

**BUY**  
 TP: Rs 994 | ▲ 17%

**TATA CONSUMER PRODUCTS**

Consumer Staples

27 July 2023

**Momentum continues; outlook positive**

- Improved demand in core markets led to robust 16% YoY uptick in India business; rural recovery visible but still below pre-Covid levels
- Growth businesses (Sampann, Soufull, NourishCo) continue to fire on all cylinders, climbing 58% YoY
- Expect key verticals to support a healthy 19% PAT CAGR over FY22-FY25; maintain BUY with an unchanged TP of Rs 994

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**Momentum continues:** TCPL maintained its upward trajectory and registered strong revenue growth of 12.5% YoY (11% CC) to Rs 37bn in Q1FY24, in keeping with our expectations. India business grew 16% YoY, while international business was up by 3% CC and non-branded business by 5% CC. EBITDA increased 19% YoY with margin expansion of 82bps (+43bps QoQ) to 14.6%. Adj. PAT grew at a healthy 15% YoY to Rs 3.2bn accompanied by 20bps margin improvement (+100bps QoQ).

**Growth businesses robust:** Tata Sampann, Tata Soufull and NourishCo collectively grew 58% YoY in Q1FY24, forming 20% of India business compared to 15% in Q1FY23. Sampann soared 51% YoY on a soft base, Soufull continued its growth trajectory led by distribution gains and innovation, and NourishCo grew 60% to Rs 2.9bn in revenue despite adverse weather conditions during the quarter.

**Strong performance in international business:** The international beverages business grew 7% YoY (3% CC) on the back of a strong performance and market share gains in Tetley, Good Earth and Teapigs in the UK. Revenue from UK business grew 6% YoY while that from Canada declined 7% due to softness in tea sales and US revenue fell 5% amid price increases and a continued slowdown in coffee sales.

**Starbucks expansion drive:** Tata Starbucks' revenue rose 21% YoY during the quarter and the JV stayed EBIT-positive. Store expansion remained in focus with net additions at 16 in Q1, taking the total count to 348 stores across 46 cities.

**Maintain BUY, TP Rs 994:** We expect growth momentum to continue given continued TCPL's thrust on innovation, premiumisation, network expansion in rural and semiurban markets, and digitisation. We continue to model for a revenue/EBITDA/PAT CAGR of 11.6%/14.8%/19.3% over FY22-FY25 and maintain BUY for an unchanged SOTP-based TP of Rs 994.

**Key changes**

Target	Rating
◀ ▶	◀ ▶

Ticker/Price	TATACONS IN/Rs 850
Market cap	US\$ 9.6bn
Free float	64%
3M ADV	US\$ 14.6mn
52wk high/low	Rs 884/Rs 687
Promoter/FPI/DII	34%/25%/41%

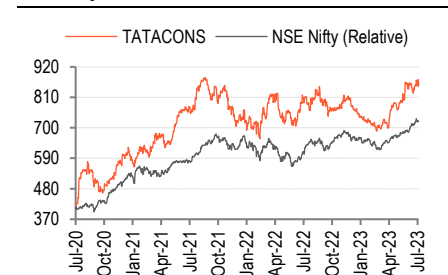
Source: NSE | Price as of 27 Jul 2023

**Key financials**

Y/E 31 Mar	FY23A	FY24E	FY25E
Total revenue (Rs mn)	1,37,832	1,54,545	1,73,125
EBITDA (Rs mn)	18,565	23,343	26,024
Adj. net profit (Rs mn)	10,443	14,968	16,781
Adj. EPS (Rs)	11.3	16.1	18.1
Consensus EPS (Rs)	11.3	16.0	18.7
Adj. ROAE (%)	5.2	8.4	8.9
Adj. P/E (x)	75.4	52.8	47.1
EV/EBITDA (x)	42.5	33.8	30.3
Adj. EPS growth (%)	28.2	23.7	12.1

Source: Company, Bloomberg, BOBCAPS Research

**Stock performance**



Source: NSE

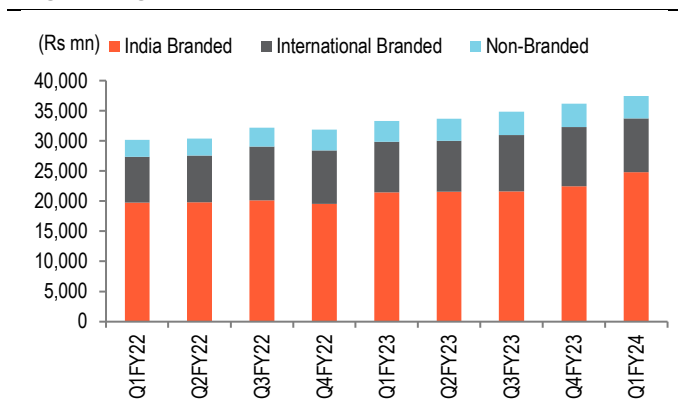


**Fig 1 – Quarterly performance**

(Rs mn)	Q1FY24	Q4FY23	Q1FY23	QoQ (%)	YoY (%)	Estimates	Variance (%)
Revenue	37,412	36,187	33,268	3.4	12.5	37,497	(0.2)
EBIDTA	5,450	5,117	4,573	6.5	19.2	5,156	5.7
Adj. PAT	3,218	2,750	2,794	17.0	15.2	3,250	(1.0)
Gross Margin (%)	42.2	41.8	42.6	36bps	(42bps)	42.2	(2bps)
EBIDTA Margin (%)	14.6	14.1	13.8	43bps	82bps	13.8	77bps
Adj. PAT Margin (%)	8.6	7.6	8.4	100bps	20bps	8.7	(10bps)

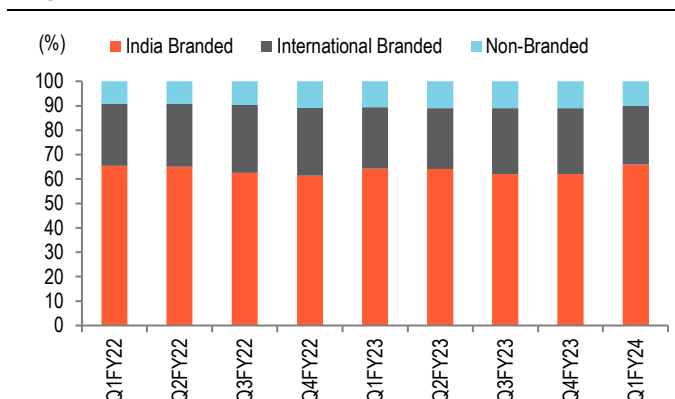
Source: Company, BOBCAPS Research

**Fig 2 – Segment revenue**



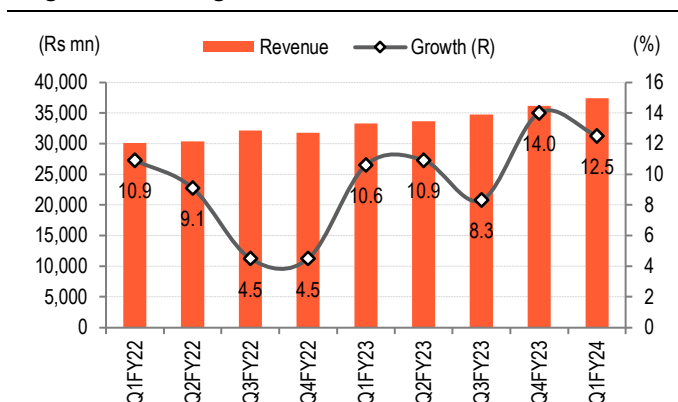
Source: Company, BOBCAPS Research

**Fig 3 – Revenue contribution**



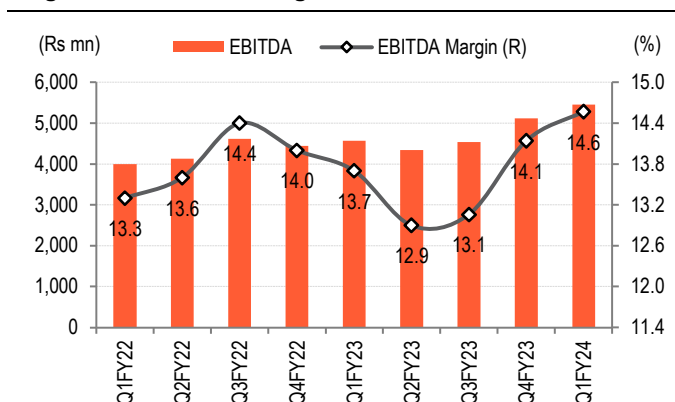
Source: Company, BOBCAPS Research

**Fig 4 – Revenue growth**



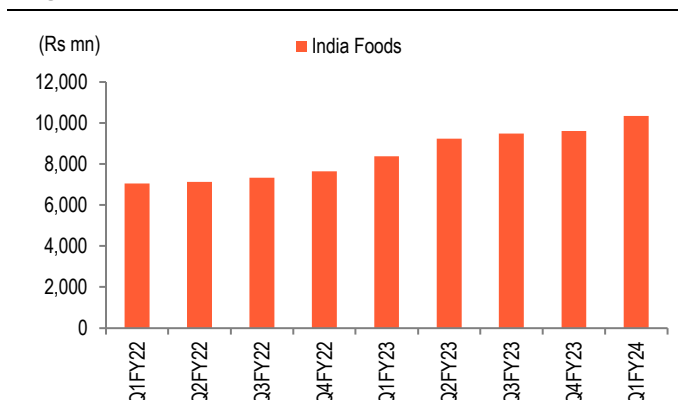
Source: Company, BOBCAPS Research

**Fig 5 – EBITDA and Margin**



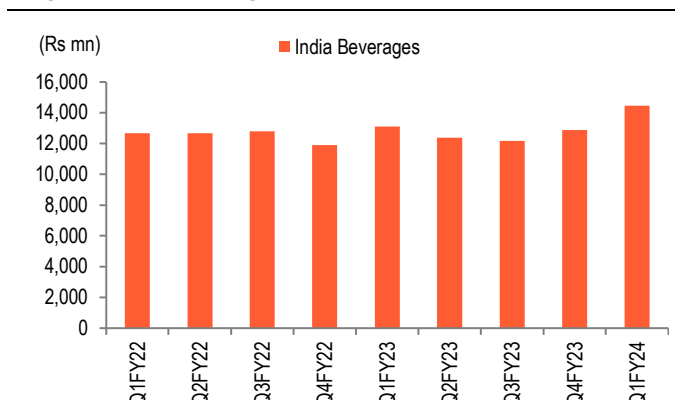
Source: Company, BOBCAPS Research

**Fig 6 – India food revenue**



Source: Company, BOBCAPS Research

**Fig 7 – India beverage revenue**



Source: Company, BOBCAPS Research

## Earnings call highlights

- TCPL delivered strong topline growth of 12.5% YoY (11% CC) in Q1FY24 propelled by growth in India business. Despite continuing investment in new businesses, consolidated EBITDA margin expanded 82bps YoY to 14.6% led by improvement in both India as well as international revenue.
- The company continues to see improving demand trends in core categories and remains cautiously optimistic. Management indicated that rural markets have picked up but remain below pre-Covid levels and progress of the monsoon holds the key.
- Growth businesses recorded 58% YoY growth and now contribute 20% to India revenue against 15% last year. TCPL launched multiple new products to expand its total addressable market and raised the innovation-to-sales ratio to 5% during the quarter. To further promote growth, A&P spend raised to 7.1% against 6.6% of India branded business in the same quarter last year.
- NourishCo registered 60% YoY growth during the quarter and management expects portfolio revenue to reach a four-digit number by end-FY24. NourishCo was primarily a South India brand at the time of acquisition. It later entered in eastern and northern markets and has plans to expand into western parts of India.
- Tata Soulfull entered new categories in Q1 with launches such as Nutri Drink+, Millet Granola, and Oats+. In beverages, TCPL launched Tata Spring Alive (mineral water), Tata Coffee Gold Cold Brew, and an extension of the 1868 range of luxury teas with four variants of milk tea and three green teas. It also introduced teabags under the premium 1868 range. In the Sampann portfolio, the company launched *daliya* (broken wheat), *rawa idli* (steamed semolina cakes), *rawa dosa* (semolina crepes) and South hing (asafoetida).
- India beverage revenue grew 10% YoY with tea volumes up 3%. The company saw positive results from interventions put in place for the branded tea business. However, volume growth is lower than the medium-term aspiration.
- Volume growth momentum continued in the salt business despite pricing action taken to mitigate inflation. The salt portfolio has seen a marginal dip in market share (-30bps) in Q1 due to aggregate price hikes of 33% taken in the last 15 months. Management expects volume growth and premiumisation to fuel growth in this portfolio.
- Tata Coffee posted 11% YoY revenue growth led by the plantation business (up 31%; overall extraction business up 2%). Integration of the coffee business is expected to enhance savings and TCPL estimates net EPS accretion of 5-10% going forward.
- The Tata Starbucks JV recorded 21% YoY growth during the quarter and now has 348 stores across 46 cities.
- The Vietnam business recorded strong sales and improved profitability led by increased sales of premium products.
- In international markets, pricing action and structural interventions have led to sequential improvement in margins. However, soft demand in the tea and coffee portfolios continues to be an area to watch.

## Valuation methodology

We expect TCPL to deliver a strong performance due to a sustained focus on innovation, premiumisation, network expansion in rural and semiurban markets, market share gains and digitisation. The company has increased its domestic distribution reach to 3.9mn outlets and expects to meet its target of 4mn by Sep'23. Management maintains its guidance of boosting network depth by introducing split distribution routes in all 1mn+ population towns.

Wider direct distribution is aimed at improving penetration and execution in semiurban areas, thereby bridging the gap with competition and promoting market share gains in key categories. Alternate channels continue to fuel sales – e-commerce grew 28% YoY in Q1FY24 and modern trade grew 22%. We like TCPL's commitment to investing in emerging channels to drive growth.

We model for a revenue/EBITDA/PAT CAGR of 11.6%/14.8%/19.3% for the company over FY22-FY25 and maintain BUY for an unchanged SOTP-based TP of Rs 994. We continue to assign an FY25E EV/EBITDA multiple of 38.5x to the India business and 13.5x to the international business. Starbucks is valued at an EV/Revenue multiple of 3.5x on FY25E.

**Fig 8 – Valuation summary**

EV/EBITDA	FY25E EBITDA	Multiple (x)	EV
India Business	20,705	38.5x	797,143
International Business	7,772	13.5x	104,922
EV/Revenue	FY25E Revenue	-	-
Tata Starbucks	1,565	3.5x	5,478
Enterprise Value	-	-	907,543
Less: Net debt	-	-	(16,141)
Market Value (Rs mn)	-	-	923,684
No of share (mn)	-	-	929
<b>Target Price (Rs)</b>	-	-	<b>994</b>

Source: BOBCAPS Research

## Key risks

Key downside risks to our estimates are:

- delayed rural recovery,
- continued inflation in international markets, and
- adverse currency movement

## Sector recommendation snapshot

Company	Ticker	Market Cap (US\$ bn)	Price (Rs)	Target (Rs)	Rating
Britannia Industries	BRIT IN	14.3	4,873	5,844	BUY
Dabur India	DABUR IN	12.4	574	669	BUY
Godrej Consumer Products	GCPL IN	12.8	1,030	1,159	BUY
Hindustan Unilever	HUVR IN	73.5	2,570	3,069	BUY
ITC	ITC IN	70.3	465	523	BUY
Marico	MRCO IN	8.7	554	629	BUY
Nestle India	NEST IN	26.2	22,325	26,430	BUY
Tata Consumer Products	TATACONS IN	9.6	850	994	BUY
Zydus Wellness	ZYWL IN	1.2	1,490	1,631	HOLD

Source: BOBCAPS Research, NSE | Price as of 27 Jul 2023

## Financials

### Income Statement

Y/E 31 Mar (Rs mn)	FY21A	FY22A	FY23A	FY24E	FY25E
<b>Total revenue</b>	<b>1,16,020</b>	<b>1,24,254</b>	<b>1,37,832</b>	<b>1,54,545</b>	<b>1,73,125</b>
EBITDA	15,438	17,188	18,565	23,343	26,024
Depreciation	2,547	2,780	3,041	3,062	3,220
EBIT	12,890	14,408	15,524	20,281	22,804
Net interest inc./(exp.)	(687)	(728)	(872)	(850)	(850)
Other inc./(exp.)	1,214	1,401	1,689	1,408	1,408
Exceptional items	(307)	(521)	(1,595)	0	0
EBT	13,111	14,560	14,747	20,839	23,362
Income taxes	3,172	3,770	4,470	5,251	5,887
Extraordinary items	0	0	0	0	0
Min. int./Inc. from assoc.	104	156	900	307	360
<b>Reported net profit</b>	<b>8,567</b>	<b>9,358</b>	<b>8,849</b>	<b>14,968</b>	<b>16,781</b>
Adjustments	(307)	(521)	(1,595)	0	0
<b>Adjusted net profit</b>	<b>8,874</b>	<b>9,878</b>	<b>10,443</b>	<b>14,968</b>	<b>16,781</b>

### Balance Sheet

Y/E 31 Mar (Rs mn)	FY21A	FY22A	FY23A	FY24E	FY25E
Accounts payables	16,255	19,159	23,482	25,612	28,691
Other current liabilities	1,361	1,322	1,735	1,735	1,735
Provisions	2,942	2,488	2,449	2,449	2,449
Debt funds	7,206	10,106	11,828	11,828	11,828
Other liabilities	18,525	15,162	17,349	17,349	17,349
Equity capital	922	922	929	929	929
Reserves & surplus	1,55,349	1,62,014	1,70,340	1,76,510	1,90,996
Shareholders' fund	1,56,270	1,62,936	1,71,269	1,77,439	1,87,942
<b>Total liab. and equities</b>	<b>2,02,559</b>	<b>2,11,172</b>	<b>2,28,111</b>	<b>2,36,412</b>	<b>2,49,993</b>
Cash and cash eq.	20,420	14,980	15,396	18,664	25,758
Accounts receivables	7,613	8,352	7,983	8,951	10,027
Inventories	22,492	22,665	27,017	29,467	33,010
Other current assets	16,730	23,380	25,143	25,143	25,143
Investments	5,986	5,630	11,403	11,403	11,403
Net fixed assets	12,227	14,803	16,047	18,118	20,465
CWIP	932	2,094	2,861	2,861	2,861
Intangible assets	1,04,006	1,05,456	1,08,753	1,08,296	1,07,818
Deferred tax assets, net	381	427	486	486	486
Other assets	11,773	13,385	10,874	10,874	10,874
<b>Total assets</b>	<b>2,02,559</b>	<b>2,11,172</b>	<b>2,28,111</b>	<b>2,36,412</b>	<b>2,49,993</b>

### Cash Flows

Y/E 31 Mar (Rs mn)	FY21A	FY22A	FY23A	FY24E	FY25E
<b>Cash flow from operations</b>	<b>16,564</b>	<b>15,158</b>	<b>11,424</b>	<b>18,211</b>	<b>20,005</b>
Capital expenditures	(2,107)	(2,733)	(3,118)	(4,074)	(4,489)
Change in investments	4,149	(971)	(5,818)	0	0
Other investing cash flows	(5,008)	(4,512)	2,076	4,967	(1,522)
<b>Cash flow from investing</b>	<b>(4,084)</b>	<b>(13,218)</b>	<b>(8,278)</b>	<b>893</b>	<b>(6,011)</b>
Equities issued/Others	0	0	0	0	0
Debt raised/repaid	(573)	(4,947)	(38)	0	0
Interest expenses	(654)	(625)	(817)	0	0
Dividends paid	(2,582)	(3,848)	(5,734)	(6,155)	(6,900)
Other financing cash flows	(451)	(528)	(556)	0	0
<b>Cash flow from financing</b>	<b>(4,260)</b>	<b>(9,948)</b>	<b>(7,144)</b>	<b>(6,155)</b>	<b>(6,900)</b>
<b>Chg in cash &amp; cash eq.</b>	<b>8,838</b>	<b>(7,961)</b>	<b>(4,056)</b>	<b>12,949</b>	<b>7,094</b>
<b>Closing cash &amp; cash eq.</b>	<b>17,732</b>	<b>9,771</b>	<b>5,715</b>	<b>18,664</b>	<b>25,758</b>

### Per Share

Y/E 31 Mar (Rs)	FY21A	FY22A	FY23A	FY24E	FY25E
Reported EPS	9.3	10.2	13.0	16.1	18.1
Adjusted EPS	9.6	10.7	11.3	16.1	18.1
Dividend per share	2.7	4.1	6.2	6.6	7.4
Book value per share	169.6	176.8	185.8	192.5	203.9

### Valuations Ratios

Y/E 31 Mar (x)	FY21A	FY22A	FY23A	FY24E	FY25E
EV/Sales	6.8	6.4	5.7	5.1	4.6
EV/EBITDA	51.2	45.9	42.5	33.8	30.3
Adjusted P/E	88.3	79.3	75.4	52.8	47.1
P/BV	5.0	4.8	4.6	4.4	4.2

### DuPont Analysis

Y/E 31 Mar (%)	FY21A	FY22A	FY23A	FY24E	FY25E
Tax burden (Net profit/PBT)	65.3	64.3	60.0	71.8	71.8
Interest burden (PBT/EBIT)	101.7	101.1	95.0	102.8	102.4
EBIT margin (EBIT/Revenue)	11.1	11.6	11.3	13.1	13.2
Asset turnover (Rev./Avg TA)	57.3	58.8	60.4	65.4	69.3
Leverage (Avg TA/Avg Equity)	1.3	1.3	1.3	1.3	1.3
Adjusted ROAE	5.5	5.7	5.2	8.4	8.9

### Ratio Analysis

Y/E 31 Mar	FY21A	FY22A	FY23A	FY24E	FY25E
<b>YoY growth (%)</b>					
Revenue	20.4	7.1	10.9	12.1	12.0
EBITDA	19.5	11.3	8.0	25.7	11.5
Adjusted EPS	86.3	9.2	28.2	23.7	12.1
<b>Profitability &amp; Return ratios (%)</b>					
EBITDA margin	13.3	13.8	13.5	15.1	15.0
EBIT margin	11.1	11.6	11.3	13.1	13.2
Adjusted profit margin	7.6	8.0	7.6	9.7	9.7
Adjusted ROAE	5.5	5.7	5.2	8.4	8.9
ROCE	7.9	8.3	8.5	10.7	11.4
<b>Working capital days (days)</b>					
Receivables	24	25	21	21	21
Inventory	119	117	123	123	123
Payables	86	99	107	107	107
<b>Ratios (x)</b>					
Gross asset turnover	0.7	0.7	0.7	0.8	0.8
Current ratio	2.3	2.2	2.1	2.2	2.3
Net interest coverage ratio	18.8	19.8	17.8	23.8	26.8
Adjusted debt/equity	0.0	0.1	0.1	0.1	0.1

Source: Company, BOBCAPS Research | Note: TA = Total Assets

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**BUY** – Expected return >+15%

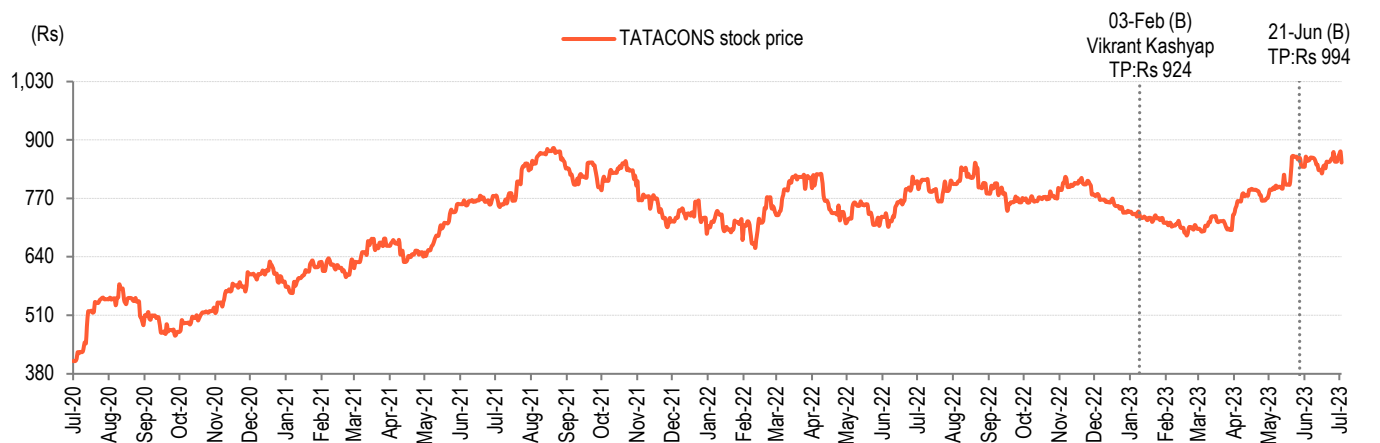
**HOLD** – Expected return from -6% to +15%

**SELL** – Expected return <-6%

**Note:** Recommendation structure changed with effect from 21 June 2021

Our recommendation scale does not factor in short-term stock price volatility related to market fluctuations. Thus, our recommendations may not always be strictly in line with the recommendation scale as shown above.

## Ratings and Target Price (3-year history): TATA CONSUMER PRODUCTS (TATACONS IN)



B – Buy, H – Hold, S – Sell, A – Add, R – Reduce

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