

Q2FY25

Tata Consumer Products Ltd.



Tata Consumer Products Ltd.

Growth led by acquired entities

CMP* INR 1,017	Target INR 1,136	Potential Upside 11.7%	Market Cap (INR Mn) 10,04,990	Recommendation ACCUMULATE	Sector Consumer
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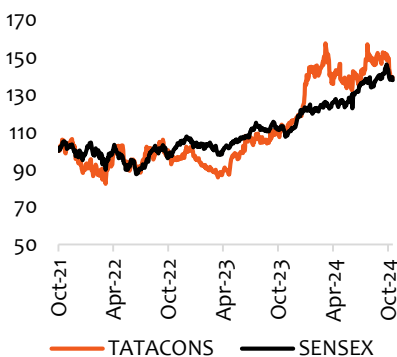
Result highlights

- In Q2FY25 TATACONS'S India Foods, International, and non-branded segments showed healthy performance, while India Beverages faced a weaker quarter.
- Elevated tea prices prompted staggered price increases in the Indian tea business. Additionally, a price hike for Tata Salt was announced, effective from October 24, to address input cost inflation.
- The company is gaining momentum in its new ventures, Capital Foods and Organic India.
- **We lower FY25E/FY26E EPS by 11.0%/1.2% due to weaker-than-expected topline growth in the current quarter, rising costs, and weak demand. The company's share price trades at 67.2x/49.3x FY25E/FY26E EPS. We assign a 55.0x P/E on FY26E EPS of INR 20.6, setting a target price of INR 1,136 (Previously: 1,310), implying an 11.7% upside. Given the positive long-term outlook and lower valuation versus peer Nestle, we maintained our 'ACCUMULATE' rating for Tata Consumer Products Ltd.**

MARKET DATA

Shares O/S (Mn)	989
Net Worth (INR Mn)	1,96,845
Mkt Cap (INR Mn)	10,04,990
52 Wk H/L (INR)	1,256/ 863
Volume Avg (3m K)	1,599
Face Value (INR)	1
Bloomberg Code	TATACONS IN

SHARE PRICE PERFORMANCE



MARKET INFO

SENSEX	81,151
NIFTY	24,781

KEY FINANCIALS

Particulars (INR Mn)	FY23	FY24	FY25E	FY26E	FY27E
Revenue	137,832	152,059	174,150	197,153	221,636
EBITDA	18,565	22,841	26,889	32,087	37,664
PAT	12,038	11,503	14,963	20,430	24,461
Adj. PAT	10,443	14,774	15,405	20,430	24,461
EPS	13.0	12.1	15.1	20.6	24.7
Adj. EPS	11.2	15.5	15.6	20.6	24.7
EBITDA Margin (%)	13.5%	15.0%	15.4%	16.3%	17.0%
Adj. NPM (%)	7.6%	9.7%	8.8%	10.4%	11.0%

Source: Company, KRChoksey Research

Revenue growth mixed across segments, facing challenges due to low demand

- In Q2FY25, revenue reached INR 42,145 Mn, falling short of our estimates by 4.4%. This represents a 12.9% YoY increase, with 5.0% organic growth excluding the impacts of Organic India and Capital Foods.
- Total consolidated revenue YoY growth driven by the Indian Foods segment grew by 28.3% YoY (9.0% organic growth excluding capital goods) and increased 1.6% QoQ, with a flat 1.0% YoY volume rise.
- Within India business segments, India Packaged Beverages revenue was up by 3.2% YoY (-4.0% organic growth) and down by 9.3% QoQ, primarily due to a 4.0% YoY decline in tea volume due to low demand.
- Nourishco's Ready-to-Drink business reported revenue of INR 1,540 Mn, down 11.0% YoY, due to unfavorable weather conditions and competitive pricing pressures.
- The International business grew by 7.0% YoY (5.0% constant currency).
- Revenue for the Non-Branded Business grew 19.0% YoY, led by exceptionally strong coffee realizations in the plantations business.

Strong performance from the newly acquired entity

- In Q2FY25, Capital Foods achieved a robust 25.6% QoQ revenue growth, reaching INR 2,060 Mn. While Organic India experienced an impressive 43.6% QoQ revenue increase, totaling INR 1,020 Mn.
- The successful integration of both businesses has led to improving quarterly run rates, contributing positively to overall performance.

SHARE HOLDING PATTERN (%)

Particulars	Sep-24	Jun-24	Mar-24
Promoters	33.8	33.6	33.6
FIIIs	24.4	24.1	25.5
DIIIs	18.7	18.7	17.4
Others	23.1	23.6	23.5
Total	100	100	100

*Based on the Today's closing

*Note: All the market data is as of Today's closing.

13.9%

Revenue CAGR between FY24
and FY26E

17.6%

Adj. PAT CAGR between FY24
and FY26E

Tata Consumer Products Ltd.

Margins improve but rising input costs pose future challenges

- For Q2FY25 gross margin expanded by 110 bps YoY, aided by Capital Foods and Organic India. However, rising tea and coffee input costs may threaten future margin stability.
- Gross margins for Capital Foods and Organic India have met the company's expectations, enhancing profitability. Additionally, the realization of synergies from the integration is reflected in a strong expansion of EBITDA margins YoY, indicating a positive trajectory for both segments moving forward.
- EBITDA increased 16.6% YoY (-6.2% QoQ) to INR 6,263 Mn, largely in line with our estimate. EBITDA margin improved to 48 bps YoY (-47 bps QoQ) to 14.9%. The YoY margin improvement was driven by higher revenue and improved margins in the International segment and Non-branded segment, offset by a contraction in the India business margin.
- Adj. Net profit increased by 11.0% YoY (+27.4% QoQ) to INR 3,916 Mn outperformed our estimates. The YoY profit growth was led by cascading effects of improved revenue and EBITDA and an effective tax rate which was lower on account of one-time credit on the merger of wholly owned subsidiaries.

Key Con-call Highlights:

Tea Business:

- The tea business experienced a 3.0% YoY decline, with volumes down 4.0%.
- Raw tea prices saw significant inflation, leading to price hikes across brands. Management emphasized prioritizing market share over margins, implementing price hikes gradually to mitigate costs.
- Local/small players may face challenges due to capital and inventory issues amidst rising costs.

Coffee:

- Coffee posted strong growth of 29.0% YoY, driven by higher coffee prices. Robusta prices rose sharply by 82.0% YoY due to global supply constraints.

Ready-to-Drink (RTD) Segment:

- The RTD segment saw an 11.0% YoY decline due to unfavorable weather and competitive pricing. Price adjustments have been made for Tata Gluco Plus, and management expects future growth of 25.0-30.0%.

Salt Business:

- The salt business grew 2.0% with flat volumes, while value-added salts showed strong growth of 26.0%. The company raised prices by 2.0% in October to offset higher input costs, with salt's value share at 36.0-37.0%.

Incubating New Channels:

- Tata Consumer Products is incubating new channels such as Food Services, HoReCa, and pharmacies. These pilots are showing encouraging results, with focus areas including salt, Sampann, sauces, and tea.

International Business:

- The international business grew 5.0% YoY in constant currency (CC), driven by 7.0% growth in the UK and 2.0% in US coffee sales. For Canada revenue for the quarter declined 2.0% YoY owing to destocking during this transition phase.

Distribution Expansion:

- Modern trade revenue increased by 17.0% YoY, and E-commerce saw 51.0% YoY growth. The total reach expanded to 4.0 Mn outlets, with direct reach at 1.6 Mn.

Interest Costs:

- Interest costs are expected to decline as the company has repaid short-term debt. Management also anticipates improved interest income as cash balances increase.

Acquired Businesses:

- Integration of Capital Foods and Organic India is complete, contributing to improved margins and synergies. Capital Foods now reaches over 500k outlets, and Organic India has reached 400k households.

Starbucks:

- 19 net new stores added during the quarter. The total store count stood at 457 as of Sep'24. The company aims to open a new store every three days, targeting 1,000 locations by FY28E.
- Entered 5 new cities during the quarter. Tata Starbucks is now present across 70 cities.
- Tata Starbucks is now the largest café operator in India based on store count.

Margins Outlook:

- Management expects margin improvements going forward, supported by pricing rationality in the tea business and accretive mergers and acquisitions.

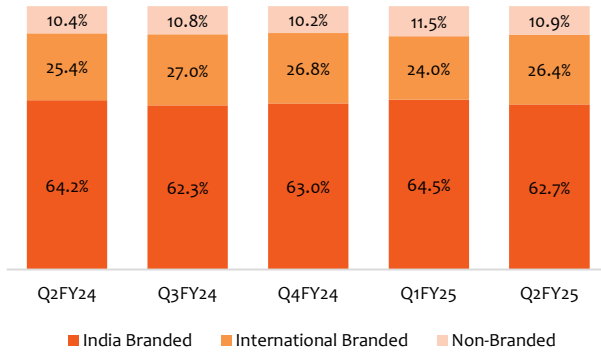
Valuation and view

The Q2FY25 performance of Tata Consumer Products reflected mixed results, with growth challenges in some segments due to low demand and unfavorable conditions, while other areas like coffee and newly acquired entities showed strong growth. The company has successfully integrated its acquisitions, enhancing profitability and margins, but rising input costs, particularly in tea and coffee, pose potential challenges. Going forward, the management anticipates margin improvements driven by pricing strategies and synergies from recent acquisitions, supporting a positive outlook.

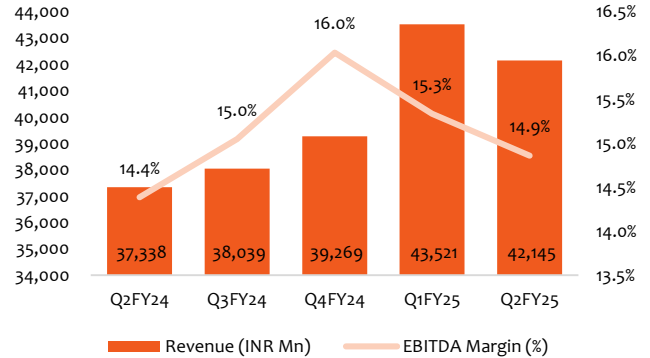
We lower our EPS estimates for FY25E/FY26E by 11.0%/1.2%, on the back of rising tea and coffee input costs, weak demand, and low volume growth, which will challenge the company's future short-term profitability but for the long term, we maintain a positive outlook on TATACONS due to margin improvements, volume recovery in core India businesses, premiumization in salt, and strong growth in new ventures. We expect Revenue/ EBITDA/ Adj. PAT to grow by 13.9%/ 18.5%/ 17.6% CAGR, respectively, over FY24-26E. **The share price of the company is currently trading at 67.2x/49.3x its FY25E/FY26E EPS, respectively. We assign a P/E multiple of 55.0x (average 1 year forward P/E of 65x) on FY26E EPS of INR 20.6 to arrive at a target price of INR 1,136 per share (INR 1,310 per share earlier), implying an upside of 11.7% from the CMP. We have maintained our 'ACCUMULATE' rating for Tata Consumer Products Ltd.**

Tata Consumer Products Ltd.

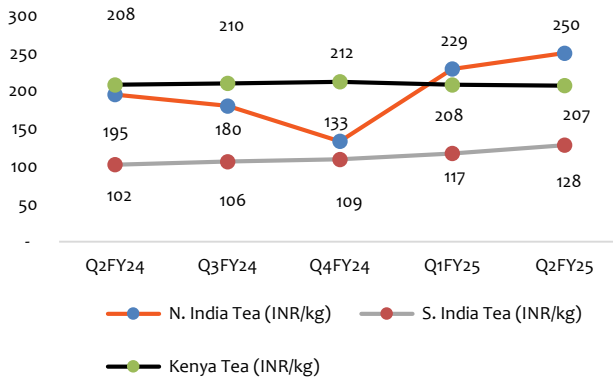
Indian Branded revenue contribution (%) decline due to low demand



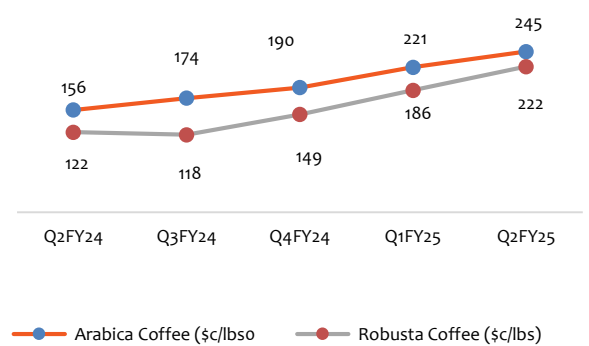
EBITDA Margin sees contraction (QoQ) due to higher input costs



Tea prices saw a up trend QoQ



Coffee Prices showed increasing trend



Source: Company, KRChoksey Research

KEY FINANCIALS

Particulars (INR Mn)	Q2FY25	Q1FY25	Q2FY24	Q-o-Q	Y-o-Y
Revenue from operations	42,145	43,521	37,338	(3.2%)	12.9%
Total Expenditure	35,882	36,847	31,967	(2.6%)	12.2%
Cost of Raw Materials	16,414	16,838	13,489	(2.5%)	21.7%
Purchase of Stock	8,383	8,474	8,066	(1.1%)	3.9%
Changes in Inventories	(1,027)	(1,338)	(86)	(23.2%)	(1101.6%)
Employee Cost	3,635	3,450	3,042	5.4%	19.5%
Other Expenses	8,477	9,423	7,456	(10.0%)	13.7%
EBITDA	6,263	6,674	5,371	(6.2%)	16.6%
EBITDA Margins (%)	14.9%	15.3%	14.4%	(47 bps)	48 bps
Depreciation	1,493	1,480	939	0.9%	59.0%
EBIT	4,770	5,194	4,432	(8.2%)	7.6%
Interest Expense	987	936	276	5.4%	258.1%
Other income	460	392	898	17.4%	(48.8%)
PBT	4,242	4,650	5,054	(8.8%)	(16.1%)
Exceptional Items	(272)	(171)	(146)	(58.9%)	86.7%
Tax	377	1,337	1,317	(71.8%)	(71.4%)
Share of Associates/Minorities	51	(238)	(209)	121.3%	124.3%
PAT	3,644	2,903	3,382	25.5%	7.7%
PAT Margin	8.6%	6.7%	9.1%	198 bps	(41 bps)
EPS	3.8	3.1	3.6	23.9%	3.8%
Adjusted PAT	3,916	3,074	3,528	27.4%	11.0%
Adj. PAT Margin	9.3%	7.1%	9.4%	223 bps	(16 bps)
Adj. EPS	4.0	3.2	3.8	22.7%	4.2%

Source: Company, KRChoksey Research

Tata Consumer Products Ltd.

KEY FINANCIALS

Exhibit 1: Profit & Loss Statement

INR Mn	FY23	FY24	FY25E	FY26E	FY27E
Revenues	137,832	152,059	174,150	197,153	221,636
COGS	80,057	85,639	96,349	107,785	120,127
Gross profit	57,775	66,419	77,801	89,368	101,509
Employee cost	11,204	12,586	14,430	16,364	18,396
Other expenses	28,006	30,993	36,482	40,917	45,449
EBITDA	18,565	22,841	26,889	32,087	37,664
EBITDA Margin	13.5%	15.0%	15.4%	16.3%	17.0%
D&A	3,041	3,772	5,541	5,271	5,406
EBIT	15,524	19,070	21,348	26,816	32,258
Interest expense	872	1,298	2,853	1,472	872
Other income	1,689	2,456	1,503	1,303	1,303
PBT	17,936	16,957	19,555	26,646	32,688
Tax	4,470	3,947	4,046	5,529	7,113
Minority interest	1,164	651	17	0	0
PAT	12,038	11,503	14,963	20,430	24,461
Adj. PAT	10,443	14,774	15,405	20,430	24,461
EPS (INR)	13.0	12.1	15.1	20.6	24.7
Adj. EPS	11.2	15.5	15.6	20.6	24.7

Exhibit 3: Cash Flow Statement

INR Mn	FY23	FY24	FY25E	FY26E	FY27E
CFFO	14,613	19,367	22,117	26,421	30,321
CFFI	(8,278)	(19,309)	(22,000)	(3,000)	(3,000)
CFFF	(7,144)	2,556	(9,006)	(19,873)	(20,930)
Net Inc/Dec in cash	(809)	2,613	(8,889)	3,549	6,391
Opening Cash	9,771	8,904	11,719	2,830	6,379
Closing Cash	8,904	11,719	2,830	6,379	12,769

Exhibit 4: Key Ratios

Key Ratio	FY23	FY24	FY25E	FY26E	FY27E
EBITDA Margin (%)	13.5%	15.0%	15.4%	16.3%	17.0%
Tax rate (%)	24.9%	23.3%	20.7%	20.7%	21.8%
Net Profit Margin (%)	8.7%	7.6%	8.6%	10.4%	11.0%
RoE (%)	7.0%	6.6%	8.1%	10.4%	11.5%
RoCE (%)	8.5%	9.4%	10.0%	12.4%	14.6%
EPS (INR)	13.0	12.1	15.1	20.6	24.7
PE	78.5x	84.2x	67.2x	49.3x	41.1x

Source: Company, KRChoksey Research

Exhibit 2: Balance Sheet

INR Mn	FY23	FY24	FY25E	FY26E	FY27E
Equity					
Equity Capital	929	953	953	953	953
Other Equity	170,340	173,409	182,764	195,482	211,000
Total Equity	171,269	174,361	183,717	196,435	211,952
Non-Current Liabilities					
Borrowings	2,061	1,684	1,684	1,684	1,684
Lease Liabilities	3,622	4,596	4,596	4,596	4,596
Other Current Liabilities	11,912	37,658	37,658	37,658	37,658
Total Non-Current Liabilities	17,596	43,937	43,937	43,937	43,937
Current Liabilities					
Borrowings	9,767	27,855	27,855	17,855	7,855
Trade Paybles	23,482	27,072	30,457	34,072	37,973
Lease Liabilities	550	638	638	638	638
Other current liabilities	5,448	6,346	6,348	6,348	6,348
Total Current Liabilities	39,247	61,911	65,298	58,913	52,815
Total Liabilities	56,843	105,848	109,236	102,851	96,752
Non-Current Assets					
PPE	16,047	19,772	20,948	21,989	22,895
Investments	3,856	3,535	3,535	3,535	3,535
Other current assets	125,123	182,637	198,326	195,014	191,702
Total Non-Current Assets	145,026	205,943	222,809	220,538	218,132
Current Assets					
Inventories	27,017	27,694	31,157	34,855	38,846
Trade Receivables	7,983	8,968	10,270	11,627	13,071
Investments	7,547	2,386	2,386	2,386	2,386
Cash and Bank	15,396	23,198	14,310	17,859	24,249
Other current assets	25,143	12,021	12,021	12,021	12,021
Total Current Assets	83,086	74,266	70,144	78,747	90,573
Total Assets	228,111	280,209	292,953	299,285	308,704

Tata Consumer Products Ltd.

Tata Consumer Products Ltd.			
Date	CMP (INR)	TP(INR)	Recommendation
21-Oct-24	1,017	1,136	ACCUMULATE
08-Aug-24	1,200	1,310	ACCUMULATE
21-Feb-24	1,154	1,352	BUY
18-Jan-24	1,139	1,322	BUY
08-Nov-23	922	1,066	BUY
03-Aug-23	835	985	BUY

Rating Legend (Expected over a 12-month period)	
Our Rating	Upside
Buy	More than 15%
Accumulate	5% – 15%
Hold	0 – 5%
Reduce	-5% – 0
Sell	Less than – 5%

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