



# 5 MINUTE STOCK IDEA

BY SMART SYNC INVESTMENT ADVISORY SERVICES

## TATA GLOBAL BEVERAGES

### WHAT WE LIKE

#### POWERFUL BRAND WITH DIVERSIFIED OFFERINGS

More than 5 decades old, TGB is the **No 2 player in the branded tea space in the world today**. Presence in **40+ countries & 2000+ SKUs** across tea, coffee and water segment. Majority of the revenue comes from the branded sales. (Rs 6436 Cr of branded sales out of total sales of 7252 Cr in FY19)

#### POTENTIAL SYNERGIES OF MERGER WITH TATA CHEMICALS

The deal includes sourcing, packaging, marketing, distribution and sales of salt under the brand 'Tata Salt', and spices, pulses and other food products under the brand 'Tata Sampann'. Thus, TGBL will be able to **diversify its cash flows and expand its product basket in the FMCG market**. It will also help TGB in supply chain utilization and better economies of scale.

#### LONG RUNWAY AHEAD FOR STARBUCKS TATA ALLIANCE

On 19th Oct, 2012, Tata Starbucks opened its first store in Mumbai. Consensus view was that barring a few stores in metros it would find it hard to penetrate. In December, 2019 it opened its 170th store. **Starbucks growth, in the first 5-6 years, in India is faster than what it was in China**. And China today has 5500 stores. **While Starbucks Tata Alliance may not reach that number anytime soon, the opportunity of growth is still immense.**

#### IMPROVING CAPITAL ALLOCATION

In the past, growth of TGBL was suffering because of marginal presence in many overseas countries. Post N Chandra becoming the Tata Sons chairman, TGB has **improved its capital allocation policy by exiting loss-making marginal businesses in Russia and other countries**. This has **freed up cash and allowed them to narrow their focus on the growth of the consumer product portfolio**, which has a much better outlook.

#### NEW CEO MAY BRING IN POSITIVE CHANGES

The current MD at Whirlpool of India Ltd, Mr. **Sunil D'Souza is slated to become the MD & CEO of TGB** with effect from 04.04.2020. Sunil D'Souza brings strong domain knowledge of consumer products businesses, and a successful track record of leadership. **His experience in consumer facing companies like PepsiCo India for over 15 years would help TGB strategize its growth path effectively.**

### WHAT WE DON'T LIKE

#### HIGH COMPETITIVE INTENSITY IN DEVELOPED MARKETS

**Declining demand for black tea** over the world and the **highly competitive market** in the west drags the performance of TGB's overseas business. While TGB has taken some restructuring decisions recently, the results are still not visible on the books yet. Until then it will continue to act as a drag on the consolidated performance of the company.

#### SALES & PROFIT GROWTH HAS BEEN SLOW IN THE LAST DECADE

With such a powerful brand and diversified product mix and category, one would have expected TGB to have grown at a very high speed. However, if we look back at the last 10 years, **Sales and Profits have grown at a CAGR of only 4% & 6% respectively**. **Spreading themselves in too many categories and geographies have proven costly for them in the past**. However, in the recent years they looked to reversing this trend.

#### INEFFICIENCIES IN OPERATIONS RESULTED IN VERY LOW ROE

TGB in the past has produced a sub-optimal returns on capital employed. **Inefficiencies in operation and wrong capital allocation by entering into areas which were not required, are the major reasons** for the same. Hopefully with the recent restructuring and narrower focus, they may improve their performance.

#### MARGINS EXPOSED TO BULK TEA PRICE FLUCTUATIONS

Tea sales forms around **80% of total branded sales for the company**. Thus, TGBL is exposed to the volatility in bulk tea prices, which in turn impacts its contribution margins. While it tries to **mitigate some of it** through pricing power from its established brand presence, procurement strategies and ability to pass on increase in bulk tea prices to the consumers. **But a significant part of the risk is still borne by the company.**

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