Sharekhan by BNP PARIBAS

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Stock Update

Tata Consumer Products Limited

Transforming to achieve sustainable growth

Consumer Goods	Sharekhan code: TATACONSUM	Annual Report Review

Summary

- Tata Consumer Products Ltd (TCPL) is looking to transform itself into a multi-layered FMCG company by seamlessly integrating acquired businesses, streamlining supply chain & distribution and strengthening core foods & beverages businesses through innovation.
- Focused execution, robust distribution network and market share gains helped TCPL clock strong revenue and operating profit growth of 20% each in an uncertain FY2021.
- Distribution and supply efficiencies helped reduce working capital cycle by ~20 days; FCF/EBIDTA ratio improved to 80% and the company has strong liquidity of Rs. 3,000 crore.
- Strengthening of core businesses and synergies from acquired businesses would help TCPL record a revenue/PAT CAGR of 13%/16% over FY2021-24. We maintain a Buy on the stock with a revised price target of Rs. 875.

FY21 was one of the strongest fiscals for Tata Consumer Products (TCPL) post the integration of food business and revamp of core strategies that helped it register strong growth of 20% and 38% in revenue and PAT, respectively (OPM stood at ~13%). Operationally too, the fiscal was among the best in the past 5-6 years. What stands out is that the performance comes in the backdrop of uncertain environment led by COVID-19 pandemic in H1FY2021, while an unprecedented hike in domestic raw tea prices stressed profitability (especially in H2FY2021). Revenues of India foods business grew by 18% y-o-y led by strong 17% growth in the salt business (driven by a 26% growth in the Tata Sampann brand). EBIT margins of food business expanded by 300 bps to 15.9%. On the other hand, the revenues of India beverage business grew by 36% (with a 12% volume growth) as against an 8% growth in the branded tea market during the year. The international business also grew by 8% in FY2021. Under the leadership of Mr. Sunil D'Souza, the new MD & CEO, TCPL is looking to transform itself into a multi-layered FMCG company through seamless integration of acquired businesses, streamlining supply chain & distribution and strengthening the core businesses of foods & beverages through innovation. The company now has a network of 6.5 lakh outlets, while rural 'feet on street' grew by 3x. Contribution of e-Commerce has risen to ~5.2%. Meanwhile, on the supply chain side, the company integrated and consolidated its footprint and recently implemented an integrated business plan. TCPL's aim to become an end-to-end FMCG player was boosted by acquisition of Soulfull and NourishCo, which help in creating much wider product portfolio. Along with the strong financial performance, the company's balance sheet and cash flows have improved in the past few years. The distribution and supply efficiencies aided the working capital days, which reduced by 20 days in FY2021 (reduced by ~40 days in last two years). Net cash flows from operating activities improved substantially to Rs. 1656.4 crore (OCF to EBIDTA stood at 107%) from Rs. 1082.2 crore in FY2020 (OCF/EBIDTA of 70%). The cumulative free cash flow (FCF) over FY2017-21 stood at Rs. 2,762 crore. The FCF/EBIDTA ratio improved to 80% in FY2021 as against an average of 53% achieved in last 3-4 years. The company has a strong liquidity position of more than Rs. 3,000 crore which can be utilised for the future organic and inorganic growth initiatives. The debt/equity ratio stands lower at 0.1x.

Our Call

View: Retain Buy with a revised price target of Rs. 875: 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 growth catalysts in the near term, besides acquisitions. With consistent double-digit revenue growth, steady rise in margin and stable working capital management, TCPL expects return ratios to consistently improve in the coming years. The stock is currently trading at 53x its FY2023E earnings. We maintain a Buy recommendation on the stock with a revised price target of Rs. 875.

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	FY20	FY21E*	FY22E*	FY23E*
Revenue	9,637	11,602	12,997	14,774
OPM (%)	13.4	13.3	14.2	14.6
Adjusted PAT	661	953	1,108	1,331
% Y-o-Y growth	37.9	44.2	16.3	20.1
Adjusted EPS (Rs.)	7.2	10.3	12.0	14.4
P/E (x)	106.0	73.5	63.2	52.6
P/B (x)	5.1	4.8	4.6	4.4
EV/EBIDTA (x)	53.1	44.1	37.1	31.4
RoNW (%)	7.0	7.2	7.8	8.8
RoCE (%)	8.8	8.1	9.2	10.5

Source: Company, Sharekhan estimates

** FY21, FY22 & FY23 estimates include consolidation of TCL's consumer division*

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. 760**	
Price Target: **Rs. 875**	↑

↑ Upgrade ⇔ Maintain ↓ Downgrade

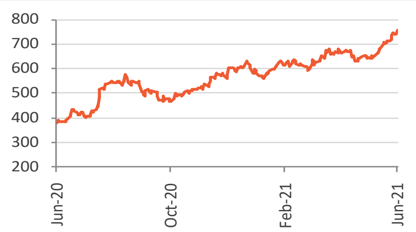
Company details

Market cap:	Rs. 70,038 cr
52-week high/low:	Rs. 765/378
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	19.0	20.0	25.7	94.8
Relative to Sensex	15.7	15.5	13.1	46.2

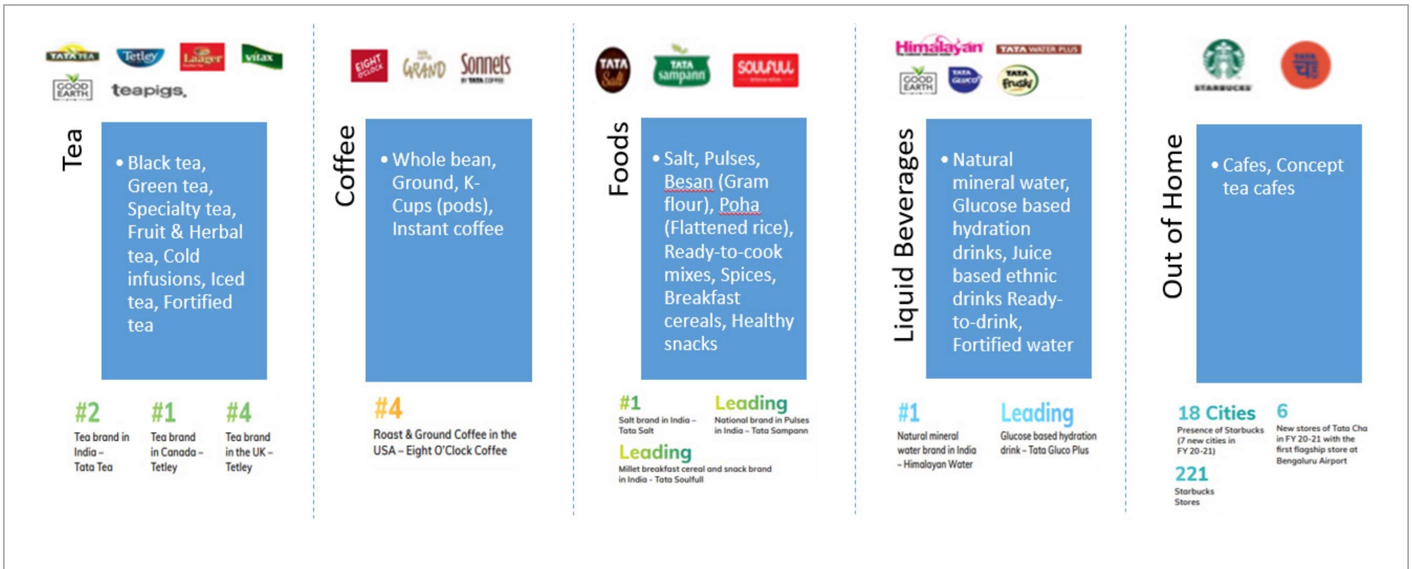
Sharekhan Research, Bloomberg

CEO Corner (Sunil D'Souza – MD & CEO of TCPL)

- The management is focused on building an integrated business model which will have a strong foundation with operational transformation in pillars such as sales & distribution, supply chain and building capability to become a multi-layered FMCG player by strengthening brands and driving sustained innovation.
- Some specific areas the company is looking at augmenting this fiscal are digital, innovation and acceleration of synergies.
- The company has divested its non-branded businesses in Australia (MAP out-of-home coffee) and food-service business in the US (membership interest in Empirical Group LLC and Southern Tea LLC) to ensure a laser focus on the core business.
- The company is ahead of its driving synergistic benefits of Rs. 100-150 crore from integration of Tata Chemicals' consumer business.
- TCPL reported strong revenue growth of 20%, adding around Rs. 2,000 crores to the topline coupled with strong volume growth. It posted a consolidated EBITDA growth of 20% and more than doubled its net profit with strong free cash flow conversion. This was made possible by strong performance of its portfolio with most brands performing strongly during the year.
- Sustainability has been a cornerstone of TCPL's corporate strategy. It has inherited this from its parent company and legacy, and it is firmly embedded in the company's vision. TCPL has a 360-degree view of sustainability and its actions comprise sustainable sourcing, community benefits, climate change management and helping build a circular economy.
- TCPL's inclusion in the Nifty 50 index is a validation of these efforts, and the strong stakeholder confidence in its approach and initial results of transformation.

Source: Company Annual Report

Strong positioning in categories in India and international markets



Source: Company Annual Report

Strategic in-place to sustainable growth

Strategies for growth	Strengthen and accelerate core business	Drive digital innovation	Unlock synergies
Key levers			
	India - Invest on brands, drive premiumisation, expand distribution and develop alternate channels. International – Grow share in non-black tea while maintaining profitability in black tea segment.	• Embed digital focus across the organisation to increase operational efficiency. • Increase focus on e-commerce. • Accelerate the innovation agenda	• Integrate F &B business in India • Common sales platform • Common back end • Integration Management Office (IMO) to project manage integration and track synergies
Key enablers			
	• Enhance marketing efforts to improve brand strength • Significantly expanded direct and total distribution, including a robust rural distribution network • Setting productivity matrices in the S&D network to track performance • Integrated distribution network for all tea brands in international markets • Dedicated teams for alternate channels – e-Commerce, institutional, among others.	• Channel partner digitalisation Embed digital across the value chain to drive insights and analytics • Drive decision-making and efficiencies with analytics (CDO on board and formed Shopper Marketing team) • Investing in e-commerce and digital marketing • Build people capability in multiple domains and encourage entrepreneurial culture, with increased agility.	• De-layer distributor network • Distributor rationalisation and scale through combined F&B portfolio • Efficiencies through scale in procurement and logistics • Replicable model for integration of new acquisitions

Source: Company Annual report

In-line with strategies the company has undertaken the below measures

- **Strengthen and accelerate core business:** TCPL is focusing on strengthening and accelerating its core business while enhancing its product portfolio.
    - **Premiumisation in domestic portfolio:** TCPL launched premium products with holistic approach of ensuring consumer wellness. Introduced new beverage selections, such as Tata Tea Tulsi Green, Gold Natural Care as well as Tetley Immune- Green Tea. The company has added Tata Rock Salt to the Tata Salt range as part of its value-added offerings. Tata Salt Lite, which is a reduced sodium iodized salt, formulated to provide less sodium than regular salt without compromising on taste and Tata Salt Plus, an iron-rich alternative were also included in the portfolio. Coffee, a key growth area, has seen enhanced focus this year.
    - **Strengthening non-black tea portfolio in international markets:** In the UK, the company introduced the Tetley Herbals range in keeping with the growing preference for fruit & herbal teas. In the US, it launched a range of premium Tetley flavours of Britain black tea. In Canada, it introduced two new Super Teas under the Tetley brand this year, Tetley Immune+, a peppermint and ginger herbal blend and Tetley Sunshine, a lemon and orange herbal blend.
- **Drive digital innovation:** TCPL is driving digital transformation across the value chain and defining a clear roadmap to simplify and synergise process. IT has undertaken end-to-end digitalisation of its channel partners and field force and bolstered its capabilities in e-Commerce.
    - **Automated sales force:** TCPL has created a digitally enabled distribution system to connect distributors and field sales force across the value chain on a single, unified interface and capture real-time data from channel partners to drive consumer insights. Some other features that the company is leveraging include route optimisations, sales analytics and incentive system for partners.

- o **Improving demand & supply with IBP:** The Integrated Business Planning (IBP) platform is a collaboration platform for stakeholders, which helps address concerns around supply chain strategy and key planning processes around demand, supply, inventory and S&OP. It drives an improved topline with higher visibility and responsiveness across the value chain and addresses issues like forecast accuracy, customer service, inventory, storage costs, finished goods and packing material availability and stockouts.
- o **Focus on best in class ERP system:** The rollout of the SAP S/4 Hana solution was completed for India food and beverages businesses within an impressive timeline of 7 months. The platform integrates the workings of procurement and supply chain as well as sales and distribution (S&D) on a single platform.

- **Unlock synergies:** Following the merger and formation of Tata Consumer Products Limited, the company set out to integrate and synergise networks across distribution and supply chain, and drive savings through scale and harmonisation of processes, which brought significant benefits, better operating effectiveness, and enhanced consumer centricity.
  - o **Transforming the sales and distribution value chain:** Direct coverage has significantly gone up by over 30% y-o-y with currently over 6.5 lakh outlets billed directly. The contribution from e-commerce channel increased to 5.2% in FY2021 from 2.5% in FY2020. Dedicated teams are in place to service institutional channels, modern trade and e-commerce.
  - o **Harmonisation of processes:** TCPL rolled out an organisation structure to serve combined business across levels and functions within three months of integration. The company harmonised 100+ process across all functions. The integration of the foods and beverages Carrying and Forwarding Agents (CFA) network brought about a cost reduction in secondary freight and optimised the supply chain network for further synergies.

Strategic in-place to sustainable growth

Strategies for growth	Explore new opportunities	Create a future-ready organization	Embed Sustainability
Key levers			
	• Re-align portfolio based on growth potential and sustainable returns • Accelerate new launches • Explore inorganic opportunities	• Purpose-led organisation • Integrated organisation structure • Harmonise systems and processes • Consistent capability building	• Building a sustainable business for all the stakeholders • Making sustainability strategy an integral part of overall business strategy
Key enablers			
	• Agility in driving product launches with clearly defined guardrails • Clarity on role for core vs new businesses in the portfolio • Inorganic opportunities that pass through strict strategic and financial filters	• People skill building framework • Strong L&D initiatives • Employer of choice • Benchmarked salary with global FMCG firms • Open culture	• Sustainable sourcing • Climate change management • Water conservation • Circular economy/ Waste management • Community work

Source: Company Annual report

In-line with strategies the company has undertaken the below measures

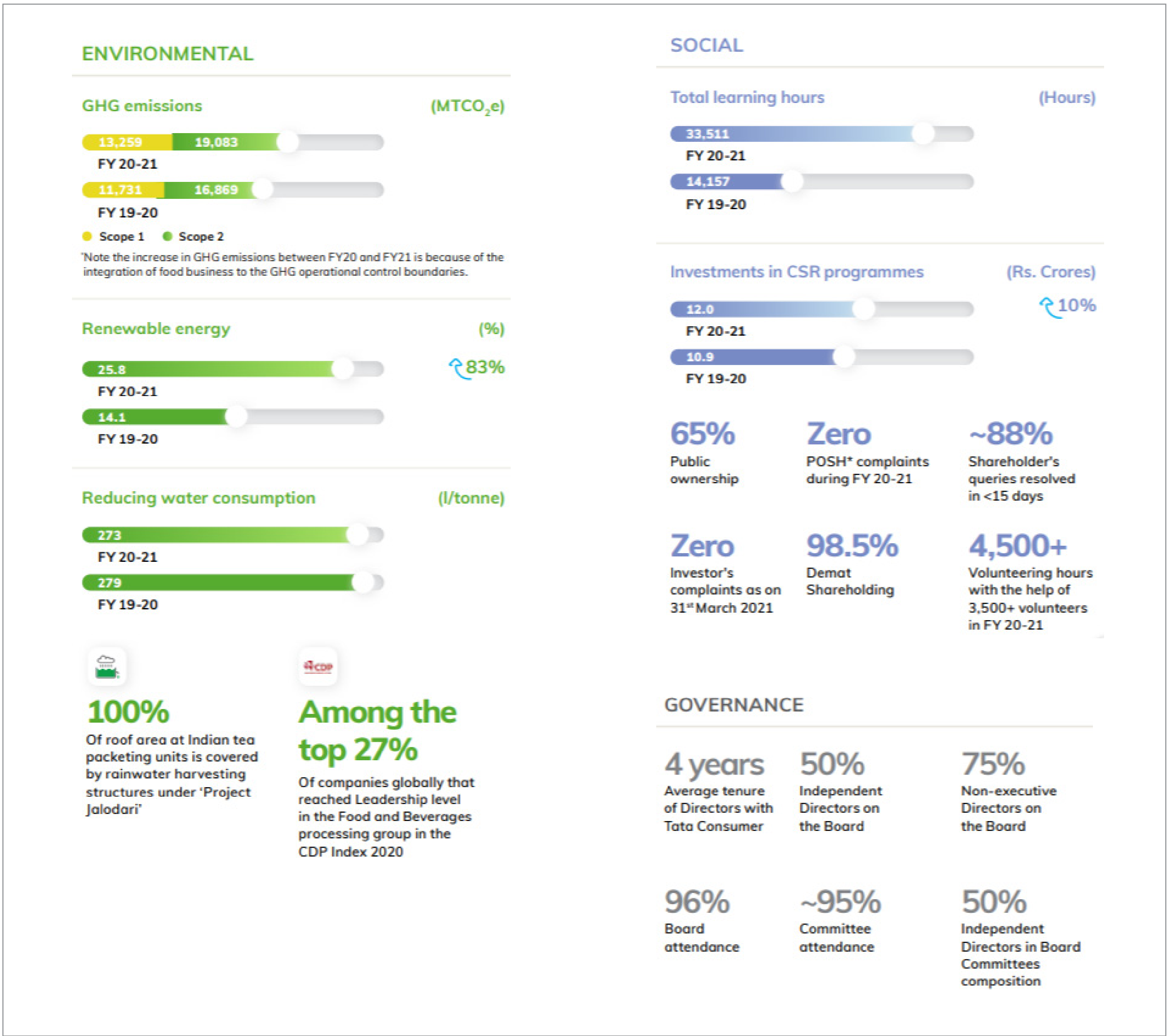
- **Explore new opportunities:** TCPL aims to generate sustainable growth through exploring inorganic prospects and by creating organic opportunities.
  - o **Exploring inorganic prospects:** TCPL achieved inorganic growth by acquiring PepsiCo's stake in NourishCo Beverages Limited in May 2020, which will enable the company to widen its portfolio in the food and beverages space and by acquiring Kottaram Agro Foods, owner of the brand Soulfull in February 2021, which now operates in the health and wellness focused food segment with a portfolio of millet-based products for kids and adults under the brand Tata Soulfull.

- **Exploring inorganic prospects:** TCPL further expanded its portfolio into the health and wellness space to cater to evolving consumer needs. During FY2020-21, Tata Sampann has accelerated its pace of innovation and launched various impactful campaigns to reinforce the brand promise of 'wholesome nutrition'. TCPL expanded its nutrimixes range by introducing multiple new products in the nutimixes category like Ragi Dosa Mix, Ragi Idli mix, Masala Daliya Khichadi mix, Khaman Dhokla mix, Haldi Doodh mix and High Fibre Thin Poha.

- **Create a future-ready organization:** During FY2020-21, TCPL underlined a four-pronged approach to build a future-ready organisation which entailed:
  - Forming an integrated organisation structure that paves the way for a multi-category presence.
  - Strengthening business capabilities through various initiatives such as shopper marketing, revenue growth management, etc.
  - Harmonization of systems and processes acrosss operating functions in F&B and transform key processes to make them future proof.
  - Becoming a purpose-led organisation where everyone works with a unified vision.

- **Embed Sustainability:** TCPL is working towards all-round sustainable performance and has instituted programmes and initiatives towards sustainable sourcing, natural resource management, climate leadership, circular economy and community development.
  - **For better sourcing:** TCPL is committed to build a secure supply chain ecosystem for its tea business. The company strives to implement best sourcing practices with the help of technology and stakeholder partnerships. TCPL aims to help improve the quality of life for all people involved in the coffee supply chain. Through partnerships with different coffee organisations, the company hopes to support the coffee farming community.
  - **For a better planet:** TCPL's flagship water management programme, Project Jalodari, is aimed at creating sustainable water sources, building and enhancing water capacities and strengthening sanitation in the communities where the company operates. The company is in the process of implementing recyclable packaging for Tata Salt and Tata Tea brands. The company's beverages production facilities globally are zero waste to landfill since 2019. During FY2021, TCPL achieved plastic neutrality through their extended producer responsibility) plan for the collection and disposal of 100% plastic packaging waste on a brand-neutral basis in India.
  - **For better communities:** Through the UNICEF-ETP programme 26,000 adolescent girls and 5,000 adolescent boys have been equipped with life skills through meetings and awareness drives. Tetley UK pledged £650,000 to UNICEF UK to implement an early childhood development programme.
  - **For better nutrition:** TCPL has launched a range of products under its portfolio that aid in better nutrition:
    - Tetley Super Teas are enriched with different vitamins and minerals, aiding health concerns like fatigue, digestion, among others. Tetley Green Tea Immune – India with added Vitamin C.
    - Tata Salt Plus is India's first iron fortified, iodised salt that provides up to 50% of recommended daily allowance of iron. Tata Salt Lite provides 15% lower sodium than regular salt and manages hypertension, without compromising on taste.
    - Tata Sampann Ragi Mixes brings the goodness of millets
    - Tata Soulfull Ragi Bites & No Maida Chocos comprises 7 super grains with a chocolate flavour for an easy, nutrient-rich breakfast.

Notable achievements on ESG front



Source: Company Annual report

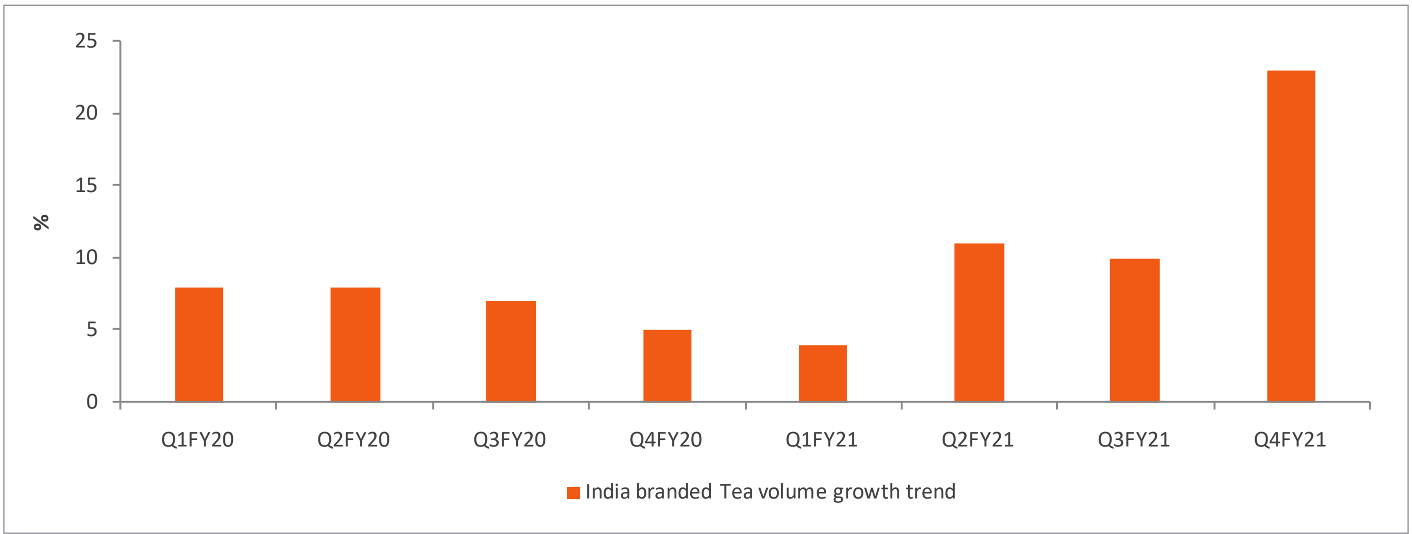
FY2021 – Double-digit revenue growth with broad-based growth across key categories

TCPL's consolidated revenues grew by 20.4% to Rs. 11,602.0 crore led by broad-based growth across key categories and key markets.

- India foods business grew by 18% y-o-y to Rs. 2441 crore. The volume growth stood at 11%. The strong growth in the foods business was largely driven by 17% growth in the salts business while the Tata Sampann portfolio grew by 26% during the year. Premium salt portfolio contribution improved to 3.5% in FY2021 from 1.8% in FY2020. Rock salt sales scaled up by 3x. The company gained market share of 180 bps in the salts category.
- India beverages business grew by 36% y-o-y to Rs. 4,601 crore. The volume growth stood at 12%. The growth beat the category growth of 8% during the year. The company registered 100 bps gain in the market share in the branded tea space on back of an increase in distribution (especially in the rural markets) and strong portfolio (straddling the pyramid). Branded coffee volumes grew by 19% y-o-y with revenue growth of 36% in FY2021.

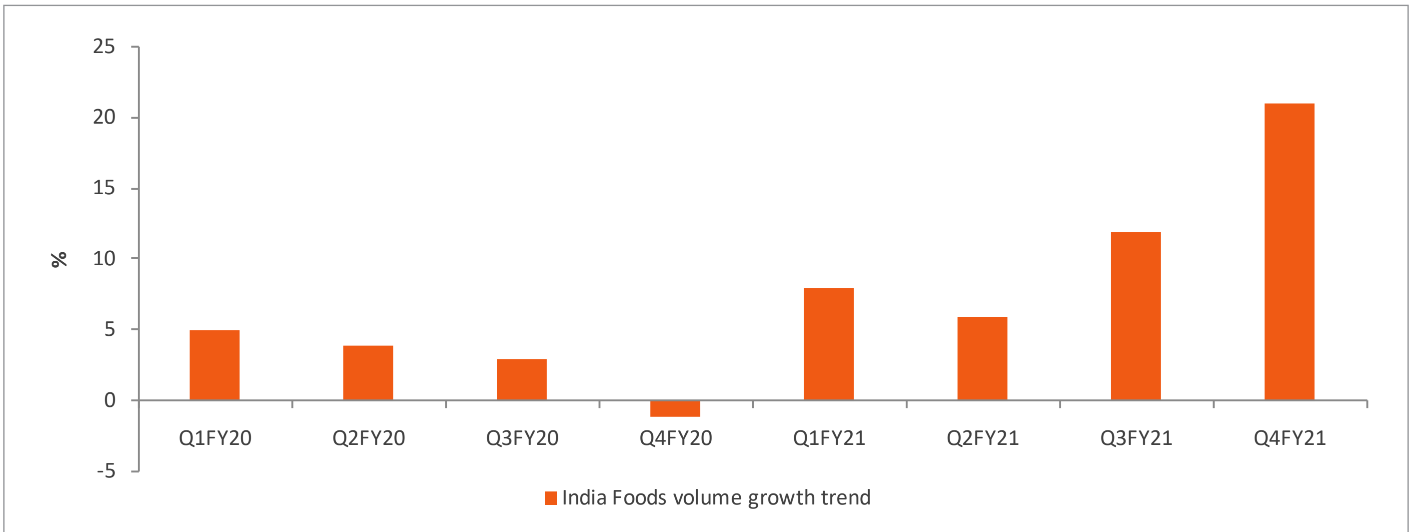
- The US coffee business grew by 15% y-o-y (constant currency sales growth of 9%) to Rs1293 crore. Volume growth stood at 7% with K-cups growth outpacing coffee bags. E-commerce portfolio grew in triple digits led by Eight O Clock (EOC) coffee, Good Earth & Tetley innovations. Tea segment's revenues grew by 16% in FY2021.
- Tata Coffee revenues (including Vietnam) grew by 15% to Rs. 964 crore. The volume growth stood at 9%. Extraction business grew by 12% led by Vietnam, which offset the decline in the domestic extraction business. Robust value growth in tea was driven by higher realisations while coffee plantations revenue grew on the back of a robust crop in FY21.
- NourishCo registered a revenue growth of 4% to Rs188 crore. The performance was impacted by COVID-led lockdown affecting performance of out-of-home categories. Tata Water Plus achieved the highest-ever volume during the year, growing 60% in volumes in FY21. Geographic expansion and capacity addition for bringing the business on track.
- International tea business revenues grew by 10% to Rs. 1983 crore in FY2021. UK business revenues grew by 2% (constant currency) with substantial growth in EBIT, partly benefitting from increased in-home consumption of tea due to the pandemic. Value market share in every black tea stood at 20%. The Canadian business' revenues grew by 15% driven by capitalising on increase in-home consumption of tea. Speciality tea registered a strong growth of 35% in FY2021.

India branded Tea volume growth doubled sequentially in Q4FY2021



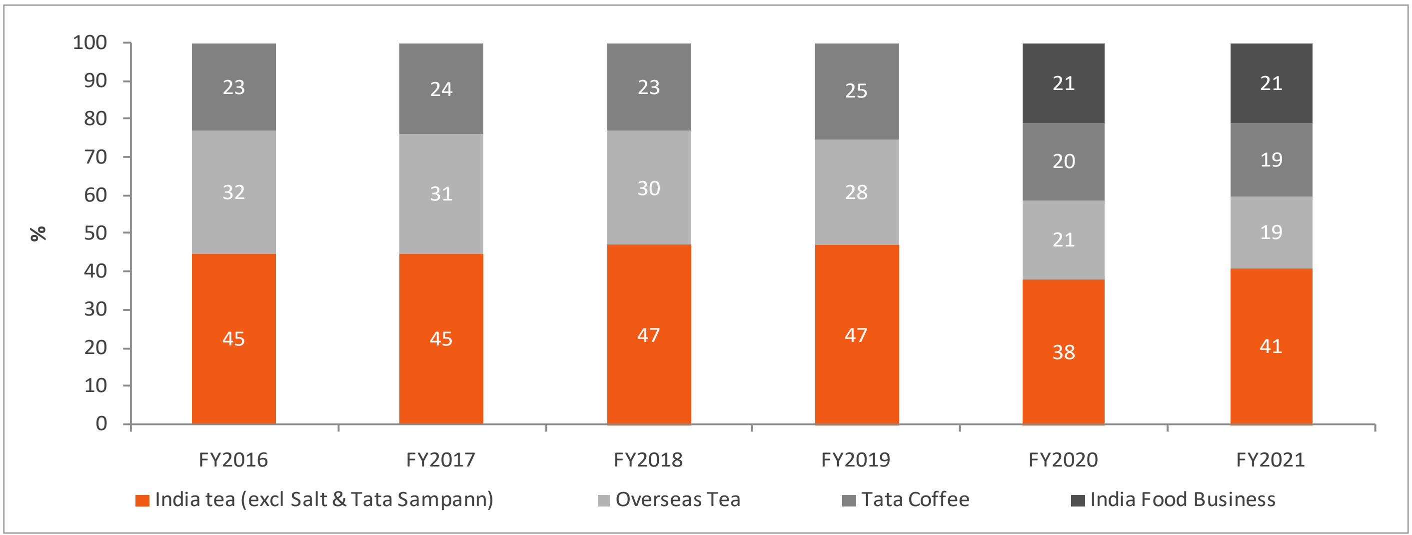
Source: Company, Sharekhan research

Food business saw sequential improvement since Q2FY2021



Source: Company, Sharekhan research

TCPL has a well diversified portfolio mix



Source: Company, Sharekhan research

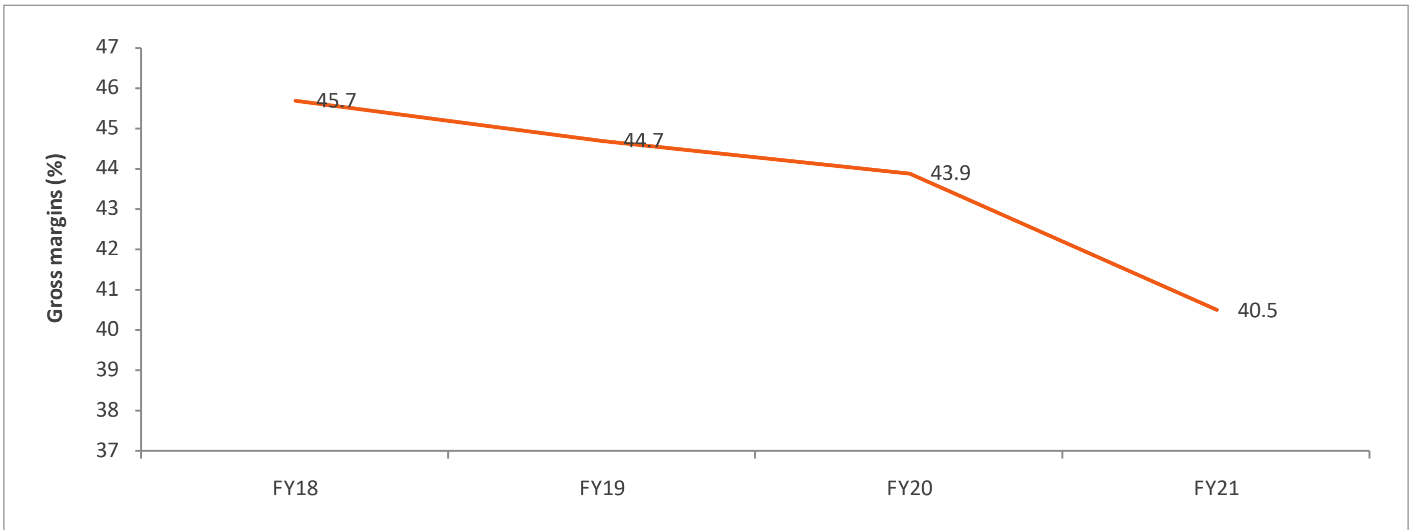
OPM stood flat at 13%; operating grew in-line with strong revenue growth

Consolidated OPM stood flat at 13.3% in FY2021 as against 13.4% in FY2020. The unprecedented increase in the raw tea prices led to a 340 bps decline in the gross margins to 40.5%. However lower advertisement spends (down by 70 bps) and operating efficiencies (other expenses down by 170 bps) result in OPM remaining flat on y-o-y basis. The operating profit grew by 19.5% y-o-y to Rs. 1,543.7 crore in-line with strong topline growth.

- India beverage business EBIT margins were down by 400 bps to 11% in FY2021 vs. 15% in FY2020 mainly on account of a sharp increase in the raw material prices (largely in the second half of the year).
- India foods business EBIT expanded by 288 bps and EBIT grew by 45% y-o-y.
- Tata Coffee (including Vietnam) EBIT grew by 69% in FY2021. EBIT growth in FY21 was driven by higher realization in plantations and cost optimization across the business.

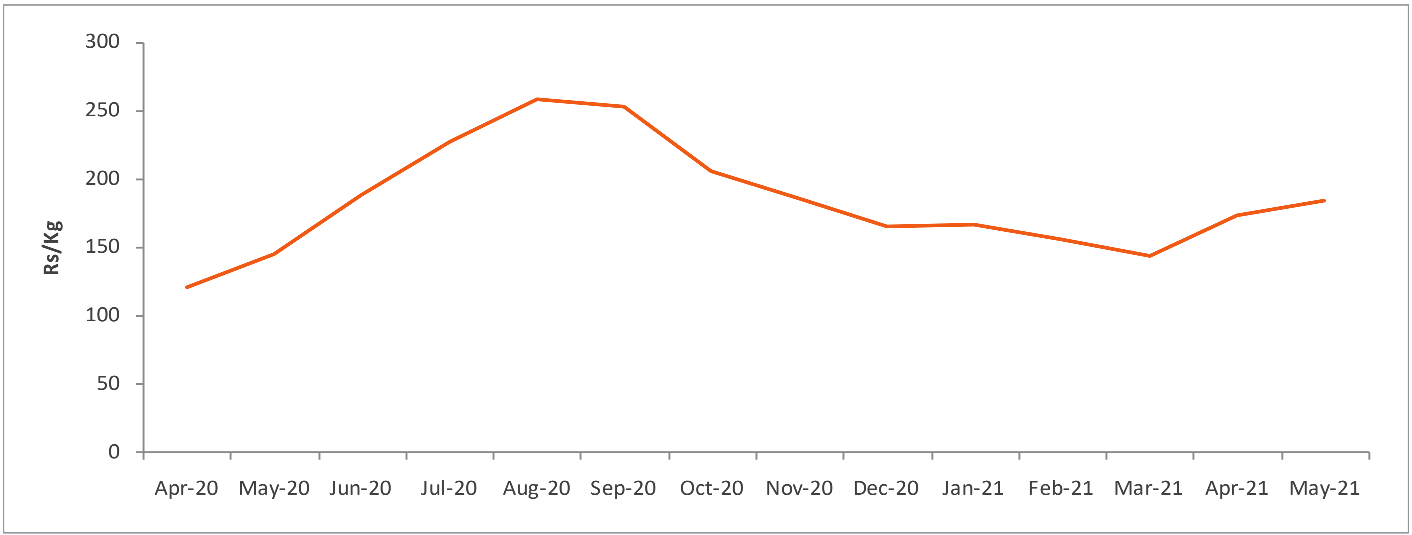
Domestic raw tea prices have corrected by ~30% from its high in August-September and currently trading at Rs. 180 per kg. However, the same are 18% higher y-o-y. The company has taken an over 205 price increase in its tea portfolio and would look at the momentum in domestic tea prices in the coming months. The management in Q4FY2021 conference call indicated of softening of raw tea prices in FY2022. However if prices don't correct it will opt for judicious price increase to safeguard the margins.

Decline in gross margin due to spike in raw tea price



Source: Company, Sharekhan research

Raw tea price higher by 18% YoY



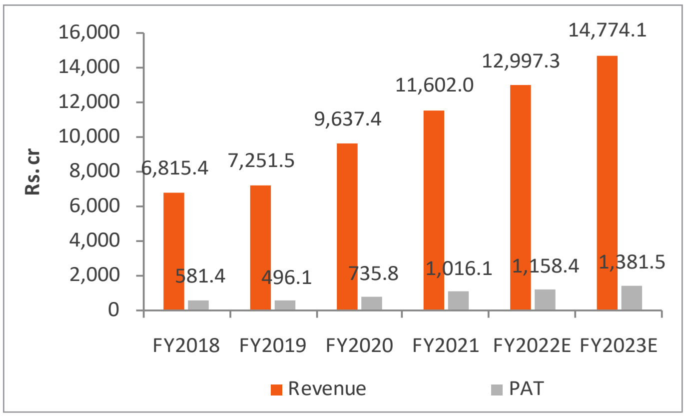
Source: Company, Sharekhan research

Working capital days reduces; Cash flows improves substantially

- Working capital cycle reduced by 20 days in FY2021 (reduced by ~40 days in last two years). This was mainly on account of 11 days reduction in the debtor days. Working capital for the India beverage business stood at 48 days for FY2021 down from 78 days (DSO) in FY2021, despite extraordinarily high inventory led by raw tea inflation. India foods business working capital stood negative during the year.
- 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.
- Net cash flows from operating activities improved substantially to Rs1656.4 crore (OCF to EBIDTA stood at 107%) from Rs. 1,082.2 crore in FY2020 (OCF to EBIDTA of 70%).
- The cumulative free cash flow (FCF) over FY2017-21 stood at Rs. 2,762 crore. FCF/EBIDTA improved to 80% in FY2021 as against average of 53% achieved in last 3-4 years.
- The company has strong liquidity positioning of more than Rs. 3,000 crore which can be utilised for the future organic and inorganic growth initiatives. The debt/equity ratio stands lower at 0.1x.

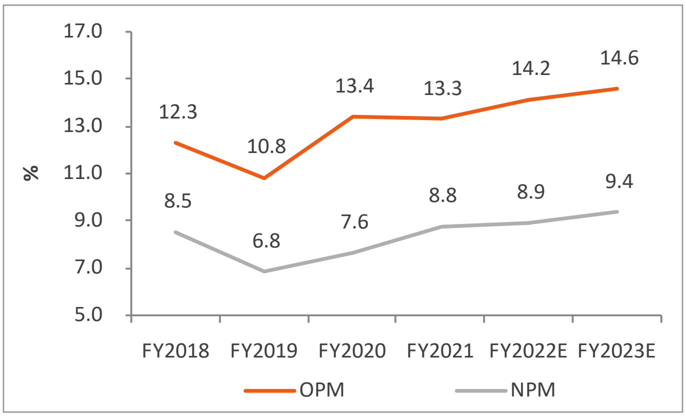
Financials in charts

Revenue and profit expected to grow at CAGR of 12.8% & 16.6% respectively



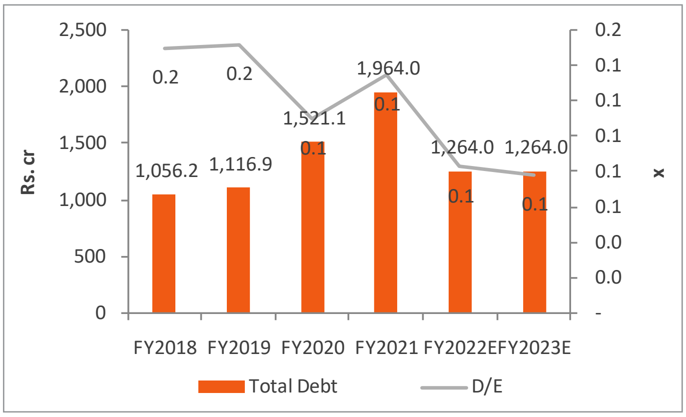
Source: Company, Sharekhan Research

Margins to improve from current levels



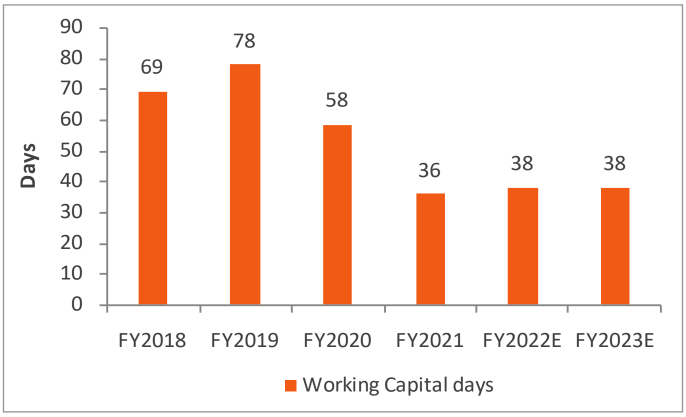
Source: Company, Sharekhan Research

Debt reduction to improve balance sheet position



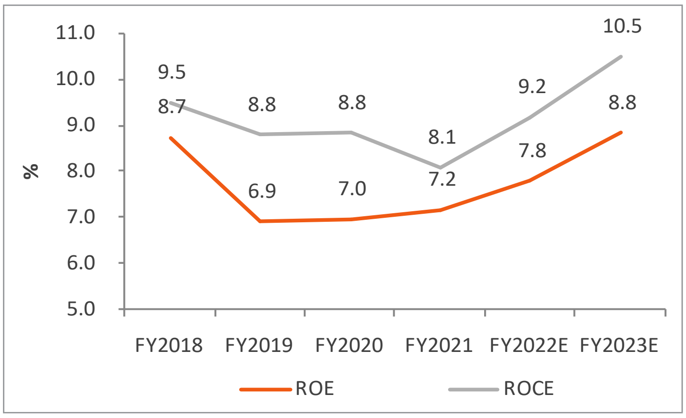
Source: Company, Sharekhan Research

Working capital days to remain at current level



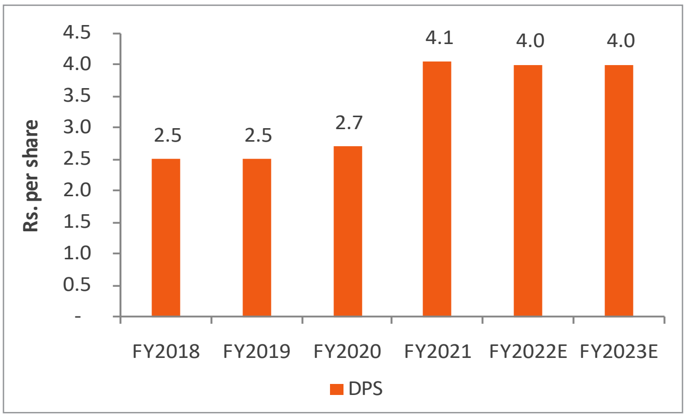
Source: Company, Sharekhan Research

Return ratios expected to improve significantly



Source: Company, Sharekhan Research

History of paying dividend consistantly



Source: Company, Sharekhan Research

Outlook and Valuation

■ Sector view - Long-term growth prospects intact

We believe that a 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.

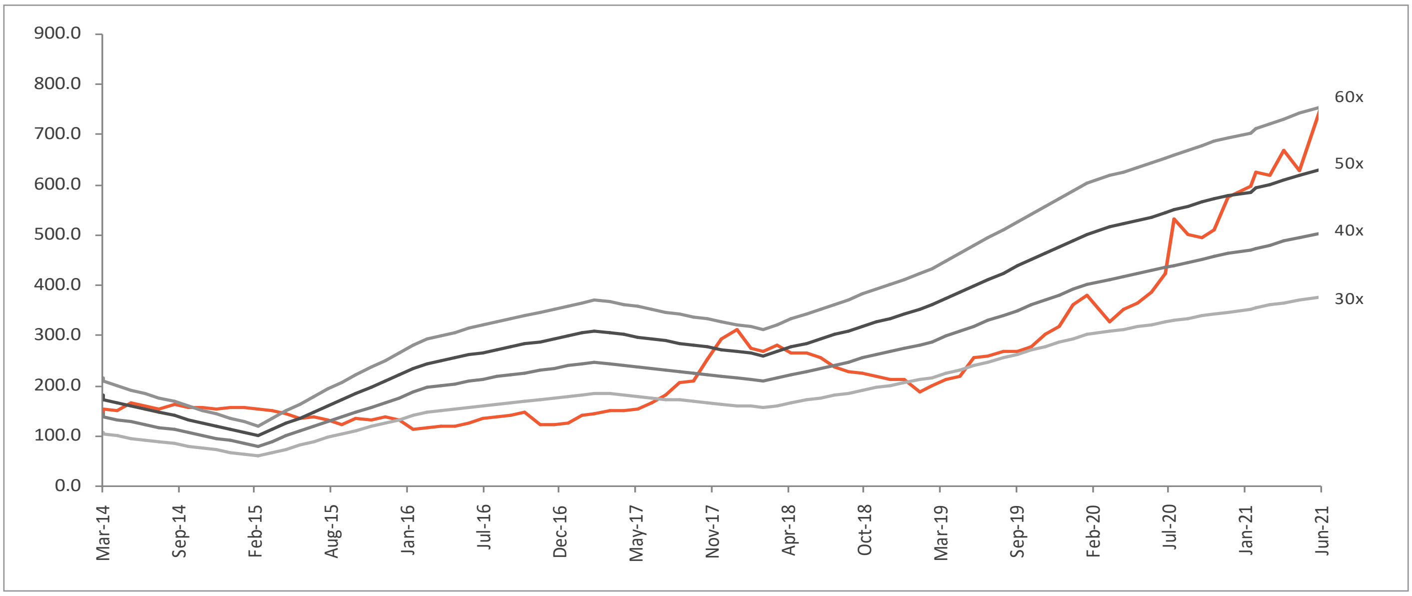
■ Company outlook - growth momentum to sustain

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). 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 improve in the coming years.

■ Valuation - retain Buy with a revised price target of Rs. 875

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 growth catalysts in the near term, besides acquisitions. With consistent double-digit revenue growth, steady rise in margin and stable working capital management, TCPL expects return ratios to consistently improve in the coming years. The stock is currently trading at 53x its FY2023E earnings. We maintain a Buy recommendation on the stock with a revised price target of Rs. 875.

One-year forward P/E band



Source: Sharekhan Research

Peer Comparison

Companies	P/E (x)			EV/EBIDTA (x)			RoCE (%)		
	FY21	FY22E	FY23E	FY21	FY22E	FY23E	FY21	FY22E	FY23E
Hindustan Unilever	71.6	58.5	49.9	51.0	42.4	36.3	36.5	27.3	31.5
Nestle India	80.6	66.8	56.8	51.9	45.3	39.3	136.4	139.7	142.5
Tata Consumer Products	73.5	63.2	52.6	44.1	37.1	31.4	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 the 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 Tata Global Beverages, 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 2-3 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)

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Understanding the Sharekhan 3R Matrix

Right Sector	
Positive	Strong industry fundamentals (favorable demand-supply scenario, consistent industry growth), increasing investments, higher entry barrier, and favorable government policies
Neutral	Stagnancy in the industry growth due to macro factors and lower incremental investments by Government/private companies
Negative	Unable to recover from low in the stable economic environment, adverse government policies affecting the business fundamentals and global challenges (currency headwinds and unfavorable policies implemented by global industrial institutions) and any significant increase in commodity prices affecting profitability.
Right Quality	
Positive	Sector leader, Strong management bandwidth, Strong financial track-record, Healthy Balance sheet/cash flows, differentiated product/service portfolio and Good corporate governance.
Neutral	Macro slowdown affecting near term growth profile, Untoward events such as natural calamities resulting in near term uncertainty, Company specific events such as factory shutdown, lack of positive triggers/events in near term, raw material price movement turning unfavourable
Negative	Weakening growth trend led by led by external/internal factors, reshuffling of key management personal, questionable corporate governance, high commodity prices/weak realisation environment resulting in margin pressure and detoriating balance sheet
Right Valuation	
Positive	Strong earnings growth expectation and improving return ratios but valuations are trading at discount to industry leaders/historical average multiples, Expansion in valuation multiple due to expected outperformance amongst its peers and Industry up-cycle with conducive business environment.
Neutral	Trading at par to historical valuations and having limited scope of expansion in valuation multiples.
Negative	Trading at premium valuations but earnings outlook are weak; Emergence of roadblocks such as corporate governance issue, adverse government policies and bleak global macro environment etc warranting for lower than historical valuation multiple.

Source: Sharekhan Research

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