CCL PRODUCTS (INDIA) LTD

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BSE Code: 519600 **NSE Code:** CCL **Reuters Code:** CCLP.NS **Bloomberg Code:** CCLP:IN

CCL Products (India) Ltd. (CCL) is India's prominent manufacturer and exporter of instant coffee. It supplies to branded coffee marketers in more than 60 countries around the globe. In FY15, exports contributed 90% to the total revenues of the company. CCL operates through three plants in India, Vietnam, and Switzerland with an annual aggregate capacity of 38,000 metric tonnes (MT).

Key Developments

Business model and operating margins:

With a total capacity of 38,000 MT, CCL is amajor instant coffee producer and exporter from India. It manufactures over 70 varieties and blends of coffee. CCL's operating margins have been around 18-20% over the years.

Foray into domestic branded business:

In FY14, CCL forayed into the lucrative domestic branded coffee segment through Continental brand. It received encouraging response in Andhra Pradesh and CCL is now doing a soft launch state-wise with a bouquet of products. Retail domestic branded business contributes ~6% to revenue of Indian operations.

Vietnam plant:

With Vietnam plant stabilizing, capacity utilisation has shown improvement since FY15. While in FY14 the plant operated at 22% utilisation level, in FY15 the utilisation level improved to 46%. The Vietnam plant is located in coffee production zone which provides CCL benefit on logistics front. The transportation cost from Vietnam ($1,200-1,600/container) is much lower than that from India ($3,000-3,600/container).

Indian operations operating at optimum utilisation rate:

The India operations produced 14,550 MT in FY15. In the last couple of years, the plant has been running at optimal capacity utilization rate. CCL recently expanded instant coffee capacity from 15,000 MT to 20,000 MT at its plant in Guntur district of Andhra Pradesh. The company incurred a capex of about Rs. 20 crores.

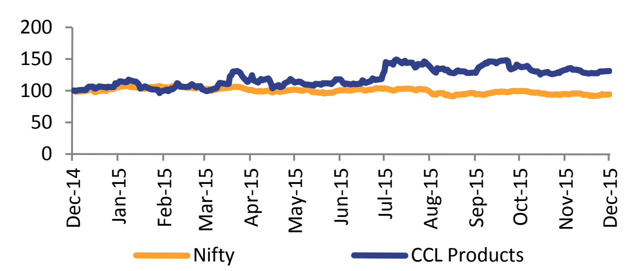
Market Data

CMP (Rs.)	**211**
Face Value	2.0
52 week H/L (Rs.)	254/154
Adj. all time High (Rs.)	254
Decline from 52WH (%)	17.1
Rise from 52WL (%)	36.8
Beta	0.1
Mkt. Cap (Rs.Cr)	2,802
Enterprise Value(Rs. Cr)	2,932

Fiscal Year Ended

	FY13	FY14	FY15
Total revenue (Rs.cr)	651	717	881
Net Profit (Rs.cr)	47	64	94
Share Capital (Rs.Cr)	13	27	27
EPS (Rs.)	35.7	4.8	7.1
P/E (x)	7.2	10.5	25.3
P/BV (x)	1.2	1.9	5.6
ROE (%)	18.3	20.4	24.3

One year Price Chart



Shareholding	Sep15	Jun15	Diff.
Promoters	44.7	44.5	0.2
DII	5.9	9.1	2.8
FII	10.5	7.7	(3.2)
Others	38.8	38.6	0.2

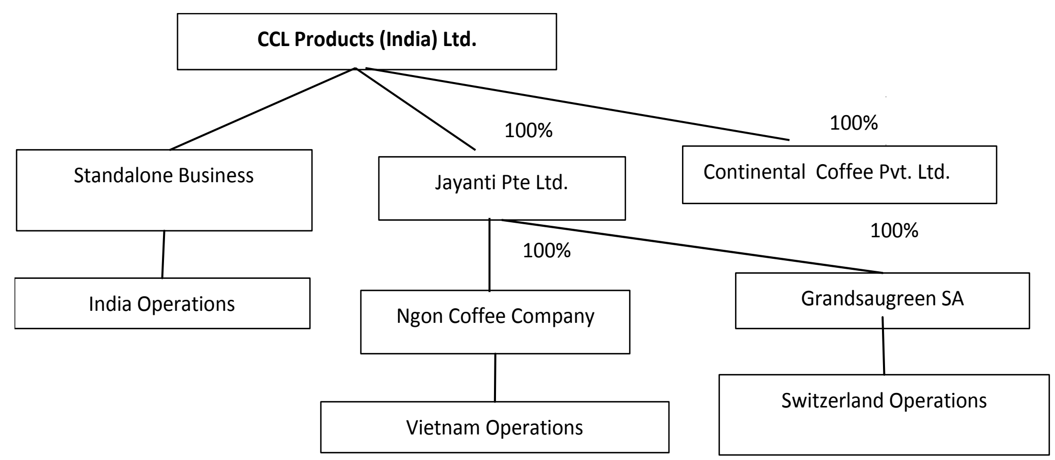
CCL is India's major manufacturer and exporter of instant coffee.

CCL Products (India) Ltd: Business overview

CCL Products Ltd (CCL) is a major manufacturer and exporter of instant coffee in India. It supplies to branded coffee marketers in more than 60 countries around the globe. It manufactures over 70 varieties and blends of coffee for its customers. In FY15, exports contributed 90% to the total revenues of the company. CCL operates through three plants in India, Vietnam, and Switzerland with an annual aggregate capacity of 38,000 metric tonnes (MT).

The domestic plant at Guntur (Andhra Pradesh, India) is an EOU (Export Oriented Unit) plant with capacity of 20,000 MT to manufacture Spray dried, Agglomerated and Freeze Dried capacities. Likewise, Vietnam Plant has spray dried capacity of 10,000 MT and 5,000 MT liquid instant capacity plant. It also owns agglomeration plant in Switzerland with capacity of 3,000 MT. In India, it procures green coffee beans by importing ~75% of its requirements from global markets such as Vietnam, Indonesia, Africa and 25% is procured from the domestic market.

CCL's Structure



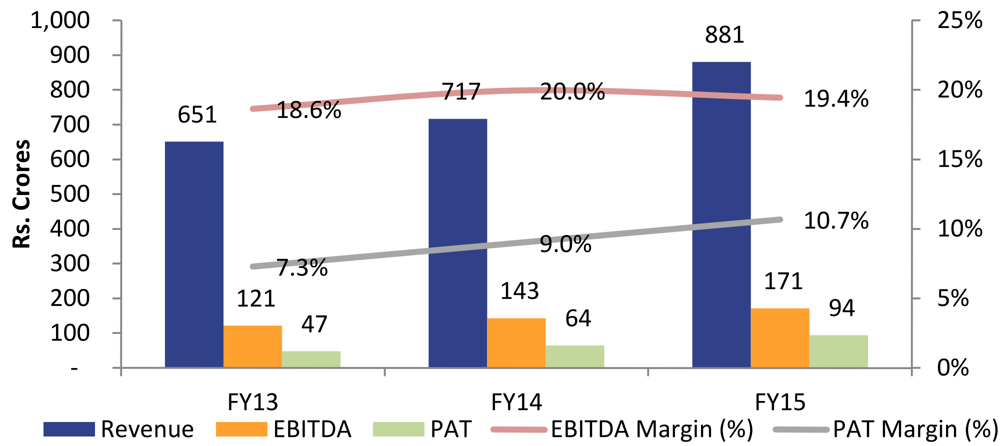
Client base at present

CCL supplies to branded coffee marketers in more than 60 countries around the globe.

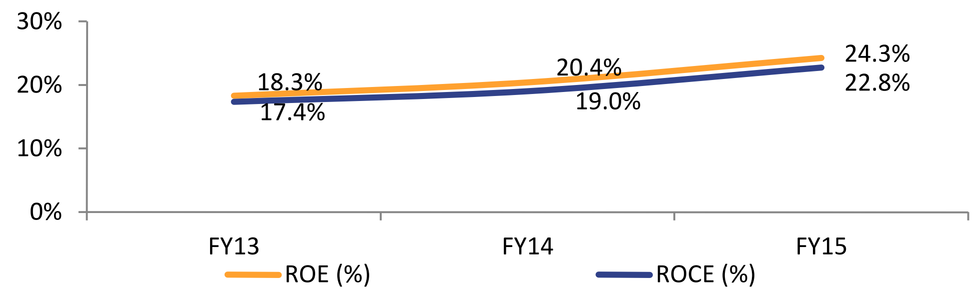
Installed capacity at various plants

Country	Installed Capacity (MT)
India	15,000
Vietnam (Spray Dried)	10,000
Vietnam (Liquid coffee)	5,000
Switzerland	3,000
Total	33,000

Financial snapshot of CCL



Return Ratios Trend



Increased capacity utilisation in Vietnam

The plant at Vietnam operated at 22% utilisation level during FY14 and improved to 46% in FY15.

In FY13, CCL commissioned its Vietnam plant at a cost of USD 50 million. With Vietnam plant stabilizing, capacity utilisation has shown improvement since FY15. In FY14 the plant operated at 22% utilisation level, in FY15 the utilisation level improved to 46%. Apart from volume growth, the Vietnam plant is also strategically located and has four distinct advantages: 1)savings on freight costs (~$125/tonne) due to proximity to coffee-growing zone, 2)ample and faster access to raw materials leading to a lower lead time, 3)a favorable duty structure (Vietnam enjoys the 'most favoured nation' status with many countries), and 4)no income-tax for first 4 years followed by tax exemption of 50% over next nine years. CCL also offers liquid coffee which is the most expensive coffee owing to its superior product quality.

Cost-effective Vietnam operations

Transportation cost from Vietnam ($1,200-1,600/container) is much lower than that from India ($3,000-3,600/container).

The Vietnam plant is located in coffee production zone which provides CCL logistics benefit. The transportation cost from Vietnam ($1,200-1,600/container) is much lower than that from India ($3,000-3,600/container). Further, the Dak Lak province (in which CCL's plant is situated) is a green coffee production hub. Thereby, reducing the lead time to a great extent (1-1.5 months) when compared to Indian plant (~4 months).

CCL recently added 5,000 tonnes to its total coffee capacity.

Indian operations: Continues to operate at optimum utilisation rate

CCL recently expanded instant coffee capacity from 15,000 MT to 20,000 MT at its plant in Guntur district of Andhra Pradesh. The company incurred a capex of about Rs. 20 crores. In the last couple of years, the plant has been running at optimal capacity utilization rate. The Indian operations produced 14,550 MT in FY15. Since FY09, the EBITDA margins of standalone operations have been in the range of 17%-21%.

Switzerland operations

In 2010, CCL commissioned a 3,000 MT plant in Switzerland to supply coffee to European countries. However, this plant is facing issues on account of unfavorable European Union regulations. While import duty levied by EU on Swiss coffee is 9.0%, only 3.3% is charged on coffee supplies from India. This has so far acted as a roadblock for growth and hence the plant is operating at sub-optimal utilization level. However, CCL has taken steps to avoid the adverse duty impact. While Swiss plant takes order from the European client, CCL imports coffee from the Indian plant. In the process, CCL pays 3.3% import duty and does value addition at the Swiss plant. Thus, it is entitled to pay 6% duty on value addition products rather than 9% on basic coffee. In FY15, the pre-tax loss at Swiss operations nearly halved to Rs. 2.7 crores when compared to a loss of Rs. 4.2 crores in FY14.

Retail domestic branded business contributes ~6% to revenue of Indian operations.

Foray into branded business

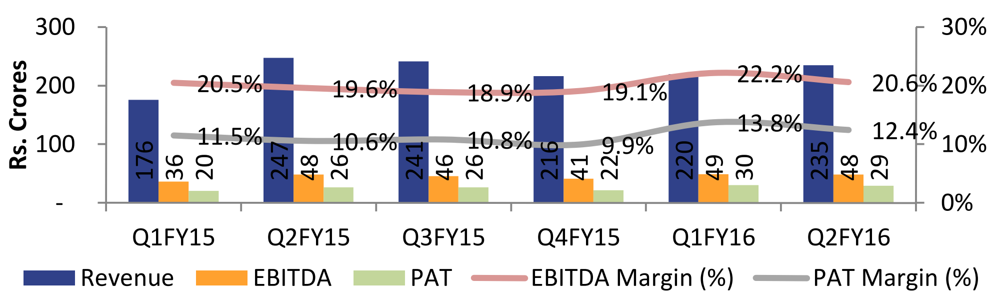
In FY14, CCL forayed into the lucrative domestic branded coffee segment through Continental brand (Spéciale, Premium and Supreme). The brand got encouraging response in Andhra Pradesh and CCL is now doing a soft launch state-wise with a bouquet of products. The branded turnover has enhanced from Rs. 25 crores in FY14 to Rs. 50 crores in FY15.

CCL has formed Continental Coffee Private Limited (a wholly owned subsidiary) under which the products for Reliance, Spencer etc. are manufactured apart from manufacturing for its own brand.

Q2FY16 performance

The company reported 4.9% YoY fall in its revenue during Q2FY16 to Rs. 235 Crores from Rs. 247 Crores. In-line with this, the operational expenses of CCL declined by 6.1% YoY to Rs. 187 Crores from Rs. 199 Crores during this period. The EBITDA remained unchanged at Rs. 48 Crores during the quarter. EBITDA margin rose by 102 bps to 20.6% in Q2FY16 from 19.6% during Q2FY15. CCL's net profit increased by 12.0% to Rs. 29 Crores in Q2FY16 from Rs. 26 Crores in the corresponding quarter of the last fiscal. Also, PAT margin improved by 188 bps to 12.4% from 10.6% during the period under review.

Quarterly performance trend



Balance Sheet (Consolidated)

(Rs.Cr)	FY13	FY14	FY15
Share Capital	13	27	27
Reserve and surplus	265	326	395
Net Worth	**278**	**353**	**422**
Total Debt	302	292	229
Other non-current liabilities	23	23	24
Total Equity & Liabilities	**603**	**668**	**675**
Fixed Assets	334	400	393
Investments	1	1	1
Net current assets	236	263	273
Other non-current assets	31	4	7
Total Assets	**603**	**668**	**675**

Profit & Loss Account (Consolidated)

(Rs.Cr)	FY13	FY14	FY15
Net revenue	**651**	**717**	**881**
Expenses	529	574	709
EBITDA	**121**	**143**	**171**
Depreciation	29	29	27
EBIT	**93**	**114**	**144**
Interest cost	21	17	14
Other Income	2	3	3
Profit Before Tax	**74**	**100**	**134**
Tax	26	35	40
Profit After Tax	**47**	**64**	**94**
E/o income / (Expense)	0	0	0
Net Profit	**47**	**64**	**94**

Cash Flow (Consolidated)

Y/E (Rs. Cr)	FY13	FY14	FY15
Net profit/loss before tax& extraordinary items	**74**	**100**	**134**
Net cashflow from operating activities	17	117	101
Net cash used in investing activities	(38)	(60)	(21)
Net cash used from financing activities	24	(32)	(88)
Net inc/dec in cash and cash equivalents	**4**	**25**	**(8)**

Key Ratios (Consolidated)

	FY13	FY14	FY15
EBITDA Margin (%)	18.6	20.0	19.4
EBIT Margin (%)	14.5	16.3	16.7
NPM (%)	7.3	9.0	10.7
ROCE (%)	17.4	19.0	22.8
ROE (%)	18.3	20.4	24.3
EPS (Rs.)	35.7	4.8	7.1
P/E (x)	7.2	10.5	25.3
BVPS(Rs.)	209.3	26.5	31.7
P/BVPS (x)	1.2	1.9	5.6
EV/EBITDA (x)	5.4	6.7	15.2

Financial performance snapshot

Net sales of the company stood at Rs. 881 Crores in FY15, a growth of 22.8% as compared to Rs. 717 Crores in FY14. The operating expenses of the company increased by 23.6% YoY to Rs. 709 Crores from Rs. 574 Crores during the year. The company's EBITDA grew by 19.7% YoY to Rs. 171 Crores in FY15 from Rs. 143 Crores in FY14. EBITDA margin contracted by 52 bps to 19.4% in FY15 from 20.0% in FY14. Net profit increased by 45.9% to Rs. 94 Crores in FY15 from Rs. 64 Crores in FY14. The NPM expanded by 169 bps to 10.7% from 9.0% during the above period.

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