

# CCL Products (India)

23 October 2018

Reuters: CCLP.BO; Bloomberg: CCLP IN

## Regaining Momentum

Operating performance of CCL Products (India) or CCLP in 2QFY19 was ahead of our expectations. On a consolidated basis, revenues declined just 2% YoY, despite a strong base quarter and around 18% YoY decline in coffee prices. What helped the company was the improved product mix in both India and Vietnam operations. The share of small packs, which is the more profitable segment compared to bulk packs, rose to 30% and also some of the profitable orders have been executed in Vietnam during the quarter which led to a sharp spurt in profitability despite the pressure on realisation. Operating profit and net earnings grew 33% and 41% YoY, respectively. The management indicated that CCLP is reaping the benefits of client acquisition strategy executed in FY18 as it has started witnessing order translation from bulk to premium in case of a few clients. As regards the new freeze dried plant (FDP), the company informed that commercial production should commence from FY20 and it has already pre-booked orders to the extent of 50% capacity of that plant. The focus on retail or B2C business continued wherein CCLP has launched Malgudi filter coffee in South India and ran a regional advertisement campaign. The management has given guidance of total US\$20mn capex for FY20 (5,000tn agglomeration and 3,000tn packing capacity in total India capacity of 8,000tn and line balancing capacity in Vietnam of 3,500tn). Post this capex, we expect better profitability on account of higher realisation. The management has revised its profit guidance upwards to 15%-20% growth in FY19 as compared to 10%-20% and has maintained top-line growth guidance at the earlier level of 5%-10%. Although the overall coffee market has been facing excess supply challenge, very few players like CCLP have superior R&D, product development capabilities and long-term client relationships. Considering the expansion plan going forward and signs of regaining momentum in the business, we have revised our earnings estimates. We believe that CCLP's underlying growth in the medium term will be in line with the long-term average. Also, the stock is available at an attractive valuation currently after the recent correction. Therefore, after rolling forward our valuation to September 2020E earnings, we have revised our rating on CCLP to Buy (from Accumulate earlier) with a target price of Rs310 (from Rs300 earlier) based on a target multiple of 18x, indicating an upside of 28% from the CMP.

**Improved product mix:** On a consolidated basis, revenues declined 2% YoY in 2QFY19 whereby Indian and Vietnam operations declined 1.3% and 3.6%, respectively. The management indicated that volume growth in India and Vietnam was 10% and 15%, respectively. Although realisation was under pressure on account of a 18% fall in green coffee prices YoY, CCLP managed to report almost flattish revenues on account of a better product mix wherein profitable orders were executed during the quarter.

**Strong margin delivery:** Operating profit and net earnings grew 33% and 41% YoY, respectively. Both India and Vietnam operations reported robust improvement in margins on account of a rising share of small packs, falling green coffee prices and some highly profitable orders executed during the quarter. As a result, EBITDA margin for the quarter stood at 26%. It is to be noted that CCLP has reported 26% quarterly EBITDA margin only twice in the past six financial years.

**Outlook and valuation:** Although overall coffee market has been facing excess supply challenge, very few players like CCLP have superior R&D, product development capabilities and long-term client relationships. Considering the expansion plan and the fact that the momentum is back in the business, we believe that CCLP's underlying growth in the medium term will be in line with the long-term average. Also, the stock is available at an attractive valuation currently after the recent correction. Therefore, post rolling forward our valuation to September 2020E earnings, we have revised our rating on CCLP to Buy (from Accumulate earlier) with a TP of Rs310 (from Rs300 earlier) based on target PE multiple of 18x, indicating an upside of 28% from the CMP.

## BUY

**Sector:** Beverages

**CMP:** Rs242

**Target Price:** Rs310

**Upside:** 28%

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### Key Data

Current Shares O/S (mn)	133.0
Mkt Cap (Rsbn/US\$m)	32.2/437.8
52 Wk H / L (Rs)	355/235
Daily Vol. (3M NSE Avg.)	97,675

### Price Performance (%)

	1 M	6 M	1 Yr
CCL Products	(6.3)	(16.7)	(22.1)
Nifty Index	(8.1)	(3.0)	1.0

Source: Bloomberg

Y/E March (Rsmn)	2QFY18	1QFY19	2QFY19	YoY (%)	QoQ (%)	1HFY18	1HFY19	YoY (%)
<b>Net revenues</b>	<b>2,964</b>	<b>2,944</b>	<b>2,908</b>	<b>(1.9)</b>	<b>(1.3)</b>	<b>5,418</b>	<b>5,852</b>	<b>8.0</b>
COGS	1,849	1,763	1,545	(16.5)	(12.4)	3,387	3,308	(2.3)
% of revenues	62.4	59.9	53.1			62.5	56.5	
Staff costs	114	126	163	43.8	30.0	214	289	34.9
Other expenses	426	419	437	2.7	4.3	784	856	9.2
Total expenses	2,388	2,308	2,145	(10.2)	(7.0)	4,386	4,452	1.5
<b>EBITDA</b>	<b>576</b>	<b>637</b>	<b>763</b>	<b>32.5</b>	<b>19.7</b>	<b>1,032</b>	<b>1,400</b>	<b>35.6</b>
<b>EBITDA %</b>	<b>19.4</b>	<b>21.6</b>	<b>26.2</b>			<b>19.1</b>	<b>23.9</b>	
Depreciation	86	94	87	1.5	(7.3)	169	182	7.4
EBIT	489	543	675	38.0	24.4	863	1,218	41.1
Interest costs	21	24	33	56.2	37.2	39	57	46.8
Other income	3	3	14	422.4	317.9	28	17	(40.4)
PBT	471	522	656	39.3	25.7	853	1,178	38.1
Tax	137	127	184	34.6	44.6	248	311	25.5
Effective tax rate %	29.0	24.4	28.1			29.1	26.4	
<b>Net profit</b>	<b>334</b>	<b>395</b>	<b>472</b>	<b>41.1</b>	<b>19.6</b>	<b>605</b>	<b>866</b>	<b>43.3</b>
<b>Net profit margin %</b>	<b>11.3</b>	<b>13.4</b>	<b>16.2</b>			<b>11.1</b>	<b>14.8</b>	
EPS	2.5	3.0	3.5	41.1	19.6	4.5	6.5	43.3

Source: Company, Nirmal Bang Institutional Equities Research

## Exhibit 1: Financial summary

Y/E March (Rsmn) Consolidated	FY17	FY18	FY19E	FY20E	FY21E
Net revenues	9,832	11,367	12,393	14,136	16,074
YoY growth (%)	5.5	15.6	9.0	14.1	13.7
EBITDA	2,321	2,389	2,855	3,352	3,998
EBITDA margin (%)	23.6	21.0	23.0	23.7	24.9
PAT	1,346	1,481	1,767	2,060	2,489
EPS (Rs)	10.1	11.1	13.3	15.5	18.7
YoY growth (%)	10.2	10.1	19.3	16.6	20.8
RoCE (%)	28.5	23.0	22.4	23.8	25.5
RoE (%)	23.6	21.7	22.0	21.9	22.5
P/E (x)	34.0	25.0	18.2	15.6	12.9
P/BV (x)	7.3	5.0	3.7	3.2	2.7
EV/EBITDA (x)	20.1	16.6	11.9	10.2	8.5

Source: Company, Nirmal Bang Institutional Equities Research

## Exhibit 2: Our estimates versus actual performance

Y/E March (Rsmn)	2QFY18	1QFY19	2QFY19	YoY (%)	QoQ (%)	Our estimates	Variation (%)
Net sales	2,964	2,944	2,908	(1.9)	(1.3)	2,724	6.7
EBITDA	576	637	763	32.5	19.7	576	32.4
EBITDA (%)	19.4	21.6	26.2	680bps	460bps	21.1	510bps
Adjusted PAT	334	395	472	41.1	19.6	353	33.5

Source: Company, Nirmal Bang Institutional Equities Research

## Exhibit 3: Change in our estimates

Y/E March (Rsmn)	Old estimates			New estimates			Change (%)		
	FY19E	FY20E	FY21E	FY19E	FY20E	FY21E	FY19E	FY20E	FY21E
Net sales	12,629	14,386	-	12,393	14,136	16,074	(1.9)	(1.7)	N.A.
EBITDA	2,700	3,218	-	2,855	3,352	3,998	5.7	4.2	N.A.
EBITDA (%)	21.4	22.4	-	23.0	23.7	24.9	160bps	130bps	N.A.
Net income	1,653	2,019	-	1,767	2,060	2,489	6.9	2.0	N.A.

Source: Company, Nirmal Bang Institutional Equities Research

## Exhibit 4: Quarterly trend

Particulars	2QFY17	3QFY17	4QFY17	1QFY18	2QFY18	3QFY18	4QFY18	1QFY19	2QFY19
<b>Growth (%)</b>									
<b>Net sales</b>									
Standalone	(42.9)	41.9	16.5	2.5	113.1	(10.8)	7.0	22.6	(1.3)
Subsidiaries	(25.7)	16.8	5.4	(13.1)	88.4	15.7	8.4	13.1	(3.6)
Consolidated	(38.8)	35.8	13.0	(2.3)	105.9	(5.2)	7.4	20.0	(1.9)
<b>EBITDA</b>									
Standalone	(48.9)	88.2	29.9	(16.3)	141.6	(25.2)	(16.7)	26.5	20.5
Subsidiaries	(19.2)	18.3	(36.9)	(45.0)	31.6	20.4	108.5	73.7	69.9
Consolidated	(40.8)	68.5	5.4	(26.8)	100.9	(16.2)	10.9	39.4	32.5
<b>Margin (%)</b>									
<b>Gross margin</b>									
Standalone	44.1	50.6	45.8	39.8	39.6	42.5	36.7	38.6	45.5
Subsidiaries	41.3	41.3	26.2	30.6	32.1	46.5	42.8	44.5	50.8
Consolidated	43.3	48.6	40.0	37.3	37.6	43.5	38.6	40.1	46.9
<b>EBITDA margin</b>									
Standalone	17.8	27.0	23.8	18.6	20.1	22.7	18.5	19.2	24.6
Subsidiaries	25.1	25.0	15.9	18.6	17.5	26.0	30.7	28.6	30.9
Consolidated	19.9	26.6	21.5	18.6	19.4	23.5	22.2	21.0	21.6

Source: Company, Nirmal Bang Institutional Equities Research

## Exhibit 5: Performance of Indian operations

Y/E March (Rsmn)	2QFY18	1QFY19	2QFY19	YoY (%)	QoQ (%)	1HFY18	1HFY19	YoY (%)
<b>Net revenue</b>	<b>2,167</b>	<b>2,184</b>	<b>2,140</b>	<b>(1.3)</b>	<b>(2.1)</b>	<b>3,949</b>	<b>4,324</b>	<b>9.5</b>
COGS	1,308	1,341	1,167	(10.8)	(13.0)	2,380	2,508	5.4
% of revenues	60.4	61.4	54.5	-	-	60.3	58.0	-
Staff costs	91	92	104	13.5	12.1	174	196	13.0
Other expenses	332	331	343	3.5	3.6	628	675	7.5
Total expenses	1,731	1,765	1,614	(6.8)	(8.6)	3,181	3,379	6.2
<b>EBITDA</b>	<b>436</b>	<b>419</b>	<b>526</b>	<b>20.5</b>	<b>25.3</b>	<b>768</b>	<b>945</b>	<b>23.1</b>
<b>EBITDA %</b>	<b>20.1</b>	<b>19.2</b>	<b>24.6</b>	<b>-</b>	<b>-</b>	<b>19.4</b>	<b>21.9</b>	<b>-</b>
Depreciation	28	30	31	10.4	3.4	55	61	9.5
EBIT	408	390	495	21.2	27.0	712	884	24.2
Interest costs	17	24	31	84.0	33.5	29	55	92.1
Other income	3	3	2	(6.2)	(6.4)	27	5	(82.1)
PBT	393	369	466	18.3	26.3	711	834	17.3
Tax	137	127	184	34.6	44.5	248	311	25.5
Effective tax rate %	34.8	34.5	39.5	-	-	34.9	37.3	-
<b>Net profit</b>	<b>257</b>	<b>241</b>	<b>282</b>	<b>9.7</b>	<b>16.7</b>	<b>463</b>	<b>523</b>	<b>12.9</b>
<b>Net profit margin %</b>	<b>11.8</b>	<b>11.0</b>	<b>13.1</b>	<b>-</b>	<b>-</b>	<b>11.6</b>	<b>12.1</b>	<b>-</b>
EPS (Rs)	1.9	1.8	2.1	9.7	16.7	3.5	3.9	12.9

Source: Company, Nirmal Bang Institutional Equities Research

## Exhibit 6: Performance of Vietnam unit and other subsidiaries

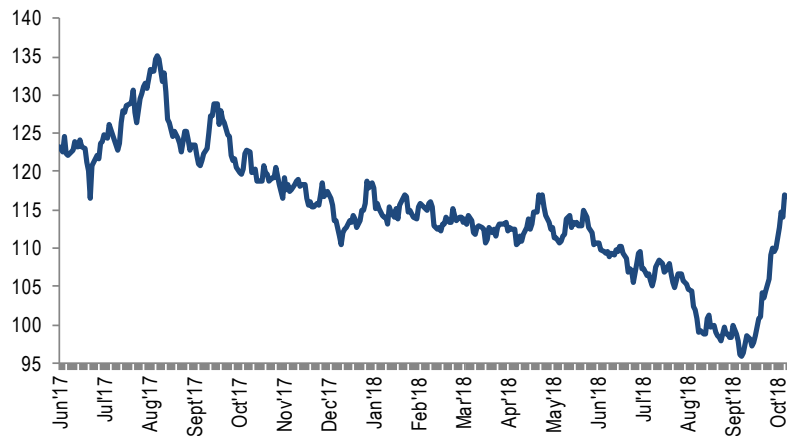
Y/E March (Rsmn)	2QFY18	1QFY19	2QFY19	YoY (%)	QoQ (%)	1HFY18	1HFY19	YoY (%)
<b>Net revenues</b>	<b>797</b>	<b>760</b>	<b>768</b>	<b>(3.6)</b>	<b>1.1</b>	<b>1,469</b>	<b>1,528</b>	<b>4.0</b>
COGS	541	422	378	(30.2)	(10.5)	1,007	800	(20.6)
% of revenues	67.9	55.5	49.2	-	-	68.6	52.3	-
Staff costs	22	33	60	168.6	80.2	40	93	129.2
Other expenses	94	88	94	-	7.1	156	181	16.0
Total expenses	657	543	531	(19.2)	(2.1)	1,204	1,074	(10.8)
<b>EBITDA</b>	<b>140</b>	<b>217</b>	<b>237</b>	<b>69.9</b>	<b>9.0</b>	<b>265</b>	<b>455</b>	<b>71.7</b>
<b>EBITDA %</b>	<b>17.5</b>	<b>28.6</b>	<b>30.9</b>	<b>-</b>	<b>-</b>	<b>18.0</b>	<b>29.7</b>	<b>-</b>
Depreciation	58	64	57	-2.7	-12.3	114	121	6.4
EBIT	81	153	181	121.7	18.0	151	334	120.8
Interest costs	4	0	1	-63.7	243.1	10	2	-81.6
Other income	0	1	11	18,493.3	1,491.4	1	12	1,546.8
PBT	78	153	190	145.3	24.2	142	344	142.5
Tax	-	-	-	-	-	-	-	-
Effective tax rate %	-	-	-	-	-	-	-	-
<b>Net profit</b>	<b>78</b>	<b>153</b>	<b>190</b>	<b>145.2</b>	<b>24.1</b>	<b>142</b>	<b>344</b>	<b>142.4</b>
<b>Net profit margin %</b>	<b>9.7</b>	<b>20.1</b>	<b>24.4</b>	<b>-</b>	<b>-</b>	<b>9.6</b>	<b>22.3</b>	<b>-</b>
EPS (Rs)	0.6	1.2	1.4	145.2	24.1	1.1	2.6	142.4

Source: Company, Nirmal Bang Institutional Equities Research

**Conference-call takeaways and other key highlights**

- Underlying volume growth remains strong for CCLP. The management indicated that volume growth in India and Vietnam during the quarter was around 10% and 15%, respectively. In addition, many profitable orders have been executed during the quarter. The share of small packs has increased in India compared to bulk buying which led to an improved product mix. Therefore, despite a 20% fall in green coffee prices YoY and an exceptional base quarter, CCLP's revenues declined marginally. The management has revised its profit guidance upwards to 15%-20% growth as compared to 10%-20% growth in FY19 and has maintained top-line growth guidance at the earlier level of 5%-10%.

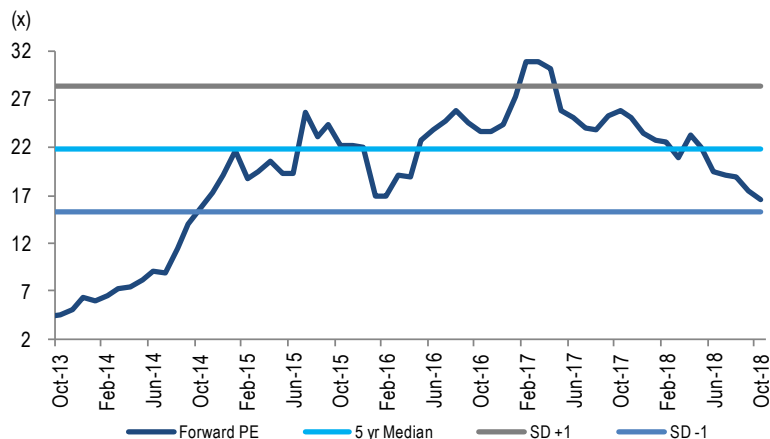
**Exhibit 7: Green coffee price trend (US cents/lb)**



Source: ICB, Nirmal Bang Institutional Equities Research

- CCLP's Chittor freeze dried plant of 5,000tn will be operational from FY20 as trial production has started. The management informed that 50% of this incremental capacity has already been booked for FY20. We believe that commencement of this capacity will give a boost to both top-line and profitability.
- India business is already operating at peak capacity whereas Vietnam business is operating at 70%-75% currently. The management indicated that Vietnam will touch its peak by the end of this year. Therefore, the capex programme has been announced focusing on both the businesses. Total US\$20mn capex is required in FY20E for CCLP, of which US\$8mn will be spent on line balancing in Vietnam to add around 3,500tn to its capacity. The balance US\$12mn is required for upgradation of India spray dried facility wherein 5,000tn capacity will be converted as agglomeration plant and another 3,000tn for packing aimed at garnering more profitable small-pack orders. This will further boost the margin profile as its product mix in Vietnam is fairly superior and post agglomeration set-up in India, realisation will be higher by around 5%.
- As regards B2C business, the management maintained its revenue guidance of Rs1,000mn. During the quarter, it launched Malgudi filter coffee in South India and has done intense regional advertising. Advertising budget for FY19 stands at Rs200mn.

**Exhibit 8: One-year forward P/E**



Source: Company, Nirmal Bang Institutional Equities Research

## Financials (consolidated)

### Exhibit 9: Income statement

Y/E March (Rsmn)	FY17	FY18	FY19E	FY20E	FY21E
Net sales	9,832	11,367	12,393	14,136	16,074
<b>% Growth</b>	<b>5.5</b>	<b>15.6</b>	<b>9.0</b>	<b>14.1</b>	<b>13.7</b>
COGS	5,526	6,906	7,109	8,041	8,983
Staff costs	401	475	669	781	889
Other expenses	1,583	1,597	1,761	1,963	2,204
Total expenses	7,511	8,978	9,538	10,784	12,077
EBITDA	2,321	2,389	2,855	3,352	3,998
<b>% growth</b>	<b>13.4</b>	<b>2.9</b>	<b>19.5</b>	<b>17.4</b>	<b>19.3</b>
<b>EBITDA margin (%)</b>	<b>23.6</b>	<b>21.0</b>	<b>23.0</b>	<b>23.7</b>	<b>24.9</b>
Other income	12	48	35	42	55
Interest costs	112	78	114	119	125
Depreciation	333	341	379	463	532
Profit before tax (before exceptional items)	1,889	2,018	2,397	2,812	3,396
Exceptional items	-	-	-	-	-
Tax	543	537	630	752	907
PAT (before exceptional items)	1,346	1,481	1,767	2,060	2,489
PAT	1,346	1,481	1,767	2,060	2,489
<b>PAT margin (%)</b>	<b>13.7</b>	<b>13.0</b>	<b>14.2</b>	<b>14.5</b>	<b>15.4</b>
<b>% Growth</b>	<b>10.2</b>	<b>10.1</b>	<b>19.3</b>	<b>16.6</b>	<b>20.8</b>

Source: Company, Nirmal Bang Institutional Equities Research

### Exhibit 11: Balance sheet

Y/E March (Rsmn)	FY17	FY18	FY19E	FY20E	FY21E
Share capital	266	266	266	266	266
Reserves	6,017	7,133	8,411	9,901	11,703
Net worth	6,283	7,399	8,677	10,167	11,969
Total debt	1,010	3,084	2,950	2,500	2,500
Deferred tax liability	382	392	400	420	420
<b>Total liabilities</b>	<b>8,515</b>	<b>11,369</b>	<b>12,629</b>	<b>13,583</b>	<b>15,554</b>
Gross block	4,219	4,342	6,606	8,606	9,806
Depreciation	286	631	1,009	1,472	2,004
Net block	3,933	3,711	5,596	7,133	7,801
Capital work-in-progress	2	2,264	500	-	-
Investments	15	15	15	15	15
Inventories	1,828	1,832	1,869	2,295	2,381
Debtors	1,627	1,820	1,914	2,392	2,452
Cash	168	442	1,235	548	704
Loans & advances	868	1,086	1,300	1,000	1,600
Other current assets	42	166	200	200	600
Total current assets	4,138	4,944	6,018	6,035	6,938
Creditors	122	103	169	113	232
Other current liabilities & provisions	684	358	400	350	400
Total current liabilities	1,791	1,727	1,769	1,463	1,632
Net current assets	2,348	3,217	4,249	4,572	5,306
<b>Total assets</b>	<b>8,515</b>	<b>11,369</b>	<b>12,629</b>	<b>13,583</b>	<b>15,554</b>

Source: Company, Nirmal Bang Institutional Equities Research

### Exhibit 10: Cash flow

Y/E March (Rsmn)	FY17	FY18	FY19E	FY20E	FY21E
PAT	1,346	1,481	1,767	2,060	2,489
Depreciation	333	341	379	463	532
Other income	(12)	(48)	(35)	(42)	(55)
(Inc./dec.) in working capital	(918)	(542)	(23)	(1,010)	23
<b>Cash flow from operations</b>	<b>748</b>	<b>1,232</b>	<b>2,088</b>	<b>1,471</b>	<b>2,989</b>
Capital expenditure (-)	(94)	(2,382)	(500)	(1,500)	(1,200)
<b>Net cash after capex</b>	<b>654</b>	<b>(1,150)</b>	<b>1,588</b>	<b>(29)</b>	<b>1,789</b>
Dividends paid (-)	(160)	(400)	(489)	(570)	(687)
Inc./dec. in total borrowings	(578)	2,073	(134)	(450)	-
Inc./dec. in investments and other assets	(27)	(294)	(214)	342	(945)
<b>Cash from financial activities</b>	<b>(646)</b>	<b>1,682</b>	<b>(614)</b>	<b>(1,000)</b>	<b>(687)</b>
Others	-	35	33	-	-
Opening cash balance	187	168	442	1,235	548
Closing cash balance	168	442	1,235	548	704
Change in cash balance	(19)	274	793	(687)	157

Source: Company, Nirmal Bang Institutional Equities Research

### Exhibit 12: Key ratios

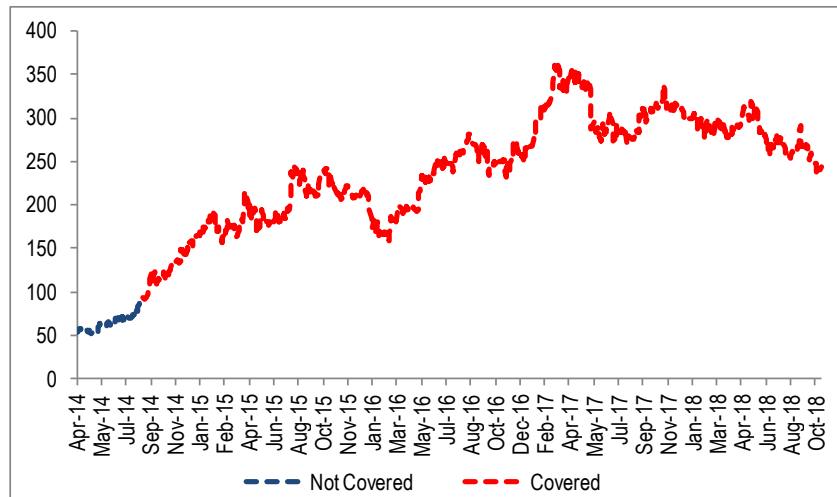
Y/E March	FY17	FY18	FY19E	FY20E	FY21E
<b>Per share (Rs)</b>					
EPS	10.1	11.1	13.3	15.5	18.7
Book value	47.2	55.6	65.2	76.4	90.0
DPS	1.0	2.5	3.1	3.6	4.3
<b>Valuation (x)</b>					
P/Sales	4.7	3.3	2.6	2.3	2.0
EV/sales	4.7	3.5	2.7	2.4	2.1
EV/EBITDA	20.1	16.6	11.9	10.2	8.5
P/E	34.0	25.0	18.2	15.6	12.9
P/BV	7.3	5.0	3.7	3.2	2.7
<b>Return ratios (%)</b>					
RoCE	28.5	23.0	22.4	23.8	25.5
RoE	23.6	21.7	22.0	21.9	22.5
<b>Profitability ratios (%)</b>					
Gross margin	43.8	39.2	42.6	43.1	44.1
EBITDA margin	23.6	21.0	23.0	23.7	24.9
PAT margin	13.7	13.0	14.2	14.5	15.4
<b>Liquidity ratios (%)</b>					
Current ratio	2.3	2.9	3.4	4.1	4.3
Quick ratio	1.3	1.8	2.3	2.6	2.8
<b>Solvency ratio (%)</b>					
Debt to equity ratio	0.2	0.4	0.3	0.2	0.2
<b>Turnover ratios</b>					
Total asset turnover ratio (x)	1.2	1.1	1.0	1.1	1.1
Fixed asset turnover ratio (x)	2.4	3.0	2.7	2.2	2.2
Debtor days	54	55	55	56	55
Inventory days	109	97	95	95	95
Creditor days	8	6	7	6	7

Source: Company, Nirmal Bang Institutional Equities Research

## Rating track

Date	Rating	Market price (Rs)	Target price (Rs)
27 August 2014	Buy	90	140
10 October 2014	Buy	123	140
30 October 2014	Buy	134	183
20 January 2015	Buy	174	245
13 April 2015	Buy	214	245
28 May 2015	Buy	187	272
10 July 2015	Buy	185	272
22 July 2015	Buy	207	272
13 October 2015	UR	241	-
16 October 2015	Buy	224	272
4 February 2016	Buy	180	250
17 February 2016	Buy	167	250
2 March 2016	Buy	172	219
3 May 2016	Buy	194	238
2 August 2016	Buy	259	307
5 October 2016	Buy	246	328
5 January 2017	Buy	262	329
3 February 2017	Buy	311	363
24 May 2017	Buy	310	374
13 July 2017	Buy	280	326
3 November 2017	Accumulate	337	349
5 February 2018	Buy	276	346
22 May 2018	Accumulate	299	330
17 July 2018	Accumulate	272	300
23 October 2018	Buy	242	310

## Rating track graph



## DISCLOSURES

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### Stock Ratings Absolute Returns

BUY > 15%

ACCUMULATE -5% to 15%

SELL < -5%

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