CCL Products Q4FY20

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)								
	Q4FY20	Q4FY19	YoY %	Q3FY20	QoQ %	FY20	FY19	YoY%
Sales	245	225	8.89%	224	9.38%	957	839	14.06%
PBT	111	61	81.97%	58	91.38%	298	179	66.48%
PAT	96	49	95.92%	36	166.67%	239	125	91.20%
Consolidated Financials (In Crs)								
	Q4FY20	Q4FY19	YoY %	Q3FY20	QoQ %	FY20	FY19	YoY%
Sales	267	263	1.52%	303	-11.88%	1144	1085	5.44%
PBT	58	47	23.40%	69	-15.94%	225	209	7.66%
PAT	42	35	20.00%	47	-10.64%	166	155	7.10%

Detailed Results:

1. The company had a modest quarter with sales growth of 1.5% YoY and PAT growth of 20% YoY.
2. The FY20 figures show modest growth for the company so far this year with only 5.4% YoY revenue growth and 7.1% YoY profit growth.
3. The standalone performance was phenomenal with PAT growth in excess of 90% in both Q4 and FY20 despite only having 9% and 14% YoY revenue growth in Q4 & FY20 respectively.

Investor Conference Call Highlights:

1. The capacity utilization at Chitoor plant has been 50-53% of which major portion came in Q3 & Q4.

2. Management has stated that there wasn't any significant revenue loss due to the lockdown in March since most of the required volumes had already been made and were just stuck due to a lack of shipping. These orders were shipped later.

3. The management has stated that the main reason for the rise in margins is the improvement in product mix.

4. The company did have production outage in April but it should be able to make up for it. But the management has refrained from providing any specific guidance for demand in FY21.

5. The India business did around Rs 90 Cr of sales and a loss of Rs 3 Cr in FY21.

6. The branded sales of the company did suffer from lockdown.
7. The management has stated that the manufacturing has resumed at normal levels and the company has had zero material impact from COVID in Vietnam. Indian operations did suffer initially but it has since normalized.
8. The management has observed that indeed retail demand for instant coffee has gone up while wholesale demand for coffee which is mainly in offices has gone down due to COVID. But irrespective of COVID, the overall demand for instant coffee is widely expected to go up this year.
9. The company has not had any order cancellations due to COVID yet but it has indeed received some requests for postponement of shipments due to disruptions in certain markets.
10. In India, the company has a combined capacity of 25,000 tons while in Vietnam, it has a capacity of 10,000 tons. The company is adding an additional capacity of 3,500 tons to the Vietnam plant. This addition was to commence from Q1 but has since been delayed to Q3 due to COVID.
11. The company is not expanding its manufacturing capacity in India. It is only increasing agglomeration and packing capacity.
12. The management is confident of margin expansion as the company has delivered its highest ever margins despite seeing only 50% utilization in the year.
13. The branded business in India has grown 40% YoY. The company is focussing on sales and distribution in the South currently due to higher demand there. Once it establishes itself there it will expand to the rest of the country.
14. According to Nielsen, the company has a market share of 2%. The management feels that according to internal sales, their market share should be around 4-5%.
15. The management is confident of maintaining this growth rate for branded products as the company is seeing a good conversion from its wet sampling exercises where they do 1 lac free samples each month. Another source of confidence for the company is the fact that the company is operating in the different segments using different blends, unlike existing players who have few blends which are mostly segmented by price and overall quality.
16. Currently, branded margins are depressed mainly due to incremental expenses for gaining market share and promotion. The management expects these margins to rise above bulk business margins in the long run.
17. The plants were running at 33% capacity in May. This is mainly due to the presence of carryover stocks from March due to delay in shipments and orders.
18. Cash conversion has been generally better in FY20 as compared to FY19 according to the management.
19. The Capex planned for FY21 is Rs 120 Cr in India and Rs 80 Cr in Vietnam.
20. The management expects the current product mix to continue and the margins to sustain at current levels in FY21.
21. The capacity utilization for the Vietnam plant has been 65-70% in FY21 so far.

22. The management expects to be spending around Rs 11-12 Cr on retail coffee business in FY21 which was the same as in FY20.
23. Switzerland's unit revenue was Rs 135 Cr and PAT was at Rs 3.73 Cr for the year.
24. Vietnam unit revenue was at Rs 268 Cr and PAT was at Rs 56 Cr for the year
25. Around 50% of the sales volumes are going to branded players where the company supplies them coffee in bulk.
26. The aforementioned Capex of Rs 120 Cr in India was mainly towards a new packing facility for making small packs for the company.
27. The opportunity size of branded coffee in India was Rs 2000 Cr in FY20. Around 60% of the instant coffee market is in South India.
28. The management has stated that none of its international customers want to launch in India since the market size is still too small for them as compared to other geographies and the fact that India is predominantly a tea-drinking nation.
29. The management guides for improvement of 10-15% in EBITDA in FY21 despite 1-1.5 months of the plant shutdown.
30. The company did have a negative impact of Rs 3-4 Cr in Q4 due to a reduction in the export incentive from 7% to 5%. The incentive booked in Q4 was Rs 7 Cr.
31. The in-house branded sales were around Rs 55 Cr in FY21.
32. Currently, only 6-7% of sales are from online channels. The company is offering discounts to expand this channel and will scale back on discounting as this channel expands.
33. Pre-COVID, the no of direct distribution outlets for the company were around 55,000-60,000. The company is aiming to expand this to 75,000-80,000 outlets by the end of FY21.
34. The total number of distribution outlets is around 6 lakh for the major rival brands. Similarly, the total number of potential outlets in South India is around 8-9 Lakh.
35. The market share for Nestle & HUL in coffee is almost 50-50.
36. The stock buildup right now is Rs 33 Cr and the EBITDA margin at cost price is 25%.
37. The management does not expect any significant change in raw material prices in FY21.
38. The company expects orders in the USA to almost double to 4,500 to 5,000 tons in FY21 from 2,000 tons in FY20. These orders will be serviced from both India and Vietnam.
39. The company is also getting into the small packs business in the USA from next month onwards.
40. Currently, the debt for the company is at Rs 296 Cr. The company is aiming to pay up the debt by FY24. Roughly around Rs 76 Cr of debt repayment is to be made each year.
41. The management is aiming for normal operations with a 10-15% growth in FY21.

Analyst's View:

CCL has already established itself in the wholesale coffee space for many years and their foray into branded sales through Continental Coffee label has been very encouraging. The company has had a decent quarter on the back of the improved product mix and improvement in margins and PAT. The company's branded business is growing well and has already captured a 5% market share in South India according to internal estimates. The company is doing well to capitalize on its unique offerings and is working hard on expanding its influence. The company has had minimal impact from COVID in its Vietnam facility and has not been hit as hard from COVID-19 as other industries. It remains to be seen how the export business will pan out in the year given the logistical disruptions from COVID-19 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.

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