



Tata Global Beverages Ltd

Relative to sector: **Outperformer**

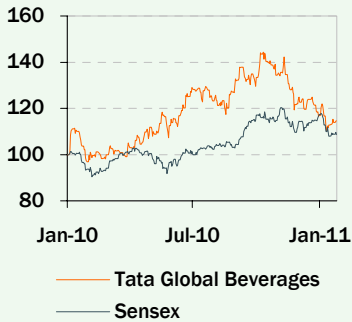
Hemant Patel

Executive Director – Consumer
Email: hemantp@enam.com
Tel: 9122 6754 7617

Yash Jhaveri

Asst VP – Consumer
Email: yash.jhaveri@enam.com

Relative Performance



Source: Bloomberg, ENAM Research

Stock data

No. of shares	: 618 mn
Market cap	: Rs 61.5 bn
52 week high/low	: Rs 139/ Rs 90
Avg. daily vol. (6mth)	: 1.5 mn shares
Bloomberg code	: TGBL IB
Reuters code	: TTTE. BO

Shareholding (%) Dec-10 QoQ chg

Promoters	: 35.2	(0.0)
FIs	: 8.0	0.3
MFs / UTI	: 6.2	(1.5)
Banks / FIs	: 27.0	0.3
Others	: 23.5	0.8

SEQUENTIAL IMPROVEMENT IN MARGIN

Tata Global Beverages Ltd (TGBL) reported consolidated net revenue of Rs 16 bn (↑4% YoY), EBITDA of Rs 1.8 bn (↓5% YoY) and adjusted PAT of Rs 721 mn (↓25% YoY) in Q3FY11, below our expectations. However, after 4 quarters of decline in gross profit margin, Q3FY11 indicated the 1st sequential improvement in margin due to easing of tea prices globally. The swing has not been as dramatic as expected in this quarter, as domestic premium tea variants have remained firm. While we continue to believe that earnings momentum will improve from Q4FY11, we have **downgraded our earnings estimates by 21% to Rs 5.2 in FY11E and by 16% to Rs 7.3 in FY12E.** Consequently, we have lowered our 1-year price target to Rs 116 (earlier Rs 139) based on 16x FY12E. We maintain our **BUY** rating on the stock.

Key highlights

- **Tata Tea Standalone** (29% of consol sales, ~29% of EBIT): Operating profits declined by 50% YoY due to 430 bps increase in raw material cost. Price hikes have been insufficient to offset the under recoveries in tea prices. We expect domestic tea prices to trend along with global weakness due to surplus production.
- **Tata Tea GB and Subs** (48% of rev, ~41% of EBIT): RM cost as % of sales has declined from the peak level of 36% in Q4FY10 to 33% in Q3FY11. Gross profit margin remained flat at 67%, aided by easing cost pressure and hike in retail prices.
- **Tata Coffee** (22% rev, ~33% of EBIT): Despite all time high coffee prices, the gross margin improved by 160 bps YoY. Almost all major players had taken pricing action in Q2FY11. Tata Coffee entered into a strategic alliance with Global Coffee Chain major “Starbucks” for supplying coffee beans and setting up coffee roasting facilities.
- **String of New Initiatives:** (1) JV with Pepsi to develop non-carbonated ready-to-drink beverages; and (2) MoU with Kerala Ayurveda Ltd to focus on development of Ayurvedic Foods & Beverages in the health and wellness segment. Both these ventures are targeted at the global markets.

Financial Summary (Consolidated)

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.)
2010	57,830	3,768	-	6.1	41	-	8.0	11.4	-	2.0
2011E	60,963	3,206	6.4	5.2	(15)	19.1	6.6	10.4	10.3	2.5
2012E	65,223	4,480	7.7	7.3	40	13.7	8.9	13.5	7.6	3.0
2013E	70,154	5,250	8.1	8.5	17	11.7	9.8	15.0	6.3	3.0

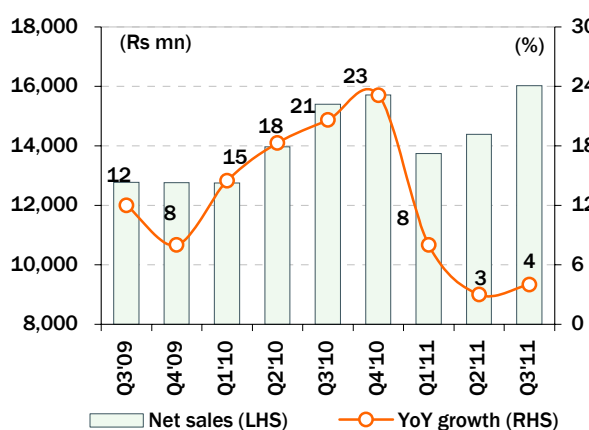
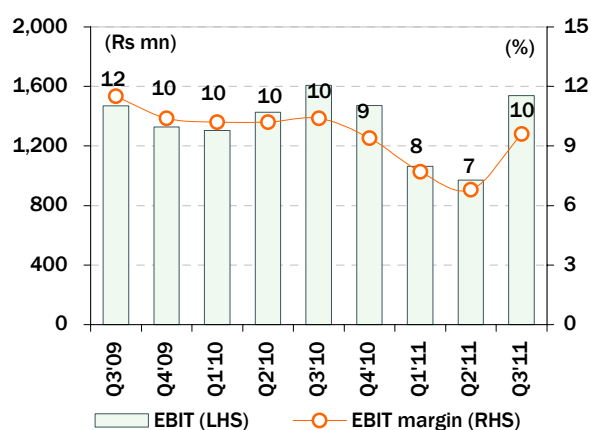
Source: *Consensus broker estimates, Company ENAM estimates.

Results update (Consolidated)

(Rs mn)	Quarter ended					12 months ended		
	Dec-10	Dec-09	% Chg	Sep-10	% Chg	Mar-11E	Mar-10	% Chg
Net Sales	16,024	15,401	4.0	14,389	11.4	60,963	57,830	5.4
EBITDA	1,781	1,867	(4.6)	1,223	45.5	6,215	6,864	(9.5)
Other income	92	142	(35.5)	280	(67.2)	1,550	1,930	(19.7)
PBIDT	1,873	2,010	(6.8)	1,503	24.6	7,765	8,793	(11.7)
Depreciation	243	261	(6.9)	251	(3.2)	1,006	1,029	(2.3)
Interest	152	100	52.9	144	5.8	1,414	1,491	(5.2)
PBT	1,477	1,649	(10.4)	1,108	33.3	5,345	6,273	(14.8)
Tax	678	613	10.6	381	78.1	2,031	2,475	(17.9)
Minority Interest	79	77	2.5	(112)	(169.8)	107	30	256.5
Adjusted PAT	721	959	(24.9)	840	(14.2)	3,206	3,768	(14.9)
Extra ordinary income/ (exp.)	(1)	(37)	(96.7)	(324)	(99.6)	-	-	-
Reported PAT	719	922	(22.0)	516	39.4	3,206	3,768	(14.9)
No. of shares (mn)	618	618	-	618	-	616	616	-
EBIDTA margin (%)	11.1	12.1	-	8.5	-	10.2	11.9	-
PBIDT margin (%)	11.7	13.0	-	10.4	-	12.7	15.2	-
EPS - annualized (Rs.)	4.7	6.2	(24.9)	5.4	(14.2)	5.2	6.1	(14.9)

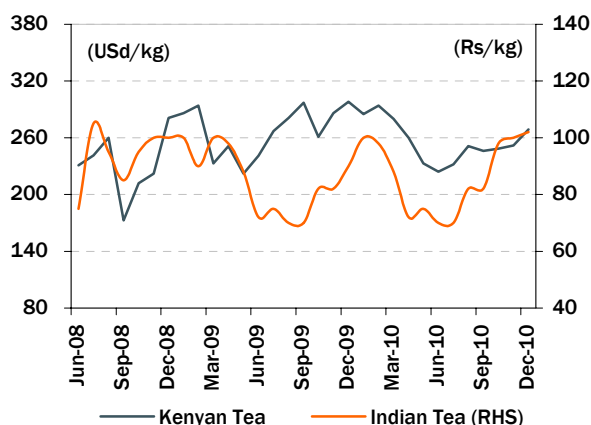
Source: Company, ENAM Research

TT Consolidated: Revenue & growth trends

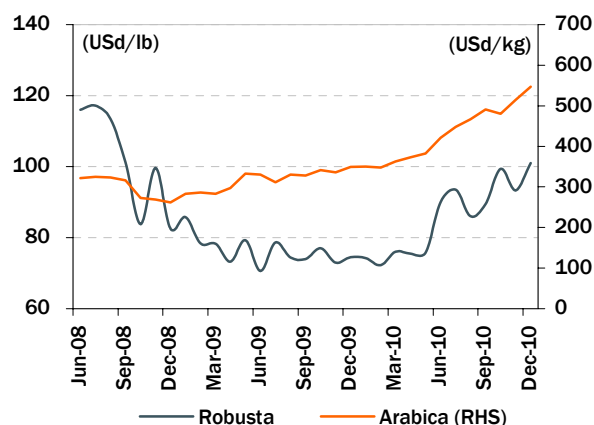
TT Consolidated: EBIT[^] & margin trends

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

Tea price trend

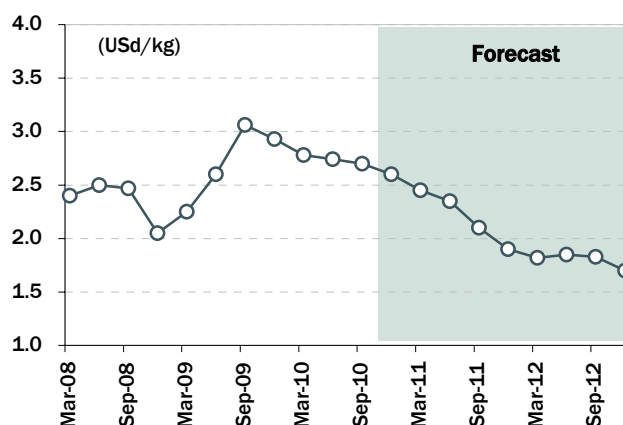


Coffee price trend



Source: CMIE, Bloomberg

Tea prices expected to soften



Source: EIU

Tata Tea (Standalone) *

(Rs mn)	Q3FY11	Q3FY10	Chg YoY
Revenue	4,713	4,474	5%
RM	2,937	2,594	13%
- % of revenue	62.3	58.0	434 bps
Other cost	1,554	1,438	8%
- % of revenue	33.0	32.1	84 bps
EBITDA	222	443	-50%
- % of revenue	4.7	9.9	(518) bps
EBIT (exc. OI)	192.0	410.2	-53%
- % of revenue	4.1	9.2	(509) bps

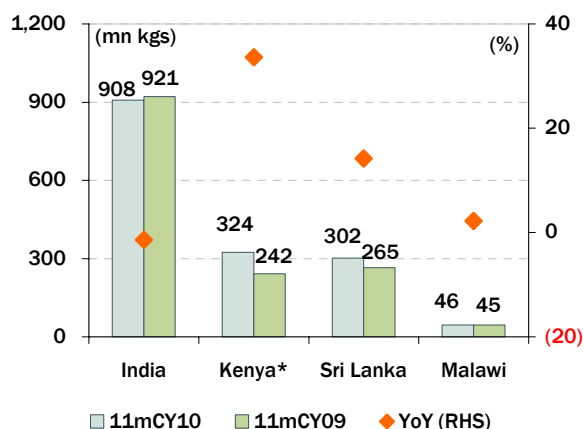
Source: Company, ENAM Research: * Note: TT standalone contributed ~29% of consol revenue and 29% of consolidated EBIT in FY10

Tata Coffee Ltd. (57.5% subsidiary) *

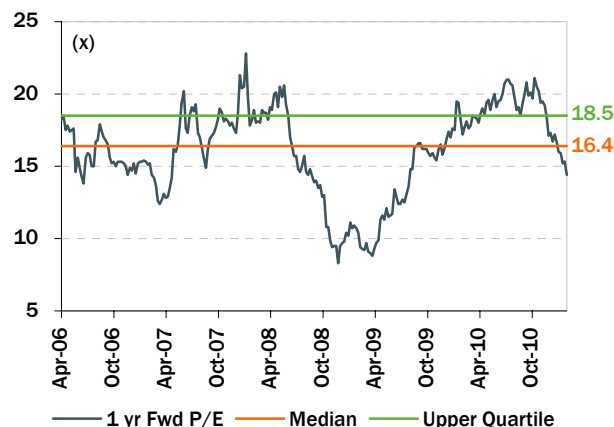
(Rs mn)	Q3FY11	Q3FY10	Chg YoY
Revenue	3,474	3,050	14%
RM	1,076	994	8%
- % of revenue	31.0	32.6	(162) bps
Other cost	1,557	1,506	3%
- % of revenue	44.8	49.4	(456) bps
EBITDA	841	549	53%
- % of revenue	24.2	18.0	618 bps
EBIT (exc. OI)	751.5	454.4	65%
- % of revenue	21.6	14.9	673 bps

Source: Company, ENAM Research * Note: Tata coffee contributed ~22% of consol revenue and ~33% of consolidated EBIT in FY10

Production in Key Black Tea Markets



TT - 1-year forward P/E



Source: ENAM Research, Bloomberg, Indian Tea Association, Vanrees, Media Reports. Note * Kenya production figures are for 10mCY10 & 10mCY09

This document is provided for assistance only and is not intended to be and must not alone be taken as the basis for an investment decision. Nothing in this document should be construed as investment or financial advice, and nothing in this document should be construed as an advice to buy or sell or solicitation to buy or sell the securities of companies referred to in this document. The intent of this document is not in recommendatory nature

Each recipient of this document should make such investigations as it deems necessary to arrive at an independent evaluation of an investment in the securities of companies referred to in this document (including the merits and risks involved), and should consult its own advisors to determine the merits and risks of such an investment. The investment discussed or views expressed may not be suitable for all investors

Enam Securities Private Limited has not independently verified all the information given in this document. Accordingly, no representation or warranty, express or implied, is made as to the accuracy, completeness or fairness of the information and opinions contained in this document

The Disclosures of Interest Statement incorporated in this document is provided solely to enhance the transparency and should not be treated as endorsement of the views expressed in the report. This information is subject to change without any prior notice. The Company reserves the right to make modifications and alternations to this statement as may be required from time to time without any prior approval

Enam securities Private Limited, its affiliates, their directors and the employees may from time to time, effect or have effected an own account transaction in, or deal as principal or agent in or for the securities mentioned in this document. They may perform or seek to perform investment banking or other services for, or solicit investment banking or other business from, any company referred to in this report. Each of these entities functions as a separate, distinct and independent of each other. The recipient should take this into account before interpreting the document

This report has been prepared on the basis of information, which is already available in publicly accessible media or developed through analysis of ENAM Securities Private Limited. The views expressed are those of analyst and the Company may or may not subscribe to all the views expressed therein

This document is being supplied to you solely for your information and may not be reproduced, redistributed or passed on, directly or indirectly, to any other person or published, copied, in whole or in part, for any purpose. Neither this document nor any copy of it may be taken or transmitted into the United State (to U.S. Persons), Canada, or Japan or distributed, directly or indirectly, in the United States or Canada or distributed or redistributed in Japan or to any resident thereof. The distribution of this document in other jurisdictions may be restricted by law, and persons into whose possession this document comes should inform themselves about, and observe, any such restrictions

Neither the Firm, not its directors, employees, agents or representatives shall be liable for any damages whether direct or indirect, incidental, special or consequential including lost revenue or lost profits that may arise from or in connection with the use of the information.

Copyright in this document vests exclusively with ENAM Securities Private Limited.