

For Your Better Tomorrow



# Tata Global Beverages Ltd

"The individual investor should act consistently as an investor and not as a speculator." - Ben Graham.

Date – 19<sup>th</sup> April, 2018

Transforming from Tea to FMCG



**TATA TEA**  
**Yeh Fruski kya hai?**  
Naa Fizzy. Naa Pulp.  
Only 50 Calories.\*

Thoda Green tea  
Thoda herbs\*  
Poora Taste

**35%** **12%**

**500 ml**

Also available on: [bigbasket](#) [amazon](#) [pantry](#) [omni](#)

**Tetley**  
SINCE 1837

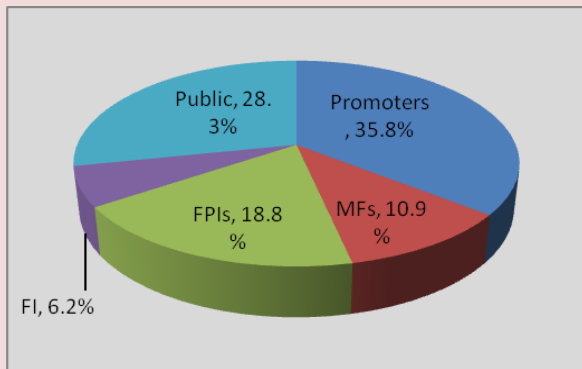
**5X** MORE  
ANTIOXIDANTS  
THAN AN APPLE



# Tata Global Beverages Ltd

<b>BSE Code : 500800</b>	
<b>NSE Code : TATAGLOBAL</b>	
<b>Rating : Buy</b>	
<b>CMP</b>	<b>286</b>
<b>Target Price</b>	<b>355</b>
<b>Face Value</b>	<b>1</b>
<b>Market Cap</b>	<b>17672 cr</b>
<b>Equity Shares</b>	<b>61 cr</b>
<b>52 Week H</b>	<b>329 (15/01/2018)</b>
<b>52 Week L</b>	<b>141 (24/05/2017)</b>
<b>PER (TTM)</b>	<b>33.7</b>

## Shareholding Pattern



## Prominent Shareholders

Unit Trust of India	1.54%
First State Invst	1.91%
Govt Pension Fund	2.05%
LIC	3.96%
Baron EM Fund	2.09%
Mirae Asset	2.10%
HDFC Trustee	1.52%
Aditya Birla Sun Life	1.17%

## Management

<b>N Chandrasekaran</b>	<b>Chairman</b>
<b>L Krishnakumar</b>	<b>Director</b>
<b>Ajoy Misra</b>	<b>MD</b>
<b>John Jacob</b>	<b>CFO</b>

## Company Profile

Tata Global Beverages Limited (formerly Tata Tea Limited) is an Indian multinational non-alcoholic beverages company headquartered in Kolkata, West Bengal, India and a subsidiary of the Tata Group. It is the world's second-largest manufacturer and distributor of tea and a major producer of coffee.

In 2012, Tata Global Beverages ventured into the Indian cafe market in a 50/50 joint venture with Starbucks Coffee Company. The coffee shops branded as "Starbucks Coffee - A Tata Alliance" source coffee beans from Tata Coffee, a subsidiary company of Tata Global Beverages.

An important step for Tata Tea was the acquisition of the Tetley Group (based in the United Kingdom) in 2000. It was a £271 million (\$432 million) leveraged buyout.

## Brand Portfolio

### Tea Brands

Tetley	Jemca	Joekel
Tata Tea	Teapigs	
Vitax	Good Earth	



# Tata Global Beverages Ltd

## Coffee Brands

## Health Drinks Brands

Eight O Clock	Tata Water Plus
Tata Coffee Grand	Himalayan
Map	Tata Gluco

### Power Brands of TGB

- Tata Tea
- Himalayan
- Tetley
- Eight 'O' Clock

## Business Structure

### South Asia

Contributes 40% of the TGB Revenue

### EMEA (Europe, Middle East and Africa)

Contributes 23% of the TGB Revenue

### CAA (Canada, America and Australia)

Contributes 23% of the TGB Revenue

**Others:** Non-Branded, JVs. Also Incubatory Business

TGB is restructuring its business, aiming to bring all FMCG products under one roof.

Focusing on India and Introducing new product and reducing dependence on pure Tea commodity play.

Taking more and more brands abroad.

Focusing on Incubatory business and helping it to achieve scale.

Exiting low margin non-branded business.



# Tata Global Beverages Ltd

## South Asia

South Asia contributes 40% of the Revenue. Most of the Revenue comes from India.

### Brands:

Tata Tea (National and Regional)

Tetley (Black and Green, specially Tea Bag)

### Distribution Network

Strong distribution network with presence in 2 mn retail outlet.

### Growth Strategy

- + Category growth, conversion and scope for premiumisation.
- + Innovative product launches :Tea - Maharashtra Blend, Fusion, Tata Tea Elaichi, Teaveda and Tetley Super Green Tea
- + Fruski, a tea based ready to drink beverage.
- + Pilot for tea retail stores, 'Tata Cha'.

## EMEA (Europe, Middle East and Africa)

Contributes to approximately 23 % of the total TGB Revenue. UK is the largest Market in this region.

### Brands

Tetley, Teapigs (UK), Lager (South Africa) and Grand (both tea and coffee in Russia)

### Growth Strategy

Teapigs, premium teas in a growth trajectory – CAGR over 6 years is 26%.

Russian business restructure completed. Royalty agreement as brand will still be owned by TGB.

## CAA (Canada, America and Australia)

Contributes to approximately 23 % of the total TGB Revenue. US is the dominant revenue contributor within the region.

### Brands

EOC coffee (USA), Tetley, Teapigs, Goodearth (USA) and MAP (Australia).

### Market Characteristic

Intense competitive intensity and retailer pressure, especially in US.

Focus on effective promotions to drive efficiency.



# Tata Global Beverages Ltd

## Non- Branded Operation (Tata Coffee)

TGB has 57.48% stake in Tata Coffee Limited (TCL)

### Plantation

It has a total cultivated area of 25226 acres

### Market

Around 90-95% exported - Major markets are Russia, CIS, SE Asia, West Africa, Japan and Far East

### Coffee Extraction Business

Two plants with a total capacity of 8400 TPA.

## Non- Branded Operation (Tea Plantation)

Company has Minority Interest in Tea Plantation in North/South India and SriLanka.

**North India** – Amalgamated Plantation Pvt Ltd with area of 24500 hectares.

**South India** – Kanan Devan Hills Plantation with area of 22000 Hectares.

**SriLanka** – Watawala- Largest Tea producers in SriLanka. Total Area 12400 Hectares.

## Incubatory Business for Future Growth

### Nourishco

50:50 JV company formed between Tata Global Beverages and PepsiCo.

#### Product Characteristics

Marketing and distribution of products in the area of non-carbonated ready-to-drink beverages focus on health and wellness.

#### Products

Himalayan, Tata Water Plus and Tata Gluco plus in India.

#### Growth

In the year 2016-17, the Company registered a top-line growth of 29% over the previous year.



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## Tata Starbucks

50:50 JV company formed between Tata Global Beverages and Starbucks Coffee International Inc which owns and operates Starbucks café in India.

### Number of Stores

115 stores opened till Mar 2018 in India.

### Growth

In the year 2016-17, the Company registered a top-line growth of 14% over the previous year. - Growth led by good in-store performance and expansion in no of stores.

## New Product Launches Last Year

- Tetley RTD (Ready to Drink) in Canada.
- Fruski (Tea based RTD) in India.
- Tata Cha, retail format, in India
- Tata Masala
- Tetley Super Squash in UK

## Where TGB is Focusing for Future Growth

Increased focus on India business.  
Selling – off stressed assets.  
Focus on cost reduction.  
Exiting loss making units.  
Incubatory Business (Starbuck-Tata JV, PepsiCo- Tata JV)

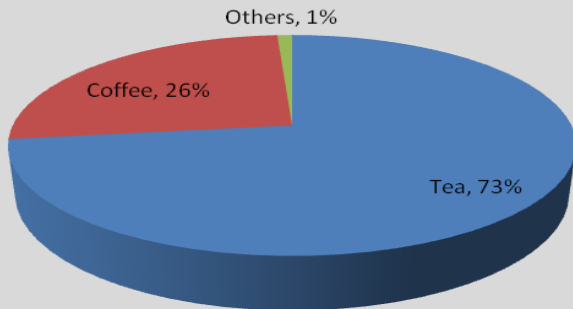
## Revenue Break-up

### Geographical Break-up

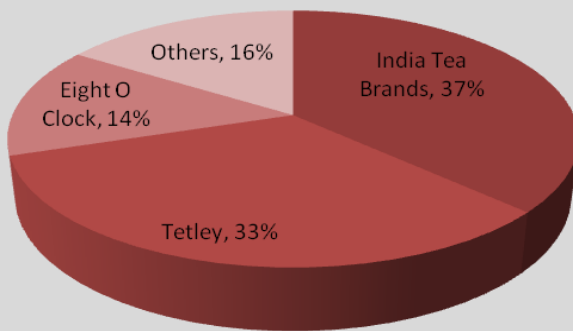
Outside India	60%
Domestic	40%



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**Product wise Revenue Break-up.**



**Brand wise Revenue Break-up.**

## Investment Rational

- + **Focus on brand promotion.** Deepika Padukone is now the new face of Tata Global Beverages.
- + **Pushing more brands to go Global, this is an attempt to gain scale.** At present Power Brand List of TGB are Tata Tea, Himalayan, Tetley and Eight 'O' Clock. Company wants to add Tata Gluco Plus and Tata Water Plus to this list.
- + **Increasing Margin** due to focus on Premium product augurs well with company strategy.
- +



# Tata Global Beverages Ltd

- ✚ **Changing sales Mix.** Increasing contribution from Coffee, Branded product and Water Business will help in clocking better margins.
- ✚ **Selling of Loss making units** and Focusing more on Return on Investment rather than Sales growth is positive.
- ✚ **Incubatory business like JV with Starbuck and JV with PepsiCo** will provide much needed growth. PepsiCo JV is growing at 29% while Starbuck India grew at 14% in 2017.
- ✚ **Tata Gluco Plus**, priced at Rs10, is currently present in three states in India. Buoyed by its performance, TGBL is likely to extend this product to other parts of India, going forward.
- ✚ **With its increased focus on nonblack tea segment** (green tea, specialty tea, fruit-based tea, functional tea) internationally as well as on the domestic front, TGBL is also expected to benefit in the long run as this particular category is a high growth and high margin category compared to conventional black tea.

## Financials and Projection

(Fig in Cr)	FY17	FY18E	FY19E
<b>Total Income</b>	6779	7137	7700
<b>EBITDA</b>	792	856	963
<b>PAT</b>	455	536	616
<b>EPS</b>	7.48	8.82	10.13

✚ We expect Revenue to grow at 6.5% for next 2 years. Growth will be from premiumization.

✚ Margin Improvement will lead to PAT growing at 16.6%.

## Margins

	FY17	FY18E	FY19E
<b>EBITDA Margins</b>	11.7	12.0	12.5
<b>PAT Margin</b>	6.7	7.5	8.0

✚ EBITDA Margin is expected to expand by 80 bps.

✚ PAT margin to expand by 130 bps.





# Tata Global Beverages Ltd

## Peer Group Comparison

### Tea Companies

	CMP	Mkt Cap(In cr)	Sales(In cr)	PAT(In cr)	EPS	P/E	RoE
Tata Global	281	17731	6801	536	8.8	32.0	8.56
McLeod Russel	163	1782	1595	102.07	9.3	17.5	5.21
Jayshree Tea	97	278	583	2.38	0.85	114.12	0.93

## TGB transforming into FMCG Play

	CMP	Mkt Cap(In cr)	Sales(In cr)	PAT(In cr)	EPS	P/E	RoE
HUL	1450	313910	33641	5068	23.4	61.97	67.68
Marico	321	41481	5060	762	6.32	50.79	29.54
Dabur	357	63027	7630	1292	7.34	48.64	27.32
Emami	1137	25827	2503	330	14.54	78.20	22.8
ITC	276	337387	41166	10960	9	30.67	23.5
Godrej con	1118	76233	9703	1404	21	53.24	27.08

## Valuation

We believe company is well poised to grow at CAGR of 6.5%. Margin expansion expected due to exiting Loss making business and Increasing Focus on Premium products.

We expect FY19E EPS to be Rs 10.13. Stock is trading at 28X to FY19E EPS of Rs 10.13. We value the stock at P/E of 35. **The Fair Value comes at Rs 355.**

**We expect 25% upside from current level in medium term.**

**Investment Time Horizon is 6-8 months.**

### Strategy

*For higher margin of safety one could accumulate the stock on every decline.*

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