

June 8, 2023

Ring Side View



Mr. L Krishna Kumar (Executive Director) is associated with TCPL for more than 17 years and has played a key role in its transformation as a broad-based food and beverage player over the years.

Key Financials - Consolidated

Y/e Mar	FY20	FY21	FY22	FY23
Sales (Rs. m)	95,475	1,15,355	1,23,470	1,36,598
EBITDA (Rs. m)	12,922	15,438	17,188	18,565
Margin (%)	13.5	13.4	13.9	13.6
PAT (Rs. m)	4,598	8,567	9,358	12,038
EPS (Rs.)	5.0	9.3	10.2	13.0
Gr. (%)	-22.9	86.4	9.1	28.3
DPS (Rs.)	2.7	4.1	6.1	8.5
Yield (%)	0.3	0.5	0.7	1.0
RoE (%)	4.3	6.0	6.3	7.7
RoCE (%)	10.7	17.9	18.2	21.8
EV/Sales (x)	7.7	6.4	6.0	5.4
EV/EBITDA (x)	57.2	47.9	43.0	39.8
PE (x)	161.7	86.8	79.5	62.0
P/BV (x)	5.4	5.1	4.9	4.6

Key Data TACN.BO | TATACONS IN

52-W High / Low	Rs. 861 / Rs. 685
Sensex / Nifty	62,849 / 18,635
Market Cap	Rs. 750.0bn / \$ 9,083m
Shares Outstanding	929m
3M Avg. Daily Value	Rs. m

Shareholding Pattern (%)

Promoter's	34.44
Foreign	25.01
Domestic Institution	15.84
Public & Others	24.73
Promoter Pledge (Rs bn)	3.09

Stock Performance (%)

	1M	6M	12M
Absolute	4.3	2.3	8.6
Relative	1.8	1.1	-5.0

Amnish Aggarwal

amnishaggarwal@plindia.com | 91-22-66322233

Harish Advani

harishadvani@plindia.com | 91-22-66322242

On track to become a diversified FMCG major

Quick Pointers:

- Core businesses to grow in high-single to low double digit in medium term
- Huge opportunity to grow as branded pulses are just 3% of Rs1.5trln market
- Cover opportunities in F&B before entry into HPC categories.

We hosted Mr. L Krishnakumar - ED & CFO & Ms. Nidhi Verma – Head of Investor Relations for a fireside chat on “Journey towards A Diversified Foods and Beverages Company”. TCPL has undertaken several initiatives to improve their presence in the FMCG space through a) increase in distribution (direct reach of 1.5mn in FY23 vs 0.5mn in FY20) b) focus on large categories such as Tata Sampann (pulses, spices and dry fruits) c) entry into high growth categories with Soufull (breakfast cereals, mini meals and snacking options) d) Nourishco: 2x increase in capacity significant ramp up in distribution and new innovations e) improving management bandwidth with merger of Tata Coffee with Tata Consumer Products and f) acquisitions in niche product offerings.

We believe Tata Consumer will continue to focus on distribution expansion across segments - more so in NourishCo and taking Tata Sampann deeper in general trade. We expect NourishCo, Tata Soufull and Tata Sampann to grow in high double digits and increase their share in sales from current 15% in coming years. We believe steady growth in core Tea business and sustained traction in high growth segments will enable TCPL to report strong growth in coming years. The stock trades at 44.7x FY25 consensus EPS. Not Rated.

- Distribution:** The company has increased its direct reach from 0.5mn outlets in FY20 to 1.5-2mn outlets in FY23. We expect sustained distribution expansion in NourishCo and GT for Tata Sampann.
- Innovation:** The pace of new launches increased to 34 in FY23 (from 14/19 in FY21/22) and increased its salience to 3.4% (1.4%/2.7% in FY21/22)
- NourishCo:** Sales crossed Rs 6bn in FY23 supported largely by increase in distribution and launch of new variants. Sustained innovations and distribution expansion will enable 50% CAGR in sales in near to medium term.
- Soufull:** The company is present in the breakfast cereals and snacking options. Innovation will be a key and growth driver with new products launches expected every 3-4 months. Broad based snacking portfolio will enable Soufull sustain high double digit growth post 100% growth in FY23.
- Tata Sampann** – Tata Sampann has moved from pulses to spices, value added masalas and dry fruits. Tata Sampann is aiming for 30% sales CAGR and aims for gradual premiumisation in largely commoditized category.
- Tata Grand** – Tata Coffee is focusing on branding in this segment with Tata Grand classic and Tata Grand premium. It plans to increase market share from current 3-4% to double digit over coming few years.

Core Categories

Tea: Leading players to sustain growth

- The category offers a large opportunity over the medium to long term with a shift in consumption from unbranded to branded tea.
- Salience of black tea in India is 95% vs 50% in UK & USA
- Tea consumption rates will increase with higher per capita income and the entry of younger consumers into the fray.
- Tata Consumer and Hindustan Unilever have 45% share in the branded tea market with balance of 55% with regional players.
- Tea volumes are expected to grow in mid-single digits with value growth expected in high-single digits to double-digits.

Salt: Focus on premiumization and value addition

- The portfolio is skewed towards North & East markets, with the company filling gaps in South & West markets.
- The company has received benefits from increased distribution & looks to premiumize its offerings in salt.
- The company has increased their share in the category with new offerings in rock salt, pink salt etc.
- These efforts will give growth rates similar to the tea business.

Tata Sampann: Remains in high growth investment phase

- Sampann is positioned as pantry staples brand & the company has identified a few platforms (pulses, spices and dry fruits) to play on.
- The pulses category size stands at Rs 1.5trn with branded salience at 3%.
- The brand has grown at 30% CAGR over the medium term & remains in the investment phase.
- The company has worked on its supply chain & procurement capabilities and ensured the brand equity of the product.
- The focus is to grow the brand profitably and expects 30% revenue growth in FY24.
- The company will look to drive premiumization and improve the distribution structure & EBITDA margins.

Soulfull: Innovation and distribution holds key

- Soulfull has performed well, led by strong growth in breakfast cereals (Chocos, masala oats etc).
- Innovation will remain a key growth driver for the business with new product launches every 3-4 months in the ready to eat (RTE) category.
- Breakfast cereals are a large market outside India and there presents an opportunity to take the business international in markets such as UK and USA.

NourishCo: Gluco Plus and Tata Copper + drive growth

- Tata Consumer acquired the balance 50% stake from PepsiCo and increased its focus on the business.
- The business has grown by 70%-80% YoY with expectations of 50% growth in the medium term.
- The product was available only in 25% of India 3 years back vs 70% today.
- The company has added new products such as Tata Fruski and Tata Gluco Plus Jelly.
- This growth would be led by distribution gains, new variants and setting up of new plants.

Branded Coffee: Aims for double digit market share

- The coffee category in India is sized at Rs25-30bn.
- The coffee business has grown at a rate of 20% over FY20-23.
- The coffee market is dominated by players such as Nestle & Hindustan Unilever.
- However, the company has a share of 3-4% which it endeavours to take to double digits in the medium term with offerings such as Tata Grand Classic, Tata Grand Premium, Tata Sonnet etc.

International Business: margins to recover

- International business was impacted in FY23 due to commodity inflation & currency depreciation which impacted profitability.
- Commodity prices have corrected from highs with margins seeing sequential improvement through the course of the year.
- International business is expected to grow in low single digits unless any fresh headwinds emerge. The pace of growth may go up with launch of Soulfull in the international markets.

Distribution: Provided faster scalability

- Increase in distribution has played a pivotal role in growth.
- The direct outlet reach has increased from 0.5mn to 1.5-2mn over FY20-23, which has helped scale up its businesses.

New Categories: Open to look beyond F&B also

- The company is yet to fully explore opportunities in the F&B space.
- This entry may be through organic & inorganic means.
- However, the company would not restrict its ambitions only towards F&B and may look to enter HPC in the future.

Innovation: Share in sales rises to 3.5-4%

- The company has increased its pace of innovation over the last few years with 34 new launches in FY23.
- This innovation pipeline is backed by premium product offerings which cater to health and wellness of consumers.
- NourishCo has seen increase in pace of innovation <1% to current levels of 3.5-4%.

Acquisitions: Expect calibrated acquisitions only

- The company has a war chest of Rs28bn as of FY23 which it intends to largely use for acquisitions.
- However, the company has rewarded shareholders with a 40% increase in its dividend payments.

Exhibit 1: Segmental Sales (FY17-23)

Segmental Sales Rs mn	FY2017	FY2018	FY2019	FY2020	FY2021	FY2022	FY2023
India Beverages	27,500	29,500	31,677	35,587	46,007	50,006	50,510
Tea, coffee	27,500	29,500	31,677	33,769	44,127	46,566	44,300
NourishCo	-	-	-	1,818	1,880	3,440	6,210
India Foods	17,330	15,130	18,470	20,637	24,417	29,133	36,650
Salt	14,037	14,222	16,254	17,680	20,597	24,202	30,129
Others	3,293	908	2,216	2,957	3,820	4,931	6,521
International Beverages	8,217	8,620	10,990	32,260	32,760	33,350	35,890
US Coffee	8,217	8,620	10,990	11,210	12,930	12,950	14,890
Int'l tea	-	-	-	21,050	19,830	20,400	21,000
Total branded	53,047	53,250	61,137	88,484	1,03,184	1,12,489	1,23,050
Non-branded business	7,800	7,100	8,425	9,749	11,222	12,144	15,001
Tata Coffee	7,800	7,100	7,000	8,360	9,640	10,700	13,600
Others			1,425	1,389	1,582	1,444	1,401
Total Revenues	67,796	68,154	72,515	96,374	1,16,020	1,24,254	1,37,832
Growth%	2.2%	0.5%	6.4%	32.9%	20.4%	7.1%	10.9%

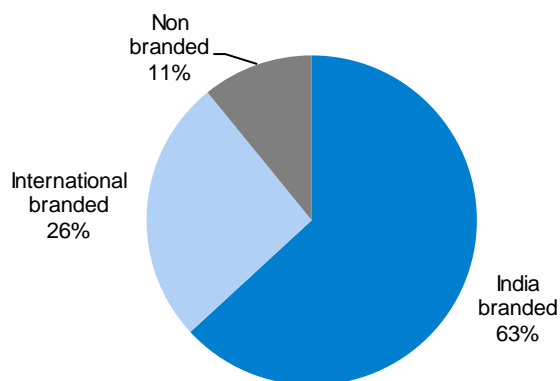
Source: Company, PL

Exhibit 2: Segmental EBIT (FY19-23)

(Rs mn)	FY2019	FY2020	FY2021	FY2022	FY2023
India Beverages	4,574	4,651	4,963	7,397	8,669
India Foods	-	2,665	3,877	2,720	3,259
International Beverages	2,767	3,608	4,589	4,784	3,798
Total branded	7,342	10,924	13,429	14,901	15,727
Non-branded business	666	557	909	927	1,224
Total segment results	8,008	11,480	14,337	15,827	16,951
Adjusted segment EBIT	6,633	10,504	12,890	14,408	15,524
EBIT margins %					
India Beverages	14.4	13.8	10.8	14.8	17.2
India Foods	17.1	12.9	15.9	9.3	8.9
International Beverages	8.5	11.2	13.2	14.3	10.6
Others	7.9	5.7	8.1	7.6	8.2
EBIT Contribution					
India Beverages		41.0	35.0	47.0	51.0
India Foods		23.0	27.0	17.0	19.0
International Beverages		31.0	32.0	30.0	22.0
Others		5.0	6.0	6.0	7.0

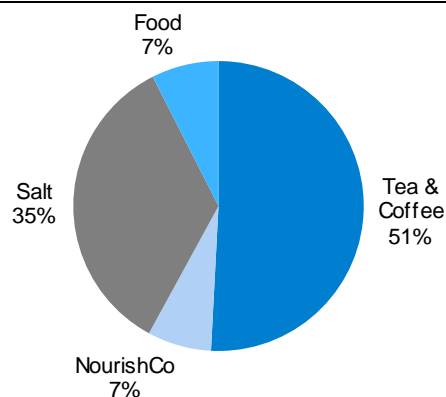
Source: Company, PL

Exhibit 3: Consol revenue mix (FY23)



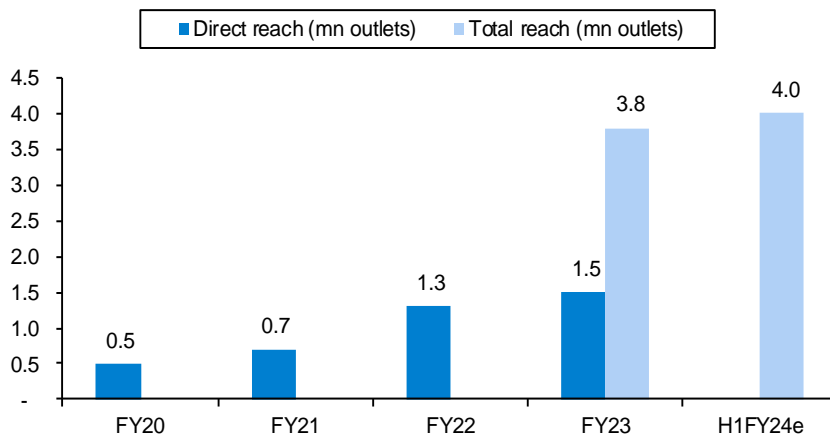
Source: Company, PL

Exhibit 4: India revenue mix (FY23)



Source: Company, PL

Exhibit 5: Direct/Total reach has seen a sharp improvement in coverage



Source: Company, PL

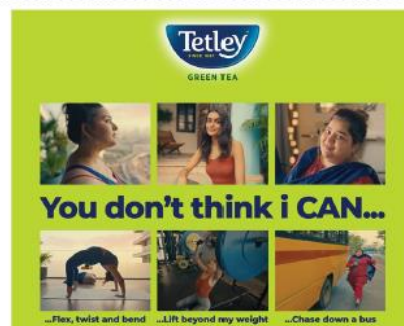
Exhibit 6: Hyperlocal offerings to cater to consumer preferences



Tata Tea Premium celebrated India's 75th Republic Day with its #DeshKiJhanki campaign.



Tata Tea Premium celebrated Lohri in Punjab with limited-edition festive packs and an impactful 360° campaign.



Tetley's made a bold statement this International Women's Day with its viral #everyBODYcan campaign.

Market share – Tea



Volume -50 bps¹
Value -113 bps¹

¹ Source: Nielsen – MAT basis, Mar'23 vs Mar'22

Source: Company, PL

Exhibit 7: Salt business strengthened with price ladder strategy

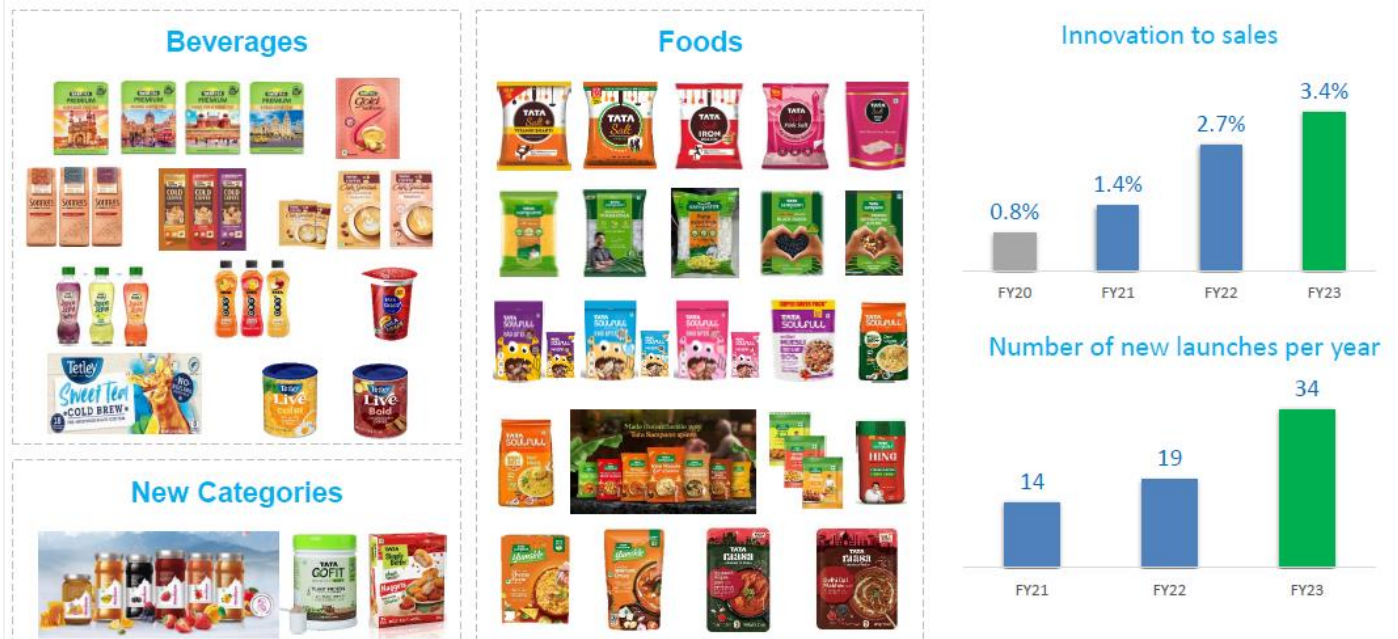
From mostly vacuum-evaporated salt, we now offer consumers a complete assortment across various types, benefits, and price points.



¹ Source: Nielsen –Value Share, MAT basis, Mar'23 vs Mar'22

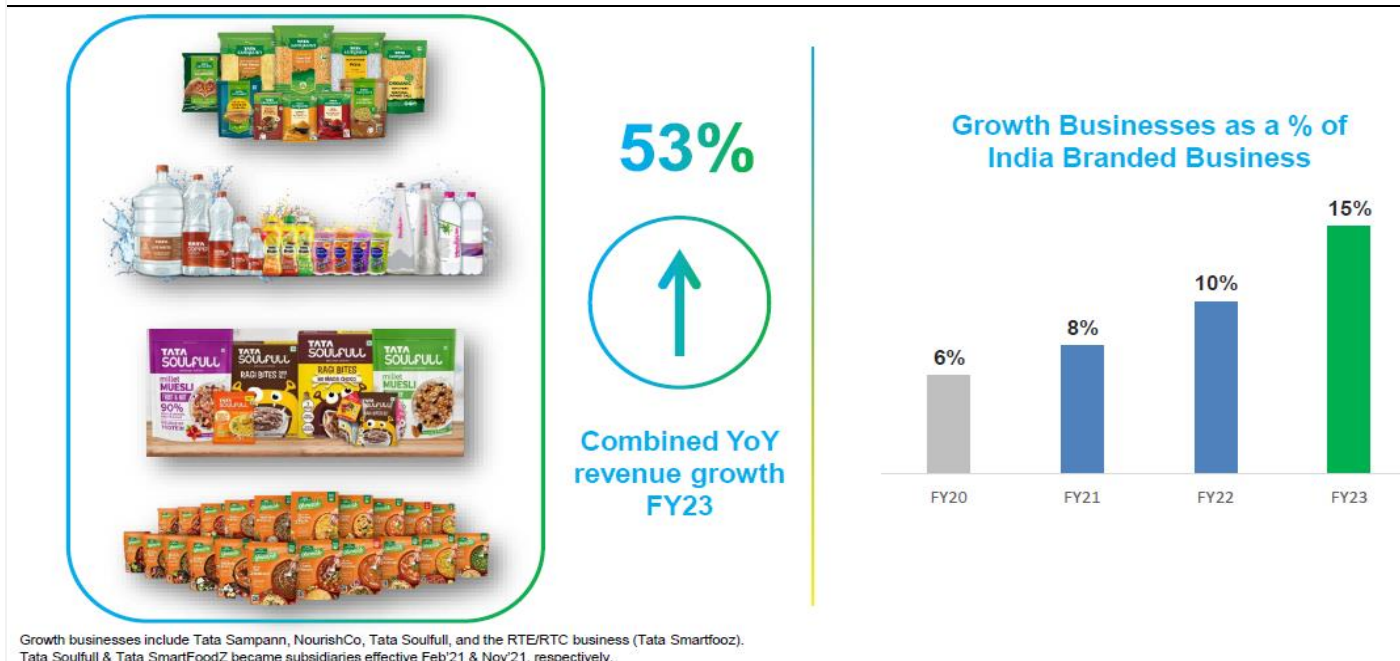
Source: Company, PL

Exhibit 8: Strong innovation pipeline results in ramp up of NPD contribution



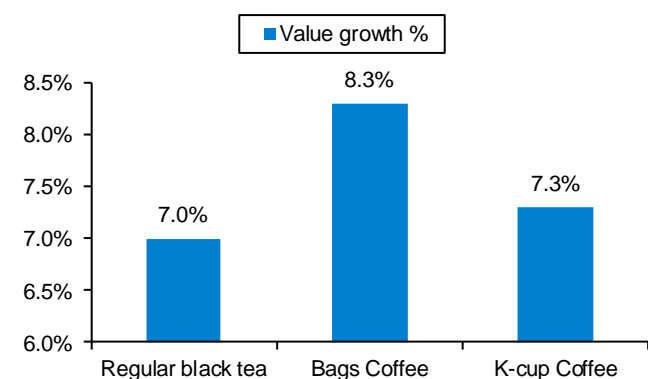
Source: Company, PL

Exhibit 9: Contribution of new businesses rise steadily through the years



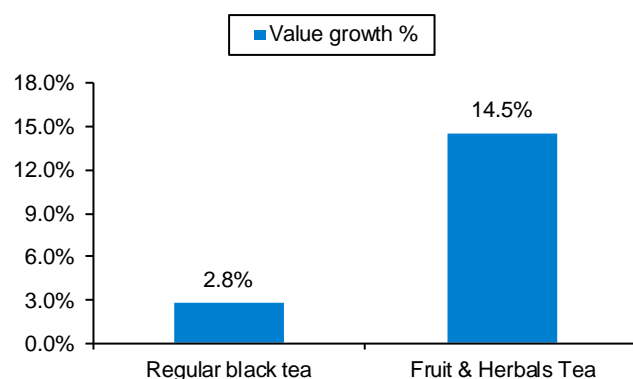
Source: Company, PL

Exhibit 10: US sees high-single digit value growth in FY23



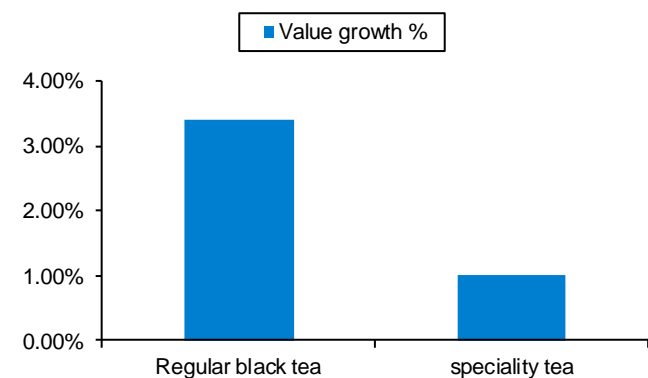
Source: Company, PL

Exhibit 11: UK value growth led by pricing in FY23



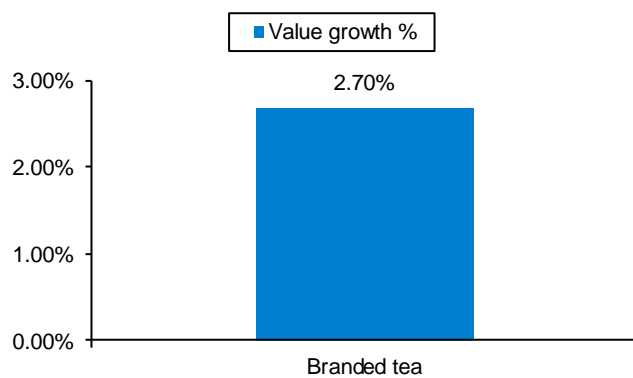
Source: Company, PL

Exhibit 12: Canada value growth led by pricing in FY23



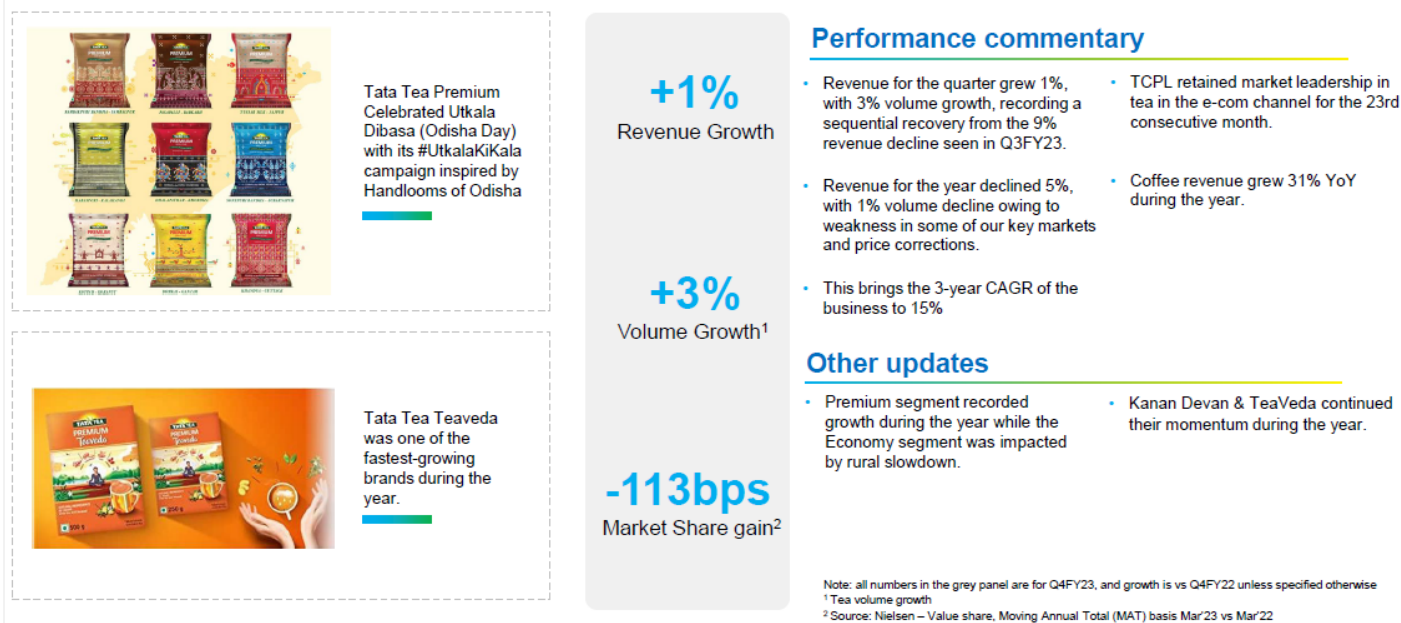
Source: Company, PL

Exhibit 13: India value growth below long-term average



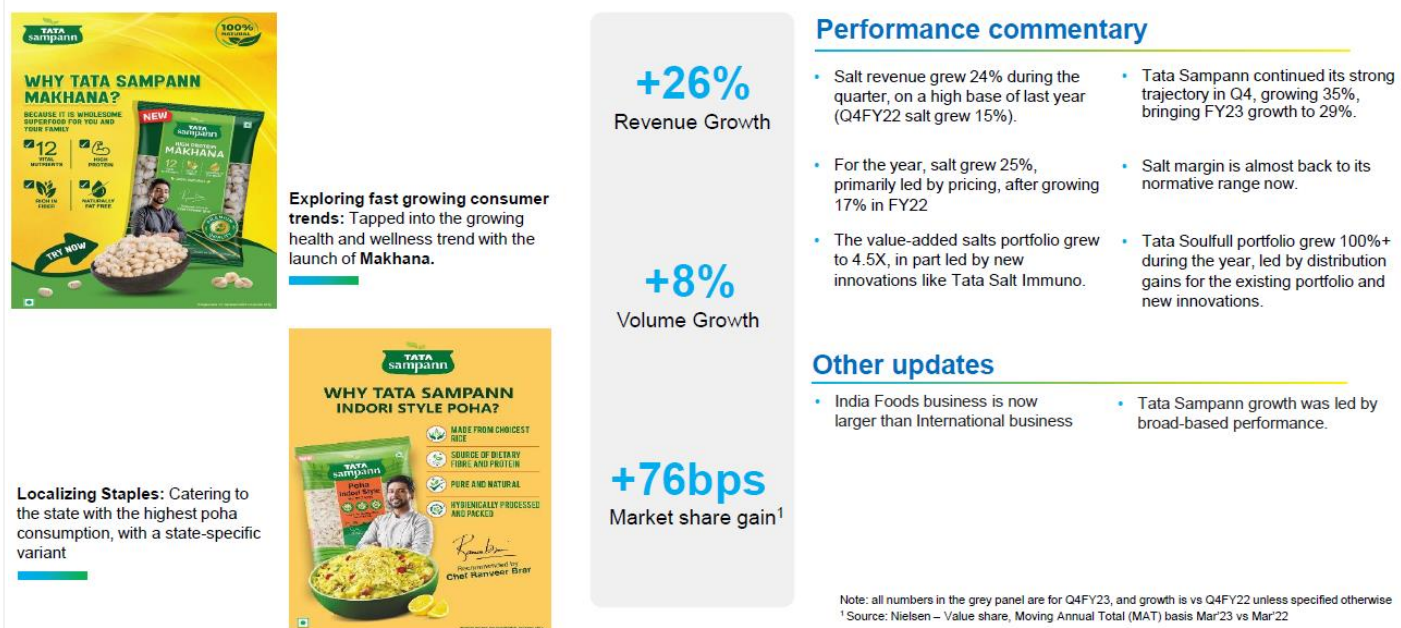
Source: Company, PL

Exhibit 14: India Packed Beverages bounces back post 3Q23 revenue decline



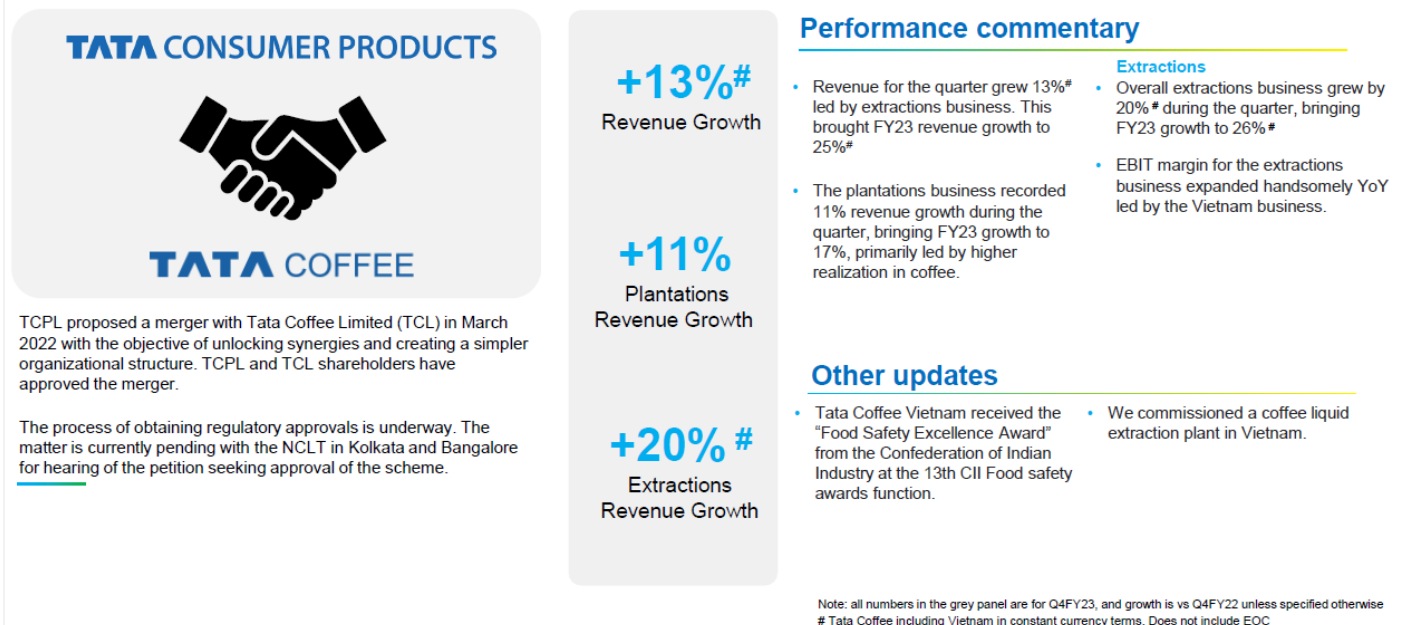
Source: Company, PL

Exhibit 15: India Foods reports strong growth supported by high single digit volumes



Source: Company, PL

Exhibit 16: Merger with Tata Coffee remains on track with regulatory/NCLT approvals underway



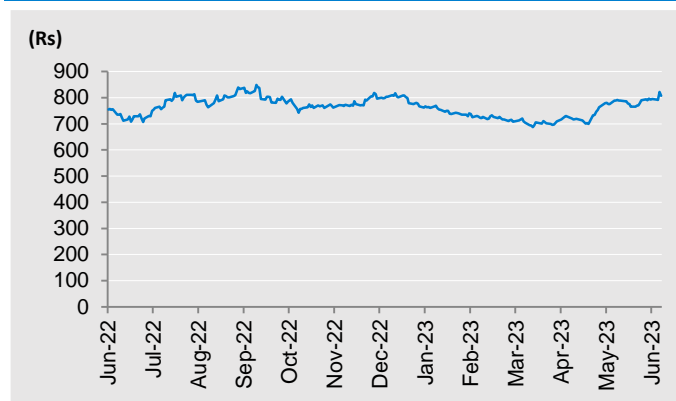
Source: Company, PL

Exhibit 17: Starbucks sees fastest ever store expansion in FY23



Source: Company, PL

Price Chart



Analyst Coverage Universe

Sr. No.	Company Name	Rating	TP (Rs)	Share Price (Rs)
1	Asian Paints	Accumulate	3,360	3,140
2	Avenue Supermarts	BUY	4,447	3,678
3	Britannia Industries	Hold	4,800	4,626
4	Colgate Palmolive	Hold	1,636	1,628
5	Dabur India	Accumulate	590	530
6	Emami	Accumulate	517	384
7	Hindustan Unilever	Accumulate	2,785	2,469
8	ITC	Accumulate	455	420
9	Jubilant FoodWorks	Accumulate	515	481
10	Kansai Nerolac Paints	Accumulate	486	397
11	Marico	Accumulate	550	494
12	Mold-tek Packaging	Hold	968	1,001
13	Nestle India	Accumulate	22,600	20,670
14	Pidilite Industries	Hold	2,589	2,472
15	Restaurant Brands Asia	Accumulate	132	123
16	Titan Company	BUY	2,992	2,651
17	Westlife Foodworld	Accumulate	800	768

PL's Recommendation Nomenclature (Absolute Performance)

Buy	: >15%
Accumulate	: 5% to 15%
Hold	: +5% to -5%
Reduce	: -5% to -15%
Sell	: < -15%
Not Rated (NR)	: No specific call on the stock
Under Review (UR)	: Rating likely to change shortly

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Prabhudas Lilladher Pvt. Ltd.

3rd Floor, Sadhana House, 570, P. B. Marg, Worli, Mumbai-400 018, India | Tel: (91 22) 6632 2222 Fax: (91 22) 6632 2209

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