

# Tata Consumer Products

## Going aggressive on white spaces

TCPL's acquisitions of Capital Foods and Organic India signify aggression to tap white spaces with a clear intent to build a more comprehensive premium F&B portfolio with high growth potential. The acquisitions are at c.6.8x and c.5.2x FY24E sales of Capital Foods and Organic India vs TCPL's own valuation at c.7x at CMP, c.5-5.5x at 3-6M ago prices, and add c.6% to TCPL's Sales and EBITDA. Capital Foods has scaled well in the past (5-year sales CAGR 15%) and has strong margin potential but a lot more work needs to be done in case of Organic India (patchy growth profile, falling margin - could require prolonged category-development work). The immediate task would be to leverage TCPL's distribution scale to unlock value in estimated large TAMs, and also correct cost-structures (including trade-related) to improve profitability. This, in our view, could take a couple of more years' work vs management's guidance of Year-2 break-even.

- Contours of the transaction, and estimated impact on financials:** TCPL announced that it has entered into a definitive agreement to acquire: **1) Capital Foods** in a phased manner - 75% upfront (to be completed by Mar'24) and balance 25% within three years - at a valuation of INR51bn (EV on no-cash-no-debt basis). This works out to c.6.8x FY24 sales (expected to be in range of INR 7.5-7.7bn), c.30x EBITDA, **2) 100% stake in Organic India** for a cash consideration of INR19bn (EV on no-cash-no-debt basis) which works out to c.5.2x FY24E sales (INR 3.6-3.7bn) plus potential earnout linked to FY26 performance. TCPL had net-cash of c.INR 25bn at Sep'24 and plans to fund the acquisitions through a combination of internal accruals and debt or equity (rights) or a combination thereof. Management expects deal to achieve EPS breakeven in Year 2 of operation and be accretive thereafter. For this to be achieved, TCPL would need to double Capital Foods' FY24 topline by FY26 and make a c.25-26% margin thereon, as per our workings. TCPL has grown Nourishco aggressively (80%+ in FY22/23) after buying out its JV partner's stake but HUL's performance on the GSK acquisition suggests that integrating a large business is not all that easy. Organic India could need a much longer period of development, in our view.
- High-growth premium F&B is a key thrust area for TCPL:** Capital Foods operates the 'Ching's Secret' (market-leader in 'Desi Chinese' categories – chutneys, spices, sauces, soups, noodles) and 'Smith & Jones' (cooking pastes) brands while Organic India has a portfolio of premium organic products including tea & infusions, herbal supplements and organic packaged foods with strong moats in supply-chain and organic certifications. Both businesses are in high growth fragmented categories with large TAMs - c.INR220bn for Capital Foods and c.INR820bn globally in the case of the latter, as per management - and enjoy superior gross margins (50-60%+) vs TCPL's existing portfolio (c.43-44%).
- Expected synergy benefits:** Given that both businesses are under-indexed on distribution (Capital Foods/Organic India reach at 400k/24k outlets in India vs TCPL's 3.8mn), the immediate opportunity is to capitalise on TCPL's GT strength, and increase presence in the alternate modern channels; Organic India's portfolio also unlocks the pharma channel for TCPL to cross-sell other brands. On costs front, there is potential to extract efficiencies on various aspects - trade margins, selling expenses, fixed costs, utilisations, etc, though TCPL could need to up ad-spends in line with the intent to drive aggressive growth.

Y/E March	FY22A	FY23A	FY24E	FY25E	FY26E
Net Sales	123,470	136,598	153,416	169,308	185,982
Sales Growth (%)	7.0	10.6	12.3	10.4	9.8
EBITDA	17,188	18,565	23,098	25,726	28,385
EBITDA Margin (%)	13.9	13.6	15.1	15.2	15.3
Adjusted Net Profit	9,676	11,022	14,099	16,498	18,807
Diluted EPS (INR)	10.5	11.9	15.2	17.8	20.2
Diluted EPS Growth (%)	10.9	13.0	27.9	17.0	14.0
ROIC (%)	8.7	9.0	11.3	12.7	14.0
ROE (%)	6.5	7.0	8.5	9.6	10.5
P/E (x)	110.4	97.7	76.4	65.3	57.3
P/B (x)	7.1	6.6	6.4	6.1	5.9
EV/EBITDA (x)	60.8	56.4	45.0	40.2	36.2
Dividend Yield (%)	0.5	0.7	0.9	1.1	1.2

Source: Company data, JM Financial. Note: Valuations as of 12/Jan/2024



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### Key Data – TATACONS IN

Current Market Price	INR1,159
Market cap (bn)	INR1,076.7/US\$13.0
Free Float	58%
Shares in issue (mn)	921.6
Diluted share (mn)	929.0
3-mon avg daily val (mn)	INR1,565.5/US\$18.9
52-week range	1,166/685
Sensex/Nifty	72,568/21,895
INR/US\$	82.9

### Price Performance

%	1M	6M	12M
Absolute	22.2	37.4	53.7
Relative*	17.1	23.9	27.0

\* To the BSE Sensex

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. Capital Foods' Summary Financials**

INR mn	FY14	FY15	FY16	FY17	FY18	FY19	FY20	FY21	FY22	FY23
<b>Sales</b>	<b>1,827</b>	<b>2,487</b>	<b>2,763</b>	<b>3,316</b>	<b>3,172</b>	<b>3,728</b>	<b>4,452</b>	<b>6,667</b>	<b>5,742</b>	<b>7,055</b>
COGS	737	1,226	1,349	1,721	1,585	1,781	2,045	2,931	3,044	3,399
<b>Gross profit</b>	<b>1,090</b>	<b>1,261</b>	<b>1,414</b>	<b>1,595</b>	<b>1,587</b>	<b>1,947</b>	<b>2,407</b>	<b>3,736</b>	<b>2,698</b>	<b>3,656</b>
<b>Gross margins</b>	<b>59.7%</b>	<b>50.7%</b>	<b>51.2%</b>	<b>48.1%</b>	<b>50.0%</b>	<b>52.2%</b>	<b>54.1%</b>	<b>56.0%</b>	<b>47.0%</b>	<b>51.8%</b>
staff cost	141	183	239	257	292	368	518	813	697	644
other expenses	938	992	1,235	1,253	1,242	1,498	1,762	1,876	1,936	1,925
<b>EBITDA</b>	<b>11</b>	<b>85</b>	<b>-60</b>	<b>86</b>	<b>53</b>	<b>81</b>	<b>127</b>	<b>1,047</b>	<b>66</b>	<b>1,088</b>
<b>EBITDA margins</b>	<b>0.6%</b>	<b>3.4%</b>	<b>-2.2%</b>	<b>2.6%</b>	<b>1.7%</b>	<b>2.2%</b>	<b>2.9%</b>	<b>15.7%</b>	<b>1.1%</b>	<b>15.4%</b>
depreciation	69	89	54	59	69	70	71	145	207	147
interest cost	37	9	2	4	5	5	5	22	24	13
other income	8	14	19	31	24	45	38	76	67	87
<b>PBT</b>	<b>-86</b>	<b>2</b>	<b>-98</b>	<b>54</b>	<b>3</b>	<b>51</b>	<b>89</b>	<b>956</b>	<b>-98</b>	<b>1,015</b>
tax	-39	12	-47	10	-2	49	56	269	-24	264
<b>PAT</b>	<b>-47</b>	<b>-10</b>	<b>-51</b>	<b>44</b>	<b>5</b>	<b>2</b>	<b>33</b>	<b>687</b>	<b>-74</b>	<b>751</b>

Source: VCC Edge and ROC data, JM Financial

**Exhibit 2. Organic India's Summary Financials**

INR mn	FY17	FY18	FY19	FY20	FY21	FY22	FY23
<b>Sales</b>	<b>2,414</b>	<b>2,714</b>	<b>3,362</b>	<b>3,449</b>	<b>3,948</b>	<b>3,618</b>	<b>3,244</b>
COGS	743	973	921	955	1,203	1,182	1,241
<b>Gross profit</b>	<b>1,671</b>	<b>1,741</b>	<b>2,441</b>	<b>2,494</b>	<b>2,745</b>	<b>2,436</b>	<b>2,003</b>
<b>Gross margins</b>	<b>69.2%</b>	<b>64.1%</b>	<b>72.6%</b>	<b>72.3%</b>	<b>69.5%</b>	<b>67.3%</b>	<b>61.7%</b>
staff cost	412	439	600	544	658	648	562
other expenses	842	932	1,427	1,679	1,790	1,480	2,297
<b>EBITDA</b>	<b>416</b>	<b>370</b>	<b>414</b>	<b>271</b>	<b>297</b>	<b>308</b>	<b>-855</b>
<b>EBITDA margins</b>	<b>17.2%</b>	<b>13.6%</b>	<b>12.3%</b>	<b>7.9%</b>	<b>7.5%</b>	<b>8.5%</b>	<b>-26.4%</b>
depreciation	16	25	55	203	220	175	152
interest cost	15	21	47	112	95	85	96
other income	62	120	75	125	111	65	92
Exceptional				-4	-5	-38	
<b>PBT</b>	<b>447</b>	<b>444</b>	<b>387</b>	<b>77</b>	<b>89</b>	<b>76</b>	<b>-1,011</b>
tax	165	158	182	16	42	7	-135
<b>PAT</b>	<b>283</b>	<b>285</b>	<b>205</b>	<b>61</b>	<b>47</b>	<b>69</b>	<b>-875</b>

Source: VCC Edge and ROC data, JM Financial

**Exhibit 3. Our preliminary estimate pegs the potential EBITDA margins for Capital Foods to be 20-22% and 10-12% for Organic India**

<u>Capital Foods</u>	
Gross margin	55.0% Say squeeze distr margin etc
Staff	8.0% TCPL current staff costs
A&P	12.0% CF at 10% in F22
OE	13.5% TCPL current OE %
Potential OPM	21.5%

<u>Organic India</u>		
	<u>Est 3yr Avg</u>	<u>Potential</u>
Gross margin	66%	66% Pricing aggression to drive scale-up
Staff	17%	15% Backend etc hence higher vs TCPL avg
A&P	12%	15% Assumed
OE	29%	25%
Potential OPM	8%	11%

Source: VCC Edge and MCA data, JM Financial

Exhibit 4. For Capital Foods to break-even in Yr-2, TCPL would need to double FY24's sales in FY26 and earn a 25%+ EBITDA margin thereon (assuming TCPL's cost of funds work out to 7.5% p.a.). Organic India would need INR10bn sales with c.15% margin

Capital Foods

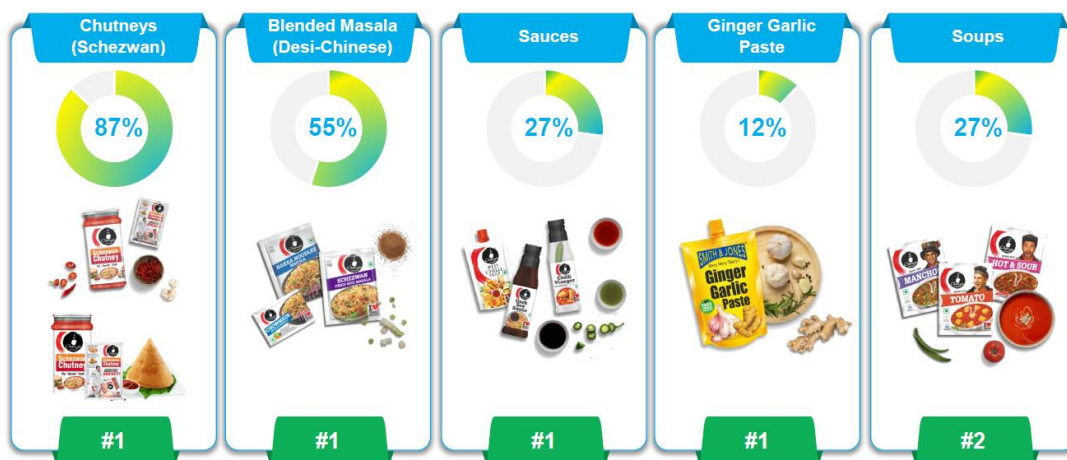
Organic India

Scenario	Fy26 To Break-even
Net Revenue	15,000
EBITDA	3,825
Margin %	25.5%
TCPL's 75% share of EBITDA	2,869
EV of Cap Foods	51,000
Cost of Acqn of 75% stake	38,250
Assumed % Cost of Funds	7.5%
Cost of Funding (75% stake)	2,869
EBITDA less funding costs	0

Scenario	Fy26 Break-even
Revenue	10,000
EBITDA	1,450
Margin	14.5%
Cost of Acqn	19,000
Cost of funding	7.5%
Interest costs	1,425
EBITDA less funding costs	25

Source: Companies data, JM Financial

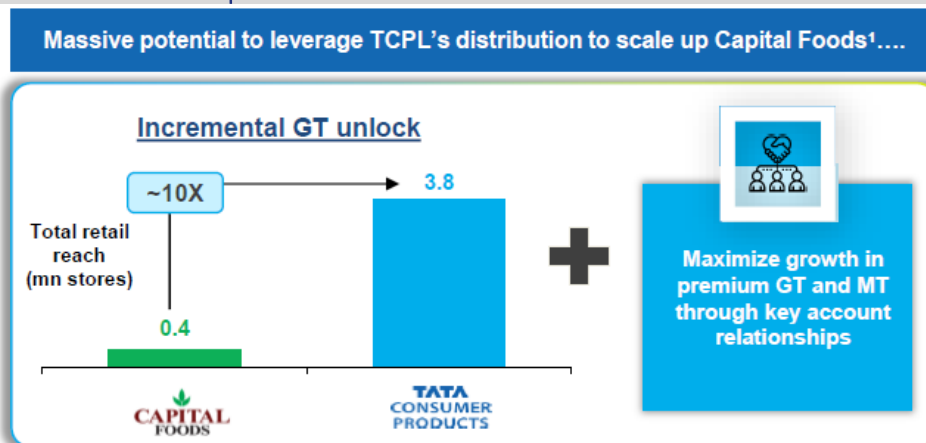
Exhibit 5. Capital Foods' products enjoys strong market positions in its categories of operations



# Market position  
 xx% - Market Share in respective categories as of 2022. Sauces include green chilli, red chilli and soy sauces.  
 Source: Management estimates, Industry sources

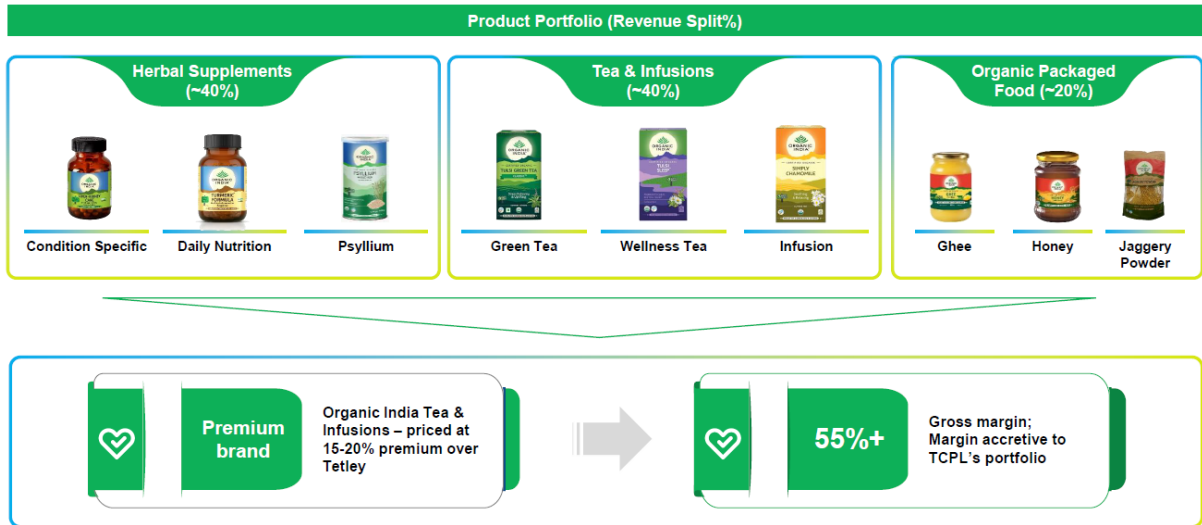
Source: TCPL presentation, JM Financial

Exhibit 6. Huge opportunities for distribution expansion



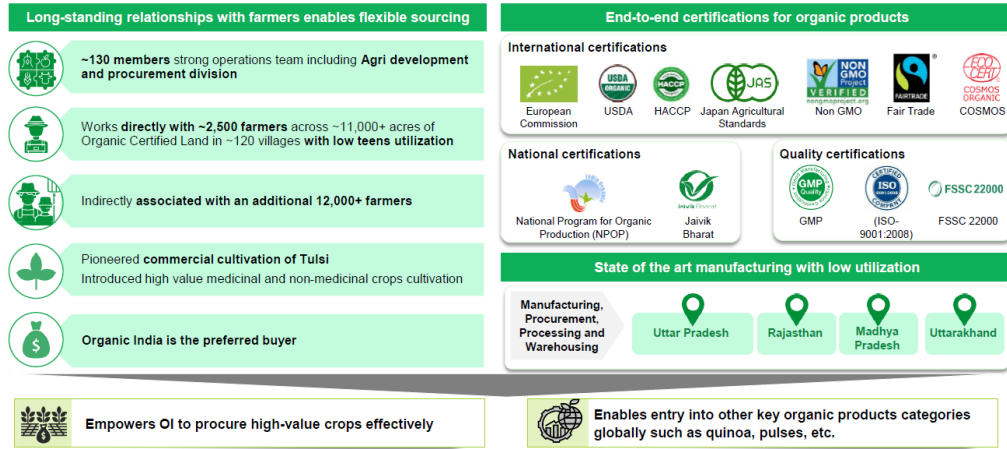
Source: TCPL presentation, JM Financial

Exhibit 7. Organic India’s portfolio well-spread across premium and emerging categories with strong gross margin profile...



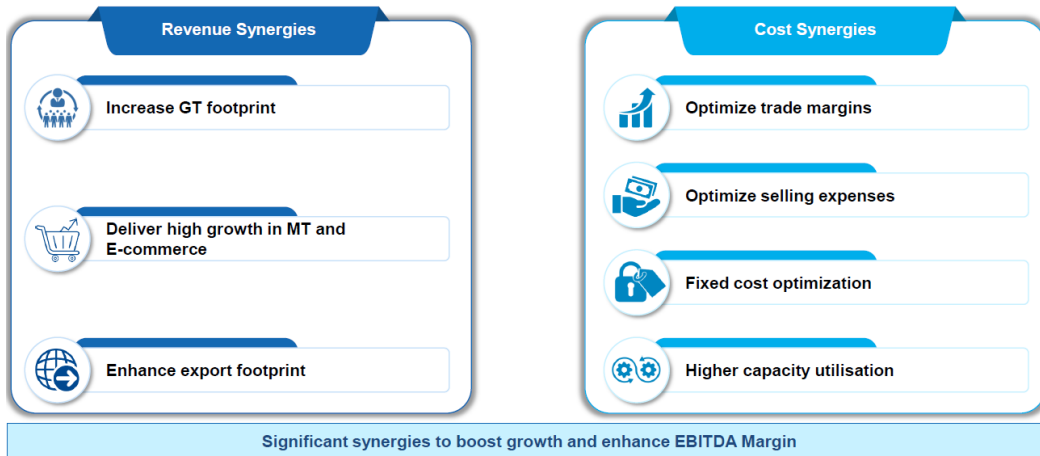
Source: TCPL presentation, JM Financial

Exhibit 8. ... and enjoys strong supply-chain moats and end-to-end certifications for organic products



Source: Company, JM Financial

Exhibit 9. TCPL’s synergy benefits expectations



Source: Company, JM Financial

## Financial Tables (Consolidated)

Profit & Loss Statement					(INR mn)
Year ended March	FY22A	FY23A	FY24E	FY25E	FY26E
<b>Net Sales</b>	<b>123,470</b>	<b>136,598</b>	<b>153,416</b>	<b>169,308</b>	<b>185,982</b>
Sales Growth	7.0%	10.6%	12.3%	10.4%	9.8%
Other Operating Income	784	1,234	1,304	1,439	1,581
<b>Total Revenue</b>	<b>124,254</b>	<b>137,832</b>	<b>154,720</b>	<b>170,747</b>	<b>187,563</b>
Cost of Goods Sold/Op. Exp.	70,840	80,057	88,024	97,337	107,224
Personnel cost	10,480	11,204	12,506	13,717	14,975
Other expenses	25,746	28,006	31,091	33,967	36,980
<b>EBITDA</b>	<b>17,188</b>	<b>18,565</b>	<b>23,098</b>	<b>25,726</b>	<b>28,385</b>
EBITDA (%)	13.9%	13.6%	15.1%	15.2%	15.3%
EBITDA Growth (%)	11.3%	8.0%	24.4%	11.4%	10.3%
Depn & Amort	2,780	3,041	3,108	3,209	3,347
EBIT	14,408	15,524	19,991	22,517	25,037
Other Income	1,401	1,689	2,014	2,234	2,431
Finance Cost	728	872	872	872	784
PBT before Excep & Forex	15,081	16,341	21,133	23,880	26,684
Excep & forex Inc/Loss(-)	-521	1,595	0	0	0
PBT	14,560	17,936	21,133	23,880	26,684
Taxes	3,770	4,470	5,382	6,042	6,751
Extraordinary Inc/Loss(-)	0	0	0	0	0
Assoc. Profit/Min. Int.(-)	-1,432	-1,428	-1,653	-1,340	-1,125
Reported Net profit	9,358	12,038	14,099	16,498	18,807
<b>Adjusted Net Profit</b>	<b>9,676</b>	<b>11,022</b>	<b>14,099</b>	<b>16,498</b>	<b>18,807</b>
Net Margin (%)	7.8%	8.1%	9.2%	9.7%	10.1%
Diluted share capital (mn)	921.6	929.0	929.0	929.0	929.0
<b>Diluted EPS (Rs)</b>	<b>10.5</b>	<b>11.9</b>	<b>15.2</b>	<b>17.8</b>	<b>20.2</b>
Diluted EPS Growth	10.9%	13.0%	27.9%	17.0%	14.0%
Total Dividend + Tax	5,576	7,850	9,899	11,584	13,205
Dividend Per Share (Rs)	6.1	8.5	10.7	12.5	14.2

Source: Company, JM Financial

Cash Flow Statement					(INR mn)
Year ended March	FY22A	FY23A	FY24E	FY25E	FY26E
Profit before Tax	14,560	17,936	21,133	23,880	26,684
Depn. & Amort.	2,780	3,041	3,108	3,209	3,347
Net Interest Exp. / Inc. (-)	-673	-817	-1,142	-1,362	-1,646
Inc (-) / Dec in WCap.	23	-254	-290	-2,670	-2,107
Others	821	-1,406	-1,653	-1,340	-1,125
Taxes Paid	-2,353	-3,887	-4,408	-5,129	-5,763
<b>Operating Cash Flow</b>	<b>15,158</b>	<b>14,613</b>	<b>16,748</b>	<b>16,587</b>	<b>19,390</b>
Capex	-2,461	-1,399	-4,000	-4,080	-4,162
Free Cash Flow	12,697	13,214	12,748	12,507	15,229
-Inc/dec in investments	-11,662	-8,101	-1,433	-1,576	-1,734
Other current assets	905	1,222	2,014	2,234	2,431
<b>Investing Cash Flow</b>	<b>-13,218</b>	<b>-8,278</b>	<b>-3,419</b>	<b>-3,422</b>	<b>-3,465</b>
Inc/(dec) in capital	0	0	0	0	0
Dividend+Tax Thereon	-3,982	-5,734	-7,850	-9,899	-11,584
Inc/dec in loans	-4,947	-38	-2,784	-1,949	-1,364
Other assets	-1,019	-1,372	209	343	562
<b>Financing Cash Flow</b>	<b>-9,948</b>	<b>-7,144</b>	<b>-10,425</b>	<b>-11,505</b>	<b>-12,386</b>
<b>Inc / Dec (-) in Cash</b>	<b>-8,008</b>	<b>-809</b>	<b>2,904</b>	<b>1,659</b>	<b>3,539</b>
Opening cash balance	34,007	28,779	27,969	30,873	32,532
Closing cash balance	25,999	27,969	30,873	32,532	36,072

Source: Company, JM Financial

Balance Sheet					(INR mn)
Year ended March	FY22A	FY23A	FY24E	FY25E	FY26E
Shareholders' Fund	151,419	162,767	169,016	175,615	182,838
Share capital	922	929	929	929	929
Reserves & Surplus	150,498	161,838	168,087	174,686	181,909
Preference Share Capital	0	0	0	0	0
Minority Interest	11,516	8,502	9,604	10,844	12,219
Total Loans	10,106	11,828	9,044	7,095	5,731
Def. Tax Liab / Assets (-)	7,337	8,144	8,982	9,770	10,650
<b>Total - Equity &amp; Liab</b>	<b>180,378</b>	<b>191,241</b>	<b>196,646</b>	<b>203,324</b>	<b>211,439</b>
Net Fixed Assets	124,449	129,477	130,391	131,288	132,131
Gross Fixed Assets	64,525	68,311	72,311	76,391	80,552
Intangible Assets	77,541	80,254	80,254	80,254	80,254
Less: Depn. & Amort.	22,005	23,852	26,960	30,169	33,516
Capital WIP & Net Lease Assets	4,388	4,765	4,787	4,812	4,841
Investments	7,973	14,330	15,763	17,339	19,073
Current Assets	74,313	79,646	86,132	93,997	103,376
Inventories	22,665	27,017	28,161	31,078	34,139
Sundry Debtors	8,352	7,983	8,966	10,669	11,719
Cash & Bank Balances	25,999	27,969	30,873	32,532	36,072
Loans & Advances	10,369	9,590	10,549	11,604	12,765
Other Current Assets	6,928	7,086	7,582	8,113	8,681
Current Liab. & Prov.	26,356	32,212	35,640	39,300	43,141
Current Liabilities	23,529	29,104	32,118	35,388	38,843
Provisions & Others	2,827	3,108	3,522	3,912	4,298
Net Current Assets	47,957	47,434	50,492	54,697	60,235
<b>Application of Funds</b>	<b>180,378</b>	<b>191,241</b>	<b>196,646</b>	<b>203,324</b>	<b>211,439</b>

Source: Company, JM Financial

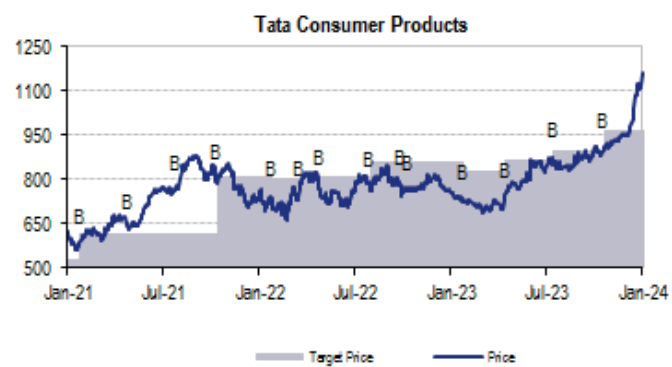
Dupont Analysis					
Y/E March	FY22A	FY23A	FY24E	FY25E	FY26E
Net Margin	7.8%	8.1%	9.2%	9.7%	10.1%
Asset Turnover (x)	0.7	0.7	0.8	0.9	0.9
Leverage Factor (x)	1.2	1.2	1.2	1.2	1.2
RoE	6.6%	7.1%	8.6%	9.7%	10.6%
Key Ratios					
Year ended March	FY22A	FY23A	FY24E	FY25E	FY26E
BV/Share (INR)	164.3	175.2	181.9	189.0	196.8
ROIC (%)	8.7%	9.0%	11.3%	12.7%	14.0%
ROE (%)	6.5%	7.0%	8.5%	9.6%	10.5%
Net Debt-equity ratio (x)	-0.1	-0.1	-0.2	-0.2	-0.2
PER	110.4	97.7	76.4	65.3	57.3
PBV	7.1	6.6	6.4	6.1	5.9
EV/EBITDA	60.8	56.4	45.0	40.2	36.2
EV/Net Sales	8.5	7.7	6.8	6.1	5.5
Debtor days	25	21	21	23	23
Inventory days	67	72	67	67	67
Creditor days	80	89	89	89	89

Source: Company, JM Financial

## History of Recommendation and Target Price

Date	Recommendation	Target Price	% Chg.
15-May-20	Buy	385	
8-Jul-20	Buy	390	1.3
13-Jul-20	Buy	400	2.6
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

## 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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