August 1, 2023

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Sub: Transcripts of Conference Call pertaining to Financial Results

Dear Sir/Madam,

In accordance with Regulation 30 of the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015 ("Listing Regulations"), we are submitting the Transcripts of Conference Call held on Thursday, July 27, 2023, in respect of the financial results for the quarter ended June 30, 2023.

The same can also be viewed at: https://www.tataconsumer.com/investors/financial-information/call-transcripts

This is for your information and records.

Yours faithfully,
For **Tata Consumer Products Limited**

NEELABJA CHAKRABARTY

Digitally signed by NEELABJA CHAKRABARTY
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"Tata Consumer Products Limited

Q1 FY'24 Earnings Conference Call"

July 27, 2023

MANAGEMENT: **MR. SUNIL D'SOUZA – MANAGING DIRECTOR AND CHIEF EXECUTIVE OFFICER**
MR. L. KRISHNAKUMAR – EXECUTIVE DIRECTOR AND GROUP CHIEF FINANCIAL OFFICER
MR. AJIT KRISHNAKUMAR – CHIEF OPERATING OFFICER
MS. NIDHI VERMA – SENIOR VICE PRESIDENT, HEAD - INVESTOR RELATIONS & CORPORATE COMMUNICATIONS

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

Moderator: Ladies and gentlemen. Good day and welcome to Tata Consumer Products Limited Q1 FY'24 Results Conference Call 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 this conference call, please signal an operator by pressing star then zero on your touch tone 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: Hi everyone. It's a super good morning, good afternoon, good evening depending on the part of the world you're joining this call from. Representing ISEC, it's our absolute pleasure to host once again the results conference call of Tata Consumer. I hand over to Nidhi from the management for the intros and further proceedings. Thank you.

Nidhi Verma: Thanks so much, Manoj, for hosting us. Welcome everyone to the Q1 FY'24 call of Tata Consumer Products. I have in the room with me Sunil D'Souza, Managing Director and CEO; L. Krishnakumar, Executive Director and Group CFO; and Ajit Krishnakumar, COO. As we normally do, what we'll do is Sunil will spend about 15 minutes talking about some of the key highlights of the quarter and then we will get straight into Q&A. You can submit your questions on the webcast or you can come to the Q&A line. I would also like to draw your attention to the disclaimer statement that is on your screens right now.

And with that, I will hand it over to Sunil.

Sunil D'Souza: Thanks, Nidhi. So if you go down straight to the executive summary. We had another strong quarter with double-digit growth of 11% in constant currency, reported 12%. Strong growth in the India business. EBITDA grew 19%. India Beverages up 10% with tea volumes continuing growth at 3%. NourishCo had a strong quarter with 60% revenue growth. Foods volumes up 6%, overall top line up 24%.

Tata Sampann, another strong quarter growing 51%. International business grew 7% in revenue terms, negative 4% actually, if you exclude exclusions, which is primarily South Africa and a little bit of Bangladesh. EBIT growth of 11%. Tata Starbucks continued their store opening, opened 16 new stores and now they are in 4 more cities. Top line grew 21%. India Growth businesses all combined; which is ready-to-drink NourishCo, Soulfull and Sampann; grew 58% and from 15% contribution are now up to 20%.

Volume market share in tea when you look at MAT, it is slightly lower which is 50 bps on volume, but broadly stable same quarter last year and we do think it is starting to turn. Tata Salt franchise gained share by about 10 bps overall, but because we have taken aggressive pricing across the portfolio, some of the lower down brands in the portfolio slipped a slight bit of share and total salt share was down by about 20 bps. EBITDA margin expanded by 80 bps led by improvement in both, India and International.

We continue to invest behind our brands with A&P to sales for our India business at 7.1%. Just to put it in perspective, it was 6.6% in the same quarter last year. Another busy quarter in terms of new launches. We had said our medium-term aspiration was to hit 5%. Now the good and bad news is we did in this quarter.

Big numbers from Soulfull where we launched 3 new products; which is Granola, Oats+ and the Nutri Drink both for kids and adults. We had already said last quarter that we will split routes in all 1 million-plus towns and we will appoint direct distributors in all 50,000 plus population areas and substantial number of 20,000 plus and we remain committed to that. We had made a commitment of hitting 4 million outlets on numeric reach 3 years back and the target was September '23, we are right now at 3.9 million.

In terms of performance, India Beverages volume 3%, revenue 10%. India Foods volume 6%, out of which salt is 5% and revenue 24%. U.S. Coffee and International Tea, just to give you a perspective of the rapid price increases and therefore an impact on overall industry and volume and therefore U.S. Coffee negative 12% on volume, but constant currency negative 5%. Overall revenue 2%.

Excluding acquisitions, constant currency negative 11% for International Tea and revenue growth is flat. Tata Coffee had a decent quarter while volume was negative 6% again with the coffee prices having run up; revenue growth was plus 13%. Consolidated revenue growth of 12%. So overall if you look at it; revenue 12%, EBITDA 19%, PBT 23%, group net 22%, group net profit was 16%, EPS growth of 23% and we have INR2,300 crores of cash compared to about INR1,900 in the same quarter last year. Strategic priorities, the 6 pillars remain the same.

I already talked about the distribution and our alternate channels, which is modern trade and e-commerce, continue to fire; 22% growth in modern trade. Just as a perspective, we've grown in modern trade at 1.7x the tea category growth in our Top 4 customers. E-commerce up by 28% versus last year, continuing to do very well.

I already mentioned 6.6% to 7.1% is the movement of A&P to sales and we remain committed to fueling our brands. I already mentioned the number movement on tea and salt market shares. Soulfull, all our new launches which I talked about are on the page. We also launched cold coffee albeit in a very measured manner just to make sure that we've got everything right in the marketing mix before rolling it out and we've had a very good response.

We've also launched Tata Spring Alive as affordable mineral water, which will be sourced from multiple sources and launched across the country. Right now we're piloting it up north. 1868 saw a range of flavors and more importantly, it was only loose tea earlier, now we've launched pyramid tea bags. We've launched a range of mainline mixes in Tata Sampann, expanded into Daliya up north. We had launched Hing in the north, which was off to a good start.

As we've figured -- as we rolled it out, we've figured the South Hing is slightly different, and we've tweaked it and now this is again off to a good start and expanded the range with international flavors in our Tata Sampann Yumside ready-to-eat portfolio. 58% growth in our new engines; which is Sampann, NourishCo, Soulfull and Yumside. As a result of which, we've already hit 20% contribution from these businesses to the total India business. Next slide. Sustainability remains a focus for us.

We've already reported our BRSR in our integrated annual report, completed third-party verification for our Scope 1 and Scope 2. We were recognized as the Top 5 most sustainable companies in BW Businessworld's annual ranking. In terms of macros, tea as you'll see, Kenyan tea is running a bit soft because of subdued demand especially from Pakistan and Egypt.

Indian tea in line with seasonality, prices coming up in Q1, but broadly lower than where they were during the same quarter last year. Coffee on the right hand side. While you will see Arabica prices moving up, I think they are starting to turn right now so I wouldn't read too much into the coffee upward movement because we are seeing some signs of softening coming up given that the prices have run up for a long time.

Overall while you'll see growth in all our categories across markets, I would just like to point out this is all price related primarily, and not as much volume related. In terms of business, India Packaged Beverages volume up 3%, revenue up 2%; and a 4-year CAGR if you look at it, we've got a 7% which is broadly what we've been saying about mid to high single-digit volume and a couple of points on top of that with price mix. Sorry. Just to point out, coffee grew by 21%. So that part of the portfolio seems to be doing well.

In terms of India Foods; 6% volume growth. Salt grew 5%, Salt revenue grew 18%. Overall Foods revenue was up 24%. Marginal movement in market share, which we remain confident of continuing to move it up north. NourishCo I think had a good quarter, overall close to INR300 crores revenue growing 60%. Gluco+ and Tata Copper+, which are the bulk of the volume there, both registering good growths. Tata Coffee, 2% growth in extraction, 31% in plantations and overall 11%.

Profitability has been improved by higher realization as well as lower costs. Tata Starbucks opened 16 new stores. Now we are in 75 cities, close to 350 stores. 21% growth on revenue. International operations: U.K. revenue growth of 1%. Good news is we're gaining market share with improved execution and the relaunch of Tetley, which I'll talk about shortly; sustainable packaging, sustainable tea bags and a modern factory is being supported by very good frontline execution.

More importantly, in the U.K., I had alluded to it in the last quarter, we've had severe cost restructuring because of which U.K. EBIT is now in the double-digit area. The U.S. Coffee revenue growth negative 5%. Tea revenue growth minus 3%. Minor movements on shares, but broadly in the same ballpark. Canada: while we continue to maintain market share, overall softness in the industry has meant revenue growth of negative 7% overall and specialty negative 13%.

I talked about Tetley's transformation. So we've got a better product with an improved blend. We have spent on upgrading the facility and the entire product offering now in the market is more sustainable given recyclable box, plant-based tea bags, no plastic outers and a lower footprint, which means a lower carbon footprint. Financials, L.K.?

L Krishnakumar: Thanks, Sunil, and good morning, everyone. I'll just walk you through a few slides on the financial performance. Starting with our stand-alone performance, you see revenue up by 12% and EBITDA growth of more than proportionate 16% with an improving margin. The revenue growth has come, 2% that we've seen earlier in tea and 18% in Salt and above 50% growth in Sampann. So these are the contributors to growth on the stand-alone results. Moving on to consolidated; revenues up by 12%, 11% in constant currency.

In the consolidated, you have International business which grew 3% including acquisitions and also you have the growth of NourishCo and Soulfull, which also grew by over 50% each. The nonbranded business had a good quarter, grew by 5% driven largely by price increases. Margin, we see an increase of 19% compared to a revenue growth of 12%. Again an improvement driven by both the price increases we have taken in different parts of the business compared to the same period in the previous year and also strong cost initiatives and restructuring especially in the International business.

So if you move on to the next slide on stand-alone and consolidated, just the shape of the P&L. We are seeing revenue up by 12% in the stand-alone accounts, an improvement in EBITDA margin from 14.8% to 15.4% and PAT up by 23%. In the consolidated results, we've seen a 12% growth in revenue and an improvement in EBITDA margin by 0.8%. And if you look at the SEBI results, you'll see though material cost is marginally higher, we've optimized fixed costs and other expenses. So we're seeing a slightly improved gross margin as well as an overall improvement in EBITDA percentage.

Moving on to PAT, INR359 crores versus INR277 crores, an increase of 30%. Group net profit after share of JV and associates lower at 22%. There is a loss compared to a flat number in the same period previous year because of a loss in the North India plantation arising out of weather conditions, lower crop and an element of lower realization as well. So that's the overall performance.

Moving on to the segment-wise breakup of results. The first observation I want to make is all parts of the business have done well. So if you take India Business, segment results up by 20%. The International level, nonbranded 27%. So overall, all segments have delivered well in terms of reported top line as well as profit. The International business profitability has improved, as Sunil mentioned, as we restructured takeout cost and U.K. also did well this quarter in terms of share gain.

If you look at the proportion of revenue and EBIT, more or less the same; 75% India business in terms of revenue share and a similar number in terms of profit. So International business, 25% and 26%. Underlying trend of improved EBITDA in the International business mainly driven by cost. In the International business, however, I should mention that volumes have been soft and there has been an element of small share loss in the coffee business, but we expect that we will come back and overall market growth will improve in the coming quarters.

So that's it from my side. And over to Sunil for the concluding remarks.

Sunil D'Souza: So if I were to walk you through, similar to last quarter we continue to see improving demand trends for our core categories. Remain cautiously optimistic. While rural has started to come back, while the north has started to come back; I'm keeping my fingers crossed because 2 reasons. A, is still not pre-COVID trends and it's dependent on what happens with the whole monsoon/El Nino effects. Global inflation has started to plateau. I think we are more or less done with pricing or little bit -- small bits here and there on pricing left to tackle. But category demand trends in our key international markets especially on the volume front are going to be key monitorables. Q1 '24 we delivered in line with our commitment, double-digit top line with EBITDA margin expansion. Interventions we put in our tea business have started yielding results, but overall growth is still below our medium-term aspirations.

As we have said, we expect to see mid to high single-digit volume growth and a couple of points on price mix. We're still not there yet. Salt business, just to remind everyone, we took a 33% price increase in about 15 months. Despite that, we've seen a 5% volume growth which is good. But going forward given the fact that there is not going to be too much pricing, I think growth is going to be driven by volumes and premiumization.

Growth businesses have been delivering well up to 20% of our portfolio now. I think the standout is NourishCo, which has continued performing despite adverse weather conditions. Starbucks: Tata Starbucks recorded a strong quarter and now 348 stores. In the International business, pricing actions and structural interventions have led to sequential improvements in margin for 3 quarters now.

Broadly they are in the ballpark of the India business, but we need to continue to improve from here. Demand softness needs to be an area to watch. We are in the middle of an NCLT process in the final stages. We do expect approvals to come through soon and as soon as that happens, we remain committed to completing the integration very quickly hopefully in this financial year. EBITDA margins continue to improve despite continuing investments in new business and despite powering brands with A&P and spending on distribution expansion. Going forward we will continue to stay focused on driving profitable growth, balancing top line and margins. Back to you, Nidhi.

Nidhi Verma: Thanks, Sunil. Okay. Moderator, we can go to the Q&A please.

Moderator: Thank you very much. First question is from the line of Abneesh Roy from Nuvama. Please go ahead.

Abneesh Roy: Congrats on good numbers. My first question is on Tata Soulfull. So versus when you acquired and now, what would be the market share movement in the core business? So in the breakfast cereals, how is the market share improvement given you would have scaled up much higher distribution and much higher advertising? And the new products in Tata Soulfull essentially, if you could talk about masala oats, how was the performance this quarter? And what is the thought process on Nutri Drink+ and Nutri Drink+ for the adults also? So are you going to target the Horlicks market because that has been a very tough category and that faces also the milk usage and inflation issue? So will this product be able to overcome that?

Sunil D'Souza: Just to give you the investment thesis in Soulfull; strong brand, good products, strong team; needed to be fueled with distribution and marketing dollars. I think that thesis has borne out. Last year Soulfull doubled in revenue and again this quarter we have had north of I think 50%, 55% growth. So very strong growth. In terms of market share itself, significant improvements from where we started, but I would say we're in the mid to high single-digit range right now in overall cereals category.

Masala oats actually, we have crossed I think, I would say, strong double-digit market share especially in places where we are present. So I would measure say modern trade, we are at a very, very decent double-digit market share number. In specific geographies where traditional trade has executed, again very, very strong market share numbers.

We still continue to expand the availability there. Now last point is in many of the categories that Soulfull will enter, we will not be category creators just as a perspective. So where there are large categories, I can bring a differentiated brand to play and connect with the consumer with a great product. There is no reason why I should not. And that's the reason for example you'll see Nutri Drink.

As we speak, I think in the next probably 72 to 96 hours we will be shipping out one more category. Every category that Soulfull is entering, we are seeing good traction. More importantly, the Soulfull margin is also accretive to our total portfolio. I think they have done a very good job on owning the millets branding, the kids portfolio doing very well, all new launches. So far so good. I think we're on a good track.

Abneesh Roy: Right. Just one small follow-up there. You grew 2x last year and this year also 50% growth in Soulfull. So wanted to understand here lot of the growth will be coming because of so much of diversification also and initially of course the pipeline filling is there for the new products. So you're saying the core business is also doing quite well, right? Because the mid to high single-digit market share, that seems to be a bit lower versus the kind of expansion you have done?

Sunil D'Souza: So absolutely, Abneesh. I mean just like our overall business, our core has to do very well and then the expansions have to fire, right? So the whole equity of Soulfull has been built on breakfast cereals and we are moving out from there. Just like the TCPL algorithm is built on decent volume, strong categories, market share growth in tea and salt and that is helping us drive the rest of the portfolio.

Abneesh Roy: Sure. My second question is on Growth business. So extremely impressive performance so now it's 20% of the India business. My question was when I see your broader gross margin and EBITDA margin profile, it's around 43% gross margin, EBITDA margin 15%. But when I see your market share for example in Soulfull say high single digit, it is not a market share which can make lot of money at the EBITDA front. So wanted to understand here how you're seeing this entire 20% of the India portfolio in terms of profitability metrics. Is there a good movement or still because new products are getting launched, at an overall this 20% level the EBITDA margins, etcetera, may not have had a significant improvement versus say 3 years back?

Sunil D'Souza: So Abneesh, just as a perspective. The way we measure -- and there's a reason they're called growth businesses because we do think they've got a long runway. Just as a perspective today my business is highly tea and salt in India and we moved from almost single digit to about 20% right now. Just as a perspective, that 20% is also dependent on seasonality because NourishCo remember fires very well in summer and that's one of the reasons why it has hit 20% from 15% where it was same quarter last year.

But you're absolutely right, the margin profile on some of the Growth businesses is not where it needs to be. That said, it will improve with scale and as we fine-tune our entire offering there. What we do measure is a) growth rate; b) the fact that the growth rate is getting fueled by the right amount of A&P and distribution; and lastly, the contributory margin has to continue to improve because essentially the thesis is that these are; for example Soulfull, Sampann; these are riding on my base logistics and S&D platforms and there is not incremental fixed cost that we are incurring out there. So as long as the contribution margin moves in the right direction, I am adding incrementality to the business.

Abneesh Roy: Sir, last, very quick question. We have seen in some of the other categories where sharp deflation has happened, for example coconut hair oil or say detergent, there is a level of pipeline -- the inventory destocking because trade is expecting more of the price cuts. In salt, is there a price cut which you have taken and would you see that there will be a requirement of price cuts there? Because you are still saying that the price hike will not happen, but you have not spoken on the price cut. And second, of course will be on the market share loss at the lower end, would you be worried because in tea we have seen earlier and we have also seen wherever sharp price hike happened and then deflation happened, regional players are coming back.

Sunil D'Souza: So Abneesh, the good and bad news is last year when everyone was facing inflation especially for businesses which were exposed to palm oil, crude, wheat or sunflower; we were not. In fact our tea prices were on a reverse trend. And therefore, we did not have as much of a price uplift in our portfolio. Right now what we are seeing is broadly flat to slightly marginal downtrend on tea. I would say right now we are braced for a flattish versus last year's sort of number, maybe slightly below, but that depends on how weather plays out especially in the north.

On salt itself, we would have expected the total cost to come down a bit because it's made up of 2 things: a, is imported coal, therefore coal, imported coal and the dollar prices and it is brine, which is sourced locally. Now dollar is stable, coal has come down a bit; but the catch is brine has seen a little bit of uptick given the recent cyclone which has happened in Gujarat.

So broadly it is flattish, all these numbers put together. So we are not seeing cost movements and therefore we do not see price cuts happening for now and the reason I'm emphasizing for now is because tea prices we had thought will come down. We had not expected this heat wave in the north in April and May, which held up the tea prices. But if all things remain constant, tea we would start to see it coming down, which we have not till now, okay?

And therefore, broadly we are playing in a flat cost environment and therefore no price cut anticipated. On the salt question itself, I wouldn't be too worried simply because I know I've taken a 33% price increase. The local players, which play even at a lower quality, there might have been a bit of swing. But I do think I have the ability to recover it very quickly once prices stabilize, which is what we are seeing now.

Moderator: Thank you. Mr. Roy, may I request to join the queue for any follow-ups. The next question is from the line of Namant Satiya from Mirae Asset.

Namant Satiya: My first question is on the NourishCo business so that's almost INR300 crores this quarter. Can you discuss what's driving this growth and the kind of scale you expect for this business 2 to 3 years down the line?

Sunil D'Souza: So Namant, essentially again the hypothesis in the NourishCo business was that great differentiated products, which could be scaled up significantly both with geographic expansion and portfolio expansion. So both geography and portfolio expansion is at play. I would say we are broadly in about 75%, 80% of the country in terms of production right now. Again hypothesis being that we will not drive more than 150 kilometers, 200 kilometers with these products because we play at affordable price points and therefore, freight is a very, very significant factor.

We have expanded portfolio. We have expanded into jelly for Gluco+, juice and jelly in PET. We have expanded into -- just like I said, we're expanding our mineral water play. Himalayan distribution and execution is off to a good start. Right now where we closed last year at INR300 crores -- sorry, INR600 crores, the target for this year is to hit a 4-digit number.

Namant Satiya: And sir, could you talk about a few years down the line what kind of scale you expect in this business?

Sunil D'Souza: We do expect to see continued strong momentum in NourishCo, again I will say driven by geography and portfolio.

Namant Satiya: Sure. Sir, and my second question slightly I just wanted to understand the quick commerce channel a little better and wanted to hear your thoughts on this channel. So do you see this channel becoming sizable a few years down the line and what's the contribution this has to our business currently?

Sunil D'Souza: See, I am not a forecaster. All I can say is a lot of these trends you can see going up and down. Just like many people who were very, very bullish on the online space during COVID times and you can see lot of brands/businesses fading off in that space. All I can say is on a long-term basis consumers will move to convenience, consumers will move online and therefore, we remain committed to growing our total e-commerce business.

Now in that total e-commerce business, quick commerce has been on the upswing I would say in the last 6 to 12 months so to speak and we do see that building up. Now ultimately again the cost economics ultimately has to be working for those channel specifics so that they can sustain and continue to grow. I wouldn't pass judgment on that piece. As long as the businesses continue to deliver their promise to consumers of quick without a significant upcharge on the product itself, I think they've got a good proposition and we remain committed to that.

We are seeing strong growth in our e-commerce, I think 28% is what I alluded to. All I will say is quick commerce is growing stronger than the average and we remain committed to making sure that we continue to grow that. Incidentally, on the online space in the tea business, we are the market leaders.

Namant Satiya: Sir, that's helpful. Just 1 follow-up. So how would the trade terms in quick commerce versus overall e-com or modern trade?

Sunil D'Souza: I would say we are competitive and that's why they make sure that we are well positioned in that channel.

Namant Satiya: But the usual credit and slightly higher margin that's offered to MT and e-com, this is largely the understanding for quick commerce as well, just that bit.

Sunil D'Souza: I would say we are competitive in the channel in all trading terms, including discounts and credit, and that's why we continue to power ahead.

Moderator: Mr. Satiya, please join the queue for any follow-up as we have several participants waiting for their turn. The next question is from the line of Jitendra Arora from ICICI Prudential Life.

Jitendra Arora: Just one quick question on NourishCo. That's a brand where we have also expanded our distribution reach significantly over last couple of years. So just wanted to understand from you that going forward in terms of growth mix, how do you see that being driven by distribution versus the product introduction/innovation?

Sunil D'Souza: So like I said, we're in about 80% of the country right now. We are still not present in large swathes of geography and large urban cities for example, right? We are still yet to build up distribution completely in Bombay, in Bangalore or Delhi. I mean we are picking and choosing where we want to play where we can get the fastest dime for the buck if I may speak so. But you're absolutely right. We still got a long way to go on distribution. But I would say in the near to medium term, we will complete the distribution gap and then it will be a game of 2 things: a, is building out strength in the outlets per se and expanding portfolio. On both these things, we've got a healthy pipeline lined up and therefore, we remain confident of continuing to deliver strong numbers in NourishCo.

Jitendra Arora: So given that we are likely to hit 4 digit this year, sir, as expected or that's the aspiration; when do we expect to double this? In how many years do we expect to double this thereafter?

Sunil D'Souza: So all I can leave you with even with these strong numbers, if you look at my market share just for example in the water category, we have not even hit mid-single digits. So we've got a long, long runway. And I just say that we remain very confident of delivering strong numbers in this business.

Moderator: The next question is from the line of Tejash Shah from Avendus Spark.

Tejash Shah: A couple of questions from my side. Sir, if we see both the top players in tea segment have delivered or indicated low single-digit growth versus category growth that you have shared of

7.9%. So are the regional players making a strong comeback? And with the kind of deep and regional portfolio that we have also created, why are we kind of not participating that aggressively as we would have expected?

Sunil D'Souza: So Tejash, I would presume the 7.9% you're referring to is the Nielsen growth number which was quoted. I just urge to remember 2 or 3 things about that. a) iis Nielsen measures offtake from retail. But when we declare our numbers, it is primary sales from us. You have to remember after the primary sales from us; there is distributor inventory, then there is retailer inventory and then there is consumer offtake, right? So I would not do a like-to-like period comparison. That's number one. Number two, you have to also realize Nielsen does a sampling based indicator. So I use Nielsen more from a trend rather than absolute numbers. While market share I would absolutely measure absolute numbers from Nielsen, but overall most of the other numbers are directionally what I would pick up.

Number three, to your answer your question, there is a point below which the gross margins that you play with become very, very, I would say razor thin and dangerous to tread and especially in systems like ours where we hold inventory for some time whereas the loose and local players buy, pack, sell. Right? There is no inventory cover, etcetera. Therefore, it is a slightly dangerous territory to tread on on those very, very low margin segments.

That said, just as a perspective, I think even in our report we have disclosed saying that Tata Agni, which plays at the bottom of our portfolio, has started to see strong growth. So in any business, I think walking the balance between margin and market share is a critical piece knowing when to trade off for what. If all things come together, then it's the magic of margin increasing and market share increasing. But quite a lot of the times, you've got to decide what you're going to trade off. But over the longer term, I would say you should see market share inching up continuously.

Moderator: Mr. Shah, is your question answered?

Tejash Shah: Sir, so second question pertains to NourishCo and then you have always maintained that you prefer to solve growth and profit problem statement together and not separately. Now the kind of growth that we're seeing here, how should we think about margin trajectory in medium term and at what scale, let's assume 2x or 3x from here, margins will start converging with the company level margins?

Sunil D'Souza: So Tejash, just like I said, I look at the contribution margins first and then how does it flow through the total line. NourishCo is broadly in the ballpark of what we are on the contribution margin, gross margin as we measure from a company perspective. Incidentally even on the total all-in loaded P&L, if I were to do a hypothesis, last quarter was good. So directionally as long as contribution margin is inching up, fixed costs remaining the same, P&Ls are continuing to move up and therefore become EBITDA accretive. That's the way I would play it.

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

Sumant Kumar: Sir, can you talk about the region-wise penetration of NourishCo, where we are lagging, where we are going to have a more expansion in which region? And also how is the profitability scenario in next couple of years considering we are going to have a scale? As per my understanding, currently we have a higher single-digit margin in NourishCo. So when we can reach a double-digit margin?

Sunil D'Souza: So Sumant, NourishCo we started off when we inherited; it was primarily Andhra, Telangana, Orissa and a little bit of Tamil Nadu. I would say right now we've built a very strong footprint in those geographies and last year we had expanded or end of year before we had expanded to the east per se where we are still building out. Last year we started moving to the north and this year now we are slowly coming to the west and the rest of the south. That's where we are and that's why I said in footprint terms, we are probably around 75%, 80% of the geography, but we would have built out strongly in about 25%, 30%.

We would be still building out in 25%, 30% in about 25% we would be starting off having put in the manufacturing and distribution in place. Now I'm not sure when you refer to single-digit margin. As I said, the contributory margin, gross margin level as we measure, we are in the ballpark of total TCPL. Last quarter was a good quarter, but you have to remember, NourishCo is a seasonal business. We do expect them coming close to profitability on a fully loaded P&L by the end of this year.

Sumant Kumar: Okay. So can you talk about the Tier 2, Tier 3 category cities penetration of NourishCo and how are we planning to penetrate more in these cities?

Sunil D'Souza: So as I said, as we've expanded, we have left out large part of metro geographies, etcetera, because that is normally the more expensive distribution to tackle and more difficult distribution to tackle because everyone is playing there, Our hypothesis is we will not drive for more than 150 kilometers, 200 kilometers with our products because that is when freight comes into play. So we have focused on very, very specific radiuses around the factories that we have put in. I would say I don't think we are targeting a Tier 2, Tier 3 sort of mix per se. We are targeting very specific geographies around the plants that we have set up, which are in line with the total footprint road map that we had drawn up.

Moderator: The next question is from the line of Percy Panthaki from IIFL.

Percy Panthaki: Again I also want to ask on NourishCo. So my understanding is that Bisleri, which is the largest player in this field, makes EBITDA margin somewhere in the low to mid-teens. They have their own manufacturing also. We don't. So if we are paying conversion charges, our margins would probably settle around that 10%, 11% kind of mark. What is wrong in my thought process here?

Sunil D'Souza: So essentially not all of Bisleri's manufacturing is owned. They operate through a significant amount of franchisees and independent distributors per se. That's number one. Number two, we are not only Tata Copper+. We are also Tata Gluco+, which is significantly higher margin and product that we -- and we are also Himalayan and we are launching products, which are significantly higher revenue, higher gross margin percentage and higher absolute gross margins per se. Number three, I would prefer to run with the route that we have chosen, which is franchisee producer -- or not franchise, co-manufacturers and distributors because then it is almost an infinite ROCE, right? And beyond a point, I do think we can get to a very, very decent EBITDA percentage, which is in the ballpark of where TCPL is today.

Percy Panthaki: Okay. That's very helpful. I also wanted to ask regarding the spices business. So between the pulses and the spices business, I find the spices business more attractive because it's a set business model with many players where many of them made close to a 20% EBITDA margin compared to pulses where we are actually experimenting the business model. So just wanted to understand where you are going more aggressive between pulses and spices and why don't we see -- I mean correct me if I'm wrong, but I'm not seeing that kind of aggression in terms of spices from your side, which is actually a more attractive business in my view?

Sunil D'Souza: So Percy, I have to make sure that my team demonstrates that we are showing higher aggression. But just as a perspective, it is not an 'or' game; it is an 'and' game that we're playing. So we are focusing both on spices as well as pulses. But there are some significant differences when you look -- I mean from a margin perspective, from an outside-in perspective when you look at the numbers, you're absolutely right. The EBITDA margins in spices are significantly higher than pulses.

But you have to also remember that there is a difference because pulses, we are the only national player offering products of quality consistently to consumers at a very decent price and that's why they are off on a very good wicket and we're seeing good growth there. The spices category is a very, very, very sticky category. While pures make a lower margin, blends make a higher margin, but blends are more sticky. Therefore, it takes time to move consumer habits.

I use it because my grandmother used it and my mother used it and therefore, I will use it. The frequency of usage -- frequency of purchase of blends is significantly lower than pures and that's why you'll also see in my spices business, my pures contribution is higher than compared to the market because pures it is easier to bring in the consumer than blends. But that's not to say that we are not focused on spices. Just for example last year we decided to enter the south.

We had not tweaked our blends to play in the south or our products to play in the south. But whether it is pures or blends, south requires a different tweak. Just as a perspective with continuing Hing for example, we went in the north, we found a good traction; but when we went to the south again, we found that the south Hing is slightly different to the north. We've tweaked it and now we are going behind it. So again I repeat it's an 'and' not an 'or' game, but these are 2 different playing fields, if you may.

Percy Panthaki: Sure. And lastly, on tea business margins, would we be right in assuming that the India tea business margins in FY '24 at an EBITDA level should be roughly the same as what you did in FY '23?

Sunil D'Souza: So Percy, I think the big thing here is how do tea prices move and our ability to take that tea price to customers. Like I said, we had expected the tea crop in India in June quarter to be better than last year, but unfortunately in Assam, the heat wave I think played a bit of a spoiler and therefore while prices have moved down, they have not moved down as quickly. Now if the trend continues, we do see a little bit of margin expansion happening on tea. But again I would take it probably not one month, one quarter at a time when moving this. Broadly tea margins have come back to the ballpark, but they're still not where they should be. I think there is a little bit of opportunity out there, but I would take it one quarter at a time.

Moderator: The next question is from the line of Arnab Mitra from Goldman Sachs.

Arnab Mitra: My first question was on the pulses business. So there is a possibility of high inflation this year in pulses is what we hear. How are you placed for this? Typically in the past cycles like in other categories, do you end up gaining market share or having very high revenue growth with good volume growth when you get into these kind of high inflation years?

Sunil D'Souza: So the good news is that we had very clearly focused on building a strong procurement engine for ourselves on the non-tea commodity so to speak. And over the last about 12 months, I think we have started to get a few things right whether it is the upcycle or the downcycle which is happening in these commodities. And therefore, I see no reason to worry about. As commodity prices go up so will we take up prices and when they go down, we will also correct it. Overall margins, again the way we measure gross margins, contribution margins; they have gone up for Sampann overall and we are spending money behind brand building for Sampann which we had not for the past few years. So we do expect volume and revenue growth to happen.

Arnab Mitra: Okay. My second question, Sunil, was on NourishCo's business model. Essentially that in most consumer businesses, you have a gross margin when you're building it up and then you have high ad spends, which there is operating leverage on. But just wanted to understand in NourishCo, is the advertising spend angle much lesser and it's more of feet on street and incremental distribution that you have to build, in which case that variable cost will continue to go up as you ramp up the distribution? That's the first part. And the second part was within the geographies you are present, what would be your like distribution versus, let's say, the market's distribution of water or other beverages?

Sunil D'Souza: So overall in the beverage business, availability matters first and then it is -- physical availability is first and mental availability is second and therefore the focus is on building distribution. But that said, after a point in time you do have to build your brand very strongly and we started doing it this year. This year for Gluco+ for example, we did our first national campaign. We have never advertised nationally. This year we did that and I do think the INR300 crores partly is a result of that, number one.

Number two, as we expand both manufacturing and distribution, the costs are all variable and therefore they will go up and down as the volume goes up and down. So that I wouldn't be too worried about. In terms of distribution per se, as I mentioned earlier, we've got a long, long, long way to go. Because as I said, I would say Copper+ is roughly probably maybe 35%, 40% of my portfolio out of the INR600 crores that we did last year.

But despite that, we have still not hit mid single-digit market share. And in outlets where we are present, outlets specifically our share among handlers is quite strong. So we've got still a long way to go to build distribution and therefore market share and therefore total business.

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

Sheela Rathi: Sunil, my first question was with respect to the incessant rains that are happening in most parts of the country. Are we impacted in any way with respect to our supply chain?

Sunil D'Souza: So the incessant rains you would hear about I think in specific parts of the north per se. Other than that, I don't think there has been significant disruption in terms of logistics, etcetera. Again when I talk about Delhi, with all due respect I think it's a few parts of Delhi which are making headlines. It's not across the city of Delhi. Yes, there are some issues specifically in Himachal, etcetera; but those are not as significant parts of my portfolio. So yes, there have been those sporadic issues, but nothing that I would call out in terms of disruption.

Sheela Rathi: Understood. And my second question was with respect to the number you provide on the innovation side. It's very interesting to see how the share continues to rise. Just wanted a clarification. When you say 5% of the sales, if you could just share how this number could look like when we just look at the India Branded business, what the share would be?

Sunil D'Souza: So effectively when I say innovation to sales, we take products which have been launched in the last 3 years. Again when I say product, changing of packaging, new graphics, new brand architecture, etcetera, doesn't qualify. It has to be distinctly new products per se or products which have been tweaked substantially. That's the number. When I do a benchmark with Indian food and beverage companies overall, about 4% to 5% puts us in the top quartile and that's why we had set a long-term target -- medium to long-term target of hitting 5%. It's good that we hit 5% in the first quarter. I would say I'm just keeping my fingers crossed that we continue at this level going forward.

Sheela Rathi: Okay. Understood. Third was with respect to the new innovation on water side on NourishCo. Just wanted to understand where you have mentioned that we want to be competitive here. But when I look at the price point with respect to this introduction, it seems to be more closer to Himalayan than to Tata Copper. So what's the plan here in terms of driving growth?

Sunil D'Souza: Absolutely. So let me put it this way. There are 2 distinct segments in water. One is bottled water, which is where Tata Copper+ plays. There is Bisleri, there is Kinley, there is Aquafina. And then there is mineral water, which is where Himalayan plays and market share of Himalayan in that is significantly high. Now the catch is there is a significant difference in pricing between Tata Copper and Himalayan because Tata Copper is produced locally with water sourced locally whereas Himalayan is bottled at source in our Paonta Sahib plant.

Now the thing is we want to premiumize our play and play at the higher end. So the reason we are constrained with Himalayan because we have to source from our Himalayan mineral water and for example even to sell it to Chennai, I have to drive it all the way from the Himalayas to Chennai. The idea in launching a slightly affordable play of mineral water is it is not tied off to a source. It is mineral water bottled at source, but it is not tied to a source and therefore we will be looking at bottling this at different mineral water sources across the country. Right now it's a pilot being run up north to see how much incrementality does it get for us in volume terms beyond Himalayan. Once we read it perfectly, then we will be looking at expansion.

Sheela Rathi: Understood. And 1 final question if I may ask, please, and I'll borrow your own comment which you made earlier, which is to do with changing habit is a difficult thing. I just want to pick your brains on the thought of how we're going to drive the change with respect to the Nutri Drink which we have introduced because again there's a habit change which is required. If I have consumed as a child a particular drink, that's the thing I will pass on to my own child. So just want to hear from you is there a strategy in mind in terms of how we are going to drive this?

Sunil D'Souza: So if you look at it, I mean we are driving a consumer proposition under Tata Soulfull, which is health, nutrition with all the goodness of millets and all the products that you will see are being driven around that. And therefore, from a consumer communication perspective, any advertisement of Soulfull will have a reflection on the entire product portfolio. That's number one. Number two, again as I said earlier, my main game in Soulfull is breakfast cereals and rest of them are adjacencies in the portfolio.

So am I looking for phenomenal market share or to drive up significant size in any of the categories? No. I do know there are adjacent categories, which are of decent size where I can leverage the Soulfull portfolio and make a pretty package without spending too much. That's the whole idea of expansion out there. Will I get to a 25%, 30% market share in the cereal, drinks portfolio? No, I don't think that's the ambition. But even with a mid single-digit market share, I think we'll make good money because we are spending on the Soulfull platform and the Soulfull brand.

Nidhi Verma: Moderator, since we are running out of time, we'll just take one more question from the queue and then we'll go to webcast. And we are extending by another 5, 10 minutes if that's okay.

Moderator: We'll move to our next question that is from the line of Jay Doshi from Kotak.

Jay Doshi: Sunil, the Growth business which is now about 20% of your India Branded business, how should we think about profitability of this business given that you'll be continuing adding new products, categories and innovations in this space? Will it improve 100 basis points, 200 basis points every year from where it is today or how should we think from a 3-year viewpoint?

Sunil D'Souza: So number one is on a year-on-year basis, these businesses while they are there for top line growth, have to also improve their contribution margins, but definitely the total fully loaded P&Ls also, right? Whether it is Sampann or whether it is NourishCo, we have seen very clearly contribution/gross margins improving as we gather scale. And therefore, the total bottom line in those businesses as long as I increase advertising marginally compared to where I am today because there is no other fixed cost getting added as significantly to my profile.

Jay Doshi: Understood. And everything other than tea and salt going forward will be kind of classified as Growth businesses, this bucket. Should we think of your India business as tea growing at a certain rate, salt growing at a certain rate? Both these are mature categories and then everything else is Growth business? It should grow maybe 25%, 30%, 35% levels, right?

Sunil D'Souza: No, absolutely so that's what we said. Tea and salt, both broadly it will be mid to high single-digit volume growth, little bit of percentage on top of that with price mix. But the big, big top line growth drivers will continue to be the Growth businesses. As of now, we've classified 4 businesses there; which is NourishCo, Soulfull, Sampann, and Tata Yumside; and these businesses have both a distribution highway as well as a product portfolio highway to play in. And at the same time as we get scale, they will continue to improve their contribution margins.

Nidhi Verma: So we'll go to the webcast to take a few questions. There is a question from Bauva. The question is what synergies do we expect from integration of Tata Coffee?

Sunil D'Souza: L. K., do you want to take that?

L Krishnakumar: Yes. So there are 3 areas which will get impacted, right? First is we are integrating the extraction business so that will give us opportunities to serve customers better and hopefully grow the business faster than would otherwise be the case. There will be cost savings because of scale and saving on admin costs. And third is this integration will help us to consolidate all minority interest under the parent entity, which will free up opportunity to restructure some of our entities outside India. So net-net, the guidance we have given is when we started about a year back, we said that we will have a 5% to 10% positive impact on EPS going forward. So we're staying with that and we expect the exercise the first part to be completed this year and the international end to be completed either towards end of the year or going into next year.

Nidhi Verma: The next question is from Bharat Sheth at Quest. Sunil, he's asking what is our thought process on inorganic growth? What are the underlying criteria for any application?

Sunil D'Souza: So I think we've articulated this very, very clearly. Tata Consumer will grow both organically and inorganically. We have very clearly identified the areas for inorganic growth and those would be simply because they bring a scale, they bring a profitability, they bring a brand, they bring a team, they bring a technology in spaces which will take us too long to build. And we've distilled the entire food and beverage space and sort of narrowed down the segments basis gross margin, competitive plays, what R&D can we bring to bear, does it work in our distribution system, do we have the marketing chops to make a difference out there.

So we've narrowed that down and then we've laid down very, very clear financial guardrails within which we should operate. So yes, we've been evaluating lot of opportunities per se. But if it doesn't fit strategic or financial parameters, then I would give it a pass. And the only thing I would like to highlight is I think in the inorganic space while we can put out an intent, I do not think it is right to put out a target because we are not chasing a top line through acquisitions. We are making sure that we are doing the right acquisitions to create shareholders' value.

Nidhi Verma: And perhaps the last question we'll take which is from Tejash at Avendus Spark again. He's asking we are right on track to achieving our distribution footprint target. Would you prefer to consolidate here for a while or the aggressive expansion will continue? If yes, then would it be possible to share the new target?

Sunil D'Souza: So Tejash, I would say we will continue both our width and depth focus in distribution. And the reason I say this is for example when we are looking at split routes in the 1 million plus, it is width in the outlet that we are looking at -- sorry, depth in the outlet that we are looking at. And when I'm going down the pop strata going to 50,000 pop strata towns and 20,000 pop strata towns, it is width that I'm looking at.

I think there is still a long, long way to go before I say we are up there with the leaders in the industry. Even in the food and beverage space if you look at it, people are at 5 million sort of numeric reach -- 5 million, 6 million numeric reach. There are, I mean your guess versus mine, 8 million to 9 million kiranas across the country. So yes, direct distribution at a point in time we will slow down and I think we will add, but not as aggressively.

And the focus will start moving the throughput through the wholesale multiplier, which is what we are just beginning to start up. But I think TCPL as a company, we have to continue to power our growth as I keep saying through distribution, innovation and marketing and deliver top notch financial results. So that's what we will continue to be focused on.

Nidhi Verma: Okay. I think we've run out of time. There might still be questions though so you can get in touch with us if you have any questions. With that, I would like to thank everyone on behalf of the management for joining us today. Over to you, moderator.

Moderator: Thank you very much. Ladies and gentlemen, on behalf of ICICI Securities, that concludes today's call. Thank you all for joining us and you may now disconnect your lines.