TATA CONSUMER PRODUCTS

"Tata Consumer Products Limited Q2 FY-24 Earnings Conference Call"

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TATA CONSUMER PRODUCTS

ICICI Securities

CHORUS CALL®

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MODERATOR: **MR. MANOJ MENON – ICICI SECURITIES LIMITED**

Moderator: Ladies and gentlemen good day and welcome to Q2 FY24 Earnings Conference Call of Tata Consumer Products Limited hosted by ICICI Securities.

As a reminder all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing '*' then '0' 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. Thank you and over to you sir.

Manoj Menon: Hey wonderful good morning, good afternoon, good evening to everyone who's there on the call today. At ICICI Securities it's our absolute pleasure once again to host the results conference call of Tata Consumer Limited. Over to Nidhi from the management team for further proceedings.

Nidhi Verma: Thank you, Manoj and thanks for hosting us. Welcome everyone. As usual I have in the room with me. Mr. Sunil D'Souza – Managing Director and CEO, Mr. L. Krishnakumar – Executive Director and Group CFO and Mr. Ajit Krishnakumar – Executive Director and Chief Operating Officer.

In terms of format, we'll spend about 15 minutes where Sunil will give you a quick overview of our results and performance during the second quarter and then we will open the floor for Q&A. I'll just like to draw your attention to the disclaimer statement which is visible on your screen. With that over to you Sunil.

Sunil D'Souza: Thanks Nidhi. Before I start off the call, just wanted to highlight that officially we've announced LKK's retirement effective today. With that said, as we are in the process of inducting his successor, LK will stay on with us to make sure the successor lands on his two feet and after that is in a stable position. So as of now, for all practical purposes you can continue to treat LK as the go to person for all things finance.

With that I go to the executive summary:

We delivered a strong quarter with 11% top line growth, 10% in constant currency, the 4-year revenue CAGR is now 12% in Q2 FY24. India Beverages grew 8%, the key volumes up 3%, NourishCo grew 25%. NourishCo first half is up 44%, India Foods up 16% volumes up 6%, Tata Sampann was up 47%.

International Business came to the party big time this time; 13% revenue growth, 8% in constant currency with EBIT growth of 60%. We continued momentum in India growth. Combined they grew for 39% and they moved from 15% to 18% contribution to India business during the quarter. EBITDA grew 30%. The margin expanded by 220 bps, primarily driven by improved profitability in international and non-branded. On a MAT basis our salt and tea businesses saw marginal share loss. And I'll come to the shares when we talk specifically on those slides.

Innovation is now 5.5% while we have guided for a full year of 5%. This is the second quarter in a row that we've exceeded that. We've achieved new milestone in our S&D journey. We had committed saying that we will have split routes in all 1 million plus towns and substantially in all 1 million plus towns we do have it. On top of that we have direct distributors now in all 50,000 plus towns. Just as a perspective, during that time there was a little bit of a blip and you would have seen some movements in that total numeric reach number. But now that the infrastructure is in place, now execution in these places will be the focus. And in addition, we will move beyond the 50,000 population to start expanding more into the rural spaces.

We also announced the amalgamation of our wholly owned subsidiaries which is NourishCo, Tata Consumer Soulfull, and Tata SmartFoodz with the parent entity. We do expect to see synergies in terms of back end and more in terms of direct and indirect tax synergies.

Business Snapshot:

I talked about India Beverages 3%, volume 8% revenue, India Food 6% volume 16% revenue, U.S. Coffee was soft. Just as a perspective, the volume softness when you look at it, we have already mentioned that it was to do with a pack price architecture where we degrammed packs to hit price points and that's why you'll see volume negative 13%, revenue negative 7%. International tea 15% volume and 30% revenue ex-acquisitions minus 5% and plus 16%. Tata Coffee while volume was soft primarily driven by plantations, revenue was up 2% and consolidated all in 11% revenue growth at 3,734. So, 3,734 which is 11% growth on the top line 569 crores which is a 30% growth on EBITDA, PBT up 36% at 505 crores. Group net profit negative 7%. I would just like to highlight that we had a one-time gain of 147 crores on sale of land in Tata Coffee last year which was an exceptional item. So that is why this shows a negative. But if excluding exceptional items, the growth is 24% in group net profit, and we are sitting with 2,500 crores of cash. In the same quarter last year, it was about 2,000 crores.

Against the strategic priorities, I'll straight move into the distribution slide. We had committed 4 million by September ‘23. We are more or less there, it was 3.9 it's moved down to 3.8 as we've actually rejigged below the lower pop-strata, replacing sub distributors in 50,000 [population] towns with distributors. Like I said, we do believe right thing to do, and it sets us up well for the future because now we will focus on building a super stockist and rural distributor/sub-distributor in pop-strata below. We'll come out with a specific target of which pop-strata and how many distributors are we looking at very shortly. Direct reach continues to be strong at 1.5 million. We've implemented the split and the 50,000 plus [population towns’] distributors that we commented. Modern trade continues strong growth exceeding the overall India growth numbers and e-commerce continues on a strong wicket with a 33% growth.

India Business:

A&P continued to be high at 6.7%. We have powered up our brands. Now just wanted to make a statement on Tea. The shares that you see out here are MAT. On a quarter to quarter, it's almost flat and just wanted to highlight that you normally see blips in market shares as tea prices come down. They are more or less stable right now and we do believe given both distribution, expansion that we are doing along with powering brands we will get back the tea share quickly. Quarter-on-quarter the tea share is stable. Salt, it's a mathematical exercise. We were the first off the curve last year when we started taking up price. Over the last 12 months various other competitors have come up in price, so the whole value table has gone up and therefore you see the value share lost out here. But just as a perspective, now that we are cycling one full year, we see stability in prices. In September we hit a 38% share which is a 12-month high, and we do believe now that prices are stable, we will start getting back to our standard share gain trajectory. Just wanted to highlight that 3 years back when we took over, the share was 30% and for the month of September, we exited at 38%.

Innovation:

We continued the momentum on innovation. Pilot launch of energy products, sports drinks, we've launched decoction; readyto-pour decoction, launches in tea, value added teas, GoFit saw an expansion with Apple Cider Vinegar. Soulful which is our play in breakfast, mini meals and snacking. Having completed the breakfast portfolio, we are now starting to expand into snacking. This is the first of what I would say many more to come. Simply better cold pressed oils, we launched it on Amazon Prime Day, and it is off to a fantastic start online. We've entered a significant category with vermicelli and off to a very good start both on the top line as well as the margin front, relatively in Sampann terms. Walnuts and seeds was our expansion in dry fruits. We've rejigged our mixes and we're now playing in the dessert mixes with the Gulab Jamun mix which again has started to do well. We had launched Himalayan Saffron last quarter at the very high end with the QR code, etc. Now we have entered the mid-range play also with Tata Sampann Saffron.

Momentum continues in the engines of growth, growing 39% now moving from 15% to 18% contribution to the India business. We've reaffirmed our commitment to sustainability and just as a perspective it is not 2030 and 2040. We've put out very specific targets for FY25-26 on climate, circular economy and people and community.

In terms of business performance:

India Packaged Beverages:

On MAT basis I talked about (-95) bps but on a quarter-to-quarter basis it's stable. Volume growth of 3% and value now ahead of volume as our premiumization efforts continue to play out. Coffee incidentally grew 17% during the quarter.

India Foods:

Salt, I talked about the mathematical market share of salt. Overall value-added salts are 6.6% of our portfolio, continue to climb. Overall foods growth of 6, revenue growth of 16%. Sampann had a strong quarter at 47% [growth]. That said I'll guide you back to what we have said, our long-term aspiration is a 30% growth in Sampann. NourishCo strong quarter, 25% revenue growth and 172 crores of revenue. We remain on track for the aspirational target of 1,000 crores for the full ~~quarter~~ [erratum: year]. Just as a pers pective for the first half we would have grown 44% despite unfavorable weather.

Tata Coffee:

Extractions grew 11% and the stellar performance here was Vietnam where we had a fantastic price-mix realization which contributed to the profitability. Revenue growth was plus 1%, plantations was (-11%) as buyers hold off a bit when they see coffee prices coming off.

Starbucks:

We opened 22 net new stores 24 minus 2 is the number. Now we are in 370 stores in 49 cities and Starbucks grew 14%. The focus remains on accelerating store growth so that we take full opportunity of the long term out-of-home coffee consumption story in India.

International Operations:

UK on a very strong wicket with the entire rejigging of cost. With the relaunch of Tetley in the most sustainable pack, putting A&P behind it, revenue growth of 13%, black tea share of 19.5%. But what I would like to point out is the fact that we have always mentioned that the opportunities in fruit and herbal and specialty and we've been focusing on that with Good Earth and Tetley and now fruit and herbal in the month of September, we've got a 10% market share.

US little bit of a work to do as coffee prices are coming off and promotional intensity starts heating up. We put in correctional actions late in the quarter which should start reflecting in this quarter but overall, more or less maintaining market share but revenue is a bit soft. Canada the star in our portfolio continues to deliver 8% revenue growth and 28% overall market share.

In terms of financial performance, over to LK.

L. Krishnakumar: Thanks Sunil and morning everyone.

As Sunil mentioned it was a strong quarter. We grew 11% in top line, 10% in constant currency. India business grew by 11% and within that we had India beverages growing by 8%, food by 16% and overall, the growth portfolio grew by almost 40%.

In terms of the international businesses, growth was 8%, flat to marginally positive if you take out the acquisition. But within that UK saw good growth compared to the same period in the previous year. Non-branded business grew 3%. In terms of EBITDA, we had strong increase of 30% and with an improving EBITDA margin. India business EBITDA grew proportional to turnover. EBITDA margin at 15.7% was in line with the previous year.

International Business:

EBITDA growth was driven by pricing, interventions and also saving from restructuring we did in different markets, but the major improvement was in the UK business. The increase in EBITDA for the non-branded family reflects higher prices of coffee but also some amount of inflation coming down on freight and other logistics costs which were high in the previous years because of supply constraints and inflation. For the half year similar trends, not very different in terms of [inaudible]. Our consolidated revenue grew by 12% and EBITDA grew by 24%.

Moving on to the actual SEBI format. Just want to draw your attention to a few points. We've talked about revenue and EBITDA. Talking about exceptional items, we have in this quarter a charge of 15 crores on restructuring cost. In the previous year, we had the impact of the sale of property, so we had a significant exceptional income which is not there. Hence, we are seeing that the growth in PAT is lower at 359 versus 355. The group net profit after associates is also lower because if you look at the format, you'll see the share of profit or loss from associates is lower than the same period in the previous year, mainly due to our North India plantation which had an adverse impact both on account of crop and prices. The trend for the half year is similar 12% top line growth, EBIT growth of 25%, PBT before exception 29% and lower growth of group net profit at 5%.

Moving on to the standalone:

Standalone really reflects our tea business and the foods business. We had 11% top line growth in the quarter and 17% improvement in PAT. Just to mention that this standalone also has some portions of our non-branded business which is the tea extraction. There is also other income from investment and others which is in the standalone. On a year to date basis, revenue from operations 11% up and PAT up by 20%.

Moving on to segment performance for the quarter:

Revenue up 11%, we’ve talked about that. In terms of segment results, you've seen a 7% change compared to a higher EBITDA number we talked of in the past. The reason for this being lower is because we wrote off some assets which were obsolete and were not being used. So, there was some amount of one-time charge that we took. So, the depreciation is slightly higher in this quarter. That's the reason for lower growth in the segment results compared to what you see elsewhere in the presentation.

International Business improvement we said is primarily because of UK to some extent other markets also had marginal improvements but UK and inclusion of Joekels resulted in a 60% improvement in EBIT. Non-branded improvement primarily reflects the higher prices but there's also an element of sale of timber of 5 to 7 crores that is included in the results.

Segment revenue 72% from India, 28% from international business.

In terms of profitability, India business is slightly higher at 78% versus 22% for international. But as we said the outlook for international in the medium term is to keep improving the

EBITDA margin so that the difference is catching up. In terms of the half year performance no additional call out. The proportion of revenues is 73% and 27% and EBITDA is 76% and 24%.

That's it from our side, over to Sunil.

Sunil D'Souza: So, if I conclude – we've seen a stable demand trend in India, and we remain cautiously optimistic and continuing our momentum. We see demand headwinds in our international markets even as we've delivered a competitive performance, and we remain confident that we can continue to deliver.

In terms of the business, we again delivered a double-digit top line growth with EBITDA margin expansion. The interventions that we put in for our India Tea business continue to yield results. This is the third consecutive quarter of volume led growth.

Salt, despite the price increases we've seen volume growth and continued premiumization and we do expect that now that we've got stable pricing and we've built out more infrastructure for distribution we continue to drive volumes.

Growth businesses are on a very strong trajectory. JV Starbucks now has 370 stores across 49 cities. International business we have taken structural interventions and pricing actions which have now started to deliver margins. As I said the US is the only place where we've got to tweak in the short term right now and we've started to put money back into A&P to strengthen brands so that we move from a push-based model to a pull-based model internationally.

On the NCLT approvals, we're waiting for the final approvals to come through. The hearings are all through and post obtaining those approvals we expect to complete the merger of Tata Coffee business in this financial year.

With that back to you, Nidhi.

Nidhi Verma: Thanks Sunil. Moderator we can go to the Q&A queue.

Moderator: Thank you very much. We will now begin the question-and-answer session. We have our first question from the line of Abneesh Roy from Nuvama.

Abneesh Roy: My first question is on your energy drink and sports drink. So Rs. 10 price point with a very different brand name 'Say Never', wanted to understand does this compete with the Rs. 20 price point energy drink of cola companies? Cola companies have seen spectacular success but your pricing is half of that. So, will this compete against that product? Is it largely similar but smaller quantity and in terms of distribution, Cola companies have reached strong distribution in this kind of a channel, so how do you intend to compete if you want to take it pan India and big how do you intend to compete in this?

Sunil D'Souza: I go back to the fundamental premise of acquisition of NourishCo, which was that we had a good team and a good base infrastructure, and we needed geographical and portfolio expansion. We are in the process of geographical expansion. We've up to 44 plants now and portfolio we're expanding. We've got juice and jelly we've got jelly drinks and now we're just starting to dip our toes exactly into what you said, the big emerging energy market. Now just as a perspective, you're absolutely right. (A) the cola companies are priced at if I'm not mistaken 20, in some cases 15 for a different serving size. Our whole logic is that of the cup format. The cup format does two things for us. (A) it is a lower packaging cost and (B) because we are distributed manufacturing our freight cost is low and of course it's a smaller serving size and therefore, we are able to hit a price point. We've launched it in very limited geographies right now to test the concept to see if it works. We are quite confident that it will and if it works then we'll come out with a full-fledged plan on how to expand it across all the geographies. We're still not national. I would say we're about 75%-80% of the country in terms of coverage and that's where we will play. Where we have cup lines, we will come back with an exact plan on how to play it. Early days, I would say wait and watch.

Abneesh Roy: My second question is on NourishCo and India modern trade. You have done well in most other parts of business but when I see NourishCo, it seems much lower than the run rate which you are having. So, 60% growth in Q1 dropping to 25% which is a very big drop. Similarly, India modern trade first quarter growth was 22%. Q2, you have not given number but my sense is around mid-single digit. So why is there such a drop? Is there any impact of the festival shifting in the modern trade, is that reason? But I don't see that impacting your e-commerce business. In fact, ecommerce business India has accelerated significantly in Q2 versus Q1. So, if you could explain all these three aspects.

Sunil D'Souza: So Abneesh let me answer your second question first. The reason absolutely as you pointed out for modern trade is a bit of shift of festivals because normally modern trade loads up about 15-20 days prior to the festival dates and there has been a shift, significant decent amount of shift this year in the festival date. So, we do expect this quarter modern trade to pick up quite well. I don't think there is anything else to it because market share wise, we are maintaining market share across all the categories that we play in. E-commerce would have performed better for two reasons, (A) there is not as much loading into the warehouses as modern trade does and the second piece is that there is a significant amount of new launches that we are playing only online and it is not even in modern trade and e-commerce, for example Gofit ACV, a lot of the dry fruits etc. is primarily online. That would be the other factor. But the bigger factor would be exactly what you said is the shift of festival days. So that's the answer to your question number two. On question number one, it is primarily to do with weather. While we did push on despite inclement weather in the first quarter, we had blips in the second quarter when we had unseasonal rains etc. which continued beyond their normal date. But like I said we had said we are setting out an aspirational target of 1,000 crores for NourishCo for the full year and right now we remain committed to that.

Abneesh Roy: My last quick question is on Tata Sampann. Most of your products in Sampann are in terms of more on health and more on fiber etc., for example your pulses clearly on that. Also seeds and nuts all are on health platform. When I see your latest launch of the Gulab Jamun mix it seems a bit different, so will it work? I understand the overall mother brand strategy but having a dessert brand against healthy pulses and healthy nuts and fruits will it work?

Sunil D'Souza: So let me step back. So Abneesh Tata Sampann is a pantry brand. Yes, and most of the categories that we have chosen to play in are on the healthy side. But if I look at the specific category of mixes, when you distill the entire opportunity out there in the mixes segment per se, you will see that there is a significant amount of opportunity out there in dessert mixes which were leaving it out on the table. So, this is our first. Again, if I say launch and learn experiment of launching a Gulab Jamun mix into the trade, also this is a very seasonal product. So that's why we've launched it about a month and a half before Diwali to test it out. If this works, then we will have to step back and look at our whole portfolio play and see what tweaks do we need to make.

Moderator: We'll take the next question from the line of Manoj Menon from ICICI Securities.

Manoj Menon: Sunil, just wanted a bit of a macro marketing perspective from you. When I broadly look at the revenue performance, particularly volume performance of consumer staples. There is a very clear divergence between food companies and home and personal care. While there is certain hypothesis which I do have, just wanted to pick your brain on let's say what are those drivers which you are witnessing and how do you see this trajectory? Can it even accelerate food versus HPC?

Sunil D'Souza: Manoj I would not comment on broader macroeconomics and other companies. All I can say is we see a huge runway whether it is in Tea whether it is in Salt whether it is in Sampann, Soulfull everything. We remain focused on our categories. We remain on focus on what we can control and what we can't, we make sure we've got adequate actions to make course corrections. In Tea we've always said that we see a long-term growth of 5%. We are slightly short of that. We're better than where we were a year ago where it was in a decline. We do see a little bit of stress on rural and this is I mean you see every FMCG company commenting upon it. We have seen an effect of inflation we've seen an effect of erratic monsoons. We've seen an uptick on MNREGA but that said again we've seen jump in two-wheeler sales as of late. So, we remain cautiously optimistic out there. On Salt again we've guided for a mid-single digit volume growth, and we are more or less inching towards that being faster coming towards that than the beverages space. Sampann, we have always said we'll grow 30%. Soulful is a wide space for us to play. We moved from breakfast to snacking and now I think you'll see us expanding our TAM and growing far faster. So, I do hear various chatter from various different people, but I would not comment on it without knowing the details there.

Manoj Menon: Fair enough sir. Secondly on the distribution with good work by the team till now, would you be able to give us some quantification of the growth from the sales vector which you have got let's say in the last 3 to 5 years and how do you see some quantification on how do you see this into the medium term also in volume terms?

Sunil D'Souza: In terms of where are we getting the growth from, Manoj actually speaking while everyone is talking about rural stress and we do think there is a little bit of that still left out there, for us rural is an opportunity where we are expanding with distribution. And therefore, for us internally rural growth, urban growth is working out to almost the same in percentage terms. That's number one. Number two, where we had done split routes in urban areas with the hypothesis being that we will expand the bandwidth at the front end and therefore be able to drive depth in the outlets rather than width. We are seeing that with decent increase in lines and therefore growth rates on split routes versus non split. 50,000+ towns which was our width expansion in semi urban and rural. Early days, encouraging signs. But the reason why we are confident is because now we are going to step out beyond the 50,000+. On tea volumes itself, Manoj I think for the last what about three quarters we've been seeing about (+3%) volume growth. We had seen a little bit of an upsurge on local regional brands. But now like I said once tea prices are more or less stable, it boils down to branding and execution, and we remain confident that we should be able to equal if not exceed these numbers towards our midterm aspiration as we go forward.

Manoj Menon: Just simply if I may, on the salt business, given the limited operating histories which we have just a question where will you put the category strength or your brand strength in terms of linkages to commodities? What I'm trying to understand is let's say look at businesses like soaps for example or Marico’s Parachute, while these are all brands but let us say Lux is a brand but there is a commodity linkage where there is a necessity to drop prices or manage a profit pool appropriately else you lose market share. But in a salt business in a scenario which may happen at some point in time or lower input cost, where will you put the price retention power, or the profit pool actually can expand or not?

Sunil D’Souza: Manoj, let me put it this way normally price elasticity comes when there are substitutes. The good news is there is no substitute for salt and therefore it's got a mode of its own. It's not that people can eat less or use less of salt unlike most of the other categories which you mentioned which includes various factors, number one. Number two, if you look at the cost of salt is primarily determined by two things. Number one is the cost of brine, rather three things cost of brine, cost of fuel, and logistics. Now, if you presume that cost of brine and logistics is equal for everyone the only place where I am slightly off is cost of energy for conversion because we use coal and more or less imported coal. So, it's a dollar denominated and price of international coal. But that is not a very significant portion of my mix and therefore we will continue to be not insulated per se but relatively lesser impacted with movement in commodities. That's number two. Number three, with a 38% share we have the strength to move the market like last year when we took up the pricing, historically this company has never taken beyond a Re. 1 and at one shot I think in two quick moves we moved out Rs. 5. The reason is because were confident (A) of the brand (B) of the fact that what is hitting us is hitting everyone else and (C) the fact that we can execute as well if not better than everyone else in the market. And that is why you will see despite taking that steep price increase we've more or less maintained market share. Yes, there have been small movements but like I said September is back to 38 which is again a 12-month high and we expect to keep this trajectory going.

Manoj Menon: I do remember last year noting that very few brands can actually have 30% price growth and still have volume growth.

Moderator: We have our next question from the line of Percy Panthaki from IIFL.

Percy Panthaki: My question is on the growth businesses which are high teens percentage of your India business. Can you give a little more color on that as to what is the profitability of this business, point one or rather I should say point one is what is the breakup of that? We don't want exact numbers but some color on the breakup of this business between pulses, spices, NourishCo numbers you gave but whatever else remains in this. And also, we did a calculation last quarter where we said that since this business is probably not making profit right now, the rest of the portfolio actually has seen like a 200-basis points margin expansion versus 4 years ago which is not very visible in the reported numbers. I think probably it might help if you also sort of highlight this to investors, that the EBITDA margin expansion is actually much higher than what it seems if you adjust for the growth business. So sorry for the long question but to sum it up, do you think that as this business grows bigger it will have a negative mix impact on the overall sort of India business or do you think that the recovery in margin of these businesses itself should nullify the negative mix impact going ahead?

Sunil D'Souza: Percy, Tata Consumer Products was built for growth and when I say growth, we've always said double digit top line growth and improving EBITDA. We are acutely conscious of the fact that we are behind many of our listed FMCG peers in terms of EBITDA margins and therefore you would see us continuing to deliver EBITDA gains. Now the mathematical formula the way it works is more or less we've built out the fixed cost, there is not going to be a significant increase and therefore whatever comes in terms of gross margin, I would say margin after promotions at the top will flow to the bottom. So, we manage the India business as a whole to make sure that we're delivering this and therefore you'll find different puts and takes across different businesses from time to time. Now that said the growth businesses are very high growth rates and if I look at the three businesses that we classify today as growth—the NourishCo, SmartFoodz, sorry four businesses—NourishCo, SmartFoodz, Sampann and Soulfull. I would say broadly NourishCo, Soulfull and even SmartFoodz broadly percentage margins are in the range of our India base business. Sampann would be a little bit behind probably because of the categories that we play in and this is a mix to manage for us to deliver the total India business P&L. Yes, even if it is in Sampann if you slice and dice it, spices should be higher than our base business, today they're still building it out, mixes should be higher than our base business, pulses would be slightly short of that. Now that's number one. Number two sequentially over the last 3 years or so we've improved the margins in all the Sampann categories while growing the top line significantly. Number two, as we are growing these businesses, we are very clear we are playing for the future. It's not a number for every quarter and therefore we are putting A&P far ahead of the curve in all these businesses. So NourishCo for example today if I turn off the tap, I am profitable, but will I turn it off, no because I think there is a substantial headroom for growth. Similarly, with Soulfull, if you turn off the A&P tap, we are profitable. But we are not playing this game for the next one quarter or one year, we see a substantial runway for growth. Sampann, the entire pantry space is open and today actually speaking we are heading towards close to 900 to 1,000 crores in Sampann for the full year. And that's we built this in roughly about what 3.5 years, similarly in NourishCo. So, I would not want to slice and dice it saying should I put on the brakes on this business, so that my margin. The game is to continue to deliver double digit, top line and improved EBITDA margins. So therefore, you will see EBITDA margins improving. This quarter for example compared to last quarter we've improved (+200) bps on last year same quarter, (+200) bps of EBITDA margins while delivering growth. So that would remain the objective.

Percy Panthaki: Sunil just a quick follow up on this on the tea business in India, when you look at your EBITDA margins and I'm not asking for the figure but just when you internally look at it and compare it with best-in-class tea margins across competitors in India, do you think you're more or less there or do you think you still have some catch up to do according to you?

Sunil D'Souza: Percy, I would say not probably the right way to look at it and there's specific reason why right. I would look at margin after promotion expenses and not at the EBITDA because when in the EBITDA pieces you load various middle of the P&L and depending on your scale and leverage on your fixed cost you will have a different output there. But the margin after promotion expenses, I would say they're in the ballpark. We're still not there but we're in the ballpark of most of our big competitors. EBITDA percentage margins we will be lower because the center of the P&L some of the larger players have got significant leverage on costs which we don't. LK you want to add anything.

L. Krishnakumar: I just wanted to say that just one point which I guess all of you are aware, that relative comparison of our portfolio versus our key competitor. I think there is scope for us to premiumize and we are doing that very rapidly and we have been making good progress in south. I think for us there is some scope for improvement from where we are. The only message I want to leave is because there is greater opportunity for us to premiumize and winning certain markets where relative share is probably lower and that's upside for us.

Sunil D'Souza: Just to add to what LK said, our strength is mass to mass premium whereas if you look at our key competitor, strength is from mass premium to premium so slightly higher revenue. And therefore, even while percentage margin remains the same in absolute rupees it is slightly higher. I would say about 10% to 12% higher numeric distribution and therefore ability to spread costs faster and because of the larger portfolio their central fixed costs etc. the leverage that you'll get which will translate into EBITDA percentage, we would be slightly behind. That said that is why the whole objective is to continue to grow rapidly while maintaining fixed costs so that we also come into the same ballpark.

Moderator: We have a next question from the line of Tejash Shah from Spark Capital.

Tejash Shah: My first question is extension of one of the previous participant's questions, only that we have shown very good execution on our numeric distribution expansion, both on direct and indirect. But when we see as an outsider, how should we see this lever? Is it a growth lever or is it just a necessary condition but not a sufficient condition to kind of connect with the growth itself?

Sunil D'Souza: Tejas, I would say it's a necessary but not sufficient condition for 2-3 reasons. (A) total universe 8-9 million outlets, you take your pick from whose numbers you choose. If you look at Tea, as defined, it's about available in about 6 million outlets plus per se. And I'm talking about my total reach being about 4 (million). So, there is still a significant amount of and we would be about 2.8-2.9 million only for tea. So, there is still half the way still to go. That's number two. Number three is even if you reach there the question is how well are you executed in terms of your lines, in terms of your displays in the outlets, in terms of the right packs being available. That's a long way to go, so it is work in process. I like the word that you use necessary but not sufficient. We've got to 4 million now that in the 4 million we've got to improve but we've also got to go beyond the 4 million. So that is why you'll see us doing this various different items of whether it is split route, whether it is direct distributors up to 50,000, below 50,000 now starting to expand rural and sub-distributors or we're in the middle of rejigging our entire SFA and DMS. We will probably be what I would say best in class by exit for this year on the front-end DMS-SFA which would then enable pinpointed execution by outlet.

Tejash Shah: Second question is on the accessibility curve of NPD when it moves across channels. For example, you said that a lot of our launches are now focused on online. When we do something on online and it works there and when you transcend the channel you move it to MT and then MT to GT does the accessibility curve remains the same or it drops materially and how it happens vice versa. Let's say you started something with GT acceptability is very high on MT and online, how does that work?

Sunil D'Souza: Tejas, let me say I see more of launches online than going to MT and GT rather than vice versa. I don't think we would see that other way around. Why? Because it's very easy to launch online addressing a target consumer of one. I mean I can talk to every single target consumer one on one. That's (A). And (B) I like to use this term to beat up my sales guy saying when it is only the consumer and me which is online that is when the power of the brand comes in. After that it is your execution ability. So, for example in tea we are the market leaders on e-com. So therefore, the strong hypothesis that if we get our distribution in place there's no reason, we should not be closing the gap on market share. But to your point after we launch online we do have to make tweaks. Let me give you the example of dry fruits. Dry fruits was off to a very strong launch online. We started hitting about 50 to 70 crores annual run rate if I may. That's the terminology which the online guys use, ARR, and then we said okay it's got legs to go offline. As we went off-line, we figured out we've got to make two tweaks to our packaging. It's very nice to sell a product simply with pictures and then deliver it at home. But when consumers actually shop off-line, they want to look at the product and therefore there has to be a see-through window on the packaging and the second thing is the package cannot lie flat which is the way we designed the package. It has to be a stand-up pouch. So right now, we're in the middle of modifying the package because we did a trial in very limited markets in GT/MT and we could get in dry fruits because by now everyone knows Sampann dry fruits available online. But unless we make this modification to our packaging we can't get going. So, you're right we will launch products online, we will see the acceptability and if we find enough legs we will go offline. But as we go offline, I think we will have to make tweaks to our product, packaging, pricing strategies.

Moderator: We have a next question from the line of Mihir Shah from Nomura.

Mihir Shah: If you can talk about the timing and the synergy benefits from the amalgamation of NourishCo, Soulfull and SmartFoodz and kind of any ballpark quantification impact that we can see on margins on the back of that.

L. Krishnakumar: These companies are already consolidated. Basically, their larger objective is simplification. There will be some amount of rationalizing the support cost because of combining entities but in business not very significant benefits. There will be however some benefit on account of GST, more cash, little bit P&L because for us we have an inverted duty structure. That means our input costs are higher in terms of than the output GST whereas for the other companies it's reversed. So, we'll have some cash flow and a little bit of P&L benefit, not significant. In addition, because of carry forward loss we'll be able to absorb some of the losses of these companies which will give us a benefit on the tax line. Again, it will be overall a number of all things put together would be in the range between 50 to 100 crores. Somewhere in between all things considered, some of it cash flows some of it P&L.

Tejash Shah: My second question is on margins. When we see the international margins on a sequential basis, they appear to be down while on a YOY basis expansion. So how should we think about international margins from here on, was it seasonality? Second subpart is on the India margins again. They appear to be lower largely. Is it a function of higher ad spends or anything else would be pulling down India margins in a tad bit? And lastly on the non-branded margins, it appears to be higher than the branded ones. If you can share, how should we think about that as well?

Sunil D'Souza: I'll start with the non-branded margins. First non-branded margins is primarily a factor of coffee prices and great performance by our Vietnam business on the price mix. I mean there's no capacity changes. It is just that we played the right game on the customer/price mix out of Vietnam and that's why the margins look better. I think they will continue to be in a decent range going forward because the focus on making sure that we derive value out of all our investments has come in, that's number one. Number two, on the international piece or the India piece per se, you have to remember two things. We have seasonality in our businesses especially for tea and coffee, more tea than coffee. For international, I would urge you to look at year-on-year and not quarter-on-quarter because there will be changes that we will do especially on A&P etc. This quarter we have spent higher and why have we spent higher? Because we rejigged our entire packaging with our investments into the Eaglescliffe factory. We came out with the most sustainable Tetley-pack. We took some time to get it into the trade. We took pricing to make sure it stabilized and after it has stabilized, now we have put A&P behind it. Apart from that we're expanding distribution, which as you realize in the international market does require listing fees, etc. Our Good Earth, for example, which were only piloting in Sainsbury's now we have decided to take it across and we are now entering multiple geographies. We have launched Joyful in Tesco, there's initial activation fees etc. So therefore, I would urge you to look at year-on-year and not quarter-to-quarter. That's number one. In the India business we do not look at it again similarly on quarter-to-quarter because the tea business in India you do realize is highly seasonal. The North kicks-in in Q3 more in Q4 and tea prices are dramatically different on what you buy in Q1 versus Q4. So, this will go up and down. The balance businesses will more or less remain steady. There will be a little bit of cost movement here and there. As for example we've invested ahead of the curve on sales and distribution in splitting the routes and putting the distributors in all (+50,000) towns which in my mind is right thing to do because it's not watching out for a quarter-to-quarter but as you build out the distribution system for the long run this is the right thing to do.

Moderator: We have our next question from the line of Arnab Mitra from Goldman Sachs.

Arnab Mitra: My first question was on the Sampann 47% growth, seems to have stepped up and also higher than your normal 30% range. Is there a significant pricing step up due to underlying commodity here? Also if you could help us understand how much of the volume growth is being driven by incremental distribution and addition of new segments outside the pulses? If you could just give us some flavor on both of those other than pricing.

Sunil D'Souza: Let me answer your second question first. Is the whole premise of doing split routes in a million plus towns was the fact that we thought there was a bandwidth release which was needed at the front end. And if we did that, we would get growth. So, whether it is in beverages or it is in foods we are seeing incremental growth in the split routes rather than the non-split routes. So that's number one. Number two, Sampann growth, that is why we have constantly guided for a 30% growth in the medium term. This quarter I think we've delivered beyond that on the base business as well as there is some inflation effect especially in the areas of pulses etc. But while we will continue to push the needle to the maximum, longer term we do stay committed to the 30% growth for Sampann.

Arnab Mitra: And is there a significant or a significantly increasing contribution from the newer segments like dry fruits and others or they are still very small in the mix in Sampann?

Sunil D'Souza: Right now, they are small because the big pieces in Sampann if I look at it, is pulses, besan, spices and then we've got all the other new categories. But do realize that the new categories have just got launched probably in the last 12-18-24 months per se and it takes time to build up. But whichever category we are entering, we are confident that the categories are large. Because let me put it this way the expansion is not a mindless expansion. It is a roadmap drawn out about 2 years back of which categories we should enter and what size they will get to (A). And (B), the reason why we get into those categories is specifically because we've got growth, we've got a specific target, we've got ability to create a difference, there is a trust deficit in that category and therefore we'll be able to get a decent market share.

Moderator: We have our next question from the line of Sheela Rathi from Morgan Stanley.

Sheela Rathi: My first question was again with respect to the growth businesses. If I see from FY22 to FY24 we have almost doubled the share of growth businesses from 10% to 18% now. So, Sunil should we see a similar trajectory to play out say in the next 2 years that the share of these businesses could be circa 40% or say 50% in the next 3 years.

Sunil D'Souza: So, fundamentally we've said Tata Consumer will deliver double digit growth and EBITDA ahead of that double digit growth. So, if I peel back, if I take my base categories of tea and salt we've always said mid-single digit volume and a few basis points on that of price which will not get me to the double digit growth and therefore the growth businesses have to be delivering substantially more than the base businesses. All I can say is I think we've made our aspirations for this year at least very clear with Sampann 900 to 1000 crores, for NourishCo we've already said the aspirational target for this year is 1000 crores and we do seem to be on track to deliver that. Soulfull is on a very strong trajectory. We are moving from now breakfast into the larger snacking occasions which should deliver us more. So yes, the short answer to your question is I think you will see substantially faster growth in the growth businesses compared to our base business.

Sheela Rathi: And the second part to the same question is how we should think about the growth businesses in terms of, you talked about tea, we are more on the mass and mass premium side, mid premium side. How would you categorize your growth businesses? Will it be mid-premium or will there be a share of mass in this growth business also because we are also doing pulses?

Sunil D'Souza: Sheela, I would split the businesses and talk about it. If I talk about Soulfull I would say it is mass premium to premium. If I talk about NourishCo, it is more I would say 90% mass and 10% premium. Because we do have Himalayan out there. We've launched Himalayan Saffron. We've launched Ready to Drink Coffee which is again premium this thing. But as a percentage of the mix, it will be relatively smaller. Sampann largely would be a mass. But again, I would put a fine rider out there. In whichever category we play, we do command a premium on the base portfolio. For example, our pulses would be roughly a 10 to 15% premium over every regional competitor if I may. Similarly, our spices would be benchmarked to the national players and more or less in that ballpark on the pricing. So, it depends by category it's where we've defined and even within that category it depends on who is the benchmark and what are we going for. The big play would be Sampann. The big play would be the NourishCo mass. These would be probably like I said Sampann would be at 10% to 15% if you take pulses NourishCo would be in the mass pricing range.

Moderator: Thank you.

Nidhi Verma: We'll just go to the webcast for a question and then we can come back. So, Sunil there is a question from Saurabh Patwa at Quest. He's asking for Sampann which started with pulses, besan etc. Incrementally we seem to be moving towards ready to cook products like vermicelli, tea mixes etc. and high value trust deficit categories like dry fruit, saffron. What is the strategy moving towards higher margin products, given the distribution and brand awareness is being established over the last few years? Also, on saffron we launched one in Sampann as well as Himalayan. is there a change in strategy on both the product strategy or both the products can coexist as premium and super premium?

Sunil D'Souza: Let me put it this way. Like I mentioned earlier it is not that this is not we're thinking on our feet. This is a roadmap drawn out on which categories we are going to enter. We drew it up about

24 months back. Every category was defined in size of category, margins, right to succeed, do we have the differentiation in ability to differentiate the product itself? Is it trust deficit? Because the Tata brand name does magic in trust deficit categories. So, all the launches that you see are the result of that roadmap which is drawn. There would be products which would be high margin. Each of these categories has a role to play in our portfolio. There would be some which will drive for volume, there's some which will drive for margin and of course there will be some which will drive for imagery. So, there is a roadmap, and we are following that roadmap. The answer to the saffron question is yes, we did launch saffron under Himalayan. This is saffron from Kashmir. It is accompanied, every single pack is accompanied by a QR code which gives you the authenticity of the saffron which was sourced. But that is at the very high end. Sampann is more or less as I just mentioned is a mass premium sort of brand. And therefore, we do think saffron given that it is a high trust deficit category, high margin, high value category we can make a play in that and that's why we've launched Sampann out there. We do think both the brands can play in the same space over a period of time.

Nidhi Verma: Moderator we can go back to the Q&A please and just take one last question perhaps given the time.

Moderator: Sure ma'am. We have a last question from the line of Sumant Kumar from Motilal Oswal.

Sumant Oswal: Can you talk about NourishCo channel expansion and key state expansion we have recently done?

Sunil D'Souza: NourishCo is as I said geographical and portfolio expansion. In geographical expansion we've got about 44 plants if I'm not mistaken. Right now, we cover about 650,000 outlets. Just as a perspective the large players I would say between 4 to 5 million easily. Therefore, while we have put up the geographical footprint in terms of manufacturing, we've still got a long way to go in terms of distribution and that remains the opportunity. As we build out our distribution, adding to the portfolio and strengthening our depth in the outlet is the other opportunity and that's why you would see us testing out energy drinks or sports drinks.

Sumant Oswal: In food category we have seen our product launches strategy is majorly focused towards premium product. So, do we have a strategy to launch or planning to launch to mid to mass segment also going forward?

Sunil D'Souza: Sumant, I would launch products where I can make money as simple as that, right? I would be very happy to launch high volume and high margin products, but I would struggle to find them. So, like I said we've looked at the entire food and beverage space, looked at where are the spaces where we can create meaningful scale and make money there and that is the play that you are seeing play out.

Moderator: Thank you. I would now like to hand the conference over to Ms. Nidhi Verma for closing comments. Over to you.

Nidhi Verma: Thank you everyone for joining us and thank you ICICI Securities for hosting us. In case there are further pending questions, you can reach out to us. Our contact details are mentioned in the investor deck. Thank you.

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