

CCL Products (India) Ltd.

Sensex 35609
Nifty 10672

Key Stock Data

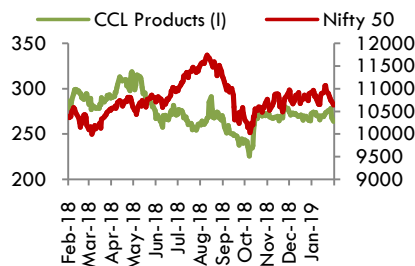
CMP 262.9
Market Cap (₹Cr) 3497
52W High/Low 320/225
Shares o/s (Cr) 13.3

Bloomberg CCLP IN
NSE Code CCL
BSE Code 519600

Shareholding Pattern (%)

Promoters 45.28%
FII & DII 29.76%
Public & Others 24.96%

Comparison Chart



(₹ Crs)

Financial Summary	FY18	FY19E	FY20E
Net Sales	1,138.0	1,179	1,380
EBITDA	238.9	273.4	330.5
EBITDA Margin %	21.8%	23.2%	23.9%
PAT	148.1	171.7	211.6
EPS (₹)	11.14	12.9	15.9
P/E(x)	23.1	20.4	16.5

Summary

CCL Products (India) Ltd. (CCL) declared its Q3FY19 results recently. Consolidated net revenues decreased by 14.6% Y-O-Y to ₹234crs due to a decline in green coffee prices while it remained flat for the first nine months. Consolidated EBITDA for Q3FY19 decreased by 15.8% Y-O-Y basis to ₹54.3crs.

- Company's top-line for Q3FY19 declined by 14.6% Y-O-Y due to a decline in volume and lower raw material cost. However, for 9MFY19 net sales remained flat to ₹819crs Y-O-Y.
- EBITDA for Q3FY2019 de-grew by 32.5% Y-O-Y to ₹76crs. Margins contracted by 30bps to 23.2% vs. 23.5%. Gross margin grew by 400 bps to 47% Y-O-Y in Q3FY19. EBITDA for 9MFY19 increased by 15.8% Y-O-Y with margin expansion by 320 bps to 23.7%.
- Raw material cost decreased by 20% Y-O-Y. Employee expenses increased by 25.8% while other expenses decreased by 3.7% Y-O-Y in Q3FY19.
- PAT for Q3FY19 de-grew by 19.4% Y-O-Y to ₹32.6 crs. PAT for 9MFY19 grew by 18% Y-O-Y to ₹119 crs. Finance cost increased by 63.8% Y-O-Y. On a standalone basis PAT de-grew by 15.1% Y-O-Y to ₹23.8crs. in Q3FY19.
- In Vietnam, Sales has declined by ~24% Y-O-Y in Q3FY19. We believe debt free status, better product mix and additional spray-dried capacity of 3500 ton by Q4FY20 would bring strong revenue and profitability growth in Vietnam. The management has guided 80% capacity utilisation for FY19 vs 60-70% in FY18. Incentives offered by Vietnamese government of zero tax rates will continue further. The company projected \$8 mn for improvement of line balancing at Vietnam.
- The company is setting up new agglomeration and packing unit with a capacity of 5000 tons by next financial year where investment is approximately around 12 million dollars in India.
- Raw Material impacted realisation. Prices of green coffee which is the main raw material (constitute 70% of raw material) has declined as much as 30% in last five years. Coffee producers have been facing tough business conditions over the past two fiscal years. The prices have fallen due to bumper crop in Brazil, the world's largest coffee producer and an increase in coffee production in Vietnam.
- The branded business reported sales of ₹55 crs in 9MFY19 vs ₹40 crs in H1FY19. Retail domestic business and private labels have contributed ₹23 crs and ₹7 crs respectively. Management has guided ₹80crs revenue from domestic branded business in FY19 vs ₹46 crs in FY18. 70% - 75% of domestic sales come from Andhra Pradesh, Telangana, Karnataka and Tamil Nadu.
- Currently branded coffee is available in 11 states with primary focus on Andhra Pradesh and Telangana. Going ahead, management will continue to focus on these states to increase its branded business.
- Globally coffee demand is growing by 2.5-3% with +50% excess production availability. Five years ago, the price of a 50-kg bag of raw coffee was around ₹9,000. Now, it is selling 30% cheaper at ₹6,000-6,500, which is much below the cost of production. However, CCL is well positioned in the market due to its (1) Right market collaboration (2) Wider variety of products (3) In-house R&D.
- CCL has made official entry into filter coffee and pre-mix coffee products on the consumer side by launching "Continental Malgudi" and "Continental THIS. Continental Malgudi is a filter coffee which comes in two blends: 80% coffee & 20% chicory and 60% coffee & 40% chicory. Continental THIS is a 3 in 1 premix coffee which can be prepared by simply adding hot water. Continental coffee would help company to further expand its business.

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- Chittoor Plant (Freeze Dried Coffee) with capacity of 5000 tonnes would commence its operation in April 2019. Initially capacity utilisation would be at 50%. The company targeting new clients with larger volume.
- 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 maintained its 15-20% bottom line growth guidance from FY19 on account of value-add mix, decline in raw material prices and sustainable volume growth along with commissioning of Chittoor plant (Freeze dried Coffee).

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 has maintained FY19 PAT growth guidance to 15-20%. Change in growth strategy, focus on volume growth, branded business and better product mix will aid margins and profitability in FY19. CCL is well poised for the growth considering its Freeze-Dried capacity, good traction in branded business 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 premium offering from CCL in due course of time.

At CMP of ₹262.9/- the stock trades at 20.4x FY19E estimated EPS of ₹12.9/. We advise investors with a long-term investment horizon to *HOLD* the stock.

Standalone Financials

(₹ Crs)

	Q3FY19	Q3FY18	VAR[%]	Q2FY19	VAR[%]	9MFY19	9MFY18	VAR[%]
Net Sales (Net Of Excise Duty)	181.0	203.6	-11.1%	214.0	-15.4%	613.3	599.9	2.2%
Total Operating Income	181.0	203.6	-11.1%	214.0	-15.4%	613.3	599.9	2.2%
Other Income	0.2	0.4	-59.0%	0.2	-33.3%	0.7	3.1	-79.2%
TOTAL INCOME	181.1	204.0	-11.2%	214.2	-15.4%	614.0	603.0	1.8%
Total Raw Material Cost	98.4	117.1	-16.0%	116.7	-15.7%	349.2	355.1	-1.7%
Cost of Materials Consumed	101.5	122.0	-16.8%	116.1	-12.6%	365.2	372.4	-1.9%
Changes in Inventories	-3.1	-4.9	-37.3%	0.6	-618.6%	-16.0	-17.4	-7.7%
Packing Materials Consumed			-	0.0	-	0.0	0.0	-
<i>Total Raw Material Cost % to Sales</i>	<i>54.4%</i>	<i>57.5%</i>		<i>54.5%</i>		<i>56.9%</i>	<i>59.2%</i>	
Employee Expenses	11.3	9.5	19.2%	10.4	9.4%	31.0	26.9	15.2%
<i>Employee Expenses % to Sales</i>	<i>6.3%</i>	<i>4.7%</i>		<i>4.8%</i>		<i>5.0%</i>	<i>4.5%</i>	
Stores, Power & Fuel Consumed	0.0	0.0	-	0.0	-	0.0	0.0	-
<i>Power, Oil & Fuel % to Sales</i>	<i>0.0%</i>	<i>0.0%</i>		<i>0.0%</i>		<i>0.0%</i>	<i>0.0%</i>	
Other Expenses	30.8	30.8	-0.3%	34.3	-10.4%	98.2	95.0	3.4%
<i>Other Expenses % to Sales</i>	<i>17.0%</i>	<i>15.1%</i>		<i>16.0%</i>		<i>16.0%</i>	<i>15.8%</i>	
TOTAL EXPENDITURE	140.5	157.4	-10.8%	161.4	-13.0%	478.4	476.9	0.3%
EBITDA	40.5	46.2	-12.4%	52.6	-23.0%	135.0	123.0	9.8%
<i>EBITDA Margin %</i>	<i>22.4%</i>	<i>22.7%</i>		<i>24.6%</i>		<i>22.0%</i>	<i>20.5%</i>	
Finance Costs	3.0	1.6	90.4%	3.1	-5.4%	8.5	4.4	91.4%
PBDT	37.7	45.0	-16.4%	49.7	-24.1%	127.2	121.7	4.5%
Depreciation	3.1	2.8	9.3%	3.1	-0.6%	9.2	8.4	9.4%
PBT	34.6	42.2	-18.1%	46.6	-25.7%	118.0	113.3	4.1%
Total Tax	10.8	14.2	-24.0%	18.4	-41.5%	41.9	39.0	7.5%
Income Tax	11.5	14.0	-17.9%	17.0	-32.4%	40.5	38.5	5.2%
Deferred Tax	-0.7	0.2	-529.4%	1.4	-152.1%	1.4	0.5	191.7%
<i>Tax Rate %</i>	<i>31.1%</i>	<i>33.6%</i>		<i>39.5%</i>		<i>35.5%</i>	<i>34.4%</i>	
Reported Profit After Tax	23.8	28.1	-15.1%	28.2	-15.4%	76.1	74.3	2.4%
Extra-ordinary Items						0.0	0.0	
Adjusted Profit After Extra-ordinary item	23.8	28.1	-15.1%	28.2	-15.4%	76.1	74.3	2.4%
Basic:								
EPS	1.8	2.1	-15.1%	2.1	-15.4%	5.7	5.6	2.4%
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

	Q3FY19	Q3FY18	VAR[%]	Q2FY19	VAR[%]	9MFY19	9MFY18	VAR[%]
(₹ Crs)								
Net Sales (Net Of Excise Duty)	234.1	274.0	-14.6%	290.8	-19.5%	819.3	817.1	0.3%
Other Operating Income					-	0.0	0.0	
Total Operating Income	234.1	274.0	-14.6%	290.8	-19.5%	819.3	817.1	0.3%
Other Income	0.9	0.4	122.0%	1.4	-32.6%	2.6	3.2	-19.6%
TOTAL INCOME	235.0	274.4	-14.4%	292.1	-19.6%	821.9	820.3	0.2%
Total Raw Material Cost	123.4	154.7	-20.2%	154.5	-20.1%	454.2	493.5	-8.0%
Cost of Materials Consumed	137.1	156.0	-12.1%	162.1	-15.5%	484.7	530.1	-8.6%
Changes in Inventories	-13.6	-1.3	991.2%	-7.7	78.3%	-30.5	-36.7	-16.8%
Packing Materials Consumed			-	0.0	-	0.0	0.0	-
Total Raw Material Cost % to Sales	52.7%	56.5%	-6.6%	53.1%	-0.8%	55.4%	60.4%	-8.2%
Employee Expenses	15.4	12.2	25.8%	16.3	-5.9%	44.2	33.6	31.6%
Employee Expenses % to Sales	6.6%	4.5%	47.3%	5.6%	16.8%	5.4%	4.1%	31.3%
Stores, Power & Fuel Consumed			-	0.0	-	0.0	0.0	-
Power, Oil & Fuel % to Sales	0.0%	0.0%	-	0.0%	-	0.0%	0.0%	-
Other Expenses	41.0	42.6	-3.7%	43.7	-6.2%	126.6	122.4	3.5%
Other Expenses % to Sales	17.5%	15.5%	12.7%	15.0%	16.5%	15.5%	15.0%	3.2%
TOTAL EXPENDITURE	179.8	209.5	-14.2%	214.5	-16.2%	625.0	649.4	-3.8%
EBITDA	54.3	64.5	-15.8%	76.3	-28.8%	194.3	167.7	15.8%
EBITDA Margin %	23.2%	23.5%	-1.4%	26.2%	-11.6%	23.7%	20.5%	15.5%
Finance Costs	3.0	1.9	63.8%	3.3	-7.9%	8.7	5.7	52.3%
PBDT	52.2	63.0	-17.2%	74.3	-29.8%	188.2	165.2	13.9%
Depreciation	8.8	8.4	4.6%	8.7	0.8%	27.0	25.3	6.5%
PBT	43.4	54.6	-20.6%	65.6	-33.9%	161.2	139.9	15.2%
Total Tax	10.8	14.2	-24.0%	18.4	-41.5%	41.9	39.0	7.5%
Income Tax	11.5	14.0	-17.9%	17.0	-32.4%	40.5	38.5	5.2%
Deferred Tax	-0.7	0.2	-529.4%	1.4	-152.1%	1.4	0.5	191.7%
Tax Rate %	24.8%	25.9%	-4.3%	28.1%	-11.5%	26.0%	27.9%	-6.7%
Reported Profit After Tax	32.6	40.4	-19.4%	47.2	-30.9%	119.3	100.9	18.2%
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.	32.6	40.4	-19.4%	47.2	-30.9%	119.3	100.9	18.2%
Extra-ordinary Items			-		-	0.0	0.0	-
Adjusted Profit After Extra-ordinary item	32.6	40.4	-19.4%	47.2	-30.9%	119.3	100.9	18.2%
	13.9%	14.8%		16.2%		14.6%	12.3%	
Basic:								
EPS	2.5	3.0	-19.4%	3.5	-30.9%	9.0	7.6	18.2%
Equity	26.6	26.6		26.6		26.6	26.6	
Face Value	2.0	2.0		2.0		2.0	2.0	

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Disclosure of Interest Statement in CCL Products (India) Ltd. as on February 19, 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

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