



Powered by the Sharekhan 3R Research Philosophy

3R MATRIX

	+	=	-
Right Sector (RS)	✓	■	■
Right Quality (RQ)	✓	■	■
Right Valuation (RV)	✓	■	■

+ Positive = Neutral - Negative

What has changed in 3R MATRIX

	Old		New
RS	■	↑	■
RQ	■	↔	■
RV	■	↔	■

ESG Disclosure Score

NEW

ESG RISK RATING

Updated May 08, 2023

30.16

High Risk

NEGL	LOW	MED	HIGH	SEVERE
0-10	10-20	20-30	30-40	40+

Source: Morningstar

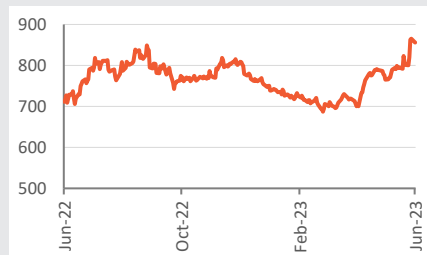
Company details

Market cap:	Rs. 79,482 cr
52-week high/low:	Rs. 872 / 685
NSE volume: (No of shares)	12.3 lakh
BSE code:	500800
NSE code:	TATACONSUM
Free float: (No of shares)	60.9 cr

Shareholding (%)

Promoters	34.4
FII	26.8
DII	15.8
Others	22.9

Price chart



Price performance

(%)	1m	3m	6m	12m
Absolute	11.8	22.1	5.8	20.2
Relative to Sensex	9.4	13.3	3.6	-2.8

Sharekhan Research, Bloomberg

Tata Consumer Products Ltd

Eye on strengthening core biz; widening market presence

Consumer Goods	Sharekhan code: TATACONSUM		
Reco/View: Buy	↔	CMP: Rs. 856	Price Target: Rs. 1,010
↑ Upgrade	↔ Maintain	↓ Downgrade	

Summary

- TCPL is focusing on strengthening its core business and expanding its addressable market to clock steady double-digit earnings growth in the medium to long run (revenues/PAT grew at CAGR of 13%/20% over FY20-23).
- Growth businesses grew by 53% y-o-y in FY2023 with increase in contribution to 15% from 10% in FY2022; Innovation's contribution to sales increased to 3.4% from 2.7% in FY2022 and overall reach rose to 3.8 million outlets.
- Net cash stood at Rs. 2,893 crore; return profile improved with RoE/RoCE (ex-goodwill) standing at 7.8% and 15.0%; dividend payout increased to 65.3% in FY2023.
- With a strong focus on achieving consistent earnings growth, simplifying business model, and enhancing shareholder value, TCPL remains one of our top picks in the FMCG space. We maintain a Buy on the stock with a revised PT of Rs. 1,010. It trades at 53.7x/45.1x its FY2024E/FY2025E EPS.

Tata Consumer Products Limited (TCPL) made substantial progress in strengthening core businesses and expanding its total addressable market in FY2023. Growth businesses (key growth engine for TCPL) recorded 53% y-o-y growth, with their contribution increasing to 15% from 10% earlier. The company expanded its distribution footprint to increase the direct reach by ~170,000 outlets to 1.5 million outlets with a total reach of 3.87 million. Innovation's share in sales increased to 3.4% in FY2023 from 2.7% in FY2022. In line with its strategy of simplifying operations/business, the company optimised its network for the third-party foods network, it consolidated Teapigs into the mainstream business and consolidated the shareholding in two of its international joint ventures (JV) - Joekels Tea Packers (Proprietary) Ltd (South Africa) and Tetley ACI Bangladesh. Tata Starbucks - JV scaled up, with revenue crossing the Rs. 1,000 crore mark in FY2023. TCPL strengthened its balance sheet with reduction in the working capital days and adequate capital allocation, resulting in net cash of ~Rs. 2,900 crore. Dividend payout increased to 65.3% in FY2023 from 52.9% in FY2022.

- Input cost inflation mars FY2023; good performance on three-year CAGR basis:** TCPL reported an 11% y-o-y revenue growth, with a 7% y-o-y increase in EBITDA, which was impacted by significant inflation in the salt and international business. On a three-year basis, revenue and PAT registered a CAGR of 13% and 20% respectively, despite pandemic-related challenges. The India business grew by 10% y-o-y, with growth businesses accounting for 15% of India business. India's branded business contribution has increased to ~71% in FY2023 from 63% in FY2020 (stood at 70% in FY2022).
- Growth businesses scaling up well:** The company's growth businesses i.e., Tata Sampann, NourishCo, and Tata Soulfull registered 53% y-o-y growth in FY2023. In Tata Sampann, TCPL's strengthened its core portfolio of pulses, spices and other staples, expanded into premium categories like dry fruits and increased ready-to-eat (RTE) and ready-to-cook (RTC) offerings, making a larger play into the pantry space. NourishCo's revenues surged 3.5x from Rs. 180 crore in FY2020 to Rs. 621 crore in FY2023 aided by distribution expansion, increased capacity through co-packers and new product introduction (to be Rs. 1,000 crore by FY2024). Tata Soulfull has grown almost threefold since its acquisition in 2021, propelled by synergies with TCPL's distribution system.
- Balance sheet continues to strengthen:** Strong focus on supply efficiencies and distribution synergies aided the company to reduce its working capital days to 21 days in FY2023 from 26 days in FY2022 (and 58 days in FY2020). OCF to EBITDA ratio was strong at 100% in FY2023 compared to 102% in FY2022 (and 93.7% in FY2020). Net cash on books increased by Rs. 450 crore to Rs. 2,893 crore in FY2023. Return profile continued to improve with RoE/RoCE (ex-goodwill) consistently improving to 7.8%/15.0% in FY2023 from 7.53%/14.6% in FY2022.

Our Call

View - Retain Buy with a revised PT of Rs. 1,010: TCPL is focusing on market share gains, product launches, network expansion, and cost restructuring to improve earnings growth over the next 2-3 years. Strong cash flows will be utilised for organic and inorganic initiatives to strengthen the key growth pillars in the coming year. Thus, with strategies in place, TCPL is well poised to achieve double-digit revenue and PAT CAGR of 13% and 17%, respectively, over FY2023-FY2025E. The stock trades at 53.7x/45.1x 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. 1,010. 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 demand slowdown 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	FY22	FY23	FY24E	FY25E
Revenue	12,425	13,784	15,471	17,608
OPM (%)	13.8	13.5	13.8	14.3
Adjusted PAT	1,054	1,193	1,469	1,750
% Y-o-Y growth	10.6	13.2	23.1	19.1
Adjusted EPS (Rs.)	11.4	12.9	15.9	19.0
P/E (x)	74.8	66.1	53.7	45.1
P/B (x)	5.2	4.8	4.6	4.3
EV/EBIDTA (x)	45.0	41.2	35.4	29.9
RoNW (%)	7.5	7.8	8.7	9.7
RoCE (%)	8.6	8.9	10.0	11.3

Source: Company; Sharekhan estimates

Key snippets from Q&A with Sunil D'Souza – MD and CEO

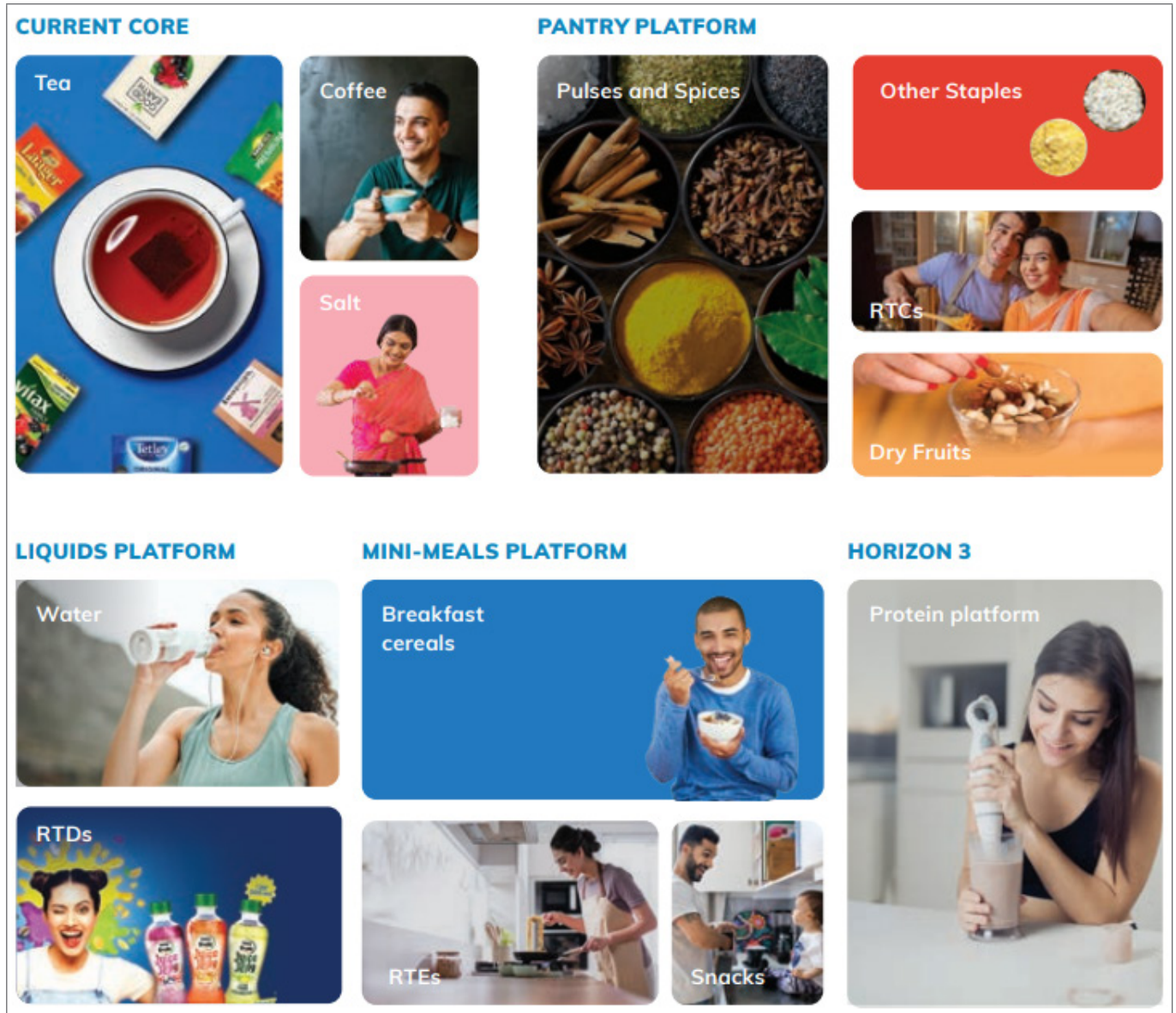
- ◆ **Transformation journey:** TCPL's transformation journey to becoming a leading FMCG company is on track. TCPL is going beyond its core (which has been strengthened) and focusing on building new F&B platforms that will create a greater presence across categories. India business contribution to branded revenue has increased to 71% in FY2023 from 62% in FY2020, which is in line with the company's strategy to build a strong and sustainable domestic business.
- ◆ **FY23 financials:** TCPL reported an 11% y-o-y revenue growth, with a 7% y-o-y increase in EBITDA, which was impacted by significant inflation in the salt and international business. On a three-year basis, revenue and EBITDA registered a CAGR of 17% and 13% respectively, despite pandemic-related challenges. The India business grew by 10% y-o-y, with the share of growth businesses being at 15%.
- ◆ **Growth businesses:** The company's growth businesses i.e., Tata Sampann, NourishCo, and Tata Soulfull registered 53% y-o-y growth in FY2023. In Tata Sampann, TCPL strengthened its core portfolio of pulses, spices and other staples, expanded into premium categories like dry fruits and increased RTE and RTC offerings, making a larger play into the pantry space. NourishCo's revenues increased 3.5x from Rs. 180 crore in FY2020 to Rs. 621 crore in FY2023 aided by distribution expansion, increased capacity through co-packers and new product introduction. Tata Soulfull has grown almost threefold since its acquisition in 2021, propelled by synergies with TCPL's distribution system.
- ◆ **Sales & distribution expansion:** The direct reach expanded from ~0.5 million outlets in 2020 to 1.5 million outlets currently. TCPL is now focusing on expanding the rural and semi-urban reach, with increased direct-distributor coverage in semi-urban areas and split routes in larger towns. The company targets to achieve a total reach of 4 million outlets by 2023 (3.8 million total each at FY2023-end). E-commerce's contribution to the India business has improved to 9% in FY2023, up from 2.5% in FY2020, while Modern Trade grew by 21% y-o-y in FY2023 and contributed 14% of India business sales.
- ◆ **Innovation:** TCPL entered new categories, launched differentiated products, and added significant value to its portfolio extensions by identifying five key platforms in which the company wants to focus. TCPL also invested in its R&D infrastructure in Bengaluru, Mumbai, and Sri City to future-proof its innovation capabilities, which has resulted in almost doubling the number of launches y-o-y in FY2023 to 34 and increased innovation to sales ratio to 3.4%.
- ◆ **Key priorities:** TCPL has outlined its top priority as growing through strengthening the existing business and expanding into F&B adjacencies based on their potential and has guided that the company will take the inorganic route where necessary, to acquire capabilities that the company does not possess or are needed to be developed quickly. The company has in place restructuring initiatives in its domestic as well as the international business which will help to unlock operational efficiencies, enable faster decision-making and execution and results in significant savings.

Achieving goals through six strategic priorities

To deliver on the company's ambitions and offer shareholders sustainable returns and value, TCPL has identified six strategic priorities to achieve business goals. These priorities are developed based on deep understanding of the needs and aspirations of communities and people that the company serves.

1. **Explore new opportunities:** TCPL has taken both organic and inorganic routes to capitalize on industry trends and tap new consumers or markets. In this direction, during FY2023, the company entered new Horizon-3 categories under the protein platform, forayed into new markets and consumer segments for the Sampann, Soulfull and RTE/RTC portfolios, strengthened its branded coffee portfolio with innovative offerings and expanded Himalayan into a provenance brand. After thoroughly assessing several categories against a range of criteria, TCPL has identified five Food & Beverage (F&B) platforms where it plans to focus going ahead.

TCPL's F&B platforms



Source: Annual report

Key levers:

- a. **Milletts to go mainstream with Tata Soulfull:** The company is scaling up Soulfull's market presence by leveraging the power of Tata Consumer's distribution network. Soulfull's reach has increased from ~15,000 outlets at the time of its acquisition to over 4 lakhs outlets currently. Ragi Bites is among top 5 distributed Tata Consumer brands. To make its products accessible to more consumers, TCPL has launched products at affordable price points with Ragi Bites No Maida Choco available in Rs. 10 packs and Tata Soufull Masala Oats+ range available at Rs. 15 packs. With 2023 being the 'International Year of Millets,' awareness for the same will significantly grow among consumers. TCPL is well placed to capture the opportunity from rising demand through Soulfull's millet-based portfolio.
- b. **Unlocking opportunity in everyday staples through Tata Sampann:** TCPL is building Tata Sampann as a master brand for everyday staples. Staples provides a significant growth opportunity with the total estimated market in pulses at ~Rs. 1,55,000 crore and spices at ~Rs. 60,000 crore, and very small share of organised, branded segment. Few of the notable introductions during the year include:

- ◆ Launch of Hing (asafoetida) to drive premiumisation for the portfolio.
- ◆ Expansion to new and rapidly growing sub-category of multipurpose seasoning with the launch of Chef Style Masala in three flavours - Peri Peri, Tandoori and Mummy's Special.
- ◆ Tata Sampann Spices entering South India, which is one of the largest spice markets, with pure and blended spices specially curated for South Indian palate in Andhra Pradesh, Telangana, and Karnataka markets.

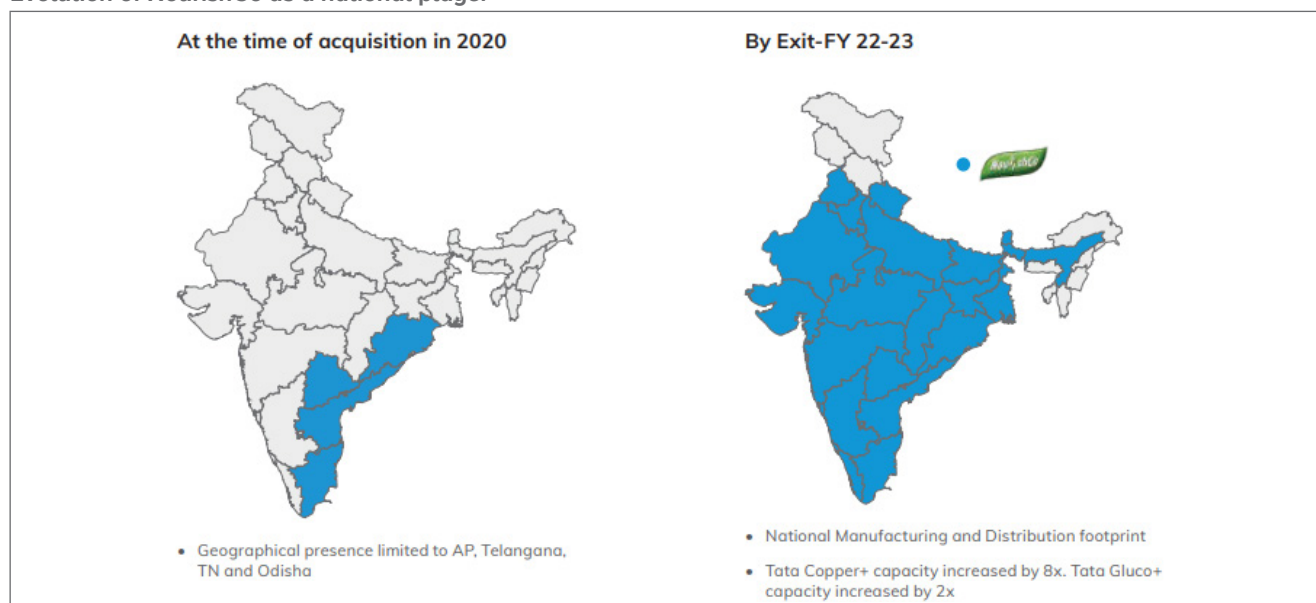
In terms of its dry fruits' portfolio, in FY2023, TCPL launched new-sized SKUs for almonds, cashews, and raisins to drive up volumes, added two products viz. black raisins and dry fruits and nuts mix thereby expanding the range. The company also introduced assorted gifting packs to make the company's offerings relevant to corporate and festive occasions. The company plans to further scale up the portfolio by adding to its existing range of products and entering new channels of distribution.

c. Providing the most relevant and meaningful hydration solutions with NourishCo: NourishCo aims to fulfil consumer need around energy hydration and wellness by providing the most relevant and meaningful hydration solutions in the non-carbonated, ready-to-drink beverages segment in India. *NourishCo* has been on a strong growth trajectory since its acquisition by Tata Consumer in May 2020 driven by:

- ◆ Expansion of distribution and digitalisation (distribution coverage expanded to 6.5 lakhs outlets in FY23 from 2.8 Lakh outlets in FY21).
- ◆ Expansion of manufacturing footprint (increased capacity via co-packers in an asset-light model).
- ◆ Creation of a bespoke go-to-market (GTM) for the premium end (2.4x retail distribution since FY21).
- ◆ Rapid expansion of highly relevant Tata Copper+ proposition done in 2021.
- ◆ Achievement of profitability on Himalayan, which has enabled investments for the business.
- ◆ Strong innovation delivery (Innovation segment's contribution to sales at 13%, with several category-first innovations).

TCPL's brands *Tata Copper+/Tata Gluco+/Himalayan* posted revenue growth of 7.4x/2.2x/3.3x in FY2023 over FY2021. The business has built an ambitious pipeline of innovations that will be used to fuel growth and create newer hydration solutions going ahead.

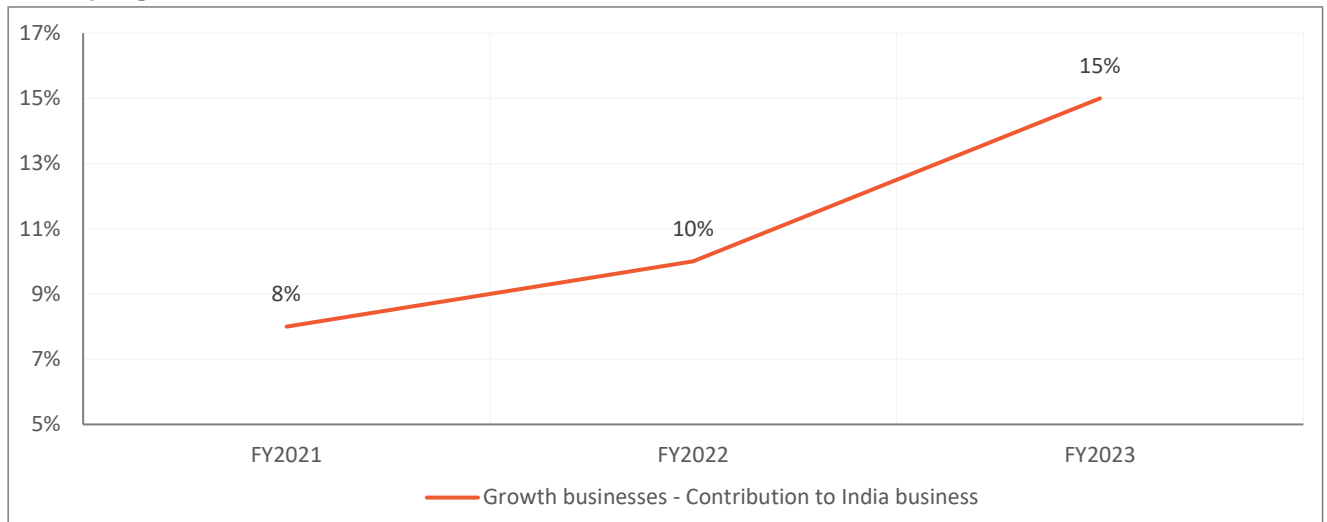
Evolution of NourishCo as a national player



Source: Annual report

- d. Expanding presence in Ready-to-Eat (RTE) and Ready-to-Cook (RTC) products through Tata Sampann Yumside and Tata Raasa:** TCPL revamped the acquired portfolio of Tata Smartfoodz and rebranded it to 'Tata Sampann Yumside'. Tata Sampann Yumside currently has 16 Ready-to-Eat SKUs and 5 Ready-to-Cook SKUs under its portfolio. The company entered Ready-To-Cook (RTC) gravies and pastes segment in FY2023 with five every day and exotic offerings. Yumside also entered the B2B segment with bulk packs during the year. TCPL continued to cater to the export market for Indian ready foods segment through Tata Raasa, which presently has 5 Ready-to-Eat SKUs and 4 Ready-to-Cook SKUs within its portfolio.
- e. Entry into protein platform with Tata Simply Better and Tata Gofit:** In FY2023, TCPL launched two brands under its protein platform i.e., Tata Simply Better in the alternate meat category and Tata GoFit in plant-based supplements. The entry into the protein platform is in-line with the company's focus on expanding its total addressable market (The Plant-Based Meat (PBM)/Alt protein market in India is expected to reach USD 300-500 million by 2025, while the Indian protein supplement market is expected to reach Rs. 5,000 crore by 2027). Going ahead, TCPL plans to expand the protein portfolio and capture the growth opportunity.

Scale up in growth businesses



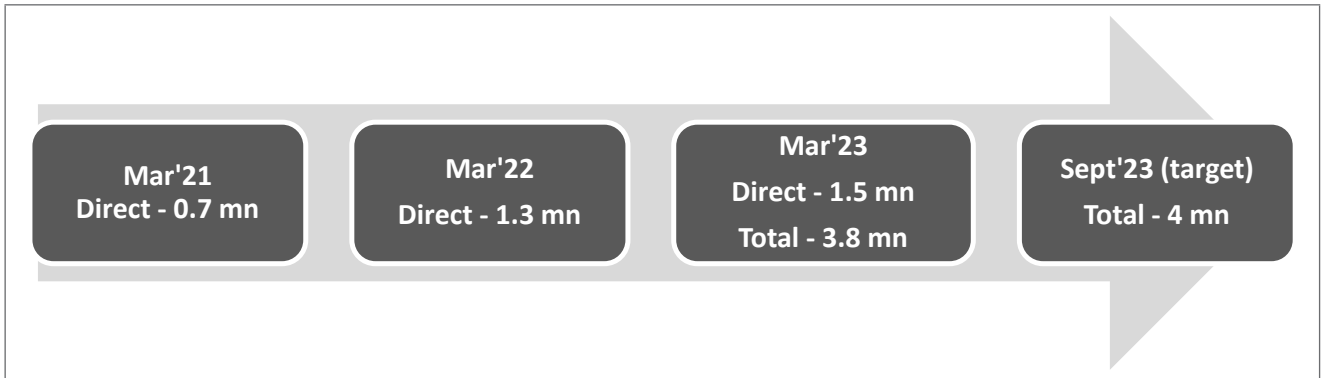
Source: Company; Sharekhan Research

- f. Recovery in Tata Starbucks post COVID:** After the pandemic and the easing of restrictions, Tata Starbucks has seen a strong revival in performance in FY2023 with the highest ever store openings and same-store sales surpassing the pre-COVID levels. TCPL launched 71 stores in 15 cities including tier-2 cities during the year. TCPL launched the first Tata Starbucks Reserve store in India at its flagship Mumbai location to showcase the story of the company's coffee and the craft of its baristas, which provides a unique experience to its customers.
- 2. Strengthen and accelerate core business:** TCPL continued its emphasis on strengthening and accelerating its core business in FY2023 through strategic efforts in key identified areas. The company's focus has been on strengthening brands while driving premiumisation, expanding its market presence, and delivering innovative products.

Key levers:

a. Sales and distribution expansion: During FY2023, TCPL rapidly scaled up its distribution network and is now focusing on enhancing its semi-urban and rural distribution. The company increased its direct distribution by 15% in FY2023 and currently has a direct reach of 1.5 million outlets across India, a 2x+ increase from two years ago. To expand its presence in South India, TCPL launched South-specific products across tea, coffee, salt and spices to cater to regional consumers. TCPL increased its wholesale direct reach by 2.5x in FY2023 and launched Lakshya as a wholesale loyalty programme, to engage effectively with the wholesale network.

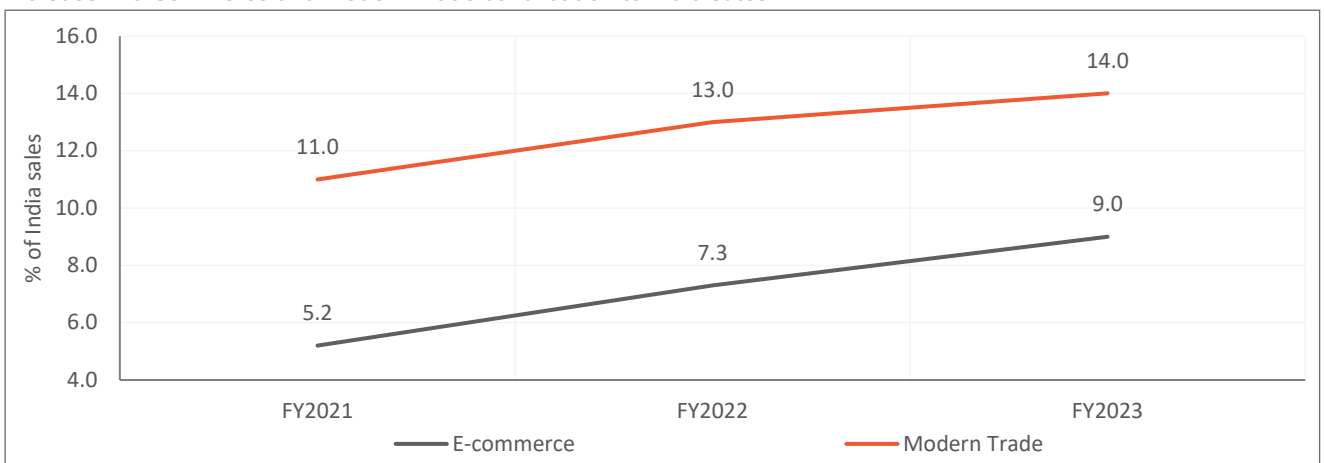
Expansion in direct reach over the years



Source: Company; Sharekhan Research

Among channels, e-Commerce grew by 32% y-o-y in FY2023 on the back of several new initiatives carried out during the year, including a dedicated customer marketing vertical, the use of data and analytics to generate insights and improve efficiency, and redesigning of the team structure to include a key account team for driving sales. As a result, e-Commerce contribution to India sales improved from 7% in FY2022 to 9% in Fy2023. On the other hand, the modern trade channel grew 21% y-o-y in FY2023 and increased its share in India Sales to 14% from 13% in FY2022. The channel continued to play a vital role in TCPL's innovation agenda, with 69 new SKUs on shelf during the year.

Increase in e-Commerce and Modern Trade contribution to India sales



Source: Company; Sharekhan Research

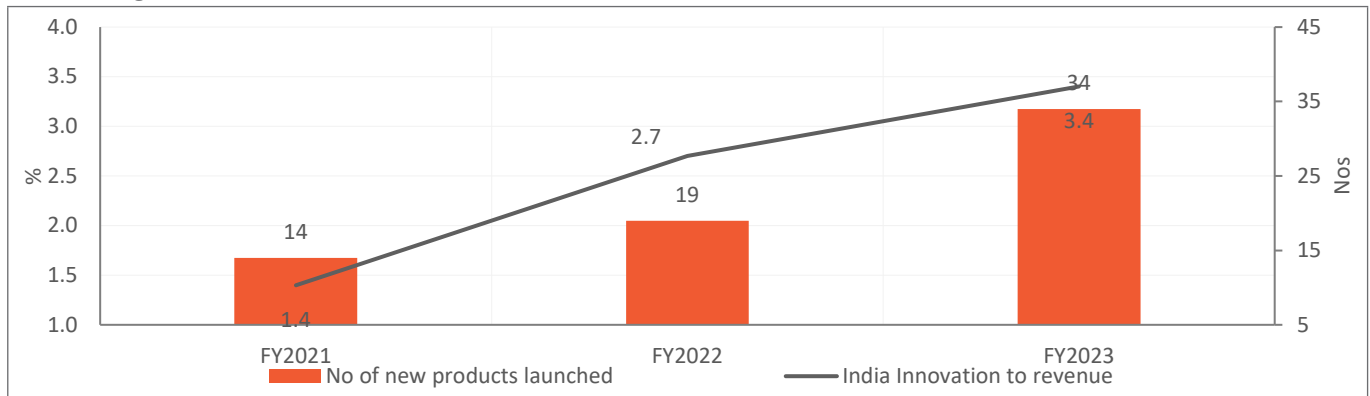
b. Investing in brands: During the year, TCPL came up with differentiated brand campaigns, which helped the company to build awareness and boost demand for the company's products. In line with the company's hyper-local approach, TCPL conducted hyper local campaigns in various states and different time of the year which helped the company to develop a strong consumer connect. Moreover, the company has adopted a three-brand strategy to strengthen its position in UK, which is one of TCPL's key international markets.

c. Driving premiumisation: TCPL's premium brands in the tea and coffee categories, including Tata Tea Gold Care, Chakra Gold Care, Tata Tea Premium TeaVeda, Tetley Black, Tata Tea Gold and Chakra Gold grew faster than the rest of the portfolio in FY2023. To strengthen its portfolio approach within the salt segment, TCPL launched a premium solar salt and several value-added salts fortified with essential micro-nutrients during the year.

3. Drive digital and innovation: TCPL is utilising digital technology to obtain insights and knowledge about markets and consumers to streamline its operations and systems. In FY2023, TCPL launched its global CRM (Customer Relationship Management) platform across India, the US, the UK, Canada, and the Middle East, helping TCPL to better understand customers that boosted customer experience and more personalised interactions. The platform has enabled better collaboration between sales, the supply chain and other internal functions, leading to improved customer satisfaction. In its international business, the company implemented several digital initiatives to maximise efficiency including migration to a shared SAP platform across multiple countries.

TCPL has accelerated the pace of innovation and has launched several differentiated products to enter new categories and consumption occasions. During the year, TCPL entered new categories, launched first-of-their-kind products and spearheaded significant value addition in portfolio extensions.

Accelerating innovation



Source: Company; Sharekhan Research

In FY2023, the company's R&D team initiated two pilots to leverage AI tools in both the India and International markets. The tools have been used to identify actionable insights that can help with discovery of trends and with concept testing and eventually generative AI. The innovation review management system has also been digitalised where the innovation funnel can be tracked and reviewed effectively, which will further simplify the company's governance process of innovation. Digitalisation has enabled cross functional teams to work more effectively resulting in successful and quicker innovation launches such as – Street Chai range, Makhana and Vitamin Shakti Salt.

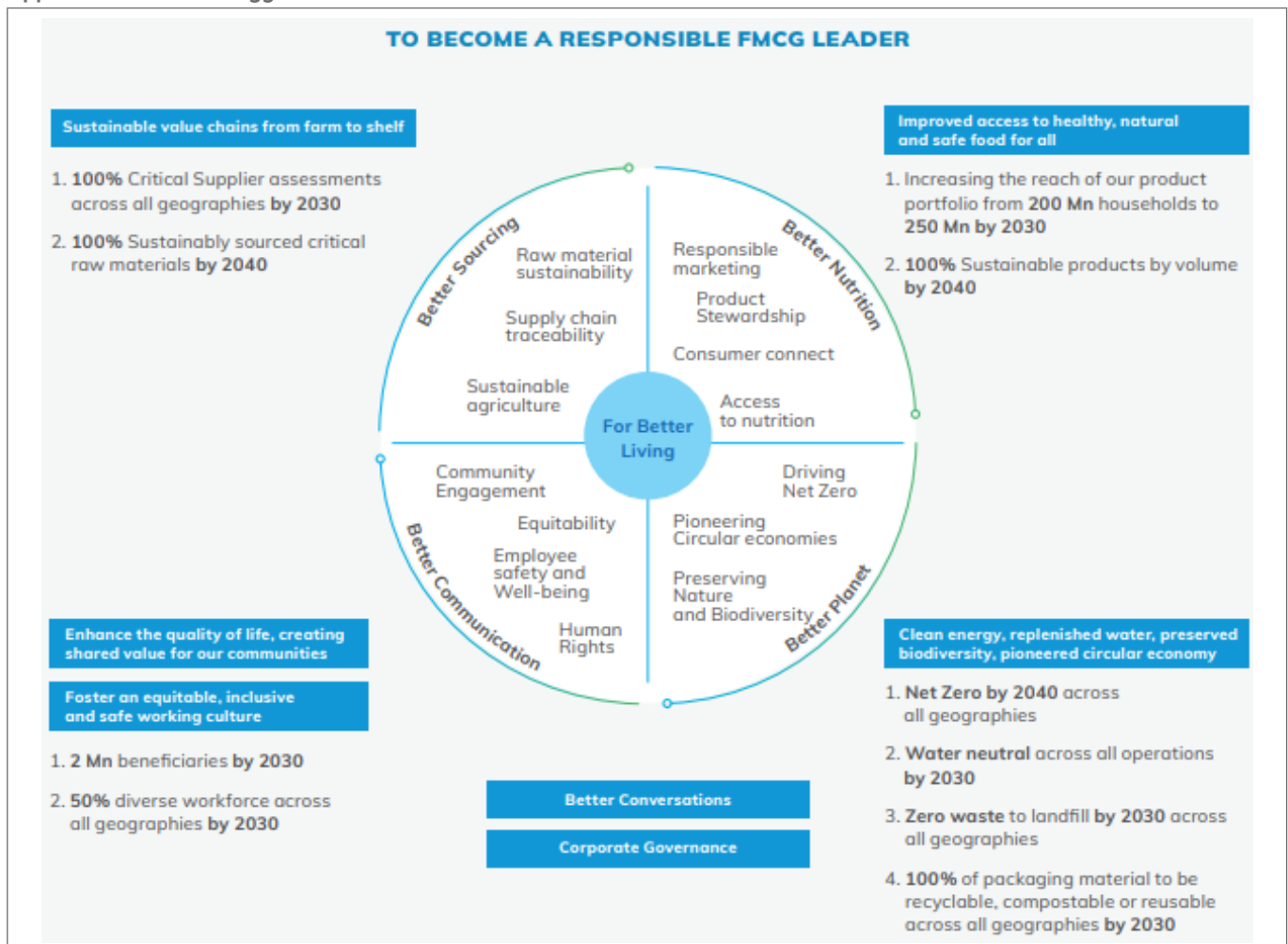
4. Unlock synergies: To operate with a simplified and efficient structure and manage integration of acquired businesses and track synergies, TCPL progressed with its restructuring initiatives, enabled faster integration of acquisitions and increased supply chain efficiency in FY2023. The restructuring that was announced in March 2022 is currently in progress and is expected to be completed in 2023. TCPL expects to accrue significant synergies and efficiencies from the restructuring. In the international business, the company implemented restructuring in various areas to optimise operations and facilitate collaboration, including a US supply chain revamp, a new management hierarchy in the UK, and the appointment of a CMO (Chief Marketing Officer) to aid with new category development and launch of products. Additionally, TCPL undertook various initiatives in FY2023 to build a more resilient supply chain and bring cost efficiencies in raw material procurement including:

- ◆ Expanding and diversifying the sourcing points across the country, giving the company more buying options and a lower overall cost.
- ◆ Widening footprint of sourcing locations to lower TDC (Total Delivered Cost).
- ◆ Building selective inventories of raw materials at low points in the commodity cycle to move away from replacement purchasing towards a more strategic, forecast-based approach.
- ◆ Purchasing semi-finished goods when prices and conversion costs are advantageous.

5. Create a future-ready organisation: During FY2023, TCPL invested in employee learning & development programmes to build capabilities, identified and developed its key talent, focused on a fair distribution of rewards, and strengthened its entry-level hiring programmes. TCPL introduced the Hall of Fame in FY2023, which is the company’s Annual Awards Programme that recognises and rewards teams for their high-impact work and contribution to its growth story. Moreover, TCPL also conducted several wellness webinars for its employees focused on mental, emotional, physical, and financial health. These and many such initiatives reaffirm that the company is committed to creating a workplace, where all employees feel valued, included, and supported in their personal and professional growth.

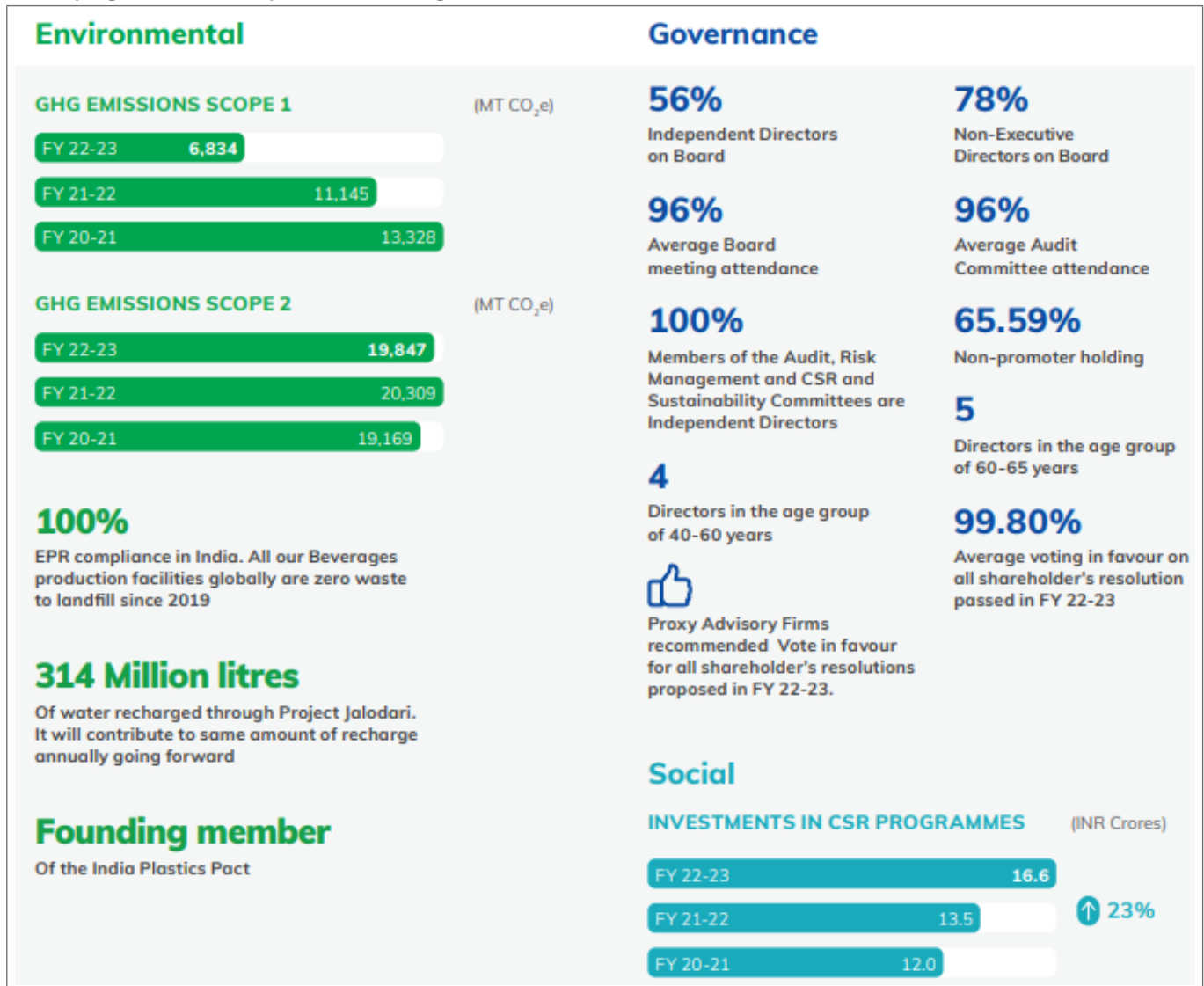
6. Embed Sustainability: TCPL’s ESG strategy ‘For Better Living’ guides the company’s efforts towards better living for its consumers, employees, investors, and value chain partners. Moreover, TCPL’s ESG strategy furthers Tata Group’s unified sustainability vision via ‘Project Aalingana’, which lays out the Group’s strategy for a greener, cleaner, more sustainable, and equitable future for the planet. The company is optimistic about accomplishing its sustainability goals by routing them through the four pillars of better sourcing, better planet, better communities, and better nutrition.

Approach to ESG strategy



Source: Annual report

TCPL's progress in the ESG parameters during FY2023



Source: Annual report

Leveraging recent market trends

Market disruption is the new norm in the post-pandemic world with numerous trends and significant demographic changes influencing the direction of businesses. Some of the latest trends are digital marketing, e-commerce, direct-to-consumer (D2C) brands, and changes in consumption patterns. Though these trends might create challenges for the companies in the initial phases, they also have the potential to bring up new opportunities for companies, which help in the business' long-term growth.

TCPL's response to some of the new market trends

Market Trend	Steps taken by TCPL
Growing digitalisation	<ul style="list-style-type: none"> • Accelerated its digitalisation process, with digital transformation being driven across the value chain. • Leveraging digital to connect with consumers and understand their needs better.
Changing consumer preferences	<ul style="list-style-type: none"> • Strengthened the Tata Soulfull portfolio and entered the protein platform, in response to the consumer trend toward healthier living. • Launched several innovations focused on Health and Wellness across salt and tea.
Rise of Direct-to-Customer (D2C)	<ul style="list-style-type: none"> • Launched a premium coffee and a luxury tea range through the D2C model in India. • Launched new products of Tetley through D2C in the international markets.
Noticable consumer segmentation	<ul style="list-style-type: none"> • Introduced small packs priced attractively to make products more accessible to a larger consumer base (bottom of the pyramid). • At the same time, launched several innovations focused on premiumisation.

Source: Company; Sharekhan Research

Key developments in major brands during FY23

In FY2023, TCPL continued to strengthen its presence in the F&B segment with a wide portfolio of products across multiple brands aspiring for a larger share of the consumer basket. Key developments in major brands during the year include:

Brands - Growth businesses	
<p>Tata Sampann</p> <ul style="list-style-type: none"> • Expanded spices range into high-value spices with the launch of Asafoetida (Hing). • Entered South India for spices with a range specially curated for South Indian palate. • Continued to drive momentum for Tata Sampann Dry Fruits with special assorted festive packs. 	<p>Tata Sampann Yumside</p> <ul style="list-style-type: none"> • Launched new and larger range of Ready-to-Eat (RTE) and Ready-to-Cook (RTC) offerings. • New branding unveiled to integrate with Tata Sampann brand and convey the promise of taste and homestyle goodness. • Entered B2B segment with bulk packs.
<p>Tata Soulfull</p> <ul style="list-style-type: none"> • Expanded snacking portfolio with the launch of Tata Soulfull Masala Oats+ with 25% millets. • Introduced Tata Soulfull millets muesli with 25% millets. • Launched Tata Soulfull Ragi Bites Fills. 	<p>Tata Simply Better</p> <ul style="list-style-type: none"> • Entered the alternate meat segment with the launch of Tata Simply Better Plant Based Meat (PBM) range. <p>Tata Gofit</p> <ul style="list-style-type: none"> • Launched Tata GoFit plant protein powder, a health supplement range for women

Source: Company; Sharekhan Research

Brands - Core Portfolio

Tata Tea (Gold)	Tata Tea (Premium)
<ul style="list-style-type: none"> Launched Tata Tea Gold Saffron, TCPL's signature Assam tea with natural saffron flavour. Restaged Tata Tea Gold Darjeeling. Introduced <i>Durga Puja Festive Edition</i> pack series celebrating the various art forms of West Bengal. 	<ul style="list-style-type: none"> Launched TATA Tea Premium Street Chai Range with four unique variants. Restaged TeaVeda bringing it under the Tata Tea Premium Masterbrand.
Tetley Tea	Tata Salt
<ul style="list-style-type: none"> India: Relaunched the Tetley Naturally Sweet variant in mango flavour that addresses the biggest barrier in the green tea category - <i>the bitter taste</i>. US: Established as the second largest US packaged tea brand within the mainstream black hot tea segment Canada: Launched Tetley D2C website. 	<ul style="list-style-type: none"> Launched Tata Salt Immuno, a category-first innovation in iodised salt with added zinc. Expanded the premium salt range with the introduction of <i>Pink Salt</i> with natural minerals.
Tata Coffee Cold Coffee Liquid Concentrate	Tata Coffee Grand
<ul style="list-style-type: none"> Introduced a first-of-its-kind liquid coffee concentrate range, designed to make rich and creamy café-style cold coffee at home. 	<ul style="list-style-type: none"> Launched premium instant coffee 'Tata Coffee Grand Premium' a 100% coffee blend with flavour-locked decoction crystals for non-South markets. Tata Coffee Grand pack restaged to Tata Coffee Grand 'Classic'.

Source: Company; Sharekhan Research

Business-wise performance for FY2023

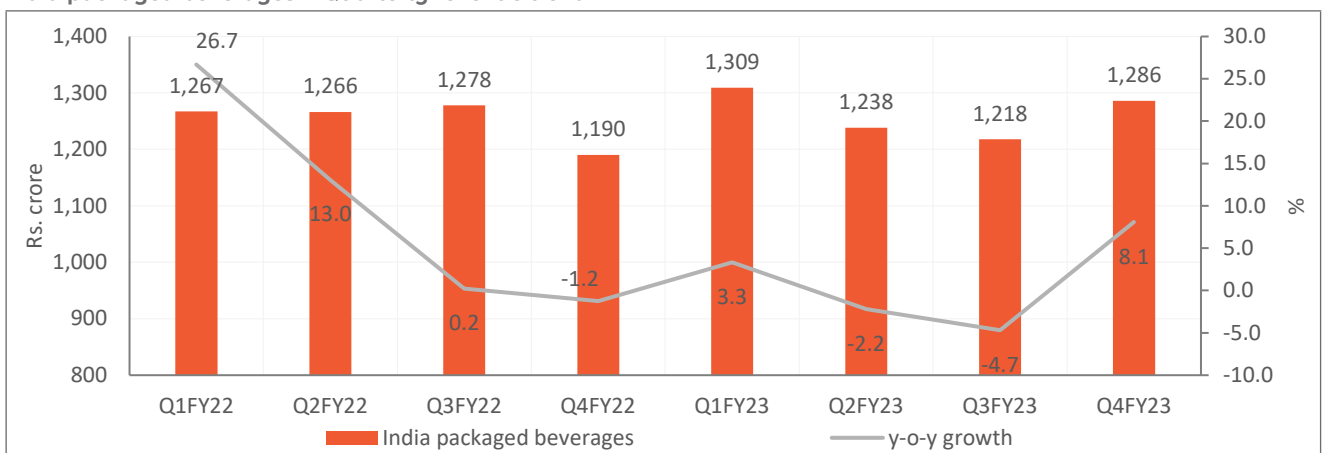
In FY2023, TCPL continued its focus on increasing distribution reach, expanding total addressable market, investing behind key brands, and streamlining and synergising operations to unlock value.

1. India business: India business revenue grew by 10% y-o-y to Rs. 8,717 crore, with India business contribution to branded business rising to 71% as against 62% in FY2020.

a. India Packaged beverages:

- ◆ **Revenue growth** - Revenue for the year declined 5% y-o-y (three-year CAGR at 10%), with 1% y-o-y volume decline owing to weakness in some of the key markets and price corrections.
- ◆ **Innovation** - Maintained the momentum on innovation with several new launches in both tea & coffee.
- ◆ **Premiumisation** - Strengthened focus on premiumisation. Premium tea's portfolio grew faster than the mass economy portfolio.
- ◆ **Brand-building** - Continued with hyperlocal brand-building strategy for key brands.

India packaged beverages – Quarterly revenue trend

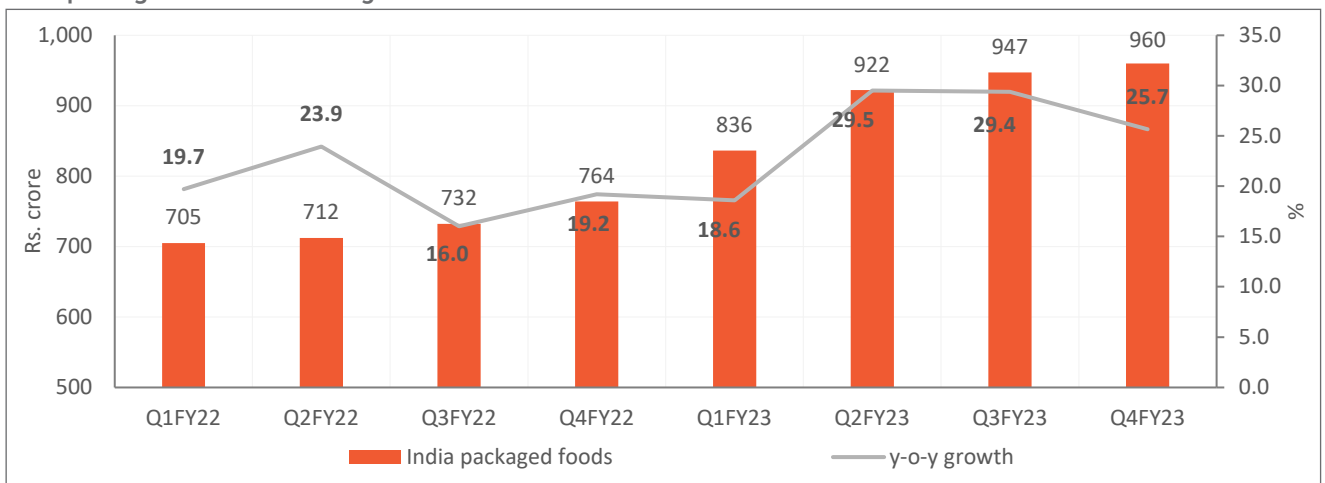


Source: Company; Sharekhan Research

b. India Packaged foods:

- ◆ **Salt** - Salt revenues grew by 25% y-o-y, delivering a three-year CAGR of 19%. The value-added salts portfolio grew to 4.5x, in part led by new innovations like Tata Salt Immuno.
- ◆ **Tata Sampann** - The portfolio delivered strong growth of 29% y-o-y, with broad-based performance across staples and dry fruits.
- ◆ **Tata Soulfull** - Continued its strong growth trajectory growing by over 100% y-o-y.
- ◆ **Ready-to-eat** - RTE business (formerly Tata Q) was relaunched under a new brand name of Tata Sampann Yumside with a revamped and expanded portfolio.
- ◆ **Protein category** - Expanded the addressable market by entering the protein category with Tata Simply Better and Tata GoFit.

India packaged foods – Quarterly revenue trend

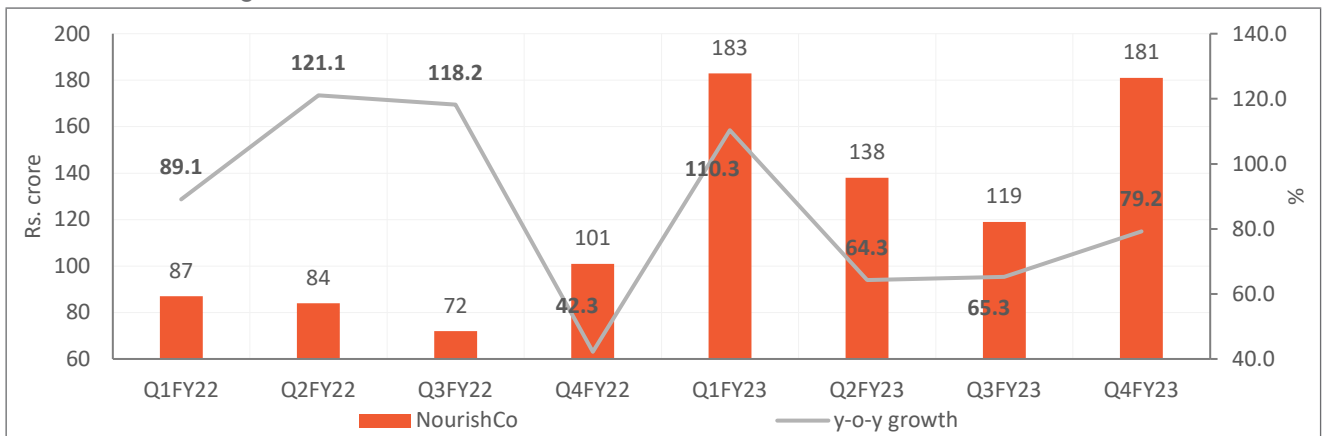


Source: Company; Sharekhan Research

c. Liquid Beverages:

- ◆ **NourishCo** – Recorded revenue growth of 80% y-o-y to Rs. 621 crore.
- ◆ **Tata Copper+** - Franchise scaled to 2.1x led by 2x expansion in capacity.
- ◆ **Himalayan water** - Grew by 85% y-o-y and continued to be EBIT positive.
- ◆ **New launches** - Launched Tata Fruski Juice n Jelly, a disruptive format of drinkable jelly in select markets.

NourishCo – Quarterly revenue trend

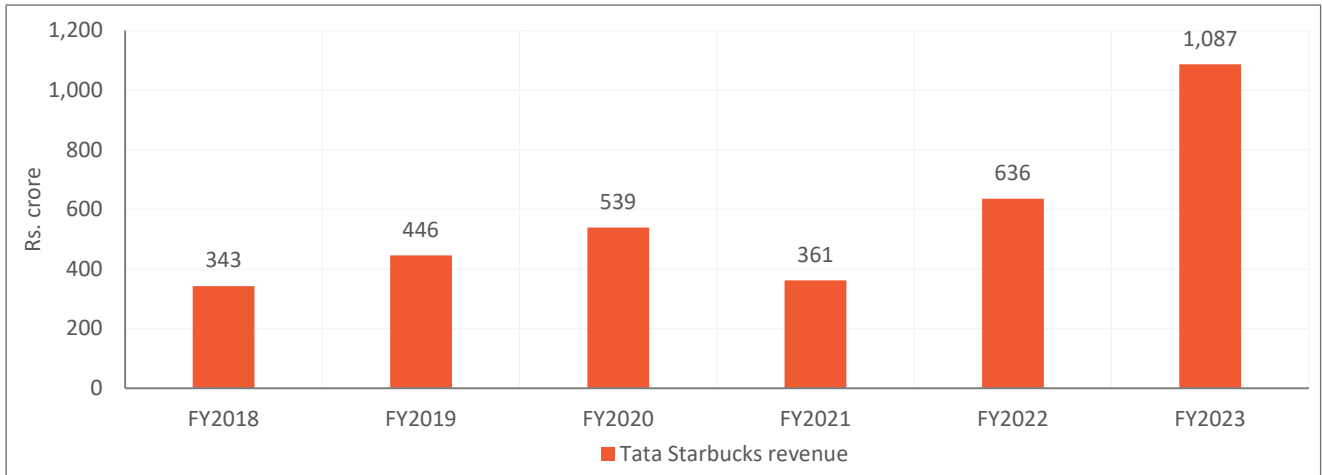


Source: Company; Sharekhan Research

d. Tata Starbucks:

- ◆ **Revenue & profitability** - Revenue grew 71% y-o-y, and the business was EBIT positive.
- ◆ **Store additions** - Launched 71 new stores (highest ever annual addition to the store count) across 15 new cities and continued expansion into Tier-2 cities.
- ◆ **Starbucks Reserve store** - Launched the first Starbucks Reserve store at its flagship Mumbai location.

Starbucks revenue growth trend



Source: Company; Sharekhan Research

2. International business: International business' revenue grew by 8% y-o-y to Rs. 3,589 crore (constant currency growth at 5%), on account of price hikes across most markets, with international business contribution to branded business at 29%. In the international business, TCPL focused on strengthening its non-black tea portfolio in Fruit and Herbal and Specialty teas and has adopted a 3-brand strategy focused on Tetley, Good Earth and Teapigs to have a complete play in the overall tea market. Further, the company has implemented structural changes to make the business leaner and stronger and is adding new vectors of growth (recently entered the fast-growing Indian Ready Foods segment with Tata Raasa, a range of RTEs and RTCs tailored for local preferences in the international markets).

a. UK:

- ◆ **Revenue** - Revenue stood flat y-o-y in constant currency terms.
- ◆ **Margins** – TCPL implemented a series of price increases to mitigate input cost inflation which resulted in strong sequential margin improvement.
- ◆ **Teapigs** - Completed integration of teapigs brand with Tata Consumer UK.

b. US:

- ◆ **Coffee** - Revenue grew 7% y-o-y in constant currency terms.
- ◆ **Margins** – TCPL implemented a series of price increases to mitigate input cost inflation which resulted in strong sequential margin improvement.
- ◆ **Teapigs** – Teapigs was the fastest-growing brand in Specialty tea, growing 4x the category
- ◆ **RTE Range** - Tata Raasa RTE range launched within select Ethnic grocery stores.

c. Canada:

- ◆ **Revenue** - Revenues grew 9% y-o-y in CC terms.
- ◆ **Margins** – TCPL implemented a series of price increases to mitigate input cost inflation which resulted in strong sequential margin improvement.
- ◆ **Tetley** – Stayed the market leader led by share gains in the regular tea segment.
- ◆ **Digital campaigns** - Rolled out Tata Sampann and Tata Tea digital campaigns on popular South Asian websites to drive awareness and trial of products, targeting the Indian diaspora.

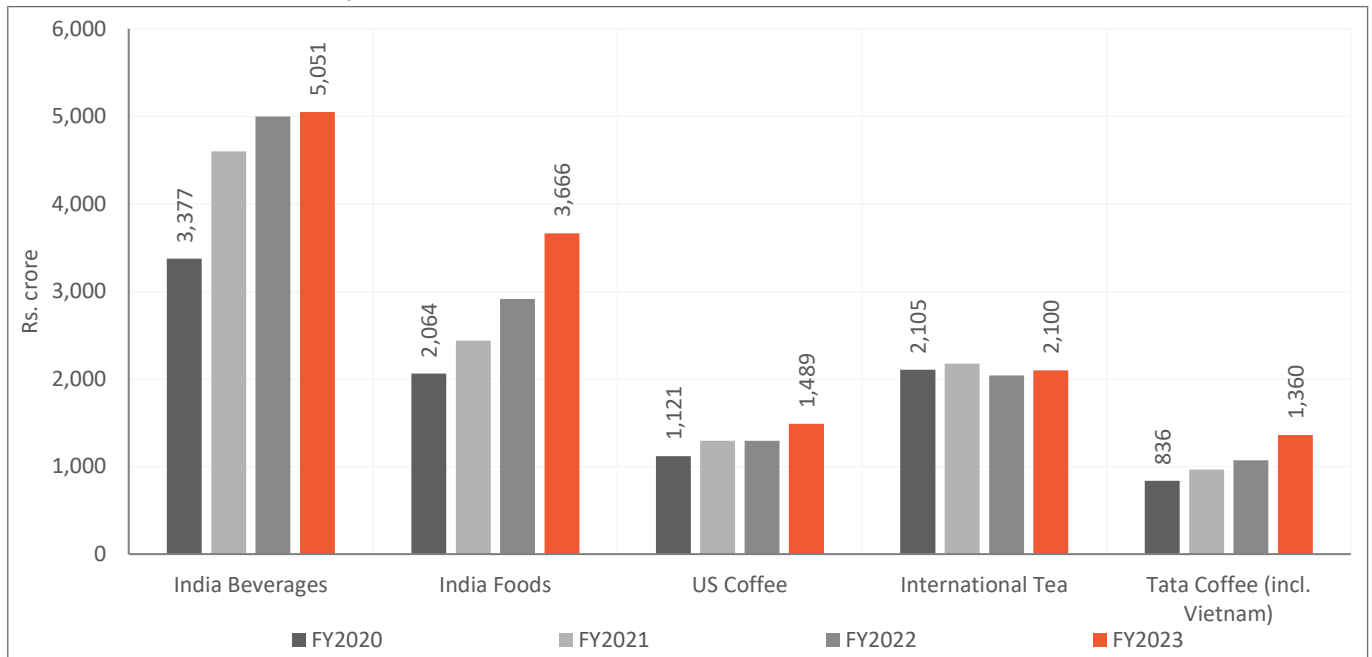
3. Non branded business: Non-branded business revenue grew by 24% y-o-y (21% in constant currency) to Rs. 1,500 crore driven by higher realisation in coffee plantations and extraction business.

- a. Plantations business** – The plantation business, which is ~32% of total unbranded business, grew by 21% y-o-y led by coffee plantations with higher commodity prices. The Tea plantations segment also delivered growth led by mix of prices, with improvement in quality and product mix, and volumes, including productivity improvement measures taken during the year. TCPL continues to explore opportunities for yield enhancement, cost optimisation, and diversification for increased value addition.
- b. Extraction business** - While the overall extraction portfolio, which is ~68% of the total unbranded business, grew by 21% y-o-y led by performance of coffee extractions, the tea extractions performance was adversely impacted by a weaker business environment. In coffee, both India and Vietnam businesses delivered robust performance, despite challenging conditions due to Russia-Ukraine conflict and the inflationary environment impacting business demand in European and African markets. Despite the same, the business delivered good results by leveraging relationships with large, branded players, getting into forward contracts and increasing revenues from differentiated blends.

FY2023 consolidated financial performance

- ◆ Consolidated revenues grew by 11% y-o-y to Rs. 13,784 crore mainly driven by revenue growth from across branded and non-branded businesses.
- ◆ Despite inflationary trends across markets for a major part of the year, OPM marginally fell by 36 bps y-o-y to 13.5% mainly led by revenue growth and good control on costs.
- ◆ Operating profit grew by 8% y-o-y to Rs. 1,857 crore and adjusted PAT grew by 13.2% y-o-y to Rs. 1,193 crore.
- ◆ Exceptional items of Rs. 159 crore represent profit on sale of investment property in Tata Coffee, accounting gain on conversion of South African and the Bangladesh entities into subsidiary partly offset by re-structuring and re-organisation costs.
- ◆ Reported PAT grew by 30% y-o-y to Rs. 1,321 crore aided by higher exceptional income and improved performance of Tata Starbucks.
- ◆ The company declared a dividend of Rs. 8.45 per equity share for FY2023, higher than Rs. 6.05 per share for FY2022.

Business-wise revenue break-up



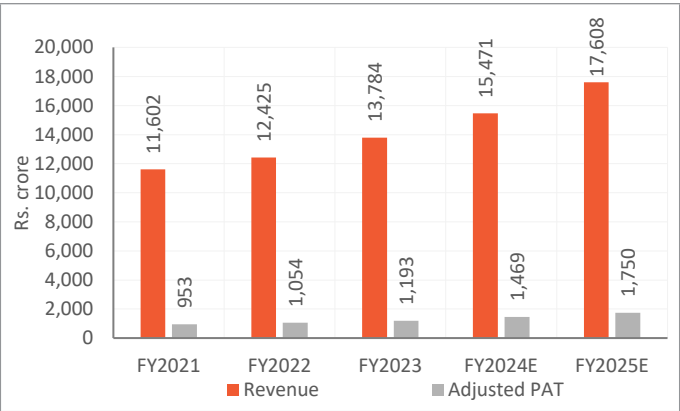
Source: Company; Sharekhan Research

Balance sheet analysis

- ◆ Receivable days declined to 21 days in FY2023 versus 25 days in FY2022. Payable days increased to 72 days in FY2023 from 65 days in FY2022, while inventory days rose to 72 days in FY2023 as against 67 days in FY2022. Thus, a strong focus on supply efficiencies and distribution synergies aided the company to reduce its working capital days to 21 days in FY2023 from 26 days in FY2022 (and 58 days in FY2020).
- ◆ OCF to EBITDA ratio stood at strong at 100% in FY2023 compared to 102% in FY2022 (and 93.7% in FY2020).
- ◆ The year's dividend paid amounted to Rs. 573 crore, which is higher than Rs. 398 crore paid in FY2022.
- ◆ Capex for FY2023 (payment for property, plant, and equipment including intangibles) stood at Rs. 312 crore.
- ◆ Net cash on books rose by Rs. 450 crore to Rs. 2,893 crore.
- ◆ Return profile continued to improve with RoE/RoCE (ex-goodwill) consistently improving to 7.8%/15.0% in FY2023 from 7.53%/14.6% in FY2022.

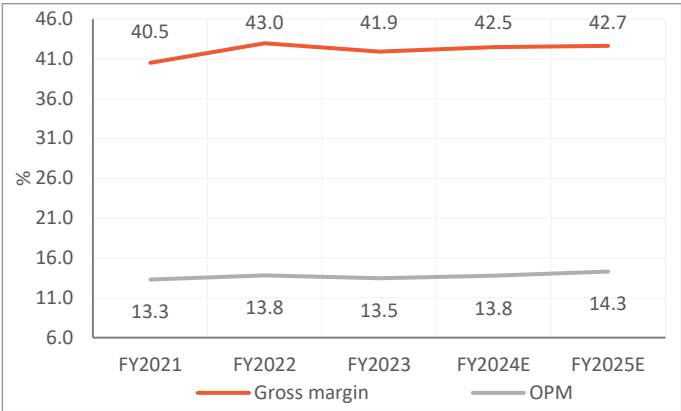
Financials in charts

Steady growth in revenue and PAT



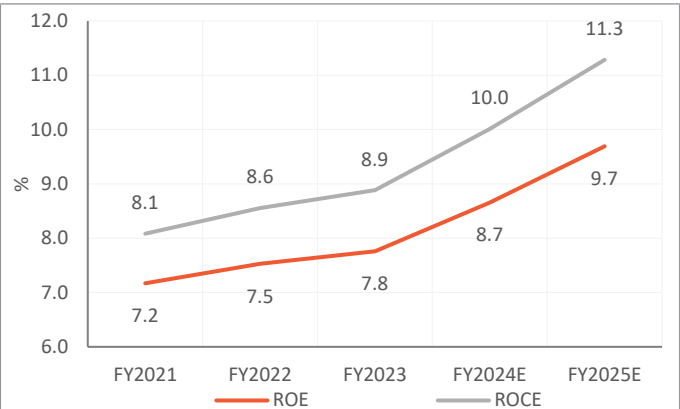
Source: Company, Sharekhan Research

Margins to improve from current levels



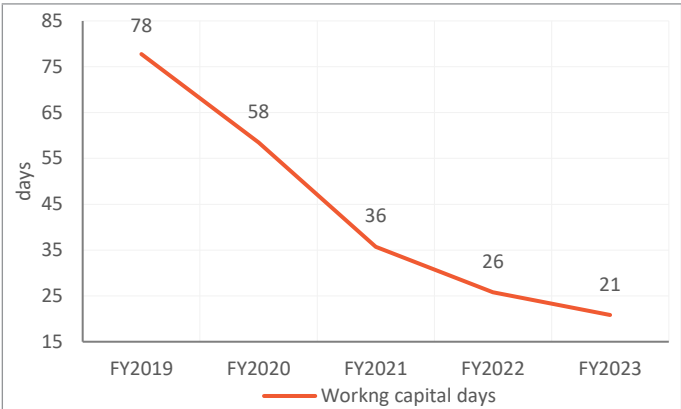
Source: Company, Sharekhan Research

Return ratios expected to improve significantly



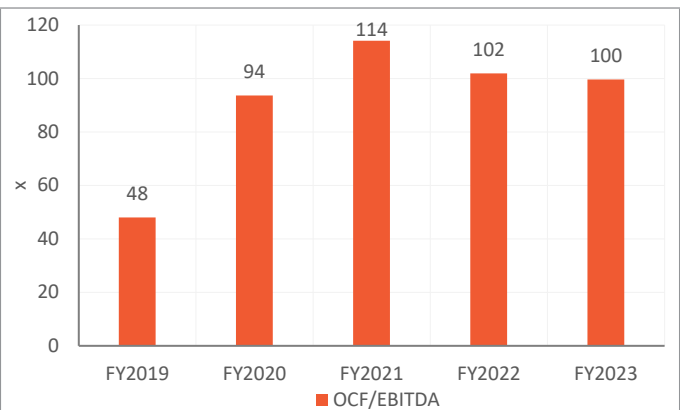
Source: Company, Sharekhan Research

Working capital days reducing



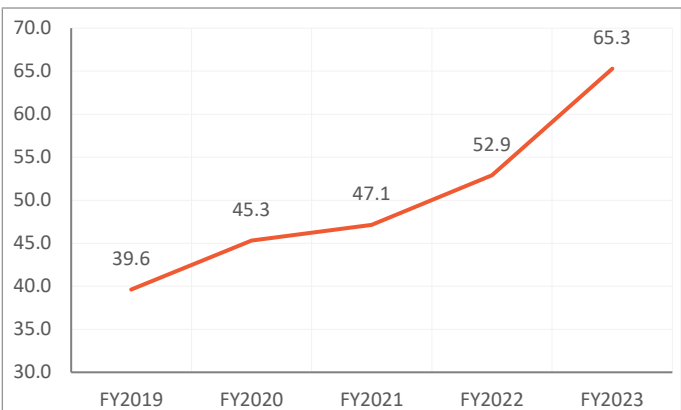
Source: Company, Sharekhan Research

Trend in OCF/EBITDA



Source: Company, Sharekhan Research

Dividend payout improving



Source: Company, Sharekhan Research

Outlook and Valuation

■ Sector Outlook – Rural recovery on cards; margin improvement to sustain

Rural demand bottomed out with sales returning to positive growth in Q4FY2023. With price inflation stabilizing and fall in key input prices, management of most companies are confident of witnessing gradual pick-up in the rural demand in the quarters ahead. Moreover, expectation of well spread-out monsoon and government offering some incentives prior to budget might provide some boost to rural sentiments in the coming quarters. In FY2024, the revenue growth is expected to be volume-led growth with companies focusing on passing on benefits of decline in the input cost to customers in the coming quarters. Decline in the input prices will drive gross margins in the coming quarters. Despite higher media spends, the OPM is expected to remain high on y-o-y basis in the near term.

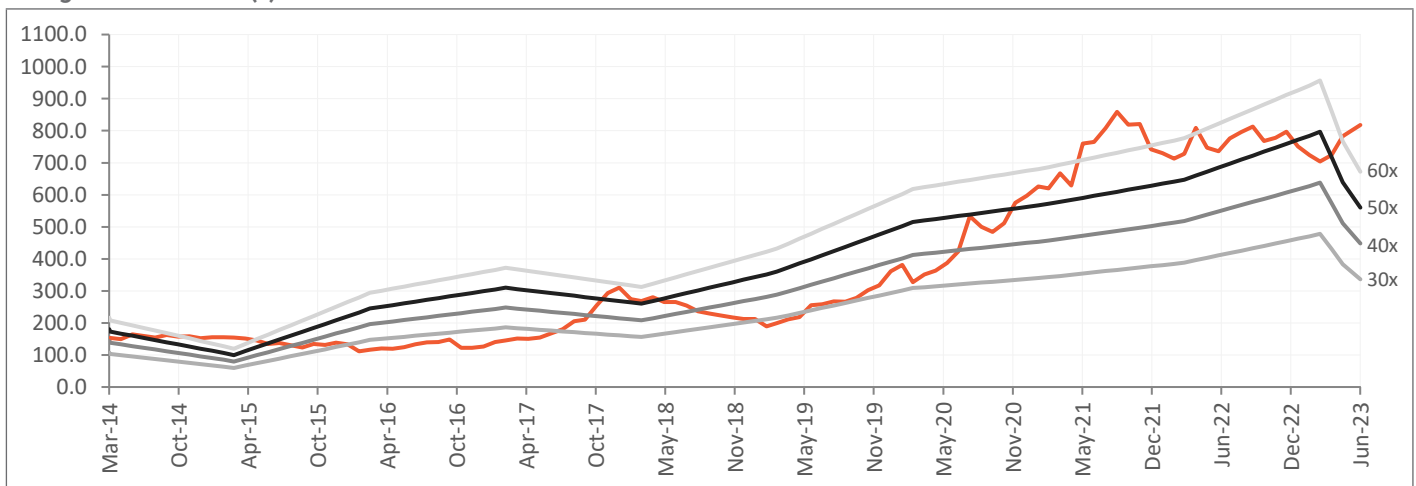
■ Company Outlook – Eyeing consistent earnings growth

FY2023 numbers were good on the backdrop of uncertain and volatile environment, with revenues growing by 11% and PAT growing by 13%. Expansion of the company's distribution network and sustained share gains would help sales volumes of the domestic tea business to improve to mid-to-high single digits in the medium to long term. Sustained product launches will drive the foods business's 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. 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. 1,010

TCPL is focusing on market share gains, product launches, network expansion, and cost restructuring to improve earnings growth over the next 2-3 years. Strong cash flows will be utilised for organic and inorganic initiatives to strengthen the key growth pillars in the coming year. Thus, with strategies in place, TCPL is well poised to achieve double-digit revenue and PAT CAGR of 13% and 17%, respectively, over FY2023-FY2025E. The stock trades at 53.7x/45.1x 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. 1,010. 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

Particulars	P/E (x)			EV/EBITDA (x)			RoCE (%)		
	FY23	FY24E	FY25E	FY23	FY24E	FY25E	FY23	FY24E	FY25E
Hindustan Unilever	62.8	57.8	49.6	45.8	40.6	34.8	25.8	28.0	31.7
Nestle India*	91.9	72.7	62.8	59.0	49.2	42.4	129.2	135.5	138.9
Tata Consumer Products	66.1	53.7	45.1	41.2	35.4	29.9	8.9	10.0	11.3

Source: Company, Sharekhan estimates; *Nestle is a calendar year ending company

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, salt, pulses, spices, dry fruits, water, Ready-to-drink (RTD), Ready-to-cook (RTC) and Ready-to-eat (RTE) options, 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 Soulfull*, and *Tata Sampann Yumside*. In India, TCPL has a reach of over 200 million households. The company has a consolidated annual turnover of ~Rs. 13,800 crore, with operations in India and international markets.

Investment theme

TCPL's India branded business is scaling up well and growing in double digits with consistent strong growth in its growth businesses (15% of overall revenues). Rising per capita income, increasing brand awareness, growing in-house consumption, and consumption through modern channels such as large retail stores/e-commerce would act as key growth levers for branded pulses and spices businesses in India in addition to the consistently growing tea business. Along with margin expansion through product mix, improving efficiencies will help to achieve consistent margin improvement in the coming years. An enhanced product portfolio and expanded distribution reach would help India business's revenues and PAT to grow at CAGR of 13% and 19% over FY2023-25E with consolidated OPM expected to improve to 14.3%.

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: Company Website

Top 10 shareholders

Sr. No.	Holder Name	Holding (%)
1	Life Insurance Corporation of India	6.84
2	First State Investment ICVC	4.76
3	Mitsubishi UFJ Financial Group Inc.	3.94
4	Vanguard Group Inc.	2.54
5	BlackRock Inc.	2.27
6	Norges Bank	1.95
7	Government Pension Fund	1.60
8	Goldman Sachs Group Inc.	1.36
9	SBI Funds Management Ltd.	1.27
10	Republic of Singapore	1.02

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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