"Tata Consumer Products Limited

Q3 FY'23 Earnings Conference Call"

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Moderator Ladies and gentlemen, good day, and welcome to the Tata Consumer Products Limited Q3 FY'23 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 star then zero on your touchtone phone. Please note that this conference is being recorded.

I now hand the conference over to Mr. Manoj Menon from ICICI Securities Limited. Thank you, and over to you, sir.

Manoj Menon: Wonderful good morning, good afternoon, good evening to you depending on the part of the world you are joining this call from. Att I-Sec, we are very happy to host the Tata Consumer 3Q FY'23 results conference call. Before I hand over to Nidhi for the introduction of the management, etcetera, I just want to reiterate our stance on Tata Consumer that we continue to remain constructive on the business and the stock. Nidhi, over to you.

Nidhi Verma: Thank you, Manoj. Hi, everyone. Welcome to the Q3 FY'23 call. Thank you for joining us. On the call, I have Mr. Sunil D'Souza, Managing Director and CEO; Mr. L. Krishnakumar, Executive Director and CFO; and Mr. Ajit Krishnakumar, COO. As usual, we will first spend about 15 minutes or so going through the presentation, and we will spend most of the time on Q&A. So without further ado, over to you, Sunil.

Sunil D'Souza: Thanks, Nidhi. So if I can jump straight to the executive summary. For the quarter, we grew revenue 8%; YTD is now 10%. Just for clarification on a three-year CAGR basis, this translates to a 12% revenue growth. Consolidated EBITDA was a bit pressured. We declined 2% year-on-year. But just to highlight, last year, we grew significantly on EBITDA during the same quarter, so we are cycling those numbers. But even then year-to-date EBITDA growth was 5%. On a three-year basis, again, EBITDA is also in line with revenue at 12%. India business grew 8%, while the beverage business declined 5%, primarily driven by volume.

On a three-year CAGR basis, the business is still up by 12% per annum. India Foods business grew at 29% with a 4% volume. On a three-year CAGR, it continues to be very, very strong growth at 21%. The international business revenue was up by 4% for the quarter, bringing total year-to-date revenue growth to 7%.

EBITDA for the India business, just to reiterate, India business, 8% growth; EBITDA grew 13% which means EBITDA margins expanded. However, inflationary pressures, currency and lag in pricing in the international business and more about that when I come to the details, dragged down the consolidated EBITDA. Margins in the international business improved by about 240 bps quarter-on-quarter. The primary reason for the softness in the India business was continued stress in rural and especially in tea, there is a very high factor of seasonality, especially up North. And therefore, delayed winter in our salient markets led to market share softness. However, in salt, we've continued to go from strength to strength and despite a 33% increase in price during the year, we have continued to gain market share. Our growth businesses are now a significant portion of our business where we started with a 6% in FY'20. They are now 13% of our business. Despite the top line of the overall business, as I mentioned, growing by 12%. So they continue to show very strong growth, 53% year-on-year. Next slide. Yes. So key business snapshot, India Beverages at INR 1,200 crores revenue growth, negative 5%, volume growth negative 5%. India Foods, volume growth of 4%; revenue up 29%, mostly driven by price increases; and revenue close to INR 1,000 crores now.

US Coffee, because we did a pack-price exercise to take up price rather than taking up naked pricing, we saw an impact by volume. But just to highlight that in the international markets, it is revenue top line, which matters more than the volume per se. And we had a healthy volume -- healthy revenue growth of 11%, but there is a currency in that. Even if I strip off for currency, we grew by 1% in US Coffee. International Tea, volume was about flat, which is actually good news given the previous quarters that we've seen and constant currency revenue growth of 2% because there is the pound to rupee impact in the total revenue, which was negative 1%.

Tata Coffee had a strong top line growth, though volume growth was negative time, but that was driven more by timing of sales of coffee, which happened in the last quarter and pepper, which we expect in the next quarter, taking advantage of price arbitrages between quarters. Consolidated all-in INR 3,475 crores at a 8% revenue growth.

On a 9-month basis, overall revenue growth of negative 1% for India, INR 3,765 crores; India Foods up by 26% at INR 2,700 crores; US Coffee revenue growth of 18% constant currency 10%, north of INR 1,000 crores; International Tea, again, constant currency growth of 2% close to INR 1,500 crores; Tata Coffee has breached INR 1,000 crores mark, very strong top line growth; all-in we cross INR 10,000 crores for the 9 months constant currency growth of 9%.

In financial terms, 8% revenue growth, negative 2% EBITDA, 1% growth on PBT. We had an exceptional primarily on conversion of a JV into a subsidiary in South Africa, which has driven group net profit up by 26%. Before exceptionals, the net profit is down 5%. Our cash compared to the same quarter last year is up by about 10%. For the 9 months cumulative, 10%, which is double-digit revenue growth, crossing the INR 10,000 crores mark; EBITDA up 5%; PBT up 7%; Group net profit, up 33%, driven by this quarter's exceptional coupled with previous quarters, exceptional from Tata Coffee; and Group net profit even before exceptional items up by 10%. Now if I go to just highlight the actions that we've had on our strategic priorities, we're making consistent progress on reach.

Now we had made a commitment right in the beginning when we started off, which was about September of 2020, that in 12 months, we will double our numeric reach -- our direct outlets. And in 3 years, we will double our numeric reach. Now just as a perspective, we are quite close to that on -- and then we have made additional commitments through the year as we went by. We have said by March of 2023, we will be at 1.5 million outlets direct. We are at close to 1.4 million right now. So more or less on track to meet that number. And our target that time in September '20, when we had started off was numeric of about 4 million outlets. We are about 3.6 all-in across all our categories right now. But the one issue which we are seeing is that as initially, we had combined our sales force to drive efficiency. But now as we increase our portfolio, we need to release bandwidth, and therefore, we are moving to split routes, separate for food and beverage broadly in a simplistic sense in all 10 lakh plus towns, which will give us now increased depth in the outlets that we operate in, in these large urban areas.

Apart from that, our gap in distribution is primarily in semi-urban and rural. So there'll be a significant movement from sub-distributors to distributors in the next 2 or 3 months as we seek to improve direct coverage in semi-urban areas. We've been making phenomenal progress on the channels of the future if I may call it. Modern trade and e-commerce has doubled as a percentage of our business over the last 3 years. It continues to go from strength to strength. We are up by 34% on revenue on e-commerce and 17% on modern trade. Next slide. We continue to focus on execution, focusing on our strong brand of Chakra in the South.

We've launched a full coffee variant. Incidentally, the Tata Coffee Grand Blue Label is a coffee-chicory mix. Whereas up North, consumers prefer coffee and are willing to pay a premium. So we have done that launch. We finished our brand harmonization part one, which is putting all our value propositions under the Agni brand and continue to drive our premium variant of Tetley.

Next slide. In salt, apart from strengthening base Tata salt, which is what you see on the right hand, which is continuing the Questioning A&P that we have out there in the market. Apart from that, we continue to look at both expanding our value-added range as well as our mass range. So our Immuno has got off to a good start across the country. In addition, as you'll see, we are now looking at iron fortified and vitamin fortified, Shuddh -- which is our launch down South in weaker solar salt areas, we have learned from the pilot - rejigged the mix and relaunched it. Apart from that, as I mentioned earlier, 40% of the market for spices is down South. We were not serious players there and now we have entered Karnataka and seen a very good response to our new blend offerings.

Next slide. We continue to -- the momentum on innovation, innovation from 0.8% when we have started is, now we are targeting to exit this year at a 3% plus. We have put out a premium range of Tata premium, moved into 2-in-1 and 3-in-1 in coffee with cafe specials. NourishCo, we've got the first launch of Juice-Jelly combination in India, and this has gone off to a great start. And the chef style masala, which is a sprinkling of spices in whichever format you would want. Next slide. Tata Raasa, our launch of RTEs & RTCs in the Western developed markets is off to a good start. We've launched -- we've shipped our containers in December, albeit it's been a bit slow, but now we've got started. We've relaunched Tata Soulfull Ragi Bites with extra creamy fill. Apart from that, I talked about the south spices, Rock salt is taking off in India in a big way, while our base, Rock salt is doing very well,we have launched the iodized Rock salt variant for the value seeker. The vitamin D plus calcium range I already talked about.

Next slide. We have now integrated our R&D into 3 big centers. We've got a center of excellence sitting in Bangalore, which is a prime center of operation for us. Apart from that, the Sri City smart food facility is now our process excellence center for all food & beverage. And in Mumbai, we have set up a sensory and a kitchen expertise for the food innocenter. Next slide. Our growth businesses, which is Sampann, NourishCo, Soulfull and now Tata SmartFoodz is up by 53% year-on-year for the quarter. And as I mentioned, contribution has moved from 6% to 13% over the last 3 years.

Next slide. On sustainability, we continue to go from strength to strength. We won awards for reporting, we won -- we linked up with Wastelink for recycling of waste into animal feed and our Damdim packaging center won the Energy Conservation Award for 2022.

Next slide. We've also put out our sustainability stories for Tetley and Teapigs, which have been received very well in the UK. Next slide. Yes, talking of our different -- go to the next slide. Yes, talking of our different businesses, per se, India beverages, I already talked about negative 9% on revenue, driven by negative 5% volume.

We've lost a bit of share. But just to give you some details out there, the revenue has declined because of both pricing corrections as tea prices have come down, coupled with some volume declines. And the volume declines have been largely led by the fact that we've seen continued pressure on rural markets as well as a delayed winter up North. Now just as a perspective, winter set in late, I would say probably early to mid-December.

From then on, we've seen some volume traction. I would still keep my fingers crossed before saying that we are back on track. But December was decent, January was better than December. So we are hoping that we are off to a good quarter. But despite that, just to highlight on a three-year basis, we are still up by 9% on revenue. Market share is, I would say, largely a mathematical calculation because we are stronger up North, so if the North doesn't fire, then in the mix of things, our share does come down. So hopefully, as the North picks up now, we will start seeing the share coming back apart from the fact that rural should start coming back and we're improving our distribution in semi-urban and rural. Coffee continues on a strong growth trajectory of 34%.

Next slide. Despite the fact that we took a 33% price increase in salt, we've continued to show volume growth, our volume growth in food is up 4%; revenue growth, 29%; and with execution and continued branding efforts, we have a 90 bps market share gain. Next slide. NourishCo, 66% revenue growth, INR 119 crores for the quarter. NourishCo is on track to deliver INR 600 crores for the quarter [error: speaker meant for the year], just as a perspective, May 2020, when we bought out this business, it was at INR 180 crores, and we continue to drive this growth, both through geographical as well as portfolio expansion. Tata Copper Plus is now running consistently the third quarter in a row at 2x of last year.

Next slide. Tata Coffee driven primarily by coffee prices per se had a strong revenue growth of 25%, both plantations coffee as well as extractions. Revenue growth overall plantations was negative because, as I mentioned, coffee we sold in the previous quarter and pepper we are planning for this quarter. Next slide. Starbucks, just as a perspective, if I just take the last 12 months, we've added 65 stores, and this number will keep climbing as we go forward. We opened

11 net new stores during the quarter. We're now up to 311 and we're present in 2 new cities going up to 38 total. Incidentally, the business continues to be EBIT positive.

On the international front, UK was a 1% revenue growth, market share broadly maintained. We have now integrated Teapigs into the system. While Teapigs did show a decline that was primarily because consumers are moving from online to offline, and we do expect Teapigs to start coming back as offline starts growing in line. In the US. market, we had 1% revenue growth on coffee, Tea -- while revenue declined, more or less we gained a little bit of share on tea and we continue to maintain our shares more or less in coffee. Canada continues to be our star performer. Growth in both speciality tea as well as black driving a total of 5% revenue growth, and we continue to maintain very strong market shares in Canada.

I hand over to LK now for the financials.

L. Krishnakumarr: Thanks, Sunil, and good afternoon, everyone. Talking through performance highlights for the quarter 3. First, commenting on the standalone performance, we see revenue INR 2,153 crores, higher by 6%. You need to remember that this 6% growth actually consists of a degrowth of about 5% in the tea business, but more than a 25% growth in the foods business. And we expect, like Sunil mentioned, there are some temporary reasons. We expect tea growth to come back in the subsequent quarters.

In terms of EBITDA, we grew more than proportionately 17% growth, driven by cost initiatives, driven also by improving margins in the foods business. In terms of consolidated performance revenue at INR 3,475 crores, up by 8%. And within that, we had India business growing by – India branded business growing by 8%, international up by 2% and non-branded by 22%. So overall, the performance has been very strong in the Foods business, slightly underperformance in terms of the international business and tea business that we hope to catch up going forward. In terms of EBITDA, you see a decline and as Sunil mentioned, the decline is primarily due to the international business, which saw a lower profit compared to the same period in the previous year. We'll talk a little more about it when we come to the segmental disclosure. Going to the consolidated P&L overall, we talked about revenue growth and EBITDA, I'm not going to repeat that here. But the point I wanted to make was, if you look at the PBT before exceptional items, notwithstanding the decline in performance of the international business, we have more or less maintained the same number as in the previous year. In terms of exceptional items, we have INR 79 crores, and this is largely consisting of the Joekels transaction that Sunil mentioned.

Basically, this is an accounting gain required by accounting standards because what was earlier a JV is now becoming a subsidiary and that will go into consolidation. So it's accounted as a sale of minority interest and coming back into the results as a subsidiary. Our effective tax rate is slightly lower because of the fact that the Joekels transaction is not liable to tax. It's only in the consolidated books. Group net profit INR 364 crores, higher by 26%. Now between PAT and group net profit – you have the share of profit & loss from JVs & Associates. You'll see that in the statutory result. You see it's a slightly adverse compared to the same period in the previous year. because of lower profitability, primarily in the plantation business and some one-off cost in the Starbucks business. On a year-to-date basis, we are talking a top line growth in double-digit of 10%; EBIT growth of about 5%; and overall PAT growth of 27% after exceptional items; and a group net profit growth over 30%.

Moving on, on a standalone basis. As I mentioned earlier, stand-alone performance has been strong, with a 6% revenue growth and 17% EBITDA growth. In terms of exceptional items, not -- no material change. Overall, PAT higher by 27% compared to the same period in the previous year. One interesting point to note is compared to the year-to-date performance, right? You'll see that overall, in terms of EBITDA, we are -- overall, we are improving in terms of EBITDA. That's the message that I want to leave compared to the same period in the previous year, whether you look at the year-to-date or you look at the quarter both show an improving trend. So the underlying India business profitability from situations we had earlier of high cost, input cost inflation. I think we are slowly recovering and coming back to a better profitability position.

Looking at the segment performance. India business, 70% of revenues and 77% of segmental results. International, 30% of revenues and 23% of results. If you look at the individual table, we talked about the India businesses, overall, having growth in profit better than the sales growth, 14% versus 8%. International business, we are seeing a decline of 39% and the segmental result of INR 88 crores compared to INR 144 crores. But like I mentioned earlier, the segmental number for the international business in quarter 3 is better than what you saw for quarter 2. So there is some improvement.

We have taken a price which is hitting the UK market and some of the price increases taken in the US will be reflected in quarter 4 and beyond. And we're also having further cost restructuring opportunities, which we're working on, which will unfold over the next couple of quarters or so. So that's the overall performance. Happy to answer any questions. Before that, over to Sunil for concluding remarks.

Sunil D'Souza: Yes. So just in summary, for this quarter, we've seen demand impacted by sluggishness and rural and semi-urban markets and the delayed winter in some of our salient markets for tea. But like I said, we're putting in corrective actions and focus on execution, whether it is expansion of distribution into rural or as I mentioned, December and January looks slightly better. The impact of inflation and monetary tightening on the economics and currencies of our key international markets remains a key monitorable. We are taking in both actions, both on the pricing front as well as, as I had alluded to last time around structural cost actions.

Overall, we have been able to deliver double-digit growth for 9 months while balancing margins in an extremely challenging global macro environment. If you look at the India standalone business, 8% volume, 13% EBITDA growth. So we have expanded margins in India despite all the challenges.

The Tea business, as I mentioned, was subdued. And in foods business, we have continued -- we have taken a steep price increase to mitigate input cost inflation but continued to execute and deliver market share. Our growth businesses sustained trajectory continue 50% plus and increased their salience. Our out-of-home businesses, NourishCo and Starbucks are continuing to fire on all cylinders. In the international business, I already talked about pricing as well as structural cost changes.

You've already seen some moves of the pricing with 240 bps improvement in EBIT margins. But I think this quarter, you will see substantially more. And despite the inflationary environment and investments required, our consolidated EBITDA margin has expanded quarter-on-quarter, and we will continue to do this balancing act of growth, market share, and margins. Back to you, Nidhi.

Nidhi Verma: Thanks, Sunil and LK. Over to the moderator for Q&A.

Moderator: The first question is from the line of Abneesh Roy from Nuvama.

Abneesh Roy: My first question is on the India tea business. So you mentioned that you'll be working on further expansion in terms of the rural distribution. So I wanted to understand versus the other large Pan India player, in which state would you plan to address this issue? And what is the kind of gap that you have in mind? And second is on the competitive intensity from the regional players and other large tea player, how the situation currently?

Sunil D'Souza: So, thanks Abneesh. Now if I look at very specifically versus our large other Indian competitor, very, very simply put, if you look at mathematics, we are about 10% to 12% behind on distribution and the 10% to 12% behind on market share. So while different markets around the country might play out differently. But overall, broadly, I have to make up for a 10% increase in distribution assuming they stay flat, they will not so, we have to be slightly ahead of the curve. So that is the whole focus that we need to close the distribution gap which, in turn will help me to close the market share gap. Now if I answer your specific question of where are we trying to close the big gaps, it is in 2 or 3 specific markets. From a value perspective, we have to close our gaps in rural Tamil Nadu, in volume gaps, we have to close our gaps in Eastern UP, right, and in some parts of Maharashtra. So these are the big focus areas, but the thrust on increasing distribution in semi-urban and rural is across the country.

Just as a perspective, we have a base of about -- I would say about 4,000 DSRs today. In between the split routes, which are to improve depth in large urban areas where we already are decent, not good, we're still decent. And between the extra feet-on-street to expand into semi-urban areas, we will be adding anywhere from 35% to 40% of the total DSR base as we go forward. And this will be very early on. We've already started the work. So that's number one.

Your second question on locals. See, locals will always be there. Over a period of time the brands will take over and brands will continue to grow. If you look at a three-year CAGR, we are still about 140-150 bps above from where we started. You will keep having the small blips up and down, but we do believe as we expand our distribution, as we continue to provide value to consumers, and as we continue to power our brands with ATL, we will move the unbranded to branded. In the shorter blips when there are price movement especially to the downside, you will have some niggling issues come up, but we remain focused on the longer-term perspective.

Abneesh Roy: Sure. My second and last question is on the Sampann business. So good strong 37% growth in both Q3 and Q2. So here, my question is in terms of pricing -- would you need a price laddering within the brand? So will you straddle the full price equation, which you have done in your tea or your salt business. When I see your own group company BigBasket. I do see they have royal and they have popular, and there's a big price difference also, especially given RIL will enter this segment very aggressively at some stage. What is the thought process in terms of full price straddling over the medium, long term?

Sunil D'Souza: So Abneesh, whether it's BigBasket or RIL, you have to remember one fundamental thing. I mean there is a huge, huge, huge runway in all the Sampann categories, right? Pulses, if I remember, is an INR 1 lakh plus crores category and the whole branded play is less than 1%. So I -- today, I would worry more about how I would execute and I would move. I'm not worried too much about the other players out there because I think I've got enough to do on my plate on execution.

That's number one. Number two, as regards pricing, I would be very happy to do whatever it takes, providing I make money in the category, right? As long as I'm in positive margins and I'm getting volume growth. I need to balance both these factors. I need to build up sustainable long-term margin-accretive businesses. That is how I would see it. Right now, Sampann is a lower-margin business, and we are driving top line growth.

I think we've got a decent balance. But if we see opportunity to drive it still further by making sure that we've got a consumer winning proposition, right? We need to give the consumer a clear reason of why Sampann and why not something else. As long as we have that, there is no reason we will not drive it. Today, we have enough on our plate, but we will continue to look for opportunities for growth.

Moderator: The next question is from the line of Sumant Kumar from Motilal Oswal.

Sumant Kumar: So my question is regarding India Food business. Despite of portfolio strengthen and the merger of Tata Soulfull and Tata Q, we have shown only 4% volume growth. So can you talk about what are the challenges we are facing for the volume growth of the newly launched products, or -- and existing products?

Sunil D'Souza: So Sumant, very simply put, the entire India volume story is an overwhelming salt story rather than anything else. While everything else provides decent revenue. You have to remember that tonnage comes completely from salt because just as a perspective, it's probably 1 is to 100,000 sort of or 1 is to 10,000 sort of ratios between the other categories and salt. And I would like to emphasize -- I do not think you would have seen in the last -- I'm taking a punt here, probably 15, 20 years where you've seen a 33% increase in salt. So this has been a very, very unnatural year where we've taken these aggressive price increases.

Despite that, we've grown volume and we've maintained/grown share. So I would think that -- so that I would commend the team on that. And all that I would say is if we are seeing stable cost scenarios going forward, and there's no reason why it should not in the given circumstance, but it changes on a daily, if not on a quarterly basis, then we should start seeing volume growth also come back. Salt, we do believe will come to a mid-single-digit sort of volume growth.

L. Krishnakumar: But just -- I thought your question was overall on food. So if you had to look at foods, you have to look at salt. And Sunil spoke at length about salt. But if you move away from salt, because you combine Soulfull and other things in your question, right? The rate of growth is much very, very different, right? Sampann grew, I think, over 35% in this quarter. And then we have Soulfull also growing at 20%, 25%.

Sunil D'Souza: No, Soulfull was double -- triple digit.

L. Krishnakumar: Sorry my mistake, triple digit in value terms. And an important part is some of the new launches like Masala Oats have already got a double-digit or even a high double-digit share in some of the modern trade outlets that they are. So the trending is very good, even though they are smaller, right? And the third part of our growth portfolio is the liquids, right? Though it's not part of foods, I'm still going to talk about it, which is the NourishCo part of business, and that again saw growth in close to triple digits. Overall, the growth portfolio grew at over 50%. And we had the same growth rate, I think, in the last quarter as well. But these are small today. And hence, when you just look at weighted average volume number, we are not actually understanding the true trajectory of this.

Sumant Kumar: So why I'm talking about ex of salt, can you talk about how is the volume growth when you talk about pulse and besan how the volume growth happening there? Because that has a higher contribution in Tata Company?

Sunil D'Souza: Yes. So just as a perspective, we are into strong double-digit on Sampann and close to a very, very high double-digit growth on Soulfull as well.

Sumant Kumar: So what is our total distribution now at company level and core business level?

Sunil D'Souza: So if you take individual categories of tea, we are about 2.7 million outlets numeric. If you take salt, we are in the similar ballpark, 2.7-2.75 million outlets. But if you take the total, Soulfull is about, I think, about 300,000 outlets; NourishCo is about 600,000 outlets. But if you take total Tata Consumer, total reach of selling any single product, we are at about 3.6 million outlets.

Moderator: The next question is from the line of Sheela Rathi from Morgan.

Sheela Rathi: So just -- just your response to the previous question on the distribution. Just wanted to deep dive more on that front. So first question is just wanted to understand how different is the distribution strategy for the foods business and for the beverages business? Because you talked about having different sales force. So that was question number one. And sub part to that is you talked about the depth of distribution for Soulfull and NourishCo. But just want to understand what is the scope with respect to the distribution for these categories, say, in the next 12 to 15 months?

Sunil D'Souza: So Sheela, very simply put, let me dial back, right? When we formed Tata Consumer Products, we actually created a distribution system from scratch. And that point of time, we built a system, which was designed to deliver synergies, and that's why we put up I think over a period of time, we came to close to 3,500 plus DSRs, common sales person carrying both food and beverage operating from a common distributor. Now with that, we have a reached individually about 2.7 million – we were at -- about 1.9 million to 2 million for tea and a similar number for salt.

And in terms of direct coverage, we were about 0.5 million outlets for both, right? So we used to get a multiplier about 4x to 4.5x on each of these categories, the wholesale multiplier. Now what is happening as we are expanding our portfolio, expanding Sampann, expanding Soulfull and even in Salt, launching multiple variants, et cetera, is now at the front end, we are seeing that we need to open up bandwidth in case we need to expand the portfolio. The salesman is not able to sell the whole range, and therefore, we are not able to get depth.

And that's why we still -- while -- like I said 2.7 million in tea is not the same as 2.7 million in salt. But total, when you put it together, it's about 3.6. So we do believe that in large urban areas, now we've got the scale and the portfolio to play, and that's why we're separating it out. We do believe the total 3.6 might not increase dramatically in the urban areas, the 3.6 million to 4 million, I think, will happen more in semi-urban and rural. But in the urban areas, I think now the throughput per outlet, the portfolio and the assortment per outlet is what will get us growth, and that is why we are splitting the routes.

Just as a perspective, NourishCo is a totally different ball game because the distribution is ready to drink. The outlet and or even the way the product is distributed is completely different, so we've kept it separate. It is not part of this system. That is a separate system, which is moving, I think, -- we've moved from about 150,000, 200,000 outlets to about 600,000 outlets now. The universe -- let me just say, if you take a Coke and Pepsi, I'm sure you'll get the numbers. We've got a very, very long way to go.

Sheela Rathi: And with respect to Soulfull?

Sunil D'Souza: Soulfull, I would say, should be in a significant portion of our 4 million outlets. For that, we've got to -- I mean, right now, it's about 300 -- it's about 10 -- it's about slightly lower than 10%. But you've to remember it came from 15,000 outlets just about 1.5 years back, right? So we've got it to this level. Now as we expand bandwidth, I think you would see that also accelerating significantly.

Sheela Rathi: And just one more follow-up here. How different it would be for Sampann, spices, dry fruits the whole distribution strategy?

Sunil D'Souza: So Sampann, actually, if you look at the grocery and the kirana stores sell very similar products to tea. If I benchmark to that. So it should be a 80, 90 index to my tea distribution. In -- just as a perspective in Soulfull, if I take the other large competitor we are about 40% indexed to their distribution. So in the short term, it will be to bridge at least that gap and then drive it beyond that.

Sheela Rathi: Sorry, just a follow-up again on this one is. So the -- what I understand is on Sampann we have the most opportunity to expand our distribution because of the scope. And probably, we -- how far we have reached according to you versus our expectations, say, 2 years ago?

Sunil D'Souza: So we are pretty decent. But here is the thing, Sheela, I mean if you look at the categories per se, they are present in 80%, 90% of the outlet, but the difference is, the prices and the type of product that is there in the market is significantly different. My pulses are unpolished, I operate at a slight premium to the local. My spices are differentiated. I operate at a slight, slight premium. My dry fruits are still online, we've still not gone offline.

But it is a journey of category development and making sure that we do have consumer pull as well as push at the same time to expand. But you're right, in terms of a runway, in terms of distribution, I would probably -- if I rank it, I would say Sampann is the biggest opportunity followed by NourishCo followed by Soulfull.

Sheela Rathi: Understood. And my final question is, do we see any further business rationalization over the coming quarters or something, both domestically or globally?

Sunil D'Souza: So number one is our overall global simplification, which is already in place, where we aim to reduce from 43 to about 23 to 25 operating entities. The good news is we just had Tata Coffee NCLT [shareholders' meeting] just before this call, and we finished that leg. So we do expect, by end of Q1, that to be kicked in. We have started already moving the different pieces that we can move while this is in progress. So that will be one big piece that you will see.

The second big is I talked about structural cost interventions in the international space. That is the second piece that you would see. On the India piece itself, I think now we are pretty stable as an organization there are muscles we need to build, especially in R&D, in digital, expanding distribution in semi-urban and rural, building out analytics, building out RGM, that we will continue to be on a journey.

Moderator: The next question is from the line of Chanchal Kumar Khandelwal from Birla.

Chanchal Kumar: Sunil, if I look at 13% of your business, which is a growth business, contributes to 53% of growth. So almost the entire growth is coming from this new business and you're building up a couple of distribution strength, I would say, in NourishCo is a different distribution strength than food and beverage is a different distribution strength. So in the building blocks, if you can help us understand, in beverage, let's take NourishCo, what are the other things you would like to add organically or inorganically? And where are your journey in all the three different verticals? If you can help us also in understanding the management depth you have built on all these three, it will help.

Sunil D'Souza: Chanchal, I like the mathematics about 13%, 50%, I think that's a good way of looking at it. But just as a perspective, I think the issue is not whether the growth businesses should be growing at 50% or not, they should be. I think the issue is we need to jump start our India Beverage volume growth and accelerate our India Salt growth. So that will change the trajectory. So the equation will change dramatically as we go forward.

Chanchal Kumar: I mean the India Salt and India Beverage business can at most -- I mean, correct me if I am wrong, grow 5% to 6% volume if I look at next 3, 4-year CAGR. This growth business has to fire for you to see sustain a 15% kind of growth.

Sunil D'Souza: No, no. So you're absolutely right. And that's why we've defined our -- the platforms that we will operate in very clearly, right? We've defined the core. And in the core, the job is to, as you said, mid-to-high single digits is a very good number in terms of volume growth. And then there is a ready-to-drink beverages business. There is a Sampann pantry business. There is a pantry business, which is under the Sampann brand. There is mini meals, snacking and breakfast, which is now right now under the Soulfull and a little bit under the Yumside brand and we've just entered the protein platforms, right? So we've defined our platforms.

Within those platforms, there will be categories which we will play, some of them organically, some of them inorganically. For example, when I say breakfast, mini meals and snacking. Breakfast is a tick mark with Soulfull. Mini meals, we are sort of about somewhere there. Snacking, we are yet to seriously make moves, right? So we are currently in planning stages, both organically and inorganically. And you're absolutely right. The idea is to become a large, strong multi-category food and beverage company. So workt to do.

Chanchal Kumar: Sure. That answers my question. And in this building a block when you are trying to build up the India business, specifically, if I look at the NourishCo or Tata Gluco Plus, I mean, those business will require some additional -- either organic or inorganically, because the distribution is totally different game. The second part of the question is the -- I mean given the management attention or management focus on the international business that is, again, you divested many businesses. What are your thoughts here? How soon you look to build that business or divest that business because that is a drag for your profitability and also a drag for your management bandwidth?

Sunil D'Souza: So Chanchal, actually speaking, the international business, if I dial back 12 months earlier or 12, maybe 15 months earlier, the international business was accretive in EBIT margins to the India business. It is just this entire commodity, currency and demand softness, which has changed the trajectory. It's taken us a bit of work to do, but I would -- I do think in the next couple of quarters, it should be coming back very strongly to being accretive again to the India business in terms of margins.

Chanchal Kumar: I mean, again, taking -- stretching it a bit, but the business doesn't have a pricing power. Correct me if I'm wrong. The business growth is slower than the India business. And business -- we have seen this businesses history for the last 5, 10 years it has not been sustaining the growth. So I mean, if you can address this and why retain this business if I mean good period it fires, but places where the -- where we see the commodity inflation, the business seems to not have pricing power?

Sunil D'Souza: So I wouldn't completely agree with that Chanchal, because if you look at results for tea and coffee players across, they have been stressed because of multiple reasons. I do think we can put it back to the EBIT positive margin. That's number one. And number two, I also alluded to structural cost actions to make sure that they are rightfully being accretive to our business. So I think it's not a question of 'or', I think it's a question of 'and', and I do think we can do this. It doesn't take too much because we've got dedicated teams out there. So it's not taking off too much management bandwidth from that perspective. If the India business doesn't deliver, then you can rightfully point the finger, but I do think the India business is going to come back pretty quickly. So therefore, I would say it's an 'and' game.

Nidhi Verma: Now we'll go to webcast for a few questions now, okay? So -- Sunil, there is a question from Latika from JP Morgan. She's asking, what in your view are sustainable volume and value growth rates for your core portfolios of tea and salt. Should we expect these segments to register mid-single-digit volume growth and high single-digit value growth over the next 2 to 3 years?

Sunil D'Souza: Absolutely, Latika. I think this is exactly what we've been saying for a long time and our view doesn't change here. We should see mid-single-digit volume growth both for tea and salt, coupled with pack price, price mix as well as premiumization efforts. We should see high single-digit value growth undisputedly. And history proves it, proves us, right? Just for example, in the India Beverage space, India Tea -- I mean if you look at dial back, it's been about a 5% volume growth. It's just that we've had so many upheavals in the last 2 or 3 years that the whole category growth has been 3.5%. But I do think once we find stability in the entire picture, we will start seeing mid-single-digit growth.

Nidhi Verma: The next question from her is, could you provide some flavor on margin profile of Sampann portfolio? Is the top line growth coming at the cost of profitability? Does it imply you will use the higher margins of salt business to build Sampann. What could be the profit margin range for Sampann portfolio on a sustainable basis? If you can't share absolutely specific numbers, please provide some benchmarking versus the India business market?

Sunil D'Souza: So I would like to make 2 or 3 statements on the overall growth businesses the way you look at it, right? There are two specific ways to look at it. On a gross margin basis, they have to be positive and they have to start moving in the positive -- a continued upward positive direction. That's point number one. Point number two, as you build scale in these businesses, we might put in infrastructure and/or A&P costs early. And as we get scale, then we get leverage, and therefore, the total EBIT margins in those businesses will start looking positive.

Now Sampann is a lower-margin game than our base businesses. But that said, we've been improving quarter-on-quarter and moving it in the positive trajectory. As we start getting scale as we start building the brands in the hands of the consumers, and we expand our portfolio, move to more value-added stuff, we do expect that this will continue to expand. Just for example, the gross margins in the Sampann Yumside ready-to-eat portfolio is accretive to my base business. while if you take pulses, it is probably at the lower end. Spices would be in the ballpark.

Nidhi Verma: And the last question from her is, please provide some color on Sampann revenue profile in terms of mix of pulses, spices, RTE, et cetera? And how should one think about revenue growth and profitability mix going forward?

Sunil D'Souza: I mean, before I get into this, I would also want to emphasize that one of the bugbears for Tata Consumer is our ROCE and Sampann is a significantly high ROCE because there is no capital involved per se. It is completely outsourced manufacturing and distribution. That's number one. Number two, in terms of revenue profile, it is almost exactly in line with the way the market is. Pulses is the most significant followed by spices. RTE is very small. RTE will continue to be small because just to remind everyone here, RTE, the international opportunity is 10x of the India opportunity. India opportunity is about INR 150 crores only. And just as a perspective, for pulses INR 1 lakh crores opportunity. So India RTE will continue to be small. India RTE, I would urge you to look at the margins and not the revenue numbers, the revenue numbers will come from international -- in the international space.

Nidhi Verma: The next question is from Kaustubh Pawaskar. He's asking India Beverage market share loss, is it to loose and unorganized players? Or we have lost it to the other large branded players?

Sunil D'Souza: So let me just say the two large branded players, both of them have lost share to the loose and locals. That, in my mind, is a temporary phenomenon, which should get corrected as we go forward.

L. Krishnakumar: The Tata Chemicals arrangement, there is no change in construction, that was the question he asked.

Nidhi Verma: Yes, yes. So there's a question on the arrangement with Tata Chemicals. And I think LK has already answered in terms of the agreement there. There is no change. There is another question on, how will NourishCo grow? And will the purchase of Bisleri conflict with Tata Copper from Siddharth Singhal.

Sunil D'Souza: So before I answer this question, I would just like to reiterate what I said in an interview in the morning. Whenever we look at acquisitions, we look at value building. We look at growing our total addressable market as well as growing total shareholder returns. So we are mindful any category that we walk in or anything that we look at inorganically, we have to deliver the right returns to shareholders. I wouldn't get ahead of myself by trying to comment on Bisleri. All I can say is that we are in active discussions. As and when something materializes, we will definitely come back, explain the rationale for what we are doing, if we are doing it, if it goes through and our plans for it going forward.

Nidhi Verma: We'll go back to the Q&A queue moderator, if there are any further questions.

Moderator: The next question is from the line of Shubham Shukla from Voyager Capital.

Shubham Shukla: I'm trying to understand the impact like...

Moderator: Please use the handset mode. The audio is not clear from your line.

Shubham Shukla: Is it fine now?

Moderator: Yes.

Shubham Shukla: I'm just trying to understand like what is causing exactly in fluctuation currency, like how is it affecting…

Moderator: Sir, the line for the current participant has got disconnected.

Sunil D'Souza: So if I understood the question right, how does currency impact you? That was the question. Currency impacts us both in terms of transaction as well as translation. We buy tea out of Kenya, which is priced in U.S. dollars. The drop in British Pounds and our inability to take quick pricing in that market meant that it had a transaction impact. And on top of that, the drop of the British Pound versus the Indian Rupee meant that there was a translation impact. So currency overall has both a transaction as well as translation impact on us.

Moderator: Ladies and gentlemen, that was the last question for today. I would now like to hand the conference over to the management for closing comments.

Sunil D'Souza: So, I would just put in a summary about -- I do think if you take where we have come from, our businesses are on decent footings. We do have work to do to jump shift our volume trajectory in beverages, and I think we've got a very clear action plan in place. We've got to put our international margins back to where they were or where they should be. And we have started taking corrective action, including price hikes. We will continue to remain focused on execution, in terms of innovation, distribution, branding, et cetera.

Our portfolio expansion is on track. We moved our growth businesses from 6% to 13%. We are focused on cost and efficiency, something that we didn't talk about. In the last 3 years, our headcount as the cost of -- as a percentage of revenue has come down by 100 bps. Other overheads have come down by 130 bps. Our working capital in terms of number of days is down by 60%. Our whole strategy of simplifying, synergizing and scaling is on track, and now we will move to the execution pieces of some of the things that we've already put in motion there.

Nidhi Verma: Okay. Thanks, Sunil. Thanks, everyone, for joining us. And if you do have any further questions, you can get in touch with us. Thank you, again.

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