



Tata Consumer Products Limited

Mixed Q3; 'Soulfull' acquisition to bolster foods portfolio

Consumer Goods

Sharekhan code: TATACONSUM

Result Update

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

Reco: Buy	↔
CMP: Rs. 576	
Price Target: Rs. 685	↔

↑ Upgrade ↔ Maintain ↓ Downgrade

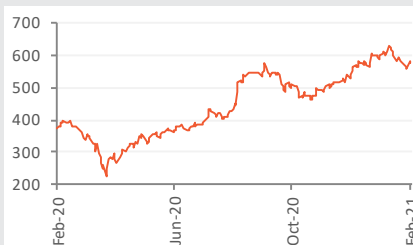
Company details

Market cap:	Rs. 53,081 cr
52-week high/low:	Rs. 635/214
NSE volume: (No of shares)	48.1 lakh
BSE code:	500800
NSE code:	TATACONSUM
Free float: (No of shares)	60.2 cr

Shareholding (%)

Promoters	34.7
FII	26.8
DII	13.6
Others	24.9

Price chart



Price performance

(%)	1m	3m	6m	12m
Absolute	0.6	16.6	32.7	51.7
Relative to Sensex	-2.7	-8.6	-2.1	26.8

Sharekhan Research, Bloomberg

Summary

- Tata Consumer Products Ltd (TCPL) Q3FY2021 was a mixed bag, as revenues grew by ~23%, but gross margins declined by 574 bps, synergistic benefits and efficiencies resulted in just a 99 bps decline in OPM to 11.8%.
- India beverages business grew by 46%; India foods revenues rose by 19%, US Coffee by 11% and International tea by 14%.
- Acquisition of Soulfull will add value to India foods business with 'better for you' products. Out-of-home businesses NourishCo and Tata Starbucks have seen substantial improvement and will add-on to growth in the coming quarters.
- We have fine-tuned earnings estimates for FY21/22/23 to factor in higher-than-expected revenue growth and lower OPM. We maintain a Buy with unchanged PT of Rs. 685.

TCPL's revenues grew by a strong 23% on a comparable basis to Rs. 3069.6crore (ahead of our expectation of Rs. 2809.9 crore) driven by a strong revenue growth of 46% (volume growth of 10%) in the India beverage business, 19% growth (volume growth of 12%) in India foods business, 11% growth in US coffee and 14% growth in the international tea business. Growth in India business was driven by market share gains of 94 bps and price led growth of 30%. Foods business grew by 19% led by 19% growth in salt revenues and double-digit growth in Tata Sampann brand. International business excluding food services grew by 11% during the quarter. A significant increase in domestic raw tea prices dragged down gross margins by 574 bps. However, lower ad spends and synergistic benefits from merger of Tata Chemicals consumer business led to just 99 bps decline in OPM to 11.8% (lower than our as well as street expectation of 13%). India business constitutes ~ 67% of consolidated revenues and 57% of consolidated profits. Market share gains in branded tea and salt segment, doubling of distribution reach, sustained higher in-house consumption and consistent product launches would be key growth levers for the domestic business. With fear of COVID-19 receding, a recovery in out-of-home consumption businesses such as NourishCo (grew by 9%) and Tata Starbucks (reached 90% of pre-COVID levels) will be faster and will add-on to India business growth in the coming quarters. Increasing conversion from non-black tea to specialty tea would also drive growth in the international tea business. Domestic tea raw tea prices have corrected by over 30% from its high but still remain above the last year levels. Management expects it to normalise by Q1FY2022. The price hikes and synergistic benefits from integration (likely to be completed by Q4FY2021) will continue to support margins. The company acquired the Soulfull brand for Rs. 156crore (deal value at price to sales of 4x) in the domestic market. The acquisition will lead to domestic food portfolio expansion in on-the-table/on-the-go categories. Acquisition is margin accretive and will be completed by Q4.

Key positives

- India packaged business volume growth stood at 10%; market share gains of 90 bps in tea despite price hikes.
- Out-of-home businesses such as NourishCo posted revenues of Rs. 33crore (9% growth y-o-y); Tata Starbucks business recovered to 90% from 71% in September.
- Tata Salt grew by 19% (double digit volume growth); value-added portfolio grew by 2.7x

Key negatives

- Significant increase in domestic tea prices dragged gross margins by 574 bps.
- Tata Coffee business stood flat due to lower extraction business at India level.

Our Call

View - Retain Buy with unchanged PT of Rs. 685: We have fine-tuned our earnings estimates for FY21/22/23 to factor in higher-than-expected revenue growth and lower OPM. TCPL is currently focusing on gaining market share by doubling distribution reach and supporting its brand with adequate promotional activities, which augurs well from a near to medium-term perspective. The company is actively looking at organic and inorganic opportunities to maintain its growth momentum in the medium to long term. Thus, with growth levers in place, the company is well-placed to achieve earnings CAGR of 23% over FY20-23E. Thus, TCPL remains one of our top picks in the mid-cap consumer space. The stock trades at 45.4x/40.2x its FY2022/23E earnings. We maintain our Buy recommendation on the stock with an unchanged price target of Rs. 685.

Key risk

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

Valuations (Consolidated)

Particulars	FY19	FY20	FY21E*	FY22E*	FY23E*
Revenue	7,252	9,637	11,278	12,453	13,721
OPM (%)	10.8	13.4	14.3	14.7	15.0
Adjusted PAT	479	661	1,006	1,166	1,319
% Y-o-Y growth	-16.0	37.9	52.2	16.0	13.0
Adjusted EPS (Rs.)	5.2	7.2	10.9	12.7	14.3
P/E (x)	75.7	80.2	52.7	45.4	40.2
P/B (x)	4.9	3.8	3.7	3.5	3.3
EV/EBIDTA (x)	44.7	39.6	31.2	27.1	23.8
RoNW (%)	6.9	7.0	7.4	8.2	8.7
RoCE (%)	8.8	9.0	9.0	10.1	10.9

Source: Company; Sharekhan estimate

* FY21, FY22 & FY23 estimates are including the consolidation of TCL's consumer division

Revenues grew in strong double digit; higher input prices affected the margins: Consolidated revenue grew by 23.1% y-o-y to Rs. 3069.6 crore in Q3FY2021 as against Rs.2,493 crore in Q3FY2020 and Rs. 2781.3crore in Q2FY2021. Revenue from the India beverages and India foods businesses stood at Rs. 1275 crore and Rs. 631 crore, respectively growing by 46% and 19% y-o-y. Volumes of the India beverages and foods businesses rose by 10% and 12%, respectively. The branded international beverages (excluding food services) business, grew by 13% y-o-y, with an underlying constant currency(CC) growth of 7%. Revenue from Tata Coffee grew by 1% y-o-y to Rs. 212crore. Gross margins declined by 574bps to 37.8% due to higher commodity costs (raw tea price inflation) and unfavourable revenue mix. Due to increase in advertisement and employee cost OPM declined by 99 bps to 11.8%. Consolidated operating profit grew by 13.6% y-o-y to Rs. 361.3crore. Consolidated profit before tax grew by 12.5% y-o-y to Rs. 298.3crore. Lower tax incidence resulted in adjusted PAT before minority interest (MI) to rise by 27.3%. However, better performance of associates led post-MI adjusted PAT to grow by 30.7% y-o-y to Rs. 242crore in Q3FY2021 from Rs.185.2crore in Q3FY2020. There was a pre-tax exceptional item of Rs. 6.13 crore (Rs.4.5crore post tax) pertaining to integration of foods business. Thus, reported PAT came in at Rs. 237.4 crore, growing by 28.6% y-o-y.

Acquisition of Soulfull helps expanding domestic foods portfolio: TCPL entered into an agreement to acquire 100% equity stake in Kottaram Agro Foods for Rs156crore to add the Soulfull brand in its domestic food portfolio. The tuck-in acquisition will enable to have a wider play, leveraging their expertise in millets such as Ragi. The product portfolio straddles multiple consumption occasions - breakfast, snacking, mini-meals. It will help TCPL's portfolio fill in the gap in the on-the-table/on-the-go ready-to-eat segment. Soulfull is currently available in 15,000 outlets. TCPL will focus on expanding the brand to its reach of 2.4 million outlets. This will help brand to scale up and improve its revenue visibility in long run. The brand is expected to margin accretive for TCPL.

Integration of Tata Chemicals consumer business to be substantially completed by Q4: Integration process of merger of Tata Chemicals' consumer business with TCPL is on and expected to significantly complete by Q4FY2021. Synergy identification completed and realization started from Q3FY2021. Integration of India ERP on track and will go-live in Q4FY2021. CFA locations consolidated for North & East. Pan India consolidation to be complete by Q4. Post integration selling the combined food & beverages portfolio to 100% of distributors. Consolidation led to rationalisation of distributors by 63% while dedicated sales representative base increased by 30%. Outlets billed increased by 65% between March to December 2020 (~80% of billing happens on a monthly basis). Rural distribution has expanded by 3x, while there is exclusive distribution model for modern trade channel. On the working capital front, trades receivable decreased by 50% on y-o-y basis. Benefit of integration would come in the coming quarters and will strongly support profitability in the near term.

India business

- ◆ **India packaged beverages** – The India packaged beverages business reported a robust and broad-based growth with most brands recording high double-digit growth of 43% during the quarter led by 10% volume growth. Price hikes in the portfolio to mitigate a sharp increase in the tea prices resulted in 30% growth in the realizations. It continued with market share gains by 94 bps. Year-to-date (YTD) EBIT margin stood at 14% despite unprecedented inflation.
- ◆ **India Foods** – India Foods reported third consecutive quarter of double-digit revenue growth across the Salt and Tata Sampann portfolio. Revenue from salt grew 19% in Q3 with double digit volume growth of 12%. Continued with market share gains with the highest-ever sales volume in December. Value-added Salt portfolio grew by 2.7x during the quarter. Tata Sampann portfolio grew in high double digits with in-home consumption normalising.

- ◆ **NourishCo** – NourishCo (100% subsidiary of TCPL), revenue grew by 9% to Rs. 33 crore. Revenue is back in growth trajectory with strong growth momentum in December. Tata Gluco Plus and Tata WaterPlus (TWP) were key drivers of growth. TWP achieved highest ever volume growth in December. Further, strong cost optimization in Himalayan products yielding results.

International business

- ◆ **UK** – Revenue growth of 1% (constant currency) with volume growth of 5%. Discounter channel continues to be the key growth driver. There is also growth in the online channel driven by lockdowns. Out-of-home (OOH) and wholesale channels continue to remain under pressure due to repeated lockdowns. Good Earth Tea and Kombucha continue to see good traction especially in the ecommerce channel. Tetley continues to grow share in the rapidly growing segments of Decaf, F&H and Green tea. Improved profitability on account of strong overheads management and lower trade promotion. On other front, Teapigs delivered robust growth of 32% as the strong offtake in e-Commerce and exports has more than offset the decline in OOH. Company gained 20.3% market share in everyday black brand.
- ◆ **US** – The coffee segment reported revenue growth of 6% (constant currency), with volume growth of 7% - a strong uptick from the previous quarter. Retail coffee category is slowly returning to its long-term average growth rates. E-Commerce channel continues to grow at an accelerated pace. Tea (excluding Empirical): Robust revenue growth of 18% as against a volume growth of 22%. Good Earth Sensorial Blends saw strong growth. Tea category growth continues to be driven by Specialty tea. Food service business (Empirical) continues to remain under pressure with second wave of COVID in the US. TCPL gained 4.7% market share in the coffee bags category.
- ◆ **Canada** – The business registered revenue growth of 24% (constant currency) with volume growth of 19%, led by promotions and further aided by COVID-led lockdowns. Tetley continues to be the No. 1 brand in the market with both regular and specialty teas growing strongly by 41% during the quarter. Specialty tea sales were further boosted by the new Tetley Super 3.0 range. Higher sales and strong control on overheads led to strong y-o-y profitability. Company gained a 29.5% market share.

Key highlights of the conference call

- ◆ Salt is one of the high-growing categories in the foods business. Share gain in salt along with distribution expansion led to consistent double-digit volume growth in the category. Further balance portfolio of base product and value-added premium products provides scope to expand.
- ◆ International business profits grew by 56% y-o-y to Rs. 123 crore. Strong growth was mainly on account of higher operating leverage due to increase in volumes led by higher in-house consumption and premium & improvement in mix led by higher consumption through online platform. Going ahead, some of the benefits such as uptick in category growth and stable currency would help to post profits in the International business.
- ◆ Tata Starbucks is operating at 90% of pre-COVID levels. With opening up of the economy and reducing scare of COVID-19, the business is expected to attain 100% of pre-COVID levels soon. The highlight of the quarter was that the business became profitable at EBITDA level with 90% operations. This was mainly on account of improvement in the operating leverage, negotiation of rentals and other cost efficiencies.

Results (Consolidated)

Particulars	Rs cr				
	Q3FY21	Q3FY20	Y-o-Y (%)	Q2FY21	Q-o-Q (%)
Total Revenue	3069.6	2493.0	23.1	2781.3	10.4
Raw material cost	1909.6	1407.8	35.6	1646.1	16.0
Employee cost	241.2	219.4	9.9	229.7	5.0
Advertising	209.7	201.4	4.1	166.4	26.0
Other expenses	347.7	346.2	0.4	339.5	2.4
Total operating cost	2708.2	2174.8	24.5	2381.7	13.7
Operating profit	361.3	318.1	13.6	399.7	-9.6
Other income	19.5	28.5	-31.7	26.2	-25.7
Interest & other financial cost	18.1	20.1	-10.1	17.9	1.2
Depreciation	64.4	61.4	4.8	62.6	2.9
Profit Before Tax	298.3	265.1	12.5	345.5	-13.6
Tax	56.7	75.3	-24.7	87.1	-34.9
Adjusted PAT before MI	241.6	189.8	27.3	258.4	-6.5
Minority Interest (MI)/ Profit from associates	0.4	-4.6	-	38.9	-
Adjusted PAT after MI	242.0	185.2	30.7	297.3	-18.6
Extra-ordinary items	-4.6	-0.6	-	-23.9	-
Reported PAT	237.4	184.6	28.6	273.4	-13.2
Adjusted EPS (Rs.)	2.6	3.0	-12.8	2.8	-6.5
			bps		bps
GPM (%)	37.8	43.5	-57.4	40.8	-30.3
OPM (%)	11.8	12.8	-9.9	14.4	-26.0

Source: Company; Sharekhan Research

Performance of key businesses

Particulars	Revenue	Value growth	Volume growth
India business	1275	46%	10%
India food	631	19%	12%
US Coffee	321	11%	7%
UK, Canada & Others	605	14%	6%
Tata Coffee	212	1%	-4%

Source: Company; Sharekhan Research

Outlook and Valuation

■ Sector View – Demand for branded products to sustain, out-of-home to see recovery

Staples, health foods, health & hygiene registered strong demand while out-of-home and discretionary categories posted a recovery in Q3FY2021. The Indian branded black tea market grew by 14% led by price hikes due to spike in the domestic tea prices, while volume growth stood at 4%. Large shift is happening from loose tea players to branded tea due to increase in online sales. In the international market such as UK and Canada specialty and fruit and herbal categories. We believe that higher demand for branded products to stay due to shift of consumers to trusted brands and increase in purchases from online channels post the pandemic. Further, with risk of COVID-19 receding in India, the demand for out-of-home consumption segments would also see strong recovery in the quarters ahead. Thus sustained demand for branded products and improving demand for out-of-home consumption segments would act as a key growth drivers in the coming quarters.

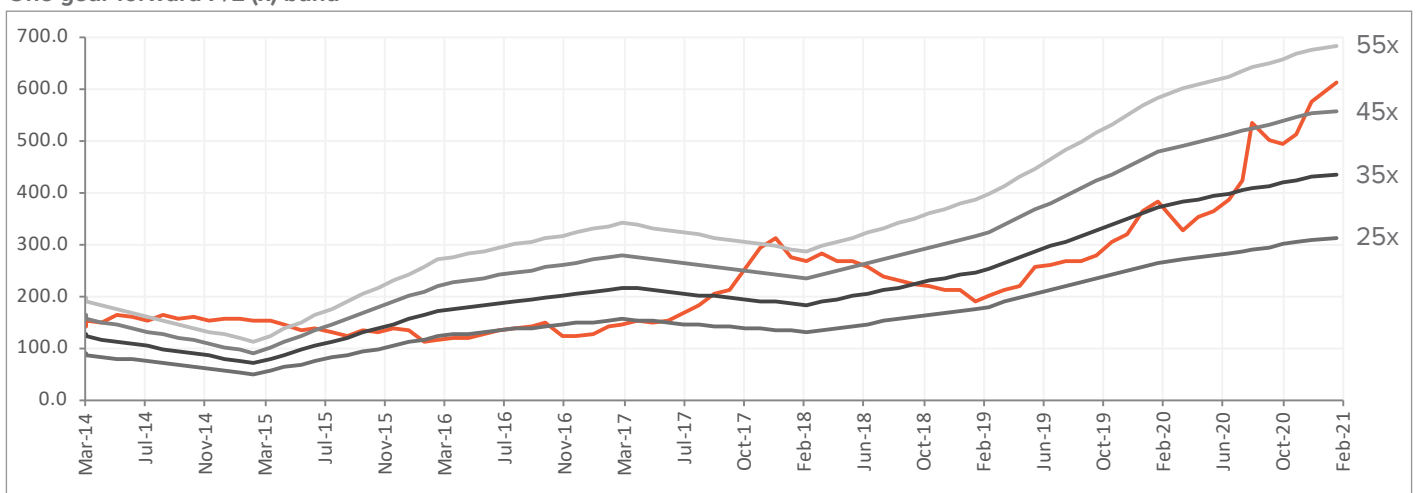
■ Company Outlook – Growth momentums to sustain

Market share gains in branded tea and salt segment, doubling of distribution reach, sustained higher in-house consumption and consistent product launches would be key growth levers for the domestic business. With fear of COVID-19 receding, the recovery in the out-of-home consumptions businesses such as NourishCo (grew by 9%) and Tata Starbucks (reached 90% of pre-COVID levels) will be faster and will add-on to India business growth in the coming quarters. Increasing conversion from non-black tea to specialty tea would also drive growth in the international tea business. Domestic tea raw tea prices have corrected by over 30% from highs but still remain above the last year levels. Management expects it to normalize by Q1FY2022. Price hikes and synergistic benefits from integration (likely to be completed by Q4FY2021) will continue to support margins.

■ Valuation – Maintained Buy with unchanged price target of Rs 685

We have fine-tuned our earnings estimates for FY21/22/23 to factor in higher-than-expected revenue growth and lower OPM. TCPL is currently focusing on gaining market share by doubling distribution reach and supporting its brand with adequate promotional activities, which augurs well from a near to medium-term perspective. The company is actively looking at organic and inorganic opportunities to maintain its growth momentum in the medium to long term. Thus, with growth levers in place, the company is well-placed to achieve earnings CAGR of 23% over FY20-23E. Thus, TCPL remains one of our top picks in the mid-cap consumer space. The stock trades at 45.4x/40.2x its FY2022/23E earnings. We maintain our Buy recommendation on the stock with an unchanged price target of Rs. 685.

One-year forward P/E (x) band



Source: Sharekhan Research

Peer Comparison

Particulars	P/E (x)			EV/EBIDTA (x)			RoCE (%)		
	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E
Hindustan Unilever	66.2	50.2	43.8	44.9	36.3	31.5	37.1	28.3	30.7
Nestle India	74.8	63.5	55.3	50.8	44.3	39.0	59.8	60.0	56.9
Tata Consumer Products	52.7	45.4	40.2	31.2	27.1	23.8	9.0	10.1	10.9

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
L KrishnaKumar	Executive Director
Neelabja Chakrabarty	Company Secretary

Source: Company Website

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

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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 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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