CCL Products Ltd. – Investment BUY Call

Dear Bajaj Capital Investors,
New Stock Recommendations for BUY on 13 Aug 2026

CMP -> 1131
Buying Range -> 1131 to 1154
Upside Potential-> 15%
Investment Horizon -> 6 Months
Target price -> 1300

1. Business Model, Global Positioning & Diversified Product Portfolio

CCL Products (India) Limited is a global instant-coffee manufacturer with an integrated business model spanning private-label/B2B coffee manufacturing and an increasingly important B2C branded business. The company manufactures more than 1,000 coffee blends across spray-dried, spray-dried agglomerated, freeze-dried, freeze-concentrated liquid, roast & ground, roasted beans and premix coffee, while also offering packaging formats including jars, cans, pouches, sachets, big bags, bulk boxes and drums. Its manufacturing footprint is primarily in India and Vietnam, with products supplied to customers across international markets including the U.S., Europe, the U.K., Middle East and other global markets. The business is structurally attractive because it participates in the outsourced/private-label instant-coffee market rather than competing only for branded retail consumption, giving CCL access to large global food, beverage and retail customers. The company has also developed its own consumer portfolio, led by Continental Coffee in India and Percol in the U.K., while newer categories such as Malgudi snacks are being incubated. CCL's product portfolio and global manufacturing network therefore provide exposure to multiple end-user categories including retail coffee, foodservice, vending, institutional consumption and consumer packaged goods, with growth ultimately dependent on global instant-coffee consumption, outsourcing by large food companies, premiumisation toward freeze-dried coffee and the company's ability to gain share in B2C markets. The company's official investor portal provides access to its latest results, conference-call transcripts and corporate disclosures.

2. Q1 FY27: Strongest Near-Term Investment Trigger with Volume-Led Growth and Sharp PAT Expansion

Q1 FY27 provides the strongest near-term evidence supporting a BUY view. Consolidated revenue increased 13.76% YoY to INR 1,203.59 crore, despite lower/stable green-coffee prices, while management indicated that underlying volume growth was approximately 20%. More importantly, EBITDA increased 21.84% YoY to INR 196.69 crore from INR 161.42 crore, PBT rose 36.98% to INR 129.02 crore and PAT surged 61.31% to INR 116.87 crore. This demonstrates the key characteristic of CCL's cost-plus model: revenue can fluctuate with coffee prices, but EBITDA is primarily driven by physical volumes and per-kilogram profitability. Management reiterated that EBITDA growth should broadly track volume growth and confirmed Q1 EBITDA per kg at approximately INR 140, with the expectation that this metric should remain broadly stable through FY27. Q1 also carried forward the momentum of Q4 FY26, with aggregate capacity utilization at approximately 65%-70%, higher utilization in freeze-dried coffee and improved freeze-dried contribution. The quality of earnings is particularly important: the sharp PAT growth was achieved alongside continued deleveraging rather than through balance-sheet leverage. Q4 FY26 had already delivered consolidated revenue of INR 1,226.39 crore (+46% YoY), EBITDA of INR 193.76 crore (+16%), PBT of INR 123.1 crore (+16%) and PAT of INR 114.53 crore (+12%), establishing a strong earnings base before the FY27 year began.

3. FY26 Financial Performance, Return Profile & Structural Improvement in Earnings Quality

FY26 represented an important financial inflection point for CCL, with consolidated revenue rising approximately 43.5% YoY to INR 4,457 crore, EBITDA reaching INR 741 crore and PAT increasing 25% to INR 388 crore. Q4 and FY26 performance also demonstrated that the company's recent capacity additions and operational efficiencies are translating into higher absolute profitability. The improvement in profitability should be assessed through EBITDA per kg rather than headline EBITDA margin, because CCL operates predominantly under a cost-plus structure in which higher coffee prices inflate revenue without proportionately changing the company's underlying per-unit margin. Management stated that EBITDA per kg had improved from approximately INR 125-130 around 1.5 years ago to approximately INR 135-140 currently, supported by a higher proportion of freeze-dried coffee, greater small-pack contribution and increased value addition. Freeze-dried coffee typically generates 30%-40% more EBITDA than spray-dried coffee, according to management, providing a structurally higher-margin product opportunity. Small packs have also increased to approximately 20% of the mix from around 15% earlier, contributing to better profitability. Return ratios should consequently improve as the recently expanded asset base gets better utilized and debt declines; however, management's FY27 guidance indicates that the focus is on sustaining approximately INR 135-140 EBITDA/kg rather than assuming another major step-up. This makes the investment thesis more conservative and credible: earnings growth is increasingly underwritten by volume growth, utilization and balance-sheet improvement rather than aggressive margin expansion assumptions.

4. Cash-Flow Conversion & Deleveraging: The Most Important Quality-of-Earnings Catalyst

The cash-flow transformation is arguably the strongest component of the CCL investment thesis. Management explicitly described FY26 as a year in which operational performance was converted into genuine balance-sheet strength. Operating cash flow increased dramatically to INR 858 crore in FY26 from INR 290 crore in FY25 and only INR 55 crore in FY24, while working-capital days declined by approximately 80 days to 166 days. On the metrics highlighted in the analysis, CFO/PAT improved from 22% to 93% to 221% over the last three financial years, while CFO/Operating Profit improved from 19% to 57% to 124%, demonstrating a substantial improvement in cash conversion. The FY26 CFO of INR 858 crore should not be mechanically annualized—management itself cautioned that such a level is unlikely to recur because the company is not a negative-working-capital business—but the direction of improvement is highly significant. At the same time, gross debt declined from approximately INR 1,950 crore in December 2024 to INR 1,268 crore by March 2026, while net debt declined to INR 1,073 crore. By June 2026, net debt had further fallen to INR 963 crore, below the psychologically important INR 1,000-crore level. Debt/equity had improved to approximately 0.50 from 0.92, while net debt/EBITDA declined from approximately 3.1x to 1.45x. This combination of strong cash generation and deleveraging materially reduces financial risk, lowers future interest expense and creates greater flexibility for growth investments without requiring equity dilution. Management has also indicated that debt reduction remains a priority, with approximately INR 140 crore of term-loan repayments over the next three quarters and roughly INR 200 crore of repayment envisaged in FY27.

5. India B2C/Continental Coffee: High-Growth, Higher-Value Business with Significant Market-Share Opportunity

The domestic branded business is emerging as a major medium- to long-term growth engine and provides CCL with an opportunity to gradually diversify away from its traditional B2B/private-label model. In Q1 FY27, domestic gross turnover reached INR 180 crore, of which approximately INR 125 crore was branded, implying strong momentum versus FY26. Management is targeting approximately INR 550-600 crore of branded revenue in FY27, compared with roughly INR 440 crore branded revenue in FY26, while guiding for 20%-25% volume growth in the domestic branded business. Market-share indicators are particularly encouraging: CCL has crossed 6% urban market share in South India, has reached double-digit share in Reliance and DMart and has reached high-single-digit share on quick-commerce platforms, moving closer to double-digit share. The company has also expanded its distribution footprint substantially, with management previously highlighting approximately 150,000 retail outlets and significant opportunities to expand further. Importantly, the business is already EBITDA positive, but management is intentionally maintaining EBITDA margins at approximately 5%-6% and reinvesting the majority of incremental profitability into distribution, marketing, new regions and new categories. This means near-term consolidated margins may not fully capture the economic potential of B2C, but the strategy can create a much larger branded revenue pool and stronger pricing power over time. Management's commentary that retailer margins are around 10%, distributor margins approximately 5%-6% and that a significant proportion of sales is cash-and-carry provides evidence that Continental is gradually acquiring the trade economics and brand strength necessary for sustainable market-share gains.

6. Operating Leverage & Capacity Utilization: Significant Earnings Upside Without Heavy Near-Term Capex

CCL has an attractive asset-utilization opportunity, particularly because its recent capacity expansion has created substantial operating headroom. The group has approximately 77,000 tonnes of installed capacity, with India at around 40,000 tonnes and Vietnam at approximately 36,000-37,000 tonnes. Current blended utilization is only around 65%-70%, while freeze-dried facilities are operating at higher utilization because of stronger demand. Management estimates that maintaining approximately 15% volume growth could lift utilization toward 72%-73% in FY27 and potentially toward 80%-85% by FY28. This is important because incremental volumes through existing facilities can generate operating leverage without a proportional increase in fixed costs. Management indicated that 15% growth could translate into approximately 7,000-10,000 additional tonnes of annual sales, providing a meaningful earnings bridge over the next 2-4 quarters. The company currently does not intend to undertake a major capacity expansion over the next two years, with FY27 capex expected at only approximately INR 25-50 crore, mainly for upgrades and additions to existing facilities. This low-capex posture should support free-cash-flow generation and continued debt reduction. At the same time, management has explicitly stated that capacity will not be allowed to constrain growth: once utilization exceeds approximately 75%, the company would begin planning additional capacity, while 85%-90% utilization would generally trigger actual capacity requirements. Brownfield expansion in both India and Vietnam can be executed relatively quickly, with an estimated 9 to 12 months gestation period, while strategic tie-ups or external capacity can be used if demand accelerates unexpectedly.

7. Higher-Margin Products, International B2C & New Categories Provide the Next Leg of Growth

Beyond volume growth, CCL has several identifiable opportunities to improve the quality and diversification of earnings. First, freeze-dried coffee remains structurally more profitable than spray-dried coffee, with management estimating a 30%-40% EBITDA/kg premium, while current freeze-dried demand and utilization remain stronger than the group average. Although management does not expect another major margin uplift merely from mix during FY27 because much of the benefit is already embedded in the base, direct customer relationships, higher-value-added products and increasing small-pack penetration can help defend EBITDA/kg around INR 135-140. Second, Percol U.K. has turned around and generated approximately INR 26-27 crore of FY26 revenue, with management targeting approximately INR 100 crore within 2-3 years. The company is discussing listings with U.K. chains and distributor partnerships in the U.S. and Middle East, including opportunities to introduce both Percol and the Indian brand to the Indian diaspora. Third, CCL has begun broadening its Malgudi snacks portfolio beyond the initial pilot, adding products such as banana chips alongside chegodi and murukku; management expects only a few crores of revenue in FY27 initially, but a successful validation could allow substantially faster scaling from FY28. Fourth, the company is evaluating the U.S. and Vietnam as additional B2C markets, while its existing manufacturing footprint provides a strategic base for international expansion. Management's long-term objective is to sustain approximately 15% volume growth over the next 3-4 years while adding B2C and newer categories to support growth beyond the traditional coffee-manufacturing business.

8. Strategic Initiatives, Energy Efficiency, Capital Allocation & Execution Track Record

The recent strategic initiatives reinforce the view that management is moving from a capital-intensive expansion phase toward cash-flow-led consolidation and higher returns on the existing asset base. The most important operational achievement has been the successful ramp-up of the previously commissioned India and Vietnam capacities, enabling the group to reach approximately 77,000 tonnes of capacity while keeping current utilization at only 65%-70%; this creates a multi-year runway before another major expansion is required. Management's execution record is also supported by the successful reduction of debt without equity dilution, non-core asset sales or interruption to growth. The company has simultaneously expanded its B2C distribution, strengthened Continental Coffee's market position, turned around Percol in the U.K. and begun testing the Malgudi snacks category. The company's investment in Mukkunda Renewables, including a reported 26% stake and contracted 10 MW captive renewable-energy capacity, is another strategic initiative aimed at reducing energy costs for an energy-intensive coffee-drying operation; the expected power availability over the next 12-18 months could improve cost efficiency and reduce dependence on conventional power. Capital allocation is now explicitly tilted toward deleveraging, maintenance/upgrade capex and selective growth investments, while management has indicated that acquisitions will only be considered if they provide clear strategic value. This discipline is particularly positive after the company's substantial debt reduction, as future cash flows can increasingly be deployed toward shareholder value creation rather than servicing an elevated debt burden.

9. Industry Outlook, Short-Term Risks & BUY Conclusion for the Next 6 Months

The 6-month BUY thesis is supported by a combination of strong Q1 FY27 earnings momentum, 15% volume guidance, stable EBITDA/kg, rising capacity utilization, rapid deleveraging and accelerating B2C market-share gains. Management has retained its FY27 guidance of approximately 15% volume growth and EBITDA growth broadly in line with volume growth, despite Q1 volume growth already reaching around 20%; the decision not to upgrade guidance provides conservatism and leaves potential for positive earnings surprises if customer ordering improves as coffee-price volatility moderates. Lower coffee prices are not expected to structurally expand margins because of the cost-plus model, but they can reduce inventory carrying costs and encourage customers to enter longer contracts. The principal short-term risks are coffee-price volatility, potential El Nino-related disruption to Vietnam's crop, logistics and energy-cost inflation, particularly for CIF contracts and mix-related pressure on EBITDA/kg if lower-margin customers increase volumes as coffee prices decline. Management also acknowledged that approximately 30% of exports are CIF-based, where freight and insurance increases cannot always be passed through. Middle East-related logistics disruption and packaging-cost volatility remain additional near-term risks. Nevertheless, physical coffee supply has historically remained available even during adverse crop conditions, while CCL's cost-plus contracts and natural import-export hedge provide meaningful protection. For a six-month horizon, the investment thesis therefore rests less on commodity-price appreciation and more on volume execution, stable INR 135-140 EBITDA/kg, continued cash-flow conversion, further reduction in net debt below INR 1,000 crore, improving utilization and sustained B2C growth. The sharp Q1 FY27 PAT growth of 61.3%, net debt reduction to INR 963 crore and management's reaffirmation of 15% volume growth collectively provide a favourable risk-reward setup. We therefore maintain a BUY view on CCL Products for a medium-term 6-month horizon, with the key monitoring variables being Q2/Q3 volume growth, EBITDA/kg, branded revenue growth, operating cash flow, working-capital days and further debt reduction.

Q1FY27 Financial Performance:

		YoY	QoQ	Jun 2026	Mar 2026	Jun 2025
Revenue Cr		13.7%	-2.0%	1,200	1,224	1,056
Operating Profit Cr	^	21.7%	0.9%	194	192	159
OPM %				16.1	15.7	15.1
PAT Cr	^	61.3%	2.0%	117	115	72
NPM %				9.7	9.3	6.9
EPS ₹		60.9%	2.0%	8.8	8.6	5.5

Happy Investing!

Thank you and best regards,

On behalf of Bajaj Capital's Research Team