

Tata Consumer Products Ltd

BUY

CMP Rs 448

Target Rs 490

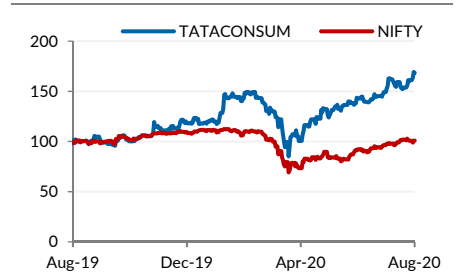
Upside 9.4%

HIGHLIGHTS	<ul style="list-style-type: none"> ✓ Strong revenue/EBITDA/PAT growth of 13%/38%/42% led by strong growth in India Foods and International Beverages. ✓ Despite the production and supply chain disruptions in April, superb on-ground execution helped further by pantry stocking led to 8% growth in India tea, 19% in India foods (11% in salt and >50% in pulses/spices), 15% in international beverages (13% in tea and 37% in EOC coffee) and 12% in Tata Coffee. ✓ Strong 310bps EBITDA margin improvement to 17.9% led by better realizations, lower trade spends, better product and channel mix, utilization of low priced commodity inventory and lower discretionary expenditure across key cost heads. ✓ Management highlighted some tapering off in the demand momentum and also the margin risk on account of a 50% rise in India tea prices; integration between foods and beverages business should complete by end-CY20 with expected synergy benefits of 1.5%-2% over 18-24 months and a 100bps reduction in distribution costs post completion of supply chain initiatives. ✓ Results were a significant beat on our and consensus estimates with more than expected surge in demand due to pantry stocking across markets coupled with strong execution and lesser promotion and other spends.
	<ul style="list-style-type: none"> ✓ We retain our BUY rating despite the recent up move as we believe it is a solid medium to long term story with improving visibility of higher growth rates and better execution coupled with multiple margin levers driving higher return ratios. ✓ We increase our SOTP-based TP to Rs 490 from Rs 460 earlier given a 13% and 9% upgrade to our EPS estimates for FY21 and FY22 respectively, implying 44x P/E.
	<ul style="list-style-type: none"> ✓ Sustained increase in commodity costs impacting margins and any further COVID-related demand or supply shocks; significant delays in ongoing integration and supply chain initiatives which can impact realization of synergy and distribution expansion benefits.
	Risk to our call

Stock data (as on Aug 05, 2020)

Nifty	11,102
52 Week h/l (Rs)	472/214
Market cap (Rs/USD mn)	410/5.5
Outstanding Shares (mn)	916
6m Avg t/o (Rs mn):	1,709
Div yield (%):	0.6
Bloomberg code:	TATACONS IN
NSE code:	TATACONSUM

Stock performance



	1M	3M	1Y
Absolute return	12.9%	36.8%	72.8%

Shareholding pattern (As of Jun'20 end)

Promoter	34.7%
FII+DII	39.3%
Others	26.0%

Δ in earnings estimates

	FY20	FY21e	FY22e
EPS (New)	8.0	10.0	11.2
EPS (Old)	8.0	8.8	10.3
% change	0.0%	13.4%	9.2%

Exhibit 1: Result table (Consolidated)

(Rs mn)	Q1 FY21	Q1 FY20	% YoY	Q4 FY20	% QoQ
Net sales	27,139	23,924	13.4	24,050	12.8
Operating profit	4,827	3,509	37.6	3,084	56.5
OPM (%)	17.8	14.7		12.8	
Depreciation	619	576	7.5	640	(3.3)
Interest	173	186	(7.2)	187	(7.6)
Other income	327	331	(1.1)	219	49.2
PBT	4,362	3,078	41.7	2,476	76.2
Tax	1,104	1,022		334	
Effective tax rate (%)	25.3	33.2		13.5	
Adjusted PAT	2,822	1,982	42.4	1,419	98.9
Minority int / exceptional	633	81		2,644	
Reported PAT	3,456	2,062	67.6	4,063	(15.0)

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SEGMENTAL HIGHLIGHTS

✓ India Beverages

- Rev - Rs 10.0 bn (+11% YoY) with EBIT - Rs 2.2 bn (+56% YoY); branded tea volume +4% YoY and value +8% YoY due to better brand and channel mix; overall growth higher due to inclusion of Nourishco water business.
- Gained market share from local players given quicker resumption of manufacturing and supply chain.
- Tea prices have risen sharply by ~50% and may impact margins over next 1-2 quarters; expect increase in supply September onwards; further price hikes will be calibrated and balanced so as not to impact the demand momentum.

✓ India Foods

- Rev - Rs 5.9 bn (+19% YoY) with EBIT - Rs 1.1 bn (+54% YoY); Volume +8% YoY (higher realisations due to superior mix in favor of premium products and lower trade margins).
- Pulses and spices grew 50%+ in 1Q while salt grew 11% recording highest ever volumes in May and June; company has set up new packing capacities for pulses.
- Continue to remain upbeat on potential of Tata Sampann in current and new staples categories.

✓ International Beverages

- Rev - Rs 8.7 bn (+15% YoY) with EBIT - Rs 1.3 bn (+58% YoY).
- UK - Rev +12% YoY and vol +7% YoY; witnessed normalcy in demand and benefitted from pantry stocking; launched Good Earth tea's and Kombucha.
- USA - Coffee Rev +26% YoY and vol +27% YoY. Growth across branded and private label again helped by pantry stocking; Tea Revenue +25% YoY and volume +26% YoY.
- Canada - Rev +32% YoY and vol +28% YoY; market share at 29.2% (+0.4%); outperformance vs industry in regular and specialty categories.

✓ Starbucks

- Revenue was down 87% in the quarter; 60% of the stores are open currently with a focus on takeaway and delivery.
- Management cautious on further expansion in near term; focusing on renegotiating rentals, activating alternate channels and customer connect activities.

✓ Nourishco

- Revenue was down 34% in the quarter; 100% acquisition from Pepsico completed for a consideration of Rs 290mn.
- Decline due to reduced on-the-go consumption but has since bounced back to 85% of last year levels.

✓ Tata Coffee (plantation and instant coffee)

- Revenue was up 12% in the quarter with 18% growth in plantations and 14% in instant coffee business (-30% in India due to COVID disruptions and strong uptick in Vietnam).
- Vietnam plant now running at 87% utilization and achieved EBIT breakeven.

CON-CALL HIGHLIGHTS

✓ **Integration of foods and beverages businesses**

- On track to realize synergy benefits of 2-3% of sales in India branded business over 18-24 months which should start flowing through starting end-FY21.
- To be fully integrated (front-end and back-end) by Dec'20 and expect savings of 100bps in distribution costs.

✓ **Distribution update**

- Expect to double the direct reach in 12 months and overall distribution reach in 3 years.
- Reduction in number of layers in both food and beverages business to result in a leaner and agile sales structure.
- Partnered with Jiomart for their pilot program in Mumbai; will take part in eventual full-fledged launch in due course.

✓ **Commodity price outlook**

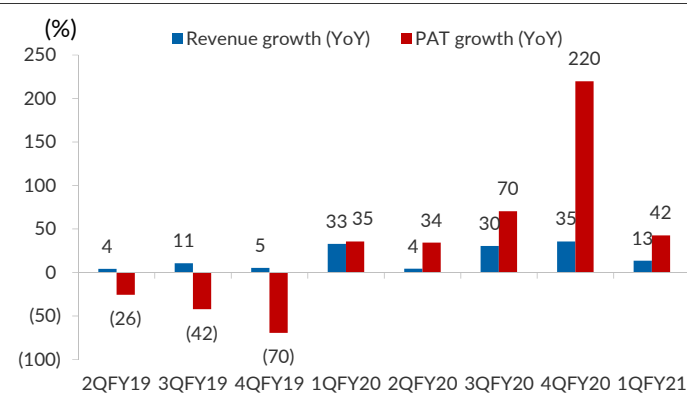
- Tea prices look to be volatile in the near term (1-2 quarters) given significant crop losses due to floods.
- Upcoming tea crop harvest in Aug and Sept'20 to determine prices for the year; have taken some price hikes and will take up prices further in-line with competition so that market share gain and growth momentum does not get impacted; still confident of sustaining margins.
- International tea prices remain flattish; while coffee prices continue to trend downwards which is helping the company.

✓ **Outlook**

- Ambition to become a total FMCG company via expansion into adjacent categories in the medium term and other FMCG categories in the long term once the back-end and front-end structure is in place.
- See a lot of potential in the nascent pulses and spices business. Continue to aggressively innovate and launch new products in existing segments.

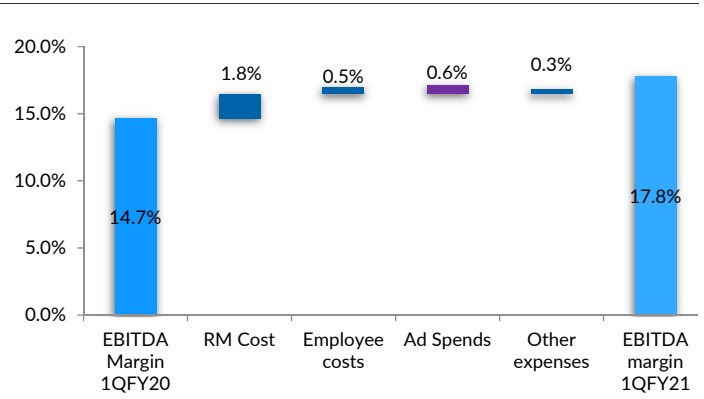
CHARTS

Exhibit 1: Revenue and PAT growth trends



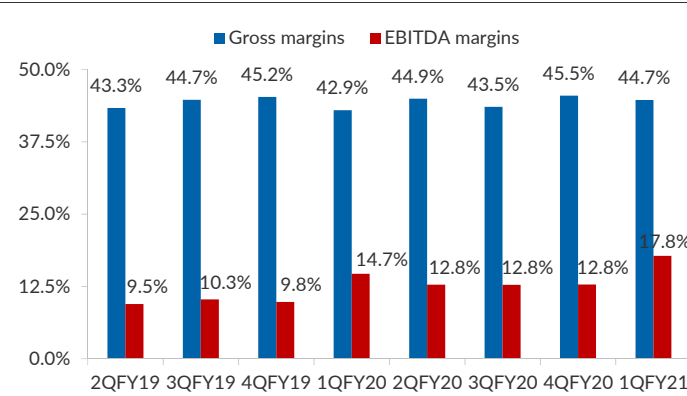
Source: Company, YES Sec - Research

Exhibit 2: Margin driven by RM benefits and cost controls



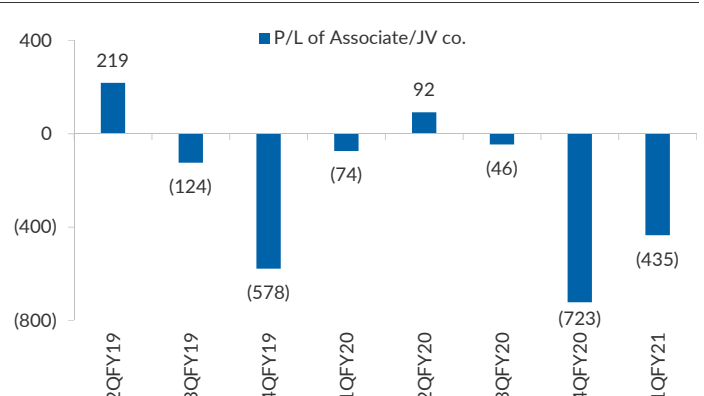
Source: Company, YES Sec - Research

Exhibit 3: Sharp improvement in gross and EBITDA margins



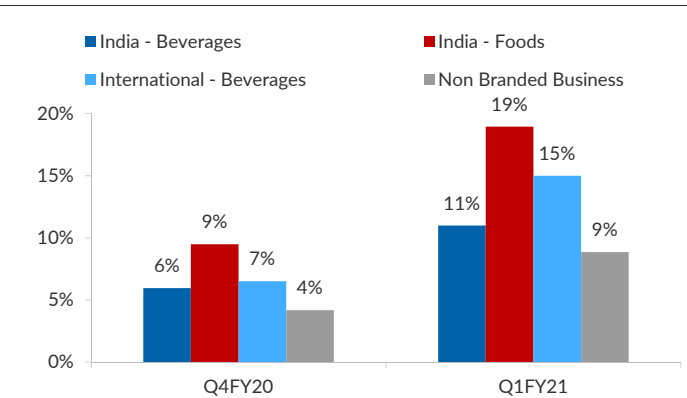
Source: Company, YES Sec - Research

Exhibit 4: Higher losses in both Starbucks and plantations



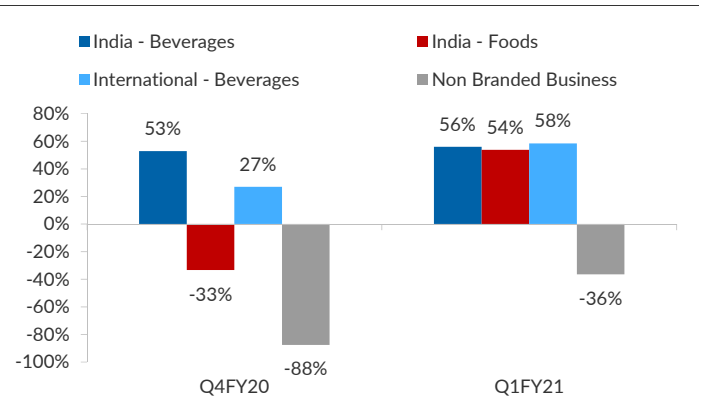
Source: Company, YES Sec - Research

Exhibit 5: YoY revenue growth trends of various businesses



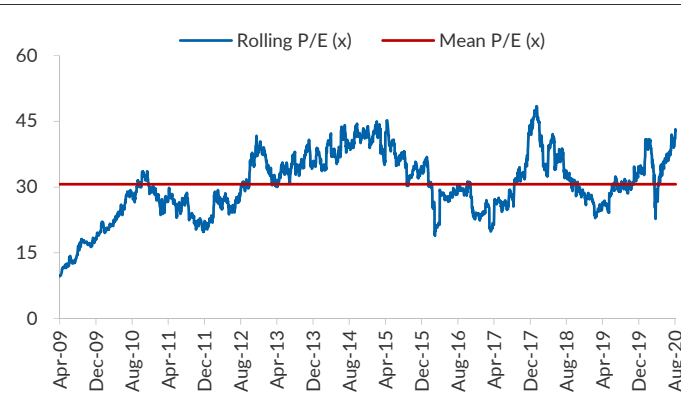
Source: Company, YES Sec - Research

Exhibit 6: EBIT growth of various businesses



Source: Company, YES Sec - Research

Exhibit 7: Currently trading at 43x one-yr forward PE



Source: Company, YES Sec – Research

Exhibit 8: SOTP Valuation Summary

Segment	Metric	Multiple	Value	Per share	% of total value
India Beverages	EV/EBITDA	30	196,695	213	44%
India Foods	EV/EBITDA	36	178,184	193	39%
Tata Coffee	20% disc to CMP		8,240	9	2%
EOC (50% stake)	EV/EBITDA	8	12,932	14	3%
Tetley/Others	EV/EBITDA	12	20,614	22	5%
Starbucks JV	Price/Sale	8	20,952	23	5%
Net Debt			-13,688	15	
Equity Value			451,304		
TP				490	

Source: Company, YES Sec – Research

FINANCIALS

Exhibit 9: Balance sheet

Y/e 31 Mar (Rs mn)	FY18	FY19	FY20	FY21E	FY22E
Equity capital	631	631	922	922	922
Reserves	69,685	72,686	137,227	143,819	151,043
Net worth	70,316	73,317	138,149	144,741	151,965
Debt	10,562	11,169	11,825	10,000	10,000
Deferred tax liab (net)	1,315	1,455	3,160	3,160	3,160
Other non current liabilities	1,781	1,885	5,060	5,566	6,122
Total liabilities	83,973	87,825	158,193	163,467	171,247
Fixed Asset	49,333	53,377	117,514	116,969	116,283
Investments	11,613	11,877	13,229	13,229	13,229
Other Non-current Assets	7,048	4,857	5,799	6,349	6,954
Net Working Capital	13,687	17,655	16,363	20,355	22,018
Inventories	14,483	16,099	17,120	20,368	21,985
Sundry debtors	6,483	6,806	9,224	10,184	10,992
Loans and Advances	2,723	3,764	2,898	3,492	3,769
Other current assets	1,857	2,272	3,028	3,331	3,664
Sundry creditors	7,057	6,649	9,440	10,184	10,992
Other current liabilities	3,813	4,141	5,544	5,819	6,281
Provision	988	495	924	1,017	1,118
Cash & equivalents	2,291	59	5,290	6,566	12,763
Total Assets	83,973	87,825	158,193	163,467	171,247

Exhibit 10: Income statement

Y/e 31 Mar (Rs m)	FY18	FY19	FY20	FY21E	FY22E
Revenue	68,154	72,515	96,374	106,204	114,635
Operating profit	8,389	7,859	12,922	15,899	17,138
Depreciation	1,160	1,226	2,417	2,545	2,685
Interest expense	428	525	779	650	650
Other income	942	1,571	1,116	1,227	1,350
Profit before tax	7,743	7,680	10,842	13,931	15,153
Taxes	1,859	2,609	2,742	3,485	3,786
Adj. PAT	5,167	4,415	7,345	9,196	10,367
Exceptional loss	211	333	2,748	-	-
Net profit	4,956	4,082	4,598	9,196	10,367

Exhibit 11: Cash flow statement

Y/e 31 Mar (Rs mn)	FY18	FY19	FY20	FY21E	FY22E
PBIT	8,170	8,205	11,620	14,581	15,803
Depreciation	1,160	1,226	2,417	2,545	2,685
Tax paid	(1,859)	(2,609)	(2,742)	(3,485)	(3,786)
Working capital Δ	(1,167)	(3,968)	1,293	(3,992)	(1,663)
Other operating items					
Operating cashflow	6,305	2,854	12,588	9,649	13,038
Capital expenditure	(4,136)	(5,270)	(66,554)	(2,000)	(2,000)
Free cash flow	2,169	(2,416)	(53,966)	7,649	11,038
Equity raised	4,283	497	62,722	9	(7)
Investments	2,897	(263)	(1,352)	-	-
Debt financing/disposal	2,859	607	656	(1,825)	-
Interest Paid	(428)	(525)	(779)	(650)	(650)
Dividends paid	(1,578)	(1,578)	(2,488)	(2,613)	(3,135)
Other items	(3,569)	1,633	1,085	(1,294)	(1,049)
Net Δ in cash	6,633	(2,045)	5,879	1,276	6,197

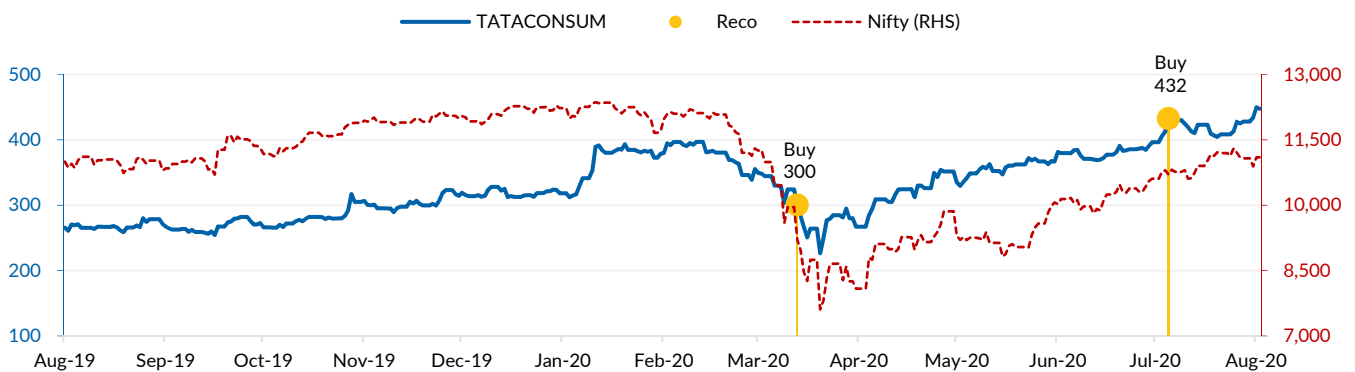
Exhibit 12: Du-Pont Analysis

Y/e 31 Mar (Rs mn)	FY18	FY19	FY20	FY21E	FY22E
Tax burden (x)	0.67	0.57	0.68	0.66	0.68
Interest burden (x)	0.95	0.94	0.93	0.96	0.96
EBIT margin (x)	0.12	0.11	0.12	0.14	0.14
Asset turnover (x)	0.75	0.74	0.71	0.60	0.62
Financial leverage (x)	1.37	1.36	1.29	1.25	1.25
RoE (%)	7.8	6.1	6.9	6.5	7.0

Exhibit 13: Ratio analysis

Y/e 31 Mar	FY18	FY19	FY20	FY21E	FY22E
Growth matrix (%)					
Revenue growth	0.5	6.4	32.9	10.2	7.9
Op profit growth	6.0	(6.3)	64.4	23.0	7.8
EBIT growth	9.2	0.4	41.6	25.5	8.4
Net profit growth	34.5	(14.6)	66.4	25.2	12.7
Profitability ratios (%)					
OPM	12.3	10.8	13.4	15.0	15.0
EBIT margin	12.0	11.3	12.1	13.7	13.8
Net profit margin	7.6	6.1	7.6	8.7	9.0
RoCE	10.8	9.9	9.9	9.6	10.0
RoNW	7.8	6.1	6.9	6.5	7.0
RoA	5.7	4.5	5.4	5.2	5.6
Per share ratios					
EPS	8.2	7.0	8.0	10.0	11.2
Dividend per share	2.5	2.5	2.7	2.8	3.4
Cash EPS	10.0	8.9	10.6	12.7	14.2
Book value per share	111.4	116.2	149.9	157.1	164.9
Payout (%)					
Dividend payout	30.5	35.7	33.9	28.4	30.2
Tax payout	24.0	34.0	25.3	25.0	25.0
Liquidity ratios					
Debtor days	34.7	34.3	34.9	35.0	35.0
Inventory days	77.6	81.0	64.8	70.0	70.0
Creditor days	37.8	33.5	35.8	35.0	35.0

Recommendation Tracker



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BUY: Potential return >15% over 12 months

ADD: Potential return +5% to +15% over 12 months

REDUCE: Potential return -10% to +5% over 12 months

SELL: Potential return <-10% over 12 months

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