

Tata Consumer Products

BSE SENSEX
34,916

S&P CNX
10,302

CMP: INR388

TP: INR450 (+16%)

Buy



Motilal Oswal values your support in the Asiamoney Brokers Poll 2020 for India Research, Sales and Trading team. We request your ballot.



Stock Info

Bloomberg	TATACONS IN
Equity Shares (m)	631
M.Cap.(INRb)/(USDb)	355.1 / 4.7
52-Week Range (INR)	408 / 214
1, 6, 12 Rel. Per (%)	-2/37/55
12M Avg Val (INR M)	1453
Free float (%)	65.3

Financials Snapshot (INR b)

Y/E MARCH	FY20	2021E	2022E
Sales	96.4	104.2	114.8
EBITDA	12.9	14.6	16.9
Adj. PAT	7.3	8.5	10.3
EBITDA Margin (%)	13.4	14.0	14.8
Cons. Adj. EPS (INR)	8.0	9.3	11.2
EPS Gr. (%)	66.4	16.1	21.3
BV/Sh. (INR)	150	156	163

Ratios

Net D:E	(0.1)	(0.1)	(0.1)
RoE (%)	6.9	6.1	7.1
RoCE (%)	8.5	7.8	9.1
Payout (%)	46.5	31.1	28.7

Valuations

P/E (x)	48.6	41.8	34.5
EV/EBITDA (x)	26.4	23.4	20.1
Div. Yield (%)	0.9	1.4	1.6
FCF Yield (%)	4.8	3.1	4.5

Merger paving way for next phase of growth

Tata Consumer Products' (TCPL) FY20 annual report highlights the company's efforts to leverage the 'Tata' brand, create a single FMCG-focused company and participate in India's INR30t consumption story. FY20 was a milestone year as TCPL completed merger with Consumer Products business of Tata Chemicals (now India Food business), resulting in 33%/64% increase in revenue/EBITDA to INR96.3b/~INR13b. Key highlights below:

India food business to lead next leg of growth

- Revenue from the recently merged Consumer Products business (now India Food business) of Tata Chemicals grew 12% YoY (to INR20.6b), majorly driven by *Tata Salt* and increased contribution from *Tata Sampann*. EBIT margins contracted by 410bp to 12.9% (or INR2.7b), largely due to aggressive expansion initiatives undertaken by the company in this segment.
- The India Food business – comprising *Tata Salt* and *Tata Sampann*, which includes pulses, spices and condiments, and ready-to-cook (RTC) – should orchestrate a major shift in the market from the unorganized to the organized sector. Thus, the segment should drive the next phase of TCPL's growth.
- India's pulses/spices markets is currently valued at INR1,500b/INR600b. Out of this, the share of organized branded players is a mere 1%/30%. Both segments are estimated to post 15% CAGR, thus leaving enough room for branded players like *Tata Sampann* to increase share and benefit the most.
- Moreover, *Tata Sampann* is expected to reap further benefits by leveraging (a) strong 'Tata' brand name, which is associated with trust and safety, and (b) the merged entity's distributor/retail network.
- Further, under the current circumstances, *Tata Sampann* is expected to gain from the shift toward branded products in the F&B segment, which is primarily due to increased awareness, hygiene and health reasons.
- In the salt segment, TCPL enjoys healthy market share of ~30% (market value at INR70b) among branded players. With robust growth of 16% in the F&B industry, the salt segment is also expected to report healthy growth. Expansion of capacity from 1MMT to 1.2MMT at the Mithapur facility should support volume growth.

India beverage business to sustain growth

- India's tea market is currently valued at INR260b and is dominated by organized players with 65-70% market share. While tea is a highly popular beverage in India, there is also an increasing preference in the country for Green/Black tea due to their health benefits. Thus, we believe the segment is poised to grow in the coming days.
- TCPL's India beverage business saw revenue/ EBIT growth of 7%/2% to INR33.8b/INR4.7b (EBIT margin down by 70bp to 14%). Volume growth stood at 7% in FY20.

- Acquisition of Dhunseri's branded tea business ('*Lal Ghoda*' and '*Kala Ghoda*'), with strong regional presence in the state of Rajasthan, should further complement growth of the India tea business.
- Further, investment in existing brands such as *Tata Gold*, *Chakra Gold* and *Tata Tea Premium*, coupled with new pilot launches in FY20 are some of the initiatives undertaken by TCPL.

International beverage business picking up

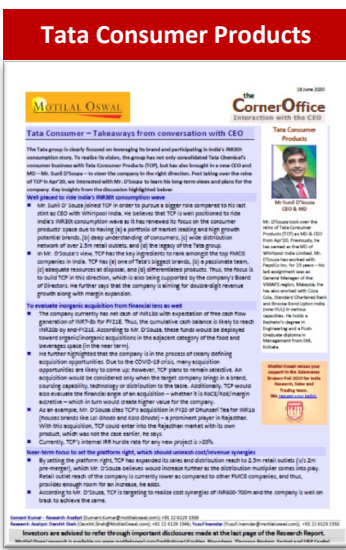
- International beverage business grew marginally by 0.4% on constant currency basis (excluding the Czech Republic, which TCPL exited in FY20) amidst a declining tea industry. However, EBIT increased by 30% to INR3.6b with EBIT margin expansion of 260bp to 11%, driven by new launches across the US/UK.
- Further, volume growth for branded tea/coffee businesses stood at 1%/4% on the back of new product launches. This was supported by panic buying and stocking-up of tea/ coffee during the latter part of FY20.
- The UK business declined 2% to INR11.2b. In the UK, TCPL undertook several new launches. One among them – Cold Infusions (four new blends) – has registered sharp growth of 25%.
- The US business grew marginally by 1% to INR16.7b. New ethnic range of Tetley in three new flavors (Masala, *Elaichi* (Cardamom) and Ginger) was launched in the US and is expected to gain traction in the medium to near term.
- Internationally, new launches across several brands coupled with gradually subsiding COVID-19 impact should help resuscitate operations, in our view.

Synergy benefits to kick in; COVID-19 impact gradually subsiding

- Merger of Tata Chemicals' Consumer Product business (now India Food business) with TCPL provides the newly merged entity an opportunity to capitalize the potential of the INR30tn F&B industry.
- Post-merger, synergy benefits are expected to kick in and *Tata Sampann* and *Tata Salt* – brands of the India Food business – are expected to benefit the most by leveraging the vast distributor and retail network of TCPL.
- Branded businesses globally were moderately impacted due to COVID-19. Food service and out-of-home businesses continue to face significant headwinds; however, TCPL has low presence in these segments.
- Further, the impact of COVID-19 is expected to partially subside in the domestic market as majority of TCPL's businesses have resumed operations and are gaining normalcy.

Sharp rise in CFO, backed by higher operating profit and WC inflow

- In FY20, revenue/EBITDA/PAT grew 33%/64%/66% to INR96b/INR13b/INR7.3b; however, on like-to-like basis (excluding India Food business), revenue and EBITDA grew 4% and 12%, respectively.
- In FY20, inventory days decreased by 16 days to 65 days. Further, receivables/ payable days increased by a mere 1/3 days (to 35/36 days). After merger of the India food business with TCPL, the overall working capital days reduced from 82 to 64 days.
- Post-merger, operating cash flow grew 4.2x YoY to INR10.8b in FY20 (v/s. INR2.5b in FY19), which can be attributed to higher operating profit (from both,



existing and new business) and increased inflow from WC. FCF turned positive to INR9.3b in FY20 (v/s -INR0.4b in FY19).

- Huge cash reserves of INR24.5b provide TCPL ample opportunities for its various expansions as well as for organic/inorganic acquisitions.
- During the year, Goodwill and brands saw sharp increase of ~2.5x (from INR37.8b in FY19 to INR94.2b in FY20). This was majorly due to addition of Goodwill and brands post the merger with Tata Chemicals' Consumer Products (now India Food) business.
- Post-merger, RoCE reduced by 210bp to 8.1% in FY20, mainly due to the addition of 'Goodwill and brands (indefinite life)'. However, after adjusting assets for 'Goodwill and brands', RoCE increased by 660bp – from 22.1% in FY19 to 28.7% in FY20.

Valuation and view

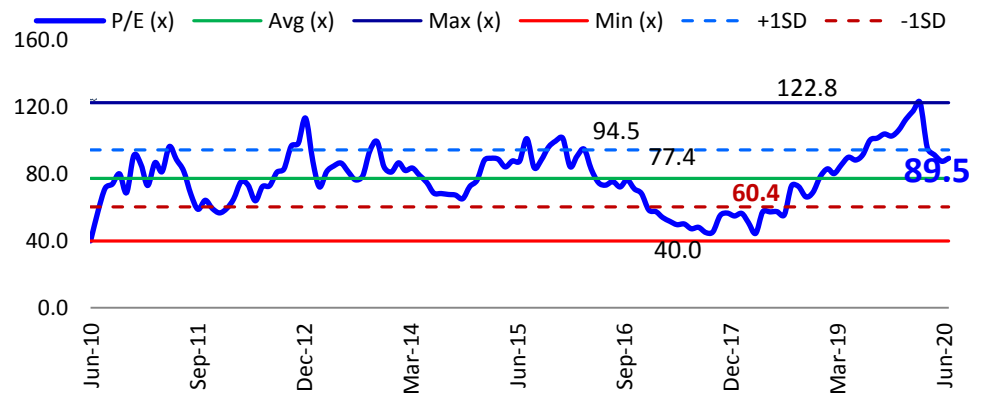
- The merger of the India food business with TCPL is in sync with the company's vision to create a single FMCG-focused company. The merger offers multiple synergies, including higher outlet coverage, focused new product development, stronger cash flow generation and scale efficiencies.
- TCPL has a clear focus to leverage its brand and participate in India's consumption story of INR30t. To achieve this end, it merged Tata Chemicals' Consumer (India food) business with TCPL.
- Moreover, TCPL's new CEO, Mr. Sunil D'Souza, is clearly focused (**Corner office**) on aggressively leveraging the combined synergies of both the merged entities with emphasis on capitalizing the under-penetrated food segment products (pulses, *besan*, spices and *chilla* mix) with its robust existing distribution network and the 'Tata' brand.
- We maintain our estimates for FY21/FY22E as demand for salt/tea/coffee is not materially impacted due to the COVID-19 crisis. Also, effects of the pandemic are visibly subsiding. However, availability of labor and the logistics issue is still a challenge.
- We value the stock on SOTP basis to arrive at a target price of INR450. Maintain **Buy**.

Exhibit 1: Valuation table

EV/EBITDA	EBITDA	Multiple (x)	EV
India Tea (TCP Standalone)	5,404	28	1,53,958
Coffee India (ex-Starbucks) @57%	607.868	10	6,322
Coffee Overseas	2,370	10	24,649
Consumer (Salt & others)	5,413	28	1,54,215
Overseas tea (Tetley UK)	2,053	10	20,534
DCF			
Starbucks JV			25,532
Price/Sales			
NourishCo (JV with Pepsi) & others	2,000	4	8,000
Enterprise value			3,93,210
Less: Net debt			-21,113
Market value (INRm)			4,14,323
No. of shares (m)			922
Target price (INR)			450
CMP (INR)			388
Upside (%)			16%

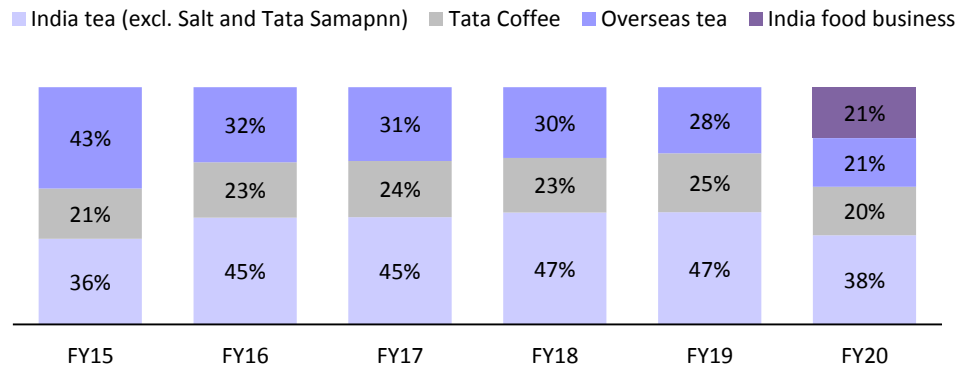
Source: MOFSL

Exhibit 2: One year fwd PE (x)



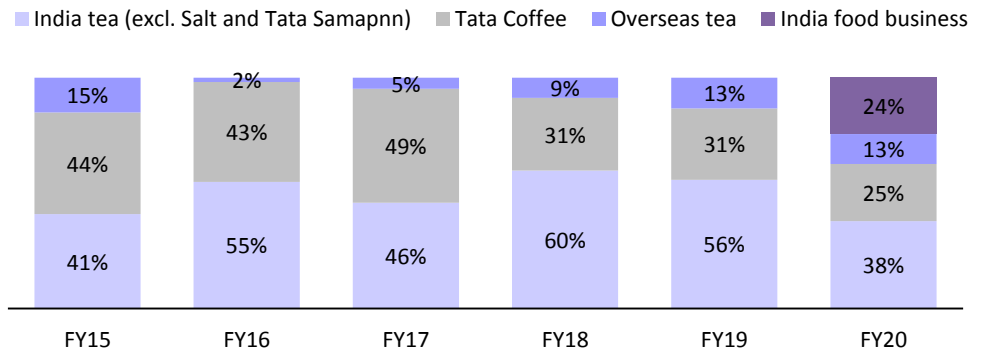
Source: Company, MOFSL

Exhibit 3: Consolidated revenue mix



Source: Company, MOFSL

Exhibit 4: Consolidated EBITDA mix



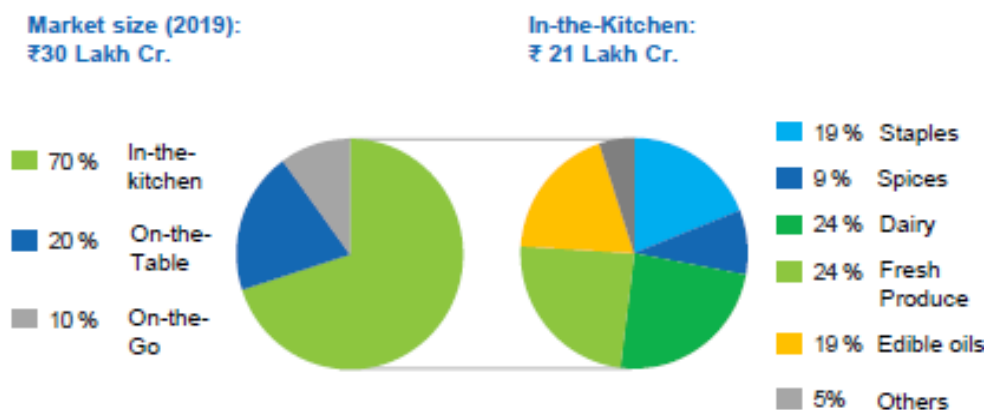
Source: Company, MOFSL

Industry – Investment opportunities

- India’s food and beverage (F&B) consumption stood at INR30tn as at CY19. The ‘in-the-kitchen’ segment (comprising staples, spices, condiments, dairy, etc.) contributed ~70% of the total pie, of which organized players form just 10%.
- The other segments – ‘on-the-table’ (comprising spreads, sauces, etc.) and ‘on-the-go’ (comprising snacks, ready-to-eat options, etc.) – are traditionally the playground of organized players, who contribute 20% and 10%, respectively, of the market size.
- India’s F&B organized sector is believed to have reached INR4tn by end-CY19 and is projected to deliver 16% CAGR to INR10tn by CY25E.

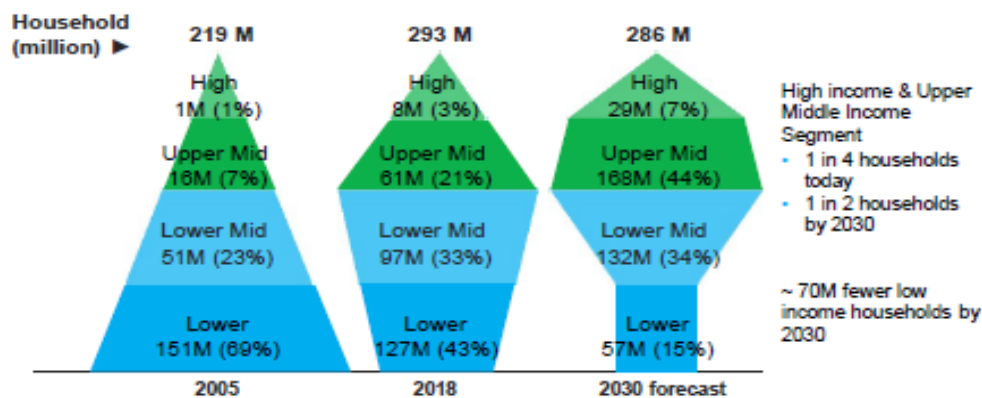
- Post COVID-19 and the lockdowns, a shift in buying behavior is expected, with consumers moving toward healthier, better quality and more affordable food and drink options across all three segments.
- TCPL is best placed to benefit from all the three segments, due to the diverse nature of its product offerings. Its newly merged India food business' *Tata Sampann* has the potential to grow and leverage the 'Tata' brand name and the sales/distribution network of the company.

Exhibit 5: India F&B market offers huge potential for growth



Source: Company, MOFSL

Exhibit 6: Increasing discretionary spending to complement all-round growth



Source: Company, MOFSL

Key highlights from Chairman, Mr. N. Chandrasekaran’s desk

- The sole purpose of changing the name of Tata Global Beverages to Tata Consumers Products is to rebrand the company as an all-in-one consumer company rather than just a beverage company.
- Merger of Tata Chemicals’ consumer business with the erstwhile Tata Global Beverage is to consolidated its product portfolio, benefit from new opportunities and leverage synergies.
- Tata Consumer Products signifies the Tata Group’s ambition to become a leading force in the consumer products category and marks a new strategic direction for the company. Management on multiple occasions has re-iterated its plans to become one of the top-10 FMCG companies in India, with diverse

product offerings – spanning a mix of iconic and emerging brands in tea, coffee, water, salt, pulses, spices and packaged foods.

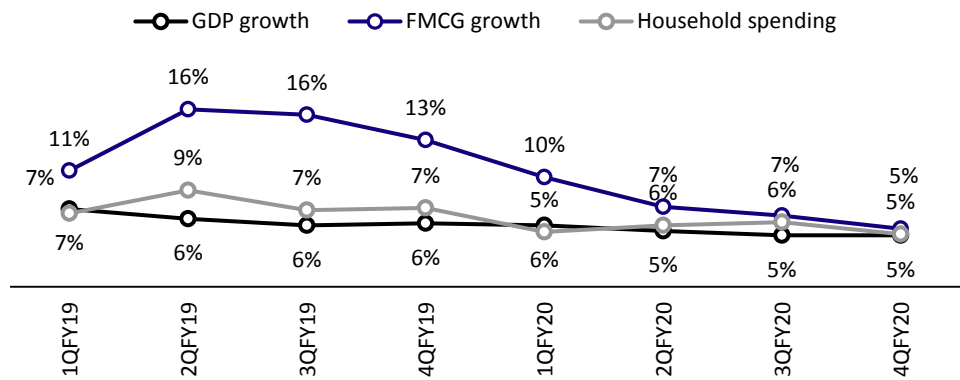
- With COVID-19 in the backdrop, TCPL has switched to new delivery models, launched brand campaigns relevant to the current scenario and is monitoring buying behavior of the populace.

Key highlights from MD and CEO, Mr. Sunil D’Souza’s desk

- Growth drivers highlighted by the CEO include multiplying distribution, focused and faster innovation and stronger cash flows to invest in growth. Further, efficiency drivers highlighted by the CEO include superior terms of trade with channel partners, supply chain opportunities and scale efficiencies in areas such as marketing and packaging. In India, TCPL’s distribution network spans across 200m households and 2.5m retail outlets.
- TCPL plans to replicate its core strategy, which has proven effective for *Tata Salt* and *Tata Tea*. These two products leverage the strong ‘Tata’ brand name and are driving conversion from unbranded to the branded segment.
- Another key driver and area of focus for TCPL is digital transformation. The company is looking to grow and strengthen its capability in this area by launching a digital platform for commodity buying. This platform would enable the entire supply chain – demand planning, procurement, embedding digital technology and decision-making at the frontline of the sales organization.
- The merger of Tata Chemicals’ Consumer (India food) business with the beverage business allows the company to participate in opportunities spread across all three segments of the F&B consumer basket – in-the-kitchen, on-the-table and on-the-go.
- TCPL has INR13b in net cash, thereby providing enough headroom for TCPL to expand in various businesses, without taking on any additional debt.

Impact of COVID-19 across regions

- **India business:** Industry growth in 4QFY20 decelerated due to the COVID-19 impact in the last 15 days of Mar’20. Going forward, we expect higher demand for the staples category (v/s. other discretionary items), which will further get intensified due to COVID-19.
- Tea Prices saw sharp increase due to temporary closure of tea estates in India. Prices are expected to be high until operations return to normalcy. However, no significant impact is expected on TCPL, as 1QFY21 tea was already procured in 4QFY20. Further, prices are expected to normalize from 2QFY21.
- **International business:** Branded business globally was moderately impacted due to COVID-19, as the impact was partially offset by panic buying and stocking-up, across all countries.
- **Starbucks:** After initial shutdown of stores across India, TCPL has now opened ~60 stores for delivery and takeaways.
- **Tata Sampann:** Pulses, spices and condiments, and RTC food business has seen slight upsurge, mainly due to increase in online buying post imposition of the lockdown.
- The impact of COVID-19 is likely to subside in the medium-to-near term.

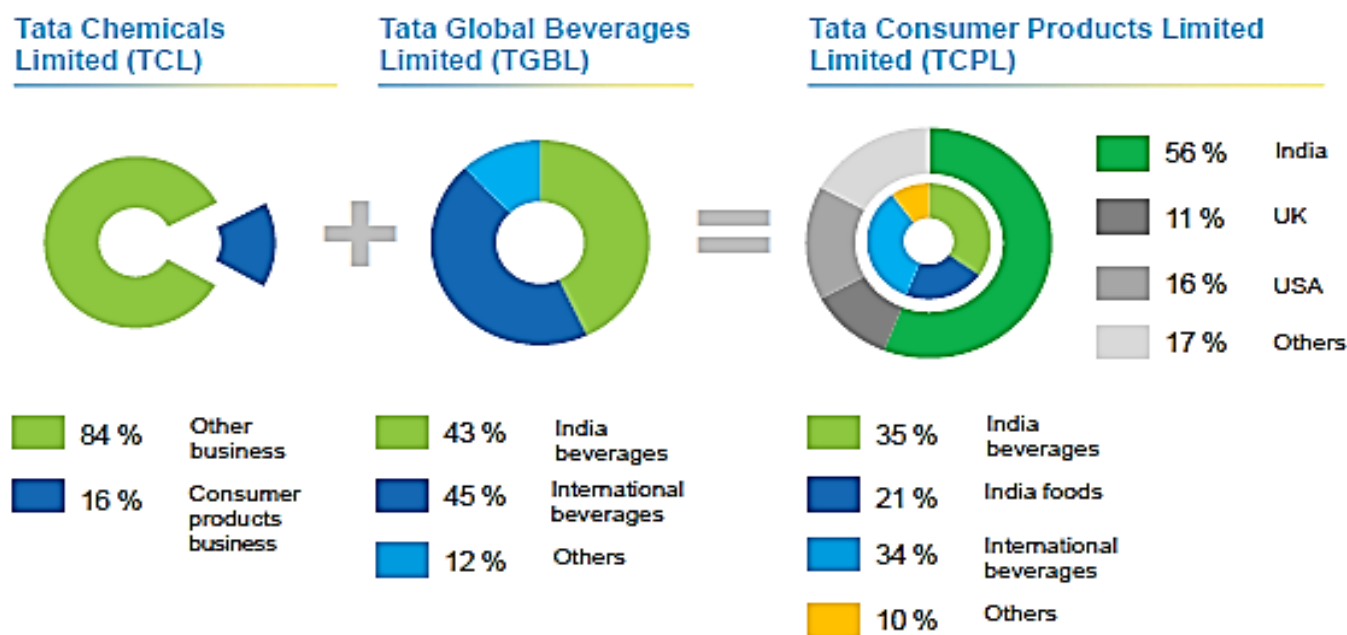
Exhibit 7: Muted FMCG industry growth

Source: Company, MOFSL

Synergies benefits to kick in and drive all-round growth

- In Feb'20, the Tata Group completed the merger of Tata Chemicals' Consumer (India foods) business with the erstwhile Tata Global Beverages to form a holistic F&B company (TCPL) offering multiple products – from consumer staples to beverages.
- The merger offers multiple synergies, including higher outlet coverage, focused new product development, stronger cash flow generation and scale efficiencies. TCPL aims to unlock these synergies by integrating the F&B business in India and using combined resources to achieve rapid growth across segments.
- Further, the merger not only gives TCPL a strong brand in *Tata Salt*, but also synergies of Tata Chemicals' distribution channel. Besides, it also opens up a plethora of opportunities for the combined entity in the F&B market with an addressable size of INR30tn (which is growing at 15%).
- The merger also increases contribution of the India business to consolidated profitability, which we believe provides stability to earnings and would be one of the factors for re-rating of the stock.

Exhibit 8: Change in business dynamics post-merger



Note: Merger completed w.e.f 7th February 2020. TCL shareholders entitled to receive 114 shares of TGBL for every 100 shares of TCL.

Source: Company, MOFSL

Key excerpts on management’s plan to merge the entities and capitalize synergy benefits

In the upcoming financial year, TCPL will focus on successfully integrating the two businesses and driving efficiencies and synergies, both for top line and costs within the Tata Consumer system. The key objectives of the exercise will be to (a) create a common integrated organization structure, (b) combine and upgrade sales and distribution network, and (c) maximize synergies and growth opportunities in existing and new categories.

Strategy for international markets

In the international market, TCPL will remain focused on innovation to build the non-black tea portfolio and coffee. The company is also closely monitoring costs across the supply chain to further build efficiencies, which could then be plowed back into the business to build growth.

Exhibit 9: Post-merger combined product offerings



Source: Company, MOFSL

5 STRATEGIC PILLARS TO DRIVE THE NEXT PHASE OF GROWTH FOR TCPL

1

2

3

4

5

Rejuvenating base business

- Building sustainable and profitable growth by investing in core F&B brands
- Focusing on brand building, premiumization and distribution
- Developing alternate channels for growth

Investing for Growth

- Piloting new launches and categories by leveraging a differentiated offering
- Adopting 'right-to-win' strategy to build a larger play across different markets successfully

Driving Innovation

- Capitalizing on industry trends to serve consumer needs specific to markets/geographies

Reviewing Portfolio Options

- Realigning capital investments to markets/businesses with higher growth potential
- Exploring additional avenues for growth and to generate sustainable returns

Investing in People

- Remain committed to invest in building people capabilities
- Creating a sustainable high-performance work culture

India beverage business

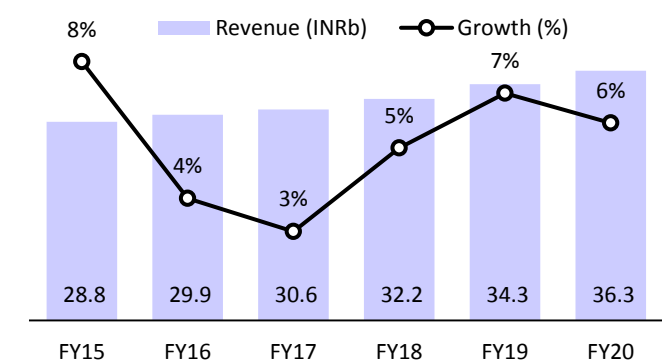
Resumption of services to bring business back to normalcy

- TCPL’s India beverages business, which majorly comprises of Tata Tea, saw annual revenue/volume growth of 7% each. Revenue increased by 7% to INR33.8b, whereas EBIT margin contracted by 70bp to 14% (to INR4.7b) in FY20.
- Growth can be attributed to focused targeting in the major tea-drinking states of Uttar Pradesh, Delhi, Punjab and Haryana, making TCPL the second-largest player in terms of volume and value. Sales of the India branded business grew 7% (excluding India food business for like-to-like comparison) to INR33b.
- In FY20, TCPL completed the acquisition of Dhunseri’s branded tea business (*‘Lal Ghoda’* and *‘Kala Ghoda’*). Post-acquisition, TCPL’s market share is expected to increase as *Lal Ghoda* is a well-established brand in the state of Rajasthan.
- Organically, the company plans to invest in its premium tea brands – *Tata Gold*, *Chakra Gold* and *Tata Tea Premium*.
- In FY20, TCPL also initiated launch of *Tata Tea Tulsi Green Tea* and *Tata Tea Quick Chai Lite* (3-in-1 tea mix with ‘low sugar’ variant to make boiled tea).
- TCPL has initiated its export portfolio comprising *Tata Tea Gold* and *Tata Tea Premium*, to cater to the south-Asian diaspora living in the UK and other parts of Europe.
- Thus, TCPL’s measures proved beneficial as branded tea volumes in India increased by 7% in FY20.
- Improving retail reach from current level of 2m retail outlets remains TCPL’s key area of focus.

Indian Beverage industry

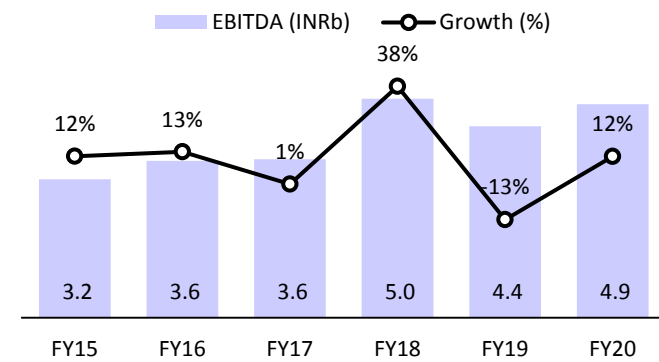
- India’s tea industry, which is currently valued at INR260b, is dominated by organized branded players that occupy 65-70% of the market space. Increase in consumption of Black/Green (currently growing at 3%) tea due to health benefits is expected to further push tea sales.
- Further, re-emergence of tea/coffee cafes in urban areas is expected to complement growth of beverages’ volumes in the medium-to-near-term.

Exhibit 10: India beverages recorded 5% CAGR over FY15-20



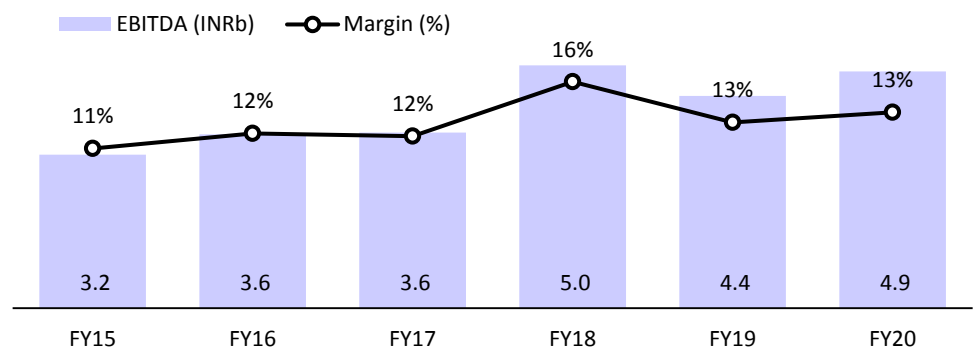
Source: Company, MOFSL

Exhibit 11: EBITDA recorded CAGR of 9% over FY15-20



Source: Company, MOFSL

Exhibit 12: EBITDA margin trend



Source: Company, MOFSL

Exhibit 13: TCPL's major beverage brands in India and internationally

Brands



Source: Company, MOFSL

Exhibit 14: Product portfolio of India beverages business



Source: Company, MOFSL

India Food business

Tata Salt and Tata Sampann to complement overall growth

- In FY20, the India food business recorded 12% revenue growth to INR20.6b. Growth can be attributed to increase in the salt business along with significant traction from modern trade/online selling of *Tata Sampann* products.
- However, EBIT margins contracted by 410bp to 13% (or INR2.7b), due to increased focus on expansion activities and new launches across pulses, spices and other segments.
- India's pulses/spices/RTC markets are valued at INR1,500b/INR600b/INR400b, with share of organized branded players pegged at 1%/30%/50%. Both pulses and spices are expected to deliver 15% CAGR as they contribute a major portion of India's staple food.
- **Tata Sampann** saw launches of few more food product categories in the E-commerce medium, including Nutrimixes (chilla), *poha*, *chutney*, organic pulses and *sattu*.
- **Tata Salt** – The Indian salt industry is currently estimated at INR70b, with share of organized players at ~88% (in volume terms). *Tata Salt* enjoys market leadership position in the salt segment with ~30% market share in the branded segment. Current branded sales volumes stand at 1.18MMT.
- *Tata Salt* volumes are expected to pick up as the company is ramping up capacity at Mithapur plant from 1MMT to 1.2MMT, which in turn should increase market share from the current level of ~30%.
- *Tata Salt* recorded volume growth of 2% to ~1.2MMT in FY20. With new branding and synergy benefits kicking in from the merger, salt volumes are expected to improve further.
- Shift from unorganized to the organized sector coupled with healthy eating habits and absence of nationalized branded players in the fray are some of the growth drivers for the segments.
- In FY20, TCPL's India food business comprising of *Tata Salt and Tata Sampann* saw all-round growth across products, namely in pulses, spices and RTC meals.

Exhibit 15: Product portfolio of India Food business



Salt

Tata Salt is an undisputed market leader. It is India's first national branded iodised salt. Portfolio includes Tata Salt, Tata Salt Plus, Tata Salt Lite (a special variant which provides 15% lower sodium), Tata Black Salt and Tata Rock Salt.



Pulses

Only national brand in pulses offering wholesome and nutritious food in pulses & derivatives. Our dals are unpolished, thus retaining their natural goodness and nutritional value.



Spices

Range of pure & blended spices crafted by master chef Sanjeev Kapoor. Our spices are wholesome and have their essential oils intact imparting undiluted flavours and aroma to the food.

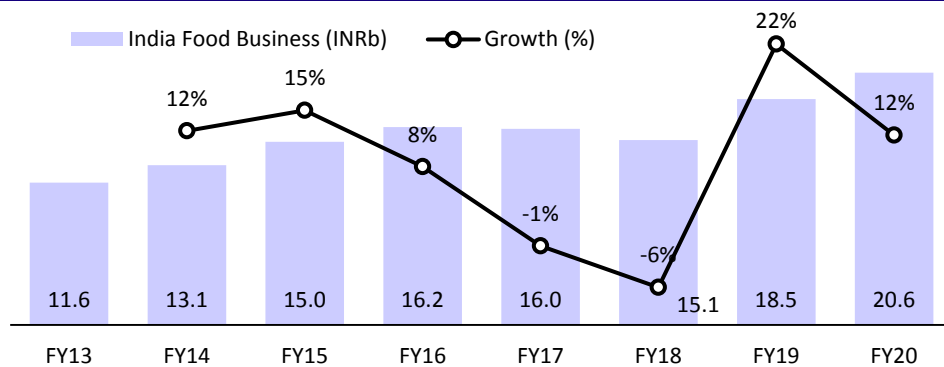


Ready-to-cook mixes

Range of ready-to-cook nutritious mixes made from natural ingredients. These are free of preservatives and added colours, and are curated by master chef Sanjeev Kapoor.

Source: Company, MOFSL

Exhibit 16: Revenue trend of India food business



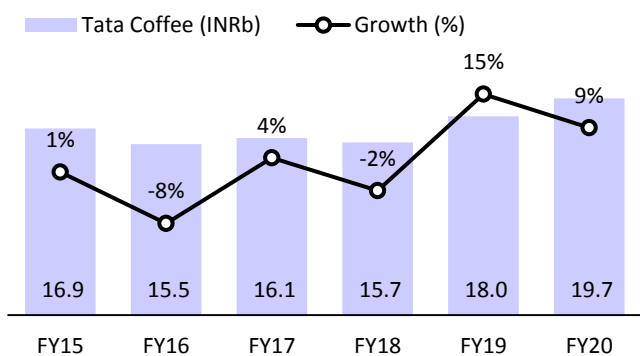
(*Note: Prior to FY20 India Food business was recorded in Tata Chemicals) Source: Company, MOFSL

Tata Coffee

Coffee business records strong revenue/EBITDA growth of 9%/32%

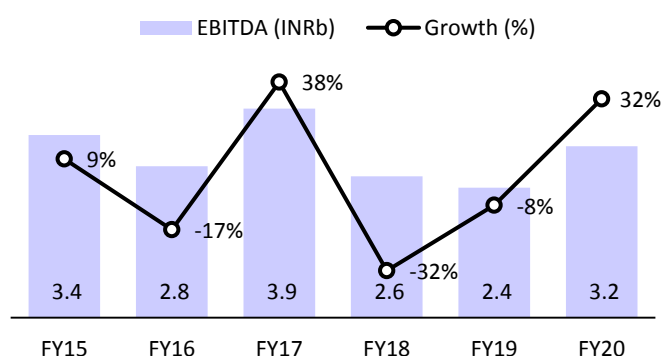
- Internationally, retail coffee is ~2x the size of tea and is valued at USD88b. The US is the largest coffee market and is estimated at USD12b. Increasing premiumization is one of the major growth drivers in the US.
- Tata’s coffee business, which comprises India Plantation and overseas business, saw revenue growth of 9% to INR19.6b in FY20.
- Tata Coffee recorded an annual volume growth of 14% on the back of commercialization of freeze-dried plant in Vietnam, which reached capacity utilization of ~80% by end-FY20 (within one year of operations). Further, profitability of the Vietnam plant is bound to increase with increasing utilization levels.
- New launches in the coffee segment includes the premium single-origin coffee under ‘The Sonnets’ brand name, launched under 3 variants (Yellow Honey, Red Honey and Green Honey).
- Authentic products and a strong brand name are two key parameters noticed by consumers before purchasing coffee. Two unique lines of coffee blends under *Eight O’Clock* (Barista Blends and Flavors of America) are believed to be contributing to incremental growth. Strong and niche brand names, both domestically and internationally, should boost coffee sales in the medium-to-near term, in our opinion.

Exhibit 17: Coffee biz reported 3% CAGR over FY15-20...



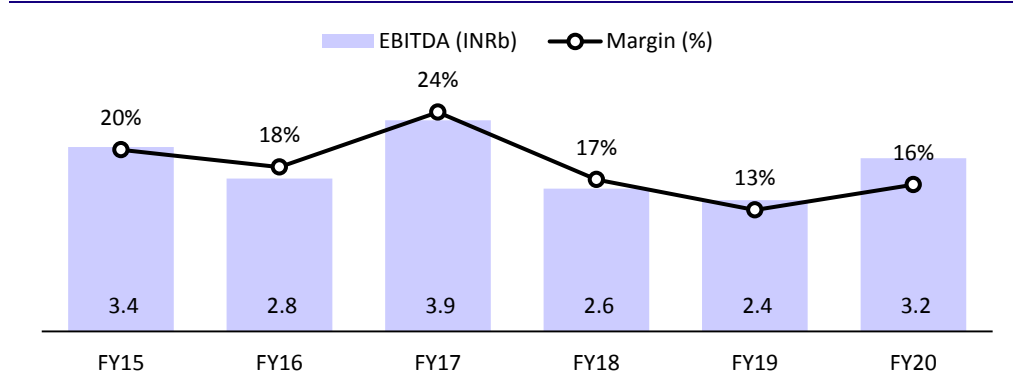
Source: Company, MOFSL

Exhibit 18: ...while EBITDA posted slight decline of 1%



Source: Company, MOFSL

Exhibit 19: Coffee business EBITDA trend



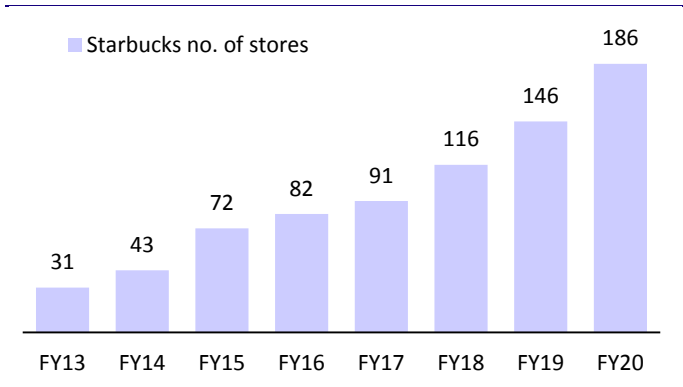
Source: Company, MOFSL

Joint Venture businesses

Starbucks – Impact of lockdown wearing off

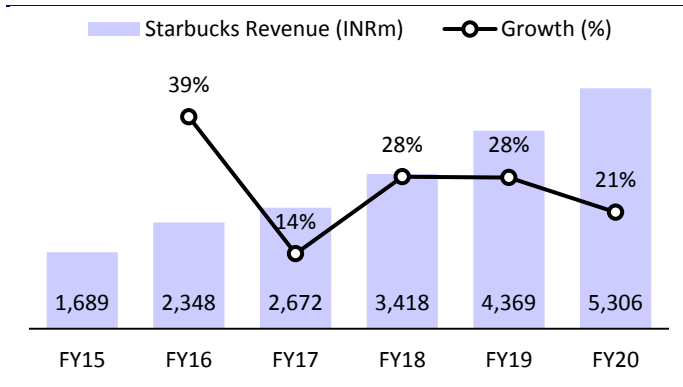
- According to Euromonitor, the retail market for specialist coffee and tea is estimated to deliver CAGR of 6.9% over CY19-23E to INR45.4b. ‘Specialist coffee outlets’ appealing to the urban youth is gaining popularity. *Tata Starbucks*, with a strong brand name, is expected to benefit the most from the change in consumer buying behavior.
- In FY20, 39 new stores (v/s 30 new stores in FY19) were opened, taking the total number of stores in India to 185. *Starbucks* saw revenue growth of 21% in FY20 with its presence increasing to 11 cities across India (entered the Ahmedabad, Surat and Vadodara markets in FY20).
- Due to imposition of the lockdown, stores across India were closed, impacting performance in 4QFY20. However, ~60 stores are now open for deliveries and takeaways in 10 out of 11 cities where the company is currently present.
- Also opening of new stores has been temporarily put on hold. Post normalization of services, a sharp increase in volumes is expected.

Exhibit 20: 39 new stores added in FY20



Source: Company, MOFSL

Exhibit 21: Starbucks recorded robust 21% revenue CAGR over FY15-20



Source: Company, MOFSL

Tata NourishCo

- In May’20, TCPL acquired the remaining 50% stake in NourishCo. TCPL aims to diversify into carbonated/non-carbonated beverages and other avenues of the F&B industry.

- NourishCo reported revenue of INR1.8b; however, volumes were partially impacted due to imposition of the complete lockdown during the peak months of Mar-May'20.
- Beverages sales are expected to showcase a V-shape recovery in volumes, post lifting of the lockdown across India.
- Increasing electrification along with rise in discretionary spending is expected to drive sales of beverages in India.

International business

In FY20, international business was stagnant with just 0.4% revenue growth to INR32.3b on constant currency basis. Further, EBIT margin expanded 260bp to 11%. This was mainly due to reduction in overall tea consumption across the international market. Also exit from Czech Republic during the year affected tea sales as well. TCPL achieved 1%/4% volume growth in the International branded tea/coffee businesses.

Exhibit 22: Product portfolio of India food business



Tea

Tetley is the #2 branded tea company in the world, spanning 180-year-old Tetley and other brands.

45 million servings of Tetley are consumed every day in 40 countries. It is #1 in Canada and #3 in the UK.



Coffee

Led by 160 years of innovation, Eight O'Clock is America's original gourmet and whole bean coffee. It is the #4 Roast & Ground coffee brand in the USA

Source: Company, MOFSL

United States

- The US business grew a marginal 1% to INR16.7b. New ethnic range of Tetley in three new flavors (Masala, *Elaichi* (Cardamom) and Ginger) was launched in the US and is expected to gain traction in the medium to near term.
- In the US, the *Eight O'Clock* brand completed 160 years of existence in FY20; it clocked 7.4% volume growth during the year.
- Further, TCPL has launched a new line of products under the *Eight O'Clock* brand – Barista Blends and Flavors of America – with a differentiated packaging.
- Stocking-up of pantries due to COVID-19, complemented sales of *Tetley* and *Eight O'Clock* in the US, along with an increase in online sales.
- A new coffee brand '*Early Riser*' by *Eight O'Clock* – in the 'Can' segment – has been launched in different parts of the US' West Coast.

Eight O'Clock

- In FY20, *Eight O'Clock* was ranked the #4 'roasted and ground' coffee brands in the US.
- During the year, *Eight O'Clock* launched two new lines, Barista Blends and Flavors of America.
- *Eight O'Clock's* revenue growth was partially offset by underperformance in 'K-cup' sales and improvements in private labels.

Exhibit 23: Eight O'Clock product portfolio



Source: Company, MOFSL

Canada

- Imposition of lockdown due to COVID-19 resulted in panic buying in Mar'20. This inflated total tea sales, leading to double digit revenues in the last quarter. Consequently, annual revenue grew 6% while corresponding market share increased to ~30% (in value terms).
- In Canada, TCPL launched *Supers 2.0*. In FY20, *Supers 2.0* recorded monthly share of ~3.9% in the non-black tea category.
- Further, *Tetley Cold Infusions* range of teas launched in Canada is expected to cater to the growing trend of health and wellness among the populace.

United Kingdom

- The UK reported revenue decline of 2% to INR11.2b in FY20.
- New product launch – *Cold Infusion* in the UK is fructifying. As a result, revenue contribution inched up to 1% with market share of 21.3% (in Everyday black), despite increased competition. Further the overall category is growing at ~25% despite seasonality in the business.
- TCPL's increased online presence coupled with higher online purchases due to COVID-19, led to higher performance of *Tea Pigs*.

Tetley

- With legacy of over 180 years, *Tetley* is now the #2 branded tea globally. It is currently ranked as #1 and #3 in Canada and the UK, respectively.
- Further, company also introduced a new 440s decaf pack count to enable further growth in the out-of-home category.

Exhibit 24: Tetley's product portfolio



Source: Company, MOFSL

Exhibit 25: Revenue by geographical market (INRb)

Revenue by Geographical Market (INRb)	FY19	FY20	YoY Growth
India	39.0	61.8	58%
USA	16.5	16.7	1%
United Kingdom	11.4	11.2	-2%
Rest of the World	5.6	6.7	20%
Revenue from External Customer	72.5	96.4	33%

Source: Company, MOFSL

Exhibit 26: Operating overseas subsidiaries – losses (INRm)

INR m	Place of operation	FY15	FY16	FY17	FY18	FY19	FY20	Remarks
Zhejiang Tata	China	-421	-153	-204	-	-	-	Sold
Suntyno	Russia	14	1	-526	-553	-80	-	Sold
Czech Republic	Czech Republic	60	-65	-50	-42	-47	-	Sold
Good Earth	US	-119	-149	-212	-178	-168	-107	
Earth Rules	Australia	-147	-270	-121	-72	-79	-48	

Source: Company, MOFSL

Exhibit 27: Segment revenue (INRb)

Branded Business	FY19	FY20	YoY Gr. %
India - Beverages	31.7	33.8	7
India - Foods*	18.5	20.6	12
International - Beverages	32.4	32.3	0
Total Branded Business	64.1	86.7	35
Non-branded Business	8.4	9.7	16
Total Segments Revenue	72.5	96.4	33
Others	0.3	0.3	-12
Less: Inter-segment Revenue	-0.3	-0.3	
Revenue from external customers	72.5	96.4	33

(*Note: Prior to FY20 India Food business was recorded in Tata Chemicals) Source: Company, MOFSL

Exhibit 28: Segment results (INRb)

Branded Business	FY19	FY20	YoY Gr. %
India - Beverages	4.6	4.7	2
EBIT margin (%)	14%	14%	
India – Foods*	3.1	2.7	-15
EBIT margin (%)	17%	13%	
International - Beverages	2.8	3.6	30
EBIT margin (%)	9%	11%	
Total Branded Business	7.3	10.9	49
EBIT margin (%)	11%	13%	
Non-branded Business	0.7	0.6	-16
EBIT margin (%)	8%	6%	
Total Segments Results	8.0	11.5	43
Add/ Less:			
Other Income	1.1	0.9	-12
Finance cost	-0.5	-0.8	48
Unallocable items	-0.9	-0.8	
Exceptional items	-0.3	-2.7	
Profit before Income Tax	7.3	8.1	10

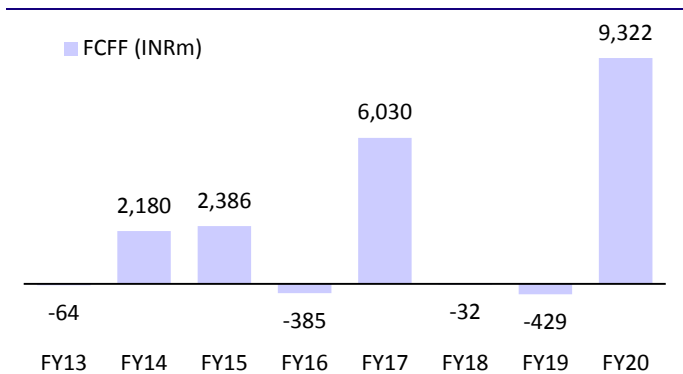
(*Note: Prior to FY20 India Food business was recorded in Tata Chemicals) Source: Company, MOFSL

Financial highlights

Strong operating cash flow generation

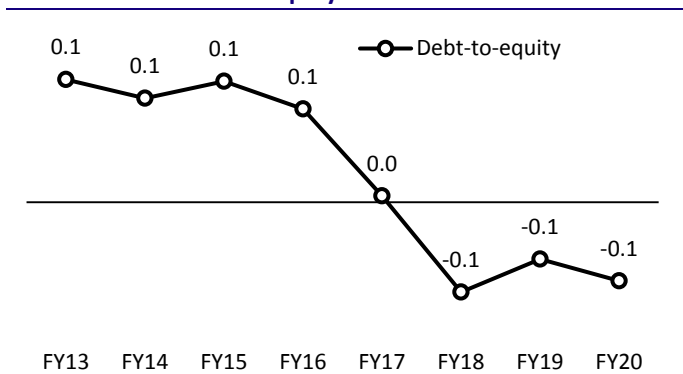
- TCPL has maintained average annual run-rate of FCFF at INR2.9b over FY16-20. Post-merger, FCFF has increased to INR9.3b in FY20 v/s outflow of INR0.4b in FY19.
- TCPL has maintained positive CFO for more than a decade with average run-rate of INR5.1b/INR3.9b in the last 5/10 years. Going forward, this strong run-rate is expected to continue.
- Post-merger, operating cash flow grew by 4.2x YoY to INR10.8b in FY20 (v/s INR2.5b in FY19), attributable to higher operating profit (from both, existing and new business) and increased inflow from working capital.
- Corresponding net cash increased to INR12.7b in FY20 (v/s INR4.8b in FY19).
- This gives enough headroom for TCPL to pursue expansions and branding of its newly diversified consumer portfolio.

Exhibit 29: FCFF



Source: Company, MOFSL

Exhibit 30: Net debt to equity

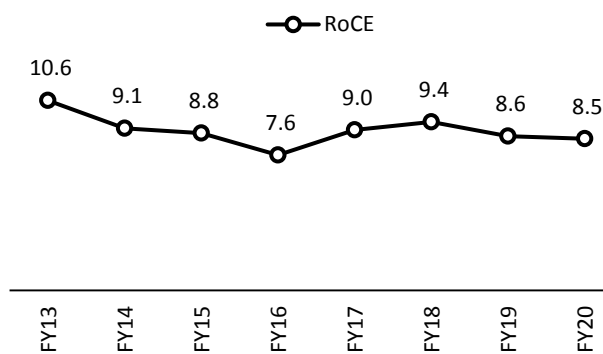


Source: Company, MOFSL

Return ratios

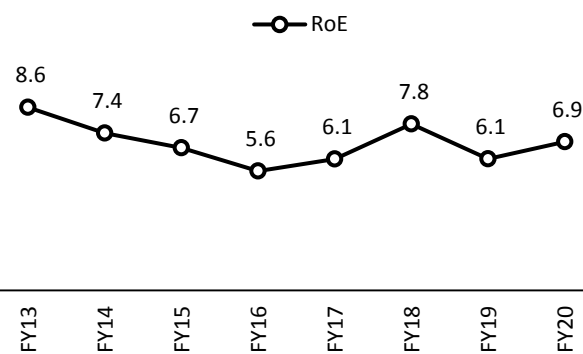
- Post-merger, RoCE reduced by 210bp from 10.2% in FY19 to 8.1% in FY20. This is mainly due to addition of 'Goodwill and brands (indefinite life)', after merging the India food business (namely *Tata Salt* and *Tata Sampann*) with TCPL.
- However, after adjusting assets for 'Goodwill and brands (indefinite life)' which saw sharp increase of ~2.5x from INR37.8b in FY19 to INR94.2b in FY20, RoCE jumped 660bp – from 22.1% in FY19 to 28.7% in FY20.
- In the past 5 years, TCPL has maintained average consolidated RoCE of 8.6%, whereas standalone RoCE for the same period stood at 12.7%. Correspondingly, average consolidated RoIC in the last 5 years stood at 10.4% v/s standalone RoIC of ~47% for the same period.
- Further, as per the accounting policy, Goodwill will be tested for impairment and necessary adjustments will be made. Going forward, tangible capital employed (excl. Goodwill) is improving and should continue its growth trajectory.
- RoIC for the India business is in the range of 40-45%, in line with other players. However, International business remains a key focus area where RoIC is lower compared to the India business.

Exhibit 31: RoCE



Source: Company, MOFSL

Exhibit 32: RoE



Source: Company, MOFSL

Exhibit 33: RoCE profile (post-merger)

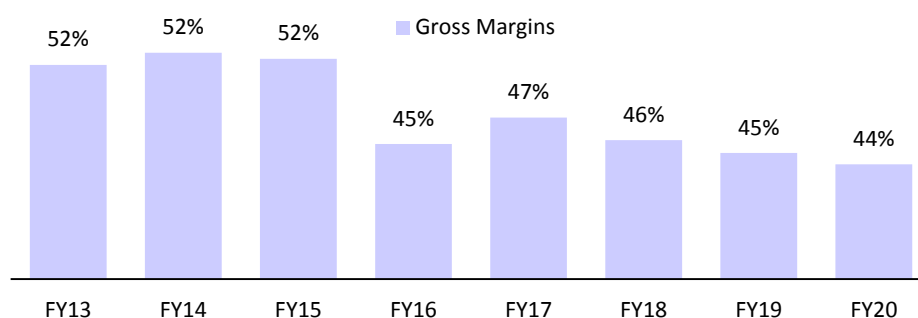
Particulars (Figures in INRb)	FY19	FY20
Total Equity	84	149
Goodwill and Brands (Indefinite life)	38	94
Fixed Assets and other intangibles	16	20
Working Capital (Net)	17	17
Operating Capital Employed	70	131
Other Non-operating Assets (mainly Investments)	6	4
Net (Debt)/Cash & Cash Equivalents#	7	13
Total Assets	84	149
ROE % (Group Net Profit / Equity)	5.5%	3.1%
ROCE % (EBIT / Operating CE)	10.2%	8.1%
ROCE % (excluding Goodwill and Brand with indefinite life)	22.1%	28.7%

Source: Company, MOFSL

Gross margin

- Gross margin have gradually reduced from 52% in FY13 to 45% in FY19. Post-merger of India Food business with TCPL, gross margin dropped by 88bp to 44% in FY20.

Exhibit 34: Gross margin trend



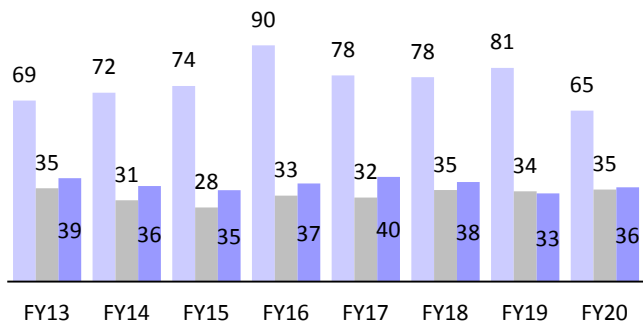
Source: Company, MOFSL

Working capital

- TCPL's net working capital (WC) days has declined from its 5-year average of 76 days over FY15-19 to 64 days in FY20.
- During the year, inventory increased by just 6%, way lower than account receivables/payables, which increased 36%/42%. However, inventory days reduced significantly by 16 days to 65 days. Net increase in receivables/payable days was a mere 1/3 days to 35/36 days. Post-merger of the India food business with TCPL, the overall working capital days reduced from 82 to 64 days.

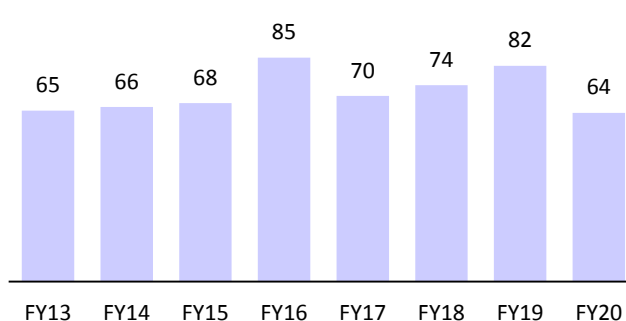
- Post-merger, WC cycle should improve with synergy benefits kicking in, especially with the newly launched *Tata Sampann* leveraging the distribution/retail network of *Tata Salt*, *Tata Tea* and other brands of the consolidated entity.

Exhibit 35: Inventory/Receivables and Payables days



Source: Company, MOFSL

Exhibit 36: WC days

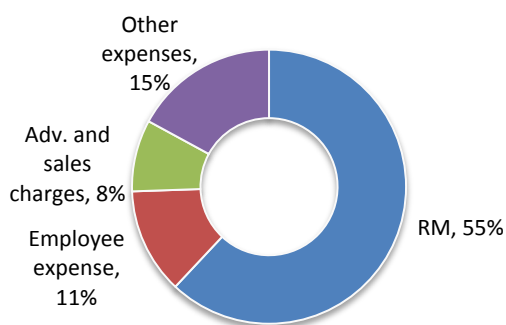


Source: Company, MOFSL

Cost Structure

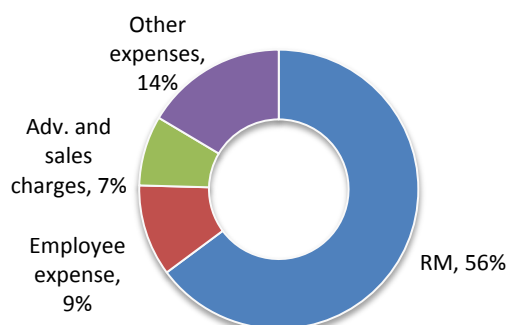
- EBITDA margins post-merger improved by 260bp to 13.4% with absolute EBITDA at ~INR13b.
- RM cost reported slight growth of 90bp to 56% (as % of sales). Other items i.e. employee expense/advertisement and sales charges/other expenses declined by 190bp/50bp/100bp.
- Freight cost more than doubled from INR1.9b in FY19 to ~INR4b in FY20.
- Post-merger, cost dynamics are expected to improve as *Tata Sampann* and other new businesses leverage the existing network of TCPL’s tea and salt businesses. This will happen without the incremental cost of setting up a new distribution/retail channel network.

Exhibit 37: Cost structure in FY19



Source: Company, MOFSL

Exhibit 38: Cost structure in FY20 (post-merger)



Source: Company, MOFSL

Employee cost and salaries

- Post-merger, percentage increase for all employees was 10.16% (v/s. 7.4% in FY19).
- Average percentage increase made in salaries of employees other than managerial employees in FY20 was 8.9% (v/s 8.8% in FY19). Increase in managerial remuneration for FY20 stood at 10.25% (v/s 1.5% in FY19).
- The percentage increase in median remuneration was 57% for FY20 (v/s 11% in FY19), reflecting the impact of employee addition from the food business.
- Number of employees on rolls stood at 2,689 for FY20 (v/s 2,409 in FY19).

Financials and valuations

Consolidated Income Statement

(INR Million)

Y/E March	2016	2017	2018	2019	2020	2021E	2022E
Net Sales	66,365	67,796	68,154	72,515	96,374	1,04,243	1,14,761
Change (%)	-17.0	2.2	0.5	6.4	32.9	8.2	10.1
Gross Profit	30,149	32,180	31,160	32,439	42,267	45,403	49,786
Margin (%)	45.4	47.5	45.7	44.7	43.9	43.6	43.4
Other operating exp.	23,606	24,269	22,771	24,579	29,346	30,836	32,847
EBITDA	6,543	7,911	8,389	7,859	12,921	14,567	16,939
Margin (%)	9.9	11.7	12.3	10.8	13.4	14.0	14.8
Depreciation	1,168	1,260	1,160	1,226	2,417	2,503	2,577
Net Interest	1,169	915	428	525	779	769	769
Other income	820	831	942	1,571	1,116	1,060	1,113
PBT before EO	5,026	6,566	7,743	7,680	10,842	12,355	14,707
EO income/(exp.)	-3,329	53	-211	-333	-2,748	0	0
PBT after EO	1,698	6,619	7,531	7,347	8,094	12,355	14,707
Tax	2,000	1,983	1,859	2,609	2,742	3,459	4,118
Rate (%)	117.8	30.0	24.7	35.5	33.9	28.0	28.0
Reported PAT	-302	4,636	5,673	4,738	5,352	8,896	10,589
Minority and Associates	-247	742	717	656	754	365	240
Adjusted PAT	3,274	3,841	5,167	4,415	7,345	8,531	10,349
Change (%)	-13.3	17.3	34.5	-14.6	66.4	16.1	21.3

Balance Sheet

(INR Million)

Y/E March	2016	2017	2018	2019	2020	2021E	2022E
Share Capital	631	631	631	631	922	922	922
Reserves	61,841	62,024	69,685	72,686	1,37,227	1,42,440	1,49,140
Net Worth	62,472	62,655	70,316	73,317	1,38,149	1,43,362	1,50,061
Minority Interest	8,618	9,195	10,090	10,277	10,925	10,929	10,933
Loans	13,541	7,866	10,676	11,283	11,825	11,825	9,325
Capital Employed	84,630	79,716	91,082	94,877	1,60,898	1,66,115	1,70,320
Gross Block	24,033	23,711	25,424	27,689	59,111	60,611	62,611
Less: Accum. Deprn.	14,511	13,650	15,181	16,407	18,824	21,326	23,903
Net Fixed Assets	9,523	10,060	10,244	11,282	40,288	39,285	38,708
Capital WIP	394	632	1,352	4,244	954	954	954
Goodwill & Intangibles	37,096	34,979	37,235	37,851	73,338	73,338	73,338
Investments	11,926	13,534	6,431	6,045	4,893	4,532	4,297
Curr. Assets	40,009	36,309	49,343	49,385	65,258	73,193	79,299
Inventories	16,290	14,530	14,483	16,099	17,120	21,420	23,581
Account Receivables	5,924	5,925	6,483	6,806	9,224	9,916	10,916
Cash and Bank Balance	6,744	7,412	18,067	16,168	24,550	27,494	30,438
Others	11,051	8,444	10,310	10,313	14,364	14,364	14,364
Curr. Liability & Prov.	13,532	14,345	13,525	12,887	20,799	22,154	23,243
Account Payables	6,773	7,378	7,057	6,649	9,440	10,794	11,883
Other liabilities	2,776	3,389	3,562	4,221	8,603	8,603	8,603
Provisions	3,983	3,578	2,906	2,017	2,756	2,756	2,756
Net Curr. Assets	26,477	21,965	35,818	36,498	44,459	51,040	56,056
Def. tax liability	786	1,454	-3	1,043	3,033	3,033	3,033
Appl. of Funds	84,630	79,716	91,082	94,877	1,60,898	1,66,115	1,70,320

Financials and valuations

Cash flow statement

Y/E March	2016	2017	2018	2019	2020	2021E	2022E
EBITDA	6,543	7,911	8,389	7,859	12,921	14,567	16,939
Prov. & FX	-132	22	-14	0	0	0	0
WC	-2,719	1,485	-1,389	-2,347	-649	-3,637	-2,072
Others	-190	100	-438	-333	1,292	0	0
Direct taxes (net)	-2,342	-2,106	-2,992	-2,609	-2,742	-3,459	-4,118
CF from Op. Activity	1,160	7,412	3,556	2,571	10,822	7,470	10,749
Capex	-1,545	-1,382	-3,588	-3,000	-1,500	-1,500	-2,000
FCFF	-385	6,030	-32	-429	9,322	5,970	8,749
Interest/dividend	697	574	485	1,571	1,116	1,060	1,113
Investments in subs/assoc.	-509	-280	373	0	0	0	0
Others	4,273	2,503	10,133	0	0	0	0
CF from Inv. Activity	2,917	1,415	7,403	-1,429	-384	-440	-887
Borrowings	-796	-4,848	2,160	0	0	0	-2,500
Finance cost	-663	-615	-282	-525	-779	-769	-769
Dividend	-1,871	-1,890	-2,118	-1,893	-2,986	-3,318	-3,650
Others	512	-805	-65	-623	1,709	0	0
CF from Fin. Activity	-2,818	-8,158	-304	-3,041	-2,056	-4,086	-6,918
(Inc)/Dec in Cash	1,259	668	10,655	-1,899	8,382	2,944	2,944
Opening balance	5,485	6,744	7,412	18,067	16,168	24,550	27,494
Closing balance (as per B/S)	6,744	7,412	18,067	16,168	24,550	27,494	30,438

Ratios

Y/E March	2016	2017	2018	2019	2020	2021E	2022E
Basic (INR)							
EPS	3.6	4.2	5.6	4.8	8.0	9.3	11.2
Cash EPS	4.8	5.5	6.9	6.1	10.6	12.0	14.0
BV/Share	67.8	68.0	76.3	79.6	149.9	155.6	162.8
DPS	2.3	2.3	2.4	2.5	2.7	3.0	3.3
Payout (%)	NA	30.6	26.1	33.3	46.5	31.1	28.7
Dividend yield (%)	1.9	1.5	0.9	1.2	0.9	1.4	1.6
Valuation (x)							
P/E	108.9	92.9	69.0	80.8	48.6	41.8	34.5
Cash P/E	80.3	69.9	56.4	63.2	36.5	32.3	27.6
P/BV	5.7	5.7	5.1	4.9	2.6	2.5	2.4
EV/Sales	5.1	5.0	5.0	4.7	3.5	3.3	3.0
EV/EBITDA	52.1	43.1	40.6	43.4	26.4	23.4	20.1
Dividend Yield (%)	1.9	1.5	0.9	1.2	0.9	1.4	1.6
FCF per share	-0.6	9.6	-0.1	-0.7	10.1	6.5	9.5
Return Ratios (%)							
RoE	5.6	6.1	7.8	6.1	6.9	6.1	7.1
RoCE	7.6	9.0	9.4	8.6	8.5	7.8	9.1
RoIC	8.2	10.6	11.7	9.8	11.5	10.2	10.7
Working Capital Ratios							
Fixed Asset Turnover (x)	7.0	6.7	6.7	6.4	2.4	2.7	3.0
Asset Turnover (x)	0.8	0.9	0.7	0.8	0.6	0.6	0.7
Debtor (Days)	33	32	35	34	35	35	35
Creditor (Days)	37	40	38	33	36	38	38
Inventory (Days)	90	78	78	81	65	75	75
Leverage Ratio (x)							
Debt/Equity	0.1	0.0	-0.1	-0.1	-0.1	-0.1	-0.1

Explanation of Investment Rating	
Investment Rating	Expected return (over 12-month)
BUY	>=15%
SELL	< - 10%
NEUTRAL	< - 10 % to 15%
UNDER REVIEW	Rating may undergo a change
NOT RATED	We have forward looking estimates for the stock but we refrain from assigning recommendation

*In case the recommendation given by the Research Analyst is inconsistent with the investment rating legend for a continuous period of 30 days, the Research Analyst shall within following 30 days take appropriate measures to make the recommendation consistent with the investment rating legend.

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