CONTINENTAL COFFEE

Date: 12.11.2024

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 Q2 FY 2024-25 as required under Regulation 30 of SEBI (LODR) Regulations, 2015.

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

i) The copy of the Transcript of the Conference call held on Wednesday, 06th November, 2024 to discuss the results of the second quarter of the financial year 2024-25 is enclosed herewith.

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

https://www.cclproducts.com/wp-content/uploads/2024/11/Q2-Earnings-Call-Transcript-2024-25.pdf

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

iv) No Unpublished Price Sensitive Information was discussed in the call.

This is for your information and necessary records.

Yours sincerely,
For CCL Products (India) Limited

SRIDEVI DASARI
Digitally signed by SRIDEVI DASARI
Date: 2024.11.12 17:52:13 +05'30'

Sridevi Dasari
Company Secretary & Compliance Officer

"CCL Products (India) Limited

Q2 FY '25 Earnings Conference Call"

November 06, 2024

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

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

Moderator: Ladies and gentlemen, good day and welcome to the CCL Products (India) Limited Q2 FY '25 Earnings Conference Call hosted by Nirmal Bang Equities Private Limited. As a reminder, all participant lines will be in the listen only mode. And there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference 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, Dev. Hello, everyone. On behalf of Nirmal Bang Institutional Equities, I welcome all the participants to CCL Products (India) Limited 2Q FY '25 earnings conference call. The management is represented by Mr. Challa Srishant, Managing Director; Mr. Praveen Jaipuriar, CEO; Mr. B. Mohan Krishna, Executive Director; Mr. V. Lakshmi Narayana, CFO; and Ms. Sridevi Dasari, Company Secretary.

Without further ado, I would like to hand over the call to Praveen sir, for his opening comments, post which we'll open the floor for Q&A. Thank you and over to you, sir.

Praveen Jaipuriar: Thank you, Abhishek and thank you for arranging this call. I welcome you all to this conference call and wishing you all very happy festivities. Now I will quickly read out our results and then post which we can open the floor for questions. So the group has achieved a turnover of INR738.2 crores for the second quarter of '24-'25, as compared to INR607.57 crores for the same corresponding quarter last year, which is almost a 21.5% increase. And the net profit stands at around at INR73.95 crores against INR60.86 crores for the same period last year, which is again almost a 21.5% increase. The EBITDA is at INR137.6 crores, almost a 24.3% increase over last year same period and the profit before tax is INR87.3 crores.

At the least -- as far as the half yearly figure goes, the group has achieved a turnover out of INR1,511.49 crores for the full half as compared to INR1,262.5 crores for the corresponding half, which is almost 20% growth and the net profit stands at INR145.4 crores as against INR121 crores for the corresponding half of this year, which is almost again, 19.6% growth. And the EBITDA is at INR269.2 crores almost a 24% growth and profit before tax is INR174.49 crores.

The domestic business also showed strong growth momentum and it achieved a gross turnover of INR200 crores in the first half, almost INR105 crores in the quarter 2, out of which the branded sales in the first half was INR135 crores and almost INR70 crores in quarter 2. So that's a brief of our performance for quarter 2 and H1.

I now invite you all for questions.

Moderator: Thank you. We will now begin the question-and-answer session. The first question is from the line of Jenish Karia from Antique Stock Broking. Please go ahead.

Jenish Karia: Sir, firstly, if you can just help us with the capacity utilization for the quarter and volume growth, that would be great.

Praveen Jaipuriar: Also, without going into very details of volume, which is what -- that we not share. But if you back calculate, we always have maintained that the volume growth are generally in line with the operational profit growth, which is EBITDA growth. However, if I were to give you a little color on this, the volume growth -- the EBITDA growth is largely due to volume and some bit of better margin business that we did. So the volume growth this time has been closer to high single digit or closer to 10% or so. And the EBITDA growth, if you see, it is closer to 21%- 22%. So that's the -- that's the thing.

In terms of capacity utilization, it remains very similar to last quarter. We are already set capacity which was already there and we're almost utilizing 100%. The new capacity probably is that at lows of, let's say, the F&B capacity in India would be closer to 10% to 12% utilization. The extended capacity that we had put in Vietnam, the line 2, which made it to 30,000, that will be closer to around the new line. The earlier line is in full capacity, the new line could be at around 40% to 50% utilization. So that's on the utilization and the volume growth and the EBITDA growth.

Jenish Karia: Sure. And what is the target for the year, like 10% was the growth for this year in terms of volume, 16% was in the last quarter. So for full year, what is the kind of volume growth we are expecting?

Praveen Jaipuriar: So considering the market scenario, we have told you that last couple of quarters, around 3,4 quarters, considering that there is so much of volatility in green coffee prices, the contracts have been very, very short term. So we are maintaining that guidance of 10% to 20%. We don't want to change that at this point of time. And that's how the trajectory looks like for the balance of the year.

Jenish Karia: Sure. Sir, next is on the capex. So Vietnam FDC line. When do we expect it to commercialize? And any future capex plans for India or on the SDC side in FY '26, so?

Praveen Jaipuriar: So no capex plan. We are already good on capacity for the next 3, 4 years. It's only after that, we will figure out whether we need more capacity expansion. So no new capex. The Vietnam FD, we are right now in the trial phases. As you know, whenever we put up a line, a lot of trials, certification, blend matching, all that work happens. So hopefully, we're looking to kind of do all of that, complete all of that by this quarter. And subsequently, we can look forward to commercialize and start selling from that unit.

Jenish Karia: And sir, just 1 book keeping question. Sir, the India line had commercialized in FY '24 fourth quarter, right?

Praveen Jaipuriar: Right.

Jenish Karia: And it was around INR400 crores of capex.

Praveen Jaipuriar: Right.

Jenish Karia: So why is the capital work in progress as on second half at around INR730 crores, the Vietnam capex -- pending capex is only $50 million. Then why is the capital work in progress so high as on second half?

Lakshmi Narayana: No. It is a total meeting around INR400 to 300 -- sorry, INR400 crores is in India and almost around INR375 crores in Vietnam, which is total around INR775 crores. So against which some of the equipment -- flag end equipment, which are not efficient to us. And also some of the admin block and all, all those expenditure is still going on, which are not really relevant to the operations -- production operations, is still going up. That is the reason why you could see that around INR750 crores is the CWIP that we are seeing it.

Jenish Karia: So INR400 crores pertains to India but India, we have already commercialized. So have got capitalized by now. If you could just reiterate, I didn't get why is that the INR400 crores still in CWIP if the plant has commercialized?

Lakshmi Narayana: No. Because if you see that when it is in trial operations, we can't capitalize. Once we have done with that, trial operations are done and when we move on to the full about to declare the commercial operation date, that is the time that we go for capitalization.

Jenish Karia: Okay. So by end of FY '25, can we expect -- sorry, by end of FY '26, can we expect INR2,600 crores of gross block? Is that understanding correct?

Praveen Jaipuriar: Yes. Yes, you are right. It will be there, INR800 crores gross box is going to be increased at consol level.

Jenish Karia: Sure, perfect. I just push in 1 last question. If you can just share your outlook on coffee prices. How is it moving? How do we expect it to go in the next 6 months? And that would be the last question from my end.

Praveen Jaipuriar: So, coffee prices, again, as we have been telling for the last couple of quarters, it's become very difficult to predict. Because most of the predictions per se have been not holding true. But our sense is that you would have seen last couple of months, there has been some softening across and the Vietnam crop is slated to arrive in December. So only after that arrives, we'll get a little sense that what are the table levels that it'll settle at.

So, we'll be able to give a better picture but looks like that it may not increase much from here. Probably it'll either stay at this level or soften up a little bit and stay there for some time till we start getting both good crops from Brazil and Vietnam, where it could then again soften up. But right now, it looks like it will hold up at these levels for some time.

Jenish Karia: Sure, that's helpful. Do you expect when it softens, it goes back to $2,000, $2,500 levels or by softening in $3,000, $3,500 levels?

Praveen Jaipuriar: No, sir, right now, none of them. So right now, when I'm -- been talking about softening, we're saying that from $4,500 or $4,400, maybe at around $4,000 levels. It could go to $3,800 levels, it could soften up. But $2,000 levels, I don't see it settling at that price any time in near future or mid future. It's only maybe in long term, if there is some oversupplies and all, that. it may come down, unlikely, unlikely that it goes down to that level.

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

Akul Broachwala: So just wanted your thoughts around the volume growth that you are kind of witnessing. First of all, like, is it driven by spot orders? Or are you actually seeing some sort of buildup in the order book over and about 3, 4 months? Is that the case that's happening?

Praveen Jaipuriar: Yes. So in fact, even most of our -- if you were to see our profile generally from the past, most of our things are long-term contracts or a lot of our this thing was the execution in these quarters, last couple of quarters have been result of the earlier long-term contracts that we have been getting. Yes, there is a mix of spot orders but a lot of transactional or, let's say, opportunistic sales is something that we have purposefully not been concentrating much on considering the fact that there is a strong amount of competitiveness that is getting built around -- there are a lot of resilient players who are offering coffee because the Brazilian crop was good. They have had the advantage when it comes to the opportunistic buys in the bought on the pyramid sale. So that's something that we are purposefully not concentrated and not got into that price war or so.

And that's the reason the volume growths are a little lesser than what it used to be around 4, 5 quarters ago. But at the same time, because we are concentrating on better margin business and more brand owners and more small packs, our margin pipes seem to have improved and that is the reason why we've got such good EBITDA results. So that's the situation right now. After December, when the prices settled down a bit, there are a little bit of forward indication that how the prices settle down. And then that's the time we probably will be getting a lot of long-term contracts. That is our expectation as of now.

We'll be able to give you more firm confirmations maybe in the next quarter that how the prices pan out and how did we pan out in terms of our ability to get more long-term contracts. But yes, as of now, the market does remain volatile. There are ups and downs, which is making people also wait and watch. But come to think of it, we have been able to kind of be pretty good on both top line and bottom line, considering that in most of the calls, you would have heard us saying that a large chunk of our business is with our established clients, long-term partners, although they may be giving us short-term contracts but these are people who have been with us for a long time. So that story continues and that narrative continues.

Akul Broachwala: Understood. And like for the new capacity that we have, what sort of plan are we kind of targeting? Like are we approaching new geographies, new set of customers? Or basically, are we just trying to again look back into our existing set of customers and probably gain further wallet share? So some understanding around the new capacity that we have, how we are planning to tie those capacities over the next 2, 3 years?

Praveen Jaipuriar: Yes. So we are actually doing both of it. One is with our existing customers, we are looking at entering into more long-term contracts, how can we make sure -- because last time also, people have also learned a lesson because the coffee prices have been rising. They haven't come down.

A lot of people lost out because they didn't go for long-term contracts. So this time, we are telling them that the situation probably once they see a little stability, they should go for long-term contracts. So we are also helping them get that confidence. So hopefully, we'll be getting a lot more long-term and large volume contracts in the near future.

Having said so, we are also very aggressively looking at new markets. We had already indicated that we are targeting new geographies like China and all that. Our efforts are continuing in that direction. And we already started seeing green shoots emerging, some volumes have started coming in and we are hopeful to build those volumes going forward. So the capacity utilization will be a combination of both the factors, driving the existing customers and building new customers and geographies as well.

Akul Broachwala: Got it. And just final bit on my side. So as you were mentioning that there has been some competition from Brazil as well. So given that robusta coffee prices have been at this level for a while now, do you expect that there is some sort of down trading happening with Arabica as well because of such kind of pricing scenario that's there?

Praveen Jaipuriar: There could be, there are because what happens is that -- so let's not use this word down trading because generally, Arabica was up trading all the time. As such considering that the prices of both of them have kind of shot up. And generally, for a short period of time, you could see a little bit of an up and down in relation to each other. But what happens is that over a period of time, both of them or the table increases for both of them because there is a certain amount of replaceability that does come in. So while there could be a lag, the table for both of them moves in a similar direction. So there may not be a down trading.

But yes, the thing is that sometimes geographically, when you see, 2 years ago when Vietnam was very competitive against Brazil there were shifts towards that kind of a crop. And vice versa could have happened and has happened to an extent when now Brazilian crop is much more competitive. So these cyclical things do keep on happening.

We are, as a business, geared up for all of that considering and we have all -- we have told you this before as well. We also have the ability to buy from any geography that we can, just that there is a little bit of a lag in logistics that could be there. But considering our freedom to buy from wherever we are, we are pretty confident to keep driving good results in the future also.

Moderator: The next question is from the line of Rakesh from Nine Rivers Capital. Please go ahead.

Rakesh: Sir, first question with respect to the growth total in EBITDA. So this quarter, growth in EBITDA is 24% over the last quarter same time. And you alluded the volume growth was around 10% to 11% in this quarter. So the remaining growth has come due to operating leverage?

Praveen Jaipuriar: So as I told earlier as an answer to one of the earlier questions, we have concentrated more on more profitable clients, the clients who are brand owners, clients who are more looking for better coffee blends and things like that. So it is more of a shift towards more of these better coffee or let's say, high-margin coffee rather than anything else. Considering that some of the other geographies have become more competitive, we purposefully we're not too keen to take the low-margin contracts because over a long period of time, it erodes margin for us, if you were to downgrade the prices.

So that's something we always have maintained that 20%, 25% of our volumes at all the times, opportunistic volumes where traders and these coffee buyers are buying who're looking for the low-margin, low-value coffee. So that is the reason why you see or why you have seen a good margin improvement or margin profile improvement this quarter.

Rakesh: Sir, with respect to the debt, you have a gross debt of INR1,974 crores. Can you bifurcate the debt for the working capital and the capex?

Lakshmi Narayana: So around INR1,300 crores will be the working capital and the balance will be capex.

Rakesh: Okay. And the last question from my side. With respect to the global coffee prices, there are a couple of publications have come up with the articles or the thesis on the coffee prices. They are alluding that coffee prices are not going to come down for at least next 1, 2 years because of the global -- because of the environmental changes happening, the crop production has come down in Brazil as well as in Vietnam that has led by the -- Vietnam also as few farmers shifted from coffee to other fruits, which are more profitable. So your thoughts on that, do you believe -- I know you alluded in your previous answer that the coffee prices are not going to go up. Do you think the coffee prices are going to come down in the next 1 year or it will remain here?

Praveen Jaipuriar: So considering the interest around this commodity basically from various quarters, there are lots of news that keeps coming. So I don't particularly -- I mean, just 3 years ago, probably Brazil did experience a little bit of a contraction in their output. But last year, we have seen very good output coming from Brazil, even the next year, indications are good because the flowering has been good. There has been indications that probably Vietnam crop could be affected. But really, it's difficult to gauge the on-ground situation because multiple kinds of news that comes in.

It's only when the crop comes in, the flow of the crop comes in the market, one is able to gauge the situation. But considering that, what has happened is that everything boils down to the end consumption, yes. So most of the times, if you see most of the commodity play, when the prices go up very high, the consumption tends to get detected and therefore, it leads to a cyclical drop as well, as we have seen it in other commodities like edible oils or pulses, when you see very high prices, there is a consumption impact.

And then what happens is that in the next cycle, it also comes down. But interestingly, it's good news and bad news because the coffee consumption at the end consumer, we haven't seen much of an impact globally. So globally, this -- we all know that this category is pretty sticky. So what it means is that there has been no consumption drop. And everything, therefore, boils down to mostly supply. And if the supply is effective then we see these changes.

So yes, for the next 1 year or so, I don't personally see much of a reduction. I see that the coffee prices could hold at the levels that they are at maybe a couple of hundred dollars here or there. But yes, the key thing for us is that, as long as there is stability, we feel more comfortable because then the customers are also a little more less anxious and they are ready to give more long-term contracts. So that's my view as of now.

Rakesh: One last question if I may. Sir, what -- with respect of the B2C business that is Continental Coffee, we have seen company has done lots of branding promotion in the Hyderabad market, sponsoring a few malls or opening new stores in the Hyderabad market. So just wanted to understand what is the kind of advertising we are doing for the business. And how the profitability is going on in this business? EBITDA and PAT, if you can talk about like how is the profitability shaping up in this business?

Praveen Jaipuriar: Yes. So first and foremost, yes, you are seeing a lot of visibility for the brand. And just not for the Hyderabad market. We're also doing a lot in other markets as well and we are now, as the season approaches, we'll do a lot of that in non-South market as well. So we are continuing to drive the brand because the brand is in a growth momentum.

You have seen the results of all other companies. Most of them have seen muted results. But amidst that, our growth momentum continues to be very good. We're almost value-wise, close to 50% growth has happened in the first half itself, which is a very good momentum that we are in. And therefore, we want to keep investing that into the brand so that the brand can achieve a sizable chunk of the branded business category of coffee in India.

So that's been our plan. While the profitability continues to improve, we probably last year ended with around 5%-6% EBITDA margin, which will improve this year. But the guiding principle has been that we will keep investing back into the brand as much as possible. Right now, we don't want to make it considering the momentum that it is into.

Moderator: The next question is from the line of Yash from Stallion Asset. Please go ahead.

Yash: So I'm just a bit new to your company. So I wanted to understand that is there a large margin differential between short-term contracts and long-term contracts?

Praveen Jaipuriar: I don't think so that's the way to define it because the better way to define is that -- there could be margin difference in the type of coffee and the value additions that we do. So for example, bulk-based, spray-dried coffee could be lowest in the ladder. But let's say, if I were to back this coffee in a small pack, then I could be running 20%, 30% more margin on to it. Suppose this spray dried becomes agglo then I may add another 4%, 5% I can get margin. Similarly, if it is freeze dried, we all know is freeze dried anywhere earns anything between 32% to 50% margin higher than the spray dried.

So it's -- a lot of factors determine this thing. There are times when even in the short-term contracts, we end up earning good margins because people are in desperate need of coffee. But the other way round is also true because short-term contracts are a lot of times are opportunistic contracts. People are looking for quick buys and opportunistic buys and whoever gives them very good rates, they'll probably end up buying from them. So it's a combination of -- I don't think so a generic rule could apply here. But a more generic rule, as I told you, is the type of coffee and the value additions that we are able to get or give determines the margin profile of ours.

Yash: Right. Correct. So I mean one of the things that I -- just from a market perspective is that a lot of the consumer-facing, consumer-oriented businesses normally they trade at a very high valuation multiples. And one of the issues with our business is that the ROCEs has been, average about 15-odd percent for the past few years, right? And if margin is not the lever to improve ROCE, the only lever you will have in your asset turns. So is then just from a management perspective, are there any sort of levers that you have to improve the ROCEs going ahead?

Praveen Jaipuriar: Yes. So if you were to track our ROCEs for a longish period of time, you'll see patterns emerging. Whenever we end up doing capacity expansion, which -- wherein we deploy a good amount of capexs, you will see that during those cycles, the RCs ROCEs come down and they probably peak when we are closer to higher capacity utilization. So that's the cycle and considering that we are a B2B company, the nature of our business is to supply coffee to the end clients.

It will always mean that we probably will be a little more capex heavy during cycles. So that is the trend that is going to continue. But having said so, that's our business model. And we are -- that's how we have built our business. But the good thing about the business, the B2B business is that unlike some of the other B2B businesses, this is pretty sticky in nature.

It's quite close, although valuation-wise and in terms of perception, we probably get clubbed with B2B companies and their kind of multiples and all. But if you see our -- client profile, the way we have built -- also we are a B2B company, we have been instrumental in building blends and brands for the clients. And therefore, what it means is that it's just not supplying coffee but we are long-term partners to them.

We have people who have been sticking with us for the last 30 years or so. So there is a relatively high sense of stickiness that is there in spite of us into B2B. Having said so, we also do realize that when you have your own brands, they give you larger or the higher terminal value for your business, which means that you get much better multiples. And keeping all of that in mind, we also have started building our own B2C vertical.

Right now, it looks small when you compare it with our B2B business. But come to think of it in good 5-6 years' time, we have -- last year, we ended the branded business at INR200 crores. And this year, we probably will be closing at around INR300 crores which is a very significant buildup for our B2C segment because even most of the fancy -- we don't talk about this too much but most of the fancy B2C companies who kind of talk a lot about themselves also are not able to scale in the kind of way we have done it.

So -- and going forward, we are looking to build this up further. We are investing back. We are now very confident that we will be able to build the B2C vertical aggressively. And progressively, going forward, we'll see that we'll build a block, which will be much higher terminal value and the brand multiples that you can get on a brand. So that's our thought from our end. It's not that we want to replace one set of things with others. But the fact is that, yes, we have very strong B2B verticals. We have built a very strong business, very sticky clientele. And at the same time, we are building a lot on the retail part of the B2C side and this will help us realize much better potential going forward.

Moderator: The next question is from the line of Kunal Ochiramani from Kitara Capital.

Kunal Ochiramani: So there were -- in early September, 2 back, there was a typhoon in Vietnam and some drought-like situation in Brazil. So I just had a question on supply side as there are so many global challenges, how does this help CCL and to what extent? And how prolonged this benefit was obtained by CCL?

Praveen Jaipuriar: So there will be global challenges. They're not going to go away and the climatic changes are here to stay. We all know and it is just not coffee. We have seen that there has been cyclical disruptions in most of the commodities. Coffee is not this thing, is not insulated from these. So there are news, there will be news that there will be droughts, there will be cyclones, there'll be frost, there'll be El Nino effect, all that is there. And that's the reason we have seen such spiralling high prices in coffee and the volatile prices that have creeped in.

So that's something that is here to stay. As far as CCL is concerned, we do -- our business model is such that we do cost-plus pricing, which really doesn't affect our margins or our business. As long as the consumption is good and I told in to -- as an answer to one of the questions, that the good news is that we haven't seen much of an impact in consumption. So the consumption remains intact, people are still drinking coffee.

And that means that there will be demand of coffee. Yes, these fluctuations create a little bit of an anxiety in the market, a little bit of tentativeness in the market from the buyers because nobody wants to lose after buying at high prices. So therefore, what we have said is that in times of these, what happens is that there is a little bit of tentativeness that builds on our side also because the customers are not willing to commit for long term.

But come to think of it, we have seen these cycles many number of times. We have seen recession, we have seen war, COVID. And if you see our performance, they have all been during these trying times also, it's -- we have been able to manage all of this very well. The day we see some impact in consumption pattern, that's the time when we will be a little worried. But as of now, we're not too worried on that front in terms of fluctuating prices.

Kunal Ochiramani: My question was, do we benefit? So I guess...

Praveen Jaipuriar: We don't benefit. We don't benefit. Because we do cost-plus pricing, so we don't benefit of any -- because we don't do speculative buying, so we don't benefit. The day we take an order, we buy the coffee. So whether it is at a high price or a low price, we really don't benefit out of this.

Kunal Ochiramani: So does it benefit in terms of volume, if not the price?

Praveen Jaipuriar: Volume is a result of a little more stability in the coffee prices. So volumes will come, as long as there is stability in the market, the volumes will come. Yes, we sometimes benefit because we are situated in India and in Vietnam. Let's say, if the Indian -- Vietnamese coffee price or the Indonesian coffee prices are much more competitive than say, Brazilian coffee, then what would happen is that we would end up benefiting. Last 2 years ago, when the cost situation had come in Brazil and the Brazil coffee prices are higher, then we did benefit at that point of time.

And that's the reason at that point of time, we were pretty close to 20% volume growth and we continued that for many, many quarters. So yes, in that sense, we benefit. But largely at an overall level, at a long-term perspective, we really don't benefit or not benefit because of these fluctuating prices.

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

Lokesh Manik: My first question was on the interest expense. By when do we expect this to taper off? It's been on an increasing trend for a while now. So any strategy on that front, either in terms of new product introduction to pass on the cost to the customer? Just some light on that.

Praveen Jaipuriar: No. As you know that, that sort of interest is related to the projects that is already in capital work in progress and it is going to be get capitalized number, number one. Number two is that when the new two facilities are going to be onboarded maybe in the fourth quarter, that's where actually the interest element is also going to be reduced further because the volume of the business is going to be increased further. And we will not see the impact of the interest element when the higher is the volume of the operations.

Lokesh Manik: Understood. My second question was on the blend. As per my last understanding, it was at around 250, we had a portfolio of 250 blends. So has that increased over the years, in the last few years?

Praveen Jaipuriar: So whenever we -- so actually not 250. If you were to look at our library, we are probably close to 1,000 blends, yes. But this is all because every time a new customer would come to us we would end up developing a new blend for him because everybody wants a new blend or a new type of coffee to be launched, nobody wants to do a 100% me too product. So that's the reason. And sometimes we also have to -- we keep doing our R&D depending on where the coffee prices are more competitive or which is more advantageous to us.

We also end up doing a lot of R&D to make sure that the same output could be delivered with different types of coffee as input, yes. So that makes -- and therefore, we end up in a situation where we're probably having so many blends. So every time a new customer comes, it's an ongoing process. We keep doing this all the time for both the reasons. So it's an ongoing process and we keep developing new blends all the time.

Lokesh Manik: Okay. Last, it's not a question, just an update, if you can throw some light on the smaller pilot projects like the F&B side or the 2-in-1 in Europe or the cold brew in the U.S. So -- or any other projects that I'm missing out on, where are we, at what stage are we and how are we scaling? These 3, 4 areas, if you can throw some light on, it will be great.

Praveen Jaipuriar: Okay. So let me start with the U.K. acquisitions, Percol, it's been -- we just completed most of our transition 3, 4 months ago, wherein we took over from the previous company, Lofbergs. So acquisitions do take a lot of time and energy in terms of various kinds of transition, whether it is compliance or statutory or ownership and therefore, thereafter listing in the various modern retail and all that. So all that we have completed. And the good news is that we have started slowly relisting in many of the chains in U.K. where we had lost out in the last few years. So that's a process that is going on. We are now looking to drive more and more sales there.

We have started doing some ATL activities there. Last month, we did some outdoor visibility for Percol in U.K. So the brand building also has started there. So that looks well on track on what we had planned to do with Percol. And once we stabilize in U.K. and we believe that the growth momentum is back, we will see how we can expand it to other geographies in and around U.K. as well. So that's a little update on Percol. As far as cold brew and that is concerned, we continue to do good business there. The volumes are increasing there. So that is there. We're also developing other blends for other people A lot of work keeps happening. So these are some of the other smaller initiatives that we had -- or we have taken and that's a little update on that side.

Lokesh Manik: So F&B, F&B, if you can just throw some light on F&B, whether it is domestic or exports?

Praveen Jaipuriar: No, you're talking about F&B as in the plant?

Lokesh Manik: Plant-based product.

Praveen Jaipuriar: Yes. So that's -- see, we only have launched it in Indian market. Again, that category, if you see in very nascent stages, most of the guys have been trying to figure out what is the right mix that will help elevate that category because this is a very new concept, especially in a country like India. So we continue to do a little business there. We are also targeting a lot of HoReCa segment because you know that food first establishes itself a lot outside of our homes before you have seen how Chinese food or even some -- for that matter in developing economies, even coffee, the trend is that first, it happens outside home and then it comes inside home.

So we are targeting a lot of hotels where we have done a lot of deals. But even if those hotels, it remains to be a niche segment. We are also expanding our portfolio that how can we infuse protein in day-to-day snacks. So that's something that we are working on. Hopefully, we'll be out with a lot of new variants going forward. So that's the update on F&B. Once we have got some volumes going for us, then we will see if we want to enter into some of the other markets abroad. But right now, our focus will India only.

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

Akhil Parekh: Congratulations on a very strong set of numbers. My question on the domestic business, on the branded business, have we taken price cuts in the last couple of weeks? Because if I recollect sometime around September, we had hiked the prices by 20-odd percent. But now at least on Amazon, I see the product prices have been slashed or back to previous levels.

Praveen Jaipuriar: So sorry, I didn't get the second half. The first half I'll try and answer, Akhil, is that, no, we haven't taken any price cuts. In fact, there has been more price increases than price cuts. Yes, there are certain SKUs where price increases are a little difficult, like the price point SKUs of INR5, INR10, INR2. So that's something that we cannot take price increases on. And I didn't get the second part of your question.

Akhil Parekh: Yes. So this is regarding the 200-gram packs, which we get on Amazon. There the prices had increased from INR360 to some INR440. But now if I look at it, it has gone back from INR450 to INR360.

Praveen Jaipuriar: No. So what happens is that there are times when you run, especially during festive times and all that, there will be a very heightened level of promotions that need to be run on these channels. And you know how competitive these channels are sometimes a lot of -- during especially festive times, Diwali time and Dushera time, these channels, Flipkart, Amazon, most of them drive a lot of festive sales through deep discounts. So we also end up doing it. But it's not price cuts. These are for a few days during festive times, you'll see certain price cuts that is happening. But there has been MRP increases all the time because of the coffee prices.

Akhil Parekh: And just a clarification of the domestic business sales that you highlighted in the opening remarks. If you can please reiterate how much we did in first half and how much we did in second quarter and same for the branded sales also.

Praveen Jaipuriar: So like, for example, second quarter, we did around INR105 crores of business in domestic, out of which INR70 crores would be pure branded business, which means in the first half, we have closed around INR135 crores, INR140 crores of branded business and INR200 crores of the domestic sales. And for the year, we are looking to -- for the branded business close to INR300 crores. We'll see how this quarter and next quarter goes because the first half momentum was pretty good. We are almost like 50% growth over last year. So that's a good set of numbers that we got and we are continuing to build the brand from various angles in the domestic market.

Akhil Parekh: Sure. And how are we doing in terms of the retail touch points? If I recollect, we have reached around 1.5 lakh touch points, what is the target for, say, next 1 or 2 years?

Praveen Jaipuriar: Retail point of view -- outlets. Okay. Yes, so we are right now, directly by this end of this year, we probably will be -- this is only general trade. We will be directly servicing around 130,000 or so number of outlets. You add another 5,000, 6,000 of modern trade. And then, of course, there are these other things like we target, like the tea shops and all that, which we take it as a separate segment. So that will be another 3,000, 4,000 touch points. And then, of course, there are other platforms like the quick commerce and the modern, in fact, e-commerce and all that. So yes, that's the number in terms of our distribution. We are looking forward to drive deeper distribution in South because now in the cities, we are doing pretty well.

Now we need to drive into other Tier 2 and Tier 3 towns. So that's the task and challenge that we have taken. And in the non-South, we are now continuing to drive a lot of our distribution in the main cities. But we are keeping it restricted because that's something that we will not be able to do a very widespread distribution, where the depth of distribution will matter for us because, again, those towns coffee consumption is also concentrated and a lot of consumption is now happening through quick commerce and e-commerce. So that's something that we'll keep focusing on.

Moderator: The next question is from the line of Akansha Gupta from Solidarity Investment Managers. Please go ahead.

Akansha Gupta: Yes. So in the last couple of con calls, we have always maintained that our EBITDA growth will be largely driven by the volume growth and there won't be much margin improvement on that front. So how do I look at the EBITDA growth of this quarter of 25%, 27% -- 25% odd because this contains some volume growth and some margin expansion as well. Yes. So is it because of high-value contracts in this particular quarter and you expect it to normalize over the year? Or is it that we are seeing some growth in the EBITDA per kg as well structurally? So yes, could you just throw some color on that, that how should we look at the EBITDA per kg and the margin expansion over here?

Praveen Jaipuriar: So Akansha, what we do is, when we give guidance generally these are long-term guidances. There will be certain fluctuations in the quarters, in each quarter. So let me clarify 2, 3 things. One is first and foremost is that, yes, considering that the market has become very competitive, considering the various supply challenges that has creeped in and that's what I explained in my few answers before. Because of that, we ended up doing more value contracts and better value contracts, more brand owners and all that.

So that has helped us. There is also an element of RoDTEP, which is approximately INR5 crores to INR6 crores of RoDTEP, which is a substitution of MEIS that we used to get. So if you see, if I combine all of them, volume growth, better value contracts, more brand owners seeking -- coming in and this RoDTEP. All of that put together has helped us improve our margin this quarter.

Akansha Gupta: And do you think over the year, it will normalize to the 110 EBITDA per kg level or would this be a good base going forward as well?

Praveen Jaipuriar: No. So Akansha, I told you like last time also and most of our con calls, we say that because it also depends on many things, it's just not 1 angle. The other thing that it depends on is the mix of our products. So considering that there could be more -- so suppose, let's say, I start doing a lot more volume going forward and I start getting into long-term contracts, which I spoke about and these are spray dried and all that, then what will happen is that my margins will slightly come down. So it may not be at the levels that it is today. And that's the reason we have always on a long-term guided that probably for 2 years, when we spoke last time, that for next 1.5, 2 years, we are looking at a similar margin profile.

I don't want to kind of pre-empt and say that it will be better, although we are trying all the time to better our margins every day because not only through better contracts, more high-value products, more small packs, premiumization of coffee, building some efficiencies in our operations. So all that work is always happening. But sometimes it's very difficult because the mixes could change. I could be doing more of spray dried. That could at an overall level being down my EBITDA per kilo.

And that's the reason we have given this guidance that it will be a more or less stable for the next 1 to 2 years. And thereafter, probably when we are utilizing our current expanded capacity to almost 50%, 60% levels, that's the time when we start building more efficiencies and getting into more high value contract because these will stabilize and then I will get better margins.

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

Aashish Upganlawar: So most of the questions have been -- answers have already been given. So sir, on the raw material scenario, what basically I understand is that the crop has not been good in Brazil, Vietnam this year also. And prices probably -- would you say that those have been -- have peaked now? I mean, or is there any other disruption that is there or maybe some other event that one needs to track around there?

Praveen Jaipuriar: So my sense is that it has peaked. It has softened a little bit in the last month or so. And it should stay at these levels is my personal sense, yes. We will keep getting these news that things are not good, there's climate issues and all that. But largely, I have a feeling that they should stay at this level. And I'm looking forward to certain stability after -- not the price reduction but at least stability creeping in after December.

Aashish Upganlawar: Okay. And -- but that doesn't maybe solve the issues on the working capital that we have with the elevated coffee prices, maybe helps the P&L as such in terms of profit growth somewhere. So is there any other lever because I think in the initial part of the call, you said that some value addition has helped in terms of per kg realization of the EBITDA for us. Are there any other mitigation measures to elevate the profitability so that the ROCE is actually improved because working capital, it all depends on coffee prices, actually.

Praveen Jaipuriar: Yes. So we are actually working on a lot of fronts, just not higher-value contracts, as I told. But also other things like can I do more small packs, can I do more -- can I build more efficiencies in operations and things like that. But considering that the coffee prices are going to remain at this level, there is not much change that I'm going -- or I'm foreseeing in the near future as far as working capital is concerned.

But the good part is that and which is what we have always maintained that all our working capital is for contracted business. These are not for inventory building. So I only buy coffee that I have contracted a business or finalized the business. So that is why we're not overly worried. Yes, the things will look much, much better if the coffee prices were to soften.

Aashish Upganlawar: Okay. And what is the percentage of softening you would have seen in terms of price drop lately? Is it material or is it...

Praveen Jaipuriar: We don't see much of a drop. See, actually, what happens if you see long-term cycles of supply chain of coffee, the 2 big segments, which is the South American and the Southeast Asian segment, both of them in years when they get good crops, then we see that there will be a softening of prices. But as long as one of them keep reporting climate vagaries and therefore, short supplies, the prices tend to be on a higher side. Having said so, coffee is also 1 crop unlike most of the other commodities where the harvest cycles are low, most of the agri commodities you will see 6 months to 9 months of agri cycle. Coffee has 3 to 4 years because once you sow a proper plant, it starts flowering after 3 to 4 years.

So it seems that -- and we have seen 2 years of price hikes. We have got certain reports that there has been acreage increase and all that in certain parts of Brazil and Vietnam. And therefore, what happens is that post 3 years, again, you will start seeing some more supplies and therefore, things will start softening up. And that's the reason I really don't want to comment on any short-term or midterm prices. I don't see it softening very, very much. Yes, a couple of hundred dollars here or there could be the variation. In the long term, yes, because of these changes, we would expect that there will be a certain amount of softening. But again, nothing to comment and can't be definitive about it.

Moderator: The next question is from the line of Deepak from Sundaram Mutual Fund. Please go ahead.

Deepak: Sir, my first question is regarding the capacity. So you earlier pointed out that the Indian capacity is going through some trial runs. I just wanted to understand the 16,000-ton capacity and the new freeze-dried capacity of Vietnam. In which quarter do we plan to kind of commercialize it? And once we commercialize it, how much time does it take for us to achieve peak utilization level?

Praveen Jaipuriar: So Vietnam freeze dried will be next quarter only because trials take a lot of time. There are certifications, trials, matching of blend, all that thing happens. So the business starts coming in subsequent quarter only. And generally, our capacity utilization plan is that at least for the freeze dried because we have good orders and all that, first year could be anywhere around, generally, first year, our thumb rule is 30% -- 30% to 35% but we could be looking at 40% or 45% in the first year of the freeze-dried capacity.

Coming back to India, the India plant should start operations maybe a month from now because all that trial and most of it is now over the certifications are also on their way. And as soon as they come this quarter onwards, we'll start seeing, by the end of this quarter, utilization starts happening. And again, the thumb rule will be 30%, 60%, 80%. So that's the thumb rule for 3 years that we've build around. Generally, you will get a peak capacity of 85% to 90% against the rated capacity because of the blend and the changes and the CIPs that you do.

Deepak: And sir, the utilization level you're talking about, it will be similar for both freeze dried as well as spray dried, right, that 85% to 90%?

Praveen Jaipuriar: At maximum yes, maximum is what happens.

Deepak: Okay. And sir, second question would be more related to bookkeeping. So when I was looking at your other expenses, in Q4, it was around INR150 crores. Now this quarter, it is sequentially declining. Right now it is at INR116 crores. And the primary, it was driven by your stand-alone business, right, the Indian business. So I just want to understand, I mean do we expect this number to go down? Or was Q4 and aberration and now it is more at a normalized level?

Praveen Jaipuriar: So okay, some of it is the other expenses, if you see, a little bit of it is because of forex differences, the currency fluctuation. So there are some gains here. So probably, you will see something in between what you have seen earlier and what we are at now. Not very dramatic changes, it won't be like the extreme of that and the low of this.

Deepak: Okay. So we would see an Y-o-Y growth but not at extreme of what we saw in Q4.

Praveen Jaipuriar: Correct. Right.

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

Richa: Sir, I think in the earlier call, you had mentioned that earlier the tie-up that used to happen for 6 to 8 months has come 2 to 3 months because of high coffee prices. Let's say, if the Vietnam crop harvest is not good. So I mean, like you said, there is perhaps there will be some visibility on the stability and not volatility. So do you have any sense from clients that they would be willing to increase the contract length or this tie-up duration? Or is it likely to stay in 2 to 3 months range even if the prices are where they are?

Praveen Jaipuriar: So as I told earlier, I think after December, once the picture is clear, I'm hoping that a lot of clients will now revert back to long term because the general consensus that has built around the globe is that there won't be significant softening from here, unless until some other forces kick in and there is something new that we come across. But considering the current situation, there won't be huge softening.

So therefore, we are expecting that post December, January, we should start seeing a little longer term. I won't say that it will go back to 9 months, 1 year, 1.5 years but a little longer term than what we are seeing right now could come back. But we'll have to wait and watch and see how things pan out. if it remains to be as volatile as it is right now, then the situation could continue.

Richa: Okay. And sir, my second question is, like you said, there are 2 major regions, South America and Southeast Asia. So I know that you can source it from anywhere but at a practical level considering that you also cater to blends and there could be some shift in the blends based on where you are sourcing from, how difficult and cost is right, you can be, if these differences in both the regions grows up.

Praveen Jaipuriar: So yes, it is a little more challenging because the guys sitting in Brazil has an access to the crops very quickly. We do have to import and therefore, it means that it'll add to the logistics time. But generally, if you see most of the times and that's the reason I was talking about blends. We have that expertise to make sure that we create an output from different this thing, different types of coffee. And we do maintain inventory because there is -- it's a rolling business for us. So there are inventory. So we can turn it around very quickly. But yes, I can't deny that it is a little more challenging to get the green beans from Brazil.

But it's not that we don't do it. We often do it and we currently are also doing, which means that, yes, technically, we are at a little disadvantage in terms of the logistics time but we are not at a fairly very strong disadvantage like the Brazilian guys would be if Vietnam were to soften because they don't allow import of coffee. But we are not saddled with those kind of problems.

Richa: Okay. And sir, what is the current cost of debt? And do you expect it to increase or moderate going forward?

Praveen Jaipuriar: Since we now completed all the projects. And going forward, the free cash flows are going to get added to the operations and definitely, it is going to reduce further.

Richa: Okay. But in percentage terms, like I think you -- in the earlier call, you said it's likely to go up to 8% from perhaps 6%. So where is it currently?

Praveen Jaipuriar: No. Currently, it's also the same price. As we know that RBI did not change any rate profile in their monetary policy. So unless the rates are being softened from the RBI end, we don't see that any reduction in the in the rate of interests are concerned.

Moderator: Next question is from the line of Tushar Raghatate from Kamakhya Wealth Management. Please go ahead.

Tushar Raghatate: Regarding B2C business, you have started a pilot project in Hyderabad for a coffee chain. What are your thoughts on opening it Pan-India? And how do you see your B2C business in the next 5 years in terms of percentage contribution to the revenue?

Praveen Jaipuriar: So okay. First, the cafes, we just opened a couple of them, two cafes and 1 kiosk kind of a thing, which is a grab-and-go kind of a thing in Hyderabad. So right now, we don't intend to expand very quickly. We want to see because we had already indicated that we want to understand which model is working for us.

And what is the kind of profile that we want to build for the cafe. So we will keep building this. And once we are convinced that, yes, this is a model that is going to work in the future, that's the time we'll think of expansion. So that's the update on that front. As far as B2C business, you are saying 5 years down the line, what is -- what will be the percentage of B2B business. I don't think so that is -- that's the right way to look at it because that's not what we are looking at.

The reason being is that we are driving the B2B business equally aggressively considering that our market shares are still single digit in the global market, in the B2B setup. We are very confident that we will be able to drive aggressively that business as well.

And here in the B2C segment also, we are driving very aggressively. So yes, it is being driven tad faster than the B2B business. But very difficult to comment at what percentage it will be out of that. What we are seeing on a stand-alone basis, I told you that this year, we probably -- the brand business would be close to INR300 crores, we probably will be looking to double it in maybe 3 years' time or maybe 3.5 years' time or 4 years' time. So that's the plan that we have right now.

We are taking it step by step, never ever even when we started, while we gave a certain indication, we were not very -- we just don't want to commit to some numbers and then say that how do we do that. But we want to take it step by step and that's what has worked for us. So right now, the going is good and we can -- want to continue to drive the momentum.

Tushar Raghatate: I wanted to understand the operating leverage part. So to the capacity post recent expansion, what sort of revenue you can achieve considering -- I also understand the product mix is also in this equation. If you considered the average product mix over the years, which you have seen, so what would be the max revenue potential of the capacities post the recent expansion?

Praveen Jaipuriar: So last year, like we were around 37,000 tons and we took all these expansion, which would have meant that we would have gone to 75,000 to 77,000 metric tons. So you can see the volume is double. I don't want to comment on the price because price is depend -- the value or the top line is dependent on the coffee prices because we do cost-plus model. So what it means is that we were looking to double the capacity in 4, 5 years' time. So that is what we will -- the trajectory will stay up on and resultant what will be the top line will all depend on the coffee prices.

Tushar Raghatate: So sir, what would be the revenue potential, I'm asking?

Praveen Jaipuriar: No, so that's what I'm saying. The revenue potential is dependent on the coffee prices because our model is cost-plus model. So I told you we were at 37,000 tons last year when we started -- when the new capacities came in. And we had given a guidance that we probably will be looking at 15%, 20% volume growth, which means that in 4 years' time or maybe 4.5, 5 years' time, we probably will double the capacity, which means that we'll be closer to 70,000 metric tons in 4 years, counting last year.

So that is our potential and that is when we will see how do we want to -- do we want to take up further expansion and all that. Value, I can't comment because, let's say, tomorrow, the coffee prices that would drop to $2,000 level the value could be very different than what it is at $4,000 level.

Tushar Raghatate: Sir, my last question, sir, if you consider the value-added segment, the freeze dried and the flavored coffee in percentage terms in B2B, what would be the quantity?

Praveen Jaipuriar: So we don't do a flavored coffee in B2B segment, yes. Flavored coffee is a very small segment, not only across the globe but in India also. And if I were to take a freeze dried, it will be around 25% of our capacity.

Tushar Raghatate: And other value-added coffees like the -- then leaving aside the freeze dried, there is also some value added, if I'm not mistaken?

Praveen Jaipuriar: Yes, yes. So it depends like, let's say, if I would take the super -- the top of the pyramid, which is the 5%, that will be the premium coffees and the value-added coffee, which gives us a higher margin profile and the premium profile to us. So that will be another 5% to 7% of our total business.

Tushar Raghatate: Okay. So more or less 30%, 40% is value-add if my understanding is correct.

Praveen Jaipuriar: Yes, if you add the freeze dried. Yes, if you consider freeze dried. But lot of times freeze dried is considered also as a base product in markets like Russia and all that and that becomes the base product. So yes, it really depends on which lens you're looking at from.

Moderator: The next question is from the line of Anirudh Gangahar from Avendus Wealth Management. Please go ahead.

Anirudh Gangahar: Two questions from my side. Firstly, there was some insurance coverage money for the capacity that was lost earlier. Has that been received? If you can just help clarify that. And second question was the EU deforestation regulation. Any update on the implementation and preparedness that is required from our side for anything in terms of sales to the European nations. Those are the two questions.

Praveen Jaipuriar: Yes. Relating to the issue, as you know that they will take a good amount of time. And our request towards the business interruption loss has been put forth which we have placed with them, it is under process. Definitely, it will take some more time. And coming to deforestation issue, so EUDR, we all know that it has been postponed as of now for 1 year because it requires -- it's a -- while the intent is right, the whole implementation has its own challenges because of the certification and all that you have to get.

The first indication is that the commodities are part of it. When I say commodities, it means green coffee. The value addition that you do and then when you make it instant coffee, that probably the final product may not be part of it as of now. But having said so, we are working with our suppliers, the growers, the associations, to make sure that these are all complied because it's more of an industry challenge rather than a particular challenge for a corporate. So, we are working for that. And as and when it comes, we should be ready for that.

Moderator: Ladies and gentlemen, that was the last question for today. We have reached the end of our Q&A session. I would now like to hand the conference over to the management for closing comments.

Praveen Jaipuriar: Thank you all for joining us and thank you, Nirmal Bang, for arranging this call. And once again, I wish you all happy festivities and best of luck. Thank you.

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