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

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India Ratings and Research (Ind-Ra) has revised CCL Products India Limited's Outlook to Stable from Positive 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
Term loans	-	-	FY27	INR1,493 (reduced from INR2,735)	IND AA-/Stable	Affirmed; Outlook revised to Stable from Positive
Fund-based bank facilities	-	-	-	INR4,000 (increased from INR2,650)	IND AA-/Stable/IND A1+	Affirmed; Outlook revised to Stable from Positive
Non-fund-based bank facilities	-	-	-	INR250	IND A1+	Affirmed
Proposed fund-based bank facilities	-	-	-	INR2,000	IND AA-/Stable/IND A1+	Assigned

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), and Continental Coffee Private Limited (India; 'IND A-'/Positive) 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 Outlook revision reflects Ind-Ra's expectation of CCL's net leverage (net debt/EBITDA) to remain above 1.0x in the medium term owing to an increase in debt to fund capacity expansion.

Key Rating Drivers

Sustained Strong Credit Metrics: On a consolidated basis, the net leverage increased marginally to1.81x in FY22 (FY21: 1.48x), as the company borrowed additional debt to fund its capacity expansion in Vietnam. Ind-Ra expects the net leverage to remain below 2.0x over the medium term on account of a steady growth in profitability, despite capex towards the India capacity expansion. CCL's interest coverage (EBITDA/gross interest expense) improved to 20.24x in FY22 (FY21: 17.6x) due to a higher EBITDA and lower interest expense. Ind-Ra expects the interest coverage to sustain above 10.0x during FY24-FY26.

Strong Growth in Revenue and EBITDA in FY22: Despite the COVID-19-led disruptions, the consolidated revenue grew to INR14,620 million in FY22 (FY21: INR12,425 million). This was on account of execution of a higher number of orders, resulting from the healthy order book from existing clients as well as addition of new clients in the US, along with incremental capacities coming online in Vietnam. Consequently, the consolidated EBITDA increased to INR3,311 million in FY22 (FY21: INR2,978 million).

The growth momentum continued in 1HFY23 with the revenue increasing to INR10,158 million (1HFY22: INR6,628 million) and EBITDA to INR1,861 million (INR1,543 million). Management expects the strong growth momentum to continue in the medium term on the back of new capacities coming online.

Marginal Decline in Profitability in FY22; Although Likely to Recover in Near Term: The EBITDA margins remained comfortable, despite declining to 22.6% in FY22 (FY21: 24.0%) with an EBITDA per kg of INR102 (INR105). The decline in margins was attributed to an increase in operating expenses. CCL maintained EBITDA margins of 20%-25% and EBITDA per kg of above INR90 over FY16-FY22. The change in business model and product mix caused the EBITDA per kg to improve above INR100 during FY16-FY22 (FY15-FY16: INR85-95). The management expects EBITDA per kg to remain intact in the medium term. The company's margins are protected from the volatility in green coffee (raw) prices because it operates under the presales business model. CCL 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). Ind-Ra expects CCL's profitability to be supported in the medium term on the back of improved product mix with an increased focus on premium products as well as higher contribution from business-to-consumer (B2C) sales.

Capacity Expansion and Small Packs Business to Drive Growth: After increasing the capacity at its Vietnam plant by 3,500 metric tonnes (MT) in FY22, the company has undertaken another capacity expansion of 16,500MT at the same plant, taking the total capacity to about 30,000MT in Vietnam. The total capex outlay for the project was about USD30 million, of which USD20 million was funded through debt. Considering the strong order book and high capacity utilisation at its Indian plants, Ind-Ra expects management to undertake further capacity expansion at its Indian operations by about 16,000MT by FY24 with a capex of around INR4,000 million, of which INR3,200 million is scheduled to be funded by debt. The company currently relies on job manufacturing to fulfil a portion of its strong order book.

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 deepen 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 management, the company's market share in the domestic markets stood at 3% in FY22, and is 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%.

Revenue contribution from B2C sales in India stood at INR1,800 million in FY22, which is likely to increase to INR2,500 million in FY23. Ind-Ra believes CCL's continued focus on the B2C segment would improve its business profile further over the long term.

Liquidity Indicator – Adequate: CCL utilises cash credit at elevated levels with an average utilisation of around 86% for the 12 months ended October 2022. The utilisation was higher than the historical levels, on account of a significant increase in raw material prices and volumes, thereby leading to higher working capital requirement. The company had unencumbered cash and cash equivalents of INR528 million at FYE22 (FYE21: INR1,171 million). CCL generated positive cash flow from operations (CFO) over FY15-FY22 (FY22: INR1,007 million, FY21: INR1,708 million), although declined on a yoy basis, on account of a significant increase in working capital requirement. The CFO margin declined to 7% in FY22 (FY21: 14%). The decline in CFO coupled with the capex undertaken during the year caused the free cash flow to decline further to negative INR1,557 million in FY22 (FY21: negative INR104 million). However, Ind-Ra expects CCL to achieve positive free cash flow from FY24 onwards once all its capacity expansion plans are realised.

The working capital cycle elongated further to 327 days in FY22 (FY21: 278 days, FY20: 245 days), led primarily by an increase in the inventory holding period to 262 days (198 days), on account of an increase in the green bean prices and volumes. Ind-Ra expects the company's working capital levels to improve slightly over the medium term, as the raw material prices stabilise.

Adequate Customer Diversification: CCL's top five clients constituted 26% of its total revenue in FY22 (FY21: 32%). 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 INR9,299 million in FY22 (FY21: INR7,951 million), EBITDA of INR1,970 million (INR1,970 million), net leverage of 2.3x (1.8x) and interest coverage of 14.3x (11.9x).

Rating Sensitivities

Positive: A steady increase in the scale of operations (consolidated EBITDA exceeding INR3,500 million) and maintaining strong CFO margins, with the net leverage reducing below 1.0x 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 the net leverage sustaining above 2.0x beyond FY24, could lead to a negative rating action.

Company Profile

Headquartered in Hyderabad, CCL is a 100% export-oriented and special economic zone 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 facilities in Andhra Pradesh (India), Vietnam and Switzerland.

CONSOLIDATED FINANCIAL SUMMARY

Particulars	FY22	FY21
Revenue (INR million)	14,620	12,425
EBITDA (INR million)	3,311	2,978
EBITDA margins (%)	22.6	24.0
Interest coverage (x)	20.2	17.6
Net leverage (x)	1.8	1.5
Source: CCL, Ind-Ra		

Solicitation Disclosures

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APPLICABLE CRITERIA

Evaluating Corporate Governance

Corporate Rating Methodology

Short-Term Ratings Criteria for Non-Financial Corporates

Rating History

Instrument Type	Current Rating/Outlook			Historical Rating/Outl	
	Rating Type	Rated Limits (million)	Rating	23 September 2021	9 July 2020
Issuer rating	Long-term	-	IND AA-/Stable	IND AA-/Positive	IND AA-/Stable
Term loans	Long-term	INR1,493	IND AA-/Stable	IND AA-/Positive	IND AA-/Stable
Fund-based working capital limits	Long-term/Short-term	INR6,000	IND AA-/Stable/IND A1+	IND AA-/Positive/IND A1+	IND AA-/Stable/IND A1+
Non-fund-based working capital limits	Short-term	INR250	IND A1+	IND A1+	IND A1+

Bank wise Facilities Details

Click here to see the details

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.

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