



“CCL Products India Limited  
Q4 FY2023 Results Conference Call”

May 17, 2023



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**Moderator:** Ladies and gentlemen good day and welcome to the CCL Products (India) Limited fourth quarter FY2023 Results Conference Call hosted by Nirmal Bang Equities Private Limited. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing '\*' then '0' on your touchtone phone. Please note that this conference is being recorded. I now hand over the conference to Mr. Abhishek Navalgund from Nirmal Bang Equities. Thank you and over to you Sir!

**Abhishek Navalgund:** Thank you. Hello everyone. On behalf of Nirmal Bang Institutional Equities I welcome all the participants to CCL Products India Limited's Q4 and FY2023 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, and Ms. Sridevi Dasari, Company Secretary, and Mr. PS 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 will open the floor for questions and answers. Thank you and over to you Sir!

**Praveen Jaipurkar:** Thank you Abhishek and good morning to everybody. Thank you, Nirmal Bang Equities, for arranging this call and thank you to all the participants for joining us for this call. I briefly read out the results and post which we will open the floor for questions and answers. As far as Q4 is concerned the group has achieved a turnover of Rs.520 Crores for the fourth quarter of 2022-2023 as compared to Rs.376.22 Crores for the corresponding quarter of the previous year and the net profit stands at Rs.85.29 Crores as against Rs.52.69 Crores for the corresponding quarter of the previous year. The EBITDA is Rs.115.47 Crores and profit before tax is Rs.94.7 Crores. When we come to the yearly performance on year-to-year basis the group has achieved a turnover of Rs.2071.21 Crores so we crossed a milestone of 2000 Crores this year as compared to Rs.1462 Crores for the corresponding previous year and the net profit stands at Rs.268.87 Crores as against Rs.204.35 Crores for the corresponding previous year. The EBITDA is Rs.403 Crores and the profit before tax is Rs.305 Crores so that was a brief snapshot of the results. I open the floor for question and answer.

**Moderator:** Thank you very much. Our first question is from the line of Kashyap Javeri from Emkay Investment Managers. Please go ahead.

**Kashyap Javeri:** Thank you so much Sir and congratulations for really great set of numbers. My first question is on our cash flow now after probably two or three years now we have seen



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inventories coming under control and operating cash flow level also generated great amount of cash for us do you expect this to continue as we go forward like you have been highlighting for quite some time the overall cash conversion the cycle continues to get tighter?

**Lakshmi Narayana:** To answer to your question the on cash flow statement if you look at it the best part of our operating cash flows were being used to generate our required working capital so the amount of volume of business we were able to achieve in the current financial year almost should be around 45% growth in terms of the revenue means proportionately increasing the working capital utilization also as well as deployment of the maintenance of the working capital changes. So going forward the remaining free cash flows that are going to be available will be spent on ongoing projects and building freeze dried capacities.

**Kashyap Javeri:** So, where we had this issues on inventory side because first the Russia Ukraine war and the coffee prices shooting up now that the global sourcing lines are sort of more free and the coffee prices have also come down ideally the inventory number rather should remain control?

**Lakshmi Narayana:** The Ukraine Russia war it has no impact on the green coffee prices. If you look at it globally the green coffee prices are moving upward as of now so the volumes remain intact due to the increase in the green coffee prices which could make us to invest more into the operating cash flows into the working capital and the inventories to built up and if you look at it the inventories we do not carry much of finished goods inventories, we carry the green coffee inventory to take care of any uncertainties into the availabilities of the products.

**Kashyap Javeri:** Last question is what is the number of customers that we added this year new customers?

**Praveen Jaipurjar:** It is an ongoing process every day, every month, every quarter we had the customers. There are some customers who would drop off, so very difficult to give this number because every quarter, every month these numbers would vary. In every segment we have many geographies we add customers, sometimes we add customers which are absolutely new, sometimes we add customers who were previously with us probably would have dropped off at some stage and again get re-added so that is an ongoing process Kashyap and we keep adding new customers all the time but we have already maintained for many, many calls that if you see there are 50%, 60% of our volumes comes from the existing customers and the rest of the volumes probably come from either adding new customers or adding new volumes to the existing customers so that is the answer from our side.



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**Kashyap Javeri:** You said 70% of the revenues from existing customers and balance should be new customers?

**Praveen Jaipuria:** 50 to 60% from the existing customers and the balance keeps coming from addition because it is always wherein some people drop off, new people come in so that is the nature of the business.

**Kashyap Javeri:** Can you give us breakup of the revenue in terms of CIS, Europe, and India?

**Praveen Jaipuria:** If I were to tell you broadly CIS countries contribute almost 20-25% of our volumes and Europe is anywhere between 12-15%, so as we break up between CIS and EU domestic market included Asia becomes the largest because the large part of it goes to the domestic market so that is the breakup, north America is 12-14%, so if you add up all of these you will see that up to 100% so that is the broad breakup of the geographies that we operate in.

**Kashyap Javeri:** Thank you so much. I have more questions, but I will come back in the queue.

**Moderator:** Thank you. Our next question is from the line of Amar Mourya from AlfAccurate Advisors. Please go ahead.

**Amar Mourya:** If you can give us a broad understanding about how had been our volume growth in this quarter and how was the volume growth for the year and what would be the expectation for the next year in terms of the volume growth given that couple of capacities will be also coming up?

**Praveen Jaipuria:** Volume growth for the quarter and the year end stood at a very consistent level. We had earlier indicated that we will end the year between 20-25% and we ended little above 20% volume growth and we got another 20% value. So if you see our annual turnover growth is around 40 to 41% and the guidance for the next year is also very close to this. We are looking to grow the volumes at around 20% or so a couple of percentages here or there but that is the guidance we are giving and this year probably we may not get such a higher grip on the prices because base prices are also pretty high and a lot will depend on how coffee prices move during the year so as we go along we will be able to give you a sharper guidance on the value growth but broad volume growth guidance is close to 20% for the next year as well.

**Amar Mourya:** What would be volume growth for this quarter?



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- Praveen Jaipuria:** This quarter also we are similar. As I told you, in all four quarters we had very similar volume growth between 20 to 25% so this quarter also the volume growth was close to 20%.
- Amar Mourya:** This Vietnam capacity of 16000 metric tonne let us say how do we expect the utilization for FY2024, the new capacity which is coming?
- Praveen Jaipuria:** We already started utilizing the new capacity and for the year if you see the guidance it is almost 50% of the new capacity will be utilized in the current year.
- Amar Mourya:** Perfect Sir and next year one more capacity for Vietnam will also come another 16000?
- Praveen Jaipuria:** By this yearend probably there is one more SD capacity in India which is 16000 tonnes and next financial year by Q2 we will have a freeze dry capacity in Vietnam which is close to 5500 metric tonnes.
- Amar Mourya:** That capex basically broadly remain on the track right?
- Company Speaker:** Yes.
- Amar Mourya:** Perfect Sir. Thank you.
- Moderator:** Thank you. Our next question is from the line of Vidit from IIFL Securities. Please go ahead.
- Vidit:** Hi thanks for taking my question. Could you just share the capacity utilization that we achieved in the Vietnam capacity in 4Q when it was commissioned because it looks like a lot of the growth this quarter has come up from Vietnam from the subsidiary business and just wanted to get a sense of what has driven this growth in EBITDA ex standalone EBITDA?
- Praveen Jaipuria:** So you are right the additional capacity that we got this quarter was because of the expansion that we did in Vietnam so we could utilize certain capacity from Vietnam itself and that is why we got robust growth on this quarter which meant that the EBITDA percentages, the profit from the NCL unit was very robust this quarter which added to our company's growth profile but this was all projected and we had factored all of this when we had projected annual 20% or so volume growth because we knew that the commissioning would happen by the last quarter so all this growth was factored in and that had led to driven a lot of growth for us in the last quarter.



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- Vidit:** What was the capacity utilization across both the countries in India and Vietnam?
- Praveen Jaipuria:** So if I were to remove the new capacity because it is only half of the quarter that we used the new capacity so exact capacity utilization would be a wrong picture but let me break it up, the previous capacity so that was almost 100% utilized, when I say 100% obviously it is not 100% rated but generally it would operate between 85 or 90% or so because of the various blends that we use and things like that so almost all of the previous capacity was utilized and this year from the new capacity which is 16000 tonnes we added in Vietnam we are looking to utilize another 50% capacity out of that 16000 so another 8000 or so should get added and that is what will drive the 20% or so volume growth that we have been talking about for the current year.
- Vidit:** Understood and in terms of just overall freeze-dried demand has been under pressure do we see this trend changing anytime soon or these volumes of freeze dried and margins continue to be under pressure?
- Praveen Jaipuria:** I do not think the demand was under pressure ever because we operate mostly the clients to whom we are giving instant coffee, large part of consumption of instant coffee with more consumption so we have not seen any contraction in demand even during COVID period we did not see any contraction of demand so while out of home consumption did undergo through a stress but in home consumption was always intact so we have not seen any contraction in demand. Yes when the coffee prices went up for a short period of time freeze dried because the prices went up so there was a little downtrading from freeze dried to straight dried at a consumer level which led to a little pressure, but what happens at the consumer level over a period of time when the price hike happens at that moment probably there is a little stress but over a period of time we all know as consumers we kind of accept these price increases over a period of time and that is what has probably happened and we have not seen any contraction in demand even in freeze dried as of now. In fact, our freeze dried capacity is 100% volume for the next one-and-half years and we are seeing pressure demand from that segment as well so we do not see any apparent demand contraction going forward unless and until something drastic happens but as of now we are not seeing any demand contraction.
- Vidit:** Just one data point that if you could share on the retail business what sort of revenue, we did in FY2023 and what are we projecting going forward.
- Praveen Jaipuria:** In FY2023 the whole domestic business crossed a turnover of around 80 Crores and the pure brand out of this was between 150 to 160 Crores and the rest was bulk and private label so that is there, and we are looking to continue the growth momentum. This year also



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we are looking to at least drive a growth of anything between 30 to 40% and that is what we are aiming for this year as well.

**Vidit:** Sorry I did not get that number of revenue did you say 280 Crores?

**Praveen Jaipurjar:** 250 Crores I said.

**Vidit:** 250 Crores of which 50 to 100 Crores was private label is it?

**Praveen Jaipurjar:** No, out of which 80 to 90 Crores was private label and bulk and 150 to 160 was pure brand.

**Moderator:** Thank you. Our next question is from the line of Mayur Patel from IIFL AMC. Please go ahead.

**Mayur Patel:** Hi thanks for the opportunity. Can you just share some thoughts around how you are seeing the demand supply which can lead to the change in coffee prices going forward and adding on to it our business as you have always explained in the past is more of a spread business so there is a 20% plus volume growth expected for the next year even if the coffee prices decline theoretically by 15-20% we should expect the space to be maintained in our 20% plus EBITDA growth is it a fair expectation?

**Praveen Jaipurjar:** Yes so the second part I will answer first which is the EBITDA spread as we have always maintained our EBITDA growth is always in line with our volume growth so even if the coffee prices fall if our volume growth are close to 20% even our EBITDA will grow at 20% so that logic always gets maintained. The only difference that comes is the topline which is the value numbers so it will all depend on what is the kind of prices there and we will add or subtract that kind of prices on our volume growth so that is the only variable factor.

**Mayur Patel:** This is reassuring. Anyway, the EBITDA growth is more important than the topline growth like you rightly explained. On the first part if you can just help us just for our understanding how do you see coffee prices going forward based on demand and supply factors?

**Challa Srishant:** As far as coffee prices are concerned this is actually quite complicated because in fact in the previous estimate that was there with new crop that is coming in is a very good crop and in fact the prices should be going down but instead what happened is in Vietnam, in Indonesia and other locations Robusta prices there is a lot of demand for Robusta also which has increased which has actually driven the prices upward. When the Arabica prices started going up automatically there has been some transition towards Robusta which is where the



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Robusta also had a pressure. In fact as of now we are seeing a kind of like an all time high prices at this point in time. We are expecting this to slowly soften once the new crop starts coming in from Indonesia and then subsequently from our regions as well.

**Mayur Patel:** This is pretty good reassuring. Thanks, Srishant. Just one more question if I can squeeze in, we have seen some good improvement in working capital, are there more legs to this should we expect some more improvement in the net working capital cycle going ahead?

**Challa Srishant:** So working capital is one thing because the prices are going up and fluctuating the way it is frankly it becomes a bit premature for us to comment whether there will be an improvement or no. We have always taken strategic calls based on the market fluctuation so the times where we find it is more economical to secure the raw material and brought the working capital if we feel that the prices are still going to shoot up because otherwise the kind of prices that we get whoever is quoting us they will add their working capital cost and then quote to us, it keeps changing from time-to-time based on how the markets fluctuate.

**Mayur Patel:** Thank you very much. All the best.

**Moderator:** Thank you. Our next question is from the line of Nirav Savai from Abakkus AMC. Please go ahead.

**Nirav Savai:** Hi Sir my question is regarding the depreciation part and this quarter we have seen a depreciation of about 10 Crores versus 19 Crores in the previous quarter so has anything changed there, lower depreciation despite Vietnam facility which has commercialized operation this quarter?

**Lakshmi Narayana:** Yes if you look at it some of the old capacities have been completely depreciated and the new capacity that has come into operation which has been capitalized at the end of March and that is the reason why you see the reduction in depreciation in current financial year and the next financial year having capitalized the expanded capacity and we will see more depreciation in 2023-2024.

**Nirav Savai:** So, this quarter the new capacity depreciation has come?

**Lakshmi Narayana:** This quarter Q1 new capacity depreciation will come.

**Nirav Savai:** Also, Sir the new expansion which we are doing the India side that is expected to commercialize operation in first half or it would be in the second half of FY2025?





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- Lakshmi Narayana:** The implementation part will be completed in March 2024 and the commercial operations begins in the first quarter of 2024-2025.
- Nirav Savai:** Q1 of FY2025 it would commercialize operation and the new freeze-dried capacity in Vietnam would be also in FY2025 or it is going to be in 2026?
- Lakshmi Narayana:** It is in Q2 of 2025-2026, 2024-2025 we are likely to complete, and we are scheduled to complete the trial operation. So sometime in 2024-2025 financial year end we may come into commercialization.
- Nirav Savai:** That is fourth quarter of FY2025?
- Lakshmi Narayana:** Fourth quarter of 2025 and the real time difference of FD will be in 2025-2026 onwards.
- Nirav Savai:** You are saying it will commercialize operations on fourth quarter of 2025 or 2026 Q1 onwards you will see some.
- Lakshmi Narayana:** Third quarter of 2025 it will be commercialized and the real time in new FD facility we will be seeing from 2025-2026 onwards.
- Nirav Savai:** Right. Got it Sir. That is, it from me. Thank you.
- Moderator:** Thank you. Our next question is from the line of Lokesh Maru from Nippon India Mutual Fund. Please go ahead.
- Lokesh Maru:** Thank you for this opportunity. Congratulations on amazing set of numbers. Just one question from my side can you please help with the EBITDA per kg for the quarter?
- Praveen Jaipuria:** Lokesh EBITDA per kg did not change much from where we spoke last time so if you were to recollect because our volume growth and EBITDA growth if you see are pretty much in line so exactly same per kg profits are there for spray dried it is the range of 90 to 100 and for freeze dried it is 130 to 140 that continues to remain as it is this year as well.
- Lokesh Maru:** So, the 34% increase in our EBITDA year-over-year this quarter means the volume growth was 34% this quarter?
- Praveen Jaipuria:** Very, very finer thing so there will be some variations and variances up and down but if you were to look at a broad sense like when you see the annual numbers you will see that because in quarter-to-quarter if you do very myopic comparisons you will start seeing these



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differences because there are certain delayed supplies or certain delayed shipments or mix changing so lot of these things happen which kind of affect the EBITDA per kg so it is best to get from a long-term perspective but if you see the yearly perspective exactly the same volume growth and EBITDA growth are there. We said 20-25%, closer to 20% was the volume growth and so is the EBITDA growth for 21%. Broadly Lokesh this logic works for us most of the times.

**Lokesh Maru:** Sure Sir understood and one more thing was the branded business which if I recollect correctly could be 175 Crores for the year where do you expect this to be like let us say in FY2027 per se from three year perspective, you see it is growing 30 to 40% does it mean you wanted anywhere around 300 Crores or so in three years?

**Praveen Jaipuria:** I was expecting you would ask me this year you kind of stumped me direct in year of 2027. So Lokesh as we have been maintaining at the start of the year we had projected something close to 170 but we are little short than that around close to 155, 160 but as you would recollect we had mentioned that we are taking a lot of correction of stocks in the market, financial discipline and things like that so we purposefully kind of held our primary sales this year but in spite of that the business grew by 25%. Going forward we are maintaining that anything between 30% to 35% should be our growth projections for the coming year or at least three years or so and however as we speak it is a very dynamic business we are just in the building space so there could be quarters or years where we could probably grow at higher levels or at lower levels will depend on a lot of things, the competition is heating up because we have now got a decent share in the market so all that will come into play so we will keep you informed but at a broader level you are right we are looking to kind of grow at this pace of 30 to 35% for the next two to three years.

**Lokesh Maru:** Sure Sir understood. Thank you so much and all the best.

**Moderator:** Thank you. Our next question is from the line of Dhiral from Phillip Capital PCG. Please go ahead.

**Dhiral:** Good afternoon Sir. Thanks for the opportunity. Sir this year we have seen a lower effective tax rate for FY2023 so what could be the run rate for FY2024-2025?

**Lakshmi Narayana:** For the lower effective tax rate there is one reason that the new facility which we have created packing and agglomeration facility that capitalized in the current financial year thereby we could claim the additional depreciation which leads to fall under the MAT comparing with the regular tax in the current financial year and in the current financial year it is likely to fall around effective tax rate of around 25%.



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- Dhiral:** This is despite Vietnam contribution going up because this year maybe 20% growth will come from Vietnam facility?
- Lakshmi Narayana:** Effective tax rate if you look at it one unit in India it was full tax rate of 34% and second thing it will be exempted and Vietnam operations are exempted. We expect the effective tax rate to fall between 22 to 25.
- Dhiral:** If you can give the overall Vietnam revenue EBITDA and PAT for the year?
- Lakshmi Narayana:** Significant contribution will be there from Vietnam as we have completed the expanded capacity and proportionately the contribution will go in the consolidated level.
- Dhiral:** If you can give the data for the Vietnam overall revenue for the year and EBITDA and the PAT?
- Lakshmi Narayana:** Current financial year you are talking about?
- Dhiral:** FY2023.
- Lakshmi Narayana:** FY2023 we are around 40% of the total revenue it is coming from Vietnam operation.
- Dhiral:** PAT will be?
- Lakshmi Narayana:** PAT will be around 140 Crores.
- Dhiral:** If I see your other expense in Q4 was higher by 56% on y-o-y basis so any particular reason for that?
- Lakshmi Narayana:** There is not much of increase in the Q4, if you look at it in Q4 expenses are 118 Crores in Q4 versus 107 Crores in Q3, there is not much of increase in our expenses.
- Dhiral:** Sir on y-o-y basis from 75 to 118?
- Lakshmi Narayana:** On y-o-y basis if you look at the volume growth it is almost around 20% and if you look at it 310 Crores the variable expenses of 2021-2022 is almost 228 Crores. If you look at it around 25% volume growth it will be compensated in terms of the increase in other expenses as well.
- Dhiral:** Thank you so much Sir.



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- Lakshmi Narayana:** There is no disproportionate increase if you look at it.
- Moderator:** Thank you. Our next question is from the line of Aejas Lakhani from Unifi Capital. Please go ahead.
- Aejas Lakhani:** Just wanted to understand that the capex for next year and how you are likely to fund it and how should we expect the debt levels to be in FY2024 given that you are generating strong cash flows as well?
- Lakshmi Narayana:** We are going with a new facility of 16000 metric tonnes SD capacity in India which is likely to cost around 400 Crores out of that we are contributing around 80 Crores from our side and the balance is going to be availed in the form of debt, this is what you could see in the year 2023-2024.
- Aejas Lakhani:** From the 900 Crores of debt that is outstanding is it fair to understand that debt should peak out at 1200 Crores because you are generating significant operating cash flow as well so I would assume that some of it will come in the form of that as well?
- Lakshmi Narayana:** Yes, you are right.
- Aejas Lakhani:** So peak debt will not be 1200 it could be much lower because you will compensate it with a mix of your own cash flows?
- Lakshmi Narayana:** That is right our cash flow also gets contributed in that and that attrition can be seen in terms of working capital utilization side.
- Aejas Lakhani:** Got it and secondly in terms of could you quantify any new larger orders or any order wins that you are expecting or is it just the existing customers giving you incremental volumes or anything new on the anvil?
- Praveen Jaipurjar:** At any point of time there are five to six clients in the pipeline and as I was telling earlier as well that we have a set up there it is almost 50 to 60% of our volumes come from regular business or regular clients and the rest is almost like a leaking bucket where new clients come in and some of them drop off so that is the nature of the business. At this point of time it is very difficult to share. We generally do not share these are confidential information about our clients so we are not supposed to share but at any point of time as I am telling you there are five to six client projects in the pipeline and some of it materializes some of it does not. It is an ongoing process that keeps on happening.



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- Aejas Lakhani:** Got it. Thanks.
- Moderator:** Thank you. Our next question is from the line of Rahul Maheshwari from Ambit Asset Management. Please go ahead.
- Rahul Maheshwari:** Thank you so much Sir and excellent set of numbers. Two questions primarily can you give some guidance on the premium products which cold brew products couple of quarters which you had given the enquiries were strong enough how much they are contributing such kind of products and connected to this again a small packaging which we commenced 12500 tonne can you give some colour on that what is the capacity utilization and how much extra premium can we fetch compared to the bulk products which we are selling?
- Praveen Jaipuria:** It is a niche product as we may call it things like cold brew or speciality coffee and things like that which are premium in nature will almost contribute 5 to 10% of our volumes. If volume is 5 to 10% the value will be 10 to 15% so it will give us a higher value realization from the others so that is on the niche and the premium products as you may call it and as far as our small pack capacity utilization see almost for the full unit if you were to see 30% of the capacity utilization happens from the domestic market itself because domestic market is all small pack and we have got rest 20-25% coming from the international market so almost 50-55% capacity utilization is there and this is when I talk about premier seeds as we have told earlier also there are certain SKUs with capacity utilization is very high, so for example if I were to take sachets or pouches there we are almost in some SKUs 100% capacity utilization. There are certain SKUs probably where the capacity utilization is 20% so as a whole, we are 50-60% levels of capacity utilization in the new packing unit.
- Rahul Maheshwari:** But on the export side how much value addition which we are trying to capture through the small pack compared to earlier when we were not having the small packaging unit in terms of realization?
- Praveen Jaipuria:** No, we were having a small pack facility, but it was part of the Duggirala facility. We have now created a separate unit altogether so that we can have a full-fledged facility which is State-of-the-Art to supply to our clients and also help us get new clients so that is there. As far as margins are concerned you have asked how much does it give you almost 10 to 15% additional margins we get due to this value addition and that was one of the reasons we had set this up because we thought that if we could provide turnkey solutions to our clients not only it helps the clients but also helps to run more margins.
- Rahul Maheshwari:** Just a second question on US last year we completed just correct me if I am wrong 8000 tonne type of capacity in current year FY2023 how much capacity we have added over there



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and what is the outlook can you give on the US side and second thing on the sourcing of green coffee apart from Vietnam and India Africa is the market where we are looking at sourcing of raw materials? Thank you.

**Praveen Jaipuria:** First thing I think the US numbers are not correct I do not said 8000 tonnes it was close to 4 to 5000 tonnes and that is the volume we are doing in the US market. We are looking to acquire more clients so as and when we get certain growth, we will keep you informed but that is the level it is almost 10 to 15% of our business comes from this market. The second question you asked about coffee sourcing from Africa we already do a lot of coffee sourcing from some of the African countries like Uganda and all. As we have told you we operate on two things where do we get the coffee at the best price and second is depends on the client's needs. If the client needs a certain type of coffee to be sourced from a certain origin, we continue to do that so for us there is no binding that we have to source from here or there and we do source from African markets as well.

**Rahul Maheshwari:** Sir just connected to this when we are diversifying our sourcing mix any realization benefit, we get compared to Vietnam and Africa?

**Praveen Jaipuria:** Not really. It really depends at that moment when we are doing or finalizing the deal where is the place where we are getting the coffee from it is a more complex thing it also depends on the blend what kind of blend the client wants. If the client wants a certain blend and I know that I can only get this blend from a certain type of coffee very difficult to kind of go and source from somewhere else so it is a complex situation which two to three things determine where do we source from, one is blend of course the second is okay if the blend we have a provision wherein a type of coffee can be replaced by b type of coffee then we say okay which is the best pricing that we are getting from which sources the best pricing, so all of these factors come into play, it is a complex thing and that is where we develop our competitive edge from others and that is how we keep on operating in the future as well.

**Rahul Maheshwari:** Thank you so much and best wishes.

**Moderator:** Thank you. Our next question is from the line of Himanshu Nayyar from Systematix. Please go ahead.

**Himanshu Nayyar:** Hi Sir and congratulations on good set of numbers. So firstly just on this quarter perspective we see significant divergence in performance in the standalone business and consolidated so India and Vietnam seem to be going in very different path especially on the margin front and even on the growth front where growth in standalone looks much higher so are both



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these things just on account of base effect as in base in India was lower on the revenue side same time last quarter and similarly on margins or is there anything more to read into that?

**Praveen Jaipuria:** Three, four things here. Vietnam of course the thing got commissioned in March, so we had some volumes of that give us that better growth. Base effect little bit is there if you remember last to last year Q4 quarter there was a certain freeze-dried volumes which got little delayed that is when Russia Ukraine war had started so that was supposed to be a mixed quarter so little bit of base effect in that. The third thing is that we had been speaking about this because of higher demand and our constraints in supplying or producing coffee we had outsourced coffee also so that also added to our volumes in the last quarter so all of them put together has given us growth so therefore you see good growth here in standalone as well as NFE.

**Himanshu Nayyar:** On the margin front also if you can explain the significant diversions as in margins are down sharply in standalone and up sharply in Vietnam?

**Praveen Jaipuria:** So outsourcing led to reduced margin in standalone and Vietnam of course there would not be much of an increase per se, there could be certain things which would have got in our favor in terms of last month capacity getting added that would have led to better economies of scale and therefore better margins there so these are the factors which was in our favor and not in our favor in standalone.

**Himanshu Nayyar:** Second bit also on the India business if you can just give us some updates on the profitability of that business whether we are starting to make money out there and any updates if you can share on our new ventures as we were looking at in three to four coffee vending machine business or any other updates you would want to share on coffee apart from coffee whatever we are doing?

**Praveen Jaipuria:** Here I was telling a few moments ago the India business we did around 250 Crores out of this the branded business was 150 to 160 Crores and this is approximately 25% growth over last year and we continue to kind of put our debts on to the branded business and look to grow at 30 to 35% in the next two to three years at a CAGR level so that is the expectation when it comes to entering into new categories we are already expanding Greenbird. The sales are right now slow because of the fact that it is a new category people are yet learning about the category and the concept but the good thing is there are certain pockets where we are getting nice response, repeat purchases and all so from three cities we have now already expanded to six and we are looking to expand into another three to four cities very soon. As far as some of the other categories right now we are focusing on coffee and the Greenbird yes in the backend we are working, evaluating the categories we are trying to find out, are



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there some gap areas or spaces for us to enter so all the work is happening in the background we cannot share them right now but at an opportune time we will let you know that if there is any plans for us to enter into this category. Coffee vending business yes, we are looking to be aggressive, we are always getting new clients into our fold, there are many clients who we are now installing machines on a PAN India basis and these are large clients. There are some tech clients where we are installing almost 500 machines for the same company across their offices in India so that will be foray which we will be aggressively pursuing on so that is the little update on the various things that you had asked for.

**Himanshu Nayyar:** On profitability if you can just comment?

**Praveen Jaipurjar:** As we told earlier since last year on an MIS basis we have been breaking even and the reason I say MIS because earlier we were working on transfer pricing basis and that is the reason we are looking to demerge the company into the parent company so that we have more resources to expand the business but if you were to look at MIS business last year itself we had made a certain level of profit, this year we have made profits and going forward we will keep on making profits but the thing is that we are not looking to drive a lot of profits and profit generation from this business because it is a branded business and we do feel that another 5 to 10 years we need to keep on investing on this business and especially considering that we are looking to not just stay in coffee but expanding to other categories so I am not seeing a lot of money generation from this setup but yes there will be certain money generation that will keep happening year-on-year.

**Himanshu Nayyar:** Final question on book keeping one if you can just let us know on the current rate of interest on the expanded debt that we will be sort of paying post the recent hike in interest rates and the rate of depreciation if you can just give a run rate going forward?

**Lakshmi Narayana:** The rate of interest towards the working capital on effective rate of interest from 2.5% to 3%. So as a whole if you look at it around 6% is the effective interest rate as of now on working capital and the term loan is likely to be somewhere around 8% if you are likely to work it out for the capacity that you have likely to increase.

**Himanshu Nayyar:** You said you had 8% on the term loan?

**Lakshmi Narayana:** Yes, and coming to the depreciation rate it will be followed as per the company shares and the effective straight line measure of depreciation it will stay around 10%.





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**Himanshu Nayyar:** For the current quarter rate should surely increase from the 10 Crores that we had this quarter right Sir?

**Lakshmi Narayana:** That is right. The Q1 where Ngon coffee where we had completed the expansion including the depreciation will come into force from Q1.

**Himanshu Nayyar:** So, any number you can let us know as to what should be the run rate now at least for the next two quarters for depreciation?

**Lakshmi Narayana:** The depreciation is likely to increase almost around 7.5 Crores per quarter.

**Himanshu Nayyar:** 10 plus 7.5?

**Lakshmi Narayana:** 7.5 Crores per quarter.

**Himanshu Nayyar:** Got it Sir. That is, it from me. Thanks, and all the best to the team.

**Moderator:** Thank you. Our next question is from the line of Devanshu Sampat from Avendus Wealth. Please go ahead.

**Devanshu Sampat:** Hello Sir, good morning. I just had three questions. So your comment on the clients dropping on a regular basis 30-40% seems to be a fairly higher number especially for a business that I would assume the clients to be sticky so is this churn mainly from the bulk or the middlemen that we were trying to sort of cut out from or can you throw a bit more colour on this, regular clients are around 50 to 60% that we keep getting business from and the balance people who keep dropping off so this would constitute what set of clients are these the unbranded bulks or the middlemen that we sort of cater to?

**Praveen Jaipurjar:** Let me just kind of rephrase it so when we say 40%, so 40% it is like new clients coming in. There are certain dropping in and sometimes with the old clients itself from where we get 60% of the business we may get orders for new variants or new products somebody who is buying freeze dried could end up buying straight dried and things like that so that is the thing and I do not think it is a pretty high number because if you see any business probably this is the kind of churn you will have with the new set of people coming in and the old set of people going out. Now generally speaking the brand owners generally are very sticky with us because they are serving to their consumers they do not want to take risk. There are traders or middlemen who are buying very base product of coffee very run of the mills stock who are looking for price advantages and looking for cheaper coffee. These are the people who kind of keep adding in and dropping in and we do have a certain amount of



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business which keeps coming from them as well, so of course these are the people whenever they get a price advantage they kind of keep coming and going and that is the reason I said it is like a leaking bucket and most of this people as you rightly pointed are like traders and are like middlemen who are just looking for deals so these people are the people who drop off.

**Devanshu Sampat:** Got it.

**Praveen Jaipuria:** They also keep coming back if they are getting lucrative pricing from us they will keep coming back and going off so that is 20% of our business is like that and it keeps happening all the time.

**Devanshu Sampat:** That is around 20% of the business and you mentioned this 5 to 10% share of value addition that we are doing right now so can you give a sense on how you see this number going up over two to three year period especially with the discussions we are having with the client right now any sense you can give us?

**Praveen Jaipuria:** In our previous call we had mentioned that we are commissioning a pilot plant which is a small plant with small quantity generally till now we have not been able to do speciality coffee because of the fact that the MOQs are large and there are lot of clients who look for smaller quantity so with this pilot plant in place we also participated in some of these speciality coffee fairs in US and there has been a lot of positive response so we are looking to kind of increase this premium in the specialized coffee segment for us. Now this pilot plant or the mini plant will help us further strengthen our play into this area so there are talks going on, we have submitted samples with lot of clients who were looking for such kind of coffee as and when they keep materializing, we will keep informing you.

**Devanshu Sampat:** If and when we do get business from them will it require us to set up additional capacity or we can service them?

**Praveen Jaipuria:** The speciality coffee seeking clients they generally made coffee because it is a premium product. It is a specialty product, and it is a niche category so they need in small quantity for which we have made a pilot or a mini plant. We have now got the capability to make coffee from this mini plant.

**Devanshu Sampat:** Got it and just my last question so just to get a sense over here what is the key reason that they do not go when you are talking to clients right now again I am asking from a perspective that given our scale our cost advantages and the variety we offer so what are the



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key issue points that come up usually is it payment terms, is it cost related things, is it sourcing policy of the company if you can throw some colour on this?

**Praveen Jaipuria:** Many reasons. There are certain clients one of the biggest reasons the deal has not gone through for us has been our inability to supply. The capacity constraint has been one of the big reasons why some deals have not gone through. For example freeze dried we are full till next one-and-a-half years so any new enquiry that comes we have to say no to it so that is one of the reasons. The other reason is yes as you rightly pointed out price is one of the reasons where deals may not go through, generally these two are the primary reasons, payment terms and conditions earlier reasons because we are exporting and we would do it on advance basis and those clients also know and they also accept this fact but these are primary two reasons I do not see any third reason because as far as our capabilities are concerned most of the time we are always sure and we have done this also that there is no issue with making of blend of their choice or packing it in the manner that they want to so all that capabilities are 100% there with us most of the times these are the two reasons why deal would not go through large reasons.

**Devanshu Sampat:** What you are saying is this FD is the key reason and if we are getting a lot of enquiries over there is that the capacity that they can get it outsourced or that is mainly straight dried that we outsource?

**Praveen Jaipuria:** We can, but once you outsource the margins get contracted so that is the reason, we are building a new freeze dried capacity in Vietnam which should be running by Q2, Q3 next year and that will help us kind of augment the demand that has been there in the market.

**Moderator:** Thank you. Our next question is from the line of Rushabh Doshi from Nimiti Investment Advisors LLP. Please go ahead.

**Rushabh Doshi:** Hi congratulations on great set of numbers. I just had a broad question like I guess the instant coffee market is around \$14 billion so I just wanted to understand what is the value addition percentage for companies like us which are in the processing stage, let us say the difference between instant coffee retail price and the price at which deals are procured is 100 so how much percentage would our value addition in the total supply chain?

**Praveen Jaipuria:** When you procure green coffee so after procurement of green coffee there are large cost or let us say pre cost to it so one is the conversion cost out of a kg of bean you will get 400 gram or 375 gram or 425 depending on the kind of bean you are using and the blend that you are going to make so that is the output so generally on that green you get this 40% to 45% kind of yield and when you add to it the processing cost of it you are making the



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whole process, the bean goes with a whole process to come to an instant coffee, add packaging cost to it and then logistic cost to it so after that addition when you sell it to the brand owners depending on what kind of brand they are selling they have the ability or the strength of the brand they will price it may be anywhere between 20, 30, 40, 50, 60%, 70 maybe sometimes 100% higher than what they buy at so that is the broad value chain that I can explain to you in terms of how the pricing value chain works in the coffee market.

**Rushabh Doshi:** For the domestic market like how large would the instant coffee market be or what would be our markets be for the branded?

**Praveen Jaipurjar:** If you take the whole of India the instant coffee market is around 2500 Crores so we are doing around 150 to 160 Crores so that is our market share around 5% or so is our market share.

**Rushabh Doshi:** That is all from my side. Thanks.

**Moderator:** Thank you. Our next question is from the line of Amar Mourya from AlfAccurate Advisors. Please go ahead.

**Amar Mourya:** Sir thanks a lot for the opportunity again. Just wanted to understand how should we see the interest rate going forward like this 11 Crores run rate which is going on should it increase further from here on?

**Lakshmi Narayana:** Gentlemen if you look at it the global market keep on changing and nobody could be able to predict how it is going to be. As we are seeing every month that is everyone is following it up so we really cannot comment how the interest rates are moving.

**Amar Mourya:** But then this 11 Crores in near term do you see is going to increase or decrease?

**Lakshmi Narayana:** That is what I told you. It all depend on how the financial markets are going to reflect upon from time-to-time.

**Amar Mourya:** I understood that, but I am saying at the current scenario let us say if everything remains at a stable level is there a scope from here on to increase or it is going to remain stable?

**Lakshmi Narayana:** It is likely to remain. If the rates are going to be unchanged and the interest per volume remains same.

**Amar Mourya:** Tax rate for next year would be something around 12% rate, right?



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**Lakshmi Narayana:** Yes.

**Amar Mourya:** Perfect Sir.

**Moderator:** Thank you. Our next question is from the line of Naitik Mutha from Mahansaria Family Office. Please go ahead.

**Naitik Mutha:** Hi congratulations on a great set of numbers. I just wanted to understand your strategy with respect to the domestic branded business so I do not see a lot of Rs.1, Rs.2 or Rs.10 sachet in terms of coffee nearby and my observation is limited to western India so I just wanted to ask do we actively choose not to do this or we doing it and I am not seeing it yet?

**Praveen Jaipurjar:** Just to give you a little perspective. If you see the Indian coffee market almost 70% of the market lies in south India. One zone almost contributes 70% of the business rest 30% comes from all the zones put together and these zones are pretty light consumers of coffee because these are tea drinking consumers and coffee is not a regular consumption drink but off and on consumption drink so what we did is four or five years when we were starting our foray into the B2C segment we concentrated on south of India because that is where the volume comes from and we created a distribution setup there. Now that we have got a foothold in the market and we are seeing that we have got a reasonable market share and there is a traction in the market we are now extending to other cities but other city expansion is a challenge in itself because placement itself is a challenge because you need to reach to these many outlets which are huge in number and we probably will not have the resource to reach to so many outlets on our own so the strategy is to go to premier of outlets which is to first go to the cream layers of cities and towns and in these cities and towns go to the cream layer of outlets and that is how we are going to build the distribution. Again we will not be able to spend a lot of resource in mass media advertising in north east and west because it requires a lot of money so we will do a very focused social media advertising and lot of the brand sale that we are intending to do is from D2C platforms like our own site Amazon, Flipkart and Big Basket, etc., so that is the kind of strategy we are looking to put in place for the rest of India market. So south market we continue to build our distribution, today we are around 1 lakh or let us say in south India we are at 70 to 80,000 outlets we are looking to add another 20 to 30,000 this year and that is how we are looking to grow the market in south of India so that is the broad level of strategy that we will put in place in the coming years.

**Naitik Mutha:** That is very helpful so just wanted to ask we do not do such small sachets even in south India for that matter or do we do it?



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**Praveen Jaipuria:** We are looking to expand the business. What happens when a new brand comes into the market we generally starts from the top so we are mostly present in the top outlet the cream layer of outlets where you sell large bottle packs and things like that but now that we are expanding distribution we will be expanding it to smaller outlets and therefore our plain sachets and small pack Rs.10 pack, Rs.5 pack, Rs.2 pack we will increase our play there and we also look to wholesale to drive our distribution in the small packs because a lot of the small packs go through wholesale and indirect distribution so all that work we are intending to do in the coming months and years.

**Naitik Mutha:** That is very helpful thank you. My next question is on the global industry so if you could just lay out what is the size of global industry for the instant coffee market, where we stand currently and what is our aspiration say three years and five years down the line?

**Praveen Jaipuria:** The global market is a triangulation of data because there is no one set of data which gives you the exact picture but our understanding is the global market instant coffee is almost 9 lakh metric tonne out of which approximately 50% or so will be by brand owners who have their own captive capacity to feed into and the rest 50% or so will be left with B2B players so our addressable market is somewhere close to 4 lakh, 4.5 lakh metric tonne and that is where we stand. If you were to calculate the market share for us it is close to 7-8% may be a percentage here or there so that is the broad perspective I can give you on the global market and our standing in the global market.

**Naitik Mutha:** Any strategy or how do you look at this in three years or five years down the line, how do we look at ourselves in the global market as sizeable player or how do we think about?

**Praveen Jaipuria:** Last year when we had put a vision for ourselves and we had put a vision number also we have said that in four years we are looking to double our volumes and the resulted coffee prices will determine what will be our value growth so we are sticking to that projection that will continue to drive CAGR of approximately 18 to 20% volume growth in the four years, one year has already passed and the next three years this will happen and if you were to grow at this rate and considering that the world coffee market is growing at single digit in fact low single digit we probably will be crossing 10% addressable market share globally in the next three to four years so that is where we have set our goals and targets on.

**Naitik Mutha:** Sure, that is very helpful. Thank you.

**Moderator:** Thank you. Due to time constraint, that was the last question of our question and answer session. I would now like to hand the conference over to the management for closing comments.



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**Praveen Jaipuriar:** Thank you everyone for joining us and thank you Nirmal Bang for arranging this call. We look forward to meet you again in the next quarter.

**Moderator:** Thank you. On behalf of Nirmal Bang Equities that concludes this conference. Thank you for joining us. You may now disconnect your lines.