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Company update

Consumer Staples &
Discretionary

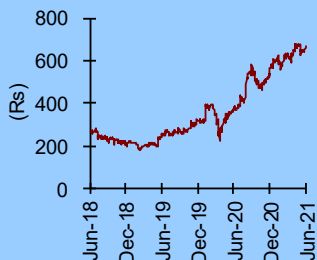
Target price Rs800

Shareholding pattern

	Sep '20	Dec '20	Mar '21
Promoters	34.7	34.7	34.7
Institutional investors	39.3	39.3	37.8
MFs and others	11.9	9.9	8.4
Banks/FIs	0.0	0.0	0.2
Insurance	5.1	3.0	3.4
FIs	22.3	26.4	25.8
Others	26.0	26.0	27.5

Source: BSE

Price chart



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INDIA

Tata Consumer Products

BUY
Maintained

Parallels between growth journey:
'PARACHUTE' and 'TATA SALT'

Rs687

There are brands. There are great brands. 'Parachute' (coconut oil brand of Marico), in our view, is one of them. It's a classic case of building (and sustaining) a brand and earnings brand margins in a (hitherto) commoditized category.

We believe that 'Tata Salt', a great brand (already), has the opportunity to build on awareness > availability and find similarities in its journey vis-à-vis Parachute.

In this report, we present why we believe 'Tata Salt' could potentially reach >60% market share (vs. ~34% now) and be the significant value-driver for Tata Consumer stock. While some investors believe 'Tata Sampann' as the next big value-driver for TCPL stock, in our view, it's likely to be Tata Salt. **BUY**; TP Rs800.

- **Parallels between Parachute and Tata Salt:** Both the brands have multiple similarities, such as: 1) they have been created from commodities (coconut oil and salt); 2) both operate in large unorganised markets; 3) most MNCs and many large domestic players have failed to gain market share in these categories; 4) distribution is relatively tough considering lower revenue per gram and freight costs; and 5) both have 'right to premiumise' the portfolio compared to peers.
- **Expect similar growth story for Tata Salt:** TCPL is focusing on: 1) increasing direct reach to 1mn outlets by Sept'21 (30% achieved till Mar'21) and total reach has increased to 2.4mn outlets now from 2mn outlets in Mar'20; 2) driving growth of premium variants of *Tata Salt*, which will also reduce the linkage between commodity and brand and will likely drive (a) steady value market share gains; (b) improve realizations; and (c) expand margins. As *Tata Salt* enjoys highest EBIT margins among most business segments of TCPL, its revenue outperformance is a potential margin expansion tailwind, in our view.
- **Analyzing the growth story of Parachute:** Marico worked on four strategies, viz.: 1) aggressive investments in brand-building (13% adspend CAGR over FY02-FY20 (at a corporate-level); 2) investments in distribution expansion (~6% CAGR in retail outlets over FY07-FY20); 3) introduction of premium variants; and 4) reduction in linkage between commodity (copra) and brand (*Parachute*) prices. This led to ~800bps market share expansion and 7.1% volume CAGR for *Parachute* over FY10-FY21. Volumes in the company's hair oil segment (premium variants of *Parachute* and other brands) grew at a CAGR of 12% over FY10-FY21.
- **Reiterate BUY:** We model TCPL to report revenue and PAT CAGR of 12.6% and 25.5% respectively over FY21-FY23E. We maintain our **BUY** rating and value the stock on SoTP basis with a target price of Rs800. Key risk is in execution, i.e. delays in realising integration gains, ramp-up of distribution, etc.

Market Cap	Rs633bn/US\$8.6bn	Year to March	FY20	FY21	FY22E	FY23E
Bloomberg	TATACONS IN	Revenue (Rs mn)	96,374	1,16,020	1,31,765	1,47,214
Shares Outstanding (mn)	921.6	Adj. Net Profit (Rs mn)	6,870	8,654	11,195	13,638
52-week Range (Rs)	680/330	Dil. Rec. EPS (Rs)	7.5	9.4	12.1	14.8
Free Float (%)	65.3	% Chg YoY	7.4	26.0	29.4	21.8
FII (%)	25.8	P/E (x)	92.2	73.2	56.6	46.4
Daily Volume (US\$'000)	35,870	CEPS (Rs)	10.1	12.2	15.0	17.8
Absolute Return 3m (%)	6.8	EV/EBITDA (x)	46.9	39.3	33.2	28.5
Absolute Return 12m (%)	85.5	Dividend Yield (%)	0.4	0.6	0.7	0.7
Sensex Return 3m (%)	2.7	RoCE (%)	7.9	7.5	8.8	10.0
Sensex Return 12m (%)	55.2	RoE (%)	6.5	6.1	7.5	8.7

Please refer to important disclosures at the end of this report

Parachute vs Tata Salt – The parallels

We believe *Tata Salt's* growth journey will be similar to *Parachute*. While *Tata Salt* is already an established brand, we expect it to have accelerated revenue growth over next decade along with steady margin expansion.

Similarities between *Parachute* and *Tata Salt*

Commodities converted to brands: *Parachute* is pure coconut oil whereas *Tata Salt* is naturally found salt. While both the products are commodities, consumers buy them on the basis of purity and quality. Due to consistent quality and sustained brand investments (and in winning consumer trust), these products have become strong brands in India.

It is relatively tougher to create brands in pure commodity segments. We believe creating brands that appeal to consumers across income levels is even tougher.

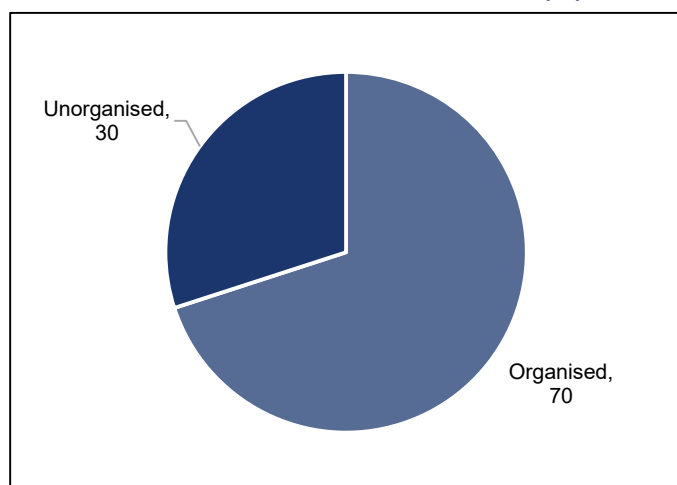
Table 1: Key consumer products that converted from commodities to brands (just an indicative list, not exhaustive)

Products	Segment
<i>Saffola</i>	Edible oil
<i>Tata Sampann</i>	Pulses
<i>Amul</i>	Liquid milk
<i>Tata Salt</i>	Packaged Salt
<i>Parachute</i>	Coconut oil
<i>Aashirwad</i>	Atta

Source: Company, I-Sec research

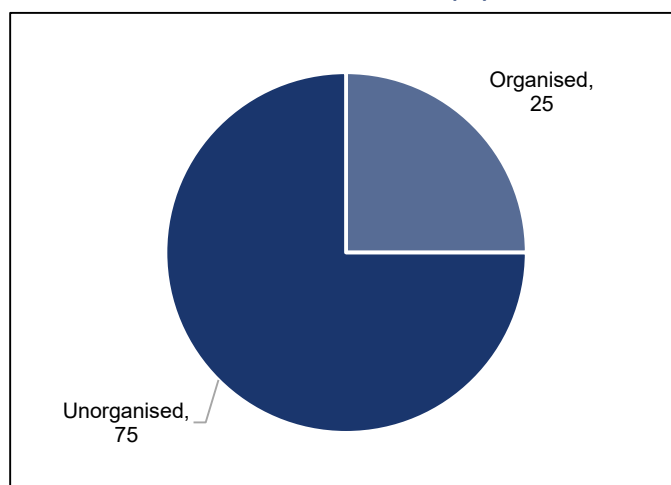
Both brands compete with large unorganised segment: *Parachute* as well as *Tata Salt* operate in large unorganised markets. While the overall market growth (value) will likely be in mid/high single digits, these established brands have continuing potential to drive category formalisation.

Chart 1: Market structure of coconut oil (%)



Source: Company data, I-Sec research

Chart 2: Market structure of salt (%)



Source: Company data, I-Sec research

MNCs (mostly) don't compete in these 'Indianised' consumer products: Most MNCs operate in segments where the parent is strong, or they have some differentiation to offer. We note most MNCs do not operate in Indianised consumer products like coconut oil and perceived low-value-add categories like salt. Hence, we believe that the relative competitive intensity will remain low.

Table 2: All major brands in salt and coconut oil belong to Indian companies

Segment	Brand	Company
Coconut oil	<i>Parachute</i>	Marico
	<i>Nihar</i>	Marico
	<i>Vatika</i>	Dabur
	<i>Anmol</i>	Dabur
	<i>Cocoraj</i>	Raj Oil Mills
Salt	<i>Tata Salt</i>	Tata Consumer
	<i>Shakti</i>	Tata Consumer
	<i>Nirma</i>	Nirma
	<i>Saffola</i>	Marico
	<i>Aashirwad</i>	ITC

Source: Company, I-Sec research

Raw material sourcing advantage is important: For brands that have migrated from commodities, the sourcing of raw materials at lowest cost is an important competitive advantage. As the sourcing is at lower cost, it is tougher for peers to compete. It also allows investment of additional sums in brand-building.

Marico procures one out of six coconuts sold in India and Tata Salt has large salt manufacturing unit at Mithapur, Gujarat.

Lower success ratio in coconut oil and salt brands for peers: We note multiple players have attempted major forays (or already had some presence) into coconut oil and salt categories. HUL tried with coconut / hair oils under multiple brands such as *Nihar*, *Clinic plus*, *Dove Elixir*. However, many of these brands has not achieved material market presence over a period of time. Consumer companies such as HUL (*Annapurna*, *Captain Cook*), Nirma (*Nirma*), Marico (*Saffola*), ITC (*Aashirwad*) has presence in salt category, however, a marginal national presence, in our view.

Table 3: Low success ratio in coconut oil and salt

Segment	Brand	Company
Coconut oil/ Value added Coconut & hair oil	<i>Clinic Plus, Dove Elixir</i>	HUL
	<i>Cocoraj</i>	Raj Oil Mills
	<i>Navratna Coconut cool</i>	Emami
	<i>Garnier</i>	L'Oréal
Salt	<i>Annapurna</i>	HUL
	<i>Captain Cook</i>	HUL
	<i>Nirma</i>	Nirma
	<i>Saffola</i>	Marico
	<i>Aashirwad</i>	ITC

Source: Company, I-Sec research

All about distribution expansion: Distribution of these products is extremely challenging due to low revenue per gram. We believe a large size and portfolio of multiple products (mixed load) is crucial for success in coconut oil as well as salt.

Table 4: Revenue per gram of *Tata Salt* is low...

Particulars	Price per gram (paise)
Tata Salt	2
Maggi	17
Cadbury Dairy Milk	77
Amul milk	6
Lays	33
Good Day biscuits	17
Parle G biscuits	8
Real Juice	11
Amul Dahi	12
Go Cheese	80

Source: Company data, I-Sec research

Table 5: ... as well as *Parachute* coconut oil

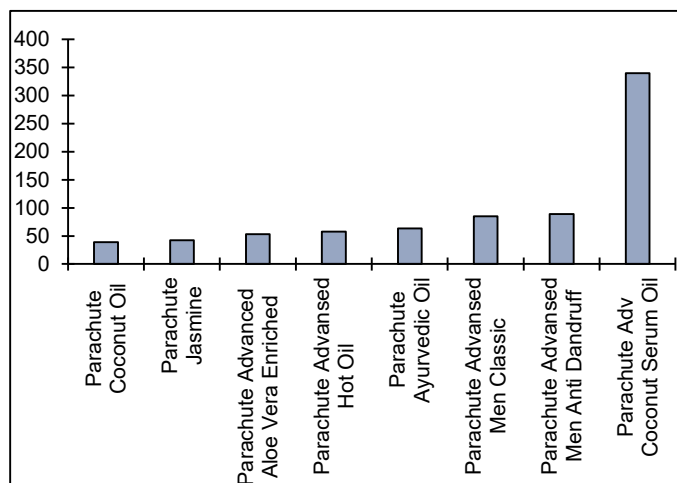
Particulars	Price per gram (paise)
Parachute Coconut oil	39
Vatika	66
Navratna	78
Bajaj Almond Drops	65
Godrej Crème Hair colour	125
Pantene	67
Head & Shoulders	94
Clinic Plus	48
Clear	130
Dove shampoo	67

Note: Assumed 1ml = 1gm for oil and shampoo.

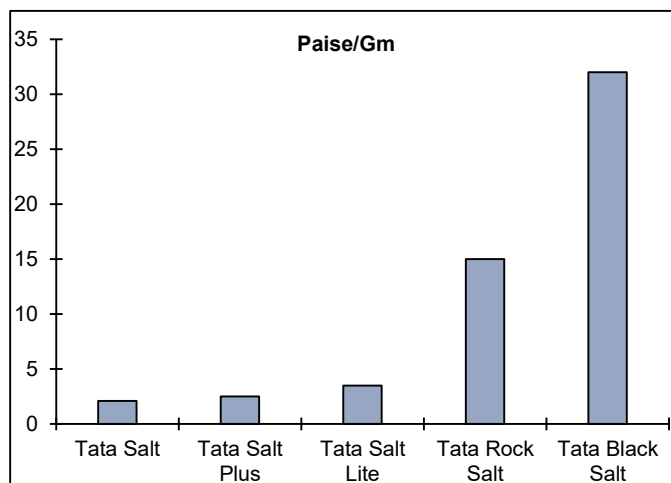
Source: Company data, I-Sec research

'Right-to-premiumise' available largely to established players only: Companies that have got the basic products right have a higher success probability while introducing brand stretches / extensions and / or premiumisation attempts.

Parachute has introduced multiple value-added coconut oil variants (*Vacno!*) and *Tata Salt* has also introduced premium salt variants.

Chart 3: Premiumisation of *Parachute* (Paise/ml)

Source: Company data, I-Sec research

Chart 4: Premiumisation of *Tata Salt* (Paise/Gm)

Source: Company data, I-Sec research

Likely journey-path of *Tata Salt*

TCPL is working on multiple growth strategies for *Tata Salt*: 1) expanding the distribution network and reducing the excess layers in the network, and 2) focussing on premiumising the product portfolio, which will also reduce the linkage between input prices and final product prices.

Given that these efforts echo *Parachute's* growth journey; we expect *Tata Salt* to emerge as a strong value creator for TCPL in the next decade.

Steady expansion of distribution network: Tata Salt plans to increase its direct distribution to 1mn outlets by Sept'21 from 0.5mn outlets in Mar'20. It also plans to double its indirect distribution over FY20-FY23.

TCPL has also reduced the excess layers in distribution via reduction of stockists. It has also streamlined the trade margins for distributors and retailers. The merger of distribution networks of *Tata Tea* and *Tata Salt* is also likely to stimulate distribution of the latter.

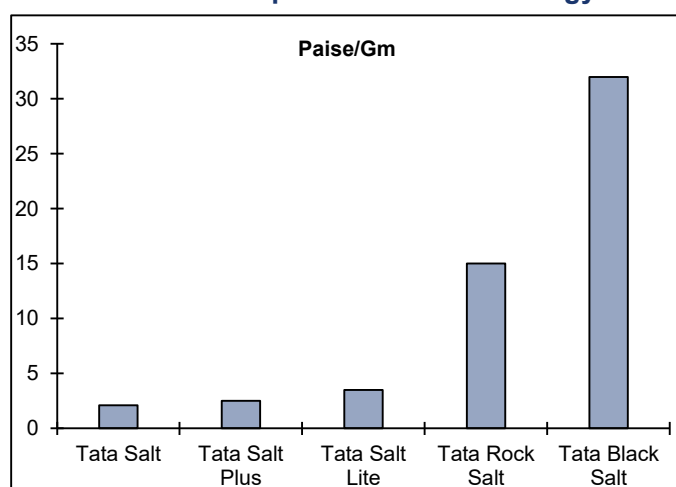
Table 6: Initiatives to improve productivity of distribution network

Initiative	Strategy
Expansion of direct reach	To expand direct reach from 0.5mn outlets to 1mn outlets by Sept'21
Expansion of indirect reach	To double total reach in three years
Reduction in Stockists	To save excess trade margins by 100-200bps
Restructuring on Distributor margins	To save costs
Merger of Tata Salt & Tata Tea distribution	To drive growth of both brands

Source: Company data, I-Sec research

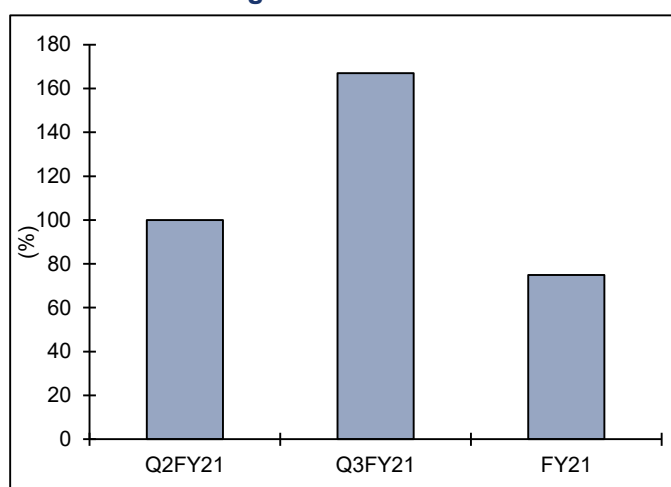
Premiumisation opportunity: TCPL is also focussing on the premiumisation opportunity. Drawing parallels from *Parachute's* premiumisation story, we believe *Tata Salt* has the 'right' to premiumise its portfolio compared to its peers which had limited success in basic salt variants. Steady premiumisation of salt portfolio will lead to better realisations as well as margins for TCPL.

Chart 5: *Tata Salt's* premiumisation strategy



Source: Company data, I-Sec research

Chart 6: Revenue growth in 'value-added salt'



Source: Company data, I-Sec research

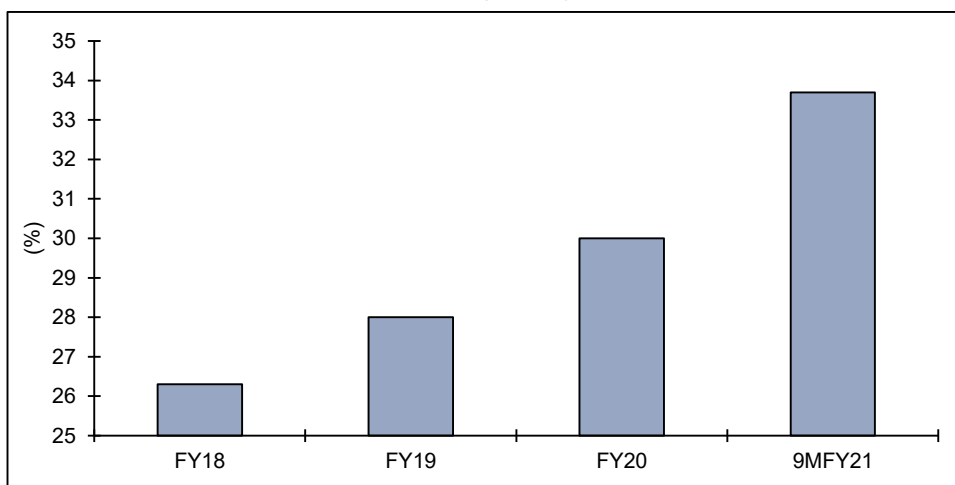
Chart 7: Premium variants of Tata Salt



Source: Company data, I-Sec research

Steady expansion in market share: While *Tata Salt* is the largest brand in India’s salt market, we believe expansion of its distribution network as well as premiumisation will lead to sustainable market share gains.

Chart 8: *Tata Salt’s* market share trajectory

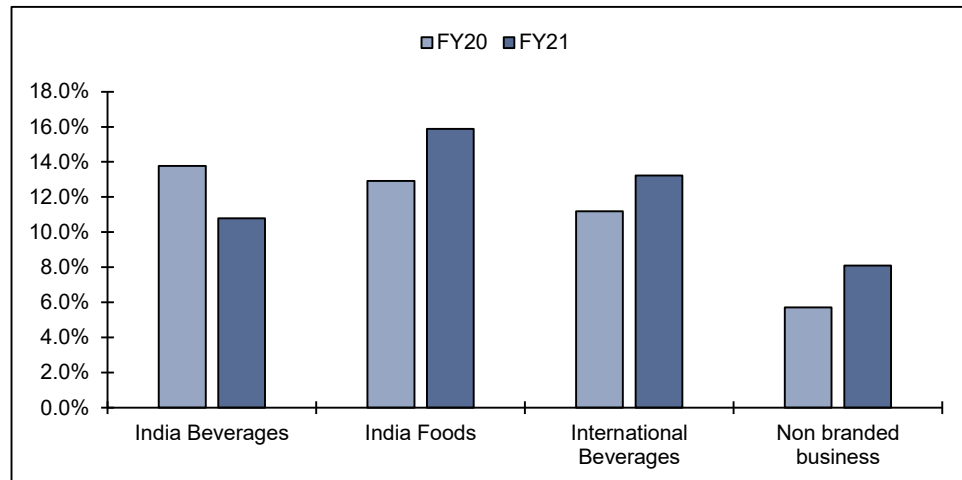


Source: Company, I-Sec research

Margin-accretive growth for TCPL

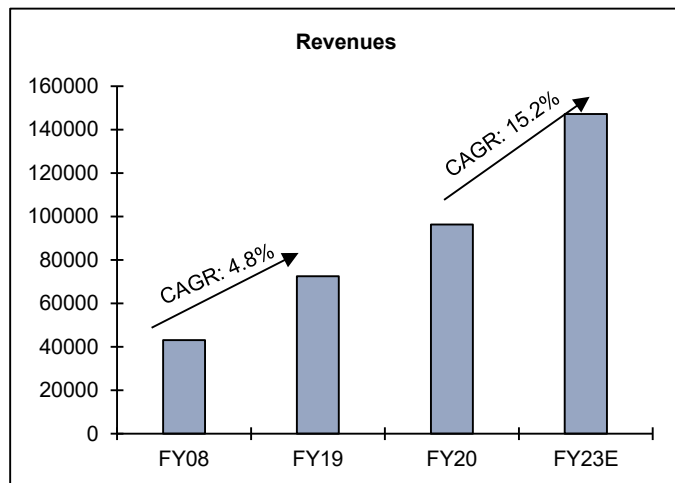
Tata Salt has the highest operating margins among all the business segments of TCPL. Strong revenue growth as well as premiumisation of *Tata Salt* may potentially lead to a template of profit growth outperforming revenue growth for TCPL over medium term.

Chart 9: Segment-wise EBIT margins for TCPL



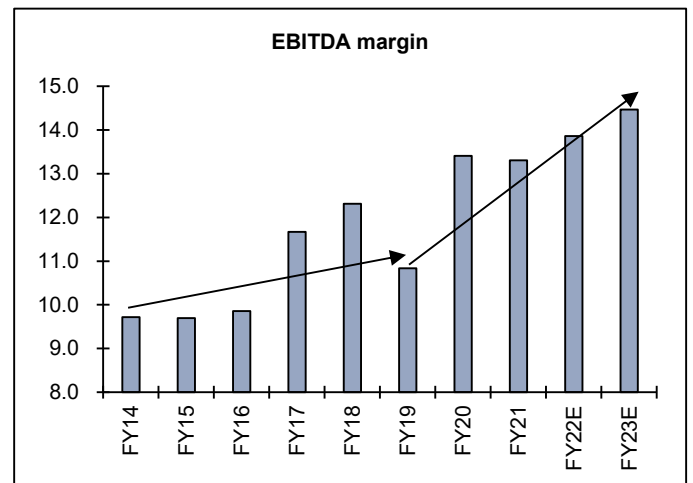
Source: Company data, I-Sec research

Chart 10: Strong improvement in revenue CAGR...



Source: Company data, I-Sec research

Chart 11: ... and expansion of EBITDA margins



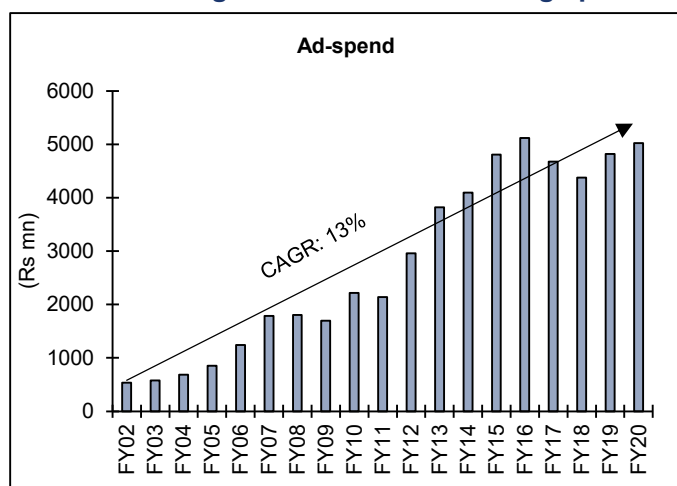
Source: Company data, I-Sec research

Analyzing Parachute's growth journey

We analyse the journey of Parachute over past 20+ years as it evolved to a stronger brand. Marico has worked on four growth strategies: 1) aggressive investments in brand-building; 2) investments in steady distribution expansion; 3) introduction of premium variants; and 4) reducing linkage between commodity prices and *Parachute* coconut oil. This has led to steady revenue growth as well as margin expansion in *Parachute*.

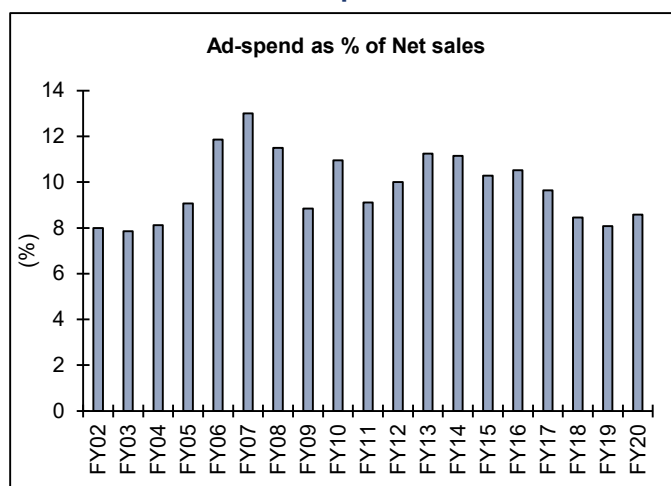
Aggressive investments in brand-building: Marico has steadily increased the adspend to sales ratio from 8% in FY02 to 8.6% in FY20. While it has invested in multiple brands such as *Parachute*, *Saffola*, *Nihar*, *Hair & Care* and other acquired brands, we believe there has been steady increase in adspend for *Parachute* too (particularly the variants, extensions etc.).

Chart 12: Strong CAGR in brand-building spend



Source: Company data, I-Sec research

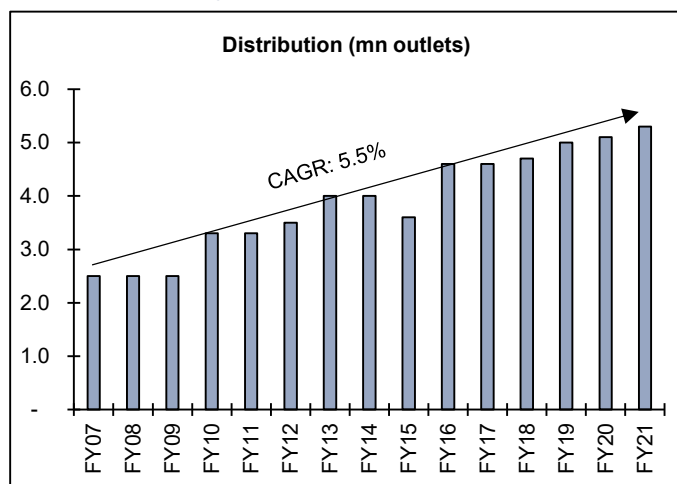
Chart 13: Increase in adspend as % of net sales



Source: Company data, I-Sec research

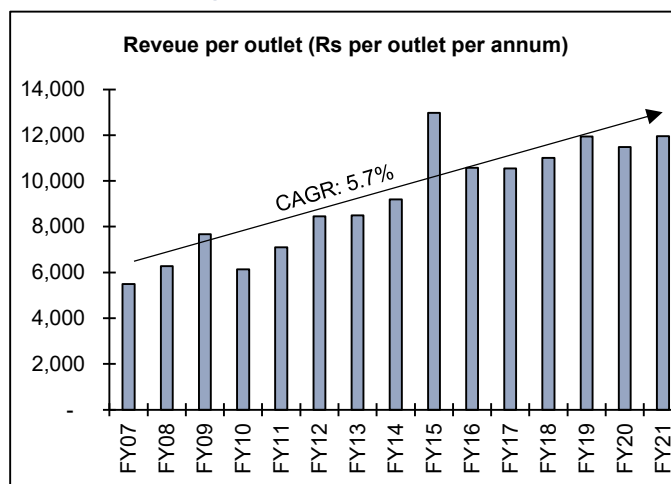
Distribution network expansion: Marico and *Parachute* has expanded its distribution network to 5.3mn in FY21 from 2.5mn retail outlets in FY07. It has also been able to improve revenue per outlet – indicating market share gains per outlet.

Chart 14: Steady expansion of distribution network



Source: Company data, I-Sec research

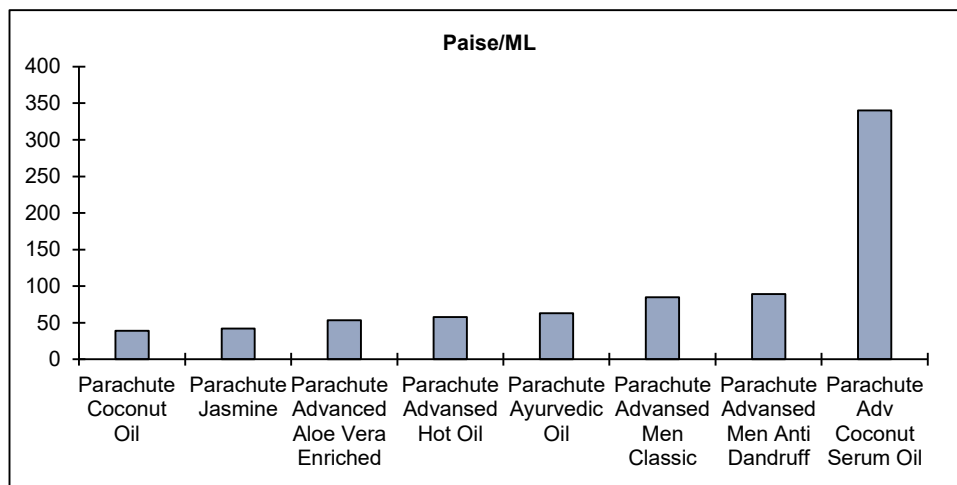
Chart 15: Rising revenue per outlet



Source: Company data, I-Sec research

Premiumisation opportunity: Marico has created a large product portfolio of coconut oil based premium variants. We note steady premiumisation of the portfolio is leading to higher revenues and realisations.

Chart 16: Large portfolio of premium products under Parachute brand

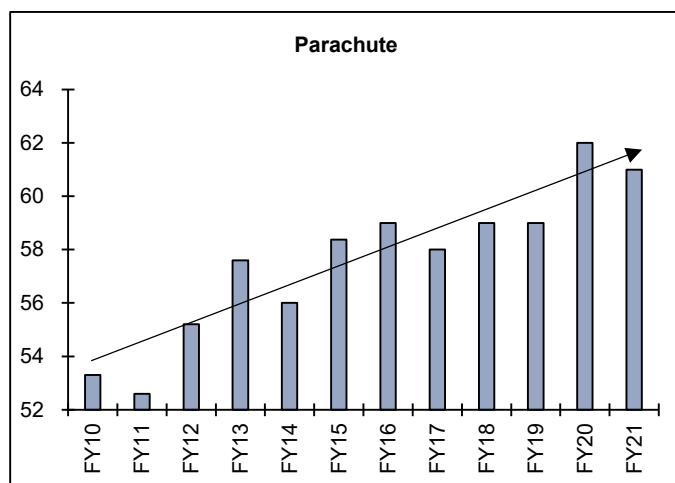


Source: Company data, I-Sec research

Reducing linkage with commodity prices: Our analysis of retail price (MRP) movement of 50ml *Parachute* coconut oil - adjusted for trade margins of ~15% over the past 20 years – indicate that *Parachute's* gross margin has (likely) steadily expanded. We believe Marico has been able to (somewhat) reduce the linkage between the commodity (copra) movements and brand *Parachute*.

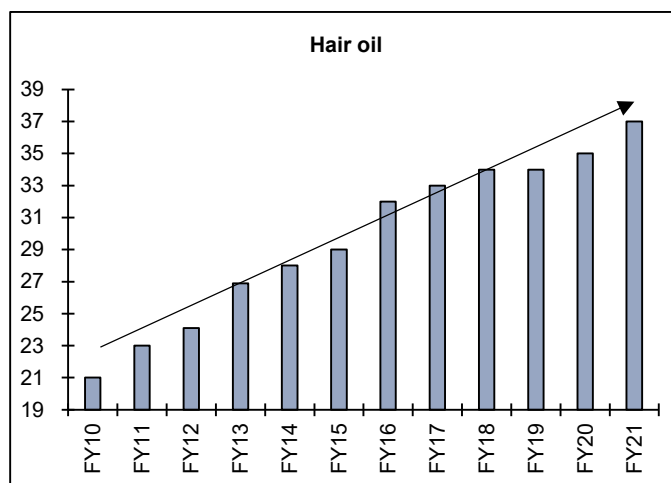
Steady expansion in market share: While most other coconut oil brands have likely failed to gain market share, *Parachute* has been able to do so over FY10-FY20. From 53% in FY10, its market share has expanded to 61% in FY21. Market share of hair oil (including *Parachute* value-added hair oils) has increased from 21% in FY10 to 37% in FY21.

Chart 17: Market share expansion for Parachute



Source: Company data, I-Sec research

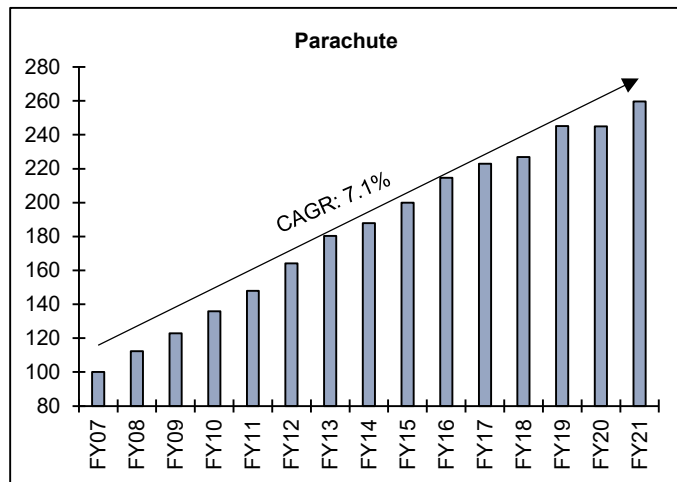
Chart 18: Market share expansion in hair oils



Source: Company data, I-Sec research

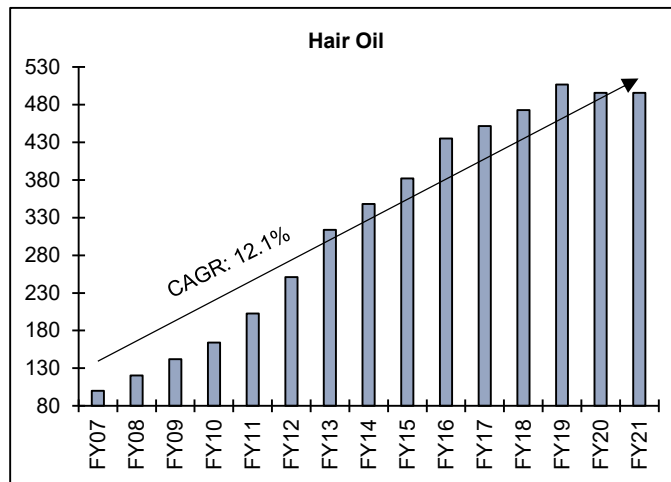
Strong volume growth for Parachute and hair oils: Parachute has been able to report volume growth of 7.1% over FY07-FY21. Hair oil portfolio (mostly value-added variants of coconut oil) reported a volume CAGR of 12.1% over FY07-FY21.

Chart 19: Strong volume CAGR for Parachute...



Source: Company data, I-Sec research

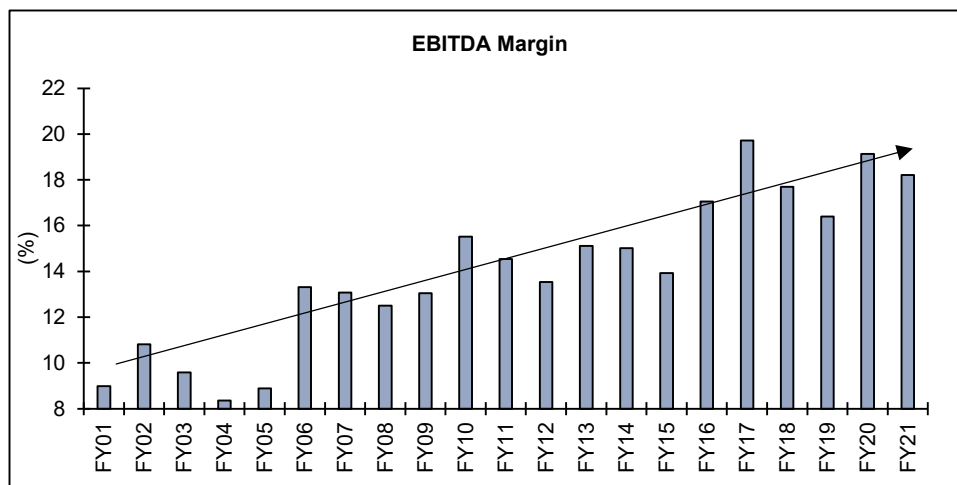
Chart 20: ... and hair oil portfolio



Source: Company data, I-Sec research

Improvement in company's EBITDA margin: Marico's EBITDA margin has expanded from 9% in FY01 to 18.2% in FY21, the key reasons being: 1) improvement in Parachute's brand equity, and 2) premiumisation.

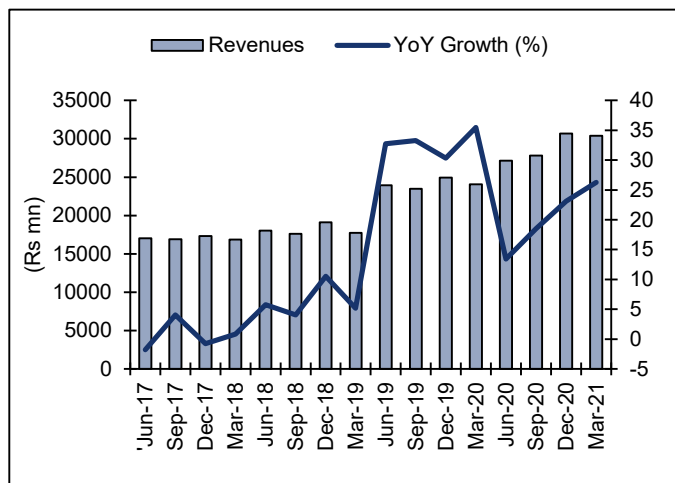
Chart 21: Improvement in EBITDA margin for Marico*



Source: Company data, I-Sec research *Standalone

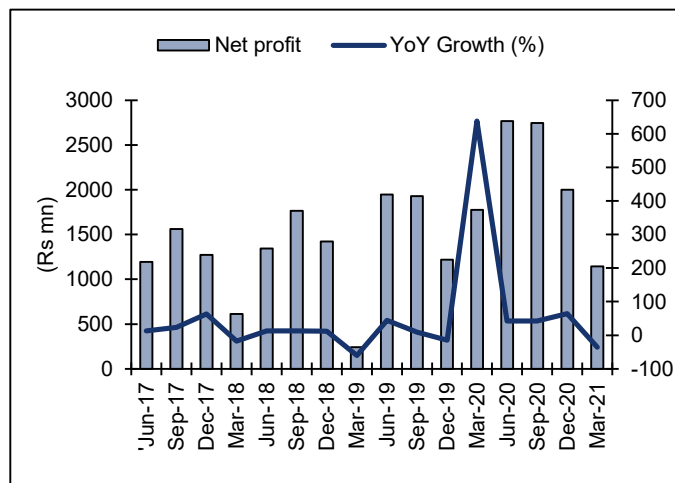
Key charts – Quarterly (Consolidated)

Chart 22: Revenues and growth rates



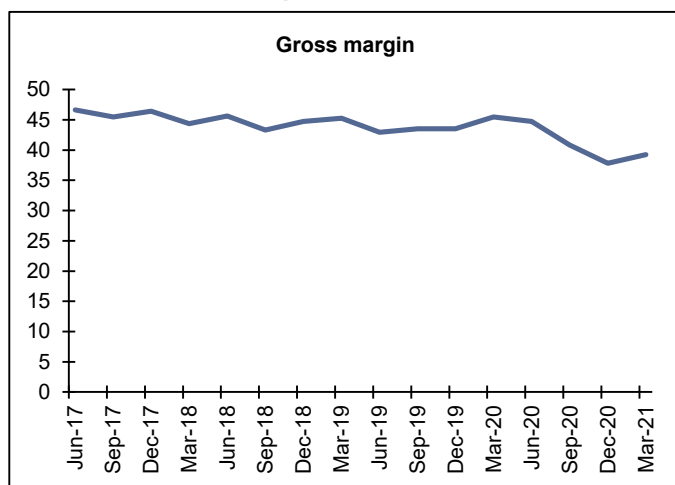
Source: Company data, I-Sec research

Chart 23: Net profit and growth rates



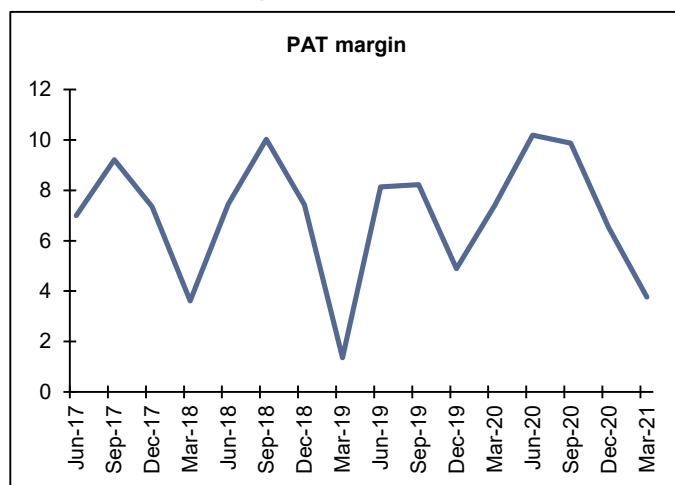
Source: Company data, I-Sec research

Chart 24: Gross margin (%)



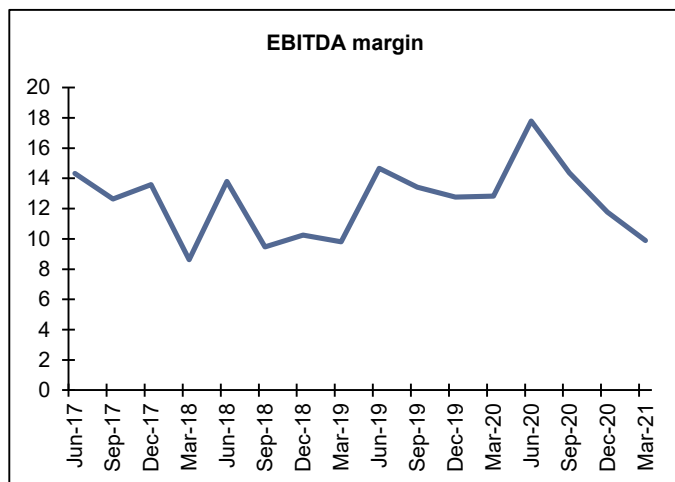
Source: Company data, I-Sec research

Chart 25: PAT margin (%)



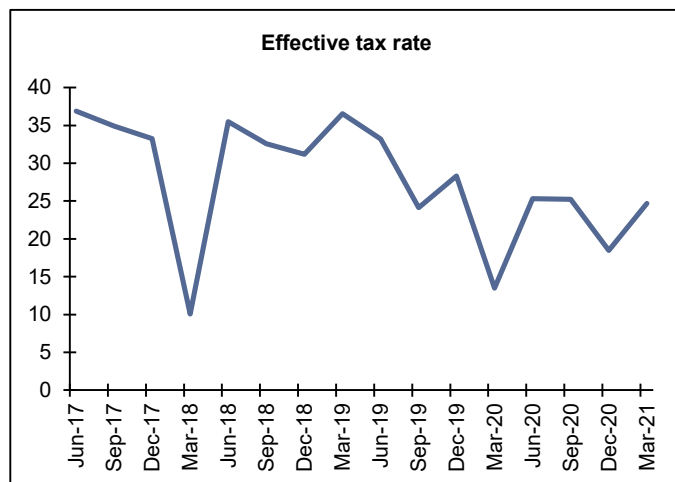
Source: Company data, I-Sec research

Chart 26: EBITDA margin (%)



Source: Company data, I-Sec research

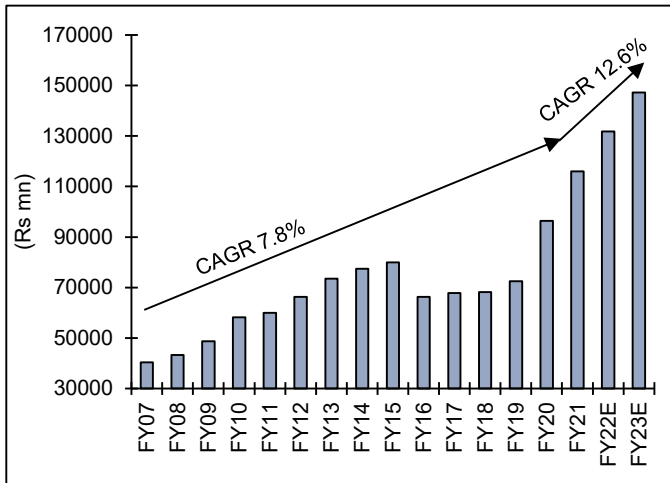
Chart 27: Effective tax rate (%)



Source: Company data, I-Sec research

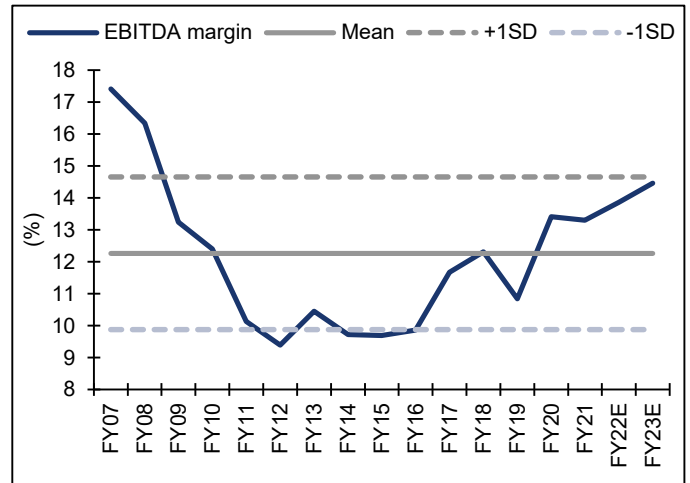
Key charts – Annual

Chart 28: Revenues and growth rates



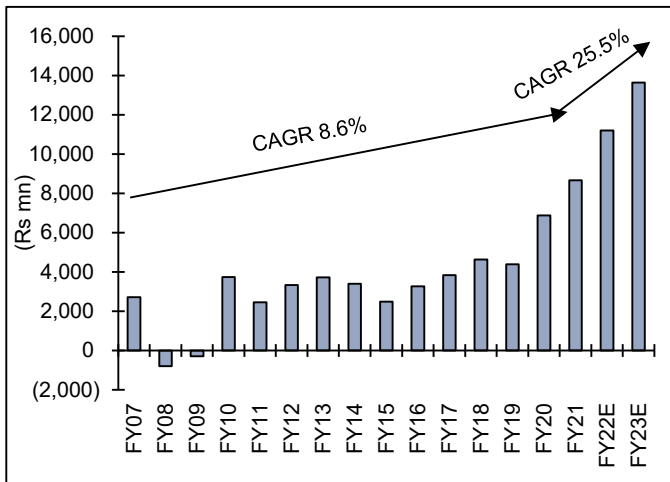
Source: Company data, I-Sec research

Chart 29: EBITDA margin



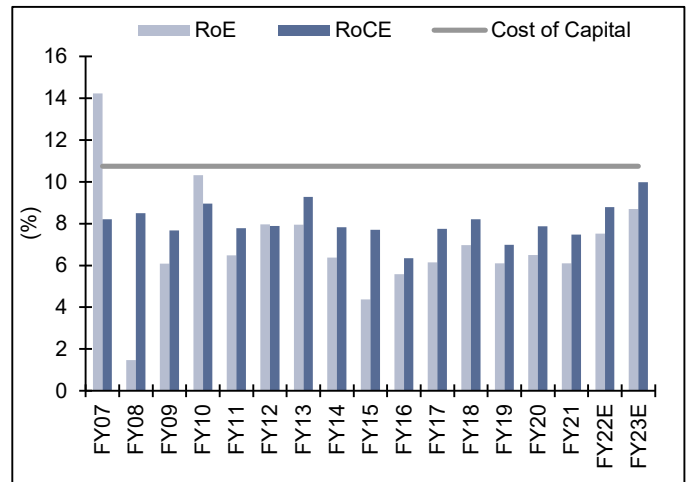
Source: Company data, I-Sec research

Chart 30: Net profit and growth rates



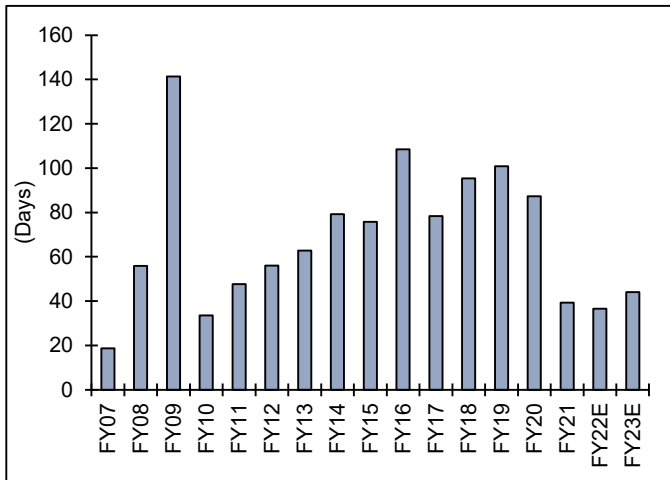
Source: Company data, I-Sec research

Chart 31: RoE & RoCE



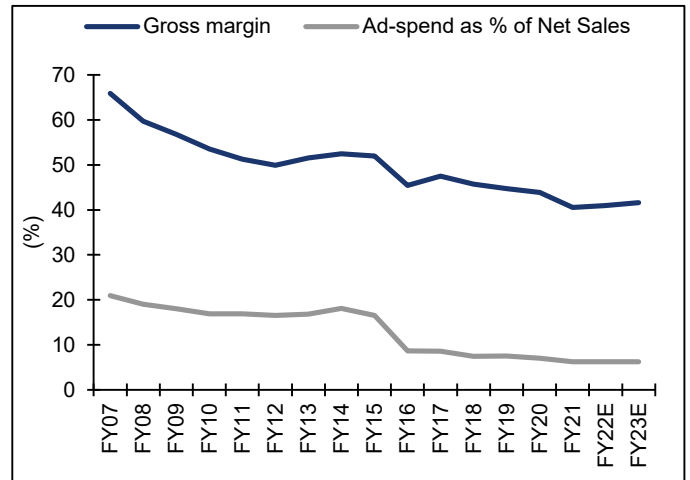
Source: Company data, I-Sec research

Chart 32: Net working capital days



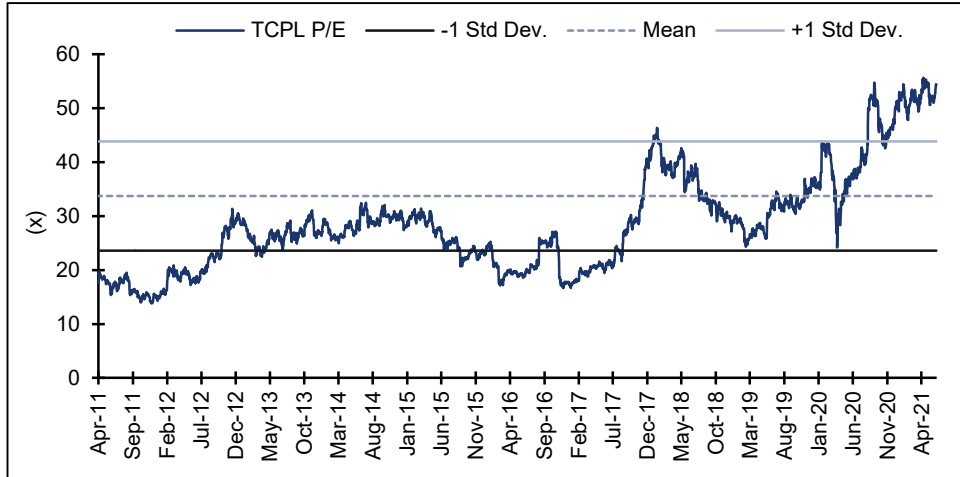
Source: Company data, I-Sec research

Chart 33: Gross margin & ad-spend



Source: Company data, I-Sec research

Chart 34: Mean P/E(x) and standard deviation



Source: Company data, I-Sec research

Financial summary

Table 7: Profit & Loss statement
(Rs mn., year ending March 31)

	FY20	FY21	FY22E	FY23E
Net Sales	96,374	1,16,020	1,31,765	1,47,214
Operating Expenses	83,453	1,00,583	1,13,500	1,25,919
EBITDA	12,922	15,438	18,265	21,294
% margins	13.4	13.3	13.9	14.5
Depreciation & Amortisation	2,417	2,547	2,636	2,763
Gross Interest	779	687	315	180
Other Income	1,116	1,214	1,723	1,875
Recurring PBT	10,842	13,417	17,036	20,227
Less: Taxes	2,742	3,173	4,344	5,158
Less: Minority Interest	(1,230)	(1,590)	(1,497)	(1,431)
Net Income (Reported)	6,937	9,842	11,195	13,638
Extraordinaries (Net)	67	1,188	-	-
Recurring Net Income	6,870	8,654	11,195	13,638

Source: Company data, I-Sec research

Table 8: Balance sheet
(Rs mn., year ending March 31)

	FY20	FY21	FY22E	FY23E
Assets				
Total Current Assets	56,821	70,486	78,279	87,133
of which cash & cash eqv.	16,215	30,749	33,843	39,480
Total Current Liabilities & Provisions	15,528	26,614	29,815	27,664
Net Current Assets	41,292	43,872	48,464	59,469
Investments	13,831	14,528	14,157	13,890
Net Fixed Assets	1,13,125	1,16,036	1,16,399	1,16,581
Capital Work-in-Progress	954	1,129	1,129	1,129
Total Assets	1,69,202	1,75,564	1,80,149	1,91,068
Liabilities				
Borrowings	17,264	13,973	10,560	11,461
Deferred Tax Liability	2,865	5,321	5,321	5,321
Minority Interest	10,925	10,925	11,921	12,956
Equity Share Capital	922	922	922	922
Face Value per share (Rs)	1.00	1.00	1.00	1.00
Reserves & Surplus*	1,37,227	1,44,424	1,51,425	1,60,408
Less: Misc. Exp. n.w.o.				
Net Worth	1,38,149	1,45,345	1,52,346	1,61,330
Total Liabilities	1,69,202	1,75,564	1,80,149	1,91,068

Source: Company data, I-Sec research

Table 9: Cashflow statement
(Rs mn., year ending March 31)

	FY20	FY21	FY22E	FY23E
Operating Cashflow	11,643	14,729	13,921	16,137
Working Capital Changes	(820)	1,834	(710)	(4,596)
Capital Commitments	(2,518)	(4,033)	(3,000)	(2,944)
Free Cashflow	8,305	12,531	10,211	8,596
Cashflow from Investing Activities	(6,728)	(4,084)	(1,277)	(1,070)
Issue of Share Capital	-	-	-	-
Inc (Dec) in Borrowings	(867)	(1,678)	(4,646)	(180)
Dividend paid	(2,216)	(2,582)	(4,193)	(4,654)
Chg. in Cash & Bank balance	1,011	8,219	3,095	5,637
Closing cash & balance	16,215	17,732	33,843	39,480

Source: Company data, I-Sec research

Table 10: Key ratios
(Year ending March 31)

	FY20	FY21	FY22E	FY23E
Per Share Data (Rs)				
EPS	7.5	9.4	12.1	14.8
Cash EPS	10.1	12.2	15.0	17.8
Dividend per share (DPS)	2.7	4.1	4.6	5.1
Book Value per share (BV)	149.9	157.7	165.3	175.1
Growth (%)				
Net Sales	32.9	20.4	13.6	11.7
EBITDA	64.4	19.5	18.3	16.6
PAT	41.2	23.8	27.0	18.7
DPS	8.0	50.0	12.3	11.0
Valuation Ratios (x)				
P/E	92.2	73.2	56.6	46.4
P/CEPS	68.2	56.5	45.8	38.6
P/BV	4.6	4.4	4.2	3.9
EV / EBITDA	46.9	39.3	33.2	28.5
EV / Sales	6.3	5.2	4.6	4.1
Operating Ratios				
Raw Material / Sales (%)	56.1	59.5	59.0	58.4
Employee cost / Sales (%)	9.2	8.4	8.4	8.4
Other exps / Sales (%)	21.3	18.8	18.7	18.7
Other Income / PBT (%)	10.3	9.0	10.1	9.3
Effective Tax Rate (%)	25.3	23.6	25.5	25.5
Working Capital (days)	87.3	39.3	36.6	44.1
Inventory Turnover (days)	64.8	70.8	70.0	69.0
Receivables (days)	34.9	24.0	24.0	21.0
Payables (days)	35.8	51.1	50.0	36.0
Net D/E (x)	(0.1)	(0.2)	(0.2)	(0.2)
Profitability Ratios (%)				
Net Income Margins	7.1	7.5	8.5	9.3
RoACE	7.9	7.5	8.8	10.0
RoAE	6.5	6.1	7.5	8.7
Dividend Payout	36.2	43.1	37.5	34.1
Dividend Yield	0.4	0.6	0.7	0.7
EBITDA Margins	13.4	13.3	13.9	14.5

Source: Company data, I-Sec research

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