Sharekhan by BNP PARIBAS

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Stock Update

Tata Consumer Products Ltd

Progressing well on strategic priorities

Consumer Goods	Sharekhan code: TATACONSUM	Company Update

3R MATRIX

	+	=	-
Right Sector (RS)	✓		
Right Quality (RQ)	✓		
Right Valuation (RV)		✓	

\+ Positive = Neutral - Negative

What has changed in 3R MATRIX

	Old		New
RS		↔	
RQ		↔	
RV		↔	

Reco/View	Change
Reco: **Buy**	↔
CMP: **Rs. 865**	
Price Target: **Rs. 960**	↑

↑ Upgrade ↔ Maintain ↓ Downgrade

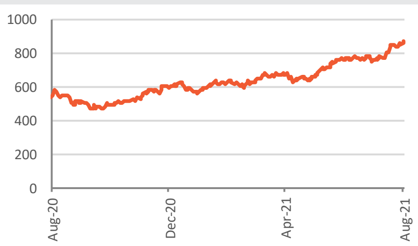
Company details

Market cap:	Rs. 79,622 cr
52-week high/low:	Rs. 869 / 459
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	13.7	30.2	38.6	57.5
Relative to Sensex	5.0	19.4	23.2	8.5

Sharekhan Research, Bloomberg

Summary

- We maintain Buy on Tata Consumer Products Limited (TCPL) with a revised PT of Rs. 960. With strong growth prospects and sturdy cash flows (FCF/EBIDTA of 100%), TCPL is one of our top picks in the FMCG space.
- TCPL is progressing well on strategic priorities of increasing the direct coverage (targets 1mn outlets by Sept, 21), adding innovation on various platforms/markets (targets 3.5% of sales in FY22), and embed digitalisation across the value chain.
- Domestic raw tea prices are stabilising and declined by ~35% from their high in August-September 2020. Stable raw-material prices, price hikes in the beverages portfolio, and synergistic benefits from acquired companies would help in better margins from Q3.
- Steady volume growth in the foods and beverages business and margin expansion would enable TCPL to report revenue and PAT CAGR of 13% and 19%, respectively, over FY2021-FY2024.

Tata Consumer Products Limited (TCPL) is progressing well on its strategic priorities to achieve sustainable volume-led revenue growth and profitable growth in the medium term. The company is leveraging on drivers such as product innovation, premiumisation, distribution expansion, and direct-to-consumer to gain market share in key categories (including branded tea and salt). TCPL's innovation to sales stood at 1.7% of sales in FY2021, which is expected to go up to 3-3.5% in FY2022. The company launched 14 products in FY2021 and targets to launch 50 new products in FY2022. The company's presence has expanded to 0.82 million outlets, rural feet on street grew by 3x, and contribution from e-commerce has gone upto ~7.5%. Direct distribution reach is expected to reach 1 million outlets by September 2021 and will continue to increase in the coming quarters. TCPL targets to achieve high single-digit volume growth in the domestic branded tea business and double-digit volume growth in the foods business in the medium term. Out-of-home businesses such as NourishCo and Tata Starbucks registered much better performance than the first wave in Q1FY2022. Tata Starbucks sales have improved to 83% in June, from a dip of 36% in May, while NourishCo reported revenue of Rs. 87 crore (two-year CAGR of 12%). Raw tea prices have corrected by 35% from their high and are expected to stabilise in the coming quarters. With price hikes in the base year, the company expects gross margin to improve on a y-o-y basis in H2FY2022. Supply disruption in Vietnam due to the lockdown and lower production in Brazil will lead to short-term demand supply miss-match in global markets, resulting in surge in international coffee prices. Increased international coffee prices is positive for Tata Coffee's standalone business as it will help in reporting better realisation, while US coffee business will see limited impact due to raw-material cover till fiscal end. The company will accrue synergistic benefits of Rs. 100 crore-150 crore of integration of the foods business in FY2022-FY2023. Digitalisation across the value chain, supply efficiencies, and integration of the consumer business would help working capital to further reduce in the coming days.

Our Call

View: Retain Buy with a revised PT of Rs. 960: With strategies in place, TCPL is well poised to achieve double-digit revenue and PAT CAGR of 13% and 19%, respectively, over FY2021-FY2024. Further, the company is focusing on simplifying its international business by exiting non-core geographies and scaling up its new portfolio of key markets (including UK and Canada). With consistent double-digit revenue growth, steady margin improvement, and stable working capital management, TCPL expects return ratios to consistently improve in the coming years. We maintain our Buy recommendation on TCPL with a revised PT of Rs. 960. The stock is currently trading at 59x its FY2023E and 50x its FY2024E earnings. With strong growth prospects and sturdy cash flows (FCF/EBIDTA of 100%), we maintain TCPL as one of the top picks in the FMCG space.

Key Risks

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

Valuation (Consolidated) Rs cr

Particulars	FY21*	FY22E*	FY23E*	FY24E*
Revenue	11,602	13,143	14,947	16,810
OPM (%)	13.3	13.8	14.6	15.3
PAT	953	1,090	1,350	1,587
% Y-o-Y growth	*44.2*	*14.4*	*23.8*	*17.5*
EPS (Rs.)	10.3	11.8	14.6	17.2
P/E (x)	83.3	72.8	58.8	50.0
P/B (x)	5.5	5.2	4.9	4.6
EV/EBIDTA (x)	50.1	42.8	35.3	29.8
RoNW (%)	7.2	7.7	9.0	9.8
RoCE (%)	8.1	9.0	10.6	11.7

Source: Company; Sharekhan estimate
** Estimates include consolidation of Tata Chemical's consumer division*

Innovation remains the key growth pillar: TCPL's innovation to sales stood at 1.7% of sales in FY2021, which is expected to go up to 3-3.5% in FY2022. The company launched 14 products in FY2021 and targets to launch 50 new products in FY2022. The company will launch new products across its portfolio, including beverages, packaged beverages, and ready-to-eat products. The broad majority of these products will be launched in the general market. It will segment the products by channel and the market.

- **Premiumisation in the domestic portfolio:** The company has launched premium products with a holistic approach of ensuring consumer preference and wellness. The company focused on gaining continuous market share in key domestic categories such as tea and salt in the medium to long run. Further, premiumisation would help in inching up category margins in the long run. In recent times, the company launched premium products such as Tata Tea Tulsi Green, Gold Natural Care as well as Tetley Immune - Green Tea that comes with added vitamin C. The company 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, a rich-in-iron alternative, was also included in the portfolio. Value growth in the premium salt segment was 34% in Q1FY2022.

Driving premiumisation in key categories

Source: Company; Sharekhan Research

- **Focusing on gaining market share in the domestic coffee category:** Coffee has been given enhanced focus by the company, considering its rise as a stable growth engine in TCPL's portfolio. Coffee is gaining acceptance among consumers across different parts of the globe. With the expertise of Tata Coffee, TCPL can build brands to reach different parts of the country effectively. The bulk of the market today is instant coffee and Tata Coffee Grand will play a major role in that space. The brand is not restricted to the southern market, which is a big coffee market in India. TCPL started marketing the brand in South India and ideally would focus on scaling it in other parts of India due to its direct distribution expansion strategy. The company is targeting to achieve high single-digit to low double-digit market share in India in a short span.

Cross pollination to drive long term growth

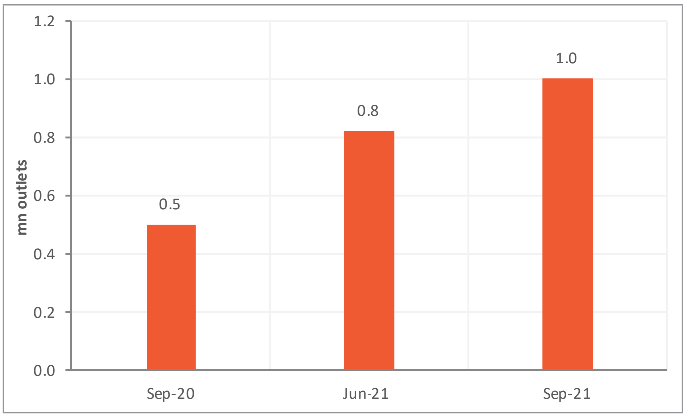
Himalayan - UK	Teapigs Kombucha UK	Teapigs Cold Brew UK	Good Energy - UK	Good Earth - Australia
				
Himalayan Natural Water – Launch of our premium mineral water in the UK.	Launch of 3 variants of Teapigs kombucha in cans	Launch of 6 variants of Teapigs cold brew in the UK. These all-natural infusions have been specially made to brew easily in cold water	Organic Natural Energy Drink with natural caffeine from Guayusa leaf. 2 variants launched in UK - Blood Orange and Tangerine, and Raspberry and Blueberry	Good Earth launched in Australia in 4 flavors – Hibiscus, Rose & Sweet Berries, Tropical Mangos, Rooibos Chai and Ginger, Turmeric & Lemon.

Source: Company; Sharekhan Research

Targets direct distribution to reach to 1 million outlets by September 2021:

The company has made consistent progress in expanding its sales and distribution reach. TCPL now has a direct reach of 0.82 million outlets, up from 0.50 million in September 2020, and is on track for a direct reach of 1 million outlets by September 2021. Sales and distribution redesign have been completed, a pan-India harmonised distribution system is now in place, and rural reach has been strengthened with 3,000+ rural distributors on board. The company aims to increase its presence in larger states by expanding its distribution network in these states. E-commerce recorded significant growth of 153% y-o-y and contributed 7.3% to domestic sales. The institutional channel witnessed 144% y-o-y growth.

Direct distribution to reach 1mn outlets



Source: Company, Sharekhan Research

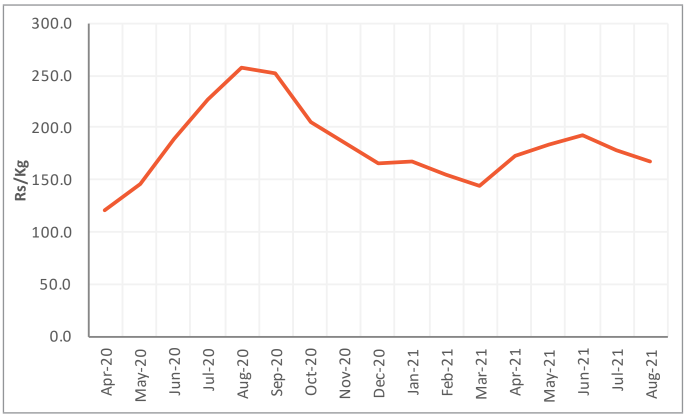
Driving digital transformation across the value chain:

TCPL is driving digital transformation across the value chain and defining a clear roadmap to simplify and synergise process. The company has undertaken end-to-end digitalisation of its channel partners and field force and bolstered its capabilities in e-commerce. 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 of the other features that the company is leveraging include route optimisations, sales analytics, and incentive system for partners.

Domestic raw tea prices corrected by 35% from their high; better margin picture from Q3FY2022:

Domestic raw tea prices have corrected by 35% to Rs. 168 per kg from their high of Rs. 252-258 per kg in August-September 2020. However, prices are expected to stay elevated when compared to FY2019 levels. Coffee prices are trending upwards mainly due to draught-like situations in Brazil. To mitigate the impact of high tea/coffee prices, the company has undertaken price hike during the quarter. The positive impact of reduction in the raw tea prices would start flowing in from Q3FY2022. The company expects margins to go back to FY2020 level in the next 2-3 quarters with a further decline in tea prices.

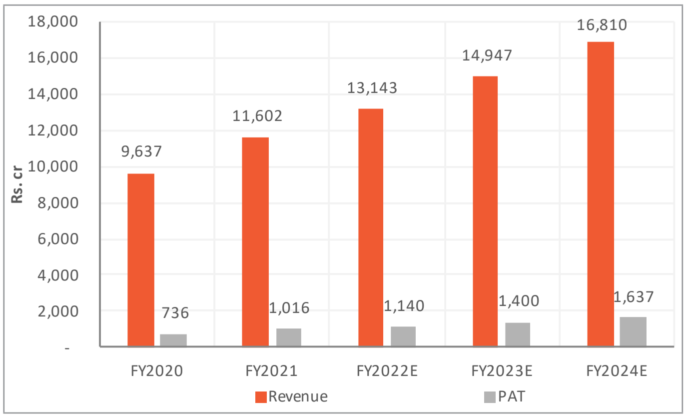
Raw tea price corrected from its high



Source: Tea board of India

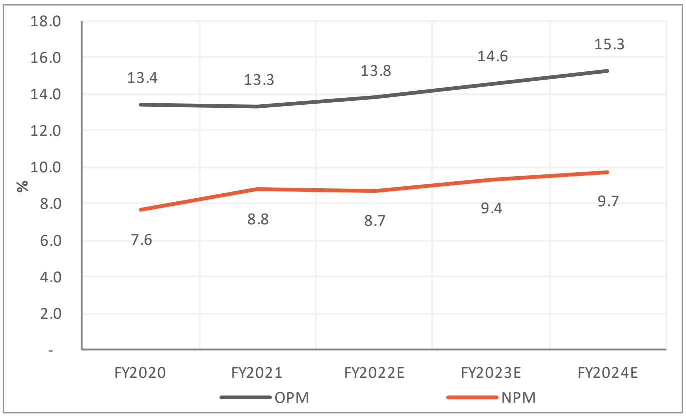
Financials in charts

Steady growth in revenue and profit



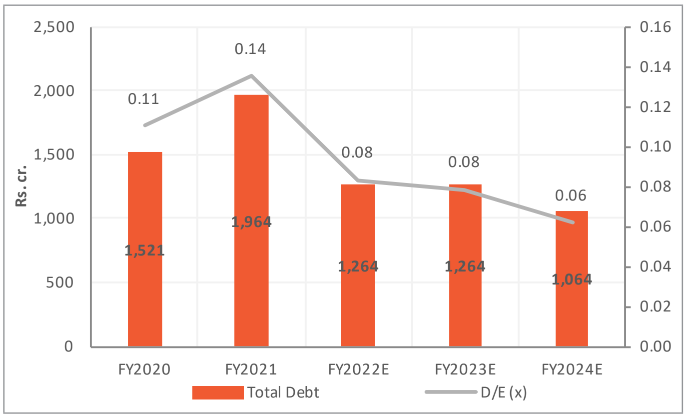
Source: Company, Sharekhan Research

Margins to improve from current levels



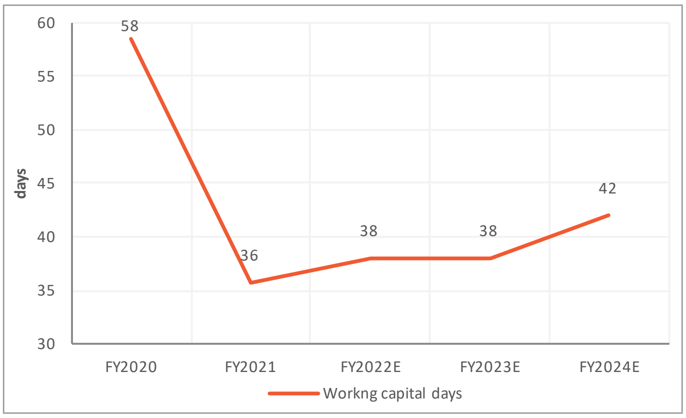
Source: Company, Sharekhan Research

Debt reduction to improve balance sheet position



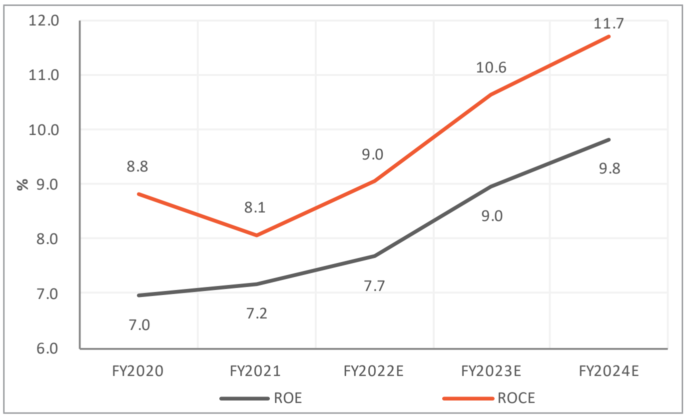
Source: Company, Sharekhan Research

Trend in working capital days



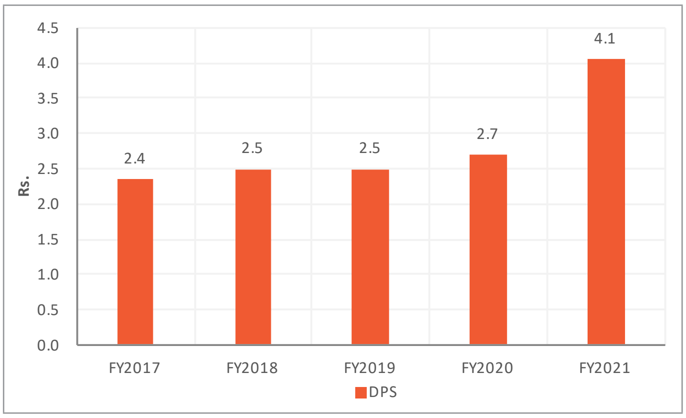
Source: Company, Sharekhan Research

Return ratios expected to improve significantly



Source: Company, Sharekhan Research

Consistent dividend payout



Source: Company, Sharekhan Research

Outlook and Valuation

■ Sector outlook – Demand remains resilient in Q1; Raw material headwinds easing

After the second wave disruption in April-May 2021, companies witnessed faster recovery in performance in June-July 2021. The recovery was broad based across categories with discretionary categories such as personal care, hair oil, and shampoos witnessing good demand in the domestic market. Rural market is gaining momentum and, with the monsoon expected to be normal, rural growth is expected to be stronger than urban growth in the quarters ahead. Further, with corporates opening up with full capacity and improving mobility, demand for out-of-home categories such as colour cosmetics, beverages and juices, deodorants and hair colour etc. is expected to improve. Thus, we expect consumer goods companies to post better sales volume in the quarters ahead. Raw-material inflation had a substantial impact on gross margins in Q1FY2022. Prices of some of the key inputs (including palm oil, copra, and raw tea) have witnessed correction from their high and are likely to correct further in the coming months. Correction in input prices and calibrated price hikes would help companies to post better operating margins in H2FY2022. Improving revenue mix and better operational efficiencies remain key margin drivers in the medium term.

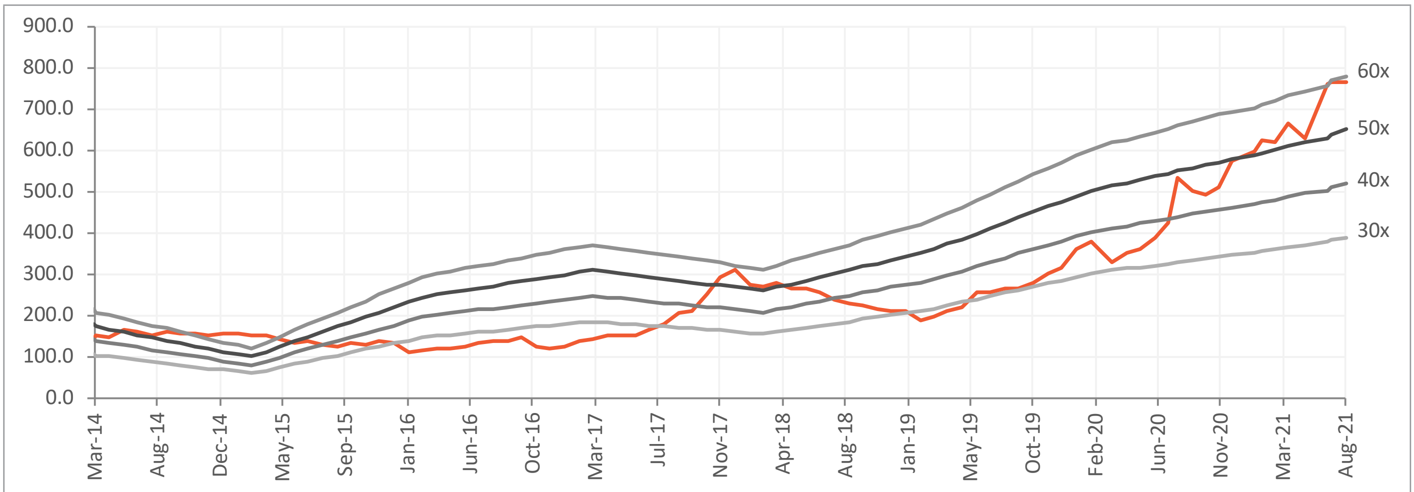
■ Company outlook – Correcting tea prices augur well for margins

With scale up in businesses such as Tata Sampann and NourishCo, sustained market share gains in tea and salt, new launches in key categories, distribution expansion in the domestic market, and recovery in the international business, the company is expecting strong double-digit revenue growth in the coming quarters. Raw tea prices have corrected by 35% from their high and are expected to stabilise in the coming quarters. With price hikes in the base year, the company expects gross margins to improve on a y-o-y basis in H2FY2022. Surge in international coffee prices is positive for Tata Coffee standalone business, while US Coffee business will see limited impact due to raw material cover till fiscal end. The company will accrue synergistic benefits of Rs. 100 crore-150 crore of integration of the foods business in FY2022-FY2023.

■ Valuation – Retain Buy with revised PT of Rs. 960

With strategies in place, TCPL is well poised to achieve double-digit revenue and PAT growth of 13% and 19%, respectively, over FY2021-FY2024. Further, the company is focusing on simplifying its international business by exiting non-core geographies and scaling up its new portfolio of key markets (including UK and Canada). With consistent double-digit revenue growth, steady margin improvement, and stable working capital management, TCPL expects return ratios to consistently improve in the coming years. We maintain our Buy recommendation on TCPL with a revised PT of Rs. 960. The stock is currently trading at 59x its FY2023E and 50x its FY2024E earnings. With strong growth prospects and sturdy cash flows (FCF/EBIDTA of 100%), we maintain TCPL as one of the top picks in the FMCG space.

One-year forward P/E (x) band



Source: Sharekhan Research

Peer Comparison

Particulars	P/E (x)			EV/EBIDTA (x)			RoCE (%)		
	FY21	FY22E	FY23E	FY21	FY22E	FY23E	FY21	FY22E	FY23E
Hindustan Unilever	71.6	58.7	50.1	51.0	42.5	36.4	36.5	27.2	31.4
Nestle India	90.1	74.7	64.0	58.1	50.4	43.4	136.4	139.7	141.9
Tata Consumer Products	83.7	73.1	59.1	50.4	43.0	35.5	8.1	9.0	10.6

Source: Company, Sharekhan estimates

About company

TCPL is the world's second-largest branded tea player in the world with a strong brand portfolio such as *Tata Tea, Tetley, Eight O' Clock Coffee, and Himalayan* (mineral water brand). Recently, the company has announced the merger of TCL's consumer business with TCPL to expand its India business, the contribution of which will increase to ~61% from 48% currently. TCPL has a very vast presence in international geographies such as UK, US, Canada, South Asia, and Africa through various subsidiaries. NourishCo markets and distributes branded non-carbonate beverage products such as *Tata Gluco Plus (TGP), Tata Water Plus, and Himalayan*. TCPL has a 50:50 joint venture with Starbucks Corporation named Tata Starbucks Private Limited, which is performing well.

Investment theme

After the integration of TCL's consumer business with TGBL, India business is expected to become a key revenue driver for the company. Rising per capita income, increasing brand awareness, increased in-house consumption, and consumption through modern channels such as large retail stores/e-commerce would act as key revenue drivers for branded pulses and spices businesses in India in addition to the consistently growing tea business. Along with margin expansion, innovation and diversification, the merger will help TCPL to expand its distribution network. An enhanced product portfolio and expanded distribution reach would help India business revenue to grow in double digits in the next two-three years as against a 5% CAGR over FY2016-FY2020.

Key Risks

Sustained slowdown in domestic consumption; heightened competition from new players; and spike in 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 Website

Top 10 shareholders

Sr. No.	Holder Name	Holding (%)
1	First State Investments ICVC	6.3
2	Life Insurance Corp of India	2.1
3	Reliance Capital Trustee Co Ltd	2.0
4	Mirae Asset Global Investments Co	1.7
5	Government Pension Fund - Global	1.5
6	HDFC Asset Management Co Ltd	1.4
7	Sundaram Asset Management Co Ltd	1.3
8	Franklin Resources Inc	1.2
9	Dimensional Fund Advisors LP	1.2
10	Norges Bank	1.1

Source: Bloomberg (Old data)

Understanding the Sharekhan 3R Matrix

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

Source: Sharekhan Research

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