

Agile approach coincides with structural growth trend

Tata Consumer Product (TCPL) reported a strong set of numbers with 13.4% revenue growth led by 18.9% growth in acquired food business (Tata Salt & Tata Sampann), 15% growth in international beverages (Tetley & EOC) & 11% growth in India beverages (Tata Tea & Grand). We believe the entire product portfolio has benefited from increased in-home consumption across countries. The highlight of the quarter has been (1) market share gains in India tea business with 8% sales growth whereas category saw 5.4% decline (2) robust 50% sales growth in pulses & spices, (3) market share gains in EOC (US coffee) with 26% sales growth. We believe the strong growth throughout quarter has been a result of consumption shift from unbranded to branded in tea, pulses & spices & better availability of the company's brand at e-com channel (specific EOC in US). Operating margins expanded 312 bps with gross margin expansion of 176 bps & saving in marketing, employee & overhead spends to the tune of 56 bps, 50 bps & 30 bps respectively. Adjusted PAT increased 42.4% to ₹ 282.2 crore.

Consumption shift from loose to brands to accelerate

The strong growth in Q1 was perked up by higher in-home consumption across categories. The supply disruption was limited to Indian operations in April. We believe increasing consumer preferences for packaged foods & trusted brands would accelerate consumption shift towards branded products in tea, salt & pulses category in India. Moreover, 'in-home' consumption trend would continue for few more quarters in India, US & Canada given 'out of home' consumption options are still restricted/limited in these countries. We believe the company's strategy of doubling direct distribution in the next 12 months augers well for nascent categories like pulses, spices given it would increase store availability & drive penetration led growth. We expect revenue to grow at 9.6% during FY20-22E.

Margins to expand in medium term despite high tea prices

North India tea prices have risen sharply by more than 50% to ₹ 275/kg mainly due to unavailability of labour in the first flush season in April-May impacted by lockdown. Further, flooding in Assam in July has aggravated the situation. Though the company has taken a price hike to the tune of ~10%, it would be insufficient. Hence, we expect gross margins contraction 200 bps. However, considering strong sales growth, cut in marketing & overhead spends, we expect operating margin expansion of 100 bps to 14.8% in FY21E and further 20 bps to 15.0% in FY22E.

Valuation & Outlook

With merger of food business, the product portfolio has presence of high growing categories like pulses & spice. We believe the growth prospects largely depend on converting loose or semi branded consumption to branded given tea, pulses, spices have a very large unorganised market. We also see margins expansion possibility in the long run with low raw material price volatility (current times are exception). We remain positive on the stock & maintain **BUY** rating with a revised target price of ₹ 525/share.

TATA CONSUMER PRODUCTS

Particulars

Particulars (₹ crore)	Amount
Market Capitalization	41,256.2
Total Debt (FY20)	1,488.4
Cash and Investments (FY20)	2,455.0
EV	40,289.6
52 week H/L (₹)	407 / 178
Equity capital	92.2
Face value (₹)	1.0

Key Highlights

- India beverage business grew by 11% led by strong 8% growth in India tea business
- India food business witnessed a growth of 18.9% with pulses & spices growing at more than 50%
- International beverages business seen a growth of 15% led by 26% growth in US coffee (EOC)
- Operating margins expanded by 310 bps to 17.8%
- Reiterate BUY recommendation with revised target price of ₹ 525

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Key Financial Summary

Key Financials	FY18	FY19	FY20	FY21E	FY22E	CAGR (FY20-22E)
Net Sales	6815.4	7251.5	9637.4	10697.3	11586.3	9.6%
EBITDA	838.9	785.9	1292.2	1586.1	1759.9	16.7%
EBITDA Margin %	12.3	10.8	13.4	14.8	15.2	
Adjusted Net Profit	572.4	478.4	641.8	900.8	1075.3	29.4%
EPS (₹)	8.8	7.2	5.0	9.8	11.7	
P/E	50.8	61.8	89.7	45.8	38.4	
RoNW %	8.1	6.5	4.6	6.6	7.5	
RoCE (%)	8.7	8.4	6.9	8.8	9.4	

Source: Company, ICICI Direct Research

Exhibit 1: Change in estimates

	Q1FY20	Q1FY20E	Q1FY20	YoY (%)	Q4FY20	QoQ (%)	Comments
Net Sales	2,713.9	2,418.0	2,392.4	13.4	2,405.0	12.8	Net sales witnessed a strong growth of 13.4% with robust growth across categories India beverages, India Food & International Gross margins expanded by 176 bps with efficient inventory management. The company was carrying large part of tea inventory in India. Tea prices for UK business was favorable.
Raw Material Expenses	1,500.6	1,371.0	1,364.9	9.9	1,311.9	14.4	
Employee Expenses	229.1	237.5	213.8	7.2	231.6	-1.1	
SG&A Expenses	133.8	157.2	131.3	1.9	181.4	-26.3	
Other operating Expenses	367.8	332.4	331.5	10.9	371.8	-1.1	
EBITDA	482.7	319.9	350.9	37.6	308.4	56.5	Operating margins expanded by 312 bps with gross margins expansion & savings in marketing, employee & overhead spends
EBITDA Margin (%)	17.8	13.2	14.7	312 bps	12.8	496 bps	
Depreciation	61.9	64.7	57.6	7.5	64.0	-3.3	
Interest	17.3	16.5	18.6	-7.2	18.7	-7.6	
Other Income	32.7	29.3	33.1	-1.1	21.9	49.2	
Exceptional Expense/(Income)	-63.3	0.0	8.1	NA	264.4	NA	
PBT	499.5	268.0	299.7	66.7	-16.8	-3,066.1	
Tax Outgo	110.4	72.4	102.2	8.0	33.4	230.8	
PAT before MI	389.1	195.6	197.5	97.0	-50.2	-874.9	
Profit from Associates	-43.5	-28.2	-7.4	NA	-72.3	NA	
PAT	345.6	167.5	190.1	81.8	-122.5	-382.1	
Adj. PAT	282.2	167.5	198.2	42.4	106.3	165.6	Net profit grew by 42.4% led by higher EBITDA & cut in corporate

Source: Company, ICICI Direct Research

Exhibit 2: Change in estimates

	FY21E			FY22E			Comments
(₹ Crore)	Old	New	% Change	Old	New	% Change	
Sales	10292.1	10697.3	3.9	11112.9	11,586.3	4.3	We revise our India tea business growth estimates by 4% as the business was not impacted by lockdown as expected earlier
EBITDA	1440.9	1586.1	10.1	1625	1,759.9	8.3	
EBITDA Margin (%)	14.0	14.8	83 bps	14.6	15.2	57 bps	We are changing our margins estimates factoring in lower marketing spends in FY21E & other cost efficiencies in FY22E
PAT	799.9	900.8	12.6	1,003.0	1,075.3	7.2	
EPS (₹)	8.7	9.8	12.4	10.9	11.7	7.1	

Source: Company, ICICI Direct Research

Exhibit 3: Assumptions

Exhibit of Assumptions								
	Current					Earlier		Comments
Segmental Revenues (Gross)	FY18	FY19	FY20	FY21E	FY22E	FY21E	FY22E	
Tea / India Beverage	4,922.8	3,167.7	3,376.9	3,984.7	4,303.5	3,579.5	3,830.1	We changed our India beverages estimates upwards
Coffee / International Bevergae	1,079.5	3,238.4	3,226.0	3,290.6	3,422.2	3,290.6	3,422.2	
Others	35.7	30.2	26.6	28.0	29.4	28.0	29.4	
Non-branded	815.2	842.5	974.9	1,052.9	1,105.6	1,052.9	1,105.6	
TCL Consumer / India Foods				2,373.3	2,753.0	2,373.3	2,753.0	
No. of Starbucks stores	116	146	185	188	208	196	216	We are estimating no more starbucks store opening in rest of FY21

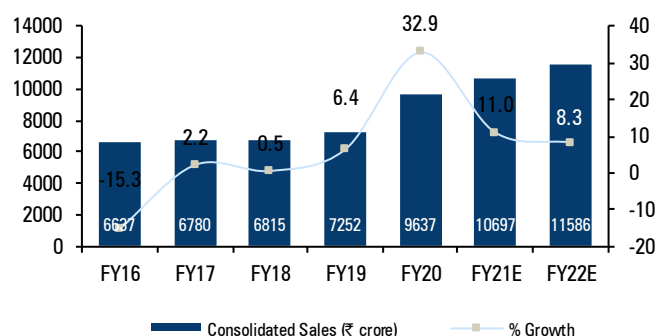
Source: Company, ICICI Direct Research

Conference Call Highlights

- TCPL witnessed strong revenue growth of 13.4% with India beverage, India food & international beverage business witnessing growth of 11%, 19% & 15%, respectively
- India beverages business including NorishCo grew 11%. India tea business saw 8% sales growth, 4% volume growth. The business saw double digit growth in May & June after initial supply chain disruption in April. It is important to note that tea category in India declined 5.4%, which depicts market share gains for TCPL at the expense of local/regional brands
- India food business witnessed sales growth of 19% led by 8% volume growth, curtailment of trade promotions & higher sales of premium product through e-commerce channel. Salt business grew 11% and pulses & spices business grew robust 50%. The growth has been largely on account of shift from unbranded to branded products with better availability of latter
- International beverage business grew 15%. This was led by healthy growth of 26% in US coffee business (Eight O Clock) with 27% increase in volumes. UK & Canada tea business also saw healthy sales growth of 12% (volume growth 7%) & 32% (volume growth 28%), respectively
- Tata Coffee business (58% subsidiary) saw 12% revenue growth with 18% growth in India plantation & 6% volume growth in Vietnam extraction business. The company has sold highest ever coffee (plantation) in a quarter. The Vietnam plant is working at 87% of capacity utilisation and has turned EBIT positive
- Tata Starbucks (50% JV) was worst impacted with 87% revenue decline. Out of the 187 stores, 110 are open now. Revenues are 27% of the last year levels. Takeaways contribute 82% of sales whereas delivery contributes the rest. The company opened its first Starbucks drive through store at Zirakpur, Chandigarh. Loss from associate & JV (which includes Starbucks losses) increased from ₹ 7.4 crore to ₹43.5 crore
- The company has been able to manage inflation in commodity well during the quarter. However, tea prices have risen sharply (more than 50% increase), which could impact gross margins negatively in the next two quarters. The cost inflation will be passed on to consumers but it will be done in a gradual manner keeping the market share intact. The cost inflation is even more negative for smaller regional brands as they find it difficult to pass it on without market share loss
- The company is planning to double direct distribution network in the next year. Moreover, it is planning to double numeric reach (indirect distribution network) in the next three years. It will have common salesforce to sell full portfolio. The focus on alternate channels (MT, ecommerce) will be enhanced. Inventory management, cost efficiencies, raw material sourcing, distribution reach need to be managed through end to end digitisation
- Though in the current quarter, the company has spent less on marketing (A&P spends have been lower in India but higher in UK), the long term spends are required to build brand and the company would be spending it judiciously. The focus has been on new campaigns on digital media
- With the merger of foods business, the company is likely to reduce cost by 1.5-20% with synergies & efficiencies in the next 18-24 months

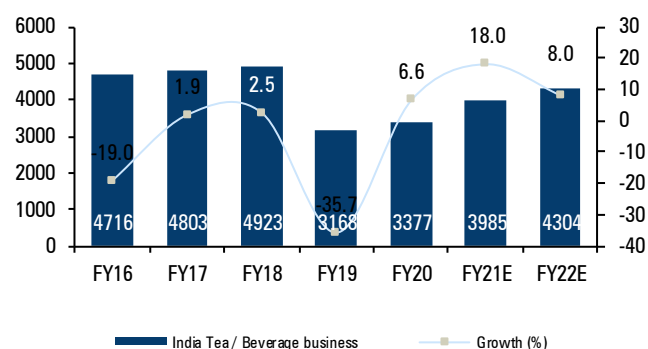
Key Metrics

Exhibit 4: Consolidated revenue to grow at 9.6% in FY20-22E



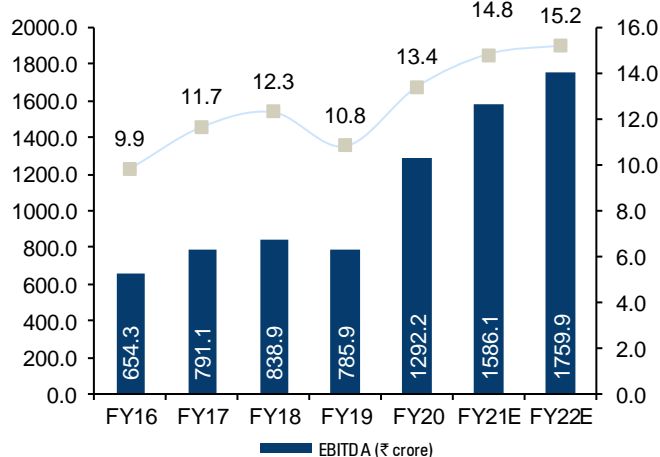
Source: ICICI Direct Research, Company

Exhibit 5: Tea / India beverage business sales trend



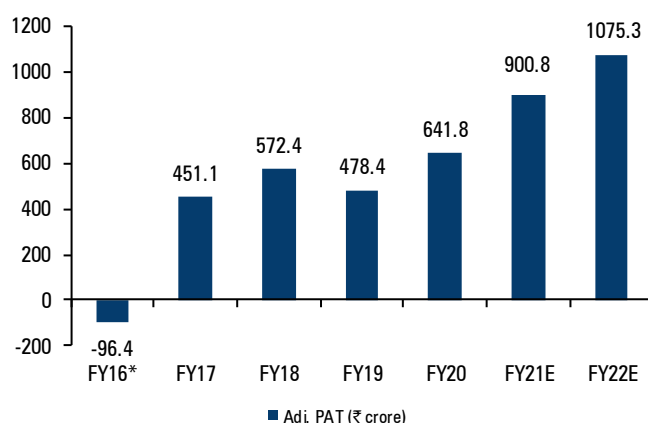
Source: ICICI Direct Research, Company
*FY19 onwards segment reporting has changed from tea to India Beverage

Exhibit 6: Operating margins trend (%)



Source: Company, ICICI Direct Research

Exhibit 7: Adjusted PAT growth trends



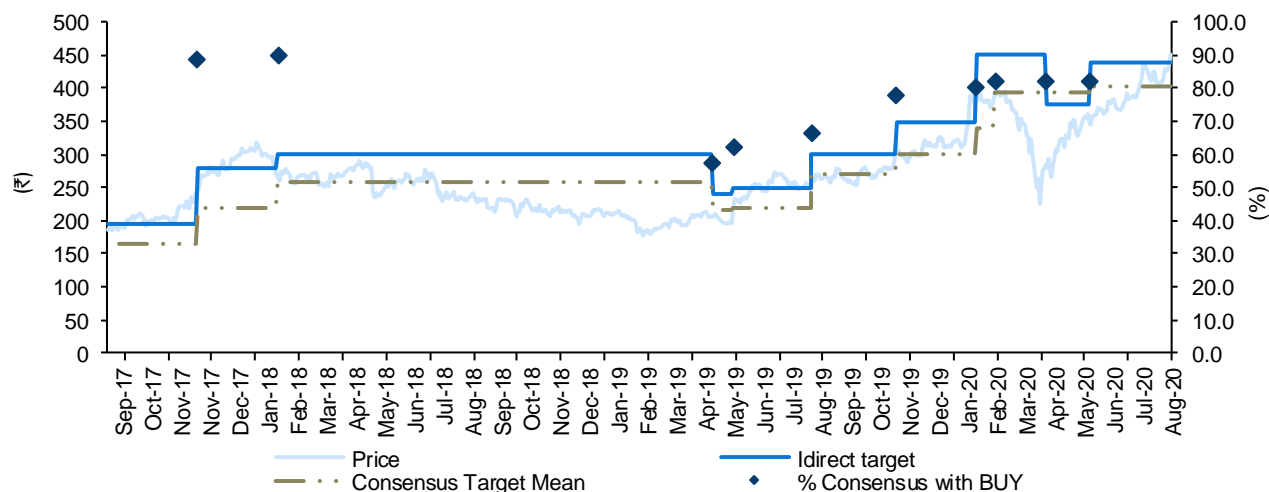
Source: Company, ICICI Direct Research

Exhibit 8: Valuation

	Sales	Growth	EPS	Growth	PE	EV/EBITDA	RoNW	RoCE
	(₹ cr)	(%)	(₹)	(%)	(x)	(x)	(%)	(%)
FY19	7251.5	6.4	7.2	-17.9	61.6	51.8	6.5	8.4
FY20	9637.4	32.9	5.0	-31.1	89.3	31.7	4.6	6.9
FY21E	10697.3	11.0	9.8	95.8	45.6	25.2	6.6	8.8
FY22E	11586.3	8.3	11.7	19.4	38.2	22.6	7.5	9.4

Source: Company, ICICI Direct Research

Exhibit 9: Recommendation History vs. Consensus



Source: Bloomberg, Company, ICICI Direct Research

Exhibit 10: Top 10 Shareholders

Rank	Investor Name	Filing Date	% O/S	Position (m)	Change (m)
1	Tata Sons Ltd	31-Mar-20	29.5	270.6	0.0
2	First State Investme	25-Sep-18	6.3	57.8	0.0
3	Tata Investment Corp	31-Mar-20	4.8	44.3	0.0
4	Life Insurance Corp	31-Mar-20	2.1	19.5	19.5
5	Reliance Capital Tru	31-Mar-20	2.0	18.5	-0.3
6	Mirae Asset Global I	31-Dec-19	1.7	15.4	-5.2
7	Government Pension F	31-Mar-20	1.5	13.3	2.8
8	Hdfc Asset Managemen	30-Jun-20	1.4	12.3	0.3
9	Sundaram Asset Manag	30-Jun-20	1.3	11.8	-0.8
10	Franklin Resources	30-Jun-20	1.2	11.3	-4.3

Source: Reuters, ICICI Direct Research

Exhibit 11: Shareholding Pattern

(in %)	Jun-19	Sep-19	Dec-19	Mar-20	Jun-20
Promoter	34.5	34.5	34.5	34.68	34.68
FII	26.6	27.8	26.0	18.56	19.49
DII	13.1	12.8	14.9	14.87	19.83
Others	25.8	24.9	24.6	31.9	26.0

Source: Company, ICICI Direct Research

Financial summary

Exhibit 12: Profit and loss statement ₹ crore				
(Year-end March)	FY19	FY20	FY21E	FY22E
Total Operating Income	7251.5	9637.4	10697.3	11586.3
Growth (%)	6.4	32.9	11.0	8.3
Raw Material Expenses	4,007.6	5,410.7	6,225.0	6,470.0
Employee Expenses	806.3	884.8	901.3	987.2
Marketing Expenses	547.5	676.7	536.5	789.7
Administrative Expenses	0.0	0.0	0.0	0.0
Other expenses	1,104.1	1,373.1	1,448.5	1,579.5
Total Operating Expenditure	6,465.6	8,345.3	9,111.2	9,826.4
EBITDA	785.9	1292.2	1586.1	1759.9
Growth (%)	-6.3	64.4	22.7	11.0
Depreciation	122.6	241.7	247.5	246.9
Interest	52.5	77.9	66.0	62.2
Other Income	157.1	111.6	117.2	123.0
PBT	768.0	1,084.2	1,389.8	1,573.9
Exceptional items	-33.3	-274.8	0.0	0.0
Total Tax	260.9	274.2	361.3	409.2
PAT	457.0	460.1	900.8	1075.3
Growth (%)	-17.9	0.7	95.8	19.4
Adjusted EPS (₹)	7.6	7.0	9.8	11.7

Source: Company, ICICI Direct Research

Exhibit 13: Cash flow statement ₹ crore				
(Year-end March)	FY19	FY20	FY21E	FY22E
Profit/Loss after Tax	567.3	681.0	900.8	1075.3
Add: Depreciation	122.6	241.7	247.5	246.9
Add: Interest	-10.2	77.9	66.0	62.2
(Inc)/dec in Current Assets	-288.2	-95.8	105.6	-687.6
Inc/(dec) in Current Liabilities	-100.0	13.8	-249.4	143.7
CF from operating activities	209.9	1082.2	1070.5	840.5
(Inc)/dec in Investments	286.4	-337.9	-9.5	-9.8
(Inc)/dec in Fixed Assets	-256.6	-150.8	-3,591.7	-100.0
Others	43.5	-184.1	4,664.1	28.4
CF from investing activities	73.3	-672.8	1062.9	-81.3
Issue/(Buy back) of Equity	0.0	0.0	0.0	0.0
Inc/(dec) in loan funds	35.8	32.1	-405.9	-40.0
Dividend paid & dividend tax	-215.8	-221.6	-329.0	-383.8
Inc/(dec) in Sec. premium	0.0	0.0	-690.1	0.0
Others	-43.7	-118.8	-66.0	-62.2
CF from financing activities	-223.7	-308.3	-1491.0	-486.0
Net Cash flow	59.4	101.1	642.4	273.1
Opening Cash	698.2	737.5	889.3	1,531.8
Closing Cash	1033.6	1121.7	1764.1	2037.2

Source: Company, ICICI Direct Research

Exhibit 14: Balance sheet ₹ crore				
(Year-end March)	FY19	FY20E	FY21E	FY22E
Liabilities				
Equity Capital	63.1	92.2	92.2	92.2
Reserve and Surplus	7,268.6	13,722.7	13,604.4	14,295.9
Total Shareholders funds	7,331.7	13,814.9	13,696.5	14,388.1
Long Term Borrowings	787.2	1,100.6	694.7	654.7
Long Term Provisions	152.2	183.2	342.3	370.8
Other Non-current Liabilities	1197.6	1425.4	1425.4	1425.4
Total Liabilities	9468.8	16524.0	16158.9	16838.8
Assets				
Gross Block	7,015.5	7,115.5	7,615.5	7,715.5
Less: Acc Depreciation	2,231.1	2,472.8	2,720.3	2,967.2
Net Block	4,913.3	1,551.0	4,895.2	4,748.3
Capital WIP	424.4	95.4	95.4	95.4
Goodwill	0.0	10105.0	5600.0	5600.0
Non Current Investments	604.5	544.0	553.4	563.2
LT Loans & Advances/Others	448.5	525.2	525.2	525.2
Current Assets				
Inventory	1,609.9	1,712.0	2,491.2	2,856.9
Debtors	680.6	922.4	1,025.8	1,269.7
Cash	1,033.6	1,121.7	1,764.1	2,037.2
Loans & Advances	828.2	1,449.9	703.4	761.8
Other Current Assets	395.8	173.2	234.5	253.9
Current Liabilities				
Creditors	664.9	944.0	732.7	793.6
Provisions	49.5	92.4	175.8	190.5
Short Term Borrowings	329.7	387.8	468.9	507.9
Other CL	425.9	554.4	351.7	380.9
Net Current Assets	3,078.0	3,703.5	4,489.7	5,306.8
Total Assets	9468.8	16524.0	16158.9	16838.8

Source: Company, ICICI Direct Research

Exhibit 15: Key ratios ₹ crore				
(Year-end March)	FY19	FY20	FY21E	FY22E
Per share data (₹)				
EPS	7.2	5.0	9.8	11.7
Cash EPS	9.2	7.6	12.5	14.3
BV	116.2	149.9	148.6	156.1
DPS	2.5	2.7	3.0	3.5
Cash Per Share	16.4	12.2	19.1	22.1
Operating Ratios (%)				
EBITDA Margin	10.8	13.4	14.8	15.2
PBT / Net Sales	10.6	11.2	13.0	13.6
PAT Margin	6.3	4.8	8.4	9.3
Inventory days	81.0	64.8	85.0	90.0
Debtor days	34.3	34.9	35.0	40.0
Creditor days	33.5	35.8	25.0	25.0
Return Ratios (%)				
RoE	6.5	4.6	6.6	7.5
RoCE	8.4	6.9	8.8	9.4
RoIC	8.9	13.9	16.1	17.3
Valuation Ratios (x)				
P/E	61.6	89.3	45.6	38.2
EV / EBITDA	51.8	31.7	25.2	22.6
EV / Net Sales	5.6	4.2	3.7	3.4
Market Cap / Sales	5.7	4.3	3.8	3.5
Price to Book Value	3.8	3.0	3.0	2.9
Solvency Ratios				
Debt/EBITDA	1.4	1.2	0.7	0.7
Debt / Equity	0.2	0.1	0.1	0.1
Current Ratio	3.1	2.7	3.5	3.8
Quick Ratio	1.7	1.6	1.6	1.7

Source: Company, ICICI Direct Research

Exhibit 16: ICICI Direct coverage universe (FMCG)

Sector / Company	CMP	TP	Rating	M Cap	EPS (₹)			P/E (x)			Price/Sales (x)			RoCE (%)			RoE (%)		
	(₹)	(₹)		(₹ Cr)	FY20	FY21E	FY22E	FY20	FY21E	FY22E	FY20	FY21E	FY21E	FY20	FY21E	FY22E	FY20	FY21E	FY22E
Colgate (COLPAL)	1,443	1,540	Hold	39,377	30.0	31.0	34.3	48.1	46.6	42.1	8.8	8.6	7.8	60.7	68.0	76.0	51.2	52.1	58.3
Dabur India (DABIND)	503	565	Buy	87,118	8.2	8.8	10.3	61.4	57.1	49.1	10.0	9.9	8.6	26.1	24.0	24.7	21.9	20.9	21.4
Hindustan Unilever (HINLEV)	2,195	2,410	Hold	519,159	31.2	32.4	40.1	70.4	67.8	54.7	13.6	12.2	0.0	89.5	26.7	33.0	85.7	20.3	25.4
ITC Limited (ITC)	193	250	Buy	245,475	12.5	11.7	13.0	15.5	16.4	14.8	5.3	5.2	4.6	29.4	28.3	36.1	23.8	21.7	27.7
Jyothy Lab (JYOLAB)	140	150	Hold	5,141	4.3	5.3	5.8	32.7	26.5	24.1	3.1	2.9	2.6	24.3	29.7	29.9	21.7	24.2	24.1
Marico (MARLIM)	363	380	Hold	45,286	8.1	8.5	9.6	44.9	42.7	38.0	6.2	6.1	5.5	41.0	42.3	46.2	34.5	35.6	39.5
Nestle (NESIND)	16,503	18,000	Hold	164,869	204.3	230.3	268.9	80.8	71.7	61.4	13.4	12.4	10.9	56.9	59.3	65.9	101.9	114.2	123.6
Tata Consumer Products (TATGLC)	448	525	Buy	41,256	5.0	9.8	11.7	89.7	45.8	38.4	4.3	3.9	3.6	6.9	8.8	9.4	4.6	6.6	7.5
VST Industries (VSTIND)	3,445	4,450	Buy	5,000	196.9	202.1	222.6	17.5	17.0	15.5	4.0	4.2	3.6	52.1	46.3	44.8	38.6	34.2	33.0
Varun Beverage (VARBEV)	747	700	Hold	20,670	16.4	9.7	17.8	45.7	76.8	41.9	2.9	3.4	2.8	15.5	11.3	16.3	14.2	8.8	14.2
Zydus Wellness (ZYDWEL)	1,697	1,925	Buy	9,266	24.6	39.0	55.0	69.1	43.5	30.9	5.2	5.1	4.5	5.9	6.5	7.8	5.4	6.2	8.1

Source: Company, ICICI Direct Research

RATING RATIONALE

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

Buy: >15%

Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%



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