

- **In an ever-changing business environment, some of our investment ideas seem more convincing than others due to better earning visibility and/or attractive valuation. Every Monday, we bring you such fundamental stock ideas through our “Pick of the Week” report.**
  - **Investment Horizon:** Though the ideal investment horizon for such ideas remain 6-9 months, our picks may provide some profit-making opportunities even to short-term investors.
  - **Risk-Return Profile:** Pick of the week ideas are the best high return research ideas at this point in time.

Scrip	Mcap (Rs Cr)	CMP (Rs)	Target Price *	Potential Upside (%)	Reco
<b>CCL Products Ltd.</b>	<b>3,285</b>	<b>247</b>	<b>283</b>	<b>15%</b>	<b>BUY</b>

\* Note: Investment horizon Approx. 6-9 months, CMP as on 11<sup>th</sup> Sept, 2020



CMP (Rs)	Target (Rs)
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247	283
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**MARKET DATA**

No. of Shares	13.3 cr
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Market Cap	Rs 3,285 Cr
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52-week High / Low	Rs 292 / 137
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BSE Code	519600
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NSE Code	CCL
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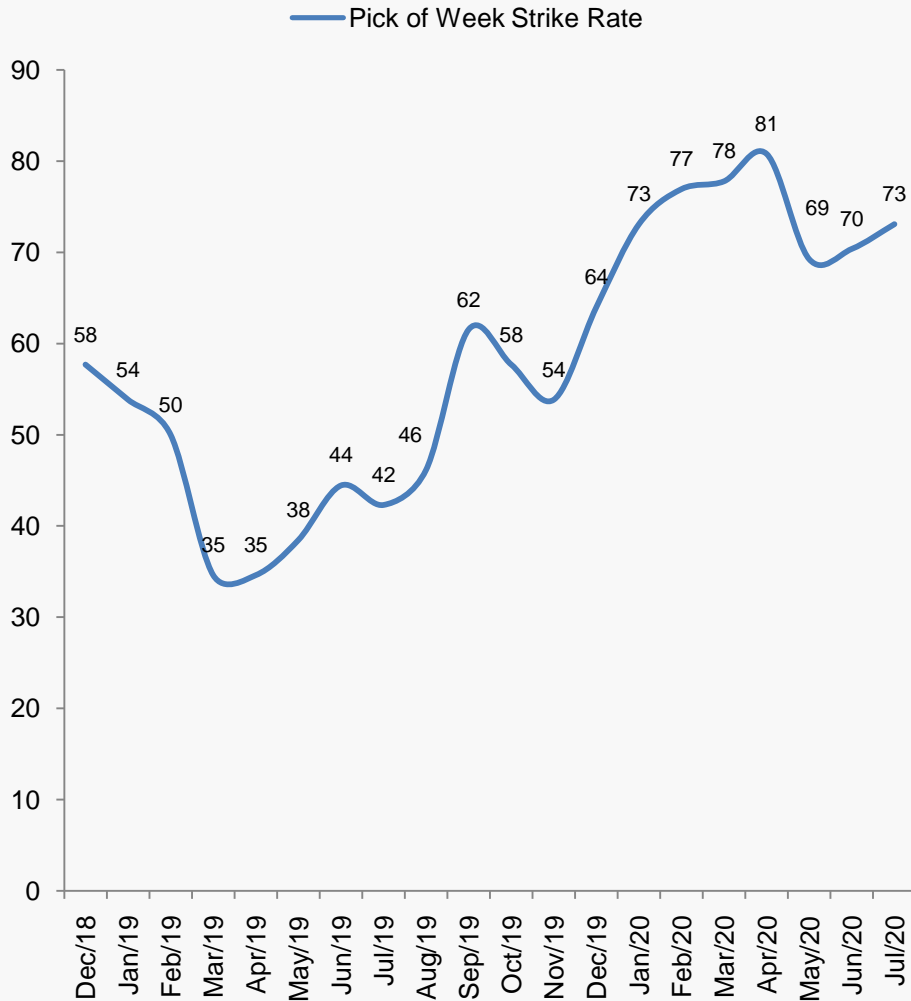
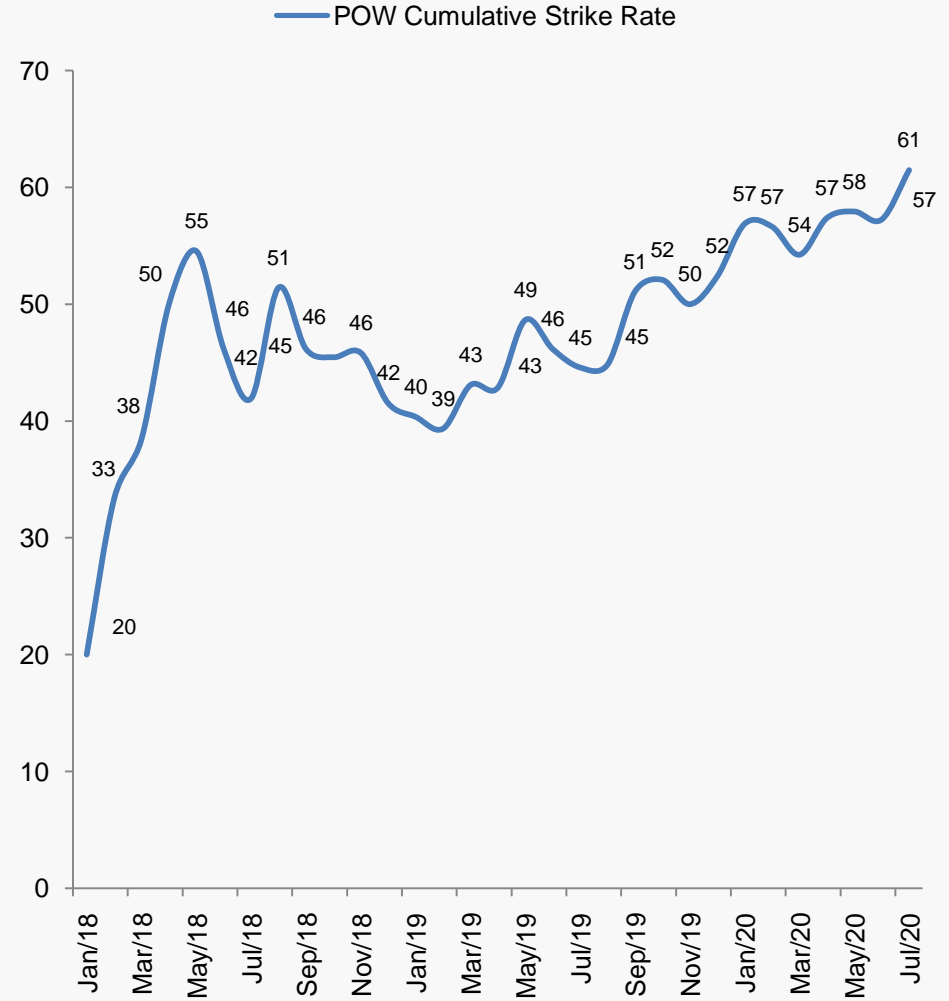
**CCL Products (CCLP)** is the largest manufacturer and exporter of private label Instant coffee in India with a total manufacturing capacity of 35k tonnes. CCLP's 25 years experience in the industry and expertise in customized coffee blends has led it to become one of the largest private label manufactures in the world with +5% market share. It has over 250 proprietary blends in its portfolio with clients spread across 90 countries.

- Margin expansion driven by superior product mix:** CCLP's EBITDA Margins at 25% in FY20 were the highest reported margins over the last 5 years. Key drivers for margins expansion were 1) rising contribution from higher margin freeze dried coffee (FDC), 2) small packs gaining traction .With the ramp up in capacity utilization of FDC unit (~50% in FY20) and commissioning of agglomeration and packing capacity by FY22E we believe there is further scope for margin expansion going forward.
- Volume growth led by strong order book:** With rise in in-home consumption of instant coffee across the globe due to lockdown caused by the pandemic, CCLP is tracking a healthy order book especially from USA and EU (~40-45% of revenue). This is backed by client addition in US and surge in demand from supermarkets in EU. Vietnam unit which has been catering to the US client continues to operate at high utilization levels despite some spurt in COVID-19 cases in the country, further its planned capacity addition of 3,500 tonnes is on track and expected to commission by Q3FY21 indicating healthy volume growth going ahead.
- FY21 guidance strong despite COVID uncertainty :** Company has guided for a double digit volume growth in FY21 aided by superior product mix and improving utilization levels. We believe CCLP is well placed to recoup it lost volumes in H2FY21 led by client addition and rising trend of in-home coffee consumption aided by peak coffee season in H2. In the domestic business also CCLP targets to Rs. 120-130cr revenues in FY21 as against earlier estimate of Rs. 100cr led by increased offtakes. However capping of MEIS benefits upto Rs. 2 Cr could be a key near term risk to our earnings estimates, but we believe that the Government would come up with an alternative scheme to incentivize exports and thereby not hurt the export growth opportunity in the current market conditions.
- We recommend **Buy** with target price of Rs 283

**Financial Summary (Consolidated)**

Y/E	Sales (Rs cr)	EBITDA (Rs cr)	Net Profit (Rs cr)	EPS (Rs)	P/E (x)	EV/EBITDA (x)	ROCE (%)	ROE (%)	D/E (x)
2019	1,081	245	155	11.6	24.5	16.6	17.0	19.6	0.4
2020	1,139	286	166	12.5	14.4	9.6	17.4	18.8	0.4
2021E	1,240	310	194	14.6	17.0	11.2	17.5	19.3	0.3
2022E	1,462	371	241	18.1	13.5	9.2	20.0	20.7	0.2

Source: Axis Securities

**Strike rate based on rolling 6 months**

**Strike rate since Jan 2018**


Note: We have changed our methodology of calculation of strike rates for PoW product from July 2020; and shifted to calculations using 6 months rolling returns method and cumulative basis as against earlier method of calculating the strike rate for last 9 months. The performance under the revised methodology is as above.

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