AXIS SECURITIES

Result Update
30th July 2021

CCL Products Ltd
Consumer

BUY
Target Price
495

Stable Performance Amid Crisis

CCL Products (CCLP) delivered better than expected Q1FY22 on revenue front but EBITDA/PAT were lower than expectations. Consol. Revenue at Rs 326Cr, up 13% YoY, (est. Rs 320Cr) on account of better realization. GPM improved by 520 bps YoY and came in at 50.5% on account of higher realization and higher proportion of premium (Freeze Dried Coffee) FDC volumes but were lower QoQ on account of seasonality in the business. Higher operating expenses (Other Exp as a % of sale up by 270 bps) weighed down on margins by 200bps YoY at (estm 24.7%) with an absolute EBITDA of Rs. 72Cr. PAT came in at Rs 44Cr (est.Rs. 49 crs) was higher 14% YoY. Expect Sales/EBITDA/PAT CAGR of 11%/14%/15% over FY21-FY24E driven by healthy order book, superior product mix (ramp up of FDC unit/ higher share of smallpacks) & capacity expansion plans. Delay in replacement of the MEIS scheme and COVID led production disruption remain key downside risk to our estimates.

Key concall takeaways

- **Easing lockdown aids Revenue growth**: Q1FY22 consolidated revenue was up by13% YoY at Rs 326cr on account of favourable base, improved realization and lockdown easing globally. Further, exports improved on the back of resolution of logistic issues (container unavailability), however lockdown in May'21 did impact the volumes of the company to some extent. Besides management indicated institutional segments such as hotels, airlines and offices, that reopened driven by easing lock down contributed well during April and June. Going forward, management expects good traction in Vietnam biz and would expand capacities as it now operates at optimal ~80-85% utilization levels. It expects a capacity utilization level of 70-75% from the new unit upon commissioning. Further over the medium term it plans to double its capacity in the region. The capex incurred for doubling capacity is likley to be lower as infrastructure is already in place.
- **Newer opportunities in US market:** Due to harsh weather conditions in Brazil and thereby an impact on coffee supplies, CCLP could gain market share in US. Management expects growth of 20-25% in volumes in US geography. Therefore, with this revenue contribution from US geography is likely to increase by 100-200 bps in FY22E from the current 10%. Currently, 95% of the revenue from US constitutes bulk packs and ony 5% is small packs but going forward management intends to increase contribution from small packs that have relatively better margins than bulk packs.
- **Vietnam Biz:** Company sees good traction in Vietnam Biz with higher margin orders coming in from US. Capacity additions in Vietnam is likley to conitnue given strong demand momentum and existing unit operating at peak utilization rates. For the new unit likley to be commissioned in Q2FY22, it expects a 70-75% utilization level. Further over medium term it plans to double its capacity in the region with minimal capex. However, surge in covid cases in Vietnam could impact the operations significantly in the near term and remain a risk.
- **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 Q1FY22E thereby increasing share of small packs (10-15% currently) by end of FY22E. Capacity utilization in Vietnam was ~80%, in India: SEZ was at 65-70% and EOU (Duggirala) was lower at 60-61%.
- **Domestic Biz:** CCLP recorded a business of Rs. 30 Cr for Q1FY22 registering a healthy growth given improving traction in branded segment (Continental Coffee) owing to rise in in-home consumption.For the branded products segment, CCLP aims to achieve Rs. 250Cr revenue over next 2-3 years.. Therefore, with incremental contribution from branded products, margins are likely to improve to 25-30% in the next 2-3 years.

Valuation & Outlook

We remain postivie 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 expect the company to deliver steady earnings growth from Q2FY22E driven by improving demand outlook across markets. Hence we have broadly retained our Sales/EBITDA/PAT CAGR estimates of 11%/14%/15% over FY21-FY24E driven by healthy order book, superior product mix (ramp up of FDC unit/ higher share of small packs, cold brew coffee) & capacity expansion in Vietnam (3.5k tons). **We maintain BUY with a revised TP of Rs 495, as we raise our target P/E multiple to 23x its FY24E EPS (20x earlier).**

Key Financials (Consolidated)

(Rs. Cr)	FY21	FY22E	FY23E	FY24E
Net Sales	1242	1411	1572	1683
EBITDA	298	367	415	444
Net Profit	182	223	259	279
EPS (Rs.)	13.7	16.8	19.4	21.0
PER (x)	32.1	26.3	22.6	21.0
EV/EBITDA (x)	20.8	16.5	14.3	13.0
P/BV (x)	5.4	4.7	4.0	3.5
ROE (%)	18.1%	19.0%	19.1%	18.0%

Source: Company, Axis Research

	(CMP as of July 29, 2021)
CMP (Rs)	440
Upside /Downside (%)	12%
High/Low (Rs)	495/220
Market cap (Cr)	5,940
Avg. daily vol. (6m) Shrs.	7,91,792
No. of shares (Cr)	13.3

Shareholding (%)

	Dec-20	Mar-21	Jun-21
Promoter	46.2	46.2	46.2
FIIs	11.5	12.4	10.3
MFs / UTI	12.6	12.0	14.7
Banks / FIs	0.0	0.0	0.0
Others	29.7	29.5	28.8

Financial & Valuations

Y/E Mar (Rs. Cr)	2022E	2023E	2024E
Net Sales	1411	1572	1683
EBITDA	367	415	444
Net Profit	223	259	279
EPS (Rs.)	16.8	19.4	21.0
PER (x)	26.3	22.6	21.0
EV/EBITDA (x)	16.5	14.3	13.0
P/BV (x)	4.7	4.0	3.5
ROE (%)	19.0%	19.1%	18.0%

Growth Estimates (%)

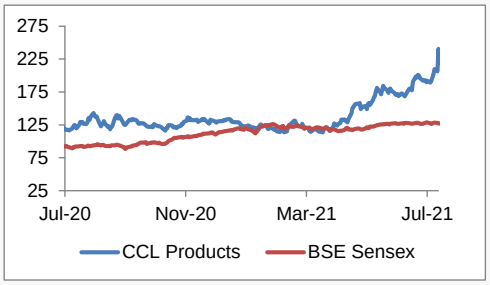
Y/E Mar	FY22E	FY23E	FY24E
Sales	13.6	11.4	7.0
EBITDA	23.2	13.2	7.0
PAT	20.1	16.8	8.0

ESG disclosure Score**

Particulars	Score
Environmental	6.9
Social	26.3
Governance	44.6
Total ESG Disclosure Score	**20.3**

Source: Bloomberg, Scale: 0.1-100

Relative performance



Source: Capitaline, Axis Securities

SuvarnaJoshi*(Sr. Reseach Analyst)*
Email:suvarna.joshi@axissecurities.in

Gaurav Uttrani *(Reseach Analyst)*
Email:gaurav.uttrani@axissecurities.in

Q1FY22 Financial Highlights (Consolidated)

Particulars	Q1FY22	Q1FY22 Axis Estm	Var (%)	Q1FY21	% Change (Y-o-Y)	Q4FY21	% Change (Q-o-Q)
Net Sales	326	320	1.9%	289	12.8%	332	-1.6%
Expenditure							
Net Raw Material	161	134	20.1%	158	2.0%	137	17.9%
Gross Profit	165	186	-11.2%	131	25.7%	195	-15.4%
Gross Margin (%)	50.5	58.0	-749 bps	45.3	521	58.7	-821 bps
Employee Expenses	19	25	-25.8%	17	9.8%	25	-25.8%
Other Expenses	74	82	-9.1%	51	44.8%	84	-12.2%
Total Expenditure	254	241	5.4%	226		246	
EBITDA	72	79	-8.9%	63	14.5%	85	-15.5%
EBITDA Margin (%)	22.1	24.7	-261 bps	21.7	34	25.7	-363 bps
Oth. Inc	0	3	-96.3%	0	118.4%	3	-96.3%
Interest	5	5	2.1%	5	3.5%	5	2.1%
Depreciation	14	12	15.9%	13	8.2%	12	15.9%
PBT	54	66	-18.0%	46	17.5%	72	-25.1%
Tax	10	17	-41.1%	7	35.7%	23	-56.2%
PAT	44	49	-10.1%	38	14.0%	49	-10.9%
EPS	3.30	3.67	-10.1%	2.89	14.0%	3.70	-10.9%

Source: Company; Axis Securities

Financials (consolidated)

Profit & Loss (Rs Cr)

Income statement	FY21	FY22E	FY23E	FY24E
Total Net Sales	1,242	1,411	1,572	1,683
% Change	9.1%	13.6%	11.4%	7.0%
Total Raw material Consumption	590	690	769	823
Staff costs	80	87	97	104
Other Expenditure	275	267	291	311
Total Expenditure	945	1,044	1,157	1,239
EBITDA	298	367	415	444
% Change	4.2%	23.2%	13.2%	7.0%
EBITDA Margin %	24.0%	26.0%	26.4%	26.4%
Depreciation	49.4	64.4	69.1	73.8
EBIT	248	302	346	371
% Change	4.0%	21.8%	14.4%	7.1%
EBIT Margin %	20.0%	21.4%	22.0%	22.0%
Interest	17	22	21	19
Other Income	3	6	6	7
(as % of PBT)	1%	2%	2%	2%
PBT	235	286	332	358
Tax	53	63	73	79
Tax Rate %	22.4%	22.0%	22.0%	22.0%
APAT	182	223	259	279
% Change	9.9%	22.3%	16.0%	8.0%

Source: Company, Axis Securities

Balance Sheet (Rs Cr)

Balance Sheet	FY21	FY22E	FY23E	FY24E
Share Capital	27	27	27	27
Reserves & Surplus	1,061	1,228	1,422	1,631
Net Worth	1,087	1,255	1,448	1,658
Total Loan funds	475	445	415	385
Deferred Tax Liability	49	49	49	49
Long Term Provisions	1	0	0	0
Other Long Term Liability	5	7	8	8
Capital Employed	**1,617**	**1,755**	**1,920**	**2,100**
Gross Block	1,007	1,137	1,227	1,317
Less: Depreciation	209	273	342	416
Net Block	798	864	885	901
Investments	7	6	6	7
Sundry Debtors	299	309	345	369
Cash & Bank Bal	120	236	320	442
Loans & Advances	0	0	0	0
Inventory	320	274	305	327
Other Current Assets	53	85	95	102
Total Current Assets	792	904	1,065	1,240
CurrLiab&Prov	171	151	168	180
Net Current Assets	621	753	896	1,060
Total Assets	**1,617**	**1,755**	**1,920**	**2,100**

Source: Company, Axis Securities

Cash Flow (Rs Cr)

Cash Flow	FY21	FY22E	FY23E	FY24E
PBT	235	286	332	358
Depreciation & Amortization	49	64	69	74
Provision for Taxes	0	22	21	19
Chg in Deferred tax	4	0	0	0
Chg in Working cap	-92	-15	-59	-40
Diret tax paid	-26	-63	-73	-79
Cash flow from operations	171	294	289	332
Chg in Gross Block	-155	-71	-90	-90
Chg in Investments	0	0	0	0
Chg in WIP	2	0	0	0
Cash flow from investing	-153	-71	-90	-90
Proceeds / (Repayment) of Short Term Borrowings (Net)	-65	0	0	0
Repayment of Long Term Borrowings	155	0	0	0
Loans	0	-30	-30	-30
Finance Cost paid	0	-22	-21	-19
Dividends paid	-27	-56	-65	-70
Dividend Distribution Tax paid	0	0	0	0
Cash flow from financing	64	-108	-115	-119
Chg in cash	82	115	84	123

Source: Company, Axis Securities

Ratio Analysis (%)

Key Ratios	FY21	FY22E	FY23E	FY24E
Growth (%)				
Net Sales	9.1%	13.6%	11.4%	7.0%
EBITDA	4.2%	23.2%	13.2%	7.0%
APAT	9.9%	22.3%	16.0%	8.0%
Per Share Data (Rs.)				
Adj. EPS	13.7	16.8	19.4	21.0
BVPS	81.7	94.3	108.9	124.6
Profitability (%)				
EBITDA Margin	24.0%	26.0%	26.4%	26.5%
Adj. PAT Margin	14.7%	15.8%	16.4%	16.6%
ROCE	15.4%	17.2%	18.0%	17.6%
ROE	18.1%	19.0%	19.1%	18.0%
ROIC	16.7%	20.0%	21.7%	22.4%
Valuations (X)				
PER	32.1	26.3	22.6	21.0
P/BV	5.4	4.7	4.0	3.5
EV / EBITDA	20.8	16.5	14.3	13.0
EV / Net Sales	5.0	4.3	3.8	3.4
Turnover Days				
Asset Turnover	1	1	1	1
Inventory days	179	157	138	140
Debtors days	83	79	76	77
Creditors days	14	18	24	24
Working Capital Days	249	218	190	193
Gearing Ratio				
Total Debt to Equity	0.3	0.2	0.1	0.0

Source: Company, Axis Securities

CCL Products Chart and Recommendation History

Date	Reco	TP	Research
01-Jul-20	BUY	267	Top Picks
28-Jul-20	BUY	271	Result Update
03-Aug-20	BUY	271	Top Picks
24-Aug-20	BUY	325	Result Update
01-Sep-20	BUY	325	Top Picks
10-Sep-20	BUY	283	Pick of the week
01-Oct-20	BUY	325	Top Picks
21-Oct-20	BUY	325	Result Update
02-Nov-20	BUY	325	Top Picks
01-Dec-20	BUY	325	Top Picks
01-Jan-21	BUY	325	Top Picks
29-Jan-21	BUY	325	Result Update
22-Jun-21	BUY	385	Pick of the week
30-Jul-21	BUY	495	Result Update

Source: Axis Securities

About the analyst

Analyst: Suvarna Joshi

Contact Details: suvarna.joshi@axissecurites.in

Sector:FMCG, Consumption sector, Sp. Chemicals, Mid-Caps

Analyst Bio: Suvarna Joshi is MBA (Finance) from Mumbai University with about 10years of experience in Equity market and research.

About the analyst

Analyst: Gaurav Uttrani

Contact Details: gaurav.uttrani@axissecurities.in

Sector: Agriculture and Consumer Discretionary

Analyst Bio: Gaurav Uttrani is a Chartered Accountant (ICAI) with about 2 years of experience in Equity market and research.

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HOLD	Between 10% and -10%
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