

30 May 2013

Tata Global Beverages

Jolly good show; Buy

Rating: **Buy**

Target Price: ₹168

Share Price: ₹143

Key takeaways

Growth momentum sustained. In FY13 Tata Global Beverages (TGB) reported creditable, 11%, growth in consolidated revenues to ₹73.5bn, in line with our estimates. This was largely driven by volume and value growth in India, where the company's domestic revenues rose 14% yoy. We estimate that crucial price hikes effected across international markets in its tea portfolio (largely Tetley) helped it register 9% growth in international revenue. Additionally, its coffee operations via its subsidiary Tata Coffee (TC), also did exceedingly well, reporting a 10% jump in revenue.

In tough operating environment EBIDTA margin up. The consolidated OPM rose 110bps yoy to 10.5% following the strong performance in India as well as an encouraging performance in international markets such as Australia. At ₹7.7bn, EBIDTA jumped 23% yoy in FY13, due to stringent cost control and tight inventory management. However, PAT was constrained at ₹3.7bn, (up 5% yoy) on account of higher short-term borrowing costs and an exceptional expense for restructuring international operations. Adjusted PAT stood at ₹4bn, a 20% yoy growth.

Our take. Across all parameters results paralleled our estimates. We are heartened by the value growth following price hikes in the tea portfolio, as well as stabilised coffee operations after last year's untoward correction in prices of Arabica. Despite the backdrop of a recessionary environment in mature international markets, we believe the company will successfully effect growth through strategic price increases and volume push while simultaneously extracting efficiencies from its operational set-up.

We maintain our FY14e and FY15e estimates as well as our price target of ₹168, which represents a 17% upside from the ruling price. **Risk:** Inability to manage raw material prices and SG&A expenses.

Key data	TGBL IN / TAACL.BO
52-week high / low	₹182 / ₹102
Sensex / Nifty	20148 / 6104
3-m average volume	US\$6.5m
Market cap	₹88bn / US\$1.6bn
Shares outstanding	618m

Shareholding pattern (%)	Mar-13	Dec-12	Sep-12
Promoters	35.2	35.2	35.2
- of which, Pledged	18.7	18.7	18.7
Free Float	64.8	64.8	64.8
- Foreign Institutions	17.7	19.1	16.5
- Domestic Institutions	18.5	19.2	23.2
- Public	28.6	26.5	25.1

Financials (YE Mar)	FY14e	FY15e
Sales (₹m)	79,188	84,076
Net profit (₹m)	4,711	5,528
EPS (₹)	7.6	8.9
Growth (%)	26.4	17.3
PE (x)	18.8	16.0
PBV (x)	1.7	1.6
RoE (%)	9.2	10.0
RoCE (%)	12.2	12.7
Dividend yield (%)	1.5	1.5
Net gearing (%)	3.5	(2.2)

Source: Anand Rathi Research

Quarterly results (YE Mar)	4QFY13	4QFY12	% yoy	FY12	FY13	% yoy
Sales (₹m)	18,495	17,341	6.7	66,312	73,510	10.9
EBITDA (₹m)	2,233	1,872	19.3	6,231	7,685	23.3
EBITDA margin (%)	12.1	10.8	128bps	9.4	10.5	106bps
Interest (₹m)	285	143	99.7	704	844	20.0
Depreciation (₹m)	305	252	20.7	961	1,051	9.3
Other income (₹m)	160	189	(15.3)	945	860	(9.0)
PBT (₹m)	1,809	1,271	42.3	5,511	6,650	20.7
Tax (₹m)	278	290	(3.8)	1,417	1,641	15.8
Tax rate (%)	15.4	22.8	-739bps	25.7	24.7	-104bps
PAT (₹m)	958	542	76.6	3,562	3,728	4.6

Source: Company

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Quick Glance – Financials and Valuations

Fig 1 – Income statement (₹m)

Year-end: Mar	FY11	FY12	FY13	FY14e	FY15e
Net sales	59,824	66,312	73,510	79,188	84,076
Sales growth (%)	3.4	10.8	10.9	7.7	6.2
- Op. expenses	53,965	60,081	65,825	70,283	74,305
EBIDTA	5,859	6,231	7,685	8,904	9,770
EBITDA margins (%)	9.8	9.4	10.5	11.2	11.6
- Interest	531	704	844	759	744
- Depreciation	996	961	1,051	1,105	1,222
+ Other income	516	945	860	850	1,000
- Tax	2,025	1,417	1,641	2,033	2,268
Income tax rate	41.8	25.7	24.7	25.8	25.8
PAT	2,824	4,094	5,009	5,857	6,536
Extraordinary items	95	225	-282	0	0
Minority Interest	580	607	723	796	707
Profit from Ass. Co.s	202	-151	-277	-350	-300
Adjusted PAT	2,542	3,562	3,728	4,711	5,528
FDEPS (₹/ share)	4.1	5.8	6.0	7.6	8.9

Source: Company, Anand Rathi Research

Fig 2 – Balance sheet (₹m)

Year-end: Mar	FY11	FY12	FY13	FY14e	FY15e
Share capital	617	618	618	618	618
Reserves & surplus	38,954	45,039	47,483	50,602	54,538
Shareholders' fund	39,571	45,657	48,101	51,220	55,156
Minority interests	11,081	10,659	8,139	8,935	9,643
Debt	10,415	10,714	10,168	10,068	9,768
Deferred Tax Liab (net)	637	657	540	540	540
Capital employed	61,704	67,688	66,948	70,763	75,107
Net Fixed Assets	37,978	42,928	45,250	45,185	44,963
Investments	5,865	5,665	5,760	7,260	8,760
Net working capital	7,888	11,733	8,961	10,029	10,420
Cash	9,973	7,362	6,977	8,288	10,963
Misc Exp (not w/o)	-	-	-	-	-
Capital deployed	61,704	67,688	66,948	70,763	75,107
Net debt	442	3,352	3,191	1,780	(1,195)
WC days	13	41	24	27	27
BV (₹/share)	64.1	73.8	77.8	82.8	89.2

Source: Company, Anand Rathi Research

Fig 3 – Cash-flow statement (₹m)

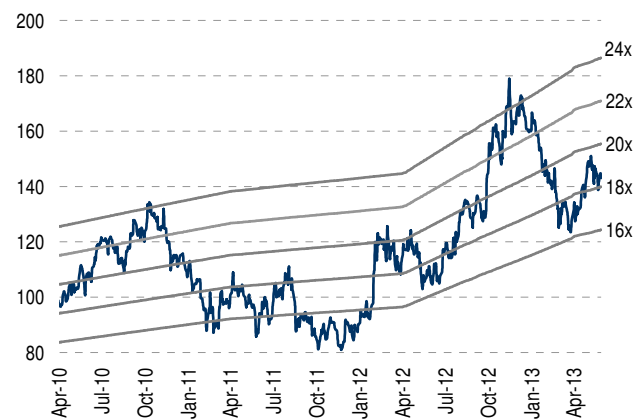
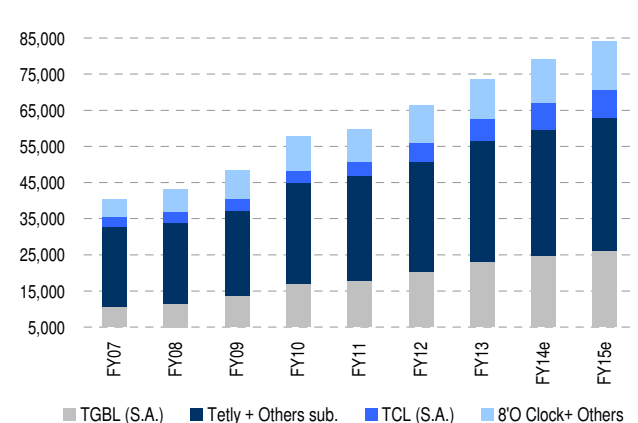
Year-end: Mar	FY11	FY12	FY13e	FY14e	FY15e
Consolidated PAT	2,542	3,562	4,451	5,507	5,207
+ Non-cash items	1,106	941	1,169	1,105	1,222
Cash profit	3,648	4,503	5,619	6,612	7,458
- Incr./ (Decr.) in WC	2,542	3,845	(2,772)	1,068	391
Operating cash-flow	1,106	658	8,391	5,544	7,067
- Capex	2,030	5,911	3,373	1,040	1,000
Free cash-flow	(924)	(5,253)	5,018	4,504	6,067
- Dividend	1,447	1,556	1,592	1,592	1,592
+ Equity raised	0	0	0	0	0
+ Debt raised	(7,553)	299	(545)	(100)	(300)
- Investments	674	(200)	95	1,500	1,500
- Misc. items	(1,533)	(3,698)	3,170	0	0
Net cash-flow	(9,065)	(2,612)	(385)	1,312	2,675
+ Op. Cash & bank bal.	19,038	9,973	7,361	6,977	8,288
Cl. Cash & bank bal.	9,973	7,361	6,976	8,288	10,963

Source: Company, Anand Rathi Research

Fig 4 – Ratio analysis @ ₹143

Year-end: Mar	FY11	FY12	FY13	FY14e	FY15e
P / E	34.8	24.8	23.7	18.8	16.0
P / BV	2.2	1.9	1.8	1.7	1.6
EV / Sales	1.5	1.4	1.2	1.1	1.0
EV / EBIDTA	13.8	12.6	10.7	9.1	7.8
RoAE (%)	6.2	7.3	8.3	9.2	10.0
RoACE (%)	8.7	9.2	11.2	12.2	12.7
CEPS (₹/ share)	6	7	8	9	11
DEPS (₹/ share)	2.0	2.1	2.2	2.2	2.2
Net Debt/Equity (%)	1.1	7.3	6.6	3.5	(2.2)
Dividend yield (%)	1.4	1.5	1.5	1.5	1.5
Dividend payout (%)	56.9	43.7	42.7	33.8	28.8
Net profit growth (%)	-10.3	48.0	9.4	23.9	11.6
RM / Sales (%)	42.1	50.1	48.5	47.5	47.4
Volume growth (%)	2.1	3.8	4.4	2.1	1.5
Realisation growth (%)	3.2	7.5	9.1	4.2	4.0

Source: Company, Anand Rathi Research

Fig 5 – Valuation chart (PE Band)

Fig 6 – Consolidated revenue break-up trend


Source: Company, Anand Rathi Research

Result highlights

Fig 7 – Actuals v/s Estimates

₹m)	4QFY13			FY13		
	Actual	Estimates	Var (%)	Actual	Estimates	Var (%)
Sales	18,495	19,654	-6%	73,510	74,668	-2%
EBIDTA	2,233	2,086	7%	7,685	7,538	2%
PAT	958	1,039	-8%	3,728	3,633	3%

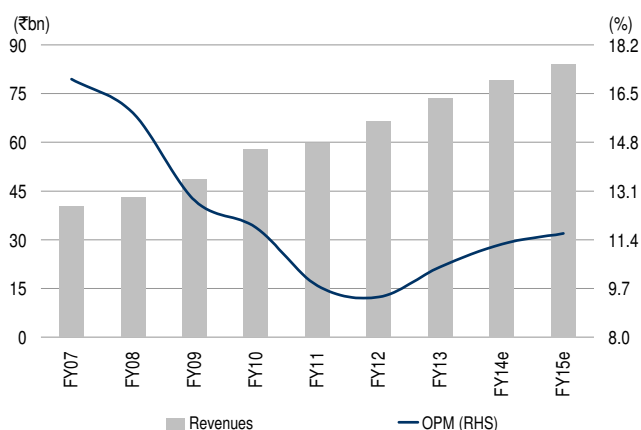
Source: Company, Anand Rathi Research

Fig 8 – Segment-wise results

Net Revenues	4QFY13	4QFY12	% Change	FY13	FY12	% Change
Tea	13,666	12,782	6.9	53,280	48,081	10.8
Coffee & Other Produce	4,595	4,344	5.8	19,466	17,663	10.2
Others	233	259	(10.0)	760	654	16.2
Unallocated	1	1	(33.3)	4	2	127.8
Total Revenues of Comp.	18,495	17,386	6.4	73,510	66,400	10.7
Segment PBIT						
Tea	1,783	1,656	7.7	5,443	5,065	7.5
Coffee & Other Produce	714	515	38.6	2,892	1,961	47.5
Others	(46)	(59)	(21.1)	(256)	(192)	33.2
Total PBIT of Comp.	2,451	2,112	16.1	8,079	6,834	18.2
Less : Interest:	285	143	99.7	844	704	20.0
Other Un-Allocable Exp	357	698	(48.9)	867	394	119.9
Total PBT of Comp.	1,809	1,271	42.3	6,368	5,736	11.0
PBIT Margin (%)						
Tea	13.0	13.0	-	10.2	10.5	-
Coffee & Other Produce	15.5	11.9	-	14.9	11.1	-
Total PBIT Margin of Comp.	13.3	12.1	-	11.0	10.3	-

Source: Company, Anand Rathi Research

Fig 9 – Consolidated revenue and OPM trend



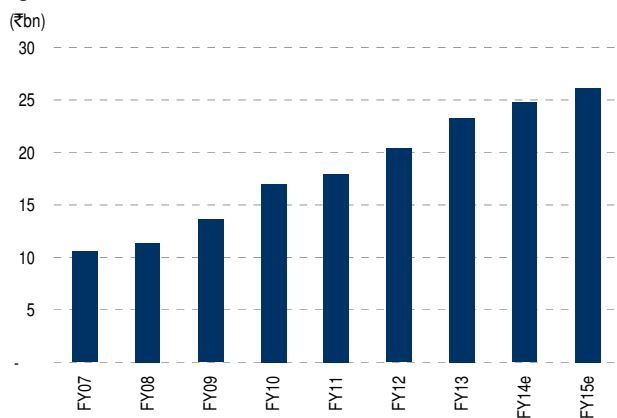
Source: Company, Anand Rathi Research

Tea operations

- TGB effected price hikes in its tea portfolio across most areas. Only operations in south Asia registered volume growth; the other regions delivered revenue growth that followed from price hikes. The company managed to arrest the decline in volumes in mature markets because of higher sales of specialty and value-added exotic teas.

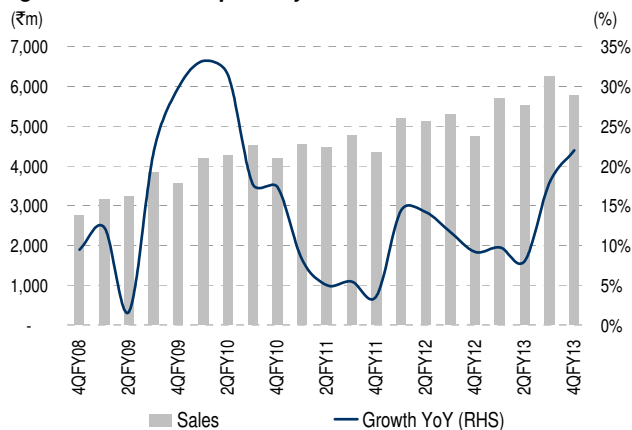
- The company retained its market leadership in India and Canada; in tea, Tetley maintained its No.2 position in the U.K..
- The management has acknowledged that it would not shy away from hiking prices to protect margins in the light of firming tea prices, since volume growth would be elusive beyond a point.

Fig 10 – Standalone annual revenue trend



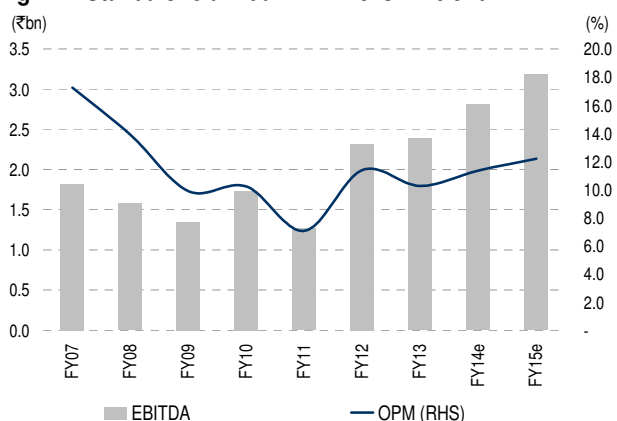
Source: Company, Anand Rathi Research

Fig 11 – Standalone quarterly revenue trend



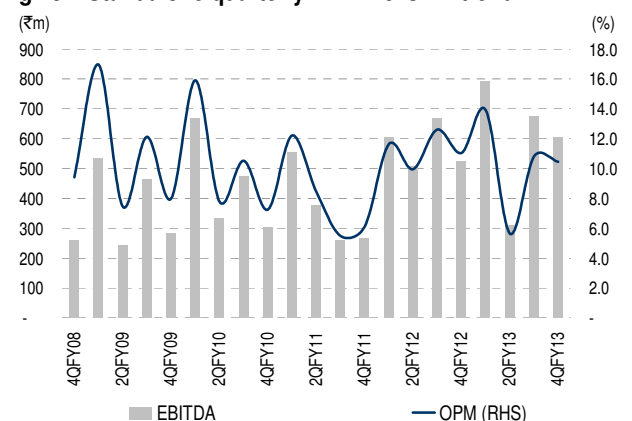
Source: Company, Anand Rathi Research

Fig 12 – Standalone annual EBITD & OPM trend



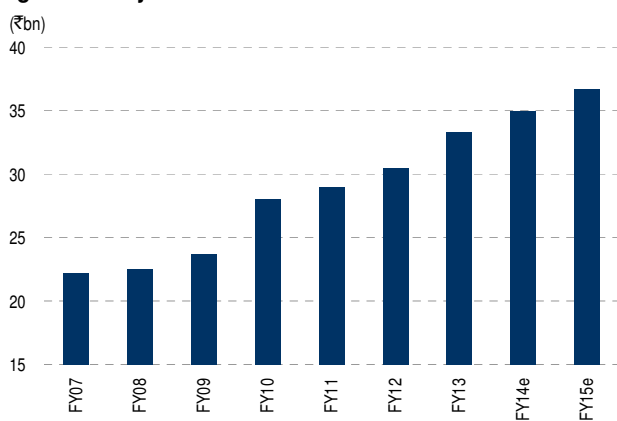
Source: Company, Anand Rathi Research

Fig 13 – Standalone quarterly EBITD & OPM trend



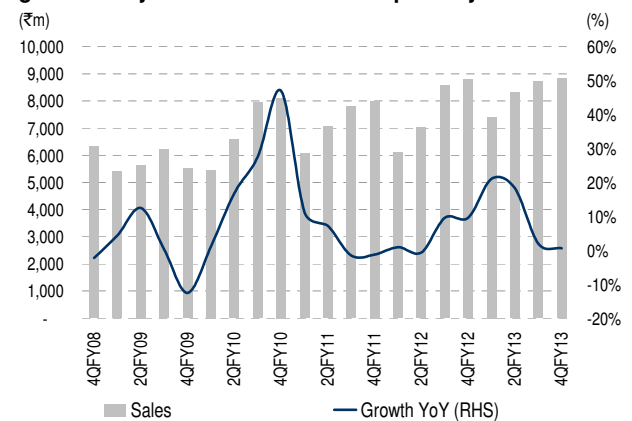
Source: Company, Anand Rathi Research

Fig 14 – Tetley & other subsidiaries - annual revenue trend



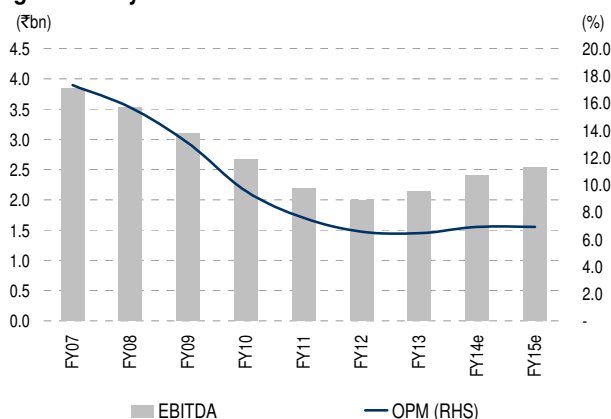
Source: Company, Anand Rathi Research

Fig 15 – Tetley & other subsidiaries - quarterly revenue trend



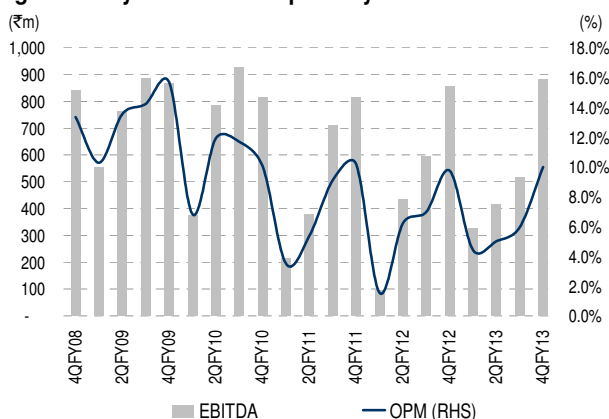
Source: Company, Anand Rathi Research

Fig 16 – Tetly & other sub - annual EBITDA & OPM trend



Source: Company, Anand Rathi Research

Fig 17 – Tetly & other sub - quarterly EBITDA & OPM trend

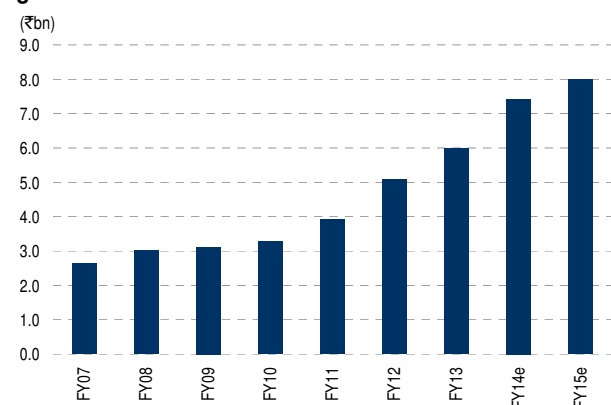


Source: Company, Anand Rathi Research

Coffee operations

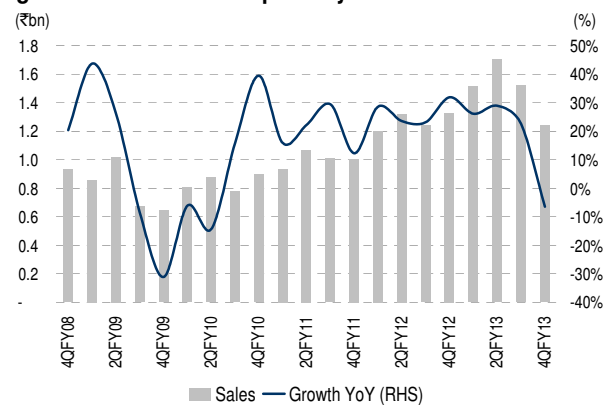
- With stable Arabica and Robusta prices, sales of its coffee products picking up and the cost of its inventory rationalised, profitability of operations picked up in FY13.
- TGB has entered a partnership with Green Mountain Coffee Roasters to distribute its products in the single-shot-coffee format under the Keurig brand. According to the management, this is a US\$300m market growing at high double digits.

Fig 18 – TC - standalone annual revenue trend



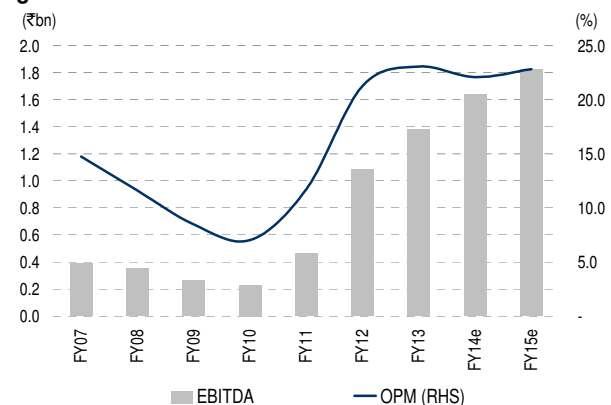
Source: Company, Anand Rathi Research

Fig 19 – TC - standalone quarterly revenue trend



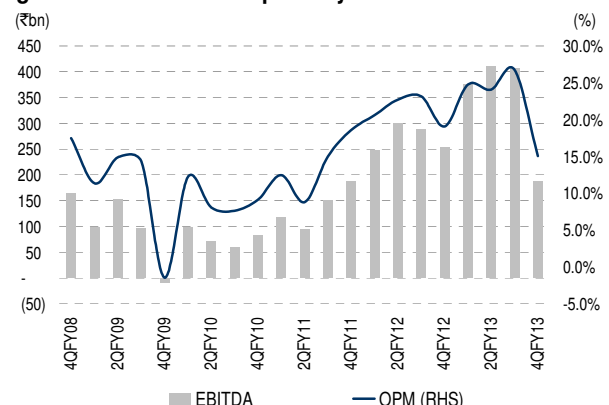
Source: Company, Anand Rathi Research

Fig 20 – TC - standalone annual EBITDA & OPM trend



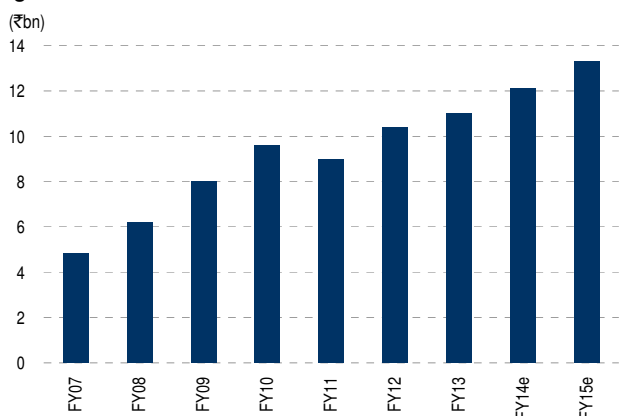
Source: Company, Anand Rathi Research

Fig 21 – TC - standalone quarterly EBITDA & OPM trend



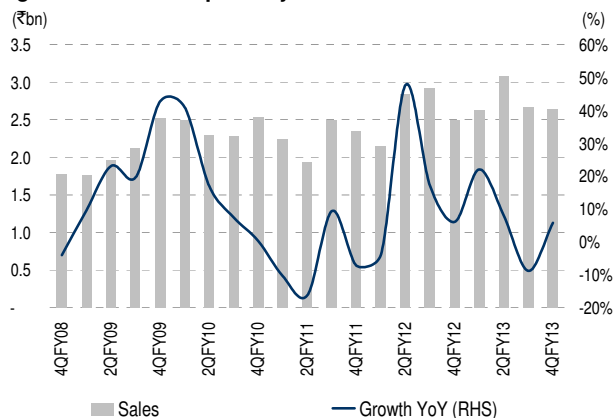
Source: Company, Anand Rathi Research

Fig 22– 8 o'clock - annual revenue trend



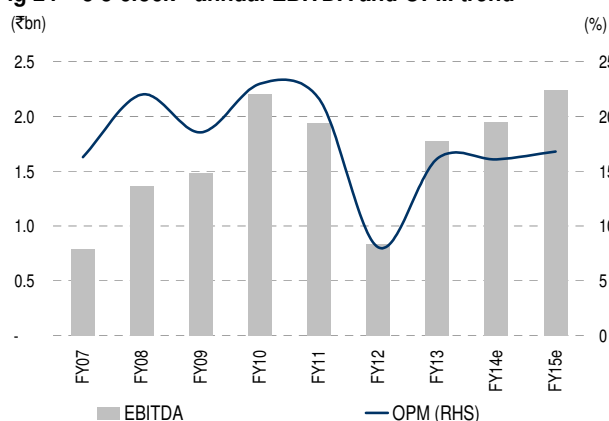
Source: Company, Anand Rathi Research

Fig 23 – 8 o'clock - quarterly revenue trend



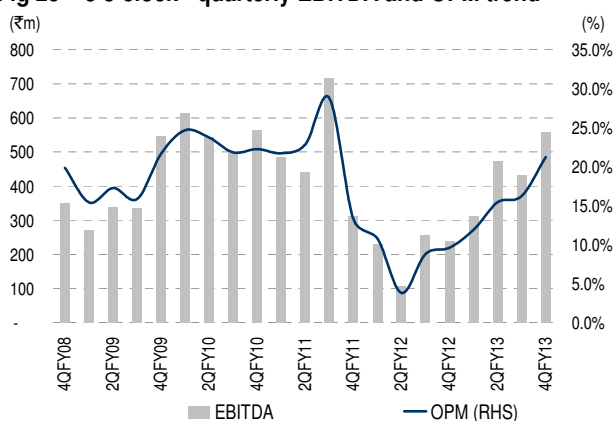
Source: Company, Anand Rathi Research

Fig 24 – 8 o'clock - annual EBITDA and OPM trend



Source: Company, Anand Rathi Research

Fig 25 – 8 o'clock - quarterly EBITDA and OPM trend



Source: Company, Anand Rathi Research

Nourishco J.V.

- The management spoke of two products, Tata Water Plus and Tata Gluco Plus, currently being distributed through the joint venture.
- Tata Water Plus is electrolyte/zinc fortified water available in a 200ml pouch at ~₹3 SKU and a 1,000ml PET bottle at ₹20 SKU. Tata Gluco Plus is glucose-fortified water, available in orange, lemon and mango flavours (200ml hot-sealed plastic cup at ~₹8 SKU).
- Both products are being distributed in Tamil Nadu and Hyderabad city, due to low costs of test marketing and the suitable economic profile of end-customers.
- Plans are afoot to expand operations in the JV over the next 36 months. This would include product launches and a foray into new areas. However, the management has deferred forward-looking queries on the JV regarding specific timelines and requisite investments.
- While we are positive concerning the prospects of this JV and the scale that it could achieve in its rollout, we have not factored in any impact into our calculations and maintain that this investment be treated as option value.

Starbucks JV

- The JV has ramped up operations to 13 outlets in India: seven in Mumbai and six in Delhi. The management announced that almost all its stores were profitable at the store level.
- TGB also clarified that the JV sourced a significant portion of its coffee requirement from TC and most of its tea from TGB. However, the management deferred all comments on the financial performance or impending capex of the JV.

Fig 26 – Geographical revenue break-up

Particulars (₹bn)	4QFY13	4QFY12	% Change	FY13	FY12	% Change
South-Asia Brands	5.34	4.44	20	21.76	18.87	15
EMEA:						
GB & Africa	4.34	4.29	1	16.06	14.68	9
Europe & Middle East	1.83	1.91	-4	7.37	7.63	-3
Total EMEA	6.17	6.20	0	23.43	22.31	5
CAA:						
USA	3.63	3.35	8	14.53	13.52	7
Canada, South America & Australia	1.35	1.56	-13	5.58	4.99	12
Total CAA	4.98	4.91	1	20.11	18.51	9
Other Beverages	0.20	0.10	100	0.55	0.29	90
Total Brands	16.69	15.65	7	65.85	59.98	10
Total Non-Branded Operations	1.48	1.59	-7	6.80	5.83	17
Other and Eliminations	0.33	0.17	94	0.86	0.59	46
Total Operating Income	18.50	17.41	6	73.51	66.40	11

Source: Company, Anand Rathi Research

Valuations

- TGB has adequately demonstrated its ability to negotiate spiralling raw material prices by judiciously hiking prices periodically in most areas where it operates. The focus on maintaining operational profitability through cost-saving measures and better monetization of its ad-spend add a degree of comfort to our ambitious estimates.
- What is most heartening is the management's determination to increase revenues without sacrificing margins. Judicious price interventions, product innovations and prudent cost controls are proof of this intent. Ahead, we believe that the company would follow a two-pronged strategy of improving profitability in mature markets through product innovation while striving for volume growth in countries in South Asia and the Middle East.
- New business initiatives such as its foray into energy and health drinks, its Nourishco, Starbucks JV, and its tie-up with Keurig have the makings of emerging as building blocks for the next growth phase, with each having the potential to emerge as a ₹4bn business segment in a few years. These would not only alter its revenue composition but also improve margins and capital return ratios.

We maintain our FY13e and FY14e estimates of revenue, EBIDTA and PAT, with the contention that there exists the option value of investments such as Nourishco and the JV with Starbucks.

The scalability potential of operations, better margins and ratios support valuations. While there is a possibility that the company would always be viewed as a menagerie of multiple products and listed subsidiaries, its valuations would be aligned with domestic FMCG players, with some reference to global beverage players. At the CMP of ₹143, the stock trades at a P/E of 18.8x and P/BV of 1.7x, discounting its FY14e earnings. We therefore maintain our Buy recommendation on it, with an unchanged price objective of ₹168.

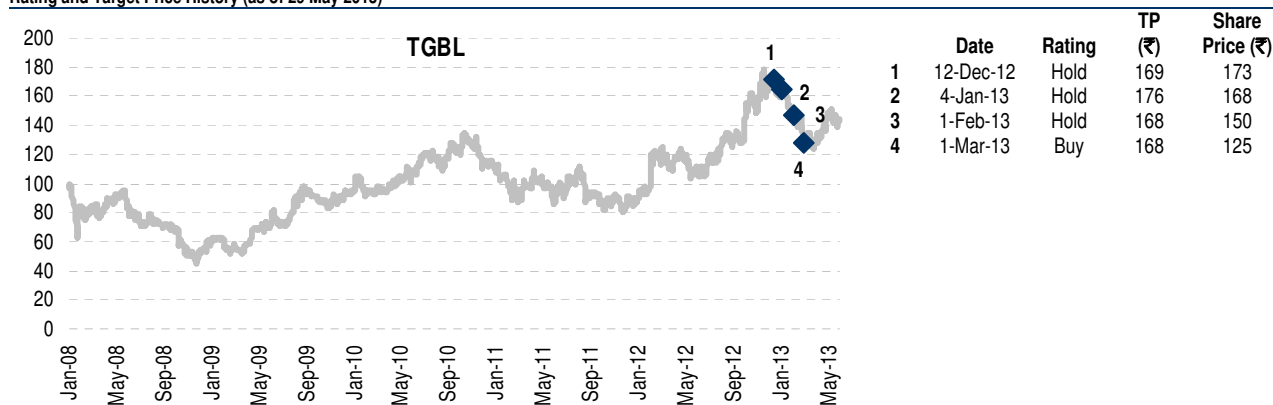
Appendix

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	Buy	Hold	Sell
Large Caps (>US\$1bn)	>15%	5-15%	<5%
Mid/Small Caps (<US\$1bn)	>25%	5-25%	<5%

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	Buy	Hold	Sell
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% who are investment banking clients	4%	2%	0%

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