

Merged TCLs' consumer business to drive growth...

Tata Global Beverages (TGBL) received National Company Law Tribunal (NCLT) approval for merger with Tata Chemicals' (TCL) consumer business. This business includes sourcing, packaging, marketing, distribution & sales of its Tata Salt, pulses & spices under Sampann brand, snacks business and detergent powder, Tata Dx. TCL's consumer business has been growing at a strong ~20% growth over the last two years backed by robust growth in volumes across salt, pulses and spices. It has been maintaining its operating margins around 16%, much higher than TGBL's ~13% (as on H1FY20). Though pulses and spices segments are smaller in size, we believe these underpenetrated and high growth categories would aid TGBL's growth. We believe investment behind new categories (Tata Dx detergent powder and Tata Nx sugar-free natural sweetener) including other newer segments, would be the key to growth, going ahead.

India business to gain led by robust tea segment growth

TGBL commands 20% market share in the Indian tea segment. It expects to continue to grow above industry led by new launches and focus on premium tea varieties. The branded tea business has delivered robust volume growth of 8% in H1FY20 driven by market share gains, inorganic growth, product innovation and focus on premiumisation. Moreover, it would be benefiting from a shift from unorganised to organised sales on the back of strong marketing campaigns (Jaago Re) and higher sales of new variants (Elaiichi, Masala, Agni). We expect 5.7% revenue CAGR in FY19-22E aided by high growth in branded tea products.

Appointment of new MD to drive aggressive FMCG ambitions

TGBL has selected Sunil D'Souza (current MD of Whirlpool of India) as its next MD & CEO, starting April 2020. This move will help shape and drive Tata group's aggressive FMCG business ambitions. Mr D'Souza has 25+ years of cross-functional and multi-cultural experience in companies like PepsiCo, Coca Cola, Brooke Bond Lipton India, which will help the company to drive growth in new FMCG categories.

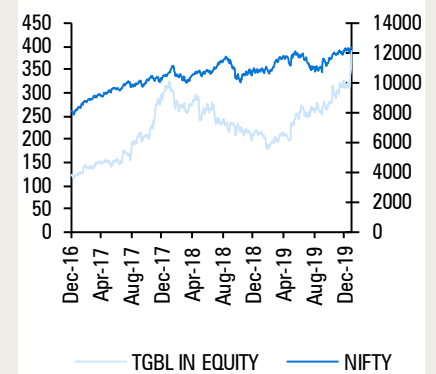
Valuation & Outlook

TGBL's India business revenue contribution has increased from the previous 47% in FY19 to ~52% in H1FY20 with impressive EBITDA margins of 13.5%. The company has been exiting non-core international markets (exit from loss making China, Russia and Czech Republic subsidiaries and stake divested in its Sri Lankan plantations), which has been a drag on sales growth. We have valued TGBL on an SOTP basis, valuing the India domestic business (including TCL's consumer business) at 5x FY22E sales, international business (US, UK, Canada) at ~1x FY22E sales and Starbucks JV at 2x FY22E sales. We reiterate our **BUY** rating on the stock with a revised target price of ₹ 450 per share.

TATA GLOBAL BEVERAGES

Particulars	
Particulars (₹ crore)	Amount
Market Capitalization	24,676.0
Total Debt (FY19)	1,116.9
Cash and Investments (FY19)	1,616.8
EV	24,176.1
52 week H/L (₹)	395 / 178
Equity capital	92.2
Face value (₹)	1.0

Price Performance



Key Highlights

- Maintain BUY with revised target price of ₹ 450/share
- The merger between TGBL and consumer business of Tata Chemicals is expected to be complete by February 2020
- On the synergy front, the company is targeting 2-3% incremental EBITDA margin in 18-24 months

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Key Financial Summary

Key Financials	FY18	FY19	FY20E	FY21E	FY22E	CAGR (FY19-22E)
Net Sales	6815.4	7251.5	7648.4	10350.0	11076.9	15.2%
EBITDA	838.9	785.9	1020.2	1455.9	1629.8	27.5%
EBITDA Margin %	12.3	10.8	13.3	14.1	14.7	
Net Profit	556.5	457.0	581.3	891.3	1014.6	30.5%
EPS (₹)	8.8	7.2	9.2	9.7	11.0	
P/E	44.3	54.0	42.5	40.4	35.5	
RoNW %	8.1	6.5	7.7	6.6	7.3	
RoCE (%)	8.7	8.4	9.6	8.7	9.5	

Financial Summary

Exhibit 1: Profit & Loss statement

(Year-end March)	FY19	FY20E	FY21E	FY22E
Total Operating Income	7251.5	7648.4	10350.0	11076.9
Growth (%)	6.4	5.5	35.3	7.0
Raw Material Expenses	4,007.6	4,217.2	5,883.3	6,182.5
Employee Expenses	806.3	844.7	1,038.2	1,132.6
Marketing Expenses	547.5	499.1	622.9	688.5
Administrative Expenses	0.0	0.0	0.0	0.0
Other expenses	1,104.1	1,067.3	1,349.7	1,443.6
Total Operating Expenditure	6,465.6	6,628.3	8,894.1	9,447.2
EBITDA	785.9	1020.2	1455.9	1629.8
Growth (%)	-6.3	29.8	42.7	11.9
Depreciation	122.6	177.9	182.8	185.2
Interest	52.5	74.7	67.2	63.4
Other Income	157.1	125.7	132.0	138.6
PBT	768.0	893.3	1,337.9	1,519.8
Exceptional items	-33.3	0.0	0.0	0.0
Total Tax	260.9	259.9	389.3	442.3
PAT	457.0	581.3	891.3	1014.6
Growth (%)	-17.9	27.2	53.3	13.8
Adjusted EPS (₹)	7.6	9.2	9.7	11.0

Source: Company, ICICI Direct Research

Exhibit 2: Cash Flow Statement

(Year-end March)	FY19	FY20E	FY21E	FY22E
Profit/Loss after Tax	457.0	581.3	891.3	1014.6
Add: Depreciation	122.6	177.9	182.8	185.2
Add: Interest	52.5	74.7	67.2	63.4
(Inc)/dec in Current Assets	-217.5	119.7	-915.5	-606.2
Inc/(dec) in Current Liabilities	-126.6	-233.6	436.7	117.5
CF from operating activities	287.9	720.0	662.5	774.4
(Inc)/dec in Investments	-11.7	-8.6	-8.9	-9.2
(Inc)/dec in Fixed Assets	-527.0	28.9	-500.0	-100.0
Others	124.3	92.5	-5,513.6	23.3
CF from investing activities	-414.3	112.8	-6022.4	-85.9
Issue/(Buy back) of Equity	0.0	0.0	29.0	0.0
Inc/(dec) in loan funds	131.3	-40.0	-40.0	-40.0
Dividend paid & dividend tax	-225.3	-375.5	-548.3	-548.3
Inc/(dec) in Sec. premium	0.0	205.8	5,600.0	0.0
Others	-52.5	-74.7	-67.2	-63.4
CF from financing activities	-265.8	237.4	4973.6	-651.7
Net Cash flow	-392.2	1,070.2	-386.4	36.8
Opening Cash	698.2	306.0	1,376.2	989.8
Closing Cash	1033.6	1376.2	989.8	1026.6

Source: Company, ICICI Direct Research

Exhibit 3: Balance Sheet

(Year-end March)	FY19	FY20E	FY21E	FY22E
Liabilities				
Equity Capital	63.1	63.1	92.2	92.2
Reserve and Surplus	7,268.6	7,474.3	13,417.4	13,883.6
Total Shareholders funds	7,331.7	7,537.5	13,509.5	13,975.8
Long Term Borrowings	787.2	747.2	707.2	667.2
Long Term Provisions	152.2	244.8	331.2	354.5
Other Non-current Liabilities	1197.6	1197.6	1197.6	1197.6
Total Liabilities	9468.8	9727.1	15745.6	16195.1
Assets				
Gross Block	7,015.5	7,115.5	7,615.5	7,715.5
Less: Acc Depreciation	2,231.1	2,408.9	2,591.7	2,776.9
Net Block	4,913.3	4,706.5	5,023.8	4,938.6
Capital WIP	424.4	424.4	424.4	424.4
Non Current Investments	604.5	613.1	622.0	631.2
LT Loans & Advances/Others	448.5	448.5	448.5	448.5
Current Assets				
Inventory	1,609.9	1,885.9	2,410.3	2,731.3
Debtors	680.6	838.2	992.5	1,213.9
Cash	1,033.6	1,376.2	989.8	1,026.6
Loans & Advances	828.2	502.9	680.5	728.3
Other Current Assets	395.8	167.6	226.8	242.8
Current Liabilities				
Creditors	664.9	523.9	708.9	758.7
Provisions	49.5	125.7	170.1	182.1
Short Term Borrowings	329.7	335.3	453.7	485.6
Other CL	425.9	251.5	340.3	364.2
Net Current Assets	3,078.0	3,534.5	3,626.9	4,152.4
Total Assets	9468.8	9727.1	15745.6	16195.1

Source: Company, ICICI Direct Research

Exhibit 4: Key Ratios

(Year-end March)	FY19	FY20E	FY21E	FY22E
Per share data (₹)				
EPS	7.2	9.2	9.7	11.0
Cash EPS	9.2	12.0	11.7	13.0
BV	116.2	119.4	146.6	151.7
DPS	3.0	5.0	5.0	5.0
Cash Per Share	16.4	21.8	10.7	11.1
Operating Ratios (%)				
EBITDA Margin	10.8	13.3	14.1	14.7
PBT / Net Sales	10.6	11.7	12.9	13.7
PAT Margin	6.3	7.6	8.6	9.2
Inventory days	81.0	90.0	85.0	90.0
Debtor days	34.3	40.0	35.0	40.0
Creditor days	33.5	25.0	25.0	25.0
Return Ratios (%)				
RoE	6.5	7.7	6.6	7.3
RoCE	8.4	9.6	8.7	9.5
RoIC	8.9	11.2	15.1	16.3
Valuation Ratios (x)				
P/E	54.0	42.5	40.4	35.5
EV / EBITDA	30.9	23.5	16.8	14.9
EV / Net Sales	3.4	3.1	2.4	2.2
Market Cap / Sales	3.4	3.2	2.4	2.2
Price to Book Value	3.4	3.3	2.7	2.6
Solvency Ratios				
Debt/EBITDA	1.4	1.1	0.8	0.7
Debt / Equity	0.2	0.1	0.1	0.1
Current Ratio	3.1	3.8	3.5	3.8
Quick Ratio	1.7	1.7	1.6	1.7

Source: Company, ICICI Direct Research

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Buy: >15%

Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%



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