CONTINENTAL COFFEE

Date: 17.05.2024

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 Q4 FY 2023-24 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 Monday, 13th May, 2024 to discuss the results of the fourth quarter of the financial year 2023-24 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/2024/05/Q4-Earnings-Call-Transcript-2023-24-1.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iv) No Unpublished Price Sensitive Information was discussed in the call.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: 2024.05.17 22:04:06 +05'30'

Sridevi Dasari
Company Secretary & Compliance Officer

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"CCL Products (India) Limited

Q4 FY '24 Earnings Conference Call"

May 13, 2024

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

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

Moderator: Ladies and gentlemen, good day, and welcome to CCL Products (India) Limited Q4 FY '24 Results Conference Call hosted by Nirmal Bang Equities Private Limited. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing star then zero on your touchtone 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, Manav. Hello, everyone. On behalf of Nirmal Bang Institutional Equity, I welcome all the participants to CCL Products (India) Limited 4Q FY '24 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; Ms. Sridevi Dasari, Company Secretary; and Mr. P.S. Rao, Consultant, 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.

Praveen Jaipuriar: Thank you, Abhishek, and thank you, Nirmal Bang, for hosting us for this call. Good morning, ladies and gentlemen. I welcome you all to the conference call of CCL Products (India) Limited for the annual and quarter 4 results pertaining to '23-'24.

Despite headwinds of volatility in coffee prices and geopolitical issues, the company posted strong results and achieved a turnover of INR2,653.7 crores, which is a growth of 28% over last year. EBITDA achieved was INR451.3 crores as against INR403.1 crores last year, thereby achieving a double-digit growth of 12%. The PBT stood at INR276 crores as against INR305 crores of last year largely due to higher interest costs and depreciation. The PAT stood at INR250 crores as against INR283.96 crores last year.

Coming to the Q4 numbers, the group achieved a turnover of INR726.72 crores as compared to INR520.08 crores for the corresponding quarter of the previous year and the EBITDA stands at INR122.24 crores as against INR115.47 crores for the previous corresponding quarter. The PBT stood at INR70.42 crores and the PAT stood at INR65.22 crores. The domestic performance continued its strong performance and achieved a turnover of INR320 crores gross sales as against INR250 crores last year. Out of this, approximately INR210 crores was pure branded business and the rest was bulk and private label.

The acquisition of Percol finished in the month of July '23. Thereafter contracts with all the retailers were negotiated and renegotiated. The relaunch with new packaging, graphic design and product formulation is taking place this month. And also the supply of products from third party -- which was earlier from the third party has now moved to us. And we are now poised to invest in the brand and see it grow.

The new facility at F&B started operations in the month of March '24. The other project of FD at Vietnam is on schedule, and we should start commercial operations by September, October '24.

I now open the floor for questions.

Moderator: Thank you very much. We will now begin with the question-and-answer session. We have our first question from the line of Akansha Gupta from Solidarity Investment Managers.

Akansha Gupta: Sir, my first question is that, what has been the volume growth for this year?

Praveen Jaipuriar: So if you see the -- at the group level, the EBITDA growth was around 12%, and our volume growth was approximately 14% for the full year.

Akansha Gupta: Okay, sir. And if I remember, previously, you have guided for a volume growth of 18% to 20%. So why is the volume growth this year 14% instead -- as against the guidance of 18%?

Praveen Jaipuriar: Yes. So if you remember, in quarter 2, we had a breakdown at our NCL unit, which led to lower production there. And subsequently, therefore, which could not be translated to sales, so we lost sales there. We had hoped that we would make up for the sales in the subsequent quarters of quarter 3 and quarter 4, but unfortunately, because of so much of volatility in the prices, the customer acquisition and gaining new volumes became a challenge. So we could not make up for that volume that we lost in quarter 2, and that is the reason we could not achieve 18%, instead of which we achieved 14%.

Akansha Gupta: Okay, sir. And just 1 more question. In the previous con calls, you have also mentioned that the volume growth would be 18% to 20% for the next 3, 4 years. However, when I look at the previous last 7 years, 10 years or even 5 years, the volume growth has been closer to 10%. So could you provide a little bit more granularity as to where this 18% to 20% volume growth would come from?

Praveen Jaipuriar: So actually, in most of the calls, we have kind of addressed this. The reason is basically just before COVID, the demand was there, and we had planned our expansion. But unfortunately, during COVID time, we could not go ahead for our expansion.

And what we felt was that all we were see B2B business and especially bulk and the private label business, they take a certain amount of gestation period wherein you sow the market -- you sow the seeds in the market, you approach the clients. And over a period of time, they all fructify. And we could actually from our strategy see that in the future, we would be -- if we are aggressive, we are likely to get 18% to 20% growth.

And that's the reason we went ahead for our volume expansion and things like that. So that is the whole reason our new this thing of -- associating with our partners, we said that we have -- we are increasing our business in North America through ground up. We are trying to make inroads into the Eastern Asian markets in China through our old associates and all that.

So therefore, we were very aggressive in our approach. We went for expansion. And that's the reason, let's say, even if the CAGR was 10% to 12% over the last 8, 10 years, we have been expecting more of an 18%, 20% going forward.

Moderator: We have our next question from the line of Rakesh Wadhwani from Monarch AIF.

Rakesh Wadhwani: Sir, coming to the first question. Sir, if you look at quarterly numbers in this quarter, the gross profit growth is around 15%. Just wanted to know in the last quarter, we said around INR45 crores of revenue got deferred in the Q4 because of the Red Sea issue. So in this quarter, the volume growth is sub-10% or 9%. Any reason for that?

Praveen Jaipuriar: No, there's no reason. Yes, it got postponed. But come to think of it, the reason that I mentioned that in quarter 4, the customer acquisition was a little tough because of the coffee prices. I'm sure a lot of you would be tracking the coffee prices. It went to all-time high and unprecedented levels so much so that these levels were never ever seen in the market and it continues to be on the boil as of now.

So basically, what happens is that at these kind of prices, the customers also become a little tentative. They don't want to go for long-term contracts. They are less committed. They almost work on fumes saying that whatever inventory I have, I'll try and work on that in this hope that in the near future, the prices could soften.

So all of these lead to very difficult times in terms of gaining new volumes. And that is the reason in quarter 4, we could not gain as much volume as we had earlier thought of. But things look much brighter now. The coffee prices seems to be softening now. The Brazil crop is on the way, and so is Indonesian crop and the Ugandan crop. So we are very hopeful that things will soon settle down in terms of prices. And that's when our ability to drive more and more volumes will become much, much easier.

Rakesh Wadhwani: Second question, sir, with respect to other expenses, in this quarter, other expenses, there is a sharp increase in other expenses. Any reason for that?

Praveen Jaipuriar: Largely, a lot of small pack volumes had increased, including the domestic volumes because that is increasing a lot and all the domestic volumes is largely small packs. And also in the exports business, our proportion of small packs has increased. So that led to higher other costs where secondary packaging is included as the cost.

Rakesh Wadhwani: And sir, just one broader -- over a longer period question. In the past coffee prices, if I look at last 5 or 10 years horizon, coffee prices have remained in the range of USD 2 to USD 2.5 on an average. And during that time, we were making INR90 to INR100 per kg EBITDA on the spray dried side and INR120 to INR130 EBITDA per kg on the freeze dried coffee side. That has remained there.

And because of that, we were able to maintain a ROC at 17%, 18% and ROE of 20% around. That has remained. But now the coffee prices have increased from $2 to $2.5 to $3 to $3.5. In fact, it has reached $4 also. So is there any potential for us to increase our per kg rate here because otherwise, are ROC and ROE will come down significantly because of increasing coffee prices?

Praveen Jaipuriar: So actually, it's a double-edge sword, you know what? So when the coffee prices are at high, what happens is that at the consumer level, there is a little bit of a down trading, isn't it? Because everybody wants to go for smaller packs, cheaper version and things like that. And that is the reason if you see when the coffee prices were at lower levels, INR2,000 to

INR2,500, as you mentioned, that time the demand for things like freeze dried went up significantly. But as and when the coffee prices started to inch up, we saw that the demand for spray dried started to increase because there was a certain bit of down-trading that happens at the consumer level.

So although we would want to increase our per kilo EBITDA levels, but a lot of it is dependent on the market forces as well. So that's the double edge sword that we have -- one is faced with. But having said so, yes, from our side, there is a lot of attempt to make sure that we keep increasing our per kilo EBITDA, whether it is trying to enter into specialty coffee segments or driving more small pack volumes. All these are endeavors to make sure that we keep up our EBITDA levels.

And that is the reason, in fact, in such high volatile state of coffee prices being at such high levels, if you see our per kilo EBITDA levels is still maintained, which itself is a big achievement in itself because at such high prices, it is becoming very, very difficult to maintain that kind of an EBITDA margins. But we have successfully been able to do so.

So yes, the effort is there. But unfortunately, because of the current situation, things have become a little more challenging. But having said so, we are very hopeful that these are untenable prices because at these prices, what will happen is that consumption will ultimately start getting affected, especially the out-of-home consumption. And that's when if the consumption starts getting affected, ultimately, the supply and demand would kind of normalize, and we are hoping that the coffee prices will quickly come back to the old levels.

Rakesh Wadhwani: Sir, 1 last question from my side. Is it possible if we are not able to increase the EBITDA perspective from us -- okay. I'll come back in the queue.

Moderator: We have our next question from the line of Jenish Karia from Antique Stock Broking.

Jenish Karia: The first question is with regards to the quarterly capacity utilization in Vietnam and India facility, if you can just give that breakup?

Praveen Jaipuriar: So in India, it is almost 100% barring the new SMB because it started somewhere in mid-March, so that doesn't come into question. So in India, we almost utilized fully. And Vietnam the total, meaning, the new capacity included, we are almost at around 65% to 70%.

Jenish Karia: Okay. Great. Sir, secondly, was there any impact with regards to delayed shipment or deferment of customer revenue because of the Red Sea in fourth quarter?

Praveen Jaipuriar: No, no, there wasn't any.

Jenish Karia: Okay. And how much of the sales in the fourth quarter would have been because of the third quarter sales being deferred to fourth quarter as the last quarter there was some disturbance?

Praveen Jaipuriar: Yes, there is some benefit that we got in terms of top line. That is why you see that in quarter 4, the top line was INR726 crores as compared to INR520 crores of last year, which is almost 40% growth. So there we got a benefit in terms of top line growth in the quarter 4.

Jenish Karia: Okay. Great. And sir, next is on your branded and domestic business. Any guidance for the next 3 to 5 years, where do we see this business going in terms of revenue and profitability? And what is our market share in India and overseas for the branded business?

Praveen Jaipuriar: So the guidance remains same. We are aggressively driving it and investing whatever profits we are earning, the margins are improving there. The branded players increased. As I told you, out of INR320 crores India sales, the brand sales is now at INR210 crores and we are looking to drive that aggressively in the range of anything around 30% to 40%.

So that is what we are looking to drive the growth at, although the category is not growing at that level, so which means that we will aggressively gain market share. As we have informed you earlier that we have been focusing a lot in South India, which is the coffee hub for the Indian coffee consumption. There, we are now very close to 4%, 4.5% market share, and we now are firmly established as the #3 player in the Indian market. We are now taking the brand to other geographies as well, and we are getting very aggressive there as well. So that's the plan for the domestic-branded market.

The international-branded market, we are very, very miniscule. We haven't even launched our brands into any other countries. So there is no point talking about market share there. Percol is very small in UK right now, probably less than 1% market share. But yes, as I told in my opening remarks, we now have got the things right. We have got it relisted with the retailers, with the new packaging, graphics and new product. And now that the product is being manufactured here, we are looking to invest in that brand and grow it substantially in the UK market.

And then we are also, at the same time, evaluating if some of those brands, which we bought, which is Percol and Rocket Fuel, where if we can take them into some other geographies as well. So that's the plan for our B2C business in the rest of India, outside India as far as it is concerned.

Jenish Karia: Okay. Great. Sir, just 1 follow-up on the previous reply that you had given to the earlier participant. You mentioned that the freeze dried coffee, high coffee price environment, the demand is somewhat reduced. And you are putting freeze dried capacity in second half of FY '25. So if the coffee price don't correct and remain at an elevated level, do we see this CapEx getting deferred by 6 months or a year? Or will you still commercialize the plant on time?

Praveen Jaipuriar: No, we will commercialize on time because if you remember last time also, see, one of the reasons the freeze dried capacity is coming at the last is because freeze dried capacity, as you rightly pointed out, it's a more expensive capacity. We need to be very sure whether the volumes are there or not. And that's the reason we took some time.

Only after we got a lot of assurances and underwriting from some of our key clients that they are ready to buy coffee. We went ahead and set up this plant. So I don't think it is going to effect our volumes or our ability to sell. But what I was talking about is the general market scenarios when coffee prices go up, how does the market start behaving.

And because the question was about per capita EBITDA, the thing is that after 2 years ago, from there on, the first 16,000 additions is also spray dried which earns lower EBITDA than freeze dried. So I was wanting to tell that maybe for this year and next year, we are not looking to substantially or increase our EBITDA per kg. But yes, the efforts are on. Thereafter, we will see that EBITDA per kg will automatically start increasing because of our efforts in small packs, specialty coffee, more high-end coffee, the new freeze dried coming after September. So all that will start playing up for us.

Moderator: We have our next question from the line of Kashyap Javeri from Emkay Investment Managers.

Kashyap Javeri: I have a question on our debt. I joined the call a little late, so I don't know whether this has been discussed, but at about INR620 crores, our debt has gone up almost 3x in the last 3 years to generate an EBIT number or PBT number, let's say, for example, versus INR230 crores in '21 to just about INR280 crores now. So incrementally to generate the profits, the component of debt has gone up threefold.

Now out of this almost about INR1,100 crores increase in debt, we have invested almost about INR600 crores to INR700 crores in working capital. I understand that this is also because coffee prices have gone up meaningfully. But what are our plans to control this part of the overall capital employed so that INR1,600 crores debt probably at least doesn't go up from here?

V. Lakshmi Narayana: Generally, if you look at it, we have taken up the 2 new projects, wherein we are availing the funding from the banks, almost around INR650 crores. Out of that, around INR450 crores, which we have drawn in this year, which is the part of INR620 crores. And the current financial also, there is an amount of almost around INR200 crores we are yet to draw for this Indian F&B business as well as the FD. So another INR200 crores on account of term loan is likely to increase somewhere.

Coming to the working capital. So as you might be seeing that we are going to give the guidance to the next financial year '24-'25. The working capital utilization also keeping in view of my free cash flow availability in the -- from the operations this year, there is a likely amount of increase may be there on account of working capital.

So this is relating to 2 aspects. One is about the kind of earnings that we are going to generate, the free cash flow that we are going to generate. And as well the green coffee prices how going to be rolled out. So keeping these 2 factors in view, the working capital movement is going to be there. So we really can't say that INR620 is going to remain at the same level. It is likely to increase because as I told you, the volume value is going to be increased.

Kashyap Javeri: I understand that, sir, but the question is that the debt is generating probably a top line, but not commensurating profits. So when you sort of talk about free cash flows, ideally with such an expanded capacity, at least investments in working capital plus, let's say, term loans for the expansion.

So let's put the numbers in perspective. So our operating cash flow even this year, if I look at your full year cash flow statement that you have given for the full year, it's versus an EBITDA of almost about on consolidated basis about INR440 crores. The operating cash is significantly lower number. So either we control this with some tightening of our inventory because then otherwise, the incremental capital to profit ratio will continue to deteriorate.

V. Lakshmi Narayana: No. Actually, the volume of the green coffee stock that we are going to maintain at the similar level. But the only factor which is going to come in place is about the value of the green coffee prices. As I told you that as long as we expect some sort of reduction takes place from the existing level of GC prices, which definitely is going to reflect in our working capital utilization as well thereby.

Kashyap Javeri: Okay. My -- the other question is on the issue of Red Sea. In terms of transportation, what part of our total top line, the impact of freight is on us?

V. Lakshmi Narayana: Actually, if you look at this current financial year, as explained by Praveen, in other expenses, the price charges have no impact. Till December, till LC issue, because everything is under control, only for the intermittent period of almost around 45 days to 60 days in December, and partly in January, there is an impact. But now everything is softened, there is no much. And also, what we are doing is we are shifting from CNF to FOB. So -- which is not going to reflect in our other expenses, the logistics cost increasing, there is nothing is there.

Kashyap Javeri: And as of today, how much of -- what percentage of our revenue we don't have FOB?

Praveen Jaipuriar: Kashyap, approximately 70% to 75% of our sales are FOB sales.

Kashyap Javeri: Is FOB sale. So about 25% is where the impact...

Praveen Jaipuriar: 25% is, yes, that impact could have.

Kashyap Javeri: Whenever, let's say, there is an issue, then that's the portion of the revenue that gets impacted. And I missed on the number of retail revenues that you spoke about in the domestic market, if you can repeat that number.

Praveen Jaipuriar: Yes. So out of INR320 crores of domestic sales, INR210 crores is the retail sales. And just one more thing, Kashyap, I just want to add what CFO was talking about to your query about working capital, absolutely, you are right that working capital requirements have gone up largely because of our volume growth and the value of coffee prices. And it's been our endeavor to make sure that we kind of keep it in control.

And as you rightly said, one of the ways is to do very tighter inventory management at our end. But sometimes, at this kind of inflationary trends, we also don't want to -- want the smaller suppliers to default on the contract and things like that. So we end up making sure or ensuring that the coffee comes to us. And sometimes, it becomes a little challenging to be on a just-in-time inventory.

But having said so, also on the interest cost, we are working out 2, 3 models where we could optimize our interest cost outflow by making sure that we are optimizing our borrowings between our entities because we have got an India entity, we have got Vietnam entity, we have got a Swiss entity.

And in the Swiss entity and the Vietnam entity, the cost of capital is much lower than what it is there in India right now. So we're also trying to optimize a lot of them so that we save on a lot of interest outflow that will help our cash flows and our profits, thereby leading to better cash flow in terms of inventory management and working capital management.

Kashyap Javeri: Sure. Can I just squeeze in one more question on this CapEx side, if that's okay?

Praveen Jaipuriar: Right. Please do so.

Kashyap Javeri: Sure, sure. Sir, just one last question. So on INR1,600 crores of debt, let's say, our EBITDA number is about INR445 crores, which implies about 4x debt-to-EBITDA ratio. Now in case coffee prices don't sort of cool down, maybe they remain where they are and given our debt-to-EBITDA ratio, in future, can that impact our expansion decisions at all?

Praveen Jaipuriar: So as far as expansion is concerned, we have rapidly expanded and we are good for '27-'28. So next 2, 3 years, we probably are not thinking anything on the expansion side. So that's not a primary thing on our head. The primary thing is that how quickly can we scale up our sales so that we get more and more sales and help improve our profitability.

And as far as coffee prices, yes, I know for the last 2, 3 quarters, we have been kind of saying that from the next quarter, it should soften up. But we -- at least in this quarter, we can confidently say because the signs are there, the Brazilian coffee prices have already softened by almost $600 to $800 per metric ton, which is a good sign because this is pre-harvest prices.

Generally, just before pre-harvest, the price because the availability is low, the prices generally go up, but the fact that pre-harvest prices have come down is a good indicator that post-harvest the prices should soften up. And also the Indonesian and the Ugandan crop, they are also on the way. So we are very hopeful that things will settle down, and there won't be an additional burden on our side.

Moderator: We have our next question from the line of Alok Shah from SKEGEN Management Advisors. Please go ahead.

Alok Shah: Sir, firstly, a data question. Would it be possible to share the volume growth split between India and Vietnam business?

Praveen Jaipuriar: So generally, we don't deep dive into volume. These are very sensitive information as far as competitive sensitiveness is concerned. So we generally talk about our volumes at an overall group level. Yes. And as I shared to you, we did achieve a 14% volume growth over last year. So that's something that we can share. A little more detail in terms of where the growths are coming and where things are this thing, we can do out in a one-to-one call to whatever extent we can.

Alok Shah: Sure, sure. The second question was on the Vietnam business. So if you look at the gross margin profile in the Vietnam business, it seems to have gotten impacted much before what we saw in the India business. So any specific reason that you will allude to for the same for the Vietnam business?

Praveen Jaipuriar: No, it's not any specific reason. The only reason one could attribute is that, as I was telling you, it's correlated to the coffee bean prices. What happens is that you start selling more of base coffee in this kind of a scenario where people are, also clients are looking to cost optimize. Everybody is looking to -- because everything cannot be passed on to the consumers. So in each of the value chain there people are looking and pushing for optimization. And that's the time when you start looking for a much baser product so that, that can be offered.

Very simple logic. In any consumers industry, when the prices really go up the roof, the base segment products, they start selling more, whether it is FMCG product like a toothpaste or a shampoo or it is a coffee. So that's the reason what happens is that your proportion of base products or a base price products increase, that leads to a little squeeze in the overall margins as one can see.

Alok Shah: Got it, got it. So just a follow-up then in that case. So EBITDA per kg, say, for the domestic business would still be in the range of about INR85, [inaudible 0:30:17] and for the Vietnam would be in the range of INR125, INR130-odd?

Praveen Jaipuriar: No, I think Vietnam, it was a little lower at INR110 or INR115, if I'm not wrong.

Alok Shah: INR110, INR115, okay. Okay. Sure, sure. And just lastly, since we are doing this CapEx. And what I understand is that typically, you would have contracts for at least 6 to 9 months' visibility. But I hear that in the current times, the contract durations are getting shorter. So in that environment, how do you see the business panning out, especially on the top line growth? Because while you retain 18% to 20%, but the moment the business has little short-term contracts, the visibility actually gets haywire, right? So why do we still think that 18% to 20% is achievable?

Praveen Jaipuriar: Absolutely. You're absolutely bang on. The only good thing for us is that if you see the consumption and I'm talking about the end consumption. So the good point is that there has been no reduction in the consumption for coffee. So that's a very heartening sight. People aren't drinking less of coffee because of higher prices. And the other good thing is that we are mostly catering to the in-home segment because we do instant coffee and instant coffee is largely consumed in home. So in-home consumption, we are not seeing any impact across the globe. So that's one good thing.

Now coming to the clients. The only thing that clients now do is that instead of very long-term contracts, they kind of hold their positions and say that, okay, let me do very short-term contracts because nobody wants to overcome it in this hope that if the coffee prices come down, it will adversely impact them.

So that's the only thing. So the reason why we are still very confident, yes, you're absolutely right, the market has been very volatile. So it's very, very difficult to very -- earlier, till last year, we could very, very confidently say that we are going to get 18%, 20% growth because we had 9 months to 12 months visibility, as you rightly pointed out. However, here, the visibilities have shortened to maybe 4 to 5 months.

So maybe that kind of confidence is not there. But on the other hand, if the coffee consumption is intact, and with our kind of economies of scale and with our kind of ability to do the products that we can, we still are confident that, yes, the contracts would be short term but we still would be seeing a decent amount of growth.

Moderator: We have our next question from the line of Shirish Pardeshi from Centrum Broking.

Shirish Pardeshi: So I have 1 broad question on volume. Would you be able to share what is the FDC and SDC split for FY '24? And if you can give specific volume for India and international?

Praveen Jaipuriar: So as I mentioned in my last this thing, we don't break up volumes to that granularity. Yes. All that we can say is that the volume growth has been 14%. So that's what I can share at this point of time with you.

Shirish Pardeshi: And the split between FDC and...

Praveen Jaipuriar: Yes, similar. The answer is same because of our competitive sensitivity, we don't share to that granularity because one would lead to other and I'll be forced to share very, very granular numbers with you.

Shirish Pardeshi: Got it. Can you split at least quarter 4 volume growth, what has come? Because there is a deferment of shipment, which has happened, 800 metric tonnes. So I'm looking at the quarter 4 volume growth for our company. And so if you take out this 800 metric ton, what is the volume growth? So like-for-like?

Praveen Jaipuriar: Yes. So quarter 4 volume growth is also on the similar level. In fact, it would be a couple of percentage lower only. And that is primarily because while we got this deferment, but as we were expecting that we would be able to sell more and more volumes, that did not happen because of these high coffee prices and the noncommittal by the – non-commitment by the clients to kind of buy at these prices. So that's the reason we could not get much higher volume growths as we would have anticipated.

Shirish Pardeshi: Okay. My second question is on FY '25 performance. What kind of growth aspiration in terms of volume value? Because now you mentioned in the beginning that coffee prices are expected to soften. So if the volume is going to be in your aspirational range of 20% plus and if you need to reach that ballpark of 20% EBITDA margin, what are the growth levers you have for FY '25?

Praveen Jaipuriar: Okay. Talking about, first of all, value, see value is dependent on the coffee prices and what average base prices we sold this year and what average because there is a longevity of contract. There's a lot of things that play out. So therefore, let's not focus a lot on the value growth because that's a resultant number that comes up.

Coming to volume growth, wherein our EBITDA is dependent on, that is something that, as I was telling in my last answer, that till last year, we were very confident of saying that 18%, 20% because that's the kind of visibility we had in terms of our, say, order numbers. Considering the current situation, the order numbers are not very long term-ish. We are good for next 4, 5 months. But beyond that, there is a little bit of tentativeness from the client side. They're all waiting for the new crops to come and see where the volumes go.

So that's the tentativeness that is there in the market. But having said so, because the coffee consumption is intact, we are not seeing any sort of a demand contraction. So therefore, we are, on one side, we are a little tentative saying that what could this number could be, whether this will be 10% or 12%, on the other side, we are confident that because the volumes are also, let's say, the demand is intact, we still will be able to do that 18%, 20%.

So yes, there is a range that we are now looking at that if the conditions remain very tough and then the guys are very, very tentative, then we may not be very sure. But on the other side, if the consumption is intact, we are very confident that we keep maintaining that number. Now what are the levers? The levers are not very different. The levers are same. There is a certain competitive edge that we bring to the table, which is in terms of economies of scale or our ability to do various products or our ability to reach out to the various corners and nooks and corners of the globe. So those levers remain in tact. And that's the reason our confidence comes that, come what may, we'll be able to do good business.

Shirish Pardeshi: Okay. My last question on the new businesses. Sir, last quarter, you mentioned that you have about 4,000 vending machines and about 25% -- INR25 crores revenue. So in INR210 crores, domestic business -- INR320 crores domestic business, what would be the vending machine business? And where do we stand? That's one part. And second, in terms of distribution, south, we had about close to 125,000, 130,000. What would be at closing coverage in India, I mean including south and west?

Praveen Jaipuriar: So first, coming to vending business. Vending business is a branded business because it is there with the Continental brand. So it is almost part of this INR210 crores. And the numbers don't change because that time also I had projected that out of INR210 crores, probably INR20 crores, INR25 crores will be vending business. So that continues.

We are aggressively driving that. But yes, we are also making sure that, that growth is driven profitably because it's also a challenging segment wherein you have to keep a track that the guys who -- where you install vending business, they end up buying the product also from you because there is a tendency from all the admin guys and the purchase guys to lower down their cost and they end up buying some other parties even if the machine is yours and things like that.

So keeping that in mind, we have evolved a model which is far more stronger in terms of tying it up. But what it means is that we now are not in a very -- in a big hurry to keep putting up vending machines wherever somebody asks for us. There is a proper contract and things like that, that we enter into. So that's about the vending machine business. The -- as far as the distribution is concerned, only in general trade, which is the kirana stores, we are now at

1,10,000 outlets total, out of which approximately 85,000 outlets would be only in South India. Rest of 25,000 is divided into Northeast and West, where the large chunk is in North and West. East is relatively weak as of now. But understandably so because East is also a very weak coffee market.

And we have another approximately 700 to 800 modern retail stores where we are present in. Online space is also doing well for us. Now we are present in almost all platforms. Earlier, there were certain platforms, which are very strong in North like Blinkit and all where we are driving very aggressively. We have got into an annual contract with them, and we are driving a very aggressive growth there as well. So that's a little brief on the domestic market.

Shirish Pardeshi: So one follow-up. On alternate channel, what would be the contribution for FY '24?

Praveen Jaipuriar: Which channel?

Shirish Pardeshi: Alternate, modern trade and e-commerce?

Praveen Jaipuriar: So if you add both of them, modern trade, e-commerce and quick commerce, all of them would contribute to 35% of our business.

Shirish Pardeshi: Okay. Wonderful. And this would have grown high double digit?

Praveen Jaipuriar: Sorry?

Shirish Pardeshi: This would have grown on a Y-o-Y high double digit or more

Praveen Jaipuriar: Yes, yes, high double digit. The whole branded business itself grew by almost 40% last year. And we are looking to drive similar growth this year as well.

Shirish Pardeshi: Okay. Maybe this question you can answer...

Moderator: Sorry to interrupt, sir. May we request you to rejoin...

Shirish Pardeshi: I'm done. Just one last on the insurance update, if you can share or maybe you can cover later.

Praveen Jaipuriar: Sorry, just in 1 line, I'll answer this. There's no -- process is still going on. So we haven't got the money. We are still waiting for them to complete their process, and then we'll see. As soon as we get the firm answer, we'll let you guys now.

Moderator: We have our next question from the line of Rohan Gupta from Nuvama.

Rohan Gupta: Sir, my first question is that the outlook, which you shared on green coffee prices likely to come down, sir, historically, in last 2 to 3 years, we have seen benefit coming towards from the Brazilian markets under pressure -- putting the pressure on Arabica consumption and the lower exports, while the Vietnam market have gained because of the high production of green coffee there.

Sir, current estimates and the forecast indicates that the Brazilian production this year is likely to go up, while the Vietnam may phase out kind of scenario. Do you see that this is going to have a negative impact on our blended realization or pressure on margins further because of the Brazilian market and the dealers there further dominating the market, how it used to be 3 to 5 years back?

Praveen Jaipuriar: Not really. One of the advantages that we have is that we can import from anywhere. So there is no reason why we can't buy from Brazil. In fact, to give you a little insight, we have our channels connect in all of these coffee growing places. So our main advantage is that we can buy from anywhere wherever we think that the coffee prices are at its best. So it doesn't put us at any disadvantage. And therefore, we don't see any margin contraction. Suppose it happens like this that the Vietnamese coffee prices still are at the high and the Brazilian coffee prices drops down, so we'll be happy to buy from Brazil as well.

Rohan Gupta: No, sir, because we have gained a lot of market share in the last 2 to 3 years because Russia was, I mean, earlier was a big buyer from Brazil and...

Praveen Jaipuriar: Absolutely. So again, as I have told many of the things that it is not just a linear thing that just because Brazil becomes noncompetitive, we gain market share. It's also the other thing that we bring to table because it is not very, very simple. The other fact is that, at current volumes, we probably are the most competent company which brings a lot of economies to scale. So to match our kind of economies of scale and prices, becomes very, very difficult for other people.

The third thing is that selling is a lot about you having your feet and legs on the ground as I've told this many number of times that the kind of associations and the kind of associates we now have at all the nooks and corners of the globe, that network also helps us gain that kind of an advantage.

So today, we have all the legs and feet, eyes and ears on the ground, we know what is happening in each of the market, where the demand is likely to go, what is the kind of consumption patterns that are evolving. So all of this, it's a combination of all of these competitive edges that we bring to the table. And therefore, we are not very worried about the fact that if the Brazilian coffee prices have come down, I'll lose back shares to the Brazilian guys.

Rohan Gupta: Sir, second question is, generally, sir, in terms of margins, we see improvement when the when there is a rising price scenario in the industry. However, we are expecting that the green coffee prices will fall. Definitely, that may lead to, I mean, some boost to consumption. But in general, a lower prices or falling price scenario may have an impact or negative impact on our overall working capital and short-term impact on inventories and also how we are gearing up for managing that change, I mean, which we are expecting in a falling RM prices?

Praveen Jaipuriar: So first question, only if the raw material prices are constant and you increase prices, your margin will improve. But we work on a pass-on model, which is a cost-plus model that whatever the price is, we keep a certain amount of per kilo margin, and that's the price we quote. So therefore, in any of the scenario, risen prices and lowering of prices, we don't see any margin impact on our business. The only impact that we see is that at lower prices, the commitment becomes long term. At higher prices, the commitment becomes a little short term from the client side. So that's one.

Second is that, in fact, as far as the question comes of managing our working capital and our inventory, we'll be very happy if the prices come down because everything becomes that much more easier. Now how does it become easier? On the working capital side, of course, I have to spend less to store the same amount of coffee.

And also in terms of my supplies, I can hold less stocks because in a lowering price, I am very, very confident that there won't be any defaults or any delays. In the rising prices, I'm a little worried that there could be certain default from small people, so that I would like to hold more stock with me rather than keep it at their place. So all that challenges are there when the prices are rising. So in fact, the situation will improve dramatically for us if the prices were to fall.

Rohan Gupta: Okay. Sir, just next question, if I'm allowed to. We are talking about definitely in the next 4 to 6 months, with the expected decline in prices, especially emerging from Brazil and all. So we are not confident about volume growth. Though consumption is not impacted, but you also guided that maybe in the near term, the volume growth can even 10% to 12% as well. So this is basically because the customers are not giving new commitment? Or you see that there is still, I mean, not enough room for pushing this kind of inventories in the market or you don't want to push the inventories in the market because of the volatility in prices?

Praveen Jaipuriar: So largely because of the customer is not giving a long-term commitment. Not beyond that, because if everybody becomes a little more tentative at this point of time, and nobody is giving you long-term contracts. So in fact, 2 years ago, when the coffee prices were at INR2,000 levels, we used to get even 2-year contracts that, okay, for the next 2 years, they used to give us orders and we would supply.

But that situation has changed because of the high prices, even they as a customer wouldn't want to commit for so long because nobody is sure of the coffee prices, which way it is going to go, how much is it going to rise or fall. So that is the reason we are saying that it's only -- it's not that the confidence is low, but the kind of commitment that we use to upfront give last year or last to last year because we had visibility till 9 to 12 months is a little iffy right now. That's it.

Moderator: We have our next question from the line of Lokesh Manik from Vallum Capital.

Lokesh Manik: Praveen, just a couple of questions. One was a clarification. We've seen a correction in gross margins from last year about 35% to 41% this year. Do you attribute this completely to the product mix change that you mentioned, that less of freeze dried, more of spray dried? And there are other factors as well?

Praveen Jaipuriar: So 2 things. One is, I don't know if you are referring to margins as a percentage of sales. That drops because of the coffee prices going up. So it's actually a virtual drop. So therefore, we generally urge everyone to see at -- in connection to the volume, which means that EBITDA per kilo. That hasn't dropped for us.

Yes. There is a little bit of a proportion change in terms of higher FD volumes but that we have been able to overcome through selling more of small packs and other little, better profit business. So our per kg EBITDA hasn't come down much there, maybe INR2, INR3 or INR5 here or there. That's it.

Lokesh Manik: Understood. My second question is on the working capital debt. So of the INR77 crores of interest cost, how much will be attributed to short-term borrowing and how much will be long-term? Roughly, if you can share that.

And just a follow-up on that is, you mentioned your strategy one time is to hold on to stocks so that small suppliers don't default. Do you see yourselves passing on this cost of inventory going forward? Is this something that you prebooked in terms of net interest costs in terms of holding the inventory? Is this a write-off for this year? Or do you see this getting priced into your contracts in the following years?

Praveen Jaipuriar: So your voice is not very clear, but I'll try and whatever I could hear, I will try and answer your this thing. Out of the INR1,600 crores debt approximately INR600 crores is long-term debt and INR1,000 crores is working capital. Now working capital is highly dependent on the green coffee purchases that we do.

It will depend on the volume of business growth or volume of business next year and also the coffee prices. So let's say, on a stagnant price basis, if you are looking at a 15% or a 10% or a 20% volume growth, the working capital will increase accordingly. And the rest of the increase would be coming in because of coffee prices or decrease if the prices were to go down.

In terms of our inventory management, as I was telling a little while earlier, it will a lot depend on the trend of the coffee prices. If the trend starts going down, then your ability to hold lower inventory will be there but it becomes opposite in an opposite scenario of increasing prices. So that is there.

We are also trying to optimize our outflow in terms of our interest cost because of working capital, because of we have 3 entities in India, Vietnam and in Switzerland and of course, outside India, the cost of borrowing is much lesser than the India borrowing. So we are seeing that how we could restructure our working capital requirement so that we pay less and less of interest.

So that's something that we are actively doing. But yes, there is a certain level of inventory that we have to hold because it's a large operations now of almost it will become 76,000 metric tonnes. So there is no way that we could avoid holding inventory, and therefore, our working capital requirement will remain.

Lokesh Manik: Praveen, my question is that, can you pass on this cost of inventory holding of this year to the next year, to the forward year contracts?

Praveen Jaipuriar: No, I don't think so we can pass on. No, no, we can't pass on from this year to next year because if we have held inventory, we have held inventory and that cost is our cost. So we have to pay interest on that.

Moderator: We have our next question from the line of Bhargav from Ambit Asset Management.

Bhargav: Yes. Sir, on this branded business in India, my first question is that at what turnover can we expect the business to start generating double-digit EBITDA margin?

Praveen Jaipuriar: So we already last year, we were at around 7%, 8% EBITDA margin. So we are very close to double digits. But that's not yet something that we are actively looking at because we have just scratched the surface. We are very small when it -- when we compare ourselves to the large players in the market. There's so many things that we need to do.

And we had always -- we were very aware of this fact, and that's the reason from very start we had given the guidance that for long years, we'll keep investing in the brand because investing in the brand is a long-term phenomenon. It's not that you invest for 4, 5 years and then you kind of back off because the moment you start backing off, not only your ability to grow becomes lesser but also your brand equity starts dipping.

So there is a certain amount of investment that the brand will keep or the brand will require. So we will keep doing that. So that's something that we are not very aggressively looking at. We have given group guidance, that will remain. But on the branded side, our guidance has been more on top line, which is to keep growing at 30%, 40% year-on-year and see that how much of leverage we can take by investing back the profit that we are generating from the brand.

Bhargav: Okay. And sir, now that we've added significant capacity on our OEM side of the business. In the next 3 to 4 years, do we see any significant change in terms of our international mix as far as the country revenue is concerned?

Praveen Jaipuriar: So it could change because we are looking to making inroads into newer markets. There are certain markets where we haven't been very strong. We had capacity constraints, so we never kind of marketed our products very aggressively there. So there is a certain amount of new markets that we are opening.

So obviously, the proportion will change. But having said so, what will happen is that the markets where we have very high bases like the CIS countries, we may grow a little less. And because of the low basis in some of the other markets, the growth will be higher and they will start increasing their proportions.

So yes, definitely we are looking for the kind of change in proportion in the next few years. Also in terms of our product profile, the proportions will change. We are looking to drive more of small packs. We are looking to drive more specialty scope premium coffees. So a lot of it will change, it's an ever evolving market and category and we will keep trying to make sure that we also evolve with the market and with the customer needs.

Bhargav: And lastly, sir, in this hyperinflationary environment, is it fair to say that our performance would have significantly improved vis-a-vis our competition? I know it's very difficult to track that metric, but given your market intelligence, is it right to say that?

Praveen Jaipuriar: Absolutely. I think without taking names, if you were to see the results of all our compatriots and all our peer group, you will see that our performance has been significantly, significantly better than most of them. So with very good reason I use most and not all of them is because there are certain data even I don't know. But with a fair bit of confidence, I can say that we have been an outlier amongst this kind of environment.

Moderator: We have our next question from the line of Akhil Parekh from B&K Securities.

Akhil Parekh: My first question is, are we seeing any opportunities of inorganic growth, given that the coffee prices have increased so sharply? I'm assuming that the smaller players will feel more pressure than what we are seeing in terms of working capital and debt position. So are we seeing any sellers out in the industry? That's my first question.

Praveen Jaipuriar: Yes, Akhil, you know it, how the industry works. There will be fallouts because of such kind of a situation. If the situation is becoming tough for us, you can imagine what would be happening to the smaller guys. And without diverging much details, every other day we get a proposal from somewhere across the globe. But yes, we have to evaluate everything on merit and our requirements. We already have expanded a lot. So really can't say with authority that what's going to happen in the future. But you are absolutely right, the situation is like that.

Akhil Parekh: Sure. And just 2 questions. Just to clarify, when you are saying the current capacity of 76,000 tonnes, which we'll have after the NDC capacity expansion vehicle, that is enough for us to drive the growth till FY '27 at least, right?

Praveen Jaipuriar: Yes, yes, yes, absolutely.

Akhil Parekh: Okay. And lastly on the short-term debt position you mentioned if the coffee prices remain same at current level, the increase in short-term debt will be exactly in proportion to the volume. Is that understanding correct?

Praveen Jaipuriar: Yes, yes, absolutely.

Moderator: We have our next question from the line of Devanshu Sampat from Avendus Wealth.

Devanshu Sampat: I have two questions. Just first one is would it be right to say that your buyers or the inventory at your -- at the retailer is probably lower than average, and if so, if you have that information, can you help quantify it? That is one. And can you also give us some updates on business development in U.S. and China, any new contracts, new wins?

Praveen Jaipuriar: So the first question is about retailers, you're talking about our B2B business?

Devanshu Sampat: Yes, sir. Yes, sir.

Praveen Jaipuriar: Yes. Very difficult because there is no syndicated data that tells you that what kind of inventory they're holding. It's mostly market intelligence that we get and therefore, we are commenting what we are commenting. So difficult to quantify. But yes, we know that they all are at very, very thin levels.

Everybody is managing as much as possible, literally working on fumes and running the business like that because the kind of price increases and every day, there used to be a $100, $200 increase at some point of time, not very far ago. So therefore, people are not willing to commit. So that's what we can say. Second question you asked was about -- sorry, can you just repeat your second question?

Devanshu Sampat: Major business developments in the US and China?

Praveen Jaipuriar: Yes, yes, business developments. So business development, yes, U.S. is an ongoing process. We are now pretty much growing at a very, very decent pace there. So that development is happening. We are acquiring new clients through our associates there. So that is there.

And the last time we spoke about our association with our earlier partners whom we are connecting to make inroads into the Eastern Asian markets like China, Taiwan, etcetera. So that work is also starting. As you know, B2B takes a little time because you have to -- there'll be a market seeding. You'll have to go to all the clients, present them your samples.

So it's a little iterated process till they find you suitable for supply. But again, a lot of work has happened already. We are in midst of lots of talks with clients. And soon, we are expecting to see volumes coming from that front as well. So a lot of work is happening on the new business development front.

Moderator: We have the next question from the line of Omkar Arora from Eraya Capital.

Omkar Arora: Most of my questions have been answered. Just 1 question I would like to ask. Are we concerned about the debt level because we are almost there at the peak debt that we expected at the start of last FY?

Praveen Jaipuriar: So frankly speaking, we're not very concerned. The only reason is that, see, our working capital debt is against confirmed orders. So it is not that I'm using working capital or taking working capital debt to hold inventory or to produce something, which I don't know where will I sell.

So because it is at least confirmed orders, we are not worried on that front. It's mostly people outside actually are more worried than what we are. So we're not really worried. Yes, it does show up a little bit of a stress on our balance sheet and all, but that's something that is part of our business. That is how our business operates. So therefore, I don't see any cause of worry on that front.

Omkar Arora: And any update on the capacity expansion that we could undergo ahead?

Praveen Jaipuriar: Yes, I gave an update. The update is that all our capacity, except the Vietnam freeze dried capacity is up and running. And the Vietnam freeze dried capacity will be up and running by the month of September and October, and that will complete our current expansion process, and we'll be at around 77,000 metric tonnes capacity at that point of time.

Moderator: Ladies and gentlemen, that would be the last question for today due to time constraints. I now hand the conference over to the management for closing comments.

Praveen Jaipuriar: Thank you, everyone, for joining us, and thank you, Nirmal Bang for hosting us. We look forward to meet all of you again in the next quarter. Thank you.

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