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Tata Tea - Buy

Tata Tea was incorporated in 1964 as a joint venture with UK-based James Finlay and Company to develop value-added tea. The Tata Tea brand leads market share in terms of value and volume in India and the Tata Tea brand is accorded "Super Brand" recognition in the country. Tata Tea's distribution network in the country with 38 C&F agents and 2500 stockists caters to over 1.7 million retail outlets

Today the company with UK-based Tetley Group, represent the world's second largest global branded tea operation with product and brand presence in 40 countries. The Tetley Group has been a member of the Tata Group since March 2000 and now contributes around two thirds of the total turnover of Tata Tea Ltd

Management

The management of the company is lead by Ratan N Tata-Chairman, R K Krishna Kumar - Vice Chairman, while other board of directors are D B Engineer, U M Rao, A R Gandhi, M Srinivasan, A Singh, J S Bilimoria, P D Leeladhar, Y H Malegam and F K Kavarana.

Business Overview

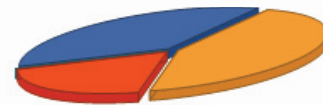
The company has five major brands in the Indian market - Tata Tea, Tetley, Kanan Devan, Chakra Gold and Gemini -- catering to all major consumer segments for tea. The company is present in Bulk tea segment with all grades of CTC Teas, Orthodox Teas and Organic Teas. Its Instant Tea Division caters to customer specific product and is used for light density 100% Teas, Iced Tea Mixes and in the preparation of Ready to Drink (RTD) beverages.

The consolidated worldwide branded tea business of the Tata Tea Group contributes to around 86 per cent of its consolidated turnover with the remaining 14 per cent coming from Bulk Tea, Coffee, and Investment Income. The Company is headquartered in Kolkata and owns 27 tea estates in the states of Assam and West Bengal in eastern India, and Kerala in the south.

The Tetley Group which is the member of the Tata Group since March 2000 contributes around two

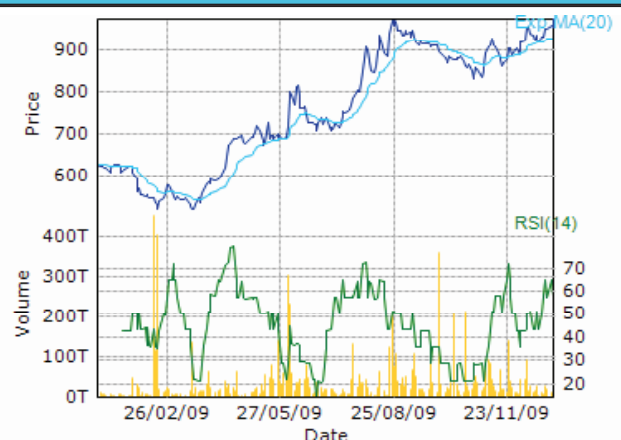
Stock Data		31/12/2009
Current Mkt Price (Rs)		942.60
52 Week High		1016.55
52 Week Low		513.00
Mkt Cap (Rs. in Million)		58290.25
Return in last one Month (%)		5.89

Share Holding



35.25 Indian Promotor	42.87 Total Institutions
21.85 Total Non-Institutions	0.03 Depository Receipt

Performance in last one year



Y-o-Y Performance

Particulars	(Rs. in Million)		
	Mar 2009	Mar 2008	Change(%)
Net Sales	13615.29	11347.02	19.99
Other Income	1961.38	1731.84	13.25
Total Expenditure	12267.36	9779.21	25.44
Operating Profit	3309.31	3299.65	0.29
Interest	816.27	901.49	-9.45
Profits After Tax	1590.62	3128.56	-49.16
Reserve & Surplus	0.17	0.17	-0.27
Reported EPS(Rs)	25.72	50.59	-49.16
Core EBITDA Margin (%)	9.90	13.81	-28.35



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thirds of the total turnover of Tata Tea; it is the no.1 tea bag brand in Great Britain and Canada and has significant market shares in the United States, Australia, Poland and France. Beyond these markets Tetley is steadily growing its presence in Eastern Europe, Russia, through to Bangladesh and Pakistan, and recently launched in South Africa.

Tata Tea has a substantial interest in the Sri Lankan tea industry through Watawala Plantations Limited, Sri Lanka, where it focuses on production and marketing of Tea, Rubber and Palm Oil.

Latest result analysis

- The company has reported a growth of 31.46% in its sales for the quarter ended September 2009 to Rs 426.36 from the corresponding previous quarter of Rs 324.32.
- The profit before tax surged by 146.44% to Rs 299.59 crore compared to Rs 60.59 crore.
- The profit after tax of the company reported a huge growth of 489.27% to Rs 258.04 from Rs 43.79 crore.
- The other income of the company reported a decline of 22.41% to Rs36.01 crore from Rs 46.41 crore.
- Group operating income for the quarter up 18% at Rs 1403 crore.
- Group PBT before exceptional items for the quarter up 21% at Rs 162 crore.
- Group PBT for the quarter is up by 15% at Rs 381 crore.

Industry Scenario

The tea industry in India is about 172 years old. It occupies an important place and plays a very useful part in the national economy. Robert Bruce in 1823 discovered tea plants growing wild in upper Brahmaputra Valley. In 1838 the first Indian tea from Assam was sent to United Kingdom for public sale. Thereafter, it was extended to other parts of the country between 50's and 60's of the last century. However, owing to certain specific soil and climatic requirements its cultivation was confined to only certain parts of the country.

Q-o-Q Performance			
(Rs. in Million)			
Particulars	Sep 2009	Sep 2008	Change(%)
Net Sales	4263.60	3243.20	31.46
Expenditure	3931.60	3001.40	30.99
Other Income	360.10	464.10	-22.41
EBITDA	692.10	705.90	-1.95
Interest	121.90	103.00	18.35
Net Profit	2580.40	437.90	489.27
EBITDA Margin (%)	0.16	0.22	-25.42
NPM (%)	0.61	0.14	348.24
EPS	41.73	7.08	489.41

Profit & Loss			
(Rs. in Million)			
Particulars	Mar 2009	Mar 2008	Change(%)
Net Sales	13615.29	11347.02	19.99
Total Income	15576.67	13078.86	19.10
Total Expenditure	12267.36	9779.21	25.44
Operating Profit	3309.31	3299.65	0.29
Profits After Tax	1590.62	3128.56	-49.16

Balance Sheet			
(Rs. in Million)			
Particulars	Mar 2009	Mar 2008	Change(%)
Share Capital	618.40	618.40	0.00
Reserve & Surplus	17374.76	17422.07	-0.27
Total Liabilities	25543.19	25615.52	-0.28
Investments	20736.74	21937.73	-5.47
Current Liabilities	3105.64	2371.52	30.96
Net Current Assets	3728.93	2611.39	42.79
Total Assests	25543.19	25615.52	-0.28

Key Ratios		
Particulars	Mar 2009	Mar 2008
Reported EPS (Rs)	25.72	50.59
Core EBITDA Margin (%)	9.90	13.81
EBIT Margin (%)	22.82	41.94
ROA (%)	6.22	12.71
ROE (%)	9.00	19.18
ROCE (%)	12.31	19.67
Price/Book (x)	2.05	2.89
Net Sales Growth (%)	19.99	7.61
EBIT Growth (%)	-34.73	12.83
PAT Growth (%)	-49.16	2.05
Total Debt/Mcap (%)	0.21	0.15



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There has been a dramatic tilt in tea disposal in favour of domestic market since fifties. While at the time of Independence only 79 M.Kgs or about 31% of total production of 255 M.Kgs of tea was retained for internal consumption, in 2008 as much as 802 M.Kgs or about 82% of total production of 981 M. Kgs of tea went for domestic consumption. Such a massive increase in domestic consumption has been due to increase in population, greater urbanisation, increase in income and standard of living etc.

The major competitive countries in tea in the world are Sri Lanka, Kenya, China and Indonesia. China is the major producer of green tea while Sri Lanka and Indonesia are producing mainly orthodox varieties of tea. Kenya is basically a CTC tea producing country. While India is facing competition from Sri Lanka and

Indonesia with regard to export of orthodox teas and from China with regard to green tea export, it is facing competition from Kenya and from other African countries in exporting CTC teas.

Domestic tea industry is likely to continue witnessing strong prices in 2010 as well, even as global prices may stabilise. Tea prices have seen a sharp run up in the current year riding on strong demand-supply scenario. 2009 was a year in which a number of major tea producers including India, Kenya and Sri Lanka faced weather related problems leading to decline in production and increase in demand-supply gap. Tea production across the world has also gone down by 4.1% as a result.

Latest developments

Tata Tea has just soft-launched a soft drink 'Tion' in Tamil Nadu to take on cola drinks and a national launch for the product is expected in a year.

The company has re-launched its flagship website www. Jaagore.com. The portal which was, for the last one year, an online hot spot for aspiring voters to register and obtain all information related to 'Voter Registration', will now stand for social awakening in a broader sense. Jaago Re as a campaign has targeted the youth of the nation, urging them to take a stand on various issues such as voting and

corruption and do their bit - thereby encouraging them to be the 'change they want to see'.

Investment Rationale

Over the past two years, Tata Tea has been pursuing several strategies including launching value packs to be able to compete with local brands across the country. The company re-priced some of its brands including Agni, its bestselling brand which caters to the mass segment and has gained accordingly. The company has segmented its brand portfolio into those that have global consumer appeal and those that are more aligned to regional taste.

The company has acquired a Russian company, Grand, which predominantly operates at the low end of the beverages value chain. It holds 51% in the entity. Grand reported \$90 mn sales in FY2009 with minimal profits and its operations are already cash break-even, it resulted in acquiring effective route to market in a key geography

Tata Tea is expanding into the Middle East and has recently tied up with a distributor in Saudi Arabia. The management believes a strong presence in Middle East is imperative to compete effectively with Unilever at a global level.

On the domestic front, Tata Tea is now the market leader in the Rs 7,000-crore branded tea market, having overtaken peer Hindustan Unilever (HUL) which has a value share of 21.3%

Tea exporting countries continue to see a fall in production, that's why there, has been a good demand for Indian tea from major importing countries such as Britain, Pakistan and Egypt and Tata Tea can well capitalize on it.

The company's bullishness towards the market can be gauged by the fact that it has spent close to Rs 450 crore for the first half ended September 2009, higher than the Rs 417 crore that it spent in the corresponding period of 2008.

At CMP of Rs 943, the stock is trading at an EV/ EBITDA of 21.08x and a P/E multiple of 15.40, keeping in view the company's recent organic foray and demand increase in tea, we would recommend in Buy in the stock with a target of Rs 1100.



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