

CCL PRODUCTS INDIA

Vietnam back in action; new India capacity to drive growth

India Equity Research | Miscellaneous

CCL Products India's (CCL) Q4FY18 revenue and EBITDA at INR3.2bn and INR712mn came below our INR3.6bn and INR821mn estimates, respectively. This was on account of lower India business revenue as supply of agglomerated coffee started from Vietnam. However, APAT at INR472mn came in line with estimate as tax rate was lower at 24% versus 31% estimated and 33% in Q4FY17. Management has guided for 10-20% volume growth without factoring the impact of freeze dried capacity expansion (to be commissioned in Sept 2018). Our FY19 numbers are ahead of management's estimates as we factor in the benefit of the capacity's commissioning. Maintain 'BUY' with TP of INR437 based on 24x FY20E EPS. Timely commissioning of the freeze dried capacity is key monitorable.

Q4FY18: Key highlights

(1) Supply of agglomerated capacity from Vietnam commenced with EBITDA margin improving 470bps QoQ and 1440bps YoY in subsidiaries business; (2) while consolidated revenue rose 8% YoY, gross margin dipped 110bps YoY as CCL focused on increasing volumes; (3) management has guided for 10-20% top-line and bottom-line growth each; (4) CCL's new freeze dried capacity is likely to be commissioned in Q2FY19, which is expected to drive growth going forward.

Commissioning of freeze dried capacity to drive growth from FY19

CCL's India capacity is working at optimum utilisation rate, while future growth is likely to be driven by improving value-added mix and commissioning of the freeze dried capacity from Sept 2018. Vietnam capacity is currently working at ~70%, which management estimates to rise to 80% plus in FY19 driving growth in operations of subsidiaries.

Outlook and valuations: Well poised for growth; maintain 'BUY'

We believe, a resilient business model, rising utilisation with sustained market share gain, focus on branded business and capacity expansion in value-added segment place CCL in a sweet spot to post sales/PAT CAGR of 18%/28% over FY18-20E. Growth from FY19 will be supported by commissioning of the freeze dried capacity in Q2FY19. We maintain 'BUY' with TP of INR437 based on 24x FY20E EPS.

Financials (Consolidated)

Year to March	Q4FY18	Q4FY17	% change	Q3FY18	% change	FY18	FY19E	FY20E
Net rev. (INR mn)	3,209	2,970	8.1	2,740	17.1	11,380	14,040	15,902
EBITDA (INR mn)	712	642	10.9	645	10.4	2,394	3,248	3,718
Adj. PAT (INR mn)	472	354	33.5	404	16.9	1,487	2,017	2,422
Adj. Dil. EPS (INR)	3.6	2.7	33.5	3.0	16.9	11.2	15.2	18.2
Diluted P/E (x)						26.6	19.6	16.3
EV/EBITDA (x)						17.4	12.5	10.5
ROAE (%)						21.7	24.9	25.1

EDELWEISS RATINGS

Absolute Rating	BUY
Investment Characteristics	Growth

MARKET DATA (R: CCLP.BO, B: CCLP IN)

CMP	: INR 316
Target Price	: INR 437
52-week range (INR)	: 355 / 253
Share in issue (mn)	: 133.0
M cap (INR bn/USD mn)	: 42 / 625
Avg. Daily Vol. BSE/NSE ('000)	: 99.9

SHARE HOLDING PATTERN (%)

	Current	Q3FY18	Q2FY18
Promoters *	45.0	45.0	45.0
MF's, FI's & BKs	3.7	3.7	4.2
FII's	25.3	25.3	24.5
Others	26.0	26.0	26.3
* Promoters pledged shares (% of share in issue)	:		NIL

PRICE PERFORMANCE (%)

	BSE Midcap Index	Stock	Stock over Index
1 month	(5.2)	9.1	14.3
3 months	(4.3)	11.8	16.1
12 months	7.8	(6.5)	(14.3)

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Q4FY18 conference call: Key highlights

- 1. Domestic operations:** In Q4FY18, sales from India increased 7% YoY, whereas EBITDA declined 17% YoY mainly on account of fall in margin by 520bps YoY. The fall in margin was primarily on account of increase in green coffee prices. Although the company is operating at optimum capacity, some impact was seen because of shift of high margin agglomerated capacity customer to Vietnam.
- 2. Vietnam operations:** In Q4FY18, sales from subsidiaries jumped 11% YoY, whereas EBITDA more than doubled to INR295mn predominantly because of margin improvement to 31%. Margin improvement was led by shift in agglomerated coffee customer back to Vietnam and also because of addition of new customers. Currently, the capacity of 10,000MT is running at 60-70% utilisation. Management expects capacity utilisation of more than 80% in FY19 with increase in value-added mix, which will drive top-line as well as bottom-line growth.
- 3. Guidance:** Management has guided for 10-20% top line as well bottom-line growth in FY19. This guidance does not include any contribution from the new freeze dried capacity expected to be commissioned in September 2018. The company has already spent INR2.4bn on the plant of the INR3bn planned. Recently, CCL has started seeing reduced demand for this product with increase in supply and is not projecting revenues from this plant in FY19. Generally, such plants take three-six months to stabilise and start running and should start clocking revenue from Q4FY19. Going ahead, margin expansion may be driven by changing product mix in India and Vietnam.
- 4. Branded business:** In FY18, revenue for domestic business stood at INR460mn vs. guidance of INR800mn. The miss was mainly on account of strategy adopted by the new head of this business who wanted to clean up the books as extended line of credit to customers was taken-off by aligning working capital days. Of this, the contribution from branded segment stood at INR260mn. The company is now targeting total sales from this business of INR1bn by FY19.
- 5. Switzerland plant:** Revenue from this plant stood at INR770mn with break-even already achieved. The company is only operating this plant at 20-30% utilisation as duty issues from EU still persist.

Financial snapshot

(INR mn)

Year to March	Q4FY18	Q4FY17	% change	Q3FY18	% change	FY18	FY19E	FY20E
Net revenues	3,209	2,970	8.1	2,740	17.1	11,380	14,040	15,902
Raw material	1,971	1,793	9.9	1,547	27.4	6,900	8,078	8,946
Staff costs	139	106	30.7	122	13.8	475	555	664
Other expenses	387	429	(9.8)	426	(9.1)	1,610	2,160	2,575
Total expenditure	2,497	2,328	7.3	2,095	19.2	8,986	10,792	12,184
EBITDA	712	642	10.9	645	10.4	2,394	3,248	3,718
Depreciation	87	76	14.7	84	3.8	341	444	468
EBIT	624	565	10.4	560	11.4	2,054	2,803	3,250
Interest	21	37	(42.5)	19	13.6	78	163	83
Other income	16	3	517.4	4	302.2	48	49	63
Profit before tax	620	531	16.6	546	13.5	2,024	2,690	3,230
Provision for taxes	147	178	(17.2)	142	3.8	537	672	807
Minority interest								
Associate profit share								
Add: Exceptional items								
Profit- Discontinued Ops								
Reported net profit	472	354	33.5	404	16.9	1,487	2,017	2,422
Adjusted Profit	472	354	33.5	404	16.9	1,487	2,017	2,422
Diluted shares (mn)	133	133		133		133	133	133
Adjusted Diluted EPS	3.6	2.7	33.5	3.0	16.9	11.2	15.2	18.2
Diluted P/E (x)	-	-		-		26.6	19.6	16.3
EV/EBITDA (x)	-	-		-		17.4	12.5	10.5
ROAE (%)	-	-		-		21.7	24.9	25.1
As % of net revenues								
Raw material	61.4	60.4		56.5		60.6	57.5	56.3
Employee cost	4.3	3.6		4.5		4.2	4.0	4.2
Other expenses	12.1	14.4		15.5		14.2	15.4	16.2
EBITDA	22.2	21.6		23.5		21.0	23.1	23.4
Reported net profit	14.7	11.9		14.8		13.1	14.4	15.2

Company Description

CCL was formed set up in 1994 and commenced commercial operations in 1995. It is a profit making, export oriented unit (EoU) with the ability to import green coffee into India from any part of the world and export the same to any part of the world, free of all duties.

The company is in a position to offer a range of in-house products to customers. Its state-of-the-art soluble instant coffee manufacturing plant is located at Duggirala Mandal, Guntur District, Andhra Pradesh, with current combined capacity of 15000MT/PA. CCL has adapted Brazilian technology, purchased from world renowned pioneers in turnkey instant/soluble coffee technology at its plant. This adaptation of technology has enabled CCL to produce international quality soluble coffee. To cater to specific markets, the company has expanded capacity in Switzerland and Vietnam during FY11 and FY14, respectively.

CCL's 3,000MT plant in Switzerland is facing issues on account of unfavorable European Union regulations. This has so far acted as a roadblock for growth and profitability of Swiss operations. Management is exploring options to turn the plant profitable. In FY14, the Swiss operations made an EBITDA of INR16m. The company has invested ~INR0.50bn and there is no debt in the Swiss operation.

Investment Theme

CCL Products (CCL) is India's largest manufacturer and exporter of instant coffee. The company's cost-efficient business model, rich experience and long-standing relationships with customers give it an edge over competitors. Coffee processing is a challenging business wherein getting the perfect blend is crucial, which the company has successfully mastered. The newly commissioned green field Vietnam facility with proximity to raw material and customers as well as tax benefits is expected to propel growth and lead to significant cost savings. Moreover, the company's recent entry in the domestic branded coffee segment via Continental is bound to aid margin expansion. Resilient business model, capacity augmentation in Vietnam and sharpening brand focus in India place CCL in a sweet spot to post sales and PAT CAGR of 19.7% and 47.7% over FY14-17E, respectively. We estimate RoE to improve from 20.4% in FY14 to 34.7% in FY17.

Key Risks

sharp currency movement. However, it imports ~75% of raw material, which provides natural hedge.

Change in duty structure: Unfavourable change in duty rates in any country could impact the competitiveness of supply from Vietnam/India.

Swiss plant duty issue: CCL's Swiss plant is operating at sub-optimal utilisation level because of non-competitive pricing of supplies from Switzerland to the EU. Import duty levied by the EU on Swiss coffee is 9.0%, whereas only 3.3% is charged on coffee supplies from India. However, CCL has taken steps to avoid the adverse duty impact.

Ramp up of Continental brand: FY14 was the first year of Continental brand and adverse customer response could impact the growth prospects as well as financials.

Financial Statements

Key Assumptions

Year to March	FY17	FY18	FY19E	FY20E
Macro				
GDP(Y-o-Y %)	6.6	6.5	7.1	7.6
Inflation (Avg)	4.5	3.8	4.5	5.0
Repo rate (exit rate)	6.3	6.0	6.0	6.5
USD/INR (Avg)	67.1	64.5	65.0	66.0
Company				
Raw Material (% net rev)	56.5	60.6	57.5	56.3
India capacity (MT)	20,000	20,000	25,000	25,000
Vietnam capacity (MT)	10,000	10,000	10,000	10,000
India's cap. Util. (%)	77.0	87.0	80.0	86.0
Vietnam's cap. util. (%)	60.0	75.0	88.0	95.0
Std sales (INR mn)	6,921	8,055	9,536	10,764
Subs. sales (INR mn)	2,691	3,459	4,261	4,830
Std realis. (INR/Kg)	449	463	477	501
Subs. realis. (INR/Kg)	445	461	484	508
Std. EBITDA margin (%)	24.2	20.9	23.5	23.8
Subs. EBITDA margin (%)	22.7	22.2	22.0	22.3
Other exp (% net rev)	15.6	14.2	15.4	16.2
Int (% of avg G.debt)	7.2	3.8	6.6	6.3
Net borrowings (INR mn)	474	2,273	975	(455)
Employee cost (% of rev)	4.1	4.2	4.0	4.2
Tax rate as % of PBT	28.8	26.5	25.0	25.0
Debtor days	54	55	49	47
Inventory days	110	97	94	100
Payable days	8	6	10	14
Cash conversion cycle	156	146	133	133
Capex (INR mn)	(183)	(2,382)	(736)	(500)
Dep. (% gross block)	5.1	4.5	4.6	4.6

Income statement

(INR mn)

Year to March	FY17	FY18	FY19E	FY20E
Net revenue	9,765	11,380	14,040	15,902
Materials costs	5,519	6,900	8,078	8,946
Gross profit	4,246	4,480	5,962	6,956
Employee costs	401	475	555	664
Other Expenses	1,521	1,610	2,160	2,575
Operating expenses	1,923	2,085	2,715	3,239
Total operating expenses	7,442	8,986	10,792	12,184
EBITDA	2,323	2,394	3,248	3,718
Depreciation	333	341	444	468
EBIT	1,990	2,054	2,803	3,250
Less: Interest Expense	112	78	163	83
Add: Other income	12.28	48.49	49.00	63.00
Profit Before Tax	1,891	2,024	2,690	3,230
Less: Provision for Tax	545	537	672	807
Reported Profit	1,346	1,487	2,017	2,422
Adjusted Profit	1,346	1,487	2,017	2,422
Shares o /s (mn)	133	133	133	133
Adjusted Basic EPS	10.1	11.2	15.2	18.2
Diluted shares o/s (mn)	133	133	133	133
Adjusted Diluted EPS	10.1	11.2	15.2	18.2
Adjusted Cash EPS	12.8	13.8	18.5	21.7
Dividend per share (DPS)	2.5	3.0	4.0	4.0
Dividend Payout Ratio(%)	29.7	32.3	31.7	26.4

Common size metrics

Year to March	FY17	FY18	FY19E	FY20E
Gross margin	43.5	39.4	42.5	43.7
Operating expenses	19.7	18.3	19.3	20.4
EBITDA margins	23.8	21.0	23.1	23.4
EBIT margins	20.4	18.0	20.0	20.4
Interest Expense	1.1	0.7	1.2	0.5
Net Profit margins	13.8	13.1	14.4	15.2

Growth ratios (%)

Year to March	FY17	FY18	FY19E	FY20E
Revenues	4.8	16.5	23.4	13.3
EBITDA	13.5	3.1	35.6	14.5
PBT	13.4	7.0	32.9	20.1
Adjusted Profit	10.2	10.5	35.7	20.1
EPS	10.2	10.4	35.7	20.1

Miscellaneous

Balance sheet		(INR mn)			
As on 31st March	FY17	FY18	FY19E	FY20E	
Share capital	266	266	266	266	
Reserves & Surplus	6,017	7,133	8,509	10,290	
Shareholders' funds	6,283	7,399	8,775	10,556	
Long term borrowings	26	1,817	-	-	
Short term borrowings	985	1,266	1,817	817	
Total Borrowings	1,010	3,084	1,817	817	
Long Term Liabilities	-	(1)	-	-	
Def. Tax Liability (net)	382	392	392	392	
Sources of funds	7,676	10,874	10,984	11,765	
Gross Block	6,457	6,577	9,577	10,077	
Net Block	3,932	3,711	6,267	6,298	
Capital work in progress	2	2,264	-	-	
Intangible Assets	1	-	-	-	
Total Fixed Assets	3,934	5,975	6,267	6,299	
Non current investments	15	15	15	15	
Cash and Equivalents	536	811	842	1,272	
Inventories	1,828	1,832	2,324	2,573	
Sundry Debtors	1,627	1,820	1,923	2,178	
Loans & Advances	27	34	37	41	
Other Current Assets	515	849	849	849	
Current Assets (ex cash)	3,996	4,535	5,133	5,642	
Trade payable	122	103	332	368	
Other Current Liab	684	358	941	1,094	
Total Current Liab	806	461	1,273	1,462	
Net Curr Assets-ex cash	3,190	4,074	3,860	4,180	
Uses of funds	7,676	10,874	10,984	11,765	
BVPS (INR)	47.2	55.6	66.0	79.4	

Free cash flow		(INR mn)			
Year to March	FY17	FY18	FY19E	FY20E	
Reported Profit	1,346	1,487	2,017	2,422	
Add: Depreciation	333	341	444	468	
Interest (Net of Tax)	75	52	109	55	
Others	(29)	(52)	(109)	(55)	
Less: Changes in WC	674	883	(213)	319	
Operating cash flow	1,050	944	2,675	2,571	
Less: Capex	183	2,382	736	500	
Free Cash Flow	868	(1,437)	1,939	2,071	

Cash flow metrics		FY17	FY18	FY19E	FY20E
Year to March					
Operating cash flow		1,050	944	2,675	2,571
Financing cash flow		(874)	2,263	(1,908)	(2,641)
Investing cash flow		(197)	(2,382)	(736)	(500)
Net cash Flow		(21)	826	31	(570)
Capex		(183)	(2,382)	(736)	(500)
Dividend paid		(133)	(400)	(533)	(533)

Profitability and efficiency ratios		FY17	FY18	FY19E	FY20E
Year to March					
ROACE (%)		27.6	23.7	27.1	30.2
ROAE (%)		23.6	21.7	24.9	25.1
Inventory Days		110	97	94	100
ROA		17.8	16.0	18.5	21.3
Debtors Days		54	55	49	47
Payable Days		8	6	10	14
Cash Conversion Cycle		156	146	133	133
Current Ratio		5.6	11.6	4.7	4.7
Gross Debt/EBITDA		0.4	1.3	0.6	0.2
Gross Debt/Equity		0.2	0.4	0.2	0.1
Adjusted Debt/Equity		0.2	0.4	0.2	0.1
Interest Coverage Ratio		17.8	26.2	17.2	39.4
LT debt /Cap empl. (%)		13.2	28.4	16.5	6.9
Debt / Cap employed (%)		28.6	36.2	31.7	22.7

Operating ratios		FY17	FY18	FY19E	FY20E
Year to March					
Total Asset Turnover		1.3	1.2	1.3	1.4
Fixed Asset Turnover		2.4	3.0	2.8	2.5
Equity Turnover		1.7	1.7	1.7	1.6

Valuation parameters		FY17	FY18	FY19E	FY20E
Year to March					
Adj. Diluted EPS (INR)		10.1	11.2	15.2	18.2
Y-o-Y growth (%)		10.2	10.4	35.7	20.1
Adjusted Cash EPS (INR)		12.8	13.8	18.5	21.7
Diluted P/E (x)		31.2	28.3	20.8	17.4
P/B (x)		6.7	5.7	4.8	4.0
EV / Sales (x)		4.1	3.7	2.9	2.5
EV / EBITDA (x)		18.3	18.5	13.2	11.2
Dividend Yield (%)		0.8	0.9	1.3	1.3

Additional Data

Directors Data

Challa Rajendra Prasad	Chairman	Challa Srishant	Managing Director
I J Rao	Director	K Chandrahas	Director
Vipin K Singhal	Director	K K Sarma	Director
B Mohan Krishna	Director	J. Rambabu IAS	Director
G.V. Krishna Rau	Director	Ms. Shantha Prasad Challa	Director
Ms. Kulsoom Noor Saifullah	Director	Dr. Lanka Krishnanand	Director

Auditors - M.Anandam

**as per last available data*

Holding Top -10

	Perc. Holding		Perc. Holding
Capital Research Global Investor	8.00	Value Quest Moat Fund	1.41
FIAM Group Trust	4.15	GMO	1.16
FMR	1.87	Schroder Investment Management	0.93
Malabar India Fund	1.57	Canara Robeco Asset management	0.8
Fund India Whizdom	1.46	Dimensional Fund Advisors	0.79

**as per last available data*

Bulk Deals

Data	Acquired / Seller	B/S	Qty Traded	Price
No Data Available				

**as per last available data*

Insider Trades

Reporting Data	Acquired / Seller	B/S	Qty Traded
24 Jul 2017	Challa Srishant	Buy	56234.00
24 Jul 2017	Challa Soumya	Buy	50000.00
24 Jul 2017	Challa Rajendra Prasad	Buy	100000.00
19 Jun 2017	Challa Rajendra Prasad	Buy	15110.00
19 Jun 2017	Challa Srishant	Buy	15038.00

**as per last available data*

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Coverage group(s) of stocks by primary analyst(s): Miscellaneous

AIA Engineering, Apar Industries Ltd, Aarti Industries, Agro Tech Foods, Balkrishna Industries, CCL Products India, Essel Propack, Orient Refractories, Supreme Industries, Solar Industries, SRF, Vesuvius India, VIP Industries

Recent Research

Date	Company	Title	Price (INR)	Recos
18-May-18	Balkrishna Industries	Well-rounded volume spurt; <i>Result Update</i>	1172	Buy
18-May-18	SRF	All segment remains buoyant except speciality chemicals; <i>Result Update</i>	1924	Buy
18-May-18	Orient Refractories	Exports strong; domestic revives; <i>Result Update</i>	180	Buy

Distribution of Ratings / Market Cap

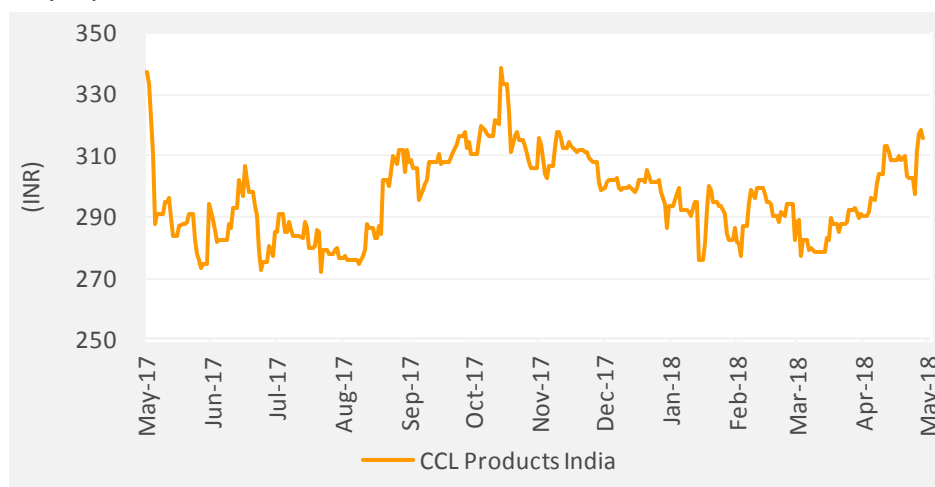
Edelweiss Research Coverage Universe

	Buy	Hold	Reduce	Total
Rating Distribution*	161	67	11	240
* 1stocks under review				
	> 50bn	Between 10bn and 50 bn	< 10bn	
Market Cap (INR)	156	62	11	

Rating Interpretation

Rating	Expected to
Buy	appreciate more than 15% over a 12-month period
Hold	appreciate up to 15% over a 12-month period
Reduce	depreciate more than 5% over a 12-month period

One year price chart



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