

# Tata Consumer Products Ltd

BUY

CMP Rs 504

Target Rs 574

Upside 13.9%

## Demand momentum and market share gains continue; input headwinds in India managed well

Tata Consumer Products (TCPL) met our expectations on results despite the headwinds on Starbucks and India tea prices driven by better than expected performance in international tea, strong P&L management in the India foods and beverages business and strong profitability in the associate tea plantations. Market share gains in both tea and salt in India were strong positives which in addition to a strong new launch pipeline especially in Tata Sampann give us more confidence on the future growth trajectory, which will also see benefits of a ramp up in direct distribution. While near-term margin headwinds remain for both the tea and salt business given rising costs, recent price hikes and expected integration benefits from 3Q should partially offset that. The international business seems to be tracking well especially the tea business in both UK and Canada, while EOC still remains a challenge. Tata Coffee business despite seeing strong revenue growth is facing margin headwinds. Starbucks and Nourishco are quickly proceeding towards normalcy and the company continues steady footprint expansion. Overall, we do not find any deviation in narrative and execution from the new leadership and continue to view TCPL as a solid structural story with both growth and margin tailwinds which can deliver industry-leading earnings growth over the next few years. We are building in a 11% revenue and 20% earnings CAGR over FY20-23E. Rolling forward our valuations to FY23, we reiterate our BUY rating with a revised SOTP-based TP of Rs 574, implying 47x/42x FY22E/23E P/E.

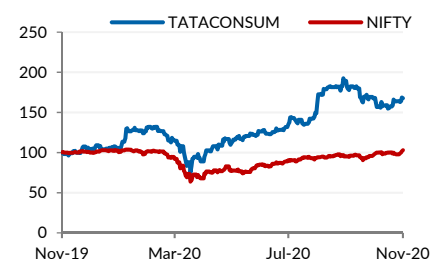
### Financial highlights

- ✓ Standalone revenue/EBITDA growth of 22%/24% and consolidated revenue/EBITDA growth of 19%/26%
- ✓ OCF improved to Rs 578crs in 1HFY21 from Rs 303crs in 1HFY20
- ✓ India branded tea business grew 29% led by 12% volume growth; Nourishco contributed Rs 38cr revenue driving 33% domestic beverages growth;
- ✓ India foods business grew 13% led by 6% volume growth with 35% growth in pulses and 10% growth in salt (7% volume growth).
- ✓ India business EBITDA margins improved 30bps to 14.6% despite the sharp increase in tea prices given a combination of price hikes, lower A&P spends and strong cost controls.
- ✓ International tea business grew 11% with flat volumes led by a 10% currency benefit; margins saw a sharp 420bps increase to 11.4% led by better mix, cost cuts and weak Kenyan tea prices.
- ✓ US coffee business also saw a 11% growth despite 3% volume decline led by 7% currency benefit; margins up 70bps to 21.6% given better realizations.
- ✓ Tata Coffee saw 17% revenue and 8% volume growth led by ramp-up in Vietnam operations; margins down 320bps to 6.2% given MEIS impact.
- ✓ Profit from associates/JVs up to Rs 388mn vs 92mn yoy despite losses at Starbucks given tea price-led profitability improvement in associate plantations.

### Stock data (as on Nov 06, 2020)

Nifty	12,264
52 Week h/l (Rs)	592 / 214
Market cap (Rs/USD mn)	464646/ 6263
Outstanding Shares (mn)	922
6m Avg t/o (Rs mn):	2,288
Div yield (%):	0.5
Bloomberg code:	TATACONS IN
NSE code:	TATACONSUM

### Stock performance



	1M	3M	1Y
Absolute return	-0.3%	4.0%	69.3%

### Shareholding pattern (As of Sep'20 end)

Promoter	34.7%
FII+DII	39.3%
Others	26.0%

### Δ in earnings estimates

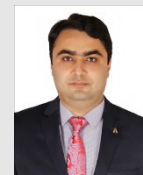
	FY20	FY21e	FY22e
EPS (New)	8.0	11.1	12.2
EPS (Old)	8.0	10.0	11.2
% change	-	11.6	9.0

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# Tata Consumer Products Ltd

## Presentation highlights

- ✓ **Commodity price volatility** - tea prices 80% higher yoy in North India (lockdown and bad weather) and xx% in South India, Kenya prices flat which helped international business; coffee – Arabica saw uptick while Robusta stable.
- ✓ **Integration of foods and beverage business** – Should be complete by 4QFY21, benefits to start from 3Q, distributor consolidation majorly done; expect some disturbances and one-off costs in 3Q; outlet reach expanded by 12% till September.
- ✓ **Nourishco** – Reached 86% of pre-COVID levels; September saw growth; 37crs revenue in 2Q; geographic and portfolio expansion on track; Tata Water Plus doing well
- ✓ **India Beverages** – 12% volume growth and 29% revenue growth; market share gains in both volume and value terms; margins stable with strong P&L management; demand remains volatile despite 6% industry growth in branded tea
- ✓ **India Foods** – 6% volume and 13% revenue growth; salt grew 10% with market share gains, value-added salt grew 100%, pulses up 33%, poha and nutri-mixes also doing well
- ✓ **Tata Coffee** – 17% revenue, 6% plantation volume and 11% extractions volume growth led by Vietnam ramp-up
- ✓ **Starbucks** – 27%/54%/71% normalcy in Jul/Aug/Sep; opened 11 stores to now reach 12 cities and 196 stores; opened 200<sup>th</sup> store in October and entered 13<sup>th</sup> city; 86% stores reopened as of now
- ✓ **UK** – 4% revenue and 7% volume growth and 21% market share; margins improved given better gross margins
- ✓ **US** – 4% coffee revenue growth with 5.4% market share; food service business continues to face headwinds.
- ✓ **Canada** – 1% revenue growth, 7% volume decline, 25% growth in specialty teas, 30% market share; overhead rationalization improved margins

## Investor call takeaways

- ✓ **Tea pricing strategy** – Focus remains on market share gains, prices have tempered a bit but still well above last year's levels, will manage pricing and margins dynamically but might still see margin impact in 3Q in India tea business, full year shortfall expected which should keep prices high; aiming to double direct reach which will drive volumes and share gains.
- ✓ **International tea business margins** – Sharp increase in gross margins due to flat tea prices, better mix in favor of value-added teas and tight cost controls; also helped by high-margin Canada specialty teas.
- ✓ **Synergy benefits** – 300bps benefits were expected over 18-24 months equally on both sales and costs post integration; in-line on the costs side with small benefit in 2Q; confident of delivering synergies ahead of time and ahead of estimates.
- ✓ **Salt business** – Sales value growth of 10% and volume growth of 7%; 5% price increase taken in October due to rise in costs; strong ambitions to improve both market share and drive premiumization.
- ✓ **New launch pipeline** – Planned launches in branded tea, branded coffee in South India, range of nutrimixes under Sampann; had delayed launches to ramp up sales and distribution capabilities, now will pick up momentum on new launches.
- ✓ **Distribution expansion** – Target 1mn direct reach over next 12 months; will relook the target after reaching that.
- ✓ **Current lockdown in Europe** – Seeing another round of uptick in demand but not expect significant pantry stocking again.
- ✓ **International business restructuring** – Will keep re-evaluating and cleaning up business on a continuous basis; recently exited China, Russia, Czech and restructured Poland

# Tata Consumer Products Ltd

- ✓ **Balance sheet position** – Strong cash flows have improved net cash to 1400crs; exploring organic and inorganic opportunities especially in Sampann.

## Exhibit 1: Financial Summary

YE March (Rs mn)	2QFY21	2QFY20	1QFY21	YoY (%)	QoQ (%)
<b>Net Revenues</b>	<b>27,813</b>	<b>23,471</b>	<b>27,139</b>	<b>18.5</b>	<b>2.5</b>
RM Costs	11,272	8,895	9,673	26.7	16.5
(% of sales)	40.53	37.90	35.64		
Purchase of traded goods	5,190	4,365	5,333	18.9	(2.7)
(% of sales)	18.66	18.60	19.65		
Employee cost	2,297	2,201	2,291	4.4	0.3
(% of sales)	8.26	9.38	8.44		
Advertisement and sales	1,664	1,627	1,338	2.3	24.4
(% of sales)	5.98	6.93	4.93		
Others	3,395	3,236	3,678	4.9	(7.7)
(% of sales)	12.21	13.79	13.55		
<b>EBITDA</b>	<b>3,996</b>	<b>3,148</b>	<b>4,827</b>	<b>26.9</b>	<b>(17.2)</b>
<b>EBITDA margin (%)</b>	<b>14.37</b>	<b>13.41</b>	<b>17.78</b>		
Other income	262	280	327	(6.5)	(19.8)
<b>PBIDT</b>	<b>4,258</b>	<b>3,428</b>	<b>5,154</b>	<b>24.2</b>	<b>(17.4)</b>
Depreciation	626	587	619	6.7	1.1
Interest	179	204	173	(12.4)	3.4
<b>PBT</b>	<b>3,454</b>	<b>2,638</b>	<b>4,362</b>	<b>30.9</b>	<b>(20.8)</b>
Tax	871	636	1,104		
<b>ETR (%)</b>	<b>25.2</b>	<b>24.1</b>	<b>25.3</b>		
P/L of associate/JV	389	92	(435)		
<b>Adjusted PAT</b>	<b>2,971</b>	<b>2,094</b>	<b>2,822</b>	<b>41.9</b>	<b>5.3</b>
PATAMI margin	10.7	8.9	10.4		
Exceptional item	(239)	(15)	633		
<b>Reported PAT</b>	<b>2,732</b>	<b>2,079</b>	<b>3,456</b>	<b>31.4</b>	<b>(20.9)</b>
No. of shares (mn)	922	922	922		
<b>Adj EPS (Rs)</b>	<b>3.2</b>	<b>2.3</b>	<b>3.1</b>		

Source: Company, YES Sec – Research

## Exhibit 2: SOTP Valuation

Segment	Metric	Multiple (x)	Value (Rs mn on FY23E)	Per share (Rs)	% of total value
India Beverages	EV/EBITDA	30	242,125	263	46%
India Foods	EV/EBITDA	35	196,719	213	37%
Tata Coffee	20% disc to CMP		8,637	9	2%
EOC (TGBL 50% stake)	EV/EBITDA	8	13,924	15	3%
Tetley/Others	EV/EBITDA	12	24,009	26	5%
Starbucks JV	Price/Sale	8	29,533	32	6%
Net Debt			-14,396	16	
<b>Equity Value</b>			<b>529,342</b>		
<b>TP</b>				<b>574</b>	

Source: Company, YES Sec – Research

## Exhibit 3: Summary financials

Revenue (Rs mn)	3QFY19	4QFY19	1QFY20	2QFY20	3QFY20	4QFY20	1QFY21	2QFY21
Standalone	8,897	7,841	14,640	14,272	14,635	13,353	16,054	17,361
<b>Growth YoY (%)</b>	<b>4.9%</b>	<b>9.7%</b>	<b>61.1%</b>	<b>68.4%</b>	<b>64.5%</b>	<b>70.3%</b>	<b>9.7%</b>	<b>21.6%</b>
<b>Growth QoQ(%)</b>	<b>5.0%</b>	<b>-11.9%</b>	<b>86.7%</b>	<b>-2.5%</b>	<b>2.5%</b>	<b>-8.8%</b>	<b>20.2%</b>	<b>8.1%</b>
Tetley/ others	5,575	5,309	4,617	4,387	5,281	5,530	5,210	5,018
<b>Growth YoY (%)</b>	<b>10.4%</b>	<b>-0.5%</b>	<b>-2.2%</b>	<b>-4.1%</b>	<b>-5.3%</b>	<b>4.2%</b>	<b>12.8%</b>	<b>14.4%</b>
<b>Growth QoQ(%)</b>	<b>21.8%</b>	<b>-4.8%</b>	<b>-13.0%</b>	<b>-5.0%</b>	<b>20.4%</b>	<b>4.7%</b>	<b>-5.8%</b>	<b>-3.7%</b>
Tata Coffee Standalone	1,652	2,013	2,003	1,857	1,662	1,673	1,756	1,856
<b>Growth YoY (%)</b>	<b>-0.5%</b>	<b>8.0%</b>	<b>25.9%</b>	<b>4.7%</b>	<b>0.6%</b>	<b>-16.9%</b>	<b>-12.3%</b>	<b>0.0%</b>
<b>Growth QoQ(%)</b>	<b>-6.9%</b>	<b>21.8%</b>	<b>-0.5%</b>	<b>-7.3%</b>	<b>-10.5%</b>	<b>0.7%</b>	<b>5.0%</b>	<b>5.7%</b>
Eight O Clock	3,002	2,593	2,664	2,956	3,353	3,494	4,119	3,578
<b>Growth YoY (%)</b>	<b>42.2%</b>	<b>2.0%</b>	<b>1.3%</b>	<b>6.1%</b>	<b>11.7%</b>	<b>34.8%</b>	<b>54.6%</b>	<b>21.1%</b>
<b>Growth QoQ(%)</b>	<b>7.8%</b>	<b>-13.6%</b>	<b>2.7%</b>	<b>11.0%</b>	<b>13.4%</b>	<b>4.2%</b>	<b>17.9%</b>	<b>-13.1%</b>
<b>Consolidated</b>	<b>19,126</b>	<b>17,755</b>	<b>23,924</b>	<b>23,471</b>	<b>24,930</b>	<b>24,050</b>	<b>27,139</b>	<b>27,813</b>
<b>Growth YoY (%)</b>	<b>10.5%</b>	<b>5.2%</b>	<b>32.7%</b>	<b>33.3%</b>	<b>30.3%</b>	<b>35.5%</b>	<b>13.4%</b>	<b>18.5%</b>
<b>Growth QoQ(%)</b>	<b>8.6%</b>	<b>-7.2%</b>	<b>34.7%</b>	<b>-1.9%</b>	<b>6.2%</b>	<b>-3.5%</b>	<b>12.8%</b>	<b>2.5%</b>

Source: Company, YES Sec – Research

## Exhibit 4: EBITDA Margins

EBITDA Margin(%)	3QFY19	4QFY19	1QFY20	2QFY20	3QFY20	4QFY20	1QFY21	2QFY21
Standalone	12.8%	7.5%	15.9%	14.3%	14.1%	12.0%	20.3%	14.6%
Tetley/others	4.9%	9.8%	8.5%	7.2%	4.9%	12.8%	8.9%	11.4%
Tata Coffee Standalone	6.0%	6.7%	11.4%	9.4%	8.9%	0.4%	8.7%	6.2%
Eight O Clock	15.1%	19.1%	21.0%	20.9%	21.0%	21.9%	23.2%	21.6%
<b>Consolidated</b>	<b>10.3%</b>	<b>9.8%</b>	<b>14.7%</b>	<b>13.4%</b>	<b>12.8%</b>	<b>12.8%</b>	<b>17.8%</b>	<b>14.4%</b>

Source: Company, YES Sec – Research

## FINANCIALS

### Exhibit 5: Balance sheet

Y/e 31 Mar (Rs mn)	FY18	FY19	FY20	FY21E	FY22E
Equity capital	631	631	922	922	922
Reserves	69,685	72,686	137,227	144,874	153,009
Net worth	70,316	73,317	138,149	145,796	153,930
Debt	10,562	11,169	11,825	10,000	10,000
Deferred tax liab (net)	1,315	1,455	3,160	3,160	3,160
Other non current liabilities	1,781	1,885	5,060	5,566	6,122
<b>Total liabilities</b>	<b>83,973</b>	<b>87,825</b>	<b>158,193</b>	<b>164,522</b>	<b>173,213</b>
Fixed Asset	49,333	53,377	117,514	116,969	116,283
Investments	11,613	11,877	13,229	13,229	13,229
Other Non-current Assets	7,048	4,857	5,799	6,349	6,954
Net Working Capital	13,687	17,655	16,363	21,587	23,276
Inventories	14,483	16,099	17,120	21,760	23,404
Sundry debtors	6,483	6,806	9,224	10,880	11,702
Loans and Advances	2,723	3,764	2,898	3,730	4,012
Other current assets	1,857	2,272	3,028	3,331	3,664
Sundry creditors	7,057	6,649	9,440	10,880	11,702
Other current liabilities	3,813	4,141	5,544	6,217	6,687
Provision	988	495	924	1,017	1,118
Cash & equivalents	2,291	59	5,290	6,388	13,471
<b>Total Assets</b>	<b>83,973</b>	<b>87,825</b>	<b>158,193</b>	<b>164,522</b>	<b>173,213</b>

Source: Company, YES Sec – Research

### Exhibit 6: Income statement

Y/e 31 Mar (Rs m)	FY18	FY19	FY20	FY21E	FY22E
Revenue	68,154	72,515	96,374	113,461	122,036
Operating profit	8,389	7,859	12,922	16,872	18,122
Depreciation	1,160	1,226	2,417	2,545	2,685
Interest expense	428	525	779	710	710
Other income	942	1,571	1,116	1,194	1,254
Profit before tax	7,743	7,680	10,842	14,810	15,981
Taxes	1,859	2,609	2,742	3,726	4,033
Adj. PAT	5,167	4,415	7,345	10,284	11,248
Exceptional loss	211	333	2,748	-	-
<b>Net profit</b>	<b>4,956</b>	<b>4,082</b>	<b>4,598</b>	<b>10,284</b>	<b>11,248</b>

Source: Company, YES Sec – Research

# Tata Consumer Products Ltd

## Exhibit 7: Cash flow statement

Y/e 31 Mar (Rs mn)	FY18	FY19	FY20	FY21E	FY22E
PBIT	8,170	8,205	11,620	15,520	16,691
Depreciation	1,160	1,226	2,417	2,545	2,685
Tax paid	(1,859)	(2,609)	(2,742)	(3,726)	(4,033)
Working capital Δ	(1,167)	(3,968)	1,293	(5,225)	(1,688)
Other operating items					
Operating cashflow	6,305	2,854	12,588	9,115	13,655
Capital expenditure	(4,136)	(5,270)	(66,554)	(2,000)	(2,000)
Free cash flow	2,169	(2,416)	(53,966)	7,115	11,655
Equity raised	4,283	497	62,722	(24)	21
Investments	2,897	(263)	(1,352)	-	-
Debt financing/disposal	2,859	607	656	(1,825)	-
Interest Paid	(428)	(525)	(779)	(710)	(710)
Dividends paid	(1,578)	(1,578)	(2,488)	(2,613)	(3,135)
Other items	(3,569)	1,633	1,085	(844)	(749)
Net Δ in cash	6,633	(2,045)	5,879	1,098	7,083

Source: Company, YES Sec – Research

## Exhibit 8: Du-pont analysis

Y/e 31 Mar (Rs mn)	FY18	FY19	FY20	FY21E	FY22E
Tax burden (x)	0.67	0.57	0.68	0.69	0.70
Interest burden (x)	0.95	0.94	0.93	0.95	0.96
EBIT margin (x)	0.12	0.11	0.12	0.14	0.14
Asset turnover (x)	0.75	0.74	0.71	0.64	0.65
Financial leverage (x)	1.37	1.36	1.29	1.26	1.25
RoE (%)	7.8	6.1	6.9	7.2	7.5

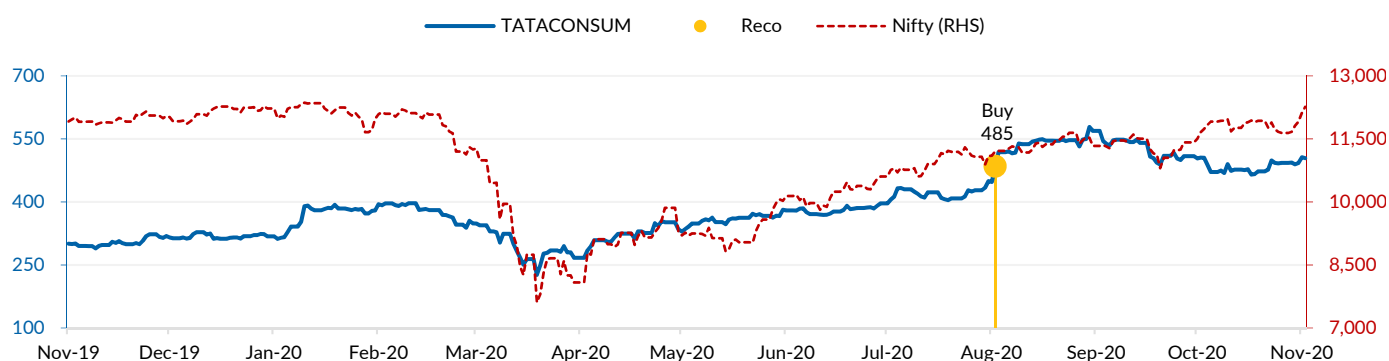
Source: Company, YES Sec – Research

## Exhibit 9: Ratio analysis

Y/e 31 Mar	FY18	FY19	FY20	FY21E	FY22E
<b>Growth matrix (%)</b>					
Revenue growth	0.5	6.4	32.9	17.7	7.6
Op profit growth	6.0	(6.3)	64.4	30.6	7.4
EBIT growth	9.2	0.4	41.6	33.6	7.5
Net profit growth	34.5	(14.6)	66.4	40.0	9.4
<b>Profitability ratios (%)</b>					
OPM	12.3	10.8	13.4	14.9	14.9
EBIT margin	12.0	11.3	12.1	13.7	13.7
Net profit margin	7.6	6.1	7.6	9.1	9.2
RoCE	10.8	9.9	9.9	10.2	10.4
RoNW	7.8	6.1	6.9	7.2	7.5
RoA	5.7	4.5	5.4	5.8	6.0
<b>Per share ratios</b>					
EPS	8.2	7.0	8.0	11.2	12.2
Dividend per share	2.5	2.5	2.7	2.8	3.4
Cash EPS	10.0	8.9	10.6	13.9	15.1
Book value per share	111.4	116.2	149.9	158.2	167.0
<b>Payout (%)</b>					
Dividend payout	30.5	35.7	33.9	25.4	27.9
Tax payout	24.0	34.0	25.3	25.2	25.2
<b>Liquidity ratios</b>					
Debtor days	34.7	34.3	34.9	35.0	35.0
Inventory days	77.6	81.0	64.8	70.0	70.0
Creditor days	37.8	33.5	35.8	35.0	35.0

Source: Company, YES Sec – Research

## Recommendation Tracker



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7	YSL has received any compensation for products or services other than investment banking or merchant banking or brokerage services from the subject company in the past twelve months	No
8	YSL has received any compensation or other benefits from the subject company or third party in connection with the research report	No
9	YSL has managed or co-managed public offering of securities for the subject company in the past twelve months	No
10	Research Analyst or YSL has been engaged in market making activity for the subject company(ies)	No

Since YSL and its associates are engaged in various businesses in the financial services industry, they may have financial interest or may have received compensation for investment banking or merchant banking or brokerage services or for any other product or services of whatsoever nature from the subject company(ies) in the past twelve months or associates of YSL may have managed or co-managed public offering of securities in the past twelve months of the subject company(ies) whose securities are discussed herein.

Associates of YSL may have actual/beneficial ownership of 1% or more and/or other material conflict of interest in the securities discussed herein.

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## **RECOMMENDATION PARAMETERS FOR FUNDAMENTAL REPORTS**

Analysts assign ratings to the stocks according to the expected upside/downside relative to the current market price and the estimated target price. Depending on the expected returns, the recommendations are categorized as mentioned below. The performance horizon is 12 to 18 months unless specified and the target price is defined as the analysts' valuation for a stock. No benchmark is applicable to the ratings mentioned in this report.

**BUY:** Potential return >15% over 12 months

**ADD:** Potential return +5% to +15% over 12 months

**REDUCE:** Potential return -10% to +5% over 12 months

**SELL:** Potential return <-10% over 12 months

**NOT RATED / UNDER REVIEW**

## **ABOUT YES SECURITIES (INDIA) LIMITED**

YES Securities (India) Limited ("YSL") is a wholly owned subsidiary of YES BANK LIMITED. YSL is a SEBI registered stock broker holding membership of NSE, BSE, MCX & NCDEX. YSL is also a SEBI registered Category I Merchant Banker, Investment Adviser and a Research Analyst. YSL offers, inter alia, trading/investment in equity and other financial products along with various value added services. We hereby declare that there are no disciplinary actions taken against YSL by SEBI/Stock Exchanges.