# "CCL Products (India) Limited
# Conference Call"
# July 25, 2023

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**MODERATOR:** MR. MANISH MAHAWAR – ANTIQUE STOCK BROKING

**Moderator:** Ladies and gentlemen, good day, and welcome to CCL Products (India) conference call hosted by Antique Stockbroking. 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 would now like to hand the conference over to Mr. Manish Mahawar from Antique Stock Broking. Thank you, and over to you, sir.

**Manish Mahawar:** Thank you, Carol. A warm welcome to all the participants on CCL Products' call. This call has been organized to discuss gross debt, expansion plan and merger of coffee division of continental coffee. From the management, we have Mr. Challa Srishant, Managing Director; Mr. B. Mohan Krishna, Executive Director; Mr. Praveen Jaipuriar, CEO; Mr. V. Lakshmi Narayana, CFO; Ms. Sridevi Dasari, Company Secretary; and Mr. P S Rao, Consultant Company Secretary on the call.

Without further ado, I would like to hand over the call to Mr. Lakshmi Narayana for opening remarks. Post which we will open the floor for Q&A. Thank you, and over to Mr. Narayana.

**V Lakshmi Narayana:** Thank you. Good morning to all of you. This is Lakshmi Narayana here, CFO. In continuation to the earlier call, I think a little bit of confusion is there on account of the debt status, which I would like to convey to you and clarify it. As I stated in my previous call, the total debt on March 31, 2025 it is likely to be around INR2,000 crores, which makes an explanation keeping in view of the green coffee prices at $3,000.

And gross debt scenario have worked out the likely debt by end March 2025. So in order to clarify the amount of confusion that has been rumoured around I just want to reclarify that this is the worst case scenario and as I have estimated around $3,000 for GC prices and arrived around INR2,000 crores. And keeping in view of the utilization and likely -- and maintaining if at all if the GC prices continues at $3,000.

We may likely to end up around INR1,840 crores. But it will go down when it goes down from $3,000 level of GC prices to further maybe around $2,300 level. And proportionately, the working capital utilization as well will go down. And we expect in that scenario, the likely debt to be somewhere around INR1,600 crores, in March 31, 2025.

And then March 31, 2024, we may likely to endorse around INR1,400 crores. This is what is likely to be under that part but what I stated in my previous call is just keeping in the traction part I have indicated and also the peak level of GC prices indicated around INR2,000 crores. So with due correction expected on GC prices, proportionately it may come down further as I have stated now.

Coming to the second point of demerger, demerger of activity of CCPL with CCL parent company. The amount of carry forward loss, which is going to be set off in the parent company, which is likely to be appearing as the reduction in the resource and surplus of the parent company. That's one way. And the second way is the effective tax rate -- it will have an impact on the further reduction of effective tax rate due to setting off the carry forward losses in the subsidiary companies.

This is the second point which I could note down. And tentatively on March 31, 2023, there is a carry forward loss which is available for set off, which is around INR35 crores. And coming to the third part, this is relating to the clarification on expansion plan, which has been announced only by the AP state government, stating that CCL is going to take up expansion plan with the INR1,200 crores, which is not right.

We never raised any request nor we have shared any information with the state government. And we don't have any plan of taking up any project of that kind in Vizag. So I think so these are all three points, which are rumoured around, we just want to take it forward with questions.

**Moderator:** Thank you very much. We will now begin with the question-and-answer session. The first question is from the line of Rakesh Wadhwani from Monarch.

**Rakesh Wadhwani:** Sir, I just want to understand how the capex -- how has company planned on the capex? Because is the customer that comes to us and asks that we wanted to increase the business with us and we expand? Or is it that we expect -- we do a market research and we expect there is a -- there will be huge demand in the coming years and we expand? First point on that.

And sir, on -- second on the capex part only, we are expanding in India as well as in Vietnam. And in our Vietnam facility, capacity will be still 50% utilized. Just wanted to know what is the reason for expansion in there right now? We can have -- we would have postponed by one more year. Any thoughts -- your thoughts on that?

**Praveen Jaipuriar:** If I understood correctly, the question is regarding the expansion, why are we doing this expansion, right?

**Rakesh Wadhwani:** No, no. Sir, my first question is that how -- like how we plan for expansion? Is it a customer who comes to us and say if he want to increase that business with us and we put up a new capacity? Or is it that we go to the market, do market research, and we think there will be a huge volume growth in the coming years, we can get the business and set up a new facility. How does it work?

**Praveen Jaipuriar:** So in this current scenario both the things happen for spray-dried, we were doing our market research and then we were going in further expansion accordingly. We were running at peak capacity for quite some time and we were -- we decided that we -- I mean, we had to go in for expansion because there was a lot of demand that was coming in from multiple quarters. For freeze-dried, it was a slightly different scenario where we had some customers come in, giving us commitments for the next couple of years.

And because of that, we had to advance our expansion plans. Our original idea was after the spray-dried expansion was completed, we will wait for about a year or two before we go into the freeze-dried expansion. But because we had a commitment coming in from an existing customer -- in fact, 2 customers, that's when we decided to speed up that process.

**Rakesh Wadhwani:** Okay. Sir, related to that question, so freeze-dried capacity is coming in Vietnam, which will start in the September '24, is my understanding correct?

**Praveen Jaipuriar:** Yes. By next year this time, we should be starting the facility.

**Rakesh Wadhwani:** And that 100% capacity is booked from the first year only?

**Praveen Jaipuriar:** Capacity utilization, so we'll lose about half the year no? Because we'll end up losing about almost two quarters -- in the second quarter, the stabilization, everything will be done. So we'll have half the year left. So for half the year, I mean, we can just assume maybe around 75% utilization approximately of the balance of capacity that's left.

**Rakesh Wadhwani:** Okay. And from the next financial year, we can expect at the peak capacity utilization?

**Praveen Jaipuriar:** Yes, hopefully.

**Rakesh Wadhwani:** Okay. Okay. Sir, second question regarding on the branded business, we have a Continental brand in India. We acquired a company -- a coffee brand in U.K., and we have also guided that we are looking for small-brand acquisition in international markets. Just wanted to understand what is our thought process, why acquiring small, small brands in these markets rather than focusing -- taking the Continental brand itself to the other markets because as on today, Continental brand has become itself very big, INR250 crores revenue in the last few years there. So any thoughts on that? And second on that profitability, where we see our profitability in the Continental brand in the coming years?

**Praveen Jaipuriar:** Okay. So to answer the first question, actually, we are not really looking for brands -- small brands or big brands for acquisition anywhere in the world. The current situation was actually purely an opportunistic buying that had happened because one of our partners in the U.K. mentioned to us that this particular brand was available for sale. And the reason why we were interested in this particular brand is because there is certain history to it.

In 1997, CCL was the main company that helped this brand get established. And from '97 till 2018, we were the primary supplier for this particular brand -- for these brands, in fact. We were doing multiple qualities, and we were supplying to them for the U.K. market. This particular company had grown to a substantial extent, which was doing almost about INR100 crores, INR120 crores.

At which point in time, the owner of that particular company decides to sell it to a Swedish company. The interest of the Swedish company was that they wanted to enter the U.K. market. So that's the reason why they bought this particular brand has a very good premium. And when that happened, unfortunately, these guys don't know much about the instant coffee space, they are mainly a roaster ground coffee company. What they did was they decided to change suppliers immediately.

And they started buying from another customer of us who is based in EU. But it so happened that the quality that they asked for, they weren't very particular, so they were okay with doing a change in quality. The customers in U.K. did not like that and the brand started falling. Within 4, 5 years, came down to around INR18 crores from INR100-plus crores. So that is when we got this opportunity and we negotiated and we were able to get it for about INR5.5 crores.

And since we know the original formulation since we never revealed it even to the brand owner in the past, we are the only ones who can actually produce the same quality that the customers are expecting in the U.K. market. So that was one of the main reasons why we decided to proceed with this acquisition. We had actually created a very unique blend for this particular customer, and it was a very premium product. So that was the main reason behind this particular acquisition.

**Moderator:** The next question is from the line of Ankur Arora from Magma Ventures.

**Ankur Arora:** A couple of quick things, sir. Here seeing the debt part that if the coffee price remain at $3,000, you will have probably INR1,850-odd crores. Now...

**Praveen Jaipuriar:** Sir, your voice is not clear, can you please repeat?

**Ankur Arora:** Yes, so I was saying. You explained that part of INR1,850 crores peak debt level, assuming $3,000 coffee prices, $3,000 coffee, which is probably roughly the prices which is going on right now as well. So see we are going to generate roughly INR800-odd crores of cash flows in the next 2 years, right, after the interest payments or maybe a little less than that INR700 crores to INR750 crores.

And with that roughly the same amount of money which you're putting as capex as well. So it's effectively the increase in debt should be driven only by working capital. Now the increase in debt by almost INR850-odd crores for probably INR1,000 crores additional revenue or maybe even little lesser than that, doesn't seem too high?

**Praveen Jaipuriar:** No. Okay. On a broad basis, now, the answer that we could give because a lot will depend on the -- as CFO has put in his opening remarks, a lot of it will depend on the coffee prices going forward in the sense that there will be a huge difference between a $2,300 coffee price and a $2,900 or a $3,000 profit price. So that will change the equation a lot. But considering the kind of projections that we are seeing right now, it looks like that from '26 onwards, we'll be able to generate free cash flows.

**Ankur Arora:** I mean that's not where we see price grow after '26 I'm saying the EBITDA in the next 2 years will be roughly around INR1,000 crores. You will have probably taken together -- we will probably have another INR100 crores, INR200-odd crores of interest payment and maybe some bit of tax payment. And you are still left with probably INR600 crores, INR700-odd crores of cash flows, which is going in to capex right? And the two facilities. I think the increased debt is predominantly only for the working capital, the coffee prices are roughly also the same -- pretty high level right now as well. It's not like it's...

**Praveen Jaipuriar:** What is the EBITDA that you are taking? I think there is -- there could be some this thing, we have been giving a guidance of approximately 20% EBITDA growth from last year onwards. So let's say, last year, our EBITDA was around INR400-odd crores. So yes...

**Ankur Arora:** So in 2 years, I'm taking INR1,000 crores in total for 2 years together...

**Praveen Jaipuriar:** Yes, for INR400 crores, if you take a 20% growth this year will be around INR480 crores and then subsequently yes, around INR580 crores the next year.

**Ankur Arora:** This makes around INR160 crores of EBITDA.

**Praveen Jaipuriar:** Yes, yes. So I think that will progress in that manner, and this basis that considering that we will have to service the current debt at whatever levels it is, and considering the current interest rate that is prevailing that was the number that CFO had mentioned in his opening remarks.

**Ankur Arora:** That's what I'm trying to understand. So you're saying INR200 crores will be debt out of that -- interest payment out of that. You are left with INR860 crores, there will be payment of INR100 crores, INR150 crores of tax payment. You are left with INR700 crores. You have INR700 crores...

**Praveen Jaipuriar:** Approximately INR100 crores, INR110 crores will be the interest amount, which will get serviced and yes, so your backed cash flows '25 will not be there because we also pay dividend no, at 25% to 30% of our profits as that's our policy. So a large chunk goes there, which means that there won't be enough cash generation for free cash flows till year '25, it's only in '26 onwards, there will be free cash flow...

**Ankur Arora:** Sir, what is the current coffee prices?

**Praveen Jaipuriar:** Sorry?

**Ankur Arora:** What will be the current coffee prices?

**Praveen Jaipuriar:** Current coffee prices are approximately $2,500, $2,600 level. But it will really depend how things go forward because currently, what happens is that the Brazil crop comes in, so there will be certain movements in the market. We'll have to wait and watch. And then December, January, the Vietnam and the Indian crop comes in.

And that's when the prices again kind of -- the market gets set for new prices at that point of time. So we'll have to wait and watch. But our estimation is that obviously, it will cool down going forward, considering the fact that these are all at 12 years high and all goes -- these all prices go through the cycle. See that -- there is not that much of a demand that the coffee prices would have increased to such level because the demand in coffee is probably growing at single digits, yes?

But the coffee -- and even if you were to take certain supply disruptions here and there, which are also not confirmed, this kind of inflation is unwarranted for. So -- and we have seen these cycles in the past also. If you see 6 years ago, a similar scenario had emerged wherein the coffee prices had gone at very high levels, and then it cooled down to $1,300, $1,400 level subsequently. So even if it doesn't cool down to that levels going forward but our estimation is that it will come much closer to $2,000 levels. The only thing is that we have to wait and watch and see at what times the reversal happens. But in the long run, yes, we are very sure that these prices are unsustainable.

**Ankur Arora:** I said, the INR1,850 crores of debt level, INR1,850 crores of debt level, which you are giving for FY '25, that is based on $3,000 coffee prices, right? Our price level you have taken for that?

**Praveen Jaipuriar:** Yes, around -- not exactly $3,000, $2,700, $2,800 is what we had calculated.

**Ankur Arora:** If hypothetically the price is $2,000, how much will the debt be roughly?

**Praveen Jaipuriar:** So the working capital will come down by, let's say, 20% or so, 20% to 25%.

**Ankur Arora:** Another INR200 crores, INR300 crores reduction in debt will happen from that...

**Praveen Jaipuriar:** Yes, yes, definitely, there will be reduction INR200 crores, INR300 crores.

**Moderator:** The next question is from the line of Jenish Karia from Antique Stockbroking.

**Jenish Karia:** I would like to understand, sir, how do we plan the inventory for the demand, is it expense inventory of raw material that we keep or just basic understanding of how the planning is done for here?

**Praveen Jaipuriar:** Sorry, you're asking about our inventory planning strategy no?

**Jenish Karia:** Yes, sir.

**Praveen Jaipuriar:** Yes. So basically, the inventory -- we are a cost-plus model, we only contract the green coffee once we get the order. So there is no speculative green coffee buying that we do. And our green -- our inventory depends a lot on the kind of contracts we are doing, yes? So there could be, let's say, a long-term contract. So for that, we will have deferred supplies of green coffee.

Sometimes, when you're buying green coffee locally from small guys, you tend to hold that coffee yourself because you don't want a situation where the coffee prices are rising and the guys end up defaulting the thing when it comes to long-term contract, we go with larger suppliers who are very established suppliers, so they don't default. So it's a -- the inventory carrying strategy is a factor of multiple things that are happening around us, and it is all linked to the kind of contracts that we are doing, yes?

So that is where it also -- in the past, our inventories went up also because of the fact that there was uncertainty after 4-week period regarding logistics. So because there was uncertainty regarding logistics, we ended up holding higher inventories because we wouldn't want to be in a situation where you have to produce coffee and you don't have coffee with you. So time to time -- previous to COVID, you would have seen our inventory days were pretty low because that time, the situation was very stable, and we could actually do with holding very few -- a very little amount of inventory, maybe 2-month stocks or 2.5 month stocks.

But during COVID, we ended up having 4 to 5 months of stocks. Now that situation is easing. But again, the volatility in the coffee prices also makes you kind of really look at your inventory holding strategy. So all of these come into play. There is no one written down or set rule or I can say that we'll only hold 2 months of stocks or 4 months of stocks. It will all depend on that kind of -- on that point situation and also the kind of contracts that we do.

**Jenish Karia:** Understood, sir. And sir, secondly, again, on the working capital side. So as we plan to scale up our B2C business not only in India but also globally, do we -- can we expect a rise in the receivable days in the longer term or if not, in the next 1 or 2 years?

**Praveen Jaipuriar:** See, the retail business, the branded business is still a very small proportion of the coffee business. So I don't think so that will -- in the near future will kind of change any dynamics, whether it is our working capital cycles or inventory management and things like that.

**Jenish Karia:** Okay. And sir, last question. We mentioned that we will have around INR25 crores of cut off losses benefiting in the tax. So what would be the tax rate for FY '24 and '25?

**Praveen Jaipuriar:** So it is actually INR35 crores that is getting off-settled, and the effective tax rate this year will be close to 9%.

**Jenish Karia:** Okay. And then '25, it will be normalized to, again, 12%, 15%?

**Praveen Jaipuriar:** No, so closer to 12% to 13%. Yes, this would have been the rate this year also. But because of offsetting, the thing will come down to close to 9%.

**Moderator:** The next question is from the line of Siddharth Purohit from InvesQ Investment. As there seems no response from the current participant, we proceed to the next question from the line of Zubin from Ambit Investments.

**Rahul Maheshwary:** Yes. Rahul Maheshwary here. I had two questions. First, as you are ramping up the capacity to some more than 75,000 tons in the next 2 years, so can you help us, let us know the procurement of the green coffee beans? Are we -- how we are planning towards that as we ramp up or double our capacity to that?

And second thing, as in the previous con call, you had mentioned that we want to take our -- a few of our brands globally as a retail brand. So in that, our model will change from current pass-through model to a more retail oriented model. So in that case, how you would be managing the inflationary coffee prices? Means can that also model be a cost pass-through models when we are taking one of our few iconic brands to the global level today what we are planning to the coffee partners, etcetera. These are my 2 questions.

**Praveen Jaipuriar:** So two things. One, first thing that you asked about is the fact that we are increasing the capacity to 75,000 tons. That is our procurement strategy. So our procurement strategy completely does not change at all. You know that we had been buying coffee both in India and in Vietnam from across the globe. It all depends on the kind of blend that we are doing, the prices that are being offered from different origins. And we buy coffee from -- all over the world we buy coffee from Southeast Asia, which is Vietnam, Indonesia.

We buy coffee from Africa, Uganda. We could end up buying coffee from Brazil. So most of our procurement strategy does not change. The only thing is that the scale would change yes, of course, we'll end up buying more and more coffee. And it's a very open market traded commodity. It's the second largest traded commodity after oil. So it's pretty much an open market kind of a buying. We'll continue to do that. None of the dynamics changes there.

Second thing is that you asked about our taking our brands into global markets. Yes, we are trying to build our B2C vertical. We started 5, 6 years ago. We had seen a fair bit of traction that happened in Indian market, and that gave us feet and legs to say that, okay, can we take this whole B2C operation outside India as well because outside India, one, we have a lot of understanding about the global markets thanks to the fact that we are supplying to almost everybody across the globe. And secondly, because we always -- the whole process was started to set up a B2C vertical as well.

As far as the pricing strategy is concerned, that pricing strategy is completely different to the B2B. B2B, we work with cost-plus model. But there, there are 2, 3 things that will determine what kind of prices we'll sell to. And those -- when you are selling a B2C brand, it will be consumer pricing and not to a client or anybody else. So the consumer pricing is, obviously, it depends on the market leader pricing, the price velocity that the consumer is wanting to pay for your brand, your brand strength. So a lot of factor will go into deciding that price, but that will be far more consumer-led, and this pricing B2B has been customer-led.

Coming back to the last part that you have asked is that are we in the mode of shifting the gears towards being a B2C company? I would say we are not in a mode of shifting gears but adding a gear of a B2C vertical, it in no way means that B2B will have any less focus. We have -- as you can see from our guidance, we have been very aggressive on the B2B side as well. But yes, the B2C segment is something that we have always wanted to build. We have started the process, and we will continue to build that as well, but none at the cost of each other, yes? Both will have equal amount of pressure from our side.

**Rahul Maheshwary:** Praveen, that's very helpful. Just a add on to this question, currently, CCL has been able to make how many types of blends in the coffee and how big is the potential going ahead once you ramp up the capacity? One is on this part. And second thing, as -- is there any -- how much is the overlap between the innovative coffee brand which you want to take to global and one which is being supplied to the partner? Can you give some colour highlight that what is working in your innovative lab, etcetera, that can give us a good idea?

**Praveen Jaipuriar:** Yes, so first part is the number of blends. See, the number of blends is directly dependent on the demand from the client side probably has less to do with the capacity. But as we add capacity, we'll also add a lot of new clients. And I'm sure new clients, everyone has this demand of developing a blend for themselves.

So what we end up doing is end up having a lot of blends because everybody comes with a demand that I want a blend which is different from -- that is being prevalent in the market. Currently, as we have informed earlier as well in our library, probably we have 1,000-plus blends, and this is deemed to grow as we acquire new clients. But how much it will grow is difficult to tell now. But we'll keep you informing as and when we keep developing newer blends for our new customers or maybe old customers wanting to have something or wanting to launch something new in the market. So that's on this side.

Now coming to the overlap between our brand and some of the innovative products that we want to do. Again, this strategy will be very, very different here. We do understand the fact that there could be certain conflicts in the -- in some of the markets where we would want to launch the brand. So we are aware of that. We are designing strategy so that there isn't much of an overlap.

And anyways, when we are doing blends, we have told this before as well that when we do a blend for a client, that blend remains to that client. We don't kind of copy that blend to give it to somebody else. And when we are doing a blend for ourselves, we are developing a blend which is very, very different, very different and very unique to ourselves. And this blend doesn't get shared with anybody else. And that is what we have seen in the Indian market also.

Today, if you see the Indian market, be it the private label, be it a lot of brand that we are seeing today in the consumer space and our own brand, we are all coexisting. All of them have a different blend to each other, and it's the consumer who decides which blend or which brand they prefer. So it's a little -- on the consumer side, I would say it's a very different sort of a competitive scenario where not only the product but also the brand, the pricing, a lot of things play a role.

And since it's a competitive market, it really doesn't matter whether I'm having my own brand or somebody else is having their own brand. And most of the people do realize this and are perfectly okay with this. But consciously speaking, we would not like -- we would not be in a similar blend kind of a space wherein our clients are also there. So that's kind of a differentiation we'll always maintain.

**Moderator:** The next question is from the line of Lokesh Maru from Nippon India Mutual Fund.

**Lokesh Maru:** Sir, I wanted to ask this question. Given our capacity expansion, does that allow us to lower our inventory days by any chance? Basically, if capacity was a requirement of inventory at our end, and number of days, does that go down?

**Praveen Jaipuriar:** Not really, Lokesh. I mean right now, the number of days probably will be in a similar zone. We are making efforts. Let us see. Because as I told earlier also, it will depend on a lot of other situations, let's see, and the type of contracts that we are doing. The prices as well. So as I told earlier that there could be a scenario where prices are low. There is free flow of green beans all around. So then you have that this thing to lower your deals. But in a scenario where prices are fluctuating, where the supply constraints could be there, there are times when you are wanting to buy coffee but availability is also not there.

So we don't want to end up in a scenario wherein you are left high and dry without having sufficient inventory. So that kind of thing is difficult to kind of predict right now, whether we will lower it or not. So therefore, as a guidance, we are saying that we'll maintain the similar amount of inventory going forward in line with the capacity expansion.

**Lokesh Maru:** Okay. And apart from the coffee price part, what usually is our thought process on how many days of inventory do we intend to leave with that?

**Praveen Jaipuriar:** Generally, around 3 months is what we end up seeking. There could be certain fluctuations. I told you before, COVID, we were actually at 60, 65 days as well. So -- but currently, it's more than that, again, owing to fluctuations in the market and the market scenarios. So we have 3 months of inventory right now. But yes, these are all to -- as a guidance, we are saying that we'll be close to 3 months going forward as well, but things could change if there is a lot of stability around that.

**Lokesh Maru:** Sir, any colour on this thing just basic expectations, not really an expert forecast, any colour on given there is impacting both goods this coast of Pacific, which is -- should be Vietnam, right, and the other cost as well, Brazil. What are the expectations building up for the coffee prices to remain firm or like really go down as such?

**Praveen Jaipuriar:** No, so as I was telling you a few minutes ago, these are all-time high prices. We are expecting it to go down. The only thing is that timing is something which nobody is able to predict, that at what time it goes down because these prices are unsustainable. These are all-time high prices. And like any commodity, coffee also has a cycle, this time probably it has held on to higher prices for a little longer than no one had expected. But yes, this -- definitely, this is likely to soften up.

**Lokesh Maru:** Okay. Sir, last question on -- I know you have spoken already about it, but just to reconfirm and clarify on what would be the expected interest outlook for the next 2, 3 years? Like last year, it was very low compared to what we are expecting going forward for FY '24 and '25, sir how much on annual basis what is the kind of interest outlook that you are expecting?

**V Lakshmi Narayana:** As we look at the present scenario, the rate of interest is -- for working capital it is running around 6%. And the term loan, it is likely to be somewhere around 10.5%. Look, it is too hard to say the way that the interest rates are hiking up across the globe. So we presume that the current scenario base will continue maybe in a couple of 3 years because if you look at the U.S., there is a likely increase a couple of markets that we are planning to increase. So that is ultimately going to reflect some other markets as well. So keeping all this in view, we expect our rate is likely to continue as far as CCL is concerned, our working cap is at 6% level.

**Lokesh Maru:** Sir, and our term loan, basically, that would be like INR600 crores of expansion currently and INR420 crores of expansion on future -- INR1,000 crores right, and the rest would be working capital requirement. Is that correct?

**V Lakshmi Narayana:** Right, yes, as I told...

**Lokesh Maru:** And how much have we retiring this term loan, how much do you retire every year?

**V Lakshmi Narayana:** In the current financial year, there is -- almost we are retiring around INR78 crores is the repayment. And the next financial year, it is likely to be around INR120 crores.

**Moderator:** The next question is from the line of Tushar Raghatate from Kamayakya Wealth Management.

**Tushar Raghatate:** Sir, just want to understand what would be our value-added in percentage terms of the volume and the realization premium which you might get on that value-added product in percentage terms? That would be helpful.

**Praveen Jaipuriar:** So value-added is a little broad term. Generally, if I were to convert that value added into, let's say, premium and more specialty coffee, basically between 5% to 10% is our volumes as of now, yes. So these are products which are really innovative, premium and they give us higher margins. Now these higher margins could lie right from 50% to sometimes 100%, 150% higher than the regular margins. It depends on a lot of things.

What is the kind of products? And are we doing -- sometimes these products may go in bulk. Sometimes, they go in small packs. So when they go in bulk, probably we end up earning 50% to 70% higher margins. Sometimes when it goes in small packs, we could end up earning 100% more margin than a regular bulk product. So that's the kind of range that is there. But yes, these are very small, obviously, higher -- highly priced products will have its own niche. So these are small at the moment.

But going forward, yes, this is one focus area that we have been focusing on. The coffee market has been evolving. There is a lot of now queries started happening for specialty coffee, and that's the reason we also set up a mini plant to be able to cater to small quantities. But the fact of the matter is these are smaller quantities as of now. But yes, we are putting a lot of focus to get more and more orders of these kind of coffees.

**Tushar Raghatate:** Sir, my last question, I just wanted to understand like INR100 decrease in the price of a coffee. How much it will have a shift in our EBITDA per kg? That relativity I what to understand...

**Praveen Jaipuriar:** So coffee prices dropping or increasing does not have any effect on EBITDA per kg we work on cost-plus model. So when we do a contract, we do a contract on today's coffee prices. And if the contract gets materialized, we procure at today's prices, yes? So whether in the case of higher coffee prices or lower coffee prices, our EBITDA per kg remains constant.

The only effect that you will see is that in the top line, probably like last year, on a volume growth of 20%, 21%, we got a value growth of 40% to 43%, which meant that we value -- the 20% to 23% higher value we got for the same volume, and therefore, our value growth started looking much higher. But our EBITDA per kg does not change in any scenario.

**Tushar Raghatate:** Fair enough, sir. Sir, just one question. Sir, what would be the utilization level in the India and Vietnam? And sir, we have been on the capex pre, if we could see it. Sir, what is giving that view of -- for the capex, any order book which we have or any concrete orders which you are seeing for the next 1 to 2 years?

**Praveen Jaipuriar:** Okay. So first part, utilization. If you see the India capacity, it is continue utilized, yes? When we see -- when we say fully utilized, it really means that close to 90%, 95% because there will be blend differences and things like that. So it's fully utilized in India. The Vietnam capacity, the earlier capacity, is fully utilized. The new capacity, which is 16,000 metric tons that we added last March, that current utilization is at 50% levels, yes?

So in the first quarter, we saw 50% utilization. And going forward, we expect similar kind of utilization for the full year for the extended capacity. So that's on the capacity front. The second question that you asked was on -- what was your second question? Sorry, if you could repeat. Hello? I missed your second question. I've answered about the capacity. So what was the second question?

**Tushar Raghatate:** Yes, sir. Sir, actually, we could see that we are on a capex pre. So I just want to understand what is the driver of your ongoing capex and the upcoming capex? Any concrete plan...?

**Praveen Jaipuriar:** Yes, yes. So drivers are multi-fold. But basically, if I were to put in a crust, it is our demand estimation from the market, which depends on many things. When we -- like, for example, last year, if you would have gone through our con call, we had mentioned that last year, we almost procured 3,000 metric tons of coffee from third-party and supplied to our clients, which meant that there was demand for us to fulfil and we didn't have enough capacity. So reasons like these.

Second is, yes, for example, freeze-dried. Freeze-dried, we would have installed the capacity probably a year later. But then couple of our clients came and they were ready to underwrite some of the capacity. And they said that they are willing to kind of buy freeze-dried right from the word go. So that again, gives -- so it's a combination of factors of our demand estimation. These are sometimes order books.

So for example, we had order books last year. We bought coffee from outside. So we were very sure that the new capacity, at least that 3,000 tons to 4,000 tons, is readily available to be utilized. And sometimes, it is our demand estimation, which is also based on market information, market queries that we get like in the example of freeze-dried when somebody came and told us that we are going to buy. So all of this leads to our decision on capacity expansion. Some of it has looked like that it was happening back to that. But a lot -- some of our capacity expansion was actually on the radar. It was supposed to happen.

But unfortunately, COVID happened. During COVID time, everything came to a standstill. Everybody was on a wait and watch. And once COVID got over, we started expanding, and then it all looked like all of it has come together. But this 1 to 2 years of capacity expansion actually, probably things where normal would have got spread into 3, 4 years.

**Tushar Raghatate:** Sir, just one suggestion from my end.

**Moderator:** Please, sorry to interrupt, but may I please request you to rejoin the queue for your follow-up as we have people waiting for their turn. The next question is from the line of Manoj Gori from Equirus Securities.

**Manoj Gori:** Sir, probably if I recollect 3 to 4 quarters back in one of the con call, we had a discussion about the return ratios like given that the coffee prices are moving up. So we would be having some impact on the return ratios. However, today, when I learn -- and probably you had indicated like there would be no impact and probably we don't require any incremental working capital or capital employed given that we would be working on the sourcing part, or probably with client part. However, when I look at today, you're talking about the incremental working capital requirement because of the increase in coffee prices. So can you throw some light on this or correct me if I'm wrong?

**Praveen Jaipuriar:** So exactly 6 months ago, if you were to read most of the analyst reports on green coffee, you would find that everybody had predicted a fall in green coffee prices. And so did we. But unfortunately, some fund guys took position on coffee. Coffee as a commodity became one commodity where people wanted to play because most of the other commodities of you see, their cycles, they're on a downward spiral.

And therefore, a lot of fund guys took position here and the coffee prices did not come down at all. And that led to -- and at that time, we had thought that if it comes down by $300, $400, then we would be in a position where we may not require additional working capital and we could maintain even with our expanded capacity. But unfortunately, what happened is that the coffee prices have kind of stayed at higher levels and haven't come down, putting pressure on working capital requirement as of now.

**Manoj Gori:** Right. Right. Sir, my second question would be, so if you look at the EBITDA growth that we just guided, or probably what we are targeting of roughly around 20% EBITDA growth for the next 2 years, however when I look at the new capacities which are coming in seem to be more premium as compared to the spray-dried. So especially when you look at the Vietnam conglomerated coffee, so where we command better margins as compared to India operations, plus next year, we would be coming with freeze-dried capacities as well.

So don't you expect -- and plus, we are focusing on the better value-added product mix. So don't you feel like 20% EBITDA growth, while we are targeting for that 18%, 20% volume growth, like our EBITDA per kg or per ton should improve significantly or at least it should improve, whereas what we are seeing right now is like it would be moving in line with volume growth?

**Praveen Jaipuriar:** So I'm talking a little bit broadly. If you really dig down into -- dig down details, probably you'll get a sense that there are certain aspects where we will improve our EBITDA. But let me talk in a little broader way. If you see at current levels, there are 2 capacity expansions that we are doing -- 3 capacity expansions. And if you see the first 2 are 16,000 tons and 16,000 tons of spray-dried capacity, so our mix in the total all scheme of things will change.

So we'll be selling more of spread capacity, which means that in an overall level, at consolidated level, the EBITDA as well come down because our freeze-dried proportion, which gives us higher EBITDA, will reduce in the next couple of years. It's only in next year -- in the mid of next year when the freeze-dried capacity comes we will start doing -- getting freeze-dried -- we will start getting better EBITDA from freeze-dried. So keeping all of these in mind, there will be pluses. There will be certain minuses. The pluses will happen. Yes, we are focusing on value-added products.

But as I just told you, it's right now very small. So I don't see significant impacts coming in next 2 years, and that is why we gave guidance for 2 years. Subsequent to 2 years, probably when these segments like small packs, like value-added products, when they start growing in higher proportions and have significant basis in our portfolio then we will start seeing better EBITDA margins. But for couple of years, the EBITDA that we are kind of talking about is -- the growth that we are talking about is led by volume, and we would like to maintain that next 2 years will grow as per volume growth, and we will get around 20% volume growth on EBITDA.

**Manoj Gori:** Sir, lastly if I may squeeze in, so as I understand correctly...

**Moderator:** I'm so sorry to interrupt, may I please request you to rejoin the queue.

**Manoj Gori:** Sure, sure. Yes.

**Moderator:** The next question is from the line of Aashish Upganlawar from InvesQ Investment.

**Aashish Upganlawar:** Sir, you mentioned that the tax rate could be around 9% this year and I think 12% around -- beyond '24. So is it going to be sustainably at 20 -- 12%? I guess you have some tax breaks in Vietnam, I guess. So if you could clarify on that, will be helpful.

**Praveen Jaipuriar:** Yes. So I'll tell you. It would have been 12% this year. Next year also 12%. But because of demerger, we will see a lower tax rate this year, which is close to 9%. Next year we will be closer to 12%, 13%. But a year after that, we will have our India capacity where the new tax rate is around 15%. So as a combination, it will be closer to that number.

But don't hold me first thing that it was 12% and it came to 13.5% or things like that. But a lot will depend on how -- or which plants we are utilizing, where is the utilization higher, where is the utilization lower. All that factor will play up. But next couple of years, yes, you are right. It will be closer to 12% to 14%, not below or beyond that.

**Aashish Upganlawar:** Yes. So can we break this up into India what tax rate you will be paying on an ongoing basis? And then in Vietnam, how much it is?

**V Lakshmi Narayana:** So in Vietnam, as of now, it is completely exempted, till the next announcement comes. It continues the -- corporate income tax is zero.

**Aashish Upganlawar:** Okay.

**V Lakshmi Narayana:** And in India, we have SEZ, we have EOU and the different combinations it goes on the rate.

**Aashish :** Okay, okay. So on a blended basis, we still will be -- have a visibility of, say, 14%, 15% for the next -- beyond '25?

**V Lakshmi Narayana:** Yes, a couple of -- yes you told that '23, '24 and '24, '25 and it will continue to be 12%.

**Moderator:** The next question is from the line of Vivek Ganguly from Nine Rivers Capital.

**Vivek Ganguly:** Historically, what we have seen is that you all had a healthy top line and a very conservative balance sheet. And that was obviously aided by the low cost of borrowing of 3%, 3.5% that you all had. Now going forward, we are going towards a continued growth of robust 20-plus percent or 20%. And the balance sheet where the debt equity is moving towards 1:1 ratio, aided by -- because of tailwinds or headwinds that are there underlying. And where your cost of capital or cost of debt is also moving from this historical 3%, 3.5% to 6% to 7% range.

So I think this is what actually is where all the concern is emanating from. Is that are we -- the fiscal discipline that we had in the past, are we letting go of that? Or if things slip -- are we on a slippery slope if things were not to work out and things were to get a little more risky? That is if you can address this question philosophically, a lot of things would get taken care of either way from my personal perspective.

**Challa Srishant:** Yes. So maybe I can answer this question. So fundamentally, this is a question that a lot of people have been asking us directly. So from our side, there is no change in our thinking or our philosophy or our strategy also for that matter. To be very frank, I think everyone's been tracking the company for quite some time. They've seen that in India, we were already operating at peak capacity for the last couple of years.

In fact, the year that COVID hit that was when we were actually supposed to go in for expansion. But we had to delay that because the whole world was on lockdown. And even during the COVID year, what happened was we managed to have a 10% growth in volumes. And in fact, that was a year that we were able to actually penetrate the market even better. So subsequently, once things started easing up, we started focusing on the expansion part. We had to go one expansion after the other.

We initiated some line balancing, then we enhanced the capacities and started growing. And as our volumes started growing as we started supplying to customers, we started adding a lot of new customers as well. For us, if you look at it historically, look at 2008 for instance. In 2008, the whole world was in recession. We were, I think, one of the only companies that grew by almost 40%. So these disruptions that keep taking place once in a while, we've -- actually turned out to be opportunities for us. And at least we look at them as opportunities because that is when customers are willing to look at alternatives.

Now when COVID hit, we've seen the sudden spike where people wanted those alternatives in place. They have realized you can't have overdependencies on any one geography or territory. When the Russia war situation happened, we've seen a complete sea change in how customers think. People who wouldn't have even considered talking to any other alternative vendors because of the relationships that have been in place for years, were forced to start onboarding new suppliers.

And by virtue of being one of the largest manufacturers in the world, it became that much easier for us to approach these new clients. And that is what is giving us that confidence today that we can continue this volume growth because once we get entry, we are there to stay. Our ability to match customers' blends is also relatively easy because of the R&D team that we have developed at our end. So customers -- people who have never considered alternatives are suddenly surprised that, oh, this company is able to match my existing blend with maybe one try or maximum of two tries.

And not only match, after we get that confidence in place, we're able to offer a wider range of products. We're letting the companies to rethink their own strategies about how to expand further in their areas. So we are forging much stronger partnerships, which is also enabling us to grow.

One of the reasons -- in fact, interestingly, one of the customers that we have, one of our largest customers, we onboarded them and just before onboarding them. They made it very clear. These are our credit terms. Only if you are financially strong enough to offer these credit terms we will even consider you as a supplier. With those particular credit terms, the number of potential suppliers come down from 100 to maybe 4 or 5 in the world, and we are one of them.

So we -- today, in fact, one of our existing shareholders also asked us to explore the option of why don't you consider -- because of your economies of scale and all, why don't you consider getting credit from your own suppliers. Why don't you consider reducing your credit days with your customers? We've explored both these options as well. But what we found, interestingly, is because of the credit rating of the company, we are able to get access to funds at a much lower rate than everybody else. That is also one of the competitive advantages that we have, both in India as well as Vietnam.

We are in this priority sector right now. And there are certain benefits that come out of that, which is why we are actually utilizing our working capital and everything else to the fullest to achieve our objectives. So it's a combination of everything that is enabling us to grow at the pace that we are growing.

As far as this long-term debt is concerned and everything else, as I mentioned earlier, our initial strategy -- our strategy over the years has always been, first, to expand, then stabilize, then expand and then stabilize. The only change that has come about this time is we had to advance our freeze-dried expansion by about 1, 2 years only because we have a customer coming and saying, "We're willing to give you a commitment in writing for at least 5 years." If that did not happen, we would have postponed this expansion until the stabilization was completed.

So we are in a situation where that debt is a little higher right now. But that confidence level is there that not only can we service this debt, we can also grow at a much faster pace than what we anticipated earlier. In fact, that is one of the reasons why because the B2B space is 100% taken care of at least for the next couple of years, we have that confidence and that flexibility to focus on the B2C also a little bit more aggressively. We are not like -- one of the questions that one of the shareholders asked earlier is, what is the profitability that we're expecting from the B2C segment and all that? Are we focusing on profitability right now?

The answer is no. Right now, our intention like what we did in India, our focus is to grow volumes in the B2C space in a sustainable manner. We are not looking at spending ridiculous amounts of money in advertising and pushing the product. Every country that we are introducing our products, there will be a learning curve. So we're planning and doing that slowly and steadily. And our intention is eventually the transition should hopefully take place where we are more of a B2C company than just a B2B company as we were in the past.

And this transition also, we are doing with the help of our existing customers in different regions, the several distributors, the people who are changing their entire business model because of us, partners that have been with us for so many years. So all these changes is what is giving us the confidence that we are on the right path with respect to the long-term vision of the company.

**Moderator:** Ladies and gentlemen, that was the last question for today. I would now like to hand the conference back to the management for their closing remarks.

**Praveen Jaipuriar:** Thank you, everyone, for joining us. I hope we have been able to clarify some of the doubts some of you had. And please feel free to reach out to us separately if you have any queries. You can write it to our -- to Sridevi, and we'll be happy to answer your queries. Thank you so much, and look forward to meeting you again.

**Moderator:** Thank you. On behalf of Antique Stock Broking, that concludes this conference. Thank you, all, for joining. You may now disconnect your lines.