Stock Update

Result Update

Sharekhan by BNP PARIBAS

Powered by the Sharekhan 3R Research Philosophy

Tata Consumer Products Ltd

Q2 - Good for India food biz; weak for beverage biz

Consumer Goods	Sharekhan code: TATACONSUM
Reco/View: Buy ⇔	CMP: Rs. 1,095
Price Target: Rs. 1,315 ⇔	

↑ Upgrade ⇔ Maintain ↓ Downgrade

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		⇔	

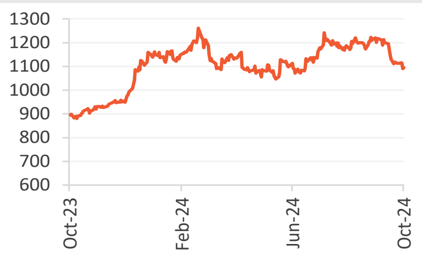
Company details

Market cap:	Rs. 1,08,305 cr
52-week high/low:	Rs. 1,254/861
NSE volume: (No of shares)	18.1 lakh
BSE code:	500800
NSE code:	TATACONSUM
Free float: (No of shares)	65.5 cr

Shareholding (%)

Promoters	33.8
FII	26.1
DII	18.8
Others	21.2

Price chart



Price performance

(%)	1m	3m	6m	12m
Absolute	-8.8	-7.1	-3.5	22.2
Relative to Sensex	-6.8	-7.0	-15.6	-1.1

Sharekhan Research, Bloomberg

Summary

- Tata Consumer Product Ltd's (TCPL's) Q2FY2025 performance was broadly in line with expectations with revenues growing by ~13% y-o-y (organic growth at 5%) and OPM rising ~50 bps y-o-y to 14.9%. Higher interest cost led to a ~6% y-o-y decline in PAT.
- Going ahead, Tata Salt is expected to perform well, corrective pricing action will drive recovery in NourishCo, Capital Foods and Organic India to witness q-o-q improvement in sales and India tea will see price-led growth. Organic revenue growth to gradually improve in quarters ahead.
- Margins to be under pressure in the coming quarters due to raw material price inflation. However, management is confident of margin improvement in the medium term on back of improved mix and efficiencies.
- Stock trades at 66x/52x/41x its FY25E/FY26E/FY27E EPS, respectively. We maintain Buy with an unchanged PT of Rs. 1,315.

TCPL's Q2FY2025 numbers are not exactly comparable on y-o-y basis due to consolidation of acquired businesses - Capital Foods and Organic India.

TCPL's performance was broadly in-line with expectations, with double-digit revenue and operating profit growth, while higher interest cost related to acquisitions led to y-o-y decline in PAT. Consolidated revenue grew 12.9% y-o-y to Rs. 4,215 crore (5% y-o-y organic revenue growth), with India beverage business revenues growing by 3% y-o-y (declined by 4% y-o-y excluding Organic India), India foods business rising by 28% y-o-y (organic growth at 9%), international business growing by 7% y-o-y and non-branded business reporting a 19% y-o-y growth. Consolidated OPM rose by 49 bps y-o-y to 14.9% (gross margins improved by 110 bps y-o-y to 43.6%). India business EBITDA margins contracted by 380 bps y-o-y led by tea cost inflation, international business margins expanded by 420 bps led by price increases and lower input costs and non-branded business margins expanding by 830 bps owing to better realisations. Operating profit grew 16.7% y-o-y to Rs. 626 crore. Higher interest cost (grew by 3.6x) led to 6.2% y-o-y decline in adjusted PAT to Rs. 346 crore.

Key positives

- Tata Sampann grew strongly by 26% y-o-y.
- Salt's value market share improved by 150 bps on MAT basis.
- Modern trade and e-Commerce channels grew by 17% and 51% y-o-y respectively.
- India growth business delivered organic growth of 15%; contribution increased to 29%.

Key negatives

- Domestic tea volumes declined by 4% y-o-y.
- Ready-To-Drink (RTD) business revenue declined by 11% y-o-y owing to unfavourable weather and competitive pricing actions.
- India business EBITDA margins contracted by 380 bps y-o-y led by tea cost inflation.

Management Commentary

- Management indicated that rural demand is recovering, while urban demand has softened due to food inflation. Management expects that government spending coming back will help urban growth and good monsoon will aid rural growth.
- Raw tea inflation is 25-30% and prices are expected to stay elevated for some time. TCPL has taken price increase in the tea portfolio but has not entirely passed it on to the consumers. It plans to gradually pass on price increase with focus on maintaining market share.
- In salt, TCPL has a 30-31% value market share and 37-38% volume market share. It will continue to focus on gaining market share. Salt cost price increase has been mitigated through increase in price (TCPL has taken price increase of Rs. 2 in salt from October).
- TCPL has corrected pricing in RTD business and expects it return to 25-30% growth trajectory very soon (Q3-end). Also, innovations are likely to kick in in Tata Gluco Plus from November.
- For the HoReCa channel, TCPL plans to focus on four big categories – Salt, Sampann (pulses), Capital Foods (sauces, mayo to be launched for HoReCa) and Tea.
- TCPL has scaled up distribution of Capital Foods from 250k outlets to 500k outlets, while for Organic India, sampling-led activations have cumulatively reached 400k households in Q2. Management continues to focus on building momentum in the new businesses.
- Sales & Distribution infrastructure was further strengthened, with implementation of an auto replenishment system, centralized planning & dispatch and rollout of a new Distributor Management System to all distributors.
- With prices of key raw materials such as tea, salt and coffee at elevated levels, margins are expected to be under pressure in the coming months. TCPL to undertake staggered price increases to mitigate the impact of high input cost inflation but with focus on maintaining market share.
- Rights issue was successfully concluded and short-term debt has been paid off. The company is now net cash positive at Rs. 332 crore. With this, interest cost is expected to come down and other income will increase gradually as the company is building its cash balance.

Change in estimates - We have reduced our earnings estimates for FY2025E by 4% to factor in little lower revenue growth and OPM than earlier expected, while we have broadly maintained estimates of FY2026E. We have introduced FY2027 estimates through this note.

Our Call

View – Maintain Buy with an unchanged PT of Rs. 1,315: TCPL's Q2FY2025 performance was in-line with expectations. With right strategies in place, India beverage business is expected to see an uptick in performance in the medium term. Bridging of portfolio gap through acquisitions will help the India food business to post consistent double-digit growth in the coming years. Focus on distribution expansion, innovation and scaling up of newly acquired businesses will help TCPL to post better performance in the coming years. Stock trades at 66x, 52x and 41x its FY25E, FY26E and FY27E EPS, respectively. 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 any significant increase in raw tea or coffee prices from the current levels would act as a risk to our earnings estimates in the near term.

Valuation (Consolidated) Rs cr

Particulars	FY23	FY24	FY25E	FY26E	FY27E
Revenue	13,784	15,206	18,586	21,541	24,756
OPM (%)	13.5	15.0	15.1	15.8	16.7
Adjusted PAT	1,193	1,457	1,649	2,074	2,640
Adjusted EPS (Rs.)	12.9	15.3	16.7	21.0	26.7
P/E (x)	84.6	71.6	65.7	52.2	41.0
P/B (x)	6.2	6.5	5.4	5.0	4.6
EV/EBIDTA (x)	53.0	46.5	43.8	36.2	30.0
RoNW (%)	7.8	9.5	9.3	10.2	11.9
RoCE (%)	8.9	9.6	10.0	11.4	13.7

Source: Company; Sharekhan estimates

Organic revenue growth at 5%; OPM rose by 49 bps y-o-y

TCPL's consolidated revenues grew by 12.9% y-o-y to Rs. 4,215 crore, with India beverage business revenues growing by 3% y-o-y (tea volumes declined 4% y-o-y), India foods business rising by 28% y-o-y (organic volume growth at 1%), international business growing by 7% y-o-y and non-branded business reporting a 19% y-o-y growth. Organic growth, excluding acquisitions (Capital Foods and Organic India) was 5%, with India beverages and India Foods businesses registering an organic growth of -4% and 9% y-o-y, respectively. Growth businesses grew by 15% y-o-y organically (reported growth at 85% y-o-y). Modern trade and e-commerce registered 17% and 51% y-o-y growth. Gross margins rose by 110 bps y-o-y to 43.6%, while OPM improved by 49 bps y-o-y to 15.3% as input costs savings were utilised for higher brand investments. India business EBITDA declined 4% y-o-y with margin contracting 250 bps. Organically, EBITDA declined 23% with margin contracting 380 bps led by tea cost inflation. International business EBTIDA grew 40% (CC) y-o-y. EBITDA margins were 420 bps higher y-o-y led by price increases and lower input costs. EBITDA for the non-branded business grew 70% (CC) y-o-y with a margin expansion of 830 bps owing to better realisations.

Consolidated operating profit increased by 16.7% y-o-y to Rs. 626 crore. Despite double-digit growth in the operating profit, adjusted PAT declined by 6.2% y-o-y to Rs. 346 core due to lower other income (down by 49% y-o-y) and higher interest cost (up by 3.6x y-o-y owing to bridge financing taken for the acquisitions). Exceptional items for Q2FY2025 includes legal and professional costs, restructuring and redundancy cost, one-time tax credit on merger of wholly owned subsidiaries and amortisation costs. Considering the exceptional items and share of profits from associates and joint ventures, reported PAT came in at Rs. 367 crore.

Business-wise revenue break-up

Particulars	Revenue (Rs. cr)	y-o-y growth
India beverages	1,380	3%
India food	1,368	28%
International	1,017	7%
Non-branded	462	19%

Source: Company, Sharekhan Research

India business:

- **India packaged beverages**
  - Revenue declined 3% y-o-y, with volume declining 4% due to soft demand.
  - Owing to significant inflation in raw tea prices, staggered price increases have been actioned across brands.
  - Coffee continued its strong trajectory and grew 29% y-o-y.
  - Tata Tea Premium launched its hyperlocal 2.0 campaign in the key markets of Uttar Pradesh, Punjab, and Haryana.
- **India Foods**
  - Revenues grew 28% y-o-y to Rs. 1,368 crore (organic growth at 9%), with organic volume growth at 1%.
  - Salt segment revenues grew by 2% y-o-y, with volumes flat y-o-y.
  - Value-added salts grew 26% y-o-y, in line with TCPL's premiumization agenda. Rock salt registered record volumes.
  - Tata Sampann continued its strong momentum and grew 26% y-o-y.
- **Ready to Drink – RTD business**
  - Revenues declined by 11% y-o-y to Rs. 154 crore owing to unfavourable weather and competitive pricing actions.
  - Tata Copper+ registered 6% y-o-y growth.
  - Tata Gluco Plus' pricing was reset in response to competition with encouraging initial results.
  - Expanded to premium segments with the launch of Tetley Kombucha and Tata Coffee Grand cold coffee.
- **New acquisitions – Capital Foods & Organic India**
  - Integration of both businesses - Capital Foods and Organic India is competed and both businesses witnessed improving quarterly run rates. Capital Foods revenue grew 25% q-o-q and Organic India revenue grew 45% q-o-q, with combined growth at 31% q-o-q.
  - TCPL has started realizing synergies in both the businesses with strong EBITDA margin expansion y-o-y.

- **Non-branded business**
  - o Revenue grew 19% y-o-y led by exceptionally strong coffee realizations in the plantations business, while the solubles business fell 2% y-o-y as multi-decadal high coffee prices impacted demand.
  - o EBIT margin for the business expanded 830 bps y-o-y to 23%.
  - o Arabica and Robusta bean prices continue to scale new highs, which remains a key monitorable.
- **Tata Starbucks (JV)**
  - o Revenue grew 2% y-o-y, in line with soft demand trends being witnessed by the sector. Management has guided SSSG to be negative during the quarter.
  - o In Q2FY2025, Starbucks added 19 net new stores and entered 5 new cities, taking the total count to 457 stores across 70 cities. With this, Tata Starbucks is now the largest café operator in India based on store count.

International business:

- **UK**
  - o Revenue grew 7% (reported revenue growth of 10%).
  - o Operating margin witnessed strong improvement driven by strong topline and structural interventions made earlier.
  - o TCPL is now the no. 2 branded tea player ahead of Lipton and Twinnings.
- **US**
  - o US coffee witnessed improving sequential trend. Business returned to positive trajectory and registered 2% y-o-y growth.
  - o US tea business registered a y-o-y growth of 6%.
- **Canada**
  - o Revenue declined 2% (-2% reported) owing to destocking during this transition phase, with specialty tea growing by 7%.
  - o The ethnic business in Canada continued to grow in line with expectations.

Other key business updates:

- **India growth businesses:** Continued their strong growth trajectory, registering 15% y-o-y organic growth (85% y-o-y reported growth). Contribution rose to 29% in Q2FY2025 from 18% in Q2FY2024 and 18% in FY2024.
- **General trade:** TCPL strengthened its general trade channel through centralised planning and dispatch from facilities, implementation of auto-replenishment system across 100% of distributors and rolling out of new Distributor Management System (DMS) - MAVIC to 100% of distributors. TCPL is working towards building distribution in semi-urban and rural markets.
- **Alternate channels:** These channels continued to fuel TCPL's growth and innovation agenda, with e-commerce channel growing 51% y-o-y and modern trade recording 17% y-o-y growth.
- **New channels:** Pilot rollouts of new channels - food services/HoReCa and pharmacies are being incubated to fuel growth. HoReCa-ready packs have been created across categories and pilot has been rolled out in 2 cities - Mumbai and Ahmedabad. Pilot for pharmacies has been rolled out in 10 cities and distributors and sales personnel onboarding is in progress.
- **Commodity prices:** Unfavorable weather conditions affected tea production in India. North/South India tea prices were 28%/25% higher y-o-y. Kenyan tea prices were stable y-o-y as well as q-o-q. In coffee, Arabica prices continued to scale to all-time highs in Q2, while Robusta prices have touched record highs in Q2 due to global supply shortages. Averages prices for Q2 were 82% higher y-o-y.

Results (Consolidated) Rs cr

Particulars	Q2FY25	Q2FY24	Y-o-Y (%)	Q1FY25	Q-o-Q (%)
Total Revenue	**4,214.5**	**3,733.8**	**12.9**	**4,352.1**	**-3.2**
Raw material cost	2,376.9	2,146.9	10.7	2,397.4	-0.9
Employee cost	363.5	304.5	19.4	345.0	5.4
Other expenses	847.7	745.6	13.7	942.3	-10.0
Total operating cost	3,588.2	3,197.0	12.2	3,684.7	-2.6
Operating profit	**626.3**	**536.7**	**16.7**	**667.4**	**-6.2**
Other income	46.0	89.8	-48.8	39.2	17.4
Interest & other financial cost	98.7	27.6	-	93.6	5.4
Depreciation	94.3	93.9	0.4	93.0	1.4
Profit Before Tax	**479.2**	**505.1**	**-5.1**	**520.0**	**-7.8**
Tax	133.1	136.0	-2.2	152.4	-12.7
Adjusted PAT before share of profit from associates/JV	**346.1**	**369.1**	**-6.2**	**367.5**	**-5.8**
Minority Interest (MI)/ Profit from associates	7.9	4.7	66.0	-24.9	-
Adjusted PAT after MI	**354.0**	**373.8**	**-5.3**	**342.6**	**3.3**
Extra-ordinary items	13.2	-10.8	-	-53.4	-
Reported PAT	**367.2**	**363.0**	**1.2**	**289.3**	**27.0**
Adjusted EPS (Rs.)	3.5	4.0	-11.9	3.9	-9.3
			bps		**bps**
GPM (%)	43.6	42.5	110	44.9	-131
OPM (%)	14.9	14.4	49	15.3	-47
NPM (%)	8.2	9.9	-167	8.4	-23
Tax rate (%)	27.8	26.9	84	29.3	-155

Source: Company, Sharekhan Research

Segment-wise performance Rs cr

Particulars	Q2FY25	Q2FY24	Y-o-Y (%)	Q1FY25	Q-o-Q (%)
India Business	2,655	2,404	10.4	2,815	-5.7
International Business	1,116	950	17.5	1,046	6.7
Total branded business	**3,771**	**3,354**	**12.4**	**3,862**	**-2.3**
Non-branded business	462	388	19.1	501	-7.7
Others / Unallocated item	10	-8	-	12	-20.3
Less: Inter-segment sales	-29	0	-	-22	28.8
Total	**4,214**	**3,734**	**12.9**	**4,352**	**-3.2**

Source: Company, Sharekhan Research

Segment-wise results Rs cr

Particulars	Q2FY25	Q2FY24	Y-o-Y (%)	Q1FY25	Q-o-Q (%)
India Business	243.2	331.0	-26.5	325.8	-25.3
International Business	167.1	96.0	74.1	175.5	-4.8
Total branded business	**410.4**	**427.0**	**-3.9**	**501.3**	**-18.1**
Non-branded business	106.1	57.0	86.2	96.1	10.5
Total revenue	**516.5**	**484.0**	**6.7**	**597.4**	**-13.5**

Source: Company, Sharekhan Research

Outlook and Valuation

■ Sector view - H2FY2025 will be better as compared to H1

Monsoons were above normal and well spread out, which will help agri production to be better in the current year. This will not only boost rural consumption but will also help agri inflation to stabilise in the near term. Management of some consumer goods companies have indicated double-digit revenue growth in H2FY2025 driven by mix of volume and price-led growth. Global uncertainties will lead to volatility in the raw material prices and currency movement. This will put pressure on the margins of consumer goods companies in the quarters ahead. Companies might opt for a gradual price increase to mitigate the impact of higher raw material prices. We expect operating profit growth to be lower as compared to revenue growth in the near term. On the other hand, an increase in commodity prices will reduce competitive intensity from small/regional players in the quarters ahead. Thus, overall growth trends remain positive for most companies under our coverage.

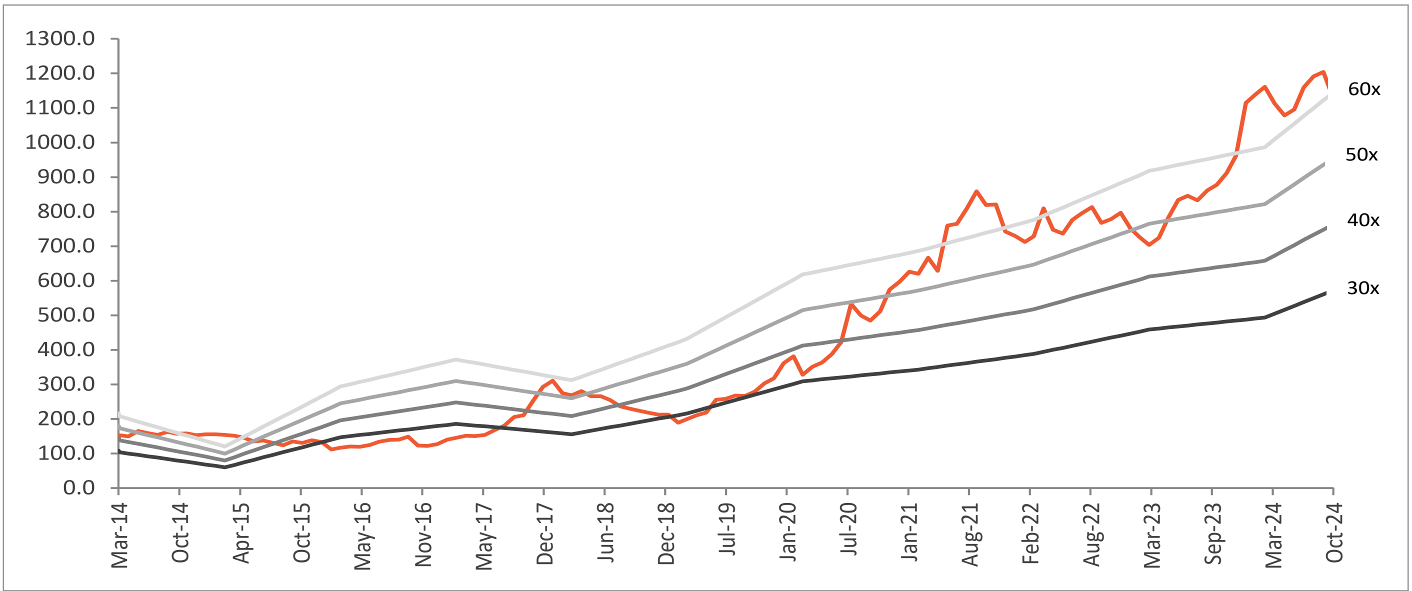
■ Company outlook - Eyeing consistent earnings growth

In Q2FY2025, revenue grew by 13% y-o-y, OPM rose by 50 bps y-o-y, while PAT declined by 6% y-o-y. 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. Volatility and a rise in prices of key input materials will keep margins in check in the near term.

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

Q2FY2025 performance was in-line with expectations. With right strategies in place, India beverage business is expected to see an uptick in performance in the medium term. Bridging of portfolio gap through acquisitions will help the India food business to post consistent double-digit growth in the coming years. Focus on distribution expansion, innovation and scaling up of newly acquired businesses will help TCPL to post better performance in the coming years. Stock trades at 66x, 52x and 41x its FY25E, FY26E and FY27E EPS, respectively. We maintain a Buy recommendation with an unchanged PT of Rs. 1,315.

One-year forward P/E band



Source: Sharekhan Research

Peer Comparison

Companies	P/E (x)			EV/EBIDTA (x)			RoCE (%)		
	FY24	FY25E	FY26E	FY24	FY25E	FY26E	FY24	FY25E	FY26E
Hindustan Unilever	64.5	58.8	52.5	45.2	42.4	37.5	25.9	27.6	30.2
Nestle India	57.7	70.0	63.0	38.9	47.1	41.4	126.5	106.1	113.5
Tata Consumer Products	71.6	65.7	52.2	46.5	43.8	36.2	9.6	10.0	11.4

Source: Company; Sharekhan Research

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 Soulfull, 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 Q2FY2025). 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% each over FY2024-FY2027E, respectively, with consolidated OPM expected to improve to ~16%.

Key Risks

- Sustained slowdown in domestic consumption
- Heightened competition from new players
- Spike in key input prices

Additional Data

Key management personnel

N. Chandrasekaran	Chairman
Sunil A Dsouza	Chief Executive Officer and Managing Director
Sivakumar Sivasankaran	Chief Financial Officer
Delnaz Dara Harda	Company Secretary and Compliance Officer

Source: BSE; Company

Top 10 shareholders

Sr. No.	Holder Name	Holding (%)
1	Life Insurance Corp of India	7.47
2	Vanguard Group Inc	2.65
3	BlackRock Inc	2.56
4	First Sentier Investors ICVC	1.60
5	SBI Funds Management Ltd	1.45
6	Mitsubishi UFJ Financial Group Inc	1.41
7	First Sentier Global Umbrella Fund PLC/Ireland	1.30
8	Nippon Life India Asset Management Ltd	1.30
9	Goldman Sachs Group Inc	1.23
10	Republic of Singapore	1.21

Source: Bloomberg

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 detoriating 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

Sharekhan

by BNP PARIBAS

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