



Tata Consumer Products Ltd

Good Q3; India foods biz continues to outshine

Consumer Goods

Sharekhan code: TATACONSUM

Reco/View: Buy

CMP: Rs. 726

Price Target: Rs. 870

Upgrade Maintain Downgrade

3R MATRIX

	+	=	-
Right Sector (RS)	Green	Grey	Red
Right Quality (RQ)	Green	Grey	Red
Right Valuation (RV)	Green	Grey	Red
	+ Positive	= Neutral	- Negative

What has changed in 3R MATRIX

	Old		New
RS	Grey	↔	Grey
RQ	Green	↔	Green
RV	Green	↔	Green

ESG Disclosure Score **NEW**

ESG RISK RATING	30.63			
Updated Dec 08, 2022				
High Risk				
NEGL	LOW	MED	HIGH	SEVERE
0-10	10-20	20-30	30-40	40+

Source: Morningstar

Company details

Market cap:	Rs. 67,423 cr
52-week high/low:	Rs. 861 / 651
NSE volume: (No of shares)	16.1 lakh
BSE code:	500800
NSE code:	TATACONSUM
Free float: (No of shares)	60.9 cr

Shareholding (%)

Promoters	34.4
FII	27.3
DII	15.1
Others	23.1

Price chart



Price performance

(%)	1m	3m	6m	12m
Absolute	-4.7	-4.9	-7.4	-1.6
Relative to Sensex	-5.0	-4.8	-11.6	-5.1

Sharekhan Research, Bloomberg

Summary

- Tata Consumer Products Limited (TCPL) registered good performance for Q3FY2023, with revenue growing by 8% y-o-y to Rs. 3,475 crore with flat operating profit and adjusted PAT growing by 2.2% y-o-y to Rs. 306.3 crore. Indian food business and Tata Coffee business registered 29% and 28% y-o-y growth, respectively.
- Focus on delivering high single-digit growth in India beverage and salt business (mid-single digit volume growth); mid single-digit growth in the international business, and high double-digit growth in growth businesses would drive consistent mid-teens revenue growth.
- Price hikes undertaken to improve international business's margins. This along with structural cost-saving initiatives and better mix would help the company to post better margins going ahead.
- The stock currently trades at 47x/40x its FY2024E/FY2025E earnings. We maintain Buy with a revised PT of Rs. 870. Any large inorganic deal focusing on enhancing shareholders' value will be a key trigger for valuations to improve in the near term.

Tata Consumer Products Limited (TCPL) registered good performance in the backdrop of a tough demand environment in the domestic market. Consolidated revenue grew by 8% y-o-y to Rs. 3,475 crore (three-year CAGR of 12%). Indian food business and Tata Coffee business registered 29% and 28% y-o-y growth, respectively. The company continued to gain volume share in some of the key categories and markets. Gross margin was down 217 bps y-o-y and OPM declined by 133 bps y-o-y, affected by higher input prices. Operating profit stood flat at Rs. 453.7 crore. Adjusted PAT grew by 2.2% y-o-y to Rs. 306.3 crore. For 9MFY2023, revenue grew by 10% y-o-y to Rs. 10,164.4 crore, while adjusted PAT grew by 6.2% y-o-y to Rs. 869.6 crore and OPM fell by 60 bps to 13.2%.

Key positives

- India foods business registered 29% y-o-y revenue growth; Salt portfolio and Tata Sampann portfolio grew by 27% and 37%, respectively.
- NourishCo delivered broad-based revenue growth of 66% y-o-y to Rs. 119 crore.
- Tata Coffee (excluding Eight O' Clock coffee) grew by 25% y-o-y, driven by 33% growth in the extraction business.
- The company has maintained its strong cash position of over Rs. 2,099 crore; working capital is down by 60%.

Key negatives

- India packaged beverages business volumes decreased by 5% and US coffee business volumes fell by 17%.
- Gross margin/OPM declined by 217/133 bps y-o-y, impacted by higher raw and packing material prices.

Management Commentary

- TCPL's near-term focus is to revive volume growth in the India beverage business and improve margins in the international business.
- Management expects mid-single-digit volume growth in the branded tea and salt category on account of pricing, promotion and distribution expansion in the coming years. Value growth in both categories would be in high single digit.
- Contribution of growth businesses (including Sampann, NurishCo, Soufull, and ready-to-eat business) as a percentage of India branded business has gone up to 13% from 6% in FY2020. All these businesses are growing in upwards of 50% and are supporting India business.
- The company has undertaken relevant price hikes in key international markets, which will flow in Q4, thereby helping in international EBIDTA margins to improve in the coming quarters. Further, the company has taken structural cost-saving initiatives at the group level to add on to margins in the coming years. Further scale-up in the growth businesses will provide support to profitability.
- Contribution of new product launches has gone up to 3% from 0.8% three to four years back.

Revision in estimates – We have reduced our earnings estimates for FY2023, FY2024, and FY2025 to factor in lower revenue growth in the India beverage business and lower-than-earlier-expected OPM at consolidated level.

Our Call

View: Retain Buy with a revised PT of Rs. 870: TCPL registered better performance in Q3FY2023, driven by strong growth in India food business. The company is focusing on market share gains, product launches, network expansion, and cost restructuring to aid growth in the coming years to improve earnings growth over the next two to three years. Thus, with strategies in place, TCPL is well poised to achieve double-digit revenue and PAT CAGR of 12% and 16%, respectively, over FY2022-FY2025. The stock trades at 47x/40x its FY2024E/FY2025E earnings. With strong growth prospects and sturdy cash flows, we maintain our Buy recommendation on TCPL with a revised price target (PT) of Rs. 870. Any large inorganic deal focusing on enhancing shareholders' value will be a key trigger for valuations to improve in the near term.

Key Risks

Any slowdown in demand in the domestic or international market or increase in key commodity prices would act as a risk to our earnings estimates in the near term.

Valuation (Consolidated)

Particulars	Rs cr				
	FY21	FY22	FY23E	FY24E	FY25E
Revenue	11,602	12,425	13,638	15,342	17,477
OPM (%)	13.3	13.8	12.8	13.5	13.8
Adjusted PAT	953	1,054	1,168	1,416	1,663
% Y-o-Y growth	44.2	10.6	10.8	21.3	17.4
Adjusted EPS (Rs.)	10.3	11.4	12.7	15.4	18.0
P/E (x)	70.2	63.5	57.3	47.2	40.2
P/B (x)	4.6	4.4	4.2	4.0	3.7
EV/EBIDTA (x)	42.1	38.0	37.3	31.0	26.6
RoNW (%)	7.2	7.5	7.4	8.6	9.5
RoCE (%)	8.1	8.6	8.5	9.9	11.0

Source: Company; Sharekhan estimates

Mixed Q3 – Revenue growth at 8% y-o-y; Margins declined y-o-y

Revenue grew by 8.3% y-o-y to Rs. 3,474 crore. India beverage revenue decreased by 5% y-o-y (volume declined by 5%), foods business grew by 29% y-o-y (volume grew by 4%), and international business grew by 4% y-o-y. Growth businesses continued their strong trajectory, growing 53% y-o-y during the quarter, and now account for 13% of India branded business. Contribution from innovation came in at over 3% in Q3FY2023. Higher raw-material prices led to a 217-bps y-o-y decline in the gross margins to 41.5%, while OPM declined by 133 bps y-o-y to 13.1%. Operating profit stood flat at Rs. 453.7 crore. This along with higher other income led to 2.2% y-o-y growth in adjusted PAT to Rs. 306 core. Exceptional items include one-time gain of Rs. 79 crore from the conversion of the joint venture into a subsidiary. Reported PAT came in at Rs. 364 crore.

Business-wise revenue break-up

Particulars	Revenue (Rs. cr)	Value growth	Volume growth
India business	1,218	-5%	-5%
India food	947	29%	4%
US Coffee	380	11%	-17%
UK, Canada, and Others	549	-1%	0%
Tata Coffee (incl. Vietnam)	364	28%	-9%

Source: Company, Sharekhan Research

India business:

- India Packaged Beverages – Single-digit revenue decline impacted by pricing correction and lower volume:** Revenue of India packaged beverages business declined by 9% y-o-y, led by pricing corrections, with a 5% y-o-y volume decline owing to demand slowdown and late onset of the winter season in key markets of North and East. On a three-year CAGR basis, revenue grew by 9%. Coffee continued its strong performance with YTD revenue growth of 34%. The tea segment reported a market share decline (value) of 113 bps y-o-y. As per management, the company lost its market share to local players and is confident to regain the lost share in the coming quarters. Tata Tea Gold Care, Chakra Gold Care, and Tata Tea Gold Darjeeling continued to perform in line with TCPL's premiumisation agenda. Tata Tea Premium – TeaVeda continued to accelerate its growth trajectory with growth increasing sequentially.
- India Foods – Strong revenue growth; New categories gaining momentum:** India foods business registered 29% y-o-y revenue growth (three-year revenue CAGR at 21%) to Rs. 947 crore. Growth was largely price-led, as volume growth came in at 4%. The salt portfolio continued its momentum, recording double-digit revenue growth, and gained 90-bps market share during the quarter. Rock salt continued its strong trajectory with revenue growth of 97% in Q3FY2023. TCPL is building a robust portfolio of value-added salt variants to strengthen its play and expand the company's market, in addition to driving premiumisation. Some of TCPL's recent launches include – 1) Tata Salt Vitamin Shakti fortified with vitamin D and calcium and 2) Pink Salt, to accelerate upgradation from base iodized salt. Tata Sampann portfolio delivered strong growth of 37%, with broad-based performance across staples and dry fruits. The company continued to see momentum in dry fruits with the launch of special assorted festival packs and in the spices range with South pure spices and the launch of blended spices in Karnataka. Tata Soulfull also continued its strong growth trajectory during the quarter. TCPL launched an enhanced cream version of its popular ragi bites in three variants.
- NourishCo (100% subsidiary) – Broad-based growth continued:** Revenue grew by 66% y-o-y in Q3FY2023 to Rs. 119 crore, led by strong broad-based growth across products and geographies. Operating leverage and continued cost-saving initiatives helped to drive margin improvement on a y-o-y basis. TCPL continued its GTM expansion and capacity expansion initiatives, with the business now reaching nearly 6,00,000 outlets.
- Tata Coffee (including Vietnam) (~58% subsidiary) – Strong revenue growth of 25%:** Revenue for Q3FY2023 grew by 25% y-o-y, led by strong growth in the extractions business. The plantations business saw lower volumes of coffee and pepper. Overall extractions business grew by 33%, driven by both the domestic and the Vietnam business. Vietnam sales grew by 33% in constant currency terms (46% reported). Plantation business declined by 14% in Q3FY2023.
- Tata Starbucks (JV) – Robust revenue growth and aggressive store opening:** Revenue grew by 42% y-o-y, led by a revival in out-of-home consumption and strong store addition. The company opened 11 new stores (net) during Q3 and entered two new cities, taking the total number of stores to 311 across 38 cities. The company launched its first Starbucks Reserve store in India at its Flagship Mumbai location. TCPL launched special festive blends for Diwali and Christmas. The business continued to remain EBIT positive in Q3FY2023.

International business:

- ◆ **UK** – Revenue grew marginally by 1% (CC) y-o-y impacted by category softness, driven by significant inflation. Teapigs declined with growth in offline channels being more than offset by post-COVID decline in the online channel. Tetley held its share at 19.2% in the everyday black segment. Inflation and GBP depreciation vs. USD (tea costs are in USD) impacted profitability during the quarter. Some of this will be mitigated through pricing. Price hikes have been announced across all brands.
- ◆ **US** – Coffee revenue grew by 1% (CC) in Q3FY2023 to Rs. 380 crore, driven by pricing. Volume decline during the quarter came in at 17%, which was on account of the pricing actions taken by the company. The three-year revenue CAGR for coffee stood at 9%. EOC K Cups grew 2X the category during the quarter, led by focused execution. While the margin has come down on a y-o-y basis due to the escalation in coffee costs, new pack/price initiatives have helped improve profitability sequentially. Tea revenue declined by 8% (CC) impacted by a decline in Tetley Black Iced tea. Teapigs continued to be the fastest-growing brand in specialty tea, growing 4x the category during the quarter.
- ◆ **Canada** – Revenue for Q3FY2023 grew by 5% (in CC terms), led by 1% y-o-y growth in the specialty tea segment. The three-year revenue CAGR for the quarter stood at 12%. TCPL gained significant volume and value share during the quarter. Tetley outperformed both regular tea and specialty tea segments in Q3FY2023.

Key conference call highlights

- ◆ **Tea and coffee prices remain volatile:** Tea prices in North India came off from Q2 levels with end of the plucking season in the coming month. South India tea prices, on the other hand, saw an uptick coming in higher sequentially as well as y-o-y. Kenyan tea saw a slight increase from the previous quarter but was flat YoY in dollar terms. Arabica coffee prices saw a sharp correction during the quarter and were significantly lower y-o-y owing to favourable weather in Brazil and rising global stocks. Robusta coffee followed a similar trend, down q-o-q as well as a y-o-y.
- ◆ **Widening sales and distribution reach:** The company continued to make consistent progress in improving its sales and distribution reach. TCPL has increased direct distributor coverage in semi-urban areas and split routes in larger towns to drive assortment and increase focus on growth drivers. TCPL targets to reach 1.5 million outlets by March 2023, with the current reach at 1.4 million outlets. In terms of improving the value contribution, TCPL's focus would be on rural Tamil Nadu, while Eastern UP, and certain parts of Maharashtra would be focus areas to improve the volume contribution. In terms of product-wise reach, distribution of tea is currently across 2.7 million outlets, salt in 2.75 million outlets, while Soulfull and NourishCo products are available in 3,00,000 and 6,00,000 outlets, respectively. TCPL's overall reach stands at 3.6 million outlets with a target to reach 4 million outlets. As indicated by the management, Sampann portfolio has huge scope to improve distribution, followed by Nourishco followed by Soulfull.
- ◆ **Alternate channels gaining traction:** Alternate channels continued to fuel the company's growth and innovation agenda. Modern Trade channel grew 17%, contributing to 14.8% of India business sales. The Ecommerce channel grew by 34%, contributing to 8.2% of India business sales. ~11% of E-commerce revenue came from New Product Development (NPD) during the quarter.
- ◆ **Strong footing in the core portfolio (Tea and Salt):** Management expects mid-single digit volume growth in the branded tea and salt category on account of pricing, promotion, and distribution expansion in the coming years. Value growth in both categories would be high-single digit, driven by price hikes, favourable revenue mix, and premiumisation.
- ◆ **Growth business gaining momentum:** Among the growth portfolio, Sampann delivered double-digit growth and Soulfull posted high double-digit revenue growth during the quarter. The company expects gross margin from the growth businesses to start moving in upward with improvement in scale.

Results (Consolidated)				Rs cr	
Particulars	Q3FY23	Q3FY22	Y-o-Y (%)	Q2FY23	Q-o-Q (%)
Total Revenue	3,474.6	3,208.4	8.3	3,363.1	3.3
Total operating cost	3,020.9	2,746.7	10.0	2,929.2	3.1
Operating profit	453.7	461.7	-1.7	433.8	4.6
Other income	48.9	25.0	95.4	29.3	66.9
Profit Before Tax	403.8	400.7	0.8	370.5	9.0
Tax	92.4	103.3	-10.5	106.4	-13.1
Adjusted PAT before share of profit from associates/JV	311.3	297.4	4.7	264.1	17.9
Minority Interest (MI)/ Profit from associates	-5.0	2.4	-	34.5	-
Adjusted PAT after MI	306.3	299.8	2.2	298.5	2.6
Extra-ordinary items	58.1	-9.8	-	90.7	-
Reported PAT	364.4	290.1	25.6	389.2	-6.4
Adjusted EPS (Rs.)	3.4	3.2	4.7	2.9	17.9
			bps		bps
GPM (%)	41.5	43.7	-217	41.7	-23
OPM (%)	13.1	14.4	-133	12.9	16
NPM (%)	9.0	9.3	-31	7.9	111
Tax rate (%)	22.9	25.8	-288	28.7	-583

Source: Company, Sharekhan Research

Segment-wise performance				Rs cr	
Particulars	Q3FY23	Q3FY22	y-o-y %	Q2FY23	q-o-q %
India Business	2,165	2,010	7.7	2,160	0.2
International Beverages	930	897	3.7	839	10.9
Total branded business	3,095	2,907	6.5	2,999	3.2
Non-branded business	391	312	25.3	372	5.2
Others/Unallocated item	11	5	-	14	-21.3
Less: Intersegment sales	-23	-15	49.0	-21	7.0
Total	3,475	3,208	8.3	3,363	3.3

Source: Company, Sharekhan Research

Segment-wise results				Rs cr	
Particulars	Q3FY23	Q3FY22	y-o-y %	Q2FY23	y-o-y %
India Business	300	263	14.3	308	-2.4
International Beverages	88	144	-38.7	60	48.1
Total branded business	389	407	-4.5	367	5.8
Non-branded business	27	23	17.3	30	-9.3
Total	416	430	-3.3	397	4.7

Source: Company, Sharekhan Research

Outlook and Valuation

■ Sector view - H2FY2023 to be better compared with H1

A sustained slowdown in rural demand will continue to put a toll on sales volume of consumer goods companies in Q3FY2023. However, uptick in the festive season, sustained demand for premium categories along with stable demand in urban markets will lead to a sequential improvement in sales volume. Overall, we expect H2FY2023 to be much better compared with H1FY2023, with expected recovery in sales volumes. OPM is also expected to improve from Q4FY2023. Low penetration in key categories (especially in rural India), lower per capita consumption compared with other countries, a large shift to branded products, and emergence of new channels such as e-commerce/D2C provide several opportunities for achieving sustainable growth in the medium to long run.

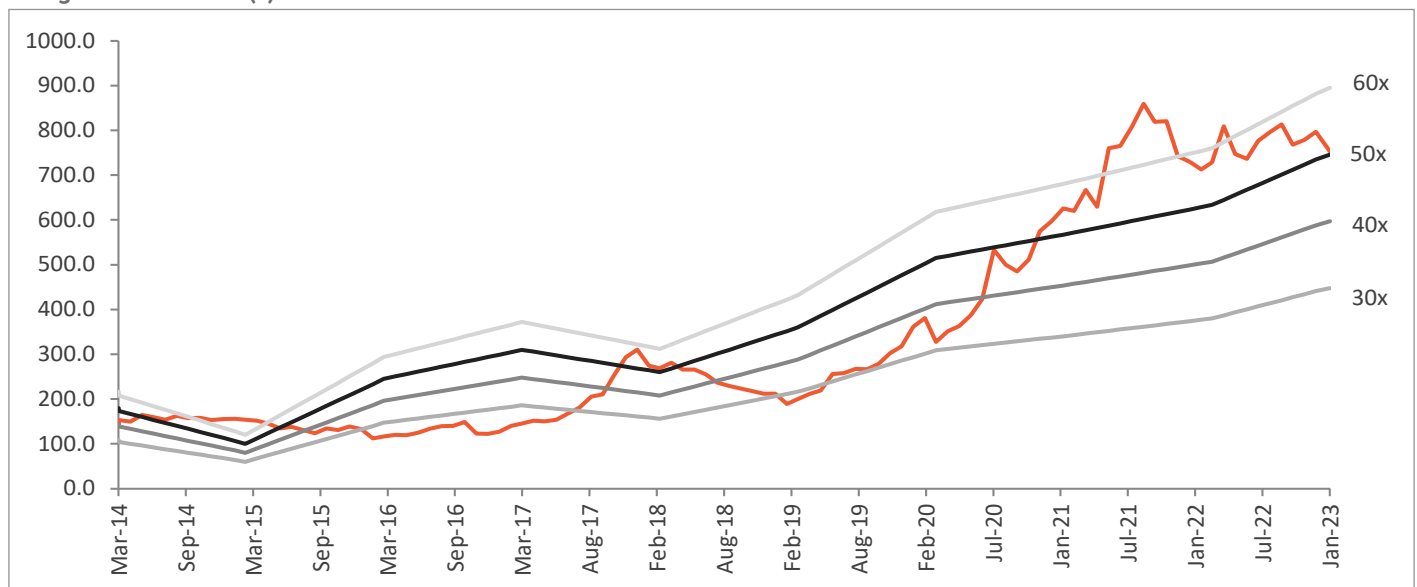
■ Company outlook - Eyeing consistent earnings growth

Expansion of distribution network and sustained share gains would help sales volume of the domestic tea business to improve to mid to-high single digit in the medium to long term. Sustained product launches will drive the foods business' growth, shift to branded products, and distribution expansion. Base of the international business has normalised and, with demand improving in most markets, business revenue growth trajectory will improve in the quarters ahead. Raw tea prices have corrected from their high and will ease gross margin pressures despite higher fuel and packaging cost. The company is banking on operating efficiencies and mix to post better margins in the quarters ahead.

■ Valuation - Retain Buy with a revised PT of Rs. 870

TCPL registered better performance in Q3FY2023, driven by strong growth in India food business. The company is focusing on market share gains, product launches, network expansion, and cost restructuring to aid growth in the coming years to improve earnings growth over the next two to three years. Thus, with strategies in place, TCPL is well poised to achieve double-digit revenue and PAT CAGR of 12% and 16%, respectively, over FY2022-FY2025. The stock trades at 47x/40x its FY2024E/FY2025E earnings. With strong growth prospects and sturdy cash flows, we maintain our Buy recommendation on TCPL with a revised price target (PT) of Rs. 870. Any large inorganic deal focusing on enhancing shareholders' value will be a key trigger for valuations to improve in the near term.

One-year forward P/E (x) band



Source: Sharekhan Research

Peer Comparison

Companies	P/E (x)			EV/EBITDA (x)			RoCE (%)		
	FY22	FY23E	FY24E	FY22	FY23E	FY24E	FY22	FY23E	FY24E
Hindustan Unilever	70.3	65.1	55.0	49.2	45.4	38.6	24.1	25.9	30.1
Nestle India	79.0	72.5	59.3	50.9	47.9	40.0	138.3	129.4	125.8
Tata Consumer Products	63.5	57.3	47.2	38.0	37.3	31.0	8.6	8.5	9.9

Source: Company; Sharekhan Research

About company

TCPL is a focused consumer products company uniting the principal food and beverage interests of the Tata Group under one umbrella. The company's product portfolio includes tea, coffee, water, salt, pulses, spices, ready-to-cook and ready-to-eat offerings, breakfast cereals, snacks, and mini meals. TCPL is the second largest branded tea company in the world. The company's key beverage brands include Tata Tea, Tetley, Eight O'Clock Coffee, Tata Coffee Grand, Himalayan Natural Mineral Water, Tata Water Plus, and Tata Gluco Plus. The company's foods portfolio includes brands such as Tata Salt, Tata Sampann, Tata Soufull, and Tata Q. In India, TCPL has a reach of over 200 million households. The company has a consolidated annual turnover of ~Rs. 12,400 crore with operations in India and international markets.

Investment theme

After the integration of TCL's consumer business with TGBL, India business is expected to become a key revenue driver for the company. Rising per capita income, increasing brand awareness, increased in-house consumption, and consumption through modern channels such as large retail stores/e-commerce would act as key revenue drivers for branded pulses and spices businesses in India in addition to the consistently growing tea business. Along with margin expansion, innovation, and diversification, the merger will help TCPL to expand its distribution network. An enhanced product portfolio and expanded distribution reach would help India business's revenue to grow in double digits in the next two-three years as against a 5% CAGR over FY2016-FY2020.

Key Risks

- ◆ Sustained slowdown in domestic consumption; heightened competition from new players; and spike in key input prices would act as key risks to our earnings estimates in the near term.

Additional Data

Key management personnel

N. Chandrasekaran	Chairman
Sunil D'Souza	Managing Director and CEO
L. Krishna Kumar	Executive Director and group CFO
Neelabja Chakrabarty	Company Secretary

Source: BSE; Company

Top 10 shareholders

Sr. No.	Holder Name	Holding (%)
1	Life Insurance Corporation of India	6.11
2	First State Investment ICVC	4.78
3	Vanguard Group Inc.	2.15
4	BlackRock Inc.	2.14
5	Norges Bank	2.09
6	Government Pensi	1.92
7	Goldman Sachs Group Inc.	1.33
8	SBI Funds Management	1.28
9	Aditya Birla Sun Life AMC	0.72
10	Nippon Life India AMC	0.60

Source: Bloomberg

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Understanding the Sharekhan 3R Matrix

Right Sector	
Positive	Strong industry fundamentals (favorable demand-supply scenario, consistent industry growth), increasing investments, higher entry barrier, and favorable government policies
Neutral	Stagnancy in the industry growth due to macro factors and lower incremental investments by Government/private companies
Negative	Unable to recover from low in the stable economic environment, adverse government policies affecting the business fundamentals and global challenges (currency headwinds and unfavorable policies implemented by global industrial institutions) and any significant increase in commodity prices affecting profitability.
Right Quality	
Positive	Sector leader, Strong management bandwidth, Strong financial track-record, Healthy Balance sheet/cash flows, differentiated product/service portfolio and Good corporate governance.
Neutral	Macro slowdown affecting near term growth profile, Untoward events such as natural calamities resulting in near term uncertainty, Company specific events such as factory shutdown, lack of positive triggers/events in near term, raw material price movement turning unfavourable
Negative	Weakening growth trend led by led by external/internal factors, reshuffling of key management personal, questionable corporate governance, high commodity prices/weak realisation environment resulting in margin pressure and deteriorating balance sheet
Right Valuation	
Positive	Strong earnings growth expectation and improving return ratios but valuations are trading at discount to industry leaders/historical average multiples, Expansion in valuation multiple due to expected outperformance amongst its peers and Industry up-cycle with conducive business environment.
Neutral	Trading at par to historical valuations and having limited scope of expansion in valuation multiples.
Negative	Trading at premium valuations but earnings outlook are weak; Emergence of roadblocks such as corporate governance issue, adverse government policies and bleak global macro environment etc warranting for lower than historical valuation multiple.

Source: Sharekhan Research

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