

RESEARCH**TATA CONSUMER PRODUCTS | TARGET: Rs 1,402 | +16% | BUY**

Meeting with management: Medium- to long-term targets intact

SUMMARY**TATA CONSUMER PRODUCTS**

- Medium- to long-term growth prospects remain intact with TCPL targeting double-digit topline growth driven by growth businesses
- EBITDA should grow faster than sales as some of the loss-making growth businesses turn profitable with scale
- TCPL's exposure to freight route challenges is minimal as International does the bulk of sourcing from neighbouring regional markets

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TP: Rs 1,402 | ▲ 16%

**TATA CONSUMER
PRODUCTS**

Consumer Staples

16 September 2024

Meeting with management: Medium- to long-term targets intact

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Medium- to long-term targets intact: TCPL is targeting double-digit sales growth with margin expansion driving EBITDA growth at a faster run rate. Growth businesses are the key driver with innovation, distribution driving sales and scale driving margins. Return ratios should improve over time due to the combination of an asset-light model for incremental capacity, double digit sales growth profile and potential for scale benefits in growth businesses. BUY.

Reasonable building blocks with Growth businesses as key drivers: Double digit sales growth target is a function of Domestic Core up in high single digits, International up in low to mid-single digits and Growth up in the 25%-30% range. Growth businesses are driven by distribution gains and increased offerings under the respective umbrella brands. Margin expansion will be scale driven – businesses such as Sampann are currently incurring losses at the EBITDA level. A turnaround in such businesses will accelerate overall margin expansion, in our view.

Low exposure from hurdles in International Trade: While TCPL derives ~25% of its sales from overseas, sourcing is mostly either local or from nearby regions. The newly-acquired Organic India (OI) derives 40% of sales from the US. This business is likely exposed to the risk of higher shipment costs and slight delays in shipment. Freight costs remain volatile given the geopolitical tensions. While this increases shipping costs, the impact on TCPL at a group level is likely limited given the ~1% exposure on OI and local/regional sourcing for international businesses.

Role of International: International operations mainly comprise of legacy businesses. These are cash rich with stable market shares. These will likely continue in the current form with domestic businesses taking precedence on sales growth initiatives. Capital Foods and Organic India provide opportunities for overseas growth given TCPL's existing retailer and distributor relationships. This is also built into its 25%-30% sales growth outlook for Growth businesses.

Our view: The sales growth potential in TCPL's growth businesses and the subsequent turnaround in profitability are the key reasons for our positive view on the stock. Sales slowdown in growth businesses and innovation is the key risk factor given the magnified potential impact on profitability.

Key changes

Target	Rating
◀▶	◀▶

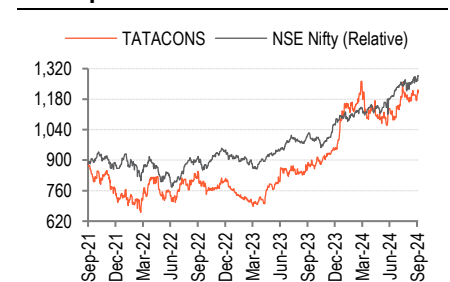
Ticker/Price	TATACONS IN/Rs 1,210
Market cap	US\$ 13.8bn
Free float	64%
3M ADV	US\$ 21.7mn
52wk high/low	Rs 1,269/Rs 855
Promoter/FPI/DII	34%/25%/41%

Source: NSE | Price as of 13 Sep 2024

Key financials

Y/E 31 Mar	FY24A	FY25E	FY26E
Total revenue (Rs mn)	152,058	179,270	205,219
EBITDA (Rs mn)	22,841	29,151	32,953
Adj. net profit (Rs mn)	14,773	17,387	21,137
Adj. EPS (Rs)	15.9	18.2	21.6
Consensus EPS (Rs)	15.2	17.0	20.5
Adj. ROAE (%)	6.6	9.4	10.6
Adj. P/E (x)	76.1	66.6	55.9
EV/EBITDA (x)	50.5	39.6	35.0
Adj. EPS growth (%)	(5.2)	48.3	17.8

Source: Company, Bloomberg, BOBCAPS Research

Stock performance

Source: NSE



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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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