



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	✗	↔	✓

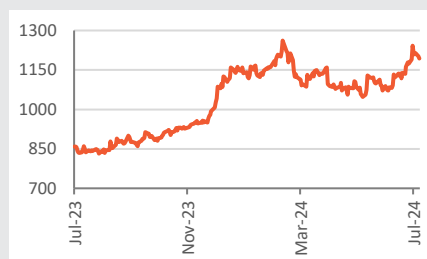
Company details

Market cap:	Rs. 1,13,754 cr
52-week high/low:	Rs. 1,254 / 817
NSE volume: (No of shares)	19.4 lakh
BSE code:	500800
NSE code:	TATACONSUM
Free float: (No of shares)	63.3 cr

Shareholding (%)

Promoters	33.6
FII	26.0
DII	18.7
Others	21.8

Price chart



Price performance

(%)	1m	3m	6m	12m
Absolute	10.1	9.1	6.3	38.9
Relative to Sensex	7.1	-0.3	-8.2	15.8

Sharekhan Research, Bloomberg

Tata Consumer Products Ltd

Q1 – Good operating performance

Consumer Goods

Sharekhan code: TATACONSUM

Reco/View: Buy



Upgrade



Maintain

CMP: Rs. 1,194

Price Target: Rs. 1,315



Downgrade

Summary

- Tata Consumer Products Ltd' (TCPL's) operating performance was good with revenues and operating profit growing by 16% and 22% y-o-y respectively; higher interest cost kept adjusted PAT flat at Rs. 368 crore.
- Scale-up in performance of recent acquisitions, distribution expansion with focus on new-age channels and strong 25-30% growth in growth businesses will drive double-digit revenue growth. OPM will be above 15% in the coming years.
- It will raise ~Rs. 3,000 crore through a rights issue, which will be utilised for repayment or full buyback of commercial papers issued by the company for funding the recent acquisitions.
- Stock trades at 71x/57x its FY2025E/FY2026E EPS, respectively. We maintain Buy with an unchanged PT of Rs. 1,315.

TCPL's operating performance was decent in Q1FY2025, with double-digit growth in revenue and operating profit, while lower other income and higher interest costs led to a flat bottomline. Consolidated revenue grew 16.3% y-o-y to Rs. 4,352 crore, with India beverage business revenues growing by 6% y-o-y (organic growth at 1%), foods business rising by 30% y-o-y (LFL growth at 14%), international business growing by 10% y-o-y and non-branded business reporting a 33% y-o-y growth. Consolidated OPM rose by 77 bps y-o-y to 15.3% (gross margins improved by 274 bps y-o-y to 44.9%), with India business EBITDA margins expanding by 30 bps y-o-y and the international business margins expanding by 480 bps y-o-y. Operating profit grew 22% y-o-y to Rs. 667 crore. Lower other income and higher interest cost (grew by 3.6x) led to flat adjusted PAT. The company will be raising ~Rs. 3,000 crore through a rights issue, which will be utilised to repay or buyback commercial papers issued for funding the recent acquisitions.

Key positives

- Tata Sampann grew strongly 37% y-o-y.
- International business revenues grew by 10% and EBITDA grew by 40%+ driven by price increases and lower input costs.
- Growth businesses as percentage of revenues increased to 29%; grew by 66% on y-o-y basis.
- Modern trade and e-Commerce channel grew by 28% and 61% respectively.

Key negatives

- India packaged beverage (including tea) revenues declined by 1% with flat volumes.
- Ready to drink (RTD) business recorded a revenue growth of 7% as strong summer impacted out-home-category sales.

Management Commentary

- Capital Foods' integration is completed while Organic India's integration will be completed in the targeted time span of 100 days. Management expects revenue contribution of Capital foods to improve quarters ahead.
- Combine gross margins of Capital Foods and Organic India stood at 48.5% in Q1FY25. With the scale-up revenues of both the business, the gross margin of combined entity is expected to improve in the quarters ahead. Both businesses can achieve gross margins in upwards of TCPL's base gross margins.
- TCPL has added 35% more feet on streets to improve the coverage of expanded product portfolio in the efficient manner.
- TCPL is focusing on new channels such as pharmacies (pilot initiation in six cities) to improve the reach premium products (including premium tea and salt) and also dedicated food service team to tap segments such as HoReCa, corporate canteens and B2B.
- North India tea prices have gone-up by 16% due to extreme weather condition impacting production. The company might opt for price increases in the quarters if tea prices continued its upward trend from current level.
- TCPL might take some tactical pricing correction for Nourishco portfolio to improve the performance of the business in the quarters ahead.

Revision in estimates – We have reduced our earnings estimates for FY2025E by 7% and FY2026E by 4% to factor in higher interest cost and depreciation charges.

Our Call

View – Maintain Buy with an unchanged PT of Rs. 1,315: TCPL registered decent operating performance in Q1FY2025. We expect India beverage business to see an uptick in performance in the quarters ahead. The management targets double-digit revenue growth and PAT growth ahead of revenue growth on the back of improved margins. The stock is trading at 71x and 57x its FY25E and FY26E EPS, respectively. Enhanced product portfolio with focus on high growing categories and good earnings growth prospects in the long run makes it one of the preferred picks in the consumer staples space. We maintain a Buy recommendation with an unchanged PT of Rs. 1,315.

Key Risks

Any slowdown in demand in the domestic or international market or an increase in key commodity prices would act as a risk to our earnings estimates in the near term.

Valuation (Consolidated)

Particulars	FY23	FY24	FY25E	FY26E
Revenue	13,784	15,206	18,601	21,575
OPM (%)	13.5	15.0	15.5	16.1
Adjusted PAT	1,193	1,458	1,597	1,980
Adjusted EPS (Rs.)	12.9	15.3	16.8	20.8
P/E (x)	92.3	78.0	71.2	57.4
P/B (x)	6.8	7.1	6.7	6.2
EV/EBIDTA (x)	58.0	50.6	45.7	38.4
RoNW (%)	7.8	9.5	9.9	11.5
RoCE (%)	8.9	9.6	10.1	11.7

Source: Company; Sharekhan estimates

Decent Q1 – Organic revenue growth at 10%; OPM rose by 77 bps y-o-y

Revenues grew by 16.3% y-o-y to Rs. 4,352 crore, with India beverage revenues growing by 6% y-o-y (flat tea volume growth), India foods' business growing by 30% y-o-y (volume growth of 10%), international business growing by 8% y-o-y on CC terms and non-branded business growing by 33% y-o-y. Organic growth, excluding acquisitions (Capital Foods and Organic India) was 10%, with India beverages and India Foods businesses registering an organic growth of 1% and 14% y-o-y, respectively. Growth businesses (RTD, Tata Sampann, Tata Soufull, Tata Sampann Yumside, Vending, D2C) grew 20% y-o-y organically (reported growth at 66% y-o-y). Modern trade and e-commerce registered 28% and 61% y-o-y growth. Gross margins rose by 274 bps y-o-y to 44.9% aided by softening of raw material prices, while OPM improved by 77 bps y-o-y to 15.3% as input costs savings were utilised for higher brand investments. India business EBITDA grew 19% y-o-y with a 30 bps rise in margins. Organically, EBITDA grew 6% y-o-y with a margin expansion of 10 bps. International business EBITDA grew 42% (CC) y-o-y, with 480 bps y-o-y rise in EBITDA margin led by price increases and lower input costs. EBITDA for the non-branded business grew 90% y-o-y with a margin expansion of 500 bps y-o-y owing to better realisations.

Consolidated operating profit increased by 22.4% y-o-y to Rs. 667 crore. Despite double-digit growth in the operating profit, adjusted PAT stood largely flat y-o-y at Rs. 368 core due to lower other income (down by 32% y-o-y), higher interest cost (up by 3.6x y-o-y owing to bridge financing taken for the acquisitions) and increased depreciation charges (up by 13.5% y-o-y due to higher amortization on account of acquisitions). Exceptional items for Q1FY2025 includes costs relating to business restructure and reorganisation of Rs. 17 crore. Considering the exceptional items and share of profits from associates and joint ventures, reported PAT came in at Rs. 289 crore. Integration of Capital Foods' including clean-up of channel inventory is complete, while integration of Organic India is moving as per schedule.

Business-wise revenue break-up

Particulars	Revenue (Rs. crore)	Value growth	Volume growth
India beverages	1,523	6%	0%
India food	1,346	30%	10%
International	988	10%	-
Non-branded	501	33%	-

Source: Company; Sharekhan Research

India business:

♦ India packaged beverages

- ♦ Severe summer impacted the category resulting in 1% y-o-y revenue decline, with volumes remaining flat y-o-y.
- ♦ Tata Tea Chakra Gold Vita Care was launched in Tamil Nadu to strengthen TCPL's Health & Wellness platform in South India.
- ♦ Coffee continued its strong trajectory and grew 28% y-o-y.

♦ India Foods

- ♦ Revenues grew 30% y-o-y to Rs. 1,346 crore (organic growth at 14%), with organic volume growth at 10%.
- ♦ Salt segment revenues grew by 9% y-o-y, driven by a strong 8% y-o-y volume growth.
- ♦ Value-added salts grew 35% y-o-y, in line with TCPL's premiumization agenda.
- ♦ Tata Sampann continued its strong momentum and grew 37% y-o-y.

♦ **NourishCo (Ready to Drink – RTD business)**

- ♦ Revenues grew by 7% y-o-y to Rs. 311 crore on a high base of ~60% growth in Q1FY2024. A strong summer hit demand with lower out-of-home consumption especially for single serve packs.
- ♦ Recent introductions - Tata Spring Alive water and Himalayan Saffron continued to do well.
- ♦ Tata Copper+ continued its momentum, registering 22% y-o-y revenue growth.

♦ **New acquisitions – Capital Foods & Organic India**

- ♦ Newly-acquired businesses put up a decent show, with Capital Foods and Organic India registering revenue of Rs. 164 crore and Rs. 71 crore, respectively, despite necessary channel inventory clean up in Capital Foods, and the integration phase in Organic India.
- ♦ Combined gross margins at 48.4% is accretive to the company.
- ♦ The end-to-end integration spanning go-to-market, digital systems, supply chain, policy & regulatory compliance, organization structure has been completed on an accelerated timeline within 90 days. Integration of Organic India is being accelerated and is on track for completion within 100 days. Identified synergy benefits have started accruing in both businesses.
- ♦ Ching's Secret Schezwan Ketchup was launched to build on the popularity of Schezwan Chutney.

♦ **Non-branded business**

- ♦ Revenues grew by 33% y-o-y to Rs. 501 crore, led by exceptionally strong coffee realizations across solubles and plantations.
- ♦ Solubles business grew 34% y-o-y with strong performance in both coffee and tea.
- ♦ Plantations recorded a y-o-y growth of 34%.
- ♦ EBIT margins for non-branded business expanded 600 bps y-o-y, led by unprecedented coffee prices.
- ♦ Volatile coffee prices remain a key monitorable.

♦ **Tata Starbucks (JV)**

- ♦ Revenues grew by 4% y-o-y.
- ♦ TCPL added 17 net new Starbucks stores, taking the total store count to 438 as of Q1FY2025-end. Entered four new cities during the quarter and is now present across 65 cities.
- ♦ Cold brew and refreshers with green coffee extract were launched as key offerings during the summer quarter.
- ♦ Starbucks' summer campaign saw experiential activities conducted at stores along with new product launches.

International business:

♦ **UK**

- ♦ Revenue grew 14% (reported revenue growth of 18%).
- ♦ EBIT margins improved sharply driven by strong topline and structural interventions made earlier.

♦ **US**

- ♦ Coffee revenue declined 4% (reported revenue decline of 2%) impacted by category headwinds in K-cups.
- ♦ Tea business registered a growth of 8%.

♦ **Canada**

- ♦ Revenue grew 12% (reported revenue growth of 14%), with specialty tea growing by 17%.
- ♦ Tata Salt and Tata Sampann spices got listed in Loblrow.

Other key business updates:

- ♦ **India growth businesses (including RTD, Tata Sampann, Tata Soufull, Tata Sampann Yumside, Vending, D2C):** Continued their strong growth trajectory, registering 20% y-o-y organic growth (66% y-o-y reported growth). Contribution rose to 29% in Q1FY2025 from 20% in Q1FY2024 and 18% in FY2024.
- ♦ **Innovation:** Momentum on innovation continued with a focus on value added offerings. Launched Tata Salt Punch Tatva, Easy Cook Ragi Atta, Masala Oats + Dal Shakti and Cold Pressed Olive Oil during the quarter.
- ♦ **Sales & distribution (S&D):** S&D infrastructure was further strengthened, with implementation of split routes as announced earlier. This is expected to add ~35% additional feet on street. With TCPL now having a health & wellness portfolio well suited for the Pharma channel, it initiated pilot expansion to pharmacies in six cities. Further, it also initiated food service in two cities with HoReCa, corporate canteens, and B2B as key customers.
- ♦ **Alternate channels:** These channels continued to fuel TCPL's growth and innovation agenda, with e-commerce channel growing 61% y-o-y and modern trade recording 28% y-o-y growth.
- ♦ **Commodity prices:** Unfavorable weather conditions affected tea production in India. North/South India tea prices were 16%/4% higher y-o-y. Kenyan tea prices were stable y-o-y as well as q-o-q. In coffee, Arabica prices continued to inflate during the quarter, while Robusta prices have touched record highs due to global supply shortages. Averages prices for Q1 were 57% higher y-o-y.
- ♦ **Rights issue:** TCPL announced a rights issue of 3,66,47,492 shares at a price of Rs. 818 per share aggregating to Rs. 2,998 crore. The rights entitlement Ratio is 1:26, with 1 rights equity share for every 26 fully paid equity shares held by an eligible equity shareholder. Record date was fixed for July 27, 2024 and the issue is expected to close on August 19, 2024. Proceeds will be used to repay short-term financing raised for acquisitions of Capital Foods and Organic India.

Results (Consolidated)

					Rs cr
Particulars	Q1FY25	Q1FY24	Y-o-Y (%)	Q4FY24	Q-o-Q (%)
Total Revenue	4,352.1	3,741.2	16.3	3,926.9	10.8
Raw material cost	2,397.4	2,163.3	10.8	2,115.9	13.3
Employee cost	345.0	295.8	16.6	341.3	1.1
Other expenses	942.3	737.1	27.8	840.2	12.1
Total operating cost	3,684.7	3,196.2	15.3	3,297.3	11.7
Operating profit	667.4	545.0	22.4	629.6	6.0
Other income	39.2	57.8	-32.2	38.5	1.9
Interest & other financial cost	93.6	26.2	-	42.8	-
Depreciation	93.0	82.0	13.5	115.8	-19.7
Profit Before Tax	520.0	494.6	5.1	509.5	2.1
Tax	152.4	132.2	15.3	82.0	85.8
Adjusted PAT before share of profit from associates/JV	367.5	362.4	1.4	427.4	-14.0
Minority Interest (MI)/ Profit from associates	-24.9	-20.9	19.4	-55.5	-55.1
Adjusted PAT after MI	342.6	341.5	0.3	372.0	-7.9
Extra-ordinary items	-53.4	-3.8	-	-159.7	-
Reported PAT	289.3	337.7	-14.3	212.3	36.3
Adjusted EPS (Rs.)	3.9	3.9	-1.1	4.5	-14.0
			bps		bps
GPM (%)	44.9	42.2	274	46.1	-121
OPM (%)	15.3	14.6	77	16.0	-70
NPM (%)	8.4	9.7	-124	10.9	-244
Tax rate (%)	29.3	26.7	259	16.1	-

Source: Company; Sharekhan Research

Segment-wise performance

					Rs cr
Particulars	Q1FY25	Q1FY24	Y-o-Y (%)	Q4FY24	Q-o-Q (%)
India Business	2,815	2,478	13.6	2,480	13.5
International Business	1,046	895	16.9	1,052	-0.6
Total branded business	3,862	3,373	14.5	3,532	9.3
Non-branded business	501	377	32.8	402	24.7
Others / Unallocated item	12	11	13.4	17	-26.3
Less: Inter-segment sales	-22	-20	14.8	-24	-4.3
Total	4,352	3,741	16.3	3,927	10.8

Source: Company; Sharekhan Research

Segment-wise results

					Rs cr
Particulars	Q1FY25	Q1FY24	Y-o-Y (%)	Q4FY24	Q-o-Q (%)
India Business	325.8	328.5	-0.8	320.3	1.7
International Business	175.5	115.8	51.6	164.2	6.9
Total branded business	501.3	444.3	12.8	484.5	3.5
Non-branded business	96.1	50.0	92.3	91.9	4.5
Total revenue	597.4	494.2	20.9	576.4	3.6

Source: Company; Sharekhan Research

Outlook and Valuation

■ Sector Outlook – H2FY2025 will be better as compared to H1

Rural growth is gradually picking up with a modest improvement in the demand. Expectations of a better monsoon and likely stimulus in the upcoming budget will further boost recovery in the coming quarters. Though monsoon started with a delay, spread of the monsoon is good and we expect rainfall to pick-up in the coming months. The government has already increased its focus on rural markets by incentivizing through welfare schemes and increasing MSPs of various crops. We expect volume growth to be much better in H2FY2025, which will provide consumer goods companies to post decent earnings growth. If commodity/key input prices move up from the current level, then consumer goods companies will opt for price hikes in coming quarters. A rise in commodity prices will reduce the competition from small/regional players in various markets. Thus, overall growth trends remain positive for most companies under our coverage.

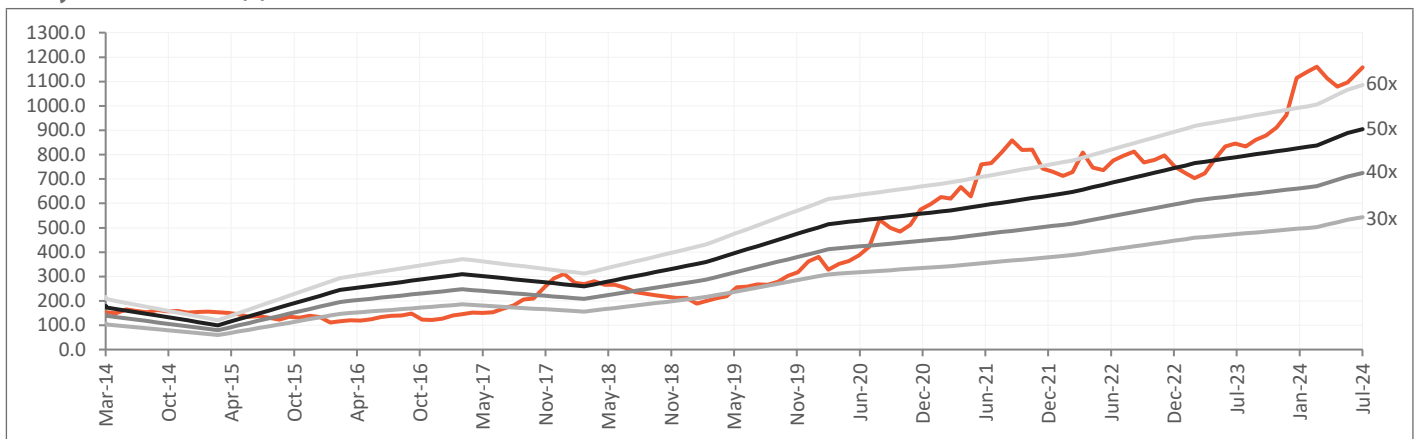
■ Company Outlook – Eyeing consistent earnings growth

A wider distribution network and sustained share gains would help the sales volume of the domestic tea business to improve to mid-to-high single digits in the medium to long term. Steady 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, the growth trajectory will improve in the quarters ahead. Further, recent acquisitions will help the company to expand its addressable market and aid in fuelling growth. The company is banking on operating efficiencies and an improved mix to post better margins in the quarters ahead.

■ Valuation – Retain Buy with an unchanged PT of Rs. 1,315

TCPL registered decent operating performance in Q1FY2025. We expect India beverage business to see an uptick in performance in the quarters ahead. The management targets double-digit revenue growth and PAT growth ahead of revenue growth on the back of improved margins. The stock is trading at 71x and 57x its FY25E and FY26E EPS, respectively. Enhanced product portfolio with focus on high growing categories and good earnings growth prospects in the long run makes it one of the preferred picks in the consumer staples space. We maintain a Buy recommendation with an unchanged PT of Rs. 1,315.

One-year forward P/E (x) band



Source: Sharekhan Research

Peer Comparison

Particulars	P/E (x)			EV/EBITDA (x)			RoCE (%)		
	FY24	FY25E	FY26E	FY24	FY25E	FY26E	FY24	FY25E	FY26E
Hindustan Unilever	63.9	58.3	52.0	44.8	42.0	37.1	25.9	27.6	30.2
Nestle India	-	67.1	59.0	-	45.0	39.4	-	114.6	117.1
Tata Consumer Products	78.0	71.2	57.4	50.6	45.7	38.4	9.6	10.1	11.7

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, Organic India, Eight O'Clock Coffee, Tata Coffee Grand, Himalayan Natural Mineral Water, Tata Copper+ and Tata Gluco+. The company's foods portfolio includes brands such as Tata Salt, Tata Sampann, Tata Soufull, Ching's Secret and Smith & Jones. In India, TCPL has a total reach of over 263 million households. The company has a consolidated annual turnover of ~Rs. 15,200 crore (FY2024), 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 (29% of India revenue in Q1FY2025). 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 the 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 revenue and PAT to report CAGR of 19% and 17% over FY2024-FY2026E, respectively, with consolidated OPM expected to improve to ~16%.

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 and Managing Director
Sivakumar Sivasankaran	Chief Financial Officer
Neelabja Chakrabarty	Company Secretary and Compliance Officer

Source: Company Website

Top 10 shareholders

Sr. No.	Holder Name	Holding (%)
1	Life Insurance Corp of India	8.04
2	BlackRock Inc	2.69
3	Vanguard Group Inc	2.68
4	First Sentier Investors ICVC	1.92
5	Mitsubishi UFJ Financial Group Inc	1.69
6	SBI Funds Management Ltd	1.43
7	Norges Bank	1.42
8	First Sentier Global Umbrella Fund PLC/Ireland	1.35
9	Goldman Sachs Group Inc	1.20
10	Nippon Life India AMC Ltd	1.19

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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