TATA CONSUMER PRODUCTS

"Tata Consumer Products Conference Call "

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CHORUS CALL®

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MODERATOR: **MR. JAY DOSHI – KOTAK INSTITUTIONAL EQUITIES**

Moderator: Ladies and gentlemen, good day and welcome to the Tata Consumer Products Conference Call.

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. Jay Doshi from Kotak Institutional Equities. Thank you and over to you, Mr. Doshi.

Jay Doshi: Good afternoon, everyone. On behalf of Kotak Institutional Equities, I welcome you all to the conference call of Tata Consumer Products to discuss Acquisitions of Capital Foods and Organic India.

We are very pleased to host the Senior Management Team; we have with us, Mr. Sunil D'Souza* – Managing Director and CEO; Mr. L. Krishnakumar – Senior Advisor; Mr. Ashish Goenka – Group CFO; Mr. Ajit Krishnakumar – Executive Director and COO, and Ms. Nidhi Verma – Head (Investor Relations and Corporate Communications).

I'll now hand over the call to Nidhi. Over to you, Nidhi. Thank you.

Nidhi Verma: Thanks, Jay, for hosting us and welcome everybody to the call. As you all know, we have announced the acquisitions of two businesses on Friday and we uploaded the presentation along with the detailed materials.

So, for today's call, as we normally do, Sunil will walk you through the key slides for about 15, 20 minutes and then we will straight away get into the Q&A. So yes, over to you, sir.

Sunil D'Souza: Thanks, Nidhi. I'll probably skip this Slide #6 because I think everyone knows what Tata Consumer is.

If you go to the next slide, so over the past three years, we've invested significantly in building a strong foundation to drive accelerated growth. We've built I would like to think a strong distribution system with 1.5 million outlets, which we touch directly, which is up 3x from where we started and numeric reach is now 3.8 million, which is 1.5x where we started. We've invested in infrastructure; we've got close to 10,000 distributors and sub-distributors, we've got about 5,000 people on street, across 43 CFAs. We built our capability in alternate channels, which to us are the channels of the future. From a 19% contribution in FY'21, we are 27%, and we've significantly strengthened our digital capabilities – Cloud, SAP, Single Instance, Strong S&D Systems, IBP and Analytics.

We've always maintained that we have six clear pillars for our strategy -- Strengthening and accelerating our core; driving digital and innovation, which is what makes us future fit; unlocking synergies and driving costs down; building capabilities and competencies and a future-ready organization; exploring organic and inorganic opportunities; while embedding sustainability.

Now, the reason why we are here today is because under the exploring new opportunities, we've always said we will grow organically as well as inorganically. Inorganically, we have a very clear roadmap of what we're looking for and when we find value, we will look at doing inorganic options and here we are having announced two acquisitions on the same day.

Two Acquisitions -- Capital Foods and Organic India. Both different businesses. Capital Foods has two big brands -- Ching's Secret and Smith & Jones. Ching's Secret is synonymous with Desi-Chinese with a Pan-India appeal. Smith & Jones is a western positioned brand playing again in different spices, pastes, etc., Both cater to fast-growing in-home consumption of non-Indian cuisines. In fact, if you look at a Pan-Indian cuisine, Ching's Secret is probably right up there. And this is, it fits in perfectly with the pillars that we identified for our portfolio where we said core pantry, ready to drink beverages, breakfast, mini meals, snacking and future opportunities. So Ching's Secret fits in perfectly into our pantry platform and a little bit into mini meals and snacking with gross margins which are significantly accretive to our current margins.

Organic India on the other hand is a leading "better for you" brand, I mean, rooted in organic. We've got an opportunity to become a formidable player in herbal infusions, currently about 40% of the business is infusions, 40% is supplements, supplements largely sold outside India, but we've got an opportunity to grow them within India itself and expands our total addressable market into fast growing and high gross margin categories. This gross margin is still higher at a 55%, and more importantly, it gets us into health and wellness and nutrition categories. The big, big short-term potential here is for both the brands and I will come to that is to leverage our network and drive significant operating efficiencies.

I talked about this. If you look at first the points which are marked in a slightly reddish color, so Capital Foods fits perfectly into the pantry platform with sauces, chutneys, noodles, Chinese masala, pasta masala, ginger garlic paste and a little bit into mini meals and snacking with soups and instant noodles.

Organic India fits in perfectly. We've always said we want to premiumize our tea business, so we get tea and infusions. It's not only tea. We also get organic packaged food, albeit it's a little bit small right now, but we still get a platform, and we have herbal supplements in our horizon 3 pillar.

What it does to Tata Consumer is it turbocharges our progress towards becoming a premium food & beverage platform. Today, we have market-leading food & beverage brands. We've got strong S&D and we are continuing to expand that. We've delivered and will continue to deliver steady growth over the mid-to-long-term, mid-teens EBITDA, and a strong innovation. Right now, we have from come from 0.8% to 5-5.5% innovation to sales with strong R&D facilities.

Going forward with these brands, we now have offerings across the entire gamut of cuisines for the Indian consumer from Sampann, which is Indian to Smith & Jones, which is western to Ching's Secret, which is right now they see Chinese, but opportunity to make it into an Asian/oriental brand, and with Organic India strong, "better for you" products. Superior double-digit growth. These are the categories which are growing 15% to 20%, very strong brands. Once we provide fuel with our distribution, etc., we expect to accelerate the top line momentum, while as I mentioned, their gross margins are significantly accretive. Therefore, there is significant scope for us in our consolidated P&Ls to drive improved gross and EBITDA margins. More importantly, as I mentioned, these are very, very strong brands that can provide umbrellas to get into more innovative and emerging product categories.

So a bit about Capital Foods. Capital Foods, as I mentioned, it is two strong brands, Ching's which is primarily Desi-Chinese and Smith & Jones, which is primarily western. Ching's is the leader in Desi-Chinese across categories. They actually created the Schezwan Chutney market and Smith & Jones is the #1 in Ginger Garlic Paste. Unique products for in-home consumption, gross ~~margins~~ [erratum: sales] of close to 936 crores, net 750 crores. And there's a reason I'm talking about it and I'll elaborate it as we go further. Gross margins 50% and EBITDA margins 20%-plus on an ongoing basis. There is a little bit of upheaval in the past two years as they went through some changes in organization structure, team, etc., But on an ongoing basis standalone we do expect them to have a 20%-plus EBITDA margin. I talked about the fast growing categories they are in. They've delivered a 20% CAGR in net revenue over the past three years, continuing to improve EBITDA margins. And more importantly, their back end, they've got seven plants, three owned, four co-pack with ability to scale. Utilization is still not ideally where it should be and therefore we have an opportunity to utilize this capacity as we scale the business. Very, very strongly connected to ethnic Indian retailers globally. In fact, also creating white labels for them, and 17% of their revenue comes from exports. I do think this can grow significantly. The most important thing is they have only 350,000 outlets. Just as a perspective, I directly touch 1.5 million. My numeric reach is 3.8-3.9 million and therefore the ability to scale in the short-term through distribution.

They have #1, #2 positions across five at least segments -- Schezwan Chutney, Blended Masala, Sauces, Ginger Garlic Paste and Soups. They've got a very strong brand recall. If you look at awareness of 88, consideration, 84 ever used 79. I mean this is an epitome of a strong brand if I look at it.

On the right hand top, I talked about the incremental GT unlock. We have ability in an ideal world if I get to all my outlets, it's 10X. If you look at the box below, eCom, they are very, very weak right now and I built a strong eCom platform, about 9% plus of my revenue comes from eCom, we've got a strong team which can help scale this up very quickly. Modern trade, I think they're decent. We are good. So, I think we can take modern trade also to the next level.

Basically, we've got a long runway for growth. If you look at it, the Chinese food service market is expected to grow at 12% to 14% given the strong consumer preferences. Whether you look at the ratio of in-home to Mexican in organized food service industry, especially in the US and if you compare it to the equivalent of what we have here in Desi-Chinese, that's 30%, this is 3%. So, there is a long runway for growth and we do expect that Ching's will continue to have a very, very strong runway as we go forward. Currently, our estimate is the Desi-Chinese segment is expected to grow at about 24% CAGR. And that 24% CAGR provides us enormous opportunities. We expect our relevant market to grow at a 13% CAGR. Across all the segments, you look at anywhere from 14% to 40% growth across the segments that they operate. So, overall 24%. And most importantly, this high growth also comes coupled with high margin, 50%-plus, which is I would think quite up there in the food & beverage segments.

Apart from that, I talked about Capital Foods having very, very strong connects with the global retailers. You see the red dots. So, whether it is Australia, UAE or the US. US especially, they've got a very strong connect with the big retailers out there. We've got a footprint in similar markets and therefore we do expect us to be leveraging their relationships and infrastructure as well to make sure we explored our own brands like Sampann, Raasa, Joyfull, etc.,

In summary, this facilitates us into high growth, high margin categories, significant TAM of 21,000 crores plus. They've grown at close to 20%. We can only accelerate from here on. This is in line with our strategic priority to expand into high margin, high growth categories. Strong brands, Ching's is synonymous with Desi-Chinese, Smith & Jones, a strong brand, I think can accelerate further. Consumer trends of growing in-home cooking of western cuisines, Smith & Jones right on top of that. All the product categories that they bring in are completely accretive to our business, there are no overlaps and they are margin-accretive. I think this is an ideal combination if ever there was one. And of course, as we've always said, we would look for brands which have a strong India base and if there is an export potential or an export leg that is icing on the cake, Capital Foods gets in that for us.

Organic India, very quickly is the leading "better for you," Organic brand of food & beverage and herbal supplements. 7,000 plus crores TAM in India, 75,000 crores globally, so overall 82,000 crores. The big, big thing in this category is given a) organic and b) nutrition, customer trust is key to success. I think Organic India has built this over the past few years. They are present across channels. It's right now only 350 crores. There's a reason for that. They are present only in 24,000 outlets. They are focused on sustainable living and more importantly, they've got a (+55%) gross margin. It's in line with our strategy for our Horizon 3 segment. Most importantly and I would highlight this, we spent lot of time on the supply chain and making sure for want of a better word I'll use Kosher. They've got rigorous product testing, procedures and certifications valid for major global markets. We've gone right from the back end to pulling products which they have already sold, testing them, making sure that when we put the Tata brand name on this, we are truly selling organic products. And therefore, I would say they've got a unique, robust, hard to replicate and more importantly, scalable back end. Because they've got a direct connect with about 2,500 farmers, indirect with about 10,000-plus farmers, so 12,500 farmers, 130 people working with those farmers, this is a supply chain which is hard to replicate.

The other piece I would want to highlight is this sits at the ideal intersection of ancient Indian traditional medicine and organic. So, there are players in Ayurveda, Indian medicine. There are players in organic but there is no one who's built this bridge and occupied this strong position. As I said, 40% of their business comes from supplements which are sparsely distributed in India. 40% of their business comes out of tea and infusions and 20% from organic packaged food. Their teas are priced 15% to 20% premium over Tetley, which is our most premium tea, and their gross margins are significantly accretive to our business.

I talked about the strong supply chain; 130 people, 2,500 farmers direct, and 12,000 farmers indirectly associated. They actually pioneered the commercial cultivation of Tulsi. With Organic India being the preferred buyer across this entire set of farmers. They've got certifications across the globe. And like I said, we spent a significant amount of our due diligence time into this particular aspect because once we have this, then we can scale very quickly into other organic products as well. This provides a unique opportunity to strategically develop a high growth, high margin health and wellness platform for Tata Consumer. The category in India is growing at 11%, category globally is growing at 8%, but it is a huge, huge category.

Organic India effectively operates in fragmented markets, but high growth markets. As strong consumer trust, it is diversified geographically about 50% of the business comes around of India, 50% comes from the US. The good part is we think we can grow the India business as well as the international business for a simple reason. In India they are only in 24,000 outlets and I would repeat, I am present directly in 1.5 million in total numeric reach of 3.8 million. Out of their business, which comes 50% from internationally, 40% out of that 50% comes from the US, and that too primarily from three big retailers, which is Whole Foods, Sprouts and The Natural Grocers. They are sparsely distributed in Canada. They don't have a distributor in the UK. So, you can imagine with my footprint in Canada, UK, Europe, Australia, South Africa, we've got a long, long runway even in the international space for this business.

I talked about the 24,000 outlets. They are almost negligible in modern trade. While you will see a 22% contribution from e-commerce, I would just point out to the fact that this is 22% of 350 crores. My online business is close to now 1,000 crores. So we have the ability to propel this far, far more, and of course I talked about exports.

Most important in India, we've got some products which appeal to the pharma channel. But we never had the heft or the scale to build a dedicated go-to-market. So like Tata GoFit, Soulfull, Tetley, these do sell in the pharma channel, but now with the Organic India infusions and more importantly, the supplements coming in, we will now focus on building a full go-to-market to address the pharma opportunity in India.

In summary, high growth, high margin wellness platform with the leading “better for you” organic brand in line with our strategy to expand TAM in expanding into adjacencies, it's got a robust sourcing and scalable back-end infrastructure for organic products and very, very, very strong farmer connect and lot of goodwill where they operate in, unparalleled end-to-end certifications across the supply chain with high customer trust. I would just like to highlight, I mean if you've got to be in the top three positions in Whole Foods or Sprouts, you've got to have top notch products and top notch consumer loyalty. Product categories completely complementary, tea and infusions completely premium to us, the Horizon 3 supplements completely accretive to us, both of them being margin-accretive. And I did talk about a strong India business, but ability to leverage it globally as well.

Talking about synergies, basically top line and cost synergies. In terms of top line, obviously huge runway for expanding the GT footprint. We've got a strong e-commerce team which can drive growth in that channel and continue to drive high double-digit growth in modern trade and of course enhance our export footprint.

In terms of cost, because of their sub-scale nature, they used to pay higher trade margins. I think immediately we see an opportunity to optimize that. Selling expenses again because of difference of scale, their selling expenses across whether it is variable or fixed are significantly higher than what we have, we see an opportunity to optimize there.

Middle of the P&L, the fixed cost, whether it is legal, finance, logistics, distribution. Once they start leveraging our costs, we've got enough slack in the system to accommodate them as well. We will see an opportunity there and of course, capacity utilization on the back-end, whether it is optimizing between our facilities and Capital Foods facilities or by growing Organic India, leveraging the back-end, I think there is opportunity to drive capacity utilization higher in both the acquisitions.

In terms of the financial transaction overview, I'll just request LK to walk you through it.

L. Krishnakumar: Good afternoon, everyone. I would just walk you through Capital first and then maybe comment on Organic.

In the case of Capital Foods, we're going to acquire 75% upfront and 25% will be acquired over a period of three years. The idea is to have full operating control, the minority shareholding, which will be partly with Ajay, the promoter and partly with Invus, which is one of the existing private equity investors. We will have full flexibility to manage and integrate the business. They will have certain protective rights. So, it's not a joint venture, it's a majority controlled and will be consolidated as such. The upfront purchase of 75% is at an enterprise value of 5,100 crores. It translates to a multiple of over 6x based on FY'24 net sales. Sunil talked about the distribution and where it is in terms of reach and the growth potential. So, if you just want to look at a number one year forward, I think it will be a very reasonable number. In terms of margins also, this business has strong gross margin. In terms of gross margin profile, it will be accretive and EBITDA margin will be in excess of 20%.

Moving on to Organic India, we intend to purchase about 100%. There is a small earn out which is capped, which is linked to future financial performance. The enterprise value is 1,900 and the multiple is lower at five times. Even here there is good growth potential. Having said that, a large part of the business is in overseas markets, I think 40%, 45%. So growth rate for that will be a little lower. Having said that, the addressable market outside India for health supplements and nutraceuticals is fairly large. So, the market opportunity is large and we will have a growth rate as we expand distribution, build new products, but it's going to take a little longer than just ramping up distribution as we would do in the case of Capital Foods.

The impact on financials to some extent depends on the financing plan, which will be approved by the board later this week. When we are saying that there is an EPS break-even and cash EPS-accretive, we have made some assumption on a mix of funding which includes some equity funding, but the board will approve and we will communicate the actual funding plan towards the end of this week. We expect the closing to be done in Q4 of this financial year and we have already started working on the operational integration.

Moderator: We will now begin the question-and-answer session. The first question is from the line of Abneesh Roy from Nuvama. Please go ahead.

Abneesh Roy: My first question is on Organic India and there are three sub-parts to this. One is on your international business, essentially 80% comes from US. So, wanted to understand what is the reason for less success in Europe, Canada, Australia? And is the industry for this kind of a product also having 80% salience to US? So that is one sub-part. Second is on supplements you said largely it is outside India. So wanted to understand here what is the issue and what will be the plan here -- would you focus much more given your current business also, bulk of it comes from India? And third sub-part will be on the broader organic positioning. Currently, in India, certification, laws and regulations are not very strict. In terms of the organic packaged food which is currently 20%, when do you see Tata focusing much more because that I think is also linked to the certification, regulation in India becoming stricter?

Sunil D'Souza: Let me answer the first one, right. 50% of their business is from international markets and 40% out of that 50% comes out of the US. Let me say it's probably more by default rather than design. Of the original founders, one of them was from the US and therefore the focus on the US market, that's number one. Number two, lot of the expertise which they drew in terms of the supplements, etc., were from experts based out of the US. And therefore they put up a sales team and a team out there; it's about 17, 18 people right now who are based out of Boulder, Colorado and working out of there and therefore they've got the listing into the three big chains in the US. They export to about 48-odd countries per se. But let me say there is enormous opportunity to get proper distributors, proper expansion, proper listing into outlets and therefore expand it into Europe, Canada, UK, Australia, everywhere. And that is the opportunity that we see. It's not that they have restricted themselves to the US or they have not got an opportunity elsewhere, given their size, scale and ambitions at that point of time, they only focused on the US, so that's #1. #2, you're right about the market internationally being higher; it's 75,000 crores. India is about 7,000 crores, but 7,000 crores is also a decent market for us to go after especially given the fact that as I mentioned, these guys play at the sweet spot of traditional Indian medicine and organic. And once the Tata name comes into play in a place like organic, there is the trust component which will play up. We've got our distribution to ramp up. Modern trade, you saw 3% contribution… I mean, in modern trade itself, there is an opportunity to ramp it up. So, we do see substantial opportunity to grow in India as well. You're right, the market size is bigger internationally and therefore I would say both parts will grow significantly. To your last point, I will point out to the presentation slides on certification. They are certified globally and earlier they used to do about 180 tests, after we had discussions with them saying we've got to be certified across the globe, now they do about 500 plus tests, so they would pass organic certification anywhere in the world… and I do believe anywhere in the world means definitely in India and this is across all product categories. So, I would be very happy for FSSAI to ramp up organic certification because if anything it leaves me at the high end of the pedestal.

Abneesh Roy: My second and last question is on Capital Foods. So when I see distribution, you did speak on the huge scale up opportunity. But wanted to check, you've already done the Soulfull integration. So, when I see the numbers of Capital Foods versus Tata's current distribution, there is, say, almost 1:4 different versus the direct and 1:10 versus the total. But seeing the success of Soulfull, my question is, in three years, can this 3,50,000 current distribution can it become, say at least your direct distribution which is there currently which is a 15 lakhs, is that possible because the Indian Chinese, does it reach to that 15 million direct would you know that number, plus how easy going by the Soulfull is it to target the existing direct distribution in terms of the scale up?

Sunil D'Souza: Abneesh, I'm not a forecaster of the future, but just to give you some past numbers. Soulfull, when we took it up, it was 15,000 outlets, I think in three years we've got to about 300,000 outlets, right, #1. #2, the categories that they sell would be available in almost all kirana outlets, Desi-Chinese is our definition. Remember, they've also got Smith & Jones, Ginger Garlic Paste, Pasta Masalas, they've got Soups, Instant Noodles. So, definitely I would say the opportunity to enter into every single of my total direct and probably a large percentage of my numeric opportunity does exist. The focus now will be to make sure that we integrate these businesses quickly, provide the extra bandwidth that is required at the front end to drive that distribution into outlets, and in an ideal world, I would like to do it as fast as possible.

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

Mihir Shah: So my first question is on Ching's. Can you share the growth rate level that one can envisage in Ching's? You did mention that the focus categories can grow at about 24%. Historically, we've not seen that kind of growth. Can one grow at a higher growth rate than the category over the medium term? And a sub-part to it is also if you can share the revenue breakdown of Ching's portfolio into sauces and noodles, will it be more skewed towards sauces and less towards noodles?

Sunil D'Souza: Mihir, in the last three years, the CAGR of Capital Foods has been 20%. We do expect the categories that they operate in to grow at a 24% CAGR going forward and remembering the fact that they already have a very strong position, they should be able to ride category growth. If anything, we should be able to equal if not outpace given the distribution strength that we have. And therefore we remain extremely bullish about strong double-digit growth as we go forward on Capital Foods. And I would just like to highlight the fact that it is not only top line. Remember, it is significantly accretive to my gross margin. So, as we grow that faster than the rest of my portfolio, my margin profile starts to change faster than that, so that's #1. #2, I think they've got a decent mix of about 77% of their turnover comes out of Ching's, 17% comes out of Smith & Jones and about 6% to 7% comes out of all their other categories.

Mihir Shah: On Ching's again on margins, one would ideally assume that the brand would have remained under invested, as you know, they were thinking about selling out, etc., and it would require higher investment once it comes under Tata Consumer. How much of cost synergies can be extracted and in which line items we can see that and after the cost synergies, I believe that you expect EBITDA margin to be higher than 20%-plus, so what can be the sustainable margin profile? I did hear you on media talking it be upwards of 25%, but maybe a little more color on that will be very helpful.

Sunil D'Souza: So Mihir, actually if I look at the synergy lines and this is true both for Organic and Capital, anywhere from 200 to 400 basis points comes out straight on the trade margin piece itself, right, that's #1 as we combine. #2, the 55% is the gross margin translating to 20% EBITDA. So you can imagine the cost line item sitting there. So, there is a significant percentage which will come out in fixed and variable costs in the middle of the P&L, that's #1. And therefore we remain confident of delivering a 20%-plus EBITDA going forward. In terms of A&P investments, that is one area I think they have not shied away from. In fact, one of the reasons why they have built what they have built is because of the investments behind media and consumer connect. Let me say their A&P spends are at least 2 to 2.5x of what we spend. And while the percentages might come down as they grow significantly, in absolute terms, we would continue to increase the A&P spends behind the brand.

Mihir Shah: My second question is on Organic India. If you can talk about your plans to scale up Organic India apart from the clear leveraging of your distribution reach that will play out, maybe some color on what category expansions that one can expect out of Organic India and the kind of growth numbers that one should think about in this business?

Sunil D'Souza: So, Mihir, we've got already very, very specific plans on both Capital Foods and Organic India to leverage our distribution while making sure that both of these brands get focused just as a perspective. Right now, the intent is that in all 1 million plus outlets what we have started six months back of doing a split route broadly for one for food and one for beverage, we will be adding a third route to all 1 million plus cities and then going one step below half a million plus where we had one route operating, we are now going to split it into two. So, that bandwidth again is going to double. With that, at least in the big places which matter in the short term, I think we will get to distribution very quickly. On the product categories itself, I think this is work for us to do. We see an opportunity given the brand name, Organic India a), given their supply chain and this connect with these farmers and their agri team to boot and more importantly their immense amount of knowledge sitting within their system, we do think we can expand into many other categories, but that is a map yet to be drawn up from our side in detail.

Mihir Shah: LKK, on the accounting of the acquisition, if you can kindly share how much one should think about what will sit in goodwill and how much on intangibles, and if there is any tax benefit on depreciation charge on intangibles that can be availed?

L. Krishnakumar: We are still working through the purchase price allocation. Part will be in goodwill and part will be in intangibles. The proportion as we finalize, we will let you know. On the intangibles, given that the brand especially in the case of Capital Foods, fairly strong, there will be a reasonable attribution to the brand and unlike the other brands we will look to amortize, that is the thinking. So over a period of time, we can expect some amortization. The proportion as we finalize the purchase price allocation you will know. Organic is similar situation, maybe the attribution tangibles will be slightly lower than in the case of Ching's. Now, the other point that you need to remember is from a tax perspective, we will certainly look to claim deductions because based on the decisions that you're probably aware. We have not factored in any upside on tax at this point in time in our return calculations, but yes, I think these are deductions that we will certainly seek to get.

Moderator: Our next question is from the line of Sheela Rathi from Morgan Stanley. Please go ahead.

Sheela Rathi: Sunil, you talked about the salience of online channel for Organic India… I think about 22%. I just wanted to understand what is the salience for Ching's on the online side? And just for Organic India category, do you think that it will be more prevalent on the online side or offline side even going ahead because this category in general is very nascent in India?

Sunil D'Souza: Sheela, first of all, Capital Foods, I think the eCom contribution is four. You're right about Organic India being 22. I think that 22 is again by default, not by design, primarily because the products are not widely available in the offline market and therefore consumers go online. When the initial proposals that come up and we had gone to check with consumers and did a dipstick of what they think about their brands, the feedback that we've got was great brands but not available. I either need to go a Fabindia store or very few places pockets like in Gurgaon or Bangalore, etc., in some pockets it was available. Therefore, consumer bought it online. But that said, we will definitely ramp up offline distribution. There's no reason why online shouldn't continue to grow at a significant clip. Capital Foods, the focus always had been offline and the kirana stores LUPs, expansion of distribution, etc., and therefore I think there was that much less focus on driving online. I think in Capital Foods, we will bring our muscle to bear. Just as a perspective in my business about 9% plus of my contribution comes from eCom. There's no reason why Capital Foods also shouldn't be in that range, if not higher.

Sheela Rathi: The second question was, do we see any rebranding opportunities for either of the brands under the Tata Sampann umbrella or in any way or do we want to pursue the same branding which these two companies have?

Sunil D'Souza: So, Sheela, let me say very clearly, we've bought these brands for what they have built apart from the institutional knowledge, supply chains, networks and the people that they have. There is no reason for us to go and dismantle that overnight. What will happen though is we will go back to consumers and see what happens if we add Tata to it in one form or the other. This is a similar thing that we have done in Soulfull where we had got very clear feedback that apart from the two or three geographies where Soulfull was distributed decently and consumers knew about it, rest of the places adding the Tata brand name did wonders to the trial generation among consumers and that's why we went with Tata Soulfull. But as a perspective, Himalayan is Himalayan, right, so we have not added the Tata name there. So there is no, I would say, ideology or compulsion to add the Tata name, but if it does add value in one form or the other, we will consider it.

Sheela Rathi: In the presentation you talked about the premium construct or we're heading to becoming a premium F&B play. So from where we are right now, especially looking at the emerging businesses, what would be our premium construct now and what would this change to once we have these brands under our umbrella and where do you see that say in the next three to five years?

Sunil D'Souza: So Sheela, like I said, both these businesses gross margins are significantly accretive to my business, #1. #2, the growth rates are far more faster than my current business. So, as a percentage of mix, this will continue to grow. What we do expect today growth businesses for us contribute to 20% of our portfolio and by addition of these businesses, my growth businesses will now be 30% of my portfolio, which will continue to grow at 30%, that's the expectation.

Sheela Rathi: Just to follow up here. Sunil, this would also include Tata Sampann which has a high less component of being premium. So, my question was more to do with how do we think of Tata Consumer being a premium play, I mean, that is where I was coming from?

Sunil D'Souza: Sheela, it's not that we are sacrificing all our current business and tomorrow becoming a whole premium play. This is the journey towards becoming a more premium F&B play. Tata Sampann will grow, but remember, Soulfull is a significantly higher margin, NourishCo is a slightly accretive equal, if not slightly accretive margin to my this thing. These are completely accretive to my margin. So, overall, I would think it balances out if anything starts adding to the incrementality of Tata Consumer in margin terms.

Moderator: Our next question is from the line of Santosh Kumar Keshri from Keshri Finance. Please go ahead.

Santosh K. Keshri: So to Mr. Sunil, I had one question. We are buying brands which are home grown and which have come up for almost a decade or so over the past one year is very high. So I just wondered that does Tata Consumer have also plans to develop its own brand in such a way that they catch the imagination of consumers and become a bigger brand in themselves, because what I'm seeing is that over the past few years we are spending capital and maybe we'll go for a regime equity also and debt to fund this acquisition? So, this is like splurging a lot of money into brand and maybe the innovation which is there in the company for developing a home grown brand may not be getting so much attention of the management.

Sunil D'Souza: So, Mr. Santosh, I would humbly beg to disagree with your assessment. Incidentally, Tata Consumer is not a brand, Tata Consumer is the name of the company and we are in the business of building brands. Whether it is Tata Tea and the various brands like Premium, Agni, Gold, which we have built and the totality of these businesses is 5,000 crores. Tata Salt is a brand by itself which is close to 3,500-4,000 crores, or Himalayan which is I would say the #1 mineral water brand in the country or Sampann which has come from nowhere and it's now on track to become a 1,000 crore brand or Tata Copper Plus which is close to 500 to 600 crores this year, I do think we are building brands. Organic brands do take time to build. Organic brands take time because you have to build physical availability as well as mental availability with consumers. Both these brands have been around for 25-years. They've built very strong brands, they've got very strong products. I think that they lack is a robust operating system and front end distribution if I may. And we do think we can create great value with this.

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

Percy Panthaki: Sir, I just wanted to understand why in FY'21 Capital Foods had a 60% YoY growth. Was there some inorganic portion in this in FY'21?

Sunil D'Souza: Percy, both in Capital Foods and Organic India, in the past there's some good noise, some bad noise. Capital Foods had a phenomenal run in the initial days of COVID because remember packaged food, in-home consumption, western cuisines, Desi-Chinese did very well and that was the reason why they had super bump. But after that they had some issues with the management teams, etc., and that's why they went through a little bit of upheaval. You would see now FY'24 delivering again very strong growth both on the top and bottom line. It was a similar story in Organic India, where they have gone through some upheavals on organization, structure, people, etc., in the past. Apart from that in FY'23, they had a lot of clean up to do, one of clean ups, because of this exact issues of the past, and that's why you'll see some noise in the bottom line numbers as well. Going forward, at least right now they are steady state, very, very stable both on the top line and bottom line. So in FY'21, Capital Foods, it was the COVID induced bump.

Percy Panthaki: And for Capital Foods, what percentage of sales comes from HoReCa?

Sunil D'Souza: I would think today it is very, very small, Percy, and that is one of the opportunities given the pastes, chutneys, noodles coupled with the portfolio that we have of tea, coffee, etc., I think we've got a long, long runway in building out our food service. Currently, about 8% to 9% of Capital Foods comes out of the HoReCa channel per se… of course, when you say HoReCa, this is direct sales to HoReCa because HoReca also buys from kirana stores, etc., when you are not available, right? So, we don't have that number. But if I just stay for a minute with the 8% number, I do think it should be significantly higher. And we started building our food service business about 1.5 years back or so once we acquired Tata SmartFoodz. Now, I think all of a sudden the portfolio gathers heft and therefore we can accelerate that piece.

Percy Panthaki: If we exclude the one-offs in the Organic India margin, what is the current run rate of the margin excluding the one-offs but before factoring in any synergies or any value that Tata might add to it?

Sunil D'Souza: Percy, 55% is the gross margin. Now, you can imagine how much flow through I will have on my EBITDA percentage, right?

Percy Panthaki: But I mean before you add value and get your synergies, what is the current EBITDA margin run rate, any clarity on that?

Sunil D'Souza: Currently, it's in high single digit, Percy. But like I said, they're just getting their house in order after doing a full clean up. So, therefore they should be able to get to low double digits even without our interventions. And we do think there is significant amount of cost takeout to be done and therefore it will be accretive to our EBITDA margin.

Moderator: Our next question is from the line of Vismaya Agarwal from Citi. Please go ahead.

Vismaya Agarwal: If you could please share some more details on the Capital Foods portfolio in terms of any breakdown in terms of sauces and noodles or any other large parts? And from a category perspective, which are these which you see as the big growth driver for the company going ahead, please?

Sunil D'Souza: In terms of opportunity, like I said, the entire portfolio is accretive to what I have and therefore, we see significant opportunity to grow the entire portfolio. But, if I were to give you headlines, right, the Schezwan chutney is the flagship at 21%, sauces are about 20%, Chinese masalas, noodles, other masalas roughly 8% to 10%, and the balance are in a single digit percentage.

Vismaya Agarwal: You've always maintained that M&A is a big sort of growth driver from the medium term perspective. Now that this material acquisitions have happened. Will it be prudent to expect a slight pause in that strategy or does it still remain one of those things where you continue to look for M&As even in the near term?

Sunil D'Souza: Let me say the board has reposed enormous faith in the management team by agreeing to do two large size acquisitions at the same time and therefore our ability to execute the same. I think the ball is in our court. In the short term at least I think the focus will be to make sure we integrate these businesses and start delivering growth against this and get the engine humming. We've always maintained we want to be a large FMCG company with first focus on food and beverage. We look at organic and inorganic opportunities. That narrative doesn't change. We've just got to make sure that while we are doing either organic or more importantly, when we do inorganic pieces, we deliver the business cases and then look at new opportunities. We're not timing anything per se. But once we are sure that we've got these pieces right, there's no reason we won't keep our eyes out for the next opportunity which comes along. But just as a perspective, other piece we've always maintained is we will create value and there is no time limit or a target number that we will go after. So if you see this happened after two years, so the last one we did was Smart Foods, so it was almost two years. It's not that we didn't have opportunities there, but we passed all of them because we didn't think they were strategically and financially good fits. When we see something happening, there is no reason we won't press the trigger.

Moderator: Our next question is from the line of Amit Purohit from Elara. Please go ahead.

Amit Purohit: Just one point on the retail outlet profile for Capital Foods and for Soulfull. Is it broadly similar or the profile of the retail outlet is right now very different?

Sunil D'Souza: So the profile of the retail is a typical kirana store, which you and I see up and down the street. It's just that some of the stores would sell products like Soulfull for breakfast cereals, etc., some of them would sell snacking. But, I don't think there is a specific profile of a store which sells only Soulfull or only Capital Foods per se. We do think there is an opportunity to expand into the broad majority of the stores that we cover. And that is one of the big drivers for growth.

Amit Purohit: Sir, will you be able to help us with some numerical number on the chemist outlet maybe in metros, what could be the opportunity, especially when you said that or anything there could be used as a medium to scale up in that?

Sunil D'Souza: Specifically, while Organic India does provide us the heft in our portfolio to now address the pharma channel. Now, that we have signed the agreements, now, we will get down to work on what is the number of outlets available, what is that we can address, how can we go there. I would say in the next three months or so we should be able to work out our detail go-to-market strategy, because remember the pharma channel operates slightly differently from all the other channels that we are used to addressing. We've got various choices to address the go-to-market there. We've just got to make sure we pick the right choice and then execute strongly behind that.

Nidhi Verma: We'll just go to the webcast now and take a few questions from there. So there's a question from Tejas at Avendus. Sunil, he's asking in your strategic perspective for future targets, do you lean towards acquiring small brands in underexplored markets, large brands in saturated markets, or the optimal scenario of prominent brands in less explored categories?

Sunil D'Souza: So, Tejas, I think my ideal scenario is wherever I can create value with the amount that I would pay for inorganic acquisition, right, there is different types of work and different types of effort in all the scenarios that you mentioned, small brand in underexplored market or a large brand in saturated market. Each one has a different challenge. A), like I said, we will look at the strategic and financial fit; B), our ability to create value out of that; C), to make sure that we create the value. We do have the competencies and capabilities, right, or we are getting them with the targeted acquisition. So, I don't think there is a cookie cutter formula in any of them. We look at every opportunity on its own merits.

Nidhi Verma: There is a question from Ronak at Equirus. He is asking, given that the growth rates in Organic India have been on the lower side for the last three years especially and EBITDA margin also has been volatile, do you think you need more work there versus Capital Foods?

Sunil D'Souza: So I think I already alluded to the fact that both Capital Foods and Organic India, there has been lot of noise in the numbers, both top line and bottom line if you look at them historically. They've gone through some amount of internal issues, etc., which now they are on top of and they are, I would say, currently sailing smoothly. Both of them have different things that I need to execute to deliver value. Capital Foods relatively easier plug-and-play in my distribution system because most of the growth will be in India, little bit into export opportunities, etc., Organic India, I think we've got to execute both in India and internationally and we've got to build go-to-market system. But remember, just as a perspective, Organic India gross margins are significantly higher, and therefore for the extra effort I think the money that we realize on the bottom line is also significantly higher. So it might take a little bit of time, but not too different from each other.

Nidhi Verma: There is a question from Bharat Sheth at Quest. He's asking, can you give some color on geography wise exports of Capital Foods and our presence in those regions to grow export at accelerated pace?

Sunil D'Souza: So Bharat, I think we already alluded to it in our presentation. I think for Capital Foods, strongest relationship with the retailers are US, Middle East and Australia. They are also present in other markets around Europe and say Canada. But given the fact that the largest Indian diaspora market exists in US, UK, Canada, Australia, which is exactly where our footprint is, I do think these will be the markets which we will focus on to drive accelerated growth.

Nidhi Verma: There's a question from Richard at JM Financial. I think LK has partly addressed it already with respect to how much the goodwill is in our EPS.

L. Krishnakumar: Well, Richard, I think we'll have to have the conversation offline. We've also seen your comments in your report. So, we can have the conversation offline and we have given a directional statement as I mentioned. It also depends on the funding plan, right? You have assumed some cost of capital done, some working, which we also don't understand. Maybe we can take it offline.

Nidhi Verma: Again, there is a question from Ajay asking how much is the goodwill? I think we've already addressed it. And then there is a question from Vismaya. I think you've already asked on the other Q&A. There is a question from Harini asking even with the strong double-digit growth and operating margins north of 20%, can we see a payback period shorter than eight years? And what is the ballpark IRR that we target in such piece?

L. Krishnakumar: So I think we generally look at an IRR in excess of 18% to 20% and this I think will be ahead of that. Given the growth rate, given the potential revenue synergy and cost synergy, we are confident of meeting that or exceeding that.

Nidhi Verma: There is a question from Mudit at Franklin Templeton. He is asking if Organic India's gross margins were 67% in FY'22 and 62% in FY'23, why are we talking about a 55% gross margin in your communication?

Sunil D'Souza: So, just as a perspective, the way we calculate gross margins is slightly different from the way either Capital Foods or Organic India calculate gross margins. We take all variable logistics, etc., into the gross margins in our calculation. Therefore, fundamentally, even without doing anything, you will see the numbers lower. I would think if anything gross margins like I said given the 200 to 400 bps synergies coming in straight from trade margins itself which will drop into gross. I do think we will deliver higher than what they were delivering.

Nidhi Verma: There's a question from Disha at Ashika Stockbroking. She's asking could you please elaborate on the 12,000 plus farmer network that Tata Consumer will get access to from the acquisition of Organic India?

Sunil D'Souza: I think I already alluded to it in the presentation. They have got a team of 130 people at the back end primarily focused on farmer connect, making sure that the farmers, a), they get the right planting advice; b), they get the right advice on how to grow organic, how to grow their productivity, etc., which crops to grow, forward-looking projections. 2,000 plus is directly addressed by the team, the other is indirectly addressed. They're roughly in four or five big clusters centered around northern India. We will get access to that entire network. What that allows us to do is not only leverage that network for the current range of products, but if we want to expand into any new categories, we get a range of farmers who have a fantastic relationship, have grown through the years with Organic India and therefore very high level of credibility, goodwill and trust with the company. We aim to continue that and leverage that for expanding the portfolio.

Nidhi Verma: There is a question from Jasmine. She's asking the year-on-year revenue growth for Organic India has been declining over FY'22 and '23. Could you give any explanation for that?

Sunil D'Souza: Like I mentioned, both Capital Foods and Organic India went through their own upheavals over the past few years. I think Organic India did a lot of clean up. You will see not only in the growth rates, you will also see in the EBITDA numbers. I think they basically had to clean up to do some issues of the past. They did that and took the entire hit both on the top line and the bottom line in FY'23. FY'24 is a clean sheet, well run operation and that's what we're looking at.

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

Sumant Kumar: Can you talk about current distribution reach of Tata Consumer benefited to Organic India internationally and domestically?

Sunil D'Souza: I think we already gave the numbers. Organic India in India is present in 24,000 outlets, Tata Consumer directly we touch 1.5 million and our total numeric reach is 3.8 million. Internationally, they export to 48 countries, 40% of their total business comes out of the US and out of that a significant portion comes out of three big chains, which is Whole Foods, Sprouts and The Natural Grocer.

Sumant Kumar: No, no, I'm talking about how much percentage of total reach we have domestically and internationally since we are going to get a benefit of that with this current distribution?

Sunil D'Souza: I don't get the number, I should be able to sell Organic India teas and infusions in almost all my outlets. So are you asking for in those 24,000 outlets, how many will I get into?

Sumant Kumar: Both sides synergies we are talking about?

Sunil D'Souza: I'm talking of 15,00,000 and you're talking 24, we would be covering all that 24,000 outlets, let me put it in short, apart from some of the Fabindia outlets where we will continue to have the products listed going forward. There are Organic India, some 16, 17 standalone outlets which we are evaluating as we speak.

Moderator: Ladies and gentlemen, that was the last question of our question-and-answer session. I would now like to hand the conference over to Mr. Sunil D'Souza for closing comments.

Sunil D'Souza: Thanks everyone for joining us. I'll just go back to our stated intent of becoming a large FMCG company, focusing first on food & beverage, #1. #2, also saying that we will grow organically and inorganically, and when we look at inorganic opportunities, we will make sure they are value-creating. Both the acquisitions that we talked about today fit in perfectly along with our stated platforms in the food & beverage space are in faster growing categories, are higher gross margins than our current business. We do think there are significant synergies to be derived starting from trade margins downwards on fixed costs, and therefore, while Capital Foods, for example, is 20% EBITDA already, we are extremely confident that we will be able to add to those EBITDA. Just as a perspective, my EBITDA is currently in the 15%, 16% range. So, significantly accretive even standalone EBITDAs going forward, apart from the fact that we get two strong umbrella brands, we get two decently strong supply chains, one extremely strong, agri sourcing supply chain, set of people with institutional knowledge in those categories, great relationships with retailers globally and perfect synergies in the outlets that we address to drive both top line and incremental bottom line for us. Also, we're looking at funding options to make sure that we can, a), in the short term while we execute these opportunities, we will continue to explore opportunities as we go forward to make sure we continue the momentum on growth for Tata Consumer.

Nidhi Verma: Thanks, everyone for joining.

Moderator: On behalf of Kotak Institutional Equities, that concludes this conference. Thank you for joining us and you may now disconnect your lines.