



# Tata Consumer Products Ltd

FY22 brings transformation; focus on enhancing shareholders' value

Consumer Goods

Sharekhan code: TATACONSUM

Reco/View: Buy



CMP: Rs. 737

Price Target: Rs. 960



Upgrade



Maintain



Downgrade

## 3R MATRIX

	+	=	-
Right Sector (RS)	Green	Grey with check	Red
Right Quality (RQ)	Green	Grey	Red
Right Valuation (RV)	Green	Grey	Red

+ Positive = Neutral - Negative

## What has changed in 3R MATRIX

	Old		New
RS	Grey	↔	Grey
RQ	Green	↔	Green
RV	Green	↔	Green

## ESG Disclosure Score

NEW

### ESG RISK RATING

Updated Apr 08, 2022

30.27

### High Risk

NEGL	LOW	MED	HIGH	SEVERE
0-10	10-20	20-30	30-40	40+

Source: Morningstar

## Company details

Market cap:	Rs. 67,960 cr
52-week high/low:	Rs. 889 / 651
NSE volume: (No of shares)	21.5 lakh
BSE code:	500800
NSE code:	TATACONSUM
Free float: (No of shares)	60.2 cr

## Shareholding (%)

Promoters	34.7
FII	26.5
DII	13.7
Others	25.1

## Price chart



## Price performance

(%)	1m	3m	6m	12m
Absolute	0.3	-4.5	-1.2	2.5
Relative to Sensex	1.1	4.7	7.9	2.9

Sharekhan Research, Bloomberg

## Summary

- TCPL achieved significant success in its transformation journey by expanding its distribution reach, recording market share gains in core categories, accelerating growth in key businesses, continued innovation momentum, and expanding in new categories.
- Operating performance was stable in FY2022 with revenue growing by 7% and operating profit growing by 11% (with 53 bps expansion in OPM); FCF to EBITDA improved to 100% with strong cash kitty of Rs. 2,600 crore on books; Working capital days improved to 26 days from 36 days earlier.
- Going ahead, TCPL is focusing on enhancing shareholders' value by simplifying the structure and unlocking significant financial value while generating consistent earnings growth and focusing on its six-pillar growth strategy.
- With lesser input cost headwinds, strong medium growth prospects, and focus on enhancing shareholders' value, TCPL remains one of our top picks in the FMCG space. We maintain Buy with an unchanged PT of Rs. 960.

Tata Consumer Products Limited (TCPL) posted stable operating performance in FY2022 in the backdrop of pandemic uncertainties, commodity price inflation, and slowdown in rural India. Revenue and operating profit grew by 9% and 11%, respectively, with OPM expanding by 53 bps y-o-y to 13.8% (despite high inflation in the foods business, higher investment behind brands, and digitalisation). The highlight of the year was market share gains in core categories, 52% growth in new businesses because of strong scale-up, and international business registering margin expansion and stable cash flows. Balance sheet continued to strengthen with FCF/EBITDA improving to 100% from 80% in FY2021 (working capital days continued to improve because of better supply efficiencies).

- Attain success in transformation journey:** TCPL achieved significant success in its transformation journey as the company expanded its reach (added over 8,000 rural/semi-urban distributors), recorded market share gains in core businesses (100 bps and 400 bps in tea and salt), accelerated growth businesses (52% y-o-y growth), continued the innovation momentum (innovation contribution to sales grew by 2x), and expanded into new categories [entered the dry fruits category through Tata Sampann and ready-to-eat (RTE) category through Tata Q]. On the international front, the company gained market share in the fruit and herbal (F&H) category, maintained its market share in Canada, and continued to gain good traction for K-cups category in the retail category of US.
- New businesses scaling up well; Tata Starbucks also performed well:** In FY2022, new businesses registered overall growth of 52% because of strong expansion in brand distribution and higher media investments. Tata Sampann brand registered 28% volume growth with broad-based growth across pulses, spices, and other staples (newly launched Poha registered 100%+ growth). In the ready-to-drink (RTD) space, NourishCo registered 83% growth, led by 80% expansion in distribution and strong offtake across brands. Tata Soufull distribution expansion expanded by 10x over 3,00,000 outlets, while there was substantial scale-up in the D2C business by 12x. Domestic branded coffee business registered 45% volume growth with strong traction to brands such as Tata Coffee Gold, Tata Coffee Sonnets, and Tata Coffee Quick Filter. Tata Starbucks' revenue grew by 76% y-o-y to Rs. 636 crore and it broke-even at EBITDA level (net loss declined significantly on a y-o-y basis).
- Balance sheet continues to strengthen:** Strong focus on supply efficiencies and distribution synergies aided the company to reduce its working capital days to 26 days in FY2022 from 36 days in FY2021. OCF to EBITDA stood at 102% in FY2022 compared to 114% in FY2021. The company repaid long-term debt of Rs. 493 crore in FY2022. Despite capex of Rs. 273 crore, repayment of long-term debt, and higher investment in strategic initiatives, cash balance on books stood strong at Rs. 2,600 crore.

## Our Call

**View: Retain Buy with an unchanged PT of Rs. 960:** TCPL is focusing on enhancing shareholders' value by simplifying its structure and unlocking significant financial value while generating consistent earnings growth focusing on its six-pillar growth strategy. Strong cash flows will be utilised for organic and inorganic initiatives to strengthen the key growth pillars in the coming year. With strategies in place, TCPL is well poised to achieve double-digit revenue and PAT CAGR of 15% and 20%, respectively, over FY2022-FY2024. The stock is currently trading at 53.1x and 43.6x its FY2023E and FY2024E EPS, respectively. We maintain our Buy recommendation on the stock with an unchanged price target (PT) of Rs. 960.

## Key Risks

Any slowdown in demand in the domestic or international market or increase in key commodity prices would act as a risk to our earnings estimates in the near term.

## Valuation (Consolidated)

Particulars	FY21	FY22	FY23E	FY24E
Revenue	11,602	12,425	14,237	16,295
OPM (%)	13.3	13.8	14.1	14.8
Adjusted PAT	953	1,054	1,280	1,558
% Y-o-Y growth	44.2	10.6	21.5	21.7
Adjusted EPS (Rs.)	10.3	11.4	13.9	16.9
P/E (x)	71.3	64.5	53.1	43.6
P/B (x)	4.7	4.5	4.3	4.0
EV/EBITDA (x)	42.6	38.6	32.9	27.1
RoNW (%)	7.2	7.5	8.6	9.8
RoCE (%)	8.1	8.6	9.7	11.3

Source: Company; Sharekhan estimates

### CEO Corner (Sunil D'Souza – MD and CEO of TCPL)

- ◆ During the year, TCPL achieved significant milestones in its transformation journey as the company expanded its reach (added over 8,000 rural/semi-urban distributors), recorded market share gains in core businesses (100 bps and 400 bps in tea and salt), accelerated growth businesses (52% y-o-y growth), continued the innovation momentum (innovation contribution to sales grew by 2x), and expanded into new categories (entered the dry fruits category through Tata Sampann and RTE category through Tata Q).
- ◆ TCPL reported 9% y-o-y revenue growth and 11% y-o-y EBITDA growth. Despite inflation in the foods business and higher investments on brands and in new businesses, the company delivered margin expansion. The company has delivered 15% and 16% revenue and EBITDA CAGR, respectively, over the last two years.
- ◆ TCPL plans to continue to strengthen its sales and distribution across traditional as well as modern channels. The company will focus on simplifying its business both in India and internationally to drive further efficiencies and synergies.
- ◆ TCPL is reorganising its business to simplify the structure and reduce the number of legal entities to create focused verticals, enable faster execution, and unlock significant financial value in the process.
- ◆ The company is strengthening its diversity and inclusion through initiatives such as health insurance for the partners of employees of the LGBTQ+ community and the launch of the Women's Inclusion Network.
- ◆ On the ESG front, the company has undertaken various initiatives such as focus on responsible sourcing, higher contribution from renewable energy, circular economy of packaging, mitigating climate change, and serving the community among others.

Source: Company Annual Report

### Strategic framework

TCPL's strategy is focused on achieving business goals while keeping in mind the company's vision of building better lives and thriving communities. The company has built a six-pillar strategic framework to create value for its stakeholders.

#### 1. Strengthen and accelerate core business

For its India business, TCPL plans to invest in brands, drive premiumisation, expand distribution, and develop alternate channels. For the international business, the company aims to grow its share in non-black tea and focus on three-brand strategy in the tea portfolio and drive structural efficiencies to improve profitability.

- ◆ **Investment behind brands:** During the year, TCPL invested in its brands and expanded into new target markets with impactful campaigns and premium products. The company gained market share in its core categories while stepping up innovation across the portfolio.



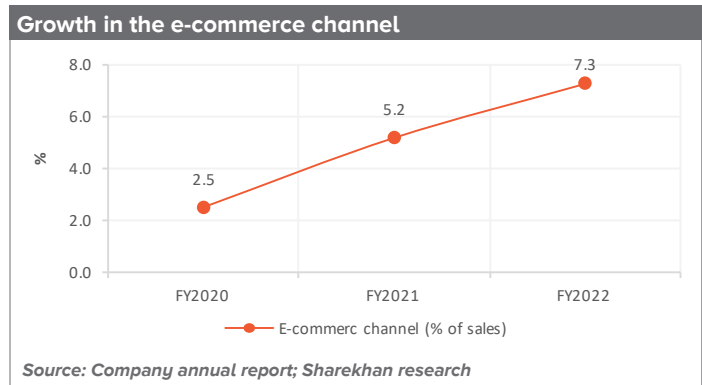
Source: Company annual report; Sharekhan research

- *Tata Tea Gold* launched a festive pack collection for *Durga Puja* with five specially designed packs dedicated to five important days of *Durga Puja*.
  - *Tata Tea Premium* continued its focus on hyper-local campaigns, launching new TVCs for Mumbai and Maharashtra.
  - *Tata Sampann* launched its first-ever regional print campaign in Rajasthan, UP, and Bihar markets.
  - *Tata Salt* launched a 360-degree marketing campaign intervention, against look-alike brands in Uttar Pradesh.
- ◆ **Drive premiumisation:** TCPL is accelerating its innovation agenda to support the company's premiumisation goals.
- In India, TCPL launched some value-added products, including *Tata Tea Gold Care* and *Chakra Gold Care* – teas infused with native herbs for wellness benefits, new variants under the premium *Tata Tea 1868* brand, *Tata Coffee Gold* – a premium, freeze-dried coffee, and new variants under the premium R&G coffee brand, *Sonnets*.
  - In the foods business, the company entered a new premium category of dry fruits under the *Tata Sampann* brand and launched value-added salts such as *Superlite* and *Immuno* under the *Tata Salt* brand.
  - In international markets, the company's super-premium brand, *Teapigs*, is gaining momentum across channels and continues to outpace the category. *Good Earth Tea* is helping to strengthen TCPL's presence in the premium fruit and herbal segment.
- ◆ **Expand addressable market:** During the year, TCPL launched new products in *Tata Salt* to expand the target addressable market for salt. The company introduced *Shuddh* by *Tata Salt*, an iodised solar salt that gives consumers access to a high-quality, branded products at a reasonable price point.
- ◆ **Building purposeful brands:** TCPL partnered with *Rare Planet*, a start-up that promotes the work of local Indian artisans in a bid to lend support to the artisan community of the country, through the company's brand – *Tata Tea Premium*. The aim of the initiative was to support the artisan community, which faced severe setback due to the pandemic.
- ◆ **Sales and distribution transformation:** In FY2021, the company began digitalisation and transformation of its sales and distribution network, which was supported by capability building among its people to deliver the company's growth aspirations. TCPL modernised systems and processes across urban markets by increasing its Feet on Street (Distributor Sales Representatives), deploying a state-of-the-art Distributor Management System (DMS), fully automating order capture and delivery processes through hand-held Sales Force Automation (SFA) devices, and rolling out a comprehensive productivity-based incentive programme. While distribution expansion and quality augmentation agenda continued, in parallel, significant interventions were undertaken to improve the company's market standing with premium outlets.

#### **Channel-wise initiatives:**

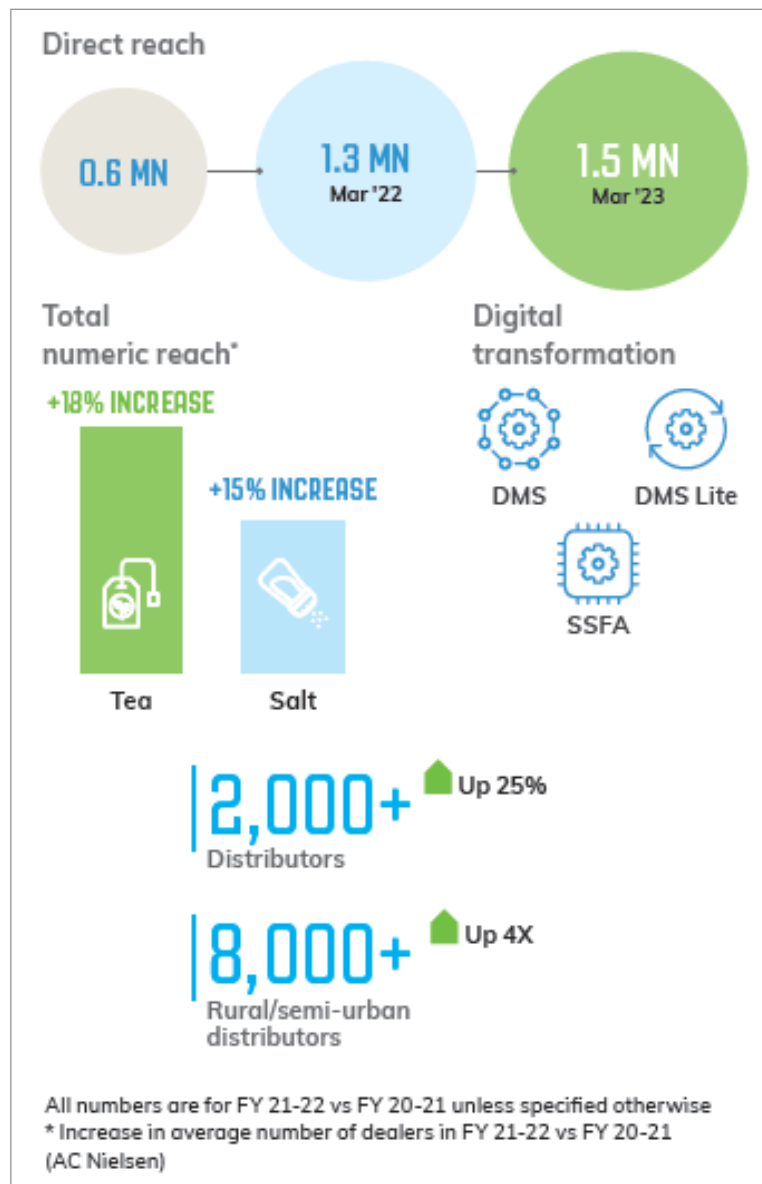
- **Modern trade:** TCPL strengthened its people muscle in customer-facing roles to better align and cater to the requirements of modern trade (MT) customers. Joint business planning, periodic reviews, and regular sync-ups ensured that the company's partnership with key accounts saw significant improvement. MT business crossed Rs. 1,000 crore in FY2022, registering 30% y-o-y growth.

- E-commerce:** TCPL continued to witness strong performance in the e-commerce channel with further consolidation of leadership in the tea category. Market standing and performance improved significantly across other categories. Investments were made to drive best-in-class industry practices in customer marketing, digitally powered brand engagement, and improvement in service levels.



- Institutional channel:** TCPL reached out to institutional customers with its integrated portfolio. The company continued to stay focused on driving improvement in customer servicing, mapping, leveraging new and emerging channels, and opening up new business streams for the company. Tie-ups with many strategic customers were concluded in the year.

**New milestones in S&D transformation**



Source: Company annual report

## 2. Drive digital and innovation

TCPL is leveraging the power of digital to gain new market and consumer insights, while optimising resources and processes. Through the digital transformation agenda, the company has made significant progress in embedding digital across business functions and partner ecosystems. This has enabled faster and focused decision-making and sharpened offerings and delivery. The company's product and category innovations continue to address untapped and emerging consumer needs.

- ◆ **Strengthening digital capabilities:** TCPL continues to invest in building capability in its digital team. In addition, the company initiated a focused effort to enhance digital acumen and adoption across the organisation. Automation of simple tasks enabled employees to devote more time to value-added work. TCPL also strengthened digital security measures across its platforms.
- ◆ **Accelerating innovation across brands:** During the year, the company accelerated its innovation agenda and launched several new products, which led to ~2x growth in innovation contribution to sales.
  - **New categories:** *TGP Jelly* and *Tata Sampann Dry Fruits* and RTDs in international markets – *Good Earth Kombucha* and *Good Energy*
  - **Health and wellness platform:** *Tata Tea Gold Care*, *Chakra Gold Care*, *Tata Salt Super Lite* with 30% lower sodium, *Tetley Supers*, *Tata Soulfull Muesli – Zero Added Sugar*, *Tata Soulfull No Maida Choco*
  - **Driving convenience:** *Tata Coffee Quick Filter* and *Tata Tea Agni Adrak*
  - **Building premiumisation:** Care range, new SKUs in *Tata Coffee Sonnets*, *Tata Tea 1868*, and *Good Earth Sensorial Blends*, among others.

## 3. Unlock synergies

TCPL aims to make the organisation more effective and agile on multiple fronts. FY2022 was a year of unlocking synergies, with acquisitions and divestments, restructuring initiatives, and fast-tracking the integration of newly acquired businesses.

- ◆ **Streamlining and simplifying the organisation's structure:** To enable a sharper focus on its core FMCG business and with the objective of creating a future-ready organisation, TCPL undertook various decisions during the year as below:
  - TCPL transitioned the Tata Cha franchise - A tea café format is a quick service restaurant (QSR) chain to Qmin-Shops operated by a subsidiary of Indian Hotels Company Limited (IHCL).
  - In the international beverages business, the company moved to a distributor-led operating model in Australia to drive further efficiencies.
  - TCPL also announced a reorganisation plan that entails a) Combining Tata Coffee's business into Tata Consumer and its wholly owned subsidiary through a composite scheme of demerger and merger and b) Purchase of minority interests in Tata Consumer Products UK through a preferential issue of equity shares.

These actions will result in operational efficiencies, faster decision-making and execution, creation of focused business verticals, and unlocking of financial value.

- ◆ **Consolidation and rationalisation:** During the year, TCPL consolidated its integrated production and delivery network into 38 centres and optimised it for lower cost and improved service levels to over 11,000 drop-off points across India. This resulted in >25% savings in secondary freight/kg. Integrated business planning has been activated, with automated demand and supply planning, inventory optimisation, and S&OP as the first step to a digitalised and future-ready supply chain.
- ◆ **Optimising the foods business network:** The foods 3P network optimisation project aims to make the organisation more future-ready for categories, which are witnessing strong growth, as well as realising cost synergies over the medium to long term. Key outcomes from the project include moving packing locations closer to demand centres, reducing the distance travelled, cross-leveraging network across various categories, exploring new sourcing locations, and changing sourcing operating models for a few categories.

#### 4. Explore new opportunities

TCPL is continuously exploring and evaluating new opportunities to grow – both organically and inorganically. During the year, the company entered the RTE category with Tata Q, expanded into new markets with Tata Sampann, accelerated the growth momentum for NourishCo, multiplied the reach of Tata Soulfull, and forayed into the energy drinks market in the UK with Good Earth. The company's growth businesses together reported 52% y-o-y growth in FY2022.

- ◆ **NourishCo – Accelerating growth in the RTD beverages segment:** Since acquiring complete ownership of NourishCo in May 2020, TCPL seamlessly integrated the business while achieving high engagement level within the team. One of TCPL's key goals following the acquisition was to expand distribution coverage to leverage the strength of its existing portfolio and maximise the potential of innovations. In FY2022, TCPL expanded distribution by 80% and capacity by over 50% through an asset-light model, while doubling down on innovation.
  - **Water business:** TCPL rechristened Tata Water Plus, the company's mass packaged drinking water brand to Tata Copper Water to enliven the value proposition of added copper. TCPL's premium brand in the segment, Himalayan, is the #1 natural mineral water brand in the country and has turned profitable in FY2022 for the first time since inception. Direct distribution for the brand led to better control over the channel and profits.
  - **RTD Beverages:** TCPL forayed into seven new states, following successful pilots, launched a host of cost-saving initiatives, revamped Tata Fruski with the introduction of new flavours with an ethnic twist, introduced Tata Gluco Plus Jelly, a product at the cusp of snacking and beverages, to strengthen functional beverage offerings and focused on building a strong pipeline of new innovations.
- ◆ **Tata Sampann – Growing the foods category:** The pandemic resulted in consumers showing preference for trusted brands. The 'Tata' brand has a track record of successfully driving unbranded to branded conversion in categories such as tea and salt. All these factors position Tata Sampann to register 28% volume growth in FY2022.
  - **Red rice poha relaunch:** In Kerala and parts of Tamil Nadu, there is a marked consumer preference for red rice poha. TCPL relaunched its red rice poha offering with revised pricing supported by Pongal activation. This resulted in good market response and higher growth for the product.
  - **Entering the dry fruits category:** Tata Sampann recently entered the dry fruits category, which will help premiumise the portfolio and expand its addressable market further.



- ◆ **Tata Soulfull – Unlocking new markets:** Tata Soulfull's distribution footprint has expanded 10x of what it used to be when it was first launched and the products are now available across 3 lakh outlets in India. Additionally, the direct-to-consumer channel scaled up by 12x in FY2022. With rich expertise in ancient millets such as ragi, Tata Soulfull has an innovative product portfolio such as breakfast cereals, healthy snacks, muesli, and plant-based protein drinks.
- ◆ **Tata Q – Entering the RTE segment:** During the year, TCPL acquired Tata Smartfoodz, owner of the brand Tata Q, which has enabled the company to expand its product portfolio and enter the RTE segment. In India, the category grew significantly during the pandemic and is further expected to benefit from rapid urbanisation, high disposable income, and consumers seeking convenience, variety, and hygiene. The category is already large and growing strongly in international markets where TCPL is already present. Some of the new launches in FY2022 include: Hot and Spicy Noodles, Pepper Masala Noodles, Classic Chicken Seekh Kebab, Spicy Jalapeno Chicken Sausages, Cheesy Pasta with Corn, and Gujarati Daliya Khichdi.
- ◆ **Good Earth –** With life returning to normal, the focus on physical and mental well-being remains top priority for UK consumers, with their food and drink choices playing a big part in healthier lifestyles. The recent 'Free the Good Energy' campaign aimed to leverage great taste and on-the-go consumption by driving distribution in key areas of London with an overarching experiential plan to accelerate product trial and awareness during summer.

## 5. Create a future-ready organisation

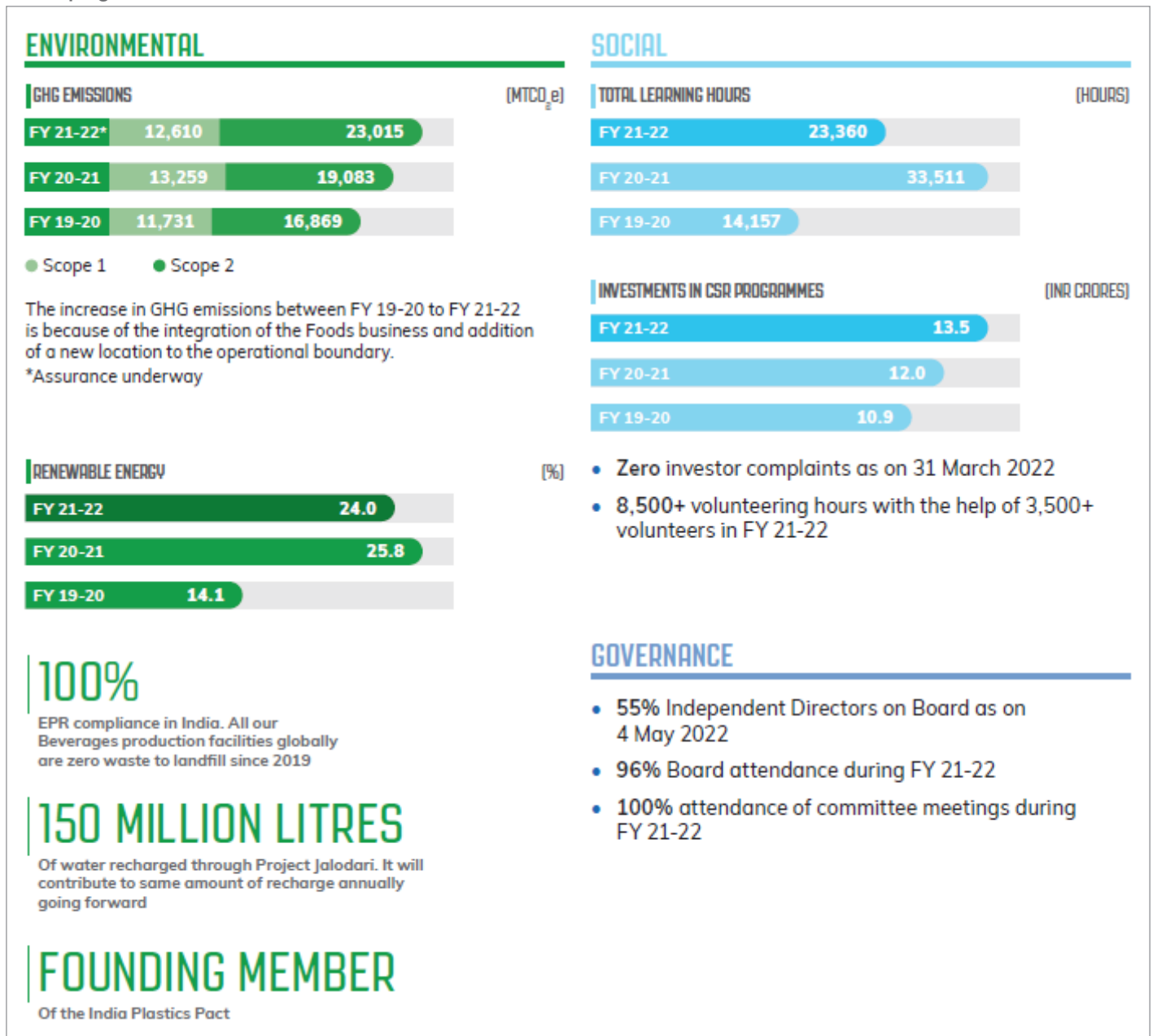
TCPL is strengthening its future readiness by building a purpose-led organisation, augmenting its capabilities across businesses and fostering an inclusive culture. The company is also leveraging technology and scaling its supply chain for better effectiveness and agility.

- ◆ **Diversity and inclusion:** TCPL is an equal opportunity employer. The company has undertaken various initiatives to build a safe and inclusive working environment for its employees.
- ◆ **Employee well-being:** During the year, TCPL ran various initiatives for employees, which focused on emotional, physical, and financial well-being.
- ◆ **Employee engagement and recognition:** TCPL undertook several initiatives during the year to keep motivation and inspiration levels high across the workforce. The company has established various reward and recognition programmes to help foster a culture of appreciation and high performance in the organisation.

## 6. Embed Sustainability

TCPL's sustainability is centred around 'Better Living' drawing from the company's corporate positioning of 'For Better'. The strategy encompasses initiatives towards sustainable sourcing, natural resource management, net zero, circular economy, and community development.

TCPL's progress on the ESG front



Source: Company annual report

**Value creation**

TCPL has undertaken various steps to stay upbeat and create value for its stakeholders in the post pandemic period, wherein consumers are preferring customised experiences and opting for brands that they trust with higher focus on health and wellness:

- ♦ **Acquisition of Tata Smartfoodz:** To benefit from consumers' focus on improving their lifestyle, TCPL acquired Tata Smartfoodz, which offers a range of innovative and differentiated products including RTE meals with the unique technology that helps to retain taste, texture, and nutrients of food.
- ♦ **Strengthening of Tata Soulfull portfolio:** As consumers are opting for healthier lifestyles, TCPL strengthened its Tata Soulfull portfolio, which has products made from ancient millets such as ragi in convenient and contemporary formats such as breakfast cereals, healthy snacks, muesli, and plant-based protein drinks.



- ◆ **Focus on digital transformation:** There is a sudden surge in online shopping for everyday commodities as consumers enjoy the ease and simplicity offered by such models. TCPL embarked on its digital transformation journey and is building a digital core by strengthening its sales and distribution channel. The digital investments will help the company to gain real-time insights to drive faster and more effective decision-making.

**Value creation model**

TCPL has designed a value creation model to leverage resource inputs to create long-term beneficial outcomes and impact for its stakeholders. During the year, the company adopted a consultative approach with cross-functional teams across the organisation to redefine its value creation model.

Value creation model

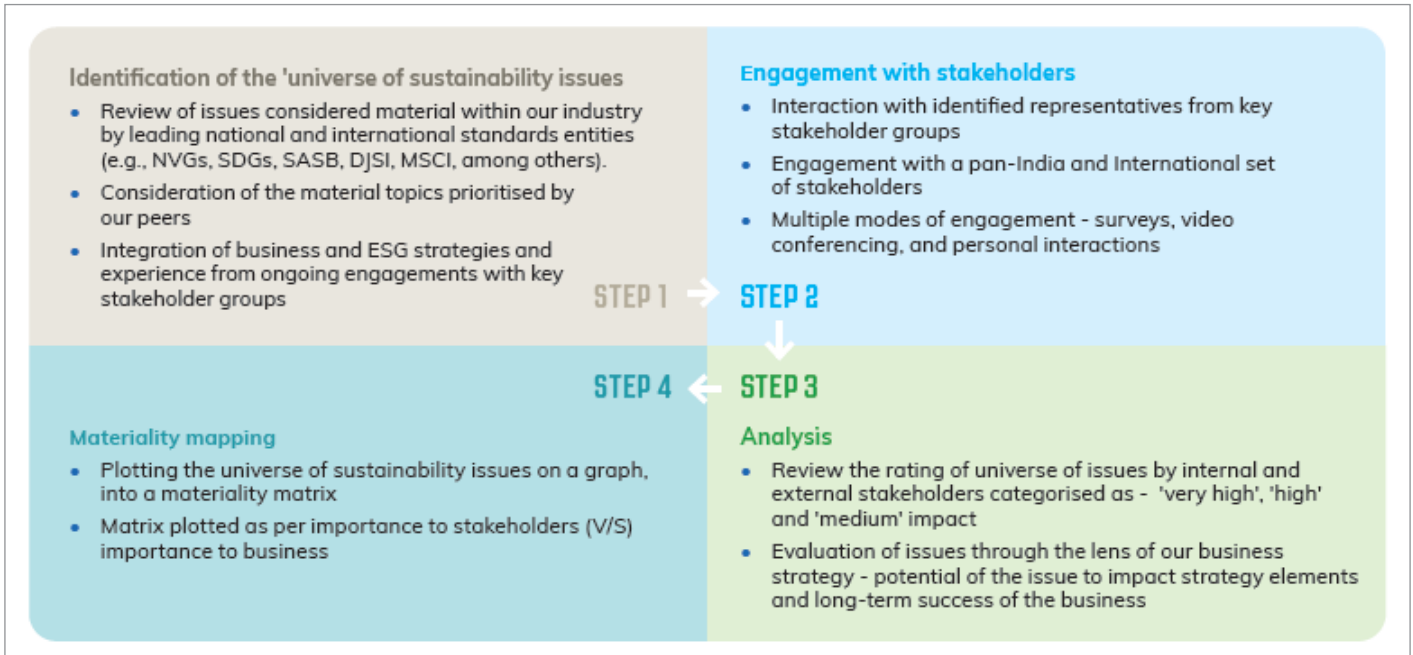


Source: Company annual report

## Materiality assessment

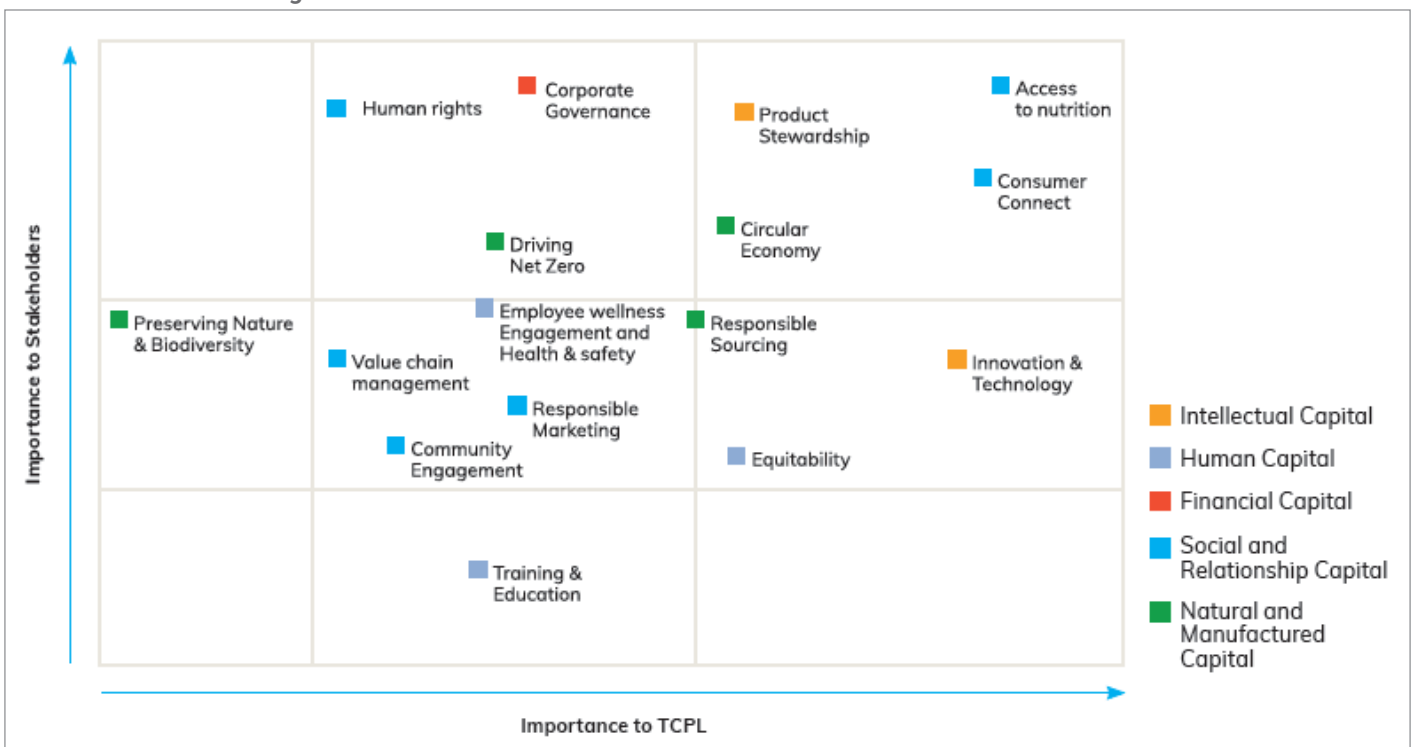
The company interacted with its key internal and external stakeholders with the purpose of identifying certain key material issues that are significant for the company's value creation journey by following a structured materiality assessment process.

### Materiality assessment process leading to...



Source: Company annual report

### ...formation of a materiality matrix



Source: Company annual report

## Risk management

As the company's business is growing and transforming every day, it is important to identify, assess, and mitigate risks that affect the achievement of business objectives. TCPL has set up a risk management committee with a stringent risk management framework that helps the company to implement and monitor its progress on risk mitigation.

### Key risk categories for the company and mitigation plans

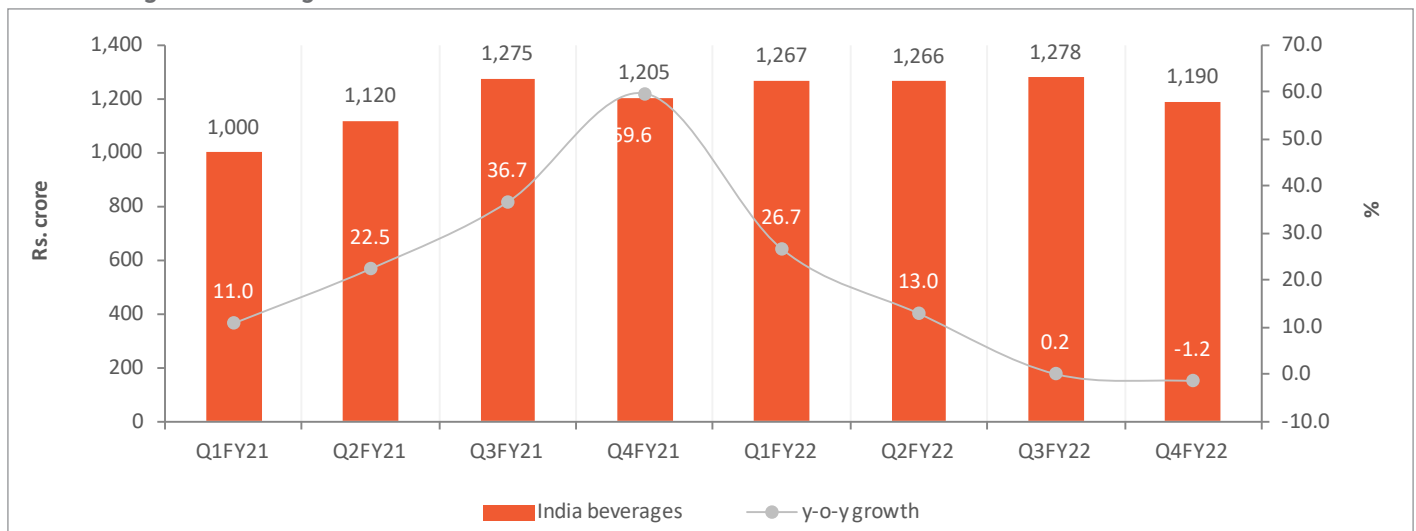
Risk category	Description	Mitigation plans
Changing consumer preferences	The pandemic has had a huge impact on consumer behaviour globally. Consumer preferences are changing and shifting towards branded, health, and wellness-focused products.	<ul style="list-style-type: none"> <li>- TCPL tracks consumer trends, which act as inputs in its innovation process</li> <li>- TCPL has deployed a dedicated innovation funnel for the next five years, which encompasses evolving changes in consumer preferences.</li> <li>- During the year, the company accelerated the pace of innovation across key categories with multiple launches/ extensions within key brands.</li> <li>- The company implemented a well-defined NPD stage gate process and embedded the use of technology for tracking projects.</li> </ul>
Commodity sourcing	Agri-commodities are subject to seasonal and market cyclicity. Volatility in commodity prices and availability can impact the company's business, operations and cash flows.	<ul style="list-style-type: none"> <li>- TCPL rolled out restructuring of commodity sourcing organisation, which would act as a key enabler for future growth aspirations.</li> <li>- Commercial implications of commodity price movements are continuously assessed and are reflected in the pricing of products wherever appropriate.</li> <li>- During the year, a network optimisation study was deployed to identify and evaluate alternate sources/vendors for various strategic tea components.</li> </ul>
Brand equity risks	The relevance of existing brands in light of changes in consumer behaviour is vital for sustainable growth of the organisation.	<ul style="list-style-type: none"> <li>- For tea brands, TCPL executed state-specific strategies and continued to invest in localised marketing campaigns.</li> <li>- TCPL significantly increased investment in brands in India business.</li> </ul>
Sales and distribution risks	The company has ambitious distribution growth plans and any strategic moves would have associated risks that need to be mitigated. The shift in channel/ retailer strategy also needs to be closely monitored.	<ul style="list-style-type: none"> <li>- Expanded shopper marketing initiatives and leveraged portfolio play across foods and beverages.</li> <li>- 100% Distributor Management System (DMS) and Salesforce Automation (SFA) implementation to enable end-to-end visibility of secondary sales, distribution, and servicing levels.</li> <li>- Implemented tailored trade strategies to evaluate trade spend efficiencies, resulting in higher ROI on trade investments.</li> <li>- During the year, TCPL's 'Always on' performance marketing approach has yielded strong e-commerce growth.</li> </ul>
Supply chain risks	Lack of timely availability of resources can halt business operations and supply chain	<ul style="list-style-type: none"> <li>- TCPL has put in place business continuity plans for key co-manufacturers and third parties.</li> <li>- In FY2022, partial lockdowns across the country and disruptions in finished goods supply chain were managed through enhanced crisis management and business continuity plans.</li> </ul>

## TCPL – Business-wise performance

### India beverages

- ◆ **Revenue growth (value)** – 6% y-o-y growth in FY2022 after growing 32% in FY2021.
- ◆ **Volume growth** – TCPL recorded the highest volume growth in Tata Tea Premium in over a decade and delivered strong volume growth of 45% in coffee, led by several new launches.
- ◆ **Market share** – The company gained 97 bps of market share in tea category as well as saw a second consecutive year of market share gains in Tamil Nadu for the Chakra Gold franchise.
- ◆ **Market leadership** – TCPL has maintained its No. 1 position in e-commerce.
- ◆ **Other key highlights** – TCPL relaunched the Tata Tea Agni Masterbrand with an impactful campaign and continued with its hyperlocal brand-building strategy for key brands in the portfolio.

### India beverages – Quarterly revenue trend

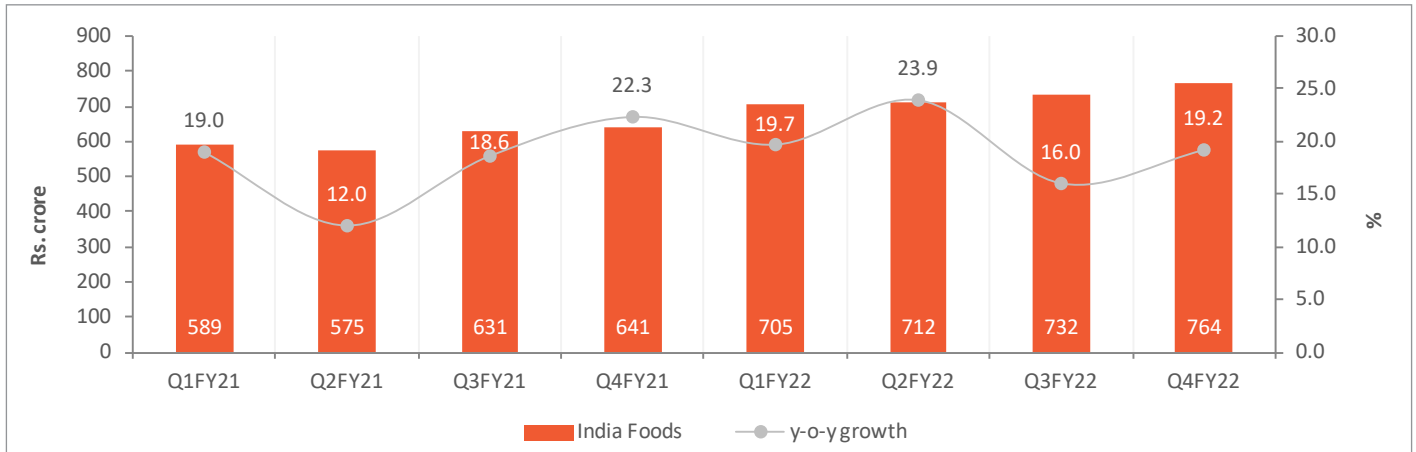


Source: Company; Sharekhan research

### India foods

- ◆ **Revenue growth (value)** – 19% y-o-y growth in FY2022 after growing 18% in FY2021. Salt revenue grew 17% with overall premium salts portfolio growing 27%.
- ◆ **Volume growth** – Recorded 28% volume growth in Tata Sampann, with strong growth across pulses, besan, and poha.
- ◆ **Market share** – TCPL gained 400 bps of market share in the salt category.
- ◆ **Tata Salt portfolio** – TCPL expanded its salt portfolio with the launch of Tata Salt Immuno and Tata Salt Super Lite and launched Shuddh by Tata Salt, specially crafted solar salt for south market to strengthen the company's mid-tier portfolio play.
- ◆ **Expanding food business** – In the foods business, TCPL launched Tata Sampann Dry Fruits – extending the brand into a new and premium category, added Tata Q to the food portfolio through the Tata Smartfoodz acquisition and launched Ragi Bites No Maida Choco under Tata Soulfull, marking its entry into the healthy snacking space.

### India foods – Quarterly revenue trend

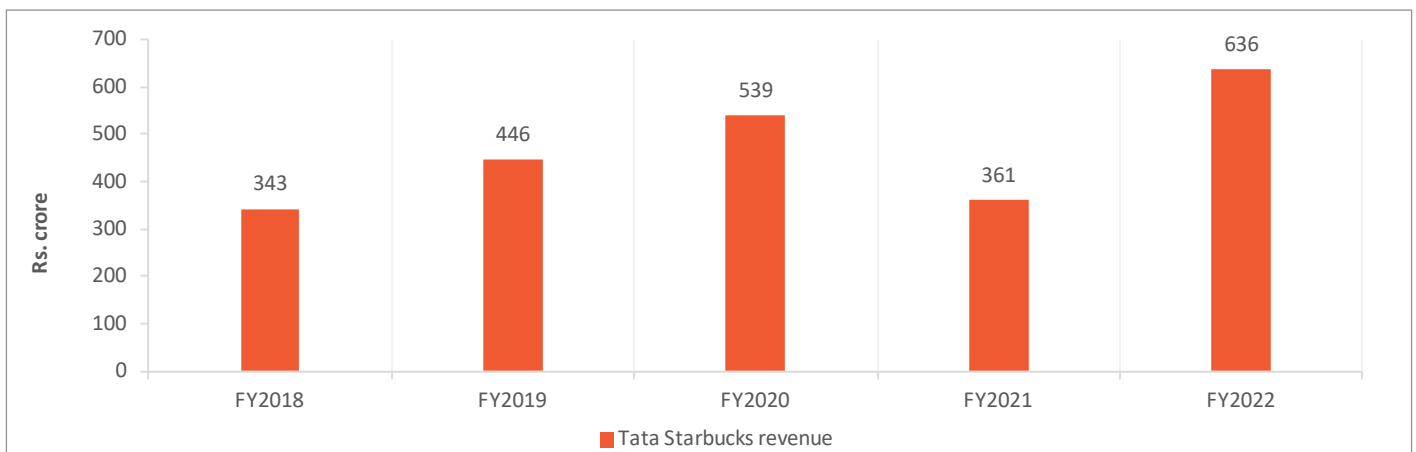


Source: Company; Sharekhan research

### Tata Starbucks (50:50 JV with Starbucks)

- ◆ **Revenue growth** – Revenue grew by 76% y-o-y to Rs. 636 crore as lockdown curbs were eased and business could get back on track. Revenue growth was also driven by higher revenue realisation from existing stores and due to new stores added during the year.
- ◆ **Channel performance** – Delivery vertical continued to perform well even after the easing of dine-in restrictions.
- ◆ **Profitability** – The business was able to deliver breakeven at the operating profit level before depreciation and amortization (EBITDA) and net loss declined significantly.
- ◆ **Store additions** – TCPL added 50 new stores (the highest number of store openings in a single year so far) with expansion into eight new cities. New stores are a mix of landmark store openings viz., Golden Temple complex in Amritsar, Jio World Drive in Bandra Kurla Complex in Mumbai, and Brahmaputra Riverfront in Guwahati and smaller footprint stores. Tata Starbucks Café now has 268 stores, across 26 cities in India.
- ◆ **Limited edition exclusive blends** – TCPL launched limited edition exclusive blends, which were inspired by local flavours such as Thandai Spice Latte and Thandai Spice Frappuccino, White Mocha Coconut Barfi Latte, White Mocha Coconut Barfi Frappuccino, and Mango on the Beach Frappuccino among others.
- ◆ **Other highlights** – The company launched the first-ever Nitro Cold Brew store in India, operated solely by women baristas.

### Growth in Tata Starbucks revenue



Source: Company; Sharekhan research

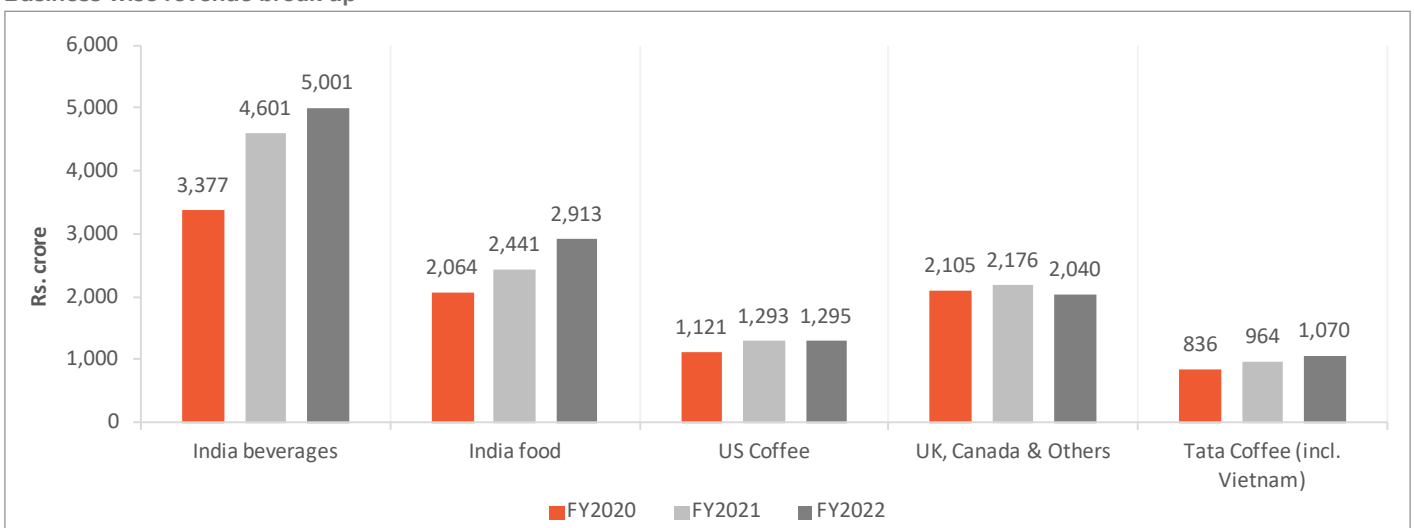
## NourishCo

- ◆ **Revenue growth** – NourishCo recorded strong growth across products and geographies with revenue up 83% y-o-y, bringing two-year CAGR to 38%, despite a challenging operating environment.
- ◆ **Broad-based growth** – All three flagship brands registered strong growth – Growth in Tata Gluco Plus was backed by good traction from a new variant of Tata Gluco Plus in the form of jelly, Tata Copper Water continued to deliver substantial growth in core markets while rapidly expanding its footprints in new geographies, and Himalayan registered strong y-o-y growth with higher distribution and improved realisation.
- ◆ **Distribution expansion** – The company expanded its distribution by 80% and forayed into several new geographies to leverage the strength of the company’s existing portfolio and maximise the potential of upcoming innovations.
- ◆ **Innovation** – TCPL accelerated its innovation strategy with innovation to sales contribution at 10%.
- ◆ **Capacity expansion** – In FY2022, the company expanded capacity by over 50% through an asset-light model.

## FY2022 financial performance

- ◆ Consolidated revenue grew by 7% y-o-y to Rs. 12,425 crore with like-for-like growth at 9% y-o-y. Two-year CAGR for consolidated business is at 14%.
- ◆ India business grew by 13% y-o-y to Rs. 7,914 crore, led by India beverages business growth of 10% y-o-y, with 3% volume growth and India Foods business growth of 19% y-o-y, with an 8% volume growth.
- ◆ International business reported muted growth of 1% y-o-y in FY2022 (down 2% in constant currency terms), impacted by high growth of 12% in FY2021.
- ◆ OPM for FY2022 increased by 53 bps to 13.8%. Operating profit grew by 11.3% y-o-y to Rs. 1,718.8 crore.
- ◆ Adjusted PAT grew by 10% y-o-y to Rs. 1,117.5 crore.
- ◆ The company declared dividend of Rs. 6.05 per equity share for FY2022.

## Business-wise revenue break-up



Source: Company; Sharekhan research

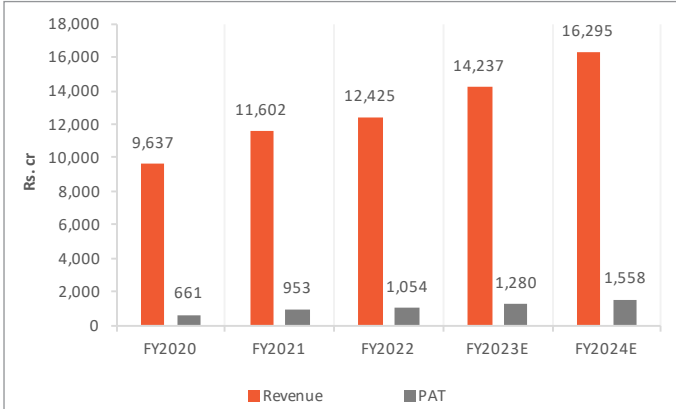


## Balance sheet analysis

- ◆ Receivable days remained stable at 25 days in FY2022 versus 24 days in FY2021. Payable days increased to 65 days in FY2022 from 59 days in FY2021, while inventory days declined to 67 days in FY2022 as against 71 days in FY2021. Thus, working capital cycle reduced to 26 days in FY2022 from 36 days in FY2021.
- ◆ OCF/EBITDA declined to 1.01x in FY2022 from 1.14x in FY2021 stood stable on a y-o-y basis. FCF to EBITDA improved to 100% from 80% in FY2021 (53% in some of the earlier years).
- ◆ Dividend paid during the year amounted to Rs. 398 crore, which is higher than Rs. 267 crore paid in FY2021.
- ◆ The company repaid long-term debt of Rs. 493 crore in FY2022, as against Rs. 69 crore repaid in FY2021.
- ◆ Capex for FY2022 (payment for property, plant, and equipment including intangibles) stood at Rs. 273 crore.
- ◆ Cash and cash equivalents declined by 15.4% y-o-y to Rs. 2,600 crore (cash balance was Rs. 3,075 crore) in FY2022.
- ◆ The company's RoE and RoCE marginally improved to 7.5% and 8.6% in FY2022 versus 7.2% and 8.1% in FY2021, respectively.

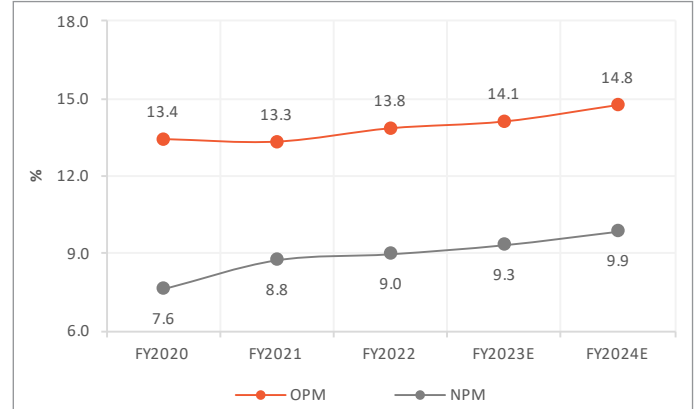
Financials in charts

Steady growth in revenue and PAT



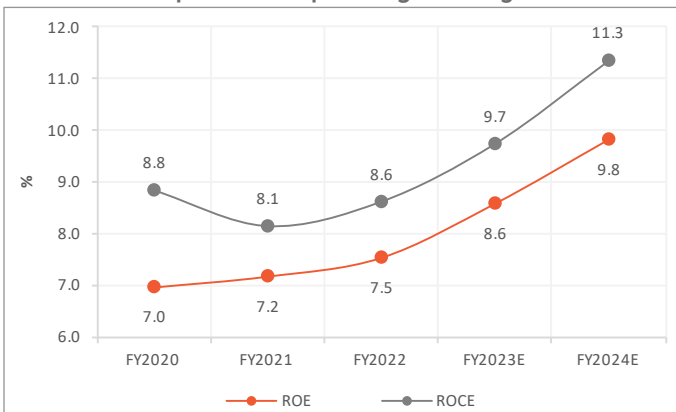
Source: Company, Sharekhan Research

Margins to improve from current levels



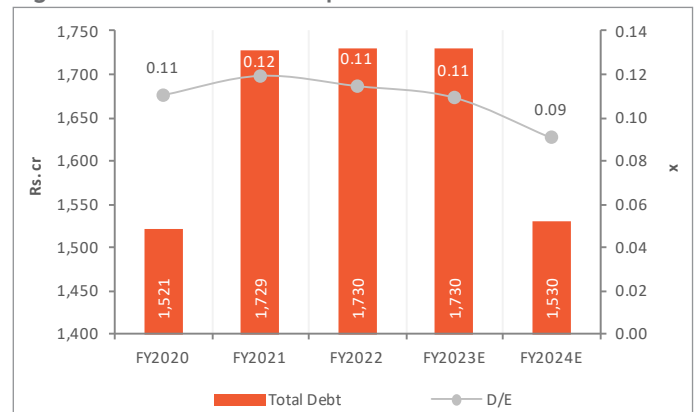
Source: Company, Sharekhan Research

Return ratios expected to improve significantly



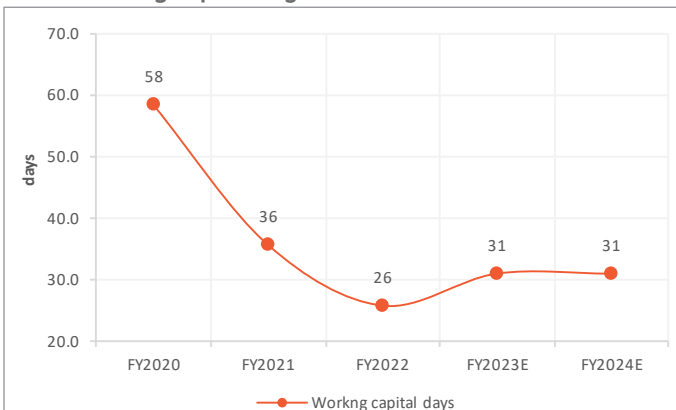
Source: Company, Sharekhan Research

Significant debt reduction expected in FY2024



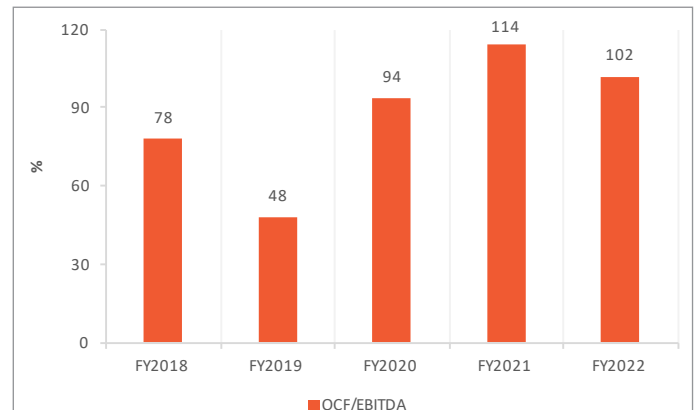
Source: Company, Sharekhan Research

Stable working capital days



Source: Company, Sharekhan Research

Trend in OCF/EBITDA



Source: Company, Sharekhan Research

## Outlook and Valuation

### ■ Sector View – Despite near-term weakness; Long-term growth prospects intact

Slowdown in rural demand, consumer inflation, and weakness in overall consumer sentiments will continue to affect overall consumption in the coming quarters. Intense summer season might push demand for summer products during the quarter. However, overall demand is expected to remain subdued. Revenue growth will largely be driven by price increases undertaken in the respective portfolio to mitigate input cost inflation for the next 2-3 quarters. Global uncertainties will lead to volatile commodity prices. Commodity inflation is expected to settle in the next 6-8 months. Thus, margin pressure is likely to sustain in the near term. Better monsoons will play a major role in regaining momentum in rural demand and help in cooling off agri-commodity inflation. Though near-term headwinds will have a toll on the performance of consumer goods companies, long-term growth prospects remain intact. Low penetration levels in key categories (especially in rural India), lower per capita consumption as compared to other countries, a large shift to branded products, and emergence of new channels such as e-Commerce/D2C provide a number of opportunities for achieving sustainable growth in the medium to long run.

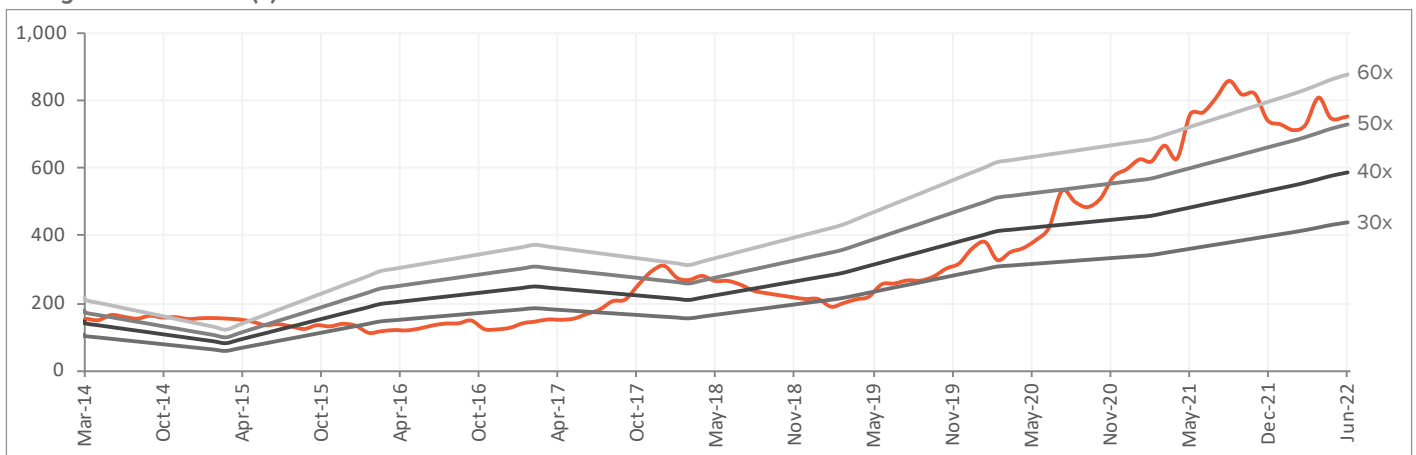
### ■ Company Outlook – Correcting tea prices augur well for margins

Expansion of distribution network and sustained share gains would help sales volume of the domestic tea business to improve to mid to-high single digit in the medium to long term. Sustained product launches will drive the foods business' growth, shift to branded products, and distribution expansion. Base of the international business has normalised and with demand improving in most markets, business revenue growth trajectory will improve in the quarters ahead. Raw tea prices have corrected from their high and will ease out gross margin pressure despite higher fuel and packaging cost. The company is banking on operating efficiencies and mix to post better margins in the quarters ahead.

### ■ Valuation – Retain Buy with an unchanged PT of Rs. 960

TCPL is focusing on enhancing shareholders' value by simplifying its structure and unlocking significant financial value while generating consistent earnings growth focusing on its six-pillar growth strategy. Strong cash flows will be utilised for organic and inorganic initiatives to strengthen the key growth pillars in the coming year. With strategies in place, TCPL is well poised to achieve double-digit revenue and PAT CAGR of 15% and 20%, respectively, over FY2022-FY2024. The stock is currently trading at 53.1x and 43.6x its FY2023E and FY2024E EPS. We maintain our Buy recommendation on the stock with an unchanged PT of Rs. 960.

#### One-year forward P/E (x) band



Source: Sharekhan Research

#### Peer Comparison

Particulars	P/E (x)			EV/EBIDTA (x)			RoCE (%)		
	FY22	FY23E	FY24E	FY22	FY23E	FY24E	FY22	FY23E	FY24E
Hindustan Unilever	57.1	52.2	43.4	39.9	36.6	30.4	23.8	26.2	30.8
Nestle India*	77.9	69.9	64.3	50.2	45.0	42.5	136.4	138.3	129.2
Tata Consumer Products	64.5	53.1	43.6	38.6	32.9	27.1	8.6	9.7	11.3

Source: Company, Sharekhan estimates \*Nestle is a calendar year ending company

## About company

TCPL is a focused consumer products company uniting the principal food and beverage interests of the Tata Group under one umbrella. The company's product portfolio includes tea, coffee, water, salt, pulses, spices, ready-to-cook and ready-to-eat offerings, breakfast cereals, snacks, and mini meals. TCPL is the second largest branded tea company in the world. The company's key beverage brands include Tata Tea, Tetley, Eight O'Clock Coffee, Tata Coffee Grand, Himalayan Natural Mineral Water, Tata Water Plus and Tata Gluco Plus. The company's foods portfolio includes brands such as Tata Salt, Tata Sampann, Tata Soulfull, and Tata Q. In India, TCPL has a reach of over 200 million households. The company has a consolidated annual turnover of ~Rs. 12,400 crore with operations in India and International markets.

## Investment theme

After the integration of TCL's consumer business with TGBL, India business is expected to become a key revenue driver for the company. Rising per capita income, increasing brand awareness, increased in-house consumption, and consumption through modern channels such as large retail stores/e-commerce would act as key revenue drivers for branded pulses and spices businesses in India in addition to the consistently growing tea business. Along with margin expansion, innovation, and diversification, the merger will help TCPL to expand its distribution network. An enhanced product portfolio and expanded distribution reach would help India business revenue to grow in double digits in the next two-three years as against a 5% CAGR over FY2016-FY2020.

## Key Risks

Sustained slowdown in domestic consumption; heightened competition from new players; and spike in key input prices would act as key risks to our earnings estimates in the near term.

## Additional Data

### Key management personnel

N. Chandrasekaran	Chairman
Sunil D'Souza	Managing Director and CEO
L. Krishna Kumar	Executive Director and Group CFO
John Jacob	Chief Finance Officer
Neelabja Chakrabarty	Company Secretary

Source: Company Website

### Top 10 shareholders

Sr. No.	Holder Name	Holding (%)
1	First State Investment ICVC	4.7
2	Life Insurance Corp of India	3.4
3	Blackrock Inc.	3.2
4	Vanguard Group Inc.	2.1
5	Norges Bank	2.1
6	Government Pension	2.1
7	Goldman Sachs Group Inc.	1.6
8	SBI Funds Management	1.2
9	Baron Capital Inc.	0.8
10	Dimensional Fund Advisors	0.7

Source: Bloomberg (old data)

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## Understanding the Sharekhan 3R Matrix

Right Sector	
Positive	Strong industry fundamentals (favorable demand-supply scenario, consistent industry growth), increasing investments, higher entry barrier, and favorable government policies
Neutral	Stagnancy in the industry growth due to macro factors and lower incremental investments by Government/private companies
Negative	Unable to recover from low in the stable economic environment, adverse government policies affecting the business fundamentals and global challenges (currency headwinds and unfavorable policies implemented by global industrial institutions) and any significant increase in commodity prices affecting profitability.
Right Quality	
Positive	Sector leader, Strong management bandwidth, Strong financial track-record, Healthy Balance sheet/cash flows, differentiated product/service portfolio and Good corporate governance.
Neutral	Macro slowdown affecting near term growth profile, Untoward events such as natural calamities resulting in near term uncertainty, Company specific events such as factory shutdown, lack of positive triggers/events in near term, raw material price movement turning unfavourable
Negative	Weakening growth trend led by led by external/internal factors, reshuffling of key management personal, questionable corporate governance, high commodity prices/weak realisation environment resulting in margin pressure and deteriorating balance sheet
Right Valuation	
Positive	Strong earnings growth expectation and improving return ratios but valuations are trading at discount to industry leaders/historical average multiples, Expansion in valuation multiple due to expected outperformance amongst its peers and Industry up-cycle with conducive business environment.
Neutral	Trading at par to historical valuations and having limited scope of expansion in valuation multiples.
Negative	Trading at premium valuations but earnings outlook are weak; Emergence of roadblocks such as corporate governance issue, adverse government policies and bleak global macro environment etc warranting for lower than historical valuation multiple.

Source: Sharekhan Research

# Sharekhan

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