



**Date: 24.01.2023**

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

**Subject: Transcript of the Conference Call held to discuss the results of Q3 FY2022-23 as required under Reg. 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 19<sup>th</sup> January, 2023 to discuss the results of third quarter of financial year 2022-23 is enclosed herewith.

ii) The Transcript is also uploaded on the Company's Website and the Web link is,

<https://www.cclproducts.com/wp-content/uploads/2023/01/Transcript-of-Results-Conference-Call-Q3-FY-2022-23.pdf>

iii) The List of Management attendees is stated in Transcript.

iv) No unpublished price sensitive information was discussed in the call.

This is for your information and necessary records.

Regards,  
**For CCL PRODUCTS (INDIA) LIMITED**

Sridevi Dasari  
Company Secretary & Compliance Officer

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“CCL Products (India) Limited  
Q3 FY '23 Earnings Conference Call”  
**January 19, 2023**



**MANAGEMENT:** **MR. CHALLA SRISHANT – MANAGING DIRECTOR – CCL PRODUCTS (INDIA) LIMITED**  
**MR. PRAVEEN JAIPURIAR – CHIEF EXECUTIVE OFFICER – CCL PRODUCTS (INDIA) LIMITED**  
**MR. B. MOHAN KRISHNA – EXECUTIVE DIRECTOR – 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:** **ABHISHEK NAVALGUND – NIRMAL BANG EQUITIES**



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**Moderator:** Ladies and gentlemen, good morning, and welcome to the Q3 FY '23 Earnings Conference Call of CCL Products (India) Limited, 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 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, Michelle. Hello, everyone. On behalf of Nirmal Bang Institutional Equities, I welcome all the participants to CCL Products India Limited Q3 FY '23 Earnings Conference Call. The management is represented by Mr. Challa Srishant, Managing Director, Mr. Praveen Jaipurkar, CEO, Mr. B. Mohan Krishna, Executive Director, Mr. V. Lakshmi Narayana, our CFO; Ms. Sridevi Dasari, Company Secretary, and Mr. P.S. Rao, Consultants Company Secretary.

Without further ado, I would like to hand over the call to Mr. Praveen for his opening comments, and then we'll open the floor for question-and-answers. Thank you, and over to you, sir.

**Praveen Jaipurkar:** Thank you, Abhishek, and thank you, team Nirmal Bang for arranging this call. I wish all the participants a very Happy New Year and Pongal, here are the highlights. The group has achieved a turnover of INR 535 crores for the third quarter of '22 to '23 as compared to INR 423 crores for the corresponding quarter of the previous year. And the net profit stands at INR 73 crores as against INR 58.47 crores for the corresponding quarter of the previous year. The EBITDA is INR 101 crores, and profit before taxes INR 70 crores. These are the major highlights. We already announced our expansion for the FD plant at Vietnam. And I open the floor for questions.

**Moderator:** We have the first question from the line of Lokesh Maru from Nippon India Mutual Fund.

**Lokesh Maru:** I had a question on the new FD capacity and wanted to understand the unit economics there. So what if INR 100 per kg is our EBITDA, what is the kind of spread that we fetch usually on the FD side?

**Praveen Jaipurkar:** So generally, the FD per kg EBITDA will be anywhere 30% to 40% higher than the spray dried EBITDA, and that is what we'd expect from -- so what I was saying is that generally, the freeze-dried EBITDA will be anywhere between 30% to 40% higher than the spray-dried EBITDA. And that is what we'll expect from the new line in Vietnam as well when it gets commissioned.



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- Lokesh Maru:** So also, given the capex number that you have mentioned on the exchange, is it fair to assume that usually capex for the FD capacity is somewhere between 4x to 4.5x higher per ton as compared to the spray dried one?
- Praveen Jaipurkar:** 4x to 4.5x higher. So we had to do the mathematics. I haven't seen the numbers this way. So, you're saying for 16,000 tons, we had announced around 30 million, and this is for 6,000 tons, which is 1/3. I think you have done the math right. It will be that many times higher.
- Lokesh Maru:** So for the overall 32,000 capacity approximate comes at INR 15 crores per 1,000 tons. For this one, it is approx. INR 70 crores. So from ROCE point of view at optimum capacity utilization, maybe the ROCE for this one be half approximately 15% to 20% compared to approx. 30% that we are seeing at optimum capacity for spray dried one, right?
- Praveen Jaipurkar:** 1.5 ROCE versus 1.9. So it is not half of it, it is approximately 40% lower than that.
- Lokesh Maru:** Are we seeing any demand visibility on this side? And what is the time line as such? Last question from my side.
- Praveen Jaipurkar:** The time line is that quarter 3 of '24/'25 is the time line we are looking for commissioning. And we have -- freeze-dried, in our previous calls also, we had indicated that only when we get a fair bit of confidence that the volumes are -- so what I was trying to say is that freeze-dried, as we have been informing in our earlier calls as well, is an expensive capex. And second, that we have the content of our orders, which we are now because we've been talking to some of our associates who have given us this confidence to get these quantities for this expansion of freeze-dried.
- Lokesh Maru:** And from numbers point of view, utilization would be -- the pickup in utilization would be the same, like you'd highlighted earlier, 30%, 55% and 80% in the first, second and third years, respectively, is it fair to assume that way?
- Praveen Jaipurkar:** Freeze-dried, as I was telling you that we have already got a lot of confirmations from some of our associates, it will be closer to 50% - 60% in the first year itself.
- Moderator:** We have the next question from the line of Baidik Sarkar from Unifi Capital.
- Baidik Sarkar:** A book-keeping question to start with. How should we understand the lag in correlation between your headline revenue growth this quarter and the EBITDA Growth? Was there an inventory markdown that the momentarily taken? How should we understand that? And secondly, I understand the trial runs to a new capacity in Vietnam has started. But when do you think we'll move into a commercial dispatch mode? And what's the time line for the utilization you're looking here?
- Praveen Jaipurkar:** So your voice was a little unclear, but I think what I understood is what you are asking is about a little more insight on our topline and bottom line number for the quarter. And then you're



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asking when do we start selling commercially from the expanded capacity of Vietnam, is that right?

**Baidik Sarkar:** That's right, Praveen. Thank you.

**Praveen Jaipuria:** So the top line growth is 6.20%-6.5% at the group level. This is backed by very low single-digit volume growth. And the reason behind is that we had announced earlier also that we are taking a shutdown in our India plant, and we are doing trials at Vietnam. So we knew that there will be a volume loss -- so what I was saying is that the topline value growth is 26.5% which is on top of around low single-digit volume growth.

And the reason for this is that we had already announced a shutdown in our India plant maintenance shutdown for 20 days, and that led to lower production and therefore, lower volume sales. And in Vietnam, we were doing pre-commercial trials. So that also took away some days of ours in terms of production capacity. And that's the reason the volume growth is less and the commercial sales for Vietnam capacity has already started.

So we already informed that this quarter, we will be doing commercial sales from the Vietnam capacity. And that's the reason we stay on our guidance of 20% to 25% volume growth because this quarter, we'll get that additional capacity in Vietnam.

**Baidik Sarkar:** But your line was a little patchy. Could you flesh out little bit of your thinking behind the new capex really? Because you answered this to the previous participant, and please but if you could just fleshed out in a bit more elaborated manner, is there a disruption on the supply side that we'd like to take advantage of in the freeze-dried side, or is it driven by one of our buyer relationships, but really giving us the confidence to get into expansion more again? What's the broad thinking here?

**Challa Srishant:** Yes, this is Srishant here. I think maybe I should explain this a little bit more in detail. See, normally, the indication is that this expansion we will take up maybe a year later, and that was the original plan. But what happened is about three months ago itself, our existing freeze-dried capacity got full orders and our existing customers itself have been asking us for some additional volumes which we have not been able to provide. And we've been in discussion with the new customers in the recent past.

**Moderator:** Sorry to interrupt, sir.

**Challa Srishant:** So what I was mentioning earlier was that freeze-dried is something that we were actually planning on taking up about a year later. But what happened is three months ago itself, our existing freeze-dried capacity got completely booked till FY '24. And recently, we've added a couple of new customers, who have been giving us their projections for the next couple of years. So one of these customers specifically came and told us that if you are willing to set up a new line, they are willing to give us a commitment for five years in writing for 50% of the capacity.



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So once we got that commitment from that customer, that's when we put it to the Board, and we said that we'll go for that expansion. So we have a fair amount of visibility for this new expanded capacity and a commitment from an existing customer, one of the newly added customers.

**Baidik Sarkar:** Congrats to the team on that development. It's good to know, and thanks for fleshing this out. It gives us perspective. And if I may just end with one last question. What's the status of the India capex? Are we on track for a 15-month launch from here on? And how should we imagine that coming in?

**Challa Srishant:** Yes. So we are on track for that. So by March of 2024, we should be up and running in India.

**Baidik Sarkar:** And I mean just last one for me. What's the status of our domestic branded business? Any comments on how that's shaping up? And by end of FY '24, should we eventually look at on breakeven in that business, how should we imagine that part of the business?

**Challa Srishant:** So on an MIS basis, we already broke even last year itself. And in fact, that's one of the reasons why we're going ahead with this demerger as well because it didn't make any sense for us to separate it into two entities due to transfer pricing issues. We have to show profit in one entity and loss and another is actually giving a bit of misleading information to the market. So the fact that we've broken even last year and from this year onwards, it will be profitable and growing.

**Moderator:** We have the next question from the line of Shrikrishna from JM Financial.

**Shrikrishna:** First of all, congratulations for a good quarter. So my question is any indication on capacities in Vietnam for the coming quarter?

**Challa Srishant:** So for Vietnam, I mean, last quarter, we started the commissioning part. We've started taking up some trials and all. And now in Q4, that commissioning will be completed.

**Shrikrishna:** And what do you think about the capacities? What would be your expansion plan? Have you planned anything on taking that?

**Challa Srishant:** No. So Vietnam in this quarter, we will become 30,000 tons of SD capacity. And that additional 6,000 will come in next calendar year.

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

**Kashyap Javeri:** Congratulations for great numbers for FY '23. I have three questions. The first is, you mentioned that one of our new customers has given a specific commitment for 50% of the FD capacity in Vietnam. Having said that, have the underlying factors change generally for the market? Because until last quarter, what you were mentioning is that the whole FDC side of the business is in overcapacity and people are finding it literally difficult to freed up their expansions. So have the underlying factors changed? And this is one which is specific to us?



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**Challa Srishant:** So actually, that's a very good question. One small correction I've to give actually, the capacity commitment has not been given for Vietnam specifically. That capacity commitment has been given to the organization, 50% of the expanded capacity they want us to supply. Now the FD scenario has not changed in the world at all. In fact, earlier also, we were always operating in the bulk space.

But now that a new EOU-II facility has come online and small packs also have come online, the customer I'm referring to is actually a small pack customer who has given us this commitment. So we will be executing that from India and some of the bulk production which we are currently doing in India, we are planning on transitioning that to Vietnam.

**Kashyap Javeri:** And so in that case, any particular reason why this plant is being put up in Vietnam and not an extension of the existing FDC plant here in India itself?

**Challa Srishant:** Yes, most of our existing customers, especially after the Russia situation that come to us asking for options of territorial derisking. Today, right now, we are in a position where India and Vietnam have both taken a similar stand with respect to the Russia, Ukraine war. But what if the stance were different then it would have been a bigger risk for our customers that would be in Russia or in Europe or in other parts of the world. Most of the customers across the world now as part of the systems, processes and policies, they want multiple origin suppliers to be on boarded. And if we as a company can offer from two different locations, automatically, we'll go to the top of the list.

**Kashyap Javeri:** Second question is on, again, from our previous conference calls, what I recall is that on the working capital side, there were two issues. One was that obviously the raw material prices were higher, which means that as an absolute number, the working capital went higher.

And second is that because of the shipping routes not working properly, there was a higher inventory, which was also being built up. Any of these problems have gotten sorted out now? And consequent question is that when we take up this \$50 million expansion, and that issue on the working capital also is probably if not subsiding, then by FY '25, what would our gross debt number be? Would it be crossing a four-digit number on, let's say, INR 1,000 crores, INR 1,100 crores number?

**Challa Srishant:** It's about -- so it's likely to reach around INR 1,085 crores, which includes freeze-dried expansion, everything put together. And as you were asking, see, yes, these two changes have taken place. One freight rates have started easing up and the supplies are becoming much more stable now, which is why slowly we are focusing on our inventory levels which are also coming down.

In fact, one of the things you would have noticed also is that though we did a plant shutdown, there has been a similar or, in fact, a similar amount of dispatches, if not maybe slightly more in



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quarter 3 also. So same way, even the working capital cycle is coming down because of this and the transport costs are also coming down. So obviously, that means that working capital cycle also will ease up a little bit going forward.

And actually, the green coffee prices also have come down from the 2,300 levels to right now around 1,900 came to 1,700 and now that stabilized more or less at the 1,900 levels. Going forward in the second half of this year, we're expecting a further drop in raw material prices because of Brazil crop and all that. So once that happens automatically that working capital requirement also will reduce.

**Kashyap Javeri:**

And last question from my side. Now with the 6,000 ton announcement, we would be reaching now to almost 76,000, 77,000 tons of capacity. Beyond FY '25, how much growth should one look at? Is there still scope for us to grow at a similar double-digit number even beyond that? Or we would be a fair side of the global market for us to then have a slightly moderated growth?

**Challa Srishant:**

To be very frank, at this point in time, it is difficult for us to give a projection beyond three years, but our fair understanding of the market is quite simple. End of the day with the economies of scale and our current positioning where we are, we are present across the world. We've established ourselves as reliable partners for our customers across the world. We are getting into value-added products. So that gives us a lot more credibility in market, which is also one reason why we've been getting not only existing customers. New customers are also coming on board and our volumes have been increasing. There are certain markets which we haven't even started tapping into, again, because we were running at peak capacity till now, our idea is we've already started developing partners in different territories.

And depending on how things are, if you are able to ramp-up our volumes and the utilization comes to the levels that we are projecting for the next three years, we will look at setting up maybe another unit outside India and Vietnam. Of course, there are a couple of options which we are looking at. But that, again, at least for two to three years, we won't be acting on that.

We're just creating a market first. There are a couple of customers, in fact, have given us offer saying they want to partner with us. So a lot of options are always there on the table. We haven't decided or concluded on anything right now. We'll first grow the market, create a volume base in that territory, and then we'll take a call if you have to set up a unit.

**Moderator:**

We have the next question from the line of Manoj Gori from Equirus Securities.

**Manoj Gori:**

My question here would be, so rightly said like we have been adding new capacities very aggressively. I just want to understand, if you look at from a so you talked about the new territories and new markets. So can you please highlight like what would be the total percentage of the instant coffee these markets would be having today? Just to understand the addressable market for yours?





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**Challa Srishant:** So today, the total instant coffee market size is about 900,000 tons. And this is growing at a pace of about 2.5% year-on-year. And market leader, obviously, is Nestle, and they've been in this industry for more than 100 years. And after Nestle, in private label, we are the largest manufacturer in the world. And now with these capacities, the next second and the second private label manufacturer will be about half of our capacity – half of our expanding capacity.

**Manoj Gori:** My question was you just stated about getting into new markets. So what would be the size of this market, so probably this would be a new opportunity for us? So just to understand the quantum of this market, the scale of opportunity?

**Challa Srishant:** If you talk about coffee globally, which is being spread across the world, here, developed countries are the main consumers. And these developed countries has already a lot of suppliers, competition and all that. But there are several other countries which are there which have high import duties, restrictions and because there are no manufacturers locally all these countries, people are actually paying these duty taxes and selling it in those local markets.

So our idea was if we can actually create a base set of customers in these markets, then it will be justified for us to explore the option of setting up a manufacturing in unit , which why they're talking to existing brand owners and re-packers in these markets who are already buying large volumes. So if we address this market in the future, it could be a market of maybe even 100,000 tons.

**Manoj Gori:** So initially, we would be supplying from India and Vietnam and probably once we get that confidence, we would be setting up new capacities?

**Challa Srishant:** Exactly. Because again, we don't want to take any risk or chances, unless there is a 100% clear addressable market. We will never take a chance of going in for that expansion. We always in conservative, even how we are being conservative and on everyone think that they're going in for aggressive expansion but from our side, we are still being very conservative with whatever we are telling, because we don't want to take any accessory risk.

**Manoj Gori:** So secondly, if you look at when you say that the new commitments are coming from your existing clients as well, when the instant coffee market is growing roughly at around 2.5% , why your clients would be growing at such as aggressively or probably they are changing their suppliers, and they have more confidence in you and accordingly, you would be having a larger wallet share?

**Challa Srishant:** Yes. So the answer is actually quite something to this, till now our company, we've always been at the absolute bottom of the pyramid with bulk manufacturing, basic products, even if you're doing premium products, we are able to do that at a particular cost price point, which nobody else can actually come close to.



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Now from that, we are changing the entire image of the company after we got into FMCG products after we started getting into our own brand and a range of products that we've introduced. Even our customers are in these products that the price is the entire range that we have and now they have that confidence that we've been able to take on the big guys even in India.

And now they have that much more confidence that we can support them in their respective territories, which is why they are coming on board coming to us. So they want to not only work with us they want to partner with us. And after seeing what we have done, they are also realizing that other companies which are based in say, Europe especially with this current situation that is there with energy prices going through the roof and multiple other issues coming up and a lot of disruptions being there, they've understood that they need right partners who will be with them throughout.

And here, we are one of the very companies that can offer from two different location. For example, the largest manufacturer manufacturing country for instant coffee today is still Brazil. The volumes that Brazil does, it's still the largest. But all the Brazilian manufacturers are restricted to use only local raw materials to create products.

For us, there is no such restriction. We can buy raw materials from anywhere in the world in India and in Vietnam. So our range of products will be much-much wider than what a Brazil can offer. If you look at economies of scale, yes, Brazil will be competitive. But once you restrict yourself to only one raw material and 60% to 70% of your product cost depends on that raw material, you're restricting your world a lot.

So because that flexibility is what we can provide, we started focusing on that as our strength. And now that we can do small parts and we are state-of-the-art facilities in place that is giving even customers that confidence. Customers who thought you will never get these kind of qualities anywhere else in the world, except Europe, these customers are shocked to find that we have all the necessary certification. We have all the sustainability measures in place. We are doing innovation and R&D constantly.

So they surprise that we are doing so much, which is why normally any customers will try yourself. So they tried about last year, they've seen the quality consistencies is in supplies, they've been extremely happy, which is why we've given these kind of commitments. So we are actually, in a way, going up that value chain and as we are going up that value change is giving us that much more confidence that they can keep growing in a very sustainable way.

**Manoj Gori:**

So we don't have a commitment, but at least we have a lot of confidence that we'll be able to scale up the utilization rates for the new capacities that we would be adding over the next couple of years?



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**Challa Srishant:** So we have a commitment not just confidence. We have within commitment from the customer. Otherwise, we have said that we are not going to go ahead. So after getting a written commitment only, we made the announcement.

**Manoj Gori:** But spray dried, we have a lot of confidence?

**Challa Srishant:** Right now this is purely confidence, because of repeat customers, and we know what we are doing. So we were running short of capacity. Our domestic brands are growing. We needed to free up capacity in India also. So strategically, if we have to achieve the growth rate that we had in mind, we had to take a chance we had to go in further expansion. And day one, we are now still running at, as soon as the commissioning has done, we've all submitted samples to customers. We already started getting approval also for the new line. So that gives us the confidence that whatever numbers that we've given, we'll definitely stick to that.

**Manoj Gori:** And from fourth quarter onwards, should we expect like the outsourcing would reduce significantly given that Vietnam capacity has started its commercial operations?

**Challa Srishant:** Yes. It will. As a couple of contracts which have still there hasn't next financial year, that's from April onwards, we are hoping it will become zero, but as of now, we are still outsourcing a little bit because we already have some commitments and some over bookings and all that. To streamline all that, this quarter also, there will be some outsourcing that we will be doing stabilized and everything has to be done in Vietnam that will also take some time.

**Manoj Gori:** And sir, on the freeze-dried capacity commitment that we have got from one of our client. So there the margins would be normal as compared to the current volumes, right?

**Challa Srishant:** It's actually because its small pack, its little better. But again, whatever assumption because of Vietnam, we look at Vietnam as a complete standalone unit by itself. So we're not assuming those additional margins will come in, which is why if anyone asks for an ROCE and all that, we will just take the most conservative numbers. We will not assume that with additional margins will be attributable to that entity.

**Moderator:** We have the next question from the line of Richard D'souza from SBI Mutual Fund.

**Richard D'souza:** Just two, three questions from my side. One is these new customers who are coming in. Could you give a color on the whether they had establish brands or superstores or departmental stores?

**Challa Srishant:** That actually through one of our existing customers with, two sub-customers I should say, one is an established brand by itself and another is a big supermarket chain.

**Richard D'souza:** So if you look at the overall picture, Srishant, could you share what would the presence among the top 10 consumers of coffee? Whether they'll be brands or whether they will be coffee chains or superstones? And then how much space do you think, we have to grow?



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- Moderator:** I'm sorry to interrupt. Sir, your voice is fumbled. Can you please use your handset to ask your question?
- Richard D'souza:** I was asking that for CCL Product, what will be your presence among the top 10 consumers of coffee?
- Challa Srishant:** Across the world or just talking about India?
- Richard D'souza:** World?
- Challa Srishant:** World. Apart from Nestle whom we are not selling directly to, I think we might be selling indirectly to them, but apart from that I think almost all the top brands we are only supplying to. JD is number two in the world, there are customers, public information. Strauss is one of our partners for almost 20 odd years. Several other customers that would be in the US, in UK, Russia. So all the top brands are there. Some of them I can't actually name because of our confidentiality agreements. But most of these things are there in the public domain also.
- And within India also, virtually all the startups we are working with, anyone who's doing coffee, instant coffee especially, there's some connect or the other with us. Let it be Sleepy Owl or Blue Tokai or Rage Coffee, Reliance, Spencer's, Big Bazaar, Private Labels, all of them we are working with.
- Richard D'souza:** I was asking that now that we are present with most of the top consumers and when we reach our estimated capacity of 75,000-80,000 over next two, three years. What further after that? Because at 75,000-80,000 maybe we'll be about 7%, 8% of the global instant coffee market. So how do we envisage growth after that?
- Challa Srishant:** One of the things that we made clear from day one is our endeavour is to transition into an FMCG company. So we are actively working on improving our brand presence not only in India, we're looking at outside India as well. So we have a roadmap planned out and we are ensuring that we will go to only areas or territories where there is no conflict with our existing customers. So a lot of these distributors who've been in the business for several years, they've also expressed interest of placing our products in those respective countries.
- And the partners that we've developed, including supermarkets, because of the private label connection that we have with them, they've also agreed to place products that are not competing with them directly. So we do have a roadmap planned out and next two, three years we're going to do the seeding and we'll see the results after three years.
- Richard D'souza:** And one last question from me is on the China market. So what is your approach going to be there, in China?



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- Challa Srishant:** So we're already supplying to the China market from Vietnam directly. And going forward also, we will be addressing this market. It's one of the fastest growing markets actually for coffee.
- Richard D'souza:** Yes. And could be one of the largest also going ahead.
- Challa Srishant:** It is already one of the largest actually. Other countries at least there is a de-growth. Here there is a substantial growth and they buy everything like from the cheapest quality to the most expensive quality. So, very-very wide-ranged market and a bit complex also.
- Richard D'souza:** Could you share any data on how large is the market right now in China for instant coffee?
- Challa Srishant:** So now, we estimate around 50,000 tons is the capacity, or is the consumption that's taking place right now, 50,000 to 55,000.
- Moderator:** We have the next question from the line of Akhil Parekh from Centrum Broking.
- Akhil Parekh:** My first question is on the Vithanam FDC plant. I couldn't get the timeline by when it will be commercialized and how are we planning to fund the expansion?
- Challa Srishant:** So Vietnam FD plant will be up and running by FY '24-FY '25 Q3.
- Akhil Parekh:** 3Q FY '25 basically.
- Challa Srishant:** Yes.
- Akhil Parekh:** So December '24 kind of thing.
- Challa Srishant:** In the quarter, in quarter 3, whether December, October or November, it will vary a little bit. And the cost of the project is about \$50 million, around \$35 million is the debt component that we are looking at as of now.
- Akhil Parekh:** And looking from the previous expansions and the targets we have given for FDC, so would it be fair to assume that probably INR 350-odd crores would be peak utilization for this capacity.
- Challa Srishant:** INR 350-odd crores will be peak utilization for what?
- Akhil Parekh:** Sales, peak sales from the capacity?
- Challa Srishant:** From this capacity, yes. Again, it depends on the raw material prices and all these other factors as well. But assuming with the current levels around INR 360 crores is the number.
- Akhil Parekh:** Can you please throw some light on the private label business in terms of the sales where we are weak and are we on line to achieve the target of 200 million plus of the topline in FY '23?
- Challa Srishant:** Private label business?



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- Akhil Parekh:** Yes, the continental coffee brand?
- Challa Srishant:** Domestic business.
- Akhil Parekh:** Domestic brand, yes.
- Praveen Jaipurjar:** So yes, the business continues to grow. This quarter was a little, when compared to the 30%-35% growth that we were achieving. This is a little less growth because we have taken very steep price increases, doing some, putting some stricter financial controls also. But the YTD growth are intact. We are growing at around 25%. And yes, INR 200 crores is what we were looking to achieve. It could be INR 10 crores, INR 20 crores here or there, but in that range we will kind of achieve the numbers.
- INR 180 crores that we had said earlier but there could be INR 10 -15 crores of here or there because we are correcting a lot of things in the market but the growth momentum that secondary growth the market share gains all that is continuing on the same momentum as we were doing.
- Akhil Parekh:** And this INR 200 crores is pure brand business or 70% would be a brand?
- Praveen Jaipurjar:** No. So total will do approximately INR 250 crores, out of which INR 70 crores is private label and around INR 175-180 crores pure brand business.
- Akhil Parekh:** And lastly, what's the total debt position right now and the plans of repayment of the debt in the next one-two years?
- Praveen Jaipurjar:** Sorry, we just didn't get your question.
- Akhil Parekh:** Total debt position as of -- and the plans of repayment?
- Lakshmi Narayana:** In India, it was INR 146 crores, term loan as of now, and working capital was around INR 420 crores. And at our Vietnam, it was \$20 million as the term debt, and \$15 million is the working capital debt. So it means \$35 million is at Vietnam, and here it is around \$20 million, term debt, and around \$50 million working capital.
- Akhil Parekh:** And then fourth, obviously this new FDC capacity expansion, another \$35 million of debt will be added, right?
- Lakshmi Narayana:** That is for the FD facility which is getting added.
- Akhil Parekh:** Correct. And plans of repayment of the debt?
- Lakshmi Narayana:** It was scheduled to repay in four years from commencement of commercial operations. That is from December '25, the repayment for the FD facility starts.



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- Akhil Parekh:** Okay. December '25?
- Lakshmi Narayana:** Yes, we scheduled Q3 of 24-25 to commence the operations. And one year is the moratorium. that is repayment schedule starts from December '25. From there it was four years we scheduled the repayment period.
- Akhil Parekh:** And lastly, the cost of debt would be for this new FDC?
- Lakshmi Narayana:** It's too early. I think it is linked with SOFR. We expect SOFR plus somewhere around -- the spread will vary from bank-to-bank. Closer to the financial year, we will be able to come out of this. As we all know, all the USD loans are linked with SOFR.
- Moderator:** We have the next question from the line of Amar Maurya from Alpha Accurate Advisors.
- Amar Maurya:** Majority of my questions have been answered. One, just a clarification. You indicated that this quarter, the volumes were down because of some issues in India as well as in Vietnam. So are you saying that year-over-year volume would have de-grown?
- Praveen Jaipurkar:** No, it wouldn't have de-grown. So we were low single digit is what I mentioned. So it's not a de-growth at all. There is no issue. It was a planned shutdown that we took. And which announced also. And the next quarter because of our enhanced capacity, we will catch up on that as well.
- Amar Maurya:** So basically despite, low single digit volume growth, your EBITDA, overall EBITDA, absolute EBITDA had been pretty decent, INR 107 crores. So basically are you saying that then the EBITDA per kg or the realization has improved significantly versus the year over year?
- Praveen Jaipurkar:** So, EBITDA also grew in the same line. So, the volume grew by single digit. The EBITDA also grew by single digit this quarter if you see. So, there wasn't any change per kilo of EBITDA. It remained the same. So, both the volume and EBITDA we have always maintained as growing at the same levels.
- Amar Maurya:** But EBITDA growth, if I'm not wrong, EBITDA growth is around, let's say, 13%, right?
- Praveen Jaipurkar:** No. EBITDA growth is around 8%. Exact 8% - 8.5% or something like that. And volume growth is, I told you, low single digit. Pretty much both are absolutely in line. And that's what we kind of maintain that our EBITDA growth will actually more or less follow the volume growth.
- Amar Maurya:** EBITDA growth will more or less follow the volume growth.
- Moderator:** We have the next question from the line of Zubin Pruseth from Ambit Investment Advisors.
- Zubin Pruseth:** I just joined a little late. So I just wanted to know for this quarter, what were the utilization levels for Vietnam as well as India, sir? I think so I missed that part if it was asked before.



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**Praveen Jaipurjar:** So initially we announced that there was a shutdown at our India plant. And because of trials at Vietnam plants, we lost a few days of our production. So that way, if you see our capacity utilization would be around 75% or so. Generally, which is at 85%-90%, because that's the maximum you can go to. So that was the capacity utilization for this quarter. But that is, of course, an aberration because of the shutdown that we had taken.

**Zubin Pruseth:** So if you could just help me with the breakup for Vietnam at least? So India, okay, we had shutdown, but for Vietnam?

**Praveen Jaipurjar:** Vietnam also, we had, the commissioning is happening for the new line for additional 16,000 tons capacity. Due to this, there is line alignment and all the other utility alignment that has to be done, which meant that we had to shutdown for around five, six days for that unit as well. So we have lost some volume there. So there also the capacity utilization for the current capacity would have been at 80%.

**Moderator:** We have the next question from the line of Rohan Gupta from Nuvama Wealth Management.

**Rohan Gupta:** Sir, question is on our long term growth perspective. So as we -- by 2025 probably, will be roughly 65,000 to 75,000 tons capacity up and running. That will be close to 7% to 8% of the world global market. And you mentioned that by that time probably the second largest player will be almost half of our capacity. So we will be having a fair large market share globally, though it will be in a global context, it may be only 7% to 8%.

Do you see, sir, that this global market will keep on relying more-and-more on outsourcing and the market will be getting more-and-more consolidated in the hands of larger player like you so you can gain more market share and drive the further economies of scale and geographical distribution that's what you have mentioned that is working in favor for you right now the most? How the market will change after FY '25, some indication?

**Challa Srishant:** Coffee market or instant coffee traditionally apart from one or two big companies having their own manufacturing, almost all other companies have realized that brand is where the money really is. So they've always been outsourcing. Nobody wants the headache of manufacturing products, creating new products, they just look for the right partner who will create these products. And we have positioned ourselves as the right partner for most of these people. So, like for example, a few days ago we get this news that Blue Tokai did a fundraiser and they're doing really well. Immediately we start getting inquiries from five, six other companies who are interested in introducing their own products.

Now, obviously, it doesn't make sense for them to consider setting up their own manufacturing unit, but benchmarking companies like Blue Tokai, they want to get into this space. So they'll have to come to people like us and buy the products. And we're one of the only companies that can offer the entire range of products that will actually distinguish themselves from the existing





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people who are already there in the market. We're creating so many new products in our portfolio that we can actually offer a wide range of products to customers.

So we really don't see that changing anytime soon in the international market also. There is a possibility that if a brand is extremely successful, if they feel that the supply is getting threatened, they may want to acquire existing factories or they want to have their own manufacturing. But till date, we have not seen that happen. We have seen brands with manufacturing telling that the manufacturing units are shutting down because they feel it's easier, much more economical and safer to just procure from the other existing manufacturers. So that is what we have seen in the global context till now.

**Rohan Gupta:**

Sir, you have also mentioned that you have recently got customer confidence or assurance for the lifting almost 50% of the additional capacity which you will be creating at Vietnam. So, and this is the new customers which you have acquired or this is from the existing set of customers itself which you have got?

**Challa Srishant:**

So, as you know we have partners in different regions. And our partner in one of these regions has acquired two new customers on our behalf. So the commitment that we got is from our existing customers whom we've had a relationship for more than 25 years. And the new customers that are acquired, they've given a back-to-back commitment, which is what has been passed on to us automatically.

**Rohan Gupta:**

So basically, this is coming through a distributor with whom you are already or a partner with, but this -- he has got a new customer?

**Challa Srishant:**

Yes, it's actually basically I wouldn't call this person as a distributor, I'd say partner, because we are genuinely also partnering with this person, with this company. And whoever they have acquired as a customer is basically our customer, whom we have helped them acquire. So it's being for multiple reasons it's being through this distributor and partner. They are our face in that particular region.

**Moderator:**

We have the next question from the line of Himanshu Nayyar from Systematix Group.

**Himanshu Nayyar:**

So first, just to understand quarter a bit better. There's been a sharp jump we have seen in depreciation and interest and there's been a negative tax number. So if you can just explain it whether this is on account of commissioning of the new Vietnam capex or there is a working capital increase element to this as well, especially the sharp jump in interest cost for the quarter?

**Lakshmi Narayana:**

As explained to you, working capital utilization has gone up from the previous level. And also, as we all know that the rate of interest has been increased for the last few months, we all witnessed RBI from 4% repo rate, it has gone up to 6.5%, which has reflected in interest rates that are being extended by the banks. So because of the rate of interest, increase in the volume of working capital increase, the interest cost, finance cost has gone up.



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The second is the capitalization of the packing facility has been declared in the month of September and due to that the additional depreciation has come in place.

**Himanshu Nayyar:** And on the tax rate you can explain, I mean is there any one-off adjustment there?

**Lakshmi Narayana:** Yes, the packaging facility got capitalized. We are eligible to claim additional depreciation. Thereby, the tax is on the MAT rate against the book profit. Hence, you could see that when we account for the MAT rate, combining the nine month operations, the reflection can be seen that the MAT is more compared with the PBT level.

**Himanshu Nayyar:** So, FY '24, can you guide us broadly what should be a blended tax rate that we should be building in, sir?

**Lakshmi Narayana:** It is likely to be somewhere around 18%. For '23 financial year, we are likely to end up at 18% tax rate and next year we have the MAT credit, we are likely to end up around 22%.

**Himanshu Nayyar:** And second and final question would be your medium term volume growth outlook is well understood. But would you want to give any guidance for FY '24 as such? Because from where I see it given that outsourcing will go down to zero as you said, which will get replaced by new volumes from Vietnam and earlier we had talked about the 50% utilization so that means about 8000 tons. So net-net are we looking at only 5000 tons incremental volume in FY '24, its about 12%-13% volume growth, is that a fair estimate?

**Challa Srishant:** As a group, we've already given an indication for the next, actually including this year, 15% to 20% volume growth will be there. This year we've actually enhanced that 15% to 20% to 20% to 25%, because of certain extra demand that we've seen coming in from the market. So our initial plan, as I think everyone is already aware, we were looking at doubling our topline, bottom line within four years is what we had told at the beginning of this financial year.

So as of now, we are fully on track for achieving that objective. Hopefully a little sooner, but as of now, we can definitely commit to a 15%-20% volume growth for next year. And we already have commitments in place for about 70% of our target. So it's only a balance of 30% that we have to put in place. And during the year, if something changes, we'll obviously keep updating everyone as well.

**Moderator:** We have the next question from the line of Vidit Shah from IIFL Securities.

**Vidit Shah:** So my first question was just a carryover from the previous participant. Next time, you have Vietnam capacities coming up and I'm guessing most of the 15% to 20% growth would come from that company. So wouldn't the tax rate go down given that Vietnam is a zero tax? Are we starting to pay tax in Vietnam now?



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**Challa Srishant:** No. So I think what Mr. Lakshmi Narayana was giving you was the tax rate for India. So if you look at the actual blended tax rate, it will come down further. And yes, right, there is still zero tax in Vietnam for us. And even the new facility will still come under the zero tax as of now. Yes, so the blended tax rate will definitely come down.

**Vidit Shah:** Could you just shed some light on the major difference in cost of production between India and Vietnam? Are they similar? Because we've typically observed that we make better margins in manufacturing out of Vietnam versus India?

**Challa Srishant:** So actually if you look at conversion costs, it's more-or-less comparable between India and Vietnam. Because let it be labor, let it be power, fuel, everything else is comparable. There is a slight advantage that we get in Vietnam, because of availability of local raw material and the lack of additional transport costs of bringing it to India. In India, we are currently not growing sufficient coffee to cater to the requirement that is there, which is why we're still dependent on imports in India. But Vietnam, there is substantial amount of raw material. Vietnam is the largest Robusta grower in the world, the second largest coffee grower in the world. And because you don't have to spend that extra amount of transport, automatically that becomes a cost saving.

In the past, in fact when the transport costs were increasing dramatically, naturally our margins in Vietnam also were significantly higher, because that cost was not there.

**Moderator:** We have the next question from the line of Amol Rao from Kitara Capital.

**Amol Rao:** Is the capex in Vietnam at our existing facility at Dak Lak, or is it a new Greenfield?

**Praveen Jaipuria:** The same facility.

**Amol Rao:** It's at the same facility? Do the capital costs get lowered because we have utilities in place? Do we have infrastructure in place? Does that contribute to slightly lower setting up cost?

**Challa Srishant:** Not really, because the facilities which are common like office facility, canteen and all but that also we have to increase our capacities because the number of people will increase. And freeze drying is something which needs a little bit more of technical know-how. So our manpower planning was going to be completely different from what it was for spray drying. So there will be factors all those additional costs which is why the project cost also is what it is right now. So there's no real infrastructure cost saving that's going to be there.

When we built the SD plant also, we've optimized it for the people who are there for everything. We've optimized everything over there. So this you'll have to factor in all the costs.

**Moderator:** We have the next question from the line of Sameer Deshpande from Fair Deal Investments.



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- Sameer Deshpande:** We have good results in this quarter and in nine months you mentioned that blended tax rate will be lower. So actually, what would be the blended tax rate for the current year as well as next year?
- Lakshmi Narayana:** Blended rate is likely to be around 12%.
- Sameer Deshpande:** How much?
- Challa Srishant:** If it is a blended tax rate, it is at 12%, when we get into the FD facilities also on, it is likely to go further down.
- Sameer Deshpande:** That will be quite good because...
- Lakshmi Narayana:** The SD facility also is going to be full-fledged in next year operations. You could see the reflection of the tax rates because the capacity is more at Vietnam end and the blended level it will go much further to the 12% level also.
- Sameer Deshpande:** Around 12%. And regarding this working capital, I think it was mentioned, but can you give me the total gross debt and net debt as of today?
- Lakshmi Narayana:** Working capital at India is around INR 450 crores and term debt is INR 145 crores as of now. So it means that INR 595-INR 600 crores almost working capital as well as the term debt at India. And in Vietnam it was \$35 million. \$20 million is the term debt and \$15 million is the working capital debt. It's almost around INR 300 crores.
- So in Vietnam INR 300 crores and in India, it is INR 600 crores, so INR 900 crores is the total debt, term loan as well as the working capital.
- Sameer Deshpande:** And the net debt would be around INR 800 crores?
- Lakshmi Narayana :** No, this is the debt as of today.
- Moderator:** We have the next question from the line of Devanshu Sampat from Yes Securities. As the current participant is not answering, we move on to the next participant. The question is from the line of Rakesh Wadhvani from Monarch EIF.
- Rakesh Wadhvani:** So coming to the debt part, so as the green coffee prices are coming down, so there will be a lesser working capital debt in the coming years. Is my understanding correct?
- Praveen Jaipuria:** Not really because the volume of the operations at the consolidation level increased to 30,000 tons capacity, the expanded capacity is likely to come on board in the next financial year. It is likely to add some, maybe little extent. Because the capacity is from 13,500 to 30,000 tons it goes. 16,500 tons capacity is getting added. So proportionately, even though easing out is



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possible on account of green coffee prices, but because of the volume, so there is likely little amount of increase will be there.

**Rakesh Wadhvani:** And sir, what is the blended rate of interest that we are paying on the debt?

**Lakshmi Narayana:** In India, it varies from term loans to working capital. Working capital, as we all know that there is an increase in the rate of interest. It is running around 6% to 6.5%. And in Vietnam, the debt is linked with so far, as we all know that so far it is around 4.6%. Let's just spread them all, it is working out around 6.5% there as well.

**Rakesh Wadhvani:** One last question from my side. When we look at our growth, it is higher than the overall instant coffee growth globally. So you said new customers are coming up, customers are increasing the quantity with us, so they have more confidence. So just wanted to understand two things from your side. What is leading more customer to us? Is it because of the cost that we are able to provide them? Or is it because of the variety that you mentioned in the call? And who are the customers? Is it brand people are more coming to you or the big retail chains are coming up or new the startups are coming up? Where in which customer type you are witnessing more growth? Is it the branded or the distributor or the new startups? Thank you.

**Challa Srishant:** So it's actually growth across all quarters, but when the new customers basically it's nothing. It's more than price, it is the range of products, the quality that we are able to offer, the ability to give them alternate options. Because we already have our R&D and everything in place, it's easier for us to supply or give customers what they want. For any other manufacturer, normally they'll have standard vanilla type products, two, three, or four different blends.

Here we're talking about having more than 1,000 different products in our portfolio. And each product being unique in nature, we are able to give a customer any quality that they need for any market that they need. And because of prior experience, we know what products work in which market. There are certain products which absolutely do not work in certain markets at all. So all that know-how is helping our customers build sustainable brands in that particular region.

**Rakesh Wadhvani:** And sir, with respect to growth from the customer type is it a constant is it same from all the customer or there are a particular set of customer like startups or the retail chains are doing more or is it same?

**Challa Srishant:** Startups, number of startups might increase but the volumes will be very small. The actual volumes will always be coming from either existing customers, who are increasing their market share, or it will come from new players who are existing brands that want to transition from their existing suppliers over to us.

**Moderator:** We have the next question from the line of Devanshu Sampat from YES Securities.



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- Devanshu Sampat:** So, two questions. One is on the freight rates. Have they normalized for us? Yet, or is it still higher or can we expect some savings going ahead?
- Challa Srishant:** They have already normalized now and especially in this quarter. It's come back to the previous levels.
- Devanshu Sampat:** And secondly, now with the new FD facility addition, which is obviously a higher value item, and as you mentioned, the commitment for small packs also has been given by the customer. So there will be a high utilization of the same. So can you give a sense of what kind of EBITDA per kg number are we working with? Because earlier you mentioned that because of higher spray-dried mix, the number should not change much. But now, is there any number that you're working with for FY '25-FY '26, maybe some color on that?
- Challa Srishant:** So FY '24-FY '25, once the line comes online, FY '25-FY '26 onwards, definitely we're expecting an improvement in the per-kg blended realizations. To be frank, it's very early for us to tell at this point in time what that number is likely to be. There are too many moving parts as of now. Even now, one of the clarifications I've given earlier is the commitment we have from our customer is for 50% of the expanded capacity that we're going to build online, but they're not saying that they want it from only one particular origin or region or anything like that. There's a good possibility that volume will be coming from India itself and some of the other products which producing in India will get transitioned to Vietnam.
- So if you want to look at it on a standalone basis, Vietnam unit as a standalone unit, then we cannot factor in the additional margins that we'll be getting into that unit. So that's why whatever numbers, whatever ROCE and whatever calculations we are taking, we are always taking the worst case scenario and then calculating.
- Moderator:** We have the next question from the line of Kashyap Javeri from Emkay Investment Managers.
- Kashyap Javeri:** Just one question from my side. In one of your comments, you mentioned that total market for instant coffee is about 900,000 tons and Nestle, which is going at about 2.5%. Just wanted to check within that 900,000 tons and 2.5% growth, would Nestle be growing faster than that number or slower than that number?
- Challa Srishant:** To be frank, we don't have that kind of data. I know that in certain markets there has been de-growth for them as well, along with all the other brands. And in some markets they're in fact having a double digit growth also. So, that kind of information is actually kept confidential and it's because Nestle as a president across multiple countries is very difficult for us to really comment on what exactly they are doing. 2.5% growth, I said is not Nestle growth. I said, it's the overall instant coffee market growth.
- Devanshu Sampat:** But some people at Nestle -- almost 50% of the market, they will not be significantly above this.



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**Challa Srishant:** Even if they are 40% of the market, they hold significant share of the market. So they won't be significantly growing above what we do with such market share.

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

**Praveen Jaipuriar:** I just wanted to thank all the participants and looking forward to talking to all of you again next quarter.

**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.