

## Premium trend in foods, new forays to scale up sales

**About the stock:** Tata Consumer Products (TCPL) is one of the major FMCG companies present in tea, coffee & other beverages in India, UK, US, Canada & some other geographies. In India, it also has salt, pulses, spices & other foods products. Its subsidiary NourishCo is present in packaged water & other beverages. The company is in a JV with Starbucks, which has 268 stores in India.

- The company has 2000+ distribution directly reaching 1.3 million outlets in India. This will be increased to 1.5 million outlets by March 2023
- TCPL also increased its rural/ semi urban distributors 4x to 8000+ after the consolidation of consumer business

**Q4FY22 Results:** TCPL posted strong results with 74.3% earnings growth.

- Sales were up 4.5% YoY aided by foods business & international beverage
- EBITDA was at ₹ 444.3 crore, up 48% YoY, with margins at 14.0%
- Consequent PAT was at ₹ 239.1 crore (up 74.3% YoY)

**What should investors do?** TCPL's share price has moved up 5.1x in the last five years (from ₹ 152 in May 2017 to 776 in May 2022).

- We continue to remain positive on TCPL's strategy of driving premium trend in foods business & foray in large opportunity size categories
- We maintain our **BUY** rating on the stock

**Target Price and Valuation:** We value the stock at ₹ 910 on ascribing 52x FY24 earnings multiple.

### Key triggers for future price performance:

- TCPL would continue to witness strong margins improvement with dip in tea procurement prices
- Strong innovation & premiumisation strategy in Salt, Tea, Sampann & Soulful in Indian market expected to drive sales & margins
- Starbucks is witnessing strong growth with significant improvement in operating margins. Likely to drive profitability

**Alternate Stock Idea:** We also like Dabur in our FMCG coverage.

- Significant shift in consumption towards healthier, natural & Ayurveda based products & aggressively foray in many big categories would be driving growth for Dabur
- Value the business at 52x FY24 earnings. BUY with a TP of ₹ 680

### TATA CONSUMER PRODUCTS

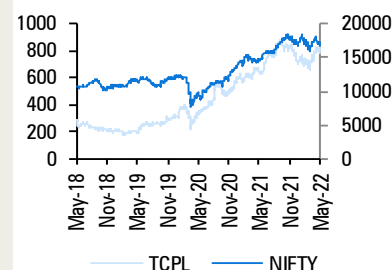
#### Particulars

Particulars (₹ crore)	Amount
Market Capitalization	71,514.2
Total Debt (FY22)	1,454.6
Cash and Investments (FY22)	2,797.9
EV	70,170.9
52 week H/L (₹)	889 / 614
Equity capital	92.2
Face value (₹)	1.0

#### Shareholding pattern

(in %)	Jun-21	Sep-21	Dec-21	Mar-22
Promoter	34.7	34.7	34.7	34.7
FII	25.0	25.9	25.6	25.4
DII	7.4	13.3	13.2	13.7
Others	32.9	26.1	26.5	26.2

#### Price Chart



#### Recent event & key risks

- TCPL gained market share by 100 bps & 400 bps in tea & salt, respectively, aided by new launches in last one year
- **Key Risk:** (i) Slower volume growth in India due to adverse consumer sentiment (ii) High competitive intensity

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### Key Financial Summary

Key Financials	FY20	FY21	FY22	5 Year CAGR (FY17 - FY22)	FY23E	FY24E	CAGR (FY22-24E)
Net Sales	9637.4	11602.0	12425.4	12.9%	13633.9	14954.4	9.7%
EBITDA	1292.2	1543.8	1718.8	16.8%	2120.5	2406.9	18.3%
EBITDA Margin %	13.4	13.3	13.8		15.6	16.1	
Adjusted Net Profit	641.8	932.6	1015.2	17.4%	1379.7	1610.7	26.0%
EPS (₹)	5.0	10.1	11.0	8.9%	15.0	17.5	26.0%
P/E	155.4	76.9	70.4		51.8	44.4	
RoNW %	4.6	6.4	7.0		8.8	9.8	
RoCE (%)	6.9	8.0	8.4		10.3	11.3	

Source: Company, ICICI Direct Research

## Key takeaways of recent quarter

### Q4FY22 Results: Margins regained; strong growth in Sampann, premium salt, coffee & tea portfolio

- Revenue witnessed growth of 4.5% to ₹ 3175.4 crore on account of cut in tea prices & strong growth in foods business. Tea procurement prices in North India were down 15% YoY. India beverage business de-grew 1% due to price cuts in tea. However, volumes were up by 3%
- India foods business witnessed growth of 19% with 1% volume decline. The volumes dipped due to high growth in base quarter. Further, the company has increase salt prices by ~20% to ₹ 25/kg mainly due to increase in grinding process prices. Also, energy costs have gone up sharply last quarter
- US coffee sales growth inched up 13% led by 3% volume growth on a low base. On a full year basis, sales were flat with 4% volume decline. Similarly, international tea saw 3% sales growth led by 5% volume growth during the quarter. On a full year basis, revenue increased 1% with 3% volume de-growth. International tea & coffee business is growing at a dismal pace for the last many years
- Tata Coffee saw 8% revenue growth & 8% volume decline. However, on an annual basis, the business grew 11% led by 19% growth in extraction business. Plantation business saw 3% sales decline due to lower tea outputs. This was partially off-set by growth in coffee & pepper plantation
- In the last two years, the company has been able to increase its direct reach from 0.6 million retail outlets to 1.3 million retail outlets. It would further expand the direct reach to 1.5 million outlets by March-2023. Also, its overall reach (direct + indirect) has increased from 1.3 million to 2.7 million outlets. The company is well set to achieve its target of total reach of 4.0 million outlets by September 2023
- E-commerce channel sales contributed 7.3% to sales in FY22 against 2.5% in FY20. E-commerce market share for tea is 41.9% ahead of competition & modern trade business saw 30% growth YoY, crossed ₹1000 crore sales for the year
- The company increased its India business advertisement spends by 29%. Tea brands gained market share by 100 bps & salt brands gained market share by 400 bps. TCPL holds 38% market share in salt
- TCPL is driving premiumisation trend, which is reflected in 28% growth in Sampann, 26% growth in valued added salts & 45% growth in coffee brands (relatively smaller business. The sales contribution from new launches (innovation) has increased to 2x in last one year
- The opportunity for India tea for exports is limited due to crisis in Sri-Lanka given latter is largely producing orthodox tea. The company does not see tea prices increasing due to global factors. However, good rains are essential for tea production & benign procurement prices
- Gross margins for NourishCo are similar to tea business. Further, with the possibility of Scale up, NourishCo brands can be margin accretive.
- TCPL has entered dry-fruits, poha & other categories under Sampann brand with large growth potential. The company expect healthy growth in the brand outpacing overall company growth
- Starbucks was EBITDA positive during the quarter. The company added 23 & 50 new stores in Q4 & FY22 taking total stores to 268. It was 32% & 76% revenue growth in Q4 & FY22, respectively

- With the steep decline in tea procurement prices, gross margins expanded 539 bps. The company maintained its advertisement spend at 7.1% of the sales. Further overhead spends were up by 175 bps given the company undertook cost rationalisation measures in base quarter. This led to 48% growth in operating profit to ₹ 444.3 crore. Operating margins expanded by 411 bps to 14%. India business segment margin saw 560 bps uptick due to considerable decline in tea prices. International business segment margins were up ~200 bps
- With the sharp increase in operating profit, stable interest cost, depreciation provisioning & high exceptional expense in base quarter, Net profit saw an increase of 74.3% to ₹ 239.1 crore. Loss from associate dipped from ₹ 59 crore to ₹ 50.2 crore in Q4FY22. We believe scale up of Starbucks stores & recovery from Covid impacted base has resulted in reduction in losses
- The company has announced final dividend of ₹ 6.05 / share for FY22

**Exhibit 1: Peer Comparison**

Sector / Company	CMP (₹)	TP (₹)	Rating	M Cap (₹ Cr)	Sales growth (%)			EBITDA Margins (%)			P/E(x)			RoE (%)			RoCE (%)		
					FY22E	FY23E	FY24E	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E
Hindustan Unilever (HINLEV)	2167	2200	Hold	503770	11.3	9.8	7.5	24.8	24.3	24.7	57.1	54.3	49.1	18.1	19.1	21.2	20.2	21.9	24.2
Varun Beverage (VARBEV)	1099	1300	Buy	45860	36.8	26.2	0.0	18.75	20.32	20.39	61.47	40.92	34.94	18.29	22.78	23	17.15	25.65	29.7
Nestle (NESIND)	17604	19050	Hold	175243	10.2	10.2	0.0	24.4	23.2	0.0	75.5	71.9	62.3	111.3	110.4	111.8	58.7	58.8	62.9
Tata Consumer (TATGLO)	776	910	Buy	71514	7.1	9.7	9.7	13.8	15.6	16.1	70.4	51.8	44.4	7.0	8.8	9.8	8.4	10.3	11.3

Source: Company, ICICI Direct Research

Tata Consumer is the only FMCG company witnessing benign raw material cost scenario with 15% YoY decline in tea prices. Moreover, its foods business is getting strong traction led by under-penetrated packaged pulses category. Further, its drive to premiumise salt category is also fetching good results with various new launches at premium prices. It is important to note that India business now contributes 70% to the revenue from less than 50% before the acquisition of foods business. We believe the company has many levers to scale up its existing & newly ventured categories. Further, drive towards premiumisation is likely to result in continuous expansion in operating margins. Its Starbucks JV is also likely to boost the overall profitability in the longer run given it has become profitable at operating level. We remain positive on both revenue growth & margins expansion possibilities. We maintain our BUY recommendation on the stock with the target price of ₹ 910/share

Exhibit 2: Variance Analysis

	Q4FY22	Q4FY22E	Q4FY21	YoY (%)	Q3FY22	QoQ (%)	Comments
Net Sales	3,175.4	3,158.7	3,037.2	4.5	3,208.4	-1.0	Net sales grew by 4.5% led by high pricing growth in India foods & International business. However, India beverage business saw dip due to cut in tea prices
Raw Material Expenses	1,758.7	1,781.8	1,846.0	-4.7	1,806.6	-2.7	Gross margins expanded by 539 bps on account of benign tea procurement prices in India
Employee Expenses	268.0	278.0	270.2	-0.8	258.9	3.5	
SG&A Expenses	225.6	243.4	216.4	4.2	245.3	-8.1	
Other operating Expenses	478.8	413.1	404.4	18.4	435.9	9.8	Overhead spends was higher due to ramping up of Sampann brand, expansion of soulfull distribution, increase in digital infrastructure & general inflation
EBITDA	444.3	442.4	300.2	48.0	461.7	-3.8	
EBITDA Margin (%)	14.0	14.0	9.9	411 bps	14.4	-40 bps	Operating margins was up by 411 bps driven by gross margins expansion
Depreciation	72.1	41.0	65.9	9.5	69.8	3.3	
Interest	16.4	15.3	15.5	6.2	16.2	1.5	
Other Income	47.4	34.8	43.0	10.3	25.0	89.3	
Exceptional Expense/(Income)	18.7	0.0	63.9	NA	13.2	NA	
PBT	384.6	420.8	197.9	94.3	387.6	-0.8	
Tax Outgo	95.3	115.0	64.6	47.6	99.9	-4.6	
PAT before MI	289.2	305.9	133.3	116.9	287.7	0.5	
Profit from Associates	-50.2	-61.9	-59.0	NC	2.4	NC	losses from associates have come down with improvement in starbucks performance. Q4 is off-season for plantation business
PAT	239.1	243.9	74.3	221.5	290.1	-17.6	
Adj PAT	253.1	243.9	117.4	115.5	299.9	-15.6	The strong growth in profits were aided by higher operating profits

Source: Company, ICICI Direct Research

Exhibit 3: Change in estimates

₹ Crore)	FY23E			FY24E			Comments
	Old	New	% Change	Old	New	% Change	
Sales	13,449.7	13,633.9	1.4	14,758.22	14,954.4	1.3	The small change in revenues estimates due to aggressive price hikes in salt & strong growth in Sampann
EBITDA	2,167.1	2,120.5	-2.2	2,427.4	2,406.9	-0.8	Though, tea prices are favorable for the company, we trip down margin estimates due to incessant inflation in other commodities (crude, salt, energy costs)
EBITDA Mar	16.1	15.6	-56 bps	16.4	16.1	-35 bps	
PAT	1,417.1	1,379.7	-2.6	1,631.0	1,610.7	-1.2	
EPS (₹)	15.4	15.0	-2.6	17.7	17.5	-1.2	

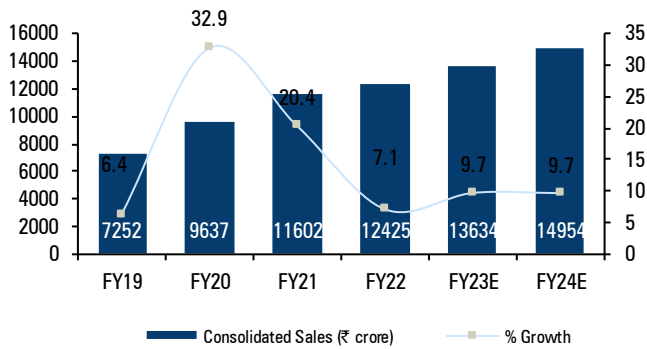
Source: ICICI Direct Research

Exhibit 4: Assumptions

Segmental Revenues (Gross)	FY19	FY20	FY21	FY22	FY23E	FY24E	Earlier		Comment
							FY23E	FY24E	
Tea / India Beverage	3,167.7	3,376.9	4,600.7	5,001.0	5,401.1	5,833.2	5,416.0	5,849.3	Small change in India beverage revenue estimates
Coffee / International Bevergae	3,238.4	3,226.0	3,469.3	3,335.0	3,501.8	3,676.8	3,358.9	3,526.9	
Others	30.2	26.6	13.5	14.1	14.8	15.9	14.8	15.9	
Non-branded	842.5	974.9	1,122.2	1,214.4	1,311.6	1,469.0	1,237.2	1,385.7	
TCL Consumer / India Foods			2,441.7	2,913.0	3,437.3	3,987.3	3,455.5	4,008.4	The marginally increase India Food business numbers
No. of Starbucks stores	146	185	218	268	318	368	260.0	285.0	

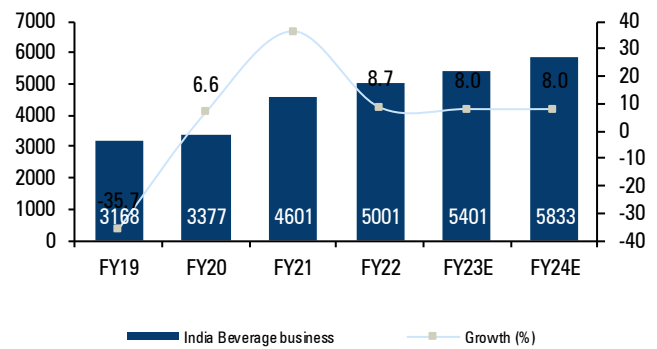
Source: ICICI Direct Research

Exhibit 5: Consolidated revenue to grow at 9.7% in FY22-24E



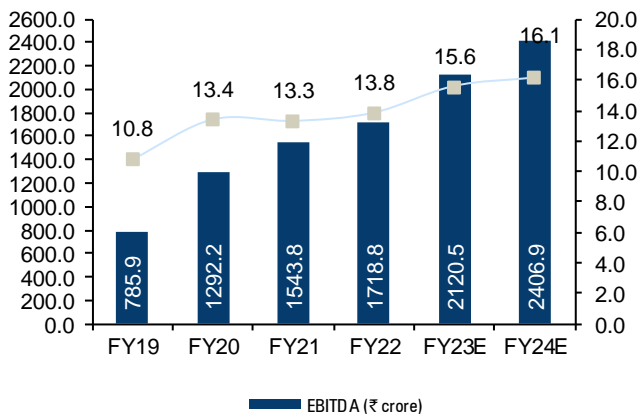
Source: ICICI Direct Research, Company

Exhibit 6: India beverage business sales trend



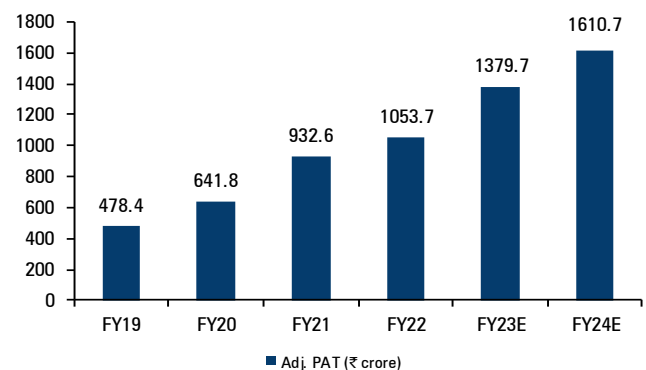
Source: ICICI Direct Research, Company  
\*FY19 onwards segment reporting has changed from tea to India Beverage

Exhibit 7: Operating margins trend (%)



Source: Company, ICICI Direct Research

Exhibit 8: Adjusted PAT growth trends



Source: Company, ICICI Direct Research

Exhibit 9: Valuation

	Sales (₹ cr)	Growth (%)	EPS (₹)	Growth (%)	PE (x)	EV/EBITDA (x)	RoNW (%)	RoCE (%)
FY21	11602.0	20.4	10.1	102.2	76.9	45.5	6.4	8.0
FY22	12425.4	7.1	11.0	9.1	70.4	41.3	7.0	8.4
FY23E	13633.9	9.7	15.0	35.9	51.8	32.6	8.8	10.3
FY24E	14954.4	9.7	17.5	16.7	44.4	28.5	9.8	11.3

Source: Company, ICICI Direct Research

## Financial Summary

Exhibit 10: Profit and loss statement					₹ crore
(Year-end March)	FY21	FY22	FY23E	FY24E	
<b>Total Operating Income</b>	<b>11602.0</b>	<b>12425.4</b>	<b>13633.9</b>	<b>14954.4</b>	
Growth (%)	20.4	7.1	9.7	9.7	
Raw Material Expenses	6,902.3	7,084.0	7,686.8	8,277.5	
Employee Expenses	970.2	1,048.0	1,148.0	1,243.5	
Marketing Expenses	726.3	841.0	956.7	1,078.7	
Administrative Expenses	0.0	0.0	0.0	0.0	
Other expenses	1,459.5	1,733.6	1,722.0	1,947.7	
Total Operating Expenditure	10,058.3	10,706.6	11,513.4	12,547.4	
<b>EBITDA</b>	<b>1543.8</b>	<b>1718.8</b>	<b>2120.5</b>	<b>2406.9</b>	
Growth (%)	19.5	11.3	23.4	13.5	
Depreciation	254.7	278.0	281.4	285.0	
Interest	68.7	72.8	61.4	57.6	
Other Income	121.4	140.1	147.1	154.4	
PBT	1,341.7	1,508.1	1,924.8	2,218.8	
Exceptional items	-30.7	-52.1	0.0	0.0	
Total Tax	317.3	377.0	500.5	576.9	
<b>PAT</b>	<b>930.5</b>	<b>1015.2</b>	<b>1379.7</b>	<b>1610.7</b>	
Growth (%)	102.2	9.1	35.9	16.7	
EPS (₹)	10.1	11.4	15.0	17.5	

Source: Company, ICICI Direct Research

Exhibit 11: Cash flow statement					₹ crore
(Year-end March)	FY21	FY22	FY23E	FY24E	
Profit/Loss after Tax	1204.6	1220.7	1379.7	1610.7	
Add: Depreciation	254.7	278.0	281.4	285.0	
Add: Interest	68.7	72.8	61.4	57.6	
(Inc)/dec in Current Assets	-347.3	-149.7	-413.5	-586.1	
Inc/(dec) in Current Liabilities	530.7	152.0	-968.8	213.4	
<b>CF from operating activities</b>	<b>1656.4</b>	<b>1515.8</b>	<b>340.2</b>	<b>1580.6</b>	
(Inc)/dec in Investments	-55.3	-86.0	-12.4	-12.8	
(Inc)/dec in Fixed Assets	-179.2	-246.1	-2,933.9	-100.0	
Others	-173.9	-989.8	5,169.2	42.3	
<b>CF from investing activities</b>	<b>-408.4</b>	<b>-1321.8</b>	<b>2222.9</b>	<b>-70.6</b>	
Issue/(Buy back) of Equity	0.0	0.0	0.0	0.0	
Inc/(dec) in loan funds	-369.7	-945.7	-40.0	-40.0	
Dividend paid & dividend tax	-65.4	-62.5	-767.6	-986.9	
Inc/(dec) in Sec. premium	0.0	0.0	0.0	0.0	
Others	9.1	13.4	-61.4	-57.6	
<b>CF from financing activities</b>	<b>-426.0</b>	<b>-994.8</b>	<b>-869.0</b>	<b>-1084.5</b>	
Net Cash flow	821.9	-800.8	1,694.0	425.5	
Opening Cash	889.3	1,773.2	977.1	2,671.1	
<b>Closing Cash</b>	<b>2042.0</b>	<b>1498.0</b>	<b>3192.0</b>	<b>3617.5</b>	

Source: Company, ICICI Direct Research

Exhibit 12: Balance Sheet					₹ crore
(Year-end March)	FY21	FY22E	FY23E	FY24E	
<b>Liabilities</b>					
Equity Capital	92.2	92.2	92.2	92.2	
Reserve and Surplus	14,442.3	15,049.8	15,661.9	16,285.6	
Total Shareholders funds	14,534.5	15,141.9	15,754.0	16,377.8	
Long Term Borrowings	756.9	685.9	645.9	605.9	
Long Term Provisions	192.5	175.6	436.3	478.5	
Other Non-current Liabilities	1677.6	1941.5	1941.5	1941.5	
<b>Total Liabilities</b>	<b>17161.4</b>	<b>17945.0</b>	<b>18777.7</b>	<b>19403.7</b>	
<b>Assets</b>					
Gross Block	7,615.5	7,715.5	7,815.5	7,915.5	
Less: Acc Depreciation	2,727.5	3,005.5	3,286.9	3,571.8	
Net Block	1,642.3	1,876.1	4,528.6	4,343.7	
Capital WIP	112.9	247.0	247.0	247.0	
Goodwill	10380.9	10508.5	5600.0	5600.0	
Non Current Investments	579.5	863.7	876.2	889.0	
LT Loans & Advances/Others	491.7	486.6	486.6	486.6	
<b>Current Assets</b>					
Inventory	2,249.2	2,266.5	3,361.8	3,687.4	
Debtors	761.3	835.2	1,494.1	1,638.8	
Cash	2,042.0	1,498.0	3,192.0	3,617.5	
Loans & Advances	1,541.2	1,959.9	896.5	983.3	
Other Current Assets	116.4	184.3	298.8	327.8	
<b>Current Liabilities</b>					
Creditors	1625.5	1915.9	933.8	1024.3	
Provisions	101.7	73.2	224.1	245.8	
Short Term Borrowings	433.1	768.7	597.7	655.5	
Other CL	934.2	414.8	448.2	491.7	
Net Current Assets	3,954.2	3,963.1	7,039.4	7,837.5	
<b>Total Assets</b>	<b>17161.4</b>	<b>17945.0</b>	<b>18777.7</b>	<b>19403.7</b>	

Source: Company, ICICI Direct Research

Exhibit 13: Key ratios				
(Year-end March)	FY21	FY22	FY23E	FY24E
<b>Per share data (₹)</b>				
EPS	10.1	11.0	15.0	17.5
Cash EPS	12.9	14.0	18.0	20.6
BV	157.7	164.3	171.0	177.7
DPS	4.0	5.5	7.0	9.0
Cash Per Share	22.2	16.3	34.6	39.3
<b>Operating Ratios (%)</b>				
EBITDA Margin	13.3	13.8	15.6	16.1
PBT / Net Sales	11.6	12.1	14.1	14.8
PAT Margin	8.0	8.2	10.1	10.8
Inventory days	70.8	66.6	90.0	90.0
Debtor days	24.0	24.5	40.0	40.0
Creditor days	51.1	56.3	25.0	25.0
<b>Return Ratios (%)</b>				
RoE	6.4	7.0	8.8	9.8
RoCE	8.0	8.4	10.3	11.3
RoIC	18.2	18.0	19.5	21.9
<b>Valuation Ratios (x)</b>				
P/E	76.9	70.4	51.8	44.4
EV / EBITDA	45.5	41.3	32.6	28.5
EV / Net Sales	6.0	5.7	5.1	4.6
Market Cap / Sales	6.2	5.8	5.2	4.8
Price to Book Value	4.9	4.7	4.5	4.4
<b>Solvency Ratios</b>				
Debt/EBITDA	0.8	0.8	0.6	0.5
Debt / Equity	0.1	0.1	0.1	0.1
Current Ratio	1.8	2.2	3.8	3.8
Quick Ratio	0.9	1.2	1.7	1.7

Source: Company, ICICI Direct Research

Exhibit 14: ICICI Direct coverage universe (FMCG)

	CMP	TP	M Cap	EPS (₹)			P/E (x)			Price/Sales (x)			RoCE (%)			RoE (%)			
	(₹)	(₹)		Rating	(₹ Cr)	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E	FY22E	FY23E
Colgate (COLPAL)	1,571	1,575	Hold	37,937	38.5	40.8	45.0	40.8	38.5	35.0	7.4	6.8	6.2	109.6	112.7	116.7	84.9	86.6	89.7
Dabur India (DABIND)	529	680	Buy	93,515	9.9	11.6	13.0	53.7	45.5	40.6	8.6	7.8	7.0	24.9	25.5	26.4	20.8	22.5	22.8
Hindustan Unilever (HINLEV)	2,167	2,200	Hold	503,770	37.5	39.5	43.6	57.7	54.8	49.6	10.0	9.1	8.5	20.2	21.9	24.2	18.1	19.1	21.2
ITC Limited (ITC)	262	260	Hold	287,822	12.6	14.6	16.2	20.9	18.0	16.2	5.0	4.8	4.3	32.4	35.9	38.5	25.0	27.7	29.6
Jyothy Lab (JYOLAB)	153	150	Hold	5,133	4.2	6.2	6.5	36.1	24.6	23.5	2.3	2.2	2.0	19.1	26.6	28.0	16.5	23.1	23.7
Marico (MARLIM)	520	550	Buy	60,768	10.0	11.4	12.3	51.7	45.5	42.1	6.3	5.9	5.5	42.6	47.5	49.1	38.4	41.4	42.7
Nestle (NESIND)	17,604	19,050	Hold	175,243	222.4	252.9	291.6	79.1	69.6	60.4	12.0	10.8	9.8	58.7	58.8	62.9	111.3	110.4	111.8
Tata Consumer Products (TAT)	776	910	Buy	71,514	11.0	15.0	17.5	70.5	51.9	44.4	5.8	5.2	4.8	8.4	10.3	11.3	7.0	8.8	9.8
VST Industries (VSTIND)	3,215	3,425	Hold	4,986	229.3	252.9	290.5	14.0	12.7	11.1	4.2	3.9	3.6	39.2	44.6	50.6	30.0	33.4	37.8
Varun Beverage (VARBEV)	1,099	1,300	Buy	45,860	17.2	25.9	30.3	63.8	42.5	36.3	5.2	4.2	3.8	17.1	25.6	29.7	18.3	22.8	23.0
Zydus Wellness (ZYDWEL)	1,662	2,200	Buy	10,819	51.4	62.6	73.0	32.3	26.6	22.8	5.3	4.8	4.3	6.7	8.0	9.1	6.9	8.3	9.4

Source: Bloomberg, ICICI Direct Research

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Buy: >15%

Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%



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