



ENAM Securities
India Research

Rs 1,033

Target Price: Rs 1,260

Potential Upside: 22%

Sector avg. upside: 0% to 10%
(mkt cap wtd)

Tata Tea Ltd

Relative to sector: **Outperformer**

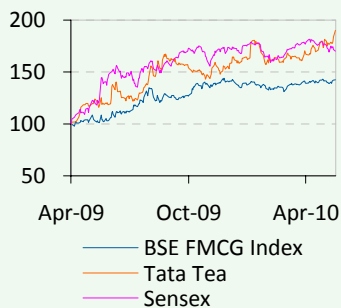
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Relative Performance



Source: Bloomberg, ENAM Research

Stock data

No. of shares : 62 mn
Market cap : Rs 63.9 bn
52 week high/low : Rs 1,138/ Rs 683
Avg. daily vol. (6mth) : 127,600 shares
Bloomberg code : TT IB
Reuters code : TTTE. BO

Shareholding (%) Mar-10 QoQ chg

Category	Mar-10 (%)	QoQ chg
Promoters	35.4	0.1
FIIs	8.0	(0.1)
MFs / UTI	9.4	(0.1)
Banks / FIs	26.2	0.3
Others	21.0	(0.3)

Financial Summary

Y/E Mar	Sales (Rs mn)	Adj .PAT (Rs mn)	Consensus EPS* (Rs)	Adj. EPS (Rs.)	Change YoY (%)	P/E (x)	RoE (%)	RoCE (%)	EV/EBITDA (x)	DPS (Rs.)
2009	48,479	2,750	-	44.6	(2)	-	6.0	10.9	-	17.5
2010E	58,209	3,742	61.1	60.7	36	17.0	7.8	11.6	12.0	20.0
2011E	64,661	5,033	72.4	81.6	34	12.7	9.9	14.2	9.5	25.0
2012E	71,611	5,979	79.8	97.0	19	10.6	11.0	15.9	7.9	30.0

Source: *Consensus broker estimates, Company ENAM estimates.

EARNINGS TO SWING ON EASING COST PRESSURE

Tata Tea Ltd (TT) reported consolidated net revenue of Rs 58 bn (\uparrow 20% YoY), EBITDA of Rs 7.2 bn (\uparrow 10% YoY) and adjusted PAT of Rs 3.7 bn (\uparrow 37% YoY) in FY10.

Key highlights

- Highest revenue growth (15% organic) in the last 3 years** was achieved by a combination of price hike, geographical expansion of tea portfolio into other regions and rise in value market share. TT has now overtaken HUL to become the **largest branded tea company in India** with 21.6% value mkt. share.
- Gross margin of TT has declined by 640 bps over the last 2 years** to 54%, due to severe RM cost pressure. Despite the price hikes and rationalization of cost, operating margin was impacted by 380 bps. We believe, a decline in commodity cost will remain the key swing factor in earnings going ahead. **Against an 11% revenue growth, we forecast 23% EBITDA growth in FY11E.**
- Lower interest burden:** TT has reduced its debt burden from Rs 24 bn in FY09 to Rs 18 bn in FY10. Healthy operating cash flows of Rs 5 bn p.a. give adequate financial flexibility.

Easing cost pressure: The return of normal weather patterns, in the major producing regions, has brought the 1st sign of relief to the tight global tea market situation. Key tea producing regions have shown sharp improvement in production (*refer graph*) during Jan-March'10. This should begin to alleviate the pressure on world tea prices in 2010. World tea prices are down by 17% from its peak in Sept'09.

Earnings Upgraded by 9% for FY11 & FY12. Maintain Outperformer

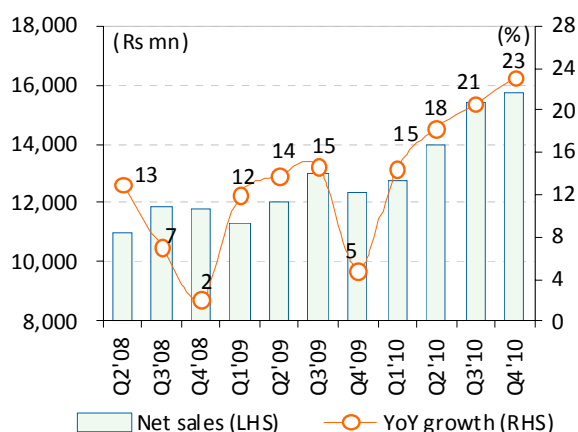
At CMP of Rs 1,033, the stock is trading below its historical 1-yr fwd. P/E median of 15x. We expect earnings to grow by 26% CAGR over the next 2 years– led by decline in tea cost, operating leverage from rising value growth and lower interest burden. Our 1-year price target of Rs 1,260 is based on 13x FY12E.

Results Update

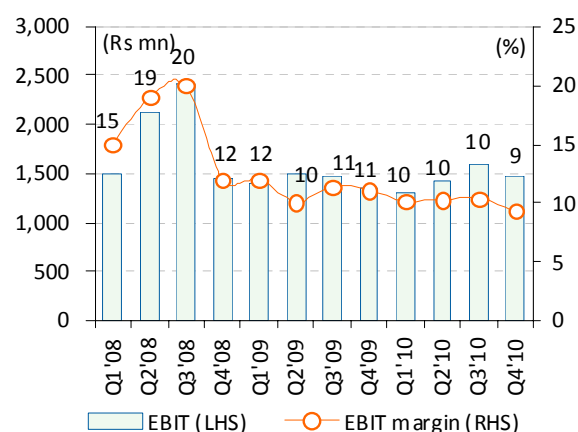
(Rs mn)	12 months ended				
	Mar-10	Mar-09	% YoY Chg	Mar-11E	% YoY Chg
Net Sales	58,209	48,479	20.1	64,661	11.1
EBITDA	7,217	6,574	9.8	8,855	22.7
Other income	1,809	2,134	(15.2)	1,750	(3.3)
PBIDT	9,026	8,708	3.6	10,605	17.5
Depreciation	1,029	987	4.3	1,090	5.9
Interest	1,748	2,101	(16.8)	1,414	(19.1)
PBT	6,249	5,620	11.2	8,101	29.7
Tax	2,477	1,557	59.1	3,079	24.3
Minority Interest	30	1,314	(97.7)	(10)	(132.0)
Adjusted PAT	3,742	2,750	36.1	5,033	34.5
Extra ordinary income/ (exp.)	161	4,256	(96.2)	-	-
Reported PAT	3,903	7,005	(44.3)	5,033	28.9
No. of shares (mn)	62	62	-	62	-
EBITDA margin (%)	12.4	13.6	-	13.7	-
PBIDT margins (%)	15.5	18.0	-	16.4	-
EPS - annualized (Rs.)	60.7	44.5	36.5	81.6	-

Source: Company, ENAM Research

TT Consolidated: Revenue & growth trends

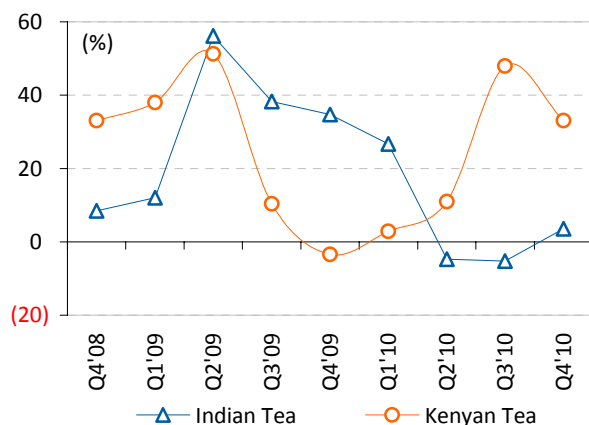


TT Consolidated: EBIT^ & margin trends

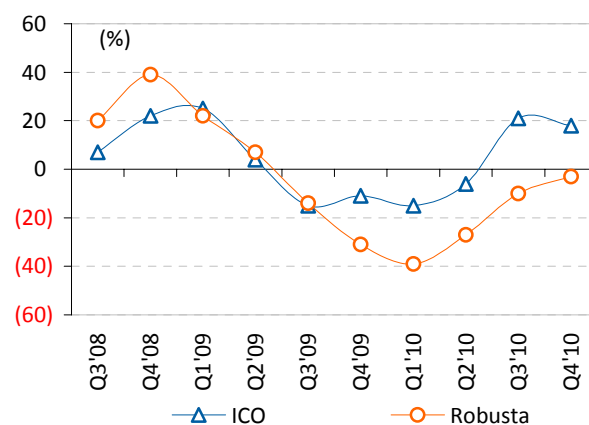


Source: Company, ENAM Research; ^Note: EBIT is pre non-operating other income and extraordinary items

Tea price trend (YoY)



Coffee price trend (YoY)



Source: CMIE, Bloomberg

Tata Tea (Standalone) *

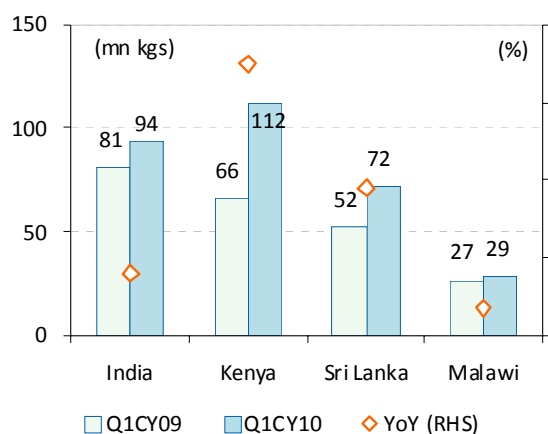
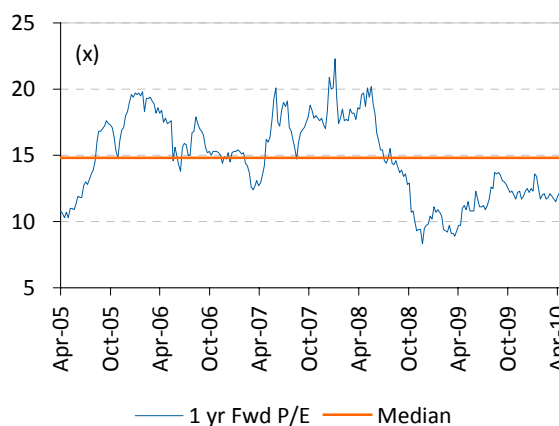
(Rs mn)	FY10	FY09	Change YoY
Revenue	16,979	13,615	25 %
RM	9,807	7,718	27 %
- % of revenue	57.8	56.7	(107) bps
Other cost	5,435	4,549	19 %
- % of revenue	32.0	33.4	104 bps
EBITDA	1,738	1,348	29 %
- % of revenue	10.2	9.9	30 bps
EBIT (exc. OI)	1,614	1,214	30 %
- % of revenue	9.1	9.5	(39) bps

Source: Company, ENAM Research: *Note: TT standalone contributed ~29% of consol revenue and 25% of consolidated EBITDA in FY10

Tata Coffee Ltd. (57.5% subsidiary) *

(Rs mn)	FY10	FY09	Change YoY
Revenue	12,861	11,142	15 %
RM	4,201	3,447	22 %
- % of revenue	32.7	30.9	(173) bps
Other cost	6,226	5,943	5 %
- % of revenue	48.4	53.3	485 bps
EBITDA	2,434	1,761	38 %
- % of revenue	18.9	15.8	312 bps
EBIT (exc. OI)	2,069	1,408	47 %
- % of revenue	16.1	12.6	345 bps

Source: Company, ENAM Research * Note: Tata coffee contributed ~22% of consol revenue and ~37% of consolidated EBITDA in FY10

Production in Key Black Tea Markets**TT – 1 year forward P/E**

Source: ENAM Research, Bloomberg, Vanrees, Media Reports; ^NoteMalawi is from Jan-Apr 2010

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