

CCL PRODUCTS

RESULT UPDATE

KEY DATA

| | |
|----------------------------------|------------|
| Rating | BUY |
| Sector relative | Outperform |
| Price (INR) | 444 |
| 12 month price target (INR) | 526 |
| Market cap (INR bn/USD bn) | 59/0.8 |
| Free float/Foreign ownership (%) | 54.7/25.6 |
| What's Changed | |
| Target Price | ↑ |
| Rating/Risk Rating | — |

QUICK TAKE

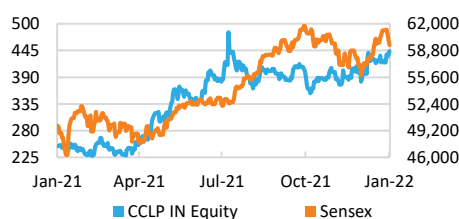
| | Above | In line | Below |
|----------------|-------|---------|-------|
| Profit | | | ● |
| Margins | | | ● |
| Revenue Growth | ● | | |
| Overall | | ● | |

FINANCIALS

(INR mn)

| Year to March | FY21A | FY22E | FY23E | FY24E |
|--------------------|--------|--------|--------|--------|
| Revenue | 12,425 | 14,753 | 16,573 | 18,865 |
| EBITDA | 2,978 | 3,557 | 4,183 | 4,759 |
| Adjusted profit | 1,823 | 2,123 | 2,498 | 2,891 |
| Diluted EPS (INR) | 13.7 | 16.0 | 18.8 | 21.7 |
| EPS growth (%) | 9.8 | 16.5 | 17.7 | 15.7 |
| RoAE (%) | 18.1 | 18.4 | 19.2 | 19.4 |
| P/E (x) | 31.8 | 27.3 | 23.2 | 20.1 |
| EV/EBITDA (x) | 20.7 | 17.1 | 14.4 | 12.4 |
| Dividend yield (%) | 1.1 | 1.1 | 1.1 | 1.1 |

PRICE PERFORMANCE



Explore:



Financial model



Podcast



Corporate access



Video

Spurt in realizations drives earnings

CCL Products (CCL) reported a sharp 43% YoY increase in its top-line, aided by a mix of volumetric and pricing gains. CCL delivered 17% YoY volumetric growth benefitting from capacity addition in Vietnam, while spurt in green coffee prices led to pricing hikes to the tune of 25% YoY. Higher logistic costs as well as sharp rally in input prices continues to dent EBITDA margins (down 130bps YoY) to 22%.

Going forward, we believe CCL will sustain growth momentum over FY23/24, with an incremental 13,500 tons being commissioned in FY23 in Vietnam. We believe, the company remains well placed to gain market share in the branded business with a wide array of products. Hence, maintain BUY with TP of INR526 (28x FY23E EPS).

Q3FY22: Key Highlights

Key highlights from Q#FY22 include: i) consolidated sales jumped 42% YoY, driven by 17% YoY growth in volumes; ii) domestic business benefited from better utilisation of its Spray Dry (SD) and Freeze Dry (FD) facilities; iii) branded business has reached a market share of 3.1% in southern markets; iv) a spurt in Robusta coffee prices is likely to aid earnings from Q4FY22; v) capex plans to double Vietnam capacity to 27,000 tons is likely to be executed by Q3FY23; vi) with a strong order book in place, management expects to deliver 15% plus volume growth during FY22 and FY23.

Volumes to remain on positive note with addition of new capacity

CCL recently commissioned a capacity expansion of 3,500 tons in Vietnam. Given strong improvement in demand for instant coffee and a sizable order book in place, the company plans to double its capacity in Vietnam to 27,000 tons by Q3FY23 with a capex spend of USD20mn. The company's branded business is also showing resilient growth, with plans of scaling up operation across India. CCL has added more than 25,000 outlets since March 2021 and now possess a 3.1% market share in key southern region. CCL has been utilising its aggregate capacity of 38,500 tons at 80-85% levels. We expect CCL to increase it to 90% levels. Globally, Robusta coffee prices continue to remain elevated (up 27% YoY).

Valuations and outlook: strong demand visibility; Maintain BUY

CCL's FY23 growth journey is likely to be robust, with newer capacities coming into play in Vietnam by Q3FY23. Good order-book as well as increasing acceptance of the CCL brand in the Indian market would help the company deliver over 15% volumetric growth. Maintain **BUY** with TP of INR526 (28x FY23E EPS).

Financials

| Year to March | Q3FY22 | Q3FY21 | % Change | Q2FY22 | % Change |
|-------------------|--------|--------|----------|--------|----------|
| Net Revenue | 4,231 | 2,962 | 42.8 | 3,366 | 25.7 |
| EBITDA | 925 | 688 | 34.4 | 823 | 12.4 |
| Adjusted Profit | 585 | 471 | 24.1 | 493 | 18.5 |
| Diluted EPS (INR) | 2.2 | 1.8 | 24.1 | 1.9 | 18.5 |

Financial Statements

Income Statement (INR mn)

| Year to March | FY21A | FY22E | FY23E | FY24E |
|------------------------|--------|--------|--------|--------|
| Total operating income | 12,425 | 14,753 | 16,573 | 18,865 |
| Gross profit | 6,523 | 7,389 | 8,371 | 9,464 |
| Employee costs | 795 | 892 | 974 | 1,049 |
| Other expenses | 2,750 | 2,939 | 3,214 | 3,657 |
| EBITDA | 2,978 | 3,557 | 4,183 | 4,759 |
| Depreciation | 494 | 598 | 734 | 794 |
| Less: Interest expense | 170 | 174 | 163 | 155 |
| Add: Other income | 34 | 45 | 45 | 45 |
| Profit before tax | 2,348 | 2,831 | 3,331 | 3,854 |
| Prov for tax | 525 | 708 | 833 | 964 |
| Less: Other adj | 0 | 0 | 0 | 0 |
| Reported profit | 1,823 | 2,123 | 2,498 | 2,891 |
| Less: Excp.item (net) | 0 | 0 | 0 | 0 |
| Adjusted profit | 1,823 | 2,123 | 2,498 | 2,891 |
| Diluted shares o/s | 133 | 133 | 133 | 133 |
| Adjusted diluted EPS | 13.7 | 16.0 | 18.8 | 21.7 |
| DPS (INR) | 5.0 | 5.0 | 5.0 | 5.0 |
| Tax rate (%) | 22.4 | 25.0 | 25.0 | 25.0 |

Important Ratios (%)

| Year to March | FY21A | FY22E | FY23E | FY24E |
|------------------------|----------|----------|----------|----------|
| India Capacity | 25,000.0 | 25,000.0 | 25,000.0 | 25,000.0 |
| Cap. Utiliz(%)-India | 68.8 | 80.0 | 88.0 | 92.0 |
| Vietnam Capacity | 10,000.0 | 13,500.0 | 27,000.0 | 27,000.0 |
| EBITDA margin (%) | 24.0 | 24.1 | 25.2 | 25.2 |
| Net profit margin (%) | 14.7 | 14.4 | 15.1 | 15.3 |
| Revenue growth (% YoY) | 9.1 | 18.7 | 12.3 | 13.8 |
| EBITDA growth (% YoY) | 4.2 | 19.5 | 17.6 | 13.8 |
| Adj. profit growth (%) | 9.8 | 16.5 | 17.7 | 15.7 |

Assumptions (%)

| Year to March | FY21A | FY22E | FY23E | FY24E |
|------------------------|---------|---------|---------|---------|
| GDP (YoY %) | (6.0) | 7.0 | 6.0 | 6.0 |
| Repo rate (%) | 3.5 | 3.5 | 4.0 | 4.0 |
| USD/INR (average) | 75.0 | 73.0 | 72.0 | 72.0 |
| Cap. Utiliz(%)-Vietnam | 92.0 | 83.3 | 48.1 | 64.8 |
| Swiss Capacity | 3,000.0 | 3,000.0 | 3,000.0 | 3,000.0 |
| Swiss production | 1,800.0 | 1,500.0 | 1,500.0 | 1,500.0 |
| Tax rate(%) | 22.4 | 25.0 | 25.0 | 25.0 |

Valuation Metrics

| Year to March | FY21A | FY22E | FY23E | FY24E |
|--------------------|-------|-------|-------|-------|
| Diluted P/E (x) | 31.8 | 27.3 | 23.2 | 20.1 |
| Price/BV (x) | 5.3 | 4.8 | 4.2 | 3.6 |
| EV/EBITDA (x) | 20.7 | 17.1 | 14.4 | 12.4 |
| Dividend yield (%) | 1.1 | 1.1 | 1.1 | 1.1 |

Source: Company and Edelweiss estimates

Balance Sheet (INR mn)

| Year to March | FY21A | FY22E | FY23E | FY24E |
|----------------------|--------|--------|--------|--------|
| Share capital | 266 | 266 | 266 | 266 |
| Reserves | 10,607 | 11,929 | 13,627 | 15,717 |
| Shareholders funds | 10,873 | 12,195 | 13,893 | 15,983 |
| Minority interest | 0 | 0 | 0 | 0 |
| Borrowings | 4,746 | 3,482 | 3,255 | 3,099 |
| Trade payables | 198 | 504 | 562 | 644 |
| Other liabs & prov | 2,065 | 2,233 | 2,407 | 2,644 |
| Total liabilities | 17,882 | 18,415 | 20,117 | 22,370 |
| Net block | 7,984 | 8,586 | 9,252 | 9,657 |
| Intangible assets | 0 | 0 | 0 | 0 |
| Capital WIP | 1,489 | 1,500 | 1,500 | 1,500 |
| Total fixed assets | 9,473 | 10,086 | 10,752 | 11,157 |
| Non current inv | 0 | 0 | 0 | 0 |
| Cash/cash equivalent | 1,204 | 829 | 1,090 | 1,903 |
| Sundry debtors | 2,986 | 3,436 | 3,860 | 4,393 |
| Loans & advances | 65 | 72 | 79 | 87 |
| Other assets | 4,154 | 3,984 | 4,328 | 4,821 |
| Total assets | 17,882 | 18,415 | 20,117 | 22,370 |

Free Cash Flow (INR mn)

| Year to March | FY21A | FY22E | FY23E | FY24E |
|-----------------------|---------|---------|---------|---------|
| Reported profit | 1,823 | 2,123 | 2,498 | 2,891 |
| Add: Depreciation | 494 | 598 | 734 | 794 |
| Interest (net of tax) | 114 | 117 | 109 | 104 |
| Others | (1,637) | 259 | (1,196) | (1,535) |
| Less: Changes in WC | (915) | 188 | (544) | (716) |
| Operating cash flow | 1,708 | 2,909 | 2,689 | 2,969 |
| Less: Capex | (1,546) | (1,211) | (1,400) | (1,200) |
| Free cash flow | 162 | 1,698 | 1,289 | 1,769 |

Key Ratios

| Year to March | FY21A | FY22E | FY23E | FY24E |
|-----------------------|-------|-------|-------|-------|
| RoE (%) | 18.1 | 18.4 | 19.2 | 19.4 |
| RoCE (%) | 17.5 | 19.2 | 21.3 | 22.1 |
| Inventory days | 179 | 154 | 142 | 140 |
| Receivable days | 83 | 79 | 80 | 80 |
| Payable days | 14 | 17 | 24 | 23 |
| Working cap (% sales) | 43.7 | 35.5 | 34.9 | 34.5 |
| Gross debt/equity (x) | 0.4 | 0.3 | 0.2 | 0.2 |
| Net debt/equity (x) | 0.3 | 0.2 | 0.2 | 0.1 |
| Interest coverage (x) | 14.6 | 17.0 | 21.2 | 25.6 |

Valuation Drivers

| Year to March | FY21A | FY22E | FY23E | FY24E |
|-------------------|-------|-------|-------|-------|
| EPS growth (%) | 9.8 | 16.5 | 17.7 | 15.7 |
| RoE (%) | 18.1 | 18.4 | 19.2 | 19.4 |
| EBITDA growth (%) | 4.2 | 19.5 | 17.6 | 13.8 |
| Payout ratio (%) | 36.5 | 31.3 | 26.6 | 23.0 |

Con-call takeaways

Q3FY22 highlights:

- Capacity and utilisation – 38500 tonnes, 80-85% utilisation during Q3FY23. Expect utilisation to increase going forward with 90% levels.
- Company will refrain from expanding its FD capacities. A few plants are slated to be setup by its peers across Vietnam. Management believes there will be a lot of pressure in FD going forward, hence reluctant in enhancing capacities in FD.
- Green coffee prices is on an increasing trajectory. Customers are looking at cheaper options and SD remains a key alternative. Hence, with spread between FD and SD on a declining trend, CCL is keen to improve its share in SD.
- Volume growth of 17% was supported by higher utilization and newer 3500 capacity addition in Vietnam.
- Shipping cost and container availability – things are yet to normalise, with logistic costs still elevated.
- Geographically market share – 15% in Russia, 7% in US and 5% in Europe.

Branded Business

- Company has attained more than 3% market share of branded business in southern India
- CCL market share on Telangana and Andhra Pradesh ranges above 5%, while its still penetrating Tamil Nadu. Karnataka's market share has reached 5%.
- Domestic branded business is growing at 40% levels and expects to reach breakeven in FY22.
- Company has added 25,000 retail outlets, leading to 100,000 outlets pan-India. 75% of them in south India, while the rest in east, west and north.

Capex

- Small packs capacity – addition of 12,000 tons capacity; expected completion by Q4FY22
- Doubling of existing Vietnam unit on track; expected completion by Q3FY23

Guidance

- Expect to improve margins over FY23 with agglomeration unit in place
- Volumes to continue to grow at more than 15% level over FY22 and FY23

Exhibit 1: Financial snapshot(INR Mn)

| Year to March | Q3FY22 | Q3FY21 | % change | Q2FY22 | % change | YTD'FY22 | FY22E | FY23E | FY24E |
|--|--------|--------|----------|--------|----------|----------|--------|--------|--------|
| Revenues | 4,231 | 2,962 | 42.8 | 3,366 | 25.7 | 10,858 | 14,753 | 16,573 | 18,865 |
| Raw material | 2,190 | 1,333 | 64.3 | 1,591 | 37.7 | 5,394 | 7,365 | 8,202 | 9,401 |
| Staff costs | 251 | 196 | 28.1 | 209 | 20.2 | 646 | 892 | 974 | 1,049 |
| Others | 864 | 745 | 16.0 | 743 | 16.3 | 2,350 | 2,939 | 3,214 | 3,657 |
| Total expenditure | 3,306 | 2,274 | 45.4 | 2,543 | 30.0 | 8,390 | 11,196 | 12,390 | 14,107 |
| EBITDA | 925 | 688 | 34.4 | 823 | 12.4 | 2,468 | 3,557 | 4,183 | 4,759 |
| Depreciation | 146 | 125 | 16.0 | 137 | 6.3 | 418 | 598 | 734 | 794 |
| EBIT | 779 | 563 | 38.5 | 686 | 13.6 | 2,050 | 2,960 | 3,449 | 3,964 |
| Interest | 38 | 38 | (0.4) | 40 | (5.5) | 126 | 174 | 163 | 155 |
| Other income | 5 | 36 | (85.1) | 2 | NA | 8 | 45 | 45 | 45 |
| PBT | 747 | 561 | 33.2 | 648 | 15.3 | 1,932 | 2,831 | 3,331 | 3,854 |
| Tax | 162 | 90 | 81.0 | 154 | 5.0 | 415 | 708 | 833 | 964 |
| Reported Profit | 585 | 471 | 24.1 | 493 | 18.5 | 1,517 | 2,123 | 2,498 | 2,891 |
| Adjusted Profit | 585 | 471 | 24.1 | 493 | 18.5 | 1,517 | 2,123 | 2,498 | 2,891 |
| No. of Diluted shares outstanding (mn) | 133 | 133 | | 133 | | 133 | 133 | 133 | 133 |
| Adjusted Diluted EPS | 4.4 | 3.5 | 24.1 | 3.7 | 18.5 | 11.4 | 16.0 | 18.8 | 21.7 |
| P/E (x) | | | | | | | 15.0 | 12.7 | 11.0 |
| EV/EBITDA (x) | | | | | | | 9.7 | 8.1 | 6.9 |
| ROAE(%) | | | | | | | 18.4 | 19.2 | 19.4 |
| As % of net revenues | | | | | | | | | |
| Raw material | 51.8 | 45.0 | | 47.3 | | 49.7 | 49.9 | 49.5 | 49.8 |
| Staff expenses | 5.9 | 6.6 | | 6.2 | | 6.0 | 6.0 | 5.9 | 5.6 |
| Other expenses | 20.4 | 25.2 | | 22.1 | | 21.6 | 19.9 | 19.4 | 19.4 |
| EBITDA | 21.9 | 23.2 | | 24.4 | | 22.1 | 24.1 | 25.2 | 25.2 |
| Net profit | 13.8 | 15.9 | | 14.7 | | 14.0 | 14.4 | 15.1 | 15.3 |

Source: Company, Edelweiss Research

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.

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

Additional Data

Management

| | |
|---------|--------------------|
| CEO | Challa Raj. Prasad |
| CFO | Lakshmi Narayana |
| COO | K.V.L.N Sarma |
| Other | |
| Auditor | RAMANATHAM & RAO |

Holdings – Top 10*

| | % Holding | | % Holding |
|---------------|-----------|-----------------|-----------|
| Axis AMC | 5.05 | AdityaBirla AMC | 0.99 |
| Franklin | 4.18 | FMR LLC | 0.94 |
| Govt. Pension | 2.43 | Dimensional Fun | 0.79 |
| Norges | 1.87 | IIFL | 0.76 |
| ICICI Pru AMC | 1.84 | Schroders | 0.74 |

*Latest public data

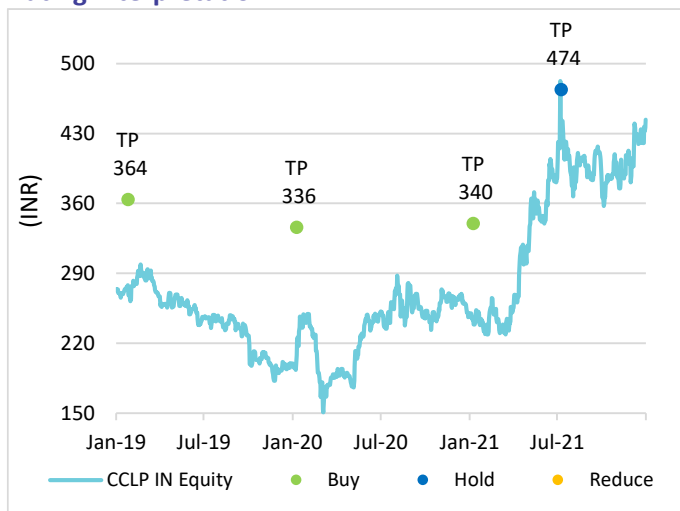
Recent Company Research

| Date | Title | Price | Reco |
|-----------|---|-------|------|
| 28-Oct-21 | Embarking on growth journey; <i>Result Update</i> | 366 | Buy |
| 29-Jul-21 | Growth aroma from strong coffee prices; <i>Result Update</i> | 440 | Hold |
| 22-May-21 | Strong domestic performance aids profit; <i>Result Update</i> | 312 | Buy |

Recent Sector Research

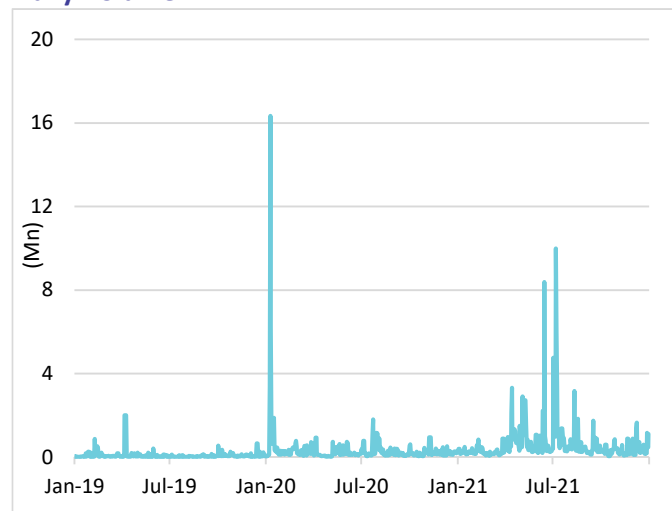
| Date | Name of Co./Sector | Title |
|-----------|---------------------|--|
| 23-Dec-21 | Carborundum Uni. | Geared for growth; <i>Company Update</i> |
| 17-Dec-21 | AIA Engineering | Short-term bumpy; growth awaited ; <i>Company Update</i> |
| 16-Nov-21 | RHI Magnesita India | Major capacity expansion and targets; <i>Edel Flash</i> |

Rating Interpretation



Source: Bloomberg, Edelweiss research

Daily Volume



Source: Bloomberg

Rating Distribution: Edelweiss Research Coverage

| | Buy | Hold | Reduce | Total |
|----------------------|-------|-----------------|--------|-------|
| Rating Distribution* | 189 | 53 | 18 | 261 |
| | >50bn | >10bn and <50bn | <10bn | Total |
| Market Cap (INR) | 236 | 38 | 4 | 278 |

*1 stocks under review

Rating Rationale

| Rating | Expected absolute returns over 12 months |
|---------|--|
| Buy: | >15% |
| Hold: | >15% and <-5% |
| Reduce: | <-5% |

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