

Healthy overseas operations drive Q1, volume guidance sustained

CCL Products (CCLP) managed to deliver Q1FY21 consol. revenue growth of 6%/9% YoY/QoQ, at Rs 289Cr, higher vs our est. Rs 204Cr driven by healthy operations at its subsidiaries in Vietnam & Switzerland, despite COVID-19 led disruptions in Indian operations in Q1, further ~Rs 11Cr was booked in Q1 out of pending shipments of Q4FY20. However, GM declined by 222bps YoY at 45.3% (est. 51%) with 50% reduction in higher margin FDC volumes as this plant remained shut for maintenance led activity undertaken during lockdown period. This resulted in EBITDA margin contraction of 367bps YoY at 21.7% (est. 21.4%) offset by 25%/17% reduction in employee and other expenses QoQ. PAT came in Rs 38.5Cr (est. 20Cr) up 11% YoY aided by lower tax rates at 16% (26% earlier). Volumes growth during the quarter was mainly led by traction in Vietnam business (addition of US client) and higher sales from Switzerland unit (surge in demand from EU supermarkets). Whereas the standalone biz. declined by 15% in Q1FY21 due to both Indian plants being shut for 55 days. Its Branded biz. (Continental Coffee) has sustained its growth trajectory with Rs 22Cr revenue (up 40% YoY) in Q1. Management targets to achieve Rs 90Cr revenue in its Retail business in FY21E. Utilization rates are expected to hit pre-COVID levels by August 2020 as in Q1FY21 utilization were impacted by pandemic led plant shutdown and for maintenance work. Management guided to deliver ~10% volume growth in FY21 on the back of healthy order book across its key markets ex-Russia which has seen deferral in orders due to lockdowns. Despite the order deferrals which is temporary we believe company should deliver steady earnings growth in FY21 and thus have raised our EPS estimates by 5%/2% in FY21/22E supported by lower tax rates. We expect CCLP to post Sales/EBITDA/PAT CAGR of 9%/10%/13% over FY20-FY22E driven by superior product mix (ramp up of FDC unit/ higher share of small packs) & capacity expansion plans. We revise our TP to Rs. 271 (earlier Rs. 267) continuing to value it at 17x FY22E EPS. Maintain BUY.

Key concall takeaways

- Revenue aided by healthy Vietnam/Switzerland operations:** Q1FY21 consolidated revenue surpassed estimates at Rs 289 crs led by higher capacity utilization in Vietnam unit at 75% aided by addition of a large US client and continuity in operations as it is least impacted by the COVID-19 virus. Switzerland operations also witnessed higher offtake with additions in super market client base from EU owing to the panic buying and increase in in-home consumption of Instant coffee (IC). Revenue from Vietnam and Switzerland for the quarter was at Rs 107 Crs & Rs 40Cr respectively. CCLP's topline was further aided by Rs 11Cr sales realized in Q1FY21, out of total Rs 40Cr worth of shipments during Q4FY20 which couldn't be dispatched during owing to COVID-19 led logistic constraints & postponement of orders from Russia.
- Margins impacted by disruptions in Indian operations:** In Q1FY21, revenue from standalone business was down 15% at Rs 176 Crs impacted by pandemic led shutdown of high margin Freeze Dried Coffee (FDC) plant in SEZ unit for 55 days while, FDC capacity at EOU unit was shut for maintenance work. Hence volumes from FDC declined by ~50% in Q1FY21, impacting standalone EBITDA margin which declined by 600 bps to 19.9% YoY.
- Capex plans on track:** Planned capacity addition of 3,500 tonnes at Vietnam expected to commission by Q3FY21 thus augmenting volumes. Further agglomeration and packing capacity would be set up by Q1FY22 leading to higher share of small packs from 15% to ~30% in the portfolio thereby incrementally aiding realizations (~20% higher EBITDA from small packs biz). The capex for these plants is estimated at \$8mn and \$12mn respectively.
- FY21 guidance:** Management targets to close FY21E with ~10% volume growth driven by capacity additions at Vietnam and rampup of FDC capacity driven by client additions and increased in-home consumption of instant coffee across the globe. CCLP has guided for 100%/90%/75% capacity utilizations in Vietnam/ EOU/ SEZ units for the rest of FY21E. Further, In Q2FY21, ~Rs 30Cr of pending orders of Q4 will get dispatched as lockdown in Russia eases thereby helping it maintain FY21 guidance.

Key Financials (CONSOLIDATED)

(Rs. Cr)	FY19	FY20	FY21E	FY22E
Net Sales	1081	1139	1218	1361
EBITDA	245	286	304	346
Net Profit	155	166	182	212
EPS (Rs.)	11.6	12.5	13.7	16.0
PER (x)	24.5	14.4	17.4	14.9
EV/EBITDA (x)	16.6	9.6	11.1	9.8
P/BV (x)	4.5	2.6	3.1	2.7
ROE (%)	19.6%	18.8%	18.5%	19.4%

Source: Company, Axis Research

(CMP as of July 27, 2020)

CMP (Rs)	238
Upside /Downside (%)	14%
High/Low (Rs)	261/137
Market cap (Cr)	3,138
Avg. daily vol. (6m) Shrs.	2,88,550
No. of shares (Cr)	13.3

Shareholding (%)

	Mar-20	Dec-19	Sep-19
Promoter	45.9	45.8	45.5
FIs	13.4	15.8	24.7
MFs / UTI	10.3	7.3	3.8
Banks / FIs	0.1	0.0	0.1
Others	30.3	31.0	25.9

Financial & Valuations

Y/E Mar (Rs. bn)	2020	2021E	2022E
Net Sales	11.4	12.2	13.6
EBITDA	2.9	3.0	3.5
Net Profit	1.7	1.8	2.1
EPS (Rs.)	12.5	13.7	16.0
PER (x)	14.4	17.4	14.9
EV/EBITDA (x)	9.6	11.1	9.8
P/BV (x)	2.6	3.1	2.7
ROE (%)	18.8%	18.5%	19.4%

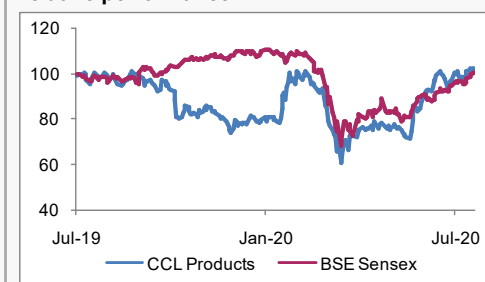
Change in Estimates (%)

Y/E Mar	FY21E	FY22E
Sales	3.3	0
EBITDA	1.2	-1.5
PAT	5.3	1.6

Axis vs Consensus

EPS Estimates	2021E	2022E
Axis	13.7	16.0
Consensus	13.8	16.6
Mean Consensus TP (12M)		307

Relative performance



Source: Capitaline, Axis Securities

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Other Key Concall Takeaways

- 1) **Healthy new product development pipeline:** CCLP's consistent R&D efforts to explore/launch new varieties and categories of coffee to stay relevant in an evolving demand scenario gives it an edge vs peers. It has been developing cold brew coffee which is in high demand in US, and are the pioneers in the industry to foray into the segment. Management has guided to do 100 tonnes of volumes during FY21 from this category which would attain scale to 500-600 tonnes gradually indicating healthy growth potential going ahead. Further CCLP is also exploring the coffee pods/ capsules segment, it is at a nascent stage in India but has a market of USD 35.3bn globally and is expected to grow at a CAGR of 5% to reach USD 51.5bn by 2027.
- 2) **Demand scenario:** Although the consumption of roast & ground coffee has been impacted due to closure of hotels and coffee outlets, there has been an increase in demand for Instant coffee (IC) owing to the surge in-home consumption. The spray dried variant of IC is expected to gain traction as consumer's preference towards value products, however given that coffee consumption is more a personal choice and its difficult to shift to any other product type or brand impact on demand for FDC is unlikely to be seen.
- 3) **Continental coffee:** Management has witnessed good traction in its domestic brand (Continental Coffee) owing to rise in demand for Instant Coffee. It has grown by 40% YoY at Rs 22 Crs and CCLP targets to achieve a revenue of Rs 90 Crs in FY21E (vs Rs 55 Crs in FY20).
- 4) **RM Prices:** Prices of Green Coffee its key RM have risen lately but management believes the increase to be temporary and expects it to be benign going ahead owing to fall in overall demand for coffee due to decline in institutional and out-of-home consumption.
- 5) **Capacity utilizations:** Utilization rates stood at 75%/50% in Vietnam and SEZ units in India. However, utilization in EOU (Duggirala) unit had been low during the quarter due to maintenance work being under taken at the plant.
- 6) **Revenue split & client additions:** CCLP highlighted that it is constantly in process of acquiring new clients , however conversion into volumes is a long term process. Its revenues contribution across its key markets is as follows: 20% Europe, 25% Russia, 20% United States, and balance 35% from Asia and other African countries.
- 7) Export incentives stood at Rs 7 Crs in the quarter.

Change in Estimates

(Rs Cr)

	Revised		Old		%Change	
	FY21E	FY22E	FY21E	FY22E	FY21E	FY22E
Revenue	1218	1361	1179	1361	3.3	0.0
EBITDA	304	346	301	351	1.2	-1.5
EBITDA %	25	25.4	25.5	25.8	-50 bps	-40 bps
PAT	182	212	173	209	5.3	1.6
EPS	13.7	16.0	13	15.7	5.3	1.6

Source: Company, Axis Research

Valuation & Outlook

We have raised our EPS estimates by 5%/2% in FY21/22E owing to 1) healthy management outlook despite economic uncertainty, 2) rise in In home consumption of Instant Coffee, 3) Vietnam capacity expansion of 3,500 tonnes to come up by Q3FY21 and 4) lower tax rates. We expect CCLP to post Sales/EBITDA/PAT CAGR of 9%/10%/13% over FY20-FY22E driven by superior product mix (ramp up of FDC unit/ higher share of small packs) & capacity expansion.

We remain positive on CCL Products given 1) expertise in customized blends 2) cost efficient business model 3) largest manufacturer and exporter of instant coffee 4) presence in Vietnam- most competitive market for instant coffee production 5) capacity additions in value added products (FDC & small packs) and 6) foray into high margin branded retail business (Continental Coffee).

We maintain BUY but revise our target price upwards to Rs 271 (earlier Rs 267) valuing at P/E multiple of 17x its FY22E EPS.

Consolidated Financial Highlights for Q1FY21

	Q1FY21	Q1FY21E Axis Estm	Var (%)	Q1FY20	% Change (Y-o-Y)	Q4FY20	% Change (Q-o-Q)
Net Sales	289	204	41.8%	273	5.9%	265	9.3%
Expenditure							
Net Raw Material	158			143	10.3%	109	45.2%
Gross Profit	131	104	25.9%	130	0.9%	156	-15.8%
<i>Gross Margin (%)</i>	45.3	51	-570 bps	47.5	-222 bps	58.8	-1353 bps
Employee Expenses	17			15	13.0%	23	-25.5%
Other Expenses	51			45	12.7%	62	-17.7%
Total Expenditure	226			204		194	
EBITDA	63	44	44.0%	69	-9.4%	71	-11.1%
<i>EBITDA Margin (%)</i>	21.7	21.4	34 bps	25.4	-367 bps	26.7	-499 bps
Oth. Inc	0			1	-90.9%	3	-98.3%
Interest	5			4	4.0%	4	3.4%
Depreciation	13			11	13.6%	11	9.2%
PBT	46			54	-16.0%	58	-20.6%
Tax	7			20	-63.2%	15	-52.9%
PAT	38	20	95.0%	35	11.0%	42	-8.8%
EPS	2.89	1.48	95.0%	2.61	11.0%	3.17	-8.8%

Source: Company; Axis Securities

Financials (consolidated)
Profit & Loss

(Rs Cr)

Income statement	FY19	FY20	FY21E	FY22E
Total Net Sales	1,081	1,139	1,218	1,361
% Change	-4.9%	5.3%	6.9%	11.8%
Total Raw material Consumption	597	559	602	666
Staff costs	59	70	76	84
Other Expenditure	180	224	236	265
Total Expenditure	836	853	913	1,016
EBITDA	245	286	304	346
% Change	2.9%	16.5%	6.5%	13.6%
EBITDA Margin %	22.7%	25.1%	25.0%	25.4%
Depreciation	31.7	47.1	57.4	62.2
EBIT	214	239	247	284
% Change	4.5%	11.8%	3.5%	14.8%
EBIT Margin %	19.8%	21.0%	20.3%	20.8%
Interest	8	18	14	12
Other Income	3	4	4	4
(as % of PBT)	2%	2%	2%	1%
PBT	209	225	236	276
Tax	54	59	54	63
<i>Tax Rate %</i>	<i>25.8%</i>	<i>26.4%</i>	<i>23.0%</i>	<i>23.0%</i>
APAT	155	166	182	212
% Change	4.8%	7.2%	9.7%	16.6%

Source: Company, Axis Securities

Balance Sheet

(Rs Cr)

Balance Sheet	FY19	FY20	FY21E	FY22E
Share Capital	27	27	27	27
Reserves & Surplus	812	902	1,011	1,128
Net Worth	839	928	1,038	1,154
Total Loan funds	376	392	316	240
Deferred Tax Liability	43	46	46	46
Long Term Provisions	0	0	0	0
Other Long Term Liability	0	9	6	7
Capital Employed	1,258	1,376	1,406	1,448
Gross Block	483	883	983	1,073
Less: Depreciation	100	159	217	279
Net Block	383	724	766	794
Investments	5	7	5	5
Sundry Debtors	235	268	267	298
Cash & Bank Bal	97	39	88	16
Loans & Advances	0	0	0	0
Inventory	202	260	231	264
Other Current Assets	37	69	74	82
Total Current Assets	571	636	659	661
CurrLiab&Prov	164	134	156	145
Net Current Assets	407	503	503	516
Total Assets	1,258	1,376	1,406	1,448

Source: Company, Axis Securities

Cash Flow

(Rs Cr)

Cash Flow	FY19	FY20	FY21E	FY22E
PBT	209	225	236	276
Depreciation & Amortization	32	47	57	62
Provision for Taxes	0	0	14	12
Chg in Deferred tax	15	19	0	0
Chg in Working cap	-36	-147	48	-84
Diret tax paid	-57	-53	-54	-63
Cash flow from operations	162	91	302	202
Chg in Gross Block	-241	-64	-90	-90
Chg in Investments	0	0	0	0
Chg in WIP	9	-12	0	0
Cash flow from investing	-233	-76	-90	-90
Proceeds / (Repayment) of Short Term Borrowings (Net)	57	93	0	0
Repayment of Long Term Borrowings	49	-41	0	0
Loans	0	0	-76	-76
Finance Cost paid	0	0	-14	-12
Dividends paid	-33	-90	-73	-96
Dividend Distribution Tax paid	-7	0	0	0
Cash flow from financing	66	-37	-163	-184
Chg in cash	53	-35	49	-71

Source: Company, Axis Securities

Ratio Analysis

(%)

Key Ratios	FY19	FY20	FY21E	FY22E
Growth (%)				
Net Sales	-4.9%	5.3%	6.9%	11.8%
EBITDA	2.9%	16.5%	6.5%	13.6%
APAT	4.8%	7.2%	9.7%	16.6%
Per Share Data (Rs.)				
Adj. EPS	11.6	12.5	13.7	16.0
BVPS	63.1	69.8	78.0	86.8
Profitability (%)				
EBITDA Margin	22.7%	25.1%	25.0%	25.4%
Adj. PAT Margin	14.3%	14.6%	15.0%	15.6%
ROCE	17.0%	17.4%	17.6%	19.6%
ROE	19.6%	18.8%	18.5%	19.4%
ROIC	18.5%	18.0%	18.8%	19.9%
Valuations (X)				
PER	24.5	14.4	17.4	14.9
P/BV	4.5	2.6	3.1	2.7
EV / EBITDA	16.6	9.6	11.1	9.8
EV / Net Sales	3.8	2.4	2.8	2.5
Turnover Days				
Asset Turnover	0.8	0.8	0.7	0.9
Inventory days	117.6	150.8	149.0	135.8
Debtors days	70.4	80.6	80.2	75.8
Creditors days	20.6	26.7	22.0	25.6
Working Capital Days	167.5	204.8	207.2	185.9
Gearing Ratio				
Total Debt to Equity	0.3	0.4	0.2	0.2

Source: Company, Axis Securities

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