ENDURING CAPITAL REPORTS

CCL PRODUCTS

EQUITY RESEARCH

Enduring Capital REPORTS

Contents

CCL Products Ltd

Global Coffee Outlook

The global green coffee market is experiencing its fourth consecutive year of crop shortage. This has led to unprecedented challenges in the global coffee market, with green coffee prices reaching historic highs. The surge stems primarily from sharp production declines in Vietnam and Indonesia, where droughts and changing weather patterns have impacted crops. While Brazil and Africa have increased their production to partially offset these shortfalls, global supply has failed to meet demand for nearly two years. The resulting minimal carryover stocks have further intensified upward pressure on coffee prices. Currently, the coffee supply is heavily constrained, but with the arrival of the new Vietnamese crop, it is expected to soften a bit. Still, due to considerable overcapacity by multiple operators across both India and Vietnam, there is strong competition to fill up all of this excess capacity, while the customer demand is not on the same level as the willingness to fill capacity. This high competition could make it difficult for any operator to maintain a strong stock of coffee while keeping inventory costs low. Coffee as a commodity works differently from other agriculture-based commodities in that for most agriculture-based commodities the harvest cycle is 6-9 months, but in the case of coffee, the harvest cycle is 3-4 years. Thus, if a new crop is added today, its effects are observed 3-4 years later.

Fig. 1 : Green Coffee Prices trend for the last 5 years in USD per pound (Source : tradingeconomics.com)

According to Mordor Intelligence, the global coffee market was valued at $132.13 billion in 2024 and is projected to reach $166.39 billion by 2029, growing at a compound annual growth rate (CAGR)of 4.72% during the forecast period 2024-2029.

CCL Products Ltd

Company Overview

CCL Products Limited is a coffee production company with business interests in coffee exports, private label manufacturing, and Continental Coffee-branded coffee. Through their years of experience, they offer a 1000-blend variety to their customers. Some of their varieties include spray-dried coffee, freeze-dried coffee, etc. The company is primarily involved in the B2B coffee trade, where it is a key supplier of coffee to other businesses, but the company also has its own B2C vertical in the form of a branded coffee line called Continental Coffee.

Company Analysis

The company is an entrenched player in the B2B coffee business, having been in it for the past 3 decades. These decades of experience have helped the company build a strong distribution and procurement network, which helps it in obtaining good prices for coffee and withstand the high price environment that is affecting every part of the coffee value chain.

The company is primarily a contract manufacturer for various instant coffee retailers and private label companies. They have established long-standing relationships with their clients, and as of FY-25, nearly 70% of the business comes from these long-term clients.

The company has multiple subsidiaries, such as one wholly owned subsidiary in Vietnam called Ngon Coffee Company Ltd, which manufactures instant coffee, and one in Switzerland called Continental Coffee SA, which is an agglomeration and packing unit. A Singaporean arm, Jayanti Pte Limited, acts as an investment vehicle for the company. And two Indian subsidiaries, Continental Coffee Private Limited, which promotes the instant coffee brands of the company domestically, and CCL Food and Beverages Private Limited, which manufactures spray-dried instant coffee.

Since most of the company's revenue comes from exports, it is vulnerable to currency fluctuations (primarily US dollars, as that is the main currency in which the company operates). However, almost 75% of the company's raw material is also sourced internationally, thus this creates a natural hedge against US dollar price fluctuations.

The company has been able to scale its B2C business at a rapid pace. This is because the company has a very strong B2B business, which has enabled them to have a strong distribution network, and on the strength of this distribution network, they have scaled their B2C business very quickly.

The company runs on a cost-plus business model. Hence, they are relatively insulated from the price changes that have affected the industry of late. Nonetheless, they still have to face the issues of short-term contracts and opportunistic sales, which bring in revenue but fail to give permanent volume growth.

Due to the high coffee prices, the company's clients have refrained from signing long-term supply contracts with the company, and there has been a rise in short-term opportunistic sales. In such situations, the revenue does come through the door, but the volume growth is unstable.

Across multiple product categories, the spray-dried coffee sold in bulk has the lowest margin, while spray-dried coffee sold in small packs attracts a 20%-30% margin. Agglomerated coffee sold in small packs can attract a 4%-5% higher margin than its spray-dried counterpart, and freeze-dried coffee could earn anywhere between 32% and 50% higher margin than spray-dried coffee.

Insights from Conference Calls

Insights form May 2024 Conference Call

- This financial year, the domestic part of the business had a revenue of INR 320 Cr. of which INR 210 Cr. was pure branded business and the rest was bulk and private label.
- Volume Growth stands at 14% for the full year.
- In the previous meetings, the management had guided that volume growth would be in the 18%-20% range, but they have not been able to achieve such volume growth levels due to multiple geopolitical issues as well as COVID.
- Pre-COVID, there was high demand for the company's products, which prompted the management to expand its production, but due to COVID, the management was unable to go ahead with this expansion.
- Due to prevailing supply and geopolitical issues, the company's customer acquisition costs have gone up significantly.
- When coffee prices go up, there is a certain downtrading from the customer point of view, and the demand for smaller packs and cheaper versions goes up.
- Capacity utilization in India stands at nearly 100%, while in Vietnam it stands at about 65%-70%.
- The clients of the company are avoiding long-term supply contracts with the company due to the elevated coffee prices, which results in the volume growth of the company being lower than expected.

After the recent expansion, the capacity of the company is 76000 metric tons, and the management is confident that this level of capacity will suffice for expansion till 2027-2028.

Insights from November 2024 Conference Call

- This half year, the domestic business has had a revenue of INR 200 Cr., the branded business has had a revenue of INR 135-140 Cr.
- Most of the EBITDA growth (24%) in this half is due to the volume growth, and the rest is due to the better margin business that the company achieved.
- The old capacity, like the previous half, is being used at full capacity, while the new F&B capacity utilization is 10-12%, and after the capacity extension in Vietnam, the utilization stands at 40%-50%.
- Due to the high green coffee prices, the company has been facing issues with its clients preferring short-term contracts as opposed to long-term contracts, but the management has offset this by doing more business in their branded and small pack segments.
- The management has increased marketing spend for its branded coffee business (Continental Coffee) and is experiencing strong growth of 50% (value-wise) at an EBITDA margin of 5%-6%. This has prompted the management to keep up with such marketing efforts so that the brand can achieve a sizable chunk of the branded coffee business in India.
- The management is not concerned much about the near-term effects of the high coffee prices, as these high prices have not been accompanied by a reduction in end-user consumption.
- The company is also involved in multiple smaller ventures alongside its main business, for instance, in the UK with its acquisition of Percol, it has begun to provide high quality coffee products and made relationships with multiple retail partners there and in the US with cold-brewed coffee, but these are relatively small parts of the business.
- The management is making efforts to adjust to the new normal of high coffee prices, like signing more high-value contracts, selling more value-added coffee, selling more small packs, and bringing more efficiencies in their manufacturing processes.

Insights from February 2025 Conference Call

- This quarter, the domestic business had a revenue of INR 130 Cr, of which the brand contribution was about INR 90 Cr.. Additionally, for the previous 9-month period, the domestic business has had a revenue of INR 330 Cr, of which the brand contribution was nearly INR 220 Cr.. This indicates that the marketing efforts by the company are panning out well and they are able to gain market share as well as diversification from their main business, which has been facing headwinds due to the volatility and rise in green coffee prices.
- The company's B2C business has seen strong growth in both the Southern and Northern markets, with the Southern market's share now at about 70% of the total, down from about 80-85% two years ago. They are also seeing strong demand for their experimental products, such as flavored and decaf coffee, and there is a lot of scope for growth in this segment.
- The company has historically gained market share through innovating new products and thus creating new market categories for its expansion. Currently, they are also looking at newer markets where they don't have any presence for expansion, such as South America and Far East Asia.
- The company has a vast distribution network with 1.2 L direct distributed outlets, also called general trade, 3500 outlets in the modern trade (which constitutes larger retail chains etc.) and their product is also in 90% of quick commerce dark stores which is helping them secure market share in the more fragmented coffee market of North, East and West India.
- The high green coffee prices are weighing heavily on the company's B2B business, which has seen growth reductions and due to overcapacity by multiple other players both in the Indian as well as the Vietnamese operators, there is a strong expectation that as the cycle moves forward some of the more strained players move out of the business and CCL Products is able to gain significant market share in the future.
- Now that all of the CAPEX is in place and the management does not intend to commit to further CAPEX shortly, the management wishes to use the cashflows generated from their operations to pay off debt and keep the total debt to a requisite level, which has been rising due to the high green coffee prices.
- The coffee supply is heavily constrained, but with the arrival of the new Vietnamese crop, it is expected to soften a bit. Still, due to considerable overcapacity by multiple operators across both India and Vietnam, there is strong competition to fill up all of this excess capacity, while the customer demand is not on the same level as the willingness to fill capacity. Thus, there is a chance that eventually, as the capital cycle turns, some of the smaller players with weaker balance sheets leave the business, giving a chance to more entrenched and established players with strong balance sheets to take over the market.

CCL Products Ltd

Insights from May 2025 Conference Call

- The domestic business concluded the financial year with revenues of INR 440 Cr, of which about INR 300 Cr was contributed by the brand sales.
- The company uses innovation both in coffee blends as well as types in order to gain market share. That has largely been their strategy for the past decade, and it has given them a strong positioning in the market.
- The Inventory costs for the company are high due to two main reasons. Firstly, because the company sources most of its inventory from local farmers and small aggregators, it tends to negotiate deals where the aggregator holds the coffee for them and they pay a slightly higher price to the aggregator for it. Additionally, due to having procurement channels all around the world, the company is able to procure coffee at more attractive rates, and in the case when it has bought coffee from Brazil as opposed to their usual Vietnamese and Indonesian sellers, then the transit times increase significantly, leading to a higher inventory cost.
- In Q4, the company had a lot of high-margin contracts with end customers that helped them to increase their EBITDA per kg by almost 25%.
- The company has marginally increased its small pack contribution, which is key for them, so that they can improve their margins in the high-price environment that persists.
- The company has been largely unaffected by the recent US tariffs.

Financial Overview

The company’s revenue has grown from INR 1462 Cr. in FY’22 to INR 3106 Cr. in FY’25, showing a CAGR of 20.7% throughout the period.

	FY-22	FY-23	FY-24	FY-25
EBIT (in Cr.)	274	336	347	457
EBIT Margin (in %)	18.7	16.2	13	14.7

- The company's EBIT margins have compressed over the years due to the increased coffee prices and the subsequent lack of long-term contracts from its clients.
- The company's PAT margin stood at 9.98% for the year ended 31st March,2025, compared to 9.4% for the year ended 31st March, 2024.
- The company has a high working capital right now due to the increase in coffee prices and the inventory management issues that it has caused.
- Most of the company's borrowings are of a short-term nature, and this is because of the high coffee prices. Whenever the company gets a new order, it takes on additional debt secured against this order to fulfill it.

Ratio Analysis

1. **Activity Ratios**:

- Receivable Turnover Ratio: Increased from 4.7 to 5.35 due to increased short-term contracts and the company selling stock to clients with a longer period to pay for the coffee.
- Payables Turnover Ratio: Declined from 22.7 to 17.79 because the company has been paying its suppliers early and asking them to hold the coffee for them.
- Inventory Turnover Ratio: Declined from 2.9 to 2.25 because the company's clients have moved to short-term contracts as opposed to longer-term contracts due to high coffee prices.

2. **Profitability Ratios**:

- Operating Profit Margin: Increased from 18.9% to 33.27% due to increased high-margin domestic business and cost efficiencies in manufacturing that the management has implemented.
- Net Profit Margin: Decreased from 12.9% to 9.3% due to increased coffee prices and inventory management issues caused by it.
- Return on Equity: Increased from 37.02% to 41.4% primarily due to an increase in asset turns and financial leverage. (DuPont Analysis shown later)
- Return on Capital Employed: Declined from 19.2% to 15.6% because the CAPEX done by the management has just come into function and is thus running at 10-15% of capacity. On tracking the company over a longer period of time, we have noticed that whenever the management does CAPEX, then in those cycles, the ROCE comes down and then peaks as the capacity utilization reaches its maximum.

3. **Solvency Ratio**:

- Debt to Equity Ratio: Increased from 0.61 to 0.96 because the company's working capital requirements have increased due to high coffee prices.

4. **Current Ratio**:
- Declined from 1.49 to 1.36 because the company has had to take a large amount of short-term loans to cover for its high working capital needs due to high coffee prices

DuPont Analysis

YEAR	PAT MARGIN	ASSET TURN	LEVERAGE	ROE
2024	9.3%	2.11	2.11	41.4%
2023	12.9%	1.64	1.75	37.02%

Current Trends

Due to increased capacity, the company has an opportunity to obtain new clients for its B2B business and thus help expand its market share from its current levels of 8-9% in the global coffee trade.

The company has a significant advantage for its B2C business as well because, unlike mature economies like Europe and the US, there aren't many market penetration prospects, as most of the consumers already drink coffee there, and thus, it puts a cap on the growth that can be achieved in those markets. This, when compared to economies like India, China, and the Middle East, where coffee is not the staple drink but is quickly gaining share. In such cases, there is a very large scope for extensive market penetration and growth by gaining existing market share.

Opportunities and Risks

Opportunities

- Due to the rapidly increasing disposable income of young Indians and their growing aspirations, a significant market for coffee consumption has opened. To capitalize on this trend, the company has set up its B2C brand Continental Coffee.
- Due to the high prices and thus, the possibility of a turn in the capital cycle, the company has an opportunity to take up more market share as the players with weaker balance sheets decide to leave the business.

Risks

- The coffee bean supply has been plagued with crop shortages for almost 4 years, and this has driven the price of coffee beans to record highs. Though the company runs on a cost-plus business model, it is largely shielded from price increases, but these high prices have caused the company's clients to reduce the lengths of their contracts, thus weighing on the volume growth.
- Coffee production is highly sensitive to weather patterns, particularly temperature and rainfall fluctuations. These changes significantly affect crop yields and global supply. As the weather becomes increasingly unpredictable and unseasonable, it may fundamentally alter how coffee is produced.
- The increased production capacity of instant coffee, combined with the birth of various D2C coffee brands has made the instant coffee market intensely competitive

Porter's Five Forces Analysis

1. **Threat of new Entrants**: In the coffee industry, having good supply chain is not sufficient but one also needs to have the right blends is key for securing contracts with large clients. CCL Products has a range of 1000+ blends and works with its clients to prepare new blends. This is one of the MOATs that the company has. Thus, the threat of new entrants is not significant for the company.
2. **Power of Customers** : As we have noticed in the current scenario where the coffee prices are very high, the customers of the company though staying with them due to their scale and cost advantages, have opted for short term contracts instead of long term contracts which has caused a loss of growth in volumes for the company.

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3. **Power of Suppliers**: In this high-priced environment, the unorganized suppliers of the company (primarily farmers and small aggregators) have a limited supply of the goods, so the company has had no other option but to pay them immediately and secure the coffee shipment. This has put a strain on the Cashflows and decreased the payables turnover ratio.

4. **Competitive Rivalry**: Due a relatively strong entry barrier, new entrants cannot immediately begin competing with the incumbent players thus it does not have a large impact on their profit margins.

5. **Threat of Substitutes**: The company's B2C business still has a very small market share, but they have been gaining market share quickly. But this business does not have a very large entry barrier and both new startups as well as the market dominants keep entering the space with new products, thus this poses a significant threat to the business of the company and they need to consistently spend large sums on marketing to keep market share and increase it subsequently.

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Thank You

~Shivam Shekhawat

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