

BUY**TP: Rs 1,325 | ▲ 15%****TATA CONSUMER
PRODUCTS**

Consumer Staples

24 April 2025

Tea: Market share vs margin conundrum

- Tea market share losses to unorganised / regional players are limiting inflation pass-through. Margin recovery now reliant on deflation
- Capital Foods (CF) and Organic India (OI) now fully integrated with learnings. Target sales growth run-rate 30%
- We model partial recovery in Tea margins in FY26. Above-avg sales growth profile and scale-driven margin accretion remain. Retain BUY

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4QFY25 result summary: TCPL consolidated sales were +17% YoY, 1% above consensus and 3% below our estimates. Growth businesses were +18% YoY. EBITDA was -1% YoY; 4% below consensus and 3% below our estimates. Tea pricing was lower than expected, which impacted margins. CF and OI synergies also came through during the quarter.

Tea margins now rely on deflation: Tea pricing vs inflation is still insufficient across the industry. TCPL is recovering 46% inflation and absorbing the rest to maintain competitiveness, as the top player has not taken full pricing. Margins remain under pressure. For FY26, while the new crop outlook appears favourable with normal monsoon, there may be temporary inflationary pressures due to the ongoing heatwave's likely adverse impact on tea output due April/May. However, tea picking towards the end of 1Q until the mid-to-end of 2Q accounts for the bulk of the annual supply – a well distributed, balanced monsoon is key to output, prices and TCPL margins for FY26. We expect normal circumstances from an input cost perspective and conservatively model a partial recovery in tea margins for FY26.

New businesses now “setup”: The company indicated that CF and OI are now integrated into the system with learnings. For FY25, combined sales growth at 19% was below target, but improved sequentially through the year. TCPL expects a 30% growth run-rate, in line with its growth businesses. Combined gross margin of CF and OI is ~700bps above the FY25 group average.

Our view: Earnings trajectory on growth businesses is improving faster vs our expectations. In the Tea business, if monsoons turn out to be as expected or normal, margins should recover. NourishCo sales are coming back, but margins have contracted due to Gluco Plus retail margin reset – however, it's less than 2% of group sales. TCPL has an above-average sales growth profile amongst peers. A focus on innovation, M&A and “growth businesses” are the key drivers. We value TCPL at 54x, in line with its 5Y historical average P/E on 12m to Mar 2027 EPS. Our TP changes to Rs1,325 from Rs 1,175. Share price return of 15% – Retain BUY.

Key changes

Target	Rating
▲	◀ ▶

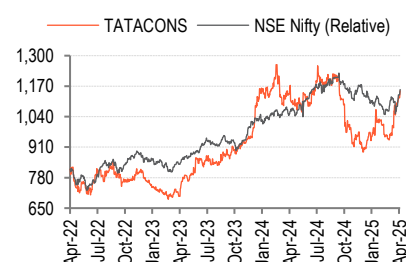
Ticker/Price	TATACONS IN/Rs 1,150
Market cap	US\$ 12.8bn
Free float	64%
3M ADV	US\$ 22.7mn
52wk high/low	Rs 1,263/Rs 883
Promoter/FPI/DII	34%/25%/41%

Source: NSE | Price as of 23 Apr 2025

Key financials

Y/E 31 Mar	FY25A	FY26E	FY27E
Total revenue (Rs mn)	176,183	196,000	213,409
EBITDA (Rs mn)	24,794	30,158	35,244
Adj. net profit (Rs mn)	12,836	19,572	24,198
Adj. EPS (Rs)	13.0	19.8	24.5
Consensus EPS (Rs)	13.0	19.1	22.6
Adj. ROAE (%)	6.6	8.9	10.4
Adj. P/E (x)	88.7	58.1	47.0
EV/EBITDA (x)	44.3	36.3	30.8
Adj. EPS growth (%)	(13.1)	52.5	23.6

Source: Company, Bloomberg, BOBCAPS Research

Stock performance

Source: NSE



4QFY25 result review

Fig 1 – Tata Consumer 4QFY25 earnings summary

(Rs mn)	4QFY24	4QFY25E	YoY (%)
Sales	39,269	46,082	17.3
EBITDA	6,296	6,210	(1.4)
EBITDA margin	16.0	13.5	(256bps)
Adj. EPS	4.54	3.03	(33.3)

Sources: Company, Bloomberg, BOBCAPS Research

Earnings revisions

- **Sales** – Our sales forecasts are 0%-1% lower for FY26e and FY27e as Tea sales growth / pricing came in lower than expected. We expect slower sales as tea pricing has lagged our expectations along with limited scope for improvement as indicated by consistent share losses through the inflationary period.
- **EBITDA** – Our EBITDA forecasts are 4% to 7% higher for FY26 and FY27. For FY26, we conservatively model a partial recovery in tea margins on deflation. Capital Foods and Organic India are now fully integrated with learnings and set for scale. Economies of scale, plus an underlying ~700bps higher gross margin profile vs the company average should help overall margin expansion.

Fig 2 – Tata Consumer earnings revisions

(Rs mn)	Actual	New	Old	(%)	New	Old	(%)	New	Old	(%)
	FY25	FY26	FY26	Change	FY27	FY27	Change	FY28	FY28	Change
Sales	176,183	196,000	197,747	(0.9)	213,409	214,437	(0.5)	232,637	n/a	n/a
EBITDA	24,794	30,158	28,243	6.8	35,244	33,890	4.0	39,153	n/a	n/a
EBITDA Margin (%)	14.1	15.4	14.3	110bps	16.5	15.8	71bps	16.8	n/a	n/a
Adj. PAT	12,836	19,572	18,078	8.3	24,198	22,876	5.8	27,891	n/a	n/a
Adj. EPS	12.97	19.78	18.27	8.3	24.45	23.12	5.8	28.19	n/a	n/a
Gross Margins	42.8	43.6	43.2	44bps	44.3	44.3	9bps	44.4	n/a	n/a

Source: Company, Bloomberg, BOBCAPS Research

Valuation

TCPL is currently trading at 47x FY27E EPS and 58x FY26E EPS. The stock has traded at 5Yr average P/E of 54x on 1-year forward EPS. We value TCPL in line with its 5Yr historical average P/E on FY27 EPS. Our target price changes to Rs1,325 from Rs1,175. Share price return of 15% – Retain Buy.

Earnings trajectory on growth businesses is improving. In the Tea business, if monsoons turn out to be as expected or normal, margins should recover. NourishCo sales are coming back but margins have contracted due to Gluco Plus retail margin reset – however, the business is less than 2% of group sales. TCPL has an above-average sales growth profile amongst peers. Continued focus on innovation, M&A and “growth businesses” are the key drivers.

Risks

Key downside risks to our estimates are:

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

Financials

Income Statement

Y/E 31 Mar (Rs mn)	FY24A	FY25A	FY26E	FY27E	FY28E
Total revenue	152,059	176,183	196,000	213,409	232,637
EBITDA	22,841	24,794	30,158	35,244	39,153
Depreciation	3,772	6,007	5,638	5,539	5,572
EBIT	19,070	18,786	24,520	29,705	33,581
Net interest inc./(exp.)	(1,298)	(2,902)	(1,675)	(1,675)	(1,675)
Other inc./(exp.)	2,456	1,933	2,980	3,593	4,552
Exceptional items	3,270	51	0	0	0
EBT	20,228	17,817	25,825	31,622	36,458
Income taxes	3,947	3,962	6,198	7,474	8,617
Extraordinary items	0	0	0	0	0
Min. int./Inc. from assoc.	(208)	(846)	55	(50)	(50)
Reported net profit	11,500	12,785	19,572	24,198	27,891
Adjustments	3,270	51	0	0	0
Adjusted net profit	14,771	12,836	19,572	24,198	27,891

Balance Sheet

Y/E 31 Mar (Rs mn)	FY24A	FY25A	FY26E	FY27E	FY28E
Accounts payables	27,072	35,084	33,785	36,480	39,639
Other current liabilities	6,984	6,747	6,747	6,747	6,747
Provisions	20,209	23,923	23,923	23,923	23,923
Debt funds	29,539	18,487	18,487	18,487	18,487
Other liabilities	22,045	21,633	21,633	21,633	21,633
Equity capital	953	990	990	990	990
Reserves & surplus	173,409	212,914	224,322	237,510	252,209
Shareholders' fund	174,361	213,903	225,312	238,500	253,199
Total liab. and equities	280,209	319,777	329,886	345,769	363,627
Cash and cash eq.	23,198	27,259	31,465	43,038	55,403
Accounts receivables	8,968	8,698	11,993	13,049	14,233
Inventories	27,694	35,999	39,149	42,394	46,226
Other current assets	14,407	17,740	17,740	17,740	17,740
Investments	4,932	5,487	5,487	5,487	5,487
Net fixed assets	21,486	22,724	22,182	22,192	22,668
CWIP	0	0	0	0	0
Intangible assets	166,783	187,003	187,003	187,003	187,003
Deferred tax assets, net	0	0	0	0	0
Other assets	12,742	14,866	14,866	14,866	14,866
Total assets	280,209	319,777	329,886	345,769	363,627

Cash Flows

Y/E 31 Mar (Rs mn)	FY24A	FY25A	FY26E	FY27E	FY28E
Cash flow from operations	19,367	20,567	17,054	27,291	30,094
Capital expenditures	(3,347)	(4,595)	(5,096)	(5,549)	(6,049)
Change in investments	20,431	(2,485)	0	0	0
Other investing cash flows	(36,394)	(16,456)	2,086	2,515	3,187
Cash flow from investing	(19,309)	(23,536)	(3,010)	(3,034)	(2,862)
Equities issued/Others	0	29,806	0	0	0
Debt raised/repaid	12,540	(14,513)	0	0	0
Interest expenses	0	0	0	0	0
Dividends paid	(8,089)	(7,415)	(8,163)	(11,010)	(13,192)
Other financing cash flows	(1,896)	(3,352)	(1,675)	(1,675)	(1,675)
Cash flow from financing	2,556	4,527	(9,838)	(12,685)	(14,867)
Chg in cash & cash eq.	(2,174)	56	4,206	11,573	12,365
Closing cash & cash eq.	23,198	27,259	31,465	43,038	55,403

Per Share

Y/E 31 Mar (Rs)	FY24A	FY25A	FY26E	FY27E	FY28E
Reported EPS	12.3	12.9	19.8	24.5	28.2
Adjusted EPS	15.5	13.0	19.8	24.5	28.2
Dividend per share	7.8	8.3	11.1	13.3	15.4
Book value per share	183.0	216.2	227.7	241.0	255.9

Valuations Ratios

Y/E 31 Mar (x)	FY24A	FY25A	FY26E	FY27E	FY28E
EV/Sales	7.2	6.2	5.6	5.1	4.6
EV/EBITDA	47.8	44.3	36.3	30.8	27.5
Adjusted P/E	74.2	88.7	58.1	47.0	40.8
P/BV	6.3	5.3	5.1	4.8	4.5

DuPont Analysis

Y/E 31 Mar (%)	FY24A	FY25A	FY26E	FY27E	FY28E
Tax burden (Net profit/PBT)	73.0	72.0	75.8	76.5	76.5
Interest burden (PBT/EBIT)	106.1	94.8	105.3	106.5	108.6
EBIT margin (EBIT/Revenue)	12.5	10.7	12.5	13.9	14.4
Asset turnover (Rev./Avg TA)	59.8	58.7	60.3	63.2	65.6
Leverage (Avg TA/Avg Equity)	1.5	1.5	1.5	1.5	1.4
Adjusted ROAE	8.5	6.6	8.9	10.4	11.3

Ratio Analysis

Y/E 31 Mar	FY24A	FY25A	FY26E	FY27E	FY28E
YoY growth (%)					
Revenue	10.3	15.9	11.2	8.9	9.0
EBITDA	23.0	8.5	21.6	16.9	11.1
Adjusted EPS	41.4	(13.1)	52.5	23.6	15.3
Profitability & Return ratios (%)					
EBITDA margin	15.0	14.1	15.4	16.5	16.8
EBIT margin	12.5	10.7	12.5	13.9	14.4
Adjusted profit margin	9.7	7.3	10.0	11.3	12.0
Adjusted ROAE	8.5	6.6	8.9	10.4	11.3
ROCE	8.7	7.2	9.0	10.4	11.2

Working capital days (days)

Receivables	20	18	19	21	21
Inventory	117	115	124	125	125
Payables	108	113	114	108	107

Ratios (x)

Gross asset turnover	3.9	3.8	3.8	3.7	3.7
Current ratio	1.2	1.5	1.8	1.9	2.1
Net interest coverage ratio	14.7	6.5	14.6	17.7	20.0
Adjusted debt/equity	0.2	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%

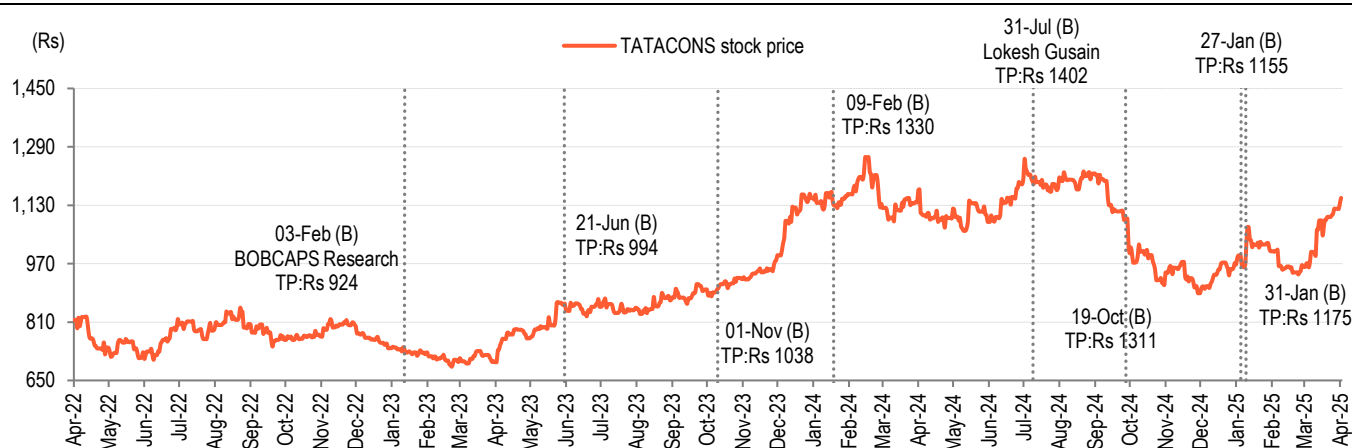
HOLD – Expected return from -6% to +15%

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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