

Robust growth; margins to head northwards...

Tata Consumer Product (TCPL) reported robust sales growth of 18.5% led by India beverage business growth of 32% and food business growth of 13%. International tea business (Tetley, Teapigs, Good Earth), US coffee (Eight O'clock) grew 1%, 4%, respectively in constant currency (CC). The strong growth in India beverage business was led by 11% volume growth & price hikes in tea segment by ~15%. Food business volume growth was 6%. International business volumes were flat & US coffee volumes fell 3%. The dismal volumes in International business was impacted by pantry storing in Q1. **Overall volume growth was ~6% (our estimate)**. Gross margins fell 269 bps with tea prices rising sharply by ~80% given tea crop was negatively impacted by lockdown in April & floods in July. However, cost rationalisation measures led to saving in employee spends to sales (down 112 bps), other overhead to sales (down 158 bps). Further, 95 bps reduction in marketing spends led to operating profit growth of 26.9% to ₹ 399.6 crore & operating margin expansion of 95 bps to 14.4%. The higher operating profit, increased profit from associates resulted in net profit growth of 31.4% to ₹ 273.2 crore.

India business driving growth

We believe decline in out of home tea consumption largely impacted the unbranded tea segment. Simultaneously, increase in at-home consumption benefited branded tea companies. With corporates continuing with work from home, we believe branded tea segment would continue to gain market share from smaller regional brands. The sharp increase in tea prices & subsequent price hikes has also resulted in pricing growth that was absent for many years. The strong growth in India food business (Tata Salt, Tata Sampann) has also been driven by shift from loose to packaged foods. We believe food business has two important growth levels (1) premiumisation trend in salt with increasing consumption of Tata Salt Lite (proposition of less sodium), which is priced at 2x Tata Salt, (2) conversion of loose to packaged food in pulses given branded category is single digit penetration.

Margin in upward trajectory

With consolidation of high margin food business and cost rationalisation by streamlining two business, we believe operating margins would expand in the next two years. Moreover, we believe tea procurement prices would come down with normalisation of tea crop in FY22, which would also benefit in expanding margins as companies generally retain some hikes at the time of prices cooling off from highs. We estimate a 330 bps operating margin improvement to 16.7% by FY23E.

Valuation & Outlook

With the merger of the food business, TCPL's product portfolio has presence of high growing categories like pulses, spices supported by consumption shift from loose to packaged food. Moreover, tailwinds of at-home consumption would further aid growth. We expect revenues & earnings CAGR of 9.6% & 29.5%, respectively, in FY20-23E. We value TCPL at 40x FY23E earnings with revised target price of ₹ 605/share and **BUY** rating.

TATA CONSUMER PRODUCTS

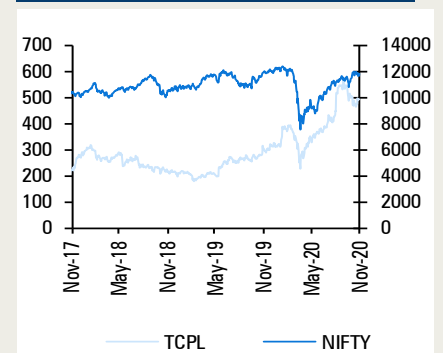
Particulars

Particulars (₹ crore)	Amount
Market Capitalization	46,444.4
Total Debt (FY20)	1,488.4
Cash and Investments (FY20)	2,455.0
EV	45,477.7
52 week H/L (₹)	407 / 178
Equity capital	92.2
Face value (₹)	1.0

Key Highlights

- India beverage business grew by 32% led by strong 11% growth in India tea business. India food business witnessed a growth of 13% with pulses & spices growing at 35%
- Operating margins expanded by 95 bps to 14.4%
- Reiterate BUY recommendation with revised target price of ₹ 605

Price Chart



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Key Financial Summary

Key Financials	FY19	FY20	FY21E	FY22E	FY23E	CAGR (FY20-23E)
Net Sales	7251.5	9637.4	10859.0	11761.1	12679.2	9.6%
EBITDA	785.9	1292.2	1772.4	1955.0	2122.4	18.0%
EBITDA Margin %	10.8	13.4	16.3	16.6	16.7	
Adjusted Net Profit	478.4	641.8	1076.2	1246.0	1393.8	29.5%
EPS (₹)	7.2	5.0	12.0	13.5	15.1	
P/E	69.6	101.0	42.0	37.3	33.3	
RoNW %	6.5	4.6	7.8	8.6	9.3	
RoCE (%)	8.4	6.9	9.8	10.5	11.1	

Exhibit 1: Change in estimates

	Q2FY20	Q2FY20E	Q2FY20	YoY (%)	Q1FY21	QoQ (%)	Comments
Net Sales	2,781.3	2,760.7	2,347.1	18.5	2,713.9	2.5	Net sales grew 18.5% led by India beverage business growth of 32% & India food business growth of 13%. The growth was aided by hike in tea prices
Raw Material Expenses	1,646.2	1,652.7	1,326.0	24.1	1,500.6	9.7	Gross margins contracted 269 bps mainly due to ~80% increase in India tea procurement prices
Employee Expenses	229.7	225.3	220.1	4.4	229.1	0.3	
SG&A Expenses	166.4	139.5	162.7	2.3	133.8	24.4	
Other operating Expenses	339.5	362.1	323.6	4.9	367.8	-7.7	
EBITDA	399.6	381.0	314.8	26.9	482.7	-17.2	Saving in other overheads & marketing spends led to operating margin expansion of 95 bps to 14.4%
EBITDA Margin (%)	14.4	13.8	13.4	95 bps	17.8	-342 bps	
Depreciation	62.6	61.9	58.7	6.7	61.9	1.1	
Interest	17.9	16.5	20.4	-12.4	17.3	3.4	
Other Income	26.2	29.3	28.0	-6.5	32.7	-19.8	
Exceptional Expense/(Income)	23.9	0.0	1.5	NA	-63.3	NA	
PBT	321.5	331.9	262.3	22.6	499.5	-35.6	
Tax Outgo	87.1	83.6	63.6	37.0	110.4	-21.1	
PAT before MI	234.3	248.3	198.7	18.0	389.1	-39.8	
Profit from Associates	38.9	-19.1	9.2	NA	-43.5	NA	
PAT	273.2	229.1	207.9	31.4	345.6	-20.9	Net profit growth supported by higher growth in operating profit & increase in profit from associates (tea plantation business)

Source: Company, ICICI Direct Research

Exhibit 2: Change in estimates

	FY21E			FY22E			FY23E	Comments	
	(₹ Crore)	Old	New	% Change	Old	New	% Change		New
Sales	10697.3	10859.0	10859.0	1.5	11586.3	11,761.1	1.5	12,679.2	We marginally change our revenue estimates after strong Q2 results. We introduce FY23E numbers
EBITDA	1586.1	1772.4	1772.4	11.7	1759.9	1,955.0	11.1	2,122.4	
EBITDA Margin (%)	14.8	16.3	16.3	150 bps	15.2	16.6	143 bps	16.7	We change our margin estimates factoring in larger synergy benefits from H2FY21 onwards
PAT	900.8	1105.4	1105.4	22.7	1,075.3	1,246.0	15.9	1,393.8	
EPS (₹)	9.8	12.0	12.0	22.4	11.7	13.5	15.6	15.1	We reduce losses from associates considering higher tea procurement prices

Source: Company, ICICI Direct Research

Exhibit 3: Assumptions

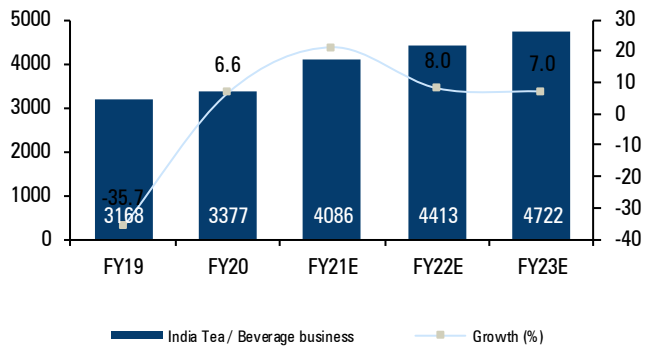
	Current						Earlier		Comments
	FY18	FY19	FY20	FY21E	FY22E	FY23E	FY21E	FY22E	
Segmental Revenues (Gross)									
Tea / India Beverage	4,922.8	3,167.7	3,376.9	4,086.0	4,412.9	4,721.8	3,984.7	4,303.5	We marginally changed our revenue estimates
Coffee / International Bevergae	1,079.5	3,238.4	3,226.0	3,322.8	3,455.7	3,559.4	3,290.6	3,422.2	
Others	35.7	30.2	26.6	16.0	16.8	17.6	28.0	29.4	
Non-branded	815.2	842.5	974.9	1,072.4	1,126.1	1,182.4	1,052.9	1,105.6	
TCL Consumer / India Foods				2,393.9	2,777.0	3,221.3	2,373.3	2,753.0	
No. of Starbucks stores	116	146	185	205	225	245	188	216	Changed our estimates on store counts with company going ahead with the expansion plan

Source: Company, ICICI Direct Research

Conference Call Highlights

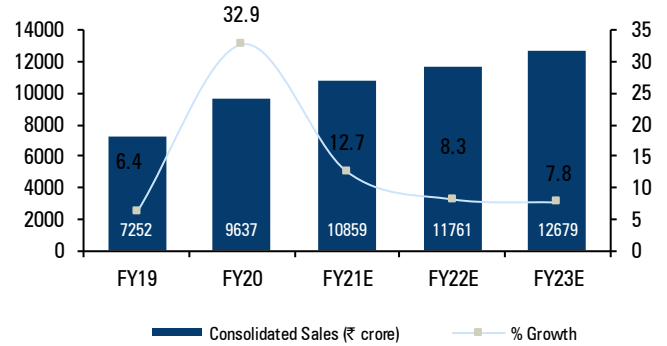
- TCPL witnessed splendid sales growth of 18.5% to ₹ 2781.3 crore on account of strong growth in India beverage & India food business. India beverage business saw growth of 32% to ₹ 1120 crore led by 11% volume growth & sharp increase in tea prices (~15% our estimate). India food business grew 13% to ₹ 580 core aided by 6% volume growth
- US coffee business sales witnessed constant currency growth of 4% with 3% decline in volumes. The dismal volumes were impacted by pantry loading in Q1. International tea business also grew 1% in constant currency with flat volumes. The normalisation of out of home consumption in UK & Canada impacted at-home consumption growth
- Tata Coffee Unbranded business grew 15% in constant currency with 8% volume growth. Plantation business grew 26% with the volume growth of 6% led by sharp increase in pepper volumes. Exaction business grew 13% with volume growth of 11% but profitability of this business was impacted by non-accrual of export incentives (MEIS)
- In India beverage business (tea), the company has been gaining market share in volume & value term. The gains have come from both unorganised segment & other brands. Margins in tea have been stable despite unprecedented increase in tea procurement prices. In brand campaigns, the focus has been on evoking local/regional pride. (Tata tea leaf for Chaat Puja Pack or Tata tea gold for Durga Puja pack)
- The 13% India food business growth was led by 10% growth in Tata Salt & 35% growth in pulses. Value added salt (Tata Salt Lite) witnessed growth of 100%. It took a price hike in salt in October with significant increase in labour cost. The company launched Poha & Nutria-Mixes during the quarter. Poha is mainstream category and distribution would not be merely restricted to e-commerce channel whereas Nutria-Mix is future category
- UK tea business grew 4% with 7% volume growth. The value market share in everyday pack (Tetley, Good Earth) is at 20.5% Gross margins improved in the UK tea business on account of low tea prices in Kenya (procurement for Tetley & other international brands). In the US business, coffee bags market share was at 5.4%. Food servicing business in US was negatively impacted by reduced out of home activity
- Given, the easing of lockdowns in India, 86% Starbucks stores have been re-opened and the company has reached 76% of pre-Covid sales. With 11 new stores opened during the quarter, the total store counts is at 196 in Q2. The company added one new city, Lucknow, in Q2 and Amritsar in October. Store count is at 200 currently
- The company is aiming to double the direct distribution network. It would be critical for long term growth. The management will re-assess distribution growth ambition after reaching 1.0 million direct retail outlets
- Speciality tea category in Canada and fruit & herbals tea category in the UK have been growing at 18% & 12%, respectively. India branded tea category is growing at 5.6% while US bags coffee & K-cup Coffee category is growing at 13.2% & 10.3%, respectively
- The full integration of food & beverage business would be completed by Q4FY21. The synergy identification is completed and the company would be realising benefit from Q3FY21 onwards. Total outlet reach has already expanded by 12% as on September 2020. Two to three levels of distribution consolidation have already been done

Exhibit 4: Consolidated revenue to grow at 9.6% in FY20-23E



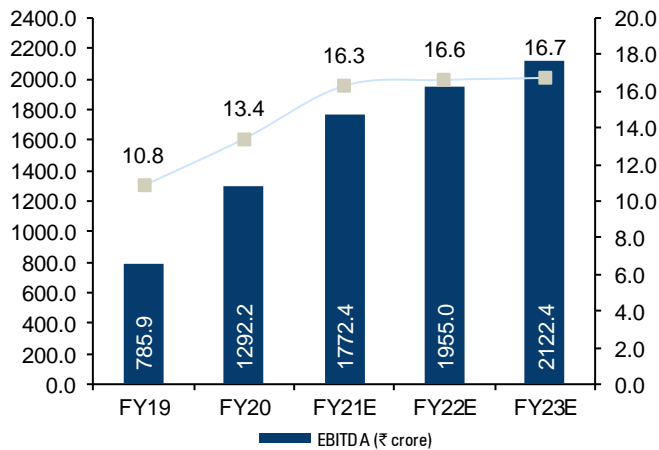
Source: ICICI Direct Research, Company

Exhibit 5: Tea / India beverage business sales trend



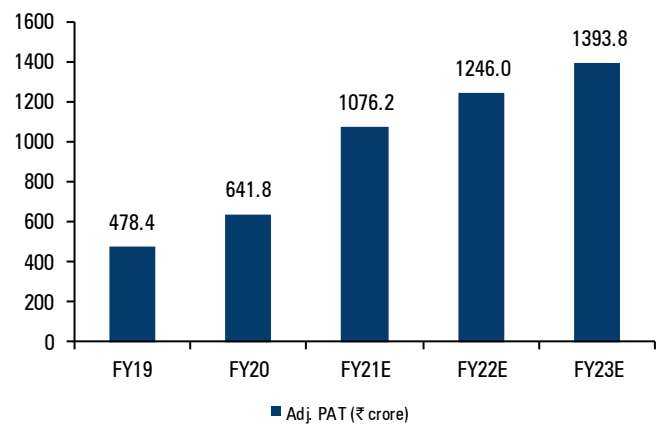
Source: ICICI Direct Research, Company
*FY19 onwards segment reporting has changed from tea to India Beverage

Exhibit 6: Operating margins trend (%)



Source: Company, ICICI Direct Research

Exhibit 7: Adjusted PAT growth trends



Source: Company, ICICI Direct Research

Exhibit 8: Valuation

	Sales (₹ cr)	Growth (%)	EPS (₹)	Growth (%)	PE (x)	EV/EBITDA (x)	RoNW (%)	RoCE (%)
FY20	9637.4	32.9	5.0	-31.1	101.0	35.8	4.6	6.9
FY21E	10859.0	12.7	12.0	140.3	42.0	25.5	7.8	9.8
FY22E	11761.1	8.3	13.5	12.7	37.3	23.0	8.6	10.5
FY23E	12679.2	7.8	15.1	11.9	33.3	21.0	9.3	11.1

Source: Company, ICICI Direct Research

Financial summary

Exhibit 9: Profit and loss statement				
	₹ crore			
(Year-end March)	FY20	FY21E	FY22E	FY23E
Total Operating Income	9637.4	10859.0	11761.1	12679.2
Growth (%)	32.9	12.7	8.3	7.8
Raw Material Expenses	5,410.7	6,178.6	6,422.8	6,936.6
Employee Expenses	884.8	914.9	1,002.0	1,079.7
Marketing Expenses	676.7	577.2	801.6	863.8
Administrative Expenses	0.0	0.0	0.0	0.0
Other expenses	1,373.1	1,415.9	1,579.7	1,676.7
Total Operating Expenditure	8,345.3	9,086.6	9,806.1	10,556.8
EBITDA	1292.2	1772.4	1955.0	2122.4
Growth (%)	64.4	37.2	10.3	8.6
Depreciation	241.7	247.5	246.9	250.1
Interest	77.9	66.0	62.2	58.4
Other Income	111.6	117.2	123.0	129.2
PBT	1,084.2	1,576.1	1,769.0	1,943.1
Exceptional items	-274.8	39.4	0.0	0.0
Total Tax	274.2	420.0	459.9	505.2
PAT	460.1	1105.4	1246.0	1393.8
Growth (%)	0.7	140.2	12.7	11.9
EPS (₹)	7.0	12.0	13.5	15.1

Source: Company, ICICI Direct Research

Exhibit 10: Cash flow statement				
	₹ crore			
(Year-end March)	FY20	FY21E	FY22E	FY23E
Profit/Loss after Tax	681.0	1105.4	1246.0	1393.8
Add: Depreciation	241.7	247.5	246.9	250.1
Add: Interest	77.9	66.0	62.2	58.4
(Inc)/dec in Current Assets	-95.8	38.3	-697.9	-407.5
Inc/(dec) in Current Liabilities	13.8	-223.3	145.8	148.4
CF from operating activities	1082.2	1233.9	1003.0	1443.2
(Inc)/dec in Investments	-337.9	-9.5	-9.8	-10.1
(Inc)/dec in Fixed Assets	-150.8	-3,591.7	-100.0	-100.0
Others	-184.1	4,669.3	28.9	29.4
CF from investing activities	-672.8	1068.1	-80.9	-80.7
Issue/(Buy back) of Equity	0.0	0.0	0.0	0.0
Inc/(dec) in loan funds	32.1	-405.9	-40.0	-40.0
Dividend paid & dividend tax	-221.6	-438.6	-603.1	-767.6
Inc/(dec) in Sec. premium	0.0	-690.1	0.0	0.0
Others	-118.8	-66.0	-62.2	-58.4
CF from financing activities	-308.3	-1600.7	-705.3	-866.0
Net Cash flow	101.1	701.3	216.8	496.5
Opening Cash	737.5	889.3	1,590.7	1,807.4
Closing Cash	1121.7	1823.0	2039.8	2536.3

Source: Company, ICICI Direct Research

Exhibit 11: Balance sheet				
	₹ crore			
(Year-end March)	FY20E	FY21E	FY22E	FY23E
Liabilities				
Equity Capital	92.2	92.2	92.2	92.2
Reserve and Surplus	13,722.7	13,699.3	14,342.2	14,968.3
Total Shareholders funds	13,814.9	13,791.5	14,434.3	15,060.5
Long Term Borrowings	1,100.6	694.7	654.7	614.7
Long Term Provisions	183.2	347.5	376.4	405.7
Other Non-current Liabilities	1425.4	1425.4	1425.4	1425.4
Total Liabilities	16524.0	16259.0	16890.7	17506.2
Assets				
Gross Block	7,115.5	7,615.5	7,715.5	7,815.5
Less: Acc Depreciation	2,472.8	2,720.3	2,967.2	3,217.3
Net Block	1,551.0	4,895.2	4,748.3	4,598.2
Capital WIP	95.4	95.4	95.4	95.4
Goodwill	10105.0	5600.0	5600.0	5600.0
Non Current Investments	544.0	553.4	563.2	573.3
LT Loans & Advances/Others	525.2	525.2	525.2	525.2
Current Assets				
Inventory	1,712.0	2,528.8	2,900.0	3,126.4
Debtors	922.4	1,041.3	1,288.9	1,389.5
Cash	1,121.7	1,823.0	2,039.8	2,536.3
Loans & Advances	1,449.9	714.0	773.3	833.7
Other Current Assets	173.2	238.0	257.8	277.9
Current Liabilities				
Creditors	944.0	743.8	805.6	868.4
Provisions	92.4	178.5	193.3	208.4
Short Term Borrowings	387.8	476.0	515.6	555.8
Other CL	554.4	357.0	386.7	416.9
Net Current Assets	3,703.5	4,589.8	5,358.7	6,114.2
Total Assets	16524.0	16259.0	16890.7	17506.2

Source: Company, ICICI Direct Research

Exhibit 12: Key ratios				
	₹ crore			
(Year-end March)	FY20	FY21E	FY22E	FY23E
Per share data (₹)				
EPS	5.0	12.0	13.5	15.1
Cash EPS	7.6	14.7	16.2	17.8
BV	149.9	149.7	156.6	163.4
DPS	2.7	4.0	5.5	7.0
Cash Per Share	12.2	19.8	22.1	27.5
Operating Ratios (%)				
EBITDA Margin	13.4	16.3	16.6	16.7
PBT / Net Sales	11.2	14.5	15.0	15.3
PAT Margin	4.8	10.2	10.6	11.0
Inventory days	64.8	85.0	90.0	90.0
Debtor days	34.9	35.0	40.0	40.0
Creditor days	35.8	25.0	25.0	25.0
Return Ratios (%)				
RoE	4.6	7.8	8.6	9.3
RoCE	6.9	9.8	10.5	11.1
RoIC	13.9	18.2	19.4	20.9
Valuation Ratios (x)				
P/E	101.0	42.0	37.3	33.3
EV / EBITDA	35.8	25.5	23.0	21.0
EV / Net Sales	4.8	4.2	3.8	3.5
Market Cap / Sales	4.8	4.3	3.9	3.7
Price to Book Value	3.4	3.4	3.2	3.1
Solvency Ratios				
Debt/EBITDA	1.2	0.7	0.6	0.6
Debt / Equity	0.1	0.1	0.1	0.1
Current Ratio	2.7	3.5	3.8	3.8
Quick Ratio	1.6	1.6	1.7	1.7

Source: Company, ICICI Direct Research

Exhibit 13: ICICI Direct coverage universe (FMCG)

	CMP	TP	Rating	M Cap	EPS (₹)			P/E (x)			Price/Sales (x)			RoCE (%)			RoE (%)		
	(₹)	(₹)		(₹ Cr)	FY20	FY21E	FY22E	FY20	FY21E	FY22E	FY20	FY21E	FY22E	FY20	FY21E	FY22E	FY20	FY21E	FY22E
Colgate (COLPAL)	1,507	1,700	Buy	38,812	30.0	33.4	35.4	50.2	45.2	42.6	8.6	8.4	7.7	60.7	83.5	100.8	51.2	64.2	78.0
Dabur India (DABIND)	527	595	Buy	90,864	8.2	9.6	10.7	64.3	55.1	49.2	10.4	9.5	8.6	26.1	25.9	26.7	21.9	22.3	22.7
Hindustan Unilever (HINLEV)	2,094	2,500	Buy	510,548	31.2	32.4	38.8	67.1	64.6	54.0	13.3	12.0	10.4	89.5	24.5	28.5	85.7	18.6	21.9
ITC Limited (ITC)	174	225	Buy	213,884	12.5	11.2	12.0	14.0	15.5	14.4	4.6	4.7	4.2	29.4	27.2	30.5	23.8	20.9	23.4
Jyothy Lab (JYOLAB)	134	150	Hold	4,957	4.3	5.8	6.1	31.2	23.3	22.0	3.0	2.7	2.5	24.3	31.1	30.9	21.7	25.7	25.1
Marico (MARLIM)	380	440	Buy	46,834	8.1	8.8	9.5	47.0	43.2	39.9	6.4	6.2	5.6	41.0	42.3	45.1	34.5	36.3	38.5
Nestle (NESIND)	17,006	18,000	Hold	152,970	204.3	223.4	253.4	83.3	76.1	67.1	12.4	11.5	10.4	56.9	59.9	66.6	101.9	119.1	139.2
Tata Consumer Products (TATGLO)	504	605	Buy	46,444	5.0	12.0	13.5	101.0	42.0	37.3	4.8	4.3	3.9	6.9	9.8	10.5	4.6	7.8	8.6
VST Industries (VSTIND)	3,436	3,850	Hold	5,307	196.9	206.0	211.9	17.4	16.7	16.2	4.3	4.5	4.2	52.1	45.3	46.1	38.6	33.6	34.2
Varun Beverage (VARBEV)	694	730	Hold	19,429	16.4	11.3	21.7	42.4	61.4	31.9	2.7	3.0	2.5	15.5	12.3	18.6	14.2	10.1	16.7
Zydus Wellness (ZYDWEL)	1,760	2,300	Buy	11,359	24.6	27.8	65.7	71.6	63.4	26.8	6.4	6.1	5.4	5.9	6.9	8.3	5.4	5.9	8.6

Source: Company, ICICI Direct Research

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Reduce: -15% to -5%;

Sell: < -15%



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