CCL Products Q3FY21

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)								
	Q3FY21	Q3FY20	YoY %	Q2FY21	QoQ %	9MFY21	9MFY20	YoY%
Sales	189	224	-15.63%	205	-7.80%	571	711	-19.69%
PBT	31	58	-46.55%	33	-6.06%	88	187	-52.94%
PAT	22	36	-38.89%	20	10.00%	58	142	-59.15%
Consolidated Financials (In Crs)								
	Q3FY21	Q3FY20	YoY %	Q2FY21	QoQ %	9MFY21	9MFY20	YoY%
Sales	300	303	-0.99%	322	-6.83%	911	876	4.00%
PBT	56	69	-19%	61	-8.20%	163	168	-2.98%
PAT	47	47	0%	47	0.00%	133	124	7.26%

Detailed Results:

1. The company had an encouraging quarter with consolidated sales flat YoY and PAT flat YoY.
2. Consolidated figures were boosted due to the low impact of COVID-19 on Vietnam operations as compared to its impact on Indian operations.
3. 9M figures were good with consolidated revenues rising 4% YoY and PAT rising 7% YoY.

Investor Conference Call Highlights:

1. The company saw substantial stock build-up due to logistics issues and the inability to get dispatches on time.
2. This problem was not unique to the company and was present for all major exporters and shippers in India like Bajaj Auto.
3. Another big omission this year was the absence of MEIS which was Rs 11 Cr last year in Q3.
4. During the quarter, the company suffered from a scarcity of food-grade containers and suffered a delay of 15-20 days on average.
5. According to management around Rs 50-60 Cr of sales couldn't be recognized in time in Q3 due to these delays. The majority of this was in freeze dried product.
6. The company has not seen any loss in orders due to this delay because coffee has a shelf life of 2 years or more & the onus is on the customer to arrange for containers and lift them. The company also saw in many cases that customers were paying extra to procure containers and get shipments in time.

7. Also there isn't any chance of replacing any order from another vendor as any customer will need a minimum of 3 months lead time for them to procure from anybody else, according to the management.
8. The company had increased manufacturing of small packs as freeze dried product was not being shipped and thus other expenses climbed up due to packing material costs going up.
9. The Russia business order has been pushed to Q4 due to the shipping delay and similarly, other postponed orders have also spilled over to Q4 and Q1FY22.
10. The management is unclear on what is going to happen on the MEIS replacement incentive scheme.
11. Pricing is not affected by the MEIS situation and it will be affected only by the supply and demand situation in the market at the time of the order.
12. For both the new installations in India and Vietnam, they are expected to be completed in Q4 and commissioned in Q1.
13. The container scarcity is expected to continue for the next 1-1.5 months.
14. The company is also looking to time its exports more precisely and to use its import containers for export to partially mitigate the container shortage.
15. Volumes sold in 9MFY21 were similar to those in 9MFY20.
16. Small packs now account for 15-20% of sales and the company has also increased small packs capacity by 40% QoQ.
17. The total incentives from MEIS was Rs 33 Cr for FY20.
18. Once the container issue is resolved, the management is confident of adding Rs 50 Cr to the top line from current sales figures for India operations.
19. Given the dispatches go in a timely manner, the management is confident of hitting 10% volumes growth for FY21.
20. The management is estimating MEIS backlog to be at Rs 28 Cr currently.
21. Capacity utilization in Vietnam was at 90% while in India, FDC plant was at 80-85% and Duggirala plant was at 60-65%.
22. EBITDA margins are expected to rise back to 25% from current level of 21% once the FDC dispatches are completed in time.
23. The management is aiming for 80-85% capacity utilization in FY22 which brings the volumes guidance to around 33,000 tons. The volume growth is expected to be driven primarily by the increase in capacity in Vietnam which has been running at 90%+ utilization levels throughout FY21 so far.
24. The volumes spill over into Q4 should yield higher margins and PBT as the expenses have already been recognized in Q3.
25. The India sales for 9M were at Rs 105 Cr where Rs 70 Cr was in branded sales.
26. The Swiss office should be able to add supermarket chains from FY22 onwards as the minimum of 2 years supply experience will be covered by the end of FY21.
27. The management is confident of maintaining margins of 25% even without MEIS.
28. The company has seen good response on the cold brew product from USA and has started getting inquiries for it from EU, Russia and others.
29. Volume growth from USA has doubled YoY.
30. The management has stated that it doesn't expect any import restrictions on coffee in USA as all coffee consumed there is imported.

Analyst's View:

CCL has already established itself in the wholesale coffee space for many years and their foray into branded sales through the Continental Coffee label has been very encouraging. The company has had a modest quarter due to the container shortage which has forced many orders to be postponed to Q4. It also saw continued high utilization at the Vietnam facility. The company's branded business is growing well and has already reached Rs 70 Cr in sales in 9MFY21. The company is doing well to capitalize on its unique offerings and is working hard on expanding its influence. This is evident from the response seen from customers for its new cold brew product and the inquiries it is getting from export destinations. It remains to be seen how long the container shortage will last 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.