

Tata Consumer

BSE SENSEX	S&P CNX
72,568	21,895



Bloomberg	TATACONS IN
Equity Shares (m)	922
M.Cap.(INRb)/(USDb)	1076.7 / 13
52-Week Range (INR)	1166 / 685
1, 6, 12 Rel. Per (%)	17/24/31
12M Avg Val (INR M)	1209
Free float (%)	65.6

Financials Snapshot (INR b)

Y/E MARCH	2024E	2025E	2026E
Sales	152.6	166.2	181.4
Adj EBITDA	21.7	25.7	27.7
Adj. PAT	13.7	17.8	19.8
EBITDA Margin (%)	14.2	15.5	15.3
Cons. Adj. EPS (INR)	14.4	19.3	21.5
EPS Gr. (%)	23.0	34.3	11.7
BV/Sh. (INR)	185.7	204.8	219.8

Ratios

Net D:E	-0.1	-0.2	-0.2
RoE (%)	8.1	9.7	10.1
RoCE (%)	11.0	13.0	13.5
Payout (%)	45.8	35.1	32.2

Valuations

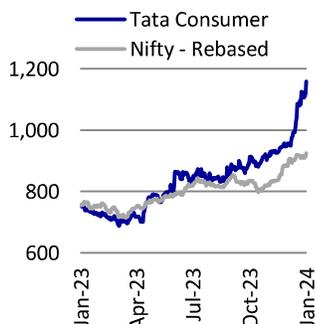
P/E (x)	80.7	60.1	53.8
P/BV (x)	48.2	40.4	37.0
EV/EBITDA(x)	0.6	0.6	0.6
Div. Yield (%)	0.3	1.2	1.3

Shareholding pattern (%)

As On	Sep-23	Jun-23	Sep-22
Promoter	34.4	34.4	34.7
DII	16.9	16.3	14.9
FII	25.3	25.5	25.7
Others	23.8	23.8	24.8

FII Includes depository receipts

Stock performance (one-year)



CMP: INR1,159 TP: INR1,330 (+15%) Buy

Increasing presence in kitchen shelf

TATACONS has acquired 100% equity stake in Capital Foods Pvt. Ltd (owner of 'Ching's Secret' and 'Smith & Jones' brands) and Organic India Pvt Ltd (a 'better for you' organic brand spanning Food & Beverages and Nutraceutical categories) for a total consideration of INR70b. Key highlights are as follows:

- Capital Foods is the market leader of Desi Chinese products in India with an estimated revenue of ~INR7.5b in FY24 (accounting for ~5% of the incremental revenue in FY24E), while Organic India products span across Food & Beverages and Herbal & Traditional Supplements with an estimated revenue of INR3.6b in FY24 (accounting for ~2.4% of the incremental revenue in FY24E).
- These acquisitions will enable TATACONS to move forward in its journey to emerge as the leading FMCG player with offerings spanning across pantry, liquid, mini meals and sustainable categories. The incremental total addressable market (TAM), India and International, from these new additions will be ~INR1t.
- The acquisition is expected to be EPS accretive for the company from the third year of operations. It has been executed at industry-standard valuations, with Capital Foods/Organic India acquisition valued at ~6.8x/5.2x EV/sales on FY24E sales vs. ~6.4x for TATACONS.

Scaling up its product basket and brand portfolio

- TATACONS is actively expanding its product portfolio through strategic acquisitions. It acquired **Capital Foods Pvt Ltd**, renowned for condiments, food products, and ingredients, and marketed under the Ching's Secret and Smith & Jones brands. Additionally, TATACONS has acquired **Organic India Pvt Ltd**, a company specializing in organic teas and health products. It is backed by Fabindia. TATACONS has acquired 100% stake in Capital Foods for an enterprise value (no cash/no debt) of INR51b in an all-cash deal. The company was valued at 6.8x of its FY24E sales. Of this, 75% of the equity shareholding will be acquired upfront and the remaining 25% will be acquired within the next three years.
- In another deal, TATACONS has acquired a 100% stake in Organic India at an enterprise value (no cash/no debt) of INR19b. The company was valued at 5.2x of its FY24E sales. Also, there is an additional earnout for the shareholders linked to FY25-26 audited financials of the target company. This acquisition aligns with TATACONS' strategy to expand the Horizon 3 segment, providing substantial growth opportunities.
- The combined deal value of both the acquisitions stands at INR70b. It will be financed through a combination of available cash reserves, debt, and equity issuance through rights issue or any other mode (subject to Board approval).
- The deal is expected to get completed in 4QFY24, with operational integration set to commence shortly after the closing (to be completed within three to four months). The integration of both the companies with TATACONS is scheduled to take place in FY25.

Expanding TAM both in domestic and international markets

- **Capital Foods** excels with robust flagship brands within rapidly expanding market segments. Ching's Secret leads the Desi Chinese genre, dominating across various product categories - Chutneys, Blended Masalas, Sauces, and Soups. Meanwhile, Smith & Jones meets the demand for the fast growing trend of in-home cooking and specializes in Italian and other Western cuisines. Capital Foods secures top positions (#1 or #2) in five key categories: Chutneys (Schezwan), Blended Masalas (Desi Chinese), Sauces, Ginger Garlic Paste, and Soups.
- Capital Foods has a strong distribution network of over 0.35m stores, bolstered by a high level of brand awareness. With TATACONS' distribution network of over 3.8m stores, the company has the potential to exponentially scale up the reach of Capital Foods brands through its own established distribution network.
- Rapid expansion of the distribution network coupled with a healthy margin profile (over 50%/20% gross/EBITDA margins) will provide value accretion to TATACONS.
- Also, the relevant **TAM** for the Capital Foods products as on CY22 stood at INR214b, and it is expected to register a CAGR of 13% by CY27 to INR416b. This will take care of the strong growth trajectory of the brands in the Indian in-home consumption segment. Relevant TAM includes chutneys, Chinese sauces, instant noodles, blended masalas, and soups.
- Key drivers fueling growth in this industry include the evolving preferences toward diverse cuisines and flavors; the rise in consumption in rural/Tier 2+; the growing significance of 'in-home' cooking, and the increase in income levels, particularly among a younger demographic.
- **Organic India** is a 25+ years brand with global presence in 48+ countries, mainly in India and the USA and long standing relationships with 12,000+ farmers. Emphasizing on sustainable living, its product range includes Herbal Supplements, Tea & Infusions, and Organic Packaged Foods.
- Organic India operates in categories with a TAM of INR70b in India and INR750b in international markets, where TATACONS holds a strong presence. This TAM is expected to register a CAGR of 11%/8% in India/International to INR120b/INR1,110b by FY28.
- Major growth drivers of Organic India's TAM are the rising number of health-conscious individuals, increasing awareness, higher demand for natural and traditional herbal products, preference for preventive over-curative approach, increasing research & product development, rising lifestyle ailments and obesity leading to wellbeing management.
- Together, the TAM for TATACONS will increase by INR1,034b.

Strong Synergistic benefits to flow in from this deal

- The acquisition of Capital Foods and Organic India is in line with the company's strategy to expand its TAM into adjacent, high-margin, high-growth categories.
- With Sampann, Ching's Secret, and Smith & Jones, TATACONS will cater to a wide gamut of the Indian culinary palate.
- This acquisition led to multiple synergies in both the revenue and cost side.
- In terms of revenue, Capital Foods has witnessed ~20% CAGR over FY20-23 with margins of over 15% in FY23. It is estimated to touch INR9.5b of net sales with

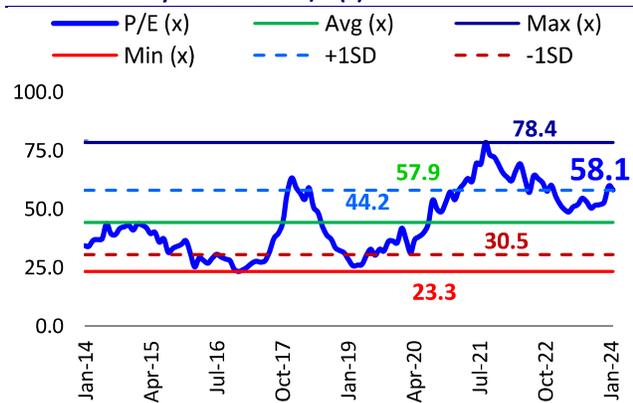
over 50%/20% gross/EBITDA margins in FY24. Similarly, Organic India is estimated to end FY24 with a revenue of over INR3.5b and gross margins of over 55%. This will lead to high growth and higher margin mix in the overall financials of TATACONS.

- Similarly, both Capital Foods and Organic India have strong brand presence in the international markets with exports contributing ~17%/48% in FY23. TATACONS can leverage this to scale up its in house brands such as Tata Raasa, Joyfull Millets, and Tata Sampann.
- In terms of cost synergies, TATACONS can optimize its trade margins with increasing shelf space, and thereby, optimize its selling expenses. Also, higher sales will result in better operating leverages, which will in turn lead to margin expansion.
- The management is expecting the company to be cash EPS accretive in the first full year of operations. Further, it anticipates that this deal will achieve EPS breakeven in the second year of operations and become EPS accretive thereafter.

Valuation and View

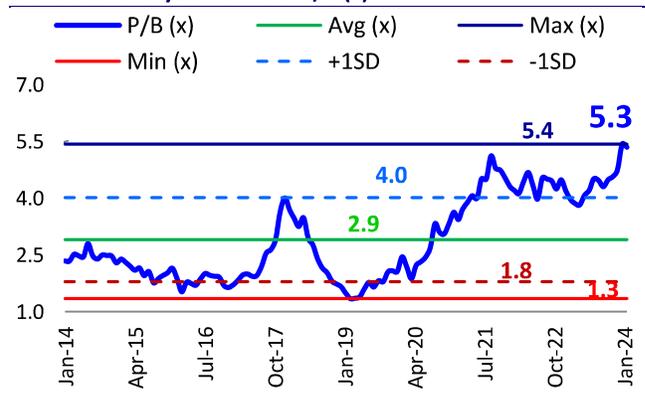
- The acquisition of Capital Foods and Organic India will contribute ~8%/9% of the incremental PAT for FY25/26 and is expected to aid in margin expansion on the back of synergies discussed above.
- The acquisition is EPS accretive for the company from the third year of operations and is undertaken at industry standard valuations (~6.8x/5.2x EV/sales of FY24E vs. EV/Sales of ~6.4x for TATACONS). Further, this acquisition will improve the brand offerings and product portfolio of the company in both the domestic as well as the international market.
- In terms of financing, rights issue will be more EPS accretive than debt funding (Refer exhibit 4)
- We had not factored in the numbers of this acquisition within the financials of TATACONS and the same will be incorporated post more clarification.
- We expect a CAGR of 10%/14%/22% in revenue/EBITDA/PAT over FY23-26. We arrive at our SoTP-based TP of INR1,330 and reiterate our **BUY** rating on the stock.

Exhibit 1: One-year forward P/E (x)



Source: Company, MOFSL

Exhibit 2: One-year forward P/B (x)



Source: Company, MOFSL

Valuation

SOTP			
EV/EBITDA	FY26 EBITDA	Multiple (x)	EV
India Branded Business*	19,891	51	10,12,450
Coffee India (ex-Starbucks)	1,265	13	17,017
Coffee Overseas	4,211	16	69,278
Overseas tea (Tetley UK)	2,374	16	39,050
DCF			
Starbucks JV			86,713
Enterprise value			12,24,508
Less: Net debt			(42,656)
Market value (INRm)			12,67,164
No. of shares (m)			953
Target price (INR)			1,330

Source: Company, MOFSL

Incremental PAT and EPS working

(In INR m)	Existing Business			Capital Foods			Organic India			Acq though debt Consolidated Business		Acq though Right issue Consolidated Business	
	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E	FY25E	FY26E	FY25E	FY26E
Purchase consideration				51,000*			19,000			70,000		70,000	
Revenue	1,52,583	1,66,165	1,81,386	7,690	8,844	10,171	3,633	4,178	4,805	1,79,187	1,96,362	1,79,187	1,96,362
YoY Growth (%)	10.7	8.9	9.2	9.0	15.0	15.0	12.0	15.0	15.0	7.8	8.3	7.8	8.3
Incremental Revenue (%)				5.0	5.3	5.6	2.4	2.5	2.6	7.8	8.3	7.8	8.3
EBITDA	21,674	25,674	27,741	1,307	1,769	2,034	291	418	577	27,861	30,352	27,861	30,352
EBITDA margin	14.2	15.5	15.3	17.0	20.0	20.0	8.0	10.0	12.0	15.5	15.5	15.5	15.5
Incremental EBITDA (%)				6.0	6.9	7.3	1.3	1.6	2.1	8.5	9.4	8.5	9.4
Depreciation	3,700	3,798	3,952	169	194	223	160	168	176	4,160	4,352	4,160	4,352
Interest	938	737	737	25	30	35	90	85	80	852	852	852	852
Other Income	2,746	3,020	3,322	90	95	100	100	110	120	3,225	3,542	3,225	3,542
PBT	19,781	24,159	26,374	1,203	1,639	1,876	141	275	441	26,074	28,691	26,074	28,691
Tax	5,267	6,523	7,121	303	413	472	36	69	111	7,005	7,704	7,005	7,704
Tax rate (%)	26.9	27.0	27.0	25.2	25.2	25.2	25.2	25.2	25.2	26.9	26.9	26.9	26.9
After Tax Interest @7.5%		-	-	-	-	-	-	-	-	3,929	3,929	-	-
Minority interest	791	-125	-588	-	-	-	-	-	-	-125	-588	-125	-588
Profit after tax	13,724	17,762	19,841	900	1,227	1,404	106	206	330	15,266	17,646	19,194	21,574
Incremental PAT (%)				6.9	7.1		1.2	1.7		-14.1	-11.1	8.1	8.7
No. of equity shares (existing)	953	953	953							953	953	953	953
Rights Issue										-	-	75	75
No. of shares post issue										-	-	1,028	1,028
EPS	14.4	18.6	20.8							16.0	18.5	18.7	21.0
EPS Accretion/Dilution										-14%	-11%	0%	1%

*Of total consideration of INR51b for Capital Foods, currently only 75% of the stake is being purchased, balance within next three years

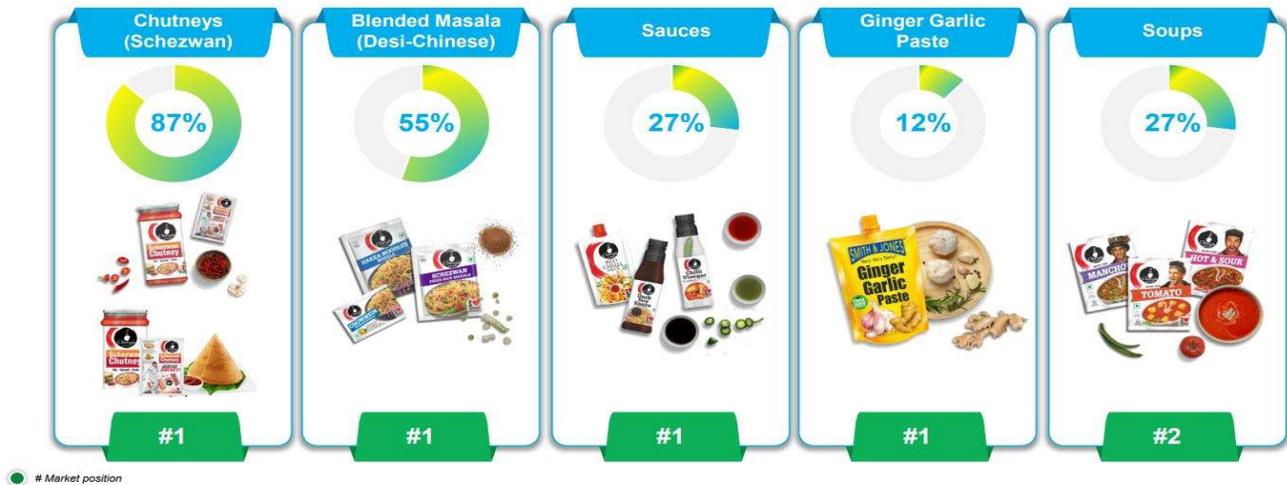
Note for acquired business: Depreciation is assumed to be 5% of Purchase consideration;

Tax rate is considered as 25.17% (standard corporate tax rate);

Interest rate is assumed to be ~7.5% on INR70b of purchase consideration

Source: Company, MOFSL

Capital Foods – Market leadership across categories



Source: Company, MOFSL

Combined International presence to boost export opportunities



Source: Company, MOFSL

Organic India – a leading platform of 'better for you' organic products

TCPL to acquire upto 100% stake in Organic India

- ▶ Leading "better for you" organic brand of F&B and herbal supplements products
- ▶ Caters to booming, highly fragmented INR 82,000 Cr market; Winning customer trust is key to success
- ▶ Omni-channel presence across GT, E-comm, stores, own website and exports
- ▶ INR 350+ Cr. brand with high quality products focused on "sustainable living"; 55%+ gross margin
- ▶ Aligns with Tata Consumer's strategy to expand Horizon 3 segment, providing substantive growth opportunities

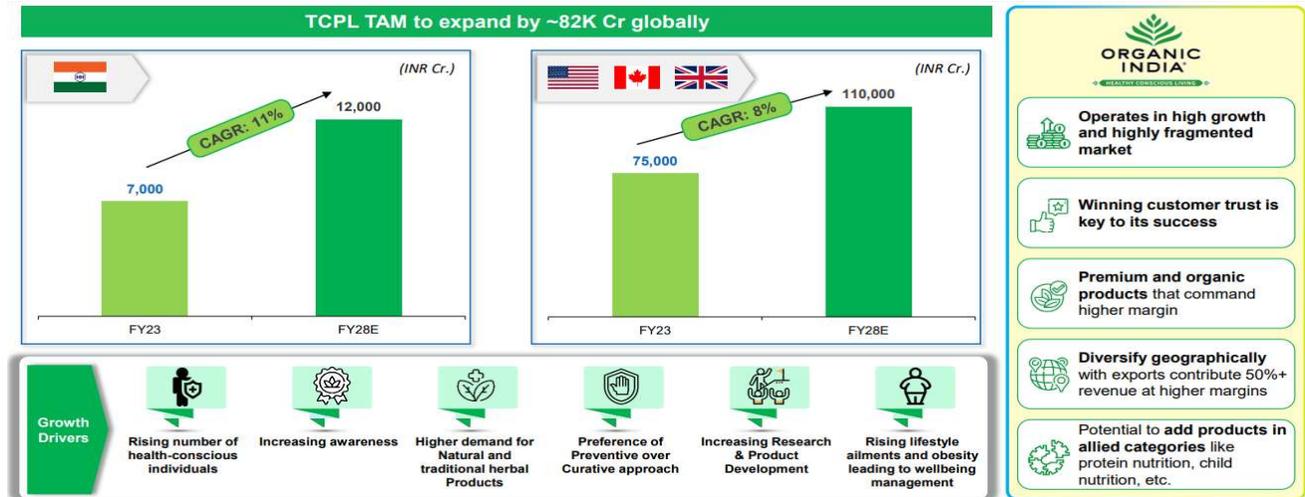
Unparalleled end-to-end organic supply chain

- ▶ Rigorous product testing procedure and certification valid for major global markets
- ▶ Unique, robust, hard to replicate and scalable back-end infrastructure

- 25+ years** Established Brand
- ~40%+** Revenues from USA
- ~12k+** Organic Farmers Reach
- 100+** Healthy Products

Source: Company, MOFSL

Additions of new categories to significantly expand TATACONS' TAM



Source: Company, MOFSL