

Tata Global - Tata Chemicals consumer merger

Tata Group has announced demerger of Tata Chemicals' (TCL) consumers business into Tata Global Beverages (TGBL). As part of the deal, TCL's consumer business, which includes sourcing, packaging, marketing, distribution & sales of its Tata Salt, pulses & spices under Sampann brand, snacks business and detergent powder, Tata Dx, will be transferred to TGBL.

As on FY19, this combined business had a Revenue and EBITDA of ₹ 9,099 crore & ₹ 1,154 crore respectively. TCL shareholders will get 1.14 new shares of every 1 share of TGBL; TGBL will issue 28.9 crore shares to TCL's shareholders taking total number of shares to 92,05,65,191. The deal values TCL's consumer business at ~₹ 5,800 crore. As a result, market capitalisation of new unit will be ₹ 18,000 crore at TGBL's current share price.

Financial Metrics

| Particulars (₹ crore) | TGBL | | TCL | TCPL | |
|--------------------------|-----------------|---------|----------|-----------------|---------|
| | India - Branded | Total | consumer | India - branded | Total |
| Revenue | 3,160.0 | 7,251.5 | 1,847.0 | 5,007.0 | 9,098.5 |
| EBITDA | 490.0 | 838.0 | 316.0 | 806.0 | 1,154.0 |
| EBITDA Margin (%) | 15.5% | 11.6% | 17.1% | 16.1% | 12.7% |
| Net Profit | | 408.0 | 204.0 | | 612.0 |
| Net Cash/(Debt) | | 721.0 | | | 721.0 |

Source: Reuters, ICICI Direct Research

TGBL-TCL Share Swap ratio

| | |
|--|-------|
| TCL number of shares (crore) | 25.5 |
| TGBL-TCL Share Swap ratio | 1.14 |
| TCL shares after share swap (crore) | 29.04 |
| TGBL number of shares (crore) | 63.1 |
| TCPL number of shares (crore) | 92.2 |
| Promoter number of shares (crore) | 21.7 |
| Promoter stake % | 34.5% |
| After dilution, promoter stake will be | 33.2% |
| Reduction in promoter holding | 1.3% |

Source: Reuters, ICICI Direct Research

Valuation & Outlook

We believe TGBL-TCL's consumer business merger is EPS accretive as TCL's consumer business EBIT margin of 17% is higher than TGBL's 9% for FY19 in addition to synergy benefits on account of distribution and cost rationalisation resulting in 100-150 bps expansions in EBITDA margins. Though, India tea and salt business are low growth saturated categories, but strong cash flow of both the businesses would help TGBL to spend more in terms of A&P for pulses, spices, water & other categories. We believe investment behind new categories would be the key to growth in future. Moreover, contribution of international business would come down from 55% to 45%, as it has been a drag on sales growth. We value consolidated branded business at 3x P/Sales, international business at 1x P/sales & Starbucks JV at 2x P/Sales on FY21E revenues respectively, with a revised target price of ₹ 250/ share.

Key Financial Summary

| Key Financials | FY17 | FY18 | FY19E | FY20E | FY21E | CAGR (FY19-21E) |
|-----------------|--------|--------|--------|--------|--------|-----------------|
| Net Sales | 6779.6 | 6815.4 | 7251.5 | 7632.8 | 8077.6 | 5.5% |
| EBITDA | 791.1 | 838.9 | 785.9 | 817.0 | 883.6 | 6.0% |
| EBITDA Margin % | 11.7 | 12.3 | 10.8 | 10.7 | 10.9 | |
| Net Profit | 454.8 | 556.5 | 457.0 | 498.1 | 550.4 | 9.8% |
| EPS (₹) | 7.2 | 8.8 | 7.2 | 7.9 | 8.7 | |
| P/E | 27.8 | 22.7 | 27.6 | 25.3 | 22.9 | |
| RoNW % | 7.2 | 8.1 | 6.5 | 7.2 | 7.6 | |
| RoCE (%) | 8.9 | 8.7 | 8.4 | 9.1 | 9.5 | |

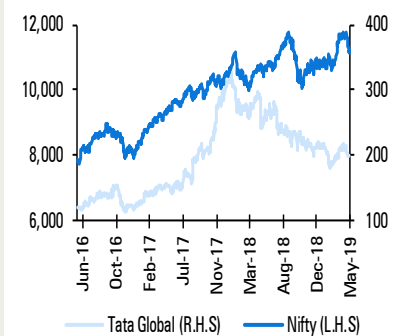
Source: ICICI Direct Research, Company

TATA GLOBAL BEVERAGES

Particulars

| Particulars (₹ crore) | Amount |
|-----------------------------|-----------|
| Market Capitalization | 12,622.0 |
| Total Debt (FY19) | 1,116.9 |
| Cash and Investments (FY19) | 1,616.8 |
| EV | 12,122.1 |
| 52 week H/L (₹) | 299 / 178 |
| Equity capital | 63.1 |
| Face value (₹) | 1.0 |

Price Performance



Key Highlights

- Maintain BUY with a revised target price of ₹ 250/ share
- TGBL will enter into long term supply agreement with TCL for supply of salt.
- Deal is expected to be completed by Q1FY21 subject to regulatory & shareholder approvals.
- The new business created by the merger of the consumer businesses will be known as Tata Consumer Products Ltd (TCPL).

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Financial Summary

Exhibit 1: Profit & Loss statement

| (Year-end March) | FY18 | FY19E | FY20E | FY21E |
|-------------------------------|---------------|---------------|---------------|---------------|
| Total Operating Income | 6815.4 | 7251.5 | 7632.8 | 8077.6 |
| Growth (%) | 0.5 | 6.4 | 5.3 | 5.8 |
| Raw Material Expenses | 3,699.3 | 4,007.6 | 4,264.0 | 4,452.9 |
| Employee Expenses | 821.4 | 806.3 | 842.9 | 932.6 |
| Marketing Expenses | 508.9 | 547.5 | 597.7 | 632.6 |
| Administrative Expenses | 0.0 | 0.0 | 0.0 | 0.0 |
| Other expenses | 946.9 | 1,104.1 | 1,111.1 | 1,175.9 |
| Total Operating Expenditure | 5,976.4 | 6,465.6 | 6,815.8 | 7,194.0 |
| EBITDA | 838.9 | 785.9 | 817.0 | 883.6 |
| Growth (%) | 6.0 | -6.3 | 4.0 | 8.2 |
| Depreciation | 116.0 | 122.6 | 128.1 | 137.1 |
| Interest | 42.8 | 52.5 | 67.3 | 63.7 |
| Other Income | 94.2 | 157.1 | 165.0 | 173.2 |
| PBT | 774.3 | 768.0 | 786.6 | 856.1 |
| Exceptional items | -21.1 | -33.3 | 0.0 | 0.0 |
| Total Tax | 185.9 | 260.9 | 259.6 | 282.5 |
| PAT | 556.5 | 457.0 | 498.1 | 550.4 |
| Growth (%) | 22.4 | -17.9 | 9.0 | 10.5 |
| Adjusted EPS (₹) | 9.1 | 7.6 | 7.9 | 8.7 |

Source: Company, ICICI Direct Research

Exhibit 3: Balance Sheet

| (Year-end March) | FY18 | FY19E | FY20E | FY21E |
|-------------------------------|---------------|---------------|---------------|---------------|
| Liabilities | | | | |
| Equity Capital | 63.1 | 63.1 | 63.1 | 63.1 |
| Reserve and Surplus | 6,968.5 | 7,268.6 | 6,813.8 | 7,138.9 |
| Total Shareholders funds | 7,031.6 | 7,331.7 | 6,876.9 | 7,202.0 |
| Long Term Borrowings | 656.0 | 787.2 | 747.2 | 707.2 |
| Long Term Provisions | 144.2 | 152.2 | 244.2 | 258.5 |
| Other Non-current Liabilities | 1163.8 | 1197.6 | 1197.6 | 1197.6 |
| Total Liabilities | 8995.6 | 9468.8 | 9066.0 | 9365.4 |
| Assets | | | | |
| Gross Block | 6,915.5 | 7,015.5 | 7,115.5 | 7,215.5 |
| Less: Acc Depreciation | 2,108.5 | 2,231.1 | 2,359.1 | 2,496.2 |
| Net Block | 4,798.2 | 4,913.3 | 4,756.4 | 4,719.3 |
| Capital WIP | 135.2 | 424.4 | 424.4 | 424.4 |
| Non Current Investments | 592.8 | 604.5 | 613.1 | 622.0 |
| LT Loans & Advances/Others | 531.1 | 448.5 | 448.5 | 448.5 |
| Current Assets | | | | |
| Inventory | 1,448.3 | 1,609.9 | 1,631.1 | 1,726.2 |
| Debtors | 648.3 | 680.6 | 669.2 | 708.2 |
| Cash | 1,238.1 | 1,033.6 | 1,192.5 | 1,425.0 |
| Loans & Advances | 840.8 | 828.2 | 501.9 | 531.1 |
| Other Current Assets | 359.5 | 395.8 | 167.3 | 177.0 |
| Current Liabilities | | | | |
| Creditors | 705.7 | 664.9 | 627.4 | 663.9 |
| Provisions | 98.8 | 49.5 | 125.5 | 132.8 |
| Short Term Borrowings | 400.2 | 329.7 | 334.6 | 354.1 |
| Other CL | 391.9 | 425.9 | 250.9 | 265.6 |
| Net Current Assets | 2,938.4 | 3,078.0 | 2,823.6 | 3,151.2 |
| Total Assets | 8995.6 | 9468.8 | 9066.0 | 9365.4 |

Source: Company, ICICI Direct Research

Exhibit 2: Cash Flow Statement

| (Year-end March) | FY18 | FY19E | FY20E | FY21E |
|-------------------------------------|---------------|---------------|---------------|---------------|
| Profit/Loss after Tax | 453.9 | 457.0 | 498.1 | 550.4 |
| Add: Depreciation | 116.0 | 122.6 | 128.1 | 137.1 |
| Add: Interest | 8.7 | 52.5 | 67.3 | 63.7 |
| (Inc)/dec in Current Assets | -127.1 | -217.5 | 544.9 | -173.1 |
| Inc/(dec) in Current Liabilities | -11.8 | -126.6 | -131.6 | 78.0 |
| CF from operating activities | 355.6 | 287.9 | 1106.8 | 656.1 |
| (Inc)/dec in Investments | 231.8 | -11.7 | -8.6 | -8.9 |
| (Inc)/dec in Fixed Assets | -350.0 | -527.0 | 28.9 | -100.0 |
| Others | 44.2 | 124.3 | 92.0 | 14.2 |
| CF from investing activities | -74.1 | -414.3 | 112.3 | -94.7 |
| Issue/(Buy back) of Equity | 0.0 | 0.0 | 0.0 | 0.0 |
| Inc/(dec) in loan funds | 216.0 | 131.3 | -40.0 | -40.0 |
| Dividend paid & dividend tax | -211.8 | -225.3 | -225.3 | -225.3 |
| Inc/(dec) in Sec. premium | 0.0 | 0.0 | 0.0 | 0.0 |
| Others | -28.2 | -52.5 | -67.3 | -63.7 |
| CF from financing activities | -30.4 | -265.8 | -332.6 | -329.0 |
| Net Cash flow | 251.1 | -392.2 | 886.5 | 232.5 |
| Opening Cash | 404.1 | 698.2 | 306.0 | 1,192.5 |
| Closing Cash | 1238.1 | 1033.6 | 1192.5 | 1425.0 |

Source: Company, ICICI Direct Research

Exhibit 4: Key Ratios

| (Year-end March) | FY18 | FY19E | FY20E | FY21E |
|-----------------------------|-------|-------|-------|-------|
| Per share data (₹) | | | | |
| EPS | 8.8 | 7.2 | 7.9 | 8.7 |
| Cash EPS | 10.7 | 9.2 | 9.9 | 10.9 |
| BV | 111.4 | 116.2 | 109.0 | 114.1 |
| DPS | 2.6 | 3.0 | 3.0 | 3.0 |
| Cash Per Share | 19.6 | 16.4 | 18.9 | 22.6 |
| Operating Ratios (%) | | | | |
| EBITDA Margin | 12.3 | 10.8 | 10.7 | 10.9 |
| PBT / Net Sales | 11.4 | 10.6 | 10.3 | 10.6 |
| PAT Margin | 8.2 | 6.3 | 6.5 | 6.8 |
| Inventory days | 77.6 | 81.0 | 78.0 | 78.0 |
| Debtor days | 34.7 | 34.3 | 32.0 | 32.0 |
| Creditor days | 37.8 | 33.5 | 30.0 | 30.0 |
| Return Ratios (%) | | | | |
| RoE | 8.1 | 6.5 | 7.2 | 7.6 |
| RoCE | 8.7 | 8.4 | 9.1 | 9.5 |
| RoIC | 10.0 | 8.9 | 9.8 | 10.5 |
| Valuation Ratios (x) | | | | |
| P/E | 22.7 | 27.6 | 25.3 | 22.9 |
| EV / EBITDA | 14.2 | 15.6 | 14.8 | 13.4 |
| EV / Net Sales | 1.7 | 1.7 | 1.6 | 1.5 |
| Market Cap / Sales | 1.9 | 1.7 | 1.7 | 1.6 |
| Price to Book Value | 1.8 | 1.7 | 1.8 | 1.8 |
| Solvency Ratios | | | | |
| Debt/EBITDA | 1.3 | 1.4 | 1.3 | 1.2 |
| Debt / Equity | 0.2 | 0.2 | 0.2 | 0.1 |
| Current Ratio | 2.8 | 3.1 | 3.0 | 3.0 |
| Quick Ratio | 1.5 | 1.7 | 1.3 | 1.3 |

Source: Company, ICICI Direct Research

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Sell: <-15%



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