

Tata Consumer Products Q3FY21

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)								
	Q3FY21	Q3FY20	YoY %	Q2FY21	QoQ %	9MFY21	9MFY20	YoY%
Sales	1988	1488	33.60%	1770	12.32%	5409	4456	21.39%
PBT	176	194	-9.28%	231	-23.81%	721	634	13.72%
PAT	136	143	-4.90%	169	-19.53%	538	453	18.76%
Consolidated Financials (In Crs)								
	Q3FY21	Q3FY20	YoY %	Q2FY21	QoQ %	9MFY21	9MFY20	YoY%
Sales	3089	2522	22.48%	2808	10.01%	8643	7322	18.04%
PBT	292	264	11%	321	-9.03%	1113	826	34.75%
PAT	237	189	25%	234	1.28%	860	585	47.01%

Detailed Results:

1. The consolidated performance was good at 22.5% YoY growth in revenue and 25% YoY PAT growth for Q3.
2. The company saw growth in consolidated EBITDA of 12% YoY. EBITDA margins fell 120 bps YoY to 11.9%.
3. Overall India business grew 36% YoY. The company has a cash position of Rs 1550 Cr.
4. TCPL acquired 100% equity stake in Kottaram Agro Foods Pvt Limited (Soulfull). Operational integration to be completed by Q2FY22.
5. Integration expected to be substantially completed by Q4 FY21.
6. 100% of all channel partners have been digitised and dedicated sales reps have risen 30% in 9M.
7. The India Packaged Beverages business showed revenue growth of 19% YoY & volume growth of 12% YoY in Q3. India tea business saw 43% YoY revenue growth, 10% YoY volume growth and 94 bps market share gain.

8. The India Foods business showed a revenue growth of 19% YoY & volume growth of 12% YoY in Q3. Salt revenues grew 19% in Q3 with market share gains. The value-added salt portfolio has grown 2.7 times. Pulses grew 35%. Launched new products Poha and nutria-mixes in Q2.
9. NourishCo had revenue of Rs 33 Cr and saw 9% QoQ revenue growth. Tata Water Plus sold 1.6 x volumes in Q3.
10. The Tata Coffee division saw value growth of 1% YoY. Plantations revenue grew 6% YoY and Extractions Volume fell 3% YoY. Vietnam plant now operating at ~93% capacity. Extractions business was impacted by global shortage of shipping containers and further lockdowns in Europe.
11. In the Starbucks JV, the company saw a 90% YoY revenue recovery in Q3. Around 92% of stores are operational and 13 new stores and 3 new cities are added in Q3.
12. The UK tea business saw revenue growth of 1% YoY with volume growth of 5% YoY. It maintained a market share of 20.3% in the everyday black tea segment.
13. The USA coffee business saw a 7% YoY rise in volumes and 6% YoY revenue growth. The tea business saw revenue growth of 18% YoY & volume growth of 22% YoY.
14. In Canada, the company saw revenue growth of 24% YoY in Q3 and it maintained a market share at 29.5%. The volume growth in the quarter was 19% YoY.

Investor Conference Call Highlights

1. TCPL exited the Map Coffee business in Australia for the sake of portfolio rebalancing.
2. The company has trimmed down the number of distributors by about 63% and all distributors are now 100% food and beverage.
3. Unique outlets built for 3 months are up by 65%.
4. The SoulFull portfolio straddles multiple consumer occasions, breakfast, snacking, mini-meals, convenience, healthy, clean label, no maida offerings targeted for millennial families. It also has a reach of 15,000 outlets.
5. The acquisition was done for Rs 156 Cr for 100% equity stake.
6. The founders and key management will remain with the company at their normal posts.
7. The estimated market size for TCPL's health and wellness offerings portfolio is at Rs 20,000 Cr and is expected to grow to Rs 40,000 Cr in next 5-6 years.
8. In the U.K., after growth in Q2, black tea has started to get into declining territories, but we continue to see strong growth in Fruit & Herbals.
9. In USA, TCPL saw a decline in regular black tea after strong growth in Q1 and decent growth in Q2. Coffee continues to grow at 7-9% rate.
10. Canada saw growth both in black tea and in speciality tea.
11. The company's super premium brand Teapigs grew 32% YoY in Q3.
12. Tea inflation in India remains a challenge in the near term according to the management.
13. The management maintains that there is ample room for growth in the Salt business both on the mass and value added end.
14. The management has stated that Soulfull already has a good product portfolio and it will be currently looking for distribution expansion for Soulfull and then look to expand the product portfolio.
15. The biggest permanent impact from COVID-19 was the increased consumption of beverages in home and the rise of tea here.

16. Pantry loading is indeed expected to continue but it will be declining going forward.
17. Soufull had revenues of Rs 39 Cr in FY20.
18. The tea prices are expected to soften once the new crop comes in by the end of April.
19. The management sees geographic expansion, capacity expansion and portfolio expansion as the key for NourishCo in the near future.
20. Although the company has very little presence in the retail coffee space in India, the management believes that this business can expand fast through the company's brand strength and distribution reach.
21. The Sampann business has seen 5x growth in the Poha portfolio and is also introducing thin poha to expand the portfolio.

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 health and wellness segment with the recent acquisition of Soufull. This increases TCPL's health portfolio to a massive addressable market of Rs 20,000 Cr which is expected to double in 5-6 years. It was also able to pass on the increase in tea and salt prices directly to consumers and also gain market YoY. 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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