

# Tata Global Beverages Ltd

Bloomberg Code: TGBL IN

India Research - Stock Broking

**HOLD**

## Tata Global Consumer Play - A Perfect Shot....

TGBL's entry into the FMCG world elucidates the new strategic direction of the company by providing significant value creation for all shareholders through greater scale and synergy. An addition of consumer business of Tata chemicals with TGBL has made the business more diversified and logical from the investor's as well as consumer's perspective. According to the management, there would be synergies of 2-3% of combined India branded business revenue over the next 18 to 24 months which means that synergies worth Rs. 100-150 crore are expected to be added to the combined entity. On the distribution front, the management expects 20%-30% of distribution outlet growth.

**Strong brand presence across world:** Being the world's second largest beverage company and a leading player in domestic tea market TGBL has moved to No. 2 from No. 13 in ET brand equity ranking of India's most trusted brands in hot beverages category driven by a five-year high volume growth of 12% in its domestic tea business in FY19. Tata tea has accelerated its growth across all key geographies through its strong brand presence in Tata tea and Tetley products.

**Successful innovation strategy, changing product mix amplifies future growth:** TGBL offers a diversified mix of products like tea, coffee and water that drives 89% of its total revenue from branded products. Its immense focus on product innovation like Tetley Super Squash which is available in three different flavors and iced tea under the brand Tetley will propel revenue growth in future. TGBL has also forayed into café vertical "TATA CHA", aiming at glamorizing tea. So far 6 stores have been opened till date, spanning 3 different formats- High street, Kiosk and Abbreviated. TGBL JV with Starbucks delivered double digit top line growth ~30% for the full year, driven by new stores and improved in store performance.

## Valuation and Risks

Due to aggressive M&A strategy and a growing demand for existing business, we expect a rational growth for TGBL in FY20E & FY21E. We value the stock at a P/E of 27x (which is near a 10% premium to the 4 year average 1 year forward valuation of 25x) on FY21E EPS and recommend "HOLD" with a target price of Rs. 263.

### Exhibit 1: Valuation Summary

YE Mar (Rs. Mn)	FY17	FY18	FY19	FY20E	FY21E
Net Sales	67796	68154	72515	97338	104920
EBITDA	8742	9331	9430	14708	16003
EBITDA Margin (%)	12.9	13.7	13.0	15.1	15.3
Net Profit	3894	4956	4082	7989	8917
EPS (Rs.)	6.2	7.9	6.5	8.7	9.7
RoE (%)	6.2	7.0	5.6	10.0	10.3
PE (x)	24.4	33.0	30.8	28.4	25.4

Source: Company, Karvy Research; \*Represents multiples for FY17 - FY19 are based on historic market price

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### Recommendation (Rs.)

CMP (as on Jun 17, 2019)	246
Target Price	263
Upside (%)	7

### Stock Information

Mkt Cap (Rs.mn/US\$ mn)	155921 / 2230
52-wk High/Low (Rs.)	285 / 177
3M Avg. daily value (Rs.mn)	848.4
Beta (x)	1.0
Sensex/Nifty	38961 / 11672
O/S Shares(mn)	631.1
Face Value (Rs.)	1.0

### Shareholding Pattern (%)

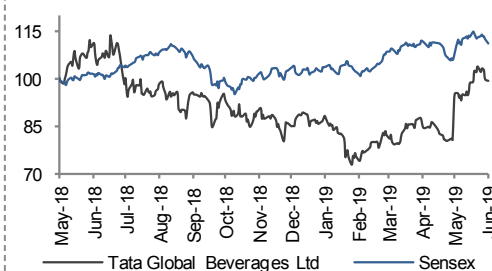
Promoters	33.2
FII	24.7
DII	14.3
Others	27.8

### Stock Performance (%)

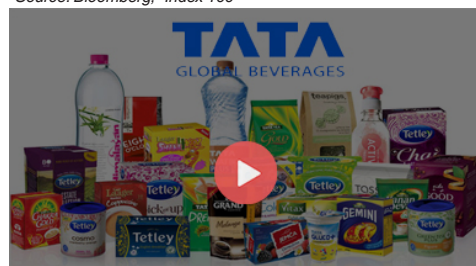
	1M	3M	6M	12M
Absolute	4	21	17	(10)
Relative to Sensex	2	18	9	(17)

Source: Bloomberg

### Relative Performance\*



Source: Bloomberg; \*Index 100



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### Tata Consumer Product



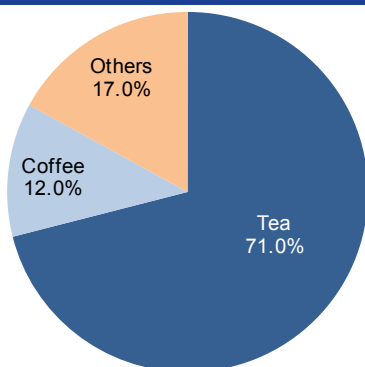
Tata global has announced a much anticipated merger with the consumer business of Tata Chemicals and the combined entity to be renamed as Tata Consumer Product. The combined consumer business will benefit from a combined reach of over 200 million domestic households, a broader portfolio to deepen distribution and to strengthen strong product portfolio. Pursuant to the scheme each shareholder of TCL will get 1.14 new equity share of TGBL for every share held in TCL. The transaction values the consumer business of Tata Chemicals at around Rs.5,800 crore. Post the acquisition, Tata Chemicals will own a 31.5% stake in Tata Global Beverages.

The proposed transaction will create a focused Consumer Products Company with a combined turnover and EBITDA of Rs. 9,099 crore and Rs. 1,154 crore respectively, for the twelve months period ended March 31, 2019 on a pro-forma basis.

Category	Products
Salt	
Pulses	
Spices	
New products	

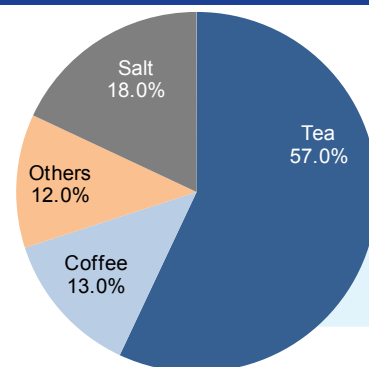
Source: Company, Karvy Research, \* First phase launches have achieved 5-13% market share while second phase launches achieved 1-3% market share

**Exhibit 2: TGBL FY19 Rev : Rs. 7,252 cr**



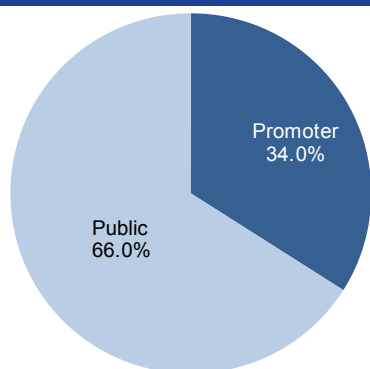
Source: Company, Karvy Research

**Exhibit 3: TGBL FY19 Rev : Rs. 9,099 cr (Pro-forma)**



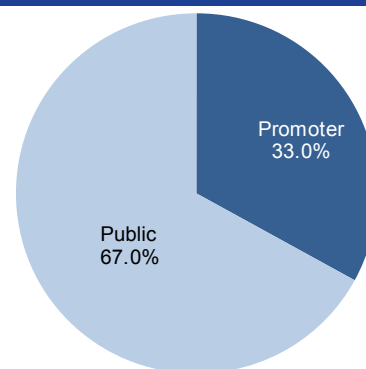
Source: Company, Karvy Research

**Exhibit 4: Premerger Shareholding pattern**



Source: Company, Karvy Research

**Exhibit 5: Post merger Shareholding pattern**



Source: Company, Karvy Research

**Pro-forma Financial Overview (FY19)**

	Tata Global Beverages Ltd		Consumer Products Business	Combined	
	India-Branded	Total		India-Branded	Total
Revenue (Rs. cr)	3160	7252	1847	4978	9099
EBITDA (Rs. cr)	490	838	316	806	1154
EBITDA Margin	15.5%	11.6%	17.1%	16.1%	12.7%
Net Profit (Rs. cr)		408	204*		612
Net cash /(Debt)		721	-		721

Source: Company, Karvy Research, \* CPB Net Profit is assuming marginal tax rate of 34.99%

**An Ambitious move to Acquire Dhunseri Branded Tea Business:**

In a move to gain market share in the branded tea business, TGBL has entered into a non-binding term sheet to acquire the branded tea business of Dhunseri Tea & Industries Limited for an aggregate consideration of up to Rs. 101 crore. The Dhunseri branded tea business currently has the brands “Lalghoda” and “Kalaghoda” which are among the leading local brands in Rajasthan, a market dominated by regional players consisting market share of 6%. The sale and distribution network will be providing synergy to the branded tea business of TGBL.

**Key Risks to the Call**

- Higher tea commodity cost in India.
- Everyday Black Tea category has declined.
- Performance impacted by wage increase and lower realization of orthodox tea.
- Increased competitive intensity in International markets.

## A Final Glance at TGBL Pre Merger

### Investment Rationale

- World's 2<sup>nd</sup> largest beverage company and a leading player in domestic tea market having sound geographical presence.
- Increase penetration into unbranded space with a strong brand recall.
- Foraying into new categories will accelerate growth.
- Phasing out non-profitable business.
- Green and Specialty Tea to drive growth ahead.
- Premiumizing- a key driver to improve margin.

### Company Background

Tata Global Beverages Limited is an Indian multinational non alcoholic beverages company headquartered in Kolkata, West Bengal, India and a subsidiary of the Tata Group with focus on tea, coffee and water.

**Strong mix of Non-alcoholic beverages portfolio:** Kicking off the business as a plantation company, now TGBL has turned into a well diversified beverage company. TGBL initiatives towards innovation and modernization help it to become world's 2nd largest tea company and a leading player in domestic tea market with its flagship brands TATA Tea and Tetley. TGBL offers a wide ranging mix of products like tea, coffee, water followed by continuous innovation in new product categories like Tetley Super Squash which is available in three different flavors and iced tea under the brand Tetley is creating value for the company. TGBL's geographical presence in many countries like US, Canada, UK, Australia, Europe, Middle East and Africa makes it more diversified across countries and helps to minimize a single country risk.

TGBL derives 60% of its consolidated revenue from overseas market and more than 89% of overall turnover is from branded products and the remaining 11% of revenues are delivered by plantations and extraction businesses.

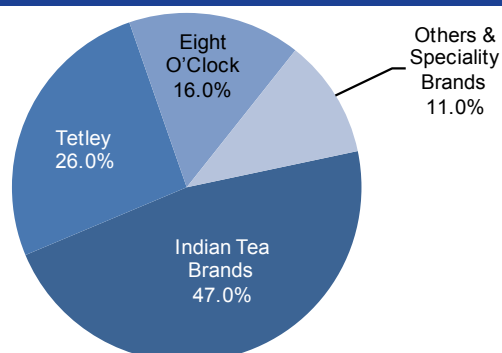
In October 2018, TGBL Indian business recorded a production volume of 11,500 tons which was the highest production ever and on the same period; production at Sampla Packeting Centre, Haryana, alone crossed 3,000 tons.

Tata Tea brand ranking jumped to #2 from #13 in ET Brand Equity's India's Most Trusted Brands in Hot Beverages Category.



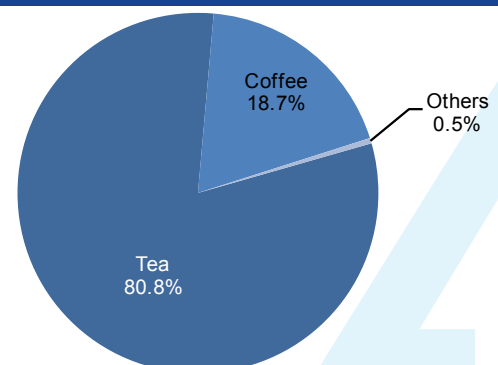
King George VI visiting the Tetley site when it was first opened in Greenford. Lyons' Tea Company stepped in to help Tetley with deliveries during World War II, explaining the branded lorries in the above photo.

**Exhibit 6: Brand-wise contribution (%) (Pre merger)**



Source: Company, Karvy Research

**Exhibit 7: Branded Revenue Segmentation (%) (Pre merger)**



Source: Company, Karvy Research

*In developing economies like India, Green tea is growing faster than Black tea which currently occupies a very small market share.*



**Menu, Please**

- Cucumber Green Tea and Sugar-free Tangy Tamarind paired with oil-free Soya Kababs.
- Dilliwali Kanji, Masala Shikanji, Meetha Paan and Rasmalai Milk Shake
- Indigenous snacks such as Chatpata Matar Kulcha.
- The hot range including Sikkim tea, Masala tea and Nimbuda Black tea.

**Green Tea to drive growth ahead**

Due to growing health consciousness among millennials, global green tea market is witnessing an impressive growth, also affluence of working population with increasing disposable income accelerates the demand for green tea. According to FAO, global output of green tea is estimated to increase at 7.5% annually to reach 3.6 million tonnes in 2027, aided by China, where the production of green tea is expected to more than double from 1.5 million tonnes in 2015-2017 to 3.3 million tonnes in 2027.

**Restructuring to aid growth**

- For the purpose of restructuring, TGBL divested its stake in Zhejiang Tata Tea Extractions Limited in FY17-18 for a sale consideration of Rs. 17.24 crore.
- The Group completed the divestment process of its Russian operations which has resulted in the sale of two subsidiaries (Suntly LLC and Teatrade LLC)
- Group divested its 31.85% holding in its overseas Associate, Estate Management Services Private Limited (EMSPL), Sri Lanka on December 28, 2017 for a sale consideration of Rs. 119.65 crore.

Russia and China subsidiaries reported loss of Rs. 32.2 crore and Rs. 20.44 crore respectively in FY17. All these steps are undertaken to curtail losses and to focus on company's core branded business.

**Jumping to the fresh cycle:**

TGBL is gaining competitive advantages by offering consumer a good value among its peers. TGBL has forayed into new categories and expanded its businesses in incubatory ventures with a long term target.

It launched Tata Tea "Fruski" in the Delhi NCR region, a unique, herbal ready-to-drink tea. Based on a blend of real fruits, TGBL extended its presence in the area of functional drinks and launched Tetley Super Squash in UK Tetley strengthened its range with three new teas: Indulgence flavored black tea Range, Super Matcha and Super Sunshine. A superior brand Teapigs, launched a new range of Matcha Latte single-serve packs in the flavors of Cocoa, Chai and Turmeric.

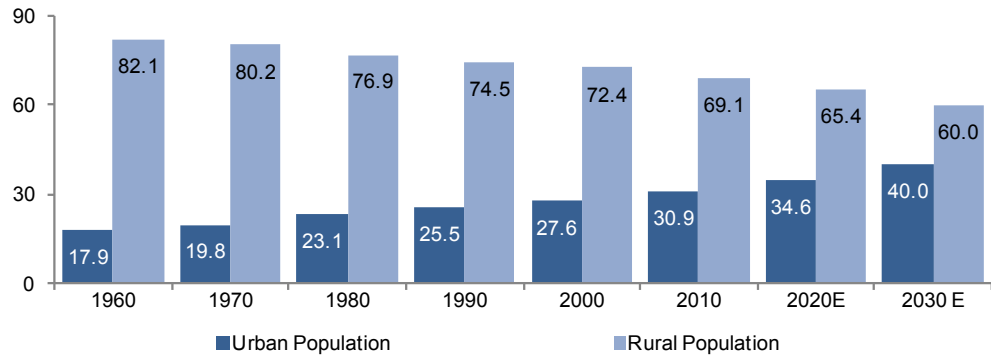
In India, a pilot launch of a tea café, "TATA CHA" created a social hub with tea as a prime drink. TATA CHA is aimed at glamorizing tea and making it more competitive like coffee. The first Tata Cha store was launched in the third quarter of FY 2017-18 in Bangalore. So far 6 stores have been opened and an overwhelming response from the customer is creating value for the business for the long run.

**Premiumization- A road map to future growth:**

All over the globe, consumers are looking for delectable and healthy products for a good life. There is a growing awareness today among consumers in rural India too for 'health and wellness'. The classic drivers of premiumization are increase in the rate of urbanization, upward trend in household disposable income and demand for a quality life. As per IBEF, India's contribution to global consumption is expected to get double to 5.8% by 2020. Consumer preferences for beverages continue to be mainly driven by 'health awareness & premiumization'.

According to UN, 55% of the world's population lives in urban areas, a proportion that is expected to increase to 68% by 2050.

**Exhibit 8: Indian Urban population growth**

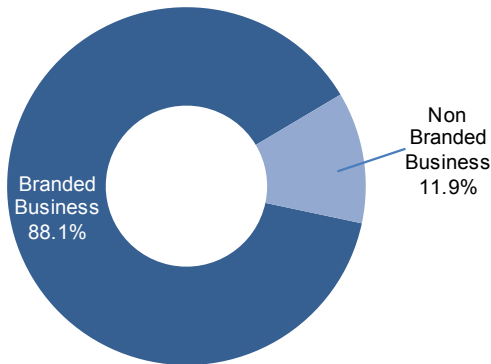


Source: Company, Karvy Research

**Increasing penetration into unbranded space with a strong brand recall:**

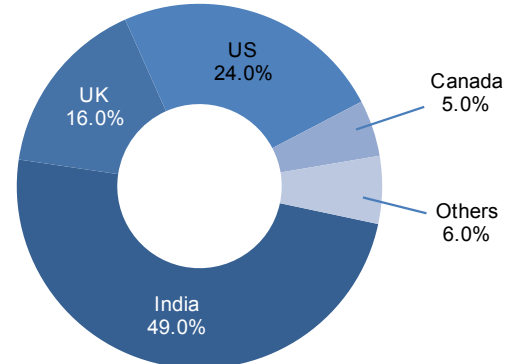
Unbranded category places a major role in satisfying the demand of consumer but simultaneously, changing life style mainly aided by change in per capita income and high disposable income is influencing consumer to move to branded products. In India almost 40%-45% of entire tea is still unbranded, indicating immense opportunity for Indian tea sellers to explore the loose tea market.

**Exhibit 9: Branded & Non Branded Contribution**



Source: Company, Karvy Research

**Exhibit 10: Region-wise Branded Turnover**



Source: Company, Karvy Research

*Beverages price index corrected more than 5% in 2018, reflecting a huge supply than other product market, but it is expected to stabilize in 2019.*

- *Global tea prices tumbled more than 5% in the third quarter of 2018 (QoQ), due to significant decline at Colombo and Mombasa auctions (down 9 and 7% respectively).*
- *Prices at the Kolkata auction, however, held steady due to poor crop yield in Kerala, one of India's key tea producing regions.*

## Industry Outlook

### Non-Alcoholic Beverages sector in India:

An upward growth trend in urbanization across the world has changed consumer's preferences among beverages sector. Formally non alcoholic beverages are limited to tea, coffee and juices but now beverage companies have completely changed the end user's perception from traditional beverage products to modern one. Non-alcoholic beverages constitutes an eclectic list of products such as fruit juices, carbonated drinks, supplemental nutritional drinks, ready-to-drink coffee, tea, energy drinks, bottled water, isotonic drinks, etc. According to Research and Markets, the non-alcoholic beverage market size was valued at \$1545 Bn in 2015 and is expected to reach \$2020 Bn by 2021, growing at 4.3% CAGR during the forecast period 2016-2021.

**Exhibit 11: Beverage price index**



Source: <http://blogs.worldbank.org>, Karvy Research, Notes: Last observation in 2019Q1. Shaded area denotes forecasts.

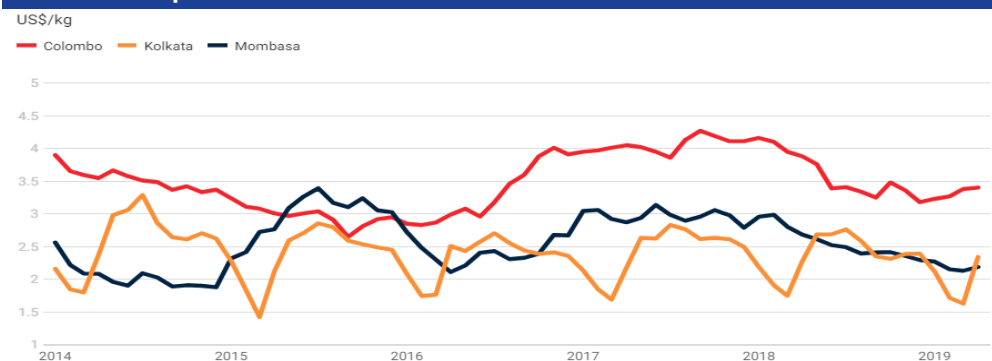
### Tea-Not merely a drink with Jam and Bread:

In modern era, consumer perception for tea has marked a complete transformation from the past. Now tea as a portfolio constitutes of large varieties of drinks. Globally, tea was the second most consumed liquid after packaged water in 2017.

According to Krishijagran, in 2016, global tea market was valued at \$46,392 Mn and is projected to reach at \$67,751 Mn by 2023 with expected CAGR of close to 5% during the period 2019-2023.

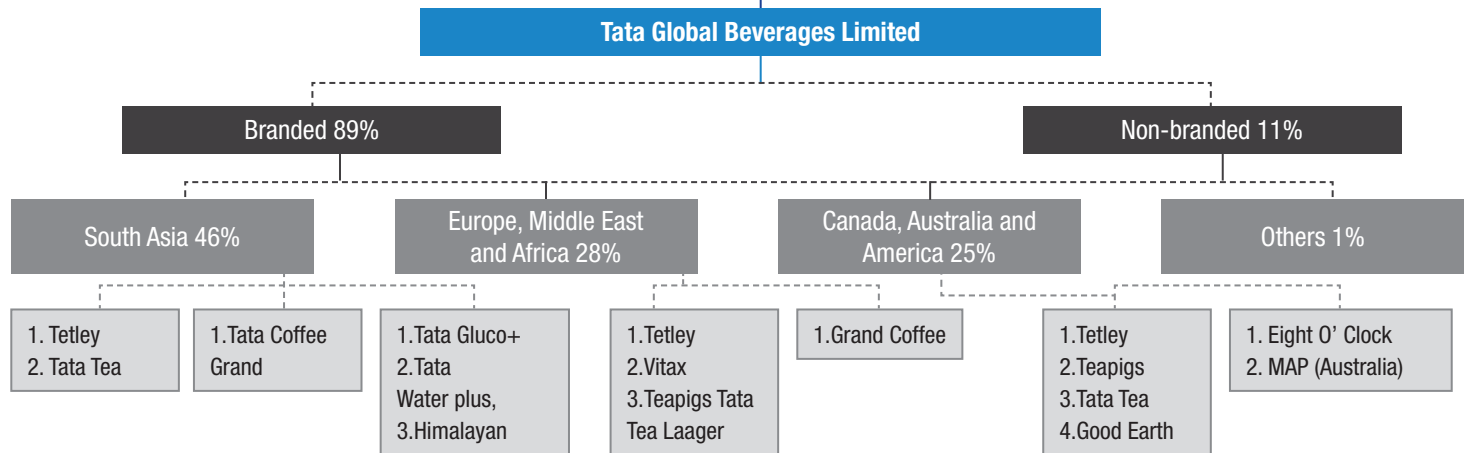
India is the 2nd largest producer of tea in the world and accounts for the highest tea consumption globally with about three-fourths of the country's total produce consumed locally. In 2007 tea witnessed a slower growth due to a decline in black tea production driven by poor weather conditions in the country.

**Exhibit 12: Tea prices**



Source: <http://blogs.worldbank.org>, Karvy Research, Note: Last observation is April 2019.

## Business Model for TGBL (Pre-merger)



*World's 2nd largest beverage company in the world and a leading player in domestic tea market having sound geographical presence.*

### Brewing the perfect Cuppa:

Tata Global Beverages is among the world's 2nd largest tea companies with a growing coffee and water portfolio. TGBL gets more than 80% of its branded sales from tea business under various brands like Tetley, TATA Tea, Good Earth, Vitex, Jemca, Teapigs, Joekels. The company continues to hold the popularity on its leading brands providing its consumer a wide variety of option by innovating new products for the domestic as well as overseas market. TGBL delivered a strong brand performance through TATA Tea and jumped from 13th to 2nd rank in ET Brand Equity's India's Most Trusted Brands in Hot Beverages Category.

In Canada, company introduced "Super Teas" with three variant (Immune, Boost and Antioxidant) and became one of the Tetley's 10 fastest selling specialty SKU. The new "Super Teas" has driven 25% of the value growth in the specialty tea category and 95% of positive review has added the value to the branded tea business.

In FY19, revenue from branded tea sales was up by 5.7% from 2.4% in FY18 through support to the base business and through new product launches. This year TGBL launched Tata Tea Chakra Gold Elaichi in Tamil Nadu and Greater Andhra.

To grow its ambition into branded tea business, TGBL has entered into a non-binding term sheet to acquire the branded tea business of Dhunseri Tea & Industries Limited for an aggregate consideration of up to Rs. 101 crore. Dhunseri's branded tea business currently has "Lalghoda" and "Kalaghoda" brands, which are among the leading local brands in Rajasthan with a market share of 6%, besides the sales and distribution network of the acquired business will further provide synergy to TGBL.

We expect revenues to grow in FY20 with a CAGR of 7.5% aided by high growth in branded tea products.

### Guzzling bottled mineral water:

Bottled water in India has performed so well on account of increase in disposable income and changing lifestyles. As the consumers are looking for clean and pure water for health and wellness which is creating new opportunity for bottled mineral water players. According to Mintel, India bottled water sector records an impressive growth of 19%. Due to increase in premiumization and awareness towards health is shifting consumers from traditional source of water to packaged water. TGBL water vertical: - NourishCo Beverages Limited, a joint venture with PepsiCo comprises of Himalayan mineral water, Tata Gluco Plus, Tata Water Plus.



*NourishCo delivered 10% top line growth for the year FY19 driven by the hyper growth in Tata Gluco Plus (TGP), Tata Water Plus and domestic sales of Himalayan.*

TGBL is continuously creating new benchmark of manufacturing excellence by producing 21.8 Mn bottles of Himalayan water. In 2017-18, Himalayan forayed into flavored water segment which is available in apple, strawberry and peach variants. During last quarter of FY 2017-18, Himalayan natural mineral water was launched in the US market and is now available in two international markets including Singapore. Tata Gluco Plus continues to deliver double digit growth. Since inception NourishCo beverages for the first time reached close to its breakeven point due to bettered sales and improvement in the cost base.

**Burgeoning coffee market:**

Coffee is a bright spot for the global beverages industry facing stagnating demand growth in the last year. According to ICO, global coffee production by all exporting country was 169 Mn bags, 5.1 % higher than the previous year with a 3.9% increase in Robusta output with 5.9% rise in Arabica production. World total coffee consumption is increasing by CAGR of 2.1% (2012/13-2017/2018) with India’s consumption elevated by 0.9% in 2017/18.

Coffee is an important strategic segment for TGBL which is limited to three geographies US, India and Australia. Eight O’Clock in US recently expanded its infusions range with three new variants: Super Spice, Acai Glow and B6 Metabolism.

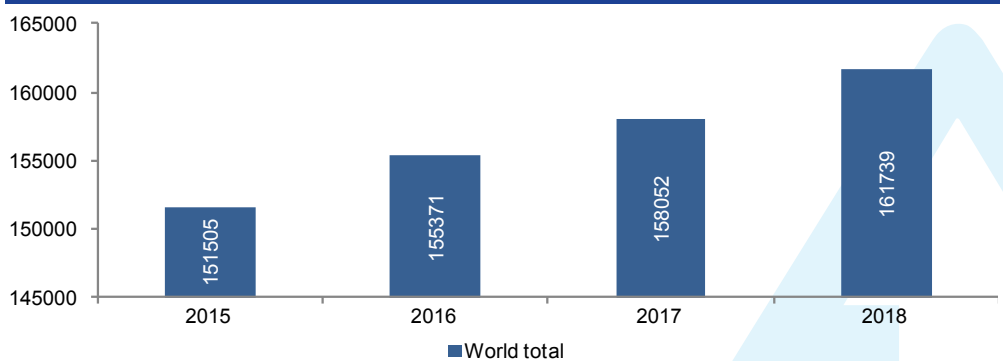
TGBL coffee revenue was slow in FY18 due to slowdown in the pod segment and high competitive intensity but in FY19 it recaptured a growth of around 11% aided by improving instant coffee business.

Tata Coffee is a subsidiary of Tata Global Beverages. It is one of the world’s largest integrated coffee companies and one of the largest exporters of instant coffee in India. The Company produces approximately 10,000 MT of shade grown Arabica and Robusta coffees at its 19 estates in South India and its two Instant Coffee manufacturing facilities have a combined installed capacity of 8400 metric tons. It exports green coffee to countries in Europe, Asia, Middle East and North America. Tata Coffee’s farms are triple certified.

Tata Coffee unveiled their state of art Freeze Dried Instant Coffee plant in Vietnam and celebrated a grand ceremony on 6th, March 2019. Located in the Binh Duong Province of Vietnam, the plant which is capable of producing 5,000 million tonnes (MT) of freeze-dried coffee per annum, we expect coffee to grow at 8% in FY19-20 on the back of high global demand of coffee and low coffee prices.

To enjoy every segment in coffee business, TGBL signed a management contract for nine of Tata Coffee’s heritage bungalows from its hospitality brand Plantation Trails. This partnership will bring a new authentic offering for travelers looking for offbeat experiences in the realms of nature.

**Exhibit 13: World coffee consumption (thousand 60 kg bags)**

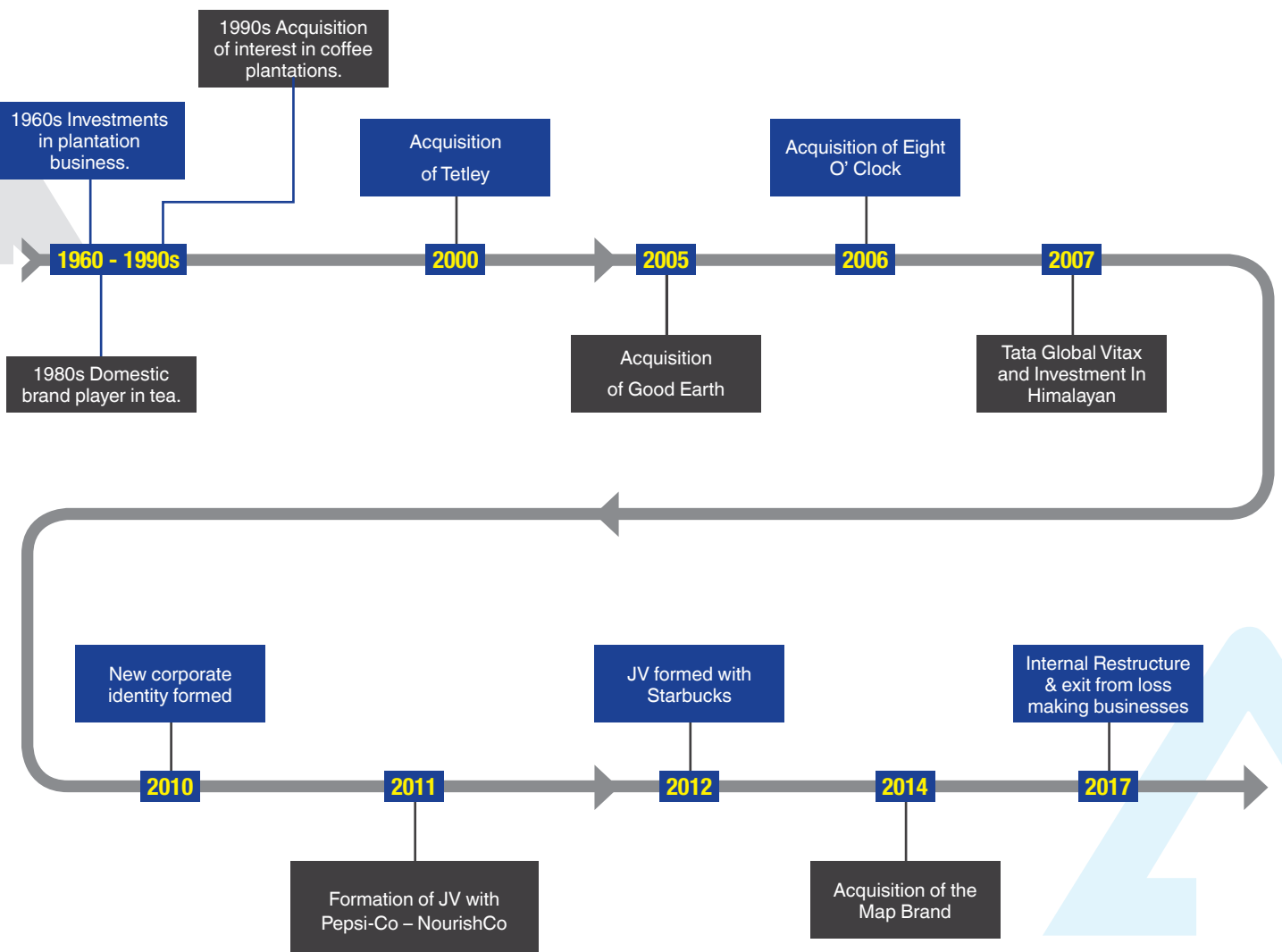


Source: <http://www.ico.org>, Karvy Research

**Tata-Starbucks:**

- TGBL leverages a long term committed partnership with Starbucks to bring a unique Starbucks experience to the Indian consumer along with trust and reliability under TATA name. The branded Tata Starbucks stores are present in Mumbai, Delhi NCR, Pune, Bangalore, Chennai and Hyderabad. During FY18-19, the business also entered Kolkata in West Bengal.
- Tata Starbucks is a joint venture between Starbucks coffee company and TGB and has been recognised as one of India’s top ten best workplaces in FY2017-18 by the prestigious Great Place To Work Institute. TGBL so far has opened 146 stores in which all stores are profitable.
- Tata Starbucks for the first time since inception started recording a positive EBITDA aided by 28% increase in sales in FY2018 against nearly 30% of top line growth in FY19 driven by robust in-store performance coupled with addition of new store helped the group company to cover more diversified businesses under its portfolio.
- During 2017-18, Tata Starbucks partnered with Vistara Airlines and brews Starbucks coffee at 30000 feet to provide an in-flight-experience to its passengers.

**TGBL’s Journey since inception**



**Indian Government's recent drivers to boost disposable income**

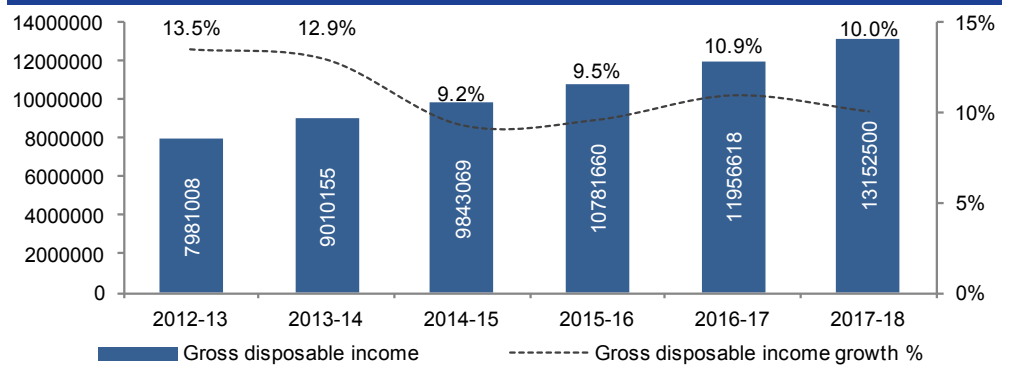
- Finance Minister Piyush Goyal announced a relief package of Rs. 75000 crore under a new scheme PM Kisaan Samman Nidhi for distressed farmers, the government will transfer a sum of Rs. 6000 per year to farmers who own up to two hectares of land.
- For the next financial year, salaried class with income upto Rs. 5lakh to get a full rebate. Additional exemptions have also been proposed to the tax structure.
- Government plans to create digital infrastructure, for that it will make 1 lakh villages into Digital Villages over next five years that would lead to a better supply chain management benefiting food and food processing industry.

**Economic Outlook**

Global growth momentum appears to be steady in 2019 and 2020. According to the World Economic outlook 2019, Global economic growth is likely to decline to 3.3% in 2019 from 3.6% in 2018. Escalating trade tension and political uncertainty globally have decelerated the growth projections.

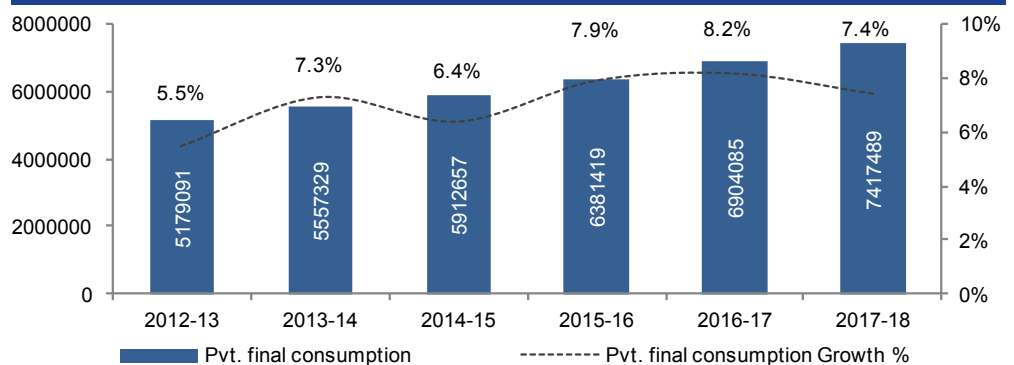
Indian economy is expected to grow around 7.3% in 2020 and 7.5% in 2021. Indian government's steps to boost private consumption and disposable income by providing a tax rebate upto Rs. 5 lakh, agricultural reforms, and PM Kisan scheme will also contribute to the growth in consumer sector.

**Exhibit 14: Gross Disposable Income & Growth**



Source: MOSPI, Karvy Research

**Exhibit 15: Private Final Consumption & Growth**



Source: MOSPI, Karvy Research

**Exhibit 16: Business Assumptions**

Y/E Mar (Rs. Mn)	FY18	FY19E	FY20E	FY21E	Comments
<b>Consolidated</b>					
Revenue	68154	72515	97338	104920	With High brand awareness and changing product mix, we expect topline to grow at CAGR of 7.5% and 8.5% in FY19 and FY20 respectively.
Revenue Growth (%)	0.5	6.4	34.2	7.8	
EBITDA	9331	9430	14708	16003	EBITDA margins are expected to increase on the back of synergy from Tata salt business.
EBITDA Margins (%)	13.7	13.0	15.1	15.3	
PAT (normalized)	4956	4082	7989	8917	
Fully Diluted EPS (Rs.)	7.9	6.5	8.7	9.7	
Fully Diluted EPS Growth (%)	27.2	(17.6)	34.1	11.6	
Net CFO	3556	2099	12088	10569	
Capex	(3588)	(2823)	908	(1921)	
Debt	10562	11169	10290	11165	
Free Cash Flow	(32)	(724)	12996	8649	

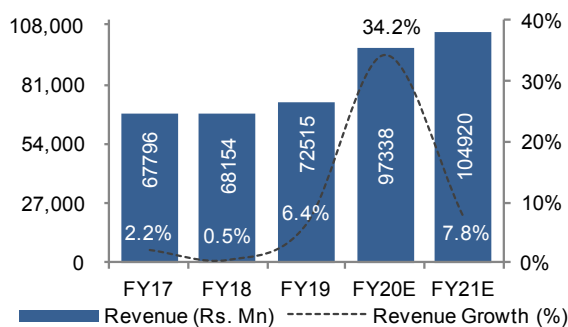
Source: Company, Karvy Research

**Exhibit 17: Karvy vs Consensus**

	Karvy	Consensus	Divergence (%)	Comments	
<b>Revenues (Rs. Mn)</b>					
FY20E	97338	86105	13.0	Our estimates are based on proforma basis due to the addition of Tata Chemical Consumer Business, so the consensus figures are not comparable.	
FY21E	104920	93592	12.1		
<b>EBITDA (Rs. Mn)</b>					
FY20E	14708	9886	48.8		
FY21E	16003	11189	43.0		
<b>EPS (Rs.)</b>					
FY20E	8.7	8.2	5.8		
FY21E	9.7	9.5	2.1		

Source: Bloomberg, Karvy Research

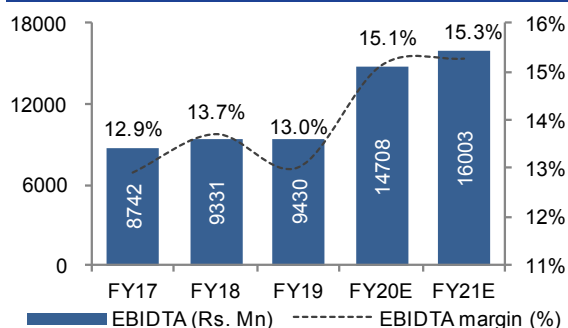
**Exhibit 18: Revenue & Revenue growth**



Source: Company, Karvy Research

**Revenue is expected to grow at CAGR of 20% over FY19-21:** We have calculated our estimates on pro-forma basis, so in FY20 we can see a jump in the topline due to the addition of Tata Chemicals Consumer business. This is also aided by increasing product reach due to high brand awareness and acquisition of Dhunseri branded tea business will lead to gain the domestic market share.

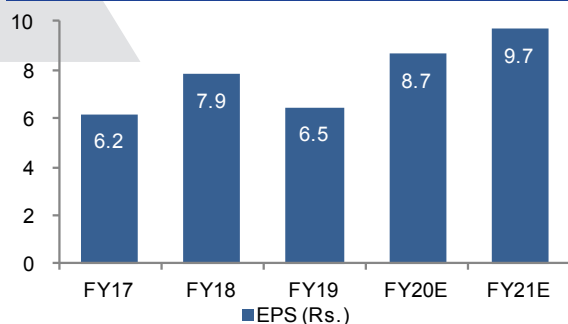
**Exhibit 19: EBITDA & EBITDA margin**



Source: Company, Karvy Research

**EBITDA to grow at 30% CAGR over FY19-21E:** As a result of merger of Tata Chemicals Consumer biz. to TGBL, we have estimated the financial on pro-forma basis and expect the EBITDA to grow at CAGR of 30% over FY19-21E on standalone basis (TGBL premerger) we expect the EBITDA to grow at 14% CAGR over FY19-20E on the back of high product innovation.

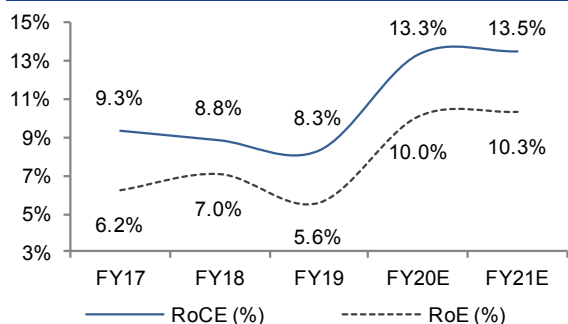
**Exhibit 20: EPS (Rs.)**



Source: Company, Karvy Research

EPS is likely to grow at a CAGR of 22% over FY19E-21E on proforma basis on account of strong growth in company's topline simultaneously boosting EBITDA through greater synergies from M&A activities.

**Exhibit 21: RoCE & RoE**



Source: Company, Karvy Research

We expect RoCE to grow at 13.30% and 13.5% in FY 20-21 resp. from 8.3% in FY 19 and RoE to grow at 10% and 10.3% in FY20-21 from 5.6% in FY19.

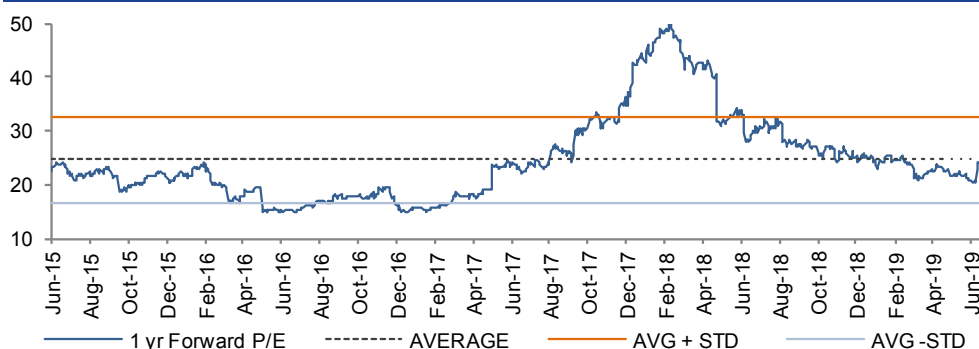
**Exhibit 22: Company Snapshot (Ratings)**

	Low				High
	1	2	3	4	5
Quality of Earnings		✓			
Domestic Sales			✓		
Net Debt/Equity			✓		
Working Capital Requirement				✓	
Quality of Management					✓
Depth of Management					✓
Promoter					✓
Corporate Governance					✓

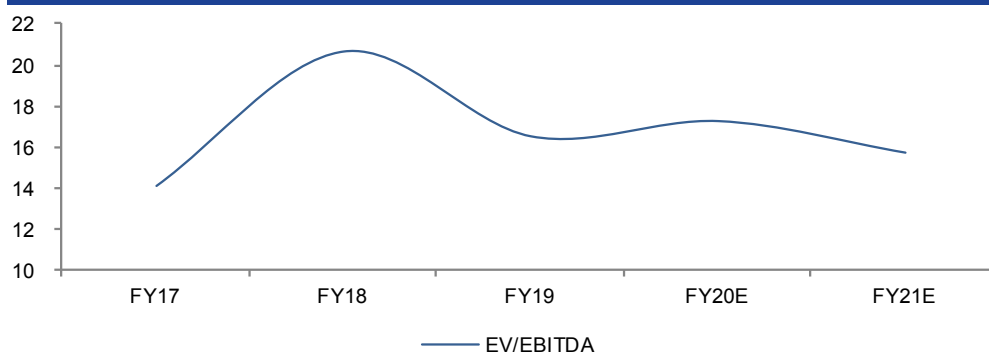
Source: Company, Karvy Research

## Valuation & Outlook

TGBL's vision to expand its business from a solely beverage company to complete consumer business and acquisition of Dhunseri tea business reflects company's enthusiasm to grow its business aided by growing demand for existing business. We expect a rational growth for TGBL in FY20E & FY21E. We value the stock at a P/E of 27x (which is near a 10% premium to the 4 year average 1 year forward valuation of 25x) on FY21E EPS and recommend **"HOLD"** with a target price of Rs. 263.

**Exhibit 23: 1 year forward PE Band**


Source: Company, Karvy Research

**Exhibit 24: EV/EBITDA (x)**


Source: Company, Karvy Research

**Exhibit 25(a): Comparative Valuation Summary**

	CMP (Rs.)	Mcap (Rs. Mn)	EV/EBITDA (x)				P/E (x)				EPS (Rs.)			
			FY18	FY19	FY20E	FY21E	FY18	FY19	FY20E	FY21E	FY18	FY19	FY20E	FY21E
Tata Global Beverages	246	15592	20.7	17.2	14.7	13.4	33.0	32.5	24.2	21.7	7.9	6.5	8.7	9.7
CCL Products	263	34993	16.5	16.6	12.5	10.6	25.0	24.5	19.1	15.4	11.1	11.6	14.4	17.3
Jubilant Foodworks	1280	168649	34.0	30.7	22.6	19.1	78.2	59.6	43.6	35.8	14.9	24.2	30.1	37.3
Varun Beverages	905	156815	16.5	13.6	10.9	-	48.9	46.0	31.9	0.0	16.0	18.8	27.1	-

Source: Bloomberg, Karvy Research

**Exhibit 25(b): Comparative Operational Metrics Summary**

	CAGR % (FY18-21E)			RoE (%)				Price Perf (%)			Net Sales (Rs. Mn)			
	Sales	EBITDA	EPS	FY18	FY19	FY20E	FY21E	3m	6m	12m	FY18	FY19	FY20E	FY21E
Tata Global Beverages	7.5	19.7	7.1	7.0	5.6	10.0	10.3	20.9	17.0	(9.7)	68154	72515	77954	84580
CCL Products	9.7	13.8	15.8	21.7	19.6	20.4	22.0	(9.4)	(5.5)	(6.2)	11380	10814	12790	14765
Jubilant Foodworks	16.6	24.6	35.9	22.1	28.7	28.1	28.1	(4.9)	0.1	(7.6)	30177	35631	41419	47846
Varun Beverages	18.5	17.9	19.2	15.5	14.7	17.9	-	4.3	22.1	11.2	51053	69780	84941	-

Source: Bloomberg, Karvy Research

## Financials

### Exhibit 26: Income Statement

YE Mar (Rs. Mn)	FY17	FY18	FY19	FY20E	FY21E
Revenues	67796	68154	72515	97338	104920
Growth (%)	2.2	0.5	6.4	34.2	7.8
Operating Expenses	35616	36993	40076	42874	46519
EBITDA	8742	9331	9430	14708	16003
Growth (%)	18.7	6.7	1.1	56.0	8.8
Depreciation & Amortization	1260	1160	1226	1275	1346
Other income	831	942	1571	1241	1346
EBIT	7535	7959	7872	13433	14657
Interest Expenses	915	428	525	478	658
PBT	6620	7531	7347	12955	13998
Tax	1983	1859	2609	3887	4200
Adjusted PAT	3894	4956	4082	7989	8917
Growth (%)	-	27.2	(17.6)	95.7	11.6

Source: Company, Karvy Research

### Exhibit 27: Balance Sheet

YE Mar (Rs. Mn)	FY17	FY18	FY19	FY20E	FY21E
Cash & Cash Equivalents	5657	9335	9670	17508	23279
Trade receivables	5925	6483	6806	6997	7416
Inventory	14530	14483	16099	14782	15165
Loans & Advances	3363	2933	2621	3625	3933
Investments	11057	8985	9001	10277	11150
Net Block	45039	47479	48617	48979	49410
Other assets	10564	16225	16574	16457	17521
<b>Total Assets</b>	<b>96134</b>	<b>105922</b>	<b>109387</b>	<b>118625</b>	<b>127874</b>
Current Liabilities	15396	15860	14582	17607	19004
Debt (Short term + Long term)	7703	10562	11169	10290	11165
Other Liabilities	1185	(907)	43	641	488
<b>Total Liabilities</b>	<b>24284</b>	<b>25516</b>	<b>25794</b>	<b>28538</b>	<b>30657</b>
Shareholders Equity	631	631	631	922	922
Reserves & Surplus	71219	79775	82963	89165	96295
<b>Total Networth</b>	<b>71850</b>	<b>80406</b>	<b>83594</b>	<b>90087</b>	<b>97217</b>
<b>Total Networth &amp; Liabilities</b>	<b>96134</b>	<b>105922</b>	<b>109387</b>	<b>118625</b>	<b>127874</b>

Source: Company, Karvy Research



**Exhibit 28: Cash Flow Statement**

YE Mar (Rs. Mn)	FY17	FY18	FY19	FY20E	FY21E
PBT	6620	7531	7347	12955	13998
Depreciation	1260	1160	1226	1275	1346
Net Interest flow	452	87	(102)	(114)	31
Tax Paid	(2106)	(2992)	(1674)	(3887)	(4200)
Inc/dec in Net WC	1485	(1389)	(3883)	3487	270
Others	(299)	(842)	(816)	(1628)	(877)
<b>Cash flow from operating activities</b>	<b>7412</b>	<b>3556</b>	<b>2099</b>	<b>12088</b>	<b>10569</b>
Inc/dec in capital expenditure	(1382)	(3588)	(2823)	908	(1921)
Others	3631	2847	3556	(3609)	(1055)
Cash flow from investing activities	2249	(741)	733	(2702)	(2976)
<b>Inc/dec in borrowings</b>	<b>(873)</b>	<b>(105)</b>	<b>(653)</b>	<b>938</b>	<b>875</b>
Dividend paid	(1890)	(2118)	(2158)	(1787)	(1787)
Interest paid	(615)	(282)	(437)	(478)	(658)
Others	(4781)	2200	1011	(512)	(252)
<b>Cash flow from financing activities</b>	<b>(8158)</b>	<b>(304)</b>	<b>(2237)</b>	<b>(1839)</b>	<b>(1822)</b>
Net change in cash	1503	2511	594	7547	5771

Source: Company, Karvy Research

**Exhibit 29: Key Ratios**

YE Mar	FY17	FY18	FY19	FY20E	FY21E
EBITDA Margin (%)	12.9	13.7	13.0	15.1	15.3
EBIT Margin (%)	11.1	11.7	10.9	13.8	14.0
Net Profit Margin (%)	5.7	7.3	5.6	8.2	8.5
Dividend Payout Ratio (%)	42.9	34.8	43.8	22.3	20.0
Net Debt/Equity (x)	0.12	0.15	0.15	0.13	0.13
RoE (%)	6.2	7.0	5.6	10.0	10.3
RoCE (%)	9.3	8.8	8.3	13.3	13.5

Source: Company, Karvy Research

**Exhibit 30: Valuation Parameters**

YE Mar	FY17	FY18	FY19	FY20E	FY21E
EPS (Rs.)	6.2	7.9	6.5	8.7	9.7
DPS (Rs.)	2.6	2.7	2.8	1.9	1.9
BVPS (Rs.)	99.3	111.4	116.2	86.6	94.3
PE (x)	24.4	33.0	30.8	28.4	25.4
P/BV (x)	1.5	2.3	1.7	2.8	2.6
EV/EBITDA (x)	14.0	20.7	16.5	17.0	15.5
EV/Sales (x)	1.8	2.8	2.1	2.6	2.4

Source: Company, Karvy Research; \*Represents multiples for FY17 - FY19 are based on historic market price

Stock Ratings	Absolute Returns
Buy	: > 15%
Hold	: 5-15%
Sell	: < 5%

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