13 October 2020

Company Update | Sector: Consumer

Tata Consumer Products

BSE SENSEX	S&P CNX
40,626	11,935

TATA CONSUMER PRODUCTS

Bloomberg	TATACONS IN
Equity Shares (m)	922
M.Cap.(INRb)/(USDb)	432 / 6
52-Week Range (INR)	592 / 214
1, 6, 12 Rel. Per (%)	-19/21/65
12M Avg Val (INR M)	1989
Free float (%)	65.3

Financials Snapshot (INR b)

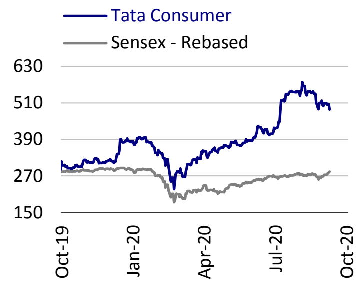
Y/E MARCH	FY20	2021E	2022E
Sales	96.4	108.2	118.8
EBITDA	12.9	17.0	19.7
Adj. PAT	7.3	9.5	11.4
EBITDA Margin (%)	13.4	15.7	16.6
Cons. Adj. EPS (INR)	8.0	10.3	12.4
EPS Gr. (%)	66.4	29.5	19.7
BV/Sh. (INR)	150	157	166
Ratios			
Net D:E	(0.1)	(0.1)	(0.2)
RoE (%)	6.9	6.7	7.6
RoCE (%)	8.5	8.6	10.0
Payout (%)	54.1	27.3	26.7
Valuations			
P/E (x)	58.8	45.4	38.0
EV/EBITDA (x)	32.1	24.4	21.1
Div. Yield (%)	0.9	1.4	1.6
FCF Yield (%)	4.8	4.0	5.5

Shareholding pattern (%)

As On	Jun-20	Mar-20	Jun-19
Promoter	34.7	34.7	34.5
DII	19.8	21.8	13.1
FII	19.5	17.1	26.6
Others	26.0	26.4	25.8

FII Includes depository receipts

Stock Performance (1-year)



CMP: INR469 TP: INR558 (+19%) Buy

Pricing power in tea to negate impact on margins

Tea prices in North India have increased to INR261/kg (weighted average) over Apr-Sep'20 (v/s INR162/kg during the same period last year). Note that all India weighted average tea prices have increased to INR224/kg (v/s INR149/kg last year). In this note, we have analyzed the impact of the increase in tea prices on Tata Consumer Products (TCP) in the near term as well as over the long term. Key insights highlighted below:

Lower supply and higher demand drives Indian tea prices higher

- India is the largest producer of black tea in the world and accounts for the highest consumption of tea globally.
- In FY19, tea production in India stood at 1,350m kg. Of this, 1,090m kg was consumed domestically (81% of India's production) and balance 260m kg was exported. In FY19, TCP sold 124m kg, accounting for 11% of India's total tea consumption. TCP has ~20% volume market share in the domestic organized market.
- Production of North India tea (Assam and West Bengal), which accounts for 84% of India's tea production has been impacted due to the lockdown and floods. This led to an increase in North India weighted average tea prices by 61% YoY over Apr-Sep'20 to INR261/kg (v/s INR162/kg for the same period last year). According to the Tea Board of India, all India weighted average tea prices have increased by 50% YoY to INR224/kg (v/s INR149/kg last year).
- Indian Assam tea is usually harvested in three flushes:
  - the first flush is from mid-March to late-June (forms 32% of the whole tea cycle volumes and is of the best quality),
  - the second flush is from July to September (forms 38% of volumes and is the second best quality), and
  - the third flush is from October to December (forms 28% of volumes and is of inferior quality v/s the first and second flush) (as per 2019 production data)
- According to the Tea Board of India, all India tea production (from Mar-Aug'20) is lower by 154m kg as compared to last year due to (a) first flush of the crop being lost as plucking activities were at a standstill between 25th Mar-13th Apr'20 on account of the COVID-induced lockdown, and (b) unfavorable weather conditions, which led to slower growth of the bush impacting production of the second flush in July'20. Thus, of India's annual tea production of ~1,350m kg, ~150m kg was lost, which created a supply crunch, leading to an increase in prices.

Gross margins may be impacted in short term…

In 1QFY21, TCP's India tea business witnessed expansion in EBIT margin of 620bp to 21.5% driven by favorable commodity costs and lower discretionary expenditure; the company took a price hike (value growth of 7% in 1QFY21) on the back of an increase in tea prices and carry-forward of low cost inventory, which was sold in 1QFY21 (was acquired by TCP in Aug-December'19). As per our channel checks, TCP's India tea business took price hike of 15-20% during May-Sep'20.

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Additionally, the company has removed one layer from its distribution of tea, which should aid margin expansion.

- Owing to the pandemic, out-of-home consumption of tea has taken a hit. However, in-home consumption of tea has increased materially, which has aided branded players like TCP as typically customers consume branded tea at home whereas unbranded tea is consumed outside.
- Going forward, gross margin pressure can be expected in the segment from 3Q-4QFY21. However, this will be offset by the price hike and distribution rejig (will aid in expanding EBITDA margins by 100-150bp).
- Nevertheless, while gross profit per kg is likely to be maintained, gross margin should be lower on higher base due to the price increase in 3Q-4QFY21.

…but higher tea prices to drive value growth in FY21

- Tea prices currently stand at INR234/kg, which is likely to stabilize around INR170/kg (up 23% when compared to average tea prices of 2019) as per industry sources, which is higher than the pre-COVID levels.
- Over the last five years, tea prices have posted 2% CAGR owing to an increase in the production of tea, which impacted prices adversely.
- Over FY15-20, TCP's standalone tea business revenue showcased 5% CAGR to INR36.3b, driven by 6% volume CAGR (to 133m/kg in FY20).
- Thus, once prices stabilize, it would aid in driving value growth for TCP in FY21.

Valuation and view

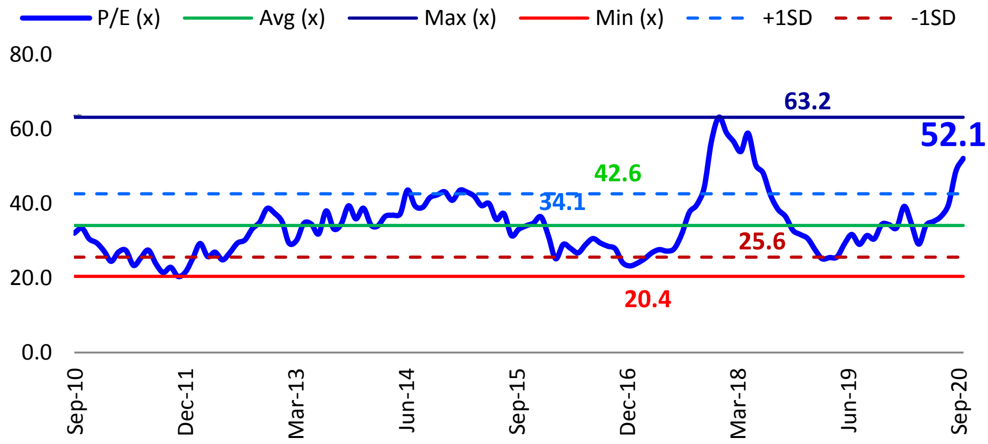
- TCP's India beverages business, which houses mainly the India tea business reported 11% revenue growth during 1QFY21, aided by 4% volume growth and balance by value growth; EBIT margins in 1QFY21 expanded 620bp YoY to 21.5% and EBIT grew 56% YoY. The performance was aided by better realizations, favorable commodity costs and lower discretionary expenditure.
- We expect margin expansion to moderate in the near term as high cost tea inventory, which is procured by the company will be sold in the quarters to come (3QFY21 and 4QFY21).
- However, once tea prices stabilize, it is likely to be higher v/s pre-COVID prices. This should aid in driving value growth for the company, which wasn't the case over the last five years where growth in the standalone business was driven by volumes.
- Currently, TCP has two strong legs in the India business – Tata Tea and Tata Salt – wherein TCP is targeting lower double-digit growth, driven by cross-selling between Tata Chemicals and TCP's distribution channels and also expansion into new geographies.
- TCP is building its third leg, which should grow in high double-digits – Tata Sampann – dealing in pulses and spices. Market size of pulses/spices in India currently stands at INR1,500b/INR600b with the unorganized players forming 99%/70% of the market. Thus, growth is expected by grabbing market share from unorganized players with increasing distribution reach. Apart from the above, TCP has launched nutrimixes (Chilla), poha and chutney in the ready-to-cook space, which should aid growth.
- We value TCP on an SOTP basis to arrive at target price of INR558. Maintain **Buy**.

Exhibit 1: SOTP Valuation

EV/EBITDA	EBITDA	Multiple (x)	EV
India Tea (TCP Standalone)	6,654	30	1,99,619
Coffee India (ex-Starbucks) @57%	431	10	4,503
Coffee Overseas	3,060	11	33,664
Consumer (Salt & others)	6,455	30	1,93,644
Overseas tea (Tetley UK)	1,945	10	20,330
DCF			
Starbucks JV			29,508
Price/Sales			
NourishCo (JV with Pepsi) & others	2,000	4	8,000
Enterprise value			**4,89,268**
Less: Net debt			**-25,009**
Market value (INRm)			**5,14,277**
No. of shares (m)			**922**
Target price (INR)			**558**

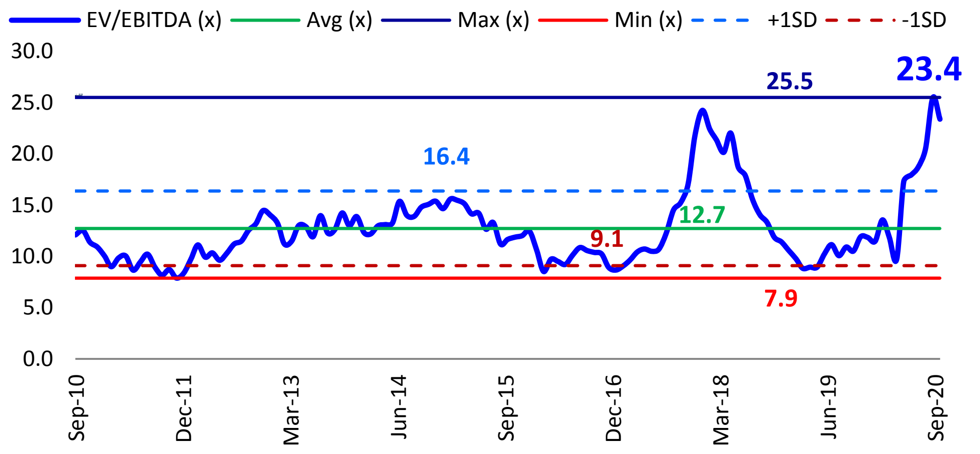
Source: MOFSL

Exhibit 2: One year forward P/E (x)



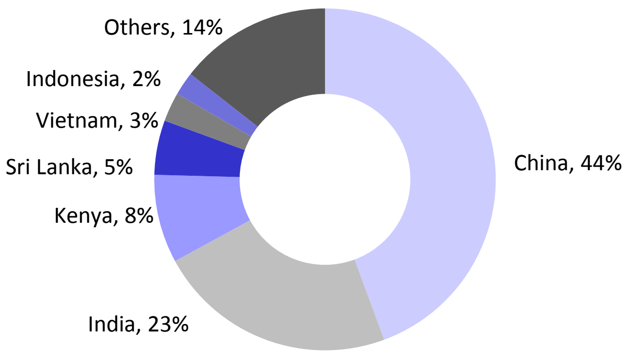
Source: MOFSL

Exhibit 3: One year forward EV/EBITDA (x)



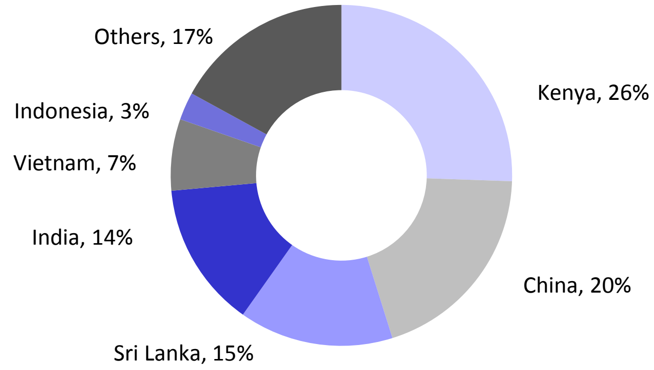
Source: MOFSL

Exhibit 4: World tea (black and green) production (2018) - 5,897m kg



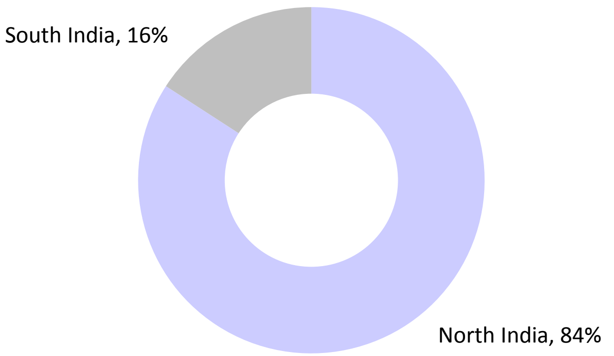
Source: Tea Board of India, MOFSL

Exhibit 5: World Export (2018) - 1,859m kg



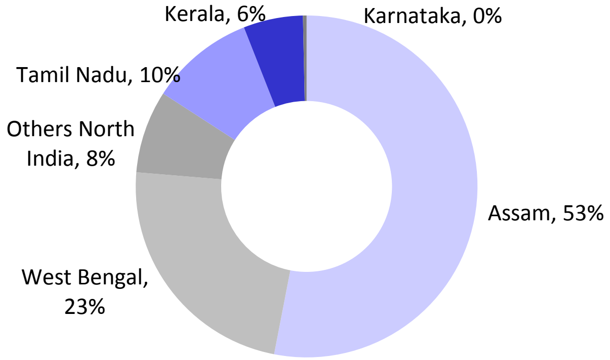
Source: Tea Board of India, MOFSL

Exhibit 6: India region-wise tea acreage (636k hectare)



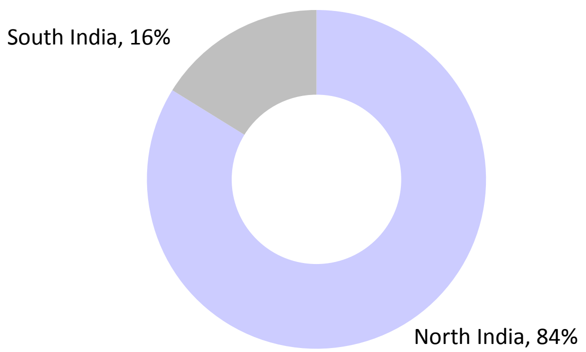
Source: Tea Board of India, MOFSL

Exhibit 7: State-wise Tea Growers, Area (636k hectare)



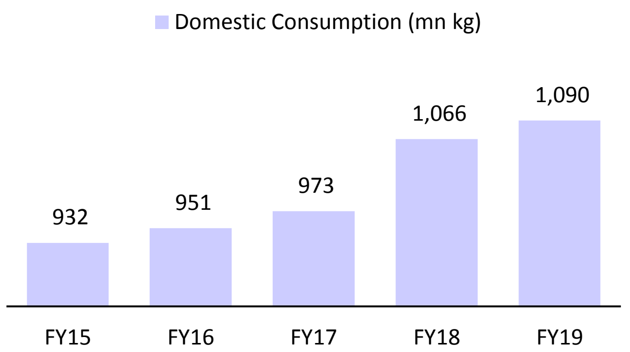
Source: Tea Board of India, MOFSL

Exhibit 8: India region-wise tea production (1,361m kg)



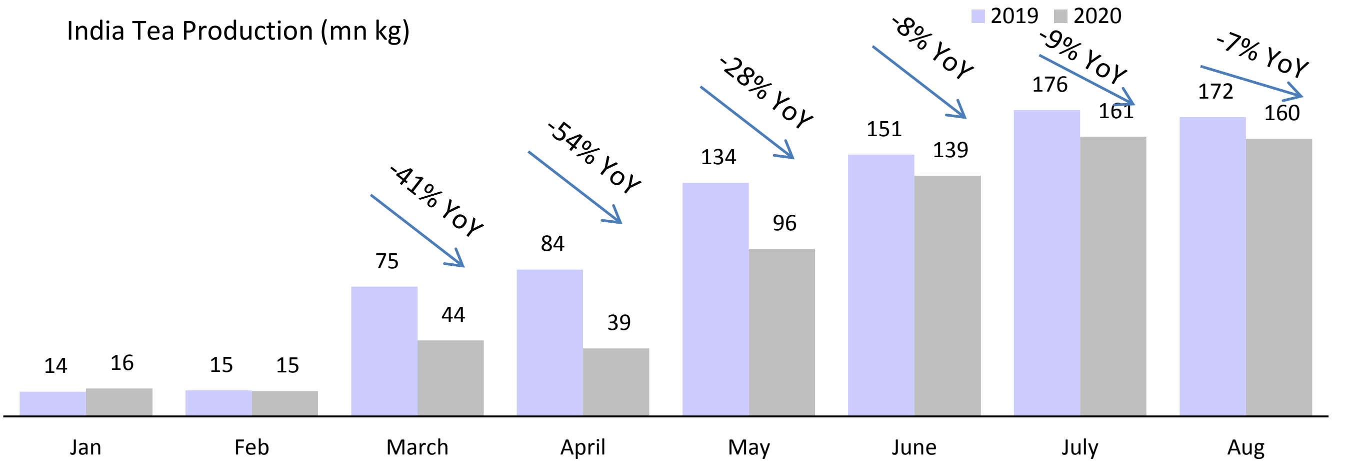
Source: Tea Board of India, MOFSL

Exhibit 9: Domestic tea consumption trend



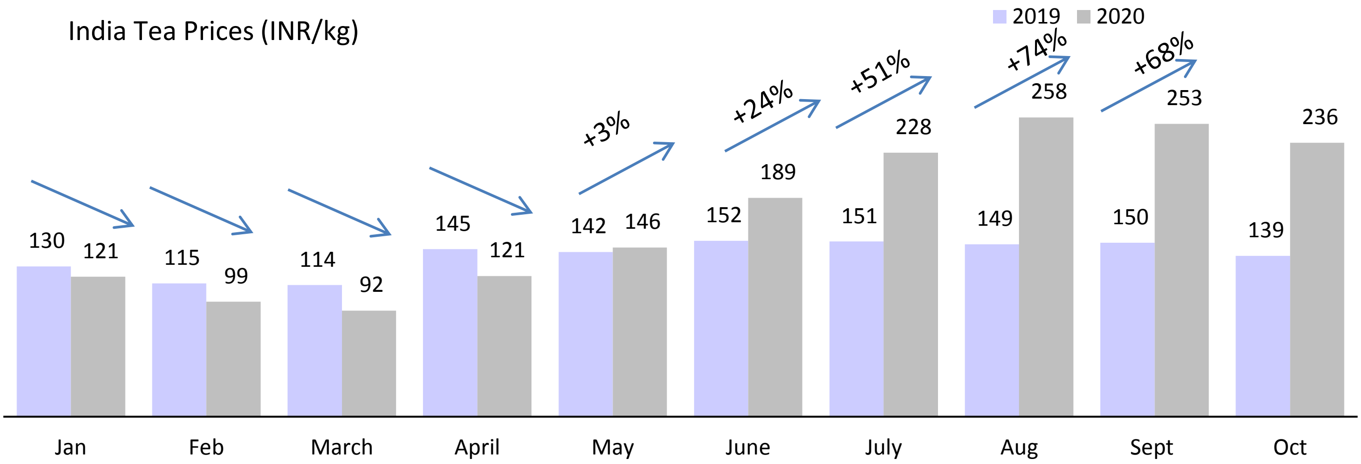
Source: Tea Board of India, MOFSL

Exhibit 10: Tea production in India has declined mainly led by decline in production in North India…



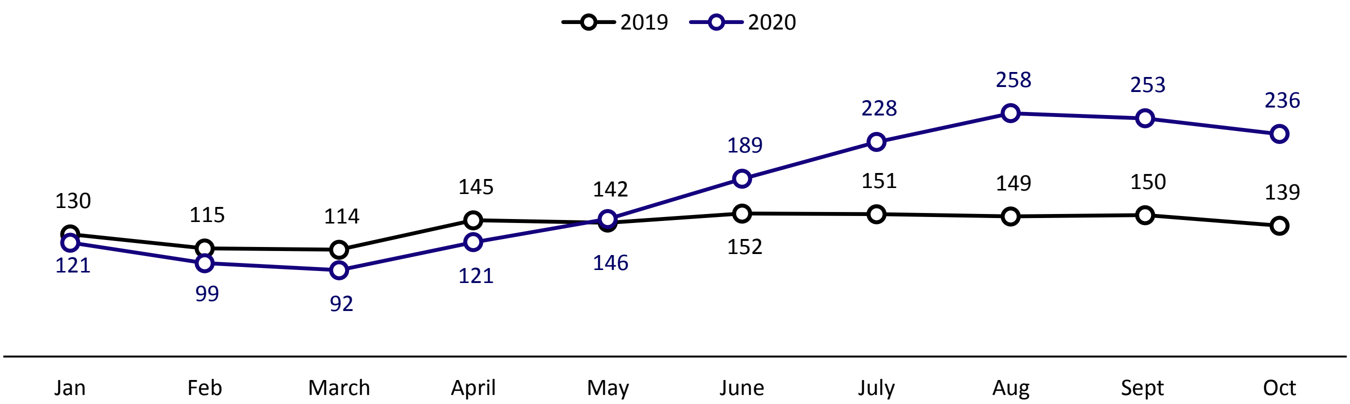
Source: Tea Board of India, MOFSL

Exhibit 11: …leading to substantial increase in tea prices



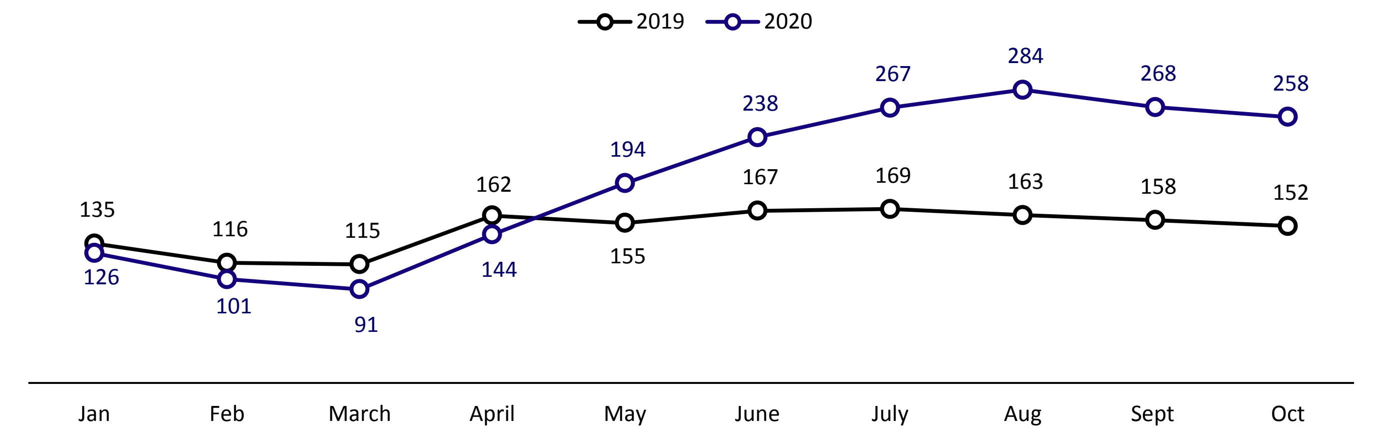
Oct'20 are based on 3rd Oct'20 prices Source: Tea Board of India, MOFSL

Exhibit 12: Tea prices in India (INR/kg)



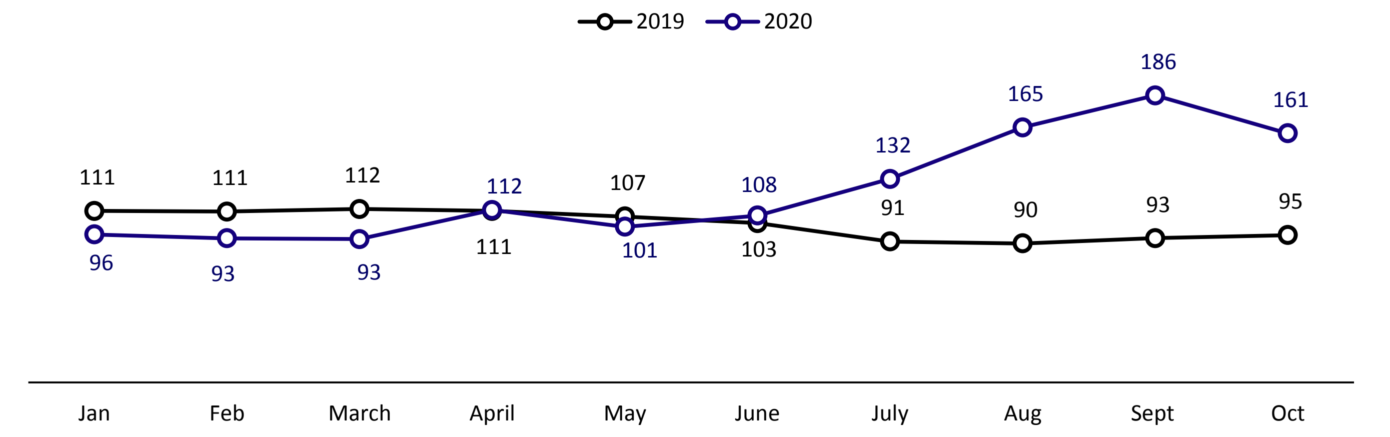
Oct'20 are based on 3rd Oct'20 prices Source: Tea Board of India, MOFSL

Exhibit 13: Tea prices in North India (INR/kg)



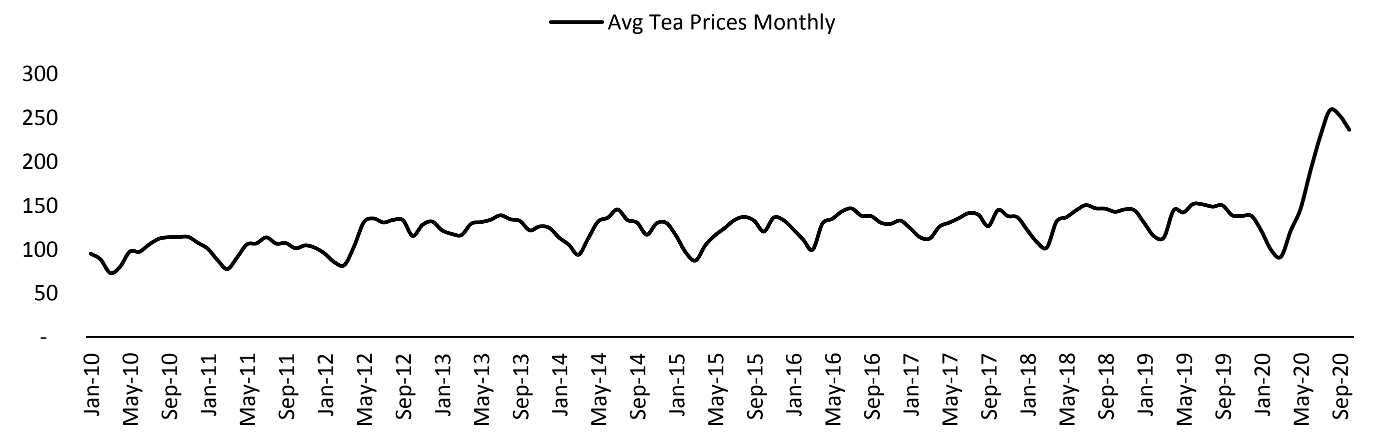
Oct'20 are based on 3rd Oct'20 prices Source: Tea Board of India, MOFSL

Exhibit 14: Tea prices in South India (INR/kg)



Oct'20 are based on 3rd Oct'20 prices Source: Tea Board of India, MOFSL

Exhibit 15: All India tea prices trend (INR/kg)



Source: Tea Board of India, MOFSL

Financials and valuations

Consolidated Income Statement							(INR M)
Y/E March	**2016**	**2017**	**2018**	**2019**	**2020**	**2021E**	**2022E**
Net Sales	**66,365**	**67,796**	**68,154**	**72,515**	**96,374**	**1,08,164**	**1,18,788**
Change (%)	-17.0	2.2	0.5	6.4	32.9	12.2	9.8
Gross Profit	**30,149**	**32,180**	**31,160**	**32,439**	**42,267**	**47,478**	**51,884**
Margin (%)	45.4	47.5	45.7	44.7	43.9	43.9	43.7
Other operating exp.	23,606	24,269	22,771	24,579	29,346	30,505	32,192
EBITDA	**6,543**	**7,911**	**8,389**	**7,859**	**12,921**	**16,973**	**19,693**
Margin (%)	9.9	11.7	12.3	10.8	13.4	15.7	16.6
Depreciation	1,168	1,260	1,160	1,226	2,417	2,594	2,577
Net Interest	1,169	915	428	525	779	738	769
Other income	820	831	942	1,571	1,116	1,097	1,152
PBT before EO	**5,026**	**6,566**	**7,743**	**7,680**	**10,842**	**14,739**	**17,499**
EO income/(exp.)	-3,329	53	-211	-333	-2,748	633	0
PBT after EO	1,698	6,619	7,531	7,347	8,094	15,372	17,499
Tax	2,000	1,983	1,859	2,609	2,742	3,888	4,900
Rate (%)	117.8	30.0	24.7	35.5	33.9	25.3	28.0
Minority and Associates	-247	742	717	656	754	1,339	1,214
Reported PAT	**-55**	**3,894**	**4,956**	**4,082**	**4,598**	**10,144**	**11,385**
Adjusted PAT	**3,274**	**3,841**	**5,167**	**4,415**	**7,345**	**9,511**	**11,385**
Change (%)	-13.3	17.3	34.5	-14.6	66.4	29.5	19.7

Balance Sheet							(INR M))
Y/E March	**2016**	**2017**	**2018**	**2019**	**2020**	**2021E**	**2022E**
Share Capital	631	631	631	631	922	922	922
Reserves	61,841	62,024	69,685	72,686	1,37,227	1,44,053	1,51,789
Net Worth	**62,472**	**62,655**	**70,316**	**73,317**	**1,38,149**	**1,44,975**	**1,52,710**
Minority Interest	8,618	9,195	10,090	10,277	10,925	10,929	10,933
Loans	13,541	7,866	10,676	11,283	11,825	11,825	9,325
Capital Employed	**84,630**	**79,716**	**91,082**	**94,877**	**1,60,898**	**1,67,728**	**1,72,968**
Gross Block	24,033	23,711	25,424	27,689	59,111	60,611	62,611
Less: Accum. Deprn.	14,511	13,650	15,181	16,407	18,824	21,418	23,994
Net Fixed Assets	**9,523**	**10,060**	**10,244**	**11,282**	**40,288**	**39,194**	**38,617**
Capital WIP	394	632	1,352	4,244	954	954	954
Goodwill & Intangibles	37,096	34,979	37,235	37,851	73,338	73,338	73,338
Investments	11,926	13,534	6,431	6,045	4,893	3,558	2,348
Curr. Assets	**40,009**	**36,309**	**49,343**	**49,385**	**65,258**	**76,278**	**84,405**
Inventories	16,290	14,530	14,483	16,099	17,120	22,225	24,408
Account Receivables	5,924	5,925	6,483	6,806	9,224	10,289	11,299
Cash and Bank Balance	6,744	7,412	18,067	16,168	24,550	29,400	34,334
Others	11,051	8,444	10,310	10,313	14,364	14,364	14,364
Curr. Liability & Prov.	**13,532**	**14,345**	**13,525**	**12,887**	**20,799**	**22,559**	**23,660**
Account Payables	6,773	7,378	7,057	6,649	9,440	11,200	12,300
Other liabilities	2,776	3,389	3,562	4,221	8,603	8,603	8,603
Provisions	3,983	3,578	2,906	2,017	2,756	2,756	2,756
Net Curr. Assets	**26,477**	**21,965**	**35,818**	**36,498**	**44,459**	**53,719**	**60,745**
Def. tax liability	786	1,454	-3	1,043	3,033	3,033	3,033
Appl. of Funds	**84,630**	**79,716**	**91,082**	**94,877**	**1,60,898**	**1,67,728**	**1,72,968**

Financials and valuations

Cash flow statement

Y/E March	2016	2017	2018	2019	2020	2021E	2022E
EBITDA	**6,543**	**7,911**	**8,389**	**7,859**	**12,921**	**16,973**	**19,693**
Prov. & FX	-132	22	-14	0	0	0	0
WC	-2,719	1,485	-1,389	-2,347	-649	-4,409	-2,093
Others	-190	100	-438	-333	1,292	633	0
Direct taxes (net)	-2,342	-2,106	-2,992	-2,609	-2,742	-3,888	-4,900
CF from Op. Activity	**1,160**	**7,412**	**3,556**	**2,571**	**10,822**	**9,309**	**12,699**
Capex	-1,545	-1,382	-3,588	-3,000	-1,500	-1,500	-2,000
FCFF	**-385**	**6,030**	**-32**	**-429**	**9,322**	**7,809**	**10,699**
Interest/dividend	697	574	485	1,571	1,116	1,097	1,152
Investments in subs/assoc.	-509	-280	373	0	0	0	0
Others	4,273	2,503	10,133	0	0	0	0
CF from Inv. Activity	**2,917**	**1,415**	**7,403**	**-1,429**	**-384**	**-403**	**-848**
Borrowings	-796	-4,848	2,160	0	0	0	-2,500
Finance cost	-663	-615	-282	-525	-779	-738	-769
Dividend	-1,871	-1,890	-2,118	-1,893	-2,986	-3,318	-3,650
Others	512	-805	-65	-623	1,709	0	0
CF from Fin. Activity	**-2,818**	**-8,158**	**-304**	**-3,041**	**-2,056**	**-4,056**	**-6,918**
(Inc)/Dec in Cash	**1,259**	**668**	**10,655**	**-1,899**	**8,382**	**4,850**	**4,933**
Opening balance	5,485	6,744	7,412	18,067	16,168	24,550	29,400
Closing balance (as per B/S)	**6,744**	**7,412**	**18,067**	**16,168**	**24,550**	**29,400**	**34,334**

Ratios

Y/E March	2016	2017	2018	2019	2020	2021E	2022E
Basic (INR)							
EPS	**3.6**	**4.2**	**5.6**	**4.8**	**8.0**	**10.3**	**12.4**
Cash EPS	4.8	5.5	6.9	6.1	10.6	13.1	15.1
BV/Share	67.8	68.0	76.3	79.6	149.9	157.3	165.7
DPS	2.3	2.3	2.4	2.5	2.7	3.0	3.3
Payout (%)	NA	36.5	29.9	38.7	54.1	27.3	26.7
Dividend yield (%)	1.9	1.5	0.9	1.2	0.9	1.4	1.6
Valuation (x)							
P/E			83.7	97.9	58.8	45.4	38.0
Cash P/E			68.3	76.6	44.3	35.7	31.0
P/BV			6.1	5.9	3.1	3.0	2.8
EV/Sales			6.1	5.7	4.3	3.8	3.5
EV/EBITDA			49.4	52.8	32.1	24.4	21.1
Dividend Yield (%)			0.9	1.2	0.9	1.4	1.6
FCF per share			-0.1	-0.7	10.1	8.5	11.6
Return Ratios (%)							
RoE	5.6	6.1	7.8	6.1	6.9	6.7	7.6
RoCE	7.6	9.0	9.4	8.6	8.5	8.6	10.0
RoIC	8.2	10.6	11.7	9.8	11.5	11.4	12.0
Working Capital Ratios							
Fixed Asset Turnover (x)	7.0	6.7	6.7	6.4	2.4	2.8	3.1
Asset Turnover (x)	0.8	0.9	0.7	0.8	0.6	0.6	0.7
Debtor (Days)	33	32	35	34	35	35	35
Creditor (Days)	37	40	38	33	36	38	38
Inventory (Days)	90	78	78	81	65	75	75
Leverage Ratio (x)							
Debt/Equity	0.1	0.0	-0.1	-0.1	-0.1	-0.1	-0.2

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

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

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