

BUY

TP: Rs 1,311 | ▲ 29%

**TATA CONSUMER
PRODUCTS**

Consumer Staples

24 October 2024

Share price correction is overdone: BUY

- Tata Consumer share price corrected ~7% post 2QFY25 result on Tea inflation and sales challenges in NourishCo. Correction is overdone
- Market has factored in Tea pricing in Feb-25. HUL is taking pricing and for TCPL we estimate a ~2% downgrade on tea is reasonable
- In FY25, TCPL has headwinds on M&A, Tea, and Gluco+ but medium / long terms prospects are intact with an above average growth profile

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Is the ~7% correction in share price post 2QFY25 result justified?: We think the close to 7% share price correction since 2QFY25 result is overdone as the downgrade to next 12m earnings in a realistic scenario is 3%. This assumes 50% tea cost recovery in the Dec-24 quarter and an increase in the retailer margin for Tata Gluco+ to get it at par with Campa Cola starting Oct-24.

Breaking down the swing factors:

- **Gloco Plus downgrade:** Assuming Tata Consumer lowers its price-to-retail to remain competitive with Campa Cola, we estimate the gross margin hit on earnings to be ~1% on an annualized basis. NourishCo is currently a low margin business with FY24 gross margin ~31% and EBIT margins ~6%.
- **HUL is rational in tea:** We estimate Tata Consumer needs 17%-18% pricing to offset tea inflation of 25%-30%. HUL is taking calibrated pricing through the Dec-24 quarter to fully offset tea inflation. We assume 50% cost recovery for the industry, including TCPL, in the Dec-24 quarter and 100% post that. This translates into a ~2% downgrade on FY25. Tea inflation likely to settle back as prospects for new crop become clearer by the Jun-25 quarter.

What is the combined sensitivity for Tata Gluco Plus and Tea?: If full tea inflation recovery is delayed to January 1, the downgrade is 6% and if pricing doesn't come through until April 1, the downgrade is 10%.

What is the market factoring in? With the stock down ~8%, market is factoring in no change in competitive dynamics in tea until Feb-24. We think a ~3% downgrade is more reasonable.

| (Rs mn) | | Assumptions |
|--|-----|---|
| NourishCo downgrade | 228 | Reduction in price to retail |
| Tea downgrade | 506 | Assuming 50% pass through in Dec quarter and 100% post that |
| Total downgrade | 734 | |
| % of consensus FY25 EBIT pre 2QFY25 result | 3.3 | |

Source: Company, BOBCAPS Research

Key changes

| Target | Rating |
|--------|--------|
| ◀▶ | ◀▶ |

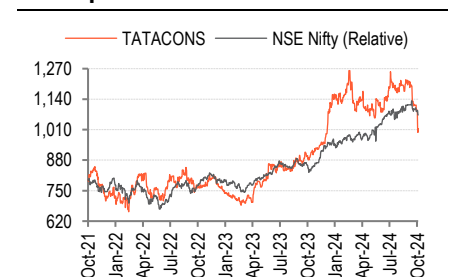
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|------------------|----------------------|
| Ticker/Price | TATACONS IN/Rs 1,015 |
| Market cap | US\$ 11.5bn |
| Free float | 64% |
| 3M ADV | US\$ 23.4mn |
| 52wk high/low | Rs 1,269/Rs 872 |
| Promoter/FPI/DII | 34%/25%/41% |

Source: NSE | Price as of 23 Oct 2024

Key financials

| Y/E 31 Mar | FY24A | FY25E | FY26E |
|-------------------------|---------|---------|---------|
| Total revenue (Rs mn) | 152,058 | 172,719 | 206,096 |
| EBITDA (Rs mn) | 22,841 | 26,555 | 32,532 |
| Adj. net profit (Rs mn) | 14,773 | 17,237 | 23,809 |
| Adj. EPS (Rs) | 15.9 | 17.7 | 23.6 |
| Consensus EPS (Rs) | 15.2 | 17.0 | 20.5 |
| Adj. ROAE (%) | 6.6 | 9.5 | 11.9 |
| Adj. P/E (x) | 63.8 | 57.4 | 43.0 |
| EV/EBITDA (x) | 42.3 | 36.4 | 29.7 |
| Adj. EPS growth (%) | (5.2) | 46.4 | 30.2 |

Source: Company, Bloomberg, BOBCAPS Research

Stock performance

Source: NSE



Financials

Income Statement

| Y/E 31 Mar (Rs mn) | FY23A | FY24A | FY25E | FY26E | FY27E |
|----------------------------|----------------|----------------|----------------|----------------|----------------|
| Total revenue | 137,832 | 152,058 | 172,719 | 206,096 | 230,923 |
| EBITDA | 18,565 | 22,841 | 26,555 | 32,532 | 33,462 |
| Depreciation | 3,041 | 3,772 | 4,670 | 3,394 | 3,394 |
| EBIT | 15,524 | 19,069 | 21,885 | 29,138 | 30,068 |
| Net interest inc./(exp.) | 872 | 1,298 | 2,423 | 940 | 940 |
| Other inc./(exp.) | 1,689 | 2,456 | 2,551 | 3,400 | 3,400 |
| Exceptional items | 1,595 | (3,271) | 443 | 0 | 0 |
| EBT | 17,936 | 16,956 | 22,457 | 31,597 | 32,528 |
| Income taxes | 4,470 | 3,948 | 4,732 | 8,120 | 8,360 |
| Extraordinary items | 0 | 0 | 0 | 0 | 0 |
| Min. int./Inc. from assoc. | 1,164 | 651 | 96 | 182 | 188 |
| Reported net profit | 12,038 | 11,502 | 17,680 | 23,809 | 24,510 |
| Adjustments | 1,595 | (3,271) | 443 | 0 | 0 |
| Adjusted net profit | 10,443 | 14,773 | 17,237 | 23,809 | 24,510 |

Balance Sheet

| Y/E 31 Mar (Rs mn) | FY23A | FY24A | FY25E | FY26E | FY27E |
|---------------------------------|----------------|----------------|----------------|----------------|----------------|
| Accounts payables | 23,482 | 27,072 | 30,891 | 36,386 | 41,956 |
| Other current liabilities | 1,735 | 1,763 | 2,174 | 2,594 | 2,907 |
| Provisions | 2,449 | 3,887 | 3,227 | 3,414 | 3,554 |
| Debt funds | 11,828 | 29,539 | 29,539 | 29,539 | 29,539 |
| Other liabilities | 13,727 | 38,993 | 32,585 | 35,387 | 37,471 |
| Equity capital | 929 | 953 | 953 | 953 | 953 |
| Reserves & surplus | 170,340 | 173,409 | 185,689 | 199,791 | 214,310 |
| Shareholders' fund | 171,269 | 174,361 | 186,641 | 200,744 | 215,262 |
| Total liab. and equities | 228,111 | 280,209 | 289,652 | 312,659 | 335,284 |
| Cash and cash eq. | 15,396 | 23,198 | 20,995 | 30,350 | 39,835 |
| Accounts receivables | 7,983 | 8,968 | 9,464 | 11,293 | 12,653 |
| Inventories | 27,017 | 27,694 | 30,105 | 35,461 | 40,889 |
| Other current assets | 24,935 | 11,966 | 13,543 | 15,253 | 16,526 |
| Investments | 11,403 | 5,921 | 5,921 | 5,921 | 5,921 |
| Net fixed assets | 16,047 | 19,772 | 20,297 | 23,145 | 26,341 |
| CWIP | 2,861 | 1,714 | 1,714 | 1,714 | 1,714 |
| Intangible assets | 108,665 | 166,601 | 166,601 | 166,601 | 166,601 |
| Deferred tax assets, net | 1,603 | 1,027 | 2,009 | 2,397 | 2,686 |
| Other assets | 2,991 | 3,122 | 3,593 | 4,183 | 4,622 |
| Total assets | 228,111 | 280,209 | 290,851 | 314,169 | 336,564 |

Cash Flows

| Y/E 31 Mar (Rs mn) | FY23A | FY24A | FY25E | FY26E | FY27E |
|------------------------------------|----------------|-----------------|-----------------|-----------------|-----------------|
| Cash flow from operations | 18,500 | 23,345 | 26,769 | 28,349 | 29,860 |
| Capital expenditures | (3,118) | (3,347) | (3,973) | (4,740) | (5,311) |
| Change in investments | (5,364) | 6,134 | 0 | 0 | 0 |
| Other investing cash flows | 203 | (22,097) | (12,444) | 4,512 | 4,228 |
| Cash flow from investing | (8,278) | (19,309) | (16,417) | (228) | (1,083) |
| Equities issued/Others | 0 | 0 | 0 | 0 | 0 |
| Debt raised/repaid | (563) | (734) | 0 | 0 | 0 |
| Interest expenses | (817) | (1,183) | (2,423) | (940) | (940) |
| Dividends paid | (5,734) | (8,089) | (5,304) | (9,523) | (9,804) |
| Other financing cash flows | (30) | 12,561 | (96) | (182) | (188) |
| Cash flow from financing | (7,144) | 2,556 | (7,822) | (10,646) | (10,932) |
| Chg in cash & cash eq. | (867) | 2,613 | (2,203) | 9,355 | 9,485 |
| Closing cash & cash eq. | 15,395 | 23,198 | 20,995 | 30,350 | 39,835 |

Per Share

| Y/E 31 Mar (Rs) | FY23A | FY24A | FY25E | FY26E | FY27E |
|----------------------|-------|-------|-------|-------|-------|
| Reported EPS | 13.1 | 12.4 | 18.1 | 23.6 | 24.3 |
| Adjusted EPS | 11.3 | 15.9 | 17.7 | 23.6 | 24.3 |
| Dividend per share | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Book value per share | 185.8 | 189.2 | 202.5 | 217.8 | 233.6 |

Valuations Ratios

| Y/E 31 Mar (x) | FY23A | FY24A | FY25E | FY26E | FY27E |
|----------------|-------|-------|-------|-------|-------|
| EV/Sales | 7.0 | 6.4 | 5.6 | 4.7 | 4.2 |
| EV/EBITDA | 52.1 | 42.3 | 36.4 | 29.7 | 28.9 |
| Adjusted P/E | 89.6 | 63.8 | 57.4 | 43.0 | 41.8 |
| P/BV | 5.5 | 5.4 | 5.0 | 4.7 | 4.3 |

DuPont Analysis

| Y/E 31 Mar (%) | FY23A | FY24A | FY25E | FY26E | FY27E |
|------------------------------|-------|-------|-------|-------|-------|
| Tax burden (Net profit/PBT) | 67.1 | 67.8 | 78.7 | 75.4 | 75.4 |
| Interest burden (PBT/EBIT) | 77.5 | 60.3 | 80.8 | 81.7 | 81.5 |
| EBIT margin (EBIT/Revenue) | 11.3 | 12.5 | 12.7 | 14.1 | 13.0 |
| Asset turnover (Rev./Avg TA) | 60.4 | 54.3 | 59.4 | 65.6 | 68.6 |
| Leverage (Avg TA/Avg Equity) | 1.3 | 1.6 | 1.6 | 1.6 | 1.6 |
| Adjusted ROAE | 7.0 | 6.6 | 9.5 | 11.9 | 11.4 |

Ratio Analysis

| Y/E 31 Mar | FY23A | FY24A | FY25E | FY26E | FY27E |
|--|-------|-------|-------|-------|-------|
| YoY growth (%) | | | | | |
| Revenue | 10.9 | 10.3 | 13.6 | 19.3 | 12.0 |
| EBITDA | 8.0 | 23.0 | 16.3 | 22.5 | 2.9 |
| Adjusted EPS | 28.6 | (5.2) | 46.4 | 30.2 | 2.9 |
| Profitability & Return ratios (%) | | | | | |
| EBITDA margin | 13.5 | 15.0 | 15.4 | 15.8 | 14.5 |
| EBIT margin | 11.3 | 12.5 | 12.7 | 14.1 | 13.0 |
| Adjusted profit margin | 7.6 | 9.7 | 10.0 | 11.6 | 10.6 |
| Adjusted ROAE | 7.0 | 6.6 | 9.5 | 11.9 | 11.4 |
| ROCE | 8.5 | 9.4 | 10.1 | 12.7 | 12.3 |
| Working capital days (days) | | | | | |
| Receivables | 21 | 22 | 20 | 20 | 20 |
| Inventory | 123 | 118 | 115 | 115 | 115 |
| Payables | 107 | 115 | 118 | 118 | 118 |
| Ratios (x) | | | | | |
| Gross asset turnover | 0.6 | 0.5 | 0.6 | 0.6 | 0.6 |
| Current ratio | 2.1 | 1.2 | 1.3 | 1.4 | 1.5 |
| Net interest coverage ratio | 17.8 | 14.7 | 9.0 | 31.0 | 32.0 |
| Adjusted debt/equity | 0.1 | 0.2 | 0.2 | 0.1 | 0.1 |

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

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BUY – Expected return >+15%

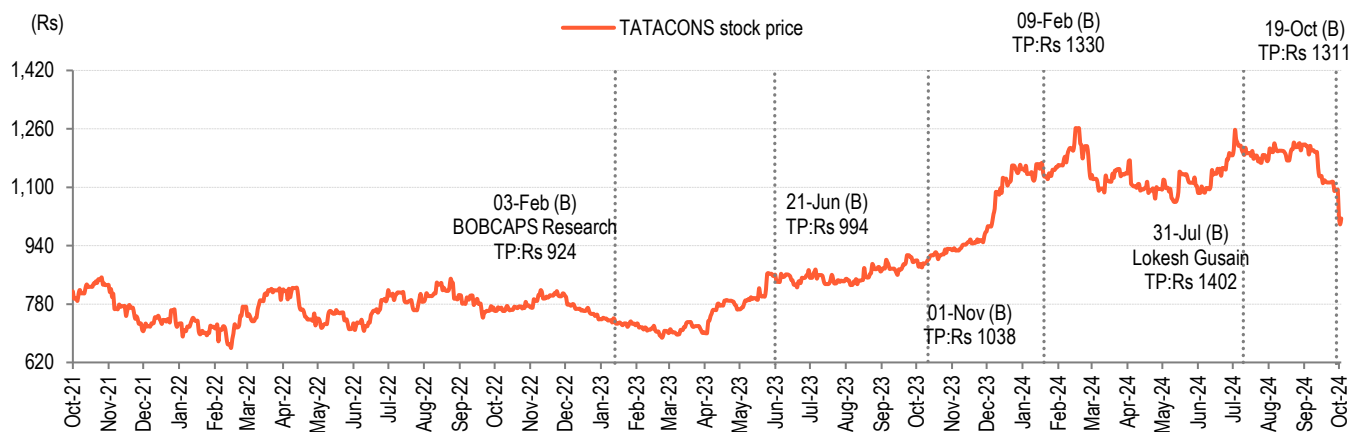
HOLD – Expected return from -6% to +15%

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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