

Tata Global Beverages

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|---------------|--------------------------------|
| BSE Code | : 500800 |
| Time Duration | : 18 months |
| CMP | : ₹230.30 (as on 23 May, 2019) |
| Target Price | : ₹277 |



Our Large Rhino pick for the month of May 2019 is Tata Global Beverages Ltd (TGBL) which caters to branded natural beverage such as tea, coffee and water. It is world's second largest player in branded tea with a strong portfolio of brands, including Tata Tea, Tetley, Jemca, Vitax, Eight O'Clock Coffee (EOC), Himalayan, Grand Coffee and Joekels. The company enjoys around 20 per cent market share in the Indian tea market. It also has entered into a joint venture with Starbucks (Tata Starbucks Limited) which owns and operates 146 Starbucks cafes in India as of Q4FY19. It also has a JV with PepsiCo called NourishCo, which produces non-carbonated ready-to-drink beverages that focus on health and enhanced wellness. In tea extraction business, it manufactures and sells instant black tea and instant green tea. Tata Global Beverages' subsidiary Tata Coffee is one of the largest integrated plantation companies in the world and one of India's largest exporters of instant coffee. It produces more than 10,000 MT of shade grown Arabica and Robusta coffees in its 19 estates in South India. Its two instant coffee manufacturing facilities have a combined installed capacity of 8400 metric tonnes.

Transforming from a beverages company to diversified FMCG player : The Tata Chemicals consumer business is proposed to be transferred to Tata Global Beverages. The consumer business of Tata Chemicals involving sourcing, packaging, marketing, distribution and sales of branded salt, pulses, spices, and ready-to-cook and ready-to-eat snacks will come under TGBL. With this proposed transaction, the company has embarked on a journey to transform into a diversified FMCG player. TGBL is likely to benefit from synergy arising from distribution and cost rationalisation, which in turn would aid in margin improvement. Further, this deal is likely to be margin accretive as Tata Chemical's consumer business enjoys relatively higher EBITDA margin (17.1 per cent) as against TGBL's 15.5 per cent EBITDA margin of India-branded business. In this deal, consumer business is valued at Rs. 5,800 crore and TGBL will issue around 92 crore shares to shareholders of Tata Chemicals in the ratio of 114:100 (for one share of TCL, shareholders will get 1.14 share of TGBL).

Acquisition of Dhunseri Tea to boost local footprint : Recently, Tata Global acquired the branded tea business of Dhunseri Tea & Industries Limited (DTIL) for a consideration of up to Rs. 101 crore. Dhunseri's two brands Lal Ghoda and Kala Ghoda enjoys market share of 6 per cent in Rajasthan. Rajasthan is a large tea market, the organised market is estimated at Rs. 1300 crore and the unorganised at Rs. 800 crore. This large market is fragmented and dominated by local players. Dhanuseri Tea has a strong presence in the state, with distribution of nearly 32,000 retail outlets. TGBL's decision to acquire Dhunseri would boost its distribution strength in the state and, as a result, give a strong platform to grow its own brands along with Dhunseri's tea brands.

Reviving international business : In last fiscal, with an aim to generate better synergies and flexibility, TGBL has merged its overseas businesses into a single entity. This would help the company to boost its performance in the core markets of UK and Canada. In the recent quarter, the company has launched and increased the focus on cold infusions in UK, Australia and Western Europe. Further, in most of the developed markets, the black tea is facing subdued demand, but to offset this and to improve business from these regions, the company has been shifting its focus on green tea and premium offerings.

Improving coffee business to aid performance : Recently, Tata Coffee's performance was dampened by the floods in Kerala, declining green coffee prices and high base. We believe the situation going forward is likely to normalise, which would lead to improvement in Tata Coffee's performance. The company's freeze-dried coffee capacity in Vietnam is on track to start its operation, which would be a big boost to increase B2B sales. The plant has annual capacity of 5,000 MT, for which the company has invested nearly Rs. 3500 crore. From this plant, the company is eyeing revenue of around Rs. 400 crore at 100 per cent capacity utilisation, in the next two years. Besides, the company has renegotiated its agreement with Keurig and opted direct sales now from earlier royalty agreement, which would lead to strong sales in the US and Canada. Further, EOC has expanded its footprint into western and southern markets of the US, which would lead to volume growth going forward.

Financial performance : In the recently concluded quarter (Q4FY19), the company's consolidated net sales improved marginally by 2.2 per cent to Rs. 1775.5 crore. This was led by 6.3 per cent and ~10 per cent yoy growth in tea business and non-branded

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DSJ Pvt. Ltd. : C - 305, Trade Center, North Main Road, Near Axis Bank, Opp. Lane no. 6, Koregaon Park, Pune - 411001 | For Customer Service : 020-49072626 OR service@dsj.in

Registered Office Address: 419-A, 4th Floor, Arun Chambers, Tardeo, Next to AC Market, Mumbai - 400034

CIN No. : CIN-U22120MH2003PTC139276 SEBI Research Analyst - INH000006396

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business, respectively. EBITDA for the quarter grew nearly 19.61 per cent yoy to Rs. 174.3 crore with corresponding margin expansion of 119 bps. EBITDA margin for the quarter stood at 11.8 per cent. However, the net profit for Q4FY19 dipped 18.2 per cent yoy to Rs. 91.82 crore. This was led by higher tax rate and adverse performance from the plantation business due to higher wages.

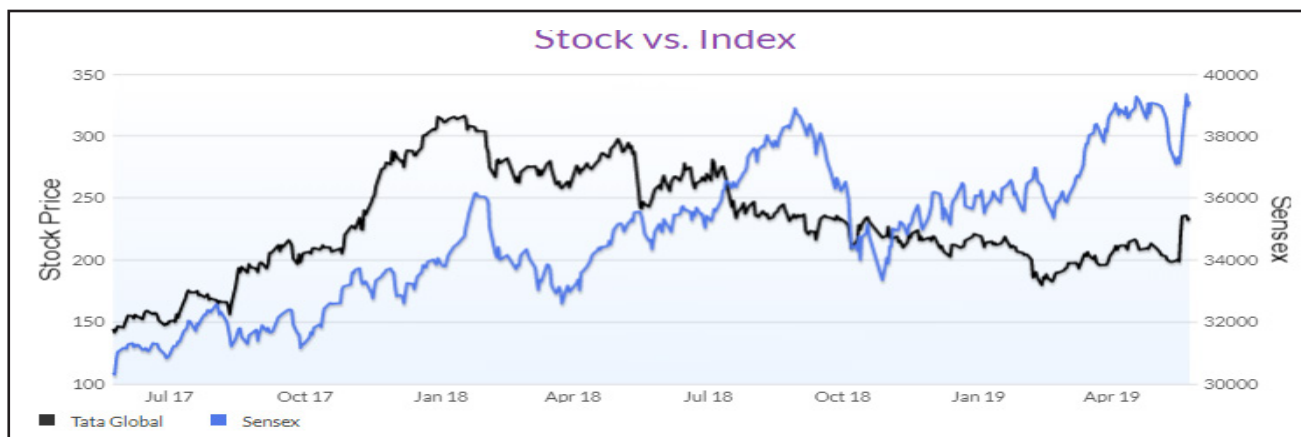
Valuation and outlook : The company's thrust to expand its footprint in the weak market is likely to be key growth driver for the company's topline in the years to come. With merger of TCL's consumer business, the company is on the path of becoming diversified FMCG player. This merger would also expand TGBL's distribution network. The company return on capital employed for FY19 was at 9.53 per cent. At present the stock of Tata Global Beverage is available at P/E multiple of 36.2x. Owing to all these factors, we recommend a BUY on the stock. We expect stock to touch mark of Rs. 277, representing around 20 per cent upside potential.

Inc/Exp Statement(Consolidated) (Rs in Crore)

| Description | 201903 | 201803 | 201703 | 201603 | 201503 |
|-------------------|---------|---------|---------|---------|---------|
| Net Sales | 7251.50 | 6815.35 | 6779.55 | 6636.54 | 7993.39 |
| Total Income | 7408.63 | 6909.50 | 6862.65 | 6718.54 | 8073.14 |
| Total Expenditure | 6465.59 | 5976.44 | 5988.42 | 5982.21 | 7228.31 |
| PBIDT | 943.04 | 933.06 | 874.23 | 736.33 | 844.83 |
| PAT | 473.83 | 567.26 | 463.65 | -30.25 | 284.36 |
| Dividend % | 250.00 | 250.00 | 235.00 | 225.00 | 225.00 |
| Adj. EPS(Rs) | 6.47 | 7.85 | 6.17 | -0.09 | 4.01 |

Quarter On Quarter (Consolidated) (Rs in Crore)

| Particulars | 201903 | 201812 | Q on Q Var% | 201803 | Y on Y Var% |
|-------------------|---------|---------|-------------|---------|-------------|
| Net Sales | 1775.46 | 1912.58 | -7.17 | 1688.40 | 5.16 |
| Total Expenditure | 1601.19 | 1716.36 | -6.71 | 1542.70 | 3.79 |
| PBIDT (Excl OI) | 174.27 | 196.22 | -11.19 | 145.70 | 19.61 |
| PAT | 93.82 | 121.32 | -22.67 | 114.70 | -18.20 |
| PBIDTM% (Excl OI) | 9.82 | 10.26 | -4.29 | 8.63 | 13.79 |
| PBIDTM% | 11.80 | 11.44 | 3.15 | 10.15 | 16.26 |
| PATM% | 5.28 | 6.34 | -16.72 | 6.79 | -22.24 |
| Adj. EPS(Rs) | 0.36 | 1.57 | -77.07 | 0.94 | -61.70 |



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