

CCL Products (India) Ltd.

No. of shares (m)	133.0
Mkt cap (Rs crs/\$m)	3382/460.9
Current price (Rs/\$)	254/3.5
Price target (Rs/\$)	326/4.4
52 W H/L (Rs.)	292/137
Book Value (Rs/\$)	73/1.0
Beta	0.8
Daily volume (avg. monthly NSE)	208540
P/BV (FY21e/22e)	3.2/2.8
EV/EBITDA (FY21e/22e)	12.8/10.7
P/E (FY21e/22e)	18.8/15.6
EPS growth (FY20/21e/22e)	7.1/8.5/20.6
OPM (FY20/21e/22e)	25.1/23.5/24.0
ROE (FY20/21e/22e)	19.1/18.2/19.1
ROCE (FY20/21e/22e)	13.7/13.9/15.6
D/E ratio FY20/21e/22e)	0.5/0.4/0.3
BSE Code	519600
NSE Code	CCL
Bloomberg	CCLP IN
Reuters	CCLP.NS

Shareholding pattern

	%
Promoters	45.9
MFs / Banks / FIs/Others	13.9
FPIs	13.4
Govt. Holding	0.0
Public & Others	26.8
Total	100.0

As on June 30, 2020

Recommendation

BUY

Analyst

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Company Brief

CCL Products produces several varieties and blends of coffee including spray dried coffee powder, spray dried agglomerated / granulated coffee, freeze dried coffee and freeze concentrated liquid coffee.

Quarterly Highlights

- Little unscathed by dreadful decline in freeze dried volumes in India in Q1, CCLP revenues (standalone) slid by 14.7% to Rs 175.88 crs compared to Rs 206.08 crs in the same period a quarter ago. Yet, near normalcy in operations of its Vietnam subsidiary, which operated at near full capacity, helped consolidated top line to report growth of 5.9%. Higher revenues barely helped propel consolidated operating profits as it dropped by 9.4% to Rs 62.87 crs not least due to higher throughput of spray dried coffee in the Vietnam unit. Wherefore, OPMs slid no less abysmally to 21.7% from 25.4% in the same period a year ago.
- Lower operating profit did percolate for PBT declined by 16% to Rs 45.77 crs to Rs 54.48 crs in the year ago period. PAT increased by 11% to Rs 38.48 crs on yoy basis. With flurry of requests for postponements from countries like Russia and also the company taking planned maintenance shutdown freeze dried capacity utilization struggled to rise last quarter - which has also prevented business to reach pre-Covid levels.
- Capacity utilization reached near optimum levels in Vietnam last quarter for the company added a new customer based out of US and which could also support volumes over the course of the year. CCLP's production at its freeze dried unit at SEZ initially took a hit due to national lockdown in India and later due to postponement of orders from Russia. CCLP's Continental brand business clocked around 40% growth in the business last quarter largely helped by robust of take from the retail vertical, though no mild demand disruption was seen in institutional business.
- The stock currently trades at 18.8x FY21e EPS of Rs 13.54 and 15.6x FY22e EPS of Rs 16.32. The pandemic has impact the global instant coffee in so many various ways, thus triggering 12.4% cut in current fiscal's earnings. Thanks to rebound in freeze dried production and commencement of 3500 mt capacity of Vietnam facility, post tax earnings is estimated to rise by 20.6% next fiscal on barely unstable return on capital. Redundancies in small packs capacity would help CCLP adapt to ever changing dynamics of global instant coffee market. Weighing odds we retain our buy rating on the stock with revised target of Rs 326 (previous target: Rs 309) based on 20x FY22e earnings.

(Figures in Rs crs)	FY18	FY19	FY20	FY21e	FY22e
Income from operations	1136.67	1081.42	1139.15	1254.20	1461.47
Other Income	4.85	3.34	4.50	3.93	3.97
EBITDA (other income included)	243.74	248.82	290.39	298.40	354.72
Profit after EO	148.14	154.89	165.94	180.10	217.14
EPS (Rs)	11.14	11.64	12.47	13.54	16.32
EPS growth (%)	10.1	4.6	7.1	8.5	20.6

Outlook & Recommendation

Global instant coffee industry outlook

According to report by IMARC Group, the global instant coffee market, which was worth \$11.5bn in 2019 and has grown at a CAGR of 5% during 2014-19, is expected to exhibit moderate growth during 2020-25. It contends that lower caffeine content compared to brewed coffee, ease of preparation and health benefits has helped instant coffee gain popularity among working class population across the globe. Further, instant coffee manufacturers are introducing new coffee flavors in the market to expand their consumer base.

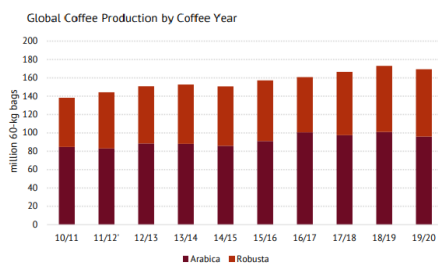


Source: ICO

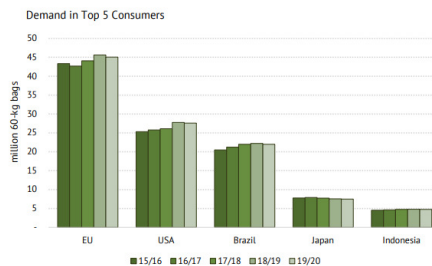


Source: ICO

Rising disposable incomes, growing urbanization and altering food patterns of consumers is perpetuating the growth of premium instant coffee products in Middle East, Eastern Europe and South East Asia. The report further posits that the population in several instant coffee drinking countries is anticipated to grow in coming years which would expand consumer base of instant coffee market.



Source: ICO



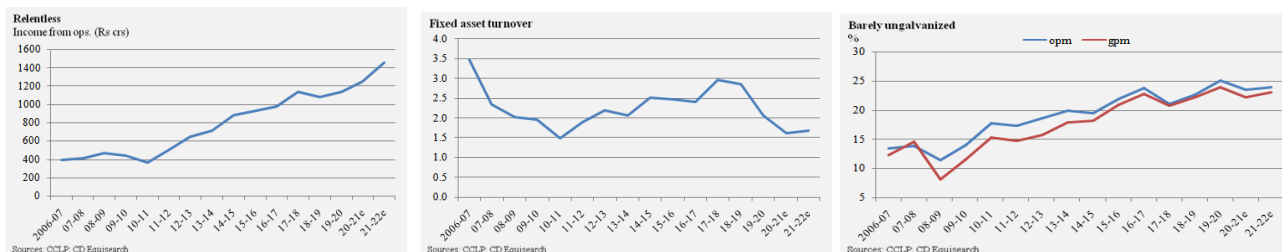
Source: ICO

Some other industry report portends that worldwide market for instant coffee market is estimated to grow at 4.2% CAGR during 2019-24. On consumption basis, Europe (sales market share 37%) represented the world's largest instant coffee consumer followed by China (sales market share 12%) and USA (sales market share 11%). It reports that transportation of instant coffee is cheaper, as it has lower shipping weight and volume than beans or ground coffee. On the basis of consumption, instant coffee offers no small convenience in preparation, which increases its demand among the urban consumers. The new coffee drinkers in the emerging markets find instant coffee alluring as it comes with many benefits and is able to satisfy their evolving tastes. Also single-serve systems have been developed which are more convenient to carry and consume and thus have witnessed a strong growth in both at-home and out-of-home segments.

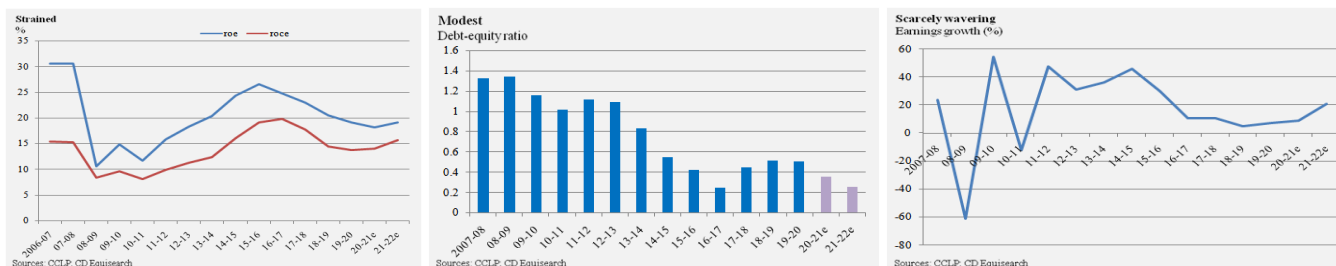
Financials & Valuation

Mirroring emerging trends in some Asia Pacific countries, India has scarcely seen any signs of let up in instant coffee demand - by some industry report the market is growing in high single digit - not least due to rising disposable incomes and growing availability of coffee machines in offices and institutions, which has but barely depressed coffee consumption at homes. Technological advancements in instant coffee production has helped buttress its acceptability for instant coffee now tastes as good as roast and ground coffee. Yet no diminishing competition in global instant coffee market hardly veiled by surplus existing capacities symbolizes an overhanging sword.

With an aim on higher margins CCLP is now targeting increased direct supplies of small packs to its customers. One the works are an agglomeration coffee unit and fully automated packing unit of 10000 mt at SEZ Sullurpet, expected to be operational by Q1 of next fiscal. Also are plans to upgrade and modernize its Vietnam facility through line balancing which would enhance existing capacity by 3500 mt with an investment of \$8 mn; expected to be operational by the third quarter of current fiscal.



Buoyancy in dispatches from its Vietnam subsidiary would seemingly help stabilize operating profits this fiscal when freeze dried dispatches took a hit in Q1 due to global lockdowns, thence triggering order deferments. Yet gradual recovery in freeze dried dispatches coupled with commencement of agglomeration unit sometime early next fiscal would scarcely stymie margins - OPMs estimated to rise to 24% next fiscal from 23.5% projected for current year. Though Covid 19 has brutally smashed out of coffee consumption segment (read: Coffee shops), CCLP continues to gain footprint in international markets, more so from its Vietnam unit where the impact of Covid-19 is much less.



The stock currently trades at 18.8x FY21e EPS of Rs 13.54 and 15.6x FY22e EPS of Rs 16.32. Earnings would hardly recuperate with great vigor this fiscal as lockdowns has hindered international travel and shutdown places of amusement and offices - which has impacted institutional of take of instant coffee. Not least has been the impact of the pandemic on CCLP's expansion projects both at Vietnam and India. Yet growing consumption of instant coffee in India coupled with enhanced output of small packs by next fiscal would apparently support margins. Higher supplies of freeze dried coffee from SEZ have not done little to strengthen OPMs last fiscal. Weighing odds we retain our buy rating on the stock with revised target of Rs 326 (previous target: Rs 309) based on 20x FY22e earnings. For more info refer to our January report.

Cross Sectional Analysis

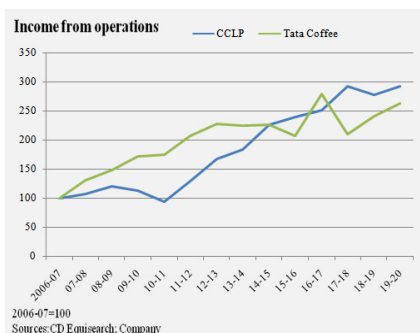
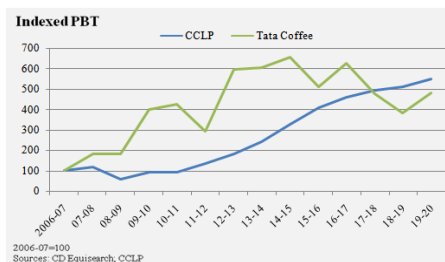
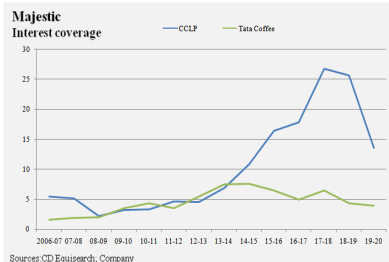
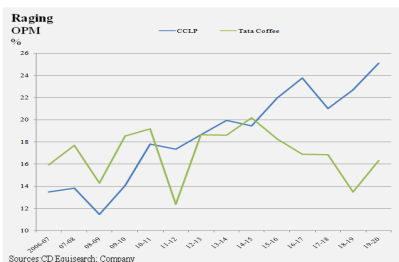
Company	Equity*	CMP	Mcap*	OI*	PAT*	OPM ^a	NPM ^a	Int Cov.	ROE ^a	Mcap / OI	P/BV	P/E
CCL Products	26.61	254	3382	1155	170	24.2	14.7	12.9	18.8	2.9	3.5	19.9
Tata Coffee	18.68	104	1938	2087	88	16.9	7.7	4.5	-	0.9	-	21.9

*figures in crores; calculations on ttm basis; BV adjusted for goodwill and revaluation reserves, wherever applicable.

^aMargins & ROE in %

Outbreak of novel corona virus sometime in the first quarter of current calendar year, Tata Coffee believes, has potential to stifle growth of global coffee demand - which has been growing at 2-2.5% annually for last few years. "Out of home" coffee consumption has taken a hit as governments across the globe implement strict social distancing norms to contain the spread of the pandemic. Tata Coffee's newly set up freeze dried instant coffee plant with capacity of 5000 mt in Vietnam started functioning last fiscal. It derives its moat from its ability to provide customized products and launch new products.

Impact of the pandemic on its operations was felt in Q1 as the company 12% drop in standalone turnover on lower sales of instant coffee. Pricing pressures on instant coffee business was felt too due to demand contraction in the short term triggered by lower of take by "out of home" channel. Yet instant coffee exports continue to be healthy with Vietnam unit also reporting strong volumes. Response for its single origin specialty Arabica brand "Sonnets" through its e-commerce site has been barely muted.



Financials

Quarterly Results

Figures in Rs crs

	Q1FY21	Q1FY20	% chg.	FY20	FY19	% chg.
Income from operations	289.21	273.17	5.9	1139.15	1081.42	5.3
Other Income	0.05	0.55	-90.9	4.50	3.34	34.7
Total Income	289.26	273.72	5.7	1143.65	1084.75	5.4
Total Expenditure	226.33	203.77	11.1	853.26	835.93	2.1
EBIDTA (other income included)	62.92	69.95	-10.0	290.39	248.82	16.7
Interest	4.61	4.43	4.0	17.96	8.46	112.4
Depreciation	12.54	11.04	13.6	47.11	31.72	48.5
PBT	45.77	54.48	-16.0	225.32	208.64	8.0
Tax	7.29	19.81	-63.2	59.38	53.75	10.5
Net profit	38.48	34.67	11.0	165.94	154.89	7.1
Minority interest	-	-	-	-	-	-
Net profit after MI	38.48	34.67	11.0	165.94	154.89	7.1
Extraordinary Item	-	-	-	-	-	-
Adjusted Net Profit	38.48	34.67	11.0	165.94	154.89	7.1
EPS (F.V. 2)	2.89	2.61	11.0	12.47	11.64	7.1

Consolidated Income Statement

Figures in Rs crs

	FY18	FY19	FY20	FY21e	FY22e
Income from operations	1136.67	1081.42	1139.15	1254.20	1461.47
Growth (%)	16.4	-4.9	5.3	10.1	16.5
Other Income	4.85	3.34	4.50	3.93	3.97
Total Income	1141.52	1084.75	1143.65	1258.13	1465.44
Total Expenditure	897.78	835.93	853.26	959.73	1110.71
EBITDA (other income included)	243.74	248.82	290.39	298.40	354.72
Interest	7.83	8.46	17.96	20.52	18.08
EBDT	235.92	240.36	272.43	277.88	336.64
Depreciation	34.09	31.72	47.11	52.75	61.79
Tax	53.70	53.75	59.38	45.03	57.72
Net profit	148.14	154.89	165.94	180.10	217.14
Minority interest	0.00	0.00	0.00	0.00	0.00
Net profit after MI	148.14	154.89	165.94	180.10	217.14
Extraordinary item	-0.01	-	-	-	-
Adjusted Net Profit	148.14	154.89	165.94	180.10	217.14
EPS (Rs.)	11.14	11.64	12.47	13.54	16.32

Consolidated Balance Sheet

Figures in Rs crs

	FY18	FY19	FY20	FY21e	FY22e
SOURCES OF FUNDS					
Share Capital	26.61	26.61	26.61	26.61	26.61
Reserves	713.33	812.31	901.79	1055.28	1219.21
Total Shareholders Funds	739.94	838.91	928.39	1081.89	1245.81
Minority Interest	0.00	0.00	0.00	0.00	0.00
Long term debt	181.75	192.65	249.46	187.19	142.19
Total Liabilities	921.68	1031.56	1177.85	1269.08	1388.00
APPLICATION OF FUNDS					
Gross Block	434.19	482.79	882.88	1041.05	1181.05
Less: Accumulated Depreciation	63.07	99.80	159.24	211.99	273.78
Net Block	371.13	383.00	723.63	829.06	907.27
Capital Work in Progress	226.39	424.13	100.18	120.00	0.00
Investments	1.48	1.48	1.48	1.48	1.48
Current Assets, Loans & Advances					
Inventory	183.16	201.95	260.42	239.59	251.57
Sundry Debtors	182.03	235.18	268.11	254.71	267.44
Cash and Bank	44.21	96.51	38.69	37.63	156.61
Other Assets	84.99	37.32	68.79	46.94	48.22
Total CA & LA	494.39	570.96	636.01	578.86	723.84
Current liabilities	172.71	347.17	276.21	247.86	234.64
Provisions	0.00	0.01	0.00	0.00	0.00
Total Current Liabilities	172.71	347.17	276.21	247.86	234.64
Net Current Assets	321.68	223.79	359.81	331.00	489.19
Net Deferred Tax (net of liability)	-39.15	-39.61	-46.25	-47.25	-48.25
Other Assets (Net of liabilities)	40.17	38.78	39.00	34.79	38.31
Total Assets	921.68	1031.56	1177.85	1269.08	1388.00

Key Financial Ratios

	FY18	FY19	FY20	FY21e	FY22e
Growth Ratios					
Revenue (%)	16.4	-4.9	5.3	10.1	16.5
EBIDTA (%)	4.5	2.1	16.7	2.8	18.9
Net Profit (%)	10.1	4.6	7.1	8.5	20.6
EPS (%)	10.1	4.6	7.1	8.5	20.6
Margins					
Operating Profit Margin (%)	21.0	22.7	25.1	23.5	24.0
Gross Profit Margin (%)	20.8	22.2	23.9	22.2	23.0
Net Profit Margin (%)	13.0	14.3	14.6	14.4	14.9
Return					
ROCE (%)	17.7	14.4	13.7	13.9	15.6
ROE (%)	23.0	20.5	19.1	18.2	19.1
Valuations					
Market Cap / Sales	3.3	3.5	2.1	2.7	2.3
EV/EBIDTA	16.3	16.5	9.6	12.8	10.7
P/E	25.0	24.4	14.2	18.8	15.6
P/BV	5.3	4.7	2.5	3.2	2.8
Other Ratios					
Interest Coverage	26.8	25.7	13.5	12.0	16.2
Debt-Equity Ratio	0.4	0.5	0.5	0.4	0.3
Current Ratio	2.3	1.5	2.3	2.1	2.8
Turnover Ratios					
Fixed Asset Turnover	3.0	2.9	2.1	1.6	1.7
Total Asset Turnover	1.5	1.1	1.0	1.0	1.1
Debtors Turnover	6.6	5.2	4.5	4.8	5.6
Inventory Turnover	4.9	4.3	3.7	3.8	4.5
Creditors Turnover	79.6	24.8	20.9	37.1	39.0
WC Ratios					
Debtor Days	55.4	70.4	80.6	76.1	65.2
Inventory Days	74.4	84.1	98.9	95.1	80.7
Creditor Days	4.6	14.7	17.5	9.8	9.4
Cash Conversion Cycle	125.2	139.8	162.1	161.3	136.6

Cumulative Financial Data

Figures in Rs crs	FY11-13	FY14-16	FY17-19	FY20-22e
Income from operations	1517	2530	3195	3855
Operating profit	273	519	716	931
EBIT	216	442	627	782
PBT	165	400	599	725
PAT after MI	108	281	438	563
Dividends	19	83	136	187
OPM (%)	18.0	20.5	22.4	24.2
NPM (%)	7.1	11.1	13.7	14.6
Interest coverage	4.2	10.6	22.8	13.8
ROE (%)	15.1	24.0	22.2	18.5
ROCE (%)	9.3	15.9	15.7	14.7
Fixed asset turnover	1.8	2.2	2.7	2.0
Debtors turnover	6.3	7.8	5.9	5.1
Inventory turnover	3.4	4.4	4.7	4.3
Debtors days	57.6	46.5	62.2	71.4
Inventory days	106.3	82.8	77.4	84.9
Dividend payout ratio (%)	16.8	29.5	31.1	33.1

FY11-13 implies three years ending fiscal 13

Notwithstanding temporary setbacks in CCLP's freeze dried business first due to production loss from national lockdowns and then because of overseas order postponement, CCLP's OPM during FY20-22e period would barely remain in check not least due to enhanced value addition and expected recovery in freeze dried business over the next few quarters. Commencement of 10000 mt packing unit would scarcely do anything to suppress margins because small packs have discernibly higher margins than that in bulk orders. No perceptible rise in profits this fiscal coupled with muted growth last fiscal would preclude sturdy cumulative post earnings growth during FY20-22e period. (see table)

No meager capitalization of fixed assets - with commencement of freeze dried coffee plant at SEZ Sullurpet in Q1 of FY20 - last fiscal - gross block ballooned to Rs 883 crs in FY20 from Rs 483 crs in FY19 - coupled with little buoyancy in earnings would stymie return on capital for ROE is projected to decline to 18.5% in FY20-22e from 22.2% in FY17-19 period. Though fixed asset turnover would no less remarkably slid to 2.0 in FY20-22e from 2.7 in FY17-19 period, CCLP's no small focus on value addition and product customization has somewhat diminished significance of underlying trends in fixed asset turnover. Both inventory and debtors days are expected to rise in the projected period (see table).

Financial Summary – US dollar denominated

million \$	FY18	FY19	FY20	FY21e	FY22e
Equity capital	4.1	3.8	3.5	3.6	3.6
Shareholders funds	107.6	117.2	123.2	143.8	166.2
Total debt	47.8	60.2	62.2	51.0	42.6
Net fixed assets (incl CWIP)	91.9	116.7	109.3	129.4	123.7
Investments	0.2	0.2	0.2	0.2	0.2
Net current assets	43.3	28.3	47.7	41.5	0.0
Total assets	135.5	145.1	156.2	169.3	185.6
Revenues	176.4	154.7	160.7	170.9	199.2
EBITDA	37.8	35.6	41.0	40.7	48.3
EBDT	36.6	34.4	38.4	37.9	45.9
PBT	31.3	29.9	31.8	30.7	37.5
Profit after MI	23.0	22.2	23.4	24.5	29.6
EPS(\$)	0.17	0.17	0.18	0.18	0.22
Book value (\$)	0.81	0.88	0.93	1.08	1.25

income statement figures translated at average rates; balance sheet and cash flow at year end rates; projections at current rates (\$73.37/\$)

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buy: >20% accumulate: >10% to ≤20% hold: ≥-10% to ≤10% reduce: ≥-20% to <-10% sell: <-20%

Exchange Rates Used- Indicative

Rs/\$	FY17	FY18	FY19	FY20
Average	67.09	64.45	69.89	70.88
Year end	64.84	65.04	69.17	75.39

All \$ values mentioned in the write-up translated at the average rate of the respective quarter/ year as applicable. Projections converted at current exchange rate. Cumulative dollar figure is the sum of respective yearly dollar value.