

Tata Consumer Products Ltd



Tata Consumer Products Ltd.

Price hikes resulted in topline growth; margin remains under pressure

CMP INR 773	Target INR 964	Potential Upside 24.6%	Market Cap (INR Mn) INR 7,12,359	Recommendation BUY	Sector Consumers
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Q1FY23 Result highlights

- For Q1FY23, TATACONS reported revenue of INR 33,268 Mn, which is a growth of 10.6% YoY and 4.8% QoQ.
- The India Packaged Beverages business revenue declined by 4.0% YoY on a high base, while volumes increased by 1.0% YoY. The India Foods business revenue grew by 19.0% YoY, on an elevated base, while volumes declined by 3.0% YoY. The International Beverages revenue growth was 9.0% YoY. Tata Starbucks saw a revenue growth of 238.0% YoY, on a low base.
- EBITDA for the quarter was INR 4,573 Mn, which grew by 14.5% YoY and 2.9% QoQ. EBITDA margin of 13.7% for the quarter was an improvement of 47 bps YoY, though it contracted by 25 bps QoQ.
- Adjusted PAT was INR 2,794 Mn, which is a growth of 47.8% YoY and 18.3% QoQ. Adj PAT margin was at 8.4%, which grew by 211 bps YoY and 96 bps QoQ.

MARKET DATA

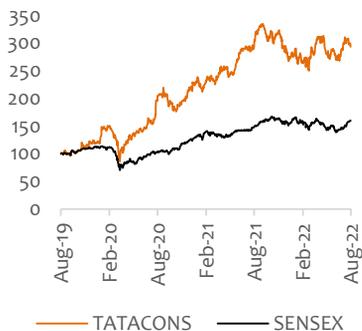
Shares O/s in Mn	922
Mkt Cap (INR Mn)	7,12,359
52 Wk H/L (INR)	889/650
Volume Avg (3m K)	1,662
Face Value (INR)	1
Bloomberg Code	TATACONS IN

KEY FINANCIALS

INR Mn	FY20	FY21	FY22	FY23E	FY24E
Revenue	96,374	1,16,020	1,24,254	1,38,879	1,53,385
EBITDA	12,922	15,438	17,188	19,618	23,667
PAT	4,598	8,568	9,358	12,034	14,980
Adj PAT	7,346	8,874	9,878	12,034	14,980
EPS (INR)	5.0	9.3	10.2	13.1	16.3
Adj. EPS (INR)	8.0	9.6	10.7	13.1	16.3
EBITDA Margin (%)	13.4%	13.3%	13.8%	14.1%	15.4%
NPM (%)	4.8%	7.4%	7.5%	8.7%	9.8%

Source: Company, KRChoksey Research

SHARE PRICE PERFORMANCE



Revenue growth driven mainly by price hikes across segments, excluding tea businesses:

For Q1FY23, TATACONS reported revenue of INR 33,268 Mn, which is a growth of 10.6% YoY and 4.8% QoQ. The growth was 12.0% on a 3-year CAGR basis. India Packaged Beverages business revenue declined by 4.0% YoY on a high base, while volumes increased by 1.0% YoY. TATACONS gained 40 bps market share in the business. Coffee revenue growth was 73.0% YoY with a volume growth of 43.0% YoY. The India Foods business revenue grew by 19.0% YoY on an elevated base, while volumes declined by 3.0% YoY. Market share gain was 400 bps YoY. Rock salt, premium salt, Soulfull had a strong growth, while Tata Sampann portfolio growth was at 6.0% YoY, impacted by short-term factors. NourishCo also delivered a strong broad-based growth of 110.0% YoY. The International Beverages revenue growth was 9.0% YoY (8.0% on a constant currency basis). The growth in US coffee revenue was 20.0% YoY (15.0% YoY in constant currency), mainly driven by pricing actions. International tea revenue growth was at 2.0% YoY (4.0% YoY in constant currency). Tata Starbucks saw a revenue growth of 238.0% YoY on a low base and a 25.0% same store sales growth vs pre-covid period. 99% of stores have now been reopened.

India food segment continues to have margin pressure due to high input prices for salt:

EBITDA for the quarter was INR 4,573 Mn, which grew by 14.5% YoY and 2.9% QoQ. EBITDA margin of 13.7% for the quarter was an improvement of 47 bps YoY, though it contracted by 25 bps QoQ. The YoY EBITDA margin expansion was despite severe inflation in salt business and higher A&P expenses, supported by tea input prices cooling off. Salt margins continued to remain under pressure impacted by persistent inflation in input costs, mainly brine and coal costs. Gross margins for the international business were maintained. In Q1FY23, Starbucks reported a positive EBIT.

MARKET INFO

SENSEX	59,333
NIFTY	17,659

SHARE HOLDING PATTERN (%)

Particulars	Jun-22	Mar-22	Dec-21
Promoters	34.7	34.7	34.7
FIIs	25.3	25.4	25.6
DIIIs	14.0	13.7	13.4
Others	26.0	26.2	26.2
Total	100	100	100

11.1%

Revenue CAGR between FY22 and FY24E

26.5%

PAT CAGR between FY22 and FY24E

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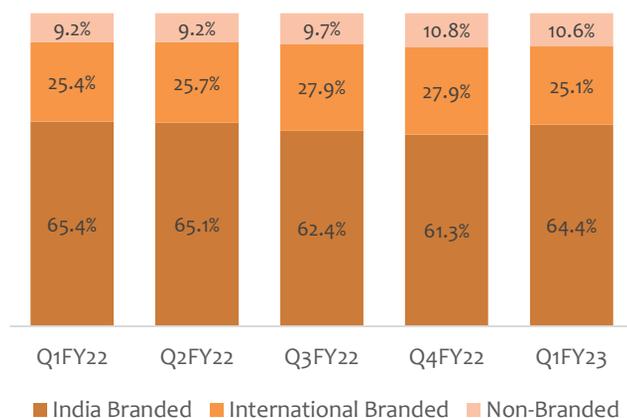
Key Concall Highlights: :

(1) TATACONS's direct wholesale reach has increased 2x YoY from about 19k to 38k outlets. (2) E-commerce has grown by 73.0% CAGR on a two-year basis. (3) A&P spends in the India Packaged Beverages has increased by 48.0% YoY. (3) Since launch of Soulfull, in the last 60 days TATACONS has reached market share of 5% to 6%. The base business has now been tightened and TATACONS will now expand categories. (4) Tata Sampann portfolio grew 6.0% during Q1FY23, impacted by short-term impact of trade terms/margin rationalization/realignment across channels and pullback ahead of spices relaunch. The 3-year CAGR of Sampann revenue was 30.0%. (5) TATACONS will now ramp up investment behind Tata Sampann. Over next 3 to 6 months, Sampann will see new differentiated product launches in the base business. (6) TATACONS will do full relaunch of blends in spices and is entering the Southern India market with new mix of spices. (7) In the longer term, Sampann margins will be in high single digit to low double digits. (8) TATACONS will expand dry fruits to general trade and modern trade from a pure e-commerce presence until now. (9) TATACONS is expanding Himalayan into a provenance brand and has forayed into jams, preserves, and honey sourced from Himalayas. (10) TATACONS has entered a 5th F&B platform which is the protein platform. The first category that TATACONS has entered is alternate meat where TATACONS sees winning potential. (11) New engines of growth which includes NourishCo, Sampann, Tata Q, and Soulfull have seen a 53.0% YoY growth in Q1FY23, on the base of 52.0% YoY growth same period last year. (12) In India foods business, the recent price hike in salt from INR 25 to INR 28 should help margins to come back on track. (13) On the commodity front, tea prices in India saw an uptick due to floods in Assam, but TATACONS expects this to be a small blip and the secular declining trend to return. (14) Coffee prices have seen a rising trend but are now stable at those levels. TATACONS has taken pricing action in US to mitigate impact of coffee prices. (15) In Q1FY23 tea volumes have been impacted due to stress in certain geographies (mostly rural, and hindi belt), and secondly, due to harsh summer, people moved to cold rather than hot beverages. Stress is seen in lower end of the portfolio while premium portfolio is performing well. Hence despite volume pressure, margins are higher for the tea business. With increasing distribution and A&P spends, volume growth should return. (16) If there is proper compliance of the 5.0% GST levied on packaged pulses, it will play to TATACONS' advantage. (17) In the current volatile scenario, TATACONS will focus on balancing both topline growth and margins. (18) The announced restructuring of coffee business would result in some costs in the short term, while there will be longer term benefits from synergies.

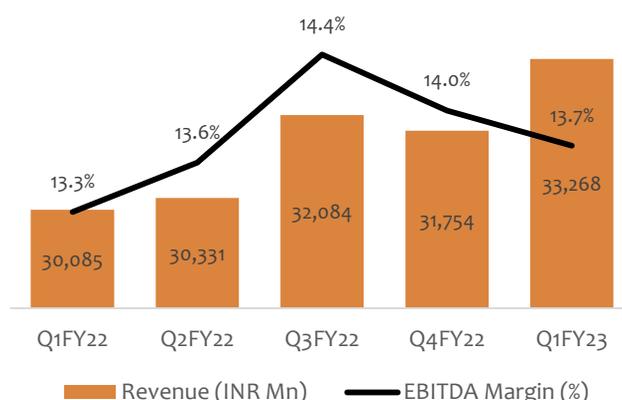
Valuation and view

TATACONS has continued to see market share gains across segments despite the volatile macro environment. TATACONS continues to foray into newer categories which are driving overall growth for the company. With increased A&P spends, expanding distribution network, leveraging alternate channels such as e-commerce, and modern trade, TATACONS is on a positive growth trajectory. We expect Revenue/ EBITDA/ PAT to grow by 11.1%/ 17.3%/ 26.5% CAGR, respectively, over FY22-24E. **We have valued TATACONS on a SOTP basis. For India Business, we apply an EV/EBITDA multiple of 40x to FY24E EBITDA; for International Business, we apply an EV/EBITDA multiple of 17x to FY24E EBITDA; and for Starbucks business, we apply an EV/Revenue multiple of 3x to FY24E Revenue. Accordingly, we maintain our target price of INR 964 per share (unchanged), an upside of 24.6% over the CMP. Accordingly, we reiterate a “BUY” rating on the shares of Tata Consumer Products Ltd.**

Revenue Contribution (%)



EBITDA Margin under pressure led by decline in salt margins and higher A&P



Source: Company, KRChoksey Research

Tata Consumer Products Ltd.

KEY FINANCIALS

Particulars (Mn)	Q1FY23	Q4FY22	Q1FY22	QoQ	YoY
Revenue from operations	33,268	31,754	30,085	4.8%	10.6%
Total Expenditure	28,695	27,311	26,090	5.1%	10.0%
Cost of Raw Materials	13,605	12,011	13,136	13.3%	3.6%
Purchase of Stock	6,935	6,359	5,427	9.0%	27.8%
Changes in Inventories	-1,449	-784	-739	84.9%	96.0%
Employee Cost	2,774	2,680	2,654	3.5%	4.5%
Other Expenses	4,714	4,788	4,029	-1.5%	17.0%
Advertising expenses	2,116	2,256	1,582	-6.2%	33.7%
EBITDA	4,573	4,443	3,995	2.9%	14.5%
EBITDA Margins (%)	13.7%	14.0%	13.3%	-25 bps	47 bps
Depreciation	729	721	668	1.1%	9.2%
EBIT	3,844	3,722	3,327	3.3%	15.5%
Interest Expense	163	164	204	-0.9%	-20.4%
Other income	353	474	280	-25.4%	26.2%
PBT	4,035	4,032	3,403	0.1%	18.6%
Exceptional Items	-240	-187	-39	28.5%	511.5%
Tax	1,030	953	957	8.0%	7.6%
Share of Associates/Minorities	-211	-717	-555	-70.6%	-62.1%
PAT	2,555	2,175	1,851	17.4%	38.0%
PAT Margin	7.7%	6.9%	6.2%	83 bps	152 bps
EPS	2.8	2.4	2.0	17.4%	38.0%
Adjusted PAT	2,794	2,362	1,891	18.3%	47.8%
Adj. PAT Margin	8.4%	7.4%	6.3%	96 bps	211 bps
Adj. EPS	3.0	2.6	2.1	18.3%	47.8%

Profit & Loss Statement

INR Mn	FY20	FY21	FY22	FY23E	FY24E
Revenues	96,374	1,16,020	1,24,254	1,38,879	1,53,385
COGS	54,107	69,023	70,840	79,578	86,662
Gross profit	42,267	46,997	53,414	59,302	66,722
Employee cost	8,848	9,702	10,480	11,110	12,271
Other expenses	13,731	14,595	17,336	18,749	19,940
EBITDA	12,922	15,438	17,188	19,618	23,667
EBITDA Margin	13.4%	13.3%	13.8%	141.3%	154.3%
Depreciation & amortization	2,417	2,547	2,780	2,848	3,012
EBIT	10,504	12,890	14,408	16,770	20,655
Interest expense	779	687	728	850	850
Other income	1,116	1,214	1,401	1,471	1,544
PBT	8,094	13,111	14,560	17,390	21,349
Tax	2,742	3,172	3,770	4,348	5,337
Minority interest	4	738	794	794	794
PAT	4,598	8,568	9,358	12,034	14,980
Adj. PAT	7,346	8,874	9,878	12,034	14,980
EPS (INR)	5.0	9.3	10.2	13.1	16.3
Adj. EPS	8.0	9.6	10.7	13.1	16.3

Cash Flow Statement

INR Mn	FY20	FY21	FY22	FY23E	FY24E
Net Cash Generated From Operations	10,822	16,561	15,158	14,476	17,698
Net Cash Flow from/(used in) Investing Activities	(6,726)	(4,084)	(13,218)	(4,027)	(4,337)
Net Cash Flow from Financing Activities	(3,083)	(4,260)	(9,948)	(4,948)	(6,160)
Net Inc/Dec in cash equivalents	1,013	8,217	(8,008)	5,501	7,202
Opening Balance	9,670	11,217	20,420	14,980	20,480
Closing Balance Cash and Cash Equivalents	10,683	19,433	12,412	20,480	27,682

Source: Company, KRChoksey Research

Tata Consumer Products Ltd.

Balance Sheet

INR Mn	FY20	FY21	FY22	FY23E	FY24E
Non-current assets					
Property, plant and equipment	12,075	12,227	14,803	15,958	17,294
Capital work-in-progress	876	932	2,094	2,094	2,094
Goodwill (Net)	73,338	75,966	77,541	77,541	77,541
Other intangible assets	27,712	27,843	27,540	27,564	27,553
Investments accounted for using Equity method	2,282	2,073	2,343	2,343	2,343
Investments	2,611	2,755	3,649	3,649	3,649
Loans	225	219	140	140	140
Other financial assets	322	749	357	357	357
Deferred tax assets (Net)	296	381	427	427	427
Non-current tax assets (Net)	1,461	1,423	1,417	1,417	1,417
Other non-current assets	3,496	3,114	3,023	3,023	3,023
Total non-current assets	1,28,205	1,32,072	1,39,815	1,40,994	1,42,319
Current assets					
Inventories	17,120	22,492	22,665	25,461	27,728
Trade receivables	9,224	7,613	8,352	9,335	10,310
Cash and cash equivalents	11,217	20,420	14,980	20,480	27,682
Other Balances with Banks	4,998	10,329	11,019	11,019	11,019
Loans	1,165	1,851	6,599	6,599	6,599
Other financial assets	1,732	1,164	1,843	1,843	1,843
Current tax assets	12	14	13	13	13
Other current assets	3,017	3,373	3,905	3,905	3,905
Total current assets	56,821	70,486	71,357	80,636	91,080
TOTAL ASSETS	1,85,026	2,02,559	2,11,172	2,21,630	2,33,398
EQUITY AND LIABILITIES					
Equity					
Equity share capital	922	922	922	922	922
Other equity	1,37,227	1,44,424	1,50,498	1,57,583	1,66,404
Non-controlling interests	10,925	10,925	11,516	12,525	13,557
Total equity	1,49,073	1,56,270	1,62,936	1,71,031	1,80,883
LIABILITIES					
Non-current liabilities					
Borrowings	7,947	2,875	2,419	2,419	2,419
Provisions	1,832	1,925	1,756	1,756	1,756
Deferred tax liabilities	3,160	5,702	7,764	7,764	7,764
Non-Current Tax Liabilities	169	149	135	135	135
Total non-current liabilities	16,167	15,344	16,514	16,514	16,514
Current liabilities					
Borrowings	3,878	4,331	7,687	7,687	7,687
Trade payables	9,440	16,255	19,159	21,522	23,438
Other financial liabilities	3,826	7,362	2,118	2,118	2,118
Other current liabilities	1,003	1,361	1,322	1,322	1,322
Provisions	924	1,017	732	732	732
Current tax liabilities (Net)	336	241	200	200	200
Total current liabilities	19,786	30,945	31,722	34,085	36,001
Total liabilities	35,953	46,288	48,236	50,600	52,516
TOTAL EQUITY AND LIABILITIES	1,85,026	2,02,559	2,11,172	2,21,630	2,33,398

Ratio Analysis

Key Ratio	FY20	FY21	FY22	FY23E	FY24E
EBITDA Margin (%)	13.4%	13.3%	13.8%	14.1%	15.4%
Tax rate (%)	33.9%	24.2%	25.9%	25.0%	25.0%
Net Profit Margin (%)	4.8%	7.4%	7.5%	8.7%	9.8%
RoE (%)	3.1%	5.5%	5.7%	7.0%	8.3%
RoCE (%)	6.5%	7.9%	8.3%	9.3%	10.8%
EPS (INR)	5.0	9.3	10.2	13.1	16.3
PE	155.0X	83.2X	76.2X	59.1X	47.5X

Source: Company, KRChoksey Research

Tata Consumer Products Ltd.

Tata Consumer Products Ltd				Rating Legend (Expected over a 12-month period)	
Date	CMP (INR)	TP (INR)	Recommendation	Our Rating	Upside
12-Aug-2022	773	964	BUY	Buy	More than 15%
6-May 22	765	964	BUY	Accumulate	5% – 15%
9-Feb-22	697	1,030	BUY	Hold	0 – 5%
26-Oct-21	809	1,030	BUY	Reduce	-5% – 0
14-May-20	565	597	ACCUMULATE	Sell	Less than – 5%

ANALYST CERTIFICATION:

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