CONTINENTAL COFFEE

CCL PRODUCTS (INDIA) LTD LTD.

Business Understanding Note

CCL **QUALIFIES** in our **CORE Preferred** category based on our assessment of the SMART framework

S
Strong Business

- CCL has consistently able to generate ROCE > 15%
- CCL is one the largest private label manufacturer globally, giving them economies of scale
- Debt to equity is more than 1 for funding their capex and working capital requirement but is likely to reduce from FY25 onwards
- CCL has successfully forward-integrated by launching its own brand, 'Continental Coffee.' The brand has emerged as a strong contender in the domestic market, ranking as the third most preferred coffee brand, following Nescafe and Bru.

M
Sound Management

- Management has shown strong execution track record by nearly doubling its capacity in a short period of time
- Capital allocation track record seems prudent, and management does not have any alarming related party transactions or business in the same value chain.

A
Reliable Accounting

- A few accounting irregularities were found regarding their investment subsidiary Jayanti Pte. Ltd where there is risk of investment write off otherwise accounting seems prudent

R
Reasonable Valuation

- The company is currently trading at an EV/EBITDA multiple of 22x, which is slightly higher than its historical median of 19x. However, the company's EBITDA margin is not at a normalized level, making the valuation multiple appear elevated.

T
Industry Tailwind

- Coffee demand is extremely stable despite multifold rise in coffee prices
- Rising trend in a shift towards premium or speciality coffee

Introduction to CCL Products (India) Limited

CCL Products (India) Limited (CCL) is the largest manufacturer and exporter of instant coffee in India, as well as the world's largest private label manufacturer. The company operates in both B2B and B2C segments, selling coffee under its own brand, Continental Coffee. CCL has four manufacturing units, both in India and abroad, with a total production capacity of 71,000 metric tons per annum (MTPA). Of this capacity, 60,000 MTPA is dedicated to Spray-Dried Coffee (SDC), while 11,000 MTPA is for Freeze-Dried Coffee (FDC). A significant portion of the company's revenue comes from the B2B segment through instant coffee exports. Utilizing advanced technology, CCL offers over 900 unique blends, customizing its products to meet the preferences of B2B customers worldwide. In the B2C segment, its products are distributed through various channels, including retail stores, supermarkets, vending machines, cafes, and kiosks. The company is committed to aggressively expanding its presence in the B2C market.

BUSINESS NOTE

CMP Rs. 741

Basic Company Data

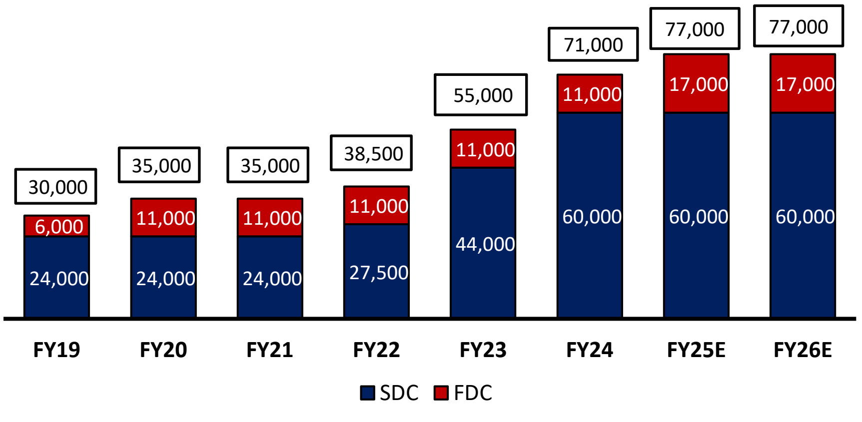
MCAP (Rs. Cr.)	9,888
Sector	Tea & Coffee
Promoter Holding %	46
3M Liquidity (Rs. Cr.)	38.43
Debt/Equity (FY24)	1.09

What makes the case for CCL?

Strategic capacity enhancement

Over the past two years, CCL has significantly increased its production capacity, growing from 38,500 TPA in FY22 to 71,000 TPA in FY24 (an increase of over 80%). The company has plans for an additional expansion of 6,000 TPA by FY25. This growth since FY22 includes expansions in both India and Vietnam for SDC and FDC lines. Recently, CCL invested ~Rs. 400 Cr to add 16,000 TPA of SDC capacity in India for FY24 and is set to invest ~Rs. 420 Cr to boost FDC production by 6,000 TPA in Vietnam by FY25. The expansion in Vietnam is particularly advantageous because CCL's plant is located in Dak Lak Province, the largest green coffee bean-producing region in the country. Additionally, CCL benefits from a nil tax on income generated from this plant. Vietnam holds a Most Favored Nation (MFN) status for ASEAN countries, which further benefits CCL by enabling lower tariff rates for exports as well as increased market access. This strategic positioning allows CCL to capitalize on global opportunities and ensures robust growth.

Capacity addition (Tonnes) - Product wise



No additional capex announced post FY25

Current capacity is sufficient to meet next 2-3 years' demand growth

Source – Company, Bastion Research

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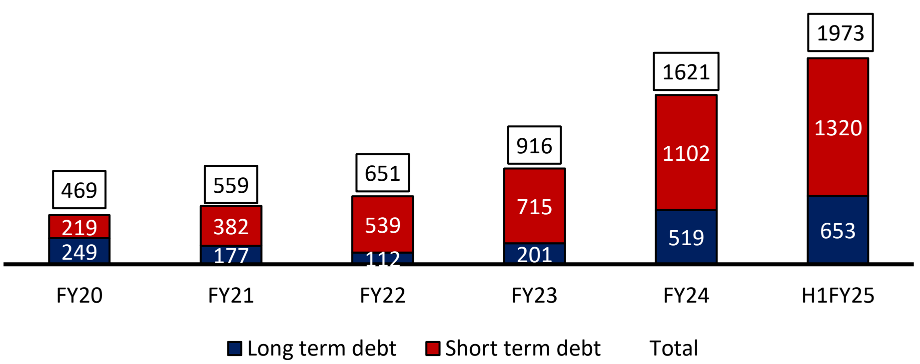
Long-term debt to peak out; Optimal Capacity Utilization

CCL's long-term debt is currently at a peak level due to significant capital expenditures for expansions in Vietnam and India. As these projects are expected to be completed by the end of FY25, CCL has no further capex plans in pipeline. This will allow the company to generate free cash flow from its expanded operations, which will help manage and reduce its long-term debt. Additionally, the company's short-term debt, driven by working capital needs, is sensitive to fluctuations in green coffee prices; rising prices may lead to an increase in short-term debt, while falling prices could result in a decrease.

Total Debt (Rs. in Cr.)



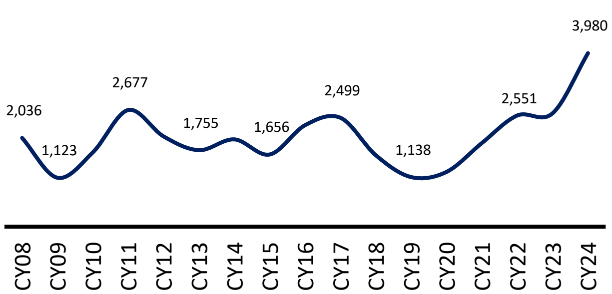
Short term debt is driven by working capital requirement

Long term debt is driven by capacity expansion

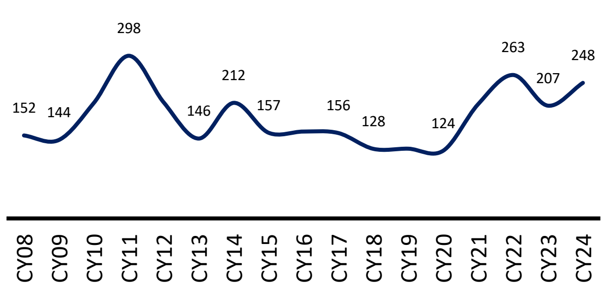
Source – Company, Bastion Research

Robusta coffee prices are currently at an all-time high due to adverse weather conditions in major coffee-producing regions, which have led to supply disruptions. As a result, CCL's working capital requirements have increased. However, there has been a slight softening of these prices over the past few months. Management anticipates that when the crop is harvested in December, prices may either soften further or stabilize. Globally, coffee consumption has remained steady, with no significant drop despite the rising prices. Therefore, if supply increases, prices are likely to soften.

Robusta Coffee Prices - USD per 10 Metric Tons



Arabica Coffee Prices - USD per 100 Bags of 60 Kg Each



Source: Bloomberg, Bastion Research

The rise in green coffee prices has also led to a shift in customer behavior, with CCL's clients opting for shorter-term contracts and favoring basic products over premium offerings. However, once green coffee prices stabilize, a rebound in demand for premium products is anticipated which will result in improved unit economics.

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Unit economics are expected to improve

The FDC capacity will increase from 11,000 TPA in FY24 to 17,000 TPA in FY25 while the SDC capacity remains constant and as the contribution of FDC to the revenue mix increases, the blended margins of CCL are expected to improve. FDC is a high-margin product, with margins that are 1.3-1.4x greater than those of SDC. Further, small packs, which are better margin product, revenue contribution has increased from 5-10% to 20-25% over the past 4-5 years. Specialty coffees now exceed 5% of the portfolio, up from less than 1% three years ago. Further, CCL's profitability (EBITDA per kg) is partially protected from green coffee price volatility due to its presales business model and has remained stable over the years.

	FY20	FY21	FY22	FY23	FY24
EBITDA per kg (in Rs.)	110	105	102	103	101

Stable in the range of 100-110

Robust growth in B2C segment

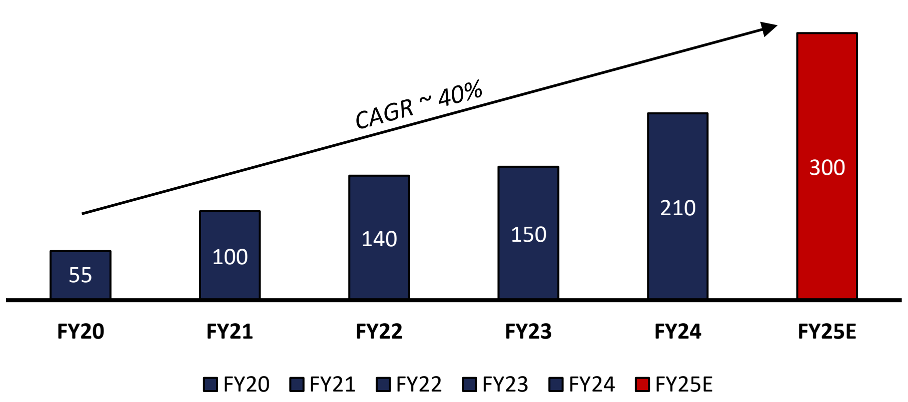
CCL Products is currently in a transitional phase as it expands its B2C branded coffee presence both domestically and internationally. Under its B2C segment, the company sells coffee under the brand "Continental Coffee" and aims to grow this brand further.

Domestically, CCL is strengthening its market position by increasing brand recognition through an expanded distribution network, enhancing e-commerce channels, and establishing vending machines, cafes, and kiosks.

Internationally, CCL has acquired the Löfbergs Group coffee brands and is re-launching them in various European countries. This move is expected to boost B2C sales in the international market.

In FY24, the branded business generated Rs. 210 Cr, 8% of total revenue, with a target to grow by 30-40% annually and increase branded revenue to 50% of total revenue by 2030. This B2C focus aims to drive higher revenue growth, improve margins compared to B2B sales.

CCL Product - B2C Revenue



Management guidance

Source – Company, Bastion Research

What can threaten the case?

Intense competition in branded business

CCL's Continental brand is facing intense competition in India's B2C coffee market, which is dominated by major players like Nescafé and Bru. Additionally, many venture capital-funded startups, such as Sleepy Owl, Rage Coffee, and Blue Tokai, are targeting young consumers with innovative products. A significant challenge for CCL is that coffee is a personal product, and consumer loyalty tends to be strong, making it difficult for smaller brands like Continental to gain market share. To compete more effectively, CCL has increased its marketing and promotional spending through both above-the-line campaigns and below-the-line sampling activities to boost product awareness. However, these efforts may have a negative impact on profitability and profit margins.

Vulnerabilities in global trade operations

CCL faces significant risks in its import and export operations. The company is vulnerable to changes in Indian customs, duties, and tariffs, which could affect its cost structure due to its reliance on imported green coffee. CCL generates ~ 1335 Cr (88%) revenue from exports and is therefore also exposed to fluctuating export duties, customs regulations, and trade schemes. Furthermore, changes to Most Favored Nation (MFN) agreements or trade policies by key trading partners, such as Ngon Coffee Company Ltd in Vietnam which is a subsidiary of CCL, could negatively impact CCL's operations and market position.

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Valuation

Particulars (in Rs. Cr)	TTM	FY27E (Bear)	FY27E (Base)	FY27 (Bull)
Revenue	2,903	3,532	4,036	4,360
EBITDA	496	619	820	1,003
EBITDA Margin %	17%	17.5%	20.3%	23.0%
EV/EBITDA	22x	18x	19x	21x
Enterprise Value	10,941	11,144	15,580	21,059
Net Debt	1,829	1,121	1,048	940
Est. Market Capitalization	-	10,022	14,532	20,119
Current Market Capitalization*	9,112			
% Upside/(Downside)		~11%	~60%	~122%

Source – Bastion Research, Estimates
**Market Cap assumed as of 3rd Nov 2024, initial date of recommendation*

Assumptions

Base Case: We have assumed volume growth of 15% CAGR with stable realisations. EBITDA margins are recovering to 20% levels, still below the previous high. EV EBITDA assumed at median level.

Bull Case: We have assumed volume growth of 18% CAGR with stable realisations. EBITDA margin improved to 23% levels, close to the previous high. EV EBITDA is assumed above the median due to solid performance.

Bear Case: We have assumed volume growth of 10% CAGR with stable realisations. EBITDA margins slightly recovered to 17.5% due to scale advantage. Due to weak performance, EV EBITDA is assumed to be slightly below the median.

About CCL Products (India) Limited

Established in 1994, CCL ranks as India's largest manufacturer and exporter of instant coffee and one of the world's largest private-label instant coffee manufacturers. The Company specializes in a diverse range of coffee products, including SDC, FDC, and agglomerated instant coffee.

CCL has four manufacturing units spread over Andhra Pradesh (2), Vietnam (1) and Switzerland (1). These units have a total capacity of ~60,000 MTPA for SDC and ~11,000 MTPA for FDC. CCL leverages advanced technology to create over 900 coffee blends, serving private-label customers in over 100 countries.

In addition to its strong presence in the export market, CCL has also ventured into the domestic branded coffee segment under the '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, and vending machines. This strategy enhances CCL's global reach and market penetration.

Corporate Structure of CCL

CCL Products (India) Limited

Subsidiary	Contribution to consolidated revenue in FY24	
Ngon Coffee Company Limited (Vietnam)	43%	Conducts operations for Vietnam and has capacity of 30,000 MTPA.
Continental Coffee SA (Switzerland)	11%	It has an agglomeration* and packing unit. Base product is exported from India and agglomeration is done there.
Jayanti Pte Limited (Singapore)	Nil	Used as an investment vehicle and does not have any business currently
Continental Coffee Private Limited (India)	0.1%	It conducts marketing and distribution of FMCG products and owns kiosks for coffee
CCL Food and Beverages Private Limited (India)	Nil	Into the business of manufacturing SDC, commenced operations in Mar 2024

** - Agglomeration – process of creating larger particles by binding smaller particles together which increases its solubility and provides enhanced flavor and aroma.*

Journey of CCL Products (India) Limited

Foundation and Early Years

The company was initially **incorporated in 1961** under the name "The Sahayak Finance & Investment Corporation Limited" where it **conducted the business of hire purchase financing**. However, in **1994**, it **pivoted to focus on coffee-related products**, rebranding itself as CCL Products (India) Limited.

Change of business to coffee along with international expansion

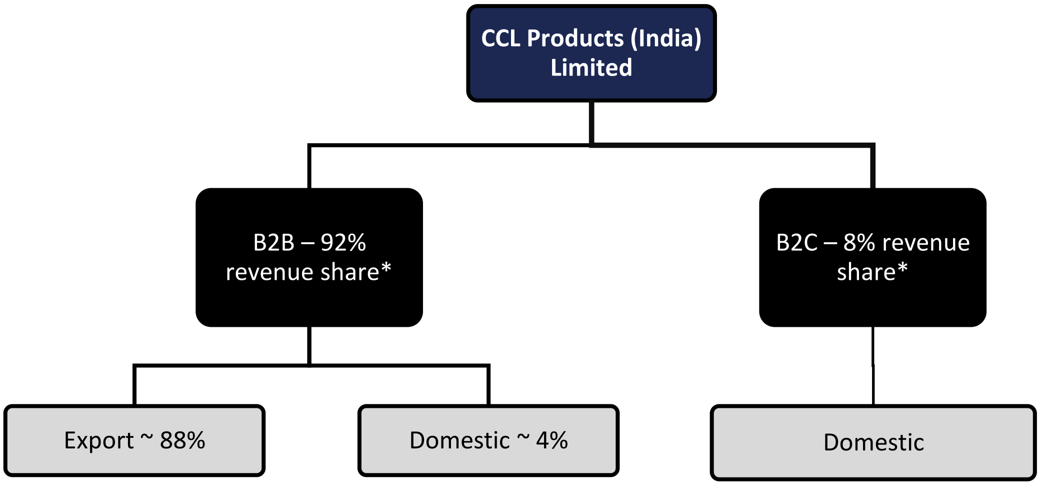
In 1995, it began commercial coffee production with an **initial capacity of 3,600 TPA**. In 1995, CCL Products signed a Memorandum of Understanding (MoU) to adopt Swiss and Brazilian technologies for instant coffee production, reinforcing its technical capabilities. To enhance its product offerings and market reach, the company entered a joint venture with Jyothy Laboratories in 2007 which was terminated in the year 2010. This period also marked a significant milestone when India's first Freeze Drying coffee plant was established in Duggirala, Andhra Pradesh, in 2007.

After establishing its business in the domestic markets, CCL focused on **expanding its international presence**. In 2008, CCL established a subsidiary in Singapore*, Jayanti Pte.* Two years later, it **set up a 3,000 TPA granulation capacity plant in Switzerland**, solidifying its presence in the European market. By 2012, CCL had **launched its Vietnam unit**, which boasted a **capacity of 10,000 TPA** for SDC.

Focus on B2C presence

Recognizing the importance of the domestic market, CCL Products **launched Continental Coffee** Pvt Ltd in 2016, **targeting local consumers**. This company started operations with 2 divisions: coffee and F&B where it marketed these products in the domestic markets. To grow its B2C business in UK, the largest market for coffee in Europe, it acquired the Lofberg group's brands in order to benefit from the retail presence this group had in the UK markets.

Business model



** - Revenue share as per FY24*

Product portfolio of CCL

Spray Dried coffee powder
- Brewed coffee is sprayed into a hot chamber causing water to evaporate
- Cheaper to produce

Spray Dried coffee granules
- Soluble coffee powder is further processed into agglomerated coffee
- Uses a specialized process to convert to granules

Freeze Dried Coffee
- Under this, brewed coffee is processed at -60 degrees Celsius
- Then ice is removed by sublimation

Freeze Concentrated Liquid Coffee
- Highly concentrated liquid form of coffee
- By freezing, water content forms ice which is separated leaving behind a more concentrated coffee liquid

Roasted coffee beans
- Various roast profiles like light, medium, dark roast are available.

Premix coffee and tea
- Mix that includes instant coffee, creamer and sugar
- Premium product catering to current lifestyles

1. B2B Model

Under B2B segment, CCL operates as a private label manufacturer and is the largest global player supplying instant coffee to renowned global brands in more than 100 countries. By leveraging advanced technology and innovation, CCL offers the ability to customize coffee blends tailored to the unique preferences and taste profiles of customers from diverse regions. With an extensive portfolio of over 900 distinctive coffee blends, CCL's product range includes spray-dried coffee powder, coffee granules, freeze-dried coffee, roasted coffee beans, as well as premixed coffee and tea options.

Strengths in the B2B segment

Diverse product portfolio

- The 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.
- It offers over 900 blends tailored to client requirements and offers various packaging options ranging from small packs to bulk containers.

Global network

- CCL derives majority revenue from exports and exports to over 100 countries.
- Thereby, it has a strong supply chain capable of international distribution in an effective manner.

Benefits of unit economics

- CCL being the largest instant coffee producer globally enjoys the advantages of economies of scale.
- It adopts a cost-plus pricing model and thereby passes on part of the benefit to its clients

High quality coffee

- CCL operates one of the largest instant coffee plants globally using advanced technology.
- Thereby brands can take advantage of this high quality without the need to purchase such plants

Meets international standards

- CCL holds various certifications like IFS, BRC Version 7, kosher, Halal, Organic, Rainforest, UTZ, etc. prevalent in international markets.

This has made CCL a preferred partner for coffee brands, allowing them to outsource their manufacturing needs in a cost-effective manner and concentrate on brand development and distribution.

Global coffee players

CCL does not disclose its client list, but it is safe to assume that it caters to all the major coffee brands globally.

These are a few logos we know of.

Coffee brands of supermarkets

Source –Multiple sell side reports, Bastion Research

Growing export revenue

CCL generates ~88% of its revenue from exports and exports to more than 100 countries.

Region	Revenue contribution (in %)
Commonwealth of Independent States (CIS) countries	20-25
Europe	12-15
North America	12-14
Middle East and Africa	5-10
Asia	40-50

Source – Company, Bastion Research

Expansion in major coffee markets

Europe

For expansion in Europe, CCL has acquired the brands of the Lofbergs group of the UK. Currently, for these brands, instant coffee is supplied by CCL and roast and ground coffee is outsourced to 3rd parties. CCL aims to terminate such 3rd party contracts. In the UK, there is the dominance of retail market operations, and this acquisition will enable it to gain access to such retail stores. It is also engaging in brand building initiatives in the European markets.

North America and China

CCL is actively targeting efforts for growth in North America, particularly the US. Using the strategy of deploying local associates, it is trying to build relationships that will help CCL to grow in these regions. In China, the company is in the "seeding phase" and is engaging in discussions with clients to develop relationships. This will help to increase revenue contribution from there.

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2. B2C segment

Under the B2C segment, CCL sells coffee under its own brand name, “Continental”, offering instant coffee as well as roast and ground coffee. This segment currently contributes ~8% to revenue in FY24. However, there will be a significant focus on growing the revenue from this segment.

Continental Coffee Private Limited, a wholly-owned subsidiary of CCL, began its operations in 2016. The company started two divisions: coffee and food & beverages kiosks. Under the coffee division, it focuses on marketing coffee and other fast-moving consumer goods (FMCG) under the Continental brand.

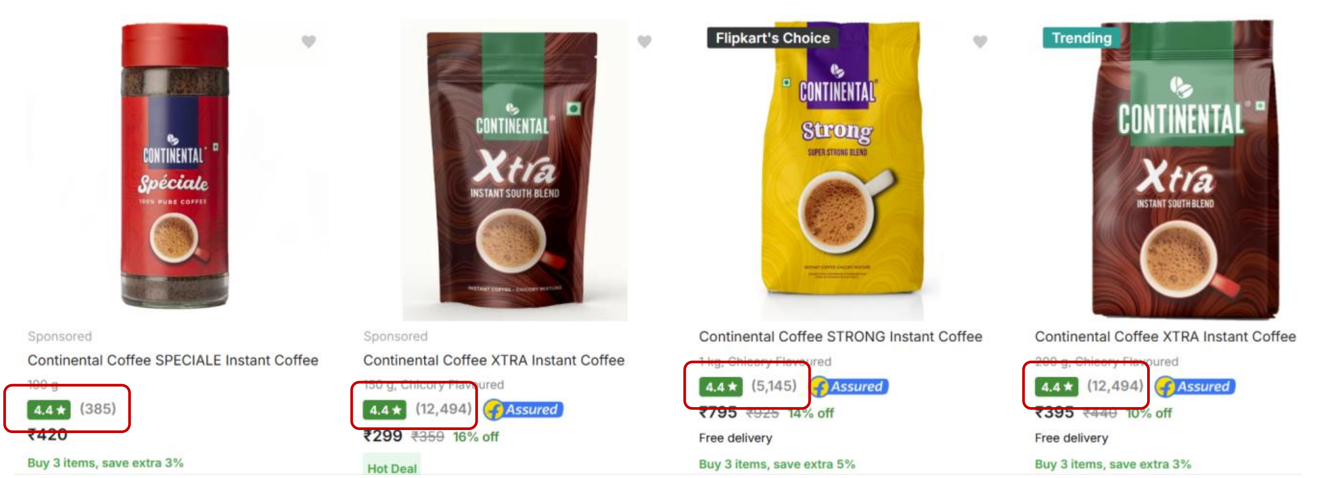
As part of a scheme of arrangement effective from October 1, 2022, the coffee division was separated from the wholly owned subsidiary company and brought under CCL (parent company).

Continental brand

CONTINENTAL® COFFEE

CCL operates its B2C division under the Continental brand. As of FY24, Continental Coffee has a 3.5% market share in the Indian retail coffee market. CCL has established a particularly strong presence in the southern regions of India, where it ranks as the third-largest brand in retail outlets. The company’s journey began with its initial launch in South India. The company holds market shares of ~8-10% in Andhra Pradesh and Telangana, 5-6% in Karnataka, and 3-4% in Tamil Nadu. South India is a significant coffee market contributing 75-80% of the total Indian consumption of coffee. CCL sells its coffee on online platforms as well, and its products have good reviews, which shows that the consumers like the product.

Reviews of Continental Coffee on Flipkart



Source – Flipkart, Bastion Research

CCL provides various types of instant coffee as well as roast and ground coffee under various sub-brands. The new innovative launches by Continental coffee are flavored premix coffee and its roast and ground coffee in pour over format.

Type of coffee	Sub-brands	Image
Spray Dried instant coffee	Continental Xtra, Continental Speciale	
Freeze Dried instant coffee	Continental THIS	
Premix coffee	Continental Black Edition/ Premium	
Roast and ground coffee	Continental Malgudi	

Source – Company, Bastion Research

B2C distribution channels

General Trade

- Includes traditional retail outlets such as local grocery stores and small independent retailers
- Reached **1,10,000 stores** in FY24, out of which 85,000 stores are in South India

Modern Trade

- Includes organized retail formats like supermarkets, hypermarkets, and convenience stores
- Present in **700-800 stores** Pan India

E-commerce

- Present on almost all online retail platforms such **as Amazon, Blinkit, BigBasket, own web site**, etc.

Vending machine

- Has **~4,000** Continental Coffee vending machines operational across India
- Contributes 10% to brand's revenue
- Aims to generate 100 crores of revenue from this

Cafes and Kiosks

- Opening up cafes and kiosks Pan India to facilitate easy access to its products
- Opened 3 cafes on pilot basis in Hyderabad called Contico

Growth strategies for B2C segment

Traditionally, CCL has generated almost all of its revenue from its B2B segment. However, the company now aims to grow its B2C segment rapidly. CCL aims to make the contribution of this segment to revenue up to ~50% by 2030. To achieve this growth, it has adopted various strategies.

Exploring new distribution avenues

Continental Coffee has a strong presence in Southern India, where it holds a larger market share compared to its overall market share in India, which is ~3.5%. The company is taking steps to expand its reach across the entire country, with strategies aimed at growth in the North, East, and West regions as well. For further expansion in the southern regions, Continental Coffee is focusing on towns with populations exceeding 50,000. In other parts of the country, the target is cities with populations exceeding 10 lakhs.

In addition to its current efforts, CCL is working to distribute its coffee through various cafes and kiosks to provide easier access to its products. The company has set up three pilot cafes in Hyderabad, named Contico. After assessing the response to these cafes, CCL plans to expand its distribution through this format.

Expanding product portfolio

Continental Coffee is expanding its product lineup to better meet customer demands. Recently, the company launched new products, including flavored premix coffee and roast and ground coffee in a pour-over format. These offerings primarily target the premium segment of the market. This initiative aims to enhance customer accessibility and will support CCL in achieving its B2C revenue targets.

It has also launched cold brew for the US markets. In the F&B segment, CCL has introduced plant-based products into its portfolio on a pilot basis in India, with a particular focus on the Hotels, Restaurants, and Catering (HoReCa) segment. This strategic move leverages the fact that emerging food trends often gain traction in commercial settings before becoming popular in households.

Acquisition of Lofbergs group's brands

The UK is the largest coffee market in Europe. In June 2023, CCL acquired several coffee brands from the Löfbergs Group, including Percol, Rocket Fuel, Plantation Wharf, The London, Blend, Perk Up, and Percol Fusion. The acquisition, made from Food Brands Group, a subsidiary of the Löfbergs Group, was valued at Rs. 5.7 Cr.

The process of relaunching these coffee brands in the UK is nearly complete, including the introduction of Percol in new packaging. CCL will end its arrangements with third parties for these brands and will fully integrate them into its operations. With retail store sales being dominant in the UK, this acquisition will create new revenue opportunities through this distribution channel. Additionally, CCL is exploring new packaging methods, such as coffee bags, which are particularly popular in the UK.

Manufacturing facilities

Duggirala, AP	Kuvvakoli, AP	Vietnam	Switzerland
This was CCL'S first plant started in 1995 and was the first to produce FDC in India. It has a capacity of 20,000 MTPA and 3,500 MTPA of agglomeration and packing capacity.	This plant is located in a SEZ having a capacity of 21,000 MTPA with the potential to double its capacity in the near future. It also has a fully automated packing unit with capacity of 10,000 MTPA and agglomeration facility with capacity of 5,000 MTPA.	This is a plant of a WOS of CCL, Ngon Coffee Company Limited. The capacity of this plant is 30,000 MTPA with additional 6,000 MTPA of FDC, expected to be operational by H2FY25.	Continental Coffee S.A., a WOS of CCL has a agglomeration and packaging plant with capacity of 3,000 MTPA.

Strategic location of plants

Each of these plants is strategically located and offers strategic benefits to CCL.

Duggirala plant in Andhra Pradesh is situated near coffee plantations, which allows for easy access to green coffee and lowers transportation costs.

Kuvvakolli SEZ in Andhra Pradesh offers tax benefits, operational efficiencies, and the proximity of the plant to Chennai Port enhances logistical efficiency and improves access to international markets.

The Vietnam plant is located in the largest area producing green coffee beans, benefiting from tax breaks and favorable trade status with ASEAN countries.

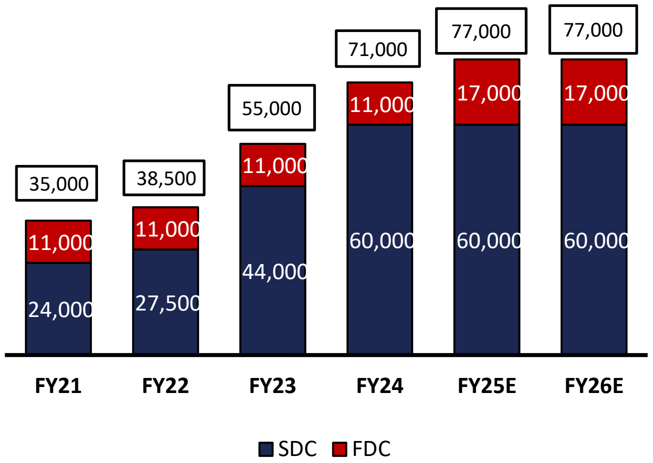
Switzerland's unit enhances CCL's presence in the lucrative European coffee market, expanding packing capacity and facilitating coffee agglomeration.

Capacity expansion

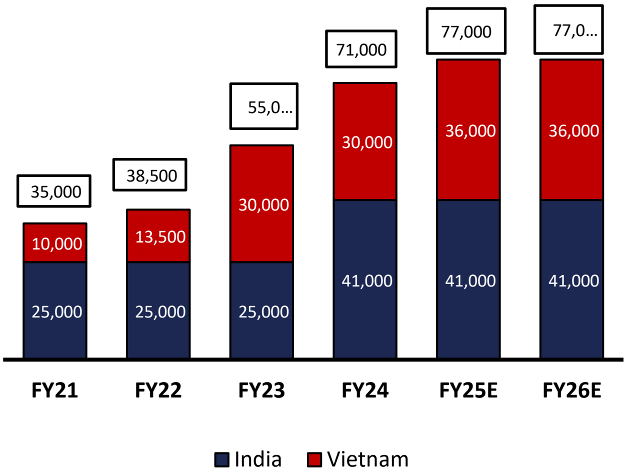
Over the past 2 years, CCL has undertaken significant capex of ~Rs. 650 Cr for increasing its SDC capacity (Rs. 250 Cr in Vietnam and Rs. 400 Cr. In India). This capex increased the capacity by about 80% from 38,500 MTPA to 71,000 MTPA. Further, the capacity is expected to increase by 6,000 MTPA as additional capex of ~Rs. 420 Cr is undertaken in Vietnam which will be completed by H2FY25. Post this, no further capex will be undertaken as the Company has sufficient capacity for the next 2-3 years of growth.

This capex is being undertaken to address the growing demand in the domestic market, as well as to cater to new export orders and recently acquired clients. Additionally, the company's strategy to expand its B2C segment through the Continental brand necessitates increased production capacity. This investment will enable the company to meet its requirements in-house, eliminating the need for outsourcing and thereby supporting the successful execution of its growth plans.

Capacity addition (Tonnes) - Product wise



Capacity addition (Tonn) - Geography wise



Source – Company, Bastion Research

KPIs to track

No.	KPI	Tracking Rationale
1.	**Green coffee prices**	While CCL's profitability is less affected by fluctuations in green coffee prices, a decline in these prices could still benefit the company. Lower inventory costs would reduce working capital requirements, and customers may choose to buy more premium products, which typically have higher EBITDA margins. Also, customers typically enter into more long-term contracts when green coffee prices are lower.
2.	**B2C revenue contribution**	CCL is currently transitioning its business to increase the contribution of its B2C segment to 50% of its revenue; this contribution currently stands at 8%.
3.	**Volume growth**	CCL has achieved a volume growth of 15-20% over the past three years, and this 15% growth is expected to continue.
4.	**EBITDA per kg**	The EBITDA per kg has remained stable despite increasing green coffee prices, staying within the range of Rs. 100-110 per kg. It is expected to continue or improve with the rising share of premium products in the revenue mix.
5.	**Reduction in long-term debt**	The ongoing increase in long-term debt is due to the Company's capital expenditure (capex) plans. However, CCL does not intend to pursue any additional capex since it has enough capacity to support growth for the next 2-3 years. As a result, the long-term debt should begin to decrease over time.

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Our View

CCL Products (India) Ltd. is at a pivotal juncture as it transitions into a phase of reduced capital expenditure and improved cash flow. Having nearly completed its ambitious expansion plan, which has doubled its production capacity in recent years, the company now has ample runway for growth over the next 2-3 years. With a strong emphasis on scaling its B2C brand, Continental Coffee, CCL is evolving from a contract manufacturer to a consumer company. Its focus on high-margin products, such as freeze-dried coffee, small packs and premium coffee, combined with its presales business model, offers a robust shield against market volatility while ensuring stable and predictable profitability. Additionally, its strategic presence in Vietnam, supported by favorable tax incentives and trade benefits, further enhances its competitive advantage in global markets.

Taking these factors into account, we recommend a **BUY** on CCL Products (India) Ltd.

CCL | Business Note

Financial Statement Analysis

Income Statement

Y/E Mar, Rs. Mn	FY20	FY21	FY22	FY23	FY24
Net Sales	**11,392**	**12,425**	**14,620**	**20,712**	**26,537**
Growth %		9%	18%	42%	28%
Raw Material Expenses	5,594	5,902	7,229	11,296	15,520
Employee Expenses	545	650	822	1,135	1,456
Other Expenses	2,396	2,895	3,258	4,283	5,108
EBITDA	**2,856**	**2,978**	**3,311**	**3,999**	**4,453**
Growth %		4%	11%	21%	11%
Margin%	25%	24%	23%	19%	17%
Depreciation	471	494	575	637	977
EBIT	**2,385**	**2,483**	**2,736**	**3,361**	**3,476**
Growth %		4%	10%	23%	3%
Margin%	21%	20%	19%	16%	13%
Interest Paid	180	170	164	344	777
Other Income & exceptional	48	34	41	33	63
PBT	**2,253**	**2,348**	**2,613**	**3,050**	**2,762**
Tax	594	525	570	210	262
Net Profit	**1,659**	**1,823**	**2,044**	**2,840**	**2,501**
Growth %		10%	12%	39%	-12%
Shares (Mn)	133.0	133.0	133.0	133.0	133.0
EPS	**12.5**	**13.7**	**15.4**	**21.3**	**18.8**

Balance Sheet

Y/E Mar, Rs. Mn	FY20	FY21	FY22	FY23	FY24
Cash, Cash equivalents & Bank	387	1,204	537	834	1,698
Current Investments	0	0	0	0	0
Debtors	2,681	2,986	3,196	4,414	4,968
Inventory	2,604	3,197	5,191	5,783	7,884
Short Term Loans & Advances	403	438	844	1,302	1,269
Other Current Assets	285	86	145	147	1,620
Total Current Assets	6,360	7,911	9,913	12,480	17,439
Net Block & CWIP	8,238	9,473	10,422	13,110	17,526
Long Term Investments	15	0	0	0	0
Other Non-current Assets	481	498	364	388	423
Total Assets	**15,094**	**17,882**	**20,699**	**25,978**	**35,387**
Creditors	246	217	457	738	997
Provision	0	3	62	50	82
Short Term Borrowings	1,427	2,977	4,492	6,367	10,110
Other Current Liabilities	1,089	1,490	1,290	1,203	1,611
Total Current Liabilities	2,762	4,687	6,301	8,358	12,800
Long Term Debt	2,495	1,769	1,117	2,008	5,186
Deferred Tax Liabilities	462	490	726	588	620
Other Long Term Liabilities	91	63	48	50	43
Total Non Current Liabilities	3,048	2,322	1,891	2,647	5,849
Paid-up Capital	266	266	266	266	266
Reserves & Surplus	9,018	10,607	12,173	14,707	16,472
Shareholders' Equity	9,284	10,873	12,439	14,973	16,738
Non Controlling Interest	0	0	0	0	0
Total Equity & Liabilities	**15,094**	**17,882**	**20,632**	**25,978**	**35,387**

Cash Flow

Y/E Mar, Rs. Mn	FY20	FY21	FY22	FY23	FY24
Pre-tax profit	2,253	2,348	2,613	3,050	2,762
Adjustments	657	535	939	907	1,677
Change in Working Capital	-1,469	-915	-2,000	-1,874	-3,596
Total Tax Paid	-535	-259	-390	-350	-290
Cash flow from Operations	**907**	**1,709**	**1,163**	**1,733**	**554**
Net Capital Expenditure	-884	-1,546	-1,899	-3,323	-5,133
Change in investments	0	19	-19	0	-9
Other investing activities	0	0	1	1	5
Cash flow from Investing	**-884**	**-1,527**	**-1,917**	**-3,321**	**-5,136**
Equity raised / (repaid)	0	0	0	0	0
Debt raised / (repaid)	526	902	916	2,653	7,047
Dividend (incl. tax)	-898	-266	-665	-665	-665
Other financing activities	0	0	-164	-352	-797
Cash flow from Financing	**-372**	**636**	**87**	**1,636**	**5,585**
Net Change in cash	-350	818	-667	48	1,003

Valuation Ratios

	FY20	FY21	FY22	FY23	FY24
Per Share Data					
EPS	12	14	15	21	19
Growth %		10%	12%	39%	-12%
Book Value Per Share	70	82	94	113	126
Return Ratios					
Return on Assets (%)	11%	11%	11%	12%	8%
Return on Equity (%)	19%	18%	17%	21%	16%
Return on Cap Employed (%)	14%	15%	13%	14%	11%
Turnover Ratios					
Asset Turnover (x)	0.8	0.8	0.8	0.9	0.9
Sales / Gross Block (x)	1.7	1.3	1.4	1.5	1.6
Working Capital / Sales (%)	26%	27%	23%	19%	17%
Receivable Days	81	83	77	67	65
Inventory Days	151	179	212	177	161
Payable Days	24	13	13	18	18
Working Capital Days	207	250	276	226	207
Liquidity Ratios					
Current Ratio (x)	2.3	1.7	1.6	1.5	1.4
Interest Coverage Ratio (x)	13.5	14.8	17.0	9.9	4.6
Total Debt to Equity	0.5	0.5	0.5	0.6	1.0
Net Debt to Equity	0.5	0.4	0.5	0.6	0.9
Valuation					
PE (x)	14.2	17.1	26.3	26.6	31.3
Earnings Yield (%)	7%	6%	4%	4%	3%
Price to Sales (x)	2.1	2.5	3.7	3.6	3.0
Price to Book (x)	2.5	2.9	4.3	5.0	4.7
EV/EBITDA (x)	9.8	11.9	18.0	21.0	20.9
EV/Sales (x)	2.4	2.9	4.1	4.0	3.5

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