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Initiating Coverage | Sector: Consumers

Tata Global Beverages

Brewing a heady mix!

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Tata Global Beverages

BSE Sensex	S&P CNX
40,470	11,940

CMP: INR300 **TP: INR347 (+16%)** **Buy**

TATA GLOBAL BEVERAGES

Stock Info

Bloomberg	TGBL IN
Equity Shares (m)	631
M.Cap.(INRb)/(USDb)	190.8 / 2.7
52-Week Range (INR)	323 / 178
1, 6, 12 Rel. Per (%)	4/27/22
12M Avg Val (INR M)	620
Free float (%)	65.6

Financial Snapshot (INR b)

Y/E MAR	FY19	FY20E	FY21E	FY22E
Net Sales	72.5	77.7	106.9	113.8
EBITDA	7.9	10.0	14.8	16.4
Net Profit	4.4	5.6	8.9	10.1
EPS	7.0	8.9	9.7	11.0
EPS Gr. (%)	-14.6	26.7	9.5	13.4
BV/Sh. INR	116.2	121.0	149.8	154.2
P/E (x)	42.9	33.9	30.9	27.3
P/BV (x)	2.6	2.5	2.0	1.9
RoE (%)	6.1	7.5	8.3	7.2
RoCE (%)	8.6	9.4	10.8	9.7

Shareholding pattern (%)

As On	Sep-19	Jun-19	Sep-18
Promoter	34.5	34.5	34.5
DII	12.8	13.1	13.4
FII	27.8	26.6	25.8
Others	24.9	25.8	26.4

FII Includes depository receipts

Tata Global Beverages

Brewing a heady mix!

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Please click here for Video Link

Brewing a heady mix!

Focus back on high-RoIC India business; Initiating with Buy

Tata Global Beverages (TGB) is a natural beverages company with interest in tea, coffee and water. It is the second largest branded tea player globally with operations spanning over 40 countries. Branded products represent ~90% of its consolidated sales, of this, tea accounts for ~80%.

Focus back on India

Winds of change are blowing within TGB. To achieve its aim of building a dominant, natural beverages brand in the country, the company has shifted its focus back to the highly profitable India beverage business. Besides, the merger of Tata Chemicals' (TTCH) consumer business with itself marks the company's entry into an additional segment of staples with an addressable market size of INR770b (apart from the current addressable market of INR270b in tea and coffee). Currently, the India brand business contributes 50% to TGB's consolidated revenue, which should increase to ~60% post amalgamation of TTCH's consumer business. Plans are afoot to deepen its core by strengthening its leadership position in tea and salt and aggressively expanding its new products (spices, pulses, liquid beverages, packaged foods etc.)

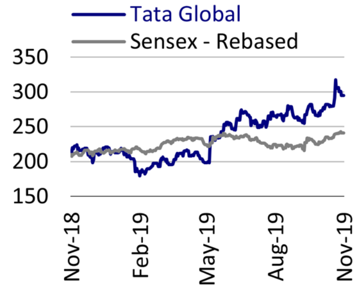
All under one roof

The merger of TTCH's consumer business with TGB is in sync with the Tata group's focus to create a single FMCG-focused company. As part of the transaction, TTCH would transfer the salt (brand), spices, protein foods and certain other food items and products to TGB, while existing shareholders of TTCH would be issued additional 289.4m TGB shares. The merger of TTCH's consumer business with TGB offers multiple synergies, including higher outlet coverage, focused new product development, stronger cash flow generation and scale efficiencies. Management expects synergy benefit of INR1-1.5b to accrue over the next 18-24 months, post consolidation.

India tea business — A key growth driver

TGB's India tea business is its breadwinner. It is one of the strongest tea franchisees in India, a leading market player and amongst the only two brands with national presence. TGB's India tea business' revenue/EBITDA has clocked ~10%/13% CAGR over the past decade, impressive for a category where the penetration is more than ~90%. Branded players like TGB have benefited by taking share from unorganized players; still huge ~35% unorganized share is indicative of the significant potential in India's tea market. Besides, premiumization initiatives should continue supporting growth.

Stock Performance (1-year)



Strategic initiatives in overseas tea business to protect margins

TGB 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. In its largest market — the UK, TGB has ~17% market share in the overall tea market. TGB has strong presence in the Canada market as it commands 40% market share in volume terms whereas Canada contributes 4% to the overall revenue of TGB. EBITDA margin of its overseas tea business has improved on the back of lower raw material cost and cost rationalization measures.

Vietnam plant bodes well for Tata Coffee

TGB's coffee business (ex-Starbucks), i.e. Tata Coffee, is facing near-term challenges as global coffee production is outpacing demand and depressing prices (currently at multi-year lows). The commissioning of its Vietnam plant (freeze-dried instant coffee) in FY19 is expected to boost instant coffee capacity from the current 8kt to 13kt, and thus, should translate into higher earnings. Its overseas coffee business (Eight O'Clock in the US) is likely to remain stable.

Starbucks — A promising venture; Potential unlocking once scale increases

Starbucks (50% JV) is 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. Currently, it has 163 stores across 10 Indian cities. After nearly two years, there has been re-ignition of growth in *Starbucks;* gross margins have witnessed sharp improvement with EBITDA breaking even for the first time in FY18. Globally, *Starbucks'* margins range between ~13-35%. We believe there is huge scope for margin expansion as the scale increases over the long term. We have valued the JV using DCF methodology to arrive at a per share value of INR31 after factoring in the addition of 40 stores per year, SSSG CAGR of 8% over FY19-30 with CoE of 12% and terminal growth rate of 6%.

Profits to be augmented by TTCH's merger

We expect consolidated adjusted PAT CAGR of 32% over FY19-22 to INR10.1b taking into account the merger of TTCH's consumer business. Exit from non-profitable businesses and focus on growing the India portfolio can drive further earnings upside. FCF generation is expected to be strong on earnings growth, aided by margin improvement and efficient working capital management. TGB turned net cash after five years in FY18 and we expect the strong FCF to drive higher dividend payouts.

Valuation and view; Initiate with Buy

- We have valued TGB on SOTP basis due to the different growth profiles of the India tea, overseas tea, coffee, salt and other consumer businesses. We believe that a business-specific earnings approach appropriately captures the company's potential.
- Further, TGB offers much potential as it is concentrating on the high RoIC India business once again. The company has already exited/plans to exit loss-making businesses and focus on cost control and scalable business opportunities.
- The merger of TTCH's consumer business with TGB doesn't just give the latter a strong brand in Tata Salt, but also synergies of the former's distribution channel.

Besides, it also opens up a plethora of opportunities for TGB in the staples market with an addressable size of INR770b and which is increasing at 17% CAGR (in addition to the existing addressable market of INR270b in tea and coffee). The merger also increases contribution of the India business to consolidated profitability, which we believe provides stability to earnings and would be one of the factors for re-rating of the stock.

- We considered the following factors while valuing each business:
  - The India tea business (i.e. TGB standalone) on EV/EBITDA basis at 22x, is at a discount to other FMCG names, given the high market penetration and working capital requirement.
  - The coffee business (i.e. Tata Coffee standalone) at 10x EV/EBITDA, given the commodity nature of the business.
  - The overseas branded coffee business at 10x EV/EBITDA, is at a discount to the India branded tea business due to lower growth potential.
  - The overseas tea business at 10x EV/EBITDA, is at a discount to the India tea business given the low EBITDA margin of ~5-6%.
  - TTCH's salt and other consumer business (which will be merged with TGB) is at 22x EV/EBITDA.
  - The implied value of TGB's 50% stake in Starbucks is ~INR29b.
- We initiate on the stock with Dec'21 target price of INR347/share, upside of 16% and **Buy** rating.

Exhibit 1: SOTP based valuation

		Multiple (x)	EV (INR m)
EV/EBITDA, x times	**EBITDA (Dec'21)**		
India tea (TGB standalone)	5,697	22	127,610
Coffee India (ex-Starbucks) @57%	805	10	8,050
Coffee Overseas	1,963	10	19,630
Salt & Other Consumer	4,356	22	97,564
Overseas tea	2,069	10	20,690
DCF			
Starbucks JV			28,986
Price/Sales	**Sales**		
NourishCo (JV with Pepsi) & Others	2,000	4	8,000
Enterprise value			**310,529**
Less: Net debt			-8,624
Market value			**319,153**
No. of shares			921
Target price, INR/sh			**347**

Source: MOFSL, Company

Focus back on India

TGB is part of the diversified Tata Group; Tata Sons, the group's holding company, is the single major shareholder (and promoter) in TGB with ~34% stake. With the appointment of Mr. N. Chandrasekaran as the Chairman of Tata Sons, there is renewed focus on RoCE. Also, simplification and consolidation of Tata group companies is on the radar – evident by the merger of Tata Chemicals' (TTCH) consumer business with TGB.

Based on media reports, interviews by Mr. Chandrasekaran and management commentary at the last AGM, we believe the strategic direction for TGB is to:

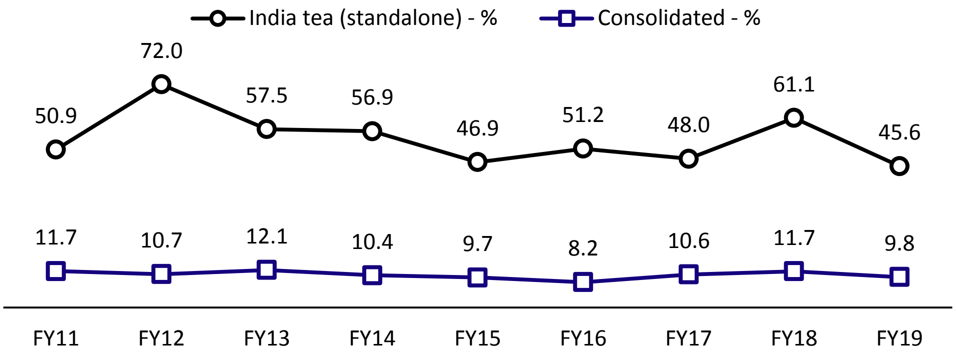
- Grow the profitable domestic business and increase revenue share.
- Exit loss-making subsidiaries with limited potential of a turnaround.
- Focus on opportunities that are scalable.
- Optimize cost and streamline operations.
- Focus on premiumization including green, specialty, fruit and herbal teas.

As part of its strategic decisions, over the last couple of years TGB has:

- Exited loss-making operations in China and Russia.
- Focused on cost rationalization measures. This, along with lower raw material cost has improved EBITDA margin of its overseas tea business.
- Reorganized international operations. Earlier TGB had two international regions – Canada, America and Australia (CAA) and Europe, Middle East and Africa (EMEA) – this has now been pruned to only one international region. The Middle East markets are now under the India team (v/s the EMEA team earlier). Also, experienced country heads have been appointed for each of these core markets.
- Launched non-black tea and *Tetley Cold Infusion* (health beverage) in the UK to correct product mix.
- Appointed Tata Consultancy Services in Kolkata to manage the company's non-core activities such as Global Information Systems, HR, Finance and Commercial in various regions, including India, the UK, the US, Canada, and Australia.
- Has acquired the branded tea business of Dhunseri Tea, owner of the brand '*Lalghoda*' and '*Kalaghoda*' as part of its India focus strategy. In Rajasthan, Dhunseri has ~6% market share while Tata Tea has a meager ~2-3% share. Thus, the acquisition will not only aid TGB penetrate the Rajasthan market, but would also help it to leverage Dhunseri's distribution reach.

The company's focus on the core India business should boost return ratios – the India tea business (i.e. standalone) generated RoIC of ~45-50% against ~8-10% for the group. Also exit from loss-making overseas businesses should aid returns and help the company focus on more profitable and scalable operations.

Exhibit 2: RoIC of India tea and consolidated TGB (%)



Note: TGB's standalone operations are considered proxy for India tea business
Source: MOFSL, Company

Exhibit 3: Operating overseas subsidiaries in losses (INR m)

INR m		FY15	FY16	FY17	FY18	FY19	Remarks
Zhejiang Tata	China	-421	-153	-204	-	-	Divested
Suntyco	Russia	14	1	-526	-553	-80	Divested
Czech Republic	Czech Republic	60	-65	-50	-42	-47	
Good Earth	US	-147	-270	-121	-72	-79	
Earth Rules	Australia	-119	-149	-212	-178	-168	

Source: MOFSL, Company

Exhibit 4: *Tetley* diversifying into health beverages

Source: Company

Merger of TTCH's consumer business aligns well with TGB's focus

The merger of TTCH's consumer business with TGB is in sync with the Tata group's focus on consolidation. As part of the transaction, TTCH will transfer the salt (brand), spices, protein foods and certain other food items and products to TGB. However, TTCH will retain the salt manufacturing facility. As part of the deal, TGB will issue additional 289.4m shares to existing shareholders of TTCH.

TGB is primarily into beverages; however, post-merger with TTCH's consumer business, the company will enter the staples segment. These two categories together form an addressable market size of INR1,550b (beverages – INR780b and staples – INR770b).

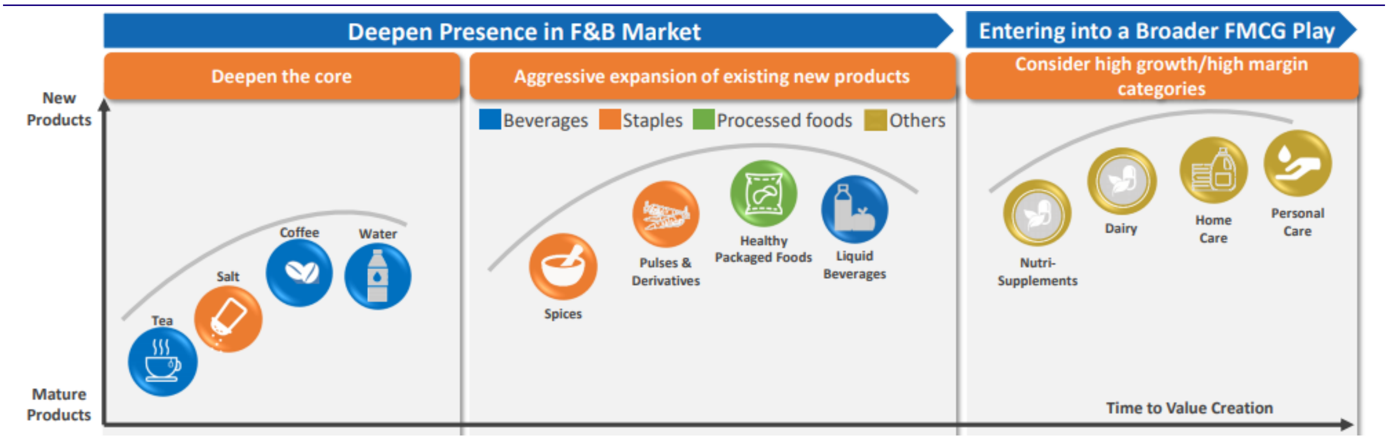
The merger of the consumer business of TTCH with TGB should drive re-rating of the latter due to multiple synergies, including higher outlet coverage, focused new product development, stronger cash flow generation and scale efficiencies. Management expects synergy benefit of INR1-1.5b to accrue over the next 18-24 months, post consolidation.

Post-merger the combined entity should find itself in a sweet spot owing to:

- Presence of market leading brands – *Tata Salt* commands 65% of the branded market and has an overall market share of 25%, while *Tata Tea* has attained market leadership position (in volume terms) within three decades of launch. Further, the company boasts of rapidly growing brands like *Tata Sampann* and *Tetley*.
- TGB has a direct reach of ~6lacs and an indirect reach of ~2m, while TTCH has 75% of this reach. Hence, the combined entity would have a reach of over 2.5m retail outlets, over 5,000 stockist distributors and 200m households.
- Currently, the India brand business contributes 50% to TGB's consolidated revenue; it is expected to increase to ~60% for the combined entity. In India, the North and the South are TGB's stronghold areas, whereas TTCH is strong in the West and the North. This implies much scope of outlet and reach synergies in the West and South India.
- Besides, there are multiple additional synergies, such as (a) superior terms of trade with channel partners, (b) supply chain opportunities, and (c) scale efficiencies in areas such as marketing/packaging, etc.
- With an aim to deepen its core, TGB is (a) strengthening its leadership position in tea and salt, (b) aggressively expanding existing new products viz. spices, pulses, liquid beverages, packaged foods, etc., and (c) entering into the broader FMCG product space. The brands for TGB's future focus are (a) *Fruski* — liquid beverage brand under trial in Delhi, (b) *Tata Cha* — tea retail in Bangalore with six outlets, (c) Pulses — market size of INR1,600b with ~1% brand penetration, (d) Spices and condiments — market size of INR1,500b with brand penetration of 10%, and (e) Snacks and ready-to-cook — market size of INR400b with brand penetration of 50%.

  We expect TTCH's consumer business revenue/EBITDA to witness 14%/13% CAGR over FY19-22.

Exhibit 5: Long-term vision of TGB



Source: Company

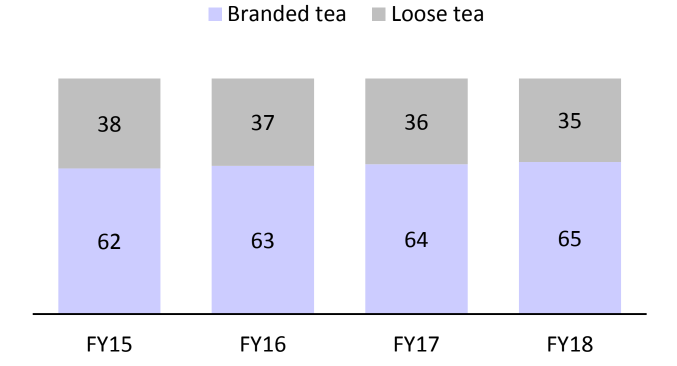
Leveraging its strong franchise in India tea business

Rationality between players driving healthy growth

India tea industry — branded players gaining share

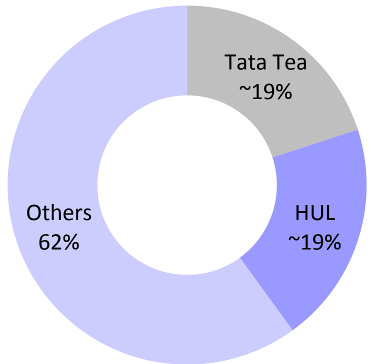
- The size of the tea market in India is estimated at ~INR250b (~USD3.5b). Tea is one of the oldest beverages in India with a penetration level of more than 90%.
- The branded tea category (i.e. sold in packages) represents ~65% of the total market. The share of branded tea has increased over the years (~300bp in the past four years) due to increase in availability, quality factors and awareness.
- Tata Tea and Hindustan Unilever are the two largest branded tea players in India with a ~40-45% value share in the branded tea market, broadly split equally between the two. But, the tail of competition is long, including brands like *Wagh Bakri, Girnar, Society, Eveready, Duncan's, Marvel,* etc.
- India is primarily a black tea market, but the wellness/green tea market is growing relatively fast.

Exhibit 6: Value share of branded tea has increased (%)



Source: MOFSL, Industry, Company

Exhibit 7: Tata and HUL are dominant players in branded tea (volume)



Source: MOFSL, Industry, Company

Tata Tea is amongst the strongest tea franchisees in India

- Tata Tea is amongst the oldest branded tea players in India, in existence for more than 30 years. Besides HUL, it is the only brand with national reach.
- Tata Tea currently has eight brands, five national and three regional. The regional brands target local taste and flavor.
- It is present across price-points — various brands cater to a broad range of consumers — from the mass market to the premium segment.
- Tata Tea reaches over ~1.9-2m outlets, having grown at CAGR of ~4% over the past decade; it is amongst the largest in the beverage category in India.
- It has ~20% value market share in the branded tea category in India, which it has maintained over the last decade.
- Tata Tea has been rated as the second most trusted hot beverage brand in India.

Exhibit 8: Tata Tea brands in India

Source: MOFSL, Company

Exhibit 9: Tea prices across various brands (Black Tea)

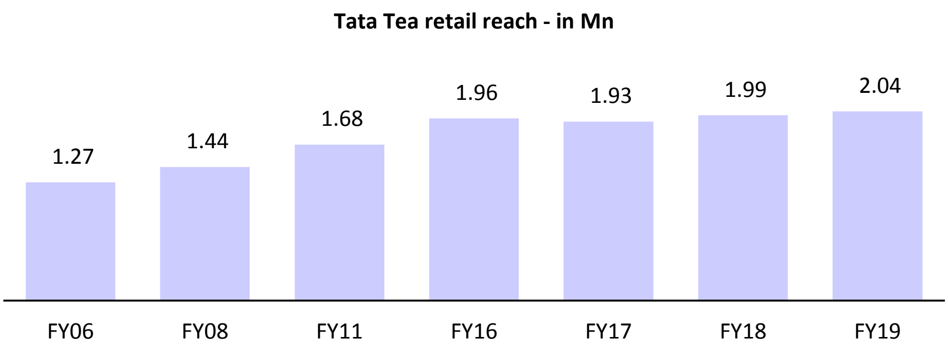
Brand	Brand/Type	Reach	Owner	Size - 1 kg INR
Tata Tea	Agni	National	TGB	200
Brooke Bond	Taaza	National	HUL	220
Tata Tea	Kanan Devan	Regional	TGB	256
AVT	Premium	Regional (South)	AVT	245
Wagh Bakri	Wagh Bakri	Regional (West)	Wagh Bakri	400
Tata Tea	Teaveda	National	TGB	396
AVT	Gold Cup	Regional (South)	AVT	445
Tata Tea	Premium	National	TGB	365
Society	Society	Regional (West)	Society	415
Tata Tea	Chakra	Regional	TGB	440
Girnar	Royal	Regional	Girnar	440
Tata Tea	Gold	National	TGB	457
Hasmukh	Hasmukh	Regional (West)	Hasmukh & Co.	460
Brooke Bond	Red Label	National	HUL	370
Brooke Bond	Taj Mahal	National	HUL	549
Brooke Bond	3 Roses	Regional (South)	HUL	457

Source: MOFSL

Exhibit 10: Tata Tea has maintained ~20% value market share in India's branded tea category

Source: MOFSL, Company

Exhibit 11: Retail outlet reach has increased at CAGR of ~4% over the decade to 2m



Source: MOFSL, Company

Recent initiatives to capture the growing wellness/green tea market

- The company introduced the premium *Tetley Super Green* tea range in early-2018, roping in popular actress, *Deepika Padukone*, as the brand ambassador.
- It has also launched a pilot project in the 'out-of-home' retail tea format – *Tata Cha*. The first store was launched in 3QFY18 in Bengaluru; currently 6 stores are operational with the company targeting to add another 6 stores by end-FY20.
- Launched ready-to-drink beverage — *Tata Tea Fruski*, a combination of green tea with ayurvedic ingredients and available in mango and orange flavors.

- Launched Chakra Gold tea in Elaichi flavor targeted at consumers in Tamil Nadu and Andhra Pradesh.

Exhibit 12: A Tata Cha store

Source: Company

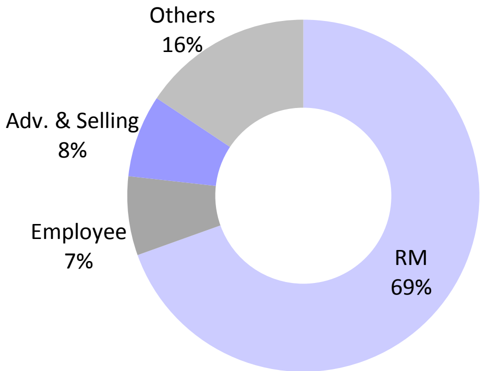
Exhibit 13: Recent new product launches in India

Source: Company

Rationality between players and strong franchisee driving stable margins

Although the tail of competition in the tea sector is long in India, there is a fair degree of rationality between players. We understand that focus has been and remains on taking advantage of the formalizing market rather than the price-driven market share gains, clearly evident from the steady market share of the two largest players over the years. Due to this rationality and Tata Tea's strong brand positioning, we believe that TGB has been able to maintain a steady gross margin profile in its India tea business.

Exhibit 14: Operating cost break-up — TGB standalone (India)



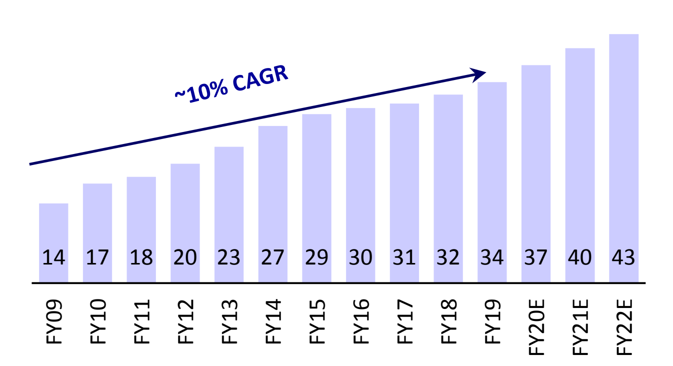
Source: MOFSL, Company

Steady growth business backed by strong franchisee

TGB's India tea business is its breadwinner – contributing ~50%/60% to its consolidated sales/EBITDA. TGB's consolidated EBITDA witnessed ~2% CAGR over the last decade to FY19, while the India tea business' EBITDA was healthy at ~13% CAGR over the same period. For a matured market like tea, the revenue/gross profit/EBITDA CAGR of ~10%/~10%/~13% over FY09-19 is very impressive, in our view. The healthy growth was driven by increased penetration in rural areas, rising preference for brands, an innovative marketing approach and the benefit of premiumization.

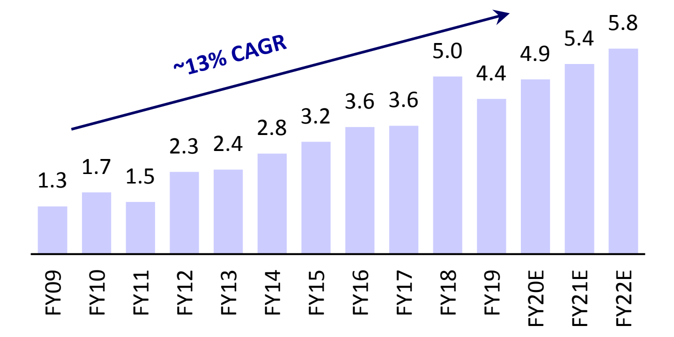
We believe TGB will continue to gain from its strong tea franchisee in India over the medium-to-long term. We expect sales CAGR of 7% over FY19-22E driven by a mix of volume growth, inflation and premiumization; EBITDA margin is expected at 13.7%.

Exhibit 15: Revenue CAGR of ~10% over FY09-19 (INR b)



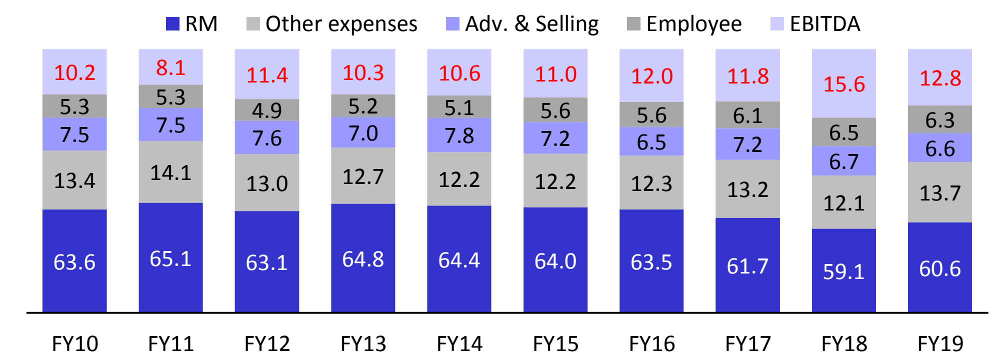
Source: MOFSL, Company

Exhibit 16: EBITDA CAGR of ~13% over FY09-19 (INR b)



Source: MOFSL, Company

Exhibit 17: TGB's standalone operating cost and EBITDA as % of sales



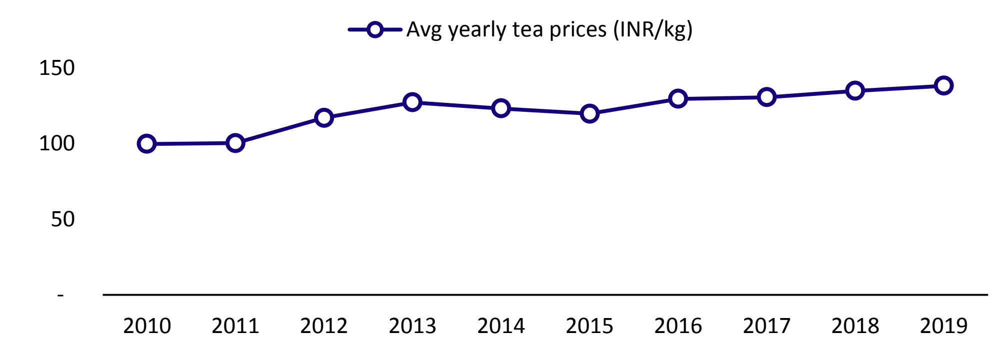
Source: MOFSL, Company

Exhibit 18: India tea – Invested capital Dupont

	FY12	FY13	FY14	FY15	FY16	FY17	FY18	FY19
RoIC - %	**72.0**	**57.5**	**56.9**	**46.9**	**51.2**	**48.0**	**61.1**	**45.6**
EBIT / sales	10.8	9.6	10.0	10.3	11.3	11.1	14.7	11.9
Sales / FA	16.1	16.2	17.9	16.7	15.2	14.9	14.6	14.6
FA / Invested capital	0.41	0.37	0.32	0.27	0.30	0.29	0.28	0.26

Source: MOFSL, Company

Exhibit 19: All India price trend of tea (INR/kg)



Source: MOFSL, Tea Board of India

Strategic/cost initiatives aiding margins in overseas tea

Demand headwinds to continue

TGB entered the global natural beverages landscape with the acquisition of Tetley in 2000. Since then, it has strategically expanded its global portfolio through various M&As. TGB's overseas tea brands include:

- ***Tetley***: Second largest tea brand globally with presence in over 40 countries.
- ***Vitax***: Fruit and herbal tea brand in Poland.
- ***Good Earth***: One of the first herbal tea companies in the US.
- ***Teapigs***: Home-grown super premium tea brand in the UK.
- ***Joekels***: Third largest tea brand in South Africa.

Exhibit 20: TGB's overseas tea brands

Source: MOFSL, Company

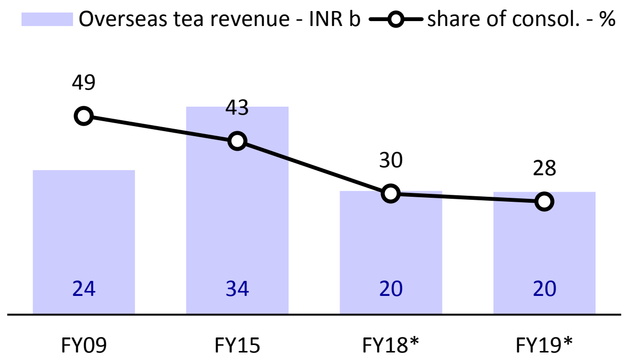
Note: We have analyzed TGB's international tea business by deducting from TGB's consolidated financials the financials of standalone (proxy for India tea) and consolidated financials of Tata Coffee.

Demand headwinds/higher competitive intensity drags overseas tea

The overseas tea business has been a major drag on TGB's consolidated performance. Overseas tea EBITDA has declined at CAGR of ~10% over FY09-19. Its share in TGB's consolidated revenue/EBITDA has declined from ~50% in FY09 to just ~28%/~13% in FY19. The business suffered due to many factors, these include:

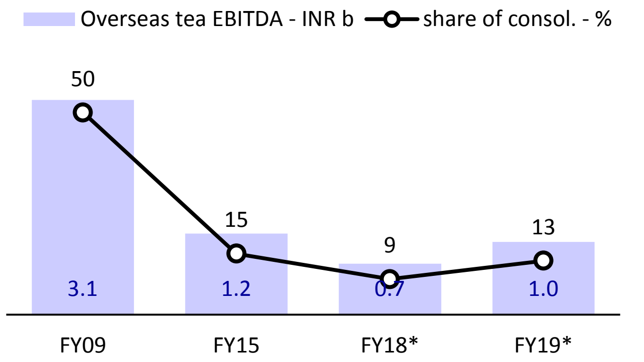
- Declining black-tea sales in the UK and Europe — a major market for TGB's overseas tea business – as consumer preference is increasingly shifting towards herbal/fruit-based teas, particularly amongst the younger generation. TGB's UK portfolio is 85% black tea. The overall market for tea in the UK has declined ~2-3% over the years, within which, the black tea market has declined ~5%.
- Increasing competitive intensity from private labels.
- Difficulties to scale up and optimize operations in smaller markets like Poland, Czech Republic and the US.
- Due to Brexit, raw material costs have increased significantly, and thus, have dented gross margins.

Exhibit 21: Overseas tea revenues and as share of consol.



Source: MOFSL, Company

Exhibit 22: Overseas tea EBITDA and as share of consol.



Source: MOFSL, Company

** Change in accounting policy from IGAAP to IndAS*

Recent strategic/cost initiatives to support margins

TGB has adopted a two-pronged approach to address challenges in the overseas tea business. On the revenue side, it seeks to address demand headwinds by focusing on the non-black tea segment, which is growing and is a higher margin business. On the cost side, it has undertaken initiatives like outsourcing non-core functions, re-organizing the management structure and divesting from non-core businesses.

To address demand headwinds, TGB has:

- Launched *Super Tea Break*, in Canada,
- Launched *Tetley Cold Infusions*, a flavored fruit and herbal water drink, to tap into the growing demand for cold, non-sugary and non-alcoholic drinks.

Through its innovative product launches, TGB has ~17% market share (*Twinings* is a major competitor) in the growing UK green/wellness tea market.

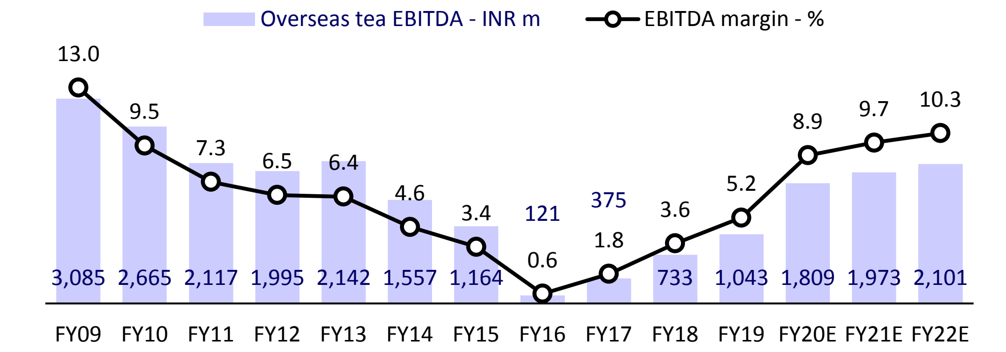
On the cost side, the company has:

- Sold loss-making operations in Russia and China.
- Reorganized international operations; from having two international region heads – Canada, America and Australia (CAA), and Europe, Middle East and Africa (EMEA), it now has only one international head. Experienced country heads have been appointed for each of these core markets. The Middle Eastern markets have changed hands from the EMEA team to the India team.
- Appointed Tata Consultancy Services in Kolkata to manage some of its non-core activities such as Global Information Systems, HR, Finance and Commercial in various regions, including India, the UK, the US, Canada, and Australia.

Initiatives showing results

EBITDA margin of its overseas tea business has improved on the back of lower raw material cost and cost rationalization measures. We expect TGB'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.

Exhibit 23: Cost initiatives aiding margin improvement in overseas tea



Source: MOFSL, Company

Exhibit 24: Overseas tea – Invested capital Dupont

	FY12	FY13	FY14	FY15	FY16	FY17	FY18	FY19
RoIC (%)	**4.9**	**4.8**	**2.4**	**1.3**	**-0.7**	**-0.2**	**1.2**	**2.1**
EBIT / sales	5.0	5.0	2.7	1.6	-1.4	-0.4	1.9	3.5
Sales / FA	16.3	15.7	12.7	12.4	11.0	13.5	11.4	11.8
FA / Invested capital	0.06	0.06	0.07	0.07	0.05	0.04	0.05	0.05

Source: MOFSL, Company

Coffee prices near a decade low

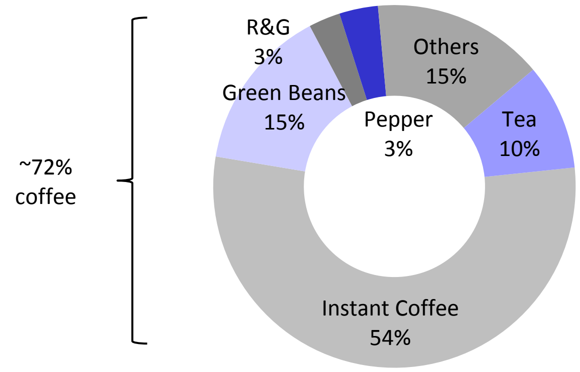
Vietnam plant bodes well for Tata Coffee

TGB's coffee business includes plantations in India, retail coffee in the US (*Eight O'Clock*) and Australia (*MAP*), and the recently launched retail coffee business in India (*Tata Coffee Grand*). It also has a 50% stake in a joint venture (JV) with *Starbucks* for sales in India. Except for *Starbucks* and *MAP*, the other businesses are part of Tata Coffee, a subsidiary in which TGB has 57.48% stake. *Eight O'clock* is jointly owned by Tata Coffee (50.08% stake) and remaining directly by TGB.

India coffee — Peak of over-supply behind

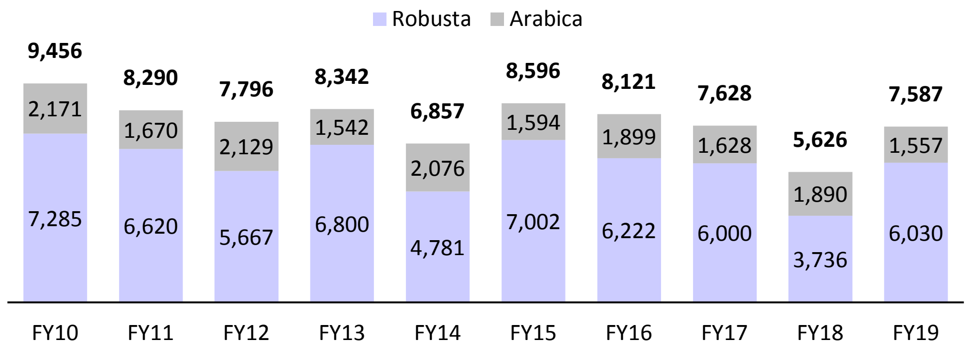
The India (Tata Coffee standalone) business includes the sale of green beans, processed instant coffee, other value-added coffee products, and small sales of pepper and tea. Until 2018, 7,369Ha was under coffee cultivation, while 2,456Ha was under tea cultivation. It also has an instant coffee capacity of 8,500MT. The company has invested in a freeze-dried coffee plant of 5,000MT capacity in Vietnam, which was commissioned in FY19. ~72% of Tata Coffee's standalone revenue is directly linked to coffee products.

Exhibit 25: ~72% of Tata Coffee's standalone revenue is linked to coffee products



Note: Data for FY19 Source: MOFSL, Company

Exhibit 26: Tata Coffee's India coffee volumes are volatile due to weather conditions in recent times (MT)

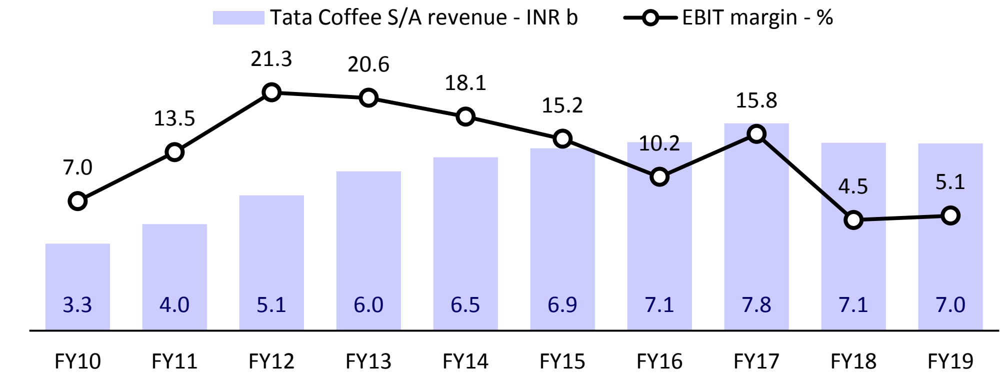


Source: MOFSL, Company

The performance of TGB's standalone coffee business can be correlated to the movement in global coffee prices. Coffee is a globally traded commodity and hence, global factors drive its prices. The performance is also subject to local weather and plantation conditions, influencing output.

According to the International Coffee Organization (ICO), the global coffee market is expected to be in surplus for the second consecutive year over Oct'18–Nov'19. Against an output of 168mt, demand is expected at ~165mt.

Exhibit 27: Tata Coffee's S/A margins are under pressure due to lower coffee prices



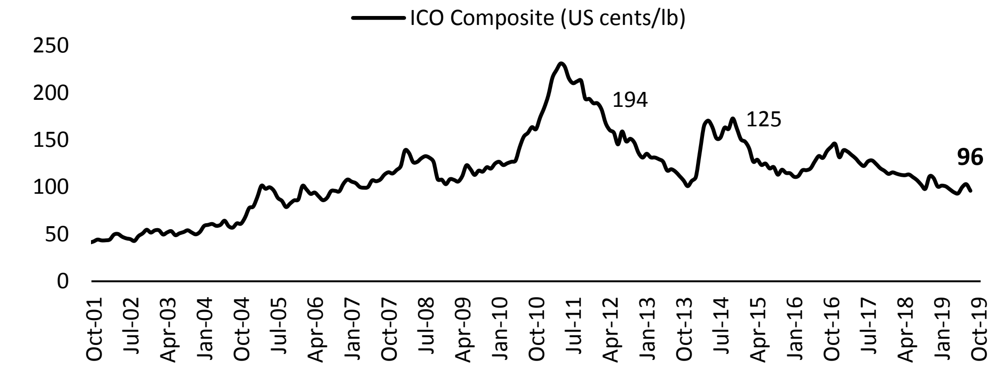
Source: MOFSL, Company

Exhibit 28: Global coffee demand/supply balance (in thousands 60-kg bags)

Coffee year starting	2014	2015	2016	2017	2018
Production	149,932	156,153	157,402	165,540	168,047
Consumption	151,505	155,443	157,768	161,381	164,988
Balance	**-1,573**	**710**	**-366**	**4,159**	**3,059**
Inventory % (Balance/Production)	-1.0%	0.5%	-0.2%	2.5%	1.8%

Source: ICO

Exhibit 29: ICO composite coffee price (Usc/lb); Prices are at multi-year lows



Source: ICO

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. EBITDA margins have declined to ~8% in FY19 and are at multi-year lows. According to ICO, over-supply in coffee is expected to decline, which should support coffee prices. Thus, recovery of coffee prices from the lows should aid in driving improvement in revenue and margins over FY19-22E.

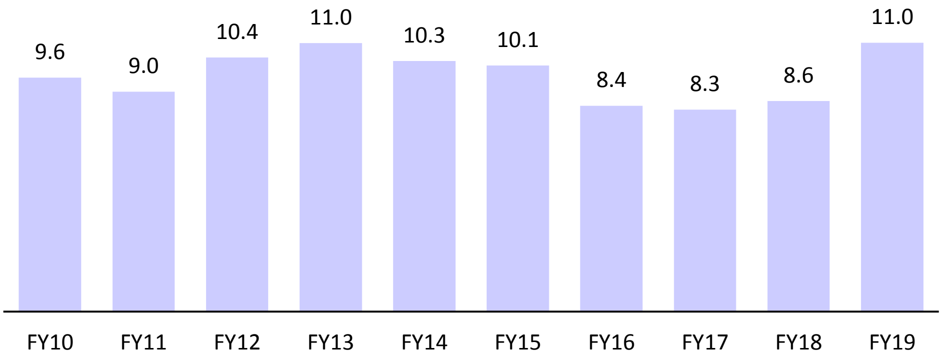
Eight O'Clock Coffee

The size of the coffee market in the US is estimated at ~USD12b. Tata Coffee's overseas coffee business primarily includes the *Eight O'Clock* business in the US. *Eight O'Clock* operates in the k-Cup and bags segment and has a market size of ~USD6b. Both k-Cups and bags are growing categories. In terms of volumes, *Eight O'Clock* is the fifth largest coffee brand in the US.

Note: We have derived the overseas coffee business by deducting from Tata Coffee's consolidated financials the financials of standalone operations.

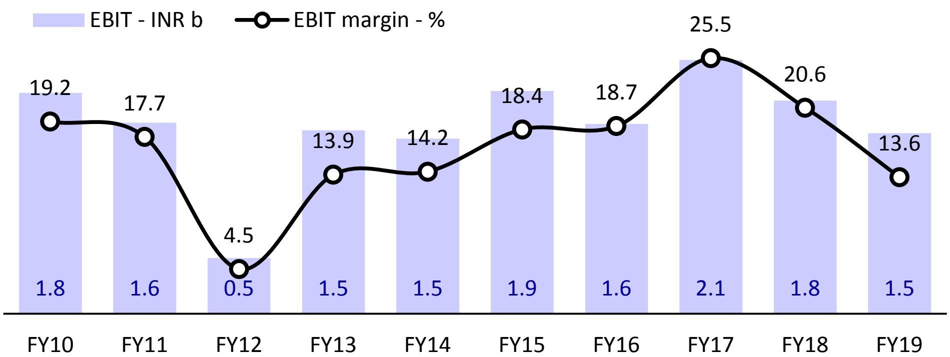
Since FY10, the company's overseas coffee EBIT has declined at CAGR of ~2%.

Exhibit 30: Tata Coffee's overseas revenue (INR b)



Source: MOFSL, Company

Exhibit 31: Tata Coffee's overseas EBIT and margin



Source: MOFSL, Company

Exhibit 32: Tata Coffee (consolidated) – Invested capital Dupont

	FY12	FY13	FY14	FY15	FY16	FY17	FY18	FY19
RoIC - %	**11.6**	**19.7**	**16.6**	**16.3**	**12.4**	**17.5**	**10.4**	**8.2**
EBIT / sales	10.0	16.2	15.7	17.1	14.8	20.8	13.4	10.3
Sales / FA	3.6	3.8	3.4	3.0	2.6	2.6	2.5	2.7
FA / Invested capital	0.32	0.32	0.31	0.32	0.33	0.32	0.31	0.30

Source: MOFSL, Company

Starbucks — A promising venture

Value unlocking to happen over the long term

***Starbucks* is a 50% JV for TGB and was launched on Oct'12 in India. As at end-Jun'19, it has expanded to 10 cities with 163 stores. *Starbucks* offers an international coffee experience in but has adopted a localized approach to penetrate the India market. Beans and Expresso blends are sourced locally, store designs are in sync with local style and culture, and food offerings have a blend of the local and international taste.**

Retail coffee market nascent, but growing fast

The retail coffee market in India is still in a nascent stage; its size is estimated at ~INR17b, but is expected to grow in healthy double-digits. 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, penetration of established coffee brands and their popularity as hangout zones. But, the take-away coffee culture has still not developed in India; it remains primarily an in-store consumption habit. Coffee consumption is more prevalent amongst the youth where the influence of western and hangout culture is higher.

The key players in the café coffee market in India are *Café Coffee Day (CCD), Starbucks, Barista and Costa Café* among others. *CCD* is the largest with ~1,700 stores; other players have less than 300 stores put together.

Starbucks has unique positioning

Starbucks has a differentiated positioning in the café coffee market in India due to the leverage on its international brand following and for offering a premium coffee experience. Its menu pricing is generally higher than that of competitors. While it is a global brand with strong recall, it has adopted a localized approach to penetrate the India market. Beans and Expresso 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).

Besides *CCD* and *Starbucks*, the other major café coffee players are in a consolidation phase. *McDonald's* has also started offering coffee in its stores, but the positioning is different from that of *Starbucks*.

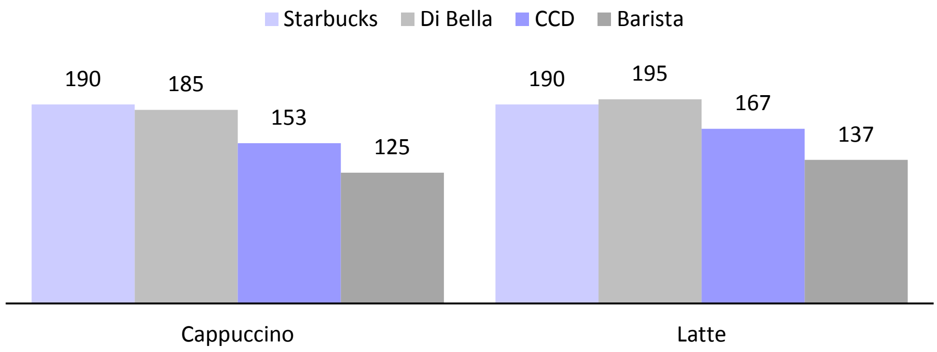
Exhibit 33: A *Starbucks* store in Mumbai

50th store in Mumbai, Turner Road   Source: Company

Exhibit 34: A *Starbucks* store in Bengaluru

Vittal Mallya Road, Bengaluru   Source: Company

Exhibit 35: *Starbucks* is positioned as a premium coffee offering (INR)



Source: MOFSL, Company

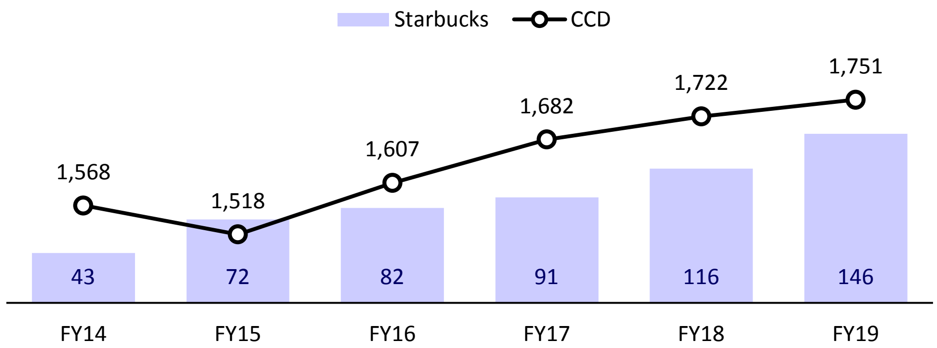
Achieved EBITDA break-even, to see PAT break-even in a few years

According to the company, all its stores are generating cash profits at the store level. Given the strong brand recall and *Starbucks*' positioning, typically a store achieves break-even within a year of operation. But due to the current scale of operations, overhead absorption is low. It achieved company level EBITDA break-even in FY18.

Over FY14-19, *Starbucks'* sales have increased by ~4.6x to INR4.4b on ~3.4x increase in store count to 146 by end-FY19. A few other highlights:

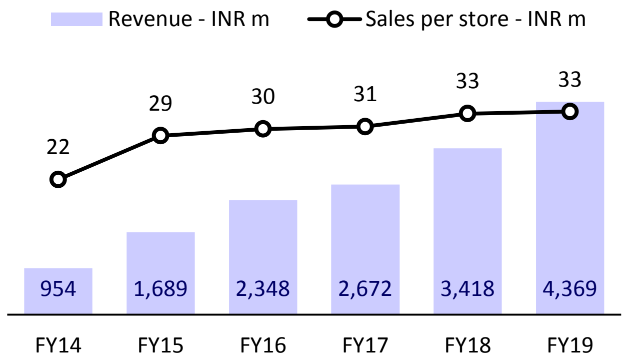
- Store addition accelerated to 25 stores in FY18 (to 116), after two years of slow growth. It added 30 stores in FY19 taking the store count to 146.
- Revenue per store has stagnated to ~INR30m over the last three years to FY19.
- Gross margin was ~71% in FY18 (FY19E:70%); it has improved steadily from ~45% in FY14.
- Rent is amongst the largest cost component at ~20-23% of sales.
- Employee cost is another key component of cost at ~19-23% of sales.
- *Starbucks* in India turned EBITDA positive for the first time in FY18 (through marginal profit of INR13m). EBITDA margin has improved impressively from negative ~17% in FY15 to breakeven in FY18.

Exhibit 36: *Starbucks'* pace of store addition has accelerated



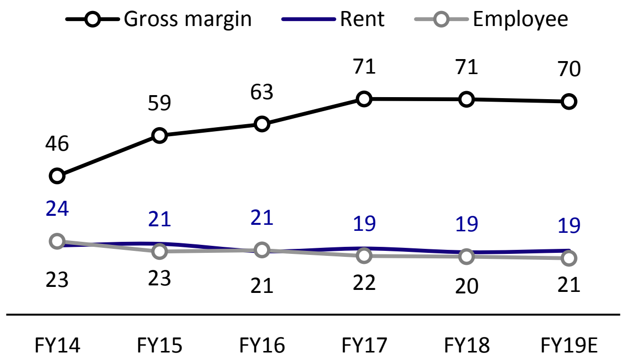
Source: MOFSL, Company

Exhibit 37: *Starbucks'* revenue is ~4.6x in five years



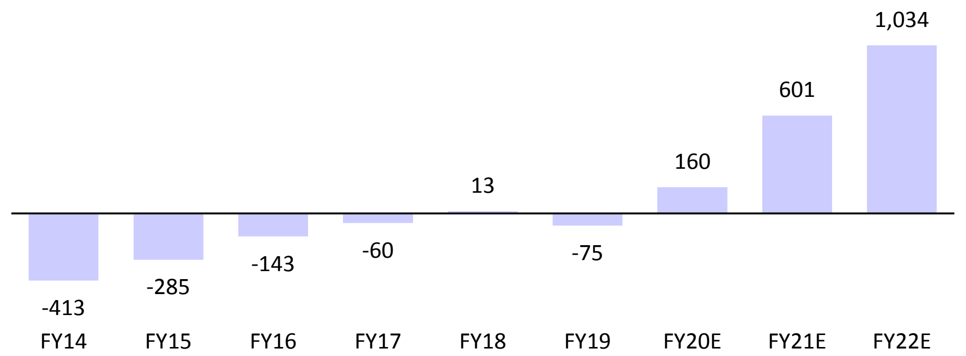
Source: MOFSL, Company

Exhibit 38: *Starbucks'* gross margins have expanded (%)



Source: MOFSL, Company

Exhibit 39: *Starbucks* has achieved EBITDA break-even in FY18 (INR m)



Source: MOFSL, Company

Value unlocking to happen over the long term

Starbucks started its operations in India in 2012 and achieved EBITDA break-even after seven years of operations. The opportunity for growth in the premium coffee segment in India is huge. After witnessing some slowdown in FY16-17; *Starbucks* focus is now back on growth; it added 25 stores in FY18 and 30 stores in FY19. As it gains scale, we expect benefits in procurement and better absorption of overheads to drive margin improvement.

We value Starbucks on DCF basis, given the long-term growth potential in the business. We make an explicit forecast for FY30; assuming annual store addition at 40, the total store count should rise to 586 stores by FY30. Gross margins should increase from ~70% in FY19 to 76% by FY30, and EBITDA margins should increase to ~24.5% by FY30. We estimate a terminal growth rate of 6%, with cost of equity estimated at 12%. The implied value of TGB's 50% stake in *Starbucks* is ~INR29b.

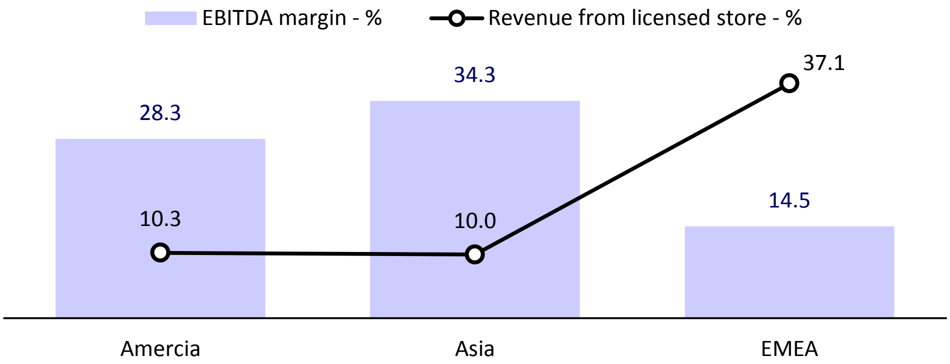
Exhibit 40: *Starbucks'* DCF value

		FY20	FY21	FY22	FY23	FY24	FY25	FY26...	...FY30
Store count	INR m	186	226	266	306	346	386	426	586
Revenue	INR m	5,979	8,014	10,336	12,977	15,976	19,371	23,207	44,015
EBITDA	INR m	160	601	1,034	1,557	2,157	2,906	4,293	10,784
EBITDA margin	%	2.7	7.5	10.0	12.0	13.5	15.0	18.5	24.5
Depreciation	INR m	420	511	601	692	782	872	963	1,325
PAT	INR m	-261	89	431	864	1,373	2,032	3,329	7,077
PAT margin	%	-4	1	4	7	9	10	14	16
Capex	INR m	948	976	1,005	1,035	1,067	1,099	1,131	1,165
FCFE	**INR m**	**-788**	**-376**	**27**	**521**	**1,089**	**1,806**	**3,160**	**7,236**
Terminal value	**INR m**								**125,930**
CoE	%	12.0							
Terminal growth	%	6.0							
Implied value of Starbucks	INR m	57,971							
Tata's share in Starbucks @50%	**INR m**	**28,986**							
Tata's share in Starbucks @50%	**INR/sh.**	**31**							

Source: MOFSL, Company

Starbucks' contribution to TGB'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.

Exhibit 41: *Starbucks'* overseas performance for the last two fiscals



Source: MOFSL, Starbucks

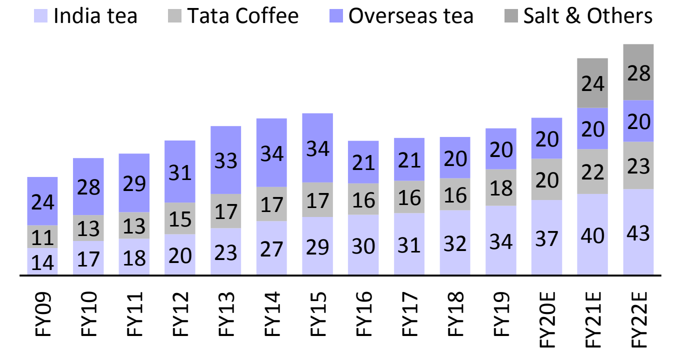
Profits to be augmented by TTCH's merger

FCF to improve

India tea biz healthy; Merger of TTCH's consumer business to add delta

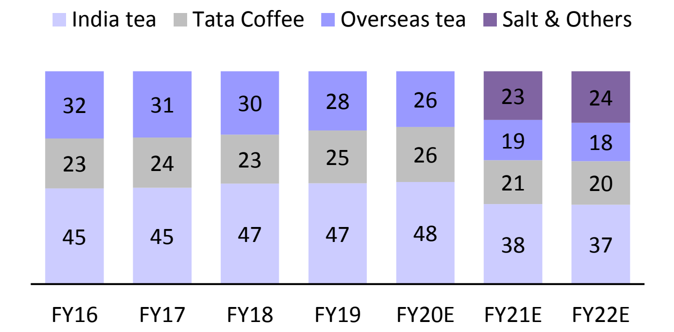
- The change to IND-AS (effective FY16) distorts analysis of the company's long-term revenue growth trend. Adjusting for the accounting change, we estimate that consolidated revenues should have reported mid-single digit CAGR over the last decade.
- The relatively strong revenue growth in its India tea business (i.e. TGB standalone) at 10% CAGR (over past decade) was partly offset by mid-single digit growth in Tata Coffee (consolidated) and declining/modest growth in the overseas tea business (i.e. TGB consolidated less standalone and less Tata Coffee consolidated).
- Share of the India tea business in consolidated revenues has increased from 28% in FY09 to 47% in FY19.
- TGB operates in India's matured market segments. Its overseas business is facing demand headwinds in the core black-tea category. Hence, we expect consolidated revenues (ex-TTCH consumer salt & others) at ~6% CAGR over FY19-22E to INR86.3b. However, on consolidation of TTCH's consumer business, consolidated revenues are expected to post 16% CAGR over FY19-22E. We expect the consumer business of Tata Chemicals to contribute 24% to consolidated revenue in FY22E. Despite the addition of Tata Chemical's consumer business, we expect share of the India tea business in consolidated revenue to remain strong at 37%.

Exhibit 42: Revenue CAGR of 16% over FY19-22E (INR b)



Source: MOFSL, Company

Exhibit 43: India tea share in revenue to increase (%)

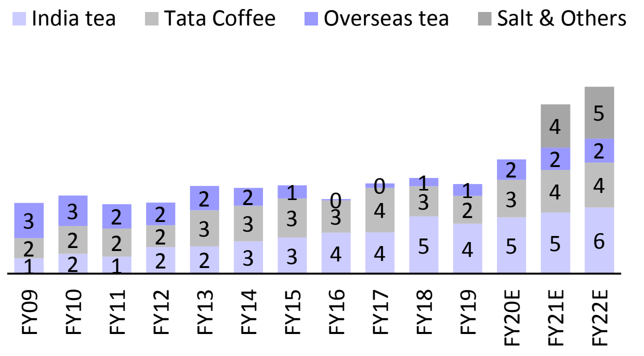


Source: MOFSL, Company

Adj. PAT to grow at CAGR of 32% over FY19-22E

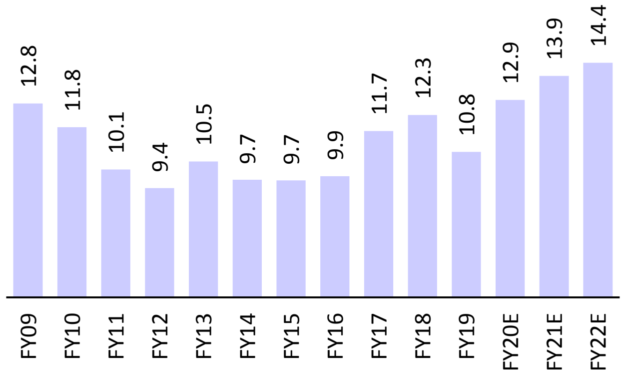
- TGB's consolidated EBITDA came in at ~2% CAGR over the last decade to INR7.9b in FY19. EBITDA of the India tea business was impressive at ~13% CAGR, but was dragged by modest growth in coffee (~3%) and sharp deterioration in the overseas tea business (CAGR of –ve 10%).
- Share of the India tea business in consolidated EBITDA has increased from 22% in FY09 to 56% in FY19.
- We expect consolidated EBITDA to come in at ~28% CAGR over FY19-22E to INR16.4b, driven by steady growth in the India tea business, recovery in coffee prices and an EBITDA contribution of INR4.5b from Tata Chemicals' consumer business. We expect overseas tea business' EBITDA to remain steady at existing levels.
- Consequently, adjusted PAT is expected at 32% CAGR over FY19-22E to INR10.1b aided by the improving performance of *Starbucks*'.

Exhibit 44: EBITDA CAGR of 28% over FY19-22E (INR b)



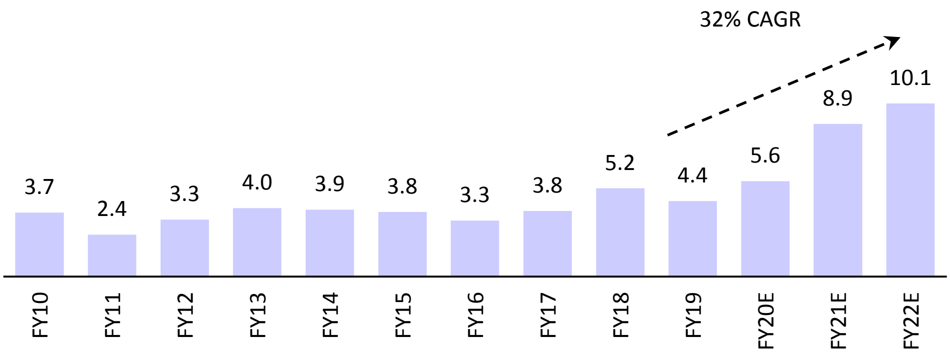
Source: MOFSL, Company

Exhibit 45: EBITDA margin to improve 360bp over FY19-22 (%)



Source: MOFSL, Company

Exhibit 46: Adj. PAT to post 32% CAGR over FY19-22E (INR b)

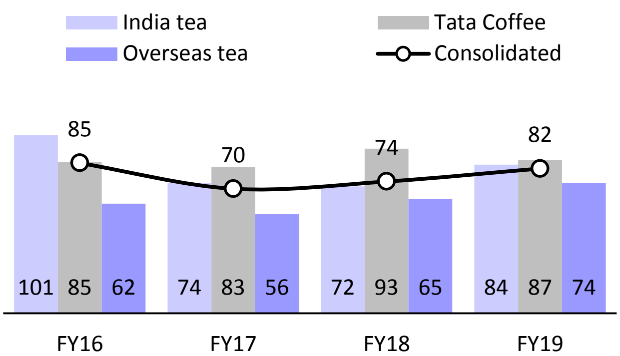


Source: MOFSL, Company

Working capital days steady

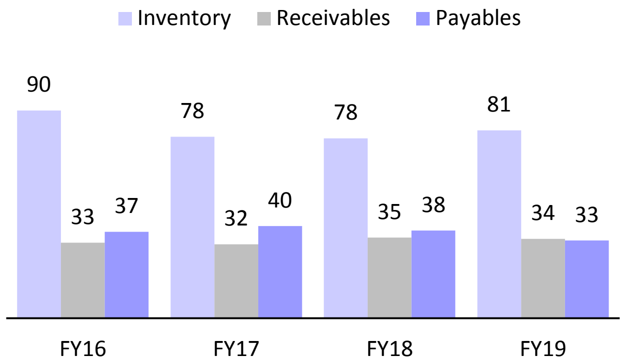
- TGB's working capital is higher than most other FMCG companies due to high inventory levels in the India tea business (tea being a seasonal business), B2B nature of the India coffee business and higher working capital in the overseas tea business.
- TGB's inventory days in India tea business have declined in the last three years on digitalization efforts and improving inventory management. India tea inventory days are down from 109days in FY16 to 84days in FY19.
- Digitalization efforts in the India tea business should improve distribution efficiencies, which could drive further reduction in working capital.

Exhibit 47: India tea business driving improvement…



Source: MOFSL, Company

Exhibit 48: …in working capital (days)

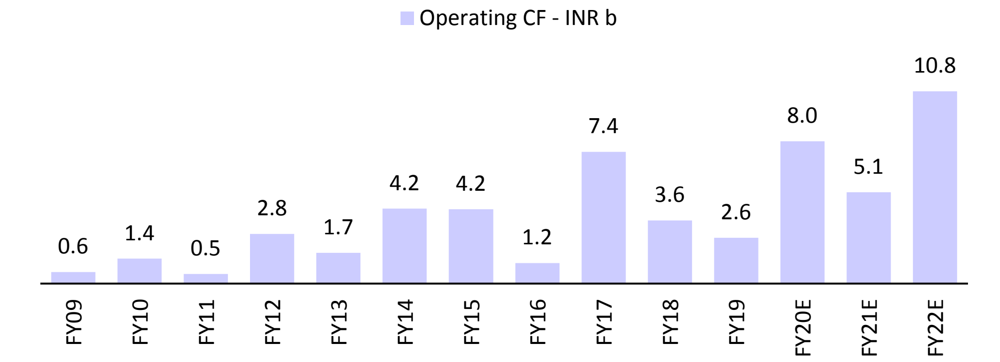


Source: MOFSL, Company

Turns net cash after six years; Payout could increase

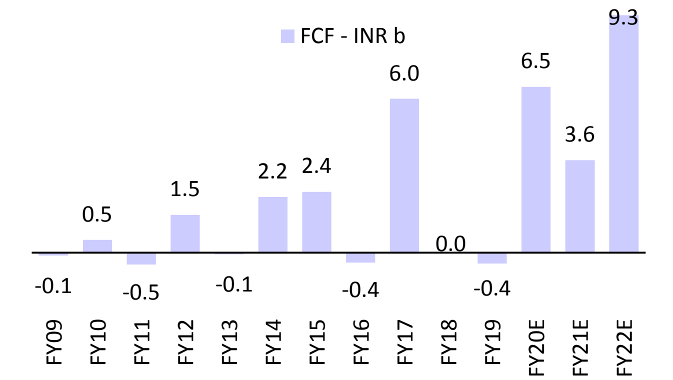
- Cash conversion (EBITDA to FCF) is expected to improve as earnings growth is aided by improvement in margins and tight working capital management. Additionally, strong cash generation is expected from the recently acquired consumer business of Tata Chemicals.
- TGB turned net cash after six years in FY18.
- We believe there is potential for an increase in the dividend payout as cash generation improves.

Exhibit 49: Operating cash flows trend (INR b)



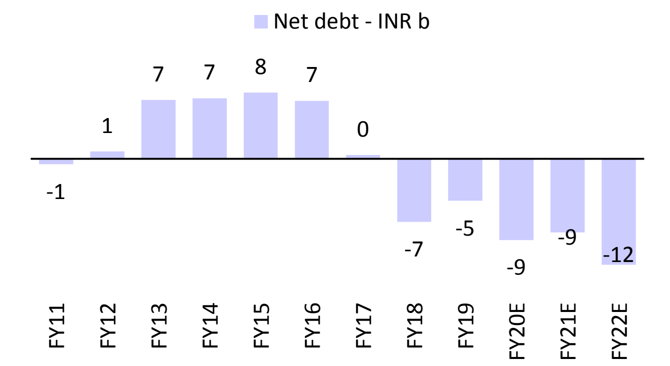
Source: MOFSL, Company

Exhibit 50: Cash conversion is expected to improve



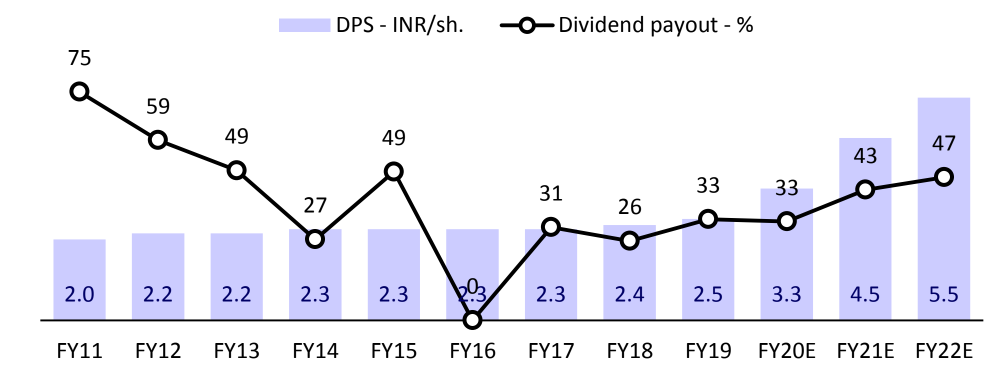
Source: MOFSL, Company

Exhibit 51: Driving reduction in net debt (INR b)



Source: MOFSL, Company

Exhibit 52: Scope for increase in dividend

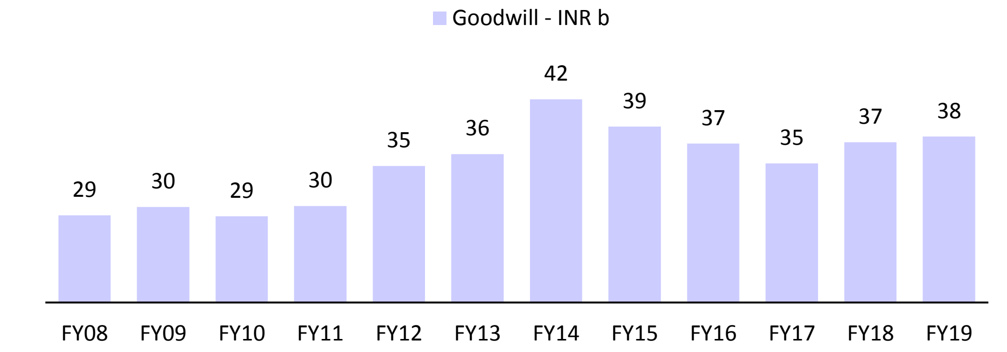


Source: MOFSL, Company

Return ratios dragged by goodwill on acquisition

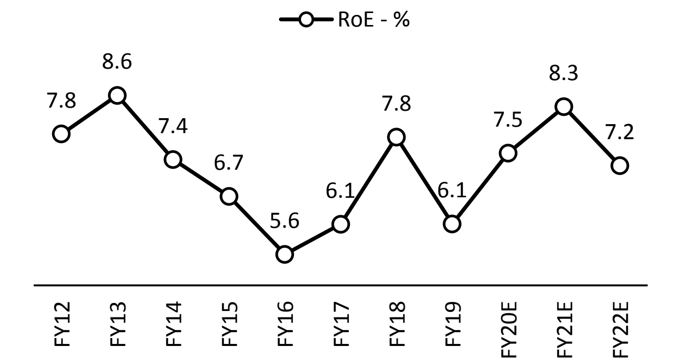
- RoIC (pre-tax) in the India tea business is strong at ~45-60%. But consolidated RoIC is lower at ~10%. The goodwill on various acquisitions over the years and weak performance in the overseas tea business is driving lower RoIC. It is noted that forex was also one the key reasons for increasing Goodwill over the year
- Excluding the goodwill on acquisition, TGB's consolidated RoIC has ranged between 25-40% over FY11-19.
- Consolidated RoE is in single-digits due to the drag from acquisitions.

Exhibit 53: Goodwill on balance sheet increasing over the last 3 years (INR b)



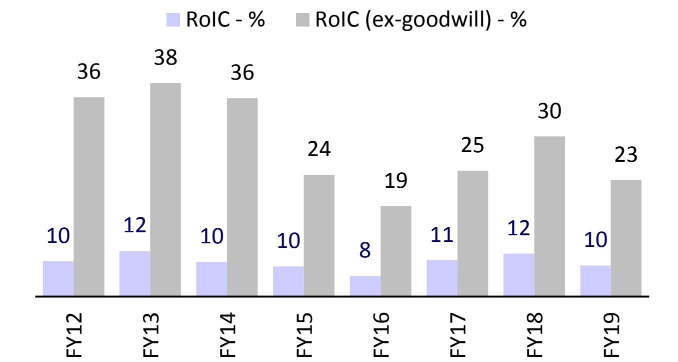
Source: Company

Exhibit 54: RoE and RoIC getting dragged down due to…



Source: MOFSL, Company

Exhibit 55: …goodwill on acquisition



Source: MOFSL, Company

Exhibit 56: TGB consolidated – Invested capital Dupont

	FY13	FY14	FY15	FY16	FY17	FY18	FY19	FY20E	FY21E	FY22E
RoIC - %	**12.1**	**10.4**	**9.7**	**8.2**	**10.6**	**11.7**	**9.8**	**11.2**	**14.7**	**12.1**
EBIT / sales	9.0	8.0	8.0	8.1	9.8	10.6	9.1	10.5	12.1	12.7
Sales / FA	9.1	8.5	7.9	6.7	6.9	6.7	6.7	7.0	10.0	11.1
FA / Invested capital	0.15	0.16	0.15	0.15	0.16	0.17	0.16	0.16	0.12	0.09

Source: MOFSL, Company

Valuation & View

Initiate with Buy; SOTP-based TP of INR347/share

We value TGB on SOTP basis due to the different growth profiles of its India tea, overseas tea, coffee, salt and other consumer businesses. Therefore, we believe a business-specific earnings approach appropriately captures the company's potential. We believe TGB offers much potential as it is concentrating on the high RoIC India business once again. The company also plans to exit loss-making businesses and focus on cost control and scalable business opportunities. Additionally, the merger of TTCH's consumer business doesn't just give TGB a strong brand in *Tata Salt*, but also opens up a plethora of opportunities in the staples market with an addressable size of INR770b and exhibiting 17% CAGR (in addition to existing addressable market of INR270b in tea and coffee). The merger also increases contribution of the India business to consolidated profitability, which we believe provides stability to earnings and would be one of the factors for stock re-rating. We initiate on the stock with Dec'21 target price of INR347/share, upside of 16% and **Buy** rating.

We considered the following factors while valuing each business:

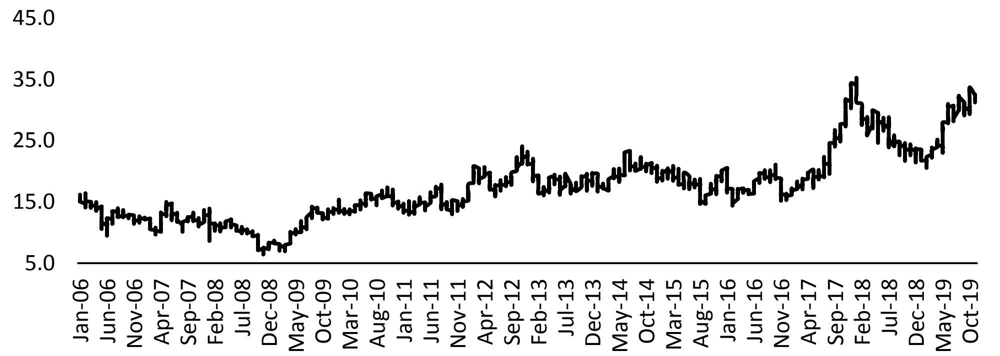
- The India tea business (i.e. TGB standalone) on EV/EBITDA basis at 22x; it is at a discount to other FMCG names, given the high market penetration and working capital requirement.
- The coffee business (i.e. Tata Coffee standalone) at 10x EV/EBITDA, given the commodity nature of the business.
- The overseas branded coffee business at 10x EV/EBITDA; it is at a discount to the India branded tea business due to lower growth potential.
- The overseas tea business at 10x EV/EBITDA; it is at discount to the India tea business given the low EBITDA margin of ~5-6%.
- TTCH's salt and other consumer business (which will be merged with TGB) at 22x EV/EBITDA after factoring in the growth potential due to its merger with TGB's consumer business.
- *Starbucks*' DCF-based value is INR29b.

Exhibit 57: SOTP-based valuation

		Multiple (x)	EV (INR m)
EV/EBITDA, x times	**EBITDA(Dec'21)**		
India tea (TGB standalone)	5,697	22	127,610
Coffee India (ex-Starbucks) @57%	805	10	8,050
Coffee Overseas	1,963	10	19,630
Salt & Other Consumer	4,356	22	97,564
Overseas tea	2,069	10	20,690
DCF			
Starbucks JV			28,986
Price/Sales	**Sales**		
NourishCo (JV with Pepsi) & Others	2,000	4	8,000
Enterprise value			**310,529**
Less: Net debt			-8,624
Market value			**319,153**
No. of shares			921
Target price, INR/sh			**347**

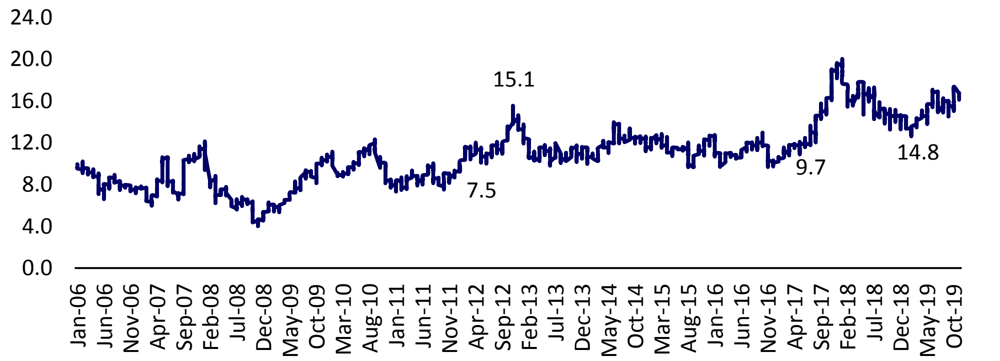
Source: MOFSL, Company

Exhibit 58: TGB 1-year forward P/E (x)



Source: Bloomberg

Exhibit 59: TGB 1-year forward EV/EBITDA (x)



Source: Bloomberg

Exhibit 60: Peer comparison

Company Name	M Cap (INR b)	EV/ EBITDA (x) FY20E	FY21E	PE (x) FY20E	FY21E	RoE (%) FY20E	FY21E	Revenue CAGR % FY19-21E	EBITDA CAGR % FY19-21E	PAT CAGR % FY19-21E
Britannia Industries Ltd	768	41.0	35.1	56.2	47.9	29.3%	29.4%	10.1%	8.1%	8.0%
Dabur India Ltd	816	40.8	35.7	48.8	42.3	26.9%	26.9%	9.5%	6.9%	7.4%
Emami Ltd	142	17.9	16.3	26.9	22.8	24.2%	26.1%	7.8%	4.7%	7.8%
Godrej Consumer Products	727	31.7	27.8	44.3	38.2	21.8%	22.8%	6.5%	6.7%	7.3%
Hindustan Unilever Ltd	4,455	42.5	35.2	60.9	51.1	83.9%	77.3%	12.3%	9.8%	10.7%
ITC Ltd	3,080	14.6	13.1	20.1	18.2	24.3%	24.5%	9.6%	5.5%	5.2%
United Breweries Ltd	330	32.0	24.6	58.1	42.1	16.4%	19.4%	11.6%	14.1%	17.5%
United Spirits Ltd	454	30.4	26.0	50.1	39.1	25.1%	25.1%	7.3%	8.2%	13.3%
Average		**31.4**	**26.7**	**45.7**	**37.7**	**31.5%**	**31.4%**	**9.3%**	**8.0%**	**9.7%**
TGB	**189**	**26.7**	**18.0**	**49.4**	**30.9**	**7.5%**	**8.3%**	**21.4%**	**37.4%**	**42.2%**

Source: MOFSL, Bloomberg

Management team

- **Mr. Ajoy K. Misra, MD and CEO**: Part of the Tata Group for over 30 years, Mr. Misra is a Civil Engineering graduate from BITS Pilani and holds an MBA from FMS, Delhi University. He has also completed the Advanced Management Program from Harvard Business School.

- **Mr. L. Krishna Kumar, CFO**: He is a Chartered Accountant, Cost Accountant and Company Secretary by qualification. Before joining the Tata Group, his last role was with L&T as General Manager - Finance.

- **Mr. Amit Chincholikar, Global Chief Human Resources Officer:** He has been with the Tata Group since 2010 and serves as the Global Chief Human Resources Officer for TGB. He holds a post-graduate degree from Symbiosis Institute of Business Management, Pune and is a graduate in Statistics & Operations Research from University of Mumbai.

- **Mr. Adil Ahmad, President — International Business**: Mr. Ahmad joined TGB in 2015 as Chief Marketing Officer. Prior to joining TGB, he had a twenty year career with Reckitt Benckiser, holding leadership positions across the UK, India, Middle East and East Asia. Mr. Ahmad has graduated from St. Stephens College, Delhi and holds an MBA from Case Western University, Cleveland, Ohio, USA.

- **Mr. Sushant Dash, Regional President — India**: Mr. Dash joined TGB in 2000. He was previously Senior Director – Marketing and Business Development for Tata Starbucks. Mr. Dash holds a post-graduate degree from Mudra Institute of Communication, Ahmedabad (MICA) and is a graduate in Economics from Ravenshaw University, Cuttack.

- **Mr. Vikram Grover, President – Water Vertical**: Mr. Grover heads TGB's water business; he is responsible for product and market development and to build a global footprint for the water business. Prior to joining TGB, he has worked with Unilever, holding significant roles such as Global Strategy and Archetypes Director for Beverages and Country Head for Beverages in India. He has an MBA in Marketing from the Indian Institute of Management, Kolkata, and is an engineering graduate from the Punjab Engineering College, Chandigarh.

- **Mr. Chacko Thomas, MD and CEO, Tata Coffee:** Mr. Thomas holds a Bachelor's degree with specialization in Computer Science from the University of Jodhpur. He has over 27 years of rich experience in the Plantation Industry. Before joining Tata Coffee, he was the MD of Kannan Devan Hills Plantations Pvt. Ltd.

- **Mr. Rakesh Sony, Global Head- Strategy and M&A:** Mr. Sony is Global Head-Strategy and M&A at TGB, and is responsible for development and deployment of strategies. He has over 20 years of experience and has held key leadership roles in the Financial Services industry, such as the Director & India Head of Proterra Investment Partners and Partner at Motilal Oswal PE Fund. He is a Chartered Accountant and a graduate from St. Xavier's College, Kolkata.

Bulls and Bears

Bull case

- ☑ **India tea business**: We assume EBITDA margin of 15.4% in FY22 (v/s base case of 13.7%) on lower competitive intensity and lower raw tea prices.
- ☑ **Coffee business**: We assume revenues in the coffee business at ~10.3% CAGR over FY19-22E (v/s base case of 8.9%), aided by higher-than-expected coffee prices and quick ramp-up of the new plant; EBITDA margins should come in at 18.2% (v/s base case of 17%) in FY22.
- ☑ **Overseas tea**: We assume revenues to grow at ~1.5% CAGR over FY19-22E, led by premiumization initiatives undertaken by the management. EBITDA margins should come in at 10.8%.
- ☑ **Consumer (salt and others)**: We assume revenues to grow at ~17.3% CAGR over FY19-22E (v/s base case of 14.4%), led by new product launches. EBITDA margins should come in at 17.5% (v/s base case of 16.5%) in FY22.
- ☑ The SOTP value increases to INR426/share.

Bear case

- ☑ **India tea business**: We assume revenues at CAGR of 5.2% over FY19-22E (v/s base case of 7.4%) on lower market demand growth. EBITDA margins should come in at 12.6% (v/s base case of 13.7%) in FY22.
- ☑ **Coffee business**: We assume revenues at 7.8% CAGR over FY19-22E (v/s base case of 8.9%), factoring in lower-than-expected recovery in coffee prices. EBITDA margins should come in at 16% (v/s base case of 17%) in FY22.
- ☑ **Overseas tea**: EBITDA margins should come in at 10% in FY22.
- ☑ **Consumer (salt and others):** We assume revenues to grow at ~11.1% CAGR over FY19-22E (v/s base case of 14.4%) due to lower growth in pulses and spices. EBITDA margins should come in at 15.2% (v/s base case of 16.5%) in FY22.
- ☑ The SOTP value decreases to INR256/share.

Exhibit 61: Scenario analysis - Bull & Bear case

		Bear	Base	Bull
Revenue	**INR m**	**108,115**	**113,823**	**119,811**
India tea growth CAGR FY19-22E	%	5.2	7.4	9.4
Coffee growth CAGR FY19-22E	%	7.8	8.9	10.3
Overseas tea growth CAGR FY19-22E	%	0.1	0.5	1.5
TTCH Consumer growth CAGR FY19-22E	%	11.1	14.4	17.3
EBITDA	**INR m**	**14,332**	**16,406**	**18,780**
India tea margin	%	12.6	13.7	15.4
Coffee margin	%	16.0	17.0	18.2
Overseas tea margin	%	10.0	10.3	10.8
TTCH Consumer margin	%	15.2	16.5	17.5
PAT	**INR m**	**8,616**	**10,130**	**11,854**
SOTP based TP	**INR/sh**	**256**	**347**	**426**
India tea - EV/EBITDA	x	20	22	24
Coffee India - EV/EBITDA	x	8	10	12
Coffee Overseas - EV/EBITDA	x	8	10	12
Overseas tea - EV/EBITDA	x	8	10	12
TTCH Consumer	x	20	22	24

Source: MOFSL, Company

Company description

Transitioning into a true-blue consumer company

Tata Global Beverages is a natural beverages company with interests in tea, coffee and water. It started out as a domestic Indian tea farming entity and over the years, has strategically evolved as a global, branded beverage play. Recently, the company announced the merger of Tata Chemicals' (including the iconic brand '*Tata Salt*') consumer products business into TGB. Post amalgamation of the merger, TGB's focus is to aggressively expand its existing new products (pulses, spices, packaged foods, beverages, etc.) and to enter into broader FMCG (dairy, home care, personal care), thereby transitioning into a true-blue consumer company.

It entered the global beverages landscape with the acquisition of Tetley in 2000 (>50% its then sales); thereafter, it expanded through many mergers and acquisitions (M&As) and currently operates in over 40 countries. Of TGB's consolidated sales in FY19, 47% came in from the India tea business, 25% from India and overseas coffee business, and remaining from overseas tea and others.

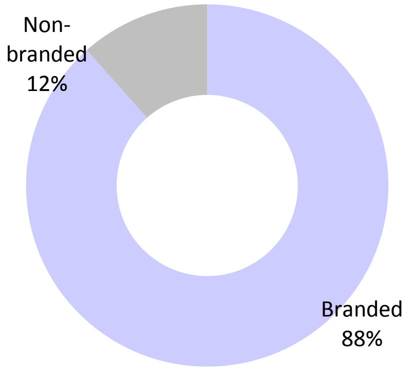
TGB is the second largest player in branded tea globally. It is a dominant player in the organized tea market in India (~20% market share) and Canada (~30% market share). Branded products represent ~90% of its consolidated sales, with tea having a major ~80% share of sales in the branded category. As of FY19, the consumer business of TTCH constituted 25% of TGB's consolidated sales and 40% of its consolidated EBITDA.

It is also in an alliance with Starbucks (50% JV) and PepsiCo (named NourishCo, for non-carbonated health and enhanced wellness beverages).

Exhibit 62: TGB's brands

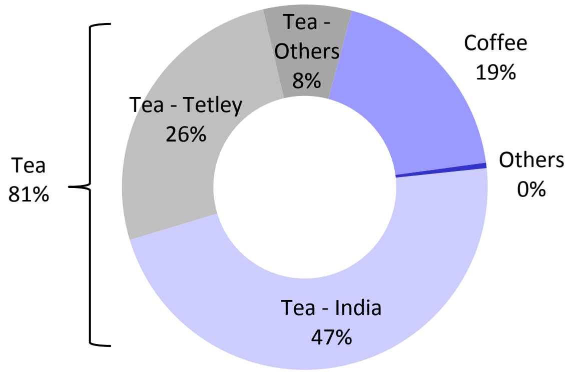
Source: Company

Exhibit 63: Branded products represent 88% of consol. sales



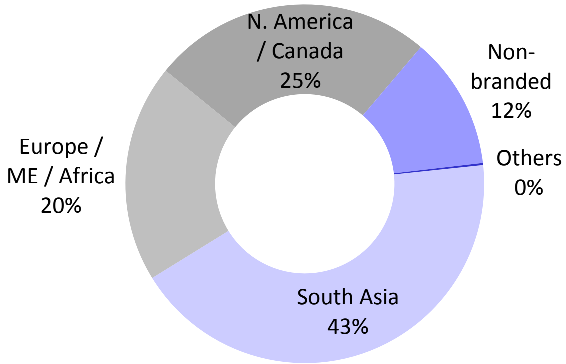
Source: MOFSL, Company

Exhibit 64: Tea represents ~81% of the branded sales category



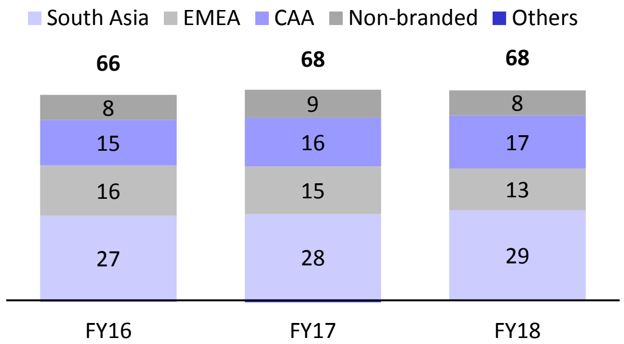
Source: MOFSL, Company

Exhibit 65: South Asia (mainly India) is the largest market for TGB



Source: MOFSL, Company

Exhibit 66: Region-wise sales over the last few years (INR b)



Geography wise revenue for FY19 is not available

Source: MOFSL, Company

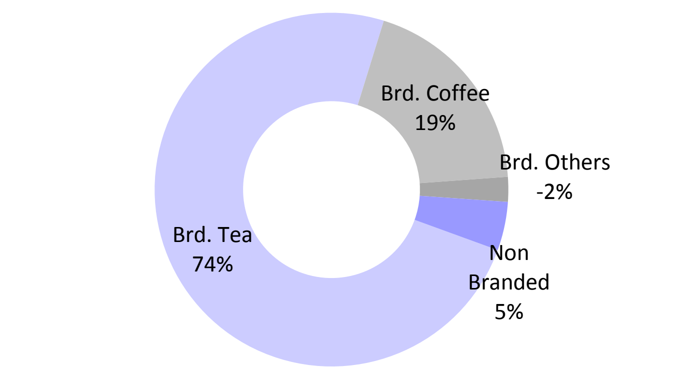
Exhibit 67: Positioning of various TGB brands

Source: Company

Exhibit 68: Product portfolio of TTCH

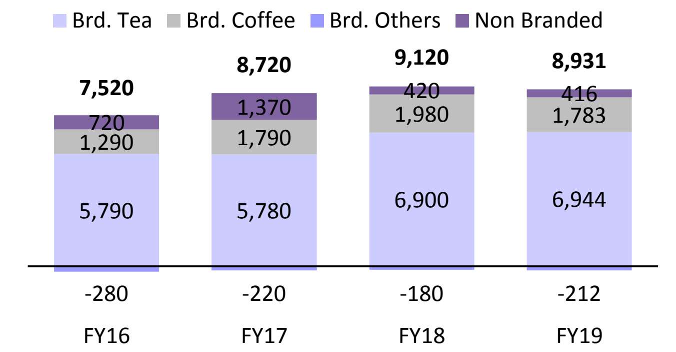
Source: Company

Exhibit 69: Branded tea is the largest contributor to EBIT



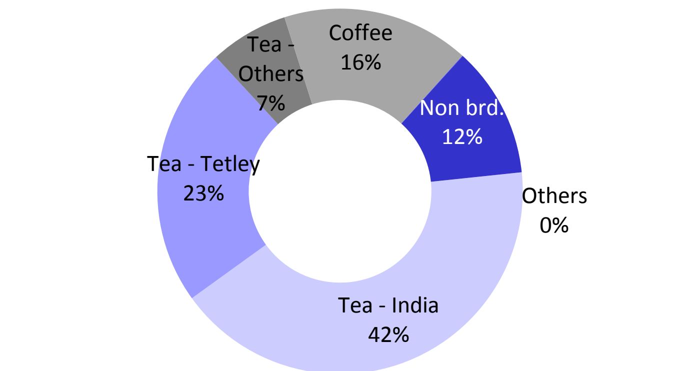
Brd = Branded Source: MOFSL, Company

Exhibit 70: EBIT by category – INR m



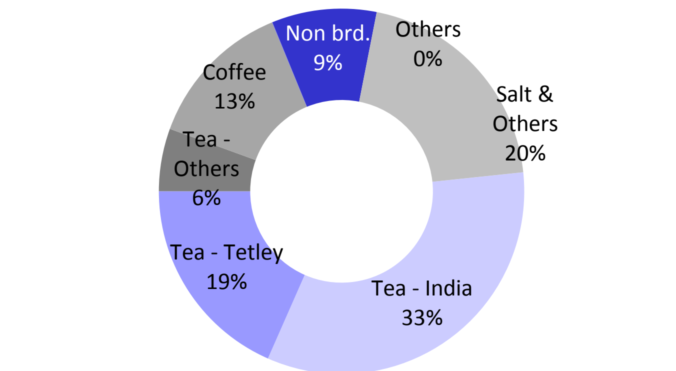
Note: EBIT excludes corporate expenses Source: MOFSL, Company

Exhibit 71: TGB's sales mix in FY19 (pre-merger)



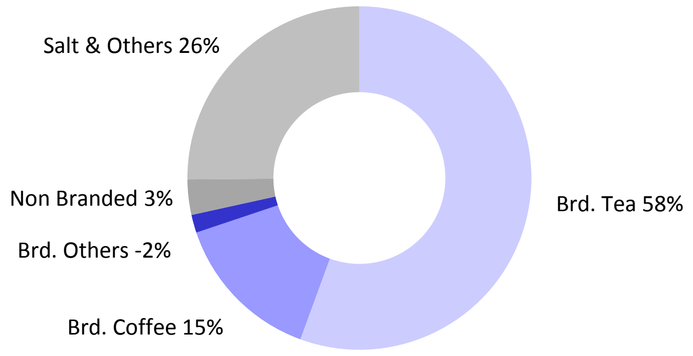
Brd = Branded Source: MOFSL, Company

Exhibit 72: TGB's pro-forma sales mix in FY19 (post-merger)



Source: MOFSL, Company

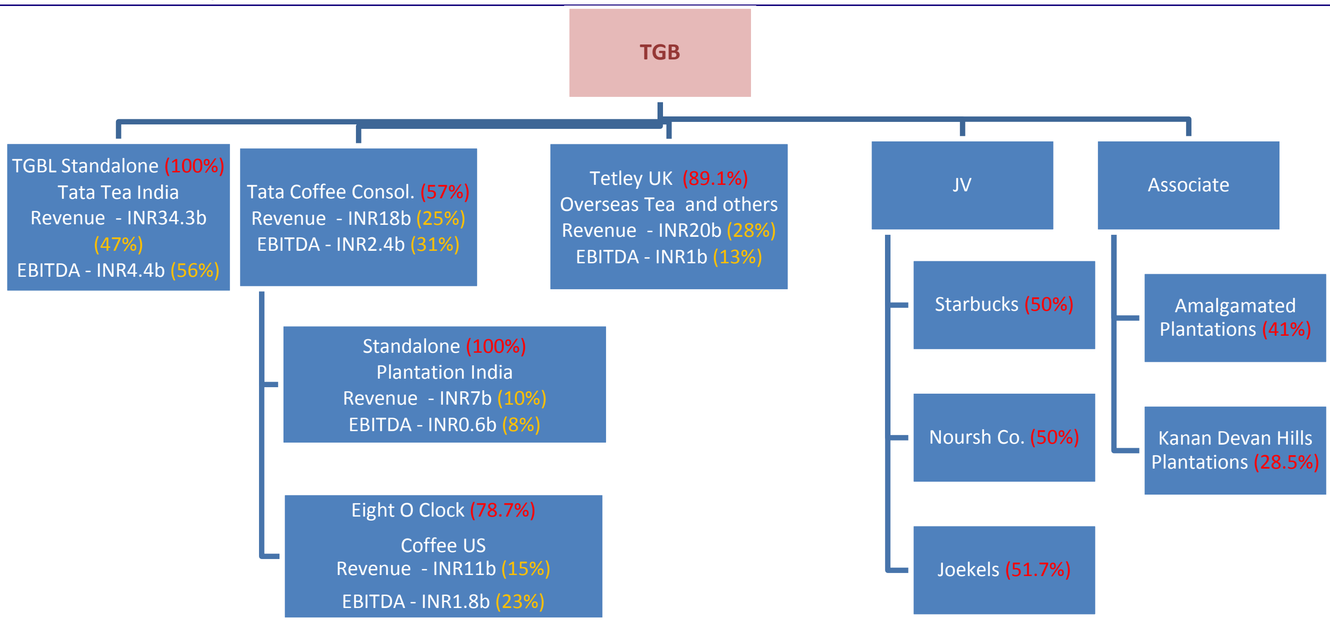
Exhibit 73: Pro-forma EBIT mix in FY19 post-merger of Tata Chemical's consumer business



Note: EBIT excludes corporate expenses Source: MOFSL, Company

TGB's India tea business is a part of the standalone operations while the overseas tea business is owned through a ~89% subsidiary. The coffee business (ex-*Starbucks*) is part of Tata Coffee, a separate listed entity in which TGB has ~57% stake. TGB also has less than 50% stake in two tea plantation companies, namely Amalgamated Plantations and Kanan Devan; which are classified as associates.

Exhibit 74: TGB's corporate structure



Source: Company

Ownership interest | Revenue/EBITDA contribution

Exhibit 75: TGB's acquisition details

Year	Acquired co.	Country	Acquired for	Remarks
Feb-00	Tetley	UK	GBP271m	❖ Largest tea company in the UK and Canada
Oct-05	Good Earth	US	USD31m	❖ Specialty tea company in the US
May-06	Jemca	Czech Republic	GBP11.6m	❖ Market leader in black, herbal, green, fruit tea category
Jun-06	Eight O'Clock	US	USD220m	❖ Third largest coffee brand
Sep-06	Joekels Tea	South Africa	GBP0.91m	❖ Third largest player in South Africa
Apr-07	Vitax & Flosana	Poland		❖ Fruits and herbal tea brand in Poland
May-07	Zhejiang JV*	China		❖ JV to manufacture tea and tea-related products
Jun-07	Mount Everest Mineral**	India		❖ Himalayan natural mineral water brand, business since merged with TGB
Mar-09	Grand*	Russia		❖ Coffee brand in Russia
Oct-10	Rising Beverages	US		❖ Flavored water under Activate brand

*Divested since, **Merged since Source: MOFSL, Company

Financials and valuations

Income Statement (INR M)

Y/E March	2014	2015	2016	2017	2018	2019	2020E	2021E	2022E
Net Sales	**77,376**	**79,934**	**66,365**	**67,796**	**68,154**	**72,515**	**77,691**	**106,924**	**113,823**
Change (%)	5.3	3.3	-17.0	2.2	0.5	6.4	7.1	37.6	6.5
Gross Profit	**40,601**	**41,561**	**30,149**	**32,180**	**31,160**	**32,439**	**34,926**	**48,021**	**51,053**
Margin (%)	52.5	52.0	45.4	47.5	45.7	44.7	45.0	44.9	44.9
Other operating exp.	33,083	33,812	23,606	24,269	22,771	24,580	24,888	33,174	34,647
EBITDA	**7,519**	**7,749**	**6,543**	**7,911**	**8,389**	**7,859**	**10,038**	**14,847**	**16,406**
Change (%)	-2.2	3.1	-15.6	20.9	6.0	-6.3	27.7	47.9	10.5
Margin (%)	9.7	9.7	9.9	11.7	12.3	10.8	12.9	13.9	14.4
Depreciation	1,291	1,331	1,168	1,260	1,160	1,226	1,860	1,927	1,997
Net Interest	865	819	1,169	915	428	525	643	677	677
Other income	818	700	820	831	942	1,571	1,210	1,149	1,207
PBT before EO	**6,181**	**6,299**	**5,026**	**6,566**	**7,743**	**7,680**	**8,745**	**13,392**	**14,939**
EO income/(exp.)	888	-1,300	-3,329	53	-211	-333	-96	0	0
PBT after EO	7,069	4,999	1,698	6,619	7,531	7,347	8,649	13,392	14,939
Tax	1,845	2,155	2,000	1,983	1,859	2,609	2,342	3,750	4,183
Rate (%)	26.1	43.1	117.8	30.0	24.7	35.5	27.1	28.0	28.0
Reported PAT	**5,224**	**2,844**	**-302**	**4,636**	**5,673**	**4,738**	**6,307**	**9,642**	**10,756**
Minority and Associates	419	365	-247	742	717	656	811	710	626
Adjusted PAT	**3,917**	**3,778**	**3,274**	**3,841**	**5,167**	**4,415**	**5,592**	**8,932**	**10,130**
Change (%)	-2.3	-3.6	-13.4	17.3	34.5	-14.6	26.7	59.7	13.4

Balance Sheet (INR M)

Y/E March	2014	2015	2016	2017	2018	2019	2020E	2021E	2022E
Share Capital	618	618	631	631	631	631	631	921	921
Reserves	57,870	54,297	61,841	62,024	69,685	72,686	75,721	136,993	141,047
Net Worth	**58,489**	**54,915**	**62,472**	**62,655**	**70,316**	**73,317**	**76,352**	**137,913**	**141,968**
Minority Interest	9,241	8,762	8,618	9,195	10,090	10,277	10,777	11,352	12,013
Loans	14,381	13,240	13,541	7,866	10,676	11,283	11,283	11,283	8,783
Capital Employed	**82,110**	**76,918**	**84,630**	**79,716**	**91,082**	**94,877**	**98,412**	**160,548**	**162,764**
Gross Block	22,552	23,904	24,033	23,711	25,424	27,689	29,189	30,689	32,189
Less: Accum. Deprn.	12,625	13,608	14,511	13,650	15,181	16,407	18,267	20,194	22,191
Net Fixed Assets	**9,928**	**10,296**	**9,523**	**10,060**	**10,244**	**11,282**	**10,922**	**10,495**	**9,998**
Capital WIP	596	459	394	632	1,352	4,244	4,244	4,244	4,244
Goodwill & Intangibles	41,882	38,921	37,096	34,979	37,235	37,851	37,851	95,451	95,451
Investments	6,079	6,178	11,926	13,534	6,431	6,045	5,734	5,599	5,635
Curr. Assets	**40,630**	**38,710**	**40,009**	**36,309**	**49,343**	**49,385**	**54,986**	**63,112**	**66,504**
Inventories	15,185	16,253	16,290	14,530	14,483	16,099	16,510	22,722	24,188
Account Receivables	6,544	6,161	5,924	5,925	6,483	6,806	7,390	10,171	10,827
Cash and Bank Balance	7,283	5,485	6,744	7,412	18,067	16,168	20,774	19,907	21,176
Others	11,619	10,811	11,051	8,444	10,310	10,313	10,313	10,313	10,313
Curr. Liability & Prov.	**16,542**	**16,624**	**13,532**	**14,345**	**13,525**	**12,887**	**14,283**	**17,310**	**18,024**
Account Payables	7,689	7,594	6,773	7,378	7,057	6,649	8,045	11,072	11,786
Other liabilities	4,118	4,089	2,776	3,389	3,562	4,221	4,221	4,221	4,221
Provisions	4,735	4,942	3,983	3,578	2,906	2,017	2,017	2,017	2,017
Net Curr. Assets	**24,088**	**22,086**	**26,477**	**21,965**	**35,818**	**36,498**	**40,703**	**45,802**	**48,479**
Def. tax liability	463	1,022	786	1,454	-3	1,043	1,043	1,043	1,043
Appl. of Funds	**82,110**	**76,918**	**84,630**	**79,716**	**91,082**	**94,877**	**98,412**	**160,548**	**162,764**

Financials and valuations

Ratios									
Y/E March	2014	2015	2016	2017	2018	2019	2020E	2021E	2022E
Basic (INR)									
EPS	**6.2**	**6.0**	**5.2**	**6.1**	**8.2**	**7.0**	**8.9**	**9.7**	**11.0**
Cash EPS	8.3	8.1	7.0	8.1	10.0	8.9	11.8	11.8	13.2
BV/Share	92.7	87.0	99.0	99.3	111.4	116.2	121.0	149.8	154.2
DPS	2.3	2.3	2.3	2.3	2.4	2.5	3.3	4.5	5.5
Payout (%)	26.6	48.9	NA	30.6	26.1	33.3	32.5	43.0	47.1
Dividend yield (%)	1.5	1.5	1.9	1.5	0.9	1.2	1.5	2.1	2.6
Valuation (x)									
P/E	48.3	50.1	57.8	49.3	36.6	42.9	33.9	30.9	27.3
Cash P/E	36.4	37.1	42.6	37.1	29.9	33.6	25.4	25.4	22.8
P/BV	3.2	3.4	3.0	3.0	2.7	2.6	2.5	2.0	1.9
EV/Sales	3.5	3.3	4.0	3.9	3.9	3.7	3.4	2.5	2.4
EV/EBITDA	35.6	34.5	40.9	33.8	31.9	34.0	26.7	18.0	16.3
Dividend Yield (%)	1.5	1.5	1.9	1.5	0.9	1.2	1.5	2.1	2.6
Return Ratios (%)									
EBITDA Margins (%)	9.7	9.7	9.9	11.7	12.3	10.8	12.9	13.9	14.4
Net Profit Margins (%)	5.1	4.7	4.9	5.7	7.6	6.1	7.2	8.4	8.9
RoE	7.4	6.7	5.6	6.1	7.8	6.1	7.5	8.3	7.2
RoCE	9.1	8.8	7.6	9.0	9.4	8.6	9.4	10.8	9.7
RoIC	10.4	9.7	8.2	10.6	11.7	9.8	11.2	14.7	12.1
Working Capital Ratios									
Fixed Asset Turnover (x)	7.8	7.8	7.0	6.7	6.7	6.4	7.1	10.2	11.4
Asset Turnover (x)	0.9	1.0	0.8	0.9	0.7	0.8	0.8	0.7	0.7
Debtor (Days)	31	28	33	32	35	34	35	35	35
Creditor (Days)	36	35	37	40	38	33	38	38	38
Inventory (Days)	72	74	90	78	78	81	78	78	78
Leverage Ratio (x)									
Debt/Equity	0.1	0.1	0.1	0.0	-0.1	-0.1	-0.1	-0.1	-0.1

Cash flow statement									(INR M)
Y/E March	2014	2015	2016	2017	2018	2019	2020E	2021E	2022E
EBITDA	**7,519**	**7,749**	**6,543**	**7,911**	**8,389**	**7,859**	**10,038**	**14,847**	**16,406**
Prov. & FX	-123	-492	-132	22	-14	0	0	0	0
WC	84	-1,320	-2,719	1,485	-1,389	-2,347	400	-5,966	-1,408
Others	-714	-71	-190	100	-438	-333	-96	0	0
Direct taxes (net)	-2,548	-1,687	-2,342	-2,106	-2,992	-2,609	-2,342	-3,750	-4,183
CF from Op. Activity	**4,218**	**4,178**	**1,160**	**7,412**	**3,556**	**2,571**	**8,000**	**5,131**	**10,815**
Capex	-2,037	-1,792	-1,545	-1,382	-3,588	-3,000	-1,500	-1,500	-1,500
FCFF	**2,180**	**2,386**	**-385**	**6,030**	**-32**	**-429**	**6,500**	**3,631**	**9,315**
Interest/dividend	663	611	697	574	485	1,571	1,210	1,149	1,207
Investments in subs/assoc.	-426	-932	-509	-280	373	0	0	0	0
Others	1,502	60	4,273	2,503	10,133	0	0	0	0
CF from Inv. Activity	**-298**	**-2,053**	**2,917**	**1,415**	**7,403**	**-1,429**	**-290**	**-351**	**-293**
Borrowings	-895	-1,311	-796	-4,848	2,160	0	0	0	-2,500
Finance cost	-863	-820	-663	-615	-282	-525	-643	-677	-677
Dividend	-1,623	-1,615	-1,871	-1,890	-2,118	-1,893	-2,461	-4,971	-6,076
Others	-252	-178	512	-805	-65	-623	0	0	0
CF from Fin. Activity	**-3,633**	**-3,924**	**-2,818**	**-8,158**	**-304**	**-3,041**	**-3,104**	**-5,648**	**-9,253**
(Inc)/Dec in Cash	**287**	**-1,798**	**1,259**	**668**	**10,655**	**-1,899**	**4,606**	**-867**	**1,269**
Opening balance	6,996	7,283	5,485	6,744	7,412	18,067	16,168	20,774	19,907
Closing balance (as per B/S)	**7,283**	**5,485**	**6,744**	**7,412**	**18,067**	**16,168**	**20,774**	**19,907**	**21,176**

NOTES

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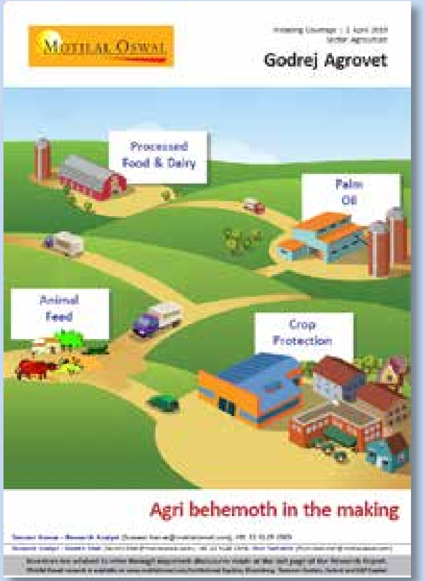

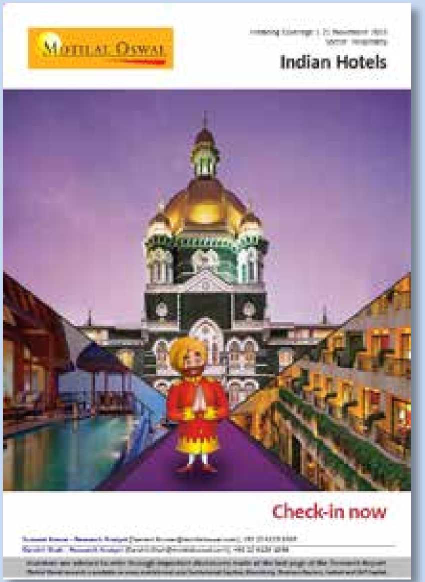

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Investment Rating	**Expected return (over 12-month)**
BUY	>=15%
SELL	< - 10%
NEUTRAL	< - 10 % to 15%
UNDER REVIEW	Rating may undergo a change
NOT RATED	We have forward looking estimates for the stock but we refrain from assigning recommendation

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