

Company Update

Consumer Staples & Discretionary

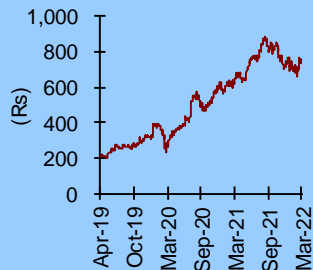
Target price Rs925

Shareholding pattern

	Jun '21	Sep '21	Dec '21
Promoters	34.7	34.7	34.7
Institutional investors	39.0	39.2	39.1
MFs and others	8.5	7.3	7.0
Banks/FIs	0.1	0.3	0.3
Insurance	4.8	5.2	5.7
FIs	25.6	26.4	26.1
Others	26.3	26.1	26.2

Source: BSE

Price chart



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Tata Consumer Products

BUY
Maintained

Strong value creation potential through
simplification of corporate structure

Rs743

TCPL is in the process to create a simplified corporate structure which may allow it to unlock/sell some of its low-growth / low-profit subsidiaries. That is the key insight we have gained from TCPL's restructuring plan. We also believe recurring earnings accretion of 5-10% is a high probability post the restructuring as (1) minority interest of Rs957mn (9.3% of pre-minority interest) will be almost nil, (2) there will be a reduction in admin and legal expenses, (3) likely some savings from release of excess management bandwidth and (4) there will be some tax savings and better utilisation of tax credits. Even after considering dilution (31.3mn additional shares i.e. 3.4% dilution), EPS may inch up by 5-10%. We also expect some revenue synergies especially in extraction business. We expect TCPL to announce further restructuring plans in FY23 considering it has 45 global subsidiaries and some associates/ joint ventures. We remain constructive. Maintain BUY with an unchanged SoTP-based target price of Rs925.

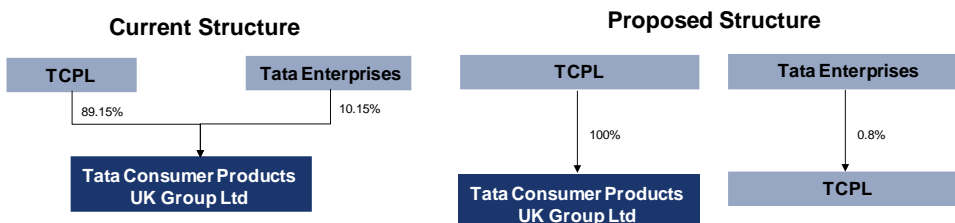
- **Structure to unlock value:** Post acquiring 100% stake in the international tea business and Tata Coffee, TCPL has created a simplified structure to potentially sell commodity/ low-growth/ low-profit businesses, in our view. We also believe the management structure will be simplified post restructuring and it will be easier to rollout any further synergies.
- **Reduction in minority interest to lead to EPS accretion:** Minority interest was Rs957mn (9.3% of pre-minority PAT) in FY21. With the acquisition of a minority stake in two major subsidiaries, we believe the minority interest will be close to nil. There will also be additional savings in admin and legal expenses. TCPL will also benefit from some tax savings and utilisation of tax credits. However, it needs to issue 7.5mn shares and 23.8mn shares to acquire Tata Consumer Products UK Group Ltd and Tata Coffee. TCPL's number of shares will increase to 953mn from 922mn now. Overall, there will be earnings accretion of 5-10%.
- **More rounds of restructuring likely:** TCPL has 45 global subsidiaries and there are some joint ventures and associates too. We believe there is further scope to reduce the complexity of the structure and unlock further synergy benefits. We expect TCPL to continue to announce further restructuring plans in FY23.
- **Reiterate BUY:** We model TCPL to report revenue and PAT CAGR of 11.5% and 19.7%, respectively over FY22-24E. We maintain BUY and value the stock on an SoTP basis with an unchanged target price of Rs925. Key risk is execution - delays in realising integration gains, ramp up of distribution, etc.

Market Cap	Rs648bn/US\$9.0bn	Year to March	FY21	FY22E	FY23E	FY24E
Bloomberg	TATACONS IN	Revenue (Rs mn)	1,16,020	1,27,165	1,41,092	1,57,958
Shares Outstanding (mn)	921.0	Adj. Net Profit (Rs mn)	8,654	10,018	12,225	14,363
52-week Range (Rs)	889/614	Dil. Rec. EPS (Rs)	9.4	10.9	13.3	15.6
Free Float (%)	65.3	% Chg YoY	26.0	15.8	22.0	17.5
FII (%)	26.1	P/E (x)	79.1	68.4	56.0	47.7
Daily Volume (US\$'000)	22,981	CEPS (Rs)	12.2	13.7	16.3	18.7
Absolute Return 3m (%)	2.3	EV/EBITDA (x)	42.6	39.1	33.7	29.2
Absolute Return 12m (%)	18.3	Dividend Yield (%)	0.5	0.6	0.7	0.7
Sensex Return 3m (%)	0.4	RoCE (%)	7.5	8.0	9.1	10.1
Sensex Return 12m (%)	19.4	RoE (%)	6.1	6.8	7.9	8.8

Update on restructuring

Acquisition of 10.15% stake in Tata Consumer Products UK Group Ltd: TCPL will acquire 10.15% stake in Tata Consumer Products UK Group Ltd for a consideration of Rs5,708mn by issuing 74,59,935 shares of TCPL at Rs765.16/share. Tata Consumer Products UK Group Ltd owns the international tea business of TCPL.

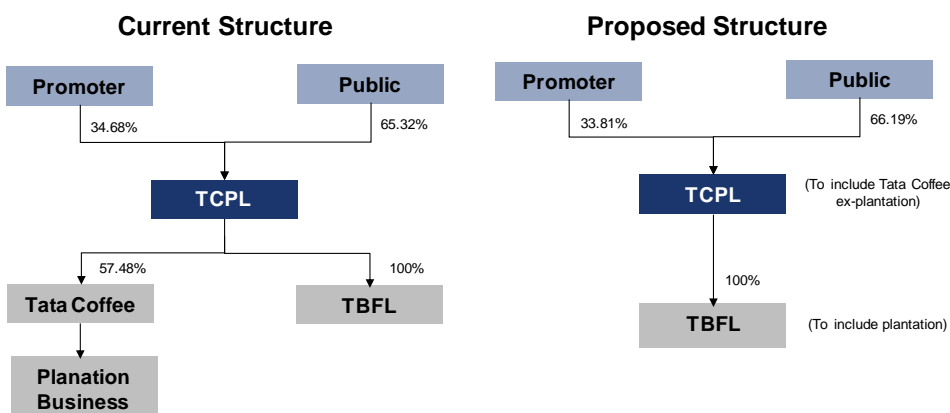
Chart 1: Current and proposed structure



Source: Company, I-Sec research

Merger of Tata Coffee with TCPL: Tata Coffee business will be merged in TCPL in two steps as (1) plantation business of Tata Coffee will merged with 100% subsidiary of TCPL i.e. TBFL and (2) remaining business of Tata Coffee (i.e. India Standalone, Vietnam and Eight O’Clock) will be merged with TCPL. For every 10 shares of Tata Coffee, TCPL will issue its 3 shares.

Chart 2: Current and proposed structure



Source: Company data, I-Sec research

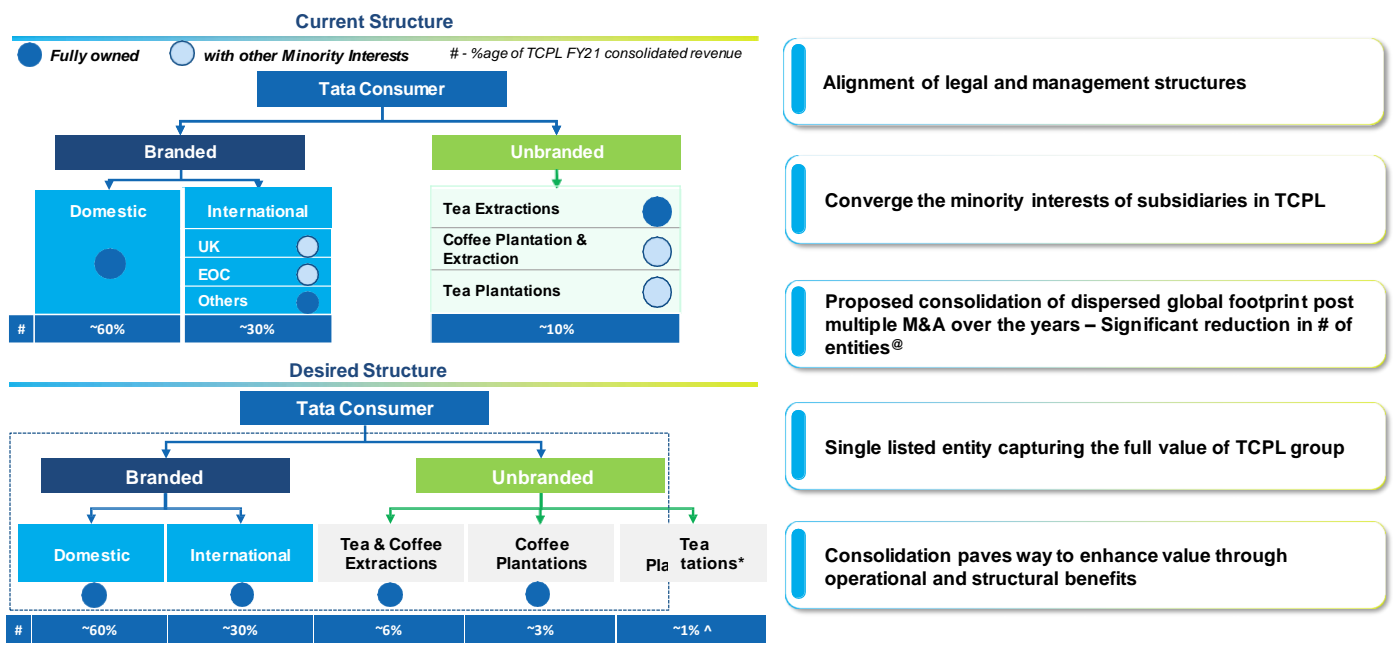
EPS accretion post both the transactions: Post both the transactions, the minority interest will be negligible and it will add to PAT for the shareholders. We also note the number of shares will increase to 953mn after issuing shares to minority shareholders of Tata Coffee and to minority shareholder of Tata Consumer Products UK Group Ltd.

Table 1: Earnings accretion post the restructuring

Particulars	FY21
FY21 PAT (Rsmn)	8,654
Minority Interest in FY21 (Rsmn)	957
Tax benefits (Rsmn) *	120
Reduction in Admin & legal costs (Rsmn) *	120
Revised FY21 PAT (Rsmn)	9,851
Current number of Shares of TCPL (mn)	922
Add: Shares to be issued to acquire 10.15% stake in Tata Consumer Products UK Group Ltd (mn)	7.5
Add: Shares to be issued to minority shareholders of Tata Coffee (mn)	23.8
Revised number of shares of TCPL (mn)	953
FY21 EPS (Rs)	9.4
FY21 Revised EPS (Rs)	10.3
EPS accretion (%)	10.1%

Source: Company, I-Sec research *I-Sec view

Chart 3: Change in business structure to drive simplification and synergy benefits



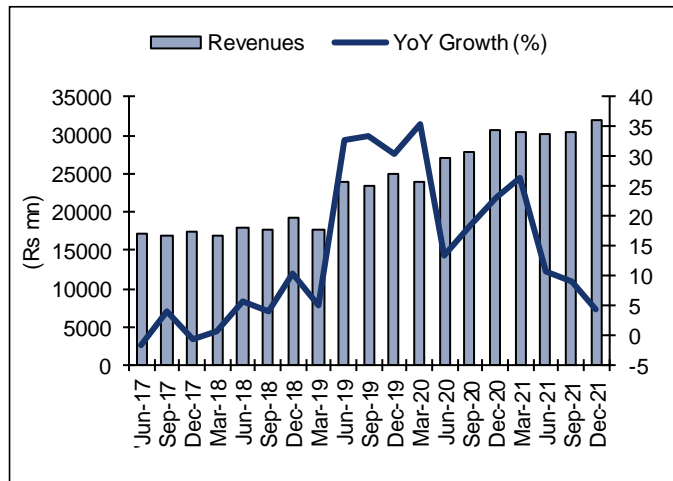
- Alignment of legal and management structures
- Converge the minority interests of subsidiaries in TCPL
- Proposed consolidation of dispersed global footprint post multiple M&A over the years – Significant reduction in # of entities@
- Single listed entity capturing the full value of TCPL group
- Consolidation paves way to enhance value through operational and structural benefits

* Strategic but minority stake in KDHP and APPL; others are fully owned
 @ Post further reorganization initiatives following receipt of the requisite approvals and processes
 ^ excluding share of revenue from KDHP and APPL

Source: Company, I-Sec research

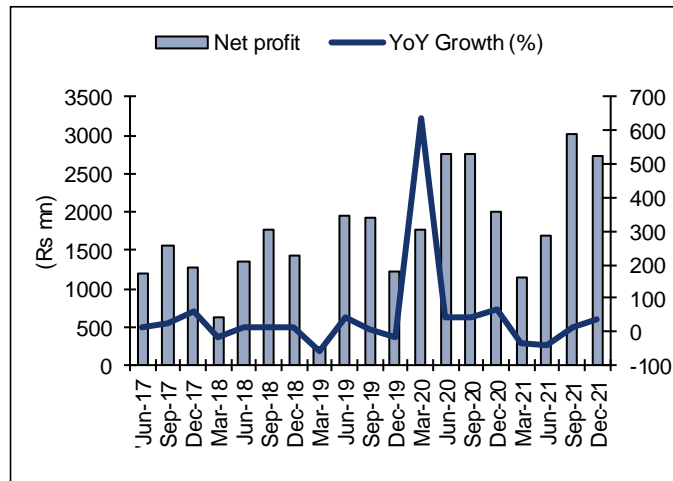
Key charts – Quarterly (Consolidated)

Chart 4: Revenues and growth rates



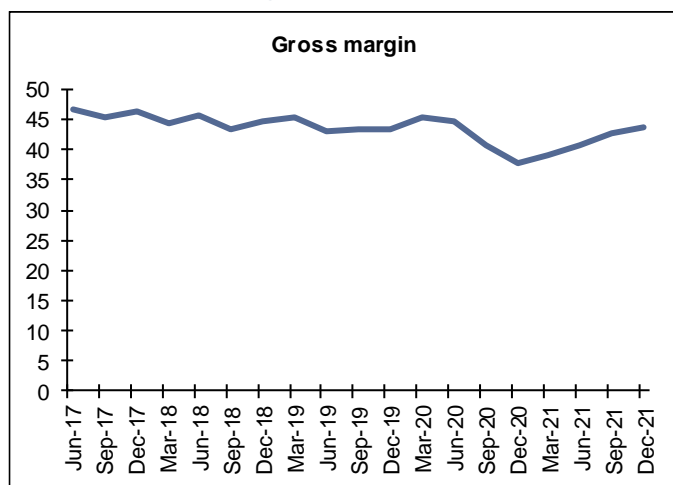
Source: Company data, I-Sec research

Chart 5: Net profit and growth rates



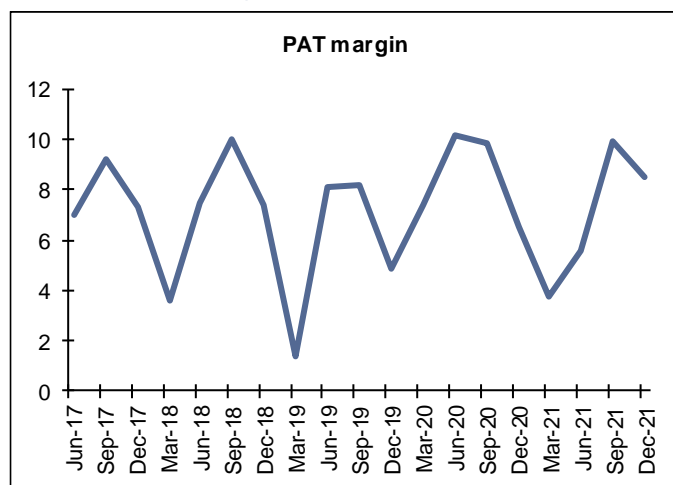
Source: Company data, I-Sec research

Chart 6: Gross margin (%)



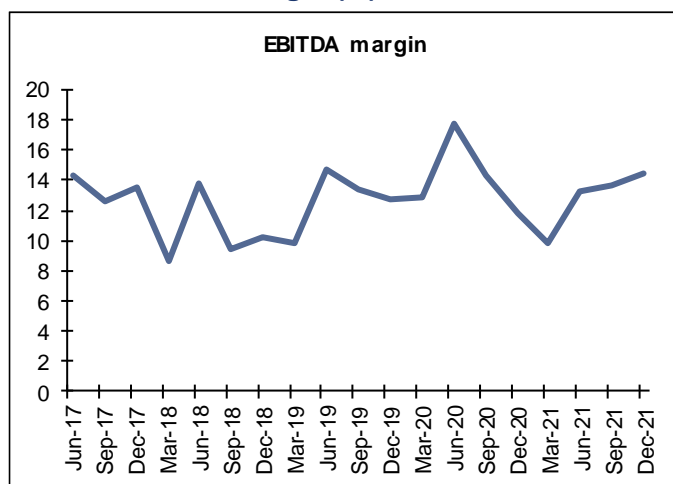
Source: Company data, I-Sec research

Chart 7: PAT margin (%)



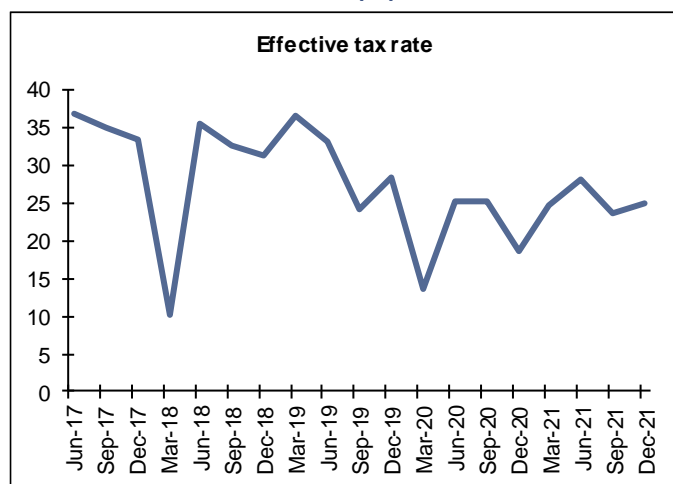
Source: Company data, I-Sec research

Chart 8: EBITDA margin (%)



Source: Company data, I-Sec research

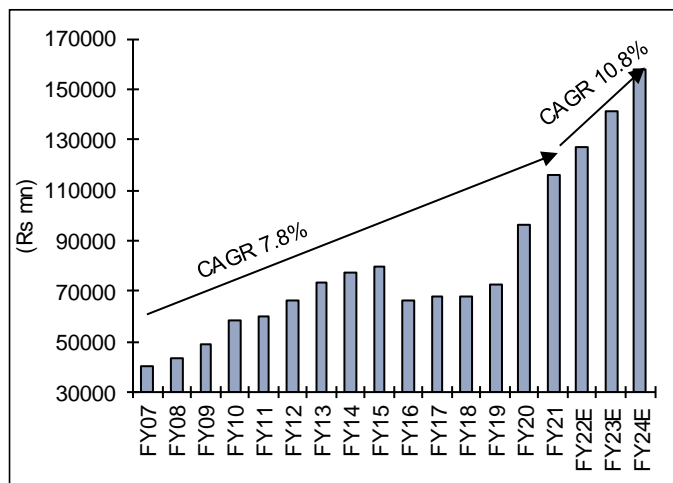
Chart 9: Effective tax rate (%)



Source: Company data, I-Sec research

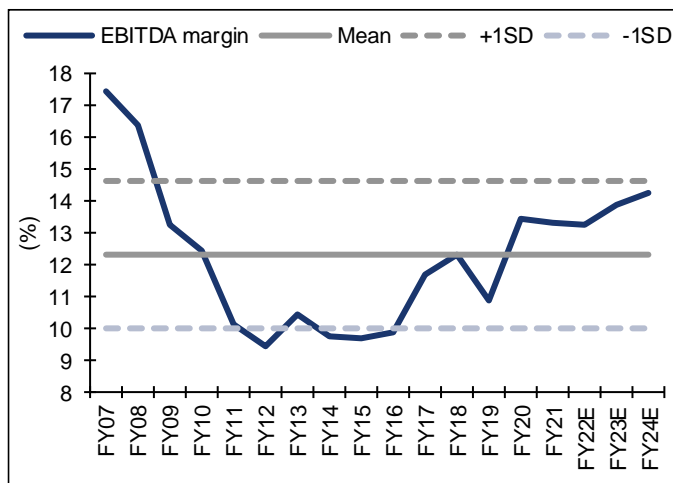
Key charts - Annual

Chart 10: Revenues and growth rates



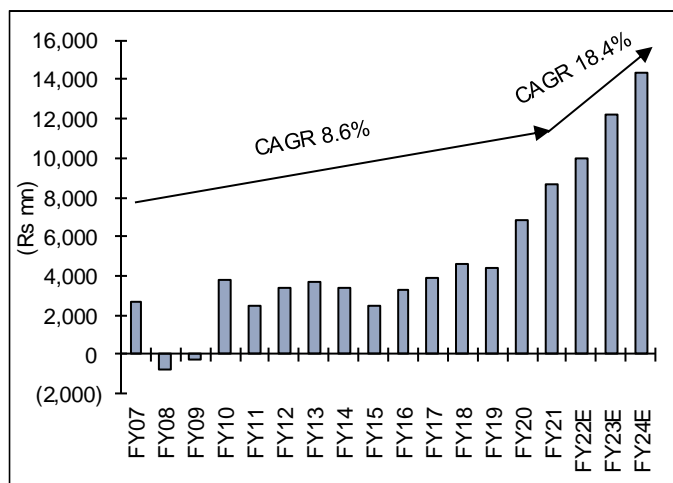
Source: Company data, I-Sec research

Chart 11: EBITDA margin



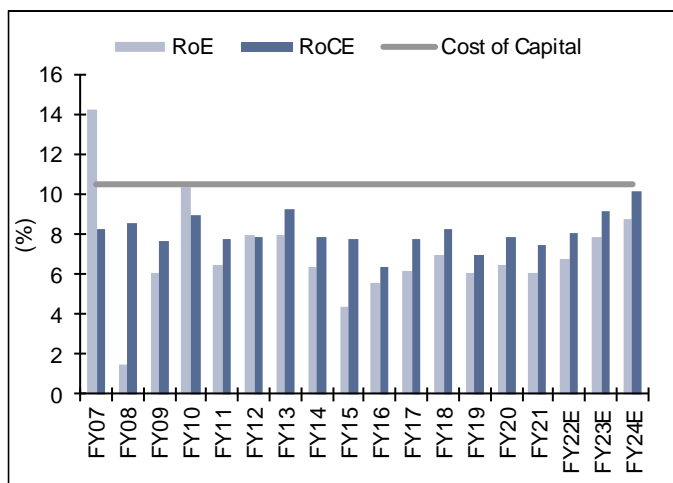
Source: Company data, I-Sec research

Chart 12: Net profit and growth rates



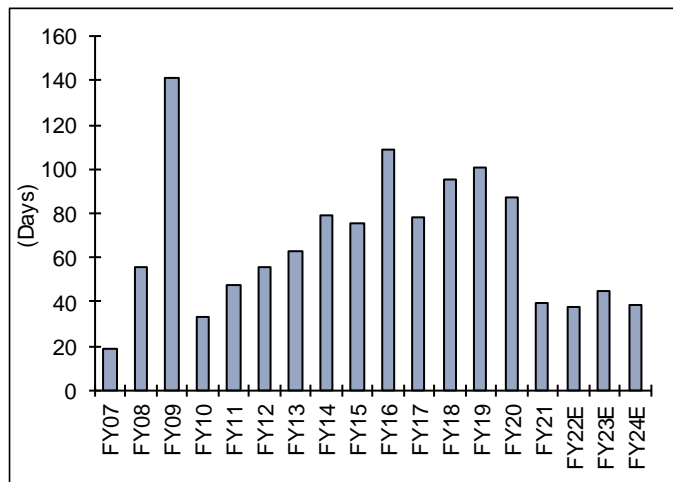
Source: Company data, I-Sec research

Chart 13: RoE & RoCE



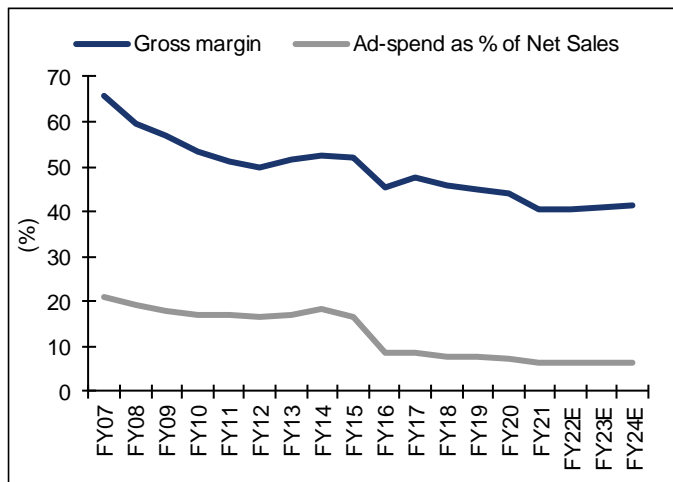
Source: Company data, I-Sec research

Chart 14: Net working capital days



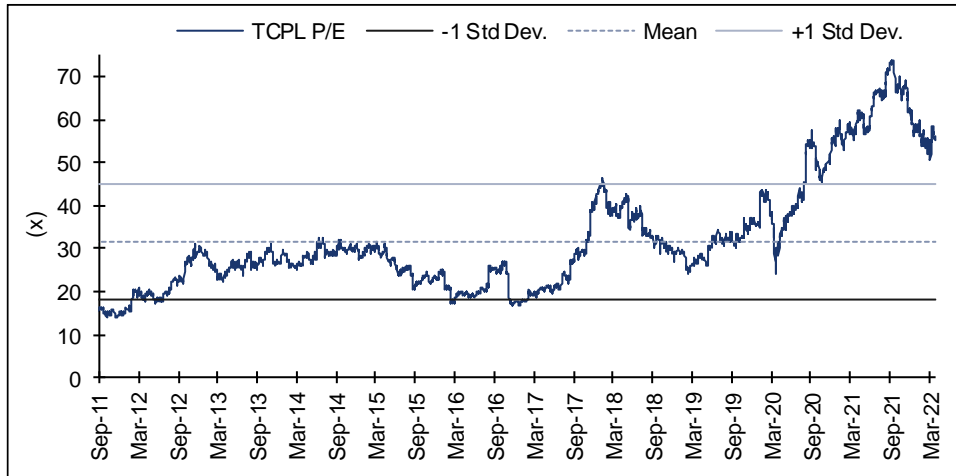
Source: Company data, I-Sec research

Chart 15: Gross margin & ad-spend



Source: Company data, I-Sec research

Chart 16: Mean P/E(x) and standard deviation



Source: Company data, I-Sec research

Financial summary

Table 2: Profit & loss statement

(Rs mn, year ending March 31)

	FY21	FY22E	FY23E	FY24E
Net Sales	1,16,020	1,27,165	1,41,092	1,57,958
Operating Expenses	1,00,583	1,10,334	1,21,557	1,35,420
EBITDA	15,438	16,831	19,534	22,538
% margins	13.3	13.2	13.8	14.3
Depreciation & Amortisation	2,547	2,636	2,760	2,887
Gross Interest	687	353	201	180
Other Income	1,214	1,615	1,757	1,757
Recurring PBT	13,417	15,457	18,330	21,228
Less: Taxes	3,173	3,942	4,674	5,413
Less: Minority Interest	(1,590)	(1,497)	(1,431)	(1,452)
Net Income (Reported)	9,842	10,018	12,225	14,363
Extraordinaries (Net)	1,188	-	-	-
Recurring Net Income	8,654	10,018	12,225	14,363

Source: Company data, I-Sec research

Table 3: Balance sheet

(Rs mn, year ending March 31)

	FY21	FY22E	FY23E	FY24E
Assets				
Total Current Assets	70,486	75,831	83,207	97,648
of which cash & cash eqv.	30,749	32,835	37,402	48,484
Total Current Liabilities & Provisions	26,614	28,774	26,514	29,683
Net Current Assets	43,872	47,057	56,694	67,965
Investments	14,528	14,119	13,839	13,604
Net Fixed Assets	1,16,036	1,16,399	1,16,461	1,16,733
Capital Work-in-Progress	1,129	1,129	1,129	1,129
Total Assets	1,75,564	1,78,704	1,88,122	1,99,430
Liabilities				
Borrowings	13,973	10,292	11,104	12,088
Deferred Tax Liability	5,321	5,321	5,321	5,321
Minority Interest	10,925	11,921	12,956	14,032
Equity Share Capital	922	922	922	922
Face Value per share (Rs)	1.00	1.00	1.00	1.00
Reserves & Surplus*	1,44,424	1,50,248	1,57,819	1,67,067
Less: Misc. Exp. n.w.o.				
Net Worth	1,45,345	1,51,170	1,58,741	1,67,989
Total Liabilities	1,75,564	1,78,704	1,88,122	1,99,430

Source: Company data, I-Sec research

Table 4: Cashflow statement

(Rs mn, year ending March 31)

	FY21	FY22E	FY23E	FY24E
Operating Cashflow	14,729	12,890	14,860	17,124
Working Capital Changes	1,834	(542)	(4,373)	654
Capital Commitments	(4,033)	(3,000)	(2,822)	(3,159)
Free Cashflow	12,531	9,347	7,665	14,620
Cashflow from Investing Activities	(4,084)	(1,385)	(1,064)	(1,402)
Issue of Share Capital	-	-	-	-
Inc (Dec) in Borrowings	(1,678)	(4,683)	(201)	(180)
Dividend paid	(2,582)	(4,193)	(4,654)	(5,115)
Chg. in Cash & Bank balance	8,219	2,086	4,567	11,082
Closing cash & balance	17,732	32,835	37,402	48,484

Source: Company data, I-Sec research

Table 5: Key ratios

(Year ending March 31)

	FY21	FY22E	FY23E	FY24E
Per Share Data (Rs)				
EPS	9.4	10.9	13.3	15.6
Cash EPS	12.2	13.7	16.3	18.7
Dividend per share (DPS)	4.1	4.6	5.1	5.6
Book Value per share (BV)	157.7	164.0	172.2	182.3
Growth (%)				
Net Sales	20.4	9.6	11.0	12.0
EBITDA	19.5	9.0	16.1	15.4
PAT	23.8	15.2	18.6	15.8
DPS	50.0	12.3	11.0	9.9
Valuation Ratios (x)				
P/E	79.1	68.4	56.0	47.7
P/CEPS	61.1	54.1	45.7	39.7
P/BV	4.7	4.5	4.3	4.1
EV / EBITDA	42.6	39.1	33.7	29.2
EV / Sales	5.7	5.2	4.7	4.2
Operating Ratios				
Raw Material / Sales (%)	59.5	59.7	59.1	58.6
Employee cost / Sales (%)	8.4	8.4	8.4	8.4
Other exps / Sales (%)	18.8	18.7	18.7	18.7
Other Income / PBT (%)	9.0	10.4	9.6	8.3
Effective Tax Rate (%)	23.6	25.5	25.5	25.5
Working Capital (days)	39.3	37.4	45.0	38.7
Inventory Turnover (days)	70.8	70.0	69.0	68.0
Receivables (days)	24.0	24.0	21.0	18.0
Payables (days)	51.1	50.0	36.0	36.0
Net D/E (x)	(0.2)	(0.2)	(0.2)	(0.3)
Profitability Ratios (%)				
Net Income Margins	7.5	7.9	8.7	9.1
RoACE	7.5	8.0	9.1	10.1
RoAE	6.1	6.8	7.9	8.8
Dividend Payout	43.1	41.9	38.1	35.6
Dividend Yield	0.5	0.6	0.7	0.7
EBITDA Margins	13.3	13.2	13.8	14.3

Source: Company data, I-Sec research

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