

Tata Consumer Products Ltd



Tata Consumer Products Ltd.

Stress in international margins led to overall margin pressure

CMP INR 767	Target INR 964	Potential Upside 25.7%	Market Cap (INR Mn) INR 7,07,291	Recommendation BUY	Sector Consumers
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Q2FY23 Result highlights

- For Q2FY23, TATACONS reported revenue of INR 33,631 mn (+10.9% YoY/ +1.1% QoQ). For H1FY23, the revenue was INR 66,899 mn (+10.7% YoY).
- EBITDA for the quarter was INR 4,338 mn (+5.0% YoY/ -5.1% QoQ). EBITDA margin for Q2FY23 contracted by 73 bps YoY/ 85 bps QoQ to 12.9%. EBITDA margin for H1FY23 contracted by 13 bps YoY to 13.3%.
- Net Profit was INR 3,280 mn (+22.4% YoY/ +28.4% QoQ). Q2FY23 had a net exceptional gain of INR 1,112 mn, which included profit on the sale of land and partially set off by some costs related to business restructuring. Excluding the exceptional item, Adjusted PAT for Q2FY23 declined by 23.8% YoY/ 22.4% QoQ to INR 2,167 mn. Adj. PAT for H1FY23 was at INR 4,962 mn (+4.8% YoY).

MARKET DATA

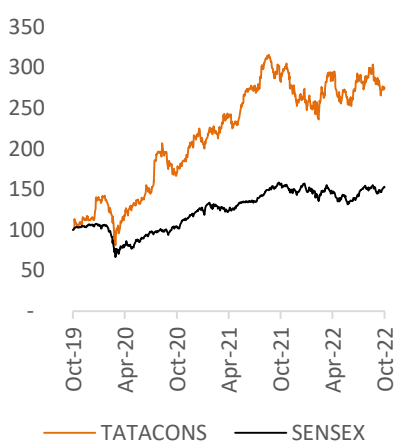
Shares O/s in Mn	922
Mkt Cap (INR Mn)	7,07,291
52 Wk H/L (INR)	861/650
Volume Avg (3m K)	1,974
Face Value (INR)	1
Bloomberg Code	TATACONS IN

KEY FINANCIALS

INR Mn	FY20	FY21	FY22	FY23E	FY24E
Revenue	96,374	1,16,020	1,24,254	1,37,903	1,54,573
EBITDA	12,922	15,438	17,188	19,207	24,024
PAT	4,598	8,568	9,358	11,924	14,719
Adj PAT	7,346	8,874	9,878	11,052	14,719
EPS (INR)	5.0	9.3	10.2	12.8	15.8
Adj. EPS (INR)	8.0	9.6	10.7	11.9	15.8
EBITDA Margin (%)	13.4%	13.3%	13.8%	13.9%	15.5%
NPM (%)	4.8%	7.4%	7.5%	8.6%	9.5%

Source: Company, KRChoksey Research

SHARE PRICE PERFORMANCE



Volumes declined across beverages businesses, growth was led by pricing in International coffee and strong growth in India foods: In Q2FY23, TATACONS reported revenue of INR 33,631 mn (+10.9% YoY/ +1.1% QoQ). India Beverages business recorded a revenue/ volume decline of 2.0%/ 1.0% YoY, respectively, due to pricing corrections and overall softness in the category. TATACONS is seeing stress in rural and semi-urban markets and bottom-of-the-pyramid products. The India Foods business registered 29.0% YoY revenue growth despite an elevated base. The International Beverages business revenue grew by 7.4% YoY in Q2FY23. Within International beverages, US Coffee volumes/ revenue were -2.0%/ +25.0% YoY, respectively (+16.0% YoY in constant currency), while International tea volumes/ revenue were -5.0%/ -4.0% YoY, respectively (flat YoY in constant currency). Tata Coffee volumes/ revenue were -1.0%/ +41.0% YoY, respectively (+39.0% YoY in constant currency). Tata Starbucks recorded revenue growth of 57.0% YoY for the quarter, led by normalized store operations and a revival in out-of-home consumption.

Margins impacted due to international business: EBITDA margin for Q2FY23 contracted by 73 bps YoY/ 85 bps QoQ to 12.9%. Unprecedented inflation, adverse currency movements and lag in pricing in the International business impacted margins in Q2FY23. TATACONS will be driving structural cost-saving initiatives to improve the trajectory going forward. TATACONS has taken price hikes in the international beverages business, but the effect of the same on financials will come with a lag, while Q3FY23E will remain impacted.

MARKET INFO

SENSEX	59,544
NIFTY	17,656

Traction in new product launches, and expansion of distribution: TATACONS continued to launch new products in India across tea/ coffee/ salt/ spices/ protein platform/ Ready-to-eat (RTE), as well as in international beverages. The pace of new launches has accelerated. The share of new products in e-commerce sales is now at 11.0%. Alternate channels of e-commerce and modern trade are seeing strong growth of 40.0%/ 18.0% YoY, respectively. TATACONS is set to beat the target of 1.5 mn direct outlets by end of FY23E.

SHARE HOLDING PATTERN (%)

Particulars	Sep-22	Jun-22	Mar-22
Promoters	34.7	34.7	34.7
FIIs	25.6	25.3	25.4
DIIIs	14.9	14.0	13.7
Others	24.8	26.0	26.2
Total	100	100	100

11.5%

 Revenue CAGR between FY22
and FY24E

22.1%

 Adj. PAT CAGR between FY22
and FY24E

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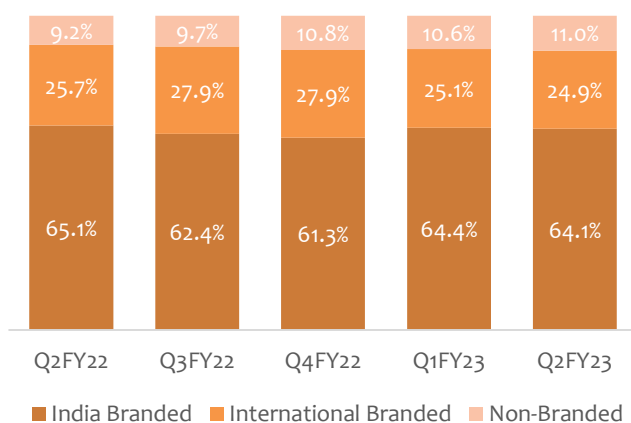
Key Concall Highlights :

(1) TATACONS has gained market share in both tea and salt in India. In India tea, TATACONS has gained 46 bps of volume market share but lost 20 bps of value market share due to price action. (2) In salt, TATACONS has gained market share by 128 bps YoY as of August 22. The market share gain is despite a more than 33.0% price hike taken between July 2021 to August 2022. (3) In UK, TATACONS displaced Twinings to become the 3rd largest branded tea company by market share in Q2FY23. (4) In the USA, Teapigs became the fastest-growing tea brand, while Tetley witnessed share gains. (5) New engines of growth including Ready to drink (RTD), Sampann, Soulful, Yumside have grown by 50.0% YoY during the quarter. NourishCo growth was at 63.0% YoY. (6) TATACONS revamped and relaunched Tata Q Ready-To-Eat (RTE) business under the new brand name of Tata Sampann Yumside in India and Tata Raasa in the International markets. (7) TATACONS is on track to beat the target to reach 1.5 mn direct outlets by March 23 as it is already at 1.4 mn. (8) E-commerce formed 7.5% of sales at the end of FY22 and is now at 9.2%. E-commerce has grown by 40.0% YoY, while modern trade has grown by 18.0% YoY. (9) New product launched in H1FY23 is 2x of H1FY22. (10) TATACONS is looking at "Snacks" category under its mini-meals platform. (11) In the Protein platform, TATACONS has added a new product which is a plant-based protein supplement for women. (12) Tea prices in India are on a secular downtrend but saw a short-term blip in Q2FY23 due to flooding and issues in Sri Lanka. (13) Kenya tea prices remained stable QoQ but GBP depreciation against the USD is leading to higher costs. (14) Coffee prices remained significantly higher YoY, but TATACONS has taken further price hikes, the positive impact of which will come after a lag. (15) Starbucks had a same-store sales growth of 24.0% vs. the pre-covid period. 99.0% of Starbucks stores have reopened. (16) The pressure in India's tea business is not broad-based but more in rural, semi-urban and Hindi belt. For TATACONS, the premium portfolio is doing well while there is stress at the bottom of the pyramid. (17) Sampann will continue to grow at 30.0% CAGR. (18) Variables that can influence margins going forward are tea volumes in India, currency movements in the international market, and pricing actions. (19) TATACONS is waiting on the requisite approvals for India and international simplification plans.

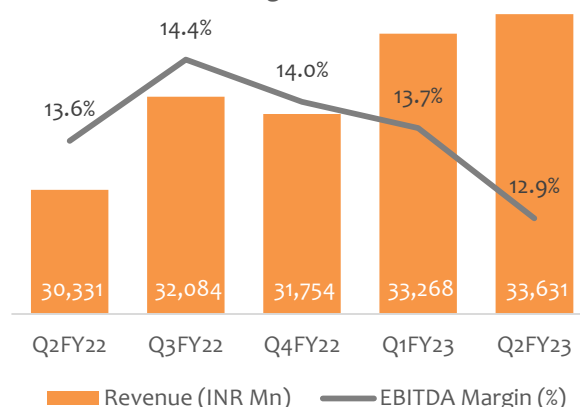
Valuation and view

TATACONS is gaining volume market share across its business segments, despite macro challenges. In India, TATACONS is seeing strong traction in growth segments which includes Ready to drink (RTD), Sampann, Soulful, Yumside. TATACONS is also benefiting from premiumization in the Indian tea business. TATACONS is strongly focusing on expanding its product portfolio by getting into newer platforms and categories. In the international beverages business, TATACONS continued to gain market share despite macro challenges pertaining to currency, input costs, and pricing. We believe, TATACONS is well placed to tide over the industry-wide issues as it has continued to gain market share. We expect Revenue/ EBITDA/ Adj. PAT to grow by 11.5%/ 18.2%/ 22.1% CAGR, respectively, over FY22-24E. **We have valued TATACONS on a SOTP basis. For India Business, we apply an EV/EBITDA multiple of 39.5x to FY24E EBITDA; for International Business, we apply an EV/EBITDA multiple of 16.3x to FY24E EBITDA; and for Starbucks business, we apply an EV/Revenue multiple of 2.7x to FY24E Revenue. Accordingly, we maintain our target price of INR 964 per share (unchanged), an upside of 25.7% over the CMP. Accordingly, we reiterate a "BUY" rating on the shares of Tata Consumer Products Ltd.**

Revenue Contribution (%)



EBITDA Margin pressure due to stress on international margins



Tata Consumer Products Ltd.

KEY FINANCIALS

Particulars (Mn)	Q2FY23	Q1FY23	Q2FY22	QoQ	YoY	H1FY23	H1FY22	YoY
Revenue from operations	33,631	33,268	30,331	1.1%	10.9%	66,899	60,416	10.7%
Total Expenditure	29,292	28,695	26,198	2.1%	11.8%	57,987	52,288	10.9%
Cost of Raw Materials	13,273	13,605	12,320	-2.4%	7.7%	26,878	25,457	5.6%
Purchase of Stock	6,775	6,935	4,852	-2.3%	39.6%	13,710	10,278	33.4%
Changes in Inventories	-456	-1,449	191	-68.6%	-338.2%	-1,904	-548	247.5%
Employee Cost	2,738	2,774	2,556	-1.3%	7.1%	5,513	5,211	5.8%
Other Expenses	4,793	4,714	4,160	1.7%	15.2%	9,507	8,190	16.1%
Advertising expenses	2,169	2,116	2,119	2.5%	2.4%	4,285	3,701	15.8%
EBITDA	4,338	4,573	4,133	-5.1%	5.0%	8,911	8,128	9.6%
EBITDA Margins (%)	12.9%	13.7%	13.6%	-85 bps	-73 bps	13.3%	13.5%	-13 bps
Depreciation	731	729	693	0.3%	5.5%	1,461	1,361	7.3%
EBIT	3,607	3,844	3,440	-6.2%	4.9%	7,451	6,767	10.1%
Interest Expense	196	163	198	20.2%	-1.2%	358	402	-10.9%
Other income	293	353	396	-17.1%	-26.0%	647	676	-4.4%
PBT	3,705	4,035	3,638	-8.2%	1.8%	7,739	7,041	9.9%
Exceptional Items	1,112	-240	-163	-564.0%	-781.9%	873	-202	-531.3%
Tax	1,267	1,030	861	23.0%	47.1%	2,297	1,818	26.3%
Share of Associates/Minorities	-270	-211	67	28.4%	-506.3%	-481	-489	-1.6%
PAT	3,280	2,555	2,680	28.4%	22.4%	5,834	4,532	28.7%
PAT Margin	9.8%	7.7%	8.8%	207 bps	91 bps	8.7%	7.5%	122 bps
EPS	3.6	2.8	2.9	28.4%	22.4%	6.3	4.9	28.7%
Adjusted PAT	2,167	2,794	2,844	-22.4%	-23.8%	4,962	4,734	4.8%
Adj. PAT Margin	6.4%	8.4%	9.4%	-195 bps	-293 bps	7.4%	7.8%	-42 bps
Adj. EPS	2.4	3.0	3.1	-22.4%	-23.8%	5.4	5.1	4.8%

Profit & Loss Statement

INR Mn	FY20	FY21	FY22	FY23E	FY24E
Revenues	96,374	1,16,020	1,24,254	1,37,903	1,54,573
COGS	54,107	69,023	70,840	78,978	86,934
Gross profit	42,267	46,997	53,414	58,925	67,639
Employee cost	8,848	9,702	10,480	11,229	12,286
Other expenses	13,731	14,595	17,336	19,163	20,122
EBITDA	12,922	15,438	17,188	19,207	24,024
EBITDA Margin	13.4%	13.3%	13.8%	139.3%	155.4%
Depreciation & amortization	2,417	2,547	2,780	2,865	3,031
EBIT	10,504	12,890	14,408	16,342	20,993
Interest expense	779	687	728	850	850
Other income	1,116	1,214	1,401	1,407	1,407
PBT	8,094	13,111	14,560	17,772	21,551
Tax	2,742	3,172	3,770	4,605	5,431
Minority interest	4	738	794	1,016	1,245
PAT	4,598	8,568	9,358	11,924	14,719
Adj. PAT	7,346	8,874	9,878	11,052	14,719
EPS (INR)	5.0	9.3	10.2	12.8	15.8
Adj. EPS	8.0	9.6	10.7	11.9	15.8

Cash Flow Statement

INR Mn	FY20	FY21	FY22	FY23E	FY24E
Net Cash Generated From Operations	10,822	16,561	15,158	14,712	17,637
Net Cash Flow from/(used in) Investing Activities	(6,726)	(4,084)	(13,218)	(4,006)	(4,362)
Net Cash Flow from Financing Activities	(3,083)	(4,260)	(9,948)	(5,621)	(6,052)
Net Inc/Dec in cash equivalents	1,013	8,217	(8,008)	5,085	7,222
Opening Balance	9,670	11,217	20,420	14,980	20,065
Closing Balance Cash and Cash Equivalents	10,683	19,433	12,412	20,065	27,287

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	15,920	17,263
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	1,40,956	1,42,288
Current assets					
Inventories	17,120	22,492	22,665	25,269	27,814
Trade receivables	9,224	7,613	8,352	9,269	10,389
Cash and cash equivalents	11,217	20,420	14,980	20,065	27,287
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	79,963	90,852
TOTAL ASSETS	1,85,026	2,02,559	2,11,172	2,20,920	2,33,139
EQUITY AND LIABILITIES					
Equity					
Equity share capital	922	922	922	922	922
Other equity	1,37,227	1,44,424	1,50,498	1,56,801	1,65,468
Non-controlling interests	10,925	10,925	11,516	12,759	14,161
Total equity	1,49,073	1,56,270	1,62,936	1,70,482	1,80,550
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	21,359	23,511
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	33,923	36,075
Total liabilities	35,953	46,288	48,236	50,437	52,589
TOTAL EQUITY AND LIABILITIES	1,85,026	2,02,559	2,11,172	2,20,920	2,33,139

Ratio Analysis

Key Ratio	FY20	FY21	FY22	FY23E	FY24E
EBITDA Margin (%)	13.4%	13.3%	13.8%	13.9%	15.5%
Tax rate (%)	33.9%	24.2%	25.9%	25.9%	25.2%
Net Profit Margin (%)	4.8%	7.4%	7.5%	8.6%	9.5%
RoE (%)	3.1%	5.5%	5.7%	7.0%	8.2%
RoCE (%)	6.5%	7.9%	8.3%	9.0%	11.0%
EPS (INR)	5.0	9.3	10.2	12.8	15.8
PE	153.7x	82.5x	75.5x	59.8x	48.4x

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
27-Oct-22	767	964	BUY	Buy	More than 15%
12-Aug-22	773	964	BUY	Accumulate	5% – 15%
6-May 22	765	964	BUY	Hold	0 – 5%
9-Feb-22	697	1,030	BUY	Reduce	-5% – 0
26-Oct-21	809	1,030	BUY	Sell	Less than – 5%
14-May-20	565	597	ACCUMULATE		

ANALYST CERTIFICATION:

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