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Q1FY22 results review and TP revision

Consumer Staples & Discretionary

Target price Rs890

Earnings revision

(%)	FY22E	FY23E
Revenues	↑ 0.0	↑ 0.0
EBITDA	↓ 3.2	↓ 3.1
PAT	↓ 4.9	↓ 4.3

Target price revision

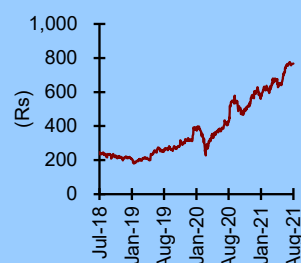
Rs890 from Rs800

Shareholding pattern

	Dec '20	Mar '21	Jun '21
Promoters	34.7	34.7	34.7
Institutional investors	39.3	37.8	39.0
MFs and others	9.9	8.4	8.5
Banks/FIs	0.0	0.2	0.1
Insurance	3.0	3.4	4.8
FIs	26.4	25.8	25.6
Others	26.0	27.5	26.3

Source: BSE

Price chart



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INDIA

ICICI Securities

Tata Consumer Products

BUY

Maintained

The show ('show me story') continues with minor breaks (in profitability)

Rs767

While TCPL had not-so-easy macros to tackle (including (abnormally) high input inflation) in India and higher base in International (pantry up-stocking in Q1FY21), it continued to gain market shares. It gained 170bps market shares in India Tea and 370bps in Salt. It also gained shares in regular and specialty tea in Canada. While near-term impact of steep inflation in input prices is unavoidable, we highlight that market share gains are DCF-accretive. We model it to gain market shares in FY21-23 due to (1) expansion of direct coverage and strengthening of rural distribution, (2) differentiated launches and (3) premiumization (premium salt grew 34% in Q1FY22). TCPL has largely completed integration of Souffl with expansion of GT outlet reach by 3x. Quick integration is comforting and provides significant confidence about new bolt-on acquisitions (if any). Starbucks also reported V-shaped recovery in revenues immediately after lifting of lockdown. Maintain BUY with SoTP-based target price of Rs890.

- **Q1FY22 results:** TCPL reported revenue growth of 10.9%, YoY. However, EBITDA and PAT declined 17.2% and 39.3%, respectively, YoY. Constant currency growth was 10%. Segment-wise revenue growth rates: India Beverages 28.2%, India Foods 19.6% and International Beverages -12.7%. India Beverages and Foods reported volume growth of 3% and 17%, respectively. Gross and EBITDA margins declined 395bps and 451bps, respectively due to higher RM prices. Standalone revenues were up 22.5% but EBITDA declined 15.9% YoY.
- **Market share gains in key segments:** TCPL has significantly increased the investments in brand building with increase in ad-spend by 53% YoY. Due to higher investments in branding, launches of differentiated products and strengthening of distribution, TCPL gained 170bps market shares in India Tea and 370bps in Salt.
- **On track to expand reach:** It's direct coverage has reached 0.8mn outlets in Jun'21 vs 0.5mn in Sept'20 and is on track to reach 1.0mn outlets by Sept'21. It has 3,000+ rural distributors now. E-commerce and Institutional revenues were up 153% and 144%, respectively YoY. Direct billing of urban outlets increased 12% in Jun'21 over Mar'21.
- **V-shaped recovery in Starbucks in June'21:** Starbucks has 219 stores in 18 cities now. It reported revenue growth of 371% YoY (2-Year CAGR: -21.9%). Apr-May'21 were impacted by lockdown but there is strong revival in revenues in June'21. While dine-in is still impacted, delivery contribution increased to 27% of revenues. 84% of Starbucks stores have opened at end of June'21.

Market Cap	Rs707bn/US\$9.5bn	Year to March	FY20	FY21	FY22E	FY23E
Bloomberg	TATACONS IN	Revenue (Rs mn)	96,374	1,16,020	1,31,765	1,47,214
Shares Outstanding (mn)	921.0	Adj. Net Profit (Rs mn)	6,870	8,654	10,648	13,049
52-week Range (Rs)	776/434	Dil. Rec. EPS (Rs)	7.5	9.4	11.6	14.2
Free Float (%)	65.3	% Chg YoY	7.4	26.0	23.0	22.6
FII (%)	25.6	P/E (x)	102.9	81.7	66.4	54.2
Daily Volume (US\$'000)	32,371	CEPS (Rs)	10.1	12.2	14.4	17.2
Absolute Return 3m (%)	14.0	EV/EBITDA (x)	52.6	44.1	38.5	32.9
Absolute Return 12m (%)	77.8	Dividend Yield (%)	0.4	0.5	0.6	0.7
Sensex Return 3m (%)	11.1	RoCE (%)	7.9	7.5	8.5	9.7
Sensex Return 12m (%)	47.4	RoE (%)	6.5	6.1	7.2	8.4

Please refer to important disclosures at the end of this report

- ▶ **International business print appears underwhelming (pantry up-stocking in base):** UK, USA, Canada reported revenue decline of 13%, 15% and 25%, respectively due to pantry up-stocking in base period. Re-opening of USA market is leading to higher footfalls in stores and cafes and is taking away market share from e-commerce and Retail. Tetley has gained market shares in Canada in regular and specialty tea.
- ▶ **Reiterate BUY:** We model TCPL to report revenue and PAT CAGR of 12.6% and 22.8%, respectively over FY21-23E. We maintain BUY and value the stock on SoTP basis with target price of Rs890. Key risk is execution - delays in realising integration gains, ramp up of distribution etc.

Table 1: Q1FY22 results review (consolidated)

(Rs mn)

	Junr-21	Jun-20	YoY (%)	Mar-21	QoQ (%)
Revenue from operations	30,085	27,139	10.9	30,372	(0.9)
Cost of Materials	(17,824)	(15,006)	18.8	(18,460)	(3.4)
Gross profit	12,261	12,133	1.1	11,912	2.9
Employee costs	(2,654)	(2,291)	15.9	(2,702)	(1.8)
Other expenses	(5,612)	(5,016)	11.9	(6,208)	(9.6)
EBITDA	3,995	4,827	(17.2)	3,002	33.1
D&A	(668)	(620)	7.8	(659)	1.4
EBIT	3,327	4,207	(20.9)	2,343	42.0
Interest expense	(204)	(173)	18.2	(155)	32.2
Other income	280	327	(14.4)	430	(34.8)
PBT	3,403	4,361	(22.0)	2,618	30.0
Income tax provision	(957)	(1,104)	(13.3)	(646)	48.2
PAT before EO and MI	2,446	3,257	(24.9)	1,973	24.0
MI	(364)	(56)	548.5	(238)	53.0
Share of assoc earnings	(404)	(435)	(7.2)	(590)	(31.5)
Recurring PAT	1,678	2,766	(39.3)	1,145	46.5
EO items	1,298	(299)	(533.8)	(324)	(500.8)
Reported PAT	2,976	2,467	20.6	821	262.4
Margin (%)					
Gross margins	40.8	44.7		39.2	
EBITDA	13.3	17.8		9.9	
EBIT	11.1	15.5		7.7	
Recurring PAT	5.6	10.2		3.8	
ETR (%)	28.1	25.3		24.7	

Source: Company data, I-Sec research

Table 2: Q1FY22 results review (standalone)

(Rs mn)

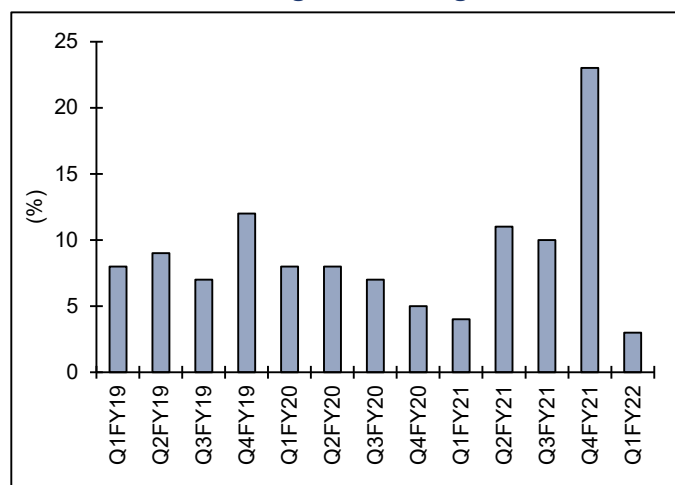
	Jun-21	Jun-20	YoY (%)	Mar-21	QoQ (%)
Revenue from operations	19,659	16,054	22.5	18,501	6.3
Cost of materials	(12,837)	(9,497)	35.2	(12,793)	0.3
Gross profit	6,822	6,558	4.0	5,708	19.5
Employee costs	(884)	(718)	23.1	(922)	(4.1)
Other expenses	(3,199)	(2,583)	23.9	(3,366)	(4.9)
EBITDA	2,739	3,257	(15.9)	1,421	92.8
D&A	(349)	(296)	17.9	(334)	4.5
EBIT	2,390	2,961	(19.3)	1,087	119.9
Interest expense	(77)	(65)	17.3	(79)	(3.3)
Other income	1,462	457	220.0	287	409.2
PBT	3,776	3,353	12.6	1,295	191.6
Income tax provision	(739)	(820)	(9.9)	(334)	121.4
PAT before EO	3,037	2,533	19.9	961	216.0
Recurring PAT	3,037	2,533	19.9	961	216.0
EO items	(22)	(210)	(89.5)	(56)	(60.4)
Reported PAT	3,015	2,323	29.8	906	232.9
Margin (%)					
Gross	34.7	40.8		30.9	
EBITDA	13.9	20.3		7.7	
EBIT	12.2	18.4		5.9	
Recurring PAT	15.5	15.8		5.2	
ETR (%)	19.6	24.4		25.8	

Source: Company data, I-Sec research

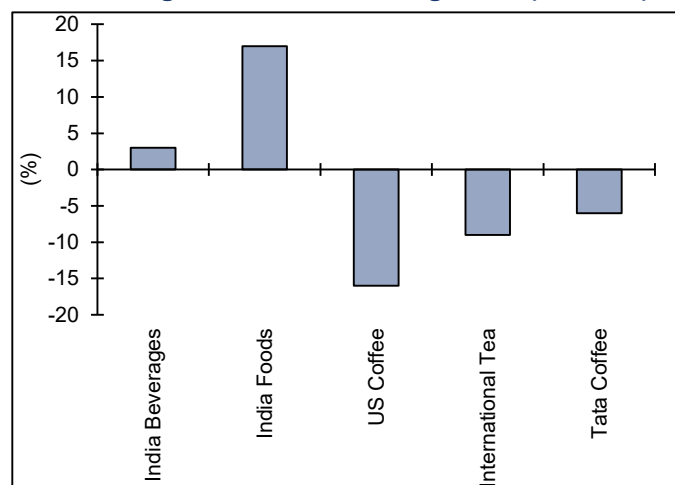
Table 3: Q1FY22 segment review (Consolidated)*(Rs mn)*

	Jun-21	Jun-20	YoY (%)	Mar-21	QoQ (%)
Segment Revenues					
India Beverages	12,671	9,886	28.2	12,001	5.6
India Foods	7,047	5,891	19.6	6,417	9.8
International Beverages	7,676	8,792	(12.7)	8,799	(12.8)
Non branded business	2,776	2,644	5.0	3,236	(14.2)
Others	27	11	155.1	8	264.0
Less: Intersegment	(113)	(85)	32.7	(89)	26.4
Total	30,085	27,139	10.9	30,372	(0.9)
Segment EBIT					
India Beverages	1,507	2,121	(28.9)	509	196.1
India Foods	960	1,146	(16.2)	868	10.6
International Beverages	960	1,287	(25.4)	1,115	(13.9)
Non branded business	186	140	33.5	385	(51.6)
Total	3,614	4,693	(23.0)	2,877	25.6
Segment EBIT margin					
India Beverages	11.9	21.5		4.2	
India Foods	13.6	19.4		13.5	
International Beverages	12.5	14.6		12.7	
Non branded business	6.7	5.3		11.9	
Total	12.0	17.3		9.5	

Source: Company data, I-Sec research

Chart 1: India Beverages volume growth

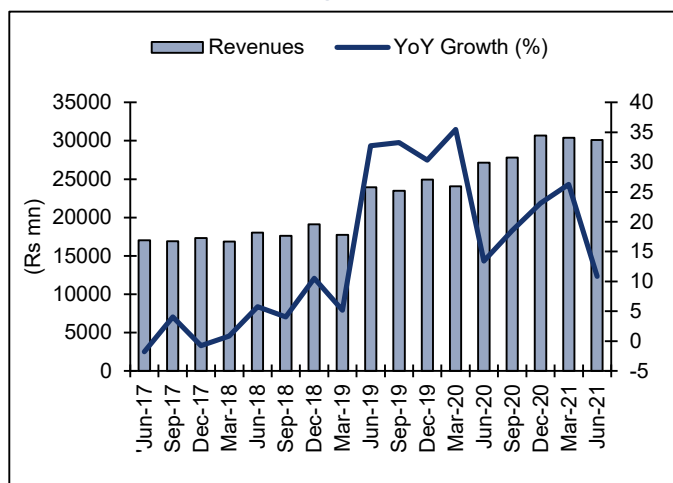
Source: Company data, I-Sec research

Chart 2: Segment-wise volume growth (Q1FY22)

Source: Company data, I-Sec research

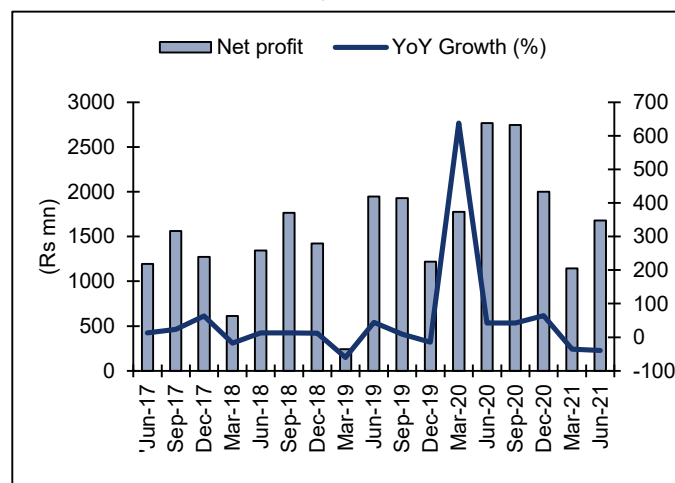
Key charts – Quarterly (Consolidated)

Chart 3: Revenues and growth rates



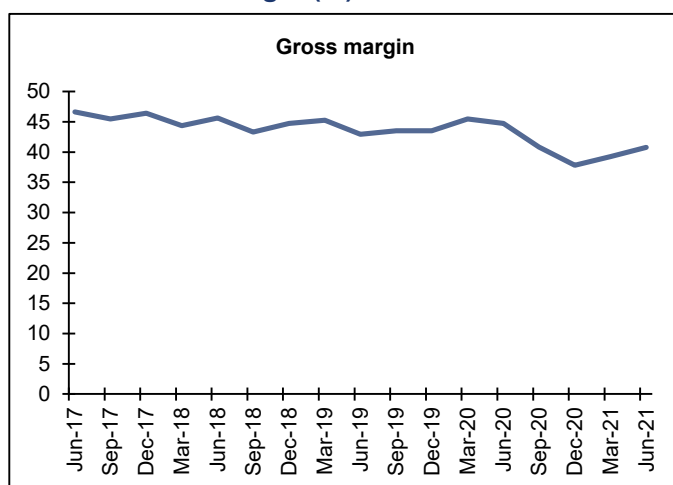
Source: Company data, I-Sec research

Chart 4: Net profit and growth rates



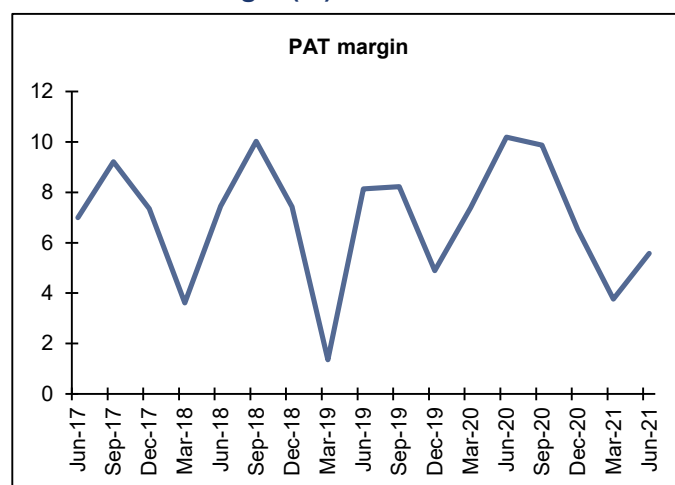
Source: Company data, I-Sec research

Chart 5: Gross margin (%)



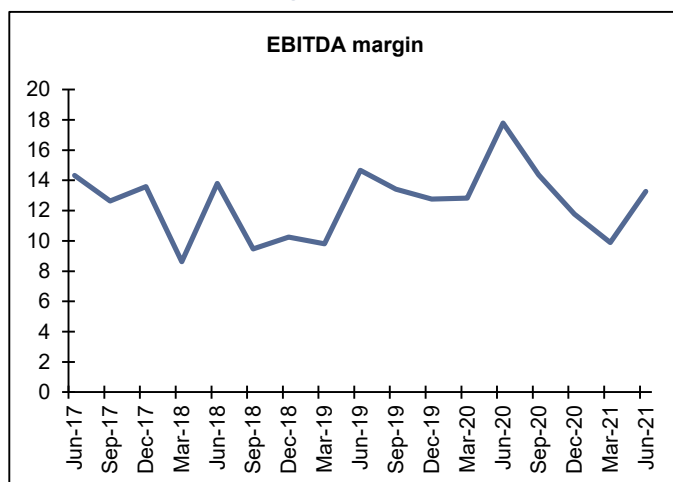
Source: Company data, I-Sec research

Chart 6: PAT margin (%)



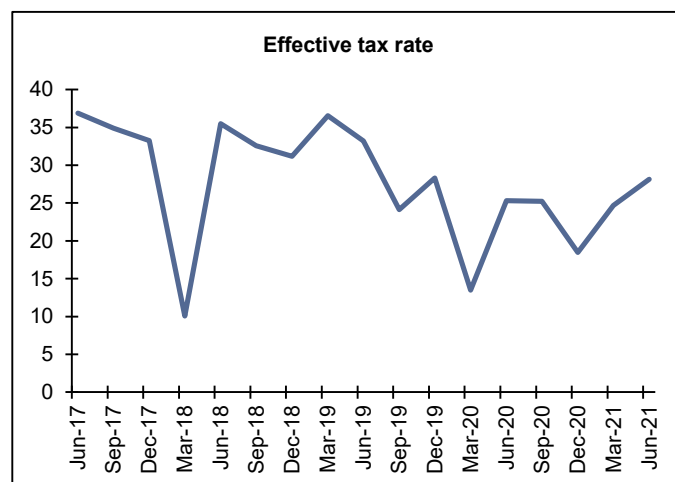
Source: Company data, I-Sec research

Chart 7: EBITDA margin (%)



Source: Company data, I-Sec research

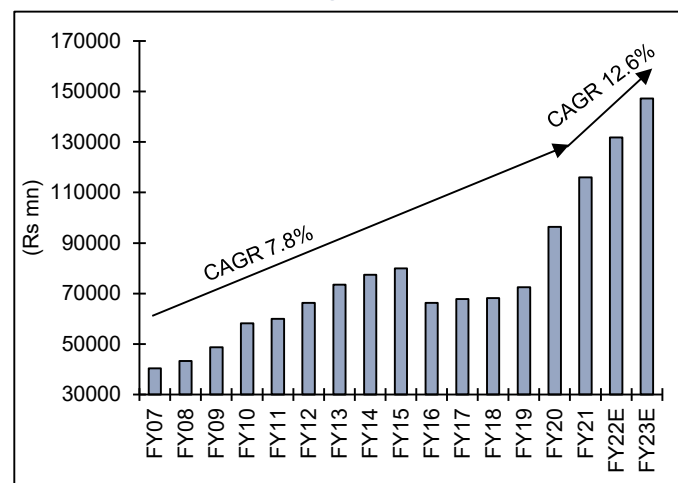
Chart 8: Effective tax rate (%)



Source: Company data, I-Sec research

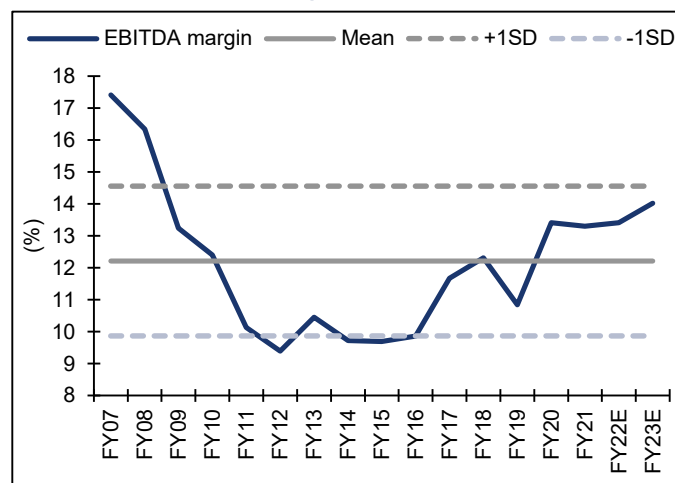
Key charts - Annual

Chart 9: Revenues and growth rates



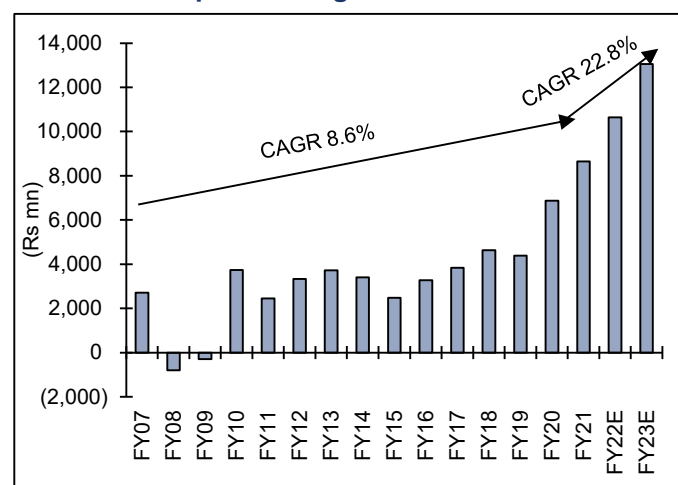
Source: Company data, I-Sec research

Chart 10: EBITDA margin



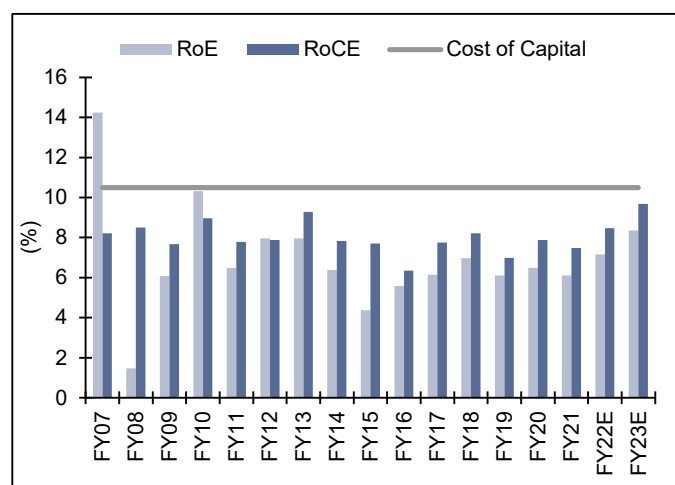
Source: Company data, I-Sec research

Chart 11: Net profit and growth rates



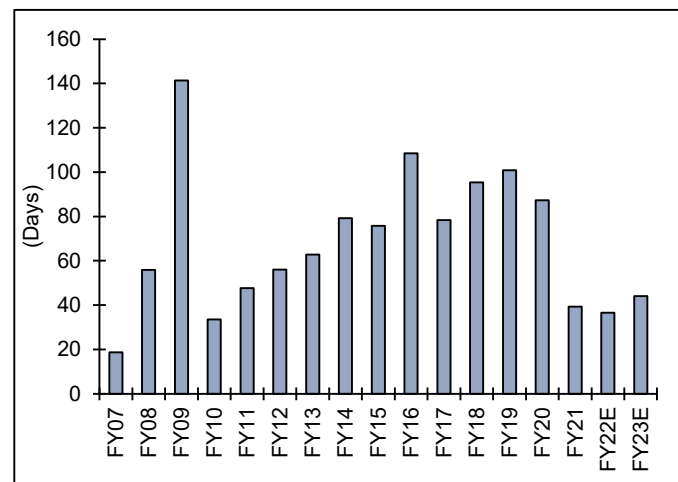
Source: Company data, I-Sec research

Chart 12: RoE & RoCE



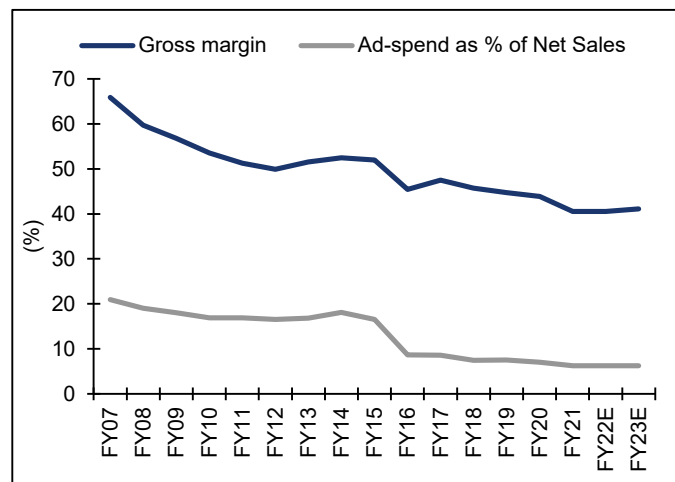
Source: Company data, I-Sec research

Chart 13: Net working capital days

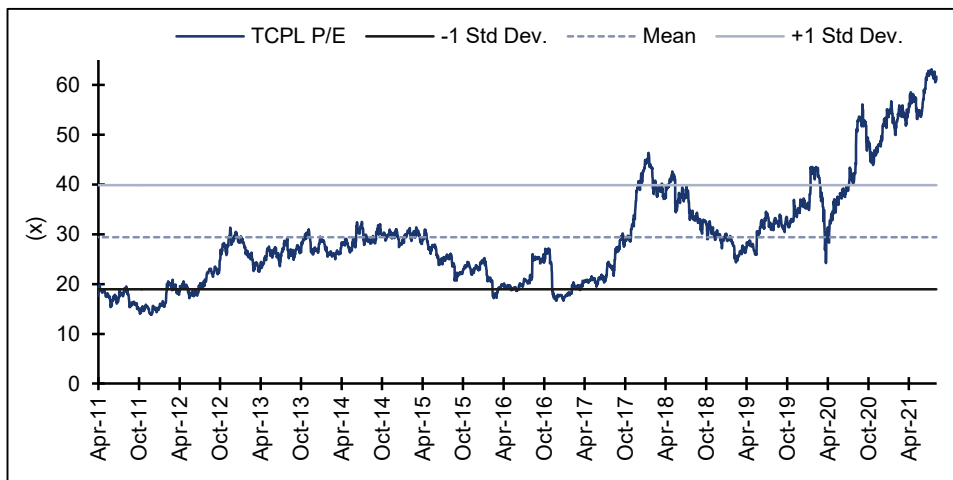


Source: Company data, I-Sec research

Chart 14: Gross margin & ad-spend



Source: Company data, I-Sec research

Chart 15: Mean P/E(x) and standard deviation

Source: Company data, I-Sec research

Financial summary

Table 4: Profit & loss statement
(Rs mn, year ending March 31)

	FY20	FY21	FY22E	FY23E
Net Sales	96,374	1,16,020	1,31,765	1,47,214
Operating Expenses	83,453	1,00,583	1,14,089	1,26,571
EBITDA	12,922	15,438	17,676	20,643
% margins	13.4	13.3	13.4	14.0
Depreciation & Amortisation	2,417	2,547	2,636	2,763
Gross Interest	779	687	353	201
Other Income	1,116	1,214	1,615	1,757
Recurring PBT	10,842	13,417	16,302	19,437
Less: Taxes	2,742	3,173	4,157	4,956
Less: Minority Interest	(1,230)	(1,590)	(1,497)	(1,431)
Net Income (Reported)	6,937	9,842	10,648	13,049
Extraordinaries (Net)	67	1,188	-	-
Recurring Net Income	6,870	8,654	10,648	13,049

Source: Company data, I-Sec research

Table 5: Balance sheet
(Rs mn, year ending March 31)

	FY20	FY21	FY22E	FY23E
Assets				
Total Current Assets	56,821	70,486	77,732	85,998
of which cash & cash eqv.	16,215	30,749	33,296	38,345
Total Current Liabilities & Provisions	15,528	26,614	29,815	27,664
Net Current Assets	41,292	43,872	47,917	58,333
Investments	13,831	14,528	14,157	13,890
Net Fixed Assets	1,13,125	1,16,036	1,16,399	1,16,581
Capital Work-in-Progress	954	1,129	1,129	1,129
Total Assets	1,69,202	1,75,564	1,79,601	1,89,933
Liabilities				
Borrowings	17,264	13,973	10,560	11,461
Deferred Tax Liability	2,865	5,321	5,321	5,321
Minority Interest	10,925	10,925	11,921	12,956
Equity Share Capital	922	922	922	922
Face Value per share (Rs)	1.00	1.00	1.00	1.00
Reserves & Surplus*	1,37,227	1,44,424	1,50,878	1,59,273
Less: Misc. Exp. n.w.o.				
Net Worth	1,38,149	1,45,345	1,51,799	1,60,194
Total Liabilities	1,69,202	1,75,564	1,79,601	1,89,933

Source: Company data, I-Sec research

Table 6: Cashflow statement
(Rs mn, year ending March 31)

	FY20	FY21	FY22E	FY23E
Operating Cashflow	11,643	14,729	13,519	15,687
Working Capital Changes	(820)	1,834	(710)	(4,596)
Capital Commitments	(2,518)	(4,033)	(3,000)	(2,944)
Free Cashflow	8,305	12,531	9,809	8,146
Cashflow from Investing Activities	(6,728)	(4,084)	(1,385)	(1,187)
Issue of Share Capital	-	-	-	-
Inc (Dec) in Borrowings	(867)	(1,678)	(4,683)	(201)
Dividend paid	(2,216)	(2,582)	(4,193)	(4,654)
Chg. in Cash & Bank balance	1,011	8,219	2,548	5,048
Closing cash & balance	16,215	17,732	33,296	38,345

Source: Company data, I-Sec research

Table 7: Key ratios
(Year ending March 31)

	FY20	FY21	FY22E	FY23E
Per Share Data (Rs)				
EPS	7.5	9.4	11.6	14.2
Cash EPS	10.1	12.2	14.4	17.2
Dividend per share (DPS)	2.7	4.1	4.6	5.1
Book Value per share (BV)	149.9	157.7	164.7	173.8
Growth (%)				
Net Sales	32.9	20.4	13.6	11.7
EBITDA	64.4	19.5	14.5	16.8
PAT	41.2	23.8	21.5	19.2
DPS	8.0	50.0	12.3	11.0
Valuation Ratios (x)				
P/E	102.9	81.7	66.4	54.2
P/CEPS	76.1	63.1	53.2	44.7
P/BV	5.1	4.9	4.7	4.4
EV / EBITDA	52.6	44.1	38.5	32.9
EV / Sales	7.1	5.9	5.2	4.6
Operating Ratios				
Raw Material / Sales (%)	56.1	59.5	59.5	58.9
Employee cost / Sales (%)	9.2	8.4	8.4	8.4
Other exps / Sales (%)	21.3	18.8	18.7	18.7
Other Income / PBT (%)	10.3	9.0	9.9	9.0
Effective Tax Rate (%)	25.3	23.6	25.5	25.5
Working Capital (days)	87.3	39.3	36.6	44.1
Inventory Turnover (days)	64.8	70.8	70.0	69.0
Receivables (days)	34.9	24.0	24.0	21.0
Payables (days)	35.8	51.1	50.0	36.0
Net D/E (x)	(0.1)	(0.2)	(0.2)	(0.2)
Profitability Ratios (%)				
Net Income Margins	7.1	7.5	8.1	8.9
RoACE	7.9	7.5	8.5	9.7
RoAE	6.5	6.1	7.2	8.4
Dividend Payout	36.2	43.1	39.4	35.7
Dividend Yield	0.4	0.5	0.6	0.7
EBITDA Margins	13.4	13.3	13.4	14.0

Source: Company data, I-Sec research

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BUY: >15% return; ADD: 5% to 15% return; HOLD: Negative 5% to Positive 5% return; REDUCE: Negative 5% to Negative 15% return; SELL: < negative 15% return

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