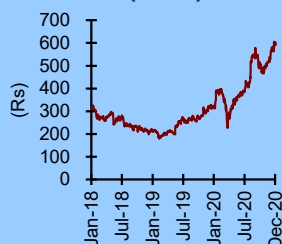


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Sector update

Tata Consumer Products (BUY)



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INDIA



Consumer Staples & Discretionary

Worm's world view #24: Conversations with TATA CONSUMER distributors in Maharashtra

Tata consumer is getting aggressive in Coffee with the launch of new SKUs of Rs2 and Rs10 under *Tata Coffee Grand* brand - that's the insight from our conversation with dealers in Maharashtra. They told us, (1) there have been price hikes in tea portfolio while there were no pricing actions in Tata Salt (Except 5% hike in Oct'20), (2) demand of packaged tea has been marginally impacted due to price increase but these are transitory issues, (3) consolidation of supply chain with removal of stockist layer is largely complete, (4) trade margins of distributors were restructured with the consolidation of supply chain and (5) Tata Sampann's existing product portfolio has performed well with likely double digit volume growth. (No new product launches).

Consensus (including us) believes (and hopes) in 'value creation story' of TCPL, a 74% and 59% stock returns over 1 yr and 3 yrs is testimony. The phase of "Trust me" story is over. With TCPL's FY22 valuations at a premium to Colgate, GCPL, Marico, it's now a "Show me" story. We stay believers; retain BUY with SoTP based target price of Rs695 (46x FY23E; Earlier TP: Rs670)

- ▶ **New SKUs launched in coffee:** Tata consumer has launched two new SKUs of Tata Coffee Grand at price points of Rs2 and Rs10. Distributors told us that the company is pushing these SKUs aggressively. We believe smaller SKUs (launched for first time) will lead to higher consumer trials and potential market share gains.
- ▶ **Price actions in Tea and Salt portfolio:** Distributors told us that there have been price hikes of ~5% across tea variants. However, there were no price hikes in salt portfolio post Oct'20. It was hiked by Re1/Kg (Rs21 from Rs20/Kg) in Oct'20.
- ▶ **Impact of price hikes on demand of packaged tea products:** Distributors told us that there has been some marginal decline in the demand due to higher prices of tea variants with some consumers shifting to unorganized products. However, they also mentioned that the impact is transitional in nature as consumers switch back to organized variants in 3-4 months as they get used to the new prices.
- ▶ **Supply chain restructuring largely over:** Tata Consumer has largely eliminated the stockists from the supply chain in Maharashtra. The company supplies directly to the distributors now.
- ▶ **Trade margins of distributors:** Distributor margin is ~6% in salt and ~4% in tea. Distributors indicated that the trade margins have been restructured with the consolidation of the supply chain.
- ▶ **Tata Sampann:** Existing product portfolio of Tata Sampann is doing well with likely double digit volume growth during the quarter. However, there were no new launches.
- ▶ **Retain BUY:** We model TCPL to report revenue and PAT CAGR of 13.4% and 26%, respectively over FY20-23E. We maintain BUY and value the stock on SoTP basis with target price of Rs695 (earlier Rs670). Key risk is execution - delays in realising integration gains, ramp up of distribution etc.

We do channel checks. We do network checks. However, >20 years of experience has taught this analyst that on-the-ground checks have utility, if and only if, we don't extrapolate it as a national trend (as diversity is high in India).

Worm's world view is our periodic product on network checks.

Financial summary – Tata Consumer Products

Table 1: Profit & loss statement

(Rs mn, year ending March 31)

	FY20	FY21E	FY22E	FY23E
Net Sales	96,374	111,488	125,669	140,355
Operating Expenses	83,453	95,524	107,342	119,364
EBITDA	12,922	15,965	18,327	20,991
% margins	13.4	14.3	14.6	15.0
Depreciation & Amortisation	2,417	2,554	2,682	2,799
Gross Interest	779	812	679	679
Other Income	1,116	1,466	2,131	2,283
Recurring PBT	10,842	14,064	17,098	19,796
Less: Taxes	2,742	3,544	4,360	5,048
Less: Minority Interest	(1,230)	(1,177)	(1,278)	(863)
Net Income (Reported)	6,937	9,343	11,460	13,884
Extraordinaries (Net)	67	-	-	-
Recurring Net Income	6,870	9,343	11,460	13,884

Source: Company data, I-Sec research

Table 2: Balance sheet

(Rs mn, year ending March 31)

	FY20	FY21E	FY22E	FY23E
Assets				
Total Current Assets	56,821	62,449	73,987	87,756
of which cash & cash eqv.	16,215	16,809	23,494	33,874
Total Current Liabilities & Provisions	15,528	18,039	20,334	22,710
Net Current Assets	41,292	44,410	53,653	65,046
Investments	13,831	13,238	12,559	12,319
Net Fixed Assets	113,125	113,571	113,890	113,617
Capital Work-in-Progress	954	954	954	954
Total Assets	169,202	172,173	181,056	191,935
Liabilities				
Borrowings	17,264	13,342	13,657	13,983
Deferred Tax Liability	2,865	2,865	2,865	2,865
Minority Interest	10,925	11,423	11,942	12,481
Equity Share Capital	922	922	922	922
Face Value per share (Rs)	1.00	1.00	1.00	1.00
Reserves & Surplus*	137,227	143,621	151,671	161,685
Less: Misc. Exp. n.w.o.				
Net Worth	138,149	144,543	152,593	162,606
Total Liabilities	169,202	172,173	181,056	191,935

Source: Company data, I-Sec research

Table 3: Cashflow statement

(Rs mn, year ending March 31)

	FY20	FY21E	FY22E	FY23E
Operating Cashflow	11,643	12,420	13,967	15,943
Working Capital Changes	(820)	(2,272)	(2,324)	(770)
Capital Commitments	(2,518)	(3,000)	(3,000)	(2,526)
Free Cashflow	8,305	7,148	8,643	12,647
Cashflow from Investing Activities	(6,728)	(1,534)	(869)	(244)
Issue of Share Capital	-	-	-	-
Inc (Dec) in Borrowings	(867)	(5,070)	(679)	(679)
Dividend paid	(2,216)	(2,949)	(3,410)	(3,871)
Chg. in Cash & Bank balance	1,011	595	6,685	10,380
Closing cash & balance	16,215	16,809	23,494	33,874

Source: Company data, I-Sec research

Table 4: Key ratios

(Year ending March 31)

	FY20	FY21E	FY22E	FY23E
Per Share Data (Rs)				
EPS	7.5	10.1	12.4	15.1
Cash EPS	10.1	12.9	15.3	18.1
Dividend per share (DPS)	2.7	3.2	3.7	4.2
Book Value per share (BV)	149.9	156.8	165.6	176.4
Growth (%)				
Net Sales	32.9	15.7	12.7	11.7
EBITDA	64.4	23.6	14.8	14.5
PAT	41.2	29.7	21.6	15.8
DPS	8.0	18.5	15.6	13.5
Valuation Ratios (x)				
P/E	80.7	59.3	48.4	39.9
P/CEPS	59.7	46.6	39.2	33.2
P/BV	4.0	3.8	3.6	3.4
EV / EBITDA	42.2	34.1	29.7	26.0
EV / Sales	5.7	4.9	4.3	3.9
Operating Ratios				
Raw Material / Sales (%)	56.1	56.0	55.9	55.5
Employee cost / Sales (%)	9.2	9.0	9.0	9.0
Other exps / Sales (%)	21.3	20.6	20.5	20.5
Other Income / PBT (%)	10.3	10.4	12.5	11.5
Effective Tax Rate (%)	25.3	25.2	25.5	25.5
Working Capital (days)	87.3	82.9	80.3	73.9
Inventory Turnover (days)	64.8	65.0	65.0	64.0
Receivables (days)	34.9	34.7	35.0	32.0
Payables (days)	35.8	36.0	36.0	36.0
Net D/E (x)	(0.1)	(0.1)	(0.1)	(0.2)
Profitability Ratios (%)				
Net Income Margins	7.1	8.4	9.1	9.9
RoACE	7.9	7.9	8.9	9.8
RoAE	6.5	6.6	7.7	8.8
Dividend Payout	36.2	31.6	29.8	27.9
Dividend Yield	0.4	0.5	0.6	0.7
EBITDA Margins	13.4	14.3	14.6	15.0

Source: Company data, I-Sec research

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