

CCL Products India Ltd



A Hot Brew...

BUY

Target Price: Rs 284
CMP : Rs. 239
Potential Upside : 19 %
MARKET DATA
No. of Shares (Cr) : 13.30
Market Cap (Rs Cr) : 3093
Free Float : 55%
Avg. daily vol (6mth) : 78309
52-w High / Low : Rs 306 /Rs 225
Bloomberg : CCLP IN
Promoter holding : 45.28%

CCL Products India Ltd

Tea & Coffee

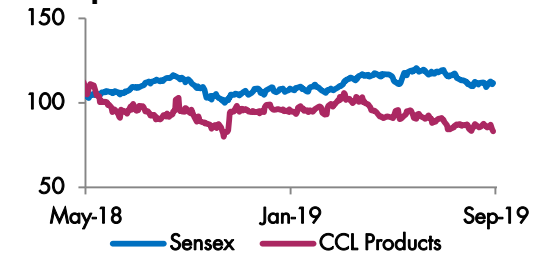
A Hot Brew...

Financial Summary

Y/E	Sales (Rs Cr)	EBITDA (Rs Cr)	PAT (Rs Cr)	EPS (Rs)	Change (%)	P/E (x)	RoE (%)	RoCE (%)	DPS (Rs)
March									
FY18	1138	239	148	11.1	10.1	25	21.7	18.8	2.5
FY19	1081	245	155	11.6	4.5	24.5	19.6	17	3.5
FY20E	1252	293	170	12.8	9.9	18.7	18.8	17.7	3.2
FY21E	1464	350	222	16.7	30.6	14.3	21.2	20.1	4.2

 Source: Company, Axis Securities, CMP as on 9th Sep 2019

Price performance



Shareholding pattern

	Mar-19	Q-o-Q Change
Promoters	45.28	-
FPIs	25.84	(6.04)
DIIIs	2.61	401
Public (Others)	26.27	(1.61)

Investment Rationale

Steady growth in Coffee Consumption

- ◆ World coffee industry is a USD 100bn market growing at a rate of 5.5% over 2015-19
- ◆ As per ICO, coffee volumes (consumption) estimated to grow at a stable 3% CAGR over next 5 years the same as 2015-19
- ◆ European Union (EU) & United States (>40% of world consumption) are the largest consumers, having grown at 1.4%/2.9% CAGR over coffee year 2015 -19 respectively
- ◆ South & East Asia offers next leg of growth. These regions grew fastest with 6% CAGR vs 2% CAGR for Rest of World over Coffee Year 2015 - 2019

Asia to lead growth of Instant Coffee market

- ◆ Instant coffee (IC) or Soluble coffee is USD 28bn market (9lakh MTPA) projected to grow at 4.5% CAGR over 2018-2024E. Indian IC market growing at +15% p.a. Factors driving consumption growth:
 - ✓ Shifting consumption to IC from tea owing to ICs convenience
 - ✓ Growing affordability
 - ✓ Rising millennial population
- ◆ Asia is the largest consumer of instant coffee with >40% share with huge potential to grow led by
 - ✓ Easy availability of RM (green coffee beans)
 - ✓ Rising disposable income
 - ✓ Low per capita consumption at less than 2kg per year
- ◆ Europe is the 2nd largest consumer of Instant Coffee with 9% share followed by Russia (5%). Americas too is amongst the major consumer of IC

CCLP largest exporter In B2B segment

- ◆ ~40% of global IC market (~3.7lakh MT) is constituted by regional brand owners and private labels
- ◆ Currently, CCLP has ~10% market share in the global (private label) IC market growing at ~6-7% p.a.
- ◆ CCLP operates as a B2B player has 35,000MTPA (28% share of Indian IC capacity) making it the largest exporters to B2B/private label coffee manufacturers
- ◆ CCLP (37% market share of Indian IC exports) positioned at the cusp of a huge growth opportunity coming from
 - ✓ Deepening existing relationship
 - ✓ Higher share of value added products (small packs, blends)

High Entry Barriers Leads to economic moat

- ◆ Expertise in developing customized coffee blends is achieved over 25 years experience in coffee conversion; difficult to replicate by competition
- ◆ Long standing and diversified client base with >50% sticky order book led by expertise in customising blends and offering further value addition as cost competitive prices
- ◆ Offers low operating costs versus peers given superior technology (ability to convert low grade green coffee to most premium blend), economies of scale and duty & tax incentives
- ◆ Immune from volatility in RM (green coffee) prices due to back-to-back contracts with customers

Investment Rationale

Vietnam plant strategically positioned

- ◆ **Easy access to green coffee beans** allows enough procurement benefit. CCLP's plant located at Dak Lak province (main coffee growing region) of Vietnam, world's 2nd largest coffee producing nation
- ◆ **Immense Logistic cost savings given** proximity to end consumer markets of Japan, China and emerging ASEAN countries
- ◆ **Tax & duty benefits accrue to CCLP** because of:
 - ✓ Reduced or NIL duty owing to most favored nation status to Vietnam by most countries;
 - ✓ NIL tax for CCLP over lifetime at its Vietnam operations if it meets stipulated conditions
- ◆ **Enables to cater to Japanese market demand for premium freeze concentrated liquid coffee variety**

Capacity Additions, value added products -to expand margins

- ◆ **Freeze Dried Coffee (FDC)**, being a value added product, enjoys **higher margins (~1.5x vs Spray Dried Coffee)**
- ◆ **Commissioning of 5,000MT FDC capacity** in Q1FY20 to help expand margins in wake of rising demand for premium coffee in USA
- ◆ **Incremental volume growth** to be supported by **3,500MT Vietnam plant expansion**
- ◆ **Growing pie of higher margin Small packs segment.** Small packs fetches **~5% higher realization vs bulk packaging.** Growing customer's demand aided capacity addition plans (packing & agglomeration facility in Sullurpet, India) for small packs

Foray into high margin Branded Retail business

- ◆ **'Continental Coffee'** launched by CCLP as its brand to capitalize on domestic instant coffee market (growing at 15% CAGR) opportunity
- ◆ **By 2021 Continental Coffee to be a pan India Instant Coffee brand.** 1st launched in South India in 2014 a traditional coffee consuming region
- ◆ FY20 A&SP investments guided to be Rs. 30cr (50% higher YoY; FY19 it spent Rs. 20cr)
- ◆ **Branded B2C segment revenues to double in FY20** at Rs. 70cr as per management
- ◆ Overall Domestic business revenues to stand at 15% by FY21 as per management

Healthy Financial & Valuation

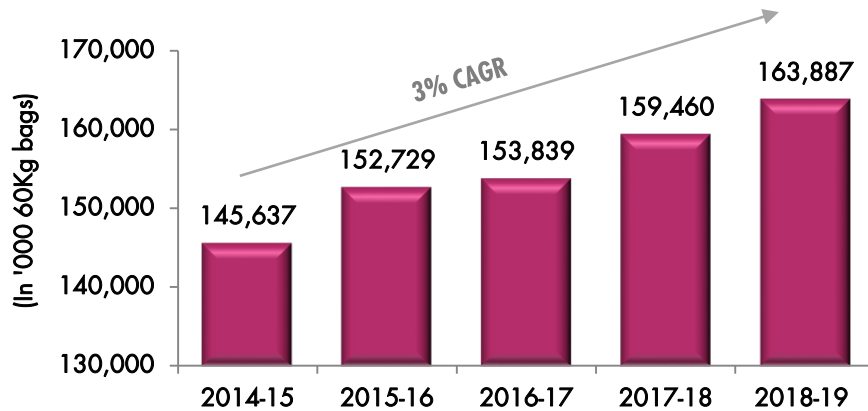
- ◆ We expect, CCL Products to post Revenue/EBITDA/PAT CAGR of 16%/19%/20% over FY19-21E driven by
 - ✓ Volume growth (capacity additions at India & Vietnam)
 - ✓ Transition to higher margin value added products (FDC, Small Packs)
- ◆ EBITDA Margin expansion of 120 bps to 23.9% in FY21E over FY19 aided by value added products and B2C business
- ◆ ROE to further improve from 19.6% in FY19 to 21.2% in FY21E
- ◆ **We initiate coverage on CCL Products with "BUY" rating with a 15-18 months target price of Rs.284/share valuing it at 17x FY21 P/E**

Growth in Coffee Consumption

Brewing World Coffee Consumption

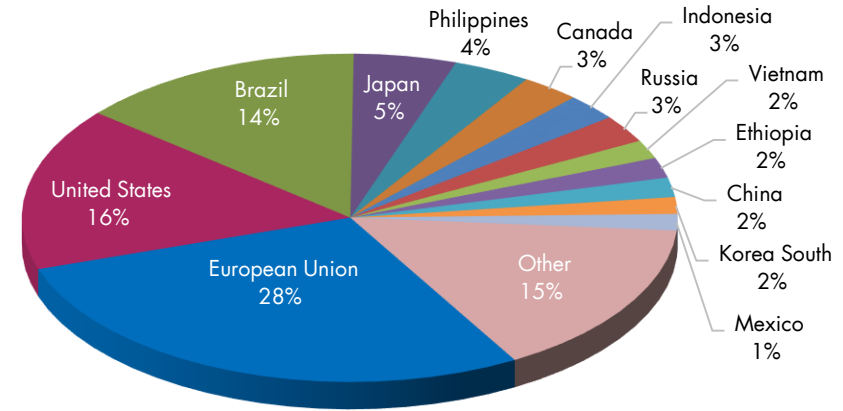
- ◆ World coffee industry is a USD 100bn market growing at 5.5% CAGR over 2015-19
- ◆ As per ICO, coffee consumption (volumes) growth expected to maintain 3% CAGR over coffee year 2019-20 (same as coffee year 2015 up to 2019) at 168 million bags
- ◆ **Key drivers for world coffee consumption:**
 - ✓ Improved standard of living leading to growing coffee culture
 - ✓ Rising demand from millennials (growing food outlets & café culture)
 - ✓ Switching consumption to coffee from other beverages (growing rate of coffee vending machines across Corporate Institutions & Offices)

Rising World Coffee Consumption



Source: ICO (International Coffee Organization), US Dept. of Agriculture, Axis Securities

World Coffee Consumption Breakup



- ◆ European Union (EU) & United States are the key coffee consuming nations globally (>40% of world consumption)
 - ✓ Both regions reported volume CAGR of 1.4%/2.9% respectively over last 5 coffee years
 - ✓ Value growth expected to be 7.8%/8.1% CAGR over 2019-24, **highlighting shift to premium coffee**
 - ✓ Over 50% coffee is imported by EU & US followed by Japan and Russia

CCLP at the cusp of huge growth opportunity arising from growing developed markets

South & East Asia- Next leg of growth in coffee consumption

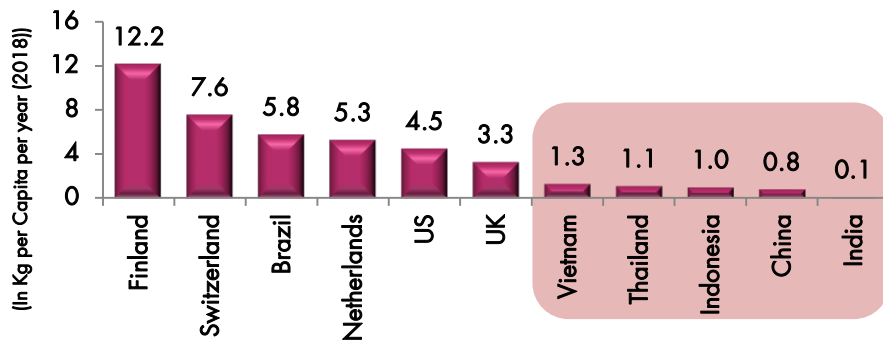
South & East Asian nations reported 6% CAGR in coffee consumption (ROW CAGR at 2%) over CY* 2015-19

- ♦ Green coffee exporters reported higher CAGR (8-10%) including countries like Vietnam, Indonesia, Philippines etc.
- ♦ Coffee importers reported 7-8% CAGR including markets like Taiwan, China, South Korea etc.

Key drivers for growth of IC consumption in ASEAN

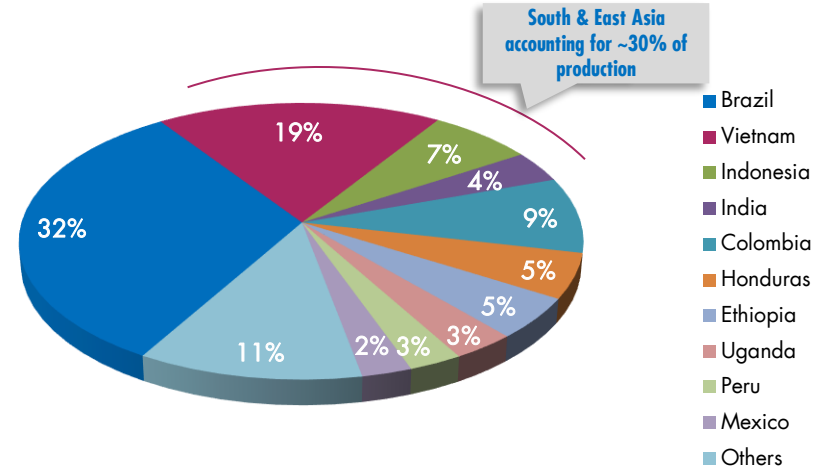
- ♦ Low average per capita consumption (less than 2kg) against matured western markets of over 10kg
- ♦ Shifting consumer preference towards coffee from tea
- ♦ Rising disposable incomes in emerging markets
- ♦ Cost efficient and easy availability of green coffee (Robusta**) beans (30% of world's share comes from South & East Asian countries)

Low per capita consumption in Asian countries huge growth potential

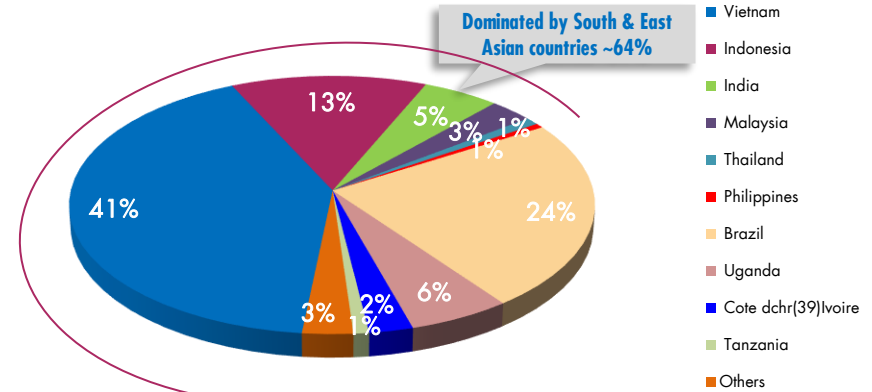


Note: ROW – Rest of World; *CY: Coffee Year i.e.. Oct-Sept Source: US Dept . of Agriculture, Axis Securities

Vietnam being the second largest green coffee producer globally



Robusta capital of the world – Vietnam leads in production



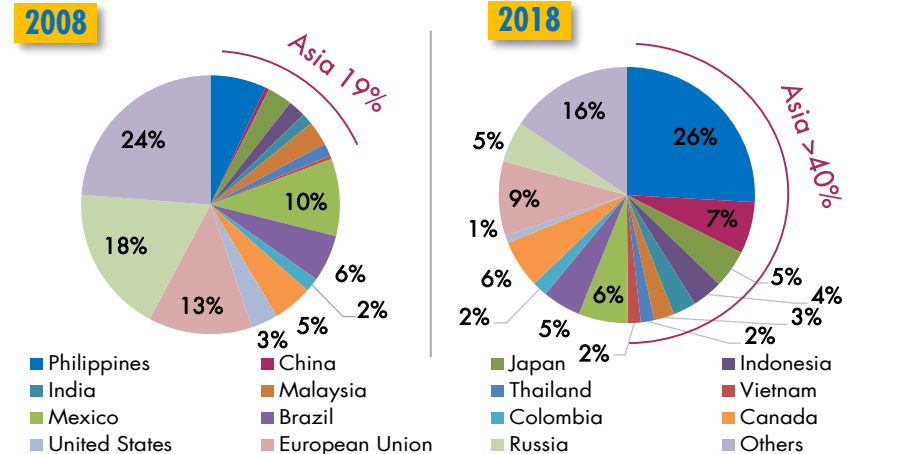
**Robusta is the cheaper variety of coffee bean vs Arabica bean; its harsher taste profile makes it more suitable for instant coffee production

Instant Coffee Market –Huge Potential for growth

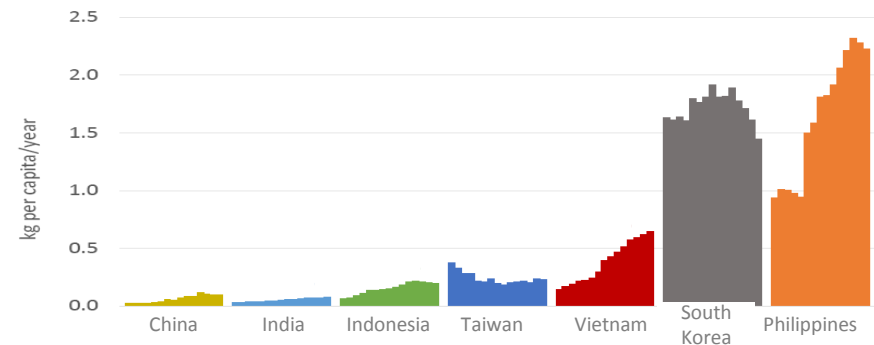
Global Instant Coffee market value is USD28bn with size of 9lakh MT; projected to grow at 4.6% CAGR over 2018-2024E

- ◆ Main drivers for Instant Coffee consumption include:
 - ✓ Convenience and ease of preparation in the fast paced lifestyle
 - ✓ Preference of younger generation towards ready-to-drink/premix coffee
 - ✓ Switching from tea drinking (China, Russia and Turkey) to instant coffee over vanilla roast and ground coffee
- ◆ Asia is the largest consumer of instant coffee with Philippines, China, South Korea, India being the major consumers
- ◆ Asian consumption increased at a healthy rate of ~10-12% p.a. in Vietnam, China, Indonesia, Philippines and India led by:
 - ✓ Ability of instant coffee to be tailored to local tastes & preferences
 - ✓ Easy availability of Robusta beans which is cheaper and more suitable for instant coffee production along with favorable government incentives has led to expansion of instant coffee market in the region.
- ◆ India and China world's most populous countries offer immense scope to improve per capita Instant Coffee consumption which at <0.5kg over 2003-2017, is much below 2kg consumed in other Asian nations
- ◆ European Union is the 2nd largest consumer of IC driven by countries such as Poland and Bulgaria, along side Russia which witnessed strong demand

Rising Asian consumption of instant coffee to boost CCLP 's revenues



Considerable scope to grow IC consumption in China & India



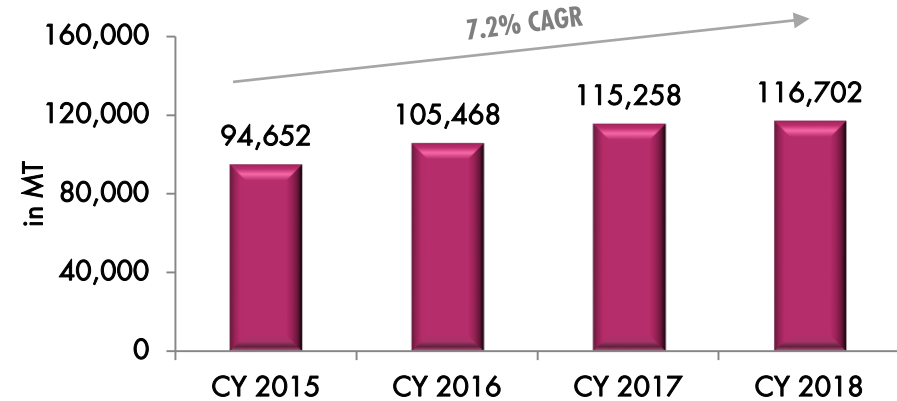
Source: ICO and Euromonitor International - Hot Drinks, 2018 edition (ICO calculations over 2003 – 2017 for population aged 15 and above) , US Dept of Agriculture, Axis Securities

Growing instant coffee market in India

Indian Instant Coffee exports grew at ~7% CAGR over 2015-2018 owing to

- ✓ Duty free imports of green coffee world over for re-exporting
- ✓ Availability of cheaper green coffee; India accounts for ~4% of world green coffee production (70% of which constitutes Robusta)
- ✓ Lower cost of production and cheap labor
- ✓ **CCLP has largest share (37%) in Indian Instant Coffee exports**– as it provides low cost value added products (duty free) to customers in 85 countries across Asia, USA & Europe against peers countries like Brazil

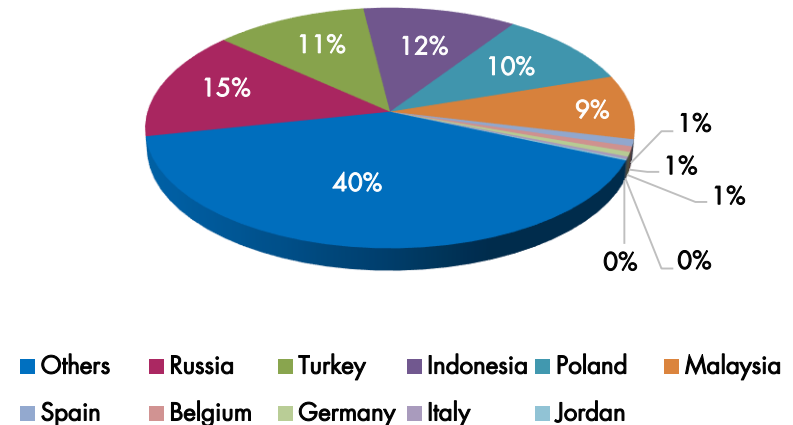
Consistently rising Instant coffee exports from India



Domestic (India) IC market growth at 15% p.a. highest across world

- ✓ With Rs. 2,000cr size, Indian Instant coffee market is growing at the fastest pace with 15% p.a.
- ✓ Nestle & Bru (~90% share) dominate Indian Instant Coffee market currently. CCLP emerging as the 3rd largest branded player domestically
- ✓ CCLP's domestic revenues 7% (FY19 revenues) offers huge scope for revenues growth driven by deepening penetration from B2C branded products (Continental Coffee Pvt Ltd), Private Label, Institutional (army orders) segments

Russian Federation is biggest customer of Indian Coffee



Source: Coffee Board of India, Axis Securities

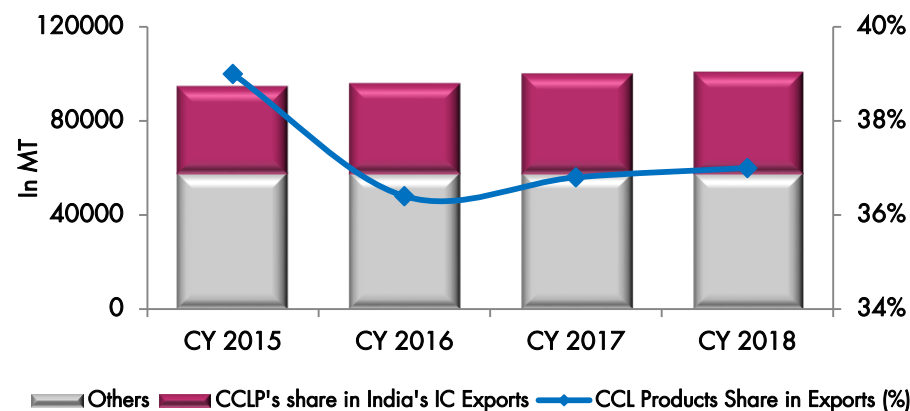
CCL Products India Ltd: Company Brief

- ♦ Established in 1995, CCL Products (CCLP) is **one of the largest suppliers of instant coffee (IC) in the world** with long standing relationships with private labels players globally
- ♦ Largest manufacturer & exporter of IC in India. FY19 Exports/Domestic Revenue share stood at 93%/7% resp.
- ♦ With **35k MTPA capacity CCLP has the largest manufacturing capacity in India**. Besides, it has 100% owned subsidiaries -
 - ✓ **Vietnam - Ngon Coffee Company** (to cater to ASEAN market)
 - ✓ **Switzerland - Grandsaugreen SA** (agglomeration unit to penetrate in Europe)
 - ✓ **India - Continental Coffee Pvt Ltd** (own domestic coffee brand)
- ♦ **Manufactures following broad categories of Instant Coffee:**
 - ✓ **Spray dried coffee (SDC):** Relatively cheaper product owing to loss of flavor and aroma during manufacturing process. Most commonly exported variety of instant coffee
 - ✓ **Agglomerated coffee:** More appealing & granularized form of SDC. It fetches ~5% higher realization against SDC
 - ✓ **Freeze dried coffee (FDC):** Most premium variety of coffee. It fetches 1.5x higher margins vs SDC, due to superior aroma recovery
 - ✓ **3-in-1 Premix Coffee:** Mixture of IC, creamer and sugar
 - ✓ **Liquid coffee:** Procured on coffee extraction/by-product, produced specifically for Japanese clients

CCLP is the largest Instant Coffee Mfg. in India with 28% share

Capacity Details	India		Vietnam
	Duggirala, Guntur	Chittoor	Dak Lak Province
Spray Dried	14,000	-	10,000
Freeze Dried	6,000	5,000	-
Total Manufacturing Capacity	20,000	5,000	10,000

With 37% volume market share, CCLP is largest exporter of Instant Coffee in India



Source: Company, Coffee Board of India, Axis Securities

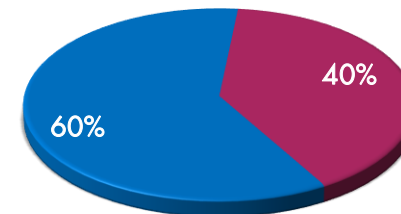
CCLP ably positioned in a growing B2B Market



- ◆ Final (Retail) price of coffee significantly higher than vanilla production activity owing to higher value addition throughout the value chain
 - ✓ ~48% of profits in the value chain enjoyed by branded Retail businesses like Nestle, Jacobs Douwe Egberts (JDE), Strauss etc.
 - ✓ Regional brand owners & Private labels (~40% of global IC market in tonnes) growing @ ~6-7% p.a. which is faster than branded retail players growing at 3-4% p.a.
- ◆ Brand owners & Private Labels procure coffee from converters like CCLP due to :
 - ✓ +250 varieties of coffee blends portfolio - **high entry barrier**
 - ✓ **Cost competitive value added product** (small packs) offerings
 - ✓ **Stringent quality standards** in line with international norms

Source: Axis Securities, various industry reports

CCLP enjoys ~10% market share in global private label market growing at ~6-7% p.a.



■ Retail Brand Owners - Nestle, Strauss, JDE ■ Private Label & Regional Players

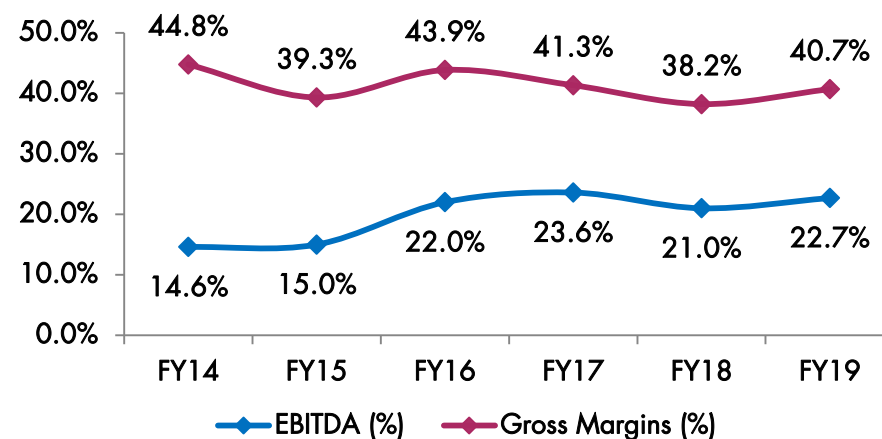
Strong business moat with resilient margins

Expertise in blends & Cost efficient business model -Key strengths

- ◆ **Expertise in blends – giving competitive edge**
 - ✓ Creating customized coffee blends requires expertise, as tastes & preferences vary with region and culture.
 - ✓ Rich experience in the Instant coffee industry (over 25 years) along with significant investments in R&D enabled CCLP to excel in customized blend creation
 - ✓ Ability to source the right mix of coffee beans across the globe (as taste depends on origin of the coffee beans) enables it create international quality based blend customization
- ◆ **Cost efficient business model aids margin sustainability:**
 - ✓ Largest single location plant (Duggirala plant) in India producing all four varieties of coffee (SDC, FDC, Premix and Agglomerated) enables to cater to customers with varieties of products under one roof
 - ✓ Technological prowess to convert even lower grade green coffee beans to premium quality coffee accepted internationally
 - ✓ Enjoys scale benefits being one of the largest manufacturers
 - ✓ Natural hedge against currency volatility as most of the operations are export & import related which are dollar denominated (USD)
- ◆ **Long standing sticky client relationships**
 - ✓ Capability of blend customization at competitive prices
 - ✓ Sticky order book (~50% of repeat orders) as customers get habituated to a particular blend /taste
 - ✓ Has over 250 proprietary blends in its portfolio with clients spread across 85 countries

Source: Company, Axis Securities

Cost efficiency led to reducing gap between EBITDA % & GM



CCLP has industry leading operating margins versus domestic peers

Particulars	CCL Products	Tata Coffee	SLN**	Indus Coffee**	Vayhan Coffee**
Revenue	1,081	1,804	325	137	139
EBITDA	245	243	5	29	9
EBITDA Margin	22.70%	13.50%	1.40%	21.00%	6.70%
PAT	155	107	3	14	0
PAT Margin	14.30%	5.90%	1.00%	10.10%	0.00%

(Rs in Crs) FY19 consolidated financials

**FY18 Financials for unlisted companies SLN, Indus Coffee & Vayhan Coffee

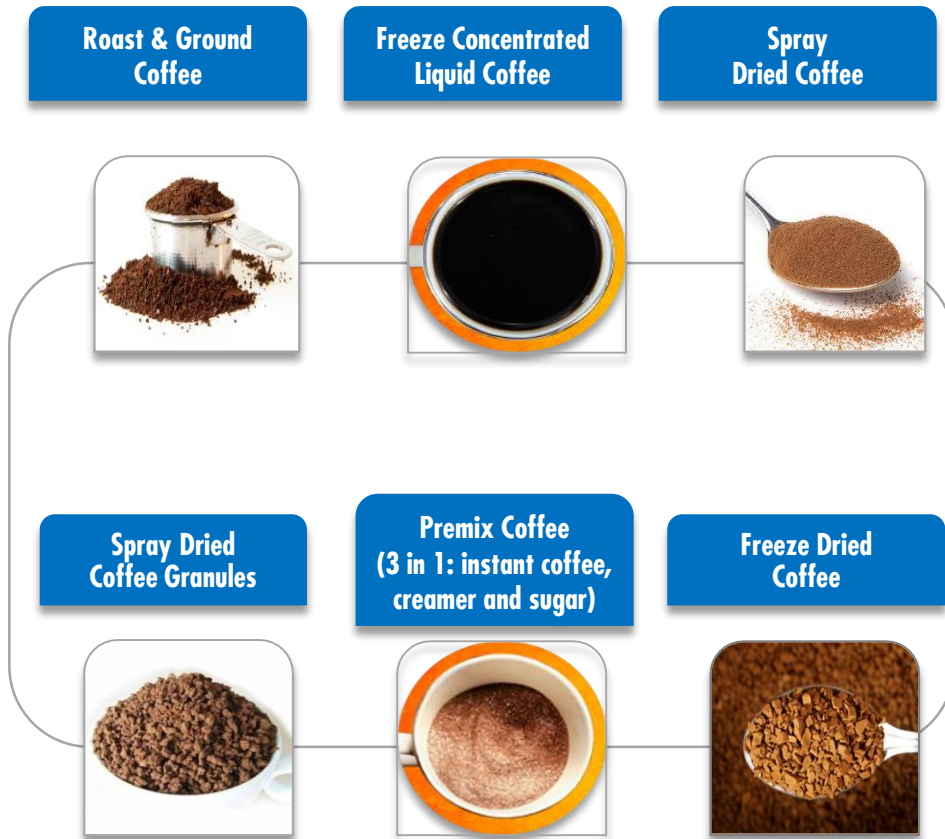
CCL Products rich basket of over +250 coffee blends

CCL Products India Ltd

Sector: Tea & Coffee

CCLP only company to offer all coffee varieties under one roof

Some of CCLP 's marquee clients



Export clients

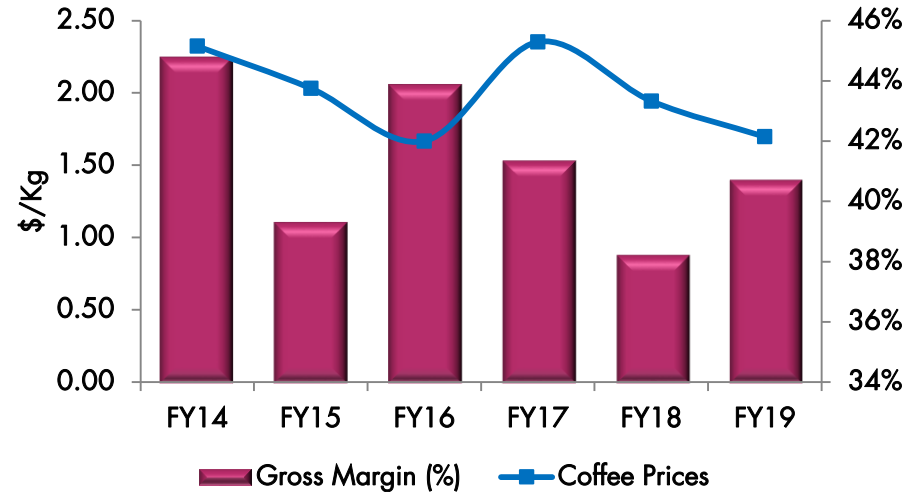
Domestic Clients

Source: Company, Axis Securities

Immune to volatility in RM prices leads to stable Gross Margins

- ◆ CCLP protected from volatility in green coffee prices owing to its Cost Plus model of revenue operations
- ◆ Immunity to RM price volatility allows CCLP to maintain steady GMs that ranged between 37% - 42% over FY14-19
- ◆ Sticky and long standing client relationships allow CCLP to work on Fixed Margins and deepen its relationship with existing customers (expanded product offerings to small packs & FDC)
- ◆ World coffee prices had been showing a declining trend (15% lower YoY from \$2.28/kg in 2016/17 to \$1.93/kg in 2017/18 prices) lead by excess production in major coffee producing countries i.e. Brazil & Vietnam fuelled by depreciation of Brazilian currency
- ◆ Management guided for no major volatility in RM prices during FY20

GMs relatively stable vs Coffee Bean Prices (RM)



Global Robusta Coffee Prices



Global Arabica Coffee Prices



Source: World Bank, Axis Securities

Strategic location of Vietnam Plant

Vietnam Ops further strengthens CCLPs low cost producer tag

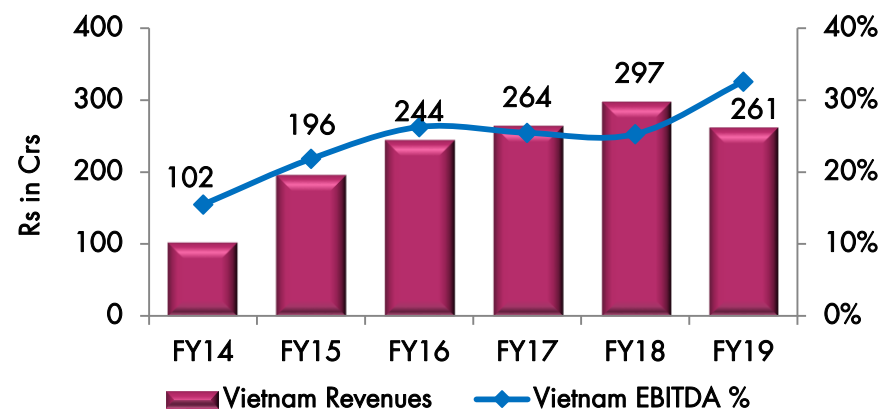
- ◆ **Vietnam, most cost competitive market for Instant Coffee (IC)**
 - ✓ 2nd largest green coffee producer
 - ✓ Is Robust bean capital of world
 - ✓ Most cost competitive market for IC production globally
- ◆ 2012, CCL Products commercialized Vietnam Plant having total capacity of 10,000MTPA. By FY20, Vietnam Plant to have total capacity of 13.5k MT driven by 3.5K brown field expansion
- ◆ As of FY19, 'Ngon Coffee' subsidiary of CCLP contributes 24% of consolidated revenues

Vietnam Plant – Advantage CCL Products

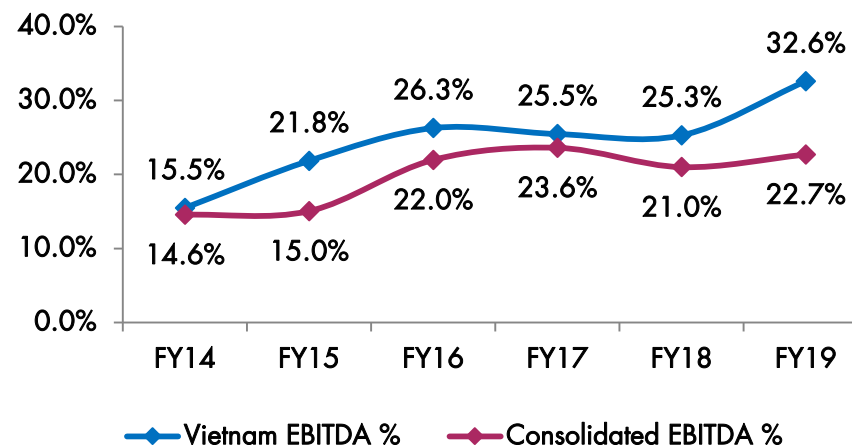
- ◆ **Easy accessibility to RM (green coffee bean)**
 - ✓ CCLP's plant located at Dak-Lak province (largest green coffee bean producing region in Vietnam)
 - ✓ Logistical proximity to RM source and fast growing markets allows significant cost savings and margin expansion
- ◆ **Reduced or NIL Duty structures** owing to Vietnam's most favored nation status with many countries across the globe
- ◆ **NIL Tax over lifetime of CCLP's operations in Vietnam** as it adheres to the country's stipulated conditions on job creation and environmental protection
- ◆ **De-risking business (geographic) concentration risk**
 - ✓ Proximity to ASEAN nations reporting 8-10% CAGR in IC market
 - ✓ Supplies highest margin Freeze Concentrated Liquid Coffee to Japanese clients (most quality conscious)

Source: Company, Axis Securities

Rising EBITDA Margins of Vietnam Subsidiary



Op. Margin expands post Vietnam plant commercialization in FY14



Capacity Additions to propel growth

Consistent volume growth over FY14-19 fuelled by capex

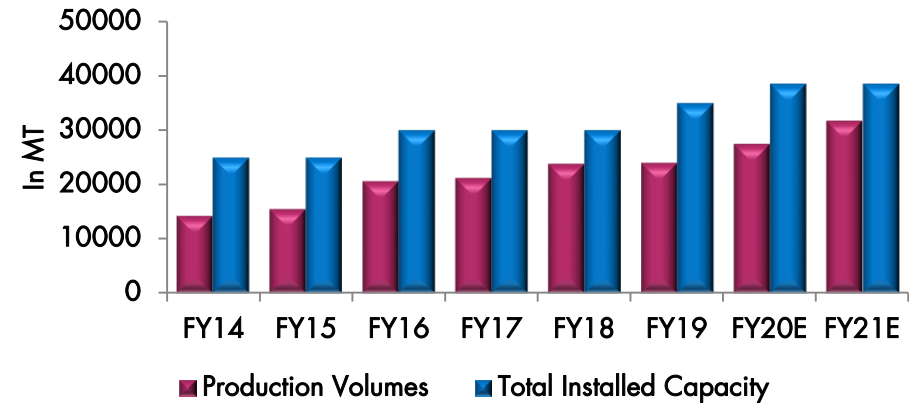
- ◆ CCLP has increased its capacity by ~10x from 3.6k MT since inception in 1995 to 35k at present. CCLP is one of the very few companies globally that have successfully scaled up its business
- ◆ Vietnam plant capacity to be further augmented by 3.5k MT for a total investment of USD 8mn
- ◆ In line with capacity expansion (7% CAGR), CCLP's volumes consistently reported 11% CAGR over FY14-19. **Expect, CCLP to report healthy volume growth at 15% CAGR over FY19-21E** (led by capex in FDC & SDC, small packs, B2C business growth)

Small Packs allows growing wallet share from existing customers

- ◆ CCLP provides its customers a one stop shop for coffee requirements by offerings
 - ✓ Bulk Coffee packaging; Small Packs (value add)
 - ✓ Small packs an advantage for clients as it enables them lower their cost of operations
- ◆ For CCLP, small packs fetches 5% higher realization versus bulk
- ◆ Plans to further add automated packing and agglomeration facility by ~5k MT in Sullurpet, India entailing a capex of USD12mn aiding improved realization and thus margins
- ◆ Small Packs expected to contribute to 30% of total revenues by FY22E as against 10% in FY19

Source: Company, Axis Securities

Volume growth consistently outpaced capacity expansions



Capacity expansion in a prudent manner (whenever utilization at its plants hit >80%) ensures volume growth trajectory

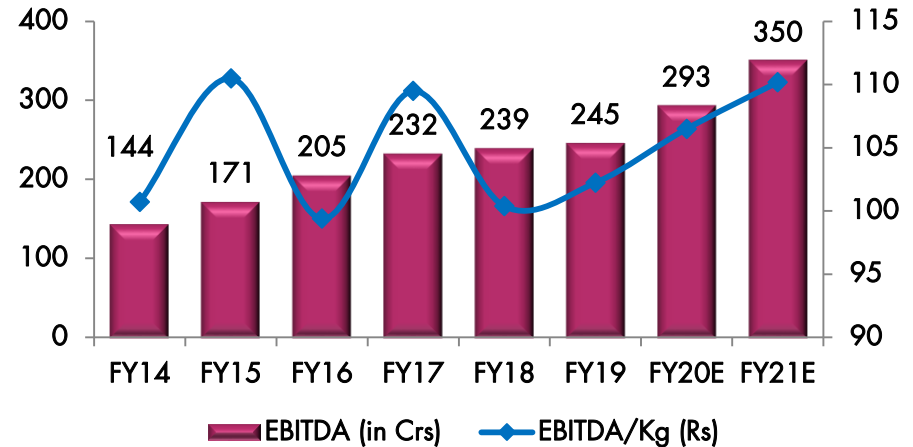
Growing wallet share from customers via Small Sized packages



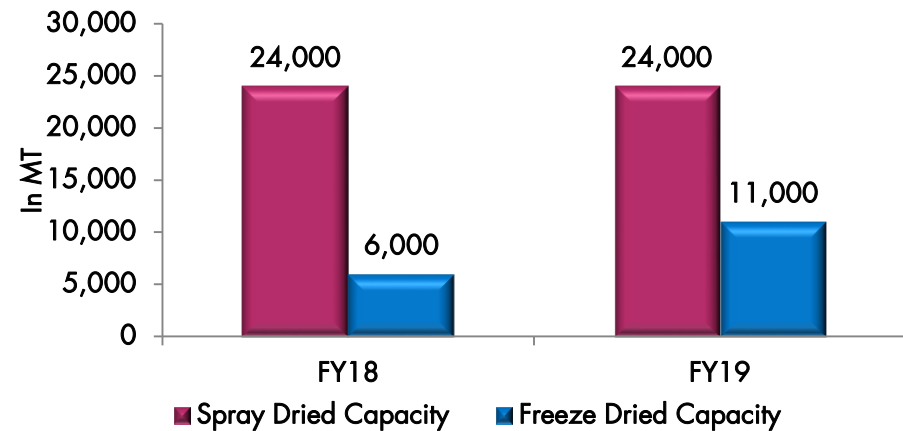
Freeze Dried Coffee (FDC) capacity addition to expand margins

- ◆ 1st to install Freeze Dried Coffee (premium coffee) plant in India in 2004
- ◆ Current FDC capacity of 11,000 MT is split between Duggirala, AP (6,000MT) & Chittoor, TN (5,000MTPA)
- ◆ Ahead of the competitive curve in assessing high business growth in FDC segment driven by mature US market
- ◆ **FDC Margins 1.5x of Spray Dried Coffee**
- ◆ Key advantages to CCL from greenfield Chittoor unit:
 - ✓ Significant margin expansion opportunity given growing demand (expect capacity utilization of over 50% by FY20)
 - ✓ Logistic cost savings (proximity to Chennai port)
 - ✓ Tax Benefits owing to unit located in SEZ region
 - ✓ Incremental capex required to double capacity is only ~60% of the \$50 mn spent initially owing to 130 acres land availability and basic infrastructure

EBITDA/Kg expected to rise aided by superior portfolio mix



Significant capacity addition in high margin FDC Capacity

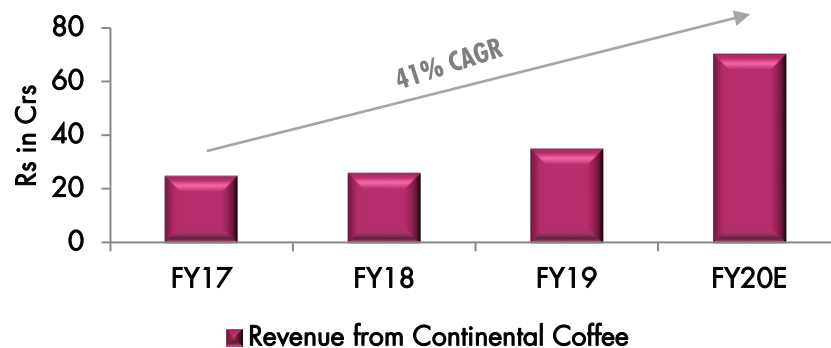


Source: Company, Axis Securities

Foray into high margin Branded Retail business

- ◆ 'Continental Coffee' CCLP's own brand for domestic market launched in 2014
 - ✓ Marks CCLPs foray into domestic B2C market
 - ✓ Domestic IC market growing at 15% p.a. with an approximate size of 85-90k MT annually
 - ✓ Launched in southern markets initially (learning from past launch pan India in 1997). Southern states have ~80% share
- ◆ To expand operations, A&SP on branded business to increase to Rs. 30cr in FY20 from 20cr in FY19
- ◆ Continental Coffee revenues to be doubled by FY20E to Rs. 70cr from Rs. 35cr in FY19
- ◆ Domestic Revenue contribution to be 15% by FY22E (7% in FY19)

Continental Coffee Revenue growth



Source: Company, Axis Securities

Brands under 'Continental Coffee'



Continental Black
{ premium FD coffee }



Continental Speciale
{ Pure Instant coffee }



Malgudi
{ Filter coffee brand }

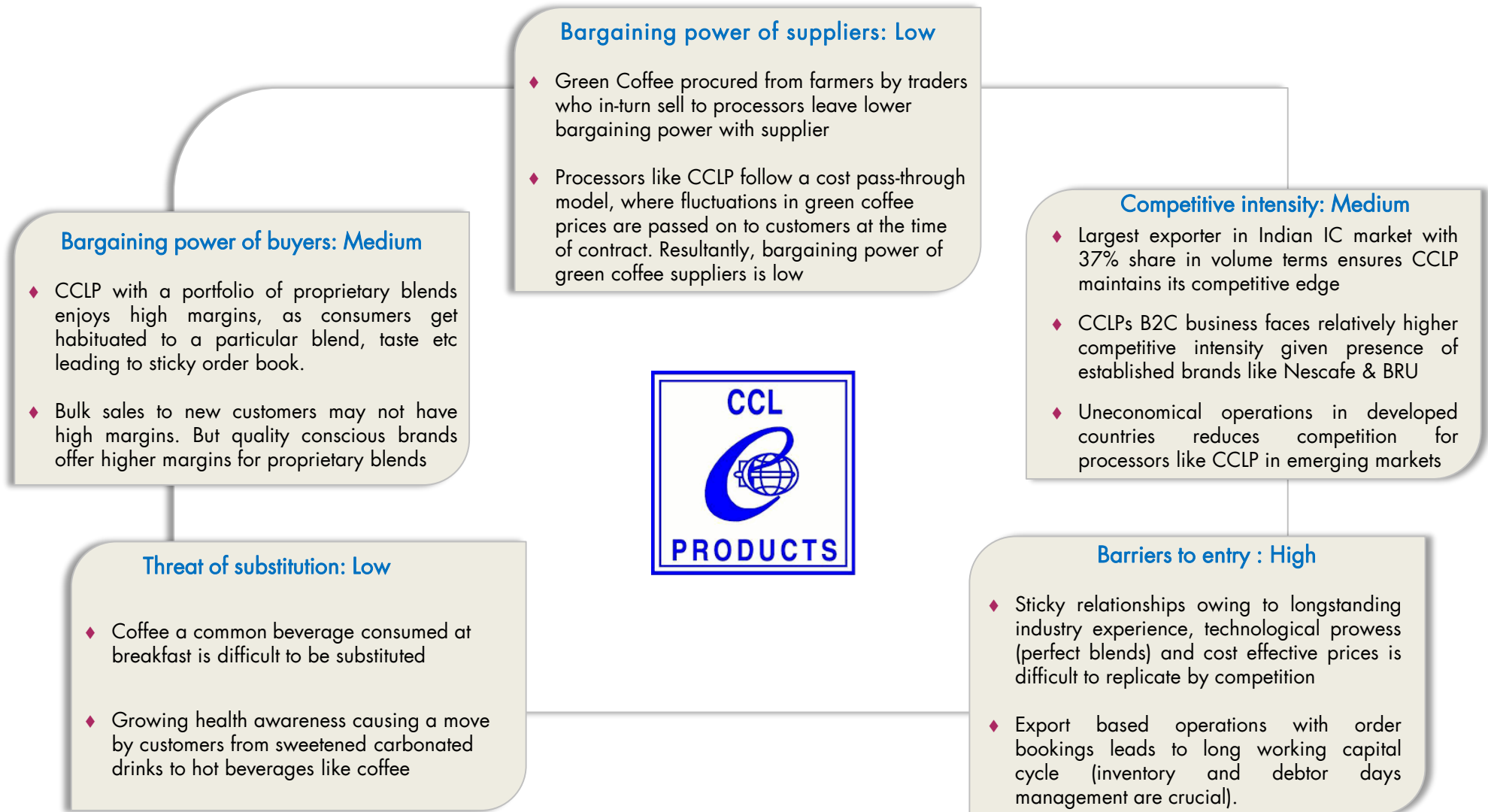


Continental Xtra
{ Instant coffee with chicory mix }



Premix
{ 3-in-1 coffee }

Porters five forces Analysis



Source: Company, Axis Securities

Q1FY20 Result Update

(Rs.Cr.)	Quarterly Performance				
	Q1FY20	Q4FY19	% Change (QoQ)	Q1FY19	% Change (YoY)
Total Revenue	273	262	4.2	294	(7.2)
GM%	47.5	45.4	211.7	40.1	739.9
Expenditure					
COGS	143	143	0.2	176	(18.7)
Employee expenses	15	15	1.5	13	19.0
Other Exp	45	50	(9.5)	42	8.5
Total Expenditure	204	208	(2.1)	231	(11.7)
EBIDTA	69	54	28.4	64	9.0
EBITDA Margin (%)	25.4	20.6	477.8	21.6	377.5
Depreciation	11	5	133.2	9	17.0
EBIT	58	49	18.3	54	7.6
Interest	4	3	70.1	2	85.1
Oth. Inc.	1	1	(26.5)	0	67.4
PBT	54	47	14.7	52	4.4
Tax	20	12	67.3	13	55.6
<i>Effective Tax Rate(%)</i>	<i>36</i>	<i>25</i>		<i>24</i>	
PAT	35	36	(2.7)	39	(12.1)
PAT Margin (%)	12.7	13.6	(90.5)	13	(71.0)
EPS (Rs.)	2.6	2.7	(2.7)	3.0	(12.1)

Source: Company, Axis Securities

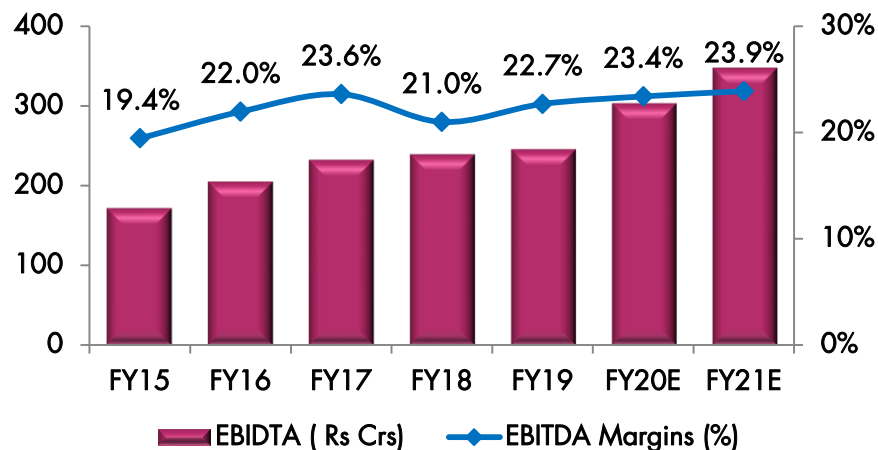
- ◆ Q1FY20 Revenues was lower by 7.2% YoY due to deferring of higher margin order (~150 tonne order from Vietnam unit to Q2FY20)
- ◆ Despite revenue decline, EBITDA Margin expanded by 377bps YoY led by better product mix (higher margin Freeze Dried Coffee contributed)
- ◆ Higher depreciation (commercialized Chittoor FDC unit) and higher tax outgo (deferred taxes) put pressure on recurring PAT which reported a 12% de-growth on YoY basis.
- ◆ The FDC unit in SEZ (Chittoor) commercialized in Q1FY20, which contributed ~400 tonnes of FDC for the quarter, management maintained its guidance of achieving 50% utilization in FY20 its 1st year of operations.
- ◆ Continental Coffee Brand (B2C business division) achieved a top line growth of 66% YoY at Rs 15 Crs in Q1FY20. Overall Domestic Sales guidance for FY20 is Rs. 110cr versus Rs 80cr in FY19, up ~38% YoY.

Key Q1FY20 Con call Takeaways:

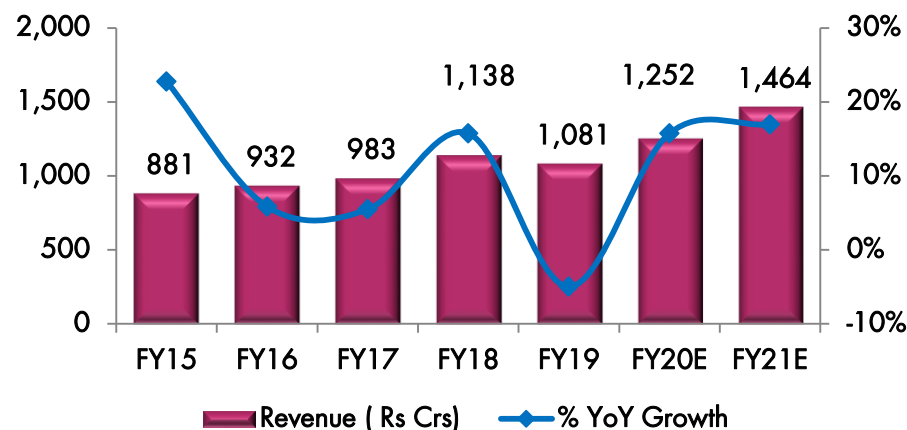
- ◆ Maintained Volume/EBITDA guidance of 15-20% for FY20E
- ◆ Small Packs revenue share to rise from current 10% to 30% by FY22E
- ◆ Vietnam capex (3,500 tonnes) to be funded through internal accruals
- ◆ No major volatility to be seen in Green Coffee prices (key RM) given sufficient supply against the demand for coffee
- ◆ Driven by Food Safety Modernization Act (FSMA) in USA, management expects 20-25% growth in off take from US during FY20

Financial Commentary

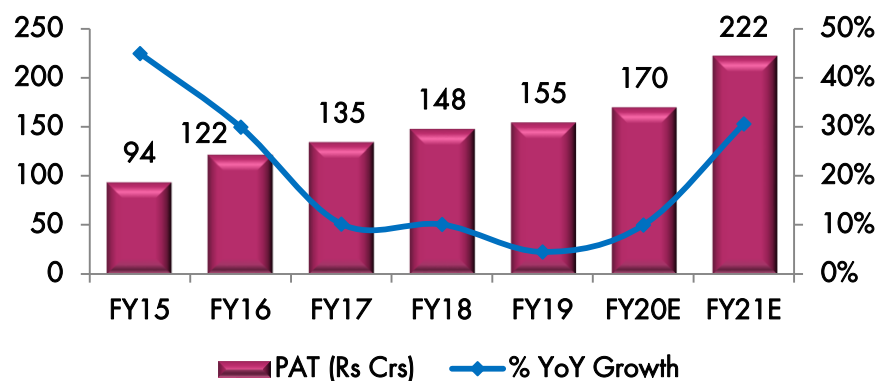
120bps EBITDA Margin expansion expected over FY19-21E



Volumes to drive 16% Revenue CAGR over FY19-21E



Profit growth trajectory expected to continue at 20% CAGR over FY19-21E

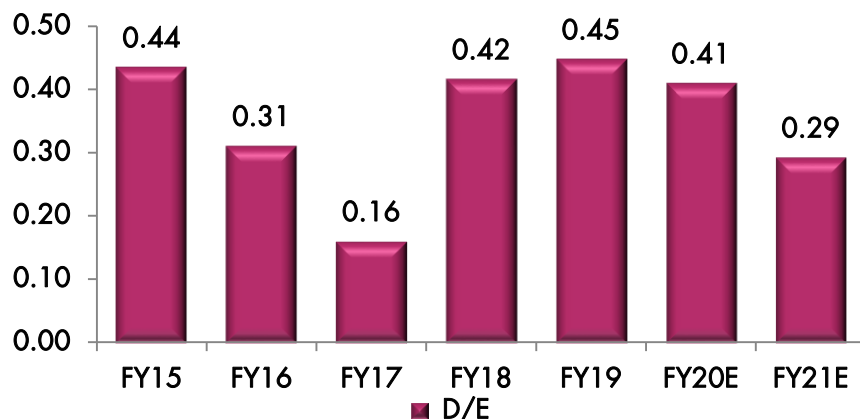


- ◆ We expect CCLP's robust volume growth (15% CAGR FY19-FY21E) & higher realizations (led by value added products) to drive revenue at 16% CAGR over FY19-FY21E. However any steep decline in green coffee prices could restrict the revenue growth.
- ◆ Consistently improving portfolio mix (rising share of value added FDC & small packs) along rising volumes to aid robust EBITDA growth estimated at 19% CAGR over FY19-FY21E. We expect EBITDA Margin to expand significantly by 120bps from 22.7% to 23.9% over FY19-FY21E.
- ◆ We expect PAT to grow at a CAGR of 20% over FY19-FY21E (growth expected to be restricted by higher depreciation & deferred tax costs owing to commercialization of SEZ unit)

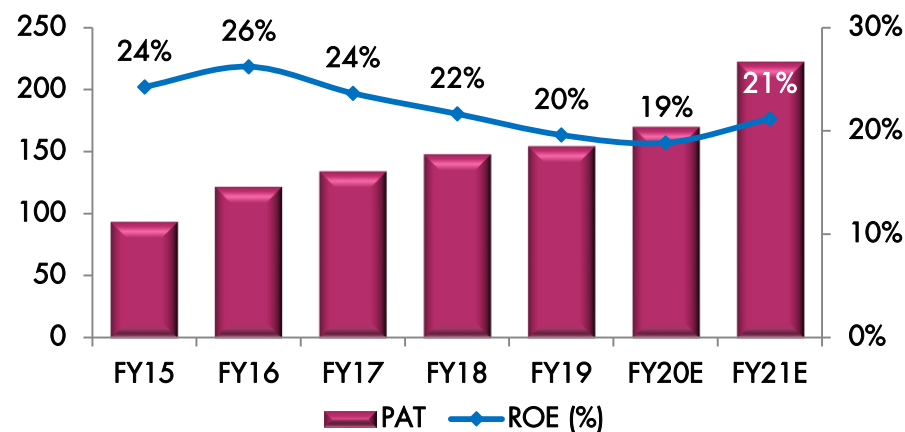
Source: Company, Axis Securities

Financial Commentary

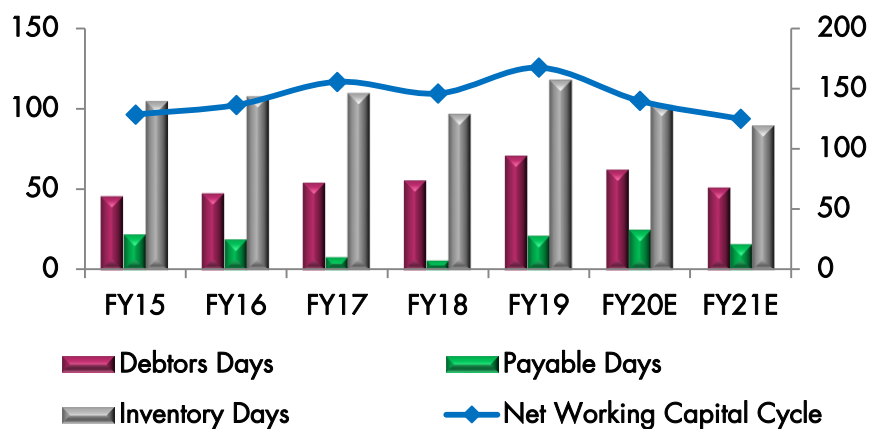
Comfortably maintained D/E over FY14-19



Improving ROE given healthy earnings trajectory



Stabilizing Debtor & Inventory days to drive WC efficiency

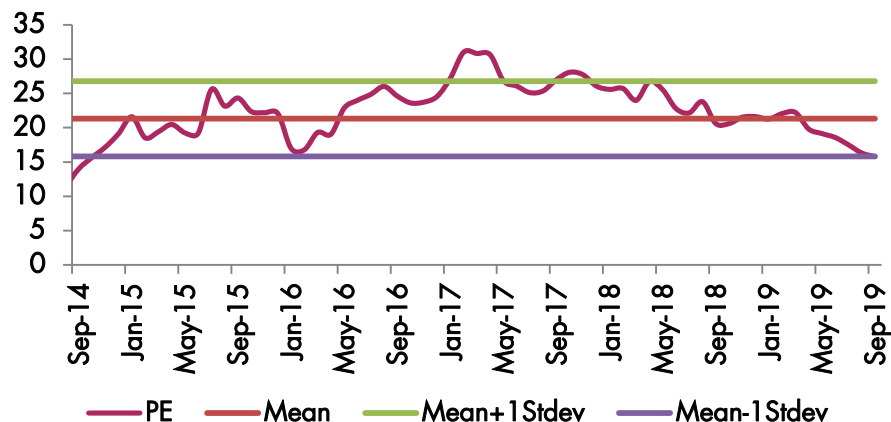


- ◆ We expect robust earnings growth (20% CAGR FY19-FY21E) to augment return ratios. We expect ROE to improve from 19.6% in FY19 to 21.2% by FY21.
- ◆ Maintained D/E ratio of less than 0.5x over FY14-19, despite continued capacity expansion (grew at 7% CAGR over FY14-19) owing to management philosophy of funding capex via internal accruals
- ◆ Expect Net Working Capital Cycle to reduce to 125 days by FY21 from 167 days in FY19 with efficient inventory (>70% RM imported) and receivables (93% export sales) management

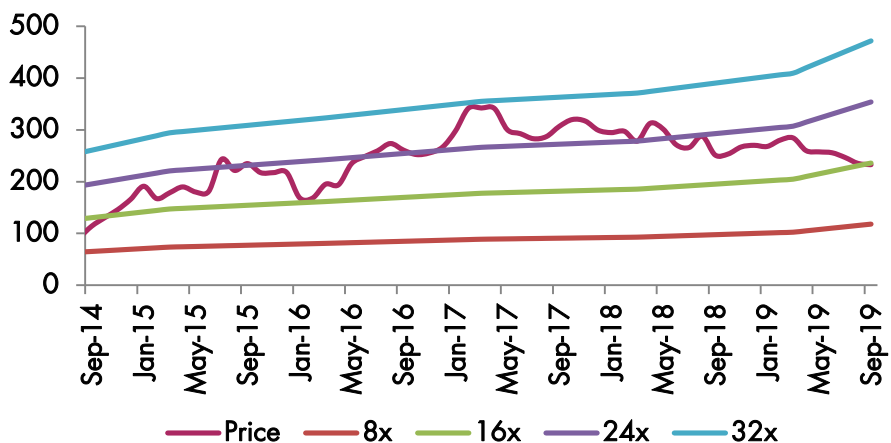
Source: Company, Axis Securities

Valuation

PE Band



12mth fwd P/E (x)



Source: Company, Axis Securities

Valuation

- ◆ We expect CCL Products to post **Revenue/EBITDA/PAT CAGR** of **16%/19%/20%** over FY19-21E driven by **15% Volume CAGR**, higher share of value added products (**FDC & Small Packs**)
- ◆ EBITDA Margin of **23.9%** by FY21E expansion of **120 bps** over **22.7%** in FY19 owing to scale benefits and higher margin products
- ◆ ROE to expand to **21.2%** in FY21E over **19.6%** in FY19 owing to robust **20%** earnings CAGR
- ◆ **We initiate coverage on CCL Products Ltd with "BUY" rating & target price of Rs. 284/share; upside 19% over 15-18 months valuing it at 17x on FY21E earnings**

Key Risks and Concerns

- ◆ Slower than expected growth of the private label players
- ◆ Unfavourable changes in duty structure in the countries conducting business operations (India & Vietnam) could impact CCLP's price competitiveness
- ◆ Failure to capture market share by its brand 'Continental Coffee' could impact growth prospects in domestic B2C business
- ◆ Abrupt weather changes affecting green coffee yield

Financials (Consolidated)

CCL Products India Ltd
Sector: Tea & Coffee

Profit & Loss

(Rs Cr)

Income statement	FY17	FY18	FY19	FY20E	FY21E
Total Net Sales	983	1,138	1,081	1,252	1,464
% Change	5.5%	15.7%	-5.0%	15.7%	17.0%
Total Raw material Consumption	552	691	597	686	799
Staff costs	40	47	59	66	73
Other Expenditure	159	161	180	206	242
Total Expenditure	751	899	836	959	1,114
EBITDA	232	239	245	293	350
% Change	13.4%	2.9%	2.7%	19.4%	19.5%
EBITDA Margin %	23.6%	21.0%	22.7%	23.4%	23.9%
Depreciation	33.3	34.1	31.7	43.5	46.2
EBIT	199	205	214	249	304
% Change	12.8%	3.0%	4.3%	16.7%	21.8%
EBIT Margin %	20.2%	18.0%	19.8%	19.9%	20.7%
Interest	11	8	8	10	8
Other Income	1	5	3	4	5
(as % of PBT)	1%	2%	2%	2%	2%
PBT	189	202	209	243	300
Tax	54	54	54	73	78
<i>Tax Rate %</i>	<i>28.8%</i>	<i>26.6%</i>	<i>25.8%</i>	<i>30.0%</i>	<i>26.0%</i>
APAT	135	148	155	170	222
% Change	10.2%	10.1%	4.5%	9.9%	30.6%

Source: Company, Axis Securities

Balance Sheet

(Rs Cr)

Balance Sheet	FY17	FY18	FY19	FY20E	FY21E
Share Capital	27	27	27	27	27
Reserves & Surplus	602	713	812	940	1,107
Net Worth	628	740	839	967	1,133
Total Loan funds	101	308	376	401	336
Deferred Tax Liability	38	39	43	43	43
Long Term Provisions	0	0	0	0	0
Other Long Term Liability	0	0	0	0	0
Capital Employed	768	1,087	1,258	1,411	1,512
Gross Block	422	434	483	907	967
Less: Depreciation	29	63	100	143	189
Net Block	393	371	383	764	777
Investments	4	5	5	6	7
Sundry Debtors	163	182	235	189	221
Cash & Bank Bal	17	44	97	195	222
Loans & Advances	0	0	0	0	0
Inventory	183	183	202	182	210
Other Current Assets	52	85	37	43	51
Total Current Assets	414	494	571	609	703
Curr Liab & Prov	81	46	164	68	75
Net Current Assets	333	448	407	541	628
Total Assets	768	1,087	1,258	1,411	1,512

Financials (Consolidated)

CCL Products India Ltd
Sector: Tea & Coffee

Cash Flow

(Rs Cr)

Cash Flow	FY17	FY18	FY19	FY20E	FY21E
PBT	189	202	209	243	300
Depreciation & Amortization	33	34	32	44	46
Provision for Taxes	0	0	0	10	8
Chg in Deferred tax	1	0	15	0	0
Chg in Working cap	-68	-33	-36	-37	-61
Direct tax paid	-53	-57	-57	-73	-78
Cash flow from operations	102	146	162	187	216
Chg in Gross Block	-18	-233	-241	-60	-60
Chg in Investments	0	0	0	0	0
Chg in WIP	0	10	9	0	0
Cash flow from investing	-18	-223	-233	-60	-60
Proceeds / (Repayment) of Short Term Borrowings (Net)	-16	28	57	-1	0
Repayment of Long Term Borrowings	-52	141	49	0	0
Loans	0	0	0	25	-65
Finance Cost paid	0	0	0	-10	-8
Dividends paid	-13	-33	-33	-43	-56
Dividend Distribution Tax paid	-3	-7	-7	0	0
Cash flow from financing	-84	129	66	-29	-129
Chg in cash	-2	27	53	98	27
Cash at start	18	16	44	97	195
Cash at end	16	44	96	195	222

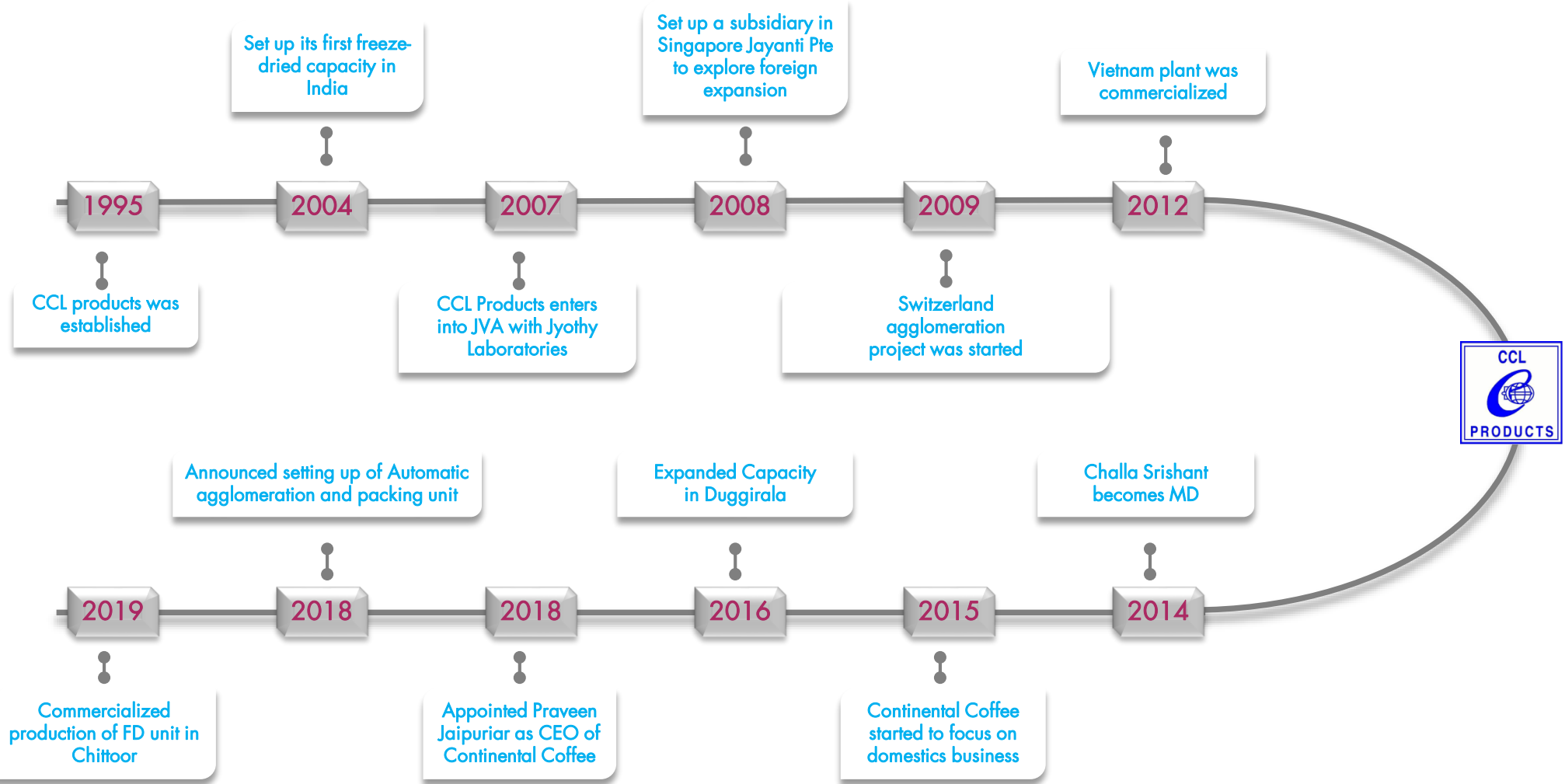
Source: Company, Axis Securities

Ratio Analysis

(%)

Key Ratios	FY17	FY18	FY19	FY20E	FY21E
Growth (%)					
Net Sales	5.5%	15.7%	-5.0%	15.7%	17.0%
EBITDA	13.4%	2.9%	2.7%	19.4%	19.5%
APAT	10.2%	10.1%	4.5%	9.9%	30.6%
Per Share Data (Rs.)					
Adj. EPS	10.1	11.1	11.6	12.8	16.7
BVPS	47.2	55.6	63.1	72.7	85.2
Profitability (%)					
EBITDA Margin	23.6%	21.0%	22.7%	23.4%	23.9%
Adj. PAT Margin	13.7%	13.0%	14.3%	13.6%	15.2%
ROCE	25.9%	18.8%	17.0%	17.7%	20.1%
ROE	23.6%	21.7%	19.6%	18.8%	21.2%
ROIC	26.6%	19.7%	18.5%	20.6%	23.6%
Valuations (X)					
PER	33.8	25.0	24.5	18.7	14.3
P/BV	7.2	5.0	4.5	3.3	2.8
EV / EBITDA	20.0	16.6	16.6	11.6	9.4
EV / Net Sales	4.7	3.5	3.8	2.7	2.3
Turnover Days					
Asset Turnover	1.2	1.1	0.8	0.9	1.0
Inventory days	109.6	96.7	117.6	102.2	89.6
Debtors days	54.0	55.3	70.4	61.8	51.0
Creditors days	7.8	6.0	20.6	24.2	15.7
Working Capital Days	155.7	146.0	167.5	139.9	124.9
Gearing Ratio					
Debt to Equity	0.2	0.4	0.4	0.4	0.3

Key Milestones - CCL Products India Ltd



Source: Company, Axis Securities

Company Leadership & Management

Executive Chairman

Promoter & Founder of CCL Products with more than 30 years of experience in international coffee industry. Mr.. Rajendra Prasad is reckoned as the pioneer and first generation entrepreneur in India to have placed Indian Soluble (Instant) Coffee across the global markets. Mr.. Prasad was the 1st Promoter Managing Director of Asian Coffee which was later sold to Tata Coffee.

Mr. Challa Rajendra Prasad

Managing Director

Lawyer by qualification Mr.. Challa Srishant has more than 10 years of experience in the coffee industry. He was appointed as MD of CCL Products in 2014. He also serves as a director in several national and international companies.

Mr. Challa Srishant

Chief Operating Officer

Mr.. K.V.L.N Sarma has a total experience of over 40 years. He has been associated with CCL Products for more than 16 years. Took charge as COO of CCL Products in 2019. He is a Certified Management Accountant.

Mr. K.V.L.N. Sarma

Chief Financial Officer

Chartered Accountant by profession Mr. Narayana has over 30+years of experience in the field of finance He was appointed as CFO of CCL Products in 2019.

V Lakshmi Narayana

Source: Company, Axis Securities

Continental Brands vs Peers Brand Comparison

- Given CCL's low cost in-house manufacturing capabilities & expertise in business we believe CCL is capable to sell instant coffee at competitive prices vs its peers.
- With the consumer offers and sales promotion activists it is well placed to carve a market share for itself in the domestic branded retail market over the medium term.

	Company	Brand Name	Features	Offers	SKU	MRP
Premium Coffee	Nestle	Nescafe Gold	Freeze Dried Coffee	-	50 gm	Rs 290
	CCL Products	Continental Black Edition	Freeze Dried Coffee	-	50 gm	Rs 200
Pure Coffee	Nestle	Nescafe Classic	100% Pure Coffee-Robusta only	-	50 gm	Rs140
	Bru-HUL	Bru Gold	100% Pure Coffee :blend of the best Arabica and Robusta	-	50 gm	Rs 135
	CCL Products	Continental Speciale	100% Pure Coffee	-	50 gm	Rs 135
Chicory mix coffee	Nestle	Nescafe Sunrise	Blend of Arabica, Robusta beans and chicory	-	50 gm	Rs 90
	Bru-HUL	Bru Instant	Chicory mix instant coffee	-	50 gm	Rs 90
	CCL Products	Continental XTRA	70% Coffee & 30% Chicory	25gm coffee free	50 gm	Rs 99
Filter Coffee	Bru-HUL	Bru Green Label	Filter Coffee:53% coffee & 47% chicory	-	200 gm	Rs 70
	CCL Products	Continental Malgudi	Filter Coffee :80% Coffee & 20% Chicory	Free Air tight container	200 gm	Rs 100

Note: MRP as on August 2019 as displayed in E-Commerce and MT stores. List is non-exhaustive and prices are indicative only

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