



“CCL Products (India) Limited Q1 FY-21 Earnings Conference Call”

July 27, 2020



MANAGEMENT: **MR. CHALLA SRISHANT – MANAGING DIRECTOR -
CCL PRODUCTS (INDIA) LIMITED**
**MR. KVLN SARMA – CHIEF OPERATIONS OFFICER -
CCL PRODUCTS (INDIA) LIMITED**
**MR. V. LAKSHMI NARAYANA – CHIEF FINANCIAL
OFFICER – CCL PRODUCTS (INDIA) LIMITED**
**MR. PRAVEEN JAIPURIAR – CHIEF EXECUTIVE
OFFICER – CONTINENTAL COFFEE PVT LTD**
**MR. P. S. RAO – CONSULTANT COMPANY SECRETARY
– CCL PRODUCTS (INDIA) LIMITED**
**MS. SRIDEVI DASARI - COMPANY SECRETARY – CCL
PRODUCTS (INDIA) LIMITED**

MODERATORS: **MR. AMIT MISHRA, SYSTEMATIX INSTITUTIONAL
EQUITIES**



*CCL Products (India) Limited
July 27, 2020*

Moderator: Ladies and gentlemen, good day and welcome to CCL Products Q1 FY21 Earnings Conference Call hosted by Systematix Institutional Equities. As a reminder, all participant lines will be in listen-only mode, and they will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call please signal an operator by pressing “*” then “0” on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Amit Mishra from Systematix Institutional Equities. Thank you, and over to you sir.

Amit Mishra: Thank you, Aisha. On behalf of Systematix, I would like to welcome all participants on the call. From the company, we have Mr. Challa Srishant – Managing Director, Mr. KVLN Sarma – Chief Operations Officer, Mr. Praveen Jaipurkar – CEO of Continental Coffee, Mr. V. Lakshmi Narayana – CFO, Mr. P.S. Rao – Consultant Company Secretary and Ms. Sridevi Dasari – Company Secretary on the call.

Now, I would like to hand over the call to Mr. Srishant for opening remarks, and then we’ll open the floor for Q&A. Over to you, sir.

Challa Srishant: Thank you for the introduction. The group has achieved a turnover of 289.25 crores for the first quarter of 2020-21 as compared to Rs.273.72 crores for the corresponding quarter of the previous year. And the net profit is 38.48 crores as against 34.67 crores. The EBITDA is 62.92 crores and the profit before tax is 45.77 crores. I think we can just directly get to the questions.

Moderator: Thank you very much. We will now begin the question and answers session. The first question is from the line of Nitesh Jain from Birla Mutual Funds. Please go ahead.

Nitesh Jain: So essentially two questions from my side. Number one is on your stand-alone India operations EBITDA margin. So basically, they were lower in this quarter. The question is, what is the main reason behind it, I can understand one is the fixed cost may be higher because of the lower volume. But at the same time, even the gross margin, which is simply the revenue minus raw material is also lower. So, is it because that the shipment proportion has changed, the more spray dried this quarter than FDC or what are the main reason. This is the question number one.

Challa Srishant: The main reason is actually because in India, we have shut down the plants over here for quite some time. And FD especially was shut down, so that is where the maximum impact is coming from. Because our Vietnam and Swiss operations are operating normally, we are not able to see on a consolidated basis that much of an impact.

Nitesh Jain: So would you say that the FD proportion for the India business was significantly lower in the overall volumes in this quarter compared to, say, Q4?

Challa Srishant: Yes, definitely. Almost 50% reduction was there.



- Nitesh Jain:** In India itself, India volume, not the consolidated CCL?
- Challa Srishant:** Yes. In India, on the stand-alone basis.
- Nitesh Jain:** Okay. And now how is the business for the high-margin India business. Is it on track, are you at pre-COVID levels for both spray dried as well as freeze dried?
- Challa Srishant:** We haven't reached the pre-COVID levels yet, but because especially countries like Russia, where majority of our customers are from, there they have been asking for some postponements and all that. So we're expecting things to ease up in another month or so. So we've also planned our maintenance, shutdown everything now itself in this quarter one. So that, will be geared up for continuous production for the rest of the year. So as soon as our customers start confirming that we can start dispatching, we'll get back to the normal levels.
- Nitesh Jain:** Okay. But both the plants are now up and running?
- Challa Srishant:** The SEZ plant is up and running. The EOU plant is still completing some maintenance. In another few days, it should be completed. After that, we'll start the plant.
- Nitesh Jain:** Okay. EOU, you mean the Duggirala plant?
- Challa Srishant:** Duggirala plant, yes.
- Moderator:** Thank you. The next question is from the line of Kashyap Jhaveri from Emkay Investment Managers. Please go ahead.
- Kashyap Jhaveri:** First question is on, you mentioned about the EBITDA margins in the previous question. But I'm just looking at your gross profit for the quarter on consolidated basis, which is about 130 crores and compared to quarter one of last year that number is actually flat when volumes for the quarter would have actually declined. So given that there was a plant shutdown because of COVID. So have we seen significant expansion on per kg margins for the quarter at both gross margins as well as EBITDA margins level?
- KVLN Sarma:** Yes. This is Sarma. While Indian operations are on a subdued scale because of the lockdown and subsequently small maintenance on freeze dried. The Vietnam plant was running to the full capacity. So there was better contribution from Vietnam plant during this month. The gross margin levels, when spray dried powder is in major quantity, the gross margin levels will slightly be lower, but they are in line. In fact, even on a stand-alone basis and on a consolidated basis, also, we were when the spray dried capacities are there, it will range between around 45% to 48% and they are in line with that. Secondly, because of these reschedulements, we are still maintaining substantial quantities of freeze dried product because we have produced these quantities for enabling capacity utilization. If you have seen our financials, you must have seen



against our some 35, 36 crores of closing stock last year, only 11 crores was adjusted. So we are still carrying inventory, and the dispatches for these carrying inventory will come in the subsequent quarters.

Kashyap Jhaveri: Okay. Second question is generally on the broader market. You also alluded on the same in the quarter four conference call also, in terms of consumption of coffee globally, if you could give some comments on the growth in ground coffee as well as instant coffee volumes in line of this work from home culture, which probably may continue for a fairly long period of time. So what impact could it have on both the instant coffee business where we have significant presence as well as the ground coffee consumption also?

Challa Srishant: Okay. So for ground coffee, we've been seeing that there has been a slight decline in roasted ground coffee consumption because of the coffee shops being shut across the world during the lockdown period. And the in-home segment of instant coffee seems to be increasing across the world.

Kashyap Jhaveri: Which segment in instant coffee? I am sorry, I missed out on.

Challa Srishant: The instant coffee segment, the in-home consumption of instant coffee segment, that segment seems to be increasing across the world to be frank. So we've seen an increase in off take from our customers, the brands and all at least initially when the panic buying was there, they were stocking up on more volumes because people who are used to drinking a cup of coffee on a regular basis, now they don't have the option of going to a coffee shop. So that's why they were sitting in the house and consuming more of instant coffee. So that's one of the reasons why we've also seen an increase in volumes for instant coffee.

Kashyap Jhaveri: Okay. And in terms of instant coffee, what would be the breakup between at home and out of home?

Challa Srishant: That is something which is very difficult to answer.

Kashyap Jhaveri: But broadly would it be more in favor of at home, largely in favor of at home?

Challa Srishant: At home only. But definitely, there are a lot of institutions, offices that buy instant coffee, larger packs, jars and everything and they make fresh coffee for their employees. But I would say maybe more than 90% of the consumption will be from in-home segment.

Kashyap Jhaveri: Okay. And just one last question. In terms of, and this is not to do with the quarter, but generally about let's say strategy of our company, how much difference can small packs versus bulk packaging can make on our EBITDA per kg, can it be substantial difference?



*CCL Products (India) Limited
July 27, 2020*

Challa Srishant: The quantities that currently what we are producing in smaller packs is substantially less. In fact, of our entire capacity, we have only about 10% to 15% of small packs. So the differential in EBITDA, it will be on a value-added component. So broadly, if we say there is a value addition of about \$2 for a small pack, there can be about 15% to 20% EBITDA additional margin on that. But the volumes that we have right now are approximately 10% to 15% of our total capacity.

Moderator: Thank you. The next question is from the line of Richard D'souza from SBI Mutual Fund. Please go ahead.

Richard D'souza: Just a couple of questions from my side. When you look at the exports from India, which got stalled because of the logistics issue, were there any loss of customers in EU or US, because we couldn't supply them material?

Challa Srishant: No. We didn't lose any customers. In all cases, like most of our customers they place orders at least one year in advance. So if there is something which is unforeseen that happens, they can come they will usually come and request us for a postponement or something like that. In our case, we've accepted that postponement in order to maintain that relationship with our customers.

Richard D'souza: Okay. And also, you recently mentioned that there were some closures of coffee chains in EU and US, and a lot of restaurants have also closed down but along with this, given the financial problems lot of small and medium roasters, they too would have closed down. So would you have any idea of how the consolidation has taken place within the space for roasters?

Challa Srishant: Very frankly, no. Most of the, as in what we have seen is that reduction in demand has had an impact on the coffee prices. And when we got into more details, we understood why that impact took place. But what is happening frankly, we're not in that segment at all of supplying roasted coffee to coffee shops and all that. We are not in that segment at all. So we don't really monitor that segment very closely.

Richard D'souza: Okay. The ancillary question to this is that, it has seen that even in in-house consumption there is an increase in dominance of those single serve packs and all that stuff. So do we have any plans to get into?

Challa Srishant: Well, single serve definition is actually a little broad over here. We are already into single serve segment where we have single serve sachets which we are selling in the market. Our sale of single serve sachets within India has gone up multifold to be frank. And the single serve, which maybe you are referring to could be like in the Western world, in the pods.

Richard D'souza: The capsules.



Challa Srishant: Yes, the capsule. In India that capsule business itself is almost nonexistent. But across the world, yes the pods business is growing, and it's expected to grow at a CAGR of almost about 4 about 5.7% or something like that. So that is also coming under in-home consumption segment.

Richard D'souza: Okay. But are we planning to get into that because?

Challa Srishant: Yes, we are exploring some options because some of our existing customers only have been asking us to supply some of these pods as well. Now that the patent has run out, now we can officially pitch for this business as well. So we are exploring that as well.

Richard D'souza: Okay. One last question from me, we believe that in the first quarter you on-boarded a customer from US in your Vietnam facility. So any such customer additions will be there for this year or over the next few quarters?

Challa Srishant: We are constantly adding new customers all the time. There are some major customers whose business that we are pitching for and all. When exactly that will materialize is something which we cannot definitively say. Even this particular customer has taken us quite some time, in fact, almost a year of talking to them, building up that relationship, the rapport and then doing a lot of production trials in quarter four of last year and getting the approval, all that process took some time. And finally, that particular customer came on-board and signed a one year contract and we are quite confident that they'll keep renewing it every year.

Moderator: Thank you. The next question is from the line of Chetan Gindodia from AlfAccurate Advisors. Please go ahead.

Chetan Gindodia: My question is more on the guidance. So last call, you had said that for FY21, though not on the revenue side, on the profit side we can see a double digit kind of a growth. So any word on that. And secondly, on the freeze dried capacity you said that this quarter, the mix was slightly on the lower side. So was that led to that. Is the mix going to return back to normalcy from next quarter. It was just the shipment delay or was there any other reason for this? Thank you.

Chetan Gindodia: Well, yes the profit side, the double digit growth that we are expecting is mainly because in Vietnam, we have a tax free status over there. And as far as India is concerned, the SEZ is also operational, and we'll be utilizing the capacity a little more this year. There is a, FD is one thing where to be very frank, we had expected maybe a 75% utilization during this year. We are still trying our best to target that same utilization. But there could be a slight variation here and there because there are a lot of things which are not in our control at this point in time. If customers ask for postponements and all that, we don't have much of a choice except to postpone that supplies. So if that happens, one thing what we are seeing is there's an increase in spray dried demand and people are not asking for any postponements in this particular segment because it's



more of a value segment for most customers. And we're trying our best to at least make up for that volume with the spray dried during this year.

Chetan Gindodia: Okay. And what had led to the sharp revenue growth in the Vietnam subsidiary in this quarter. So we saw the subsidiary numbers revenues go up by almost 65%, 70%. So what had led to that growth?

Challa Srishant: We've already mentioned that, we've added one new customer from the US and that's one of the reasons why the volumes have also increased quite a bit and that impact should be there for the rest of the year as well.

Chetan Gindodia: Okay. And just the last one from my side. Can you give us the capacity utilization for this quarter for India and Vietnam business?

Challa Srishant: Well, in India, we are almost at peak utilization for the Duggirala plant. The SEZ plant, we had projected around 75% utilization during this year. That can range between maybe 65 to 75 this year based on how things shape up. And as far as Vietnam is concerned, we are actually operating at almost 100% utilization based on the current capacity and by the end of quarter three our new enhanced capacity should also come online. That project also unfortunately got delayed because the engineers were not allowed to travel from India because of the travel advisory and all that. So we are expecting that installation to be completed in quarter three.

Moderator: Thank you. The next question is from the line of Abhijit Akella from IIFL Securities. Please go ahead.

Abhijit Akella: Just a few small clarifications. One was whether there has been any deferral of orders from 1Q into 2Q because of postponement from the customers end. And if you could just share how much that quantum might have been?

KVLN Sarma: Yes, this was because the logistics were restored only during May, we were supplying our existing quantities, which we were carrying towards the end of March, during May. So whatever we were producing during the months of May in our SEZ, we had to maintain that stocks. So if you have seen our financials, you must have seen that at the end of last year, we were carrying an inventory of about 40 crores or so. Out of which only about 11 crores or so was adjusted in financials. So we are carrying almost 75% of the inventory that we were having at the year end. That means, that inventory which we were having was dispatched and what was produced during the quarter one, they got deferred to the second quarter. So these dispatches will take place during August and September. So that will be reflected in this quarter's dispatches.

Abhijit Akella: Okay. So around 30 crores sir, is that a fair number?



- KVLN Sarma:** Yes.
- Abhijit Akella:** Okay. And second thing also just to clarify, there was one comment made earlier on the call about 50% drop in standalone volumes. I just wanted to clarify, this is only for the freeze dried at Chittoor right, a 50% sequential drop in volume in this quarter?
- Challa Srishant:** No, it's in freeze dried.
- Abhijit Akella:** Yes, not in overall standalone?
- KVLN Sarma:** Almost 55 days, we had to shut down the plant due to lockdown. And then we were subsequently, we were operating SEZ, but since there were, even if you remember Russia has gone into lockdown a little late, around the month of May or so. So because of these reschedulement the drop in FD production was there and so it was mainly on FD.
- Abhijit Akella:** Yes, got it sir. And one last quick thing, on the employee cost and other expenses, the run rate is a bit low this quarter. I guess it's because of the lower operations. But from 2Q should we assume that it comes back to a normal run rate and if so, what would a good normal quarterly run rate be for these two expense items?
- KVLN Sarma:** Marketing expenses and mostly, it will be on the power and fuel that we come back to the normal levels. Power and fuel, because we were not operating for 50 days, the power and fuel costs were lesser. Other things, they should come back to normal levels as they were there.
- Moderator:** Thank you. The next question is from the line of Dhiral Shah from PhillipCapital. Please go ahead.
- Dhiral Shah:** Sir, my question is pertaining to the freeze dried facility because it's being a higher value product. So are we seeing any demand destruction due to down trading?
- Challa Srishant:** No. As of now, we have not seen demand destruction. It is only reschedulements that were asked for. So since we were already having 50 days lockdown in India, so that much capacity is already lost and when we have restarted the plant, we were liquidating the closing stocks that we were having during March. So those things were being liquidated during May and April. And we have utilized the plant during May and June as well in SEZ, which we are still carrying as an inventory to be dispatched in second quarter. So it's not a demand going out, it's about reschedulement and from now onwards we are expecting that the operation should be normal on full capacity.
- Dhiral Shah:** So this year your target is around 65 to 75%, so do you expect optimum utilization by next year?
- Challa Srishant:** See, this year itself we are not able to predict how things will be. So if a normal functioning was enabled, we would have reached optimum utilization this year itself. But because of these



*CCL Products (India) Limited
July 27, 2020*

compulsive conditions, there may be a slight reduction in capacity utilization vis-à-vis product mix as well. So whenever the things are normal, we are geared up for a full optimum utilization, if it is from next month onwards, next month onwards we are geared up.

Dhiral Shah: And sir, how was the performance in Indian business Continental brand, what was the revenue we did?

Praveen Jaipurjar: Praveen, this side. You want it for the first quarter?

Dhiral Shah: Yes, sir Q1.

Praveen Jaipurjar: So we did reasonably well in the first quarter. We almost clocked around 40% growth in this quarter. So things have been good. Yes, there has been a lot of disruptions on the bulk side and on the institutional side. But the retail has done extremely well and because of that, at an overall level we clocked around 40% growth.

Dhiral Shah: Figure, sir?

Praveen Jaipurjar: It's almost +21, close to 22.

Dhiral Shah: 22 crores, okay. And sir what would be the CAPEX for FY21?

Challa Srishant: For FY21, whatever we've told earlier last year, it's the same CAPEX which we'll be incurring this year. So about 120 crores for the packing and agglomeration facility and that \$8 million in Vietnam for enhancement by an additional 3,500 tonnes.

Dhiral Shah: So sir how much we have spent for in FY20?

Challa Srishant: In FY?

Dhiral Shah: 20, sir how much we have spent additional CAPEX?

Lakshmi Narayana: In FY20, around 60 crores was spent in to complete the SEZ work and other works. The rest of the amount that we committed will be spent in this year.

Dhiral Shah: Okay. And lastly, how is the current coffee prices right now on a year-on-year basis?

Challa Srishant: As of now, the prices in the last one week and one and half weeks have increased a little bit. There's almost a 10 to 15% increase in green coffee prices. But we feel that's more of a temporary phenomenon because there are a lot of people who have not covered the green coffee what they've booked on a differential basis. So they're going into the market and buying the coffee quite aggressively. But from a demand perspective, there is a slight reduction in demand



*CCL Products (India) Limited
July 27, 2020*

because of the coffee shops and all that what I mentioned earlier. And this also is likely to get corrected going forward.

Moderator: Thank you. The next question is from the line of Rohan Gupta from Edelweiss. Please go ahead.

Rohan Gupta: Sir, my first question is on the Vietnam you mentioned that it has already achieved almost 100% utilization. Sir, I was asking that you have Vietnam plant is already 100% utilization. And there will be some delays, as you mentioned in increasing the capacity that may now be achieved by end of Q4 because of the restrictions on the movement from India. So in that case, you see that the new customers, which we have added from US and also the new market, which we have gained will be impacted?

Challa Srishant: No, there won't be any impact because we are expecting that capacity to come in by Q3 towards the end of Q3. By the end of this calendar year we should hopefully come in with that additional capacity. But we are planning our production also accordingly so that we ensure that we deliver to this customer without any delays.

Rohan Gupta: Okay. And sir, this is 3,000 tonnes which you are going to add, right?

Challa Srishant: For this year, yes approximately.

Rohan Gupta: Right. And currently, we are already operating you mentioned that, close to 10,000 tonnes we are fully utilizing or there is some still room for growth in those Vietnam plant?

Challa Srishant: No, we're looking at around 10,000 tonnes for this year and depending on how things shape up going forward. As of now, we feel that we should be able to reach that 10,000 approximately.

Rohan Gupta: Is there any scope for better product mix in Vietnam because if you look at the current run rate, not just revenues but at quarterly for the current quarter EBITDA level. So, I'm just looking at that, is there any scope for better product mix that this EBITDA run rate of 28, 29 crores can improve from here or is the best utilization in terms of product mix as well?

Challa Srishant: We are incorporating some additional manufacturing flexibilities in the expanded capacity. So expanded capacity can bring in a few more better products, quality products which will enable improvement in the margins.

Rohan Gupta: Okay. Sir coming on India operations. So definitely our FD capacities have been impacted. And you mentioned that the plant has been resumed from this month onward or there is still some hiccup in operations we are seeing?

Challa Srishant: The FD plant has resumed from May itself, towards the end of May and the FD plant in Duggirala, we haven't resumed yet because we're still completing some maintenance works,



*CCL Products (India) Limited
July 27, 2020*

which got delayed because of non-movement of people and the SEZ plant has been resumed more than a month ago.

Rohan Gupta: Okay. So as of now, in month of July or may be in August we are going to see 100% production from India, if there is a enough demand?

Challa Srishant: Yes. From August onwards we should be seeing 100% production, yes.

Rohan Gupta: Okay. And you mentioned that demand is showing some weakness, mainly coming from markets whereas the lockdown like Russia and also, so though on the production side challenges are now done and we have overcome that. Now it's all about the demand, which is still showing some weakness in some of the markets, right?

Challa Srishant: Yes. So we still have to wait and see if this vaccine comes out earlier, then a lot of things will definitely improve. If it gets delayed a little bit more and depending on the ground level situation in at our customers' end things could change over time. As of now, as I mentioned earlier most of our customers have placed orders with us in advance. So as far as the order book is concerned, we are very comfortable. It's a question about execution of those orders, which is why we cannot definitively say that yes, we will 100% achieve whatever we have committed to. Based on our order books, we'll definitely achieve. But based on practical situation, something could change at any point in time. So if that changes, that's when we'll keep the market also informed.

Rohan Gupta: Okay. And just last on my side. Sir, globally there has been a lot of impact on few of the retailers because of the COVID scenario. Have any of our large customers have seen such problems or bankruptcy or getting out of the business, have you seen any of such things happening with the customer?

Challa Srishant: None of our customers have gone through this. In fact, for especially trade ride and all, we've had customers come back to us saying that can you please give us an assurance that you will not delay in supplies and things like that. Because of the panic buying, they've seen an increase in demand, it's not the other way around.

Rohan Gupta: Okay. And sir, if the other way around like any of the manufacturer or processor have, you have seen that your competitor is getting out of business. We have heard that in Brazil in last two to three years many small shops were open. They started processing on a very small scale for global player. Have you seen that any of such unorganized or new entrant who have come just in the last two to three are getting out of the business helping you to grow further?

Challa Srishant: Every year normally we keep seeing this but that's out of regular operations, not because of COVID or anything. We do see that a lot of people come, the new capacities that keep coming online. There are old capacities, people who have not been able to sustain, they're going out of



business. We've been seeing this happen over the years. And people keep building new capacities also every year. In fact, in India there are some new capacities that have come in. In Vietnam, there are some new capacities that are going to come in from next year onwards. So these capacities will always keep getting built. In fact, if you've been tracking the company for a while you will realize that there's more than 50% excess production capacity which is there in the world. That is the extent of competition that is there in this segment.

Moderator: Thank you. The next question is from the line of Amit Zade from Antique Stock Broking. Please go ahead.

Amit Zade: So, I just wanted to understand revenue on EBITDA performance for the first quarter in Vietnam. Is that possible?

Challa Srishant: Yes. Sarma will answer that.

KVLN Sarma: Revenue, we did about 107 crores turnover with an EBITDA of about 30 crores.

Amit Zade: Okay. And actually, we have seen some FY19 decline in EBITDA margins in Vietnam that was due to some, what was the reason for that because I see FY20, we did around EBITDA margin of 29% versus around 33% in FY19. So should that be normalized in FY21?

KVLN Sarma: No. It's a normal business cycle that we will go through. And a detailed explanation will be detrimental to we have to go into too much of technicalities and explain. We wish to assure you that the business cycle was normal at that point of time. And any specific clarification I can give one-to-one.

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

Akhil Parekh: My first question is on the Continental Coffee business. Do we continue to maintain that we can become PAT positive by end of FY21 for this business, the domestic business?

KVLN Sarma: This year, it's a little tough to predict right now because we are going through a lot of ups and downs considering the situation that is going around. So very difficult to predict as of now. We are trying to be, I'm not very sure, PAT positive. But our first objective is to drive the top line and that is where we are concentrating. So maybe closer to the year end and when the things are getting a little more normal, we'll probably be able to predict a little better on this.

Akhil Parekh: Okay. And my second question is on

Challa Srishant: Just to add to this, mandate that has been given to Praveen also was that for the first 5 years, forget about PAT, just focus on the top line growth. We have to create for sustaining branded



business is the objective that we have given him. Anyway, as far as the private company is concerned, we are able to sell more coffee and we are able to have the assured growth also, which is why we wanted to remove that pressure from Praveen. I just wanted to clarify that.

Akhil Parekh: Okay, okay fair enough. And my second question is on the Switzerland subsidiary. We saw sharp spike in sales at the end of FY20. The sales as per the annual report has moved from 40 odd crore to 135 odd crore in Switzerland. Do we see similar kind of run rate even for FY21?

Challa Srishant: Can you just repeat that, we were not able to hear you.

Akhil Parekh: Sure. I'll repeat my question. Is on the Switzerland subsidiary, we have seen a sharp improvement in the Switzerland subsidiary at the end of FY20 and do we expect that kind of a run rate going forward even in FY21?

Challa Srishant: Yes, we do. This year, it might even out from the second quarter itself because last year, we started supplying from around September or so into the retail supermarkets. We have renewed contracts with them for this year also. This year it might be evening out more from the later part of second quarter and the third quarter onwards, somewhere from September onwards it will be uniform.

Akhil Parekh: Okay. Last question on the maintenance shutdown. So how many days we have lost at SEZ, because of the plant shutdown?

KVLN Sarma: 55 days. From April 1st to around May 26th.

Moderator: Thank you. The next question is from the line of Lokesh Manik from Vallum Capital. Please go ahead.

Lokesh Manik: Just a couple of questions from my side. One was to continue on the previous participant's question on the pod segment. You mentioned we are planning to enter that segment. As, I understand that is mainly roast and ground. So are we entering roast and ground, just a clarification on that?

Challa Srishant: We've already been in the roast and ground segment for years. In fact, branded business Malgudi is all roast and ground coffee only.

Lokesh Manik: But majority is instant, where we focus upon?

Challa Srishant: Yes. The primary focus has always been on instant coffee. But the roasting coffee is something which anybody and everybody can do. And there is a lot more competition in this segment. That's the main reason why we've not focused on this segment exclusively. Because anyone



*CCL Products (India) Limited
July 27, 2020*

with a small roaster and a grinder can be in this segment very easily. The CAPEX required also is very, very less.

Lokesh Manik: Right. But we do have the advantage of blends. Does that play a role in this?

Challa Srishant: Exactly, so if you're creating new blends, new products and all that, definitely and economies of scale advantage is also there. So this is a segment that we can get into, but we've never found it as attractive a segment as the instant coffee segment.

Lokesh Manik: Understood.

Challa Srishant: It has shelf-life issues and several other things also.

Moderator: Thank you. The next question is from the line of Richard D'souza from SBI Mutual Fund. Please go ahead.

Richard D'souza: Sir, if you look beyond the next four, five quarters and once demand comes back and logistics issues are solved, if you look at the expansion which you have done in Vietnam and also the FDC reaching optimum utilization. So just wanted to understand what would our strategy be beyond that once we reach optimum utilization both in Vietnam and in India, will we still look at debottlenecking some of the plants and doing some incremental expansions or whether we'll be looking at some larger stuff there?

Challa Srishant: Well, as of now the plants almost everyone is already aware, when we've build the plants we have built with the option of doubling the capacity. So Vietnam, we can further enhance the capacity by even another 15,000 tonnes. In India, we can add another 5,000 tonnes in FD as well. So there's a potential, 20,000 tonnes of enhancement that we can do by just installation of equipment. And yes, there are a lot of value-added products that we are also getting into. And there's constant innovation that is already taking place. So a lot of new products that we have created as well. So all this takes place on a constant basis. And most importantly, the small packs that we will be getting into as well after the new facility is up and running.

Richard D'souza: Okay. So is it fair to say that as you move up the value chain, will it be vacating the volumes at the lower end. So looking at your volumes would be meaningless going ahead, the better idea would be to look at your gross margin?

Challa Srishant: Well, right now it's both volume as well as value driven. And we will still continue for some more time. We do have new parties that we are constantly adding and all that and there are several big customers who are even bigger than the ones that we've added now. We are actually slowly targeting these customers as well. If those volumes come in and if we get selected as a



primary vendor, then capacity utilization will be even more. We'll have to go in for expansion a little faster as well.

Moderator: Thank you. The next question is from the line of Sachin Shah from Emkay Invest Managers. Please go ahead.

Sachin Shah: At the cost of a little bit of a repetition brand is that, can you tell me what was our exact volumes for the quarter that we just got over?

Challa Srishant: Frankly, exact volumes is something that we don't normally give because that is again going to be detrimental for the company.

Sachin Shah: Okay. So since you mentioned that we haven't had any major cancellation of orders, but it's more about postponement. So will it be fair to say that for the full year, on a full year basis our total volume should be similar to what we did on the March 20th?

Challa Srishant: It should be a little more than what we have done last year.

Sachin Shah: Okay. In spite of, but would you say that at least the first quarter volumes were lower overall compared to the last year first quarter because of the shutdown or whatever were?

Challa Srishant: No. Actually, first quarter also the absolute volumes were a little higher.

Sachin Shah: Okay. In terms of our sale?

Challa Srishant: Yes, in terms of sale, yes. Production for quarter sales was higher.

Management: Yes. Because we were carrying an inventory at the end of last year, whatever was resultant of the lockdown.

Sachin Shah: Okay. So some bit of the last year sales actually happened in this first quarter. So just say for that, actually it would be flat for the full year?

Management: No. There is a potential too. See the product mix might change, but there is capacity cushion that we have in Vietnam and the additional customer that we have, we are still at this point of time anticipating that there would be an increase in volumes vis-à-vis the operations, there being no further disruptions and so on.

Moderator: Thank you. The next question is from the line of Tanvi Shetty from Axis Security. Please go ahead.



*CCL Products (India) Limited
July 27, 2020*

Tanvi Shetty: I wanted to know the revenue contribution in terms of broad percentages across continents like Europe, Asia, US, Russia, a ball-mark number would be fine?

Challa Srishant: Well, for US, we are doing around, this year actually the volume percentages keep changing from year-to-year. This year, we'll be at around 20% in US. In Europe, we'll be at another maybe another 20% over there. Russia and CIS will be around maybe 25% and rest of the world Asia, Africa and other places will be the balance.

Tanvi Shetty: Okay. And I wanted to know by what time will the small tech capacity agglomeration capacity come online?

Challa Srishant: By beginning of next financial year.

Tanvi Shetty: Beginning of next financial year. So by then, can we expect the 10 to 20% contribution right now from the small pack, can it double?

Challa Srishant: Yes, right now it's about 10 to 15% what we have. Once the new capacity comes online, I wouldn't say double in the first year itself, but there should be at least a 60% increase in small pack in the first year itself.

Tanvi Shetty: Okay, thank you so much sir. And, I wanted to know any margin guidance for FY21 and 22?

Challa Srishant: It's too early to tell right now. This year itself, there are too many variable factors which are not in our control. We have no idea how things will shape up. Our constant endeavor is to keep growing our volumes and keep introducing new products and increasing our product mix, adding new customers. So that's the fundamental basis which our company is built. And yes, we'll continue to focus on that.

Moderator: Thank you. The next question is from the line of Lokesh Manik from Vallum Capital. Please go ahead.

Lokesh Manik: Just one question on the small pack segment. You mentioned that existing, we are doing 10 to 15% of our existing capacity. In your view, what is the potential for this from to go up to from 10 to 15% for our existing customers, which we can tap?

Challa Srishant: Around 30% is what we can go up to.

Lokesh Manik: Okay. And sir, again just at the cost of repetition, coming back to the pod segment, what would be the potential size, market size for this segment globally?

Challa Srishant: That's a difficult question to answer.



Lokesh Manik: The existing market size and volumes, if you would be aware of?

Challa Srishant: I can just tell you one second. 35.3 billion is the estimate for 2020 that's the market size. It is expected to reach 51.3 billion by 2027.

Lokesh Manik: Okay. That's 35.5 right, 33.5 billion?

Challa Srishant: Yes, 35.3.

Lokesh Manik: 35.3. Okay and that will reach to 51.5.

Challa Srishant: Yes, that's by 2027.

Moderator: Thank you. The next question is from the line of Manish Mahawar from Antique Stock Broking. Please go ahead.

Manish Mahawar: Just, I know you never share the volume for the quarter. But can it possible to give maybe we have reached a 6% revenue growth for this quarter. What was the volume growth and the realization or product mix change for the quarter? No, I'm not talking about absolute numbers, it is the growth if you can share?

Challa Srishant: See, growth you have seen there's almost like a 6% growth in turnover and all.

Manish Mahawar: Right. So what was the volume growth, possibly?

Challa Srishant: Volume growth approximately maybe plus or minus 2, 3%.

Manish Mahawar: Plus or minus?

Challa Srishant: Well, that's why I was asking you what you want me to say.

Manish Mahawar: Okay. No, sure I'll just discuss it off-line and second thing, how much of exports incentive we have booked in this quarter?

Challa Srishant: Around 7 crores.

Manish Mahawar: Okay. And last year same quarter?

Challa Srishant: Same.

Manish Mahawar: Same number. Okay and how much would be for this year expectation from the export incentive as last year, it was 34 odd crores?



Challa Srishant: Yes, the export incentive was the same as last year.

Manish Mahawar: Okay. And what was the expectation for this year as a whole?

Challa Srishant: Pardon, what was that

Manish Mahawar: What would the number for this year export incentive as last year, 34 crores we have booked in the revenue?

Lakshmi Narayana: It's around the same number maybe 35 crores or something like that is what we're expecting this year.

Manish Mahawar: Okay. And maybe what could the tax rate if possible for this year because we are incrementally our CAPEX will be coming at separate subsidiary for us because we have set up a separate subsidiary for our Continental Coffee right for the CAPEX perspective, what could be the blended tax rate for us as for this year and maybe next year possible?

Lakshmi Narayana: Because we have the MAT credit and all around 20% is the effective tax rate that we are expecting this year.

Manish Mahawar: Okay. But on a consolidated basis, right?

Challa Srishant: Pardon?

Manish Mahawar: On a consolidated basis because Vietnam, we don't have any tax?

Challa Srishant: Yes, exactly. That's correct.

Manish Mahawar: Okay. And last question, Srishant. On, we are doing some cold brew coffee in the US, I believe. So how that is performing and what is the expectation for this year and next year to ramp up this business?

Challa Srishant: Okay. So this is actually a very niche segment that we are looking at. We've done quite a bit of investment in getting the right technology in place, and we created a more dedicated R&D team for this particular product. And going forward for the US market, that is where we are seeing that there's a huge demand for this cold brew. We've created some spray dried versions as well as freeze dried versions of this cold brew as of now. There are some customers of ours in the US who have placed an order in small packs for the first time. And this product is going to be sold for the first time in the US in the supermarket shelf itself. So looking at this large there's big retailer who has bought this from us. And looking at this, we are quite confident that there are several more people who will start approaching us for the same product. And by virtue of its nature, there's a cost advantage for the consumer who wants to prepare cold brew compared to



*CCL Products (India) Limited
July 27, 2020*

the traditional method. So there's a lot of R&D that has gone into this and because we are the first ones in the world to come up with this technology, we'll have that first mover advantage at least for the next two to three years.

Manish Mahawar: Okay. And what could be the revenue we expect for this year, Srishant and maybe the peak potential, revenue potential for this product particularly?

Challa Srishant: For this particular product, see our base is right now still very small. We are looking at maybe doing about 100 tonnes of this particular product in the first year. And going forward, we can easily go up to even 5, 600 tonnes in the next year or two. There is a good potential for further growth. In fact, some of our customers who've seen these products, including some of the big brands that we are already supplying to, they were pleasantly surprised to see the product and the quality that we were able to supply. One of our major customers, they have about 3,000 coffee shops in some of the countries. And they've done a cost calculation and they realized that they'll be saving almost 60% in product costs if they buy from us. So that's the reason why they're now talking to us. They are asking us to do a proof of concept and all that. If that works, then for the first time we can actually start supplying instant coffee to the coffee shops as well. Coffee shops that normally take only roasted ground coffee, we can actually target these shops as potential customers as well.

Manish Mahawar: Okay. And if possible last one more question, just a clarification. You said, freeze dried coffee volumes has declined almost 50% this quarter for us. So this is only, this is overall company's FDC, freeze dried volumes or this is where you're talking about the Chittoor plant only?

Challa Srishant: No, no. This is overall company's freeze dried volumes.

Moderator: Thank you. The next question is from the line of Jignesh Kamani from GMO. Please go ahead.

Jignesh Kamani: I just want to know on the maintenance of the freeze dried plant. Any color will there be able to increase your plant capacity marginally or any color on freeze dried plant and will there be any reduction in the overhead and the running cost and hence, improvement in the margin from that plant post the maintenance is over?

Challa Srishant: Well, right now we were actually supposed to shut down the plant, do that maintenance that we were supposed to get the engineers from Europe. Unfortunately, they were not able to make it because of this COVID impact. So this capacity enhancement portion and improvements that we wanted to do, it looks like it will get postponed to next year. We can't afford to do another plant shutdown during this year. So that will get postponed to next year.

Jignesh Kamani: But then it will again require such 50/50 kind of shutdown over the capacity enhancement in the future?



*CCL Products (India) Limited
July 27, 2020*

- Challa Srishant:** Yes, it will require at least a two month shutdown again for next year.
- Jignesh Kamani:** Understood. And second thing, you mentioned about that some of the order particularly in the solution has been deferred because client is asking for that. And if you remember generally, we generally lock in both offerings our product price and the bean coffee price at the time of ordering. So if there is any deferment of the contract, will customers still honor the older pricing or depend upon the coffee price movement they will ask for the revised pricing?
- Challa Srishant:** No, contract is a contract. Just the way green coffee also, we don't have the option of changing the prices same thing with the customers also, they will take it as a contracted price.
- Jignesh Kamani:** So it may just impact the revenue from one quarter, two quarter without impacting profitability?
- Challa Srishant:** Yes.
- Moderator:** Thank you. The next question is from the line of Kashyap Jhaveri from Emkay Investment Managers. Please go ahead.
- Kashyap Jhaveri:** You made a comment that IC market from about 35 odd billion is expected to grow to about 51.5 billion in 2027, which is almost like 5% plus CAGR. Now if I look at two of the largest player in the segment, which is Nestle and JDE, over last many years their top line has been relatively flat at least in the coffee segment. Can one deduce that the other brands, which might be boutique or region specific brands, those are growing faster than the industry leader or how does one corroborate this number?
- Challa Srishant:** Yes. So earlier, because there was a patent that was there, Nestle was able to grow their volumes quite substantially because nobody else was allowed to make those parts except them. Now that everybody is allowed to make the product, you have companies like Coffeiccino, Dunkin' Donuts, Gloria Jean's, Keurig, Lavazza, the Seattle's Best Coffee, Starbucks, Folgers, Krafts, everybody is in this segment now. So all the big guys are taking part in this segment, and all of them have started selling their products in their respective markets, and they're going up against Nestle. So Nestle has been.
- Kashyap Jhaveri:** Which product is this?
- Management:** The pods.
- Challa Srishant:** The pods. You were asking about the coffee pods, right?
- Kashyap Jhaveri:** Okay, Yes.
- Challa Srishant:** I'm referring to that one only.



*CCL Products (India) Limited
July 27, 2020*

- Kashyap Jhaveri:** Okay. So that's one segment, which is growing faster and because of which the overall market, other players are growing faster than Nestle, is that the?
- Challa Srishant:** They have grown faster because the patent has run out for Nestle. And now all these other players can now officially supply to the same Nestle machines that people have already purchased. So that's the main reason why everybody is getting into this segment and they're going up against Nestle.
- Kashyap Jhaveri:** And people are fine, there product is finding acceptance versus what could be supplied by the Nestle in the same machine?
- Challa Srishant:** Yes. Because like Nestle, they will give you one set of products for this particular machine. Now you have a wider range of products that you can buy. Coffee is the personal choice end of the day. There are several customers who still prefer to buy the Nestle product because they're used to it, they like the taste profile and all that. There's no such thing as good or bad over here. It's 100% an individual's taste preference that matters. So that's the reason why people keep changing as well. Sometimes they want to try something new, they'll try some other brand.
- Kashyap Jhaveri:** Right. And just additional one question on this capacity addition, which you mentioned by competitors, any comments on what is Olam doing over next about two years, if you have any idea on that?
- Challa Srishant:** Olam has already completed their expansion. They've come up with freeze dried line along with us around the same time.
- Kashyap Jhaveri:** Okay. Any capacity indicated?
- Challa Srishant:** Yes, 5,000 tonnes.
- Kashyap Jhaveri:** 5,000 tonnes?
- Challa Srishant:** Yes. Freeze dried.
- Kashyap Jhaveri:** Okay. And just one last question on this Russian market. Russian ruble has depreciated vis-à-vis INR by almost about more than 5%, would it have any impact on us, or are we hedged against that depreciation?
- Challa Srishant:** No, we do all the buying and selling in USD. So our green coffee is in USD, our finished product is in USD. So there's no impact for us.
- Moderator:** Thank you. The last question is from the line of Dhiral Shah from PhillipCapital. Please go ahead.



*CCL Products (India) Limited
July 27, 2020*

Dhiral Shah: Sir, my question is pertaining to the Vietnam facility. In FY20 we did a capacity utilization of 70 per tonne and this revenue run rate was around 262 crore. So we have seen good improvement in realization around 2% sir on a Y-o-Y basis. So what was the rationale behind that?

Challa Srishant: This quarter we have said that capacity utilization was almost to the extent of 100%.

Dhiral Shah: Sir, in FY20?

Challa Srishant: FY20 is about 67 to 70%.

Dhiral Shah: Yes sir. So despite of drop prices declined in almost 10 to 15% during the year. Sir, our Vietnam realization went up by 10% sir. So what was the rationale behind that?

Challa Srishant: We have the new major customer from US we have added. So the margin was better and also the economies of scale, achieving about 100% utilization, it's enabled a better margin.

Dhiral Shah: So do you expect this realization to sustain sir?

Challa Srishant: See, on a 10,000 tonne capacity we are expecting that we would be doing about on an overall basis, we should be doing about 90% utilization this year. So, if not at this level it will be market improvement from the last year.

Moderator: Thank you. As there are no further questions, I would now like to hand the conference over to the management for closing comments.

Challa Srishant: Thank you all for joining us on this conference call. Looking forward to speaking with all of you after next quarter results are announced. And we'll keep everyone updated with any developments that are taking place. We'll keep informing the stock exchange also in due course as and when there is a change. Thank you all and stay safe. Thank you.

Amit Mishra: Thank you sir. On behalf of Systematix, I would like to thank you and your team and also all participants for joining us on this call. Thank you.

Challa Srishant: Thank you for organizing everything also.

Amit Mishra: Thank you.

Moderator: Thank you. On behalf of Systematix Institutional Equities, that concludes today's conference call. Thank you for joining us and you may now disconnect your lines.