

January 4, 2018

CCL Products

Brewing Steadily

CCL Products Limited (CCL) is the largest Indian manufacturer and exporter of instant coffee. With a total capacity of 35,000 TPA (tonne per annum), the company has a global market share of ~6.5%. It also has a leading market share of 24% in Indian instant coffee exports CCL exports (contributing over 90% to revenue) to over 90 countries, which have helped in registering 14% CAGR in revenue and 30% CAGR in PAT over FY2012-17.

Hedged business model has created healthy moat: CCL works on cost plus margin method and places orders for green coffee only after receiving orders for instant coffee. This saves company from adverse volatility in coffee prices and has helped in maintaining operating margins at 20%+ level. Further, CCL's Vietnam expansion is an excellent strategic move, as it is preferred by importing countries due to proximity to raw material and a favorable duty structure.

Ramping up of facilities to foray in newer markets: In the last two decades, CCL has expanded its capacity by over 10 times. CCL currently has 20,000 TPA of capacity in India, which is running at high utilization level of 90%+. The company is expanding its Indian capacities by 5,000 TPA to capture the new clients (especially in Japan and Europe) in the premium freeze dried coffee space with an investment of US\$50mn. Vietnam plant, with a capacity of 15,000 TPA could be further expanded to export to countries like China, USA.

Strong balance sheet and healthy return ratios: Its robust business model keeps on generating free cash flow in excess of ₹80cr every year, which would largely fund its capex requirements. Despite its intensive capex ramp up, DE ratio has come down to 0.2x in FY2017 and return ratios have been at 20%+ level.

Outlook & Valuation: CCL is likely to maintain the 17%+ growth trajectory over FY18-20 backed by capacity expansion and new geographical foray. In H1FY18, the company faced some margin pressure while acquiring new clients, which we have factored in our model. However, according to us, the margin pressures would ease from FY19 onwards, once the relationship is established. The stock is currently trading at 21x FY19 EPS, which offers good opportunity to enter the stock. We initiate coverage on CCL with a Buy recommendation and Target Price of ₹360 (25x FY19E EPS), indicating an upside of ~20% from the current levels.

Key Financials (Consolidated)

Y/E March (₹ cr)	FY2016	FY2017	FY2018E	FY2019E	FY2020E
Net Sales	932	976	1165	1398	1595
% chg	5.9%	4.8%	19.3%	20.0%	14.1%
Net Profit	122	134	139	191	228
% chg	30.0%	10.0%	3.3%	37.7%	19.2%
OPM (%)	23.0%	23.9%	21.0%	22.5%	23.0%
EPS (Rs)	9.2	10.1	10.4	14.4	17.1
P/E (x)	32.7	29.7	28.8	20.9	17.5
P/BV (x)	7.8	6.3	5.5	4.6	3.8
RoE (%)	24%	21%	19%	22%	22%
RoCE (%)	28%	28%	25%	29%	30%
EV/Sales (x)	4.5	4.2	3.5	2.9	2.5
EV/EBITDA (x)	19.5	17.6	16.7	12.9	10.9

Source: Source :Company, Angel Research; Note: CMP as of January 04, 2018

BUY

CMP ₹300
Target Price ₹360

Investment Period 12 Months

Stock Info

Sector	Coffee
Market Cap (₹ cr)	3,992
Beta	0.5
52 Week High / Low	371/250
Avg. Daily Volume	1,413
Face Value (₹)	2
BSE Sensex	33,969
Nifty	10,504
Reuters Code	CCLP.BO
Bloomberg Code	CCLP.IN

Shareholding Pattern (%)

Promoters	45.0
MF / Banks / Indian FIs	4.1
FII / NRIs / OCBs	24.5
Indian Public / Others	26.3

Abs. (%)	3m	1yr	3yr
Sensex	7.1	27.3	21.5
CCL Products	(2.4)	16.1	71.3

3-year price chart



Source: Company, Angel Research

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Company Background

CCL was founded in 1994 as an Export Oriented Unit (EOU) with the right to import green coffee from any part of the world and export processed coffee across the globe, devoid of any duties. Its instant coffee manufacturing plant is located at Guntur District, Andhra Pradesh, with a current combined capacity of 20,000 MT/PA. CCL also has a plant in Vietnam with a total capacity of 1,0000 MT for instant coffee and 5,000 MT for liquid coffee. CCL's 3,000 MT plant in Switzerland is facing issues on account of unfavorable European Union regulations.

Major clientele and geographies

The major countries contributing to CCL's export revenue are Italy, Russia, Belgium, Japan Germany, China, etc. A few private labels served by CCL include Mokate, Instanta, Food Empire, Strauss, DEK, Gold Roast, etc. Presently, the company provides over 200 varieties and blends of coffee to its customers in over 90 countries.

Indian retail business could also be another booster in near term

The company launched its own brand 'Continental' in Andhra Pradesh and Telangana in FY2014, which has received good response and encouraged it to recently launch it in other parts of India. In order to ramp up the brand faster, CCL has tied up with big retail chains, such as the Future Group, Metro, Reliance, etc. and is supplying to institutional investors like railways. Currently, Nestle and Hindustan Unilever's 'Bru' forms over 70% the Indian instant coffee market.

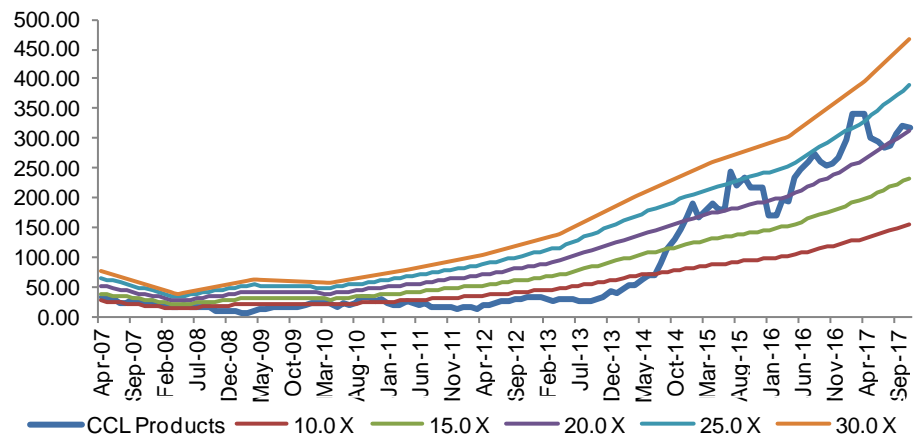
Strong balance sheet and healthy return ratios

The company's robust business model keeps on generating free cash flow in excess of ₹80cr every year, which would largely fund its capex requirements. The company exports to over 90 countries, which has helped in registering revenue CAGR of 14% over FY2012-17. Despite its intensive capex ramp up, DE ratio has come down to 0.2x in FY2017 and return ratios have been at 20%+ level.

Outlook and Valuation

CCL is likely to maintain the 17%+ growth trajectory over FY2018-20 backed by capacity expansion and new geographical foray. In H1FY2018, the company faced some margin pressure while acquiring new clients, which we have factored in our model. However, according to us, the margin pressures would ease from FY2019 onwards, once the relationship is established. Moreover, its branded business i.e. 'Continental' is doing pretty well and could be ₹100cr business in the next 2-3 years (₹50cr in FY17). The stock is currently trading at 21x FY19 EPS, which offers good opportunity to enter the stock. We initiate coverage on CCL with a Buy recommendation and Target Price of ₹360 (25x FY2019E EPS), indicating an upside of ~20% from the current levels.

Exhibit 1: One Year Forward P/E



Source: Company, Angel Research

Risks to our estimates

- Volumes may get impacted owing to the inability to get break through with new clients
- Abrupt fluctuations in coffee prices may adversely impact profitability

Profit & Loss Statement

Y/E March (₹ cr)	FY2016	FY2017	FY2018E	FY2019E	FY2020E
Total operating income	932	976	1165	1398	1595
% chg	6	5	19	20	14
Total Expenditure	717	743	920	1084	1228
Raw Material	547	552	635	730	839
Personnel	23	28	31	34	37
Others Expenses	148	163	180	198	217
EBITDA	215	233	245	315	367
% chg	20	9	5	29	17
(% of Net Sales)	23	24	21	23	23
Depreciation & Amortisation	28	33	36	41	42
EBIT	186	200	209	274	325
% chg	22	7	4	31	19
(% of Net Sales)	20	20	18	20	20
Interest & other Charges	11	11	13	6	5
Other Income	-8.79	-0.11	2.00	5.00	5.00
(% of PBT)	-5.3%	-0.1%	1.0%	1.8%	1.5%
Share in profit of Associates	-	-	-	-	-
Recurring PBT	167	189	198	273	325
Tax	45	55	59	82	98
(% of PBT)	26.8	28.9	30.0	30.0	30.0
PAT (reported)	122	134	139	191	228
% chg	30	10	3	38	19
(% of Net Sales)	13	14	12	14	14
Basic EPS (Rs)	9.2	10.1	10.4	14.4	17.1
Fully Diluted EPS (Rs)	9.2	10.1	10.4	14.4	17.1
% chg	30	10	3	38	19

Balance Sheet

Y/E March (₹ cr)	FY2016	FY2017	FY2018E	FY2019E	FY2020E
SOURCES OF FUNDS					
Equity Share Capital	27	27	27	27	27
Reserves & Surplus	483	610	704	847	1021
Shareholders Funds	510	636	731	873	1048
Minority Interest					
Total Loans	210	142	182	172	142
Other Liabilities	1	0	0	0	0
Total Liabilities	721	778	913	1045	1190
APPLICATION OF FUNDS					
Gross Block	639	643	743	843	943
Less: Acc. Depreciation	221	250	286	327	368
Net Block	417	393	458	517	575
Capital Work-in-Progress	0	0	0	0	0
Investments	2	2	2	2	2
Current Assets	331	404	479	558	650
Inventories	149	183	201	231	266
Sundry Debtors	128	163	171	197	227
Cash and Bank	19	17	63	84	110
Loans and Advances	36	42	44	46	48
Current liabilities	52	39	45	51	59
Net Current Assets	279	365	434	507	592
Deferred Tax Asset	-28	-31	-32	-34	-36
Other Assets	51	49	52	55	57
Mis. Exp. not written off	-	-	-	-	-
Total Assets	721	778	913	1045	1190

Cash Flow Statement

Y/E March (₹ cr)	FY2016	FY2017	FY2018E	FY2019E	FY2020E
Profit before tax	167	189	198	273	325
Depreciation	28	33	36	41	42
Change in Working Capital	8	-67	-3	-19	-22
Interest / Dividend (Net)	-4	4	0	0	0
Direct taxes paid	-38	-53	-59	-82	-98
Others					
Cash Flow from Operations	161	158	231	294	345
(Inc.)/ Dec. in Fixed Assets	-87	-20	-100	-100	-20
(Inc.)/ Dec. in Investments	0	0	0	0	0
Cash Flow from Investing	-87	-20	-100	-100	-20
Issue of Equity	0	0	0	0	0
Inc./(Dec.) in loans	-25	-68	40	-10	-30
Dividend Paid (Incl. Tax)	-40	-13	-13	-13	-13
Interest / Dividend (Net)	-6	-4	-13	-6	-5
Cash Flow from Financing	-71	-85	14	-29	-48
Inc./(Dec.) in Cash	3	54	145	165	276
Opening Cash balances	27	19	2	88	171
Closing Cash balances	2	2	88	171	349

Key Ratios

Y/E March	FY2016	FY2017	FY2018E	FY2019E	FY2020E
Valuation Ratio (x)					
P/E (on FDEPS)	32.7	29.7	28.8	20.9	17.5
P/CEPS	26.5	23.8	22.9	17.2	14.8
P/BV	7.8	7.8	6.3	5.5	4.6
Dividend yield (%)	1%	1%	1%	1%	1%
EV/Sales	4.5	4.2	3.5	2.9	2.5
EV/EBITDA	19.5	17.6	16.7	12.9	10.9
EV / Total Assets	10.0	10.5	8.9	7.8	7.0
Per Share Data (₹)					
EPS (Basic)	7.1	9.2	10.1	10.4	14.4
EPS (fully diluted)	7.1	9.2	10.1	10.4	14.4
Cash EPS	11.3	12.6	13.1	17.4	20.2
DPS	2.5	2.5	2.8	3.0	3.3
Book Value	38.3	47.8	55.0	65.7	78.8
Returns (%)					
ROCE	28.4	27.5	25.3	28.6	29.7
Angel ROIC (Pre-tax)	26.6	26.3	24.6	28.5	30.1
ROE	24.0	21.1	19.0	21.9	21.7
Turnover ratios (x)					
Asset Turnover (Gross Block)	2.2	2.5	2.5	2.7	2.8
Inventory / Sales (days)	63	62	60	56	57
Receivables (days)	47	54	52	48	48
Payables (days)	35	22	17	16	16
Working capital cycle (ex-cash) (days)	75	94	96	88	89

Source: Source: Note - Valuation done on closing price of 04/01/2018

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3. Served as an officer, director or employee of the company covered under Research	No
4. Broking relationship with company covered under Research	No