



3R MATRIX

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

+ Positive = Neutral - Negative

What has changed in 3R MATRIX

	Old		New
RS	■	↔	■
RQ	■	↔	■
RV	■	↔	■

Reco/View	Change
Reco: Buy	↔
CMP: Rs. 448	
Price Target: Rs. 522	↑

↑ Upgrade ↔ Maintain ↓ Downgrade

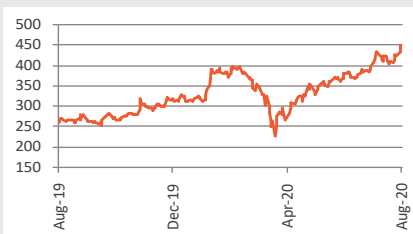
Company details

Market cap:	Rs. 41,258 cr
52-week high/low:	Rs. 472/214
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	10.3	35.9	13.5	71.6
Relative to Sensex	7.1	16.1	21.9	69.0

Sharekhan Research, Bloomberg

Summary

- Tata Consumer Products Limited (TCPL, earlier Tata Global Beverages) clocked strong performance yet again in Q1FY2021; revenues and adjusted PAT grew by 13% and 72%, respectively (on a comparable basis).
- The India beverages (including NourishCo), India foods and international beverages (excluding food services) businesses grew by 11%, 19% and 23%, respectively, in Q1FY2021. Better revenue mix and efficiencies led to a 312 bps improvement in OPM.
- Expanding product portfolio with new products in the foods business, rise in consumption of branded tea in India, higher growth in the Vietnam coffee business, instant coffee business and the US coffee business are some of the key revenue drivers in the long run.
- New leadership is focusing on delivering consistent profitable growth and improving return ratios in the medium term. We stick to our Buy recommendation with a revised PT of Rs. 522.

Tata Consumer Products (TCPL, earlier Tata Global Beverages) posted yet another quarter of strong performance in Q1FY2021 with revenue and adjusted PAT (prior to share of profit from associates) growing by 13% and 72% respectively, on a comparable basis. Double-digit revenue growth can also be attributed to an 11% growth (4% volume growth) in the India beverages business (including NourishCo), 19% growth (8% volume growth) in India foods business and a 23% growth in the international beverages business (excluding food services). Gross margins improved by 176 bps to 44.7%, led by a better revenue mix and benign input prices. This, along with lower discretionary costs led to a 312 bps improvement in OPM to 17.8%. Higher demand for in-house and essential products across geographies, doubling of distribution reach and a revival in the rural demand in India would help to maintain revenue growth momentum in the near term. Though the pantry-loading phenomena is easing in the international market, it is expected to add to the revenues in various geographies till the pandemic situation normalises. On margins, domestic tea prices have firmed up in recent times which might impact domestic margins, while Kenyan tea and Robusta coffee prices have been declining, supporting international beverages business margins. Further, integration of Tata Chemicals' (TCL's) consumer business with TCPL will provide synergistic benefits in terms of margin expansion (by 1-2% in the next 12-18 months). Thus, we expect overall OPM to remain high on a y-o-y basis though margin expansion may not be in line with Q1FY2021.

Key positives

- The India beverages, India foods, US coffee and Canada tea businesses registered volume growth of 4%, 8%, 26% and 28%, respectively.
- Tata Coffee (including Vietnam) achieved growth of 12%.
- OPM expanded by 312 bps to 17.8%.

Key negatives

- The lockdown in India impacted the plantation business. It also affected the Tata-Starbucks joint venture due to store closures during the quarter.
- Domestic tea prices have firmed up that might affect domestic business margins.

Our Call

View - Maintain Buy with a revised PT of Rs. 522: We have raised our earnings estimates for FY2021 and FY2022 by 8% each to factor in stronger-than-expected performance in Q1FY2021. A revamped management has enhanced its focus on delivering profitable earnings growth by leveraging on an expanded product portfolio and improving the return ratios in the coming years. The near-term focus is on gaining synergistic benefits from the merger and gain market share from small players to achieve good growth in the long run. Balance sheet remains stable with net cash of close to Rs. 2,000 crore. The stock is trading at 38x its FY2022E earnings. We maintain our Buy recommendation on the stock with a revised price target (PT) of Rs. 522 (in line with the increase in our earnings estimates).

Key Risks

A sustained slowdown in the domestic consumption; heightened competition from new players and spike in 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	10,758	11,910	13,195
OPM (%)	10.8	13.4	14.8	15.1	15.5
Adjusted PAT	479	661	887	1,093	1,264
% Y-o-Y growth	-	37.9	34.2	23.2	15.7
Adjusted EPS (Rs.)	5.2	7.2	9.6	11.9	13.7
P/E (x)	59.0	62.4	46.5	37.8	32.6
P/B (x)	3.9	3.0	2.9	2.7	2.6
EV/EBIDTA (x)	34.5	30.5	24.4	21.1	18.3
RoNW (%)	6.9	7.0	7.3	8.1	8.8
RoCE (%)	8.8	9.0	8.8	10.0	11.0

Source: Company, Sharekhan estimates

* FY20, FY21E and FY22E include the consolidation of the consumer business of Tata Chemicals

Revenues grew by 13.4%, lower commodity costs and efficiencies drove up margins: Consolidated revenue grew by 13.4% y-o-y to Rs. 2,714 crore in Q4FY2021 as against Rs. 2,392 crore in Q1FY2020 and Rs. 2,405 crore in Q4FY2020. Revenue from the India beverages (including NourishCo) and India foods businesses stood at Rs. 1,000 crore and Rs. 589 crore, respectively growing by 11% and 19% y-o-y, respectively. Volumes for the India beverages and foods businesses rose by 4% and 8%, respectively. International beverages business (excluding food services), grew by 23% y-o-y (16% in constant currency terms) driven by 27% volume growth in coffee and a 4% volume growth in tea. Revenue from Tata Coffee grew by 12% y-o-y to Rs. 229 crore driven by 14% volume growth. Gross margins expanded by 176 bps to 44.7% driven by lower commodity costs and favourable revenue mix. This, along with operating efficiencies drove up OPM by 312 bps to 17.8%. Consolidated operating profit grew by 37.6% y-o-y to Rs. 482.8 crore. In spite of higher depreciation, consolidated profit before tax grew by 41.8% y-o-y to Rs. 436.3 crore. Lower tax incidence drove up adjusted PAT before minority interest (MI) by 72%. However, soft performance of associates led post-MI adjusted PAT to grow by 56.4% y-o-y to Rs. 305.8 crore in Q1FY2021 from Rs. 195.5 crore in Q1FY2020. Reported PAT came in at Rs. 345.7 crore.

India business performed well: The India business grew by 10% y-o-y to Rs. 1,605 crore. India beverages business (including NourishCo) grew by 11% y-o-y to Rs. 1,000 crore driven by 4% volume growth. Beverage sales were significantly impacted in April by disruptions but May and June reported double-digit growth. Branded tea sales declined by 5.4% during the quarter. However, tea sales rose by 8.3% in June 2020. TCPL's premium offering Tata Tea Gold delivered double-digit growth and Tata Tea Agni and Spice mix continued its robust growth momentum. Revenue of NourishCo declined by 34% to Rs. 46 crore affected by subdued out-of-home consumption. However, revenues in May and June have bounced back to pre-COVID levels. The India foods business was up by 19% y-o-y to Rs. 589 crore driven by 8% volume growth. Salt sales volumes surged in May and June and sales grew by 11% in Q1FY2021. Pulses and spices saw strong growth of over 50%. Profitability was strong in both the beverages and foods businesses driven by better price realisation, efficient management of commodity costs and reduction in discretionary spends. The OPM of the India business grew by 437 bps to 20.3%.

International registered good growth driven by pantry loading across geographies

- ♦ **Good growth in US business:** The US business reported a strong underlying revenue growth of 26% y-o-y to Rs. 358 crore driven by 27% volume growth. Eight O'Clock branded bags, K-cups and private coffee labels registered good growth. Tea (excluding Empirical) grew by 25% in value terms and 26% in volume terms. Regular black tea was up by 21% whereas coffee reported 14% growth. The US business witnessed accelerated growth in e-commerce channels. Food service (Empirical) business faced headwinds due to COVID-19. Profitability increased due to better cost management and higher efficiency.
- ♦ **UK business gained market shares:** The UK business grew by 12% y-o-y driven by 7% volume growth. The discount channels continue to remain the biggest growth driver across segments. The UK business reported market share gains, with value share standing at 20.5%, driven largely by Everyday Black. Profitability improved on account of higher sales and improved gross margins. The company continues to invest behind brands. The company intends to focus on margin expansion through cost optimisation. Non-black tea (fruit & herbal, specialty, decaf, cold infusions) is witnessing strong growth in the international markets, led by shift in consumer preference for health & wellness products. Fruit & herbal tea market in the UK grew by 9.5% whereas regular black tea was flat.
- ♦ **Strong performance in the Canada business:** The Canada business recorded healthy growth of 32% driven by pantry loading and retailer restocking amid COVID-19. The value market share rose by 0.4% to 29.2%. Growth in Canada continues to outpace the category in both regular and specialty tea, with regular black tea growing by 19% and specialty tea registering a 32.4% growth. Continued improvement in profitability was witnessed led by innovations and reduced overheads. The Tetley Cold Infusions range of teas was launched in Canada to cater to the growing trend of health and wellness supported with adequate media campaigns. Food service sales remain soft owing to lower out-of-home consumption.

Tata Starbucks largely affected due to the pandemic

Tata Starbucks saw revenues fall by ~87% as most stores were open only for delivery and takeaways amid the lockdown. Nearly 60% of stores have become operational. A sequential improvement in revenue was seen with June revenue reaching ~27% of last year levels. Takeaways contribute ~82% to total revenue whereas the balance 18% is through delivery. The total store count reached 187 stores across 11 cities as on Q1FY2021. TCPL opened India's first Starbucks drive-through at Zirakpur near Chandigarh. Going ahead, the company is expected to remain cautious on store additions. However, some improvement in profitability is expected driven by significant savings achieved through rental negotiations.

Tata Coffee result highlights:

- ◆ Tata Coffee's revenue grew by 12% y-o-y to Rs. 229 crore driven by 14% volume growth led by the Vietnam and plantations businesses. The plantations business grew by 17% y-o-y driven by 18% volume growth which recorded highest ever sales of coffee in a quarter. The overall extraction business grew by 14% (6% in volume terms) led by good growth in the Vietnam business.
- ◆ The Vietnam facility has now back to operating at ~87% of its production capacity and has turned EBIT positive. Vietnam facility recorded sales of Rs. 55 crore in Q1FY2021. Plants in India are also running at full capacity.
- ◆ Tata Coffee witnessed significant growth in sale of pepper and timber whereas it saw a steep decline in supplies to domestic out-of-home consumption business. Demand for instant coffee continued to face headwinds due to disruptions amid COVID-19 as a large proportion of demand comes from domestic home consumption.
- ◆ Eight 'O Clock coffee registered exceptionally good volume growth. The brand gained market share from current levels of 6-7%. Margin improvement sustained sequentially and impact of lower coffee prices would start flowing in from Q2FY2021.
- ◆ Profit were almost flat y-o-y with higher Vietnam profits offset by decline in domestic extractions and plantations businesses.
- ◆ Timely execution of orders, strong order book, stringent cost cutting initiatives and efficiencies would help the company pass through this uncertain environment.

Other conference call highlights:

- ◆ Integration of the consumer business of Tata Chemicals is on track and focus is on to create a sizeable consumer company with enhanced scale and financial strength, with leading Indian and international brands like Tata Salt, Tata Tea, Tetley and high-growth potential brands such as Tata Sampann. The merger has a potential to unlock significant synergies across distribution, marketing, innovation and supply chain. The core focus is expected to remain on innovation and market share gains. The company targets to double its direct reach in 12-18 months. The company is on track in putting a distribution system in place for urban and rural India and to reduce layers to improve efficiency in supply chain. The company is on track to realise initial synergy estimates of 2-3% and expects a ~100 bps gain through cost synergies in the current year. The integration will lead to a bigger platform, which will help TCPL scale-up its small businesses with great potential such as Tata Sampann and NourishCo.
- ◆ The tea prices in the India business are expected to move upwards in the near term. This will put some pressure on gross margins in near term. However, the company is expecting to undertake certain price hikes considering the competitive pricing actions in the coming quarters. Further, the management expects improvement in tea production in August/September which will help stabilise tea prices going ahead. Hence, gross margins are expected to remain under pressure in Q2FY2021 and the benefit of stability in tea prices post August and any price hikes would flow in with a lag. Moreover, international tea prices and Robusta coffee prices have declined which along with cost synergies realised from the integration (~100 bps expansion expected) will support margins in the near term. Thus, overall we expect margins to remain higher y-o-y though the quantum of the rise would be lower than that witnessed in Q1FY2021.
- ◆ TCPL's net cash position is strong at Rs. 2,000 crore and overall gross cash stands at Rs. 3,000 crore. The company's debt of ~Rs. 1,000 crore is a low-cost debt and the company is not in a hurry to repay the debt. The focus is on improving the company's return ratios in the coming years through better management of working capital and gradual margin expansion.

Results (Consolidated)

Particulars	Rs cr				
	Q1FY21	Q1FY20	y-o-y (%)	Q4FY20	q-o-q (%)
Total Revenue	2713.9	2392.4	13.4	2405.0	12.8
Raw material cost	1500.5	1364.9	9.9	1311.9	14.4
Employee cost	229.1	213.8	7.2	231.6	-1.1
Advertising	133.8	131.3	1.9	181.4	-26.3
Other expenses	367.8	331.5	10.9	371.8	-1.1
Total operating cost	2231.2	2041.5	9.3	2096.7	6.4
Operating profit	482.8	350.9	37.6	308.4	56.6
Other income	32.7	33.1	-1.1	21.9	49.2
Interest & other financial cost	17.3	18.6	-7.2	18.7	-7.6
Depreciation	61.9	57.6	7.5	64.0	-3.3
Profit Before Tax	436.3	307.8	41.8	247.6	76.2
Tax	87.0	104.8	-17.0	104.8	-17.0
Adjusted PAT before MI	349.3	202.9	72.1	142.8	-
Minority Interest (MI)/ Profit from associates	-43.5	-7.4	-	-72.3	-
Adjusted PAT after MI	305.8	195.5	56.4	70.5	-
Extra-ordinary items	39.9	-5.4	-	-193.0	-
Reported PAT	345.7	190.1	81.8	-122.5	-
Adjusted EPS (Rs.)	3.8	3.2	17.9	2.3	67.5
			bps		bps
GPM (%)	44.7	42.9	176	45.5	-74
OPM (%)	17.8	14.7	312	12.8	497

Source: Company; Sharekhan Research

Results (Standalone)

Particulars	Rs cr				
	Q1FY21	Q1FY20	y-o-y (%)	Q4FY20	q-o-q (%)
Total Revenue	1605.4	1464.0	9.7	1335.3	20.2
Operating profit	325.7	233.0	39.8	160.4	103.1
Profit Before Tax	335.3	242.8	38.1	137.3	-
Tax	88.9	82.9	7.2	38.6	-
Adjusted PAT	246.4	159.9	54.1	98.7	-
Extra-ordinary items	14.1	5.4	-	27.7	-
Reported PAT	232.3	154.5	50.4	70.9	-
Adjusted EPS (Rs.)	3.9	2.5	54.1	1.6	-
			bps		bps
GPM (%)	40.8	37.7	316	41.0	-13
OPM (%)	20.3	15.9	437	12.0	828

Source: Company; Sharekhan Research

Performance of key businesses

Particulars	Revenue (Rs. cr)	Revenue growth	Volume growth
India beverages	1000	11%	4%
India foods	589	19%	8%
US Coffee	358	37%	27%
International tea	475	14%	4%
Food service (International)	34	-56%	-60%
Tata Coffee	229	12%	14%
Consolidated business*	2714	13%	-

Source: Company; Sharekhan Research

Outlook and Valuation

■ Sector view - Demand for in-house and essentials to continue; pantry loading to stabilise

A nationwide lockdown in April-May 2020 had severe impact on the supply chain of the consumer goods companies. A strong recovery was seen in June. Staples, health foods and health & hygiene segments registered strong demand while out-of-home and discretionary categories posted a decline in Q1FY2021. We believe higher demand for branded products is expected to stay due to shift of consumers to trusted brands and increase in purchases from online channels in the post pandemic era. Thus, branded staples, beverages and packaged food would lead the growth for Rs. 21 lakh crore in-the-kitchen consumption market in the near to medium term. Pantry loading in international markets will stabilise with receding scare of the virus in the quarters ahead.

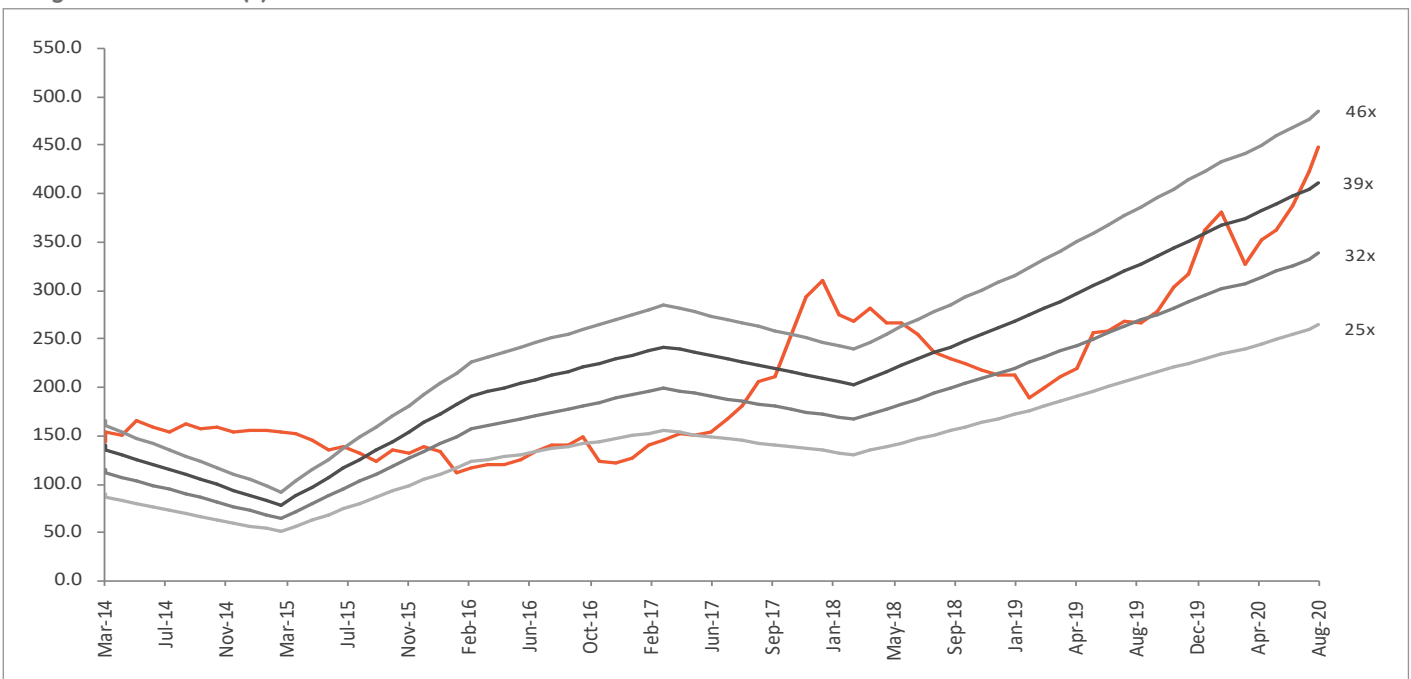
■ Company outlook - Growth momentums to sustain; margins to remain mix

TCPL posted strong performance in Q1FY2021 aided by decent double-digit revenue growth and margin expansion. Strong traction for branded products in domestic market, expansion in distribution reach through integration of TCL's business and strong growth in key international geographies would help TCPL maintain double-digit revenue growth in the near to medium term. On margins, domestic tea prices have firmed up in recent times which might impact domestic margins, while Kenyan tea and Robusta coffee prices have been declining, supporting international beverages business margins. Further, integration of Tata Chemicals' (TCL's) consumer business with TCPL will provide synergistic benefits in terms of margin expansion (by 1-2% in the next 12-18 months). Thus, we expect overall OPM to remain high on a y-o-y basis though margin expansion may not be in line with Q1FY2021.

■ Valuation - Premium valuation to sustain

We have raised our earnings estimates for FY2021 and FY2022 by 8% each to factor in stronger-than-expected performance in Q1FY2021. A revamped management has enhanced its focus on delivering profitable earnings growth by leveraging on an expanded product portfolio and improving the return ratios in the coming years. The near-term focus is on gaining synergistic benefits from the merger and gain market share from small players to achieve good growth in the long run. Balance sheet remains stable with net cash of close to Rs. 2,000 crore. The stock is trading at 38x its FY2022E earnings. We maintain our Buy recommendation on the stock with a revised price target (PT) of Rs. 522 (in line with the increase in our earnings estimates).

One year forward P/E (x) band



Source: Sharekhan Research

Peer Comparison

Particulars	P/E (x)			EV/EBIDTA (x)			RoCE (%)		
	FY20	FY21E	FY22E	FY20	FY21E	FY22E	FY20	FY21E	FY22E
Britannia Industries	65.7	50.9	43.7	51.2	39.9	34.6	35.2	36.4	35.5
Nestle India*	96.5	80.8	72.7	59.0	55.1	50.7	70.3	96.9	137.0
Tata Consumer Products	46.5	37.8	32.6	24.4	21.1	18.3	8.8	10.0	11.0

Source: Company, Sharekhan estimates

*Numbers for Nestle India are for CY19, CY20E and CY21E

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
Lakshman Krishnakumar	Executive Director
John Jacob	Chief Financial Officer

Source: Company

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	Dimensional Fund Advisors LP	1.2
10	Norges Bank	1.1

Source: Bloomberg

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 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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