

# CCL Products (India)

19 November 2020

Reuters: CCLP.NS; Bloomberg: CCLP IN

## Tracking expectations

We recently interacted with the management of CCL Products (CCLP) in order to get a sense on current demand trends in regions where it operates, Covid-19 related restrictions in manufacturing and update on domestic business performance. Management highlighted that while Europe is going back into lockdown phase, demand for at-home consumption (where instant coffee salience is higher) remains strong. In fact, the company is experiencing higher than routine orders from European clients in order to ensure fulfillment of demand. CCLP is expected to add 2-3 new retailers in Europe by Jan'21. Russian orders will be executed in 2HFY21 to a large extent, which is positive from freeze dried coffee perspective. While there is a delay of about 3-4 months in line-balancing activity in Vietnam, management's earlier guidance of 9,000 tonnes volume (~30% YoY growth as per our estimate) remains unchanged. In India, there are near term supply related challenges like container unavailability. But, underlying demand trends remain strong. Decision on the next round of capacity expansion would be taken in 2HFY22 based on demand visibility.

Following are some of the key highlights of our discussion:

- **Delay in Vietnam line balancing; FY21 guidance unchanged:** Line balancing activity in Vietnam in order to increase capacity by 3,500 tonnes has been delayed due to lockdown restrictions. Management indicated that the same could be completed by the end of FY21. However, that does not change the volume guidance from Vietnam for FY21. Vietnam is operating at full capacity and management is confident of achieving 9,000 tonnes volume in FY21 (~30% YoY growth as per our estimates), led by order from a US-based client.
- **Small packs expansion to start contributing from FY22:** In India, packing and agglomeration expansion has been delayed by 3-4 months and management expects this to start contributing from FY22. With this expansion, packing unit capacity in India would increase by 3x. This is positive from the perspective of higher salience of small packs orders in the coming years from branded players. We have anyway built in incremental revenue from the same from FY22. While the commissioning got delayed, demand for small packs remains strong. As a result, CCLP has also outsourced some portion in order to meet customer requirements. We expect faster utilisation of new unit in FY22.
- **Russia getting back on track; positive for freeze dried coffee:** In 2HFY21, the entire freeze-dried capacity is expected to run at full utilisation. Russia has higher salience in CCLP's overall freeze-dried volume. Russian orders would be executed in 2HFY21.
- **Near term supply challenges:** In India, the company is facing container availability issues but there is no impact on FOB orders. Duggirala is operating at ~75% capacity utilisation.
- **Overall, EU is looking better:** Lockdown restrictions in EU countries have led to inventory stocking by retailers and hence the region is seeing higher demand. CCLP deals with 4 retail chains in the EU and expects to add 2-3 more by Jan'21. At-home consumption demand for coffee remains strong where instant coffee has >70% salience.
- **Cold brew could be a margin driver in the medium term:** The recently introduced cold brew product is doing well. Fast ramp-up of this product is positive for overall margin profile in Duggirala. It is currently being served in bulk packs and also in small packs for a particular client ([refer link](#)).
- **Next round of expansion update:** On further capacity expansion (by doubling of Vietnam and SEZ unit), management indicated that announcement regarding the same will be made in 2HFY22 as the time required for this brownfield expansion is less (~6-8 months vs normal ~12-15 months). Expansion announcement is based on revenue visibility (at least ~35% capacity utilisation) in the first year of operation. We highlight that historically the new capacities of CCLP have clocked ~50% capacity utilisation in the first year of operation.

## BUY

**Sector:** Beverages

**CMP:** Rs253

**Target Price:** Rs340

**Upside:** 34%

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### Key Data

Current Shares O/S (mn)	133.0
Mkt Cap (Rsbn/US\$m)	34.1/459.5
52 Wk H / L (Rs)	294/137
Daily Vol. (3M NSE Avg.)	244,226

### Price Performance (%)

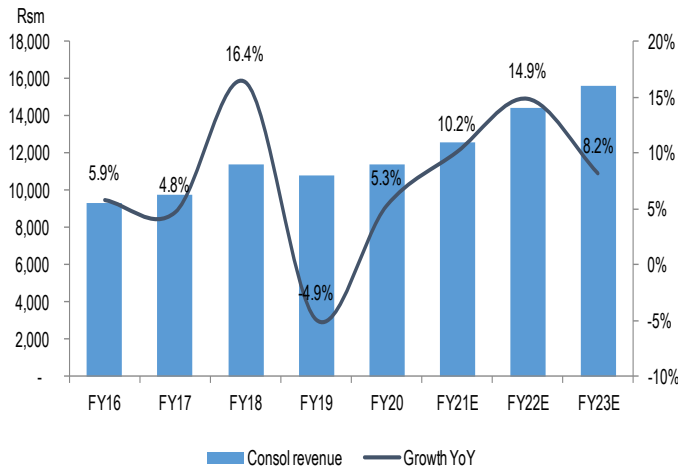
	1 M	6 M	1 Yr
CCL Products	4.7	40.1	22.4
Nifty Index	9.1	45.9	8.5

Source: Bloomberg

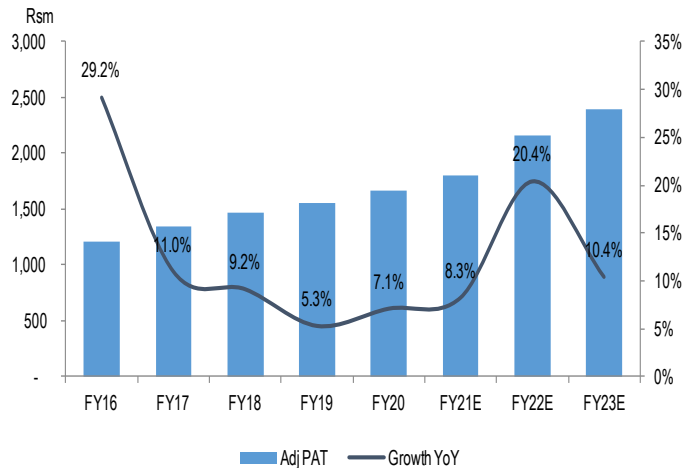
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[Management meet update NBIE](#)
[NBIE Global Coffee Activity Tracker](#)

**We are building in ~13% earnings CAGR over FY20-23E**

**Exhibit 1: Revenue growth - we are building in ~11% CAGR over FY20-23E**



**Exhibit 2: Earnings growth - we are building in ~13% CAGR over FY20-23E**



Source: Company, Nirmal Bang Institutional Equities Research

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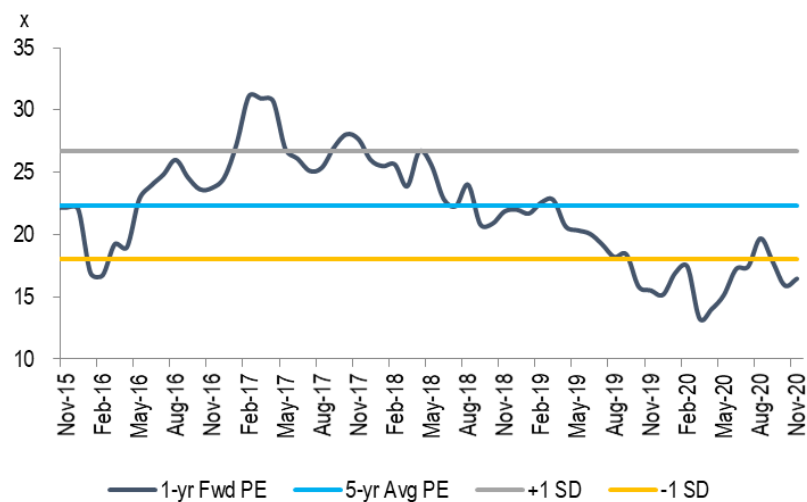
**Maintain Buy on CCLP with TP of Rs340 indicating an upside of 34% from CMP**

**Exhibit 3: Valuation summary**

Particulars	Details	Comments
Consolidated Sept'22E EPS	17	
Target PE multiple (x)	20	~10% discount to 5-yr Median PE
Target price	340	

Source: Nirmal Bang Institutional Equities Research

**Exhibit 4: One-year forward P/E**



Source: Bloomberg, Company, Nirmal Bang Institutional Equities Research

## Financials (Consolidated)

**Exhibit 5: Income statement**

Y/E March (Rsm)	FY19	FY20	FY21E	FY22E	FY23E
<b>Net Sales</b>	<b>10,814</b>	<b>11,392</b>	<b>12,550</b>	<b>14,424</b>	<b>15,613</b>
Growth YoY%	-4.9	5.3	10.2	14.9	8.2
COGS	5,973	5,594	6,483	7,410	8,005
<b>Gross margin %</b>	<b>44.8</b>	<b>50.9</b>	<b>48.3</b>	<b>48.6</b>	<b>48.7</b>
Staff costs	589	703	701	795	854
Other expenses	1,797	2,235	2,292	2,647	2,862
<b>EBITDA</b>	<b>2,455</b>	<b>2,859</b>	<b>3,073</b>	<b>3,573</b>	<b>3,893</b>
Growth YoY%	3.3	16.5	7.5	16.2	9.0
<b>EBITDA margin %</b>	<b>22.7</b>	<b>25.1</b>	<b>24.5</b>	<b>24.8</b>	<b>24.9</b>
Depreciation	317	471	589	620	675
EBIT	2,138	2,388	2,484	2,952	3,217
Interest	85	180	139	112	85
Other income	33	45	40	45	50
PBT (bei)	2,086	2,253	2,385	2,886	3,182
PBT	2,086	2,253	2,385	2,886	3,182
ETR	25.8	26.4	24.7	25.0	24.9
PAT	1,549	1,659	1,797	2,163	2,389
<b>Adj PAT</b>	<b>1,549</b>	<b>1,659</b>	<b>1,797</b>	<b>2,163</b>	<b>2,389</b>
<b>Growth YoY%</b>	<b>5.3</b>	<b>7.1</b>	<b>8.3</b>	<b>20.4</b>	<b>10.4</b>

Source: Company, Nirmal Bang Institutional Equities Research

**Exhibit 7: Balance sheet**

Y/E March (Rsm)	FY19	FY20	FY21E	FY22E	FY23E
Share capital	266	266	266	266	266
Reserves	8,123	9,018	10,096	11,394	12,828
<b>Net worth</b>	<b>8,389</b>	<b>9,284</b>	<b>10,362</b>	<b>11,660</b>	<b>13,094</b>
Long term debt	1,927	2,495	1,651	1,107	594
Short term debt	1,835	1,427	1,427	1,427	1,427
<b>Total debt</b>	<b>3,761</b>	<b>3,922</b>	<b>3,078</b>	<b>2,534</b>	<b>2,021</b>
Other non-current liabilities	429	553	553	553	553
<b>Total Equity &amp; Liabilities</b>	<b>12,579</b>	<b>13,759</b>	<b>13,993</b>	<b>14,748</b>	<b>15,668</b>
Gross block	4,408	8,705	9,805	10,355	11,605
Accumulated depreciation	998	1,469	2,058	2,678	3,354
<b>Net Block</b>	<b>3,410</b>	<b>7,236</b>	<b>7,748</b>	<b>7,677</b>	<b>8,252</b>
CWIP	4,241	1,002	971	971	971
Intangible and others	-	-	-	-	-
Other non-current assets	420	481	577	692	831
Investments	435	15	15	15	15
Trade receivables	2,352	2,681	2,661	2,766	2,994
Inventories	2,020	2,604	2,485	2,699	2,935
Cash & Cash equivalents	965	387	290	586	318
Other current assets	373	688	791	910	910
<b>Total current assets</b>	<b>5,710</b>	<b>6,360</b>	<b>6,227</b>	<b>6,961</b>	<b>7,157</b>
Trade payables	571	246	510	586	624
Other current liabilities	1,067	1,089	1,034	983	933
<b>Total current liabilities</b>	<b>1,637</b>	<b>1,335</b>	<b>1,545</b>	<b>1,568</b>	<b>1,557</b>
<b>Total Assets</b>	<b>12,579</b>	<b>13,759</b>	<b>13,993</b>	<b>14,748</b>	<b>15,668</b>

Source: Company, Nirmal Bang Institutional Equities Research

**Exhibit 6: Cash flow**

Y/E March (Rsm)	FY19	FY20	FY21E	FY22E	FY23E
<b>PBT</b>	<b>2,086</b>	<b>2,253</b>	<b>2,385</b>	<b>2,886</b>	<b>3,182</b>
Depreciation	317	471	589	620	675
Interest	-	-	139	112	85
Other adjustments	142	185	-40	-45	-50
Change in Working capital	-359	-1,468	245	-413	-476
Tax paid	-591	-529	-589	-722	-793
<b>Operating cash flow</b>	<b>1,616</b>	<b>907</b>	<b>2,730</b>	<b>2,437</b>	<b>2,624</b>
Capex	-2,413	-638	-1,069	-550	-1,250
<b>Free cash flow</b>	<b>-798</b>	<b>269</b>	<b>1,660</b>	<b>1,887</b>	<b>1,374</b>
Other investing activities	666	-246	-56	-70	-88
<b>Investing cash flow</b>	<b>-1,748</b>	<b>-884</b>	<b>-1,125</b>	<b>-620</b>	<b>-1,338</b>
Issuance of share capital	-	-	-	-	-
Movement of Debt	1,054	526	-844	-543	-513
Dividend paid (incl DDT)	-633	-898	-719	-865	-956
Other financing activities	-	-	-139	-112	-85
<b>Financing cash flow</b>	<b>421</b>	<b>-372</b>	<b>-1,701</b>	<b>-1,520</b>	<b>-1,554</b>
<b>Net change in cash flow</b>	<b>290</b>	<b>-350</b>	<b>-97</b>	<b>296</b>	<b>-269</b>
Opening C&CE	437	727	377	279	576
Closing C&CE	727	377	279	576	307

Source: Company, Nirmal Bang Institutional Equities Research

**Exhibit 8: Key ratios**

Y/E March (Rsm)	FY19	FY20	FY21E	FY22E	FY23E
<b>Per share (Rs)</b>					
Adj EPS	11.6	12.5	13.5	16.3	18.0
Book value	63.1	69.8	77.9	87.6	98.4
DPS	4.3	4.3	5.4	6.5	7.2
<b>Valuation (x)</b>					
P/Sales	2.8	2.7	2.4	2.1	2.0
EV/sales	3.1	3.0	2.7	2.3	2.1
EV/EBITDA	13.6	11.9	10.9	9.1	8.3
P/E	19.8	18.4	17.0	14.1	12.8
P/BV	3.6	3.3	3.0	2.6	2.3
<b>Return ratios (%)</b>					
RoCE	18.9	18.8	18.6	21.4	22.0
RoE	19.6	18.8	18.3	19.6	19.3
<b>Profitability ratios (%)</b>					
Gross margin	44.8	50.9	48.3	48.6	48.7
EBITDA margin	22.7	25.1	24.5	24.8	24.9
PAT margin	14.3	14.5	14.3	15.0	15.3
<b>Liquidity ratios (%)</b>					
Current ratio	1.6	2.3	2.1	2.3	2.4
Quick ratio	1.1	1.4	1.3	1.4	1.4
<b>Solvency ratio (%)</b>					
Debt to Equity ratio	0.4	0.4	0.3	0.2	0.2
<b>Turnover ratios</b>					
Fixed asset turnover ratio (x)	3.2	2.9	3.0	3.3	3.5
Debtor days	70	81	78	69	67
Inventory days	65	74	74	66	66
Creditor days	21	27	21	27	28
Net Working capital days	115	128	130	107	106

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
15 February 2019	Buy	278	310
16 June 2020	Buy	228	340
25 June 2020	Buy	244	340
27 July 2020	Buy	243	340
20 October 2020	Buy	252	340
19 November 2020	Buy	253	340

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BUY > 15%

ACCUMULATE -5% to 15%

SELL < -5%

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