

**“Tata Consumer Products Limited
Q2 FY2023 Earnings Conference Call”**

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TATA CONSUMER PRODUCTS



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- Moderator:** Ladies and gentlemen, good day and welcome to the Tata Consumer Products Limited's Q2 FY2023 Earnings Conference Call hosted by DAM Capital Advisors 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. Rajiv Bharati from Dam Capital Advisors Limited. Thank you and over to you, Sir!
- Rajiv Bharati:** Thank you Faizan. Good afternoon, everyone. Representing DAM Capital, it is our absolute pleasure to host Tata Consumer's Q2 FY2023 results conference call. We are in the midst of festive season in India, and I thank you all for taking time out for joining this call. Now I just hand over the call to Ms. Nidhi Verma from Tata Consumer for the introduction of the management and for further proceedings. Nidhi over to you!
- Nidhi Verma:** Thanks Rajiv. Hi! Welcome everyone and season's greetings to you and your loved ones. I know that there have been a lot of results since yesterday and it has been a busy day, but I hope that you have had the time to go through our materials. On the call today I am joined by Mr. Sunil D'Souza - Managing Director & CEO; Mr. L Krishnakumar - Executive Director & Group CFO; and Mr. Ajit Krishnakumar – COO. As we move usually, we will spend about 15 minutes or so walking you through some key updates during the quarter and then we will open the floor for Q&A. So, without further ado, over to you Sunil!
- Sunil D'Souza:** If I go to the executive summary for this quarter, we grew our topline at 11% despite a difficult demand environment and when I say demand environment, I am talking of macro headwinds, I am talking of inflation, I am talking of currency. On a three-year basis we have grown at a 13% topline. Consolidated EBITDA grew 4% with margin down 100 basis points year-on-year primarily impacted by the international business. During the quarter India business grew 9%, India beverages was down 2%, but on a three-year CAGR basis we are up by 14%, India foods grew strong 29%; however, volumes were soft. You have to remember we are cycling a very, very aggressive growth of last year on this one, and on a three-year basis the business has grown at 22% CAGR. International business was up by 7%, 6% in constant currency. The India business I talked about having grown at 9%, EBITDA grew at 24%; however, inflationary pressures in specifically the US, UK, currency weakness and the fact that while we have actioned pricing it takes some time to execute in the international market state. We have had a lower EBITDA. However, the business is on a strong footing because we have had volume market share gains both in tea and salt. While volume share is slightly up in tea value share is slightly low because we have given up some pricing just to make sure the volume momentum does not stop.

Our growth businesses which are Ready-to-Drink, Sampann, and Soufull, all are on very, very strong trajectories, they have been growing by 50%, and this 50% number has been consistent over the last few quarters. In the Ready-to-Eat business we are relaunching and revamping the entire business including the entire marketing mix, we have launched it in India under the brand name of Tata Sampann Yumside. Internationally we are using the brand name Tata Raasa. If I go to the numbers for the quarter. As I talked about India beverages negative 2%, India Foods Plus 29%, US Coffee constant currency 16%, but the dollar has strengthened so revenue growth of 25%, International tea negative 4%, Tata Coffee up by 41% driven by strong coffee prices available, so overall 3363 Crores at an 11% growth. If I look at overall group performance 11% revenue, 4% EBITDA, 36% group net profit. Now just as a perspective here we have a one-time gain on a land sale, a disputed litigated land sale of Tata Coffee which has been there for a long time we have sold it and also have some adjustments on account of restructuring, which we are doing internationally, and that is why the group net profit is up by 36%. Overall margin on net profit up by 220 basis points and EPS growth of 22%. We are sitting with 2000 Crores plus of cash. This is despite all the payments that we have made for Tata Smart Foods, the increased dividend, the extra capitalization we have done for Starbucks, including all that we are still 2000 Crores plus in cash.

If I go to the strategic priorities starting with strengthening and accelerating core business distribution, we had made a commitment saying we will hit 1.5 million outlets direct by March 2023. I think we are on track to actually beat that number because we are already at 1.4 million. The other thing which we had said is, we got to strengthen our reach in semi-urban and rural which was primarily driving indirect and therefore we have upped the number of super stockists who reach into that geography. Modern trade continues to go from strength-to-strength up by 18%. E-commerce just as a perspective we had exited FY2022 at about 7.5% of sales and we are powering ahead even further we are now at 9.2%, e-commerce grows at 40%, but the most important number is 11% NPD contribution, which just shows that if we get our NPD in front of the consumers we have got winning proposition so all that we have got to do is make sure they are available and distributed.

We will continue to put money behind our brands; you can see a few of the campaigns on top. This is a perspective, for the first half advertising and promotion as a percentage of sales moved from 6.1% to 6.4%. Yes, there has been a slight bit of a slowdown in this quarter, but conceptually we are committed to continuing to increase spending on building strong brands. Coffee is a good story and good story in all the places that we play in- Tata Coffee, Eight O'Clock as well as India coffee which is up by 39%.

Premiumization continues to be a focus, Tata Tea Gold Care which we launched about 24 months back, it is now at about 5% of total sales. As I said, this gained a bit of volume, but lost a bit of value as we have taken pricing, a) in line with tea prices moving slightly down

but more importantly make sure we have volume momentum in the semi-urban, rural geographies which are on the lower scale of the brand parameters.

We are powering our brands on foods as well, we are putting money behind Sampann, and you see Manoj Bajpayee there advertising for Sampann. We have entered another category of Hing, in line with our thrust to enter categories where there is decent revenue, good margin, strong growth, and most importantly a trust deficit which the Tata name can leverage. Sampann spices we have talked about launching into the South which is 40% of the Indian market. We have launched in AP, Telangana and now we are ready to launch blends into Karnataka. AP, Telangana I think is a huge tick mark and therefore we are looking at how quickly can we expand into other geographies.

On the other hand, market share on salt continues to power ahead. Remember we have taken more than a 33% increase in salt prices in 12 months between July 2021 and August 2022, but despite that we continue to gain share. We continue the momentum on innovation. Just as a perspective the number of new launches this year is 2x of what it was last year and revenue from innovation is up by 16% year-on-year and some of the few things that we have launched this quarter is Tata Tea Gold Saffron, we have launched a new season Sonnets, Shahi Besan Plus which is a blend which makes crispier texture. I talked about Hing and we have relaunched Muesli with a 25% millets. We have done a full relaunch, I talked about it of Tata Q, in India we are going under Tata Yumside and internationally we are going with Tata Raasa.

So now you see broadly we have talked about five platforms, this is how we stack up in our current quarter we have got tea, coffee, salt. In pantry we have got pulses, spices which we had, we have launched besan, poha and other staples, Ready-To-Cook this is I would say watch this space because we are doing a overhaul here. Dry fruits have been a great success and now we are looking at moving it from online into offline as well. Liquids of course we have got water and RTDs, NourishCo business just as matter of fact for last quarter grew by 64%, mini meals and breakfast cereals under Soulfull, Ready-to-Eat both partly under Soulfull as well as we talked about Yumside and Raasa. Snacking is the category which we are looking at, we are still not fully there and of course we have just started to wet our feet in protein, and when I talked about wet our feet, we did talk about alternate meats that we launched last quarter. This quarter we got into the health supplement space with GoFit, like I said very early days, we want to learn from this launch so that we can figure out how to scale it up.

Our new engines of growth and I alluded to it on the executive summary as well whether it is Ready-to-Drink, Sampann, Soulfull and Tata Q which is now Tata Yumside/ Raasa, is up by 50%. Just in terms of where we are seeing commodity trend, I would not talk about the GDP growth which everyone would be familiar with. Prices are more or less stabilized in

Kenya, but the catch is, it is US dollars, but when we bring it in into the UK it translates to pounds, the pound is depreciated against the dollar and that creates the currency issue for us. In India while tea prices were on a secular downward trend in line with the long-term supply greater than demand equation the problem is there was flooding in the months of June, July that is number one and number two the slight blip created by Sri Lanka going out of the equation has created a very short-term issue, but I do think the prices will continue to trend downwards which should give us enough elbow room on our India packaged beverages. Coffee while it has jumped to 210 to about 230 right now playing in that band and very stable. As long as we have taken pricing in line with that in mind I think we are in a good space. Only thing in the immediate quarter gone by because we have hedges unwinding and we had to buy at the new rates that is why you would see a bit of pressure on the commodity, but given the fact that now we have the hedges in place plus we have taken pricing in the market I think we are in a good place.

I don't want to drain the numbers, we talked about -1% volume, -7% revenue, and 20 basis points of share in tea. India Foods flat on volume which is just again I will repeat we took a 33% price increase in the last 12 months flat on volume, share gain of 128 basis points and 29% revenue. NourishCo is very strong we get Tata Water Plus is roughly 2x of where it was last year up 64% on revenue. Vietnam and in Tata Coffee the whole business on a strong wicket both extractions and plantations showing strong growth, some totaling to 39% revenue growth. Starbucks opened their 300th stores and opened their first reserve store now in Mumbai. 99% of stores have reopened, same store sales are up by 24% versus the pre-COVID period. Now we are in 36 cities, and we opened 25 stores in the last quarter.

International - UK we have had volume softness and therefore revenue softness so to speak. Value continues to hold strong. In the last four weeks we have overtaken Twinings to become the number three tea company in the market. In US again, we have had share gains, broadly maintained coffee bag share, gained in K-Cups, tea is up on revenue and coffee of course in line with the pricing up on revenue. Canada is on a strong wicket, revenue growth in specialty tea overall 16% revenue growth and maintaining a strong market share. Financial performance, LK.

L. Krishnakumar:

Thanks Sunil. Just walk you through the financial performance. Starting with the standalone results, revenue at 2131 Crores up by 7% or 143 Crores. This represents the growth mainly in the salt and tea businesses. If you look at EBITDA it is a 25% growth led largely by the food business, but also strong margins of the tea business continuing.

Moving on to consolidated it is a growth of 11% and the turnover increased by 330 Crores. India business grew by 9% the difference between standalone and the growth rate in India business is largely due to the water business which grew over 50%. International business moved by 6% and non-branded by 30%. In terms of consolidated EBITDA while the India

business grew by 24%, international business EBITDA actually declined. That was due to a higher commodity cost in coffee, overall inflation which impacted trade, which impacted currency in the case of UK. We have taken price increases in these markets, but they are coming into effect with a lag because you need to discuss with organized retail, and we see the impact of pricing coming through in the next quarter and beyond. Non-branded EBITDA led by prices. On consolidated financials we talked about the revenue growth of 11%, EBITDA consolidated went up by 4%; the muted growth is largely because of international being lower as I explained. Moving down to exceptional items we have 111 Crores of exceptional income which largely represents a sale of an asset that we've been holding for sale in Tata Coffee which we concluded during the quarter. Profit after tax is higher by 36% but what is not shown here is the share of profit from JVs and Associates were higher this quarter at about 34 Crores compared to 24 Crores, I think in the same period last year reflecting improved performance both by Starbucks and also by the North India plantation. Year-to-date revenue is up by 11% and profit is up by 37%.

Standalone we just talked through the performance of the quarter a 7% topline growth and 25% EBITDA growth flowing through to the PAT growth of 22%. In terms of segment wise performance India revenues accounted for 72% and international 28%. In terms of segment results India business had higher share of 84% because international performance was lower than the same period last year. So that is it from our side we are happy to answer any questions that you have.

Sunil D'Souza:

Just in terms of outlook I do not think I need to talk about the macros, inflation internationally, India has been relatively more resilient, you have seen the rupee move so quickly in the past few days, rural continues to be a stress, we have heard that, or we were hoping that monsoons and the festive season would pick things up. We have seen some good news end of September, October has started off decently but how much of it is festival, how much of it is structural I think too early to tell, keeping fingers crossed. US Fed's monetary tightening will continue to cause as Jerome Powell said a little bit of pain for us more in terms of currency more translation than transaction. The impact of inflation and monetary tightening will be the key factor to watch out. As I said we have taken pricing actions already in international markets unfortunately from the day you announce to the day it is executed, it takes a bit of time so I guess it will drag on for this quarter before landing in ,that is number one. Number two, there are certain structural cost actions which we have already actioned in the international markets which again would take about three to four months to land.

Overall, I think the commitment that we have kept on making is we will continue to drive profitable growth. We have delivered double-digit growth which is exactly the intent that was stated, by balancing margins. The tea business in India remains soft, we are aware of that, however for me as long as we are maintaining market share, we are in a strong

position. As industry comes back, we will bounce back. We took pricing in salt to mitigate cost inflation and you would observe broadly our gross margins are flat versus last year because of that. Yes, there has been an impact on volumes, but the fact that we continue to gain market share is a testament of the strength of the brand and our execution capabilities now. Our growth businesses whether it is NourishCo, Starbucks, Soufull, all have delivered strong results and will continue to deliver strong results. RTE as I mentioned we have done a full marketing mix and therefore a new relaunch, we do expect to see significant acceleration from here on. Given the inflationary environment and investments required we will continue to balance margins while remaining focused on maintaining the growth momentum.

Nidhi Verma: With that we will open up the line for Q&A.

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 Nuvama. Please go ahead.

Abneesh Roy: Thanks for the opportunity. My first question is on the RTE, RTC brand relaunch so want to understand why Tata Q relaunch happened and why have separate brand for the domestic and international, is it a copyright issue. A related question is RTE, RTC and spices these categories look very good on paper and there are already lot of local and listed players also present in most of these, you are not exactly the early mover in most of this, so what is the plan here in terms of market share capture from a longer-term perspective because there is not too much of differentiation and some of these are tough also, so want to understand from a market share longer-term what is the plan?

Sunil D'Souza: If I take that question, the reason for the relaunch is we went back to the drawing board after we acquired Tata Smart Foods and looked at its consumer outwards. Basically, we found there were issues or there was consumer feedback on product, there was consumer feedback on branding, there was consumer feedback on packaging. So if you look at it, we have worked on all the three pieces. So, I would strongly suggest you should try some of the new products which are there and especially if you tried Tata Q in the past you would see the noticeable difference. In fact at a recent strategy meet for the Board we only served them products from this range and they could not make out the difference between fresh versus from this set so that is the product quality-a). b) you are absolutely right there is an issue ideally I would have wanted to use Tata Raasa as one brand across, but there is an issue of copyright in India and therefore we had to go two ways but apart from that in India we wanted to give the cover of Tata Sampann to make sure consumers know where it is coming from because we do think Sampann has built decent equity in India which allows us entry into the consumer mind and hopefully kitchen ,that is number two. But what is going to happen is over a period of time you have to remember there are two distinct channels in the international market - one is the ethnic stores, but more than that now slowly, slowly

there is the world food aisle which is growing significantly in mainstream grocery across the globe. Our intent is to be there and therefore two brand names might help us play that game in a significantly differentiated segmented manner. Lastly we are aware that this is a market which there are multiple players, there are not only players from India who are manufacturing or exporting, there are local players in those markets who are manufacturing who built pretty strong bases but given where we are, number one given the fact that we have teams on the ground, given the fact that we have retailer relationships and I am talking of mainstream grocery which is where the better margin game is, given the fact that we have logistics and sales partners which are very, very strong and of course I do not think we need to market the Tata brand name to too many people. Will we dominate the category will we get phenomenal shares, no, but given the fact that it is a 1500 Crores market and growing significant double digit we do think it is a nice profitable business which can be scaled.

Abneesh Roy:

My second question is on India branded tea. Last few quarters volume growth here has been elusive for you. So when I see the construct of the industry almost half of the market is local regional players and whenever commodity deflation happens which has in fact happened in tea last one year if they have come back in terms of advertising and promotion so which means that they would have come back, so the Nielsen market share the issue is almost every listed company says that we have gained market shares but when I correlate that with your lack of volume growth past few quarters and the regional players coming back then it does not tie up. And second is you mentioned when the industry comes back... what will lead to the industry coming back, I understand the current slowdown, but it is a very well penetrated category also and you have also relaunched Agni in the past two quarter so why the volume growth is not coming back taking everything into account that half of the market is still local players?

Sunil D'Souza:

You are absolutely right. Let me just flip it around. Instead of saying deflation, in times of inflation is when organized players gain in this market and the good news is you are reading the headlines right now whether it is rupee, whether it is oil, etc., so we do think apart from tea prices everything else is primed for inflation and therefore probably should even out, number one. Number two, the softness if you look at it is primarily rural and semi urban and even if you look at my portfolio it is my mass premium and premium portfolio is doing well, the stress is at the bottom and this stress is in very specific geographies, so it is not broad based I would say it is more rural, it is more semi urban and it is more Hindi belt sort of softness and which is why I have been keeping an eye on the monsoon and therefore what happens and right now as I see I can start seeing green shoots but I would not declare victory. I think we have got to watch for some time. But we do think, so to your point about Nielsen, in the lack of any other data to point you in which direction you are headed I think Nielsen is the only option on the table. The good news is we are very, very clear you might not get volume and share numbers accurately industry numbers accurately, but you do get

distribution numbers accurately and I do believe given the fact that we have very, very strong share of handlers, if I am distributed, I will get shares. So therefore, we are going surgically behind geographies where we have distribution gaps, and you would be amazed that despite the progress that we made in the last two years we have still got enough white space to play let me put it this way across the country, which is what we are focused on which should start giving us volume momentum gains.

Abneesh Roy: One last quick question Starbucks 25 new stores total of 300 that is a very sharp expansion is it because of the bunching up of stores because of the COVID so approvals, etc., those are delayed, what is the run rate we should build in from annual run rate for the next three, four years?

Sunil D'Souza: Last quarter we had not opened as many stores so you are right there is a bit of bunching, I will also leave you with the fact that I have maintained that with Starbucks we have got a strong operating model we know that same store sales continue to grow aggressively like I said we are up by 24% versus the pre-COVID period. We know that store profitability is good, we know that when we open outlets we do get very, very strong ADTs as well even in terms of going to Tier-2, Tier-3, and there is significant excitement when Starbucks enters a new town. We are still in limited if I am not mistaken 36 cities and we have still got significant runway to play. Given the fact that we have a strong operating model, we know there is competition coming in, we know we have got a window of opportunity; we are committed to accelerating stores.

Abneesh Roy: Sure, thanks that is all from my side. Thank you.

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

Sumant Kumar: My question is regarding our Tata Sampann. So, assuming all the product portfolio expansion as on date and the kind of growth we have shown 37%, so what kind of volume growth, I am not talking about value growth, what kind of volume growth we can expect from Tata Sampann in a couple of years?

Sunil D'Souza: I do not think we should look at volume growth in Tata Sampann because my volume growth in for example if I take dry fruits and index the pricing to my pulses it is by a factor of multiples, so therefore I do not think for Tata Sampann it is right to look at volume because of the various different categories that we play in. Spices per kilo versus dry fruits per kilo versus pulses per kilo, it is significantly higher. Now what we have said is we will grow Tata Sampann CAGR at 30%. Last quarter we were soft, and we had said that we are not worried because we did renegotiate trading terms and normally when you do that you do see a temporary setback. We have grown 37%, we are expanding Sampann into new categories, we have gone into Hing for example, we are going into new geographies, and

we were not in the South in spices in a significant manner we have gone there. So, 30% CAGR (value) I think you can take it as given.

Sumant Kumar: Okay thank you so much.

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

Percy Panthaki: Hi! Sir, the NPD percentage of 11% that you mentioned how do you define it, is it all launches in the last 24, 36 months what is the definition exactly here?

Sunil D'Souza: Yes, so it is launches over the last three years and you take contribution from revenue over the last three years But just as a perspective, the significance of launches in the last one year is significantly higher than the last three years and definitely much more than the last two years, so it is more recent launches which are coming up rather than cycling numbers of the past. Like I said that is because we are also accelerating the pace of innovation. This quarter compared to last quarter we have doubled the number of new products launched.

Percy Panthaki: So, this 11% is revenue contribution number, right?

Sunil D'Souza: Yes, on e-commerce.

Percy Panthaki: 11% pertains only to e-commerce and not the overall portfolio?

Sunil D'Souza: That is correct, no, 11% I would give a hand and a leg and everything to get 11% on my total number, but unfortunately no it is not. Our target is to exit this year at 3.5% to 3.8% of sales total.

Percy Panthaki: At a total portfolio level?

Sunil D'Souza: That is correct. The benchmark for us is we should be getting to a 5%. If you remember when we started FY2020 we closed at 0.9%, from there we made significant progress almost doubling every year, so this year the target is to exit at 3.5% plus.

Percy Panthaki: Next question is on margins, this quarter you recorded a margin of about 13% on a consolidated level. So just wanted to understand what are the pluses and minuses which are likely to occur over the next couple of quarters and do we see a sharp jump from this level in the next quarter itself or it is going to be a very gradual kind of a recovery from this 13%?

Sunil D'Souza: If we were able to predict it, I think we would be in a fantastic position, you have seen what is happening to people who cannot predict right. For the India market, I would say the

variables are volume growth coming back into tea, that is number one. I would not worry about salt traction, I would not worry about Sampann which are the big drivers, I would not worry about RTD, and I would not worry about Starbucks. Internationally, as I said there are multiple factors in place. The biggest thing is currency movements because remember tea is bought in US dollars in Kenya, but then there is a actual transaction impact when we sell in the UK so that is one piece. Canada also rolls up to the UK so that is one piece and the pound to the rupee when I translate it into Indian revenue that is becoming an issue. US dollar helps me in terms of revenue for the US. Sum total, inflation in the international markets and therefore impact on the categories and demand, number one. Number two, currency movements and our ability to make sure that the impact on the P&L is negligible and number three is making sure that we are taking pricing in line with all these movements to make sure we are maintaining margins is the most critical piece. Now just as a perspective, the one thing I am not worried about at least when I look at the business right now is market share. It is more industry factors which I am worried about because like I said in the UK now, we have become the number three brand and in the US, we continue to hold and gain shares in K-cups.

Percy Panthaki: So, if my calculations are right the international margins being under pressure this quarter, the larger part of that problem is not the Europe business but the Eight O'Clock Coffee business right. So, if you can give some idea as to what really happened there why margins there were under pressure?

Sunil D'Souza: No, so actually it is a matter of both. It was currency inflation softer demand. UK was primarily softer volume and therefore the relevant pressure on the P&L and a bit of inflation. The US was more about coffee prices as I said coffee prices have gone up steeply, we do hedge as those hedges come up for renewal we have to hedge at newer rates and some of those costs have hit us. And therefore, we need to take pricing both in the US and UK we are taking pricing. US it is already underway, UK it got announced. But to your point are we out of the woods, probably not. This quarter is still a choppy quarter in terms of all these moving parts in international, and in India we do need to see demand coming back consistently before we can declare that now it is smooth sailing. So, I would give it at least a quarter before making a call.

Percy Panthaki: Understood that is all from me. Thanks, and all the best, Sir.

Moderator: Thank you. The next question is from the line of Palak Shah from Infina Finance. Please go ahead.

Palak Shah: In the last quarter, one of your peers mentioned that the cost of tea consumption which is per cup has actually inched up because the tea prices were high even the milk and the sugar

prices have inched up, that inflation is continued in the ensuing quarters as well and in fact built up on that. So, do you foresee the volumes coming back in Q3 and Q4?

Sunil D'Souza: I would not try to go as much as the cost of a whole price of teacup because you remember the alternate beverages are coffee which is again it is milk and sugar. So, I would be more focused on fundamental tea prices and the value that they have given to the consumer in terms of the tea that they are selling, yes it does translate it into a end cup. We are seeing stress out there, as I said the stress is very specifically rural, semi-urban, it is very specifically in the lower end of my portfolio, and we do need to see those geographies and that part of the portfolio come back. As I said, right now the hypothesis is given that it has been a good monsoon yes it has probably been an overtly good monsoon probably at the wrong time overtly good that is what I hear, but that it has been a good monsoon. The MSPs are good, and this is the first festive season where there are no restrictions we do expect to see some sort of normalcy come back but as I said I would still wait for one quarter to declare that everything is back to normal and growth has come back.

Palak Shah: Just one more on the salt side at the input inflation, has it moderated on a sequential basis because we are hearing that the Brine prices are actually inched up because of unseasonal and heavy rainfalls?

Sunil D'Souza: Actually speaking, I think if you look at the distribution of rainfall it is deficit in the areas where it should be deficit which is primarily in the salt basins in Gujarat so hopefully Brine prices will hold, we will know that in a couple of months. But the problem is the cost of energy which is required to convert brine into salt is the critical piece. So, two components at work here- one is the cost of coal and other is because it is imported is the foreign exchange and while overall crude prices have moderated and therefore what I am hearing is overall the pressure on demand for coal is starting to moderate. I think the rupee depreciation does not help, so we are watching that closely. But I will go back to the fact that we have taken aggressive price increases, made sure that our execution matches up and therefore we have held up share on salt.

Palak Shah: Got it. Those are the two questions from my end. Thank you.

Sunil D'Souza: Just a point that I would want to make is, for me two important factors in judging the health of any business long term. One is market share and the second one is margin. The reason why its market share is I do not control industry, industry can go up and down for example in tea whether it is India or the UK, US or wherever and when industry does come back, we will come back strongly, we are in the staples business we are not discretionary so it will come back. So, we will come back very strongly, and volume growth will come back. Margin important because when we come back we are making sure that we are making the same amount of money that we were making when there was pressure mounting. So these

are the two factors that I would look at and every single business which I look at, market share and margin seems to be on a good wicket in India. Internationally market share is on a good wicket, margin is not and that is why we are taking pricing actions to make sure we put them back.

Palak Shah: Thanks for the detailed answer and wish you all of you a Happy Diwali and a New Year.

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

Amit Purohit: Thank you for the opportunity. If you could just share some data points on the rural versus urban growth trends that you indicated in your outlook as well , what you have witnessed in the Q2 and Q1 quarters till now?

Sunil D'Souza: We would be probably the wrong benchmark to look at rural versus urban, because we have consistently maintained that over the last 24 months or so while we have built or rebuilt our distribution system, we are good on the urban side, metros and urban. Our gaps are in the semi-urban and rural. We are building out semi-urban and rural and therefore our growth in semi-urban and rural are far healthier than urban. But that is not the story for the industry. The catch is we did expect the industry to be on a faster wicket in semi-urban and rural and that is what is slowing us down.

Amit Purohit: What would be our mix like in terms of semi-urban and rural?

Sunil D'Souza: The mix right now will be roughly, I am just giving you a ballpark number, it will be two third urban, one third rural.

Amit Purohit: Also wanted to understand your initiatives in the South. We launched actually a salt brand Shuddh, to ensure that the solar based ,how has been the response from the consumer side and just if you could throw some light on that because we were looking to build that to tag along other categories as well so just if you could give some insights on that?

Sunil D'Souza: You are absolutely right. Shuddh was a brand which we had launched in the South very specifically if you take the southern markets other than Tamil Nadu, of AP, Karnataka, Telangana and of course to a significant extent Kerala as well. The consumer is used to solar salt and therefore when we put in vacuum evaporated salt, the answer that we get is this is not my salt from the homemaker or the person who is using the actual salt and therefore we have launched Shuddh by Tata Salt. We had launched it about I think just about a quarter ago. We have launched it in the states of Andhra, Telangana and we have had significant learnings out there. While the product itself scores a win against all competitors bar none, the catch is we have had learnings on the packaging and the cues on the packaging. We are right now working to do a sort of as we roll it out from this pilot per

se as we roll it out, we will be modifying the packaging in both the way it looks and the size scale of the packaging, so that it denotes a much more premium image. In the next probably 30 - 60 days or so we will be rolling it out because we are confident now that we have learned what the consumer reacts to, I think we have got the entire formula in place to make a success out of it.

Amit Purohit: Lastly if you could share these are uncertain times especially on the international market on the currency. But pricing actions that you have taken up would help you to at least reach the double-digit EBIT margins, maybe Q4 or so is that a possibility or we would just wait and watch kind of?

Sunil D'Souza: So just as a perspective in the US market if I am not mistaken from about September 2021 onwards, we have taken about a 22% price increase already, and we thought that was good enough for us to negate any commodity/currency action. Now that is obviously not the case so we are doing one more round of packaging-led pricing if I may put it that way. In the UK as well, we had taken a 7% price increase which at that point of time looked like it was good enough to get us through. But obviously not, so we have announced a very, very significant double digit price increase already in the market. The only issue is that there is a roughly a 90-day notice period to trade there and then of course there are games which the retailers play among themselves before the pricing lands. So, I would say, you will see that pricing land firmly only in Q4 and the intent is to make sure that both the businesses get back into double digits. But here is the thing, between now and then your guess is as good as mine as to how inflation plays out, how cost plays out and where the pound goes and where the dollar goes. The other piece is we have also, given the fact that it is uncertain times we have looked at our entire cost structure in the international piece and we have got a full-fledged roadmap on structural cost restructuring, we have already actioned part of it, there has been already a, you call it in-shoring, off-shoring, outsourcing whatever so we have got in-house offshore back office at Bangalore where we have already started pulling work from the international market. But there will be a phase two at which we will look at all different other costs in the systems to figure out, how we can make it into a much more leaner machine and to your point delivering significant double digit EBIT growth.

Amit Purohit: Just one followup does these pricing action puts us any in on a disadvantageous position versus competition or this is generally the trend?

Sunil D'Souza: Everyone buys tea from Kenya, all tea in Kenya is priced in dollars, and all the guys in UK sell it in pounds so I guess all of us are in the same hole.

Amit Purohit: Fair. Thank you so much and wish you a Happy Diwali Sir. Thanks.

Moderator: Thank you. The next question is from the line of Mihir Shah from Nomura. Please go ahead.

Mihir Shah: Hi Sir, thank you for taking my question. Can you talk a bit more about the timelines and any indicative synergy benefits from the simplification exercise that we have called out last year on the international business in Tata Coffee? So that is my only question.

Sunil D'Souza: Yes, so there were two parts of the simplification- one was the India leg, and one was the international leg, and they are also in a sense interdependent. On the India leg, we had applied for NCLT to demerge the extractions business and merge it into Tata Consumer and roll in the plantations business into a wholly owned subsidiary of Tata Coffee. So, both the companies had applied for NCLT. For Tata Consumer, which is NCLT at Kolkata, we have got the date of November 12th which is NCLT hearing. We are still awaiting the date from NCLT Bengaluru for Tata Coffee post which I think the whole thing your guess is as good as mine as to when that comes through. But presuming it comes through in the next 30 days or so I would say give it 90- 120 days to be fully actionable. So, it is in motion, it is just we are waiting for the requisite approvals. On the international leg there were two significant pieces, number one was we were swapping shares held by TEO, which is a Tata company from our UK parent holding company into India shares, for which we had requested for approvals we have got them, and we will be actioning that, so we will be removing all minority holdings from our UK holding company through which we will start the simplification process. The only catch in the international simplification process ,the big piece is the Eight O'Clock Coffee for which we need the Tata Coffee NCLT to go through before actioning it. But as of now everything is on track, it is just a matter of getting the proper approval so that we can press the triggers.

Mihir Shah: Ballpark understanding of it being EPS accretive about 3% to 4% would be a fair understanding, Sir?

Sunil D'Souza: Absolutely, the whole objective is that there is a significant amount of cost and dividend and tax optimization that is possible, because of which it will be EPS accretive.

Mihir Shah: Got it. Thank you so much. That is all from my side.

Nidhi Verma: Moderator, we will just go to the webcast now and take a couple of questions from there before returning to this. Sunil, there is a question from Chanchal, he is asking given the cash position in book and speed to market by acquiring good quality assets any thought on the same and second question is also on pulses sourcing how far are we in that process?

Sunil D'Souza: Let me answer the second question on pulses sourcing. I think like I said we have rejigged our entire system including injecting new talent and we have seen very, very good movements basis the actions that we have taken, but very early days. On top of that we are right now building an entire digital engine in our tea procurement business which we will be leveraging for other commodities including pulses. So we feel good about where we are, it is just that we need to see a few quarters of consistency before we say we are good, so

that is number one. Cash position in books and good quality assets, if you have anything in mind do let me know, I am also on the lookout. The catch is as I have consistently maintained we will not be in a hurry for anything. We will be very, very focused on making sure the financial metrics and the strategic screens both pass before we get it through. There are multiple discussions always ongoing at Tata Consumer. In fact, in the early part of the integration we had beefed up our digital teams, our R&D teams, and our sales teams. We have of late boosted up our M&A and strategy teams as well. We look at multiple things at the same time and there are ongoing discussions. But here I would not put a timeline I would not put a target because we want to make sure we are creating value.

Nidhi Verma:

Thanks, Sunil and the next question is from Saurabh, he is asking among the growth categories how do we create synergies in distribution marketing strategies, etc., given that the products are at two different ends of the spectrum. On one hand we have deeply penetrated categories like pulses, spices, etc., but no brands and on the other hand we have RTE, plant-based meat, NourishCo, Gluco+, etc., where market is at a nascent stage, but very fragmented.

Sunil D'Souza:

Let me put it this way, it is not that we will get synergies in everything across all the categories that we play in. So Ready to Drink is a separate vertical in terms of whether it is manufacturing or it is distribution it is distinctly different from the other categories that we play in and therefore we are building it separately. It is a completely asset light model because it is co-manufacturers manufacturing at the back end and distributors distributing at the front end. The value we add is in terms of R&D and products, marketing and strategies and so far, are doing very well, like I said we are right now growing at about 64% I think. Even calculating for the COVID lockdowns and the time lost for us to scale it up we are still I think north of 50% CAGR, so it is in a very, very good place. All the other products there is significant amount of synergies because only thing is you have to dissect, for example, whether it is plant-based meat or protein I will not be selling it in every Kirana store and every outlet so there is immense amount of synergy in modern trade and e-commerce, also on D2C so that is where we are focusing. It is the same team which is handling it and given the fact that it is modern trade and our e-commerce bandwidth is not an issue for the team to deal with. At the front end when it comes down to product distributed in Kirana stores, there is immense amount of synergy for example whether it is Sampann, RTE also to an extent in what we call SAMT Standalone Modern Trade and Higher End Grocery/Kirana stores. Given the fact that we are completely digitized on our distribution system, we have the ability to make sure we restrict distribution where we want it and open distribution where we want it so that is the way we play it. The only thing we have got to be mindful, and we are right now running a few pilots in a few places, as our portfolio expands, we have got to make sure that the salesman does not become a bottleneck with too many products to sell. So, we are looking at how do we create extra bandwidth there either through geographical segmentation or through portfolio segmentation and

looking at split out, split geographies, all those kinds of things there are pilots running basis which will take a call because we will grow our portfolio and we will try to leverage synergies, but we have got to make sure that we continue to keep the bandwidth going.

Nidhi Verma: Thanks Sunil and the second question from him is while Sampann has a strong proposition of purity and is associated with not processed pulses, does the launch of RTE products which are essentially processed food can impact the essence of Sampann as a brand?

Sunil D'Souza: Yes, absolutely right so the whole thing is it is Sarvagunn Sampann, and we will preserve the goodness. Now this is just as a perspective, it is a misnomer that RTE does not contain nutrition and is full of preservatives. Most of our SKUs do not have in RTE do not have added preservatives, colors or flavors. They are good sources of protein and fiber and Sampann is the endorser brand, it is not the main brand. Like I said in India it is Yumside which is the brand ,the reason it is like it is almost from the house of Sampann so to speak which gives us an easier entry into the consumer minds and therefore the kitchens.

Nidhi Verma: Thanks Sunil with that we will just quickly go back to the Q&A queue to see if there are any pending questions.

Moderator: We will take the next question from the line of Darshil Pandya from Finterest Capital. Please go ahead.

Darshil Pandya: First, congratulations on the number, you have been doing good. One of the questions was already answered regarding this Tata Sampann Yumside so even I was a bit skeptical about how things will be because we have seen reviews, but I will definitely try this new product which the Tata has launched. Second question was on the basis of this Go Fit which the company has introduced so where do you see, you see this penetrating high in the market in the next few quarters or year?

Sunil D'Souza: So, GoFit here is the thing, we have defined protein as a platform which we will focus on. We did launch Tata Simply Better which is alternate meat, and we will be expanding the portfolio on Tata Simply Better to more products which are probably beyond protein as well. Simply Better products per se and then we have launched the supplement range we have made our first foray with GoFit. The idea of GoFit is to I would say I would use a phrase called launch and learn. We put it out there in the market it is positioned at women which is a white space there is no other product which is positioned at women. It has got probiotics which helps in easy digestion. So very, very early days, I would reserve any judgment on where we want to take it, how far it can go, what is the expansion that is possible for some time before we see, because remember this is a completely new category for us. We are also learning. Once we have a firm handle then we will see how to play this category. The reason we have got into it because protein is a big trend globally and will

become a big trend in India. While we missed the boat on many other categories, we want to make sure that we do have, not exactly, but a first mover advantage in this category.

Darshil Pandya: The second question is on the exceptional item which we have seen around 147 Crores from the sale of a land. Can you please give me some more light on that transaction or something because it is quite one of the items where we do not see it more often, so what is it if you can please tell me?

Sunil D'Souza: This is emanating from Tata Coffee this was the disputed land around Hyderabad which has been in dispute, it emanates from transaction with Tata Coffee years back because and that has been under litigation for a long, long time. The more practical and value generation was from selling the land which they have sold, and they have recognized it, that is about it.

Darshil Pandya: Very last question. do you have any other product pipeline maybe it could be chips premium chips or biscuits or something you are looking at?

Sunil D'Souza: So, we have defined snacks as one of the platforms that we will have in mini meals breakfast and snacking, but I do not think at least and I am shooting off the cuff here, I do not think we are going to get into chips, we are not going to get into bhujia, we are not going to get into the Kurkure equivalent. We have to figure out our own strategy on snacking to make sure that we are creating a space which is not competitive or where we have a right to win which has got decent margins, we have the ability to scale it, it is a category which is growing fast. It is work in process we do not have an answer but yes snacking as occasions will continue to grow and therefore, we want to play in it. I do not think we will be playing in it with the chips or bhujia.

Darshil Pandya: That is all I wanted to ask. Many congratulations and wishing you and your whole team a very Happy Diwali and I hope you guys keep performing well.

Moderator: Thank you very much. As there are no further questions from the participants, I would now like to hand the conference over to Ms. Nidhi for closing comments.

Nidhi Verma: I would just like to thank everyone for taking the time on behalf of the management and wish you all a great festive season ahead and see you all during the next call. Thank you.

Moderator: Thank you. Ladies and gentlemen on behalf of DAM Capital Advisors Limited, that concludes this conference call. Thank you for joining us. You may now disconnect your lines.