

CCL PRODUCTS INDIA

Better product mix drives profitability

India Equity Research | Miscellaneous



CCL Products' (CCL) Q1FY19 results benefited from favourable change in product mix leading to beat in our estimates by 17% in topline and 21% in bottomline. EBITDA margins improved by 300bps YoY to 21.6% as company benefitted from supply of higher profitable products from Vietnam. The strong growth was led by volume growth of around 30% YoY (on low base) however green coffee prices have declined by 15-20% and the impact of the same will be visible in subsequent quarters. As per management, FY19 topline growth to remain muted due to drop in realization with PAT growth of 10-20%. Commissioning of Freeze dry capacity will be key growth driver. Management is also excited about its foray into retailing its own brand (FY19E sales of INR1bn) which offers a strong growth opportunity. With an FY18-20E earnings CAGR of 20% and ROCE of 28%, as well as the expectation of strong cash flows, we maintain BUY with target price of INR384 based on 24x FY20E EPS.

Q1FY19: Key highlights

(1) Consolidated revenue rose 19% YoY led by around 30% growth in volumes as realizations declined by 15-20%; (2) supply of high profitable products from Vietnam benefitted with EBITDA margin improving 1000bps YoY in subsidiaries business; (3) management has guided for 0-10% topline and 10-20% bottom-line growth; (4) CCL's new freeze dried capacity is likely to be commissioned in Q3FY19, which is expected to drive growth from FY20E.

B2C business to provide next leg of growth

Management is confident about 10-20% growth for next 3-4 years, however post that growth is likely to be lower given that company will have a high base with market share of 9-10% (from 6-7% currently). Thus, the company is developing its B2C segment which is expected to drive future growth of the company. Management has guided for revenues of INR1bn for FY19 from INR460mn in FY18.

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 PAT CAGR of 20% over FY18-20E and RoCE of 28%. We maintain 'BUY' with TP of INR384 based on 24x FY20E EPS.

Financials

(INR mn)

Year to March	Q1FY19	Q1FY18	% Chg	Q4FY18	% Chg	FY18	FY19E	FY20E
Net revenues	2,944	2,468	19.3	3,209	(8.2)	11,380	11,843	14,392
EBITDA	637	457	39.4	712	(10.5)	2,389	2,693	3,260
Adjusted Profit	395	270	46.0	472	(16.5)	1,481	1,702	2,127
Adjusted Diluted EPS	3.0	2.0	46.0	3.6	(16.5)	11.1	12.8	16.0
Diluted P/E (x)						24.3	21.1	16.9
EV/EBITDA (x)						16.0	13.7	11.1
ROAE (%)						21.7	21.5	23.1

EDELWEISS RATINGS

Absolute Rating	BUY
Investment Characteristics	Growth

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

CMP	: INR 271
Target Price	: INR 384
52-week range (INR)	: 355 / 253
Share in issue (mn)	: 133.0
M cap (INR bn/USD mn)	: 36 / 526
Avg. Daily Vol. BSE/NSE ('000)	: 98.9

SHARE HOLDING PATTERN (%)

	Current	Q4FY18	Q3FY18
Promoters *	45.0	45.0	45.0
MF's, FI's & BKs	4.2	4.2	3.7
FII's	25.5	25.5	25.3
Others	25.3	25.3	26.0
* Promoters pledged shares (% of share in issue)	:		NIL

PRICE PERFORMANCE (%)

	BSE Midcap Index	Stock	Stock over Index
1 month	(5.9)	(3.3)	2.6
3 months	(10.0)	(7.5)	2.6
12 months	(0.9)	(1.5)	(0.6)

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July 16, 2018

Q1FY19 conference call: Key highlights

1. **Domestic operations:** In Q1FY19, sales from India increased 22% YoY, whereas EBITDA increased 26% YoY mainly led by increase in margin by 70bps YoY. The increase in revenues was largely led by volume growth as green coffee prices have declined by around 15-20% YoY.
2. **Vietnam operations:** In Q1FY19, sales from subsidiaries jumped 13% YoY, whereas EBITDA increased by 74% YoY to INR217mn predominantly because of margin improvement by 1000 bps YoY to 29%. Margin improvement was led by shift in agglomerated coffee customer back to Vietnam and also because of sale of high profitable products during the quarter. Management expects the current capacity of 10,000MT to run at ~80% in FY19E from ~70% in FY18. Further, the company is planning for capacity addition in Vietnam in FY20E. Further, there are certain provisions by government which may extend tax benefits even after completion of 5 years of company's operations in Vietnam.
3. **Guidance:** Management has guided for 0-10% top line and 10-20% bottom-line growth in FY19. This guidance does not include any contribution from the new freeze dried capacity expected to be commissioned in Q3FY19. The company has already spent INR2.5bn 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. Since it's a Greenfield plant it takes three-six months to stabilise and start running post which there will be approvals received from the customers. And thus, this plant will start contributing meaningfully from FY20 with the management expecting 50% utilization and break-even in FY20E. The management expects the plant to run at 70-75% utilization in FY21E.
4. **Branded business:** Management has guided for revenues of INR1bn for FY19 from INR460mn in FY18. Of this, the contribution from branded segment is likely to be INR750mn. The growth in this business is likely to be driven by new product launches and intensified focus on branding.
5. **Switzerland plant:** The company is seeing improved performance in this business and has achieved break-even. The growth in this geography is led by hiring of local person to run the business who is adding new customers as well as products to drive growth.

Financial snapshot

(INR mn)

Year to March	Q1FY19	Q1FY18	% change	Q4FY18	% change	FY18	FY19E	FY20E
Net revenues	2,944	2,468	19.3	3,209	(8.2)	11,380	11,843	14,392
Raw material	1,763	1,538	14.6	1,971	(10.6)	6,906	7,101	8,585
Staff costs	126	100	24.9	139	(9.6)	475	542	624
Other expenses	419	372	12.6	387	8.3	1,610	1,507	1,923
Total expenditure	2,308	2,011	14.8	2,497	(7.6)	8,991	9,150	11,132
EBITDA	637	457	39.4	712	(10.5)	2,389	2,693	3,260
Depreciation	94	83	13.5	87	7.9	341	383	423
EBIT	543	374	45.2	624	(13.1)	2,048	2,310	2,836
Interest	24	18	35.6	21	13.8	78	91	65
Other income	3	26	(87.2)	16	(79.9)	48	50	65
Profit before tax	522	382	36.7	620	(15.8)	2,018	2,269	2,836
Provision for taxes	127	111	14.4	147	(13.5)	537	567	709
Minority interest								
Associate profit share								
Add: Exceptional items								
Profit- Discontinued Ops								
Reported net profit	395	270	46.0	472	(16.5)	1,481	1,702	2,127
Adjusted Profit	395	270	46.0	472	(16.5)	1,481	1,702	2,127
Diluted shares (mn)	133	133		133		133	133	133
Adjusted Diluted EPS	3.0	2.0	46.0	3.6	(16.5)	11.1	12.8	16.0
Diluted P/E (x)	-	-		-		24.3	21.1	16.9
EV/EBITDA (x)	-	-		-		16.0	13.7	11.1
ROAE (%)	-	-		-		21.7	21.5	23.1
As % of net revenues								
Raw material	59.9	62.3		61.4		60.7	60.0	59.7
Employee cost	4.3	4.1		4.3		4.2	4.6	4.3
Other expenses	14.2	15.1		12.1		14.2	12.7	13.4
EBITDA	21.6	18.5		22.2		21.0	22.7	22.6
Reported net profit	13.4	11.0		14.7		13.0	14.4	14.8

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. By end of FY18, the Swiss operations achieved break-even. 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 addition in India and Vietnam and sharpening brand focus in India place CCL in a sweet spot to post sales and PAT CAGR of 12% and 20% over FY18-20E, respectively. We estimate RoCE to improve from 23.6% in FY18 to 27.6% in FY18.

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	3.6	4.5	5.0
Repo rate (exit rate)	6.3	6.0	6.0	6.5
USD/INR (Avg)	67.1	64.5	66.0	66.0
Company				
Raw Material (% net rev)	56.5	60.7	60.0	59.7
India capacity (MT)	20,000	20,000	25,000	25,000
Vietnam capacity (MT)	10,000	10,000	10,000	13,500
India's cap. Util. (%)	77.0	87.0	70.0	82.0
Vietnam's cap. util. (%)	60.0	70.0	90.0	80.0
Std sales (INR mn)	7,141	8,247	7,050	8,258
Subs. sales (INR mn)	2,472	2,882	4,504	5,773
Std realis. (INR/Kg)	464	474	403	403
Subs. realis. (INR/Kg)	437	448	500	535
Std. EBITDA margin (%)	23.7	20.0	17.9	17.5
Subs. EBITDA margin (%)	24.0	23.7	25.4	25.2
Other exp (% net rev)	15.6	14.2	12.7	13.4
Int (% of avg G.debt)	7.2	3.8	3.7	5.0
Net borrowings (INR mn)	474	2,273	1,033	181
Employee cost (% of rev)	4.1	4.2	4.6	4.3
Tax rate as % of PBT	28.8	26.6	25.0	25.0
Debtor days	54	55	53	46
Inventory days	110	97	100	96
Payable days	8	6	10	14
Cash conversion cycle	156	146	142	128
Capex (INR mn)	(183)	(2,382)	(736)	(500)
Dep. (% gross block)	5.1	4.5	4.0	4.2

Income statement

(INR mn)

Year to March	FY17	FY18	FY19E	FY20E
Net revenue	9,765	11,380	11,843	14,392
Materials costs	5,519	6,906	7,101	8,585
Gross profit	4,246	4,474	4,742	5,806
Employee costs	401	475	542	624
Other Expenses	1,521	1,610	1,507	1,923
Operating expenses	1,923	2,085	2,049	2,547
Total operating expenses	7,442	8,991	9,150	11,132
EBITDA	2,323	2,389	2,693	3,260
Depreciation	333	341	383	423
EBIT	1,990	2,048	2,310	2,836
Less: Interest Expense	112	78	91	65
Add: Other income	12.28	48.49	50.00	65.00
Profit Before Tax	1,891	2,018	2,269	2,836
Less: Provision for Tax	545	537	567	709
Reported Profit	1,346	1,481	1,702	2,127
Adjusted Profit	1,346	1,481	1,702	2,127
Shares o/s (mn)	133	133	133	133
Adjusted Basic EPS	10.1	11.1	12.8	16.0
Diluted shares o/s (mn)	133	133	133	133
Adjusted Diluted EPS	10.1	11.1	12.8	16.0
Adjusted Cash EPS	12.8	13.8	15.7	19.2
Dividend per share (DPS)	2.5	3.0	4.0	4.0
Dividend Payout Ratio(%)	29.7	32.4	37.6	30.1

Common size metrics

Year to March	FY17	FY18	FY19E	FY20E
Gross margin	43.5	39.3	40.0	40.3
Operating expenses	19.7	18.3	17.3	17.7
EBITDA margins	23.8	21.0	22.7	22.6
EBIT margins	20.4	18.0	19.5	19.7
Interest Expense	1.1	0.7	0.8	0.5
Net Profit margins	13.8	13.0	14.4	14.8

Growth ratios (%)

Year to March	FY17	FY18	FY19E	FY20E
Revenues	4.8	16.5	4.1	21.5
EBITDA	13.5	2.8	12.7	21.0
PBT	13.4	6.7	12.4	25.0
Adjusted Profit	10.2	10.1	14.9	25.0
EPS	10.2	10.0	14.9	25.0

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	8,194	9,679	
Shareholders' funds	6,283	7,399	8,460	9,945	
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	10,669	11,155	
Gross Block	6,457	6,577	9,577	10,077	
Net Block	3,932	3,711	6,328	6,405	
Capital work in progress	2	2,264	-	-	
Intangible Assets	1	-	-	-	
Total Fixed Assets	3,934	5,975	6,328	6,405	
Non current investments	15	15	15	15	
Cash and Equivalents	536	811	784	637	
Inventories	1,828	1,832	2,043	2,470	
Sundry Debtors	1,627	1,820	1,622	1,971	
Loans & Advances	27	34	37	41	
Other Current Assets	515	849	849	849	
Current Assets (ex cash)	3,996	4,535	4,551	5,331	
Trade payable	122	103	292	353	
Other Current Liab	684	358	718	880	
Total Current Liab	806	461	1,009	1,233	
Net Curr Assets-ex cash	3,190	4,074	3,542	4,098	
Uses of funds	7,676	10,874	10,669	11,155	
BVPS (INR)	47.2	55.6	63.6	74.8	

Free cash flow		(INR mn)			
Year to March	FY17	FY18	FY19E	FY20E	
Reported Profit	1,346	1,481	1,702	2,127	
Add: Depreciation	333	341	383	423	
Interest (Net of Tax)	75	52	61	44	
Others	(29)	(52)	(61)	(44)	
Less: Changes in WC	674	883	(532)	556	
Operating cash flow	1,050	939	2,617	1,994	
Less: Capex	183	2,382	736	500	
Free Cash Flow	868	(1,443)	1,881	1,494	

Cash flow metrics		FY17	FY18	FY19E	FY20E
Year to March					
Operating cash flow		1,050	939	2,617	1,994
Financing cash flow		(874)	2,269	(1,908)	(2,641)
Investing cash flow		(197)	(2,382)	(736)	(500)
Net cash Flow		(21)	826	(27)	(1,147)
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	23.6	22.7	27.6
ROAE (%)		23.6	21.7	21.5	23.1
Inventory Days		110	97	100	96
ROA		17.8	16.0	15.8	19.5
Debtors Days		54	55	53	46
Payable Days		8	6	10	14
Cash Conversion Cycle		156	146	142	128
Current Ratio		5.6	11.6	5.3	4.8
Gross Debt/EBITDA		0.4	1.3	0.7	0.3
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	25.4	43.4
LT debt /Cap empl. (%)		13.2	28.4	17.0	7.3
Debt / Cap employed (%)		28.6	36.2	30.2	21.9

Operating ratios		FY17	FY18	FY19E	FY20E
Year to March					
Total Asset Turnover		1.3	1.2	1.1	1.3
Fixed Asset Turnover		2.4	3.0	2.4	2.3
Equity Turnover		1.7	1.7	1.5	1.6

Valuation parameters		FY17	FY18	FY19E	FY20E
Year to March					
Adj. Diluted EPS (INR)		10.1	11.1	12.8	16.0
Y-o-Y growth (%)		10.2	10.0	14.9	25.0
Adjusted Cash EPS (INR)		12.8	13.8	15.7	19.2
Diluted P/E (x)		26.8	24.4	21.2	17.0
P/B (x)		5.7	4.9	4.3	3.6
EV / Sales (x)		3.7	3.4	3.1	2.5
EV / EBITDA (x)		15.7	16.1	13.8	11.1
Dividend Yield (%)		0.9	1.1	1.5	1.5

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 Rajendra Prasad	Buy	100000.00
24 Jul 2017	Challa Srishant	Buy	56234.00
24 Jul 2017	Challa Soumya	Buy	50000.00

**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
13-Jun-18	CCL Products India	Volume growth vital; Visit Note	284	Buy
31-May-18	Apar Industries	All-round robust growth; Result Update	706	Buy
22-May-18	VIP Industries	Well-rounded volume growth; strong margin beat; Result Update	394	Buy

Distribution of Ratings / Market Cap

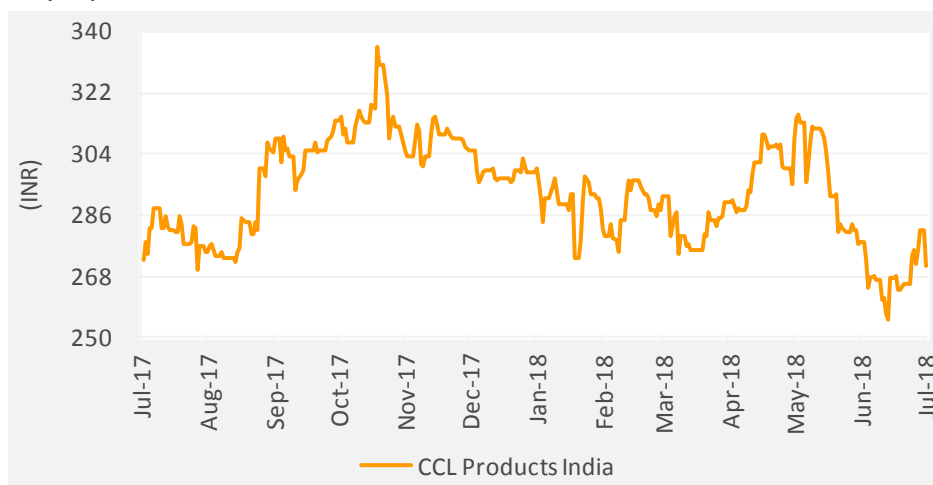
Edelweiss Research Coverage Universe

	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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