

## Retail Equity Research

# Tata Consumer Products Limited

FMCG

BSE CODE: 500800

NSE CODE: TATACONSUM

Bloomberg CODE: TATACONS:IN

SENSEX: 51,349

**BUY**

12M Investment period

Rating as per Mid Cap

CMP Rs. 597

TARGET Rs. 684

RETURN 15% 

(Closing: 08-02-21)

**KEY CHANGES:**

**TARGET** 

**RATING** 

**EARNINGS** 

## Robust volume growth; Promising outlook

Tata Consumer Products (previously known as Tata Global Beverages Limited -TGBL) is an Indian multinational non-alcoholic beverages company and a subsidiary of Tata group. TGBL markets under the major brands like Tata Tea, Tetley, and Good Earth Teas etc.

- Q3FY21, revenue spiraled 23.1% YoY to Rs. 3,070cr driven by robust volume growth and market share gains across divisions.
- EBITDA margin dwindled 100bps YoY to 11.8% on account of higher operating costs and tea price inflation. However, adjusted PAT rose 31.8% YoY to Rs. 224cr.
- Given robust volume growth, economic revival and high growth potential from SoulFull to gain market share, we are positive on the company's performance. We upgrade our rating on the stock to BUY with a roll forward target price of Rs. 684 based on 48x FY23E EPS.

### Topline continues to grow

Consolidated revenue grew 23.1% YoY to Rs. 3,070cr, led by strong performance in India (+35.8% YoY) and International Beverages (+8.7% YoY). India Beverages was up 46.0% YoY to Rs. 1,275cr, aided by volume growth of ~10% YoY, and +94 bps YoY market share gain. India Foods business rose 18.8% YoY to Rs. 631cr with 12% YoY volume growth as Tata Salt added (2.7x value added) & Tata Sampann shines. NourishCo subsidiary registered ~9% QoQ to Rs. 33cr aided by key players Tata Gluco Plus and Tata Water Plus (1.6x value added). Additionally, International Beverages rose 8.7% YoY to Rs. 926, which included International tea (Rs. 549cr; +14% YoY with ~6% volume), US coffee business (Rs. 321cr; 11% YoY with ~7% YoY volume growth) and second wave of COVID in the US affected International food service. Separately, Tata Coffee (incl. Vietnam) was hit due to decline in domestic extractions.

### Margin under pressure on spike in tea prices

EBITDA came in at Rs. 361cr, up 13.6% YoY (-9.6% QoQ) due to strong profit delivery in International & India Foods business with solid control over discretionary costs. However, EBITDA margin contracted 100bps YoY to 11.8% impacted by higher cost of materials as a percentage of sales 45.4% vs. 37.9% in Q3FY20, owing to fluctuation in tea prices. Further, employee benefit expenses rose 94bps YoY as a % of sales. However, Adj. PAT rose 31.8% YoY at Rs. 224cr (vs. Rs. 170cr in Q3FY20).

### Key concall highlights

- Company signed definitive agreement to acquire 100% stack in Kottaram Agro Foods Pvt. Ltd., the owner of SoulFull brand. This should leverage company to strengthen its distribution network and start its journey in packaged food industry. Additionally, in order to re-balance its portfolio, management decided to exit its Matt coffee business in Australia.
- In Tata Starbucks business, ~92% of its stores have been reopened (with ~50% dine in capacity) with 13 new stores foraying into 3 new cities.
- Exceptional revenue growth of 24% recorded in Canada (+19% vol.), bagging 29.5% market share with Tetley Super 3.0 shining big.

### Valuation

Higher volume traction in India business, digitization across supply chain coupled with synergy benefits in upcoming period are the key growth drivers. Additionally, company is confident in navigating the margin pressure by focusing on volume and share growth. Hence, we are positive on the stock and upgrade our rating to a BUY with a roll forward target price of Rs. 684 based on 48x FY23E EPS.

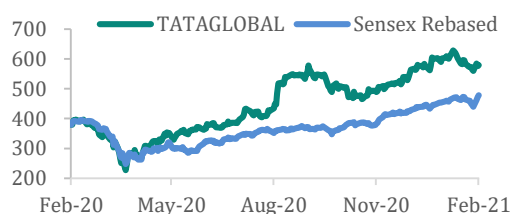
### Company Data

Market Cap (cr)	Rs. 54,190
Enterprise Value (cr)	Rs. 55,010
Outstanding Shares (cr)	92.2
Free Float	64.0%
Dividend Yield	0.5%
52 week high	Rs. 635
52 week low	Rs. 214
6m average volume (lacs)	2.1
Beta	0.9
Face value	Rs. 1

Shareholding %	Q1FY21	Q2FY21	Q3FY21
Promoters	34.7	34.7	34.7
FII's	19.5	21.7	25.7
MFs/Insti	19.9	17.7	13.6
Public	20.4	21.2	21.3
Others	5.6	4.8	4.7
Total	100.0	100.0	100.0
Promoters' pledge	2.7	2.7	2.7

Price Performance	3 Month	6 Month	1 Year
Absolute Return	19.3%	30.7%	54.8%
Absolute Sensex	24.6%	34.3%	24.1%
Relative Return*	-5.3%	-3.6%	30.8%

\*over or under performance to benchmark index



Consolidated (cr)	FY21E	FY22E	FY23E
Sales	11,179	12,074	13,149
Growth (%)	16.0	8.0	8.9
EBITDA	1,556	1,834	2,053
EBITDA Margin (%)	13.9	15.2	15.6
Adj. PAT	978	1,135	1,309
Growth (%)	33.1	16.2	15.3
Adj. EPS	10.6	12.3	14.2
Growth (%)	33.0	16.2	15.3
P/E	55.4	47.7	41.4
P/B	2.1	2.1	2.0
EV/EBITDA	35.4	29.8	26.5
ROE (%)	3.9	4.3	4.9
D/E	0.0	0.0	0.0

## Quarterly Financials (Consolidated)

### Profit & Loss Account

	Q3FY21	Q3FY20	YoY Growth %	Q2FY21	QoQ Growth %	9MFY21	9MFY20	YoY Growth %
Revenue	3,070	2,493	23.1	2,781	10.4	8,565	7,232	18.4
<b>EBITDA</b>	<b>361</b>	<b>318</b>	13.6	<b>400</b>	(9.6)	<b>1,244</b>	<b>984</b>	26.4
EBITDA margins	11.8	12.8	(100bps)	14.4	(260bps)	14.5	13.6	90bps
Depreciation	64	61	4.8	63	2.9	189	178	6.3
<b>EBIT</b>	<b>297</b>	<b>257</b>	15.7	<b>337</b>	(11.9)	<b>1,055</b>	<b>806</b>	30.8
Interest	18	20	(10.1)	18	1.2	53	59	(10.0)
Other Income	19	29	(31.7)	26	(25.7)	78	90	(12.5)
Exceptional Items	(6)	(1)	(629.8)	(24)	74.4	33	(10)	420.0
<b>PBT</b>	<b>292</b>	<b>264</b>	10.6	<b>321</b>	(9.1)	<b>1,113</b>	<b>826</b>	34.7
Tax	55	75	(26.5)	87	(36.7)	253	241	4.9
Sh. of profit from Associate	0	(5)	n.m.	39	n.m.	(4)	(3)	n.m.
Minority Interest	19	15	25.9	16	19.2	53	46	15.1
<b>Reported PAT</b>	<b>218</b>	<b>169</b>	28.8	<b>257</b>	(15.1)	<b>803</b>	<b>536</b>	49.7
Adjustments	6	1	629.8	24	(74.4)	(33)	10	(420.0)
<b>Adj. PAT</b>	<b>224</b>	<b>170</b>	31.8	<b>281</b>	(20.2)	<b>770</b>	<b>547</b>	40.8
No. of shares	92.2	92.2	-	92.2	-	92.2	92.2	-
<b>Adj. EPS (Rs.)</b>	<b>2.4</b>	<b>1.8</b>	31.8	<b>3.0</b>	(20.2)	<b>8.3</b>	<b>5.9</b>	40.8

### Change in Estimates

Year / Rs. cr	Old estimates		New estimates			Change %	
	FY21E	FY22E	FY21E	FY22E	FY23E	FY21E	FY22E
Revenue	10,890	11,762	11,179	12,074	13,149	2.7	2.7
EBITDA	1,599	1,781	1,556	1,834	2,053	(2.7)	3.0
Margins (%)	14.7	15.1	13.9	15.2	15.6	(80bps)	10bps
Adj. PAT	885	1,052	978	1,135	1,309	10.5	7.9
Adj. EPS	9.6	11.4	10.6	12.3	14.2	10.5	7.9

## PROFIT & LOSS

Y.E March (Rs. cr)	FY19A	FY20A	FY21E	FY22E	FY23E
<b>Revenue</b>	<b>7,252</b>	<b>9,637</b>	<b>11,179</b>	<b>12,074</b>	<b>13,149</b>
% change	6.4	32.9	16.0	8.0	8.9
<b>EBITDA</b>	<b>786</b>	<b>1,292</b>	<b>1,556</b>	<b>1,834</b>	<b>2,053</b>
% change	(6.3)	64.4	20.4	17.9	11.9
Depreciation	123	242	204	206	210
<b>EBIT</b>	<b>663</b>	<b>1,050</b>	<b>1,352</b>	<b>1,628</b>	<b>1,843</b>
Interest	52	78	70	74	44
Other Income	124	(163)	213	112	112
<b>PBT</b>	<b>735</b>	<b>809</b>	<b>1,495</b>	<b>1,666</b>	<b>1,910</b>
% change	(2.4)	10.2	84.8	11.4	14.7
Tax	261	274	374	416	477
Tax Rate (%)	35.5	33.9	25.0	25.0	25.0
<b>Reported PAT</b>	<b>408</b>	<b>460</b>	<b>1,011</b>	<b>1,135</b>	<b>1,309</b>
Adj*	33	275	(33)	-	-
<b>Adj PAT</b>	<b>441</b>	<b>735</b>	<b>978</b>	<b>1,135</b>	<b>1,309</b>
% change	(14.6)	66.4	33.1	16.2	15.3
No. of shares (cr)	63.1	92.1	92.2	92.2	92.2
<b>Adj EPS (Rs.)</b>	<b>7.0</b>	<b>8.0</b>	<b>10.6</b>	<b>12.3</b>	<b>14.2</b>
% change	(14.6)	14.0	33.0	16.2	15.3
DPS (Rs.)	2.5	2.7	5.9	6.7	6.7
CEPS (Rs.)	8.9	10.6	12.8	14.6	16.5

## CASH FLOW

Y.E March (Rs. cr)	FY19A	FY20A	FY21E	FY22E	FY23E
<b>Net inc. + Depn.</b>	<b>531</b>	<b>701</b>	<b>1,214</b>	<b>1,342</b>	<b>1,519</b>
Non-cash adj.	67	463	177	201	192
Changes in W.C	(388)	(82)	(713)	(64)	(220)
<b>C.F. Operation</b>	<b>210</b>	<b>1,082</b>	<b>678</b>	<b>1,479</b>	<b>1,492</b>
Capital exp.	(257)	(151)	(257)	(278)	(302)
Change in inv.	(10)	(280)	(55)	(57)	(28)
Other invest.CF	340	(242)	245	-	-
<b>C.F - Investment</b>	<b>73</b>	<b>(673)</b>	<b>(67)</b>	<b>(335)</b>	<b>(330)</b>
Issue of equity	-	-	-	-	-
Issue/repay debt	36	32	100	50	50
Dividends paid	(216)	(222)	(547)	(614)	(614)
Other finance.CF	(44)	(119)	(70)	(74)	(44)
<b>C.F - Finance</b>	<b>(224)</b>	<b>(308)</b>	<b>(517)</b>	<b>(638)</b>	<b>(609)</b>
Chg. in cash	59	101	95	506	553
Closing cash	1,034	1,621	1,716	2,222	2,775

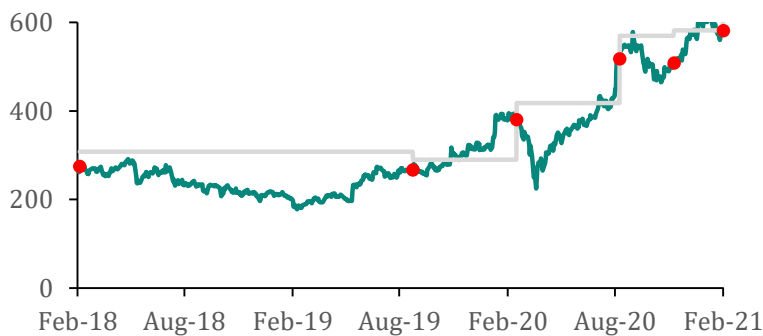
## BALANCE SHEET

Y.E March (Rs. cr)	FY19A	FY20A	FY21E	FY22E	FY23E
Cash	1,034	1,621	1,716	2,222	2,775
Accounts Receivable	681	922	1,016	1,037	1,129
Inventories	1,610	1,712	2,545	2,717	2,959
Other Cur. Assets	1,187	1,426	1,591	1,667	1,735
Investments	656	539	552	566	566
Gross Fixed Assets	2,069	2,220	2,477	2,755	3,057
Net Fixed Assets	809	1,208	1,261	1,332	1,425
CWIP	413	88	88	88	88
Intangible Assets	4,064	10,113	21,505	21,505	21,505
Def. Tax (Net)	58	30	40	45	51
Other Assets	428	844	550	550	550
<b>Total Assets</b>	<b>10,939</b>	<b>18,503</b>	<b>30,864</b>	<b>31,729</b>	<b>32,783</b>
Current Liabilities	1,129	1,591	1,809	1,939	2,060
Provisions	152	183	192	196	196
Debt Funds	1,117	1,182	1,282	1,332	1,382
Other Liabilities	182	639	666	654	681
Equity Capital	63	92	121	121	121
Reserves & Surplus	7,269	13,723	25,539	26,049	26,733
Shareholder's Fund	7,332	13,815	25,660	26,170	26,855
Minority Interest	1,028	1,092	1,254	1,437	1,608
<b>Total Liabilities</b>	<b>10,939</b>	<b>18,503</b>	<b>30,864</b>	<b>31,729</b>	<b>32,783</b>
<b>BVPS (Rs.)</b>	<b>116</b>	<b>150</b>	<b>278</b>	<b>284</b>	<b>291</b>

## RATIOS

Y.E March	FY19A	FY20A	FY21E	FY22E	FY23E
<b>Profitab. &amp; Return</b>					
EBITDA margin (%)	10.8	13.4	13.9	15.2	15.6
EBIT margin (%)	9.1	10.9	12.1	13.5	14.0
Net profit mgn.(%)	5.6	4.8	9.0	9.4	10.0
ROE (%)	5.6	3.3	3.9	4.3	4.9
ROCE (%)	7.0	6.5	4.8	5.6	6.2
<b>W.C &amp; Liquidity</b>					
Receivables (days)	34.3	34.9	33.2	31.3	31.4
Inventory (days)	146.6	115.5	144.4	142.6	143.0
Payables (days)	60.6	63.7	65.7	67.5	67.7
Current ratio (x)	3.1	2.9	3.1	3.2	3.4
Quick ratio (x)	1.6	1.7	1.6	1.8	1.9
<b>Turnover &amp; Leverage</b>					
Gross asset T.O (x)	3.6	4.5	4.8	4.6	4.5
Total asset T.O (x)	0.7	0.7	0.5	0.4	0.4
Int. coverage ratio (x)	12.6	13.5	19.3	22.1	41.4
Adj. debt/equity (x)	0.1	0.1	0.0	0.0	0.0
<b>Valuation</b>					
EV/Sales (x)	1.9	2.9	4.9	4.5	4.1
EV/EBITDA (x)	17.6	21.4	35.4	29.8	26.5
P/E (x)	28.8	36.7	55.4	47.7	41.4
P/BV (x)	1.7	2.0	2.1	2.1	2.0

## Recommendation Summary



Dates	Rating	Target
7-Feb-18	BUY	308
27-Aug-19	HOLD	290
19-Feb-20	HOLD	418
12-Aug-20	ACCUMULATE	570
12-Nov-20	ACCUMULATE	582
8-Feb-21	BUY	684

## Investment Rating Criteria

Ratings	Large caps	Midcaps	Small Caps
Buy	Upside is above 10%	Upside is above 15%	Upside is above 20%
Accumulate	-	Upside is between 10%-15%	Upside is between 10%-20%
Hold	Upside is between 0% - 10%	Upside is between 0%-10%	Upside is between 0%-10%
Reduce/sell	Downside is more than 0%	Downside is more than 0%	Downside is more than 0%
Not rated			

### Definition:

**Buy:** Acquire at Current Market Price (CMP), with the target mentioned in the research note.

**Accumulate:** Partial buying or to accumulate as CMP dips in the future.

**Hold:** Hold the stock with the expected target mentioned in the note.

**Reduce:** Reduce your exposure to the stock due to limited upside. The stock may still be a quality stock.

**Sell:** Exit from the stock.

**Not rated:** The analyst has no investment opinion on the stock.

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