CONTINENTAL COFFEE

Date: 14.08.2024

To The Listing Department, **National Stock Exchange of India Limited** Exchange Plaza, 5th Floor, Plot No. C/1, G Block, Bandra – Kurla Complex, Bandra East, Mumbai – 400051. **Scrip Code: CCL**	To The Corporate Relations Department, **BSE Limited,** Phiroze Jeejeebhoy Towers, Dalal Street, Mumbai – 400001. **Scrip Code: 519600**

Dear Sir/Madam,

Subject: Transcript of the Conference Call held to discuss the results of Q1 FY 2024-25 as required under Regulation 30 of SEBI (LODR) Regulations, 2015

With reference to the above-mentioned subject, we wish to inform that,

i) The copy of the Transcript of the Conference call held on Thursday, 08th August, 2024 to discuss the results of the first quarter of the financial year 2024-25 is enclosed herewith.

ii) The Transcript is also uploaded on the Company's Website and the web-link for the same is:

https://www.cclproducts.com/wp-content/uploads/2024/08/Q1-Earnings-Call-Transcript-2024-25.pdf

iii) The List of Management attendees is stated in the transcript.

iv) No Unpublished Price Sensitive Information was discussed in the call.

This is for your information and necessary records.

Yours sincerely,
For CCL Products (India) Limited

Sridevi Dasari

Digitally signed by Sridevi Dasari
Date: 2024.08.14 18:14:17 +05'30'

Sridevi Dasari
Company Secretary & Compliance Officer

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"CCL Products (India) Limited Q1 FY25 Earnings Conference Call"

August 08, 2024

MANAGEMENT: **MR. CHALLA SRISHANT – MANAGING DIRECTOR, MR. PRAVEEN JAIPURIAR – CHIEF EXECUTIVE OFFICER**
MR. B MOHAN KRISHNA – EXECUTIVE DIRECTOR
MR. V LAKSHMI NARAYANA – CHIEF FINANCIAL OFFICER
MS. SRIDEVI DASARI – COMPANY SECRETARY

MODERATOR: **MR. ABHISHEK NAVALGUND – NIRMAL BANG EQUITIES PRIVATE LIMITED**

Moderator: Ladies and gentlemen, good day, and welcome to the CCL Products (India) Limited Q1 FY '25 Conference Call hosted by Nirmal Bang Equities Limited.

As a reminder, all participant lines will be in the listen-only mode, and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing "*"and then "0" on your touch-tone phone. Please note that this conference is being recorded.

I now hand the conference over to Mr. Abhishek Navalgund from Nirmal Bang Equities. Thank you, and over to you, sir.

Abhishek Navalgund: Thank you, Shlok. Hello, everyone.

On behalf of Nirmal Bang Institutional Equities, I welcome all the participants to CCL Products (India) Limited 1Q FY '25 Earnings Conference Call.

The Management is represented by Mr. Challa Srishant – Managing Director; Mr. Praveen Jaipuriar – CEO; Mr. B. Mohan Krishna – Executive Director; Mr. V. Lakshmi Narayana – CFO; and Ms. Sridevi Dasari – Company Secretary.

Without further ado, I would like to hand over the call to Praveen, sir, for his "Opening Comments," post which we will open the floor for Q&A. Thank you, and over to you, sir.

Jaipuriar Praveen: Thank you, Abhishek. I welcome you all to this Conference Call.

I will briefly summarize the Quarter 1 Performance for all of you, and then we can open the floor for questions.

The Group has achieved a turnover of Rs. 773 crores for the 1st Quarter as compared to Rs. 654.9 crores for the corresponding quarter of the previous year. This is 18% growth. The net profit stands at Rs. 71.4 crores, as against Rs. 60.71 crores for the corresponding quarter of previous year, which is also an 18% growth. The EBITDA is Rs. 131.6 crores, and the profit before tax is Rs. 87.18 crores. The EBITDA growth when compared to a similar quarter of the previous year is 23% and the PBT growth is around 25.5%.

The domestic market continued its strong performance and achieved a gross turnover of Rs. 90.5 crores, out of which the brand sales were approximately Rs. 65 crores and balance Rs. 30 crore was bulk and private label.

We have almost completed and started the launch for the Percol in new packaging and the new product. The new product is available on the shelves, and we are now closely monitoring it.

Subsequently, we are now putting marketing activities behind it, and we are looking forward to building the brand in the UP market. So, that's a broad and a brief summary of the Results.

I open the floor for questions now.

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

Rakesh Wadhwani: Sir, first question with regard to the other expenses as well as the depreciation, we have witnessed a very minor growth or the increase in the other expenses as well as the depreciation has come down. Any reason for that? So, whereas the revenue and the volume has increased by 15%-16%, whereas the other expenses have remained constant. Any one of the reasons? As well as depreciation, which was Rs. 31 crores last year have come to Rs. 23 crores.

Lakshmi Narayana: This is Lakshmi Narayana here. Depreciation in quarter 4 of the last year, we have revised our earlier deprecation policy towards the vending machines. As against depreciation of the life period of 10 years, we have reduced it to 3 years, and it's mainly provisioned for Rs. 8.16 crores, which is the additional depreciation, which causes the reduction from Q1.

Rakesh Wadhwani: Sir, second question with respect to the debt. Can you please tell us the amount of gross debt at the end of Q1? And bifurcation of that, what is the debt for the working capital and debt for the CAPEX?

Lakshmi Narayana: Essentially the increase in debt from March '24 from Rs. 1,620 cores to Rs. 1,885 crores is clearly an account of the increase in working capital. So, it has gone up from Rs. 1,000 crores to Rs. 1,200 crores towards the working capital debt increase.

Rakesh Wadhwani: So, just reconfirming the point, Rs. 1,200 crores is the gross debt. Can you just bifurcate the debt for the working capital as well as the CAPEX?

Lakshmi Narayana: No, Rs. 1,200 crore is the working capital debt and Rs. 675 crore is the term loan debt. Total on 30th June, it was Rs. 1,885 crores as against, earlier working capital debt of Rs. 1,000 crores and almost around Rs. 700 crores, which is around Rs. 1,620 crores. So, Rs. 1,620 crores of 31st March '24 has gone up to Rs. 1,885 crores.

Rakesh Wadhwani: Sir, 1 last question from my side. Sir, can you talk about the volume growth in this particular quarter? And how are the clients that the retailers across the globe, have they started taking the coffee inventory back? Because in the last con-call, we talked about that the global retailers are running on a very thin inventory levels because the coffee prices had increased. Any update on that.

Jaipuriar Praveen: Rakesh, I will answer the second one, first. No, there hasn't been an increase in the inventory that the clients are building up because still the coffee prices are at pretty high levels. So, that phenomenon hasn't started yet. So, that's one. The second thing you asked about is volume growth. We are experiencing last quarter around 15% to 16% volume growth, which is in line with the guidance that we have been giving. Despite headwinds, we were able to maintain this kind of growths.

Moderator: The next question is from the line of Aashish Upganlawar from InvesQ PMS. Please go ahead.

Aashish Upganlawar: Sir, I just wanted to understand your thought process on how the scenario for coffee price is shaping up, I mean, regarding the crop situation around the world, the demand side and, etc.?

Jaipuriar Praveen: This one is a little tough. As we had discussed in the last con call as well, things have been very volatile and therefore, the predictability of coffee prices has become very, very difficult. So, what has happened is that Brazil, and last time we had discussed that Brazil seems to be having good crops, it had a good crop, but simultaneously, there were news, and the market suggested that Vietnam had El Nino effect and they had certain crop shortages. So, the prices continue to be very high in Vietnam, which meant that any correction that was probably expected or, let's say, a good correction did not happen, so there was a correction in Brazil, but the prices remained high because the availability and the prices in Vietnam were pretty high. So, net-net, things haven't improved drastically.

And to add to the complexities, there has been volatility around. So, that's the situation right now. And as we have been saying, most of the predictions for all the market pandits have gone wrong. So, we really don't want to kind of give a prediction that how the prices will pan out. But having said so, as we have always maintained, some of the trigger points are generally the harvesting season. So, the next harvesting season for Vietnam and the other countries like India also will happen now in November-December. So, that's the point of time. Then we will see how things pan out. But that's the situation right now as far as coffee prices are concerned.

Aashish Upganlawar: So, the next point to watch out would be probably in November.

Jaipuriar Praveen: Yes, and December. Yes

Moderator: The next question is from the line of Shirish Pardeshi from Centrum Broking. Please go ahead.

Shirish Pardeshi: Two, three questions. Can you break down the volume India and Vietnam? And the second question is if you can break the spray-dried and FDC volumes?

Jaipuriar Praveen: So, Shirish, I will give you a little broad idea. But let's say, that India, of course, will be closer to 9%, 10%, then the Vietnam will be a little higher because that's where the capacities were added last year and that's the capacity that is working. So, that is the gross this thing. Just give me a second, I will tell you the consol level, what you see behind this. So, let’s say I don't spell out the exact numbers, so 25% of the total volumes will be spray-dried volumes.

Shirish Pardeshi: Second one follow-up on this. What is the capacity utilization in India and Vietnam at this time?

Jaipuriar Praveen: See, India was minus with food and beverages. So, food and beverages, although we started in March, but there the utilization, a lot of the stabilization is happening. So, while there is a certain sales that is happening, but the capacity utilization is not very high. So, it will not be more than 5% to 10% of the capacity. Rest of the capacity, we were running almost full. And Vietnam would be the earlier line. The first line is running at full capacity. The second one probably at around 50% of the capacity.

Shirish Pardeshi: And do you spell out some idea on the India branded and domestic business, how it is panning out, what number we have got in Quarter 1?

Jaipuriar Praveen: Yes. So, in my brief, as I mentioned, the India business was approximately Rs. 95 crores. And this is growing at an overall level of around 40% right now. And out of this, the branded business is Rs. 65 crores, and that business is growing, branded and the retail business, that is growing at around almost 45% to 50%. So, that's a little brief. The plans are going well. We are expanding the distribution network. We are also expanding most of the channels right from trade to e-commerce. We are now getting pretty strong on quick commerce. So, yes, on all fronts, we are trying to be best and see how we can keep driving this kind of aggressive growth.

Shirish Pardeshi: Do you think this year, we will be higher of close to about Rs. 300 crores, what target we were estimating? The reason why I am asking because we have had a lot of activation on ground. So, maybe if you can help me to get better quality to understand what kind of vending machines we are putting and what is the distribution at this point of time?

Jaipuriar Praveen: Yes. So, yes, 300 is the number that we are looking at, which will mean that almost 50% growth over last year. So, that's a number that we are aiming, and this is only for retail. At an overall level, the India business should cross Rs. 400 crores. And yes, there is a lot of ground activation we are doing, both on the demand generation side and the distribution side. And while we do so, there is always, as you know, in FMCG business, it will be an evolution of the distribution as well. So, last time we spoke about how we are not only strengthening distribution in terms of number but also in terms of quality, and it's a better-quality distribution network when I say so, which means that the quality of distributors and the strength of distributors is also increasing by the day. And hopefully, in India, our direct distribution should touch 1,30,000 outlets. And we are also hoping to drive a lot of indirect distribution through wholesale, which means that we probably, in effect, will be touching around 150,000 outlets. So, that's the plan on distribution, and we continue to press upon the demand generation activities right from ATL to BTL. So, all that is happening. We are trying to see are there any other subsegments that we could enter. And yes, so all that work is happening.

Shirish Pardeshi: That's really helpful. Just the last question on the margin. Though prices are elevated and we have seen gross margin has declined and also it had the effect on the EBITDA, could you spell out if the long-term contracts are now getting revived at the higher price? Or what is it that we should look forward for next 2, 3 quarters? How will the margin pan out?

Jaipuriar Praveen: So, I will just correct the understanding a little bit here. The margins never contracted. Optically, it gets contracted because we would work on a per kilo EBITDA margin, which means that if the coffee prices go up, in relation to top line, the margins may look depleted, but that's not the case. Our per kilo or let's say, per tonnage margins are intact. And that's the guidance we always give that our EBITDA growth will be in line with our volume growth. This quarter, what has happened is that if you are seeing around 23%, 24% EBITDA growth and our margin growth is 15%, 16%, there has been a little expansion because this quarter, we had certain contracts, which were a little higher value contract and more margin contract. So, we saw the benefit of that. And therefore, you will see a margin improvement or, let's say, per kilo margin improvement that we witnessed in this quarter.

Now coming back to this question that are the long-term contracts getting revived? As of now, we are not seeing so much of revival of long-term contracts because coffee prices are still high. But yes, it seems that, as it happens in any commodities, once the commodity sees a peak pricing, there is a period of confusion and then things start settling down. So, we are seeing those kind of settlements happening, and we are now seeing some revival, but I would not be too committal about this fact that revival has happened. So, we will wait for 1 or 2 more quarters to see how things pan out.

Moderator: The next question is from the line of Akhil Parekh from B&K Securities. Please go ahead.

Akhil Parekh: Praveen, sir, my first question is on the coffee prices. If I look Y-o-Y, it has almost gone up by 60%, Robusta coffee prices. While Q-o-Q, it has gone up by 25%. And at the same time, you are saying our volumes have grown by 15%, 16% on a Y-o-Y basis, while sales growth is at 18%. So, is it like you have seen a cut in the pricing in this quarter, 1Q, as the product has deteriorated?

Jaipuriar Praveen: So, Akhil, there is no cut in pricing and all that. You know our model, we do back-to-back. So, a lot of this quarter's contract is actually contracts which we had done previously. So, it will be unfair to compare with current prices. So, while the current prices would have gone up by 30%, 40%, maybe 50%, 60%, but that really is not the right indicator because the contract that we delivered is probably, let's say, last year's pricing contract. So, in effect, there may be a lag of 1, 1.5 years also that may come into play. So, that is why that comparison is not a right comparison, I would say.

Akhil Parekh: Do we maintain the volume growth guidance of 15% to 16% for this year?

Jaipuriar Praveen: If you remember, last quarter, we had given a little broader guidance this time considering the volatility in prices, we said 10% to 20%, landed at 15%, but we would like to guard ourselves and say that we will still maintain 10% to 20%. I would not be committal at this point of time because, as I was telling you earlier also long-term contract revival is not strongly back. Most of the clients are into hand to mouth kind of a situation. So, the orders are really coming not in the long term, but in a very, very short-term manner. So, we don't have so much visibility for me to be committal about it. We maintain the guidance of 10% to 20% as of now.

Akhil Parekh: And on the EBITDA per kg, sir, do you still maintain 110 per kg kind of guidance for the next 2 years? Or do you see a change because existing capacity is going to come now on stream in Vietnam. So, can we expect improvement on that sir?

Jaipuriar Praveen: Again, not really because as we have been telling you there are a lot of things that play out. This quarter, we got some improvement largely because of high-value contracts, and there are more small packs that we did, but coming quarters, there are some volume contracts, some low-margin businesses that will come our way. So, we would like to maintain the guidance that most of our EBITDA growths will be driven by volume growth and not really by margin improvement after maybe 1.5 years or 2 years-or-so, I think that's the time we will start improving the margin profile as such. And again, it's not an overnight thing. We have always told that we are working towards it, small packs, more of branded business, more of high specialty coffee. So, all that will happen gradually, but the visible effect, you'll start seeing more like in the, say, 1.5, 2 years.

Akhil Parekh: Okay. And how much would be small packs, sir, as a percentage of total units?

Jaipuriar Praveen: So, broadly, it is at 20%, Akhil. But yes, there has been an improvement because small packs is also our own brand business. So, overall, the small pack contribution is improving, still at a 20%, 25% level, but yes, we are seeing improvement on this front.

Moderator: The next question is from the line of Rahul Maheshwary from Ambit Asset Management. Please go ahead.

Rahul Maheshwary: Just had 1 question, can you give some color on the clients addition that has been taking place? What kind of clients addition in terms of the wallet share that has been taking place from the existing clients? And just adjacent to that, the U.S., as a geography, was running at 8,000 to 10,000 per ton. Where that as a market has been reached for us? These are my 2 questions.

Jaipuriar Praveen: So, this one is quite granular thing that you asked. Probably, we will have to go a little deeper here. I am not sure that I will give you a lot of color on this. But yes, see, that’s the endeavor that keeps happening. We are wanting to increase the wallet share with our client. And I have always maintained that that's not just the only thing that we grow on. There are things like new client addition. It's a leaking bucket. There always will be new clients, and there will be clients who would be dropping off from the roster as well. So, all these things are happening. The net effect is what you are seeing as growth numbers. So, there are certain clients where we have increased our wallet share. There are certain clients where we have probably decreased our wallet share as well. It's a continuous process. I think it's more like, when I say leaking bucket, my entry should be more than my exit. So, that's the endeavor that we all work upon.

Rahul Maheshwary: Praveen, but just can you give some qualitative that how the value-added share has gone up? I am not talking in just 1 quarter basis. But if you can give us some direction that earlier, it was in low single digit where it has reached and where you aspire to go in terms of wallet share that would be very helpful?

Jaipuriar Praveen: Right. I will tell you. So, first, I will talk about wallet share and then I break it up for you in terms of value-added products, yes? So, wallet share, generally, a client will also, because they also derisk their business, so they will not let suppliers wallet share go beyond, let's say, 35%, 40%, yes. So, there are clients where we are working on the highest levels of 35%, 40% of wallet share. There are a lot of clients where we are only at, let's say, 5%, 10% of the wallet share. So, our endeavor is to kind of get into more of a 20%, 25% wallet share for those clients. As I told you, we are always on a lookout of new clients. So, that's the endeavor on the wallet share aspect.

Now coming to value addition, let's say, there are 2 types of things which are value addition for us. One is the value-added coffee, which could be specialty coffee and the second thing is the small pack where we earn more margins. So, these are things which will help us improve our margin structure. We are encouraged to keep hiking the proportions for them. Just to give a little example and I am giving a longer period example because then it gives you an idea where we were and where we are going to. Let's say, 4, 5 years, our small pack contribution goes in the single digits, probably 5% to 10%, now it has reached 20% to 25%. So, that explains the effort that we have put in to make sure that we do more and more of small packs and that's the reason we had put a facility which is helping us do more and more small packs for our clients. Coming to specialized coffee, three, four years ago, it was maybe not even 1% of our portfolio. Today, it is more than 5% of our portfolio. And sometimes, you also have a combination of specialty coffee being packed in a small pack so that is the sweetest spot for us because that gives you the best margin. So, we are doing some of those stuff as well. So, yes, that's in brief what our endeavors are and how our models are working.

Rahul Maheshwary: Also, can you give some highlight on, I don't want specific names but the number of customers that are being added or what you aspire in any per annum basis? Because generally, it takes, as you mentioned, 2 to 3 years to crack a particular customer. So, any pipeline or anything which you want to give direction that would be helpful?

Jaipuriar Praveen: So, on a very, very broad basis, in any year, we would add 10 to 15 new clients. There will be 4 to 5 clients who drop-off also, but these are not permanent drop-offs. These are drop-offs, could be temporary, but that's the kind of thing that we maintain. And adding clients is not the only aspect because I could go ahead today and offer some cheap prices and add 50 clients, that's something that we can do any time. But what we want to do is add qualitative clients, which are of high quality. This does not necessarily mean that I only want client with high-margin business, but it means that clients who are going to stay with us long term, who have got some standing in the market. Clients are looking to build brands for themselves because mostly the clients who are building it for their brands are much more stickier business than traders. So, these are the things that we keep in mind when we are onboarding clients and that's been our endeavor.

Rahul Maheshwary: And your view on U.S., how the capacity is? It was an earlier question only.

Jaipuriar Praveen: Yes. So, I think there's some confusion. It was not 8,000 to 10,000 that we have ever spoken about. It's 4,000 to 5,000 and that is growing by healthy rate of 15% volume year-on-year. The U.S. market is also challenging. What happens is that right now, the Brazilian prices are much lower than Vietnamese prices. There was a timing when things were inverted. At that time, we had a little more advantage. So, driving volumes was easier. But today it's that much more tougher to drive volumes there because Brazilian suppliers are having an edge. While they may not have much of a procurement edge because we can also procure from there, but they do have logistical edge that they have on us. So, these are difficult times for us to penetrate more than what we have penetrated. But yes, the endeavor is to keep going on nibbling away and seeing that are there any avenues of growth that we can embark upon.

Moderator: The next question is from the line of Akul Broachwala from Avendus Investment Managers. Please go ahead.

Akul Broachwala: First is on, as you mentioned in your opening comments that this quarter kind of reflects the pent-up demand that was kind of there since many quarters. So, do you think that at least the near-term pent-up demand is kind of already catered to and now customers will only probably wait for prices to go down further?

Jaipuriar Praveen: Yes. No, so I think it's not a pent-up demand. I think what we should see it like this, this is more near-term demand. So, what is happening is that most of the customers or clients are wanting to feed their near-term demand and are not committal about long-term contracts. And the reason is exactly the coffee prices because the coffee prices are at high, everybody wants to wait and watch because everybody is hoping and this hope has been there for the last 1.5 years, because when the coffee prices reached 2,500 levels, people thought that this is the peak. Then it did not stop there, it went to 3,000, 3,500, 4,000. So, what is happening is that at every interval, people are expecting that there will be a correction and therefore, what they do is that they only give commitment for their short-term needs. And that's what is happening right now. And that's seeing the market scenario. Now when this will invert. We really don't know because see, at this point also, everybody is expecting that at some point the coffee prices will correct. So, people are in a wait-and-watch mode still. So, let us see how things pan out in the future.

Akul Broachwala: And like in terms of the debt, so are we already at the peak debt level like of this Rs. 1,865 crores or do you still expect, based on your volume growth, the debt to further inch-up even from these levels?

Jaipuriar Praveen: So, if we continue the current volume growth, even at current static prices, the debt level will go up, there is no doubt about that. So, we are looking to end the year at around Rs. 2,200 crores from Rs. 1,800 crores. But let's say, if the prices do drop after November, December, then this could come down by a couple of hundred crores.

Akul Broachwala: And in the previous call, you did mention that you were looking to refinance that at probably lower cost. So, has that already been through or maybe you are still evaluating that?

Jaipuriar Praveen: No, so we are still under review. There is a lot of background working that has to be done. So, we are constantly reviewing it because what is happening is that the interest rate scenario across the world is changing by the minute. So, while we speak, there should be a certain interest advantage you may get in some country, but the next day, you see things inverting and we are seeing how the world market is behaving. So, that's been an added challenge to kind of take a call on that. So, we are still working on that and nothing as of now is firmed up.

Akul Broachwala: And just finally, some bookkeeping questions. This depreciation for 1Q, like do you expect this kind of number to now be the quarterly run rate for the coming quarters or there will be some more volatility?

Jaipuriar Praveen: We are working hard towards it, but I maintain the guidance of 10% to 20%, and we will stay with that because as I told you, the long-term contracts are a little difficult to come by, they're still short term, so we will talk quarter-on-quarter. And yes, the endeavor would be to maintain this kind of a run rate, but yes, I will still not give a firm guidance of this run rate.

Akul Broachwala: Okay. And the tax rate for the full year?

Jaipuriar Praveen: Sorry, did you ask tax rate?

Akul Broachwala: Yes. I just wanted to check your guidance for tax rate for the full year.

Jaipuriar Praveen: 13% to 14%, I think, at a consol level.

Moderator: The next question is from the line of Parth Agarwal from Bastion Research. Please go ahead.

Parth Agarwal: My first question is that since we have already launched coffee brands in Europe, so I just wanted to understand what is our strategy to gain the market share in that region?

Jaipuriar Praveen: So, we have launched it in the U.K. market. Now the strategy is very simple. This brand that we had bought there, Percol, has been known as a brand which cares for the environment. It was for the environment friendly, audience who cares for the environment certified coffee and things like that. So, we are building upon that proposition. So, right now, what has happened is that U.K. market is largely modern retail. So, our endeavor is to get it listed because what had happened in the past 3, 4 years, this brand had got delisted from a lot of chains. So, our first endeavor is to make sure that we get the listings. The first proof of pudding would be that in the stores that we are listed, once the offtake improves, then it gives us strength to go to other chains and say that look here. things are improving upon us. And that will happen because of our efforts that we are doing both ATL and BTL. So, we are looking to do social media awareness building, some localized activity, awareness building, which will help us gain traction for the brand. We are also looking to tap into some of the newer formats there. So, there are things like coffee bags and all that, which are gaining traction as a format in the markets like U.K. So, we have already launched the Percol formats in coffee bags. That is something that we are also looking to push forward. So, all of this, we are trying to do to make sure that we gain the momentum that this brand had a few years ago.

Parth Agarwal: All the manufacturing that is happening for this brand is from India, right? And we export it from here?

Jaipuriar Praveen: All the instant coffee is happening from India. All the roast and ground, like I talked about, the coffee bags and all, which is roast and ground format, which we are doing third-party manufacturing in the U.K. itself.

Parth Agarwal: And sir, can you help me understand the Swiss subsidiary business? So, I understand that it's an agglomeration plant and that we have positioned it as an agglomeration plant in Swiss. But what is the purpose of it solving there and why can't we directly export it from India or Vietnam?

Jaipuriar Praveen: Sir, various purposes it solves. The biggest purpose that it solves, it helps us to be nimble footed in the market because if you see Europe, there are very small countries, there are a lot of small clients who are there, who want coffee. Their demands could be immediate in nature. And when you are trying to fulfill those kind of demand, it becomes very difficult to export from India and fulfill those demands. So, these kind of arrangements help us service these demands and grow our business. And these are very profitable business because these come from chain of supermarkets, these could come from small brand owners. And these businesses, while they are small in nature, they aggregate into a good profitable business. So, that's the reason it helps us to be there in Switzerland.

Parth Agarwal: And the current capacity there is 300 metric tons for agglomeration, right?

Jaipuriar Praveen: That's only an agglomeration capacity. So, anyway, that's not a processing unit. So, anyway, the base product goes from India only. And depending on the clients' requirement, if somebody requires an agglomerated product, we agglomerate and give it there.

Parth Agarwal: And just 1 final question, sir. I understand Continental Coffee Private Limited, wholly owned subsidiary, is into food and beverage business. Can you just detail-out what exactly this business does currently?

Jaipuriar Praveen: So, basically, what we did was last year, if you remember, we demerged the back-end business back to the parent company. And we said that, that entity will be only used for our retail endeavor. So, we already were running our Continental Coffee kiosks at certain places like Metro station and a couple of them at colleges. Now we have evolved that format, and we are going ahead with a full-fledged cafe. We just opened a couple of them in the last month at Hyderabad. We will do a POC. If we feel that that concept is working for us, then we will kind of look forward to expand it. How will we expand it, where would the capital come from and all that questions we will answer once we understand the proof of concept.

Moderator: The next question is from the line of Bhargav from Ambit Asset Management. Please go ahead.

Bhargav Buddhadev: Sir, any comments on market share, given that we managed a 15% volume growth in a tough market?

Jaipuriar Praveen: This one is a tough one because generally market split, there's no syndicated data that comes telling you what is the global market share that you have and the capacities on a regular basis are getting added, get deleted and things like that. But when we triangulate our data, we had said that when we were at 44,000 or, let's say, around 40,000 metric tons, we probably were at around 6%, 7% market share in the world B2B market, the addressable B2B market. And then we said since the market is growing by 2%, 3%, and we probably are looking to grow at 17%, 18% at the CAGR level for next 3, 4 years, our destination was that we probably will end up at around 12%, 13% by '27-'28. So, that's the scenario right now. But these, again, you'll have to take these numbers with a pinch of salt because these are all triangulated data and not any syndicated data that we have to refer.

Bhargav Buddhadev: Sir, on the share of freeze-dried you mentioned 25%. So, can this increase post your 5,000 ton capacity getting added in the second half?

Jaipuriar Praveen: Probably not. There are 2 things. In terms of capacity-wise, that 6,000 tons is added, we also got an India spray-dried capacity of 15,000 tons, which is not added. So, probably, it remains in the same proportion. But while I say so this is on the capacity front. A lot will also depend on the market demand front. So, let's say, the demand for freeze dried increases, then probably the proportions could increase. But it is difficult to comment just because of the capacity, I don't think so that should be the driver for our big number.

Bhargav Buddhadev: And in terms of price hikes, is it fair to say from 2Q onwards, we will have taken price hike as well compared to 1Q?

Jaipuriar Praveen: So, our price hikes are generally related to the green coffee prices because we work on cost plus model. So, it will really depend on the green coffee prices, how they move and that will actually determine price hikes for us.

Bhargav Buddhadev: And last question is on the profitability for the branded business, is it possible to share?

Jaipuriar Praveen: No. So, yes, of course. Last time itself, we said that we had broken even, and we probably will be looking to get to a 7% to 8% EBITDA margins for the branded business.

Bhargav Buddhadev: In this year?

Jaipuriar Praveen: This year, yes.

Moderator: The next question is from the line of Devanshu Sampat from Avendus Capital Private Limited. Please go ahead.

Anirudh: This is Anirudh here and Devanshu. I have 2 questions. One is as far as EUDR compliance is concerned, could you tell us what proportion of the coffee that you are getting would be compliant? And is that a risk as far as continuity is concerned post December? And is there a chance that these regulations may also be pushed back if some color can be provided? And the second one is that in terms of timeline of the new capacity start-up in Vietnam, we are on track on September, October. I just wanted to clarify that.

Jaipuriar Praveen: So, yes, we are on track. September, October, we should be up and running. That's on the capacity. On the EUDR, I think there are 3, 4 angles to it. One is that green coffee, which is generally shade grown and is grown in the jungles and all that, they are fully compliant with EUDR. The second thing is this is largely for the commodity itself, green coffee. Instant Coffee does not kind of come under this ambit. So, I don't think as of now, there is no risk that we see on this track.

Anirudh: Just 1 follow-up question, sorry, 1 more data point, actually. What would be your current cost of debt, more importantly, the incremental working capital that is what is the average cost currently, please?

Lakshmi Narayana: So, till June, it was around 6.5% average cost of funds towards the working capital, and it is likely to go up to 8.25% from this quarter.

Anirudh: Sorry, you said 8.25%?

Lakshmi Narayana: 8.25% is the current cost of funds towards working capital, that is from July onwards.

Anirudh: So, from July onwards, it is 8.25% on the entire working capital debt of Rs. 1,200-odd crores?

Lakshmi Narayana: Yes, you are right.

Anirudh: And this Rs. 1,200 crore is benchmark to, when you mentioned that this debt could go up a little bit towards the end of the year, this is assuming coffee prices remaining at about 4,000 or at what level broadly?

Lakshmi Narayana: It is somewhere around 3,600 to 4,200.

Moderator: The next question is from the line of Disha Giria from Ashika Institutional Equities. Please go ahead.

Disha Giria: I just wanted to understand more about the branded business in India. So, you did mention that there was a 40% to 50% increase in the branded revenue and what would be the volume growth for the same? The coffee prices are volatile, for the B2B business, we have a cost-plus model, but how do you see it in the B2C business?

Jaipuriar Praveen: Yes. So, 2 things. One is that you asked about volume growth, which is approximately 30%-or-so that we are achieving for the retail branded business in India. And coming to the second part, how FMCG works. There are different pricing things. Here, we can't work on cost-plus. Generally, because we are a fighter, we are a competitor to the largest player, we maintain a pricing index of the market. So, that's how we increase prices, and we have seen 30%-or-so price increases. But again, there are a lot of challenges here because you can't increase prices on every pack. There are certain packs which are more price elastic, so you can increase more prices there. There are certain small packs and the very small packs, like the coinage pack as we call them. There, price increases are very difficult. So, we work on driving more and more efficiencies to keep or maintain the margins there. That's how the pricing decisions are happening in the retail B2B business.

Disha Giria: So, the Continental brand is, I believe, cater to more to the Southern part of India, where I think they are ranked second or third. So, do you plan to expand this brand within India further?

Jaipuriar Praveen: Yes, absolutely. So, you are right, we started with South India. A lot of our efforts are here. We have gained quite a bit of traction here. And now we are expanding to other parts of India as well. So, in fact, the work has already started both in terms of driving distribution and also generating demand. So, there are key markets. In the rest of India, it is a far more our green product than what it is in South India. In South India, the penetrations are much higher. So, we are looking to penetrate first the 5 lakh-plus population town. And those towns where we feel that the coffee consumption is higher than the others. So, a lot of work has already started, both in terms of building and distribution expansion. Today, as we speak, we already are covering approximately 1,000 1,200 outlets in metro towns like Delhi, Mumbai and 500, 600 outlets each in the second-tier towns like Lucknow or Chandigarh, Indore, Pune, so that's how we are expanding the rest of India.

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

Lokesh Manik: My question was on the inventory days, which have historically hovered around 90 to 120 days, which has shot up to about 180 days for the past 2 years. And this is having an implication on the interest cost, which has shot up significantly. So, any comments on how we are planning to manage this inventory and bring it back down to 120 days given that we are not compensated by the end consumer for the days that we are holding the inventory in our contract prices?

Jaipuriar Praveen: A couple of things here. A lot of our inventory management is dependent on the market scenario. And why do I say so because if you see in the last few quarters, our buying from sources like Brazil has increased because there the prices are lower than the Vietnamese coffee prices. So, which means that it adds to the logistics timeline. And therefore, inventory or let's say, the working capital cycle goes up. Now you are right, it adds to the pressure of finances in terms of interest cost and all that. But having said so, this is our model. So, in the sense because I am getting it at a lower price from Brazil, I am able to earn margins, and I am able to sell as well. So, that is something which is probably unavoidable.

The only thing that I would like to mention here is that all this inventory buildup or let's say even if the increases are happening, it is for confirmed contracts. So, all the working capital that we utilize, not a single penny is utilized for inventory buildup. So, these are all confirmed contracts. Yes, it adds to the pressure, but on the other hand, it also adds to my operating margins as well. So, whether you see it from this angle or that angle, it actually works out to be the same because if I were to kind of squeeze the payment cycles and all that, I would end up having lower margins. So, I think net-net, that's a balance that we try to maintain.

Now when do we see these improving? Of course, since our operations are here in India and Vietnam, we see this improving if some coffee prices soften. So, that is something that we would expect to happen by Q4 or so. So, until then, we will have to stay put with these kind of working capital cycles.

Lokesh Manik: Fair enough, Praveen. But our contract durations are reducing. Like you mentioned earlier, we are not getting long-term contracts. So, if this is the scenario, then shouldn't we see a fall in the working capital cycle because your buying is linked to the contract that you received on the day of the raw material purchases?

Jaipuriar Praveen: Not really because even if I get long-term contracts and I buy coffee, I don't keep the inventory with me. I mean I bought today, but the dispatches are staggered. So, that's how the markets work. So, I don't necessarily build more or less inventories because of the short terms or long-term contracts.

Moderator: The next question is from the line of Bhavya Sonawala from Samaasa Capital. Please go ahead.

Bhavya Sonawala: So, just a few questions. In our current Continental Coffee portfolio, just wanted to understand, do you see any new product addition going ahead or will we keep it the same and kind of focus on increasing distribution?

Jaipuriar Praveen: So, right now, we are focused largely on distribution because if you see our share among handlers, that's pretty much higher than the average shares in the market, which means that there is a demand which I need to fulfill. So, the distribution expansion is our key focus right now, and we will keep building on it. The thing is that if you see our portfolio, we probably have a portfolio which is larger than the leaders in the market. So, we have always been accused of not giving enough focus on some of these brands. So, we will rather keep focusing on the brands that we already have. So, I don't see a major addition right now. But yes, on the background, we keep working on things we are seeing if there are some trends emerging that we could capture in the future, especially in the premium segment, in the specialty coffee segment. So, we are keeping a watch doing some product development and concept development. Let's see how they pan out, but nothing in the immediate future.

Bhavya Sonawala: Makes sense. Just last question. On your overall business, is it possible to give kind of a breakup based on volume in the top 3 or top 5 geographies that we supply to, if that's possible?

Jaipuriar Praveen: Yes. So, I will give you a broad indication. Let's say, out of our total business approximately, everything put together, 40% comes from the Asian markets and then around 20% to 25% from East European markets. There will be another 15%-or-so from the West European and the U.K. market, another 10% to 15% from the U.S. market and the balance is spread between South America, Africa and Australia, New Zealand. So, we are pretty well spread out in terms of geographies.

Bhavya Sonawala: And just a follow-up. If I were to ask you in the last 3 to 5 years, has there been a particular geography that you have seen growth kind of surpass other geographies?

Jaipuriar Praveen: It's not surpassed. Yes, there are geographies like North American geography, we have seen a growth. We used to be very small there. Now we are substantially big there. So, that's a geography that has done well for us. We are already very good at Eastern European countries. We are now looking forward to see, if we could strengthen our presence in the East Asian. Southeast Asia, India, we are very strong, but we are wanting to build our strength in the far East Asian countries. So, this is how is the geographies for us.

Moderator: The next question is from the line of Omkar Arora from Eraya Capital. Please go ahead.

Omkar Arora: Sir, my only question is coffee prices have been in an upward trajectory for a long time now. So, do we see smaller players shutting shop in this case? Does the company see this as an opportunity for consolidation in space, especially at a time when we are increasing our capacity by so much?

Jaipuriar Praveen: Actually, yes, at an overall level, very specifically, I will not have a huge indication on this. But generally, it happens. Whenever the commodity prices are at such high levels, there will be consolidation because it becomes so difficult. All of us are stressed about our balance sheet come to think about the smaller player, so they find it even more difficult. And we are seeing certain things. In these scenarios, we also start getting calls for acquisitions and mergers for smaller players. So, there is a trend that is seen. And sometimes, it does work as an advantage for the larger players.

And we are seeing this trend. It should happen not just because of higher coffee prices, but because of this case and the economies of scales that set in, the larger players will get consolidated over a period of time. Apart from that, there is also a trend that 20 years ago, you would have seen that the brand owners and the manufacturers were the same guys. Now, there's so much of segregation that has started to happen. Brand owners are getting separated from the manufacturers. So, all that will lead to aggregation and that should help larger companies. So, yes, you are right, that's the trend we are seeing. But how much of that has happened, difficult to comment.

Moderator: The next question is from the line of Richa from Equitymaster. Please go ahead.

Richa Agarwal: Sir, my question is when we are planning to set up FDC capacity in Vietnam, I think the commentary was that there was committed capacities, there was high demand. So, has that scenario changed? And does it change your outlook for what the ramp-up and offtake would be like? And what is the CAPEX likely to be incurred this year? And the related question is what is your delta between realization and margin for FDC and spray-dried coffee?

Jaipuriar Praveen: So, I will just answer the first question, and I will ask CFO to answer the CAPEX question that you asked. So, yes, there is a certain amount of underwriting that happens in certain cases, and that helps us decide our capacity. So, that scenario hasn't changed. So, that remains intact, and there is no change in outlook on that front.

Lakshmi Narayana: No. Total schedule is about 50 million, total implementation of the project cost. And this predominantly, as part of the loan, has been revised in last financial year itself. And we have incurred almost around 47 million so far, and the balance amount is going to be incurred in another couple of months. And by September end, we are going to complete the project and start operations.

Richa Agarwal: And sir, can you also comment about the delta in realization and margin for FDC and spray-dried?

Jaipuriar Praveen: There is no delta realization. The freeze-dried margins, as we have told earlier, is approximately 30%, 40% higher than the spray-dried margins. That will remain intact. Now how does the proportion change as a Group, we will have to see because if the proportions change from here, then probably at a Group level, we will see better margins. But if the proportion remains intact and our sense is that it will remain intact, because build capacity in freeze dried. We have built the capacities in Spray Dried as well. So, I don't see much of a change in them that is going to happen. So, our overall margin guidance remains the same for the next couple of years.

Richa Agarwal: And sir, once we are done with this CAPEX, we will have around 75,000 tons to 76,000 ton kind of capacity. What is the maintenance CAPEX likely to look like?

Jaipuriar Praveen: So, maintenance, there will be spares and maintenance that is there, which comes as a regular expenses. I don't see a significant mix there for maintenance that is going to happen.

Moderator: The next question is from the line of Romit Nagpal from Terrapolis Asset Private Limited. Please go ahead.

Romit Nagpal: Just wanted to check, there's been a lower depreciation this quarter compared to the previous quarter. Any particular reason for that?

Jaipuriar Praveen: No. So, actually, this is not lower depreciation. The previous quarter was abnormally high because we had changed the life cycle of our vending machine when the domestic business were merged into the parent company. So, from a 10-year, we went to 3-year, which led to Rs. 8 crores of higher depreciation last quarter. So, if you see previous quarters, it will be very similar to this quarter.

Romit Nagpal: Given that we work on a cost-plus model, and I have been tracking the company for years and given the current quarter that's gone by assuming some fluctuations because you mentioned earlier regarding short-term demand and not really long-term contracts, does the PBT in the range of Rs. 320 crores to Rs. 350 crores for the year sound reasonable?

Jaipuriar Praveen: PBT of Rs. 320 crores to Rs. 350 crores sound reasonable as of now. But yes, we will build up on that. Probably next quarter, we will have a little better picture because things are still volatile.

Romit Nagpal: Given that the tax rate has moved up, what tax rate should we assume for the year?

Jaipuriar Praveen: At a consol level, around 13.5%, 14%.

Romit Nagpal: And you had a 20% increase in top line. How much of this is driven by increased volumes?

Jaipuriar Praveen: Around 15% in volumes.

Moderator: Ladies and gentlemen, due to time constraints, this was the last question for today's conference call. I would now like to hand the conference over to the management for closing comments.

Jaipuriar Praveen: Thank you all for joining the conference with us. We look forward to interacting again in the next quarter. Thank you all. And thank you, Abhishek and Nirmal Bang for moderating this call. Thank you.

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