

# Tata Global Beverages ₹ 138

*Its Your Cup of Tea!*

**Buy**



Oct 23, 2015

## Company Background

Tata Global Beverages is a global natural beverage business with brand presence in over 40 countries. It is the second largest player in branded tea in the world and has growing interests in tea, coffee and water. Over 250 million servings of its brands are consumed every day around the world. Its beverage brands include: Tata Tea, Tetley, Himalayan natural mineral water, Tata Water+, Tata Gluco+, Good Earth tea, Grand Coffee and Eight O'clock coffee. Whilst tea accounts for around 74 % of its revenue, coffee accounts for 25% and water and other products contribute to the rest. It is also a global player with 62% of the consolidated revenues coming from markets outside India such as United Kingdom, United States of America, Canada, Russia, France, Australia and Europe. It also has a 50% share in the Tata Starbucks Ltd with Starbucks Corporation which owns and operates Starbucks outlets in India. The outlets are branded Starbucks "A Tata Alliance". Starbucks, through an agreement with Tata Coffee, serves coffee that is 100% locally sourced and roasted. The JV is rapidly scaling up by opening Starbucks stores in Metros & Tier I cities.

## Key Highlights

- ➔ The recent valuation fetched by Caffe Coffe Day in its IPO has automatically increased the prospective valuation of Starbucks Coffee in which Tata Global commands a 50% stake.
- ➔ GreenTea currently comprises of 27% of the Tea Market and is growing at the rate of 10% y-o-y. Tata Global commands a significant share in it as it is the 2nd largest Tea Company in the world. Further the current currency fall will also benefit the company as more than 60% of its revenues are international.
- ➔ Tata Global has already been for innovation and with products in green tea, super green teas, decaff coffees, fortified mineral water and natural mineral water sourced from the Himalayas specifically addresses a consumer trend with a significant growth potential.
- ➔ The recent acquisition of MAP brand has given the Company entry into the fast growing single serve segment in Australia. We feel that these segment will grow in the near future.

## Key Financials

Year Ended 31 <sup>st</sup>	Mar 13	Mar 14	Mar 15
Revenue (INR mn)	25,040.4	31,245.1	31,013.4
Rev. growth (%)	10.3	24.8	(0.7)
EBITDA (INR mn)	3,875.8	6,927.9	5,342.5
Net profit (INR mn)	2,605.7	4,626.7	2,989.4
Shares outstanding (mn)	618.4	618.4	618.4
EPS (INR)	4.2	7.5	4.8
EPS growth (%)	(14.2)	77.6	(35.4)
P/E (x)	30.4	20.0	30.8
RONW (%)	10.7	9.8	8.7
ROCE (%)	8.9	8.2	7.4

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## Info Codes

Reuters	: TAGL.BO
Bloomberg	: TGBL@IN
NSE	: TATAGLOBAL
BSE	: 500800

## Market Data

52 Wk Range (₹)	: 108 / 168
Shares in Issue (mn)	: 618.4
Mkt. Cap (₹ bn)	: 53.29
BSE 2 Wk Avg Vol	: 140000

## Share Holding Pattern (%)

Promoters	: 34.43
FII's	: 12.53
DII's	: 19.92
Others	: 33.12

## Investment Theme

The overall success received by the Caffe Coffee Day IPO translates into the business potential of a coffee chain and the valuations it can generate. Tata Global is actually a 50% owner of the JV Starbucks which had been recently introduced in India and has a global fame to repute though the reach of Starbucks is still not as much as the former. It is slowly on the rise with expansions scheduled and due in most Tier I and Metros. As per the Companies official communique some time back it was planning to put up more than 1000 stores across the country in 2 years while the rate of newer stores for CCD has been a little bit low after they crossed their 1000th. However We feel the CCD valuations have already increased the intrinsic valuation of Starbucks thus generating better value for the Company. We are therefore recommending the Scrip with a Buy rating on it.

**Not just getting up..... but rising!**

## Financial Statements

### Income Statement

(₹ mn)

Year end	Mar 13	Mar 14	% Chg	Mar 15	% Chg
Total Sales + Excise	23143.8	26731.0	15.50	28605.1	7.01
Other Income	1877.2	4451.2	137.12	2339.5	(47.44)
Change in Stocks	385.4	51.0	(86.77)	279.9	448.82
Raw Material Con.	14293.0	15965.5	11.70	17189.8	7.67
Employee Exp.	1377.6	1520.3	10.36	1622.3	6.71
Indirect Taxes	60.0	64.7	7.83	69.9	8.04
Other Exp.	5831.5	6800.5	16.62	7049.9	3.67
Operating Exp.	21176.7	24300.0	14.75	25652.0	5.56
Operating Profit	1967.1	2431.0	23.58	2953.1	21.48
Total Interest	389.7	427.4	9.67	419.9	(1.75)
Gross Profit	3454.6	6454.8	86.85	4872.7	(24.51)
Net Dep.	133.8	323.2	141.55	768.8	137.87
Total Taxation	715.1	1504.9	110.45	1114.5	(25.94)
Net Profit/Loss	2605.7	4626.7	77.56	2989.4	(35.39)

### 4 Years Balance Sheet

(₹ mn)

Balance Sheet as on 31 <sup>st</sup>	Mar 12	Mar 13	Mar 14	Mar 15
<b>SOURCES OF FUNDS</b>	<b>25,554.1</b>	<b>28,050.2</b>	<b>30,079.0</b>	<b>29,572.9</b>
Equity Share capital	618.4	618.4	618.4	618.4
Share Application Money	0.0	0.0	0.0	12.7
Preference Share Capital	0.0	0.0	0.0	0.0
Reserves & Surplus	21,264.0	22,345.8	24,895.5	24,166.8
Long Term Loans	3,253.5	0.3	3,250.0	3,250.0
Short Term Loans	418.2	5,085.7	1,315.1	1,525.0
<b>USES OF FUNDS</b>	<b>25,554.1</b>	<b>28,050.2</b>	<b>30,079.0</b>	<b>29,572.9</b>
Gross Block	2,556.8	2,695.5	2,838.0	3,616.1
Less : Revaluation Reserves	218.6	218.6	218.6	218.6
Less : Accumulated Depreciation	1,156.2	1,228.7	1,308.8	1,682.7
Net Block	1,182.0	1,248.2	1,310.6	1,714.8
Capital Work in Progress	26.9	37.7	90.6	112.7
Investments	22,057.0	22,251.4	24,056.5	22,426.8
Current Assets	18,562.9	21,840.6	23,826.2	25,506.1
Less : Current Liabilities	16,274.7	17,327.7	19,204.9	20,187.5
Total Net Current Assets	2,288.2	4,512.9	4,621.3	5,318.6
Misc. Expenses not writtenoff	0.0	0.0	0.0	0.0
<b>NOTE</b>				
Bk Val Unquoted Investments	17,453.2	17,583.4	19,388.5	20,112.4
Mkt Val. Quoted Investments	17,441.5	23,883.2	17,968.4	18,752.7
Contingent Liabilities	824.7	1,483.8	464.5	904.5
Dividend (%)	215	215	225	225

## Quarterly Income Sheets

(₹ mn)

Quarter Ended	Sep 14	Dec 14	Mar 15	Jun 15
Net Sales	7123.7	7786.6	6714.9	8231.5
Cost Of Sales	6536.1	6922.5	5849.1	7114.4
Operating Profit	587.6	864.1	865.8	1117.1
Other Income	1192.3	149.9	133.9	23.4
Adjusted PBDIT	1779.9	1014.0	999.7	1140.5
Financial Expenses	62.5	135.2	101.5	40.8
Depreciation	48.3	50.6	55.4	54.1
Other Write Offs	0.0	0.0	0.0	0.0
Adjusted PBT	1669.1	828.2	842.8	1045.6
Tax Charges	353.4	272.1	0.0	367.2
Adjusted PAT	1315.7	556.1	842.8	678.4
Non Recurring Items	(3.5)	0.0	(413.7)	0.0
Other Non Cash Adjust	0.0	0.0	0.0	0.0
Net Profit	1312.2	556.1	429.1	678.4

## 52 Week Index Relative Percentage Appreciation



Tata Global vs SENSEX

## Risks Associated

- A significant part of the company's operations is dependent on the black tea category. There is risk of decline in black tea category in developed markets. Further there are economic uncertainties in some markets like Russia which may pose challenges in the short term.
- The company is in a nascent stage in the water business. Though it has a stable set of products in the water business it needs to scale up profitability with growth in volumes. Though this business has significant growth opportunities, competition is intense and existing brands are well established global players. Competing with these brands globally will require investments in the future. In value added waters including fortified waters, bringing to timely commercial fruition new product development using appropriate technologies is also a risk and concern.
- In the coffee segment the company is a small player and would require a lot of resources to expand to a bigger business. Product innovation would be one thing which will play a major role taking into consideration the existing players in the coffee segment.
- The risks of swift changes in commodity prices or rapid currency rate fluctuations remain. These could cause significant inflation in commodity input costs, thereby leading to dilution of margins and earnings, which could in turn limit scope to innovate, invest and expand.

**In a Nutshell**

Tata Global is a Tata Group company which initially started up as a mere Tea marketing agency. The company rapidly integrated and for many years was involved into the field as a tea grower. For the last 13 years the business made a rapid turnaround and has transformed itself into a Global beverage company with acquisitions, global reach and introduction of newer products and making of key brands. Today Tata Global Beverage unites the beverage interests of Tata Group under one umbrella and therefore shows a transcontinental presence across the globe. The company is the second largest Tea Company in the world and caters to over 250 mn brand servings in a day across the globe, 90% of its branded business and 62% of the overall revenues come from outside India. The company has been following an aggressive acquisition and JV path and has some of the best brands of the globe like the Tetley Tea under its portfolio, in its quest of Disruptive Innovation which according to the management would change the face of how consumers look out to beverages it has introduced Tetley Infusions, and other cold beverage varieties etc. which would challenge the ways consumers perceive the beverage space and change the way the world drinks. The company is entering new markets and creating new channels for growth which would enhance its global foot print. After the current IPO of Caffe Coffe day unveiled what valuations a Coffee Chain can behold, we feel the internal valuation of the company suddenly has risen considering Tata Global's alliance with Starbucks The overall fundamental of the company is very strong and we therefore are very bullish on the future prospects the company beholds.

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**Rating Interpretation**

**Buy** : Expected to appreciate 20% or more over 12-months

**Accumulate** : Expected to appreciate 10% to 20% over 12-months

**Trade Buy** : Expected to appreciate more than 10% over 45-days

**Reduce** : Expected to depreciate up to 10% over 12-months

**Sell** : Expected to depreciate 10% or more over 12-months

**Trade Sell** : Expected to depreciate more than 10% over 45-days

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