

CCL Products (India) Ltd.

No. of shares (m)	133.0
Mkt cap (Rs crs/\$m)	5003/669.1
Current price (Rs/\$)	376/5.0
Price target (Rs/\$)	339/4.5
52 W H/L (Rs.)	495/226
Book Value (Rs/\$)	83/1.1
Beta	0.5
Daily volume (avg. monthly NSE)	413820
P/BV (FY22e/23e)	4.1/3.5
EV/EBITDA (FY22e/23e)	15.9/13.7
P/E (FY22e/23e)	23.9/20.0
EPS growth (FY21/22e/23e)	9.8/14.6/20.0
OPM (FY21/22e/23e)	24.0/23.6/24.0
ROE (FY21/22e/23e)	18.3/18.4/19.1
ROCE (FY21/22e/23e)	13.0/14.0/15.7
D/E ratio FY20/21e/22e)	0.5/0.4/0.2
BSE Code	519600
NSE Code	CCL
Bloomberg	CCLP IN
Reuters	CCLP.NS

Shareholding pattern

	%
Promoters	46.2
MFs / Banks / FIs/Others	17.7
FPIs	9.2
Govt. Holding	0.0
Public & Others	26.9
Total	100.0

As on Sep 30, 2021

Recommendation

HOLD

Analyst

KISHAN GUPTA, CFA, FRM

Phone: + 91 (33) 4488 0043

E- mail: kishan.gupta@cdequi.com

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

- Partially helped by robust growth in domestic business, CCLP posted 12.8% growth in revenues in Q1 at Rs 326.12 crs compared to Rs 289.20 crs in the same quarter a year ago., but slightly lower than Rs 331.58 crs reported in Q4. Part of the fall in revenues in Q1 compared to Q4 is attributed to higher off take of small packs of freeze dried coffee in Q4. Despite rise in green coffee prices and rise in freight costs, OPM expanded by 40 bps in Q1 all thanks to improved product mix. Helped by nearly 15% growth in operating profit, post tax earnings rose by a shade under 14%.
- Much of the capacity expansion at its Vietnam unit, involving some \$17-20 mn is expected to get over by Q3 of next year. Much of its plants in India and Vietnam operated at 70-80% utilization rate in Q1. Small packs have brought about great change to its business, prodding it to consider setting up small packs facility in Vietnam.
- By some industry reports, home consumption of coffee is expected to increase due to Covid-19 pandemic while coffee consumption at coffee shops (out of home) will dramatically come down, thus boosting demand for instant coffee. Demand for up market coffee products continued to witness a steady rise during much of the Covid-19 period last year. The domestic market has also experienced increase off take of different sorts of coffee thanks to availability of such products across different channels in India.
- The stock currently trades at 23.9x FY22e EPS of Rs 15.71 and 20x FY23e EPS of Rs 18.84. Post earnings are projected to rise by 17.3% over the next two years on 14.9% growth in sales. Despite CCLP's increased business penetration in some western nations, business scaling has seen little momentum in last few years - sales growth averaged 5.9% in five years to FY21. Long gestation period in growing reach in domestic markets could barely boost earnings. Weighing odds, we assign "hold" rating on the stock with revised target of Rs 339 (previous target: Rs 326) based on 18x FY23e earnings.

(Figures in Rs crs)	FY19	FY20	FY21	FY22e	FY23e
Income from operations	1081.42	1139.15	1242.48	1438.92	1639.91
Other Income	3.34	4.50	3.39	3.98	4.47
EBITDA (other income included)	248.82	290.39	301.15	343.03	398.05
Profit after EO	154.89	165.94	182.26	208.93	250.68
EPS (Rs)	11.64	12.47	13.70	15.71	18.84
EPS growth (%)	4.6	7.1	9.8	14.6	20.0

Outlook & Recommendation

Global instant coffee industry outlook

According to some industry reports, the global instant coffee market is estimated to grow by 2% annually driven by rising consumption of coffee in China, 3-in-1 growth across Southeast Asia and higher demand in Africa. Instant coffee consumption would get a leg up from favorable demographics, rising popularity of coffee consumption and product innovations. According to a report by IMARC Group, the global instant coffee market may grow at 5.1% CAGR during 2021- 2026 with consumption of premium instant coffee products rapidly rising in emerging markets like the Middle East, Eastern Europe and South East Asia due to inflating disposable incomes, growing urbanization and altering food patterns of the consumers in these regions.

Figure 1: ICO composite indicator daily prices



Source: ICO

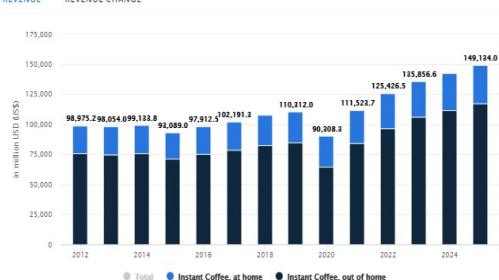
Figure 2: ICO group indicator daily prices



Source: ICO

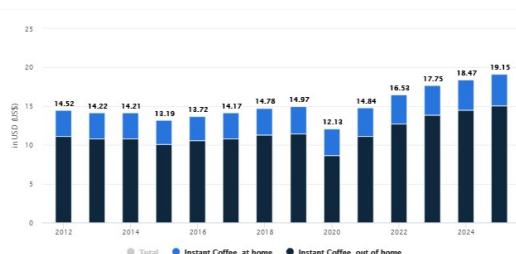
Yet unprecedented increases in ocean freight for few quarters have impacted shipment schedules of exporters and thus impacted their profitability. Other risks to global instant coffee include weaker demand for coffee from several countries in European Union which are still struggling with the pandemic. However, major global players continue to leverage their deep knowledge across the value chain to develop new blends and products to capture emerging trends and opportunities.

REVENUE REVENUE CHANGE



Source: Statista

AVERAGE REVENUE PER CAPITA



Source: Statista

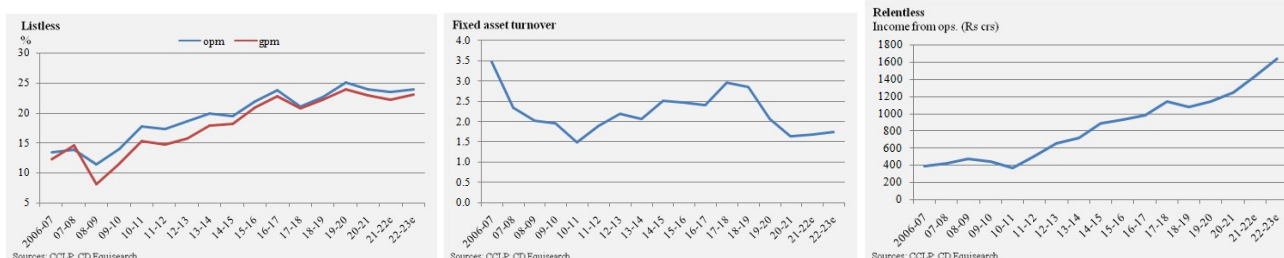
Freezing temperatures brought on by severe frosts in Brazil's coffee belt have stoked fears of lower production, sending prices to several-year highs. In September 2021, coffee prices reached new record highs as the monthly average of the ICO composite indicator price was 170.02 US cents/lb, an increase of 6.2% as compared to 160.14 US cents/lb in August 2021. The coffee market continued to be driven by weather in Brazil and by Covid-related disruptions affecting trade in Asia.

"The damage from Brazil's frost is much worse than we could have imagined and is resulting in a worsening outlook for the 2022-23 crop potential, which, coming after the current small drought hit crop, is very worrying," said Kona Haque at ED&F Man, an agricultural commodities merchant. Coffee buyers are concerned that many farmers and exporters will "default" on their contracts, and not honor their agreements, seeking higher prices.

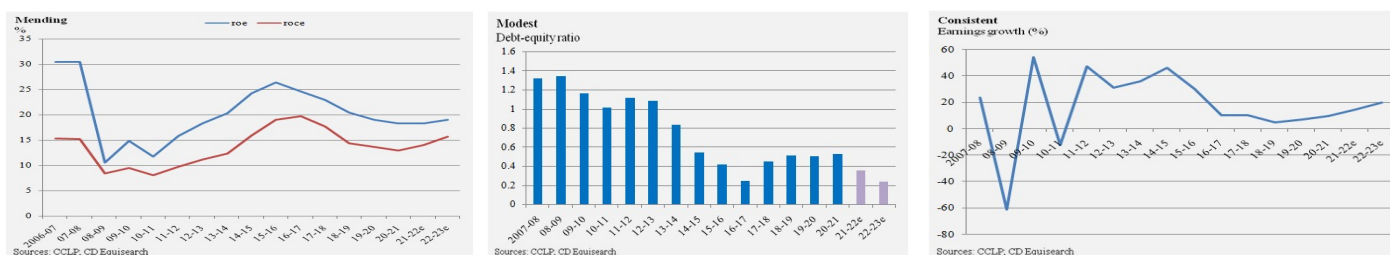
Financials & Valuation

Technological breakthroughs, changing lifestyles and gradual trending of various social media networks have vitalized instant coffee consumption in developing economies over the last few years. With some 9% growth of instant coffee market in India currently, CCLP's domestic branded coffee business has seen no timid growth in sales in last few quarters - though on a puny base - with launch of new flavors capturing consumer fancy. Aggressive marketing & distribution activities in the domestic market would hardly stymie volumes over the next few years.

For instant coffee markets, Asia Pacific regions leads the global market share not least due to changing lifestyles, growing population and ease of instant coffee preparation. Further, demand for premium coffee is gaining ground as people throng to consumer high quality coffee. Coffee consumption in low per capita coffee consuming nations of Asia -Pacific have also got a boost from customization of instant coffee to meet local taste preferences.



With the commissioning of small packs facility, CCLP's revenues would see little drag down in revenues - overall revenues estimated to grow by 15.8% in the current fiscal and 14% in the next as the company gears up to boost capacity utilization in both India and Vietnam post easing of lockdown restrictions. Notwithstanding volatility in green coffee prices globally, CCLP's operating margins would see little downside not least due to its strong pricing power which allows cost pass through. Increased reach in US markets could further act as catalyst to margins and so would be enhanced small packs output.



The stock currently trades at 23.9x FY22e EPS of Rs 15.71 and 20x FY23e EPS of Rs 18.84. Earnings growth - 14.6% in FY22 and 20% in FY23 - would be buttressed by higher capacity utilization of CCLP's plants in both Vietnam and India and stable margins. Despite instant coffee being a consumer product, business scaling of CCLP has been anything but stirring over the last few years - reflected in flat lining of return on capital. Increased domestic penetration coupled with CCLP's focus on boosting its presence in the in-house brands of supermarkets in Europe has the potential of buoy volumes. Weighing odds, we assign "hold" rating on the stock with revised target of Rs 339 (previous target: Rs 326) based on 18x FY23e earnings. For more info refer to our Oct 2020 report.

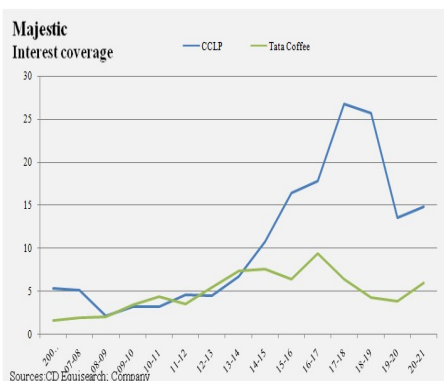
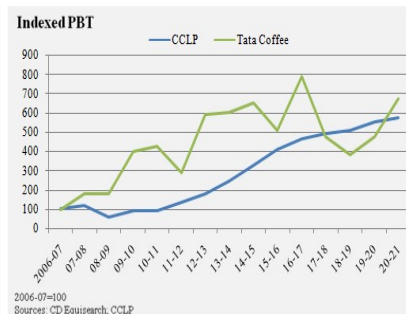
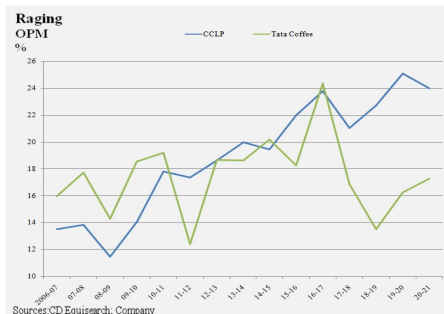
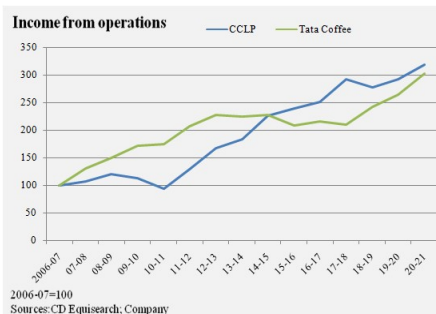
Cross Sectional Analysis

Company	Equity*	CMP	Mcap*	OI*	PAT*	OPM ^a	NPM ^a	Int Cov.	ROE ^a	Mcap / OI	P/BV	P/E
CCL Products	27	376	5003	1279	188	24.0	14.7	15.2	18.0	3.9	4.5	26.7
Tata Coffee	19	225	4208	2205	127	17.3	8.9	6.2	175%	1.9	28.8	33.2

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

^aMargins & ROE in %

Prodded by improved sales of instant coffee in India, Tata Coffee posted nearly 1% growth in revenues in Q2FY22 at Rs 548.52 crs with its Vietnam operations reported stable performance. Operating profit though rose by 15.3% to Rs 102.26 crs compared to Rs 88.69 crs, resulting in 230 bps expansion in operating margins - 18.6% in Q2 Vs 16.3% in Q2 last year. Improved performance in value added business explains much of the jump in margins. Yet the company faced no small challenges in terms of freight cost increases and raw material price inflation. Its subsidiary, Eight O'Clock Coffee (EOC) reported improved financials on account of favorable channel mix and higher cost efficiencies.



Financials

Quarterly Results

Figures in Rs crs

	Q1FY22	Q1FY21	% chg.	FY21	FY20	% chg.
Income from operations	326.12	289.21	12.8	1242.48	1139.15	9.1
Other Income	0.11	0.05	118.4	3.39	4.50	-24.6
Total Income	326.23	289.26	12.8	1245.87	1143.65	8.9
Total Expenditure	254.14	226.33	12.3	944.72	853.26	10.7
EBIDTA (other income included)	72.09	62.92	14.6	301.15	290.39	3.7
Interest	4.78	4.61	3.6	16.95	17.96	-5.6
Depreciation	13.58	12.54	8.3	49.41	47.11	4.9
PBT	53.74	45.77	17.4	234.78	225.32	4.2
Tax	9.89	7.29	35.7	52.52	59.38	-11.5
Net profit	43.84	38.48	13.9	182.26	165.94	9.8
Minority interest	-	-	-	-	-	-
Net profit after MI	43.84	38.48	13.9	182.26	165.94	9.8
Extraordinary Item	-	-	-	-	-	-
Adjusted Net Profit	43.84	38.48	13.9	182.26	165.94	9.8
EPS (F.V. 2)	3.30	2.89	13.9	13.70	12.47	9.8

Consolidated Income Statement

Figures in Rs crs

	FY19	FY20	FY21	FY22e	FY23e
Income from operations	1081.42	1139.15	1242.48	1438.92	1639.91
Growth (%)	-4.9	5.3	9.1	15.8	14.0
Other Income	3.34	4.50	3.39	3.98	4.47
Total Income	1084.75	1143.65	1245.87	1442.90	1644.38
Total Expenditure	835.93	853.26	944.72	1099.87	1246.33
EBITDA (other income included)	248.82	290.39	301.15	343.03	398.05
Interest	8.46	17.96	16.95	24.52	19.33
EBDT	240.36	272.43	284.19	318.51	378.72
Depreciation	31.72	47.11	49.41	57.35	65.36
Tax	53.75	59.38	52.52	52.23	62.67
Net profit	154.89	165.94	182.26	208.93	250.68
Minority interest	0.00	0.00	0.00	0.00	0.00
Net profit after MI	154.89	165.94	182.26	208.93	250.68
Extraordinary item	-	-	-	-	-
Adjusted Net Profit	154.89	165.94	182.26	208.93	250.68
EPS (Rs.)	11.64	12.47	13.70	15.71	18.84

Consolidated Balance Sheet

Figures in Rs crs

	FY19	FY20	FY21	FY22e	FY23e
SOURCES OF FUNDS					
Share Capital	26.61	26.61	26.61	26.61	26.61
Reserves	812.31	901.79	1060.69	1216.41	1413.88
Total Shareholders Funds	838.91	928.39	1087.30	1243.01	1440.48
Minority Interest	0.00	0.00	0.00	0.00	0.00
Long term debt	192.65	249.46	176.91	111.41	45.91
Total Liabilities	1031.56	1177.85	1264.21	1354.42	1486.40
APPLICATION OF FUNDS					
Gross Block	482.79	882.88	996.21	1165.15	1287.65
Less: Accumulated Depreciation	99.80	159.24	197.82	255.17	320.53
Net Block	383.00	723.63	798.38	909.98	967.12
Capital Work in Progress	424.13	100.18	148.95	63.75	20.00
Investments	1.48	1.48	0.00	0.00	0.00
Current Assets, Loans & Advances					
Inventory	201.95	260.42	319.69	359.73	409.98
Sundry Debtors	235.18	268.11	298.55	345.34	393.58
Cash and Bank	96.51	38.69	120.35	23.28	17.63
Other Assets	37.32	68.79	52.46	56.15	57.68
Total CA & LA	570.96	636.01	791.05	784.50	878.87
Current liabilities	347.17	276.21	468.37	393.95	370.35
Provisions	0.01	0.00	0.30	0.00	0.00
Total Current Liabilities	347.17	276.21	468.67	393.95	370.35
Net Current Assets	223.79	359.81	322.38	390.55	508.52
Net Deferred Tax (net of liability)	-39.61	-46.25	-48.99	-50.99	-52.99
Other Assets (Net of liabilities)	38.78	39.00	43.48	41.13	43.74
Total Assets	1031.56	1177.85	1264.21	1354.42	1486.40

Key Financial Ratios

	FY19	FY20	FY21	FY22e	FY23e
Growth Ratios					
Revenue (%)	-4.9	5.3	9.1	15.8	14.0
EBIDTA (%)	2.1	16.7	3.7	13.9	16.0
Net Profit (%)	4.6	7.1	9.8	14.6	20.0
EPS (%)	4.6	7.1	9.8	14.6	20.0
Margins					
Operating Profit Margin (%)	22.7	25.1	24.0	23.6	24.0
Gross Profit Margin (%)	22.2	23.9	22.9	22.1	23.1
Net Profit Margin (%)	14.3	14.6	14.7	14.5	15.3
Return					
ROCE (%)	14.4	13.7	13.0	14.0	15.7
ROE (%)	20.5	19.1	18.3	18.4	19.1
Valuations					
Market Cap / Sales	3.5	2.1	2.5	3.5	3.1
EV/EBIDTA	16.5	9.6	11.8	15.9	13.7
P/E	24.4	14.2	17.1	23.9	20.0
P/BV	4.7	2.5	2.9	4.1	3.5
Other Ratios					
Interest Coverage	25.7	13.5	14.8	11.6	17.2
Debt-Equity Ratio	0.5	0.5	0.5	0.4	0.2
Current Ratio	1.5	2.3	1.6	1.9	2.2
Turnover Ratios					
Fixed Asset Turnover	2.9	2.1	1.6	1.7	1.7
Total Asset Turnover	1.1	1.0	1.0	1.1	1.18
Debtors Turnover	5.2	4.5	4.4	4.5	4.4
Inventory Turnover	4.3	3.7	3.3	3.2	3.2
Creditors Turnover	24.8	20.9	42.5	52.9	54.5
WC Ratios					
Debtor Days	70.4	80.6	83.2	81.7	82.2
Inventory Days	84.1	98.9	112.1	112.7	112.7
Creditor Days	14.7	17.5	8.6	6.9	6.7
Cash Conversion Cycle	139.8	162.1	186.7	187.5	188.2

Cumulative Financial Data

Figures in Rs crs	FY12-14	FY15-17	FY18-20	FY21-23e
Income from operations	1870	2789	3357	4321
Operating profit	352	608	770	1030
EBIT	280	525	670	870
PBT	228	489	636	809
PAT after MI	148	351	469	642
Dividends	34	104	176	160
OPM (%)	18.8	21.8	22.9	23.8
NPM (%)	7.9	12.6	14.0	14.9
Interest coverage	5.3	14.7	19.6	14.3
ROE (%)	17.3	24.8	20.6	18.3
ROCE (%)	11.2	18.2	15.5	14.6
Fixed asset turnover	2.0	2.5	2.0	1.7
Debtors turnover	7.9	6.9	5.2	4.4
Inventory turnover	4.5	4.5	3.9	3.3
Debtors days	45.9	52.9	70.3	83.8
Inventory days	82.0	80.5	93.8	111.5
Dividend payout ratio (%)	23.0	29.7	37.6	24.9

FY12-14 implies three years ending fiscal 14

Steady volume growth coupled with higher green coffee prices explain much of the 28.7% growth in cumulative revenues during FY21-23 when compared to that in the preceding three year period (see table). Better product mix, increased small packs business and higher manufacturing flexibility explain much of the robustness in margins during the projected period - 23.8% in FY21-23 period Vs 22.9% in FY18-20, thus pushing cumulative operating profit growth to 33.8%. Modest increases in depreciation and finance costs would help push cumulative post tax earnings growth to 36.9%.

Yet ROE would barely muster weight not least due to expansion of Vietnam facility sometime by Q2 of FY23, whose full benefits will not accrue before FY24. Thence, fixed asset turnover would decline to 1.7 in FY21-23 period from 2 in FY18-20 period. Marked deterioration in inventory and debtors turnover is estimated over the projected period (see table).

Financial Summary – US dollar denominated

million \$	FY19	FY20	FY21	FY22e	FY23e
Equity capital	3.8	3.5	3.6	3.6	3.6
Shareholders funds	117.2	123.2	144.3	162.7	189.1
Total debt	60.2	62.2	76.1	57.1	44.3
Net fixed assets (incl CWIP)	116.7	109.3	128.9	130.2	132.0
Investments	0.2	0.2	0.0	0.0	0.0
Net current assets	28.3	47.7	40.2	48.7	64.4
Total assets	145.1	156.2	168.4	177.6	195.2
Revenues	154.7	160.7	167.4	192.4	219.3
EBITDA	35.6	41.0	40.6	45.9	53.2
EBDT	34.4	38.4	38.3	42.6	50.6
PBT	29.9	31.8	31.6	34.9	41.9
Profit after MI	22.2	23.4	24.6	27.9	33.5
EPS(\$)	0.17	0.18	0.18	0.21	0.25
Book value (\$)	0.88	0.93	1.08	1.22	1.42

income statement figures translated at average rates; balance sheet and cash flow at year end rates; projections at current rates (\$74.78/\$)

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Registered Office: 37, Shakespeare Sarani, 3rd Floor, Kolkata – 700 017; Phone: +91(33) 4488 0000; Fax: +91(33) 2289 2557 Corporate Office: 10, Vasawani Mansion, 5th Floor, DinshawWachha Road, Churchgate, Mumbai – 400 020. Phone: +91(22) 2283 0652/0653; Fax: +91(22) 2283, 2276 Website: www.cdequi.com; Email: research@cdequi.com

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
Average	64.45	69.89	70.88	74.20
Year end	65.04	69.17	75.39	73.50

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.