

Merged entity looks to revamp

With the merger process completed, Tata Consumer Products (TCPL) reported its first quarter of consolidated numbers. Revenue growth of 35% included merged foods business sales of ₹ 524 crore. On a comparable basis, revenue growth was 6% led by 3% volume growth. The company has not seen any substantial negative impact of lockdowns given tea & salt categories are part of essentials. International tea business & US coffee business grew 8% (3% volume growth) & 15% (entirely volume), respectively, due to stocking up by consumers. Operating margins improved 300 bps with consolidation of foods business and gross margins expansion in international tea business. Due to goodwill impairment of ₹ 223 crore for food servicing business in Australia & B2B tea business in US and ₹ 41 crore integration cost of foods business, it reported a loss of ₹ 123 crore.

Strong potential in under penetrated categories

The company has strong legacy brands in tea, coffee and salt categories. Though these categories are fully penetrated, there is enough scope of growing these brands through unorganised to organised shift. Moreover, potential for Tata 'Sampann' in pulses & spices category is enormous with more than 90% of the market dominated by unorganised or semi-packaged brands. Further, the management indicated it could become an umbrella brand for newer categories. TCPL has indirect distribution network of 2.5 million outlets and 0.5 million direct outlets. We believe the company would be looking to increase overall reach and that would be one of the important factors in driving growth. We expect revenue CAGR of 7.4% in FY20-22 with smaller impact of lockdowns in FY21.

Margins territory to shift up; losses to mount in Starbucks JV

We expect operating margins to perk up 120 bps to 14.6% during FY20-22 largely despite taking 50 bps increase in A&P. The margin expansion would be aided by synergies from merger of foods business. The management earlier indicated a saving of ₹ 120-180 crore in next two years. Moreover, benign tea prices & exiting loss making international geographies would also aid margins. However, impact of lockdown on Starbucks JV would be severe with all stores closed for over a month with limited start of operations in May (40 store started operations for delivery & takeaways). We cut our earnings estimates by 10% in FY21 with 50% increase in estimated losses from JV/associates. We build in 25% CAGR earnings growth during FY20-22.

Valuation & Outlook

The new management is sounding much more focussed and talking about potential of new & unpenetrated category along with the growth prospects of existing once. Further with merger, India business contributes 56% to sales, which has the scope to grow faster compared to UK, US & Canada business. We also see potential in margins expansion as other FMCG peers have far superior margin territory. We remain positive on the stock and maintain **BUY** recommendation with a revised target price of ₹ 440/share.

TATA CONSUMER PRODUCTS

Particulars

Particulars (₹ crore)	Amount
Market Capitalization	33,432.6
Total Debt (FY20)	1,488.4
Cash and Investments (FY20)	2,455.0
EV	32,465.9
52 week H/L (₹)	407 / 178
Equity capital	92.2
Face value (₹)	1.0

Key Highlights

- India business revenues grew 6% with 5% volume growth whereas UK, Canada & other Tea businesses grew by 8% with 3% volume growth
- US coffee business (branded business) witnessed a strong growth of 15% entire volume driven. However, acquired food business grew by 9% with 1% volume decline
- Starbucks store count is at 185 (opened 11 new stores in Q4FY20)
- Maintain BUY recommendation with revised target price of ₹ 440

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Key Financial Summary

Key Financials	FY18	FY19	FY20E	FY21E	FY22E	CAGR (FY20-22E)
Net Sales	6815.4	7251.5	9637.4	10292.1	11112.9	7.4%
EBITDA	838.9	785.9	1292.2	1440.9	1625.0	12.1%
EBITDA Margin %	12.3	10.8	13.4	14.0	14.6	
Adjusted Net Profit	572.4	478.4	641.8	799.9	1003.0	25.0%
EPS (₹)	8.8	7.2	5.0	8.7	10.9	
P/E	41.1	50.1	72.7	41.8	33.3	
RoNW %	8.1	6.5	4.6	5.9	7.1	
RoCE (%)	8.7	8.4	6.9	7.9	8.8	

Exhibit 1: Change in estimates

	Q4FY20	Q4FY20E	Q4FY19	YoY (%)	Q2FY20	QoQ (%)	Comments
Net Sales	2,405.0	1,831.1	1,775.5	35.5	1,961.9	22.6	Net sales increased by 35.5% mainly due to the consolidation of merged food business with effect from 7th Feb 2020. On like to like basis, the sales growth was 6% backed by 3% volume growth
Raw Material Expenses	1,311.9	1,008.9	972.3	34.9	1,056.3	24.2	
Employee Expenses	231.6	206.0	203.0	14.1	209.0	10.8	
SG&A Expenses	181.4	112.0	129.6	40.0	171.9	5.5	
Other operating Expenses	371.8	269.8	296.3	25.5	285.1	30.4	
EBITDA	308.4	234.3	174.3	76.9	239.6	28.7	
EBITDA Margin (%)	12.8	12.8	9.8	301 bps	12.2	61 bps	Operating margins witnessed a expansion of 300 bps mainly due higher margins in international business due to exiting some of the loss making businesses during the current year
Depreciation	64.0	49.4	33.0	94.2	49.2	30.3	
Interest	18.7	20.9	15.5	20.8	19.2	-2.7	
Other Income	21.9	28.2	35.2	-37.8	26.0	-15.5	
Exceptional Expense/(Income)	264.4	0.0	8.4	NA	0.8	NA	Exceptional loss with impairment of goodwill of Australian business & US tea business
PBT	-16.8	192.2	152.7	-111.0	196.4	-108.6	
Tax Outgo	33.4	55.6	58.8	-43.3	55.9	-40.3	
PAT before MI	-50.2	136.6	93.8	-153.5	140.5	-135.7	
Profit from Associates	-72.3	-43.5	-57.8	NA	-4.6	NA	
PAT	-122.5	93.2	36.0	-440.3	135.9	-190.2	
Adj. PAT	106.3	93.2	41.1	158.3	136.5	-22.1	Adjusted profit jumped from ₹ 41 crore to 106 crore mainly due to substantial expansion in operating margins

Source: Company, ICICI Direct Research

Exhibit 2: Change in estimates

	FY20E			FY21E			Comments	
	(₹ Crore)	Old	New	% Change	Old	New		% Change
Sales	10315.2	10292.1		-0.2	11041.3	11,112.9	0.6	We maintain our sales estimates
EBITDA	1467.7	1440.9		-1.8	1642.7	1,625.0	-1.1	
EBITDA Margin (%)	14.0	14.0		-2 bps	14.7	14.6	-5 bps	
PAT	888.0	799.9		-9.9	1,011.0	1,003.0	-0.8	We cut our FY21E earning estimate by 10% mainly due to expected increase in Starbucks JV losses negatively impacted by lockdowns
EPS (₹)	9.6	8.7		-10.0	11.0	10.9	-0.9	

Source: Company, ICICI Direct Research

Exhibit 3: Assumptions

	Current					Earlier		Comments	
	FY18	FY19	FY20	FY21E	FY22E	FY20E	FY21E		
Standalone Sales (₹ crore)	3,217.3	3,429.7	3,669.7	3,926.6	4,201.5	3,926.6	4,201.5		
Growth (%)		5.0	6.6	7.0	7.0	7.0	7.0		
Subsidiary Sales (₹ crore)		2,716.6	2,895.9	2,844.2	2,814.5	2,910.8	2,879.4	2,986.6	
Growth (%)		-2.6	6.6	-1.8	-1.0	3.4	1.8	3.7	
Segmental Revenues (Gross)									
Tea / India Beverage		4,922.8	3,167.7	3,376.9	3,579.5	3,830.1	5,707.8	6,050.2	The company changed its segment reporting
Coffee / International Bevergae		1,079.5	3,238.4	3,226.0	3,290.6	3,422.2	1,223.8	1,272.8	
Others		35.7	30.2	26.6	28.0	29.4	29.7	31.2	
Non-branded		815.2	842.5	974.9	1,052.9	1,105.6	1,000.2	1,050.2	
TCL Consumer / India Foods					2,373.3	2,753.0	2,255.2	2,525.8	
No. of Starbucks stores		116	146	185	196	216	196	216	

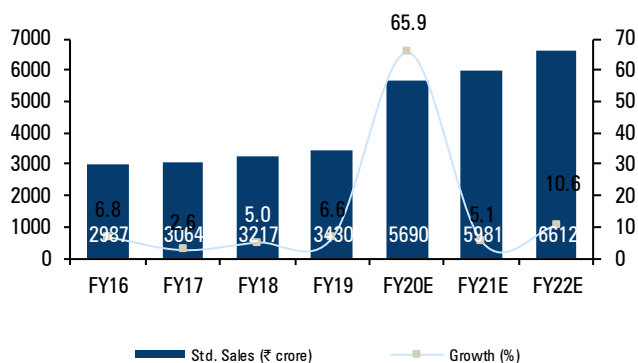
Source: Company, ICICI Direct Research

Conference Call Highlights

- TCPL witnessed revenue growth of 35% due to consolidation of merged foods business with effect from February 7, 2020. On a comparable basis, sales growth was 6% led by 3% volume growth. India business grew by 6% with 5% volume growth. Tata Tea Premium gained market share driven by the restage campaign. India food business (merged consumer business of Tata Chemical) saw revenue growth of 9% with 1% volume decline
- US coffee business grew 15% entirely by volumes whereas other international (UK, Canada & others) business witnessed a growth of 8% led by 3% volume growth during the quarter
- The company witnessed a 300 bps operating margins expansion largely due to consolidation of foods business and gross margins expansion in international business due to substantial drop in Kenya tea prices
- Integrating the business, workforce would be the priority of new management. Further, expanding the brands, getting the synergies in merged business would be important for growth. The company believes in the scope of expanding Tea & Salt brands which are considered saturated categories. It would also evaluate organic / Inorganic expansion
- The impact of lockdown in India has been limited as most categories are part of essentials. In Canada, March sales witnessed a growth of more than 20% with signs pantry loading during lockdowns. Canada also saw strong growth in speciality tea
- The company has overall distribution network of 2.5 million outlets and 0.4-0.5 million direct distribution reach. Expanding the reach would be one of the important factors in driving growth
- Tea prices in India remain benign. However there was sudden spurt at the time of first phase of lockdown. Kenya tea prices have stabilized after witnessing a substantial decline. However, coffee prices are continuing its declining trend
- The company has tied up with Flipkart, Zomato, Swiggy and dominos for delivery of all its products. Tata Tea Gold & Tata Tea Premium launched in the UK & Europe
- Tata Coffee witnessed a growth of 19% YTD on account of strong sales in Vietnam. The company saw highest quarterly sales in Q4. The plant in Vietnam is operating at 80% of its production capacity
- Starbucks JV saw 21% revenue growth in FY20. It opened 39 new stores during FY20 with totalling 185 stores as of now. It has presence in 11 cities. 30% of the revenue is generated through loyalty program. However, stores have been closed since the lockdown was announced. It started 40 stores in May 2020 with deliveries & takeaways. The company is looking to rationalise cost, renegotiating rentals and trying to link rentals with revenues
- The net assets acquired of ₹ 6099 crore which includes Goodwill of ₹ 3563 crore and Intangible assets of ₹ 2459 crore
- The management see FMCG as ₹ 30 lakh crore industry (organised & unorganised) with huge opportunity in foods & beverages. 'In-the Kitchen', 'On-the table' and 'On-the go' remain opportunity area for company

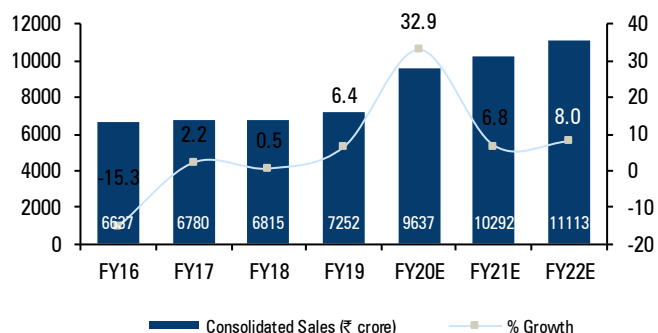
Key Metrics

Exhibit 4: Standalone revenues trend



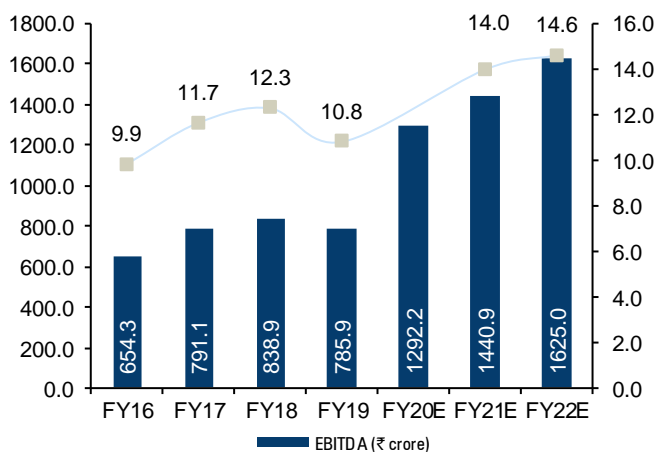
Source: ICICI Direct Research, Company

Exhibit 5: Consolidated revenue to grow at 7.4% in FY20-22E



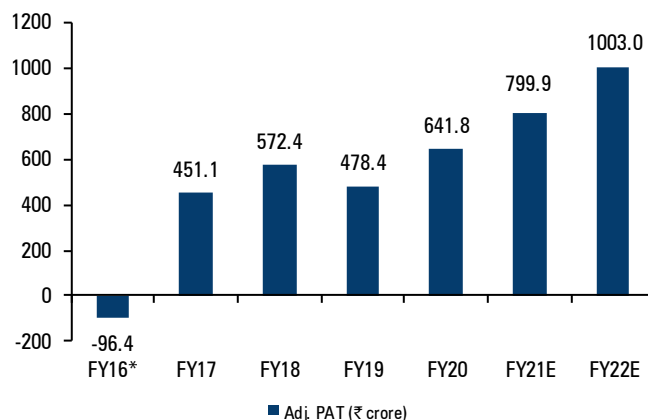
Source: ICICI Direct Research, Company

Exhibit 6: Operating margins trend %



Source: Company, ICICI Direct Research

Exhibit 7: Adjusted PAT to grow at 25% in FY20-22E



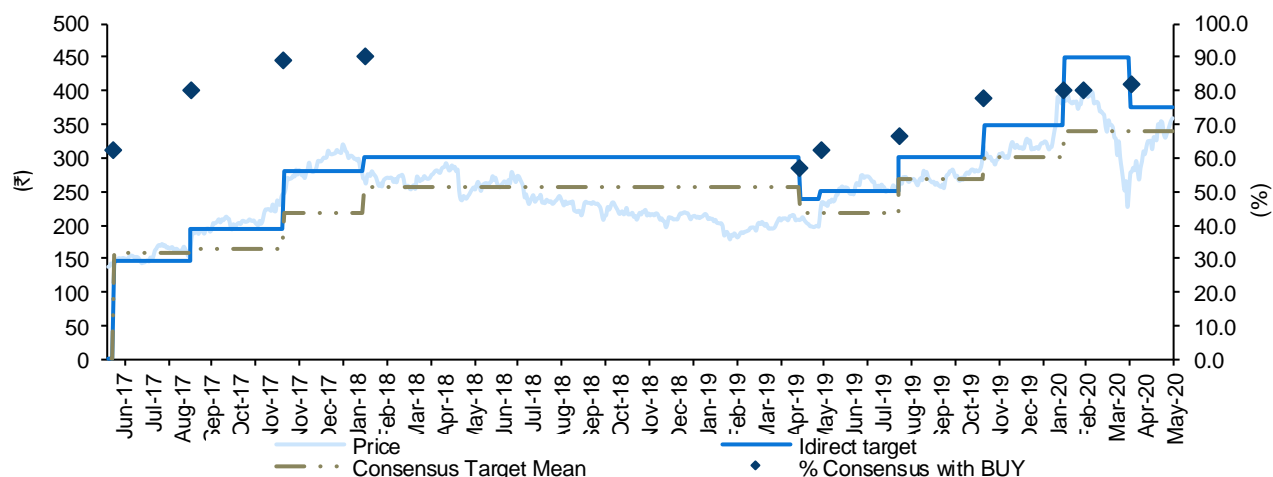
Source: Company, ICICI Direct Research

Exhibit 8: Valuation

	Sales (₹ cr)	Growth (%)	EPS (₹)	Growth (%)	PE (x)	EV/EBITDA (x)	RoNW (%)	RoCE (%)
FY19	7251.5	6.4	7.2	-17.9	50.1	42.1	6.5	8.4
FY20	9637.4	32.9	5.0	-31.1	72.7	25.8	4.6	6.9
FY21E	10292.1	6.8	8.7	73.9	41.8	22.4	5.9	7.9
FY22E	11112.9	8.0	10.9	25.4	33.3	19.7	7.1	8.8

Source: Company, ICICI Direct Research

Exhibit 9: Recommendation History vs. Consensus



Source: Bloomberg, Company, ICICI Direct Research

Exhibit 10: Top 10 Shareholders

Rank	Investor Name	Filing Date	% O/S	Position (m)	Change (m)
1	Tata Sons Ltd	13-Mar-20	20.6	188.3	2.3
2	First State Investme	25-Sep-18	6.3	57.8	0.0
3	Tata Investment Corp	31-Dec-19	2.9	26.9	0.0
4	Icici Prudential Ass	31-Mar-20	2.1	19.2	17.6
5	Reliance Capital Tru	31-Dec-19	2.1	18.8	18.8
6	Franklin Resources	31-Mar-20	1.9	17.6	13.6
7	Hdfc Asset Managemen	31-Mar-20	1.8	16.2	14.2
8	Mirae Asset Global I	31-Dec-19	1.7	15.4	-5.2
9	Sundaram Asset Manag	31-Mar-20	1.3	11.6	3.8
10	Fmr Llc	29-Feb-20	1.2	11.3	-2.6

Source: Reuters, ICICI Direct Research

Exhibit 11: Shareholding Pattern

(in %)	Mar-19	Jun-19	Sep-19	Dec-19	Mar-20
Promoter	34.5	34.5	34.5	34.5	34.68
FII	25.4	26.6	27.8	26.0	18.56
DII	13.7	13.1	12.8	14.9	14.87
Others	26.5	25.8	24.9	24.6	31.9

Source: Company, ICICI Direct Research

Financial summary

Exhibit 12: Profit and loss statement				
	₹ crore			
(Year-end March)	FY19	FY20E	FY21E	FY22E
Total Operating Income	7251.5	9637.4	10292.1	11112.9
Growth (%)	6.4	32.9	6.8	8.0
Raw Material Expenses	4,007.6	5,410.7	5,712.6	6,067.8
Employee Expenses	806.3	884.8	949.8	1,024.9
Marketing Expenses	547.5	676.7	743.3	835.5
Administrative Expenses	0.0	0.0	0.0	0.0
Other expenses	1,104.1	1,373.1	1,445.4	1,559.6
Total Operating Expenditure	6,465.6	8,345.3	8,851.2	9,487.8
EBITDA	785.9	1292.2	1440.9	1625.0
Growth (%)	-6.3	64.4	11.5	12.8
Depreciation	122.6	241.7	258.9	231.5
Interest	52.5	77.9	66.0	62.2
Other Income	157.1	111.6	117.2	123.0
PBT	768.0	1,084.2	1,233.2	1,454.4
Exceptional items	-33.3	-274.8	0.0	0.0
Total Tax	260.9	274.2	320.6	378.1
PAT	457.0	460.1	799.9	1003.0
Growth (%)	-17.9	0.7	73.9	25.4
Adjusted EPS (₹)	7.6	10.2	8.7	10.9

Source: Company, ICICI Direct Research

Exhibit 13: Cash flow statement				
	₹ crore			
(Year-end March)	FY19	FY20E	FY21E	FY22E
Profit/Loss after Tax	567.3	681.0	799.9	1003.0
Add: Depreciation	122.6	241.7	258.9	231.5
Add: Interest	-10.2	77.9	66.0	62.2
(Inc)/dec in Current Assets	-288.2	-95.8	274.4	-646.3
Inc/(dec) in Current Liabilities	-100.0	13.8	-314.9	132.7
CF from operating activities	209.9	1082.2	1084.3	783.1
(Inc)/dec in Investments	286.4	-337.9	-9.5	-9.8
(Inc)/dec in Fixed Assets	-256.6	-150.8	-3,591.7	-100.0
Others	43.5	-184.1	4,651.2	26.3
CF from investing activities	73.3	-672.8	1050.0	-83.5
Issue/(Buy back) of Equity	0.0	0.0	0.0	0.0
Inc/(dec) in loan funds	35.8	32.1	-405.9	-40.0
Dividend paid & dividend tax	-215.8	-221.6	-329.0	-383.8
Inc/(dec) in Sec. premium	0.0	0.0	-690.1	0.0
Others	-43.7	-118.8	-66.0	-62.2
CF from financing activities	-223.7	-308.3	-1491.0	-486.0
Net Cash flow	59.4	101.1	643.2	213.6
Opening Cash	698.2	737.5	889.3	1,532.6
Closing Cash	1033.6	1121.7	1764.9	1978.5

Source: Company, ICICI Direct Research

Exhibit 14: Balance sheet				
	₹ crore			
(Year-end March)	FY19	FY20E	FY21E	FY22E
Liabilities				
Equity Capital	63.1	92.2	92.2	92.2
Reserve and Surplus	7,268.6	13,722.7	13,503.5	14,122.8
Total Shareholders funds	7,331.7	13,814.9	13,595.7	14,214.9
Long Term Borrowings	787.2	1,100.6	694.7	654.7
Long Term Provisions	152.2	183.2	329.3	355.6
Other Non-current Liabilities	1197.6	1425.4	1425.4	1425.4
Total Liabilities	9468.8	16524.0	16045.0	16650.5
Assets				
Gross Block	7,015.5	7,115.5	7,615.5	7,715.5
Less: Acc Depreciation	2,231.1	2,472.8	2,731.7	2,963.2
Net Block	4,913.3	1,551.0	4,883.8	4,752.3
Capital WIP	424.4	95.4	95.4	95.4
Goodwill	0.0	10105.0	5600.0	5600.0
Non Current Investments	604.5	544.0	553.4	563.2
LT Loans & Advances/Others	448.5	525.2	525.2	525.2
Current Assets				
Inventory	1,609.9	1,712.0	2,396.8	2,740.2
Debtors	680.6	922.4	986.9	1,217.8
Cash	1,033.6	1,121.7	1,764.9	1,978.5
Loans & Advances	828.2	1,449.9	676.7	730.7
Other Current Assets	395.8	173.2	225.6	243.6
Current Liabilities				
Creditors	664.9	944.0	704.9	761.2
Provisions	49.5	92.4	169.2	182.7
Short Term Borrowings	329.7	387.8	451.2	487.1
Other CL	425.9	554.4	338.4	365.4
Net Current Assets	3,078.0	3,703.5	4,387.3	5,114.5
Total Assets	9468.8	16524.0	16045.0	16650.5

Source: Company, ICICI Direct Research

Exhibit 15: Key ratios				
	₹ crore			
(Year-end March)	FY19	FY20	FY21E	FY22E
Per share data (₹)				
EPS	7.2	5.0	8.7	10.9
Cash EPS	9.2	7.6	11.5	13.4
BV	116.2	149.9	147.5	154.3
DPS	2.5	2.7	3.0	3.5
Cash Per Share	16.4	12.2	19.2	21.5
Operating Ratios (%)				
EBITDA Margin	10.8	13.4	14.0	14.6
PBT / Net Sales	10.6	11.2	12.0	13.1
PAT Margin	6.3	4.8	7.8	9.0
Inventory days	81.0	64.8	85.0	90.0
Debtor days	34.3	34.9	35.0	40.0
Creditor days	33.5	35.8	25.0	25.0
Return Ratios (%)				
RoE	6.5	4.6	5.9	7.1
RoCE	8.4	6.9	7.9	8.8
RoIC	8.9	13.9	14.4	16.2
Valuation Ratios (x)				
P/E	50.1	72.7	41.8	33.3
EV / EBITDA	42.1	25.8	22.4	19.7
EV / Net Sales	4.6	3.5	3.1	2.9
Market Cap / Sales	4.6	3.5	3.2	3.0
Price to Book Value	3.1	2.4	2.5	2.4
Solvency Ratios				
Debt/EBITDA	1.4	1.2	0.8	0.7
Debt / Equity	0.2	0.1	0.1	0.1
Current Ratio	3.1	2.7	3.5	3.8
Quick Ratio	1.7	1.6	1.6	1.7

Source: Company, ICICI Direct Research

Exhibit 16: ICICI Direct coverage universe (FMCG)

Sector / Company	CMP	TP	M Cap	EPS (₹)			P/E (x)			Price/Sales (x)			RoCE (%)			RoE (%)			
	(₹)	(₹)		Rating	(₹ Cr)	FY20E	FY21E	FY22E	FY20E	FY21E	FY22E	FY20E	FY21E	FY22E	FY20E	FY21E	FY22E	FY20E	FY21E
Colgate (COLPAL)	1,349	1,430	Hold	36,990	28.5	30.6	32.6	47.3	44.0	41.3	8.3	8.0	7.4	70.7	75.5	82.9	52.2	59.7	65.1
Dabur India (DABIND)	458	550	Buy	86,947	8.9	9.9	10.9	51.5	46.1	41.9	9.6	8.8	8.1	30.2	29.9	30.6	25.9	26.7	27.2
Hindustan Unilever (HINLEV)	2,006	2,250	Hold	472,464	31.2	33.5	41.3	64.3	59.8	48.5	12.3	11.8	9.8	82.5	24.4	30.3	85.7	20.2	25.0
ITC Limited (ITC)	163	230	Buy	219,868	11.8	13.2	14.9	13.8	12.4	10.9	4.7	4.3	4.0	29.3	29.6	30.2	22.6	22.7	23.1
Jyothy Lab (JYOLAB)	102	110	Hold	4,113	5.3	3.2	4.4	19.4	31.9	23.4	2.3	2.2	2.0	28.6	18.6	23.9	22.6	14.0	18.5
Marico (MARLIM)	318	300	Hold	36,513	8.1	7.8	9.5	39.3	40.5	33.6	5.0	5.2	4.4	41.0	40.1	46.9	34.5	33.8	40.3
Nestle (NESIND)	16,242	18,000	Buy	164,136	204.3	241.5	281.6	79.5	67.2	57.7	13.3	11.7	10.5	56.9	60.9	66.1	101.9	113.4	116.0
Tata Consumer Product (TATGLO)	363	440	Buy	33,433	5.0	8.7	10.9	72.7	41.8	33.3	3.5	3.2	3.0	6.9	7.9	8.8	4.6	5.9	7.1
VST Industries (VSTIND)	2,849	4,000	Buy	4,756	191.8	191.3	210.6	14.9	14.9	13.5	3.9	3.7	3.4	52.5	46.6	47.3	38.0	34.4	34.9
Varun Beverage (VARBEV)	643	580	Reduce	17,662	16.6	9.9	18.1	38.7	65.0	35.5	4.4	3.5	2.5	15.5	11.3	16.3	14.2	8.8	14.2

Source: Company, ICICI Direct Research

RATING RATIONALE

ICICI Direct endeavours to provide objective opinions and recommendations. ICICI Direct assigns ratings to its stocks according to their notional target price vs. current market price and then categorizes them as Buy, Hold, Reduce and Sell. The performance horizon is two years unless specified and the notional target price is defined as the analysts' valuation for a stock

Buy: > 15%

Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: < -15%



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