

CCL Products (India)

HOLD

Weak base drives robust top line growth in Q1FY22

Summary

CCL Product's Q1FY22 result was a mixed bag. While top-line was higher than our estimate by 9%, its EBITDA was 5% below our forecast. Net sales increased by 13% YoY to Rs3,261 mn mainly on higher offtake. EBITDA grew 14.5% YoY to Rs720 mn. However, sharp increase in tax expense (+35% YoY to Rs99 mn) restricted its net profit growth to 13.9% YoY at Rs438 mn.

We make marginal changes to our FY22/FY23. We now value the stock at a PER of 22x (earlier 17x) FY23E EPS and derive a target price of Rs446 (earlier Rs336). However, given the sharp run in the stock price recently, we downgrade the stock to a HOLD from an ACCUMULATE rating earlier.

Key Highlights and Investment Rationale

- Robust top-line growth:** Net sales grew by 12.8% YoY to Rs3,261 mn in Q1FY22 on weaker base. CCL's EBITDA margin improved 33bps YoY at 22.1% on improvement in product mix.
- Management guidance post Q2FY22:** CCL will guide for FY22 sales growth after it reports its Q2FY22 result; nevertheless, it expects return ratios to improve in FY22 compared to FY21. Supply constraints from Brazil's coffee producers has led to strong growth in CCL's exports to the US which is one of the largest coffee markets in the world but currently contributes only 10% to CCL's revenues. CCL's small pack capacity utilization is likely to improve - this should likely aid margin improvement in FY22.
- Outlook:** Over the past two decades, CCL has developed a sound business model which is not easy to replicate. CCL's expertise lies in making consistent coffee blends which has resulted in long standing relationships with clients and stickiness in business. CCL's upcoming 3500 tonne Vietnam capacity should likely drive volume growth over FY22-23. CCL has managed to improve its gross margin in past few quarters driven by better product mix and should likely be sustained over FY22-FY23E in our view. However, valuation at 22x FY23E PER fairly discount these positives in our view.

TP	Rs446
CMP	Rs440
Potential upside / downside	+1%

V/s Consensus

EPS (Rs)	FY22E	FY23E
IDBI Capital	16.5	20.3
Consensus	16.8	20.5
% difference	(2.0)	(0.8)

Shareholding Pattern (%)

Promoters	46.2
FII	10.3
DII	14.7
Public	28.8

Price Performance (%)

	-1m	-3m	-12m
Absolute	22.0	65.5	86.5
Rel to Sensex	22.2	59.7	49.7

Key Stock Data

Bloomberg / Reuters	CCLP IN / CCLP.BO
Sector	Tea & Coffee
Shares o/s (mn)	133
Market cap. (Rs mn)	58,492
Market cap. (US\$ mn)	786
3-m daily avg. trd. value (Rs mn)	238.5
52-week high / low	Rs495 / 225
Sensex / Nifty	52,653 / 15,778

Relative to Sensex (%)



Financial snapshot

Year	FY19	FY20	FY21	FY22E	FY23E
Net sales	10,814	11,392	12,425	14,333	15,915
EBITDA	2,455	2,859	3,085	3,621	4,191
EBITDA (%)	22.7	25.1	24.8	25.3	26.3
Adj. PAT	1,549	1,659	1,930	2,194	2,699
EPS (Rs)	11.6	12.5	14.5	16.5	20.3
EPS Growth (%)	4.6	7.1	16.3	13.7	23.0
PE (x)	37.8	35.3	30.3	26.7	21.7
Dividend Yield (%)	0.6	0.7	0.5	0.7	0.9
EV/EBITDA (x)	24.2	21.7	20.1	16.5	13.9
RoE (%)	19.6	18.8	19.1	18.6	19.6
RoCE (%)	21.0	19.5	17.3	19.3	22.6

Source: Company; IDBI Capital Research

Exhibit 1: Quarterly Snapshot (Consolidated)

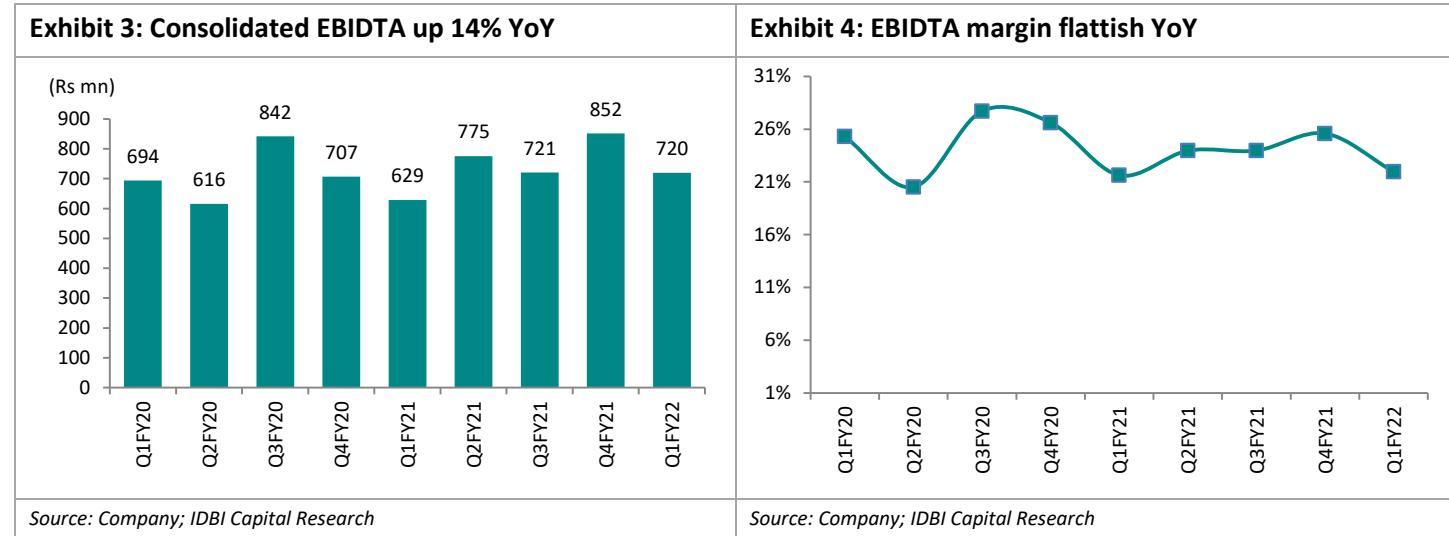
Financial snapshot	Q1FY22	Q4FY21	QoQ (%)	Q1FY21	(Rs mn) YoY (%)
Net sales	3,261	3,316	(1.6)	2,892	12.8
Gross profit	1,647	1,947	(15.4)	1,310	25.7
<i>Gross margin (%)</i>	51	59	-8bps	45	5bps
Total expenditure	2,541	2,464	3.2	2,263	12.3
EBITDA	720	852	(15.5)	629	14.5
<i>EBITDA margin (%)</i>	22.1	25.7	-363bps	21.7	33bps
Interest	48	47	2.1	46	3.6
Depreciation	136	117	15.9	125	8.3
PBT	537	718	(25.1)	458	17.4
Tax	99	226	(56.2)	73	35.7
PAT	438	492	(10.9)	385	13.9
Diluted EPS (Rs)	3.30	3.70	(10.9)	2.89	13.9

Source: Company; IDBI Capital Research

Exhibit 2: Actual vs. Estimates

	Q1Y22E	Q1FY22A	(Rs mn) Variance (%)
Net sales	2,984	3,261	9.3
EBTIDA	754	720	(4.6)
<i>EBITDA margin (%)</i>	25.3	22.1	-321bps
PAT	506	438	(13.3)
Adj. diluted EPS (Rs)	3.80	3.30	(13.3)

Source: Company; IDBI Capital Research



Conference call highlights

- In Q1FY22, capacity utilization in India business was 70% and Vietnam facility was running at 80% capacity utilization.
- The company faced logistic issues in Q1FY21 as freight rates were high.
- The shift in gross margins was due to variation in product mix.
- The expansion plan at Vietnam plant of doubling capacity is in process and will start in Q2FY22.
- Company's ratio between advance order and spot order is 65:35.
- The company consumes 90% of Robusta coffee and 10% Arabica coffee. Robusta coffee prices have not increased as much as Arabica prices.
- Due to supply issue in Brazil markets, company saw 20-25% increase in volume from US market. Currently 10% of top-line comes from the US market but it is expected to improve further. Going ahead company has plans to increase small pack business in US market.
- When there is inflation trend in raw material price there are low orders, however increase in raw material price impact will be reflected in Q4FY22.

- CCL does not expect the price of raw material to normalize in near term. Demand for coffee is consistently growing by 2.5-3% YoY growth and in developing country coffee demand is showing double digit growth , therefore prices are expected to be higher to balance out demand and supply

Exhibit 5: Change in estimates

	FY22E			FY23E		
	Old	New	(%) Chg	Old	New	(%) Chg
Revenue (Rs mn)	14,333	14,333	(0.0)	15,584	15,915	2.1
EBITDA (Rs mn)	3,621	3,621	0.0	4,096	4,191	2.3
EBITDA margin (%)	25.3	25.3	-3bps	26.3	26.3	4bps
Net profit (Rs mn)	2,120	2,194	3.5	2,591	2,699	4.1
EPS (Rs)	15.9	16.5	3.7	19.5	20.3	4.1

Source: Company; IDBI Capital Research

Financial Summary

Profit & Loss Account (Rs mn)					Cash Flow Statement (Rs mn)				
Year-end: March	FY20	FY21	FY22E	FY23E	Year-end: March	FY20	FY21	FY22E	FY23E
Net sales	11,392	12,425	14,333	15,915	Pre-tax profit	2,253	2,455	2,979	3,664
<i>Growth (%)</i>	5.3	9.1	15.4	11.0	Depreciation	471	494	499	504
Operating expenses	(8,533)	(9,340)	(10,711)	(11,723)	Tax paid	(527)	(498)	(785)	(966)
EBITDA	2,859	3,085	3,621	4,191	Chg in working capital	(1,216)	(522)	963	(350)
<i>Growth (%)</i>	16.5	7.9	17.4	15.7	Other operating activities	(622)	-	-	-
Depreciation	(471)	(494)	(499)	(504)	Cash flow from operations (a)	358	1,929	3,655	2,853
EBIT	2,388	2,590	3,122	3,687	Capital expenditure	(698)	(1,732)	(568)	(568)
Interest paid	(180)	(170)	(181)	(64)	Chg in investments	-	-	-	-
Other income	45	34	37	41	Other investing activities	-	-	-	-
Pre-tax profit	2,253	2,455	2,979	3,664	Cash flow from investing (b)	(698)	(1,732)	(568)	(568)
Tax	(594)	(525)	(785)	(966)	Equity raised/(repaid)	-	-	-	-
<i>Effective tax rate (%)</i>	26.4	21.4	26.4	26.4	Debt raised/(repaid)	1,995	824	(1,800)	(1,900)
Net profit	1,659	1,930	2,194	2,699	Dividend (incl. tax)	(633)	(898)	(399)	(532)
Adjusted net profit	1,659	1,930	2,194	2,699	Chg in minorities	-	-	-	-
<i>Growth (%)</i>	7.1	16.3	13.7	23.0	Other financing activities	-	-	-	-
<i>Shares o/s (mn)</i>	133	133	133	133	Cash flow from financing (c)	(239)	558	(2,199)	(2,432)
					Net chg in cash (a+b+c)	(578)	755	888	(147)

Balance Sheet					(Rs mn)
Year-end: March	FY20	FY21	FY22E	FY23E	
Net fixed assets	8,734	9,971	10,040	10,104	
Investments	-	-	-	-	
Other non-curr assets	-	-	-	-	
Current assets	6,360	7,911	8,372	8,822	
Inventories	2,604	3,197	2,382	2,607	
Sundry Debtors	2,681	2,986	3,373	3,746	
Cash and Bank	387	1,204	1,751	1,508	
Loans and advances	-	-	-	-	
Total assets	15,094	17,882	18,412	18,926	
Shareholders' funds	9,284	10,873	12,668	14,834	
Share capital	266	266	266	266	
Reserves & surplus	9,018	10,607	12,402	14,568	
Total Debt	3,922	4,746	2,946	1,046	
Secured loans	3,922	4,746	2,946	1,046	
Unsecured loans	-	-	-	-	
Other liabilities	553	553	553	553	
Curr Liab & prov	1,335	1,710	2,246	2,493	
Current liabilities	1,335	1,707	2,243	2,490	
Provisions	-	3	3	3	
Total liabilities	5,810	7,009	5,744	4,092	
Total equity & liabilities	15,094	17,882	18,412	18,926	
Book Value (Rs)	70	82	95	112	

Source: Company; IDBI Capital Research

Financial Ratios

Year-end: March	FY20	FY21	FY22E	FY23E
Adj. EPS (Rs)	12.5	14.5	16.5	20.3
Adj. EPS growth (%)	7.1	16.3	13.7	23.0
EBITDA margin (%)	25.1	24.8	25.3	26.3
Pre-tax margin (%)	19.8	19.8	20.8	23.0
ROE (%)	18.8	19.1	18.6	19.6
ROCE (%)	19.5	17.3	19.3	22.6
Turnover & Leverage ratios (x)				
Asset turnover (x)	0.8	0.8	0.8	0.9
Leverage factor (x)	1.7	1.6	1.5	1.4
Net margin (%)	14.6	15.5	15.3	17.0
Net Debt/Equity (x)	0.4	0.3	0.1	(0.0)
Working Capital & Liquidity ratio				
Inventory days	83	94	61	60
Receivable days	86	88	86	86
Payable days	11	8	14	14

Valuation

Year-end: March	FY20	FY21	FY22E	FY23E
P/E (x)	35.3	30.3	26.7	21.7
Price / Book value (x)	6.3	5.4	4.6	3.9
PCE (x)	27.5	24.1	21.7	18.3
EV / Net sales (x)	5.4	5.0	4.2	3.6
EV / EBITDA (x)	21.7	20.1	16.5	13.9
Dividend Yield (%)	0.7	0.5	0.7	0.9



Notes

Dealing

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Key to Ratings Stocks:

BUY: 15%+; **HOLD:** -5% to 15%; **SELL:** -5% and below.

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