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**Annexure - VII**  
**MANAGEMENT DISCUSSION AND ANALYSIS REPORT**

Soluble Instant coffee, more commonly referred to as instant coffee is commercially prepared from carefully selected green coffee, which is roasted, extracted, evaporated and converted into solid form by either freeze-drying or spray- drying, after which it can be rehydrated to make a good cup of coffee.

Instant coffees have now been in the market for many decades because of its convenience, economy and homogeneity. Soluble coffee consumption has been increasing, owing to changing life styles and convenience. With the invention of new technologies, the quality of instant coffee has significantly improved, thereby attracting even traditional roast and ground coffee customers. The instant coffee industry moved from cheap alternative instant beverage to new trend speciality, single origin, high quality niche coffees.

### **Business Review**

Your Company has the distinction of being one of the elite manufacturers, that can provide all types and forms of coffee from one single location. With our constant dedication towards research and development, we have created & commercialised unique products in the market. After wide spread presence in international markets, and with vast experience on the variety of coffee products, CCL had ventured into domestic market in India with a large product profile in 2014. CCL created a dedicated team exclusively for domestic market, drawing professionals from FMCG companies for this brand creation. Over a two year effort, we are identified as third largest domestic brand coffee in South India for the year 2019-20.

During the year under review, Freeze Dried Plant at Kuvvakolli Village, near Sullurpet commenced operations, enabling us to cater to the increased demand in international markets.

Young population is the driving force for experimenting with speciality coffees, which opened up new in-house consumption segment, where growth is anticipated. Thanks to the technology improvements in production that is making instant coffee tastes as good as roast and ground coffee. Image of coffee drinking as modern life style, which is trending in the social media is very much encouraging us to step into speciality coffee segment. During the year under review, your Company had launched 3-in-1 premixes in various flavours like Hazelnut, Cappuccino, Mocha, Caramel etc., under the brand name THIS, mainly providing younger generation with an option of hot beverage of their palate. Also your Company launched premium Freeze Dried coffee in different flavours like Coconut, Spice, Lemon and Hazelnut etc., to give a varied option for the customers in the premium segment. Continental Decaf was also launched under speciality coffees to cater to the niche market segment that prefers decaffeinated coffee.

In light of the current pandemic situation, people have become more health conscious and tending towards value added products in health segment. Your Company's R&D team is working on developing new products, focussing on the wellness category to catch up the upcoming trend.

The turnover of the Company is ₹ 82,265 Lakhs and the net profit of the Company is ₹ 23,893 Lakhs. Earnings per share (EPS) (Face value of ₹ 2/- per share) for the current year is ₹17.96 for the year 2019-20.

### **Industry Structure and Developments**

The current instant coffee market in India is growing at a guestimate rate of 8% year on year. A positive change in consumer lifestyle (specifically driven by western culture), higher disposable incomes, and the growing number of young professionals were some of the important factors that promoted growth in coffee consumption in India. Additionally, increased access to coffee machines in offices and institutions triggered interest in coffee among consumers, which indirectly drove sales in households, as people began to acquire a taste and in turn consumed coffee at home as well.

Your Company is able to enhance its presence in the in-house brands of supermarkets in Europe and

impressed by the quality of products, greater levels of service etc., these supermarkets have been consistently increasing our share of volumes. Your company is also confident that it will achieve the orders of various other supermarkets as well in this year. Necessary capacity augmentation is being done during this year to meet this additional demand.

### **Outlook**

The modern times have witnessed evolution of coffee drinking from an everyday habit to a healthy lifestyle choice. Coffee has gained the status of being the most preferred beverage worldwide.

The covid-19 pandemic is likely to have a profound impact on the global coffee sector, including production, consumption and international trade. International Coffee Organisation (ICO) has conducted an analysis based on a sample of the top 20 coffee consuming countries, which represents 71% of global demand, covering the period 1990-2018. The results show that a one percentage point drop in GDP growth is associated with a reduction in the growth of global demand for coffee of 0.95 percentage points or 1.6 million 60-kg bags. Coffee consumption at Coffee Shops (out of the home) consumption will drastically come down because of covid-19 but at home consumption will increase and this will have a positive impact on the consumption of instant coffee.

Revenue in the instant coffee segment amounts to US\$96 Billion in 2020. The market is expected to grow annually by 11.5% (CAGR 2020-2025). In relation to total population figures, per person revenues of US\$12.88 are generated in 2020. The average per capita consumption stands at 0.2 kg in 2020. In the instant coffee segment, volume is expected to grow to 1.7 Billion kg by 2025.

Source : Statista (<https://www.statista.com/outlook/30010200/100/instant-coffee/worldwide>)

Asia Pacific leading the market share and is expected to remain on top over the next few years. The easy preparation of instant coffee, as well as its ability to be tailored to local taste preferences, has made it the coffee of choice in most markets in Asia Pacific, where coffee consumption is still low. The expanded spotlight on interesting, valid flavours and different useful properties of coffee has supported the premium version launches of the global instant coffee market.

The instant coffee segment's outlook is bright as consumers increasingly value instant coffee's simplicity of preparation.

### **Opportunities**

The covid-19 pandemic unveiled the opportunity in premix and functional coffee segments due to increase in in-house consumption of speciality coffees. Diversification into value added finished products with premium quality is more in demand as focus is shifting to consumption of high quality coffee manufactured under hygienic conditions.

Your Company projects a huge potential for growth in the domestic market by virtue of having excellent and flexible manufacturing facilities and a clear understanding on the consumption patterns vis-à-vis optimization of the products. Having facilities for all kinds of coffee manufacturing, your Company has a price advantage and can be competitive in pricing vis-à-vis competing brands who have to import coffee by paying substantial duties. The roast and ground segment continue to dominate the overall coffee consumption and your Company has also introduced R&G versions also in suitable localized palate. Thus your Company is going to be a single point option for all variety of coffee products in the country with an enhanced customer base.

There are several countries in which operations are hindered due to covid-19. Your Company is identifying these opportunities in the international markets and attempting to provide continuous supplies there, which can add few more customers into its portfolio. The impact of covid-19 is less in Vietnam and this is helping your Company to supply to new markets from the Vietnam Plant as well.

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**Risks, concerns and threats**

Owing to lockdown in various countries, stoppage of international and local movements etc., had a severe impact on the logistics and thereby your Company has experienced occasional delays in both inbound and outbound shipments. These are likely to be continuing since the pandemic is still continuing – with more vigour. Company is taking effective steps to have enough stocks for enabling unhindered production activity. On the demand side, we are visualizing that there is a substantial reduction in institutional requirements (particularly those serving HORECA segment) in view of the lockdowns. However, majority of this is being compensated by the increase in the in-house consumptions.

Your Company's expansion projects both at Vietnam and India are getting delayed due to the disruptions in the logistics sector which may affect the growth plans of the company for this year. However, efforts are being made to reduce this impact on project implementation through various methods.

The major threat being faced by the instant coffee industry is the creation of huge additional capacities in several countries which is resulting in unhealthy competition and stress on prices. Your Company is making efforts to mitigate these threats by increased volumes of high quality niche and new products.

Reduced rainfall in some areas is dramatically changing the ecosystem and growing conditions which result the quality of the beans used as raw material to produce the instant Coffee. It is noticed that changes in weather patterns (drought, unpredictable and varied rains, temperature changes) are causing alterations in the appearance and severity of newer pests while existing diseases are migrating to ecological zones where they previously did not exist. This may affect the quality of the beans grown in the traditional regions from where the Company is procuring. Although credible data on the levels and spread of these diseases and pests is not available, the potential risk should be noted.

Any war between countries, Government / regulatory decisions effecting the change of the duty structure on green coffee/instant coffee shall have an impact on the prices of our imports/exports.

Your Company has already established its longstanding presence in the international markets in the instant coffee, however, the sales of the products may fluctuate depending on economic and political conditions, including acts of terrorism in the producing and consuming countries. Decline in population can lead to decrease in sales in that particular territory.

Further, the Company has gained rich experience with the presence of marketing consultants and in-house experienced marketing personnel to face any kind of competition and market related risks.

**Internal Control Systems and their Adequacy**

Your Company has appropriate internal control systems for business processes, efficiency in its operations, and compliance with all the applicable laws and regulations. Regular internal checks and audits ensure that the responsibilities are being effectively executed. In-depth review of internal controls, accounting procedures and policies of Company is conducted. Your Company has adopted adequate internal control and audit system commensurate with its size and nature of business.

Internal audit is carried on a quarterly basis. Internal auditors work with all levels of management and the report is placed before the audit committee. The audit committee after reviewing the findings and suggestions directs the respective departments to implement the same.

**Industrial Relations and Human Resources Management**

Employees are the valuable assets and the strength of an organisation in its growth, prosperity and development. Your Company has a team of qualified and dedicated personnel who have contributed to the growth and progress of the Company. Necessary training is being provided to the employees and various seminars and workshops are being conducted to continuously hone their skills.

Your Company is continuously striving to create appropriate environment, opportunities and systems to facilitate identification, development, and utilization of their full potential and inculcating a sense of belongingness. There are 617 employees in the Company as on 31<sup>st</sup> March, 2020.

Your Company's industrial relations continued to be harmonious during the year under review.

**Financial performance with respect to operational performance**

During the year, the Company has achieved a turnover of ₹ 82,265 Lakhs recording a net profit of ₹ 23,893 Lakhs. Profit includes dividend received from Ngon Coffee Company Limited, wholly owned subsidiary of the Company.

**Details of significant changes (i.e. change of 25% or more as compared to the immediately previous financial year) in key financial ratios, along with detailed explanation**

During the year on a consolidated basis the significant change in the financial ratios of the Company, which is more than 25% as compared to the previous year is summarised below:

Financial Ratios	Consolidated		Change(%)	Reason for change
	2019-20	2018-19		
Debt Service Coverage Ratio	4.99	22.52	(77.86)	Decreased due to scheduled term loan repayments

During the year on a standalone basis, the significant changes in the financial ratios of the Company, which are more than 25% as compared to the previous year are summarised below:

Financial Ratios	Standalone		Change(%)	Reason for change
	2019-20	2018-19		
Current Ratio	1.85	1.40	32.32	Increased with deployment of operating cash flows into current assets and payment of current liabilities
Debt Service Coverage Ratio	5.63	24.51	(77.01)	Decreased due to scheduled term loan repayments
Receivables holding period	81	62	(30.88)	No. of days increased due to additional/ extended credit period

**Details of any change in Return on Net Worth as compared to the immediately previous financial year along with a detailed explanation there of:** There is no significant change during the current financial year 2019-20, compared to previous financial year 2018-19.

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**Certifications**

Your Company has the following certifications:

1. BRC- Version 8 with A Grade (British Retail Consortium) - Global Standard for Food
2. IFS - Food Version 6.1 with Higher Level (International Featured Standards) - International Food Standard.
3. Organic Coffee Certificate (Processing & Trading)
4. Fair Trade Certificate
5. Halal Certificate
6. Kosher Certificate
7. FSSAI License - Food Safety Standards Authority of India
8. BIS License - Bureau of Indian Standards (ISI) License
9. UTZ Certificate ( Chain Of Custody Standard - Coffee)
10. US.FDA Certificate of Registration
11. RFA Endorsement certificate

**Social Accountability compliance**

1. SGP (Supplier Guiding Principles and Human Rights Policy Assessment)
2. ICS (Initiative for Compliance and Sustainability)
3. SA 8000 (Social Accountability audit)

**Awards**

During the year under review, your Company has won EPCES Export Award for Outstanding Export Performance for the year 2018-19 in Category II, Product Specific, Food & Agro Products, Agriculture & Plantation Product, Best EOU – Other than MSME. This is a national award for the year 2018-19.

**Cautionary Statement**

Statements in this management discussion analysis describing the Company's objectives, projections, estimates, expectations may be forward looking within the meaning of applicable securities-laws and regulations. Actual results may differ materially from those expressed in the statement. Important factors that could make difference to Company's operations include economic conditions affecting the domestic market and the overseas markets in which the Company operates, changes in the Government regulations, tax laws and other statutes and other incidental factors.

**For and on behalf of the Board  
CCL Products (India) Limited**

Place: Hyderabad  
Date: 15<sup>th</sup> June, 2020

Sd/-  
**Challa Rajendra Prasad**  
Executive Chairman  
DIN : 00702292