

BUY

TP: Rs 924 | ▲ 27%

TATA CONSUMER PRODUCTS

| Consumer Staples

| 03 February 2023

Subdued quarter; long-term story remains intact

- Q3 revenue grew 8% YoY (3% QoQ), but margins contracted due to inflationary pressure and lag in pricing
- Salt revenue grew 27% YoY with market share gains of 90bps; macro headwinds impacted the tea business
- We assume coverage with BUY and a TP of Rs 924 for 27% upside

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Soft quarter in a challenging macro environment: Tata Consumer’s (TCPL) revenue from operations grew 8% YoY in Q3FY23 while EBITDA declined 2%. Gross and EBITDA margins contracted 215bps and 130bps YoY respectively. India business registered growth of 8%, international business 2% and non-branded business 22%.

Momentum continues in growth businesses: Tata Sampann, Tata Soulful and NourishCo have maintained their strong growth trajectory, rising 53% YoY in Q3FY23 and collectively accounting for 13% of India business from 6% in FY20. NourishCo, in particular, delivered a robust quarter with revenue up 66% YoY.

Macro headwinds impacted tea business: Demand for tea was affected by price correction, stress in rural and semi-urban markets, and a delayed winter in North and East India. The India packaged beverages business recorded a 9% revenue decline due to a 5% volume dip in tea. Since the business was deferred by a delayed winter, we expect TCPL to recover some of the lost sales in Q4FY23.

Subdued performance in international business: The international beverages business grew 4% YoY. Margins have been impacted due to input cost inflation and adverse currency movement. The company has taken further pricing action to restore profitability and is looking at structural cost-savings initiatives going forward.

Tata Starbucks does well: Tata Starbucks’ revenue grew 42% YoY led by revival in out-of-home consumption and store addition. Net store addition in Q3 was at 11, taking the total count to 311 stores. The company expanded its reach to 38 cities.

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, product launches and digitisation. We model for a revenue/EBITDA/PAT CAGR of 11%/14.5%/19% over FY22-FY25 and assume coverage with BUY for an SOTP-based TP of Rs 924.

Ticker/Price	TATACONS IN/Rs 727
Market cap	US\$ 8.2bn
Free float	65%
3M ADV	US\$ 11.9mn
52wk high/low	Rs 861/Rs 650
Promoter/FPI/DII	34%/26%/40%

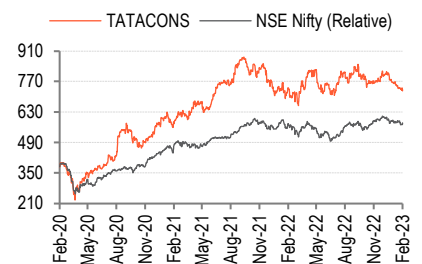
Source: NSE | Price as of 3 Feb 2023

Key financials

Y/E 31 Mar	FY22A	FY23E	FY24E
Total revenue (Rs mn)	1,24,254	1,37,125	1,53,339
EBITDA (Rs mn)	17,188	19,018	23,162
Adj. net profit (Rs mn)	9,878	10,956	14,839
Adj. EPS (Rs)	10.7	11.8	16.0
Consensus EPS (Rs)	10.7	13.6	16.0
Adj. ROAE (%)	5.7	7.4	8.2
Adj. P/E (x)	67.8	61.6	45.5
EV/EBITDA (x)	39.3	35.5	29.1
Adj. EPS growth (%)	9.2	33.7	17.6

Source: Company, Bloomberg, BOBCAPS Research

Stock performance



Source: NSE

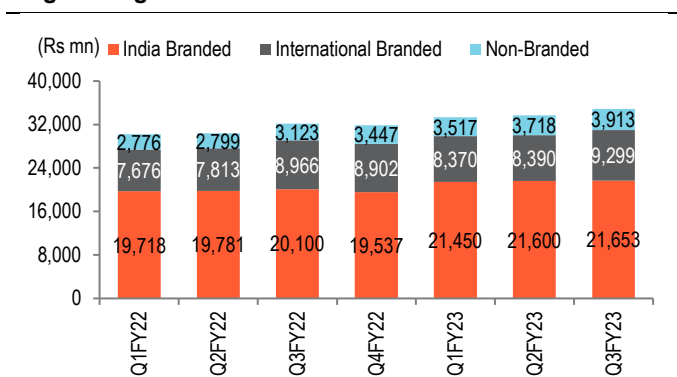


Fig 1 – Quarterly performance

(Rs mn)	Q3FY23	Q2FY23	Q3FY22	QoQ (%)	YoY (%)	Estimates	Variance (%)
Revenue	34,746	33,631	32,084	3.3	8.3	35,574	(2.3)
EBITDA	4,537	4,338	4,617	4.6	(1.7)	4,980	(8.9)
Adj. PAT	2,732	2,167	2,782	26.1	(1.8)	2,902	(5.9)
Gross Margin (%)	41.5	41.7	43.7	(22 bps)	(217 bps)	42.5	(98 bps)
EBIDTA Margin (%)	13.1	12.9	14.9	16 bps	(133 bps)	14	(94 bps)
Adj. PAT Margin (%)	7.9	6.4	8.7	142 bps	(81 bps)	8.16	(30 bps)

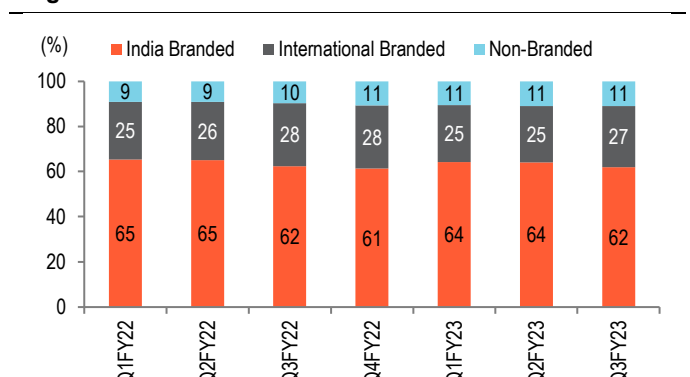
Source: Company, BOBCAPS Research

Fig 2 – Segment revenue



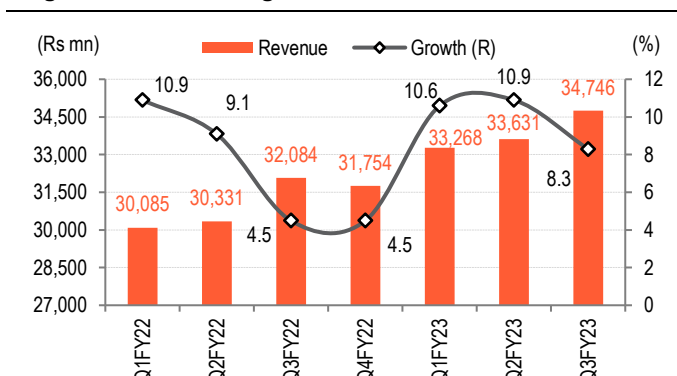
Source: Company, BOBCAPS Research

Fig 3 – Revenue contribution



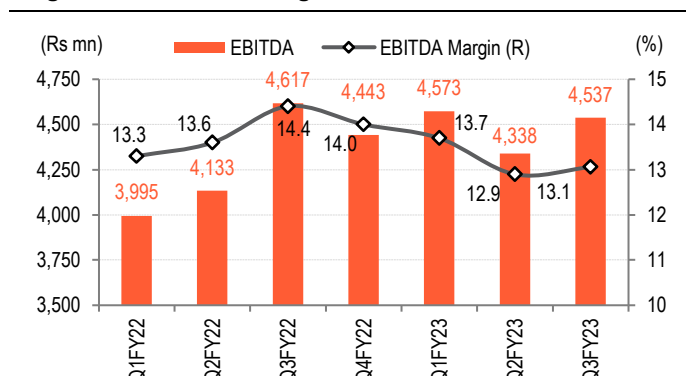
Source: Company, BOBCAPS Research

Fig 4 – Revenue and growth



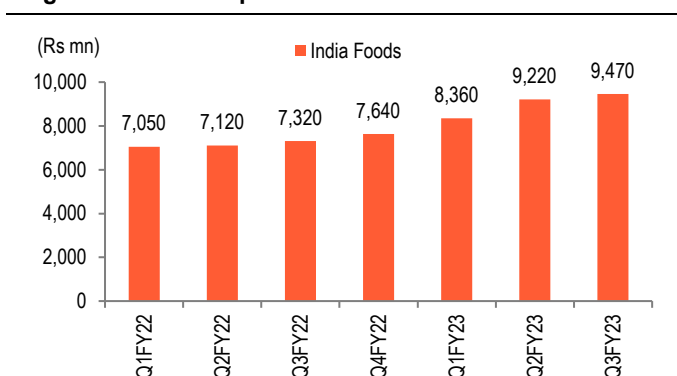
Source: Company, BOBCAPS Research

Fig 5 – EBITDA and margin



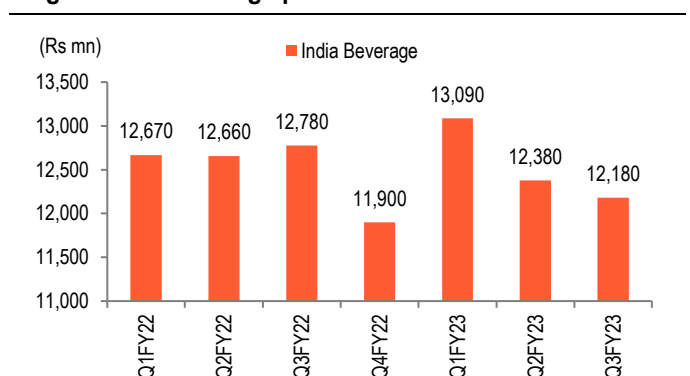
Source: Company, BOBCAPS Research

Fig 6 – India foods performance



Source: Company, BOBCAPS Research

Fig 7 – India beverage performance



Source: Company, BOBCAPS Research

Earnings call highlights

- TCPL has been able to deliver double-digit growth while balancing margins in an extremely challenging global macro environment this fiscal.
- The primary reason for softness in the India business was continued stress in rural demand, especially for tea.
- The domestic tea business was subdued due to demand headwinds in North and East India. Management indicated that demand in December had shown some improvement and January was even better.
- India beverages revenue declined 5% YoY in value as well as volume terms during Q3FY23. India foods business volume grew 4% YoY, with revenue up 29%, mostly driven by price increases.
- The salt business performed well and continued to expand its value and premium range. Despite a 33% increase in prices during the year, TCPL continued to gain market share. Tata Sampann Spices forayed into Karnataka to expand the total addressable market.
- Management expects mid-single-digit volume and high-single-digit value growth in the tea and salt businesses led by pricing and premiumisation.
- International markets saw margin contraction in Q3 due to input cost inflation and currency movement. TCPL has taken further price action and is looking at structural cost-saving actions going forward.
- TCPL continues to drive innovation and launched a range of ready-to-eat and ready-to-cook products developed for international markets. The company re-launched Tata Soulfull Ragi bites with an enhanced cream version in three variants.
- The company is improving distribution reach and now moving to split routes separate for food and beverage to drive assortment, increase depth, and focus on growth drivers in towns with 1mn+ population.

Valuation methodology

We expect TCPL to deliver a strong performance due to a sustained focus on network extension in rural and semi-urban markets, premiumisation, product launches and digitisation. The company has increased its direct distribution reach to ~1.4mn outlets, closing in on its target of 1.5mn outlets by end-FY23. It is now increasing its network depth by introducing split distribution routes in all 1mn+ population towns.

Direct distribution is being expanded to improve execution in semi-urban areas, which is expected to bridge the gap with competition and promote market share gains. Alternate channels continue to fuel sales – e-commerce grew 34% YoY in Q3FY23 and contributed 9% of revenue; modern trade grew 17% and contributed 15%. We like TCPL's commitment to investing in emerging channels to drive growth.

We model for a revenue/EBITDA/PAT CAGR of 11%/15%/19% for the company over FY22-FY25 and assume coverage with BUY for an SOTP-based TP of Rs 924. We 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 – SOTP valuation

Business	Value (Rs mn)	Multiple (x)	EV (Rs mn)
EV/EBITDA		FY25E EBITDA	
India Business	20,599	36.0	741,578
International Business	7,618	12.0	91,420
EV/Revenue		FY25E Revenue	
Tata Starbucks	1,145	3.0	3,434
Enterprise Value			836,432
Less: Net debt			(21,918)
Market Value (Rs mn)			858,350
No. of shares (mn)			929
Target Price (Rs)			924

Source: BOBCAPS Research

Key risks

Key downside risks to our estimates are:

- continued slowdown in rural and semi-urban markets,
- inflation in input cost, and
- volatility in foreign exchange.

Financials

Income Statement

Y/E 31 Mar (Rs mn)	FY21A	FY22A	FY23E	FY24E	FY25E
Total revenue	1,16,020	1,24,254	1,37,125	1,53,339	1,71,661
EBITDA	15,438	17,188	19,018	23,162	25,806
Depreciation	2,547	2,780	2,921	3,061	3,217
EBIT	12,890	14,408	16,097	20,101	22,590
Net interest inc./(exp.)	(687)	(728)	(850)	(850)	(850)
Other inc./(exp.)	1,214	1,401	1,407	1,407	1,407
Exceptional items	(307)	(521)	1,658	0	0
EBT	13,111	14,560	18,313	20,659	23,148
Income taxes	3,172	3,770	4,655	5,206	5,833
Extraordinary items	0	0	0	0	0
Min. int./Inc. from assoc.	104	156	1,065	304	341
Reported net profit	8,567	9,358	12,614	14,839	16,627
Adjustments	(307)	(521)	1,658	0	0
Adjusted net profit	8,874	9,878	10,956	14,839	16,627

Balance Sheet

Y/E 31 Mar (Rs mn)	FY21A	FY22A	FY23E	FY24E	FY25E
Accounts payables	16,255	19,159	21,331	22,549	24,446
Other current liabilities	1,361	1,322	1,322	1,322	1,322
Provisions	2,942	2,488	2,488	2,488	2,488
Debt funds	7,206	10,106	10,106	10,106	10,106
Other liabilities	18,525	15,162	15,162	15,162	15,162
Equity capital	922	922	922	922	922
Reserves & surplus	1,55,349	1,62,014	1,70,052	1,79,403	1,89,881
Shareholders' fund	1,56,270	1,62,936	1,70,974	1,80,325	1,90,803
Total liab. and equities	2,02,559	2,11,172	2,21,382	2,31,952	2,44,327
Cash and cash eq.	20,420	14,980	15,795	22,481	29,455
Accounts receivables	7,613	8,352	9,217	10,083	11,287
Inventories	22,492	22,665	25,235	27,296	30,292
Other current assets	16,730	23,380	28,590	28,590	28,590
Investments	5,986	5,630	5,630	5,630	5,630
Net fixed assets	12,227	14,803	16,404	18,222	20,284
CWIP	932	2,094	2,094	2,094	2,094
Intangible assets	1,04,006	1,05,456	1,04,605	1,03,745	1,02,883
Deferred tax assets, net	381	427	427	427	427
Other assets	11,773	13,385	13,385	13,385	13,385
Total assets	2,02,559	2,11,172	2,21,382	2,31,952	2,44,327

Cash Flows

Y/E 31 Mar (Rs mn)	FY21A	FY22A	FY23E	FY24E	FY25E
Cash flow from operations	16,564	15,158	15,317	16,805	18,228
Capital expenditures	(2,107)	(2,733)	(3,083)	(3,436)	(3,834)
Change in investments	4,149	(971)	0	0	0
Other investing cash flows	(5,008)	(4,512)	(589)	(582)	(583)
Cash flow from investing	(4,084)	(13,218)	(3,671)	(4,018)	(4,417)
Equities issued/Others	0	0	0	0	0
Debt raised/repaid	(573)	(4,947)	0	0	0
Interest expenses	(654)	(625)	0	0	0
Dividends paid	(2,582)	(3,848)	(5,621)	(6,102)	(6,837)
Other financing cash flows	(451)	(528)	0	0	0
Cash flow from financing	(4,260)	(9,948)	(5,621)	(6,102)	(6,837)
Chg in cash & cash eq.	8,338	(7,961)	6,025	6,685	6,974
Closing cash & cash eq.	17,731	9,770	15,795	22,481	29,455

Per Share

Y/E 31 Mar (Rs)	FY21A	FY22A	FY23E	FY24E	FY25E
Reported EPS	9.3	10.2	13.6	16.0	17.9
Adjusted EPS	9.6	10.7	11.8	16.0	17.9
Dividend per share	2.7	4.1	6.1	6.6	7.4
Book value per share	169.6	176.8	185.5	195.7	207.0

Valuations Ratios

Y/E 31 Mar (x)	FY21A	FY22A	FY23E	FY24E	FY25E
EV/Sales	5.8	5.4	4.9	4.4	3.9
EV/EBITDA	43.7	39.3	35.5	29.1	26.2
Adjusted P/E	75.5	67.8	61.6	45.5	40.6
P/BV	4.3	4.1	3.9	3.7	3.5

DuPont Analysis

Y/E 31 Mar (%)	FY21A	FY22A	FY23E	FY24E	FY25E
Tax burden (Net profit/PBT)	65.3	64.3	68.9	71.8	71.8
Interest burden (PBT/EBIT)	101.7	101.1	113.8	102.8	102.5
EBIT margin (EBIT/Revenue)	11.1	11.6	11.7	13.1	13.2
Asset turnover (Rev./Avg TA)	57.3	58.8	61.9	66.1	70.3
Leverage (Avg TA/Avg Equity)	1.3	1.3	1.3	1.3	1.3
Adjusted ROAE	5.5	5.7	7.4	8.2	8.7

Ratio Analysis

Y/E 31 Mar	FY21A	FY22A	FY23E	FY24E	FY25E
YoY growth (%)					
Revenue	20.4	7.1	10.4	11.8	11.9
EBITDA	19.5	11.3	10.7	21.8	11.4
Adjusted EPS	86.3	9.2	33.7	17.6	12.0
Profitability & Return ratios (%)					
EBITDA margin	13.3	13.8	13.9	15.1	15.0
EBIT margin	11.1	11.6	11.7	13.1	13.2
Adjusted profit margin	7.6	8.0	8.0	9.7	9.7
Adjusted ROAE	5.5	5.7	7.4	8.2	8.7
ROCE	7.9	8.3	8.9	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	2.4	2.6	2.7
Net interest coverage ratio	18.8	19.8	18.9	23.7	26.6
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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Recommendation scale: Recommendations and Absolute returns (%) over 12 months

BUY – Expected return >+15%

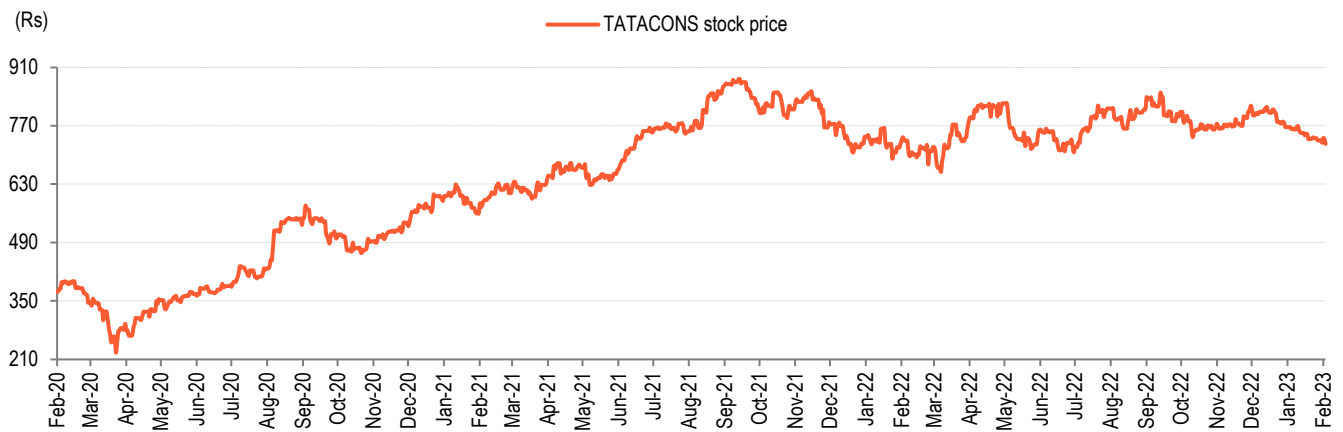
HOLD – Expected return from -6% to +15%

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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