

CCL Products (India) Ltd

BUY

CMP Rs312

Target Rs382

Upside 22.4%

Set to deliver on growth and margin objectives

- ✓ **Result summary** - Overall performance ahead of estimates led by a strong recovery in India operations despite softness in Vietnam; revenue/EBITDA/PAT growth of 25%/21%/17% respectively.
- ✓ **Topline** - Revenue growth of 25% yoy to Rs 3.3bn - India business grew 33% (helped by shipments of orders deferred from 3Q), subsidiaries grew 12% with Vietnam business muted while India branded and Switzerland saw strong growth.
- ✓ **Margins** - EBITDA margin dipped only 100bps to 25.7% with standalone margins increasing 240bps to all-time highs of 30.2% given higher small pack sales and subsidiaries margins declining 890bps to 16.1% mainly due to higher freight costs.
- ✓ **Balance sheet** - While debtor days were broadly stable, inventory increased from 83 to 94 days on account of green coffee inventory build-up FY22 orderbook.

Valuation and view - CCL was able to manage logistics issues by optimizing incoming containers and therefore was able to ship most orders deferred from 3Q, driving strong volume growth. Vietnam had a soft quarter but a strong FY21 with full utilization while the India branded business grew a strong 65%. Despite the low base for FY21 when FDC volumes were impacted, the management has given a conservative 10-15% volume growth guidance for FY22 which has a high probability of being upgraded during the year if the pandemic subsides given strong order visibility and upcoming additional capacity in Vietnam. Margins should also improve in FY22 with a recovery in FDC volumes, enhanced small pack capacity coming onstream, India branded business expected to break-even and accumulated MEIS benefits expected to be realized.

We continue to like the company given its cost and market leadership in private label instant coffee processing, successful product and market development initiatives in developed markets, strong traction in the India branded business, strong balance sheet and a capacity expansion led growth story for the next 3-4 years. Despite losing out on MEIS benefits, there are multiple margin levers like further enhancement of product mix, higher FDC sales and more sales in small packs. The company has a medium-term aspiration of reaching a capacity of 55,000-60,000mt from 35,000mt currently, given it already has infrastructure available in both India and Vietnam. We fine-tune our EPS estimates to factor in lower growth but better margins and reiterate our BUY rating on the company with a PT of Rs 382 based on 20x FY23E earnings. We are factoring in a 14%/16%/18% growth in revenue/EBITDA/PAT over FY21-23E with 20% average ROCE.

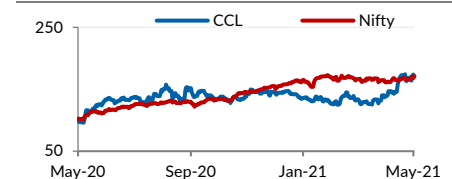
Exhibit 1: Result table

(Rs mn)	Q4FY21	Q4FY20	% yoy	Q3FY21	% qoq
Net sales	3,316	2,646	25.3%	2,995	10.7%
EBITDA	852	707	20.5%	721	18.1%
EBITDAM (%)	25.7%	26.7%		24.1%	
Depreciation	117	115	2.1%	125	-6.6%
Interest	47	45	4.9%	38	22.4%
Other income	30	29	2.8%	3	890.4%
PBT	718	577	24.5%	561	28.0%
Tax	226	155	45.9%	90	152.1%
Adjusted PAT	492	422	16.6%	471	4.4%
Exceptional item	0	0		0	
Reported PAT	492	422	16.6%	471	4.4%
PATM (%)	14.8%	15.9%		15.7%	
EPS (Rs)	3.7	3.2		3.5	

Stock data (as on May 21, 2021)

Nifty:	15,175
52 Week h/l (Rs)	327 / 174
Market cap (Rs/USD mn)	41531 / 570
Outstanding Shares	133
6m Avg t/o (Rs mn):	93
Div yield (%):	0.6
Bloomberg code:	CCLP IN
NSE code:	CCL

Stock performance



	1M	3M	1Y
Absolute return	22.6%	34.8%	76.5%

Shareholding pattern (As of Mar'21 end)

Promoter	46.19%
FII+DII	27.13%
Others	26.67%

Δ in stance

(1-Yr)	New	Old
Rating	Buy	BUY
Target Price	382	352

Financial Summary

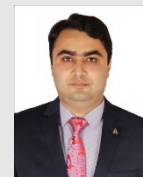
(Rs mn)	FY21	FY22e	FY23e
Net Revenue	12,425	14,170	15,993
YoY Growth	9.1	14.0	12.9
EBITDA	2,978	3,531	4,035
Margins (%)	24.0	24.9	25.2
PAT	1,823	2,157	2,540
YoY Growth	9.8	18.4	17.7
ROE	18.1	18.8	19.7
ROCE	17.5	18.5	20.7
EPS	13.7	16.2	19.1
P/E	17.9	15.1	12.8
EV/EBITDA	12.1	9.9	8.5

Δ in earnings estimates

	FY22e	FY23e
EPS (New)	16.2	19.1
EPS (Old)	17	20
% change	-6%	-2%

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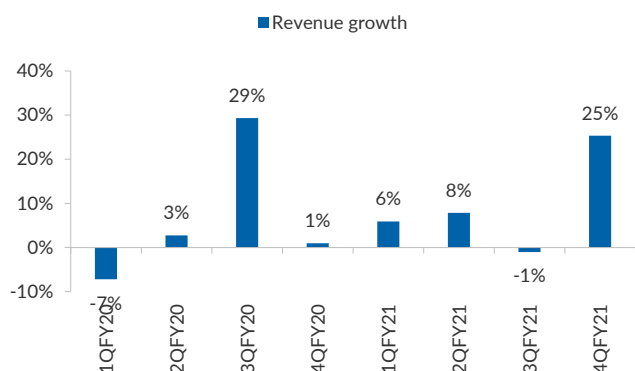
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CONCALL TAKEAWAYS

- ✓ **FY22 Guidance** - 10-15% volume growth guidance for FY22 dependent upon pandemic, lockdown strictness and other uncontrollable factors; margins should increase given higher FDC and small pack sales.
- ✓ **Logistics** - Rs 50-60cr sales deferred last quarter due to container unavailability; optimized transportation helped dispatches, no accretion to inventory, were able to dispose most old shipments.
- ✓ **MEIS subsidy** - Rs 28cr is outstanding, did not receive any payments in 4Q but should realize that in FY22, RoDTEP scheme not applicable to EOU and SEZ - detailed modalities yet to come out.
- ✓ **Russia business** - Continued recovery from 3Q onwards driving improvement in shipments and margins
- ✓ **Vietnam softness** - Higher freight costs and inferior mix in 4Q but FY21 very strong; enhanced capacity via debottlenecking to drive growth in FY22; PAT should improve due to product mix, lower working capital requirement, old plant will get fully depreciated in next 2-3 years, targeting to double the capacity soon.
- ✓ **Capacity utilization** - 61% for India FDC, 75% for India SDC and 95% for Vietnam for FY21.
- ✓ **India domestic business** - Ended FY21 with revenue of Rs 150crs vs 90 crs (100crs under Continental brand and Rs 50crs is bulk, institutional and private label), PAT saw a loss of Rs 5 cr due to higher input prices; given the pandemic impact, expect 25-30% growth now in FY22 vs 30-40% earlier; have reached 5% market share with direct reach of 95k outlets which should expand to 150k in FY22; Target to reach Rs 250crs with positive EBITDA by FY23.
- ✓ **Coffee price outlook** - While Arabica prices have moved up due to water shortage issues in Brazil, Robusta supplies remain unaffected, hence expect stable prices for the year.
- ✓ **Geography mix** - Did 10% sales from US which should reach 15%; 25% from Europe, 25% from Russia and CIS, others - Africa and Asia.
- ✓ **Vietnam capex** - Capacity enhancement via line balancing delayed due to travel restrictions, now expected to come onstream from 1 July 2021; Evaluating doubling Vietnam capacity, already building order book for that, might start next round of capex by September 2021, should take 9-12 months for completion.
- ✓ **Small pack capacity** - Strong small pack visibility for various markets, expect commissioning of new small pack capacity in September 2021; currently do 5500MT small pack volumes, now taking it upto 12,000MT, which should get optimally utilized in FY23.
- ✓ **Subsidiaries FY21 performance** - Vietnam did Rs 375crs sales and PAT of 85 crs for FY21, Switzerland did Rs 180crs sales and PAT of 7 crs with value addition of 25crs.
- ✓ **Capex for FY22** - Conclusion of packing plant and Vietnam line balancing to cost Rs 55-60crs this year; USD 8-10mn additional advance payments can happen if company decides to go ahead with next round of Vietnam expansion.
- ✓ **Sharp rise in Short Term debt** - Company has a policy of covering raw material on back to back basis irrespective of delivery schedule; green coffee inventory has gone up given conclusion of orders for FY22 providing strong revenue visibility for FY22.
- ✓ **Medium term aspiration** - By FY24 target to reach 55,000-60,000 mt capacity with 50,000 sales volume, and Rs 130-135 Ebitda/kg; have infra in both India (FDC) and Vietnam (SDC) for next round of expansion.

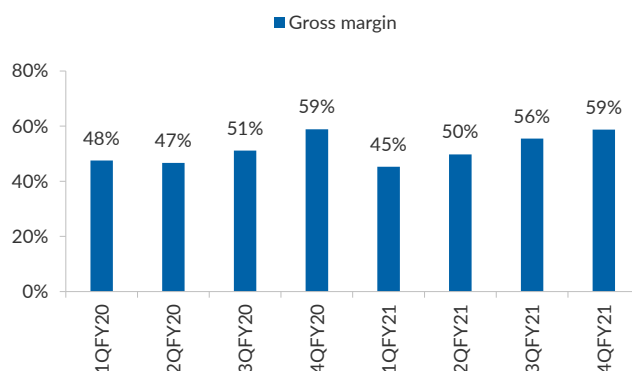
CHARTS

Exhibit 2: Robust revenue growth led by strong recovery in India operations



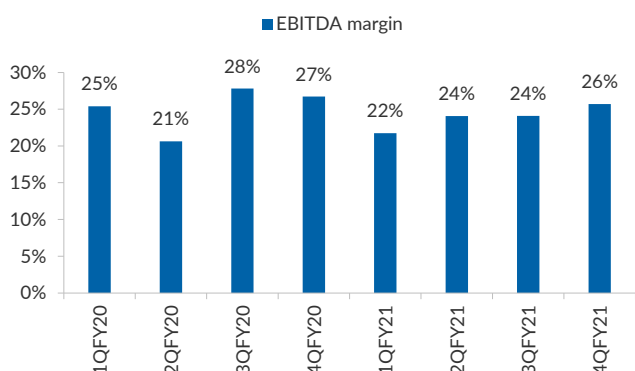
Source: Company, YES Sec - Research

Exhibit 3: Gross margin at record levels indicating superior mix



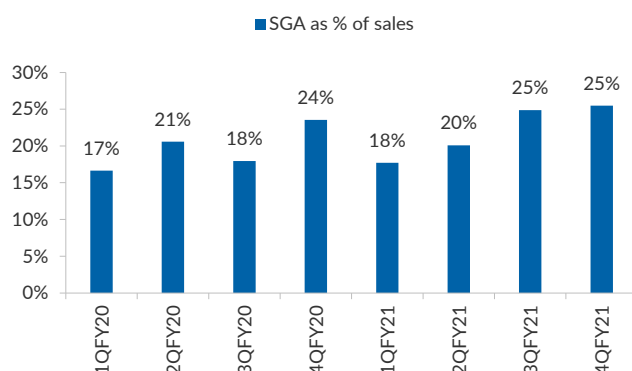
Source: Company, YES Sec - Research

Exhibit 4: ... Although EBITDA margin inched down YoY owing to fall in subsidiary margins



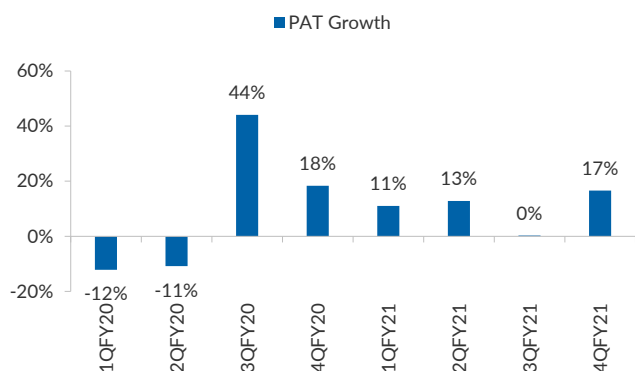
Source: Company, YES Sec - Research

Exhibit 5: SGA gradually inching higher on account of higher packaging and freight costs



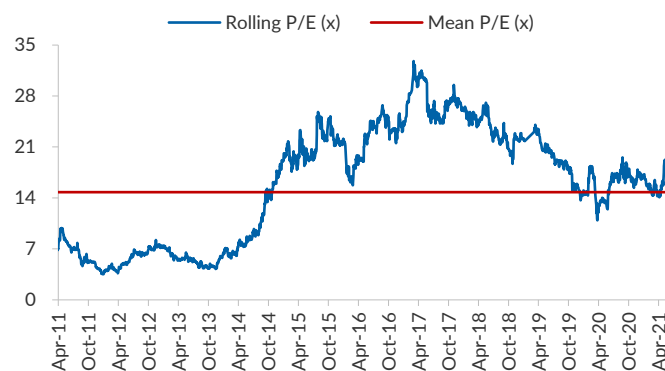
Source: Company, YES Sec - Research

Exhibit 6: Earnings growth lower due to higher taxes during 4Q



Source: Company, YES Sec - Research

Exhibit 7: Currently trading at 19x one-yr fwd earnings



Source: Company, YES Sec - Research

Exhibit 8: Consolidated financial summary

Y/E Mar (Rs. mn)	1QFY20	2QFY20	3QFY20	4QFY20	1QFY21	2QFY21	3QFY21	4QFY21
Revenue	2,732	2,987	3,027	2,646	2,892	3,221	2,995	3,316
yoy growth	-7.2%	2.7%	29.3%	0.9%	5.9%	7.9%	-1.0%	25.3%
Gross margin	1,298	1,394	1,548	1,557	1,310	1,603	1,663	1,947
Gross margin (%)	47.5%	46.7%	51.1%	58.8%	45.3%	49.8%	55.5%	58.7%
EBITDA	694	616	842	707	629	775	721	852
EBITDA margin	25.4%	20.6%	27.8%	26.7%	21.7%	24.1%	24.1%	25.7%
PAT	347	421	470	422	385	475	471	492
yoy growth	-12.2%	-10.8%	44.0%	18.3%	11.0%	12.8%	0.2%	16.6%

Source: Company, YES Sec - Research

Exhibit 9: Standalone financial summary

Y/E Mar (Rs. mn)	1QFY20	2QFY20	3QFY20	4QFY20	1QFY21	2QFY21	3QFY21	4QFY21
Revenue	2,061	2,223	2,240	1,702	1,759	2,049	1,886	2,257
yoy growth	-5.7%	3.9%	23.8%	-13.0%	-14.7%	-7.8%	-15.8%	32.6%
Gross margin	987	1,006	1,213	1,132	825	1,019	1,078	1,455
Gross margin (%)	47.9%	45.3%	54.1%	66.5%	46.9%	49.8%	57.1%	64.5%
EBITDA	534	381	681	471	350	432	403	682
EBITDA margin	25.9%	17.1%	30.4%	27.7%	19.9%	21.1%	21.3%	30.2%
PAT	822	242	361	964	168	197	218	1,004
yoy growth	240.9%	-14.1%	51.4%	95.6%	-79.5%	-18.7%	-39.6%	4.1%

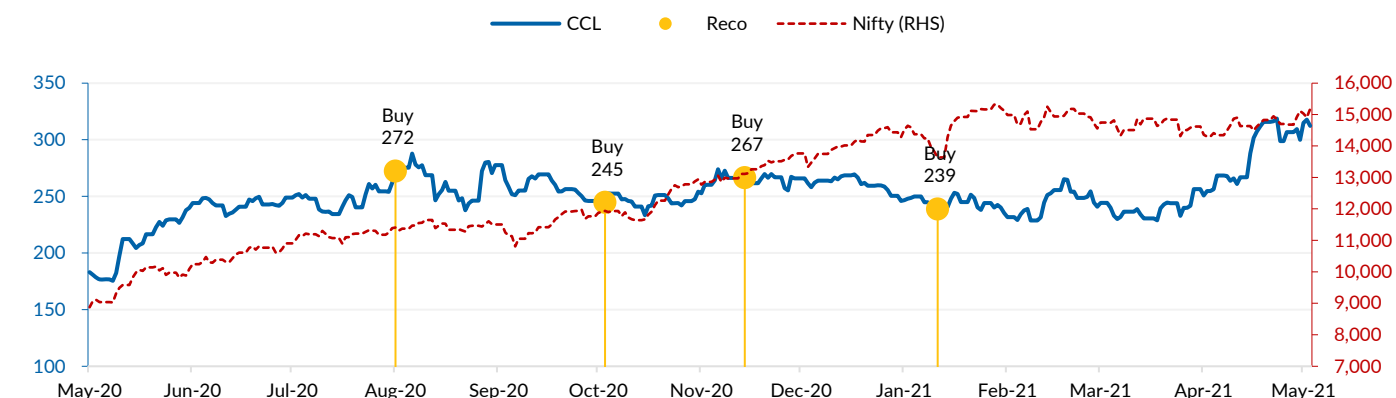
Source: Company, YES Sec - Research

Exhibit 10: Subsidiary financial summary

Y/E Mar (Rs. mn)	1QFY20	2QFY20	3QFY20	4QFY20	1QFY21	2QFY21	3QFY21	4QFY21
Revenue	671	764	787	943	1,133	1,173	1,110	1,058
yoy growth	-11.7%	-0.6%	48.2%	42.2%	68.9%	53.6%	41.0%	12.2%
Gross margin	311	388	335	425	485	583	585	492
Gross margin (%)	46.4%	50.8%	42.6%	45.0%	42.8%	49.7%	52.7%	46.5%
EBITDA	160	235	160	236	279	343	319	170
EBITDA margin	23.9%	30.7%	20.4%	25.0%	24.6%	29.3%	28.7%	16.1%
PAT	(476)	179	109	(543)	217	278	253	(512)
yoy growth	-410.0%	-6.0%	24.1%	297.5%	-145.5%	55.4%	132.1%	-5.6%

Source: Company, YES Sec - Research

Recommendation tracker



FINANCIALS

Exhibit 11: Balance sheet

Y/e 31 Mar (Rs mn)	FY19	FY20	FY21	FY22E	FY23E
Equity capital	266	266	266	266	266
Reserves	8,123	9,018	10,607	11,858	13,333
Net worth	8,389	9,284	10,873	12,124	13,599
Debt	3,761	3,922	4,746	3,746	3,246
Deferred tax liab (net)	396	462	490	490	490
Other non current liabilities	33	91	63	70	77
Total liabilities	12,579	13,759	16,172	16,429	17,411
Fixed Asset	8,071	8,238	9,473	9,814	9,911
Investments	15	15	0	0	0
Other Non-current Assets	486	482	498	548	603
Net Working Capital	3,042	4,637	4,997	4,849	5,473
Inventories	2,019	2,604	3,197	2,912	3,286
Sundry debtors	2,352	2,681	2,986	2,912	3,286
Loans and Advances	308	687	525	582	657
Sundry creditors	571	246	198	388	438
Other current liabilities	1,066	1,089	1,509	1,165	1,315
Cash & equivalents	965	387	1,204	1,218	1,424
Total Assets	12,579	13,759	16,172	16,429	17,411

Exhibit 12: Income statement

Y/e 31 Mar (Rs mn)	FY19	FY20	FY21	FY22E	FY23E
Revenue	10,814	11,392	12,425	14,170	15,993
Operating profit	2,455	2,859	2,978	3,531	4,035
Depreciation	317	471	494	659	703
Interest expense	85	180	170	150	130
Other income	33	45	34	45	49
Profit before tax	2,086	2,253	2,348	2,767	3,252
Taxes	537	594	525	609	712
Adj. PAT	1,549	1,659	1,823	2,157	2,540
Exceptional loss	-	-	-	-	-
Net profit	1,549	1,659	1,823	2,157	2,540

Exhibit 13: Cash flow statement

Y/e 31 Mar (Rs mn)	FY19	FY20	FY21	FY22E	FY23E
PBIT	2,171	2,433	2,517	2,917	3,381
Depreciation	317	471	494	659	703
Tax paid	(537)	(594)	(525)	(609)	(712)
Working capital Δ	1,025	(1,595)	(360)	148	(624)
Other operating items					
Operating cashflow	2,975	715	2,127	3,114	2,749
Capital expenditure	(2,413)	(638)	(1,729)	(1,000)	(800)
Free cash flow	562	77	398	2,114	1,949
Equity raised	(1)	33	405	-	3
Investments	-	(0)	15	-	-
Debt financing/disposal	651	161	824	(1,000)	(500)
Interest Paid	(85)	(180)	(170)	(150)	(130)
Dividends paid	(559)	(798)	(638)	(906)	(1,068)
Other items	(47)	128	(17)	(43)	(48)
Net Δ in cash	523	(578)	817	15	206

Exhibit 14: Du-pont analysis

Y/e 31 Mar (Rs mn)	FY19	FY20	FY21	FY22E	FY23E
Tax burden (x)	0.7	0.7	0.8	0.8	0.8
Interest burden (x)	1.0	0.9	0.9	0.9	1.0
EBIT margin (x)	0.2	0.2	0.2	0.2	0.2
Asset turnover (x)	0.8	0.8	0.8	0.8	0.9
Financial leverage (x)	1.6	1.7	1.6	1.6	1.4
RoE (%)	19.6	18.8	18.1	18.8	19.7

Exhibit 15: Ratio analysis

Y/e 31 Mar	FY19	FY20	FY21	FY22E	FY23E
Growth matrix (%)					
Revenue growth	(5.0)	5.3	9.1	14.0	12.9
Op profit growth	2.8	16.5	4.2	18.6	14.3
EBIT growth	3.6	12.1	3.5	15.9	15.9
Net profit growth	4.6	7.1	9.8	18.4	17.7
Profitability ratios (%)					
OPM	22.7	25.1	24.0	24.9	25.2
EBIT margin	20.1	21.4	20.3	20.6	21.1
Net profit margin	14.3	14.6	14.7	15.2	15.9
RoCE	19.2	19.2	17.5	18.5	20.7
RoNW	19.6	18.8	18.1	18.8	19.7
RoA	12.1	11.3	11.1	12.0	13.7
Per share ratios					
EPS	11.6	12.5	13.7	16.2	19.1
Dividend per share	3.5	5.0	4.8	6.8	8.0
Cash EPS	14.0	16.0	17.4	21.2	24.4
Book value per share	63.1	69.8	81.7	91.1	102.2
Valuation ratios					
P/E	21.0	19.6	17.9	15.1	12.8
P/CEPS	17.5	15.3	14.1	11.6	10.0
P/B	3.9	3.5	3.0	2.7	2.4
EV/EBIDTA	14.4	12.6	12.1	9.9	8.5

CCL Products (India) Ltd

Y/e 31 Mar	FY19	FY20	FY21	FY22E	FY23E
Payout (%)					
Dividend payout	36.1	48.1	35.0	42.0	42.0
Tax payout	25.8	26.4	22.4	22.0	21.9
Liquidity ratios					
Debtor days	79.4	85.9	87.7	75.0	75.0
Inventory days	68.2	83.4	93.9	75.0	75.0
Creditor days	19.3	7.9	5.8	10.0	10.0

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BUY: Potential return >15% over 12 months

ADD: Potential return +5% to +15% over 12 months

REDUCE: Potential return -10% to +5% over 12 months

SELL: Potential return <-10% over 12 months

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