

BUY

TP: Rs 924 | ▲ 24%

TATA CONSUMER PRODUCTS

Consumer Staples

26 April 2023

Strategic initiatives in place; outlook upbeat

- Strong 14% YoY revenue growth in Q4 as key businesses continued to outperform
- Green shoots seen in salient markets for the tea business; international business rebounds on pricing and structural initiatives
- Volume growth and margin expansion expected ahead; maintain BUY with unchanged TP of Rs 924

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Strong performance across segments: Tata Consumer (TCPL) registered robust revenue growth of 14% YoY (12% CC) in Q4FY23, supported by 15% growth in India business, 6% in international business and 9% in non-branded business. EBITDA increased 15% YoY with margin expansion of 15bps (+110bps QoQ) to 14.1%. Adj. PAT grew 16% YoY with 15bps margin improvement (-26bps QoQ). TCPL continues to focus on innovation, launching 34 new products during the year and improving its innovation-to-sales ratio from 0.8% in FY20 to 3.4% in FY23 (2.7% in FY22).

Growth businesses continue strong trajectory: *Tata Sampann*, *Tata Soulful* and *NourishCo* have maintained their strong upward trajectory, growing 53% YoY in FY23 and collectively accounting for 15% of India business compared to 10% in FY22 and 6% in FY20. *Tata Sampann* entered the health & wellness segment in Q4 with the launch of *Makhana*. *NourishCo* had a strong year, soaring 80% to reach Rs 6.2bn in revenue backed by broad-based growth across products and geographies.

Revival in international business: The international beverages business grew 8% YoY in Q4 on the back of price increases taken in all markets to mitigate the impact of inflation. Input cost inflation and adverse currency movement impacted margins in FY23, though sequential improvement has been seen over the last two quarters.

Starbucks performs well: Tata Starbucks' revenue grew 48% YoY during the quarter led by the revival in out-of-home consumption and store addition. Net store addition was at 22 in Q4, taking the total count to 333 stores. The company has expanded its reach to 41 cities.

Maintain BUY, TP Rs 924: We expect TCPL to deliver a strong performance due to a sustained focus on network extension in rural and semi-urban markets, premiumisation, market share gains, product launches and digitisation. We 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 924.

Key changes

Target	Rating
◀▶	◀▶

Ticker/Price	TATACONS IN/Rs 747
Market cap	US\$ 8.5bn
Free float	64%
3M ADV	US\$ 10.7mn
52wk high/low	Rs 861/Rs 687
Promoter/FPI/DII	34%/25%/41%

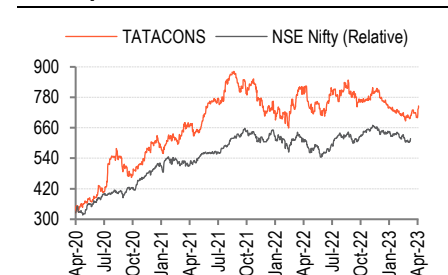
Source: NSE | Price as of 26 Apr 2023

Key financials

Y/E 31 Mar	FY23P	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 (%)	7.0	8.3	8.7
Adj. P/E (x)	66.2	46.3	41.3
EV/EBITDA (x)	37.4	29.7	26.7
Adj. EPS growth (%)	28.2	23.7	12.1

Source: Company, Bloomberg, BOBCAPS Research | P – Provisional

Stock performance



Source: NSE

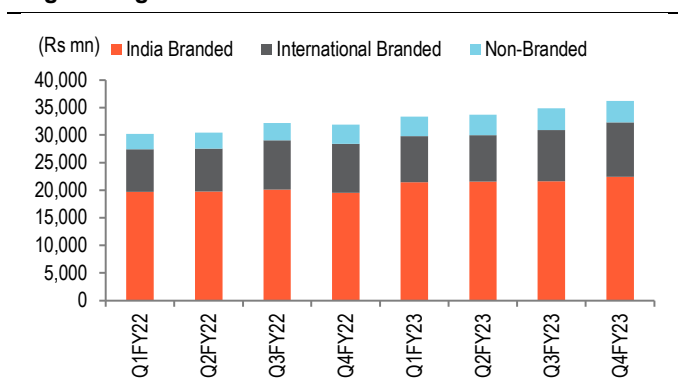


Fig 1 – Quarterly performance

(Rs mn)	Q4FY23	Q3FY23	Q4FY22	QoQ (%)	YoY (%)	Estimates	Variance (%)
Revenue	36,187	34,746	31,754	4.1	14.0	34,939	3.6
EBITDA	5,117	4,537	4,443	12.8	15.2	4,612	10.9
Adj. PAT	2,750	2,732	2,362	0.7	16.4	2,571	7.0
Gross Margin (%)	41.8	41.5	44.6	30bps	(280bps)	41.6	22bps
EBIDTA Margin (%)	14.1	13.1	14.0	108bps	15bps	13.2	94bps
Adj. PAT Margin (%)	7.6	7.9	7.4	(26bps)	16bps	7.4	24bps

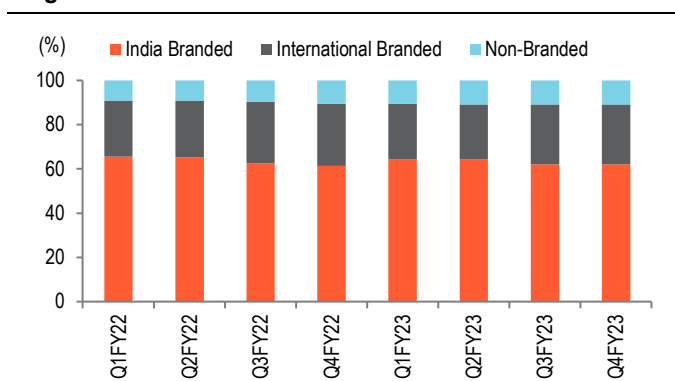
Source: Company, BOBCAPS Research

Fig 2 – Segment revenue



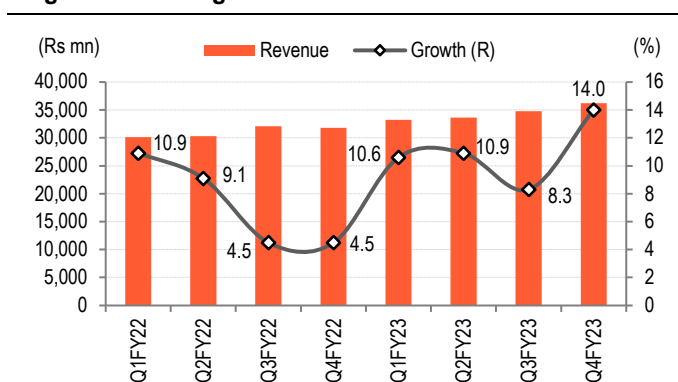
Source: Company, BOBCAPS Research

Fig 3 – Revenue contribution



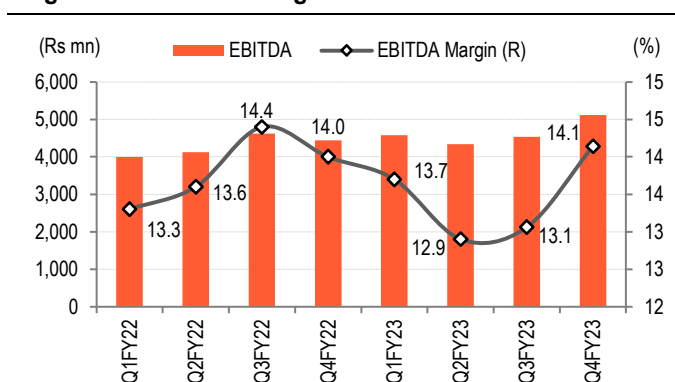
Source: Company, BOBCAPS Research

Fig 4 – Revenue growth



Source: Company, BOBCAPS Research

Fig 5 – EBITDA and Margin



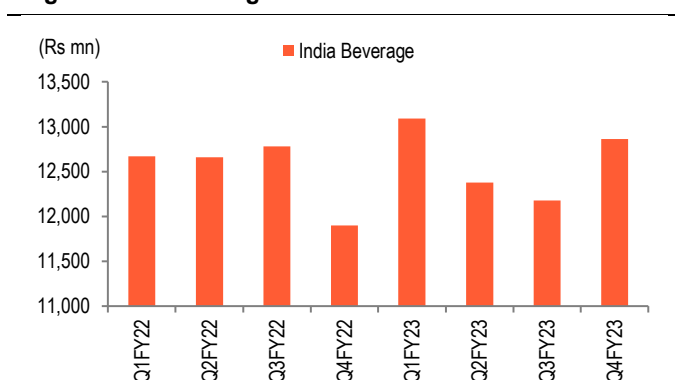
Source: Company, BOBCAPS Research

Fig 6 – India food revenue



Source: Company, BOBCAPS Research

Fig 7 – India beverage revenue



Source: Company, BOBCAPS Research

Earnings call highlights

- During FY23, TCPL's consolidated revenue grew 11% YoY with India business rising 10%. The India food business grew 26% YoY with volumes up 2%. The company expects a stable operating environment in coming quarters as demand slowly returns in India.
- International business grew 8% YoY in FY23 primarily led by price increases to combat inflation. All price hikes have not been fully reflected this quarter, and the benefits of pricing and structural initiatives taken in Q4FY23 are guided to flow in over the next two quarters.
- International operating margin improved sequentially and is expected to normalise in Q1FY24.
- The tea business in India was subdued due to demand challenges in some key markets and a slight downtrend in tea prices. TCPL has seen green shoots in some of its salient markets for tea and remains cautiously optimistic.
- The company continues to gain market share in its salt portfolio despite steep price increases taken to mitigate input cost inflation. Operating margin in the salt business has improved sequentially and is now close to normal.
- Management expects mid-single-digit volume growth for both the tea and salt portfolios over the near-to-medium term.
- Growth businesses, viz. *Tata Sampann*, *Tata Soulful* and *NourishCo*, have been on a strong growth trajectory. The company remains focused on improving the product basket, increasing distribution reach, and adding manufacturing facilities to boost market share.
- TCPL is targeting 30%+ growth in coming years with gradual improvement in margins.
- The Tata Starbucks joint venture clocked a topline of more than Rs 10bn in FY23, growing 71% YoY, and was positive at the EBIT level. During the year, the company added 71 new stores and entered 15 new cities. The pace of store expansion is expected to continue in coming years.
- NourishCo has been consistently expanding its distribution reach and is now present in 75-80% of the country. The company will continue to raise distribution reach and add manufacturing facilities. TCPL expects NourishCo to achieve a topline of Rs 10bn in FY24 and also to launch 2-3 more products during the year.
- In FY23, the modern trade channel grew 21%, contributing 14% of India business sales, whereas the e-commerce channel grew 32%, contributing 9%. During the year, 10% of e-commerce revenue came from new product development (NPD).
- TCPL achieved a direct reach of 1.5mn outlets and is on track to reach 4mn outlets in total in FY24.

Valuation methodology

We expect TCPL to deliver a strong performance due to a sustained focus on network extension in rural and semiurban markets, premiumisation, product launches, market share gains and digitisation. The company has increased its direct distribution reach to 1.5mn outlets and expects to continue the pace of expansion in the near future. It is now boosting its network depth by introducing split distribution routes in all 1mn+ population towns.

Wider direct distribution is aimed at improving execution in semiurban areas, which is expected to bridge the gap with competition and promote market share gains. Alternate channels continue to fuel sales – e-commerce grew 32% YoY in FY23 and contributed 9% of India revenue; modern trade grew 21% and contributed 14%. NPD revenue share on e-commerce has now improved to 10%. 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 924. We continue to assign an FY25E EV/EBITDA multiple of 36x to the India business and 12x to the international business. Starbucks is valued at an EV/Revenue multiple of 3x on FY25E.

Fig 8 – Revised estimates

(Rs mn)	New		Old		Change (%)	
	FY24E	FY25E	FY24E	FY25E	FY24E	FY25E
Revenue	154,545	173,125	152,675	170,846	1.2	1.3
EBITDA	23,343	26,024	23,061	25,682	1.2	1.3
Adj. PAT	14,968	16,781	14,767	16,627	1.4	0.9
EBITDA Margin (%)	15.1	15	15.1	15.0	-	-
Adj. PAT Margin (%)	9.7	9.7	9.7	9.7	-	-

Source: BOBCAPS Research

Fig 9 – SOTP valuation

Business (Rs mn)	FY25E EBITDA	Multiple	EV
India Business	20,705	36.0x	744,540
International Business	7,772	12.0x	93,260
EV/Revenue	FY25E Revenue	Multiple	EV
Tata Starbucks	1,565	3.0x	4,695.84
Enterprise Value	-	-	842,497
Less: Net debt	-	-	(16,141)
Market Value	-	-	858,638
No of share (mn)	-	-	929
Target Price (Rs)	-	-	924

Source: BOBCAPS Research

Fig 10 – Peer comparison

Company	Ticker	Rating	Target Price (Rs)	Revenue CAGR FY21-23E (%)	EPS (Rs)		ROE (%)		Target P/E (x)
					FY22E	FY23E	FY22E	FY23E	
ITC	ITC IN	BUY	459	19.6	12.5	15.2	24.3	27.6	25.1
Hindustan Unilever	HUVR IN	BUY	3,069	13.6	37.8	43.0	18.4	20.5	52.5
Nestle India	NEST IN	BUY	24,670	15.0	247.9	317.9	97.2	104.7	67.0

Source: BOBCAPS Research

Key risks

Key downside risks to our estimates are:

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

Sector recommendation snapshot

Company	Ticker	Market Cap (US\$ bn)	Price (Rs)	Target (Rs)	Rating
Britannia Industries	BRIT IN	13.0	4,405	5,623	BUY
Godrej Consumer Products	GCPL IN	12.2	976	1,112	BUY
Hindustan Unilever	HUVR IN	81.4	2,511	3,069	BUY
ITC	ITC IN	62.6	412	459	BUY
Nestle India	NEST IN	24.8	21,026	24,670	BUY
Tata Consumer Products	TATACONS IN	8.5	747	924	BUY

Source: BOBCAPS Research, NSE | Price as of 26 Apr 2023

Financials

Income Statement

Y/E 31 Mar (Rs mn)	FY21A	FY22A	FY23P	FY24E	FY25E
Total revenue	1,16,020	1,24,254	1,37,832	1,54,545	1,73,125
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	20,280	22,804
Net interest inc./(exp.)	(687)	(728)	(872)	(850)	(850)
Other inc./(exp.)	1,214	1,401	1,689	1,407	1,407
Exceptional items	(307)	(521)	1,595	0	0
EBT	13,111	14,560	17,936	20,838	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	341
Reported net profit	8,567	9,358	12,038	14,968	16,781
Adjustments	(307)	(521)	1,595	0	0
Adjusted net profit	8,874	9,878	10,443	14,968	16,781

Balance Sheet

Y/E 31 Mar (Rs mn)	FY21A	FY22A	FY23P	FY24E	FY25E
Accounts payables	16,255	19,159	23,482	22,727	24,655
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	10,106	10,106
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	1,79,772	1,89,881
Shareholders' fund	1,56,270	1,62,936	1,71,269	1,80,701	1,90,803
Total liab. and equities	2,02,559	2,11,172	2,28,111	2,35,066	2,44,327
Cash and cash eq.	20,420	14,980	15,396	20,046	28,491
Accounts receivables	7,613	8,352	7,983	10,162	11,384
Inventories	22,492	22,665	27,017	27,511	30,551
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	18,261	20,352
CWIP	932	2,094	2,861	2,861	2,861
Intangible assets	1,04,006	1,05,456	1,08,753	1,06,171	1,05,308
Deferred tax assets, net	381	427	486	486	486
Other assets	11,773	13,385	10,874	10,874	10,874
Total assets	2,02,559	2,11,172	2,28,111	2,35,066	2,49,001

Cash Flows

Y/E 31 Mar (Rs mn)	FY21A	FY22A	FY23P	FY24E	FY25E
Cash flow from operations	16,564	15,158	14,613	16,071	19,211
Capital expenditures	(2,107)	(2,733)	(3,118)	(3,462)	(3,866)
Change in investments	4,149	(971)	(5,818)	0	0
Other investing cash flows	(5,008)	(4,512)	2,076	2,965	0
Cash flow from investing	(4,084)	(13,218)	(8,278)	(497)	(3,866)
Equities issued/Others	0	0	0	0	0
Debt raised/repaid	(573)	(4,947)	(38)	1,722	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
Cash flow from financing	(4,260)	(9,948)	(7,144)	(4,432)	(6,900)
Chg in cash & cash eq.	8,838	(7,961)	(867)	11,142	8,445
Closing cash & cash eq.	17,732	9,771	8,904	20,046	28,491

Per Share

Y/E 31 Mar (Rs)	FY21A	FY22A	FY23P	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	6.1	6.6	7.4
Book value per share	169.6	176.8	185.8	196.1	207.0

Valuations Ratios

Y/E 31 Mar (x)	FY21A	FY22A	FY23P	FY24E	FY25E
EV/Sales	6.0	5.6	5.0	4.5	4.0
EV/EBITDA	44.9	40.4	37.4	29.7	26.7
Adjusted P/E	77.5	69.7	66.2	46.3	41.3
P/BV	4.4	4.2	4.0	3.8	3.6

DuPont Analysis

Y/E 31 Mar (%)	FY21A	FY22A	FY23P	FY24E	FY25E
Tax burden (Net profit/PBT)	65.3	64.3	67.1	71.8	71.8
Interest burden (PBT/EBIT)	101.7	101.1	115.5	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	65.7	69.5
Leverage (Avg TA/Avg Equity)	1.3	1.3	1.3	1.3	1.3
Adjusted ROAE	5.5	5.7	7.0	8.3	8.7

Ratio Analysis

Y/E 31 Mar	FY21A	FY22A	FY23P	FY24E	FY25E
YoY growth (%)					
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
Profitability & Return ratios (%)					
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	7.0	8.3	8.7
ROCE	7.9	8.3	8.5	10.6	11.2
Working capital days (days)					
Receivables	24	25	25	24	24
Inventory	119	117	117	115	114
Payables	86	99	99	95	92
Ratios (x)					
Gross asset turnover	0.7	0.7	0.7	0.8	0.8
Current ratio	2.3	2.2	2.1	2.5	2.7
Net interest coverage ratio	18.8	19.8	17.8	23.9	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%

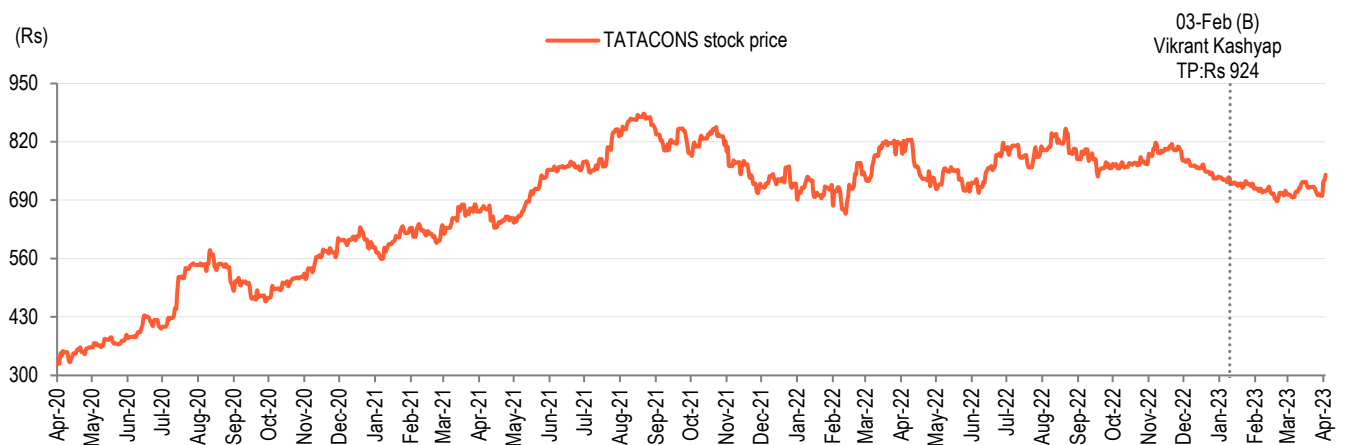
HOLD – Expected return from -6% to +15%

SELL – Expected return <-6%

Note: Recommendation structure changed with effect from 21 June 2021

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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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