

# Tata Consumer Products | BUY

## Mixed bag – India business weak, International outperforms

TCPL's 1QFY25 earnings print was mixed bag – India (organic) business was weak on sales and margins while International business continued to do well which led to better operating performance. However, PAT was much below estimates owing to higher depreciation and interest expenses on account of recent acquisition. Within India business, Beverages disappointed due to flat Tea volumes (impacted by harsh summer) and subdued growth in Nourischo. Foods (organic) continued strong trajectory with volumes rising 10%, led by strong growth in Salt and Sampann. International business growth was ahead of our expectation at c.17% (cc growth at 8%). International Tea did well with healthy growth across geographies (UK, Canada, US); however, US Coffee was relatively weaker. Margin delivery remained strong aided by benign RM and pricing. Unbranded business also performed well. Growth business (organic) grew 20% and constituted 29% of India business. Execution on growth business, extracting synergy benefits in recent acquisition and sustaining International business margins will be key as rich valuations (62x FY26E) provide little headroom for error, in our view.

- **India business revenue construct mixed bag as higher growth in Foods was offset by weakness in Beverages; International business did well:** Consolidated revenue and EBITDA grew 16.3% and 22.4% to INR43.5bn and INR6.7bn respectively, while Adj PAT declined by 6% to INR 3bn. Sales and EBITDA were ahead of our expectation, while higher depreciation (amortisation cost of INR 550mn) and interest expense (bridge financing availed to fund acquisition) led to a miss on profits. Segmentally: **1) India Beverages** grew 6% yoy (1% excl Organic India) impacted by flat volumes in Tea. Nourischo sales grew by 7%, impacted by intense summer and delayed price hikes. Coffee continued strong momentum and grew 28%. **2) India Foods** business grew a healthy 30% (organic growth was 14%) - relatively higher vs that seen in the past. Salt grew 9%, led by 8% volume growth. Tata Sampann continued strong performance, growing 37% (2/3<sup>rd</sup> growth from base portfolio and balance from new launches). **3) International** business growth of 10% (8% cc) was ahead of our expectations, led by pricing. US Coffee declined by 4%, International Tea did well with healthy growths in UK & US. **4) Starbucks'** growth was muted at 4% (vs 12% growth in FY24) – slower vs the growth in store-count (c.+26%).
- **Higher A&P and weaker GMs impact India profitability, International margins surprise positively:** India business gross margins fell by 177bps to 36.5% (impacted by price cuts in Tea and inventory corrections in acquisition) while subsidiaries gross margins expanded c.1360bps (aided by pricing) resulting into consolidated gross margin expansion of 274bps to 44.9% vs (JMFe: 44.4%, tad better than our expectations). Personnel costs grew by 16.6% yoy while other expenses (inclusive of high A&P spends) grew by 27.8% yoy (India A&P up by 44.8%) at a relatively faster pace. Resultant consol EBITDA margin expanded by 77bps to 15.3% despite compression at standalone level. Segmentally, India Branded EBIT margin fell 168bps yoy to 11.6% while International Beverages EBIT margin rose 383bps to 16.8%.



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### Recommendation and Price Target

Current Reco.	BUY
Previous Reco.	BUY
Current Price Target (12M)	1,285
Upside/(Downside)	7.5%
Previous Price Target	1,250
Change	2.8%

### Key Data – TATACONS IN

Current Market Price	INR1,195
Market cap (bn)	INR1,138.5/US\$13.6
Free Float	57%
Shares in issue (mn)	921.6
Diluted share (mn)	952.8
3-mon avg daily val (mn)	INR2,185.3/US\$26.1
52-week range	1,254/817
Sensex/Nifty	81,455/24,857
INR/US\$	83.7

### Price Performance

%	1M	6M	12M
Absolute	10.2	7.7	40.8
Relative*	7.0	-5.1	15.0

\* To the BSE Sensex

Financial Summary					(INR mn)
Y/E March	FY22A	FY23A	FY24A	FY25E	FY26E
Net Sales	123,470	136,598	150,985	177,736	196,575
Sales Growth (%)	7.0	10.6	10.5	17.7	10.6
EBITDA	17,188	18,565	22,841	27,439	30,982
EBITDA Margin (%)	13.9	13.6	15.1	15.4	15.8
Adjusted Net Profit	9,676	11,022	13,793	15,456	18,617
Diluted EPS (INR)	10.5	11.9	14.5	15.6	18.8
Diluted EPS Growth (%)	10.9	13.0	22.0	7.9	20.5
ROIC (%)	8.7	9.0	10.1	9.4	9.9
ROE (%)	6.5	7.0	8.5	8.6	9.2
P/E (x)	113.8	100.7	82.6	76.5	63.5
P/B (x)	7.3	6.8	7.1	6.0	5.7
EV/EBITDA (x)	62.7	58.2	49.7	42.5	37.6
Dividend Yield (%)	0.5	0.7	0.6	0.8	1.0

Source: Company data, JM Financial. Note: Valuations as of 30/Jul/2024

JM Financial Research is also available on:  
Bloomberg - JMFR <GO>,  
Thomson Publisher & Reuters,  
S&P Capital IQ, FactSet and Visible Alpha

Please see Appendix I at the end of this report for Important Disclosures and Disclaimers and Research Analyst Certification.

**Exhibit 1. 1QFY25 snapshot: Healthy performance on operating metrics; higher depreciation and interest expenses led to c.8% miss on reported profits**

	CONSOLIDATED					PARENT		
	1QFY25	1QFY24	YoY chg %	1QFY25E	% var	1QFY25	1QFY24	YoY chg %
<b>Revenue</b>	<b>43,521</b>	<b>37,412</b>	<b>16.3%</b>	<b>42,314</b>	<b>2.9%</b>	<b>29,234</b>	<b>23,161</b>	<b>26.2%</b>
<b>Gross Profit</b>	19,546	15,779	23.9%	18,803	4.0%	10,682	8,874	20.4%
Gross Profit Margin %	44.9%	42.2%	274 bps	44.4%	48 bps	36.5%	38.3%	-177 bps
Staff Cost	3,450	2,958	16.6%	3,512	-1.8%	1,355	1,090	24.4%
Other Expenses (incl A&P)	9,423	7,371	27.8%	9,140	3.1%	5,296	4,219	25.5%
<b>EBITDA</b>	<b>6,674</b>	<b>5,450</b>	<b>22.4%</b>	<b>6,151</b>	<b>8.5%</b>	<b>4,031</b>	<b>3,565</b>	<b>13.1%</b>
<b>EBITDA margin %</b>	<b>15.3%</b>	<b>14.6%</b>	<b>77 bps</b>	<b>14.5%</b>	<b>80 bps</b>	<b>13.8%</b>	<b>15.4%</b>	<b>-160 bps</b>
Depreciation	1,480	820	80.6%	1,269	16.6%	449	388	15.6%
<b>EBIT</b>	<b>5,194</b>	<b>4,631</b>	<b>12.2%</b>	<b>4,882</b>	<b>6.4%</b>	<b>3,582</b>	<b>3,177</b>	<b>12.8%</b>
Interest Expense	936	262	256.8%	495	89.1%	756	84	802.3%
Financial Other Income	392	578	-32.2%	423	-7.4%	93	699	-86.8%
PBT (before exceptionals)	4,650	4,946	-6.0%	4,810	-3.3%	2,919	3,792	-23.0%
PBT (incl exceptionals)	4,479	4,894	-8.5%	4,810	-6.9%	2,823	3,743	-24.6%
Associates Profit + Minority Interest	-238	-420		-180				
Reported Net Profit	2,903	3,166	-8.3%	3,355	-13.5%	1,881	2,855	-34.1%
<b>Adjusted Net Profit</b>	<b>3,031</b>	<b>3,204</b>	<b>-5.4%</b>	<b>3,355</b>	<b>-9.7%</b>	<b>1,945</b>	<b>2,892</b>	<b>-32.8%</b>

Source: Company, JM Financial

**Exhibit 2. 1QFY25 costs breakdown**

% of sales	CONSOLIDATED			PARENT	
	1QFY25	1QFY24	1QFY25E	1QFY25	1QFY24
Cost of Goods Sold	55.1%	57.8%	55.6%	63.5%	61.7%
Staff Cost	7.9%	7.9%	8.3%	4.6%	4.7%
Other Expenses (incl A&P)	21.7%	19.7%	21.6%	18.1%	18.2%
Depreciation	3.4%	2.2%	3.0%	1.5%	1.7%

Source: Company, JM Financial

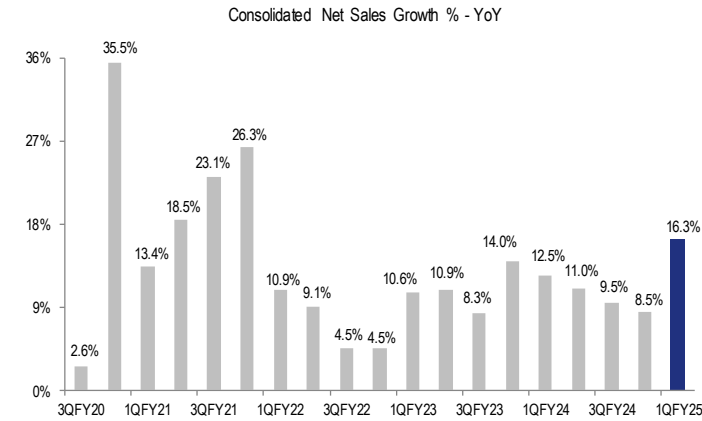
**Exhibit 3. 1QFY25 Segment Financials**

	(INR mn)		
	1QFY25	1QFY24	YoY chg %
<b>Segment Revenue</b>			
India – Branded (Foods + Beverages)	28,151	24,779	13.6%
International – Beverages	10,464	8,948	16.9%
<b>Total Branded business</b>	<b>38,615</b>	<b>33,728</b>	<b>14.5%</b>
Non-Branded Business	5,006	3,771	32.8%
Others	125	110	13.4%
Less: Inter-segment	225	196	14.8%
<b>Total Seg Revenue</b>	<b>43,521</b>	<b>37,412</b>	<b>16.3%</b>
<b>Segment EBIT</b>			
India – Branded (Foods + Beverages)	3,258	3,285	-0.8%
International – Beverages	1,755	1,158	51.6%
<b>Total Branded business</b>	<b>5,013</b>	<b>4,443</b>	<b>12.8%</b>
Non-Branded Business	961	500	92.3%
<b>Total Seg EBIT</b>	<b>5,974</b>	<b>4,942</b>	<b>20.9%</b>
Net Unalloc Exp	748	288	160.2%
Net Financial Income	-576	292	-297.6%
<b>PBT pre-exceptional</b>	<b>4,650</b>	<b>4,946</b>	<b>-6.0%</b>
<b>Adjusted Net Profit</b>	<b>3,031</b>	<b>3,204</b>	<b>-5.4%</b>
<b>Segment Margin %</b>			
India – Branded (Foods + Beverages)	11.6%	13.3%	-168 bps
International – Beverages	16.8%	12.9%	383 bps
Non-Branded Business	19.2%	13.2%	594 bps
<b>Total Seg Margin %</b>	<b>13.7%</b>	<b>13.2%</b>	<b>52 bps</b>

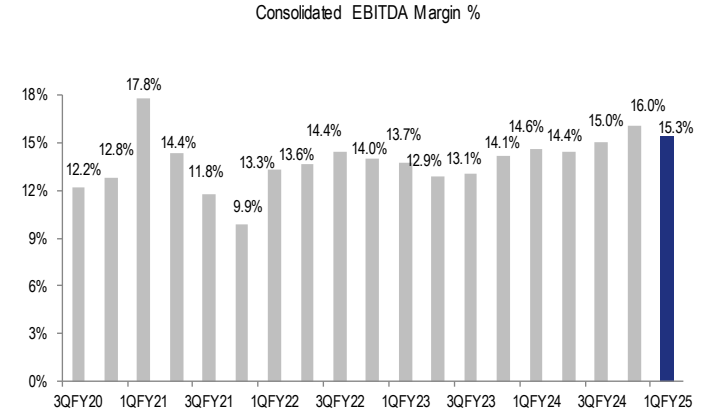
Source: Company, JM Financial

Exhibit 4. Consolidated net sales grew 16.3% during the quarter

Exhibit 5. Operating margin expanded 77bps yoy but down 70bps qoq

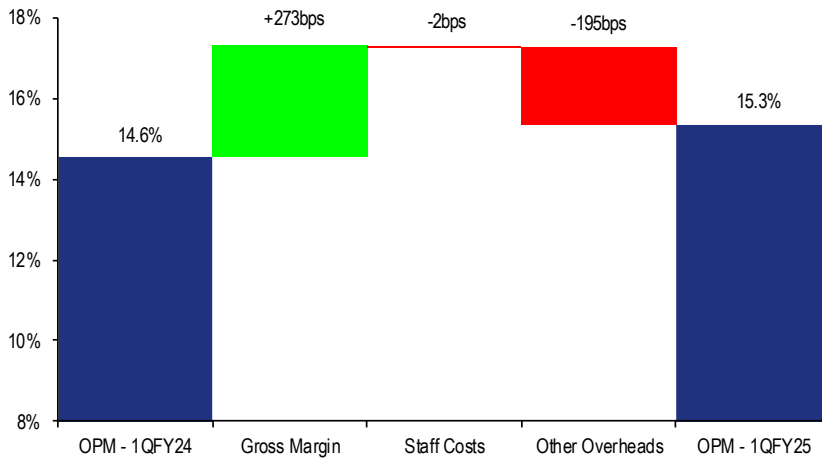


Source: Company, JM Financial



Source: Company, JM Financial

Exhibit 6. Strong gross margin expansion was partially offset by higher other expenses



Source: Company, JM Financial

Exhibit 7. TCPL one-year forward PE band



Source: Company, Bloomberg, JM Financial

## Financial Tables (Consolidated)

Profit & Loss Statement						(INR mn)
Year ended March	FY22A	FY23A	FY24A	FY25E	FY26E	
<b>Net Sales</b>	<b>123,470</b>	<b>136,598</b>	<b>150,985</b>	<b>177,736</b>	<b>196,575</b>	
Sales Growth	7.0%	10.6%	10.5%	17.7%	10.6%	
Other Operating Income	784	1,234	1,073	1,244	1,376	
<b>Total Revenue</b>	<b>124,254</b>	<b>137,832</b>	<b>152,059</b>	<b>178,980</b>	<b>197,951</b>	
Cost of Goods Sold/Op. Exp.	70,840	80,057	85,639	98,523	108,849	
Personnel cost	10,480	11,204	12,586	15,108	16,512	
Other expenses	25,746	28,006	30,993	37,910	41,608	
<b>EBITDA</b>	<b>17,188</b>	<b>18,565</b>	<b>22,841</b>	<b>27,439</b>	<b>30,982</b>	
EBITDA (%)	13.9%	13.6%	15.1%	15.4%	15.8%	
EBITDA Growth (%)	11.3%	8.0%	23.0%	20.1%	12.9%	
Depn & Amort	2,780	3,041	3,772	6,035	6,183	
EBIT	14,408	15,524	19,070	21,404	24,798	
Other Income	1,401	1,689	2,456	1,736	1,523	
Finance Cost	728	872	1,298	1,445	675	
PBT before Excep & Forex	15,081	16,341	20,228	21,695	25,646	
Excep & forex Inc/Loss(-)	-521	1,595	-3,270	0	0	
PBT	14,560	17,936	16,957	21,695	25,646	
Taxes	3,770	4,470	3,947	5,489	6,489	
Extraordinary Inc/Loss(-)	0	0	0	0	0	
Assoc. Profit/Min. Int.(-)	-1,432	-1,428	-1,507	-750	-540	
Reported Net profit	9,358	12,038	11,503	15,456	18,617	
<b>Adjusted Net Profit</b>	<b>9,676</b>	<b>11,022</b>	<b>13,793</b>	<b>15,456</b>	<b>18,617</b>	
Net Margin (%)	7.8%	8.1%	9.1%	8.7%	9.5%	
Diluted share capital (mn)	921.6	929.0	952.8	989.4	989.4	
<b>Diluted EPS (Rs)</b>	<b>10.5</b>	<b>11.9</b>	<b>14.5</b>	<b>15.6</b>	<b>18.8</b>	
Diluted EPS Growth	10.9%	13.0%	22.0%	7.9%	20.5%	
Total Dividend + Tax	5,575	7,850	7,384	9,922	11,951	
Dividend Per Share (Rs)	6.0	8.5	7.8	10.0	12.1	

Source: Company, JM Financial

Balance Sheet						(INR mn)
Year ended March	FY22A	FY23A	FY24A	FY25E	FY26E	
Shareholders' Fund	151,419	162,767	160,568	198,617	207,313	
Share capital	922	929	953	989	989	
Reserves & Surplus	150,498	161,838	159,615	197,628	206,324	
Preference Share Capital	0	0	0	0	0	
Minority Interest	11,516	8,502	13,793	13,893	14,033	
Total Loans	10,106	11,828	29,539	9,000	9,000	
Def. Tax Liab / Assets (-)	7,337	8,144	16,531	17,246	18,093	
<b>Total - Equity &amp; Liab</b>	<b>180,378</b>	<b>191,241</b>	<b>220,430</b>	<b>238,757</b>	<b>248,439</b>	
Net Fixed Assets	124,449	129,477	190,241	207,248	205,612	
Gross Fixed Assets	64,525	68,311	109,298	115,798	120,298	
Intangible Assets	77,541	80,254	103,343	119,843	119,843	
Less: Depn. & Amort.	22,005	23,852	26,268	32,303	38,486	
Capital WIP & Net Lease Asse	4,388	4,765	3,869	3,910	3,957	
Investments	7,973	14,330	8,706	8,706	9,141	
Current Assets	74,313	79,646	74,607	73,292	80,158	
Inventories	22,665	27,017	27,694	32,625	36,084	
Sundry Debtors	8,352	7,983	8,968	10,226	11,310	
Cash & Bank Balances	25,999	27,969	24,545	15,907	17,000	
Loans & Advances	10,369	9,590	6,462	7,108	7,819	
Other Current Assets	6,928	7,086	6,939	7,425	7,945	
Current Liab. & Prov.	26,356	32,212	53,124	50,488	46,471	
Current Liabilities	23,529	29,104	48,966	45,670	41,171	
Provisions & Others	2,827	3,108	4,158	4,818	5,300	
Net Current Assets	47,957	47,434	21,484	22,804	33,687	
<b>Application of Funds</b>	<b>180,378</b>	<b>191,241</b>	<b>220,430</b>	<b>238,757</b>	<b>248,439</b>	

Source: Company, JM Financial

Cash Flow Statement						(INR mn)
Year ended March	FY22A	FY23A	FY24A	FY25E	FY26E	
Profit before Tax	14,560	17,936	16,957	21,695	25,646	
Depn. & Amort.	2,780	3,041	3,772	6,035	6,183	
Net Interest Exp. / Inc. (-)	-673	-817	-1,158	-291	-848	
Inc (-) / Dec in WCap.	23	-254	114	-9,963	-9,840	
Others	821	-1,406	3,661	-750	-540	
Taxes Paid	-2,353	-3,887	-3,978	-4,768	-5,592	
<b>Operating Cash Flow</b>	<b>15,158</b>	<b>14,613</b>	<b>19,367</b>	<b>11,958</b>	<b>15,010</b>	
Capex	-2,461	-1,399	-3,102	-23,000	-4,500	
Free Cash Flow	12,697	13,214	16,265	-11,042	10,510	
-Inc/dec in investments	-11,662	-8,101	-18,218	0	-435	
Other current assets	905	1,222	2,011	31,677	1,523	
<b>Investing Cash Flow</b>	<b>-13,218</b>	<b>-8,278</b>	<b>-19,309</b>	<b>8,677</b>	<b>-3,413</b>	
Inc/(dec) in capital	0	0	0	37	0	
Dividend+Tax Thereon	-3,982	-5,734	-8,089	-7,384	-9,922	
Inc/dec in loans	-4,947	-38	12,540	-20,539	0	
Other assets	-1,019	-1,372	-1,896	-1,387	-582	
<b>Financing Cash Flow</b>	<b>-9,948</b>	<b>-7,144</b>	<b>2,556</b>	<b>-29,273</b>	<b>-10,504</b>	
<b>Inc / Dec (-) in Cash</b>	<b>-8,008</b>	<b>-809</b>	<b>2,613</b>	<b>-8,638</b>	<b>1,093</b>	
Opening cash balance	34,007	28,779	21,932	24,545	15,907	
Closing cash balance	25,999	27,969	24,545	15,907	17,000	

Source: Company, JM Financial

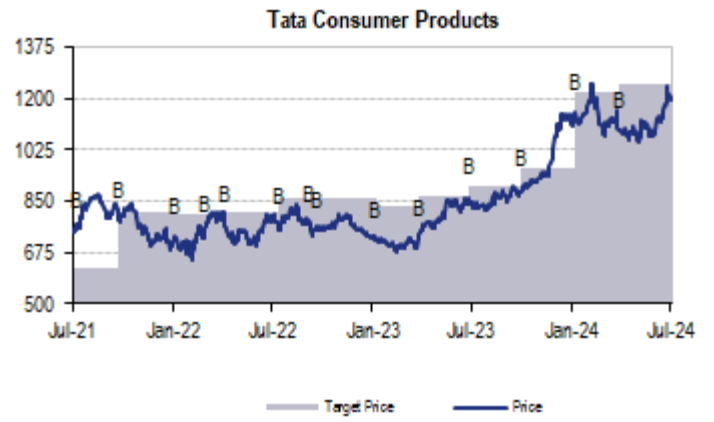
Dupont Analysis					
Y/E March	FY22A	FY23A	FY24A	FY25E	FY26E
Net Margin	7.8%	8.1%	9.1%	8.7%	9.5%
Asset Turnover (x)	0.7	0.7	0.7	0.8	0.8
Leverage Factor (x)	1.2	1.2	1.3	1.3	1.2
RoE	6.6%	7.1%	8.6%	8.7%	9.2%
Key Ratios					
Year ended March	FY22A	FY23A	FY24A	FY25E	FY26E
BV/Share (INR)	164.3	175.2	168.5	200.7	209.5
ROIC (%)	8.7%	9.0%	10.1%	9.4%	9.9%
ROE (%)	6.5%	7.0%	8.5%	8.6%	9.2%
Net Debt-equity ratio (x)	-0.1	-0.1	0.0	0.0	-0.1
PER	113.8	100.7	82.6	76.5	63.5
PBV	7.3	6.8	7.1	6.0	5.7
EV/EBITDA	62.7	58.2	49.7	42.5	37.6
EV/Net Sales	8.7	7.9	7.5	6.6	5.9
Debtor days	25	21	22	21	21
Inventory days	67	72	67	67	67
Creditor days	80	89	138	110	90

Source: Company, JM Financial

History of Recommendation and Target Price

Date	Recommendation	Target Price	% Chg.
13-Jul-20	Buy	400	
5-Aug-20	Buy	400	0.0
8-Oct-20	Buy	400	0.0
8-Nov-20	Buy	530	32.5
3-Feb-21	Buy	620	17.0
7-May-21	Buy	620	0.0
4-Aug-21	Buy	620	0.0
23-Oct-21	Buy	810	30.6
3-Feb-22	Buy	805	-0.6
29-Mar-22	Buy	805	0.0
5-May-22	Buy	810	0.6
11-Aug-22	Buy	860	6.2
7-Oct-22	Buy	860	0.0
21-Oct-22	Buy	860	0.0
3-Feb-23	Buy	830	-3.5
25-Apr-23	Buy	870	4.8
26-Jul-23	Buy	900	3.4
31-Oct-23	Buy	965	7.2
7-Feb-24	Buy	1,220	26.4
25-Apr-24	Buy	1,250	2.5

Recommendation History



## APPENDIX I

## JM Financial Institutional Securities Limited

Corporate Identity Number: U67100MH2017PLC296081

Member of BSE Ltd. and National Stock Exchange of India Ltd.

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Definition of ratings	
Rating	Meaning
Buy	Total expected returns of more than 10% for stocks with market capitalisation in excess of INR 200 billion and REITs* and more than 15% for all other stocks, over the next twelve months. Total expected return includes dividend yields.
Hold	Price expected to move in the range of 10% downside to 10% upside from the current market price for stocks with market capitalisation in excess of INR 200 billion and REITs* and in the range of 10% downside to 15% upside from the current market price for all other stocks, over the next twelve months.
Sell	Price expected to move downwards by more than 10% from the current market price over the next twelve months.

\* REITs refers to Real Estate Investment Trusts.

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No part of his or her or their compensation was, is, or will be directly or indirectly related to the specific recommendations or views expressed in this research report.

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