Sharekhan by BNP PARIBAS

Powered by the Sharekhan 3R Research Philosophy

Tata Consumer Products Ltd

Strong Q4

Consumer Goods	Sharekhan code: TATACONSUM

Reco/View: Buy	↔	CMP: **Rs. 746**	Price Target: **Rs. 870**	↔

↑ Upgrade ↔ Maintain ↓ Downgrade

Stock Update

Result 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		↔	

ESG Disclosure Score NEW

ESG RISK RATING Updated Mar 08, 2023				30.63
High Risk				
NEGL	LOW	MED	HIGH	SEVERE
0-10	10-20	20-30	30-40	40+

Source: Morningstar

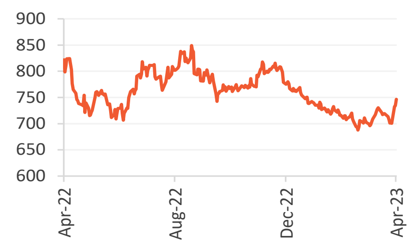
Company details

Market cap:	Rs. 69,337 cr
52-week high/low:	Rs. 861/685
NSE volume: (No of shares)	12.3 lakh
BSE code:	500800
NSE code:	TATACONSUM
Free float: (No of shares)	60.9 cr

Shareholding (%)

Promoters	34.4
FII	26.8
DII	15.8
Others	22.9

Price chart



Price performance

(%)	1m	3m	6m	12m
Absolute	2.1	-0.1	-4.0	-14.3
Relative to Sensex	4.6	1.6	0.9	5.1

Sharekhan Research, Bloomberg

Summary

- Tata Consumer Products Limited (TCPL) registered strong performance in Q4FY2023. Revenue grew by 14% y-o-y to Rs. 3,618.7 crore. OPM stood flat at 14.1%. Adjusted PAT grew by 16% y-o-y to Rs. 294 crore.
- India packaged beverages sales volume recovered to 3% vs. volume decline of 5% in Q3; India food business volumes grew by 8%. NourishCo registered strong 79% growth to Rs. 181 crore.
- Management is confident of posting better performance in FY2024, maintaining double-digit revenue growth, led by distribution expansion, market share gains in the tea business, food business maintaining strong double-digit growth, and acquisitions such as NourishCo and Soulfull scaling up fast.
- The stock currently trades at 48.8x/40.7x its FY2024E/FY2025E earnings. We maintain Buy with an unchanged PT of Rs. 870. Strong earnings visibility and improving cash flows make it a good pick in the FMCG space.

Tata Consumer Products Limited (TCPL) posted strong all-round performance in Q4FY2023. The company's revenue and adjusted PAT grew by 14% and 16% y-o-y, respectively, with OPM standing flat at 14%. Strong performance can be attributed to improved performance by India packaged beverage business, sustained strong growth in the food business, and fast scale-up in the newly acquired NourishCo and Soulfull businesses. The company's consolidated revenue grew by 14% y-o-y to Rs. 3,618.7 crore, with India beverages revenue growing by 8% (volume growth of 3%), India foods business revenue growing by 26% (volume growth of 8%), and Tata Coffee (including Vietnam) registering 16% growth (with 14% volume growth). Despite a 280 bps decline in gross margin, consolidated OPM improved by 280 bps y-o-y to 14.1%. This, along with higher other income, led to 16.4% y-o-y growth in adjusted PAT (post minority interest and profit from associates) to Rs. 294 core. For FY2023, the company's consolidated revenue grew by 11% y-o-y to Rs. 13,783.6 crore, OPM dipped by 30 bps to 13.5% and adjusted PAT grew by 13.2% y-o-y to Rs. 1,193.2 crore.

Key positives

- India packaged beverages sales volume improved to 3% in Q4 from a 5% decline in Q3; India food business sales volume grew by 8% in Q4 vs. 4% in Q3.
- New product contribution as a percentage of sales improved to 3.4% in FY2023 from 2.7% in FY2022; 34 new products were launched during the year.
- The acquired business is performing well, with NourishCo recording revenue of Rs. 621 crore in FY2023 (Rs. 181 crore in Q4), while Tata Soulfull's revenue grew by 100% y-o-y.
- The company has maintained its strong cash position of around Rs. 2,950 crore.

Key negatives

- Eight O' Clock sales volume was down by 20% due to price hikes undertaken in the portfolio.
- India's branded tea business saw a 113 bps (50 bps in volume terms) decline in the market share in FY2023.

Management Commentary

- With green shoots visible in some of the key domestic markets (including North India), volumes of India tea business would improve in the coming quarters. Management expects mid-single digit volume growth in the branded tea business. Tata Sampann will maintain 30%+ growth, while volume growth of the salt business will be around mid-single digit in the medium to long term.
- NourishCo is present in 75-80% outlets in India (650,000 outlets). Its manufacturing has expanded by 2.0x in FY2023. Management expects NourishCo to reach Rs. 1,000 crore in FY2024 from Rs. 621 crore in FY2023.
- Contribution of growth businesses (including Sampann, NurishCo, Soulfull, and ready-to-eat business) as a percentage of India branded business has gone up to 15% from 6% in FY2020. All these businesses are growing in upwards of 50% and are supporting India business.
- International business margins are expected to improve in the quarters ahead, aided by pricing actions taken in February. It will be accretive to the company's margins by 100 bps. On the other hand, domestic raw tea prices have started correcting from their high and, if it corrects further, India business margins will continue to improve in the quarters ahead. Scale-up in the growth business will further add to overall margins.
- TCPL's consolidated OPM is expected to consistently improve in the coming years. The decline in some of the key input prices, price hikes undertaken in the international business, and cost efficiencies through integration and simplifying the group structure will help OPM to consistently improve in the coming years.
- TCPL's total distribution reach currently stands at 3.8mn outlets, which is likely to increase to 4.0mn outlets by September 2023. The company is focusing on increasing the bandwidth at the front-end through split routes for salesmen in Ten Lakh Plus Population (TLP) towns.

Change in estimates - We have broadly maintained our earnings estimates for FY2023E, FY2024E, and FY2025E; and we will keen monitor recovery in the sales volume of India beverage business in the coming quarters.

Our Call

View: Retain Buy with an unchanged PT of Rs. 870: TCPL posted a strong performance in Q4FY2023, beating our as well as street's expectations. The company is focusing on market share gains, product launches, network expansion, and cost restructuring to improve earnings growth over the next two to three years. Thus, with strategies in place, TCPL is well poised to achieve double-digit revenue and PAT CAGR of 13% and 17%, respectively, over FY2023-FY2025. The stock trades at 48.8x/40.7x its FY2024E/FY2025E earnings. With strong growth prospects and sturdy cash flows, we maintain our Buy recommendation on TCPL with an unchanged price target (PT) of Rs. 870. Any large inorganic deal focusing on enhancing shareholders' value will be a key trigger for valuations to improve in the near term.

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	FY23	FY24E	FY25E
Revenue	11,602	12,425	13,784	15,471	17,608
OPM (%)	13.3	13.8	13.5	13.8	14.3
Adjusted PAT	953	1,054	1,193	1,410	1,691
% Y-o-Y growth	44.2	10.6	13.2	18.2	19.9
Adjusted EPS (Rs.)	10.3	11.4	12.9	15.3	18.4
P/E (x)	72.2	65.2	57.7	48.8	40.7
P/B (x)	4.7	4.5	4.2	4.0	3.7
EV/EBIDTA (x)	43.3	39.1	35.7	31.0	26.1
RoNW (%)	7.2	7.5	7.8	8.3	9.4
RoCE (%)	8.1	8.6	8.9	9.6	11.0

Source: Company; Sharekhan estimates

Strong Q4 – Revenue growth at 14% y-o-y; OPM better than expectations

TCPL's revenue grew by 14% y-o-y to Rs. 3,618.7 crore, driven by a mix of volume-value led growth. India beverage revenue grew by 8% y-o-y (volume growth of 3%), foods business grew by 26% y-o-y (volume growth 8%), and international business grew by 14% y-o-y (6% on like-to-like basis). Gross margins declined by 280 bps y-o-y to 41.8%, while OPM stood flat at 14.1% (against our expectation of 13.4%), impacted by higher raw-material prices. OPM for India business witnessed an improvement (by 60 bps y-o-y), while margins of the international business declined on a y-o-y basis. Operating profit grew by 15.2% y-o-y to Rs. 511.7 crore. This along with higher other income, led to 16.4% y-o-y growth in adjusted PAT (post minority interest and profit from associates) to Rs. 294 crore. Reported PAT came in at Rs. 290 crore. For FY2023, revenue growth stood at 11% y-o-y to Rs. 13,784 crore, OPM stood flat at 13.5%, while adjusted PAT (post minority interest and profit from associates) grew by 13.2% y-o-y to Rs. 1,193 crore. Growth businesses continued their strong trajectory, growing 53% y-o-y in FY2023, and now account for 15% of India branded business. The company launched 34 new products in FY2023 vs. 19 in FY2022. Contribution from innovation came in at 3.4% in FY2023, up from 2.7% in FY2022. At FY2023-end, the company had Rs. 2,945 crore net cash on its books. The board has recommended a final dividend of Rs. 8.45 per equity share for FY2023.

Business-wise revenue break-up

Particulars	Revenue (Rs. cr)	Value growth	Volume growth
India business	1,286	8%	3%
India food	960	26%	8%
US Coffee	377	6%	-20%
UK, Canada, and Others	607	13%	3%
Tata Coffee (incl. Vietnam)	352	16%	14%

Source: Company, Sharekhan Research

India business:

- **India Packaged Beverages – Muted Q4:** Revenue for the quarter grew by 1% y-o-y, with 3% volume growth, recording a sequential recovery from the 9% y-o-y revenue decline registered in Q3FY2023. For FY2023, revenue declined by 5%, with a 1% volume decline owing to weakness in some of the key markets and price corrections. On a three-year CAGR basis, growth in India packaged beverages stood at 15%. Coffee continued its strong performance with 31% y-o-y revenue growth in FY2023. TCPL retained its market leadership in tea in the e-commerce channel for the 23rd consecutive month. As per management, the premium segment recorded growth in FY2023 while the economy segment was impacted by rural slowdown.

- **India Foods – Price-led revenue growth:** India foods business registered 26% y-o-y revenue growth to Rs. 960 crore in Q4FY2023. Growth was largely price-led, as volume growth came in at 8%. Salt revenue grew by 24% y-o-y in Q4FY2023, on a high base of 15% y-o-y growth in Q4FY2022. For FY2023, salt grew by 25% y-o-y (over 17% y-o-y growth in FY22), primarily led by pricing. The value-added salts portfolio grew to 4.5x, in part led by new innovations such as Tata Salt Immuno. Share of value-added salts grew to ~5% in FY2023 from less than 1% in FY2020. As guided by the management, salt margin is almost back to its normative range (32-37% gross margins). Tata Sampann continued its strong trajectory in Q4FY2023, growing 35% y-o-y, bringing FY2023 growth to 29% y-o-y. Tata Sampann's growth was aided by strong broad-based performance. TCPL tapped into the growing health and wellness trend with the launch of Makhana. Tata Soulfull portfolio grew 100%+ in FY2023, led by distribution gains for the existing portfolio and new innovations.

- **NourishCo (100% subsidiary) – Revenue growth at 79% y-o-y in Q4:** Revenue grew by 79% y-o-y in Q4FY2023 to Rs. 181 crore, led by strong broad-based growth across products and geographies. For FY2023, revenue grew by 80% y-o-y to Rs. 621 crore. Himalayan grew by 74% y-o-y in Q4FY2023. Tata Copper+ is >7x, Tata Gluco Plus is 2.2x and Himalayan is 3.3x their respective sizes in FY2021. Despite steep inflation, continued cost-saving initiatives have helped drive margin improvement on a y-o-y basis. The business now reaches nearly 600,000 outlets, up 70% y-o-y. As indicated by the management, NourishCo products are present in 75-80% outlets in India. The company expanded manufacturing capacity by 2-2.5x in FY2023 and would be increasing the number of lines going ahead. TCPL targets four-digit revenue for NourishCo in FY2024 through distribution expansion, new product launches, and brand awareness.

- **Tata Coffee (including Vietnam ex-EOC) (~58% subsidiary) – Double-digit growth in plantations and extractions business:** Revenue grew by 13% y-o-y, led by extractions business in Q4FY2023, bringing FY2023 revenue growth to 25% y-o-y. The plantations business recorded 11% y-o-y revenue growth in Q4FY2023, bringing FY2023 growth to 17% y-o-y, primarily led by higher realisation in coffee. Overall, the extractions business grew by 20% y-o-y in Q4FY2023, bringing FY2023 growth to 26% y-o-y. EBIT margin for the extractions business expanded significantly y-o-y, led by Vietnam business. During FY2023, TCPL commissioned a coffee liquid extraction plant in Vietnam. As guided by the management, growth in Tata Coffee is aided by NPD and a higher number of customers apart from price hikes.
- **Tata Starbucks (JV) – Revenue growth at 48% y-o-y and 22 new stores added in Q4:** Revenue grew by 48% y-o-y in Q4FY2023, bringing FY2023 growth to 71% y-o-y (on a low base that was impacted by the pandemic) to Rs. 1,087 crore. TCPL added 71 new stores and entered 15 new cities during FY2023, which is TCPL's highest-ever annual store addition for Starbucks. Starbucks in now present across 41 cities with a total store count of 333. The business continued to remain EBIT positive in FY2023. Management has indicated that aggressive store additions would continue, with rollout in Tier-2 and Tier-3 cities. Starbucks' profitability is impacted due to aggressive store additions; however, the business is profitable at store level. Starbucks ran a pilot in 2022 across four cities in India to drive familiarity among consumer segments, create more occasions for consumers to visit Starbucks, and grow the consideration set for different types of consumers. The pilot stores demonstrated improved operating metrics, and the company plans to roll out the workstreams nationally in 2023.

International business:

- **UK** – Revenue growth stood at 8% y-o-y in Q4FY2023, bringing FY2023 y-o-y growth to flat. TCPL implemented ~15% price increases across the portfolio, starting in February 2023, which lead to strong sequential margin improvement. The company completed the integration of Teapigs with its UK business to drive synergies.
- **US** – Coffee revenue declined by 4% y-oy (constant currency) in Q4FY2023, bringing FY2023 growth to 7% y-o-y. US coffee volume declined by 20% y-o-y due to price hikes on account of grammage reduction. The US business saw strong q-o-q margin improvement in Q4FY2023. Tetley outpaced category growth in Q4FY2023, led by the hot black tea segment, while Teapigs continued to outpace the specialty tea segment. After the successful launch of Tata Raasa in ethnic channels, the company is gearing up for its mainstream launch.
- **Canada** – Revenue growth stood at 5% y-o-y in Q4FY2023, bringing FY2023 growth to 9% y-o-y. The company implemented price increases to mitigate inflation, leading to strong sequential margin improvement.

Key conference call highlights

- **Tea volume expected to recover:** TCPL witnessed a 50bps decline in volume market share in Q4FY2023 impacted by issues in semi-urban and rural regions, specifically in Northern region. The company has implemented cluster-wise strategy for tea as the company's tea business is weaker in South but strong in North. As per management, TCPL has seen good traction in weaker markets and tea volumes are expected to improve in the coming quarters. Management expects the domestic branded tea business's volumes to grow in mid-single digit in the coming years.
- **Tea and coffee prices remain volatile:** Tea prices in North India came off from Q3 levels with the end of the plucking season. South India tea prices, on the other hand, were higher by 11% y-o-y. Kenyan tea prices softened q-o-q. Arabica coffee prices remained stable q-o-q in Q4FY2023 on projections for higher Brazil coffee production. Robusta coffee was higher q-o-q but 10% lower y-o-y. Management expects a slight downtrend in tea prices going ahead as well.

- **Sales and distribution reach to widen:** The company continued to make consistent progress in improving its sales and distribution reach. TCPL has increased direct distributor coverage in semi-urban areas and split routes in larger towns to drive assortment and increase focus on growth drivers. As per management, the company would be appointing separate salesmen for salt + Sampann + Smartfoodz businesses and separate salesmen for the beverages + Soulfull business. At FY2023-end, the company had a direct reach of 1.5 mn outlets, up from 0.5 mn outlets in FY2020. In terms of the total reach, the company was present in 3.8 mn outlets at FY2023-end and is well on track to reach 4 mn outlets by September 2023.
- **Alternate channels continue to fuel growth and innovation:** Alternate channels (modern trade and e-commerce) continued to fuel the company's growth and innovation agenda. The modern trade channel grew by 21% y-o-y in FY2023, contributing to 14% of India business sales. The company launched 69 news SKUs in the modern trade channel during FY2023. The e-commerce channel grew by 32% y-o-y in FY2023, contributing to 9% of India business sales. ~10% of e-commerce revenue came from new product development (NPD).
- **International business margins likely to improve:** For FY2023, the international beverages business revenue grew by 8% y-o-y. The company implemented price increases in all markets to mitigate input cost inflation and adverse currency movements. As indicated by the management, international margins are likely to improve in the quarters ahead, aided by pricing actions taken in February coupled with structural changes made to unlock efficiencies. In the medium term, international margins are expected to be accretive to the company margins by ~100 bps.
- **Continued momentum in growth businesses:** Growth businesses continued their strong trajectory, growing 53% y-o-y in FY2023, and now account for 15% of India branded business. According to management, growth businesses' performance would be driven by brand building, portfolio extension, and distribution expansion apart from A&P spends. In the Tata Sampann business, the company aims to maintain a balance between topline growth and margins and targets double-digit topline growth along with margin improvement. According to management, as compared to India business, Soulfull business's margins are accretive, Sampann business's margins are lower, while NourishCo's margins are at par with India business.
- **Consolidating ownership in JVs:** The company is progressing towards its plan of consolidating the legal structure to drive efficiencies. Accordingly, TCPL consolidated its ownership in Bangladesh South Africa JVs in FY2023. Management expects to complete the NCLT process in Q2FY2024 and then consolidate entities.

Results (Consolidated) Rs cr

Particulars	Q4FY23	Q4FY22	Y-o-Y (%)	Q3FY23	Q-o-Q (%)
Total Revenue	**3,618.7**	**3,175.4**	**14.0**	**3,474.6**	**4.1**
Raw-material cost	2,105.4	1,758.7	19.7	2,032.0	3.6
Employee cost	286.1	268.0	6.7	283.0	1.1
Other expenses	715.6	704.4	1.6	705.9	1.4
Total operating cost	3,107.1	2,731.1	13.8	3,020.9	2.9
Operating profit	**511.7**	**444.3**	**15.2**	**453.7**	**12.8**
Other income	55.3	47.4	16.7	48.9	13.0
Interest and other financial cost	27.7	16.4	68.6	23.7	16.8
Depreciation	82.9	72.1	14.9	75.2	10.2
Profit Before Tax	**456.5**	**403.2**	**13.2**	**403.8**	**13.1**
Tax	106.2	100.2	6.0	92.4	14.8
Adjusted PAT before share of profit from associates/JV	**350.3**	**303.0**	**15.6**	**311.3**	**12.5**
Minority Interest (MI)/ Profit from associates	-56.0	-50.2	11.6	-5.0	-
Adjusted PAT after MI	**294.3**	**252.9**	**16.4**	**306.3**	**-3.9**
Extra-ordinary items	-4.7	-13.8	-	58.1	-
Reported PAT	**289.6**	**239.1**	**21.1**	**364.4**	**-20.5**
Adjusted EPS (Rs.)	3.8	3.3	15.6	3.4	12.5
			bps		**bps**
GPM (%)	41.8	44.6	-280	41.5	30
OPM (%)	14.1	14.0	15	13.1	108
NPM (%)	9.7	9.5	14	9.0	72
Tax rate (%)	23.3	24.8	-159	22.9	36

Source: Company, Sharekhan Research

Segment-wise performance Rs cr

Particulars	Q4FY23	Q4FY22	y-o-y %	Q3FY23	q-o-q %
India Beverages	2,246	1,954	15.0	2165.34	3.7
International Beverages	984	890	10.5	929.93	5.8
Total branded business	**3,231**	**2,844**	**13.6**	**3,095**	**4.4**
Non-branded business	385	345	11.8	391.3	-1.5
Others / Unallocated item	17	0	-	10.78	-
Less: Inter-segment sales	14	13	-	22.8	-
Total	**3,619**	**3,175**	**14.0**	**3,475**	**4.1**

Source: Company, Sharekhan Research

Segment-wise results Rs cr

Particulars	Q4FY23	Q4FY22	y-o-y %	Q3FY23	q-o-q %
India Beverages	312	258	21.0	300.4	3.7
International Beverages	127	128	-1.0	88.42	43.9
Total branded business	**439**	**386**	**13.7**	**389**	**12.9**
Non-branded business	26	29	-11.8	27.18	-4.9
Total	**465**	**415**	**11.9**	**416**	**11.7**

Source: Company, Sharekhan Research

Outlook and Valuation

■ Sector view - Rural recovery key for revival in volume growth

A recovery in rural demand is key for consumer goods companies to post recovery in volume growth in the quarters ahead. A normal monsoon, well spread across the country, and government support (especially prior to elections) might help rural demand to gradually pick up. In terms of categories, out-of-home, packaged foods, and edible oil categories are likely to maintain good momentum in the coming quarters. With mercury expected to rise in most parts of the country, demand for summer products is increasing as trade channels are building up the inventory prior to the season. On the margin front, stable raw-material prices post the recent correction in some of the key inputs (including crude oil and vegetable oils) will help margins consistently improve in the coming quarters. Low penetration in key categories (especially in rural India), lower per capita consumption compared with other countries, a large shift to branded products, and the emergence of new channels such as e-commerce/ D2C provide several opportunities for achieving sustainable growth in the medium to long run.

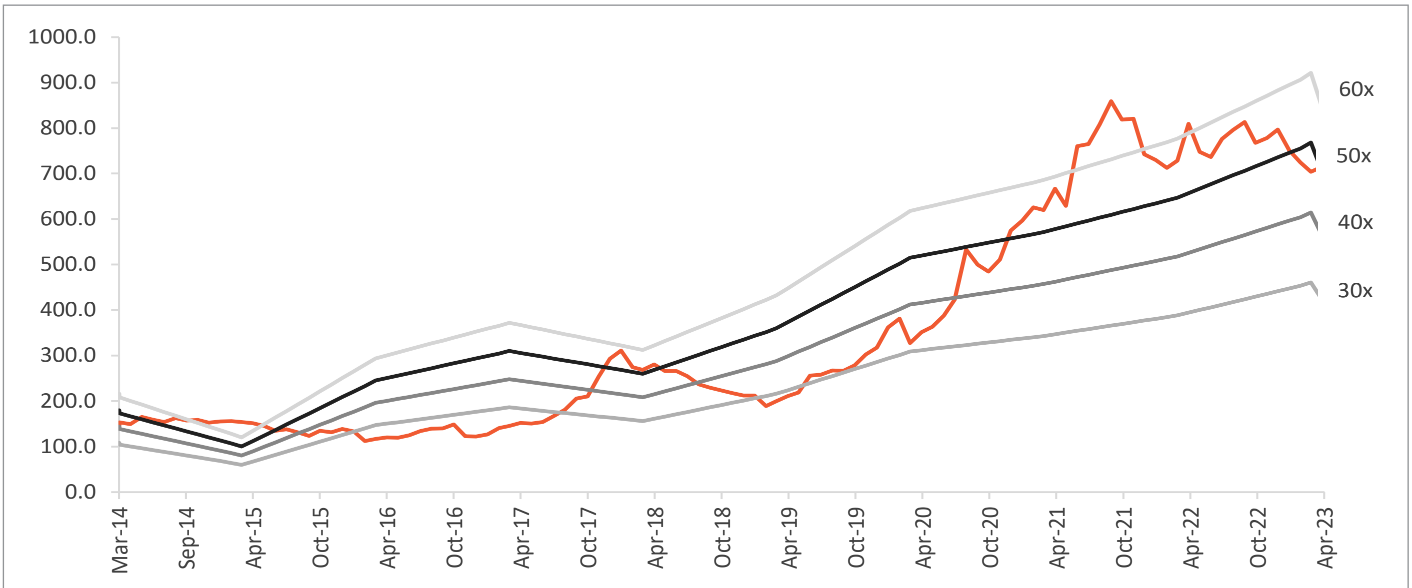
■ Company outlook - Eyeing consistent earnings growth

TCPL posted good performance in the backdrop of uncertain and volatile environment in FY2023, with revenues growing by 11% and PAT growing by 13%. Expansion of the company's distribution network and sustained share gains would help sales volume of the domestic tea business to improve to mid-to-high single digits in the medium to long term. Sustained product launches will drive the foods business's 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 the quarters ahead. 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. 870

TCPL posted a strong performance in Q4FY2023, beating our as well as street's expectations. The company is focusing on market share gains, product launches, network expansion, and cost restructuring to improve earnings growth over the next two to three years. Thus, with strategies in place, TCPL is well poised to achieve double-digit revenue and PAT CAGR of 13% and 17%, respectively, over FY2023-FY2025. The stock trades at 48.8x/40.7x its FY2024E/FY2025E earnings. With strong growth prospects and sturdy cash flows, we maintain our Buy recommendation on TCPL with an unchanged price target (PT) of Rs. 870. Any large inorganic deal focusing on enhancing shareholders' value will be a key trigger for valuations to improve in the near term.

One-year forward P/E (x) band



Source: Sharekhan Research

Peer Comparison

Companies	P/E (x)			EV/EBITDA (x)			RoCE (%)		
	FY23	FY24E	FY25E	FY23	FY24E	FY25E	FY23	FY24E	FY25E
Hindustan Unilever	66.5	61.6	52.1	46.6	43.0	36.5	24.1	25.9	30.1
Nestle India*	84.7	67.1	57.9	54.4	45.3	39.1	129.2	135.5	138.9
Tata Consumer Products	57.7	48.8	40.7	35.7	31.0	26.1	8.9	9.6	11.0

*Source: Company, Sharekhan estimates; *Nestle is a calendar year ending company*

About company

TCPL is a focused consumer products company uniting the principal food and beverage interests of the Tata Group under one umbrella. The company's product portfolio includes tea, coffee, water, salt, pulses, spices, ready-to-cook and ready-to-eat offerings, breakfast cereals, snacks, and mini meals. TCPL is the second-largest branded tea company in the world. The company's 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. The company's foods portfolio includes brands such as Tata Salt, Tata Sampann, Tata Soulfull, and Tata Q. In India, TCPL has a reach of over 200 million households. The company has a consolidated annual turnover of ~Rs. 13,800 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, growing 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's 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
Neelabja Chakrabarty	Company Secretary

Source: BSE; Company

Top 10 shareholders

Sr. No.	Holder Name	Holding (%)
1	Life Insurance Corporation of India	6.45
2	First State Investment ICVC	4.78
3	Mitsubishi UFJ Financial Group	3.94
4	Vanguard Group Inc.	2.52
5	BlackRock Inc.	2.18
6	Norges Bank	1.95
7	Government Pension Fund	1.94
8	Goldman Sachs Group Inc.	1.34
9	SBI Funds Management	1.24
10	Republic of Singapore	0.74

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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