

BUY
 TP: Rs 1,330 | ▲ 18%

TATA CONSUMER PRODUCTS

Consumer Staples

09 February 2024

Strong run continues

- Sustained revenue growth (+ 9% YoY) and margin expansion in Q3, propelled by robust India business
- Acquisitions of Capital Food and Organic India will bridge portfolio gaps and likely to be margin-accretive
- Continued growth momentum leads us to upgrade target multiples; maintain BUY with revised TP of Rs 1,330 (vs. Rs 1,038)

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Sustained growth across portfolios: TCPL maintained its growth trajectory, registering an increase of 9.5% YoY (8% CC) in revenue to Rs 38bn in Q3FY24, driven by 10% growth in India business, 6% CC growth in international business and 4% in non-branded business. EBITDA was up 26% YoY accompanied by margin expansion of 190bps YoY (+60bps QoQ) to 15%. India EBITDA increased 22% YoY with 170bps margin expansion, and international EBITDA grew 19% CC YoY with margin expansion of 130bps to 12.7% led by softer input prices.

Growth businesses continue upward trajectory: Tata Sampann, Tata Soufull and NourishCo collectively grew 42% YoY, forming 17% of India business compared to 13% in Q3FY24. Soufull expanded its dry fruits range with the launch of salted and roasted nuts and seed mixes. NourishCo’s revenue grew 34% YoY to Rs 1.6bn, and the Himalayan, Tata Gluco+ and Tata Copper+ brands continued to record strong growth.

Bridging portfolio gaps through acquisitions: During Q3FY24, TCPL announced two large acquisitions of Capital Foods (*Ching’s Secret* and *Smith & Jones*) and Organic India. The company acquired a 75% stake (25% in next 3 years) in Capital Foods and 100% in Organic India for a combined enterprise value of Rs 70bn (Rs 51bn and Rs 19bn respectively). Management expects both deals to be margin-accretive for the company and to open up double-digit growth opportunities in domestic as well as international markets.

Maintain BUY: TCPL continues to deliver strong growth across markets in a difficult environment, backed by a thrust on launches, premiumisation, rural network expansion and digitisation. The new acquisitions will further enrich the portfolio and augment TCPL’s addressable market. The stock is trading at 63.2x/53.5x FY25E/ FY26E EPS. We roll valuations over to FY26E and bake in the robust outlook by raising our target EV/EBITDA multiples for the India business to 46x (from 39.7x) and international business to 16.3x (from 15.5x). Our SOTP-based TP thus rises to Rs 1,330 (from Rs 1,038) – BUY.

Key changes

Target	Rating
▲	◀ ▶

Ticker/Price	TATACONS IN/Rs 1,129
Market cap	US\$ 13.1bn
Free float	64%
3M ADV	US\$ 20.7mn
52wk high/low	Rs 1,191/Rs 687
Promoter/FPI/DII	34%/25%/41%

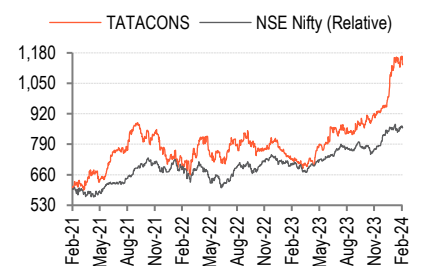
Source: NSE | Price as of 9 Feb 2024

Key financials

Y/E 31 Mar	FY23A	FY24E	FY25E
Total revenue (Rs mn)	137,832	153,571	175,339
EBITDA (Rs mn)	18,565	22,417	27,444
Adj. net profit (Rs mn)	10,443	14,004	16,598
Adj. EPS (Rs)	11.3	15.1	17.9
Consensus EPS (Rs)	11.3	15.2	18.1
Adj. ROAE (%)	5.2	8.4	8.8
Adj. P/E (x)	99.7	74.9	63.2
EV/EBITDA (x)	58.0	48.0	39.2
Adj. EPS growth (%)	(5.5)	69.6	9.8

Source: Company, Bloomberg, BOBCAPS Research

Stock performance



Source: NSE

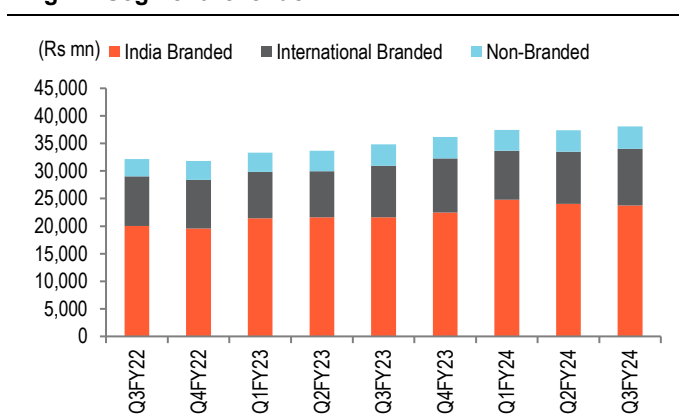


Fig 1 – Financial performance

(Rs mn)	Q3FY24	Q2FY24	Q3FY23	QoQ (%)	YoY (%)	9MFY24	9MFY23	YoY (%)
Revenue	38,039	37,338	34,746	1.9	9.5	112,789	101,644	11.0
EBITDA	5,724	5,371	4,537	6.6	26.2	16,545	13,448	23.0
Adj. PAT	3,704	3,528	2,730	5.0	35.7	10,449	7,694	35.8
Gross Margin (%)	43.8	42.5	41.5	130bps	230bps	42.8	41.9	90bps
EBITDA Margin (%)	15.0	14.4	13.1	60bps	190bps	14.7	13.2	150bps
Adj. PAT Margin (%)	9.7	9.4	7.9	30bps	180bps	9.3	7.6	170bps

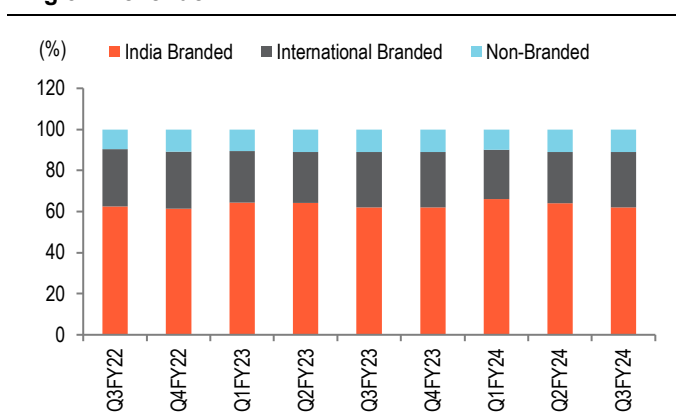
Source: Company, BOBCAPS Research

Fig 2 – Segment revenue



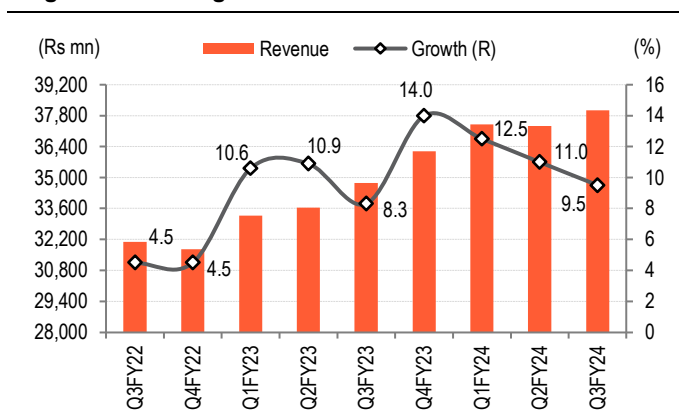
Source: Company, BOBCAPS Research

Fig 3 – Revenue mix



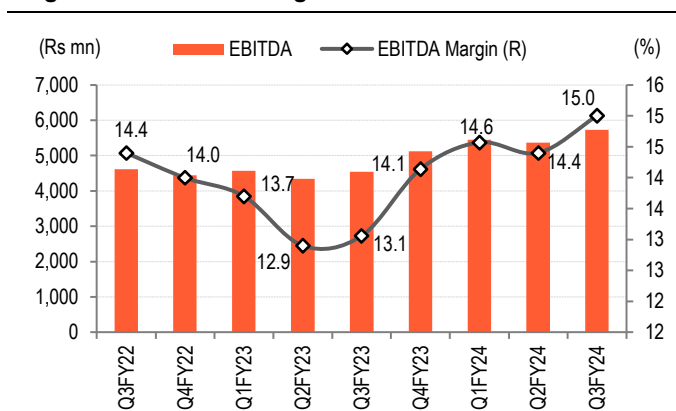
Source: Company, BOBCAPS Research

Fig 4 – Revenue growth



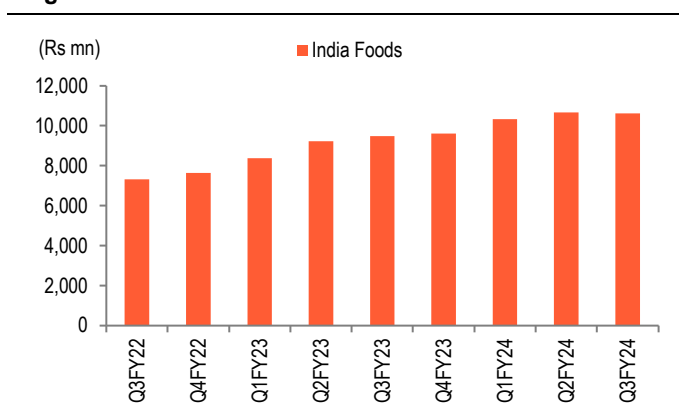
Source: Company, BOBCAPS Research

Fig 5 – EBITDA and Margin



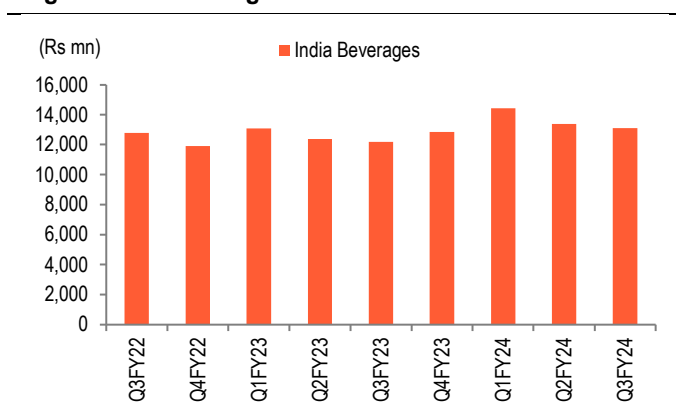
Source: Company, BOBCAPS Research

Fig 6 – India foods revenue



Source: Company, BOBCAPS Research

Fig 7 – India beverages revenue



Source: Company, BOBCAPS Research

Earnings call highlights

- TCPL delivered a strong performance across businesses in Q3FY24, with consolidated revenue growth of 9% YoY (8% CC) and a four-year revenue CAGR of 11%.
- During the quarter, revenue from the India beverages business grew 8% YoY, with tea registering 2% volume growth. NourishCo clocked a 34% YoY increase in revenue to Rs 1.6bn, bringing the 9MFY24 growth to 41%, and remains on target to reach Rs 9bn-10bn by the year-end. India foods volumes grew 5% YoY and revenue was up 13%. Tata Sampann maintained its strong growth trajectory, rising 40% YoY.
- International business grew 11% YoY (6% CC) and EBIT increased 23%. The US coffee business continues to face demand headwinds owing to sharp volatility in coffee prices. However, tea is now on a strong footing with volume growth of 10% and value growth of 22% YoY. The UK delivered revenue growth of 14% YoY and gained value market share to ~20%.
- India growth businesses together posted 42% YoY growth and now contribute 17% of domestic revenue against 13% last year. Management had earlier guided for 20% revenue contribution and 30% growth. Now, with the acquisitions of Organic India and Capital Foods, the company is targeting 30% revenue contribution, growing at 30%.
- Consolidated EBITDA climbed 26% YoY and margin expanded by 190bps. Profitability in growth businesses continues to improve as operations gain scale.
- Tata Coffee had another good quarter, clocking 9% YoY revenue growth to Rs 38bn (6% volume and 3% value growth) and significant improvement in profitability. Following regulatory approvals, the merger of Tata Coffee with TCPL came into effect from 1 Jan 2024 and integration is in the final stage.
- TCPL continues to spur premiumisation through innovation and introduced new pack sizes as well as a range of premium spices (such as cardamom and pepper) and honey sourced from its own plantations, under the brand *Sonnets*.
- The company extended its dry fruits range with the launch of flavoured and roasted variants. It also introduced black salt in the salt portfolio and premium cold brew coffee cans under Tata Coffee.
- TCPL's direct reach now stands at 1.5mn outlets and total reach at 3.9mn. The company continues to strengthen its e-commerce presence and the channel now forms 10.7% of total revenue. In modern trade, Sampann and Soufull revenues combined grew 49% YoY during 9MFY24 and 45 new pack sizes were launched.
- Tata Starbucks opened 22 new stores during Q3, taking the total store count to 392. The company has guided for 1,000 stores by FY28. Revenue for the JV grew 7% YoY for the quarter.
- In India business, total A&P investment increased 6% YoY for the quarter.
- During Q3FY24, the company announced two acquisitions – Organic India and Capital Foods. The latter owns *Ching's Secret* (a leading player in Desi Chinese

across its product categories of chutneys, blended masalas, sauces and soups) and *Smith & Jones* (a fast-growing brand catering to in-home cooking of Italian and other western cuisines).

- TCPL has completed the acquisition of Capital Foods and is in the process of integration, with substantial progress on front-end synergies. Post-acquisition of Organic India, management had guided that the deal will be completed in 45-60 days.
- Management believes both deals will be gross margin accretive for TCPL's business and have significant potential to deliver revenue and cost synergies.
- TCPL has cash of Rs 29.5bn on the balance sheet as at 9MFY24 compared to Rs 20.9bn in the year-ago period, up 40% YoY.

Valuation methodology

TCPL continues to deliver strong growth across domestic and international markets in a difficult environment. We expect momentum to continue, backed by a thrust on product launches, premiumisation, rural network expansion and digitisation. The recent acquisitions of Capital Foods and Organic India will further enrich the portfolio and augment TCPL's addressable market.

The company has scaled up its domestic distribution reach to 3.9mn outlets and direct reach to 1.5mn outlets at the end of Dec'23. Wider direct distribution is aimed at improving product penetration and marketing in semiurban areas, which should help bridge the gap with competition and promote market share gains in key categories.

The stock is trading at 63.2x/53.5x FY25E/ FY26E EPS. We roll valuations over to FY26E and bake in the robust growth outlook by raising our target EV/EBITDA multiples for the India business to 46x (from 39.7x) and international business to 16.3x (from 15.5x). Our SOTP-based TP thus rises to Rs 1,330 (from Rs 1,038) – maintain BUY.

Fig 8 – SOTP valuation

EV/EBITDA	FY26E EBITDA	Multiple (x)	EV
India Business (Rs mn)	23,875	46.0x	10,98,250
International Business (Rs mn)	8,448	16.3x	1,37,702
EV/Revenue	FY26E Revenue	Multiple (x)	EV
Tata Starbucks (Rs mn)	1,953	3.5x	6,836
Enterprise Value (Rs mn)	-	-	12,42,788
Less: Net debt (Rs mn)	-	-	(24,440)
Market Value (Rs mn)	-	-	12,67,228
No of share (mn)	-	-	953
Target Price (Rs)	-	-	1,330

Source: Company, BOBCAPS Research

Key risks

Key downside risks to our estimates are:

- delayed rural recovery,
- continued inflation in international markets, and
- adverse currency movement.

Sector recommendation snapshot

Company	Ticker	Market Cap (US\$ bn)	Price (Rs)	Target (Rs)	Rating
Britannia Industries	BRIT IN	14.6	4,972	5,980	BUY
Dabur India	DABUR IN	11.6	539	673	BUY
Godrej Consumer Products	GCPL IN	15.2	1,219	1,363	HOLD
Hindustan Unilever	HUVR IN	69.3	2,424	2,895	BUY
ITC	ITC IN	63.1	416	532	BUY
Marico	MRCO IN	8.2	521	618	BUY
Nestle India	NEST IN	28.7	2,450	2,826	BUY
Tata Consumer Products	TATACONS IN	13.1	1,129	1,330	BUY
Zydus Wellness	ZYWL IN	1.2	1,594	1,556	HOLD

Source: BOBCAPS Research, NSE | Price as of 9 Feb 2024

Financials

Income Statement

Y/E 31 Mar (Rs mn)	FY22A	FY23A	FY24E	FY25E	FY26E
Total revenue	124,254	137,832	153,571	175,339	200,243
EBITDA	17,188	18,565	22,417	27,444	32,039
Depreciation	2,780	3,041	3,417	3,398	3,398
EBIT	14,408	15,524	19,000	24,046	28,641
Net interest inc./(exp.)	728	872	1,105	940	940
Other inc./(exp.)	1,401	1,689	2,614	2,171	2,171
Exceptional items	(521)	(1,595)	1,113	0	0
EBT	14,560	14,746	21,623	25,276	29,871
Income taxes	3,770	4,470	5,043	6,496	7,677
Extraordinary items	0	0	0	0	0
Min. int./Inc. from assoc.	794	1,164	983	1,348	1,593
Reported net profit	9,358	8,848	15,116	16,598	19,615
Adjustments	(521)	(1,595)	1,113	0	0
Adjusted net profit	9,878	10,443	14,004	16,598	19,615

Balance Sheet

Y/E 31 Mar (Rs mn)	FY22A	FY23A	FY24E	FY25E	FY26E
Accounts payables	19,159	23,482	25,791	29,082	33,009
Other current liabilities	1,322	1,735	1,933	2,207	2,520
Provisions	2,488	2,449	2,537	2,660	2,799
Debt funds	10,106	11,828	11,828	11,828	11,828
Other liabilities	11,653	13,727	14,510	16,337	18,428
Equity capital	922	929	953	953	953
Reserves & surplus	162,014	170,340	178,427	187,038	197,214
Shareholders' fund	162,936	171,269	179,380	187,990	198,167
Total liab. and equities	211,172	228,111	239,601	253,727	270,373
Cash and cash eq.	14,980	15,396	14,991	19,649	25,186
Accounts receivables	8,352	7,983	8,895	10,156	11,598
Inventories	22,665	27,017	29,673	33,460	37,978
Other current assets	23,367	24,935	25,741	26,857	28,133
Investments	5,630	11,403	11,403	11,403	11,403
Net fixed assets	14,803	16,047	18,051	20,387	23,102
CWIP	2,094	2,861	2,861	2,861	2,861
Intangible assets	105,081	108,665	108,205	107,725	107,226
Deferred tax assets, net	1,417	1,603	1,786	2,039	2,329
Other assets	3,947	2,991	3,269	3,654	4,095
Total assets	211,172	228,111	239,601	253,726	270,373

Cash Flows

Y/E 31 Mar (Rs mn)	FY22A	FY23A	FY24E	FY25E	FY26E
Cash flow from operations	17,511	15,310	15,873	20,738	24,699
Capital expenditures	(2,733)	(3,118)	(3,072)	(3,553)	(4,107)
Change in investments	493	(5,364)	0	0	0
Other investing cash flows	(10,978)	203	3,139	2,895	3,001
Cash flow from investing	(13,218)	(8,278)	66	(657)	(1,106)
Equities issued/Others	0	0	24	0	0
Debt raised/repaid	(4,930)	(563)	0	0	0
Interest expenses	(625)	(817)	(1,105)	(940)	(940)
Dividends paid	(3,848)	(5,734)	(6,047)	(6,639)	(7,846)
Other financing cash flows	(545)	(30)	(983)	(1,348)	(1,593)
Cash flow from financing	(9,948)	(7,144)	(8,110)	(8,927)	(10,379)
Chg in cash & cash eq.	(7,961)	(4,057)	2,786	4,658	5,537
Closing cash & cash eq.	14,979	12,205	14,991	19,649	25,186

Per Share

Y/E 31 Mar (Rs)	FY22A	FY23A	FY24E	FY25E	FY26E
Reported EPS	10.2	9.6	16.3	17.9	21.1
Adjusted EPS	10.7	11.3	15.1	17.9	21.1
Dividend per share	0.0	0.0	0.0	0.0	0.0
Book value per share	176.8	185.8	194.6	204.0	215.0

Valuations Ratios

Y/E 31 Mar (x)	FY22A	FY23A	FY24E	FY25E	FY26E
EV/Sales	8.7	7.8	7.0	6.1	5.4
EV/EBITDA	62.6	58.0	48.0	39.2	33.6
Adjusted P/E	105.4	99.7	74.9	63.2	53.5
P/BV	6.4	6.1	5.8	5.5	5.3

DuPont Analysis

Y/E 31 Mar (%)	FY22A	FY23A	FY24E	FY25E	FY26E
Tax burden (Net profit/PBT)	64.3	60.0	69.9	65.7	65.7
Interest burden (PBT/EBIT)	65.0	57.0	79.6	69.0	68.5
EBIT margin (EBIT/Revenue)	11.6	11.3	12.4	13.7	14.3
Asset turnover (Rev./Avg TA)	58.8	60.4	64.1	69.1	74.1
Leverage (Avg TA/Avg Equity)	1.3	1.3	1.3	1.3	1.4
Adjusted ROAE	5.7	5.2	8.4	8.8	9.9

Ratio Analysis

Y/E 31 Mar	FY22A	FY23A	FY24E	FY25E	FY26E
YoY growth (%)					
Revenue	7.1	10.9	11.4	14.2	14.2
EBITDA	11.3	8.0	20.8	22.4	16.7
Adjusted EPS	9.2	(5.5)	69.6	9.8	18.2
Profitability & Return ratios (%)					
EBITDA margin	13.8	13.5	14.6	15.7	16.0
EBIT margin	11.6	11.3	12.4	13.7	14.3
Adjusted profit margin	8.0	7.6	9.1	9.5	9.8
Adjusted ROAE	5.7	5.2	8.4	8.8	9.9
ROCE	8.3	8.5	9.9	12.0	13.6
Working capital days (days)					
Receivables	25	21	21	21	21
Inventory	117	123	123	123	123
Payables	99	107	107	107	107
Ratios (x)					
Gross asset turnover	0.5	0.6	0.6	0.6	0.7
Current ratio	2.2	2.1	2.2	2.3	2.3
Net interest coverage ratio	19.8	17.8	17.2	25.6	30.5
Adjusted debt/equity	0.1	0.1	0.1	0.1	0.1

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

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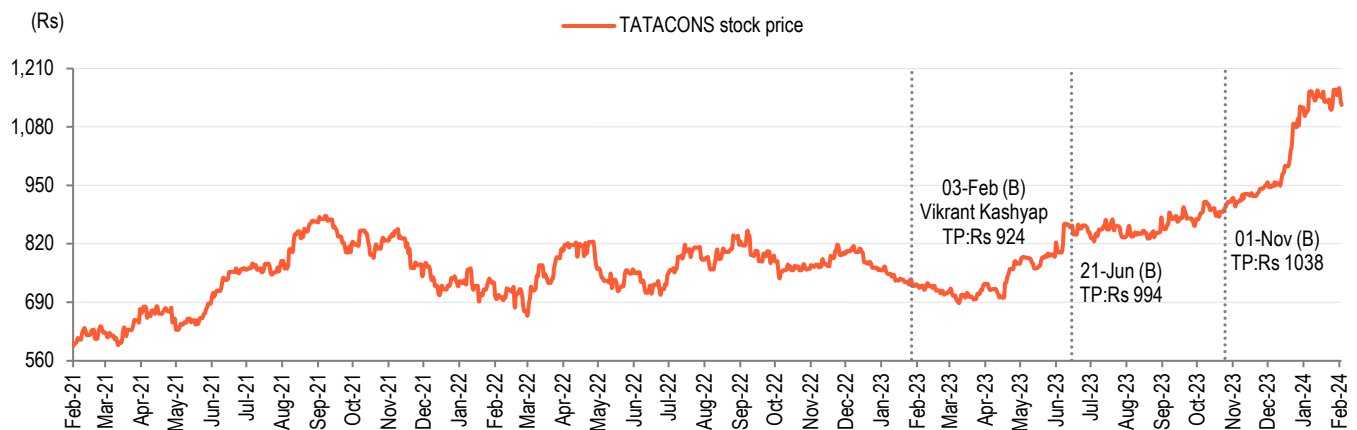
HOLD – Expected return from -6% to +15%

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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