



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 Jul 08, 2023

30.16

High Risk

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

Source: Morningstar

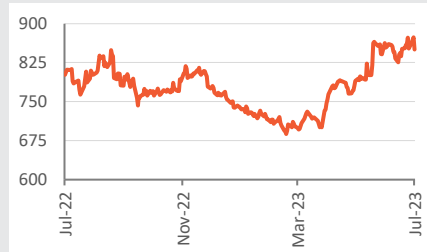
Company details

Market cap:	Rs. 78,966 cr
52-week high/low:	Rs. 884 / 685
NSE volume: (No of shares)	13.1 lakh
BSE code:	500800
NSE code:	TATACONSUM
Free float: (No of shares)	60.9 cr

Shareholding (%)

Promoters	34.4
FII	27.3
DII	16.3
Others	22.0

Price chart



Price performance

(%)	1m	3m	6m	12m
Absolute	-0.5	11.3	15.6	6.0
Relative to Sensex	-5.0	2.9	3.9	-12.7

Sharekhan Research, Bloomberg

Tata Consumer Products Ltd

Good Q1; growth businesses to drive performance ahead

Consumer Goods

Sharekhan code: TATACONSUM

Reco/View: Buy



CMP: Rs. 850

Price Target: Rs. 1,010



Upgrade



Maintain



Downgrade

Summary

- Tata Consumer Products Limited's (TCPL's) Q1FY24 performance was broadly in-line, with revenues rising by 12.5% y-o-y to Rs. 3,741.2 crore, OPM expanding by 82 bps y-o-y to 14.6% and adjusted PAT growing by 23.2% y-o-y to Rs. 362.4 crore.
- India growth businesses clocked yet another strong quarter (58% y-o-y combined growth) driven by 60% y-o-y growth in NourishCo and 51% y-o-y growth in Tata Sampann, while Tata Soufull maintained strong growth trajectory.
- Going ahead, growth is likely to be driven by distribution expansion, innovation and marketing with mid-high single digit volume growth in the tea and salt segments and high growth in other businesses. Cost efficiencies and scale-up of new businesses would drive up margins.
- Stock trades at 53.6x/44.9x its FY2024E/FY2025E earnings. We maintain Buy with an unchanged PT of Rs. 1,010. Robust earnings visibility and improving cash flows make it a good pick in the FMCG space.

TCPL's Q1FY2024 performance was largely in line with our as well as street expectations with double-digit revenue growth and a rise in OPM. Highlight of the quarter was robust performance by the India growth businesses, which delivered a 58% y-o-y growth and increased contribution to India business to 20% from 15% in Q1FY2023. Consolidated revenues grew by 12.5% y-o-y to Rs. 3,741.2 crore, with India beverage revenues growing by 10% y-o-y (volume growth of 3%), foods business growing by 24% y-o-y (volume growth of 6%) and international business growing by 7% y-o-y. Despite a 44 bps y-o-y decline in gross margins, consolidated OPM improved by 82 bps y-o-y to 14.6% led by efficiencies and better mix. In line with operating profit growth of 19.2% and higher other income, adjusted PAT grew by 23.2% y-o-y to Rs. 362.4 crore.

Key positives

- India growth businesses jointly grew by 58% y-o-y with contribution to India business increasing to 20% versus 15% in Q1FY2023.
- NourishCo grew 60% y-o-y and Tata Sampann by 51% y-o-y, while Tata Soufull continued its strong trajectory.
- Contribution of new products as a percentage of sales improved to 5% versus 3.4% in FY2023.
- Company maintained its strong liquidity position, net cash stood at Rs. 2,320 crore.

Key negatives

- India's branded tea business saw a 110 bps (50 bps in volume terms) decline in the market share; salt market share saw a 30 bps dip.
- US Coffee volumes declined by 12% y-o-y.

Management Commentary

- Domestic demand will depend on rural recovery and a normal monsoon in the coming months, while TCPL will keenly monitor demand trends in TCPL's key international markets.
- In Soufull, TCPL's focus is on breakfast cereals, and rest products would be adjacencies. Soufull currently has mid-high single digit market share and its margin is accretive to overall business. Margin profile of some businesses is expected to rise as scale improves.
- For NourishCo is currently present in 80% of the country and the company plans to build distribution in some large cities. Management is confident of delivering strong numbers for NourishCo and targets to hit four-digit revenue in FY2024.
- Tea prices are flat, and the management expects the prices to come down if the weather conditions remain stable. In case of coffee, management expects some softening of prices given that coffee prices are at high levels since the past few quarters. Overall, the management expects input cost trend to remain flat in the near term.
- With current reach at 3.9 million outlets, TCPL is on track to reach four million outlets (numeric reach) by September 2023.
- Going ahead, the management expects to post mid-high single digit volume growth in tea and salt and high growth in other businesses driven by distribution expansion, innovation and marketing. Margins are likely to rise led by cost efficiencies and scale-up of new businesses.

Revision in estimates – We have broadly maintained estimates for FY2024E and FY2025E and will keenly monitored the performance in the quarters ahead to make any revision in the earnings estimates.

Our Call

View - Retain Buy with an unchanged PT of Rs. 1,010: TCPL's strong show in Q1FY2024 was driven by outperformance by India growth businesses. 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 21%, respectively, over FY2023-FY2025E. Stock trades at 53.6x/44.9x its FY2024E/FY2025E earnings. With strong growth prospects and sturdy cash flows, we maintain our Buy recommendation on TCPL with an unchanged price target (PT) of Rs. 1,010. Any large inorganic deal focusing on enhancing shareholder 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)

Rs cr

Particulars	FY22	FY23	FY24E	FY25E
Revenue	12,425	13,784	15,441	17,576
OPM (%)	13.8	13.5	13.8	14.3
Adjusted PAT	1,054	1,193	1,464	1,744
% Y-o-Y growth	10.6	13.2	22.7	19.2
Adjusted EPS (Rs.)	11.4	12.9	15.9	18.9
P/E (x)	74.4	65.7	53.6	44.9
P/B (x)	5.2	4.8	4.6	4.2
EV/EBIDTA (x)	44.7	40.9	35.3	29.8
RoNW (%)	7.5	7.8	8.6	9.7
RoCE (%)	8.6	8.9	10.0	11.3

Source: Company; Sharekhan estimates

Good Q1 – India growth business drive performance

Revenues grew by 12.5% y-o-y to Rs. 3,741.2 crore, ahead of our and average street expectation of Rs. 3,682 crore and Rs. 3,715 crore, respectively driven by a strong growth in India business. India beverage revenues grew by 10% y-o-y (volume growth of 3%), foods business grew by 24% y-o-y (volume growth of 6%) and international business grew by 7% y-o-y. India growth businesses posted combined growth of 58% y-o-y (NourishCo posted 60% y-o-y growth) and accounted for 20% of the India business during Q1FY2024 (vs. 15% in Q1FY2023). Tata Starbucks opened 16 new stores and reported 21% y-o-y revenue growth in Q1FY2024. Gross margins fell by 44 bps y-o-y to 42.2%, while OPM improved by 82 bps y-o-y to 14.6% aided by efficiencies and a better mix. OPM came in marginally higher than our as well as average street expectation of 14.2%. Operating profit increased by 19.2% y-o-y to Rs. 545 crore. Adjusted PAT grew by 23.2% y-o-y to Rs. 362.4 crore (ahead of our and average street expectation of Rs. 344-348 crore).

Business-wise revenue break-up

Particulars	Revenue (Rs. cr)	Value growth	Volume growth
India beverages	1,444	10%	3%
India food	1,033	24%	6%
US Coffee	364	2%	-12%
International Tea	530	10%	7%
Tata Coffee (incl. Vietnam)	340	13%	-6%

Source: Company; Sharekhan Research

India business:

- ◆ **India Packaged Beverages – Muted Q1; Tea volume market share lower by 50 bps:** Revenue for the quarter grew by 2% y-o-y, with a 3% volume growth, recording another consecutive quarter of positive volume growth. On a four-year CAGR basis, growth in India packaged beverages stood at 7%. While volume market share in tea was down by 50 bps (MAT basis), it was broadly stable versus Q1FY2023. TCPL's largest brands, Tata Tea Premium and Tata Tea Agni recorded strong volume growth during the quarter. TCPL maintained market leadership in tea in the e-commerce channel for the 26th consecutive month. In the modern trade channel, TCPL reported 1.7x category growth in tea across its top-4 customers. Coffee revenue grew 21% y-o-y during the quarter.
- ◆ **India Foods – Price-led revenue growth driven by Tata Sampann and Tata Soulfull:** India foods business registered a 24% y-o-y revenue growth to Rs. 1,033 crore in Q1FY2023. Growth was largely price-led, as volumes rose 6%. Salt segment revenues grew 18% y-o-y on a high base of 20% growth in Q1FY2023. This brings the four-year revenue CAGR of salt to 17%. In terms of market share, while the Tata Salt franchise gained share, overall salt market share saw a 30 bps dip led by the lower-priced brands in the portfolio. Rock salt clocked its highest-ever monthly volumes in June 23, while both Tata Salt Immuno (Zinc fortified) and Shuddh by Tata Salt continued seeing strong traction with consumers. Tata Sampann delivered strong performance during Q1FY2024, registering a 51% y-o-y growth, albeit on a soft base of 6% growth in Q1FY2023. Tata Soulfull portfolio continued its strong trajectory, led by distribution gains for the existing portfolio and new innovations. Soulfull saw its highest-ever quarterly revenue in modern trade which was also its fastest-growing channel. Dry fruits posted yet another strong quarter growing over 100% y-o-y.
- ◆ **NourishCo (100% subsidiary) – Yet another strong quarter:** Despite adverse weather and a high base of 110% growth in Q1FY2023, NourishCo's revenue grew by 60% y-o-y to Rs. 293 crore, driven by 61% y-o-y growth in Tata Gluco+ and 71% y-o-y growth in Tata Copper+. TCPL sold 10 million cases each of Tata Gluco+ and Tata Copper+ in Q1FY2024. Distribution network expansion and capacity addition drive continue to build national footprint. Tata Gluco+ Jelly saw its highest production and sale in June 2023 on the back of capacity ramp-up. TCPL's new launches - Tata Spring Alive and Tata Coffee Cold Brew witnessed strong initial response. Profitability for the business improved significantly led by lower costs and operating leverage.
- ◆ **Tata Coffee (including Vietnam ex-EOC) (~58% subsidiary) – Growth driven by plantations business:** Revenue grew by 11% y-o-y, led by plantations business, which grew by 31% y-o-y, primarily led by

higher Arabica sales and coffee trading revenues. Extractions business grew 2% y-o-y as unprecedented inflation in coffee prices affecting demand. The Vietnam business performed well, with strong sales and improved profitability, supported by higher sales of premium products. The process of obtaining regulatory approvals for the proposed merger of TCPL with Tata Coffee is in the final stage of process with the NCLTs. Profitability improved driven by higher realization and lower costs.

- ◆ **Tata Starbucks (JV) – Revenue growth at 21% y-o-y; 16 new stores added in Q1:** Revenue grew by 21% y-o-y. TCPL added 16 new stores and entered four new cities in Q1FY2024 marking its presence across 46 cities with a total store count of 348. Business remained EBIT positive, despite strong store addition.

International business:

- ◆ **UK** – Revenue grew 1% y-o-y in constant currency (CC) terms (reported revenue growth of 6% y-o-y). TCPL's all three brands, Tetley, Teapigs, and Good Earth gained value market share. Benefits of restructuring are beginning to flow through.
- ◆ **US** – Coffee revenues declined 5% y-o-y (CC terms) due to lapping of price increases as well as continued softness in the coffee category. Tea revenues fell by 3% y-o-y (CC terms). Tetley continued its outperformance versus the mainstream black category during the quarter. Teapigs growth significantly outpaced the specialty tea category growth in volume and value terms.
- ◆ **Canada** – Revenues declined by 7% y-o-y (CC terms), with speciality tea declining by 13% y-o-y impacted by softness in the tea category. Tetley continued to outperform the regular tea category during the quarter.

Key conference call highlights

- ◆ **Demand uncertainties persist:** In the domestic market, the company is seeing improving demand trends for the core categories, however demand trends in the coming months will depend on rural recovery and a normal monsoon. In the international market, even though global inflation has begun to improve, category demand trends in TCPL's key international markets need to be monitored.
- ◆ **Input cost to stay flat:** Tea prices are witnessing a flattish trend and the management expects the prices to come down if the weather conditions remain stable. In case of coffee, the management expects some softening of prices given that coffee prices are at high levels since the past few quarter. Overall, management expects input cost trend to remain flat in the near term.
- ◆ **Growth businesses continue outperformance:** Growth businesses continued their strong trajectory, growing 58% y-o-y in Q1FY2024, and now account for 20% of India branded business versus 15% in Q1FY2023. Tata Soulfull entered several new categories during the quarter, expanding TCPL's Total Addressable Market. In Soulfull, TCPL's focus is on breakfast cereals, and rest products would be adjacencies. Soulfull currently has mid-high single digit market share and its margin is accretive to overall business. Margins of some businesses is expected to rise led by improvement in scale. For NourishCo, differentiated products and product and geographic expansion is driving growth. It is currently present in 80% of the country and the company plans to build distribution in some large cities. The management is confident of delivering strong numbers for Nourishco and targets to hit a four-digit revenue in FY2024.
- ◆ **International business – Demand stays soft; margins improve q-o-q:** Pricing actions and structural interventions have led to a sequential improvement in margins for 3 consecutive quarters. However, demand softness in the international business continues.
- ◆ **Distribution reach:** TCPL is strengthening distribution in R-urban towns. With current reach at 3.9 million outlets, TCPL is on track to reach 4 million outlets (numeric reach) by September 2023.
- ◆ **Alternate channels continue growth momentum: Alternate channels** - modern trade and e-commerce - continued strong growth trajectory registering 22% and 28% y-o-y growth, respectively. Management indicated that within E-commerce, quick-commerce is growing at a faster rate than overall e-commerce growth and expects the momentum to continue.

Results (Consolidated)

Particulars	Rs cr				
	Q1FY24	Q1FY23	Y-o-Y %	Q4FY23	Q-o-Q %
Total Revenue	3,741.2	3,326.8	12.5	3,618.7	3.4
Raw material cost	2,163.3	1,909.1	13.3	2,105.4	2.8
Employee cost	295.8	277.4	6.6	286.1	3.4
Other expenses	737.1	683.0	7.9	715.6	3.0
Total operating cost	3,196.2	2,869.5	11.4	3,107.1	2.9
Operating profit	545.0	457.3	19.2	511.7	6.5
Other income	57.8	35.3	63.4	55.3	4.4
Interest & other financial cost	26.2	16.3	61.2	27.7	-5.2
Depreciation	82.0	72.9	12.4	82.9	-1.1
Profit Before Tax	494.6	403.5	22.6	456.5	8.4
Tax	132.2	109.2	21.1	106.2	24.5
Adjusted PAT before share of profit from associates/JV	362.4	294.2	23.2	350.3	3.5
Minority Interest (MI)/ Profit from associates	-20.9	0.2	-	-56.0	-62.8
Adjusted PAT after MI	341.5	294.5	16.0	294.3	16.1
Extra-ordinary items	-3.8	-17.7	-	-4.7	-
Reported PAT	337.7	276.7	22.0	289.6	16.6
Adjusted EPS (Rs.)	3.9	3.2	22.2	3.8	2.6
			BPS		BPS
GPM (%)	42.2	42.6	-44	41.8	36
OPM (%)	14.6	13.7	82	14.1	43
NPM (%)	9.7	8.8	84	9.7	1
Tax rate (%)	26.7	27.1	-34	23.3	347

Source: Company; Sharekhan Research

Segment-wise performance

Particulars	Rs cr				
	Q1FY24	Q1FY23	Y-o-Y %	Q4FY23	Q-o-Q %
India Business	2,478	2,145	15.5	2,246	10.3
International Business	895	837	7.0	984	-9.1
Total branded business	3,373	2,982	13.1	3,231	4.4
Non-branded business	377	352	7.2	385	-2.1
Others / Unallocated item	11	7	48.3	17	-34.5
Less: Inter-segment sales	-20	-14		-14	41.3
Total	3,741	3,327	12.5	3,619	3.4

Source: Company; Sharekhan Research

Segment-wise results

Particulars	Rs cr				
	Q1FY24	Q1FY23	Y-o-Y %	Q4FY23	Q-o-Q %
India Business	328	273	20.2	312	5.4
International Business	116	104	10.9	127	-9.0
Total branded business	444.26	377.6	17.7	438.8	1.2
Non-branded business	50	39	26.7	26	93.2
Total revenue	494.21	417.0	18.5	464.7	6.4

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. A decline in 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.

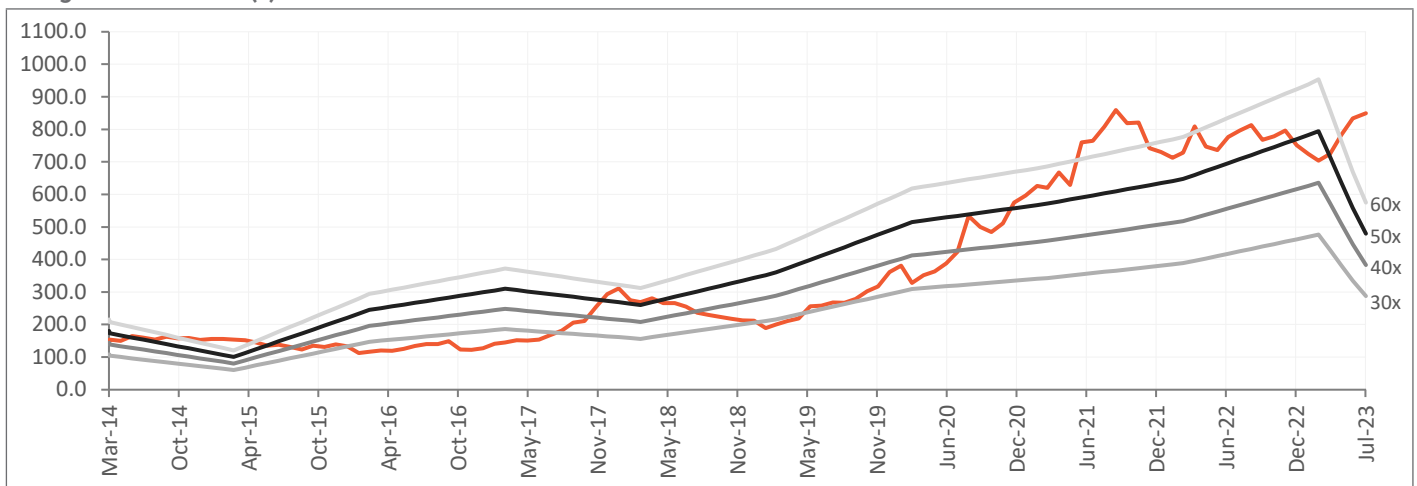
■ Company Outlook – Eyeing consistent earnings growth

Expansion of distribution network and sustained share gains would help sales volume of the domestic tea business to improve to mid-to-high single digits in the medium to long term. Sustained product launches, shift to branded products and distribution expansion will drive the foods business's growth. Base of the international business has normalised and, with demand improving in most markets, growth trajectory will improve in the quarters ahead. The company is banking on operating efficiencies and improved mix to post better margins in the quarters ahead.

■ Valuation – Retain Buy with an unchanged PT of Rs. 1,010

TCPL's strong show in Q1FY2024 was driven by outperformance by India growth businesses. 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 21%, respectively, over FY2023-FY2025E. Stock trades at 53.6x/44.9x its FY2024E/FY2025E earnings. With strong growth prospects and sturdy cash flows, we maintain our Buy recommendation on TCPL with an unchanged price target (PT) of Rs. 1,010. Any large inorganic deal focusing on enhancing shareholder 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	60.3	55.0	47.2	43.9	39.0	33.3	25.6	28.2	31.9
Nestle India	90.1	71.3	61.6	57.8	48.2	41.6	129.2	135.5	138.9
Tata Consumer Products	65.7	53.6	44.9	40.9	35.3	29.8	8.9	10.0	11.3

Source: Company, Sharekhan estimates

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 (FY2023), 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 – FY23). 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 21% 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 A Dsouza	Chief Executive Officer & Managing Director
Sivakumar Sivasankaran	Chief Financial Officer
Neelabja Chakrabarty	Company Secretary & Compliance Officer

Source: Company Website

Top 10 shareholders

Sr. No.	Holder Name	Holding (%)
1	Life Insurance Corp of India	7.01
2	First State Investment ICVC	4.75
3	Mitsubishi UFJ Financial Group	3.60
4	BlackRock Inc	2.40
5	Vanguard Group Inc	2.21
6	Norges Bank	1.95
7	Goldman Sachs Group Inc	1.72
8	Government Pensi	1.60
9	SBI Funds Management	1.29
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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Registration and Contact Details: Name of Research Analyst - Sharekhan Limited, Research Analyst Regn No.: INH000006183. (CIN): - U99999MH1995PLC087498. Registered Office: The Ruby, 18th Floor, 29 Senapati Bapat Marg, Dadar (West), Mumbai – 400 028, Maharashtra, INDIA. Tel: 022-6115000.

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