

## CCL Products (India)

22 November 2018

Reuters: CCLP.BO; Bloomberg: CCLP IN

### Targets 15% EBITDA Growth, 67% Capacity Expansion Over 3-4 Years

We had a meeting with Mr. K.V.L.N. Sarma, chief financial officer (CFO) of CCL Products (India) or CCL last week. The company continues to improve its product mix and plans to expand its overall capacity by 67% over the next three to four years. Currently, the company has annual coffee production capacity of 30,000tn, of which 10,000tn is located in Vietnam. Over the next three to four years, the company plans to increase its capacity to 50,000tn. This should support the company's internal 15% EBITDA growth target. Its Chennai plant, which is a 100% premium freeze-dried coffee plant with a capacity of 5,000tn, is expected to start commercial production in April 2019. The management indicated that the Chennai plant is expected to run at 65% of its capacity initially because of lengthy and frequent service of the plant in its maiden year of operation. Retail coffee brand 'Continental', which was launched in August this year, has already achieved sales of Rs420mn and the management expects a monthly run-rate of Rs100mn-Rs120mn for the rest of the current financial year. During 1HFY19, CCL reported 8% YoY revenue growth which is in line with its previous guidance of 5%-10%. The management continues to maintain its revenue guidance, but expects gross margin improvement because of large bulk orders. CCL stock price has declined 23% from its recent high and is currently trading at an attractive valuation. We believe that growth concerns have been overplayed as CCL continues to maintain strong customer relationships, introduces newer blends and premiumises its offerings. The company has delivered well on EBITDA margin and growth, up 480bps and 36% YoY, respectively, in 1HFY19. We have retained our Buy rating on CCL with a target price of Rs310 based on 18x target multiple, indicating an upside of 14% from the current market price or CMP.

**Sticky and concentrated clientele:** CCL stated that client concentration remains high which has been highly stable over the past several years. Its top 5 customers contribute 35%-40% to overall revenues, while top 10 clients account for 50%-55%. This is highly typical of a small-cap B2B-focused company and definitely highlights the underlying risk to its revenues. Having said that, the CFO highlighted that he cannot remember any material change in the customer mix in the top 5/10 client list for the past several years. In fact, the company witnessed almost nil bad debt in the past few years. Customer stickiness has largely to do with the strong end-user preference for his favourite blend which cannot be met from a different supplier. This implies that CCL's clients have to risk the brand if they decide to remove CCL as their supplier.

**Retail packs and larger batch processing to help margin expansion:** CCL continues to focus on small coffee packs and larger batch processing. Following value addition for its clients, CCL commands better margins on small packs which are then directly sold to consumers by CCL's clients. The company currently sells nearly 3,000tn of coffee in small packs and plans to increase the capacity to 10,000tn over time. Additionally, because of batch-based manufacturing process, larger quantities lend scale advantage to the company.

**Greenfield expansion is over:** Mr. Sarma highlighted that with completion of Chennai plant, CCL's greenfield expansion is over. While the Chennai plant has stated capacity of 5,000tn, it has surrounding infrastructure and land equivalent to support 10,000tn capacity. Total land at Chennai plant is 130 acres of which only 29 acres are being used. The company spent nearly Rs3,000mn on its Chennai plant, but the next 5,000tn capacity can be added there with only Rs1,750mn of additional capital expenditure. Similarly, Vietnam's capacity can be doubled (from 10,000tn to 20,000tn) with only Rs720mn of capital expenditure. The company is planning to increase packing capacity from 3,000tn currently to 10,000tn over the next few years.

**Outlook and valuation:** Although the overall coffee market has been facing excess supply challenge, very few players like CCL 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 CCL'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 retained our Buy rating on CCL with a target price of Rs310 based on target P/E multiple of 18x, indicating an upside of 14% from the CMP.

### BUY

Sector: Beverages

CMP: Rs272

Target Price: Rs310

Upside: 14%

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#### Key Data

Current Shares O/S (mn)	133.0
Mkt Cap (Rsbn/US\$m)	36.3/507.3
52 Wk H / L (Rs)	331/225
Daily Vol. (3M NSE Avg.)	77,284

#### Price Performance (%)

	1 M	6 M	1 Yr
CCL Products	12.7	(10.3)	(10.4)
Nifty Index	3.5	0.6	2.5

Source: Bloomberg

## 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: 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

## Financials (consolidated)

### Exhibit 3: 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 except. items)	1,889	2,018	2,397	2,812	3,396
Exceptional items	0	0	0	0	0
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 5: 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	0	0
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 4: 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)	0
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	(0)	35	33	(0)	0
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 6: Key ratios

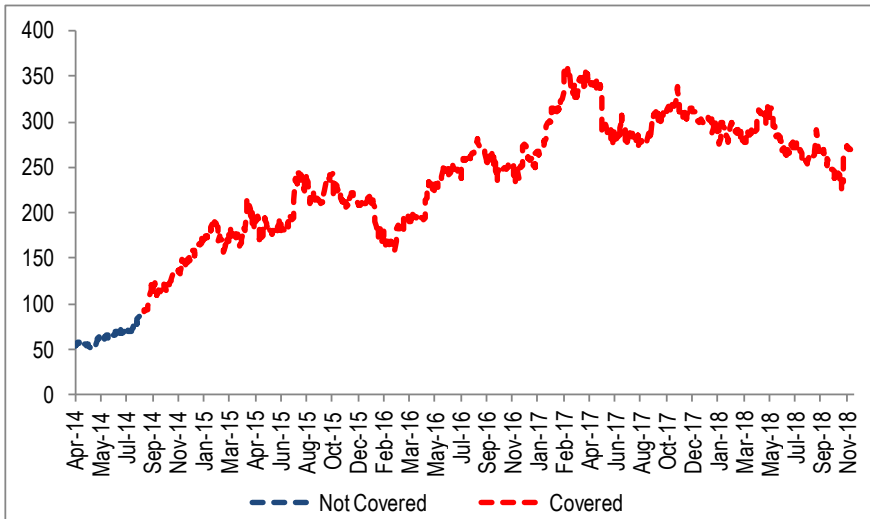
Y/E March	FY17	FY18	FY19E	FY20E	FY21E
<b>Per share (Rs)</b>					
EPS	10.1	11.1	13.3	15.5	18.7
Book value	47.2	55.6	65.2	76.4	90.0
DPS	1.0	2.5	3.1	3.6	4.3
<b>Valuation (x)</b>					
P/Sales	4.7	3.3	2.6	2.3	2.0
EV/sales	4.7	3.5	2.7	2.4	2.1
EV/EBITDA	20.1	16.6	11.9	10.2	8.5
P/E	34.0	25.0	18.2	15.6	12.9
P/BV	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
22 November 2018	Buy	272	310

## Rating track graph



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BUY > 15%

ACCUMULATE -5% to 15%

SELL < -5%

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