

Tata Consumer Products Ltd.

Tea margin trajectory to be key going ahead

Tata Consumer Products Ltd. (TCPL) 2QFY25 operating performance was only slightly below our estimate largely impacted by the core businesses of Tea and Salt. Price action in the salt portfolio has already been implemented in Oct'24. To focus on market share, company has taken staggered price hike in tea portfolio (not enough to compensate for the inflation). Further pricing action in the tea business and its impact on margins remains a key monitorable as it will also be determined by peer actions. Even in a difficult environment, it continues to execute on its strategic priorities (strengthening GT, driving new channels, innovations, etc.). We thus remain fundamentally optimistic and upgrade our rating to BUY with a revised target price (TP) of Rs1,325 (Rs1,280 earlier).

Result Highlights (Consolidated)

- **Headline performance:** Consolidated revenue was up 12.9% YoY (~5% organic growth) to Rs42.1bn. Consol. EBITDA was up 16.6% YoY to Rs6.3bn. PBT was down 16.1% YoY to Rs4.2bn.
- Consolidated gross margin up by ~110bps YoY to 43.6% (but down ~130bps QoQ). Consolidated EBITDA margin was up ~50bps YoY to 14.9% as employee cost was up 50bps YoY while other overheads were up just 10bps YoY.
- **Segmental performance:**
 - (1) India Beverages grew 3% (-4% organic), with tea volumes declining by 4% YoY.
 - (2) India Foods revenue up 28% (9% organic). Volume growth was just 1%.
 - (3) International business recorded 7% revenue growth (5% constant currency).
 - (4) Growth businesses grew 15% organically.
 - (5) Non-branded business grew 19% in CC terms.
- Standalone revenues grew by 15.8% YoY to Rs30.5bn. EBITDA margin stood at 11.3% (down 370bps YoY).

Key Conference Call Highlights

- (1) Rural demand is recovering but still not at a stage which can drive double-digit volume growth. On the other hand, urban demand has softened.
- (2) Tea cost up 25-30% and is expected to stay elevated for some time (till 1QFY26). Price hikes to offset ~30% cost increase will impact demand. The company didn't hike tea prices at one go to focus on market share and still not have passed on the price hike fully to the consumer. If competition takes price increase, there is no reason to not see overall margin improvement in FY25.
- (3) The company announced a Rs2 price hike effective Oct'24 after 2 years of flat pricing, to mitigate input cost inflation.

Valuation & View

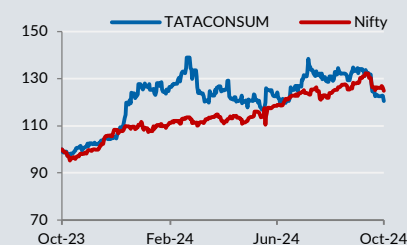
In the near-term, focus will be on improvement of growth and profitability in the domestic core business i.e., Tea and Salt. Insignificant operating miss in 2QFY25 has led to minor changes in our full year estimates. Over FY24-FY27E, we now build earnings CAGR of ~20% driven by 13.2% revenue CAGR and 120bps improvement in EBITDA margin. The stock has been under pressure due to subdued demand environment and key input cost inflation. Post the recent correction, the stock now trades at 64x/52x/45x FY25E/FY26E/FY27E EPS. Earnings growth trajectory beyond FY27 also remains robust compared to its peers, with good visibility on revenue growth. Elongated trajectory of strong revenue growth along with margin improvement makes us assign premium multiple compared to some of its domestic FMCG peers even while current ratios are low (but improving). We upgrade our rating to BUY with a revised TP of Rs1,325 (Rs1,280 earlier), as we assign a target multiple of ~54x on FY'27E EPS.

Reco	: BUY
CMP	: Rs 1,093
Target Price	: Rs 1,325
Potential Return	: +21.2%

Stock data (as on Oct 18, 2024)

Nifty	24,854
52 Week h/l (Rs)	1253 / 861
Market cap (Rs/USD mn)	1078598 / 12836
Outstanding Shares (mn)	989
6m Avg t/o (Rs mn):	2,060
Div yield (%):	0.7
Bloomberg code:	TATACONS IN
NSE code:	TATACONSUM

Stock performance



	1M	3M	1Y
Absolute return	-9.0%	-8.4%	22.1%

Shareholding pattern (As of Sept'24 end)

Promoter	33.8%
FII+DII	43.1%
Others	23.0%

Financial Summary

(Rs mn)	FY25E	FY26E	FY27E
Revenue	178,723	199,746	220,430
YoY Growth (%)	17.5	11.8	10.4
EBIDTA	27,359	31,352	35,727
Margins (%)	15.3	15.7	16.2
APAT	16,944	20,943	24,312
EPS*	17.1	21.2	24.6
YoY Growth (%)	16.9	23.6	16.1
Pre-tax ROCE (%)	9.5	10.8	12.0
ROE (%)	9.4	10.3	11.4
P/E (x)	63.8	51.6	44.5
EV/EBITDA (x)	38.2	33.0	28.6

*EPS before amortization

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Exhibit 1: Actual vs estimate

Rs mn	Actual	Estimate		% Variation	
		YES Sec	Consensus	YES Sec	Consensus
Revenue	42,145	43,550	43,404	(3.2)	(2.9)
EBITDA	6,263	6,402	6,263	(2.2)	(0.0)
EBITDA Margin (%)	14.9	14.7	14.4	0.2	0.4
Adjusted PAT	3,916	3,464	3,368	13.0	16.3

Source: Source: Bloomberg, Company, YES Sec

Exhibit 2: Consolidated performance

Particulars (Rs. Mn)	2QFY24	1QFY25	2QFY25	YoY (%)	QoQ (%)	1HFY24	1HFY25	YoY (%)
Net Sales	37,338	43,521	42,145	12.9	-3.2	74,750	85,665	14.6
COGS	21,469	23,974	23,769	10.7	-0.9	43,102	47,743	10.8
Gross margin %	42.5	44.9	43.6	1.1	-1.3	42.3	44.3	1.9
Employee costs	3,042	3,450	3,635	19.5	5.4	5,999	7,085	18.1
% of sales	8.1	7.9	8.6	0.5	0.7	8.0	8.3	0.2
Other expenses	7,456	9,423	8,477	13.7	-10.0	14,827	17,900	20.7
% of sales	20.0	21.7	20.1	0.1	-1.5	19.8	20.9	1.1
EBITDA	5,371	6,674	6,263	16.6	-6.2	10,821	12,937	19.5
EBITDA margin %	14.4	15.3	14.9	0.5	-0.5	14.5	15.1	0.6
Depreciation	939	1,480	1,493	59.0	0.9	1,759	2,973	69.1
EBIT	4,432	5,194	4,770	7.6	-8.2	9,062	9,963	9.9
Interest expense	276	936	987	258.1	5.4	538	1,923	257.5
PBT	5,054	4,650	4,242	-16.1	-8.8	10,000	8,892	-11.1
Tax	1,317	1,337	377	-71.4	-71.8	2,640	1,714	-35.1
Effective tax rate %	26.1	28.8	8.9	-17.2	-19.9	26.4	19.3	-7.1
Adj.PAT after Share of Assc & JV	3,528	3,074	3,916	11.0	27.4	6,732	6,990	3.8
PAT margin %	9.4	7.1	9.3	-0.2	2.2	9.0	8.2	-0.8
EPS	3.6	3.1	4.0	11.0	27.4	6.8	7.1	3.8

Source: Company, YES Sec

Exhibit 3: Consolidated segmental performance

Particulars	2QFY24	1QFY25	2QFY25	YoY (%)	QoQ (%)	1HFY24	1HFY25	YoY (%)
Total Segment Revenue (Rsmn)*	37,410	43,580	42,273	13.0	(3.0)	74,908	85,853	14.6
India Business	24,030	28,690	27,480	14.4	(4.2)	48,809	56,170	15.1
India Beverages	13,370	15,230	13,800	3.2	(9.4)	27,810	29,030	4.4
India Foods	10,660	13,460	13,680	28.3	1.6	20,990	27,140	29.3
International Business	9,500	9,880	10,170	7.1	2.9	18,448	20,050	8.7
Total Branded Business	33,530	38,570	37,650	12.3	(2.4)	67,258	76,220	13.3
Non-Branded Business	3,880	5,010	4,623	19.1	(7.7)	7,651	9,633	25.9
Revenue mix (%)								
India Business	64.2	65.8	65.0	0.8	(0.8)	65.2	65.4	0.3
India Beverages	35.7	34.9	32.6	(3.1)	(2.3)	37.1	33.8	(3.3)
India Foods	28.5	30.9	32.4	3.9	1.5	28.0	31.6	3.6
International Business	25.4	22.7	24.1	(1.3)	1.4	24.6	23.4	(1.3)
Total Branded Business	89.6	88.5	89.1	(0.6)	0.6	89.8	88.8	(1.0)
Non-Branded Business	10.4	11.5	10.9	0.6	(0.6)	10.2	11.2	1.0
Total Segment EBIT (Rsmn)	4,835	5,974	5,165	6.8	(13.5)	9,778	11,139	13.9

India Business	3,306	3,258	2,432	(26.4)	(25.3)	6,591	5,690	(13.7)
International Business	958	1,755	1,671	74.4	(4.8)	2,116	3,427	61.9
Total Branded Business	4,264	5,013	4,104	(3.8)	(18.1)	8,707	9,117	4.7
Non-Branded Business	571	961	1,061	85.8	10.5	1,071	2,022	88.9
Segment EBIT mix (%)								
India Business	68.4	54.5	47.1	(21.3)	(7.4)	67.4	51.1	(16.3)
International Business	19.8	29.4	32.4	12.5	3.0	21.6	30.8	9.1
Total Branded Business	88.2	83.9	79.5	(8.7)	(4.5)	89.1	81.8	(7.2)
Non-Branded Business	11.8	16.1	20.5	8.7	4.5	10.9	18.2	7.2
Segment EBIT margin (%)								
India Business	12.9	13.7	12.2	(0.7)	(1.5)	13.1	13.0	(0.1)
International Business	13.8	11.4	8.9	(4.9)	(2.5)	13.5	10.1	(3.4)
Total Branded Business	10.1	17.8	16.4	6.3	(1.3)	11.5	17.1	5.6
Non-Branded Business	12.7	13.0	10.9	(1.8)	(2.1)	12.9	12.0	(1.0)
Non-Branded Business	14.7	19.2	23.0	8.2	3.8	14.0	21.0	7.0

Source: Company, YES Sec; *before Other & Inter segment Sales

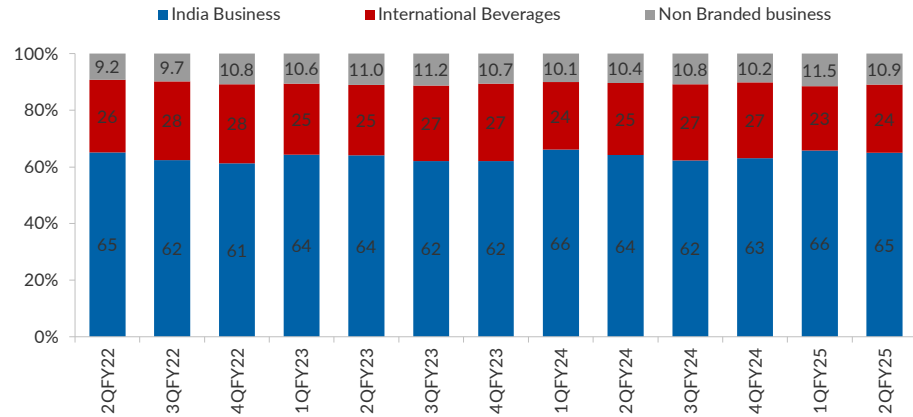
Key Highlights from Tata Consumers Products Ltd 2QFY25 Conference Call & Presentation

- **Macro:** Erratic weather patterns have affected tea and salt production in India, leading to input cost inflation. Rural demand is recovering but still not at a stage which can drive double-digit volume growth. On the other hand, urban demand has softened.
- **Growth:** Revenue growth will be primarily led by salt business (in volume terms), tea business (maintaining volume and value share), NourishCo will recover soon, Capital foods and Organic India will see sequential improvement for the next few quarters.
- **Margins:** FY25 margins will depend largely on cost and pricing of tea. If competition takes price increase, there is no reason to not see overall margin improvement in FY25. The company has a long way to go in terms of long-term margin improvement.
- **Tea business:** Tea cost up 25-30% and is expected to stay elevated for some time (till 1QFY26). Price hikes to offset ~30% cost increase will impact demand. The company didn't hike tea prices at one go to focus on market share and still not have passed on the price hike fully to the consumer. Expect the margins to be better from hereon. When there is a sharp increase in prices the local players have an impact on working capital and thus they raise prices. Management expects loose tea players to have stress and branded to gain market share.
- **Salt business:** The company announced a Rs2 price hike effective Oct'24 after 2 years of flat pricing, to mitigate input cost inflation. Tata Salt is primarily present in 43% of the total outlet reach.
- **NourishCo:** Growth business was impacted due to slowdown in NourishCo business. Trade prices of Campa Cola and Gluco were very different. The MNC's have adjusted to the trade pricing. Company was 30% premium to Campa Cola and 20% to MNC's in terms of retail pricing. However, it has now made the price adjustment and growth is expected to improve soon. Tata Copper+ is doing well. The company is confident of getting back to 25-30% growth trajectory. Out of the Rs8.5bn Nourishco revenue, Tata Copper+ is 40% and Gluco+ is 50%.
- **Capital Foods and Organic:** The synergies have started to come in with strong EBITDA margin expansion. The company is bullish about the acquisition and is not calibrating its revenue targets lower. In Organic India, 1,000 outlets were primary revenue drivers for the business. In Capital foods, the company has learnt the agility to adjust as per commodity

trends. Capital Foods is doing well in South India. Company has appointed some erstwhile Capital Foods distributors and sub-distributors back to address gaps.

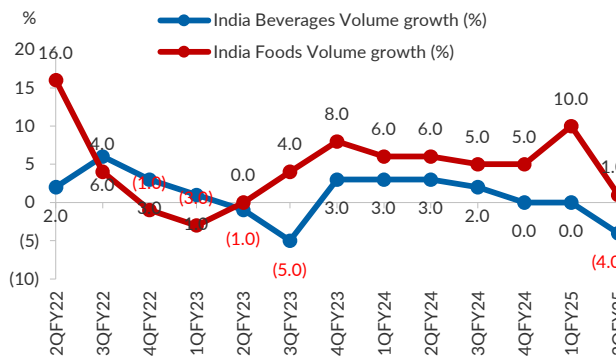
- **International:** UK business driving international business profitability. Canada saw some hiccup during 2Q (*Tetley* transitioned to new & improved sustainable packs during the quarter) but no fundamental issues.
- **Non-branded business:** Non-branded business grew by 19% owing to higher coffee realizations in the plantation business. The current run rate of EBIT Rs1bn. Soluble business is a pass through, and Plantation business is realization based. The company is seeing some stress in soluble business. The management expects this run rate of EBIT to not sustain.
- **Tata Sampann:** Sampann margins are seeing QoQ and YoY improvement. The margins are structurally improving owing to entry in new categories (like spices, dry fruits, etc.), premiumization and scale benefits. Now, it is trending towards high-single digit (close to double-digit now).
- **Starbucks** added 19 new stores during the quarter. Traffic is the issue while ticket size is not. The team is working on bringing back the traffic. The stress is seen across QSR chains due to lower consumer spending especially in urban areas. Shift in festival dates might have also had an impact.
- **Distribution:** No time spent by the sales team negotiating orders. Rolled out new DMS named "MAVIC" to 100% of distributors.
- **Channel growth:** GT was soft while MT and E-comm channel grew by 17% and 51% respectively.
- **New channels:** The incubation of the food services channel and pharma channel continues as planned. Food Service/HoReCa pilot rolled out in September in Ahmedabad and Mumbai. While Pharmacies pilot rolled out in 10 cities. Salt, Sampann (mainly pulses), Capital foods (Sauces and Mayo) and Tea (to some extent coffee) are the main categories for the HoReCa channel. The company's right to win in this channel are consistent service delivery and power of Tata Brand.
- **Innovation** to sales ratio stood at 4.1% for 2Q, on track for 5% for the full year.
- **Lower tax rate in 2Q:** Accrued losses in the wholly owned subsidiary led to tax benefit for the quarter.
- **Others:** Company had debt when entered 2Q. At the exit of the quarter, company is now debt-free as it squared off its short-term debt through right issue proceeds. The company is now net cash positive. This will have positive impact going forward. Building up cash will lead to gradual buildup of other income as well. Enhanced flowthrough from EBIT to PBT will start from the next quarter. Amortization for the quarter stood at around Rs500mn.

Exhibit 4: India business stood at ~65% of the overall business in 2QFY25



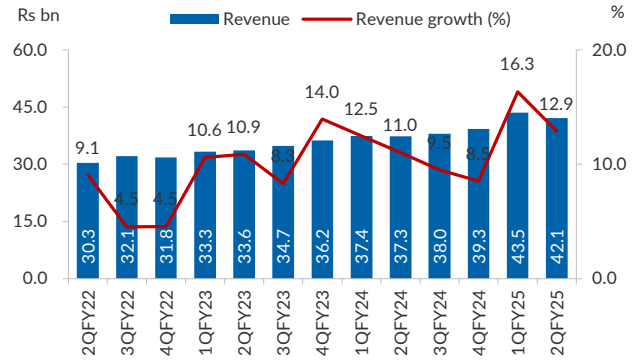
Source: Company, YES Sec

Exhibit 5: India foods and India beverages volume growth stood at 1% and -4% respectively in 2QFY25



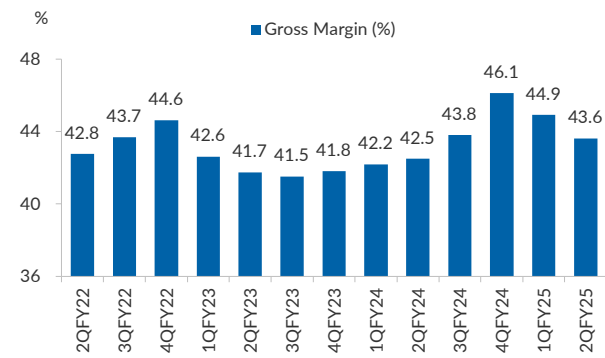
Source: Company, YES Sec; Note: Foods volume growth excludes Capital Foods

Exhibit 6: Consol. revenue grew by 12.9% YoY to Rs42.1bn (~5% organic growth)



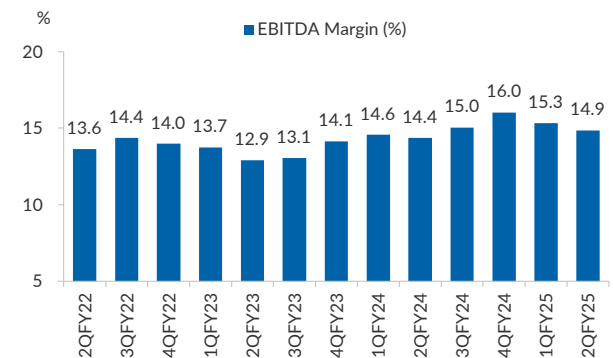
Source: Company, YES Sec

Exhibit 7: Consol. gross margin expanded by ~110bps YoY to 43.6%



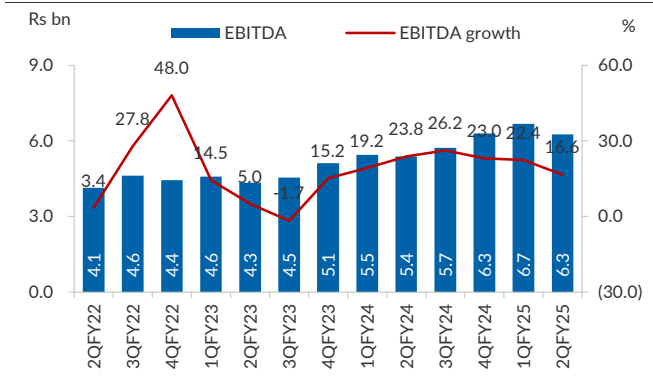
Source: Company, YES Sec

Exhibit 8: EBITDA margin was up ~50bps YoY to 14.9%



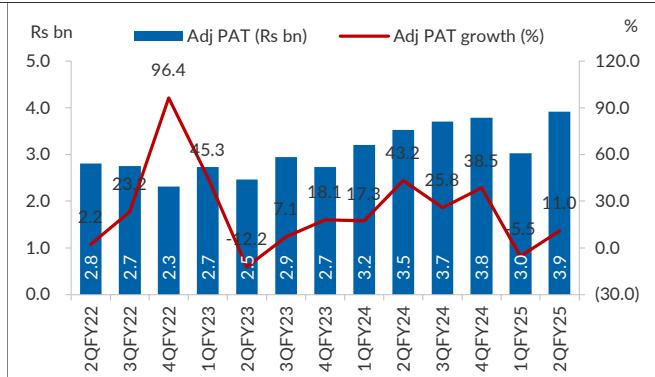
Source: Company, YES Sec

Exhibit 9: EBITDA grew by 16.6% YoY to Rs6.3bn



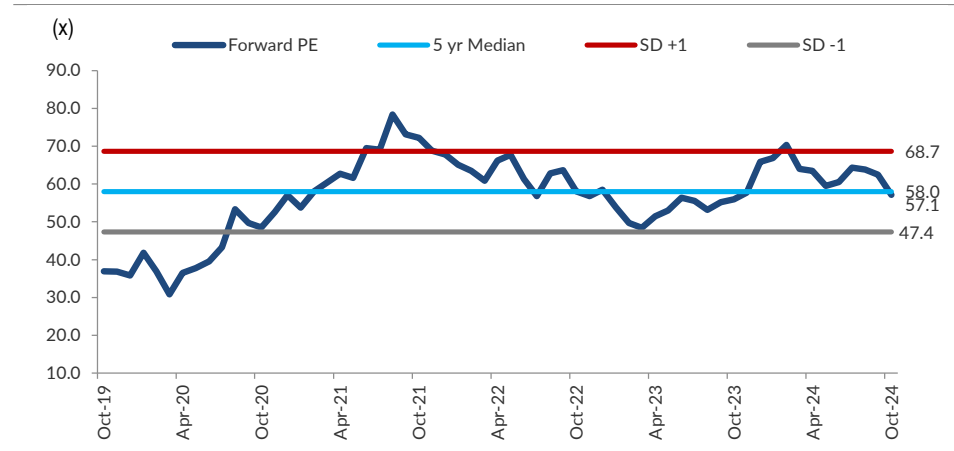
Source: Company, YES Sec

Exhibit 10: APAT was down 11% YoY to Rs3.9bn



Source: Company, YES Sec

Exhibit 11: Currently trading at ~62x 1-yr forward earnings*



Source: Company, YES sec; *Earnings before amortization

FINANCIALS

Exhibit 12: Balance sheet

Y/E March (Rsmn)	FY23	FY24	FY25E	FY26E	FY27E
Share capital	929	953	989	989	989
Reserves	161,839	159,616	197,596	206,666	216,335
Net worth	162,768	160,569	198,585	207,655	217,324
Minority Interest	8,502	13,793	15,181	16,494	17,598
Total debt	11,828	29,539	2,996	3,012	2,891
Other LT liabilities	13,923	39,214	28,952	28,703	28,467
Total liabilities	197,021	243,114	245,714	255,865	266,280
Net block	16,009	19,772	18,986	17,951	16,628
Capital work-in-progress	2,861	1,714	1,714	1,714	1,714
Goodwill	80,254	103,343	103,343	103,343	103,343
Other Intangible Assets	28,002	63,258	63,258	63,258	63,258
RoU	3,843	5,059	5,059	5,059	5,059
Other LTA	6,151	4,092	4,453	4,847	5,279
Investments	14,512	10,853	24,030	28,550	33,945
Inventories	27,017	27,694	28,576	29,788	30,177
Debtors	7,983	8,968	10,129	10,995	11,954
Cash	27,968	24,545	16,787	23,524	30,956
Other current assets	13,025	9,487	10,268	11,119	12,047
Total current assets	75,993	70,693	65,760	75,427	85,134
Creditors	23,482	27,072	31,930	34,946	38,345
Other current liabilities & provisions	7,123	8,597	8,959	9,338	9,734
Total current liabilities	30,605	35,668	40,889	44,284	48,079
Net current assets	45,388	35,024	24,872	31,142	37,055
Total assets	197,021	243,114	245,714	255,864	266,280

Source: Company, YES Sec

Exhibit 13: Income statement

Y/E March (Rsmn)	FY23	FY24	FY25E	FY26E	FY27E
Net Sales	137,832	152,059	178,723	199,746	220,430
% Growth	10.9	10.3	17.5	11.8	10.4
COGS	80,057	85,639	99,701	110,953	121,597
Staff costs	11,204	12,586	14,899	16,814	18,426
Advertisement Expenses	8,662	9,777	11,963	13,743	15,219
Other expenses	19,344	21,216	24,800	26,885	29,461
EBITDA	18,565	22,841	27,359	31,352	35,727
EBITDA margin (%)	13.5	15.0	15.3	15.7	16.2
% growth	8.0	23.0	19.8	14.6	14.0
Other income	1,689	2,456	1,963	2,077	2,183
Interest costs	872	1,298	2,522	393	363
Depreciation	3,041	3,772	5,986	6,235	6,523
Profit before tax (before exceptional items)	16,341	20,228	20,815	26,802	31,025
Exceptional items	1,196	-2,453	-443	0	0
Tax	4,072	4,765	4,683	6,746	7,809
Rate of Tax (%)	23.2	26.8	23.0	25.2	25.2
Share from associates/NCI	1,428	1,507	1,388	1,313	1,104
Reported PAT	12,038	11,504	14,301	18,743	22,112
Adj PAT before Amortization	10,842	13,957	16,944	20,943	24,312
Adj PAT margin (%)	7.9	9.2	9.5	10.5	11.0
% Growth	11.1	28.7	21.4	23.6	16.1

Source: Company, YES Sec

Exhibit 14: Cash flow statement

Y/E March (Rsmn)	FY23	FY24	FY25E	FY26E	FY27E
PAT	14,049	12,979	15,689	20,056	23,216
Depreciation	3,041	3,772	5,986	6,235	6,523
Other	(2,223)	2,503	(1,090)	(3,333)	(3,469)
(Inc.)/dec. in working capital	(254)	114	2,814	938	2,051
Cash flow from operations	14,612	19,367	23,399	23,896	28,321
Capital expenditure (-)	(1,399)	(3,102)	(3,000)	(3,000)	(3,000)
Net cash after capex	13,213	16,265	20,399	20,896	25,321
Inc./(dec.) in investments & others	(6,879)	(16,207)	16,960	(1,371)	(4,571)
Cash from investment activities	(8,278)	(19,309)	13,960	(4,371)	(7,571)
Dividends paid (-)	(5,734)	(8,089)	(8,905)	(11,873)	(14,643)
Others	(1,409)	10,644	(38,964)	(246)	(324)
Cash from financial activities	(7,144)	2,556	(47,868)	(12,119)	(14,967)
Opening cash balance	26,000	27,968	24,545	16,787	23,524
Closing cash balance	27,968	24,545	16,787	23,524	30,956
Change in cash balance	1,968	(3,423)	(7,758)	6,737	7,432

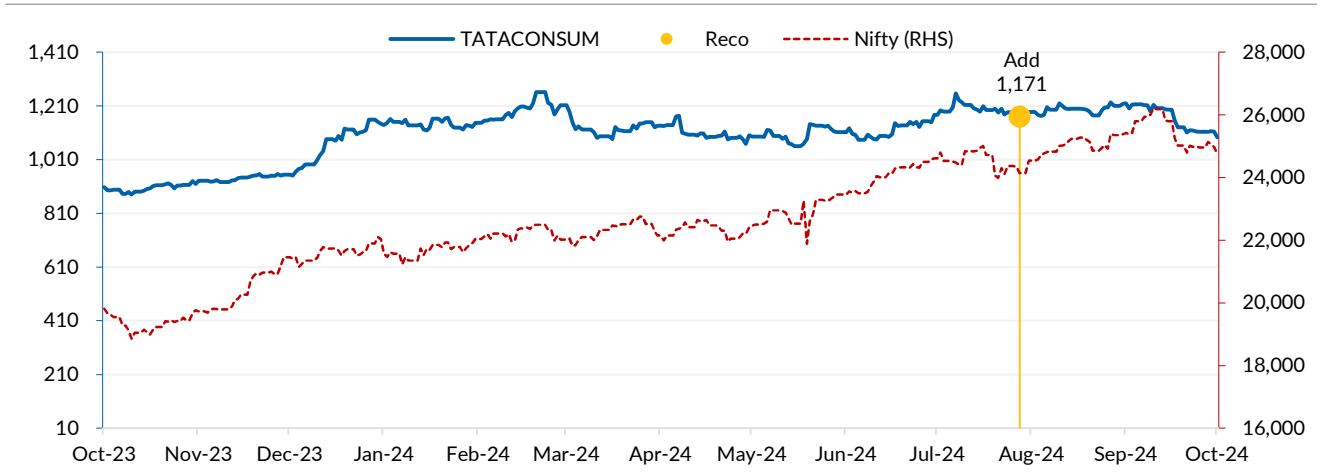
Source: Company, YES Sec

Exhibit 15: Ratio analysis

Y/E March	FY23	FY24	FY25E	FY26E	FY27E
Per share (Rs)					
EPS**	11.7	14.6	17.1	21.2	24.6
Book value	175.2	168.5	200.7	209.9	219.7
DPS	8.5	7.8	9.0	12.0	14.8
Valuation (x)					
EV/sales	7.2	6.8	5.9	5.2	4.6
EV/EBITDA	53.5	45.4	38.2	33.0	28.6
P/E	93.7	74.6	63.8	51.6	44.5
P/BV	6.2	6.5	5.4	5.2	5.0
Return ratios (%)					
RoCE*	9.0	9.8	9.5	10.8	12.0
RoE	6.9	8.6	9.4	10.3	11.4
RoIC*	10.4	10.7	10.4	12.4	14.5
Profitability ratios (%)					
Gross margin	41.9	43.7	44.2	44.5	44.8
EBITDA margin	13.5	15.0	15.3	15.7	16.2
EBIT margin	11.3	12.5	12.0	12.6	13.2
PAT margin	7.9	9.2	9.5	10.5	11.0
Liquidity ratios (%)					
Current ratio	2.5	2.0	1.6	1.7	1.8
Quick ratio	1.6	1.2	0.9	1.0	1.1
Solvency ratio (%)					
Debt to Equity ratio	0.1	0.2	0.0	0.0	0.0
Turnover ratios					
Total asset turnover ratio (x)	0.7	0.6	0.7	0.8	0.8
Fixed asset turnover ratio (x)	3.9	3.9	4.2	4.4	4.6
Inventory days	113	117	103	98	91
Debtors days	22	20	20	20	20
Creditor days	97	108	108	115	115

Source: Company, YES Sec; * pre-tax; **EPS before amortization

Recommendation Tracker



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Analyst signature

Analyst signature

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