Sharekhan by BNP PARIBAS

Powered by the Sharekhan 3R Research Philosophy

Stock Update

Tata Consumer Products Limited

Moving into the elite club

Consumer Goods	Sharekhan code: TATACONSUM	Company Update

Summary

- We maintain a Buy on Tata Consumer Products (TCPL) with a revised PT of Rs. 740. Inclusion in the Nifty50 and strong earning visibility make it at preferred pick in the consumer goods space.
- Market share gains in branded tea and staples space, scale-up of new ventures and foray into new categories through new launches remain near-term growth catalysts.
- Synergistic benefits from integration of Tata Chemicals' consumer business will sustain OPM at 14.5-15% in FY2022/23. Sustained correction in the tea prices (corrected by ~40% from its peak) might further provide upside to our earnings estimates.
- We revenues and PAT to grow at CAGR of 13% and 23% over FY2020-23.

Tata Consumer Products Ltd (TCPL) became a large consumer goods play with a wider product portfolio (hot beverages, staples & water) post the consolidation of Tata Chemicals' consumer business. This provides visibility for sustainable revenue and earnings growth (with a gradual improvement in OPM). Higher in-house consumption during the pandemic era and an increase in online sales helped the company achieve an 18% revenue growth in 9MFY2021 (with the India beverages and India foods business growing by 30% and 17% respectively).Volume growth of beverages and foods stood at 8-9% during the same period. Going ahead, market share gains from small/regional players, consumers from loose tea to branded tea and a healthy traction to new launches would help the Indian branded tea business clock better volume growth of 8-10% versus the overall growth of 4-5% in domestic tea consumption. The Indian foods business will scale up because of enhanced distribution reach, shift from loose to branded products and strong acceptance for new launches. Further, with the scare of the virus reducing and with lesser chances of a second wave of infections due to increase in vaccinations, out-of-home businesses such as NourishCo and Tata Starbucks would see strong growth in FY2022 and FY2023. Globally, a sustained shift from black tea to speciality tea (herbal/fruit tea) in markets such as Europe and Canada will help TCPL post steady high single digit constant currency growth in the coming years. Thus, the company is well-placed to achieve a revenue CAGR of ~13% over FY2020-23 (much better than 5% revenue CAGR over FY2015-19). With the Indian business' contribution increased to 60% from 48% earlier the consolidated OPM trajectory improve to 13% in FY2020 from 9-10% in FY2015-16. Integration of Tata Chemicals' consumer business is going on and a large part of it will be completed by Q4FY2021. The full process is expected to be fully completed by H2FY2022.This will help OPM to consistently improve in FY2022 and FY2023. Raw tea prices have corrected by 40% to Rs153 per kg from its peak of Rs. 260 per kg in July-August,due to improved tea production after gradual easing of the lockdown. If a new flush season starts with higher crop availability in the market, tea prices are expected to fall reduce from current levels that will help gross margins to stabilise by Q1FY2022 and improve subsequently. A sustained correction in domestic raw tea prices might act as additional earning trigger for margin expansion to stay ahead of expectations. We expect TCPL's revenues and PAT to clock a CAGR of 13% and 23% over FY2020-23E.

Our Call

View - Retained Buy with revised PT of Rs. 740: The management's near-term focus is on smooth integration of Tata Chemicals' consumer business and expanding its domestic operations. Gaining market share in the branded tea and staples space, scaling up the new ventures such as retail coffee and water beverages business and a foray into new categories through relevant new launches remain key catalyst for growth in the near term along with relevant inorganic initiatives. With consistent double-digit growth in revenue, steady margin improvement and stable working capital management, TCPL expects return ratios to improve to double digits in the medium term. Inclusion in the Nifty50 basket and strong earnings visibility make it a preferred pick in the consumer good space. We maintain a Buy recommendation on the stock with a revised price target of Rs. 740 (valuing stock at 51x its FY2023E EPS).

Key Risks

Any significant slowdown in the domestic/international demand or a spike in raw material prices would act as a key risk to our earnings estimates.

Valuation (Consolidated) Rs cr

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	15.1
Adjusted PAT	479	661	1,006	1,166	1,334
% Y-o-Y growth	*-16.0*	*37.9*	*52.2*	*16.0*	*14.3*
Adjusted EPS (Rs.)	5.2	7.2	10.9	12.7	14.5
P/E (x)	83.0	87.9	57.7	49.8	43.5
P/B (x)	5.4	4.2	4.0	3.8	3.6
EV/EBIDTA (x)	49.1	43.5	34.4	29.9	26.0
RoNW (%)	6.9	7.0	7.4	8.2	8.8
RoCE (%)	8.8	9.0	9.0	10.1	11.0

Source: Company; Sharekhan estimates

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

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. 628**	
Price Target: **Rs. 740**	↑

↑ Upgrade ↔ Maintain ↓ Downgrade

Company details

Market cap:	Rs. 57,873 cr
52-week high/low:	Rs. 653 / 214
NSE volume: (No of shares)	44.2 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

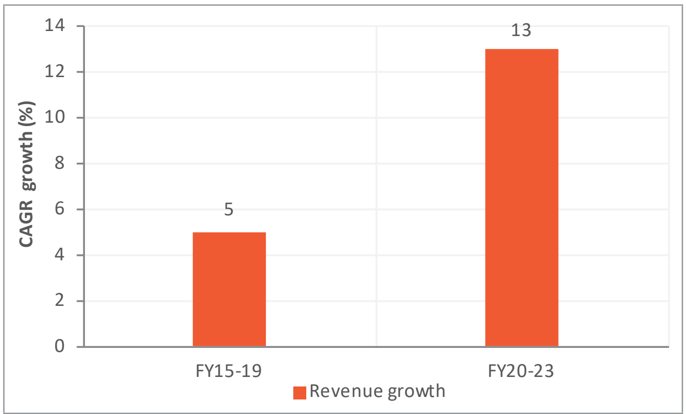
(%)	1m	3m	6m	12m
Absolute	9.6	19.2	15.0	70.0
Relative to Sensex	4.6	5.2	-15.9	44.1

Sharekhan Research, Bloomberg

Well placed to achieve double digit revenue growth in the coming years

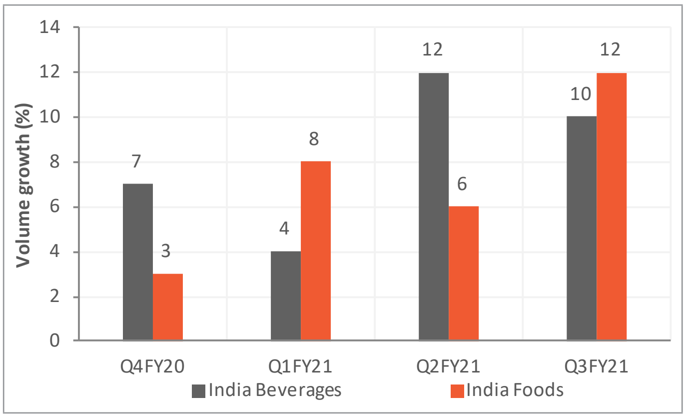
Revenues grew at CAGR of 5% over FY2015-19 affected by slower growth in the international market due to volatile currency movement and inconsistent performance in some geographies. Post the consolidation of Tata Chemicals' consumer business the product portfolio has expanded from mere beverage company to large staple company. Further, contribution of the India business increased to 60% from 48% earlier. Scale up of foods business, strong traction to out-of-home consumption categories, market share gains in the domestic branded tea business and higher demand for speciality tea in the international markets would help TCPL to achieve consistent double-digit growth in the coming years.Consolidated revenues grew by 23.1% in 9MFY2021 and 18.4% in Q3FY2021. A strong growth in the 9MFY021 was driven by a 30% growth in the India beverage business and a 17% growth in the India foods business. Volumes in both businesses rose by 8-9%. We believe that a strong distribution reach and portfolio from the mass to premium end helped the company achieve good growth in the Indian packaged tea segment. On the other hand, high-teens growth in Indian foods business was driven by double digit growth in Tata Salt and Tata Sampann. Market share gains in the salt segment along with expansion of the distribution network led to consistent double-digit volume growth in the category.

Revenue growth trajectory to improve over FY2020-23



Source: Sharekhan Research

Volume growth trends in key domestic businesses

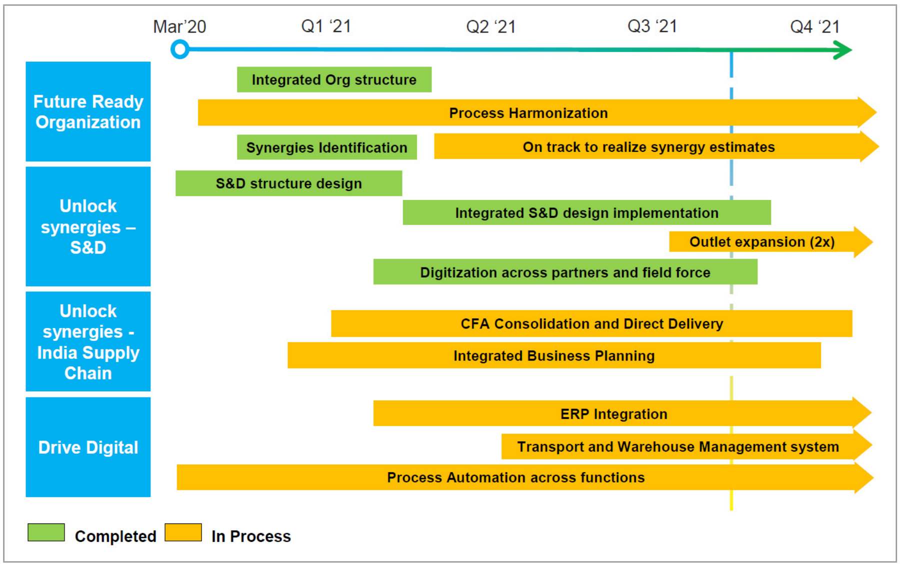


Source: Company; Sharekhan Research

Synergistic benefits and reduction tea prices to help improve margins FY2022 and FY2023

The integration of Tata Chemicals' consumer business with TCPL is on and is expected to be largely completed by Q4FY2021.Synergies have been identified and realisations are flowing started since Q3FY2021. Integration of the India ERP is on track and will go live in Q4FY2021. Pan-India consolidation would be completed by Q4FY21. Post integration,the company would be selling a combined food & beverages portfolio to all distributors. Consolidation of distributors led to a 63% rationalisation, while the number of dedicated sales representatives increased by 30%. Outlets billed increased by 65% during March-December 2020 (~80% of billing happens on monthly basis). Rural distribution has expanded by 3x, while there is an exclusive distribution model for the modern trade channel. On the working capital front, trades receivable decreased by 50% y-o-y. The benefit of integration would come in the coming quarters and will strongly support profitability in the near term. This along with a significant drop in the domestic tea prices would help in posting better OPM than expected of 14.5-15% over FY2022-23.

Unlocking synergies - broad timeline

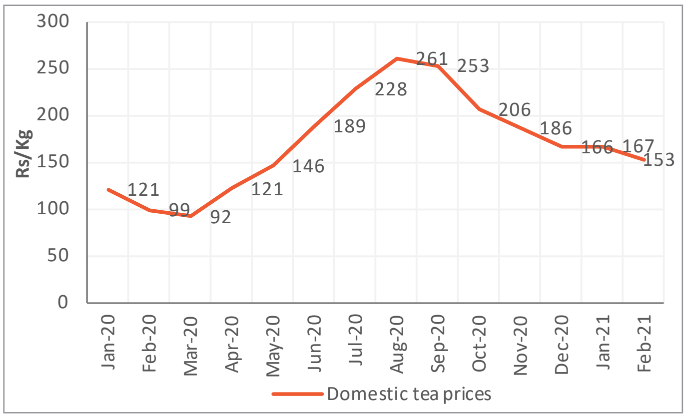


Source: Company

Raw tea prices corrected by ~40% from its high in July-August 2020

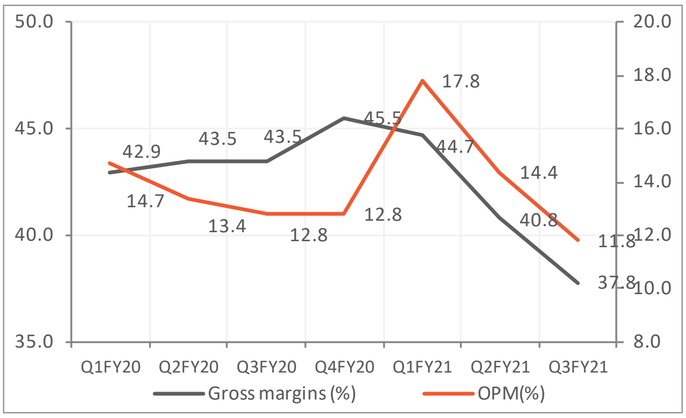
Domestic raw tea prices more than double between May-August 2020 largely on account of lower tea production due to lockdown led by COVID-19.This significantly impacted gross margins in Q2 and Q3, which were down by 269 bps and 574 bps, respectively. Production improved post the easing of the lockdown, which led to a 40% fall in prices to Rs. 153 per kg. The fall in tea prices and an over ~30% price hike in the tea product portfolio would help gross margins improve q-o-q in Q4FY2021. However if new season opens with higher crop, the prices are expected to further reduce from the current levels. Any further correction would help gross margins stabilise y-o-y in Q1FY2022. Also, benign Kenyan tea prices would augur well for the company.

Domestic tea prices drop from peaks



Source: Tea board of India; SharekhanResearch

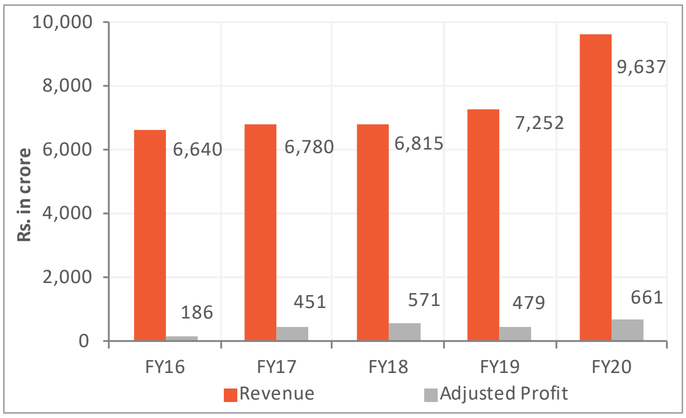
Trends in gross margins & OPM



Source: Company; Sharekhan Research

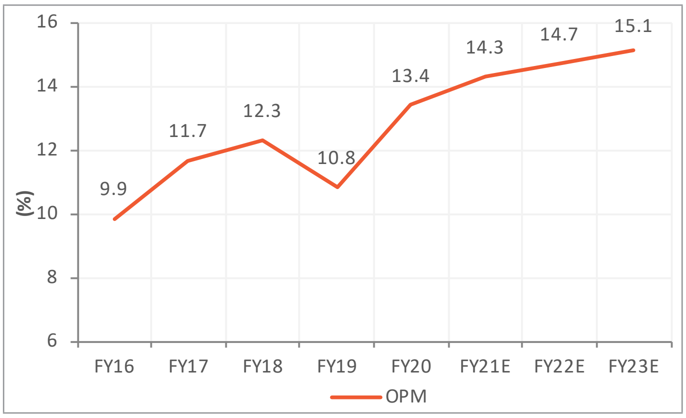
Financials in charts

Trend in revenues and PAT



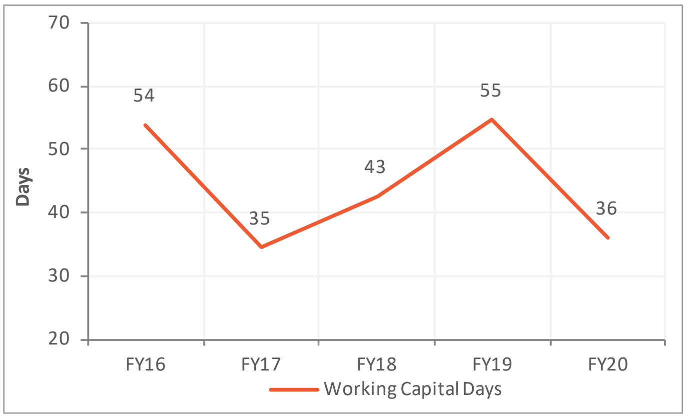
Source: Company, Sharekhan Research

OPM to reach 15% by FY2023



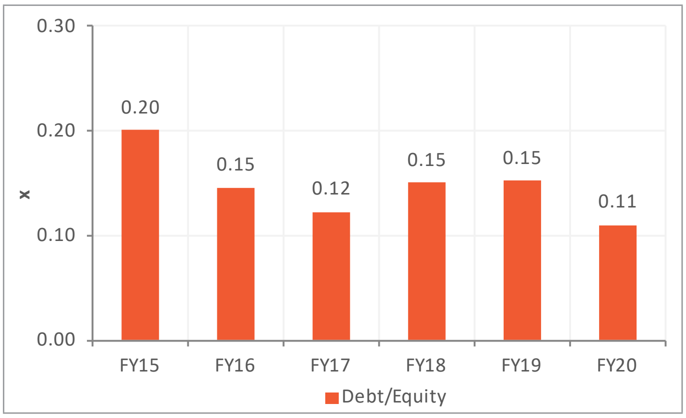
Source: Company, Sharekhan Research

Working capital days remained lower in FY23



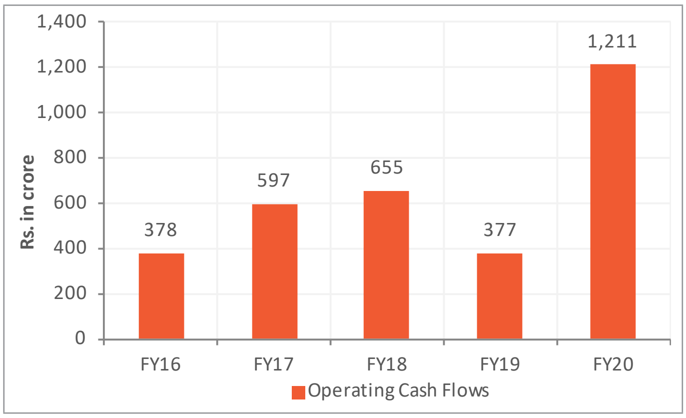
Source: Company, Sharekhan Research

Debt: Equity continues to remain benign



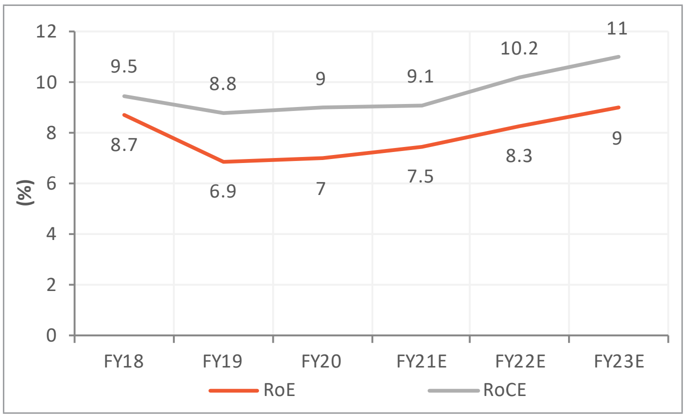
Source: Company, Sharekhan Research

Operating cash flows remained strong in FY20



Source: Company, Sharekhan Research

Gradual improvement in the return ratios expected



Source: Company, Sharekhan Research

Outlook and Valuation

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

Staples, health foods and the health & hygiene segments registered strong demand while out-of-home and discretionary categories posted a decline in Q1FY2021. Indian branded black tea market grew by 14% led by price hikes due to spike in 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 international markets such as the UK and Canada, specialty tea segments and fruit and herbal tea categories. We believe that higher demand for branded products to stay due to shift of consumers to trusted brands and an increase in purchases from online channels in the post pandemic era. Further with risk of COVID-19 receding in India, 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 key growth drivers in the coming quarters.

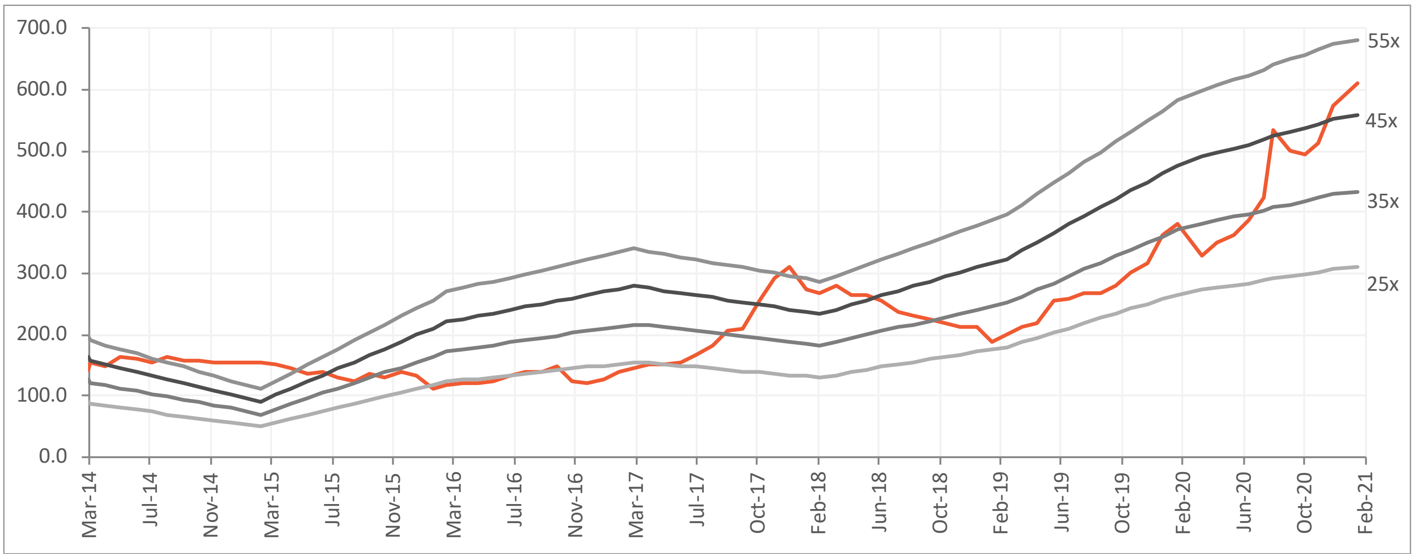
■ Company outlook - Growth momentums to sustain; margin expansion to moderate

Market share gains in the 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 the COVID-19 virus receding the recovery in the out-of-home consumptions businesses such as NourishCo (grew by 19%) and Tata Starbucks (reached 90% of pre-covid levels) will be faster and will add 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 ~40% from its high but still remain above the last year levels. The price hikes and synergistic benefits from integration (likely to be completed by Q4FY2021) will continue to support margins.

■ Valuation - Retained Buy with revised PT of Rs. 740

The management's near-term focus is on smooth integration of Tata Chemicals' consumer business and expanding its domestic operations. Gaining market share in the branded tea and staples space, scaling up the new ventures such as retail coffee and water beverages business and a foray into new categories through relevant new launches remain key catalyst for growth in the near term along with relevant inorganic initiatives. With consistent double-digit growth in revenue, steady margin improvement and stable working capital management, TCPL expects return ratios to improve to double digits in the medium term. Inclusion in the Nifty50 basket and strong earnings visibility make it a preferred pick in the consumer good space. We maintain a Buy recommendation on the stock with a revised price target of Rs. 740 (valuing stock at 51x its FY2023E EPS).

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	59.0	45.7	40.1	43.4	35.1	30.5	37.1	28.3	30.7
Nestle India	74.6	60.7	53.2	48.0	41.8	36.5	57.8	61.2	59.6
Tata Consumer Products	57.6	49.6	43.4	34.3	29.8	25.9	9.0	10.1	11.0

Source: Company, Sharekhan estimates

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
John Jacob	Chief Financial Officer
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

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 detoriating 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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Compliance Officer: Mr. Joby John Meledan; Tel: 022-61150000; email id: compliance@sharekhan.com;

For any queries or grievances kindly email igc@sharekhan.com or contact: myaccount@sharekhan.com

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