9 June 2021

Annual Report Update | Sector: Consumers

Tata Consumer Products

BSE SENSEX	S&P CNX
51,942	15,635

Stock Info

Bloomberg	TATACONS IN
Equity Shares (m)	922
M.Cap.(INRb)/(USDb)	647.5 / 8.9
52-Week Range (INR)	715 / 360
1, 6, 12 Rel. Per (%)	6/12/30
12M Avg Val (INR M)	2456
Free float (%)	65.3

Financials Snapshot (INR b)

Y/E MARCH	2021	2022E	2023E
Sales	116	122	138
EBITDA	15	18	23
Adj. PAT	9	11	14
EBITDA Margin (%)	13.3	15.1	16.3
Cons. Adj. EPS (INR)	9	12	15
EPS Gr. (%)	21	28	25
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)	74	58	46
EV/EBITDA (x)	40	34	28
Div. Yield (%)	1.9	2.1	2.4
FCF Yield (%)	7.5	5.7	6.6

CMP: INR703 TP: INR775 (+10%) Buy

Growth levers in place

Tata Consumer Products' (TCPL) FY21 annual report focuses on initiatives taken by the management to leverage the 'Tata' brand in creating capabilities for building a multi-category FMCG company. Some of these strategies include strengthening and accelerating the core business, exploring new opportunities, unlocking synergies, digitizing the supply-chain, product portfolio expansion, and expanding its sales and distribution infrastructure. Key highlights below:

India Food business to spearhead growth

- Revenue from the India Food business grew 18% YoY (to INR24.4b), which can be attributed to the 17% increase in the Salt business in FY21, along with Tata Sampann whose portfolio grew 26%. EBIT margin expanded by 300bp to 15.9% (or INR3.9b).
- The India Food business – comprising Tata Salt and Tata Sampan, which includes pulses, spices and condiments, and ready-to-cook (RTC) – is expected to drive a major shift to the organized from the unorganized sector. The segment should drive the next phase of TCPL's growth.
- India's pulses/spices market is valued at INR1,500b/INR600b, with the share of organized branded players pegged at 1%/30%. Both segments are estimated to grow significantly on the back of higher health consciousness and growing importance of hygiene among the populace. A strong brand like Tata Sampann, is expected to gain substantially from this transition.
- The Indian Branded Salt market is estimated at INR60b. Tata Salt recorded 19% volume growth to ~1.3MT in FY21. Value contribution from the premium portfolio grew to 3.5% in FY21 (v/s 1.8% in FY20). Rock Salt scaled up by 3x in FY21, which also contributed to growth in the Salt business. Tata Salt further strengthened its market leadership position, with value share increasing by 180bp to 33% in the Packaged Salt category.

India Beverage business to maintain its growth trajectory

- India's Branded Tea market is currently valued at INR260b and is dominated by organized players with 65-70% market share (in value terms). The branded market grew ~8% in FY21, albeit a decline in the initial months due to the impact of the lockdowns and tea price inflation.
- Revenue rose 36% to INR46b, with 12% volume growth in the Branded Tea business, whereas EBIT margin contracted by 300bp to 10.8% (to INR5b) in FY21.
- The business saw an increase in market share (both in value and volume terms), supplemented by an increase in direct outlet reach (including rural) and quality of distribution. The company recorded 60bp/100bp volume/value market share improvement to 20.4%/21%, which was due to significant increase in both product range and depth of its outlet reach.
- TCPL launched two products: Sonnets by Tata Coffee (premium roast and ground coffee for connoisseurs) and 1868 by Tata Tea (exclusive range of luxury teas across India).

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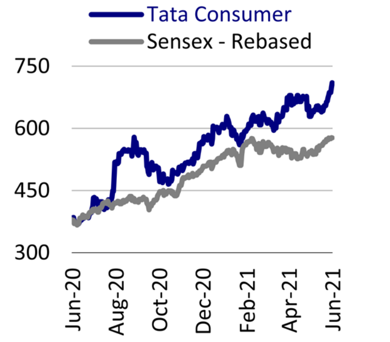
Shareholding pattern (%)

As On	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

FII Includes depository receipts

Stock performance (one-year)



International Beverage business

- In FY21, the international business registered 8% (1% in constant currency terms) revenue growth to INR34.7b. Excluding Food Service and Out-of-Home sectors, which were impacted by the COVID-19 pandemic, the international business grew 12% (5% in constant currency terms) led by Retail and Online segments, with volume growth of 7%/1% in Branded Coffee/Tea. EBIT margin expanded 200bp to 13.2%, with EBIT jumping by 27% YoY to INR4.6b.
- The US Coffee business recorded robust 8% growth of INR18b in FY21, whereas corresponding volume growth stood at 7%, with K-cup outpacing coffee bags.
- Revenue from the UK business grew 8% YoY to INR12b, with a substantial growth in EBIT, partly benefitting from higher tea consumption at home due to the pandemic.
- The Canada business posted a revenue growth of 15% (in constant currency terms) in FY21, capitalizing on increased tea consumption at home. Higher sales, lower sales promotion expenses, and strong control over overheads led to strong growth in profitability.

Strong cash generation to support its expansion plans

- Inventory increased by 31% in FY21. However, trade receivables dropped by 17%, whereas trade payables increased sharply by 72%. Inventory days rose by six days in FY21, whereas the corresponding drop in receivables days was 11 days. Payable days increased by 15 days, thereby sharply (20 days) reducing working capital days to 44 days in FY21 (v/s 64 days in FY20).
- TCPL's five-year average CFO/EBITDA stood at 53% over FY16-20. On the back of strong cash generation, CFO/EBITDA rose to 107% in FY21 (v/s 84% in FY20).
- It has maintained a capex run-rate of INR2b/INR2.3b over the last 10/five years. Net cash increased to INR26.8b in FY21 (v/s net cash of INR12.7b in FY20).
- On the back of strong cash generation and lower debt levels, gross debt/equity ratio stood at 0.05x in FY21 (v/s 0.09x in FY20). This gives TCPL enough headroom to carry out various expansions and branding activities for its newly diversified product portfolio, along with its existing basket of products.

Valuation and view

- TCPL's holistic strategy aims at transforming by: i) strengthening and accelerating its core business, ii) exploring new opportunities, iii) unlocking synergy, iv) digitization of the supply chain, v) product portfolio expansion and innovation, vi) enhancing its focus on premiumization and health and wellness products, vii) embed sustainability, and viii) expanding its sales and distribution infrastructure, supply chain, and capability building towards being a multi-category FMCG player.
- The merger of the India Food business with TCPL is in sync with the management's vision to create a single FMCG-focused company. The merger offers multiple synergies, including higher outlet coverage, focused new product development, strong cash flow generation, and scale efficiencies.
- TCPL has two strong legs – Tata Tea and Tata Salt – in its India business, where it is targeting lower double-digit growth, led by: a) cross-selling between the Food business and TCPL's Tea distribution channel, and b) expansion into new geographies.

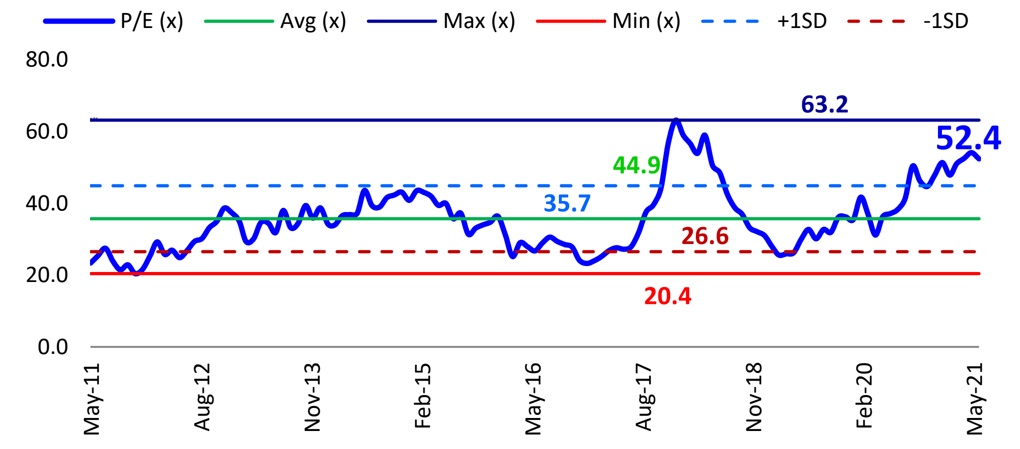
- TCPL's third leg – Tata Sampann (pulses, spices and RTC) – is expected to grow in double-digits. The market size of pulses/spices (branded) in India currently stands at INR1,500b/INR600b, with unorganized players constituting 99%/70% of the market. Growth is expected through market share gains from unorganized players via an increasing distribution reach and new product launches. Also, growing consciousness towards healthy eating habits and hygienic products is expected to benefit TCPL due to its strong brand name.
- We expect a revenue/EBITDA/PAT CAGR of 9%/21%/27% over FY21-23E and arrive at an FY23E SoTP-based TP of INR775/share. Maintain **Buy**.

Exhibit 1: Valuation table

EV/EBITDA	FY23E EBITDA	Multiple (x)	EV
India Tea (TCPL standalone)	7,684	37	2,85,848
Coffee India (excluding Starbucks) at 57%	495	10	5,174
Coffee overseas	2,893	12	34,721
Consumer (Salt and others)	7,706	37	2,87,443
Overseas tea (Tetley UK)	2,599	10	27,163
DCF			
Starbucks JV			30,312
Enterprise value			6,70,661
Less: Net debt			-43,959
Market value (INR m)			7,14,620
No. of shares (m)			922
Target price (INR)			775
CMP (INR)			703
Upside (%)			10%

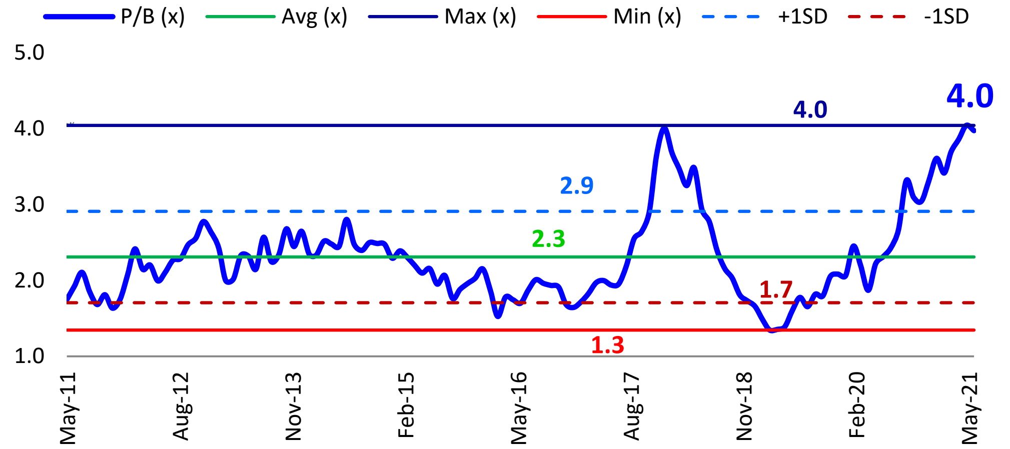
Source: MOFSL

Exhibit 2: One-year forward P/E (x)



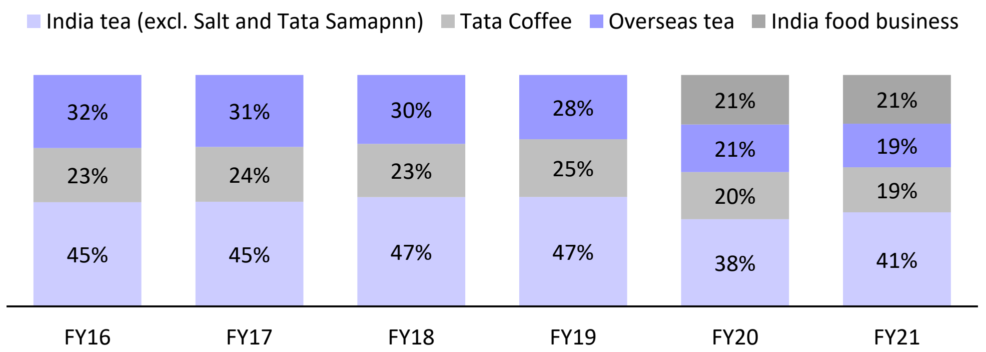
Source: Company, MOFSL

Exhibit 3: One-year forward P/B (x)



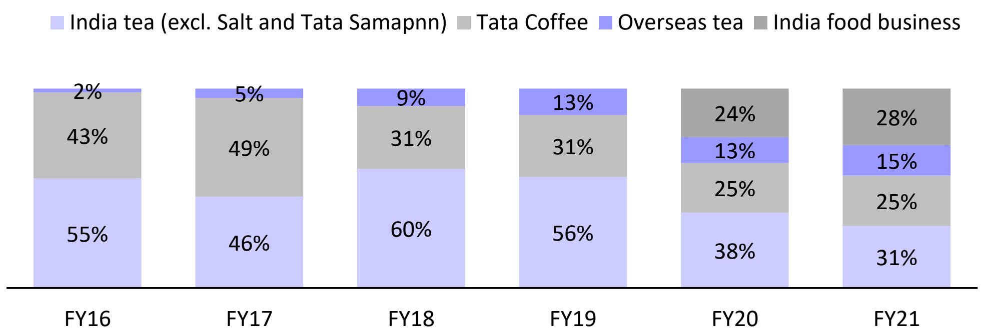
Source: Company, MOFSL

Exhibit 4: Consolidated revenue mix



Source: Company, MOFSL

Exhibit 5: Consolidated EBITDA mix



Source: Company, MOFSL

Investment opportunities

- The Food and Beverage industry is pegged ~INR3,000b and is expected to grow by leveraging India's favorable demographic profile (high population, rising income levels, and higher urbanization). The Food and Beverage segment constitutes ~30% of household spending and is expected to sustain wallet share going forward.
- The Branded Indian Tea market is estimated at INR260b, with unbranded constituting 30-35% of the overall market (by value). The branded market grew ~8% in FY21. Green Tea is estimated to be a niche segment (~3%). Health and wellness is steadily becoming a strong consumer trend. Value sales of 3-4% in the Tea category are attributable to the e-commerce channel.
- The Branded Retail Coffee market in India is estimated at INR26b in FY20. Instant Coffee is the largest sub-segment and forms 80-85% of the category. It is still growing as consumers continue to prioritize convenience.
- Water is the largest sub-category in non-alcoholic Beverages globally (followed by Coffee) and second largest in India following Tea. The Indian Packaged Water market is estimated at INR180b.
- The Indian Staples industry is largely unorganized, with the share of branded players less than 10%. The Indian Branded Salt market is estimated to be INR60b. India is the largest producer (~25% of global production) and consumer (27% of global consumption) of pulses. The Pulses industry is estimated to be larger than INR1,500b, with only 1% of the segment being branded/organized. The Branded Spices segment in India is pegged at INR170b as recorded in FY20. Snacks is an INR810b segment, with a higher share of branded players (ready-to-cook is all branded in comparison to Snacks).
- At-home cooking and healthy eating have emerged as key highlights of the pandemic. Around 86% of Indian consumers have learned to cook during the pandemic and 81% consumers have become more conscious of their food intake.

Exhibit 6: Product segments

Source: Company, MOFSL

Key highlights from Chairman, Mr. N. Chandrasekaran's desk

- TCPL is focused on putting in place the right building blocks for the future. These include identifying strategic priorities, implementing an integrated organizational structure, investing in capabilities and talent, and driving digital initiatives. With these building blocks in place, the company is well positioned for accelerated growth.

- TCPL now has a portfolio which covers tea, coffee, water, salt, pulses, spices, ready-to-cook offerings, breakfast cereals, snacks, and mini meals. It has also stepped up the pace of innovation across the market, in line with consumer trends such as health and wellness and convenience.

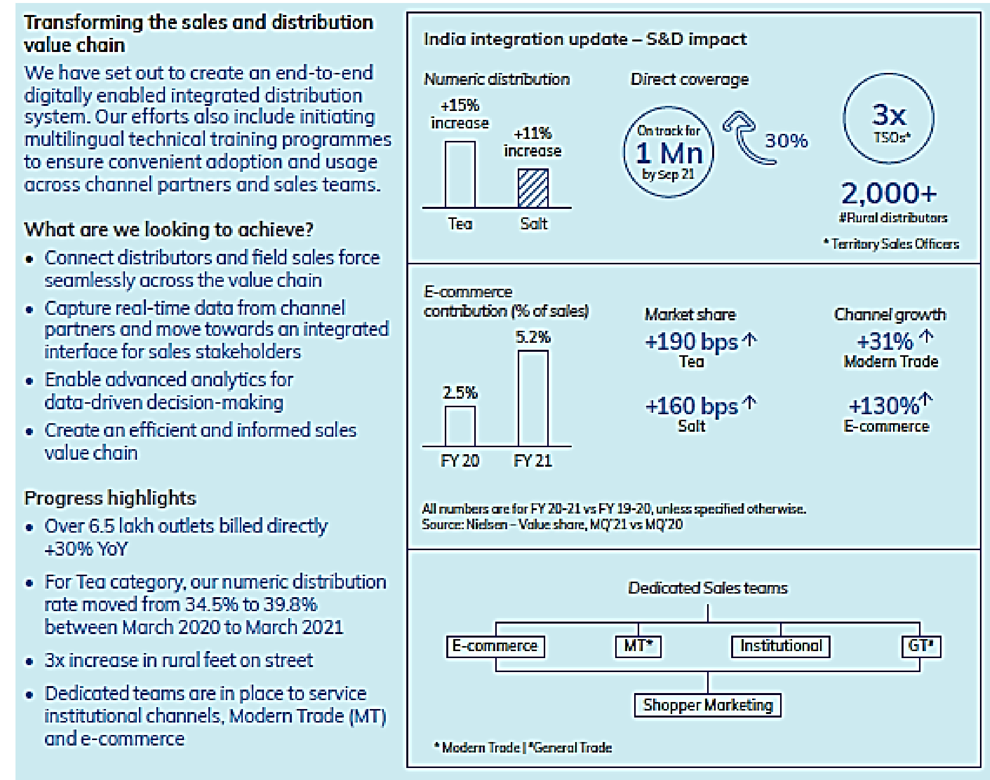
Key highlights from MD and CEO, Mr. Sunil D'Souza's desk

- TCPL announced a clear and holistic strategy and is mapping and reporting progress against it. Tied to it is their operational transformation such as their sales and distribution infrastructure, supply chain, and capability building towards being a multi-category FMCG player.
- In the S&D overhaul process, TCPL rationalized layers, created a larger and more robust distribution footprint, and ensured an end-to-end digitization for distribution partners. On the supply-chain side, the company has integrated and consolidated its footprint and recently implemented Integrated Business Planning (IBP) for seamless planning and execution.
- As part of the integration process, TCPL redesigned its sales and distribution architecture and network in India. This led to a substantial enhancement of reach. TCPL has rationalized the number of distributors, but increased its field force by over 30%. Direct outlet coverage/numeric distribution has increased by 30%/15%. Higher emphasis was towards increasing rural reach, for which TCPL now has 3x the number of territory sales officers and has already added over 2,000 rural distributors. Dedicated and channel-specific sales teams cater to e-commerce, modern trade, institutions, and general trade.
- TCPL's product portfolio always focused on health and wellness and is well positioned to meet consumer needs. Currently, the company has multiple products that are not just addressing, but also shaping these preferences across key markets and categories. For instance, it launched Haldi Doodh and various ready-to-cook nutrimixes under its Tata Sampann portfolio in India. In Beverages, the company launched Tata Tea Tulsi, Tetley Immune, etc.
- Convenience shopping, deliveries, and e-commerce adoption accelerated exponentially because of the lockdown and their aftermath. TCPL strengthened its e-commerce capabilities. The latter's overall contribution to sales more than doubled to 5.2% in India from 2.5%.
- TCPL launched its own premium D2C brands in India – Tata Tea 1868 (a range of luxury teas) and Sonnets by Tata Coffee (a premium range of roast and ground coffees) – to leverage the shifting consumer mindset and shopping trends.
- The company divested their non-branded businesses in Australia and Food Service business in the US to ensure a laser focus on their core business.

Distribution reach

- Numeric distribution grew 15%/11% in Tea/Salt segments. Direct coverage saw a sharp surge (30%) and is expected to reach 1m outlets by 1HFY22.
- Revenue contribution from e-commerce sales increased by 270bp to 5.2% in FY21. Revenue from e-commerce/modern trade grew 130%/31%.

Exhibit 7: Significant improvement in distribution reach

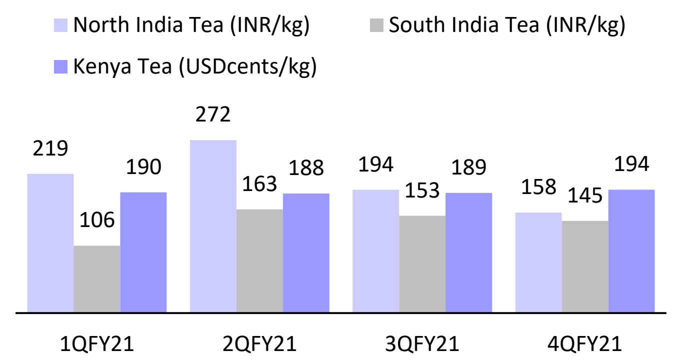


Source: Company, MOFSL

Impact of COVID-19 across regions

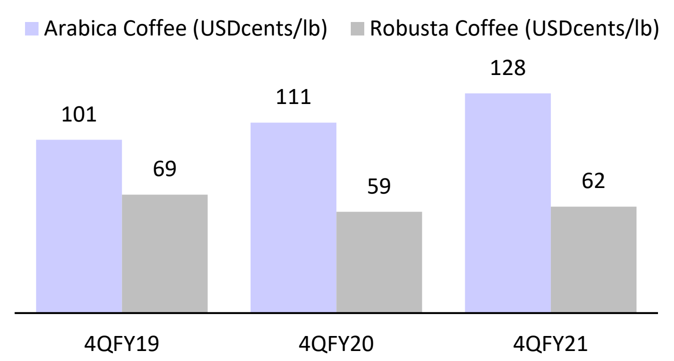
- Conversion to branded packaged food is expected to accelerate in the post-COVID era. Cooking of home meals will be higher than pre-COVID times, despite lesser restrictions and increase in eating out/ordering on occasions.
- TCPL's out-of-home and Institutional business saw a drastic decline in volumes.
- Due to the lockdown, there was a decrease in tea production, which led to an increase in prices, impacting TCPL's performance in 2HFY21.
- The company saw a continuous stress on their coffee Extraction business, due to decline in demand from the international market.

Exhibit 8: Sharp surge seen in South India Tea prices



Source: Company, MOFSL

Exhibit 9: Arabica Coffee prices grew higher than Robusta Coffee



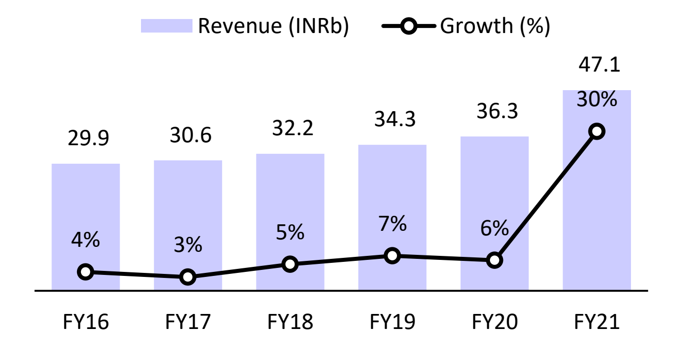
Source: Company, MOFSL

India Beverage business

Strong growth despite the sporadic lockdowns

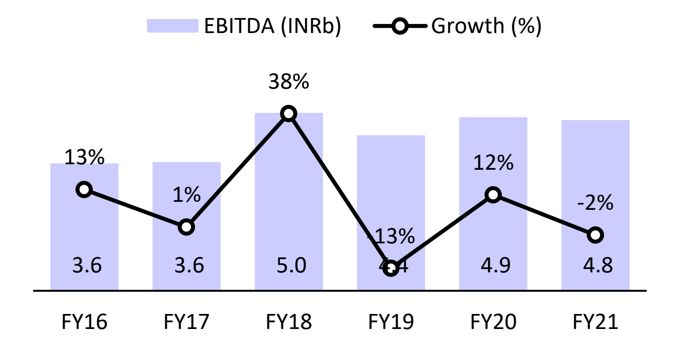
- TCPL's India Beverages business, which majorly comprises of Tata Tea, saw annual revenue/volume (Branded Tea) growth of 36%/12%, led by growth in the Branded Tea business, which grew in volume as well as value terms. Revenue increased by 36% to INR46b, whereas EBIT margin contracted by 300bp to 10.8% (to INR5b) in FY21.
- The company recorded a 60bp/100bp improvement in volume/value market share to 20.4%/21%, which was due to a significant increase in both its product range and depth of its outlet reach.
- The India Beverage business managed to grow on the back of higher sales and rationalization of expenses. The higher increase in value terms was due to the price rise taken by TCPL to offset the significant increase in commodity prices.
- The business saw an increase in market share (both value and volume), supplemented by an increase in direct outlet reach (including rural) and quality of distribution.
- To strengthen its presence in the super premium segment, TCPL launched two products: Sonnets by Tata Coffee (premium roast and ground coffee for connoisseurs) and 1868 by Tata Tea (exclusive range of luxury teas across India).
- TCPL completed the integration of the India Beverages and Food businesses in FY21. It also acquired the entire stake of PepsiCo in NourishCo Beverages, along with the rights over 'Gluco Plus/Gluco+' brand. With this deal, NourishCo became a wholly-owned subsidiary of TCPL.

Exhibit 10: India Beverages recorded 10% CAGR over FY16-21



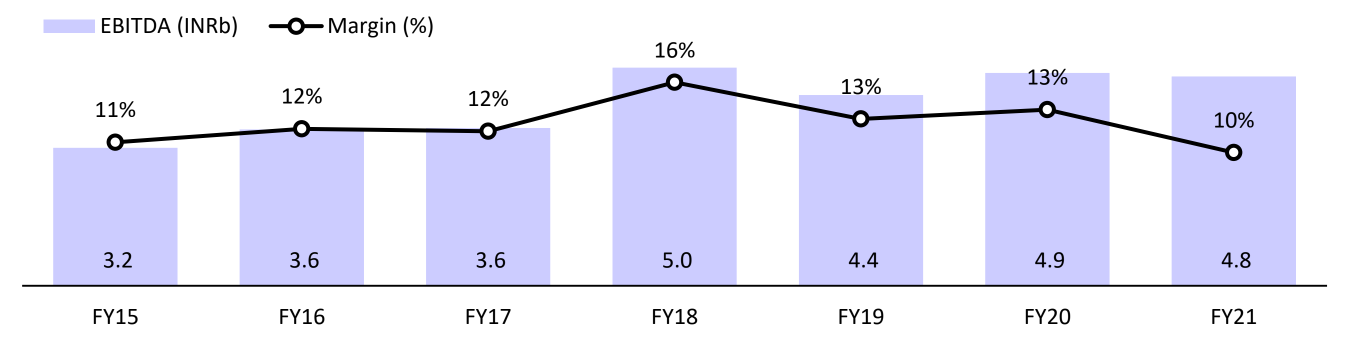
Note: Standalone business. Source: Company, MOFSL

Exhibit 11: EBITDA clocked 6% CAGR over FY16-21



Source: Company, MOFSL

Exhibit 12: EBITDA margin trend



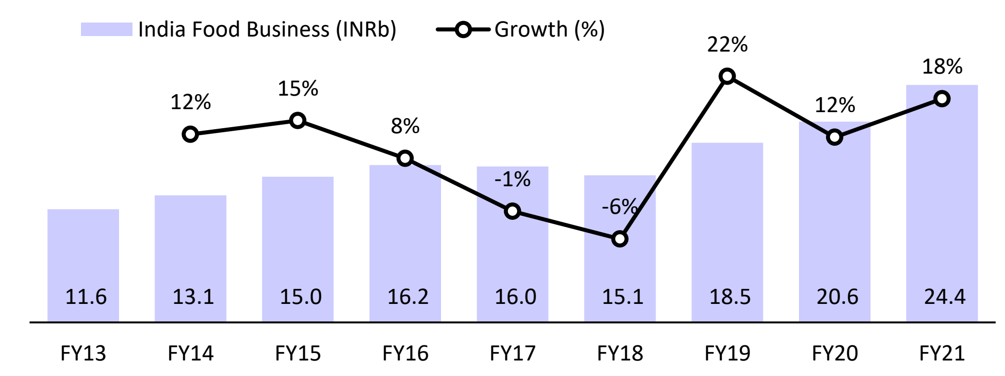
Source: Company, MOFSL

India Food business

Consolidated distribution network to benefit new businesses

- The India Food business recorded 18% revenue growth to INR24.4b in FY21, whereas the corresponding volume growth was pegged at 11%. Growth can be attributed to increase in the Salt business, which grew 17% in FY21, along with Tata Sampann whose portfolio grew 26%. EBIT margin expanded by 300bp to 15.9% (or INR3.9b).
- Increase in direct distribution and improvement of brand health, with a differentiated communication, complemented growth in the Food business. Tata Salt further strengthened its market leadership, with the value share increasing 180bp to 33% in the Packaged Salt category.
- The new product portfolio of poha and Nutrimix categories grew well. It expanded its product range in these categories in FY21.
- TCPL acquired Kottaram Agro Foods (owner of the brand Soulfull), which has a portfolio of millet-based products for adults and kids. The first full year impact of the acquisition will be seen in FY22.
- India's pulses/spices market is valued at INR1,500b/INR600b, with the share of organized branded players pegged at 1%/30%. The RTC market is pegged at INR810b. India single-handedly accounts for ~25%/27% of global production/consumption of pulses.
- Within the Staples category, the Indian Branded Salt market is estimated at INR60b. Tata Salt recorded 19% volume growth of ~1.3MT in FY21. Contribution from the premium portfolio grew to 3.5% in FY21 (v/s 1.8% in FY20). Rock Salt scaled up 3x in FY21, which contributed to growth in the Salt business.
- A gradual shift towards organized players, increased consciousness towards hygienic and healthy eating habits, and the absence of a nationalized branded player are some of the major growth drivers for this segment.

Exhibit 13: Revenue trend in the India Food business



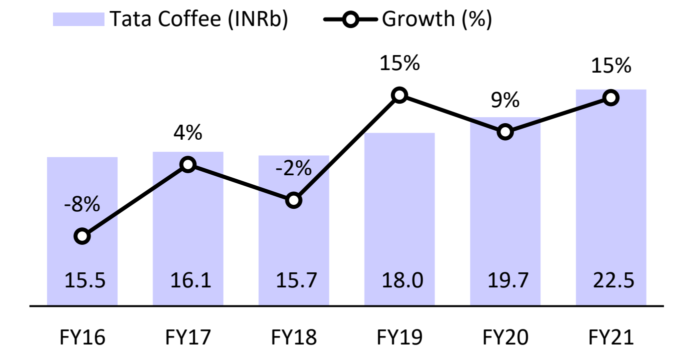
Source: Company, MOFSL

Tata Coffee

Coffee business records (15%/22%) strong revenue/EBITDA growth

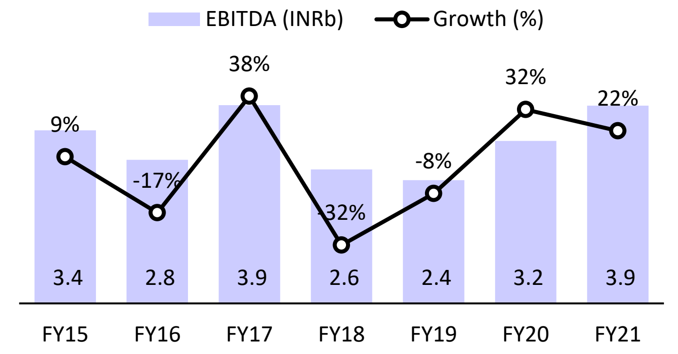
- Tata Coffee (including its Vietnam subsidiary) recorded 14% revenue growth (on a constant currency basis) in FY21, led by the Plantation business and increase in capacity utilization of the freeze-dried plant in Vietnam by onboarding of new customers and increasing the size of the business from its existing customer base. Coffee sales volume grew 6.3% YoY to 17m kg in FY21.
- The Extraction business grew 12% in FY21, led by Vietnam, which more than offset the decline in the domestic Extraction business. Robust value growth in tea was driven by higher realizations, whereas revenue from coffee plantations grew on the back of higher crop plantation in FY21. As a result, revenue from Plantations grew 24% in FY21.
- Tata Coffee's Vietnam plant is running ~90% utilization levels. It managed to record its highest ever sales volumes in 4QFY21, aided by new products and breakthroughs with new clients.
- Innovations in Eight O'Clock Coffee contributed over USD1m in e-commerce revenue, led by Flavors of America.

Exhibit 14: Coffee business posted 8% CAGR over FY16-21…



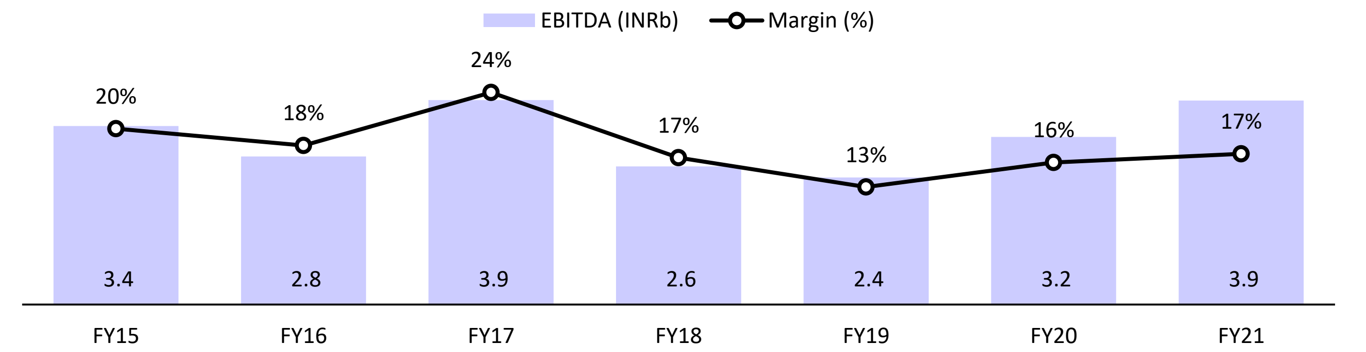
Source: Company, MOFSL

Exhibit 15: … whereas EBITDA grew at 7% CAGR



Source: Company, MOFSL

Exhibit 16: EBITDA trend in the Coffee business



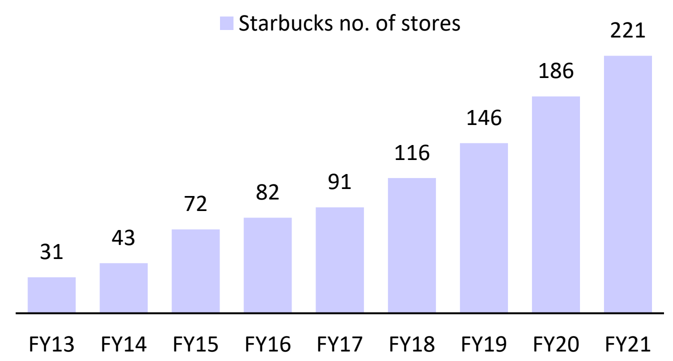
Source: Company, MOFSL

Joint venture businesses

Starbucks – new restrictions de-stabilize performance

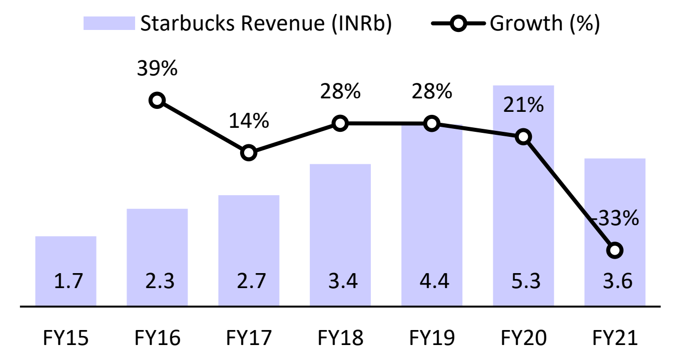
- TCPL added 39 new stores in FY21 (v/s 39 new store additions in FY20) and entered seven new cities, taking the total number of stores to 221, spread across 18 cities in India.
- Revenue declined 33% in FY21 due to imposition of a strict lockdown across the country, which in-turn led to a sharp drop in out-of-home consumption.
- With the impact of COVID-19 gradually subsiding and lifting of restrictions across the country, 94% of stores re-opened in Mar'21.
- In the medium-term, Starbucks will continue with its accelerated store growth agenda and enter new cities. There will be a renewed focus on digital and omni channel partnerships to drive sales and cost initiatives to streamline operations.

Exhibit 17: TCPL added 39 new stores in FY21



Source: Company, MOFSL

Exhibit 18: Starbucks clocks robust (9%) revenue CAGR over FY16-21



Source: Company, MOFSL

Tata NourishCo

- Revenue from this segment grew 4% to INR1,880m in FY21, significantly impacted by COVID-induced lockdowns and reduced out-of-home consumption.
- Going forward, TCPL aims to increase its geographic presence and add capacity to increase revenue contribution from this segment.
- In May'20, TCPL acquired PepsiCo's stake in NourishCo Beverages, which was a 50:50 JV between TCPL and PepsiCo. This move is consistent with the management's focus on widening its portfolio in the Food and Beverages space.

International business

The international business registered 8% (1% in constant currency terms) revenue growth to INR34.7b in FY21. Excluding Food Service and Out-of-Home sectors, which were impacted by the pandemic, the international business grew 12% (5% in constant currency terms) driven by Retail and Online segments, with volume growth of 7%/1% in Branded Coffee/Tea. EBIT margin expanded 200bp to 13.2%, with EBIT jumping 27% YoY to INR4.6b.

United States

- In FY21, the US business recorded robust (8% YoY) growth of INR18b, whereas the corresponding volume growth stood 7%, with K-cup outpacing coffee bags.
- Tea revenue increased 16%, driven by innovation, new customer acquisition, and e-commerce. TCPL capitalized on the increase in tea consumption at home due to the pandemic.

- e-commerce saw triple-digit portfolio growth in FY21, which was led by Eight O'Clock Coffee and innovations in Good Earth and Tetley.
- The market share of coffee bags increased to 4.6% (in value terms) in Mar'21.

Canada

- The Canada business posted 15% revenue growth (on a constant currency basis) in FY21, driven by capitalizing of increased in-home consumption of tea. The region recorded 35% revenue growth in Specialty Tea over the same period. Higher sales, lower sales promotion expenses, and strong control on overhead expenses led to robust growth in profitability.
- Sales of Specialty Tea were further boosted by the new Tetley Super 3.0 range introduced in FY21.
- Tetley continues to be the numero uno brand, with a value market share of 29.3%, with both regular and specialty teas outgrowing the category in FY21.

United Kingdom

- Revenue grew 8% YoY to INR12b in FY21, with a substantial growth in EBIT, partly benefitting from higher tea consumption at home due to the pandemic.
- EBIT growth was driven by strong control over overheads, lower promotion expenses, and stable commodity costs.
- Value market share in every day black tea stood at 20% in Mar'21.
- Out-of-Home and Wholesale channels came under pressure due to COVID-19. The impact was mitigated by driving distribution gains in the Discounter channel and increased activation in the Online channel.

Exhibit 19: Revenue by geographical market (INR m)

Revenue by geography	FY19	FY20	FY21	YoY growth
India	39,046	61,773	77,826	26%
US	16,517	16,722	18,065	8%
United Kingdom	11,356	11,183	12,063	8%
Rest of the World	5,596	6,696	8,066	20%
Revenue from external customer	**72,515**	**96,374**	**1,16,020**	**20%**

Exhibit 20: Segmental data (INR m)

Branded business - Revenue	FY20	FY21	YoY growth
India - Beverages	33,769	46,007	36%
India - Food	20,637	24,417	18%
International - Beverages	32,260	34,693	8%
Branded business - Results			
India - Beverages	4,651	4,963	7%
India - Food	2,665	3,877	45%
International - Beverages	3,608	4,589	27%
Branded business - Margin			
India - Beverages	14%	11%	
India - Food	13%	16%	
International – Beverages	11%	13%	

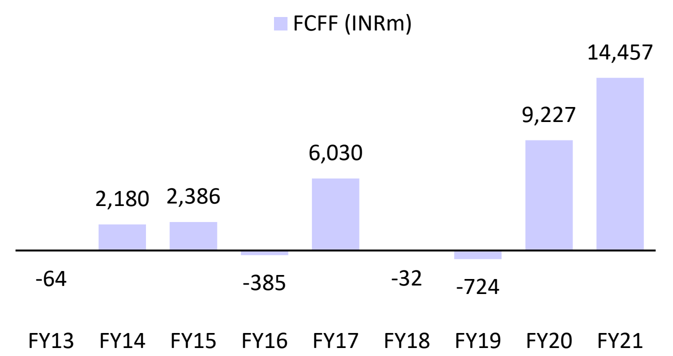
Source: Company, MOFSL

Financial highlights

Strong operating cash flow generation

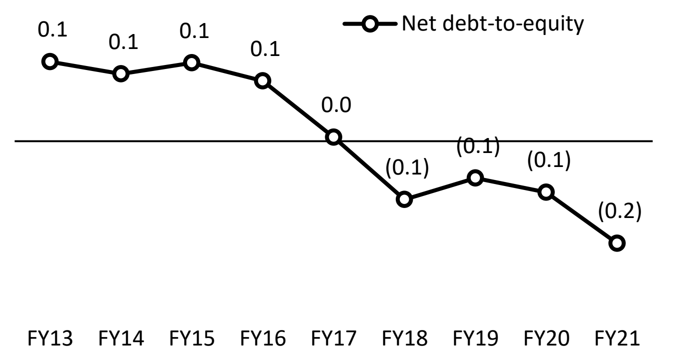
- TCPL has maintained an average FCF run-rate of INR3.4b/INR5.8b over the last 10/five years.
- It has maintained a positive CFO for more than a decade, with an average run-rate of INR5.4b/INR8b in the last 10/five years. Going forward, this strong run-rate is expected to continue.
- Five-year average CFO/EBITDA stood at 53% over FY16-20. On the back of strong cash generation, CFO/EBITDA rose to 107% in FY21 (v/s 84% in FY20).
- Strong cash generation led to a significant investment in capex and continuous repayment of debt. TCPL maintained a capex run-rate of INR2b/INR2.3b over the last 10/five years. Net cash increased to INR26.8b in FY21 (v/s net cash of INR12.7b in FY20).
- On the back of strong cash generation and lower debt levels, gross debt/equity stood at 0.05x in FY21 (v/s 0.26x in FY11), thus granting TCPL enough headroom to carry out various expansions and branding activities for its newly diversified product portfolio, along with its existing basket of products.

Exhibit 21: Strong FCFF generation



Source: Company, MOFSL

Exhibit 22: Net debt-to-equity ratio

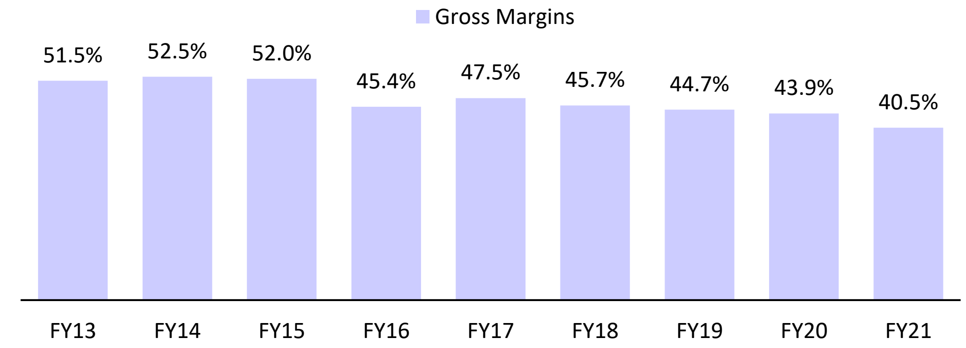


Source: Company, MOFSL

Gross margin

- Gross margin has gradually reduced to 40.5% in FY21 from 45.4% in FY16, whereas gross margin fell by 330bp YoY to 40.5% in FY21. Drop in margin was due to increase in commodity prices, which was partially offset by the price increase taken by the company.
- EBITDA margin expanded by 340bp to 13.3% over FY16-21. The same remains stagnant as compared to FY20. This is due to kicking-in of operating leverage post-merger of the India Food business with TCPL. Going forward, TCPL is expected to benefit due to operating leverage and synergy benefits kicking-in.

Exhibit 23: Gross margin trend

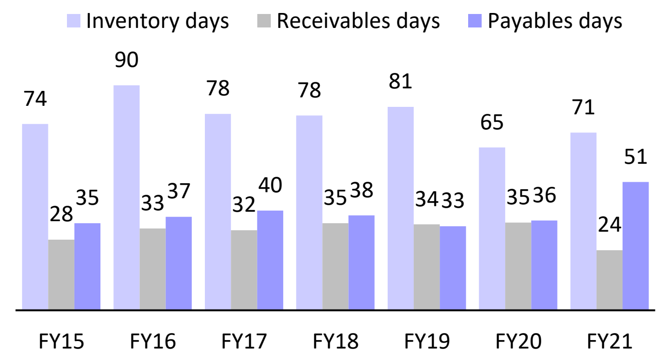


Source: Company, MOFSL

Working capital

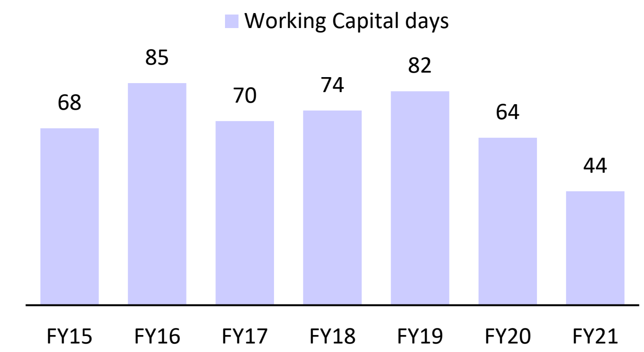
- TCPL's net working capital days declined to 44 days in FY21 from its five-year average of 75 days over FY16-20.
- Inventory rose 31% in FY21. However, trade receivables fell 17%, whereas trade payables increased sharply by 72%. Inventory days increased by six days in FY21, whereas the corresponding drop in receivables days was 11 days. Payable days increased by 15 days, thereby sharply (20 days) reducing working capital days to 44 days in FY21 (v/s 64 days in FY20).
- With the completion of the merger of India Food business with TCPL, the working capital cycle is further expected to improve with the utilization of the distribution/retail network of Tata Salt and Tata Tea to increase product penetration of Tata Sampann and other products.

Exhibit 24: Inventory/receivable and payable days



Source: Company, MOFSL

Exhibit 25: Working capital days



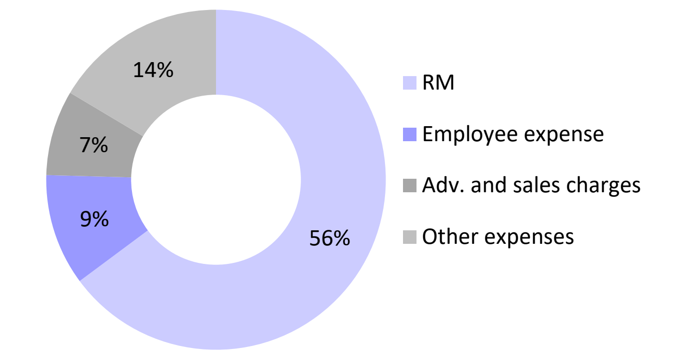
Source: Company, MOFSL

Cost structure

- EBITDA margin stood flat year-on-year at 13.3%, with absolute EBITDA at ~INR15.4b (up 19.5% YoY).
- RM cost increased sharply (330bp) to 59.5% (as a percentage of sales) due to increase in commodity prices.
- In FY21, employee cost and other expenses dropped 80bp/170bp to 8.4%/12.6% (as a percentage of sales) on higher operating leverage and several cost control measures taken by the company.

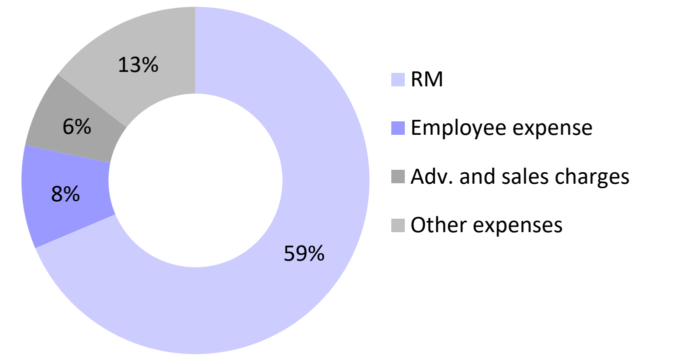
- Advertisement and sales promotion expense fell 80bp YoY to 6.3% (as a percentage of sales in FY21 v/s 7% in FY20). However, ad spends and sales promotion expense increased 7% YoY to INR7.3b in FY21.
- Drop in other expenses was due to a 10%/6% YoY reduction in 'consumption and store parts' and 'power and fuel' expenses to INR505m/INR974m. Miscellaneous expenses dropped 5% YoY to INR4b.

Exhibit 26: Cost structure in FY20



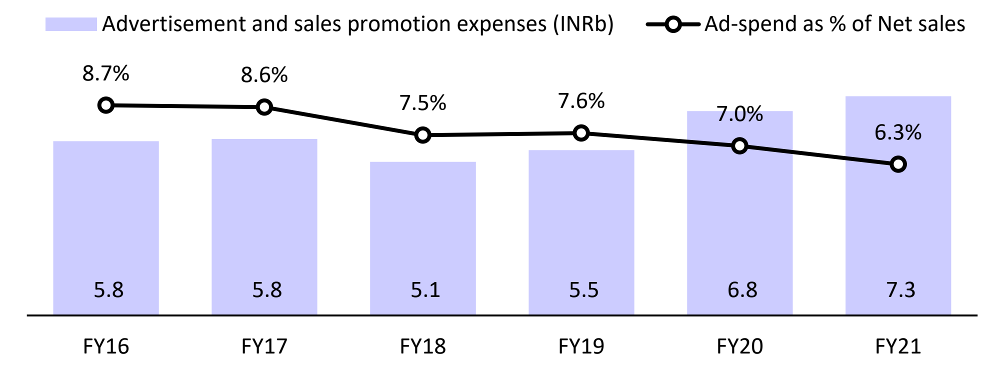
Source: Company, MOFSL

Exhibit 27: Cost structure in FY21



Source: Company, MOFSL

Exhibit 28: Marginal decrease in ad spends amid the pandemic



Source: Company, MOFSL

Employee cost and salaries

- Employee cost dropped 80bp to 8.4% (as a percentage of sales) v/s 9.2%/11.1% in FY20/FY19.
- Average percentage increase in salaries of employees other than managerial employees in FY21 was 3.7% (v/s 8.9% in FY20). Increase in managerial remuneration for FY21 stood at 63.55% (v/s 10.25% in FY20).
- The percentage increase in median remuneration was 62% in FY21 (v/s 57% in FY20), which was due to significant headcount increase on account of integration initiatives.
- The number of permanent employees stood at 2,852 in FY21 (v/s 2,689 in FY20).

Financials and valuations

Consolidated Income Statement								(INR m)
Y/E March	**FY16**	**FY17**	**FY18**	**FY19**	**FY20**	**FY21**	**FY22E**	**FY23E**
Net Sales	**66,365**	**67,796**	**68,154**	**72,515**	**96,374**	**1,16,020**	**1,22,378**	**1,38,139**
Change (%)	-17.0	2.2	0.5	6.4	32.9	20.4	5.5	12.9
Gross Profit	**30,149**	**32,180**	**31,160**	**32,439**	**42,267**	**46,997**	**52,462**	**59,248**
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	33,968	36,720
EBITDA	**6,543**	**7,911**	**8,389**	**7,859**	**12,921**	**15,438**	**18,494**	**22,528**
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**	**16,856**	**20,976**
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	16,856	20,976
Tax	2,000	1,983	1,859	2,609	2,742	3,173	4,551	5,873
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**	**11,194**	**15,103**
Adjusted PAT	**3,274**	**3,841**	**5,167**	**4,415**	**7,216**	**8,716**	**11,194**	**14,037**
Change (%)	-13.3	17.3	34.5	-14.6	63.5	20.8	28.4	25.4

Balance Sheet								(INR m)
Y/E March	**FY16**	**FY17**	**FY18**	**FY19**	**FY20**	**FY21**	**FY22E**	**FY23E**
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	1,51,470	1,60,899
Net Worth	**62,472**	**62,655**	**70,316**	**73,317**	**1,38,149**	**1,45,345**	**1,52,392**	**1,61,820**
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**	**1,69,514**	**1,79,795**
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 and 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**	**87,366**	**1,00,727**
Inventories	16,290	14,530	14,483	16,099	17,120	22,492	23,470	26,492
Account Receivables	5,924	5,925	6,483	6,806	9,224	7,613	8,047	9,083
Cash and Bank Balance	6,744	7,412	18,067	16,168	24,550	33,980	40,080	49,382
Others	11,051	8,444	10,310	10,313	14,364	15,770	15,770	15,770
Curr. Liability and Prov.	**13,532**	**14,345**	**13,525**	**12,887**	**20,799**	**33,232**	**33,741**	**35,900**
Account Payables	6,773	7,378	7,057	6,649	9,440	16,255	16,764	18,923
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**	**53,625**	**64,827**
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**	**1,69,514**	**1,79,795**

Financials and valuations

Ratios

Y/E March	FY16	FY17	FY18	FY19	FY20	FY21	FY22E	FY23E
Basic (INR)								
EPS	**3.6**	**4.2**	**5.6**	**4.8**	**7.8**	**9.5**	**12.1**	**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	197.9	168.7	125.4	146.8	89.8	74.3	57.9	46.2
Cash P/E	145.9	127.0	102.4	114.9	67.3	57.5	46.9	38.7
P/BV	10.4	10.3	9.2	8.8	4.7	4.5	4.3	4.0
EV/Sales	9.4	9.2	9.1	8.6	6.4	5.4	5.1	4.5
EV/EBITDA	94.9	78.5	74.0	79.0	48.1	40.2	33.6	27.6
Dividend Yield (%)	1.9	1.5	0.9	1.2	0.9	1.9	2.1	2.4
FCF per share	-0.6	9.6	-0.1	-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	-0.18	-0.2	-0.3

Cash Flow Statement

Y/E March	FY16	FY17	FY18	FY19	FY20	FY21	FY22E	FY23E
EBITDA	**6,543**	**7,911**	**8,389**	**7,859**	**12,921**	**15,438**	**18,494**	**22,528**
Prov. and FX	-132	22	-14	22	-72	41	0	0
WC	-2,719	1,485	-1,389	-2,347	-649	3,054	-902	-1,900
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	-4,551	-5,873
CF from Op. Activity	**1,160**	**7,412**	**3,556**	**2,099**	**10,822**	**16,564**	**13,041**	**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**	**11,041**	**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**	**6,099**	**9,302**
Opening balance	5,485	6,744	7,412	18,067	16,168	24,550	33,980	40,080
Closing balance (as per B/S)	**6,744**	**7,412**	**18,067**	**16,168**	**24,550**	**33,980**	**40,080**	**49,382**

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