CCL Products (India) Limited

Issuer Credit Research

Ratings

Long-Term Issuer Rating	IND A+
Long-Term Bank Facilities	IND A+
Short-Term Bank Facilities	IND A1+

Outlooks

Long-Term Issuer Rating	Positive
Long-Term Bank Facilities	Positive

Financial Data

CCL Products (India) Limited

Particulars	FY19	FY18
Revenue (INR million)	10,814	11,380
Operating EBITDA (INR million)	2,455	2,389
Operating EBITDA margin (%)	22.7	21.0
Interest expense (INR million)	85	78
EBITDA interest coverage (x)	29.0	30.5

Source: Ind-Ra, CCL

Analysts

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India Ratings and Research (Ind-Ra) has revised CCL Products (India) Limited's (CCL) Outlook to Positive from Stable while affirming its Long-Term Issuer Rating in May 2019:

Key Rating Drivers

Capacity Expansion: CCL's newly established freeze dried coffee plant at SEZ Chittoor commenced operations on 20 April 2019 and is likely to boost profitability FY20 onwards. While the overall capacity of this plant is 5,000MT, once its capacity is expanded, its basic infrastructure will be able to support up to 10,000MT. Since freeze dried coffee is more premium compared to spray dried coffee, it fetches higher margins. At the company's Duggirala plant, it plans to focus on yield optimisation and value addition using a line balancing and extraction facility. CCL also plans to expand the capacity of its Vietnam facility by 3,000MT-3,500MT by FY21 mainly through line balancing and the addition of other support equipment to enable enhanced capacity utilisation.

Continuous Volume Growth with Stable EBITDA per kg: CCL's sales volumes grew at a CAGR of 9% over FY14-FY18. However, in FY19 due to loss of a client, sales volumes declined. According to the management, its Indian plant is running at optimum utilisation levels and the increased utilisation at Vietnam plant will drive incremental growth. The company maintained EBITDA per kg above INR90 and EBITDA margins in the range of 20%-24% over FY15-FY19. 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 the order 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 to record higher EBITDA per kg due to improved product mix and increased focus on premium products over the medium term.

In FY19, CCL's revenue declined to INR10,814 million (FY18: INR11,380 million), whereas EBITDA margins improved to 22.7% (21.4%).

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 also plans to add value by supplying agglomerated coffee by setting up a fully automated packing (3,000-5,000MT) and agglomeration facility (5,000MT) at SEZ Sullurpet (Chittoor) by FY21 with an investment of around USD12 million. The company also plans to consolidate its research and development facilities to focus more on value-added products.

Comfortable Liquidity and Cash Flow Position: CCL has comfortable liquidity marked by moderate cash credit utilisation levels with the average maximum utilisation of around 73% for the 12 months ended May 2019.

CCL has been consistently generating positive free cash flow over FY14-FY17. In FY18, free cash flow turned negative and has remained negative in FY19 as well due to the capex at the company's Duggirala, Vietnam and Chittoor plants. Ind-Ra expects CCL to achieve breakeven free cash flow in FY20 and positive free cash flow from FY21.

Strong Credit Metrics: Ind-Ra expects CCL to maintain strong credit metrics despite the planned capex. Net leverage rose to 1.3x in FY19 (FY18: 1.13x, FY17: 0.55x) on account of the debt-led capex. However, Ind-Ra expects the ramped up new facilities and stable profitability to help improve net leverage to 1x or below over the medium term. Interest coverage (EBITDA/gross interest expense) remained stable at 29x in FY19 (FY18: 30.52x, FY17: 20.77x) and is likely to remain in the range of 13x-18x over FY20-21 on account of the capacity expansion.

Rating Sensitivities

Positive: A smooth ramp-up of the new capacity leading to volume growth with stable EBITDA margins and thus improved credit metrics could lead to a positive rating action.

Negative: Lower-than-expected ramp-up in the scale of operations and/or deterioration in the operating performance leading to net debt/EBITDA consistently exceeding 1.5x could lead to a negative rating action.

Debt Structure

The company's debt had been on a reducing trend over FY14-FY17. Ind-Ra foresees no major change in debt level as a result of stable working capital cycle and stable profitability. However, the company's debt level has increased in FY18-FY19 on account of the debt-led capex. Ind-Ra expects the ramped up new facilities and stable profitability to help improve net leverage to reduce below 1x over the medium term.

Applicable Criteria

Corporate Rating Methodology
(4 January 2017)

Key Contents

Key Rating Issues

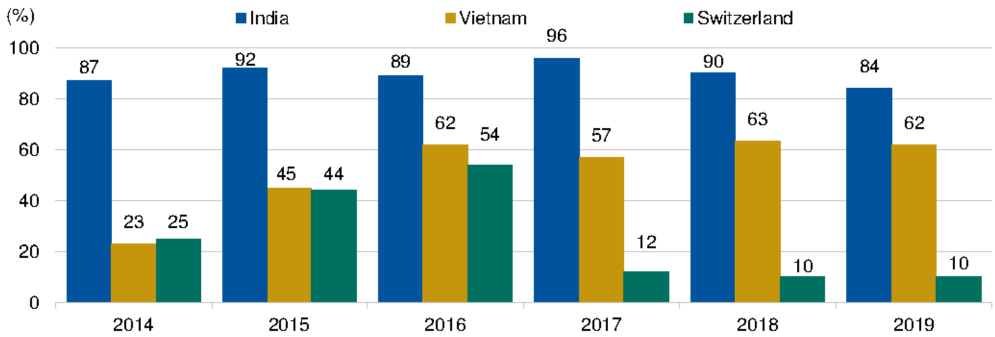
Robust Capacity Utilisation

The company's Indian plant is working at an optimum level; hence, the company has established a freeze dried coffee plant in Chittoor district in Andhra Pradesh and will be entitled to gain SEZ gains in terms of import duty, GST and income tax exemptions.

The company was struggling to maintain capacity utilisation at its Swiss plant, mainly due to import duties levied by government in the past. CCL has created bonded warehouse at its plant, which has helped resolve this issue. As per management, the company has been able to get orders for the next three years at this facility. According to the agency, the company would be growing at a stable growth rate on the back of higher demand and strong order book.

Figure 1

Plantwise Capacity Utilisation



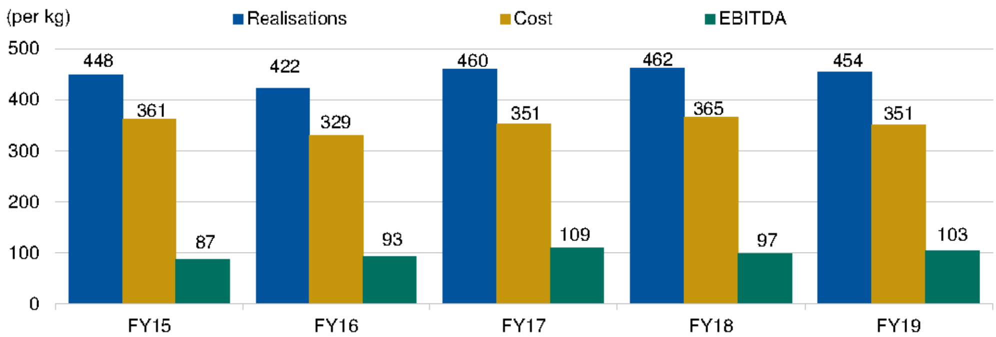
Source: CCL, Ind-Ra

Stable Margins, Immune from Fluctuation of Green Bean Prices:

CCL has maintained EBITDA per kg of above INR 90 during FY17-FY19. CCL's margins are protected from the volatility of green coffee (raw) prices, because its business model works on a presale basis.

Figure 2

Per Tonne Realisation and Profitablity



Source: CCL, Ind-Ra

Change in Duty Structure and Tax Rate

Currently, CCL's Vietnam facility has a tax free status. It may negotiate with the government to further increase the tenure; however, any unfavourable changes in the tax rate and duty structure may adversely affect CCL's profitability and competitiveness. Also, CCL has an export-focused business model and derives majority of its revenue from exports. Any change in the duty structure can hamper CCL's performance.

Focus on Domestic B2C Business

The management does not expect continual growth in B2B business. As a result, it has started focusing on the domestic business by launching various products under its continental brand. Its subsidiary Continental Coffee Private Limited has launched various products such as Continental Malgudi, Continental Premium to tap domestic instant and filter coffee market. In FY19, the domestic business generated revenue of INR800 million, of which nearly INR350 million was from CCL's own brand while the remainder was from private label and institutional sales. Although the domestic business is currently EBITDA negative, with increasing market penetration fuelled by expenditure on advertising and branding, the management expects the domestic business to turn profitable in the near term.

Company Profile

CCL has been in existence since 1961. Initially registered under the nomenclature of The Sahayak Finance and Investment Corporation Limited in 1961, the name was changed to Continental Coffee Limited in 1994, when it started producing instant coffee and finally to the present name of CCL in 2002. CCL has offices in Hyderabad and a plant in Guntur district, Andhra Pradesh.

CCL is listed on the National Stock Exchange Limited and the BSE Ltd and has a market capitalisation of around INR34.14 billion as of 17 May 2019.

Indian Manufacturing Capacity

CCL's Duggirala plant has processing capacity of 14,000 tonnes per annum (tpa) of spray dried coffee and 6,000 tonnes of freeze dried coffee. The newly established plant at Sullurpeta (Chittoor) has 5,000 tonnes of freeze dried coffee capacity. It also started a 3,000 tonnes agglomeration facility in Switzerland during FY11. The powdered coffee for agglomeration is sent from the Indian plant. CCL plants are certified according to ISO 9001:2000, Hazard Analysis Critical Control Point (HACCP) and British Retail Consortium (BRC) standards. CCL is also certified by Fairtrade Labelling Organization (FLO), Ecocert and Rainforest Alliance.

Vietnam Capacity

The 10,000 tpa spray-dried facility in the Dak Lak province of Vietnam began commercial production in FY12. In addition, it has granulation capacity of 5000mt. The Vietnam plant has locational advantage as Vietnam country itself is a one of the largest producers of the Robusta coffee, which ensures continuous supply of input materials without incurring much logistic cost. The Vietnam government has also provided CCL with tax break. With proximity to prime markets and duty free structure, Vietnam acts as an ideal plant location for CCL.

Products Offered

CCL has traditionally been offering spray dried soluble coffee as its only product. It set up freeze drying facility in FY06. Freeze dried coffee offers realisations that are higher than that of spray dried coffee due to higher aroma retention. The company has put up facilities to make liquid coffee during FY11, a variety which is preferred in the Korean and the Japanese markets. This liquid coffee plant has been shifted to Vietnam for easier sourcing and proximity of the end-markets. The company makes products with various blends according to the needs of the customer who are mainly private brands It has also started developing brands for the domestic market.

Selling Arrangements

CCL is recognised as a 100% export-oriented unit by the Indian government as it derives almost all of its revenue from exports.

Financial Profile

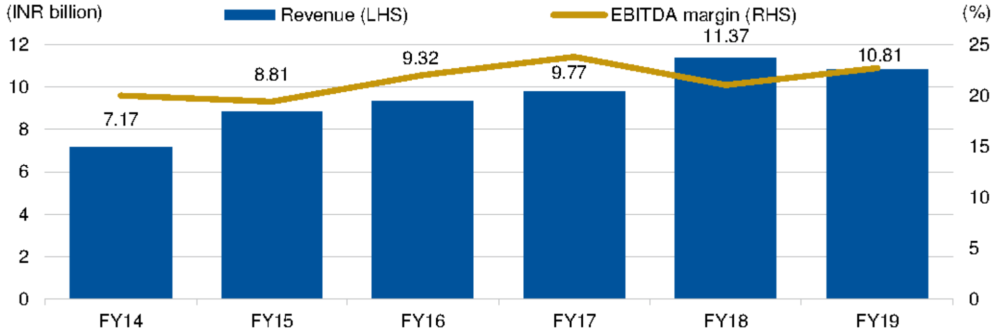
Revenue and Profitability

CCL registered a continuous growth in revenue (CAGR of 5.4% over FY15-FY19) while maintaining EBITDA margins between 20% and 24%.

The newly commissioned plant at SEZ Sullurpet would benefit the company to increase its revenue as freeze dried coffee is a higher realisation product and the company is also entitled to benefit on account of tax exemptions as the plant is located in a special economic zone.

Figure 3

Revenue and EBITDA Margin



Source: CCL, Ind-Ra

Industry Risks:

- Operating Risk: Players in the coffee industry procure green coffee beans from various parts of the world. Changes in the global supply demand dynamics, adverse change in climatic conditions may hamper the company's ability to procure green coffee beans
- Relatively low entry barriers may lead to increased competition in the sector, thereby impacting the profitability of the players operating in the sector

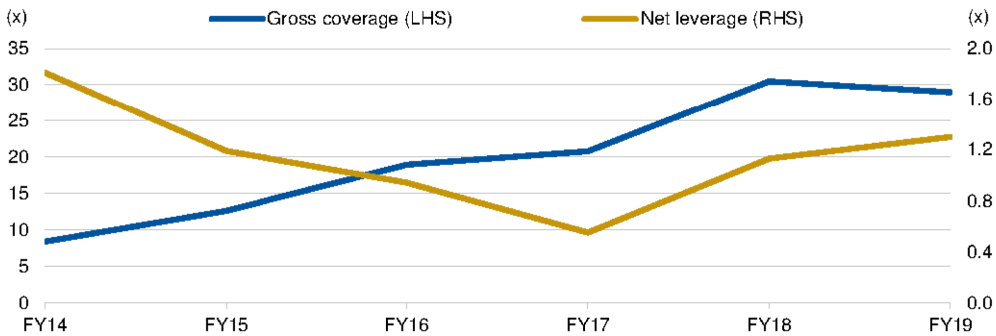
Financial Risk:

- Fluctuations in the foreign currency may adversely impact the company's profitability
- Any changes in the tax and duty structure can impact level of import-exports and thus the company's profitability

Credit and Liquidity Profile

Figure 4

Credit Metrics



Source: CCL, Ind-Ra

Figure 5

Capital Structure

	FY19	FY18	FY17
Secured term loans from banks (INR million)	1,926.5	1,817.49	25.62
Packing credit/buyers' credit (INR million)	1,834.56	1,266.15	984.54
Cash credit (INR million)	-	-	-
Current maturity of long term debt (INR million)	400	25.9	409.79
Total debt (INR million)	**4,161.0**	**3,109.54**	**1,394.32**
Share capital (INR million)	266.06	266.06	266.06
Reserves and surplus (INR million)	8,123.1	7,133.3	6,096.55
Total shareholders fund (INR million)	**8,389.2**	**7,399.4**	**6,362.61**
Debt to equity (x)	**0.50**	**0.42**	**0.23**

Source: CCL, Ind-Ra

Annexure 1: Details of Rated Bank Facilities

Bank Facilities on 31 March 2019

Figure 6

Fund-Based Working Capital Limits

Bank	Amount sanctioned (INR million)	Rating/Outlook
State Bank of India	900	IND A+/Positive/IND A1+
ICICI Bank	400	IND A+/Positive/IND A1+
Citi Bank	400	IND A+/Positive/IND A1+
Unallocated	550	IND A+/Positive/IND A1+
Total	**2,250**	

Source: CCL; bank sanction letters and Ind-Ra

Figure 7

Non-Fund-Based Working Capital Limits

Bank	Amount sanctioned (INR million)	Rating/Outlook
State Bank of India	230	IND A1+
Total	**230**	

Source: CCL; bank sanction letters and Ind-Ra

Figure 8

Term Loans

Bank	Amount sanctioned (INR million)	Rating/Outlook
Citi Bank	1,625	IND A+/Positive
HDFC Bank Ltd	600	IND A+/Positive
Total	**2,225**	

Source: CCL; bank sanction letters and Ind-Ra

Figure 9

Proposed Facility

Bank	Amount sanctioned (INR million)	Rating/Outlook
Proposed term loans*	700	Provisional IND A+/Positive
Total	**700**	

Source: CCL; bank sanction letters and Ind-Ra

*The rating is provisional and shall be confirmed upon the sanction and execution of the loan documents for the above facility by CCL to the satisfaction of Ind-Ra.

Figure 9

Historical Financial Information

CCL Products (India) Limited	FY19	FY18	FY17	FY16
Summary income statement (INR million)				
Revenue	10,814	11,380	9,831	9,321
Revenue growth (%)	-5.0	15.8	5.5	5.9
Operating EBITDA (before income from associates)	2,455	2,389	2,320	2,047
Operating EBITDA margin (%)	22.7	21.0	23.8	22.0
Operating EBITDAR	2,455	2,389	2,320	2,047
Operating EBITDAR margin (%)	22.7	21.0	23.8	22.0
Operating EBIT	2,138	2,048	1,987	1,763
Operating EBIT margin (%)	19.8	18.0	20.4	18.9
Gross interest expense	85	78	112	108
Pre-tax income	2,086	2,018	1,889	1,667
Net income	1,549	1,481	1,346	1,221
Summary balance sheet (INR million)				
Cash & equivalents	965	414	150	169
Working capital	3,801	3,542	3,294	2,606
Accounts receivable	2,352	1,820	1,627	1,281
Inventory	2,019	1,832	1,828	1,486
Accounts payable	571	110	161	161
Total debt with equity credit	4,161	3,110	1,420	2,103
Short term debt	2,235	1,292	1,394	1,660
Long term senior secured debt	1,926	1,817	26	443
Total adjusted debt with equity credit	4,161	3,110	1,420	2,103
Summary cash flow statement (INR million)				
Operating EBITDA	2,455	2,389	2,321	2,047
Cash interest	-85	-78	-112	-108
Cash tax	-571	-566	-533	-380
Non-controlling interest			1	1
Other items before FFO	142	39	20	-141
Funds flow from operations	1,942	1,784	1,696	1,467
Change in working capital	-359	-333	-678	83
CFO	1,582	1,451	1,018	1,550
Total non-operating/non-recurring cash flow	0	0	0	0
Capital expenditure	-2,413	-2,328	-183	-539
Common dividends	-633	-400	-160	-507
FCF	-1,431	-1,277	653	172
Coverage ratios (x)				
FFO interest coverage	23.95	23.80	16.18	25.74
FFO fixed charge coverage	23.95	23.80	16.18	25.74
Operating EBITDAR/gross interest expense + rents	29.02	30.52	20.77	34.52
Operating EBITDAR/net interest expense + rents	29.02	30.52	20.77	34.52
Operating EBITDA/gross interest expense	29.02	30.52	20.77	34.52
Leverage ratios (x)				
Total adjusted debt/operating EBITDAR	1.70	1.30	0.61	1.03
Total adjusted net debt/operating EBITDAR	1.30	1.13	0.55	0.94
Total net debt with equity credit/operating EBITDA	1.30	1.13	0.55	0.94
FFO adjusted leverage	2.05	1.67	0.79	1.38
FFO adjusted net leverage	1.58	1.45	0.70	1.27

Source: CCL; Ind-Ra

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