



Tata Tea

STOCK INFO. BLOOMBERG
BSE SENSEX: 19,784 TT IN
REUTERS CODE
S&P CNX: 5,869 TTTE.BO

30 October 2007

Neutral

Previous Recommendation: Neutral

Rs814

Equity Shares (m) 59.0
52-Week Range 990/558
1,6,12 Rel. Perf. (%) -15/-38/-44
M.Cap. (Rs b) 48.0
M.Cap. (US\$ b) 1.2

YEAR	NET SALES	PAT	EPS	EPS	P/E	P/BV	ROE	ROCE	EV/	EV/
END	(RS M)	(RS M)	(RS)	GROWTH (%)	(X)	(X)	(%)	(%)	SALES	EBITDA
03/07A	40,446	2,985	50.6	2.3	16.1	2.3	14.0	9.9	1.4	7.9
03/08E	40,073	2,874	48.7	-3.7	16.7	1.2	7.0	11.0	1.0	5.3
03/09E	42,932	4,800	81.3	67.0	10.0	1.1	10.6	14.1	0.8	4.2

- Tata Tea's 2QFY08 adjusted PAT at Rs702m is higher than our estimate of Rs530m. Adjusted EBITDA is Rs1.82b (est.Rs1.85b). Higher PAT is due to reduction of interest cost by GBP2m post renegotiation of interest rates.
- Reported PAT at Rs1.09 is significantly higher than our estimate of Rs530m due to higher profit from associates (Rs183m due to land sale in Rallis India) and Rs240m profit from plantations, as the court approval of the de-merger scheme is still awaited.
- Domestic branded tea volumes grew 15% as key brands like Tata Tea Premium, Tata Tea Gold and Agni enabled the company to maintain volume leadership. Tetley reported 2% sales growth for 2QFY08 to Rs5.53b. Operating profit for the quarter stood at Rs486m (Rs326m in 1QFY08) due to phasing out of advertisement expense and lower operational cost. PAT was Rs262m in comparison to Rs187.5m despite currency translation loss of 5%.
- Tata Tea GB completed the sale of its stake in Glaceau for a profit of \$415m. We estimate interest burden will decline to Rs1.1b in FY09 while income from surplus funds will increase to Rs1.9b.
- Low growth Tetley and Eight 'o Clock coffee comprise more than 72% of sales while high growth domestic market accounts for just 20% of the total sales. Moreover, Mount Everest Mineral water will contributing only after a couple of years. We are increasing our FY08 and FY09 EPS estimate from Rs44.9 and Rs78.7 to Rs48.7 and Rs81.3. The stock trades at 8.6x FY09E earnings (based on core earnings of Rs66 per share in FY09, excluding cash per share of Rs250). Although the stock offers value, lack of growth and any fresh triggers limit major upside. Maintain **Neutral**.

QUARTERLY PERFORMANCE

(Rs Million)

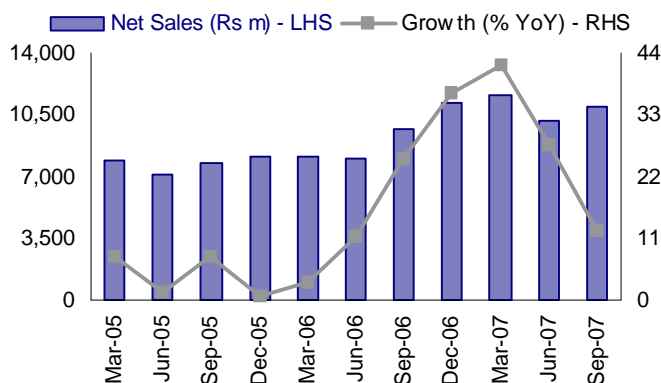
Y/E MARCH	FY07				FY08				FY07	FY08E
	1Q	2Q	3Q	4Q	1Q	2Q	3QE	4QE		
Net Sales	7,989	9,740	11,126	11,591	10,188	10,965	10,200	8,720	40,446	40,073
YoY Change (%)	11.5	25.1	37.1	41.9	27.5	12.6	-8.3	-24.8	30.2	-0.9
Total Exp	6,412	7,938	9,120	9,658	8,523	9,143	8,335	6,767	33,129	32,767
EBITDA	1,577	1,801	2,005	1,933	1,666	1,822	1,865	1,953	7,317	7,306
Margins (%)	19.7	18.5	18.0	16.7	16.4	16.6	18.3	22.4	18.1	18.2
Depreciation	202	258	262	245	258	240	230	192	967	920
Interest	274	472	909	1,074	946	660	450	350	2,729	2,405
Other Income	75	410	68	-296	100	204	105	118	587	526
PBT	1,175	1,482	901	319	562	1,127	1,290	1,529	4,207	4,507
Tax	322	268	393	93	140	373	410	429	1,076	1,352
Rate (%)	27.4	18.1	43.6	29.2	25.0	33.1	31.8	28.0	25.6	30.0
PAT	853	1,214	508	226	421	753	880	1,101	3,131	3,155
YoY Change (%)	32.3	22.1	-36.1	-60.2	-50.6	-38.0	73.1	387.6	19.2	0.8
Minority Interest/ Share of Associate	-34	57	-91	-79	-50	-51	-85	-95	-147	-281
Adjusted PAT	819	1,271	418	146	371	702	795	1,006	2,985	2,874
YoY Change (%)	31.0	23.2	-49.8	-72.8	-54.7	-44.8	90.3	587.1	2.3	-3.7
Extraordinary Gains	-18	-670	754	374	86	390	13,325	1,546	1,449	15,347
Reported PAT	801	602	1,172	520	457	1,092	14,120	2,552	4,434	18,221
YoY Change (%)	-7.3	-40.6	44.2	1.0	-43	81.6	1,105	391	48.2	311.0

E: MOST Estimates

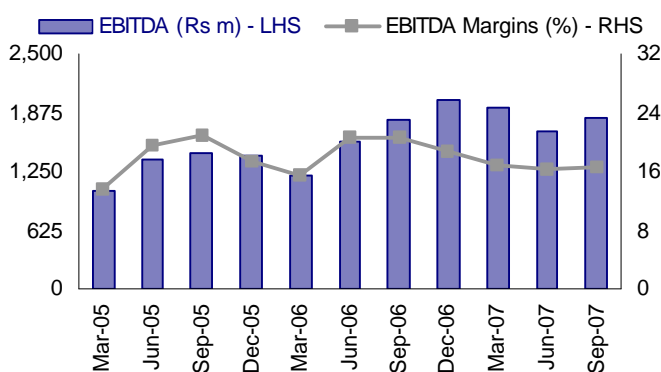
Lower interest burden boosts profits

Tata Tea’s consolidated sales grew 12.6 % to Rs10.9b for 2QFY08. Strong volume growth in the domestic market and impact of Eight o’ Clock coffee acquisition boosted the sales growth. EBIDTA margin expanded 30bp to 18.8%, due to margin expansion in Tetley. Interest burden zoomed to Rs659m, which includes Rs364m interest on Glaceau acquisition. Adjusted PAT declined 39% to Rs702m (excluding exceptional income of Rallis and profit from North India Plantations). On a continuing business basis, adj PAT increased 2.7%.

SALES AND SALES GROWTH



EBITDA TREND



Source: Company/Motilal Oswal Securities

Domestic branded business reports 15% volume growth

Domestic sales reported 16.4% growth for 2QFY08 to Rs3.2b while EBIDTA increased 6.7%. Domestic branded business reported volume and value growth of 15% and 18% respectively. PBT from operations declined 8.7% as interest on loans for acquisitions (Rs130.9m) impacted the

profits. Standalone operations reported 19% decline in adjusted PAT from continuing businesses. This excludes Rs240m profit generated from the plantations business, which is in the process of being de-merged.

Tata Tea maintained volume leadership in the domestic tea market with market share of 20.3% in September; ahead of HUL by 60bp. Agni emerged as the fastest growing tea brand while Tata Tea Premium became the largest tea brand in India. Tata Tea is launching new value added products in Tata Tea Gold to boost volumes. The company has also launched single garden Darjeeling teas which would help accelerate the value growth for the company. Specialty teas launched by Tata Tea are likely to emerge as a meaningful category in another 2-3 years only. Global tea prices continue to be soft due to bumper crop in Kenya. We expect the company to maintain double digit volume growth in domestic branded business.

TATA TEA (STANDALONE) (RS M)

	2QFY08	2QFY07	% CHG.
Sales	3,191	2,740	16
EBIDTA	757	714	6
PBT	843	1,795	-53
PAT	648	1,639	-60
Adjusted PAT	533	655	-19

Source: Company/Motilal Oswal Securities

Tetley – sales promotion impacts margins

Tetley reported 2% topline growth at Rs5.5b for 2QFY08 while the PBT before Glaceau acquisition impact increased by 39% to Rs262m. The company reported strong market share gains across regions as the benefits of advertising campaign done in the last quarter was realized fully. Benefits of price increase in last quarter, favorable phasing of expenses and lower operational costs boosted margins. Lower tea prices globally also helped in boosting the margins.

MARKET SHARE DATA OF TETLEY

COUNTRY	VOLUME SH.	CHG.(%)	VALUE SH.	CHG. (%)
Great Britain	29.0	1.0	26.0	-0.3
Australia	19.0	-1.5	13.4	-0.9
Canada	41.4	1.8	37.3	1.5
France	10.9	0.5	10.3	0.5
USA	7.7	0.2	5.5	-0.1

Source: Company/Motilal Oswal Securities

Integration of various acquired companies in on track. Jemca is beginning to settle down while Good Earth performance is stable. Joekels has provided a sound footprint for an entry into the South African market. Future growth potential is linked to increased geographical presence, specialty and herbal tea space and RTD segment. We expect Tetley to undertake more such acquisitions in the specialty and herbal tea space and new geographies in the coming years, which can boost the long term sales growth.

TETLEY FINANCIALS (RS M)

	2QFY08	2QFY07	% CHANGE
Sales	5,538	5,420	2
EBIT	486	326	49
PAT	262	188	40

Source: Company/Motilal Oswal Securities

Eight O' Clock boosts Tata Coffee's topline

Eight' O Clock reported a topline of Rs1.6b in 2QFY08 while EBIDTA was Rs351m. The company achieved a PAT of 97.4m. Higher topline growth was on account of sales of full three months in the current period. The company achieved low single digit volume growth during the period. Tata Coffee reported 12% increase in sales and 28% decline in EBIDTA due to impact of rupee appreciation and high raw coffee prices. Tata Coffee is experiencing some teething troubles with the recently commissioned freeze dried unit. Stabilization of new facility will be the key factor in improving the performance in the coming quarters.

TATA COFFEE AND EIGHT O CLOCK

	EIGHT O CLOCK		TATA COFFEE	
	2QFY08	1QFY08	2QFY08	1QFY08
Sales	1,597	1,614	807	598
EBIDTA	351	320	89	79.8
PAT before min int.	97.4	60.5	23.2	20.4

Source: Company/Motilal Oswal Securities

Mount Everest Mineral Water – will pay only in long term

Tata Tea is likely to complete acquisition of 46% stake in Mount Everest mineral waters as the open offer is currently on. The dispute regarding non-compete fee being a part of open offer price is pending with SEBI. Mount Everest has

one of the best water quality aquifers on a 99 year lease from the government. Hence the long term revenue and profit potential looks immense. The Rs11b bottled water industry (including packaged water and natural mineral water) in India is growing at 25% per annum and is highly fragmented with 200 brands with a wide spectrum of price value offerings. Tata Tea plans exploit the water quality and brand equity in the Indian as well as the international markets. We believe that creating a viable distribution network and launching new products will take time; the venture is unlikely to contribute meaningfully in the coming 1-2 years.

Glaceau stake sale transaction completed; debt to come down

Tata Tea GB has completed the transaction for sale of its stake in Glaceau for a profit of \$415m. Management doesn't expect any tax liability on the transaction. We expect the company to use the proceeds for partial repayment of debt. We expect Tata Tea to close the current year with cash and cash equivalents of Rs21b and debt of Rs16b. We estimate that interest burden will decline to Rs1.1b in FY09 while income from surplus funds will increase to Rs1.9b.

Outlook

Tetley and Eight 'o Clock coffee comprise more than 72% of sales with sustainable growth potential of sub 5% only due to product segments and heightened competition in mature markets. Although domestic market volumes for Tata Tea are growing in double digits, it accounts for just 20% of the total sales. Moreover, we expect Mount Everest Mineral water to start contributing only after a couple of years. Tetley's performance depends upon the ability of the management to increase the sales proportion of specialty tea (9% currently) segment, which has potential to grow at 15-20%. We are increasing FY08 and FY09 EPS estimates from Rs44.9 and Rs78.7 to Rs48.7 and Rs81.3. The stock trades at 8.6x FY09E earnings (based on core earnings of Rs66 per share in FY09, excluding cash per share of Rs250). Although the stock offers value, lack of growth and any fresh triggers limit major upside. Maintain **Neutral**.

Tata Tea: an investment profile

Company description

Tata Tea is the second largest branded tea player in the country after HLL the Company has recently started the process of getting out of its plantation business to become a pure marketing player. Tata Tea has five major brands in the Indian market – Tata Tea, Tetley, Kanan Devan, Chakra Gold and Gemini. With Tetley, the company has acquired a global presence in tea industry.

Key investment arguments

- ✍ Tata Tea will make substantial capital gains on the sake sale of Glaceau which will be used to repay its debt and make strategic acquisitions.
- ✍ Hiving off the north Indian plantation will result in cost savings and improved margins in the domestic businesses.

Key investment risks

- ✍ Tetley accounts for 2/3rd of Tata Tea's consolidated sales and is mainly present in the Black Tea segment which has been showing flat growth for some time.
- ✍ Tetley's consolidation with Tata Tea has given it a global presence and therefore adverse currency movements would negatively impact Tata Tea.

Recent developments

- ✍ The group has sold its stake in Glaceau for US\$1.2b at a profit of 415 million dollar.
- ✍ Acquired 46% stake in Mount Everest Mineral water company for Rs1.96b
- ✍ Entered into a JV in China for the manufacture polephenols from low grade green teas.

Valuation and view

- ✍ We have an EPS forecasts of Rs48.7 for FY08E and Rs81.3 for FY09E.
- ✍ The stock is trading at 16.7x FY08E EPS and 10x FY09E EPS. We maintain **Neutral**.

Sector view

- ✍ We have a cautious view on the sector on back of inflationary tendency in the economy which is might to impact volumes as well as profit margins of companies.
- ✍ Companies with low competitive pressures and broad product portfolios will be able to better with stand any slowdown in a particular segment.
- ✍ Longer term prospects remain bright, given rising incomes and low penetration.

COMPARATIVE VALUATIONS

		TATA TEA	HILL	NESTLE
P/E (x)	FY08E	16.7	26.9	29.9
	FY09E	10.0	22.3	23.7
EV/EBITDA (x)	FY08E	5.3	23.7	18.1
	FY09E	4.2	20.5	14.5
EV/Sales (x)	FY08E	1.0	3.3	3.7
	FY09E	0.8	2.8	3.1
P/BV (x)	FY08E	1.2	16.5	19.3
	FY09E	1.1	15.4	17.2

SHAREHOLDING PATTERN (%)

	SEP-07	JUN-07	SEP-06
Promoter	35.4	35.4	29.0
Domestic Inst	27.5	27.4	31.7
Foreign	13.0	12.9	12.6
Others	24.0	24.4	26.8

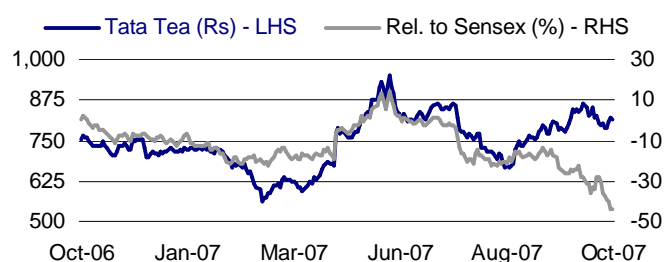
EPS: MOST FORECAST VS CONSENSUS (RS)

	MOST FORECAST	CONSENSUS FORECAST	VIATION (%)
FY08	48.7	53.4	-8.9
FY09	81.3	72.5	12.1

TARGET PRICE AND RECOMMENDATION

CURRENT PRICE (RS)	TARGET PRICE (RS)	UPSIDE (%)	RECO.
814	-	-	Neutral

STOCK PERFORMANCE (1 YEAR)



INCOME STATEMENT						(RS MILLION)				
Y/E MARCH	2005	2006	2007	2008E	2009E					
Net Sales	30,413	31,065	40,446	40,073	42,932					
Change (%)	-0.3	2.1	30.2	-0.9	7.1					
Total Expenditure	-25,196	-25,617	-33,129	-32,767	-34,844					
EBITDA	5,217	5,448	7,317	7,306	8,088					
Change (%)	2.7	4.4	34.3	-0.1	10.7					
Margin (%)	17.2	17.5	18.1	18.2	18.8					
Depreciation	-779	-758	-967	-920	-1,040					
Int. and Fin. Charges	-1,228	-1,024	-2,729	-2,405	-1,087					
Other Income - Recurring	354	446	587	526	1,900					
PBT	3,565	4,111	4,207	4,507	7,861					
Change (%)	19.5	15.3	2.3	7.1	74.4					
Margin (%)	11.7	13.2	10.4	11.2	18.3					
Tax	-1,008	-1,179	-997	-1,352	-2,358					
Deferred Tax	69	0	-79	0	0					
Tax Rate (%)	-26.3	-28.7	-25.6	-30.0	-30.0					
Share of Profit/ MI	-62.3	-13.9	-146.6	-281.1	-702.5					
PAT	2,564	2,919	2,985	2,874	4,800					
Change (%)	26.8	13.8	2.3	-3.7	67.0					
Margin (%)	8.4	9.4	7.4	7.2	11.2					
Non-rec. (Exp)/Income	-410	73	1,449	15,347	0					
Reported PAT	2,155	2,991	4,434	18,221	4,800					

BALANCE SHEET						(RS MILLION)				
Y/E MARCH	2005	2006	2007	2008E	2009E					
Share Capital	560	560	590	618	618					
Reserves	14,627	15,134	20,726	40,407	44,512					
Net Worth	15,188	15,694	21,317	41,025	45,130					
Minority Interest	978	1,028	4,404	4,902	6,164					
Loans	16,324	16,985	44,000	17,022	12,168					
Capital Employed	32,489	33,706	69,721	62,949	63,461					
Gross Block	32,851	32,303	38,303	36,803	37,803					
Less: Accum. Depn.	-6,063	-5,785	-8,514	-10,919	-12,007					
Net Fixed Assets	26,788	26,518	29,789	25,884	25,796					
Intangibles			4,351	5,000	5,000					
Capital WIP	238	373	0	0	0					
Investments	3,299	5,834	31,496	26,207	26,207					
Curr. Assets, L&A	9,546	9,802	14,684	16,567	17,770					
Inventory	4,378	4,241	5,521	6,838	7,326					
Account Receivables	2,981	3,523	4,334	4,999	5,355					
Cash and Bank Balance	642	221	2,536	2,098	2,066					
Others	1,545	1,817	2,293	2,632	3,023					
Curr. Liab. and Prov.	7,295	8,784	10,464	10,475	10,980					
Current Liabilities	6,092	7,418	8,721	8,846	9,118					
Provisions	1,202	1,366	1,743	1,629	1,862					
Net Current Assets	2,251	1,018	4,221	6,092	6,790					
Miscellaneous Expenditure	538	493	395	296	197					
Deferred Tax Liability	-624	-530	-530	-530	-530					
Application of Funds	32,489	33,706	69,721	62,949	63,461					

E: Most Estimates

RATIOS					
Y/E MARCH	2005	2006	2007	2008E	2009E
Basic (Rs)					
EPS	43.4	49.4	50.6	48.7	81.3
Cash EPS	59.7	65.6	66.9	61.4	94.4
BV/Share	271.1	280.1	361.1	663.4	729.8
DPS	10.0	12.0	15.0	10.0	10.0
Payout %	23.0	24.4	29.7	20.5	12.3
Valuation (x)					
P/E		16.5	16.1	16.7	10.0
Cash P/E		12.4	12.2	13.3	8.6
EV/Sales		18	14	10	0.8
EV/EBITDA		10.4	7.9	5.3	4.2
P/BV		2.9	2.3	12	1.1
Dividend Yield (%)		15	18	12	12
Return Ratios (%)					
RoE	16.9	18.6	14.0	7.0	10.6
RoCE	14.8	15.2	9.9	11.0	14.1
Working Capital Ratios					
Debtor (Days)	36	41	39	46	46
Asset Turnover (x)	0.9	0.9	0.6	0.6	0.7
Leverage Ratio					
Debt/Equity (x)	1.1	1.1	2.1	0.4	0.3

CASH FLOW STATEMENT						(RS MILLION)				
Y/E MARCH	2005	2006	2007	2008E	2009E					
OP/(loss) before Tax	4,439	4,690	6,350	6,386	7,049					
Int./Div. Received	354	446	587	526	1,900					
Depreciation and Amort.	779	758	967	920	1,040					
Interest Paid	-1,228	-1,024	-2,729	-2,405	-1,087					
Direct Taxes Paid	-1,008	-1,179	-997	-1,352	-2,358					
(Incr)/Decr in WC	-196	812	-888	-2,310	-730					
CF from Operations	3,140	4,503	3,289	1,766	5,813					
Extraordinary Items	-410	73	1,449	15,347	0					
(Incr)/Decr in FA	-1,048	413	-9,978	851	-1,000					
(Pur)/Sale of Investments	-309	-2,535	-25,662	5,288	0					
CF from Invest.	-1,766	-2,050	-34,191	21,486	-1,000					
Issue of Shares	0	0	2,185	2,183	0					
(Incr)/Decr in Debt	-1,649	661	-27,015	26,978	4,854					
Dividend Paid	-560	-675	-885	-618	-618					
Others	-3,213	-1,539	4,901	1,723	628					
CF from Fin. Activity	-2,125	-2,875	33,216	-23,690	-4,844					
Incr/Decr of Cash	-751	-421	2,315	-438	-32					
Add: Opening Balance	1,393	642	221	2,536	2,098					
Closing Balance	642	221	2,536	2,098	2,066					



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Tata Tea

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|---|----|
| 1. Analyst ownership of the stock | No |
| 2. Group/Directors ownership of the stock | No |
| 3. Broking relationship with company covered | No |
| 4. Investment Banking relationship with company covered | No |

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