

BUY
TP: Rs 1,330 | ▲ 20%

TATA CONSUMER PRODUCTS

Consumer Staples

24 April 2024

Strong performance in international markets

- Growth businesses continue to maintain high growth trajectory; new acquisitions to fuel growth going ahead
- Margin expanded substantially during the quarter, driven by strong performance in international business
- Product launches, increased penetration and rural expansion to drive growth; maintain BUY with SOTP-based TP of Rs 1,330

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Growth momentum sustained in Q4: TCPL maintained its growth trajectory, growing 8.5% YoY (8% constant currency [CC]) in revenue to Rs 39bn in Q4FY24 despite subdued consumer sentiment, driven by 10% growth in the India business, 5% CC growth in international business and 4% in non-branded business. EBITDA was up 23% YoY accompanied by margin expansion of 190bps YoY (+100bps QoQ) to 16%. India EBITDA increased 11% YoY with 10bps margin expansion, and international EBITDA grew 23% CC YoY with margin expansion of 270bps to 17.8% led by softer input cost and pricing intervention.

Growth businesses remain strong: Tata Sampann, Tata Soufull and NourishCo collectively grew 40% in FY24, forming 18% of the India business compared to 15% in FY23. NourishCo's revenue grew 13% YoY to Rs 2bn, owing to the delayed onset of summer. Tata Copper+ reported 29% YoY growth.

Strengthening portfolio through innovation: Innovation remains TCPL's key focus area and in line with this the company has launched one new product every week of the year. The innovation-to-sales ratio improved to 5.1% in FY24 from 3.4% in FY23. Further, TCPL has a strong product pipeline for the year ahead.

Starbucks store expansion continues: Tata Starbucks's revenue increased 7% YoY during the quarter. Growth in FY24 for the JV stood at 12% YoY despite soft Q3 and Q4 owing to lower footfall. Store expansion remained in focus with 29 net additions in Q3, taking the total count to 421 stores across 61 cities. The company aspires to reach 1,000 Starbucks stores by 2028.

Maintain BUY: TCPL continues to deliver consistent growth across markets in a difficult environment, backed by innovation, premiumisation, rural network expansion and digitisation. In the last 15-18 months, TCPL took multiple initiatives in the international markets which have also started yielding results. The stock is trading at 63.2x/53.5x FY25E/FY26E EPS. We maintain our target EV/EBITDA for the India business at 46x and the international business at 16.3x and maintain the SOTP-based TP at Rs 1,330. We maintain our BUY rating on the stock.

Key changes

Target	Rating
◀ ▶	◀ ▶

Ticker/Price	TATACONS IN/Rs 1,110
Market cap	US\$ 12.9bn
Free float	64%
3M ADV	US\$ 26.6mn
52wk high/low	Rs 1,269/Rs 724
Promoter/FPI/DII	34%/25%/41%

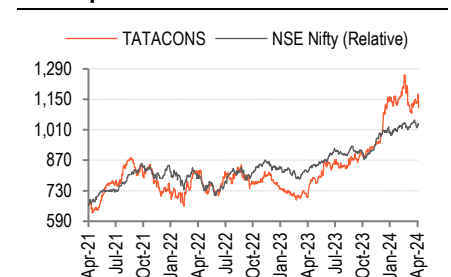
Source: NSE | Price as of 24 Apr 2024

Key financials

Y/E 31 Mar	FY24P	FY25E	FY26E
Total revenue (Rs mn)	152,058	175,399	200,243
EBITDA (Rs mn)	22,841	27,453	32,039
Adj. net profit (Rs mn)	14,773	16,652	19,672
Adj. EPS (Rs)	15.9	17.9	21.2
Consensus EPS (Rs)	15.2	18.1	20.9
Adj. ROAE (%)	6.6	8.9	9.9
Adj. P/E (x)	69.8	61.9	52.4
EV/EBITDA (x)	46.3	38.5	33.0
Adj. EPS growth (%)	(5.2)	44.8	18.1

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

Stock performance



Source: NSE

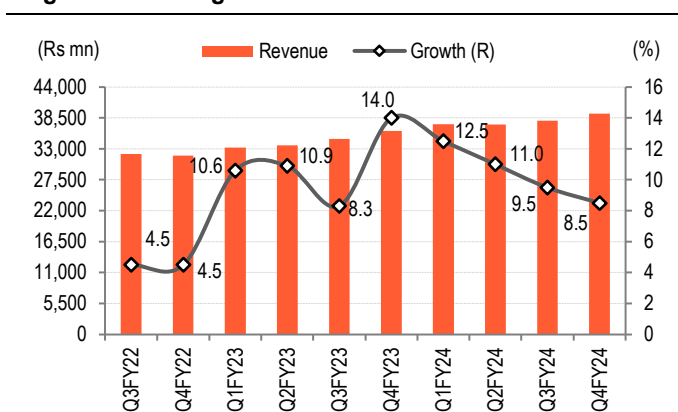


Fig 1 – Financial performance

(Rs mn)	Q4FY24	Q3FY24	Q4FY23	QoQ (%)	YoY (%)	FY24	FY23	YoY (%)
Revenue	39,269	38,039	36,187	3.2	8.5	1,52,058	1,37,832	10.3
EBITDA	6,296	5,724	5,117	10.0	23.0	22,841	18,565	23.0
Adj. PAT	4,324	3,704	2,750	16.7	57.2	14,773	10,443	41.5
Gross Margin (%)	46.1	43.8	41.8	230bps	430bps	43.7	41.8	190bps
EBITDA Margin (%)	16.0	15.0	14.1	100bps	190bps	15.0	13.5	150bps
Adj. PAT Margin (%)	11.0	9.7	7.6	130bps	340bps	9.7	7.6	210bps

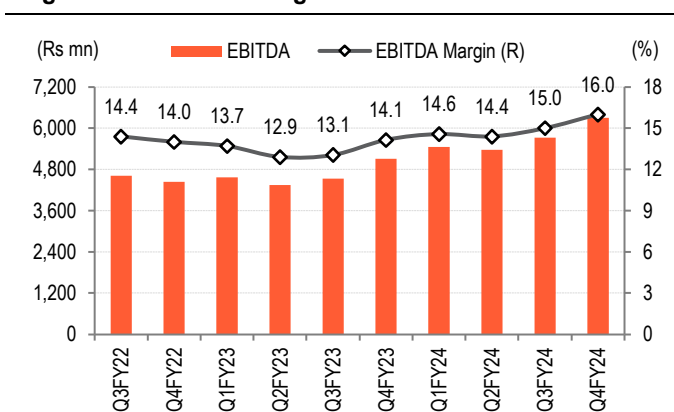
Source: Company, BOBCAPS Research

Fig 2 – Revenue growth



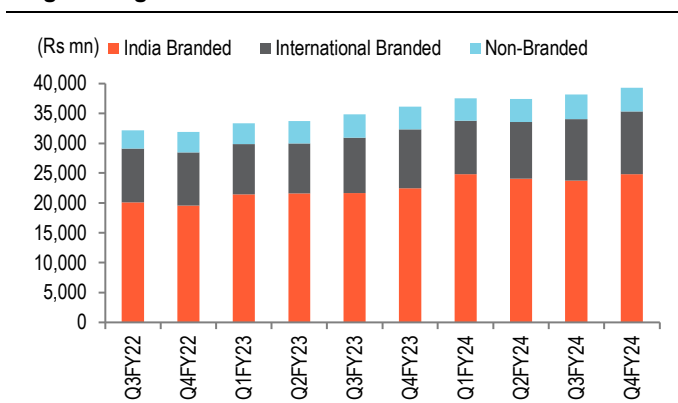
Source: Company, BOBCAPS Research

Fig 3 – EBITDA and margin



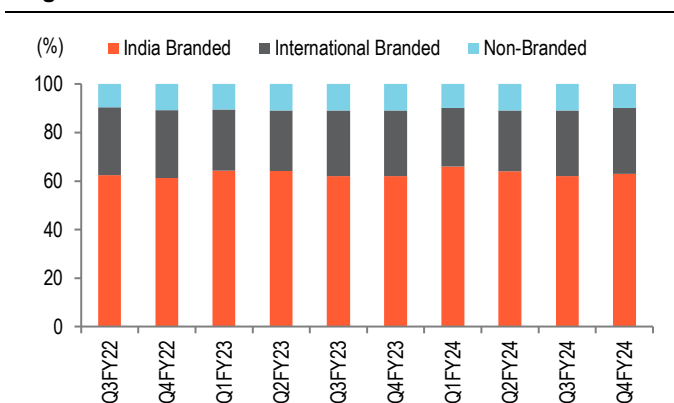
Source: Company, BOBCAPS Research

Fig 4 – Segment revenue



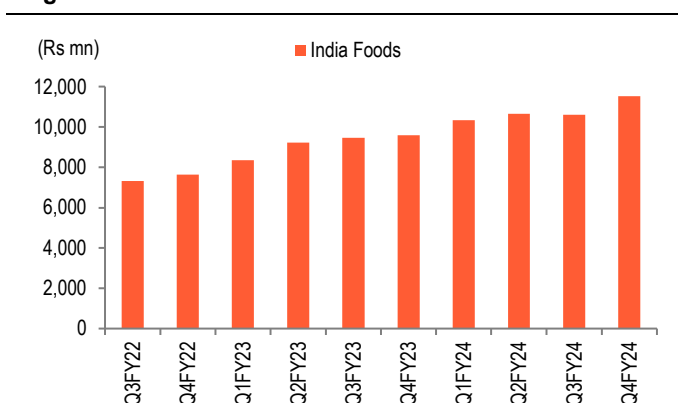
Source: Company, BOBCAPS Research

Fig 5 – Revenue mix



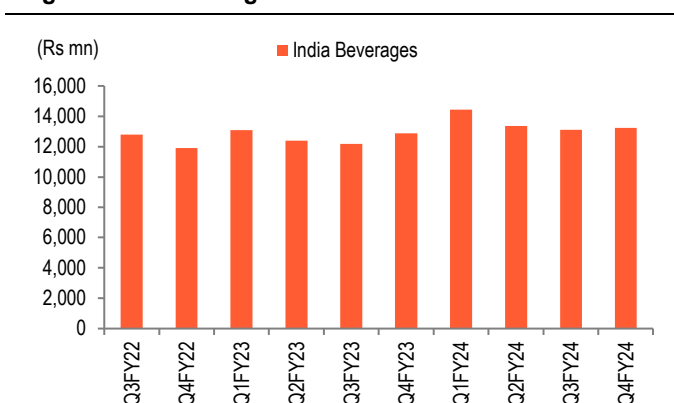
Source: Company, BOBCAPS Research

Fig 6 – India foods revenue



Source: Company, BOBCAPS Research

Fig 7 – India beverages revenue



Source: Company, BOBCAPS Research

Earnings call highlights

- TCPL delivered topline growth of 10% in FY24; EBITDA registered growth of 23% with significant expansion in EBITDA margin. During the year, the company recorded growth in the India tea and salt businesses.
- The company also delivered a strong performance in international markets, along with significant margin improvement. The UK business saw its EBITDA margin touch historical highs led by restructuring initiatives taken during the year.
- In Q4, the international business revenue grew 7% (+5% CC). In the UK, the company witnessed strong share gains across all its major retail partners.
- The company's premiumisation agenda continues to progress well with the premium portfolio in both tea and salt showing good growth and contributing to an increasing share of the overall portfolio.
- Growth businesses (Tata Sampann, RTD, Tata Soufull, Tata SmartFoodz) continued their strong growth trajectory with revenue growth of 40% in FY24. The company expects 30% YoY growth in FY25 with a 30% revenue contribution from growth business, including recent acquisitions, from current levels of 18%.
- Tata Starbucks made consistent progress in its expansion agenda with a store footprint spanning 61 cities. In FY24, the company saw its highest store addition at 95 stores. This brought the total number of stores to 421.
- In Q4, the India packaged beverages business delivered 2% revenue growth. Coffee continued its strong performance with a revenue growth of 45% in Q4.
- The recently announced acquisitions – Capital Foods and Organic India – will be significant value creators for the company, enabling expansion into high-growth, high-margin categories.
- The integration of Capital Foods was completed within 60 days of the close of transaction. The transaction for Organic India closed on 16 Apr 2024 and the company is focusing on fast-tracking integration of the business to unlock value.
- Total distribution reach expanded to 4mn outlets as of Mar'24. The company implemented split routes in all 1mn+ population towns and has seen significant improvement in assortment and growth.
- TCPL is further strengthening its Rurban (rural-urban) focus and is deepening its reach into rural areas. Alternate channels (modern trade and e-commerce) recorded significant momentum and continued to be strong growth drivers.
- Alternate channels continued to fuel growth and innovation agenda. The e-commerce channel grew 35% and modern trade recorded 9% growth in FY24. E-commerce accounted for 11% of the India business in FY24 compared to 9% in FY23.
- The company significantly accelerated innovation momentum to cater to key consumer trends such as health & wellness, premiumisation and convenience. On average, in FY24, the company launched a new product almost every seven days.

- NourishCo (RTD business) recorded revenue growth of 13% during Q4, bringing FY24 growth to 33%. The Tata Sampann portfolio recorded strong growth of 42% for the quarter.
- The company is likely to conclude its rights issue in Q2FY25.

Valuation methodology

TCPL continues to deliver consistent growth across markets in a difficult environment, backed by innovation, premiumisation, rural network expansion and digitisation. In the last 15-18 months, TCPL took multiple initiatives in international markets which started yielding results. The recent acquisitions of Capital Foods and Organic India will further enrich the portfolio and augment TCPL's addressable market.

The company scaled up its domestic distribution reach to 4mn outlets and direct reach to 1.6mn outlets at the end of FY24. The company added 1,300 distributors in FY24 primarily in rural markets. 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 maintain our target EV/EBITDA for the India business at 46x and international business at 16.3x and maintain our SOTP-based TP of Rs 1,330. We maintain BUY.

Fig 8 – SOTP valuation

EV/EBITDA	FY26E EBITDA	Multiple (x)	EV
India Business	23,875	46.0x	10,98,250
International Business	8,448	16.3x	1,37,702
EV/Revenue	FY26E Revenue	Multiple (x)	EV
Tata Starbucks	1,953	3.5x	6,836
Enterprise Value			12,42,788
Less: Net debt			(24,440)
Market Value (Rs mn)			12,95,524
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, and
- continued inflation in international markets.

Sector recommendation snapshot

Company	Ticker	Market Cap (US\$ bn)	Price (Rs)	Target (Rs)	Rating
Britannia Industries	BRIT IN	14.2	4,829	5,980	BUY
Dabur India	DABUR IN	11.0	509	673	BUY
Godrej Consumer Products	GCPL IN	15.1	1,213	1,363	HOLD
Hindustan Unilever	HUVR IN	64.6	2,260	2,895	BUY
ITC	ITC IN	65.1	429	532	BUY
Marico	MRCO IN	8.0	509	618	BUY
Nestle India	NEST IN	29.3	2,500	2,826	BUY
Tata Consumer Products	TATACONS IN	12.9	1,110	1,330	BUY
Zydus Wellness	ZYWL IN	1.3	1,652	1,531	HOLD

Source: BOBCAPS Research, NSE | Price as of 24 Apr 2024

Financials

Income Statement

Y/E 31 Mar (Rs mn)	FY22A	FY23A	FY24P	FY25E	FY26E
Total revenue	124,254	137,832	152,058	175,399	200,243
EBITDA	17,188	18,565	22,841	27,453	32,039
Depreciation	2,780	3,041	3,772	3,397	3,397
EBIT	14,408	15,524	19,069	24,056	28,642
Net interest inc./(exp.)	728	872	1,298	940	940
Other inc./(exp.)	1,401	1,689	2,456	2,171	2,171
Exceptional items	(521)	1,595	(3,271)	0	0
EBT	14,560	17,936	16,956	25,287	29,873
Income taxes	3,770	4,470	3,948	6,499	7,677
Extraordinary items	0	0	0	0	0
Min. int./Inc. from assoc.	794	1,164	651	(307)	(362)
Reported net profit	9,358	12,038	11,502	16,652	19,672
Adjustments	(521)	1,595	(3,271)	0	0
Adjusted net profit	9,878	10,443	14,773	16,652	19,672

Balance Sheet

Y/E 31 Mar (Rs mn)	FY22A	FY23A	FY24P	FY25E	FY26E
Accounts payables	19,159	23,482	27,072	32,065	36,382
Other current liabilities	1,322	1,735	1,763	2,208	2,520
Provisions	2,488	2,449	3,887	3,242	3,381
Debt funds	10,106	11,828	29,539	29,539	29,539
Other liabilities	11,653	13,727	38,993	32,810	34,896
Equity capital	922	929	953	953	953
Reserves & surplus	162,014	170,340	173,409	185,372	197,538
Shareholders' fund	162,936	171,269	174,361	186,325	198,490
Total liab. and equities	211,172	228,111	280,209	290,784	309,804
Cash and cash eq.	14,980	15,396	23,198	19,284	27,093
Accounts receivables	8,352	7,983	8,968	9,611	10,972
Inventories	22,665	27,017	27,694	31,250	35,457
Other current assets	23,367	24,935	11,966	13,680	14,953
Investments	5,630	11,403	5,921	5,921	5,921
Net fixed assets	14,803	16,047	19,772	20,356	23,073
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	2,040	2,329
Other assets	3,947	2,991	3,122	3,640	4,079
Total assets	211,172	228,111	280,209	290,806	309,825

Cash Flows

Y/E 31 Mar (Rs mn)	FY22A	FY23A	FY24P	FY25E	FY26E
Cash flow from operations	17,511	18,500	23,345	24,984	25,539
Capital expenditures	(2,733)	(3,118)	(3,347)	(4,034)	(4,606)
Change in investments	493	(5,364)	6,134	0	0
Other investing cash flows	(10,978)	203	(22,097)	(12,735)	2,999
Cash flow from investing	(13,218)	(8,278)	(19,309)	(16,769)	(1,606)
Equities issued/Others	0	0	0	0	0
Debt raised/repaid	(4,930)	(563)	(734)	0	0
Interest expenses	(625)	(817)	(1,183)	(940)	(940)
Dividends paid	(3,848)	(5,734)	(8,089)	(4,996)	(7,869)
Other financing cash flows	(545)	(30)	12,561	307	362
Cash flow from financing	(9,948)	(7,144)	2,556	(5,629)	(8,447)
Chg in cash & cash eq.	(7,961)	(867)	2,613	(3,914)	7,808
Closing cash & cash eq.	14,979	15,395	23,198	19,284	27,093

Per Share

Y/E 31 Mar (Rs)	FY22A	FY23A	FY24P	FY25E	FY26E
Reported EPS	10.2	13.1	12.4	17.9	21.2
Adjusted EPS	10.7	11.3	15.9	17.9	21.2
Dividend per share	0.0	0.0	0.0	0.0	0.0
Book value per share	176.8	185.8	189.2	202.2	215.4

Valuations Ratios

Y/E 31 Mar (x)	FY22A	FY23A	FY24P	FY25E	FY26E
EV/Sales	8.5	7.7	7.0	6.0	5.3
EV/EBITDA	61.6	57.0	46.3	38.5	33.0
Adjusted P/E	103.6	98.0	69.8	61.9	52.4
P/BV	6.3	6.0	5.9	5.5	5.2

DuPont Analysis

Y/E 31 Mar (%)	FY22A	FY23A	FY24P	FY25E	FY26E
Tax burden (Net profit/PBT)	64.3	67.1	67.8	65.9	65.9
Interest burden (PBT/EBIT)	65.0	77.5	60.3	69.2	68.7
EBIT margin (EBIT/Revenue)	11.6	11.3	12.5	13.7	14.3
Asset turnover (Rev./Avg TA)	58.8	60.4	54.3	60.3	64.6
Leverage (Avg TA/Avg Equity)	1.3	1.3	1.6	1.6	1.6
Adjusted ROAE	5.7	7.0	6.6	8.9	9.9

Ratio Analysis

Y/E 31 Mar	FY22A	FY23A	FY24P	FY25E	FY26E
YoY growth (%)					
Revenue	7.1	10.9	10.3	15.3	14.2
EBITDA	11.3	8.0	23.0	20.2	16.7
Adjusted EPS	9.2	28.6	(5.2)	44.8	18.1
Profitability & Return ratios (%)					
EBITDA margin	13.8	13.5	15.0	15.7	16.0
EBIT margin	11.6	11.3	12.5	13.7	14.3
Adjusted profit margin	8.0	7.6	9.7	9.5	9.8
Adjusted ROAE	5.7	7.0	6.6	8.9	9.9
ROCE	8.3	8.5	9.4	11.1	12.6
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	25.6	30.5
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%

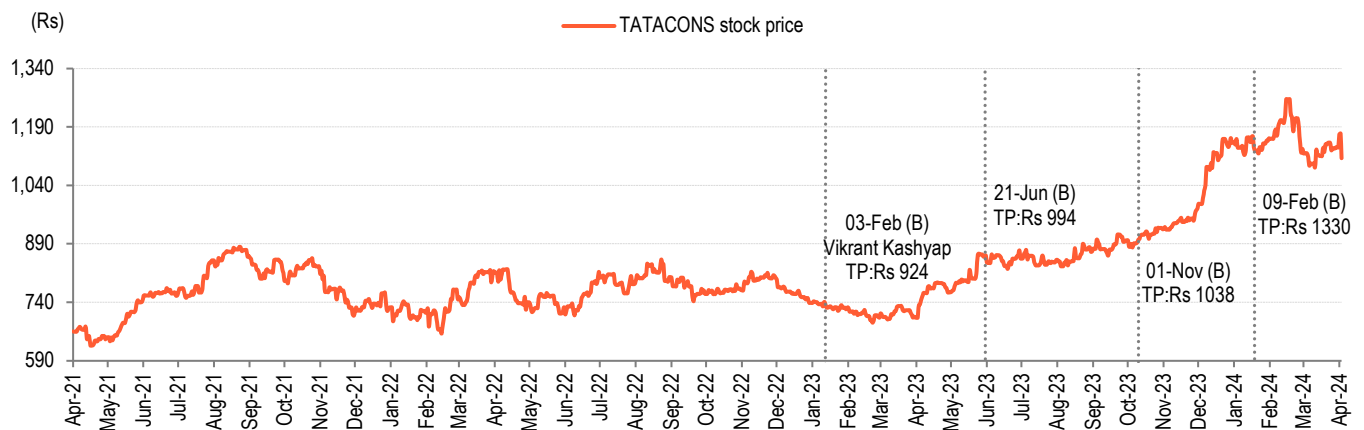
HOLD – Expected return from -6% to +15%

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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