



**“Tata Consumer Products Limited Q3 and 9 Months  
FY22 Earnings Conference Call hosted by ICICI  
Securities”**

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**MODERATOR:** **MR. ANIRUDDHA JOSHI – ICICI SECURITIES**

**Moderator:** Ladies and Gentlemen, Good day and welcome to the Tata Consumer Products Limited Q3 and 9 Months FY22 Earnings Conference Call hosted by ICICI Securities. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing ‘\*’ and then ‘0’ on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Aniruddha Joshi from ICICI Securities. Thank you and over to you, Sir.

**Aniruddha Joshi:** Thanks Stanford. On behalf of ICICI Securities, we welcome you all to Q3 FY22 and 9 Months FY22 Results Conference Call of Tata Consumer Products Limited. I will hand over the call to Ms. Nidhi Verma – Head of Investor Relations and Corporate communications for the introduction and initial overview. Thanks, and over to you, Nidhi.

**Nidhi Verma:** Thanks Aniruddha and hi and welcome everybody and thanks for joining us today for the Q3 call. With me I have Mr. Sunil D'Souza – Managing Director and CEO, Mr. L. Krishnakumar – Executive Director and Group CFO and Mr. Ajit Krishnakumar – COO. Like we do usually, what we will do is spend about 20 minutes or so walking you through some of the key highlights of the quarter and then we will open the floor for Q&A. In terms of the agenda Sunil will walk you through the summary, the progress we have made against some of our strategic priorities and some of the business updates during the quarter. LKK will walk you through some of the financial performance updates and then we will open the floor for Q&A. So, without further ado. Over to you, Sunil.

**Sunil D'Souza:** Thanks Nidhi. I will go straight over to the executive summary. So, if I look at Q3 of this year during the quarter our consolidated revenue grew 6% excluding the international food service business exits last year bringing our two year CAGR to 13.4. Overall, India business had a good quarter grew 6%, India beverages business growth of 1% with 6% volume growth, India foods up 16% with 4% volume growth, International business grew 2%, negative-1 in constant currency terms cycling an elevated base. You have to remember Q1, Q2, Q3 were COVID lockdowns etcetera restrictions were still prevalent especially in Canada, parts of the UK etcetera and we are cycling those numbers, we are now coming off those numbers.

Now India beverages volume momentum has improved month-on-month, 5% volume growth in tea during the quarter. Again I would point out the record Q3 that we had last year and therefore our two year volume CAGR is 8%. We have also seen strong volume growth across Sampann which grew roughly 39% and Nourishco which grew roughly 100% plus in volume terms. With tea inflation tapering off, we have seen strong improvement in India beverages EBIT margins, gross margins and therefore EBIT margins have jumped up significantly 1,100 plus basis points year-on-year.

On the foods business however inflation across the portfolio and investment in new businesses, specifically we have got two business Soufull and Tata Q which we did not have in the base last year, these have impacted the India foods margins. Now it is a volatile demand environment and we do have inflationary headwinds and therefore we will dynamically manage all lines of the

P&L to mitigate this going forward. Now despite the volatile demand environment, despite the fact that we are cycling a very strong base quarter and the fact that we are facing inflationary headwinds, despite all that our EBITDA margin for the quarter was up 270 basis points to 14.6%, improvement even versus the last quarter.

We continue to invest behind our brands, A&P in India business is up even this quarter by 19%. In line with our strategic priority of exploring new opportunities we acquired Tata Smart Foods Limited the owner of brand Tata Q which will enable us to expand our portfolio in the higher margins, value added convenient categories and to cater to the growing consumer need for health, taste and convenient food offerings. In addition, we have transitioned our Australia business from a direct distribution to a distributor led model which will not only expand reach, but also give us cost efficiencies.

In terms of performance overall as I mentioned just to recap 1% revenue, 6% volume in India beverages, 4% volume, 16% revenue in India foods, US coffee we have seen unprecedented cost inflation on coffee as a commodity and in line with that we have taken price increases more of that when I come to the details, but negative volume of 2% and constant currency growth of 6. International tea, again this is a reported number of negative 7 if we net off the divestments it is negative one and constant with currency growth of negative 5. Tata Coffee strong results 31% volume, 34% constant currency growth. All in consolidated constant currency growth of 4% netting up to 3,208 crores.

For the 9 month cumulative, India beverages volumes up by 4, revenue up 13, India foods strong performance 12% volume, 19% revenue, US coffee negative 6 because they are cycling the pantry loading of last year especially in Q1, Q2, negative 6 volume, negative 3 revenue growth, international tea again pantry loading coming off negative 5 constant currency revenue as well as volume growth, Tata coffee 7% volume, 12% constant currency revenue, All in 7% growth in consolidated at 9,250 crores.

At a glance, growth year-on-year 6% at 3,208 crores in revenue, EBITDA at 28% to 468 crores, margin expansion to 14.6%, PBT 401 crores up 34% margin expanded to 12.5, group net profit up 22% to 290 crores margin up to 9% and we are holding 1,891 crores of cash, this is despite paying off some Eight O'clock loans in the US, higher dividend, investments behind some of our associates and subsidiaries and investments behind other businesses like Starbucks. 9 months revenue 9,250 crores EBITDA 1,290 3% growth, PBT up to 1,105 crores, group net profit negative 9 at 776 crores and 1,891 crores of cash.

Now just to recap we have defined six strategic priorities, strengthening, accelerating our core business, driving digital and innovations, unlocking synergies and focus on cost, making sure we have got the talent and capabilities and building a future ready organization, exploring organic and inorganic new opportunities and embedding sustainability in everything that we do. Now just to give you a perspective of the core we have started ATL on Agni after a long time as we move up the brand up the value chain, we have used the Indian hockey team to come up with the ad which has been extremely well received, we continue our focus on growing our highly

profitable business down south with Chakra, we have launched the new TVC on Chakra Gold as well as been sponsors of Big Boss Tamil season.

As the tea costs come down you will see the India beverages EBIT margin coming back it has come back quite strongly. Our focus on expansion, premiumization is bearing fruit, coffee volume still a small base is up 65%, our expansion into moving beyond just base tea and offering value add, So, Tata Tea Gold Care as a percentage has moved to 5.2% of Tata Tea Gold and we continue to gain market share close to 90 basis points for the quarter. Same thing in salt and Sampann, salt we continue to focus on premiumization, during the quarter we have launched Tata Salt Superlite which is 30% less sodium.

Just to recap we have got Tata Salt base, we have got Tata Salt Lite and now we have got Tata Salt Super Lite. Poha has been a huge success because we are probably the only branded national player playing in this category and we have seen huge volume momentum. Tata Salt very clearly between August and December we took a 15% price increase to mitigate the various cost impact that we saw in the category. We did see a bit of channel down stocking, I would call it between October and November, but December has bounced back and we have registered the highest volume in FY22 in December. Sampann - huge focus on expansion of Sampann paying off, 39% volume growth in Sampann in Q3 and we continue to go from strength-to-strength in Tata Salt. Overall salt shares including our entire portfolio up by 476 basis points during the quarter.

Now innovation is the other big focus and we have had a slew of launches during the quarter. We have started a pilot of online only dry fruits range of cashews, pistachios, almonds and raisins, great response to that. Next step is to figure out supply chains and expansion. Launching value add and differentiated propositions in coffee, launched quick filter under the Tata coffee brand, filter coffee which you can make with the convenience of instant. Souful, now that we are covering about 150,000 outlets on a 3 months basis we have got the reach where now we are throughputting the portfolio, we have launched the No Maida Choco in a Rs. 10 pack specifically targeted as expansion into GT and as we moved up the salt Tata Salt base prices in line with maintaining margins in a inflationary environment, we are making sure we are covering the bottom end so we have just launched Shudh by Tata Salt in specific markets to cover the price points which we are vacating as we move up. Continuing the focus on innovation, 1868our online only D2C brand we have expanded our offerings out there. We have expanded the portfolio in Agni with the launch of adrak chai, we did it end December early January again, great response to this product and in line with making sure we have got a mass premium brand between Tata Copper water and Himalayan, we have launched again in very specific geographies Tata Nature Alive which will play the mid market play in the water business.

Tata Q is a strategic addition to our portfolio in line with exploring new opportunities we acquired Tata Smart Foods in November, they have state of the art differentiated MATStechnology and in addition they have great in house manufacturing and R&D capabilities which will enable us not only to capitalize with the current portfolio on emerging consumer trends and growing demand for wholesome convenient and trusted items, but it gives us the

expansion to expand our existing portfolio and leverage the technology to create a strong pipeline of value added products in our foods business.

The category is right now it is a relatively smaller category in India, more in international markets the good news is the markets which are big for Indian ready to eat products, match with the footprint that we have in Tata Consumer Products namely US, UK, Canada, Australia and therefore we see sizable opportunities in international markets as well. In addition, we will see its synergies coming into play, capitalizing on our strengths in modern trade and ecommerce and of course I talked about the international footprint. Now there is significant scope as we integrate this business to unlock synergies across procurement, manufacturing, logistics among other functions and more about that in the coming slide. I will request Ajit to run through the slide.

**Ajit Krishnakumar:**

I think this is our third integration that we are doing at TCPL after the Tata Chemical Food Business and Soufull. I think as a company we have developed good capabilities to absorb M&A particularly programmatic M&A. For us the intention here is we started the integration of Tata Q soon after the announcement in November and we are substantially complete, what that means for us is we minimize the friction between the organizations, we maximize efficiencies, maximize leverage on our common assets. The couple of highlights on this page I think S&OPetcetera will be , largely harmonized.

I think the other critical part has been as we hope to grow the business we are looking to leverage on our distribution network both domestically and internationally aim to get organizational structure already announced. Most of the other processes are underway and I think in another month or so will be substantially complete to become an integral part of the organization able to maximize synergies from the fixed cost. I think the last part as Sunil mentioned we have also acquired the facility in Sri city, we intend to use that to leverage for our foods portfolio, maximize cost savings and to also look at portfolio expansion there.

And on that note just moving to the next page. As part of our continued focus to maximize efficiency in our system we are looking to consolidate and simplify our foods network as well. Very briefly our foods network has grown over the last several years and also before TCPL fairly organically it is a large complex network of 30 or 40 largely 3P and some of the owned facilities. We are looking to essentially balance, relook at this to improve balancing cost, service levels, to maximize the efficiency for our foods as well. This is something that we are in the process of planning and over the next several quarters you will see us effect this across our networks. With that I hand it back to Sunil.

**Sunil D'Souza:**

Thanks Ajit. As we mentioned we see volatile demand environment we have cycled a high growth Q3 and we will cycle a still higher growth Q4 and we see inflationary pressures so we are dynamically managing the P&L. You have to remember inflationary pressures are in the form of freight, packaging, energy, other input cost plus apart from investing in Sampann we are also investing behind Tata Soufull and Tata Q, but the critical piece if I point you to the right side of the slide is- between pricing, cost saving, discretionary spend control, improved mix, we have continuously moved up our total EBIT percentage in Tata Consumer Products. We are a

portfolio company now and we have juggled different categories, different line items of the P&L to make sure we deliver good bottom line results overall. Sustainability, the other key pillar we have upped the ante on sustainability in Starbucks, Project Jalodari which is our water conservation has won awards from CII, Tata Coffee has won awards on sustainability from FICCI as well as Srishti trust which is our CSR project in Munnar has won awards on sustainable fashion business.

Now in terms of the macroenvironment overall GDP growths are now normalizing, tea prices in India are range bound given the initial droughts that we saw in May which caused the bit of spike in Q1 and then a little bit of lack of rainfall in November made sure that tea prices are range bound in India, but Kenyan tea prices are inching up given some of the acts passed by the Kenyan government and the Kenyan tea developmental authority. In line with that we are looking at making sure our pricing is in line to maintain margins in our international markets. Coffee is the other commodity which is moving North very rapidly given frost and supply logistics constraints in Brazil and of late some issues in Columbian coffee as well, in line with that we have already taken one price increase in the US and we are in the middle of taking the second one.

Just as a perspective, in terms of category value growth the light blue boxes at the bottom show you the category growth of last year same quarter, if you look at it there were strong growth in Canada and the US and they are cycling that so it is no surprise that categories are starting to normalize. US has continued to see category softness especially in Black tea and that is where we are strongest, but we are also seeing internally our fruit and herbal and specialty growing faster so therefore we are starting to change our mix here.

In India specifically while this quarter has shown a 10% top line as in price (value) growth, but volumes are actually negative 1.6, that said I should highlight that it is improving month-on-month, if I look at the numbers roughly from September to December minus 6, minus 4, minus 2 and December was plus 2 so the category seems to be coming back.

Business performance overall India packaged beverages revenue growth was negative one. Remember we are cycling a very, very strong growth of last year 40 plus and therefore overall, two year revenue CAGR is still 19% and volume CAGR is still 8% which I think is a strong performance by any stretch and on a moving annual total basis we have gained 160 basis points.

We are, on the left hand side, we are focusing on growing the premium end of our portfolio, A&P behind Tata Gold and we are now implementing a new master brand architecture for Agni to consolidate all our various offerings under various smaller products targeted towards the mass market into one big brand Agni which we will power with ATL.

India foods 16% revenue, 4% volume growth, critical thing to remember is the two-year revenue CAGR is a 17%, salt portfolio continue to grow double digit during the quarter, premium salt grew by 29% so that piece is working. Tata Sampann grew very strongly double digits, EBIT margins you have to remember that India foods business has got multiple legs now. There is salt,

but there is also investment behind Sampann, behind Soufull, behind RTE and various pieces that we play and therefore the EBIT margin for the quarter was impacted. Left hand side just shows you our launch of Shudh which I talked about which is to cover price points which were vacated in specific markets for Tata Salt and our online only pilot on dry fruits.

Nourishco goes from strength-to-strength as percentage of previous year close to a 200%, 72 crores of revenues, 91% revenue growth, a very strong growth across the portfolio close to 50% in Gluco Plus. Tata Copper Water grew 2.8x, Himalayan turned EBIT positive after breaking even last quarter. So, we are going from strength-to-strength there, revenue growth 2 year CAGR is also at 53%. So, this just shows you the strength of the business. As COVID normalizes we expect to go from strength-to-strength out here.

Tata Coffee, would not spend too much time because I think we have already seen the results 33% revenue growth, strong growth in plantations 22 and extractions grew by 36.

Tata Starbucks again had a stellar quarter, I would say this is the first quarter since COVID hit where things have been almost back to normal. We have got 246 stores now 94% of the stores were opened, we are in 19 cities, we opened 13 stores for the quarter, we have continued our trend of opening between 45 to 50 stores (per year) so we expect to hit that target as well this year. Like-for-like stores December 19 to December 21 so pre COVID December versus last quarter December same store sales were up by about 2% to 2.5%. So, again very strong momentum in the business. Most importantly Tata Starbucks has been EBITDA positive for the past couple of quarters, but this quarter was also close to PAT breakeven. It just shows you that as we expand the business the bottom line will also continue to improve.

In international, the UK in line with category revenue was negative 4. Teapigs was coming off a very high base therefore negative 3 and we have continued to maintain close to a 20 share in everyday black. US revenue growth of 6 in coffee, flat revenue growth in tea, we have continued to maintain our close to 4.5% share in coffee bags.

Canada our strongest market negative 2% revenue growth, but just as a perspective volume was up too - this was a question of mix with the specialty which had grown very strong in the quarters the year past starting to normalize and therefore the mix between black and tea made reported revenue come down to negative 10 (in specialty tea). Market share continues to be high we are the market leaders in Canada with a 28.2 market share.

Multiple awards and recognitions, we won leadership awards for our corporate website, we were recognized as a great place to work. We were the most purposeful brand in the Kantar reports of 2021. Operation excellence awards with CII, Kaizen Digital Competition Awards. We won gold award in the Bhopal chapter convention of QCFI which is recognized representing the quality circle movement in India and ICD Toopran which is factory of Tata Coffee was awarded HR Achiever gold award for the third consecutive year. I now hand over to L. Krishnakumar to run you through the financial performance.

**L. Krishnakumar:**

Thanks Sunil and morning everyone. First take you through the highlights from the standalone which is basically the India tea business and the India foods business we saw revenue going up from 1963 to 2030 crores an increase of 3%. In terms of EBITDA we grew by 42% driven primarily by the improvement in tea margins. In terms of consolidated performance revenue was up 6% on a like-to-like basis driven by strong performance in India, but also by the non branded business in Tata coffee & in Vietnam. In terms of EBITDA growth we have seen an increase of 103cr or a 28% improvement.

Moving on to the standalone financials revenue up by 3% and at the drivers we have talked to earlier which is basically the volume growth in the India tea business, good volume and value growth in the foods business and we have seen Sampann having strong growth in the quarter. EBITDA higher by 42% there are many drivers in this EBITDA and I am going to clarify that because you will also see in the segmental report that other expenses have gone up. So, I think we just need to understand the way we are operating and what do the EBITDA numbers reflect. So, overall there is an improvement in tea margin that you are aware. In foods and we will talk about it when we come to segments, there is a drop in margins, but we should remember when you look at margins there are four things to keep in mind when you look at the standalone performance or the performance of India business as a whole.

Now, the business consists of the tea business which you are very familiar with. It consists of the salt business which is significant. It consists of growth business which is Sampann which is third element and just these three are important from a standalone perspective. As you get into consolidated performance we have Tata Q, Sampann., Soufull another investment so we are managing our portfolio and the performance of individual components will influence the overall EBITDA and as Sunil pointed out we are managing the EBITDA overall for the combined business.

So, it is possible that in one quarter we choose to invest in one part of the business, an increased investment in one compared to the other apart from inflationary pressure. So, we need to remember that we are managing the India business as a portfolio and the endeavor is to grow both top line and margin progressively. So, quarter-on-quarter variation in individual components may sometimes not be the focus for us the way we manage the business. So, EBITDA margin up at 13.8% compared to 10%, similar improvement in EBIT and improvement flowing through to PAT. On a YTD basis you are seeing that the margins are lower than the previous year that is more a function of the first two quarters and we have seen progressive improvement in Quarter 3 and hopefully going forward.

Moving on to consolidated performance again EBITDA margin at 14.6%, higher than the 11.9% (last year). Now when you come to consolidated like I said apart from investment in Tata Q and Soufull there is also the international business and in this quarter we have had the benefit of great performance in margin terms especially by the coffee business because we had some renegotiation in the input cost with Keurigs. We have also had overall some benefits of price hikes that we have taken. So, those are contributors to the improvement in EBITDA in to the consolidated performance. When we come to exceptional items, the exceptional items are higher



because of ongoing activity on restructuring and you will see more of that in this year and going into next year. The tax rate is slightly higher. Last year was not a normal tax rate because we had the benefit of deferred tax and credits and one time credits that we took. So, this year is more a normalized tax.

Overall, net profit higher at 288cr versus 237cr. When you come to group net profit after JVs and Associates it is impacted by the performance of JVs and Associates and Sunil talked about the strong performance of Starbucks, but it has somewhat been negated by a lower than previous year performance of the plantation business because as you are aware tea prices has come down and that has an adverse impact on the plantation business.

Moving on to the year to date performance in terms of EBITDA we are trending to catch up with last year's 9 month EBITDA percentage 14% on a 9 month basis compared to 14.6%. Exceptional items actually there is a charge this year compared to a credit in the previous year which arose because of restructuring Nourishco and one time charges that we have. Overall, the net profit including JVs and Associates slightly lower, but we are trending on a much better trajectory and in this quarter we have reversed the trend you have seen in the last few quarters.

Moving on to segment performance first I will take the chart on the right hand side, overall India beverages 45% of revenue, India foods 25% of revenues so together India is almost 70% of the total business and 30% is international in revenue terms.

When you come to profitability India beverages and foods and we would like to look at it in integrated manner more of it going forward because this quarter is not representative of a normal term because we are investing more in foods in this quarter. There is some inflation some of which will get corrected over the next few quarters. So, 65% of the EBIT is coming from the India business compared to 70% of revenues and 35% from the international business. Though the growth rates are lower the profitability is definitely improving in the international business and compared to few years back we have achieved a significant turnaround in profitability of the international business. Commenting on the segment results India beverages growth of 1% is not reflective of the underlying volume growth which is 5% because tea prices have come down we have also passed on some of the benefits to the customers and what we need to look at is the longer term trend which Sunil referred to.

We are seeing high single digit volume growth in this category on a medium term basis. India foods higher by 16%, volume Sampann growth as well as some price increases in salt which we have taken towards the end of the quarter to recover some of the input cost inflation. We have taken about a 15% increase in the price. International business it is more or less a flat turnover if you adjust for divestures that we have done and non branded business had a healthy growth in this quarter.

Just a closing comment on the India food business you are seeing a 54% drop and I alluded to the reasons earlier, but it will be good to recap that in this quarter we have invested behind Sampan and growth rates are improving for the brand. We also have Tata Q and Tata Soufflé

where again we are in the early stages of investment and this quarter has had a higher investment. The third point is there is an increase in the salt cost because of two reasons, one is power and because its to do with coal imports and coal price and to some extent currency. There is also increase in the input cost of salt and brine because of the way monsoon continued and you must have been reading in the press about shortage of salt so that affects our input cost to some extent. Some of that is already starting to correct (inaudible) so hopefully we will be out of that in the next few quarters and the more important point which we want to emphasize is we are managing India business as a portfolio.

So, it has been a quarter we want to invest more in foods we would go ahead and do it because we are not managing it on a quarter-to-quarter basis. So, while there is some merit in looking at quarter, but I would not say that this quarter is a trend to be projected for the future and we are confident in overall growth and including growth of foods as a separate segment going forward. So, that is it from my side we are happy to answer any questions.

**Sunil D'Souza:**

So, just in terms of the outlook, broadly in January we have seen the third wave of COVID underway. The good part is it is less severe, but there is some impact on business especially because of the widespread nature of the impact. There are not so many fatalities, but the number of people getting impacted is significant especially at the front line both production as well as sales. We are hoping for the fast economic recovery this time, but of course you are seeing this headline everywhere inflation remains a concern. Demand environment is volatile in our key international markets till the current wave subsides.

On the business front we have delivered competitive growth in our core with business gaining market share in the core categories of tea and salt. India packaged beverages has seen normalized margins and now this should continue. We will be lapping extraordinary base next quarter because we had a phenomenal growth in India beverages Q4 of last year. India Foods business continued to see share gains and volume growth in salt and Sampann and this momentum should continue.

However, like LK mentioned inflation and investments in new business could have margin impacts in the short term. We will be dynamic in managing the P&L. The one thing I would want to highlight is like I said we had almost normal quarter or the most normal quarter after COVID has hit which benefitted our out of home businesses Starbucks and Nourishco. The third wave though it is short lived has presented some short-term headwinds, but we look to be coming back very strongly. US business coffee we are taking price increases to mitigate commodity inflation and we are continuing to work with our Tata Smart Foodz team to drive efficiencies, synergies and expand portfolio including into Sampann products very quickly. We have work ongoing on structural simplification in the international business, but more of that when we finish the projects. With that I hand it over back to Nidhi Verma.

**Nidhi Verma:**

Thanks Sunil. Moderator can we go to the Q&A queue now please.

**Moderator:** Thank you. Ladies and gentlemen we will now begin the question and answer session. The first question is from the line of Abneesh from Edelweiss. Please go ahead.

**Abneesh:** My first question is on tea business so tea industry has appointed E&Y to do a floor pricing below which tea cannot be sold in the Indian market, do you think this is a big development and this can impact the margins of branded tea companies in the longer term and second question is on the relaunch of Agni how does this impact you discussed on the overall mother brand which will cover the smaller businesses, but what is the plan here from longer term perspective?

**Sunil D'Souza:** So, Abneesh on regarding the tea industry my answer is, basically the tea plantations are under stress and have been under stress for a long time and there are multiple things that the industry is trying to move beyond that. Now there are reasons controllable and uncontrollable because of which this is happening. One of the things they are trying is I mean proposing a minimum floor price, but remember there are moving multiple moving parts, the government has just sent out a draft of change in the entire plantation labor act that could change dramatically. There is a talk of investments on promoting tea consumption etcetera. So, I would not comment on anything till it materializes. I mean industry is free to appoint anyone and lobby for various items. I would cross the bridge once we know what is coming around the corner so that is number one. Number two, I think we have mentioned very, very specifically that we are going to focus on three big things to grow our branded business. Number one is build stronger brands, number two is expand distribution and number three is drive innovation. In line with that we have had I would say multiple sub brands if you may across the place with Tata tea, we are now starting to create a master brand architecture where Tata tea is the mother brand and you will have brands playing under it. Just like we have got Tata Tea Gold, Tata Tea premium and now Tata Tea Agni under which all the similar products playing in that price band and that positioning range will be migrated which then provides help for us as a brand and ability to invest behind brand building and not only relying on it as a push brand.

**Abneesh:** My second question is on the salt business so how are you addressing the cannibalization from launch of Shudh and second in PPT you have mentioned volume growth coming back post the price hike, so how are they related as in price hike leading to volume growth is it a general comment or is it cause and effect?

**Sunil D'Souza:** So, let me react to your second question first. We have actually moved our MRP from 21 to 24 over a period of 4 months from August to about November. So, as that has happened and it happened in two tranches, normally I mean historically we have seen when we announced a price increase there is down stocking of the channel and therefore volumes go down. Once the price stabilizes in the market the volumes come back so that was my comment saying in December, we have seen volumes come back in fact December has clocked the highest volume in FY22 so the price has now set in so that was the comment. Just a perspective that the second price increase of Rs. 2 happened early December so the price was still not for the full quarter and volumes came back so that was number one. Number two, as regards Shudh the critical piece is as long as we have margins which are comparable for across the portfolio then it does not cannibalize in terms of the overall margin profile. Shudh is comparable broadly comparable

to the Tata Salt piece, but it provides us a additional layer. So, now we have got a range of salt offerings right from the premium range of rock salt going down to various other salts, Superlite, Lite, Tata Salt and now we have got Tata Shudh below that. What it effectively does is maintain my market strength across various price bands making sure that as I expand distribution, as I spend behind the brand I am the one who is also gaining market share.

**Abneesh:**

And last quick question on dry fruits so we have got California at the premium end which has got quality in premium pricing and then every ecommerce has got its own private label which is on the value offering so what is the space left here. Dabur also for example has entered Chia seed and Pumpkin seeds and most likely they will also enter all this cashew, almond, raisin also, so wanted to understand the margin profile versus your current business and what is the right to win here?

**Sunil D'Souza:**

Critical thing that we are seeing in the dry fruit space is the leverage of the Tata brand. In the dry fruit space our research tells us that the consumers are not very sure on the price value equation on what they are buying. There are various brands playing in the portfolio, but we do believe that coming in with a Tata brand into a category which could do with a little bit of trust, injects a huge amount of equity into that play and that is our presumption going forward. Just to test out that presumption we have done this pilot launch on ecommerce and we have seen strong response. So, now we are fine tuning, making sure that again the price value equation and the supply chain because again this is making sure that we are sourcing at the right prices, right locations etcetera, we are putting that into play before we expand it. Overall, we do expect that the margins in this business will be comparable to our existing business so it will not be a negative.

**Moderator:**

Thank you. The next question is from the line of Sumant Kumar from Motilal Oswal. Please go ahead.

**Sumant Kumar:**

So, my question is regarding A&P expense we have seen a QoQ improvement by 13% and 150 crore run rate, so can you guide us what kind of momentum will be there for A&P expense for the coming year and coming quarter?

**Sunil D'Souza:**

So, let me just leave you with one of the things when we started the integration of the salt and tea businesses and put Tata Consumer Products together was that we were under indexed on our A&P spending, we had the strength of the Tata brand to play with, but then building individual brands under them, powering the brands, putting them right on top of consumer mind for recall was the critical piece. So, over the last I would say 7 quarters that we have been in existence you would have seen at least a trend line of ramping up A&P. All I would say is in different categories there is a different level of competitive range to play with, share of market to share of voice is the critical indicator that we look at and we will make sure that we are in the competitive range to continue to build brand and syncing it with our distribution expansion.

- Sumant Kumar:** And can you talk about the overall salt revenue growth volume and value terms because when we see the momentum of the food business we have seen a 20% kind of growth, but this quarter we have seen a 16% kind of growth, so how is the growth of salt in absolute terms?
- Sunil D'Souza:** Salt is the strongest volume contributor in the foods business. Salt I think grew about 3% in volume terms, but like I said as soon as we announce the price increase in line with what we have seen historically we saw down stocking in the channel in October and November and December onwards volume started coming back. We do expect to come back to strong growth as we go forward and the price normalizes. You have to remember when we started this integrated business we were at a 28, 29 market share in salt we are touching about a 38 market share in salt now and we aim to grow from here. So, you could expect momentum coming back into the salt business.
- Sumant Kumar:** And what is the revenue growth in salt, absolute?
- Sunil D'Souza:** I will ask Nidhi get back to you on the exact numbers , sorry salt revenue growth just to clarify 15%.
- Moderator:** Thank you. The next question is from the line of Percy Panthaki from IIFL. Please go ahead.
- Percy Panthaki:** Sir just wanted to understand a little more detail on the margin compression in foods if you can break it up in some respect in terms of how much is due to input cost inflation, how much is due to higher ad spend or any other line item and also whether it is largely I mean the margin compression is it twin basis points larger in salt or is it larger in the Sampann I mean in the pulses spices portfolio?
- Sunil D'Souza:** I'd just like to clarify, I will repeat what LK said the foods business has got multiple pieces out there. I will start with the tail end which is the new businesses that we acquired Soulfull and Tata Q which are businesses in which we are investing. Now when you consolidate it, it all totals out into the food business so that is number one and these are businesses which are primed for growth , expanding our portfolio, getting us into higher gross margin categories, categories of the future, so that is number one. Number two, Sampann is a brand which we are clearly focused on for growth and as you have seen in the presentation we have delivered a 39% volume growth on Sampann for the quarter. We are building Sampann into a larger brand and as you've seen it we want it to be a total pantry brand, dry fruits is the latest example of the launches, you will see continued launches across different categories using Sampann so that is another investment piece. On the salt itself there are two or three pieces which are impacting. One is energy cost to produce vacuum evaporated salt. Second piece is the packaging freight and all the downstream effects of petroleum inflation and the third piece is there was extended monsoons in the state of Gujarat and therefore there was an issue in sourcing brine. So, the good and bad part the brine cost have gone up not only for us they have gone up across for everyone. So, in effect just to give an example, brine which used to cost at the lower end of the table 1,750 is now trading at a 2,500, 2,600. So, there has been a jump, but that would normalize as the new season kicks in starting February, March onwards and therefore that will come down. On the packaging, freight,

energy etcetera your guess is as good as mine in terms of petroleum and related inflation and that is why the food margin is down plus the one other thing that I would like to highlight is there is a timing differential between cost and price increases in salt. Cost increases started going up, slightly earlier - we took our price increase in one round then we saw the jump and we took out the second round of price increases in December. So, therefore for this quarter the margin compression would be probably slight bit more than what would be on a normal basis, but going forward brine would equalize, we have taken up prices, but the investments in our new businesses would continue and that is why you would see a bit of compression on margin.

**Percy Panthaki:** Secondly the deflationary impact that you see on the tea input cost, do you think there will be any incremental benefit of that coming into Q4 or whatever we have seen in Q3 that captures the entire sort of deflationary impact of input cost?

**Sunil D'Souza:** See the critical thing in tea is I am focused on two, three clear pieces. I am focused on market share, market share is inching up and the second thing is margins. While I am building for the future in terms of A&P as well as distribution. Now as long as all those pieces are a ticked we will move up and down in line with competition and stuff which happens in the markets. So, I cannot predict for the future. Right now I would say the margins are healthy, our spends are healthy, my distribution is growing and my market share is in the right trajectory.

**Percy Panthaki:** So, basically you are saying margins at this level are normalized in terms of there is no further benefit likely because tea price has fallen?

**Sunil D'Souza:** I would say we will stay competitive in the market, margins are good today. I would not predict quarter-on-quarter I would take it as it happens in the market.

**Moderator:** Thank you. The next question is from the line of Jaykumar Doshi from Kotak. Please go ahead.

**Jaykumar Doshi:** A quick question on Eight O'clock business. So that business had a fairly stable profitability profile over the past several quarters and this time some improvement, as you see inflation in coffee prices is there any risk to that stable margin that US coffee business generates, will there be some volatility?

**Sunil D'Souza:** So, let me put it this way. We have seen unprecedented inflation on coffee prices and in line with that all competitors in developed markets, most importantly the US have taken price hikes, we have also taken hikes in line with what we are seeing happening across the industry. We took one round of price hike about August, September this year and right now we are in the middle of taking the second round of price hikes. We do expect that margin should stabilize once we take these price hikes, but that said your coffee prices are anyone's guess right now - we expect them to be the \$2 20, \$2 30 range at which the future are operating, our calculations at that level, but then that said we had initially indexed at 170, 180 and taken the first round. As and when prices move as I mentioned we will dynamically manage the P&L to make sure the business is on a stable footing.

**Jaykumar Doshi:** Now in case of foods business you indicated at least some easing of brine prices and full impact of price increases taken so far in salt, so where do you expect this food business margin range to be and the investment in new business Soufull and Tata Q so we were looking to get 15%, 16% margin not long ago, will we go back to that 16% margin or given the need for investment in new businesses that margin band will settle at a lower level. Because not just from perspective next quarter, but how should we think about next year assuming some of these inflationary pressure ease?

**Sunil D'Souza:** So, as a perspective I would just repeat saying that we have delivered probably the highest EBIT for this year during Q3 14.6% (was EBITDA margin), we are managing Tata Consumer Products we are not a tea or a tea and salt company anymore. We are becoming a larger food and beverage company, as we become a larger food and beverage company we will have give and take to make sure that we are delivering the total Tata Consumer EBIT percentages. In the shorter term you might have some movement up and down as we invest behind new categories, new businesses, acquisitions, spending on capabilities etcetera, etcetera, but overall I would be very confident of Tata Consumer Products margins going forward.

**Jaykumar Doshi:** And the final quick one is what is your return-on-investment expectations from the rupees from 400 crore acquisition of Tata Q and what should be the top line and EBITDA that you expect from that entity or that business in the next 3 to 5 years?

**Sunil D'Souza:** So, let me say as a board and as a management team we are extremely focused on the IRR that we are or we will be generating from any of our investments and or acquisitions. The Tata Smart Foods whole plan which we put together does cross those benchmarks and crosses that very comfortably because I would just repeat there are three or four different pieces around the Tata Q investment. We would get a brand which is already a number two in an emerging category in India, but again the category is small in India. The category outside India is roughly 10 to 12 times the size of what it is in India and that has not even begun and that is the much more profitable or much more higher margin business to play and we will shortly start playing that as we get our export approvals in place, that is number one. Number two, in the ready to eat segment itself given the differentiated technology that MATS has, we can expand our profile to various other products which will be extremely differentiated and appealing to the Indian consumer, that is number two. Number three, the technologies which are present in the plant are across the foods business which I can use even for expanding my Sampan portfolio. So, we can do from that plant we are able to do spices, pastes, different simmer sauces etcetera so that the whole range of products which you will see coming out from the Sampan stable leveraging that facility. Just to summarize just going back to my top line the IRR meets the hurdle rates comfortably for any investment that we look at from a Tata Consumer perspective.

**Moderator:** Thank you. The next question is from the line of Nitin Shakhder from Green Capital Single Family Office. Please go ahead.

**Nitin Shakhder:** I have one question specifically on the Tata Starbucks business. If you could just highlight some sort of specific revenues figures for this business so mainly I would need the average sales in

the quarter for a typical Tata Starbucks outlet as one SKUs and what is the average cost of projects for setting up a typical Tata Starbucks outlet and what are the average revenue pricing in terms of single consumer per billing, do you have those figures?

**Sunil D'Souza:** We do not have those figures right now I will ask Nidhi to get back.

**L Krishnakumar:** I am conscious that there is some competitive intelligence that you are seeking here.

**L Krishnakumar:** So, while we are able to share overall directions on performance we will see if you can touch base with Nidhi, but something which is very specific we will have to respect that there are certain things you may not want to share on unit economics..

**Moderator:** Thank you. The next question is from the line of Alok from Ambit Capital. Please go ahead.

**Alok:** My first one is on, in your presentation when you mentioned getting the right mix of in house and outsourcing capacity would it also include the salt plant because I believe that is more to do with Tata Chemicals, so I just wanted that clarification?

**Sunil D'Souza:** So, on salt very specifically all our vacuum evaporated salt comes from Tata Chemicals that is not going to change, but as we looking at various different price points etcetera we also do solar salts which we source from different places and yes those facilities will be part of the discussion, but just to remember they will not be part of the overall networking pieces because most of them are all located in Gandhidham.

**L.Krishnakumar:** The other agreement is that what we get from Tata Chemicals is bulk salts and we also do repackaging which is also distributed and the retail packaging is also distributed.

**Sunil D'Souza:** So, the C&FA footprint or repackaging network is part of the exercise as to where should the location be to optimize the freight inward as well as outward and packaging cost.

**Alok:** And just a follow up to the salt portfolio, you mentioned about the launch of Shudh, so firstly I understand that there is a Tata Shudh tea also, but there is no mention of that in the PPT, so would that also be catering to the economy segment as you plan to move up the Agni also and secondly on the Shudh packaging because historically Tata Salt Packaging has been a standard white and orange color, now as you plan to put Shudh with a very differentiated packaging I mean how do you work on market acceptance especially consumers who look at the color of the packaging and they will buy, so the thoughts on that?

**Sunil D'Souza:** So, first of all the orange packaging of Tata Salt is part of the brand identity I would say you do not need to tell a consumer beyond showing those pack graphics. They would guess automatically that this is Tata Salt and that is one of the reasons we have got a 38 share, 39 share in Tata Salt overall, so that is number one. As we expand the portfolio yes we have done a pilot launch of Shudh tea in the north we are still testing it out, very early days. Shudh is a completely differentiated packaging. This is the result of consumer research to consumers who are not currently picking up Tata Salt as to what appeals to them and why. So, the entire marketing mix



that has been developed for Shudh is the result of research and we have put it into test in a few markets. Depending on the results we will decide on the roll out plan.

**Nidhi Verma:** So, we will take a couple of questions from the webcast. Sunil, there is a question from Ratnabali saying Sampann volume has grown 39% year-on-year, can you please elaborate on the particular areas of growth within the portfolio and can you give us a direction on the products which are EBITDA positive within the Sampann basket?

**Sunil D'Souza:** Sampann overall should be EBITDA positive, in terms of the categories in which are growing we are primarily in pulses, besan and spices, these are the three big categories. Spices is relatively smaller in the scheme of things, the big growth has come from pulses and besan.

**Nidhi Verma:** And the other question is from Rajasa at Franklin Templeton. She is saying there is a sharp margin pressure in foods business which is not clear, could you please help break it down into salt, pulses, other new businesses, raw material issues versus higher brand investments. Since salt is an internal transaction should we assume that raw material cost is more formulaic and less volatile. I think we have addressed part of this question earlier, but over to you Sunil.

**Sunil D'Souza:** No, we have addressed this question Nidhi.

**L. Krishnakumar :** We've addressed this question. Happy to have a conversation if you need anything more .

**Nidhi Verma:** And then there is one question on the dominance of B2B players like Jio, Udaanetcetera if they could have an impact on our margins, working capital, ROCE going forward?

**Sunil D'Souza:** So, let me just put it this way. We would be adapting to the changing environment as we go forward as we have already done. We will be where the consumer is. The consumer is today buying from D2C , consumer is buying from platforms online, consumer is buying from modern trade, consumer is buying from Kirana, the Kirana are served through distributors, Kiranas are served through B2E, B2B players. So, we will make sure that we are present on all the platforms. Now who goes up, who goes down your guesses as good as mine, but we will keep adapting to make sure that while we are playing everywhere we will keep tweaking our formulas to make sure we are delivering good EBIT margins for Tata Consumer Products.

**Moderator:** Thank you. The next question is from the line of Ekta Sanghvi from Vallum Capital. Please go ahead.

**Ekta Sanghvi:** I just have two questions, firstly what is the contribution to rural to our overall revenue and what is the outlook of the rural demand according to you?

**Sunil D'Souza:** The outlook across rural demand is in line with what we are hearing on the FMCG space. There is softness or there is pressure on rural demand. We are seeing that in specific geographies which have a higher rural percentage and we are seeing it in brands which are more mass market. That said I do think it is just a matter of time before rural bounces back. So, we are continuing to expand our distribution across rural. As we said, we had said we will get to a million outlets by

September we have done that, right now we are running 1.2 million outlets, but now the focus is to move just beyond the metros in urban and expand rural because theoretically we are weaker in rural than we are in urban on a distribution model, that is number one. Number two, in terms of rural percentage overall I would say it is in the 35 sort of range 33, 35 range and the rest comes from urban.

**Ekta Sanghvi:** On Tata Q could you highlight the revenue and the EBIT margins of the business?

**Sunil D'Souza:** See, the Tata Q business started Q3 of 2019 and just as they launched they entered into the COVID phase which severely impacted them. So, I would not read too much neither into their top line, neither into their bottom line. Going forward, like I said our business plan as presented to the board clearly crosses the hurdle rates that we have set for Tata Consumer for internal rate of return and we do think the portfolio overall can become a sizable number and it will be accretive to our total algorithm not only on the top line, but also on the margin front.

**L Krishnakumar:** I think we are also trying to build like you said the different aspects of it. There is the existing brand which today is the smallest portion of the opportunity. The opportunity is also on relooking at the product and offering in overall RTE space, looking at exports for which we are in various stages of getting certification in different markets and third is building better utilization of the plant not only for the existing RTE products, but to the range of **(Inaudible) 1:07:45**. So, that is the way what we are, it will become a combination of India led, export led and the manufacturing hub for the range of products so that is the way the overall development is going to take and from the product perspective, given where we are since we are relooking at the opportunity and some of the priorities for us, we will talk to you more specifically in maybe a couple of quarters from now.

**Moderator:** Thank you. Ladies and gentlemen we will take the last question from the line of Shirish Pardeshi from Centrum Capital. Please go ahead.

**Shirish Pardeshi:** You may not be able to share you do not want to share the Tata Q numbers, but what I am trying to look at where we are in terms of current distribution, penetration, which all markets we are present and not maybe one year, but maybe down the line if you can especially tell us that what is the number you are looking for down the line three, four years from now?

**Sunil D'Souza:** Let me just say the current size of the RTE market in India is about 150 crores, but the current size of the export market from India is about 1,700, 1,800 crores so that is the differential. So, today we are present only in the domestic market and today we are present in the domestic market primarily in ecommerce and broadly modern trade and very small percentage in general trade. Now again just like we have done with Soufful where we have moved from 15,000 outlets to on a three monthly basis 150,000 outlets, the intent is to leverage our distribution to scale and expand the portfolio. In the next one year if I fast forward we should be in all the developed markets of US, UK, Canada, Australia which revenue and margin terms are extremely accretive.

**Management:** **Inaudible**

- Sunil D'Souza:** Despite a late launch in modern trade Tata Q is the number two brand next to MTR.
- Shirish Pardeshi:** I completely agree because I have extensively used this product in Bombay. What I am trying to see that when you say that you will be able to share does that product is looking for supply chain backend to be developed to expand the market. I am not going by the market size 150 crore I think it is a huge opportunity, but the only thing is that how fast you can capture that opportunity that is what my intent to ask this question?
- Sunil D'Souza:** No so absolutely in the next one year you would see a dramatically different momentum on the business. Like I said not only on the export front, but also on the India front as we expand portfolio and expand distribution.
- Moderator:** Ladies and gentlemen that was the last question. I now hand the conference over to Ms. Nidhi for closing comments.
- Nidhi Verma:** Thanks Stanford. Thanks everyone for joining us today I recognized we have run out of time. So, if you do have any further questions please get in touch with me and on behalf of the management thanks again for joining and thanks ICICI for hosting us.
- Moderator:** Thank you very much. Ladies and gentlemen on behalf of ICICI Securities that concludes this conference. We thank you all for joining us and you may now disconnect your lines.