

## CCL Products (India) Ltd.

No. of shares (m)	133.0
Mkt cap (Rs crs/\$m)	6302/789.0
Current price (Rs/\$)	474/5.9
Price target (Rs/\$)	511/6.4
52 W H/L (Rs.)	515/316
Book Value (Rs/\$)	96/1.2
Beta	0.9
Daily volume (avg. monthly NSE)	447030
P/BV (FY23e/24e)	4.6/4.1
EV/EBITDA (FY23e/24e)	18.4/14.9
P/E (FY23e/24e)	28.6/22.2
EPS growth (FY22/23e/24e)	12.1/7.7/28.7
OPM (FY22/23e/24e)	22.6/21.8/22.8
ROE (FY22/23e/24e)	17.9/17.0/19.4
ROCE (FY22/23e/24e)	12.4/12.1/14.3
D/E ratio FY22/23e/24e)	0.5/0.5/0.4
BSE Code	519600
NSE Code	CCL
Bloomberg	CCLP IN
Reuters	CCLP.NS

## Shareholding pattern

	%
Promoters	57.5
MFs / Banks / FIs/Others	4.8
FPIs	1.8
Govt. Holding	0.0
Public & Others	35.9
<b>Total</b>	<b>100.0</b>

As on June 30, 2022

## Recommendation

**HOLD**

## 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

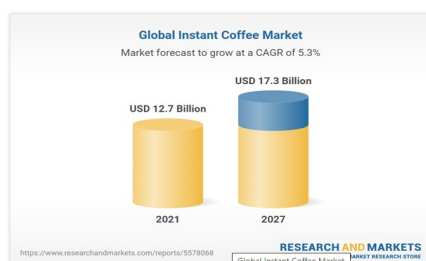
- Driven by near full capacity utilization (~85%) at its Indian and Vietnam units, CCLP posted volume growth of some 25% in the first quarter of current fiscal, thus helping the company post 56.2% growth in revenues to Rs 509.28 crs when compared to Rs 326.12 crs in the same quarter a year ago. Coffee sourcing from some of the small players - mostly generic products - has barely help diminished volume growth in last couple of quarters.
- With record product realizations, OPMs have all but fallen to 17.4% (22.1% in Q1 of previous fiscal) not least due to little variation in its pricing model (fixed per kg margins). Wherefore, operating profits rose by much diminished 23% to Rs 88.54 crs as against Rs 71.98 crs in the same quarter a year ago. Needless to say, margins have got a leg up from growing capacity utilization of its small packs facility, whose throughput surged past 50% in the last quarter. With depreciation costs up 25.5%, PBT rose by little enthusing 24% and post tax earnings advanced by 20.3% to Rs 52.74 crs as against Rs 43.84 crs in the year ago period.
- Enthralled by higher coffee demand - reflected in its order book - at Ngon Coffee Company Limited, Vietnam, CCLP has drawn plans to increase its spray dried capacity by 16500 tons at a cost of \$30 mn, largely funded by debt. Ngon Coffee's previously increased capacity of 3500 tons has operated at high utilization last fiscal.
- The stock currently trades at 28.6x FY23e EPS of Rs 16.54 and 22.2x FY24e EPS of Rs 21.30. Increased value addition and penetration in overseas market holds key for supporting CCLP's volume growth over next few years. Though increased capacity utilization at both Vietnam and India helped in resurrection of revenue growth in last few quarters, yet introduction of value added products and identification of potential markets are essential for market share gains globally. Buttressed by higher volumes at new Vietnam facility, post tax earnings are projected to grow by some 29% next fiscal. Balancing odds, we assign "hold" rating on the stock with revised target of Rs 511 (Previous target: Rs 339) based on 24x FY24e earnings over a period of 6-9 months.

(Figures in Rs crs)	FY20	FY21	FY22	FY23e	FY24e
Income from operations	1139.15	1242.48	1462.03	1692.29	2001.26
Other Income	4.50	3.39	4.09	4.55	4.99
EBITDA (other income included)	290.39	301.15	335.16	374.15	462.00
Profit after EO	165.94	182.26	204.35	220.09	283.30
EPS (Rs)	12.47	13.70	15.36	16.54	21.30
EPS growth (%)	7.1	9.8	12.1	7.7	28.7

## Outlook & Recommendation

### Global instant coffee industry outlook

If estimates of industry reports are anything to go by, the global instant coffee market would touch a value of US\$ 17.3 bn by 2027 from US\$ 12.7 bn in 2021, thus exhibiting a CAGR of 5.4% during 2022-2027. Market growth will attain momentum in coming years not least due to population growth in several instant coffee drinking countries. Further, the consumption of premium instant coffee products is growing at a rapid pace in emerging markets like the Middle East, Eastern Europe and South East Asia due to several factors namely, growing urbanization, rising disposable incomes and altering food patterns of the consumers in these countries.

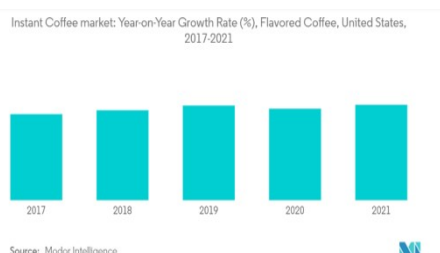


Demand of coffee in homes, cafes, hotels and restaurants is also expected to get a boost from growing affordability of single-serve packets and increasing convenience to the consumers. This allows the consumers to experience different flavors of coffee without spending on bulk packs.

Margins of instant coffee manufacturers too look to improve, all thanks to their ability to launch new coffee flavors such as mocha, green bean, Italian roast, French vanilla, ginger-bread cookie, cardamom bun and chocolate caramel in the market to expand the consumer base. Value addition in this form helps manufacturers prop up their profits. Some reports also opine that some of the trends that would augment the growth of instant coffee market in future include increasing preparation of instant espresso coffee at home, premiumization of instant coffee in food and beverages, and rising popularity of specialty drinks and artisan coffee.



Source: Modor Intelligence



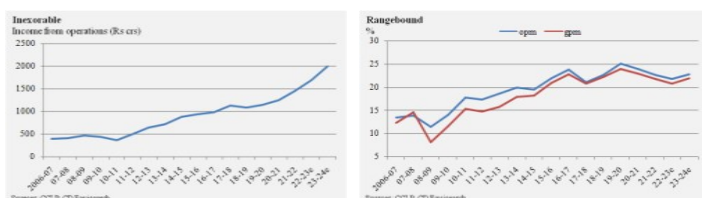
Source: Modor Intelligence

A report by Modor Intelligence posits that the instant coffee market is projected to record a CAGR of 5.28% during 2022-2027 periods. It mentions that Asia-Pacific is set for robust market growth over the forecast period as many countries in the Asia-Pacific region, which have been traditional consumers of tea, are seen increased penetration of instant coffee. China provides a strong opportunity for the major instant coffee retailers, as the country has witnessed a shift in preferences, citing the millennial consumption patterns. As per the International Coffee Organization, in 2020-21, Japan imported 6,751 bags ( in thousands 60 kgs) of green coffee beans., thus making it the biggest market in Southeast Asia.

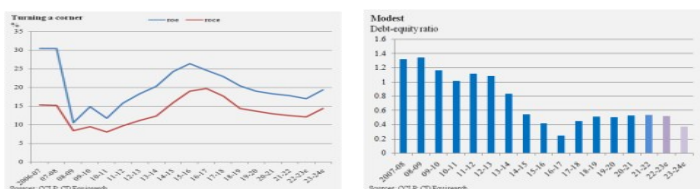
## Financials & Valuation

Notwithstanding global opportunities in instant coffee market, demand tailwinds in Indian market galore not least due to flexibility of Indian consumers in trying different formats of coffee. Further, growth of e-commerce segment in India has shortened delivery period of merchandise thus boosting coffee penetration. Simplicity of preparation of instant coffee has done little to lessen coffee penetration in the country.

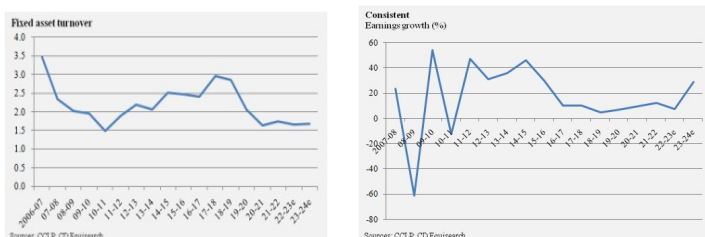
After enhancing Vietnam plant capacity by 3500 tons sometime last fiscal, CCLP has pulled out all stops to augment its Vietnam spray dried capacity by 16500 tons with an outlay of \$30 mn and which would commence production sometime by the end of current fiscal. With the demand for small packs on the rise, CCLP's small pack facility would see further ramp up over the next two years as demand for small packs advances in both domestic and overseas markets. Growing exports have barely escaped CCLP's attention for efforts are being made to grow volumes in US market by courting new clients. In Europe, the existing supermarket supply network is leveraged to boost volumes while adding new supermarkets.



CCLP's domestic business has shown little signs of let up with introduction of new variants and aggressive marketing in southern markets of India. It would continue to look for market penetration and expansion of distribution network to boost growth. With reopening of educational institutions, offices and restaurants, business opportunities have emerged to place coffee machines and consumables at these places in India.



The stock currently trades at 28.6x FY23e EPS of Rs 16.54 and 22.2x FY24e EPS of Rs 21.30. Bolstered by commencement of new capacity of 16500 tons at Vietnam sometime by the end of current fiscal, volumes would scarcely stay suppressed, thus precipitating some 29% growth in post tax earnings next fiscal. With higher utilization of assets, return on capital would also start to inch upwards - ROE projected at 19.4% for FY24 compared to 17.9% in FY22. Though "repeat purchase" nature of coffee does facilitate scaling, yet sustenance of CCLP's volume growth rests on its ability to grab market share in both local and overseas market not least due to maturing coffee industry (industry growth would average 5% over next few years). Challenges in gaining market share in India while at the same time staying profitable cannot be undermined. Weighing odds, we assign "hold" rating on the stock with revised target of Rs 511 (previous target: Rs 339) based on 24x FY24e earnings over a period of 6-9 months. For more info refer to our October report.



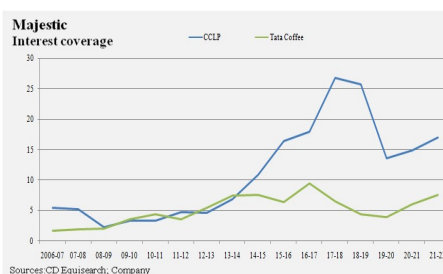
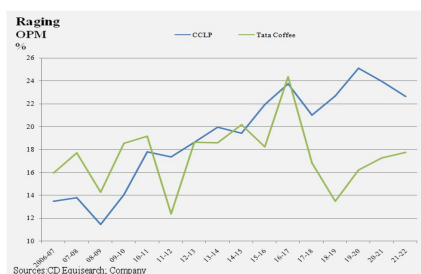
## Cross Sectional Analysis

Company	Equity*	CMP	Mcap*	OI*	PAT*	OPM <sup>a</sup>	NPM <sup>a</sup>	Int Cov.	ROE <sup>a</sup>	Mcap / OI	P/BV	P/E
CCL Products	27	474	6302	1645	213	21.1	13.0	17.4	17.9	3.8	4.9	29.6
Tata Coffee	19	232	4340	2493	157	17.9	9.9	8.1	87	1.7	18.3	27.6

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

<sup>a</sup>Margins & ROE in %

Tata Coffee's instant coffee division grew well last fiscal not least due to record capacity utilization as it managed to achieve several breakthroughs in US and record robust performance in Japan. Much of the headwinds posed by cost escalations and Covid induced lockdowns last fiscal were overcome by efficient sourcing of coffee beans, focused productivity and cost efficiency measures. In its instant coffee business, Tata Coffee would continue to focus on emerging markets, development of new products and packaging formats. Its new state-of-the-art 5000 tonnes per annum, freeze dried coffee plant in Vietnam, which was commissioned in May 2019, achieved 98% capacity utilization with enhanced yields last fiscal. Entrenched relationships with some of the biggest names in instant coffee – brand owners and importers - would aid the company in warding off commodity cycles.



## Financials

### Quarterly Results

Figures in Rs crs

	Q1FY23	Q1FY22	% chg.	FY22	FY21	% chg.
<b>Income from operations</b>	<b>509.28</b>	<b>326.12</b>	<b>56.2</b>	<b>1462.03</b>	<b>1242.48</b>	<b>17.7</b>
Other Income	0.23	0.11	108.1	4.09	3.39	20.7
<b>Total Income</b>	<b>509.51</b>	<b>326.23</b>	<b>56.2</b>	<b>1466.12</b>	<b>1245.87</b>	<b>17.7</b>
Total Expenditure	420.74	254.14	65.6	1130.97	944.72	19.7
<b>EBIDTA (other income included)</b>	<b>88.77</b>	<b>72.09</b>	<b>23.1</b>	<b>335.16</b>	<b>301.15</b>	<b>11.3</b>
Interest	5.09	4.78	6.6	16.36	16.95	-3.5
Depreciation	17.04	13.58	25.5	57.46	49.41	16.3
<b>PBT</b>	<b>66.64</b>	<b>53.74</b>	<b>24.0</b>	<b>261.33</b>	<b>234.78</b>	<b>11.3</b>
Tax	13.90	9.89	40.4	56.98	52.52	8.5
<b>Net profit</b>	<b>52.74</b>	<b>43.84</b>	<b>20.3</b>	<b>204.35</b>	<b>182.26</b>	<b>12.1</b>
Minority interest	-	-	-	-	-	-
<b>Net profit after MI</b>	<b>52.74</b>	<b>43.84</b>	<b>20.3</b>	<b>204.35</b>	<b>182.26</b>	<b>12.1</b>
Extraordinary Item	-	-	-	-	-	-
<b>Adjusted Net Profit</b>	<b>52.74</b>	<b>43.84</b>	<b>20.3</b>	<b>204.35</b>	<b>182.26</b>	<b>12.1</b>
EPS (F.V. 2)	3.96	3.30	20.3	15.36	13.70	12.1

### Consolidated Income Statement

Figures in Rs crs

	FY20	FY21	FY22	FY23e	FY24e
<b>Income from operations</b>	<b>1139.15</b>	<b>1242.48</b>	<b>1462.03</b>	<b>1692.29</b>	<b>2001.26</b>
Growth (%)	5.3	9.1	17.7	15.7	18.3
Other Income	4.50	3.39	4.09	4.55	4.99
<b>Total Income</b>	<b>1143.65</b>	<b>1245.87</b>	<b>1466.12</b>	<b>1696.84</b>	<b>2006.25</b>
Total Expenditure	853.26	944.72	1130.97	1322.69	1544.25
<b>EBITDA (other income included)</b>	<b>290.39</b>	<b>301.15</b>	<b>335.16</b>	<b>374.15</b>	<b>462.00</b>
Interest	17.96	16.95	16.36	23.44	22.33
<b>EBDT</b>	<b>272.43</b>	<b>284.19</b>	<b>318.80</b>	<b>350.71</b>	<b>439.67</b>
Depreciation	47.11	49.41	57.46	72.11	85.55
Tax	59.38	52.52	56.98	58.51	70.82
<b>Net profit</b>	<b>165.94</b>	<b>182.26</b>	<b>204.35</b>	<b>220.09</b>	<b>283.30</b>
Minority interest	-	-	-	-	-
<b>Net profit after MI</b>	<b>165.94</b>	<b>182.26</b>	<b>204.35</b>	<b>220.09</b>	<b>283.30</b>
Extraordinary item	-	-	-	-	-
<b>Adjusted Net Profit</b>	<b>165.94</b>	<b>182.26</b>	<b>204.35</b>	<b>220.09</b>	<b>283.30</b>
EPS (Rs.)	12.47	13.70	15.36	16.54	21.30

**Consolidated Balance Sheet**

Figures in Rs crs

	<b>FY20</b>	<b>FY21</b>	<b>FY22</b>	<b>FY23e</b>	<b>FY24e</b>
<b>SOURCES OF FUNDS</b>					
Share Capital	26.61	26.61	26.61	26.61	26.61
Reserves	901.79	1060.69	1224.09	1377.67	1567.85
<b>Total Shareholders Funds</b>	<b>928.39</b>	<b>1087.30</b>	<b>1250.69</b>	<b>1404.27</b>	<b>1594.45</b>
Minority Interest	0.00	0.00	0.00	0.00	0.00
Long term debt	249.46	176.91	111.72	226.72	131.72
<b>Total Liabilities</b>	<b>1177.85</b>	<b>1264.21</b>	<b>1362.41</b>	<b>1630.99</b>	<b>1726.17</b>
<b>APPLICATION OF FUNDS</b>					
Gross Block	882.88	996.21	1146.06	1506.46	1626.05
Less: Accumulated Depreciation	159.24	197.82	263.81	335.93	421.48
<b>Net Block</b>	<b>723.63</b>	<b>798.38</b>	<b>882.24</b>	<b>1170.53</b>	<b>1204.57</b>
Capital Work in Progress	100.18	148.95	159.99	79.59	20.00
Investments	1.48	0.00	0.00	0.00	0.00
<b>Current Assets, Loans &amp; Advances</b>					
Inventory	260.42	319.69	519.14	507.69	560.35
Sundry Debtors	268.11	298.55	319.55	372.30	440.28
Cash and Bank	38.69	120.35	56.27	37.31	13.70
Other Assets	68.79	52.46	96.31	78.08	76.27
<b>Total CA &amp; LA</b>	<b>636.01</b>	<b>791.05</b>	<b>991.27</b>	<b>995.37</b>	<b>1090.60</b>
Current liabilities	276.21	468.37	623.86	570.20	541.53
Provisions	0.00	0.30	6.23	0.00	0.00
<b>Total Current Liabilities</b>	<b>276.21</b>	<b>468.67</b>	<b>630.09</b>	<b>570.20</b>	<b>541.53</b>
Net Current Assets	359.81	322.38	361.18	425.17	549.07
Net Deferred Tax (net of liability)	-46.25	-48.99	-72.61	-76.61	-80.61
Other Assets (Net of liabilities)	39.00	43.48	31.61	32.31	33.15
<b>Total Assets</b>	<b>1177.85</b>	<b>1264.21</b>	<b>1362.41</b>	<b>1630.99</b>	<b>1726.17</b>

**Key Financial Ratios**

	FY20	FY21	FY22	FY23e	FY24e
<b>Growth Ratios</b>					
Revenue (%)	5.3	9.1	17.7	15.7	18.3
EBIDTA (%)	16.7	3.7	11.3	11.6	23.5
Net Profit (%)	7.1	9.8	12.1	7.7	28.7
EPS (%)	7.1	9.8	12.1	7.7	28.7
<b>Margins</b>					
Operating Profit Margin (%)	25.1	24.0	22.6	21.8	22.8
Gross Profit Margin (%)	23.9	22.9	21.8	20.7	22.0
Net Profit Margin (%)	14.6	14.7	14.0	13.0	14.2
<b>Return</b>					
ROCE (%)	13.7	13.0	12.4	12.1	14.3
ROE (%)	19.1	18.3	17.9	17.0	19.4
<b>Valuations</b>					
Market Cap / Sales	2.1	2.5	3.7	3.7	3.1
EV/EBIDTA	9.6	11.8	17.8	18.4	14.9
P/E	14.2	17.1	26.3	28.6	22.2
P/BV	2.5	2.9	4.4	4.6	4.1
<b>Other Ratios</b>					
Interest Coverage	13.5	14.8	17.0	12.9	16.9
Debt-Equity Ratio	0.5	0.5	0.5	0.5	0.4
Current Ratio	2.3	1.6	1.5	1.6	1.9
<b>Turnover Ratios</b>					
Fixed Asset Turnover	2.1	1.6	1.7	1.6	1.7
Total Asset Turnover	1.0	1.0	1.1	1.2	1.2
Debtors Turnover	4.5	4.4	4.7	4.9	4.9
Inventory Turnover	3.7	3.3	2.7	2.6	2.9
Creditors Turnover	20.9	40.8	33.6	30.1	33.4
<b>WC Ratios</b>					
Debtor Days	80.6	83.2	77.2	74.6	74.1
Inventory Days	98.9	112.1	135.4	141.7	126.2
Creditor Days	17.5	8.9	10.9	12.1	10.9
Cash Conversion Cycle	162.1	186.4	201.6	204.2	189.4

**Cumulative Financial Data**

Figures in Rs crs	FY13-15	FY16-18	FY19-21	FY22-24e
Income from operations	2248	3045	3463	5156
Operating profit	436	676	829	1158
EBIT	359	587	712	956
PBT	307	557	669	894
PAT after MI	206	405	503	708
Dividends	50	120	190	239
OPM (%)	19.4	22.2	23.9	22.5
NPM (%)	9.2	13.3	14.5	13.7
Interest coverage	7.0	19.7	16.4	15.4
ROE (%)	20.7	24.1	19.1	18.0
ROCE (%)	13.8	17.1	13.6	13.5
Fixed asset turnover	2.5	2.9	2.0	1.7
Debtors turnover	8.2	6.9	4.8	4.7
Inventory turnover	4.2	4.4	3.5	3.0
Debtors days	44.7	53.1	76.0	78.5
Inventory days	87.8	82.4	104.5	120.5
Dividend payout ratio (%)	24.5	29.7	37.7	33.8

FY13-15 implies three years ending fiscal 15

Commencement of a new spray dried factory in Vietnam sometime by the end of current fiscal coupled with barely diminished green coffee prices would scarcely stymie cumulative income from operations during FY22-24e as the same is estimated to rise by nearly 50% when compared to that in the previous three year period. Though margins on per kg basis is estimated to show little variability in the projected period, yet increased realizations - effect of firm green coffee prices - would hardly elevate OPMs - 22.5% projected during FY22-24e period Vs 23.9% in FY19-21 period. With much of the benefits of new Vietnam facility expected to fructify until after FY24, return on equity has little headroom to surge past FY19-21 level of 19.1% in the forecasted period (see table).

Backed by no unspectacular surge in revenues and steady OPMs, post tax earnings would advance by 40.7% during FY22-24e period, though with lower NPMs - 13.7% Vs 14.5%. Higher green coffee prices coupled with supply disruptions had caused an unexpected effect: surging inventories. Thence, inventory days during the projected period is estimated to surge to some 120 days from ~105 days in the preceding three year period.



## Financial Summary – US dollar denominated

million \$	FY20	FY21	FY22	FY23e	FY24e
Equity capital	3.5	3.6	3.5	3.3	3.3
Shareholders funds	123.2	144.3	161.5	170.8	194.6
Total debt	62.2	76.1	85.8	89.1	72.2
Net fixed assets (incl CWIP)	109.3	128.9	137.5	156.5	153.3
Investments	0.2	0.0	0.0	0.0	0.0
Net current assets	47.7	40.2	44.1	48.2	63.7
Total assets	156.2	168.4	176.2	199.2	211.1
Revenues	160.7	167.4	196.2	211.9	250.6
EBITDA	41.0	40.6	45.0	46.8	57.8
EBDT	38.4	38.3	42.8	43.9	55.0
PBT	31.8	31.6	35.1	34.9	44.3
Profit after MI	23.4	24.6	27.4	27.6	35.5
EPS(\$)	0.18	0.18	0.21	0.21	0.27
Book value (\$)	0.93	1.08	1.21	1.28	1.46

income statement figures translated at average rates; balance sheet and cash flow at year end rates; projections at current rates (\$79.87/\$)

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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/\$	FY18	FY19	FY20	FY21	FY22
Average	64.45	69.89	70.88	74.20	74.51
Year end	65.04	69.17	75.39	73.50	75.81

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.