

2<sup>nd</sup> August 2022

## Tata Consumer Product

**CMP** : 812  
**Target Price** : 963  
**Upside** : 19%  
**Stop Loss** : 710 (Closing basis)

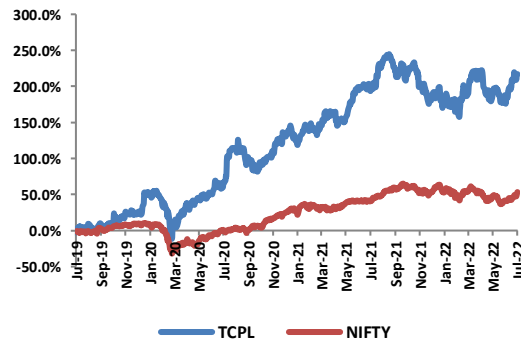
### Investment Thesis

Tata Consumer Products Ltd. is one of the leading companies of the Tata Group, with presence in the food and beverages business in India and internationally. It is the second largest tea company globally and has significant market presence and leadership in many markets. In addition to South Asia (mainly India), it has presence in various other geographies including Canada, UK, North America, Australia, Europe, Middle East and Africa. India is the largest producer and consumer of pulses in the world and the market size is estimated at INR 150,000 crore – of which only 1-2% is branded where Tata Sampann can play big role. RTE category is expected to grow at a fast pace at 15-17% in India and presents a sizeable opportunity in the overseas markets (USA, Canada, UK, and Australia). Size of the retail hot coffee market is double that of tea. The United States continues to be the world's largest coffee market, estimated at US\$ 11 billion. Strong Sales and distribution network expansion with initiatives such as Direct Reach : S&D network achieved year-end target of 1.3 million outlets in direct reach. Company expanded its distribution footprint to increase direct distribution reach to ~2x through a structured programme led by efficient planning, 3P network optimisation project : Measure includes Moving packing locations closer to demand centres , reducing the distance and exploring new sourcing locations and changing sourcing operating models, Salesforce productivity : Added 8,000+ rural/semi-urban distributors in the year to expand presence in these markets, Started a premium distributor sales representative programme to enable focus on the premium portfolio and newer brands like Tata Sampann, Tetley, Tata Coffee, Tata Soufull and Tata Q. The rapid expansion in distribution was enabled with digitally connected sales infrastructure and the use of data and analytics for decision- making, E-commerce as a % of sales in India was 7.3% in FY 21-22, up from 2.5% in FY 2019-20. Modern Trade business crosses INR 1,000 crore, up by 30% YoY. Launched multiple D2C platforms like Tata Tea 1868, Sonnets and Tata Soufull. Started "Nutrikorner" , a one-stop, D2C channel for Tata Consumer Products in Delhi and Mumbai, with phased expansion plans and digitisation: Launched augmented analytics platform 'Clearview'. It sharpens sales and marketing initiatives Rs 90 to 100 crore in FY22, which it expects to improve substantially in the future. SFL is in discussion with its key clients to increase its business in the e-mobility space. The revenue from operations was at Rs 4,172.57 crores for the year ended March 31, 2022, as against Rs 3,065.03 crores in the previous year, registering a significant growth of 36.1%. The operational revenue outlook of the company is very encouraging, as SF crosses its pre-COVID turnover levels in FY22. The company is gaining market share from smaller parts suppliers, against the backdrop of COVID. Also, the rupee has been weakening during the Q4FY22 which has helped export. sundram fastener has a good year and they are back on the performance path. The company's export revenue contributes almost 1/3rd of the total revenue & expected to increase its contribution once new plants ramp up their production & company increases its order wins. The after-sales market (mainly for fasteners, caps, pumps, and sockets) is receiving strong traction. After acquiring complete ownership of NourishCo in May 2020, Over the past year, company expanded distribution by 80% and capacity by over 50% through an asset-light model. Tata consumer is working on improving its distribution at a rapid pace. Increase in distributor network has by more than 25% over the last year and also achieved milestone of to 2.6 mn retail outlets. It thereby reached 201 MN+ Household in India. Notably it witnessed 2X increase in direct distribution reach as 8,000+ rural/semi-urban distributors added to network in FY 21-22.

Stock Data	
Market Cap (Rs.Mn)	754797
Market Cap (\$ Mn)	9434
Shares O/S (in Mn)	921
Avg. Volume 1m (000)	1505
52-Week Range (Rs.)	889 / 650

Shareholding Pattern	
Promoters	34.7%
FII's	25.3%
DII's	13.9%
Public, Other (Incl. Govt.)	26.1%

Performance (%)	1M	6M	1Yr
Absolute	12.7%	11.6%	8.1%
Relative to Sensex	8.6%	0.6%	9.6%



## Financials

- The revenue CAGR of 12.7% over FY22-FY25E while PAT CAGR of 20.1% over FY22-FY25E

Particulars (Rs in Cr)	FY21	FY22	FY23E	FY24E	FY25E
Revenue	11602.0	12425.4	13916.4	15725.5	17769.9
EBITDA	1634.5	1806.8	2197.9	2759.3	3084.9
EBITDA margin	6.8%	7.0%	8.1%	9.4%	9.5%
Profit/(loss) for the year	993.8	1079.0	1343.5	1706.6	1906.3
PAT margin	8.6%	8.7%	9.7%	10.9%	10.7%
EPS	10.8	11.7	14.6	18.5	20.7
ROE	7.0%	7.3%	8.5%	9.8%	10.0%
ROCE	6.8%	7.0%	8.1%	9.4%	9.5%

## Key Business Highlights

With a legacy of 35 years, Tata tea is the #2 branded Tea player globally. The tea business grew 6% by value and 3% by volume terms. The premium tea brands grew at a faster pace (1.2x) than the overall tea portfolio. Its value market share increased by 100 basis points to 22.2% and volume share by 154 basis points to 22% driven by the increase in distribution and supported by brand investments. Tata Tetley #4 tea brand in the UK and the #1 tea brand in Canada. Chakra gold tea increased market share for the second year. The E-commerce market share for Tea is 41.9%. The salt business grew by 17% in value terms and 8% in volume terms. It gained 400 basis points to 37% in terms of value. Premium Salt – Tata Salt Immuno & Super Lite, grew faster in double digits. RTD beverages delivered 83% growth. Tata Gluco Plus grew by 43% led by the core and new markets and supported by TV campaigns. Tata Water Plus, now rebranded to Tata Copper Water, was able to grow to 3x with new markets now contributing to almost 36% of the overall revenue. This was a record year for Himalayan as it reported break-even performance for, the first time since inception. NourishCo, grew revenues by 83%.

Tata Sampann recorded a 28% volume growth with broad-based growth across pulses, spices, and other staples. Poha sales were 2x times the previous year. Integration of Tata Soulfull into TCPL own distribution was executed successfully. Tata Starbucks' 50:50 JV with Starbucks had a sharp recovery since re-opening It accelerated its store openings during the year with 50 new stores, the highest number of store openings in a single year so far. Making a presence in 268 stores across 26 cities in the country. Tata Coffee Limited (including Vietnam) witnessed 11% revenue growth. The international business witnessed margin improvement due to restructuring by exiting non-branded and unprofitable markets, distributor model change in Europe and Australia and strategic price increases to offset the inflationary pressures. Tata Starbucks' revenue grew by 76% y-o-y to Rs. 636 crore and have made EBITDA level break-even

## Valuation

It had identified six strategic business priorities in FY21 annual report and it has performed well on all these priorities in FY22 such as strengthening and accelerating its core business, exploring new opportunities, unlocking synergies, digitization of the supply chain, expansion of its product portfolio and innovation, enhancing its focus on premiumization and health and wellness products, embed sustainability, and expanding its sales and distribution infrastructure, supply chain, and capability building towards being a multi-category FMCG player. TCPL's focus would be on the growth and expansion of business. Return ratios, when compared to FMCG peers remain low, but we expect improvement to mid-teens levels in the next four years. Earnings growth trajectory beyond FY24 also remains fairly robust, with good visibility on revenue growth. We thus value TCPL at 52x on March'2024E EPS, giving us a target price (TP) of Rs812, implying an upside of 18% from the current market price (CMP).

## Risk & Concern

- Delays in realizing incorporation gains, ramp up of distribution, etc.

## Graphs & Charts

Figure 1: Net Sales Trend

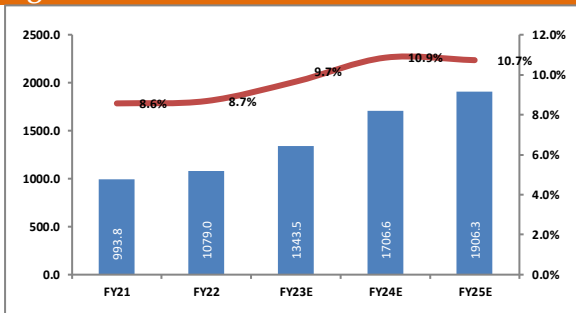


Figure 2: EBITDA & EBITDA Margin

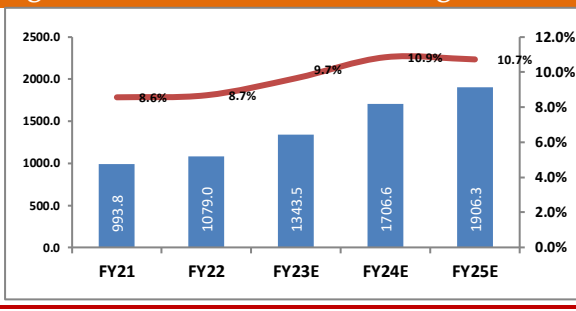


Figure 3: PAT Trend and PAT Margin

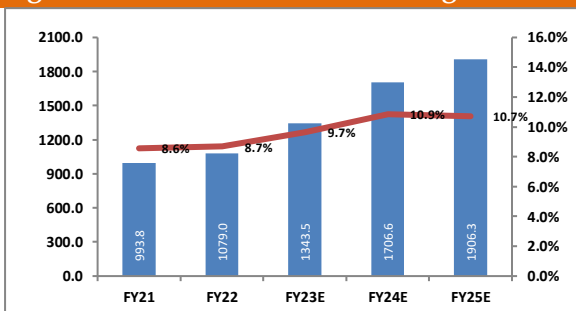
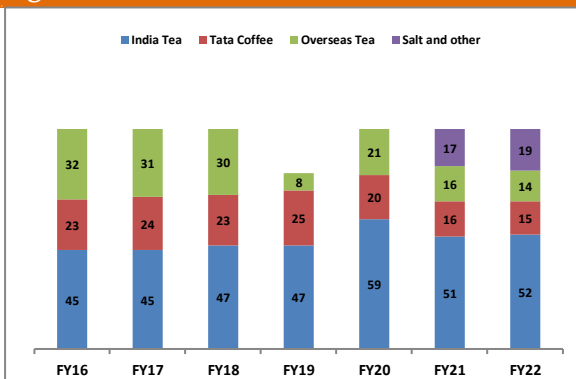


Figure 4: Revenue mix (%) trend



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