

Stock Idea

Sector: Consumer Goods

July 23, 2020

Tata Consumer Products Ltd.



A wholesome basket

Sharekhan

by BNP PARIBAS



Powered by Sharekhan's 3R Research Philosophy



Tata Consumer Products Limited

A wholesome basket

Consumer Goods

Sharekhan code: TATACONSUM

Initiating Coverage

3R MATRIX

	+	=	-
Right Sector (RS)	✓	✗	✗
Right Quality (RQ)	✓	✗	✗
Right Valuation (RV)	✗	✓	✗

+ Positive = Neutral - Negative

Reco/View

Reco:	Buy
CMP:	Rs. 405
Price Target:	Rs. 484

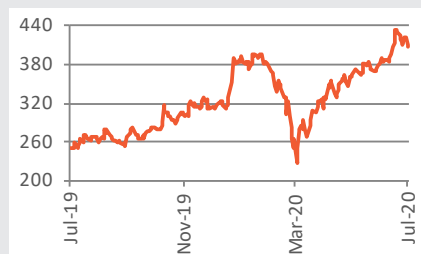
Company details

Market cap:	Rs. 37,319 cr
52-week high/low:	Rs. 438/214
NSE volume: (No of shares)	45.4 lakh
BSE code:	500800
NSE code:	TATACONSUM
Free float: (No of shares)	60.2 cr

Shareholding (%)

Promoters	34.7
FII	19.5
DII	19.9
Others	26.0

Price chart



Price performance

(%)	1m	3m	6m	12m
Absolute	3.5	22.6	2.9	61.4
Relative to Sensex	-10.4	14.9	-16.8	69.3

Sharekhan Research, Bloomberg

Summary

- Initiating coverage on Tata Consumer Products Limited (TCPL) — earlier named Tata Global Beverages — with a Buy rating and PT of Rs. 484.
- TCPL will become strong play with integration of Tata Chemicals' consumer business; share of consistently-performing India business in revenue to rise to 61% from 48%, margins too can rise 60-80 bps in the near term.
- Appointment of consumer expert Mr. Sunil D'Souza as MD & CEO improves earnings visibility; consolidated revenue and earnings (including TCL's consumer business) to clock CAGR of 10% and 20% over FY2020-23E.
- Balance sheet strengthening despite commodity-linked business; FCF rose to Rs. 711 crore in FY2020 from negative Rs. 103 crore in FY2019; debt/equity ratio at 0.1x.

Tata Consumer Products Limited (TCPL; earlier known as Tata Global Beverages) is one of India's largest consumer goods companies with a strong presence in branded tea & coffee, salt, water and other staples. The integration of Tata Chemicals Limited's (TCL's) India consumer business will fetch many synergistic benefits such as a combined distribution network catering to more than 200 million households, diversification into multiple product categories, robust innovation and sustained revenue and cost synergies, which will help drive sustainable growth in the long run. Post integration, TCPL's India consumer business will constitute about 61% of its overall revenue as against 48% in FY2019. TCPL's domestic in-house portfolio has become strong and it is scouting a big opportunity in the Rs. 21 lakh crore in-the-kitchen consumption market, which is expected to see good growth due to rising trend of in-house consumption and higher demand for branded products. Further, high margins of the foods business (at ~13.5%) would help consolidated operating margins (OPM) inch close to 15% over the next two to three years. With Mr. Sunil D'Souza taking over as CEO, the top management's focus is to deliver consistent profitable growth and improve the return ratios in the medium term. TCPL's working capital cycle improved to 36 days in FY2020 post the merger and is expected to remain stable in the coming years. Operating cash flows (OCF) increased to Rs. 1,316 crore in FY2020 from Rs. 377.7 crore in FY2019 while free cash flow (FCF) improved to Rs. 711 crore in FY2020 from negative Rs. 103 crore from FY2019.

Our Call

Initiate with Buy and PT of Rs. 484: The integration of TCL's consumer business with TCPL heightens sustainable revenue and PAT growth visibility owing to multiple growth levers. We expect consolidated revenue and earnings to clock a CAGR of 10% and 20% over FY2020-23E. The stock is currently trading at 37x its FY2022E earnings, which is at a premium to its historical average but trading at discount to large consumer goods companies. The revamped management has enhanced its focus on delivering profitable earnings growth by leveraging on an expanded product portfolio and improvement in return ratios in the coming years, which has improved the earning visibility and will keep valuations at premium in the near term. We initiate our coverage on TCPL with a Buy recommendation and price target (PT) of Rs. 484 (valuing the stock at 44x its FY2022E earnings).

Key risk

Sustained slowdown in domestic consumption due to frequent lockdown in key markets; heightened competition from new players and a spike in the key input prices would act as a key risk to our earnings estimates in the near term.

Valuation (Consolidated)

Particulars	FY19	FY20	FY21E*	FY22E*	FY23E*
Revenue	7,252	9,637	10,351	11,445	12,693
OPM (%)	10.8	13.4	13.6	14.3	15.1
Adjusted PAT	479	661	817	1,011	1,205
% Y-o-Y growth	-16.0	37.9	23.6	23.7	19.2
Adjusted EPS (Rs.)	5.2	7.2	8.9	11.0	13.1
P/E (x)	53.3	56.5	45.7	36.9	31.0
P/B (x)	3.5	2.7	2.6	2.5	2.4
EV/EBIDTA (x)	31.1	27.4	24.7	20.9	17.5
RoNW (%)	6.9	7.0	6.3	7.3	8.2
RoCE (%)	8.8	9.0	7.7	9.0	10.2

Source: Company, Sharekhan estimates

*FY2021E, FY2022E and FY2023E estimates include the consumer business of TCL

Note: We now convert TCPL into a Stock Idea; it was earlier a 'Viewpoint' under our coverage.

Executive Summary

3R Research Positioning Summary

■ Right Sector:

Amid COVID-19, a rise in in-house consumption and preference for top brands provides opportunity for large food companies to gain market share.

■ Right Quality:

TCPL will become large consumer play post merger of TCL's consumer business with expansion of product portfolio, increase in distribution reach (OPM to rise 60-80 bps)

■ Right Valuation:

Strong earnings visibility, stable balance sheet and good parental support will keep valuation at premium in the near term.

Valuation and return potential

TCPL's currently trades at ~37x its FY22E, which is at premium to historical average. There are multiple triggers that will help in sustaining the premium valuations.

- ♦ Merger of TCL's consumer business reduces volatility in the business performance.
- ♦ Mr. Sunil D'Souza's induction as MD & CEO would help re-define growth strategy with a focus on delivering profitable earnings growth.
- ♦ Revenue and PAT to grow by 1.3x and 1.8x over FY2020-23E.

Catalysts

Long-term triggers

- Consistent shift to branded products.
- Scale-up in operations of out-of-home ventures - Tata Starbucks (50:50 JV) and NourishCo (water business).
- Sustained new product launches and expansion of distribution reach.

Medium Term Triggers

- Strong demand for in-house consumption categories.
- Market share gains from small players in key categories.
- Synergistic benefits to drive margins in near term.

Key Risks

Breaks in the production/sales caused by frequent lockdowns in the domestic market, slowdown in international markets and a sudden spike in prices of key inputs would act as a risk to our earnings estimates.

Earnings and Balance sheet highlights

- ♦ **Stable working capital and cash flows:** Working capital cycle remains stable at 36 days and operating cash flows improved to ~Rs. 1316 crore in FY2020.
- ♦ **Debt free company:** Debt-equity ratio stood at 0.1x ; strong liquidity position of ~Rs. 16 billion, which will take care of near term uncertainties.
- ♦ **Margin resurgence will support return ratio:** TCPL's OPM expanded by 260 bps in FY2020; sustained expansion in margins provides scope for return profile to improve (RoE and RoCE stand at 7% and 9%)

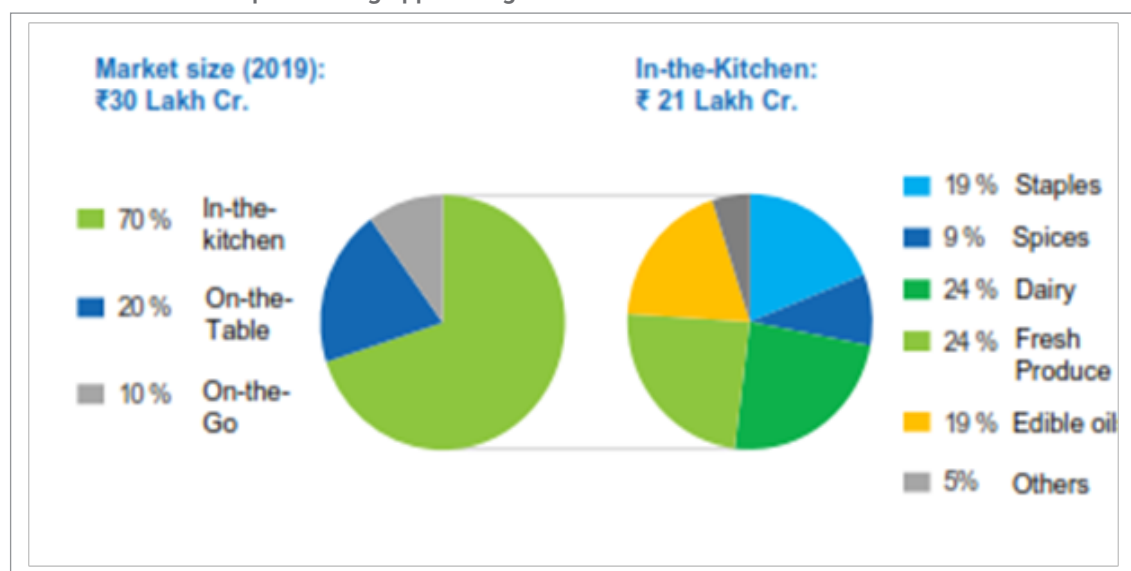
Table of Contents	Pages
Right Sector - why we like the staples industry	
♦ In-the-kitchen consumption - Rs. 21 lakh crore market opportunity	5
♦ Changing consumption trend in the post COVID-19 era	5
♦ Long term demand drivers for branded food and staples in India	9
Right Quality - why we like TCPL	
♦ Large domestic consumer play post merger with TCL's consumer business	12
♦ India business to become key revenue driver	13
♦ TCPL has leading positioning in most markets	15
♦ Specialty is gaining good traction than regular tea	17
♦ Distribution network to expand to 2.5 million outlets	19
♦ Change in leadership to help in forming sustainable growth strategies	19
♦ International business - US, UK and Canadian businesses remain key	21
♦ Out-of-home consumption: Expect to regain momentum from FY2022	22
♦ Key subsidiaries' performance	23
♦ Lower commodity prices would add on to the margins	23
♦ Strong performance in Q4FY2020	24
♦ Strengthening balance sheet with improving cash flows	24
♦ Limited impact of COVID-19 due to essential category products	24
Financials in charts	25
Right Valuation	
♦ Outlook - Focus on delivering steady earnings growth in the medium to long term	26
♦ Valuation - Initiate with Buy assigning a Price Target of Rs. 484	26
♦ One-year forward P/E band	26
♦ One-year forward EV/EBITDA band	27
♦ One-year forward P/BV band	27
♦ Peer Valuation	27
Key financials	
♦ P/L account	28
♦ Balance Sheet	28
♦ Cash Flow Statement	29
♦ Key Ratios	29
TCPL snapshot	
♦ Company background	30
♦ Investment theme	30
♦ Key risks	30
♦ Key management personnel	30
♦ Top 10 shareholders	30
3R Philosophy definitions	31

Why we like the staples industry – emerging trends post COVID-19 exceeds the growth prospects

Rising income levels, growing urbanisation, shift in consumer preference towards brands and rise of e-commerce are some key drivers of sustainable growth for staple and processed food companies. However, amid COVID-19, there is a large shift in consumer behavior with lesser incidence of eating out, increase in in-house cooking, shift to trusted brands and focus on buying health & hygiene products. This shift in consumer behavior has created opportunities for low-penetrated categories such as branded pulses, spices and condiments and ready-to-cook food items that are expected to emerge as essential categories in post-pandemic era.

- ♦ **In-the-kitchen consumption - Rs. 21 lakh crore market opportunity:** In-the-kitchen consumption, one of the largest categories in the food & beverages basket is still untapped by organised players. All three categories are witnessing demand for healthy and better quality products. Rising affluence of Indian households and increase brand savvy consumers would drive sustainable demand for such in-the-kitchen category products. Further, once the pandemic normalises, there will be a significant change in consumers' buying behavior favouring branded products for in-house consumption.

In-the-kitchen consumption - a big opportunity

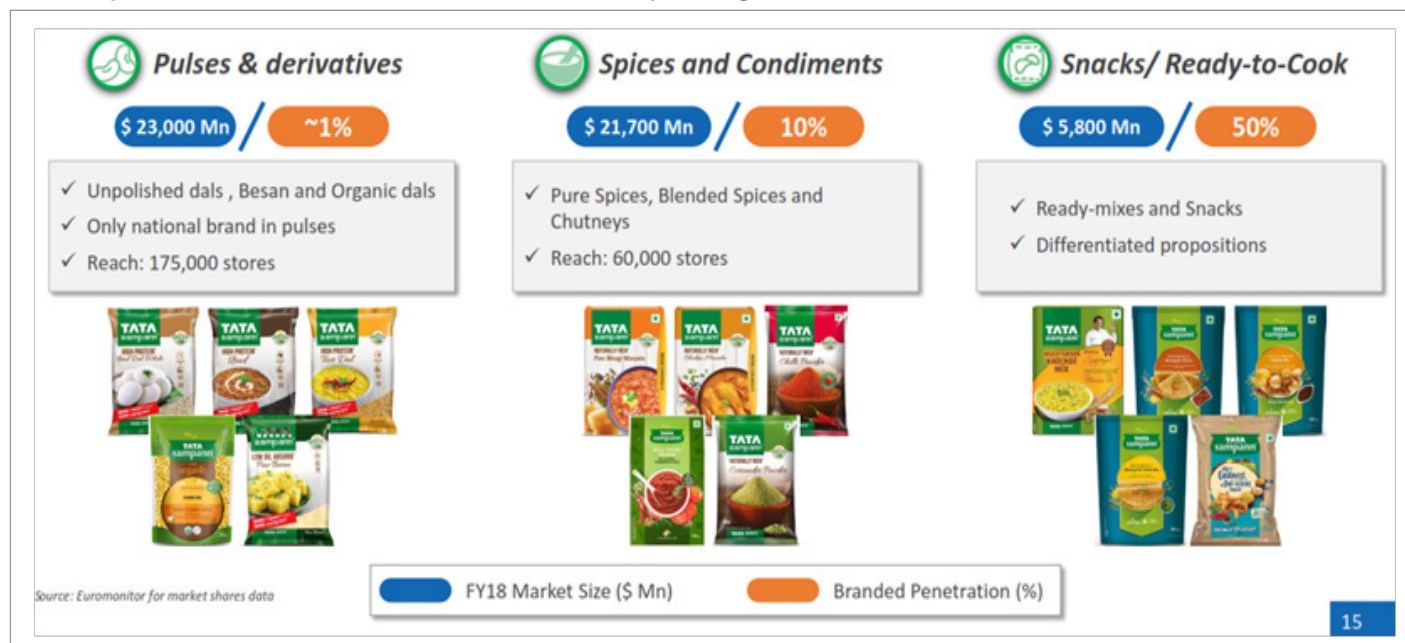


Source: Company

♦ Changing consumption trends post COVID-19

- o **Branded commodities to gain higher traction:** Fear of catching an infection will majorly impact on the consumers buying habit (especially food items and commodities). In pre-COVID era, consumers used to buy commoditised products such as rice, wheat, pulses and sugar in the loose format from kirana stores/retail stores. Only commodities, which were visibly available in the branded format and had good traction, were cooking oil, ghee and salt. In the post-COVID-era, branded products will have strong acceptance due to hygiene and safety standards and regulated under the Food Safety and Standards Authority of India (FSSAI) guidelines. Thus, we expect many commodities and derivatives such as dal, pulses, besan, poha, rava etc, to get 'branded' in the years to come (some retail outlets have their own brands of such commoditised products available on shelves). The market for commoditised products and their derivatives in India is worth ~Rs. 1.75 lakh crore. However, in this, the penetration of branded variants is just 1%. We expect penetration to improve in the coming years as consumers in large and medium towns will store branded commodities in their kitchens.

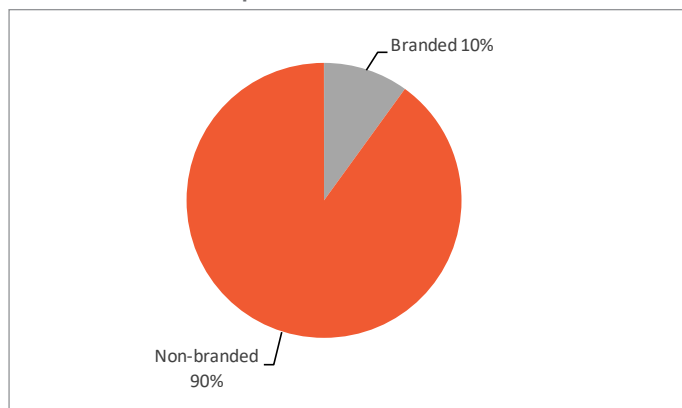
Branded penetration is low in domestic commodities and spices segment



Source: Company

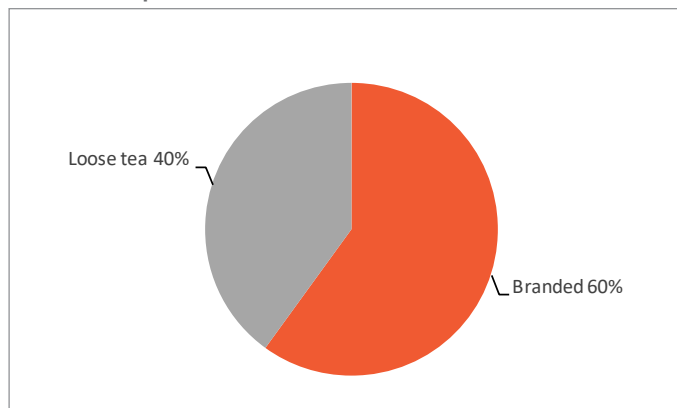
Consumption pattern - Branded versus non-branded products

Atta and rice consumption in India



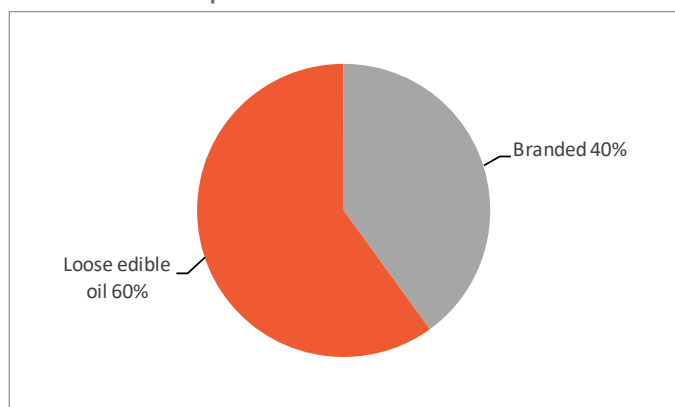
Source: Industry reports, Sharekhan Research

Tea consumption in India



Source: Industry reports, Sharekhan Research

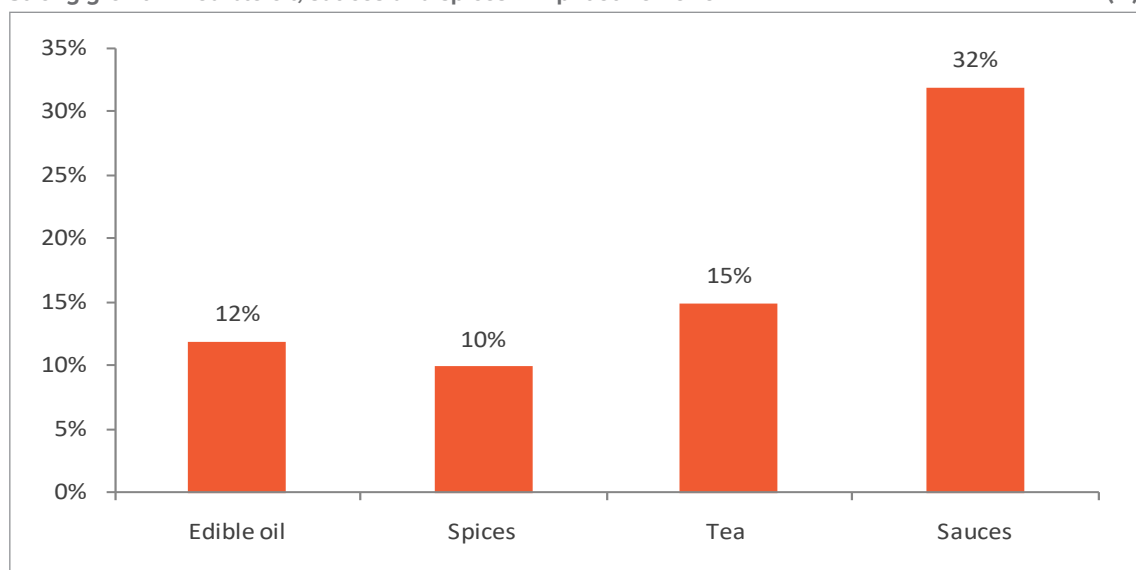
Edible oil consumption in India



Source: Industry reports, Sharekhan Research

- o **Lesser incidence of eating out:** The frequency of eating out post COVID-19 will reduce significantly in view of social distancing norms, food offered with minimal touch points and consumers becoming more and more health-conscious. Family gatherings, corporate lunch/dinner and festive dine-out will have major shrinkage in coming months. Restaurants saw a 20-25% reduction in footfalls in the first week of March with diners shying away from eating out as the COVID-19 panic rises day by day in India. Street vendors serving fast food items will see major hit on their sales due to distrust on their hygiene and product quality. Further, people aged 50 and above would definitely avoid eating out in the current environment. In such a scenario, takeaway/delivery model will comprise a higher share of restaurant revenues, which was operational during the lockdown period as well. On the other hand, demand for freelance chefs will go up significantly as family/festive gatherings, corporate parties and get-togethers will happen in-house. Moreover, number of home kitchens serving 'raste ka swaad ghar se' will go up significantly. One common hygiene factor of all these food service providers would be the use of quality products in preparation of food.
- o **Home cooking will gain more preference:** Three months of lockdown ensured that all the members of families have tried their hands on cooking. People have explored recipes like Dalgona coffee, jalebi, cake (cooker or oven), samosa, dhokla and Pani Puri. As per Google, the recipe search for above said products has spiked from 3250% to 5000%. Also praises on social media platforms such as Instagram and Facebook gave a major boost to a new home chef. Trend in people following professional chefs on YouTube/Instagram has increased. We believe this trend will continue in the near term.

Strong growth in edible oil, sauces and spices in April-June 2020

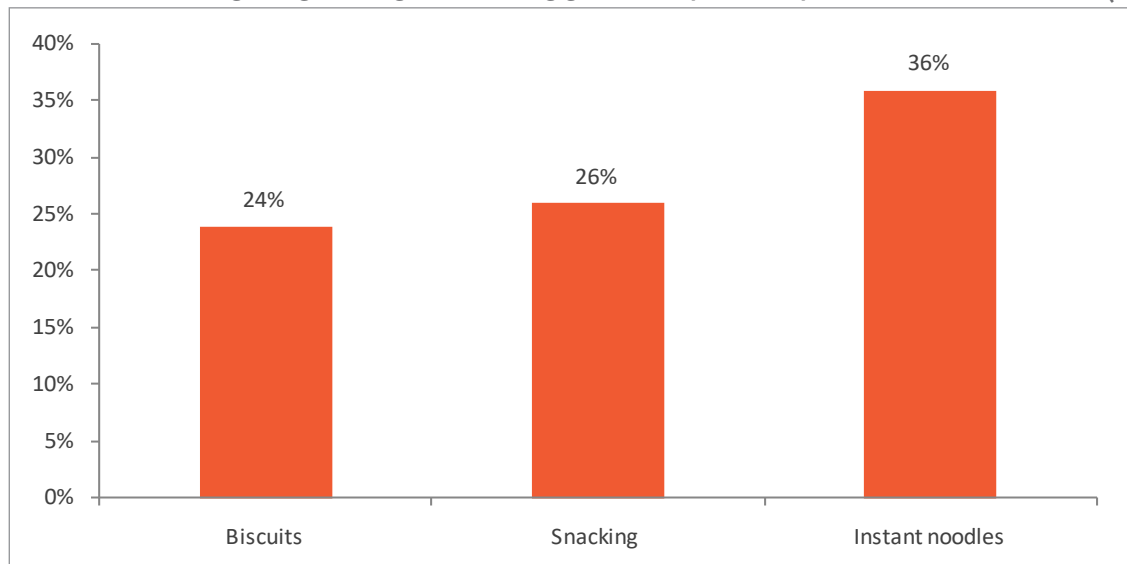


Source: Industry reports, Sharekhan Research

- o **Increase in use of value added products:** A rise in home cooking will open new market for value added/intermediary products. Large emphasis will be given to comfort and quick in time preparations. So basic cooking requirements such as availability of peeled/chop vegetables, purees for curry, ginger-garlic paste, regional masalas for regional foods or masalas/purees developed by professional chefs will gain high traction especially in the metros in the near to medium term. New home chefs will also demand for authentic ingredients to enhance taste of cooked food items. 'Restaurant jaisa khaana' will definitely have higher preference at home due to lesser incidence of eating out. The spices and condiments market is around Rs. 1.65 lakh crore in India with branded penetration of ~10%.

- o **Strong demand for snacking/ready-to-cook products:** According to top retailers, consumers were buying products which can be cooked at home like biscuits, snacking items, pasta and noodles, etc during the second phase of the lockdown. Biscuit manufacturers such Britannia and Parle saw double-digit sales growth in April and May.

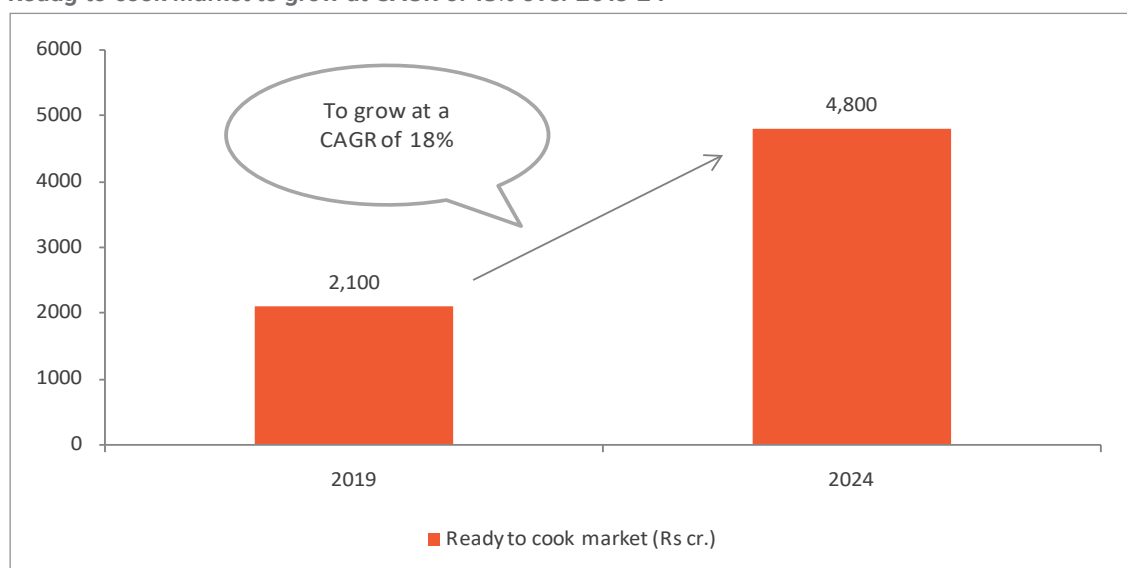
Biscuits and snacking categories registered strong growth in April-June quarter Y-o-Y Growth (%)



Source: Industry reports, Sharekhan Research

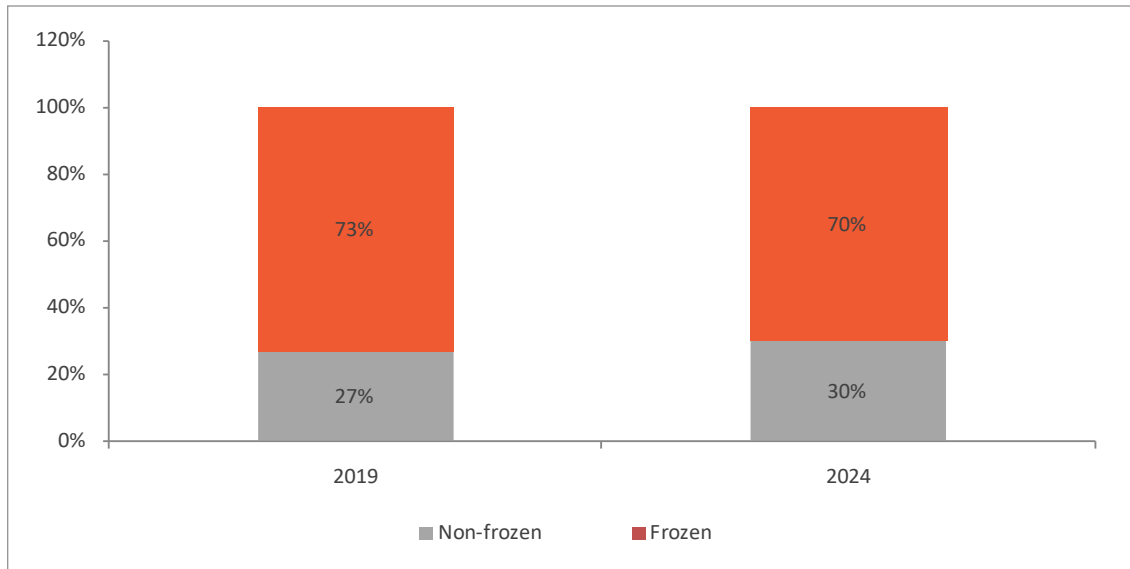
As more and more consumers are working from home while students are engaged in virtual academic classes, the demand for convenience food items would increase in the quarters ahead. Further, lesser incidence of eating out, the demand for snacking and ready-to-cook products will sustain in the near to medium term. Sales of frozen non-vegetarian foods, processed foods, baked items and ready-to-cook items have gone up to a large extent due to convenience in cooking. Ready-to-cook market in India is around Rs. 2,100 crore and is expected to grow at a CAGR of 18% over CY2019-24.

Ready-to-cook market to grow at CAGR of 18% over 2019-24



Source: Industry reports, Sharekhan Research

Contribution of non-frozen RTC products will grow up fast



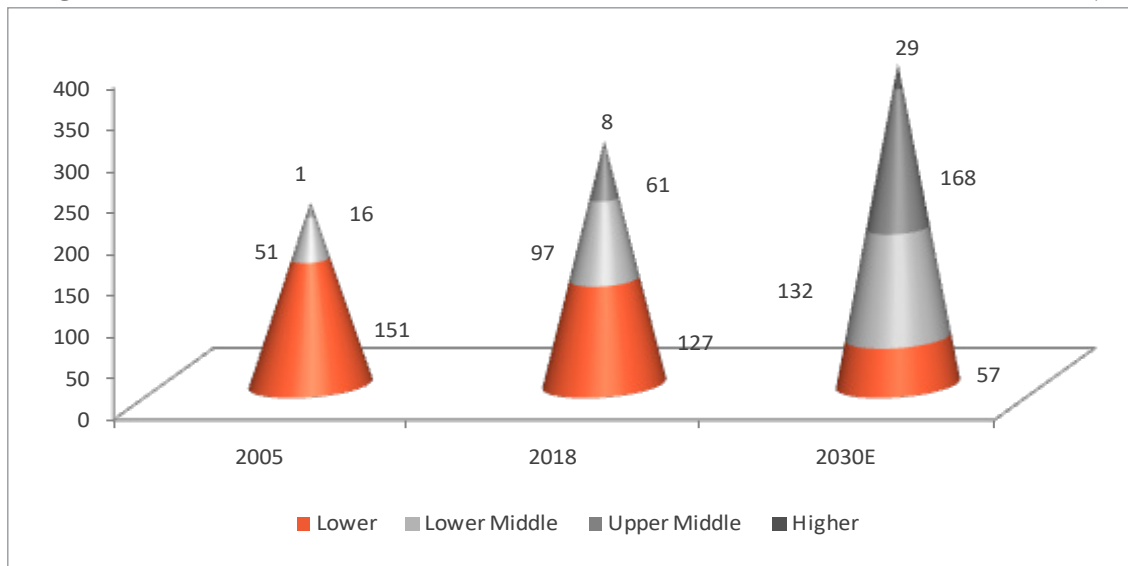
Source: Industry reports, Sharekhan Research

♦ Long term demand drivers for branded food and staples in India

- o **Rising disposable income:** Rising affluence of Indian households will lead to premiumisation and higher demand for healthy and convenient to use products. One in two households in 2030 will belong to the high and upper-middle income segments.

Rising incomes

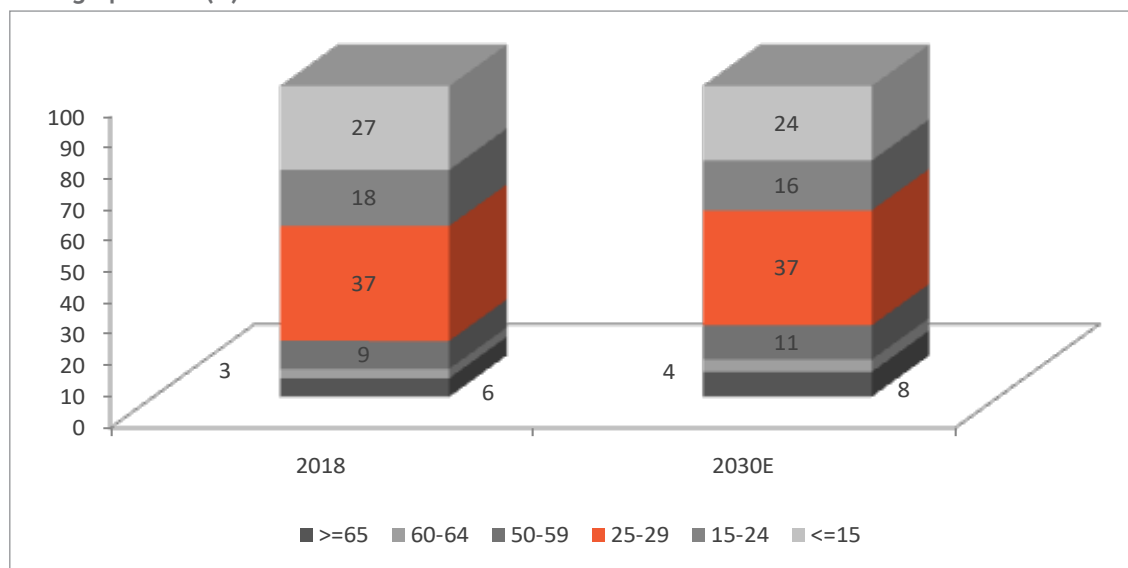
Household (mn)



Source: Company, Sharekhan Research

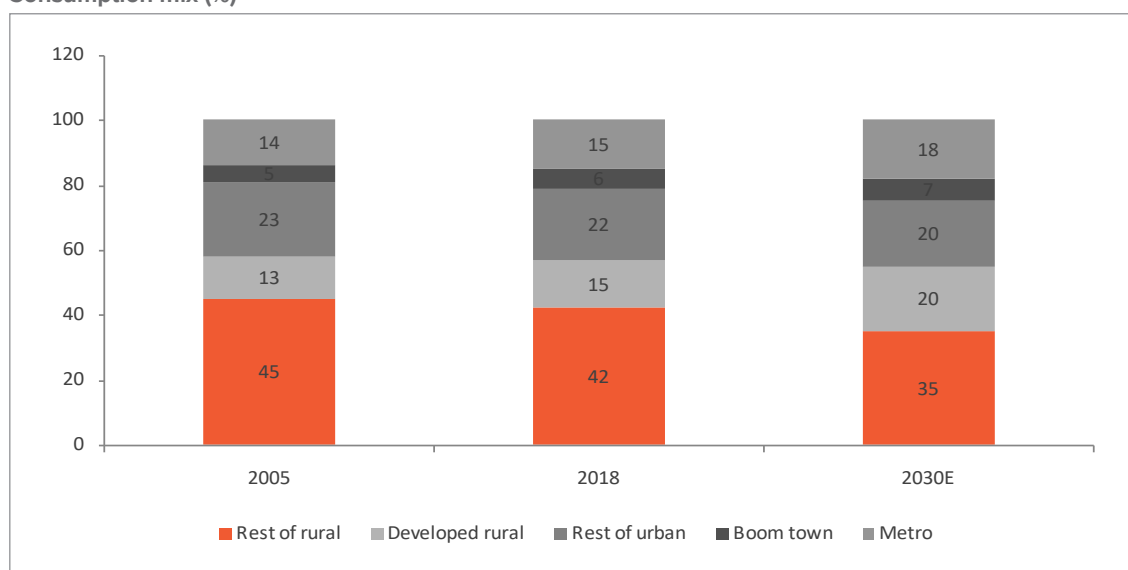
- o **India's young consumers, rapid urbanization to drive demand for branded products:** India will witness rise in generation z consumer which are tech-savvy, aspirational and desirous of engaging with brands across multiple channels. Moreover, with rapid urbanisation the consumption gap between rural and urban to narrow in the coming years..

Demographic mix (%)



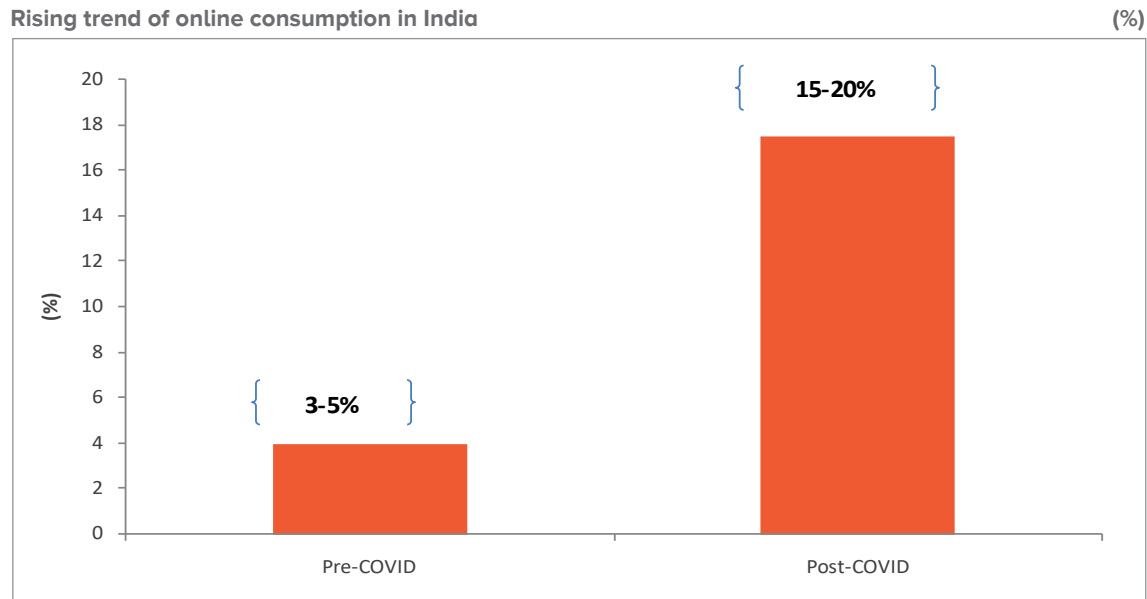
Source: Company, Sharekhan Research

Consumption mix (%)



Source: Company, Sharekhan Research

- o **Rise in online consumption for groceries and other products:** With increased access to smart phones and low data costs, shoppers now prefer an omni-channel shopping experience. Consumers opted to buy essentials and other products from home in a bigger way than they had done in the past few years. Mr.Sanjeev Goenka, Chairman of Spencer's Retail has stated that the Indian online grocery market could witness a robust growth of 76% and reach Rs22500 crore in CY2020. Most of the top retailers in India have seen online sales increasing to 15-20% of sales compared to 3-5% of sales earlier. Online retailers normally sales branded products through their platform which will give a boost sales of branded products in near term.



Source: Company, Sharekhan Research

Why we like TCPL – One of the strongest consumer goods companies in the domestic market

Tata Consumer Products (TCPL) is one of largest players in the branded tea space in domestic and international markets such as Europe and Canada. With merger of Tata Chemicals' consumer business, it has become a household name in India with strong portfolio of brands in branded tea, salt and pulses. Tata Tea is No. 2 brand in domestic branded tea market, while Tata Salt is the market leader in domestic branded salt market.

- ♦ **Large domestic consumer play post merger with TCL's consumer business:** TCL de-merged its consumer products business (including salt, spices, pulses and snacks) into TGBL. The combined entity was renamed as TCPL, which became one of the large domestic consumer plays with the revenue of India beverages and foods business standing close to Rs. 5,500 crore (with an OPM of 13.5%). The branded business will contribute 91% of revenues of the consolidated entity that will be worth more than Rs. 9,000 crore in business with an OPM of 12.8% (scope of 60-80 bps improvement in OPM). The company expects that the integration would result in an earnings accretion of 2-3% in the next 18-24 months.

Synergistic benefits of merging of TCL's consumer business with Tata Consumer Products

Key areas	Pre-Merger	Post-Merger	Comments
Categories	Tea, coffee and water	Tea, coffee, water, salt, pulses, spices and ready-to-cook	Becomes a complete household play. Demand for staples and food products have increased in pandemic environment due to higher in-house consumption. Q4FY2020 was strong; Q1FY2021 is expected to better for domestic business.
Brands	Tata Tea, Tetley, Eight O Clock & Himalayan	Tata Tea, Tetley, Eight O Clock, Tata salt, Tata Sampann & Himalayan	Portfolio expansion would help the company to post consistent growth in near to medium term. It would also help TCPL to gain better shelf space in the modern trade.
Salience of branded products	88% contribution	91% contribution	Increase in contribution from branded products would improve the revenue mix
Distribution reach	2.0 million outlets catering to 110 million domestic households	2.5 million outlets catering to 200 million domestic households	Distribution expansion is one of the key pillars of growth. TCPL will focus on continuously expanding the distribution reach
Salience of domestic business	48% Contribution	61% contribution	India business is consistently growing in the range of 6-8% and has better OPM in mid-teens compared to consolidate OPM. Expansion of product portfolio and entry into new categories would further improve the growth trajectory
Consolidated OPM	Standalone business (largely India) OPM stood at 12.8%; Consolidated OPM stood at 11.6%	Standalone business OPM stood at 14.1%; Consolidated OPM stood at 13.6%	Consolidated OPM is expected to improve by 60-80 bps on back of consistent improvement in revenue mix

Source: Company, Sharekhan Research

Pro-forma of combined entity

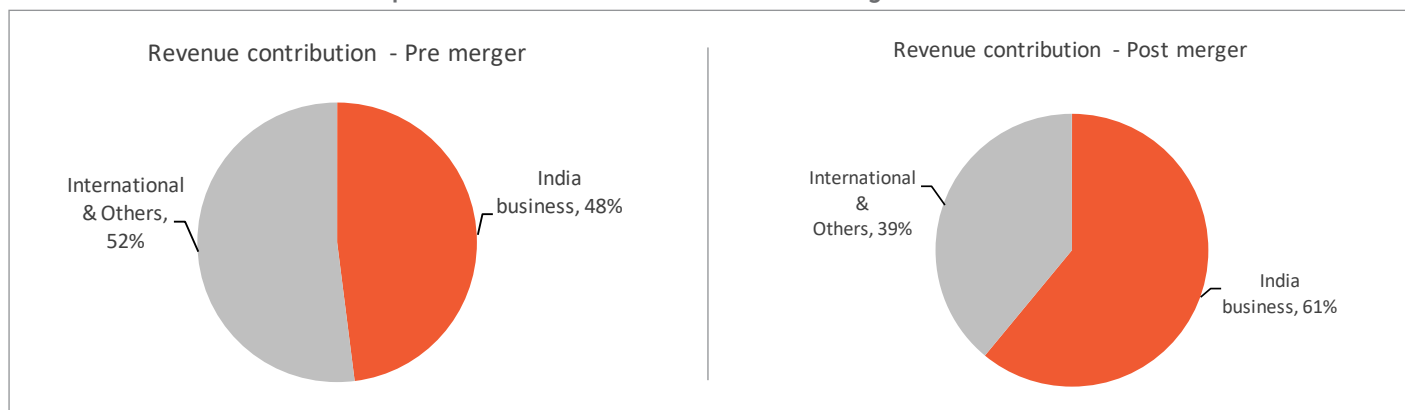
	Tata Global Beverages Limited		Consumer Products Business India - Branded	Combined	
	India - Branded	Total		India - Branded	Total
Revenue (INRcr)	3,160	7,252	1,847	4,978	9,099
EBITDA (INRcr)	490	838	316	806	1,154
EBITDA Margin (%)	15.5%	11.6%	17.1%	16.1%	12.7%
Net Profit (INRcr)		408	204 ⁽¹⁾		612
Net Cash /(Debt)		721	-		721

Source: Company

About the transaction

- o TCL demerged its consumer product business into TGBL (later renamed as TCPL) through an NCLT-approved scheme of arrangement in an all-equity transaction.
- o TCL's shareholders received 1.14 shares of TCPL for every one TCL share held and TCL shareholders hold 31.4% of the combined entity.
- o Post the transaction, Tata Global Beverages was renamed as Tata Consumer Products Ltd.
- o The salt manufacturing facilities, basic chemistry products and specialty product business remains with TCL.
- o A long-term supply agreement is in place; post-demerger, TCL continues to supply products for both the brands and sales and distribution is taken care by TCPL.
- o The deal was completed on February 07, 2020.
- ♦ **India business to become key revenue driver:** TCPL is one of the strong players in the domestic branded tea segment with a market share of ~20%. Tata Tea is the top brand in volume terms; and the second-largest brand in value terms. Leadership in the branded tea category is attributable to strong distribution network and strong portfolio with national & regional brands. It is a distinctive play in the coffee category through Tata Coffee Grand, while it is the number one brand in the premium bottled water category in India. TCPL's India beverages business has clocked a CAGR of 5% over FY2016-19 and has an OPM of 13.7%. Post the integration of TCL's consumer business, TCPL will be one of the leading consumer goods players with strong presence in categories such as tea, salt and water in the domestic market. TCPL's India business contribution go up to 61% (currently contributes 56%) from 48% in FY2019 and will be a key revenue driver for TCPL in the coming years. A sustained distribution enhancement; shift from non-branded to branded tea products and gaining market share from regional brands would help the tea business to maintain double-digit revenue growth momentum in the coming years. Tata Salt is a top brand in the branded salt space, reaching 143 million households. It has share of 25.2% in the domestic market. As ~60% of the market is branded, it provides lot of scope for Tata Salt to post better growth led by distribution enhancement. The pulses and spices market is worth ~Rs. 1,60,000 crore and Rs. 1,50,000 crore, respectively in India. However, these two segments have a branded product penetration of as low as 1% and 10%, respectively in the domestic market, providing huge scope for categories to grow in the coming years. Rising per capita income, increasing awareness of brands and increase in consumption through modern channels such as large retail stores/e-commerce would act as key revenue drivers for TCPL's branded pulses and spices business in India. Overall, we expect TCPL's India business to grow by 9-12% in the next 2-3 years.

Contribution of India business is expected to increase to 61% over the next 2-3 years



Source: Company. Sharekhan Research

TCPL India product portfolio



Source: Company

- ♦ **TCPL has leading positioning in most markets:** With a strong portfolio of brands, TCPL is the no.2 player in the global branded tea market. Tata Tea is the largest tea brand in India by volume whereas Tetley is the largest tea brand in Canada and the third largest tea brand in the UK. In terms of coffee, Eight' O Clock coffee is the fourth largest coffee brand in the US. The recently acquired Tata Salt is the number one salt brand in India whereas Tata Sampann is a leading national brand in pulses. Tata Coffee's finest estate luxury coffee, "Sonnets", has now been made available to consumers in India through the company's own online-platform. TCPL has been focusing on non-black teas such as cold infusions, fruit and herbal teas, specialty and decaf teas, especially in international markets to cater to the growing trend of consuming health and wellness products.

Leading positioning in most markets

Region	Brands	Market positioning	Market share
India			
Tea	Tata Tea Premium, TataTea Gold, Tata Tea chakra Gold & Tata Tea Agni	#1 in volume, #2 in value	20% market share in overall branded tea market.
Salt	Tata Salt	#1 in volume and value	25.2% market share in branded salt market; 62% of market is unorganised.
Water	Himalayan	#1 in natural mineral water	-
UK			
Tea	Tetley	#3 in black tea	22% market share in black tea segment; 18% market share in overall tea category and 5% share in fruit & herbal tea segment.
Canada			
Tea	Tetley	#1 tea brand	Overall 30% market share; 50% market share in black tea while share in speciality tea is 20%.
US			
Coffee	Eight o' Clock	#4 coffee brand	~6% share in coffee bag segment.

Source: Company, Sharekhan Research

Brand significance in key markets

Brand	Country	Comments
Tata Tea	India	#2nd most trusted beverage brand in India;
		1 in 3 Indian households use Tata Tea brand
Tata Tea Elaichi		Fastest growing brand in Tata Tea portfolio with significant share gain
Tata Tea Agni		Continues to drive double-digit value growth
Tata Tea Gold		Premium brand with revamp marketing
Tetley	40 countries (Including UK, Canada, India & USA)	45 million serving consumer every day in 40 countries
		#1 Speciality and black tea brand in Canada
		Brand has received recognition in most of the countries
Eight O Clock coffee	USA	E-commerce revenue grew >60% year over year (pre COVID-19), led by Amazon, Instacart and the corporate direct to-consumer site
Teapigs	UK	Maintained #1 super premium brand positioning in UK with a 67% market share

Source: Company, Sharekhan Research

Strong branded product portfolio

Tea portfolio caters to mass and premium

Tata Consumer Products		HUL		Others	
Black Tea	Per kg	Black Tea	Per kg	Black Tea	Per kg
Tata Tea Agni	220	Brooke bond Taaza	400	Society	460
Tata Tea Elaichi	250	Brooke bond Red label	470	Society Masala	520
Tata Tea Kanan Devan	263	Red Label Natural	520	Wagh Bakri	460
Tata Tea Teaveda	420	Brooke bond Taj Mahal	640	Girnar royal cup	440
Tata Tea Premium	430				
Tata Tea Gold	480				
Speciality Tea	pack of 25	Speciality Tea	pack of 25		
Tetley Green Tea	160	Litpon Green Tea	160		

Source: Company, Sharekhan Research

TCPL's strong presence in branded pulses space

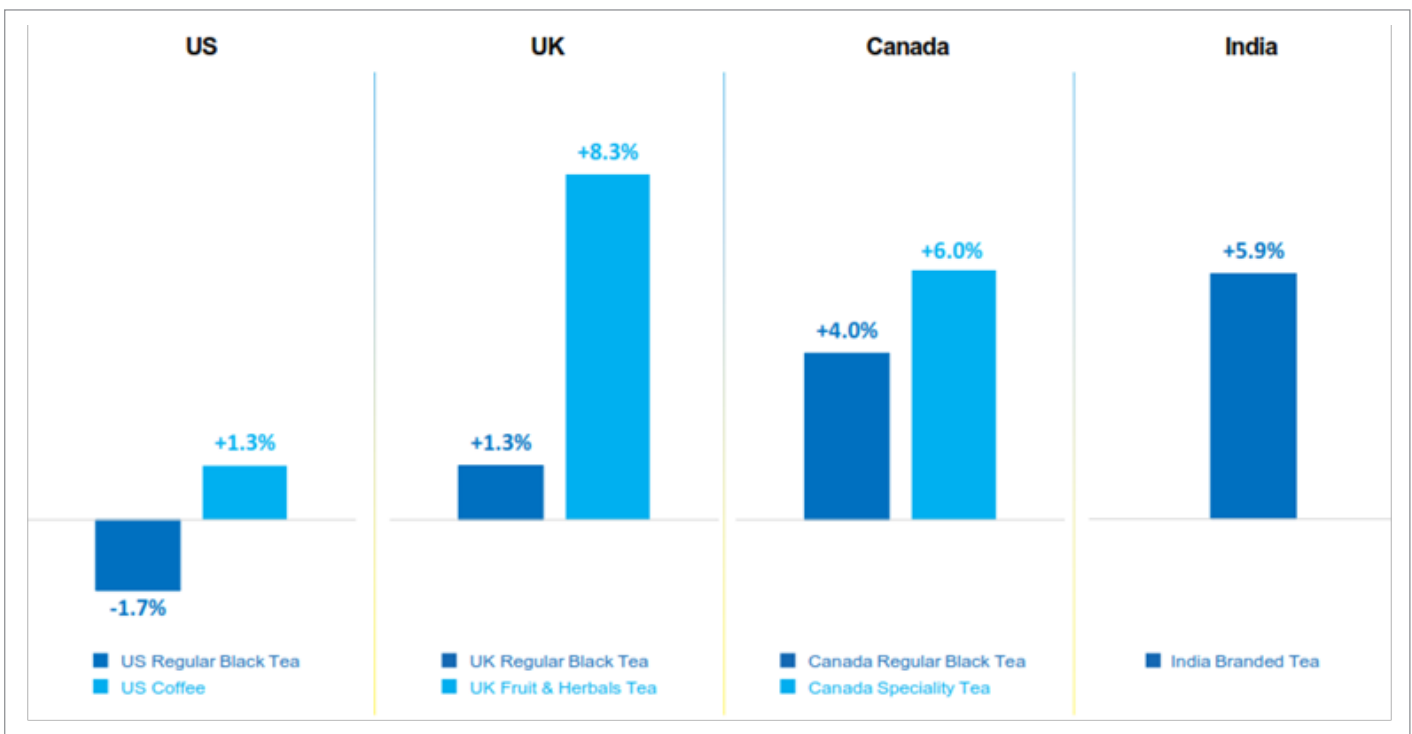
Pulse Type	D-Mart	Price/kg	Big Basket	Price/kg	Amazon	Price/kg
Moong Dal	Tata Sampann	Rs. 185	Tata Sampann	Rs. 180	Tata Sampann	Rs. 152
Tata Sampann	DMart Healthy Choice	Rs. 160	Safe Harvest	Rs. 130	Vedaka	Rs. 140
(MRP - Rs. 200/kg)	24 Mantra	Rs. 186	BB Royal	Rs. 160	24 Mantra	Rs. 220
	Organic Tattva	Rs. 200	BB Popular	Rs. 143.5		
	Satyam	Rs. 212				
Rajma	Satyam	Rs. 160	BB Royal	Rs. 150	24 Mantra	Rs. 210
Tata Sampann			Delight Foods	Rs. 300	Vedaka	Rs. 158
(MRP - Rs. 180/kg)			Safe Harvest	Rs. 162	Tata Sampann	Rs176
Chana Dal	Tata Sampann	Rs. 114	Tata Sampann (Unpolished)	Rs. 194	Vedaka	Rs. 100
Tata Sampann	Tata Sampann (Unpolished)	Rs170	Safe Harvest	Rs. 137.50	24 Mantra	Rs. 150
(MRP - Rs. 125/kg)	24 Mantra	Rs. 144				
Unpolished (Rs. 200/kg)	Satyam	Rs. 120				
	Organic Tattva	Rs. 152				
Tur Dal	Tata Sampann	Rs. 123	Tata Sampann	Rs. 128	Tata Sampann	Rs. 126
Tata Sampann	DMart Healthy Choice	Rs. 125	Safe Harvest	Rs. 130	Vedaka	Rs. 118
(MRP - Rs. 200/kg)	24 Mantra	Rs. 165	BB Royal	Rs. 125	24 Mantra	Rs. 169
	Organic Tattva	Rs. 192	BB Popular	Rs. 104	Organic Tattva	Rs. 149
					ASOP	Rs. 102
Urad Dal	Tata Sampann	Rs. 167	BB Royal	Rs. 135	Tata Sampann	Rs. 166
Tata Sampann	Organic Tattva	Rs. 184	BB Popular	Rs. 105	Vedaka	Rs. 140
(MRP - Rs. 185/kg)	Satyam	Rs. 244	Safe Harvest	Rs. 150	ASOP	Rs. 120
			Tata Sampann	Rs. 184	Pro Nature Organic	Rs. 253
Masoor Dal	Tata Sampann	Rs. 124	BB Royal	Rs. 105	Vedaka	Rs. 100
Tata Sampann	Satyam	Rs. 142	Tata Sampann	Rs. 131	Tata Sampann	Rs. 194
(MRP - Rs. 135/kg)	Organic Tattva	Rs. 144			24 Mantra	Rs. 170

Source: Company, Sharekhan Research

- ♦ **Specialty tea gaining good traction than regular tea in international markets:** Regular black tea continues to be largest category in the overall global tea market. However, it has been witnessing slow declining trend in the market such as the US and the UK. Regular black tea demand in Canada and India continues to grow in mid-single digit. Non-black tea (fruit & herbal, specialty, decaf, cold infusions, etc.) are witnessing strong growth in the International markets, led by shift in consumer preference for health & wellness products. Fruit and herbal teas, which account for ~25% of the US tea market is growing at around 6-7%. In the UK, fruit and herbal tea segment is growing at ~8.3%. Similar trend is developing in top metros such as Mumbai and Bangalore, etc in India with demand for green tea is gradually increasing due to growing consciousness towards health and hygiene.

Mixed performance across categories (in value terms)

Y-o-Y Growth (%)



Source: Company

Specialty tea sold in different markets

Western Europe



Source: Company

US & Canada



Source: Company

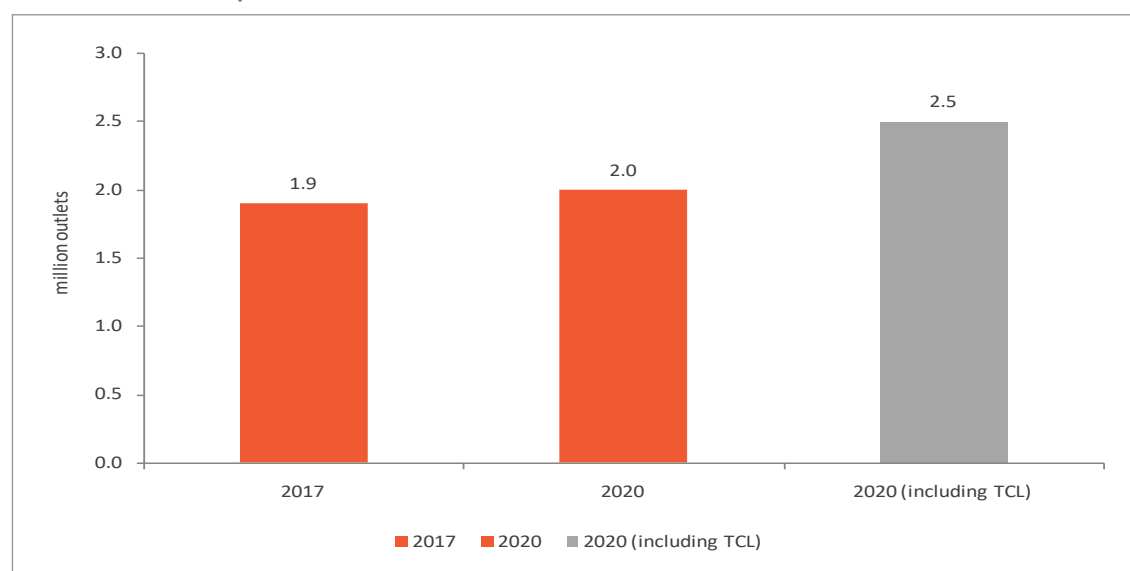
Australia



Source: Company

- ♦ **Distribution network to expand to 2.5 million outlets:** TCPL has a formidable distribution network across urban as well as rural geographies. The company's distribution network, including direct and indirect distributors, increased to 2 million outlets from 1.9 million outlets in FY2017. TCPL's India reach stood at 110 million households, whereas TCL's consumer business' India reach stood at 140 million households. With the integration of TCL's consumer business, the distribution network will expand to 2.5 million outlets and 5,000 stockists/distributors catering to more than 200 million households in the domestic market. The company is also working towards modernising its sales and distribution network through appropriate technology and make it future ready. Accordingly, the company has a 'Distribution Management System' in place which gives the company secondary sales data in real time which is helping the company to enable sales force through an automation tool that will increase productivity and enhance time spent on driving sales. Besides traditional distribution routes, the company is also focusing on modern trade, e-commerce and rural distribution.

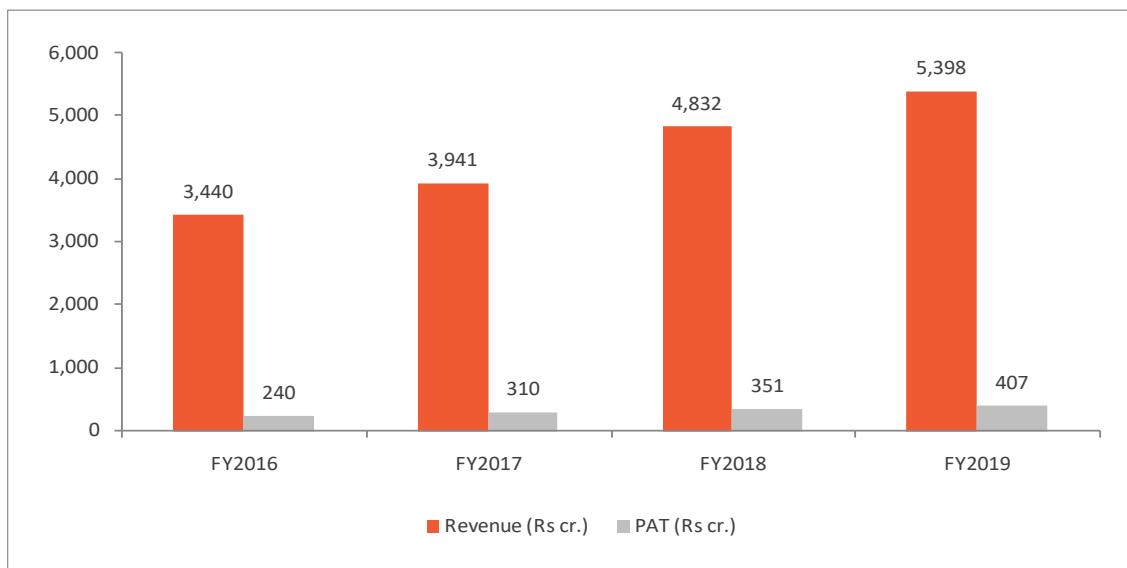
Distribution reach expanded to 2.5 million outlets



Source: Company, Sharekhan Research

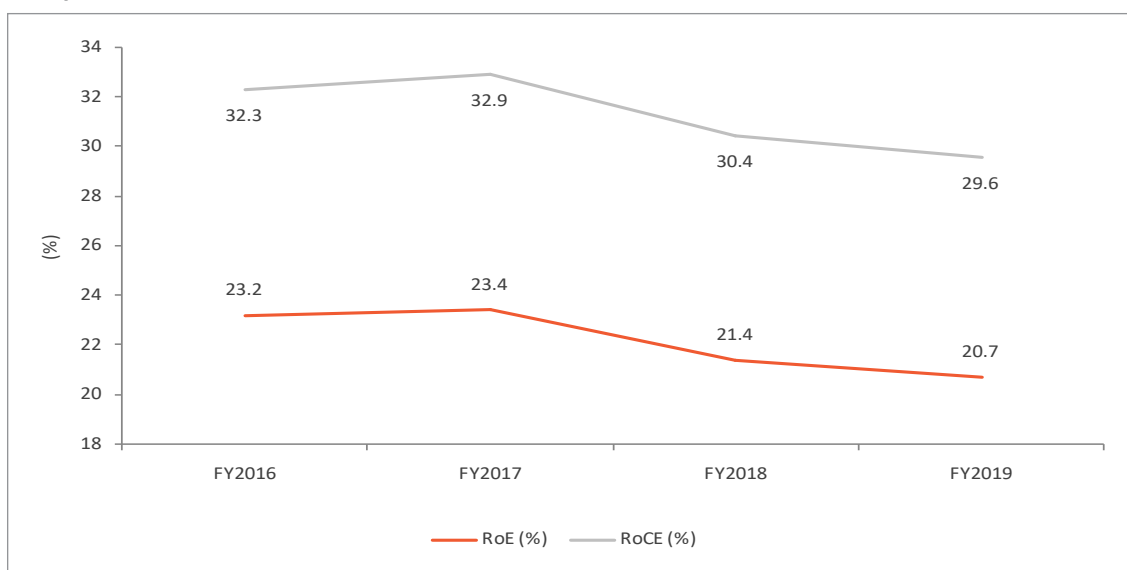
- ♦ **Change in leadership to help in forming sustainable growth strategies:** Mr. Sunil A. D'Souza has been appointed as the MD & CEO of TCPL for a period of 5 years (April 04, 2020 to April 03, 2025). Prior to joining TCPL, he was the MD of Whirlpool of India Limited (Whirlpool). Mr. D'Souza has over 25 years of experience in general management, strategy, sales, marketing and innovation in consumer driven industries, with Indian, international and multicultural experience. Before Whirlpool, Mr. D'Souza worked with PepsiCo Inc. for 15 years and held various senior level positions across various geographies. Under his leadership, Whirlpool clocked revenue and PAT CAGR of 16% and 19%, respectively over FY2016-19. Strengthening relationship with trade partners, significant expansion in the distribution reach, aggressive focus on volume growth and acceleration of pace of new product launches were some of the key focus areas of Mr. D'Souza, which helped Whirlpool post strong financial performance and healthy improvement in the return ratios in recent years.

Whirlpool revenue and PAT



Source: Company, Sharekhan Research

Whirlpool's return ratios



Source: Company, Sharekhan Research

TCPL also announced the appointment of Mr. Ajit Krishna Kumar as Chief Operating Officer. Ajit has a 20-year record of working with companies to execute many complex and high-value transactions across a range of industries. He was the Senior Vice President in the Chairman's office in Tata Sons, where he lead the Group strategy for the consumer businesses. Thus, strong parental background and vast experience of Mr. D'Souza and Mr. Krishna Kumar would aid TCPL to deliver sustained revenue and PAT growth in the near to medium term.

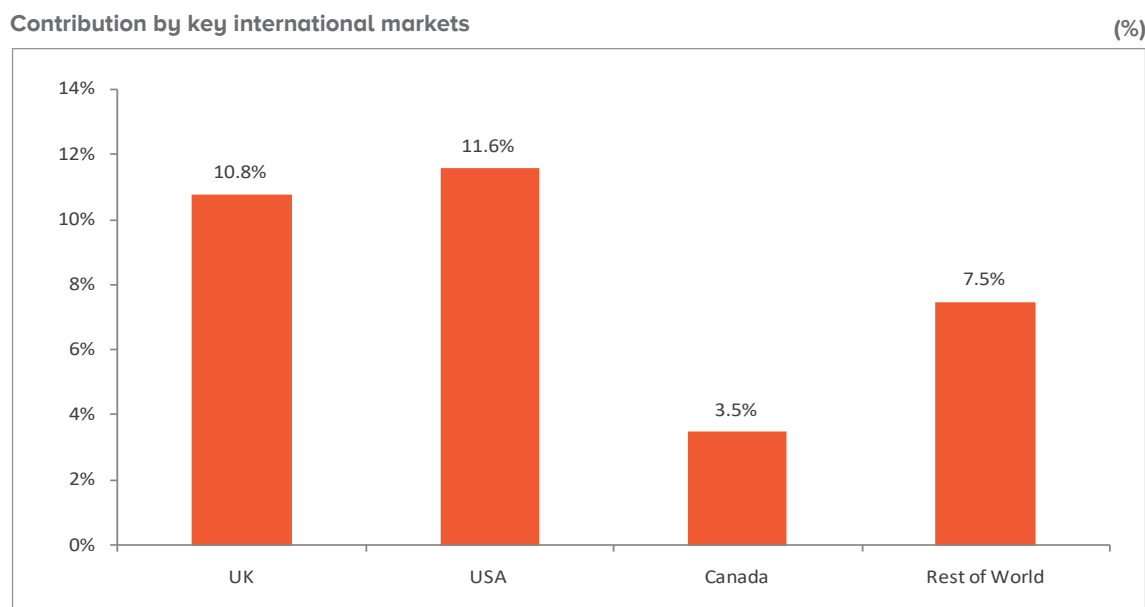
Key synopsis of Mr. Sunil D'Souza recent interview in annual report 2019-20

- ♦ **Merger of Beverages business with TCL's consumer business:** TCPL is the flag-bearer for the Tata group's aspirations in the FMCG space. The combination of the Foods business of Tata Chemicals and the Beverages business of Tata Global Beverages allows us to participate in opportunities spread across all three segments of the food and beverage consumer basket – in-the-kitchen, on-the-table and on-the-go.
- ♦ **Different strategies for different businesses:** Each of our businesses is well aligned to the overarching strategic objectives of the company. We are improving our regional play, encouraged by country specific revenue growth strategies, organic and inorganic opportunities, impactful marketing campaigns and promising innovation. Over the last few months, we have moved quickly across geographies, to adapt to changes in consumer trends and buying behaviour through our delivery channels and brand communication.
- ♦ **Adapting to digital platform:** We see digital transformation as a key driver for growth and we are strengthening our capability in this area, including a digital platform for commodity buying, enabling the entire supply chain from demand planning to procurement and embedding digital technology and decision-making at the frontline of the sales organisation. On the ground, we are innovating with new marketplace models. We have tied up with delivery providers and e-commerce partners to enable direct delivery to consumers. We are also accelerating our digital agenda to take advantage of the new world realities.
- ♦ **Focus on strengthening ready-to-drink business:** We are focusing on strengthening our ready-to-drink beverages portfolio. We are in the process of acquiring PepsiCo's stake in NourishCo Beverages Limited. We will look to scale up NourishCo's capabilities and footprint further and build a differentiated portfolio in this segment.
- ♦ **Tackling with pandemic:** Our planning for scenarios beyond the current situation is well underway and we should be well prepared as the future unfolds. There have been significant changes in consumer beliefs, habits and buying patterns during the pandemic and the recent lockdowns. As consumers emerge from this and adapt to a new normal, some of the changes will stick. The key is to keep close to the consumer and quickly adapt to the changes to make sure we stay in the relevant basket.

Source: Company Sharekhan Research

- ♦ **International businesses - US, UK and Canada remain key:** TCPL has re-defined its strategy for its international business by focusing more on three key regions (including the US, Canada and the UK) and exiting from loss making businesses. In view of this, it has recently sold 100% stake in its loss-making Czech Republic subsidiary for Rs. 31 crore. TCPL is the third-largest player in the tea category with two brands – Tetley and Teapigs in the UK (contribute ~11% to overall revenue). It has over 22% share in the black tea segment and 18% share in the overall tea market. Teapigs is the UK's most premium tea brand with an over 5% share in the fruit & herbal tea segment. The conventional black tea market is highly matured in the UK (growing in single digits) and hence the company is focusing on non-black tea segment (supers, squash and cold infusions) and is likely to add new products in this space in the near term. In the US, the company is present in the highly competitive coffee space (bags and K-cups) with its Eight O' Clock brand. It has ~6% market share in the bags segment. FY2019 was the first full year of transition in US, for Eight O' Clock coffee pods, from a royalty agreement with Keurig to TCPL controlling the majority sales channels. This was in line with TCPL's strategy of restructuring its international businesses to improve the long-term growth prospects. In Canada, TCPL is the market leader in overall tea category with a market share of

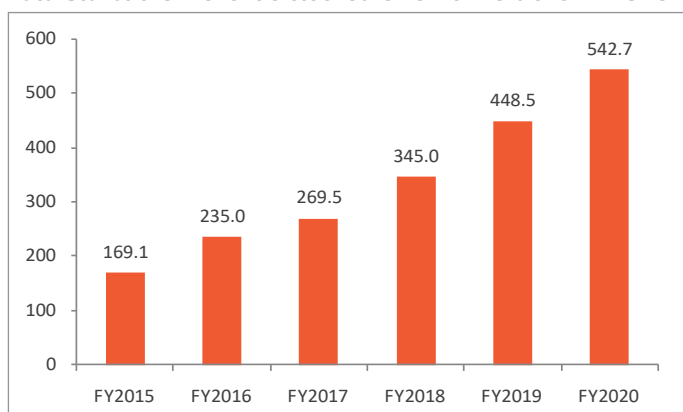
~30% (market share in black tea is ~50% while share in specialty tea is 20%). It has a presence through three mainstream brands Tetley, Tata Tea (Black & Green) and Teapigs (specialty tea). TCPL also has presence in markets such as Australia, Middle East and West Europe. Its international business revenue grew at CAGR of 2% over FY2016-19. Rising demand for specialty products, innovations and distribution expansion would help TCPL's international business to grow by 5-6% in the near to medium term.



Source: Company, Sharekhan Research

- ♦ **Out-of-home consumption: Momentum likely to recover from FY2022:** Out-of-home consumption which constitutes around 30% overall food market in India is badly affected by COVID-19. Closure of stores due to the lockdown, lesser tendency of eating out due to social distancing norms and work-from-home concept has impacted the sales of out-of-home categories and dine-out in restaurants.
- **Tata-Starbucks JV – focus on becoming a profitable venture:** Tata-Starbucks is a 50:50 joint venture (JV) between TCPL and Starbucks Corporation. The retail coffee venture is doing extremely well in India, with revenue clocking a CAGR of 28% over FY2016-20 to Rs. 530.6 crore in FY2020. Strong growth is attributed to consistent store additions in key cities and better same-store-sales in some matured stores. The Tata-Starbucks JV has 185 stores under operations in 10 cities. Most stores have a break-even at EBIDTA level and are cash positive. FY2018 was the first year in which the JV posted a profit of Rs. 0.3 crore at EBIDTA level. The JV will continue to add stores (largely in urban markets) and will focus on improving the store fundamentals. Easing competitive intensity from one of the key players provides a huge opportunity for Tata-Starbucks to expand its reach in the domestic retail coffee space. Further the JV has recently introduced meal options such as #BreakfastAtStarbucks at Rs. 399. It has introduced initiatives such as fully eliminating single-use plastic from consumables and in-store secondary packaging. Though FY2021 is expected to be one-off year, we expect the venture to deliver strong revenue growth in the medium to long run with newer initiatives on cards. The business' profitability will improve with increase scale of business in the coming years.

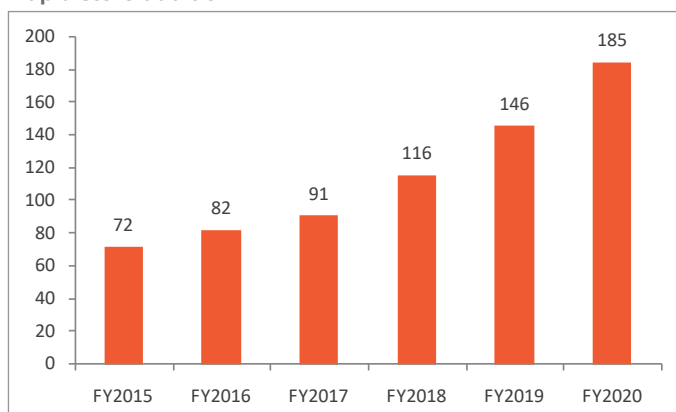
Tata-Starbucks - revenue clocked CAGR of 26% over FY15-19



Source: Company, Sharekhan Research

Revenue Rs (Cr)

Rapid store addition

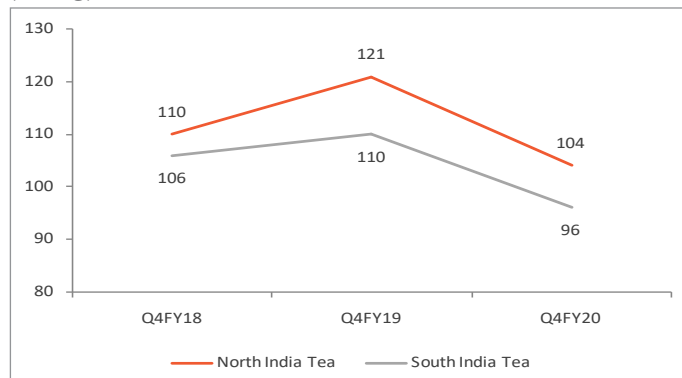


Source: Company, Sharekhan Research

- **NourishCo to drive the non-carbonated beverage space:** NourishCo Beverages (NourishCo) is engaged in the marketing and distribution of branded non-carbonated beverage products such as Tata Gluco Plus (TGP), Tata Water Plus and Himalayan. TGP continues to show strong growth momentum aided by sustained media investment. TCPL acquired entire stake of PepsiCo in NourishCo along with the rights over TGP recently for a consideration of Rs. 29 crore. As a part of the deal, the company will receive supply of concentrate for five years as well as R&D support for three years from PepsiCo. Under the new management, a lot of products are expected to come under near to medium to tap opportunity in the non-carbonated drinks space.
- ◆ **Key subsidiaries' performance**
 - **Tata Coffee - Vietnam facility to improve business fundamentals:** Tata Coffee (TCPL holds a 57.5% stake) is one of the largest integrated coffee plantation companies in the world. It is engaged in processing and manufacturing of instant coffee, coffee beans, tea and pepper. It has recently forayed into overseas production with a freeze-dried coffee plant in Vietnam with a annual capacity of 5,000 metric tonnes (MT), which is now operating at ~80% capacity utilisation. The facility reported highest quarterly sales of ~1,050 MT. Tata Coffee reported a 12% revenue growth and OPM of 15% in Q4FY2020. For FY2020 Tata coffee registered volume growth of 14%. Vietnam operations continued to improve with healthy sales to key customers while Eight O' Clock (EOC) coffee posted strong profitability due to higher volumes which will have positive impact on Tata Coffee's consolidated performance.
 - ◆ **Synergistic benefits to drive margins along with lower coffee prices:** Post the merger of TCL's consumer business, TCPL's OPM improved by 260 bps in FY2020. The merger-led margin expansion was ~150 bps, while organic margin expansion stood at ~100 bps, mainly on account of lower commodity prices and operating efficiencies. Tea prices in India and Kenya have seen a dip largely due to oversupply from the small growers over the last two years. However, they have risen in the recent months due to temporary supply disruption due to COVID-19. Industry experts believe that once supply normalises, tea prices are expected to stabilise. Top companies such as HUL and TCPL has taken price increase in the 10-15% to pass on the recent sharp increase in the domestic tea prices in past few months. On the other hand, coffee prices continue to show declining trend (especially for Robusta). Thus, for FY2021 we expect gross margins to improve by 89 bps (also aided by synergistic benefits driven through the merger of TCL's consumer business). Lower sales volumes would result in consolidated OPM to marginally improve to 13.6%. However, we expect OPM to improve by ~70 bps in FY2022 to 14.3% (gross margins to improve by 50 bps y-o-y). The company is targeting an OPM to reach ~15% by FY2023.

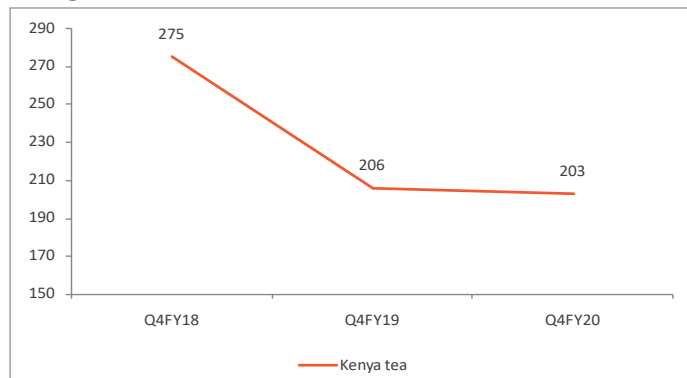
Key input prices are showing a declining trend

(Rs./Kg)



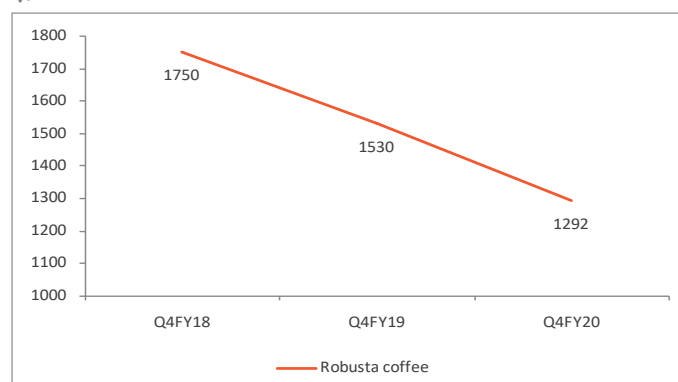
Source: Company, Sharekhan Research

\$C/Kg



Source: Company, Sharekhan Research

\$/MT

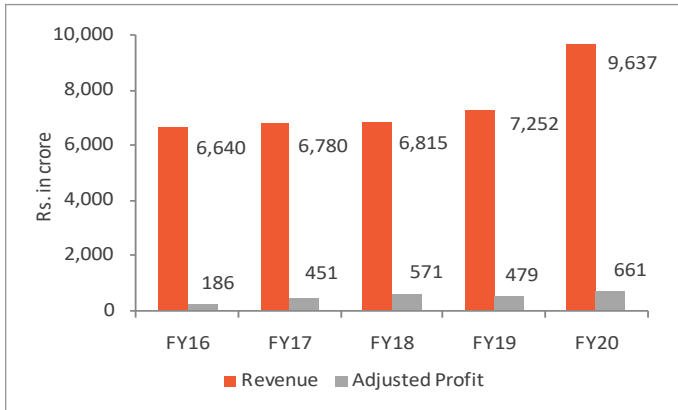


Source: Company, Sharekhan Research

- ♦ **Strong performance in Q4FY2020; momentum likely to sustain in Q1FY2021:** TCPL registered strong performance in Q4FY2020 on a comparable basis despite the lockdown since the fag-end of the quarter in domestic and international markets. Comparable revenue and EBITDA grew by 6% and 29% in Q4 on the back of 6% and 7% growth in the India and international beverage business, respectively. Volumes for the India business grew by 5%. India foods business grew by 9% during the quarter driven by overall volume growth across all segments of food. Gross margins expanded by 22 bps to 45.5% owing to lower commodity costs and operating efficiencies drove up OPM by 301 bps to 12.8%. Revenue of the US and Canada business grew by 15% and 20%, respectively whereas the UK business reported market share gains. Q1FY2021 is expected to be another strong quarter with revenues and PAT expected to grow by 33% and 17% largely driven by strong in-house consumption (OPM expected to stand at 14.3%).
- ♦ **Strengthening balance sheet with improving cash flows:** TCPL's working capital cycle improved to 36 days in FY2020 and is expected to remain stable in the coming years. Operating cash flows (OCF) increased to Rs. 1316 crore in FY2020 from Rs. 377.7 crore in FY2019 while free cash flow (FCF) improved to Rs. 711 crore in FY2020 from negative Rs. 103 crore from FY2019. With the merger of TCL's high-margin consumer business, operating cash flows are expected to improve further. Return ratios have improved over FY2016-20 with RoE and RoCE standing at 7% and 8.8%, respectively in FY2020 from 3% and 7.3%, respectively in FY2016. Moreover, they are expected to improve on back of strong growth in profitability and reduction in debt in the coming years. TCPL has been consistent in payment of dividends over the years with an average dividend payout ratio of 39.4% over FY2018-20.
- ♦ **Limited impact of COVID-19 due to essential category products:** Post relaxation of lockdown norms, all factories have become operational and domestic tea packaging units, salt/pulses packaging centres and 3P spices units are operational with prescribed operating norms. All the warehouses are now operational with a few operating with limited working hours and manpower. Finished goods stock holding across depots is healthy. All international operations have been running flat and consumption level has increased due to increase in in-house consumption. To enable delivery to consumers, the company has tied up with e-commerce and food delivery providers. All tea/coffee plantations have also begun operations. ~60 Tata Starbucks stores have opened up for delivery/takeaway post the relaxation of lockdown. Since then, domestic facilities are operating at near-normal and have a good inventory of finished products and a large part of its product portfolio is essential in nature, the impact of COVID-19 will be limited for TCPL.

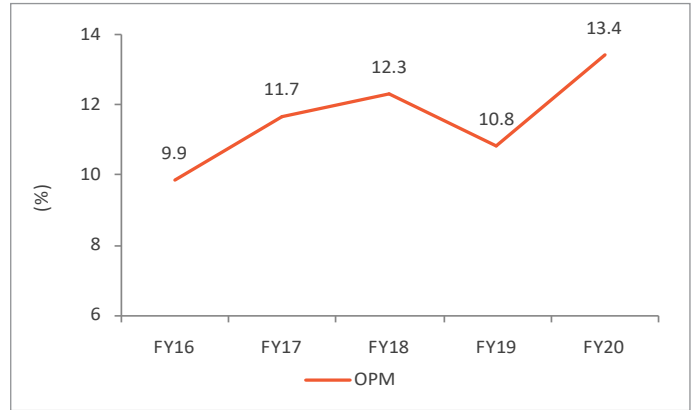
Financials in charts

Revenue and PAT grew by 10% & 37% over FY2016-20



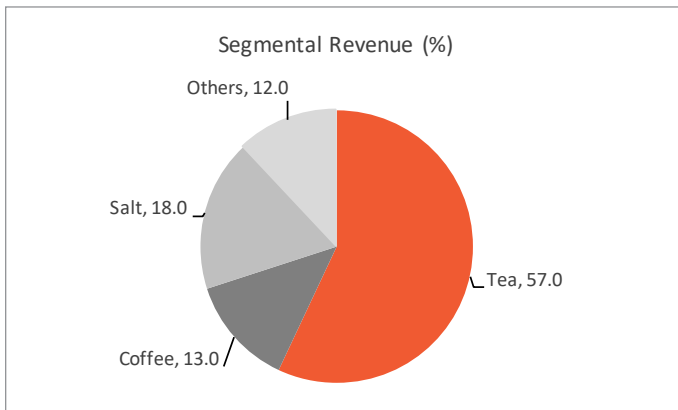
Source: Company, Sharekhan Research

OPM improved to 13.4% in FY2020



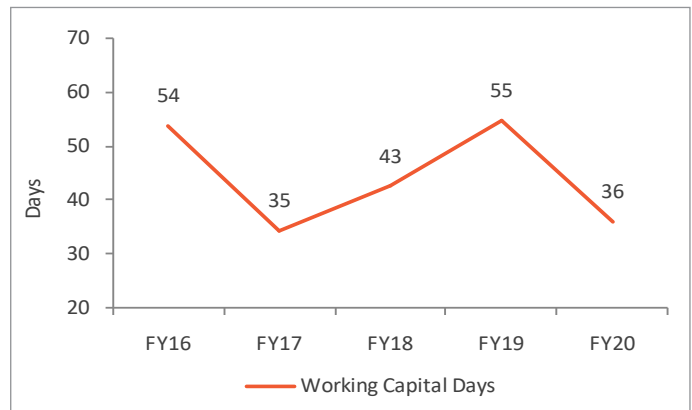
Source: Company, Sharekhan Research

Tea is the highest revenue contributor



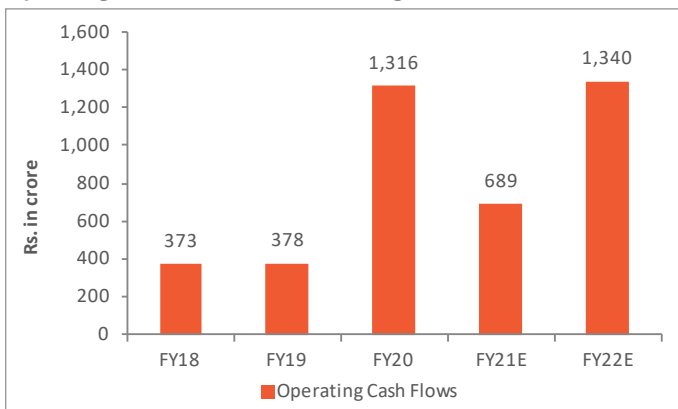
Source: Company, Sharekhan Research

Stable working capital cycle



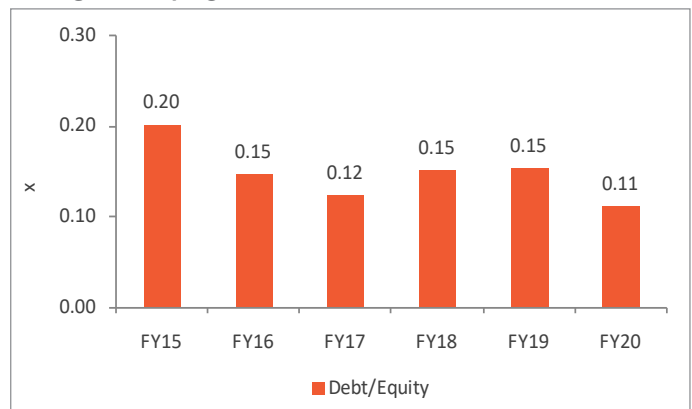
Source: Company, Sharekhan Research

Operating cash flows to remain strong



Source: Company, Sharekhan Research

Strong debt/equity ratio



Source: Company, Sharekhan Research

Valuations are premium, but justified

TCPL is currently trading at 37.0x its FY2022 earnings, which is at a premium to its historical average multiples but lower than some of the large consumer goods stocks. Synergistic benefits of merger in the form of portfolio and distribution expansion, new leadership focusing on improving return profile and strong parental support has turnaround the prospects for TCPL, which was earlier posting volatile performance due to large portfolio of commoditised beverage categories in matured consumer markets.

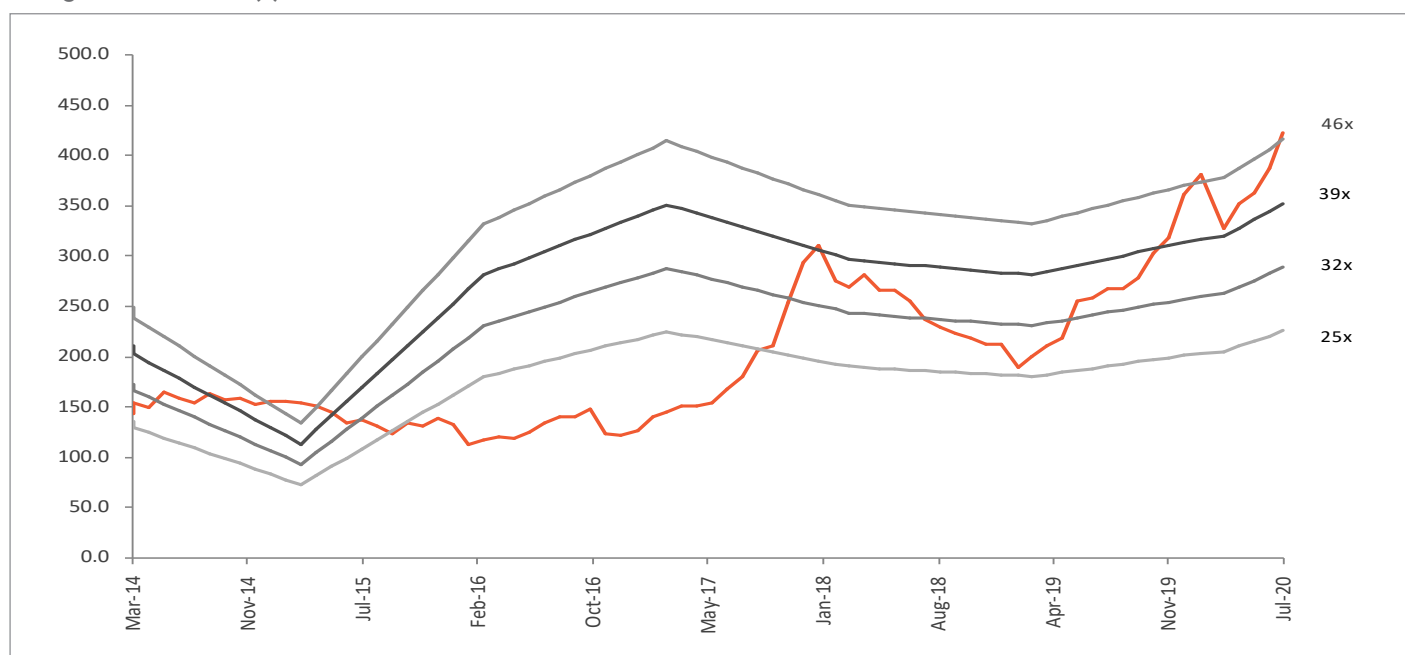
Outlook

Focus on delivering steady earnings growth in the medium to long term: The merger of Tata Chemicals' consumer business resulted strong build of essential portfolio with product such as pulses, tea, coffee, salt and water. Leveraging on strong portfolio, the company under the leadership of Mr. Sunil D' Souza is focusing on consistent profitable growth in the India business. The company is tapping the rising opportunity in the 'in-the-kitchen' segment, which is expected to grow in double digits due to rising trend of in-house consumption. In the international markets such as the UK and Canadian herbal and specialty tea segments is gaining good traction and clocking high single-digit growth of 6-8%. Tetley products in these segments are gaining good traction. Further, high margins of food business would help in consolidated operating margins inching ~15% in the next 2-3 years.

Valuation

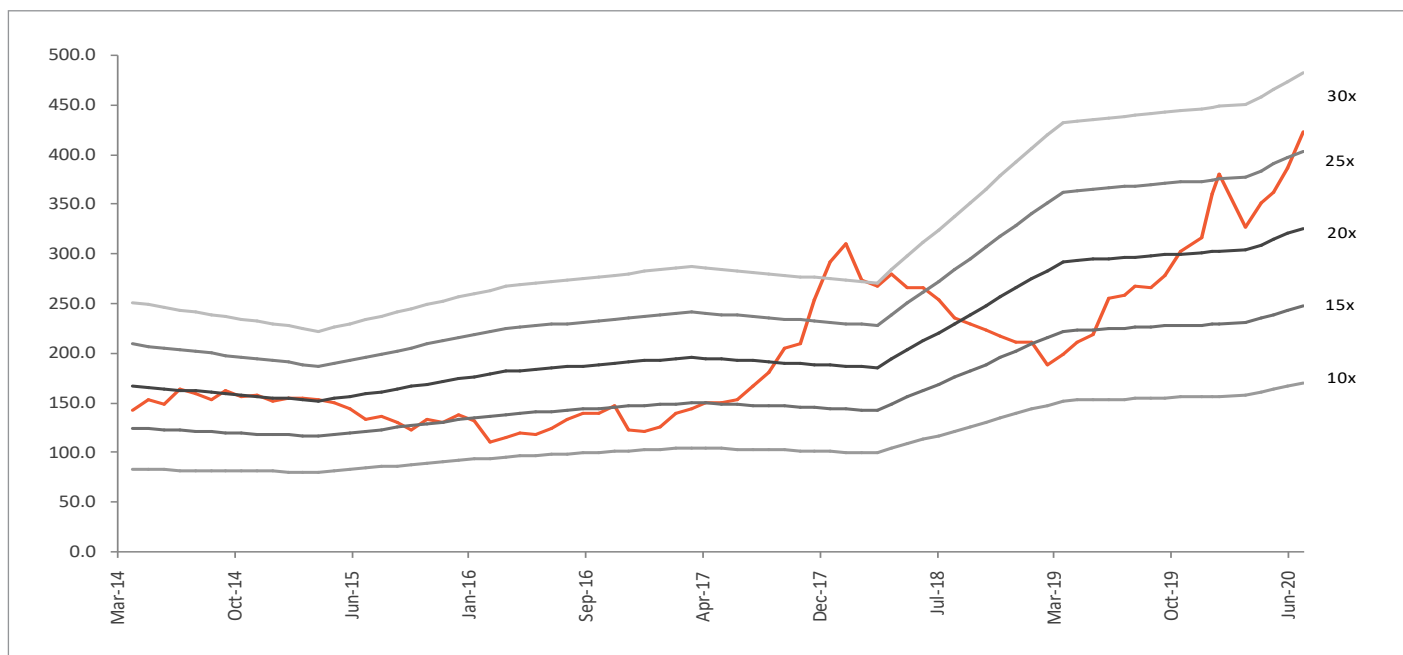
Initiate with Buy assigning a Price Target of Rs. 484: The integration of TCL's consumer business with TCPL heightens sustainable revenue and PAT growth visibility owing to multiple growth levers. We expect consolidated revenue and earnings to clock a CAGR of 10% and 20% over FY2020-23E. The stock is currently trading at 37x its FY2022E earnings, which is at a premium to its historical average but trading at discount to large consumer goods companies. The revamped management has enhanced its focus on delivering profitable earnings growth by leveraging upon expanded product portfolio and improvement in return ratios in the coming years, which has improved the earning visibility and will keep valuations at premium in the near term. We initiate our coverage on TCPL with a Buy recommendation and price target (PT) of Rs. 484 (valuing the stock at 44x its FY2022E earnings).

One year forward P/E (x) band



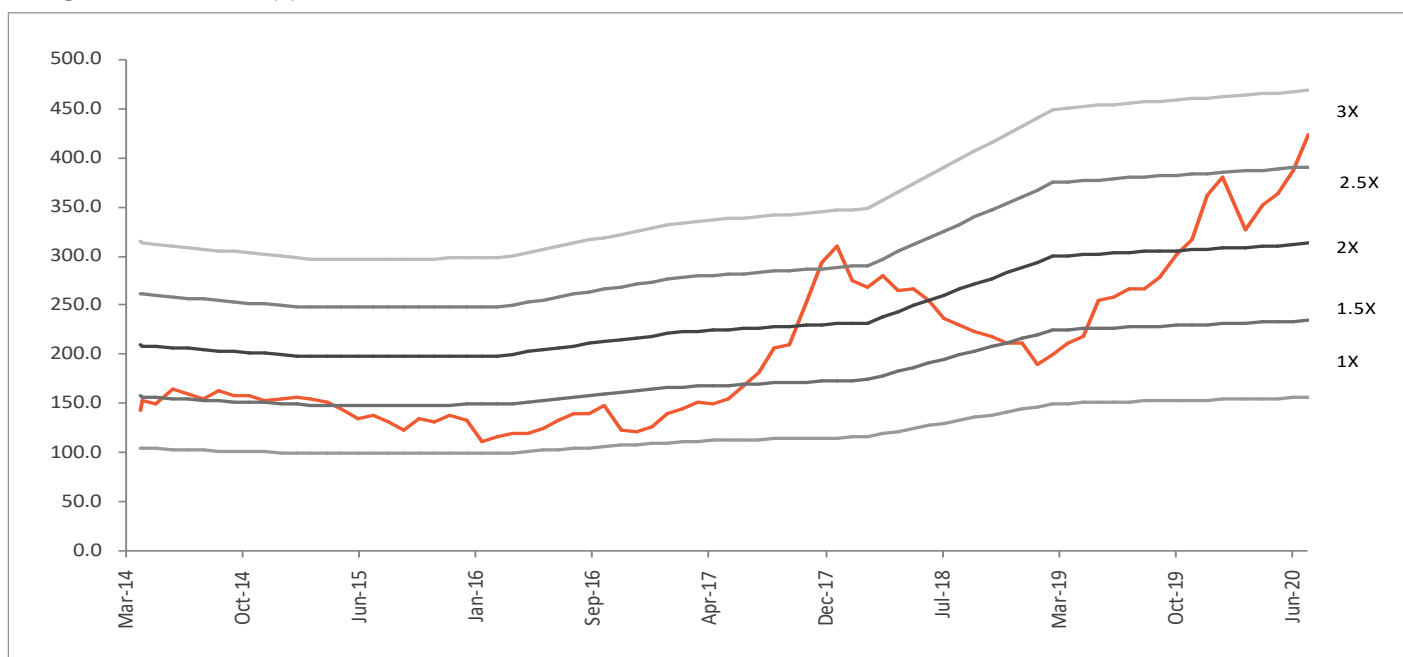
Source: Company; Sharekhan Research

One-year forward EV/EBIDTA (x) band



Source: Company; Sharekhan Research

One-year forward P/BV (x) band



Source: Company; Sharekhan Research

Peer valuation

Particulars	P/E (x)			EV/EBIDTA (x)			RoCE (%)		
	FY20	FY21E	FY22E	FY20	FY21E	FY22E	FY20	FY21E	FY22E
Britannia Industries	65.3	50.6	43.5	50.9	39.7	34.4	35.2	36.4	35.5
Nestle India*	101.0	84.5	76.1	61.7	57.7	53.1	70.3	96.9	137.0
Tata Consumer Products	56.4	45.6	36.8	27.4	24.6	20.9	9.0	7.7	9.0

Source: Company; Sharekhan estimates, *Values for Nestle India are for CY2019, CY2020E and CY2021E

Financials

Statement of Profit and Loss

Rs cr

Particulars	FY2019	FY2020	FY2021E*	FY2022E*	FY2023E*
Total Revenue	7251.5	9637.4	10350.9	11445.3	12692.9
Raw Material Cost	4007.6	5410.7	5718.9	6266.3	6936.7
Employee Cost	806.3	884.8	1035.1	1201.8	1294.7
Other Expenses	1651.7	2049.8	2189.2	2346.3	2551.3
Total Operating Cost	6465.6	8345.3	8943.2	9814.3	10782.6
Operating Profit	785.9	1292.2	1407.7	1631.0	1910.3
Other Income	157.1	111.6	140.5	165.8	155.4
Interest & Other Financial Cost	52.5	77.9	59.9	48.2	23.7
Depreciation	122.6	241.7	273.4	295.4	322.9
Profit Before Tax	768.0	1084.2	1215.0	1453.2	1719.1
Tax Expense	271.9	348.4	328.0	392.4	464.2
Adjusted PAT before MI	496.1	735.8	886.9	1060.9	1254.9
Minority Interest/Profit from Associates	-16.9	-75.1	-70.0	-50.0	-50.0
Adjusted PAT after MI	479.3	660.7	816.9	1010.9	1204.9
Exceptional Items	-22.3	-200.6	0.0	0.0	0.0
Reported PAT	457.0	460.1	816.9	1010.9	1204.9

Source: Company, Sharekhan estimates

*FY2021E, FY2022E and FY2023E estimates include the consumer business of TCL

Balance Sheet

Rs cr

Particulars	FY2019	FY2020	FY2021E*	FY2022E*	FY2023E*
Equity Capital	63.1	92.2	92.2	92.2	92.2
Reserves & Surplus	7268.6	13722.7	14206.9	14774.0	15535.3
Net Worth	7331.7	13814.9	14299.0	14866.2	15627.4
Deferred Tax Liabilities (Net)	87.4	316.0	316.0	316.0	316.0
Minority Interest	1027.7	1092.5	1125.2	1159.0	1193.8
Total Borrowings	1116.9	1138.5	1038.5	338.5	338.5
Capital Employed	9563.7	16361.9	16778.8	16679.8	17475.8
Net Block	808.8	1501.0	837.6	792.3	719.4
Capital WIP	424.4	95.4	95.4	95.4	95.4
Intangible Assets	4052.9	10104.5	10104.5	10104.5	10104.5
Investment	1239.3	1372.9	1441.5	1513.6	1589.3
Current Assets	4355.3	5428.8	6571.9	6669.2	7719.2
Inventories	1609.9	1712.0	1985.1	2132.3	2364.7
Sundry Debtors	680.6	922.4	1134.3	1097.5	1217.1
Cash and Bank Balance	967.0	1122.1	1262.8	770.8	1576.9
Fixed Deposits with Bank	66.6	499.8	900.0	1250.0	1000.0
Loans & Advances	262.1	344.5	378.9	416.8	458.5
Other Current Assets	769.2	828.0	910.8	1001.9	1102.1
Less: Current Liab. & Provisions	1317.0	2140.7	2272.1	2495.3	2752.1
Trade Payables	664.9	944.0	955.8	1047.2	1159.3
Other Current Liabilities & Provisions	652.1	1196.7	1316.4	1448.0	1592.8
Net Current Assets	3038.3	3288.1	4299.8	4174.0	4967.1
Miscellaneous expenditure	0.0	0.0	0.0	0.0	0.0
Net Assets	9563.7	16361.9	16778.8	16679.8	17475.8

Source: Company, Sharekhan estimates

*FY2021E, FY2022E and FY2023E estimates include the consumer business of TCL

Cash Flow Statement

Rs cr

Particulars	FY2019	FY2020	FY2021E*	FY2022E*	FY2023E*
Operating cash flow before working capital changes	618.7	977.5	1160.3	1356.2	1577.8
Changes in working capital	-241.0	338.5	-470.8	-16.2	-237.1
Cash flow from operating activities	377.7	1316.0	689.5	1340.0	1340.7
Cash flow from investing activities	-315.2	-1449.3	-78.9	-672.1	-75.7
Cash flow from financing activities	-29.0	288.4	-470.0	-1159.9	-458.9
Net change in cash and cash equivalents	33.5	155.1	140.6	-492.0	806.1
Opening cash balance	933.5	967.0	1122.1	1262.8	770.8
Closing cash balance	967.0	1122.1	1262.8	770.8	1576.9
Free Cash Flows (FCFF)	-103.2	711.2	1079.5	1090.0	1090.7
Free Cash Flows to Equity (FCFE)	-42.5	732.8	979.5	390.0	1090.7

Source: Company, Sharekhan estimates

*FY2021E, FY2022E and FY2023E estimates include the consumer business of TCL

Key Ratios

Particulars	FY2019	FY2020	FY2021E*	FY2022E*	FY2023E*
Margins (%)					
GPM	44.7	43.9	44.8	45.3	45.4
OPM	10.8	13.4	13.6	14.3	15.1
NPM	6.3	4.8	7.9	8.8	9.5
Tax rate	35.4	32.1	27.0	27.0	27.0
As a percentage of revenue (%)					
Raw Material Cost	55.3	56.1	55.3	54.8	54.7
Employee Cost	11.1	9.2	10.0	10.5	10.2
Other Expenses	22.8	21.3	21.2	20.5	20.1
Financial ratios					
Debt / Equity (x)	0.2	0.1	0.1	0.0	0.0
Inventory days	81	65	70	68	68
Debtor days	34	35	40	35	35
Payable days	61	64	61	61	61
Working capital cycle	55	36	49	42	42
Adjusted EPS (Rs.)	5.2	7.2	8.9	11	13.1
Cash EPS (Rs.)	9.8	10.6	12.6	14.7	17.1
Dividend Per Share (Rs.)	2.5	2.7	3	4	4
Dividend Payout Ratio (%)	39.6	45.3	40.7	43.9	36.8
Book Value Per Share (Rs.)	116.2	149.9	155.2	161.3	169.6
RoNW (%)	6.9	7	6.3	7.3	8.2
RoCE (%)	8.8	9	7.7	9	10.2
Valuation ratios					
CMP (Rs.)	405	405	405	405	405
P/E (x)	53.3	56.5	45.7	36.9	31
Mcap (Rs. crore)	25560	37325	37325	37325	37325
Market cap / Sales (x)	3.5	3.9	3.6	3.3	2.9
Enterprise Value (Rs. crore)	24404	35469	34759	34129	33497
EV / Sales (x)	3.4	3.7	3.4	3	2.6
EV / EBIDTA (x)	31.1	27.4	24.7	20.9	17.5
Price / Book value (BV)	3.5	2.7	2.6	2.5	2.4
Dividend Yield (%)	0.6	0.7	0.7	1	1
Growth ratios (%)					
Revenue	6.4	32.9	7.4	10.6	10.9
Operating profit	-6.3	64.4	8.9	15.9	17.1
Profit before tax	-0.8	41.2	12.1	19.6	18.3
Adjusted PAT	-16	37.9	23.6	23.7	19.2
EPS	-16	37.9	23.6	23.7	19.2

Source: Company, Sharekhan estimates

*FY2021E, FY2022E and FY2023E estimates include the consumer business of TCL

About company

TCPL is the world's second-largest branded tea player in the world with a strong portfolio of brands such as Tata Tea, Tetley, Eight O' Clock coffee and Himalayan (mineral water brand). Recently, the company has announced the merger of TCL's consumer business with TCPL to expand its India business, the contribution of which will increase to ~61% from 48% currently. TCPL has a very vast presence in international geographies such as UK, US, Canada, South Asia and Africa through various subsidiaries. NourishCo markets and distributes branded non-carbonate beverage products such as Tata Gluco Plus (TGP), Tata Water Plus and Himalayan. TCPL has a 50:50 joint venture with Starbucks Corporation named Tata Starbucks Private Limited which is performing well.

Investment theme

After the integration of TCL's consumer business with TGBL, the India business is expected to become a key revenue driver for the company. Rising per capita income, increasing awareness of brands and increase in in-house consumption and consumption through modern channels such as large retail stores/e-commerce would act as key revenue drivers for the branded pulses and spices businesses in India in addition to the consistently growing tea business. Along with margin expansion, innovation and diversification, the merger will help TCPL to expand its distribution network. An enhanced product portfolio and expanded distribution reach would help India business revenue to grow by 9-12% in the next two-three years as against a 5% CAGR over FY2016-20.

Key Risks

Sustained slowdown in the domestic consumption; heightened competition from new players and spike in the key input prices would act as a key risk to our earnings estimates in the near term.

Additional Data

Key management personnel

N. Chandrasekaran	Chairman
Sunil D'Souza	Managing Director & CEO
John Jacob	Chief Financial Officer
Neelabja Chakrabarty	Company Secretary

Source: Bloomberg

Top 10 shareholders

Sr. No.	Holder Name	Holding (%)
1	First State Investments ICVC	6.3
2	Life Insurance Corp of India	2.1
3	Reliance Capital Trustee Co Ltd	2.0
4	Mirae Asset Global Investments Co	1.7
5	Government Pension Fund - Global	1.5
6	HDFC Asset Management Co Ltd	1.4
7	Sundaram Asset Management Co Ltd	1.3
8	Franklin Resources Inc	1.2
9	Sun Life Financial Inc	1.2
10	Dimensional Fund Advisors LP	1.2

Source: Bloomberg

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Understanding the Sharekhan 3R Matrix

Right Sector	
Positive	Strong industry fundamentals (favorable demand-supply scenario, consistent industry growth), increasing investments, higher entry barrier, and favorable government policies
Neutral	Stagnancy in the industry growth due to macro factors and lower incremental investments by Government/private companies
Negative	Unable to recover from low in the stable economic environment, adverse government policies affecting the business fundamentals and global challenges (currency headwinds and unfavorable policies implemented by global industrial institutions) and any significant increase in commodity prices affecting profitability.
Right Quality	
Positive	Sector leader, Strong management bandwidth, Strong financial track-record, Healthy Balance sheet/cash flows, differentiated product/service portfolio and Good corporate governance.
Neutral	Macro slowdown affecting near term growth profile, Untoward events such as natural calamities resulting in near term uncertainty, Company specific events such as factory shutdown, lack of positive triggers/events in near term, raw material price movement turning unfavourable
Negative	Weakening growth trend led by external/internal factors, reshuffling of key management personal, questionable corporate governance, high commodity prices/weak realisation environment resulting in margin pressure and deteriorating balance sheet
Right Valuation	
Positive	Strong earnings growth expectation and improving return ratios but valuations are trading at discount to industry leaders/historical average multiples, Expansion in valuation multiple due to expected outperformance amongst its peers and Industry up-cycle with conducive business environment.
Neutral	Trading at par to historical valuations and having limited scope of expansion in valuation multiples.
Negative	Trading at premium valuations but earnings outlook are weak; Emergence of roadblocks such as corporate governance issue, adverse government policies and bleak global macro environment etc warranting for lower than historical valuation multiple.

Source: Sharekhan Research

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