TATA CONSUMER PRODUCTS

"Tata Consumer Products Limited
Q1 FY2023 Earnings Conference Call"

August 11, 2022

TATA CONSUMER PRODUCTS ICICI Securities CHORUS CALL

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Moderator: Ladies and gentlemen, good day and welcome to Tata Consumer Products Limited Q1 FY2023 Earnings Conference Call hosted by ICICI Securities Limited. 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 "*" then "0" on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Manoj Menon – Head of Research - ICICI Securities. Thank you and over to you Mr. Menon!

Manoj Menon: Hi! Everyone, it is a wonderful good morning, good afternoon to you from India. On the auspicious day of a celebration day today, thanks for taking timeout and joining this call. Now I just hand over the platform to Ms. Nidhi Verma from Tata Consumer for the introduction of the management and for further proceedings. Nidhi over to you!

Nidhi Verma: Thanks Manoj and hi everyone and welcome to our call and thanks for taking the time to join us today. We announced our results yesterday and published all the materials, so hopefully you have had some time to go through them, but for today's call I am joined by Mr. Sunil D'Souza - Managing Director & CEO; Mr. L Krishnakumar - Executive Director & Group CFO; and Mr. Ajit Krishnakumar – COO. So in terms of the format we will spend about 15 minutes or so walking you through the key highlights during the quarter and then we will open up the floor for Q&A. So for further proceedings I will hand it over to Sunil. Sunil over to you!

Sunil D'Souza: Thanks Nidhi. If I can go straight to slide #6 in the deck, which is executive summary. During the quarter we grew by 11% on consolidated revenue, 10% in constant currency terms despite huge volatility and inflationary headwinds. On a three year basis this is a 12% revenue growth. Expanded our margins EBITDA grew 14%, 13% in constant currency up by 40 basis points, EBITDA margin is now 13.8%. India business grew 9%, 1% volume in India beverages and revenue of 3%. India foods volume growth was a bit soft as they took strong pricing in respect of inflation which we are seeing in that business but revenue of 19%. International business was up by 9%, margins more or less maintained in the international business, gross margins. Segment margins India expanded 20 basis points despite cost inflation in salt and significantly higher A&P. We continue to invest in our brands while overall as a company we upped our A&P by 34%, India business was up 48% and that shows market share gains in both tea and salt. Innovation momentum was accelerated and we had several new product launches across all our platforms and group net profit increased by 38% led by higher EBITDA and most importantly improved performance of JV and associates. We have also announced a new sustainable strategy with holistic growths and targets.

I will straight move to slide #9, which is a summary of our key businesses. India beverages I talked about volume up 1%, revenue up 3%, India foods volume negative 3%, revenue up 19%, US Coffee again strong pricing actions in line with commodity trends out there, volume down 3%, revenue up 20% and as you will see market share beginning to trend up there. International tea volume growth negative 2%, revenue up 2% because all the pricing actions that we have taken have not translated into the market given the fact that we deal with several large customers, but we will solve that puzzle end of last quarter and we should see better traction going forward. Tata Coffee volume growth up 8% and revenue up 25% driven by coffee prices. All in 3327 Crores of revenue up by 11%.

Next slide, in terms of metrics I think you saw a flow through completely 11% revenue, 14% EBITDA, 14% PBT and group net profit up 38%, most importantly EPS is up by 38% and we are sitting on 1900 Crores of cash.

If I move to slide #12, just to give you highlights of where we are on our strategic priorities. We have committed 1.3 million outlets, direct reach in March, which we have completed and we have said we are targeting for 1.5. Going trends we might be slightly ahead, but as of now we will stay with the 1.5, but most importantly we said we have to now get the wholesale multiplier as we pump in innovation and A&P through our distribution system. Wholesale coverage is up by 2x from 19000 to 38000 outlets, most importantly also all our alternate channels are firing full speed, modern trade is up 35%, e-commerce which we had ended at about 7.5% of sales last year is now up to 8.2% and two-year CAGR is 73% very healthy trend.

Next slide, we are continuing to power our packaged beverages, overall India business A&P is up by 48%. Coffee is now growing very, very healthy for us up by 73% for the quarter, but we have about a 3 to 5 share depending on which geography you take into account and we continue to inch ahead on our market share in base tea.

Next slide, on salt we continue to power A&P, but most importantly we now will start ramping up our investments behind Sampann. We had always said the opportunity in salt is both on top of base Tata Salt as well as below. So rock salt and premium salts overall grown significantly and we had launched this new variant of fortified salt as a pilot in Delhi, doing very well with a few tweaks in the marketing mix we will now be rolling it out across the country. Most importantly our salt share is in the ballpark of 38% and continues to show 400 basis points improvement over last year. We are fueling innovation. The first slide I think is a critical piece where we are rejigging our blends the whole marketing mix across the country, but most importantly 40% of the spice market is in the southern markets where we had not played seriously so far. We are now customizing both product and communication to match the southern markets. Just started our rollouts in Andhra,

Telangana and we will be shortly entering Karnataka, but way to go. All I would say is watch this space.

Moving from coffee into cold coffee, we probably were a slight bit late to the season, but going forward we feel very good about this product. Expansion of portfolio in NourishCo was another big thing and we have launched Tata ORS on a pilot basis in specific markets, and internationally also we continue to expand with the Sweet Tea,Cold Brew in the US now. When we had acquired Soulfull we had said we acquired Soulfull not only for what it is but what it could be and we had said that is going to be the base brand for our platform in breakfast cereals, mini meals, and snacking. Now that we have got the base business more or less tightened up, now we are expanding, this is our first of many more innovative launches expanding categories in the platform. A blind taste it is a winner versus the market leader, we are already about five to eight share in about the last 60 days since launch in markets and outlets where we are present.

Next slide, Himalayan we figured that the share of equity and mind space in consumers is far ahead of our share of wallet and we have the opportunity to expand this into many more segments, so we are transforming Himalayan into a provenance brand. You will see many more opportunities coming up for Himalayan, but now we have started with jams, preserves and honey, all sourced authentically from the Himalayas.

Next slide, the other thing this quarter is we have always said that we have a four plus one platform play, not elaborated too much on the plus one platform. I think by now everyone on the call will be familiar the fact that we have entered the protein platform. I would highlight saying that we have entered the protein platform and not only a product.

Next slide, the first category that we are entering is alternate meat, we have launched Tata Simply Better off to a good reach albeit it is just two-and-a-half weeks old and we see lot of potential. Unlike many of the competitors in the space a) we have got a winning proposition both in terms of the protein content in specific products, the taste and texture feedback from consumer and most importantly an ambient play which then allows us to expand our distribution width far, far more than competition.

Next slide, we have always maintained that while we will strengthen and accelerate our core businesses, we will propound our field of play. Our new engines of growth last year delivered 52% growth, this year also continuing that trend Q1 they are up by 53%.

Next slide, we have won lot of awards in sustainability, but most importantly we have announced our new sustainability strategy, we have already put it out in public, better sourcing, better nutrition, better planet and better communities, detailed items under this detailed targets. These are achievable targets which we aim to deliver, whether it is supplier assessments or sustainable products in one form or the other in the product form or in the

climate space net zero, water neutral, zero waste to landfill, and packaging or committing to diversity in the workforce. We have now very specific targets with very specific timelines which we aim to deliver over a period of time.

In terms of the macros on the right hand side, commodity trends a little bit of softening, but albeit overall versus last year still higher. Kenyan Teas which translate into a bit of inflation in our international geographies because of which we are taking pricing. In India tea was broadly operating in a range, a small bit of a blip I would say with the floods in Assam mid June to about early July but given the broad-based trend of supply greater than demand in India we do expect to start seeing the secular trend coming back. Coffee prices having hit a high of about 260 per pound some time back and now operating more or less range bound and given what we are seeing in Columbia etc., which is where coffee prices are dictated, we expect them to be staying in this piece. Good news is we have taken pricing primarily in our coffee business in the US to account for this.

I will move to slide #28, in some of the businesses, India packaged beverages 1% volume growth, revenue down because we have reindexed pricing in line with softening tea prices and 40 basis points share gain.

Next slide, India Foods volume was negative 3%, but just to point out that vacuum evaporated Tata base Salt was flat despite the pricing that we have taken and that our overall pricing actions have translated into 19% revenue growth. Most importantly with the new price hike that we have just gone in with, moving our prices from 25 to 28 we do think margins will be back on track and as you see on the slide, we are continuing to hold on to market share gains we are 400 bps up versus last year.

Next slide, NourishCo very, very strong trajectory 110% revenue growth, 180 Crores for the quarter.NourishCo this is the first summer that they have seen since we have taken over and like all beverage majors as the extended heat wave hit Northern India we were also hand to mouth on capacity and therefore as we expand geography and portfolio we see bright future for this business.

Next slide, Tata Coffee, extractions and coffee plantations drove revenue growth to 25%.

Next slide, Starbucks, again you got to remember we are cycling a quarter of full lockdown last year, but now we are at a 275 stores, 99% of stores are reopened, we are in 30 cities, we get EBIT positive quarter for Starbucks which shows the power of the operating for Starbucks and therefore the ability to generate value in the longer-term. Given it is a 25% increase in same store sales versus pre-COVID we do feel good about the business.

International slide #34, we are more or less maintaining share in Everyday Black in the UK but most importantly we have put money behind A&P for Teapigs which is our super

premium brand and we have seen a 16% revenue growth there and overall the business delivered a plus 3% revenue growth.

Slide #35, Coffee Bags, we are now climbing back on share, tea was a bit soft, but I think it will get corrected over the cycles. Overall coffee revenue growth of 15% primarily again driven by pricing.

Canada our star in the international market continues to maintain share, growing speciality tea and overall delivering 14% revenue growth.

I now hand over to LK for a quick snapshot of financials.

L Krishnakumar: Thanks Sunil. I will just talk you through the summary of financials. Starting with consolidated performance revenue 3300 Crores grew by 10% in constant currency, again that the India business grew by 9% and in the India business the salt portfolio grew by 20% and the growth initiatives which are basically water, Sampann, Soulfull and the like grew by over 50%. International business saw revenue growth in the non-branded also had a stellar quarter because of coffee prices and higher volumes we grew at 25%. In EBITDA terms the growth was 14% higher than with an improvement in EBITDA margins driven by the India business largely by tea, but also overall on common cost. International business EBITDA grew by 9% and non-branded business had higher EBITDA.

On the standalone performance we saw a revenue growth of 6% and EBITDA growth of 12%. Let me just clarify the EBITDA which is shown here is sort of derived from these statistics where we have taken out the other income, dividend portion and kept only the operating income to give you a reflection of true performance and the underlying performance from EBITDA growth.

Moving onto the next slide again talking first about the consolidated results, revenue from operations 11% EBIT higher EBITDA margin improvement, I want to point out the PAT number 277 versus 241 and then if you move to group net profit for this current quarter is the same as the PAT that means a share of profit/ loss from JV & Associates is zero at breakeven compared to a loss of about over 40 Crores last year. This basically reflects improved performance of Tata Starbucks as well as Amalgamated Plantations which is the North India plantation that we have, both performed extremely well in this year. On standalone again we are seeing that operating EBITDA grew by 12% but if you look at the reported PBT it is sort of lower compared to the same period last year largely because of dividend in investment income and within that mainly because of dividend we had a significant dividend flow from the overseas entities in the last year. We expect to have some of the dividend flow in the later part of the year, it is also to do with the restructuring plans that we have, we are hoping to complete with necessary approvals.

Moving onto the next slide which is segment wise performance. Both revenue and EBIT of India business is 72% of the overall branded business and within the individual components we are reporting India business on a consolidated basis because that is how we manage different product portfolios within that India business. So overall profitability higher than revenue growth of 9%, international business profitability in line with revenue growth and Sunil sort of talked through individual parts. I think overall we have been able to take price up in a competitive environment and maintain volumes. We have seen strong volume growth in the growth businesses as a part of our portfolio which is water, Sampann and also Soulfull. Sampann performance was slightly muted because of certain reasons that Sunil mentioned but we expect growth to come back strongly in the quarters ahead. That is it from my side, we are happy to answer any questions.

Sunil D'Souza: Just a quick summary of what we are seeing going forward. Inflation volatility I think is a reality we will have to keep moving plus and minus depending on where it goes. We will focus on driving and balancing both growth and margins. I do not think it is a either or situation, we have got to manage both. Just to put it in perspective that if you look at the last three years we have delivered a very healthy CAGR of 14% in beverages and 19% in foods. Salt cost where we thought the cost inflation was behind us and we had moved from 24 to 25 end of last quarter, Forex moving against the Indian rupee and cost of coal going by roughly 2.5x to 3x of what it was last year, we have now moved the pricing from 25 to 28. For me the most big indicators in a volatile environment are maintaining margin and market share so that you continue to balance between all these three including topline. Our growth businesses are on a strong trajectory, you have seen the 50% plus. Given the lockdowns hopefully behind us, our out of home business NourishCo and Starbucks should continue to deliver momentum. Tata Soulfull strong momentum triple digit growth which we will continue to drive as we expand portfolio and enter newer categories for the platform. International business, we have taken strong price actions in the UK probably it is just about landing because it took some time to translate into the large outlets but that also should be on a good wicket. The most important thing I would want to highlight is we manage the overall business as a portfolio and we will have puts and takes in certain businesses depending on what we are seeing as opportunities or headwinds. With that back to you Nidhi!

Nidhi Verma: Thanks Sunil. Moderator we can go back to the Q&A queue, and we can start taking questions.

Moderator: Thank you very much. We will now begin the question and answer session. The first question is from the line of Abneesh Roy from Edelweiss. Please go ahead.

Abneesh Roy: Thanks. My first question is on Sampann and two, three subparts to that. First is in your presentation you have mentioned short-term impact of trade terms, margin rationalization

and realignment, so if you could elaborate. Second is at the company level your gross margin is 43% and EBITDA margin 13% to 14%, Sampann I do understand currently EBITDA margin will be much lower. My question is on Sampann say four years down the line when things stabilize where do you see versus the 43GM and 13EM at company level and last part is the 5% GST which has been put on packaged cereals, pulses, etc., do you see a big benefit because of shift from the smaller players?

Sunil D'Souza: Let me take your question. So number one, on Sampann very specifically in the quarter we corrected some channel and trade margins for spices about 25% of our mix comes from online, for pulses and spices about 40% comes from online so we did take certain margin corrections to make sure margins are on the right track. In a business like Sampann which is a high growth and probably I would say not low mid margin you got to make sure that the ballpark margin is right as you are accelerating, so one is the trade margin correction. The second piece is like I pointed out for spices we are going in for a full relaunch of our blends and we are entering the southern markets with a completely different mix so we did pull back our spices business to an extent to make sure that we hit the ground running when we come back new and these are the two factors, but just to give you comfort on the Sampann business it is a huge growth opportunity for us does not change, the total addressable market is huge pulses 155000 Crores, spices is 60000 Crores, spices is bigger than my tea business addressable market so we are fully cognizant of that but we got to play in with the right margin. So that is why we probably took a pause, but last three years CAGR if you look at it Sampann is still on a 30% CAGR and by the way July has still trended directionally in the same number so that is the reason why LK says he is very confident of coming back to that category so that is your answer on the Sampann question. Number two in terms of your where could Sampann go, see Sampann you have to remember very, very high ROCE for Sampann from a TCPL perspective so it does unlock a strategic question for us as we go forward and it will be I would say high single digits, low double digit margin is a very, very long-term aspiration but we have various levers to pull to get there. Number one is as we build scale we have got to flex our procurement muscle get better at that including forward contracting, forecasting all those pieces, number two we have got to get into distributed manufacturing because freight is a huge component in these pieces we have just finished a piece of work in which we are re-laying our entire network we have got to execute that which takes a bit of time and number three of course we have got to bring our technology jobs to bear because our R&D team now needs to figure out how to value add into these categories, all I would leave you on that front is I think we have built a fabulous R&D team having invested in significant resources behind that and in the next I would hazard between three to six months we will see some really differentiated products in the Sampann base business itself.

Abneesh Roy: That 5% on the packaged?

Sunil D'Souza: Abneesh you are absolutely right the 5% on the packaged pulses, etc., will play to our advantage. One is the compliance on the ground but especially in organized channels like e-commerce, modern trade, etc., where I would say lot of competitors were playing on the border line with the brand but not registered so to speak. I think if the compliance is tightened up there the premium that Sampann was charging vis-à-vis unbranded /local/ loose or brands which were not playing in the GST space I think that would reduce and therefore we would see more consumers moving into our products, because there is one thing I picked up across the country is different retailers especially Kirana stores their point is if a consumer has picked up Sampann and taken it home, then guaranteed you have got a consumer for life, the catch is getting the consumers to pick it. So apart from the GST piece you would also see a starting to up the A&P on Sampann so that we will start to get trials and therefore continued consumers.

Abneesh Roy: Sir my last question is on the Masala Oats. So already entrenched players are there Saffola is very dominant and we have Quaker Oats also. My question is when you say 5% to 8% share in the current distribution what would be the plan in terms of scale up of distribution and advertising versus Saffola over a three year timeframe and second is we have seen in foods if you are too niche too healthy there is a limited opportunity, case in point is for example atta noodles it has remained a smaller part so just adding millet and when you are so late why should this product succeed?

Sunil D'Souza: First of all let me clarify we are looking at Soulfull as a brand and Soulfull will play in many, many categories- some will be large, some will be small but we will only enter categories where we have got a right to win. Soulfull healthy brand, millets differentiator, better product profile and the value proposition should work and thereby this is one of the very many extensions for Soulfull that you will see. On a blind taste profile versus the leading competitor we are a win because we are crunchier because we have got Ragi there and of course the health quotient dials up, now you are absolutely right we have got to now up our game both on distribution and consumer communication to make sure we get traction but I was just trying to give a perspective that within about 60 to 90 days of launch we are already at a five to share in markets where we are present. Now like I said Soulfull is our brand for breakfast, mini meals and snacking, this is our first foray into snacking I would say watch this space as we enter many more categories- the whole idea is Soulfull overall we are seeking to build a very large brand.

Abneesh Roy: Thanks that is all from my side. Thank you.

Moderator: Thank you. The next question is from the line of Manoj Menon from ICICI Securities. Please go ahead.

Manoj Menon: Hi! Team a few quick clarifications if I may. One on the salt business, how do I look at the salt volume performance of the last couple of quarters, is it just the high base of last year specifically or is there any other big picture drivers here?

Sunil D'Souza: Let me just say the reason why salt pricing we have taken up is because of two factors in input cost -number one is brine but number two off late the more important one is coal prices. Brine more or less has been stable but coal is what we did not see coming if I may and that is why we have taken up these prices. Now that said both energy cost as well as brine hits every single competitor in the market, so if you look at the raw salt prices out of the salt tanksin Gujarat it is up substantially versus last year and therefore it flows down the chain. So therefore hopefully you will see industry overall moving up. That said if you dissect the salt pricing the strength of the Tata Salt vacuum evaporated iodized salt is so strong that despite the fact that between last July where we were at 21 and as we exited the quarter were at 25 the volume is flat and we have been able to take up pricing and maintain market share. The negative volumes are mostly on account of traded salt which there was a little bit of a hiccup up and down but going forward we should be able to correct that as well. But salt I think the focus is given the fact that we have a very strong 38 share given the fact that we have got probably the best distribution in town on salt and the fact that we were slightly late to the party in anticipating that coal prices will move further up we took another price correction from 25 to 28 at the end of the quarter and like I said when we take price corrections in salt there is a down stocking in channels because they do expect to go shopping around and find some cheaper Tata Salt from some other trader, wholesaler, etc. I think we have seen a bit of that but I would say this quarter you would see stability coming back into the business. Again like you rightly pointed out it is negative 3% overall total salt in volume terms versus a same quarter last year of 17% and the other thing I would want to highlight is food business FY2021 Q1 20% growth FY2022 Q1 20% growth FY2023 again 20% growth, so if anything I think we have been consistent.

Manoj Menon: Just two quick followups only on the salt part of it how do we think about the medium-term opportunity to maximize or optimize profit pools for you, let us say using price as a lever in salt that is one sub question, the second one is let us say in a scenario of significant deflation in your input prices it could be coal, it could be brine, it could be any of those do you think that there is an opportunity to retain some of the input deflation benefits and expand the gross margins in perpetuity without obviously affecting your share?

Sunil D'Souza: Number one is the reason why we have taken pricing up if you look at my last quarter if you look at the three big commodities that we have on India beverages we have expanded our margins by 1000 basis points to put it where it should be, so we will drive for volume from here on. Second is India salt gross margins declined by 500 basis points and that is why we took up the prices. International more or less is stable margins after all the price increases. So salt once we put the margins back on track we will go for volume because we

do think there is a share opportunity out there. On your question of as deflation comes the question is as and when deflation comes in we will have to play very, very close to the ear I would like to keep some of the margins albeit I do not want to lose market share I would want to continue market share so again it will be a tiered pricing approach and if you look at the last one year what we have done is now we have got brands across different price segments, we have got our rock salt and set of salt playing at the higher end, we have got now Tata Salt the base vacuum evaporated salt, we have launched a fortified, we have got I-Shakti salt at the bottom and we have just launched Shuddh which we are learning in the pilots and we will again tweak the marketing mix to expand it across various geographies. So we will make sure that we do a portfolio play, give value to the consumers while if possible increasing margins consistently but the whole idea is continue to gain market share, but you are right salt is one of the big pillars basis which we will continue to have fuel to expand into other categories as we go forward.

Manoj Menon: Sure Sir, thank you so much for the detailed response I shall come back in the queue. Thank you.

Moderator: Thank you. The next question is from the line of Trilok from Dymon Asia. Please go ahead.

Trilok: Hi! Good afternoon Sir, thanks for the opportunity. Just wanted to understand on food business how are we, obviously we are entering into new categories and we also highlighted about the protein platform. What sort of internal targets are we thinking from a growth perspective, you already alluded to one of the participants about the margins but what is the growth that you should be happy with, are you happy with 20% growth that you guys are talking last two, three years?

Sunil D'Souza: Let me put it this way, I think foods is going to be the big growth engine for us. Till now even right now if you look at it, it is overwhelmingly a salt driven business and now Sampann expansion we have added different levers to the whole business across including Tata Smart Foods for example in which there is a full relaunch in process to start driving into that category. So we have very early identified the platforms and within those platforms the categories where we will play where we have got a right to win it is a big growth opportunity both in terms of size as well as momentum of growth in that category, we have got a right to win and expand. So we have just for example Sampann we have identified dry fruits as a category. I would say in the six months we have hit it out of the park on only online, the run rate that we have on dry fruits is probably rivaling some of the new startups out there and this is all within the last six months that is the power of the Tata and the Tata Sampann brand name so we will continue to expand. Foods is the big, big vector for growth for us Sampann leading the charge but it is also Soulfull, Tata Smart Foods where there is a full marketing mix planning going on and of course like I said the

idea is to continue to expand market share in salt, are we happy with 20 obviously not we will be shooting for higher numbers as we go forward.

Trilok: But just a followup on this between when you enter new categories the gross margin and profitability are the key metrics because these all are sort of high unorganized categories which are obviously low margin profile as per our understanding?

Sunil D'Souza: So, yes absolutely right when we enter new categories we do a full-fledged analysis of what is the size of the category, what is the scale that we can get and what are the margins that we can get. Number one you have to remember Sampann is a high ROCE I would say significantly high ROCE because there is almost no capital on the ground per se but we are very, very mindful about two things- number one is wherever we are entering is incremental in terms of where we are entering, so all I would like to leave you with is compared to the base categories we are incremental in some of the things like Protein, Soulfull, significantly incremental and some of the categories that we are entering with Sampann incremental to our current base so the directional movement of margin will continue to be upwards.

Trilok: Understood. Thank you very much. I will get back in queue.

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

Jaykumar Doshi: Thanks for the opportunity. My question is on tea. When I look at three year volume CAGR it is about 2.6% it is much lower than 7%, 8% and 9% that you are tracking in the previous two quarters and three year CAGR basis so is there a one-off kind of channel destocking or anything in this quarter and how should we think about the volume trajectory either Y-o-Y on three year basis going forward for rest of the year?

Sunil D'Souza: So absolutely right I think we have seen lot of yo-yo's in the last three years both on the price front as well as the volume front in the tea business but structurally still one third of tea in India is unbranded. Number two is historically you have seen a 5% to 7% volume growth in the category itself and the fact that we have not lost out our position in the category is shown by the fact that we have gained share in the tea category. Now overall this quarter compared to same quarter last year we are cycling a very heavy revenue growth but we are right in terms of volume it is probably not come to par. I would say two of the big reasons, number one is the stress in certain specific geographies I would say mostly rural across and the Hindi belt per se has been a bit of an issue it has not come up hopefully a good monsoon should bring it up coupled with the fact that we had an excellent summer and I would say proof of the fact lies in if you look at all the soft drink majors and including our NourishCo business hit it out of the park with struggling for kill. I think people moved to cold rather than hot for some time that is not an excuse for the business but we do think as we go forward volume growth should come back. Now the other piece that I would leave you with is in our portfolio our focus has been to grow the mass premium and premium

because that is our share opportunity but more than that the stress in the rural and the Hindi belts has been showing in the lower end of our portfolio and that is the reason why you are seeing a margin expansion of 1000 basis points in the tea business but now that the margins are back on track we will be going for volume growth, in fact we have just given up some more pricing in the north and coupled with our distribution drive which is we are moving to top gear on expansion onto total number of outlets numeric reach and A&P cover we do think we will get the volume growth back to I would use the word par for the India business.

Jaykumar Doshi: Could you give a little bit outlook on raw material prices given there is flooding in Assam where the second flush which is where you do bulk of your buying, how has pricing trended and what it means for tea gross margins going forward. Will it sustain at these levels, is there scope for further improvement?

Sunil D'Souza: I would say, essentially given the fact that we had expected this year to be a normal year we had seen a downtrend in tea prices both north India and south India till the Assam floods middle of June were an unexpected event. That said I think primarily they impacted probably about 30 days of cropping or so but you have to remember one fundamental structural point in the India tea business supply is greater than demand and whenever there is supply greater than demand, prices will trend downwards. So therefore while we have seen a blip and I would term it a blip for a short-term and you might see some impact maybe for a quarter or so but not as significant as the blip that you saw. I would say secular you will see pricing trending downwards and then playing in a range so while we do to see a small blip I do not think we need to course correct big time there might be a small dip in margins but like I said from last Q1 of FY2022 to Q1 of FY2023 we have expanded margins in the India tea business by 1000 basis points, so we are in the ballpark of where we want to be, we will have some puts and takes but again it is a fine balance between topline and margin, we do not expect margins to be as depressed as they were during the COVID lockdowns, etc., small blip but something we should be taking in our stride and moving ahead.

Jaykumar Doshi: Final quick one when we visit the modern trade outlets in this side of the country they sell loose pulses and staples that essentially to benefit from the GST so will that still continue, what is essentially the definition of label, can modern trade outlets sell loose sort of pulses and other sort of staple products without customers incurring GST?

Sunil D'Souza: I would not hazard about what they can sell and what they cannot sell, all I can tell you GST regulation which has come out is very specifically anything that is packed before source or before the selling point has to pay GST. The only thing which is exempt from GST is one that is packed to order but that is not what happens in modern trade and online and therefore and I use the term, if there is compliance we hope to see advantage.

Jaykumar Doshi: Understood that is helpful thank you so much.

Moderator: Thank you. Next question is from the line of Sheela Rathi from Morgan Stanley. Please go ahead.

Sheela Rathi: Thank you for taking my question and hello Sunil. My first question was again with respect to the foods business. Just wanted to understand your strategy going ahead with respect to the distribution because you just said that the dry fruits business you are seeing very strong demand on the online side however I feel that chasing on the food business will require a lot of offline strategy which is on the GT and MT side just wanted to understand what is the strategy and where are we with respect to the distribution reach of Sampann as well as Soulfull?

Sunil D'Souza: Absolutely right. If you really want to scale any of these staples if I may call it you do need to play the GT game. To answer your question the reason why I alluded to dry fruits was in today's world the online platforms provide you a fantastic piloting opportunity. So that is why we launched it only online because there it is no one between you and the consumer, you are on the platform, you are deciding the whole marketing mix, consumer sees it online and therefore picks it up, after that if the proposition is strong then you have got to get into distribution and put it into the stores where there is something called a retailer standing between you and consumer. So now that we have proved the proposition, now we have got to tweak the whole mix to make sure we are well distributed and given the fact that we are going to be touching 1.5 million outlets by September 2023 and hopefully we are already at 2.7 million total numeric reach if you count I think we have got the scale to do it. In the staples category it takes a little bit of time because you are competing against loose even packed by the retailer themselves at certain points but I think we have demonstrated with CAGR of 30% with Sampann that we are capable of doing it, the idea is now to take the dry fruits proposition into the GT and modern trade for that matter and that is work in process you should start seeing it come into some of the modern trade channels very shortly. On where are we with respect to distribution of Sampann and Soulfull, I would say we made significant progress for example Soulfull which we acquired what about 18 months back at about 15000 outlets we are on a three monthly billing basis which is how we measure availability we are close to 400000 outlets and we are only counting direct outlets so we are in about 25% of our total outlets and it would be a very similar number for Sampann as well. That said I think the fastest expansion in our 1.5 million base which we should have by March is you should see the depth of expansion because I do not think we will find too many more outlets which will stock more teas but Sampann, Soulfull, Smart Foods that is what we will now seek to exploit.

Sheela Rathi: Thank you and my second and final question is again on foods is with respect to the new categories which we are getting into, do we think that this is the right time to get into more

and more categories, or first kind of stabilize the base business and reach a certain level of margins and then probably get into more and more categories, just wanted to understand your thoughts on that?

Sunil D'Souza: No, absolutely right question and that is why I keep harping to my team that in any category especially established categories it is market share and margin as long as they are on the right track that is when you start moving and start moving into other pieces and I mentioned my beverages margins is back on track with a 1000 basis point increase, my salt business was down 500 points we have taken a 25 to 28 pricing and stabilized that, we do think we will not have hiccups on the way to maintain market share in both beverages and salt and that is why we are now moving into other categories so for me it is not an 'or' game it is an 'and' game and Sampann as a portfolio has huge, huge I would say underleveraged equity if I may, we have not executed to the t and that is why we are moving into these categories. If you are alluding into protein etc., you are right they will not be scale categories today but we do think it is important for us to have first moveradvantage put a stake in the ground that we are one of the leaders out there and build the entire platforms as we go forward. But we have the advantage of having strong brands, great team, good execution and stable margins if I may in our base categories which will afford us to do that.

Sheela Rathi: One final followup here, you just said great team, so are we really hiring at the senior level in terms of, because we are expanding into a lot many categories or we are just maintaining the same team?

Sunil D'Souza: Let me put it this way, I think we have got a very strong senior leadership team now. We have sort of expanded over the last two years that is number one. The big, big expansions which is happening in foods, we have ramped up the team significantly, apart from that we have ramped up the R&D team because we need to up the ante on innovation and the scientific basis behind all these new categories. We are investing in behind creating very strong R&D infrastructure and resources for this team. We have expanded significantly in digital where we do think it will drive both efficiency and effectiveness going forward and now we are taking digital into the next phase of data analytics, etc., including in our procurement scenarios for example. So answer to your point is we are adding across the board in spaces where we see either we are deficient or we need to add as we expand categories.

Sheela Rathi: Understood, thank you, that is it from me.

Moderator: Thank you. The next question is from the line of Percy Panthaki from India Infoline. Please go ahead.

Percy Panthaki: Sir, your NourishCo growth, if you just continue to grow this fast I am sure in a couple of years you would be clocking close to 1000 Crores per annum so at that kind of scale what

kind of EBITDA margins can this business generate that is one thing I wanted to ask. And second thing is on tea we had done this acquisition of Lal Ghoda, Kala Ghoda teas in Rajasthan can you give us some update on what is the success of that acquisition in terms of what was the market share immediately after the acquisition and what is the market share today and if that has been a good experience do we plan to do such small acquisitions in sort of individual states in our tea business or that sort of is not something which is of priority right now?

Sunil D'Souza: NourishCo, first of all I should say it is a fantastic business again from a ROCE perspective because we are all on a third-party basis both in terms of manufacturing as well as distribution. We spend or we put our resources into supervising the sales and the marketing, branding, product development, and all those kind of places so that is number one. We clocked 180 Crores last quarter so you are absolutely right it is on trajectory to get to a four digit business very quickly. All I would leave you with is margins in NourishCo are accretive to quite a lot of my current portfolio so that is number one and we had bought in NourishCo with that whole premise given the fact that it was it was a strong business operating in a very small playing field if I may, expanding both portfolio and geography would give us disproportionate growth that was the whole logic. So absolutely right and we are full press ahead on that piece, that is number one. Number two on your Lal Ghoda, Kala Ghoda I would answer your second question out there ultimately it is about creating value for shareholders. So do I put my money into growing Sampann or do I go and buy a small tea brand in a part of the country, I think that is the critical piece and in tea what is that amount of money that we are putting that we should be able to get better out of an acquisition than what I cannot do myself, that is the other question to ask- capital allocation if I may. From that perspective I do not think you will see us doing too many small tea acquisitions. I think our ability to do it organically if we really put the money there that is number one and number two if I pick up my choices of where to put the money I think there is significant opportunity in many of the newer categories that we are going with. Lal Ghoda Kala Ghoda I think has performed more or less to expectations but is it hitting it out of the park I do not think so, but it has fulfilled the business case more or less that we had gone in with.

Percy Panthaki: Okay Sir that is all from me thanks and all the best.

Moderator: Thank you. Next question is from the line of Amit Purohit from Elara Capital PLC. Please go ahead.

Amit Purohit: Thank you Sir for the opportunity. Just one question on the salt food business you indicated price increases so going forward how do you see the margins in the food business, we were clocking close to about in the band of around 11% to 13%, 14% margins should this price

hike bring us closer to a double-digit margin or how do we see this for the year and going forward?

Sunil D'Souza: I did allude to it, gross margins in salt if you compare it to the same quarter last year we are down by 500 basis points and the reason why we moved up the pricing from 25 to 28 is to put the margins back on track. I do think we will come back to a stable state once we put this pricing back. So this quarter at least you would see the margins come back on track there might be a little bit of ups and downs in the beginning of the quarter as the price settles into the market but like I said given the fact that the pricing is being taken because of cost increases in energy and brine which are hitting everyone in the market I do not think you should see too much movement on market share per se.

Amit Purohit: Just one small thing on the Gujarat rains which have happened, is that going to have a better competitive advantage for us, is the supply side for some of the competition is a bit inferior than us or it is a every year phenomena and nothing much to read about it?

Sunil D'Souza: The reason why the brine prices had moved up was because of the extended monsoons last year. Unfortunately there were some heavier rains in Gujarat in the beginning of the monsoon season and that is why the corrections which we were expecting to see in brine have not happened but that said there has been almost no movement up or down marginal if I may at best. I would say the picture will become clearer towards the end of September is when the final monsoons have retreated and you will know where we stand in terms of the net output from the brine fields. As of now we are seeing brine prices elevated but stable from where they were, the big moment that we saw was in coal prices because of which we have taken the price increases.

Amit Purohit: Okay, thanks a lot. Thank you.

Moderator: Thank you. Next question is from the line of Sumant Kumar from Motilal Oswal Financial Service. Please go ahead.

Sumant Kumar: My question is regarding NourishCo. So can you talk about the channel expansion for NourishCo and what is our target for next three to five years?

Sunil D'Souza: So NourishCo effectively I think we are if I am not mistaken about 350000 outlets nationally this is what we touch which is a significant, significant increase from where it was. So I would not want to hazard a guess, I think ball is in our court as to figure out how high is high. From about operating in about 25% of the Indian geography we are probably at a 70% we have still got a long way to go. So you could see continued growth on NourishCo for some time to come as we expand geography and apart from that like I said in NourishCo it is not only the base Tata Gluco Plus business, the Tata Copper Water is really, really scaling up. Apart from that we are in the process of launching we have launched jelly

in cups but unfortunately in season we were out of capacity could not really expand but you will see the expansion happening now. In Fruski you will find a jelly drink coming out, we have launched Tata ORS, we have launched Tata Nature Alive, and the NourishCo business has put Himalayan back on track because of which now EBIT is positive. I think huge amount of work done but a long, long runway yet to go.

Sumant Kumar: Okay, thank you so much.

Nidhi Verma: Moderator perhaps we can go to the webcast to take a few questions. Sunil there is a question from Tejas at Spark Capital. He is asking apart from the inflationary pressures in salt category there seems to be a sequential contraction in 4Q versus 1Q in gross margin in past as well, is there any underlying seasonality playing out here?

Sunil D'Souza: Normally you have slightly higher seasonality in beverages in Q3, Q4 compared to Q1 maybe there is a little bit of that we have actually not we do not think there is too much pieces out there, but the salt cost pressures would have played a significant impact and the other pieces I think the freight and logistics inflation which is coming, I think we are seeing more of an impact of that in Q1 versus Q4, but that said given the fact that we are seeing a declining trend on crude we should hopefully see that piece starting to stabilize if not inch downwards.

L Krishnakumar: There is no material underlying seasonality, it has really to do with inflation on coal, brine, overall freight cost as well, so no specific seasonality.

Nidhi Verma: The second question from him is the heightened A&P spend that we incurred was it to support the existing portfolio mainly or to support new launches?

Sunil D'Souza: I think it was a mix of both and just as a point of view if you look at initially itself our hypothesis was that we were relying quite a lot on the Tata brand name. So if you looked at our share of voice versus the share of market which is the standard benchmark used in all FMCG categories we were slightly behind. Now we have upped the spends. Again if you look at most of the FMCG majors your A&S line advertising and sales promotion line A&SP line compared to sales is anywhere between I would say 6.5, 7 to about, best in class is about 10%, 11% we were quite behind the curve we have ramped it up, even for the last quarter we have upped the number to 6.4 versus 5.3 of last year so I would say we are coming to par right now on overall spend, but the spend is both behind base as well as new launches. Just that also mindful that we are not scattering it across brands. For example in tea we are now distilling it down to four or five umbrella brands and therefore advertising in one variant has a rub off on the mother brand. We are leveraging Soulfull for breakfast, mini meals and snacking, so advertising in one particular segment will have a rub off, so efficiency of the spends is also something that we are looking at closely.

Nidhi Verma: The last question is how are we tracking in market share in e-commerce and modern trade versus GT in tea and salt?

Sunil D'Souza: As I think to Sheela's question I mentioned that the beauty in e-commerce is that it is only you and the consumer, there is no one else in-between and therefore it is the power of your product and your brand and your value proposition to the consumer. We are still market leaders by far on e-commerce in tea and we are lagging behind on GT for example. Modern trade is better than GT and e-commerce is better than modern trade. We are leaders in e-commerce and that again puts the ball back into our court on expanding distribution and making sure availability is there in the outlets, we lag competition on numeric distribution by about 10% and our market share is offby about 7% to 10% again versus the market leader, the hypothesis being if we cover the reach we should be able to cover the market share and that is why the immense focus on distribution.

Nidhi Verma: The final question from Shreyans Gathani is can you talk about restructuring cost and their recurring nature in the past few quarters, when can we expect complete restructuring to take course?

Sunil D'Souza: I would use a term that I use with a lot of my team, we are a work in process company, we have still not finished where we want to be, it is not still not stable state, we have got a long, long, long way to go. Aspirations are very large, in the past you would have seen restructuring cost because we had cut down layers in our teams as we acquired some of the businesses, we rejig the teams to make sure we are deriving synergies. So while long-term you will derive synergies there will be some short-term restructuring costs to make sure the business is right-sized. Last quarter you would have seen it or previous quarter you would have seen it with regard to Tata Smart Foods, last quarter there were some costs and I think the picture is yet to be played out in terms of the entire international and India Tata Coffee restructuring that we have announced. We have still not executed fully because we do not have full regulatory approvals, but restructuring I think at least in the short-term you could see this cost coming out, but all I can assure you is that fundamentally this is to right size and make the business much more effective and efficient and therefore in the longer-term it will bear phenomenal fruits. So before you put in restructuring cost we always do a business case analysis look at the paybacks and then press the triggers.

Nidhi Verma: Moderator given the paucity of time we will just take two last questions, please.

Moderator: Thank you. The next question is from the line of Richard from JM Financial. Please go ahead.

Richard: Hi! Thank you for taking my question. Two questions here, for a category like salt and considering all the value added and premiumization initiatives from your end what could be the growth rate of this category like let us say five to seven years out versus your estimated

2400-2500 Crores turnover in this business do you see this business at like 4000 to 5000 Crores in the next five to six years timeframe given how it has been growing and what could be the risks in this kind of an assumption?

Sunil D'Souza: I would not hazard a guess on 4000-5000 Crores, it will get to that, but the timeframe I think is a matter of time that is number one. I would say I would continue to shoot for expanded market share, expanded price realization and continued expansion of the portfolio as we go forward. Just to give you a perspective we were a 30 share exactly two years and four months back when we took over the portfolio we are at 38 share now and we continue to expand the market share so double-digit revenue growth I think is a given.

Richard: Over a sufficiently long period of time you think double-digit revenue growth?

Sunil D'Souza: Yes, so that I can assure you that I think we can put enough pressure on all our teams to make sure we are continuing to deliver double digit growth for some time to come.

Richard: What do you think would be a risk to that double-digit assumption?

Sunil D'Souza: I think the ball is in our court on execution, I do not think it is as much we are at 38 share number one, number two we have layered the entire value proposition right from entry salt right out of premium salt so we have the ability to pull levers across various price points we are offering a full portfolio. It is a question of there might be certain shifts in consumer preferences; we have got to play to that. I do think we are slightly ahead of the curve on that piece including the 30% lower sodium salt for example or some of the new launchers which you will see in the next 30, 60 days. I actually think the risk is in our ability to execute.

Richard: One more on Sampann, you talked about trade realignment and change in terms of trade and margin, etc., how much would this exercise boost your Sampann business margin by and against that how does this impact ROCE for the trade partners?

Sunil D'Souza: I would not comment on the ROCE for the trade partners, I think it is a calculation they have to do. All I can say is Sampann is a very, very high ROCE business for me, and in Sampann I think we have got to be mindful about the fact that you have got to maintain a healthy margin while continuing to press the accelerator on topline. In various other staple categories you have seen in the initial phases of category development you will have a lower margin which you got to figure out ways to build it as you go forward. So that is where we are, I would think we have put Sampann back onto a margin profile where we would want it to be, is it the best of places to be know, I think it is still got way to go, but again like I said we need to get back to the 30%, 35% plus CAGR on the topline and it will be a periodic I keep using this term with Nidhi it is a snake in a tube right you will have yo-yo's but directionally it will keep pointing upwards.

Richard: So this trade realignment and the boost in the Sampann margin this was necessary for you to get to that high single digit and low double digit long-term spices margin that you talked about?

Sunil D'Souza: I would say spices we are in a comfortable position, it wasthe pulses and besan category which we corrected and I would say mid plus single digits, mid to high single digits margin is where we have landed up, it was getting slight bit of a erosion and I am not a fan of going to very low margins, very low EBITs and going for high top lines because after that correcting it is a huge problem, I am more a proponent of go full-fledged on topline for some time with decent margins, correct margins and again press the accelerator. So right now I think we are in a comfortable place to push the accelerator for the next phase.

Richard: Did you say that the long-term horizon for the margin for this whole Sampann business is high single digit and low double digit?

Sunil D'Souza: It is yes absolutely right.

Richard: How many years out would that be?

Sunil D'Souza: I would want it to be as quickly as possible. It is just that I think we will take time to get our procurement engines right with scale we will take time to put our entire network in place, we will take time to roll out all the value additions that we have envisaged. Like I said you will find some path breaking innovation from Sampann coming out in the next 60, 90 days or so, which will show you directionally where we are headed in terms of ramping up the margin and premium profile.

Richard: Got it, thank you very much Sunil. Wish you all the best.

Moderator: Thank you. The next question is from the line of Devika Jain from Ratnabali Investments. Please go ahead.

Devika Jain: Hi! Thank you for taking my question. I wanted to understand what would be the impact on our tea business given the inflationary trend that is happening in Europe?

Sunil D'Souza: If you are asking for inflationary trend on the tea business in international because of what is happening in Europe so it is not only Europe you saw the graph on Kenyan tea which has moved up versus last year. Added to that the inflationary both in terms of gasoline prices which has an impact on packaging, freight and overall cost of doing business that is one of the reasons why we have taken some aggressive price increases. US is primarily coffee which we have already taken up and stabilized the margins per se and by the way gained share. Our big business of Canada I think is on right track having already implemented the price increases, in the UK while we had announced the price increases the price increases

are still not landed because there are several large retailers to deal through with on the execution piece, but I think the last pieces of the puzzle have fallen into place end of last quarter. So our margin should be back on track. Will volumes be slightly impacted I would think so but I think revenues and margins will be on the right trajectory which is what I would target for in the international space.

Devika Jain: Got it and second question so I wanted to understand the reason why we are losing market share in the international market both for coffee as well as tea like every quarter value market share?

Sunil D'Souza: As I mentioned in the US market our coffee market share is back on track and started moving up branded bags was moving faster than K-cups, K-cups also you should start seeing the share going up. Canada again is starting to move up, Canada we are anyway in the number one position overall per se. In the UK there is work to do black tea versus speciality and herbals that is the reason why we are putting money behind Tea Pigs because we do think there is enormous amount of growth to be had there. You did see the overall growth of Tea Pigs versus the rest of the portfolio; I think the actions have started to move by the way Tea Pigs was the fastest growing speciality brand in the US also in the past quarter. So we have got to play the right profile of where the growth is- black tea is almost stagnant the growth is happening in fruit and herbals and speciality that is where we are putting our money starting to move the curves. I think it is a matter of time before you start seeing the share trajectories change shape.

Devika Jain: Okay got it. Thank you Sir that is it from my end.

Nidhi Verma: Thanks. I think with that we will just conclude because we have run out of time and I will just kind of conclude. So thank you everyone for joining us on behalf of the management. Sorry for having to extend the call, but if you do have any further questions you can get in touch with me. Thanks, thanks Manoj and team for hosting us.

Moderator: Thank you very much. On behalf of ICICI Securities Limited that concludes this conference. Thank you for joining us. You may now disconnect your lines.