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TATA GLOBAL BEVERAGE

HOLD

Target Rs.123/-

Tata Global and Starbucks join hands to capture the retail coffee segment in India

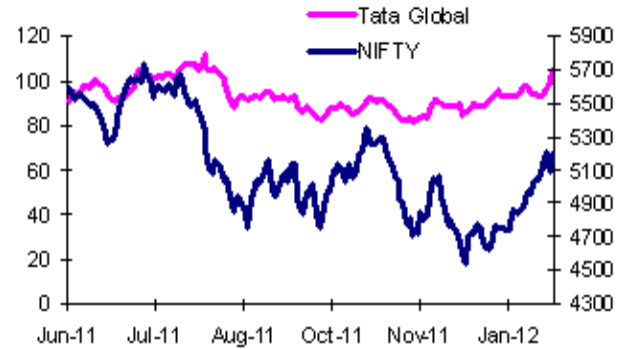
Tata Global Beverages and Starbucks coffee shop has entered into a 50-50 joint venture to start coffee retail outlets in India. The new Joint Venture will be called Tata Starbucks Ltd. with each of the partners investing Rs. 200 cr initially.

The first Tata Starbucks cafe to be called 'Starbucks Coffee - A Tata Alliance' is expected to start operations by the second half of 2012. The plan is to open 50 outlets in the initial phase. The company will focus initially on launching outlets in metros like Mumbai and Delhi and then expand fast to other cities. Moreover, the stores will be opened in Tata's own hotel chain - Taj hotels as well as other locations like malls, railway stations and airport.

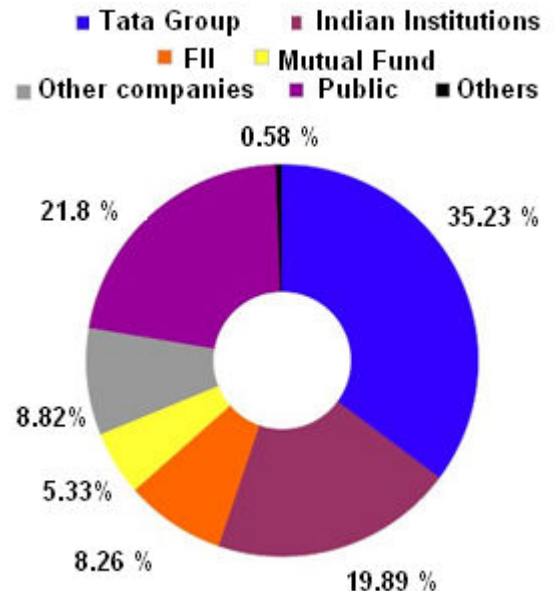
The agreement with Starbucks would help Tata Global's subsidiary Tata Coffee to tap the opportunity in the domestic market. Currently, almost 65% of Tata Coffee's sales come from its Eight O'Clock Coffee Co. unit in the U.S. The JV will source the roast coffee beans from Tata Coffee's Kodagu facility.

| Stock Details | |
|----------------------|---------------|
| CMP | 110.00 |
| 52 Week High | 116.00 |
| 52 Week Low | 80.00 |
| Market Cap (Cr) | 6,553.70 |
| Face Value | 1.00 |
| Dividend % | 200.00 |
| Beta | 0.69 |
| NSE Code | TATAGLOBAL |
| BSE Code | TATAGLOBAL |
| Reuters Code | TTAEY.PK |

Tata Global Vs NIFTY



Share Holding Pattern



Third Quarter Performance

The consolidated net profit declined by 10.94 % to Rs. 64.06 crore for the third quarter ended December 31, 2011. This fall is primarily attributed to the increase in exceptional expenditure. The company had posted a net profit of Rs 71.93 crore for the corresponding period of previous fiscal.

Net sales of the company stood at Rs 1,793.20 crore for the third quarter, up 11.9 % from Rs 1,602.42 crore in the same period previous fiscal. The exceptional items for the quarter represents redundancy costs incurred in relation to business restructure of Rs 2.11 crore and cost incurred on long term initiatives and new projects of Rs 13.92 crore. On a standalone basis, the company's profit after tax rose by 23.9 % to Rs 58.42 crore for the third quarter as against Rs 47.15 crore in the same period previous fiscal.

| | Quarterly Performance | | | | | Nine Month Performance | | |
|--|-----------------------|------------------|------------------|-------------|-------------|------------------------|------------------|------------|
| | Dec-11 | Sep-11 | Dec-10 | QoQ Growth | YoY Growth | Dec-11 | Dec-10 | % change |
| Net Sales | 1,793.20 | 1,612.03 | 1,602.42 | 11% | 12% | 4861.15 | 4,415.21 | 10% |
| Operating Income | 8.62 | 17.78 | 5.90 | -52% | 46% | 37.21 | 18.86 | 97% |
| Other Income | 3.51 | 19.42 | 3.29 | -82% | 7% | 28.72 | 28.78 | 0% |
| Total Income | 1,805.33 | 1,649.23 | 1,611.61 | 9% | 12% | 4,927.08 | 4,462.85 | 10% |
| Increase/ Decrease In WIP | 25.03 | 38.13 | 24.54 | -34% | 2% | 64.15 | -1.15 | -5678% |
| Adv & Sales Charges | -340.62 | -269.14 | -278.59 | 27% | 22% | -833.7 | -737.41 | 13% |
| Consumption of Raw Materials | -698.29 | -706.38 | -615.86 | -1% | 13% | -1998.76 | -1,649.53 | 21% |
| Depreciation & Amortization | -23.77 | -22.79 | -24.32 | 4% | -2% | -70.9 | -73.76 | -4% |
| Employees Cost | -169.17 | -163.53 | -163.42 | 3% | 4% | -491.21 | -471.06 | 4% |
| Other Expenditure | -353.75 | -331.37 | -323.09 | 7% | 9% | -983.76 | -915.16 | 7% |
| Purchase of Traded Goods | -84.17 | -62.25 | -67.93 | 35% | 24% | -221.19 | -209.74 | 5% |
| Expenditure | -1,644.74 | -1,517.33 | -1,448.67 | 8% | 14% | -4535.37 | -4,057.81 | 12% |
| Investment Income | 0.00 | 19.42 | 0.00 | 0% | | 25.21 | 0.00 | 0% |
| Profit before Interest and Exceptional Items | 160.59 | 131.90 | 162.94 | 22% | -1% | 391.71 | 405.04 | -3% |
| Interest | -3.92 | -3.15 | -15.21 | 24% | -74% | -7.59 | -41.13 | -82% |
| Exceptional Items | -16.03 | -10.47 | -0.12 | 53% | 13258% | 62.4 | -46.43 | -234% |
| Profit Before Tax | 140.64 | 118.28 | 147.61 | 19% | -5% | 446.52 | 317.48 | 41% |
| Tax | -59.13 | -40.00 | -67.83 | 48% | -13% | -112.76 | -138.41 | -19% |
| Minority Interest | -18.38 | -10.40 | -25.74 | 77% | -29% | -36.45 | -41.09 | -11% |
| Profit & Loss of Associates | 0.93 | 9.07 | 17.89 | -90% | -95% | 4.62 | 31.12 | -85% |
| Net Profit after Tax, Mino Inter & Share of P & L | 64.06 | 76.95 | 71.93 | -17% | -11% | 301.93 | 169.10 | 79% |

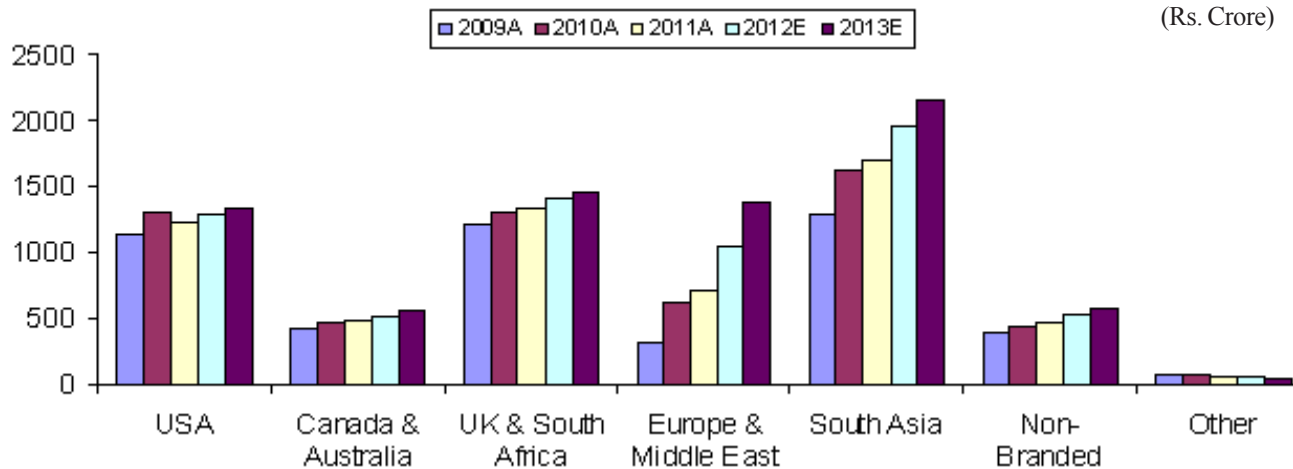
Consolidated Q3 Performance 2011-2012

The consolidated net profits for the quarter ended december 2011 fell by 17% at 61.06 Crore on a QoQ basis. For the quarter ended September 2011 the net profits stood at 76.95. While the expenditure increased by 8% QoQ, the Net Sales too registered a strong growth of 12% on a QoQ basis which led to a 22% increase Profit before interest and exceptional Items. However, a 53% increase in exceptional items, Tax burden and Minority Interest on a QoQ basis ate away the profits.

On a nine month basis the company registered a strong 79% growth in Net profits YoY. The net profits stood at a healthy 301.93 Cr till Dec 2011 (FY 11-12) compared to 169.10 Cr in Dec 2010 (FY 10-11). The Net sales saw a growth of 10% while the expenditures grew by 12%.

The fluctuations in the rawmaterial prices especially coffee beans Arabica and Robusta has been partially offset by passing it on to the consumers.

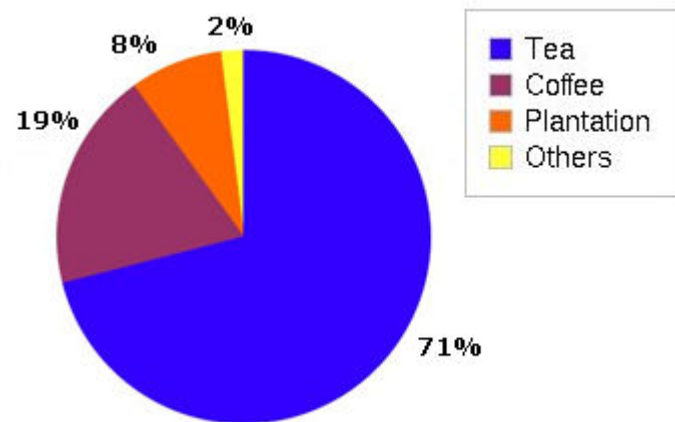
Consolidated Turnover by Region



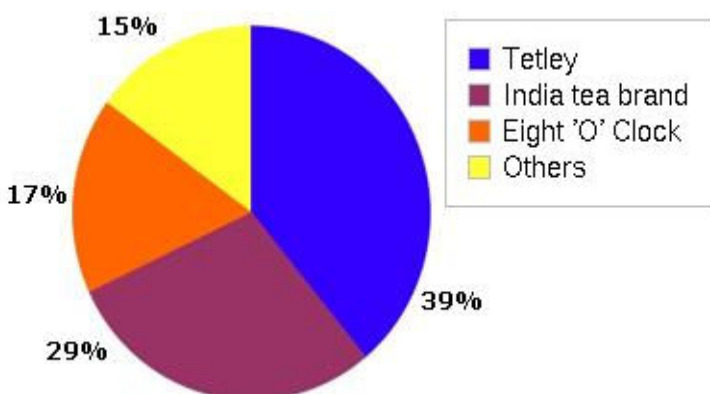
While considering the global sales majority of Tata Global revenue is generated in South Asia with Indian being the primary market for tea consumption. The growth of beverage consumption in Middle East has seen a continuous growth from that region. By acquiring Tetley brand TGBL has made a huge leap in the UK market which too has seen a steady growth. However, in US the fluctuating price of Arabica and Robusta coffee beans had put the margins under pressure.

Sales Categorywise

More than 70% of companies business comes from tea segment. South Asia, Middle East and UK are the major tea consumers that contribute heavily. Tata tea continues its super brand status in India and is a market leader by volume. TGL's Tetley brand is Canada's favourite tea with 44% of tea drinkers preferring Tetley over other brands. The company was successful in transforming itself from plantation business to a marketing and brand led organisation, with over 90% of its revenue coming from branded products.



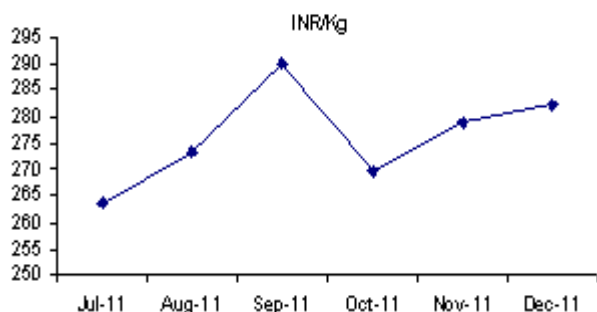
Sales Brandwise



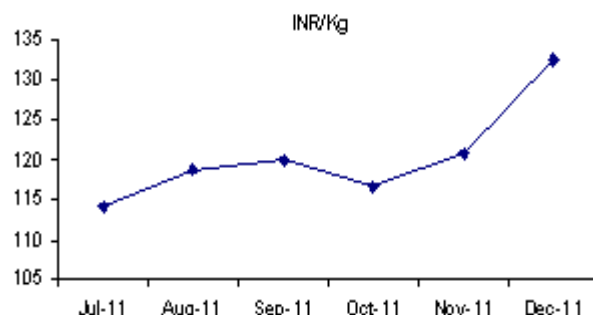
Tetley brand is the highest performing brand in Tata Global's stable. Forty-five million cups of Tetley are drunk around the world every day and Tetley is currently enjoyed in 70 countries, with key markets being the UK and Canada. Tetley remains the most bought tea brand in the UK, with more consumers buying Tetley than other tea brands. Tetley brand alone commands 39% of the sales revenue of TGL which is followed by the Indian tea brands.

Eight O'Clock, was named as one of America's greatest brands in 2010. To increase the customer appeal the packaging was redesigned and refreshed which is considered to be one of the brand's biggest change in the decade. Also the coffee range was extended with addition of metabolism boost performance blend, coffee infused with EGCG, the natural antioxidant found in green tea. these additions has helped to increase the brand value of Eight 'O' Clock coffee.

Arabica Coffee Bean Monthly price chart



Robusta Coffee Bean Monthly price chart



Highlights

- During the quarter, the Company cemented its volume and value leadership position in India and recorded volume increases across all India based brands, with high-profile marketing activity for Tata Tea Premium yielding positive results. The 'soch badlo' campaign which followed the 'Jago re' campaign called on the nation to embrace positive outlook and work together towards a brighter tomorrow. The ongoing Tetley Tea Folk media campaign in UK focused on Tetley Extra Strong and Tetley Green and the brand maintained its clear leadership position in Decaf and Redbush
- Tata Global Beverages Limited increased its focus in green tea market by adding three more variants under its green tea range which will be focussing on the big cities and metros. More flavours are to be introduced in this range which appeals to the indian palate. With this launch Tetley is now available in six flavours under the green tea segment in India (Cinnamon and Honey, Citrus and Spice, and Aloe Vera). It is priced at Rs 50 for a pack of 10 sachets and will initially be available at high end retail outlets and supermarkets in Delhi, Mumbai and all key metros. According to industry estimates, the Indian packaged green tea market is around 3.5 lakh kg per annum in volume terms and is believed to be growing at the rate of 50 percent. At present, some of the other brands in the market include Lipton, WakhBakri and Himalaya.
- Tata Global and PepsiCo India Holdings Pvt Ltd joined hands to form a Joint Venture company, NurishCo Beverages limited in 2010. The vision of the joint venture is to develop the business in India and internationally, focusing on the healthy, non-carbonated, ready-to-drink beverage space. Both Tata Global and PepsiCo holds 50% each of the equity capital. Himalayan Water brand entered the joint venture and has already benefited from wider distribution opportunities.
- Tata Coffee Ltd which is owned by Tata Global plans to expand its footprint in the US and Japan by serving high quality, premium specialty coffees to the small roasters there. Tata Coffee is India's largest integrated coffee producer. The company entered the lucrative US market with its washed robustas, a specialty coffee. It also plans to build on its subsidiary Eight O'Clock Coffee's presence in the region through the specialty segment.
- The recent Joint Venture with Starbucks cafe is expected to improve the sales performance of the company. Tata coffee the subsidiary of Tata Global will be providing the Coffee beans for Joint venture which will help in increasing the consolidated performance of Tata Global.
- The company has transformed itself from a plantation business to a marketing and brand led organization with over 90% of its revenue coming from branded products. The company has gone aggressively in the past years in acquiring and adding new brands to its portfolio.

Company Profile

Tata Global Beverages is into global beverage business and is the world's second largest tea company. The group's annual turnover is US\$1.5bn and it employs around 3,000 people in over 40 countries worldwide. The company focuses on 'good for you' beverages and has a stable of innovative regional and global beverage brands, including: Tata Tea, Tetley, Himalayan natural mineral water, Good Earth and Eight O'clock coffee. The company is part of one of India's largest business houses - TATA Group.

Outlook & Valuation

The recent Joint venture between Tata Global and Starbucks is expected to improve the overall valuation of the company. The forecasted EPS of 8.6 and 10.26 in FY 2012 and FY2013 with PE at 13.87 and 12.6 makes the valuation attractive in the near term. Based on DCF analysis done on Tata Global Beverages Limited, we expect the company to reach its target of Rs. 123/- in near future. We recommend a Hold status on Tata Global Beverages.

| Key Ratios | | | | |
|-------------------------|---------|---------|---------|---------|
| | 2010A | 2011A | 2012E | 2013E |
| Face Value | 10.00 | 1.00 | 1.00 | 1.00 |
| dividend per share | 20.00 | 2.00 | 2.15 | 2.15 |
| Dividends % | 200.00% | 200.00% | 215.00% | 215.00% |
| Operating Profit Margin | 11.29% | 8.99% | 12.83% | 12.83% |
| Net Profit Margin | 6.75% | 4.25% | 9.83% | 10.48% |
| RoCE | 9.39% | 9.36% | 12.19% | 11.94% |
| RoE | 10.61% | 6.50% | 11.90% | 12.00% |
| EPS | 5.20 | 3.39 | 8.65 | 10.27 |
| P/E | 19.79 | 30.37 | 13.87 | 12.66 |

Rs. (Crore)

BALANCE SHEET

| | 2009A | 2010A | 2011A | 2012E | 2013E |
|------------------------------------|-----------------|-----------------|-----------------|-----------------|-----------------|
| Source of Fund | | | | | |
| Shareholders' Funds | 3,652.89 | 3,723.24 | 3,957.12 | 4,438.80 | 4,931.97 |
| Minority Interest | 1,021.96 | 1,057.14 | 1,108.08 | 1,136.09 | 1,176.89 |
| Loan Funds | 2,431.07 | 1,796.78 | 1,041.49 | 1,041.49 | 1,041.49 |
| Total | 7,154.29 | 6,651.91 | 6,170.39 | 6,652.38 | 7,186.65 |
| Applications of Funds | | | | | |
| Net Fixed Assets | 3,762.16 | 3,647.04 | 3,758.88 | 3,781.74 | 3,831.77 |
| Capital Work-in-progress | 63.18 | 47.36 | 38.86 | 35.72 | 32.65 |
| Investments | 351.30 | 519.11 | 586.51 | 552.10 | 680.89 |
| Current Assets, Loans and Advances | 4,176.65 | 4,213.51 | 4,384.24 | 4,369.56 | 4,545.31 |
| Current Liabilities and Provisions | 1,616.54 | 1,559.68 | 1,590.33 | 1,841.74 | 1,945.47 |
| Net Current Assets | 2,970.00 | 2,438.40 | 1,786.15 | 2,277.77 | 2,636.34 |
| Total | 7,154.29 | 6,651.91 | 6,170.39 | 6,652.38 | 7,186.65 |

Rs. (Crore)

PROFIT & LOSS

| | 2009A | 2010A | 2011A | 2012E | 2013E |
|---|-----------------|-----------------|-----------------|-----------------|-----------------|
| Sales and Services – Net | 4,847.87 | 5,782.95 | 5,982.42 | 6,605.53 | 7,349.78 |
| Other Income | 26.23 | 37.98 | 22.12 | 35.32 | 39.30 |
| Investment Income | 33.20 | 34.06 | 29.47 | 54.77 | 60.94 |
| Income (Total) | 4,907.30 | 5,854.99 | 6,034.02 | 6,695.62 | 7,450.02 |
| Purchases | 196.37 | 275.97 | 282.07 | 288.55 | 321.06 |
| Raw Materials Consumed | 1,628.10 | 2,070.69 | 2,305.00 | 2,099.83 | 2,336.42 |
| Expenses | 2,470.82 | 2,789.67 | 2,875.30 | 3,376.38 | 3,756.79 |
| Depreciation and Amortisation | 101.54 | 105.68 | 101.97 | 135.55 | 150.82 |
| Less: Amount drawn from Revaluation Reserve | -2.85 | -2.76 | -2.52 | -3.35 | -3.73 |
| Accretion to Stock | -71.69 | -37.04 | -65.87 | -48.69 | -54.17 |
| Expenditure (Total) | 4,322.29 | 5,202.21 | 5,495.95 | 5,848.27 | 6,507.20 |
| Net | 585.01 | 652.78 | 538.07 | 847.35 | 942.82 |
| Profit before Taxation | 1,256.31 | 640.98 | 494.51 | 802.79 | 912.93 |
| Net Profit | 700.55 | 390.30 | 254.33 | 463.57 | 563.89 |

Rs. (Crore)

CASH FLOW STATEMENT

| | 2009A | 2010A | 2011A | 2012E | 2013E |
|---|------------------|-----------------|------------------|-----------------|-----------------|
| Operating Profit before working capital changes | 652.76 | 703.84 | 607.06 | 928.94 | 1,032.18 |
| Cash generated from operations | 489.12 | 555.01 | 343.06 | 537.26 | 430.99 |
| Net cash from operating activities | 174.18 | 139.61 | 53.12 | 236.96 | 172.51 |
| Net cash from investing activities | 485.31 | 1,490.00 | 11.86 | 1,176.02 | 1,398.73 |
| Net cash from financing activities | -1,305.45 | -757.35 | -1,070.23 | -886.17 | -753.06 |
| Net increase/decrease in Cash and Cash Equivalents | -124.56 | 872.27 | -1,005.25 | 526.80 | 818.18 |
| Opening Balance | 1,323.20 | 1,089.15 | 1,903.83 | 997.31 | 1,614.11 |
| Closing Balance | 1089.15 | 1903.83 | 997.31 | 1614.11 | 2522.29 |

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