5 MINUTE STOCK IDEA

BY SMART SYNC INVESTMENT ADVISORY SERVICES

TATA CONSUMER PRODUCTS

WHAT WE LIKE

POWERFUL BRAND ACROSS SEGMENTS
More than **5 decades old**, Tata Consumer Products is the No 2 player in the branded tea space in the world today & the No 1 player in edible salt in India. Presence in **40+ countries & 2000+ SKUs** across tea, coffee, water and food segments. 92% of the revenue comes from the branded sales in FY21. **It also runs the Tata Starbucks Alliance which has 221 stores currently in 18 cities which we at SSS believe to be a significant long term opportunity for TCPL currently.**

SYNERGIES FROM THE MERGER
The company has used FY21 to complete its integration after the merger and has identified and completed synergies which should start yielding benefits in FY22. **It has already completed internal organizational integration, ERP integration and complete end-to-end digitization of entire supply chain including channel partners. It is also on track to effectively double its direct reach by Sep '21.**

IMPROVING CAPITAL ALLOCATION
TCPL has been guilty of bad capital allocation in the past, but **now they are exiting loss making foreign units & investing in domestic opportunities with long runway.** It has acquired **100% of NourishCo**, the water & health drinks JV with PepsiCo, **& Soulfull**, a rising health foods brand, **both of which are good strategic fits for their rising health & wellness portfolio.**

FOCUS ON HEALTH & WELLNESS
With the advent of COVID, there is a permanent shift in consumer preference towards health & wellness. TCPL is innovating to capture this still nascent market with products like:

WHAT WE DON'T LIKE

HIGH COMPETITIVE INTENSITY
Declining demand of the black tea over the world and the high competitive market in the west drags down the performance of TCPL's overseas business. While they have taken some restructuring decisions recently, it will take time for it to be reflected in results. Until then it would drag the consolidated performance of the company.
Similarly **competitive intensity remains high in the foods business** especially the health foods & packaged meals businesses as major FMCG players like ITC & Marico have also entered the category **thus intensifying competitive intensity to capture a nascent but fast growing market.**

SALES & PROFIT GROWTH HAS BEEN VERY SLOW IN PAST DECADE
With such a powerful brand and diversified product mix and category, one would have expected TCPL to have grown at a very high speed. **However, if we look back at the last 10 years, Sales and Profits have grown at CAGRs of 7% & 13% respectively. Spreading themselves in too many categories and geographies have proven costly for them in the past.** However, in the recent years they are reversing this trend and exiting loss making international units.

OPERATIONAL INEFFICIENCIES CAUSED LOW ROE
TCPL 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.** The last 10-year performance has been very poor. **Average ROE for the last 10 yr has been 6%.** However, with the recent addition of the foods business from the merger and narrower focus in beverage business, TCPL has the potential to improve its performance going forward.

MARGINS EXPOSED TO BULK TEA PRICE VOLATILITY
TCPL 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 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.