

Tata Global Beverages India (TATTEA)

₹ 141

WHAT'S CHANGED...

PRICE TARGET	Unchanged
EPS (Adjusted) (FY14E)	Changed from ₹ 7.4 to ₹ 7.2
EPS (Adjusted) (FY15E)	Unchanged
RATING	Unchanged

Higher ad spends mar margins...

Tata Global Beverages (TGBL) reported modest revenue growth of 8.6% YoY to ₹ 2080.7 crore (I-direct estimate: ₹ 2173.6 crore) led by 13.9% growth in the standalone business and 8% growth in consolidated revenues. Standalone business growth remained strong led by TGBL maintaining its leadership in the domestic tea market (19.4% volume share and ~22% value share). Consolidated revenue growth was hit by lower coffee revenues led by falling coffee prices. TGBL's overall margins during the quarter remained lower at 9.4% (10.6% in Q3FY13) led by ~290 bps increase in marketing spends to 19.5%. The higher marketing spends during the quarter was in-line with the firm's plans to invest in its brands (especially in the overseas markets) to rev up its overseas revenue growth and market share. Going ahead, we believe there could be near term concerns in the company's overseas revenue growth and margins, with the declining tea market in Europe and slower than expected growth in US coffee business. However, led by the strong portfolio of brands and increasing contribution from Starbucks JV's performance, we expect the revenue and PAT (adjusted) CAGR to remain healthy at 9.2% and 16.2%, respectively. We maintain our BUY rating on TGBL.

India business shines; Europe remains a concern

TGBL continued to maintain its strong market position in the domestic market reporting healthy growth of 13.9% along with margin improvement of 170 bps YoY to 12.5%. However, the Europe tea business remains a concern for TGBL following Europe's declining black tea market (-5% YoY) and increasing competition in the budding green tea market (Tetley is No. 2 player with Twinings being the leader).

Expect profitability growth to remain strong; maintain BUY

Though there are near term concerns for TGBL, we believe the company's strong brand strength in tea across geographies and strong performance from joint ventures (Starbucks and Nourish Co.) would continue to keep profitability growth strong at 16.2% CAGR in FY13-5E. We value the stock on SOTP basis arriving at a target price of ₹ 182.

Exhibit 1: Financial Performance

(₹ Crore)	Q3FY14	Q3FY14E	Q3FY13	Q2FY14	QoQ (Chg %)	YoY (Chg %)
Total Operating Income	2080.7	2173.6	1915.6	1933.5	7.6	8.6
EBITDA	196.3	249.8	203.2	157.9	24.3	-3.4
EBITDA Margin (%)	9.4	11.5	10.6	8.2	127 bps	-118 bps
Depreciation	32.2	31.6	24.6	31.5	2.2	30.8
Interest	27.8	19.3	23.8	18.1	53.3	16.6
Other Income	15.0	17.2	17.2	32.3	-53.7	-13.2
Reported PAT	119.6	123.0	104.4	180.0	-33.6	14.5
EPS (₹)	1.9	2.0	1.7	2.9	-33.6	14.5

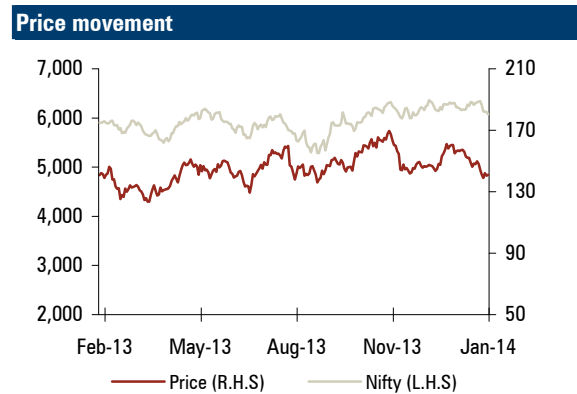
Source: Company, ICICIdirect.com Research

Rating matrix	
Rating	: Buy
Target	: ₹ 182
Target Period	: 12-15 months
Potential Upside	: 29%

Key Financials				
₹ Crore	FY12	FY13	FY14E	FY15E
Net Sales	6,640	7,351.0	7,793.6	8,763.2
EBITDA	623.1	768.5	792.6	954.5
Adjusted PAT	339.2	393.7	443.7	531.8
EPS (Adjusted) (₹)	5.5	6.4	7.2	8.6

Valuation summary				
	FY12	FY13	FY14E	FY15E
P/E (x)	24.5	23.4	16.9	16.4
Target P/E	29.1	27.8	20.0	19.5
Mkt Cap/Sales (x)	1.3	1.2	1.1	1.0
Div. Yield (%)	1.5	1.5	1.5	1.5
RoNW (%)	7.8	7.7	10.0	9.6
RoCE (%)	8.3	10.5	9.5	11.0

Stock data	
Market Capitalization	₹ 8719.4 Crore
Total Debt (FY13)	₹ 672.7 Crore
Cash and Investments (FY13)	₹ 693 Crore
EV	₹ 8699.1 Crore
52 week H/L	168 / 124
Equity capital	₹ 61.8 Crore
Face value	₹ 1
MF Holding (%)	18.5
FII Holding (%)	17.9



Analyst's name	
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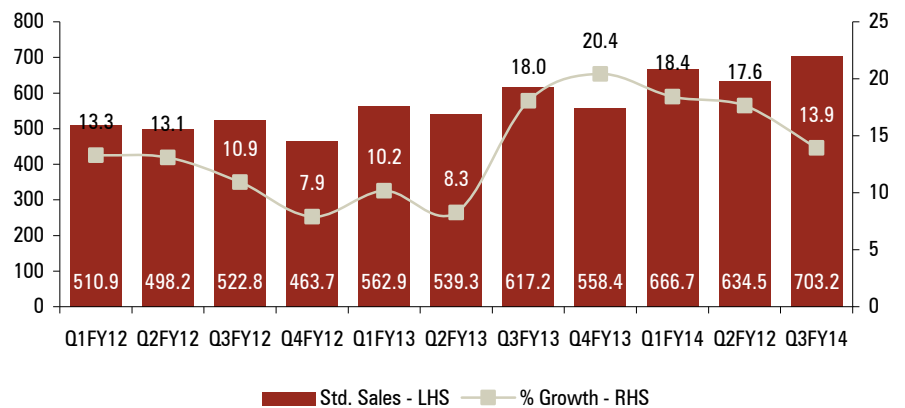
Exhibit 2: Assumption Sheet

Particulars	FY12	FY13	FY14E	FY15E	FY16E
Standalone Sales (₹ crore)	1995.6	2277.8	2646.3	2992.9	3340.3
Growth (%)	11.3	14.1	16.2	13.1	11.6
Subsidiary Sales (₹ crore)	4555.5	4954.5	5056.4	5644.2	6099.1
Growth (%)	8.7	8.8	2.1	11.6	8.1
Segmental Revenue break up (₹ crore)					
Tea	4766.8	5289.9	5694.2	6116.5	6593.8
Coffee	1706.4	1857.4	2003.1	2547.1	2863.4
Others	79.5	86.0	76.8	44.9	53.6
No. of Starbucks stores	-	11.0	40.0	70.0	100.0

Source: Company, ICICIdirect.com Research

Exhibit 3: Standalone sales (₹ crore) and sales growth (%) – Quarterly

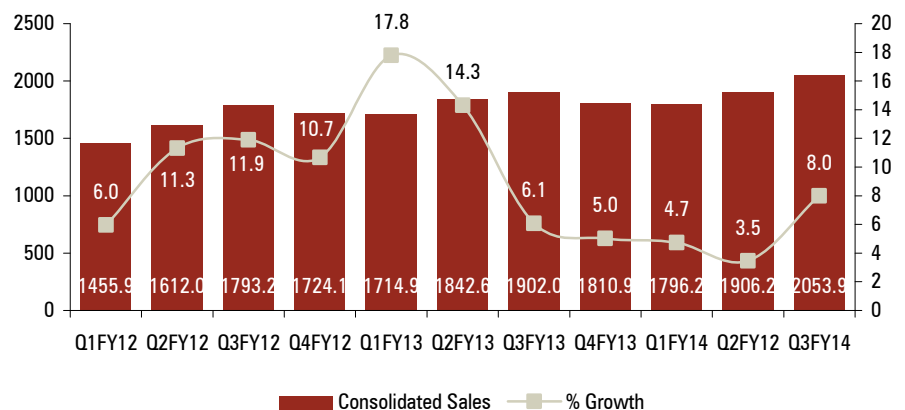
Though the standalone revenue growth was slightly lower than our expectation, we believe the 13.9% growth continues to remain healthy as it was largely volume led even in a slowing demand scenario



Source: Company, ICICIdirect.com Research

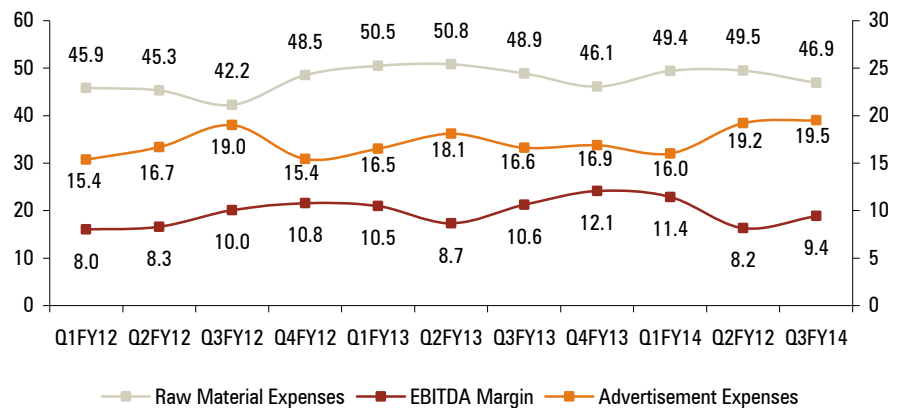
Exhibit 4: Consolidated sales (₹ crore) and sales growth (%) – Quarterly

With consolidated sales remaining subdued for the past four quarters, TGBL's concerted efforts to invest in its brands (especially overseas) has started showing results with growth gaining traction to 8% YoY in Q3FY14



Source: Company, ICICIdirect.com Research

Exhibit 5: EBITDA, raw materials and advertisement expenses to sales ratio (%)

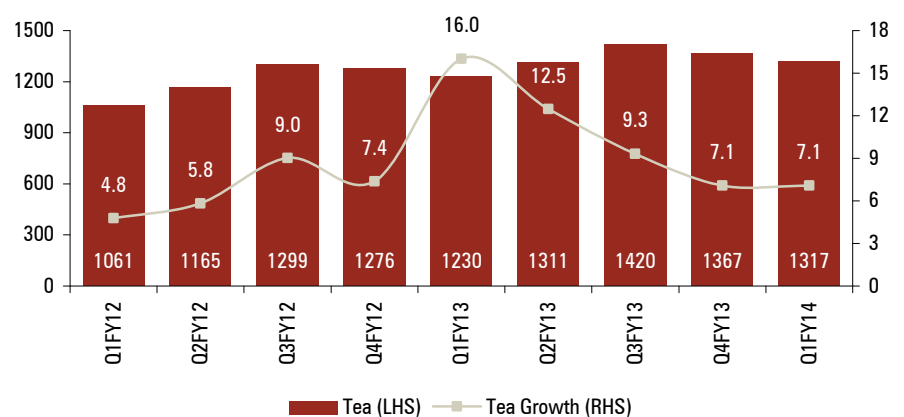


Source: Company, ICICIdirect.com Research

Tea revenues remain strong

Tea revenue growth for the company has remained subdued since H2FY13 largely led by the slowdown in the European tea market (black tea market in Europe is de-growing ~5%). TGBL's initiatives to invest in its brands and increase innovation across key geographies, launch of the new marketing campaign for Tata Tea in India (Power of 49), Tetley's Tassimo discs in the US & Canada, Tetley's new pyramid range in Australia, Tetley's new black and green tea launch in US, re-launch of Good Earth in 14 new blends in US, national launch of Tetley Gold in Pakistan & Canada, Teapigs launched in Canada, new promotional offers launched in the UK, since Q2FY14 have started to yield results. Though higher investments and new launches have impacted margins from the business in near term, we believe that, going ahead, the efforts would yield profitable results aided by the strength in TGBL's brands across geographies.

Exhibit 6: Consolidated tea revenues (₹ crore) and growth YoY (%)

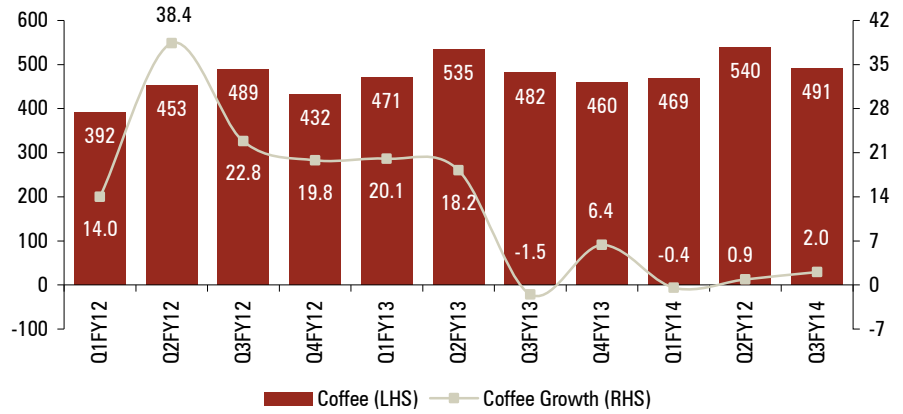


Source: Company, ICICIdirect.com Research

Declining coffee prices plays spoilsport

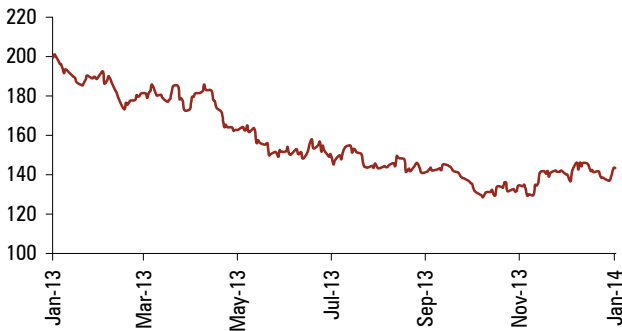
TGBL's coffee business comprises plantation revenues, branded business revenues (Eight O' Clock and Grand) and contribution from Starbucks revenues. Currently, ~80% of revenues are contributed by Tata Coffee [plantation revenues and Eight O' Clock (EOC) revenues]. With coffee prices declining ~30% (Arabica) and ~20% (Robusta) YoY, we believe realisations of the plantation business have been impacted, thereby keeping coffee revenue growth lower at ~2% in Q3FY14.

Exhibit 7: Consolidated coffee revenues (₹ crore) and growth YoY (%)



Source: Company, ICICIdirect.com Research

Exhibit 8: Arabica coffee prices (US\$/60 kg)



Source: Company, ICICIdirect.com Research

Exhibit 9: Robusta coffee prices (US\$/tonne)



Source: Company, ICICIdirect.com Research

Reviving growth across geographies

Led by TGBL's concerted efforts to invest in its brands across geographies, revenue growth across geographies has started showing strength. Though the CAA region posted subdued growth during the quarter, it was largely led by the impact in EOC's revenues due to the declining grounded coffee market in the US and increasing contribution of pods in the US coffee market. We believe that with TGBL's established partnership with Keurig (K-cups) for the pods business for its EOC brand, revenue growth would revive, going ahead.

Exhibit 10: Region wise income from operations

Particulars	Q3FY14	Q3FY13	Variance
Canada, America & Australia (CAA)	511	532	-3.9
Europe, Middle East & Africa (EMEA)	664	597	11.2
South Asia Brands	700	600	16.7
Total Branded Operations	1875	1729	8.4
Total Non- Branded Operations	172	169	1.8
Others & Eliminations	33	12	175.0
Total	2080	1910	8.9

Source: Company, ICICIdirect.com Research

Outlook & Valuation

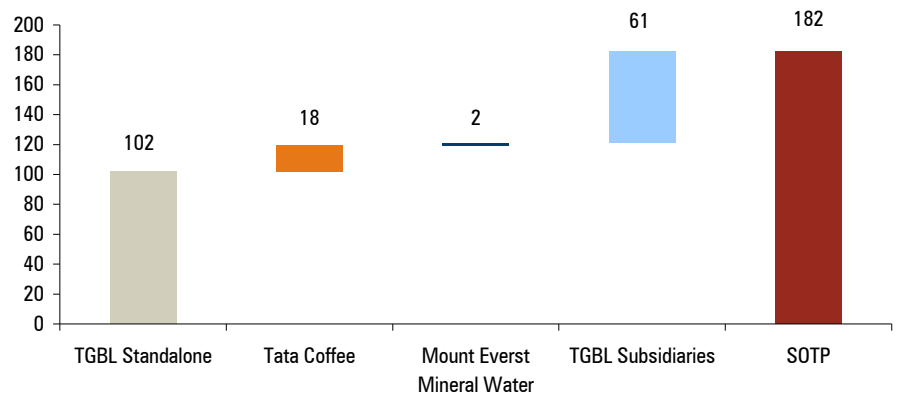
TGBL has been facing high competitive pressure in its US coffee business and tea business in Europe. Further, the slowing demand for beverages in respective economies is also a key near term concern for the company. However, given the company's strong efforts to drive revenues and grow market share across geographies, we believe revenue and profitability growth across economies would revive, albeit a little slowly. Further, we believe the declining coffee prices during the year has restricted the company's revenues from the coffee plantation business.

Going ahead, we estimate the tea revenue growth will remain healthy at 7.5% CAGR FY13-15E led by 14.6% CAGR (FY13-15E) in domestic tea revenues. We expect coffee revenue growth at 15.7% CAGR (FY13-15E) led by higher contribution for Starbucks revenues and improving sales of EOC.

We remain extremely positive on the company's JV with Starbucks and Pepsi Co. We estimate TGBL will open ~70 Starbucks stores across India by FY15E and thereby increasing its contribution to revenues. Though we believe the JV would not contribute positively to the earnings until FY16E, we believe it has strong earnings growth potential post that.

We have valued the stock on an SOTP basis. We value the standalone business at ₹ 102 (2x market cap to sales), Tata Coffee at ₹ 18 (6x EV/EBITDA), Mount Everest Mineral Water at ₹ 2 (25% discount to current market cap) and overseas subsidiaries at ₹ 61 (1x market cap to sales), arriving at a target price of ₹ 182/share. We maintain **BUY**.

Exhibit 11: SOTP valuation



Source: Company, ICICIdirect.com Research

Financial Performance

Exhibit 12: Profit & Loss Account

	(₹ Crore)			
(Year-end March)	FY12	FY13	FY14E	FY15E
Total Operating Income	6,640.0	7,351.0	7,793.6	8,763.2
Growth (%)	10.6	10.7	6.0	12.4
Raw Material Expenses	3,321.3	3,567.0	3,724.2	4,351.7
Employee Expenses	681.3	740.1	782.6	876.7
Marketing Expenses	1,217.9	1,387.1	1,395.4	1,468.3
Administrative Expenses	293.0	304.9	219.8	410.3
Other expenses	503.4	583.4	879.0	701.8
Total Operating Expenditure	6,017.0	6,582.5	7,000.9	7,808.7
EBITDA	623.1	768.5	792.6	954.5
Growth (%)	2.1	23.3	3.1	20.4
Depreciation	96.1	105.1	124.1	136.3
Interest	70.4	84.4	91.2	89.8
Other Income	94.5	86.0	82.8	88.4
PBT	551.1	665.0	660.2	816.8
Exceptional items	22.5	-28.2	100.5	0.0
Total Tax	141.7	164.1	203.1	245.0
PAT	356.2	372.8	517.4	531.8
Growth (%)	40.0	4.7	38.8	2.8
EPS (₹)	5.8	6.0	8.4	8.6

Source: Company, ICICIdirect.com Research

Exhibit 14: Balance Sheet

	(₹ Crore)			
(Year-end March)	FY12	FY13	FY14E	FY15E
Liabilities				
Equity Capital	61.8	61.8	61.8	61.8
Reserve and Surplus	4,503.9	4,748.3	5,108.1	5,482.4
Total Shareholders funds	4,565.8	4,810.2	5,170.0	5,544.2
Long Term Borrowings	739.3	672.7	997.7	997.7
Long Term Provisions	174.0	203.2	203.2	203.2
Other Non-current Liabilities	1287.4	960.3	998.0	1035.7
Total Liabilities	6,766.5	6,646.3	7,368.8	7,780.8
Assets				
Gross Block	5,233.9	5,508.1	5,858.1	6,058.1
Less: Acc Depreciation	988.0	1,069.0	1,193.1	1,329.4
Net Block	4,246.0	4,439.1	4,665.0	4,728.7
Capital WIP	49.2	90.7	150.2	100.2
Non Current Investments	473.5	576.0	626.0	676.0
LT Loans & Advances/Others	121.6	83.6	77.0	86.4
Current Assets				
Inventory	1,160.7	1,382.9	1,405.5	1,585.4
Debtors	651.8	712.9	755.5	851.9
Cash	731.6	693.0	766.0	895.3
Loans & Advances	827.4	794.3	733.3	822.3
Other Current Assets	17.1	21.3	23.1	25.9
Current Liabilities				
Creditors	805.2	803.4	844.1	899.2
Provisions	263.6	310.0	295.4	314.7
Short Term Borrowings	148.9	344.1	385.1	431.9
Other CL	294.6	690.2	308.1	345.5
Net Current Assets	1,876.3	1,456.9	1,850.6	2,189.5
Total Assets	6,766.5	6,646.3	7,368.8	7,780.8

Source: Company, ICICIdirect.com Research

Exhibit 13: Cash Flow Statement

	(₹ Crore)			
(Year-end March)	FY12	FY13	FY14E	FY15E
Profit/Loss after Tax	356.2	372.8	517.4	531.8
Add: Depreciation	96.1	105.1	124.1	136.3
Add: Interest	70.4	84.4	91.2	89.8
(Inc)/dec in Current Assets	-267.7	-254.5	-5.9	-368.1
Inc/(dec) in Current Liabilities	-148.1	635.3	-314.8	158.4
CF from operating activities	106.9	943.1	411.9	548.2
(Inc)/dec in Investments	6.4	-102.5	-50.0	-50.0
(Inc)/dec in Fixed Assets	-588.7	-339.7	-409.5	-150.0
Others	11.0	-260.0	44.3	28.4
CF from investing activities	-571.3	-702.2	-415.1	-171.6
Issue/(Buy back) of Equity	0.1	0.0	0.0	0.0
Inc/(dec) in loan funds	16.5	-66.6	325.0	0.0
Dividend paid & dividend tax	-157.0	-157.5	-157.6	-157.6
Inc/(dec) in Sec. premium	339.0	-55.3	-91.2	-89.8
Others	0.0	0.0	0.0	0.0
CF from financing activities	198.6	-279.5	76.2	-247.3
Net Cash flow	-265.7	-38.6	73.0	129.3
Opening Cash	997.3	731.6	693.0	766.0
Closing Cash	731.6	693.0	766.0	895.3

Source: Company, ICICIdirect.com Research

Exhibit 15: Ratio Analysis

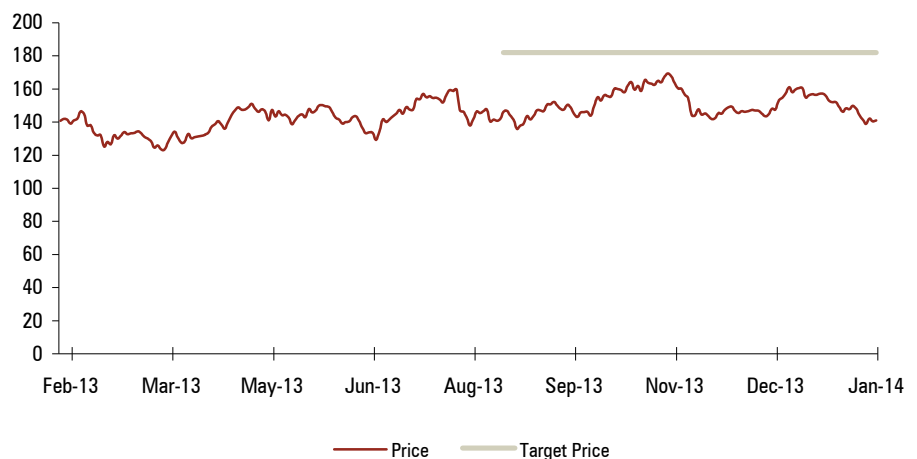
(Year-end March)	FY12	FY13	FY14E	FY15E
Per share data (₹)				
EPS	5.8	6.0	8.4	8.6
Cash EPS	7.3	7.7	10.4	10.8
BV	73.8	77.8	83.6	89.7
DPS	2.1	2.1	2.2	2.2
Cash Per Share	11.8	11.2	12.4	14.5
Operating Ratios (%)				
EBITDA Margin	9.4	10.5	10.2	10.9
PBT / Net Sales	8.8	8.8	9.9	9.5
PAT Margin	5.4	5.2	6.7	6.2
Inventory days	64.7	135.2	110.0	105.0
Debtor days	36.3	36.0	35.8	36.0
Creditor days	44.9	40.5	40.0	38.0
Return Ratios (%)				
RoE	7.8	7.7	10.0	9.6
RoCE	8.3	10.5	9.5	11.0
RoIC	8.9	11.3	10.2	12.0
Valuation Ratios (x)				
P/E	24.5	23.4	16.9	16.4
EV / EBITDA	14.0	11.3	11.3	9.2
EV / Net Sales	1.3	1.2	1.2	1.0
Market Cap / Sales	1.3	1.2	1.1	1.0
Price to Book Value	1.9	1.8	1.7	1.6
Solvency Ratios				
Debt/EBITDA	1.2	0.9	1.3	1.0
Debt / Equity	0.2	0.1	0.2	0.2
Current Ratio	2.2	1.7	2.0	2.1
Quick Ratio	1.5	1.0	1.2	1.3

Source: Company, ICICIdirect.com Research

Company Description

Tata Global Beverages (TGBL), formerly known as Tata Tea, was established in 1983. The company is the market leader in the domestic branded tea market (FY13) and a dominating player in the branded tea and coffee in the markets of UK, US and Canada. TGBL entered the branded tea business in 1991 and has grown over the years through acquisitions and joint ventures. Till date, the largest acquisition for the company has been the European tea brand Tetley in 2000 for \$450 million. The other major acquisitions by TGBL include tea company Good Earth in the US (2005), Eight O' Clock (EOC) coffee brand in the US (2006) and coffee brand Grand in Russia (2009). Apart from tea and coffee, the company has expanded its beverage offerings to the mineral water business by investing in Mount Everest Mineral Water Company (2007) that owns the Himalayan brand. With the diversification in the product basket of Tata Tea, the company changed its name to Tata Global Beverages in 2010 with the aim of establishing itself as a global beverage company from a branded tea marketing company. In November, 2010, TGBL entered into a 50:50 joint venture with PepsiCo Ltd to develop, manufacture, sell and distribute hydration beverages under the JV, NourishCo Beverages. Further, in 2012, TGBL entered into a 50:50 JV with Starbucks Coffee International Inc, US to set up Starbucks coffee stores in India.

Exhibit 16: Recommendation History



Source: Company, ICICIdirect.com Research

Exhibit 17: Recent Releases

Date	Event	CMP	Target Price	Rating
13-Aug-13	Initiating Coverage	148	182	BUY

Source: Company, ICICIdirect.com Research

ICICIdirect.com Universe (FMCG)

Sector / Company	CMP		Rating	M Cap (₹ Cr)	EPS (₹)			P/E (x)			EV/EBITDA (x)			RoCE (%)			RoE (%)		
	(₹)	TP(₹)			FY13	FY14E	FY15E	FY13	FY14E	FY15E	FY13	FY14E	FY15E	FY13	FY14E	FY15E	FY13	FY14E	FY15E
Colgate (COLPAL)	1,300	1,365	Hold	17,679	36.5	39.3	44.6	35.6	33.1	29.2	26.3	27.2	20.4	125.2	99.3	125.6	101.5	90.8	97.1
Dabur India (DABIND)	172	180	Hold	29,978	4.4	5.2	6.5	39.1	32.8	26.6	39.1	32.8	26.6	39.3	41.2	44.0	39.9	38.7	39.3
Hindustan Unilever (HINLEV)	570	590	Hold	123,263	17.6	17.8	18.0	32.5	32.1	31.7	30.4	27.0	23.9	140.9	116.5	111.8	142.0	106.0	91.6
ITC Limited (ITC)	325	387	Buy	257,400	9.3	11.3	12.8	34.8	28.8	25.4	23.9	19.7	17.6	43.7	46.2	46.2	33.3	34.9	35.1
Jyothy Lab (JYOLAB)	217	175	Hold	3,928	1.1	5.4	8.6	203.7	40.4	25.3	33.2	21.6	18.1	10.0	10.3	11.2	3.0	11.0	15.8
Marico (MARIN)	214	262	Buy	13,799	6.1	8.0	9.7	34.9	26.8	22.0	23.2	19.2	14.9	29.8	29.0	32.8	25.3	22.5	23.7
Nestle (NESIND)	5,047	5,100	Hold	48,661	110.7	121.0	140.1	45.6	41.7	36.0	26.6	24.1	20.7	55.5	56.2	68.7	59.4	51.1	51.5
Tata Global Bev (TATTEA)	141	182	Buy	8,719	6.0	8.4	8.6	23.4	16.9	16.4	11.3	11.3	9.2	10.5	9.5	11.0	7.7	10.0	9.6
VST Industries (VSTIND)	1,602	2,021	Buy	2,473	81.8	91.2	118.4	19.6	17.6	13.5	13.5	11.3	8.6	52.0	61.2	73.7	41.6	45.6	54.0

Source: Company, ICICIdirect.com Research

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Strong Buy: > 15%/20% for large caps/midcaps, respectively, with high conviction;

Buy: > 10%/15% for large caps/midcaps, respectively;

Hold: Up to +/-10%;

Sell: -10% or more;



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