

BUY
 TP: Rs 1,175 | ▲ 22%

TATA CONSUMER PRODUCTS

Consumer Staples

31 January 2025

Staying rational

- Tea inflation recovery prospects have improved as higher pricing has come through earlier than expected
- NourishCo volumes have improved but margins are pressured. We estimate the drag on annualised EBITDA at ~1%
- Improvement in tea margin outlook is a positive while the company is rightly choosing to protect market share. Retain Buy

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Sales in line, miss on EBITDA: Compared to consensus, 3QFY25 sales came in line (2% below our estimate) while EBITDA was 17% lower with margins 270bps lower (90bps above our estimate). Gross margin drag of 275bps was partly offset with A&P (down 50bps) as employee expenses increased 20bps.

Tea pricing getting through, but gradually: 40% of tea inflation is passed through. The exit rate is 10% net pricing inclusive of the negative mix impact from faster growth in the value segment. March 2025 quarter pricing should be 10+% given mix impact is lower as the mid-tier segment is growing in line with value tea. We forecast 10% pricing and 5% volume for 4QFY25.

What is the outlook on 4QFY25 margins?: Flat YoY tea margins in 3QFY25 would have resulted in 75-100bps EBITDA margins expansion at a group level. Given actual pricing run rate is better than ours, we reduce our estimate of consolidated gross margin deterioration by ~30bps to 300bps.

NourishCo volumes improving but profitability down: NourishCo volumes were +14% in 3QFY25 with December run rate at +39%. This recovery was driven by higher retailer margin and so segment losses have increased. We estimate NourishCo drag on annualized group EBITDA at 1%. We assume a 15ppt increase in retailer margin and do not expect any material improvement in profitability at over the next 12 months.

Our view and valuation: Earnings trajectory is improving faster vs our expectations on improved pricing in tea. TCPL’s focus on market share and volumes despite inflation is a reasonable approach to maintain shelf share. NourishCo is a small drag on earnings but will be offset by growth in other parts of the business. TCPL has an above-average sales growth profile amongst peers. Strong focus on innovation, M&A and “growth businesses” are the key drivers. We value TCPL at 53x in line with its 5Yr historical average P/E on 12m to December 2026 EPS. Our target price changes to Rs1,175 from Rs 1,155. Share price return of 21% – Retain Buy.

Key changes

Target	Rating
▲	◀ ▶

Ticker/Price	TATACONS IN/Rs 967
Market cap	US\$ 10.6bn
Free float	64%
3M ADV	US\$ 16.9mn
52wk high/low	Rs 1,269/Rs 883
Promoter/FPI/DII	34%/25%/41%

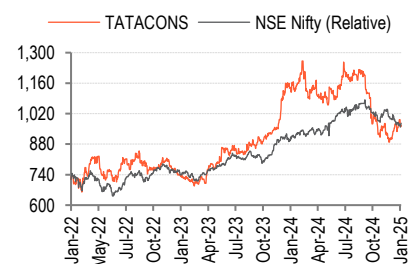
Source: NSE | Price as of 30 Jan 2025

Key financials

Y/E 31 Mar	FY24A	FY25E	FY26E
Total revenue (Rs mn)	152,059	177,660	197,747
EBITDA (Rs mn)	22,841	25,692	28,243
Adj. net profit (Rs mn)	14,771	14,213	18,078
Adj. EPS (Rs)	15.5	14.6	18.3
Consensus EPS (Rs)	15.5	15.3	19.1
Adj. ROAE (%)	8.5	7.4	8.3
Adj. P/E (x)	62.4	66.1	52.9
EV/EBITDA (x)	40.1	35.9	32.7
Adj. EPS growth (%)	41.4	(3.8)	27.2

Source: Company, Bloomberg, BOBCAPS Research

Stock performance



Source: NSE



3QFY25 result review

Fig 1 – Tata Consumer 3QFY25 result vs expectations

Dec-24	Consensus	Reported	Reported vs consensus (%)	BoB est	Reported vs BoB (%)
Sales	44,476	44,436	0	45,516	(2)
EBITDA	6,836	5,647	(17)	5,385	5
EBITDA margin (%)	15.4	12.7	(266bps)	11.8	88bps

Source: Company, Bloomberg, BOBCAPS Research

Earnings revisions

- Sales** – Our sales forecasts are ~1% lower across FY25e, FY26e and FY27e as Food and International growth came in lower vs our expectations. Tea is a partial offset as pricing has come through earlier than expected and volume elasticity is also lower. At a group level, the recovery trajectory is preponed by roughly one quarter which has increased our estimates across the forecast periods including FY26e, FY27e and FY27e.
- Margins** – Our EBITDA margin forecasts are 15bps-65bps higher across the forecast periods. Similar to sales, the faster than expected momentum in recovery of tea inflation combined with volume growth has increased our margin forecasts.

Fig 2 – Tata Consumer earnings revisions

(Rs mn)	Actual	New	Old	(%)	New	Old	(%)	New	Old	(%)
	FY24	FY25	FY25	Change	FY26	FY26	Change	FY27	FY27	Change
Sales	152,059	177,660	179,058	(0.8)	197,747	199,430	(0.8)	214,437	216,947	(1.2)
EBITDA	22,841	25,692	24,739	3.9	28,243	27,713	1.9	33,890	33,979	(0.3)
EBITDA Margin (%)	15.0	14.5	13.8	64bps	14.3	13.9	39bps	15.8	15.7	14bps
Adj. PAT	14,771	14,213	14,576	(2.5)	18,078	17,706	2.1	22,876	22,953	(0.3)
Adj. EPS	15.50	14.64	15.01	(2.5)	18.27	17.90	2.1	23.12	23.20	(0.3)

Source: Company, Bloomberg, BOBCAPS Research

Valuation

TCPL is currently trading at 53x FY26E EPS. The stock has traded at 5Yr average P/E of 53x on 1-year forward EPS. We value TCPL in line with its 5Yr historical average P/E on 12m to December 2026 EPS. Our target price changes to Rs1,175 from Rs 1,155. Share price return of 21% – Retain Buy.

Earnings trajectory is improving faster than our previous expectations driven by an improved margin outlook on tea. The company's focus on market share and volumes despite inflation is a reasonable approach to maintain shelf share. NourishCo, while a small drag on earnings, will still be offset by growth in other parts of the business. TCPL's sales growth prospects are better vs peers as growth businesses are enabling a multi-year opportunity of high sales growth on distribution gains within TCPL's existing network.

Risks

Key downside risks to our estimates are:

- Increase in competitive intensity in tea.
- Sustained inflation in underlying commodities.
- Continued intense promotions in soft drinks.

Financials

Income Statement

Y/E 31 Mar (Rs mn)	FY23A	FY24A	FY25E	FY26E	FY27E
Total revenue	137,832	152,059	177,660	197,747	214,437
EBITDA	18,565	22,841	25,692	28,243	33,890
Depreciation	3,041	3,772	5,913	5,705	5,789
EBIT	15,524	19,070	19,779	22,538	28,101
Net interest inc./(exp.)	(872)	(1,298)	(3,019)	(2,068)	(2,068)
Other inc./(exp.)	1,689	2,456	1,985	3,167	3,875
Exceptional items	(1,595)	3,270	504	0	0
EBT	16,341	20,228	18,745	23,636	29,908
Income taxes	4,470	3,947	4,179	5,555	7,028
Extraordinary items	0	0	0	0	0
Min. int./Inc. from assoc.	900	(208)	(345)	4	4
Reported net profit	12,038	11,500	13,709	18,078	22,876
Adjustments	(1,595)	3,270	504	0	0
Adjusted net profit	10,443	14,771	14,213	18,078	22,876

Balance Sheet

Y/E 31 Mar (Rs mn)	FY23A	FY24A	FY25E	FY26E	FY27E
Accounts payables	23,482	27,072	31,696	34,667	37,185
Other current liabilities	5,998	6,984	6,288	6,288	6,288
Provisions	10,305	20,209	23,787	23,787	23,787
Debt funds	11,828	29,539	23,971	23,971	23,971
Other liabilities	5,229	22,045	25,062	25,062	25,062
Equity capital	929	953	989	989	989
Reserves & surplus	170,340	173,409	211,336	220,669	232,758
Shareholders' fund	171,269	174,361	212,326	221,659	233,747
Total liab. and equities	228,111	280,209	323,130	335,434	350,040
Cash and cash eq.	15,396	23,198	27,957	35,852	45,781
Accounts receivables	7,983	8,968	11,039	12,186	13,209
Inventories	27,017	27,694	37,267	40,302	43,312
Other current assets	32,690	14,407	15,759	15,759	15,759
Investments	5,074	4,932	5,169	5,169	5,169
Net fixed assets	18,908	21,486	22,802	23,029	23,673
CWIP	0	0	0	0	0
Intangible assets	108,753	166,783	188,729	188,729	188,729
Deferred tax assets, net	0	0	0	0	0
Other assets	12,290	12,742	14,408	14,408	14,408
Total assets	228,111	280,209	323,130	335,434	350,040

Cash Flows

Y/E 31 Mar (Rs mn)	FY23A	FY24A	FY25E	FY26E	FY27E
Cash flow from operations	14,613	19,367	14,399	22,424	26,506
Capital expenditures	(3,118)	(3,347)	(4,950)	(5,932)	(6,433)
Change in investments	(7,665)	20,431	(619)	0	0
Other investing cash flows	2,504	(36,394)	(16,629)	2,217	2,713
Cash flow from investing	(8,278)	(19,309)	(22,198)	(3,716)	(3,720)
Equities issued/Others	0	0	29,761	0	0
Debt raised/repaid	(38)	12,540	(3,659)	0	0
Interest expenses	0	0	0	0	0
Dividends paid	(5,734)	(8,089)	(7,414)	(8,745)	(10,788)
Other financing cash flows	(1,372)	(1,896)	(3,217)	(2,068)	(2,068)
Cash flow from financing	(7,144)	2,556	15,470	(10,813)	(12,856)
Chg in cash & cash eq.	(2,150)	(2,174)	11,296	7,895	9,929
Closing cash & cash eq.	15,396	23,198	27,957	35,852	45,781

Per Share

Y/E 31 Mar (Rs)	FY23A	FY24A	FY25E	FY26E	FY27E
Reported EPS	13.0	12.3	14.1	18.3	23.1
Adjusted EPS	11.2	15.5	14.6	18.3	23.1
Dividend per share	8.5	7.8	8.8	10.9	13.0
Book value per share	184.4	183.0	218.6	224.0	236.2

Valuations Ratios

Y/E 31 Mar (x)	FY23A	FY24A	FY25E	FY26E	FY27E
EV/Sales	6.6	6.0	5.2	4.7	4.3
EV/EBITDA	49.3	40.1	35.9	32.7	26.9
Adjusted P/E	86.0	62.4	66.1	52.9	41.8
P/BV	5.2	5.3	4.4	4.3	4.1

DuPont Analysis

Y/E 31 Mar (%)	FY23A	FY24A	FY25E	FY26E	FY27E
Tax burden (Net profit/PBT)	63.9	73.0	75.8	76.5	76.5
Interest burden (PBT/EBIT)	105.3	106.1	94.8	104.9	106.4
EBIT margin (EBIT/Revenue)	11.3	12.5	11.1	11.4	13.1
Asset turnover (Rev./Avg TA)	62.8	59.8	58.9	60.1	62.6
Leverage (Avg TA/Avg Equity)	1.3	1.5	1.6	1.5	1.5
Adjusted ROAE	6.2	8.5	7.4	8.3	10.0

Ratio Analysis

Y/E 31 Mar	FY23A	FY24A	FY25E	FY26E	FY27E
YoY growth (%)					
Revenue	10.9	10.3	16.8	11.3	8.4
EBITDA	8.0	23.0	12.5	9.9	20.0
Adjusted EPS	5.7	41.4	(3.8)	27.2	26.5
Profitability & Return ratios (%)					
EBITDA margin	13.5	15.0	14.5	14.3	15.8
EBIT margin	11.3	12.5	11.1	11.4	13.1
Adjusted profit margin	7.6	9.7	8.0	9.1	10.7
Adjusted ROAE	6.2	8.5	7.4	8.3	10.0
ROCE	8.2	8.7	7.5	8.3	9.9
Working capital days (days)					
Receivables	22	20	21	21	22
Inventory	113	117	117	126	128
Payables	97	108	106	108	110
Ratios (x)					
Gross asset turnover	3.9	3.9	3.8	3.8	3.6
Current ratio	2.1	1.2	1.5	1.6	1.8
Net interest coverage ratio	17.8	14.7	6.6	10.9	13.6
Adjusted debt/equity	0.1	0.2	0.1	0.1	0.1

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

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BUY – Expected return >+15%

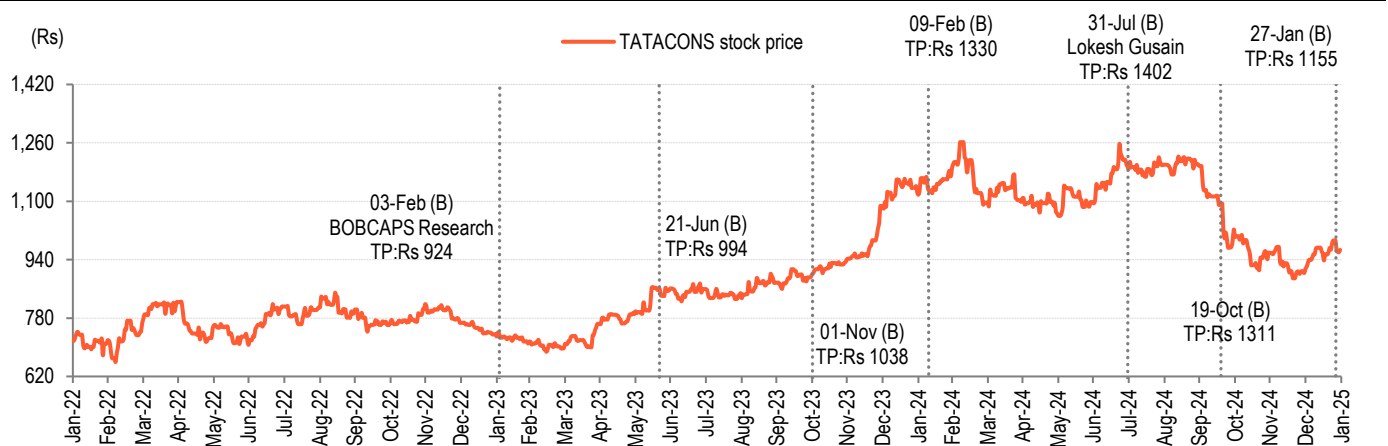
HOLD – Expected return from -6% to +15%

SELL – Expected return <-6%

Note: Recommendation structure changed with effect from 21 June 2021

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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