

CCL PRODUCTS INDIA

Seasonality dents growth

India Equity Research | Miscellaneous

CCL Products' (CCL) Q2FY20 numbers disappointed as higher retail branding expenses and lower utilisation dented margin. Top-line growth was muted (2.7% YoY) owing to dip in green coffee prices. However, the 560bps YoY EBITDA margin contraction (due to higher other expenses) resulted in 19.3% dip in EBITDA to INR616mn (INR883mn estimate). Though management is confident that pick up in utilisation at new plant and product mix improvement will drive H2FY20 growth, we revise down FY20/21E EPS 12%/9% to factor in poor Q2FY20 numbers. Maintain 'BUY' with revised TP of INR315 (INR335 earlier) as we roll forward to September 2020E while maintaining target multiple of 24x.

Q2FY20: Key highlights

1) Consolidated revenue remained muted and grew by 3% YoY impacted by lower demand due to seasonality. 2) New freeze dry capacity is expected to operate at 50% utilisation level over FY20 with significant number of orders to be executed in H2FY20. 3) INR110mn jump in other expenses was due to advertisement spends on retail business. 4) Green coffee price dipped ~5% YoY to USD1,250/tonne. 5) The retail business posted net turnover of INR350mn driven by increase in market penetration across the four southern states. 6) Owing to seasonality of demand, utilisation levels in India and Vietnam businesses remained at 80% and 70%, respectively.

Focused on improving market share in branded space

CCL remains focused on increasing market share in the branded segment. The company has allocated higher advertisement budget as a measure to create brand awareness. The retail segment reported revenue of INR350mn in Q2FY20 and management is confident of achieving revenue target of INR1bn in FY20. It has also introduced new offerings pertaining to instant coffee, pre-mix and filter coffee segments, which we believe could yield incremental revenue.

Outlook and valuation: Growth momentum intact; maintain 'BUY'

Factoring the seasonality of demand coupled with increase in budgetary expense pertaining to advertisement needs in the retail space, we expect margin to remain subdued in Q3FY20 as well. Hence, factoring in the weak performance in H1FY20 coupled with subdued margin going forward, we trim FY20/21E EPS 12%/9%. We maintain 'BUY' with revised TP of INR315.

Financials

(INR mn)

Year to March	Q2FY20	Q2FY19	% Chg	Q1FY20	% Chg	FY19	FY20E	FY21E
Net revenues	2,987	2,908	2.7	2,732	9.3	10,814	11,439	13,227
EBITDA	616	763	(19.3)	694	(11.3)	2,450	2,622	3,144
Adjusted Profit	421	472	(10.8)	347	21.4	1,544	1,552	1,942
Adjusted Diluted EPS	3.2	3.5	(10.8)	2.6	21.4	11.6	11.7	14.6
Diluted P/E (x)						18.9	18.8	15.0
EV/EBITDA (x)						12.9	11.9	9.8
ROAE (%)						19.6	17.7	20.2

EDELWEISS RATINGS	
Absolute Rating	BUY
Investment Characteristics	Growth

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

CMP	: INR 218
Target Price	: INR 315
52-week range (INR)	: 307 / 202
Share in issue (mn)	: 133.0
M cap (INR bn/USD mn)	: 29 / 409
Avg. Daily Vol. BSE/NSE ('000)	: 72.8

SHARE HOLDING PATTERN (%)

	Current	Q1FY20	Q4FY19
Promoters *	45.3	45.3	45.3
MF's, FI's & BKs	4.8	4.8	2.8
FII's	25.8	25.8	27.5
Others	24.0	24.0	24.5
* Promoters pledged shares (% of share in issue)	:		NIL

PRICE PERFORMANCE (%)

	BSE Midcap Index	Stock	Stock over Index
1 month	2.1	(4.7)	(6.8)
3 months	(4.4)	(3.4)	1.0
12 months	(4.2)	(4.1)	0.1

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Q2FY20 conference call: Key highlights

Vietnam facility

Management expects to commission the expanded capacity in Vietnam facility by Q1FY21. Utilisation level has remained on the lower side at 70% owing to seasonality of demand. The only concern remains on account of duty structure towards European region. Currently, duty structure from Brazil towards European region pertains to 9%. However, concern of it dropping to 0% still remains.

Branded business

Despite a lean quarter, the company was able to achieve turnover of INR350mn. The company is targeting overall turnover of INR1bn for FY20. Management has given additional support of INR110mn to build brand equity via advertisements.

Working capital

CCL has expanded credit terms with its partner in the US. Receivable is on higher side, partially due to addition of new customers coupled with relaxation in credit norms for the US partner.

Capacity utilisation

Excluding the new freeze dry facility, Indian facilities are operating at optimum utilisation of 80%. The company expects the newly established freeze dry facility to operate at 50% utilisation in FY20 with most of the orders to be dispatched during H2FY20. For Vietnam, utilisation level in current quarter was 70%. However, management has stuck to its guidance of ramping up the business to 80% in FY20.

Green coffee prices

Green coffee prices for Q2FY20 remained at USD1,250/tonne, slightly lower in comparison to Q2FY19.

Financial snapshot

(INR mn)

Year to March	Q2FY20	Q2FY19	% change	Q1FY20	% change	YTD20	FY20E	FY21E
Net revenues	2,987	2,908	2.7	2,732	9.3	5,719	11,439	13,227
Raw material	1,592	1,545	3.1	1,434	11.1	3,026	6,282	7,280
Staff costs	164	163	0.5	149	9.8	313	639	720
Other expenses	615	437	40.6	455	35.2	1,069	1,896	2,083
Total expenditure	2,371	2,145	10.5	2,038	16.4	4,409	8,817	10,083
EBITDA	616	763	(19.3)	694	(11.3)	1,310	2,622	3,144
Depreciation	126	87	43.7	110	13.8	236	440	467
EBIT	490	675	(27.4)	584	(16.0)	1,074	2,183	2,678
Interest	50	33	52.0	44	12.7	94	163	138
Other income	4	14	(69.2)	5	(24.1)	10	50	50
Profit before tax	444	656	(32.2)	545	(18.4)	989	2,070	2,590
Provision for taxes	24	184	(87.1)	198	(88.0)	222	517	647
Minority interest								
Associate profit share								
Profit- Discontinued Ops								
Reported net profit	421	472	(10.8)	347	21.4	767	1,552	1,942
Adjusted Profit	421	472	(10.8)	347	21.4	767	1,552	1,942
Diluted shares (mn)	133	133		133		266	133	133
Adjusted Diluted EPS	3.2	3.5	(10.8)	2.6	21.4	5.8	11.7	14.6
Diluted P/E (x)	-	-		-		-	18.8	15.0
EV/EBITDA (x)	-	-		-		-	11.9	9.8
ROAE (%)	-	-		-		-	17.7	20.2
Raw material	53.3	53.1		52.5		105.8	54.9	55.0
Employee cost	5.5	5.6		5.5		11.0	5.6	5.4
Other expenses	20.6	15.0		16.6		37.2	16.6	15.7
EBITDA	20.6	26.2		25.4		46.0	22.9	23.8
Reported net profit	14.1	16.2		12.7		26.8	13.6	14.7

Change in Estimates

	FY20E			FY21E			Comments
	New	Old	% change	New	Old	% change	
Net Revenue	11,439	12,325	(7.2)	13,227	13,948	(5.2)	Factoring lower utilization levels
EBITDA	2,622	2,936	(10.7)	3,144	3,425	(8.2)	
EBITDA Margin	22.9	23.8		23.8	24.6		
Adjusted Profit After Tax	1,552	1,763	(12.0)	1,942	2,132	(8.9)	
Net Profit Margin	13.6	14.3		14.7	15.3		
Capex	59	59	0.0	400	400	0.0	

Company Description

CCL was formed set up in 1994 and commenced commercial operations in 1995. It is a profit making, export oriented unit (EoU) with the ability to import green coffee into India from any part of the world and export the same to any part of the world, free of all duties.

The company is in a position to offer a range of in-house products to customers. Its state-of-the-art soluble instant coffee manufacturing plant is located at Duggirala Mandal, Guntur District, Andhra Pradesh, with current combined capacity of 15000MT/PA. CCL has adapted Brazilian technology, purchased from world renowned pioneers in turnkey instant/soluble coffee technology at its plant. This adaptation of technology has enabled CCL to produce international quality soluble coffee. To cater to specific markets, the company has expanded capacity in Switzerland and Vietnam during FY11 and FY14, respectively.

CCL's 3,000MT plant in Switzerland is facing issues on account of unfavorable European Union regulations. This has so far acted as a roadblock for growth and profitability of Swiss operations. Management is exploring options to turn the plant profitable. By end of FY18, the Swiss operations achieved break-even. The company has invested ~INR0.50bn and there is no debt in the Swiss operation.

Investment Theme

CCL Products (CCL) is India's largest manufacturer and exporter of instant coffee. The company's cost-efficient business model, rich experience and long-standing relationships with customers give it an edge over competitors. Coffee processing is a challenging business wherein getting the perfect blend is crucial, which the company has successfully mastered. The newly commissioned green field Vietnam facility with proximity to raw material and customers as well as tax benefits is expected to propel growth and lead to significant cost savings. Moreover, the company's recent entry in the domestic branded coffee segment via Continental is bound to aid margin expansion. Resilient business model, capacity addition in India and Vietnam and sharpening brand focus in India place CCL in a sweet spot to post sales and PAT CAGR of 12% and 20% over FY18-20E, respectively. We estimate RoCE to improve from 23.6% in FY18 to 27.6% in FY18.

Key Risks

Sharp currency movement. However, it imports ~75% of raw material, which provides natural hedge.

Change in duty structure: Unfavourable change in duty rates in any country could impact the competitiveness of supply from Vietnam/India.

Swiss plant duty issue: CCL's Swiss plant is operating at sub-optimal utilisation level because of non-competitive pricing of supplies from Switzerland to the EU. Import duty levied by the EU on Swiss coffee is 9.0%, whereas only 3.3% is charged on coffee supplies from India. However, CCL has taken steps to avoid the adverse duty impact.

Ramp up of Continental brand: FY14 was the first year of Continental brand and adverse customer response could impact the growth prospects as well as financials.

Financial Statements

Key Assumptions

Year to March	FY18	FY19	FY20E	FY21E
Macro				
GDP(Y-o-Y %)	6.7	7.3	7.6	7.9
Inflation (Avg)	3.6	4.5	4.5	4.5
Repo rate (exit rate)	6.0	6.8	6.8	6.8
USD/INR (Avg)	64.5	70.0	72.0	74.0
Company				
Raw Material (% net rev)	63.5	55.2	54.9	55.0
India capacity (MT)	20,000	20,000	25,000	25,000
Vietnam capacity (MT)	10,000	10,000	10,000	13,500
India's cap. Util. (%)	87.0	82.5	76.0	84.0
Vietnam's cap. util. (%)	65.0	70.0	80.0	77.8
Std sales (INR mn)	8,247	8,091	8,199	9,062
Subs. sales (INR mn)	2,882	2,434	2,956	3,880
Std realis. (INR/Kg)	474	490	432	432
Subs. realis. (INR/Kg)	483	348	370	370
Std. EBITDA margin (%)	19.9	20.9	19.4	19.6
Subs. EBITDA margin (%)	13.6	19.5	25.4	28.0
Other exp (% net rev)	14.2	16.7	16.6	15.7
Int (% of avg G.debt)	3.8	2.5	4.6	4.6
Employee cost (% of rev)	4.2	5.5	5.6	5.4
Tax rate as % of PBT	31.6	25.8	25.0	25.0
Capex (INR mn)	(2,328)	(2,413)	(59)	(400)
Net borrowings (INR mn)	2,273	2,411	2,187	1,754
Debtor days	55	70	77	74
Inventory days	92	118	111	98
Payable days	6	21	24	14
Cash conversion cycle	142	167	164	158
Dep. (% gross block)	5.2	4.0	4.2	4.0

Income statement

(INR mn)

Year to March	FY18	FY19	FY20E	FY21E
Net revenue	11,380	10,814	11,439	13,227
Materials costs	7,225	5,973	6,282	7,280
Gross profit	4,155	4,841	5,158	5,947
Employee costs	475	589	639	720
Other Expenses	1,610	1,802	1,896	2,083
Operating expenses	2,085	2,391	2,535	2,803
Total operating expenses	9,310	8,364	8,817	10,083
EBITDA	2,070	2,450	2,622	3,144
Depreciation	341	317	440	467
EBIT	1,729	2,133	2,183	2,678
Less: Interest Expense	78	85	163	138
Add: Other income	48.49	33.38	50.00	50.00
Profit Before Tax	1,699	2,081	2,070	2,590
Less: Provision for Tax	537	538	517	647
Reported Profit	1,162	1,544	1,552	1,942
Adjusted Profit	1,162	1,544	1,552	1,942
Shares o /s (mn)	133	133	133	133
Adjusted Basic EPS	8.7	11.6	11.7	14.6
Diluted shares o/s (mn)	133	133	133	133
Adjusted Diluted EPS	8.7	11.6	11.7	14.6
Adjusted Cash EPS	11.4	14.0	15.0	18.1
Dividend per share (DPS)	3.0	4.0	5.0	6.0
Dividend Payout Ratio(%)	41.3	41.5	51.6	49.5

Common size metrics

Year to March	FY18	FY19	FY20E	FY21E
Gross margin	36.5	44.8	45.1	45.0
Operating expenses	18.3	22.1	22.2	21.2
Interest Expense	0.7	0.8	1.4	1.0
EBITDA margins	18.2	22.7	22.9	23.8
EBIT margins	15.2	19.7	19.1	20.2
Net Profit margins	10.2	14.3	13.6	14.7

Growth ratios (%)

Year to March	FY18	FY19	FY20E	FY21E
Revenues	16.5	(5.0)	5.8	15.6
EBITDA	(8.2)	18.4	7.0	19.9
PBT	(9.1)	22.5	(0.6)	25.1
Adjusted Profit	(12.2)	32.8	0.5	25.1
EPS	(12.2)	32.8	0.5	25.1

Balance sheet		(INR mn)			
As on 31st March	FY18	FY19	FY20E	FY21E	
Share capital	266	266	266	266	
Reserves & Surplus	7,133	8,123	8,875	9,857	
Shareholders' funds	7,399	8,389	9,141	10,123	
Long term borrowings	1,817	1,926	1,926	1,926	
Short term borrowings	1,266	1,835	1,335	835	
Total Borrowings	3,084	3,761	3,261	2,761	
Def. Tax Liability (net)	392	396	396	396	
Sources of funds	10,875	12,546	12,798	13,280	
Gross Block	6,530	6,966	10,466	11,666	
Net Block	3,711	3,830	6,890	7,624	
Capital work in progress	2,264	4,241	800	-	
Intangible Assets	-	-	-	-	
Total Fixed Assets	5,975	8,071	7,690	7,624	
Non current investments	15	15	15	15	
Cash and Equivalents	811	1,350	1,074	1,007	
Inventories	1,832	2,019	1,807	2,114	
Sundry Debtors	1,820	2,352	2,476	2,863	
Loans & Advances	34	101	111	122	
Other Current Assets	849	308	308	308	
Current Assets (ex cash)	4,535	4,780	4,702	5,407	
Trade payable	103	571	258	299	
Other Current Liab	358	1,100	426	475	
Total Current Liab	461	1,670	684	774	
Net Curr Assets-ex cash	4,074	3,110	4,018	4,633	
Uses of funds	10,875	12,546	12,798	13,280	
BVPS (INR)	55.6	63.1	68.7	76.1	

Free cash flow		(INR mn)			
Year to March	FY18	FY19	FY20E	FY21E	
Reported Profit	1,162	1,544	1,552	1,943	
Add: Depreciation	341	317	440	467	
Interest (Net of Tax)	52	57	109	92	
Others	229	57	(109)	(93)	
Less: Changes in WC	333	359	908	615	
Operating cash flow	1,451	1,616	1,084	1,794	
Less: Capex	2,328	2,413	59	400	
Free Cash Flow	(877)	(798)	1,025	1,394	

Cash flow metrics		FY18	FY19	FY20E	FY21E
Year to March					
Operating cash flow		1,451	1,616	1,084	1,794
Financing cash flow		1,289	421	(1,301)	(1,462)
Investing cash flow		(2,467)	(1,747)	(59)	(400)
Net cash Flow		274	289	(276)	(68)
Capex		(2,328)	(2,413)	(59)	(400)
Dividend paid		(333)	(565)	(665)	(799)

Profitability and efficiency ratios		FY18	FY19	FY20E	FY21E
Year to March					
ROAE (%)		17.0	19.6	17.7	20.2
ROACE (%)		20.0	19.1	18.2	21.6
Inventory Days		92	118	111	98
ROA		12.5	13.2	12.3	14.9
Debtors Days		55	70	77	74
Payable Days		6	21	24	14
Cash Conversion Cycle		142	167	164	158
Current Ratio		11.6	3.7	8.4	8.3
Gross Debt/EBITDA		1.5	1.5	1.2	0.9
Gross Debt/Equity		0.4	0.4	0.4	0.3
Adjusted Debt/Equity		0.4	0.4	0.4	0.3
Interest Coverage Ratio		22.1	25.2	13.4	19.4
LT debt /Cap empl. (%)		28.4	30.0	25.5	20.8
Debt / Cap employed (%)		36.2	46.4	33.9	29.6

Operating ratios		FY18	FY19	FY20E	FY21E
Year to March					
Total Asset Turnover		1.2	0.9	0.9	1.0
Fixed Asset Turnover		3.0	2.9	2.1	1.8
Equity Turnover		1.7	1.4	1.3	1.4

Valuation parameters		FY18	FY19	FY20E	FY21E
Year to March					
Adj. Diluted EPS (INR)		8.7	11.6	11.7	14.6
Y-o-Y growth (%)		(12.2)	32.8	0.5	25.1
Adjusted Cash EPS (INR)		11.4	14.0	15.0	18.1
Diluted P/E (x)		24.9	18.8	18.7	14.9
P/B (x)		3.9	3.5	3.2	2.9
EV / Sales (x)		2.8	2.9	2.7	2.3
EV / EBITDA (x)		15.1	12.8	11.9	9.8
Dividend Yield (%)		1.4	1.8	2.3	2.8

Additional Data

Directors Data

Challa Rajendra Prasad	Chairman	Challa Srishant	Managing Director
I J Rao	Director	K Chandrahas	Director
Vipin K Singhal	Director	K K Sarma	Director
B Mohan Krishna	Director	J. Rambabu IAS	Director
G.V. Krishna Rau	Director	Ms. Shantha Prasad Challa	Director
Ms. Kulsoom Noor Saifullah	Director	Dr. Lanka Krishnanand	Director

Auditors - M.Anandam

**as per last available data*

Holding Top -10

	Perc. Holding		Perc. Holding
Capital Research Global Investor	8.94	INDIA WHIZDOM FUND	1.46
FMR LLC	3.77	Franklin Resources Inc	1.40
FIAM GROUP TRUST	2.60	Dimensional Fund Advisors LP	1.24
Malabar India Fund	2.29	Grantham Mayo Van Otterloo & Co LL	1.16
VALUEQUEST INDIA MOAT FUND	1.83	Schroders PLC	0.91

**as per last available data*

Bulk Deals

Data	Acquired / Seller	B/S	Qty Traded	Price
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No Data Available

**as per last available data*

Insider Trades

Reporting Data	Acquired / Seller	B/S	Qty Traded
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No Data Available

**as per last available data*

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Coverage group(s) of stocks by primary analyst(s): Miscellaneous

AIA Engineering, Apar Industries Ltd, Balkrishna Industries, CCL Products India, Essel Propack, Orient Refractories, Polyplex Corporation Ltd., Sheela Foam Ltd, Uflex Ltd., Vesuvius India, VIP Industries

Recent Research

Date	Company	Title	Price (INR)	Recos
18-Oct-19	Sheela foam	Navigating the current scenario; <i>Visit Note</i>	1,250	Buy
07-Oct-19	Polyplex Corporation	Fortified BOPET player; <i>Company Update</i>	421	Buy
20-Sep-19	Apar Industries	Value-added boost; <i>Visit Note</i>	570	Buy

Distribution of Ratings / Market Cap

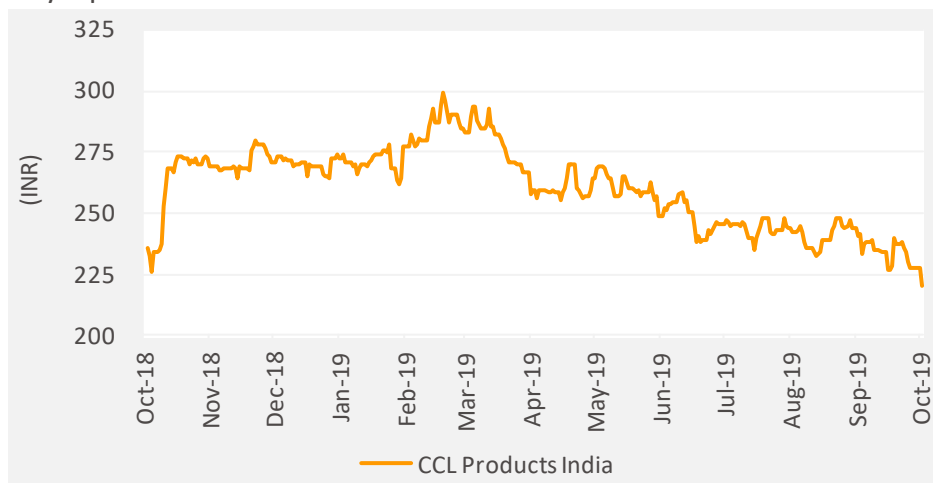
Edelweiss Research Coverage Universe

	Buy	Hold	Reduce	Total
Rating Distribution*	161	67	11	240
* 1stocks under review				
	> 50bn	Between 10bn and 50 bn	< 10bn	
Market Cap (INR)	156	62	11	

Rating Interpretation

Rating	Expected to
Buy	appreciate more than 15% over a 12-month period
Hold	appreciate up to 15% over a 12-month period
Reduce	depreciate more than 5% over a 12-month period

One year price chart



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