

Health & Wellness is the flavour of the day

Tata Global Beverages (TGB) is the second-largest tea company in the world. In FY15, TGB derived 74% of its turnover from tea sales. Its brands have presence in over 40 countries. It is a global player with 62% of the consolidated revenues coming from markets outside India such as UK, USA, Canada etc. Apart from tea, TGB derived 25% & 1% of its turnover from coffee & water sales respectively.

Investment Rationale

☞ Maintaining leadership position with a strong brand recall: TGB is the second-largest packaged tea company in the world after Unilever. TGB has transformed itself from being a mere tea player to a global beverage giant through acquisitions and strategic alliances. In FY15, branded products contributed 90% to the total revenues. The major brands of TGB include Tetley, Eight O' Clock, Grand, Map and Tata Tea.

☞ Green and Specialty Tea to drive growth ahead: While black tea consumption is on the decline in certain regions (UK, Canada), green tea and specialty tea (fruit & herbal tea) brands in portfolio are witnessing robust growth across all the geographies. Hence, the company is focusing on newer formats (green & specialty teas) to offset the decline in the black tea market. While green tea comprises 27% of the global tea market, the fruit and herbal tea (F&H) segment constitutes 16% of the global tea market. The annual rate of growth of green tea globally, is 10% and for fruit & herbal teas is 4%. With 37 green tea, 27 specialty tea and 180 herbal blends in portfolio, TGB has enhanced its focus on green and herbal tea categories. Moreover, the green and herbal tea categories enjoy higher margins when compared to the conventional black tea.

☞ Change in revenue mix augurs well for the company: Owing to growing coffee consumption around the globe, the revenue contribution from coffee has increased from 20% in FY12 to 25% in FY15. We expect coffee segment to report good growth on the back of strong ongoing traction witnessed in pods (single-serve packs) business. Moreover, pod coffee is priced four times the regular coffee. This segment would get a boost with the latest acquisition of Bronski Eleven that sells pods in Australia under the MAP brand. Further, it has recently launched its first instant coffee, TATA Coffee Grand, in the Indian coffee market. Hence, we expect coffee segment to grow at a CAGR of 7.4% over FY15-FY17E and its revenue contribution would reach 26% by FY17E.

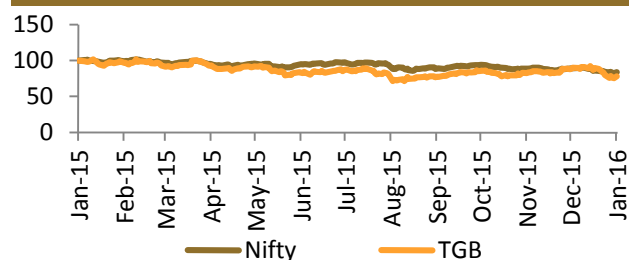
Valuation: We believe that TGB would gain market share across geographies through its innovative premium product offerings. Moreover, the demand for premium products is expected to grow continuously as result of increasing awareness about health and wellness. This would help the top-line and Adj. PAT to grow at a CAGR of 6% and 10% respectively over FY15-FY17E. Further, we rate the stock as 'BUY' assigning a forward P/E of 20.5x arriving at a target price of Rs. 151 which implies potential upside of ~19% for the next 12 months.

Market Data

Rating	BUY
CMP (Rs.)	127
Target (Rs.)	151
Potential Upside (%)	19
Duration	Long Term
Face Value (Rs.)	1.0
52 week H/L (Rs.)	168/109
Adj. all time High (Rs.)	181
Decline from 52WH (%)	24.6
Rise from 52WL (%)	16.5
Beta	1.6
Mkt. Cap (Rs.Cr)	7,823

Fiscal Year Ended

Y/E	FY14	FY15	FY16E	FY17E
Revenue (Rs.Cr)	7,738	7,993	8,300	8,952
Adj. Profit (Rs.Cr)	392	378	350	457
EPS (Rs.)	6.3	6.1	5.7	7.4
P/E (x)	23.7	24.4	22.4	17.2
P/BV (x)	1.6	1.7	1.4	1.3
ROE (%)	6.8	6.7	6.3	7.9

One year Price Chart

Shareholding Pattern

Shareholding Pattern	Dec-15	Sep-15	Chg.
Promoter (%)	34.4	34.4	0.0
Public (%)	65.6	61.9	3.7
Others (%)	0.0	3.7	(3.7)

TGB is world's second largest tea company with 62% of the consolidated revenues coming from markets outside India.

Tata Global Beverages Ltd: Second-largest tea company in the world

Tata Global Beverages (TGB) is the second-largest tea company in the world. In FY15, TGB derived 74% of its turnover from tea sales. TGB has transformed itself from being a mere tea player to a global beverage giant through acquisitions and strategic alliances with global brands like Pepsi and Starbucks. Its brands have presence in over 40 countries. It is a global player with 62% of the consolidated revenues coming from markets outside India such as UK, USA, Canada etc. Further, Tata Coffee is a 57% subsidiary of TGB.

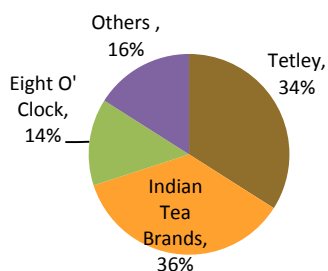
In terms of region wise sales mix, India contributed the maximum 38% to the total revenues followed by USA & Canada (25%), RoW (19%) and UK (18%). Segment-wise, 74% of its sales come from tea segment, 25% come from coffee segment and the remaining 1% from sale of water products and other businesses. Similarly, brand-wise, 36% of its sales come from Indian tea brands (Tata Tea Premium, Gold, Kanan Devan, Chakra Gold etc.) followed by Tetley (34%), Others & speciality brands (16%) and Eight O' Clock (14%). While other brands include Grand coffee, Himalayan water etc., specialty regional brands include Good Earth, Vitax etc.

Segment and Geography-wise Sales mix (FY15)



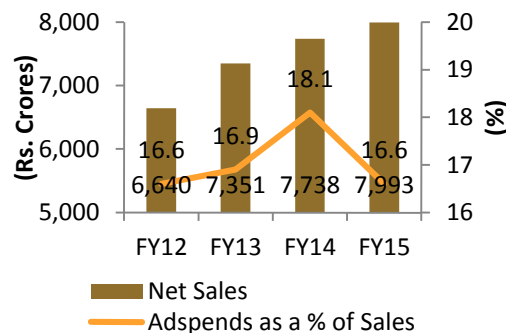
Source: Company

Brand-wise Sales mix (FY15)



Source: Company

Higher investments on brands



TGB's brands have presence in over 40 countries.

TGB's Brand Portfolio

Region	Brand		
	Tea	Coffee	Water
North America & Canada	Tetley, Teapigs, Tata Tea, Good Earth	Eight O'clock	-
Europe, Russia & Middle East	Tetley, Jemca, Vitax, Tata Tea, Teapigs	Grand	-
Africa	Tetley, Laager	-	-
Australia	Tetley, Teapigs	Map	-
South Asia	Tetley, Tata Tea	-	Tata Gluco+, Tata Water Plus, Himalayan

Source: Company

TGB has transformed itself from being a mere tea player to a global beverage giant through acquisitions and strategic alliances with global brands like Pepsi and Starbucks.

With 37 green tea, 27 specialty tea and 180 herbal blends in portfolio, TGB has enhanced its focus on green and herbal tea categories.

TGB has broadened its product portfolio through key acquisitions & JVs

Year	Target	Country
2000	Tetley	UK
2005	Good Earth	USA
2006	Eight O' Clock Coffee	USA
2006	Jemca	Czech Republic
2007	Mount Everest Mineral Water	India
2007	Vitax	Poland
2009	Grand	Russia
2011	JV with PepsiCo India	India
2012	JV with Starbucks	India
2014	Bronksi Eleven	Australia

Source: Company

Sharp focus on green tea to aid growth

TGB is the second-largest tea company in the world. In FY15, TGB derived 74% of its consolidated turnover from tea sales. In India, TGB has maintained its leadership position led by its strong brands, Tata Tea, Tata Tea Gold, Agni and Kanan Devan. While black tea consumption is on the decline in certain regions (UK, Canada), green tea and specialty tea (fruit & herbal tea) brands in portfolio are witnessing robust growth across all the geographies. Hence, the company is focusing on newer formats (green & specialty teas) to offset the decline in the black tea market. While green tea comprises 27% of the global tea market, the fruit and herbal tea (F&H) segment constitutes 16% of the global tea market. The annual growth rate of green tea globally, is 10% and for fruit & herbal teas is 4%. With 37 green tea, 27 specialty tea and 180 herbal blends in portfolio, TGB has enhanced its focus on green and herbal tea categories. These categories are witnessing high growth both in the international as well as domestic markets. Moreover, the green and herbal tea categories enjoy higher margins when compared to the conventional black tea.

Interestingly, tea as a category in India is growing at around 4-5%, green tea is growing at a CAGR of ~30%. The green tea market in India is estimated at Rs. 129 crores with TGB leading the market. In the domestic market, TGB is building its green tea portfolio under the Tetley brand. Currently, TGB has green tea brands in its portfolio, namely Tetley Green Tea and Tata Tea Acti Green. In UK, TGB launched a range of Tetley Super Green Teas in various flavors to tap growing green tea market. Likewise, in 2015, a premium line of specialty teas, called the Tetley Signature collection was launched in Canada. Similarly, in the UK market, Tetley recently launched Tetley Super Fruits.

With sharp focus on the green tea category, we expect tea revenues to grow at a CAGR of ~5% in FY15-17E led by wide product portfolio, premiumisation coupled with increasing awareness about health and wellness.

Key Brands of Tata Global Beverages



We expect coffee segment to grow at a CAGR of 7.4% over FY15-FY17E and its revenue contribution would reach 26% by FY17E.

Change in revenue mix would augur well for the company

Owing to growing coffee consumption around the globe, the revenue contribution has increased from 20% in FY12 to 25% in FY15. Coffee segment, the second highest contributor to the total revenues, derives revenue from branded coffee, coffee plantations and from JVs. We expect this segment to report good growth on the back of strong ongoing traction witnessed in pods (single-serve packs) business. Further, pod coffee is priced four times the regular coffee. This segment would get a boost with the latest acquisition of Bronski Eleven that sells pods in Australia under the MAP brand. TGB is also present in the pods segment in USA (through Eight O'Clock Coffee). The company receives royalty income from pod sales for which it entered an agreement with Keurig. Further, it has recently launched its first instant coffee, TATA Coffee Grand, in the Indian coffee market. Similarly, Eight O'Clock Coffee (EOC) launched an instant coffee offering recently. Going forward, TGB is planning to launch Map in New Zealand and Indonesia. Hence, we expect coffee segment to grow at a CAGR of 7.4% over FY15-FY17E and its revenue contribution would reach 26% by FY17E.

Starbucks JV has potential to become a significant value driver for TGB

Tata Starbucks Pvt. Ltd., the 50:50 JV between TGBL and Starbucks Coffee International Inc US), was formed in 2012, owns and operates Starbucks stores in India. In the first year alone, the JV opened 12 stores across Mumbai & Delhi. As of Q2FY16, Tata Starbucks has set up 78 stores in six Indian cities (Mumbai, Delhi, Bengaluru, Chennai, Pune and Hyderabad). The coffee retail market has huge potential in India due to multiple factors including rising disposable income, young working population and increasing pace of westernization. With the aggressive expansion of the company (6 new Starbucks stores added in H1FY16), we expect Starbucks store count to reach 100 stores in next 2-3 years. So far, TGB has invested Rs. 150 crore in this JV. Tata Starbucks JV is still in investment phase and incurred a loss of Rs. 47 crores in FY15. However, we believe this JV to achieve breakeven in next 3-4 years.

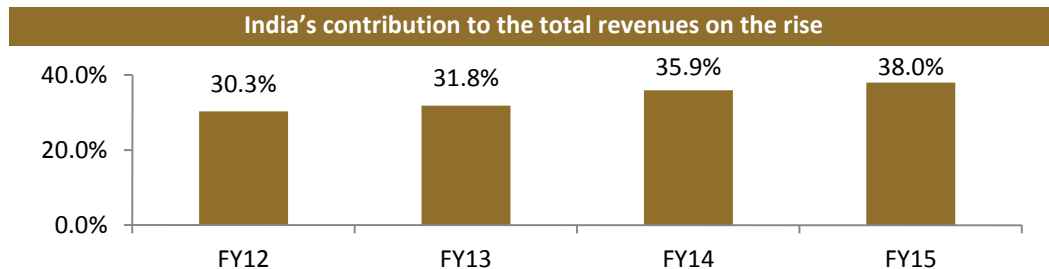
Betting big on water business

NourishCo, the 50:50 JV with PepsiCo India, produces and markets Tata Water Plus (India's 1st nutrient water) and Tata Gluco Plus (glucose-based flavoured drink). Even, Himalayan water is marketed through this JV. While Himalayan brand has a pan-India presence, the other two have been rolled out only in Tamil Nadu, Andhra Pradesh, MP, Maharashtra, Karnataka, Gujarat and UP. Further, Himalayan is now also available at some mainstream super-markets in Singapore and TGB is also evaluating options for scale up in other international markets. This segment has grown at a CAGR of about 15% over the last three years. Further, the management expects in the next 2 years 20% of TGB's India revenue to come from its water segment.

India's market shows promising outlook; overseas subsidiaries to witness a revival

The revenue contribution of India to TGB's consolidated topline has risen from 30.3% in FY12 to 38% in FY15. In 2012, TGB overtook HUL to become the leader of India's branded tea market and has maintained its volume and value leadership. With UK and US on slow growth trajectory, TGB is again focusing on its growth back home. Owing to the challenging environment, sales growth of subsidiaries moderated to 0.5% in FY15 pulling down the consolidated sales growth to 2.8% YoY in FY15. The subdued growth witnessed in subsidiaries was on the back of challenging market conditions in the UK (Tetley tea business) and US (Eight O' Clock coffee revenues). However, in the near term, we expect the EOC business to get the benefit of falling coffee prices.

India's contribution to TGB's topline has increased from 30% in FY12 to 38% in FY15.



Source: Company, In-house research

Margins to improve from FY17E onwards

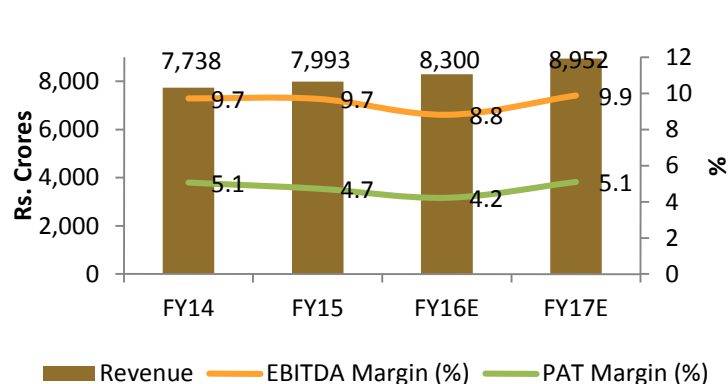
After remaining stagnant for the last two years at 9.7%, TGB's EBITDA margins are expected to shrink to 8.8% in FY16 as input costs (both tea & coffee prices) remained higher in H1FY16. Of late, Arabica coffee prices have fallen 30% YoY and are trending back to near trough levels. Hence, we expect margins to expand to 9.9% in FY17E. With enhanced focus on brand building, we expect premiumisation to gain traction supporting margins for the company. Further, rising contribution of coffee in revenues would boost margins as coffee segment (13.2% EBIT margin in FY15) enjoys higher margins when compared to tea segment (10.5% EBIT margin in FY15).

Earnings to pick momentum from FY17E onwards

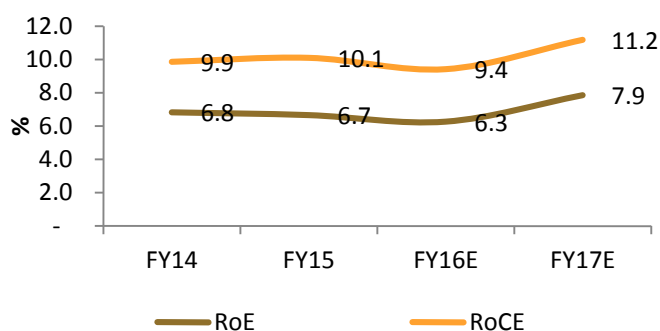
During FY15-FY18E, we expect the top-line of the company to grow at a CAGR of 6% as TGB continues to deliver robust performance in its India business coupled with revival in overseas subsidiaries. Further, we estimate 10% CAGR in Adjusted PAT over FY15-17E mainly on account of EBITDA margin expansion from FY17E onwards owing to the recent correction seen in input costs and better product mix. Due to the sluggish performance of subsidiaries in H1FY16E, ROCE & ROE is projected to drop from 10.1% & 6.7% levels witnessed in FY15 to 9.4% & 6.3% respectively in FY16E. With the revival in the performance of subsidiaries, we believe TGB to report improvement in its ROE and ROCE from FY17E onwards. While ROE is likely to improve from 6.3% in FY16E to 7.9% in FY17E, ROCE is projected to increase from 9.4% in FY16E to 11.2% in FY17E.

We expect the top-line of the company to grow at a CAGR of 6% over FY15-FY17E.

EBITDA margins to expand to 9.9% in FY17E



Return Ratios expected to improve from FY17E onwards



Source: Company, In-house research

Key Risks:

- 1 Rise in the prices of green tea leaf and green coffee bean could put pressure on the gross profit margins.
- 2 Forex volatility could impact the realisations negatively.
- 3 Heightened competitive intensity in the industry may deteriorate the margins

Profit & Loss Account (Consolidated)

Y/E (Rs.Cr)	FY14	FY15	FY16E	FY17E
Total operating Income	7,738	7,993	8,300	8,952
Raw Material cost	3,677	3,837	4,092	4,324
Employee Cost	793	858	880	940
Other operating expenses	2,516	2,524	2,597	2,804
EBITDA	752	775	732	884
Depreciation	129	133	149	159
EBIT	623	642	583	726
Interest cost	87	82	65	60
Other income	82	70	66	63
Profit before tax	618	630	584	729
Tax	184	216	199	233
Profit after tax	434	414	386	496
Minority Interests	29	26	27	31
P/L from Associates	(13)	(11)	(9)	(8)
Adjusted PAT	392	378	350	457
E/oincome/ (Expense)	89	(130)	-	-
Reported Profit	480	248	350	457

Balance Sheet (Consolidated)

Y/E (Rs.Cr)	FY14	FY15	FY16E	FY17E
Paid up capital	62	62	62	62
Reserves and Surplus	5,787	5,431	5,614	5,889
Net worth	5,849	5,493	5,676	5,951
Minority Interest	924	876	903	933
Total Debt	1,438	1,324	1,290	1,202
Other non-current liabilities	432	461	491	525
Total Liabilities	8,643	8,154	8,360	8,611
Total fixed assets	1,052	1,077	1,088	1,099
Goodwill	4,188	3,892	3,892	3,892
Investments	611	622	622	622
Net Current assets	2,498	2,249	2,418	2,629
Other non-current assets	293	314	340	369
Total Assets	8,643	8,154	8,360	8,611

Cash Flow Statement (Consolidated)

Y/E (Rs.Cr)	FY14	FY15	FY16E	FY17E
Pretax profit	707	500	584	728
Depreciation	129	133	149	159
Chg in Working Capital	8	(132)	(119)	(132)
Others	(168)	86	(1)	(3)
Tax paid	(255)	(169)	(199)	(233)
Cash flow from operating activities	422	418	413	519
Capital expenditure	(204)	(179)	(160)	(170)
Chg in investments	(1)	(75)	-	-
Other investing cashflow	84	80	66	63
Cash flow from investing activities	(120)	(175)	(94)	(107)
Equity raised/(repaid)	-	-	-	-
Debt raised/(repaid)	(122)	(199)	(34)	(88)
Dividend paid	(162)	(161)	(167)	(181)
Other financing activities	(79)	(32)	(73)	(69)
Cash flow from financing activities	(363)	(392)	(274)	(338)
Net chg in cash	(62)	(149)	45	74

Key Ratios (Consolidated)

Y/E	FY14	FY15	FY16E	FY17E
Valuation (x)				
P/E	23.7	24.4	22.4	17.2
EV/EBITDA	14.5	14.0	12.9	10.5
EV/Net Sales	1.4	1.4	1.1	1.0
P/B	1.6	1.7	1.4	1.3
Per share data (Rs.)				
EPS	6.3	6.1	5.7	7.4
DPS	2.2	2.3	2.4	2.6
BVPS	94.6	88.8	91.8	96.2
Growth (%)				
Net Sales	5.3	3.3	3.8	7.9
EBITDA	(2.2)	3.1	(5.6)	20.9
Net Profit	(2.3)	(3.6)	(7.3)	30.4
Operating Ratios (%)				
EBITDA Margin	9.7	9.7	8.8	9.9
EBIT Margin	9.1	8.9	7.8	8.8
PAT Margin	5.1	4.7	4.2	5.1
Return Ratios (%)				
RoE	6.8	6.7	6.3	7.9
RoCE	9.9	10.1	9.4	11.2
Turnover Ratios (x)				
Net Sales/GFA	3.8	3.4	3.3	3.3
Sales/Total Assets	0.8	0.8	0.9	0.9
Sales/Working Capital	4.8	4.6	4.7	4.7
Liquidity&Solvency Ratios (x)				
Current Ratio	2.8	2.7	2.7	2.8
Interest Coverage Ratio	7.2	7.8	9.0	12.1
Debt/Equity	0.2	0.2	0.2	0.2

Rating Criteria

	Large Cap.	Mid/Small Cap.
	Return	Return
BUY	More than equal to 10%	More than equal to 15%
HOLD	Between 10% & -5%	Between 15% & 0%
SELL	Less than -5%	Less than 0%
Time Horizon	12 months	

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