

27 July 2023

India | Equity Research | Q1FY24 results review

Tata Consumer Products

Consumer Staples & Discretionary

Margin recovery on track; higher investments in growth business to be DCF accretive

While TCPL's Q1FY24 was largely in-line with our estimates, we note three positives as (1) the company's initiative of split routes in towns with 1mn+ population has shown healthy results, (2) the growth businesses reported 58% YoY revenue growth. TCPL has stepped up the innovation in growth business and (3) improvement in profitability of India Foods and well as International Beverages indicates additional resources to drive growth. We believe the market share loss of 110bps and 30bps in India Tea and India Salt to be temporary as North India (key market) was impacted. With multiple initiatives in distribution, extension of regionalisation strategy in Jharkhand and Odisha and strong investments in innovation, we model market share recovery in FY24-25. Maintain **BUY** rating with a revised TP of INR 1,010.

Q1FY24 results

TCPL reported revenue, EBITDA and PAT growth of 12.5%, 19.2% and 12.9%, respectively YoY. Segment-wise revenue growth rates YoY were: India Beverages 10%, India Foods 24%, US Coffee 2%, International Tea 10% and Tata Coffee 13%. Gross margin shrank 44bps but EBITDA margin expanded 82bps YoY due to better profitability in India business. Standalone revenue, EBITDA and PAT growth was 11.5%, 16.2% and 19.1%, respectively YoY.

Investments in distribution initiatives

TCPL had embarked on three distribution drivers as (1) expanding total reach to 4mn outlets by Sept'23. Considering it has reached 3.9mn outlets at end of June'23, we believe it can surpass the total reach target by Sept'23, (2) it initiated split routes for salesmen in 1mn+ population towns. While the project is still WIP, the initial results are encouraging and (3) investing in direct distribution in smaller towns. We believe the benefits of these initiatives to drive revenue growth rates and market shares upwards in FY24-25.

Market share decline in India Tea and India Salt

TCPL has lost 110bps and 30bps market shares in India Tea and India Salt segments, respectively YoY. The chief reasons were steep price hikes and weakness in key market of North India. However, we model the company to regain lost market shares via (1) distribution expansion, (2) stability in prices now and (3) expansion of regionalisation strategy in Jharkhand and Odisha.

Financial Summary

Y/E March (INR mn)	FY22A	FY23A	FY24E	FY25E
Net Revenue	1,24,254	1,37,832	1,54,656	1,73,284
EBITDA	17,188	18,565	21,694	25,061
EBITDA Margin (%)	13.8	13.5	14.0	14.5
Net Profit	9,794	10,494	13,434	15,660
EPS (INR)	10.6	11.3	14.5	16.9
EPS % Chg YoY	13.2	6.3	28.0	16.6
P/E (x)	82.2	77.4	60.4	51.8
EV/EBITDA (x)	45.5	42.3	36.2	31.1
RoCE (%)	6.4	6.3	7.5	8.4
RoE (%)	6.1	6.3	7.7	8.6

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Market Data

Market Cap (INR)	812bn
Market Cap (USD)	9,899mn
Bloomberg Code	TATACONS IN
Reuters Code	TAGL.BO
52-week Range (INR)	884 /685
Free Float (%)	64.0
ADTV-3M (mn) (USD)	15

Price Performance (%)	3m	6m	12m
Absolute	18.3	19.4	11.7
Relative to Sensex	11.4	11.8	22.2

ESG Disclosure	2021	2022	Change
ESG score	51.3	57.4	6.0
Environment	47.2	48.0	0.8
Social	28.1	39.1	11.0
Governance	78.6	84.9	6.3

Note - Score ranges from 0 - 100 with a higher score indicating higher ESG disclosures.

Source: Bloomberg, I-sec research

Earnings Revisions (%)	FY24E	FY25E
Revenue	0.0	0.0
EBITDA	1.4	1.4
EPS	2.0	1.9

Previous Reports

14-06-2023: [Company update](#)

25-04-2023: [Q4FY23 results review](#)

Growth businesses performing well

Growth businesses (Sampann,, Soufull, Nourishco) reported revenue growth of 58% YoY and now account for 20% of India branded business. The company has introduced multiple products such as Tata Spring Alive -premium packaged water, Tata Coffee Gold Cold Brew -RTD cold coffee, Tata Sampann Rava Idli and Rava Dosa mix, Daliya and South Hing. It has also introduced multiple products under Tata Soufull.

International business reported market share gains

While UK, USA and Canada have reported dismal constant currency revenue growth of +1%, -5% and -7%, we are enthused by market share gains in UK and Canada in Tea segment. International business also reported 40bps improvement in EBIT margin due to superior revenue mix and correction in commodity prices.

Starbucks is EBIT positive in-spite of strong store addition

Tata Starbucks added 16 new stores taking the tally to 348 stores at end of Q1FY24. It reported revenue growth of 21% and also remained EBIT positive. Starbucks is now present in 46 cities. We model it to be strong value creator considering store addition is ahead of expectations.

Valuation and key risks

We model Tata Consumer to report revenue and PAT CAGR of 12.1% and 22%, respectively led by improvement in profitability of India Foods. We maintain BUY rating and value the stock at TP of INR 1,010 (Earlier INR 950). Key risks: Higher-than-expected competitive pressures and steep increase in commodity prices.

Exhibit 1: Q1FY24 results review (consolidated)

Year end March (INR mn)	Jun-23	Jun-22	YoY (%)	Mar-23	QoQ (%)
Revenue from operations	37,412	33,268	12.5	36,187	3.4
Cost of Materials	(21,633)	(19,091)	13.3	(21,054)	2.8
Gross profit	15,779	14,178	11.3	15,133	4.3
Employee costs	(2,958)	(2,774)	6.6	(2,861)	3.4
Other expenses	(7,371)	(6,830)	7.9	(7,156)	3.0
EBITDA	5,450	4,573	19.2	5,117	6.5
D&A	(820)	(729)	12.4	(829)	(1.1)
EBIT	4,631	3,844	20.5	4,288	8.0
Interest expense	(262)	(163)	61.2	(277)	(5.2)
Other income	578	353	63.4	553	4.4
PBT	4,946	4,035	22.6	4,565	8.4
Income tax provision	(1,309)	(1,030)	27.1	(1,045)	25.2
PAT before EO and MI	3,637	3,005	21.0	3,520	3.3
MI	(193)	(142)	36.2	(698)	(72.4)
Share of assoc earnings	(209)	2	-	(560)	(62.8)
Recurring PAT	3,236	2,865	12.9	2,262	43.1
EO items	399	(1,101)	-	396	0.8
Reported PAT	3,635	1,765	106.0	2,658	36.8
Margin (%)					
Gross margins	42.2	42.6		41.8	
EBITDA	14.6	13.7		14.1	
EBIT	12.4	11.6		11.8	
Recurring PAT	8.6	8.6		6.3	
ETR (%)	26.5	25.5		22.9	

Source: Company data, I-Sec research

Exhibit 2: Q1FY24 results review (standalone)

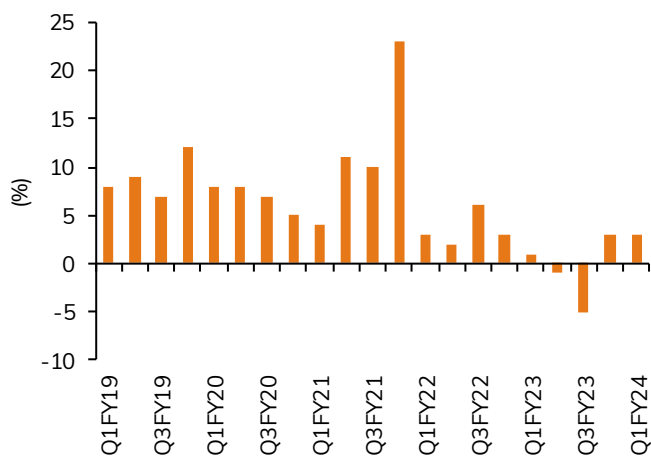
Year end March (INR mn)	Jun-23	Jun-22	YoY (%)	Mar-23	QoQ (%)
Revenue from operations	23,161	20,769	11.5	21,779	6.3
Cost of materials	(14,287)	(12,892)	10.8	(13,366)	6.9
Gross profit	8,874	7,877	12.7	8,412	5.5
Employee costs	(1,090)	(979)	11.3	(997)	9.2
Other expenses	(4,219)	(3,830)	10.2	(3,896)	8.3
EBITDA	3,565	3,068	16.2	3,520	1.3
D&A	(388)	(351)	10.6	(381)	1.9
EBIT	3,177	2,717	16.9	3,139	1.2
Interest expense	(84)	(71)	17.4	(76)	10.4
Other income	699	539	29.7	374	87.0
PBT	3,792	3,185	19.1	3,437	10.3
Income tax provision	(888)	(746)	19.1	(802)	10.7
PAT before EO	2,904	2,439	19.1	2,635	10.2
Recurring PAT	2,904	2,439	19.1	2,635	10.2
EO items	(41)	(41)	-	(105)	(61.1)
Reported PAT	2,863	2,399	19.4	2,530	13.2
Margin (%)					
Gross	38.3	37.9		38.6	
EBITDA	15.4	14.8		16.2	
EBIT	13.7	13.1		14.4	
Recurring PAT	12.5	11.7		12.1	
ETR (%)	23.4	23.4		23.3	

Source: Company data, I-Sec research

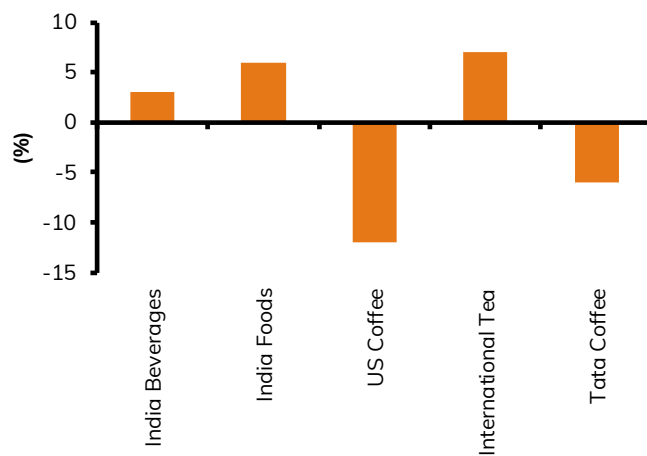
Exhibit 3: Q1FY24 segment review (Consolidated)

(INR mn)	Jun-23	Jun-22	YoY (%)	Mar-23	QoQ (%)
Segment Revenues					
India Business	24,779	21,452	15.5	22,465	10.3
International Beverages	8,948	8,366	7.0	9,841	(9.1)
Non branded business	3,771	3,517	7.2	3,853	(2.1)
Others	110	74	48.3	168	(34.5)
Intersegment	(196)	(141)	38.9	(139)	41.3
Total	37,412	33,268	12.5	36,187	3.4
Segment EBIT					
India Business	3,285	2,732	20.2	3,116	5.4
International Beverages	1,158	1,045	10.9	1,272	(9.0)
Non branded business	500	394	26.7	259	93.2
Others	-	-	-	-	-
Intersegment	-	-	-	-	-
Total	4,942	4,170	18.5	4,647	6.4
Segment EBIT margin					
India Business	13.3%	12.7%	-	13.9%	-
International Beverages	12.9%	12.5%	-	12.9%	-
Non branded business	13.2%	11.2%	-	6.7%	-
Others	0.0%	0.0%	-	0.0%	-
Intersegment	0.0%	0.0%	-	0.0%	-
Total	13.2%	12.5%	-	12.8%	-

Source: Company data, I-Sec research

Exhibit 4: India Beverages volume growth


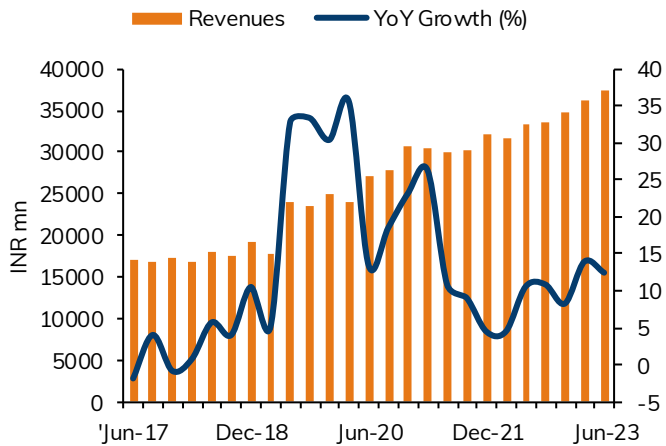
Source: I-Sec research, Company data

Exhibit 5: Segment-wise volume growth (Q1FY24)


Source: I-Sec research, Company data

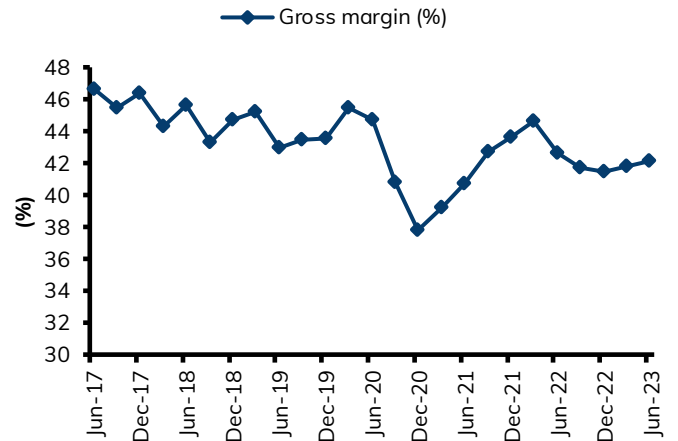
Key charts – Quarterly (Consolidated)

Exhibit 6: Revenues and growth rates



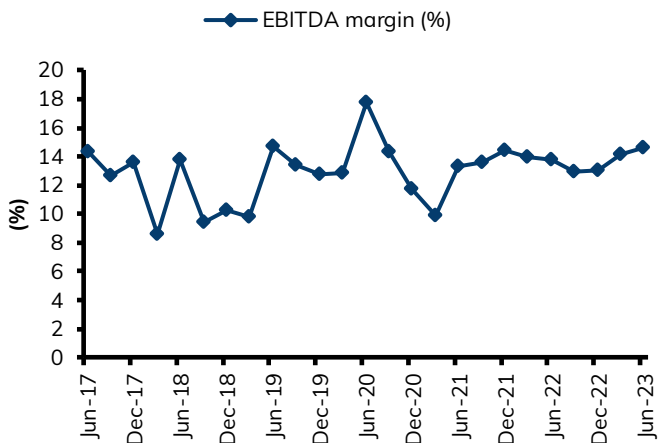
Source: Company data, I-Sec research

Exhibit 7: Gross margin (%)



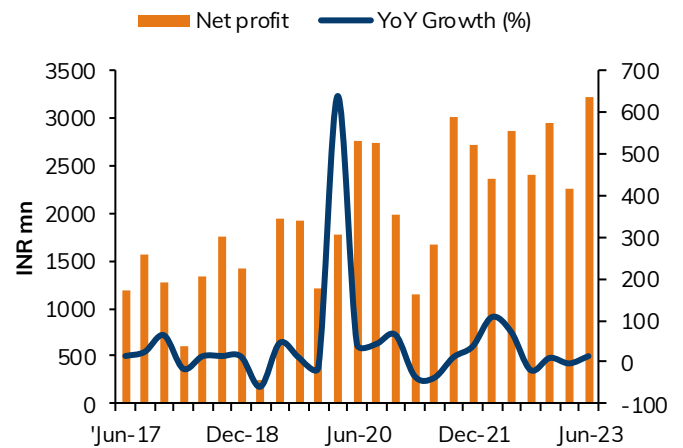
Source: Company data, I-Sec research

Exhibit 8: EBITDA margin (%)



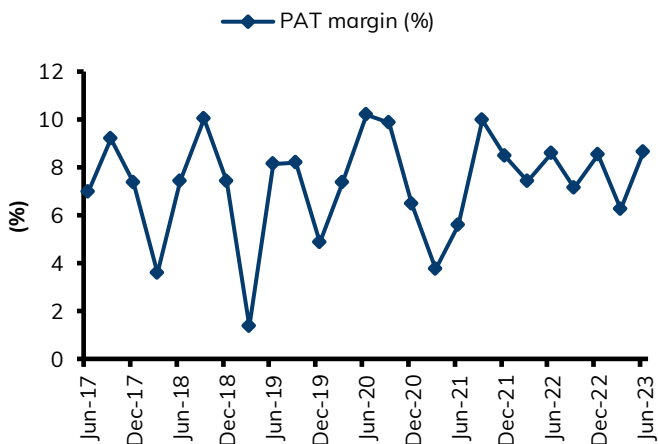
Source: Company data, I-Sec research

Exhibit 9: Net profit and growth rates



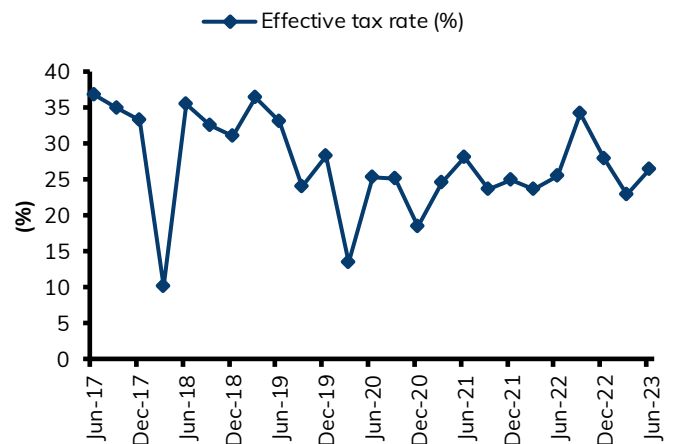
Source: Company data, I-Sec research

Exhibit 10: PAT margin (%)



Source: Company data, I-Sec research

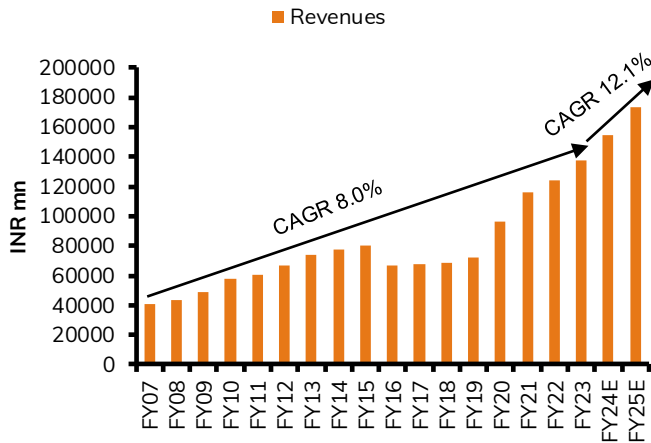
Exhibit 11: Effective tax rate (%)



Source: Company data, I-Sec research

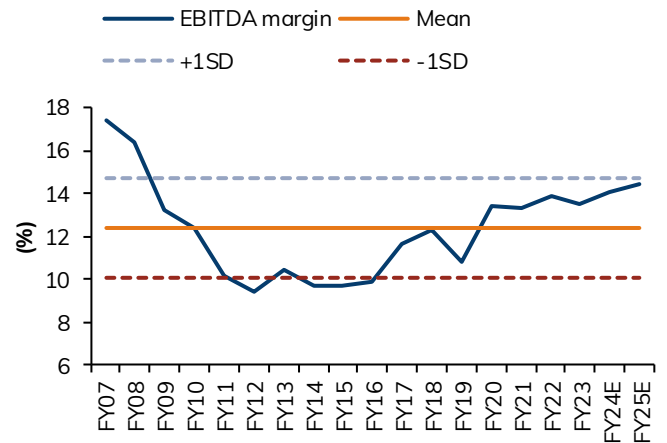
Key charts – Annual

Exhibit 12: Revenues and growth rates



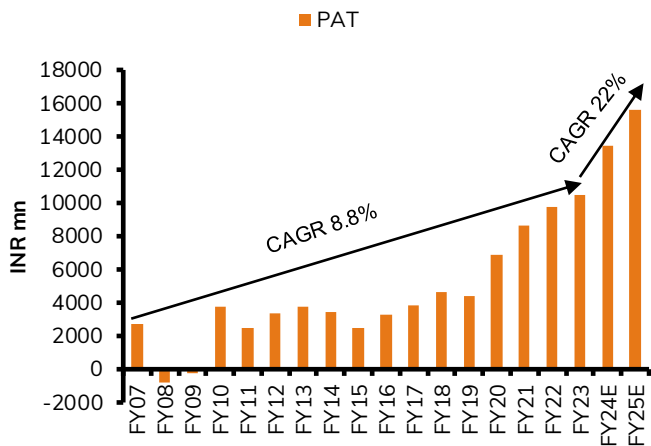
Source: Company data, I-Sec research

Exhibit 13: EBITDA margin



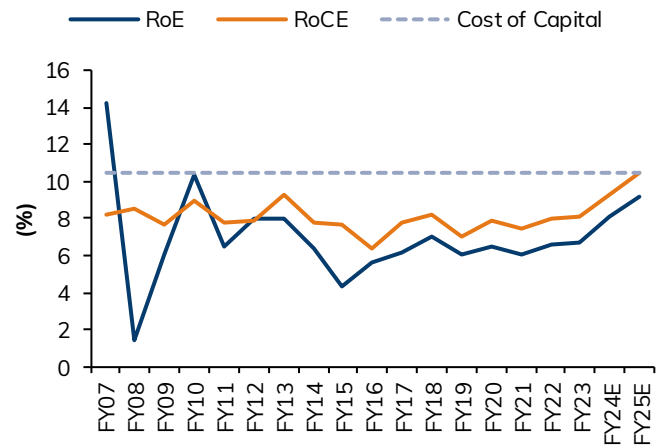
Source: Company data, I-Sec research

Exhibit 14: Net profit and growth rates



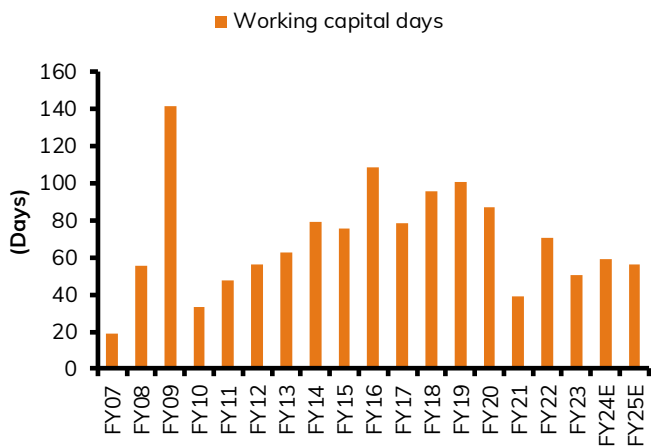
Source: I-Sec research, Company data

Exhibit 15: RoE & RoCE



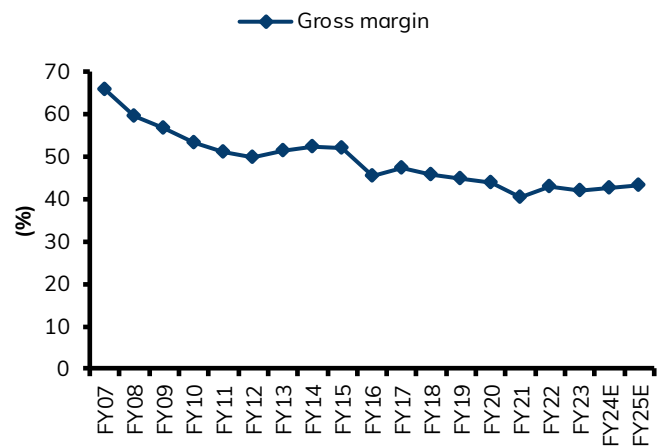
Source: I-Sec research, Company data

Exhibit 16: Net working capital days



Source: Company data, I-Sec research

Exhibit 17: Gross margin



Source: Company data, I-Sec research

Valuation and risks

We model Tata Consumer Products to report revenue and PAT CAGRs of 12.1% and 22.2% over FY23- FY25E and RoCE moving from 6.3% in FY23 to 8.4% in FY25E. At our revised target price of INR 1,010, the implied P/E works out to 52x FY25E EPS. Maintain **BUY**.

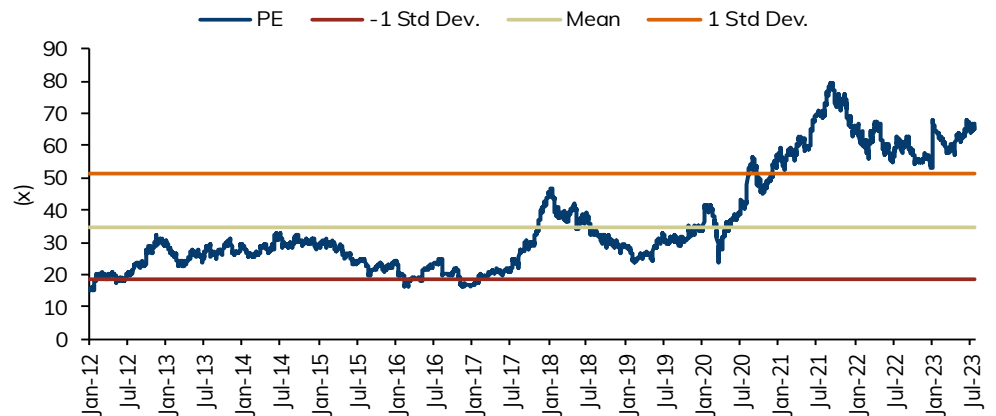
Risks

Sharp increase in input prices and higher-than-expected competitive pressures: Material increase in input prices and/or higher than expected competitive pressures could result in downside to our estimates.

Failure of some of the new launches

Failure of some of the new products may impact our earnings estimates.

Exhibit 18: Mean P/E and standard deviation



Source: Bloomberg, I-Sec research

Financial Summary

Exhibit 19: Profit & Loss

(INR mn, year ending March)

	FY22A	FY23A	FY24E	FY25E
Net Sales	1,24,254	1,37,832	1,54,656	1,73,284
Operating Expenses	1,07,066	1,19,267	1,32,962	1,48,223
EBITDA	17,188	18,565	21,694	25,061
EBITDA Margin (%)	13.8	13.5	14.0	14.5
Depreciation & Amortization	2,780	3,041	3,060	3,200
EBIT	14,408	15,524	18,634	21,861
Interest expenditure	728	872	739	739
Other Non-operating Income	1,401	1,689	2,081	1,942
Recurring PBT	15,081	16,341	19,976	23,064
Profit / (Loss) from Associates	(638)	(264)	(290)	(319)
Less: Taxes	3,770	4,470	5,094	5,881
PAT	11,310	11,871	14,882	17,183
Less: Minority Interest	(878)	(1,113)	(1,158)	(1,204)
Extraordinaries (Net)	72	2,431	-	-
Net Income (Reported)	9,866	12,925	13,434	15,660
Net Income (Adjusted)	9,794	10,494	13,434	15,660

Source Company data, I-Sec research

Exhibit 20: Balance sheet

(INR mn, year ending March)

	FY22A	FY23A	FY24E	FY25E
Total Current Assets	69,377	75,538	81,352	93,785
of which cash & cash eqv.	25,999	27,969	28,460	34,997
Total Current Liabilities & Provisions	24,039	29,480	27,916	31,278
Net Current Assets	45,338	46,059	53,436	62,507
Investments	7,951	10,474	10,184	9,865
Net Fixed Assets	42,347	46,606	46,639	46,905
ROU Assets	-	-	-	-
Capital Work-in-Progress	2,470	6,789	6,789	6,789
Total Intangible Assets	77,541	80,254	80,254	80,254
Long Term Loans & Advances	140	-	-	-
Deferred Tax assets	-	-	-	-
Total Assets	1,86,710	1,98,145	2,05,265	2,14,283
Liabilities				
Borrowings	10,106	11,828	11,828	11,828
Deferred Tax Liability	7,337	8,144	8,144	8,144
Provisions	1,756	5,297	5,944	6,659
Other Liabilities	4,575	1,607	1,803	2,020
Equity Share Capital	922	929	929	929
Reserves & Surplus	1,50,498	1,61,838	1,66,958	1,73,838
Total Net Worth	1,51,419	1,62,767	1,67,887	1,74,767
Minority Interest	11,516	8,502	9,660	10,864
Total Liabilities	1,86,710	1,98,145	2,05,265	2,14,283

Source Company data, I-Sec research

Exhibit 21: Quarterly trend

(INR mn, year ending March)

	Sep-22	Dec-22	Mar-23	Jun-23
Net Sales	33,631	34,746	36,187	37,412
% growth (YOY)	10.9	8.3	14.0	12.5
EBITDA	4,338	4,537	5,117	5,450
Margin %	12.9	13.1	14.1	14.6
Other Income	293	489	553	578
Extraordinaries	(1,107)	4,242	396	399
Adjusted Net Profit	2,405	2,962	2,262	3,236

Source Company data, I-Sec research

Exhibit 22: Cashflow statement

(INR mn, year ending March)

	FY22A	FY23A	FY24E	FY25E
Operating Cashflow	14,557	14,613	10,556	17,579
Working Capital Changes	23	(1)	(6,044)	(1,600)
Capital Commitments	(9,822)	(3,356)	(3,093)	(3,466)
Free Cashflow	4,735	11,257	7,463	14,113
Other investing cashflow	(3,396)	(4,922)	2,081	1,942
Cashflow from Investing Activities	(13,218)	(8,278)	(1,012)	(1,523)
Issue of Share Capital	-	-	-	-
Interest Cost	(1,153)	(817)	(739)	(739)
Inc (Dec) in Borrowings	(4,947)	(593)	-	-
Dividend paid	(3,848)	(5,734)	(8,315)	(8,779)
Others	-	-	-	-
Cash flow from Financing Activities	(9,948)	(7,144)	(9,054)	(9,518)
Chg. in Cash & Bank balance	(8,609)	(809)	491	6,537
Closing cash & balance	9,170	8,904	28,460	34,997

Source Company data, I-Sec research

Exhibit 23: Key ratios

(Year ending March)

	FY22A	FY23A	FY24E	FY25E
Per Share Data (INR)				
Reported EPS	10.6	11.3	14.5	16.9
Adjusted EPS (Diluted)	10.6	11.3	14.5	16.9
Cash EPS	13.6	14.6	17.8	20.3
Dividend per share (DPS)	4.6	8.4	8.9	9.4
Book Value per share (BV)	164.3	175.2	180.7	188.1
Dividend Payout (%)	42.8	74.8	61.9	56.1
Growth (%)				
Net Sales	7.1	10.9	12.2	12.0
EBITDA	11.3	8.0	16.9	15.5
EPS (INR)	13.2	6.3	28.0	16.6
Valuation Ratios (x)				
P/E	82.2	77.4	60.4	51.8
P/CEPS	64.1	60.0	49.2	43.0
P/BV	5.3	5.0	4.8	4.6
EV / EBITDA	45.5	42.3	36.2	31.1
P / Sales	6.5	5.9	5.2	4.7
Dividend Yield (%)	0.5	1.0	1.0	1.1
Operating Ratios				
Gross Profit Margins (%)	43.0	41.9	42.8	43.2
EBITDA Margins (%)	13.8	13.5	14.0	14.5
Effective Tax Rate (%)	25.0	27.4	25.5	25.5
Net Profit Margins (%)	9.1	8.6	9.6	9.9
Net Debt / Equity (x)	(0.1)	(0.2)	(0.2)	(0.2)
Net Debt / EBITDA (x)	(1.4)	(1.4)	(1.2)	(1.3)
Fixed Asset Turnover (x)	2.0	2.0	2.1	2.3
Working Capital Days	71	62	75	74
Inventory Turnover Days	69	75	75	73
Receivables Days	25	22	22	22
Payables Days	13	15	15	15
Profitability Ratios				
RoCE (%)	6.4	6.3	7.5	8.4
RoE (%)	6.1	6.3	7.7	8.6
RoIC (%)	6.4	6.3	7.5	8.4

Source Company data, I-Sec research

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