

BUY
TP: Rs 1,038 | ▲ 15%

TATA CONSUMER PRODUCTS

Consumer Staples

01 November 2023

Strong performance; outlook positive

- Q2 topline grew 11% YoY and EBITDA margin rose 150bps on sustained domestic growth and strategic international pricing
- Growth businesses (Sampann, Soufull, NourishCo) continued to head north, climbing 39% YoY
- Expect strong topline and margin growth in key verticals; maintain BUY with revised TP of Rs 1,038 (earlier Rs 994)

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Strong growth across portfolios and geographies: TCPL maintained its growth trajectory, registering a strong revenue uptick of 11% YoY (10% CC) to Rs 37.3bn in Q2FY24, driven by 11% growth in India business, 13% (8% CC) in international business and 3% in non-branded business. EBITDA increased 24% YoY with margin expansion of 150bps (-20bps QoQ) to 14.4%. India EBITDA grew 11% YoY with a 15.7% margin while the international business clocked margin expansion of 330bps YoY to 12.4% led by pricing interventions and savings from restructuring.

Growth businesses maintain upward trajectory: Tata Sampann, Tata Soufull and NourishCo collectively grew 39% YoY, forming 18% of India business compared to 15% in Q2FY23. Sampann soared 47% YoY led by strong volume growth, Soufull continued its growth trajectory backed by distribution gains and innovation, and NourishCo grew 25% to Rs 1.7bn in revenue. TCPL has announced the amalgamation of wholly-owned subsidiaries, including NourishCo Beverages, Tata Consumer Soufull, and Tata SmartFoodz, with the parent.

Sustained momentum in international business: The company’s international revenue grew 13% YoY (8% CC) with a 60% rise in EBIT. Pricing action and structural initiatives helped boost margins. Revenue grew 13% YoY from the UK business and 8% from Canada due to pricing while the US fell 10%.

Starbucks store expansion continues: Tata Starbucks’ revenue increased 14% YoY during the quarter. Store expansion remained in focus with 22 net additions in Q2, taking the total count to 370 stores across 49 cities.

Maintain BUY: TCPL continues to deliver strong growth in a challenging environment. We expect momentum to continue given the company’s thrust on innovation, premiumisation, rural network expansion and digitisation. We increased our revenue/EBITDA/PAT CAGR forecasts to 12%/15.5%/22% (from 11.6%/14.8%/19.3%) over FY22-FY25, and raise our target FY25E EV/EBITDA multiples for India business to 39.7x (from 38.5x) and international business to 15.5x (from 13.5x). Our SOTP-based TP thus rises to Rs 1,038 (from Rs 994) – BUY.

Key changes

Target	Rating
▲	◀ ▶

Ticker/Price	TATACONS IN/Rs 903
Market cap	US\$ 10.2bn
Free float	64%
3M ADV	US\$ 14.8mn
52wk high/low	Rs 928/Rs 687
Promoter/FPI/DII	34%/25%/41%

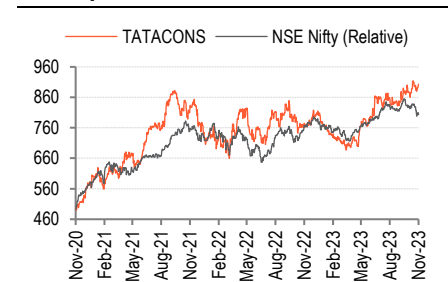
Source: NSE | Price as of 1 Nov 2023 | TATACONS = TCPL

Key financials

Y/E 31 Mar	FY23A	FY24E	FY25E
Total revenue (Rs mn)	137,832	154,439	174,337
EBITDA (Rs mn)	18,565	22,535	26,506
Adj. net profit (Rs mn)	10,443	14,299	17,029
Adj. EPS (Rs)	11.3	15.4	18.3
Consensus EPS (Rs)	11.3	15.2	18.1
Adj. ROAE (%)	5.2	8.1	9.1
Adj. P/E (x)	79.7	58.7	49.3
EV/EBITDA (x)	45.2	37.2	31.7
Adj. EPS growth (%)	(5.5)	62.6	17.5

Source: Company, Bloomberg, BOBCAPS Research

Stock performance



Source: NSE

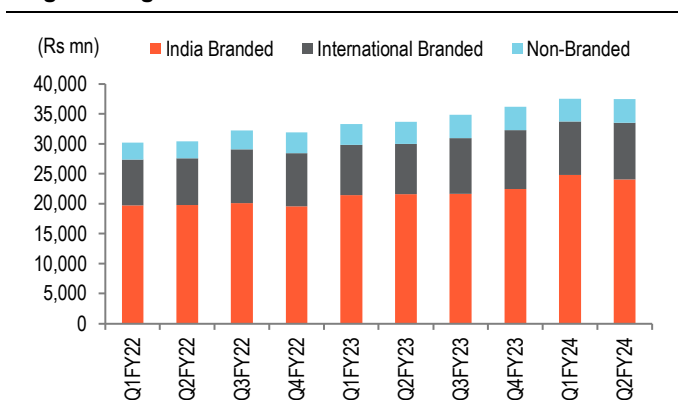


Fig 1 – Financial performance

(Rs mn)	Q2FY24	Q1FY24	Q2FY23	QoQ (%)	YoY (%)	Estimates	Variance (%)
Revenue	37,338	37,412	33,631	(0.2)	11.0	37,254	0.2
EBITDA	5,371	5,450	4,338	(1.4)	23.8	5,402	(0.6)
Adj. PAT	3,528	3,217	2,167	9.7	62.8	3,381	4.3
Gross Margin (%)	42.5	42.2	41.7	30bps	80bps	42.3	20bps
EBIDTA Margin (%)	14.4	14.6	12.9	(20bps)	150bps	14.5	(10bps)
Adj. PAT Margin (%)	9.4	8.6	6.4	80bps	300bps	9.1	30bps

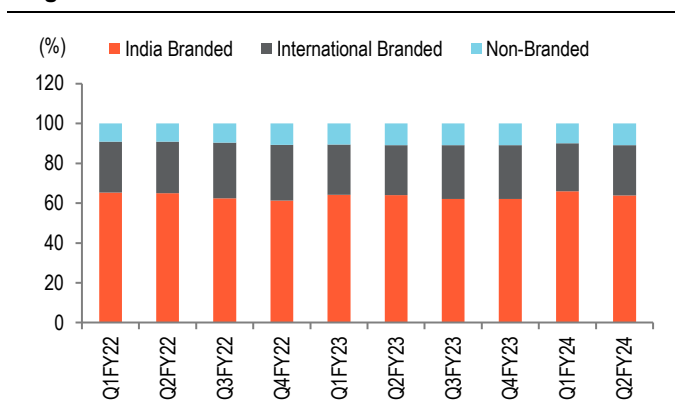
Source: Company, BOBCAPS Research

Fig 2 – Segment revenue



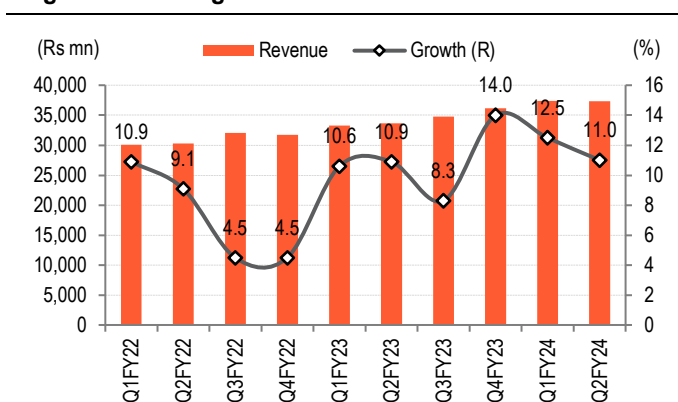
Source: Company, BOBCAPS Research

Fig 3 – Revenue mix



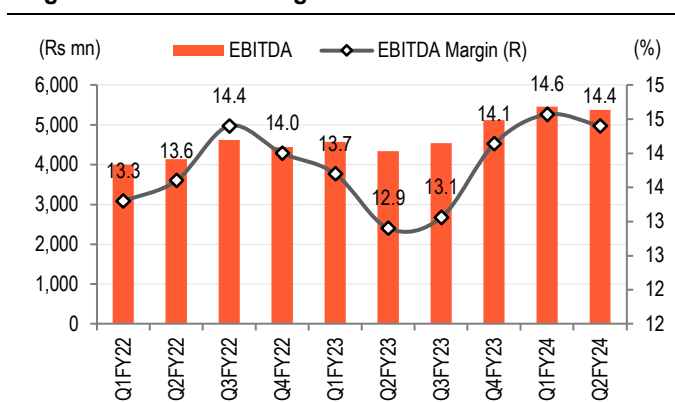
Source: Company, BOBCAPS Research

Fig 4 – Revenue growth



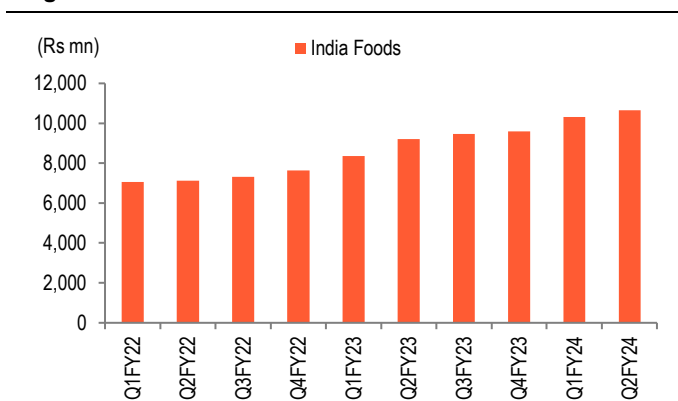
Source: Company, BOBCAPS Research

Fig 5 – EBITDA and Margin



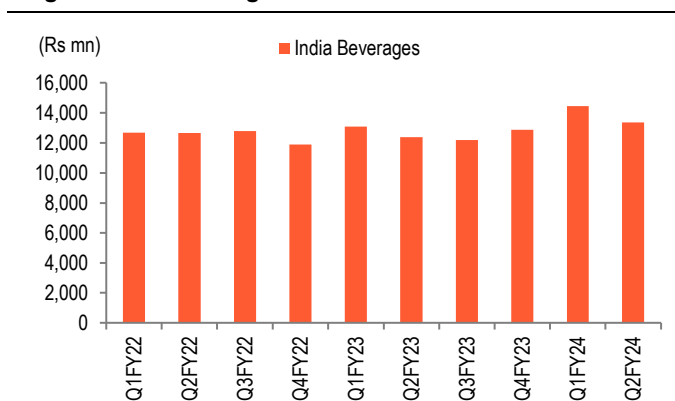
Source: Company, BOBCAPS Research

Fig 6 – India foods revenue



Source: Company, BOBCAPS Research

Fig 7 – India beverages revenue



Source: Company, BOBCAPS Research

Earnings call highlights

- TCPL is seeing stable demand trends in the India business and remains cautiously optimistic. The company posted double-digit topline growth with significant EBITDA margin expansion of 150bps YoY during Q2FY24.
- The interventions put in place for the India tea business have continued to yield volume-led growth for a third consecutive quarter. Growth, however, remains below management's medium-term aspirations.
- TCPL continues to focus on innovation with an innovation-to-sales ratio of 5%+ in the India business for the second quarter in a row. The company also expanded its addressable market by entering new categories across business segments.
- Tata Sampann delivered another strong quarter, growing 47% YoY, backed by robust volume growth. The subsidiary accelerated the pace of product launches with the introduction of vermicelli, a *gulab jamun* (Indian sweet) mix and extension of its premium range of dry fruits into walnuts and seeds.
- Tata Soulfull launched millet-based wafer sticks with chocolate filling for children at an affordable price of Rs 5 per unit.
- NourishCo posted 25% YoY growth in Q2, broad-based across products and markets. Profitability improved YoY led by cost controls and operating leverage.
- TCPL continues to strengthen the health & wellness portfolio, launching a range of cold pressed oils (coconut, sesame, groundnut and mustard) under the *Tata Simply Better* brand during Q2.
- Revenue from the salt business grew 8% YoY on a high base of last year (up 27% in Q2FY23), supported by volume growth despite steep price increases taken over the last year. Management expects growth in H2FY24 to be volume-led.
- The *Glucos+* energy drink and *Copper+* mineral water range continued to fare well. TCPL expanded the portfolio with the launch of three energy drinks during the quarter.
- The India beverages business registered 5% YoY revenue growth backed by volume growth of 3% – the third consecutive quarter of positive volume growth.
- Both the branded tea and coffee categories continue to face demand headwinds in international markets, even as TCPL has delivered a competitive performance.
- The Tata Starbucks JV clocked 14% YoY revenue growth and added 22 net new stores during the quarter, taking the total store count to 370. The JV also entered two cities during the quarter for a total coverage of 49 cities.
- Starbucks' store profit contribution remained steady and the business stayed EBIT positive despite rapid store expansion. The JV also expanded offerings by introducing packaged sandwiches and overnight oats.
- Tata Coffee revenue (including Vietnam but excluding EOC) grew 1% YoY in Q2 as the extractions business offset an 11% decline in the plantations business from lower coffee volumes.

- Alternate channels continued to fuel growth. In H1, the modern trade channel grew 13% and e-commerce 33% YoY.
- TCPL's reach stands at 3.8mn outlets as of Sep'23, nearly doubling from Sep'20. The company continued its rural plus urban focus and has added over 1,000 new distributors so far this year.
- Management announced the amalgamation of its wholly-owned subsidiaries, including NourishCo Beverages, Tata Consumer Soufull, and Tata SmartFoodz, with the parent company.
- Post approval from the National Company Law Tribunal (NCLT), TCPL expects to complete the merger of the Tata Coffee business this financial year.

Valuation methodology

TCPL continues to deliver double-digit growth accompanied by margin expansion in a challenging demand environment. We expect the strong growth momentum to continue, anchored by a sustained focus on innovation, premiumisation, rural network expansion, market share gains and digitisation.

The company has scaled up its domestic distribution reach to 3.8mn outlets, and management maintains its guidance of boosting network depth by introducing split distribution routes in all 1mn+ population towns and increasing reach in rural markets with populations less than 50,000. Wider direct distribution is aimed at improving product penetration and marketing in semiurban areas, thereby bridging the gap with competition and promoting market share gains in key categories.

We increased our FY24/FY25 forecasts and introduce FY26 estimates for TCPL. We model for a revenue/EBITDA/PAT CAGR of 12%/15.5%/22% (from 11.6%/14.8%/19.3%) over FY22-FY25, while raising our target FY25E EV/EBITDA multiples for the India business to 39.7x (from 38.5x) and international business to 15.5x (from 13.5x). Starbucks is valued at an unchanged 3.5x FY25E EV/Revenue. Based on our higher valuation multiples, our SOTP-based TP rises to Rs 1,038 (from Rs 994) – maintain BUY.

Fig 8 – SOTP valuation

EV/EBITDA	FY25E EBITDA	Multiple (x)	EV
India Business	20,705	39.7x	821,989
International Business	7,772	15.5x	120,466
EV/Revenue	FY25E Revenue	Multiple (x)	EV
Tata Starbucks	1,698	3.5x	5,943
Enterprise Value	-	-	948,398
Less: Net debt	-	-	(16,141)
Market Value (Rs mn)	-	-	964,539
No of share (mn)	-	-	929
Target Price (Rs)	-	-	1,038

Source: 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	12.9	4,397	5,844	BUY
Dabur India	DABUR IN	11.2	517	669	BUY
Godrej Consumer Products	GCPL IN	12.1	975	1,159	BUY
Hindustan Unilever	HUVR IN	70.7	2,472	3,069	BUY
ITC	ITC IN	64.8	428	523	BUY
Marico	MRCO IN	8.4	535	646	BUY
Nestle India	NEST IN	28.0	23,873	28,260	BUY
Tata Consumer Products	TATACONS IN	10.2	903	1,038	BUY
Zydus Wellness	ZYWL IN	1.2	1,523	1,556	HOLD

Source: BOBCAPS Research, NSE | Price as of 1 Nov 2023

Financials

Income Statement

Y/E 31 Mar (Rs mn)	FY22A	FY23A	FY24E	FY25E	FY26E
Total revenue	124,254	137,832	154,439	174,337	199,102
EBITDA	17,188	18,565	22,535	26,506	30,861
Depreciation	2,780	3,041	3,365	3,398	3,398
EBIT	14,408	15,524	19,170	23,108	27,463
Net interest inc./(exp.)	728	872	1,008	940	940
Other inc./(exp.)	1,401	1,689	2,562	2,171	2,171
Exceptional items	(521)	(1,595)	198	0	0
EBT	14,560	14,746	20,922	24,338	28,693
Income taxes	3,770	4,470	5,328	6,255	7,374
Extraordinary items	0	0	0	0	0
Min. int./Inc. from assoc.	794	1,164	1,041	1,293	1,524
Reported net profit	9,358	8,848	14,496	17,029	20,076
Adjustments	(521)	(1,595)	198	0	0
Adjusted net profit	9,878	10,443	14,299	17,029	20,076

Balance Sheet

Y/E 31 Mar (Rs mn)	FY22A	FY23A	FY24E	FY25E	FY26E
Accounts payables	19,159	23,482	26,082	29,299	33,346
Other current liabilities	1,322	1,735	1,944	2,194	2,506
Provisions	2,488	2,449	2,542	2,654	2,793
Debt funds	10,106	11,828	11,828	11,828	11,828
Other liabilities	11,653	13,727	14,583	16,253	18,332
Equity capital	922	929	929	929	929
Reserves & surplus	162,014	170,340	177,996	185,218	192,728
Shareholders' fund	162,936	171,269	178,925	186,147	193,657
Total liab. and equities	211,172	228,111	239,527	251,997	266,084
Cash and cash eq.	14,980	15,396	14,411	17,851	20,738
Accounts receivables	8,352	7,983	8,945	10,098	11,532
Inventories	22,665	27,017	30,009	33,709	38,366
Other current assets	23,367	24,935	25,786	26,805	28,074
Investments	5,630	11,403	11,403	11,403	11,403
Net fixed assets	14,803	16,047	18,071	20,383	23,073
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	1,796	2,028	2,316
Other assets	3,947	2,991	3,284	3,636	4,074
Total assets	211,172	228,111	239,527	251,997	266,084

Cash Flows

Y/E 31 Mar (Rs mn)	FY22A	FY23A	FY24E	FY25E	FY26E
Cash flow from operations	17,511	15,310	15,359	21,140	24,852
Capital expenditures	(2,733)	(3,118)	(3,092)	(3,530)	(4,081)
Change in investments	493	(5,364)	0	0	0
Other investing cash flows	(10,978)	203	3,115	2,833	2,996
Cash flow from investing	(13,218)	(8,278)	22	(696)	(1,084)
Equities issued/Others	0	0	0	0	0
Debt raised/repaid	(4,930)	(563)	0	0	0
Interest expenses	(625)	(817)	(1,008)	(940)	(940)
Dividends paid	(3,848)	(5,734)	(5,798)	(8,514)	(11,042)
Other financing cash flows	(545)	(30)	(1,041)	(1,293)	(1,524)
Cash flow from financing	(9,948)	(7,144)	(7,848)	(10,748)	(13,506)
Chg in cash & cash eq.	(7,961)	(4,057)	2,205	3,441	2,887
Closing cash & cash eq.	14,979	12,205	14,411	17,851	20,738

Per Share

Y/E 31 Mar (Rs)	FY22A	FY23A	FY24E	FY25E	FY26E
Reported EPS	10.2	9.6	15.6	18.3	21.6
Adjusted EPS	10.7	11.3	15.4	18.3	21.6
Dividend per share	0.0	0.0	0.0	0.0	0.0
Book value per share	176.8	185.8	194.1	202.0	210.1

Valuations Ratios

Y/E 31 Mar (x)	FY22A	FY23A	FY24E	FY25E	FY26E
EV/Sales	6.8	6.1	5.4	4.8	4.2
EV/EBITDA	48.8	45.2	37.2	31.7	27.2
Adjusted P/E	84.3	79.7	58.7	49.3	41.8
P/BV	5.1	4.9	4.7	4.5	4.3

DuPont Analysis

Y/E 31 Mar (%)	FY22A	FY23A	FY24E	FY25E	FY26E
Tax burden (Net profit/PBT)	64.3	60.0	69.3	70.0	70.0
Interest burden (PBT/EBIT)	65.0	57.0	75.6	73.7	73.1
EBIT margin (EBIT/Revenue)	11.6	11.3	12.4	13.3	13.8
Asset turnover (Rev./Avg TA)	58.8	60.4	64.5	69.2	74.8
Leverage (Avg TA/Avg Equity)	1.3	1.3	1.3	1.4	1.4
Adjusted ROAE	5.7	5.2	8.1	9.1	10.4

Ratio Analysis

Y/E 31 Mar	FY22A	FY23A	FY24E	FY25E	FY26E
YoY growth (%)					
Revenue	7.1	10.9	12.0	12.9	14.2
EBITDA	11.3	8.0	21.4	17.6	16.4
Adjusted EPS	9.2	(5.5)	62.6	17.5	17.9
Profitability & Return ratios (%)					
EBITDA margin	13.8	13.5	14.6	15.2	15.5
EBIT margin	11.6	11.3	12.4	13.3	13.8
Adjusted profit margin	8.0	7.6	9.3	9.8	10.1
Adjusted ROAE	5.7	5.2	8.1	9.1	10.4
ROCE	8.3	8.5	10.0	11.7	13.4
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	2.2	2.2
Net interest coverage ratio	19.8	17.8	19.0	24.6	29.2
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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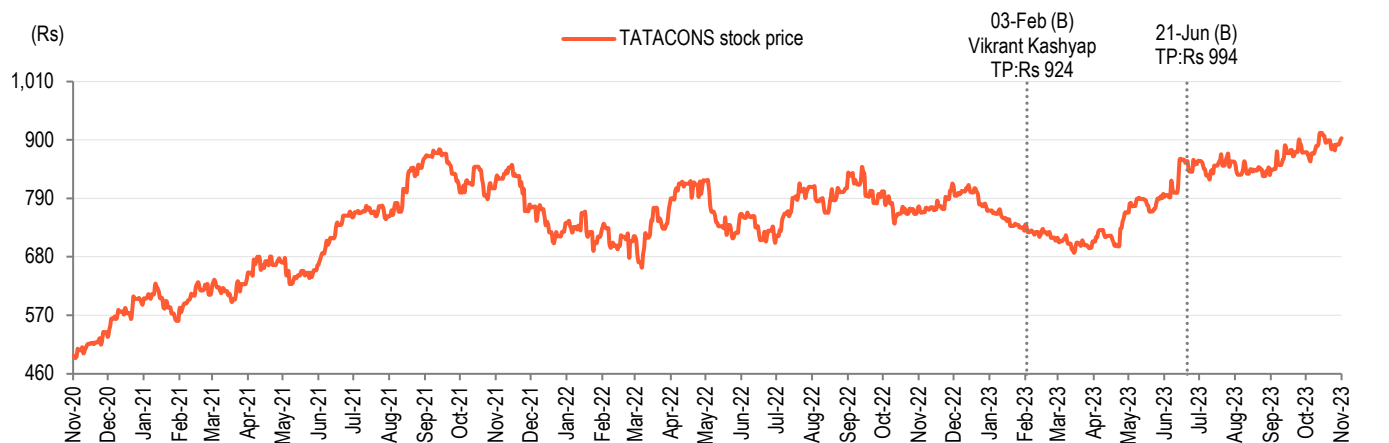
HOLD – Expected return from -6% to +15%

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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