Sharekhan by BNP PARIBAS

Powered by the Sharekhan 3R Research Philosophy

Stock Update

Result Update

Tata Consumer Products Ltd

Margins soar; drive up profitability

Consumer Goods	Sharekhan code: TATACONSUM	
Reco/View: Buy ↔	CMP: Rs. 776	Price Target: Rs. 960 ↔

↑ Upgrade ↔ Maintain ↓ Downgrade

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		↔	

ESG Disclosure Score NEW

ESG RISK RATING 30.27

Updated Feb 08, 2022

High Risk

NEGL	LOW	MED	HIGH	SEVERE
0-10	10-20	20-30	30-40	40+

Source: Morningstar

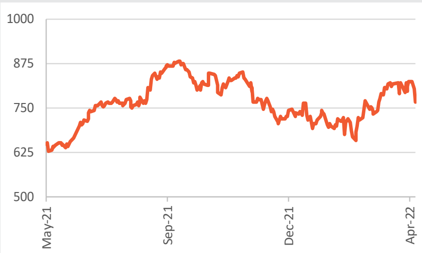
Company details

Market cap:	Rs. 71,517 cr
52-week high/low:	Rs. 889 / 614
NSE volume: (No of shares)	21.2 lakh
BSE code:	500800
NSE code:	TATACONSUM
Free float: (No of shares)	60.2 cr

Shareholding (%)

Promoters	34.7
FII	26.5
DII	13.7
Others	25.1

Price chart



Price performance

(%)	1m	3m	6m	12m
Absolute	-5.0	4.4	-7.4	18.0
Relative to Sensex	2.4	9.4	-0.1	3.6

Sharekhan Research, Bloomberg

Summary

- Q4FY2022 performance was ahead of our expectation with mid-single digit revenue growth; OPM expanded 411 bps y-o-y to 14%, resulting in PAT doubling to Rs. 252.9 crore.
- Steady volume growth in core businesses of foods and branded tea and sustained gains in market share along with TCPL's strategic priorities of increasing direct coverage, scale-up in new acquired businesses, and innovation would help drive up revenue growth in the medium term.
- Benefits of a correction in raw tea prices would sustain going ahead. Further proposed reorganisation of India and International business is on track. It will lead to 5-10% PAT accretion in the next 12-18 months.
- The stock trades at 56.2x and 46.1x its FY2023E and FY2024E earnings, respectively. We maintain Buy with an unchanged PT of Rs. 960.

Tata Consumer Products Limited's (TCPL's) Q4FY2022 performance was boosted by a strong rise in margins, led by a correction in input prices (raw tea). Consolidated revenue grew by ~5% to Rs. 3,175.4 crore. India beverage business' revenues stood flat (3% volume growth) due to price cuts in the tea portfolio to pass on the benefits of correction in the raw tea prices. The foods business registered 19% growth (sales volume stood flat), driven by a 30% rise in volumes of Tata Sampann brand. Salt revenues grew by 15% y-o-y. Domestic raw tea prices were down by 10% y-o-y and 18% q-o-q, which resulted in a 539 bps y-o-y improvement in gross margins to 44.6% and a 411 bps improvement in OPM to 14%. During the quarter, TCPL board proposed reorganisation of its India and overseas business to simplify, align and synergise the business, which will lead to PAT accretion of 5-10% in the next 12-18 months.

Key positives

- Food business is performing well with Tata Sampann sales volume growing by 30% y-o-y; Salt category's market share expanded by 400 bps
- Correction in raw tea prices led to 539 bps and 411 bps y-o-y improvement in the gross margins and OPM, respectively.
- Out-of-home businesses performed exceptionally well with revenues of Tata Starbucks and NourishCo growing by 32% and 51% y-o-y.
- Revenues of US Coffee business grew by 11% driven by strong performance of K-Cups.

Key negatives

- High base of corresponding quarter in the last year and price reductions resulted in muted flat value sales in India beverages.
- EBIT margins of the India food business decreased due to higher commodity prices.

Management Commentary

- India beverage business' volumes to continue growing in the mid-singles. With raw tea prices correcting the EBIDTA margins of the business are expected to normalise in the coming quarters. The company will continue to gain market share on back of distribution expansion (targeting reach of 4 million outlets by FY2024) and strong product portfolio.
- India Foods business is expected to grow in double digits with the Tata Sampann brand expected sustain growth ahead of the business growth. Though margins are expected to remain under pressure in the near term, the medium term aspiration is to see consistent improvement in the margins through scale-up and better mix with innovations.
- Out-of-home businesses such as NourishCo and Tata Starbucks saw a good recovery post second COVID-19 wave and registered strong performance for past two quarters. Management is confident of strong growth in the business with strong traction for NourishCo products during the summers while improved footfalls and store addition would drive growth for Tata Starbucks in FY2023.
- Besides a softness in tea prices, the company is banking on cost efficiencies and synergistic benefits derived from integration of some of the recent acquisition and simplifying of India business structure to post better margins in the backdrop stable raw material environment.
- The company cash kitty of ~Rs. 2,500 crore on its books. It will invest the same in organic and inorganic initiatives, which will add-on to the earnings in the medium to long run. The endeavour is to improve the return profile in the long run.

Change in estimates – We broadly maintain our earnings estimates for FY2023 and FY2024 as results were largely in-line with expectation. We shall keenly monitor movement in the domestic tea prices/international coffee prices and domestic market demand to make any in revision in the estimates in the quarters ahead.

Our Call

View: Retain Buy with an unchanged PT of Rs. 960: With strategies in place, TCPL is well poised to achieve double-digit revenue and PAT CAGR of 15% and 20%, respectively, over FY2022-FY2024. The proposed scheme of arrangement will not only be earnings accretive for TCPL but will enable better leverage in supply chain, increased focus under different business verticals with specialised management team, and accelerate decision making in the coming years. The stock is currently trading at 56.2x/46.1x its FY2023E/FY2024E earnings. With strong growth prospects, relative stable commodity prices and sturdy cash flows (FCF/EBITDA of 100%), we maintain TCPL as one of the top picks in the FMCG space. We maintain a Buy recommendation on the stock with an unchanged price target (PT) of Rs. 960.

Key Risks

Any slowdown in demand in the domestic or international market or increase in key commodity prices would act as a risk to our earnings estimates in the near term.

Valuation (Consolidated) Rs cr

Particulars	FY21	FY22	FY23E	FY24E
Revenue	11,602	12,425	14,237	16,295
OPM (%)	13.3	13.8	14.1	14.8
Adjusted PAT	953	1,054	1,273	1,551
% Y-o-Y growth	*44.2*	*10.6*	*20.9*	*21.8*
Adjusted EPS (Rs.)	10.3	11.4	13.8	16.8
P/E (x)	75.1	67.9	56.2	46.1
P/B (x)	4.9	4.7	4.5	4.2
EV/EBITDA (x)	45.1	40.7	34.6	28.6
RoNW (%)	7.2	7.5	8.5	9.8
RoCE (%)	8.1	8.6	9.7	11.3

Source: Company; Sharekhan estimates

Revenues grew in mid-single digits; margins improved significantly by benign input prices

TCPL's consolidated revenue grew by 4.5% y-o-y to Rs. 3,175.4 crore in Q4FY2022 with like-for-like growth at 6% y-o-y mainly driven by growth in India branded business. Gross margin/OPM expanded by 539/411 bps y-o-y to 44.6%/14%, respectively. Operating profit grew by 48% y-o-y to Rs. 444.3 crore. Adjusted PAT more than doubled to Rs. 252.9 crore in Q4FY2022 from Rs. 121.7 crore in Q4FY2021. For full year FY2022, consolidated revenue grew by 7% y-o-y to Rs. 12,425 crore with like-for-like growth at 9% y-o-y. Two-year CAGR for consolidated business is at 14%. During FY2022, India business grew by 13% y-o-y led by India beverages business growth of 10% y-o-y, with 3% volume growth and India Foods business growth of 19% y-o-y, with an 8% volume growth. International business reported muted growth of 1% y-o-y in FY2022 (down 2% in constant currency terms), impacted by a high growth of 12% in FY2021. OPM for FY2022 increased by 53 bps to 13.8%. Operating profit grew by 11.3% y-o-y to Rs. 1,718.8 crore. Adjusted PAT for FY2022 grew by 10% y-o-y to Rs. 1,117.5 crore. In FY2022, TCPL continued to gain market share in both the core categories of tea and salt with market share up by 100 bps and 400 bps, respectively. Net cash on books as of 31 March 2022 is at Rs. 2,486 crore. The board has recommended a final dividend of Rs. 6.05 per equity share of Re. 1 each for FY2022.

Business-wise revenue break-up Rs cr

Particulars	Revenue (Rs. cr)	Value growth (%)	Volume growth (%)
India business	1,190	-1	3
India food	764	19	-1
US Coffee	355	13	3
UK, Canada & Others	535	3	5
Tata Coffee (incl. Vietnam)	303	8	-8

Source: Company; Sharekhan Research

India business:

- **India packaged beverages –** Steady revenue growth; Strong improvement in EBIT margin: Revenue of India packaged beverages declined by 4% y-o-y, with 2% y-o-y volume growth, on an elevated base that saw a 53% revenue growth and 23% volume growth in Q4FY2022. Revenue for FY2022 grew by 6.4% y-o-y on a high base of 32.8% growth in FY2021, led by 3% volume growth. Two-year CAGR for the business came in at 19%. Coffee volume grew by 44% y-o-y with a revenue growth of 46% y-o-y in FY2022. The segment reported market share gains of 100 bps y-o-y. Kanan Devan became the second largest brand in Karnataka (by volume). Premium portfolio (Chakra, TT Gold, Chakra Care, Gold Care, etc.) continued to gain market share. Tata Tea Portfolio is strengthening its foothold in key markets of Maharashtra and Bihar led by effective hyperlocal campaigns and improved distribution. TCPL continues to maintain No. 1 position in e-commerce. EBIT margin for India Beverages (old segment classification) was up 400 bps y-o-y in FY2022.

- **India Foods –** Strong overall growth in the foods business; margins hit: India Foods business registered revenue growth of 19% y-o-y to Rs. 762 crore. Volume declined by 1% y-o-y during the quarter. For full year FY2022, revenue grew by 19% y-o-y to Rs. 2,913 crore aided by an 8% rise in volumes. Two-year CAGR for the India foods business stood at 18%. Market share gains for the segment is at 400 bps. Salt revenue grew by 15% y-o-y in Q4FY2022, on a high base of last year (Q4FY2021 salt grew by 26%). For the whole of FY2022, salt revenues grew by 17%, at the same rate as in FY2021. Rock salt delivered exceptional growth of 82% y-o-y; with the overall premium salts portfolio growing 27% y-o-y. Tata Sampann continued its strong trajectory in Q4, registering volume growth of 30% in Q4FY2022, bringing FY2022 volume growth to 28%. The Tata Sampann master brand was extended to a new and premium category with the success of Tata Sampann Dry Fruits pilot launch. Poha delivered exceptional growth of over 100% y-o-y. Tata Q became the No. 2 Ready-to-Eat (RTE) brand in India. For the Tata Q brand, the company would focus on the export market which has better opportunities and expects momentum to pick up in Q2/Q3 FY2023. TCPL launched Rs 10/- No Maida Chocos in over 3 lakh outlets, supported by national TVC. The company signed an MOU with Indian Institute of Millet Research (IIMR) ahead of 2023 International Year of millets. EBIT margin for India Foods (old segment classification) declined by 700 bps y-o-y in FY2022. In FY2022, profitability was affected due to inflation in input costs, higher A&P, and continued investment in new businesses.

- **NourishCo (100% subsidiary) –** Strong growth momentum continued: Revenue grew by 51% y-o-y in Q4FY2022 on a high base that saw 86% growth in Q4FY2021. For the full year of FY2022, revenue grew 83% y-o-y to Rs. 344 crore albeit on a low base that was affected by the pandemic. The two-year CAGR was reported at 38%. The growth was broad-based across products and geographies. The business unlocked new geographies of Bihar, Jharkhand, West Bengal, Delhi NCR, UP, Maharashtra, Karnataka and Kerala and received good consumer acceptance. TCPL expanded distribution of NourishCo by 80%. Himalayan grew 1.8x and reached breakeven at an EBIT level in FY22, the first time since its inception. The brand also registered strong growth in e-Commerce channel and added key institutional accounts during the quarter. Tata Copper Plus Water scaled to over 3x in FY2022. Innovation contribution for Nourishco stood at 10% of revenue. Inflation is persisting across freight and packaging materials which was partly mitigated by cost-saving initiatives and net pricing actions during the quarter.
- **Tata Coffee (including Vietnam) (~58% Subsidiary) –** Muted growth of 7% in Q4FY2022: Revenue for Q4FY2022 grew by 7% y-o-y led by coffee plantations and extractions business in Vietnam. Revenue for full year FY2022 grew by 11%, after growing 14% in FY2021. Overall extraction business grew by 19% y-o-y in FY2022 driven by both Vietnam extractions (premiumisation and higher volumes) and domestic extractions, despite several challenges in operating environment. Growth in Robusta coffee and Pepper revenue offset lower revenue in tea plantations (plantations revenue declined by 3% y-o-y in FY2022), where realizations declined from highs in FY2021. Vietnam registered record production and sales despite disruption caused by COVID-induced lockdowns. Vietnam plant operated at 98% capacity utilization in FY2022. India extractions business (Instant coffee division) recorded 2nd highest ever sales. The business continued to focus on cost-saving initiatives to mitigate some of the inflationary pressures.
- **Tata Starbucks (JV) –** Revenue growth at 32% y-o-y in Q4, 23 new stores opened: Revenue grew 32% in Q4FY2022, partially impacted by the third wave of COVID-19. Revenue for full year FY2022 grew by 76%, despite two waves of the pandemic, bringing the two-year CAGR into positive territory. Delivery channel salience remained ahead of pre-Covid levels. About 96% of the stores have now re-opened. Starbucks registered Same-Store-Sales-Growth of 18% versus pre-COVID level. Q4FY22 marked the highest number of store openings for Tata Starbucks in a quarter, at 23 new stores. Two flagship locations opened during Q4FY2022 including Golden Temple Complex in Amritsar and Brahmaputra Riverfront store in Guwahati. The company added 50 new stores and entered 8 new cities in FY2022 taking the total store count to 268 in 26 cities. The business was EBITDA positive in Q4FY2022.

International business:

- **UK –** Revenues grew by 5% y-o-y led by 6% y-o-y volume growth in Q4FY2022. Revenue for full year FY2022 declined by 2% on a high base of Q4FY2021 that saw pantry loading. 2-year revenue CAGR was marginally positive. Teapigs continued its strong trajectory growing 7% in FY2022, after growing 18% in FY2021. Mainstream Out-Of-Home, Specialty and Wholesale channels continued to see good traction, offsetting the decline in Grocery. TCPL gained market share in F&H category driven by strong performance of Good Earth, Tetley Supers and Tetley Herbals innovations. D2C channel of Teapigs and Tetley is gaining momentum and building better consumer engagement.
- **US –** Coffee revenues for Q4FY2022 grew 11% (constant currency) y-o-y driven by strong performance in K-cups. Revenue for full year FY2022 stayed flat (constant currency) after growing 9% in FY2021. Despite unprecedented inflation in coffee prices during the year, EBIT for EOC grew y-o-y, led by a proactive hedging approach and price increases. Tea (excluding Empirical) revenue declined 8% (constant currency) y-o-y in FY2022 on a high base of 16% growth in FY2021. TCPL initiated the integration of three tea brands in US, similar to the UK. Innovations led by Good Earth Sensorial blends, Tetley Flavors of Britain and Tetley Irish Breakfast continued to perform well. Mainstream black tea category in the US continued to lose share to specialty category.
- **Canada –** Revenue for Q4FY2022 declined 1% (constant currency) y-o-y on a high base of 6% growth in Q4FY2021. Revenue declined by 7% (constant currency) y-o-y in FY2022 due to pantry up-stocking that led to 15% growth (constant currency) in FY2021. Tea category in Canada is seeing a decline y-o-y on a strong base of COVID-19 induced in-home consumption. Tetley Supers range continued to register strong performance in Q4FY2022. In FY2022, the ecommerce channel performed well and delivered double-digit growth.

Other key highlights

- **Strong outlook for FY2023:** FY2022 was impacted by the second and third wave for COVID 19 followed by the global geo-political issues at year-end. The recovery following the third wave of the pandemic in India has been swift, but the geopolitical situation is exacerbating inflationary pressures. TCPL's Out Of Home businesses i.e. both Starbucks & NourishCo delivered a robust performance in FY2022, despite two waves of the pandemic during the year and the company expects continued momentum in both these businesses, subject to no new waves of the pandemic. TCPL will continue to optimize margins at the consolidated level for the company, given the inflation and investments required for some of the new businesses.
- **Tea and coffee prices:** Tea prices in India have come off significantly from the peak levels. South India tea prices saw a slight uptick sequentially but were down significantly y-o-y. Kenya tea prices continued to rise q-o-q and y-o-y led by the minimum reserve regime introduced by the Government. After increase in tea prices in FY2021 due to lockdown, the tea prices rose in FY2022 due to the draught situation in Assam. The management expects the prices to be rang bound going ahead.
- **Price hike undertaken, further hikes likely:** TCPL undertook price hike in April as input metrail prices remained elevated. The collective price hike undertaken is of ~19% in the past nine months. The management has guided that further price hikes are likely if the current situation persists.
- **Sales and distribution:** The company achieved its target of covering 1.3 million outlets by end of FY2022. TCPL targets to increase its reach by 1.5 million outlets to 2.8 million outlets in FY2023 and further to 4 million outlets by September 2023. It increased its dealer network by 18% for tea and 15% for salt in FY2022. The management has indicated that it has achieved significant level of distribution in the Metros and Tier I cities and now the focus would be on increasing the reach in the rest of urban areas and the rural areas.
- **Strong pick up in the alternate channels:** The company saw a strong pick up in the modern trade as well as the e-commerce channels in FY2022. Modern trade business grew by 30% y-o-y and revenues from the same crossed Rs. 1,000 crore in FY2022. The e-commerce channel's contribution to the total sales continued to increase and stood at 7.3% to total sales in FY2022, up from 2.5% in FY2020. E-commerce market share for tea stood at 41.9%, which is way ahead of competition. As stated by the management, this can be attributed to the availability of the company's brands on multiple platforms and its strong distribution network.
- **Continued investments on brands:** TCPL continued to invest in brands with the India business advertisement spends up by 29% y-o-y. The investments were majorly done to promote the Tata Tea Premium portfolio and in the South to promote Chakra Gold and Tata Coffee Grand. The premium portfolio of salt and the new brands of the company were other areas were advertisement spends were high. Higher advertisement spends aided in improving the tea and coffee market share by 100 bps and 400 bps during FY2022.
- **Premium portfolio gaining traction:** TCPL's premium brands/products reported strong double-digit volume/value growth in FY2022 with Tata Sampann registering 28% volume growth, Tata Coffee volumes up by 45% and value added salt portfolio growing by 26% during the year. Tata Tea Gold Care (premium brand under Tata Tea Gold (TTG)) share increased to 4.5% of overall TTG revenue.
- **Enhanced supply chain:** TCPL's Transformation journey to an integrated and digitised supply chain is on track. The company has ~11,000 drop off points serviced through 38 centers across India. TCPL benefitted through cost-savings from efficiencies in the network with over 25% reduction in secondary freight/kg. Its integrated business planning has been activated with demand and supply planning now being automated.

Results (Consolidated) Rs cr

Particulars	Q4FY22	Q4FY21	Y-o-Y %	Q3FY22	Q-o-Q %
Total Revenue	**3,175.4**	**3,037.2**	**4.5**	**3,208.4**	**-1.0**
Raw material cost	1,758.7	1,846.0	-4.7	1,806.6	-2.7
Employee cost	268.0	270.2	-0.8	258.9	3.5
Advertising	225.6	216.4	4.2	245.3	-8.1
Other expenses	478.8	404.4	18.4	435.9	9.8
Total operating cost	2,731.1	2,737.0	-0.2	2,746.7	-0.6
Operating profit	**444.3**	**300.2**	**48.0**	**461.7**	**-3.8**
Other income	47.4	43.0	10.3	25.0	89.3
Interest & other financial cost	16.4	15.5	6.2	16.2	1.5
Depreciation	72.1	65.9	9.5	69.8	3.3
Profit Before Tax	**403.2**	**261.8**	**54.0**	**400.7**	**0.6**
Tax	100.2	81.2	23.4	103.3	-3.0
Adjusted PAT before share of profit from associates/JV	**303.0**	**180.6**	**67.7**	**297.4**	**1.9**
Minority Interest (MI)/ Profit from associates	-50.2	-59.0	-	2.4	-
Adjusted PAT after MI	**252.9**	**121.7**	**107.8**	**299.8**	**-15.7**
Extra-ordinary items	-13.8	-47.3	-	-9.8	-
Reported PAT	**239.1**	**74.3**	**-**	**290.1**	**-17.6**
Adjusted EPS (Rs.)	3.3	2.0	67.7	3.2	1.8
			bps		**bps**
GPM (%)	44.6	39.2	539	43.7	92
OPM (%)	14.0	9.9	411	14.4	-40
NPM (%)	9.5	5.9	360	9.3	27
Tax rate (%)	24.8	31.0	-616	25.8	-94

Source: Company; Sharekhan Research

Segment-wise performance Rs cr

Particulars	Q4FY22	Q4FY21	Y-o-Y %
India Business	1,954	1,842	6
International Beverages	890	880	1
Total branded business	**2,844**	**2,722**	**4**
Non-branded business	345	324	6
Others / Unallocated item	-13	-8	
Total	**3,175**	**3,037**	**5**

Source: Company; Sharekhan Research

Segment-wise results Rs cr

Particulars	Q4FY22	Q4FY21	Y-o-Y %
India Business	258	241	83
International Beverages	128	109	18
Total branded business	**386**	**249**	**55**
Non-branded business	29	38	-24
Others / Unallocated item	-31	-90	
Total	**385**	**198**	**94**

Source: Company; Sharekhan Research

Outlook and Valuation

■ Sector outlook – Despite near-term weakness; long-term growth prospects intact

A slowdown in rural demand, consumer inflation and weakness in overall consumer sentiments will continue to affect overall consumption in the coming quarters. Intense summer season might push demand for summer products during the quarter. However, overall demand is expected to remain subdued. Revenue growth will largely be driven by price increases undertaken in the respective portfolio to mitigate input cost inflation for the next 2-3 quarters. Global uncertainties will lead to volatile commodity prices. Commodity inflation is expected to settle in the next 6-8 months. Thus, margin pressure is likely to sustain in the near term. Better monsoons will play a major role in regaining momentum in rural demand and help in cooling off agri-commodity inflation. Though near-term headwinds will have a toll on the performance of consumer goods companies, long-term growth prospects remain intact. Low penetration levels in key categories (especially in rural India), lower per capita consumption as compared to other countries, a large shift to branded products, and emergence of new channels such as e-Commerce/D2C provide a number of opportunities for achieving sustainable growth in the medium to long run.

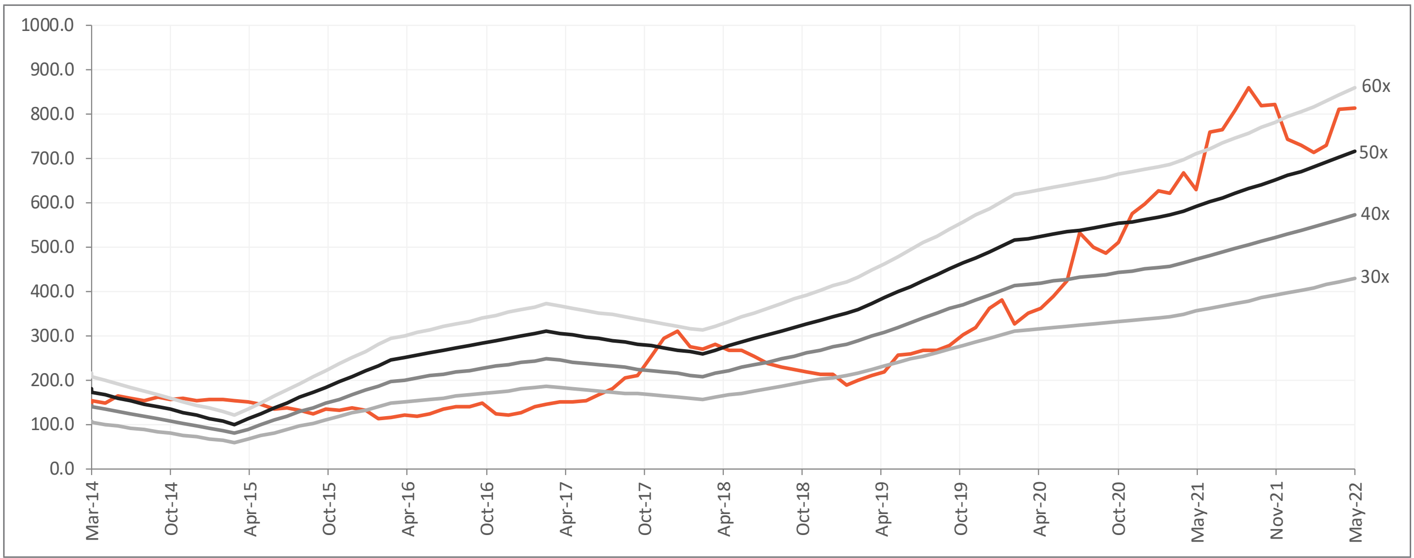
■ Company outlook – Correcting tea prices augur well for margins

Expansion of distribution network and sustained share gains would help sales volume of the domestic tea business to improve to mid to-high single digit in the medium to long term. Sustained product launches will drive the foods business' growth, shift to branded products, and distribution expansion. Base of the international business has normalised and with demand improving in most markets, business revenue growth trajectory will improve in quarters ahead. Raw tea prices have corrected from their high and will ease out gross margin pressure despite higher fuel and packaging cost. The company is banking on operating efficiencies and mix to post better margins in the quarters ahead.

■ Valuation – Retain Buy with an unchanged PT of Rs. 960

With strategies in place, TCPL is well poised to achieve double-digit revenue and PAT CAGR of 15% and 20%, respectively, over FY2022-FY2024. The proposed scheme of arrangement will not only be earnings accretive for TCPL but will enable better leverage in supply chain, increased focus under different business verticals with specialised management team, and accelerate decision making in the coming years. The stock is currently trading at 56.2x/46.1x its FY2023E/FY2024E earnings. With strong growth prospects, relative stable commodity prices and sturdy cash flows (FCF/EBITDA of 100%), we maintain TCPL as one of the top picks in the FMCG space. We maintain a Buy recommendation on the stock with an unchanged price target (PT) of Rs. 960.

One-year forward P/E (x) band



Source: Sharekhan Research

Peer Comparison

Particulars	P/E (x)			EV/EBIDTA (x)			RoCE (%)		
	FY22	FY23E	FY24E	FY22	FY23E	FY24E	FY22	FY23E	FY24E
Hindustan Unilever	57.6	52.6	43.8	40.2	36.9	30.7	23.8	26.2	30.8
Nestle India*	81.5	73.1	67.3	52.5	47.1	44.5	136.4	138.3	129.2
Tata Consumer Products	67.9	56.2	46.1	40.7	34.6	28.6	8.6	9.7	11.3

*Source: Company, Sharekhan estimates; *Nestle India is a calendar year company so valuations are for CY21, CY22E and CY23E*

About company

Tata Consumer Products Limited is a focused consumer products company uniting the principal food and beverage interests of the Tata Group under one umbrella. The Company's portfolio of products includes tea, coffee, water, salt, pulses, spices, ready-to-cook and ready-to-eat offerings, breakfast cereals, snacks and mini meals. Tata Consumer Products is the 2nd largest branded tea company in the world. Its key beverage brands include Tata Tea, Tetley, Eight O'Clock Coffee, Tata Coffee Grand, Himalayan Natural Mineral Water, Tata Water Plus and Tata Gluco Plus. Its foods portfolio includes brands such as Tata Salt, Tata Sampann, Tata Soulfull and Tata Q. In India, Tata Consumer Products has a reach of over 200 million households. The company has a consolidated annual turnover of ~Rs. 12,400 crore with operations in India and International markets.

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 key risks to our earnings estimates in the near term.

Additional Data

Key management personnel

N. Chandrasekaran	Chairman
Sunil D'Souza	Managing Director and CEO
L. Krishna Kumar	Executive Director and group CFO
John Jacob	Chief Finance Officer
Neelabja Chakrabarty	Company Secretary

Source: Company Website

Top 10 shareholders

Sr. No.	Holder Name	Holding (%)
1	First State Investment ICVC	4.7
2	Life Insurance Corp of India	3.4
3	Blackrock Inc	3.2
4	Vanguard Group Inc	2.1
5	Norges Bank	2.1
6	Government Pension	2.1
7	Goldman Sachs Group Inc	1.6
8	SBI Funds Management	1.2
9	Baron Capital Inc	0.8
10	Dimensional Fund Advisors	0.7

Source: Bloomberg

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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