CCL Products (India) Limited

9th September 2024

World's Largest Private Label Instant Coffee Manufacturer

CCL Products (India) Ltd (CCL) ranks as India's largest manufacturer and exporter of instant coffee, as well as the world's largest private label instant coffee manufacturer. The Company specializes in a diverse range of coffee products. CCL operates four manufacturing units with a total capacity of ~60,000 MTPA for Spray dried coffee (SDC) and ~11,000 MTPA for Freeze dried coffee (FDC). CCL leverages advanced technology to create more than 900 coffee blends, serving private label customers in over 100 countries. The Company is also focusing on expanding its branded business through its Continental brand, which offers a diverse range of in-house coffee products. These products are distributed through various channels, including retail stores, supermarkets, hotels, airlines, vending machines, etc. enhancing CCL's global reach and market penetration. We believe CCL will continue to witness 15% volume growth in future, along with improvement in margins due to increasing contribution of high margin products like freeze dried coffee, premium value-added products and branded business.

Capacity expansion

Over the past two years, CCL has undertaken a major capacity expansion initiative, and has increased its production capacity by 80%+, from 38,500 TPA in FY22 to 71,000 TPA in FY24. By FY25, the Company plans to add another 6,000 TPA taking its total capacity to 77,000 TPA. These expansions are driven by strong client demand, positioning CCL to seize emerging market opportunities and support growth in the coming years.

Robust growth driven by expanding B2C segment

CCL Products is strategically expanding its B2C branded coffee addressable market, both domestically and globally. In India, the Company has strengthened its presence in the South Indian market and is broadening its distribution network by increasing retail outlet coverage, expanding e-commerce channels, and establishing vending machines, cafes, and kiosks. Internationally, CCL enhanced its footprint by acquiring Löfbergs Group coffee brands and launching products in several countries. In FY24, the branded business generated Rs. 2,100 Mn in revenue, accounting for 8% of total revenue, with a target to achieve 30-40% topline growth and increase branded revenue to 50% of total revenue by 2030.

View & Valuation

Considering CCL's dominant position in the instant coffee market and the Company's focus on branded business, we expect the business to grow volume by 15% in the next three years. Further, we anticipate improved margins as the volume contribution of freeze-dried, branded business, and smaller packs increases in the volume mix. In light of these factors, we are initiating coverage on CCL with a BUY rating, valuing the business at 21x EV/ EBITDA on FY27E to arrive at an upside of 60.7%.

BUY

CMP Rs. 760

TARGET Rs. 1,221 (+60.7%)

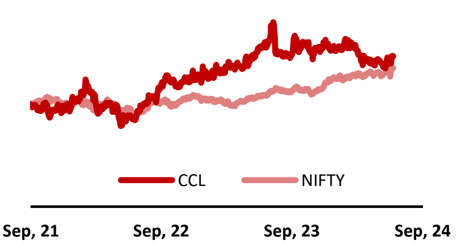
Company Data

Bloomberg Code	CCLP IN
MCAP (Rs. Mn)	101,440
O/S Shares (Mn)	134
52w High/Low	854/ 551
Face Value (in Rs.)	2
Liquidity (3M) (Rs. Mn)	179.03

Shareholding Pattern %

	Jun-24	Mar-24	Dec-23
Promoters	46.1	46.3	46.3
FIIs	9.8	8.1	7.8
DIIs	20.6	21.7	21.4
Non-Institutional	23.6	23.9	24.5

CCL vs Nifty



Source: Keynote Capitals Ltd.

Key Financial Data

(Rs Mn)	FY24	FY25E	FY26E
Revenue	26,537	30,518	35,095
EBITDA	4,453	5,498	6,743
Net Profit	2,656	3,243	4,115
Total Assets	35,387	40,044	43,641
ROCE (%)	11%	12%	14%
ROE (%)	16%	18%	20%

Source: Company, Keynote Capitals Ltd.

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Coffee Industry

With over 2.25 Bn cups consumed worldwide on a daily basis, coffee ranks as the second most traded commodity worldwide. The sector is not only large but also exhibits continuous growth in both local currency values and volumes, making it an attractive category for investors. Additionally, coffee consumption tends to remain steady even during economic downturns, highlighting its resilience.

Coffee Berry

An Introduction to the Fundamentals of Coffee

Coffee is sourced from the coffee plant (Coffee Berry). These berries contains green coffee beans.

There are two primary types of coffee beans: Arabica and Robusta.

Source: Keynote Capitals Ltd.

Once the coffee beans are harvested and processed, they are roasted to develop their flavor, aroma, and color. Roasting involves heating the beans to temperatures between 180°C and 250°C for 7 to 20 minutes. The degree of roasting affects the flavor and aroma of the coffee. Light roasts are light brown in color, retain most of the original bean flavors, and have higher acidity. Medium roasts are medium brown in color, have a balanced flavor, and moderate acidity. Dark roasts range from dark brown to black, have a robust and full-bodied flavor, and lower acidity. Each roast level offers its own unique flavors and aromas, catering to different taste preferences.

Source: Keynote Capitals Ltd.

After roasting, the coffee beans are grounded to the appropriate size for the brewing method to be used. The grind size can range from extra fine for Turkish coffee to coarse for French press. The ground coffee can then be used in traditional brewing methods or processed into instant coffee.

Source: Keynote Capitals Ltd.

Instant coffee is made from grounded coffee that is brewed and further processed to create a soluble powder. There are two primary methods for this: freeze-drying and spray-drying.

Freeze Dried Instant Coffee

Freeze-dried coffee is a type of instant coffee made by freezing brewed coffee and then removing the ice through sublimation.

This method retains more of the original coffee flavour but is more expensive due to complex process

High margin business

Less widely used

Spray Dried Instant Coffee

Another form of instant coffee where brewed coffee is sprayed into a hot chamber, causing the water to evaporate and leaving behind coffee granules.

This method may lose flavour complexity but is cheaper to produce

Relatively low margin business

Widely used

Source: Company, Keynote Capitals Ltd.

Global Coffee Industry

The global retail coffee market was estimated at $106 Bn in 2023 and has grown at 2.8% in last 5 years. The coffee market is split between the Roast & Ground (R&G) segment and the Instant Coffee Segment. The R&G segment is a much bigger segment, contributing ~68%, and instant coffee represents ~32% of the industry value.

Below is a geographic breakup of coffee market.

Global Coffee Sales based on Geographic Segmentation		
	2023	2022(1)
Asia Pacific	26.1%	25.6%
Western Europe	22.3%	22.7%
Latin America	19.9%	19.8%
North America	13.4%	13.8%
Middle East and Africa	9.0%	8.9%
Eastern Europe	8.3%	8.4%
(1) Figures for 2022 were adjusted for Euromonitor’s updated calculations		

Source: Strauss AR CY23, Keynote Capitals Ltd.

Region-wise, European countries are the largest consumer of instant coffee, followed by Russia, the US, Japan and Asian countries. However, coffee consumption in developed regions is growing at slower pace compared to Asia Pacific regions. This is largely due to the rising population, favorable youth generation, rising café cultures, increasing affordability, etc.

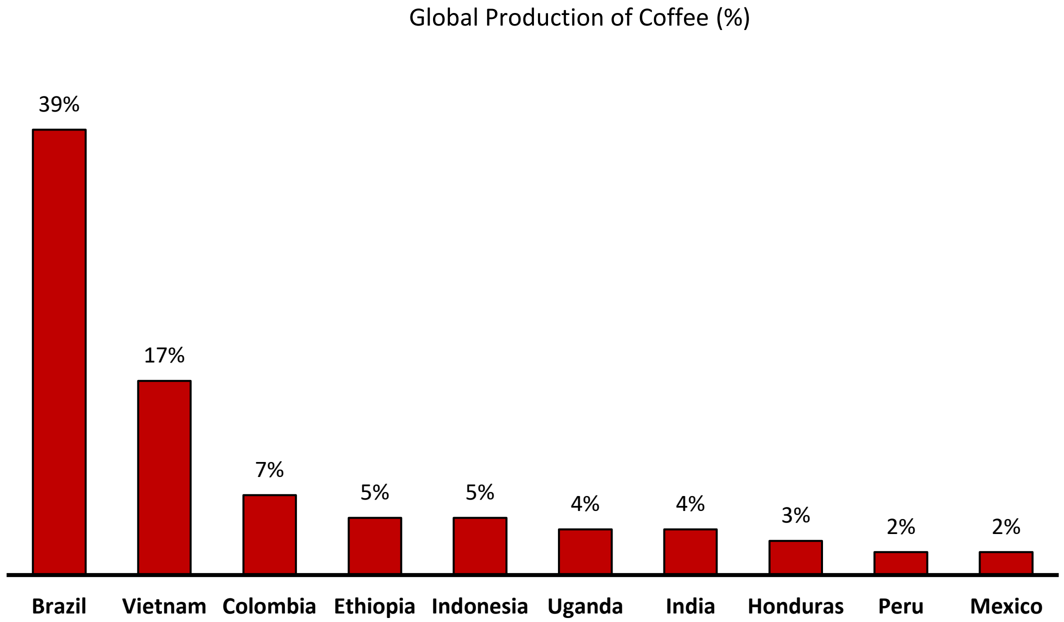
Global Retail Segment - 2023		
	Roast & Ground (R&G) Segment [1]	Instant Coffee Segment
Percentage of global coffee market in value terms	68.3%	31.7%
Percentage of global coffee market in volume terms	72.2%	27.8%
Sales value	USD 73 Bn	USD 33.9 Bn
Sales volumes	4.3 Mn tons	1.7 Mn tons
CAGR in value terms from 2018-2023	3.6%	1.2%
CAGR in volume terms from 2018-2023	1.0%	0.7%
(1) Including fresh coffee beans, ground coffee beans and capsules, and excluding cafés.		

Source: Strauss AR CY23, Keynote Capitals Ltd.

Raw Material Sourcing

The main ingredient for producing instant coffee is green coffee beans. On average, it takes ~1.6 kilograms of green coffee beans to produce one kilogram of instant coffee, indicating a conversion ratio of 1.6:1.

The global production of green coffee is primarily composed of Arabica beans (60%) and Robusta beans (40%). Brazil, Colombia, and Ethiopia are the top producers of Arabica green coffee, while Vietnam, Brazil, and Indonesia lead in Robusta green coffee production. Green coffee, being a globally traded commodity, has transparent pricing similar to other commodities. Its price is influenced by factors such as weather conditions, trade restrictions, demand, and broader economic conditions.



Please note that the rest 12% is contributed from other countries
Source: worldpopulationreview.com, Keynote Capitals Ltd.

Coffee Consumption Trend

Globally, instant coffee consumption is on the rise. Instant coffee companies target younger consumers with relatively less income. Factors driving the coffee consumption culture are trends of premiumisation of food and beverage consumption (also expressed in wine, beer, cheese, and other categories) and continuous growth of high-end café chains. If, formerly, coffee consumers habitually drank one type of coffee, there is now a trend of product diversification as consumers vary between several kinds of coffee (R&G, instant, espresso), sometimes even on the same day.

Despite the dominance of fresh coffee (roast & ground) in the coffee industry, instant coffee is gradually becoming popular all over the world due to the following reasons:

- Convenience and quick preparation
- Affordability
- Long Shelf Life.
- Preference of younger generation towards ready-to-drink categories.
- Accessibility

With the evolving coffee culture, consumers are evaluating a lot of gourmet coffee and are open for more coffee experiences while trying different formats of coffee. Quick delivery model from key ecommerce players have helped in penetration of coffee as consumer can order coffee whenever and whatever they want to consume at the comfort of home. However, coffee is a personal product, and consumers usually do not change a particular coffee brand once they are used to it, this stickiness is a significant barrier for new entrants in the market.

One notable trend in the coffee market is the growing demand for specialty coffee. Consumers are seeking unique and high-quality coffee experiences, exploring different flavour profiles, and appreciating the artistry and craftsmanship involved in coffee production.

"Specialty coffee are unique high quality coffee experiences such as instant format, pour over format, cold brews, functional coffees, flavoured coffees, etc."

Also, coffee brewing methods continue to evolve, offering consumers diverse and personalized coffee experiences. Alternative brewing methods like cold brew, capsule coffee, and AeroPress have gained popularity. These methods allow coffee lovers to experiment with different brewing techniques, extraction times, and flavour profiles, enhancing their overall coffee enjoyment.

Another significant trend in the coffee market is the increasing emphasis on sustainability and ethical sourcing. Consumers are becoming more conscious of the environmental and social impact of coffee production. They seek out brands that prioritize fair trade practices, promote sustainable farming methods, and support the livelihoods of coffee farmers.

The coffee market is expected to continue its upward trend, driven by factors such as expanding coffee consumption in emerging markets, premiumization, and the rising demand of organic and fairly traded products.

Indian Coffee Market

India's total instant coffee market stands at Rs. 60 Bn, with 70% of that market in South India. The Indian market is expected to grow ~10%. Over the years, Nestle and HUL have dominated the market with a combined market share of more than 90% with their famous retail brands, Nescafe and BRU, respectively.

India's coffee market is evolving rapidly, driven by a shift in consumer preferences and the rise of café culture. Traditionally a tea-drinking nation, India is seeing increasing coffee consumption, particularly among the younger generation in urban areas. This growth is fueled by the popularity of specialty coffee, the proliferation of branded cafes like Café Coffee Day and Starbucks, and the influence of Western lifestyles. Despite the market's expansion, challenges remain, including limited geographical penetration beyond urban centers and South India, and the need to cultivate a habit of coffee consumption among rural populations. Brands are innovating with packaged products like sachets to tap into these markets. As disposable incomes rise and lifestyles change, the demand for premium and artisanal coffee products is expected to continue driving the market's growth.

About CCL Products (India) Limited

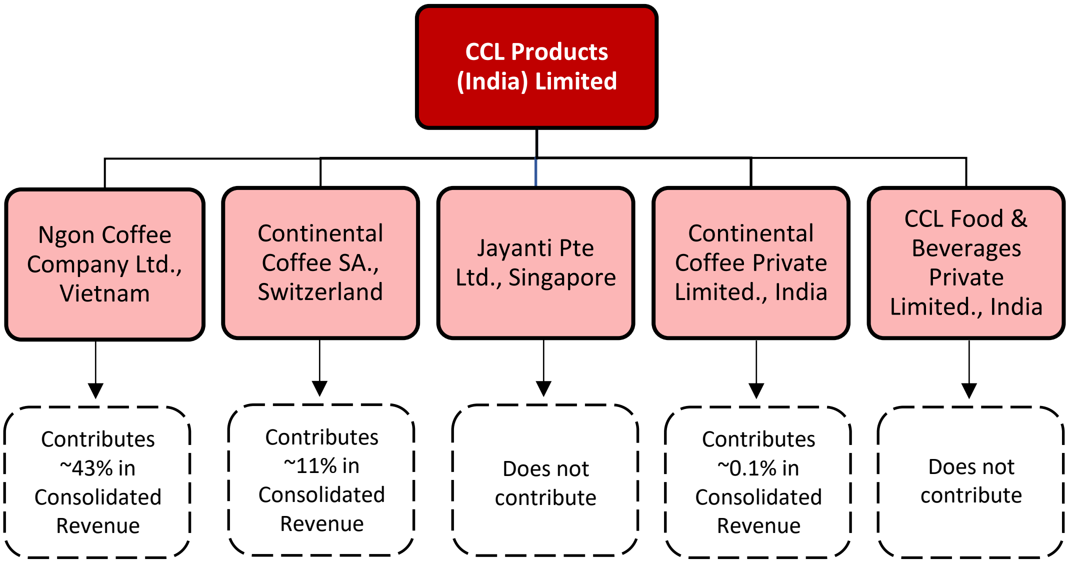
CCL Products (India) Limited, founded in 1994, is India's largest manufacturer and exporter of instant coffee, as well as the world's largest private label instant coffee manufacturer. The Company specializes in converting raw coffee beans into instant coffee granules and powder.

The Company has adapted Swiss and Brazilian technology from renowned pioneers in turnkey instant and soluble coffee technology at its plants, enabling it to produce world-class soluble coffee that is currently being exported to more than 100 countries. With a mixture of the finest blends and expertise in creating 900+ blends, CCL Products is positioned to cater for the diverse needs of private-label customers globally. CCL Products operates four manufacturing units located in Andhra Pradesh (2), Vietnam (1), and Switzerland (1), with a combined installed capacity of ~60,000 TPA of spray-dried coffee (SDC) and ~11,000 TPA of freeze-dried coffee (FDC). Further expansion plans include the addition of 6,000 TPA of freeze-dried capacity in Vietnam by the end of FY25, which will take the overall expected capacity to ~77,000 TPA by FY25.

"Advanced Swiss and Brazilian technology enables CCL to produce premium quality of soluble coffee even from low-grade coffee beans"

In addition to its B2B business (private label), CCL Products offers a range of in-house coffee products through its own B2C brand, Continental Coffee having ~3.5% market share in overall Indian retail coffee market.

Corporate Structure

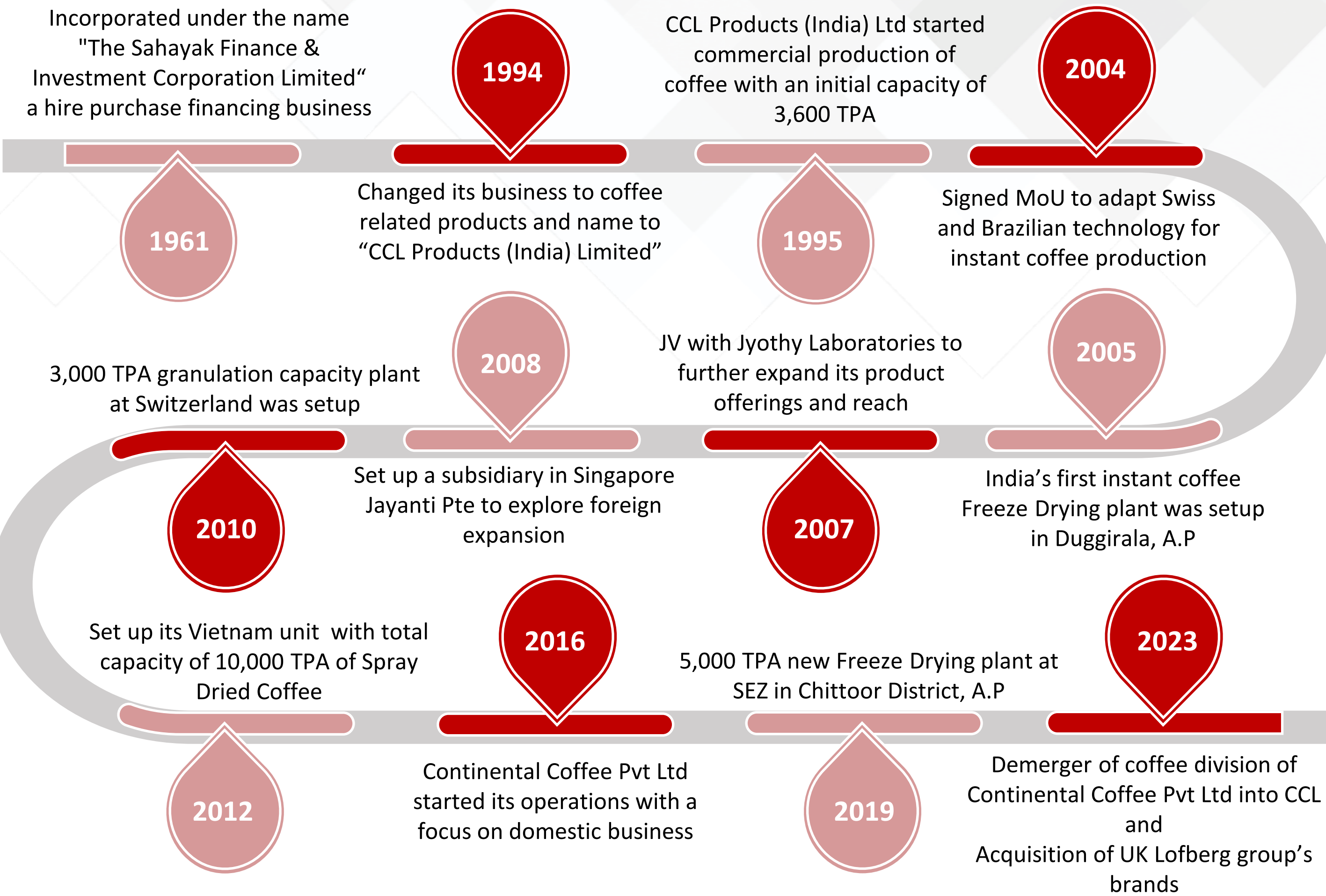


Note – All subsidiaries are Wholly-owned Subsidiaries, Data as of FY24

Source: Company, Keynote Capitals Ltd.

Ngon Coffee Company Ltd. in Vietnam manufactures spray-dried and freeze-dried coffee with a combined capacity of 30,000 TPA, significantly contributing to CCL Products Ltd.'s profitability and revenue. Continental Coffee SA in Switzerland specializes in the agglomeration and packaging of instant coffee, with a capacity of 3,000 TPA, enhancing CCL's presence in the European coffee market. Continental Coffee Private Limited after the demerger of coffee division is focusing on expanding its F&B division. i.e., retails distribution through cafes and kiosks.

Timeline



Source: Company, Keynote Capitals Ltd.

Key product categories of CCL

CCL Products offers a diverse range of key product categories, including soluble instant spray-dried coffee powder, spray-dried agglomerated and granulated coffee, freeze-dried coffee, roasted coffee, roast and ground coffee, and freeze-concentrated liquid coffee.

Source: Company, Keynote Capitals Ltd.

Decoding business model of CCL Products

Business Model of CCL

B2B
Revenue Share: ~92%*

B2C
Revenue Share: ~8%*

** Revenue for FY24 is Rs. 26,540 Mn*

Source: Company, Keynote Capitals Ltd.

B2B Model

CCL is a largest global player in the B2B instant coffee market, supplying to renowned brands in 100+ countries, making it the largest private label manufacturer worldwide. ~92% of its total revenue is derived from B2B operations, with a significant focus on exports. Within the B2B business model, in FY24, 95% of the revenue was derived from the export market and the rest from the domestic market.

Under private labelling, the Company operates as a contract manufacturer, producing a wide range of products such as spray-dried coffee powder and granules, freeze-dried coffee, roasted coffee beans, and premix coffee and tea. With a portfolio of over 900 finest-quality coffee blends, CCL customizes its products to suit the diverse needs and palates of its B2B customers worldwide.

Major global coffee players

Supermarket's own coffee brands

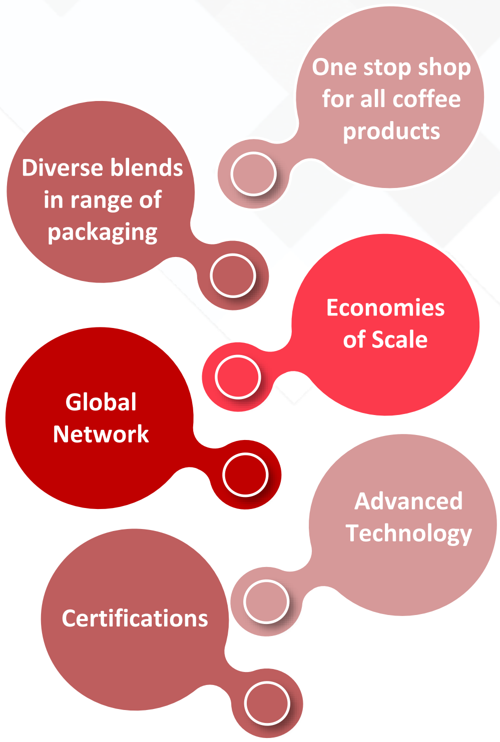
Source: Company, Keynote Capitals Ltd.

Why Big players select CCL as their private labeler / Resilient B2B Business model

With extensive experience and substantial investments in R&D, CCL **specializes in manufacturing over 900 coffee blends**, ensuring consistent flavor and quality tailored to client specifications. They offer a **variety of packaging options**, from small packs to bulk containers, based on customer needs.

CCL exports its processed coffee to over 100 countries, providing brands with a **robust supply chain** that can support international distribution.

Holds **certifications** such as IFS, BRC Version 7, kosher, Halal, Organic, Rainforest, UTZ, etc. ensuring that their coffee products **meet rigorous international standards.**

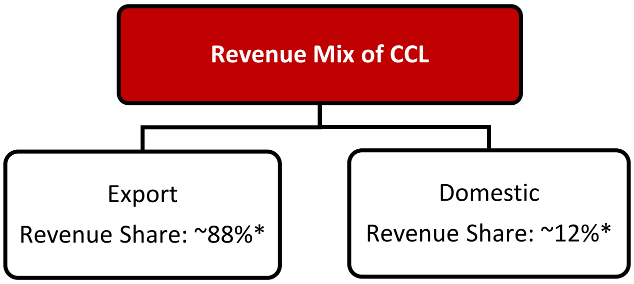


Product portfolio includes roasted coffee, roast & ground coffee, soluble instant spray dried coffee powder, spray dried agglomerated & granulated coffee, freeze dried coffee, freeze concentrated liquid coffee, etc.

Being one of the largest instant coffee producers globally, CCL. **benefits from cost and efficiency advantages**, which it passes on to customers through a cost-plus pricing mode.

CCL operates one of the largest single-location instant coffee plants globally, equipped with advanced imported technology. This access allows brands to benefit from **high-quality production methods** without having to invest in such facilities themselves.

Export market penetration



** Revenue for FY24 is Rs. 26,540 Mn*

Source: Keynote Capitals Ltd.

CCL generates ~88% of its total revenue from exports, focusing exclusively on its B2B private labeling business. The Company has a robust global footprint, exporting to over 100 countries. CCL's revenue distribution is geographically diverse, with the following breakdown: Commonwealth of Independent States (CIS) countries (20-25%), Europe (12-15%), North America (12-14%), the Middle East and Africa (5-10%), and the remainder from Asia.

Expansion in Europe

To expand its presence in European market, CCL has acquired Löfbergs Group coffee brands in June 2023 and is re-launching its products in UK. UK retail coffee market is more through modern retail stores, thus the acquisition will enable CCL to gain access to major supermarket chains in the UK. Further, to drive growth, CCL is engaging in social and localized awareness building initiatives and introducing new products such as coffee bags.

Expansion in North America and China

CCL is strategically expanding its operations in North America, particularly in the U.S. The Company is actively developing new business opportunities and establishing relationships with potential clients through local associates. This business development is ongoing at decent pace, contributing to steady growth in the region.

In Asia, CCL is making significant efforts to penetrate the Chinese market. Although its current revenue share from China is minimal, the Company is in the "seeding phase," engaging in discussions with potential clients and partners. CCL anticipates that these efforts will soon translate into increased sales volumes.

B2C Model

The Company has also entered into B2C segment in 2016, focusing on branded consumer coffee products through its brand ‘Continental Coffee’. In FY24, B2C model generates Rs. 2100 Mn in revenue (~8% of total revenue).

Demerger of Continental Coffee Private Limited Coffee division into CCL

In 2016, Continental Coffee Private Limited, a wholly-owned subsidiary of CCL Products (India) Limited, launched operations with two divisions: Coffee (marketing and distribution of coffee and FMCG products under Continental brand to direct consumers) and Food and Beverage Kiosks (F&B division). In FY23, a Scheme of Arrangement was initiated to demerge the Coffee Division into CCL, effective October 1, 2022. The NCLT approved this demerger on October 19, 2023.

The demerger allows CCL to focus exclusively on its B2C coffee business, enhancing its brand presence in the consumer market. It enables greater economies of scale and efficient resource utilization. By bringing the Continental brand under the parent Company, CCL can leverage its strengths more effectively to drive growth in B2C segment.

Continental brand

CCL operates in the B2C segment through its Continental Coffee brand, offering a diverse range of instant coffee and roast & ground coffee under different sub-brands.

Continental brand’s new innovative launches are flavored premix coffee and roast & ground coffee in pour over format. Continental Coffee also provides various packaging options, including small sachets, pouches, cans, and jars, to meet different customer needs.

Type of Coffee	Brands under Continental	Blends and description
Instant Coffee	Continental Speciale	Spray dried coffee, instant south blend with 100% pure coffee
	Continental Xtra	Spray dried coffee, Coffee blend with Chicory -70% Chicory 30%
	Continental Premium	Freeze dried, available in decaf and cold brew
Roast & ground coffee	Continental Malgudi	Fresh Filter coffee in blend of coffee and chicory, blend of Robusta and Arabica beans
	Pour over format	New launch – Single use coffee bag with pull-out handles
Premix	Continental THIS	Multiple flavours – Creamy, Cappuccino, Hazelnut, Caramel, Mocha, Turmeric latte

Source: Company, Keynote Capitals Ltd.

Continental Premium Freeze Dried
SKU : 100gm/200gm Jar

Continental Premium Freeze Dried Decaf
SKU : 100gm/200gm Jar

Continental Premium Freeze Dried Cold Brew
SKU : 100gm/200gm Jar

Continental Malgudi Coffee -60% Chicory 40%
SKU : 50gm, 100gm, 200gm

Continental Malgudi Coffee -80% Chicory 20%
SKU : 50gm, 100gm, 200gm

Continental Xtra Coffee -70% Chicory 30%
SKU : 50gm, 100gm, 200gm

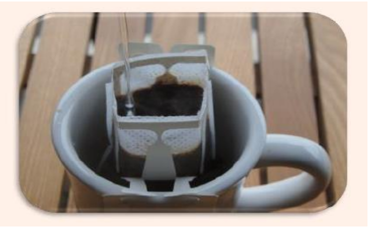
Continental Speciale Coffee -100%
SKU : 50gm, 100gm, 200gm

THIS CAPPUCCINO 3 in 1 premix
SKU : 22gm Sachet
Pack of 6

THIS HAZELNUT 3 in 1 premix
SKU : 22gm Sachet
Pack of 6

THIS CARAMEL 3 in 1 premix
SKU : 22gm Sachet
Pack of 6

THIS MOCHA 3 in 1 premix
SKU : 22gm Sachet
Pack of 6

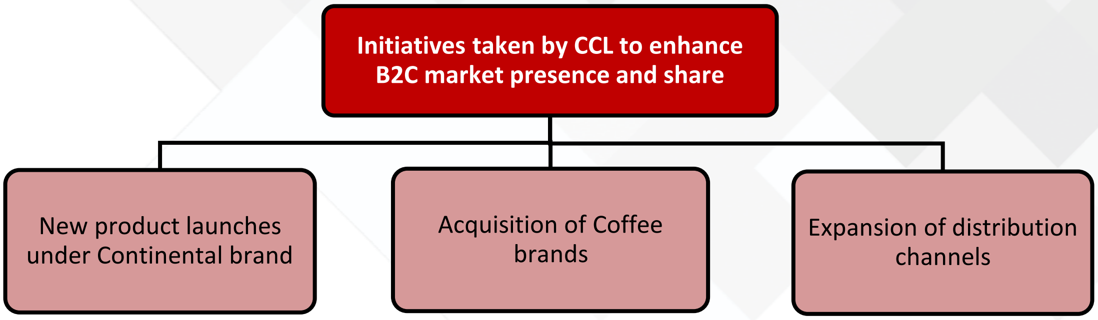


New Product – Roast and Ground Coffee in a Pour Over format

Source: Company, Keynote Capitals Ltd.

CCL, historically a B2B-focused Company with predominant revenue from that segment, is increasing focus to scale its B2C business through the Continental Coffee brand in India and globally. The Company aims to grow B2C volumes sustainably, transitioning to become more consumer-oriented. Continental Coffee initially launched in South India, a major coffee market, and has since expanded to other cities across the country. While maintaining a strong presence and recognition as the 3rd largest brand in South India retail outlets, CCL is now increasing visibility in the North, East, and West regions to establish a pan-India footprint for its branded consumer business.

Continental Coffee, holds ~3.5% market share in the overall Indian retail coffee market. However, its presence is stronger in specific southern regions, with market shares of ~8-10% in Andhra Pradesh and Telangana, 5-6% in Karnataka, and 3-4% in Tamil Nadu.



Source: Company, Keynote Capitals Ltd.

New product launches under the Continental brand

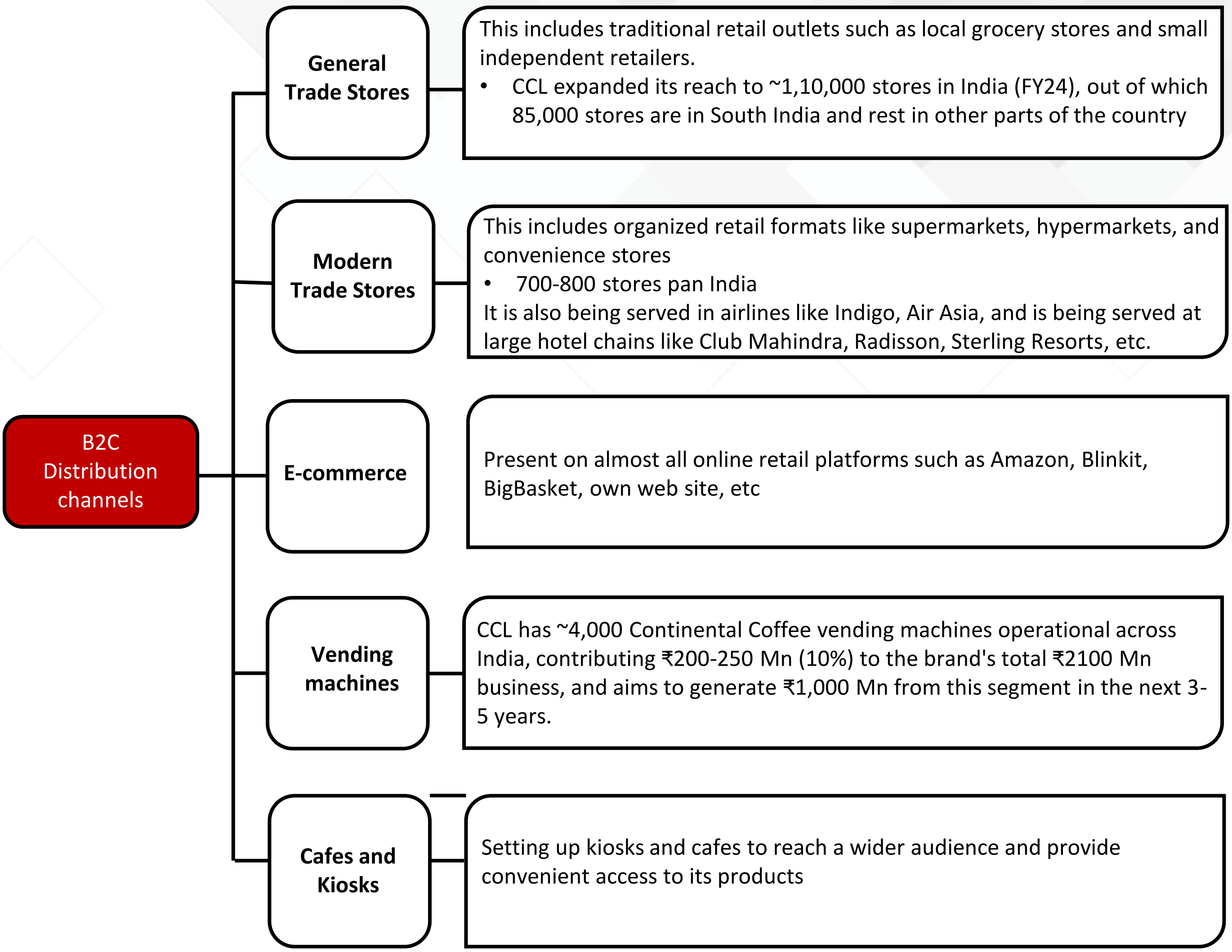
CCL introduced a variety of coffee products, including flavoured premix coffee, roast & ground coffee in pour-over format, and different flavoured coffee. These products cater to the growing demand for convenient and premium coffee options.

Acquisition of Coffee brands

To expand its presence in the European coffee market, CCL acquired several popular UK coffee brands - Percol, Rocket Fuel, Plantation Wharf, The London Blend, Perk Up and Percol Fusion - from Food Brands Group, a subsidiary of Löfbergs Group, in June 2023 for ~INR 57 Mn (GBP 0.55 Mn). This strategic acquisition, accelerates CCL's global FMCG manufacturing and distribution growth plans while enhancing its portfolio and capabilities in the UK, Europe's largest instant coffee market. CCL Products has nearly completed the relaunch of its coffee brands, including the introduction of Percol in new packaging across UK stores. The Company is discontinuing third-party supply arrangements to fully integrate these brands into its operations. Given the predominance of modern retail in the UK market, CCL aims to secure listings for Percol, which had been delisted from several chains over the past few years. Additionally, CCL is exploring new formats, such as coffee bags, which are gaining popularity in the UK market.

Expansion of distribution channels

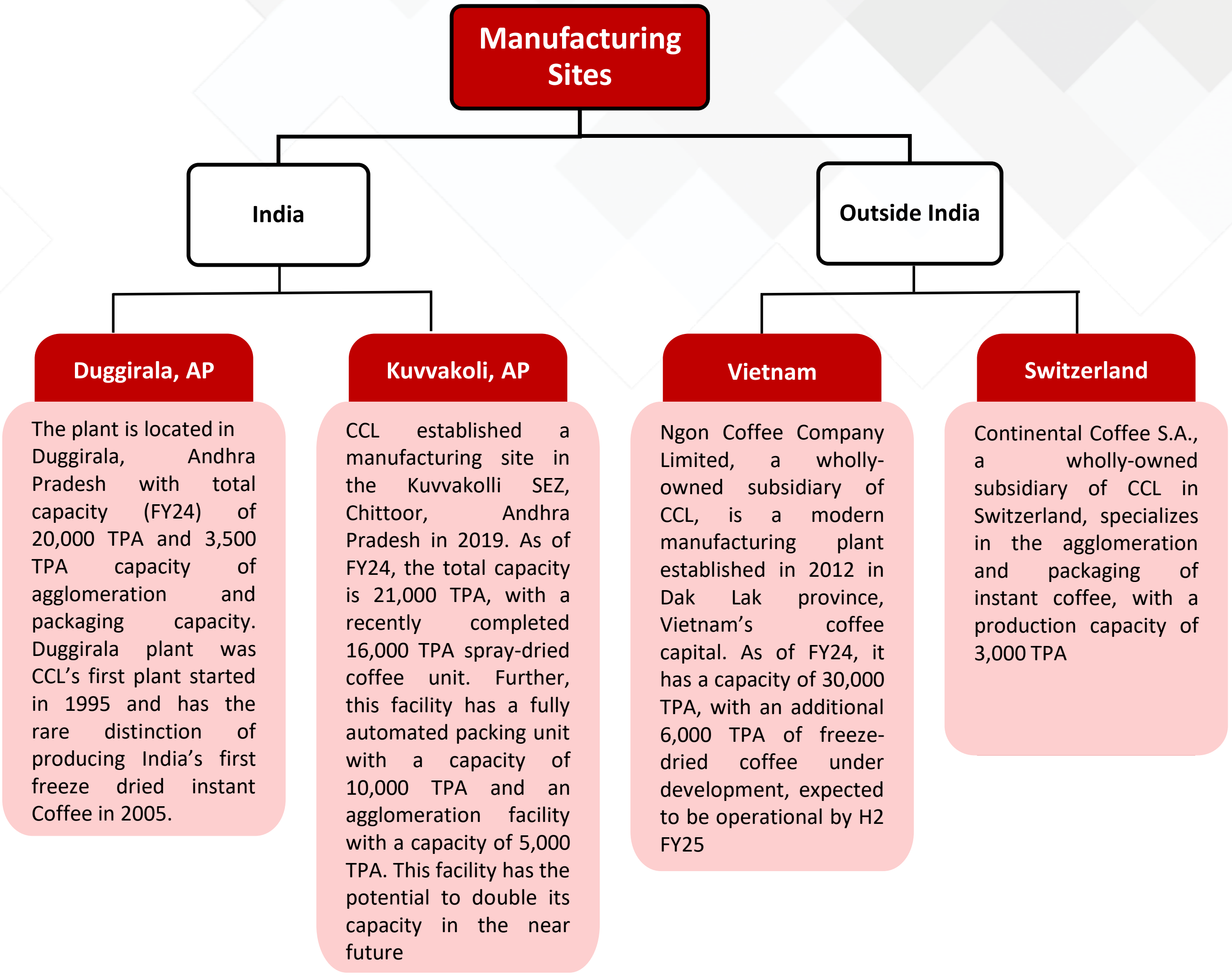
While maintaining a strong presence and recognition in South India retail outlets, Continental is now increasing visibility in other regions to establish a pan-India footprint. To further penetrate the southern market, Continental Coffee is focusing on towns with populations above 50,000. For other parts of India, the brand is targeting cities with populations exceeding 1 Mn, with ongoing distributor expansion to support this growth strategy.



Source: Company, Keynote Capitals Ltd.

In FY24, the EBITDA margin for the branded business was ~ 7-8%, with a 40% increase in topline compared to FY23. Management expects to sustain a similar growth rate of 30-40% in the future, with the goal of reaching a double-digit EBITDA margin.

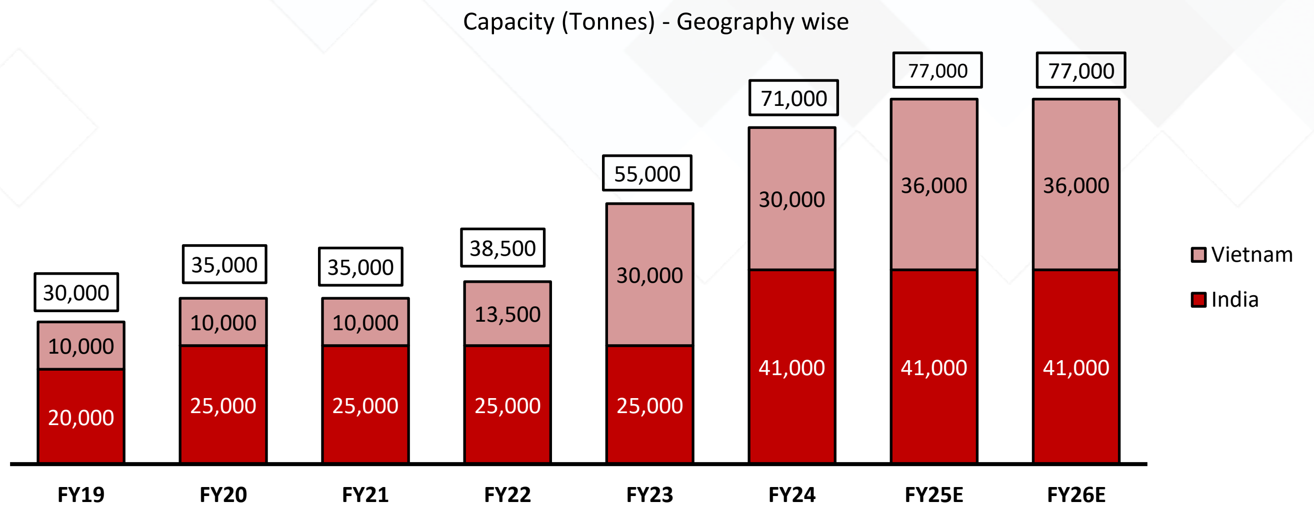
Manufacturing Facilities

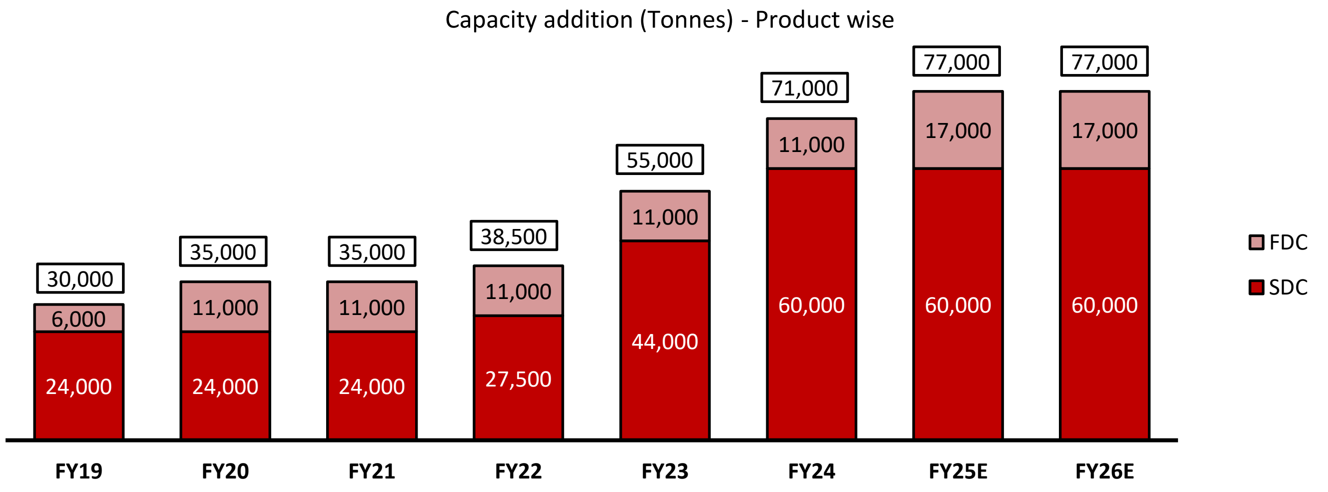


Source: Company, Keynote Capitals Ltd.

CCL Products has mastered the art of creating customized coffee blends, capable of producing over 900 variations to meet client specifications. As one of the largest instant coffee producers globally, CCL benefits from cost advantages stemming from imported technology, which allows for high-quality coffee production even from lower-grade green coffee beans. The manufacturing facilities in Andhra Pradesh and Vietnam offer strategic benefits, including a favorable business environment and proximity to raw materials. The Duggirala plant in Andhra Pradesh is located near coffee plantations, facilitating easy access to green coffee and reducing transportation costs. Additionally, the Kuvvakolli SEZ in Andhra Pradesh provides tax benefits, operational efficiencies, proximity of SEZ Kuvvakolli plant to Chennai Port enhances logistical efficiency and improving access to international markets. The Vietnam plant is strategically positioned in the largest green coffee bean-producing area, enjoying tax breaks and favorable trade status with ASEAN countries. Furthermore, the Switzerland unit enhances CCL's presence in the lucrative European coffee market, expanding packing capacity and facilitating coffee agglomeration.

To enhance its margins and focus on value-added products, CCL has established an agglomeration and packing capacity of 3,500 TPA at its Duggirala plant, a fully automated packing facility of 10,000 TPA and an agglomeration facility of 5,000 TPA at the Kuvvakoli SEZ plant, and a capacity of 3,000 TPA for agglomeration and packaging at its Switzerland unit.





Source: Company, Keynote Capitals Ltd; approximate figures.

The Company is increasing its capacity due to consistent growth in the domestic market and the successful acquisition of new export orders and clients internationally. Additionally, by enhancing capacity, the Company will be able to meet its own requirements rather than outsourcing them. It is also focusing on expanding its B2C segment through the Continental brand; thus, capacity expansion will support both branded and B2B business growth.

Over the past two years, CCL has done a significant Capex of ~Rs. 6,500 Mn (Rs. 2,500 Mn in FY23 for Vietnam SDC and Rs. 4,000 Mn for India SDC in FY24), boosting its production capacity from 38,500 tons per annum (TPA) to 71,000 TPA—an increase of over 80%. Further, the Company intends to undertake additional CAPEX of ~Rs 4,200 Mn to expand its production capacity by a further 6,000 (TPA) in Vietnam for by Sep-Oct 2024. Management guided no further CAPEX plan post FY25. Post this expansion, the Company has sufficient capacity for the next 2-3 years of growth.

Management Analysis

Key Managerial Personnel

Name	Designation	Promoter / Professional	Experience with CCL (Yrs.)
Sri Challa Rajendra Prasad	Chairman and Executive Director	Promoter	29+
Sri Challa Srishant	MD and Executive Director	Promoter	19+
Sri B. Mohan Krishna	Executive Director	Promoter	7+
Sri Praveen Jaipuriar	CEO	Professional	7+
Sri V. Lakshmi Narayana	CFO and COO	Professional	10+

Source: Company, Keynote Capitals Ltd.

Compensation and Skin in the Game

Particulars	FY20	FY21	FY22	FY23	FY24
% Promoter Holding	45.84%	46.19%	46.26%	46.26%	46.26%
Management Salary (Rs Mn)	166.6	154.5	172.2	198.7	146.6
As a % of PAT	10%	8%	8%	7%	6%

Source: Company, Keynote Capitals Ltd.

Top shareholders >1%

Stakeholders	FY20	FY21	FY22	FY23	FY24
Axis Mutual Fund Trustee Limited A/C Axis Mutual Fund A/C Axis Multicap Fund	-	-	-	-	5.96
SBI Magnum Comma Fund	-	-	1.84	-	3.77
Franklin India Smaller Companies Fund	3.98	4.18	3.80	2.45	2.15
HSBC Consumption Fund	-	-	-	-	1.99
Canara Robeco Mutual Fund A/C Canara Robeco Small Cap Fund	-	-	-	-	1.54
Heleanna Gabrielle Georgalis	-	-	-	-	1.43
ICICI Prudential Small Cap Fund	-	-	-	2.02	1.12

Source: Company, Keynote Capitals Ltd.

Peer Analysis

For peer comparison, ideal peers would have been Nescafe (part of Nestle), Bru (part of Hindustan Unilever), or Tata Coffee (now merged with Tata Consumer Products). However, none of these coffee businesses are available standalone; hence, they are not comparable. We have considered Vintage Coffee & Beverages Ltd (VCBL) as its peer.

VBCL operates primarily in the manufacturing and export of instant coffee products. The Company produces various types of instant coffee, including spray-dried, agglomerated, and green coffee powder. They are also engaged in the production and export of instant chicory.

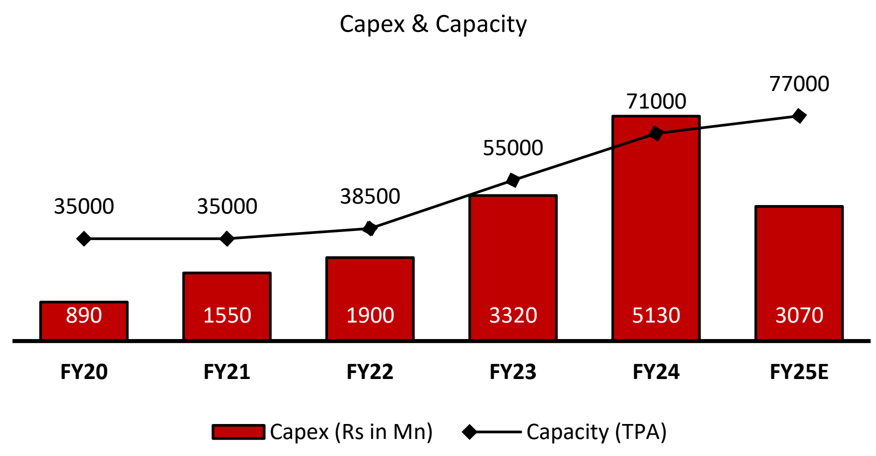
Metrics	CCL Products (India) Ltd.	Vintage Coffee & Beverages Ltd.
Manufacturing Capacity & Operating Metrics		
Current Production Capacity (Tonnes)	71,000	6,200**
Planned Expansion in FY25 (Tonnes)	7,000	2,000
Realizations (Rs. Per / Kg) – FY24	599	473*
EBITDA per ton – FY24	101	95*
Financial Metrics FY24		
Revenue (Rs. Mn)	26,540	1,310
EBITDA (Rs. Mn)	4,450	250
EBITDA Margins %	16.7%	19%
Total Debt to Equity (x)	0.90	0.60
Return on Capital Employed %	11%	9%

** This is for 9M FY24*
*** This includes 1,700 MT/Yr of Instant Chicory*
Source: Company, Vintage Coffee & Beverages Ltd., Keynote Capitals Ltd.

Opportunities

Aggressive capacity expansion

Over the past two years, CCL has executed a significant capex initiative, boosting its production capacity from 38,500 tons per annum (TPA) in FY22 to 71,000 TPA in FY24 —an increase of over 80%. The Company plans to further expand capacity by an additional 6,000 TPA by FY25. The capacity expansion is funded by mix of long-term debt and internal accruals of the Company. Since FY22, CCL has ramped up its capacity through ongoing expansions in India and Vietnam, focusing on both spray-dried and freeze-dried coffee lines. Recently, CCL completed a spray-dried capacity expansion in India, investing ~ Rs. 4,000 Mn for an additional 16,000 TPA. Concurrently, it is investing ~Rs. 4,200 Mn to expand freeze-dried coffee production in Vietnam, which is expected to be completed by FY25. This strategic expansion is driven by strong demand visibility from clients, positioning CCL to capitalize on emerging market opportunities. With these developments, CCL aims to effectively ramp up production to meet anticipated demand increases, ensuring robust growth in the coming years.



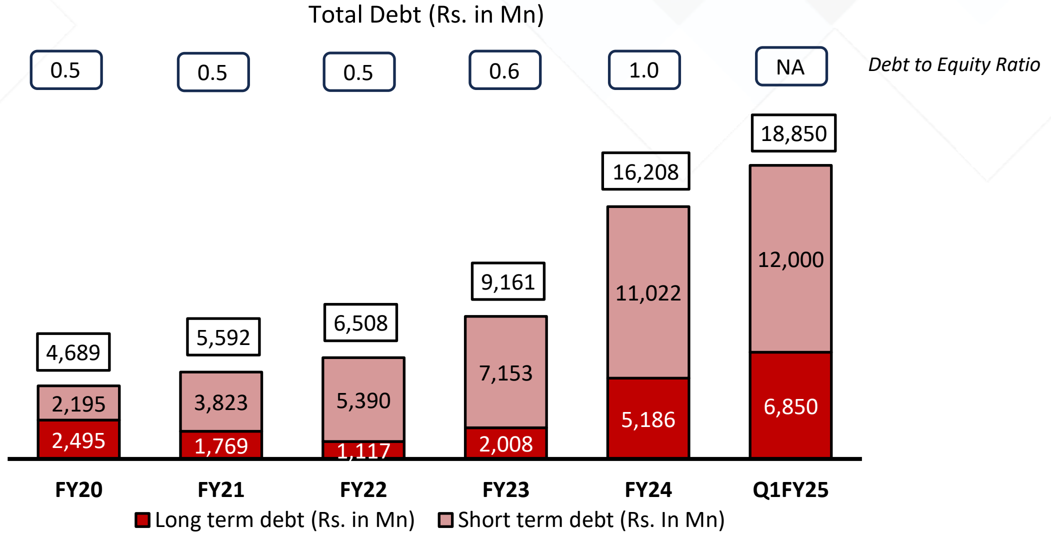
Source: Company, Keynote Capitals Ltd.

A Strategic Advantage - Expansion at Vietnam Operations

CCL's facility in Vietnam is strategically positioned to enhance the strategic advantage. The plant's capacity increased from 13,500 TPA in FY22 to 30,000 TPA in FY23, with ongoing expansions further bolstering this growth. Located in Dak Lak Province, the largest green coffee bean-producing area in Vietnam, CCL benefits from easy access to raw materials, as the country is the world's leading Robusta coffee grower. Additionally, Vietnam's Most Favored Nation (MFN) status with ASEAN countries facilitates trade, allowing CCL to cater effectively to nearby markets, including Japan, South Korea, and China. The plant currently enjoys a NIL income tax benefit, which is expected to continue for the foreseeable future, further strengthening CCL's competitive position in the region.

Sweating of Assets - No further Capex

CCL's long-term debt has reached peak levels in FY24 due to recent borrowings for capacity expansions in Vietnam and India. As these capital expenditure projects near completion, particularly with Vietnam's projects expected to finish by FY25, CCL does not plan any further capital investments. This strategic pause in capital expenditure is expected to allow CCL to generate sufficient free cash flow from its scaled-up operations, enabling the Company to effectively manage and reduce its long-term debt.



Source: Company, Keynote Capitals Ltd.

In contrast, the Company's short-term debt is primarily influenced by working capital requirements, which are sensitive to fluctuations in green coffee prices. If green coffee prices increase, CCL's working capital needs—and consequently its short-term debt—are likely to rise. Conversely, if prices decrease, the working capital requirement and short-term debt may reduce. This dynamic reflects the inherent volatility in commodity prices and its impact on CCL's financial strategy.

Margin expansion on the cards

In coming years, we anticipate margins to improve in coming years due to an undergoing increase in freeze-dried coffee capacity (better margin product) and subsequent ramp-up in production and sales volume providing operating leverage. Freeze-dried coffee is perceived as a premium product, offering superior aroma, flavor, and color retention compared to spray-dried coffee, allowing for higher pricing and enhanced profit margins, which are ~1.3x to 1.4x greater than those of spray-dried coffee. This strategy is further supported by an improved product mix that emphasizes premium offerings through small packs, which have increased their contribution to total revenue from 5-10% to 20-25% over the past 4-5 years and a greater focus on specialty coffees, which now account for more than 5% of the portfolio compared to less than 1% 3-4 years ago, alongside a higher contribution from B2C sales.

With green coffee prices at all time high, consumers have downgraded to more affordable basic coffee options. However, as prices soften from these elevated levels, demand for premium and specialty coffees is expected to rebound, enhancing margins for CCL.

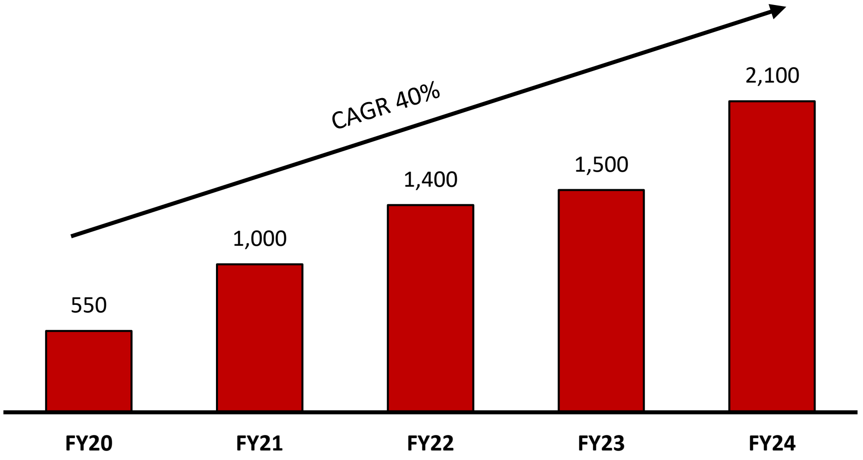
Strong contribution from growing B2C business

CCL Products is strategically expanding its footprint in the B2C branded coffee market, both domestically and globally. The Company has consistently grown its branded business in India, maintaining a strong position in the South Indian market. To enhance its domestic presence, CCL is widening its distribution network by increasing retail outlet coverage, expanding e-commerce channels, and establishing vending machines, cafes, and kiosks.

In the international market, CCL has acquired Löfbergs Group coffee brands and is re-launching its products in several countries. In Q1 FY25, the Company already launched the product in the UK. Currently, the Company does not generate any revenue from the international market from B2C segment.

In FY24, the branded business generated revenue of Rs. 2,100 Mn, accounting for 8% of total revenue, with a target to achieve a topline growth rate of 30-40% in the coming years and increase branded revenue to 50% of total revenue by 2030. This focus on the B2C segment is expected to enhance CCL's business profile by driving higher revenue growth, improving margins compared to B2B sales, and strengthening brand recognition through effective market penetration.

B2C (Branded) Business Turnover ~ Rs. Mn

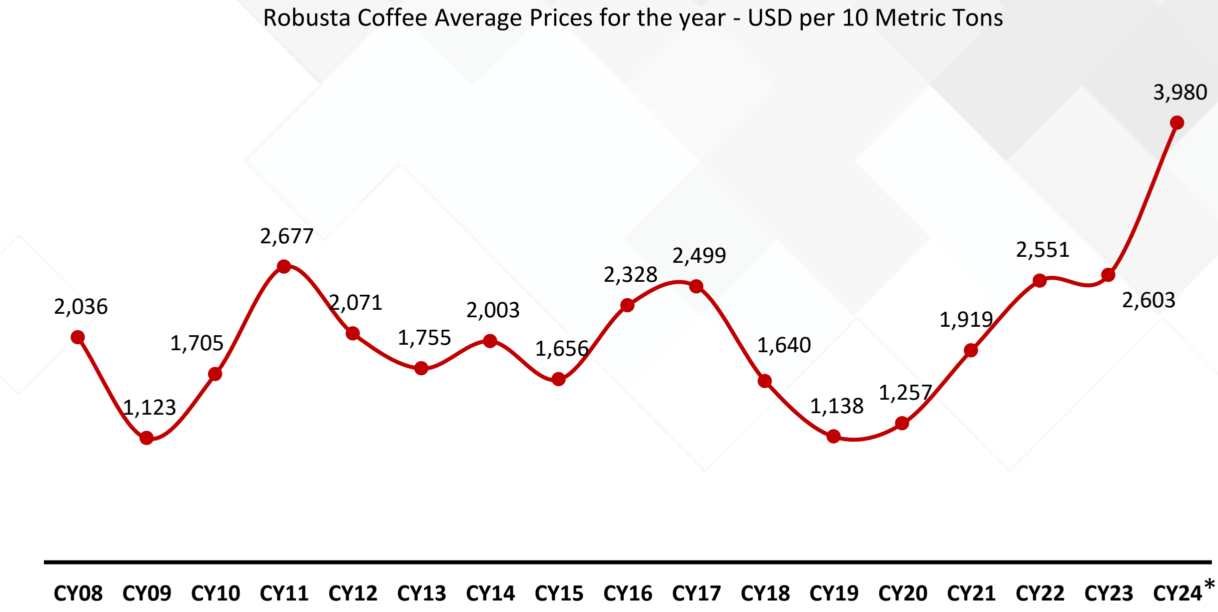


Source: Company, Keynote Capitals Ltd.

Softening of green coffee prices

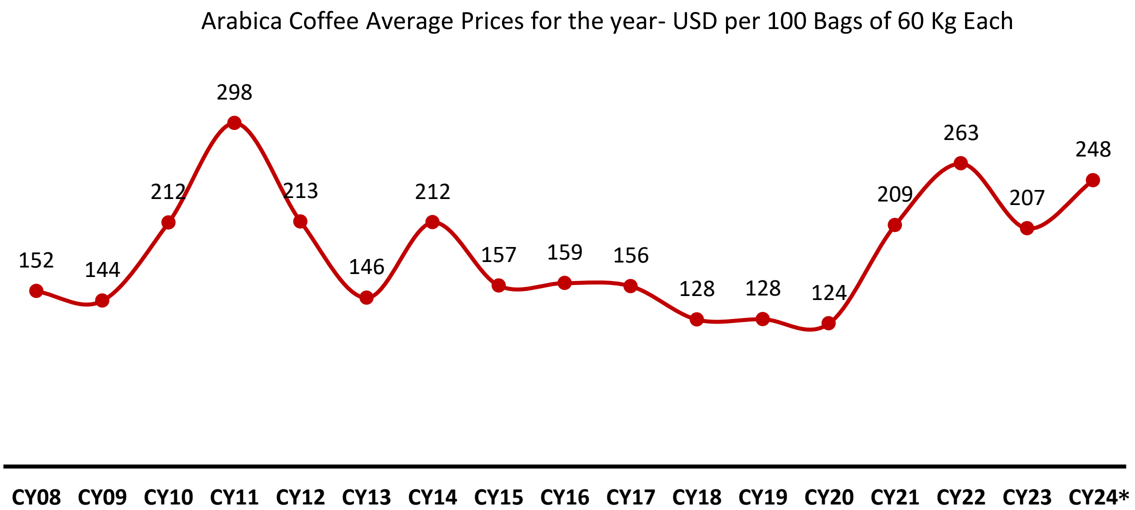
Green coffee prices (main raw material) have recently surged due to adverse weather conditions in major coffee-producing countries like Brazil, global supply chain disruptions, and geopolitical factors. Management expects prices to stabilize as the Brazilian coffee harvest progresses faster than last year, allowing more coffee to enter the market. Similar expectations exist for Indonesian and Ugandan coffee crops.

CCL's profitability (EBITDA per kg) is partially protected from green coffee price volatility due to its presales business model. CCL places orders for green coffee only upon receiving orders for instant coffee and enters into individual supply contracts based on spot prices without carrying the risk of coffee price volatility. While softening green coffee prices will benefit CCL by lowering inventory costs and working capital requirements, consumers may be more inclined to purchase premium and value-added products like freeze-dried coffee and specialty coffees, potentially driving value & volume growth.



** CY24 – for the period up to August, 2024*

Source: Bloomberg, Keynote Capitals Ltd.



** CY24 – for the period up to August, 2024*

Source: Bloomberg, Keynote Capitals Ltd.

Challenges

Intense Competition in branded business

CCL's Continental brand operates in the highly competitive Indian B2C coffee market, historically dominated by major players such as Nescafé, owned by Nestlé, and Bru, a leading brand under HUL, Tata Coffee, etc. Further, the rise of numerous VC-funded startups like Sleepy Owl, Rage Coffee, and Blue Tokai has intensified this competition, as these brands target younger consumers with innovative products.

A major challenge for CCL is that coffee is a personal product, and consumers usually do not change a particular coffee brand once they are used to it, making it difficult to switch. This stickiness is a significant barrier for smaller players like Continental, as established brands leverage their extensive distribution networks and brand equity to maintain market share.

To compete effectively, CCL has increased its marketing and promotional expenditures, implementing above-the-line campaigns and below-the-line sampling activities to raise awareness of its products. However, these efforts can negatively impact the Company's profitability and margins.

Risks Associated with Import and Export Operations

CCL faces significant risks related to its import and export operations. The Company imports green coffee, making it vulnerable to changes in import customs, duties, and tariffs imposed by the Indian government, which can affect its cost structure. Additionally, with ~ 88% of its products exported to over 100 countries, CCL is exposed to fluctuating export duties, customs regulations, and trade schemes in these markets. The threat of anti-dumping duties and countervailing measures from importing countries could diminish the competitiveness of Indian products abroad. Furthermore, if countries that are key trading partners with Ngon Coffee Company Ltd, Vietnam, alter their Most Favored Nation (MFN) agreements or trade policies, it could negatively impact CCL's operations and market position.

Financial Statement Analysis

Income Statement

Y/E Mar, Rs. Mn	FY23	FY24	FY25E	FY26E	FY27E
Net Sales	**20,712**	**26,537**	**30,518**	**35,095**	**40,359**
Growth %		28%	15%	15%	15%
Raw Material Expenses	11,296	15,520	17,848	20,350	23,201
Employee Expenses	1,135	1,456	1,526	1,755	2,018
Other Expenses	4,283	5,108	5,646	6,247	6,942
EBITDA	**3,999**	**4,453**	**5,498**	**6,743**	**8,199**
Growth %		11%	23%	23%	22%
Margin%	19%	17%	18%	19%	20%
Depreciation	637	977	1,120	1,348	1,420
EBIT	**3,362**	**3,476**	**4,378**	**5,396**	**6,778**
Growth %		3%	26%	23%	26%
Margin%	16%	13%	14%	15%	17%
Interest Paid	344	777	1,049	1,109	1,109
Other Income & exceptional	166	235	235	235	235
PBT	**3,184**	**2,934**	**3,563**	**4,522**	**5,905**
Tax	220	278	321	407	531
Net Profit	**2,964**	**2,656**	**3,243**	**4,115**	**5,373**
Growth %		-10%	22%	27%	31%
Shares (Mn)	133.0	133.0	133.0	133.0	133.0
EPS	**21.35**	**18.80**	**24.38**	**30.93**	**40.39**

Balance Sheet

Y/E Mar, Rs. Mn	FY23	FY24	FY25E	FY26E	FY27E
Cash, Cash equivalents & Bank	834	1,698	3,508	5,100	7,559
Current Investments	0	0	0	0	0
Debtors	4,414	4,968	5,713	6,570	7,556
Inventory	5,783	7,884	9,067	10,338	11,786
Short Term Loans & Advances	1,302	1,269	1,269	1,269	1,269
Other Current Assets	147	1,620	1,620	1,620	1,620
Total Current Assets	12,480	17,439	21,176	24,897	29,789
Net Block & CWIP	13,110	17,526	18,451	18,331	18,324
Long Term Investments	0	0	0	0	0
Other Non-current Assets	388	423	418	413	408
Total Assets	**25,978**	**35,387**	**40,044**	**43,641**	**48,520**
Creditors	738	997	1,077	1,224	1,395
Provision	50	82	82	82	82
Short Term Borrowings	6,367	10,110	10,110	10,110	10,110
Other Current Liabilities	1,203	1,611	1,611	1,611	1,611
Total Current Liabilities	8,358	12,800	12,880	13,026	13,198
Long Term Debt	2,008	5,186	7,186	7,186	7,186
Deferred Tax Liabilities	588	620	620	620	620
Other Long Term Liabilities	50	43	43	43	43
Total Non Current Liabilities	2,647	5,849	7,849	7,849	7,849
Paid-up Capital	266	266	266	266	266
Reserves & Surplus	14,707	16,472	19,050	22,499	27,208
Shareholders' Equity	14,973	16,738	19,316	22,766	27,474
Non Controlling Interest	0	0	0	0	0
Total Equity & Liabilities	**25,978**	**35,387**	**40,044**	**43,641**	**48,520**

Source: Company, Keynote Capitals Ltd. estimates

Cash Flow

Y/E Mar, Rs. Mn	FY23	FY24	FY25E	FY26E	FY27E
Pre-tax profit	3,184	2,934	3,563	4,522	5,905
Adjustments	907	1,677	1,934	2,221	2,294
Change in Working Capital	-1,874	-3,596	-1,848	-1,981	-2,262
Total Tax Paid	-350	-290	-321	-407	-531
Cash flow from operating Activities	**1,866**	**725**	**3,329**	**4,355**	**5,405**
Net Capital Expenditure	-3,323	-5,133	-2,045	-1,228	-1,413
Change in investments	0	-9	0	0	0
Other investing activities	1	5	240	240	240
Cash flow from investing activities	**-3,321**	**-5,136**	**-1,805**	**-989**	**-1,173**
Equity raised / (repaid)	0	0	0	0	0
Debt raised / (repaid)	2,653	7,047	2,000	0	0
Dividend (incl. tax)	-665	-665	-665	-665	-665
Other financing activities	-352	-797	-1,049	-1,109	-1,109
Cash flow from financing activities	**1,636**	**5,585**	**286**	**-1,774**	**-1,774**
Net Change in cash	181	1,174	1,810	1,593	2,458

Valuation Ratios

	FY23	FY24	FY25E	FY26E	FY27E
Per Share Data					
EPS	21	19	24	31	40
Growth %		-12%	30%	27%	31%
Book Value Per Share	113	126	145	171	207
Return Ratios					
Return on Assets (%)	12%	8%	9%	10%	12%
Return on Equity (%)	21%	16%	18%	20%	21%
Return on Capital Employed (%)	14%	11%	12%	14%	15%
Turnover Ratios					
Asset Turnover (x)	0.9	0.9	0.8	0.8	0.9
Sales / Gross Block (x)	1.5	1.6	1.5	1.4	1.6
Working Capital / Sales (%)	19%	17%	21%	29%	35%
Receivable Days	67	65	64	64	64
Inventory Days	177	161	173	174	174
Payable Days	18	18	20	19	19
Working Capital Days	226	207	217	218	219
Liquidity Ratios					
Current Ratio (x)	1.5	1.4	1.6	1.9	2.3
Interest Coverage Ratio (x)	9.9	4.6	4.4	5.1	6.3
Total Debt to Equity	0.6	1.0	0.9	0.8	0.6
Net Debt to Equity	0.6	0.9	0.7	0.5	0.4
Valuation					
PE (x)	26.6	31.3	32.1	25.3	19.4
Earnings Yield (%)	4%	3%	3%	4%	5%
Price to Sales (x)	3.6	3.0	3.4	3.0	2.6
Price to Book (x)	5.0	4.7	5.4	4.6	3.8
EV/EBITDA (x)	21.0	20.9	20.1	16.4	13.5
EV/Sales (x)	4.0	3.5	3.6	3.2	2.7

Valuations

Particulars	FY27E
Revenue (in Rs. Mn)	40,359
EBITDA (in Rs. Mn)	8,199
EBITDA Margin %	*20.0%*
EV EBITDA (x)	21.0
Enterprise Value (in Rs. Mn)	172,173
Net Debt (in Rs. Mn)	9,737
Mcap Fair Value (in Rs. Mn)	162,436
Outstanding Shares (in Mn)	133
Per Share Fair Value	1,221
Current Share Price	760
Upside / (Downside %)	**60.7%**

Source: Company, Keynote Capitals Ltd. estimates

CCL is India's largest manufacturer and exporter of instant coffee and the world's largest private label instant coffee manufacturer. The Company is now focused on expanding its presence in the branded business through its Continental brand.

Based on our analysis, we anticipate a 15% revenue growth from FY25 to FY27, primarily driven by volume growth. We have not factored in any change in realizations, but we expect realizations to decrease once green coffee prices correct from their peak. However, we will incorporate this assumption once we observe early trends in green coffee prices.

We anticipate improved margins as the volume contribution of freeze-dried, branded business, and smaller packs increases in the volume mix.

In light of these factors, we are initiating coverage on CCL with a BUY rating, valuing the business at 21x EV EBITDA on FY27E to arrive at an upside of 60.7%.

KARAN KAMLESH GALAIYA

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KEYNOTE

Indigo Paints Limited

4th July 2024

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BUY

Indigo Paints Limited

Structural Steel Pipes Industry | Industry Report

KEYNOTE

Structural Steel Pipes Industry

26th June 2024

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POSITIVE

Structural Steel Pipes Industry

Rating Methodology

Rating	Criteria
BUY	Expected positive return of > 10% over 1-year horizon
NEUTRAL	Expected positive return of > 0% to < 10% over 1-year horizon
REDUCE	Expected return of < 0% to -10% over 1-year horizon
SELL	Expected to fall by >10% over 1-year horizon
NOT RATED (NR)/UNDER REVIEW (UR)/COVERAGE SUSPENDED (CS)	Not covered by Keynote Capitals Ltd/Rating & Fair value under Review/Keynote Capitals Ltd has suspended coverage

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SEBI Regn. Nos.: BSE / NSE (CASH / F&O / CD): INZ000241530; DP: CDSL- IN-DP-238-2016; Research Analyst: INH000007997

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