

Poised For Strong Growth

We interacted with the management of CCL Products (CCLP) to get an update on the overall business in light of unlocking economies domestically and globally. The management indicated it delivered better-than-expected FY21 on all fronts given increased in-house consumption of coffee, thus cushioning its demand from Covid-19 disruption. The domestic business recorded sales of Rs 150 Cr for FY21, registering a growth of ~60% YOY (Rs 90 Cr in FY20), on account of healthy traction in the branded segment (Continental Coffee) led by a surge in in-home consumption. The branded business reported sales of Rs 100 Cr (included in Rs 150 Cr). The demand from the Institutional business has witnessed recovery post-lockdown easing. For the branded products segment, CCLP aims to achieve Rs 250 Cr revenue over the next 2-3 years. To achieve this objective, the company has launched a new product (3-in-1 coffee with various flavour and variants) targeting the younger generation in the age group of 18-35 years vs. other players who are largely present and cater to consumers above 35 years age, thus creating a new base of customers. Further, to drive brand and product visibility, CCLP plans to install premium coffee dispenser and premium coffee dispensers at high-end places for freeze-dried products. Therefore, with incremental contribution from the branded products, margins are likely to improve to 25-30% going forward. Besides, the management also indicated demand for smaller packs to further increase as coffee shops, offices, and colleges, etc gradually open, thereby creating a new growth opportunity for the business. Key Risk – a) Logistical disruptions, b) Reimposing of lockdowns globally and domestically.

Key concall takeaways

- **Capacity Utilization:** Having witnessed pressure in H1FY21 due to the first wave of Covid-19, the freeze-dried coffee unit utilizations were impacted (operated at an overall 61% utilization level), further delays in offtakes from the Russian clients, too, had its bearing on the utilization. However, in H2FY21, with the easing of lockdown and logistical issues, its FDC utilization improved. For FY22, the management expects utilization to normalize ~80-85% level across all the plants if no major challenges (3rd wave, logistic issues) are faced.
- **Capacity expansion and utilization:** Commercialization of Vietnam's capacity addition (3.5k tns) is planned in Q2FY22. Also, the new packing & agglomeration plant in India is expected to start operations in 1QFY22E, thereby increasing the share of small packs (10-15% currently) by the end of FY22E.
- **NPD (Cold brew coffee):** Sales of its new and premium product 'Cold Brew Coffee' to the US started and is seeing a positive response from its customers. CCLP sees a huge growth opportunity for this product. It would also enjoy a first-mover advantage in Cold Brew Coffee as competitors would take 3-4 years to develop the same. For FY22, the US client has already doubled its order. Also as demand for FSSAI certified products increases in the US, CCLP would get incremental orders from the region. Besides, the company received an inquiry from Europe not only for the packed product but also for bulk supply, which will contribute to the segment revenues and margins going forward.
- **Guidance:** The company anticipates to clock Rs 200 Cr of domestic business of which Rs 150 Cr is likely to be in the branded business. For FY22,
 - ✓ Volume growth guidance: 10-15% in FY22
 - ✓ EBITDA margin target to sustain in FY22; aims for 25-27% in next 3-4 years
 - ✓ Plan to increase its overall capacity to 55,000 tons by FY24 with improvement in EBITDA/kg to Rs 130-135/kg

Key Financials (Consolidated)

(Rs Cr)	FY20	FY21	FY22E	FY23E
Net Sales	1139	1242	1410	1554
EBITDA	286	298	366	410
Net Profit	166	182	223	255
EPS (Rs.)	12.5	13.7	16.7	19.2
PER (x)	14.4	25.0	20.5	17.9
EV/EBITDA (x)	9.6	16.5	13.0	11.3
P/BV (x)	2.6	4.2	3.6	3.2
ROE (%)	18.8	18.1	19.0	18.9

Source: Company, Axis Research

(CMP as of June 25, 2021)

CMP (Rs)	343
Upside /Downside (%)	12%
High/Low (Rs)	375/220
Market cap (Cr)	4,565
Avg. daily vol. (6m) Shrs.	2,28,627
No. of shares (Cr)	13.3

Shareholding (%)

	Sep-20	Dec-20	Mar-21
Promoter	46.19	46.19	46.19
FII's	12.24	11.54	12.35
MFs / UTI	12.46	12.59	11.98
Banks / FI's	0.00	0.00	0.00
Others	29.11	29.68	29.48

Financial & Valuations

Y/E Mar (Rs. Cr)	2021	2022E	2023E
Net Sales	1242	1410	1554
EBITDA	298	366	410
Net Profit	182	223	255
EPS (Rs.)	13.7	16.7	19.2
PER (x)	25.0	20.5	17.9
EV/EBITDA (x)	16.5	13.0	11.3
P/BV (x)	4.2	3.6	3.2
ROE (%)	18.1	19.0	18.9

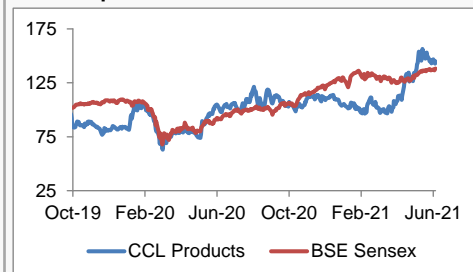
ESG Disclosure Score

Particulars	Score
Environmental	51.9
Social	43.9
Governance	64.3
Total ESG Disclosure Score	52.9

Source: Bloomberg, Scale: 0.1-100

**Note: This score measures the amount of ESG data a company reports publicly and does not measure the company's performance on any data point. All scores are based on 2020 disclosures

Relative performance



Source: Capitaline, Axis Securities

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Other Key Takeaways:

- **MEIS benefits:** As CCLP's units are situated un EOU and SEZ, it cannot claim benefits under MEIS. However, given the government's focus on promoting exports, it expects the Gol to come up with some incentives to support exporters. It shall receive Rs 28 Cr of incentives (9 months), but, as of now, there is no clarity on the timeline for the same. To mitigate the related uncertainty, CCLP would work towards increasing export volumes and focus on higher-margin products.
- **Raw material price:** ~80% of the raw material (green coffee) is Robusta for CCLP which is easily available. Therefore, any increase in the price of Arabica coffee is unlikely to impact the margins for CCLP. Besides, the company follows a Cost Plus model, and thus any inflationary pressure due to the rise in prices of Robusta wouldn't affect CCLP's margins.

Valuation & Outlook

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- the 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 expect the company to deliver steady earnings growth in FY22E driven by improving demand outlook across markets. Hence we have broadly retained our estimates of Sales/EBITDA/PAT CAGR of 11%/13%/15% over FY20-FY23E driven by a healthy order book, superior product mix (ramp-up of FDC unit/ higher share of small packs, cold brew coffee), and capacity expansion in Vietnam (3.5k tons). **We maintain a BUY with TP of Rs 385, valuing at a target P/E multiple of 20x its FY23E EPS.**

Financials (consolidated)

Profit & Loss

(Rs Cr)

Income statement	FY20	FY21	FY22E	FY23E
Total Net Sales	1,139	1,242	1,410	1,554
% Change	5.3%	9.1%	13.4%	10.3%
Total Raw material Consumption	559	590	689	760
Staff costs	70	80	87	96
Other Expenditure	224	275	266	288
Total Expenditure	853	945	1,043	1,144
EBITDA	286	298	366	410
% Change	16.5%	4.2%	23.1%	11.9%
EBITDA Margin %	25.1%	24.0%	26.0%	26.4%
Depreciation	47.1	49.4	64.4	69.1
EBIT	239	248	302	341
% Change	11.8%	4.0%	21.6%	12.9%
EBIT Margin %	21.0%	20.0%	21.4%	22.0%
Interest	18	17	22	21
Other Income	4	3	6	6
(as % of PBT)	2%	1%	2%	2%
PBT	225	235	285	327
Tax	59	53	63	72
<i>Tax Rate %</i>	26.4%	22.4%	22.0%	22.0%
APAT	166	182	223	255
% Change	7.2%	9.9%	22.1%	14.4%

Source: Company, Axis Securities

Balance Sheet

(Rs Cr)

Balance Sheet	FY20	FY21	FY22E	FY23E
Share Capital	27	27	27	27
Reserves & Surplus	902	1,061	1,228	1,419
Net Worth	928	1,087	1,254	1,445
Total Loan funds	392	475	445	415
Deferred Tax Liability	46	49	49	49
Long Term Provisions	0	1	0	0
Other Long Term Liability	9	5	7	8
Capital Employed	1,376	1,617	1,755	1,917
Gross Block	883	1,007	1,137	1,227
Less: Depreciation	159	209	273	342
Net Block	724	798	864	885
Investments	7	7	6	6
Sundry Debtors	268	299	309	341
Cash & Bank Bal	39	120	236	323
Loans & Advances	0	0	0	0
Inventory	260	320	274	302
Other Current Assets	69	53	85	94
Total Current Assets	636	792	904	1,060
CurrLiab&Prov	134	171	151	166
Net Current Assets	503	621	753	893
Total Assets	1,376	1,617	1,755	1,917

Source: Company, Axis Securities

Cash Flow
(Rs Cr)

Cash Flow	FY20	FY21	FY22E	FY23E
PBT	225	235	285	327
Depreciation & Amortization	47	49	64	69
Provision for Taxes	0	0	22	21
Chg in Deferred tax	19	4	0	0
Chg in Working cap	-147	-92	-15	-53
Diret tax paid	-53	-26	-63	-72
Cash flow from operations	91	171	295	292
Chg in Gross Block	-89	-155	-71	-90
Chg in Investments	0	0	0	0
Chg in WIP	0	2	0	0
Cash flow from investing	-88	-153	-71	-90
Proceeds / (Repayment) of Short Term Borrowings (Net)	93	-65	0	0
Repayment of Long Term Borrowings	-41	155	0	0
Loans	0	0	-30	-30
Finance Cost paid	0	0	-22	-21
Dividends paid	-90	-27	-56	-64
Dividend Distribution Tax paid	0	0	0	0
Cash flow from financing	-37	64	-108	-114
Chg in cash	-35	82	116	87

Source: Company, Axis Securities

Ratio Analysis
(%)

Key Ratios	FY20	FY21	FY22E	FY23E
Growth (%)				
Net Sales	5.3	9.1	13.4	10.3
EBITDA	16.5	4.2	23.1	11.9
APAT	7.2	9.9	22.1	14.4
Per Share Data (Rs.)				
Adj. EPS	12.5	13.7	16.7	19.2
BVPS	69.8	81.7	94.3	108.7
Profitability (%)				
EBITDA Margin	25.1	24.0	26.0	26.4
Adj. PAT Margin	14.6	14.7	15.8	16.4
ROCE	17.4	15.4	17.2	17.8
ROE	18.8	18.1	19.0	18.9
ROIC	18.0	16.7	20.0	21.5
Valuations (X)				
PER	14.4	25.0	20.5	17.9
P/BV	2.6	4.2	3.6	3.2
EV / EBITDA	9.6	16.5	13.0	11.3
EV / Net Sales	2.4	4.0	3.4	3.0
Turnover Days				
Asset Turnover	1	1	1	1
Inventory days	151	179	157	138
Debtors days	81	83	79	76
Creditors days	27	14	18	24
Working Capital Days	205	249	218	191
Gearing Ratio				
Total Debt to Equity	0.4	0.3	0.2	0.1

Source: Company, Axis Securities

About the analyst



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