

CCL Products (India) Ltd

No. of shares (m)	133.0
Mkt cap (Rs crs/\$m)	3478/495.7
Current price (Rs/\$)	261/3.7
Price target (Rs/\$)	321/4.6
52 W H/L (Rs.)	318/225
Book Value (Rs/\$)	61/0.9
Beta	0.5
Daily volume (avg. monthly NSE)	120840
P/BV (FY19/20e)	4.7/3.7
EV/EBITDA (FY19/20e)	16.5/12.7
P/E (FY19/20e)	24.4/18.7
EPS growth (FY18/19/20e)	10.1/4.6/19.9
OPM (FY18/19/20e)	21.0/22.7/22.9
ROE (FY18/19/20e)	23.0/20.5/21.2
ROCE(FY18/19/20e)	17.7/14.4/15.1
D/E ratio (FY18/19/20e)	0.4/0.5/0.4
BSE Code	519600
NSE Code	CCL
Bloomberg	CCLP IN
Reuters	CCLP.NS

Shareholding pattern

	%
Promoters	45.3
MFs / Banks / FIs/Others	2.8
FPIs	27.5
Govt. Holding	0.0
Public & Others	24.5
Total	100.0

As on Mar 31, 2019

Recommendation

BUY

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. It is also certified to supply organic coffee, rainforest alliance coffee, UTZ certified coffee and fair trade coffee, in any combination

Quarterly Highlights

- Distressed by a loss of a major customer (accounting for 2000 tons annual volumes), CCLP's revenues nerve-wrackingly tumbled last quarter (down 18.3%), resulting in some 24% drop in operating profit (yoy basis). OPMs slid to 20.6% from 22.2% in the same quarter a year ago, no smallish cut from peak margin of 26.2% in Q2, when optimum capacity utilization coupled with increased sales of small packs propelled margins. Despite attempts to reduce promotions in each of its domestic SKUs, plans are afoot to double the domestic branded business (Rs 35 crs in FY19) this fiscal.
- Not surprisingly, part of the revenue fall would also be explained by softening green coffee prices over the course of last fiscal. Increased selling & distribution expenses did little to impede nearly 30% growth in 'other expenses' last quarter. Post tax earnings fell by 24.6% to Rs 35.64 crs last quarter when compared to Rs 47.24 crs in the same quarter a year ago.
- Plans have barely waned to commence the agglomeration and packing unit outside its SEZ unit in India at a cost of some \$10m and to enhance coffee capacity in Vietnam (where capacity utilization have already touched 75%) with \$8m investment. Robust pick up in volumes of small packs both in India and Switzerland necessitated the need to set up a packing facility in India.
- The stock currently trades at 22.5x FY19 EPS of Rs 11.64 and 18.7x FY20e EPS of Rs 13.97. Setting up agglomeration unit in India is aimed at enhanced value addition for agglomerated products generally command 4-5% higher margins compared to spray dried products. Customization holds key for margin gap between bulk and small packs vary widely. Thanks to enhanced value addition and increased volumes, earnings would growth in high teens in current fiscal. On balance, we retain our buy recommendation on the stock with revised target of Rs 321 (previous target: Rs 349) based on 23x FY20e earnings (average three year historical P/E:~28x), over a period of 6 months.

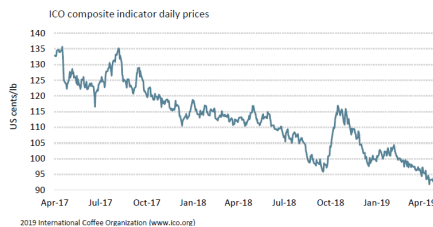
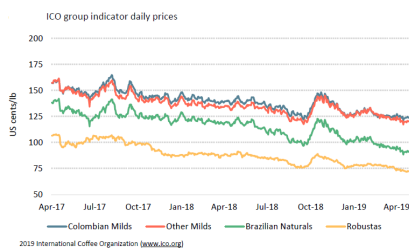
(Figures in Rs crs)	FY16	FY17	FY18	FY19e	FY20e
Income from operations	932.12	976.49	1136.67	1081.42	1282.41
Other Income	1.22	1.23	4.85	3.34	4.49
EBITDA (other income included)	205.95	233.34	243.74	248.82	298.78
Profit after EO	122.12	134.49	148.14	154.89	185.79
EPS (Rs)	9.18	10.11	11.14	11.64	13.97
EPS growth (%)	30.0	10.1	10.1	4.6	19.9

Outlook & Recommendation

Global instant coffee industry outlook

Owing to multiple advantages over fresh coffee - ease of preparation, lower transportation cost – instant coffee is quickly gaining ground globally. Developing single-serve systems and continuing efforts to improve quality, aroma and flavor of the instant coffee have further enliven the demand for instant coffee in emerging markets. By some estimates, the global instant coffee market is estimated to grow at a CAGR of 4.3% during 2019-2025 period.

Asia Pacific region is reporting fastest growth in sales of fortified/functional instant coffee market with Indonesia, India and Vietnam leading the pack. The market is largely driven by surge in new coffee products. Further, increasing working class in emerging markets like India and China has galvanized growth of instant coffee market in Asia Pacific region, according to some industry reports.



World supply/demand balance						
Coffee year (October to September)	2014	2015	2016	2017	2018*	% change 17/18 to 17/15
PRODUCTION	149 932	156 153	157 402	166 040	168 547	1.5%
Arabica	87 064	93 402	99 676	103 032	103 714	2.7%
Robusta	62 868	62 751	57 726	63 008	64 833	-0.2%
Africa	15 983	15 734	16 718	17 497	17 740	1.4%
Asia & Oceania	46 274	49 323	45 299	49 156	48 177	-2.0%
Mexico & Central America	17 188	17 237	20 466	21 828	21 715	-0.5%
South America	70 486	73 859	74 919	77 559	80 015	4.3%
CONSUMPTION	151 223	156 642	157 768	161 379	164 981	2.2%
Exporting countries	46 505	47 500	48 458	49 605	50 257	1.3%
Importing countries	104 718	107 942	109 310	111 774	114 604	2.5%
Africa	10 719	10 951	10 767	10 805	11 167	2.5%
Asia & Oceania	31 950	32 863	34 114	35 225	36 897	4.4%
Mexico & Central America	5 230	5 295	5 114	5 257	5 266	0.2%
Europe	51 008	52 147	52 043	52 996	53 703	1.3%
North America	27 363	28 934	29 559	29 941	30 606	2.3%
South America	24 954	25 251	26 113	26 964	27 222	1.0%
BALANCE	-1 291	711	-366	4 662	3 686	

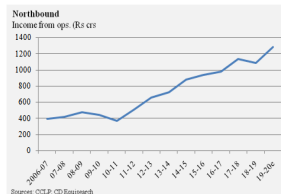
In thousand 60-kg bags
* preliminary estimates
Source: International Coffee Organization

Further, growing disposable income globally has enhanced spending ability on preferred instant beverages. Shifting work culture specifically in the corporate industry coupled with enhancing living standards is further expected to boost demand for such products in global market. Currently, Europe dominates the overall instant coffee industry and the demand from this region is expected to remain robust on account of high demand from countries like Poland, Bulgaria and Russia.

Financials & Valuation

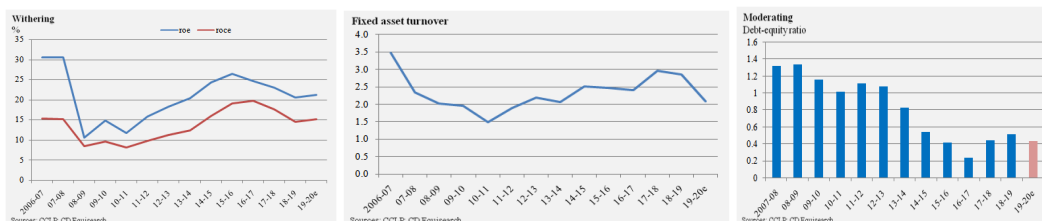
The instant coffee continues to grow at a fast clip in developing economies of Asia and Africa backed by favorable demographics and product innovations. Continuing expansion of modern retail is also fueling demand for instant coffee. New products such as microgrid, flavor infused coffee also pose as frontiers of rapid growth.

Supported by motley of growth enhancing factors such as increasing revenue share of small packs & premium products, robust offtake of domestic branded business and hectic client acquisition, CCLP's overall coffee volumes would grow in mid-teens in current fiscal. Besides, off take from US market is hardly showing any signs of weariness for now. Plans have been laid out to buttress the fledgling Indian business with additional fund support.



Owing to new client acquisitions and order cancellation by a key customer, working capital ratio discernibly deteriorated last fiscal. Debtor days ballooned to ~70 days from 55 days, while inventory days rose to ~84 days from 74 days. Thanks to robust pick up in volumes, OPMs would barely wither – 22.9% Vs 22.7% in FY18. Yet risk sharp fluctuations in margins accentuated by eccentricity of product mix can be scarcely ignored.

The stock currently trades at 22.5x FY19 EPS of Rs 11.64 and 18.7x FY20e EPS of Rs 13.97. Setting up agglomeration unit in India is aimed at enhanced value addition for agglomerated products generally command 4-5% higher margins compared to spray dried products. Customization holds key for margin gap between bulk and small packs vary widely. Thanks to enhanced value addition and increased volumes, earnings would growth in high teens in current fiscal. On balance, we retain our buy recommendation on the stock with revised target of Rs 321 (previous target: Rs 349) based on 23x FY20e earnings (average three year historical P/E:~28x), over a period of 6 months.(For more info refer to our July report).



Risks & Concerns

Competition

Excess capacity globally in both spray and freeze dried markets pose no puny risks for existing businesses for competitive intensity in this market is barely reduced by low barriers to entry. Churning out value added products coupled with quality control mechanisms partly help reduce pressure on prices precipitated by increasing competition.

Climatic factors

Adversarial impact of weather - vagaries of rainfall; undesirable fluctuations in temperature - on the quality of coffee beans used in instant coffee manufacturing could be barely profitable for business. Product quality degradation could also be induced by unexpected changes in severity of newer pests.

Cross Sectional Analysis

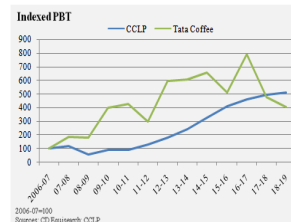
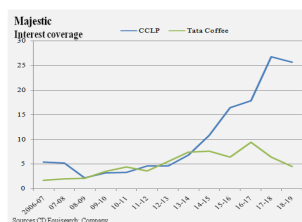
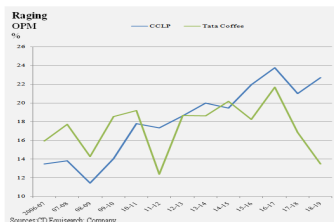
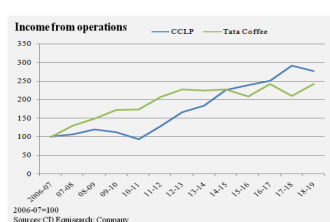
Company	Equity*	CMP (Rs)	Mcap*	OI*	PAT*	OPM ^a	NPM ^a	Int Cov.	ROE ^a	Mcap / OI	P/BV	P/E	EV/EBITDA
CCLP	27	261	3478	1081	155	22.7	14.3	25.7	20.5	3.2	4.3	22.5	15.3
Tata Coffee	19	91	1690	1804	61	13.5	5.5	4.5	-	0.9		27.6	5.6

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

^aMargins & ROE in %

Consolidated profit before tax (before exceptional items) of Tata Coffee slid nearly 20% last fiscal largely on account of weak profitability at its EOC subsidiary, which despite higher total sales reported lower bag coffee volumes. On the background of intense competition, it increased spend on consumer promotions and marketing activities. However, Tata Coffee's instant coffee business reported record production and dispatches since inception.

The year also saw Tata Coffee foraying in international market with the commissioning of a 5000 TPA state-of-the-art Freeze-Dried coffee plant in Vietnam. To improve its market presence, the Company's instant coffee division continues to focus significantly on providing customized and differentiated offerings. Focus continues to exploit business in high growth clusters like South East Asia, Africa and Middle East; it reported strong off take in Africa and Europe last fiscal. Yet its instant coffee business continues to remain under pressure on account of increasing competition and rupee appreciation.



Financials

Quarterly Results

Figures in Rs crs

	Q4FY19	Q4FY18	% chg.	FY19	FY18	% chg.
Income from operations	262.13	320.88	-18.3	1081.42	1136.67	-4.9
Other Income	0.75	1.63	-54.2	3.34	4.85	-31.2
Total Income	262.88	322.51	-18.5	1084.75	1141.52	-5.0
Total Expenditure	208.06	249.71	-16.7	835.93	897.78	-6.9
PBIDT (other income included)	54.82	72.81	-24.7	248.82	243.74	2.1
Interest	2.61	2.11	23.7	8.46	7.83	8.0
Depreciation	4.73	8.74	-45.9	31.72	34.09	-6.9
PBT	47.48	61.96	-23.4	208.64	201.83	3.4
Tax	11.84	14.71	-19.5	53.75	53.70	0.1
Net profit	35.64	47.24	-24.6	154.89	148.13	4.6
Minority interest	-	-	-	-	-	-
Net profit after MI	35.64	47.24	-24.6	154.89	148.13	4.6
Extraordinary Item	-	-	-	0.00	-0.01	-100.0
Adjusted Net Profit	35.64	47.24	-24.6	154.89	148.14	4.6
EPS (F.V. 2)	2.68	3.55	-24.6	11.64	11.14	4.6

Consolidated Income Statement

Figures in Rs crs

	FY16	FY17	FY18	FY19	FY20e
Income from operations	932.12	976.49	1136.67	1081.42	1282.41
Growth (%)	5.9	4.8	16.4	-4.9	18.6
Other Income	1.22	1.23	4.85	3.34	4.49
Total Income	933.35	977.72	1141.52	1084.75	1286.89
Total Expenditure	727.39	744.38	897.78	835.93	988.11
EBITDA (other income included)	205.95	233.34	243.74	248.82	298.78
Interest	10.82	11.17	7.83	8.46	11.86
EBDT	195.14	222.16	235.91	240.36	286.92
Depreciation	28.38	33.25	34.09	31.72	33.41
Tax	44.64	54.35	53.70	53.75	67.73
Net profit	122.12	134.56	148.13	154.89	185.79
Minority interest	-	-	-	-	-
Net profit after MI	122.12	134.56	148.13	154.89	185.79
Extraordinary item	0.00	0.07	-0.01	-	-
Adjusted Net Profit	122.12	134.49	148.14	154.89	185.79
EPS (Rs.)	9.18	10.11	11.14	11.64	13.97

Consolidated Balance Sheet

Figures in Rs crs

	FY16	FY17	FY18	FY19	FY20e
SOURCES OF FUNDS					
Share Capital	26.61	26.61	26.61	26.61	26.61
Reserves	491.17	601.70	713.33	812.31	941.97
Total Shareholders Funds	517.77	628.30	739.94	838.92	968.57
Minority Interest	0.00	0.00	0.00	0.00	0.00
Long term debt	44.32	2.56	181.75	192.65	172.65
Total Liabilities	562.11	630.87	921.68	1031.56	1141.22
APPLICATION OF FUNDS					
Gross Block	417.31	421.91	434.19	477.79	971.91
Less: Accumulated Depreciation	0.00	28.63	63.07	94.79	128.19
Net Block	417.31	393.28	371.13	383.00	843.72
Capital Work in Progress	0.00	0.16	226.39	424.13	42.00
Investments	1.51	1.51	1.48	1.48	1.48
Current Assets, Loans & Advances					
Inventory	148.60	182.76	183.16	201.95	212.05
Sundry Debtors	127.82	162.74	182.03	235.18	258.70
Cash and Bank	19.33	16.79	44.21	96.51	49.24
Other Assets	44.57	51.53	84.99	37.32	35.22
Total CA & LA	340.32	413.83	494.39	570.96	555.20
Current liabilities	199.25	175.98	172.71	347.17	302.68
Provisions	3.41	3.09	0.00	0.01	0.00
Total Current Liabilities	202.67	179.07	172.71	347.17	302.68
Net Current Assets	137.66	234.75	321.68	223.79	252.52
Net Deferred Tax (net of liability)	-36.19	-38.24	-39.15	-39.61	-40.07
Other Assets (Net of liabilities)	41.82	39.40	40.17	38.78	41.57
Total Assets	562.11	630.87	921.68	1031.56	1141.22

Key Financial Ratios

	FY16	FY17	FY18	FY19	FY20e
Growth Ratios					
Revenue (%)	5.9	4.8	16.4	-4.9	18.6
EBIDTA (%)	18.2	13.2	4.5	2.1	20.1
Net Profit (%)	30.0	10.1	10.1	4.6	19.9
EPS (%)	30.0	10.1	10.1	4.6	19.9
Margins					
Operating Profit Margin (%)	22.0	23.8	21.0	22.7	22.9
Gross Profit Margin (%)	20.9	22.7	20.8	22.2	22.4
Net Profit Margin (%)	13.1	13.8	13.0	14.3	14.5
Return					
ROCE (%)	19.1	19.8	17.7	14.4	15.1
ROE (%)	26.5	24.7	23.0	20.5	21.2
Valuations					
Market Cap / Sales	2.8	4.7	3.3	3.5	2.7
EV/EBIDTA	13.5	20.1	16.3	16.5	12.7
P/E	21.2	33.9	25.0	24.4	18.7
P/BV	5.2	7.7	5.3	4.7	3.7
Other Ratios					
Interest Coverage	16.4	17.9	26.8	25.7	22.4
Debt-Equity Ratio	0.4	0.2	0.4	0.5	0.4
Current Ratio	1.6	1.9	2.3	1.5	1.7
Turnover Ratios					
Fixed Asset Turnover	2.5	2.4	3.0	2.9	2.1
Total Asset Turnover	1.8	1.7	1.5	1.1	1.2
Debtors Turnover	7.7	6.7	6.6	5.2	5.2
Inventory Turnover	4.5	4.5	4.9	4.3	4.8
Creditors Turnover	26.5	62.7	79.6	24.8	24.1
WC Ratios					
Debtor Days	47.2	54.3	55.4	70.4	70.3
Inventory Days	80.8	81.2	74.4	84.1	76.5
Creditor Days	13.8	5.8	4.6	14.7	15.2
Cash Conversion Cycle	114.2	129.7	125.2	139.8	131.6

Cash Flow Statement

	FY17	FY18	FY19	FY20e
Net Income (a)	134.56	148.14	154.89	185.79
Non cash exp. & others (b)	36.12	34.42	44.36	33.80
Depreciation	33.25	34.09	31.72	33.41
dividend income	-0.14	-0.07	-0.07	-0.07
Deferred tax	2.05	0.92	0.46	0.46
others	0.96	-0.51	12.25	-
(Increase) / decrease in NWC (c)	-68.89	-37.41	-18.84	-66.90
Inventory	-34.16	-0.40	-18.79	-10.10
Debtors	-35.11	-20.60	-53.15	-23.52
Other assets (net of liabilities)	0.38	-16.41	53.10	-33.28
Operating cash flow (a+b+c)	101.79	145.16	180.41	152.69
Purchase of fixed assets	-18.26	-232.80	-241.33	-112.00
Investments	0.00	0.02	-	-
Investing cash flow (d)	-19.60	-246.71	-165.09	-140.37
Net borrowings	-68.31	168.96	105.15	-3.46
Dividends paid	-16.01	-40.03	-68.16	-56.13
Financing cash flow (e)	-84.32	128.93	36.98	-59.59
Net change (a+b+c+d+e)	-2.13	27.38	52.31	-47.27

Cumulative Financial Data

	FY09-11	FY12-14	FY15-17	FY18-20e
Income from operations	1270	1870	2789	3500
Operating profit	180	352	608	779
EBIT	148	280	525	692
PBT	96	228	489	664
PAT after MI	71	148	351	489
Dividends	7	34	104	152
OPM (%)	14.2	18.8	21.8	22.2
NPM (%)	5.6	7.9	12.6	14.0
Interest coverage	2.9	5.3	14.7	24.6
ROE (%)	12.3	17.3	24.8	21.3
ROCE (%)	8.8	11.2	18.2	16.3
Fixed asset turnover	1.7	2.0	2.5	1.9
Debtors turnover	7.2	7.9	6.9	5.5
Inventory turnover	4.3	4.5	4.5	4.6
Debtors days	50.4	45.9	52.9	65.9
Inventory days	84.7	82.0	80.5	79.4
Dividend payout ratio (%)	9.9	23.0	29.7	31.2

FY09-11 implies three years ending fiscal 11

Affected by no measly fall in green coffee prices last fiscal and loss of a key customer, CCLP reported 4.9% drop in consolidated revenues last fiscal, a rarity for a business bound for stellar advances. Buttressed by no modest rebound in current fiscal (volumes estimated to rise by nearly 15%), cumulative revenues during the three year period FY18-20e is estimated to grow by 25.5%, a sharp cut back from nearly 50% growth reported in FY15-17 period (see table). Margins would be held hostage to CCLP's readiness to boost revenue share of small packs and premium products business – 22.2% OPMs projected for FY18-20e period.

Volumes would be barely stymied by commencement of 5000 mt freeze dried plant early this fiscal and planned expansion of agglomeration and packing capacities sometime this fiscal. Timidity in earnings growth over last couple of years (average growth of just 7.3%) has put brakes on enlargement of return on capital. ROE as a consequence is estimated to fall to 21.3% from 24.8% and ROCE to 16.3% from 18.2%. Part of the fall would also be explained by subtle capacity utilization at its new commissioned freeze dried plant this fiscal – aptly demonstrated in modest fixed asset turnover ratio for FY18-20e (see table). Relentless efforts to tap in to newer markets including the US, would keep debtors days elevated for some time.

Financial Summary – US dollar denominated

million \$	FY16	FY17	FY18	FY19	FY20e
Equity capital	4.0	4.1	4.1	3.8	3.8
Shareholders funds	75.6	90.7	107.6	117.2	134.0
Total debt	31.7	21.9	47.8	60.2	58.8
Net fixed assets (incl CWIP)	62.9	60.7	91.9	116.7	126.2
Investments	0.2	0.2	0.2	0.2	0.2
Net current assets	18.3	30.0	43.3	28.3	32.0
Total assets	82.3	91.1	135.5	145.1	158.6
Revenues	142.4	145.6	176.4	154.7	182.8
EBITDA	31.5	34.8	37.8	35.6	42.6
EBDT	29.8	33.1	36.6	34.4	40.9
PBT	25.5	28.1	31.3	29.9	36.1
Profit after MI	18.7	20.0	23.0	22.2	26.5
EPS(\$)	0.14	0.15	0.17	0.17	0.20
Book value (\$)	0.57	0.68	0.81	0.88	1.01
Operating cash flow	14.8	15.7	22.3	26.1	21.8
Investing cash flow	-13.1	-3.0	-37.9	-23.9	-20.0
Financing cash flow	-9.5	-13.0	19.8	5.3	-8.5

income statement figures translated at average rates; balance sheet and cash flow at year end rates; projections at current rates (\$70.17/\$)

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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/\$	FY14	FY15	FY16	FY17	FY18	FY19
Average	60.5	61.15	65.46	67.09	64.45	69.89
Year end	60.1	62.59	66.33	64.84	65.04	69.17

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.