



14<sup>th</sup> June, 2019

To  
The Listing Department  
National Stock Exchange of India Limited,  
Exchange Plaza, 5<sup>th</sup> Floor,  
Plot No. C/1, G Block,  
Bandra-Kurla Complex, Bandra (E),  
Mumbai – 400 051.

Dear Sir,

**Sub: Intimation under Regulation 30 of SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015**  
**Ref: Our Company Code: CCL**

Pursuant to Regulation 30 of SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015, we would like to inform that the Company has received Credit Rating Report from India Ratings & Research. Please find enclosed herewith the Report issued by the aforesaid Agency.

This is for your information and necessary records.

Regards,

For **CCL Products (India) Limited**

A handwritten signature in blue ink, appearing to read "Sridevi", with a horizontal line underneath.

Sridevi Dasari  
Company Secretary & Compliance Officer

**CCL PRODUCTS (INDIA) LIMITED**

CORPORATE OFFICE

7-1-24/2/D, "Greendale", Ameerpet, Hyderabad - 500016, Telangana, India.

☎ +91 40 2373 0855

REGISTERED OFFICE

Duggirala, Guntur Dist. 522330, Andhra Pradesh, India. | CIN L15110AP1961PLC000874

☎ +91 8644 277294 | ✉ info@continental.coffee | 🌐 www.cclproducts.com 🌐 www.continental.coffee

# 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

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.

### Analysts

Prasad Patil  
+91 22 4035 6169  
[prasad.patil@indiaratings.co.in](mailto:prasad.patil@indiaratings.co.in)

Shochis Natrajan  
+91 22 4000 1788  
[shochis.natrajan@indiaratings.co.in](mailto:shochis.natrajan@indiaratings.co.in)

**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)

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## Key Contents

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## Key Rating Issues

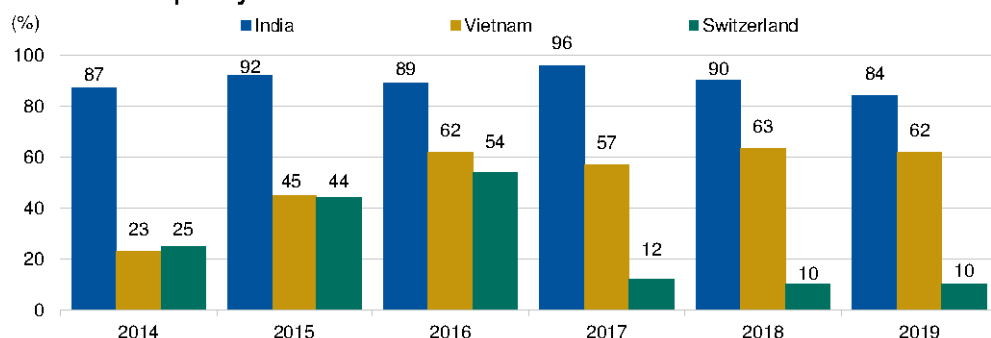
### Robust Capacity Utilisation

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



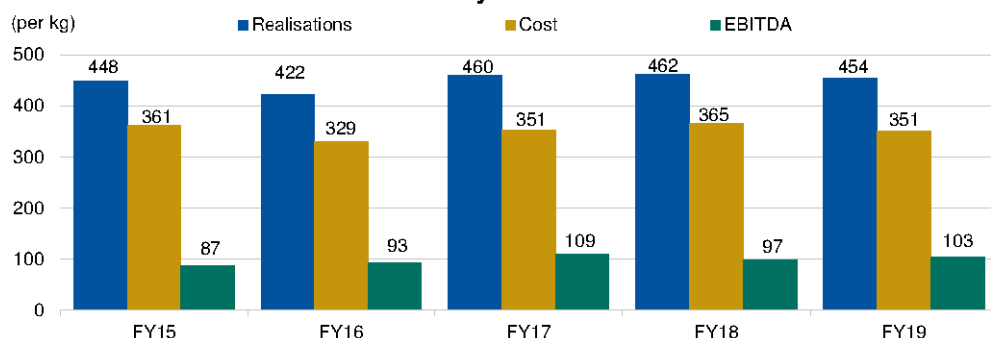
Source: CCL, Ind-Ra

### 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 Profitability



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

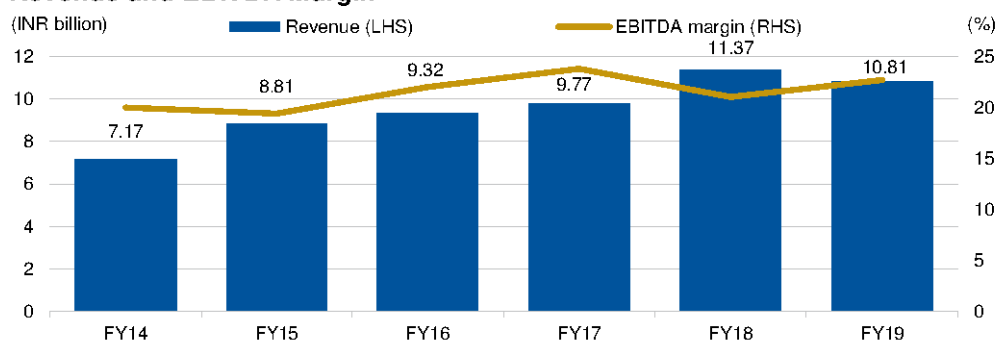
### Revenue and Profitability

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

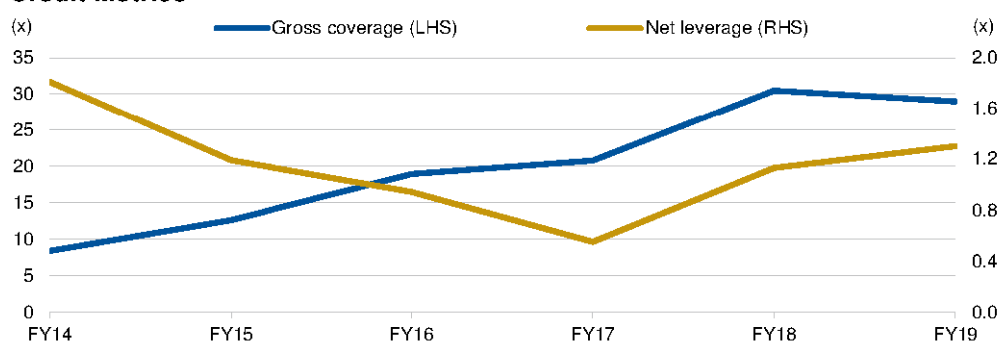
### Financial Risk:

- 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**

|                                                  | <b>FY19</b>    | <b>FY18</b>     | <b>FY17</b>     |
|--------------------------------------------------|----------------|-----------------|-----------------|
| 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          |
| <b>Total debt (INR million)</b>                  | <b>4,161.0</b> | <b>3,109.54</b> | <b>1,394.32</b> |
| Share capital (INR million)                      | 266.06         | 266.06          | 266.06          |
| Reserves and surplus (INR million)               | 8,123.1        | 7,133.3         | 6,096.55        |
| <b>Total shareholders fund (INR million)</b>     | <b>8,389.2</b> | <b>7,399.4</b>  | <b>6,362.61</b> |
| <b>Debt to equity (x)</b>                        | <b>0.50</b>    | <b>0.42</b>     | <b>0.23</b>     |

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+ |
| <b>Total</b>        | <b>2,250</b>                    |                         |

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+        |
| <b>Total</b>        | <b>230</b>                      |                |

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 |
| <b>Total</b>  | <b>2,225</b>                    |                 |

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 |
| <b>Total</b>         | <b>700</b>                      |                             |

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

| <b>CCL Products (India) Limited</b>                | <b>FY19</b> | <b>FY18</b> | <b>FY17</b> | <b>FY16</b> |
|----------------------------------------------------|-------------|-------------|-------------|-------------|
| <b>Summary income statement (INR million)</b>      |             |             |             |             |
| 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       |
| <b>Summary balance sheet (INR million)</b>         |             |             |             |             |
| 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       |
| <b>Summary cash flow statement (INR million)</b>   |             |             |             |             |
| 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         |
| <b>Coverage ratios (x)</b>                         |             |             |             |             |
| 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       |
| <b>Leverage ratios (x)</b>                         |             |             |             |             |
| 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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