CCL PRODUCTS (INDIA) LIMITED
Corporate Office : 7-1-24/2/D, "Greendale",
Ameerpet, Hyderabad - 500016, T.S., India.
TEL : +91 - 40 - 23732455 FAX : +91 - 40 - 23732499
E-mail : info@cclproducts.com Website : www.cclproducts.com

29th October, 2018

To

The Corporate Relations Department
Bombay Stock Exchange
Phiroze Jeejeebhoy Towers
Dalal Street,
Mumbai – 400 001.
Fax No. : 022-22723121/3719

Dear Sir,

Ref: Regulation 30 of SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015
Sub: Transcript of the conference call held on 22nd October, 2018
Scrip Code: 519600

With reference to our intimation dated 20th October, 2018, informing you about the conference call with Analyst/Investor to be held on 22nd October, 2018 above, please find enclosed herewith the transcript of the aforesaid conference call.

This is for your information and necessary records.

Regards,

For **CCL Products (India) Limited**

Sridevi Dasari
Company Secretary & Compliance Officer

Encl: as above

CIN No. L15110AP1961PLC000874
Registered Office & Factory : Duggirala, Guntur Dist. - 522330, A.P., India.
Phone : +91 - 8644 - 277294, Fax : +91 - 8644 - 277295

"CCL Products (India) Limited Q2 FY2019 Earnings Conference Call"

October 22, 2018

ANALYST: **MR. ABHISHEK NAVALGUND - NIRMAL BANG INSTITUTIONAL EQUITIES**

MANAGEMENT: **MR. CHALLA SRISHANT– MANAGING DIRECTOR - CCL PRODUCTS (INDIA) LIMITED**
MR. V. LAKSHMI NARAYANA – CHIEF FINANCIAL OFFICER – CCL PRODUCTS (INDIA) LIMITED
MR. P. S. RAO – CONSULTANT COMPANY SECRETARY – CCL PRODUCTS (INDIA) LIMITED
MS. SRIDEVI DASARI - COMPANY SECRETARY – CCL PRODUCTS (INDIA) LIMITED

Moderator: Ladies and gentlemen, good day and welcome to CCL Products India Limited Q2 FY2019 Earnings Conference Call hosted by Nirmal Bang Equities. As a reminder, all participants' lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing "*" and then "0" on your touchtone telephone. Please note that this conference is being recorded. I now hand the conference over to Mr. Abhishek Navalgund from Nirmal Bang Equities. Thank you and over to you Sir!

Abhishek Navalgund: Good afternoon everyone. On behalf of Nirmal Bang Institutional Equities I welcome you all on this Q2 FY2019 earnings call of CCL Products India Limited so from management side, we have with us Mr. Challa Srishant, the Managing Director, Mr. V. Lakshmi Narayana, the CFO of the Company, Ms. Sridevi, Company Secretary and Mr. P. S. Rao, Consultant Company Secretary of the company so we will being the call with the opening remarks on the management and then will open the floor for Q&A so over to you Sir.

Challa Srishant: Thank you for the introduction. The group has achieved turnover of Rs.292.11 Crores for the second quarter of 2018-2019 as compared to Rs.296.63 Crores for the corresponding quarter of the previous year and the net profit is Rs.47.18 Crores as against Rs.33.42 Crores.

The EBITDA is Rs.77.62 Crores and the profit before tax is Rs.65.59 Crores. For the half-year ended 2018-2019, the group has achieved a turnover of Rs.586.89 Crores as against Rs.545.94 Crores for the corresponding period of financial year 2017-2018 and net profit is Rs.86.64 Crores as against Rs.60.46 Crores.

During this quarter, the company has executed some more profitable contracts from Vietnam, which has also contributed, significantly to the bottomline. Regarding the SEZ plant, we have commenced trial production in this Q3 and we are applying for the necessary permissions for the certification by the end of this quarter and by Q4 we are excepting to receive all the necessary client approval as well as certifications and we are targeting to start commercial production from April 1, 2019.

In light of the above, we are also revising guidance for this year from earlier 10% to 20% bottomline where increasing it to 15% to 20% bottomline, topline has still expected to be in the range of 5% to 10%. That's it we can go over to the questions.

Moderator: Thank you very much Sir. We will now begin the question and answer session. The first question is from the line of Jignesh Kamani from GMO Group. Please go ahead.

Jignesh Kamani: Just to have a view on the volume growth both in India and Vietnam. I think in India we were running almost full capacity despite of our EBITDA grew by around 20% so volume growth was very healthy or production was far superior?

Challa Srishant: Actually in India, we were operating at full capacity but yes, we started doing a little bit more of small pack orders in this year, which is also contributing to further value addition so there is also a little bit of margin expansion that we are seeing because of that. Next year onwards we are also planning for a new packaging facility and we are going for more value addition. Predominantly today we are selling mostly bulk coffee that is the majority of our business, but we are moving more in more to small packs and this makes the business also more sticky because we are supplying to supermarkets and brand owners in that brand name.

Jignesh Kamani: Same client is shifted to more or you can say small pack order or we are getting new client which lead to better?

Challa Srishant: We are getting new clients in some business that we are trying to get for a couple of years that has translated into orders now and some of our existing customers are also buying some more additional small packs from us.

Jignesh Kamani: Understood so that can do profitability more sustainable?

Challa Srishant: Yes that is correct.

Jignesh Kamani: How is the volume growth in Vietnam?

Challa Srishant: Vietnam we are on track. It is almost about 15% or so was the volume growth that we have seen.

Jignesh Kamani: Okay and just on the new freeze-dried unit based on the interaction with the client what kind of utilisation we can achieve in the next year?

Challa Srishant: Next year we are targeting around 50% utilization.

Jignesh Kamani: With what about the margin we used to report in past on the baseline or there is dilution is the margin?

Challa Srishant: No the same similar margin.

Jignesh Kamani: Thanks a lot.

Moderator: Thank you. The next question is from the line of Nitin Gosar from Invesco Mutual Fund. Please go ahead.

Nitin Gosar: Congrats on a good set of numbers. The guidance on the underlying commercial economics of the business couple of quarters back we were struggling to see profitability vis-à-vis with the expectation that we had set, this year the first half we have seen the profitability has sharply improved versus the expectation. I was trying to understand is it the underlying business for freeze, which has improved wherein we had some concern that globally more capacities are coming and which would be exerting some bit of profitability pressure?

Challa Srishant: I understood the question. If you go to the earlier transcripts also one of the thing is last year and the year before that we were focusing mainly on the volume growth and especially in the last financial year, we were focusing mainly on the volume growth and we were adding new customers as well and that was supposed to be the foundation for getting new customers on board and today now we are realizing that whatever strategic decision we have taken last year we are reaping the benefits from this year onwards. Some of these customers whom we supplied in bulk last year, they have established us as a consistent supplier and they have started giving orders for small packs as well, which is also one of the reasons why we are seeing growth this year onwards.

Nitin Gosar: On this same is there a way to understand how much percentage of businesses right now still in bulk and how much is in small packs?

Challa Srishant: Around 70% will be the bulk business in India and about 30% of the India business is right now in small packs. Vietnam almost everything is in bulk.

Nitin Gosar: There is high degree of profitability, which can be expected if more clients get skewed towards the smaller packs?

Challa Srishant: That is correct.

Nitin Gosar: For them to shift small packs what is the advantage they get?

Challa Srishant: For them they are buying from only one single person. Earlier they used to buy from resellers, we used to supply to resellers in different geographies, they used to pack the product at their margin and then supply. By buying directly from us they are getting an advantage of buying directly from the manufacturer so depending on the volumes that they are buying they will get the price advantage also, as opposed to buying from many of the resellers or third parties.

Nitin Gosar: One last question on freeze-dried facility, which is coming up for commercialisation. In past whenever the new facility used to come up, we used to see a jump in volume, but a dip in margins or the profitability. Should we expect a similar kind of outcome for the next two years when the facility will be available?

Challa Srishant: Not really. Not a significant dip in margins or anything like that. If you look at Vietnam also when we started utilizing the plant initially we had less than 50% utilization because we had introduced Spray Dried Coffee in Vietnam where there was already a lot of competition. Now in India we are setting up Freeze Drying plant where the demand is much more and Freeze Dried is a significantly more premium product and we are introducing products, which are in Freeze Dried categories, there are several subcategories of more premium products that we are introducing. So the main purpose of setting up this plant also was to expand our offerings in Freeze Dried, not just the plain vanilla type Bulk Freeze Dried that we used to manufacture, but now we can do a wider range of products as well, which is one of the reasons why we are quite confident that we can maintain the same margins.

Nitin Gosar: Got it Sir. Thank you.

Moderator: Thank you. The next question is from the line of Ronak Morjaria from Edelweiss Asset Management. Please go ahead.

Ronak Morjaria: Good afternoon. Congratulations on a good set of numbers. Sir, if you could throw some light on our retail domestic operations? What has been the revenue this quarter?

Challa Srishant: For the first half now, I we have done about Rs.40 Crores as revenue from the domestic market. Last month we have launched Malgudi and THIS brand for a 3 IN 1 premix, we have started placing the products in the market and online. Our projection for this year is about Rs.100 Crores and this Q3 and Q4 will give us a clearer picture as to the response of the products in the market. Current projections are at Rs.100 Crores, so we will know towards the end of Q4 what we are really able to achieve out of this.

Ronak Morjaria: Out of this Rs.40 Crores like roughly 50% would be directly the B2C and balance would be to B2B?

Challa Srishant: Yes that is correct.

Ronak Morjaria: Sir, are we having any plans for any further expansion on Vietnam side in the next one year or two?

Challa Srishant: Vietnam we are doing a little bit of line balancing to enhance the capacity because this year we will be reaching that optimal utilization in Vietnam, so we need some additional capacity over there, so with the minimum amount of investments we can do some line balancing and increase the capacity to around additional 3500 tonnes by next year.

Ronak Morjaria: Okay so that would be ready by the end of FY2020 you are saying?

Challa Srishant: Yes.

Ronak Morjaria: And roughly how much would it cost for us?

Challa Srishant: Around $8 million is what we are projecting on the higher side.

Ronak Morjaria: Thank you and all the best Sir.

Moderator: Thank you. The next question is from the line of Rahul Ranade from Goldman Sachs Asset Management. Please go ahead.

Rahul Ranade: Thanks for the opportunity. I just wanted to understand this proportion of bulk versus small pack what was this say a year ago in the India business?

Challa Srishant: A year ago, I will say may be around between 20% and 25% in India was in small packs.

Rahul Ranade: Which has moved up to 30% then?

Challa Srishant: Yes, around 30% and now with the domestic market volumes also increasing, but likely to go up even further going forward.

Rahul Ranade: Just looking at some historical data from the company's quarterly, the last two years actually saw very significant spike up in the EBITDA margins during the December quarter, which has kind of happened in the September quarter this time around, so I just wanted to understand whether there is any seasonality inward that we should kind of know of?

Challa Srishant: Actually for our type of business you have to look at it on a year-to-year basis only because customer sometimes they may want to place orders in one particular quarter as opposed to another quarter, so in Q2 this time we have actually executed some more profitable contracts that we would have otherwise executed in Q3 or Q4. That is one of the main reasons why we have seen a substantial hike this year.

Rahul Ranade: Sure, so it might kind of got preponed more profitable orders?

Challa Srishant: Yes, so whatever guidance that we are giving, we look at it on an annualized basis and since we have more or less good visibility for the whole year, we are able to give more or less accurate guidance.

Rahul Ranade: Thank you.

Moderator: Thank you. The next question is from the line of Akhil Parekh from Elara Capital. Please go ahead.

Akhil Parekh: My question is on the raw material front. We are seeing the coffee prices are hitting all time low right now, so how much the improvement in margin is because of the small packs of the change in the product mix versus the declining trend is the raw material prices?

Challa Srishant: Akhil as you know our business model itself is such that the green coffee prices really do not impact us because we have already sold coffee before hand. We are covered on a back-to-back basis, so whether the prices go up or down, it really does not make too much of an impact, where it does make an impact is with that percentage appears to increase because the turnover is coming down. That is the only impact.

Akhil Parekh: What you are saying is basically the realizations, the flattish topline might be because of the decline in the realization?

Challa Srishant: Yes, there is almost 20% decline in green coffee prices compared to last year, in spite of that decline we have managed to maintain more or less the similar turnover, which clearly shows that we have done more than 20% additional volume growth also this year for the first six months.

Akhil Parekh: So directionally the EBITDA per tonne would have improved, right that is what I am assuming?

Challa Srishant: Yes.

Akhil Parekh: On Y-o-Y basis?

Challa Srishant: Yes it has.

Akhil Parekh: My second question is on the utilization level for first half at India and Vietnam so should we able to continue with 95% in India, around 75% to 80% in Vietnam by the end of the calendar year?

Challa Srishant: Between 90% and 95% I am factoring shut down period for maintenance and everything, 90% to 95% is what we are doing in India, and we are going to continue with the same thing, Vietnam we are seeing an increase in utilization around 75% to 80% as what we are targeting this year.

Akhil Parekh: The maintenance shutdown you are saying it is going to happen in the second half?

Challa Srishant: The maintenance shutdown has already completed in the first half itself.

Akhil Parekh: Okay. How many days it was?

Challa Srishant: About 20 days.

Akhil Parekh: My question is on the private label side. So we have seen some TV commercial in the south right, so are we planning anything on ad spend in Hindi medium?

Challa Srishant: Actually we are. I think not in Hindi medium. We are now doing in the south only in the four states Tamil Nadu, Karnataka, Telangana and AP in Tamil, Kannada and Telugu , three languages that we are doing the ads, we are targeting only the southern states because this is where we are selling Malgudi Filter Coffee. North India the filter coffee itself is negligible, so we are not targeting that market. If we start targeting that market our ad spent amount also will increase substantially, which did make sense at this point in time.

Akhil Parekh: Got it. So we should not expect Malgudi in D-mart, Big Bazaar in Mumbai maybe?

Challa Srishant: That I am not too sure because most of the biggest chains they are asking us to keep the product there, and our offtake in the D-marts and all is actually quite good, the response has been so good, they are asking us to do the private label as well.

Akhil Parekh: Just last question, in terms of expense last time we have maintained at whatever we are going to earn from Continental Coffee Private Limited is going to go in the ad spent, ad in promotion plus 10 Crores from the CCL right, do we stay with the guidance?

Challa Srishant: Right. We are 100% on track for that. There is no change.

Akhil Parekh: Sorry one more question if I can squeeze in, in terms of margin obviously there has been a sharp improvement for first half now almost 24% of the margins were hitting versus 21% last year, so any colour on the margin guidance Sir?

Challa Srishant: No, so frankly, this is only it appears to have increased. Our per kg realization is still the same. It is only because of the raw material prices coming down on a percentage basis it appears that we are getting a higher margin. So this as you know when coffee green prices go up then this margin percentage as such will also come down.

Akhil Parekh: Thank you so much for answering my questions.

Moderator: Thank you. The next question is a followup from the line of Nitin Gosar from Invesco Mutual Fund. Please go ahead.

Nitin Gosar: My followup question is on the small pack line, I guess in your starting commentary you made a note on the packaging lines, which we were going to put on additional, could you highlight how much is the capex, which will be involved on there and how it will change the revenue profile or the earnings profile?

Challa Srishant: Yes, we are setting up an agglomeration and packing unit by next financial year, the investment is approximately around $12 million.

Nitin Gosar: Okay. This is in India?

Challa Srishant: In India. This is outside the SEZ in Sullurpet. The SEZ is 30 acres of land. We already purchased some additional land also four years ago, so in that balance portion we are setting up this unit.

Nitin Gosar: Sorry let me put it in this way so whatever revenue or the output that we generate out of Chittoor plant, we will push it through the new unit for agglomeration and packaging and may garner more value-added product sort for that facility?

Challa Srishant: The SEZ plant is a separate unit that is catering to the export market. The unit that we are proposing to set up is a DTA unit because of the increased volume in the domestic market mainly. Now the number of SKUs that we have introduced in the domestic market also has increased substantially apart from this, even our export orders for small parts have been increasing, so keeping these two requirements in mind, we are setting up a DTA unit outside the SEZ unit.

Nitin Gosar: This $12 million capex that we are going to do, this will be able to suffice what kind of quantity that you produce in India like say 20000 tonne is the capacity?

Challa Srishant: What we are going to do is we are setting up an agglomeration capacity of about 5000 tonnes and the packing capacity also will be similar around between 3000 and 5000 tonnes is the packing capability that we are going to setup, so there is no additional product that will come, but we see value addition that comes in because of this investment. It will be more or less fully automated packing line.

Nitin Gosar: Okay and what would be the incremental realization that we should be expecting for this?

Challa Srishant: There should be an incremental realization maybe around additionally maybe 5% more at least we should get because of the small packs.

Nitin Gosar: Okay and for additional 2% or 3% expense is that the way?

Challa Srishant: Yes, something like that.

Nitin Gosar: Last question is with regard to INR depreciation, now the existing numbers that we are seeing, are we having any kind of INR depreciation benefits in terms of better realization and better profitability?

Challa Srishant: One because we are buying our raw material in dollars and we are selling our finished product in dollar, there is a natural hedge, for at least 70% of our product cost is raw material, because there is a natural hedge over here, automatically, only in the balance 30% where we are doing the conversion aspect over there, there will be a marginal benefit that we are getting.

Nitin Gosar: Got it. Sorry I have one more question. Globally a couple of quarters back when we used to discuss there used to be a worry about the incremental capacities, which are coming up on Sprayed Dried where we are putting up pressure on the realization, as that scenario changed, moderated or has worsened any kind of update on that?

Challa Srishant: Additional capacities were always there. There was more than 50% excess capacity in the past and even now that is the same situation. There are new capacities constantly coming on broad as well, but one thing what even the people who are building new capacities realizing is that just having a production facility is not sufficient to generate sales. When you are working with coffee brands, there is a lot of R&Ds that required, there is a lot of product development that is required all this is quite expensive and time consuming, on top of all this, you need the right partners and multiple geographies who can help introduce your product in these markets, what we have initiated more than 20 years ago, the relationships that we have built more than 20 years ago, we have been able to get consistent repeat business because of that. So whatever we do like even last year what we had done was in light of the additional competition and all we were trying to be more aggressive in the market and we were successful in adding more volume to our business. Now we are able to take that relationship to the next level as well. So this is an ongoing process that is going to be there and going forward also we are not expecting the competition to reduce. We have multiple advantages because of the plant being 20 years old and we also have lot of product development that we have done, we have economies of sale, so there are multiple advantages that we have, that is enabling us to be competitive. Going forward also because we are constantly expanding our capacities, we do not see any problem in selling more volumes in the future as well.

Nitin Gosar: Perfect. Thank you Sir.

Moderator: Thank you. The next question is from the line of Ankit Jain from Mirae Asset Management. Please go ahead.

Ankit Jain: You have mentioned that India business volume growth has been at around 20% this quarter?

Challa Srishant: India, more than that actually because last year we have done about 46 Crores in the whole year, this year in the first six months we have done about 40 Crores.

Ankit Jain: No. I am not talking about consumer business, I am talking about B2B business for the standalone entity for which the revenues are flat, so there the volume growth is around 20%?

Challa Srishant: No, the volume growth is not 20% I think in the range of maybe 10% or so.

Ankit Jain: Secondly that if I look into I mean in your balance sheet the entire increase pertains to CWIP/capital work-in-progress is towards the Freeze-Dried capacity?

Challa Srishant: Yes, that capital work-in-progress is towards the Freeze-Dried.

Ankit Jain: Okay, so as on September end, does the entire amount has been spent pertains to that plant?

Challa Srishant: I will just ask our CFO to answer this.