

Tata Consumer Products

 BSE SENSEX
 59,720

 S&P CNX
 17,816

CMP: INR803
TP: INR890 (+11%)
Buy


TATA CONSUMER PRODUCTS

Bloomberg	TATACONS IN
Equity Shares (m)	922
M.Cap.(INRb)/(USDb)	740.1 / 9.3
52-Week Range (INR)	877 / 651
1, 6, 12 Rel. Per (%)	2/1/-8
12M Avg Val (INR M)	1688
Free float (%)	65.3

Financials Snapshot (INR b)

Y/E MARCH	2022	2023	2024
Sales	124.3	139.3	154.1
EBITDA	17.2	20.0	24.1
Adj. PAT	9.7	12.4	16.7
EBITDA Margin (%)	13.8	14.3	15.7
Cons. Adj. EPS (INR)	10.6	13.3	17.5
EPS Gr. (%)	11.8	26.0	31.5
BV/Sh. (INR)	164.3	176.2	190.0

Ratios

Net D:E	-0.1	-0.1	-0.2
RoE (%)	6.6	7.9	9.7
RoCE (%)	9.0	10.6	12.6
Payout (%)	59.6	46.1	37.1

Valuations

P/E (x)	75.9	60.3	45.8
EV/EBITDA (x)	42.0	35.9	29.4
Div. Yield (%)	0.8	0.8	0.8
FCF Yield (%)	1.7	1.3	1.8

Shareholding pattern (%)

As On	Jun-22	Mar-22	Jun-21
Promoter	34.7	34.7	34.7
DII	14.0	13.7	14.0
FII	25.4	25.4	25.1
Others	25.9	26.2	26.3

FII Includes depository receipts

Standalone gross margin to improve in FY23

The moderation in Tea prices led to an expansion in the standalone gross margin for TATACONS in the last five quarters. The average price of Jan'22 to Jun'22 declined by 11% YoY to INR147.6/kg. However, floods and extreme weather events impacted production in Jun-Jul'22 and led to a surge in prices since Jul'22. Going forward, with an expected normalization in production, we expect Tea prices to remain stable or moderate from current levels, thereby improving its gross margin in FY23. In this note, we have analyzed Tea prices and production trends and its impact on TATACONS. Here are the key insights:

Tea production remains flat YTD

- In the CY21 Tea season, production in India rose 7% YoY to 1,343m kg. This eased the supply crunch that occurred in CY20 (a 10% YoY decline in volume to 1,255m kg), resulting in a moderation in prices till Jun'22.
- Tea production for the current season YTD (Feb-Jul'22) is flat YoY at 613.94m kg with better production in South India (7% YoY growth), offset by a 2% decline in North India (which contributes 82% of total Tea production in India). Production in North India declined due to a 4% lower/flattish production in West Bengal/Assam (which contributes 30%/50% of India's total Tea production). As Assam and West Bengal constitute ~80% (CY21 season) of total Tea production in India, a loss of production in these regions led to an increase in Tea prices across India.
- All India Tea production during the first flush (Feb-Jun'22, contributes 32% of the whole Tea cycle volume in CY21 and is the best quality) rose marginally (3% YoY), led by a strong 23%/24% growth in production in Apr'22/May'22 but was impacted by a 17% decline in Jun'22 due to floods and pest attacks in the main producing regions.
- Heavy rainfall in Jun'22 flooded Tea gardens in Assam, making plucking of Tea leaves difficult for workers. This resulted in lower production in Assam, down 19% YoY to 74.35m kg in Jun'22. Heavy rains in West Bengal's Terai and Dooars regions too impacted Tea production (down 21% YoY) in Jun'22.
- In Jul'22, several Tea gardens were impacted either by land erosion, rivers changing course, and excess rainfall in the region. July is the start of the second flush (i.e. July to September, and is of the second best quality) and contributes 38% to total volumes in CY21. In Jul'22, all India production fell by 15% YoY to 152.57m kg, with a major decline in Assam (down 20% YoY).
- All India Tea production in CY22 is expected to be higher YoY, with the impact of the floods wearing off and no other extreme event expected.

Expect Tea prices to stabilize or moderate on the back of an increase in production in coming months

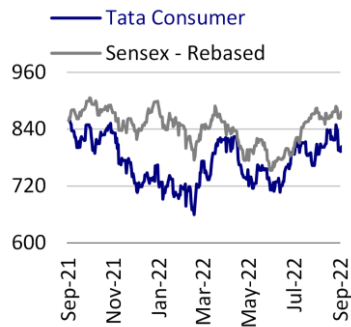
- The 16% YoY decline in production in Jun-Jul'22 created a supply crunch and lifted average Tea prices from Jun'22.
- Prices have risen by 3.8%/11.7% YoY in Jul'22/Aug'22. As on 3rd Sep'22, prices rose 14% YoY to INR191.3/kg, but were 27% lower from 5th Sep'20 levels (during the peak of the COVID-19 pandemic).

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Investors are advised to refer through important disclosures made at the last page of the Research Report.

 Motilal Oswal research is available on www.motilaloswal.com/Institutional-Equities, Bloomberg, Thomson Reuters, Factset and S&P Capital.

Stock's performance (one-year)

- Prior to this, prices have fallen YoY since Jan'22. The average price from Jan'22 to Jun'22 fell 11% YoY to INR147.6/kg from INR165/kg (i.e. the average price from Jan'21 to June'22). This was on the back of higher Tea production.
- With Tea production expected to improve going forward, prices are estimated to either remain stable or trend down from current levels.
- With a decline in Tea prices, TATACONS has reduced prices in the past quarters. Usually the company follows a two-to-three month lag while passing on any price increase or decrease.

Decline in Tea prices aids gross margin expansion

- Standalone gross margin expanded by 320bp YoY to 37.9% in 1QFY23 due to a moderation in Tea prices, which led to an 80bp expansion in EBITDA margin to 14.8%. However, gross margin is 290bp lower than 1QFY21 levels due to a surge in Tea prices, led by lower production during that period.
- Standalone gross margin is expected to be marginally higher YoY in 2QFY23.

Valuation and view

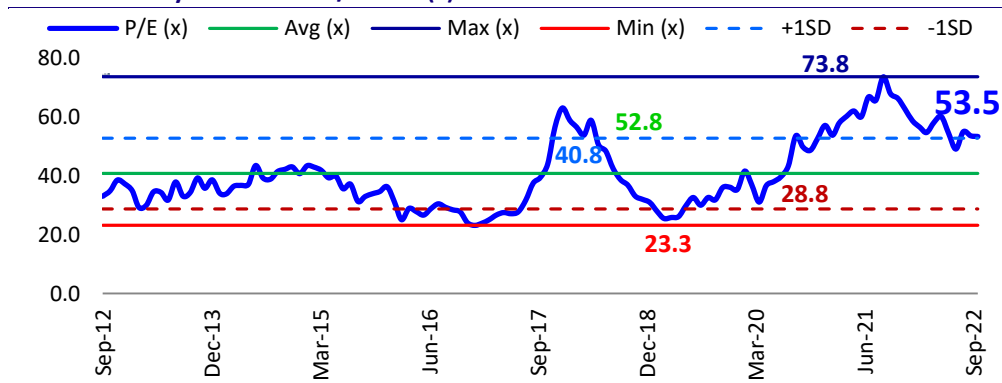
- The management's holistic strategy aims at: i) strengthening and accelerating its core business, ii) exploring new opportunities, iii) unlocking synergies, iv) digitization of the supply chain, v) expansion of its product portfolio and innovation, vi) enhancing its focus on premiumization and health 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 (up 40bp YoY) and Salt (up 400bp) as of Jun'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 on portfolio expansion spree in its F&B segment, with product launches in new and innovative categories such as the launch of Tata ORS+ with Glucose & Electrolytes and its recent foray in the Protein platform, with the launch of a plant-based meat product. The Food business is expected to be the growth engine for the company, with Tata Sampann leading from the front.
- We expect a sales/EBITDA/PAT CAGR of 11%/19%/31% over FY22-24. Factoring in an in line performance in 1QFY23, we maintain our FY23 and FY24 earnings estimate. We arrive at our SoTP-based TP of INR890 per share and maintain our **Buy** rating.

Exhibit 1: SoTP valuation

EV/EBITDA	FY24E EBITDA (INR m)	Multiple (x)	EV (INR m)
India Tea (TATACONS standalone)	9,676	41	3,98,666
Coffee India (excluding Starbucks) at 57%	1,051	11	11,562
Coffee overseas	3,998	14	56,370
Consumer (Salt and others)	6,848	41	2,82,131
Overseas Tea (Tetley UK)	2,569	13	33,403
DCF			
Starbucks JV			30,540
Enterprise value			8,16,672
Less: Net debt			(31,309)
Market value (INR m)			8,47,980
Number of shares (m)			953
TP (INR)			890

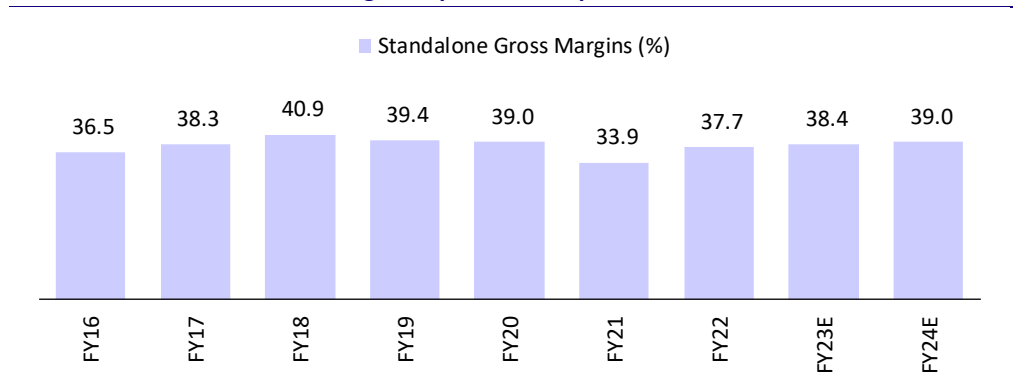
Source: MOFSL

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



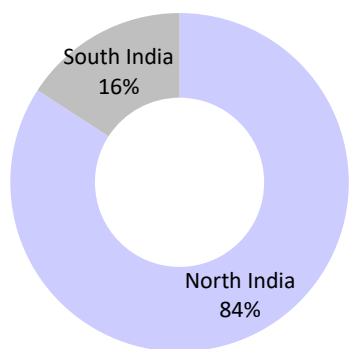
Source: MOFSL

Exhibit 3: Standalone Gross margins expected to improve in FY23 and FY24



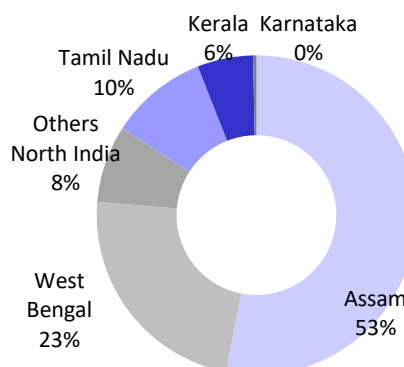
Source: Company, MOFSL

Exhibit 4: Region-wise Tea acreage in India (636k hectares)



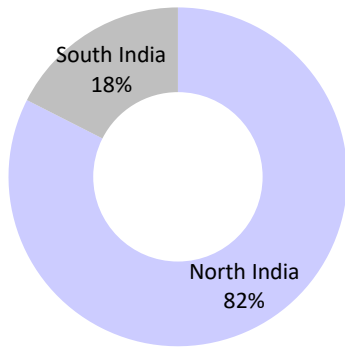
Source: Tea Board of India, MOFSL

Exhibit 5: State-wise Tea growers (636k hectares)



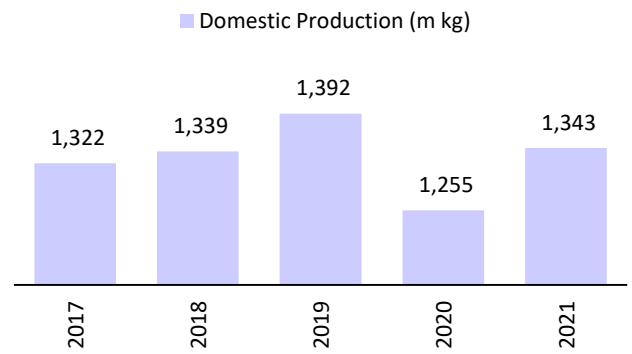
Source: Tea Board of India, MOFSL

Exhibit 6: Region-wise Tea production in CY21 (1,343m kg)



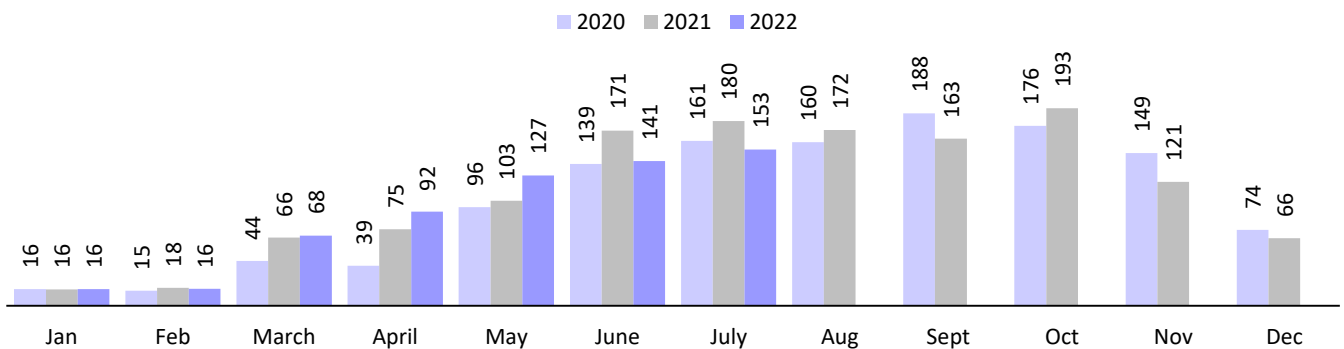
Source: Tea Board of India, MOFSL

Exhibit 7: Domestic trend in Tea production



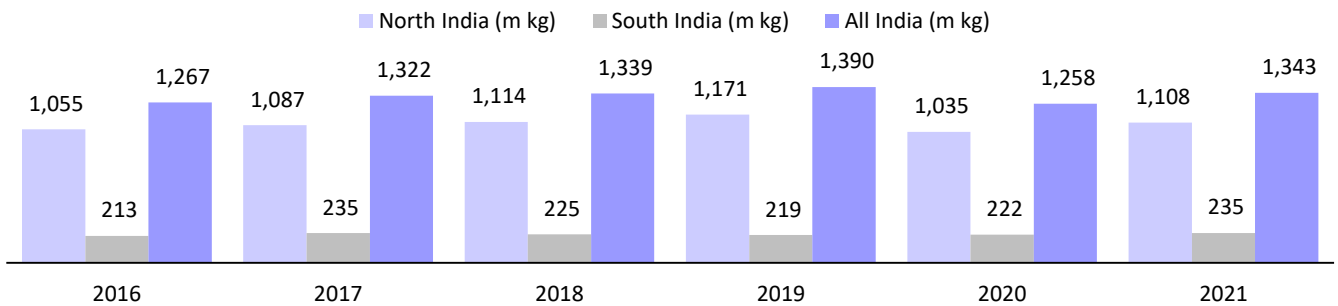
Source: Tea Board of India, MOFSL

Exhibit 8: Tea production in CY21 has been higher than CY20 levels. Till Jul'22, production has been flattish YoY



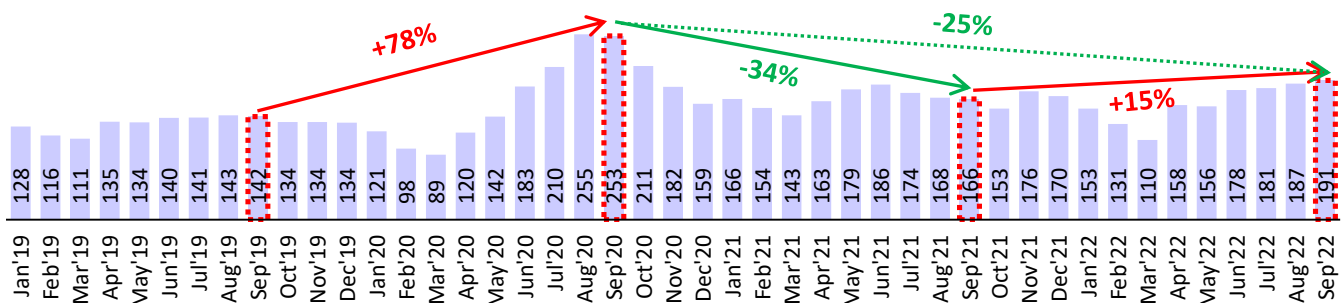
Source: Tea Board of India, MOFSL

Exhibit 9: Annual Tea production trend in India. Output improves in the North, which led to a moderation in prices in CY21



Source: Tea Board of India, MOFSL

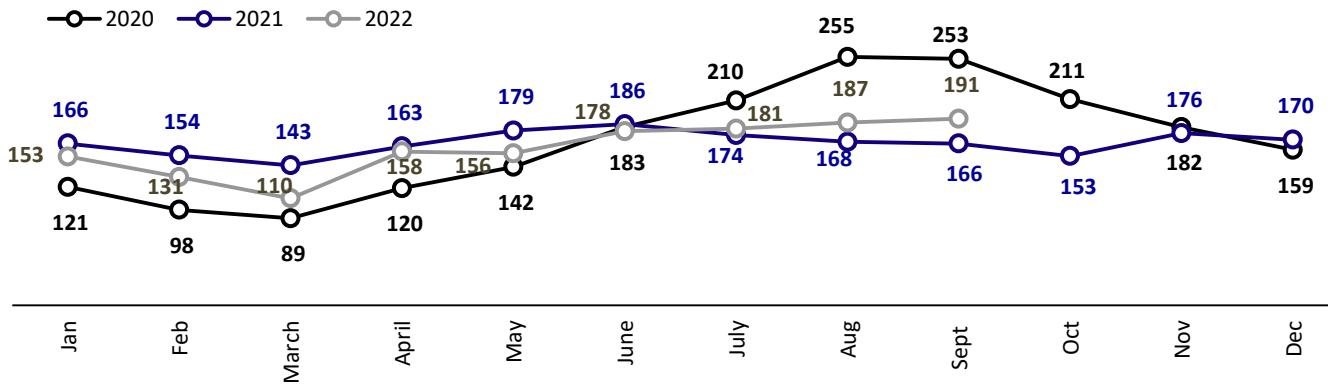
Exhibit 10: Tea prices rose YoY in Sep'22 due to lower production in Jun-Jul'22, but was lower than Sep'20 levels (the peak COVID period)



For Sep'22, average weekly Tea prices have been considered

Source: Tea Board of India, MOFSL

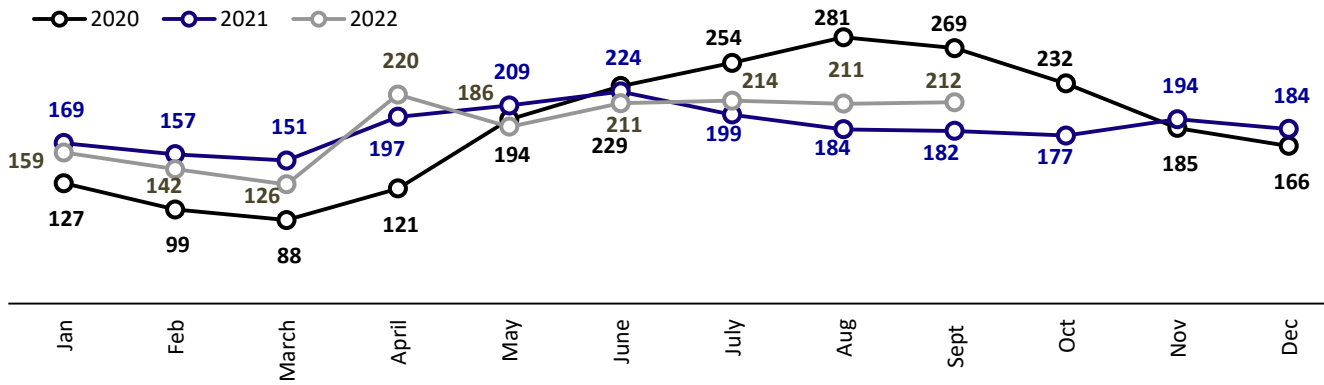
Exhibit 11: Tea prices in India (INR/kg)



For Sep'22, average weekly Tea prices have been considered

Source: Tea Board of India, MOFSL

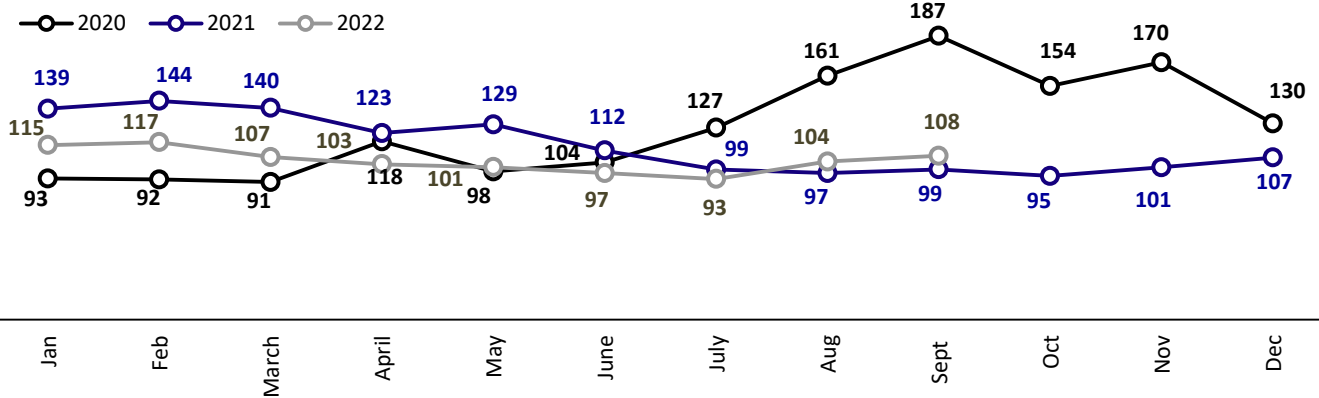
Exhibit 12: Tea prices in North India (INR/kg)



For Sep'22, average weekly Tea prices have been considered

Source: Tea Board of India, MOFSL

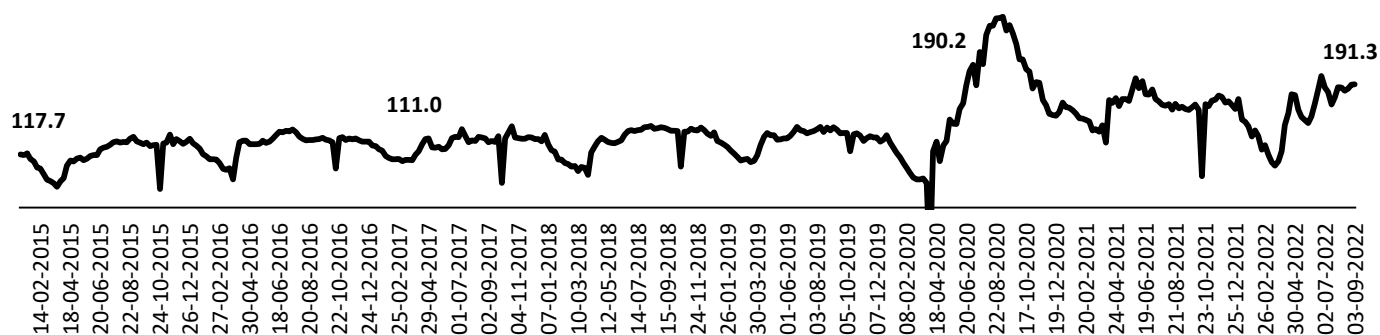
Exhibit 13: Tea prices in South India (INR/kg)



For Sep'22, average weekly Tea prices have been considered

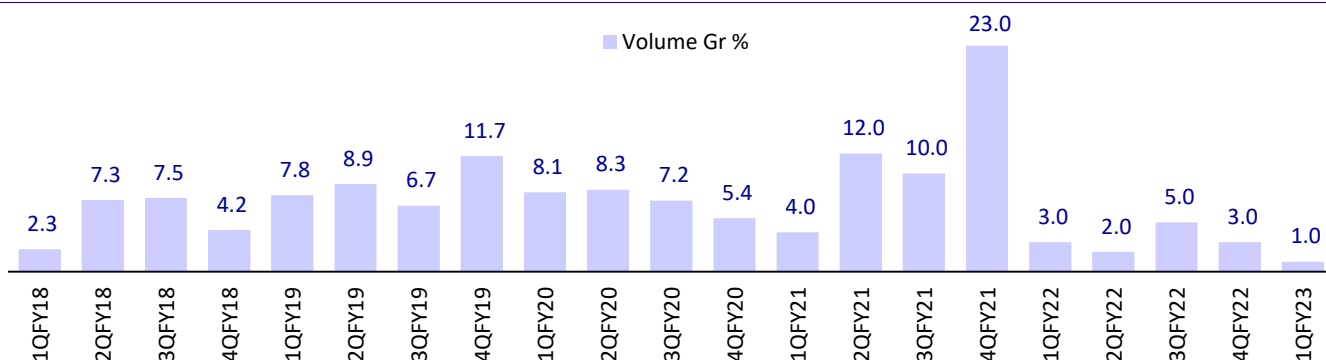
Source: Tea Board of India, MOFSL

Exhibit 14: All India weekly CTC prices



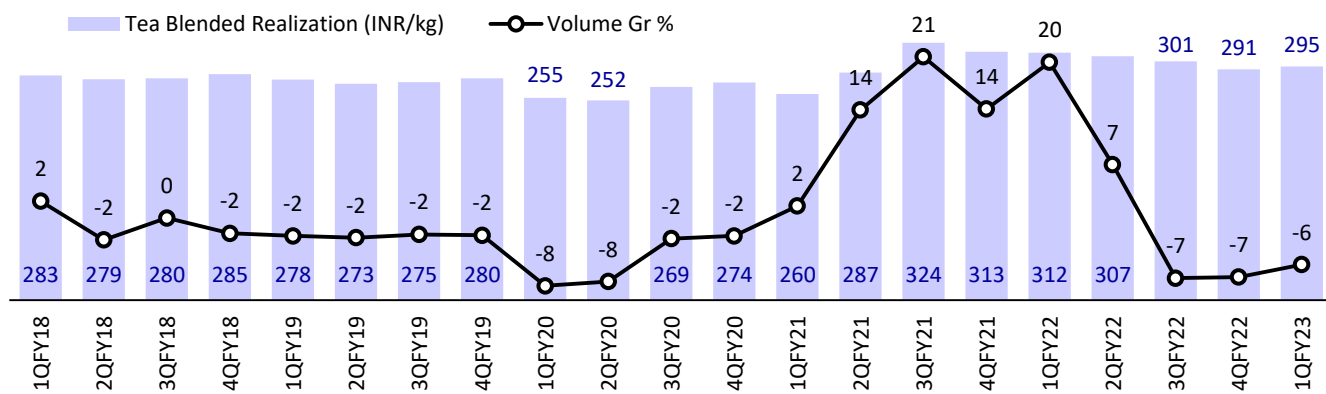
Source: Tea board of India, MOFSL

Exhibit 15: Growth in Tea volumes for TATACONS



Source: Company, MOFSL

Exhibit 16: Tea realization and growth trend for TATACONS



Source: Company, MOFSL

Financials and valuations

Consolidated Income Statement

(INR m)

Y/E March	FY16	FY17	FY18	FY19	FY20	FY21	FY22	FY23E	FY24E
Net Sales	66.4	67.8	68.2	72.5	96.4	116.0	124.3	139.3	154.1
Change (%)	-17.0	2.2	0.5	6.4	32.9	20.4	7.1	12.1	10.6
Gross Profit	30.1	32.2	31.2	32.4	42.3	47.0	53.4	59.9	66.8
Margin (%)	45.4	47.5	45.7	44.7	43.9	40.5	43.0	43.0	43.3
Other operating exp.	23.6	24.3	22.8	24.6	29.3	31.6	36.2	39.9	42.6
EBITDA	6.5	7.9	8.4	7.9	12.9	15.4	17.2	20.0	24.1
Margin (%)	9.9	11.7	12.3	10.8	13.4	13.3	13.8	14.3	15.7
Depreciation	1.2	1.3	1.2	1.2	2.4	2.5	2.8	3.0	3.0
Net Interest	1.2	0.9	0.4	0.5	0.8	0.7	0.7	0.6	0.6
Other income	0.8	0.8	0.9	1.6	1.1	1.2	1.4	1.7	1.8
PBT before EO	5.0	6.6	7.7	7.7	10.8	13.4	15.1	18.0	22.3
EO income/(exp.)	-3.3	0.1	-0.2	-0.3	-2.7	-0.3	-0.5	-0.2	0.0
PBT after EO	1.7	6.6	7.5	7.3	8.1	13.1	14.6	17.8	22.3
Tax	2.0	2.0	1.9	2.6	2.7	3.2	3.8	4.8	6.0
Rate (%)	117.8	30.0	24.7	35.5	33.9	24.2	25.9	27.0	27.0
Minority and Associates	-0.2	0.7	0.7	0.7	0.8	1.4	1.4	0.8	-0.4
Reported PAT	-0.1	3.9	5.0	4.1	4.6	8.6	9.4	12.2	16.7
Adjusted PAT	3.3	3.8	5.2	4.4	7.2	8.7	9.7	12.4	16.7
Change (%)	-13.3	17.3	34.5	-14.6	63.5	20.8	11.8	27.0	34.9

Balance Sheet

(INR m)

Y/E March	FY16	FY17	FY18	FY19	FY20	FY21	FY22	FY23E	FY24E
Share Capital	0.6	0.6	0.6	0.6	0.9	0.9	0.9	0.9	1.0
Reserves	61.8	62.0	69.7	72.7	137.2	144.4	150.5	162.8	180.1
Net Worth	62.5	62.7	70.3	73.3	138.1	145.3	151.4	163.7	181.0
Minority Interest	8.6	9.2	10.1	10.3	10.9	10.9	11.5	6.8	0.0
Loans	13.5	7.9	10.7	11.3	11.8	7.2	10.1	10.1	8.1
Capital Employed	84.6	79.7	91.1	94.9	160.9	163.5	173.0	180.6	189.1
Gross Block	24.0	23.7	25.4	27.7	59.1	61.8	66.7	69.2	72.2
Less: Accum. Deprn.	14.5	13.7	15.2	16.4	18.8	21.4	24.2	27.1	30.1
Net Fixed Assets	9.5	10.1	10.2	11.3	40.3	40.4	42.5	42.0	42.0
Capital WIP	0.4	0.6	1.4	4.2	1.0	1.1	4.6	4.6	4.6
Goodwill and Intangibles	37.1	35.0	37.2	37.9	73.3	76.0	77.5	77.5	77.5
Investments	11.9	13.5	6.4	6.0	4.9	4.8	6.0	6.2	6.5
Curr. Assets	40.0	36.3	49.3	49.4	65.3	79.9	80.1	89.8	100.2
Inventories	16.3	14.5	14.5	16.1	17.1	22.5	22.7	25.9	28.7
Account Receivables	5.9	5.9	6.5	6.8	9.2	7.6	8.4	9.9	11.0
Cash and Bank Balance	6.7	7.4	18.1	16.2	24.6	34.0	28.0	32.8	39.4
Others	11.1	8.4	10.3	10.3	14.4	15.8	21.1	21.1	21.1
Curr. Liability and Prov.	13.5	14.3	13.5	12.9	20.8	33.2	30.2	32.1	34.3
Account Payables	6.8	7.4	7.1	6.6	9.4	16.3	19.2	21.0	23.2
Other liabilities	2.8	3.4	3.6	4.2	8.6	14.0	8.6	8.6	8.6
Provisions	4.0	3.6	2.9	2.0	2.8	2.9	2.5	2.5	2.5
Net Curr. Assets	26.5	22.0	35.8	36.5	44.5	46.6	49.8	57.7	65.9
Def. tax liability	0.8	1.5	0.0	1.0	3.0	5.5	7.5	7.5	7.5
Appl. of Funds	84.6	79.7	91.1	94.9	160.9	163.5	173.0	180.6	189.1

Financials and valuations

Cash Flow Statement								(INR m)	
Y/E March	FY16	FY17	FY18	FY19	FY20	FY21	FY22	FY23E	FY24E
EBITDA	6.5	7.9	8.4	7.9	12.9	15.4	17.2	20.0	24.1
Provision and FX	-0.1	0.0	0.0	0.0	-0.1	0.0	0.0	0.0	0.0
WC	-2.7	1.5	-1.4	-2.3	-0.6	3.1	2.0	-3.0	-1.5
Others	-0.2	0.1	-0.4	-0.8	1.4	1.2	-0.3	-0.2	0.0
Direct taxes (net)	-2.3	-2.1	-3.0	-2.6	-2.7	-3.2	-3.8	-4.8	-6.0
CF from Op. Activity	1.2	7.4	3.6	2.1	10.8	16.6	15.2	11.9	16.6
Capex	-1.5	-1.4	-3.6	-2.8	-1.6	-2.1	-2.7	-2.5	-3.0
FCFF	-0.4	6.0	0.0	-0.7	9.2	14.5	12.4	9.4	13.6
Interest/dividend	0.7	0.6	0.5	0.5	0.6	0.7	0.9	1.7	1.8
Investments in subsidiaries/assoc.	-0.5	-0.3	-0.1	-0.4	-0.2	-2.2	-7.4	0.0	0.0
Others	4.3	2.5	10.2	3.4	-5.5	-0.5	-4.0	0.0	0.0
CF from Inv. Activity	2.9	1.4	7.0	0.7	-6.7	-4.1	-13.2	-0.8	-1.2
Share capital	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Borrowings	-0.8	-4.8	2.2	0.4	0.3	-0.6	-4.9	0.0	-2.0
Finance cost	-0.7	-0.6	-0.3	-0.4	-0.7	-0.7	-0.6	-0.6	-0.6
Dividend	-1.9	-1.9	-2.1	-2.2	-2.2	-2.7	-4.0	-5.6	-6.2
Others	0.5	-0.8	0.4	-2.5	6.9	0.9	1.6	0.0	0.0
CF from Fin. Activity	-2.8	-8.2	0.1	-4.7	4.3	-3.0	-7.9	-6.2	-8.8
(Inc.)/Dec. in Cash	1.3	0.7	10.7	-1.9	8.4	9.4	-6.0	4.8	6.6
Opening balance	5.5	6.7	7.4	18.1	16.2	24.6	34.0	28.0	32.8
Closing balance (as per B/S)	6.7	7.4	18.1	16.2	24.6	34.0	28.0	32.8	39.4

Ratios

Y/E March	FY16	FY17	FY18	FY19	FY20	FY21	FY22	FY23E	FY24E
Basic (INR)									
EPS	3.6	4.2	5.6	4.8	7.8	9.5	10.6	13.3	17.5
Cash EPS	4.8	5.5	6.9	6.1	10.5	12.2	13.6	16.5	20.7
BV/Share	67.8	68.0	76.3	79.6	149.9	157.7	164.3	176.2	190.0
DPS	2.3	2.3	2.4	2.5	2.7	4.1	6.1	6.1	6.5
Payout (%)	NA	36.5	29.9	38.7	54.1	43.6	59.6	46.1	37.1
Dividend yield (%)	0.3	0.3	0.3	0.3	0.3	0.5	0.8	0.8	0.8
Valuation (x)									
P/E ratio	226.1	192.7	143.2	167.6	102.6	84.9	75.9	60.3	45.8
Cash P/E ratio	166.6	145.1	117.0	131.2	76.8	65.7	59.1	48.6	38.8
P/BV ratio	11.8	11.8	10.5	10.1	5.4	5.1	4.9	4.6	4.2
EV/Sales ratio	11.3	10.9	10.8	10.1	7.5	6.1	5.8	5.2	4.6
EV/EBITDA ratio	114.1	93.6	87.3	93.5	56.3	46.2	42.0	35.9	29.4
Dividend Yield (%)	0.3	0.3	0.3	0.3	0.3	0.5	0.8	0.8	0.8
FCF per share	-0.6	9.6	-0.1	-1.1	10.0	15.7	13.5	10.1	14.3
Return Ratios (%)									
RoE	5.6	6.1	7.8	6.1	6.8	6.1	6.6	7.9	9.7
RoCE	7.6	9.0	9.4	8.6	8.5	8.3	9.0	10.6	12.6
RoIC	8.2	10.6	11.7	9.8	11.5	11.1	10.7	12.6	15.5
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 ratio	0.1	0.0	-0.1	-0.1	-0.1	-0.2	-0.1	-0.1	-0.2

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 be within following 30 days take appropriate measures to make the recommendation consistent with the investment rating legend.

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