



19th July, 2019

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 11th July, 2019
Scrip Code: 519600

With reference to our intimation dated 09th July, 2019, informing you about the conference call with Analyst/Investor to be held on 11th July, 2019 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**

A handwritten signature in blue ink, appearing to read "Sridevi Dasari".

Sridevi Dasari
Company Secretary & Compliance Officer

Encl: as above

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“CCL Products India Limited 1Q FY20 Results Conference Call”

July 11, 2019



MANAGEMENT: **MR. CHALLA SRISHANT – MANAGING DIRECTOR, CCL PRODUCTS**
MR. V. LAKSHMI NARAYANA – CFO, CCL PRODUCTS
MR. KVLN SARMA – COO, CCL PRODUCTS
MS. SRIDEVI DASARI – COMPANY SECRETARY, CCL PRODUCTS
MR. P. S. RAO – CONSULTANT COMPANY SECRETARY, CCL PRODUCTS
MR. PRAVEEN JAIPURIAR – CEO, CCPL

MODERATOR: **MS. DHARA MEHTA – NIRMAL BANG EQUITIES PRIVATE LIMITED**



*CCL Products
July 11, 2019*

Moderator: Ladies and gentlemen, good day and welcome to the CCL Products (India) Limited Q1 FY20 Earnings 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, please signal an operator by pressing * then 0 on your touchtone phone. Please note that this conference is being recorded.

I now hand the conference over to Ms. Dhara Mehta from Nirmal Bang Equities. Thank you and over to you, ma'am.

Dhara Mehta: Good afternoon. We have on line the management represented by Mr. Challa Srishant – the Managing Director; Mr. V. Lakshmi Narayana – CFO; Mr. KVLN Sarma – the COO; Ms. Sridevi – the Company Secretary and Mr. PS Rao – Consultant Company Secretary to address the queries of the investors. Over to you, sir.

Challa Srishant: Thank you. Thank you for the introduction. The group has achieved a turnover of 273.72 crores for the first quarter of 2019-20 as compared to 294.77 crores for the corresponding quarter of the previous year and the net profit is 34.67 crores as against 39.46 crores. The EBITDA is 69.95 crores and the profit before tax is 54.48 crores. During the quarter, the company has commenced commercial operations of the SEZ unit in Chittoor district. Our guidance for the year remains the same as we had mentioned earlier a 15% to 20% growth in volumes as well as 15%-20% EBITDA growth. Thank you. We can go ahead with the questions.

Moderator: Thank you very much. We will now begin with the question and answer session. The first question is from the line of Himanshu Nayyar from Systematix Group. Please go ahead.

Himanshu Nayyar: So, to start with, can you give us some color on the volume performance separately for the India and Vietnam business and how much volumes broadly would have come from the new SEZ unit?

KVLN Sarma: There is some unsold quantity which is to be dispatched in Vietnam. Barring the quantity which will come in second quarter, we are almost equal to the quantities in Vietnam. SEZ unit, our guidance was about 2500 tonnes for the year and we should be achieving this. We have done proportionately on this, perhaps we might be able to do a little bit as well.

Himanshu Nayyar: So, what I have been seeing from the numbers, there is sharp decline in our subsidiaries revenue. So, obviously Vietnam and India business, so could you share some light on what really has happened there and how has the India, the domestic business performed?

KVLN Sarma: Vietnam as I told you, there is some additional quantity to the extent of about 150 tonnes. The pre shipment approval is to be obtained. Once that comes in, taking that into account, the quantity as well as the turnover would be closely equivalent to last year. Last year anyway is the peak for



*CCL Products
July 11, 2019*

us in Vietnam, almost we achieved about 40% growth last year in the first quarter in Vietnam. So, there may be a slight adjustment, but with this stock to be dispersed, we would be reaching almost same parameters. SEZ as you know, we have reached the proportionate levels of annual projection. In domestic market, this year the summer has been very severe and there was no decrease as such, but there was no major increase also in the domestic sales this quarter.

Himanshu Nayyar: And the margins also seem to have come off sharply, so has there been a significant increase in domestic business losses or is it only because of Vietnam profitability coming down?

KVLN Sarma: There is a reduction in the profits from Vietnam operations due to the lower volumes offtake.

Himanshu Nayyar: And final question is on this large dividend payout from Vietnam of about 58 crores. So, Srishant, just wanted to understand our strategy there. This large dividend payout, does it mean that there are no significant CAPEX requirements out there, that is why we are getting all the money paying that out or something else?

Challa Srishant: No, we have actually put aside the amount required for the CAPEX. As I have already mentioned earlier that this year, we are going in for a capacity enhancement of little more than 3,000 tonnes. So, we have put the funds aside for that expansion and the excess amount is what we have declared as dividend and brought back over here. Now that Vietnam entity is debt free, the additional funds instead of putting in a bank account over there and not earning anything, we thought to just declare it as dividend and bring it back.

Himanshu Nayyar: Just final question on the coffee prices, what is our outlook? As of today, what the prices would be and what is our outlook for the year if you can share, because that obviously would impact our revenue assumptions going forward?

Challa Srishant: As of now, there are two sides of the spectrum. One side, we keep hearing news like there is a frost in Brazil. Because of which, the crop is likely to reduce for next year and they are expecting the prices to go up, but just yesterday again there was another article which came out saying that the frost in fact, is not as severe as they thought it would be and which is also one of the reasons the market started correcting downwards again. To be frank, at this point I am not expecting any significant changes because there is sufficient coffee which is there in the market, there is sufficient supply for the demand. So, unless funds invest and create an artificial demand or something like that, we are not expecting very significant changes.

Moderator: Thank you. The next question is from the line of Prem Thakaar from Unilazer Ventures. Please go ahead.

Prem Thakaar: Just a few book-keeping questions. Depreciation, I think we had last quarter of around 4 to 5 crores, this quarter it has gone up to 11 crores. So, this rise was due to?



*CCL Products
July 11, 2019*

- KVLN Sarma:** Due to SEZ which came into operational in the month of April.
- Prem Thakaar:** So, for the full year we should expect 44 crores?
- KVLN Sarma:** Yes, it will be in line with that.
- Prem Thakaar:** And the tax rate has also gone up quite a bit in this quarter that was due to?
- KVLN Sarma:** Tax rate is deferred tax because SEZ came into operation. You could see almost 4.3 crores additional deferred tax come in place.
- Prem Thakaar:** So, will this come in the future quarters also?
- KVLN Sarma:** Because this is a deferred tax, it is all notional provision, which we need to provide. It will continue in remaining 3 quarters also in similar line.
- Prem Thakaar:** So, for the full year, then we should have similar tax rate what we have in this quarter?
- KVLN Sarma:** Yes, deferred tax anyway it will continue. As we all know that it is only notional, there is no cash impact in that. Because of SEZ came into operation, provision is required to be made. Otherwise, there is no increase in the tax rate if you look at it separate in deferred tax and current tax.
- Prem Thakaar:** So, no cash impact, it is just a notional impact that is... And sir just last question on the Vietnam EBITDA, I understand in India the EBITDA has gone up due to freeze dried, but in Vietnam was it that last year we had a very high base or any one-off contracts there we had of higher margin or how was it?
- KVLN Sarma:** Last year's Vietnam EBITDA was slightly better. At that point of time, there was one product that we have done for a customer which has given substantial additional profitability. That business is likely to recur in second quarter of this year.
- Prem Thakaar:** Second quarter our margin should go up?
- KVLN Sarma:** Should be better.
- Prem Thakaar:** And India EBITDA will it continue at the same rate?
- KVLN Sarma:** FD proportion has increased.
- Challa Srishant:** It will continue.



*CCL Products
July 11, 2019*

Moderator: Thank you. The next question is from the line of Sunil Jain from Nirmal Bang. Please go ahead.

Sunil Jain: Sir, my question relates to more of on a broader level like now Brazil and Europe has come to trade agreement where Europe will not be imposing any tax over a period of time on Brazil instant coffee import. Is not that have any impact on us?

Challa Srishant: This thing is supposed to come into play from 2020 onwards and they are saying that they will gradually bring it down from 9% to 0, this is their target. But what we understand from our partners in EU is that there are a lot of challenges that are going to be faced by the authorities to implement something like this because there is a huge lobby which is against this. There are lot of environmental concerns, the meat industry is affected. The EU domestic business is going to get drastically affected by this reduction. So, lot of people are doubtful as to whether it will really get implemented as it is or whether there will be modifications or no. That said, today in India we have 3.1% preferential duty system in place. One of the things that we are also doing is making a representation to our government saying that in order for us to be more competitive, if Brazil is getting a zero duty, it does not make sense for developing countries not to get the same.

Sunil Jain: So, we will be presenting to our government which in turn will be presenting to European Union

Challa Srishant: Our government over here and also the Vietnam government because if Brazil is able to really get up to zero within a shorter period of time, definitely there is going to be an impact across the world, but the general philosophy of the EU nations is to give preferential treatments for developing countries like India, Vietnam, agricultural countries. So, it is very unlikely that they will have any policy in place that is going to be detrimental to this.

Sunil Jain: So, Vietnam how much duty is there if we export...

Challa Srishant: 3.1%.

Sunil Jain: And from India also, 3.1?

Challa Srishant: Yes.

Sunil Jain: And how much of our total volume comes from European nation?

Challa Srishant: Around little less than one-third.

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 coffee prices. Given that the coffee prices are declining, has there been any change or negative impact on the freeze dried coffee realization because if I remember



*CCL Products
July 11, 2019*

correctly our assumption is around Rs. 600 per kg of freeze dried. Has there been any change with that number?

Challa Srishant: So, realizations for freeze dried around 2 years ago was definitely higher than what it is today. Now with the additional capacities that have come online, we had actually projected that the prices of the realizations will reduce and that is the level we are at now. So, there is nothing much that has changed over there.

Akhil Parekh: Got it, our guidance was around 300 crores at peak utilization from those new units. So, you are saying that target or that guidance will drop basically looking at the current scenario.

Challa Srishant: 300 crores with talking about running it at full capacity which we are expecting another year or two. The prices are likely to again fluctuate a little bit, but around 300 crores is definitely possible.

Akhil Parekh: Looking at the current prices?

Challa Srishant: At the current value, maybe around 275 to 300 in that range.

Akhil Parekh: Maybe around 3%-4% of impact is this basically?

Challa Srishant: Yes.

Akhil Parekh: And my second question is on the domestic business. If you can please update on the numbers, how much we clocked on the branded sales versus our private labels?

Challa Srishant: We will just request Praveen to join in, I think he can answer this question better.

Akhil Parekh: Two more questions. Any updates on FSMA law for the US. You were saying that there is something going around.

Challa Srishant: For FSMA, that implementation has been done as the law is officially enforced, but it is not seeing very effectively enforced as of now. There have been articles which have come about saying that if there is any violation, there are going to be severe penalties and that is going to be enforced by March of 2020.

Akhil Parekh: So, we might see some uptick in volumes in the US?

Challa Srishant: Actually we are seeing some uptick this year itself because several people who at least the bigger companies do not want to take any chance and who do not want to wait until then, they have already started approving our new products to replace what they have been currently buying.



*CCL Products
July 11, 2019*

- Akhil Parekh:** So, are we seeing any growth in US like YoY?
- Challa Srishant:** We are seeing a growth in the US compared to the previous year, at least 20%-25% growth is there.
- Akhil Parekh:** And if I am not mistaken, US volumes would be around 2000 tonnes roughly?
- Challa Srishant:** About 2500 tonnes. Earlier the business as we were growing through the US was 3000 tonnes, but some of that coffee was growing outside the US as well. So, quantity that was being consumed in the US was about 2500 tonnes.
- Akhil Parekh:** Last question was this any update on the new aggro and packaging capacity which we are going to add in India for this year?
- Challa Srishant:** By this financial year end, we are expecting it to come online. Hopefully the commercial production should start in Q1 of next financial year.
- Akhil Parekh:** Even for the Vietnam, 3000 tonnes which we are doing line balancing will be there?
- Challa Srishant:** Yes. That also similar timeframe we are looking at and Mr. Praveen just joined us, so he can give you an update on the numbers of Q1.
- Praveen Jaipuria:** Q1 numbers, the domestic business we did approximately 15 crores and as you know, coffee has got that seasonality in terms of retail business. So, Q1 is a lean quarter for this business and we did 15 crores which is approximately last year the same value business was approximately 8 to 9 crores. So, there is an upsurge from 9 crores to 15 crores and we look to build upon this as and when we enter the season.
- Akhil Parekh:** And this is purely for the Continental Coffee brand?
- Challa Srishant:** Only Continental.
- Akhil Parekh:** And sir how about the other two, private label and the institutional sales?
- Praveen Jaipuria:** Private label and all they are very small portion of this. Large portion is retail only and like last year we will be focusing on retail and most of our focus will be on retail and the branded segments.
- Moderator:** Thank you. The next question is from the line of Nihil Parekh from Dhanki. Please go ahead.
- Kaushal:** This is Kaushal here. If you can share your thoughts on the volume loss we had in the last quarter. You spoke about loss of customer of around 2000 tonnes and at the same time we also had new



*CCL Products
July 11, 2019*

customers getting added. So, this year while you have guided for a 15% volume growth, if you can share your thoughts on how that will come about and if you are going to add new customers or new regions and where is the growth going to come from?

Challa Srishant: So, whatever we had planned earlier, that is getting implemented now. So, I think I had mentioned this in one of my previous calls also. When we add a new customer, initially we start with a vanilla type product and then slowly start increasing the range of products that we supply to them. So, about a year and a half ago, we have added some new customers with some volume business with low margin business and this year, we have got some orders from these customers for some of the premium products as well. That is one of the reasons why we were able to confidently say that there will be a 15%-20% growth in volume as well. That said, even this customer that we had lost last year, this year we got an indication that he might start buying again from us at least the qualities that he is not able to manufacture at his end. He used to buy about 3-4 different qualities. He was able to match only one or two of the qualities at his plant. So, he is coming back to us saying that he wants us to continue to supply the other more premium products. So, that is a positive move from our side at least.

Moderator: Thank you. The next question is from the line of Manoj Gori from Equirus Securities. Please go ahead.

Manoj Gori: Sir couple of questions. One thing we indicated like 150 tonnes has shifted to Q2 because of the dispatches because of the timing issues, is that right?

Challa Srishant: Yes.

Manoj Gori: So, if my understanding is correct, this 150 tonnes would be approximately 7-8 crores to the total sales? So, despite that, I think the performance on YoY basis has been muted on the topline front. So, is it like the coffee prices have declined significantly like in sort of comparison like how the coffee prices have moved on YoY basis?

Challa Srishant: It is not on account of coffee prices. Perhaps with this customer, the reduction in turnover which will pass onto the next quarter would be in the range of about 8.5 crores to 9 crores. With that said, that will be only slightly lesser than the last year's turnover. Second thing is last year first quarter and part of the second quarter, we had a particular customer where the profitability was substantially better. This year, that business slightly may percolate into second quarter. Overall if you take into account that 150 tonnes which have not been dispatched on account of pre-shipment sample approval, then the financials will broadly match except for a 5%-6% variation.

Manoj Gori: Sir secondly what would be the decline in coffee prices on YoY basis?

Challa Srishant: They are almost averaging out at the same levels. There will be a terminal decrease that will be seen, but at those levels we will not be able to get coffee, quantities will not be available.



*CCL Products
July 11, 2019*

- Manoj Gori:** So, for us whatever volume growth would be during FY20 should by and large should be translated into topline growth as well?
- Challa Srishant:** Approximately around 5%-10% variation depending on the times at which we are executing those out of this.
- Manoj Gori:** Srishant, one question for you like we have been indicating 15%-20% volume growth and 15%-20% EBITDA growth, however when we look at during the current year approximately 2500 tonnes would be contributed from your freeze dried coffee with your profitability is far better. Also, we would be incurring the tax holiday itself for the SEZ zone. So, our EBITDA should be relatively better than our topline and also the net profit should be far better. Is this understanding correct?
- Challa Srishant:** Net profit will not be far better because though the tax component is not there, there will be an additional interest, in fact interest will be at the peak during the current year since we have not repaid any of the loans taken plus depreciation. So, accounting for these two things, the net profit will not be in the proportion of EBITDA increase that I think during the current quarter also, we have seen that additional depreciation on interest was low.
- Moderator:** Thank you. The next question is from the line of Vivek Mashrani who is an Individual Investor. Please go ahead.
- Vivek Mashrani:** So, my question is on the cost of material side. So, with respect to Q1 2019, the cost has slightly increased, but that is not in line with revenue. So, there is a bit of operating margin compression. If you can throw some light around why this has happened?
- KVLN Sarma:** It is almost on the same line. So, this time because of the dispatch that has not taken place, the stock increase is there. So, if you account for that deduction also, it will be on the same lines as it was last year. Broadly, it averages out on a year-to-year basis.
- Vivek Mashrani:** So, I am comparing with respect to Q1 2019, so it was somewhere around 110 crores if I understood properly and now it is like around 150 crores in terms of cost of material.
- KVLN Sarma:** 110 crores plus if you take the stock depletion is to the extent of 26 crores there whereas there is a stock increase of 6.72 crores this year. So, if you add those two figures, it will be in line with..
- Moderator:** Thank you. The next question is from the line of Kawalpreet Singh from Ambit Capital. Please go ahead.
- Kawalpreet Singh:** Sir Can you give me some sense on what is the debt on the books presently and what component of this was taken for the freeze dried unit?



*CCL Products
July 11, 2019*

KVLN Sarma: Freeze dried unit, we have taken 25 million ECB which is equivalent to 162 crores and we had taken another 60 crores towards other CAPEX modernization program, upgradation of certain facilities and all, not related to the figures. Other than these, these are all the two long term loans which is equivalent to 230 crores and apart from this, the regular working capital it is 144 crores as on 30th June, total 365 crores.

Kawalpreet Singh: Okay. So, I am assuming that the working capital loan will just be rolled over. So, can you give me a sense on what is the plan to pay off the debt? By when you expect to pay off this debt for the freeze-dried unit?

KVLN Sarma: This commences the repayment in January 2020 and payable in 4 years of half yearly installments.

Kawalpreet Singh: Okay. So, you plan to spread this payment out over 4 years?

KVLN Sarma: That is what this is actually.

Kawalpreet Singh: Okay, right. And sir given that this loan has now been taken, can you give me a sense. Maybe there is a question for Mr. Srishant. Sir, if you can give me some sense on how you think about dividend payout this year?

Challa Srishant: This year as in for the previous financial year or this current financial year?

Kawalpreet Singh: No, for the current year.

Challa Srishant: Keeping in mind the expansion and the payments and all that, we are looking at maybe around, maybe in the range of 25%.

Kawalpreet Singh: Okay. So, that would be similar to what was there over the last 1 or 2 years?

Challa Srishant: Yes. But previously we have done even up to 30%. The objective is to get back to that 30% in due course and we decided that from this year onwards we will do the dividend payout in two tranches, one interim dividend and one final dividend.

Moderator: Thank you. The next question is from the line of Viral Shah from ACM Investments. Please go ahead.

Viral Shah: Sir, my first question is what is the price premium of freeze dried over other coffee?

Challa Srishant: Typically around between \$1-\$1.5 more, it is higher price than regular spray dried coffee.

Viral Shah: Okay. In terms of percentage sir?



*CCL Products
July 11, 2019*

Challa Srishant: Around 20% variation is there.

Viral Shah: Okay. And sir second, what is the overall domestic revenue? Sir spoke about 15 crores. But what is the overall domestic revenue?

Praveen Jaipuriar: Overall domestic revenue is 15 crores for this quarter and the projected number for the whole year was about 100 crores.

Viral Shah: 110 crores, right?

Praveen Jaipuriar: Yes.

Viral Shah: Last quarter you talked about from 80 crores to 110 crores.

Praveen Jaipuriar: Yes. That is right.

Viral Shah: Okay. And sir third question is, what is the capacity utilization across the plant?

Challa Srishant: Across all the plants put together?

Viral Shah: Yes.

Challa Srishant: This year will be closer to around 90%.

Viral Shah: Across the plant, right?

Challa Srishant: Yes. Across all the plants except for the SEZ. SEZ will be at 50%.

Viral Shah: Okay. And sir in our FY19 balance sheet, we have a CWIP of 424 crores. So, how much it is going to be transferred to the gross block?

Lakshmi Narayana: 350 crores get transferred to the gross block.

Viral Shah: This year?

Lakshmi Narayana: This year. We already transferred in the first quarter.

Viral Shah: Okay, 350 crores?

Lakshmi Narayana: Yes. 350 crores it is already transferred and depending on completion of the ongoing implementation, major part against the balance works amount also getting transferred in the current quarter, second quarter.



*CCL Products
July 11, 2019*

- Viral Shah:** Okay. And sir lastly this depreciation and finance cost run rate would be throughout the year?
- Lakshmi Narayana:** Yes.
- Viral Shah:** So, around 40 crores of depreciation and around 15-16 crores of finance cost, right?
- Lakshmi Narayana:** Right. It is 44 crores approximately the depreciation is going to be and around 15 crores interest, finance cost is going to be on consolidation basis.
- Moderator:** Thank you. The next question is from the line of Ayush B from Equitas Investments. Please go ahead.
- Ayush B:** Sir, what was the reason for degrowth on standalone basis in topline?
- KVLN Sarma:** If you could look at the topline, hardly around 10 crores is the gap in terms of the revenue. It is equivalent to around 300 tonnes. So, because sometimes the shipment gets deferred and it is already taking place in the month of July.
- Ayush B:** But this quarter we commenced our capacity also, right? So, that should have contributed to our revenues, right?
- KVLN Sarma:** That is there lying in the change in inventories. But whereas the revenue if you look at it, 206 crores on standalone basis we did it in the current quarter. The previous quarter it is 196, only around 10 crores is the variation which is equivalent to around 300 tonnes.
- Ayush B:** Okay. No, I am talking year-on-year also there is a degrowth, right? From 218 to 206?
- KVLN Sarma:** The corresponding quarter of the last year, if you look at it around 218 crores versus 206 crores, there is 12 crores. Basically it is around 300 tonnes is the major variation.
- Challa Srishant:** See, looking at it on a quarter-to-quarter basis is actually going to give you a wrong information. We usually look at it on a year-to-year basis and sometimes you get a more profitable contract in one particular quarter, sometimes you may have to do it in the subsequent quarter. And several times what happens is there is a spillover that is there from the end of the quarter that goes to the first month of the next quarter. So, it could be anyone of these reasons that could lead to a fluctuation on a quarter-to-quarter basis.
- Ayush B:** Yes. So, I was comparing year-on-year only. So, out of our new freeze dried capacity, how much have done in the first quarter?
- Challa Srishant:** We have done the freeze dried production for basically two months because we started in late April. I think volume wise maybe around 300 or 400 tonnes.



*CCL Products
July 11, 2019*

Ayush B: Okay. And I wanted to ask about the US law getting implemented. So, can you give some more details as to if it gets strictly enforced, what kind of opportunities can it throw up for CCL?

Challa Srishant: See, one as far as this is concerned, everything depends on what the customers are willing to do at that point in time. And also what the competition is going to do at that time. Today Brazil has a very good crop and everything and if the Brazilian manufacturers are able to supply pure coffee at the same price point by reducing their margins, there is a possibility that everyone may not shift over a look for other alternatives. But on the other hand, if they don't want to compromise on margins and they continue to supply adulterated products that is why the customers are likely to look for other alternatives. That is 80,000 tonnes market out of which we are supplying only around 2500 tonnes. So, we see that there is a tremendous potential upside that is possible especially with the brands, the bigger brands who do not have manufacturing. Apart from Nestle, several other brands including Folgers and others who don't have manufacturing, they source coffee from other origins, supermarkets and all these other players are also there. So, we feel that we might get an opportunity with these people from next year onwards.

Ayush B: And actually I missed your point about coffee prices. So, what is the difference year-on-year coffee prices?

Challa Srishant: Our coffee prices can vary quite a bit, like today if the terminal markets in the range of say \$1500 per tonne, couple of years ago the coffee prices went up to \$3000 a tonne. But they have gone down to even \$1200 a tonne. So, there is a huge variation that is possible.

Ayush B: So, year-on-year has there been any decline?

Challa Srishant: Last year to this year we are not expecting much of a change in green coffee prices.

Ayush B: Okay. And even freeze dried coffee, you mentioned realizations are on the lower side compared to two years back. So, we expect this to continue?

Challa Srishant: Because there was a shortage of freeze dried coffee two years ago, we had actually explained this as an exceptional situation and for that particular year we were able to commend a higher premium and whatever projections we had given subsequently we factored in, that there would be a correction to the normal levels. So, right now the freeze dried realization has reached the same normal levels that was there prior to like 3-4 years ago.

Ayush B: Correct. And lastly about our domestic business, so just wanted to understand how it was doing because this quarter we did only 15 crores of sales, right? So, will we be able to achieve our 110 crores target?

Challa Srishant: Yes. I think Praveen already mentioned that last year first quarter we had done 9 crores. From 9 we went up to 15 in Q1. So, we are perfectly in track for achieving the growth that was projected



*CCL Products
July 11, 2019*

and Q1 is usually the summer season that is the leanest quarter that is there especially in the domestic market.

Ayush B: Correct. Okay, can you share EBITDA per tonne figure?

Challa Srishant: That is normally something that we wouldn't share because again this is sensitive information.

Moderator: Thank you. The next question is from the line of Bhavesh Chauhan from IDBI Capital. Please go ahead.

Bhavesh Chauhan: Sir my question is on domestic business. Our EBITDA margin actually improved by nearly 600 or 700 basis points. So, what was the reason for the same?

Challa Srishant: Where are you getting this data from because we haven't given a spilt up of domestic business?

Bhavesh Chauhan: As in I am talking about standalone business. So, you have 42 crores of EBITDA and now 53 crores of EBITDA.

Challa Srishant: Because of freeze dried. We have done that 400 tonnes of freeze dried from the SEZ. That is our premium product.

Bhavesh Chauhan: So, much of improvement. I believe the quantity must be, I mean as a percentage of total sales, the quantity would be contributing 5% to 8% if I am not wrong?

Challa Srishant: It will be little more than that actually.

Bhavesh Chauhan: So, these margins are sustainable, right?

Challa Srishant: Yes.

Bhavesh Chauhan: With regards to freeze dried only, now that we have started nearly less than just one quarter of operations. The cost stabilized and we are looking at our forecasted margin of close to Rs. 150 to Rs. 180 a kg?

Challa Srishant: I think the costs are little going to increase further because we are existing in all areas with the required manpower and other facilities. But there will not be much of significant change.

Bhavesh Chauhan: But are we on target to achieve that margin, Rs. 150 to Rs. 180 per kg in this year?

KVLN Sarma: That would be high, right, that is more than \$2. It may not be there in that range.

Bhavesh Chauhan: Okay. And with regards to our branded India business, are we going to breakeven this year?



*CCL Products
July 11, 2019*

- Challa Srishant:** No, not this year. This year we are expecting a 15 crores additional spend, that is going to be there and that has already been projected and next year we are looking at a breakeven.
- Bhavesh Chauhan:** Okay. And with regard to Vietnam, I understand that our margins were lower due to lower volume offtake, is it right?
- KVLN Sarma:** Not entire impact. The reduction on a quarter-to-quarter basis is also not very substantial and the one dispatch if that should have taken place, then it would have been very close. The difference is around 10% to 15% for the current year which perhaps will be recouped in the second quarter.
- Moderator:** Thank you. The next question is from the line of Nikhil Upadhyay from Securities Investment Management. Please go ahead.
- Nikhil Upadhyay:** Sir, my question is on the Vietnam subsidiary. Just to understand these numbers better. If we compared on a year-on-year basis, you said that there was a deferment of supplies which impacted the revenue, which means year-on-year, our numbers would have still been flat if I add that deferment back. Is that right?
- KVLN Sarma:** Yes, it is. Whatever has not been dispatched will get added in the second quarter.
- Nikhil Upadhyay:** If I look at Vietnam utilization, our last, March 19 quarter we said we ended the year with 70%-75% utilization and the volume growth would have come from the Vietnam capacity utilization ramp up as well. So, which means over the next 9 months the volume growth would be much higher than around, could be in the range of 15%-20% in order to ramp up the utilization from 70 to actually 80-90, if the prices have not dropped substantially?
- KVLN Sarma:** Correct. During last year if you remember Q1 was the best quarter for Vietnam operations and thereby it was averaged out during the third and fourth quarters. This year also at the end of quarter one, it is in line with the last year's year-on-year basis but by the time we conclude our second quarter and third quarter, that improvement in capacity utilization will get reflected in the financials.
- Nikhil Upadhyay:** Okay. That would be on the topline. Now if I look at the margin profile?
- Challa Srishant:** Margins also, see for a customer, for that particular business there might be better profitability, that is why we have been saying continuously that we should always judge this on a year-to-year basis. During a quarter if I deliver to one customer whose profitability is lesser, in the quarter that might look lesser, but the next quarter's profitability would look substantially higher as you have seen last year, first two quarters profitability has jumped by 40%. So, similarly in this year also we are trying to even out in fact on the profitability aspect also and once we execute the other orders, whatever shortfall and whatever the capacity utilization enhancement that we are



*CCL Products
July 11, 2019*

contemplating would be resulted in both volumes and the financials. We are right now budgeting it for a linear increase in both volumes and the profitabilities.

Nikhil Upadhyay: Okay, that is on the subsidiaries?

KVLN Sarma: Vietnam's.

Nikhil Upadhyay: Now on the domestic side last year our loss was around 14 crores in the domestic operations. What Srishant mentioned is like we are further investing 15 crores. But because the sales growth will also be commensurate, we are looking at a 100 crores of sales growth. So, the extent of loss will be in that 10 to 14 crores for this year in our budget, for the domestic operations?

KVLN Sarma: Financial turnovers will result, it is a chick and egg problem. Unless I spend I cannot get the turnover and unless I get the turnover I cannot spend there. This year what we have planned is for getting 110 crores turnover, whatever generations are there within domestic company will be deployed plus there will be an assistance from the parent company to the extent of 10 crores to 15 crores. So, at the end of the year with the assistance of around 15 crores from the parent company, the balance sheet of the marketing company should look evened out. Next year onwards they will be self-sustaining.

Nikhil Upadhyay: And lastly on the cash generation side. Now If I look at the CAPEX requirement, for this year what we have mentioned is we are putting that aggro capacity and we are expanding the capacity in Vietnam. Now, you also mentioned that in Vietnam the amount required for the expansion we have already kept those surplus funds with the Vietnam company which means the excess capacity and the domestic the CAPEX would be only around 70-80 crores at the domestic, standalone company?

KVLN Sarma: Standalone, yes. It will be in the range of 80 crores only.

Nikhil Upadhyay: And our debt repayment will start only in the next calendar year. So, the net debt might decrease substantially in this year which means the cash on the books can increase significantly?

KVLN Sarma: We have one tranche of repayment during this year also. So, accounting for one tranche of repayment during this year, we would be able to spend about 75 to 80 crores on CAPEX this year. Next year we have not yet budgeted any CAPEX. So, this generation should be adequate for meeting the repayment obligations.

Moderator: Thank you. The next question is from the line of Kawalpreet Singh from Ambit Capital. Please go ahead.

Kawalpreet Singh: Sir, what is the brand expenditure we would be doing on the domestic business this year? I understand 15 crores is being spent by the parent. What is the total spend expected?



*CCL Products
July 11, 2019*

Praveen Jaipuriar: So, you know everything put together which is advertising, ATL and BTL and S&M expenditure, it will be close to around 30 crores.

Kawalpreet Singh: And sir, I believe this is similar to what was expensed last year, right?

Praveen Jaipuriar: This year will be higher than last year. Last year was close to around 20 crores or so, but this year because, last year we only started doing ATL spends and a large part of our spends was in the second half, but this year we have been doing spends from first half itself. So, it is higher than last year.

Kawalpreet Singh: Right and sir this includes the TV advertising budget which was there, which I believe you had done a tie up with Madison House, so how long is that contract for?

Praveen Jaipuriar: So, Madison we have started the contract last year and we are continuing with them for the current year as well.

Kawalpreet Singh: So, Madison's expenditure would be around, is that a 25 crores expense, is that a yearly expenditure or?

Praveen Jaipuriar: I don't know where you got that 25 crores. Madison is just the media buying agency for us. So, they will buy all the ATL for us which means all TV, print, radio and outdoor. So, all of them put together should be in the range of 15-20 crores this year, if I take the financial year in consideration.

Kawalpreet Singh: Okay. Understood. Sir my second question is regarding packaging. The packaging which you do for the domestic branded, is that done inhouse or is that outsourced?

Praveen Jaipuriar: You are talking about the design or the material that we purchased?

Kawalpreet Singh: Both.

Praveen Jaipuriar: So, both are outsourced. Design is done by creative agencies. So, we have couple of creative agencies who work for us and there is a design agency specifically who only works on design for us. So, that is outsourced. Even then, we get the material printed and we buy it from third parties.

Kawalpreet Singh: Okay. So, the packaging is not inhouse. Like I believe for the export business and with the setup of the new packaging small pack plant, so that is not being used for domestic..

Praveen Jaipuriar: The material is from third party. But when we pack it, the packing machines are in-house where the packaging activity takes place in-house.



*CCL Products
July 11, 2019*

- Kawalpreet Singh:** But the packaging is not manufactured by you?
- Praveen Jaipuriar:** The packaging material is not manufactured by us. So, the design and the packaging material is from outsource and the act of packaging is done in-house.
- Challa Srishant:** We are a coffee company, right, so that is why we are not getting into packaging material manufacturing.
- Kawalpreet Singh:** Right. Sir, I just wanted to get a sense of this small pack unit which you are putting up, that is also just the actual packaging..
- Challa Srishant:** It is not for packing material. It is for the actual packaging activity of sachets, jars, the packing takes place at our end.
- Kawalpreet Singh:** Right. And that actually gives you a sort of a delta on the margins being able to sell in smaller quantities.
- Challa Srishant:** Yes.
- Moderator:** Thank you. The next question is from the line of Harsha M from Vishudha Capital. Please go ahead.
- Harsha M:** I just have one question. You were telling that the freeze dried realization is about \$1 to \$1.5 higher than the spray dried, right? Is it fair to assume that the profitability per tonne for the freeze dried would be 1.5 times EBITDA per tonne of spray dried?
- KVLN Sarma:** Broadly depending on the small packs and the products that we take, but broadly it will be at least 1.5 times and little more than that of the spray dried realizations.
- Moderator:** Thank you. The next question is from the line of Vaibhav Bhadauria who is an Individual Investor. Please go ahead.
- Vaibhav Bhadauria:** Srishant, you had said in the last conference call that you were guiding 15% to 20% bottomline growth in FY19. Now if I look at the numbers we have done around 155 crores of bottomline last year. And in Q1 we are at around 35 crores. So, the balance is around 144 crores you have to achieve in the next 3 quarters. Do you think that is achievable?
- Challa Srishant:** This 15% to 20% EBITDA growth is what we can definitely do. Bottomline if you factor in, even the dividend that has been declared, then there also there will be 15% to 20% growth, as per gap analysis if we look at it.
- Vaibhav Bhadauria:** This 155 crores I think it is excluding the dividend. I have not factored in that.



*CCL Products
July 11, 2019*

Challa Srishant: Okay. So, then again EBITDA basis we will be able to do the 15% to 20%, but with the interest and depreciation and all that, the bottomline net profit growth will not be in the same percentage. It will definitely be little lesser.

Vaibhav Bhadauria: Okay. Any idea, in terms of percentage what will be target there?

Challa Srishant: I don't know, maybe in the range of 10%.

Moderator: Thank you very much. That was the last question. I would now like to hand the conference back to the management team for closing comments.

Challa Srishant: I would like to thank you for arranging for the call and looking forward to having this call next quarter as well. Thank you.

Moderator: Thank you very much. On behalf of Nirmal Bang Equities that concludes the conference. Thank you for joining us ladies and gentlemen, you may now disconnect the lines.