

Initiating Coverage Tata Consumer Products Ltd.

17-May-2021



Tata Consumer Products Ltd.



Industry	LTP	Recommendation	Base Case Fair Value	Bull Case Fair Value	Time Horizon
FMCG	Rs. 645.15	Buy on dips to Rs 605-607 band and add more on dips to Rs 534-536 band	Rs. 669	Rs. 726	2 quarters

HDFC Scrip Code	TATACONEQNR
BSE Code	500800
NSE Code	TATACONSUM
Bloomberg	TGBL IN
CMP May 14, 2021	645.1
Equity Capital (Rs cr)	92.2
Face Value (Rs)	1
Equity Share O/S (cr)	92.2
Market Cap (Rs cr)	59454
Book Value (Rs)	157.7
Avg. 52 Wk Volumes	4634352
52 Week High	698.0
52 Week Low	343.4

Share holding Pattern % (Mar 2021)	
Promoters	34.7
Institutions	37.8
Non Institutions	27.6
Total	100.0

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Our Take:

Tata Consumer Products Ltd (TCPL) has a reach of over 200 million households, giving it an unparalleled ability to leverage the Tata brand in consumer products. Its product portfolio currently spans a mix of iconic and emerging brands in tea, coffee, water, salt, pulses, spices and packaged foods. It is home to brands such as Tata Tea, Tetley, Vitax, Eight O'Clock Coffee, Himalayan Natural Mineral Water, Tata Coffee Grand and Joekels. TCPL stands to benefit from the acquisition of the consumer products portfolio from Tata Chemical Ltd (TCL) which would further augment its cash flows. Established brand presence in the beverage industry and focus on innovation and increased market penetration across its product portfolio, would support the company's prospects going forward.

TCPL has two steady base businesses – tea and salt – wherein it enjoys market leadership. The newer business – pulses, spices and ready-to-cook segment which are currently at a nascent stage has huge growth potential. Synergies, premiumization and operational scale up would drive revenue and earnings growth at CAGR of 9.3% and 23.7% respectively over FY21-23. In terms of macro scenario, the food and beverage industry have plenty of upside. Growing middle class, rising affordability and urbanization is likely to drive demand for beverages in India. Also, out of home channels and current shift in preferences towards premium products, with a conscious choice for healthier products creates further optimism for the sector growth. An improved growth potential, diversified product portfolio and increased contribution of profits from India could drive a re-rating in the stock.

Valuations & Recommendation:

Tata Consumer Product Ltd is laying its foundation to become a broad-based FMCG company with a combination of well-established steady growth businesses such as branded packaged tea and salt, and a small but high-growth business in pulses and spices as well as the joint venture with Starbucks. Acquisition of consumer business of TCL opened up lot of growth opportunities in the staples market (growing at higher rate) with its addressable size increasing to 6x; besides the synergies can lead to margin expansion. The merger also increased the contribution of India business to consolidated net profits which is likely to bring more stability in earnings. Strategic divestment in non-profitable business and reiterating its focus on growing India portfolio can drive further earnings upside.

TCPL being part of Tata group is driven by established and experienced management, company has long and established track record in branded tea industry with dominant market position in both the domestic and international market place, its established presence in other beverages segment across geographies with strong brand portfolio. TCPL has low debt levels, healthy capital structure with comfortable liquidity for any inorganic growth plans. Though we remain optimistic about the growth prospects in the staples market, the company's sizeable exposure in matured markets and likely heavy spends in high growth potential foods and ready-to-eat segments could bring some drag on the topline and bottom line growth. We think the base case fair value of the stock is Rs.669 (47x FY23E EPS) and the bull case fair value is Rs.726 (51x FY23E EPS) over the next two quarters. Investors can buy the stock on dips to Rs.605-607 band (42.5x FY23E EPS) and add more on dips to Rs.534-536 band (37.5x FY23E EPS). At the LTP of Rs.645.15 it quotes at 45.3x FY23E EPS.

Financial Summary (Consolidated):

Particulars (Rs cr)	Q4FY21	Q4FY20	YoY-%	Q3FY21	QoQ-%	FY19	FY20	FY21	FY22E	FY23E
Total Operating Income	3037.2	2405.0	26.3	3069.6	-1.1	7,251.5	9,637.4	11,602.0	12,521.8	13,856.2
EBITDA	300.2	308.4	-2.6	361.3	-16.9	785.9	1,292.2	1,543.8	1,778.1	2,120.0
Depreciation	65.9	64.0	2.9	64.4	2.3	122.6	241.7	254.7	281.4	294.3
Other Income	43.0	21.9	95.9	19.5	120.4	157.1	111.6	121.4	137.7	159.3
Interest Cost	15.5	18.7	-17.4	18.1	-14.6	52.5	77.9	68.7	53.4	49.4
Tax	64.6	33.4	93.5	55.2	17.0	260.9	274.2	317.3	411.1	503.3
PAT	133.3	-50.2	-365.6	237.0	-43.7	457.0	460.1	930.5	1,122.4	1,395.0
Adjusted PAT	53.9	-76.5	-170.5	218.2	-75.3	408.2	459.8	856.7	1,047.2	1,311.9
EPS (Rs)	0.6	-0.8	-170.5	2.4	-75.3	6.5	5.0	9.3	11.4	14.2
RoE-%						5.7	4.3	6.0	7.1	8.5
P/E (x)						99.7	129.3	69.4	56.8	45.3
EV/EBITDA						51.9	45.9	37.3	32.4	26.9

(Source: Company, HDFC sec)

Q4FY21 Result Review:

Tata Consumer Product (TCPL) reported robust revenue growth of 26.3% YoY to Rs 3037.2cr driven by strong volume and value growth in the India Beverage & Food business and improved performance of non-branded business. NourishCo & Tata Starbucks saw sequential recovery during the quarter. EBITDA margins were impacted by tea price inflation in India and higher advertising and other expenses.



EBITDA de-grew by 2.6% YoY to Rs 300cr in Q4FY21. EBITDA Margins contracted 294bps/190bps YoY/QoQ and stood at 9.9%. Profit before exceptional items and tax at Rs 261.8cr is higher by 5.8% YoY. Consolidated adjusted PAT was impacted by higher tax and minority interest and stood at Rs 53.9cr.

India Branded Beverages/Foods revenue was up 59.6%/22.4% YoY to Rs 1204.8cr and Rs 641.7cr respectively. Volume growth in Branded Beverages/ Foods business was sizeable - up 23%/18% YoY; benefitting from a low base effect and expansion in the distribution reach. Despite the stellar topline numbers in India Branded Beverages business, its EBIT de-grew 40% YoY to Rs 52.4cr, while India Foods business recorded a growth of 51.5% YoY to Rs 86.8cr in Q4FY21. Volume growth in food business came with Tata Salt gaining market share mainly from small and regional players. Salt revenue grew 26% YoY during the quarter (17% growth YoY for FY21); while Tata Sampann portfolio saw a subdued growth of mere 2% YoY, impacted by volatility in the pulses market. Although the Tata Sampann portfolio grew by 26% YoY in FY21, how the management scales-up this business remains key monitorable.

NourishCo sustained strong growth momentum during the quarter with 86% YoY revenue growth, albeit on a low base impacted by Covid-19 in March 2020. Geographic expansion and capacity addition for the business is on track. Tata Water Plus and Tata Gluco Plus both delivered exceptional growth. Tata Starbucks grew 14% YoY aided by a soft base. FY21 revenue declined 33%, driven by the adverse impact of COVID on out-of-home consumption. The business was EBITDA+ for the year – it added 39 new stores and gained a presence in seven new cities during the year. International Beverages business revenue remained flat YoY to Rs 875.2cr owing to high base (due to pantry loading) in Q4FY20. EBIT saw a de-growth of 14.3% YoY to Rs 110.1cr. Teapigs - its super premium tea brand saw robust revenue growth, largely driven by increased focus on e-commerce channel. Eight O’Clock Coffee also recorded decent growth during the quarter.

Apart from tea inflation (likely to moderate once new crop is available) which impacted TCPL’s profitability, the company’s market share gains in tea business, strong growth of salt business and further unlocking of S&D synergies were the key positives.

















Triggers:

A larger FMCG play with a clear growth focus:

TCPL is beginning a journey of transformation as the flagship FMCG business of the Tata group which is aiming to increase its consumer footprint. To deepen its core, the company will be strengthening its leadership position in tea and salt, aggressively expanding existing new products viz. spices, pulses, liquid beverages, packaged foods, etc., and gradually enter into the broader FMCG product space.



However, we do not see this as a major driver over FY22-23, as entering a new category and establishing a sizeable profitable business is time consuming in India. Recent acquisition such as Soufull brand (portfolio of millet-based products), 'Lalghoda' and 'Kalaghoda' (Rajasthan - local Tea brands) along with merger of TCL's consumer business indicate a clear focus on accelerating growth in India. The company's focus would be to increase in presence in Pulses (market size of Rs 1.6 lakh cr with ~1% brand penetration), Spices and condiments (market size of Rs 60,000cr with brand penetration of 30%), Snacks and ready-to-cook and ready-to-eat snacks (under the brand name: Tata Sampann) and liquid beverages (Tata Fruski, Gluco Plus). TCPL will able to leverage its strong brand with premiumisation and innovation in these high growth potential segments and new product categories to keep pace with changing consumer preferences. Despite salt and tea (core products) being highly penetrated categories, unorganised portion is still large, at ~60% and ~35% respectively. Improving income levels and growing urbanisation should continue to drive a steady shift of consumers, from the unorganised to the organised market.

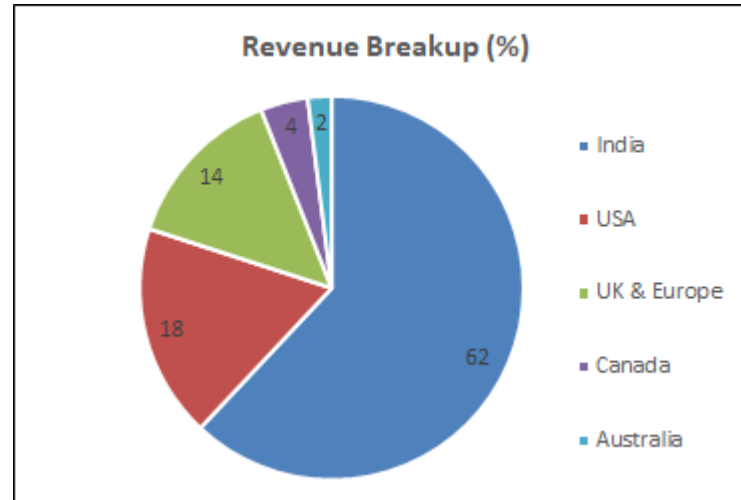
Business	Product Category	Brands
Tea	Black tea, Specialty tea, Cold infusions, Iced tea Ready-to-drink tea	     
Coffee	Whole bean, Ground Gourmet coffee, K-Cup brews Instant coffee, Coffee capsules	 
Foods	Salt, Dals and pulses, Besan Ready-to-cook mix, Spices, Poha, Millet-based products, Nutritional solutions	   
Liquid Beverages	Natural mineral water, Nutrient water, Ready-to-serve drink	   
Out-of-Home	Coffeehouse chain, Concept tea cafes	 

(Source: Company, Hdfe Sec)



Geographical and Product Diversification:

The business has diversified and expanded significantly over the last decade, having a significant brand presence in 40 countries worldwide. Of TCPL's consolidated sales in FY21, ~40% came in from the India beverage business, 21% from India food business, 30% from overseas tea and coffee business. Apart from tea brands in India, TCPL also has an established presence in various beverages across a number of major markets globally - some noteworthy acquisitions include Tetley Group, Good Earth - a famous tea brand in USA and Eight O'Clock - a popular coffee brand in USA. Such acquisitions have not only expanded the company's range of product offerings but strengthened its position in the beverages market as well. Tetley, international tea brand of group, holds #1 and #3 position in Canada and UK respectively. Tetley is the #2 player in the mainstream black hot tea category in the US.



Country	Segment	Brands
India	Tea	Tata Tea, Tetley
	Coffee	Tata Coffee Grand
	Foods	Tata Salt, Tata Sampann, Tata Nx, Tata Soulfull
	Liquid Beverage	Himalayan, Tata Water Plus, Tata Gluco Plus
	Out-of-Home	Tata Starbucks, Tata Cha
USA	Tea	Tetley, Good Earth, teapigs
	Coffee	Eight O'Clock
UK & Europe	Tea	Tetley, Good Earth, teapigs, Vitax
	Coffee	Eight O'Clock
Canada	Tea	Tetley, Tata Tea, teapigs
	Coffee	Eight O'Clock
Australia	Tea	Tetley, teapigs
	Coffee	Good Earth Kombucha

(Data: FY20; Source: Company, HDFC Sec)

The group in order to create a sizeable consumer product company with enhanced market reach and better focus on segment, demerged consumer food business of Tata Chemicals Limited into TCPL in an all-equity deal. The merger has offered TCPL an enhanced scale with far reaching distribution network besides diversification of its product portfolio. Company's branded portfolio is supported by well-developed



distribution network with a reach of 200 million households through 2.5 million outlets (plans to reach 4 million in 3 years) and about 5000 stockists/ distributors. Tata Starbucks Private Limited, a joint venture between TCPL and Starbucks, has witnessed a healthy growth in its topline. The venture has 221 outlets spread across 18 cities as at March-end 2021. The company now holds 100% stake in NourishCo Beverages Limited which has launched various nutrient-enhanced hydration products such as Tata Water Plus and Tata Gluco Plus.

Merger led to increase addressable market and synergies likely to drive margin expansion:

The merger of Tata Chemical Ltd's (TCL) consumer business (comprising salt, pulses & spices and ready-to-cook snacks along with brands such as Tata Salt and Tata Sampann), marks the company's entry into an additional segment of staples that has increased its addressable market size to 6x. Although, the salt manufacturing facility would remain with TCL; TCPL has entered into a long-term supply agreement with TCL for salt. TCL will remain focused on its basic chemistry and specialty products businesses. The management's plan would be to deepen its core by strengthening its leadership position in tea and salt segments and aggressively expanding its new products (spices, pulses, liquid beverages, packaged foods etc.). The merger is in sync with the Tata group's focus to create a single FMCG-focused company. The merger is expected to result in revenue and cost synergies including from supply chain opportunities and operational improvements. The company would benefit from better absorption of fixed costs on a larger India turnover, higher outlet coverage and gains on distribution efficiencies. Tata Consumer can leverage scale benefits from cross-selling opportunities between the brands through consumer offers. As at FY21 end, the business integration process is complete which will unlock S&D and supply chain related synergies and rationalize operating cost to some extent. The company has rationalized layers and multi-category sales & distribution units; optimized its vendor base, distribution network, warehouse network; and implemented end-to-end digitization across supply chain. The benefits of merger have started to yield result which is evident from sharp market share increase in both the core categories - Tea (190bps) and Salt (160bps) in FY21.

India tea and salt business are low growth saturated categories, but strong cash flow of both the businesses would help TCPL aggressively expand and spend more in terms of A&P for pulses, spices, water & other categories. The combined entity resonates strongly with a healthy and natural positioning, which would be leveraged to enter newer categories (such as dairy, personal care or home care) that entail high growth or high margin. Premiumisation trend in salt with increasing consumption of Tata Salt Lite (proposition of less sodium) and conversion of loose to packaged food in pulses given branded category is single digit penetration would support strong growth in India food business.



India Business integration update:

Future Ready Organization	<ul style="list-style-type: none"> ▪ Integrated organization structure and harmonized way of working across organization ▪ Identification of cost and revenue synergy opportunities 		<ul style="list-style-type: none"> • Integration complete for all critical workstreams; common ways of working being matured. • India ERP integration and migration to S4HANA complete; • Synergy identification completed and realization started from Q3 FY21. • Distribution channel partner consolidation done; on track to double direct reach by Sep'21. • Channel partner digitization completed for urban distributors; initiated for rural distributors. • Pan India CFA consolidation completed. • Integrated Business Planning including Demand planning & Supply planning is live.
Unlock synergies – S&D	<ul style="list-style-type: none"> ▪ Sales & Distribution structure design; rationalized layers and multi-category Sales & Distribution organization ▪ End to end digitization across supply chain and distribution partners ▪ Common salesman to sell the full portfolio; increased fleet on street 		
Unlock synergies - India Supply Chain	<ul style="list-style-type: none"> ▪ Consolidate CFA locations across Foods and Beverages and ensure direct delivery ▪ Optimization of vendor base, distributor network, warehouse network 		
Drive Digital	<ul style="list-style-type: none"> ▪ ERP integration and migration to S4HANA ▪ Identify and implement process automation across functions ▪ Digitized integrated demand and supply planning 		

(Source: Company, HDFC sec)

Company's drive for innovation and product launches/campaigns:

TCPL, mainly a Black Tea company, is building scale in the Non-Black Tea category through innovations and branding considering health and wellness concerns of the consumers. Marquee tea brands, Tata Tea and Tetley enjoyed considerable success; the company has been developing newer alternatives outside their core portfolio in their existing markets. The company is actively building its innovation pipeline – last few innovations (Cold Infusion, Supers, Barista Blends) which met good consumer response. Tetley launched the 'Ethnic' range of tea bags in the UK which comprises three all-time favourite flavours: Tetley Masala, Tetley Elaichi (Cardamom) and Tetley Ginger. With more consumers leaning towards premium products, Tetley expanded into an adjacent category and launched a top-of-the-line range of refreshing black teas in the American market, known as Flavors of India. Launch of Tetley 'Super Teas', Canada's first line of teas fortified with vitamins and mineral has been expanded to include more flavours. Tailormade campaign for major tea-drinking states – Uttar Pradesh, Delhi, Punjab and Haryana based on regional insights and close-to-the-ground media and recent acquisition of Dhunseri Tea & Industries (brands Lal Ghoda and Kala Ghoda in Rajasthan) recapitulates its plan to expand its domestic reach. To cater to 'Out-of-home' segment, Tata Cha is expanded to 7 stores in Bengaluru, serving up a delightful array of hot and cold beverages, and comfort meals. The ease of innovation for TCPL is helped by the company's strong brand equity across geographies where it is present. Leveraging



technology, TCPL is developing digital marketing approaches and increasing focus on online channels including company website and other platforms. Also, the company remains committed on digitization across the supply chain to improve operational productivity. E-commerce contributed 5.2% to sales in FY21 as against 2.5% in FY20.

Company's core (Tea and Salt) likely to grow at steady rate:

Around 35% of the tea market is loose tea and most of the branded players are regional players. Branded players have benefited by taking share from unorganized players; still huge ~35% unorganized share is indicative of the significant potential in India's tea market. The need for consistency in the blend of tea, increasing rural distribution and advertising efforts of branded players continues to contribute to this shift. Especially after COVID-19, greater focus on quality and hygiene would result in consumer preference towards branded options. The branded market is led by Hindustan Unilever and Tata Tea controlling 43% of the market share and the next player has a market share of below 5%. Some of the regional brands are very strong and cater to a specific regional taste palette and hence maintain dominance in their respective markets. However, there are other local brands which do not have strong brand equity and largely play on price or promotions. Over time we expect these regional players to lose their share to national brands due to continued advertisement and large variants of product launches. TCPL has acquired Kala Ghoda and Lal Ghoda tea brands from Dhunseri which has strong presence in Rajasthan, would strengthen its presence in regional market.

Green tea is a small segment contributing less than 2% to the overall tea market in India, compared to more than ~25% of the tea market globally. While it is small, this segment is likely to grow in low teens over medium term given the shift in consumer preference towards health consciousness with green tea positioned on that platform. Entry into newer formats, such as tea cafes (Tata Cha), ready to drink (Tata Fruski) and pre mixes (Tata Tea Quick Chai 3 in 1 mix), would add the next leg of growth.

In salt, TCPL is the only national player with ~30% market share. The merger of the salt business is likely to help overall direct distribution expansion by 20-30% and the COVID lockdown is likely to accelerate the pace of market share gain for the national branded players in these categories. Despite the fact that Tata Salt is the market leader, we believe there is still ample scope for premiumization as the base variant constitutes most of the sales of the segment. Moreover, reorganization would help the Salt business with necessary focus which was not a core part of earlier chemicals enterprise. The results are seen in FY21, where Tata Salt saw market share gains with value-added salts portfolio growing much faster in line with its premiumisation agenda. We expect high single-digit growth in tea and salt on share gains from loose and smaller brands which form the majority of market share in these categories.



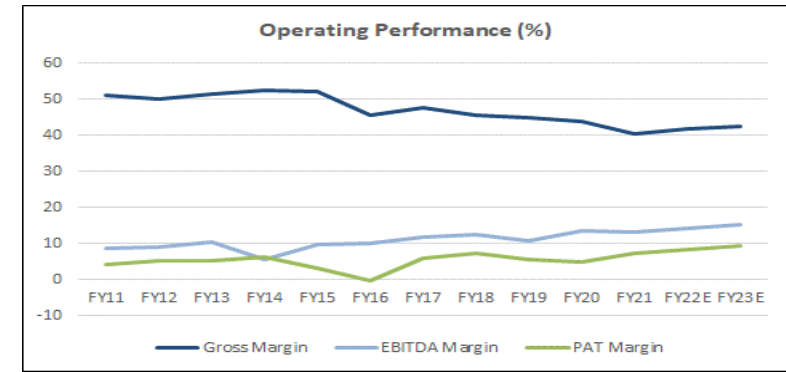
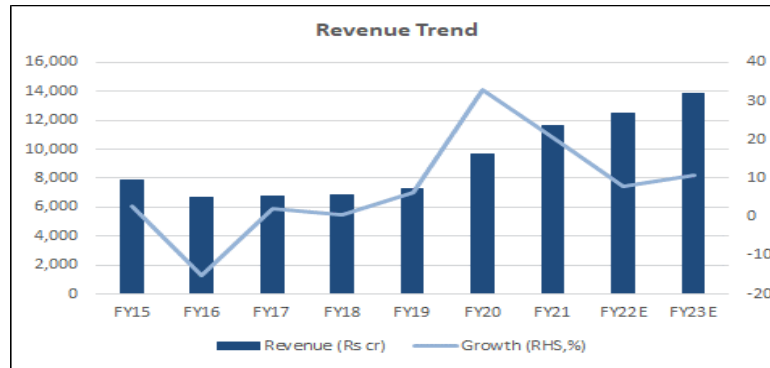
New food businesses - long-term growth drivers:

TCPL's intention to launch the Tata Sampann umbrella brand for foods including pulses and spices in 2015 was to increase its addressable market; as this form about 18% of food grocery consumption in India and is largely unbranded category. Recently, the business expanded into Chutneys, Basmati Rice, Red Poha, Snacks, organic pulses, Nutrimixes (Chilla) and various mixes. With Tata Sampann, the company brings to the table the traditional wisdom of Indian food in a contemporary package to deliver the best of taste, nutrition and convenience.

Branded pulses and spices have high growth potential as the branded share is very low at 1% for pulses and 30% for spices. The segment can get boost under the Tata brand. This segment will benefit the most from the merger into TCPL, as it will be able to leverage the direct distribution reach of the tea and salt business. TCPL's strategy for entering into large unorganized categories – pulses, spices & condiments, snacks/ready-to-cook under Tata Sampann brand is to leverage the Tata brand name and explore the reach of its existing beverage & food distribution network. However, expanding its reach in these segments is challenging given the price volatility, long supply chains and related constraints in pulses segment and little differentiation in spices space. Huge costs in branding and related advertisements and limited margins could keep the profitability under pressure. The company could also consider tapping into inorganic route for scaling up its operation. EBITDA margins, however, would be in mid-single digits even at scale. Tata Sampann is primarily attempting to differentiate in terms of health (unpolished, organic) and reliable product characteristics (better quality of processing, low residual matter, etc). In FY21, revenue of Tata Sampann portfolio saw a subdued growth of 26% YoY despite of lower base and huge market opportunity. Management steps in scaling up this business would be key monitorable.

Strong revenue trajectory & improvement in margins:

TCPL underperformed over the last five years (prior to merger) as it failed to deliver sizeable topline growth due to slower growth in the international market due to high competition intensity and inconsistent performance in some geographies. Post the consolidation of TCL's consumer business, the product portfolio has expanded from mere beverage company to large staple company. Further, contribution of the India business increased to over 60% from 48% earlier. Market share gains in branded tea and staples space, scale-up of new ventures and foray into new categories through new launches remain near-term growth catalysts. We believe revenue growth at 9.3% CAGR over FY21-23 is possible on the back of higher combined distribution reach, greater cross-selling opportunities and huge growth potential of newer categories. Further potential to expand share of premium products in its tea & salt business, moderation in tea inflation due to crop availability on the onset of new season and operational synergies could expand the company's EBITDA margin.



(Source: Company, HDFC sec)

Strong Financial risk profile with sound liquidity:

Consolidated RoCE is low at ~10%, compared to higher ROCE at its India business. The goodwill on various acquisitions over the years, declining demand trend in the black tea market and high competition in the developed market over the last few years impacted the consolidated RoCE. However, the company has increased its focus on pursuing opportunities through new innovative products and strengthening of brands which are witnessing traction; improving its international operations. This, coupled with merger of consumer business of TCL of the international operations and business consolidation could have a positive impact on the RoCE over medium term. Incrementally, the management is committed to improve the same and be very mindful about capital efficiency from hereon. TCPL has a conservative capital structure. Further, the company has large cash and liquid investments to the tune of Rs. 3,075cr as at FY21-end. The conservative capital structure, along with substantial cash and liquid investment portfolio and status as a leading company of the Tata Group, provide a high degree of financial flexibility.

Business

India Tea:

The size of the Indian tea market is roughly Rs 250bn, of which Rs 160 bn is branded/organized. Tea is one of the oldest beverages in India with a penetration level of more than 90%. The branded tea category (i.e. sold in packages) represents ~65% of the total market, has increased over the years due to increase in availability, quality factors and awareness and the trend is likely to continue going forward. There is a duopoly of national players in the packaged tea market in India with HUL and TCPL each having 20-23% value market share.

Other brands like Wagh Bakri, Girnar, Society, Eveready have market share in single digits in the branded tea segment. India is primarily a black tea market, but the wellness/green tea market is growing relatively fast. The year 2020-21 saw the India Beverages business deliver strong volume (12%) and revenue (36%) growth despite slowdown in category growth.

TCPL is a leading branded packet tea company in India ranking #1 in terms of volumes and #2 in terms of value in the branded segment. Volumes of TCPL's brands are supported by a steady increase in tea consumption in India, its brand strength with an established distribution network, launch of premium segment products, widening market reach with increasing rural penetration and other key marketing initiatives undertaken by the company. Also, India tea business is likely to gain from inevitable shift from loose form to packaged form. The company has established brands across all categories of packet teas, namely economy, popular and premium.

International Tea:

Tetley, international tea brand of group, holds #1 and #3 position in Canada and UK respectively. Tetley is the #2 player in the mainstream black hot tea category in the US. TCPL is the second-largest branded tea player in the world after Unilever. Regular black tea continues to be the largest category share in the overall global tea market, but it has been witnessing slow/ declining growth across international markets, green tea (~27%) and specialty tea (fruit & herbal tea) (~16% of global tea market) are witnessing robust growth across the geographies, led shift in consumer preference for health and wellness products. Globally, the green tea and fruit/herbal tea is expected to witness a CAGR of ~9% & 7% respectively over the next five years.

Overseas Tea business has been a drag on the company due to declining black-tea sales in the UK and Europe, increasing competitive intensity, difficulties in optimising its operations in smaller markets. TCPL has undertaken various strategic initiatives that are supporting margins in its overseas tea business. It has rationalized costs, sold some of its loss-making businesses and is focusing on the non-black/higher-margin tea categories to correct its product mix. EBITDA margin of its overseas tea business has improved on the back of lower raw material cost and cost rationalization measures. The company had launched Tetley Cold Infusions, a flavored fruit and herbal water drink, in the UK, Australia and Canada to tap into the growing demand for cold, non-sugary and non-alcoholic drinks. Launch of Tetley 'Super Teas', Canada's first line of teas fortified with vitamins and mineral - is expanded to include more flavours.

We expect TCPL's overseas tea market to continue facing headwinds due to the changing preference for black tea. We expect marginal sales growth over the forecast period on expectation of market share gains and success of newly launched wellness/non-black tea categories. Margins and operating profits are likely to remain steady, though at lower levels, due to focus on cost initiatives.



Coffee:

Globally, coffee market has a total size of ~US\$85 billion, almost 2x the size of tea. Tata Coffee's standalone revenues have declined consecutively over the last two years due to lower coffee and pepper prices and weather-related production disruption. Black tea category in India continues to witness subdued growth, while the coffee market in India is still a nascent market, reflecting room for further growth. The company's investment in a freeze-dried, instant-coffee plant in Vietnam is expected to boost instant coffee capacity and translate into higher earnings. Tata Coffee's overseas coffee business primarily includes the Eight O'Clock business in the US. It stands 4th in Roast & Ground coffee brand in USA. Eight O'Clock operates in the k-Cup and bags segment and has a market size of ~USD6bn. Eight O'Clock Coffee continues to be manufactured at its Landover roastery in Maryland, USA and it roasts nearly 400 million coffee beans a day. This business is very profitable and generates an EBITDA margin of ~18%. We expect it to grow at 3-4% and sustain its margins.

Salt:

Salt, being a very basic cooking ingredient, is highly penetrated and hence has a low volume growth rate in the low single digits. Tata Salt is a market leader in the branded iodised salt segment with reach extending to over 161 million households annually and 1.9m outlets. Reorganisation would help the Salt business necessary focus which was not a core part of earlier chemicals enterprise. Despite that Tata Salt is the most trust food brand and undisputed leader in that segment. Synergies with Tata Tea would add to its distribution advantage, while the supply agreement with Tata Chemicals could potentially eliminate supply related constraints. The COVID-led disruption, wherein distribution of smaller players was impacted, allowed Tata Salt into newer households, several of whom could continue with the brand.

Pulses, Spices & Condiments and Packaged Foods:

Pulses and its derivatives industry are estimated to be ~Rs. 1.6 lakh cr with only 1% of the segment being branded. The low penetration is primarily led by a host of factors including low perceived value addition by packaged players and low consumer concern regarding adulteration in unbranded. However, the trend has been changing in the last few years with consumers' preference for better quality packaged products. Spices industry in India is highly fragmented with presence of many regional players. Branded segment in spices (~30% at Rs 18,000cr) is growing ~15%. Snacks/Ready-to-Cook is an Rs. 40,000cr segment with a high share of branded play (Ready-to-Cook is all-branded in comparison to Snacks). The current environment of lockdown induced restrictions has seen greater adoption of these convenience-based cooking. These segment which constitute less than ~10% of consolidated revenue, has huge growth potential and can be the next leg of growth for the company.



Starbucks:

Starbucks, a 50:50 JV between Tata Consumer and Starbucks has been performing well, with 39 new stores opened during FY21. There are now a total of 221 stores across 18 cities in India. Starbucks a premium coffee experience, an excellent play on the lifestyle aspiration of Indian consumers. It is well positioned in a market with very little competition coupled with strong brand pull. Starbucks offers an international coffee experience in but has adopted a localized approach to penetrate the India market. Beans and Espresso blends are sourced locally (including from Tata Coffee), store designs are in sync with local style and culture, and food offerings have a blend of the local and international taste. It also offers tea in its stores (to tap the huge tea market in India). Starbucks is likely to become the dominant player in the growing café market, with the largest player Coffee Day shrinking its business rapidly.

India is predominantly a tea-drinking nation (except for the southern parts of India). However, over the years, the market for the café coffee culture has grown at a healthy pace driven by increased customer preference for western food, global exposure and penetration of established coffee brands. Starbucks' contribution to TCPL's consolidated earnings is likely to be insignificant over the next 3-5years. But we expect value unlocking to happen over the long term as it gains scale and delivers on operating performance.

NourishCo:

NourishCo operates in the healthy hydration space and has currently within its portfolio, products such as Himalayan mineral water, Tata Gluco Plus (TGP) (glucose-based flavoured drink) and Tata Water Plus (TWP). In FY21, NourishCo Beverages saw a revenue growth of 4% YoY impacted by covid induced lockdowns and reduced OOH consumption. However, TWP achieved highest ever volume during the year, growing 60% in volumes in FY21. Geographic expansion and capacity addition for the business is on track.

Water is the second largest beverage sub-category after Tea in India. The current size of the packaged water market in India is ~Rs. 17,000cr, growing at a CAGR of 12%. Fruit-based beverages is a ~Rs. 8,250cr category, growing at a CAGR of 10%. NourishCo is now a wholly owned subsidiary after, TCPL decided to acquire 50% stake from Pepsico Holdings Pvt Ltd for cash consideration of Rs 29cr. The consideration also involved transfer of rights over the ""Gluco Plus/Gluco+"" Brand from PepsiCo. The move is consistent with the company's focus on widening its portfolio in the Food and Beverages space and further expansion in the Ready-To-Drink Beverage segment.



Concerns:

- **High competition intensity in developed markets:** The performance of TCPL's overseas entities has been impacted by highly competitive intensity in the developed market. Subdued performance of the overseas businesses has impacted the consolidated performance and financial indicators like RoCE to an extent. TCPL has large exposure to US and UK markets, which are now considered to be slow growth economies despite their enormous scale. Competitive intensity among existing players is on the rise, either via launches or price points. However, Growth/RoCE are becoming the operating words for TCPL's overseas strategy as well.
- **Slowdown in black tea market across geographies:** Black tea is witnessing a slowdown in consumption across key consumption geographies (India, UK). Though consumption is shifting towards specialty black tea and green tea, the rate of shift could be lower. The company is proactive in launching new products to cater to changing demand trends. Recipes are regularly reviewed and reformulated to improve the value of their products
- **Input costs susceptible to higher commodity prices:** With TCPL's business largely being marketing of branded tea and coffee, the company is susceptible to price fluctuations in tea and coffee. TCPL's ability to limit the impact has been demonstrated over the years with strategies in place for procurement and hedging. TCPL manages sourcing of tea through auctions and from private producers. Risk associated with coffee is hedged through various available structures.
- **Innovations and new launches:** TCPL's focus on innovations and new product launches will keep A&P spends elevated. Further, if the new products do not achieve desired results, it may hamper financial performance to some extent. The key thesis in pulses & spices is that Tata Consumer is able to successfully extend its reach and extend the brand to other categories. While we do not expect profitability initially, however, the branded space eventually would be able to add sufficient value to command a higher margin and customer loyalty in the segment. In case of Tata Sampann, inability of the Tata Consumer to create brand pull is a key risk especially in pulses which shows high volatility in prices even during weeks. Additionally, the company is in competition with private labels of Avenue Supermarts, Reliance Retail, Amazon, etc in the foods segment. TCPL's ability to establish its product portfolio would be a key monitorable.
- **Getting into another round of aggressive inorganic growth opportunities – especially overseas could be another concern.**

Company Profile:

Tata Consumer Products Ltd (TCPL) formerly known as Tata Global Beverages Ltd (TGBL) is a packaged foods company engaged in the trading, production and distribution of tea, coffee, water and foods such as salt, spices and packaged foods. TCPL is a focused consumer products company uniting the food and beverage interests of the Tata Group under one umbrella and marks a new strategic direction - to create a premier diversified consumer products company. The combination of the Consumer Products business of Tata Chemicals and the Beverages business of Tata Global Beverages allows the company to participate in opportunities spread across all three segments of the food and beverage consumer basket – in-the-kitchen, on-the-table and on-the-go.

With a long history and experience in the beverages market, and a heritage of innovation and development, the company has evolved from a predominantly domestic Indian tea farming entity to a marketing and brand-focussed global organisation. TCPL has grown through innovation, strategic alliances and acquisitions, and organic growth. Around 35% of consolidated revenue originates from markets outside India and more than 90% of the turnover is from branded products. The business has diversified and expanded significantly over the last decade, having a significant brand presence in 40 countries worldwide. It is home to key brands such as Tata Tea, Tetley, Tata Salt and Tata Sampann, with a combined reach of over 200 million households in India.

In the Beverages business, TCPL is the 2nd largest player in branded tea in the world with over 330 million servings everyday across the world. The international business (~30% of consolidated revenue) consists of three main parts: US coffee; UK tea; and Canada Tea. Tetley and Eight O' Clock- are heritage brands and have built a loyal customer base. These brands operate primarily in developed markets with lower growth rates on account of declining black tea consumption. The iconic Tata Salt that pioneered the crusade for iodisation in India, saw extension of its portfolio to include salt variants and nourishing food items. The company has a joint venture with Starbucks called Tata Starbucks Limited, to own and operate Starbucks cafés in India. Since the inauguration of the flagship store in Mumbai in October 2012, this 50:50 JV has expanded across 18 cities with 221 stores as at March-end 2021. The company also owns NourishCo completely, which produces non-carbonated ready-to-drink beverages that focus on health and enhanced wellness. Its recent acquisition, Kottaram Agro Foods Private Limited operates in the health and wellness focused food segment under the brand name 'Soulfull'. Soulfull has an innovative portfolio of products such as cereals, healthy snacks, muesli, and plant-based protein drinks and has strong presence in select urban cities.

Tata Consumer Products Ltd.



(Source: Company, HDFC sec)

Peer Comparison:

	Mcap (Rs cr)	Sales				EBITDA Margin (%)				APAT			
		FY20	FY21E	FY22E	FY23E	FY20	FY21E	FY22E	FY23E	FY20	FY21E	FY22E	FY23E
Tata Consumer Products	59,454	9,637	11,602	12,522	13,856	13.4	13.3	14.2	15.3	460	857	1047	1312
Britannia Industries	84,339	11,600	13,136	14,245	15,563	15.9	19.1	18.3	18.3	1406	1851	1974	2161
Dabur	94,557	8,685	9,562	10,721	11,895	20.6	20.9	21.2	21.8	1525	1693	1928	2159
Marico	61,281	7,315	8,048	9,377	10,141	20.1	19.7	19.4	20.1	1036	1162	1313	1485

	RoCE (%)				P/E			
	FY20	FY21E	FY22E	FY23E	FY20	FY21E	FY22E	FY23E
Tata Consumer Products	9.8	9.1	10.3	12.0	129.3	69.4	56.8	45.3
Britannia Industries	42.5	59.2	65.7	70.8	59.9	45.6	42.7	39.0
Dabur	43.5	44.3	51.4	55.3	62.0	55.8	49.0	43.8
Marico	43.2	55.2	66.1	68.3	59.1	52.7	46.6	41.2

(Source: Company, HDFC sec)

Tata Consumer Products Ltd.

Financials (Consolidated):

Income Statement

(Rs Cr)	FY19	FY20	FY21	FY22E	FY23E
Net Revenues	7251.5	9637.4	11602.0	12521.8	13856.2
Growth (%)	6.4	32.9	20.4	7.9	10.7
Operating Expenses	6465.6	8345.3	10058.3	10743.7	11736.2
EBITDA	785.9	1292.2	1543.8	1778.1	2120.0
Growth (%)	-6.3	64.4	19.5	15.2	19.2
EBITDA Margin (%)	10.8	13.4	13.3	14.2	15.3
Depreciation	122.6	241.7	254.7	281.4	294.3
EBIT	663.3	1050.4	1289.0	1496.7	1825.7
Other Income	157.1	111.6	121.4	137.7	159.3
Interest expenses	52.5	77.9	68.7	53.4	49.4
Share in profits of associates	-16.9	-75.1	-63.3	-47.6	-37.4
Exceptional item	-33.3	-274.8	-30.7	0.0	0.0
PBT	717.9	734.3	1247.7	1533.4	1898.3
Tax	260.9	274.2	317.3	411.1	503.3
RPAT	457.0	460.1	930.5	1122.4	1395.0
Minority Interest	48.8	0.4	73.8	75.1	83.1
APAT	408.2	459.8	856.7	1047.2	1311.9
Growth (%)	-17.6	12.6	86.3	22.2	25.3
EPS	6.5	5.0	9.3	11.4	14.2

Balance Sheet

As at March	FY19	FY20	FY21	FY22E	FY22E
SOURCE OF FUNDS					
Share Capital	63.1	92.2	92.2	92.2	92.2
Reserves	7268.6	13722.7	14442.4	15028.8	15783.1
Shareholders' Funds	7331.7	13814.9	14534.5	15121.0	15875.3
Long Term Debt	787.2	1086.6	676.6	651.6	626.6
Net Deferred Taxes	87.4	286.5	532.1	532.1	532.1
Long Term Provisions & Others	176.7	214.0	287.6	299.6	331.5
Minority Interest	1027.7	1092.5	1092.5	1167.7	1250.8
Total Source of Funds	9410.7	16494.4	17123.4	17771.9	18616.3
APPLICATION OF FUNDS					
Net Block & Goodwill	4913.3	11656.0	12023.1	12101.4	12117.1
CWIP	413.3	87.6	93.2	93.2	93.2
Other Non-Current Assets	1006.1	1047.4	1052.9	1058.7	1050.8
Total Non Current Assets	6332.7	12791.0	13169.2	13253.3	13261.1
Current Investments	583.2	833.6	323.2	373.2	393.2
Inventories	1609.9	1712.0	2249.2	2401.4	2657.4
Trade Receivables	680.6	922.4	761.3	857.7	987.0
Cash & Equivalents	1033.6	1621.5	3074.9	2861.8	3442.2
Other Current Assets	640.8	592.6	640.1	789.0	835.2
Total Current Assets	4548.0	5682.1	7048.6	7283.1	8314.9
Short-Term Borrowings	329.7	425.8	470.9	415.9	360.9
Trade Payables	664.9	944.0	1625.5	1372.3	1518.5
Other Current Liab & Provisions	475.4	608.8	998.1	976.3	1080.3
Total Current Liabilities	1469.9	1978.6	3094.5	2764.4	2959.7
Net Current Assets	3078.0	3703.5	3954.2	4518.7	5355.2
Total Application of Funds	9410.7	16494.4	17123.4	17771.9	18616.3

Tata Consumer Products Ltd.

Cash Flow Statement

(Rs Cr)	FY19	FY20	FY21	FY22E	FY23E
Reported PBT	734.7	809.4	1,311.1	1,581.0	1,935.7
Non-operating & EO items	-48.3	225.5	17.6	-93.1	-21.5
Interest Expenses	-10.2	16.1	-4.0	53.4	49.4
Depreciation	122.6	241.7	254.7	281.4	294.3
Working Capital Change	-421.5	-82.0	183.4	-640.6	-157.2
Tax Paid	-167.4	-128.4	-106.4	-411.1	-503.3
OPERATING CASH FLOW (a)	209.9	1,082.2	1,656.4	771.1	1,597.4
Capex	-256.6	-150.8	-179.2	-340.0	-310.0
Free Cash Flow	-46.7	931.5	1,477.2	431.1	1,287.4
Investments	25.8	-156.9	523.4	-50.0	-20.0
Non-operating income	283.9	-314.4	-690.7	0.0	0.0
INVESTING CASH FLOW (b)	53.2	-622.0	-346.5	-390.0	-330.0
Debt Issuance / (Repaid)	35.8	-16.5	-102.4	-80.0	-80.0
Interest Expenses	-43.7	-70.3	-65.4	-53.4	-49.4
FCFE	-54.6	844.8	1,309.4	297.7	1,158.0
Share Capital Issuance	0.0	0.0	0.0	0.0	0.0
Dividend	-215.8	-221.6	-267.3	-460.8	-557.6
Others	0.0	0.0	9.1	0.0	0.0
FINANCING CASH FLOW (c)	-223.7	-308.3	-426.0	-594.2	-686.9
NET CASH FLOW (a+b+c)	39.3	151.9	883.9	-213.1	580.4

Key Ratios

(Rs Cr)	FY19	FY20	FY21	FY22E	FY23E
EBITDA Margin	10.8	13.4	13.3	14.2	15.3
EBIT Margin	11.3	12.1	12.2	13.1	14.3
APAT Margin	5.6	4.8	7.4	8.4	9.5
RoE	5.7	4.3	6.0	7.1	8.5
RoCE	9.9	9.8	9.1	10.3	12.0
Solvency Ratio					
Debt/EBITDA (x)	1.4	1.2	0.7	0.6	0.5
D/E	0.2	0.1	0.1	0.1	0.1
PER SHARE DATA					
EPS	6.5	5.0	9.3	11.4	14.2
CEPS	8.4	7.6	12.1	14.4	17.4
Dividend	2.5	2.7	4.1	5.0	6.1
BVPS	116.2	149.9	157.7	164.1	172.3
Turnover Ratios (days)					
Debtor days	33.4	30.4	26.5	23.6	24.3
Inventory days	77.0	62.9	62.3	67.8	66.6
Creditors days	34.5	30.5	40.4	43.7	38.1
VALUATION					
P/E	99.7	129.3	69.4	56.8	45.3
P/BV	5.6	4.3	4.1	3.9	3.7
EV/EBITDA	51.9	45.9	37.3	32.4	26.9
EV/Revenues	5.6	6.2	5.0	4.6	4.1
Dividend Yield (%)	0.4	0.4	0.6	0.8	0.9
Dividend Payout	38.7	54.1	43.6	44.0	42.5

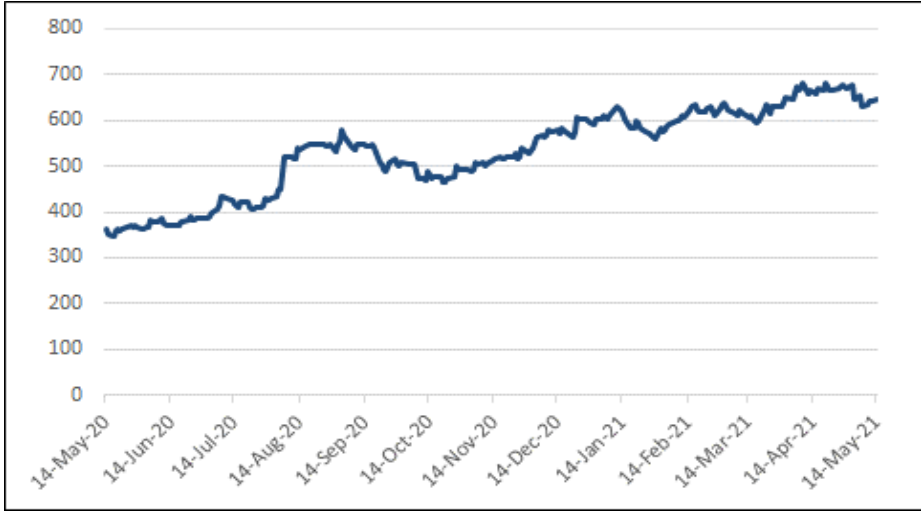
(Source: Company, HDFC sec)

Tata Consumer Products Ltd.



598.71	685.65	685.65	685.65	203.88	118.92	118.92
(-50.01)	(-55.00)	(-0.21)	(-0.21)	(-2.19)	(-120.7)	(-120.7)
142.09	167.29	154.12	393.13	-62.95	-187.58	-42.38
(-35.1)	(-17.4)	(-7.84)	(-7.58)	(-111.88)	(-71.46)	(-155.88)

One Year Price Chart:



(Source: Company, HDFC sec)



Disclosure:

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