

March 30, 2012

BSE Code: 500800 NSE Code: TATAGLOBAL Reuters Code: TAGLNS Bloomberg Code: TGBL:IN

Tata Global Beverages Ltd (TGB) is an emerging player in the global beverage market. Established in 1983, the company has made a strategic shift from being a local tea company to a global beverage company through various acquisitions and strategic partnerships with global beverage giants like PepsiCo and Starbucks, thereby strengthening its position among the top 10 global companies in the beverage industry. TGBL today owns a vast portfolio of leading global brands like Tetley, Eight O' Clock and local brands like Tata Tea.

Investor's Rationale

Net profit fell by 10.9%YoY in Q3FY'12

TGB, one of the leading tea companies in the world posted 10.9% decline in its consolidated net profit for the third quarter on YoY basis at ₹0.6 billion, hurt by exceptional losses and volatile coffee prices, apart from increased ad spends. Net profit of ₹0.7 billion stood in the third quarter last fiscal.

Volume growth and forex translation gains led 12.2% sales growth

The Company has reported 12.2% increase in the consolidated revenue at ₹18.0 billion. The net sales growth comprises of about 3-3.5% of volume growth, 5% forex translation gains and remaining as price growth. The rise in sales also supported by 9% revenue growth in its major Tea business at ₹13.0 billion while the coffee and other product business grew 23% to ₹4.9 billion.

Regional performance in Q3FY'12

On region wise sales break up, USA, Canada and Australia (CAA markets) constituted ₹5.1 billion of sales, up by about 8% y.o.y basis, was impacted by higher marketing and advertisement costs as company spent to secure future volume growth while the EMEA region which is the Europe, Middle East, UK and Africa market constituted about ₹6.4 billion of sales which was up by about 15%YoY basis, as Tetley grew well in volume terms in UK but once again higher promotion spends impacted profitability. South Asian markets, the sales stood at ₹5.0 billion, up by about 10% YoY basis, as new products launched in earlier months are also gaining momentum.

Bleak Eight O'Clock performance, affected the operating margin

The operating profit of the company de-grew by 1.7% at ₹1.8 billion. Consequently, on account of poor coffee performance particularly from Eight O' Clock brand in US affected the operating profit margin (OPM) by 140bps at 10.0%. Further, the company incurred exceptional expenses of ₹0.2 billion which largely pertain to staff redundancy costs and costs on new investments and projects, resulted in lower net profit margin (NPM) by 90bps to 3.5%.

Market Data

CMP (₹)	112	
Target Price	128	
Stop Loss	106	
Duration	Mid-term	
52-week High-Low (₹)	128.7/80.0	
Rise from 52WL (%)	13.0	
Correction from 52WH (%)	40.0	
Beta	1.41	
1 year Average Volume (mn)	38.8	
	3M-	24.6
Stock Return (%)	6M-	31.0
	9M-	20.5
Market Cap (₹bn)	69.5	
Enterprise Value (₹bn)	82.7	

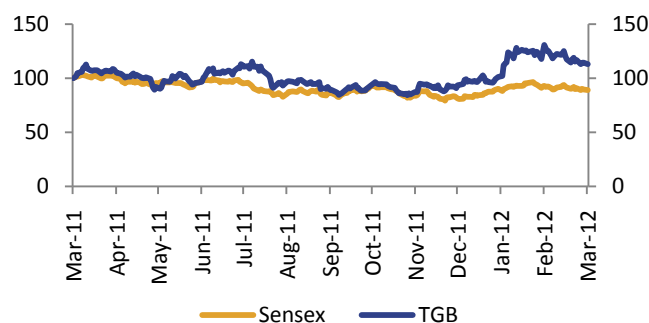
Shareholding Pattern

	Dec'11	Sep'11	Chg
Promoters (%)	35.2	35.2	-
FII (%)	9.9	9.2	0.7
DII (%)	30.4	31.4	(1.0)
Public & Others (%)	24.5	24.2	0.3

Quarterly Performance

(₹ bn)	Q3 FY'12	Q3 FY'11	Q2 FY'12	%Y-o-Y Change	%Q-o-Q Change
Net sales	18.0	16.1	16.3	12.2	10.6
Op. exp	16.2	14.2	15.0	14.0	8.5
EBITDA	1.8	1.8	1.4	(1.7)	33.7
OPM	10.0	11.5	8.3	(140bps)	170bps
Net profit	0.6	0.7	0.8	(10.9)	(16.8)
NPM (%)	3.5	4.5	4.7	(90bps)	(110bps)
EPS	1.0	1.2	1.2	(10.3)	(16.1)

One Year Price Chart





Indbank Merchant Banking Services Ltd.
I Floor, Khiviraj Complex I,
No.480, Anna Salai, Nandanam, Chennai 600035
Telephone No: 044 – 24313094 - 97
Fax No: 044 – 24313093
www.indbankonline.com

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