

# Tata Consumer Products Ltd

REDUCE

CMP Rs629

Target Rs642

Upside 2%

## Soft quarter which can trigger a period of underperformance; downgrade to Reduce

### Result Highlights

- ✓ **India operations** - India business delivered strong topline with 60% growth in beverages (23% volume and 53% value growth in tea and 19% growth in coffee) and 22% growth in foods (21% volume growth) led by 26% growth in salt and muted 2% growth in Sampann; margins were sharply lower by 400bps to 11% in tea and improved 290bps in foods due to a combination of tea inflation, increased A&P spends and premiumization in salt.
- ✓ **International operations** - Growth was impacted by pantry loading in the base quarter but margins remained steady; 5% growth in US coffee (2% volume decline) and 2% in international tea (7% volume decline).
- ✓ **Market share gains in both key categories of tea (+190bps) and salt (+160bps) mainly led by distribution expansion and better on-ground execution.**
- ✓ With completion of integration of foods business, company aggressively investing in sales and distribution infrastructure, digital, A&P and innovation.

**Valuation and view** - While volume growth in core categories of tea and salt was strong, the 4Q margin performance was well below expectations as the company did not fully pass on tea inflation and continued its A&P aggression. While the management expects tea prices to start cooling off and tea margins to normalize in 2H, that remains a key risk. Salt business growth can also slow down given capacity constraints in near-term while Sampann should finally see some acceleration which it has failed to deliver so far. The international businesses might find it difficult to grow on a high base although margins are likely to remain strong given exit from all loss-making businesses. Starbucks and Nourishco should ramp-up once the pandemic subsides while the coffee business should have a good FY22. With commodity inflation expected to settle down in 2HFY22, the company is set for strong EBITDA growth as its growth momentum continues and margins start normalizing in addition to getting the synergy and premiumization benefits. **But given the near-term margin headwinds coupled with rich absolute and relative valuations, we believe the stock is set for a period of underperformance. We therefore downgrade our rating from Buy to REDUCE and advise waiting for a better entry points. We model in revenue/EBITDA/PAT CAGR of 11%/18%/24% over FY21-23E and adjust our SOTP-based PT to Rs 642 from Rs 617, implying 43x FY23E earnings.**

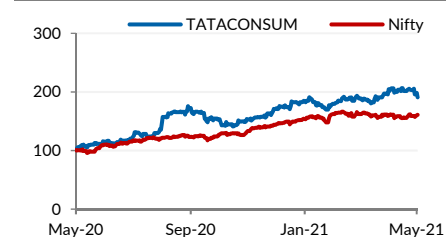
### Exhibit 1: Result table

(Rs mn)	Q4FY21	Q4FY20	% yoy	Q3FY21	% qoq
Net sales	30,372	24,050	26.3%	30,696	-1.1%
EBITDA	3,002	3,084	-2.6%	3,613	-16.9%
OPM (%)	9.9%	12.8%		11.8%	
Depreciation	659	640	2.9%	644	2.3%
Interest	155	187	-17.4%	181	-14.6%
Other income	430	219	95.9%	195	120.4%
PBT	2,618	2,476	5.8%	2,983	-12.2%
Tax	646	334	93.5%	552	17.0%
JV/Associate	(590)	(723)	-18.4%	4	nm
Adjusted PAT	1,383	1,419	-2.6%	2,435	-43.2%
Exceptional item	-639	-2,644		-61	
Reported PAT	744	-1,225	-160.7%	2,374	-68.7%
PATM (%)	4.6%	5.9%		7.9%	
EPS (Rs)	1.5	1.5		2.6	

### Stock data (as on May 07, 2021)

Nifty:	14,823
52 Week h/l (Rs)	698 / 329
Market cap (Rs/USD mn)	579656 / 7885
Outstanding Shares	922
6m Avg t/o (Rs mn):	2,470
Div yield (%):	0.6
Bloomberg code:	TATACONS IN
NSE code:	TATACONSUM

### Stock performance



	1M	3M	1Y
Absolute return	-5.5%	6.2%	85.6%

### Shareholding pattern (As of Mar'21 end)

Promoter	34.7%
FII+DII	37.8%
Others	27.5%

### Δ in stance

(1-Yr)	New	Old
Rating	REDUCE	BUY
Target Price	642	617

### Financial Summary

(Rs mn)	FY21	FY22e	FY23e
Net Revenue	1,16,020	1,29,232	1,41,628
YoY Growth	20.4	11.4	9.6
EBITDA	15,438	18,803	21,528
Margins (%)	13.3	14.5	15.2
PAT	8,873	11,549	13,576
YoY Growth	7.6	8.9	9.6
ROE	6.3	7.8	8.7
ROCE	9.3	11.2	12.4
EPS	9.6	12.5	14.8
P/E	65.3	50.2	42.7
EV/EBITDA	36.7	29.9	25.8

### Δ in earnings estimates

	FY22e	FY23e
EPS (New)	12.8	14.7
EPS (Old)	12.5	14.8
% change	-2.3%	0.7%

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## PRESENTATION HIGHLIGHTS

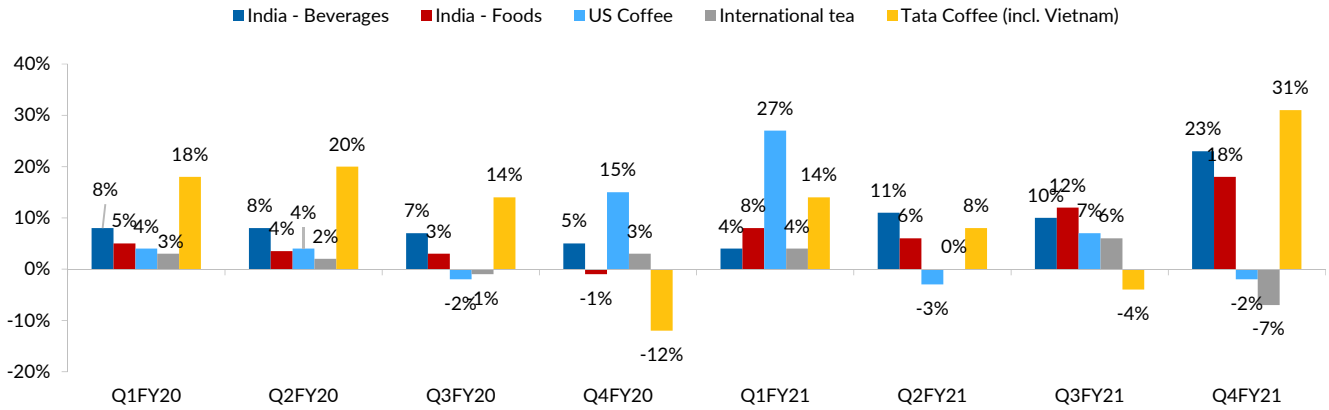
- ✓ **Inorganic growth** - In addition to recently acquired RTD business Nourishco and health foods business Soulful, management exploring more value accretive inorganic opportunities and rationalizing at the same time exiting Australia coffee and US foodservice businesses.
- ✓ **Distribution expansion** - 15% increase in numeric distribution for tea and 11% for salt, company on track to achieve 1mn direct reach by September 2021 after growing 30% in FY21, 3x increase in territory sales officers, addition of 2,000 rural distributors, 130% growth in e-commerce business which now contributes 5.2%, 31% growth in MT channel.
- ✓ **Volume growth acceleration** - FY21 saw tea volume growth of 11.6% in FY21 vs FY17-20 CAGR of 7.1% while foods saw volume growth of 11.4% in FY21 vs FY17-20 CAGR of 3.4% led by a combination of distribution and portfolio expansion driving share gains.
- ✓ **Digital transformation initiatives** - Implementation of digital tools to drive improved sales outcomes, reduce cost of service, lower working capital cycle further, improve service levels and lower supply chain costs.
- ✓ **Commodity prices** - Tea prices have come off sharply from the peak seen in 2Q but still remain significantly above last year's levels, Kenya tea prices largely stable, Arabica prices increased by about 15% and robusta prices saw a 5% uptick.
- ✓ **Nourishco** - 86% revenue growth in 4Q and 4% in FY21 with strong growth in Gluco Plus and Water Plus, 76% retail footprint expansion in Himalayan; Fruski fruit-based NPD relaunched to leverage distribution network.
- ✓ **Tata Coffee** - 30% revenue growth in 4Q led by both plantations and extractions business with higher realizations in tea, higher coffee crop and growth in Vietnam business, margin improvement driven by cost optimization initiatives.
- ✓ **Tata Starbucks** - Revenue growth of 14% on low base with FY21 revenue declining 33%, business EBITDA positive for FY21, added 39 stores and entered 7 new cities in FY21, significant savings in rentals and overhead expenses, localized lockdowns have started impacting operations.
- ✓ **UK business** - Revenue down 10% due to pantry up-stocking in base quarter, EBIT margins driven by lower trade promotion, stable tea prices and strong overhead management, share gains witnessed in growing segments like decaf, F&H and green tea.
- ✓ **USA business** - Revenue up 3% given pantry loading in base quarter, coffee ending FY21 with 9% revenue and 7% volume growth, 16% growth in tea in FY21.
- ✓ **Canada business** - Revenue up 6% despite high base in 4Q and 15% growth in FY21 led by 35% growth in specialty teas.

## CONCALL TAKEAWAYS

- ✓ **Salt and tea outlook** - 26% volume growth in salt and 23% in tea – strong double-digit growth should continue, integration journey completed in January, now focused on outlet addition which will give strong growth, rural markets and innovation other key levers, currently have 30-35% market share in total salt market, expanding both geographic distribution and portfolio – gaining share from both organized brands and local unorganized players
- ✓ **Sampann deceleration** – Sampann has huge runway for growth, growth should be much higher, commodity market interventions led to volatility, expect significant acceleration in growth trajectory; key drivers for pulses – 1) large 1.5lac cr unorganized market, 2) Tata brand equity, 3) playing through differentiated unpolished pulses, 4) will build procurement and distribution synergies with a larger size.
- ✓ **India tea margins** – Commodity peaked 6 months back and price hikes taken but not enough, 300bps cost improvement for FY21 ex A&P and COGS, execution remains good, pricing remains an issue as not fully passed on given competition and intention to maintain shares, have taken hikes in-line with industry, target to reach historical margin levels in tea in 2H.
- ✓ **Salt production constraints** – Tata Salt coming from Tata Chemicals and other variants coming from solar salt, Tata Chemicals doing timely expansion in line with growth ambitions as currently facing some constraints.
- ✓ **Tea market share** – Both HUL and Tata gaining share from local and regional players, MAT basis gained 100bps in FY21 and 180bps share in 4Q both of which are higher than HUL.
- ✓ **Commodity outlook** – Hyperinflation in tea happened due to lockdown in April and weather which conditions which impacted production and led to shortage, prices moderated from October as production started coming in, expect moderation in coming season, expect competition to be rational; Assam drought in April kept prices stable but conditions expected to normalize leading to some correction soon.
- ✓ **Digital transformation benefits** – Topline can be boosted by 0.5-1% led by improvement of 4-5% in fill rates, WC will reduce led by leaner inventory, opportunity to reduce receivables and stronger cash flows, will start vendor and channel financing.
- ✓ **Guidance** – Targeting double-digit overall topline growth, strong double-digit growth expected in tea in both volume and value terms led by distribution expansion, strong cost improvements should lead to margin improvement, WC down to 42 days from 59 days which can improve further driving strong cash generation
- ✓ **Big Basket acquisition** – Done by parent Tata Sons, gives opportunities to create synergies between the online retail business and TCPL's FMCG business.
- ✓ **Tea and pulses strategy** – Going after different states with a different product mix in tea to drive volumes; pulses remains a high volume low margin business as of now, scaled back on procurement and did not chase volumes by cutting prices which impacted growth in 4Q.

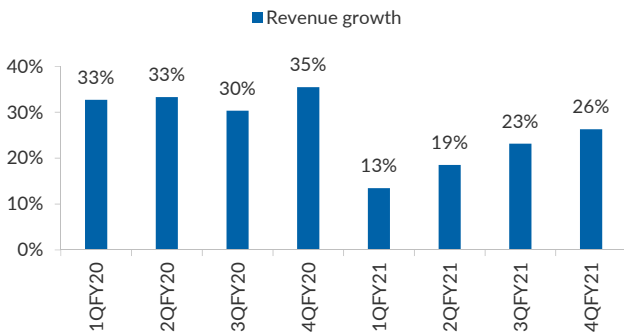
## CHARTS

**Exhibit 2: Volume growth led by strong performance in India – Beverages, foods and Plantations business**



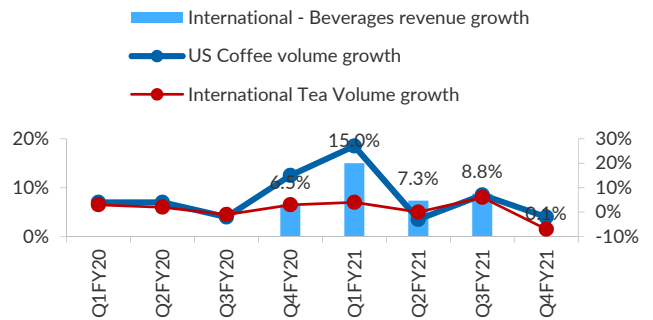
Source: Company, YES Sec – Research

**Exhibit 3: Revenue growth picking up gradually**



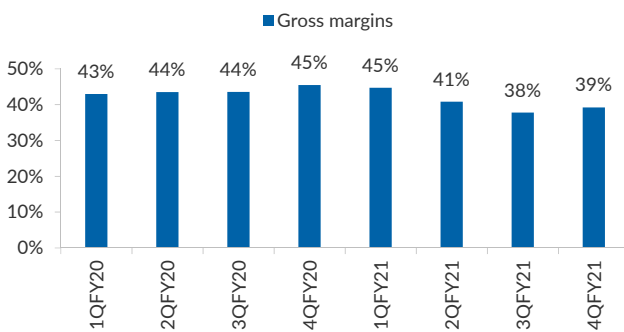
Source: Company, YES Sec – Research

**Exhibit 4: International beverages impacted by high base**



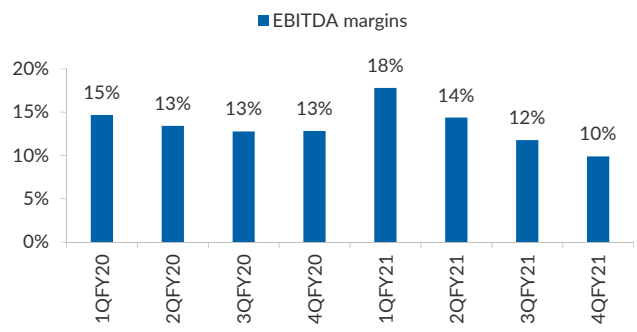
Source: Company, YES Sec – Research

**Exhibit 5: Gross margin impacted by inflation in Tea prices**



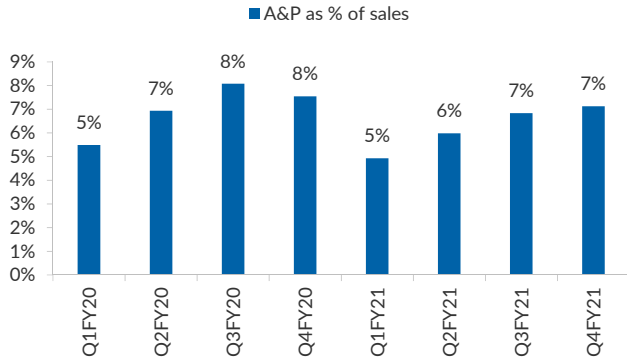
Source: Company, YES Sec – Research

**Exhibit 6: EBITDA margin further declined owing to higher A&P and other expenses**



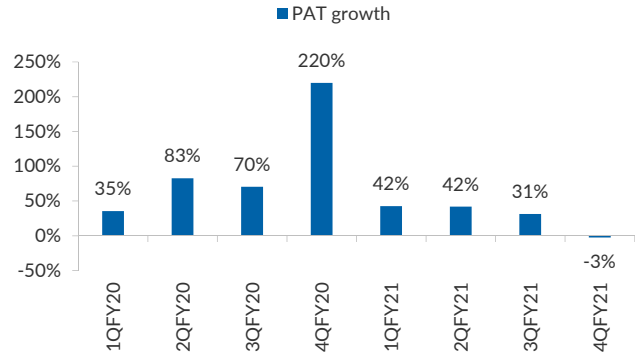
Source: Company, YES Sec – Research

**Exhibit 7: Pick-up in A&P spends on the back of investment in new launches**



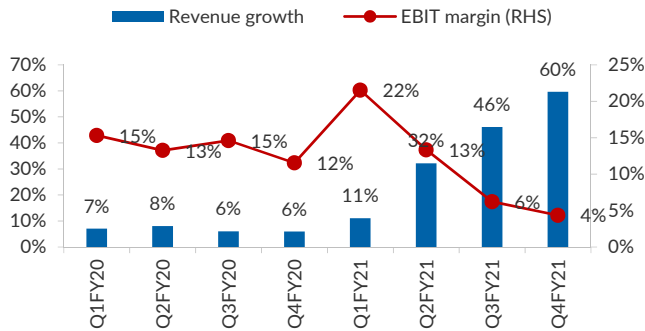
Source: Company, YES Sec - Research

**Exhibit 8: Earnings trajectory goes into negative territory**



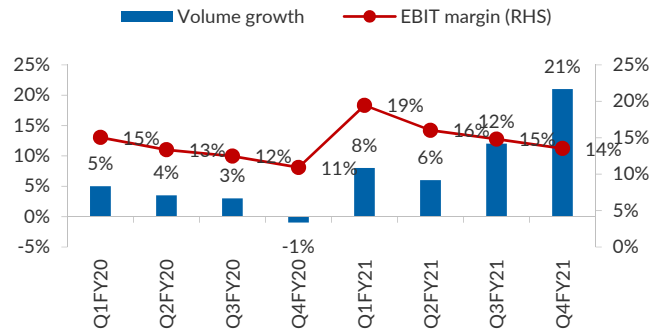
Source: Company, YES Sec - Research

**Exhibit 9: India beverages saw strong revenue performance offset by abnormal tea inflation**



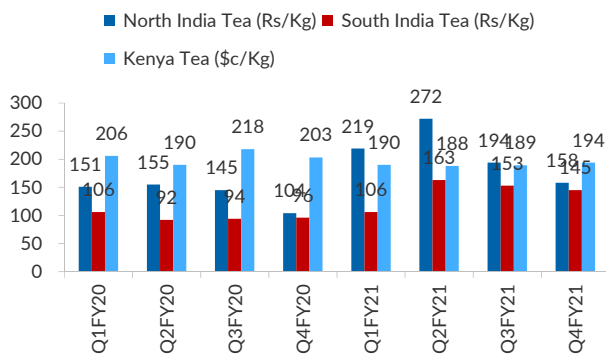
Source: Company, YES Sec - Research

**Exhibit 10: Strong volume growth in India foods led by Tata Salt with higher margins**



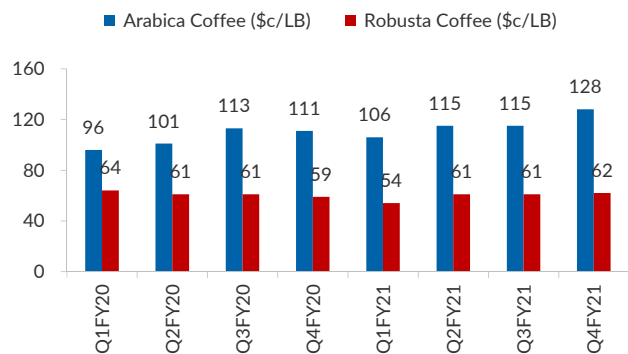
Source: Company, YES Sec - Research

**Exhibit 11: North India tea prices have risen sharply however cooling off from the peak**



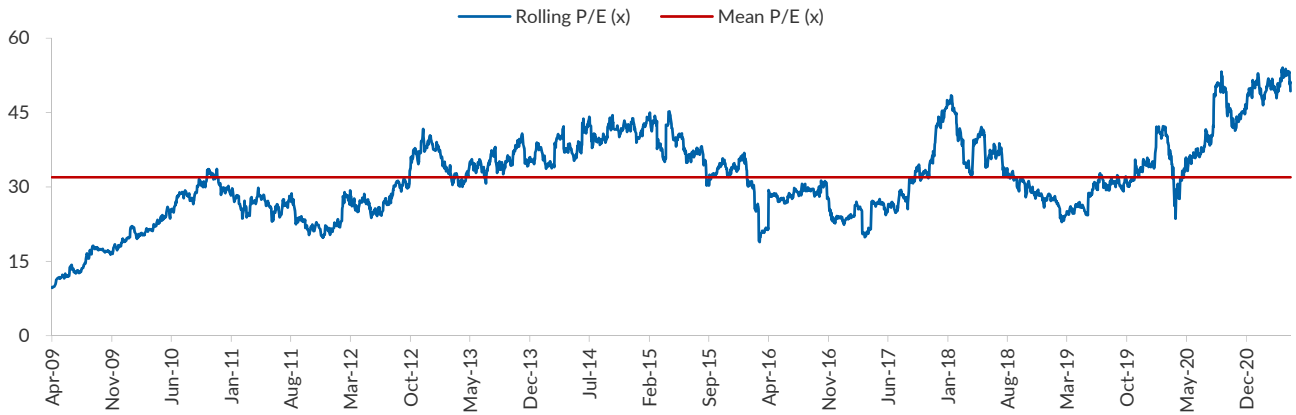
Source: Company, YES Sec - Research

**Exhibit 12: Arabica prices saw similar trajectory while Robusta prices are stable**



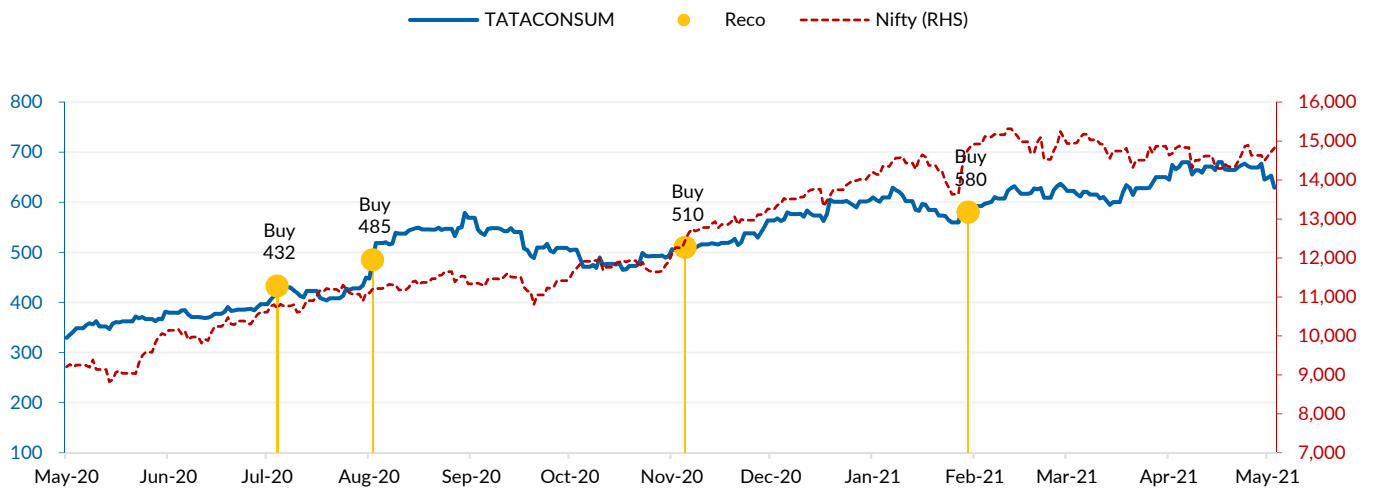
Source: Company, YES Sec - Research

## Exhibit 13: Currently trading at 49x one-yr fwd earnings



Source: Company, YES Sec – Research

## Recommendation tracker



## FINANCIALS

### Exhibit 14: Balance sheet

Y/e 31 Mar (Rs mn)	FY19	FY20	FY21	FY22E	FY23E
Equity capital	631	922	922	922	922
Reserves	72,686	1,37,227	1,44,424	1,50,771	1,58,253
Net worth	73,317	1,38,149	1,45,345	1,51,693	1,59,175
Debt	11,169	11,825	7,206	7,206	7,206
Deferred tax liab (net)	1,455	3,160	5,702	5,702	5,702
Other non current liabilities	1,885	5,060	6,767	7,443	8,188
Total liabilities	87,825	1,58,193	1,65,019	1,72,044	1,80,270
Fixed Asset	53,377	1,17,514	1,21,360	1,20,644	1,19,792
Investments	11,877	13,229	8,059	8,059	8,059
Other Non-current Assets	4,857	5,799	5,885	6,436	7,041
Net Working Capital	17,655	16,363	9,892	12,874	14,120
Inventories	16,099	17,120	22,492	23,014	25,221
Sundry debtors	6,806	9,224	7,613	8,851	9,701
Loans and Advances	3,764	2,898	3,015	3,187	3,492
Other current assets	2,272	3,028	3,386	3,725	4,098
Sundry creditors	6,649	9,440	16,255	15,933	17,461
Other current liabilities	4,141	5,544	9,342	8,851	9,701
Provision	495	924	1,017	1,119	1,231
Cash & equivalents	59	5,290	19,824	24,031	31,258
Total Assets	87,825	1,58,193	1,65,019	1,72,044	1,80,270

### Exhibit 15: Income statement

Y/e 31 Mar (Rs mn)	FY19	FY20	FY21	FY22E	FY23E
Revenue	72,515	96,374	1,16,020	1,29,232	1,41,628
Operating profit	7,859	12,922	15,438	18,803	21,528
Depreciation	1,226	2,417	2,547	2,716	2,852
Interest expense	525	779	687	649	649
Other income	1,571	1,116	1,214	1,335	1,469
Profit before tax	7,680	10,842	13,417	16,774	19,496
Taxes	2,609	2,742	3,173	4,225	4,920
Adj. PAT	4,415	7,345	8,873	11,549	13,576
Exceptional loss	333	2,748	307	-	-
Net profit	4,082	4,598	8,567	11,549	13,576

## Exhibit 16: Cash flow statement

Y/e 31 Mar (Rs mn)	FY19	FY20	FY21	FY22E	FY23E
Profit before tax	1,226	2,417	2,547	2,716	2,852
Depreciation	(2,609)	(2,742)	(3,173)	(4,225)	(4,920)
Tax paid	(3,968)	1,293	6,471	(2,982)	(1,246)
<b>Working capital Δ</b>					
Other operating items	2,854	12,588	19,949	12,931	16,831
Operating cashflow	(5,270)	(66,554)	(6,393)	(2,000)	(2,000)
Capital expenditure	(2,416)	(53,966)	13,556	10,931	14,831
Free cash flow	497	62,722	2,362	(8)	28
Equity raised	(263)	(1,352)	5,170	-	-
Investments	607	656	(4,619)	-	-
Debt financing/disposal	(525)	(779)	(687)	(649)	(649)
Dividends paid	(1,578)	(2,488)	(3,732)	(5,193)	(6,122)
Other items	1,633	1,085	2,485	(374)	(361)
Net Δ in cash	(2,045)	5,879	14,534	4,708	7,727

## Exhibit 17: Du-pont analysis

Y/e 31 Mar (Rs mn)	FY19	FY20	FY21	FY22E	FY23E
Tax burden (x)	0.6	0.7	0.7	0.7	0.7
Interest burden (x)	0.9	0.9	1.0	1.0	1.0
EBIT margin (x)	0.1	0.1	0.1	0.1	0.1
Asset turnover (x)	0.7	0.7	0.6	0.7	0.7
Financial leverage (x)	1.4	1.3	1.3	1.3	1.3
RoE (%)	6.1	6.9	6.3	7.8	8.7

## Exhibit 18: Ratio analysis

Y/e 31 Mar	FY19	FY20	FY21	FY22E	FY23E
<b>Growth matrix (%)</b>					
Revenue growth	6.4	32.9	20.4	11.4	9.6
Op profit growth	(6.3)	64.4	19.5	21.8	14.5
EBIT growth	0.4	41.6	21.4	23.5	15.6
Net profit growth	(14.6)	66.4	20.8	30.2	17.6
<b>Profitability ratios (%)</b>					
OPM	10.8	13.4	13.3	14.6	15.2
EBIT margin	11.3	12.1	12.2	13.5	14.2
Net profit margin	6.1	7.6	7.6	8.9	9.6
RoCE	9.9	9.9	9.3	11.2	12.4
RoNW	6.1	6.9	6.3	7.8	8.7
RoA	4.5	5.4	4.9	5.9	6.7
<b>Per share ratios</b>					
EPS	7.0	8.0	9.6	12.5	14.8
Dividend per share	2.5	2.7	4.1	5.6	6.6
Cash EPS	8.9	10.6	12.4	15.5	17.8
Book value per share	116.2	149.9	157.7	164.6	172.7
<b>Valuation ratios</b>					
P/E	89.9	78.9	65.3	50.2	42.7
P/CEPS	70.4	59.4	50.8	40.6	35.3
P/B	5.4	4.2	4.0	3.8	3.6
EV/EBIDTA	51.9	45.4	36.7	29.9	25.8
<b>Payout (%)</b>					



# Tata Consumer Products Ltd

Y/e 31 Mar	FY19	FY20	FY21	FY22E	FY23E
Dividend payout	35.7	33.9	42.1	45.0	45.1
Tax payout	34.0	25.3	23.6	25.2	25.2
<b>Liquidity ratios</b>					
Debtor days	34.3	34.9	24.0	25.0	25.0
Inventory days	81.0	64.8	70.8	65.0	65.0
Creditor days	33.5	35.8	51.1	45.0	45.0

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10	Research Analyst or YSL has been engaged in market making activity for the subject company(ies)	No

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**Details of Compliance Officer:** Name: Vaibhav Purohit, Email id: [compliance@ysil.in](mailto:compliance@ysil.in), Contact No-+91-22-33479208

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**BUY:** Potential return >15% over 12 months

**ADD:** Potential return +5% to +15% over 12 months

**REDUCE:** Potential return -10% to +5% over 12 months

**SELL:** Potential return <-10% over 12 months

**NOT RATED / UNDER REVIEW**

## **ABOUT YES SECURITIES (INDIA) LIMITED**

YES Securities (India) Limited ("YSL") is a wholly owned subsidiary of YES BANK LIMITED. YSL is a SEBI registered stock broker holding membership of NSE, BSE, MCX & NCDEX. YSL is also a SEBI registered Category I Merchant Banker, Investment Adviser and a Research Analyst. YSL offers, inter alia, trading/investment in equity and other financial products along with various value added services. We hereby declare that there are no disciplinary actions taken against YSL by SEBI/Stock Exchanges.