

Tata Consumer Products

Estimate change

TP change

Rating change

CMP: INR629
TP: INR725 (+15%)
Buy

High tea prices dent EBITDA margin; performance below expectation

Scale-up of Tata Sampann remains critical

- Higher tea prices impacted standalone gross margins by 10.1pp YoY to 30.9%, and higher A&P consequently impacted the consolidated EBITDA margin by 290bps YoY to 9.9%. Consolidated EBITDA de-grew 3% YoY on the back of 13% EBITDA de-growth in standalone. The Tata Sampann portfolio grew 2% during the quarter, impacted by volatility in the Pulses market; portfolio grew 26% during FY21. The scale-up of the Sampann portfolio remains a key monitorable.
- We lower our earnings estimates for FY22 by 7% on the back of near-term margin pressure in Tea. We maintain our earnings estimates for FY23 and arrive at an FY23 SOTP-based TP of INR725/share. Maintain **Buy**.

Higher distribution reach drives volume growth in India biz.

- Tata Consumer Products (TCP) reported consolidated revenue growth of 26% YoY to INR30.4b (est. INR28.6b). The EBITDA margin contracted 290bp YoY to 9.9% (est. 11.9%) on a 620bp gross margin contraction to 39.2%. EBITDA de-grew 3% YoY to INR3,002m (est. INR3,397m). Adj. PAT was down 36% YoY to INR1.1b (est. INR1.9b), largely due to higher tax rate and MI.
- India Branded Beverages/Foods revenue was up 60%/22% YoY to INR12b/INR6.4b. India Beverages EBIT de-grew 40% YoY to INR524m, while India Foods EBIT grew 52% YoY to INR868m. International Branded Beverages revenue remained flat YoY to INR8.8b, with EBIT de-growth of 14% YoY to INR1,101m.
- India Branded Beverages/Foods volumes grew 23%/21% YoY, benefitting from a low base effect and expansion in the distribution reach. Salt revenue grew 26% during the quarter. The Tata Sampann portfolio was up 2% in 4Q, impacted by volatility in the Pulses market.
- Standalone revenue grew 39% YoY to INR18.5b and EBITDA was down 11% YoY to INR1.4b. The gross margin contracted 1,010bp YoY (+80bp QoQ) to 30.9% on the back of higher tea prices.
- Tata Coffee consol:** Revenue grew 14% YoY to INR5.9b, with EBITDA growth of 22% YoY to INR944m. **Tata Coffee standl:** Revenue grew 30% to INR2,177m and EBITDA was INR241m v/s INR7m last year. **Tata Coffee Overseas** (Tata Coffee consol less Tata Coffee standl): Revenue grew 7% YoY to INR3,736m, with EBITDA de-growth of 8% YoY to INR703m.
- TCP Overseas Tea:** Revenue grew 8% to INR6b, with EBITDA declining 10% YoY to INR637m.
- In FY21, consolidated revenue/EBITDA/adj. PAT grew 20%/19%/21%. In FY21, TCP generated CFO of INR16.6b, up 53% YoY, on the back of lower trade receivables and higher payables; this was offset by higher inventory.

Bloomberg	TATACONS IN
Equity Shares (m)	922
M.Cap.(INRb)/(USDb)	579.7 / 7.9
52-Week Range (INR)	698 / 326
1, 6, 12 Rel. Per (%)	-5/7/27
12M Avg Val (INR M)	2504
Free float (%)	65.3

Financials & valuations (INR b)

Y/E Mar	2021	2022E	2023E
Sales	116.0	122.5	138.4
EBITDA	15.4	18.5	22.5
PAT	8.7	11.2	14.0
EBITDA (%)	13.3	15.1	16.3
EPS (INR)	9.5	12.2	15.2
EPS Gr. (%)	20.8	28.5	25.4
BV/Sh. (INR)	158	165	176
Ratios			
Net D/E	(0.2)	(0.2)	(0.3)
RoE (%)	6.1	7.5	8.9
RoCE (%)	8.3	10.2	12.1
Payout (%)	43.6	37.0	30.5
Valuations			
P/E (x)	66.5	51.8	41.3
EV/EBITDA (x)	35.8	29.9	24.5
Div Yield (%)	1.9	2.1	2.4
FCF Yield (%)	7.5	5.7	6.6

Shareholding pattern (%)

	Mar-21	Dec-20	Mar-20
Promoter	34.7	34.7	34.7
DII	12.6	13.6	21.8
FII	25.3	25.8	17.1
Others	27.5	26.0	26.4

Note: FII includes depository receipts

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Investors are advised to refer through important disclosures made at the last page of the Research Report.

 Motilal Oswal research is available on www.motilalosal.com/Institutional-Equities, Bloomberg, Thomson Reuters, Factset and S&P Capital.

Highlights from management commentary

- TCP has increased its reach to 2.4m outlets – a 15%/11% increase for Tea/Salt. This is in line with TCP's long-term strategy to double direct reach within 12M and double numeric reach within 36M. Numeric reach / direct coverage was up 30%/20% YoY in FY21; TCP is on track to achieve its 1m target by Sep'21.
- At the time of acquisition of the Salt business from Tata Chemicals, TCP targeted synergies of INR1–1.5b at the EBIT level over 18M. Of this, INR50–70m of monthly cost synergies has started to be realized.
- **Tata Starbucks:** Revenue growth of 14% was seen in 4Q, albeit on a low base (impacted by COVID in Mar'20). FY21 revenue declined 33%, driven by the adverse impact of COVID on out-of-home consumption. The business was EBITDA+ for the year – it added 39 new stores and gained a presence in seven new cities during the year.

Valuation and view

- The unlocking of sales and distribution synergies is among the key reasons the merger of the group companies has started to yield results – this is evident from the market share increase in Tea (+190bp YoY) and Salt (+160bp YoY) in FY21 on the back of an increase in numeric distribution (+15% in Tea and +11% in Salt). Direct coverage increased 30% in FY21, and the management aims to reach 1m by Sep'21. Thus, in our view, the company is taking a step in the right direction to establish a strong S&D channel, which would act as key growth driver.
- TCP has two strong legs in the India business – Tata Tea and Tata Salt – wherein it is targeting lower double-digit growth, driven by a) cross-selling between the Foods biz and TCP's Tea distribution channel and b) expansion into new geographies.
- TCP is building its third leg, Tata Sampann, which deals in pulses and spices – which should grow in the high double digits. The market size of Pulses/Spices in India currently stands at INR1,500b/INR600b, with unorganized players forming 99%/70% of the market. Thus, growth is expected through capturing market share from unorganized players via increasing distribution reach and new product launches.
- Over FY21–23E, sales/EBITDA/PAT is expected to post a CAGR of 9%/21%/27%.
- We lower our earnings estimates for FY22 by 7% on the back of near-term margin pressure in Tea. We maintain our earnings estimates for FY23 and arrive at an FY23 SOTP-based TP of INR725/share. Maintain **Buy**.

Consolidated - Quarterly Earnings Model

(INR m)

Y/E March	FY20				FY21				FY20	FY21	FY21 4QE	Var (%)
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q				
Gross Sales	23,924	23,471	24,930	24,050	27,139	27,813	30,696	30,372	96,374	1,16,020	28,559	6
YoY Change (%)	32.7	33.3	30.3	35.5	13.4	18.5	23.1	26.3	32.9	20.4	18.7	
Total Expenditure	20,415	20,323	21,748	20,967	22,313	23,818	27,082	27,370	83,453	1,00,583	25,162	
EBITDA	3,509	3,148	3,181	3,084	4,827	3,996	3,613	3,002	12,922	15,438	3,397	-12
Margins (%)	14.7	13.4	12.8	12.8	17.8	14.4	11.8	9.9	13.4	13.3	11.9	
Depreciation	576	587	614	640	619	626	644	659	2,417	2,547	650	
Interest	186	204	201	187	173	179	181	155	779	687	178	
Other Income	331	280	285	219	327	262	195	430	1,116	1,214	220	
PBT before EO expense	3,078	2,637	2,651	2,476	4,362	3,454	2,983	2,618	10,842	13,417	2,789	
Extra-Ord expense	-81	-15	-8	-2,644	633	-239	-61	-639	-2,748	-307	0	
PBT	2,997	2,622	2,643	-168	4,995	3,215	2,922	1,979	8,094	13,111	2,789	-29
Tax	1,022	636	750	334	1,104	871	552	646	2,742	3,173	781	
Rate (%)	33.2	24.1	28.3	13.5	25.3	25.2	18.5	24.7	25.3	23.6	28.0	
Minority Interest	164	147	153	-460	180	161	192	205	4	738	-180.0	
Profit/Loss of Asso. Cos.	-74	92	-46	-723	-435	389	4	-590	-751	-633	-250	
Reported PAT	1,737	1,932	1,694	-765	3,276	2,571	2,182	539	4,598	8,567	1,938	
Adj PAT	1,798	1,943	1,700	1,776	2,643	2,712	2,228	1,133	7,216	8,716	1,938	-42
YoY Change (%)	33.7	10.1	71.1	466.0	47.0	39.6	31.1	-36.2	63.4	20.8	3.1	
Margins (%)	7.5	8.3	6.8	7.4	9.7	9.8	7.3	3.7	7.5	7.5	6.8	

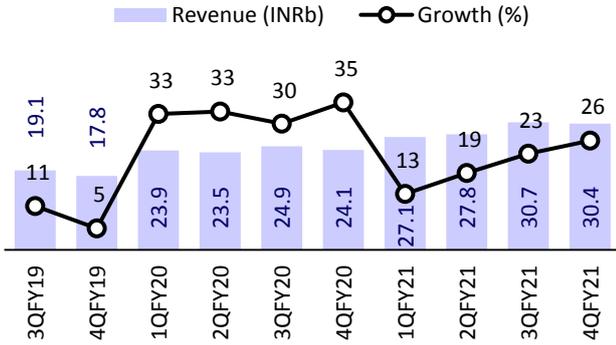
Nos. include Tata Chemicals' Consumer biz nos.

Key Performance Indicators

Y/E March	FY20				FY21				FY20	FY21
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q		
Consolidated										
Revenue Growth (%)										
Standalone	61.1	68.5	64.5	70.3	9.7	21.6	34.1	38.5	65.9	25.7
Overseas Tea Biz	-2.2	-4.2	-5.3	4.2	12.8	14.5	8.7	7.8	10.7	10.7
Tata Coffee Ltd (TCL) Consol	10.5	5.5	7.7	12.2	25.9	12.9	6.3	14.4	9.0	14.7
TCL Standalone	25.9	4.7	0.6	-16.9	-12.3	0.0	-5.0	30.1	2.4	2.4
Coffee Overseas	1.3	6.1	11.7	34.8	54.6	21.1	11.8	6.9	13.2	21.8
EBITDA Margin (%)										
Standalone	15.9	14.3	14.1	12.0	20.3	14.6	10.0	7.7	14.1	12.8
Overseas Tea Biz	8.5	7.2	4.9	12.8	8.9	11.4	11.8	10.7	8.5	10.7
TCL Consol	16.9	16.5	17.0	14.9	18.8	16.3	18.1	16.0	16.3	17.3
TCL Standalone	11.4	9.4	8.9	0.4	8.7	6.2	12.1	11.1	7.8	9.5
Coffee Overseas	21.0	20.9	21.0	21.9	23.2	21.6	20.6	18.8	21.2	21.1
Cost Break-up										
RM Cost (% of sales)	57.1	56.5	56.5	54.5	55.3	59.2	62.2	60.8	56.1	60.8
Staff Cost (% of sales)	8.9	9.4	8.8	9.6	8.4	8.3	7.9	8.9	9.2	8.4
Adv. and Sales (% of sales)	5.5	6.9	8.1	7.5	4.9	6.0	6.8	7.1	7.0	6.3
Other Cost (% of sales)	13.9	13.8	13.9	15.5	13.6	12.2	11.3	13.3	14.2	12.6
Gross Margins (%)	42.9	43.5	43.5	45.5	44.7	40.8	37.8	39.2	43.9	40.5
EBITDA Margins (%)	14.7	13.4	12.8	12.8	17.8	14.4	11.8	9.9	13.4	13.3
EBIT Margins (%)	12.3	10.9	10.3	10.2	15.5	12.1	9.7	7.7	10.9	11.1

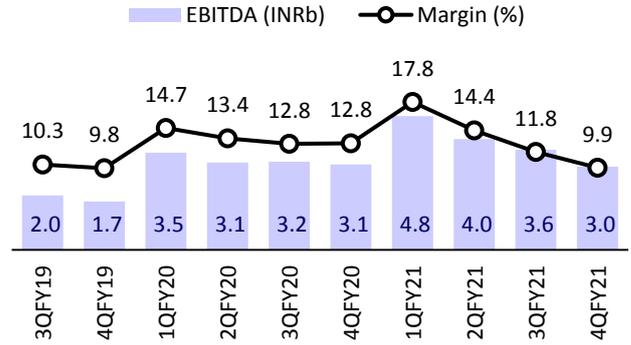
Key exhibits

Exhibit 1: Consolidated revenue trend



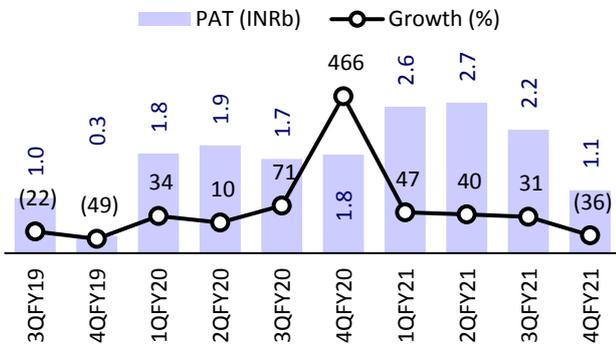
Source: Company, MOFSL

Exhibit 2: Consolidated EBITDA trend



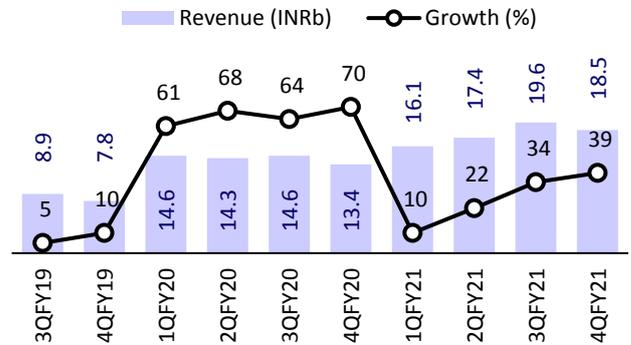
Source: Company, MOFSL

Exhibit 3: Consolidated adj. PAT trend



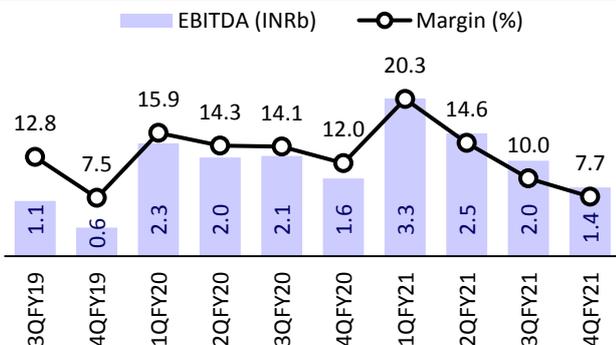
Source: Company, MOFSL

Exhibit 4: Standalone revenue trend



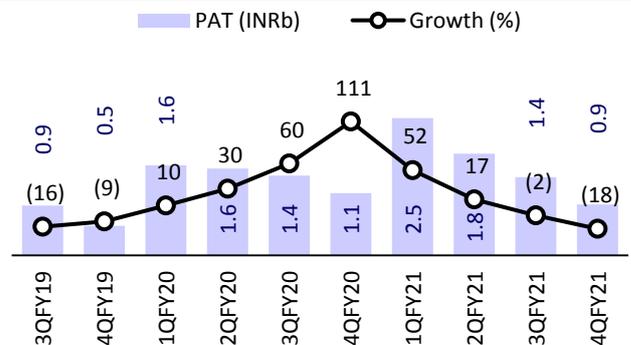
Source: Company, MOFSL

Exhibit 5: Standalone EBITDA trend



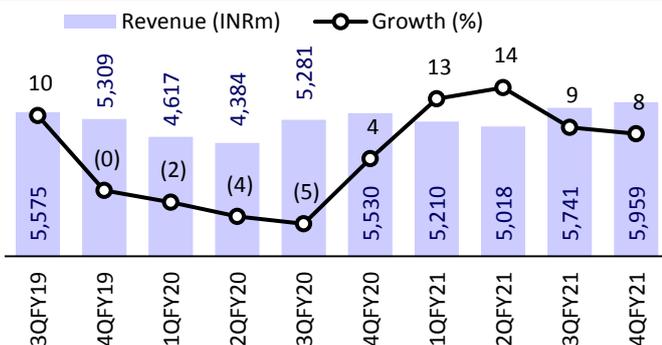
Source: Company, MOFSL

Exhibit 6: Standalone adj. PAT trend



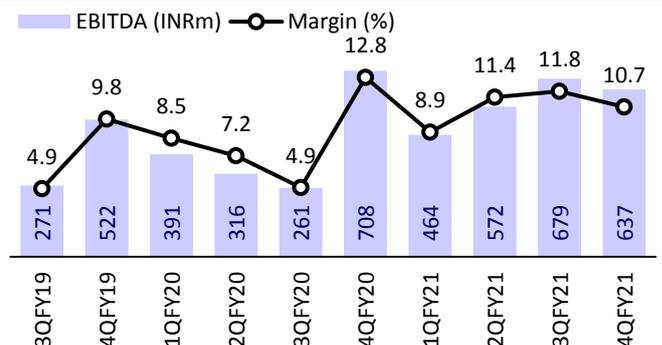
Source: Company, MOFSL

Exhibit 7: TCP's overseas Tea revenue trend



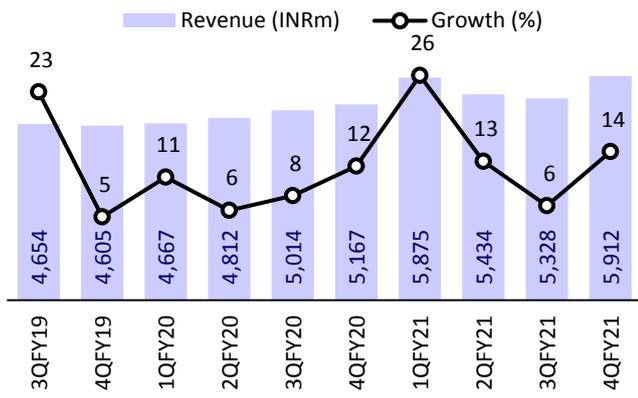
Source: Company, MOFSL

Exhibit 8: TCP's overseas Tea EBITDA trend



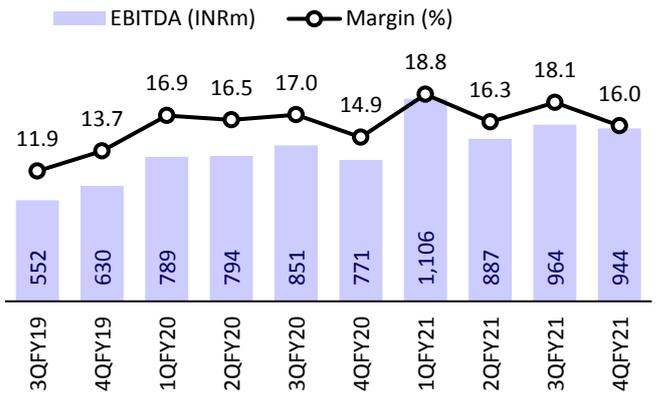
Source: Company, MOFSL

Exhibit 9: Tata Coffee's consol. revenue trend



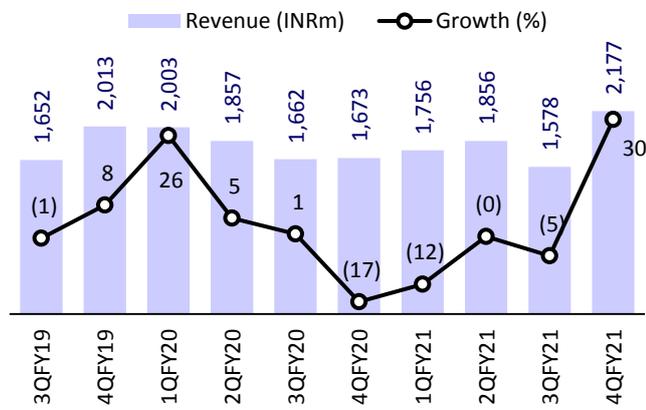
Source: Company, MOFSL

Exhibit 10: Tata Coffee's consol. EBITDA trend



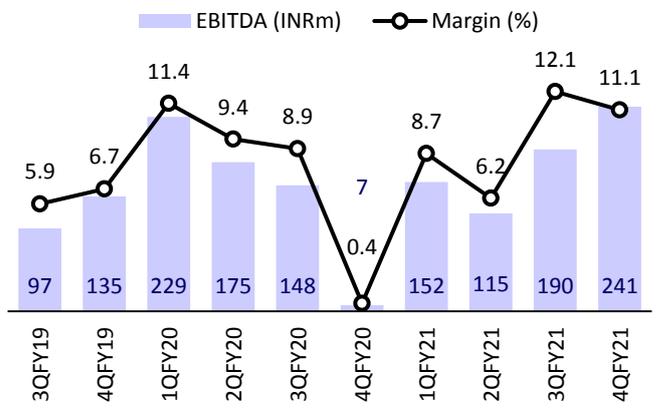
Source: Company, MOFSL

Exhibit 11: Tata Coffee's standalone revenue trend



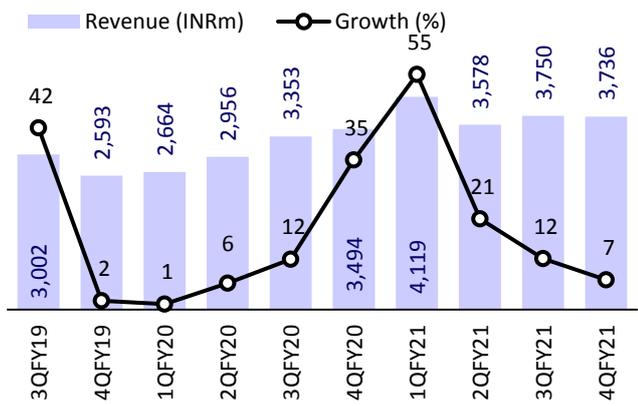
Source: Company, MOFSL

Exhibit 12: Tata Coffee's standalone EBITDA trend



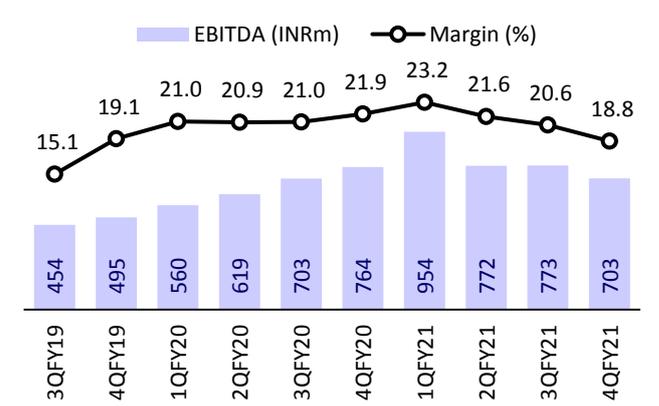
Source: Company, MOFSL

Exhibit 13: Tata Coffee's overseas revenue trend



Source: Company, MOFSL

Exhibit 14: Tata Coffee's overseas EBITDA trend



Source: Company, MOFSL

Exhibit 15: Revenue at a glance (4QFY21)



In ₹ Cr (unless specified)	International Beverages						Consolidated
	India Beverages	India Foods	US Coffee	International Tea	Foodservice (International)	Tata Coffee (incl. Vietnam)	
Revenue	1,205	641	313	515	47	280	3,037
Revenue Growth Constant currency growth	60%	22%	5% 3%	2% -5%	-34% -35%	31% 30%	26% 24%
Volume Growth	23%	21%	-2%	-7%	-18%	31%	

Key Brands: TATA TEA (GRAND, Himalayan), TATA GLUCO, TATA SOUL, TATA sampann, EIGHT O'CLOCK, Tetley, teapigs, GOOD EARTH

Note:
 a) India Beverages includes Middle East and NourishCo (subsidiary effective May'20)
 b) India Foods includes Souffull (subsidiary effective Feb'21) but the impact is not significant.
 c) International tea business includes UK, Canada, US, Aus and Europe.
 d) Tata Coffee incl. Vietnam and excludes US Coffee (EOC)
 e) Consolidated revenue includes other non-branded business and Inter-segment eliminations
 f) Foodservice (International) was divested w.e.f. 1 Apr'21.

Source: Company, MOFSL

Exhibit 16: Revenue at a glance (full-year FY21)



In ₹ Cr (unless specified)	International Beverages						Consolidated
	India Beverages	India Foods	US Coffee	International Tea	Foodservice (International)	Tata Coffee (incl. Vietnam)	
Revenue	4,601	2,441	1,293	1,983	193	964	11,602
Revenue Growth Constant currency growth	36%	18%	15% 9%	10% 3%	-35% -39%	15% 14%	20% 18%
Volume Growth	12%	11%	7%	1%	-31%	9%	

Key Brands: TATA TEA (GRAND, Himalayan), TATA GLUCO, TATA SOUL, TATA sampann, EIGHT O'CLOCK, Tetley, teapigs, GOOD EARTH

Note:
 a) India Beverages includes Middle East and NourishCo (subsidiary effective May'20)
 b) India Foods includes Souffull (subsidiary effective Feb'21) but the impact is not significant.
 c) International tea business includes UK, Canada, US, Aus and Europe.
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 e) Consolidated revenue includes other non-branded business and Inter-segment eliminations
 f) Foodservice (International) was divested w.e.f. 1 Apr'21.

Source: Company, MOFSL

Exhibit 17: Consolidated segmental results

INR m	4QFY20	3QFY21	4QFY21	%/bp ch YoY	%/bp ch QoQ
Segmental revenue					
Branded Business					
India - Beverages	7,548	12,754	12,048	59.6%	-5.5%
India - Foods	5,244	6,306	6,417	22.4%	1.8%
International - Beverages	8,744	9,262	8,752	0.1%	-5.5%
Total Branded Business	21,537	28,322	27,217	26.4%	-3.9%
Non-Branded Business	2,513	2,465	3,236	28.8%	31.3%
Total Segment Revenue	24,050	30,787	30,454	26.6%	-1.1%
Others	64	84	8		
Inter segment sales	-64	-175	-89		
Revenue from Operations	24,050	30,696	30,372	26.3%	-1.1%
Segment Results					
Branded Business					
India - Beverages	872	793	524	-39.9%	-34.0%
India - Foods	573	934	868	51.5%	-7.0%
International - Beverages	1,285	1,226	1,101	-14.3%	-10.2%
Total Branded Business	2,729	2,953	2,492	-8.7%	-15.6%
Non-Branded Business	12	204	385	3132.8%	88.9%
Total Segment Results	2,741	3,156	2,877	5.0%	-8.8%
EBIT margins					
India - Beverages	11.5%	6.2%	4.3%	(720)	(187)
India - Foods	10.9%	14.8%	13.5%	261	(128)
International - Beverages	14.7%	13.2%	12.6%	(212)	(66)
Total Branded Business	12.7%	10.4%	9.2%	(352)	(127)
Non-Branded Business	0.5%	8.3%	11.9%	1,141	363

Source: Company, MOFSL

Exhibit 18: Status of business integration**Critical Workstreams (Feb'20 – Mar'21)****Key Impact**

Future Ready Organization	<ul style="list-style-type: none"> Integrated organization structure and harmonized way of working across organization Identification of cost and revenue synergy opportunities 	✓	<ul style="list-style-type: none"> Integration complete for all critical workstreams; common ways of working being matured. India ERP integration and migration to S4HANA complete; Synergy identification completed and realization started from Q3 FY21. Distribution channel partner consolidation done; on track to double direct reach by Sep'21. Channel partner digitization completed for urban distributors; initiated for rural distributors. Pan India CFA consolidation completed. Integrated Business Planning including Demand planning & Supply planning is live.
Unlock synergies – S&D	<ul style="list-style-type: none"> Sales & Distribution structure design; rationalized layers and multi-category Sales & Distribution organization End to end digitization across supply chain and distribution partners Common salesman to sell the full portfolio; increased fleet on street 	✓	
Unlock synergies - India Supply Chain	<ul style="list-style-type: none"> Consolidate CFA locations across Foods and Beverages and ensure direct delivery Optimization of vendor base, distributor network, warehouse network 	✓	
Drive Digital	<ul style="list-style-type: none"> ERP integration and migration to S4HANA Identify and implement process automation across functions Digitized integrated demand and supply planning 	✓	

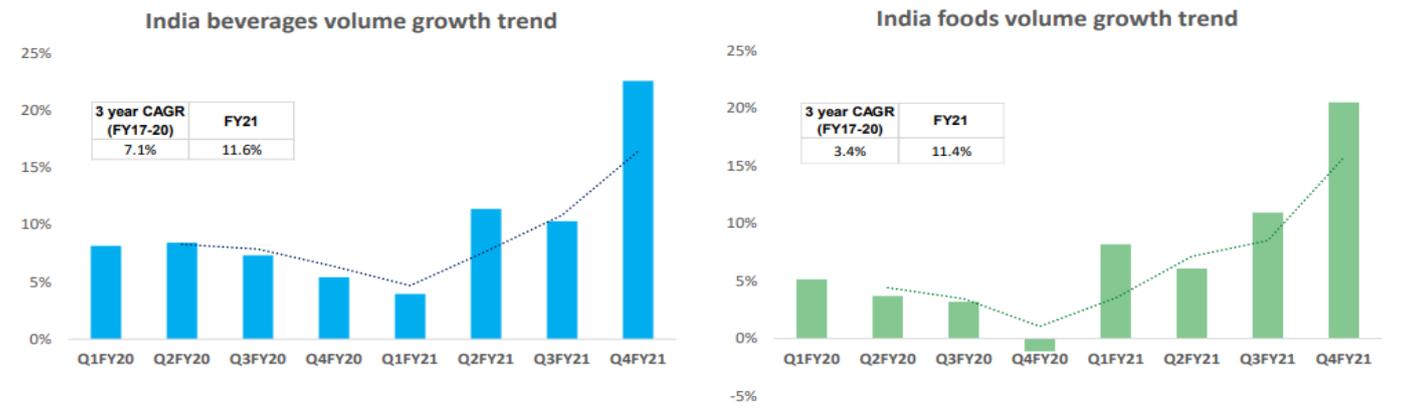
Source: Company, MOFSL

Exhibit 19: Expansion in terms of reach in FY21



Source: Company, MOFSL

Exhibit 20: Higher volume growth in India businesses



Source: Company, MOFSL



Management call highlights

India Beverages

- In 4QFY21, the India Packaged Beverages business recorded 53% YoY value growth and 23% YoY volume growth, driven by robust growth across most of the brands – which also resulted in market share gains. Volume growth of 12% YoY was reported in FY21 and revenue growth stood at 32% YoY.
- NourishCo sustained strong growth momentum in 4Q with 86% YoY revenue growth, albeit on a low base (due to the COVID impact in Mar'20). Revenue was up 4% YoY to INR1,880m, impacted by COVID-led lockdowns and lower out-of-home consumption. Geographic expansions and capacity additions to the business are on track. Tata Water Plus and Tata Gluco Plus delivered exceptional growth. Tata Fruski – an innovative drink inspired by local street culture – was

launched in Hyderabad and Vizag with strong initial response. The company plans to launch the product pan-India.

- In line with the strategic priority of exploring new opportunities, the health & wellness focused Foods portfolio was further enhanced through the acquisition of Kottaram Agro Foods Pvt Limited (brand Soufull), renamed Tata Consumer Soufull. This opens up significant opportunities in the fast-growing 'On-the-Table' and 'On-the-Go' segments.
- Coffee volumes were up 19% YoY, with revenue growth of 36% in FY21.
- 4Q margins were impacted by inflation in Tea and increased investment in A&P. The business' working capital stood at 48 days as of Mar'21, down from 78 days in Mar'20, despite extraordinarily high inventory (due to Raw Tea inflation).
- The company has taken price increases over the last two quarters. By the end of FY22, EBIT margins would return to pre-COVID levels in the India Beverages business.
- **Tea prices:** Currently, tea prices stand at ~INR158/kg, still 50% higher v/s the same period last year. The company carries 60–90 days' worth of tea inventory. TCP plans to raise tea prices if RM cost continues to hover around current levels.

India Foods

- The India Foods business posted 22% YoY revenue growth and 21% YoY volume growth in 4Q.
- Revenue for India Foods was up 18% YoY in FY21 on the back of volume growth of 11% YoY.
- Salt revenue grew 26% during the quarter, leading to 17% growth for FY21.
- The Tata Sampann portfolio grew 2%, impacted by volatility in the Pulses market. The portfolio grew 26% for FY21.
- It has continued to drive premiumization with 75% growth in the Value Added & Niche Salt portfolio during the year.
- It has fueled further efficiency in WC, which came in negative as of Mar'21.
- The Tata Sampann portfolio saw five new product launches in the Ready-to-Cook category during the quarter – *Haldi Doodh Mix, Masala Daliya Khichdi Mix, Dhokla Mix, Supergrain Ragi Idli Mix, and Supergrain Ragi Dosa Mix.*
- Due to increased volatility in the prices of pulses, Tata Sampann's revenue growth was impacted. The company is confident of growth in the Tata Sampann portfolio going forward.

Business integration

- The integration of India Foods and India Beverages is now complete. A redesigned sales and distribution system is in place, with digitization across channel partners; a new integrated business planning system covering demand and supply planning is now live, and ERP integration and migration to SAP4HANA in India are complete. As a part of its transformation journey, the company continues to focus on building blocks for the future – S&D infrastructure, digital, A&P, and innovation.
- The consolidation of distribution channel partners is complete; it is on track to double direct reach by Sep'21.
- Channel partner digitization has been completed for urban distributors and has been initiated for rural distributors.

- Pan-India CFA consolidation is complete.
- Integrated business planning, including demand/supply planning, is live.
- Synergy identification is complete; realization had been commenced from 3QFY21.
- It added 2000 rural distributors in FY21.
- At the time of acquisition of the Salt business from Tata Chemicals, TCP targeted synergies of INR1–1.5b at the EBIT level over 18M; of this, INR50–70m of monthly cost synergies have started to get realized.

Tata Coffee

- Revenue grew 30% in 4Q, led by the Plantations and Extractions businesses. Revenue for the year grew 14%, with EBIT growth of 69%. EBIT growth in FY21 was driven by higher realization in Plantations and cost optimization across the business.
- **Extractions:** The overall business grew 12% in FY21, led by Vietnam, which more than offset the decline in the domestic business.
- **Plantations:** Robust value growth in Tea was driven by higher realization; revenue for coffee plantations grew on the back of higher crop volumes in FY21.

Tata Starbucks

- Revenue growth of 14% was seen in 4Q, albeit on a low base (impacted by COVID in Mar'20).
- FY21 revenue declined 33%, driven by the adverse impact of COVID on out-of-home consumption. The business was EBITDA+ for the year.
- TCP added 39 new stores and gained a presence in seven new cities during the year. As of Mar'21, 94% of stores had been re-opened.
- While the business saw sequential recovery up to February, localized lockdowns and curfews have now begun to impact store operating hours in several cities.
- New store formats were introduced during the year, such as drive-thrus and small-engine stores; it gained a presence in the cities of Kochi, Lucknow, Amritsar, Ludhiana, Bhopal, Indore, and Kanpur.
- It achieved significant savings during the year through rental renegotiations and overhead optimization.

UK business

- Revenue for the quarter declined 10% on pantry up-stocking in the base quarter.
- Revenue was up 2% (constant-currency) for the year, with substantial growth in EBIT, partly aided by the increased in-home consumption of tea due to the pandemic.
- EBIT growth was driven by strong overhead management and lower trade promotions, coupled with stable commodity costs.
- While the out-of-home consumption and wholesale channels came under pressure due to COVID, the impact was mitigated by driving distribution gains in the discounter channel and increased activation in the online channel.
- Pure-play online revenue more than doubled in FY21, with Tetley outpacing online growth in the Tea category.

US business

- Coffee: 4Q revenue was up 3% (constant-currency) on pantry loading in the base quarter.
- Coffee had a strong year, with revenue growth of 9% (constant-currency) and volume growth of 7%, with K-cup growth outpacing that of coffee bags.
- The innovation momentum continued, with good performances from 32-count K-cups and Barista Blends.
- Tea (excluding Empirical): Robust revenue growth of 16% was seen in FY21 – driven by innovation, new customer acquisitions, and e-commerce – to capitalize on the increased in-home consumption of tea due to the pandemic.
- Good Earth and Teapigs grew faster than Tetley, which also grew robustly.
- Triple-digit portfolio growth was seen in e-commerce in FY21, led by EOC Coffee and the Good Earth and Tetley innovations.

Canada business

- Revenue for the quarter grew 6% (constant-currency) despite a high base, which saw pantry loading last year.
- Robust revenue growth of 15% (constant-currency) was seen in FY21, driven by the increased in-home consumption of tea.
- Tetley continues to be the #1 brand in the market, with both regular and specialty teas outgrowing the category during the year.
- Specialty tea sales were further boosted by the new Tetley Super 3.0 range introduced during the year. The brand leads volumes in the Specialty Tea category in Canada.
- Strong YoY growth in profitability was led by higher sales, lower promotions, and strong control in overheads.

Others

- E-Commerce contribution (% of sales) increased to 5.2% in FY21 (v/s 2.5% last year).
- In FY21, market share in Tea/Salt expanded 190bp/160bp YoY.
- **Expanding reach:** TCP has increased its reach to 2.4m outlets – a 15%/11% increase for Tea/Salt. This is in line with TCP's long-term strategy to double direct reach within 12M and double numeric reach within 36M. Numeric reach / direct coverage was up 30%/20% YoY in FY21; TCP is on track to achieve its 1m target by Sep'21.
- **Market share gains in Tea biz:** TCP gained market share from small local and organized players at multiple regional locations in FY21. It gained 190bp/160bp in Tea/Salt from small regional players.
- TCP had net cash of INR24.2b as of FY21.
- Higher profit via JV was attributable to the Tea Plantation business (benefit from higher tea prices), offset by higher loss in Starbucks.
- Net WC days reduced to 42 days in FY21 from 59 days in FY20.
- The company targets double-digit topline growth and has a strong focus on margins, aided by synergies.

Valuation and view

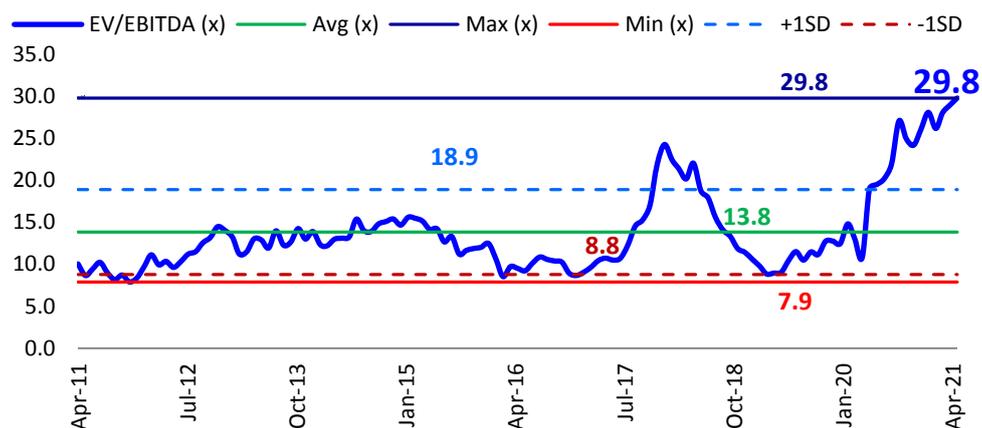
- 4Q performance was impacted by higher tea prices, leading to consolidated gross margin contraction of 620bp and higher A&P spends (+19% YoY). However, the management expects tea prices to stabilize with new crop; this would ease the pressure on gross margins going forward.
- The unlocking of sales and distribution synergies is among the key reasons the merger of the group companies has started to yield results – this is evident from the market share increase in Tea (+190bp YoY) and Salt (+160bp YoY) in FY21 on the back of an increase in numeric distribution (+15% in Tea and +11% in Salt). Direct coverage increased 30% in FY21, and the management aims to reach 1m by Sep'21. Thus, in our view, the company is taking a step in the right direction to establish a strong S&D channel, which would act as key growth driver.
- TCP has two strong legs in the India business – Tata Tea and Tata Salt – wherein it is targeting lower double-digit growth, driven by a) cross-selling between the Foods biz and TCP's Tea distribution channel and b) expansion into new geographies.
- TCP is building its third leg, Tata Sampann, which deals in pulses and spices – which should grow in the high double digits. The market size of Pulses/Spices in India currently stands at INR1,500b/INR600b, with unorganized players forming 99%/70% of the market. Thus, growth is expected through capturing market share from unorganized players via increasing distribution reach and new product launches.
- Over FY21–23E, sales/EBITDA/PAT is expected to post a CAGR of 9%/21%/27%.
- We lower our earnings estimates for FY22 by 7% on the back of near-term margin pressure in Tea. We maintain our earnings estimates for FY23 and arrive at an FY23 SOTP-based TP of INR725/share. Maintain **Buy**.

Exhibit 21: Valuation methodology

EV/EBITDA	FY23 EBITDA	Multiple (x)	EV
India Tea (TCP Standalone)	7,684	34	2,63,255
Coffee India (ex-Starbucks) @57%	506	10	5,288
Coffee Overseas	2,887	12	34,645
Consumer (Salt & others)	7,706	34	2,63,554
Overseas tea (Tetley UK)	2,599	10	27,163
DCF			
Starbucks JV			30,312
Enterprise value			6,24,216
Less: Net debt			-43,944
Market value (INR m)			6,68,160
No. of shares (m)			922
Target price (INR)			725

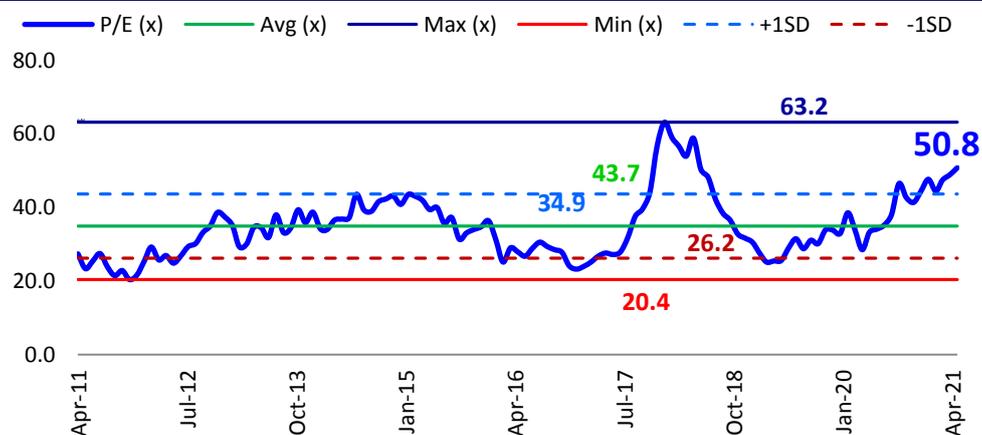
Source: MOFSL

Exhibit 22: One-year forward EV/EBITDA (x)



Source: MOFSL

Exhibit 23: One-year forward P/E (x)



Source: MOFSL

Exhibit 24: Change in estimates

Earnings Change (INR m)	Old		New		Change	
	FY22E	FY23E	FY22E	FY23E	FY22E	FY23E
Revenue	1,21,847	1,34,609	1,22,541	1,38,368	1%	3%
EBITDA	19,528	22,147	18,500	22,538	-5%	2%
Adj. PAT	12,023	13,989	11,198	14,044	-7%	0%

Source: MOFSL

Financials and valuations

Consolidated Income Statement

	(INR m)							
Y/E March	2016	2017	2018	2019	2020	2021	2022E	2023E
Net Sales	66,365	67,796	68,154	72,515	96,374	1,16,020	1,22,541	1,38,368
Change (%)	-17.0	2.2	0.5	6.4	32.9	20.4	5.6	12.9
Gross Profit	30,149	32,180	31,160	32,439	42,267	46,997	52,560	59,384
Margin (%)	45.4	47.5	45.7	44.7	43.9	40.5	42.9	42.9
Other operating exp.	23,606	24,269	22,771	24,579	29,346	31,560	34,061	36,846
EBITDA	6,543	7,911	8,389	7,859	12,921	15,438	18,500	22,538
Margin (%)	9.9	11.7	12.3	10.8	13.4	13.3	15.1	16.3
Depreciation	1,168	1,260	1,160	1,226	2,417	2,547	2,628	2,708
Net Interest	1,169	915	428	525	779	687	407	380
Other income	820	831	942	1,571	1,116	1,214	1,396	1,535
PBT before EO	5,026	6,566	7,743	7,680	10,842	13,417	16,861	20,987
EO income/(exp.)	-3,329	53	-211	-333	-2,748	-307	0	0
PBT after EO	1,698	6,619	7,531	7,347	8,094	13,111	16,861	20,987
Tax	2,000	1,983	1,859	2,609	2,742	3,173	4,552	5,876
Rate (%)	117.8	30.0	24.7	35.5	33.9	24.2	27.0	28.0
Minority and Associates	-247	742	717	656	754	1,371	1,110	1,066
Reported PAT	-55	3,894	4,956	4,082	4,598	8,567	11,198	15,110
Adjusted PAT	3,274	3,841	5,167	4,415	7,216	8,716	11,198	14,044
Change (%)	-13.3	17.3	34.5	-14.6	63.5	20.8	28.5	25.4

Balance Sheet

	(INR m)							
Y/E March	2016	2017	2018	2019	2020	2021	2022E	2023E
Share Capital	631	631	631	631	922	922	922	922
Reserves	61,841	62,024	69,685	72,686	1,37,227	1,44,424	1,51,474	1,60,911
Net Worth	62,472	62,655	70,316	73,317	1,38,149	1,45,345	1,52,396	1,61,832
Minority Interest	8,618	9,195	10,090	10,277	10,925	10,925	11,700	12,552
Loans	13,541	7,866	10,676	11,283	11,825	7,206	5,423	5,423
Capital Employed	84,630	79,716	91,082	94,877	1,60,898	1,63,476	1,69,518	1,79,807
Gross Block	24,033	23,711	25,424	27,689	59,111	61,773	63,773	65,773
Less: Accum. Deprn.	14,511	13,650	15,181	16,407	18,824	21,371	23,999	26,706
Net Fixed Assets	9,523	10,060	10,244	11,282	40,288	40,402	39,774	39,066
Capital WIP	394	632	1,352	4,244	954	1,129	1,129	1,129
Goodwill & Intangibles	37,096	34,979	37,235	37,851	73,338	75,966	75,966	75,966
Investments	11,926	13,534	6,431	6,045	4,893	4,827	4,491	4,277
Curr. Assets	40,009	36,309	49,343	49,385	65,258	79,855	87,392	1,00,771
Inventories	16,290	14,530	14,483	16,099	17,120	22,492	23,501	26,536
Account Receivables	5,924	5,925	6,483	6,806	9,224	7,613	8,057	9,098
Cash and Bank Balance	6,744	7,412	18,067	16,168	24,550	33,980	40,064	49,366
Others	11,051	8,444	10,310	10,313	14,364	15,770	15,770	15,770
Curr. Liability & Prov.	13,532	14,345	13,525	12,887	20,799	33,232	33,764	35,932
Account Payables	6,773	7,378	7,057	6,649	9,440	16,255	16,786	18,955
Other liabilities	2,776	3,389	3,562	4,221	8,603	14,036	14,036	14,036
Provisions	3,983	3,578	2,906	2,017	2,756	2,942	2,942	2,942
Net Curr. Assets	26,477	21,965	35,818	36,498	44,459	46,623	53,629	64,839
Def. tax liability	786	1,454	-3	1,043	3,033	5,470	5,470	5,470
Appl. of Funds	84,630	79,716	91,082	94,877	1,60,898	1,63,476	1,69,518	1,79,807

Financials and valuations

Cash flow statement

Y/E March	2016	2017	2018	2019	2020	2021	2022E	2023E
EBITDA	6,543	7,911	8,389	7,859	12,921	15,438	18,500	22,538
Prov. & FX	-132	22	-14	22	-72	41	0	0
WC	-2,719	1,485	-1,389	-2,347	-649	3,054	-922	-1,908
Others	-190	100	-438	-827	1,364	1,203	0	0
Direct taxes (net)	-2,342	-2,106	-2,992	-2,609	-2,742	-3,173	-4,552	-5,876
CF from Op. Activity	1,160	7,412	3,556	2,099	10,822	16,564	13,025	14,754
Capex	-1,545	-1,382	-3,588	-2,823	-1,596	-2,107	-2,000	-2,000
FCFF	-385	6,030	-32	-724	9,227	14,457	11,025	12,754
Interest/dividend	697	574	485	539	564	731	1,396	1,535
Investments in subs/assoc.	-509	-280	-132	-358	-226	-2,241	0	0
Others	4,273	2,503	10,209	3,374	-5,470	-467	0	0
CF from Inv. Activity	2,917	1,415	6,973	733	-6,728	-4,084	-604	-465
Borrowings	-796	-4,848	2,160	358	321	-573	-2,000	0
Finance cost	-663	-615	-282	-437	-703	-654	-407	-380
Dividend	-1,871	-1,890	-2,118	-2,158	-2,216	-2,673	-4,147	-4,608
Others	512	-805	365	-2,493	6,886	851	217	0
CF from Fin. Activity	-2,818	-8,158	126	-4,731	4,288	-3,049	-6,337	-4,988
(Inc)/Dec in Cash	1,259	668	10,655	-1,899	8,382	9,430	6,084	9,302
Opening balance	5,485	6,744	7,412	18,067	16,168	24,550	33,980	40,064
Closing balance (as per B/S)	6,744	7,412	18,067	16,168	24,550	33,980	40,064	49,366

Ratios

Y/E March	2016	2017	2018	2019	2020	2021	2022E	2023E
Basic (INR)								
EPS	3.6	4.2	5.6	4.8	7.8	9.5	12.2	15.2
Cash EPS	4.8	5.5	6.9	6.1	10.5	12.2	15.0	18.2
BV/Share	67.8	68.0	76.3	79.6	149.9	157.7	165.4	175.6
DPS	2.3	2.3	2.4	2.5	2.7	4.1	4.5	5.0
Payout (%)	NA	36.5	29.9	38.7	54.1	43.6	37.0	30.5
Dividend yield (%)	1.9	1.5	0.9	1.2	0.9	1.9	2.1	2.4
Valuation (x)								
P/E				131.3	80.3	66.5	51.8	41.3
Cash P/E				102.8	60.2	51.5	41.9	34.6
P/BV				7.9	4.2	4.0	3.8	3.6
EV/Sales				7.6	5.7	4.8	4.5	4.0
EV/EBITDA				70.4	42.8	35.8	29.9	24.5
Dividend Yield (%)				1.2	0.9	1.9	2.1	2.4
FCF per share				-1.1	10.0	15.7	12.0	13.8
Return Ratios (%)								
RoE	5.6	6.1	7.8	6.1	6.8	6.1	7.5	8.9
RoCE	7.6	9.0	9.4	8.6	8.5	8.3	10.2	12.1
RoIC	8.2	10.6	11.7	9.8	11.5	11.1	12.7	16.1
Working Capital Ratios								
Fixed Asset Turnover (x)	7.0	6.7	6.7	6.4	2.4	2.9	3.1	3.5
Asset Turnover (x)	0.8	0.9	0.7	0.8	0.6	0.7	0.7	0.8
Debtor (Days)	33	32	35	34	35	24	24	24
Creditor (Days)	37	40	38	33	36	51	50	50
Inventory (Days)	90	78	78	81	65	71	70	70
Leverage Ratio (x)								
Debt/Equity	0.1	0.0	-0.1	-0.1	-0.1	-0.2	-0.2	-0.3

NOTES

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

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