

## CCL Products (India) Ltd.

No. of shares (m)	133.0
Mkt cap (Rs crs/\$m)	7479/911.3
Current price (Rs/\$)	562/6.9
Price target (Rs/\$)	597/7.3
52 W H/L (Rs.)	593/315
Book Value (Rs/\$)	105/1.3
Beta	0.8
Daily volume (avg. monthly NSE)	121890
P/BV (FY23e/24e)	5.4/4.6
EV/EBITDA (FY23e/24e)	21.2/17.0
P/E (FY23e/24e)	29.9/23.6
EPS growth (FY22/23e/24e)	12.1/23.5/25.8
OPM (FY22/23e/24e)	22.6/18.5/19.5
ROE (FY22/23e/24e)	17.9/19.3/21.0
ROCE (FY22/23e/24e)	12.4/13.7/14.8
D/E ratio FY22/23e/24e)	0.5/0.6/0.6
BSE Code	519600
NSE Code	CCL
Bloomberg	CCLP IN
Reuters	CCLP.NS

## Shareholding pattern

	%
Promoters	46.3
MFs / Banks / FIs/Others	21.8
FPIs	7.6
Govt. Holding	0.0
Public & Others	24.4
<b>Total</b>	<b>100.0</b>

As on Dec 31, 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, freeze dried coffee etc

## Quarterly Highlights

- Seemingly strong growth in revenue growth last fiscal (26.5%) veils much of the loss in volumes due to plant shutdown in India for maintenance for some three weeks and pre-commissioning trails in Vietnam at its new spray dried plant. With the new capacity at Vietnam up and running, CCLP had started commercial sales from this facility in the fourth quarter of previous fiscal. With coffee prices remaining firm during much of the last financial year, the company has seen greater velocity in volumes of spray dried coffee when compared to that of freeze dried coffee.
- CCLP's cost plus pricing model along with higher of take of spray dried coffee (lower margin yielding compared to freeze dried coffee) explains much of barely robust growth in operating profit (8.9%) in Q3, thus squeezing OPMs by over 300 bps. Discernible increase in finance costs (Rs 11.49 crs Vs Rs 3.81 crs) shriveled earnings before tax by 5.5% to Rs 70.54 crs (Vs Rs 74.68 crs). Post tax earnings though advances by some 255 not least due to write back of taxes.
- Thanks to steep increases in coffee prices in the last few quarters - accentuated by higher green coffee prices and inflationary trends in other costs - CCLP's domestic business could see moderation in volumes in Q4, thus impacting both their brand and private label businesses. Much of the gains in the CCLP's market share globally would come from greater marketing initiatives, increased cost competitiveness and higher product innovation (read: ability to launch value added products). Building self reliance in manufacturing is not least significant because of greater emphasis on quality controls globally.
- The stock currently trades at 29.6x FY23e EPS of Rs 18.97 and 23.6x FY24e EPS of Rs 23.87. With higher than estimated revenues - triggered by both volumes and higher coffee realizations- though counterbalanced by no small erosion in operating margins - has triggered upward revision in post tax earnings - 14.7% for FY23 and 12.1% for FY24. Despite encouraging outlook for instant coffee industry globally, near discretionary nature of coffee spends it appears can have adverse effect on demand. With current valuation a bit digressed from historical averages and little scope of further re-rating, we maintain "hold" rating on the stock with revised target of Rs 597 (previous target: Rs 511) based on 25x FY24e earnings.

(Figures in Rs crs)	FY20	FY21	FY22	FY23e	FY24e
Income from operations	1139.15	1242.48	1462.03	2123.59	2482.05
Other Income	4.50	3.39	4.09	4.55	4.99
EBITDA (other income included)	290.39	301.15	335.16	397.24	488.99
Profit after EO	165.94	182.26	204.35	252.41	317.58
EPS (Rs)	12.47	13.70	15.36	18.97	23.87
EPS growth (%)	7.1	9.8	12.1	23.5	25.8

## Outlook & Recommendation

### Global instant coffee industry outlook

According to one of the latest reports on the global instant coffee market, the market for instant coffee is estimated to reach \$18.3 bn by 2028 from \$13.3 bn in 2022, thus exhibiting a CAGR of 5.46% during 2022-28 period. Much of this growth would be largely driven by rising population in several instant coffee drinking countries and rapid proliferation in consumption of premium instant coffee markets in emerging markets like Middle East, Eastern Europe and South East Asia because of increasing disposable incomes, growing urbanization and altering food patterns of consumers in these regions.

Other demand supporting factors, as the report contends, include rising demand for single serve packets (which are more affordable) in homes, cafes, hotels and restaurants and ability of instant coffee manufacturers to introduce new coffee flavours such as mocha, green bean, Italian roast, French vanilla, ginger-bread cookie, cardamom bun and chocolate caramel etc. These initiatives doubtlessly help the manufacturers in expanding their consumer base.

#### Instant coffee market share of coffee brands by sales US 2021

Instant Coffee market: Market Share of Leading Ready-To-Drink Coffee Brands, By Sales, United States, 2021



Source: Beverage Industry Magazine

Source: Modor Intelligence

#### Instant Coffee Market Leaders

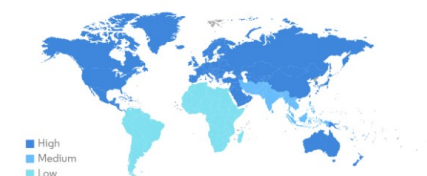
- 1 Nestlé SA
- 2 Unilever Plc.
- 3 Kraft Foods Inc.
- 4 Starbucks Corporation
- 5 Tata Consumer Products

A report by Modor Intelligence reveals that Nestle SA, Starbucks Corporation, Kraft Foods Inc., Tata Consumer Products Ltd, and Unilever are the key global players operating in the instant coffee market. For expanding the market for instant coffee, these companies are actively investing in online distribution channels, thus targeting convenience seeking consumers. They are also forming strategic partnerships with online portals as part of their key strategy to achieve consolidation and cater to customer demand across geographies. Major players like Nestle, Starbucks, and Unilever are also launching coffee machines for a better in-home coffee experience. For instance, in November 2022, Nescafe Dolce Gusto launched *Neo*, the brand's next-generation coffee machines and pods.



Source: Modor Intelligence

Instant Coffee Market: Market Size (%), By Geography, Global, 2021



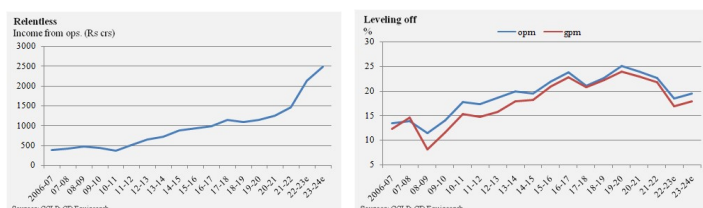
Source: Modor Intelligence

Modor Intelligence report also lists Asia-Pacific region as one of the fastest growing regions for instant coffee. Increased of take has been observed in India and Mainland China. It believes that China provides a strong opportunity for the major instant coffee retailers, as the country has witnessed a shift in preferences, citing millennial consumption patterns.

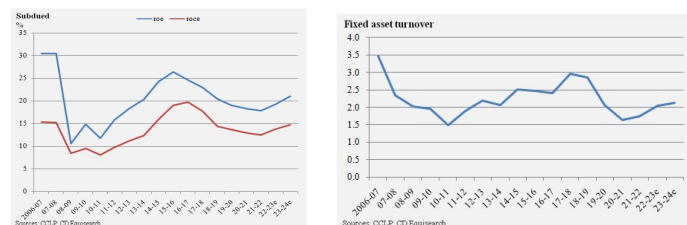
## Financials & Valuation

Much of its 10000 mt packing facility at export-oriented unit at Kuvvakoli is aimed at boosting supplies of small packs to customers, which would also help in expanding margins. Sensing increasing of take of instant coffee from its existing customers in US and elsewhere, CCLP has drawn plans to boost its coffee capacity by some 16000 mt with an investment of Rs 400 crs of which Rs 320 crs in planned to be funded by debt. The commissioning of the 16500 mt in Vietnam in Q4 would lend much need support to log 15-20% overall volume growth in the current fiscal.

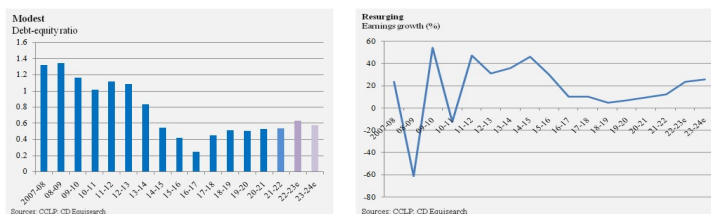
Yet uncertainty in external environment abound: ranging from weather related risks precipitating fluctuations in green coffee prices to weakening industry growth to rising inflation in both developed and developing economies pinching demand to increasing competition in the domestic market. Gaining velocity in small packs business would somewhat hinder business scaling which could be achieved through increased of take in bulk space.



With increased of take next fiscal - buttressed by newly unveiled Vietnam capacity - CCLP's revenues would grow in mid teens next fiscal followed by higher margins as softening green coffee prices starts to manifest its effect. Yet value addition holds key for retaining competitive edge as the global instant market remains oversupplied. Further its product portfolio comprising over 1000 different products and increased customization would barely help if not matched by all but flawless execution - minimizing outsourcing of production essential to that.



The stock currently trades at 29.6x FY23e EPS of Rs 18.97 and 23.6x FY24e EPS of Rs 23.87. Runaway move in return on equity next fiscal (ROE estimated at 21% in FY24 Vs 19.3% in FY23) would be stymied by gradual ramp up in Vietnam facility and planned investments in a new facility in India. Expansion of CCLP's competitive advantage would rest on ability to expand its distribution network and in ensuring repeat purchases from its existing clients across the globe. With current valuation as measured by P/E ratio in digression with historical trends, we maintain "hold" rating on the stock with revised target of Rs 597 (previous target: Rs 511) based on 25x FY24e earnings. For more info, refer to our August report.



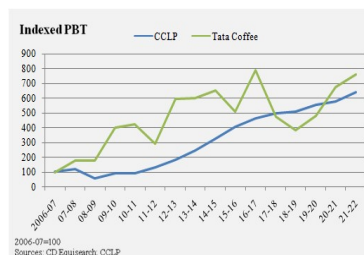
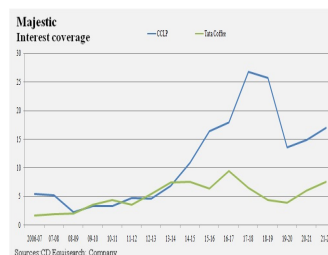
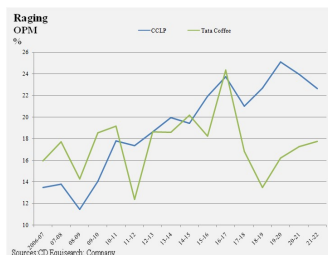
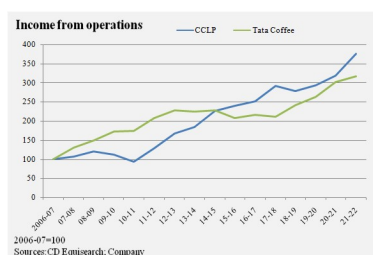
## Cross Sectional Analysis

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	562	7479	1927	236	19.3	12.3	11.1	17.8	3.9	5.4	31.7
Tata Coffee	19	209	3908	2783	142	14.5	7.3	5.6	54	1.4	11.8	27.4

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

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

Impacted by higher input costs as well as other operating costs at Eight'O Clock business, Tata Coffee posted 37.4% drop in consolidated profit before tax to Rs 57.73 crs in the third quarter of current fiscal when compared with Rs 92.16 crs in the same quarter a year ago. Overall revenues, however, grew by a sprightly 19.3% to Rs 746.66 crs when compared to Rs 626.07 crs driven by higher realizations in EOC and instant coffee businesses. Tata Coffee's Vietnam operations continue to report strong earnings precipitated by higher sales of premium products. Revenues of instant coffee business in India grew by some 26% in the third quarter driven by higher realizations and better product mix, though volumes were flat. Yet of take of instant coffee in some of the geographies like Africa was subdued. The company has also been feeling the pinch of inflationary pressure on costs and impact of instant coffee sales in some of the regions.



## Financials

### Quarterly Results

Figures in Rs crs

	Q3FY23	Q3FY22	% chg.	9MFY23	9MFY22	% chg.
<b>Income from operations</b>	<b>535.30</b>	<b>423.05</b>	<b>26.5</b>	<b>1551.13</b>	<b>1085.80</b>	<b>42.9</b>
Other Income	0.35	0.54	-35.3	0.85	0.85	0.6
<b>Total Income</b>	<b>535.65</b>	<b>423.59</b>	<b>26.5</b>	<b>1551.99</b>	<b>1086.65</b>	<b>42.8</b>
Total Expenditure	434.57	330.55	31.5	1264.35	839.02	50.7
<b>EBIDTA (other income included)</b>	<b>101.07</b>	<b>93.04</b>	<b>8.6</b>	<b>287.64</b>	<b>247.63</b>	<b>16.2</b>
Interest	11.49	3.81	201.8	23.79	12.61	88.7
Depreciation	19.04	14.55	30.8	53.55	41.82	28.0
<b>PBT</b>	<b>70.54</b>	<b>74.68</b>	<b>-5.5</b>	<b>210.29</b>	<b>193.20</b>	<b>8.8</b>
Tax	-2.52	16.21	-115.5	26.71	41.55	-35.7
<b>Net profit</b>	<b>73.06</b>	<b>58.47</b>	<b>25.0</b>	<b>183.59</b>	<b>151.65</b>	<b>21.1</b>
Minority interest	-	-	-	-	-	-
<b>Net profit after MI</b>	<b>73.06</b>	<b>58.47</b>	<b>25.0</b>	<b>183.59</b>	<b>151.65</b>	<b>21.1</b>
Extraordinary Item	-	-	-	-	-	-
<b>Adjusted Net Profit</b>	<b>73.06</b>	<b>58.47</b>	<b>25.0</b>	<b>183.59</b>	<b>151.65</b>	<b>21.1</b>
EPS (F.V. 2)	5.49	4.40	25.0	13.80	11.40	21.1

### 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>2123.59</b>	<b>2482.05</b>
Growth (%)	5.3	9.1	17.7	45.2	16.9
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>2128.14</b>	<b>2487.04</b>
Total Expenditure	853.26	944.72	1130.97	1730.90	1998.05
<b>EBITDA (other income included)</b>	<b>290.39</b>	<b>301.15</b>	<b>335.16</b>	<b>397.24</b>	<b>488.99</b>
Interest	17.96	16.95	16.36	37.48	43.69
<b>EBDT</b>	<b>272.43</b>	<b>284.19</b>	<b>318.80</b>	<b>359.76</b>	<b>445.30</b>
Depreciation	47.11	49.41	57.46	73.22	84.42
Tax	59.38	52.52	56.98	34.13	43.31
<b>Net profit</b>	<b>165.94</b>	<b>182.26</b>	<b>204.35</b>	<b>252.41</b>	<b>317.58</b>
Minority interest	-	-	-	-	-
<b>Net profit after MI</b>	<b>165.94</b>	<b>182.26</b>	<b>204.35</b>	<b>252.41</b>	<b>317.58</b>
Extraordinary item	-	-	-	-	-
<b>Adjusted Net Profit</b>	<b>165.94</b>	<b>182.26</b>	<b>204.35</b>	<b>252.41</b>	<b>317.58</b>
EPS (Rs.)	12.47	13.70	15.36	18.97	23.87

## Consolidated Balance Sheet

Figures in Rs crs

	FY20	FY21	FY22	FY23e	FY24e
<b>SOURCES OF FUNDS</b>					
Share Capital	26.61	26.61	26.61	26.61	26.61
Reserves	901.79	1060.69	1224.09	1409.98	1647.74
<b>Total Shareholders Funds</b>	<b>928.39</b>	<b>1087.30</b>	<b>1250.69</b>	<b>1436.59</b>	<b>1674.35</b>
Minority Interest	-	-	-	-	-
Long term debt	249.46	176.91	111.72	276.72	281.72
<b>Total Liabilities</b>	<b>1177.85</b>	<b>1264.21</b>	<b>1362.41</b>	<b>1713.31</b>	<b>1956.07</b>
<b>APPLICATION OF FUNDS</b>					
Gross Block	882.88	996.21	1146.06	1546.05	1546.05
Less: Accumulated Depreciation	159.24	197.82	263.81	337.03	421.46
<b>Net Block</b>	<b>723.63</b>	<b>798.38</b>	<b>882.24</b>	<b>1209.01</b>	<b>1124.59</b>
Capital Work in Progress	100.18	148.95	159.99	100.00	250.00
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	573.37	645.33
Sundry Debtors	268.11	298.55	319.55	424.72	496.41
Cash and Bank	38.69	120.35	56.27	23.93	101.94
Other Assets	68.79	52.46	96.31	123.08	131.27
<b>Total CA &amp; LA</b>	<b>636.01</b>	<b>791.05</b>	<b>991.27</b>	<b>1145.09</b>	<b>1374.96</b>
Current liabilities	276.21	468.37	623.86	690.80	743.29
Provisions	0.00	0.30	6.23	10.00	10.00
<b>Total Current Liabilities</b>	<b>276.21</b>	<b>468.67</b>	<b>630.09</b>	<b>700.80</b>	<b>753.29</b>
Net Current Assets	359.81	322.38	361.18	444.29	621.66
Net Deferred Tax (net of liability)	-46.25	-48.99	-72.61	-73.61	-74.61
Other Assets (Net of liabilities)	39.00	43.48	31.61	33.61	34.42
<b>Total Assets</b>	<b>1177.85</b>	<b>1264.21</b>	<b>1362.41</b>	<b>1713.31</b>	<b>1956.07</b>

**Key Financial Ratios**

	FY20	FY21	FY22	FY23e	FY24e
<b>Growth Ratios</b>					
Revenue (%)	5.3	9.1	17.7	45.2	16.9
EBIDTA (%)	16.7	3.7	11.3	18.5	23.1
Net Profit (%)	7.1	9.8	12.1	23.5	25.8
EPS (%)	7.1	9.8	12.1	23.5	25.8
<b>Margins</b>					
Operating Profit Margin (%)	25.1	24.0	22.6	18.5	19.5
Gross Profit Margin (%)	23.9	22.9	21.8	16.9	17.9
Net Profit Margin (%)	14.6	14.7	14.0	11.9	12.8
<b>Return</b>					
ROCE (%)	13.7	13.0	12.4	13.7	14.8
ROE (%)	19.1	18.3	17.9	19.3	21.0
<b>Valuations</b>					
Market Cap / Sales	2.1	2.5	3.7	3.6	3.0
EV/EBIDTA	9.6	11.8	17.8	21.2	17.0
P/E	14.2	17.1	26.3	29.9	23.6
P/BV	2.5	2.9	4.4	5.4	4.6
<b>Other Ratios</b>					
Interest Coverage	13.5	14.8	17.0	8.6	9.3
Debt-Equity Ratio	0.5	0.5	0.5	0.6	0.6
Current Ratio	2.3	1.6	1.5	1.5	1.7
<b>Turnover Ratios</b>					
Fixed Asset Turnover	2.1	1.6	1.7	2.0	2.1
Total Asset Turnover	1.0	1.0	1.1	1.4	1.4
Debtors Turnover	4.5	4.4	4.7	5.7	5.4
Inventory Turnover	3.7	3.3	2.7	3.2	3.3
Creditors Turnover	20.9	40.8	33.6	35.1	34.7
<b>WC Ratios</b>					
Debtor Days	80.6	83.2	77.2	64.0	67.7
Inventory Days	98.9	112.1	135.4	115.2	111.3
Creditor Days	17.5	8.9	10.9	10.4	10.5
Cash Conversion Cycle	162.1	186.4	201.6	168.7	168.5

**Cumulative Financial Data**

Figures in Rs crs	FY13-15	FY16-18	FY19-21	FY22-24e
Income from operations	2248	3045	3463	6068
Operating profit	436	676	829	1208
EBIT	359	587	712	1006
PBT	307	557	669	909
PAT after MI	206	405	503	774
Dividends	50	120	190	239
OPM (%)	19.4	22.2	23.9	19.9
NPM (%)	9.2	13.3	14.5	12.8
Interest coverage	7.0	19.7	16.4	10.3
ROE (%)	20.7	24.1	19.1	19.2
ROCE (%)	13.8	17.1	13.6	13.7
Fixed asset turnover	2.5	2.9	2.0	2.1
Debtors turnover	8.2	6.9	4.8	5.1
Inventory turnover	4.2	4.4	3.5	3.4
Debtors days	44.7	53.1	76.0	71.7
Inventory days	87.8	82.4	104.5	108.7
Dividend payout ratio (%)	24.5	29.7	37.7	30.9

FY13-15 implies three years ending fiscal 15

Motley of higher coffee volumes and no depressed realizations - driven by higher green coffee prices - would explain much of the projected 75% growth in cumulative income from operations during FY22-24 period as compared to that in the previous three year period (see table). Following barely depressed sales growth, cumulative operating profit is also projected to advance by over 45%, though OPMs would probably slid to 19.9% from 23.9% in the previous three year period (see table) not least due to inflationary pressures in freight and other operating costs as well as its cost plus pricing model which all but caps "margins per kg" sold.

With the commencement of new spray dried facility at Vietnam and hardly timid coffee realizations, fixed asset turnover would also marginally improve in the projected period (see table). With stress in margins, return on equity would struggle to surge - 19.2% Vs 19.1%, enticing need to boost volumes through market share gains. With fall in material prices, inventory days would all but flat line before inching downwards. Largely debt funded expansions in both Vietnam and India over the next few quarters will pressurize interest coverage ratio in the projected period.



**Financial Summary – US dollar denominated**

million \$	FY20	FY21	FY22	FY23e	FY24e
Equity capital	3.5	3.6	3.5	3.2	3.2
Shareholders funds	123.2	144.3	161.5	169.9	197.5
Total debt	62.2	76.1	85.8	107.2	112.9
Net fixed assets (incl CWIP)	109.3	128.9	137.5	159.2	167.5
Investments	0.2	0.0	0.0	0.0	0.0
Net current assets	47.7	40.2	44.1	49.2	69.3
Total assets	156.2	168.4	176.2	203.5	231.9
Revenues	160.7	167.4	196.2	264.1	302.4
EBITDA	41.0	40.6	45.0	49.4	59.6
EBDT	38.4	38.3	42.8	44.7	54.3
PBT	31.8	31.6	35.1	35.6	44.0
Profit after MI	23.4	24.6	27.4	31.4	38.7
EPS(\$)	0.18	0.18	0.21	0.24	0.29
Book value (\$)	0.93	1.08	1.21	1.28	1.48

income statement figures translated at average rates; balance sheet and cash flow at year end rates; FY24 projections at current rates (\$82.07/\$)

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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/\$	FY19	FY20	FY21	FY22	FY23
Average	69.89	70.88	74.20	74.51	80.39
Year end	69.17	75.39	73.50	75.81	82.22

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.