CCL Products Q4FY21

Financial Results & Highlights

Brief Company Introduction

CCL Products (India) is engaged in the manufacturing of instant coffee. The Company operates through the Coffee and Coffee related products segment. It is engaged in the manufacture of soluble instant spray dried coffee powder, spray dried agglomerated/granulated coffee, freeze-dried coffee and freeze concentrated liquid coffee.

Standalone Financials (In Crs)								
	Q4FY21	Q4FY20	YoY %	Q3FY21	QoQ %	FY21	FY20	YoY%
Sales	291	245	18.78%	189	53.97%	862	957	-9.93%
PBT	122	111	9.91%	31	293.55%	210	298	-29.5%
PAT	100	96	4.17%	22	354.55%	159	239	-33.47%
Consolidated Financials (In Crs)								
	Q4FY21	Q4FY20	YoY %	Q3FY21	QoQ %	FY21	FY20	YoY%
Sales	335	267	25.47%	300	11.67%	1246	1144	8.92%
PBT	72	58	24%	56	28.57%	235	225	4%
PAT	49	42	17%	47	4.26%	182	166	9.64%

Detailed Results:

1. The company had an encouraging quarter with consolidated sales up 25% YoY and PAT up 17% YoY.
2. FY21 figures were good with consolidated revenues rising 9% YoY and PAT rising 10% YoY due to steady operations throughout the year from Vietnam facility.

Investor Conference Call Highlights:

1. The EBITDA for FY21 was at Rs 310 Cr vs Rs 290 Cr last year.
2. The management maintains volume growth guidance of 10-15% in FY22.
3. The company has not faced any inventory accumulation in Q4 due to delays in shipments from the container shortage that it faced in Q3.
4. The management states that there is scope for margin expansion in the Vietnam plant due to lower depreciation schedule for the old plant, expansion of capacity, and better working capital management.
5. Although freeze-dried proportion has risen in Q4, the main reason for gross margins rising is the heightened demand for small packs before the summer.
6. Freeze-dried capacity was working at 62% utilization in FY21.

7. The management has clarified that the volume growth guidance is not including the normalization of freight prices and if this happens, the guidance can be expanded further.
8. The company has not seen any drop or degradation in customer relationships due to the delays in shipping as the immediate requirements of customers were met from the warehouses in USA and Switzerland that the company owns.
9. The expanded capacity in the Vietnam plant should be operational from the 1st of July.
10. Vietnam capacity utilization was close to 95% in FY21. The Duggirala plant saw utilization at 65-70% in FY21.
11. There was indeed some margin loss in India operations in Q4 due to higher input costs.
12. The company was anticipating 30-40% growth in the India business, but it has revised its expectations down to 25-30% in FY21 due to the 2nd wave of COVID-19 if things normalize from July onwards.
13. The higher input costs are due to drought conditions in Brazil which led to a rise in arabica prices. Thus correspondingly, robusta prices also went up somewhat to match it.
14. But the management assures that this input price volatility will have minimal effects as most of the contracted sales of the company are on a cost-plus basis.
15. The expansion in the Vietnam plant is 3500 MTPA.
16. The India business sales were at Rs 150 Cr (vs Rs 95 Cr last year) of which branded sales were Rs 100 Cr while the rest was for institutions and private labels.
17. The management indeed has plans to double capacity in Vietnam and will look into it in 6-9 months after the current expansion is complete.
18. The management expects the company to hit peak utilization in small packs by October this year.
19. Vietnam sales for FY21 were Rs 375 Cr and profits were at Rs 85 Cr.
20. Switzerland sales were at Rs 180 Cr (net consolidated value addition of Rs 25 Cr) for FY21 and Profits were at Rs 6-7 Cr.
21. Short-term debt has risen for CCL as these funds were raised to buy inventory of green coffee when its prices rose.
22. The management has plans to reduce net debt by Rs 84 Lacs in FY22.
23. The company is also installing pending small pack capacity to 12000 MT which should be available for full-scale production by Q3FY22.
24. USA now accounts for 15% of sales. The management has stated that it expects better realizations going forward due to the rise in small pack sales.
25. The entire small pack capacity is in India currently. The management is thinking of establishing another such facility in Vietnam in the future.

26. There isn't much clarity on the replacement of the MEIS for CCL but the management expects the pending dues of Rs 27-28 Cr to be realized in FY22.
27. EU accounts for 22-25% of exports.
28. The total instant coffee market in India is around Rs 2000 Cr. Going by this, the company has a market share of close to 5%.
29. The company has a total reach of 95,000 outlets. It expects to reach 1.5 Lac outlets by the end of FY22. The 2 main rivals in India, Nescafe, and Bru both have total reach of 10 Lac+.
30. The expected capex in FY22 is around Rs 50-60 Cr. The CWIP currently is at Rs 148 Cr.
31. Volume growth in FY21 was at 10% YoY.
32. The company is looking to hit sales of 50,000 MT by 2024. To do this it is looking to increase capacity to 55,000-65,000 in the same period.
33. It is also targeting sales of Rs 250 Cr for the India business in the next 2 years. As branded sales rises, margins are also expected to rise to 25-30% for CCL.
34. The company is already getting inquiries for 1000 MT of cold brew mix and it is very optimistic about the prospects for this product.
35. Around 8-10% of retail sales are coming from e-commerce.

Analyst's View:

CCL has already established itself in the wholesale coffee space for many years and their foray into branded sales through the Continental Coffee label has been very encouraging. The company has had a good quarter with 25% YoY growth in Sales despite the rise in coffee beans. It also saw continued high utilization at the Vietnam facility. The company's branded business is growing well and has already reached Rs 100 Cr in sales in FY21. The company is doing well to capitalize on its unique offerings and is working hard on expanding its influence. This is evident from the response seen from customers for its new cold brew product and the inquiries it is getting from export destinations. It remains to be seen how fast the capacity expansion will be done for CCL and whether the branded business will be able to maintain its growth momentum. Nonetheless, given the enormous market opportunity for the branded business in the domestic market, CCL products may turn out to be a dark horse in the global coffee industry in the years to come.