Please go ahead.

Rohan Gupta:

A couple of questions. I will try to restrict it at two only. Sir, first is on the previous question extension only the benefit which you were just trying to mention in terms of the Europe, which is witnessing high energy crisis, high-cost energy. Being the coffee being -- processing being a very power-intensive product process, so how much do you see the demand is shifting to India? And how much you have seen the benefit so far now?

And how do you see, going forward, Europe will be dependent more on India and how much market share we can gain further. Right now, you've mentioned it's roughly ex Russia roughly 10% coming from the rest of Europe. How do you see this market going forward?



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Challa Srishant:

To be frank, it is actually split not only between India. It's between India, Vietnam, Brazil, Mexico. It's all these countries, which are taking market share in different proportions. So whatever was being manufactured within Europe, whenever it's becoming so expensive or that there is no fuel for them to run the factory, they're automatically outsourcing as much as possible. So it's not just one particular territory that they are focusing on.

Naturally, India and even Vietnam is actually a first preference for most customers because of multiple reasons, as in supply issues and all that and availability of raw material in -- you don't have these currency fluctuations like what you have in Brazil. So Vietnam and India both have been very stable with respect to such things. So naturally, customers would factor in all these things when they're placing an order. So we are getting more volumes because of that, but I wouldn't say we are the only ones getting that volume. There are other countries that are benefiting as well.

Rohan Gupta:

And sir, how in terms of the currency depreciation impact vis-a-vis mainly Europe is impacting our margins? And how are we having a complete hedge that is restricting the benefit of the currency depreciation there, how currency is impacting us? And also its impact on the working capital, though you mentioned that you don't see any major default from Europe, but do you see that the receivables are under risk in the European market?

Challa Srishant:

So thanks to the companies that we are working with, there's not much of a risk for us. And we do take forward cover also because our currencies is something that can fluctuate either way and that is frankly not our core business. so we would rather have clarity on what is the profit that we are making on a per kg basis rather than speculate on currency. To a very large extent, we end up doing forward covers accordingly.

Moderator:

Thank you. We have our next question from the line of Devanshu Sampat from Yes Securities. Please go ahead.

Devanshu Sampat:

Just two questions. A few quarters ago, we had spoken about exporting Continental brand abroad. So any target, any plans you can give us an update on that or what is the expectation over the next two, three years?

Praveen Jaipuria:

Yes. So we had mentioned this. So we are actually exporting our own brand requires a lot of background work in terms of doing your brand registrations, making sure all your statutory are in line. So we're working on that.

And hopefully, in a couple of quarters, we should see the brand getting launched in a couple of countries and that's where we start. And depending on how things go, we will start expanding. We already had started selling in the Swiss market and the French market through an online channel, Amazon channel. So that we have placed the product.



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We are still yet to start a little bit of awareness building there, and post that, we'll see how the brand is doing. But if you were to go to Switzerland and search for our products, you'll find it on management.

- Devanshu Sampat:** So maybe next year will be a year that we can see more...
- Praveen Jaipuriar:** Yes, next year definitely, we'll start seeing some of these certifying and then we're launching in some of these geographies.
- Devanshu Sampat:** Sir, second question, can you give us a sense of out of our INR 1,100 crore gross block, how much of the investment have been made towards packing unit? What's the utilization level currently? And when do we see this going up given our order booking and delivery that we have planned for the next months or years?
- Praveen Jaipuriar:** So around INR 150 crores in investment that we made in the new packing facility and which is an operation around 30% to 40% now. And we are trying to gear up for better utilization going forward.
- Devanshu Sampat:** This 30%, 40% includes what we're doing for the domestic business as well, right?
- Praveen Jaipuriar:** No. So it's domestic business and everything is included, it's more than 50%, yes, because the domestic volumes are also increasing. So we will continue next year, considering that the domestic business will also grow and international business we are looking to gain back all the small packs.
- So hopefully, we'll grow closer to 70%, 80% utilization. And then we'll see how do we want to further expand because as we have already said, the further expansion will be only addition of machinery and not anything else because the infrastructure is already there. So those investments won't be much. They will be very little compared to the overall investment when it comes to expansion further from that 12,000 metric tonnes.
- Devanshu Sampat:** So this EBITDA of INR 108 crores, INR 110 crores that we're working on, on a per kg basis, so you see this number moving to INR 115 crore, 120, also the next one, two years? There as of this and other also?
- Praveen Jaipuriar:** No, we're not going to comment on that because as I was telling you, there are a lot of factors that are playing even the small pack that we are going to or looking to increase our business is largely on the on this trade drive side so that the margins won't be so expensive. So we will kind of maintain this for the next one or two years, and then we'll see how things are moving forward so that we are not looking to aggressively increase from here on.
- Moderator:** Thank you. We have our next question from the line of Kashyap Javeri from Emkay Investment Managers. Please go ahead.



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Kashyap Javeri:

A question again on Continental Coffee Private Limited, which is our domestic business. FY '22, we had a sharp jump in the top line. But if I look at our gross profit barely grew. And within that company, our employee cost also almost doubled which accounts for almost 50% of the employee cost increase at the group level.

So what kind of investments have you done in terms of employee there. And when I look at gross profit versus top line growth, there is a big disparity. So within that INR 170 crores, 175 crores of top line, what was the volume growth in FY '22? And again, this year, when you look at first half, how much has been the volume growth?

Praveen Jaipurkar:

First of all, the question about employee costs being reasonably higher, that is because if you see this whole setup is largely dependent on the distribution that we create, which is very employee-heavy unlike the B2B setup, which is not so employee heavy. So here to reach 100,000, 150,000 outlets, you have to employ these legs and feet on the ground who will distribute the product. So therefore, this explains the high employee cost for the subsidiary. Second question, you ask what is the volume growth. Here, a very different from B2B business here the whole pricing is based on the MRP model, which will be indexed to be a leader and our ability to charge or the price elasticity that we can get in the market.

So keeping that in mind, the volume and the value growth are not very different. So every year, we probably end up taking price hikes. So therefore, there'll be a little pipe to, let's say, 10% of difference. So the value book is coming to, let's say, 30% to 40%, the volume growth will be 20%, 30%.

Kashyap Javeri:

And last year, I understand that the prices probably didn't move as much as the raw material prices went up, but have you gotten any increase within the MRP this year to improve the gross margins there?

Praveen Jaipurkar:

So right now, the prices will continue to be very high. Especially in the Indian market, the prices haven't come down. So we are not getting any margin advantage because of the coffee prices coming down. But the good part about here is that because it's a consumer business, once we increase the MRP and if the prices do come down, what will happen is that we start getting a lot of margins because unlike a B2B setup, you need not decrease the price in MRP, yes.

So that we will be able to comment only in the next quarter when the new crop comes in, and we'll see how the price trends are moving for the Indian market.

Moderator:

Ladies and gentlemen, due to time constraints, that was the last question. I would now like to hand the conference over to Mr. Praveen Jaipurkar for closing comments. Over to you, sir.

Praveen Jaipurkar:

Yes. Thank you once again for arranging this call, Abhishek. And thank you all for joining the call. Once again, wishing you all very happy festivities and all the best for the new year. And we look forward to meet you again in January. Thank you so much.



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Moderator:

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