STRATEGIC ACQUISITION OF DRUMS FOOD INTERNATIONAL PVT LTD

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Executive Summary: Project Greek

Transaction Recommendation

Proposed Action: Acquire 100% equity of Drums Food International Pvt Ltd ("Epigamia") for a total consideration of ₹450 Crores.

Funding Mix: The transaction will be financed through 80% Cash (via new debt raised at ~9%) and 20% Stock issuance to ensure continued founder alignment and retention.

Execution: Structured as a friendly acquisition with a binding term sheet to be signed immediately, subject to customary financial and legal due diligence.

Valuation & Pricing

Entry Multiple: The purchase price implies an EV/Revenue multiple of ~2.5x (based on FY24 Revenue of ₹180 Cr).

Market Comparison: Meaningful discount vs precedent deals (~3.6x EV/Revenue), reflecting distressed pricing due to high burn.

Intrinsic Value: ₹450 Cr bid aligns with the upper end of our DCF, balancing fair value and control premium.

Strategic Rationale

Distribution Arbitrage: Use TCPL's 1.5M+ outlet network to scale beyond Epigamia's ~20k cold-chain outlets.

Ambient Margin Unlock: Shift from fresh yogurt to ambient products (milkshakes, ghee spreads), cutting logistics costs from ~15% to ~5% using TCPL's standard supply chain..

Category Leadership: Establish TCPL as a leader in high-growth Healthy Snacking (20% CAGR), filling the Fresh/Protein gap in its portfolio.

Financial Impact

EPS Accretion: The transaction is 1.1% Accretive to TCPL shareholders in Year 1.

Synergy Realization: Accretion is driven by ₹120 Crores in annualized pre-tax synergies, primarily derived from logistics optimization and procurement consolidation.

Return Profile: The project yields an Internal Rate of Return (IRR) exceeding the calculated WACC of 16.58%, justifying the capital allocation.

Key Deal Statistics

Metric	Value
Purchase Equity Value	₹450 Cr
Enterprise Value	~₹483 Cr
Consideration Mix	80% Cash / 20% Stock
Implied EV / Revenue	2.5x
Year 1 Synergies	₹120 Cr
WACC	16.58%
Year 1 EPS Impact	+1.1% (Accretive)

Market Overview: The "Ambient" Arbitrage & Strategic Pivot

The "Cold Chain Trap"

High Logistics Burden: Cold-chain (0–4°C) logistics in Indian VAD are structurally expensive.

Margin Erosion: Cold chain costs 15–20% of revenue, capping profitability and limiting EBITDA expansion without scale.

Infrastructure Gaps: Fragmented infra causes ~4–5% spoilage and higher retailer margins (25–30%) for fridge space.

Limited to Metro Markets

Geographic Ceiling: Due to the short shelf-life of fresh Greek Yogurt (~15-20 days), Epigamia's distribution is effectively restricted to Top Tier Metros (Mumbai, Delhi, Bangalore).

Scale Limitation: The brand is currently accessible in only ~20,000 to 30,000 premium touchpoints. It cannot penetrate Tier-2 and Tier-3 markets (General Trade) because small retailers ("Kiranas") lack reliable refrigeration.

The Ambient Pivot

Product Reformulation: The strategy hinges on accelerating the portfolio shift toward **Ambient Products**—innovations like Ghee Spreads, shelf-stable Milkshakes, and Almond Milk that do not require refrigeration

Distribution Arbitrage (The Synergies):

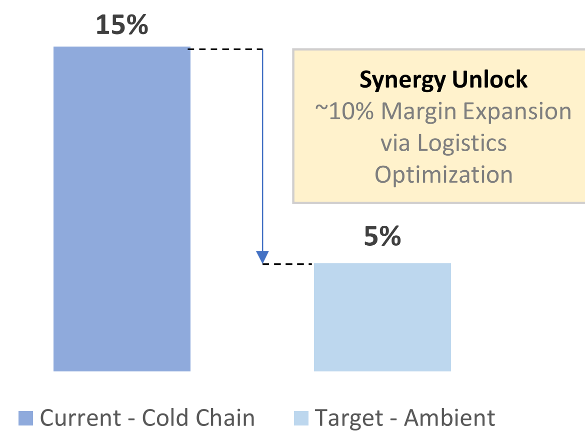
- **From:** Specialized, expensive reefer trucks (Cost: ~15% of Revenue).
- **To:** TCPL's standard ambient FMCG trucks (Cost: ~5% of Revenue)
- **Impact:** This shift creates immediate operating leverage, allowing Epigamia to piggyback on Tata's existing distribution network that reaches 3.8 million outlets.

Market Growth Landscape

Sector Tailwinds: The broader "Healthy Snacking" segment in India is projected to grow at a 20% CAGR over the next five years, significantly outpacing the traditional liquid milk market (11-13%)

Consumer Shift: There is a definitive shift from loose/commodity dairy to branded Value-Added Products (VAP), driven by urbanization and protein awareness

Logistics Costs as % of Revenue



Target Profile: Drums Food International Pvt Ltd (Epigamia)

Greek Yogurt Cups
(The Core-Chilled)

Smoothies
(The Growth Engine)

Ghee Spreads
(The Ambient Future)

Business Model Overview

Business Overview: Founded in 2015, Epigamia pioneered India's Greek Yogurt category, creating a high-protein, low-fat dairy segment.

Brand Positioning: Positioned as a daily nutrition and healthy snacking brand for urban, affluent consumers.

Product Portfolio:
- **Core:** Greek yogurt (cups & smoothies)
- **Expansion:** Lactose-free curd, ambient ghee spreads, and plant-based options (coconut/almond milk)

Current Financial Status (LTM)

Revenue (LTM): ₹180.0 Cr.
Note: Growth has deliberately slowed to ~4.6% as management pivots to sustainability

EBITDA (LTM): (₹45.0 Cr).
Margin Profile: Currently operating at a **-25% EBITDA margin**, reflecting high structural costs.

Net Income: (₹37.8 Cr).
Status: The asset is currently loss-making but trending toward operational breakeven.

Key Operational Challenges

High Burn Rate: Heavy cold-chain logistics and high CAC drive cash burn beyond operating revenue.

Restricted Distribution:
- **Channel Concentration:** Dependence on Modern Trade and Quick Commerce (Blinkit, Zepto).
- **Limited Reach:** Effective distribution is capped at ~20,000–30,000 touchpoints in Tier-1 metros due to shelf-life constraints (15–20 days).

The "Turnaround" Story

Strategic Pivot: Management has shifted focus from "Top-line Growth" to "Unit Economics," evidenced by the discontinuance of unprofitable deep-discounting channels.

SKU Rationalization: Active culling of low-margin flavors and SKUs to improve gross margins.

Breakeven Trajectory: The company achieved Operational Breakeven on a monthly basis in March 2024, signaling readiness for scaling under a strategic owner.

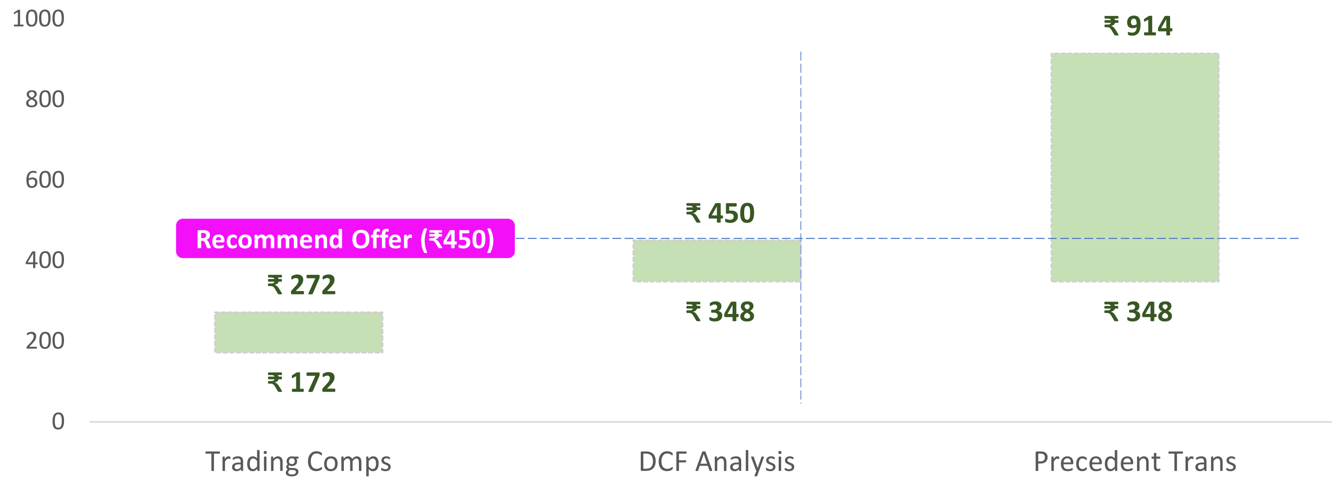
Valuation Methodology & Price Recommendation

1: Trading Comparables

Valuation Range: ₹172 Cr – ₹272 Cr

Key Drivers:

- **Peer Set:** Compared with listed fresh-dairy peers—Heritage Foods (~1.1x revenue) and Parag Milk Foods (~1.3x revenue).
- **Illiquidity Discount:** Applied a 25% discount for private-company illiquidity vs listed peers.
- **Insight:** Produces the lowest valuation range, highlighting depressed standalone value due to current financials.



2. Discounted Cash Flow

Valuation Range: ₹348 Cr – ₹450 Cr

Key Assumptions:

- **Forecast Period:** 10-Year projection capturing the full "J-Curve" turnaround from losses to stable profitability.
- **WACC:** A discount rate of **16.58%** was used, incorporating a specific "Alpha" of 3% to reflect the execution risk and small-company size premium.
- **Terminal Growth:** Assumes a **5.0%** perpetuity growth rate

3. Precedent Transactions

Valuation Range: ₹348 Cr – ₹914 Cr

Key Drivers:

- **Control Premium:** This range includes the premium acquirers pay for control and synergies.
- **Comparable Deals:** Benchmarked against strategic acquisitions such as Tata Consumer / Soulfull (4.0x Revenue) and ITC / Sunrise (3.6x Revenue)
- **Insight:** Although mean multiples imply valuation up to ~₹914 Cr, current losses justify avoiding top end pricing.

Final Recommendation

Recommended Purchase Price: ₹450 Crores.
Intrinsic Value Alignment: Priced at the top of the DCF range, capturing intrinsic upside without paying for blue-sky assumptions.

Discount to Precedents: Meaningful discount to the ₹1,250 Cr prior valuation and high-end precedent deals, reflecting distressed pricing while providing a fair exit

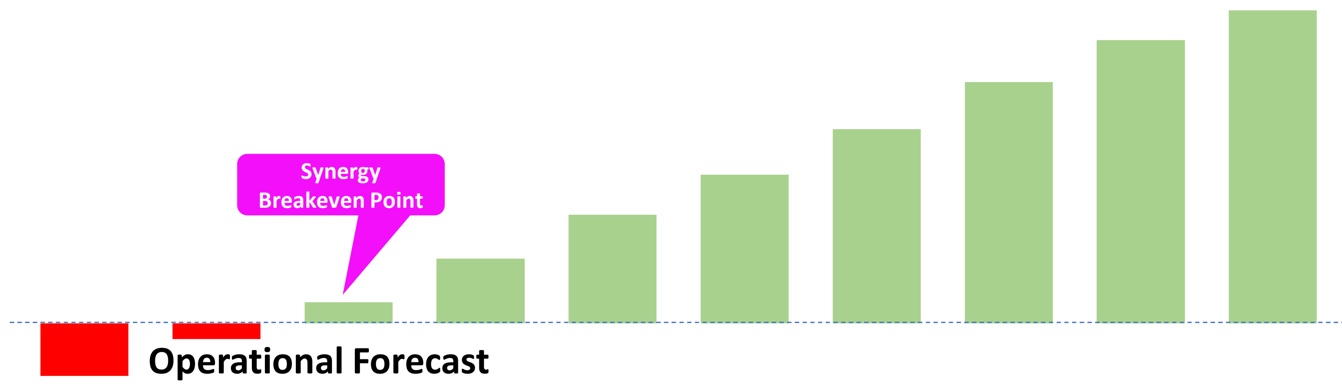
Control Premium: Includes adequate premium over trading comps to motivate founders to sell.

Discounted Cash Flow (DCF) Analysis: Intrinsic Valuation

Imp Valuation Assumptions

- **WACC:** 16.58%
  High discount rate reflects venture-stage risk, current losses, small-cap premium, and turnaround execution risk.
- **Terminal Growth:** 5.0%
  In line with long-term nominal GDP and Indian FMCG consumption growth, assuming maturity into a stable business.
- **Tax Rate:** 25.0%
  Standard effective corporate tax rate.

Unlevered Free Cash



Operational Forecast

Phase 1 – Integration & Clean-up (Years 1–2):
- **EBITDA:** -14% (Y1), -4% (Y2)
- **Driver:** Integration costs, SKU rationalization, and initial CAPEX for the ambient shift.

Phase 2 – Inflection Point (Year 3)
- **EBITDA:** +4%
- **Driver:** Breakeven achieved as synergies and lower-cost ambient logistics kick in.

Phase 3 – Steady State (Year 10):
- **EBITDA:** ~26%
- **Driver:** Full scale benefits, in line with mature premium FMCG peers.

Valuation Output (The Results)

PV of Free Cash Flows (Y1–10): ₹110 Cr
Insight: Cash generation during the forecast period, skewed toward later years.

PV of Terminal Value: ₹289 Cr
Insight: Long-term brand value beyond Year 10, ~72% of total EV (typical for high-growth assets).

Implied Enterprise Value (Base Case): ₹399 Cr
Conclusion: Supports the bid range; ~₹450 Cr reflects a reasonable control premium over DCF value.

Metric	Value
WACC	16.58
Terminal Growth	5.0%
Implied EV	₹399

Strategic Synergies: The Path to ₹120 Cr Value Creation

Synergy Overview

Total Annualized Synergies: ₹120 Crores.

Conservatism: This target represents <1% of the Combined Entity's Revenue, making it a highly achievable and conservative estimate relative to standard M&A benchmarks.

Realization Timeline: We project realizing 40% of synergies in Year 1, ramping up to 100% by Year 3 as the ambient supply chain matures.

Revenue Synergies

Outlet Expansion:

- **The Gap:** Currently, Epigamia reaches only ~20,000 outlets (restricted to Tier-1 metros).
- **The Unlock:** "Plug and Play" integration into TCPL's massive distribution network of 1.5 Million+ outlets
- **Impact:** Immediate penetration into Tier-2 cities via General Trade without incremental Customer Acquisition Cost.

Cross-Selling & Bundling:

Using TCPL's strong ties with quick-commerce apps like Blinkit and Zepto, TCPL can bundle products like Tata Coffee Grand with Epigamia smoothies to increase average order value.

1.5M Outlet Reach

₹ 120 Cr Impact

Shared Logistics & Procurement

Valuation Output (The Results)

Logistics Optimization (Primary Driver):

- **Cold Chain Integration:** Migrating Epigamia's logistics from expensive, third party cold chain providers to TCPL's shared logistics network.
- **Ambient Shift:** As the portfolio pivots to ambient products (Ghee, Milkshakes), freight costs drop significantly by utilizing standard Tata FMCG trucks.

Procurement Consolidation:

- **Economies of Scale:** Centralizing procurement of raw materials (Milk) and packaging (Plastic Cups/Tetra Paks).
- **Buying Power:** Utilizing Tata Group's massive bargaining power to negotiate lower unit costs than Epigamia could achieve as a standalone startup

Marketing Rationalization:

- **Efficiency:** Transitioning from high-burn "Performance Marketing" (VC-style growth) to efficient "Brand Marketing".
- **Umbrella Branding:** leveraging the "Tata" trust seal to lower barriers to trial in non-metro markets, reducing the need for aggressive discounting.

Transaction Structure & Financing Plan

Deal Consideration Overview

Purchase Equity Value: ₹450 Crores.
Implied Enterprise Value: ~₹483 Crores (Including Net Debt of ~₹33 Cr assumed from Target).

Consideration Mix: Structured as 80% Cash / 20% Stock to balance cost of capital with founder retention.

- **Cash Consideration:** ₹360 Cr (Paid at closing).
- **Stock Consideration:** ₹90 Cr (Issued as new TCPL shares to Epigamia founders/investors).

Strategic Rationale:

- **Cash Component**: Minimizes dilution for TCPL shareholders by utilizing low-cost debt (Cost of Debt ~9% vs. Cost of Equity ~12%).
- **Stock Component:** Ensures "Skin in the Game" for key management (Founders) to drive the integration and turnaround.

Financing Strategy (Acquisition Debt)

New Borrowing: The entire cash component (**₹360 Cr**) will be funded via new debt raised on TCPL's balance sheet.premium FMCG peers.

Debt Terms:
Interest Rate: 9.0% (Reflecting TCPL's strong AAA credit rating).
Tenor: 5 Years (Standard corporate term loan structure).

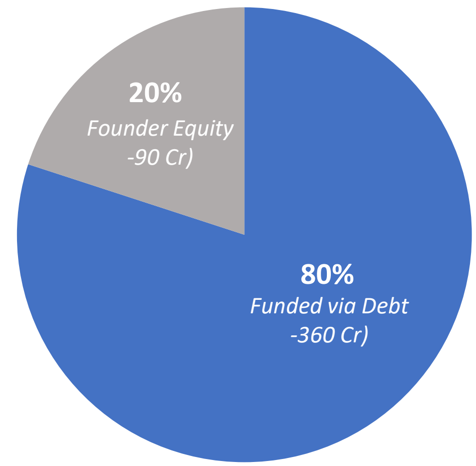
Valuation Output (The Results)

Transaction Fees: ₹5.4 Crores.
Includes: Advisory, Legal, and Accounting fees associated with the deal.

Purchase Price Allocation (PPA):

- **Asset Write-Up:** ₹100 Crores.
- **Description:** Revaluation of Intangible Assets (Brand "Epigamia," Customer Lists, IP).
- **Impact:** Creates a tax shield via increased depreciation, though creates a slight drag on GAAP earnings.
- **Useful Life:** Amortized over **10 Years**.

Consideration Mix



Source of Fund	Amt (₹ Cr)	Uses of Fund	Amt (₹ Cr)
New Debt (9%)	360	Purchase Equity	450
Stock Issuance	90	Refinance Net Debt	32.5
Cash from B/S	38	Transaction Fees	5.5
Total Source	**488**	**Total Uses**	**488**

Pro Forma Financial Impact: EPS Accretion (Year 1)

Headline Impact

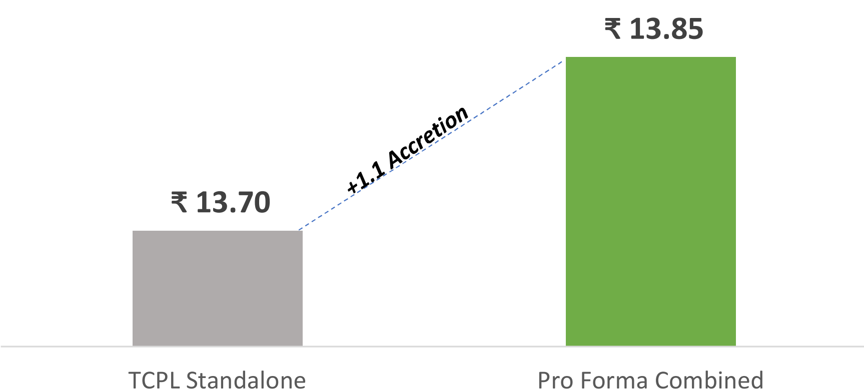
Result: The transaction is **1.1% Accretive** to TCPL shareholders in Year 1.
EPS Impact: The deal adds **₹0.15** to the Standalone EPS, moving it from **₹13.70** →**₹13.85**
Key Takeaway: The strong synergy realization (**₹120 Cr**) successfully offsets the combined drag of Epigamia's standalone losses (**₹37.8 Cr**) and the new interest expense/fees (**~₹48 Cr**).

Sensitivity (Risk Note) ⚠
Breakeven Point: Our sensitivity analysis indicates that the deal remains accretive as long as realized synergies exceed ~₹95 Cr
Confidence: Given the identified synergy pool of ₹120 Cr, we have a 25% buffer on execution before the deal becomes dilutive.

Share Count & Dilution

Minimal Dilution: Since the deal is funded **80% by Cash**, the equity dilution is negligible.
New Issuance: TCPL will issue approximately **0.77 Million** new shares to fund the ₹90 Cr stock component.
Total Shares: Increases marginally from **999.0 M** to **999.8 M**. This tight capital structure preserves EPS growth.

EPS Comparison



Net Income Walk

Metric	TCPL Standalone	Adjustments	Pro Forma
Net Income	₹13,690 Cr	**(₹37.8 Cr)** *Target Loss* **+ ₹120.0 Cr** *Synergies* **(₹48.5 Cr)** *Interest/Fees*	₹13,848 Cr
Shares O/S	999.0 M	**+ 0.77 M** *New Shares*	999.8 M
EPS	**₹13.70**		**₹13.85**

Risk Assessment & Mitigation Strategy

Operational Risk – Ambient Pivot

Risk: Ambient products may fail to gain consumer acceptance, stalling the revenue J-curve.

Mitigation:

- **Earnout:** ₹150–200 Cr linked to EBITDA breakeven and ambient distribution milestones, aligning founder incentives.
- **Phased Rollout:** Pilot ambient SKUs in Tata strongholds before a national launch.

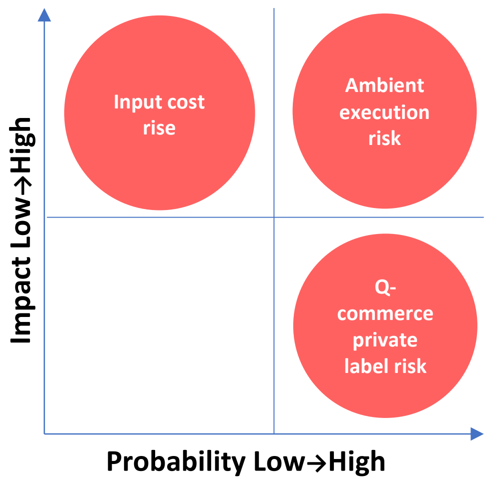
Integration Risk – Cultural Alignment

Risk: Culture clash between Epigamia's agile startup style and TCPL's structured processes, plus key-person risk post CEO's passing.

Mitigation (Soulfull Model):

- **Standalone Subsidiary:** Operate as a 100% subsidiary for 24 months, preserving culture while integrating backend functions.
- **Retention Bonuses:** Targeted incentives for the COO and key product leaders to retain institutional knowledge.

Risk Metrix Plot



Market Risk – Quick Commerce Threat

Risk: Platforms like Blinkit/Zepto may launch private labels, pressuring margins or shelf access.

- **Mitigation (Brand Moat):**
  Premium Clean Label: Emphasize no preservatives and high protein—hard for private labels to replicate.
- **Channel Diversification:** Ambient pivot reduces dependence on quick commerce by enabling mass General Trade reach.

Macro Risk – Input Cost Volatility

Risk: Volatile milk prices (fodder inflation, disease outbreaks) can erode margins.

Mitigation (Procurement Power):

- **Backward Integration:** Use Tata's agri-sourcing scale and forward contracts to hedge price spikes.
- **Volume Efficiencies:** Combine packaging procurement with Tata lines to lower non-dairy COGS.

Conclusion & Final Recommendation

Final Recommendation & Investment Highlight

1.Final Recommendation (The Verdict) Proposed Next Steps

- **Board Action:** We recommend the Board of Directors **APPROVE** the acquisition of 100% equity of Drums Food International Pvt Ltd (Epigamia) at an enterprise valuation of **₹450 Crores**.
- **Strategic Verdict:** This acquisition represents a rare opportunity to acquire a category-defining "Venture Growth" asset at a "Distressed Value" price, securing TCPL's leadership in the high-growth Healthy Snacking segment.

64% Discount to Last Round

2. Investment Highlights (Why We Win)

Strategic Alignment: Perfect fit with TCPL's "Health & Wellness" strategic pillar. The deal fills the critical "Fresh/Protein" white space in our portfolio, complementing Tata Salt, Tea, and Sampann.

Valuation Arbitrage: We are acquiring a brand previously valued at **₹1,250 Crores** for **₹450 Crores**—a **~64% discount**. We are paying for the *current* distressed reality, but capturing the *future* ambient potential.

Financial Robustness: The deal is **Immediately Accretive (+1.1% EPS)**. The conservative financing structure (80% Cash / 20% Stock) ensures we retain upside while preserving our balance sheet strength (Net Debt/EBITDA remains healthy).

Proposed Next Steps (Execution)

Month 1 — Phase 1

Transaction Execution (Week 1-4)

- Submit Binding Term Sheet to Epigamia Board.
- Commence Confirmatory Due Diligence (Financial, Legal, and Tax).

Month 2 — Phase 2

Integration Planning (Weeks 5-8)

- Form "Project Greek" Integration Committee (TCPL Strategy Team + Epigamia Founders).
- Finalize the "Ambient Pivot" Product Roadmap for Year 1 launch.

Month 3 — Phase 3

Closing (Week 12)

- Sign definitive Share Purchase Agreement (SPA).
- Issue Press Release: *"Tata Consumer Enters Value-Added Dairy with Epigamia Acquisition."*