

CCL Products (India) Limited

Issuer Credit Research

Ratings

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

Outlooks

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

Financial Data

CCL Products (India) Limited

Particulars	FY21	FY20
Revenue (INR million)	12,425	11,392
Operating EBITDA (INR million)	2,978	2,859
Operating EBITDA margin (%)	24.0	25.1
Interest expense (INR million)	170	180
EBITDA interest coverage (x)	17.6	15.9

Source: Ind-Ra, CCL

India Ratings and Research (Ind-Ra) revised CCL Products India Limited's (CCL) Outlook to Positive from Stable while affirming its Long-Term Issuer Rating at 'IND AA-' in September 2021.

Analytical Approach: Ind-Ra continues to take a consolidated view of CCL and its wholly-owned subsidiaries Jayanti Pte Ltd (Singapore), Ngon Coffee Company Ltd (Vietnam), Continental Coffee SA (Switzerland), Continental Coffee Private Limited (India; IND A-/Positive) and CCL Beverages Private Limited (India; under process of merger with the parent) to arrive at the ratings, on account of the strong operational synergies among them, given the similar nature of businesses, and common promoters and senior management.

The Positive Outlook reflects Ind-Ra's expectation of a potential improvement in CCL's scale and product mix in the medium term, backed by steady growth in volume, and share of small packs and domestic business to consumers (B2C) business while maintaining the credit metrics. The affirmation reflects the company's continued healthy financial profile and robust business profile.

Key Rating Drivers

Resilient Profitability in FY21: Despite the COVID-19 headwinds, CCL exhibited a resilient performance during FY21 with the consolidated EBITDA growing 4% yoy to INR2,978 million. While the company faced no major impact of the COVID-19 pandemic on its Vietnam operations, its domestic operations took a hit as the nationwide COVID-19-led lockdown delayed shipments from Indian plants, due to the unavailability of containers. The company's strong profitability can be attributed to the continued healthy growth in the volumes, backed by healthy order books from existing clients and addition of new clients from markets such as the United States. The volume growth was aided by improved capacity utilisation at the Vietnam plant and the ramp-up of the company's high-margin freeze-dried coffee plant in Sullurpet, offsetting the lower utilisation at the Duggirala plant. The management expects CCL's profitability momentum to continue in FY22, achieving a 10%-15% yoy improvement in the EBITDA with a further improvement in volumes and product mix. In 1QFY22, CCL's consolidated EBITDA increased 14% yoy to INR720 million.

Stable-to-Improving EBITDA Margin: On a consolidated basis, the EBITDA margins remained healthy, despite a marginal decline to 24.0% in FY21 (FY20: 25.1%, FY19: 22.7%). CCL maintained EBITDA per kg of over INR90 and EBITDA margins at 20%-25% over FY16-FY21. With the improving product mix, CCL's margins have structurally improved with EBITDA per kg of INR85-INR95 over FY15-FY16 to above INR105 during FY19-FY21. The management expects the EBITDA per kg to improve to INR130-INR135 in the medium term. CCL's margins are protected from the volatility of green coffee (raw) prices because its business model works mainly on a presale basis; it places orders for green coffee only on receiving orders for instant coffee. CCL enters into 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 an improved product mix with an increased focus on premium products over the medium term.

Capacity Expansion and Small Packs Business to Drive the Growth: CCL's capex on the line balancing at the Vietnam plant which results in the capacity increase of 3,500 metric tonnes (MT) is nearly complete and all the facilities are likely to get commissioned by October 2021. The management further intends to expand its existing capacity to 25,000MT with capex of about USD20 million to be funded through a mix of debt and internal accruals. The work towards the said capex has already started and management expects the same to come on stream by end-FY23.

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CCL predominantly sells coffee in bulk to resellers. However, the company has been focusing on increasing the share of small packs sold directly to customers than to packers, which aids in expanding its margins and deepen its relationships with the existing customers. To increase the share of small packs and improve the value addition by supplying agglomerated coffee, CCL is setting up a fully automated packing (10,000MT) and an agglomeration facility (5,000MT) in an extension to the existing export-oriented unit coming up at Kuvvakoli (Andhra Pradesh). This project is likely to get commissioned by October 2021.

Robust Growth in Domestic B2C Business: CCL's retail business revenue increased over 74% yoy to INR1,340 million during FY21, of which nearly two-thirds was from the branded business. As per the management, the company's market share stood at 5% in FY21 in the domestic market, which it intends to grow further. CCL is also enhancing its presence in the domestic market by widening its distribution network and conducting mass media campaigns to support its product launches. The company's retail business is under losses (FY21: around INR41 million) and the management expects it to turn EBITDA positive over the medium term. Ind-Ra believes CCL's presence in the retail segment would improve its business profile further over the long term.

Sustained Strong Credit Metrics: On a consolidated basis, the net leverage (net debt/EBITDA) improved to 1.48x in FY21 (FY20: 1.52x, FY19: 1.41x) due to healthy cash accruals. Ind-Ra expects the net leverage to remain below 1.5x over the medium term on account of steady growth in the profitability, despite the ongoing capex towards the Vietnam capacity expansion. CCL's interest coverage (EBITDA/gross interest expense) improved to 17.6x in FY21 (FY20: 15.9x) due to higher profitability and lower interest expense. Ind-Ra expects the interest coverage to remain strong above 10.0x through FY22-FY24.

Liquidity Indicator - Adequate: CCL utilises cash credit at moderate levels with average utilisation of around 51% for the 12 months ended June 2021. The company had unencumbered cash and cash equivalents of INR1,171 million at FYE21 (FYE19: INR354 million). CCL generated positive cash flow from operations (CFO) over FY15-FY21 (FY21: INR1,708 million, FY20: INR907million). The CFO margins stood at 14% in FY21 (FY20: 8%). The free cash flow improved to INR104 million in FY21, although remained negative (FY20: negative INR629 million) due to the capex undertaken during the year. However, the agency expects CCL to achieve positive free cash flow from FY22. The working capital elongated further to 249 days in FY21 (FY20: 205 days) due to an increase in the inventory holding period to 179 days (151 days), on account of an increase in the green bean prices leading to an increase in raw material inventory, as well as extension of the credit period to its key customers resulting in higher receivable period of 83 days (81 days). Ind-Ra expects the company's working capital levels to remain stable over the medium term.

Moderate Customer Concentration: CCL's top five clients constituted 41% of its total revenue in FY21 (FY20: 47%). However, 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.

Standalone Performance: On a standalone basis, CCL reported revenue of INR7,951 million in FY21 (FY20: INR8,226 million), EBITDA of INR1,867 million (INR2,067 million), net leverage of 1.8x (2.0x) and interest coverage of 11.9x (12.2x).

Rating Sensitivities

Positive: A steady increase in the scale of operations (consolidated EBITDA exceeding INR3,500 million) with the net leverage reducing below 1.0x and the CFO margins increasing above 15%, both on a sustained basis, could lead to a positive rating action.

Applicable Criteria

[Corporate Rating Methodology](#)

[Short-Term Ratings Criteria for Non-Financial Corporates](#)

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 the net leverage sustaining above 1.0x could lead to an Outlook revision back to Stable.

Debt Structure

The company's debt had been on a reducing trend over FY14-FY17. However, it increased during FY18-FY21 on account of the debt-led capex and working capital outflow. Ind-Ra expects the commissioning and ramp-up of new facilities and stable profitability to help maintain the net leverage below 1.5x over the medium term.

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Key Rating Issues

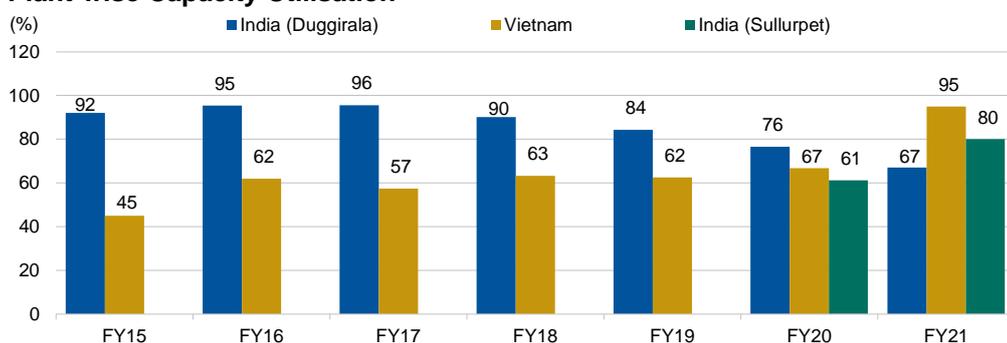
Robust Capacity Utilisation

CCL's Indian plant had been working at an optimum level till FY18; hence, during FY19, the company established a freeze-dried coffee plant in Sullurpet (Chittoor district) in Andhra Pradesh, which started commercial production from April 2019. This plant is 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 the import duties levied by government in the past. CCL created a bonded warehouse at this plant, which has helped resolve this issue. As per management, the company has been able to obtain orders till 2022 at this facility. Ind-Ra opines the company's revenue would grow at a stable rate on the back of a higher demand and strong order book.

Figure 1

Plant-wise Capacity Utilisation



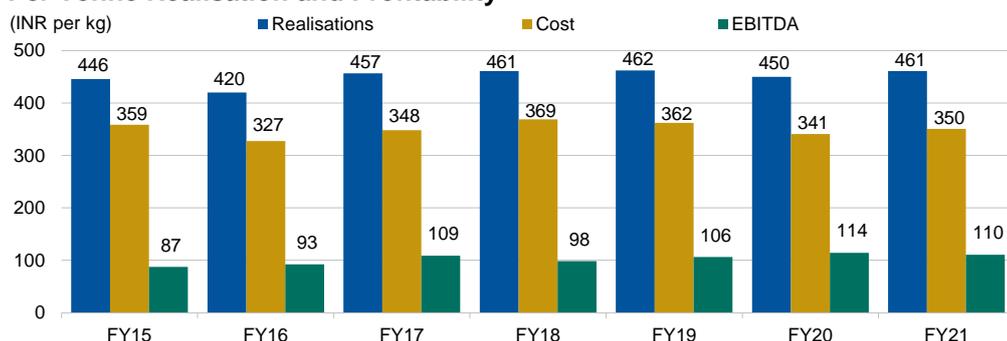
Source: CCL, Ind-Ra

Stable Margins, Immune from Fluctuations in Green Bean Price

CCL maintained EBITDA per kg of above INR90 during FY17-FY21. Its margins are protected from price volatility in green coffee (raw), because its business model works on a presale basis. With the improvement in product mix, the company's EBITDA per kg has improved consistently over the past few years.

Figure 2

Per Tonne Realisation and Profitability



Source: CCL, Ind-Ra

Change in Duty Structure and Tax Rate

CCL's Vietnam facility has a tax-free status. However, any unfavourable changes in the tax rate and duty structure may affect CCL's profitability and competitiveness. Also, the company has an export-focused business model and derives majority of its revenue from exports. Thus, any change in the duty structure can hamper CCL's performance.

Focus on Domestic B2C Business

The management does not expect continual growth in its 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 has launched various products such as Continental Malgudi and Continental Premium to tap the domestic instant and filter coffee market. In FY21, the domestic business generated revenue of INR 1,340 million, of which nearly two-thirds was from CCL's own brand while the remainder was from private labels and institutional sales. Although the domestic business is 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 was initially registered as 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 is listed on the National Stock Exchange Limited and the BSE Ltd and had a market capitalisation of around INR44 billion on 7 October 2021.

Indian Manufacturing Capacity

CCL's Duggirala plant has a processing capacity of 14,000 tonnes per annum (tpa) of spray dried coffee and 6,000t of freeze-dried coffee. The newly established plant in Sullurpeta (Chittoor) has 5,000t of freeze-dried coffee capacity. CCL also started a 3,000t agglomeration facility in Switzerland during FY11. The powdered coffee for agglomeration is sent from the Indian plant. CCL's plants are certified according to ISO 9001:2000, Hazard Analysis Critical Control Point and British Retail Consortium standards. CCL is also certified by Fairtrade Labelling Organization, Ecocert and Rainforest Alliance.

Vietnam Capacity

The 10,000tpa spray-dried facility in the Dak Lak province of Vietnam began commercial production in FY12. In addition, it has a granulation capacity of 5,000tpa. The Vietnam plant has locational advantage as the country itself is one of the largest producers of the Robusta coffee, which ensures a continuous supply of input materials without incurring much logistic cost. The Vietnam government has also provided CCL with a tax break. With proximity to prime markets and a duty-free structure, Vietnam acts as an ideal plant location for CCL.

Products Offered

CCL had traditionally been offering spray dried soluble coffee as its only product. It set up a 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 had 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 to the end-markets. The company makes products with various blends according to customer needs 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.

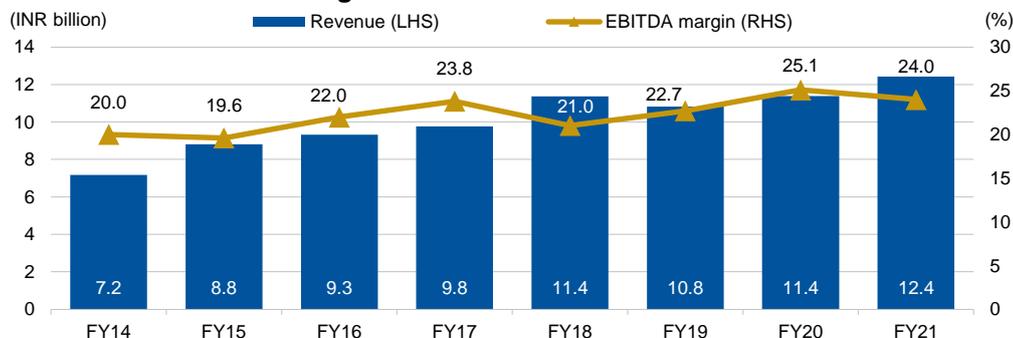
Financial Profile

Revenue and Profitability

CCL registered continuous growth in revenue (CAGR of 6%) while maintaining EBITDA margins between 20% and 25% over FY16-FY21.

Figure 3

Revenue and EBITDA Margin



Source: CCL, Ind-Ra

Industry Risks

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

Financial Risks

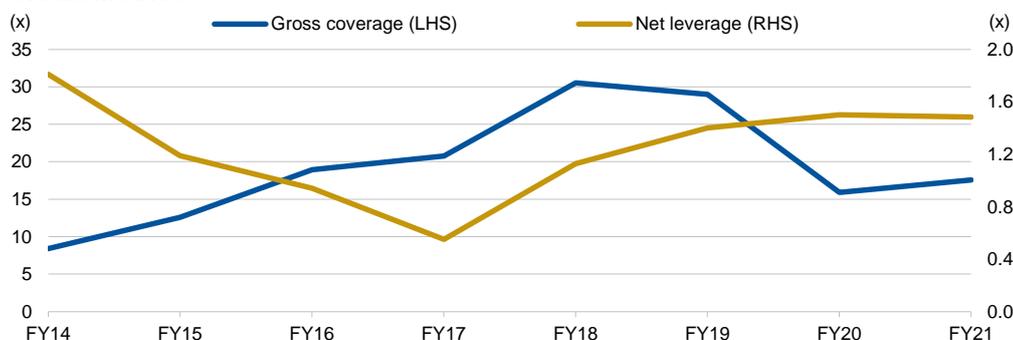
- Fluctuations in the foreign currency may affect the company's profitability.
- Any changes in the tax and duty structure can impact the level of import-exports and thus the company's profitability.

Credit Profile

CCL's net leverage has been on the increasing trend over FY18-FY20 due to the debt raised towards the capacity expansion project. The same improved slightly in FY21 due to improved profitability. However, its gross interest coverage has remained healthy in the range of 15x-30x due to lower interest expenses. With the expected improvement in profitability, Ind-Ra expects CCL's credit metrics to remain healthy over the medium term.

Figure 4

Credit Metrics



Source: CCL, Ind-Ra

Figure 5
Capital Structure (INR million)

	FY21	FY20	FY19
Secured term loans from banks	1,769.1	2,494.5	1,926.5
Working capital facilities	2,976.6	1,427.0	1,834.6
Current maturity of long- term debt	846.1	767.8	402.8
Total debt	5,591.7	4,689.4	4,163.8
Share capital	266.06	266.06	266.06
Reserves and surplus	10,606.9	9,017.9	8,123.1
Total shareholders fund	10,873.0	9,284.0	8,389.2

Source: CCL, Ind-Ra

Annexure 1: Details of Rated Bank Facilities

Bank Facilities on 30 September 2021

Figure 6

Fund-Based Working Capital Limits

Bank	Amount sanctioned (INR million)	Rating/Outlook
State Bank of India	1,200	IND AA-/Positive/IND A1+
ICICI Bank	400	IND AA-/Positive/IND A1+
Citi Bank	650	IND AA-/Positive/IND A1+
Unallocated	400	
Total	2,650	

Source: CCL, Bank sanction letters and Ind-Ra

Figure 7

Non-Fund-Based Working Capital Limits

Bank	Amount sanctioned (INR million)	Rating
State Bank of India	250	IND A1+
Total	250	

Source: CCL, Bank sanction letters and Ind-Ra

Figure 8

Term Loans

Bank	Amount sanctioned (INR million)	Rating/Outlook
Citi Bank	1,162	IND AA-/Positive
HDFC Bank Ltd	823	IND AA-/Positive
Unallocated	750	IND AA-/Positive
Total	2,735	

Source: CCL, Bank sanction letters and Ind-Ra

Figure 9

Historical Financial Information

CCL Products (India) Limited (Consolidated)	FY21	FY20	FY19	FY18
Summary income statement (INR million)				
Revenue	12,425	11,392	10,814	11,367
Revenue growth (%)	9.1	5.3	-4.9	16.4
Operating EBITDA (before income from associates)	2,978	2,859	2,455	2,389
Operating EBITDA margin (%)	24.1	25.1	22.7	21.0
Operating EBIT	2,483	2,388	2,138	2,048
Operating EBIT margin (%)	20.0	21.0	19.8	18.0
Gross interest expense	170	180	85	78
Pre-tax income	2,348	2,253	2,086	2,018
Net income	1,823	1,659	1,549	1,481
Summary balance sheet (INR million)				
Cash & equivalents	1,171	354	705	405
Working capital	5,984	5,039	3,801	3,542
Accounts receivable	2,986	2,681	2,352	1,820
Inventory	3,197	2,604	2,019	1,832
Accounts payable	198	246	571	110
Total debt with equity credit	5,592	4,689	4,164	3,110
Short term debt	3,823	2,195	2,237	1,292
Long term senior secured debt	1,769	2,495	1,926	1,817
Total adjusted debt with equity credit	5,592	4,689	4,164	3,110
Summary cash flow statement (INR million)				
Operating EBITDA	2,978	2,859	2,455	2,389
Cash interest	-170	-180	-85	-78
Cash tax	-259	-535	-571	-566
Funds flow from operations	2,624	2,374	1,975	1,784
Change in working capital	-915	-1,468	-359	-333
CFO	1,708	907	1,616	1,451
Capital expenditure	-1,546	-638	-2,413	-2,328
Common dividends	-266	-898	-633	-400
FCF	-629	-629	-1,431	-1,277
Coverage ratios (x)				
Operating EBITDA/gross interest expense	17.6	15.9	29.0	30.5
FFO Interest Coverage	16.5	14.2	24.3	23.8
Leverage ratios (x)				
Total adjusted debt/operating EBITDAR	1.9	1.6	1.7	1.3
Total adjusted net debt/operating EBITDAR	1.5	1.5	1.4	1.1
FFO adjusted net leverage	1.6	1.7	2.0	1.7

Source: CCL, Ind-Ra

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