KEYNOTE

# CCL Products (India) Ltd.

## Branded business delivered excellent growth

11th November 2024

**In Q2 FY25, CCL Products (India) Ltd (CCL) delivered a revenue growth of 22% on a YoY basis, on the back of strong growth in B2B (+19% on a YoY basis) and B2C (+56% on a YOY basis) segments. Further, overall volume growth during the quarter was 10% on a YoY basis and the management held their guidance of 10-20% volume growth in FY25. Management has guided for Rs. 3,000 Mn revenue from B2C business in FY25. EBITDA margin improved by 48 Bps on a YoY basis, driven by a focus towards higher margin products like specialty coffees and smaller packaging formats.**

### Capacity expansion on track

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. Further, another capacity of 6,000 TPA in Vietnam of FDC is undergoing trial and is expected to commence production by the end of Q3 FY25. Post this, no new expansion plans are in the pipeline as current capacity is sufficient to meet demand for the next 3-4 years.

### B2C (Branded) business performing well

During the quarter, the B2C segment grew by 56% on a YoY basis, much higher than industry growth, essentially gaining market share. The management has guided Rs. 3,000 Mn revenue in FY25 from the B2C segment with improved EBITDA margins. Further, they are focused on improving their distribution network by expanding their footprint in general trade outlets, modern trade stores, tea shops, and e-commerce.

For the 6 brands acquired last year, CCL has completed transition activities and is focused on relisting Percol across UK retail chains. They have initiated outdoor advertising campaigns to revive Percol's presence.

### 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 its volumes by 15% YoY over the next three years. Further, we anticipate improved EBITDA margins as the volume contribution of freeze-dried, branded business, and smaller packs increases in the volume mix. In light of these factors and the Company's recent performance, we maintain our BUY rating on CCL. We ascribe EV/EBITDA of 21x on FY27E EBITDA, suggesting an upside of ~76% with a target price of Rs. 1,222.

# BUY

CMP Rs. 692

TARGET Rs. 1,222 (+76%)

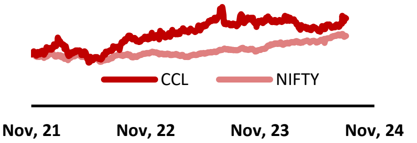
### Company Data

| | |
|---|---|
| Bloomberg Code | CCLP IN |
| MCAP (Rs. Mn) | 92,360 |
| O/S Shares (Mn) | 134 |
| 52w High/Low | 855 / 551 |
| Face Value (in Rs.) | 10 |
| Liquidity (3M) (Rs. Mn) | 353 |

### Shareholding Pattern %

| | Sep 24 | Jun 24 | Mar 24 |
|---|---|---|---|
| Promoters | 46.1 | 46.1 | 46.3 |
| FIIs | 10.2 | 9.8 | 8.1 |
| DIIs | 21.0 | 20.6 | 21.7 |
| Non-Institutional | 22.7 | 23.6 | 23.9 |

### 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 | 2,501 | 2,862 | 3,936 |
| Total Assets | 35,387 | 39,663 | 43,081 |
| ROCE (%) | 11% | 12% | 14% |
| ROE (%) | 16% | 18% | 20% |

*Source: Company, Keynote Capitals Ltd.*

**Karan Galaiya,** *Research Analyst*
*karan@keynotecapitals.net*

## Q2 FY25 Result Update

### Result Highlights (Rs. Mn)

| Particulars | Q2 FY25 | Q2 FY24 | *Change % (Y-o-Y)* | Q1 FY25 | *Change % (Q-o-Q)* | H1 FY25 | H1 FY24 | *Change % (Y-o-Y)* | FY24 |
|---|---|---|---|---|---|---|---|---|---|
| Revenue | 7,382 | 6,076 | *22%* | 7,733 | *-4.5%* | 15,115 | 12,625 | *20%* | 26,537 |
| Gross Profit | 2,936 | 2,549 | *15%* | 2,944 | *-0.3%* | 5,880 | 5,154 | *14%* | 11,017 |
| ***Gross Profit %*** | ***40%*** | ***42%*** | ***-218 Bps*** | ***38%*** | ***171 Bps*** | ***39%*** | ***41%*** | ***-192 Bps*** | ***42%*** |
| Employee Cost | 403 | 319 | *26%* | 384 | *5%* | 787 | 635 | *24%* | 1456 |
| Other Opex | 1,162 | 1,131 | *3%* | 1,257 | *-8%* | 2,419 | 2,357 | *3%* | 5,108 |
| EBITDA | 1,371 | 1,099 | *25%* | 1,303 | *5.2%* | 2,674 | 2,162 | *24%* | 4,453 |
| ***EBITDA %*** | ***19%*** | ***18%*** | ***48 Bps*** | ***17%*** | ***172 Bps*** | ***18%*** | ***17%*** | ***56 Bps*** | ***17%*** |
| Depreciation | 237 | 226 | *5%* | 230 | *3%* | 467 | 450 | *4%* | 977 |
| EBIT | 1,134 | 873 | *30%* | 1,073 | *6%* | 2,207 | 1,713 | *29%* | 3,476 |
| ***EBIT %*** | ***15%*** | ***14%*** | ***98 Bps*** | ***14%*** | ***149 Bps*** | ***15%*** | ***14%*** | ***103 Bps*** | ***13%*** |
| Finance Cost | 266 | 184 | *45%* | 214 | *24%* | 480 | 332 | *45%* | 777 |
| Other Income | 5 | 7 | *-25%* | 13 | *-59%* | 19 | 11 | *75%* | 63 |
| PBT | 873 | 697 | *25%* | 872 | *0%* | 1,745 | 1,391 | *25%* | 2,762 |
| Tax | 134 | 88 | *51%* | 157 | *-15%* | 291 | 176 | *66%* | 262 |
| **PAT** | **740** | **609** | ***22%*** | **715** | ***3%*** | **1,454** | **1,216** | ***20%*** | **2,501** |
| ***EPS*** | ***5.54*** | ***4.57*** | ***21%*** | ***5.36*** | ***3%*** | ***10.9*** | ***9.1*** | ***19%*** | ***18.8*** |

### Segment Highlights (Rs. Mn)

| Particulars | Q2 FY25 | Q2 FY24 | *Change % (Y-o-Y)* | Q1 FY25 | *Change % (Q-o-Q)* | H1 FY25 | H1 FY24 | *Change % (Y-o-Y)* | FY24 |
|---|---|---|---|---|---|---|---|---|---|
| **Revenue** | | | | | | | | | |
| B2B | 6,682 | 5,626 | *19%* | 7,083 | *-6%* | 13,765 | 11,775 | *17%* | 24,437 |
| B2C | 700 | 450 | *56%* | 650 | *8%* | 1,350 | 850 | *59%* | 2,100 |
| | | | | | | | | | |
| **Revenue Mix %** | | | | | | | | | |
| B2B | 91% | 93% | *-208 Bps* | 92% | *-108 Bps* | 91% | 93% | *-220 Bps* | *92%* |
| B2C | 9% | 7% | *208 Bps* | 8% | *108 Bps* | 9% | 7% | *220 Bps* | *14%* |

*Source: Company, Keynote Capitals Ltd.*

## Q2 FY25 Conference Call Takeaways

**B2B Business**

- The Company continues to prioritize long-term contracts with its B2B clients, which include global coffee brands. The Company has strategically avoided low-margin opportunistic sales, particularly in the face of increased competition from Brazilian coffee producers. This focus on higher-margin contracts has helped improve profitability despite some volume constraints

- Through ongoing capacity expansion, the Company aims to drive B2B volume growth by securing long-term contracts with existing customers and entering new markets, particularly China. Initial volumes from these geographies have started materializing, and CCL is optimistic about sustaining this momentum for future growth

**B2C Business**

- The Company is investing in its branded retail business, which grew by 59% in H1 FY25, with a revenue target of ₹3,000 Mn for FY25, with plans to improve EBITDA margins from the current 5-6% levels. The management is confident in aggressively scaling the B2C segment, aiming to build long-term value and enhance brand multiples.

- The Company has been actively working on improving the visibility of its brand, not just in southern states but across other regions as well. They have been conducting various promotional activities, including sponsoring events and increasing their presence in malls.

- In the past 3-4 months, CCL has completed key transition activities and is now focused on relisting Percol across UK retail chains. The Company has initiated Above-the-Line (ATL) marketing efforts, including outdoor advertising campaigns, to revive Percol’s presence. Once the brand stabilizes and regains momentum in the UK, CCL plans to explore expansion into surrounding European markets.

- The F&B division, focused on plant-based products, is in its early stages. The Company is working on finding the right product mix to help grow this segment and is gaining wider consumer acceptance. CCL is targeting the HoReCa (Hotel, Restaurant, Café and Catering) segment and has secured deals with several hotels to build visibility. The Company is also expanding its F&B portfolio by developing protein-infused snack variants, with plans to introduce new offerings in the coming months.

- The Company is focusing on retail expansion by aiming to have a footprint of 130,000 general trade outlets, 5,000-6,000 modern trade stores, and 3,000-4,000 tea shops by the end of FY25, alongside growing its e-commerce presence.

- To expand its B2C footprint and brand visibility, the Company recently opened two cafes and one kiosk in Hyderabad. The management emphasized that the focus is on refining the business model and brand profile before pursuing further expansion.

**General Highlights**

- CCL, being the world's largest private label instant coffee manufacturer, operates in a capital-intensive business model. During capacity expansion phases, the Company's ROCE tends to dip due to higher capital expenditure. However, once expansions are completed and capacity utilization improves, ROCE typically rebounds. Currently, the Company is undergoing a capacity expansion, and post-completion, the management anticipates an increase in ROCE as new production capacities come online and are optimally utilized.

- The Company reported ~10% volume growth for Q2 FY25 and has provided a volume growth guidance of 10-20% for FY25.

- EBITDA growth was driven by higher volumes and better-margin products. Higher volumes were supported by a mix of long-term contracts and spot orders. The Company has strategically prioritized long-term agreements with established clients, avoiding opportunistic sales and price wars amid competition from Brazilian producers. Further, the Company's focus on higher-margin products, such as specialty coffees and smaller packaging formats, along with targeting profitable clients like brand owners, has improved overall EBITDA margins. The management expects higher margins to continue, driven by the continued focus on higher-margin products and increased volumes from the expanded capacity.

- Existing capacity utilization remained near ~100% while new capacities were still ramping up: India's FNB capacity utilization was around 10-12%. Vietnam's new line (Line 2) had about 40-50% utilization, while the older line was fully utilized.

- FDC line in Vietnam is currently undergoing trials and is expected to be commercialized by the end of Q3FY25. Further, the management has guided that no new CAPEX is planned for the next 3-4 years as the Company believes it has sufficient capacity to meet demand during this period.

- Coffee prices have been volatile due to global factors, with Brazil reporting a better crop and Vietnam's harvest still under cultivation. The management expects prices to stabilize or soften slightly in the coming months but does not foresee a significant drop. If Vietnam reports good yields post-December, softer green coffee prices could lead to more long-term, high-value contracts for CCL, driving future volume growth.

- Finance costs have been rising due to ongoing capacity expansion. However, with the new facility set to be operational by the end of Q3 FY25, business growth is expected to increase, which will offset interest costs. As volumes ramp up, the impact of interest expenses will reduce.

## 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** | **3,361** | **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 | 33 | 63 | 38 | 38 | 38 |
| **PBT** | **3,050** | **2,762** | **3,367** | **4,325** | **5,708** |
| Tax | 210 | 262 | 505 | 389 | 514 |
| **Net Profit** | **2,840** | **2,501** | **2,862** | **3,936** | **5,194** |
| Growth % | | -12% | 14% | 38% | 32% |
| Shares (Mn) | 133.0 | 133.0 | 133.0 | 133.0 | 133.0 |
| **EPS** | **21.35** | **18.80** | **21.51** | **29.59** | **39.05** |

### Balance Sheet

| Y/E Mar, Rs. Mn | FY23 | FY24 | FY25E | FY26E | FY27E |
|---|---|---|---|---|---|
| Cash, Cash equivalents & Bank | 834 | 1,698 | 3,127 | 4,540 | 6,820 |
| 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 | 20,795 | 24,336 | 29,049 |
| 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** | **39,663** | **43,081** | **47,781** |
| | | | | | |
| 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 | 18,669 | 21,939 | 26,468 |
| Shareholders' Equity | 14,973 | 16,738 | 18,935 | 22,205 | 26,734 |
| Non Controlling Interest | 0 | 0 | 0 | 0 | 0 |
| **Total Equity & Liabilities** | **25,978** | **35,387** | **39,663** | **43,081** | **47,781** |

### Cash Flow

| Y/E Mar, Rs. Mn | FY23 | FY24 | FY25E | FY26E | FY27E |
|---|---|---|---|---|---|
| Pre-tax profit | 3,050 | 2,762 | 3,367 | 4,325 | 5,708 |
| Adjustments | 907 | 1,677 | 2,131 | 2,418 | 2,491 |
| Change in Working Capital | -1,874 | -3,596 | -1,848 | -1,981 | -2,262 |
| Total Tax Paid | -350 | -290 | -505 | -389 | -514 |
| **Cash flow from operating Activities** | **1,733** | **554** | **3,144** | **4,373** | **5,423** |
| 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 | 43 | 43 | 43 |
| **Cash flow from investing activities** | **-3,321** | **-5,136** | **-2,002** | **-1,185** | **-1,370** |
| 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 | 48 | 1,003 | 1,429 | 1,414 | 2,279 |

### Valuation Ratios

| | FY23 | FY24 | FY25E | FY26E | FY27E |
|---|---|---|---|---|---|
| **Per Share Data** | | | | | |
| EPS | 21 | 19 | 22 | 30 | 39 |
| Growth % | | -12% | 14% | 38% | 32% |
| Book Value Per Share | 113 | 126 | 142 | 167 | 201 |
| **Return Ratios** | | | | | |
| Return on Assets (%) | 12% | 8% | 8% | 10% | 11% |
| Return on Equity (%) | 21% | 16% | 16% | 19% | 21% |
| Return on Capital Employed (%) | 14% | 11% | 11% | 13% | 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% | 27% | 34% |
| 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 | 2.2 |
| Interest Coverage Ratio (x) | 9.9 | 4.6 | 4.2 | 4.9 | 6.1 |
| Total Debt to Equity | 0.6 | 1.0 | 0.9 | 0.8 | 0.6 |
| Net Debt to Equity | 0.6 | 0.9 | 0.7 | 0.6 | 0.4 |
| **Valuation** | | | | | |
| PE (x) | 26.6 | 31.3 | 33.5 | 24.3 | 18.4 |
| Earnings Yield (%) | 4% | 3% | 3% | 4% | 5% |
| Price to Sales (x) | 3.6 | 3.0 | 3.2 | 2.7 | 2.4 |
| Price to Book (x) | 5.0 | 4.7 | 5.1 | 4.3 | 3.6 |
| EV/EBITDA (x) | 21.0 | 20.9 | 18.6 | 15.2 | 12.5 |
| EV/Sales (x) | 4.0 | 3.5 | 3.3 | 2.9 | 2.5 |

*Source: Company, Keynote Capitals Ltd. estimates*

### KEYNOTE Rating History

| Date | Rating | Market Price at Recommendation | Upside/Downside |
|---|---|---|---|
| 9th September 2024 | BUY | 760 | +61% |
| 11th November 2024 | BUY | 692 | +76% |

KEYNOTE

## 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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**Keynote Capitals Limited (CIN: U67120MH1995PLC088172)**

Compliance Officer: Mr. Jairaj Nair; Tel: 022-68266000; email id: jairaj@keynoteindia.net

Registered Office: 9th Floor, The Ruby, Senapati Bapat Marg, Dadar West, Mumbai – 400028, Maharashtra. Tel: 022 – 68266000.

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