AXIS SECURITIES

Results Update
7th February 2024

CCL Products Ltd
FMCG

BUY
Target Price
720

Red Sea Crisis Played Spoilsport; Maintain BUY

Est. Vs. Actual for Q3FY24: Revenue – MISS; EBITDA Margins – MISS; PAT – MISS

Changes in Estimates post Q3FY24

FY24E/FY25E: Revenue: -2%/-2%; **EBITDA:** -7%/-7%; **PAT** -11%/-10%

Recommendation Rationale

- The company posted strong volume growth of 14%. However, it got impacted due to shipping impact on account of the Red Sea crisis which was to the tune of Rs 40-50 Cr (~800 MT). Barring this interruption, the volume growth would have been at 20-21%. The company's EBITDA margins stood lower, primarily due to the impact of higher coffee prices and volume impact owing to the Red Sea crisis.
- The company has maintained its volume growth guidance of 18-20% in FY24; however, it anticipates that EBITDA growth for the full year will be impacted (5% of the bottom line) due to the production shutdown of the Vietnam plant in Q2FY24.

Sector Outlook: Positive

Company Outlook & Guidance: We have cut our PAT estimates for FY25/26E by 11%/10% to factor in EBITDA margin pressure in the near term. However, as we roll over our estimates to Dec'25, we revise our TP to Rs 720/ share from the earlier TP of Rs 700/ share. As the TP revised implies 12% from the CMP, we maintain a **BUY** rating on the stock.

Current Valuation: 24x Dec'25 EPS (**Earlier Valuation: 24x June-25 EPS**).

Current TP: **Rs 720/share (Earlier TP Rs 700/ share).**

Recommendation: With a 12% upside from the CMP, we **maintain** our BUY rating on the stock.

Alternative BUY Ideas from our Sector Coverage: ITC (TP – Rs 500); Jyothy Labs (TP – Rs 565); Dabur (TP Rs 635)

Financial Performance: CCL Products' consolidated revenue for Q3FY24 stood at Rs 664 Cr, reporting a growth of 24% YoY (14% volume growth). Though it was strong, it was impacted due to the Red Sea crisis as the company had to defer the shipment in Q4FY24. The impact was to the tune of Rs 40-50 Cr; however, barring the impact, the volume growth would have been at 20-21%. The company's gross margins stood at 41.2%, down 254bps YoY, while EBITDA grew 10% YoY. EBITDA Margins stood at 16.7%, which was down 212bps YoY owing to higher raw material prices and shipping disruption. Interest expenses increased by 102% YoY (26% QoQ) to Rs 23 Cr on account of higher interest costs and an increase in working capital requirement. PAT came in at Rs 63 Cr, which de-grew by 13% YoY.

Outlook: Since the pandemic and the Russia-Ukraine war, several coffee companies globally are looking to de-risk their supplies and are therefore looking to partner with manufacturers that have a presence in different territories. In this view, CCL Products stands as the right choice for these companies as follows: 1) It has facilities in Vietnam and India vis-à-vis Brazilian players that are present only in their home country. This has also enabled CCL to establish a strong footing in the international markets as well as to continue gaining market share and accessing new business. The company targets a 15% global market share in the next few years; 2) The company enjoys a cost-efficient business model; 3) It is doubling the capacity from 38,500 MT in FY22 to ~77,000 MT by FY25 across Vietnam and India; 4) It is adding capacity in value-added products (FDC and small packs) in Vietnam, and 5) It is scaling high-margin branded retail business (Continental Coffee, Plant-based meat protein). Based on above thesis we maintain BUY recommendation on the stock.

Key Financials (Consolidated)

(Rs Cr)	Q3FY24	QoQ (%)	YoY (%)	Axis Est.	Variance (%)
Net Sales	664	9.4	24.1	696	(4.5)
EBITDA	111	0.9	10.1	121	(8.3)
EBITDA Margin (%)	16.7	-140 bps	-212 bps	17.4	-69 bps
Net Profit	63	4.0	(13.3)	70	(9.9)
EPS (Rs)	4.8	4.0	(13.3)	5.3	(9.9)

Source: Company, Axis Research

(CMP as of 6th Feb 2024)

CMP (Rs)	633
Upside /Downside (%)	12%
High/Low (Rs)	750/530
Market cap (Cr)	8,427
Avg. daily vol. (6m)Shrs '000	192.87
No. of shares (Cr)	13

Shareholding (%)

	Jun-23	Sep-23	Dec-23
Promoter	46.3	46.3	46.3
FIIs	7.7	7.8	7.8
MFs / UTI	20.0	20.4	20.5
Banks / FIs	0.0	0.0	0.0
Others	26.0	25.6	25.4

Financial & Valuations

Y/E Mar (Rs Cr)	FY24E	FY25E	FY26E
Net Sales	2,542	3,119	3,865
EBIDTA	457	575	719
Net Profit	279	321	427
EPS, Rs	21.0	24.1	32.1
PER, x	30.8	26.8	20.1
EV/EBIDTA, x	21.3	17.4	14.0
ROE, %	16.5	16.4	18.5
Debt/Equity (%)	0.5	0.5	0.4

Change in Estimates (%)

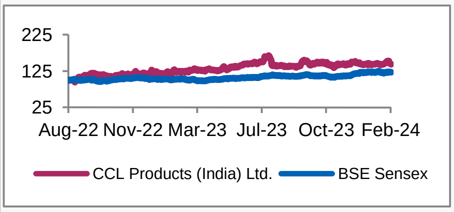
Y/E Mar	FY25E	FY26E
Sales	-2%	-2%
EBITDA	-7%	-7%
PAT	-11%	-10%

ESG disclosure Score**

Environmental Disclosure	15.6
Social Disclosure Score	19.2
Governance Disclosure	84.8
Total ESG Disclosure	**39.9**
Sector Average	**44.8**

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 2022 disclosures

Relative performance



Source: Ace Equity, Axis Securities

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Con-call highlights

- **Volume and EBITDA guidance in the near term**: The company has maintained its medium-term DD volume growth guidance. However, with the commercialization of the new capacity of 16,000 MT SD plant in India, the EBITDA growth is likely to be slower than volume growth, as SD has lower GM compared to FD. However, EBITDA growth is likely to pick up in FY25 once the 6000 MT FD plant is commercialized.

- **Domestic business:** As of 9MFY24, CCL's domestic business stood at Rs 235 Cr, out of which Rs 145 Cr was branded business (Continental Coffee, non-coffee products). The management is targeting revenue of Rs 320 Cr for the domestic business and Rs 200 Cr (including vending) for FY24. CCL expects branded business to grow 2x in the next two years led by distribution reach and market expansion in new territories – North, West, and East markets. Furthermore, to tap into the out-of-home market, CCL will launch cafes and kiosks. The domestic business has gross margins of 30%, while the branded business has gross margins of 35-37%. Additionally, ad spends are at 8-10% of the branded sales.

- **Vending business:** The vending business is a part of the branded business and has a total revenue of Rs 25 Cr. It plans to increase the revenue to Rs 100 Cr in the next 5 years. Currently, it has 4000 vending machines as of Q3FY24.

Key Risks to our Estimates and TP

- Delay in capacity utilisation, the emergence of supply chain constraints and increase in coffee prices.

Change in Estimates

	Old		New		% change	
	FY25E	FY26E	FY25E	FY26E	FY25E	FY26E
Revenue	3,172	3,930	3,119	3,865	-2%	-2%
EBITDA	620	774	575	719	-7%	-7%
PAT	360	474	321	427	-11%	-10%
EPS	27.0	35.7	24.1	32.1	-11%	-10%

Source: Company, Axis Securities

Results Review

Rs Cr	Q3FY23	Q2FY24	Axis Est.	Q3FY24	% Change (YoY)	% Change (QoQ)	Var (%) Axis Sec Est.
Net Sales	**535**	**608**	**696**	**664**	**24.1**	**9.4**	**(4.5)**
Gross Profit	**234**	**255**	**294**	**274**	**16.9**	**7.3**	**(6.8)**
Gross Margin (%)	**43.7**	**42.0**	**42.2**	**41.2**	**-254 bps**	**-78 bps**	**-103 bps**
Employee Expenses	26	32	33	36	38.6	12.5	8.5
Other Expenses	107	113	140	127	18.1	12.1	(9.2)
EBITDA	**101**	**110**	**121**	**111**	**10.1**	**0.9**	**(8.3)**
EBITDA Margin (%)	**18.8**	**18.1**	**17.4**	**16.7**	**-212 bps**	**-140 bps**	**-69 bps**
Oth. Inc	0	1	1	1	312.4	54.8	47.4
Interest	11	18	19	23	101.9	26.3	23.9
Depreciation	19	23	23	22	16.5	(1.8)	(4.7)
PBT	**70**	**70**	**80**	**67**	**(5.4)**	**(4.3)**	**(16.4)**
Tax	(3)	9	10	3	(235.4)	(61.5)	(64.4)
PAT	**73**	**61**	**70**	**63**	**(13.3)**	**4.0**	**(9.9)**
EPS	**5.5**	**4.6**	**5.3**	**4.8**	**(13.3)**	**4.0**	**(9.9)**

Source: Company, Axis Securities

Financials (consolidated)

Profit & Loss

(Rs Cr)

Y/E Mar	FY23	FY24E	FY25E	FY26E
Net sales	**2,071**	**2,542**	**3,119**	**3,865**
Growth, %	41.7	22.7	22.7	23.9
Total income	2,071	2,542	3,119	3,865
Raw material expenses	(1,130)	(1,423)	(1,708)	(2,101)
Employee expenses	(113)	(136)	(170)	(213)
Other Operating expenses	(428)	(526)	(666)	(833)
EBITDA (Core)	**400**	**457**	**575**	**719**
Growth, %	20.8	14.2	26.0	24.9
Margin, %	19.3	18.0	18.4	18.6
Depreciation	(64)	(100)	(132)	(143)
EBIT	**336**	**357**	**443**	**576**
Growth, %	22.9	6.1	24.3	29.9
Margin, %	16.2	14.0	14.2	14.9
Interest paid	(34)	(54)	(83)	(84)
Other Income	3	4	4	4
Non-recurring Items	-	-	-	-
Pre-tax profit	**305**	**307**	**364**	**496**
Tax provided	(36)	(28)	(44)	(69)
Profit after tax	**269**	**279**	**321**	**427**
Growth, %	31.6	3.8	14.9	33.1

Source: Company, Axis Securities

Balance Sheet

(Rs Cr)

Y/E Mar	FY23	FY24E	FY25E	FY26E
Cash & bank	83	(219)	(497)	(534)
Marketable securities at cost	-	-	-	-
Debtors	441	542	665	824
Inventory	578	710	871	1,079
Other current assets	144	144	144	144
Total current assets	1,247	1,176	1,183	1,513
Investments	0	0	0	0
Gross fixed assets	1,600	2,000	2,400	2,600
Less: Depreciation	(343)	(443)	(575)	(718)
Add: Capital WIP	54	54	54	54
Net fixed assets	1,312	1,612	1,880	1,937
Non-current assets	39	39	39	39
Total assets	**2,598**	**2,827**	**3,102**	**3,489**
Current liabilities	839	855	876	903
Provisions	3	3	3	3
Total current liabilities	841	858	879	905
Non-current liabilities	274	274	274	274
Total liabilities	1,115	1,131	1,152	1,179
Paid-up capital	27	27	27	27
Reserves & surplus	1,457	1,669	1,923	2,283
Shareholders' equity	1,483	1,696	1,950	2,310
Total equity & liabilities	**2,598**	**2,827**	**3,102**	**3,489**

Source: Company, Axis Securities

Cash Flow (Rs Cr)

Y/E Mar	FY23	FY24E	FY25E	FY26E
Pre-tax profit	305	307	364	496
Depreciation	64	100	132	143
Chg in working capital	(25)	(215)	(264)	(340)
Total tax paid	(36)	(28)	(44)	(69)
Other operating activities	(10)	(10)	(10)	(10)
Cash flow from operating activities	**298**	**154**	**179**	**219**
Capital expenditure	(333)	(400)	(400)	(200)
Other investing activities	0	-	-	-
Cash flow from investing activities	**(333)**	**(400)**	**(400)**	**(200)**
Free cash flow	(36)	(246)	(221)	19
Other financing activities	(40)	(59)	(59)	(59)
Cash flow from financing activities	**50**	**(59)**	**(59)**	**(59)**
Net chg in cash	14	(305)	(280)	(39)
Opening cash balance	56	83	(219)	(497)
Closing cash balance	83	(219)	(497)	(534)

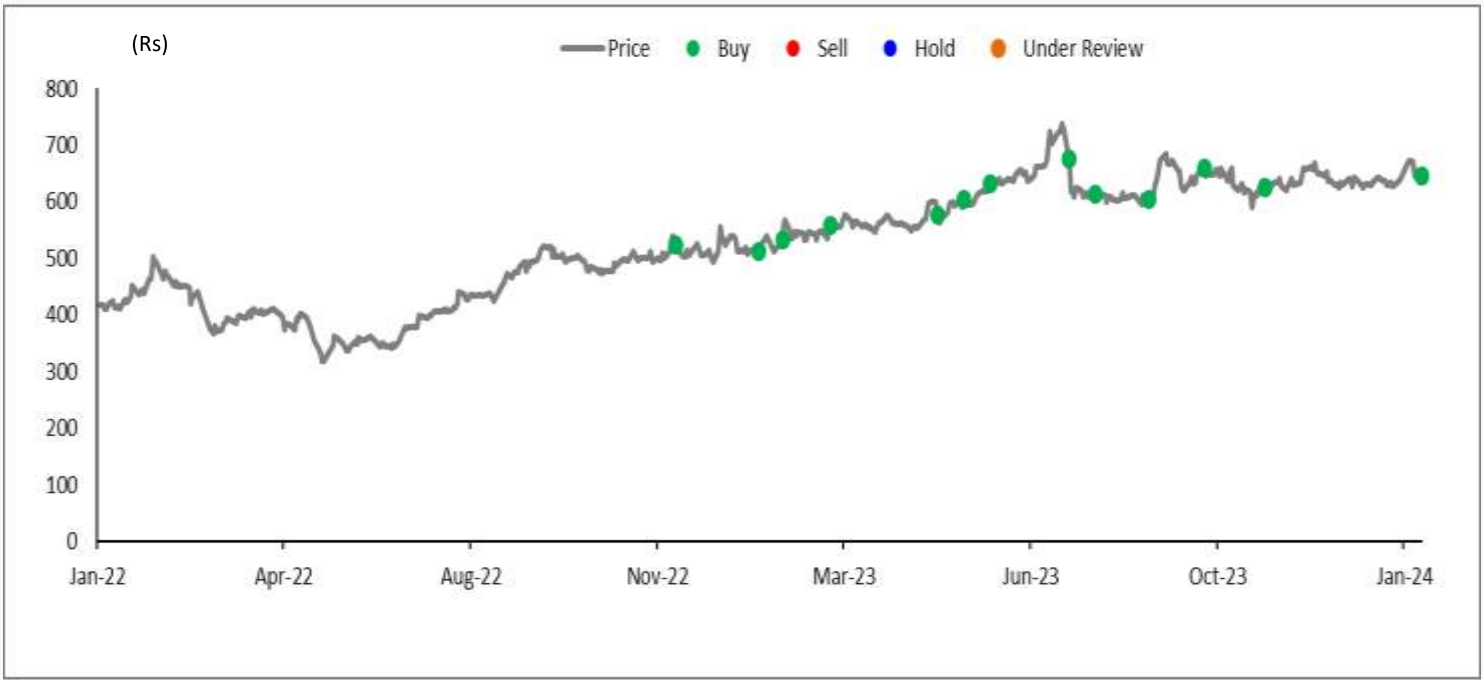
Source: Company, Axis Securities

Ratio Analysis **(%)**

Y/E Mar	FY23	FY24E	FY25E	FY26E
Per Share data				
EPS (INR)	20.2	21.0	24.1	32.1
Growth, %	31.6	3.8	14.9	33.1
Book NAV/share (INR)	111.5	127.5	146.6	173.6
FDEPS (INR)	20.2	21.0	24.1	32.1
CEPS (INR)	25.0	28.5	34.0	42.8
CFPS (INR)	2.8	12.1	13.9	16.9
Return ratios				
Return on assets (%)	13.0	12.3	13.6	15.5
Return on equity (%)	18.1	16.5	16.4	18.5
Return on capital employed (%)	19.0	17.8	19.2	21.2
Turnover ratios				
Asset turnover (x)	1.0	1.0	1.0	1.1
Sales/Total assets (x)	0.9	0.9	1.1	1.2
Sales/Net FA (x)	1.8	1.7	1.8	2.0
Working capital/Sales (x)	0.2	0.2	0.3	0.3
Receivable days	77.8	77.8	77.8	77.8
Inventory days	101.9	101.9	101.9	101.9
Payable days	16.1	15.9	16.0	16.0
Working capital days	57.3	77.6	94.1	108.1
Liquidity ratios				
Current ratio (x)	1.5	1.4	1.4	1.7
Quick ratio (x)	0.8	0.5	0.4	0.5
Interest cover (x)	9.8	6.7	5.3	6.9
Total debt/Equity (%)	0.6	0.5	0.5	0.4
Valuation				
PER (x)	31.9	30.8	26.8	20.1
PEG (x) - y-o-y growth	1.0	8.2	1.8	0.6
Price/Book (x)	5.8	5.1	4.4	3.7
EV/Net sales (x)	4.5	3.8	3.2	2.6
EV/EBITDA (x)	23.5	21.3	17.4	14.0
EV/EBIT (x)	28.0	27.3	22.5	17.4

Source: Company, Axis Securities

CCL Products Price Chart and Recommendation History



Date	Reco	TP	Research
01-Jan-23	BUY	600	Top Picks
19-Jan-23	BUY	650	Result Update
01-Feb-23	BUY	600	Top Picks
01-Mar-23	BUY	650	Top Picks
01-Apr-23	BUY	650	Top Picks
02-May-23	BUY	660	Top Picks
18-May-23	BUY	750	Result Update
01-Jun-23	BUY	750	Top Picks
01-Jul-23	BUY	750	Top Picks
18-Jul-23	BUY	750	Result Update
01-Aug-23	BUY	730	Top Picks
01-Sep-23	BUY	750	Top Picks
03-Oct-23	BUY	750	Top Picks
08-Nov-23	BUY	700	Result Update
07-Feb-24	BUY	720	Result Update

Source: Axis Securities

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