



COMPANY ANALYSIS

TATA Consumer Products Limited

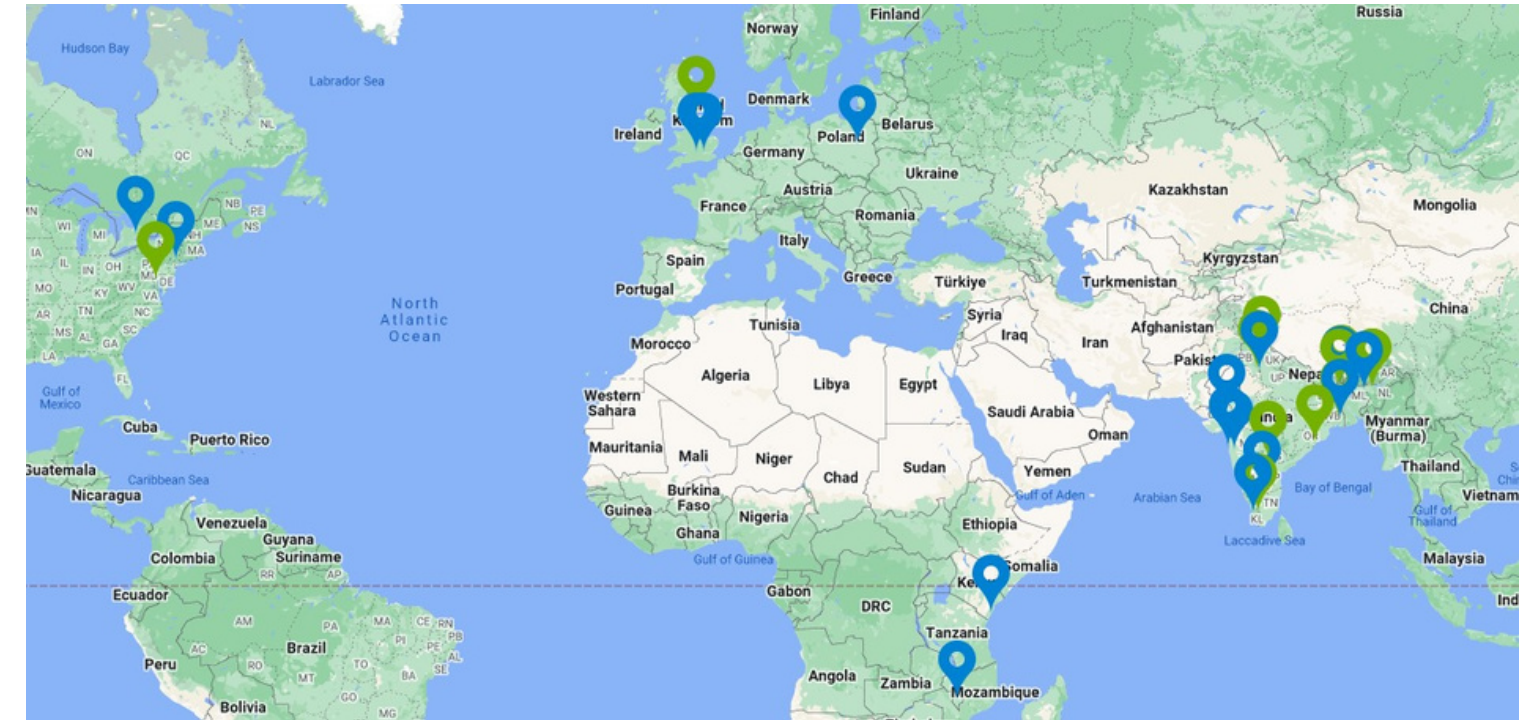


TATA CONSUMER PRODUCTS LIMITED

Tata Consumer Products Limited, part of the esteemed Tata Group, originated from the merger of Tata Global Beverages and Tata Chemicals' consumer business in 2020. It's a noteworthy player in the fast-moving consumer goods (FMCG) industry. The company excels in a variety of sectors, including beverages and food products. With a rich heritage rooted in the Tata ethos, it emphasizes innovation, quality, and sustainability, catering to a global customer base.

Area of expertise: Beverages, Food Products

Industry: FMCG



Tata Consumer Products Limited: Presence around the world



Current Market Capitalization
INR 1,08,313 Cr.



Current P/E
84.96



Current Market Price
INR 1136.75

BUSINESS MODEL

- TATA Consumer Products Ltd is a key entity within the Tata Group, which exemplifies a successful and dynamic business model in the global food and beverage industry. At its core, this model integrates product diversity, innovative research, strategic growth, and sustainability, all blended together to meet the evolving demands of consumers worldwide.
- **Global Presence and Market Influence:** As the second-largest tea company globally, Tata Consumer Products boasts a substantial market presence. Its operations span across India and various international markets, underlining its global reach.
- **Diverse Product Portfolio:** The company's portfolio encompasses a wide range of consumer goods, primarily in the food and beverage sector. Key products include tea, coffee, water, salt, pulses, spices, and ready-to-eat meals, catering to a broad consumer base.
- **Innovation through Research and Development:** Tata Consumer Products places significant emphasis on research and development. This focus drives innovation and the continuous improvement of product offerings. There's a concerted effort to align new products with changing consumer preferences and health trends.
- **Sustainability and Ethical Sourcing:** The company is committed to sustainable practices in sourcing and production. Initiatives aim at reducing environmental impact and ensuring ethical sourcing. This approach reflects a growing consumer demand for environmentally responsible products.
- **Growth via Acquisitions and Alliances:** Strategic acquisitions, mergers, and alliances are central to Tata Consumer Products' expansion strategy. Recent acquisitions include Capital Foods and Organic India, broadening its product range. These steps are pivotal in enhancing the company's market reach and product diversity.
- **Cultural Adaptation and Localization:** Adapting products and marketing strategies to suit local cultural preferences and dietary habits is a key strategy. The company's localization approach ensures its products are relevant and appealing in diverse markets.
- **Joint Ventures for Market Penetration:** A notable collaboration with Starbucks Corporation of America in a joint venture. This partnership aims to expand Starbucks' retail coffee stores in the Indian subcontinent. It combines global brand strength with local market insight.



S

STRENGTH

There is a strong brand presence accompanied by a diversified product portfolio and robust distribution network. Notably, it operates without any debt and maintains an effective cash conversion cycle.



W

WEAKNESS

Newer acquisitions pose operational challenges. The firm's 7.04% ROE in the last three years and a high P/E ratio of 84.96 suggest potential overvaluation.



O

OPPORTUNITY

Acquiring Capital Foods and Organic India positions the company for diversification and growth in high-margin organic products and untapped markets.



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THREAT

The fast-moving consumer goods (FMCG) sector is experiencing intense competition, particularly from emerging online brands that are gaining traction among the younger consumer demographic.

RECENT HIGHLIGHTS



Tata Coffee and Tata Consumer Products have integrated their operations starting January 1, 2024. Tata Coffee's plantation segment will form a new division, TCPL Beverages and Foods Limited. The rest of Tata Coffee will integrate with Tata Consumer Products Limited.

Tata Consumer has commenced the full acquisition of Capital Foods, acquiring an initial 75% stake, with the remaining portion to be finalized within three years. This move is designed to further penetrate lucrative market segments, expanding the product portfolio and targeting high-margin categories as part of the strategic growth plan.

TATA CONSUMER PRODUCTS



Tata Consumer Products is poised to acquire 100% of Organic India's equity share capital, a prominent 'better for you' organic brand in Food & Beverages and Herbal & Traditional Supplements. Aligned with Tata Consumer's strategic vision, this acquisition aims to broaden the product portfolio and reach a larger market in rapidly growing/high-margin categories. It will establish a Health & Wellness platform for Tata Consumer Products.

SECTOR WISE TRENDS

1

GROWING DEMAND

The Indian food processing market, valued at USD 307.2 trillion in 2022, is projected to reach USD 547.3 trillion by 2028, demonstrating a compound annual growth rate (CAGR) of 9.5% from 2023 to 2028.

2

MARKET DISTRIBUTION OF FMCG

In the fiscal year 2023, household and personal care dominated India's FMCG market, holding the highest share, while food and beverages constituted only 19%. The market is anticipated to grow at a CAGR of 27.9%.

3

CHANNEL FOR SHOPPING

Among Indian consumers engaging in multichannel retail shopping, most surveyed individuals initially explored products online but ultimately made their purchases in brick-and-mortar stores. Conversely, 34% discovered and bought the product directly through online channels.

4

OPERATIONAL RESILIENCY IN SUPPLY CHAIN

In an increasingly globalized world, businesses have adopted cost-saving measures, including centralized overseas shipping, to reduce labor and warehousing expenses. However, these strategies have introduced unwarranted risks to supply chains due to fluctuating input costs.

FINANCIAL HIGHLIGHTS

PARTICULARS	FY20-21	FY21-22	FY22-23	COMMENTS
Revenues (INR in crores)	11,723	12,565	13,952	The company sustains consistent revenue growth despite significant inflationary pressures.
Inventory Turnover	3.56	3.16	3.3	Consistent inventory turnover signals effective inventory management
EBITDA Margin	13.38	13.92	13.59	Consistent EBITDA reflects the company's enduring operational efficiency
Cash Conversion Cycle	67	49	42	Reducing cash conversion cycle indicates efficient working capital management.
ROE	6.04	6.31	7.66	The Company has a very low ROE throughout the years.

RATIO ANALYSIS

OPERATING CASH FLOW



The operating cash flow experienced a significant surge in 2020, followed by a period of relative stability. However, there was a notable decline in 2022, pointing to a potential inefficiency in cash flow during that period.

NET MARGIN



Despite fluctuations, the net margin has steadily risen from 5.7% in March 2019 to 8.8% in March 2023. Despite improvement, it's important to highlight that the net margin still lags behind industry peers.

CASH RATIO



The company experienced increased liquidity from 2019 to 2020, but a reversal ensued in 2021 and persisted through 2023. Declining cash ratios during this period indicate potential difficulties in managing short-term liabilities, accompanied by a reduction in the cash component.

DAYS SALES OUTSTANDING



The days sales outstanding have consistently decreased from 34 in March 2019 to 21 in March 2023, indicating the company's effective reduction in the time taken to collect payments from customers. This showcases adept credit management.

FUTURE OUTLOOK

FOR THE INDUSTRY

The Indian FMCG market is poised for robust growth, with a projected CAGR of 14.9%, reaching USD 220 billion by 2025 from its 2020 value of USD 110 billion. The packaged food segment is expected to witness significant expansion, doubling to USD 70 billion by 2025. This growth is fuelled by an increase in disposable income in rural India, coupled with low market penetration, presenting ample opportunities for expansion. Additionally, the surge in digital connectivity across urban and rural areas is fostering demand for FMCG products, notably through e-commerce channels. Projections indicate that the e-commerce segment will contribute 11% to the overall FMCG sales by 2030.

FOR THE COMPANY

The strategic new acquisition of Capital Foods aligns with the company's intent to broaden its product portfolio and capture market share in lucrative, high-margin categories. The company's market share weakness was predominantly observed in semi-urban and rural areas. Initially, their strategy emphasized building distribution networks in urban regions, while relying on sub-distributors for semi-urban and rural markets. However, with the growth in scale, the company have realized the capacity to directly support distributors across all towns exceeding 50,000 and a substantial number of towns exceeding 20,000 which will help in a significant expansion.