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Tata Consumer Products

Margin dip mars Q4; growth momentum to sustain in medium term

Consumer Goods	Sharekhan code: TATACONSUM	Result 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. 629**	
Price Target: **Rs. 740**	↔

↑ Upgrade ↔ Maintain ↓ Downgrade

Company details

Market cap:	Rs. 57,873 cr
52-week high/low:	Rs. 698 / 328
NSE volume: (No of shares)	41.1 lakh
BSE code:	500800
NSE code:	TATACONSUM
Free float: (No of shares)	60.2 cr

Shareholding (%)

Promoters	34.7
FII	25.2
DII	12.6
Others	27.5

Price chart

Price performance

(%)	1m	3m	6m	12m
Absolute	-5.4	5.4	23.3	80.4
Relative to Sensex	-4.1	9.8	8.2	25.4

Sharekhan Research, Bloomberg

Summary

- In Q4FY21, Tata Consumer Products (TCPL)'s margins missed the mark and stood at 9.9% (vs. our street expectation of 11-12%); Revenue growth stood strong at 26% to Rs. 3,027 crore while Adjusted PAT stood at Rs. 181 crore (vs. our and street expectation of Rs. 190-195 crore).
- India beverages business grew by 60% (volume growth of 23%); India foods biz revenues rose by 22% (volumes grew 21%), while Tata Coffee saw a 31% largely volume-led growth. Tata Starbucks became EBIDTA Positive in FY2021; business recovered to 98% in February.
- Demand for staples/ daily consumption item to remain stable in the coming months. However, local lockdowns and restricted business hours might lead to near-term supply disruptions; domestic tea prices are likely to moderate in new crop season.
- We have reduced our FY22 earnings estimates by 4%, while we broadly maintain them for FY2023. We maintain our Buy recommendation with target price of Rs. 740.

In Q4FY2021, TCPL's performance was lower than our as well as the street's expectation mainly as the fall in OPM was steeper than expected at 9.9% (vs. ours as well as street expectation of 11-12%). Adjusted PAT (before exceptions and share of profit from JVs/associates) stood at Rs. 181 crore, lower than our as well as the street's hopes of Rs. 190-195 crore. On the other hand, double-digit revenue growth momentum sustained with the company clocking 26% growth in Q4. This was largely driven by a 60% and 22% growth in the Indian packaged beverages and the foods business, respectively, while the international business was affected by a high base caused by pantry up-stocking in the base quarter. The Company's revenues and PAT grew by 21% and 38% in FY2021 (with OPM remaining stable at 13.3%). The India beverage and foods segments clocked a strong growth of 36% and 18% with a double-digit volume growth of 11-12% on back of market share gains, higher in-house consumption and distribution expansion (Tea and Salt distribution expanded by 15% and 11%, respectively). Further, an increase in the in-house consumption aided the international business to post double-digit revenue growth. NourishCo has also seen good recovery in the H2FY2021 and clock revenues of Rs. 188 crore, while Tata Starbucks business recovered to 98% in February (and was EBIDTA Positive in FY2021 due to cost-saving initiatives). The management expects demand for staples to remain normal in the current environment while local lockdowns and operations for limited hours might cause some supply disruption. However, the company expect it to be a short-term phenomenon and with strong vaccination drive, it expects things to stabilize in another quarter to two. The India beverages and foods business will maintain the double digit volume growth momentum due to sustained market share gains and distribution expansion (especially in rural markets) in the medium term. The company is focusing on scaling up acquired business such NourishCo and Soulfull through meaning innovation and distribution expansion. The international business will achieve steady growth on back of strong growth in speciality tea segment. North Indian raw tea prices have corrected from its high but still remain above the last year levels. The management expects it to correct further in the new crop season. If tea prices do not moderate from current level, the company might opt for further price hikes to cover the raw material inflation. Price hikes and synergistic benefits from integration (completed in Q4FY2021) will continue to support margins. Integration of the recently-acquired Soulfull will be completed by Q1FY2022 Acquisition is margin accretive and will add to profitability once the business' scale improves in the coming years.

Key positives

- The Starbucks business recovered to 98% in February; business was EBIDTA positive in FY2021.
- Tea and Salt market share improved by 100 bps and 160 bps, respectively, during the year.
- Debtor days shrunk by 11 days; working capital days fell by 17 days; cash on books stood at ~Rs. 3,000 crore (FCF to EBIDTA 101%).

Key negatives

- Significant increase in domestic tea prices dragged gross margins by 623 bps.
- The Tata Sampann portfolio registered a modest growth of 2% due to volatility in prices of pulses.

Our Call

View - Retain Buy with unchanged PT of Rs. 740: We have reduced our earnings estimates for FY2022 by 4% to factor in little lower OPM than earlier expected and near term uncertainties while we have broadly maintained it for FY2023. Gaining market share in the branded tea and staples segment, scaling up the acquired ventures such as NourishCo and Soulfull, gradual improvement in out-of-home consumption and a foray into new categories through relevant launches remain key catalysts for growth in the near term, besides inorganic initiatives. With consistent double-digit growth in revenues, steady margin improvement and stable working capital management, TCPL expects return ratios to consistently improve in the coming years. The stock has corrected by ~10% from recent highs, which largely factors in near-term uncertainties. The stock is currently trading at 44x its FY2023E earnings. We maintain our Buy recommendation on the stock with an unchanged price target of Rs. 740.

Key Risks

Any slowdown in domestic consumption; heightened competition from new players and a sustained spike in key input prices would act as a key risk to our earnings estimates in the near term.

Valuation (consolidated) Rs cr

Particulars	FY19	FY20	FY21*	FY22E*	FY23E*
Revenue	7,252	9,637	11,602	12,997	14,774
OPM (%)	10.8	13.4	13.3	14.2	14.6
Adjusted PAT	479	661	953	1,108	1,331
% Y-o-Y growth	-16.0	37.9	44.2	16.3	20.1
Adjusted EPS (Rs.)	5.2	7.2	10.3	12.0	14.4
P/E (x)	82.8	87.7	60.8	52.3	43.5
P/B (x)	5.4	4.2	4.0	3.8	3.6
EV/EBIDTA (x)	49.0	43.7	36.3	30.4	25.6
RoNW (%)	6.9	7.0	7.2	7.8	8.8
RoCE (%)	8.8	8.8	8.1	9.2	10.5

Source: Company; Sharekhan estimates

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

Revenues grew in strong double digit; higher input prices affected the margins: Consolidated revenue grew by 26.3% y-o-y to Rs. 3037.2 crore in Q4FY2021 as against Rs. 2,405 crore in Q4FY2020 and Rs. 3,069.6 crore in Q2FY2021. Revenue from the India beverages and foods businesses stood at Rs. 1,205 crore and Rs. 641 crore, respectively growing by 60% and 22% y-o-y. Volumes of the India beverages and foods businesses rose by 23% and 21%, respectively, led by market share gains and distribution enhancement (also aided by a low base of Q4FY2020). The branded international beverages (excluding food services) business, grew by just 2% y-o-y, with an underlying volume decline of 7% led by high base of Q4FY2020 due to pantry loading in the UK, the US and Canada. Revenue from Tata Coffee grew by 31% y-o-y to Rs. 280 crore led by strong growth in plantation and extraction business. Gross margins declined by 623 bps to 39.2% due to higher commodity costs (raw tea price inflation); same improved by 143 bps q-o-q. Despite significant input cost inflation, the sharp decline in OPM was limited to 294 bps led by synergistic benefits of Integration of Tata Chemical's consumer business, operating efficiencies and prudent ad-spends. Consolidated operating profit decreased by 2.6% to Rs. 300.2 crore. However higher other income, lower interest cost and lower tax rate led to 26.5%yoy growth in the adjusted PAT (before exceptional item and profit from associates/JVs) to Rs. 180.5 crore.

India business:

- **India packaged beverages – strong quarter:** The India packaged beverages business reported a robust growth of 60% during the quarter led by 23% volume growth largely led by market share gains and distribution enhancement (also marginally supported by low base of Q4FY2020). TCPL gained market share of ~100 bps in the branded tea segment in FY2021. Branded coffee volume grew by 19%yoy with revenue growth of 36% in FY2021. Year-to-date (YTD) EBIT margin stood at 14% despite unprecedented inflation. Despite price hikes, higher inflation in the raw tea prices resulted in EBIT margins dropping to 11% in FY2021 compared with 15% in FY2020.
- **India Foods – Salt maintain momentum; Tata Sampann registered moderate growth:** The India foods business reported the fourth consecutive quarter of double-digit revenue growth (revenue growth of 22%; volume growth of 21%) across the Salt portfolio. Revenue from salt grew 26% in Q3 with overall growth of FY2021 standing at 17%. The value-added Salt portfolio grew by 75% in FY2021. The Tata Sampann portfolio grew by just 2%; affected by volatility in the pulses market. However, the portfolio registered strong growth of 26% in FY2021 on back of increase in in-house consumption, shift of consumers to trusted brands and strong growth in e-commerce platform. EBIT for India food's business grew by 45% in FY2021 with margin expansion of 288BPS.
- **Tata Starbucks – EBITDA Positive in FY2021:** Tata Starbucks revenues recovered to 98% in Feb, 21 while on the low base of March there was revenue growth of 14% in Q4FY2021. Revenue for FY2021 decreased by 33% driven by helped the adverse impact of COVID-19 on out-of-home consumption. The cost saving initiatives and negotiations on rentals helped the company turn EBIDTA positive in FY2021. As on March 31, 2021, 94% of stores were re-opened. However, local lockdowns during the second wave have impacted stores' operational hours in several cities. This will definitely impact recovery of the business, which was otherwise expected to be above pre-COVID levels by Q1FY2022. The company added 39 stores and entered into seven new cities in FY2021.
- **Tata Coffee (including Vietnam) – strong performance:** Tata Coffee (a 58% subsidiary of TCPL) registered strong performance in Q4FY2021 with revenue growth of 30% led by the plantations and extractions business. The Vietnam plant is running at near peak capacity and recorded highest ever sales in Q4 aided by new products and breakthrough with new clients. For FY2021, Tata Coffee registered 14% revenue growth driven by a 24% revenue growth in the plantation business (on the back of higher crop in FY2021) and a 12% growth in extractions business (led by Vietnam). EBIT grew strongly by 69% led by higher realisations in plantations and cost optimization across the business.

International business:

- **UK** – Q4 revenue decreased by 10% owing to pantry loading in base quarter due to lockdown. For FY2021, the UK business' revenues grew by 2% benefited by increase in in-house consumption during the pandemic. The company's market share in the black tea market stands at 20%. UK regular black tea market decreased by 15.7% while fruit & herbal tea grew by 6.7%. Tetley grew market share in strong growing categories such as Decaf, Fruit & Herbal and Green tea segment during the year. EBIT growth was driven by stringent overhead management, lower trade promotion and stable commodity costs. UK business was benefited by strong in-house consumption in FY2021. However with out-of-home consumption expected to come back on track with easing of lockdown norms in the country, we expect gradual revival in out-of-home consumption in the coming quarters.

- **US** – The coffee segment reported revenue growth of 3% (constant currency) in Q4 affected by pantry loading in the base quarter. Coffee had a strong year with revenue growth of 9% (constant currency) & volume growth of 7%, with K-cup growth outpacing Coffee bags (market share of 4.6%). Tea revenues grew by 16% in FY2021, largely led by new customer acquisition and strong growth on e-commerce platform. Good Earth & Teapigs grew faster than Tetley which also grew strongly. The company is focusing on strengthening the tea portfolio with integration of Teapigs into Tata Consumer Products Ltd.
- **Canada** – Steady revenue growth of 6%. Like other international geographies, Canada also benefited from high in-house consumption resulting in 15% (constant currency) revenue growth in FY2021. The company is volume leader in the speciality tea segment in Canada. It registered a growth of 35% in speciality tea in FY2021 aided by market share gains and good traction to new Tetley Super 3.0 range, launched during the year. Profitability also witnessed strong y-o-y improvement led by higher sales, lower promotions and strong control on overheads. Company market share stood at 29.3%.

Integration of Tata Chemicals consumer business completed in Q4; Soulfull integration underway

Integration process of merger of Tata Chemicals' consumer business with TCPL was completed in Q4FY2021. Synergy identification completed and realization started from Q3FY2021. Integration of India ERP on track and migration to S4HANA was completed in Q4. Distribution channel partner consolidation done. The company is on track to double the direct reach by September 2021. Rural distribution has expanded by 3x, while there is exclusive distribution model for modern trade channel. Channel partner digitization completed for urban distributors, while it was initiated for rural distributors in Q4. TCPL has also framed systematic integration plan for the Soulfull acquisition. To maximize synergies and ensure greater distribution of fixed cost, the company ensured billing through TCPL platform within 45 days of deal closure (April). Further the company is on track for process integration across 10 functions within 90 days of deal closure (May). Benefit of integration would come in the coming quarters and will support profitability in the near term. The company is targeting achieving synergistic benefits in the form of cost savings at ~Rs150crore over the next two to three years (Rs5-7crore monthly cost savings visible).

Focusing on scaling up NourishCo and Soulfull to drive growth ahead

Despite a lull in H1FY2021 (largely affected by a dip in out-of-home consumption, NourishCo ended the year on good note with 4% revenue growth to Rs. 188 crore in FY2021. This was largely on back of a 9% growth in Q3 and robust 86% growth in Q4. Tata Water Plus (TWP) and Tata Gluco Plus (TGP) delivered strong performance in Q4. TWP achieved highest ever volume growth of 60% during the quarter. Fruski, the fruit based drink, was launched in markets such Hyderabad and Vizag where it got good response. Himalayan water saw addition of new marquee accounts and increase in retail footprint during the year (76% expansion). TCPL is focusing on scaling up the NourishCo business by expanding reach (currently available in 35% of the country). Strong brand equity and new product launches would help NourishCo business to scale in the coming years along with improvement in the profitability. Its recently acquired Soulfull is strategic fit to its health & wellness portfolio. The company is focusing on expanding the distribution reach for Soulfull to 15000 outlets in the near term. It has strong new product pipeline with strong acceptance amongst the new addressable target group. The brand is margin accretive and with increase in scale of the business will materially contribute to the profitability in the coming years.

Other key highlights

- TCPL's distribution network increased by 15% for tea and 11% for salt with total distribution reach standing at 2.4 million outlets. Direct coverage has gone up by 30% and the company is on target to cover one million outlets by September 2021. It has 2000+ rural distributors and focus is on expanding it further in the coming years. The company is focusing on doubling the total distribution reach over the next two to three years.
- Average North Indian tea prices have corrected substantially from its peak to Rs. 158 per kg in Q4FY2021 from Rs. 272 in Q2FY2021. However, the same are substantially higher y-o-y basis. The management expects domestic raw tea inflation to reduce further in the new crop season. However, if raw tea prices do not correct from the current level then the company will opt for price hikes to cover raw material inflation. Kenyan tea prices have largely remained stable in the current year. Arabica coffee prices increased YoY while Robusta coffee prices saw a slight uptick. Increase in coffee prices augurs well for Tata coffee standalone business as it will improve the realization in the coming years.
- TCPL's working capital days reduced by 15-17 days to 42 days in FY2021 (India beverage business working capital days was down from 72 days to 48 days). This was mainly on account of decline in the debtor days. The company is focusing on digital platform to improve its supply chain in the coming years. This will help in reducing the inventory days in the coming years. Thus the company is continuously focusing on working capital days in the medium term.

Results (consolidated) Rs cr

Particulars	Q4FY21	Q4FY20	Y-o-Y (%)	Q3FY21	Q-o-Q (%)
Total Revenue	3037.2	2405.0	26.3	3069.6	-1.1
Raw material cost	1846.0	1311.9	40.7	1909.6	-3.3
Employee cost	270.2	231.6	16.7	241.2	12.0
Advertising	216.4	181.4	19.3	209.7	3.2
Other expenses	404.4	371.8	8.8	347.7	16.3
Total operating cost	2737.0	2096.7	30.5	2708.2	1.1
Operating profit	300.2	308.4	-2.6	361.3	-16.9
Other income	43.0	21.9	95.9	19.5	120.4
Interest & other financial cost	15.5	18.7	-17.4	18.1	-14.6
Depreciation	65.9	64.0	2.9	64.4	2.3
Profit Before Tax	261.8	247.6	5.8	298.3	-12.2
Tax	81.2	104.8	-22.5	56.7	43.2
Adjusted PAT before share of profit from associates/JV	180.6	142.8	26.5	241.6	-25.2
Extra-ordinary items	-47.3	-193.0	-	-4.6	-
Reported PAT	74.3	-122.5	-160.7	237.4	-68.7
Adjusted EPS (Rs.)	2.0	2.3	-13.4	2.6	-25.3
			BPS		BPS
GPM (%)	39.2	45.5	-623	37.8	143
OPM (%)	9.9	12.8	-294	11.8	-189

Source: Company; Sharekhan Research

Key businesses performance in Q4 Rs cr

Particulars	Revenue	Value growth	Volume growth
India business	1205	60%	23%
India food	641	22%	18%
US Coffee	313	5%	-2%
UK, Canada & Others	515	2%	-7%
Tata Coffee	280	31%	31%

Source: Company; Sharekhan Research

Outlook and Valuation

■ Sector view - Long-term growth prospects intact

We believe the shift in demand for branded products, rural demand staying ahead of urban demand, gradual recovery in out-of-home categories, and new product launches remain key catalysts for revenue growth in the near to medium term. In the current environment, with rising COVID-19 cases and localised lockdown, demand for packaged food products is expected to increase. Consumer goods companies have adequately stocked up products at warehouses and with dealers/distributors to avoid any supply disruption. Demand for staples and daily consumption items is expected to remain stable in the near term. Raw-material prices have been rising in the recent past and sustenance of this trend will pressurise gross margins in FY2021. Consumer goods companies' ability to pass on the input price increase, sustained benefits of cost-saving initiatives, and judicious media spends would determine the level of profitability growth in the coming quarters.

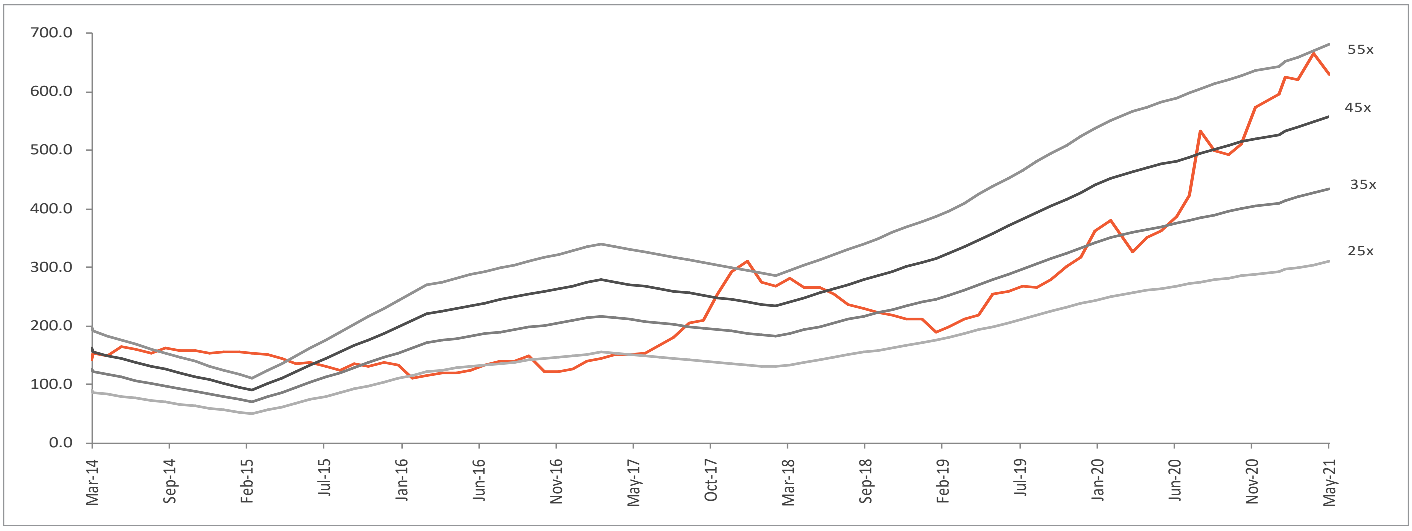
■ Company outlook - growth momentums to sustain

Revenues and PAT grew by 21% and 38% in FY2021 (with OPM remaining stable at 13.3%). This was largely driven by a strong double-digit growth in the India business (including beverages and food portfolio). However, the company expect it to be a short-term phenomenon and with strong vaccination drive, it expects things to stabilise in another quarter to two. The India beverages and foods business will maintain the good growth momentum due to sustained market share gains and distribution expansion. The company is focusing on scaling up acquired business such as NourishCo and Soulfull through meaningful innovation and distribution expansion. The management expects domestic raw tea inflation to moderate in new tea (flush) season. This along with synergistic benefits from new acquisitions would help OPM to improve in the coming years.

■ Valuation - Maintain Buy with unchanged price target of Rs. 740

We have reduced our earnings estimates for FY2022 by 4% to factor little lower OPM than earlier expected OPM than earlier expected and near term uncertainties while we have broadly maintained it for FY2023. Gaining market share in the branded tea and staples segment, scaling up the acquired ventures such as NourishCo and Soulfull, gradual improvement in out-of-home consumption and a foray into new categories through relevant launches remain key catalysts for growth in the near term, besides inorganic initiatives. With consistent double-digit growth in revenues, steady margin improvement and stable working capital management, TCPL expects return ratios to consistently improve in the coming years. The stock has corrected by ~10% from recent highs, which largely factors in near-term uncertainties. The stock is currently trading at 44x its FY2023E earnings. We maintain our Buy recommendation on the stock with an unchanged price target of Rs. 740.

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	69.7	57.0	48.6	49.6	41.3	35.3	36.5	27.3	31.5
Nestle India	77.6	64.3	54.6	49.9	43.6	37.8	136.4	139.7	142.5
Tata Consumer Products	60.8	52.3	43.5	36.3	30.4	25.6	8.1	9.2	10.5

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 in double digits 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
L KrishnaKumar	Executive Director
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 (Old data)

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

Sharekhan

by BNP PARIBAS

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