Company Research Report

CCL Products India Ltd.

Stock Data

Industry	Information Technology
Market Cap (Rs.Mn)	18,072
CMP	Rs.135
1-Year Stock Return*	418%
1-Year BSE-Sensex*	38.3%
EPS(Annualised) (FY15E)	Rs.6.47
P/E (FY15E)	21

* (12/November/2013-12/November/2014)

Shareholding Pattern

Promoter Shareholding	44.54%
Public Shareholding	55.46%
FII	1.41%
DII	9.95%
Others	44.10%

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About the Company

CCL Products India Ltd. is India's largest manufacturer and exporter of instant coffee. The company was formed in the year 1994 and started commercial operations in 1995. The company specializes in import of green coffee into India and exports instant coffee all over the world with manufacturing plants in India, Switzerland and Vietnam.

Valuation

- The company had a debt of Rs.1349 million the end of FY 2013-14 and has a current market capitalization of Rs.18,072 million with a Price to Earnings multiple of 28 at Rs.135 per share.
- The Price to Book Value is 5 and the Market Capitalization to Sales ratio is 2.5.

Earnings Forecast

- The company is expected to post a CAGR of 20% in revenues from Rs.7168 million in FY 2013-14 to Rs.17,836 million in FY 2018-19.
- Earnings per share is forecast to grow at 29.43% CAGR over the next 5 years.
- The stock at Rs.135 is trading at 7.74x FY 2018-19 earnings and 4.44x FY 2018-19 EV/EBITDA multiple and given the growth expected in the five year time period it will get rerated to higher levels going forward.

The Company

CCL Products India Ltd. manufactures soluble instant coffee more commonly referred to as instant coffee or coffee powder. It is commercially prepared in solid form either by freeze drying or spray drying.

The company has already established its presence in the International markets in the traditional Spray-Dried Instant Coffee segment and has also made a successful entry in the Freeze- Dried Coffee segment. It has also started retail operations in India in the State of Andhra Pradesh and would go pan India in the next few years with its Continental Brand.

The Indian manufacturing plant in the State of Andhra Pradesh has a manufacturing capacity of 15000 Million Tonnes Per Annum (MTPA). The plant located in Switzerland has an annual capacity of 3000 Million Tonnes (MT) and the newly constructed plant in Vietnam that started operations in the current year has a capacity of 15000 MTPA. Vietnam plant has a capacity of 10000 MTPA for instant coffee production and 5000 MTPA for liquid coffee production.

Coffee conversion is a challenging business owing to the technology involved, geographical taste and complexity in blending. It needs rich experience as well as long relationships with customers. It takes 3-5 years to break into a new client and establish credentials, which play as crucial entry barriers in the industry. The company is already established in this field with a rich and varied experience.

Company's domestic business is mainly into 3 segments: 1) In-house brand (Continental). 2) Private label sales majority through tie ups with modern trade. 3) Industrial sales primarily to ice cream manufacturers and coffee shops.

Investment Rationale

Global coffee consumption is growing at 1-2% primarily driven by emerging countries. US and European Union contribute 50% to global consumption, followed by Brazil (14%), Japan (5%) and Russia (3%). Vietnam and India's consumption have clocked CAGR of 12% and 5.6% over FY01-13, respectively.

Global coffee production is registering CAGR of 4% with Brazil, Vietnam, Colombia, Indonesia, Ethiopia and India constituting 75% to global production. Vietnam and India contribute 20% and 4% to global coffee production, respectively.

The demand and supply scenario for Instant Coffee looks very favourable and is expected to benefit CCL Products India Ltd. as the company has built in capacity to the tune of 15000 MTPA in India and Vietnam each along with a 3000 MTPA plant in Switzerland. Globally the demand for Instant Coffee is expected to be ahead of the production in the near future and an export oriented company like CCL Products would reap significant benefits in the next 4 years.

The company is expected to spend on capital expenditure only when it reaches an overall capacity utilisation of 80% to 90% which they are expected to reach by 2018. Also the company is expected to reduce its debt over a period of next 4 years which sounds positive for the profitability and margins are expected to increase in the time to come.

Once the company is able to achieve economies of scale the operational cash flows would rise to generate free cash flows in the coming years. Also 100% tax exemption for the next few years for the Vietnam plant scores well for the profitability in the near future.

Company's back-to-back pacts for final products and raw materials insulate it from fluctuating global coffee prices. The company operates on fixed margins without carrying the risk of coffee price volatility. Margins have been consistent over the years despite volatility in coffee prices.

The higher than average industry growth rate due to start of operations from the new plant in Vietnam coupled with the entry in the retail market in India is likely to propel the revenues and profitability in the next 5 years for CCL Products India Ltd.

Near Term Risks to the Stock

The growth in the revenues and profitability depends on the demand for instant coffee internationally and domestically for the company. Overcapacity in the production of instant coffee due to competition from all global players may hamper prospects and hence is a risk for the company. Any depreciation or appreciation in the value of USD/INR can have significant effect on the earnings of the company.

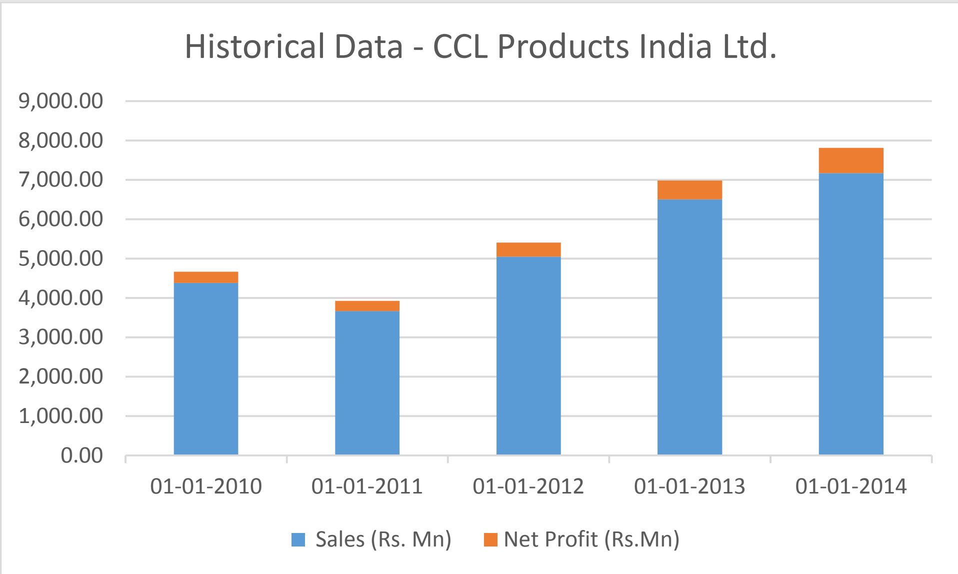
Unfavourable change in duty rates in any country could impact the competitiveness of supply from Vietnam/India.

Company's Swiss plant is operating at sub-optimal utilisation level because of non-competitive pricing of supplies from Switzerland to the EU. Import duty levied by the EU on Swiss coffee is 9.0%, whereas only 3.3% is charged on coffee supplies from India.

Financials

The Company reported Sales of Rs.7168 million with an EBITDA of Rs.1431 million and a net profit of Rs.644 million in FY 2013-14. The EBITDA margin was 19.96% and the net profit margin was 8.99% for FY 2013-14. The company reported a net profit of Rs.261 million with revenues of Rs.2472 million for the quarter ended September 2014. The Earnings per share was reported at Rs.1.96 and the Return on Capital Employed (RoCE) was reported at 18% and the Return on Equity at 20.5% for FY 2013-14. The company has shown a CAGR of 13.09% in revenues and the net profit has grown at a CAGR of 23% from FY 2009-10 to FY 2013-14.

Export and domestic revenues contributed 93% and 7% respectively to the total revenues of the company in the FY 2013-14.

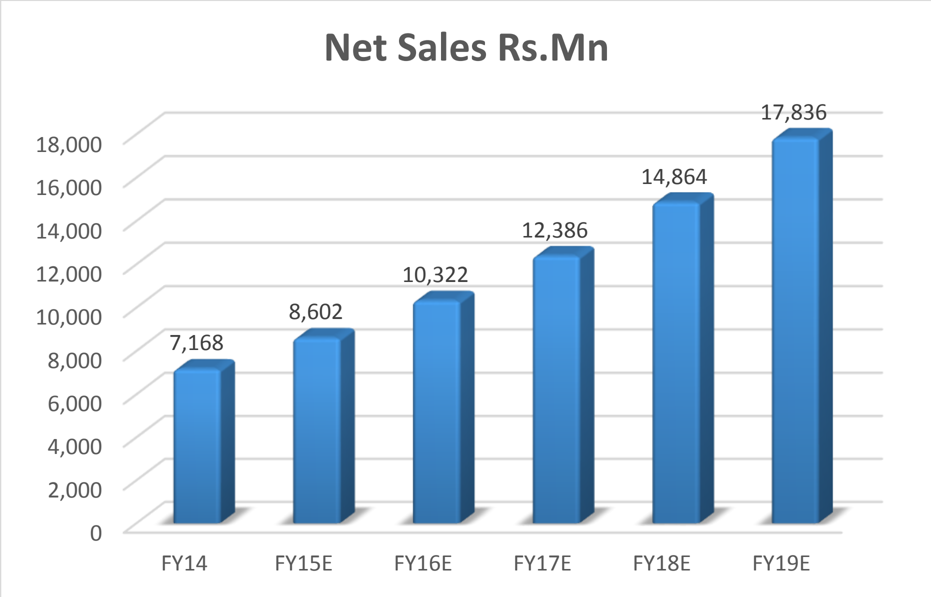


Debt and Valuation

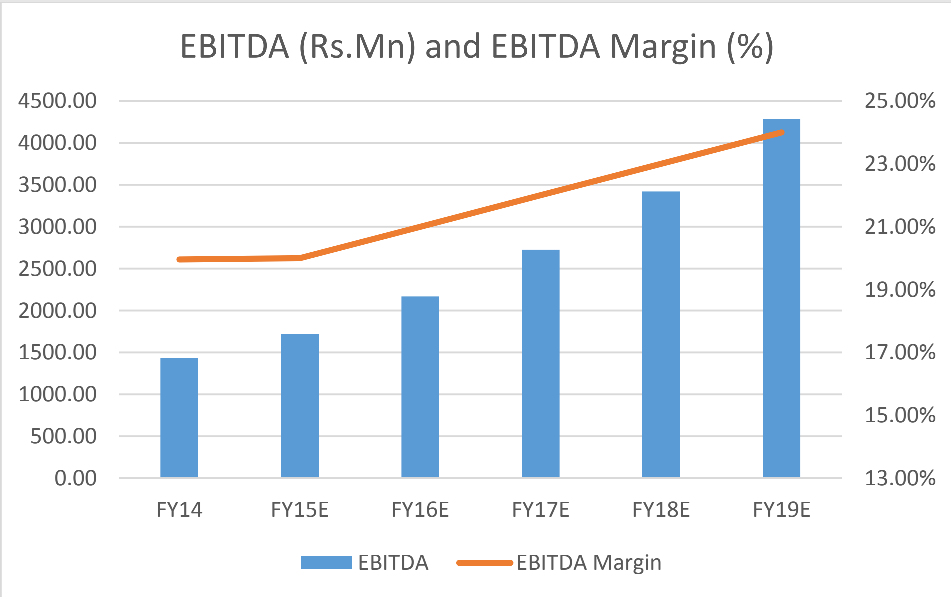
The company had a debt of Rs.1349 million the end of FY 2013-14 and has a current market capitalization of Rs.18072 million with a Price to Earnings multiple of 28 at Rs.135 per share. For the year ended March 2014 the company has declared a dividend of 60% amounting to Rs.1.2 per share for a face value of Rs.2 per share. At the current market price of Rs.135 this results in a dividend yield of 0.88%. The Promoters have a shareholding of 44.54% and the FIIs have a shareholding of 1.41% in the company.

Five Year Financials

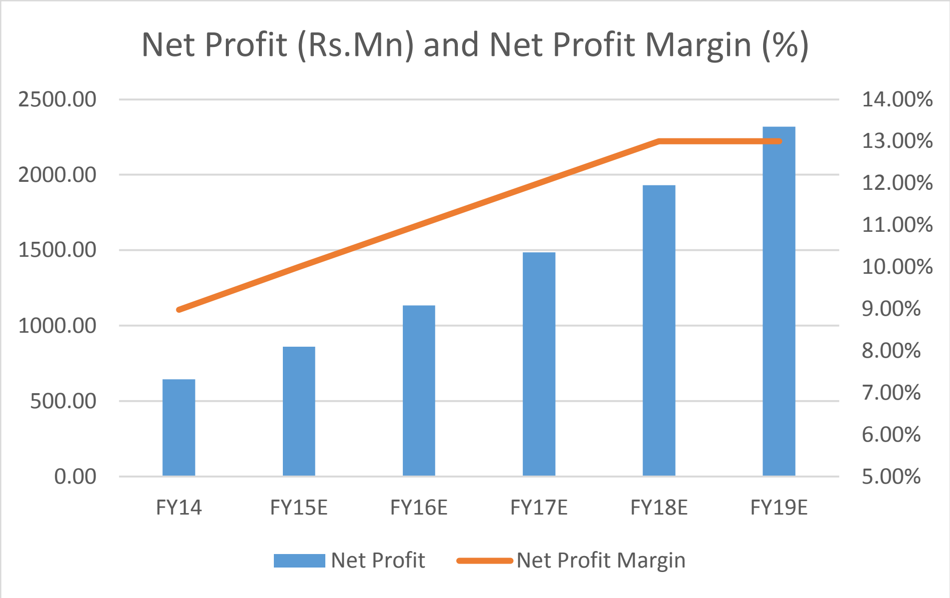
The company is expected to post a CAGR of 20% in revenues from Rs.7168 million in FY 2013-14 to Rs.17836 million in FY 2018-19. Earnings per share is forecast to grow at 29.43% CAGR over the next 5 years.



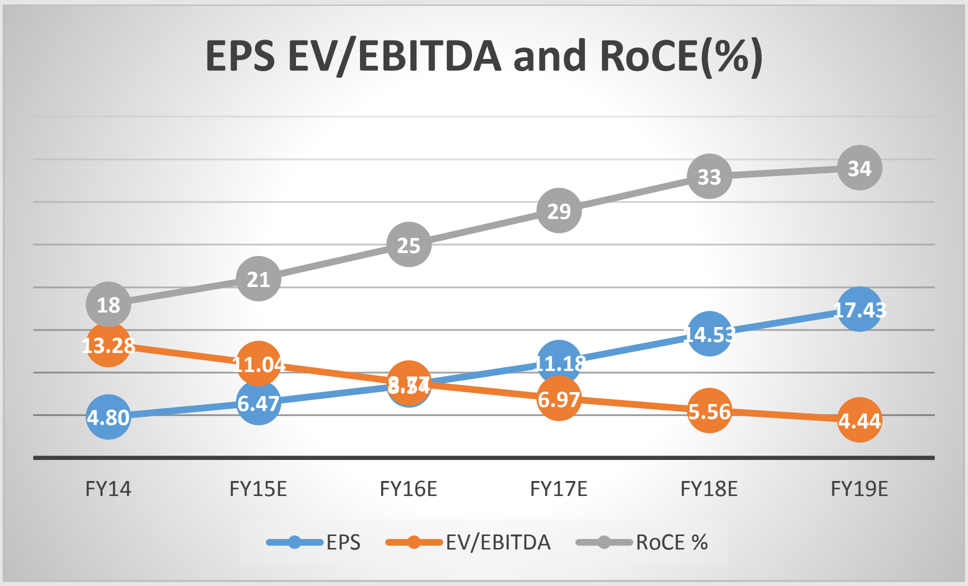
The EBITDA is expected to grow at 24.5% CAGR from FY 2013-14 to FY 2018-19. The EBITDA margin is expected to improve to 24% from 19.96% for the period under consideration from FY 2013-14 to FY 2018-19. EBITDA margin is expected to improve on account of increasing capacity utilisation which would reduce operating costs per unit of product and help achieve economies of scale. Higher operating profits are expected to show rise in operating cash flows in the time period under consideration.



The Net Profit margin is expected to improve from 8.98% in FY 2013-14 to 13% in FY 2018-19. Net profit margin is expected to improve due to expected reduction in the debt of the company. Lower interest costs would result in margin expansion in the time to come.



The stock at Rs.135 is trading at 7.74x FY 2018-19 earnings and 4.44x FY 2018-19 EV/EBITDA multiple and given the growth expected in the five year time period it will get rerated to higher levels going forward. Even though the valuations do not appear cheap for this particular stock the rate at which the earnings are expected to grow in the next 5 years would make it look inexpensive in the current scenario.



Peer Comparison

Nestle and Hindustan Unilever dominate the Indian instant coffee market with 34% and 31% shares, respectively. CCL Products India Ltd. has a market share of 10% and 36% in India's overall and instant coffee exports, respectively. CCL is India's largest private label instant coffee company, supplying to premium brands in more than 60 countries. CCL competes with Nestle's brand Nescafe in the instant coffee market.

Nestle manufactures and sells only spray dried coffee in India. It does not have manufacturing capacities for freeze dried instant coffee. CCL has a wider portfolio comprising premium freeze dried coffee, pure vanilla coffee products and the company has been manufacturing value-added coffees like single filter, double filter, freeze dried at a much lower cost. Hence, it is able to offer wide product portfolio at prices lower than competitors.

Competition from major players is intense but CCL Products India Ltd. can benefit from the low cost of instant Coffee production in comparison to its peers. The pricing of products along with high quality in the domestic and international markets would drive growth for this company.

One year relative performance to Sensex

CCL Products India Ltd. has outperformed the Sensex with a 380% margin as the stock has delivered 418% returns in the last one year compared to the Sensex return of 38% in the same time period. The stock shows gross outperformance for the time period under consideration with the BSE Sensex.

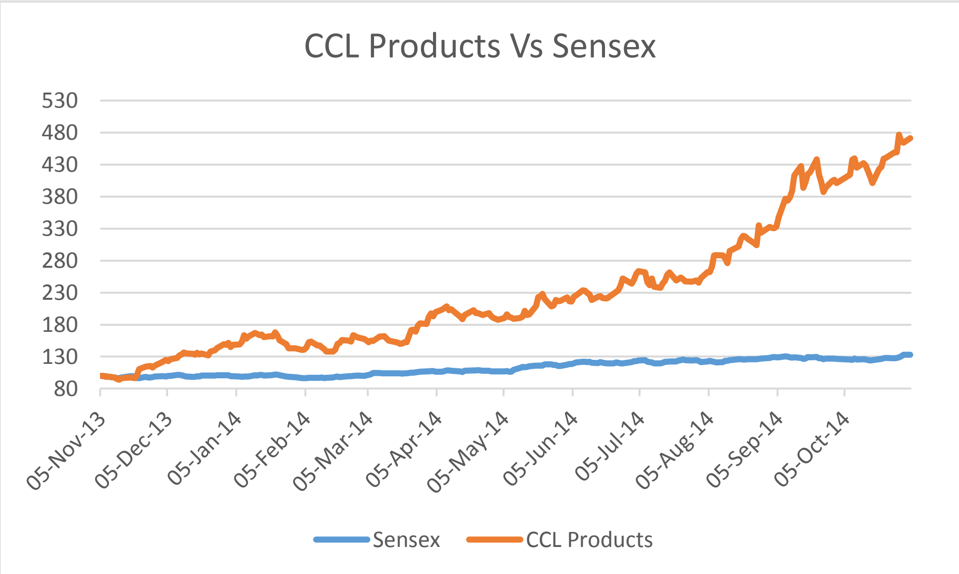


Table 1. CCL Products India Ltd Financials FY14

INR Million	Q2FY15	Q1FY15	Q-o-Q %Growth	FY15E	FY14	Y-o-Y %Growth
Net Sales	2,472	1,756	40.79%	8,602	7,168	20.01%
EBITDA	484.17	360	34.64%	1,720	1,431	20.20%
EBITDA Margin	19.58%	20.48%	-90	20.00%	19.96%	4
Net Profit	261	202	29.32%	860	644	33.54%
Net Profit Margin	10.57%	11.51%	-93.77	10.00%	8.98%	102
EPS	1.96	1.52	28.95%	6.47	4.8	34.79%

(Source: Company, Own Estimates)

Table 2. Ratios & Valuations

	FY19E	FY18E	FY17E	FY16E	FY15E	FY14	CAGR
Total Debt to Equity	0.10	0.20	0.30	0.40	0.60	0.81	
RoCE(%)	34.00%	33.00%	29.00%	25.00%	21.00%	18.00%	
EPS	17.43	14.53	11.18	8.54	6.47	4.8	29.43%
P/E	7.74	9.29	12.08	15.81	20.87	28.13	
EV/EBITDA	4.44	5.56	6.97	8.77	11.04	13.28	

(Source: Company, Own Estimates)

Table 3. CCL Products India Ltd. Financial FY18E

INR Million	FY19E	FY18E	FY17E	FY16E	FY15E	FY14	CAGR
Net Sales	17,836	14,864	12,386	10,322	8,602	7,168	20.00%
EBITDA	4,281	3,419	2,725	2,168	1,720	1,431	24.50%
EBITDA Margin	24.00%	23.00%	22.00%	21.00%	20.00%	19.96%	
Net Profit	2,319	1,932	1,486	1,135	860	644	29.20%
Net Profit Margin	13.00%	13.00%	12.00%	11.00%	10.00%	8.98%	
EPS	17.43	14.53	11.18	8.54	6.47	4.80	29.43%
P/E	7.74	9.29	12.08	15.81	20.87	28.13	

(Source: Company, Own Estimates)

Table 4. Cash Flow Estimates CCL Products India Ltd.

INR Million	FY19E	FY18E	FY17E	FY16E	FY15E	FY14
Cash Flow from Operation	3,100	2,500	2,000	1,600	1,300	1,250
Cash Flow from Investing	-300	-300	-250	-250	-300	-583
Cash Flow from Financing	-1000	-1200	-1600	-1200	-680	-415
Net Cash Flow	1800	1000	150	150	320	252

(Source: Company, Own Estimates)