

Tata Consumer Products Q2FY21

Financial Results & Highlights

Brief Company Introduction

Tata Consumer Products Limited (formerly Tata Global Beverages) 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.

Tata Consumer Products markets tea under the major brands Tata Tea, Tetley and Good Earth Teas. Tata Tea is the biggest-selling tea brand in India, Tetley is the biggest-selling tea brand in Canada and the second-biggest-selling in United Kingdom and United States.

In 2012, the company 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 Consumer Products.

Standalone Financials (In Crs)								
	Q2FY21	Q2FY20	YoY %	Q1FY21	QoQ %	H1FY21	H1FY20	YoY
Sales	1770	1462	21.07%	1651	7.21%	3421	2967	15.30%
PBT	231	205	12.68%	314	-26.43%	545	439	24.15%
PAT	169	155	9.03%	232	-27.16%	402	310	29.68%
Consolidated Financials (In Crs)								
	Q2FY21	Q2FY20	YoY %	Q1FY21	QoQ %	H1FY21	H1FY20	YoY
Sales	2808	2375	18.23%	2747	2.22%	5554	4801	15.68%
PBT	321	262	22.52%	500	-35.80%	821	562	46.09%
PAT	273	208	31.25%	346	-21.10%	619	398	55.53%

Detailed Results:

1. The consolidated performance was good at 18% YoY growth in revenue and 22.5% YoY PBT growth for Q2.
2. The company saw growth in consolidated EBITDA of 26% YoY for Q2. EBITDA margins expanded 90 bps YoY to 14.4%.
3. Overall India business grew 25% YoY. The company has a cash position of Rs 1439 Cr.
4. Realisation of benefits from synergies to start from Q3 onwards. Outlets reach expanded by ~12% till Sep'20.
5. The India Packaged Beverages business showed revenue growth of 29% YoY & volume growth of 12% YoY in Q2. Margins stable YoY despite unprecedented inflation in raw tea prices.

6. The India Foods business showed a revenue growth of 13% YoY & volume growth of 6% YoY in Q2. Salt revenues grew 10% in Q2 with market share gains. The value-added salt portfolio has grown by ~100%. Pulses grew 35%. Launched new products Poha and nutria-mixes in Q2.
7. NourishCo had revenue of Rs 38 Cr and was at 87% of pre-Covid levels in Q2 and 101% in Sep. Highest ever volumes achieved for Tata Water Plus in Sep'20.
8. The Tata Coffee division saw volume and value growth of 17% YoY. Plantations volumes grew 6% YoY and Extractions Volume grew 11% YoY. Vietnam plant now operating at ~90% capacity.
9. In the Starbucks JV, the company saw a 70% YoY revenue recovery in Q2. Around 86% of stores are operational and 11 new stores and 1 new city added.
10. The UK tea business saw revenue growth of 4% YoY with volume growth of 7% YoY. It maintained a market share of 20.5% in the everyday black tea segment.
11. The USA coffee business saw a 1% YoY decline in volumes and 4% YoY revenue growth. The tea business saw revenue growth of 11% YoY & volume growth of 8% YoY.
12. In Canada, the company saw revenue growth of 1% YoY in Q2 and it maintained a market share at 29.5%. The volume decline in the quarter was 7% YoY.

Investor Conference Call Highlights

1. The reworking of the Sales & Distribution system has seen the completion of 2 out of 3 phases.
2. Operating profit grew by 24% YoY. There were exceptional items of Rs 19 Cr in standalone and Rs 24 Cr in consolidated terms which were primarily representing integration costs and redundancies arising out of the restructuring of the business.
3. The company is looking to maintain a cautious outlook due to the second wave phenomenon in most major western economies.
4. Tea inflation in India remains a headwind in the short term for the company.
5. The company expects a shortfall in tea production for the full year which should put pressure on the inventory.
6. For the new product segment of Nutri-mixes, the company is focussing largely on e-commerce.
7. The management expects the branded side of this new business to be growing at a pace of 25-30% per year going forward.
8. The rise in margins in international tea businesses is mainly due to a slight fall in commodity prices and better product mix as the company moves towards the premiumization of its portfolio.
9. The projected synergies of 2-3% margin appreciation are expected to come half from the revenue side and a half from the cost side. At present, the company is focussing on cost synergies and as time goes on, the company expects acceleration on these synergies flowing in.
10. The company takes price increases in Tata Salt based on input cost increases. This was the main reason behind the price increase of 5% in Tata Salt in Oct.
11. The company is looking to not only dominate the market share and volumes in the salt business, it is also looking to expand its market portfolio and help in premiumization of category.
12. The objective in Sampann's business is to increase penetration as it is still at a nascent stage.
13. The company has multiple products launched lined up for Tea and Coffee including a reformulation and a relaunch of the entire Tata Coffee range in the South.

14. The company has gone on in a very analytical manner in designating integrated distributors for every city and is considering all distributors regardless of category for investment and expansion.
15. Roughly half of the tea industry is still unbranded and the shift to branded has slightly accelerated in the year.
16. Similarly, in pulses, the majority of the industry is unorganized which should provide good growth opportunity for Sampann which is the only branded in the category at present.
17. The company is indeed on the lookout for inorganic opportunities and is also maintaining a large cash position to stand ready to take any arising opportunities in fast-rising segments like Sampann.
18. Although there some established players in the ready-to-eat segment, the category is still small and has a big potential for growth and thus competitive pressure is not as high as it seems.

Analyst's View:

Tata Consumer Products has a very good product portfolio in diverse F&B segments and strong brands like Tata Tea under its umbrella. The company has seen good growth in both value and volume terms across all segments, especially in the tea and salt businesses. The company has a good opportunity for growth in the staples segment with Tata Sampann which saw good traction in the quarter. It was also able to pass on the increase in tea and salt prices directly to consumers without losing any market share thus highlighting the brand's strength. It remains to be seen how the company's wholesale businesses which was the worst hit from COVID-19 fare going forward and how the company will fare against other branded players like ITC in the fast-rising branded staples category. Nonetheless, given the company's leadership position in its top brand segments, its enhanced distribution-reach after the merger, and the incoming synergies and benefits from integration, Tata Consumer Products remains a good FMCG stock to watch out for.

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