

From volume to value — margin re-rating underway

Salt & Tea pay the bills; Sampann & Ching's build the future

We met with Mr. Sunil D'Souza, the MD & CEO of Tata Consumer Products Ltd (TATACONS), to discuss the company's strategic priorities, portfolio diversification, and long-term profitability aspirations. Below are the KTAs from the interaction:

Traditional business (tea, salt, and international) to remain the cash cow

Tea, salt, and international collectively form the bedrock of TATACONS's P&L, with management positioning this cluster as a cash-generative, steady-state business rather than a high-growth engine. **It expects to achieve mid-to-high single-digit revenue growth over the long term, supported by healthy current gross margin levels.** Importantly, this segment is not expected to require disproportionate reinvestment; its primary role is to generate consistent, predictable cash flows that fund the company's growth businesses. The strategic pivot is clear: management is no longer chasing volume leadership in tea at the cost of margins. Instead, operating leverage from the traditional business, combined with maturing investments in growth segments, is **expected to drive 50-100bp of expansion in consolidated EBITDA margins annually from FY27 onwards**, with most of infrastructure, people, and distribution investments now largely behind the company.

Growth businesses — the new value driver

The growth business cluster, including Capital Foods (Ching's Secret, Smith & Jones), Organic India, and Soulfull, operates at higher gross margins vs traditional, making it a structurally superior margin contributor.

Complementing this, Tata Sampann and RTD (NourishCo) address very large and underpenetrated TAMs with significant headroom for sustained volume-led growth. Together, this cluster combines high-margin and high-growth businesses, with Capital Foods, Organic India, and Soulfull driving margin accretion, while Sampann and RTD drive scale. As this cluster grows at 3x the rate of the traditional portfolio and gains share in the consolidated revenue mix, the company's blended gross margin profile is likely to improve durably. This dual engine—rapidly scaling margin-rich businesses alongside large-TAM businesses with long growth runways—will be the key growth catalyst for the company.

Strategized distribution network – clear runway for growth business

One of the most significant operational decisions highlighted in the management interaction was the deliberate segregation of the distribution and sales force for Capital Foods (Ching's Secret, Smith & Jones) and other growth businesses from the traditional tea and salt distribution network. In several major cities with population of one million and above, TATACONS has established separate distributors and a dedicated field sales team exclusively for the growth business portfolio. This is a strategically important move for two reasons; first, tea and salt distribution is optimized for high-frequency, low-margin, mass-market replenishment—a fundamentally different sales motion from the consultative, placement-driven approach needed to build newer food brands at the point of sale. Clubbing both under the same distributor and salesperson was creating focus dilution and under-representation of growth brands at the kirana level. Second, a dedicated team brings sharper accountability, category-specific expertise and faster feedback loops on what is working at the shelf. Capital Foods is expected to deliver strong growth momentum from subsequent quarters as this dedicated infrastructure matures and scales.

Tata Consumer



Mr. Sunil D'Souza, MD & CEO
Mr. Sunil D'Souza has been serving as the MD & CEO of TATACONS since Apr'20. Prior to this, he held the position of MD at Whirlpool India Ltd. for over four years, where he played a key role in transforming the company's Indian business.

Earlier, he spent almost 15 years at PepsiCo, holding various leadership positions across the organization.

He started his career with Hindustan Unilever in 1993 and brings 32 years of extensive experience in the consumer products sector, with a strong emphasis on strategy, growth, and execution.

Mr. D'Souza holds a degree in Engineering from the University of Madras and is an alumnus of the Indian Institute of Management, Calcutta (IIM-C).

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Coffee cost tailwind ahead

Coffee has been a margin headwind for TATACONS over the past 12–18 months, with procurement costs peaking at ~USD4.70/lbs. The good news is that global coffee prices have corrected sharply to ~USD3.30/lbs. The near-term challenge is that TATACONS is currently sitting on inventory purchased at an average cost higher than current prices. As a result, the full benefit of the price correction will not flow through immediately. As this higher-cost inventory is consumed over the next 1–2 quarters, gross margin expansion in the coffee business should become visible from 1QFY27 onwards.

Quick commerce is the new growth engine

This was one of the most compelling parts of the management interaction. Quick commerce (QC) now accounts for ~20% of TATACONS India revenue, and critically, margins earned through this channel are comparable to those in traditional channels. Management believes FMCG companies would retain significant bargaining power over QC platforms for at least the next 3–4 years (given the high number of QC platforms).

Clear portfolio boundaries

Management was unusually direct about what TATACONS will not pursue. Categories like biscuits, snacks, colas, and base edible oils are permanently off the table, as these are largely commoditized, undifferentiated segments where the Tata brand adds no meaningful premiumization or trust-led differentiation. Such portfolio discipline is rare in Indian FMCG and is a positive indicator of capital allocation quality. On cost headwinds, the LPG price hike has minimal direct impact on TATACONS, as its two largest revenue contributors, tea and salt, require no processing or cooking, limiting energy cost exposure to niche applications.

Starbucks – undergoing transformation

Management acknowledged that Tata Starbucks is not a core business for TATACONS, but rather a value creation platform that needs to be fixed before it is scaled. After years of adding ~100 stores annually, management made the deliberate decision to pause aggressive expansion last year to focus on a comprehensive transformation. This reset includes reworking in-store coffee machines, rationalizing capex per store, fine-tuning coffee blends, and importantly, running live pricing experiments across five different price points to identify the optimal price-to-traffic equation in the Indian market. Early results are encouraging: same-store sales growth returned to mid-single-digit growth in January and February 2026. Once the transformation playbook is validated, management intends to resume the 100-stores-per-year expansion cadence. The path to profitability is being rebuilt on a more durable foundation.

Valuation and view

TATACONS is at a strategic inflection point. Its traditional business—tea, salt, and international—provides a stable, cash-generative foundation, growing at mid-to-high single digits with sustainable gross margins. At the same time, the growth businesses are scaling rapidly, supported by a now well-established dedicated distribution infrastructure. The QC channel advantage over MNC peers, expected coffee cost tailwinds from FY27, early traction in the Starbucks transformation, and over 50-100bp of annual operating leverage from FY27 collectively present a rare combination of earnings visibility and margin expansion. Management's disciplined portfolio approach—knowing precisely what not to pursue—adds further confidence. We, thus, estimate TATACONS to deliver a revenue/EBITDA/PAT CAGR of 11%/15%/23% over FY25-28. The company is currently trading at 47x FY28EPS (i.e. ~30% discount to its 10-year average one-year forward P/E). We **reiterate BUY with an SOTP-based TP of INR1,370**.

Exhibit 1: Valuation methodology

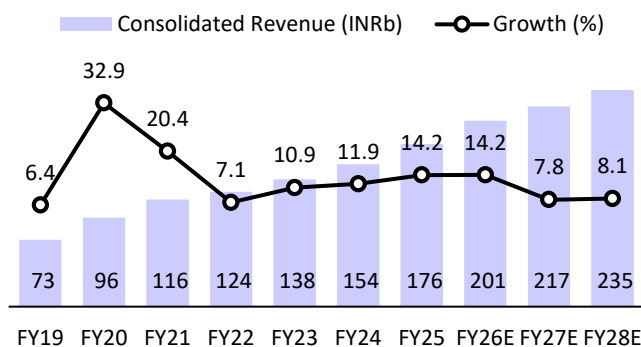
EV/EBITDA	FY28 EBITDA	Multiple (x)	EV
India Branded Business	29,674	35	10,29,699
International Branded Business	7,428	12	89,135
Non Branded Business	1,579	12	18,948
Elimination	6,070	12	72,842
DCF			
Starbucks JV			90,724
Enterprise value			13,01,348
Less: Net debt			(54,037)
Market value (INRm)			13,55,385
No. of shares (m)			990
Target price (INR)			1,370

* includes Tea, Nourishco, Salt, and other food products

Source: MOFSL

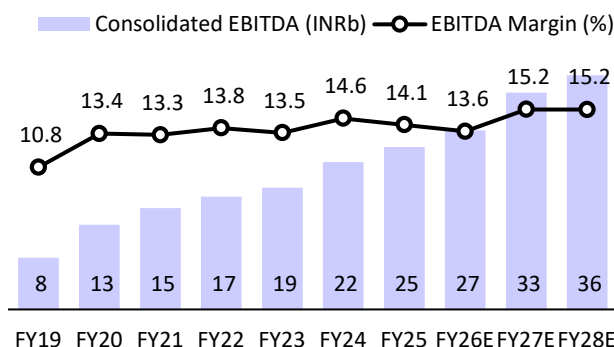
Story in charts

Exhibit 2: Estimate 10% revenue CAGR over FY25-28



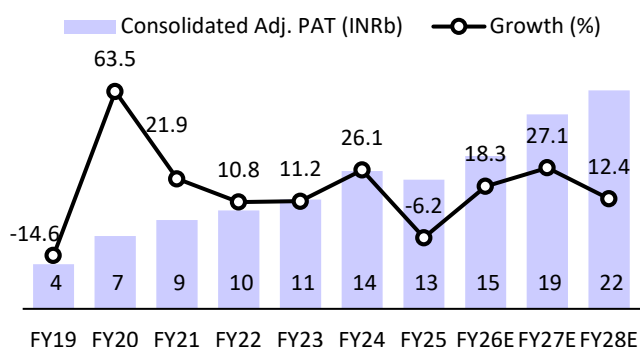
Source: Company, MOFSL

Exhibit 3: With EBITDA margins to expand to 15.2% by FY27



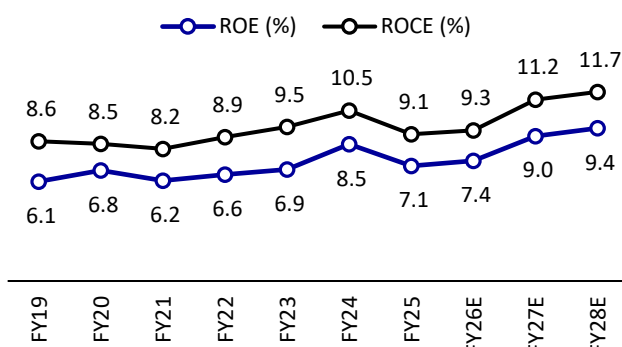
Source: Company, MOFSL

Exhibit 4: Estimate 19% Adj. PAT CAGR over FY25-28



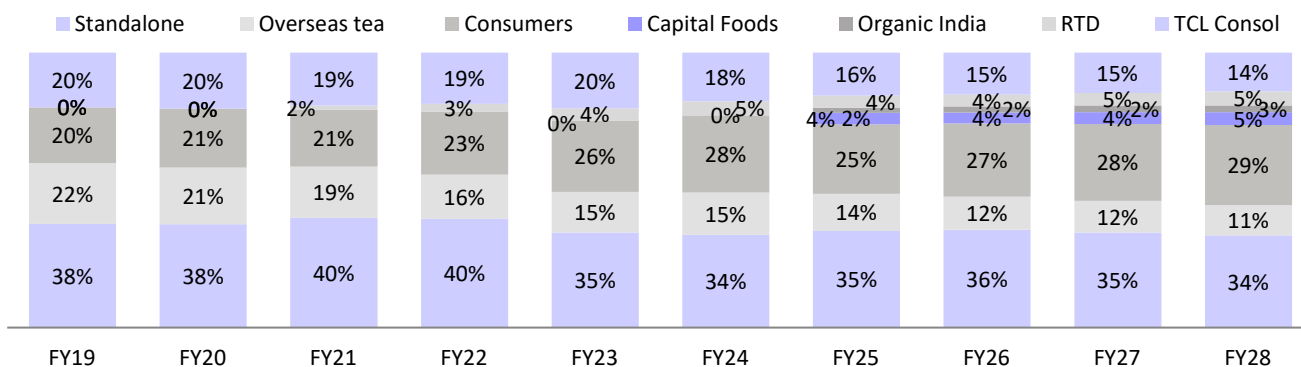
Source: Company, MOFSL

Exhibit 5: RoE and RoCE to reach 9.4% and 11.7%, respectively



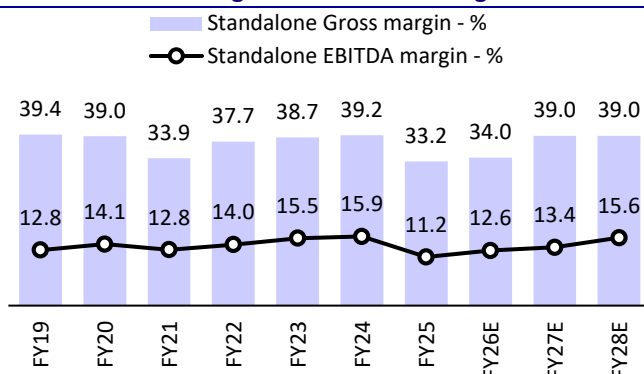
Source: Company, MOFSL

Exhibit 6: Revenue mix



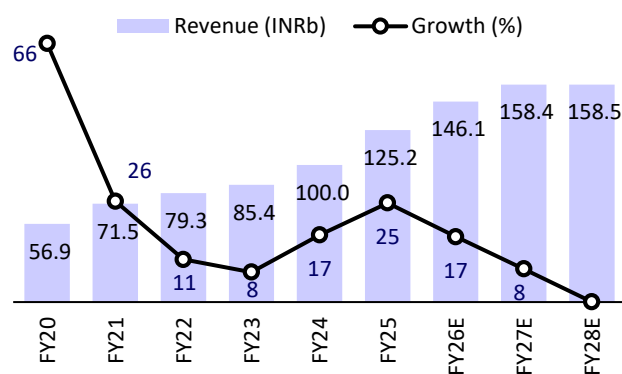
Source: MOFSL, Company

Exhibit 7: Standalone gross and EBITDA margin



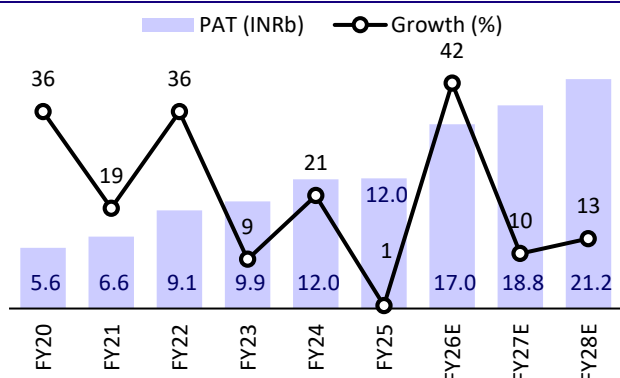
Source: Company, MOFSL

Exhibit 8: Standalone revenue trend



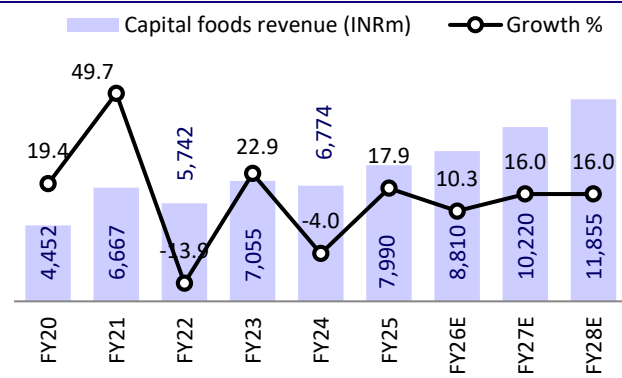
Source: Company, MOFSL

Exhibit 9: Standalone Adj. PAT trend



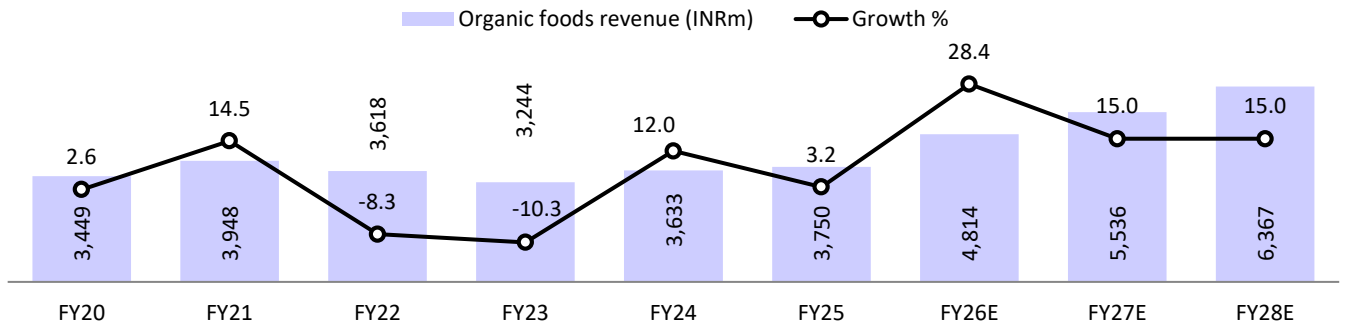
Source: MOFSL, Company

Exhibit 10: Capital food revenue trend



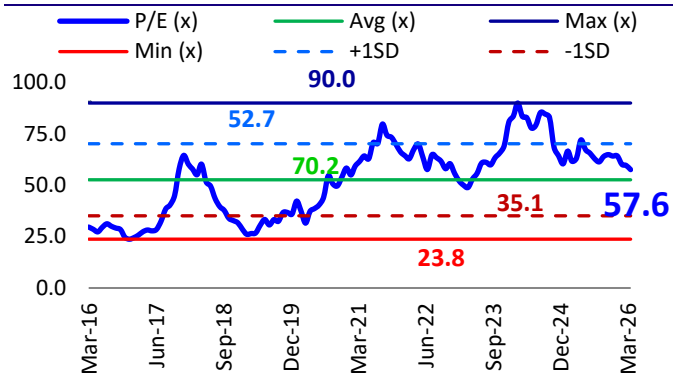
Source: MOFSL, Company

Exhibit 11: Organic foods revenue trend



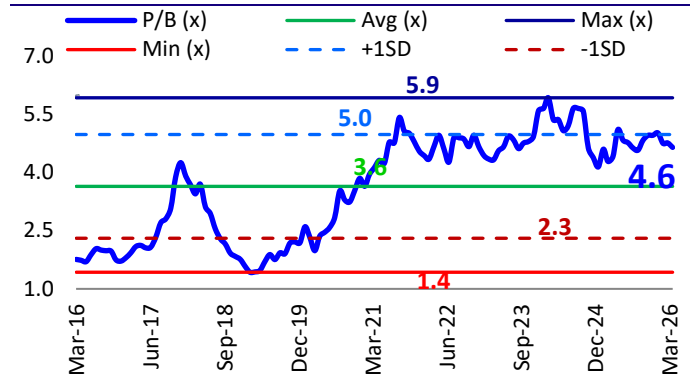
Source: MOFSL, Company

Exhibit 12: One-year forward P/E



Source: MOFSL, Company

Exhibit 13: One-year forward P/B



Source: MOFSL, Company

Financials and valuations

Consolidated Income Statement

	(INRb)							
Y/E March	2021	2022	2023	2024	2025	2026E	2027E	2028E
Net Sales	116.0	124.3	137.8	154.3	176.2	201.3	217.0	234.5
Change (%)	20.4	7.1	10.9	11.9	14.2	14.2	7.8	8.1
Gross Profit	47.0	53.4	57.8	65.7	75.5	84.4	94.3	101.4
Margin (%)	40.5	43.0	41.9	42.6	42.8	41.9	43.4	43.2
Other operating exp.	31.6	36.2	39.2	43.3	50.7	57.1	61.2	65.7
EBITDA	15.4	17.2	18.6	22.5	24.8	27.3	33.1	35.7
Margin (%)	13.3	13.8	13.5	14.6	14.1	13.6	15.2	15.2
Depreciation	2.5	2.8	3.0	3.7	6.0	6.2	6.9	7.1
Net Interest	0.7	0.7	0.9	1.3	2.9	1.3	1.0	1.0
Other income	1.2	1.4	1.7	2.5	1.9	1.5	1.6	1.7
PBT before EO	13.4	15.1	16.3	19.9	17.8	21.3	26.7	29.3
EO income/(exp.)	-0.3	-0.5	1.6	-3.3	-0.1	-0.2	0.0	0.0
PBT after EO	13.1	14.6	17.9	16.7	17.8	21.1	26.7	29.3
Tax	3.2	3.8	4.5	3.9	4.0	5.3	6.7	7.4
Rate (%)	24.2	25.9	24.9	23.7	22.3	25.0	25.2	25.2
Minority and Associates	1.4	1.4	1.4	1.5	1.0	0.8	0.7	0.2
Reported PAT	8.6	9.4	12.0	11.2	13.8	15.8	20.0	21.9
Adjusted PAT	8.8	9.7	10.8	13.7	12.8	15.2	19.3	21.7
Change (%)	21.9	10.8	11.2	26.1	-6.2	18.3	27.1	12.4

Balance Sheet

	(INRb)							
Y/E March	2021	2022	2023	2024	2025	2026E	2027E	2028E
Share Capital	0.9	0.9	0.9	1.0	1.0	1.0	1.0	1.0
Reserves	144.4	150.5	161.8	159.6	199.0	207.8	220.9	236.3
Net Worth	145.3	151.4	162.8	160.6	200.0	208.8	221.9	237.3
Minority Interest	10.9	11.5	8.5	13.8	13.9	13.9	14.1	14.1
Loans	12.1	10.1	11.8	29.5	18.5	13.5	13.5	13.5
Capital Employed	168.3	173.0	183.1	203.9	232.4	236.2	249.5	264.9
Gross Block	61.8	66.7	71.7	113.9	131.1	135.1	139.1	143.1
Less: Accum. Deprn.	21.4	24.2	27.2	30.9	36.9	43.1	50.0	57.1
Net Fixed Assets	40.4	42.5	44.5	83.0	94.2	92.0	89.1	86.0
Capital WIP	1.1	4.6	5.1	4.0	4.3	4.3	4.3	4.3
Goodwill & Intangibles	76.0	77.5	80.3	103.3	113.3	113.3	113.3	113.3
Investments	4.8	6.0	6.8	6.3	6.8	6.0	5.5	5.3
Curr. Assets	79.9	80.1	91.0	82.1	99.7	111.2	132.1	155.6
Inventories	22.5	22.7	27.0	27.7	36.0	39.7	42.8	46.3
Account Receivables	7.6	8.4	8.0	9.0	8.7	12.1	13.1	14.1
Cash and Bank Balance	34.0	28.0	35.5	26.9	31.1	34.3	49.9	67.5
Others	15.8	21.1	20.5	18.5	23.9	25.1	26.3	27.6
Curr. Liability & Prov.	28.4	30.2	36.4	58.4	65.5	70.2	74.5	79.1
Account Payables	16.3	19.2	23.5	27.1	35.1	38.6	41.6	45.0
Other liabilities	9.2	8.6	10.5	27.4	26.9	28.0	29.1	30.3
Provisions	2.9	2.5	2.4	3.9	3.6	3.7	3.8	3.9
Net Curr. Assets	51.5	49.8	54.6	23.7	34.2	41.0	57.6	76.4
Def. tax liability	5.5	7.5	8.1	16.5	20.4	20.4	20.4	20.4
Appl. of Funds	168.3	173.0	183.1	203.9	232.4	236.2	249.5	264.9

Financials and valuations

Ratios

Y/E March	2021	2022	2023	2024	2025	2026E	2027E	2028E
Basic (INR)								
EPS	9.2	10.2	11.4	14.3	13.0	15.3	19.5	21.9
Cash EPS	11.5	12.7	14.0	17.5	19.0	23.2	28.4	31.2
BV/Share	146.9	153.0	164.5	162.3	202.1	226.6	240.7	257.5
DPS	4.1	6.1	6.1	6.5	6.5	6.5	6.5	6.5
Payout (%)	43.6	59.6	46.7	55.2	50.3	42.9	33.4	29.7
Dividend yield (%)	0.4	0.6	0.6	0.6	0.6	0.6	0.6	0.6
Valuation (x)								
P/E	111.1	100.3	90.2	71.5	79.2	66.9	52.6	46.8
Cash P/E	89.5	81.0	73.1	58.5	53.9	44.2	36.1	32.8
P/BV	7.0	6.7	6.2	6.3	5.1	4.5	4.3	4.0
EV/Sales	8.0	7.5	6.7	6.1	5.3	4.6	4.2	3.8
EV/EBITDA	59.8	54.0	49.7	42.2	37.6	33.8	27.5	25.0
Dividend Yield (%)	0.4	0.6	0.6	0.6	0.6	0.6	0.6	0.6
FCF per share	15.7	13.5	12.4	16.8	16.1	14.6	21.7	23.7
Return Ratios (%)								
RoE	6.2	6.6	6.9	8.5	7.1	7.4	9.0	9.4
RoCE	8.2	8.9	9.5	10.5	9.1	9.3	11.2	11.7
RoIC	10.9	10.5	11.2	12.1	10.5	10.9	13.5	15.3
Working Capital Ratios								
Fixed Asset Turnover (x)	2.9	2.9	3.1	1.9	1.9	2.2	2.4	2.7
Asset Turnover (x)	0.7	0.7	0.8	0.8	0.8	0.9	0.9	0.9
Debtor (Days)	24	25	21	21	18	22	22	22
Creditor (Days)	51	56	62	64	73	70	70	70
Inventory (Days)	71	67	72	66	75	72	72	72
Leverage Ratio (x)								
Net Debt/Equity	-0.2	-0.1	-0.1	0.0	-0.1	-0.1	-0.2	-0.2

Cash flow statement

Y/E March	2021	2022	2023	2024	2025	2026E	2027E	2028E
(INRb)								
EBITDA	15.4	17.2	18.6	22.5	24.8	27.3	33.1	35.7
Prov. & FX	0.0	0.0	0.0	0.1	0.0	0.0	0.0	0.0
WC	3.1	2.0	0.3	1.9	0.0	-3.4	-0.8	-1.0
Others	1.2	-0.3	0.2	-1.2	-0.2	-0.2	0.0	0.0
Direct taxes (net)	-3.2	-3.8	-4.5	-3.9	-4.0	-5.3	-6.7	-7.4
CF from Op. Activity	16.6	15.2	14.6	19.4	20.6	18.4	25.5	27.4
Capex	-2.1	-2.7	-3.1	-3.3	-4.6	-4.0	-4.0	-4.0
FCFF	14.5	12.4	11.5	16.0	16.0	14.4	21.5	23.4
Interest/dividend	0.7	0.9	1.2	1.9	1.2	1.5	1.6	1.7
Investments in subs/assoc.	-2.2	-7.4	-2.0	-38.8	-19.3	0.0	0.0	0.0
Others	-0.5	-4.0	-4.4	21.0	-0.8	0.0	0.0	0.0
CF from Inv. Activity	-4.1	-13.2	-8.3	-19.3	-23.5	-2.5	-2.4	-2.3
Share capital	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Borrowings	-0.6	-4.9	0.0	12.5	-11.6	-5.0	0.0	0.0
Finance cost	-0.7	-0.6	-0.8	-1.2	-2.6	-1.3	-1.0	-1.0
Dividend	-2.7	-4.0	-5.7	-8.1	-7.4	-6.4	-6.4	-6.4
Others	0.9	1.6	7.8	-11.9	28.8	0.0	0.0	0.0
CF from Fin. Activity	-3.0	-7.9	1.2	-8.6	7.1	-12.7	-7.4	-7.4
(Inc)/Dec in Cash	9.4	-6.0	7.5	-8.6	4.2	3.2	15.6	17.6
Opening balance	24.6	34.0	28.0	35.5	26.9	31.1	34.3	49.9
Closing balance (as per B/S)	34.0	28.0	35.5	26.9	31.1	34.3	49.9	67.5

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NOTES

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SELL	< - 10%
NEUTRAL	< - 10 % to 15%
UNDER REVIEW	Rating may undergo a change
NOT RATED	We have forward looking estimates for the stock but we refrain from assigning recommendation

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