RMsecurities

Date: 18/06/2020
Company: CCL Products Ltd.
Industry: Tea & Coffee

Result Snapshot

Amt. in Rs. Crs.	Q4FY20	Q3FY20	Q-o-Q(%)	Q4FY19	Y-o-Y(%)
Revenue	264.57	302.71	-12.60%	262.13	0.93%
Other Income	2.88	0.65		0.75	
Total Income	267.45	303.36	-11.84%	262.88	1.74%
EBITDA	70.72	84.18	-15.99%	54.07	30.79%
EBIDTA (%)	26.73%	27.81%		20.63%	
EBIT	59.24	72.14	-17.88%	49.34	20.06%
PBT	57.66	68.71	-16.08%	47.49	21.43%
PAT	42.18	46.99	-10.24%	35.64	18.35%
PAT%	15.94%	15.52%		13.60%	

Result / Con-call Highlights:

1) Result Update:

CCL Products reported a topline of Rs. 267 cr in Q4 FY20 up 1% Y-o-Y basis with no impact of Covid-19. The company reported EBITDA of Rs.70 cr with EBITDA margin of 26.73%. EBITDA margin improved y 610 bps on Y-o-Y basis mainly on account of favorable product mix. Net profit for CCL Products rose 18.35% to Rs. 42.18 cr in the quarter ended March 2020 as against Rs. 35.64 cr reported in the quarter ended March 2019.

For the year ended March 2020, CCL Products reported a topline of Rs. 1,143 cr with an EBITDA of Rs. 286 cr and EBITDA margin of 25.09% and PAT of Rs. 166 cr.

2) Business Update:

Plant	Product	Capacity	Utilisation	Other	Notes
CCL Duggirala Plant, India	Spray Dried Coffee	14,000 tpa	90-95%	15,000 tonnes of 3 in 1 premix blending	Shortly commencing 3,000 TPA Cold Brew Capacity
	Freeze Dried Coffee	6,000 tpa			
CCL Unit II – SEZ, India	Freeze Dried Coffee	5,000 tpa	50-52%		Commenced operations in April 2019
Ngon Coffee, Vietnam	Spray Dried Coffee	10,000 tpa	65-70%	5,000 tpa granulation capacity	Adding 3500 tpa capacity in FY21
Continental Coffee SA, Switzerland	NA	NA	NA	3,000 tpa of granulation capacity	
Total Capacity	**Coffee**	**35,000 tpa**			

B2B business accounts for ~ 93% of the FY20 revenue. Around 50% of the sales come's from brand owners and rest 50% comes from re-packers and labelers. Newly commissioned CCL unit II freeze dried coffee plant help aid the gross margins at ~60% and EBITDA margins at ~26% in Q4 FY20. The plant was operating at

Result / Con-call Highlights: (Continued)

50% utilisation levels in Q3 and Q4 leading to better productivity mix and lower input cost. The management expects to maintain current level of Gross and EBITDA margins going forward as it maintains the standard process of procuring raw material only after it receives the order.

B2C business revenue was at Rs. 90 cr (~7% of FY20 revenue) with a loss of Rs. 3 cr. Around ~Rs 55 cr comes from the in-house brand (Continental) rest is split evenly between bulk and private labels. CCL has direct reach to around ~60,000 outlets and is targeting to reach ~75,000 outlets by this fiscal end. The company focuses majorly on southern India with market share of ~4% and is slowly building up infrastructure to expand across other regions of India. The branded business is expected to gain further traction due to the advertising and brand building exercise undertaken by the company. The branded coffee business is a duopoly market of approx ~Rs. 2000 cr and is dominated by Nestle and HUL.

3) Other Highlights

• The company's topline faces challenges with falling green coffee prices (~70% of sales) due to healthy coffee production in Brazil the world's largest green coffee producers. CCL on the other side is ramping up production of its newly commissioned freeze dried facility. The products from the freeze dry facility command a blended premium of around 20% in comparison to the products obtained from the spray dry facility. The revenue contribution from the CCL Unit II – SEZ is expected to be in the range of ~Rs. 270-300 cr at peak utilisation levels given the current coffee prices which is expected to reach in next 2 years.

• Additional 3,500 tpa spray dried coffee capacity in Vietnam with a CAPEX of $8 mn is expected to be operational from Q3 FY21.

• Plant wise break-up - The Vietnam subsidiary reported a topline of Rs. 268 cr and a PAT of Rs. 66 cr in FY20. The capacity currently runs at 90-95% of optimal capacity utilisation and did not face any downtime in the month of April and May. The Switzerland subsidiary reported a topline of Rs. 135 cr with PAT of Rs. 3.75 cr in FY20. This facility was set up to help CCL products to cater to the European market with short lead time.

• Q1 FY21 is expected to be a normal quarter as inventory pile up from Q4 FY20 has spilled over in Q1 with no impact on demand. Company expects to increase EBITDA by 10% in FY21.

4) Outlook:

CCL Products continued focus of increasing in-house brand will have fruitful result over the long term. For the short term growth company is increasing its capacity in Vietnam plant where it enjoys tax break (0% tax). Focus on volume growth, branded business and better product mix will aid profitability and EBITDA margins in FY21. However, falling green coffee prices would affect the topline and should be tracked closely. CCL Products trades at 19x FY20 earnings of Rs. 166 cr which is fairly valued. We opine to Buy on Dips as the business fundamental remains strong with the company sailing through the Covid-19 situation with ease.

Disclaimer

Methodology & implications of Risk-Reward Quadrant: Ratings on the risk reward quadrant are not to be perceived as riskiness / reward possibilities of the stock price. The risk & the reward terms used refer to the risk arising due to misjudgement of estimated financials for the subject company & rewards refer to the greater alignment of actual financials with estimated financials. The perceived risk and reward for each entity/individual shall vary and requires personalised assessment and judgement. The subject companies are investments belong to equity asset class which by nature is a highly risky asset class each individual/entity shall practice due diligence at their own level before making any investment decisions. PM Securities Equity Research shall in no way be held liable for any variation in perceived riskiness / rewards or any losses suffered in the subject company / investment. Please refer to the below disclosures & disclaimers carefully. PM Securities Equity Research ("Research Entity") is regulated by the Securities and Exchange Board of India ("SEBI") and is licensed to carry on the business of Equity Research. Equity Research. services offered by PM Securities Equity Research under SEBI Registration No.: INH000006013; Corporate Office: 406,Atlantic Commercial Towers, RB Mehta Road Ghatkopar East, Mumbai – 400077. Ph: +91-22-62554701 This Report has been prepared by PM Securities Equity Research in the capacity of a Research Analyst having SEBI Registration No. INH00000601 and distributed as per SEBI (Research Analysts) Regulations 2014. This report does not constitute an offer or solicitation for the purchase or sale of any financial instrument or as an official confirmation of any transaction. The information contained herein is from publicly available data or other sources believed to be reliable. This report is provided for assistance only and is not intended to be and must not alone be taken as the basis for an investment decision. The user assumes the entire risk of any use made of this information. Each recipient of this report should make such investigation as it deems necessary to arrive at an independent evaluation of an investment in the securities of companies referred to in this document (including the merits and risks involved), and should consult his own advisors to determine the merits and risks of such investment. The investment discussed or views expressed may not be suitable for all investors. This information is strictly confidential and is being furnished to you solely for your information. This information should not be reproduced or redistributed or passed on directly or indirectly in any form to any other person or published, copied, in whole or in part, for any purpose. This report is not directed or intended for distribution to, or use by, any person or entity who is a citizen or resident of or located in any locality, state, country or other jurisdiction, where such distribution, publication, availability or use would be contrary to law, regulation or which would subject PM Securities Equity Research and associates / group companies to any registration or licensing requirements within such jurisdiction. The distribution of this report in certain jurisdictions may be restricted by law, and persons in whose possession this report comes, should observe, any such restrictions. The information given in this report is as of the date of this report and there can be no assurance that future results or events will be consistent with this information. This information is subject to change without any prior notice. PM Securities Equity Research reserves the right to make modifications and alterations to this statement as may be required from time to time. PM Securities Equity Research or any of its associates / group companies 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. PM Securities Equity Research is committed to providing independent and transparent recommendation to its clients. Neither PM Securities Equity Research nor any of its associates, group companies, directors, employees, agents or representatives shall be liable for any damages whether direct, indirect, special or consequential including loss of revenue or lost profits that may arise from or in connection with the use of the information. Our proprietary trading and investment businesses may make investment decisions that are inconsistent with the recommendations expressed herein. Past performance is not necessarily a guide to future performance .The disclosures of interest statements incorporated in this report are provided solely to enhance the transparency and should not be treated as endorsement of the views expressed in the report. The information provided in these reports remains, unless otherwise stated, the copyright of PM Securities Equity Research. All layout, design, original artwork, concepts and other Intellectual Properties, remains the property and copyright of PM Securities Equity Research and may not be used in any form or for any purpose whatsoever by any party without the express written permission of the copyright holders. PM Securities Equity Research shall not be liable for any delay or any other interruption which may occur in presenting the data due to any reason including network (Internet) reasons or snags in the system, break down of the system or any other equipment, server breakdown, maintenance shutdown, breakdown of communication services or inability of the PM Securities Equity Research to present the data. In no event shall PM Securities Equity Research be liable for any damages, including without limitation direct or indirect, special, incidental, or consequential damages, losses or expenses arising in connection with the data presented by the PM Securities Equity Research through this report. We offer our research services to clients as well as our prospects. Though this report is disseminated to all the customers simultaneously, not all customers may receive this report at the same time. We will not treat recipients as customers by virtue of their receiving this report. PM Securities Equity Research and its associates, officer, directors, and employees, research analyst (including relatives) worldwide may: (a) from time to time, have long or short positions in, and buy or sell the securities thereof, of company(ies), mentioned herein or (b) be engaged in any other transaction involving such securities and earn brokerage or other compensation or act as a market maker in the financial instruments of the subject company/company(ies) discussed herein or act as advisor or lender/borrower to such company(ies) or have other potential/material conflict of interest with respect to any recommendation and related information and opinions at the time of publication of research report or at the time of public appearance. PM Securities Equity Research may have proprietary long/short position in the above mentioned scrip(s) and therefore should be considered as interested. The views provided herein are general in nature and do not consider risk appetite or investment objective of any particular investor; readers are requested to take independent professional advice before investing. This should not be construed as invitation or solicitation to do business with PM Securities Equity Research. PM Securities Equity Research or its associates may have received compensation from the subject company in the past 12 months. PM Securities Equity Research or its associates may have managed or co-managed public offering of securities for the subject company in the past 12 months. PM Securities Equity Research or its associates may have received compensation for investment banking or merchant banking or brokerage services from the subject company in the past 12 months. PM Securities Equity Research or its associates may have received any compensation for products or services other than investment banking or merchant banking or brokerage services from the subject company in the past 12 months. PM Securities Equity Research or its associates have not received any compensation or other benefits from the Subject Company or third party in connection with the research report. Research analyst or his/her relative or PM Securities Equity Research's associates may have financial interest in the subject company. PM Securities Equity Research, its associates, research analyst and his/her relative may have other potential/material conflict of interest with respect to any recommendation and related information and opinions at the time of publication of research report or at the time of public appearance. Participants in foreign exchange transactions may incur risks arising from several factors, including the following: (i) exchange rates can be volatile and are subject to large fluctuations; (ii) the value of currencies may be affected by numerous market factors, including world and national economic, political and regulatory events, events in equity and debt markets and changes in interest rates; and (iii) currencies may be subject to devaluation or government imposed exchange controls which could affect the value of the currency. Investors in securities such as ADRs and Currency Derivatives, whose values are affected by the currency of an underlying security, effectively assume currency risk. Research analyst has served as an officer, director or employee of subject Company: No PM Securities Equity Research has financial interest in the subject companies: No PM Securities Equity Research's Associates may have actual / beneficial ownership of 1% or more securities of the subject company at the end of the month immediately preceding the date of publication of research report. Research analyst or his/her relative has actual/beneficial ownership of 1% or more securities of the subject company at the end of the month immediately preceding the date of publication of research report: No PM Securities Equity Research has actual/beneficial ownership of 1% or more securities of the subject company at the end of the month immediately preceding the date of publication of research report: No Subject company may have been client during twelve months preceding the date of distribution of the research report. There were no instances of non-compliance by PM Securities Equity Research on any matter related to the capital markets, resulting in significant and material disciplinary action during the last three years. A graph of daily closing prices of the securities is also available at www.nseindia.com Analyst Certification: The analyst for this report certifies that all of the views expressed in this report accurately reflect his or her personal views about the subject company or companies and its or their securities, and no part of his or her compensation was, is or will be, directly or indirectly related to specific recommendations or views expressed in this report. Additional Disclaimer for U.S. Persons Disclaimer PM Securities Equity Research is not a registered investment adviser under the U.S. Investment Advisers Act of 1940, as amended (the "Advisers Act" and together with the 1934 Act, the "Acts), and under applicable state laws in the United States. Accordingly, in the absence of specific exemption under the Acts, any brokerage and investment services provided by PM Securities Equity Research, including the products and services described herein are not available to or intended for U.S. persons. This report does not constitute an offer or invitation to purchase or subscribe for any securities or solicitation of any investments or investment services and/or shall not be considered as an advertisement tool. "U.S. Persons" are generally defined as a natural person, residing in the United States or any entity organized or incorporated under the laws of the United States. US Citizens living abroad may also be deemed "US Persons" under certain rules. Additional Disclaimer for U.K. Persons The contents of this research report have not been approved by an authorised person within the meaning of the Financial Services and Markets Act 2000 ("FSMA"). In the United Kingdom, this research report is being distributed only to and is directed only at (a) persons who have professional experience in matters relating to investments falling within Article 19(5) of the FSMA (Financial Promotion) Order 2005 (the "Order"); (b) persons falling within Article 49(2)(a) to (d) of the Order (including high net worth companies and unincorporated associations); and (c) any other persons to whom it may otherwise lawfully be communicated (all such persons together being referred to as "relevant persons"). This research report must not be acted on or relied on by persons who are not relevant persons. Any investment or investment activity to which this research report relates is available only to relevant persons and will be engaged in only with relevant persons. Any person who is not a relevant person should not act or rely on this research report or any of its contents. This research report must not be distributed, published, reproduced or disclosed (in whole or in part) by recipients to any other person. Additional Disclaimer for Canadian Persons PM Securities Equity Research is not a registered adviser or dealer under applicable Canadian securities laws nor has it obtained an exemption from the adviser and/or dealer registration requirements under such law. Accordingly, any brokerage and investment services provided by PM Securities Equity Research, including the products and services described herein, are not available to or intended for Canadian persons. This research report and its respective contents do not constitute an offer or invitation to purchase or subscribe for any securities or solicitation of any investments or investment services. Disclosures under the provisions of SEBI (Research Analysts) Regulations 2014 (Regulations) PM Securities Equity Reseach ("PM Securities Equity Research" or "Research Entity") is regulated by the Securities and Exchange Board of India ("SEBI") and is licensed to carry on the business of Equity Reseach. There were no instances of non-compliance by PM Securities Equity Research on any matter related to the capital markets, resulting in significant and material disciplinary action during the last three years. This research report has been prepared and distributed by PM Securities Equity Reseach ("PM Securities Equity Research") in the capacity of a Research Analyst as per Regulation 22(1) of SEBI (Research Analysts) Regulations 2014 having SEBI Registration No.INH000006013.