Sharekhan
by BNP PARIBAS

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Tata Consumer Products Ltd

Eyeing growth outdoors as COVID fears ease

Consumer Goods	Sharekhan code: TATACONSUM	Company Update

Stock 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	Change
Reco: **Buy**	↔
CMP: **Rs. 584**	
Price Target: **Rs. 685**	↑

↑ Upgrade ↔ Maintain ↓ Downgrade

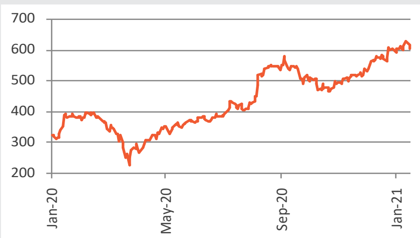
Company details

Market cap:	Rs. 54,464 cr
52-week high/low:	Rs. 592/214
NSE volume: (No of shares)	46.8 lakh
BSE code:	500800
NSE code:	TATACONSUM
Free float: (No of shares)	60.2 cr

Shareholding (%)

Promoters	34.7
FII	21.7
DII	17.7
Others	26.0

Price chart



Price performance

(%)	1m	3m	6m	12m
Absolute	2.0	22.7	38.1	51.4
Relative to Sensex	-1.4	-0.7	2.1	34.3

Sharekhan Research, Bloomberg

Summary

- We retain a Buy on Tata Consumer Products Ltd (TCPL) with a revised price target of Rs. 685. Improving business fundamentals post acquisition of Tata Chemicals Ltd's (TCL's) consumer business strong earning visibility makes TCPL better pick in the consumer staples space.
- Improving out-of-home consumption (Tata Starbucks, NourishCo set to gain), sustained demand for branded products and higher e-Commerce sales to drive domestic business in near to medium term.
- Risk of commodity prices is receding as domestic tea prices dropped 35% from highs in July-August 2020 while Kenyan tea prices remain benign. Synergistic benefits from merger of TCL will help OPM to reach close to 16% by FY23.
- Q3FY21 is expected to be yet another quarter of strong performance with revenues and PAT (including merged entity of TCL's consumer business) is expected to grow by 43% and 89% respectively on y-o-y basis.

Tata Consumer Products Ltd's (TCPL)'s H1FY2021 performance was boosted by higher demand for in-house consumption (including tea and packaged food) in the domestic and international markets. Going ahead, market share gains from smaller players in the tea and branded pulses segments, product innovation, higher e-Commerce sales and improving demand for out-of-home consumption (as the virus scare recedes) would drive revenue over FY2021-23E. With the COVID-19 recovery rate inching close to 97% in India and vaccination programme beginning on schedule, out-of-home consumption will improve in the coming quarters as socialising and intercity mobility increase. This will help ventures such as Tata Starbucks (business recovered to 70% in September '20) and NourishCo (recovered to 101% in September '20) clock better operating numbers in the coming quarters. In line with its innovation strategy, TCPL launched Tulsi green tea and Tata Tea Gold care to build up its immunity-boosting product portfolio. On the other hand, new launches such as Poha and Nutria mix along with dosa/vada mix are gaining strong traction on the online platform. Under the leadership of Mr. N Chandrasekaran, the Group is focusing on creating a SuperApp to bring all its consumer businesses on one platform. This will be done through organically or inorganically by acquiring top online retailers. Sustained innovation and higher traction through the online platform will help TCPL gain market share from small players in the branded tea and pulses space. The company expects some of these drivers to play a key role in Q3 performance. We expect Q3FY2021 to be yet another strong quarter for the company with revenues and PAT (including merged entity of TCL's consumer business) expected to grow by 43% and 89%y-o-y. Another major tailwind would be the fall in domestic raw tea prices (corrected by ~35% from its high in July-August).

Our Call

Maintain Buy with revised PT of Rs. 685: TCPL's management near term focus on smooth integration of Tata Chemical's consumer business and building a large consumer business in the domestic market. In the near term the focus will be on increasing growing the new ventures such as retail coffee and water beverages business and entering into new categories through relevant new launches in view of expected improvement in the out-of-consumption. The company is well-poised to achieve double-digit revenue and PAT growth of 11% and 23% respectively over FY2020-23 with a gradual improvement in OPM. We maintain a Buy on the stock with a revised price target of Rs. 685 (rolling it over to FY2023E estimates). The stock is currently trading at 42x its FY2021E earnings.

Key Risks

Any significant slowdown in the domestic/international demand environment or spike in the 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	10,875	11,926	13,133
OPM (%)	10.8	13.4	15.0	15.4	15.9
Adjusted PAT	479	661	919	1,116	1,291
% Y-o-Y growth	-16.0	37.9	39.1	21.5	15.6
Adjusted EPS (Rs.)	5.2	7.2	10.0	12.1	14.0
P/E (x)	76.9	81.5	58.6	48.2	41.7
P/B (x)	5.0	3.9	3.7	3.6	3.4
EV/EBIDTA (x)	45.4	40.2	31.4	27.6	23.9
RoNW (%)	6.9	7.0	7.5	8.3	9.0
RoCE (%)	8.8	9.0	9.1	10.2	11.1

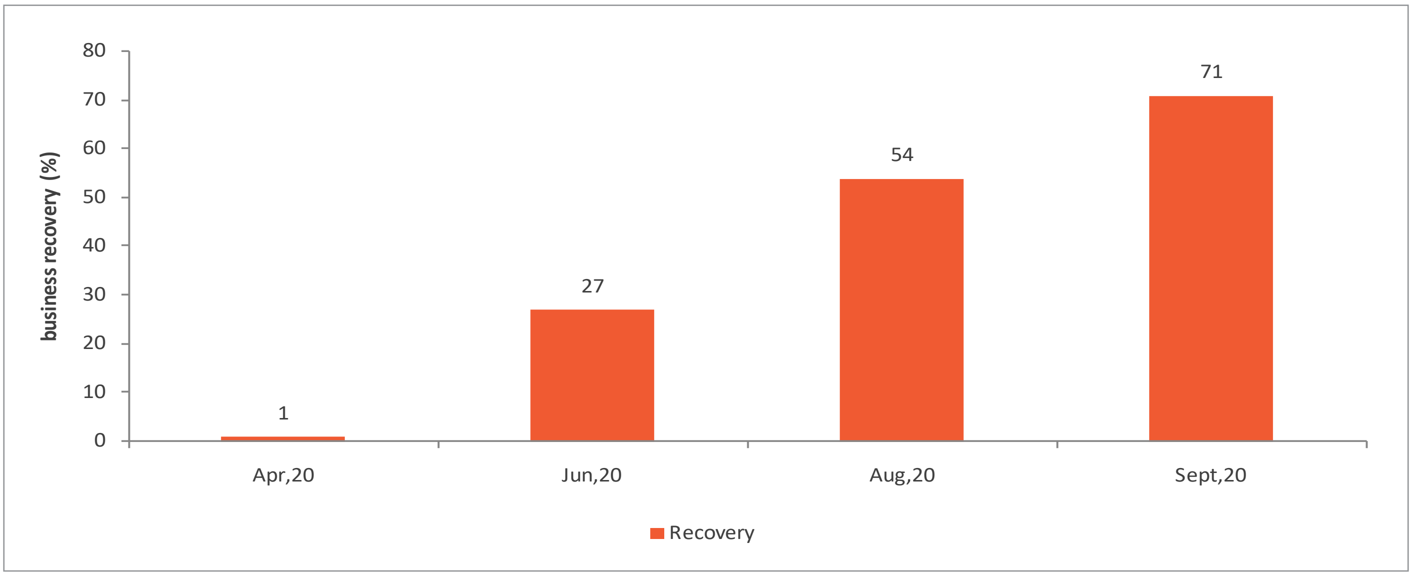
Source: Company; Sharekhan estimates

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

Out-of-home consumption to see strong traction with receding virus scare

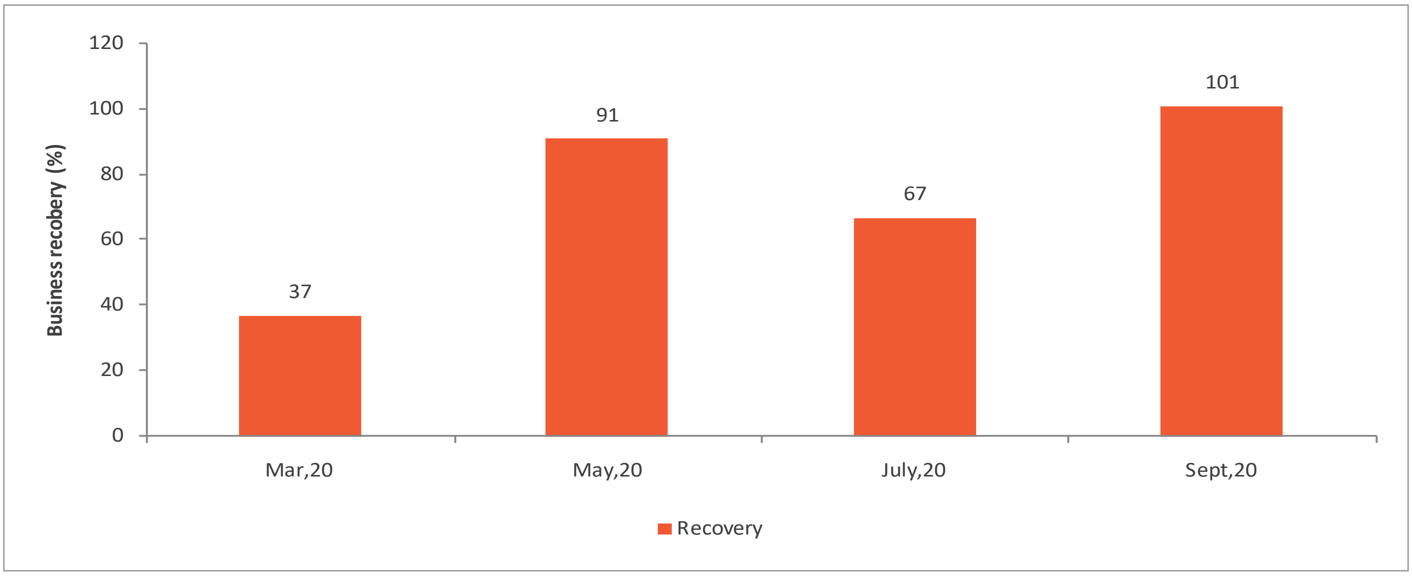
The scare of COVID-19 in India has receded significantly with the recovery rate inching closer to 97% . This resulted in the strong improvement in the inter-city mobility post the easing of lockdown norms. According to Google analytics, retail and recreation mobility index is down by just 24% in January 2021 compared to 86% in May 2020. With the vaccination programme beginning as planned, we expect the mobility to further improve in the coming months. This will benefit the out-of-consumption segments (such as cafes, beverages and restaurants), which are expected to see strong recovery in demand in the coming months. Tata Starbucks which has already seen a recovery to 70% of pre-COVID levels in September (86% of stores are now operational) and is expected to post further recovery in Q3FY2021 with business inching close to 100% of pre-COVID levels. Tata Starbucks announced the launch of a feature that allows customers to order and pay ahead using its mobile app. Also, consumption of beverages such as Tata Gluco Plus and Tata Water Plus will increase as consumers will prefer for healthier variants of beverages in the coming years. NourishCo's (a subsidiary of TCPL) revenues recovered to 101% of pre-covid levels in September (87% of pre-COVID level in Q2). We expect Tata Starbucks JV and NourishCo to post strong performance in FY2022.

Tata Starbucks revenues recovered to 70% in Sept,20



Source: Company, Sharekhan Research

Nourishco's revenues recovered to 100% in Sept,20

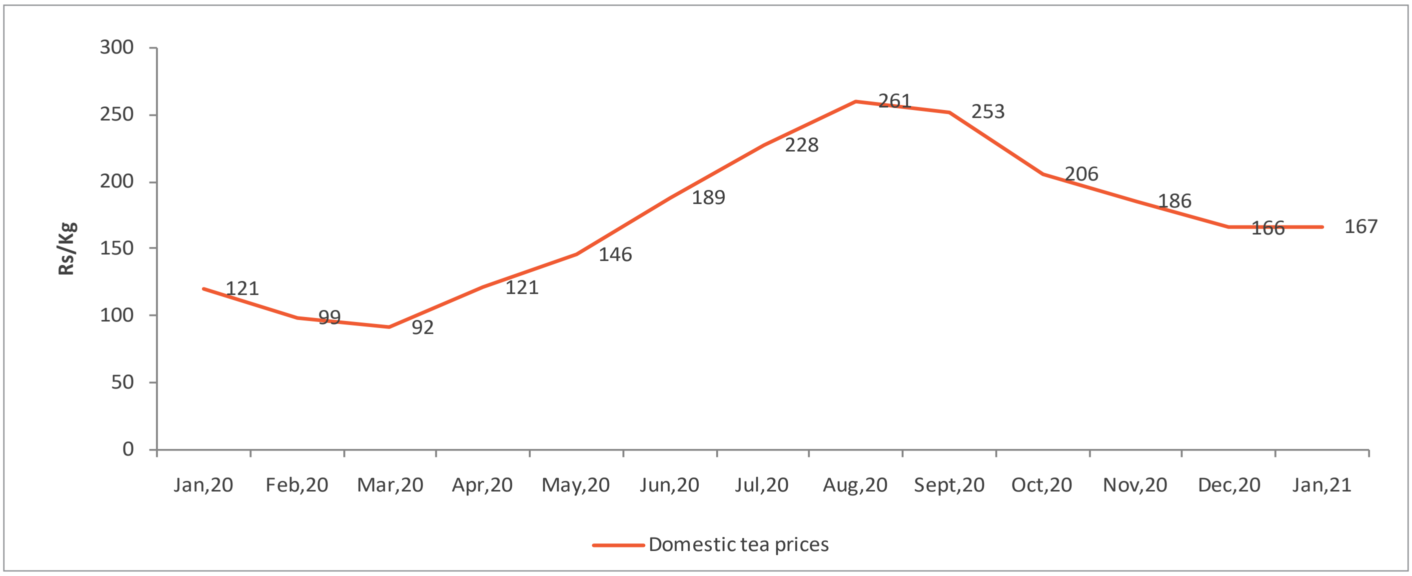


Source: Company, Sharekhan Research

Domestic tea prices corrected from high, Kenyan tea prices remain benign

Indian raw tea prices, which touched highs of Rs. 260/kg in August, have corrected by 35% is currently trading at Rs167 per kg. If downward trend continues it will act as a major tailwind for the company in FY2022. Further, international tea prices (including in Kenya) have remained benign. Though Q3FY2021 will see a reduction in gross margins due to higher domestic tea prices we expect sequential improvement in the quarters ahead with sharp reduction in raw tea prices. Further the synergistic benefits from merger of TCL will help OPM to remain high on a y-o-y basis. In the long run, the expansion of portfolio of with high margins products would help in mitigating the impact of volatile raw material prices.

Domestic raw tea prices corrected from its high



Source: Tea board of India

Q3FY2021 to be yet another strong quarter

TCPL is yet again likely to clock strong numbers in Q3FY021 driven by robust growth in the domestic foods and beverages business coupled with mid-teen growth anticipated in Tata Coffee's instant coffee business. The India beverages category is expected to grow by 15%, US coffee business to grow by 5%, Tata Coffee to grow by 12% and the India food business to grow by 16%. Higher domestic raw tea prices drag down gross margins by 316 bps to 43%. However, higher synergistic benefits of merger of TCL's consumer business would help OPM to expand by 76 bps to 13%. This would help a 52% growth in operating profit and a 57% growth in the PAT. However, likely stocking of staples prior to lockdown in the UK and market share gains in India might lead to better than expected performance in Q3.

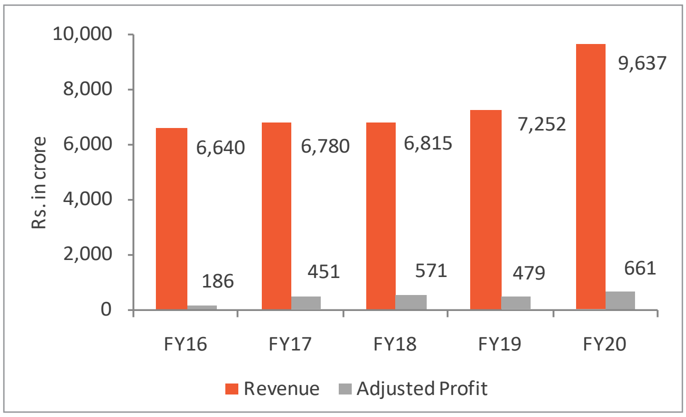
Result expectation (consolidated) Rs cr

Particulars	Q3FY21E	Q3FY20	YoY %	Q2FY21	QoQ %
Revenues	2809.9	1961.9	43.2	2781.3	1.0
Operating Profit	364.4	239.6	52.1	399.7	-8.8
Profit Before Tax	310.4	197.2	57.4	345.5	-10.1
Adjusted PAT	257.2	136.4	88.5	297.3	-13.5
EPS (Rs.)	2.5	2.2	12.7	2.8	-10.1
			BPS		**BPS**
GPM(%)	43.0	46.2	-316	40.8	218
OPM(%)	13.0	12.2	76	14.4	-140

Source: Company; Sharekhan estimates

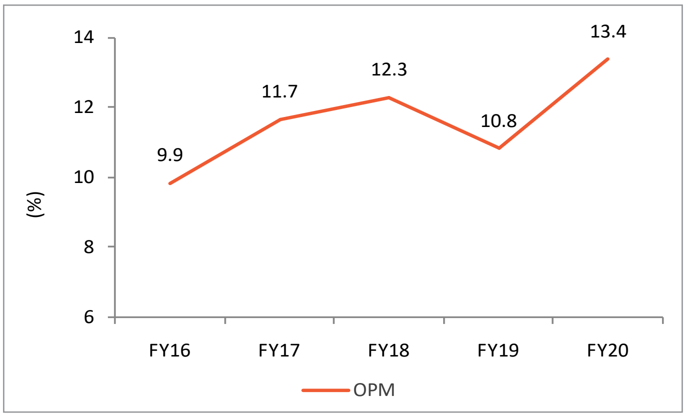
Financials in charts

Trend in revenues and PAT



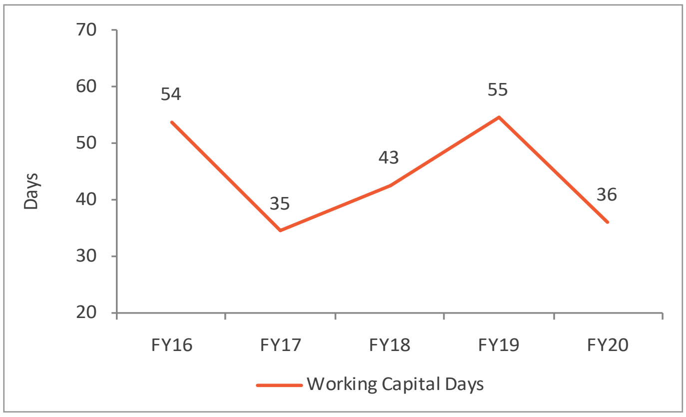
Source: Company, Sharekhan Research

Consolidated OPM improved in FY20



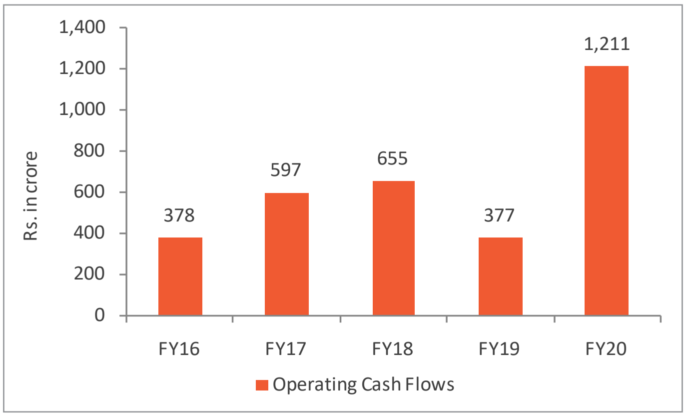
Source: Company, Sharekhan Research

Stable working capital days



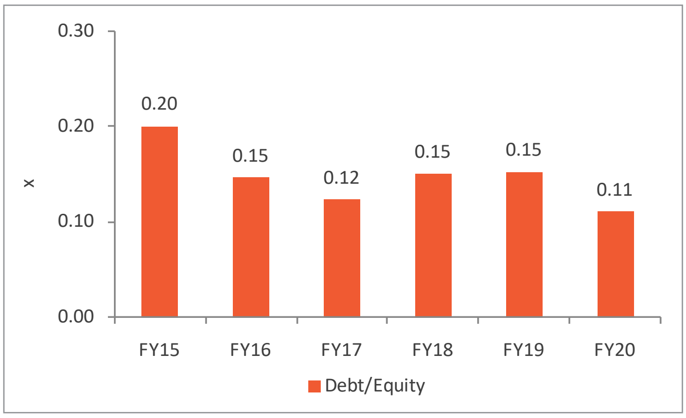
Source: Company, Sharekhan Research

Operating cash flows remained strong



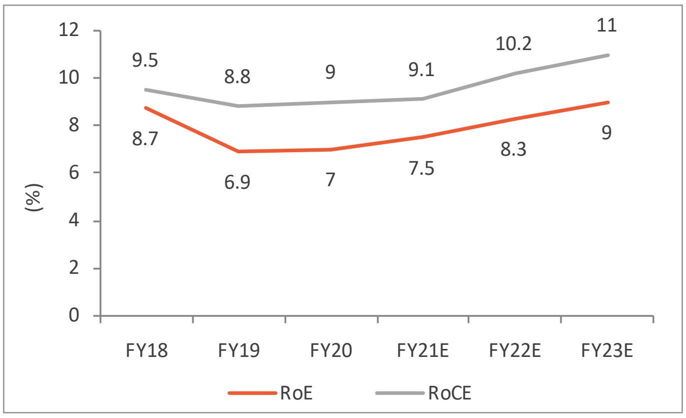
Source: Company, Sharekhan Research

Debt/equity ratio remained lower



Source: Company, Sharekhan Research

Return ratios to see gradual improvement



Source: Company, Sharekhan Research

Outlook and Valuation

■ Sector view - demand for branded products to sustain, out-of-home to see recovery

Nation-wide lockdown in April-May 2020 had severe impact on the supply chain of the consumer goods companies. Strong recovery was seen in June. Staples, health foods and the health & hygiene categories registered strong demand while out-of-home and discretionary categories posted a decline in Q1FY2021. We believe that higher demand for branded products would sustain due to shift of consumers to trusted brands and increase in purchases from online channels in the post-pandemic era. Further, with the risk of COVID-19 receding in India, out-of-home consumption 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 quarters ahead.

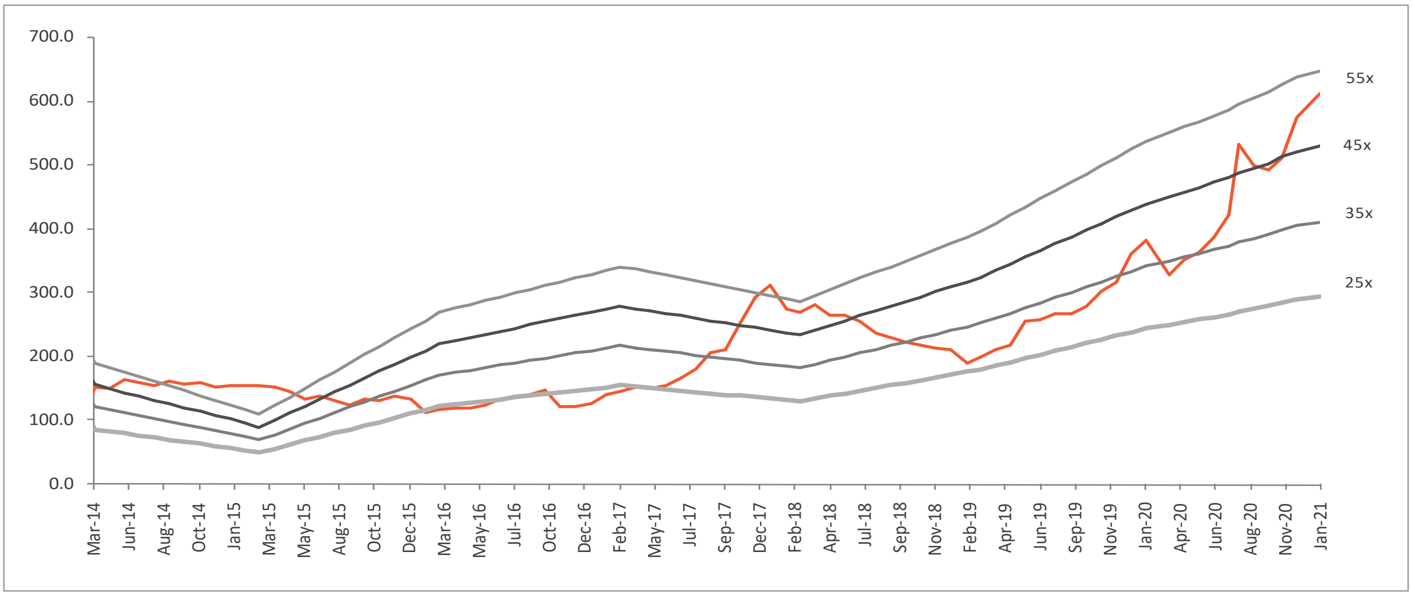
■ Company outlook - growth momentums to sustain; margin expansion to moderate

With market share gains in the branded tea and salt segment, doubling of distribution reach, a sustained trend of higher in-house consumption and consistent new product addition would be key levers of the growth in the domestic business. Domestic raw tea prices have gone up significantly due to lower supply (impacted by lockdown and adverse weather conditions). The prices have started correcting from its high and the company would see benefit of it in the coming quarters. In the near term integration process of merger of Tata Chemical food business with TCPL is on and expected to significantly complete by Q4FY2021. However benefit of some of the completed processes will start flowing in from Q3, which will help to mitigate the impact of higher raw material prices in the near term.

■ Valuation - Maintained Buy with revised price target of Rs. 685:

The management's near-term focus is on smooth integration of Tata Chemicals' consumer business and building a large consumer business in the domestic market. It will also look to boost growth of new ventures such as the retail coffee and water beverages businesses and enter into new categories through relevant new launches in view of the expected improvement in the out-of-home consumption. The company is well-poised to achieve double digit revenue and PAT growth of 11% and 23% respectively over FY2020-23 with a gradual improvement in OPM. We maintain a Buy on the stock with a revised price target of Rs. 685 (rolling it over to FY2023E estimates). The stock is currently trading at 42x its FY2021E earnings.

One year forward P/E 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	65.0	51.5	45.2	45.9	38.9	33.8	39.1	28.5	30.7
Nestle India	76.7	65.1	56.7	52.1	45.4	40.0	59.8	60.0	56.9
Tata Consumer Products	58.6	48.2	41.7	31.4	27.6	23.9	9.1	10.2	11.1

Source: Company, Sharekhan Research

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

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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