

BUY
 TP: Rs 1,402 | ▲ 17%

TATA CONSUMER PRODUCTS

Consumer Staples

31 July 2024

1QFY25 results review: Above expectations

- TATACONS reported sales and EBITDA beat on improved margins in the unbranded business and M&A
- Tea inflation is emerging and will likely be a headwind. Coffee inflation is positive with higher margin potential in the plantations business
- Assume coverage on TATACONS with a BUY. We value TATACONS at 63x 12M to Jun'26 EPS and raise TP to Rs 1,402 from Rs 1,330

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Sales and EBITDA beat: TATACONS reported 1QFY25 underlying EPS decline of 3% YoY as 16% sales growth and 77bps EBITDA margin expansion was offset by a higher interest expense and tax rate. Compared to consensus, sales were 1% higher, EBITDA 3% higher but EPS only 1% lower due to higher tax rate and interest expense. Higher interest cost was for the temporary loan related to M&A. This debt was non-deductible for taxes which resulted in higher-than-expected tax rates. This should normalise by end Aug with loan repayment from capital raise.

Sales trends continue to be strong: While ex M&A sales increased 10% on a like-for-like basis; sales growth from the high-growth brands was +20%. Slow growth was due to heatwave in Apr and May'24. Starbucks had slower traffic while Tata Gluco sales slowed due to it being an impulse purchase product.

Tea and coffee costs are rising: Tea costs were up 10%-15% in North India and ~10% in South India. Coffee inflation is higher at 50+% for Robusta beans. On coffee, the company is benefitting in the plantations business and doing a pass through in its solubles business. While only 10% of group sales, the coffee business is likely to have a positive bias despite volatility.

Our view and valuation: TATACONS has an above-average sales growth profile among its FMCG peers. Strong focus on innovation, strategic M&A and its growth businesses are key drivers. We value TATACONS at 63x 12M to Jun'26 EPS and raise TP to Rs 1,402 from Rs 1,330. Major risk in our view is the failure of new product launches.

Tata Consumer 1QFY25 result summary				Reported vs (%)	
(Rs mn)	Q1FY24	Q1FY25	YoY (%)	BOBCAPS	Consensus
Sales	37,412	43,521	16	4	1
EBITDA	5,450	6,674	22	8	3
EBITDA Margin (%)	14.6	15.3	77bps	64bps	27bps
Adj. EPS (Rs)	3.46	3.35	(3)	(7)	1

Source: Company, BOBCAPS Research, Bloomberg

Key changes

Target	Rating
▲	◀ ▶

Ticker/Price	TATACONS IN/Rs 1,195
Market cap	US\$ 13.6bn
Free float	64%
3M ADV	US\$ 24.9mn
52wk high/low	Rs 1,269/Rs 828
Promoter/FPI/DII	34%/25%/41%

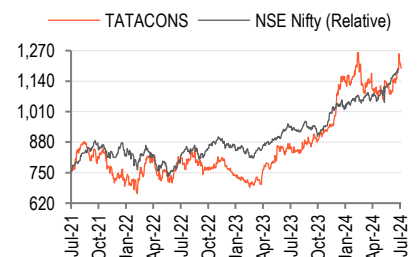
Source: NSE | Price as of 30 Jul 2024

Key financials

Y/E 31 Mar	FY24P	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)	75.1	65.7	55.2
EV/EBITDA (x)	49.9	39.1	34.6
Adj. EPS growth (%)	(5.2)	48.3	17.8

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

Stock performance



Source: NSE



Earnings summary

We forecast sales growth of 18% driven by high growth new businesses (Capital Foods, Organic India, Tata Sampann, NourishCo, etc). EBITDA margin will also expand due to improved margins in the plantations and unbranded businesses as Capital Foods and Organic India will be margin accretive to the overall group.

Fig 1 – Tata Consumer financial forecasts

(Rs mn)	FY22	FY23	FY24	FY25E	FY26E
Sales	124,254	137,832	152,058	179,270	205,219
...YoY (%)		11	10	18	14
EBITDA	17,188	18,565	22,841	29,151	32,953
...YoY (%)		8	23	28	13
EBITDA Margin (%)	13.8	13.5	15.0	16.3	16.1
...YoY (%)		(36bps)	155bps	124bps	(20bps)

Sources: Company reports, BOBCAPS Research

Earnings call takeaways

Sales

- Distribution split
 - 11%-12% sales are from ecommerce. Within ecommerce about 35% sales from quick commerce.
 - Modern retail is 14%-15% of sales.
- Inventory visibility in channels
 - Company consistently monitors inventory levels (days of inventory) to ensure no excess inventory scenario remains at the distributor level.
- Expanding into new distribution channels
 - Pharmacy: Company is currently testing multiple channels including FMCG, wholesalers and distributors.
 - Food service: HORECA customer base is being tested as Tata Consumer has an apt portfolio comprising water, coffee, tea, salt, etc.
- Sensitivity from a portfolio skewed towards out-of-home (adverse impact of heatwave)
 - Key lines such as Starbucks and Tata Gluco represent a portfolio skewed towards out-of-home and impulse purchase items.
 - Hot beverages generally have low consumption in hotter-than-usual weather.

New products

- **Dry fruits** – Product was successful online with Rs 0.8bn-1.0bn turnover and was moved to offline. However, in-store execution involved learnings. For instance, (1) transparent packaging to enable product visibility for consumers, and (2) the need for standup pouches. Changes are being implemented for execution.

- **Tata Sampann** continues to be successful with 1Q25 sales growth at 37% (25% from core and 12% from new products).
- **Olive oils** – Ventured into Olive oils – online for now. This is in line with the broad strategy of tapping into products and categories with high growth potential and non-presence of a national brand.

Cost

- Cost for tea is 15%-20% higher in North India and ~10% higher in South India.
- Cost for Robusta coffee bean is 50+% higher.
- Developing procurement efficiencies:
 - buying raw materials three to four months in advance,
 - closely tracking commodity acreage, yield trends, etc, to make a judgement on future pricing.

Procurement period

- General procurement season for tea is from 1Q to 3Q up until Dec. However, the company usually completes its purchases between mid-May to mid-Nov. Beyond Nov, the product quality is usually not up to mark.

M&A integration

- Limited manufacturing synergies due to different portfolios and sets of equipment. None of the systems are high end or complicated and so not too difficult to comprehend and understand.
- Combined gross margins of Capital Foods and Organic India should be higher post-acquisition given scale and a more favourable distribution structure.

Valuation methodology

The stock is currently trading at 66x FY25E EPS. Tata Consumer has historically traded at 2.6x vs the NSE NIFTY 50 1-year forward EPS. We value Tata Consumer at 63x 12M to Jun'26 EPS. We apply a 15% premium to its historical average vs NIFTY 50. This reflects Tata Consumer's current high growth phase with innovations and new products driving multi-year sales growth for the company.

Key risks

Key downside risks to our estimates are:

- Failure of new products in growth businesses.
- Increase in competitive intensity.
- Sustained inflation in underlying commodities.

Financials

Income Statement

Y/E 31 Mar (Rs mn)	FY22A	FY23A	FY24P	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	FY24P	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	FY24P	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	FY24P	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	FY24P	FY25E	FY26E
EV/Sales	9.2	8.3	7.5	6.4	5.5
EV/EBITDA	66.3	61.3	49.9	39.1	34.6
Adjusted P/E	111.5	105.5	75.1	65.7	55.2
P/BV	6.8	6.4	6.3	5.9	5.5

DuPont Analysis

Y/E 31 Mar (%)	FY22A	FY23A	FY24P	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	FY24P	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%

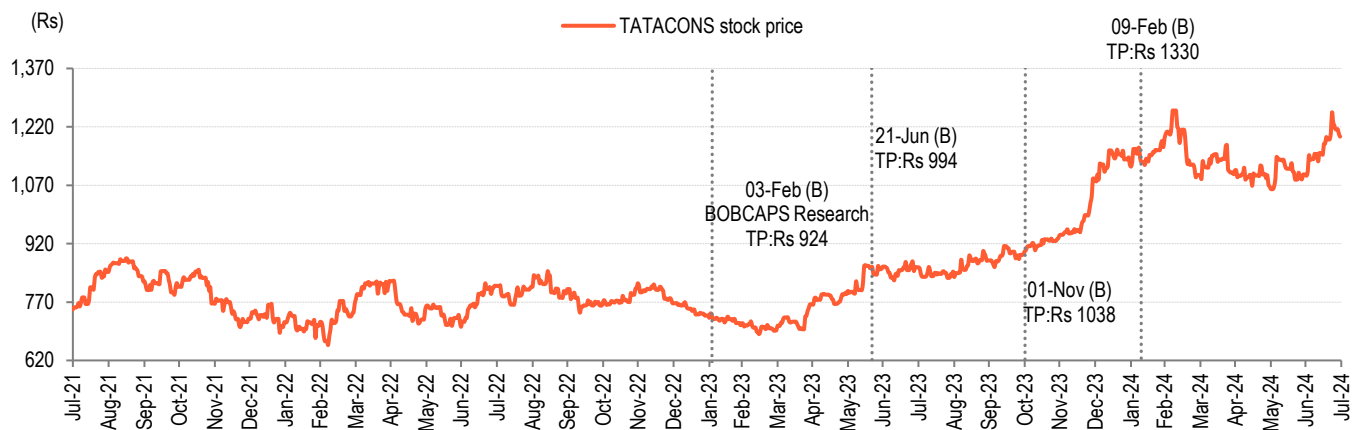
HOLD – Expected return from -6% to +15%

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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