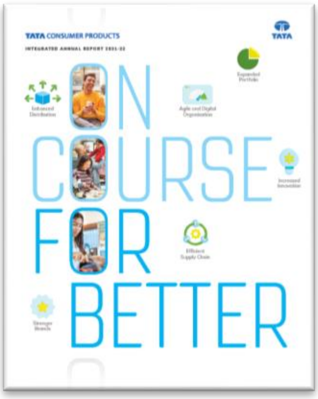
25 June 2022

Annual Report Update | Sector: Consumers

Tata Consumer Products

BSE SENSEX	S&P CNX
52,728	15,699



Stock Info

Bloomberg	TATACONS IN
Equity Shares (m)	922
M.Cap.(INRb)/(USDb)	671.4 / 8.6
52-Week Range (INR)	889 / 651
1, 6, 12 Rel. Per (%)	4/9/-4
12M Avg Val (INR M)	1753
Free float (%)	65.3

Financials Snapshot (INR b)

Y/E MARCH	2022	2023E	2024E
Sales	124.3	137.2	151.9
EBITDA	17.2	21.1	24.3
Adj. PAT	9.7	12.9	16.3
EBITDA Margin (%)	13.8	15.4	16.0
Cons. Adj. EPS (INR)	10.6	13.9	17.1
EPS Gr. (%)	11.8	31.0	23.4
BV/Sh. (INR)	164.3	176.9	190.7
Ratios			
Net D:E	-0.1	-0.1	-0.2
RoE (%)	6.6	8.2	9.4
RoCE (%)	9.0	11.1	12.6
Payout (%)	59.6	43.7	35.4
Valuations			
P/E (x)	68.8	52.5	42.6
EV/EBITDA (x)	38.0	30.7	26.2
Div. Yield (%)	0.8	0.8	0.8
FCF Yield (%)	1.9	1.6	2.1

CMP: INR729 TP: INR900 (+24%) Buy

On course for growth

TATACONS's FY22 annual report focuses on six strategic initiatives identified by the management to strengthen its foundation as a strong consumer products company. These include: 1) accelerating the core business; 2) driving digital and innovation; 3) unlocking synergies; 4) creating a future-ready organization; 5) exploring new opportunities; and 6) embedding sustainability. The key takeaways are:

Laying the groundwork for future growth

- TATACONS has made significant progress on key strategic initiatives laid out to build a focused consumer products company.
- **Strengthening and accelerating the core business:** In FY22, TATACONS expanded into new target markets, launched regional focused packs, unveiled impactful campaigns across multiple platforms, and drove premiumization. It met its direct reach commitment of 1.3m outlets in India by the end of Mar'22. It gained ~100bp/400bp market share in core categories such as Tea/Salt.
- **Drive digital and innovation:** TATACONS's innovation efforts are focused on understanding and pre-empting evolving consumer trends and coming up with high-quality and differentiated products to delight these increasingly discerning consumers. The contribution of innovation to turnover has increased by 2x YoY in FY22. The e-commerce channel performed well, with its share of revenue increasing to 7.3% in FY22 v/s 5.2%/2.5% in FY21/FY20. The management is focused on driving growth in this channel and strengthening its digital market presence.
- **Unlocking synergies:** In FY22, significant steps were taken to improve efficiencies such as the integration of Tata Soulfull and Tata SmartFoodz, merger of Tata Coffee with TATACONS (refer report), and the simplification of the international business. This will yield operational efficiencies in management, legal, and administrative costs, and assist in creating a single listed entity in capturing the full value of the group.
- **Exploring new opportunities:** In FY22, TATACONS entered the Ready-to-Eat (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.

India Food business to be a key growth engine

- Revenue from the India Food business grew 19% YoY to INR29.1b, driven by a 17% increase in the Salt business in FY22, along with strong volume growth of 28% in Tata Sampann. EBIT margin contracted by 650bp to 9.4% (INR2.7b).

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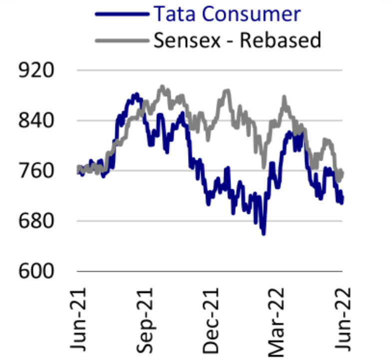
Shareholding pattern (%)

As On	Mar-22	Dec-21	Mar-21
Promoter	34.7	34.7	34.7
DII	13.7	13.4	12.6
FII	25.4	25.7	25.3
Others	26.2	26.2	27.5

FII Includes depository receipts

Stock performance (one-year)



- TATACONS launched several new products in the Food business comprising of Tata Salt, Tata SmartFoodz, and Tata Sampan. It will continue to invest in multiple avenues like product innovation, brand development, and expanding market reach. The TATACONS Food business will act as one of the key growth engines in driving the next phase of its TATACONS growth.
- India's Pulses/Branded Spices market is largely unbranded, with the branded portion in pulses pegged at 1-2%. The Pulses/Spice market is valued at INR1.5t/INR234b. The shift in trend to packaged and branded products from loose is led by increasing awareness for better quality and authentic products. Under the Tata Sampann brand, TATACONS has launched differentiated products across pulses, spices, and RTE segments to garner a higher market share by capitalizing on the 'Tata' brand. In FY22, it launched Tata Salt Immuno, Tata Shuddh, Tata Salt SuperLite, Shuddh by Tata Salt, Tata Sampann Dry Fruits, Tata Sampann Rice masala, and Tata Sampann Dal Tadka Masala.
- The Indian Branded Salt market is estimated at INR69b. Tata Salt recorded an 8%/17% growth in volume/value terms in FY22. Overall, the Premium Salts portfolio grew 27% in FY22. The company strengthened its leadership in the Salt category by raising its market share by 400bp to 37%. It also doubled its direct reach in FY22.

India Beverage business to grow through new avenues

- The branded Tea market in India grew by ~15% in FY22, driven by price inflation in CY20 due to pandemic-led disruption such as supply-chain constraints. India's total Branded Tea market is currently valued ~INR273b and is dominated by organized players, with ~70% market share (in value terms).
- Revenue grew 6.5% YoY v/s 30% in FY21. Volumes grew 3% YoY in FY22. EBIT margin for India Beverages rose 530bp in FY22. Its market/volume share in the Tea category was up ~100bp/154bp YoY to 22.2%/22%. The company maintained its numero uno position in the e-commerce channel.
- TATACONS recorded the highest volume growth in Tata Tea premium in over a decade. It saw market share gains in Chakra Gold franchise in Tamil Nadu.
- It relaunched Tata Tea Agni Masterbrand and continued its hyperlocal brand-building strategy for key brands in its portfolio.

Stable performance by International Beverages business

- The international business registered a 5% revenue decline to INR33.4b in FY22 (1% like-for-like growth, net of exits in the international Food Service business; but down 2% in constant currency terms). The business saw a 110bp YoY improvement in margin due to restructuring (portfolio exits from non-Branded and unprofitable markets and change in the distributor model in Europe and Australia) and strategic price increases to offset the inflationary pressures in input cost.
- Revenue from the US Coffee business remained flat YoY in FY22. Despite the unprecedented inflation in coffee prices in FY22, EBIT for Eight O'clock Coffee grew YoY on account of hedging and a price hike.
- Revenue from the UK business declined by 3% YoY, however revenue from Teapigs and Good Earth grew 8% and PAT grew 13% to INR1.4b in FY22.
- Its Canadian business posted a YoY revenue decline of 7% (in constant currency terms) in FY22. The e-commerce channel performed well in FY22 and delivered double-digit growth. The company was able to maintain a strong market share in Mar'22 in its Canadian business.

Strong cash generation offers headroom to achieve its growth objectives

- Working capital days improved to 35 days in FY22 v/s 44 days in FY21, led by a decline in inventory days (by four days), but was aided by the stretching of payables by five days. TATACONS has been investing in business planning through digitization, demand, and supply optimization, which led to inventory optimization.
- Five-year average CFO/EBITDA stood at 70% over FY18-22. On the back of strong cash generation, CFO/EBITDA came in at 88% in FY22 (v/s 107% in FY21).
- TATACONS maintained a capex run-rate of INR2.1b/INR2.6b over the last 10/five years.
- Net cash decreased to INR17.9b in FY22 (v/s a net cash of INR26.8b in FY21). Gross debt-to-equity ratio stood at 0.07x in FY22 (v/s 0.05x/0.22x in FY21/FY16), thus granting TATACONS enough headroom to carry out various expansions and branding activities for its newly diversified product portfolio, along with its existing basket of products.

Valuation and view

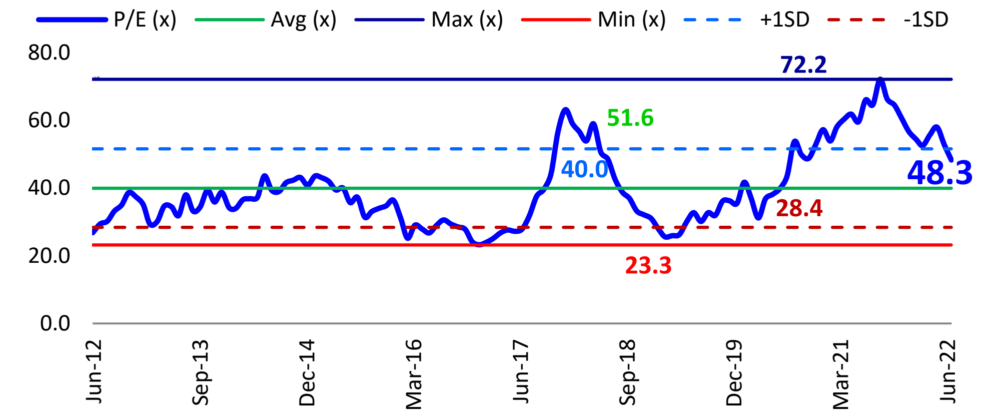
- TATACONS's holistic strategy aims at transforming by: i) strengthening and accelerating its core business, ii) exploring new opportunities, iii) unlocking synergies, iv) digitization of the supply chain, v) expansion of its product portfolio and innovation, vi) enhancing its focus on premiumization and health and wellness products, vii) embed sustainability, and viii) expanding its sales and distribution infrastructure, supply chain, and capability building towards being a multi-category FMCG player.
- The unlocking of sales and distribution synergies from the merger of group companies has started to yield results. This is evident from the market share increase in Tea (+100bp YoY) and Salt (+400bp YoY) as of Mar'22, backed by an increase in numeric distribution. The company is establishing a strong S&D channel, which will act as a key growth driver.
- TATACONS is building Tata Sampann, which is their Pantry category. This should grow in high double-digits by capturing market share from unorganized players via an increase in distribution reach and product launches.
- We expect a revenue/EBITDA/PAT CAGR of 11%/19%/29% over FY22-24 and arrive at an FY24E SoTP-based TP of INR900/share. We maintain our Buy rating.

Exhibit 1: Valuation table

EV/EBITDA ratio	FY24E EBITDA	Multiple (x)	EV
India Tea (TATACONS standalone)	9,672	41	4,01,018
Coffee – India (excluding Starbucks)	931	11	10,240
Coffee – Overseas	4,047	14	57,065
Consumer (Salt and others)	7,116	41	2,95,153
Overseas Tea (Tetley UK)	2,498	13	32,469
DCF			
Starbucks JV			26,816
Enterprise value			**8,22,761**
Less: Net debt			-34,736
Market value (INR m)			**8,57,497**
Number of shares (m)			953
Target price (INR)			**900**

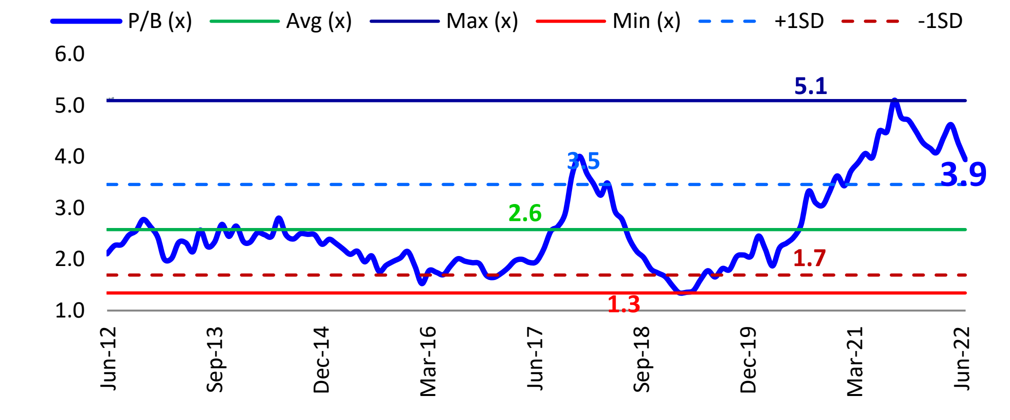
Source: MOFSL

Exhibit 2: One-year forward P/E ratio (x)



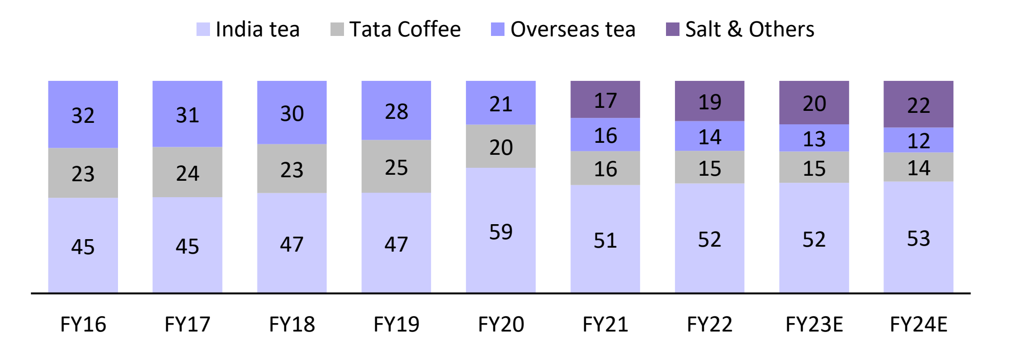
Source: Company, MOFSL

Exhibit 3: One-year forward P/B ratio (x)



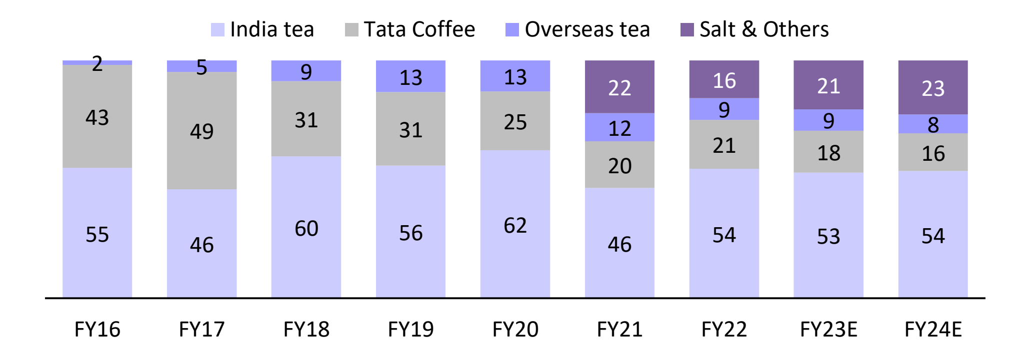
Source: Company, MOFSL

Exhibit 4: Consolidated revenue mix (%)



Source: Company, MOFSL

Exhibit 5: Consolidated EBITDA mix (%)



Source: Company, MOFSL

Investment opportunities

- The organized Indian Food and Beverages market is estimated ~INR5t and is expected to grow at 10-15% over the next five years as the underlying drivers remain robust, including India's attractive demographic profile, rising consumer affluence, increasing penetration, and organized share. The industry has been facing inflationary concerns due to global supply disruptions caused by the pandemic and the war between Russia and Ukraine. This has resulted in significant price hikes in recent months.
- The total Indian Tea market is estimated to be worth ~INR273b, with the branded business constituting ~70% (i.e. ~INR190b) of the overall market. The branded market grew by ~15% in FY22, driven by price inflation in CY20 due to pandemic-led disruption such as supply-chain constraints. Growth is visible across all tiers through upgradation to packaged from loose branded tea and the upward shift to premium and super premium teas. The emerging channels of modern trade and e-commerce are gaining significance.
- The Branded Coffee market is estimated ~INR260b. Instant Coffee is the largest sub-segment, constituting 80-85% of the category. Emerging artisanal and gourmet premium coffees are estimated to be ~5% of the organized market.
- The Indian Branded Salt market is estimated ~INR69b. TATACONS has a vast presence in the mass to premium categories of salt. It is one of the key beneficiaries of a consumer shift to packaged and branded iodized salt from loose and unbranded salt, along with a shift to regional and national brands from local brands.
- The India Packaged Water market is estimated ~INR180b. The segment was adversely impacted by the pandemic, but has seen a recovery with the gradual normalization of out-of-home activity.
- The Indian Packaged Staples industry is under-penetrated, with a significant portion of the category still remaining unbranded. The emphasis on overall health and well-being is driving the conversion to branded from loose and unorganized products.
- India is the largest producer (~25% of global production) and consumer (27% of global consumption) of pulses. The Indian Pulses and Derivatives industry is estimated to be over INR1,5t, with only 1-2% of the segment being branded. The industry is growing by ~10%, with a high penetration of loose and unbranded products. The trend towards migration from loose to packaged pulses and besan (chickpea flour) was fueled by increasing consumer awareness and preference for better quality packaged products, the launch of differentiated products (Tata Sampann unpolished dals and organic range of pulses), and growth in the number of organized players entering the category.
- The Indian branded Spice market is pegged ~INR234b. It is a highly cluttered market, driven by regional taste preferences. Straight/Pures constitute a significant share of this market, with competition from loose players, while blended spices are mainly branded with a loyal consumer base, driven by higher convenience and certainty of taste.
- The Snacks (excluding Confectionery) market is estimated ~INR810b, with a higher share of branded players. As consumers look at diversifying taste choices, including healthier food and convenience in multiple mini-meals, TATACONS stands to benefit. The Breakfast Cereals (muesli) market is estimated ~INR2b, mostly dominated by a single player in the branded market. In recent years, new players like Soulfull entered the category and are growing the overall base.

Exhibit 6: Diversified product assortment

Source: Company, MOFSL

Key highlights from the desk of Mr. N. Chandrasekaran, its Chairman

- The management is investing in its keys building blocks: expanding distribution significantly, accelerating the pace of innovation, redesigning the supply network, and driving digital transformation across the value chain.
- The integration of acquisitions made in FY21 has strengthened its product portfolio, with the addition of ready-to-eat products. There have also been several launches across the Food and Beverages portfolio, catering to a larger addressable market.
- Restructuring initiatives are being undertaken in India and in international markets to streamline and simplify the business, to make it be more agile and efficient, and unlock its full potential.
- TATACONS recently announced a reorganization plan to combine Tata Coffee's business into TATACONS, which will bring similar businesses in the two companies together, create dedicated verticals to drive focus, and result in revenue synergies and operational efficiencies.

Key highlights from the desk of Mr. Sunil D'Souza, its MD and CEO

- Despite a challenging year, led by the COVID-19 pandemic, global inflationary scenario, and supply chain disruption, the company was able to gain market share in its core businesses, while accelerating its growth businesses. It continued to innovate and expand into new categories.
- The management is investing in growth businesses (such as Nourishco, Tata Sampann, Tata Soulfull, and Tata Q) to grow them further. It continued to premiumize the portfolio. For instance, value-added salts continued to outpace the growth in base salt.
- New businesses clocked strong growth over the past year. It entered the Dry Fruits category under Sampann as part of its premiumization effort. Under the Ready-to-drink (RTD) Beverages business, i.e. NourishCo, revenue grew 83%, led by an 80% expansion in distribution and strong offtake across brands. TATACONS added Tata Soulfull to its portfolio to address the growing consumer need for health and wellness.
- TATACONS remains focused on capturing the shift in consumer trends, led by rising disposable incomes, increasing urbanization, and democratization of the internet. This, in turn, has led to higher awareness levels, with consumers seeking better quality and trusted brands.
- It is strengthening its core businesses of Salt and Tea by expanding distribution, investing in brands, accelerating innovation, and driving premiumization across

categories. Its India A&P investments grew 29% in FY22. There was significant growth in value-added variants in Tea and Salt. TATACONS continued to innovate, with the contribution of innovation to sales growing 2x YoY.

- TATACONS acquired Tata SmartFoodz to foray into the value added, fast growing, Ready-to-Eat (RTE) category. The company is reorganizing its businesses to simplify the structure, reduce the number of legal entities, create focused verticals, and unlock significant financial value in the process.
- The management remains positive, despite the short-term macro challenges. It has a plethora of initiatives in place to drive growth and create efficiencies that can enable cost optimizations. The company will continue to focus on simplifying both the India and International businesses.

Acquisition of Tata Q

- TATACONS acquired Tata SmartFoodz – the owner of brand Tata Q – for INR3.95b. This enabled the company to enter into the RTE segment to expand its portfolio.
- The RTE category grew significantly during the pandemic and is expected to benefit from rapid urbanization, higher disposable income, and consumers seeking convenience, variety, and hygiene.

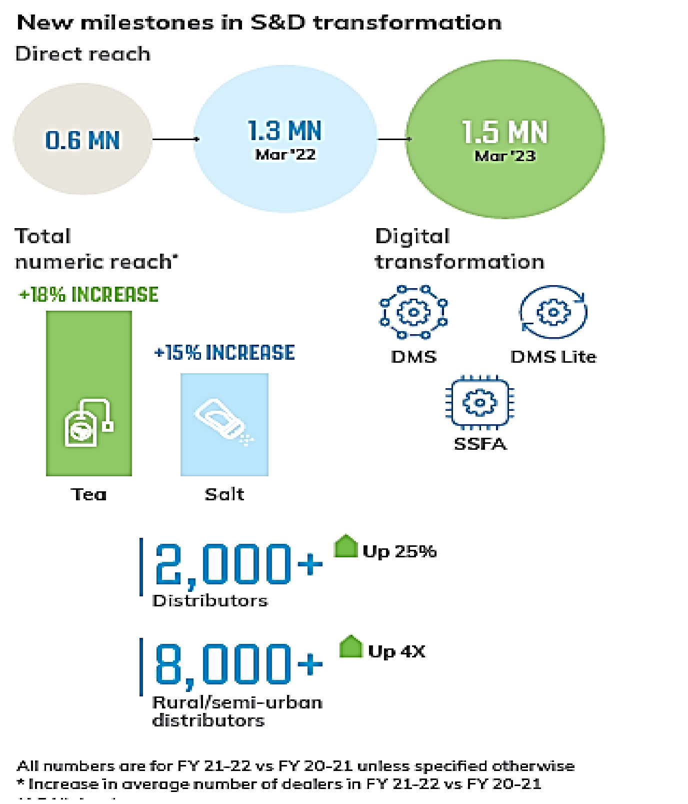
Streamlining its core business

- In FY22, the Plantations business of Tata Coffee (TCL) was demerged into TATACONSL Beverages & Foods (TBFL), a newly formed wholly-owned subsidiary of TATACONS.
- The second part of the restructuring was the merger of the remaining business of TCL, comprising its Extraction and Branded Coffee businesses, with TATACONS.

Robust distribution network

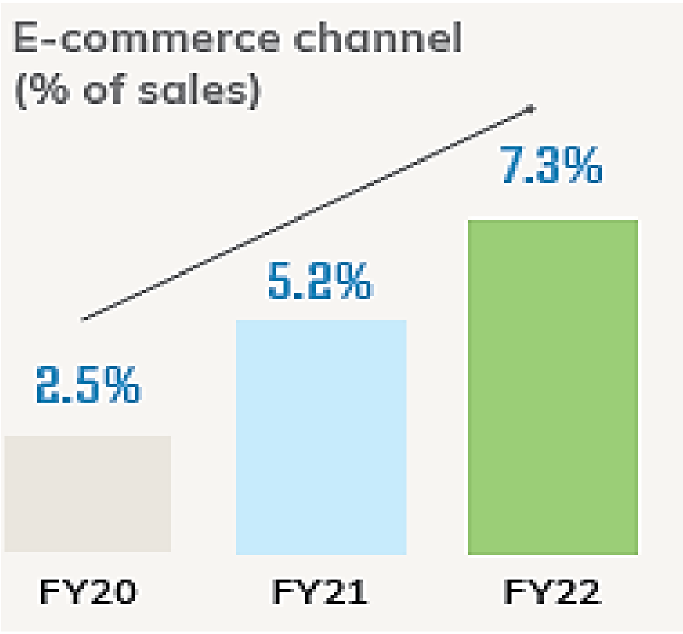
- The company was able to expand its S&D network to 1.3m outlets in direct reach, and also deployed a dedicated sales force to the premium portfolio.
- It increased the number of rural/semi-urban distributors by 4x to expand its reach beyond the metros and urban centers. TATACONS has been able to reach over 201m households in India and distribute to over 2.6m outlets.
- It expanded its distribution footprint to increase its direct distribution reach to ~2x, led by efficient planning. It added over 8,000 rural/semi-urban distributors in FY22. TATACONS also started a premium distributor sales representative program to focus on the premium portfolio and on newer brands like Tata Sampann, Tetley, Tata Coffee, Tata Soulfull, and Tata Q.
- The management aims to enhance its direct reach to 1.5m in Mar'23 from 1.3m in Mar'22. Tea/Salt saw its numeric reach increase by 18%/15% in FY22.
- As a percentage of sales, the share of e-commerce increased to 7.3% in FY22 (from 2.5%/5.2% in FY20/FY21), while the modern business has grown 30%, crossing the INR10b mark during the fiscal.

Exhibit 7: TATACONS remains focused on enhancing its D2C reach



Source: MOFSL, Company

Exhibit 8: Growing share of the e-commerce channel



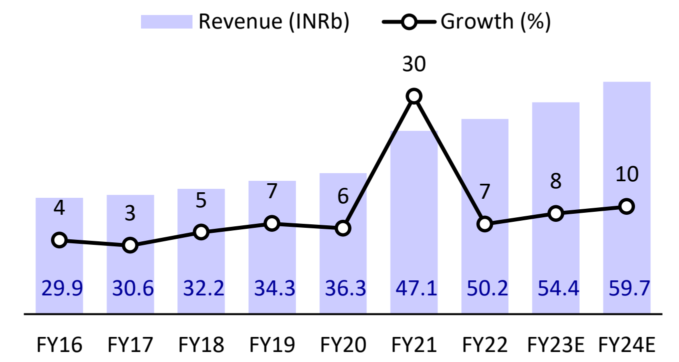
Source: MOFSL, Company

India Beverages

Entry into new avenues to enhance its growth prospects

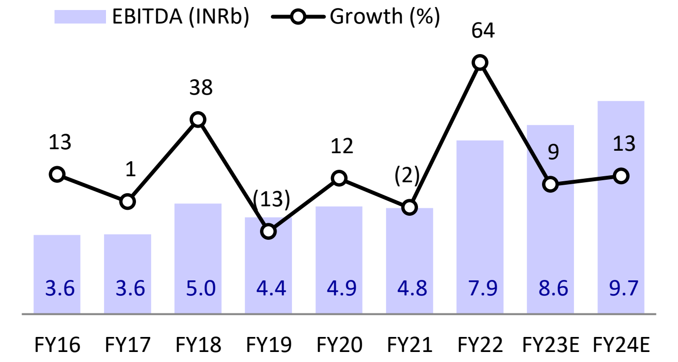
- Revenue grew 6.5% YoY v/s 30% in FY21. Volumes grew 3% YoY in FY22. EBIT margin for India Beverages rose 530bp in FY22. Its market/volume share in the Tea category was up ~100bp/154bp YoY to 22.2%/22%. The company maintained its numero uno position in the e-commerce channel.
- TATACONS recorded the highest volume growth in Tata Tea premium in over a decade. It saw market share gains in Chakra Gold franchise in Tamil Nadu.
- Coffee volumes grew 43% YoY (48% in value terms) due to several launches.
- The RTD beverages portfolio delivered 83% growth as the lockdown restrictions were eased through FY22. Tata Gluco Plus grew 43%, led by core and new markets and supported by TV campaigns. Tata Copper Water was able to grow to 3x, with new markets contributing almost 36% of overall revenue.
- TATACONS relaunched Tata Tea Agni Masterbrand and continued its hyperlocal brand-building strategy for key brands in its portfolio.

Exhibit 9: India Beverages records 10% CAGR over FY17-22



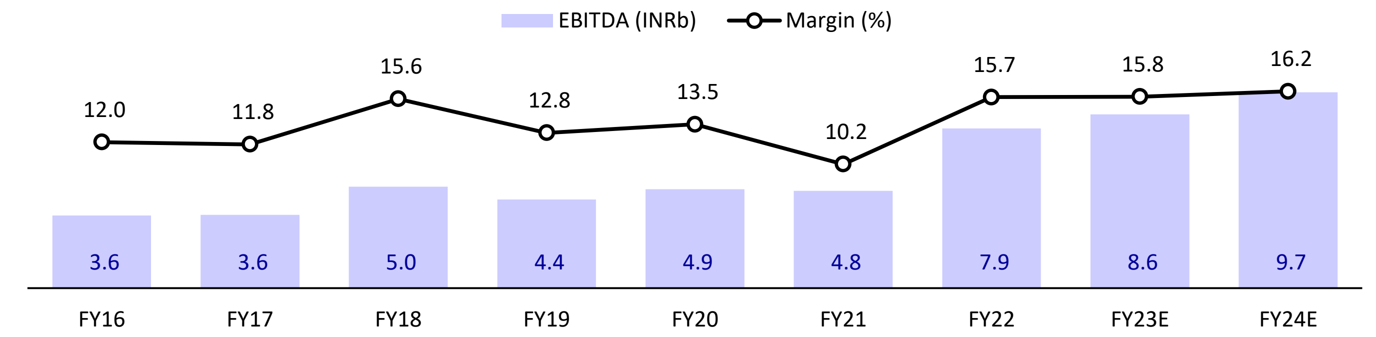
Note: Standalone business. Source: Company, MOFSL

Exhibit 10: Clocks 17% EBITDA CAGR over FY17-22



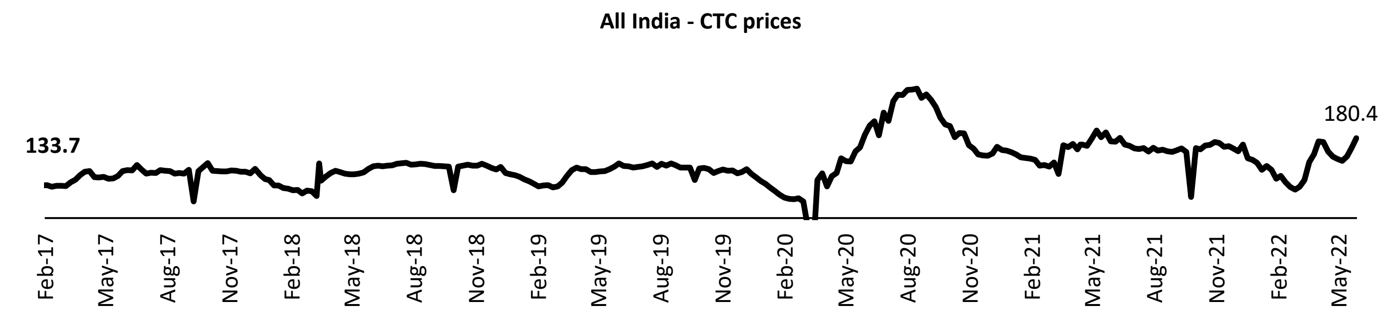
Source: Company, MOFSL

Exhibit 11: Trend in EBITDA margin



Source: Company, MOFSL

Exhibit 12: Weekly trend in India CTC Tea prices



Source: MOFSL, Company

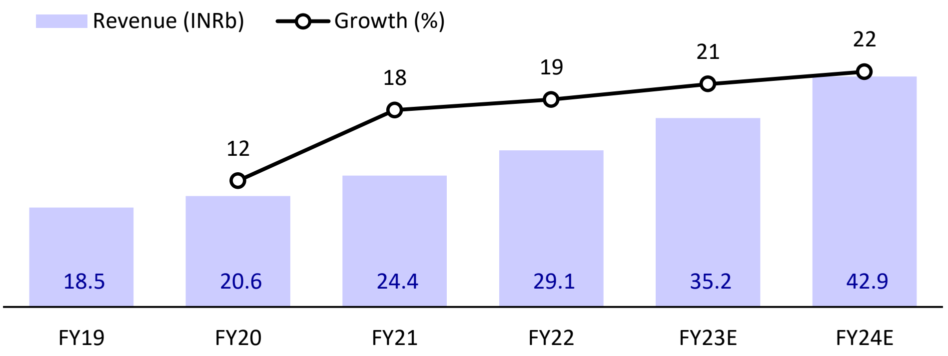
India Food business

Launches and initiatives to aid growth

- The India Food business registered 19% YoY revenue growth in FY22 on an elevated base of 18% in FY21. EBIT margin in the India Food business fell 660bp YoY in FY22. Profitability in FY22 was impacted by inflation in input costs, higher A&P, and continued investment in new businesses.
- Revenue from Salt grew 17%/8% in value/volume terms, with the overall Premium Salts portfolio growing 27%. The company strengthened its leadership in the Salt category by raising its market share by 400bp to 37%. It launched Tata Salt Immuno and Tata Salt Super Lite. It also launched Shuddh by Tata Salt and solar salt in South India to strengthen its mid-tier portfolio play. The company doubled its direct reach, with a weighted distribution gain of 3.4% in FY22.

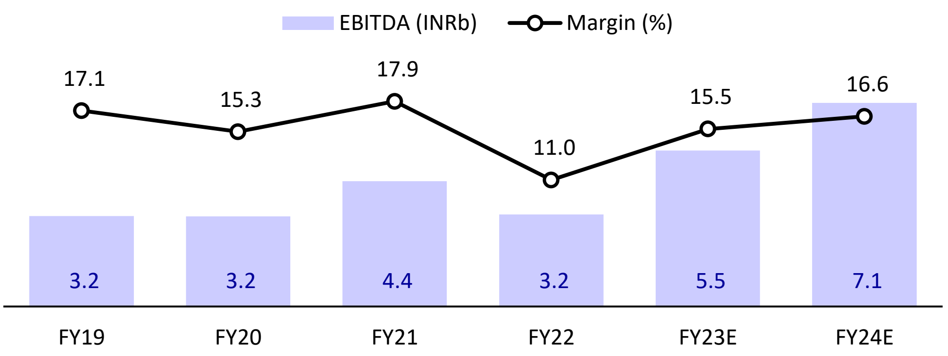
- Tata Sampann recorded a 28% volume growth in FY22, with a strong growth across pulses, besan, and poha. It clocked sales of INR1b in spices, and poha sales growing by 2x YoY. The company launched Tata Sampann Dry Fruits, extending the brand into a new and premium category.
- The company added Tata Q to its Food portfolio through the acquisition of Tata SmartFoodz. The Tata Q brand ranks second in the RTE market in India.
- It launched Ragi Bites No Maida Choco under Tata Soulfull, marking its entry into the healthy snacking space in FY22. It expanded its distribution by over 10x to more than 0.3m outlets. It scaled up its D2C business by 12x in FY22.

Exhibit 13: Revenue trend in the India Food business



Source: Company, MOFSL

Exhibit 14: Trend in EBIDTA in the India Food Business



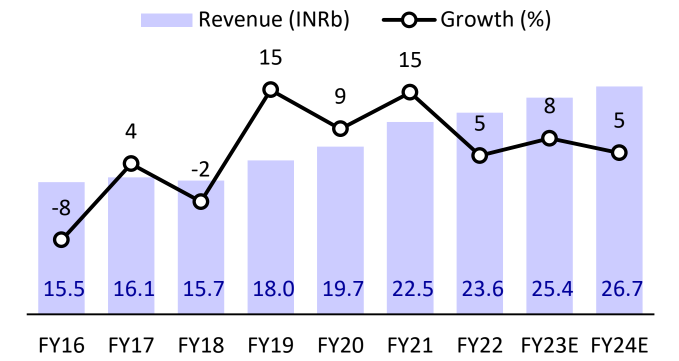
Source: MOFSL, Company

Tata Coffee

- Tata Coffee (including Vietnam) witnessed 11% revenue growth, led by the Extractions business and Coffee and Pepper plantations. Coffee volumes grew by 44% YoY in FY22, with an increase in distribution.
- The Extractions business saw volume and pricing led growth, despite a challenging demand scenario in some markets. The Plantation business was impacted by weather-related issues, with growth driven by higher coffee realization.
- TCL's instant coffee plants in India and Vietnam operated at 98% capacity utilization. The management undertook various productivity initiatives to control costs.

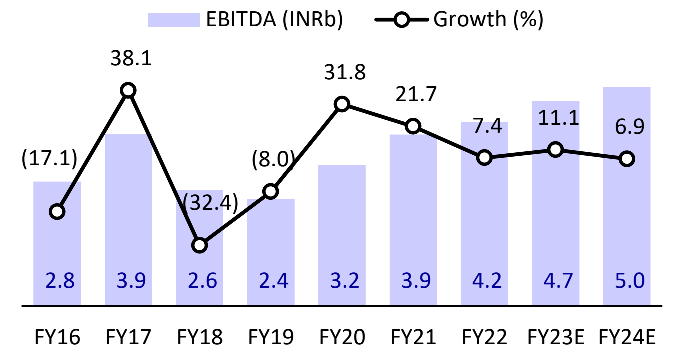
- Eight O'clock Coffee saw a softness in volume, mainly in bags, due to a COVID-led pantry loading in FY21, despite a price increase taken to manage the inflation in coffee prices. Operating margin improved due to price increases taken to partially offset the inflationary pressure in green cost, proactive hedging of coffee prices, and cost management initiatives. The management continued to scale up its innovations in Eight O'clock Coffee, with range extensions in Flavors of America and Barista Blends.

Exhibit 15: Coffee business clocks 8% CAGR over FY17-22…



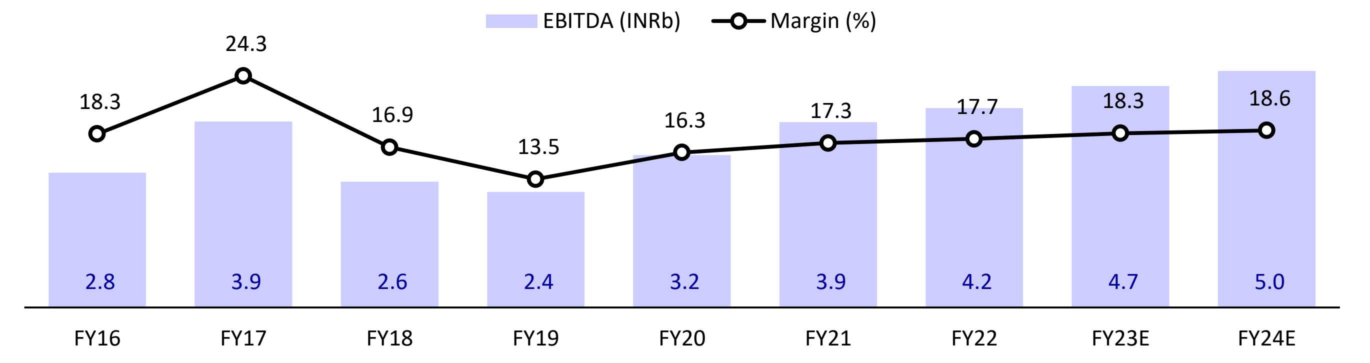
Source: Company, MOFSL

Exhibit 16: …whereas EBITDA grew at 1% CAGR



Source: Company, MOFSL

Exhibit 17: Trend in EBITDA in the Coffee business



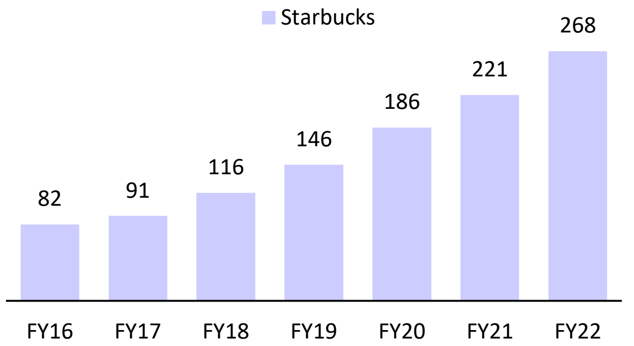
Source: Company, MOFSL

Joint venture businesses

Starbucks – new store additions to aid growth

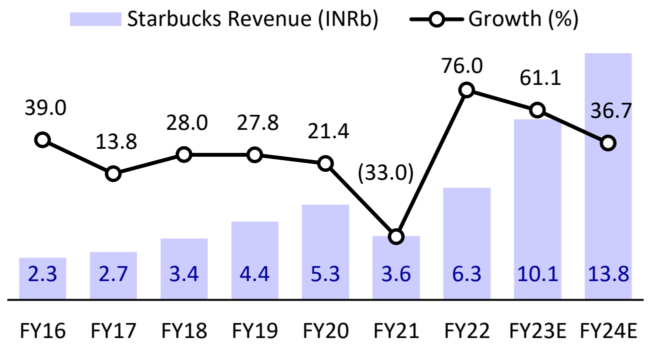
- TATACONS added 50 new stores in FY21 (v/s 39 new store additions in FY21). It entered eight new cities, taking the total number of stores to 268, spread across 26 cities in India.
- Revenue grew by 76% in FY22, despite two COVID waves, bringing the two-year CAGR into positive territory (~9%).
- With the impact of the COVID-19 pandemic gradually subsiding and lifting of restrictions across the country, 96% of stores re-opened in Mar'22 and same store sales grew 18% in FY22.
- The company launched a first of its kind 'bake in-store' format in Mumbai. It also launched the first ever Nitro Cold Brew store in India.

Exhibit 18: TATACONS added ~50 new stores in FY22



Source: Company, MOFSL

Exhibit 19: Starbucks clocks robust (19%) revenue CAGR over FY17-22



Source: Company, MOFSL

Tata NourishCo

- Revenue from this segment grew 83%, despite a challenging operating environment, resulting in a two-year CAGR of 38%. Growth was broad-based across products and geographies.
- It accelerated the pace of innovation, with the contribution of innovation-to-sales at 10%.
- It expanded its distribution by 80% and forayed into several new geographies.
- The company expanded capacity by 50% through an asset-light model, while doubling down on innovation.
- Himalayan Water grew 1.8x and reached breakeven at the EBIT level in FY22.
- It rebranded Tata Water Plus to Tata Copper Plus Water, which recorded exceptional growth in FY22.

International business

The international business registered a 5% revenue decline to INR33.4b in FY22 (1% like-for-like growth, net of exits in the international Food Service business; but down 2% in constant currency terms). The International Branded business grew at a two-year CAGR of 6%, excluding exits in the Food Service business, with most categories now returning to pre-pandemic trends. The business saw a 110bp YoY improvement in margin due to restructuring (portfolio exits from non-Branded and unprofitable markets and change in the distributor model in Europe and Australia) and strategic price increases to offset the inflationary pressures in input cost. It continues to focus on scaling its non-black tea portfolio and attracting new consumers.

United States

- Coffee: In constant currency terms, revenue stayed flat in FY22 v/s a 9% YoY growth in FY21. Despite an unprecedented inflation in coffee prices in FY22, EBIT for Eight O'clock Coffee grew YoY on account of hedging and a price hike. Its Eight O'clock Coffee brand is one of the top five brands in the US
- Tea (excluding Empirical): In constant currency terms, revenue fell 8% YoY in FY22 on an elevated base of 16% YoY growth in FY21. The company initiated integration of three tea brands, similar to the exercise undertaken in its UK business. Its recent innovations in tea – Good Earth Sensorial blends, Tetley Flavors of Britain, and Tetley Irish Breakfast – continued to perform well. It continued to see strong growth in Teapigs, outpacing the Specialty category.

Canada

- In constant currency terms, revenue declined by 7% YoY in FY22 v/s a growth of 15% YoY in FY21. Tetley remains the numero uno tea brand in Canada.
- Tetley Supers range continued to clock a strong performance in FY22.
- The e-commerce channel performed well in FY22 and delivered double-digit growth. It was able to maintain a strong market share in Canada in Mar'22.
- It launched a range of feel-good teas under its Teapigs portfolio in FY22.

United Kingdom

- In constant currency terms, revenue declined by 3% YoY, while PAT grew by 13% to INR1.4b in FY22.
- There was a strong growth trajectory seen in Teapigs, with revenue for Good Earth and Teapigs growing by 8%. Tetley is one of the top five brands in the UK.
- It gained market share in the F&H category on the back of a strong performance in Good Earth and Tetley Supers, and innovations in Tetley Herbals.
- Good Earth continued to strengthen its foothold in the Health and Wellness space. It expanded its non-black tea and RTD portfolio with several launches. The company continues its focus on e-commerce and D2C to ensure that the channels are progressing well.
- TATACONS acquired 10.15% of the paid-up capital of TATACONS UK (for INR5.7b) from Tata Enterprises Overseas (TEO), which is a minority stakeholder in TATACONS UK. The consideration payable will be discharged by the issue of 7,459,935 shares of TATACONS at INR765.16 per share (refer report).

Exhibit 20: Revenue by geography (INR b)

Particulars	FY20	FY21	FY22	YoY Gr.
India	61.8	77.8	87.1	12%
USA	16.7	18.1	16.4	-9%
United Kingdom	11.2	12.1	12.3	2%
Rest of the World	6.7	8.1	8.4	5%
Revenue from external customers	96.4	116.0	124.3	7%

Exhibit 21: Segmental data (INR m)

	FY21	FY22	YoY growth
Segmental revenue			
Branded business			
India	70,032	79,135	13%
International - Beverages	35,084	33,357	-5%
Non-Branded business	11,222	12,144	8%
Segment results			
Branded business			
India	8,755	10,117	16%
International – Beverages	4,673	4,784	2%
Non-Branded business	909	927	2%

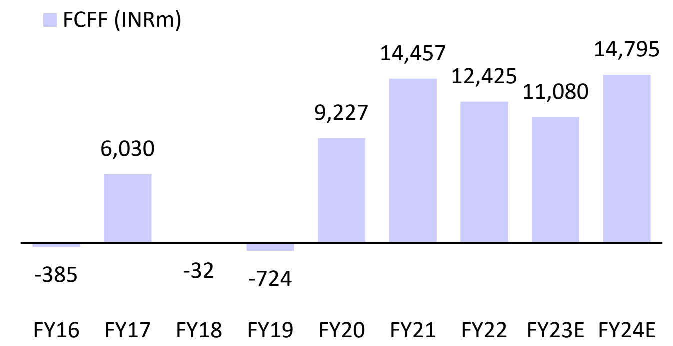
Source: Company, MOFSL

Financial highlights

Strong operating cash flow generation

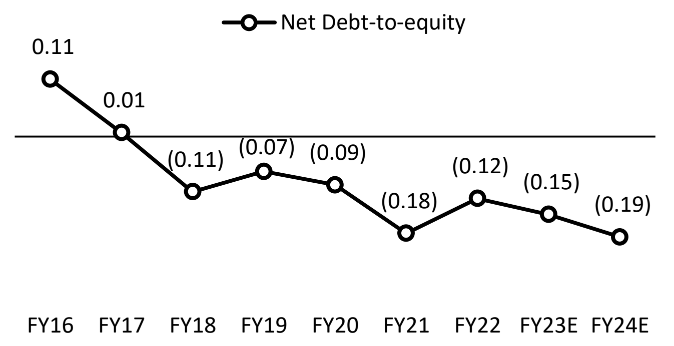
- TATACONS has maintained an average FCF run-rate of INR4.6b/INR7.1b over the last 10/five years.
- It has been generating positive CFO for more than a decade, with an average run-rate of INR6.7b/INR9.6b in the last 10/five years. Going forward, this strong run-rate is expected to continue.
- Five-year average CFO/EBITDA stood at 70% over FY18-22. On the back of strong cash generation, CFO/EBITDA came in at 88% in FY22 (v/s 107% in FY21).
- Strong cash generation led to a significant investment in capex. TATACONS maintained a capex run-rate of INR2.1b/INR2.6b over the last 10/five years. Net cash decreased to INR17.9b in FY22 (v/s a net cash of INR26.8b in FY21).
- Gross debt-to-equity ratio stood at 0.07x in FY22 (v/s 0.05x/0.22x in FY21/FY16), thus granting TATACONS enough headroom to carry out various expansions and branding activities for its newly diversified product portfolio, along with its existing basket of products.

Exhibit 22: Strong FCFF generation



Source: Company, MOFSL

Exhibit 23: Net debt-to-equity ratio

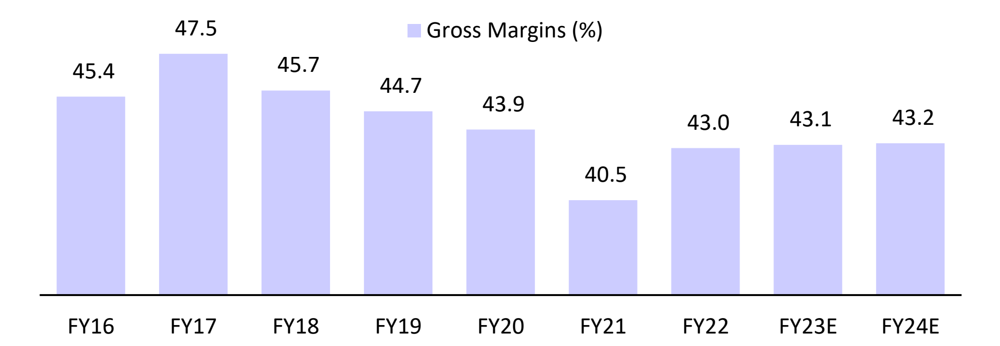


Source: Company, MOFSL

Gross margin

- Gross margin improved to 43% in FY22 from 40.5% in FY21, whereas it is still lower than pre-COVID levels. Margin expanded due to phased price increases and optimal hedging undertaken by the management to combat commodity inflation.
- EBITDA margin expanded by 220bp to 13.8% over FY17-22 (50bp). The same has improved as compared to FY21. This is due to the kicking-in of operating leverage and synergies post integration of Food business with TATACONS.

Exhibit 24: Trend in gross margin

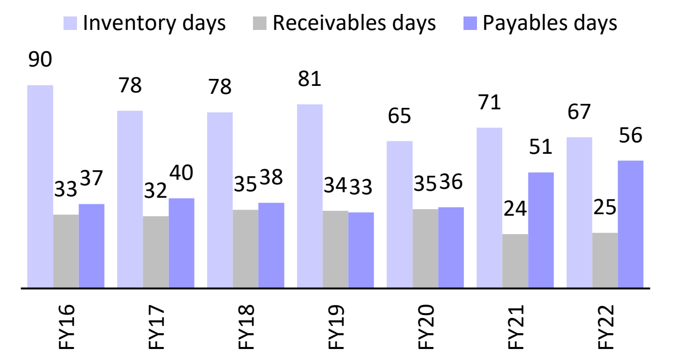


Source: Company, MOFSL

Working capital

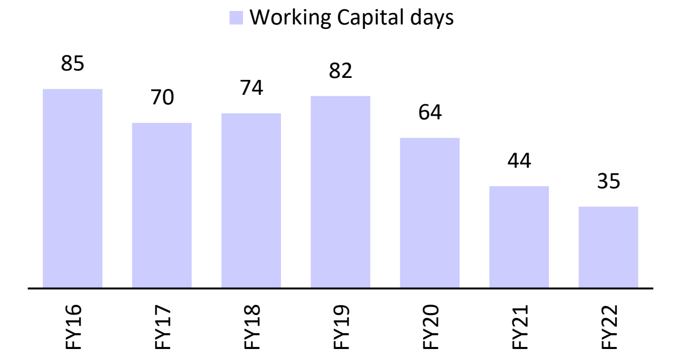
- TATACONS's net working capital days improved to 35 days in FY22 from its five-year (FY17-21) average of 67 days.
- Working capital days improved to 35 days in FY22 v/s 44 days in FY21, led by a decline in inventory days (by four days), but was aided by the stretching of payables by five days. TATACONS has been investing in business planning through digitization, demand, and supply optimization, which led to inventory optimization.
- The merger and integration of the Food business with TATACONS will further increase synergies and contribute to the efficient WC management.

Exhibit 25: Inventory, receivable, and payable days



Source: Company, MOFSL

Exhibit 26: Working capital days

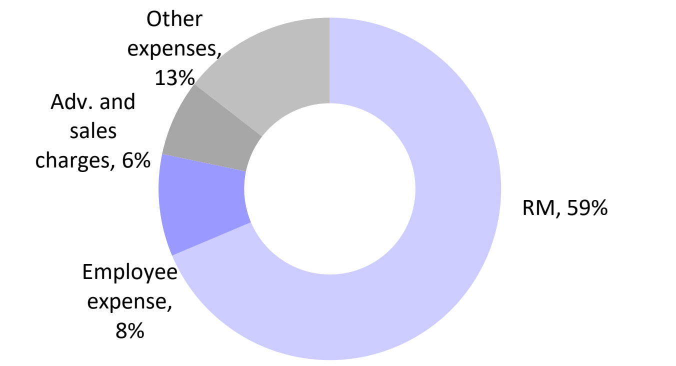


Source: Company, MOFSL

Cost structure

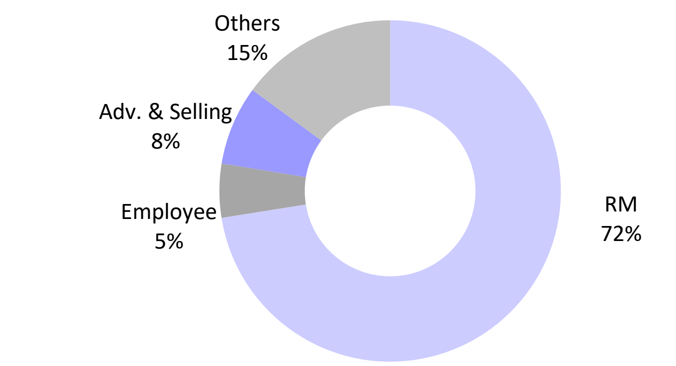
- EBITDA margin expanded marginally by 50bp YoY to 13.8%, with absolute EBITDA ~INR17.2b (up 11.3% YoY).
- RM cost fell 220bp to 57.3% (as a percentage of sales) on optimal hedging.
- In FY21, employee cost remained flat, while other expenses grew 140bp to 14% (as a percentage of sales), led by cost inflation and higher energy prices.
- Advertisement and sales promotion expense rose 50bp YoY to 6.8% (as a percentage of sales in FY22 v/s 6.3% in FY21). Ad spends and sales promotion expense rose 15.8% YoY to INR8.4b in FY22.
- Increase in other expenses was due to a 55%/27%/31% YoY increase in manufacturing and contract packaging/power and fuel/freight expenses to INR1.9b/INR1.2b/INR6b. Rent rose 17% YoY to INR686m.

Exhibit 27: Cost structure in FY21



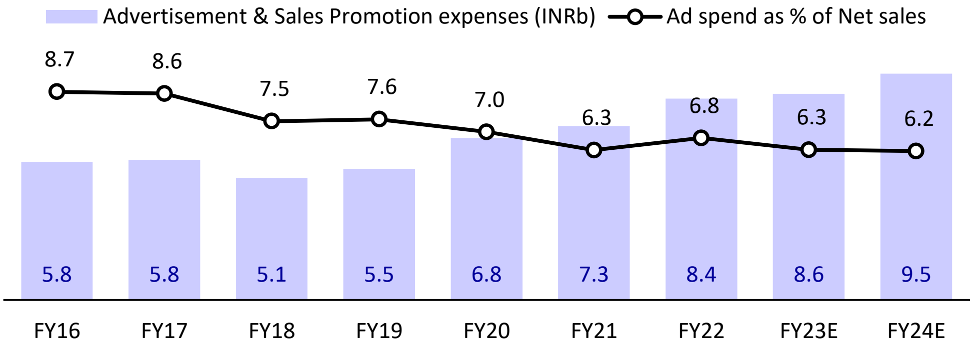
Source: Company, MOFSL

Exhibit 28: Cost structure in FY22



Source: Company, MOFSL

Exhibit 29: Marginal decrease in ad spends amid the pandemic



Source: Company, MOFSL

Employee cost and salaries

- As a percentage of sales, employee cost remained flat at 8.4% YoY v/s 9.2% in FY20.
- The average percentage increase in salary for other than managerial personnel was 8.5% v/s 3.7% in FY21, and the percentage increase for all employees was 10.61%. The change in the managerial remuneration was 19.92% v/s 63.55% in FY21 on a like-to-like basis (including compensation paid by a subsidiary company in the UK).
- The percentage increase in the median remuneration for employees was 3.13%.
- The number of permanent employees rose 3% to 2,932 in FY22 (v/s 2,852 in FY21).

Financials and valuations

Consolidated Income Statement									(INR m)
Y/E March	**FY16**	**FY17**	**FY18**	**FY19**	**FY20**	**FY21**	**FY22**	**FY23E**	**FY24E**
Net Sales	**66,365**	**67,796**	**68,154**	**72,515**	**96,374**	**1,16,020**	**1,24,254**	**1,37,162**	**1,51,925**
Change (%)	-17.0	2.2	0.5	6.4	32.9	20.4	7.1	10.4	10.8
Gross Profit	**30,149**	**32,180**	**31,160**	**32,439**	**42,267**	**46,997**	**53,414**	**59,169**	**65,645**
Margin (%)	45.4	47.5	45.7	44.7	43.9	40.5	43.0	43.1	43.2
Other operating exp.	23,606	24,269	22,771	24,579	29,346	31,560	36,226	38,077	41,382
EBITDA	**6,543**	**7,911**	**8,389**	**7,859**	**12,921**	**15,438**	**17,188**	**21,091**	**24,264**
Margin (%)	9.9	11.7	12.3	10.8	13.4	13.3	13.8	15.4	16.0
Depreciation	1,168	1,260	1,160	1,226	2,417	2,547	2,780	2,843	2,932
Net Interest	1,169	915	428	525	779	687	728	550	460
Other income	820	831	942	1,571	1,116	1,214	1,401	1,611	1,772
PBT before EO	**5,026**	**6,566**	**7,743**	**7,680**	**10,842**	**13,417**	**15,081**	**19,309**	**22,643**
EO income/(exp.)	-3,329	53	-211	-333	-2,748	-307	-521	0	0
PBT after EO	1,698	6,619	7,531	7,347	8,094	13,111	14,560	19,309	22,643
Tax	2,000	1,983	1,859	2,609	2,742	3,173	3,770	5,214	6,114
Rate (%)	117.8	30.0	24.7	35.5	33.9	24.2	25.9	27.0	27.0
Minority and Associates	-247	742	717	656	754	1,371	1,432	1,223	233
Reported PAT	**-55**	**3,894**	**4,956**	**4,082**	**4,598**	**8,567**	**9,358**	**12,873**	**16,296**
Adjusted PAT	**3,274**	**3,841**	**5,167**	**4,415**	**7,216**	**8,716**	**9,748**	**12,873**	**16,296**
Change (%)	-13.3	17.3	34.5	-14.6	63.5	20.8	11.8	32.1	26.6

Balance Sheet									(INR m)
Y/E March	**FY16**	**FY17**	**FY18**	**FY19**	**FY20**	**FY21**	**FY22**	**FY23E**	**FY24E**
Share Capital	631	631	631	631	922	922	922	929	953
Reserves	61,841	62,024	69,685	72,686	1,37,227	1,44,424	1,50,498	1,63,451	1,80,783
Net Worth	**62,472**	**62,655**	**70,316**	**73,317**	**1,38,149**	**1,45,345**	**1,51,419**	**1,64,380**	**1,81,736**
Minority Interest	8,618	9,195	10,090	10,277	10,925	10,925	11,516	6,602	0
Loans	13,541	7,866	10,676	11,283	11,825	7,206	10,106	6,106	5,106
Capital Employed	**84,630**	**79,716**	**91,082**	**94,877**	**1,60,898**	**1,63,476**	**1,73,042**	**1,77,088**	**1,86,842**
Gross Block	24,033	23,711	25,424	27,689	59,111	61,773	66,671	68,671	70,671
Less: Accum. Deprn.	14,511	13,650	15,181	16,407	18,824	21,371	24,151	26,994	29,926
Net Fixed Assets	**9,523**	**10,060**	**10,244**	**11,282**	**40,288**	**40,402**	**42,520**	**41,677**	**40,745**
Capital WIP	394	632	1,352	4,244	954	1,129	4,618	4,618	4,618
Goodwill and Intangibles	37,096	34,979	37,235	37,851	73,338	75,966	77,541	77,541	77,541
Investments	11,926	13,534	6,431	6,045	4,893	4,827	5,993	5,564	5,330
Curr. Assets	**40,009**	**36,309**	**49,343**	**49,385**	**65,258**	**79,855**	**80,077**	**86,905**	**1,00,050**
Inventories	16,290	14,530	14,483	16,099	17,120	22,492	22,665	25,554	28,304
Account Receivables	5,924	5,925	6,483	6,806	9,224	7,613	8,352	9,770	10,822
Cash and Bank Balance	6,744	7,412	18,067	16,168	24,550	33,980	27,979	30,500	39,842
Others	11,051	8,444	10,310	10,313	14,364	15,770	21,082	21,082	21,082
Curr. Liability and Prov.	**13,532**	**14,345**	**13,525**	**12,887**	**20,799**	**33,232**	**30,235**	**31,745**	**33,970**
Account Payables	6,773	7,378	7,057	6,649	9,440	16,255	19,159	20,668	22,893
Other liabilities	2,776	3,389	3,562	4,221	8,603	14,036	8,589	8,589	8,589
Provisions	3,983	3,578	2,906	2,017	2,756	2,942	2,488	2,488	2,488
Net Curr. Assets	**26,477**	**21,965**	**35,818**	**36,498**	**44,459**	**46,623**	**49,842**	**55,160**	**66,080**
Def. tax liability	786	1,454	-3	1,043	3,033	5,470	7,472	7,472	7,472
Appl. of Funds	**84,630**	**79,716**	**91,082**	**94,877**	**1,60,898**	**1,63,476**	**1,73,042**	**1,77,088**	**1,86,842**

Financials and valuations

Ratios

Y/E March	2016	2017	2018	2019	2020	2021	2022	2023E	2024E
Basic (INR)									
EPS	**3.6**	**4.2**	**5.6**	**4.8**	**7.8**	**9.5**	**10.6**	**13.9**	**17.1**
Cash EPS	4.8	5.5	6.9	6.1	10.5	12.2	13.6	16.9	20.2
BV/Share	67.8	68.0	76.3	79.6	149.9	157.7	164.3	176.9	190.7
DPS	2.3	2.3	2.4	2.5	2.7	4.1	6.1	6.1	6.1
Payout (%)	NA	36.5	29.9	38.7	54.1	43.6	59.6	43.7	35.4
Dividend yield (%)	0.3	0.3	0.3	0.3	0.4	0.6	0.8	0.8	0.8
Valuation (x)									
P/E	204.9	174.7	129.9	152.0	93.0	77.0	68.8	52.5	42.6
Cash P/E	151.1	131.5	106.0	118.9	69.6	59.6	53.6	43.0	36.1
P/BV	10.7	10.7	9.5	9.2	4.9	4.6	4.4	4.1	3.8
EV/Sales	10.2	9.9	9.7	9.2	6.8	5.6	5.3	4.7	4.2
EV/EBITDA	103.6	84.9	79.1	84.7	50.9	41.7	38.0	30.7	26.2
Dividend Yield (%)	0.3	0.3	0.3	0.3	0.4	0.6	0.8	0.8	0.8
FCF per share	-0.6	9.6	-0.1	-1.1	10.0	15.7	13.5	11.9	15.5
Return Ratios (%)									
RoE	5.6	6.1	7.8	6.1	6.8	6.1	6.6	8.2	9.4
RoCE	7.6	9.0	9.4	8.6	8.5	8.3	9.0	11.1	12.6
RoIC	8.2	10.6	11.7	9.8	11.5	11.1	10.7	13.0	15.3
Working Capital Ratios									
Fixed Asset Turnover (x)	7.0	6.7	6.7	6.4	2.4	2.9	2.9	3.3	3.7
Asset Turnover (x)	0.8	0.9	0.7	0.8	0.6	0.7	0.7	0.8	0.8
Debtor (Days)	33	32	35	34	35	24	25	26	26
Creditor (Days)	37	40	38	33	36	51	56	55	55
Inventory (Days)	90	78	78	81	65	71	67	68	68
Leverage Ratio (x)									
Net Debt/Equity	0.1	0.0	-0.1	-0.1	-0.1	-0.2	-0.1	-0.1	-0.2

Cash Flow Statement (INR m)

Y/E March	FY16	FY17	FY18	FY19	FY20	FY21	FY22	FY23E	FY24E
EBITDA	**6,543**	**7,911**	**8,389**	**7,859**	**12,921**	**15,438**	**17,188**	**21,091**	**24,264**
Prov. and FX	-132	22	-14	22	-72	41	7	0	0
WC	-2,719	1,485	-1,389	-2,347	-649	3,054	1,992	-2,798	-1,355
Others	-190	100	-438	-827	1,364	1,203	-258	0	0
Direct taxes (net)	-2,342	-2,106	-2,992	-2,609	-2,742	-3,173	-3,770	-5,214	-6,114
CF from Op. Activity	**1,160**	**7,412**	**3,556**	**2,099**	**10,822**	**16,564**	**15,158**	**13,080**	**16,795**
Capex	-1,545	-1,382	-3,588	-2,823	-1,596	-2,107	-2,733	-2,000	-2,000
FCFF	**-385**	**6,030**	**-32**	**-724**	**9,227**	**14,457**	**12,425**	**11,080**	**14,795**
Interest/dividend	697	574	485	539	564	731	881	1,611	1,772
Investments in subs./assoc.	-509	-280	-132	-358	-226	-2,241	-7,362	0	0
Others	4,273	2,503	10,209	3,374	-5,470	-467	-4,004	0	0
CF from Inv. Activity	**2,917**	**1,415**	**6,973**	**733**	**-6,728**	**-4,084**	**-13,218**	**-389**	**-228**
Share capital	0	0	0	0	0	0	0	0	0
Borrowings	-796	-4,848	2,160	358	321	-573	-4,947	-4,000	-1,000
Finance cost	-663	-615	-282	-437	-703	-654	-625	-550	-460
Dividend	-1,871	-1,890	-2,118	-2,158	-2,216	-2,673	-3,982	-5,621	-5,765
Others	512	-805	365	-2,493	6,886	851	1,613	0	0
CF from Fin. Activity	**-2,818**	**-8,158**	**126**	**-4,731**	**4,288**	**-3,049**	**-7,941**	**-10,170**	**-7,224**
(Inc.)/Dec. in Cash	**1,259**	**668**	**10,655**	**-1,899**	**8,382**	**9,430**	**-6,001**	**2,520**	**9,343**
Opening balance	5,485	6,744	7,412	18,067	16,168	24,550	33,980	27,979	30,500
Closing balance (as per B/S)	**6,744**	**7,412**	**18,067**	**16,168**	**24,550**	**33,980**	**27,979**	**30,500**	**39,842**

Explanation of Investment Rating	
Investment Rating	**Expected return (over 12-month)**
BUY	>=15%
SELL	< - 10%
NEUTRAL	< - 10 % to 15%
UNDER REVIEW	Rating may undergo a change
NOT RATED	We have forward looking estimates for the stock but we refrain from assigning recommendation

*In case the recommendation given by the Research Analyst is inconsistent with the investment rating legend for a continuous period of 30 days, the Research Analyst shall within following 30 days take appropriate measures to make the recommendation consistent with the investment rating legend.

Disclosures

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