

# Tata Consumer Products Ltd



# Tata Consumer Products Ltd. **Overall volumes muted; improved trajectory in India foods and international tea**

CMP <b>INR 724</b>	Target <b>INR 964</b>	Potential Upside <b>33.2%</b>	Market Cap (INR Mn) <b>INR 6,72,604</b>	Recommendation <b>BUY</b>	Sector <b>Consumers</b>
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## Q3FY23 Result highlights

- TATACONS reported revenue of INR 34,746 mn (+8.3% YoY/ +3.3%QoQ). For 9MFY23, revenue was INR 1,01,644 mn (+ 9.9% YoY).
- EBITDA declined by 1.7% YoY but improved by 4.6% QoQ to INR 4,537 mn. EBITDA margin contracted by 133 bps YoY but expanded by 16 bps QoQ to 13.1%. For 9MFY23, EBITDA was at INR 13,448 mn (+5.5% YoY) while EBITDA margin was 13.2% (-55 bps YoY).
- Reported PAT for the quarter was INR 3,518 mn (+32.7% YoY/ +7.3% QoQ). For 9MFY23, reported PAT was INR 9,352 mn (+30.2% YoY). Q3FY23 had an exceptional item mainly related to fair valuation arising out of acquiring control of an overseas venture. Q2FY23 and Q3FY22 also had some exceptional items. Adjusted PAT for Q3FY23 was INR 2,732 mn (-1.8% YoY/ +26.0% QoQ). Adjusted PAT for 9MFY23 was INR 7,694 mn (+2.4% YoY).

## MARKET DATA

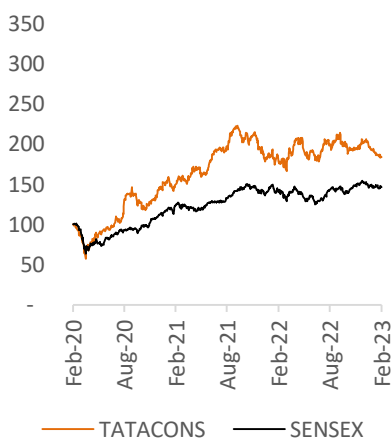
Shares O/s in Mn	929
Mkt Cap (INR Mn)	6,72,604
52 Wk H/L (INR)	861/650
Volume Avg (3m K)	1,248
Face Value (INR)	1
Bloomberg Code	TATACONS IN

## KEY FINANCIALS

INR Mn	FY21	FY22	FY23E	FY24E	FY25E
Revenue	1,16,020	1,24,254	1,36,166	1,50,453	1,64,817
EBITDA	15,438	17,188	18,212	23,367	26,294
PAT	8,568	9,358	12,013	14,233	16,116
Adj PAT	8,874	9,878	10,355	14,233	16,116
EPS (INR)	9.3	10.2	12.9	15.3	17.3
Adj. EPS (INR)	9.6	10.7	11.1	15.3	17.3
EBITDA Margin (%)	13.3%	13.8%	13.4%	15.5%	16.0%
NPM (%)	7.6%	8.0%	7.6%	9.5%	9.8%

Source: Company, KRChoksey Research

## SHARE PRICE PERFORMANCE



**India foods see volume growth and international tea sees flat volumes vs. declines in the last few quarters; other businesses continue to see lower volumes:** For Q3FY23, TATACONS reported revenue of INR 34,746 mn (+8.3% YoY/ +3.3%QoQ). Overall, India business revenues grew by 7.7% YoY. Revenue for the India Beverages business declined by 4.7% YoY with a volume decline of 5.0%, impacted by pricing corrections, rural demand pressures, and the late onset of winter. India Foods' revenue jumped by 29.4% YoY, with underlying volume growth of 4.0% YoY. Total International revenues grew by 3.6% YoY. Within international, US Coffee business grew by 10.8% YoY (+1.0% YoY in constant currency) with an underlying volume decline of 17.0% YoY. International tea revenues declined by 0.7% YoY (+2.0% YoY in constant currency) with flat underlying volumes.

**Strong growth trajectory continues in Growth businesses:** Growth businesses (includes Tata Sampann, NourishCo, Tata Soufull, and the RTE/RTC business Tata Smartfooz) grew by 53.0% YoY during the quarter and now account for 13.0% of the India branded business (vs. 6.0% in FY20). Sampann volumes grew in double-digits and had a value growth of 37.0% YoY. Soufull volumes grew in very high double digits and had a value growth in triple-digits. NourishCo revenue grew by 66.0% YoY.

## MARKET INFO

SENSEX	60,664
NIFTY	17,872

**Sequential improvement in international margins, but still lower YoY:** EBITDA declined by 1.7% YoY but improved by 4.6% QoQ to INR 4,537 mn. EBITDA margin contracted by 133 bps YoY but expanded by 16 bps QoQ to 13.1%. EBITDA margins in India improved due to cost optimizations while gross margins remained stable YoY. EBITDA margin for the international business was impacted YoY due to Inflation and GBP depreciation vs USD. EBIT margin for the India business was +80 bps YoY/ -37 bps QoQ. EBIT margin for the international business was -657 bps YoY/ +240 bps QoQ.

## SHARE HOLDING PATTERN (%)

Particulars	Dec-22	Sep-22	Jun-22
Promoters	34.5	34.7	34.7
FIIIs	25.6	25.6	25.3
DIIIs	15.1	14.9	14.0
Others	24.8	24.8	26.0
Total	100	100	100

# 9.9%

Revenue CAGR between FY22 and FY25E

# 17.7%

Adj. PAT CAGR between FY22 and FY25E

# Tata Consumer Products Ltd.

## Key Concall Highlights:

**India Packaged Beverages:** (1) Market Share in tea declined by 46 bps YoY in volume terms and 113 bps YoY in Value terms. (2) Volume decline was on account of demand slowdown in some key markets and delayed winter in the North. (3) Revenue was also impacted due to price corrections. (4) TATACONS expects to see market share in tea coming back as the sales in the North pick up. (5) TATACONS launched the Tata Coffee Grand Premium, a 100% coffee, in non-south markets. (6) TATACONS completed the consolidation of Tata Tea Agni Brand.

**India foods:** (1) TATACONS market share in salt expanded by 90 bps YoY. (2) Salt revenue grew by 27.0% YoY. (3) TATACONS continues to strengthen the base business in salt and expand the value-added range. (3) Tata Sampann saw a growth of 37.0% YoY (4) TATACON's entry in spices in Karnataka has seen good response.

**NourishCo:** (1) Had a strong growth of 66.0% YoY and improved margins due to operating leverage and continued cost-saving initiatives

**Starbucks:** (1) Revenue from Starbucks grew by 42.0% YoY driven by a revival in out-of-home consumption and strong store addition. The business continued to be EBIT positive. (2) Starbucks added net 11 new stores in Q3FY23.

**International business:** (1) In UK, revenue was up 1.0% YoY while profitability was impacted due to Inflation and GBP depreciation vs USD. Price hikes have been announced across brands to mitigate this. Market share was broadly maintained. (2) In US, coffee revenue grew 1.0% YoY driven by pricing while tea revenue declined by 8.0% YoY. Margins have improved sequentially due to new pricing initiatives. Market share in tea improved a bit while it was maintained in coffee. (3) TATACONS gained significant volume and value market share in Canada. (4) The price actions taken across UK and US and cost restructuring should unfold over the next couple of quarters.

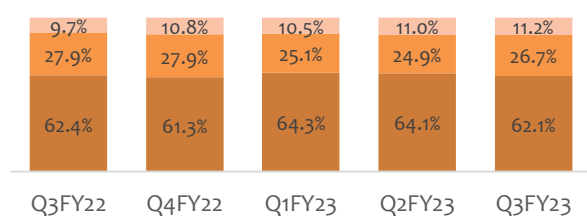
**Distribution:** (1) TATACONS is close to its target of reaching 1.5 mn direct outlets by Mar-23 and is now close to 1.4 mn. (2) The total distribution reach is at 3.6 mn outlets. (2) TATACONS initially had combined its sales force to drive efficiency. Now with an increasing portfolio, the company will have split routes separate for food and beverage. (3) TATACONS has a gap in distribution primarily in semi-urban and rural, where they lag by ~10.0% to 12.0% vs peers. There will be a significant movement from sub-distributors to distributors in the next 2 to 3 months as the company starts to improve direct coverage in semi-urban areas. (4) TATACONS will focus on closing the value gap in rural Tamil Nadu, and volume gap in rural Maharashtra and and eastern UP. IT will also have a country-wide thrust on expansion. (5) Share of Modern trade and e-commerce in overall business has doubled over the last three years. Modern trade and e-commerce revenues have grown by 17.0%/ 34.0% YoY, respectively in Q3FY23.

**Other:** (1) In the medium term, tea and salt business will have volume growth of mid-single digit with value growth in high-single digits. (2) TATACONS is in active discussion with Bisleri for possible acquisition.

## Valuation and view

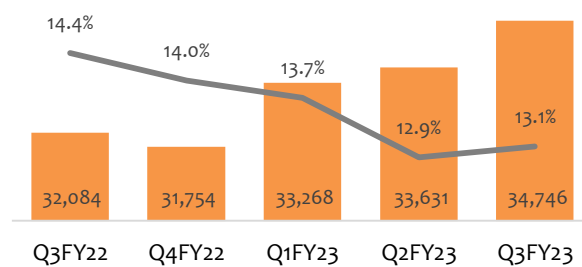
TATACONS has seen a challenging macro environment, which has affected its volumes in India as well as internationally. In Q3FY23, there has been an improvement in the trajectory of volumes for the India foods and the International tea business. TATACONS has focused on maintaining or improving its market share across businesses. TATACONS is seeing strong traction in its 'Growth businesses' and as they scale up, these will aid profitability. We expect margin improvement due to the delayed impact of pricing in international business, premiumization efforts, and cost rationalization. We broadly maintain our estimates for FY24E and introduce FY25E estimates. We expect Revenue/ EBITDA/ Adj. PAT to grow by 9.9%/ 15.2%/ 17.7% CAGR, respectively, over FY22-25E. **We have valued TATACONS on a SOTP basis. For India Business, we apply an EV/EBITDA multiple of 35.0x to FY25E EBITDA; for International Business, we apply an EV/EBITDA multiple of 14.8x to FY25E EBITDA; and for Starbucks business, we apply an EV/Revenue multiple of 2.8x to FY25E Revenue. Accordingly, we maintain our target price of INR 964 per share (unchanged), an upside of 33.2% over the CMP. Accordingly, we reiterate a "BUY" rating on the shares of Tata Consumer Products Ltd.**

Revenue Contribution (%)



■ India Branded ■ International Branded ■ Non-Branded

EBITDA Margin stabilizes QoQ



■ Revenue (INR Mn) — EBITDA Margin (%)

Source: Company, KRChoksey Research

# Tata Consumer Products Ltd.

## KEY FINANCIALS

Particulars (Mn)	Q3FY23	Q2FY23	Q3FY22	QoQ	YoY	9MFY23	9MFY22	YoY
<b>Revenue from operations</b>	<b>34,746</b>	<b>33,631</b>	<b>32,084</b>	<b>3.3%</b>	<b>8.3%</b>	<b>1,01,644</b>	<b>92,500</b>	<b>9.9%</b>
<b>Total Expenditure</b>	<b>30,209</b>	<b>29,292</b>	<b>27,467</b>	<b>3.1%</b>	<b>10.0%</b>	<b>88,196</b>	<b>79,755</b>	<b>10.6%</b>
Cost of Raw Materials	13,505	13,273	11,616	1.8%	16.3%	40,383	37,072	8.9%
Purchase of Stock	7,055	6,775	5,516	4.1%	27.9%	20,765	15,795	31.5%
Changes in Inventories	-240	-456	934	-47.4%	-125.7%	-2,144	386	-655.9%
Employee Cost	2,830	2,738	2,589	3.4%	9.3%	8,343	7,800	7.0%
Other Expenses	4,774	4,793	4,359	-0.4%	9.5%	14,281	12,548	13.8%
Advertising expenses	2,284	2,169	2,453	5.3%	-6.9%	6,569	6,154	6.7%
<b>EBITDA</b>	<b>4,537</b>	<b>4,338</b>	<b>4,617</b>	<b>4.6%</b>	<b>-1.7%</b>	<b>13,448</b>	<b>12,745</b>	<b>5.5%</b>
<b>EBITDA Margins (%)</b>	<b>13.1%</b>	<b>12.9%</b>	<b>14.4%</b>	<b>16 bps</b>	<b>-133 bps</b>	<b>13.2%</b>	<b>13.8%</b>	<b>-55 bps</b>
Depreciation	752	731	698	2.8%	7.7%	2,212	2,059	7.4%
<b>EBIT</b>	<b>3,785</b>	<b>3,607</b>	<b>3,919</b>	<b>4.9%</b>	<b>-3.4%</b>	<b>11,236</b>	<b>10,686</b>	<b>5.1%</b>
Interest Expense	237	196	162	21.1%	46.5%	595	564	5.6%
Other income	489	293	250	66.9%	95.4%	1,136	927	22.6%
<b>PBT</b>	<b>4,038</b>	<b>3,705</b>	<b>4,007</b>	<b>9.0%</b>	<b>0.8%</b>	<b>11,777</b>	<b>11,049</b>	<b>6.6%</b>
Exceptional Items	786	1,112	-132	-29.4%	-696.1%	1,658	-334	-596.3%
Tax	1,129	1,267	999	-10.9%	13.0%	3,425	2,817	21.6%
Share of Associates/Minorities	-177	-270	-226	-34.5%	-21.8%	-658	-715	-8.0%
<b>PAT</b>	<b>3,518</b>	<b>3,280</b>	<b>2,651</b>	<b>7.3%</b>	<b>32.7%</b>	<b>9,352</b>	<b>7,182</b>	<b>30.2%</b>
<b>PAT Margin</b>	<b>10.1%</b>	<b>9.8%</b>	<b>8.3%</b>	<b>37 bps</b>	<b>186 bps</b>	<b>9.2%</b>	<b>7.8%</b>	<b>144 bps</b>
<b>EPS</b>	<b>3.8</b>	<b>3.6</b>	<b>2.9</b>	<b>6.4%</b>	<b>31.7%</b>	<b>10.1</b>	<b>7.8</b>	<b>29.8%</b>
<b>Adjusted PAT</b>	<b>2,732</b>	<b>2,167</b>	<b>2,782</b>	<b>26.0%</b>	<b>-1.8%</b>	<b>7,694</b>	<b>7,517</b>	<b>2.4%</b>
<b>Adj. PAT Margin</b>	<b>7.9%</b>	<b>6.4%</b>	<b>8.7%</b>	<b>142 bps</b>	<b>-81 bps</b>	<b>7.6%</b>	<b>8.1%</b>	<b>-56 bps</b>
<b>Adj. EPS</b>	<b>2.9</b>	<b>2.4</b>	<b>3.0</b>	<b>25.0%</b>	<b>-2.6%</b>	<b>8.3</b>	<b>8.2</b>	<b>2.1%</b>

## Profit & Loss Statement

INR Mn	FY21	FY22	FY23E	FY24E	FY25E
<b>Revenues</b>	<b>1,16,020</b>	<b>1,24,254</b>	<b>1,36,166</b>	<b>1,50,453</b>	<b>1,64,817</b>
COGS	69,023	70,840	78,853	84,778	92,539
<b>Gross profit</b>	<b>46,997</b>	<b>53,414</b>	<b>57,313</b>	<b>65,675</b>	<b>72,278</b>
Employee cost	9,702	10,480	11,139	11,960	13,021
Other expenses	14,595	17,336	18,907	19,516	21,097
<b>EBITDA</b>	<b>15,438</b>	<b>17,188</b>	<b>18,212</b>	<b>23,367</b>	<b>26,294</b>
<b>EBITDA Margin</b>	<b>13.3%</b>	<b>13.8%</b>	<b>13.4%</b>	<b>15.5%</b>	<b>16.0%</b>
Depreciation & amortization	2,547	2,780	2,953	3,083	3,260
<b>EBIT</b>	<b>12,890</b>	<b>14,408</b>	<b>15,259</b>	<b>20,284</b>	<b>23,033</b>
Interest expense	687	728	850	850	850
Other income	1,214	1,401	1,407	1,407	1,407
<b>PBT</b>	<b>13,111</b>	<b>14,560</b>	<b>17,475</b>	<b>20,841</b>	<b>23,591</b>
Tax	3,172	3,770	4,444	5,252	5,945
Minority interest	738	794	1,036	1,204	1,363
<b>PAT</b>	<b>8,568</b>	<b>9,358</b>	<b>12,013</b>	<b>14,233</b>	<b>16,116</b>
<b>Adj. PAT</b>	<b>8,874</b>	<b>9,878</b>	<b>10,355</b>	<b>14,233</b>	<b>16,116</b>
<b>EPS (INR)</b>	<b>9.3</b>	<b>10.2</b>	<b>12.9</b>	<b>15.3</b>	<b>17.3</b>
<b>Adj. EPS</b>	<b>9.6</b>	<b>10.7</b>	<b>11.1</b>	<b>15.3</b>	<b>17.3</b>

## Cash Flow Statement

INR Mn	FY21	FY22	FY23E	FY24E	FY25E
Net Cash Generated From Operations	16,561	15,158	14,787	17,419	19,557
Net Cash Flow from/(used in) Investing Activities	(4,084)	(13,218)	(3,968)	(4,273)	(4,585)
Net Cash Flow from Financing Activities	(4,260)	(9,948)	(5,620)	(5,852)	(6,627)
Net Inc/Dec in cash equivalents	8,217	(8,008)	5,199	7,294	8,345
Opening Balance	11,217	20,420	14,980	20,178	27,472
Closing Balance Cash and Cash Equivalents	19,433	12,412	20,178	27,472	35,817

Source: Company, KRChoksey Research



# Tata Consumer Products Ltd.

## Balance Sheet

INR Mn	FY21	FY22	FY23E	FY24E	FY25E
<b>Non-current assets</b>					
Property, plant and equipment	12,227	14,803	15,851	17,108	18,532
Capital work-in-progress	932	2,094	2,094	2,094	2,094
Goodwill (Net)	75,966	77,541	77,541	77,541	77,541
Other intangible assets	27,843	27,540	27,508	27,439	27,341
Investments accounted for using Equity method	2,073	2,343	2,343	2,343	2,343
Investments	2,755	3,649	3,649	3,649	3,649
Loans	219	140	140	140	140
Other financial assets	749	357	357	357	357
Deferred tax assets (Net)	381	427	427	427	427
Non-current tax assets (Net)	1,423	1,417	1,417	1,417	1,417
Other non-current assets	3,114	3,023	3,023	3,023	3,023
<b>Total non-current assets</b>	<b>1,32,072</b>	<b>1,39,815</b>	<b>1,40,830</b>	<b>1,42,020</b>	<b>1,43,344</b>
<b>Current assets</b>					
Inventories	22,492	22,665	25,229	27,125	29,608
Trade receivables	7,613	8,352	9,152	10,112	11,078
Cash and cash equivalents	20,420	14,980	20,178	27,472	35,817
Other Balances with Banks	10,329	11,019	11,019	11,019	11,019
Loans	1,851	6,599	6,599	6,599	6,599
Other financial assets	1,164	1,843	1,843	1,843	1,843
Current tax assets	14	13	13	13	13
Other current assets	3,373	3,905	3,905	3,905	3,905
<b>Total current assets</b>	<b>70,486</b>	<b>71,357</b>	<b>79,920</b>	<b>90,070</b>	<b>1,01,863</b>
<b>TOTAL ASSETS</b>	<b>2,02,559</b>	<b>2,11,172</b>	<b>2,20,750</b>	<b>2,32,089</b>	<b>2,45,208</b>
<b>EQUITY AND LIABILITIES</b>					
<b>Equity</b>					
Equity share capital	922	922	922	922	922
Other equity	1,44,424	1,50,498	1,56,891	1,65,272	1,74,761
Non-controlling interests	10,925	11,516	12,534	13,890	15,420
<b>Total equity</b>	<b>1,56,270</b>	<b>1,62,936</b>	<b>1,70,347</b>	<b>1,80,084</b>	<b>1,91,103</b>
<b>LIABILITIES</b>					
<b>Non-current liabilities</b>					
Borrowings	2,875	2,419	2,419	2,419	2,419
Provisions	1,925	1,756	1,756	1,756	1,756
Deferred tax liabilities	5,702	7,764	7,764	7,764	7,764
Non-Current Tax Liabilities	149	135	135	135	135
<b>Total non-current liabilities</b>	<b>15,344</b>	<b>16,514</b>	<b>16,514</b>	<b>16,514</b>	<b>16,514</b>
<b>Current liabilities</b>					
Borrowings	4,331	7,687	7,687	7,687	7,687
Trade payables	16,255	19,159	21,326	22,928	25,027
Other financial liabilities	7,362	2,118	2,118	2,118	2,118
Other current liabilities	1,361	1,322	1,322	1,322	1,322
Provisions	1,017	732	732	732	732
Current tax liabilities (Net)	241	200	200	200	200
<b>Total current liabilities</b>	<b>30,945</b>	<b>31,722</b>	<b>33,889</b>	<b>35,492</b>	<b>37,591</b>
<b>Total liabilities</b>	<b>46,288</b>	<b>48,236</b>	<b>50,404</b>	<b>52,006</b>	<b>54,105</b>
<b>TOTAL EQUITY AND LIABILITIES</b>	<b>2,02,559</b>	<b>2,11,172</b>	<b>2,20,750</b>	<b>2,32,089</b>	<b>2,45,208</b>

## Ratio Analysis

Key Ratio	FY21	FY22	FY23E	FY24E	FY25E
EBITDA Margin (%)	13.3%	13.8%	13.4%	15.5%	16.0%
Tax rate (%)	24.2%	25.9%	25.4%	25.2%	25.2%
Net Profit Margin (%)	7.4%	7.5%	8.8%	9.5%	9.8%
RoE (%)	5.5%	5.7%	7.1%	7.9%	4.1%
RoCE (%)	7.9%	8.3%	8.5%	10.7%	7.5%
EPS (INR)	9.3	10.2	12.9	15.3	17.3
PE	77.9x	71.3x	56.0x	47.3x	41.7x

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
08-Feb-23	724	964	BUY	Buy	More than 15%
27-Oct-22	767	964	BUY	Accumulate	5% – 15%
12-Aug-22	773	964	BUY	Hold	0 – 5%
6-May-22	765	964	BUY	Reduce	-5% – 0
9-Feb-22	697	1,030	BUY	Sell	Less than – 5%
26-Oct-21	809	1,030	BUY		

## ANALYST CERTIFICATION:

I, Abhishek Agarwal (CA, CFA L3 cleared), Research Analyst, author and the name subscribed to this report, hereby certify that all of the views expressed in this research report accurately reflect my views about the subject issuer(s) or securities. I also certify that no part of our compensation was, is, or will be directly or indirectly related to the specific recommendation(s) or view(s) in this report.

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