

CCL Products (India) Ltd.

No. of shares (m)	133.5
Mkt cap (Rs crs/\$m)	7829/939.0
Current price (Rs/\$)	586/7.0
Price target (Rs/\$)	645/7.7
52 W H/L (Rs.)	750/548
Book Value (Rs/\$)	124/1.5
Beta	0.5
Daily volume (avg. monthly NSE)	119220
P/BV (FY24e/25e)	4.8/4.2
EV/EBITDA (FY24e/25e)	20.5/17.3
P/E (FY24e/25e)	32.0/27.2
EPS growth (FY23/24e/25e)	31.6/-9.3/17.5
OPM (FY23/24e/25e)	19.3/17.0/17.5
ROE (FY23/24e/25e)	20.1/15.8/16.4
ROCE (FY23/24e/25e)	14.1/11.6/11.6
D/E ratio FY23/24e/25e)	0.6/0.9/0.8
BSE Code	519600
NSE Code	CCL
Bloomberg	CCLP IN
Reuters	CCLP.NS

Shareholding pattern

	%
Promoters	46.3
MFs / Banks / FIs/Others	21.4
FPIs	7.8
Govt. Holding	0.0
Public & Others	24.5
Total	100.0

As on Dec 31, 2023

Recommendation

HOLD

Analyst

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Company Brief

CCL Products produces several varieties and blends of coffee including spray dried coffee powder, spray dried agglomerated, freeze dried coffee etc

Quarterly Highlights

- Despite shipping related disruptions in Red Sea during Q3 which resulted in volumes loss of some 800 tons, CCLP managed to log sales growth of 24.1% - sales stood at Rs 664.48 crs vs Rs 535.30 crs in the same quarter a year ago - thus pacing up barely weak revenues in the two quarters of the current fiscal. Aggressive filling up capacities in Vietnam helped shore up volumes: overall volumes rose by a hardly uninspiring 14%. Buoyant of take in domestic branded business also helped galvanize revenue booking.
- Despite robust of take of wares, OPM nosedived to 16.7% in Q3 when compared to 18.8% in the same quarter a year ago - 16.2% in Q1 & 18.1% in Q2 - which resulted in just over 10% growth in operating profit. Aggressive filling up capacities in Vietnam to make up for production disruption in Q2 precipitated stress in margins. Higher of take of spray dried coffee also did its bit to coerce margins - effect of which was visible so far this fiscal as OPMs in first nine months have declined to 17% from 18.5%, a loss of some 150 bps.
- Surge in interest expense coupled with immodest rise in depreciation did little support earnings for PBT declined by 5.5% to Rs 66.69 crs as against Rs 70.54 crs in the same period a year ago. Post tax earnings barely remained ebullient for it fell by over 13% to Rs 63.29 crs from Rs 73.06 crs.
- The stock currently trades at 32x FY24e EPS of Rs 18.34 and 27.2x FY25e EPS of Rs 21.55. More than expected stress in margin has precipitated cut in current year earnings, though revenues made a remarkable stride. Despite striking volume growth in current fiscal - nearly 20%, adverse product mix may spoilsport. Hardly small gestation periods in filling newly commissioned capacities would barely lend flight to return on equity - estimated to fall to 16.4% by FY25 from 20.1% in FY23. Balancing odds, we retain our "hold" rating on the stock with revised target of Rs 645 (previous target Rs 597) based on 30x FY25e earnings over a period of 6-9 months.

(Figures in Rs crs)	FY21	FY22	FY23	FY24e	FY25e
Income from operations	1242.48	1462.03	2071.22	2601.98	2986.50
Other Income	3.39	4.09	3.26	3.59	3.94
EBITDA (other income included)	301.15	335.16	403.11	445.51	526.58
Profit after EO	182.26	204.35	268.88	244.84	287.77
EPS (Rs)	13.70	15.36	20.21	18.34	21.55
EPS growth (%)	9.8	12.1	31.6	-9.3	17.5

Outlook & Recommendation

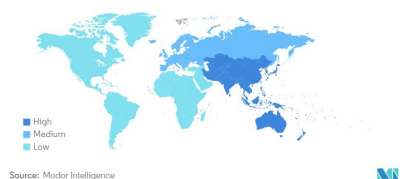
Global instant coffee industry outlook

Evaluating the scope and size of global instant coffee market, Modor Intelligence posits that the global instant coffee market is estimated to grow at a CAGR of 5.58% during 2024-2029 - market size to rise to \$43.54bn by 2029 from \$33.18bn by 2024. It feels that convenience in preparation of instant coffee is the foremost factor which is driving the demand for instant coffee. It further states that rising popularity of ready-to-eat products, especially among the working population and students is another significant factor that seems to impel market growth.

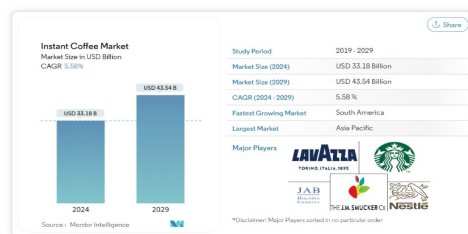
Premiumization of instant coffee has gathered pace with increased focus on unique, authentic and functional properties of coffee. Multinational players and local craft brands emphasize designing authentic flavors to cater to the diversified demands of consumers. Modor predicts that such product innovations coupled with advancements in packaging types such as sachets (which cater to single time users) are expected to further boost the sale of instant coffee brands across the globe.

Asia Pacific region continues to dominate the global instant coffee market with China leading the pack. According to the International Coffee Association, overall coffee consumption in China grew by 14% from 2022 to 2023. Both adults and youth in Japan are adopting coffee as an alternative to Japanese tea owing to an increased inclination toward Western culture. According to the Ministry of Finance, Japan's import volume of instant coffee increased from 10.45 thousand tons in 2019 to 12.59 thousand tons in 2022. The report further states that online retailing of instant coffee products has significantly impacted the Indian market for emerging brands focus on marketing and retailing instant coffee in premium, flavored, and artisanal blends through different distribution channels.

Instant Coffee Market: Market Size (%), By Geography, Global, 2023



Source: Modor Intelligence



Source: Modor Intelligence

Instant Coffee market: Method of preparation among past-day coffee drinkers, the United States, 2023 (in %)

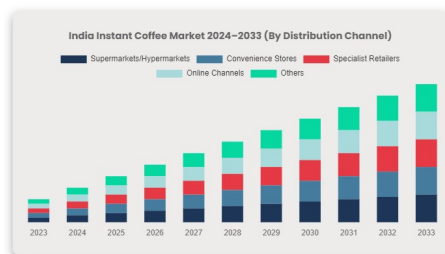


Source: National Coffee Association

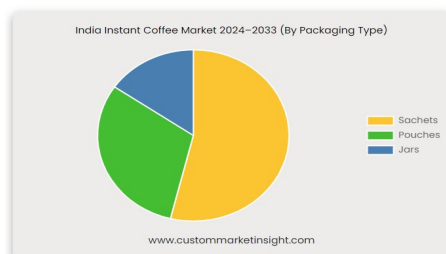
Source: National Coffee Association

According to a research report by CMI, the Indian instant coffee market is expected to grow at a CAGR of 7.5% from 2024 to 2033 which will take the market size to some \$5.1 bn. Influenced by rapid urbanization and changing lifestyles, the Indian market has seen launch of a range of instant coffee products from key players like Nestle, Tata Consumer Products and Hindustan Unilever.

The report contends that the status of instant coffee has been elevated in India not least due to surging coffee culture, particularly among the youth. Consumers influenced by global coffee trends, seek diverse and flavored instant coffee which has contributed to expansion of market. Increasing penetration of smartphones and internet has enhanced the reach of instant coffee brands which has helped tap broader consumer base and fostered market growth.



Source: Custom Marketing Insight

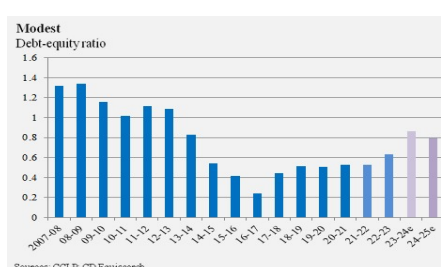
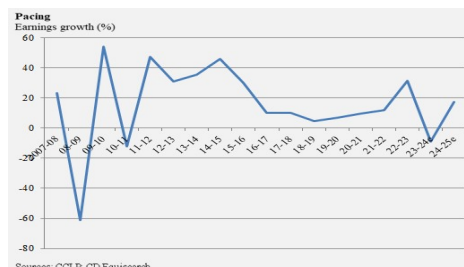
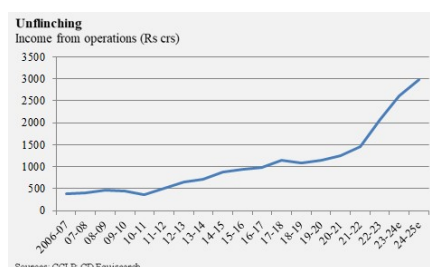


Source: Custom Marketing Insight

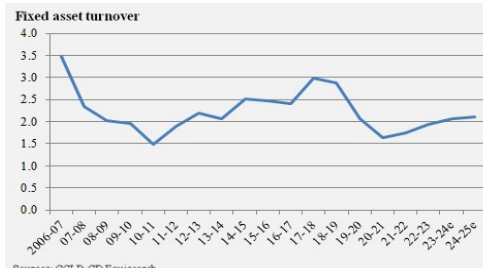
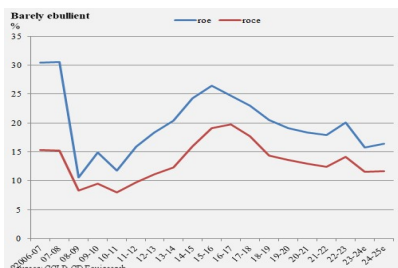
Financials & Valuation

CCLP is banking on mid-single digit volume growth in global instant coffee market to buoy its business over the next few years. Changing lifestyle along with increased product innovation in instant coffee market has reinvigorated the Asia Pacific market. On this backdrop, CCLP has drawn barely unambitious largely debt funded expansion plans both in India and Vietnam with a cumulative investment of some Rs 800 crs. These investments spanning both freeze dried and spray dried coffee would see the light of day in next fiscal and the fiscal after.

Yet challenges abound. From delay in projects to sub-optimal optimization of newly commissioned capacities to higher of take of spray dried coffee has margin and return on capital impact. Of late, margins have barely shown signs of firming not least due to aggressive filling of spray dried capacities in Vietnam. Though domestic operations has shown signs of envious scaling, yet higher promotional spends and lower operating leverage could make recovery in EBITDA margin all the more elusive.



Deeper penetration in southern markets and increasing share of B2C sales has been one of the cornerstones of CCLP strategy. Widening of distribution network and mass media campaigns has galvanized sales in the domestic market - domestic branded sales estimated to grow by a third to some Rs 200 crs in the current fiscal from some Rs 150 crs last fiscal. To further its access in European coffee market, CCLP had acquired numerous coffee brands such as Percol, Rocket Fuel, Plantation Wharf, The London Blend, Perk Up and Percol Fusion from Food Brands Group, a subsidiary of Löfbergs Group, UK. It will also help it expand manufacturing and distribution of FMCG products globally.



The stock currently trades at 32x FY24e EPS of Rs 18.34 and 27.2x FY25e EPS of Rs 21.55. Earnings are estimated to rise by 17.5% next fiscal with double digit revenue growth. Margin recovery could face "friction" not least due to barely favorable product mix. Yet its competitive advantage in order execution - capability to create blends of coffee - and overseas network of sourcing companies has tangible benefits - one of whom being ability to get repeat orders. Yet the current valuation leaves little scope of appreciation. We, therefore, maintain "hold" rating on the stock with revised target of Rs 645 (previous target Rs 597) based on 30x FY25e earnings. For more info refer to our April report.

Financials

Quarterly Results

Figures in Rs crs

	Q3FY24	Q3FY23	% chg.	9MFY24	9MFY23	% chg.
Income from operations	664.48	535.30	24.1	1926.98	1551.13	24.2
Other Income	1.13	0.35	223.7	2.21	0.85	159.3
Total Income	665.61	535.65	24.3	1929.19	1551.99	24.3
Total Expenditure	553.55	434.57	27.4	1599.81	1264.35	26.5
EBIDTA (other income included)	112.06	101.07	10.9	329.38	287.64	14.5
Interest	23.20	11.49	101.9	56.42	23.79	137.1
Depreciation	22.17	19.04	16.5	67.14	53.55	25.4
PBT	66.69	70.54	-5.5	205.82	210.29	-2.1
Tax	3.41	-2.52	-235.4	20.96	26.71	-21.5
Net profit	63.29	73.06	-13.4	184.86	183.59	0.7
Minority interest	0.00	0.00	0.0	0.00	0.00	0.0
Net profit after MI	63.29	73.06	-13.4	184.86	183.59	0.7
Extraordinary Item	-	-	-	-	-	-
Adjusted Net Profit	63.29	73.06	-13.4	184.86	183.59	0.7
EPS (F.V. 2)	4.76	5.49	-13.4	13.90	13.80	0.7

Consolidated Income Statement

Figures in Rs crs

	FY21	FY22	FY23	FY24e	FY25e
Income from operations	1242.48	1462.03	2071.22	2601.98	2986.50
Growth (%)	9.1	17.7	41.7	25.6	14.8
Other Income	3.39	4.09	3.26	3.59	3.94
Total Income	1245.87	1466.12	2074.47	2605.57	2990.44
Total Expenditure	944.72	1130.97	1671.36	2160.06	2463.86
EBITDA (other income included)	301.15	335.16	403.11	445.51	526.58
Interest	16.95	16.36	34.40	78.95	97.48
EBDT	284.19	318.80	368.71	366.56	429.09
Depreciation	49.41	57.46	63.70	88.33	102.08
Tax	52.52	56.98	36.12	33.39	39.24
Net profit	182.26	204.35	268.88	244.84	287.77
Minority interest	0.00	0.00	0.00	0.00	0.00
Net profit after MI	182.26	204.35	268.88	244.84	287.77
Extraordinary item	-	-	-	-	-
Adjusted Net Profit	182.26	204.35	268.88	244.84	287.77
EPS (Rs.)	13.70	15.36	20.21	18.34	21.55

Consolidated Balance Sheet

Figures in Rs crs

	FY21	FY22	FY23	FY24e	FY25e
SOURCES OF FUNDS					
Share Capital	26.61	26.61	26.61	26.71	26.71
Reserves	1060.69	1224.09	1455.60	1653.63	1874.64
Total Shareholders Funds	1087.30	1250.69	1482.21	1680.34	1901.35
Minority Interest	0.00	0.00	0.00	0.00	0.00
Long term debt	176.91	111.72	200.84	520.84	556.34
Total Liabilities	1264.21	1362.41	1683.05	2201.18	2457.68
APPLICATION OF FUNDS					
Gross Block	996.21	1146.32	1600.60	1700.60	2100.60
Less: Accumulated Depreciation	197.82	264.08	343.65	431.98	534.06
Net Block	798.38	882.24	1256.95	1268.62	1566.54
Capital Work in Progress	148.95	159.99	54.01	546.00	300.00
Investments	0.00	0.00	0.00	0.00	0.00
Current Assets, Loans & Advances					
Inventory	319.69	519.14	578.29	676.52	776.49
Sundry Debtors	298.55	319.55	441.41	494.38	597.30
Cash and Bank	120.35	53.70	83.43	124.70	143.50
Other Assets	52.46	98.8833	144.08	167.91	201.74
Total CA & LA	791.05	991.27	1247.20	1463.50	1719.02
Current liabilities	468.37	623.86	830.81	1024.22	1071.15
Provisions	0.30	6.23	5.34	15.50	16.50
Total Current Liabilities	468.67	630.09	836.15	1039.72	1087.65
Net Current Assets	322.38	361.18	411.05	423.78	631.37
Net Deferred Tax (net of liability)	-48.99	-72.61	-72.73	-75.73	-79.23
Other Assets (Net of liabilities)	43.48	31.61	33.75	38.50	39.00
Total Assets	1264.21	1362.41	1683.05	2201.18	2457.68

Key Financial Ratios

	FY21	FY22	FY23	FY24e	FY25e
Growth Ratios					
Revenue (%)	9.1	17.7	41.7	25.6	14.8
EBIDTA (%)	3.7	11.3	20.3	10.5	18.2
Net Profit (%)	9.8	12.1	31.6	-8.9	17.5
EPS (%)	9.8	12.1	31.6	-9.3	17.5
Margins					
Operating Profit Margin (%)	24.0	22.6	19.3	17.0	17.5
Gross Profit Margin (%)	22.9	21.8	17.8	14.1	14.4
Net Profit Margin (%)	14.7	14.0	13.0	9.4	9.6
Return					
ROCE (%)	13.0	12.4	14.1	11.6	11.6
ROE (%)	18.3	17.9	20.1	15.8	16.4
Valuations					
Market Cap / Sales	2.5	3.7	3.6	3.0	2.6
EV/EBIDTA	11.8	17.8	20.8	20.5	17.3
P/E	17.1	26.3	28.1	32.0	27.2
P/BV	2.9	4.4	5.2	4.8	4.2
Other Ratios					
Interest Coverage	14.8	17.0	9.9	4.5	4.4
Debt-Equity Ratio	0.5	0.5	0.6	0.9	0.8
Current Ratio	1.6	1.5	1.4	1.4	1.5
Turnover Ratios					
Fixed Asset Turnover	1.6	1.7	1.9	2.1	2.1
Total Asset Turnover	1.0	1.1	1.4	1.4	1.3
Debtors Turnover	4.4	4.7	5.4	5.6	5.5
Inventory Turnover	3.3	2.7	3.0	3.4	3.4
Creditors Turnover	40.8	33.6	28.0	28.4	29.4
WC Ratios					
Debtor Days	83.2	77.2	67.1	65.6	66.7
Inventory Days	112.1	135.4	119.8	106.0	107.6
Creditor Days	8.9	10.9	13.0	12.8	12.4
Cash Conversion Cycle	186.4	201.6	173.8	158.8	161.9

Cumulative Financial Data

	FY14-16	FY17-19	FY20-22	FY23-25e
Income from operations	2530	3195	3844	7660
Operating profit	519	716	915	1364
EBIT	442	627	773	1121
PBT	400	599	721	910
PAT after MI	281	438	553	801
Dividends	83	136	200	207
OPM (%)	20.5	22.4	23.8	17.8
NPM (%)	11.1	13.7	14.4	10.5
Interest coverage	10.6	22.8	15.1	5.3
ROE (%)	24.0	22.2	18.1	17.3
ROCE (%)	15.9	15.7	12.7	12.6
Fixed asset turnover	2.2	2.7	2.0	2.1
Debtors turnover	7.8	5.9	4.6	5.6
Inventory turnover	4.4	4.7	2.7	3.2
Debtors days	46.5	62.2	79.0	65.5
Inventory days	82.8	77.4	134.8	112.7
Dividend payout ratio (%)	29.5	31.1	36.2	25.8

FY14-16 implies three years ending fiscal 16

Surge in coffee realizations explain much of near doubling cumulative sales during FY23-25 period though accompanied with distinct fall in margins as product mix tilts towards spray dried which command lower EBITDA per tonne - by management guidance the difference between the two was all but 40%. Higher ramp up in recently commissioned capacity in Vietnam and the expected commissioning of spray dried capacity in India by early next year (our estimates) would help support volumes in the ensuing period. Debt would swell as new capacities in India Vietnam would be largely debt funded, which will put pressure on interest coverage ratio - expected to shrink to 5.3 from 15.1 in FY20-22 (see table).

Subdued earnings in current fiscal coupled with suboptimal utilization of new capacities in Vietnam and India (India spray dried facility to start by FY25) and capital investment in new freeze dried facility in Vietnam (which we estimate will commission by FY26) would further stymie ROE, which has seen a fall from 22.2% in FY17-19 to 18.1% in FY20-22. Some moderation is expected in inventory days in FY23-25 - 113 days from 135 days in FY20-22 at a time when debtor days may also inch lower (see table).

Financial Summary – US dollar denominated

million \$	FY21	FY22	FY23	FY24e	FY25e
Equity capital	3.6	3.5	3.2	3.2	3.2
Shareholders funds	144.3	161.5	176.2	197.5	224.0
Total debt	76.1	85.8	111.4	170.4	178.3
Net fixed assets (incl CWIP)	128.9	137.5	48.4	217.6	223.9
Investments	0.0	0.0	0.0	0.0	0.0
Net current assets	40.2	44.1	46.0	46.8	71.7
Total assets	168.4	176.2	200.7	260.0	290.8
Revenues	167.4	196.2	257.6	314.3	358.2
EBITDA	40.6	45.0	50.1	53.8	63.2
EBDT	38.3	42.8	45.9	44.3	51.5
PBT	31.6	35.1	37.9	33.6	39.2
Profit after MI	24.6	27.4	33.4	29.6	34.5
EPS(\$)	0.18	0.21	0.25	0.22	0.26
Book value (\$)	1.08	1.21	1.32	1.48	1.68

income statement figures translated at average rates; balance sheet and cash flow at year end rates; FY25 projections at current rates (\$83.37/\$)

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buy: >20% accumulate: >10% to ≤20% hold: ≥-10% to ≤10% reduce: ≥-20% to <-10% sell: <-20%

Exchange Rates Used- Indicative

Rs/\$	FY20	FY21	FY22	FY23	FY24
Average	70.88	74.20	74.51	80.39	82.79
Year end	75.39	73.50	75.81	82.22	83.37

All \$ values mentioned in the write-up translated at the average rate of the respective quarter/ year as applicable. Projections converted at current exchange rate. Cumulative dollar figure is the sum of respective yearly dollar value.