

Tata Consumer – Takeaways from conversation with CEO

The Tata group is clearly focused on leveraging its brand and participating in India's INR30t consumption story. To realize its vision, the group has not only consolidated Tata Chemical's consumer business with Tata Consumer Products (TCP), but has also brought in a new CEO and MD – Mr. Sunil D'Souza – to steer the company in the right direction. Post taking over the reins of TCP in Apr'20, we interacted with Mr. D'Souza to learn his long-term views and plans for the company. Key insights from the discussion highlighted below:

Well placed to ride India's INR30t consumption wave

- Mr. Sunil D' Souza joined TCP in order to pursue a bigger role compared to his last stint as CEO with Whirlpool India. He believes that TCP is well positioned to ride India's INR30t consumption wave as it has renewed its focus on the consumer products' space due to having (a) a portfolio of market leading and high growth potential brands, (b) deep understanding of consumers, (c) wide distribution network of over 2.5m retail outlets, and (d) the legacy of the Tata group.
- In Mr. D'Souza's view, TCP has the key ingredients to rank amongst the top FMCG companies in India. TCP has (a) one of Tata's biggest brands, (b) a passionate team, (c) adequate resources at disposal, and (d) differentiated products. Thus, the focus is to build TCP in this direction, which is also being supported by the company's Board of Directors. He further says that the company is aiming for double-digit revenue growth along with margin expansion.

To evaluate inorganic acquisition from financial lens as well

- The company currently has net cash of INR13b with expectation of free cash flow generation of INR7-8b for FY21E. Thus, the cumulative cash balance is likely to reach INR20b by end-FY21E. According to Mr. D'Souza, these funds would be deployed toward organic/inorganic acquisitions in the adjacent category of the food and beverages space (in the near term).
- He further highlighted that the company is in the process of clearly defining acquisition opportunities. Due to the COVID-19 crisis, many acquisition opportunities are likely to come up; however, TCP plans to remain selective. An acquisition would be considered only when the target company brings in a brand, sourcing capability, technology or distribution to the table. Additionally, TCP would also evaluate the financial angle of an acquisition – whether it is RoCE/RoE/margin accretive – which in turn would create higher value for the company.
- As an example, Mr. D'Souza cites TCP's acquisition in FY20 of Dhunseri Tea for INR1b (houses brands like *Lal Ghoda* and *Kala Ghoda*) – a prominent player in Rajasthan. With this acquisition, TCP could enter into the Rajasthan market with its own product, which was not the case earlier, he says.
- Currently, TCP's internal IRR hurdle rate for any new project is >20%.

Near-term focus to set the platform right, which should unleash cost/revenue synergies

- By setting the platform right, TCP has expanded its sales and distribution reach to 2.5m retail outlets (v/s 2m pre-merger), which Mr. D'Souza believes would increase further as the distribution multiplier comes into play. Retail outlet reach of the company is currently lower as compared to other FMCG companies, and thus, provides enough room for an increase, he adds.
- According to Mr. D'Souza, TCP is targeting to realize cost synergies of INR600-700m and the company is well on track to achieve the same.

Tata Consumer Products



Mr Sunil D'Souza
CEO & MD

Mr. D'Souza took over the reins of Tata Consumer Products (TCP) as MD & CEO from Apr'20. Previously, he has served as the MD of Whirlpool India Limited. Mr. D'Souza has worked with PepsiCo Inc. for 15 years – his last assignment was as General Manager of the VIMAPS region, Malaysia. He has also worked with Coca Cola, Standard Chartered Bank and Brooke Bond Lipton India (now HUL) in various capacities. He holds a Bachelor's degree in Engineering and a Post-Graduate diploma in Management from IIM, Kolkata.

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- Additionally, with the combined scale (Tata Chemicals and TCP), he believes the company would drive efficiencies including superior terms of trade with channel partners, supply chain opportunities and proficiency in areas such as marketing and packaging.

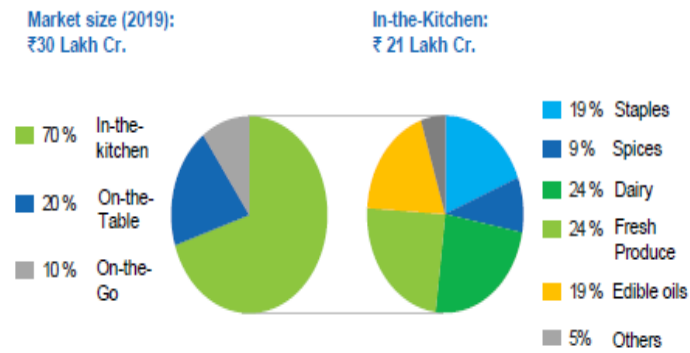
Growth levers for the future

- Currently, the company has two strong legs in the India business – *Tata Tea* and *Tata Salt* – wherein TCP is targeting double-digit growth, driven by cross-selling between Tata Chemicals and TCP's distribution channel.
- TCP is building its third leg of growth – *Tata Sampann* – which houses pulses and spices. The pulses and spices category has a higher share of unbranded/unorganized players. Thus, Mr. D'Souza expects growth to come in by grabbing market share from such players and increasing distribution reach.
- He further believes that driving conversion from unbranded/unorganized items to branded products is built into the DNA of the organization. The company has a proven track record of creating category-defining brands, like *Tata Tea* and *Tata Salt*. While the core categories still offer large headroom for growth, the company is witnessing similar opportunities in the staples and packaged foods space too, where *Tata Sampann* is a mega brand in the making, he adds.
- According to Mr. D'Souza, the online channel can act as a key platform, which could initially be used to check the acceptance of new products; consequently, these products can be sold through the existing channels, he concurs.

Valuation and view

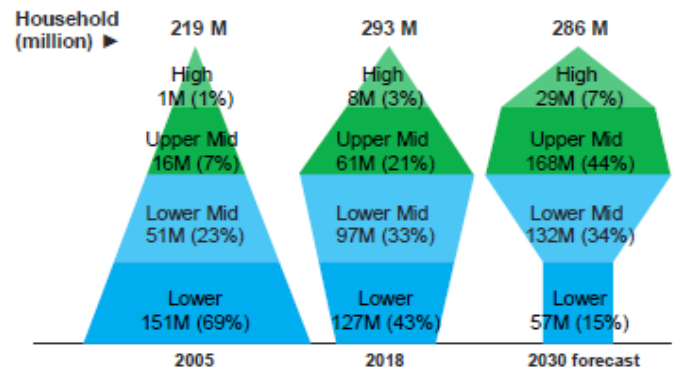
- The Tata group is clearly focused on leveraging its brand and participating in India's consumption story of INR30t, for which it has merged Tata Chemical's consumer business with TCP. The merger is in sync with the Tata group's focus to create a single FMCG-focused company. It also offers multiple synergies, including higher outlet coverage, focused new product development, stronger cash flow generation and scale efficiencies. Moreover, in the short-to-medium term, the new MD and CEO, Mr. Sunil D'Souza, has his plans clearly laid out – his focus is on setting up the right sales and distribution channels and driving cost efficiencies. We value the stock on SOTP basis to arrive at a target price of INR431. Maintain **Buy**.

Exhibit 1: Market skewed toward In-the-Kitchen Segment



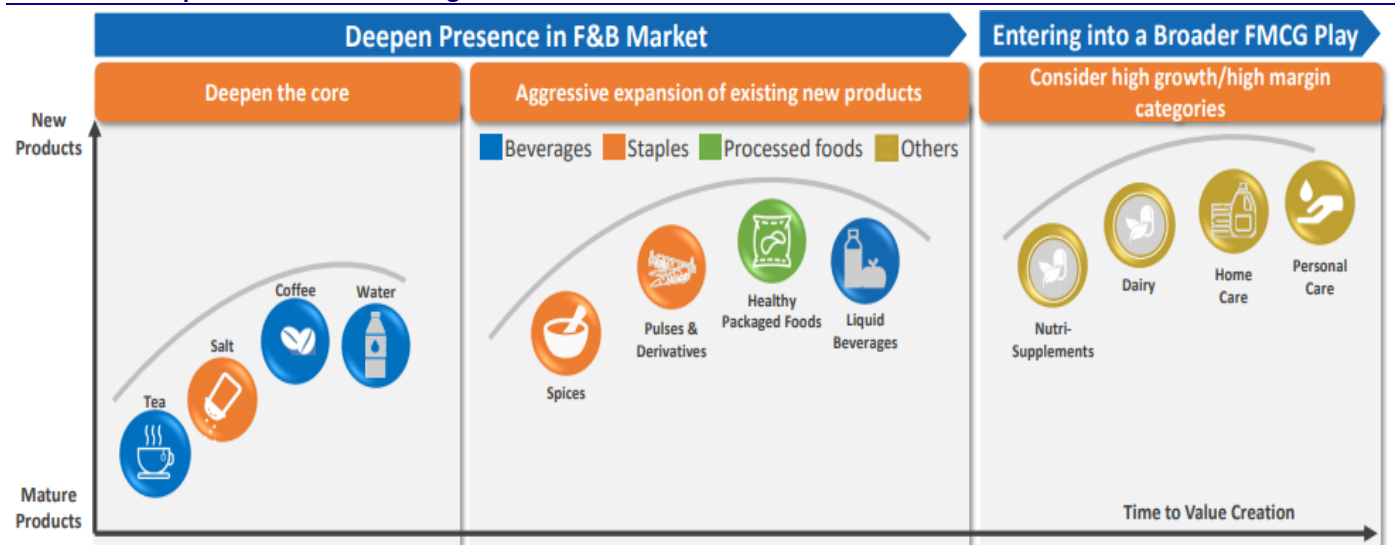
Source: Company, MOFSL

Exhibit 2: Rising affluence of households



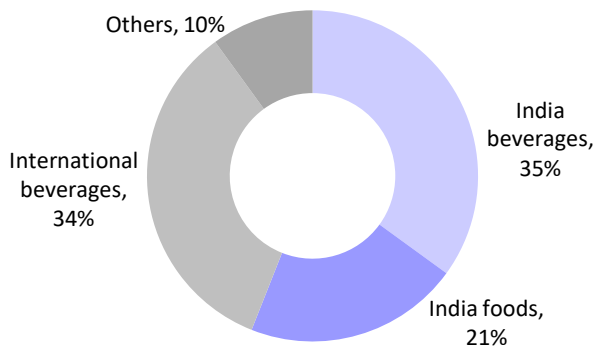
Source: Company, MOFSL

Exhibit 3: TCP's product launch over long term



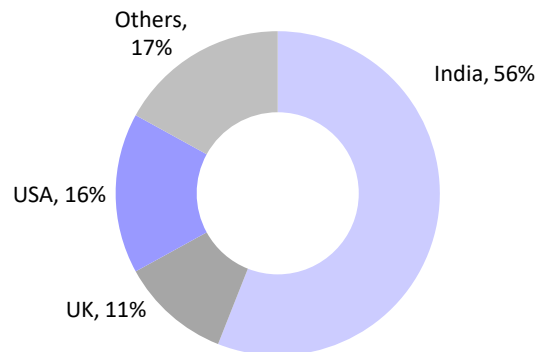
Source: Company, MOFSL

Exhibit 4: TCP FY20 segment wise revenue mix (incl Tata Chemicals consumer biz.)



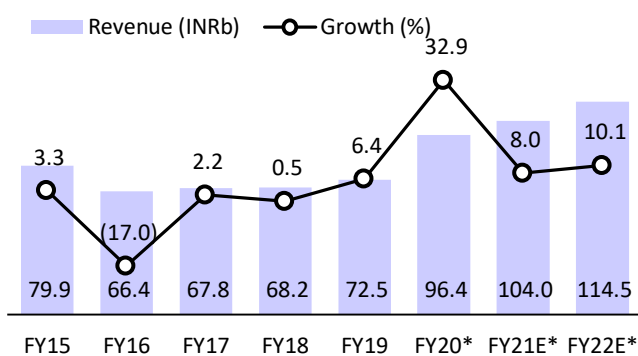
Source: Company, MOFSL

Exhibit 5: TCP FY20 region wise revenue mix (incl Tata Chemicals consumer biz.)



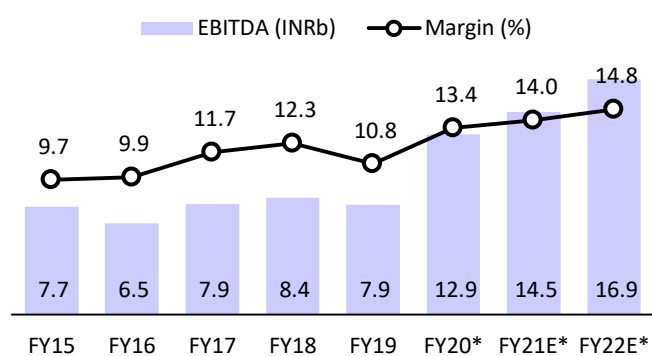
Source: Company, MOFSL

Exhibit 6: Revenue to grow at 9% CAGR over FY20-22



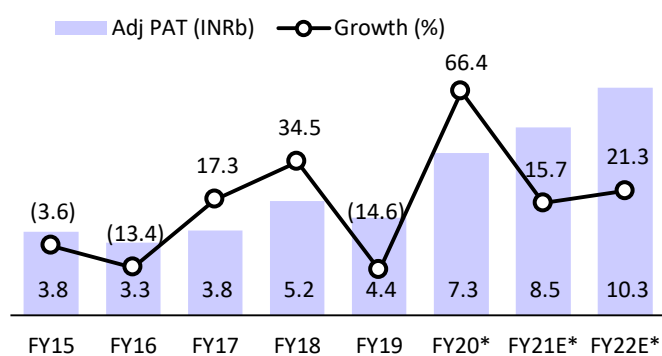
Source: Company, MOFSL

Exhibit 7: EBITDA margins to expand 130bp over FY20-22



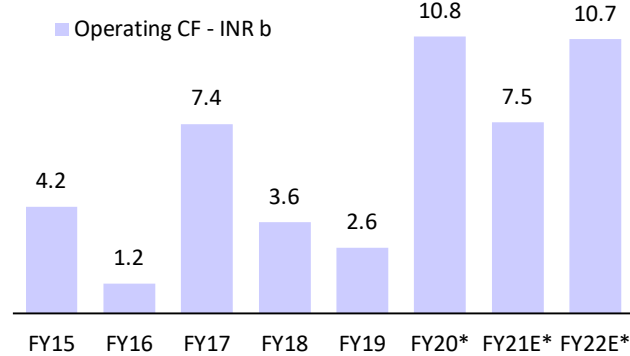
Source: Company, MOFSL

Exhibit 8: Adj PAT to grow at 18% CAGR over FY20-22



Source: Company, MOFSL

Exhibit 9: Operating cash flow trend



Source: Company, MOFSL

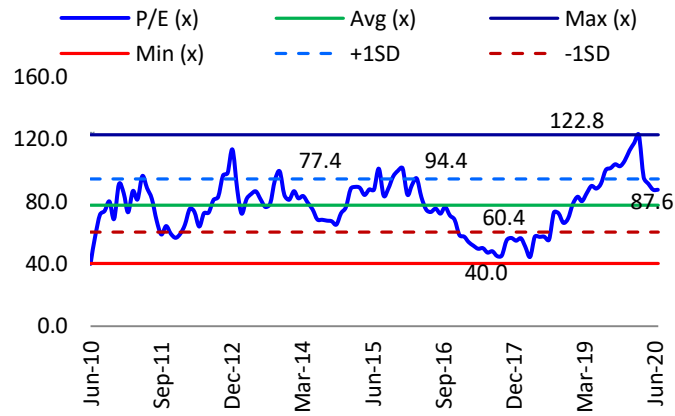
* Performance includes Tata Chemicals consumer business

Exhibit 10: Valuation methodology

EV/EBITDA	EBITDA	Multiple (x)	EV
India Tea (TCP Standalone)	5,404	26	1,40,502
Coffee India (ex-Starbucks) @57%	606	10	6,063
Coffee Overseas	2,334	10	24,278
Consumer (Salt & others)	5,413	28	1,51,563
Overseas tea (Tetley UK)	2,053	10	20,534
DCF			
Starbucks JV			25,532
Price/Sales			
NourishCo (JV with Pepsi) & others	2,000	4	8,000
Enterprise value			3,76,472
Less: Net debt			-21,099
Market value (INR m)			3,97,571
No. of shares (m)			922
Target price (INR)			431
CMP (INR)			369
Upside (%)			17%

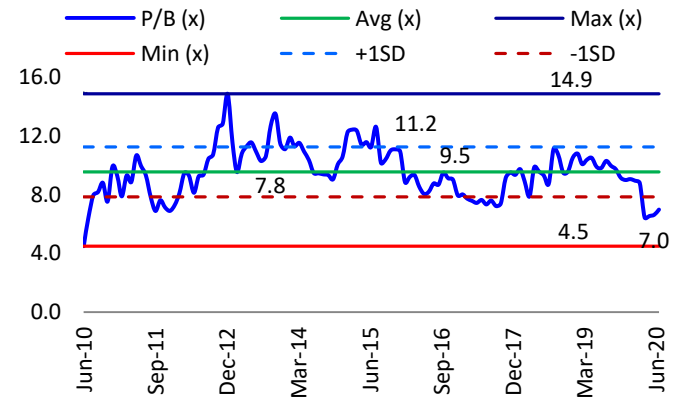
Source: MOFSL

Exhibit 11: One year fwd P/E (x)



Source: MOFSL

Exhibit 12: One year fwd P/B (x)



Source: MOFSL

Financials and valuations

Consolidated Income Statement

(INR Million)

Y/E March	2015	2016	2017	2018	2019	2020*	2021E*	2022E*
Net Sales	79,934	66,365	67,796	68,154	72,515	96,374	1,04,040	1,14,512
Change (%)	3.3	-17.0	2.2	0.5	6.4	32.9	8.0	10.1
Gross Profit	41,561	30,149	32,180	31,160	32,439	42,267	45,309	49,669
Margin (%)	52.0	45.4	47.5	45.7	44.7	43.9	43.5	43.4
Other operating exp.	33,812	23,606	24,269	22,771	24,580	29,346	30,782	32,778
EBITDA	7,749	6,543	7,911	8,389	7,859	12,922	14,527	16,891
Margin (%)	9.7	9.9	11.7	12.3	10.8	13.4	14.0	14.8
Depreciation	1,331	1,168	1,260	1,160	1,226	2,417	2,503	2,577
Net Interest	819	1,169	915	428	525	779	769	769
Other income	700	820	831	942	1,571	1,116	1,060	1,113
PBT before EO	6,299	5,026	6,566	7,743	7,680	10,842	12,316	14,659
EO income/(exp.)	-1,300	-3,329	53	-211	-333	-2,748	0	0
PBT after EO	4,999	1,698	6,619	7,531	7,347	8,094	12,316	14,659
Tax	2,155	2,000	1,983	1,859	2,609	2,742	3,448	4,105
Rate (%)	43.1	117.8	30.0	24.7	35.5	33.9	28.0	28.0
Reported PAT	2,844	-302	4,636	5,673	4,738	5,352	8,867	10,554
Minority and Associates	365	-247	742	717	656	754	365	240
Adjusted PAT	3,778	3,274	3,841	5,167	4,415	7,346	8,502	10,314
Change (%)	-3.6	-13.4	17.3	34.5	-14.6	66.4	15.7	21.3

Balance Sheet

(INR Million)

Y/E March	2015	2016	2017	2018	2019	2020*	2021E*	2022E*
Share Capital	618	631	631	631	631	922	922	922
Reserves	54,297	61,841	62,024	69,685	72,686	1,37,227	1,42,412	1,49,077
Net Worth	54,915	62,472	62,655	70,316	73,317	1,38,149	1,43,333	1,49,998
Minority Interest	8,762	8,618	9,195	10,090	10,277	10,925	10,929	10,933
Loans	13,240	13,541	7,866	10,676	11,283	11,825	11,825	9,325
Capital Employed	76,918	84,630	79,716	91,082	94,877	1,60,898	1,66,087	1,70,256
Gross Block	23,904	24,033	23,711	25,424	27,689	59,111	60,611	62,611
Less: Accum. Deprn.	13,608	14,511	13,650	15,181	16,407	18,824	21,326	23,903
Net Fixed Assets	10,296	9,523	10,060	10,244	11,282	40,288	39,285	38,708
Capital WIP	459	394	632	1,352	4,244	954	954	954
Goodwill & Intangibles	38,921	37,096	34,979	37,235	37,851	73,338	73,338	73,338
Investments	6,178	11,926	13,534	6,431	6,045	4,893	4,532	4,297
Curr. Assets	38,710	40,009	36,309	49,343	49,385	65,258	73,144	79,210
Inventories	16,253	16,290	14,530	14,483	16,099	17,120	21,378	23,530
Account Receivables	6,161	5,924	5,925	6,483	6,806	9,224	9,896	10,892
Cash and Bank Balance	5,485	6,744	7,412	18,067	16,168	24,550	27,506	30,424
Others	10,811	11,051	8,444	10,310	10,313	14,364	14,364	14,364
Curr. Liability & Prov.	16,624	13,532	14,345	13,525	12,887	20,799	22,132	23,217
Account Payables	7,594	6,773	7,378	7,057	6,649	9,440	10,773	11,858
Other liabilities	4,089	2,776	3,389	3,562	4,221	8,603	8,603	8,603
Provisions	4,942	3,983	3,578	2,906	2,017	2,756	2,756	2,756
Net Curr. Assets	22,086	26,477	21,965	35,818	36,498	44,459	51,011	55,993
Def. tax liability	1,022	786	1,454	-3	1,043	3,033	3,033	3,033
Appl. of Funds	76,918	84,630	79,716	91,082	94,877	1,60,898	1,66,087	1,70,256

Financials and valuations

Cash flow statement

Y/E March	2015	2016	2017	2018	2019	2020*	2021E*	2022E*
EBITDA	7,749	6,543	7,911	8,389	7,859	12,922	14,527	16,891
Prov. & FX	-492	-132	22	-14	0	0	0	0
WC	-1,320	-2,719	1,485	-1,389	-2,347	-649	-3,597	-2,063
Others	-71	-190	100	-438	-333	1,292	0	0
Direct taxes (net)	-1,687	-2,342	-2,106	-2,992	-2,609	-2,742	-3,448	-4,105
CF from Op. Activity	4,178	1,160	7,412	3,556	2,571	10,822	7,482	10,723
Capex	-1,792	-1,545	-1,382	-3,588	-3,000	-1,500	-1,500	-2,000
FCFF	2,386	-385	6,030	-32	-429	9,322	5,982	8,723
Interest/dividend	611	697	574	485	1,571	1,116	1,060	1,113
Investments in subs/assoc.	-932	-509	-280	373	0	0	0	0
Others	60	4,273	2,503	10,133	0	0	0	0
CF from Inv. Activity	-2,053	2,917	1,415	7,403	-1,429	-384	-440	-887
Borrowings	-1,311	-796	-4,848	2,160	0	0	0	-2,500
Finance cost	-820	-663	-615	-282	-525	-779	-769	-769
Dividend	-1,615	-1,871	-1,890	-2,118	-1,893	-2,986	-3,318	-3,650
Others	-178	512	-805	-65	-623	1,709	0	0
CF from Fin. Activity	-3,924	-2,818	-8,158	-304	-3,041	-2,056	-4,086	-6,918
(Inc)/Dec in Cash	-1,798	1,259	668	10,655	-1,899	8,382	2,956	2,918
Opening balance	7,283	5,485	6,744	7,412	18,067	16,168	24,550	27,506
Closing balance (as per B/S)	5,485	6,744	7,412	18,067	16,168	24,550	27,506	30,424

Ratios

Y/E March	2015	2016	2017	2018	2019	2020*	2021E*	2022E*
Basic (INR)								
EPS	4.1	3.6	4.2	5.6	4.8	8.0	9.2	11.2
Cash EPS	5.5	4.8	5.5	6.9	6.1	10.6	11.9	14.0
BV/Share	59.6	67.8	68.0	76.3	79.6	149.9	155.5	162.8
DPS	2.3	2.3	2.3	2.4	2.5	2.7	3.0	3.3
Payout (%)	48.9	NA	30.6	26.1	33.3	46.5	31.2	28.8
Dividend yield (%)	1.5	1.9	1.5	0.9	1.2	0.9	1.4	1.6
Valuation (x)								
P/E	90.0	103.9	88.5	65.8	77.0	46.3	40.0	33.0
Cash P/E	66.6	76.6	66.7	53.7	60.3	34.8	30.9	26.4
P/BV	6.2	5.4	5.4	4.8	4.6	2.5	2.4	2.3
EV/Sales	4.1	4.9	4.8	4.8	4.5	3.4	3.1	2.8
EV/EBITDA	41.9	49.6	41.0	38.7	41.3	25.1	22.3	19.2
Dividend Yield (%)	1.5	1.9	1.5	0.9	1.2	0.9	1.4	1.6
FCF per share	3.9	-0.6	9.6	-0.1	-0.7	10.1	6.5	9.5
Return Ratios (%)								
RoE	6.7	5.6	6.1	7.8	6.1	6.9	6.0	7.0
RoCE	8.8	7.6	9.0	9.4	8.6	8.5	7.8	9.0
RoIC	9.7	8.2	10.6	11.7	9.8	11.5	10.1	10.6
Working Capital Ratios								
Fixed Asset Turnover (x)	7.8	7.0	6.7	6.7	6.4	2.4	2.6	3.0
Asset Turnover (x)	1.0	0.8	0.9	0.7	0.8	0.6	0.6	0.7
Debtor (Days)	28	33	32	35	34	35	35	35
Creditor (Days)	35	37	40	38	33	36	38	38
Inventory (Days)	74	90	78	78	81	65	75	75
Leverage Ratio (x)								
Debt/Equity	0.1	0.1	0.0	-0.1	-0.1	-0.1	-0.1	-0.1

* Performance includes Tata Chemicals consumer business

NOTES

Explanation of Investment Rating	
Investment Rating	Expected return (over 12-month)
BUY	>=15%
SELL	< - 10%
NEUTRAL	< - 10 % to 15%
UNDER REVIEW	Rating may undergo a change
NOT RATED	We have forward looking estimates for the stock but we refrain from assigning recommendation

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