

BUY

TP: Rs 1,402 | ▲ 16%

**TATA CONSUMER
PRODUCTS**

Consumer Staples

16 September 2024

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

- **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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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
◀ ▶	◀ ▶

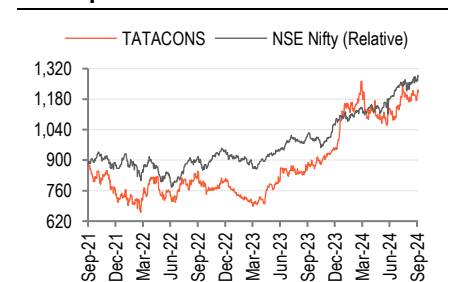
Ticker/Price	TATACONS IN/Rs 1,210
Market cap	US\$ 13.8bn
Free float	64%
3M ADV	US\$ 21.7mn
52wk high/low	Rs 1,269/Rs 855
Promoter/FPI/DII	34%/25%/41%

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



Financials

Income Statement

Y/E 31 Mar (Rs mn)	FY22A	FY23A	FY24A	FY25E	FY26E
Total revenue	124,254	137,832	152,058	179,270	205,219
EBITDA	17,188	18,565	22,841	29,151	32,953
Depreciation	2,780	3,041	3,772	4,030	3,400
EBIT	14,408	15,524	19,069	25,121	29,553
Net interest inc./(exp.)	728	872	1,298	2,186	940
Other inc./(exp.)	1,401	1,689	2,456	2,270	2,171
Exceptional items	(521)	1,595	(3,271)	171	0
EBT	14,560	17,936	16,956	25,376	30,783
Income taxes	3,770	4,470	3,948	6,404	7,911
Extraordinary items	0	0	0	0	0
Min. int./Inc. from assoc.	794	1,164	651	(63)	(78)
Reported net profit	9,358	12,038	11,502	17,559	21,137
Adjustments	(521)	1,595	(3,271)	171	0
Adjusted net profit	9,878	10,443	14,773	17,387	21,137

Balance Sheet

Y/E 31 Mar (Rs mn)	FY22A	FY23A	FY24A	FY25E	FY26E
Accounts payables	19,159	23,482	27,072	31,637	36,151
Other current liabilities	1,322	1,735	1,763	2,256	2,583
Provisions	2,488	2,449	3,887	3,264	3,409
Debt funds	10,106	11,828	29,539	29,539	29,539
Other liabilities	11,653	13,727	38,993	33,135	35,313
Equity capital	922	929	953	953	953
Reserves & surplus	162,014	170,340	173,409	185,763	198,523
Shareholders' fund	162,936	171,269	174,361	186,716	199,476
Total liab. and equities	211,172	228,111	280,209	291,142	311,066
Cash and cash eq.	14,980	15,396	23,198	20,081	28,341
Accounts receivables	8,352	7,983	8,968	9,823	11,245
Inventories	22,665	27,017	27,694	30,833	35,231
Other current assets	23,367	24,935	11,966	13,879	15,208
Investments	5,630	11,403	5,921	5,921	5,921
Net fixed assets	14,803	16,047	19,772	20,442	23,264
CWIP	2,094	2,861	1,714	1,714	1,714
Intangible assets	105,081	108,665	166,601	166,601	166,601
Deferred tax assets, net	1,417	1,603	1,027	2,085	2,387
Other assets	3,947	2,991	3,122	3,709	4,167
Total assets	211,172	228,111	280,209	291,939	311,898

Cash Flows

Y/E 31 Mar (Rs mn)	FY22A	FY23A	FY24A	FY25E	FY26E
Cash flow from operations	17,511	18,500	23,345	27,307	27,173
Capital expenditures	(2,733)	(3,118)	(3,347)	(4,123)	(4,720)
Change in investments	493	(5,364)	6,134	0	0
Other investing cash flows	(10,978)	203	(22,097)	(12,507)	3,036
Cash flow from investing	(13,218)	(8,278)	(19,309)	(16,631)	(1,684)
Equities issued/Others	0	0	0	0	0
Debt raised/repaid	(4,930)	(563)	(734)	0	0
Interest expenses	(625)	(817)	(1,183)	(2,186)	(940)
Dividends paid	(3,848)	(5,734)	(8,089)	(5,268)	(8,455)
Other financing cash flows	(545)	(30)	12,561	63	78
Cash flow from financing	(9,948)	(7,144)	2,556	(7,390)	(9,317)
Chg in cash & cash eq.	(7,961)	(867)	2,613	(3,118)	8,260
Closing cash & cash eq.	14,979	15,395	23,198	20,081	28,341

Per Share

Y/E 31 Mar (Rs)	FY22A	FY23A	FY24A	FY25E	FY26E
Reported EPS	10.2	13.1	12.4	18.4	21.6
Adjusted EPS	10.7	11.3	15.9	18.2	21.6
Dividend per share	0.0	0.0	0.0	0.0	0.0
Book value per share	176.8	185.8	189.2	202.6	216.4

Valuations Ratios

Y/E 31 Mar (x)	FY22A	FY23A	FY24A	FY25E	FY26E
EV/Sales	9.3	8.4	7.6	6.4	5.6
EV/EBITDA	67.1	62.1	50.5	39.6	35.0
Adjusted P/E	112.9	106.9	76.1	66.6	55.9
P/BV	6.8	6.5	6.4	6.0	5.6

DuPont Analysis

Y/E 31 Mar (%)	FY22A	FY23A	FY24A	FY25E	FY26E
Tax burden (Net profit/PBT)	64.3	67.1	67.8	69.2	68.7
Interest burden (PBT/EBIT)	65.0	77.5	60.3	69.9	71.5
EBIT margin (EBIT/Revenue)	11.6	11.3	12.5	14.0	14.4
Asset turnover (Rev./Avg TA)	58.8	60.4	54.3	61.4	65.8
Leverage (Avg TA/Avg Equity)	1.3	1.3	1.6	1.6	1.6
Adjusted ROAE	5.7	7.0	6.6	9.4	10.6

Ratio Analysis

Y/E 31 Mar	FY22A	FY23A	FY24A	FY25E	FY26E
YoY growth (%)					
Revenue	7.1	10.9	10.3	17.9	14.5
EBITDA	11.3	8.0	23.0	27.6	13.0
Adjusted EPS	9.2	28.6	(5.2)	48.3	17.8
Profitability & Return ratios (%)					
EBITDA margin	13.8	13.5	15.0	16.3	16.1
EBIT margin	11.6	11.3	12.5	14.0	14.4
Adjusted profit margin	8.0	7.6	9.7	9.7	10.3
Adjusted ROAE	5.7	7.0	6.6	9.4	10.6
ROCE	8.3	8.5	9.4	11.6	12.9
Working capital days (days)					
Receivables	25	21	22	20	20
Inventory	117	123	118	115	115
Payables	99	107	115	118	118
Ratios (x)					
Gross asset turnover	0.5	0.6	0.5	0.6	0.6
Current ratio	2.2	2.1	1.2	1.2	1.4
Net interest coverage ratio	19.8	17.8	14.7	11.5	31.4
Adjusted debt/equity	0.1	0.1	0.2	0.2	0.1

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

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BUY – Expected return >+15%

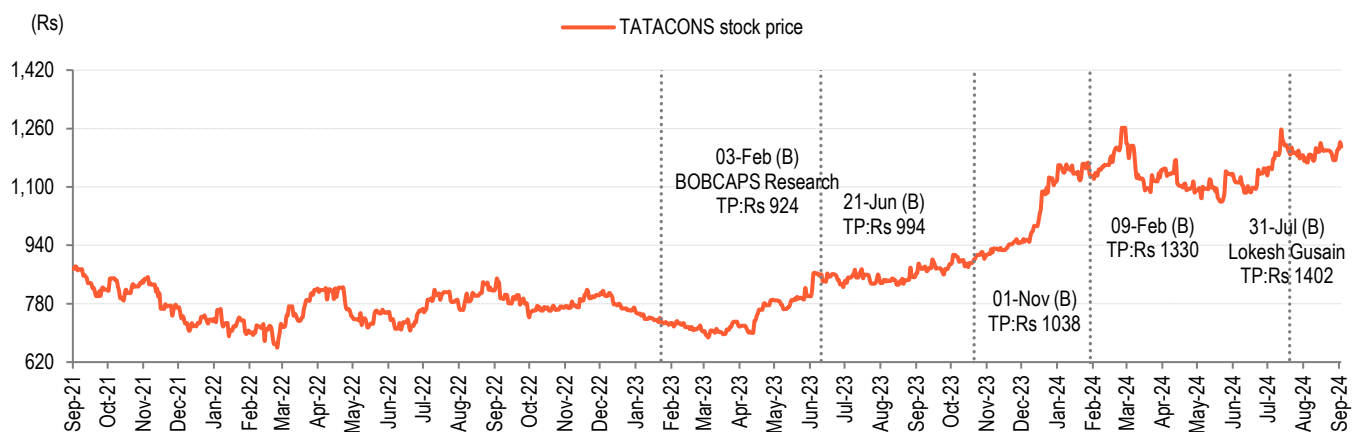
HOLD – Expected return from -6% to +15%

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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