

India Ratings Upgrades CCL Products to 'IND AA-/Stable; Limits Enhanced

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By Prasad Patil

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India Ratings and Research (Ind-Ra) has upgraded CCL Products (India) Limited's (CCL) Long-Term Issuer Rating to 'IND AA-' from 'IND A+'. The Outlook is Stable. The instrument-wise rating actions are as follows:

Instrument Type	Date of Issuance	Coupon Rate	Maturity Date	Size of Issue (million)	Rating/Outlook	Rating Action
Fund-based working capital limits	-	-	-	INR2,250	IND AA-/Stable/IND A1+	Long-term rating upgraded; Short-term rating affirmed
Non-fund-based working capital limits	-	-	-	INR250 (increased from INR230)	IND A1+	Affirmed
Term loans	-	-	FY26	INR2,975 (increased from INR2,225)	IND AA-/Stable	Upgraded
Term loans*	-	-	FY24	INR437 (reduced from INR700)	IND AA-/Stable	Assigned and upgraded

*Assigned Final 'IND A+' /Positive before being upgraded following the receipt of executed financing documents by Ind-Ra.

Analytical Approach: Ind-Ra continues to take a consolidated view of CCL Products India Limited and its wholly-owned subsidiaries Jayanti Pte Ltd (Singapore); Ngon Coffee Company Ltd (Vietnam); Continental Coffee SA (Switzerland); Continental Coffee Private Limited (India), and CCL Beverages Private Limited (India), in view of the strong operational synergies among them, given they have similar businesses, and common promoters and senior management.

The upgrade reflects CCL's continuing ability to generate steady profitability, underpinned by an improving product mix, healthy volume growth while maintaining a strong credit profile.

KEY RATING DRIVERS

Strong EBITDA Growth in FY20, Resilient Profitability to be Seen in FY21: CCL posted strong EBITDA growth of 16% yoy to INR2,859 million in FY20 while margins expanded to 25.1% (FY19: 22.7%). The company's strong profitability can be attributed to the healthy ramp-up of the company's newly-established freeze dried coffee plant at SEZ Sullurpet (commenced operations from 1QFY20) and an improved product mix, as freeze-dried coffee enjoys higher margins.

Ind-Ra expects CCL's profitability momentum to continue in FY21, with a further improvement in volumes and product mix. The company plans to focus on yield optimisation and value addition using a line balancing and extraction facility at its Duggirala (Andhra Pradesh) plant. CCL also plans to upgrade and modernise its Vietnam facility, through line balancing, thereby increasing the capacity by 3,500 metric tonnes (MT) by March 2021.

Healthy Volume Growth; Scope of Brownfield Expansion: CCL's sales volumes grew at a CAGR of 6% over FY17-FY20. Its revenue increased to INR11,392 million in FY20 (FY19: INR10,814 million) on account of volume growth, which was partially offset by a fall in the green bean prices. According to the management, CCL's Indian plant is running at optimum utilisation levels and the increased utilisation at Vietnam and Sullurpet plants will drive incremental growth over the medium term. The company has also received an order for additional volumes (almost double the current uptake) from its existing customer in the United States, which the agency believes, will further support the volume growth. Further, the company has cost-effective options to undertake brownfield expansion in future at the freeze dried unit at SEZ Sullurpet to up to 10,000MT and at the Vietnam facility by another 6,500MT.

Stable-to-Improving EBITDA margin: CCL maintained EBITDA per kg above INR90 and EBITDA margins in the 20%-25% range over FY16-FY20. CCL's margins are protected from the volatility of green coffee (raw) prices, because its business model works mainly on presale basis; it places orders for green coffee only on receiving orders for instant coffee. CCL's strategy is to sign individual supply contracts on the basis of spot prices of raw coffee beans (green coffee). The agency expects CCL's EBITDA per kg to be supported by the improved product mix with increased focus on premium products over the medium term.

Value Addition through Smaller Packs and Agglomeration: CCL predominantly sells coffee in bulk to resellers. However, according to the management, the company now aims to expand its margins and deepen its relationships with the existing customers by selling small packs directly to them. CCL plans to add value by supplying agglomerated coffee by setting up a fully automated packing (10,000MT) and agglomeration facility (5,000MT) at SEZ Sullurpet (Chittoor). The

company also plans to consolidate its research and development facilities to focus more on value-added products.

Robust Growth in Domestic B2C Business: CCL's retail business revenue increased by over 57% yoy to INR770 million during FY20. Around INR400 million of these sales came from the company's branded business, which grew by around 48% yoy in FY20. As per the management, company's market share is 4%-4.5% in South India, which it intends to grow further. The company is also working to enhance its presence in the domestic market by widening its distribution network and by conducting mass media campaigns to support its product launches. The company's retail business is making losses (profit after tax loss of around INR35 million in FY20) and the management expects it to breakeven in FY21. Ind-Ra believes CCL's presence in the retail segment would improve its business profile further over the long term.

Limited Impact of COVID-19 Disruption: While the company faced no major impact of the COVID-19 pandemic in its Vietnam operations, its domestic operations took a hit as the nationwide COVID-19 led lockdown delayed the shipments from Indian plants during the last 10 days of 4QFY20 due to the unavailability of transportation facility, which impacted the top line by INR300 million (INR70 million-100 million hit on EBITDA) in 4QFY20. These delayed orders were subsequently completed in April 2020. As per the management, the company's Indian plants resumed operating at normal levels in June (33% of normal level in May, non-operational in April). The management is confident of achieving 10%-15% yoy improvement in EBITDA in FY21, despite the COVID-19 impact, provided there are no further nation-wide lockdowns.

Liquidity Indicator- Adequate: CCL utilises cash credit at moderate levels with the average utilisation of around 41% for the 12 months ended May 2020. The company had unencumbered cash and cash equivalents totalling INR354 million at FYE20 (FYE19: INR705 million). CCL has been consistently generating positive cash flow from operations over FY15-FY20. The company's free cash flow remained negative in FY20 at INR629 million (FY19: negative INR1,431 million) and the agency expects the same to remain negative in FY21 as well due to the capex at the company's Vietnam, Duggirala and Sullurpet plants. In the absence of any major capex, Ind-Ra expects CCL to achieve positive free cash flow from FY22.

CCL has planned capex of around USD30 million in FY21 towards the packing and agglomeration unit at Sullurpet (additional location to the existing export-oriented unit) and Vietnam capacity expansion, which will be funded through a mix of debt and internal accruals. The company's working capital stretched temporarily to 205 days in FY20 (FY19: 167 days) due to increased inventory level of 151 days (118) on the back of delayed shipments in March. Ind-Ra expects the company's working capital levels to remain stable with normalisation of operations. CCL has not availed of the Reserve Bank of India-prescribed moratorium on its loan payments.

Strong Credit Metrics: Ind-Ra expects CCL to maintain its credit metrics despite the planned capex in FY21. Its net leverage (net debt/EBITDA) rose to 1.5x in FY20 (FY19: 1.4x) and is likely to remain in a similar range in FY21 as well on account of the debt-led capex. However, Ind-Ra expects the ramped-up new facilities and stable profitability to help improve the net leverage over the medium term. CCL's interest coverage (EBITDA/gross interest expense), although deteriorated to 15.9x in FY20 (FY19: 29x) due to higher interest expense, continued to be strong and is likely to sustain over 10x through FY21-FY23 on account of the planned capex.

Moderate Customer Concentration: CCL's top five clients constituted 46% of its total revenue in FY19 (FY18: 40%). The company has a strong track record of customer retention, by maintaining longstanding relationships with its major clients resulting in repeat orders. Most clients in the coffee industry are extremely particular about the taste, aroma, colour and other product features and, hence, do not switch easily.

RATING SENSITIVITIES

Positive: A steady increase in the scale of operations, with stable EBITDA margins with net leverage reducing below 1.25x on a sustained basis could lead to a positive rating action.

Negative: A lower-than-expected ramp-up in the scale of operations and/or deterioration in the operating performance and/or unexpected debt-led capex/acquisition leading to net leverage consistently exceeding 1.5x on a sustained basis could lead to a negative rating action.

COMPANY PROFILE

Headquartered in Hyderabad (Andhra Pradesh), CCL is a 100% export-oriented unit that manufactures a variety of soluble instant coffee, including spray dried coffee, spray dried agglomerated coffee, freeze dried coffee and freeze concentrated liquid coffee. It has manufacturing sites plants in Andhra Pradesh, Vietnam and Switzerland.

FINANCIAL SUMMARY

Particular	FY20	FY19
Revenue (INR million)	11,392	10,814
EBITDA (INR million)	2,859	2,455
EBITDA margins (%)	25.1	22.7
Net leverage (x)	1.5	1.4
Gross interest coverage (x)	15.9	29.0
Source: CCL, Ind-Ra		

RATING HISTORY

Instrument Type	Current Rating/Outlook			Historical Rating/Outlook		
	Rating Type	Rated Limits (million)	Rating	10 May 2019	27 March 2018	30 December 2016
Issuer rating	Long-term	-	IND AA-/Stable	IND A+/Positive	IND A+/Stable	IND A+/Stable
Fund-based working capital limits	Long-/short-term	INR2,250	IND AA-/Stable/ IND A1+	IND A+/Positive/ IND A1+	IND A+/Stable/ IND A1+	IND A+/Stable/ IND A1+
Non-fund-based working capital limits	Short-term	INR250	IND A1+	IND A1+	IND A1+	IND A1+
Term loans	Long-term	INR3,412	IND AA-/Stable	IND A+/Positive	IND A+/Stable	-

COMPLEXITY LEVEL OF INSTRUMENTS

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Applicable Criteria

[Corporate Rating Methodology](#)

Analyst Names

Primary Analyst

Prasad Patil

Analyst

Mumbai

Secondary Analyst

Shochis Natrajan

Analyst

+91 22 40001788

Committee Chairperson

Abhishek Bhattacharya

Director and Co Head Corporates

+91 22 40001786

Media Relation

Ankur Dahiya

Manager – Corporate Communication

+91 22 40356121 >
