

Tata Consumer Products

BSE SENSEX 58,178
S&P CNX 17,355

CMP: INR882 **TP: INR1,000 (+13%)** **Buy**

TATA CONSUMER PRODUCTS

Bloomberg	TATACONS IN
Equity Shares (m)	922
M.Cap.(INRb)/(USDb)	812.5 / 11
52-Week Range (INR)	889 / 459
1, 6, 12 Rel. Per (%)	4/29/11
12M Avg Val (INR M)	2417
Free float (%)	65.3

Financials Snapshot (INR b)

Y/E MARCH	2022	2023	2024
Sales	124.8	140.6	155.2
EBITDA	17.9	22.5	25.4
Adj. PAT	10.2	13.9	16.2
EBITDA Margin (%)	14.4	16.0	16.4
Cons. Adj. EPS (INR)	11.1	15.0	17.6
EPS Gr. (%)	17.0	35.9	16.8
BV/Sh. (INR)	164	174	186

Ratios

Net D:E	(0.2)	(0.3)	(0.3)
RoE (%)	6.9	8.9	9.7
RoCE (%)	9.5	11.9	13.0
Payout (%)	40.8	33.2	31.3

Valuations

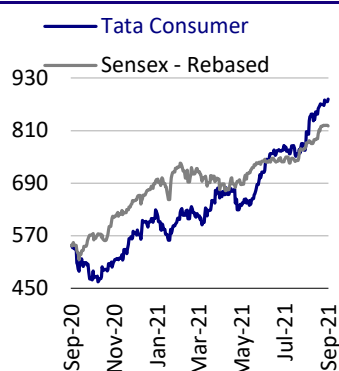
P/E (x)	79.7	58.6	50.2
EV/EBITDA (x)	43.5	34.2	29.9
Div. Yield (%)	0.5	0.6	0.6
FCF Yield (%)	1.3	1.6	1.9

Shareholding pattern (%)

As On	Jun-21	Mar-21	Jun-20
Promoter	34.7	34.7	34.7
DII	14.0	12.6	19.8
FII	25.1	25.3	19.5
Others	26.3	27.5	26.0

FII Includes depository receipts

Stock performance (one-year)



Gross margin pressure to ease in coming quarters

Tea price inflation has impacted TCP's performance since the last four quarters. However, we expect gross margin to improve from 2QFY22 onwards as tea prices have declined (down 32% from their peak in Aug'20 to INR175/kg in Aug'21). In this note, we have analyzed the impact of the fall in tea prices on TCP in the near term. Here are the key insights:

Tea production in Jun-Jul'21 has grown v/s CY19...

- All India tea production (from Mar-Aug'20) declined by 19% YoY due to: a) first flush of the crop being lost as plucking activity came to a standstill due to the COVID-induced lockdown, and b) unfavorable weather conditions in Assam and West Bengal.
- 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 in terms of quality), and
 - The third flush is from October to December (forms 28% of volumes and are of inferior quality v/s the first and second flush) (as per 2019 production data).
- In CY20, tea production in India declined by 10% (to 1,258m kg), which created a supply crunch, leading to an increase in prices.
- Production volumes have started to normalize, but has increased when compared to CY20 and CY19 levels. Volumes have increased by 22%/11% YoY in Jun'21/Jul'21. They have increased by 12%/2% when compared to Jun'19/July'19 levels. All of which led to a decline in tea prices from its peak in Aug'20.

...but prices are above pre-COVID levels...

- According to the Tea Board of India, supply-side shortages led to an increase in India tea prices by 182% YoY to INR258/kg over Mar-Aug'20.
- With the normalization and increase in tea production, prices fell 32% from its peak in Aug'20 to INR175/kg in Aug'21. However, prices were still higher by 17% when compared to Aug'19 levels.
- As per our channel checks, TCP has not yet reduced tea prices as it usually follows a 2-3 months lag while passing on any increase or decrease. This would have a positive impact on profitability in coming quarters.

...which bodes well for gross margin in coming quarters

- Standalone gross margin fell 610bp YoY to 34.7% in 1QFY22 due to tea price inflation, which led to a 640bp contraction in EBITDA margin to 13.9%.
- Standalone gross margin has been contracting on a YoY basis since the last four quarters beginning 2QFY21 and is likely to reverse from 2QFY22.
- Standalone gross margin has been improving since 3QFY21.

- We expect gross margin pressure to ease out further from 2QFY22, which would aid operating performance. We expect standalone gross margin to expand by 700bp in 2HFY22 to 37.5%.

Valuation and view

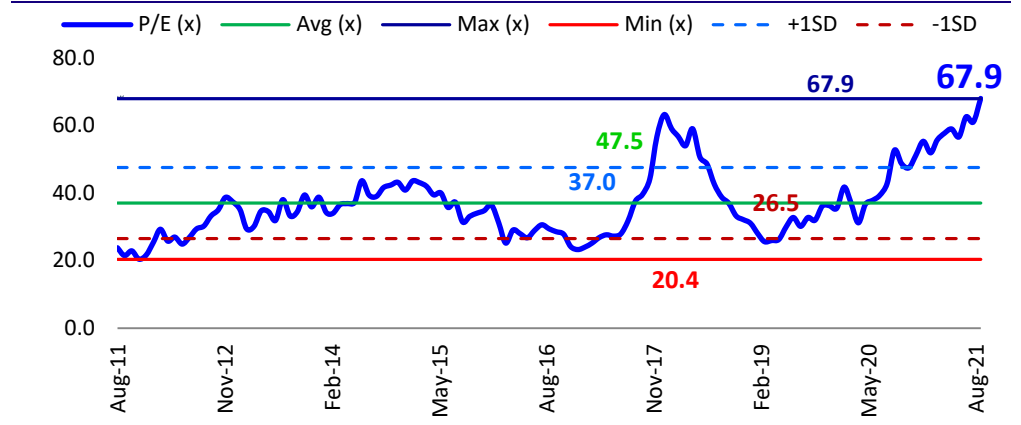
- In FY21, TCP's consolidated revenue grew 20% YoY, driven by volume growth of 12%/11% in India Beverages/Foods and tea price inflation. Operating leverage and lower ad spends aided EBITDA growth of 19% YoY in FY21. This despite gross margin contracting by 330bp to 40.5%. The underlying numbers were better given the double-digit volume growth in the base business, despite COVID-related disruptions. Overall performance was impacted by tea price inflation. The same is likely to taper down in the near term and bodes well for TCP.
- The unlocking of sales and distribution synergies from the merger of group companies has started to yield results. This is evident from the market share increase in tea (+190bp YoY) and salt (+160bp) in FY21 (and 1QFY22) on the back of an increase in numeric distribution. Direct coverage rose 30% in FY21, and the management aims to reach 1m by Sep'21. The company is establishing a strong S&D channel, which would act as a key growth driver.
- TCP is targeting lower double-digit growth in the India business – Tata Tea and Tata Salt – driven by: a) cross-selling between the Foods business and TCP's tea distribution channel, and b) expansion into newer geographies.
- TCP is building Tata Sampann, which deals in pulses and spices. This should grow in high double-digits. The market size for pulses/spices in India currently stands at INR1,500b/INR600b, with unorganized players constituting 99%/70% of the market. Growth is expected through the capture of market share from unorganized players via an increasing distribution reach and new product launches.
- We expect a sales/EBITDA/PAT CAGR of 10%/18%/23% over FY21-24E.
- We arrive at an FY24E SoTP-based TP of INR1,000/share. We maintain our **Buy** rating.

Exhibit 1: SoTP valuation

EV/EBITDA	FY24E EBITDA	Multiple (x)	EV
India Tea (TCP standalone)	8,777	42	3,71,559
Coffee India (excluding Starbucks) at 57%	574	10	6,001
Coffee overseas	2,995	12	35,943
Consumer (salt and others)	9,235	42	3,89,733
Overseas tea (Tetley UK)	2,594	13	33,717
DCF			
Starbucks JV			30,312
Enterprise value			8,67,265
Less: Net debt			-54,335
Market value (INR m)			9,21,600
No. of shares (m)			922
Target price (INR)			1,000

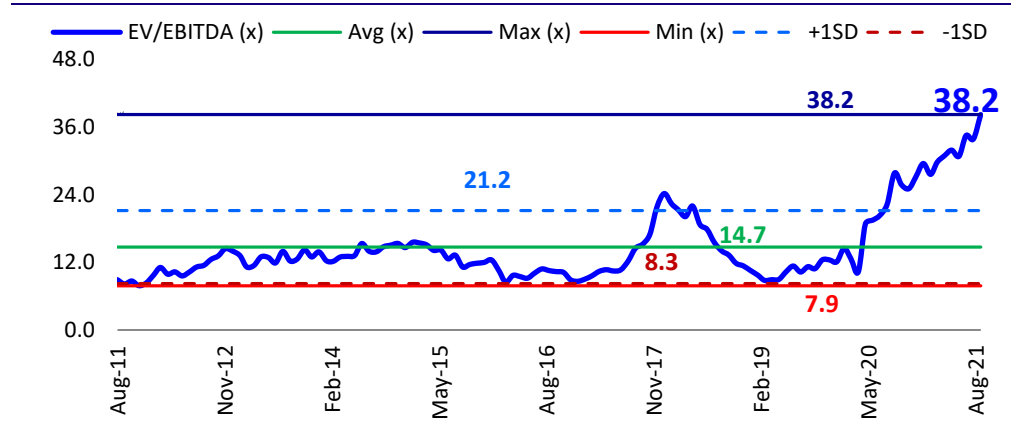
Source: MOFSL

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



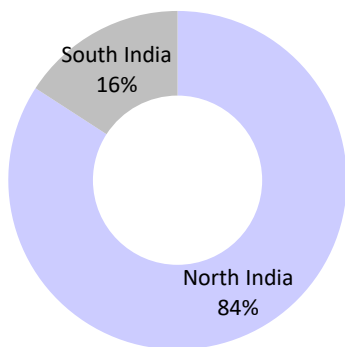
Source: MOFSL

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



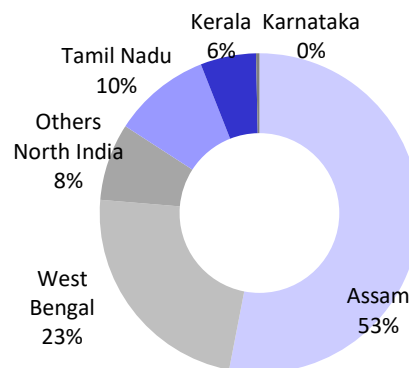
Source: MOFSL

Exhibit 4: India region-wise tea acreage (636k hectare)



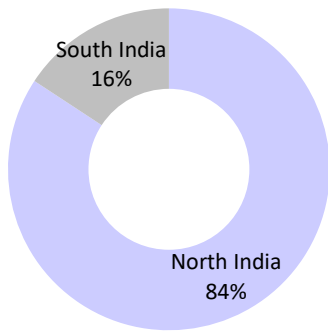
Source: Tea Board of India, MOFSL

Exhibit 5: State-wise tea growers (area: 636k hectare)



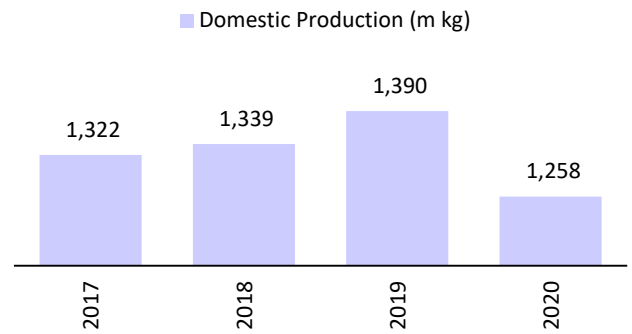
Source: Tea Board of India, MOFSL

Exhibit 6: India region-wise tea production (CY19; 1,390m kg)



Source: Tea Board of India, MOFSL

Exhibit 7: Domestic tea production trend



Source: Tea Board of India, MOFSL

Exhibit 8: Tea production in CY21 has been higher than CY20 levels; in Jun'21 and Jul'21 it has surpassed Jun'19 levels

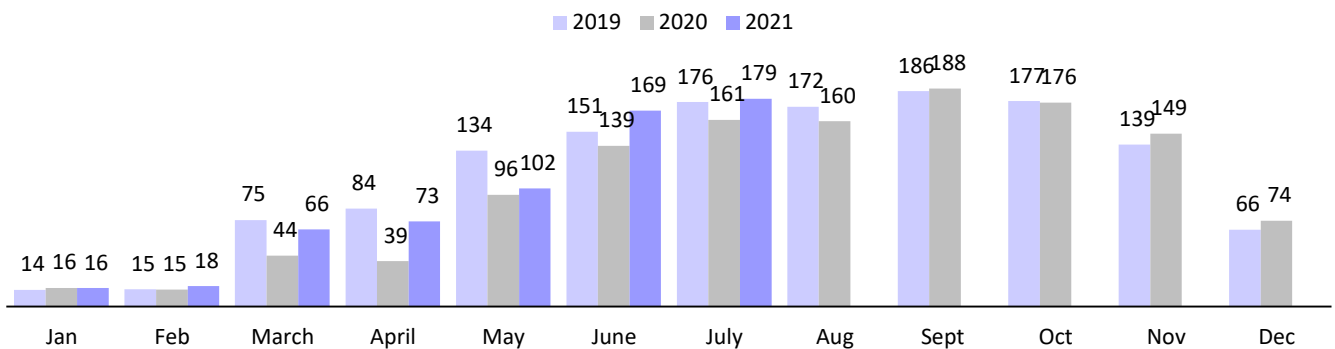


Exhibit 9: Annual tea production trend in India. Output declines in North India, which led to an increase in prices in CY20

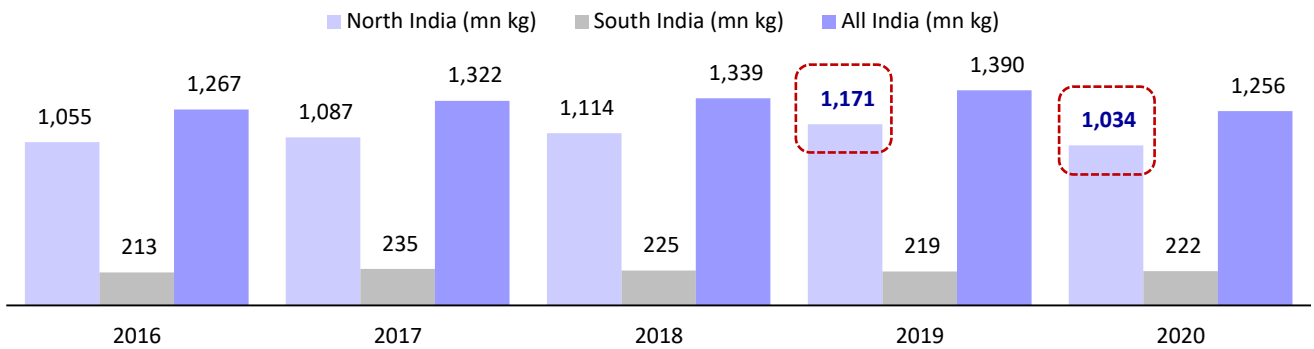
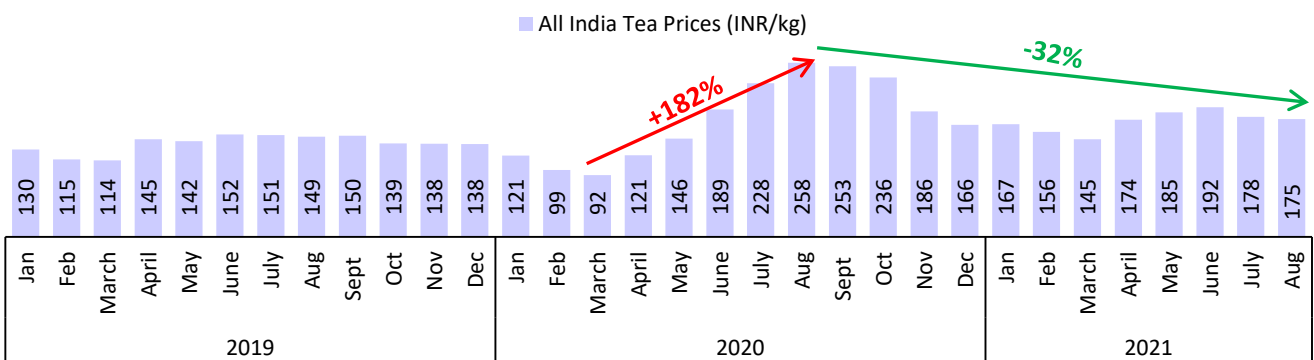
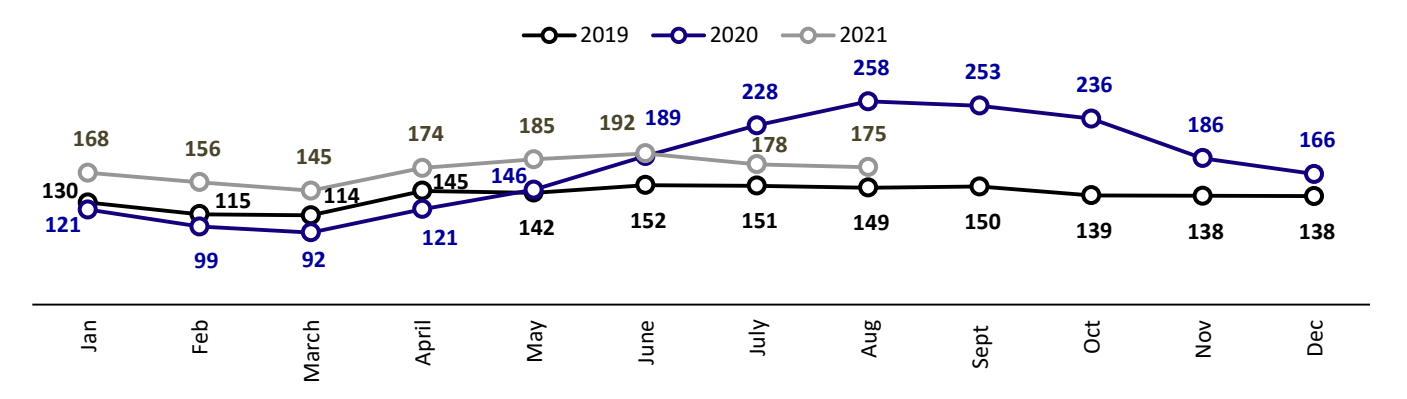


Exhibit 10: Tea prices are declining MoM



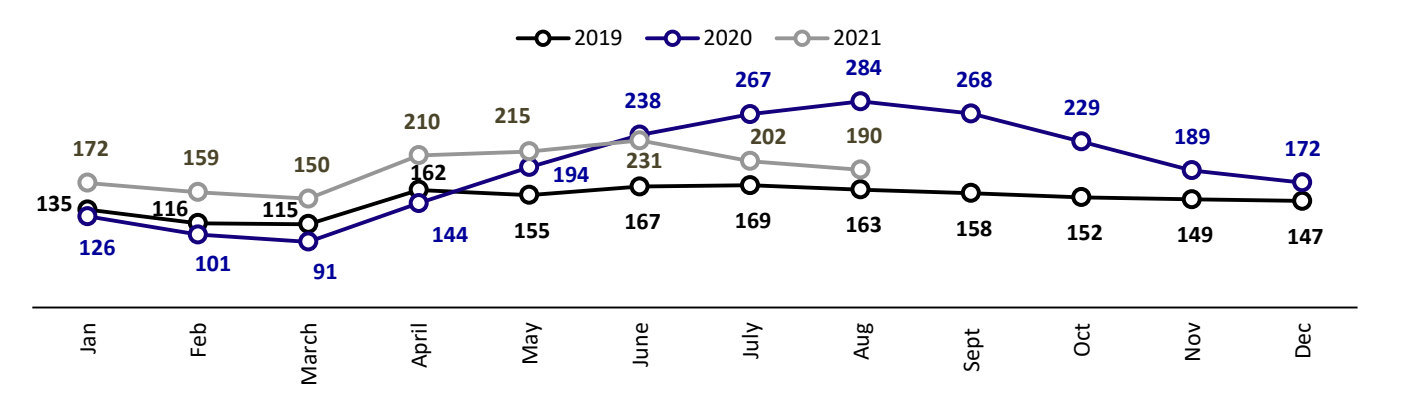
For Aug'21, average weekly tea prices have been taken

Exhibit 11: Tea prices in India (INR/kg)



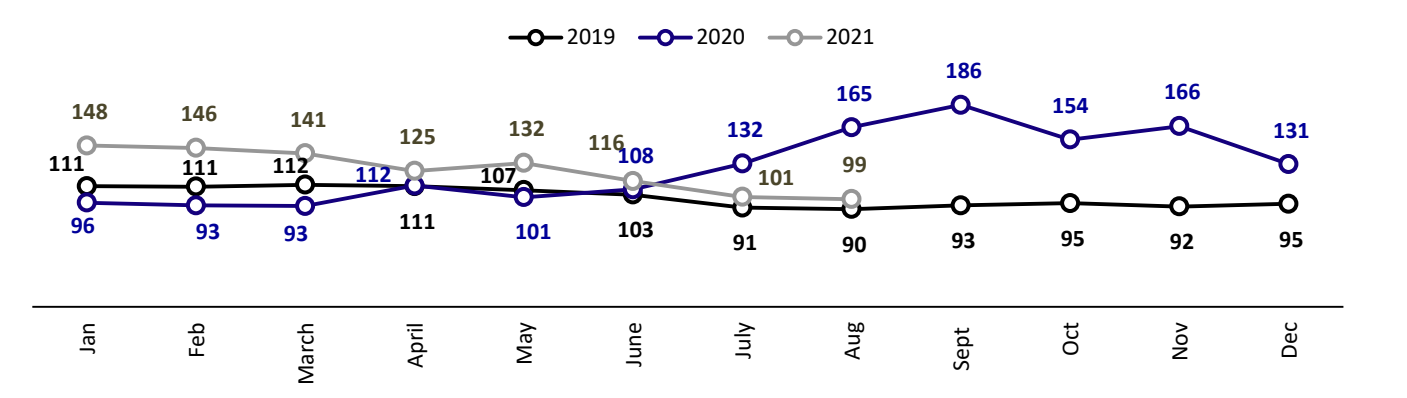
For Aug'21, average weekly tea prices have been taken

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



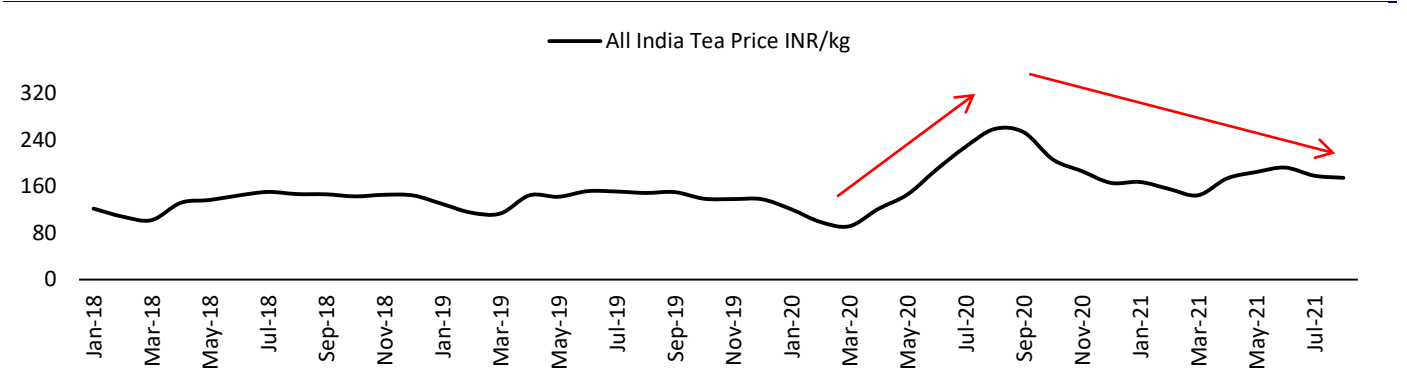
For Aug'21, average weekly tea prices have been taken

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



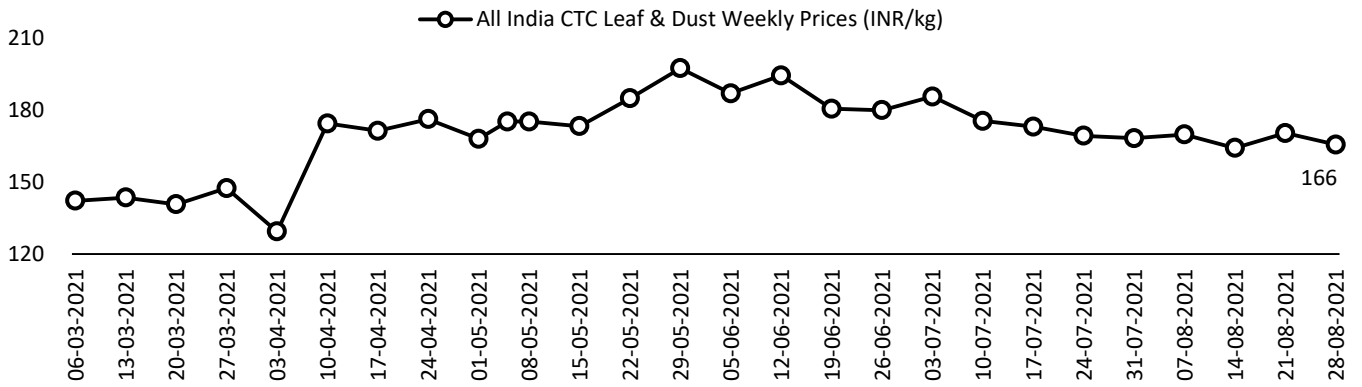
For Aug'21, average weekly tea prices have been taken

Exhibit 14: Trend in all India tea prices (INR/kg)



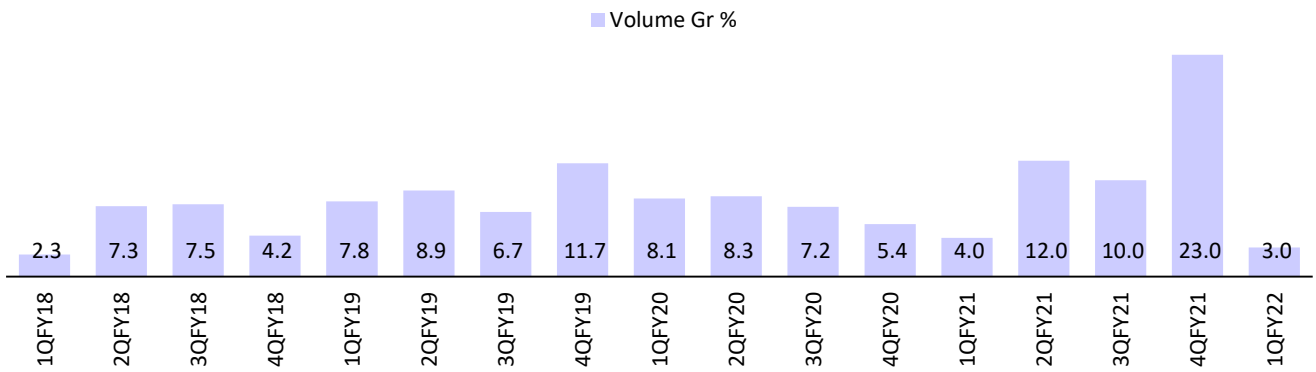
For Aug'21, average weekly tea prices have been taken

Exhibit 15: All India weekly prices of CTC leaf and dust



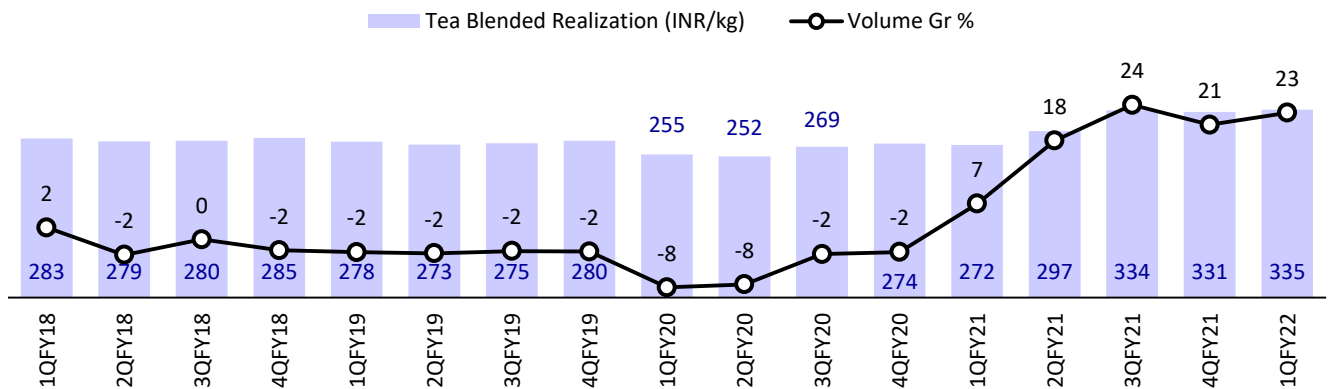
For Aug'21, average weekly tea prices have been taken

Exhibit 16: Growth in tea volumes for TCP



Source: Company, MOFSL

Exhibit 17: Tea realization and growth trend for TCP



Source: Company, MOFSL

Financials and valuations

Consolidated Income Statement

(INR m)

Y/E March	FY16	FY17	FY18	FY19	FY20	FY21	FY22E	FY23E	FY24E
Net Sales	66,365	67,796	68,154	72,515	96,374	1,16,020	1,24,841	1,40,591	1,55,157
Change (%)	-17.0	2.2	0.5	6.4	32.9	20.4	7.6	12.6	10.4
Gross Profit	30,149	32,180	31,160	32,439	42,267	46,997	52,361	60,481	66,900
Margin (%)	45.4	47.5	45.7	44.7	43.9	40.5	41.9	43.0	43.1
Other operating exp.	23,606	24,269	22,771	24,579	29,346	31,560	34,436	37,948	41,489
EBITDA	6,543	7,911	8,389	7,859	12,921	15,438	17,925	22,533	25,411
Margin (%)	9.9	11.7	12.3	10.8	13.4	13.3	14.4	16.0	16.4
Depreciation	1,168	1,260	1,160	1,226	2,417	2,547	2,718	2,801	2,887
Net Interest	1,169	915	428	525	779	687	684	578	488
Other income	820	831	942	1,571	1,116	1,214	1,300	1,495	1,644
PBT before EO	5,026	6,566	7,743	7,680	10,842	13,417	15,823	20,649	23,680
EO income/(exp.)	-3,329	53	-211	-333	-2,748	-307	-39	0	0
PBT after EO	1,698	6,619	7,531	7,347	8,094	13,111	15,783	20,649	23,680
Tax	2,000	1,983	1,859	2,609	2,742	3,173	4,310	5,575	6,394
Rate (%)	117.8	30.0	24.7	35.5	33.9	24.2	27.3	27.0	27.0
Minority and Associates	-247	742	717	656	754	1,371	1,301	1,210	1,089
Reported PAT	-55	3,894	4,956	4,082	4,598	8,567	10,172	13,864	16,198
Adjusted PAT	3,274	3,841	5,167	4,415	7,216	8,716	10,201	13,864	16,198
Change (%)	-13.3	17.3	34.5	-14.6	63.5	20.8	17.0	35.9	16.8

Balance Sheet

(INR m)

Y/E March	FY16	FY17	FY18	FY19	FY20	FY21	FY22E	FY23E	FY24E
Share Capital	631	631	631	631	922	922	922	922	922
Reserves	61,841	62,024	69,685	72,686	1,37,227	1,44,424	1,50,448	1,59,704	1,70,833
Net Worth	62,472	62,655	70,316	73,317	1,38,149	1,45,345	1,51,370	1,60,626	1,71,755
Minority Interest	8,618	9,195	10,090	10,277	10,925	10,925	11,662	12,472	13,363
Loans	13,541	7,866	10,676	11,283	11,825	7,206	7,423	6,423	5,423
Capital Employed	84,630	79,716	91,082	94,877	1,60,898	1,63,476	1,70,454	1,79,520	1,90,541
Gross Block	24,033	23,711	25,424	27,689	59,111	61,773	63,773	65,773	67,773
Less: Accum. Deprn.	14,511	13,650	15,181	16,407	18,824	21,371	24,089	26,889	29,776
Net Fixed Assets	9,523	10,060	10,244	11,282	40,288	40,402	39,684	38,883	37,996
Capital WIP	394	632	1,352	4,244	954	1,129	1,129	1,129	1,129
Goodwill and Intangibles	37,096	34,979	37,235	37,851	73,338	75,966	75,966	75,966	75,966
Investments	11,926	13,534	6,431	6,045	4,893	4,827	4,263	3,863	3,666
Curr. Assets	40,009	36,309	49,343	49,385	65,258	79,855	88,962	1,01,386	1,15,486
Inventories	16,290	14,530	14,483	16,099	17,120	22,492	23,942	26,963	29,756
Account Receivables	5,924	5,925	6,483	6,806	9,224	7,613	8,209	9,244	10,202
Cash and Bank Balance	6,744	7,412	18,067	16,168	24,550	33,980	41,041	49,409	59,758
Others	11,051	8,444	10,310	10,313	14,364	15,770	15,770	15,770	15,770
Curr. Liability & Prov.	13,532	14,345	13,525	12,887	20,799	33,232	34,079	36,236	38,232
Account Payables	6,773	7,378	7,057	6,649	9,440	16,255	17,102	19,259	21,254
Other liabilities	2,776	3,389	3,562	4,221	8,603	14,036	14,036	14,036	14,036
Provisions	3,983	3,578	2,906	2,017	2,756	2,942	2,942	2,942	2,942
Net Curr. Assets	26,477	21,965	35,818	36,498	44,459	46,623	54,883	65,150	77,254
Def. tax liability	786	1,454	-3	1,043	3,033	5,470	5,470	5,470	5,470
Appl. of Funds	84,630	79,716	91,082	94,877	1,60,898	1,63,476	1,70,454	1,79,520	1,90,541

Financials and valuations

Cash Flow Statement

Y/E March	FY16	FY17	FY18	FY19	FY20	FY21	FY22E	FY23E	FY24E
EBITDA	6,543	7,911	8,389	7,859	12,921	15,438	17,925	22,533	25,411
Prov. and FX	-132	22	-14	22	-72	41	0	0	0
WC	-2,719	1,485	-1,389	-2,347	-649	3,054	-1,199	-1,899	-1,756
Others	-190	100	-438	-827	1,364	1,203	-39	0	0
Direct taxes (net)	-2,342	-2,106	-2,992	-2,609	-2,742	-3,173	-4,310	-5,575	-6,394
CF from Op. Activity	1,160	7,412	3,556	2,099	10,822	16,564	12,376	15,059	17,261
Capex	-1,545	-1,382	-3,588	-2,823	-1,596	-2,107	-2,000	-2,000	-2,000
FCFF	-385	6,030	-32	-724	9,227	14,457	10,376	13,059	15,261
Interest/dividend	697	574	485	539	564	731	1,300	1,495	1,644
Investments in subsidiaries/assoc.	-509	-280	-132	-358	-226	-2,241	0	0	0
Others	4,273	2,503	10,209	3,374	-5,470	-467	0	0	0
CF from Inv. Activity	2,917	1,415	6,973	733	-6,728	-4,084	-700	-505	-356
Borrowings	-796	-4,848	2,160	358	321	-573	0	-1,000	-1,000
Finance cost	-663	-615	-282	-437	-703	-654	-684	-578	-488
Dividend	-1,871	-1,890	-2,118	-2,158	-2,216	-2,673	-4,147	-4,608	-5,069
Others	512	-805	365	-2,493	6,886	851	217	0	0
CF from Fin. Activity	-2,818	-8,158	126	-4,731	4,288	-3,049	-4,615	-6,186	-6,557
(Inc.)/Dec. in Cash	1,259	668	10,655	-1,899	8,382	9,430	7,061	8,368	10,349
Opening balance	5,485	6,744	7,412	18,067	16,168	24,550	33,980	41,041	49,409
Closing Balance (as per the B/S)	6,744	7,412	18,067	16,168	24,550	33,980	41,041	49,409	59,758

Ratios

Y/E March	FY16	FY17	FY18	FY19	FY20	FY21	FY22E	FY23E	FY24E
Basic (INR)									
EPS	3.6	4.2	5.6	4.8	7.8	9.5	11.1	15.0	17.6
Cash EPS	4.8	5.5	6.9	6.1	10.5	12.2	14.0	18.1	20.7
BV/Share	67.8	68.0	76.3	79.6	149.9	157.7	164.2	174.3	186.4
DPS	2.3	2.3	2.4	2.5	2.7	4.1	4.5	5.0	5.5
Payout (%)	NA	36.5	29.9	38.7	54.1	43.6	40.8	33.2	31.3
Dividend yield (%)	0.3	0.3	0.3	0.3	0.3	0.5	0.5	0.6	0.6
Valuation (x)									
P/E				184.1	112.6	93.3	79.7	58.6	50.2
Cash P/E				144.1	84.4	72.2	62.9	48.8	42.6
P/BV				11.1	5.9	5.6	5.4	5.1	4.7
EV/Sales				11.1	8.3	6.8	6.2	5.5	4.9
EV/EBITDA				102.8	61.9	50.9	43.5	34.2	29.9
Dividend Yield (%)				0.3	0.3	0.5	0.5	0.6	0.6
FCF per share				-1.1	10.0	15.7	11.3	14.2	16.6
Return Ratios (%)									
RoE	5.6	6.1	7.8	6.1	6.8	6.1	6.9	8.9	9.7
RoCE	7.6	9.0	9.4	8.6	8.5	8.3	9.5	11.9	13.0
RoIC	8.2	10.6	11.7	9.8	11.5	11.1	12.0	15.9	18.4
Working Capital Ratios									
Fixed Asset Turnover (x)	7.0	6.7	6.7	6.4	2.4	2.9	3.1	3.6	4.1
Asset Turnover (x)	0.8	0.9	0.7	0.8	0.6	0.7	0.7	0.8	0.8
Debtor (Days)	33	32	35	34	35	24	24	24	24
Creditor (Days)	37	40	38	33	36	51	50	50	50
Inventory (Days)	90	78	78	81	65	71	70	70	70
Leverage Ratio (x)									
Debt/Equity	0.1	0.0	-0.1	-0.1	-0.1	-0.2	-0.2	-0.3	-0.3

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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