

# Tata Consumer Products

BSE SENSEX 70,514 S&P CNX 21,183

CMP: INR950

TP: INR1,110 (+17%)

Buy

## TATA CONSUMER PRODUCTS

Bloomberg	TATACONS IN
Equity Shares (m)	922
M.Cap.(INRb)/(USDb)	883 / 10.6
52-Week Range (INR)	963 / 685
1, 6, 12 Rel. Per (%)	-5/-3/3
12M Avg Val (INR M)	1102
Free float (%)	65.6

### Financials Snapshot (INR b)

Y/E MARCH	2024E	2025E	2026E
Sales	153.7	167.5	182.9
EBITDA	22.0	25.8	27.9
Adj. PAT	13.9	17.9	19.8
EBITDA Margin (%)	14.3	15.4	15.3
Cons. Adj. EPS (INR)	14.6	19.4	21.5
EPS Gr. (%)	25.1	32.9	11.0
BV/Sh. (INR)	185.9	205.1	220.2

### Ratios

Net D:E	-0.1	-0.2	-0.2
RoE (%)	8.2	9.8	10.1
RoCE (%)	11.2	13.0	13.5
Payout (%)	45.0	34.9	32.0

### Valuations

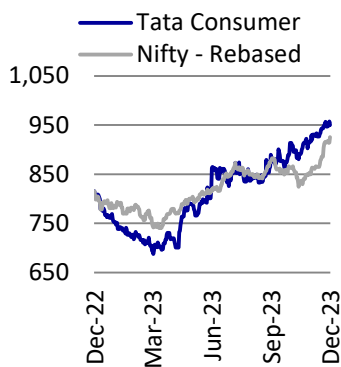
P/E (x)	65.6	49.4	44.5
EV/EBITDA (x)	39.1	33.0	30.1
Div. Yield (%)	0.7	0.7	0.7
FCF Yield (%)	0.4	1.4	1.6

### Shareholding pattern (%)

As On	Sep-23	Jun-23	Sep-22
Promoter	34.4	34.4	34.7
DII	16.9	16.3	14.9
FII	25.3	25.5	25.7
Others	23.4	23.8	24.8

FII Includes depository receipts

### Stock's performance (one-year)



## Brewing a legacy in the tea business

Tea has been a core product and an integral part of Tata Consumer Products Ltd's (TATACONS) portfolio, with its India tea business accounting for ~32% of the company's total consolidated revenue in FY23. In this note, we have analyzed tea prices and production trends, and its impact on TATACONS.

### Unfavorable climatic conditions led to marginal decline in tea production

- Tea production for the **current season (Feb-Oct'23)** declined 1% YoY to 1,133m kg vs. 1,366m kg in CY22.
- During the current season, production in North India (contributes to ~84% of total tea production in India) was down 2% YoY at 948m kg due to a 3%/2% YoY decline in Assam/West Bengal (contributes to ~52%/30% of total tea production). However, production in South India was up 3% YoY at 185m kg.
- All-India tea production during the **first flush (Feb-Jun'23)** declined 1% YoY, dragged down by an 11%/4% YoY decline in Apr'23/Jun'23 but was partially pulled up by 16% YoY growth in Mar'23. (First flush produces best-quality output of entire tea season; it contributed to ~33% of the whole tea cycle volume in CY22.)
- During the **second flush (Jul-Sep'23)**, all-India tea production declined ~6% YoY, due to a 17%/4% decline in Sep'23/Aug'23. Jul'23 production rose 6% YoY.
- The production decline was mainly attributed to unfavorable climatic conditions, especially scanty rainfalls in Assam and West Bengal. As per IMD, Assam/West Bengal received 19%/22% lower than normal rainfall during the monsoon season 2023 (Jun-Sep'23).
- All-India tea production in CY23 is expected to be muted YoY, owing to below-average rainfall in major tea producing states such as Assam, West Bengal, Kerala and Karnataka.

### Strong domestic consumption drives tea sales for TATACONS

- In CY22, tea production stood at ~1,366m kg (up 7% YoY), and exports grew 18% YoY to 231m kg (~17% of total production).
- Higher demand from Russia and UAE owing to lower production/exports from Sri Lanka (down by 16%/13% YoY in CY22) led to an increase in Indian exports.
- For Jan-Sep'23, tea production stood at 964m kg (down 4% YoY) and exports declined 5% YoY to 158m kg (~16% of total production).
- However, the company's India tea business reported 3% volume growth over Jan-Sep'23, led by steady domestic demand.
- Despite the volume growth, TATACONS has been losing market share for the last three quarters (down 113bp/110bp/95bp YoY in 4QFY23/1QFY24/2QFY24).
- The resurgence of small players (growing by ~40% higher than larger players) has led to market share loss in the segment.
- TATACONS generally witnesses blips in market share YoY as and when tea prices cool down.

- Going ahead, the company is confident of making up for the lost share through the expansion of its distribution network and powering up brands. We expect ~5% volume growth in 2HFY24.

#### Gross margins to stay range-bound amid stabilization in tea prices

- With muted tea production, prices should have been on the higher side. However, tepid exports in CY23 (down 5% YoY in YTD) are weighing on the overall demand, leading to muted tea prices.
- TATACONS usually follows a two-to-three-month lag in passing on any price increase or decrease. However, an inverse relationship is observed between the tea prices and tea business gross margins of the company.
- Moreover, TATACONS buys the majority (70-80%) of its tea during the second flush, i.e., ~1QFY24, which saw flat tea prices YoY. Meanwhile, gross margins of the company's tea business improved marginally over the last three quarters, aided by volume growth.
- However, standalone gross margin have contracted since 3QFY23 due to an increasing mix of Sampann (relatively lower gross margins than tea business).
- Going ahead, with tea prices expected to remain flat due to muted production growth, we expect the gross margin to remain stable or improve slightly.

#### Valuation and view

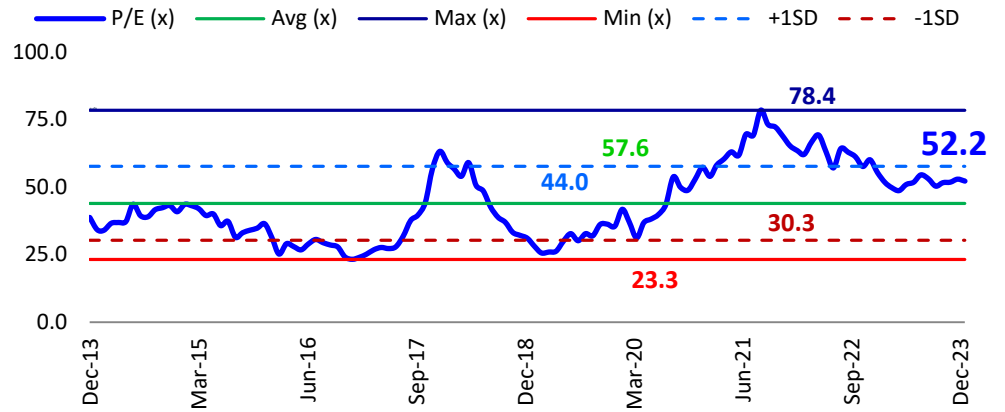
- TATACONS is following a two-pronged growth approach: 1) focusing on new growth engines such as Tata Sampann, NourishCo, Tata Soulfull and the ready-to-eat/ready-to-consume business (Tata Smartfoodz); and 2) rapidly scaling up its distribution network along with digitization prowess across the supply chain, which will drive the next leg of growth.
- We expect a revenue/EBITDA/PAT CAGR of 10%/15%/22% over FY23-26 and arrive at our SoTP-based TP of INR1,110. We reiterate our BUY rating.

#### Exhibit 1: SoTP valuation

EV/EBITDA	Dec'25 EBITDA	Multiple (x)	EV
India Branded Business*	19,593	43	8,43,471
Coffee India (ex-Starbucks)	1,240	12	14,875
Coffee Overseas	4,179	15	62,678
Overseas tea (Tetley UK)	2,374	15	35,606
DCF			
Starbucks JV			61,075
<b>Enterprise value</b>			<b>10,17,706</b>
Less: Net debt			(40,117)
<b>Market value (INR m)</b>			<b>10,57,823</b>
No. of shares (m)			953
<b>Target price (INR)</b>			<b>1,110</b>

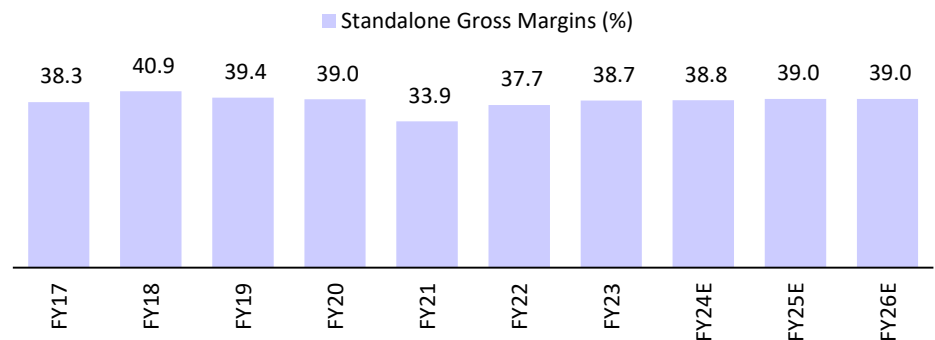
Source: MOFSL

**Exhibit 2: One-year forward P/E ratio (x)**



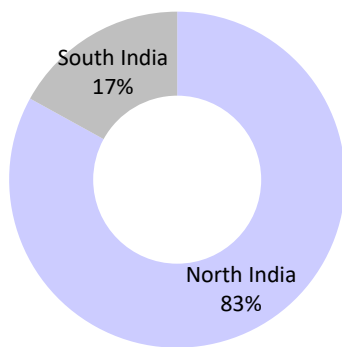
Source: MOFSL

**Exhibit 3: Standalone gross margins expected to remain stable over FY24/FY25**



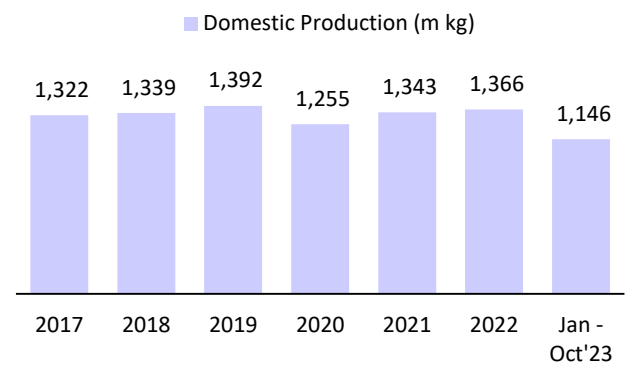
Source: Company, MOFSL

**Exhibit 4: Region-wise tea production in CY22 (1,366m kg)**



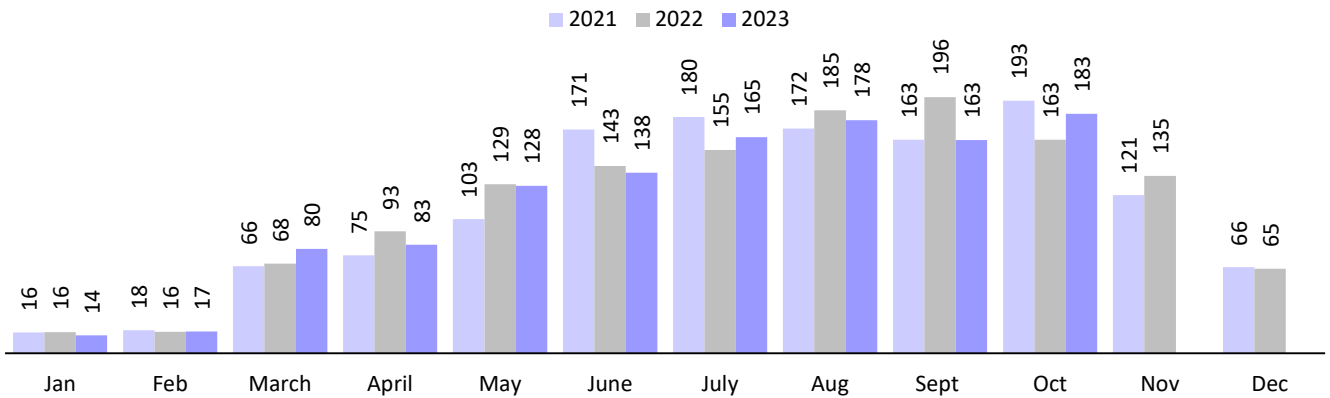
Source: Tea Board of India, MOFSL

**Exhibit 5: Domestic trend in tea production**



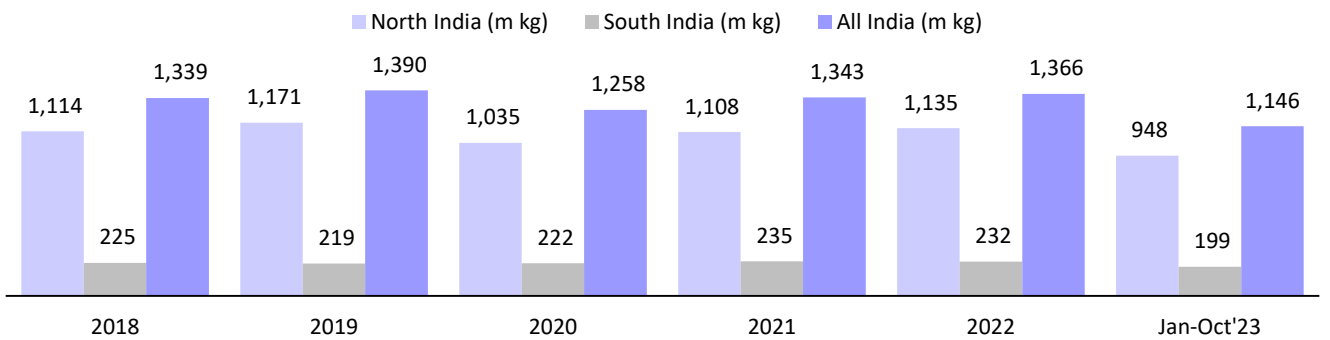
Source: Tea Board of India, MOFSL

**Exhibit 6: Tea production for Jan-Oct'23 declined marginally by 1% YoY**



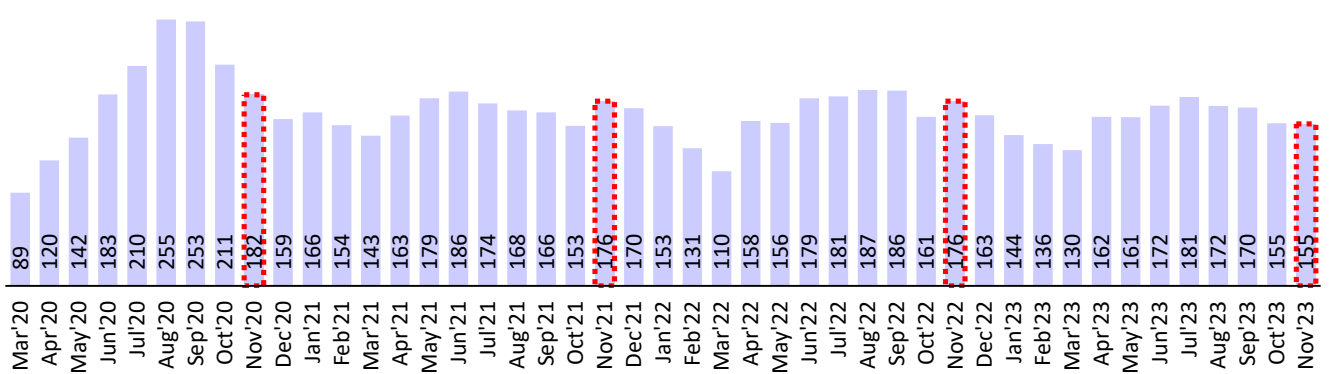
Source: Tea Board of India, MOFSL

**Exhibit 7: Region-wise annual tea production trend in India**



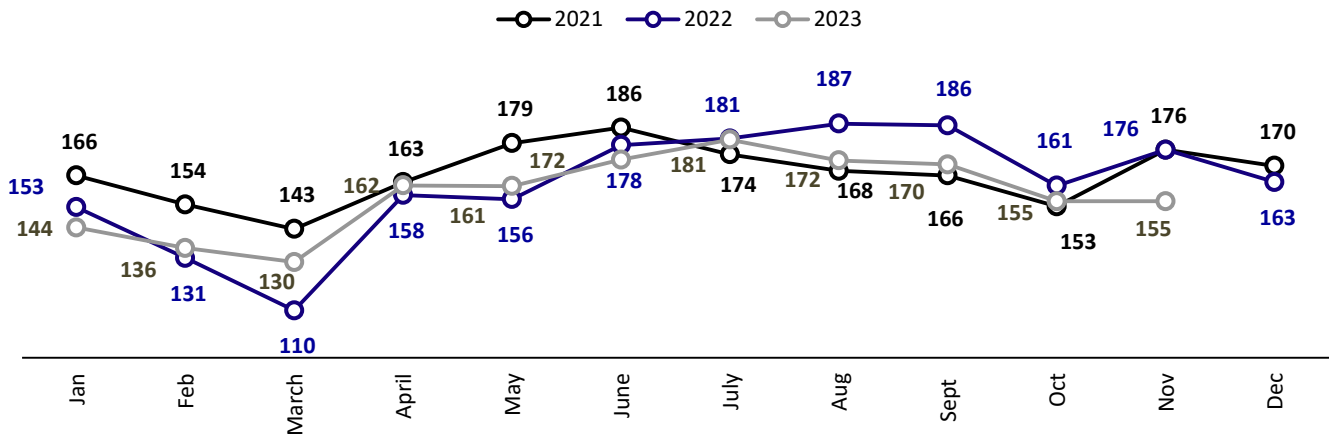
Source: Tea Board of India, MOFSL

**Exhibit 8: Trend of tea prices**



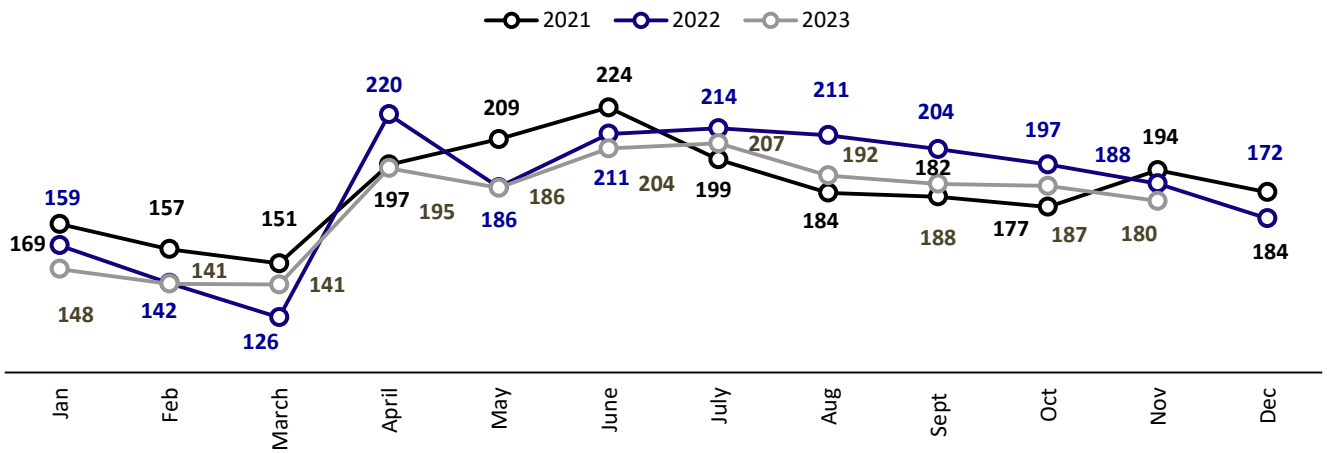
Source: Tea Board of India, MOFSL

Exhibit 9: Tea prices in India (INR/kg)



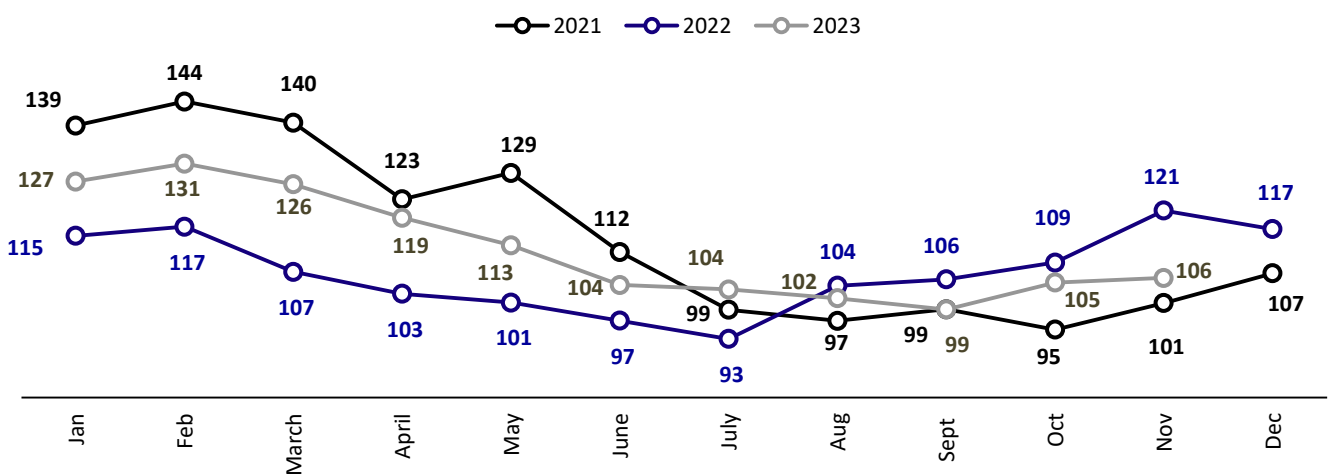
Source: Tea Board of India, MOFSL

Exhibit 10: Tea prices in North India (INR/kg)



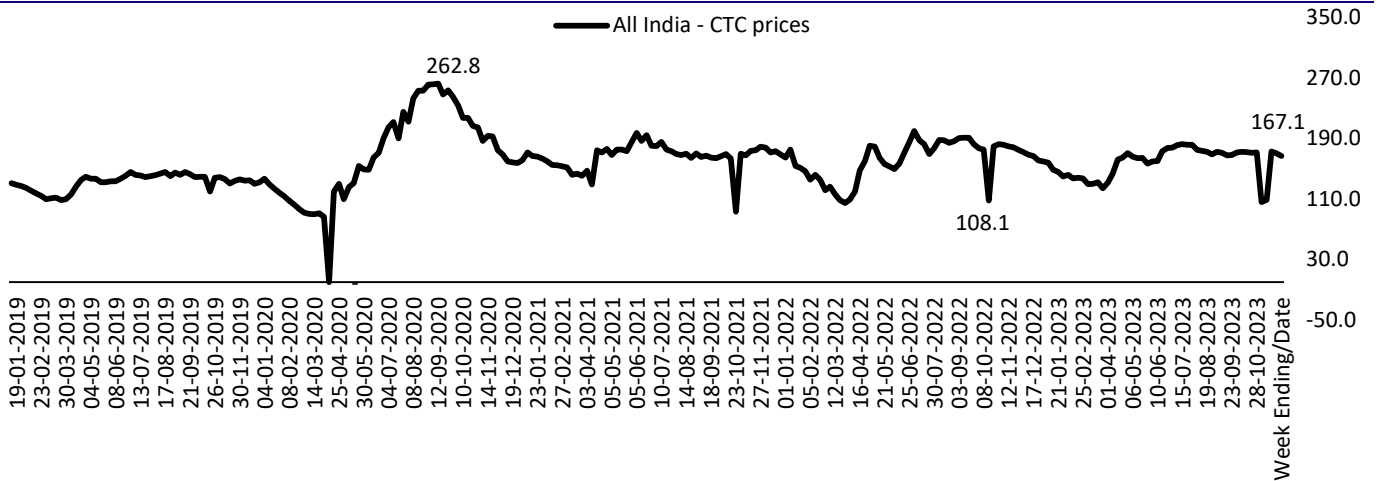
Source: Tea Board of India, MOFSL

Exhibit 11: Tea prices in South India (INR/kg)



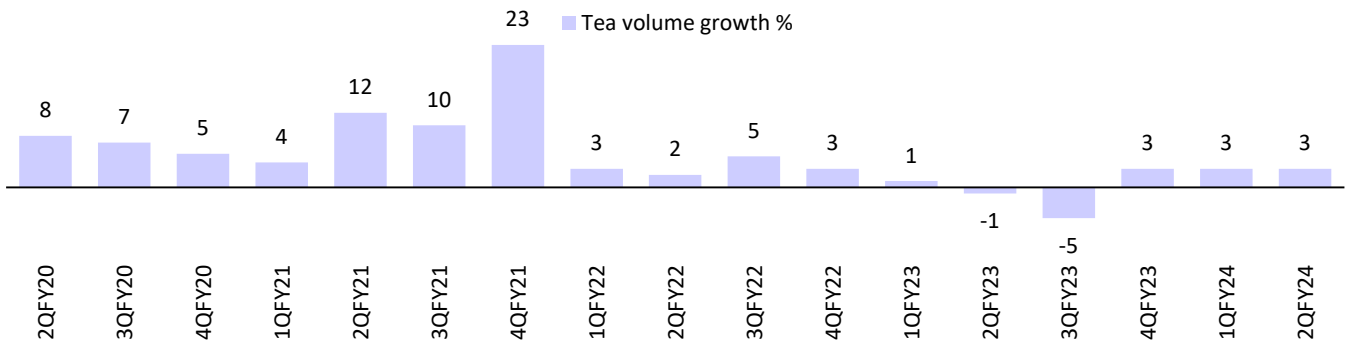
Source: Tea Board of India, MOFSL

Exhibit 12: All-India weekly CTC prices



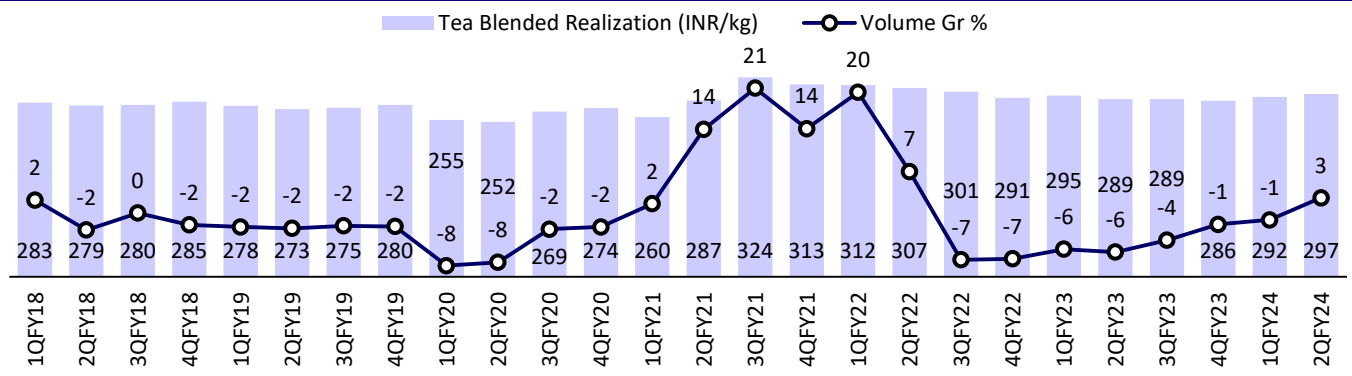
Source: Tea board of India, MOFSL

Exhibit 13: Growth in tea volumes for TATACONS



Source: Company, MOFSL

Exhibit 14: Tea realization and growth trend for TATACONS



Source: Company, MOFSL

## Financials and valuations

### Consolidated Income Statement

	(INRb)								
Y/E March	2018	2019	2020	2021	2022	2023	2024E	2025E	2026E
<b>Net Sales</b>	<b>68.2</b>	<b>72.5</b>	<b>96.4</b>	<b>116.0</b>	<b>124.3</b>	<b>137.8</b>	<b>153.7</b>	<b>167.5</b>	<b>182.9</b>
Change (%)	0.5	6.4	32.9	20.4	7.1	10.9	11.5	8.9	9.2
<b>Gross Profit</b>	<b>31.2</b>	<b>32.4</b>	<b>42.3</b>	<b>47.0</b>	<b>53.4</b>	<b>57.8</b>	<b>65.5</b>	<b>71.4</b>	<b>77.3</b>
Margin (%)	45.7	44.7	43.9	40.5	43.0	41.9	42.6	42.6	42.2
Other operating exp.	22.8	24.6	29.3	31.6	36.2	39.2	43.5	45.6	49.4
<b>EBITDA</b>	<b>8.4</b>	<b>7.9</b>	<b>12.9</b>	<b>15.4</b>	<b>17.2</b>	<b>18.6</b>	<b>22.0</b>	<b>25.8</b>	<b>27.9</b>
Margin (%)	12.3	10.8	13.4	13.3	13.8	13.5	14.3	15.4	15.3
Depreciation	1.2	1.2	2.4	2.5	2.8	3.0	3.7	3.8	3.9
Net Interest	0.4	0.5	0.8	0.7	0.7	0.9	0.9	0.7	0.7
Other income	0.9	1.6	1.1	1.2	1.4	1.7	2.7	3.0	3.3
<b>PBT before EO</b>	<b>7.7</b>	<b>7.7</b>	<b>10.8</b>	<b>13.4</b>	<b>15.1</b>	<b>16.3</b>	<b>20.1</b>	<b>24.3</b>	<b>26.6</b>
EO income/(exp.)	-0.2	-0.3	-2.7	-0.3	-0.5	1.6	-0.2	0.0	0.0
PBT after EO	7.5	7.3	8.1	13.1	14.6	17.9	19.9	24.3	26.6
Tax	1.9	2.6	2.7	3.2	3.8	4.5	5.4	6.6	7.2
Rate (%)	24.7	35.5	33.9	24.2	25.9	24.9	26.9	27.0	27.0
Minority and Associates	0.7	0.7	0.8	1.4	1.4	1.4	0.8	-0.1	-0.5
<b>Reported PAT</b>	<b>5.0</b>	<b>4.1</b>	<b>4.6</b>	<b>8.6</b>	<b>9.4</b>	<b>12.0</b>	<b>13.8</b>	<b>17.8</b>	<b>19.4</b>
<b>Adjusted PAT</b>	<b>5.2</b>	<b>4.4</b>	<b>7.2</b>	<b>8.7</b>	<b>9.7</b>	<b>10.8</b>	<b>13.9</b>	<b>17.9</b>	<b>19.8</b>
Change (%)	34.5	-14.6	63.5	20.8	11.8	11.2	28.3	28.5	11.0

### Balance Sheet

	(INRb)								
Y/E March	2018	2019	2020	2021	2022	2023	2024E	2025E	2026E
Share Capital	0.6	0.6	0.9	0.9	0.9	0.9	1.0	1.0	1.0
Reserves	69.7	72.7	137.2	144.4	150.5	161.8	176.2	188.1	202.0
<b>Net Worth</b>	<b>70.3</b>	<b>73.3</b>	<b>138.1</b>	<b>145.3</b>	<b>151.4</b>	<b>162.8</b>	<b>177.2</b>	<b>189.1</b>	<b>202.9</b>
Minority Interest	10.1	10.3	10.9	10.9	11.5	8.5	0.5	0.0	0.0
Loans	10.7	11.3	11.8	7.2	10.1	11.8	9.8	9.8	9.8
<b>Capital Employed</b>	<b>91.1</b>	<b>94.9</b>	<b>160.9</b>	<b>163.5</b>	<b>173.0</b>	<b>183.1</b>	<b>187.5</b>	<b>198.9</b>	<b>212.7</b>
Gross Block	25.4	27.7	59.1	61.8	66.7	71.7	75.7	79.7	83.7
Less: Accum. Deprn.	15.2	16.4	18.8	21.4	24.2	27.2	30.9	34.7	38.6
<b>Net Fixed Assets</b>	<b>10.2</b>	<b>11.3</b>	<b>40.3</b>	<b>40.4</b>	<b>42.5</b>	<b>44.5</b>	<b>44.8</b>	<b>45.0</b>	<b>45.0</b>
Capital WIP	1.4	4.2	1.0	1.1	4.6	5.1	5.1	5.1	5.1
Goodwill & Intangibles	37.2	37.9	73.3	76.0	77.5	80.3	80.3	80.3	80.3
Investments	6.4	6.0	4.9	4.8	6.0	6.8	6.5	6.6	7.0
<b>Curr. Assets</b>	<b>49.3</b>	<b>49.4</b>	<b>65.3</b>	<b>79.9</b>	<b>80.1</b>	<b>91.0</b>	<b>95.1</b>	<b>108.2</b>	<b>123.9</b>
Inventories	14.5	16.1	17.1	22.5	22.7	27.0	30.3	33.0	36.1
Account Receivables	6.5	6.8	9.2	7.6	8.4	8.0	11.8	12.8	14.0
Cash and Bank Balance	18.1	16.2	24.6	34.0	28.0	35.5	32.4	41.6	52.7
Others	10.3	10.3	14.4	15.8	21.1	20.5	20.5	20.8	21.1
<b>Curr. Liability &amp; Prov.</b>	<b>13.5</b>	<b>12.9</b>	<b>20.8</b>	<b>33.2</b>	<b>30.2</b>	<b>36.4</b>	<b>36.1</b>	<b>38.1</b>	<b>40.5</b>
Account Payables	7.1	6.6	9.4	16.3	19.2	23.5	23.2	25.2	27.6
Other liabilities	3.6	4.2	8.6	14.0	8.6	10.5	10.5	10.5	10.5
Provisions	2.9	2.0	2.8	2.9	2.5	2.4	2.4	2.4	2.4
<b>Net Curr. Assets</b>	<b>35.8</b>	<b>36.5</b>	<b>44.5</b>	<b>46.6</b>	<b>49.8</b>	<b>54.6</b>	<b>59.0</b>	<b>70.1</b>	<b>83.4</b>
Def. tax liability	0.0	1.0	3.0	5.5	7.5	8.1	8.1	8.1	8.1
<b>Appl. of Funds</b>	<b>91.1</b>	<b>94.9</b>	<b>160.9</b>	<b>163.5</b>	<b>173.0</b>	<b>183.1</b>	<b>187.5</b>	<b>198.9</b>	<b>212.7</b>

## Financials and valuations

### Consolidated Income Statement

	(INRb)								
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Change (%)	0.5	6.4	32.9	20.4	7.1	10.9	11.5	8.9	9.2
<b>Gross Profit</b>	<b>31.2</b>	<b>32.4</b>	<b>42.3</b>	<b>47.0</b>	<b>53.4</b>	<b>57.8</b>	<b>65.5</b>	<b>71.4</b>	<b>77.3</b>
Margin (%)	45.7	44.7	43.9	40.5	43.0	41.9	42.6	42.6	42.2
Other operating exp.	22.8	24.6	29.3	31.6	36.2	39.2	43.5	45.6	49.4
<b>EBITDA</b>	<b>8.4</b>	<b>7.9</b>	<b>12.9</b>	<b>15.4</b>	<b>17.2</b>	<b>18.6</b>	<b>22.0</b>	<b>25.8</b>	<b>27.9</b>
Margin (%)	12.3	10.8	13.4	13.3	13.8	13.5	14.3	15.4	15.3
Depreciation	1.2	1.2	2.4	2.5	2.8	3.0	3.7	3.8	3.9
Net Interest	0.4	0.5	0.8	0.7	0.7	0.9	0.9	0.7	0.7
Other income	0.9	1.6	1.1	1.2	1.4	1.7	2.7	3.0	3.3
<b>PBT before EO</b>	<b>7.7</b>	<b>7.7</b>	<b>10.8</b>	<b>13.4</b>	<b>15.1</b>	<b>16.3</b>	<b>20.1</b>	<b>24.3</b>	<b>26.6</b>
EO income/(exp.)	-0.2	-0.3	-2.7	-0.3	-0.5	1.6	-0.2	0.0	0.0
PBT after EO	7.5	7.3	8.1	13.1	14.6	17.9	19.9	24.3	26.6
Tax	1.9	2.6	2.7	3.2	3.8	4.5	5.4	6.6	7.2
Rate (%)	24.7	35.5	33.9	24.2	25.9	24.9	26.9	27.0	27.0
Minority and Associates	0.7	0.7	0.8	1.4	1.4	1.4	0.8	-0.1	-0.5
<b>Reported PAT</b>	<b>5.0</b>	<b>4.1</b>	<b>4.6</b>	<b>8.6</b>	<b>9.4</b>	<b>12.0</b>	<b>13.8</b>	<b>17.8</b>	<b>19.4</b>
<b>Adjusted PAT</b>	<b>5.2</b>	<b>4.4</b>	<b>7.2</b>	<b>8.7</b>	<b>9.7</b>	<b>10.8</b>	<b>13.9</b>	<b>17.9</b>	<b>19.8</b>
Change (%)	34.5	-14.6	63.5	20.8	11.8	11.2	28.3	28.5	11.0

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Reserves	69.7	72.7	137.2	144.4	150.5	161.8	176.2	188.1	202.0
<b>Net Worth</b>	<b>70.3</b>	<b>73.3</b>	<b>138.1</b>	<b>145.3</b>	<b>151.4</b>	<b>162.8</b>	<b>177.2</b>	<b>189.1</b>	<b>202.9</b>
Minority Interest	10.1	10.3	10.9	10.9	11.5	8.5	0.5	0.0	0.0
Loans	10.7	11.3	11.8	7.2	10.1	11.8	9.8	9.8	9.8
<b>Capital Employed</b>	<b>91.1</b>	<b>94.9</b>	<b>160.9</b>	<b>163.5</b>	<b>173.0</b>	<b>183.1</b>	<b>187.5</b>	<b>198.9</b>	<b>212.7</b>
Gross Block	25.4	27.7	59.1	61.8	66.7	71.7	75.7	79.7	83.7
Less: Accum. Deprn.	15.2	16.4	18.8	21.4	24.2	27.2	30.9	34.7	38.6
<b>Net Fixed Assets</b>	<b>10.2</b>	<b>11.3</b>	<b>40.3</b>	<b>40.4</b>	<b>42.5</b>	<b>44.5</b>	<b>44.8</b>	<b>45.0</b>	<b>45.0</b>
Capital WIP	1.4	4.2	1.0	1.1	4.6	5.1	5.1	5.1	5.1
Goodwill & Intangibles	37.2	37.9	73.3	76.0	77.5	80.3	80.3	80.3	80.3
Investments	6.4	6.0	4.9	4.8	6.0	6.8	6.5	6.6	7.0
<b>Curr. Assets</b>	<b>49.3</b>	<b>49.4</b>	<b>65.3</b>	<b>79.9</b>	<b>80.1</b>	<b>91.0</b>	<b>95.1</b>	<b>108.2</b>	<b>123.9</b>
Inventories	14.5	16.1	17.1	22.5	22.7	27.0	30.3	33.0	36.1
Account Receivables	6.5	6.8	9.2	7.6	8.4	8.0	11.8	12.8	14.0
Cash and Bank Balance	18.1	16.2	24.6	34.0	28.0	35.5	32.4	41.6	52.7
Others	10.3	10.3	14.4	15.8	21.1	20.5	20.5	20.8	21.1
<b>Curr. Liability &amp; Prov.</b>	<b>13.5</b>	<b>12.9</b>	<b>20.8</b>	<b>33.2</b>	<b>30.2</b>	<b>36.4</b>	<b>36.1</b>	<b>38.1</b>	<b>40.5</b>
Account Payables	7.1	6.6	9.4	16.3	19.2	23.5	23.2	25.2	27.6
Other liabilities	3.6	4.2	8.6	14.0	8.6	10.5	10.5	10.5	10.5
Provisions	2.9	2.0	2.8	2.9	2.5	2.4	2.4	2.4	2.4
<b>Net Curr. Assets</b>	<b>35.8</b>	<b>36.5</b>	<b>44.5</b>	<b>46.6</b>	<b>49.8</b>	<b>54.6</b>	<b>59.0</b>	<b>70.1</b>	<b>83.4</b>
Def. tax liability	0.0	1.0	3.0	5.5	7.5	8.1	8.1	8.1	8.1
<b>Appl. of Funds</b>	<b>91.1</b>	<b>94.9</b>	<b>160.9</b>	<b>163.5</b>	<b>173.0</b>	<b>183.1</b>	<b>187.5</b>	<b>198.9</b>	<b>212.7</b>

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Explanation of Investment Rating	
Investment Rating	Expected return (over 12-month)
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SELL	< - 10%
NEUTRAL	< - 10 % to 15%
UNDER REVIEW	Rating may undergo a change
NOT RATED	We have forward looking estimates for the stock but we refrain from assigning recommendation

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