

## Elevated tea prices curbs margins; growth story intact

Tata Consumer Product (TCPL) reported a mixed set of numbers with splendid growth in tea, salt & pulses categories. Revenue grew 26.3% led by robust 59.6% growth in India beverage (tea, coffee & Nourisco) segment & 22.4% growth in consumer foods business (salt, pulses). International beverages sales remained flat. Non branded business saw growth of 28.8%. With significant increase (~70%) in tea procurement prices, TCPL took staggered price hikes. However, price increases were insufficient to pass on entire cost inflation. The sharp increase in Indian tea prices led to a 623 bps contraction in gross margins. Though it was able to save 73 bps in employee spends, 42 bps in marketing spends & 214 bps in overhead spends, it was not enough offset the cost inflation. Operating profit de-grew 2.6% to ₹ 300.2 crore. Operating profit margins fell 290 bps to 9.9% in Q4FY21. The company incurred ₹ 63.9 crore expense on account of loss from disposal of overseas business entity. Moreover, loss from associates was ₹ 59 crore in Q4. With lower EBITDA margins & extraordinary expenses, PAT was at ₹ 74 crore against loss of ₹ 133 crore in the corresponding quarter.

### Market share gains across segment

With a broader trend of consumption shift from loose to packaged foods, TCPL saw market share gains across segments. India beverage business saw 32% growth with 12% volume growth in FY21E led by 'at-home' consumption tailwinds. It gained market share by 100 bps in the segment. Similarly, India food (salt, pulses & RTC) business saw 18% sales growth with 11% volume growth & gained market share of 180 bps in FY21. We believe the second wave of pandemic would continue to drive growth for trusted brands over regional & local brands and market share gains would continue in the medium term. With more than 50% of the category comprise of these unorganised or regional brands, the opportunity to grow through share gains is high. We expect 10.9% revenue CAGR in FY21-23E.

### Tea prices hold key for margins

With a considerable increase in tea prices, India beverage segment margins contracted by 400 bps in FY21. Tea prices continue to remain elevated due to a weak first spring in Assam and West Bengal. However normal monsoon could lead to a decline in tea prices, to a certain extent, which would help company to recoup margins. The company is likely to maintain a modest margin, which would aid volume growth with market share gains. We believe TCPL would be able to maintain operating margins with staggered prices hikes & rationalisation of some costs. We expect 13.7% & 14.2% operating margins in FY22E & FY23E, respectively.

### Valuation & Outlook

In the last few years, the company has divested all of its loss making overseas business. Moreover, with consolidation of foods business (salt & pulses) and acquisition of Soulful & stake in NourisCo, the company is looking to gain large footprint in the India food & beverage space. We remain positive on the company, valuing it at 50x FY23E PE with a revised target price of ₹ 725/share (earlier: ₹ 700) and maintain **BUY** rating.

## TATA CONSUMER PRODUCTS

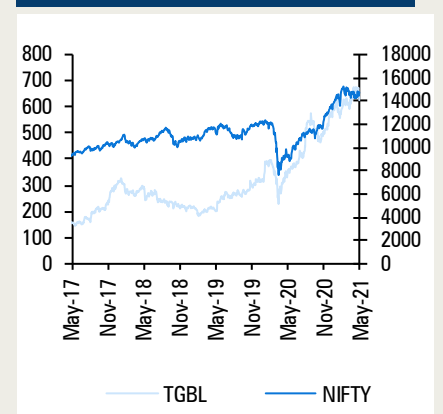
### Particulars

Particulars (₹ crore)	Amount
Market Capitalization	57,963.3
Total Debt (FY21)	1,189.9
Cash and Investments (FY21)	3,398.0
EV	55,755.2
52 week H/L (₹)	698 / 325
Equity capital	92.2
Face value (₹)	1.0

### Key Highlights

- Second consecutive year of crop loss could lead to further increase in tea prices, which could impact gross margins in medium term
- The extended second wave of pandemic could adversely impact supply chain & manufacturing with several localised lockdowns in place

### Price Performance



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### Key Financial Summary

Key Financials	FY19	FY20	FY21	FY22E	FY23E	CAGR (FY21-23E)
Net Sales	7251.5	9637.4	11602.0	13149.9	14274.6	10.9%
EBITDA	785.9	1292.2	1543.8	1797.0	2027.8	14.6%
EBITDA Margin %	10.8	13.4	13.3	13.7	14.2	
Adjusted Net Profit	478.4	641.8	932.6	1144.0	1335.9	19.7%
EPS (₹)	7.2	5.0	10.1	12.4	14.5	
P/E	86.9	126.0	62.3	50.7	43.4	
RoNW %	6.5	4.6	6.4	7.6	8.5	
RoCE (%)	8.4	6.9	8.0	9.1	10.0	

**Exhibit 1: Change in estimates**

	Q4FY20	Q4FY20E	Q4FY20	YoY (%)	Q3FY21	QoQ (%)	Comments
Net Sales	3,037.2	3,004.5	2,405.0	26.3	3,069.6	-1.1	Growth was led by 23% volume growth in India beverage business & 21% volume growth in India food business mainly on account of low base & consumption shift from loose to packaged food
Raw Material Expenses	1,846.0	1,786.7	1,311.9	40.7	1,909.6	-3.3	Gross margins contracted 623 bps mainly on account of sharp increase in tea prices last year
Employee Expenses	270.2	251.7	231.6	16.7	241.2	12.0	
SG&A Expenses	216.4	198.1	181.4	19.3	209.7	3.2	
Other operating Expenses	404.4	372.4	371.8	8.8	347.7	16.3	
EBITDA	300.2	395.6	308.4	-2.6	361.3	-16.9	
EBITDA Margin (%)	9.9	13.2	12.8	-294 bps	11.8	-189 bps	Gross margins contraction adversely impacted operating margins as well
Depreciation	65.9	58.6	64.0	2.9	64.4	2.3	
Interest	15.5	16.2	18.7	-17.4	18.1	-14.6	
Other Income	43.0	22.0	21.9	95.9	19.5	120.4	
Exceptional Expense/(Income)	63.9	0.0	264.4	NA	6.1	NA	
PBT	197.9	342.8	-16.8	-1,275.2	292.2	-32.3	
Tax Outgo	64.6	82.2	33.4	93.5	55.2	17.0	
PAT before MI	133.3	260.6	-50.2	-365.6	237.0	-43.7	
Profit from Associates	-59.0	-57.8	-72.3	NA	0.4	NA	
PAT	74.3	202.8	-122.5	-160.7	237.4	-68.7	With muted operating profit and 64 crore exceptional expense, the company reported net profit of ₹ 74.3 crore

Source: Company, ICICI Direct Research

**Exhibit 2: Change in estimates**

	FY22E			FY23E			Comments	
	(₹ Crore)	Old	New	% Change	Old	New		% Change
Sales	12529.4	13,149.9	14,274.6	5.0	13,498.8	14,274.6	5.7	With sharp increase in tea prices, the company had to resort to price hikes. We change our revenue & margins estimates accordingly
EBITDA	1823.63	1,797.0	2,027.8	-1.5	1,989.4	2,027.8	1.9	
EBITDA Margin (%)	14.6	13.7	14.2	-89 bps	14.7	14.2	-53 bps	
PAT	1,135.7	1,144.0	1,335.9	0.7	1,281.7	1,335.9	4.2	
EPS (₹)	12.3	12.4	14.5	0.7	13.9	14.5	4.2	

Source: Company, ICICI Direct Research

**Exhibit 3: Assumptions**

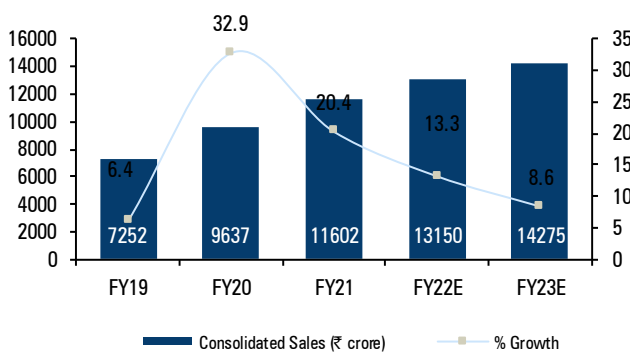
Segmental Revenues (Gross)	Current					Earlier			Comment
	FY18	FY19	FY20	FY21E	FY22E	FY23E	FY22E	FY23E	
Tea / India Beverage	4,922.8	3,167.7	3,376.9	4,600.7	5,520.9	6,017.8	4,960.0	5,307.2	We revise our India beverage business estimate after considering price hikes in tea segment
Coffee / International Bevergae	1,079.5	3,238.4	3,226.0	3,469.3	3,642.7	3,752.0	3,623.5	3,732.2	
Others	35.7	30.2	26.6	13.5	14.1	14.8	22.4	23.5	
Non-branded	815.2	842.5	974.9	1,122.2	1,178.3	1,237.2	1,126.1	1,182.4	
TCL Consumer / India Foods				2,441.7	2,832.4	3,285.5	2,824.8	3,276.8	
No. of Starbucks stores	116	146	185	210	235	260	235	260.0	

Source: Company, ICICI Direct Research

## Conference Call Highlights

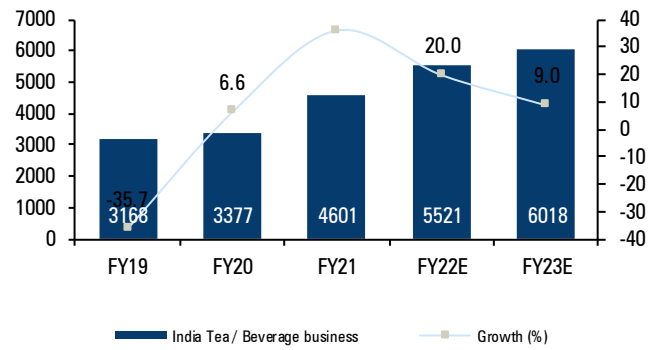
- TCPL witnessed strong revenue growth of 26.3% on the back of 60% growth in India beverage business, 22% growth in India food business, 3% growth (constant currency) in US coffee, 5% decline in International tea business. Tata coffee saw 30% sales growth
- The robust growth in India beverage business was on account of 23% volume growth & 37% realisation growth in Q4. This was mainly on account of low base quarter & aggressive price hikes taken in tea segment on the back of sharp rise in tea procurement cost
- India food business growth was almost entirely led by volume growth of 22%. Tata Sampann (pulses) saw muted growth of 2% during the quarter, which was impacted by volatility in prices of pulses. The company indicated that it does not intend to participate in commodity play and wants to create Tata Sampann as strong brand in the segment
- Starbucks JV witnessed 14% revenue growth during the quarter on a low base. The company was able to re-open 94% of stores in Q4 & business was sequentially recovering till February 2021. However localised lockdowns in March & April again adversely impacted operations. On a full year basis, the company saw 33% decline in revenue but the business remains EBITDA positive on an annual basis. It has added 39 stores and entered seven new cities during the year
- Within international operations, UK business witnessed 10% revenue decline in Q4 mainly due to pantry stocking in base quarter. The brand Tea-pigs saw 18% CC growth in FY21. The company holds 20% value market share in tea segment. Canada business saw 6% revenue growth despite high base quarter sales. It introduces several new products in the speciality tea segment
- TCPL is aggressive in new launches in both the beverage & foods category. It has launched six new products in the RTC category within the Tata Sampann brand. Further, in the salt category, it launched Tata Rock Salt & Tata black Salt to drive premium products. Moreover, in the beverage category, the company is focusing on the premiumisation trend and launched products in the green tea category. It has also launched ready to make tea under 'Tata Tea Quick Chai' brand
- The company is aggressively expanding its distribution network and plans to reach 1.0 million direct coverage by September 2021. Its total distribution network has reached 2.4 million outlets. Within categories, the tea & salt distribution network has increased 15% & 11%, respectively. Total rural distributors have reached 2000. The e-commerce & modern trade sales grew 130% & 30%, respectively, during FY21. E-commerce accounts for 5.2% of total sales
- The company gained market share in tea & salt by 190 bps & 160 bps, respectively, in FY21. TCPL is looking to expand in several states where localised brands are prominent and the company's market share is below India average
- Tea procurement prices have increased significantly in 2020 due to lockdown in April-May 2020 & floods in July 2020. In the current year, first spring has been below normal in March-April 2021, which has impacted production, to a certain extent. However, normal monsoons could bring prices down. If monsoon is below normal, then the company would take judicious price increase to pass on the inflation
- The company exited the coffee business in Australia and food service business in the US. With this divestment, none of the overseas businesses are loss making

Exhibit 4: Consolidated revenue to grow at 10.9% in FY21-23E



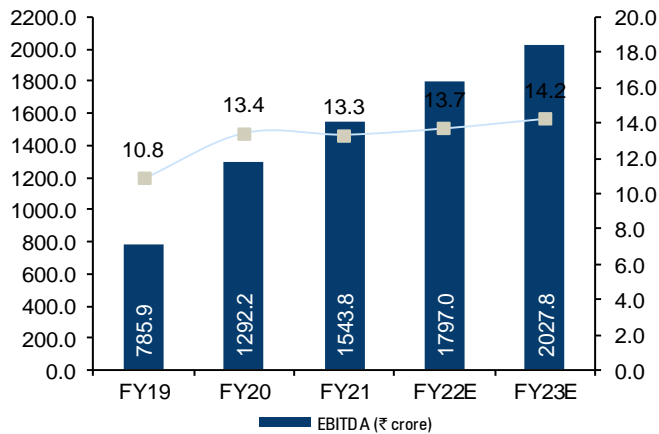
Source: ICICI Direct Research, Company

Exhibit 5: Tea / India beverage business sales trend



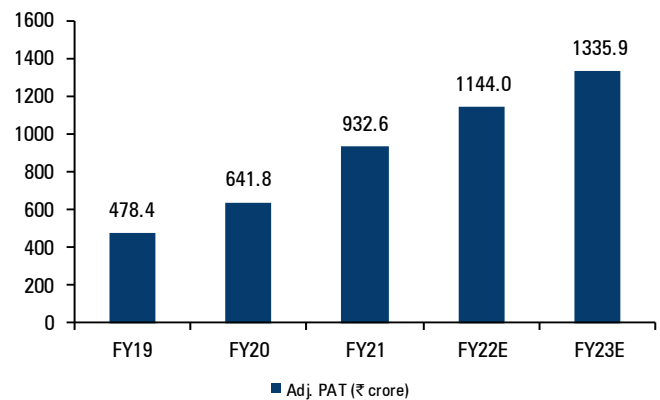
Source: ICICI Direct Research, Company  
\*FY19 onwards segment reporting has changed from tea to India Beverage

Exhibit 6: Operating margins trend (%)



Source: Company, ICICI Direct Research

Exhibit 7: Adjusted PAT growth trends



Source: Company, ICICI Direct Research

Exhibit 8: Valuation

	Sales (₹ cr)	Growth (%)	EPS (₹)	Growth (%)	PE (x)	EV/EBITDA (x)	RoNW (%)	RoCE (%)
FY20	9637.4	32.9	5.0	-31.1	126.0	44.7	4.6	6.9
FY21	11602.0	20.4	10.1	102.2	62.3	36.7	6.4	8.0
FY22E	13149.9	13.3	12.4	23.0	50.7	31.2	7.6	9.1
FY23E	14274.6	8.6	14.5	16.8	43.4	27.5	8.5	10.0

Source: Company, ICICI Direct Research

## Financial summary

Exhibit 9: Profit and loss statement				
	₹ crore			
(Year-end March)	FY20	FY21	FY22E	FY23E
<b>Total Operating Income</b>	<b>9637.4</b>	<b>11602.0</b>	<b>13149.9</b>	<b>14274.6</b>
Growth (%)	32.9	20.4	13.3	8.6
Raw Material Expenses	5,410.7	6,902.3	7,778.8	8,340.9
Employee Expenses	884.8	970.2	1,055.1	1,144.6
Marketing Expenses	676.7	726.3	896.8	972.9
Administrative Expenses	0.0	0.0	0.0	0.0
Other expenses	1,373.1	1,459.5	1,622.2	1,788.4
Total Operating Expenditure	8,345.3	10,058.3	11,352.9	12,246.8
<b>EBITDA</b>	<b>1292.2</b>	<b>1543.8</b>	<b>1797.0</b>	<b>2027.8</b>
Growth (%)	64.4	19.5	16.4	12.8
Depreciation	241.7	254.7	246.9	250.1
Interest	77.9	68.7	71.7	64.3
Other Income	111.6	121.4	127.4	133.8
PBT	1,084.2	1,341.7	1,605.9	1,847.3
Exceptional items	-274.8	-30.7	0.0	0.0
Total Tax	274.2	317.3	417.5	480.3
<b>PAT</b>	<b>460.1</b>	<b>930.5</b>	<b>1144.0</b>	<b>1335.9</b>
Growth (%)	0.7	102.2	23.0	16.8
EPS (₹)	7.0	10.1	12.4	14.5

Source: Company, ICICI Direct Research

Exhibit 10: Cash flow statement				
	₹ crore			
(Year-end March)	FY20	FY21	FY22E	FY23E
Profit/Loss after Tax	681.0	1204.6	1144.0	1335.9
Add: Depreciation	241.7	254.7	246.9	250.1
Add: Interest	77.9	68.7	71.7	64.3
(Inc)/dec in Current Assets	-95.8	-347.3	-829.7	-499.2
Inc/(dec) in Current Liabilities	13.8	530.7	-968.9	181.8
<b>CF from operating activities</b>	<b>1082.2</b>	<b>1656.4</b>	<b>-336.0</b>	<b>1332.9</b>
(Inc)/dec in Investments	-337.9	-55.3	-11.2	-11.5
(Inc)/dec in Fixed Assets	-150.8	-179.2	-3,345.7	-100.0
Others	-184.1	-173.9	5,009.2	36.0
<b>CF from investing activities</b>	<b>-672.8</b>	<b>-408.4</b>	<b>1652.3</b>	<b>-75.5</b>
Issue/(Buy back) of Equity	0.0	0.0	0.0	0.0
Inc/(dec) in loan funds	32.1	-369.7	-40.0	-40.0
Dividend paid & dividend tax	-221.6	-65.4	-603.1	-767.6
Inc/(dec) in Sec. premium	0.0	0.0	0.0	0.0
Others	-118.8	9.1	-71.7	-64.3
<b>CF from financing activities</b>	<b>-308.3</b>	<b>-426.0</b>	<b>-714.8</b>	<b>-871.9</b>
Net Cash flow	101.1	821.9	601.5	385.5
Opening Cash	737.5	889.3	1,773.2	2,374.7
<b>Closing Cash</b>	<b>1121.7</b>	<b>2042.0</b>	<b>2643.5</b>	<b>3029.0</b>

Source: Company, ICICI Direct Research

Exhibit 11: Balance sheet				
	₹ crore			
(Year-end March)	FY20E	FY21	FY22E	FY23E
<b>Liabilities</b>				
Equity Capital	92.2	92.2	92.2	92.2
Reserve and Surplus	13,722.7	14,442.3	14,983.2	15,551.6
Total Shareholders funds	13,814.9	14,534.5	15,075.4	15,643.7
Long Term Borrowings	1,100.6	756.9	716.9	676.9
Long Term Provisions	183.2	192.5	420.8	456.8
Other Non-current Liabilities	1425.4	1677.6	1677.6	1677.6
<b>Total Liabilities</b>	<b>16524.0</b>	<b>17161.4</b>	<b>17890.6</b>	<b>18454.9</b>
<b>Assets</b>				
Gross Block	7,115.5	7,615.5	7,715.5	7,815.5
Less: Acc Depreciation	2,472.8	2,727.5	2,974.4	3,224.5
Net Block	1,551.0	1,642.3	4,741.1	4,591.0
Capital WIP	95.4	112.9	112.9	112.9
Goodwill	10105.0	10380.9	5600.0	5600.0
Non Current Investments	544.0	579.5	590.7	602.2
LT Loans & Advances/Others	525.2	491.7	491.7	491.7
<b>Current Assets</b>				
Inventory	1,712.0	2,249.2	3,242.4	3,519.8
Debtors	922.4	761.3	1,441.1	1,564.3
Cash	1,121.7	2,042.0	2,643.5	3,029.0
Loans & Advances	1,449.9	1,541.2	864.6	938.6
Other Current Assets	173.2	116.4	288.2	312.9
<b>Current Liabilities</b>				
Creditors	944.0	1625.5	900.7	977.7
Provisions	92.4	101.7	216.2	234.7
Short Term Borrowings	387.8	433.1	576.4	625.7
Other CL	554.4	934.2	432.3	469.3
Net Current Assets	3,703.5	3,954.2	6,354.3	7,057.2
<b>Total Assets</b>	<b>16524.0</b>	<b>17161.4</b>	<b>17890.6</b>	<b>18454.9</b>

Source: Company, ICICI Direct Research

Exhibit 12: Key ratios				
	₹ crore			
(Year-end March)	FY20	FY21	FY22E	FY23E
<b>Per share data (₹)</b>				
EPS	5.0	10.1	12.4	14.5
Cash EPS	7.6	12.9	15.1	17.2
BV	149.9	157.7	163.6	169.8
DPS	2.7	4.0	5.5	7.0
Cash Per Share	12.2	22.2	28.7	32.9
<b>Operating Ratios (%)</b>				
EBITDA Margin	13.4	13.3	13.7	14.2
PBT / Net Sales	11.2	11.6	12.2	12.9
PAT Margin	4.8	8.0	8.7	9.4
Inventory days	64.8	70.8	90.0	90.0
Debtor days	34.9	24.0	40.0	40.0
Creditor days	35.8	51.1	25.0	25.0
<b>Return Ratios (%)</b>				
RoE	4.6	6.4	7.6	8.5
RoCE	6.9	8.0	9.1	10.0
RoIC	13.9	18.2	16.8	18.8
<b>Valuation Ratios (x)</b>				
P/E	126.0	62.3	50.7	43.4
EV / EBITDA	44.7	36.7	31.2	27.5
EV / Net Sales	6.0	4.9	4.3	3.9
Market Cap / Sales	6.0	5.0	4.4	4.1
Price to Book Value	4.2	4.0	3.8	3.7
<b>Solvency Ratios</b>				
Debt/EBITDA	1.2	0.8	0.7	0.6
Debt / Equity	0.1	0.1	0.1	0.1
Current Ratio	2.7	1.8	3.8	3.8
Quick Ratio	1.6	0.9	1.7	1.7

Source: Company, ICICI Direct Research

**Exhibit 13: ICICI Direct coverage universe (FMCG)**

	CMP	TP	M Cap	EPS (₹)			P/E (x)			Price/Sales (x)			RoCE (%)			RoE (%)			
	(₹)	(₹)		Rating	(₹ Cr)	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E	FY21E	FY22E
Colgate (COLPAL)	1,509	1,860	Buy	43,654	35.0	37.8	40.5	43.1	39.9	37.3	9.3	8.5	8.0	76.7	80.2	83.7	58.7	61.5	64.3
Dabur India (DABIND)	529	620	Buy	94,540	9.6	10.9	12.2	55.2	48.3	43.3	9.9	8.7	7.9	24.5	26.5	27.1	22.1	22.9	23.2
Hindustan Unilever (HINLEV)	2,413	2,715	Buy	554,458	33.9	40.5	45.0	71.3	59.6	53.6	12.2	10.6	9.8	18.9	25.6	27.7	17.1	20.0	21.6
ITC Limited (ITC)	205	245	Hold	267,970	10.7	12.8	14.1	19.2	16.1	14.5	5.8	5.1	4.7	26.3	31.0	33.1	20.1	23.7	25.3
Jyothy Lab (JYOLAB)	147	175	Hold	5,728	5.9	6.4	7.1	25.1	23.0	20.7	3.1	2.8	2.6	30.6	31.1	31.6	26.0	25.9	26.3
Marico (MARLIM)	472	490	Buy	53,027	9.3	9.6	10.7	50.8	49.0	44.1	6.6	5.9	5.3	40.3	42.5	45.5	37.0	37.4	39.7
Nestle (NESIND)	16,753	19,300	Hold	164,840	216.0	254.8	283.8	77.6	65.8	59.0	12.4	11.2	10.2	54.6	62.7	69.1	103.1	124.2	142.1
Tata Consumer Products (TAT)	629	725	Buy	57,963	10.1	12.4	14.5	62.3	50.7	43.4	5.0	4.4	4.1	8.0	9.1	10.0	6.4	7.6	8.5
VST Industries (VSTIND)	3,150	3,600	Hold	5,090	201.3	218.8	234.9	15.6	14.4	13.4	4.6	4.2	3.9	43.4	45.6	48.2	33.0	33.9	36.1
Varun Beverage (VARBEV)	998	1,200	Buy	28,955	12.5	21.2	31.1	79.6	47.0	32.1	4.5	3.7	3.1	10.9	17.4	23.4	10.3	15.4	19.1
Zydus Wellness (ZYDWEL)	2,113	2,500	Buy	12,343	19.0	60.3	71.3	111.4	35.0	29.6	6.6	5.8	5.3	6.2	7.8	9.0	5.5	8.0	9.3

Source: Company, ICICI Direct Research

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Buy: > 15%

Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: < -15%



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