India Ratings Revises CCL Products' Outlook to Negative; Affirms 'IND AA-'; Rates Additional Limits

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India Ratings and Research (Ind-Ra) has revised CCL Products India Limited's (CCPL) Outlook to Negative from Stable while affirming its Long-Term Issuer Rating at 'IND AA-'. 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 limit	-	-	-	INR6,000	IND AA-/Negative/IND A1+	Affirmed; Outlook revised to Negative from Stable
Term loan	-	-	31 May 2027	INR1,350 (reduced from INR1,493)	IND AA-/Negative	Affirmed; Outlook revised to Negative from Stable
Non-fund-based working capital limit	-	-	-	INR250	IND A1+	Affirmed
Non-fund-based working capital limit	-	-	-	INR150	IND A1+	Assigned
Proposed fund-based/non-fund-based working capital limit	-	-	-	INR2,050	IND AA-/Negative/IND A1+	Assigned

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 Food and Beverages Private Limited (India), in view of the strong operational synergies among them, given they have similar businesses, common promoters and senior management.

The Outlook revision reflects the weakening of the credit profile of CCL, owing to moderation in profit margins and an increase in debt levels to fund growth capex and working capital requirement. Ind-Ra will continue to monitor the ramp-up of the capacities upon the completion of the ongoing capex, which could lead to an increase in EBITDA levels and improvement in net leverage.

Key Rating Drivers

Deterioration in Credit Metrics over FY23-FY24; Recovery Likely over FY25-FY26: On a consolidated basis, despite an increase in absolute EBITDA, the net leverage (total adjusted net debt/operating EBITDA) deteriorated to 2.09x in FY23 (FY22: 1.81x, FY21: 1.48x), primarily on account of the additional debt availed in FY23 to fund CCL's capacity expansion in Vietnam. Ind-Ra will continue to closely monitor the increase in leverage levels, which are likely to remain elevated around 3.0x over FY-24-FY25 owing to the major ongoing project capex and the need for incremental working capital. However, the net leverage is likely to improve to about 2x in FY26 and reduce below 2x from FY27, backed by growth in the scale up of operations and repayment of term debt. Any further capex undertaken by the company that could lead to deterioration in the net leverage might impact the credit rating. CCL's interest coverage (EBITDA/gross interest expense) remained comfortable in FY23 but deteriorated to 11.62x (FY22:20.24x, FY21: 17.6x) due to higher interest expenses, resulting from the rise in debt levels during the year. The interest coverage is also likely to deteriorate further during FY24-FY25 owing to continued increase in interest expenses with the availing of debt for the project capex.

Decline in EBITDA Margin in FY23 and 9MFY24: The consolidated EBITDA margins dipped to 19.3% in FY23 (22.6% in FY22, FY21: 24.0%), owing to an increase in commodity prices as well as operating costs such as transportation, selling and other expenses. Nevertheless, the EBITDA per kg remained stable at INR103 in FY23 (FY22: INR102; FY21: INR105). CCL has increased marketing and selling spends for spreading awareness about its brands, including above-the-line campaigns and below-the-line sampling activities during the last couple of years for new products and market entry, the results of which are likely to be seen in subsequent years. The EBITDA margin fell further to 16.9% in 9MFY24 due to an increase in green coffee prices and competitive pricing provided to utilise the enhanced capacities. The margins were also impacted by an increase in freight costs in 3QFY24 due to the on-going disruptions in the Red Sea, a crucial trade route.

The company's profitability (EBITDA per kg) is partially protected from the volatility in green coffee prices because it operates under the presales business model. CCL places orders for green coffee only on receiving orders for instant coffee. It enters into individual supply contracts on the basis of spot prices of green coffee beans. In the medium term, Ind-Ra expects CCL's profitability to be supported by an improved product mix, with an increased focus on premium products, as well as higher contribution from business-to-consumer (B2C) sales.

Strong Growth in Revenue and Absolute EBITDA in FY23 and 9MFY24: On a consolidated basis, the revenue surged about 42% yoy to INR20,712 million in FY23 due to the execution of a higher number of orders, resulting from the healthy order book from existing clients, the addition of new clients across all geographies, and incremental capacities coming online in Vietnam. Furthermore, in FY23, the CCL group launched new products and variants to cater to different market segments, which supported the revenue growth. Consequently, the consolidated EBITDA increased to INR3,999 million in FY23 (FY22: INR3,311 million; FY21: INR2,978 million). The growth momentum continued in 9MFY24, with the revenue increasing to INR19,292 million (9MFY23: INR15,520 million) and EBITDA to INR3,272 million (9MFY23: INR2,868 million). The strong growth momentum is likely to continue in the near-to-medium term on the back of price hikes and new capacities coming online.

Capacity Expansion to Drive Growth: After successfully increasing the spray dried coffee capacity at its Vietnam plant by 16,500 metric tonnes (MT) in FY23, the company is further enhancing the freeze-dried capacity by 6,000MT, taking the total capacity in Vietnam to about 36,000MT by FYE25. The total capex outlay for the project is likely to be about USD50 million, of which USD35 million is likely to be funded through debt. CCL has also undertaken capacity enhancement for spray dried coffee at its Indian operations by about 16,000MT by FYE24, taking its total capacity in India to 41,000MT. The estimated capex for the same is around INR4,000 million, of which INR3,200 million is scheduled to be funded by debt. Timely completion of these projects without any cost or time overruns will be a key monitorable. Considering the strong order book and high capacity utilisation, the company is comfortably positioned to ramp up the production at its new facilities. The management also proposes a greater shift from job work to inhouse coffee processing from 2HFY25.

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

Comfortable Market Position; Strong Contribution from B2C Business: As per the management, the branded business in the domestic market has been growing consistently and the company has maintained its position as the third-largest player in the segment. 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. In its export markets, management estimates its market share to be around 8%. B2B sales account for 90% of the revenue, with the balance being generated from B2C sales. However, the company expects to increase the share of B2C sales to up to 50% of the total revenue, with an increase in the share of domestic sales, by 2030. Ind-Ra believes CCL's continued focus on the B2C segment would improve its business profile further over the long term.

Liquidity Indicator – Adequate: On a consolidated basis, the company had unencumbered cash and cash equivalents of INR826 million as on 31 March 2023 (INR528 million as on 31 March 2022) and INR1,225.8 million as on 31 December 2023. CCL generated positive cash flow from operations over FY15-FY23 (FY23: INR1,640 million, FY22: INR1,007 million). The cash flow from operations margin improved to 8% in FY23 from 7% in FY22, led by the increase in EBIDTA levels and a slight reduction in working capital requirements. However, the free cash flow remained negative and deteriorated to INR2,347 million in FY23 (FY22: negative INR1,557 million) because of the significant capex undertaken during the year. Ind-Ra expects CCL to achieve positive free cash flow from FY26, backed by the completion of capex and scaling up of revenue. CCL utilises cash credit at elevated levels, with an average utilisation of around 90% for the 12 months ended November 2023. Ind-Ra expects the utilisation to have remained at similar levels in the subsequent period. The utilisation was higher than the historical levels as a significant increase in raw material prices and volumes resulted in higher working capital requirement. CCL has a scheduled repayment of INR796 million in FY24, and a likely repayment of INR1,654 million in FY25.

The working capital cycle improved to 248 days in FY23 (FY22: 327 days; FY21: 278 days), led primarily by a reduction in the inventory holding period to 187 days (262 days;198 days), owing to stabilisation in raw material prices. Ind-Ra expects the company's working capital levels to remain at similar levels over the medium term.

Adequate Customer Diversification: CCL's top five clients constituted 29% of its total revenue in FY23 (FY22: 26%). 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 suppliers easily.

Competition Risk: The retail coffee market is highly competitive due to low entry barriers. The industry is particularly sensitive to price pressure, as well as quality, reputation and viability for wholesale and brand loyalty. Any adverse change in these parameters can hamper the company's ability to attract and retain customers.

Standalone performance: On a standalone basis, CCL reported revenue of INR13,352 million in FY23 (FY22: INR9,299 million, FY21: INR7,951 million), EBITDA of INR2,239 million in FY23 (INR1,970 million, INR1,867 million), net leverage of 2.42x (2.36x; 1.83x) and interest coverage of 8.63x (14.28x; 11.87x).

Rating Sensitivities

Outlook revision to Stable: A steady increase in the scale of operations, with visibility of the net leverage reducing to below 2.0x post FY26, could lead to the Outlook being revised back to Stable.

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 2.0x beyond FY26, could lead to a negative rating action.

Company Profile

Headquartered in Hyderabad, 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 plants in Andhra Pradesh (India), Vietnam and Switzerland.

CONSOLIDATED FINANCIAL SUMMARY

Particulars (INR million)	FY23	FY22
Revenue	20,712	14,620
Operating EBITDA	3,999	3,311
EBITDA margin (%)	19.3	22.6
Net leverage (x)	2.1	1.8
Interest coverage (x)	11.6	20.2
Source: Ind-Ra, CCL		

Non-Cooperation with previous rating agency

Not applicable

Solicitation Disclosures

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APPLICABLE CRITERIA

Evaluating Corporate Governance

Short-Term Ratings Criteria for Non-Financial Corporates

Corporate Rating Methodology

The Rating Process

Rating History

Instrument Type	Rating Type	Rated Limits (million)	Current Ratings/Outlook	Historical Rating/Outlook		
				22 December 2022	23 September 2021	9 July 2020
Issuer rating	Long-term	-	IND AA-/Negative	IND AA-/Stable	IND AA-/Positive	IND AA-/Stable
Term loan	Long-term	INR1,350	IND AA-/Negative	IND AA-/Stable	IND AA-/Positive	IND AA-/Stable
Fund-based working capital limit	Long-term/Short-term	INR6,000	IND AA-/Negative/IND A1+	IND AA-/Stable / IND A1+	IND AA-/Positive / IND A1+	IND AA-/Stable / IND A1+
Non-fund-based working capital limit	Short-term	INR400	IND A1+	IND A1+	IND A1+	IND A1+

Proposed fund based/non-fund based working capital limits	Long-Term/Short-Term	INR2,050	IND AA-/Negative/IND A1+	-	-	-

Complexity Level of Instruments

Instrument Type	Complexity Indicator
Term loan	Low
Fund-based working capital limits	Low
Non-fund-based working capital limits	Low

For details on the complexity level of the instruments, please visit https://www.indiaratings.co.in/complexity-indicators.

Contact

Primary Analyst
Adarsh Gutha
Associate Director
India Ratings and Research Pvt Ltd
36 Urban Center, Level 4,Road no.36, Jubilee Hills, Hyderabad - 500 033, India
+91 40 67661904
For queries, please contact: infogrp@indiaratings.co.in

Secondary Analyst
Surabhi Jhaveri
Senior Analyst

Media Relation
Ameya Bodkhe
Marketing Manager
+91 22 40356121

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