

CCL Products (India) Ltd.

Nifty 11,627
Sensex 39,250

Key Stock Data

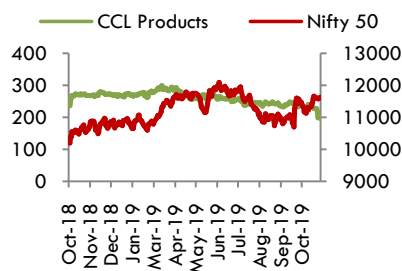
CMP ₹198
Market Cap (₹Cr) 2647
52W High/Low 306/197
Shares o/s (Cr) 13.30

Bloomberg CCLP IN
NSE Code CCL
BSE Code 519600

Shareholding Pattern (%)

Promoters 45.28%
FII & DII 30.26%
Public & Others 24.46%

Comparison Chart



(₹Cr)

Financial Summary	FY19	FY20E	FY21E
Net Sales	1081.4	1208	1400
Growth	-05.0%	11.7%	15.9%
EBITDA	248.4	273	326
EBITDA Margin	23.0%	22.6%	23.3%
PAT	154.9	168	204
EPS (₹)	11.6	12.6	15.3
P/E(x)	17.2	15.8	13.0

Summary

CCL Products (India) Ltd. (CCL) declared its Q2FY20 results recently. Consolidated net revenues grew by 3% Y-O-Y to ₹299 crs, impacted by lower realisation. Consolidated EBITDA for Q2FY20 decreased by 19% Y-O-Y basis to ₹62crs due to higher ad spend. Gross margins contracted by 20 bps Y-O-Y.

- Company's top-line for Q2FY20 increased by 3% Y-O-Y to ₹299 crs, impacted by lower realisation. The capacity utilisation has declined to 80% in India & 70% in Vietnam due to weak global demand. However, management expects the recovery to 90%/80% in H2FY20.
- Gross margin contracted by 20 bps to 46.68% Y-O-Y due to lower green coffee prices. EBITDA for Q2FY20 declined by 19% Y-O-Y to ₹62crs due to higher ad spend of ₹11 crs. EBITDA margins contracted by 560bps to 20.6% Y-O-Y.
- Employee expenses and Other expenses increased by 0.5% & 41% Y-O-Y respectively. Depreciation and interest cost increased by 44% & 52% Y-O-Y respectively due to the commissioning of freeze-dried unit. EBITDA margin for Indian operations contracted by 750 bps to 17.1% Y-O-Y in Q2FY20.
- On account of higher depreciation and interest cost, PAT for Q2FY20 de-grew by 11% Y-O-Y to ₹42 crs. On a standalone basis, PAT declined by 13.5% Y-O-Y to ₹24crs. The tax expenses would be lower to 21% in FY20 & FY21 given the cut in the corporate tax rate.
- An additional spray-dried capacity of 3500 ton at a cost of US\$8 mn (currently 10000 MT) by Q1FY21 would bring strong revenue and profitability growth in Vietnam. The company expects 90% capacity utilization in Vietnam. The company has also commenced operations at the newly set-up freeze dried coffee plant (5000 MT) in India. The management is expecting 50% capacity utilisation from this plant in FY20.
- The CCL has expanded business in the US. These products enjoy superior quality and margins, and this would aid in better product mix and EBITDA margin going forward.
- The branded business sales grew by 33% Q-O-Q to ₹20 crs in Q2FY20 and reported ₹35 crs in H1FY20. The company is setting up a new agglomeration and packing unit with a capacity of 5000 tons by Q1FY21 for US\$10 mn in India.
- One of the large customers of CCL who had left in Q4FY19 to set up its manufacturing unit has approached CCL to continue supplying some of the products. These products are high margin and premium products.
- The company has increased the share of small pack sales from 20% to 30% of revenue along with freeze dried sales from Chittoor plant. This would help the margin to expand from FY21.
- Management believes that there is enough supply of coffee to meet market demand. CCL is well-positioned in the market due to its (1) Right market collaboration (2) Wider variety of products (3) In-house R&D.
- Chittoor Plant (Freeze Dried Coffee) with a capacity of 5000 tonnes has started commercial operations. The company reported a sales volume of 400 tonnes with 50% capacity utilization during the quarter.
- The trade agreement between the European Union (EU) and Brazil, for non-imposition of tariffs on instant coffee imports from Brazil, is expected to be implemented from CY20. The duty will gradually come down from 9% to nil with this trade agreement. However, there are some challenges likely to be faced by respective authorities as there is a huge lobby of dealers and manufacturers who are against the trade agreement.
- The management has changed its growth strategy, focusing more on volume growth, branded business, and better product mix to access new customers. The management has given 5-10% sales/PAT line growth guidance for FY20 on account of value-add mix and sustainable volume growth along with commissioning of Chittoor plant (Freeze-dried Coffee).

Ashwini Sonawane

Tel: +9122-4019 2956

ashwinisonawane@way2wealth.com

Risks

- Volatility in green coffee prices will impact realisation.
- Slowdown in demand for instant coffee from Europe and other countries.
- Retraction of order from clients.

Valuation & Outlook

The company's focus on growing its presence in the domestic market with a strong brand coupled new client addition and the new freeze-dried plant in India has led to a great performance in the last two years. The company which had lost one large client in Q4FY19 now has approached CCL to continue supplying some of the products. The company remained confident about its profitability with the addition of new clients and new SEZ plant. The company has given 5-10% Sales/PAT growth for FY20. Change ingrowth strategy, focus on volume growth, branded business and better product mix will aid margins and profitability in FY20. CCL is well poised for the growth considering its Freeze-Dried capacity, good traction in branded business, increased share of small pack units, and ramp-up in Vietnam. We believe CCL has shown strength in a tough market scenario for global instant coffee due to its strong relationships, R&D and product quality. Hence, we believe new clients will add a premium offering from CCL in due course of time.

At CMP of ₹198/- the stock trades at 13x FY21E estimated EPS of ₹15.3/. We advise investors with a long-term investment horizon to *HOLD* the stock.

Standalone Financials

	Q2FY20	Q2FY19	VAR	Q1FY20	VAR	H1FY20	H1FY19	VAR
(₹Cr)								
Net Sales (Net Of Excise Duty)	222.3	214.0	3.9%	206.1	7.9%	428.4	432.4	-0.9%
Other Operating Income	0.0	0.0	-	0.0	-	0.0	0.0	-
Total Operating Income	222.3	214.0	3.9%	206.1	7.9%	428.4	432.4	-0.9%
Other Income	0.3	0.2	12.5%	58.8	-99.5%	59.1	0.5	11951.0%
TOTAL INCOME	222.6	214.2	3.9%	264.9	-16.0%	487.4	432.9	12.6%
Total Raw Material Cost	121.7	116.7	4.3%	107.4	13.3%	229.1	250.8	-8.7%
Cost of Materials Consumed	130.7	116.1	12.6%	104.1	25.6%	234.8	263.8	-11.0%
Changes in Inventories	-9.0	0.6	-1630.5%	3.3	-375.3%	-5.8	-13.0	-55.7%
Packing Materials Consumed	0.0	0.0	-	0.0	-	0.0	0.0	-
Total Raw Material Cost % to Sales	54.7%	54.5%		52.1%		53.5%	58.0%	
Employee Expenses	11.6	10.4	11.5%	10.5	10.5%	22.0	19.6	12.2%
Employee Expenses % to Sales	5.2%	4.8%		5.1%		5.1%	4.5%	
Stores, Power & Fuel Consumed	0.0	0.0	-	0.0	-	0.0	0.0	-
Power, Oil & Fuel % to Sales	0.0%	0.0%		0.0%		0.0%	0.0%	
Other Expenses	51.0	34.3	48.5%	34.9	46.3%	85.8	67.5	27.2%
Other Expenses % to Sales	22.9%	16.0%		16.9%		20.0%	15.6%	
TOTAL EXPENDITURE	184.2	161.4	14.1%	152.7	20.7%	336.9	337.9	-0.3%
EBITDA	38.1	52.6	-27.5%	53.4	-28.7%	91.5	94.5	-3.2%
EBITDA Margin %	17.1%	24.6%		25.9%		21.4%	21.9%	
Finance Costs	4.6	3.1	47.8%	4.1	12.1%	8.8	5.5	59.9%
PBDT	33.7	49.7	-32.1%	108.0	-68.8%	141.8	89.5	58.4%
Depreciation	6.9	3.1	122.7%	5.7	20.3%	12.6	6.1	107.2%
PBT	26.8	46.6	-42.4%	102.3	-73.8%	129.2	83.4	54.8%
Total Tax	2.5	18.4	-86.5%	20.1	-87.6%	22.5	31.1	-27.6%
Income Tax	9.0	17.0	-47.2%	15.2	-41.0%	24.2	29.0	-16.6%
Deferred Tax	-6.5	1.4	-564.3%	4.8	-234.3%	-1.7	2.1	-177.9%
Tax Rate %	9.2%	39.5%		19.6%		17.5%	37.3%	
Reported Profit After Tax	24.4	28.2	-13.5%	82.3	-70.4%	106.6	52.3	103.9%
Extra-ordinary Items						0.0	0.0	
Adjusted Profit After Extra-ordinary item	24.4	28.2	-13.5%	82.3	-70.4%	106.6	52.3	103.9%
Basic:								
EPS	1.8	2.1	-13.5%	6.2	-70.4%	8.0	3.9	103.9%
Equity	26.6	26.6		26.6		26.6	26.6	
Face Value	2.0	2.0		2.0		2.0	2.0	

Consolidated Financials

	Q2FY20	Q2FY19	VAR	Q1FY20	VAR	H1FY20	H1FY19	VAR
(₹Cr)								
Net Sales (Net Of Excise Duty)	298.7	290.8	2.7%	273.2	9.3%	571.9	585.2	-2.3%
Other Operating Income	0.0	0.0		0.0	-	0.0	0.0	
Total Operating Income	298.7	290.8	2.7%	273.2	9.3%	571.9	585.2	-2.3%
Other Income	0.4	1.4	-68.9%	0.6	-23.6%	1.0	1.7	-41.2%
TOTAL INCOME	299.1	292.1	2.4%	273.7	9.3%	572.8	586.9	-2.4%
Total Raw Material Cost	159.3	154.5	3.1%	143.4	11.1%	302.6	330.8	-8.5%
Cost of Materials Consumed	166.7	162.1	2.9%	150.1	11.1%	316.8	347.7	-8.9%
Changes in Inventories	-7.5	-7.7	-2.1%	-6.7	11.3%	-14.2	-16.9	-15.9%
Packing Materials Consumed			-		-	0.0	0.0	-
Total Raw Material Cost % to Sales	53.3%	53.1%	0.4%	52.5%	1.6%	52.9%	56.5%	-6.4%
Employee Expenses	16.4	16.3	0.5%	14.9	9.8%	31.3	28.9	8.6%
Employee Expenses % to Sales	5.5%	5.6%	-2.2%	5.5%	0.4%	5.5%	4.9%	11.1%
Stores, Power & Fuel Consumed			-		-	0.0	0.0	-
Power, Oil & Fuel % to Sales	0.0%	0.0%	-	0.0%	-	0.0%	0.0%	-
Other Expenses	61.5	43.7	40.6%	45.5	35.1%	106.9	85.6	24.9%
Other Expenses % to Sales	20.6%	15.0%	36.9%	16.6%	23.6%	18.7%	14.6%	27.8%
TOTAL EXPENDITURE	237.1	214.5	10.5%	203.8	16.4%	440.9	445.2	-1.0%
EBITDA	61.6	76.3	-19.2%	69.4	-11.3%	131.0	140.0	-6.4%
EBITDA Margin %	20.6%	26.2%	-21.4%	25.4%	-18.8%	22.9%	23.9%	-4.2%
Finance Costs	5.0	3.3	52.1%	4.4	12.6%	9.4	5.7	66.1%
PBDT	57.0	74.3	-23.3%	65.5	-13.0%	122.5	136.0	-9.9%
Depreciation	12.6	8.7	43.7%	11.0	14.2%	23.6	18.2	29.7%
PBT	44.5	65.6	-32.2%	54.5	-18.5%	99.0	117.8	-16.0%
Total Tax	2.4	18.4	-87.1%	19.8	-88.0%	22.2	31.1	-28.8%
Income Tax	9.0	17.0	-47.2%	15.2	-41.0%	24.2	29.0	-16.6%
Deferred Tax	-6.6	1.4	-572.1%	4.6	-244.0%	-2.0	2.1	-194.8%
Tax Rate %	5.3%	28.0%	-81.0%	36.3%	-85.3%	22.4%	26.4%	-15.2%
Reported Profit After Tax	42.1	47.2	-10.8%	34.7	21.3%	76.8	86.7	-11.4%
Minority Interest After NP			-		-	0.0	0.0	-
Profit/Loss of Associate Company			-		-	0.0	0.0	-
Net Profit after Minority Interest & P/L Asso.Co.	42.1	47.2	-10.8%	34.7	21.3%	76.8	86.7	-11.4%
Extra-ordinary Items			-		-	0.0	0.0	-
Adjusted Profit After Extra-ordinary item	42.1	47.2	-10.8%	34.7	21.3%	76.8	86.7	-11.4%
	14.1%	16.2%		12.7%		13.4%	14.8%	
Basic:								
EPS	3.2	3.5	-10.8%	2.6	21.3%	5.8	6.5	-11.4%
Equity	26.6	26.6		26.6		26.6	26.6	
Face Value	2.0	2.0		2.0		2.0	2.0	

Team

Analyst	Designation	Sector	Email	Telephone
Alok Ranjan	Head – Research		alokranjan@way2wealth.com	+9122-6146 2902
JayakanthKasthuri	Research Analyst	Logistics & Capital Goods	Jayakanthk@way2wealth.com	+9122-6663 8956
Ashwini Sonawane	Research Associate	FMCG, Consumer Durables	ashwinisonawane@way2wealth.com	+9122-4019 2956
Tausif Shaikh	Research Associate	Pharma	tausifshaikh@way2wealth.com	+9122-6146 2974
Yogita Desai	Research Analyst	Chemicals & Building Materials	yogitadesai@way2wealth.com	+9122-40278991
Harshil Gandhi	Research Analyst	BFSI	harshilgandhi@way2wealth.com	+9122-6663 8950
Institutions	Designation		Email	Telephone
Kaushal Jaini	Vice President		kaushaljaini@way2wealth.com	+9122-40278919
Manisha Panchal	Institutional Dealer		manishapanchal@way2wealth.com	+9122-40278984

Disclaimer

Analyst Certification: I, Ashwini Sonawane, the research analyst and author of this report, hereby certify that the views expressed in this research report accurately reflect our personal views about the subject securities, issuers, products, sectors or industries. It is also certified that no part of the compensation of the analyst(s) was, is, or will be directly or indirectly related to the inclusion of specific recommendations or views in this research. The analyst(s), principally responsible for the preparation of this research report, receives compensation based on overall revenues of the company (Way2Wealth Brokers Private Limited, hereinafter referred to as Way2Wealth) and has taken reasonable care to achieve and maintain independence and objectivity in making any recommendations.

It is confirmed that Ashwini Sonawane, the author of this report has not received any compensation from the companies mentioned in the report in the preceding 12 months. Our research professionals are paid in part based on the profitability of Way2Wealth, which include earnings from other business. Neither Way2Wealth nor its directors, employees, agents or representatives shall be liable for any damages whether direct or indirect, incidental, special or consequential including lost revenue or lost profits that may arise from or in connection with the use of the information contained in this report.

This report is for the personal information of the authorized recipient and does not construe to be any investment, legal or taxation advice to you. Way2Wealth is not soliciting any action based upon it. Nothing in this research shall be construed as a solicitation to buy or sell any security or product, or to engage in or refrain from engaging in any such transaction. The contents of this material are general and are neither comprehensive nor appropriate for every individual and are solely for the informational purposes of the readers. This material does not take into account the specific objectives, financial situation or needs of an individual/s or a Corporate/s or any entity/s.

This research has been prepared for the general use of the clients of the Way2Wealth and must not be copied, either in whole or in part, or distributed or redistributed to any other person in any form. If you are not the intended recipient you must not use or disclose the information in this research in any way. Though disseminated to all the customers simultaneously, not all customers may receive this report at the same time. Way2Wealth will not treat recipients as customers by virtue of their receiving this report. The distribution of this document in other jurisdictions may be restricted by the law applicable in the relevant jurisdictions and persons into whose possession this document comes should inform themselves about, and observe any such restrictions.

The report is based upon information obtained from sources believed to be reliable, but we do not make any representation or warranty that it is accurate, complete or up to date and it should not be relied upon as such. Way2Wealth or any of its affiliates or employees makes no warranties, either express or implied of any kind regarding any matter pertaining to this report, including, but not limited to warranties of suitability, fitness for a particular purpose, accuracy, timeliness, completeness or non-infringement. We accept no obligation to correct or update the information or opinions in it. Way2Wealth or any of its affiliates or employees shall not be in any way responsible for any loss or damage that may arise to any person from any inadvertent error in the information contained in this report. The recipients of this report should rely on their own investigations. In no event shall Way2Wealth be liable for any damages of any kind, including, but not limited to, indirect, special, incidental, consequential, punitive, lost profits, or lost opportunity, whether or not Way2Wealth has advised of the possibility of such damages.

This material contains statements that are forward-looking; such statements are based upon the current beliefs and expectations and are subject to significant risks and uncertainties. Actual results may differ from those set forth in the forward-looking statements. These uncertainties include but are not limited to: the risk of adverse movements or volatility in the securities markets or in interest or foreign exchange rates or indices; adverse impact from an economic slowdown; downturn in domestic or foreign securities and trading conditions or markets; increased competition; unfavorable political and diplomatic developments; change in the governmental or regulatory policies; failure of a corporate event and such others. This is not an offer to buy or sell or a solicitation of an offer to buy or sell any security or instrument or to participate in any particular trading strategy. No part of this material may be copied or duplicated in any form by any means or redistributed without the written consent of Way2Wealth. In no event shall any reader publish, retransmit, redistribute or otherwise reproduce any information provided by Way2Wealth in any format to anyone. Way2Wealth and its affiliates, officers, directors and employees including persons involved in the preparation or issuance of this report may from time to time have interest in securities / positions, financial or otherwise in the securities related to the information contained in this report.

To enhance transparency, Way2Wealth has incorporated a Disclosure of Interest Statement in this document. This should, however, not be treated as endorsement of the views expressed in the report.

Disclosure of Interest Statement in CCL Products (India) Ltd. as on October 29, 2019

Name of the Security	CCL Products (India) Ltd.
Name of the analyst	Ashwini Sonawane
Analysts' ownership of any stock related to the information contained	NIL
Financial Interest	
Analyst :	No
Analyst's Relative : Yes / No	No
Analyst's Associate/Firm : Yes/No	No
Conflict of Interest	No
Receipt of Compensation	No
Way2Wealth ownership of any stock related to the information contained	NIL
Broking relationship with company covered	NIL
Investment Banking relationship with company covered	NIL

This information is subject to change without any prior notice. Way2Wealth reserves at its absolute discretion the right to make or refrain from making modifications and alterations to this statement from time to time. Nevertheless, Way2Wealth is committed to providing independent and transparent recommendations to its clients, and would be happy to provide information in response to specific client queries.