TATA CONSUMER PRODUCTS LIMITED
(Formerly known as Tata Global Beverages Limited)

"Tata Consumer Products Limited Q3 FY2021 Earnings Conference Call"

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TATA CONSUMER PRODUCTS LIMITED (Formerly known as Tata Global Beverages Limited) ICICI Securities CHORUS CALL®

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Moderator: Ladies and gentlemen good day and welcome to the Tata Consumer Q3 FY2021 Earnings Conference Call, hosted by ICICI Securities Limited. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the call, please signal an operator by pressing "*" then "0" on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Manoj Menon from, Head of Research and Consumer Analyst at ICICI Securities. Thank you, and over to you Sir!

Manoj Menon: Good evening, good morning, good afternoon depending on which part of the world you are joining from. Welcome to the Tata Consumer call. It is our absolute pleasure to host the management for the discussion the Q3 FY2021 results. We have with use today, Mr. Sunil D'Souza, the Managing Director & CEO from the Company, Mr. L. KrishnaKumar, Executive Director & Group CFO, Mr. Ajit Krishnakumar, COO and Mr. Rakesh Sony, Global Head Strategy & M&A. Over to the management for the opening remarks and for further proceeding, please.

Rakesh Sony: Manoj, thank you so much. Good evening everybody and welcome to the Q3 results of Tata Consumer Products. I have with me my colleagues here in Mumbai, Nidhi who is our head of investor relations, I will hand over to Ms. Nidhi now. Over to you, Nidhi!

Nidhi Verma: Thanks, Rakesh. If you could move the slides, please, Rakesh. Hi, good evening, everybody. This is pretty self-explanatory the agenda. The agenda of today's call would be a quick presentation by the senior management, and then we will open up the floor for Q&A. For those of you who are joining us for the very first time, we are Tata Consumer Products and we were formed by merging the Consumer Products Business of Tata Chemicals with erstwhile Tata Global Beverages in February 2020, so we are less than a year old in our current avatar. We, of course, are home to some of the most iconic brands like Tata Salt, Tata Tea, Tetley, Eight O'Clock Coffee, and some of the more young and emerging brands like Tata Sampann and Himalayan, so that is us in a nutshell. I would like to now hand it over to Sunil. Sunil, over to you please.

Sunil D'Souza: Thanks, Nidhi. Thank you everyone for joining us today. If I take you through the executive summary of our performance for the quarter ended December 2020, during the quarter our consolidated revenue was up 23%, year-on-year the Group net profit is up 29%. The India business topline accelerated sequentially while international markets also delivered a strong performance. Overall, all in the India business grew by 36% led by packaged beverages, which was up 43% with 10% volume growth. India foods business also was at 12% volume growth and grew 19% on revenue. We had sequential improvement in NourishCo's performance with the 9% revenue growth. Branded international, if I exclude food service, which is the Empirical food service business in the US, grew 13% with underlying constant currency growth of 7%.

Consolidated EBITDA for the quarter was up 12% while volume was very strong, revenue was strong, EBITDA was up 12% with strong margin delivery in the international and India foods business. The India tea business had to walk the fine lines between margin, volume and market share and therefore faced margin pressure during the quarter while the overall year to date margins have been largely stable despite a period of hyperinflation in raw tea prices.

We have made significant progress and moved forward with the transformation journey while maintaining our focus on volume growth and competitive market share performance, the details of which we will share in a short while.

We continue to invest behind our brands to drive long-term growth, but more importantly we continue to focus on the building blocks for the future, sales and distribution, infrastructure, digital, advertising and promotion and innovation.

In line with our strategic intent of entering new adjacent categories in the food space we have now entered into an agreement to acquire 100% equity stake in Kottaram Agro Foods Private Limited, the brand name there is Soulfull. Additionally, we also exited the MAP coffee business in Australia in line with our portfolio rebalancing.

If I walk you through the details of the performance: India business revenue of 1275 Crores, growth of 46% on the back of double-digit volume growth i.e. 10%. India Foods 631 Crores (revenue) volume up 12%, revenue growth 19%. US coffee volume growth 7%, constant currency revenue growth of 6%, reported revenue growth 11% at 321 Crores. International tea again a volume growth of 6%, constant currency revenue growth of 7%, reported revenue growth 14% at 549 Crores, food service and this is the business that I was alluding to was down 25% in volume, down 31% in constant currency, down 28% on reported revenue at 56 Crores. Tata Coffee, which has already declared its results, volume growth negative 4%, revenue up 1% at 212 Crores. Total consolidated constant currency revenue up 21%, including forex, 23% at 3070 Crores.

For the 9 months of this fiscal year, India business still delivered a strong volume growth of 8% on India beverages, revenue growth of 30% and that is primarily because of the rise in tea prices and therefore our price in the market, revenue of 3396 Crores. India foods business volume up 9%, revenue up 17%, 1800 Crores of revenue, US coffee double-digit volume growth at 10%, revenue growth at 19%, and almost a 1000 Crores of revenue, international tea 4% volume growth, 13% revenue growth, almost 1500 Crores of revenue, food service albeit improving, but still negative 35% in volumes, negative 36% in revenue

146 Crores all in, Tata Coffee volume up 6%, revenue up 10% and 684 Crores revenue, all in all 8565 Crores up 18%.

In summary, for the quarter 3070 Crores up 23% on revenue, EBITDA at 365 Crores up 12%, profit before tax of 298 Crores up 13% and group net profit at 237 Crores up 29%, margins almost 12% on EBITDA, but down 120 basis points versus the same quarter year-on-year. Profit before tax margin 9.7%, down 90 basis points, but group net profit margin up by 30 basis points at 7.7%. Our EPS was 2.37 up 29% and we have got now net cash of 1550 Crores sitting on our balance sheet. For 9 months, 8565 Crores of revenue, up 18%, 1253 Crores EBITDA up 26%, PBT 1080 Crores up 29%, group net profit 856 Crores up 47%. We have grown margins on a 9 months basis across EBITDA, PBT and net profit and EPS up by 50%, net 8.71.

We have outlined six strategic priorities that we have talked about in the past starting with strengthening and accelerating core business, driving digital and innovation, unlocking synergies, creating a future ready organization, exploring organic and inorganic new opportunities, and embedding sustainability. To give you a glimpse of how we progressed against those priorities starting with strengthening and accelerating our core business and powering our brands, so we have started our ATL drive especially in the south so this was our partnership with IPL team in Tamil Nadu. We have strengthened our position on Tata Gold in the east. We ran a digital campaign and we continue to run digital campaigns behind Tata Sampann Spices leveraging up celebrity chef, Sanjeev Kapoor. We advertised value added salts after a long time leveraging Kaun Banega Crorepati. We continued to power base salt on the Iodine deficiency. Just as a perspective, ATL in this quarter was up by 40% versus last year.

If I move to innovation, which is our next big priority beverages was up to a fast start, so we have relaunched Tulsi Green, we have launched Tetley Immune Green Tea, we have launched Tata Tea Gold Care in select markets, Poha, which is growing 5x on a small base versus last year, we added to it by launching Thin Poha and we have seen very strong traction.

Apart from that Pre-boiled tea, Tata Quick Chai, giving the convenience of boiled tea in a sachet launched in select markets and again off to a good start. We continued our innovation drive even on the international front. So herbal infusions in the UK, Australia, and Speciality Teas in Canada, apart from that we had launched Good Earth, in Sainsbury’s UK which is off to a good start, we have extended the Good Earth range by launching Kombucha. Incidentally, Kombucha has won the best NPD award from the Kantar Group. Apart from that we have also taken this opportunity to leverage our infrastructure in the US to expand our India portfolio to appeal to the Indian diaspora, so we have launched Quick Chai and Tata Coffee Grand in the US.

With that, I will hand over to Ajit to walk you quickly on the integration status and how we are unlocking synergies.

Ajit Krishnakumar: Thanks, Sunil. As you may all recall, we have been updating on the status of integration that started shortly after the merger was closed in February last year, so it has been almost exactly a year since we started this process. There is two points I wanted to highlight one is that this formal process that will be running essentially concludes by Q4 i.e. in this current quarter and second that the objectives that we had set out in earlier conversations with you, we have mostly achieved. I will highlight a couple of points from the latest quarter. I think we mentioned last time that the synergy identification had been done and the synergies had actually started flowing through and some of that has been seen in our results.

In terms of S&D, which is a significant focus and we will come to that more in a minute. The substantial infrastructure of the India S&D is complete. That would include for example, the consolidated distribution channel partner, so we have essentially common distributors across most of India for foods and our beverages business. The digitation of that when it comes to urban is complete, rural is essentially very far along in terms of its rollout. In terms of the packing for example, CFA consolidation has been completed for the north & east of India and we expect the rest of that to be completed by Q4 of this year.

In terms of digital, we have made substantial progress. We expect to go live in India with ERP/S4/Hana in this quarter. We have also gone live with our Integrated Business Planning software for Peak Demand Planning in Q3 and the supply piece of that will go live now. So we are substantially done and we will conclude as I said by this quarter. The critical piece here is that these are essentially enablers for the performance that we hope to generate, some of that is already visible and I hand it over to Sunil to walk through what it has meant for, for example, us and sales distribution network.

Sunil D'Souza: Thanks, Ajit. On the slide you will see the integration update in terms of Sales and Distribution. So we have substantially completed our entire consolidation of distributors and all our distributors are now 100% food and beverage. We have trimmed down the number distributors by about 63% and got scale and focused distributors. With that said while the number of distributors has come down by 63%, dedicated sales reps and feet on street has gone up by 30%. This is in line with our target to double direct distribution in 12 months from start of the integration.

Outlets billed- unique outlet billed for 3 months are up by 65% and the best part is 80% of these outlets are now billed monthly, which shows a frequency of coverage that we needed to put in place. Rural feet on street we have got about 700 TSOs out on the streets, which is 3x of the number that we had, we have got exclusive distributors and now direct servicing for a large chunk of modern trade and e-commerce. 100% of our distribution and channel partners are integrated in terms of automation and therefore we have realtime access to data and while we have done that we have made sure we have held a tight line on accounts, receivable days have literally halved from where they were in the month of March.

It just proves that we are moving from largely wholesale model to more of a retail servicing model. Apart from that, exploring new opportunity, we have started up on our journey on exploring new opportunities in Sampann. Our total business is up by 40% year to date. I talked about value added salt and powering A&P behind this. The value-added salt is up 110% year-to-date. Coffee is the other one, which we have embarked on and we have seen sequential improvement on this portfolio, Q1, Q2, Q3, grows are plus 3%, plus 21% and plus 32% respectively. The NourishCo portfolio, which started negative 68% in April, is now up 9% as we exit Q3 and going from strength to strength.

I talked about the acquisition of Kottaram Agro Foods, which is our exploring new opportunities inorganically in line with our expansion priorities we have now acquired 100% of the brand Soulfull. This is tuck in acquisition and you will see many more of them as we go along will enable us as to have a better play in the better for your products category. Now this product portfolio straddles multiple consumer occasions breakfast, snacking, mini-meals, convenience, healthy, clean label, no maida offerings targeted for millennial family.

It is a strong brand built in select urban markets and the key out here is selects urban markets because the total reach is 15000 outlets and just remember our total numeric reach today is about 2.4 million. We started up in March with 2 million expanding our S&D we are now at 2.4 million outlets, Soulfull starts with 15000 therefore giving us a huge opportunity to expand this brand across the country. It has got a young passionate purpose led management team, which we retain as we go forward, it has got in-house manufacturing and R&D capabilities, allowing us for portfolio expansion very quickly and they have got a strong NPD pipeline in the works, which allow us to expand the business.

In terms of a transaction overview we acquired 100% of the shares for consideration of 156 Crores. The company is to become 100% subsidiary of Tata Consumer Products. The transaction is expected to close by end of this quarter and it will be integrated into Tata Consumer Products starting with the Sales and Distribution system and gradually the entire business. The founders and key management as I mentioned will continue to be with the company and it is a strong strategic fit for a health and wellness portfolio. They have built a platform with differentiated offerings in the health and wellness space with an estimated market size of about 20000 Crores, which is projected in the next 5 to 6 years to grow to 40000 Crores. It is adjacent to our core category for better products. Access to a fast-growing brand with the new addressable target group, most importantly it gives an opportunity to expand both categories.

Now just to recap Sampann I had mentioned was in-the-kitchen brand primarily catering to pantry of the kitchen and this one would play on-the-table on-the-go, so the brands would complement each other perfectly. It also gives us an opportunity to new consumer occasions in breakfast and snacking and the categories that it plays in cereals, mini-meals, health snacks and protein drinks are currently growing at 15%, which we will take advantage of.

It is margin accretive to the total business and we will expand the portfolio in line with current consumption trends. I did talk about the synergies of 15000 outlets versus 2.4 million, which is our total numeric reach and therefore scope to unlock significant synergies in sales distribution apart from that the back end in terms of procurement, manufacturing, logistic is the other piece I think which we can unlock. We are looking at adding the Tata brand. Consumer research shows us that adding the Tata brand only strengthens its credentials and takes it completely to a new platform.

We have the innovation center at Pune, which already has very strong knowledge on the millets and like and therefore we can leverage our R&D capabilities to build a platform for the future and the strong and passionate team that we acquire with Soulfull supplemented with TCPL expertise will create magic. Definitive agreements have been signed. We expect to close by Q4 FY2021 and we will then commence operational integration.

In line with our strategic priority on embedding sustainability we continue to focus on ESG. For the second year in a row, we have featured on the CDP A- list in 2020. We continue our water programs of Project Jalodari in Himachal and Assam benefiting about 25000 people. We have decreased our carbon footprint by 26% over the last 10 years and 12% of our energy comes from solar. Sustainable sourcing, we won the Trustea program, won CII Food Future Foundation National Award, which recognizes our work done. This program verifies 680 million kg of Indian tea positively impacting over 600000 workers and 57000 small tea growers. We initiated the UNICEF Malawi Project this year. Apart from that the UNICEF improving life program in Assam reaches 250000 beneficiaries and we continue our work on healthcare for people in Munnar, Assam and we are a proud supporter of the Canadian Cancer Society.

In terms of macros no big news. On the left-hand side all are three major markets are coming back very strongly and US while it jumps into positive territory on GDP growth, UK and India are still are slightly below the 0% mark. The interesting piece is the piece in the middle, which is tea price. After having a record 70% to 80% inflation over last year in the months of August and September, which was Q2 for us, now we are seeing our prices come down. Although that said, they still remain about 15% to 30% above last year because while they did come down quite significantly in December, we have seen them inch up and kind of stabilized at a level early January.

Coffee prices while Arabica Coffee prices saw a slight uptick, Robusta was largely stable.

In terms of the categories that we are playing in the US, we saw a decline in regular black tea after a strong growth of Q1 and a decent growth in Q2, but coffee continues to be high single digit albeit off the highs of growth that we saw in the last two quarters. In the UK, after growth in Q2 black tea has started to get into declining territory, but we continue to see strong growths in fruit and herbals. Canada, we saw a growth both in black tea and in speciality tea high double-digits. This is because Canada was one market where the second round of the COVID and the lockdowns combined with sales promotion run has spurred on the category.

India, we saw 14% growth for branded tea category, volume growth of 4%. Revenue growth has accelerated from 6% in Q2 to 14% in Q3, but that said I think the entire impact of tea costs and therefore pricing taken in the market has still not been reflected. You could expect this number to keep climbing as we go in into Q4.

A quick snapshot of our different businesses starting with India, 10% volume growth, 43% revenue growth; we continued with market share gains 50 basis points versus last quarter and 94-basis points versus same quarter last year. The margins for the quarter were definitely impacted by tea inflation and competitive pricing, but as I said we have maintained a fine line between margin, volume and share and we think we delivered good results. Year-to-date, the segment margin is still at 14% despite unprecedented inflation in tea prices.

We have gone aggressive with Tata coffee brand. We have reformulated the product as well as pricing in low unit packs. Restage of Kannan Devan and Gemini both of which play in the south happened during this quarter.

India foods 12% volume growth translating into 19% revenue growth, third successive quarter of double-digit revenue growth across the Salt and Sampann portfolio. Salt revenue was up 19% in Q3 with double-digit volume growth. Market share gains we have continued with market share gains with the highest ever sales volume in December. Tata Sampann portfolio grew high double-digit despite in home consumption normalizing and EBIT margin expanded despite doubling of advertising spend year-on-year driven by mix and a thigh control on cost.

Our value-added salt portfolio, I talked about it - was 2.7x versus the same period last year. NourishCo, I talked about it starting from a negative base in Q1. April was actually minus 68%, is now growing up 9%, 33 Crores in revenue, back in growth trajectory with very strong growth momentum in December. December was up 40%. Tata Gluco Plus and Tata Water Plus are key drivers. Himalayan is still a bit soft with on premise still running behind the curve if I may. Tata Water Plus achieved highest ever volume growth in December and goes from strength to strength and we continue on our plans on expansion both for geography as well as capacity and making sure our innovation pipeline is ready to deliver.

Tata Coffee, we had 6% growth in plantations and overall revenue growth of 1%, extractions were down 3%. Overall topline 1% growth was led by Vietnam extractions and tea plantations, which has offset the decline in the India extractions business. The India extractions business, the decline was led by a softening of the European market, which is the primary consumer for the India business apart from that severe shortage of containers across the world and shipping jams did not help. Vietnam plant is now operating at 93% capacity and new product development is gaining traction.

Tata Starbucks, we have seen strong sequential recovery with December now at 90% versus last year. We are now present in 15 cities, 209 stores and 92% of stores are open, the stores which has not opened primarily in office and mall complexes. They returned to being EBITDA positive in December 2020, despite the pressure on the topline. The non-metro cities are recovering faster, high street is recovering faster. We opened 13 stores during the quarter. We continue to focus on making sure we are maintaining our momentum on new store expansion. It should be broadly in line where we ended last year.

Dine in capacity is still at 50% and this is the one, which is holding the topline down. That said dine in as a percentage has come back very, very strongly and we continued our effort to build the brand with the stay safe with Starbucks campaign, a new film on social media, launching various programs including the Starbucks 190 celebrating 8 years in India, the Tata Starbucks empowering girls and young women program where every store support girls education and leveraging Indian festivals by launching Deepavali Blend pan India for the first of its kind initiative right now for India.

On the international pieces, starting with UK, we had a 1% revenue growth in constant currency terms with volume growth of 5%. It was led by discounter channels while out of home and wholesale continued to be under pressure. Good Earth tea and Kombucha, which was launched now in the UK continues to see good traction especially in e-commerce. Tetley continues to grow share in the rapidly growing segments of Decaf, Fruit and Herbal and Green and we have seen strong profitability on an account of good overheads management and lower trade promotion.

Teapigs are our super premium brand which grew by 32% and we more or less maintained the market share in Everyday Black. In the US, coffee saw a revenue growth of 6% with volume growth of 7%, a strong uptick from previous quarters when volume declined. We are seeing the retail coffee category is slowly returning to its long-term average growth rates. E-commerce channel continues to growth at an accelerated pace and we are more or less maintaining our market share around 5% mark in the US coffee bag market, tea excluding empirical, which is our out of home business, which has got impacted, we have seen a robust growth of 18% against the volume growth of 22% especially strong growth seen in the Good Earth, new launches of Sensorial Blends and the tea category continues to be driven by the speciality tea. I did talk about the food service business that continues to remain under pressure with the second wave of COVID not helping us, but we continue our innovation focus overall on coffee, Café Arriba launched in select Hispanic Florida markets and continuing to run promos behind Eight O'clock including raising our mugs to those who have served in the American military and offering free bags of Eight O'Clock on Veteran's Day.

Canada, which is our strong market, exceptional revenue growth of 24% on the back of 19% volume. Canada was the one market where we saw upsurge again with the second round of lockdowns. We have not seen a similar upsurge in the UK or the US. We have seen a 41% revenue growth in speciality tea outpacing the market and Tetley continues to be the number one brand in the market both in regular and speciality. Now we launched a range of Tetley Super 3.0 range in Canada and strong profitability in Canada driven by our sales as well as the strong control of overheads. In other updates, we have maintained close to 30% market share and continue to run extensive ATL campaigns in Canada.

In terms of awards and recognition for the company overall for our annual report, we received an award from the League of American Communications Professionals. I talked about Tata Consumer Products receiving an A minus and being recognized in CDPs leadership band for the second year in a row, sustainable sourcing that PCP partnership receiving an award from CII Food Future Foundation and 6 of our packing centers received Food Safety Awards from CII including one for outstanding performance. Apart from that we were voted the number one brand in the tea sachet category for the eighth consecutive years in Portugal. With that I hand over to Mr. L. KrishnaKumar for details on our financial performance.

L. KrishnaKumar: Thanks, Sunil and good morning, evening, and good afternoon everyone. I will walk you through highlights of the financial performance. As Sunil said, overall it has been a strong quarter with 23% growth topline and 29% in bottomline though the India business was impacted by the inflation in the tea cost and we chose to focus on volume led share. Talking through the slide for the quarter in standalone and standalone in the foods business, the tea business also has some amount of nonbranded business included in the standalone results.

Turnover of 1463 Crores increased by 500 Crores of 34% to 1963 Crores, EBITDA dropped from 208 Crores to 197 largely a function of tea cost inflation. Overall, the foods business did well with improved margins, but profitability was impacted in the tea business.

Moving on to the consolidated revenues 2493 Crores in the previous year increasing by 577 Crores or 23% to 3070 Crores of this increase roughly about 7% or little more is attributable to volume growth and we saw volume growth across all markets and categories.

In terms of operating profit up by 39 Crores, 12% lower than the growth in turnover because of the inflation in tea costs. Moving on to the next slide, our consolidated financials just walk you through some of the key line items. For the quarter, revenue at 3070 Crores up by 23% of which 2% is forex, roughly 7% is volume and the balance is price increases to cover tea inflation and some amount of price increases or reduced promotion intensity in different markets. The increase in EBITDA apart from tea cost inflation includes also higher spend on brand and overall tight control over discretionary cost and various elements in the cost line. EBIT 300 Crores is high by 13% compared to the same period last year.

Moving on to the tax, you will find the tax at 55 Crores is lower compared to 75 Crores in the previous year. There are three reasons for that one is change in mix and it has been a strong quarter for the international business with the lower rate of tax. There has also been element of restructuring and thirdly there have been some completion settlement of assessment, so there are being some credit consequent to that. Talking about performance for the 9 months, revenue 8565 Crores, an increase of 18%, EBITDA margin 14.6% and increased over the same period last year.

On an YTD basis, operating margin is higher than the previous year though for quarter we have been impacted by tea cost inflation. PAT 860 Crores compared to 585 Crores, 47% increase, so overall strong YTD performance little bit of impact on margins in India and that is consistent with the overall trend for the industry and we are focusing on volumes and gaining market share.

Moving to the standalone financials, revenue up by 34%; operating margin for the quarter standalone lower than the previous year again impacted by tea cost. PAT is also lower because of the reasons that we have explained. For the 9 months, revenue from operation is high by 22% and PAT high by 19%. Operating margin stable for 9 months in India compared to the same period last year.

Moving on to segment performance, India beverages an increase of 46% and we saw earlier summary slides that the volume is about 10%, India foods had an increase of 19% in revenue of which 12% was volume. International beverage an increase of 9% and the underlying volume growth is different in different markets, but roughly a 6% growth in coffee and a 6% or thereabouts growth in tea excluding out of home. So overall it has been a quarter of robust volume growth coupled with price increase.

Moving on to the segment results, in India segment profit was lower by 38%, 79 Crores versus 120 Crores largely a function of tea cost inflation in India. India foods strong growth 41% improvement, good growth in salt volumes, but in addition to growth in salt volumes it is also an element of premiumization as some of the new salt variants and new Sampann variants have done exceedingly well improving the level of premiumization in the product mix. International beverages 123 Crores versus 79 Crores an increase of 56%. The volume growth is a major contributor, but in addition it is also mix because we had strong performance in Canada, outstanding performance by Teapigs, which is our premium brand and also an element of cost control, which help to achieve a fairly record operating profit from the international business.

If we move on to the pie chart on the right, India beverages 45% of the total revenues, India foods 22%, together India business accounts for two-thirds of the total revenue. Moving on to the segment results, India beverage is 27%, lower in relation to turnover this quarter though on a YTD basis, the trend is different. International beverages profitability contribution to the total is higher at 41% compared to the earlier quarter. So that is it on the financials. We are happy to answer any questions.

Sunil D'Souza: I will just walk you quickly through the outlook for the business. All of you are aware that the COVID-19 vaccination programs have started in various countries and this should help with the economic growth in the next year. The Indian economy especially seems to be on a recovery path with key macro indicators moving up and all in-home consumption categories normalizing. The second wave of COVID-19 in the US and UK does present us some level of uncertainty because A, we are not seeing the pantry loading that we saw last time around and second we are seeing lower footfalls in retail stores and that could put a bit pressure.

Tea inflation we talked about it. In India remains a challenge in the near term, but given all the building blocks that we are putting in place we remain very, very confident of the medium to longer term, but we need to navigate margin pressure by staying focused on volume and share growth in the near coming quarters. The distribution expansion is in progress and growth momentum in India foods beverages and ready to drink business we expect to see continued momentum in these businesses. The addition of Soulfull will now give us the opportunity to expand our product portfolio and participate across multiple consumption occasions and multiple categories.

The international business is expected to normalize once the vaccination program is complete, which hopefully should be either late Q4 or somewhere in Q1 we should start seeing trends coming back to normal. Meanwhile, we will continue our transformation journey that will help up deliver on our strategic priorities. With that we come to the end of this presentation and we would open the floor to questions.

Moderator: Thank you very much. We will now begin the question and answer session. The first question is from the line of Arnab Mitra from Credit Suisse. Please go ahead.

Arnab Mitra: Good evening. Thanks for taking my question. My first question on the salt business where you have seen this very high growth in the last couple of quarter than the value added premium salt business, so my question was that in terms of after this growth that you have seen approximately what part of your salt hopefully would be value added, and do you get a sense that, there has been actual offtake growth in these products to the level of your growth or there is a bit of distribution pipelining as you have expanded distribution and where I am getting at is, we see this onetime very large jump here or do we see this actually being a very fast growing segment within your salt, let us say, for a three to five years & near term?

Sunil D'Souza: Let me leave you with two or three points, and I will ask LK to jump in. Number one is, we have seen share gain in salt. So, it is obviously not only distribution expansion that has led in part to volume growth, as well as share growth, that is number one. Number two, we have always maintained that we have good opportunity in salt to expand the business, both on the mass end where we have local brands and unorganized players, as well as on the premium end. With that, we are now focused on the higher end and we are seeing traction there, but we are also seeing growth on the lower end, so, I would say it is a combination of distribution expansion, ATL, as well as expansion of portfolio because of which we are seeing growth. I do not think distribution and channel loading if that is what you are referring to has played any significant part in the salt growth.

Arnab Mitra: Thanks for that and my second question is on Soulfull. Congratulations on the acquisition. Soulfull, of course, plays in a lot of relatively large consumption opportunities, but it has a very niche health oriented positioning, so would you, in the medium-term use this to broad base into existing products also in these segments or do you think thing the brand has got its strength and its niche if you will probably want to keep in that way?

Sunil D'Souza: One of the biggest reasons why we have acquired Soulfull is this current positioning of "better for you" and it is resonating with consumers in places where it plays. We have got a very strong product pipeline and we see an opportunity to grow just by distribution expansion in the first place, and then focusing on product expansion. That said right now, I do not think there is an intention to dilute the positioning of the product, because if anything, it plays up to what we think is the bull's-eye of what exactly we were looking for.

Arnab Mitra: If I may just ask one last question, on international margins, we have seen an expansion this year, some of it may not be sustainable, because we would have had COVID benefits or better mix and things like that, but it was in FY2022, are there some components of the margin expansion or cost savings, which will be permanent in nature and if you could highlight what could be those areas that was the last question from my side?

L. Krishnakumar: I think there are two, three things here, I think the COVID impact really there is a onetime impact and there is a continuing impact of COVID, COVID from a demand side. I will come to cost in a bit, right. So, overall what COVID has done, yes it has increased consumption in-home and tea is a winner when it comes to consumption in-home and even amongst coffee because people are drinking coffee at home, were actually caters in-house consumption has higher growth rate, so that apart from pantry loading and all that which you saw in quarter four or quarter one there is a slight uptick in category that is a message I want to leave, how much of that will continue, we believe some of it will continue. The second part is premiumization and mix and I think a fair bit of that is sustainable, because clearly, a lot of people are now buying online and they are willing to experiment and buy newer brands and we have mentioned about Teapigs, which is our premium offering, I think record growth in Canada, we have seen very good growth in some of our specialty tea herbal offering, so people are discovering that and some of that is going to stay. I think it is an element of mix is fair to stay. Question mark is how much of right uptick in category volume growth will stay, right, some of that will remain. On the cost front, yes, there have been a lot of work on the cost, and I think there is further work, which can be done in terms of cost and that is where we need to do more in terms of making it sustainable. We also have an element and looking into the future of turning, sort of stabilizing from the Brexit load and will have continuing somewhat favorable impact. I think, many factors working in favor in addition to both, but we have to work hard to make it sustainable and the demand, how much of this will continue, we need to watch.

Arnab Mitra: Thank you so much and all the best.

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

Percy Panthaki: Good evening team, and congrats on a set of good numbers. I have two questions. Let me put both of them upfront, so, first is pretty straight forward, if you can give some idea on Soulfull in terms of the total turnover and the gross margins of the company that would be really helpful and secondly on the price increases, you have done 43% value growth and 10% volume growth. so that is approximately 30% price increase taken and I have two sub-questions to this, so, first is this 30% price increase and correct me if my inference here is wrong is higher than what the other large player in the market has taken, so, does this sort of not worry you from a competitive standpoint because if not now, over a longer period of time, this price differential will it sustain and at what cost, so that is sub question one and sub question two is that the tea cost has already come down and it is just a matter of time when I mean your inventory runs out or whatever a couple of months here and there does not matter and in context of that how do you see your margins going ahead in terms of, I know that there will be a significant pass through back to the consumer either in terms of MRP reductions or higher promotions, etc., but since the decline in tea prices will be so sharp, given that they are at such a high base, is there any chance that there will be some retention of this going forward?

Sunil D'Souza: So, Percy let me take and try answering your questions, and then I will ask Mr. Krishnakumar to jump in. Number one is on Soulfull, it is about 39 Crores of turnover in the last fiscal year and margins are accretive to our business that is number one. Number two, on tea pricing itself, you have the points, I did mention that it is a fine line to walk between margins, volume and market share that said, just as a perspective, I think the critical point to note is market share. I did mention that we have gained share quarter-on-quarter and we are up by about 90 basis points versus same quarter last year. So, you will see that we are not seeding ground to competition in fact we are inching ahead that is number one. Number two, while you mentioned that tea prices are coming down, the costs are coming down, you are right, but I did say that December, they did come down, in January, they started inching up by about Rs.10 a kilo again, at the auction, so, I would say, they are up between about a 25% to 30% on the same period last year. Now, how fast they will go down and where they will go down, I mean, your guess is as good as mine, but our calculation is hopefully, once the new crop comes in, which is end of April; sometime May is when you will start seeing prices to start softening and after that, yes, there might be an unwinding, but we will play by ear, make sure that we are being competitive, at the same time, we are making sure we are protecting volume and share. I would ask LK to add if I missed anything.

L. Krishnakumar: So, just two additional comments; one is the 30%, there is certain element of mix also, that is some element of premiumization in that. So, the mix may not be like-for-like when you compare it with somebody else and secondly, your view based on a period, right. The timing of, I think, this may be different for us versus competition. I think some price moves have also happened subsequently this quarter, so, I would not be fixated about an accounting quarter so, we are conscious of this pricing for competition.

Sunil D'Souza: Percy, just the other thing I would like to add is remember one of the critical pillars for us to increase our market share and therefore volume, there is also our execution out in the market, whether it is in sales and distribution, whether it is in ATL spending or in innovation. We did show you an acceleration in innovation & sales and distribution, numeric reach, as measured by Nielsen. We started off with two million outlets end of March and right now, we have exited December with close to 2.4 million outlets and I did talk about a higher level of spending on ATL to build our brand, with very, very targeted spends by geography, so, we remain quite confident of continuing our momentum on market share.

Percy Panthaki: That is very helpful. Thanks a lot.

Moderator: Thank you. The next question is from the line of Tejas Shah from Spark Capital. Please go ahead.

Tejas Shah: Hi, team, thanks for the opportunity. On last call, we had called out the synergy benefits of 2%, 3% that we had identified at the beginning of the year, could start surfacing a bit from 3Q itself, so where are we on that and is there further room to see that advantage in fourth quarter as well as this year?

L. Krishnakumar: We have put in as Ajit had presented, we have put in most of the blocks in play for realizing the synergies from the integration. I would say we are ahead of plan in terms of execution to realize those synergies, whether it is delayering of distribution, restructuring our go-to-market for rural markets, whether it is moving from a wholesale orientation to a retail orientation, all those blocks fell into place more or less, I would say by December, though there is still some work to be done till end of this quarter, but the synergy numbers should now start flowing in. In terms of the back end, also we started the integration again, Ajit presented that almost half the country, the back end got synergized in terms of logistics and warehousing. The rest of the half of the country, again, should be done by end of this quarter. So, we had given a guidance of 2% to 3% of synergies and we remain very, very confident of delivering it on or before time or ahead of estimates.

Tejas Shah: Second since you assumed this role, it has been a completely online or MS Team kind of management of businesses across and I believe now as marketers opened up and perhaps you would have stepped out and met the team, and perhaps done some ground checks also, assuming that, you have acquired a company also in this period, so, is the priority list in terms of to-do list of which you started with at the beginning of the year and after doing some of these checks or on the ground checks, has it changed or the priority list remains the same?

L. Krishnakumar: I think the list is a very, very long list except that the priority list does not change, so, I do not think anything has changed in terms of the priorities. If we just execute the priorities that we have listed down, I think we will be in a good place.

Tejas Shah: Sure and last one, bookkeeping, our JV numbers have been very volatile on last three quarters, so, we had 43 Crores loss and then 38 Crores profit and then again, it has dropped down to 3 Crores for this quarter, so if you can explain what is going on there in terms of volatility part?

L. Krishnakumar: So, the share profit from JVs and Associates, in terms of JV, I talked about the material, one right. We have Starbucks and it has been a challenging period because of COVID and progressively, quarter-on-quarter, they are improving, so that is one element. The second is, we have these existing markets like South Africa, which are doing exceeding level. There is then the third element is the plantation company in north and south India because of the tea price increases, they have also done well relative to the previous year, and there is an element of volatility quarter-on-quarter, so the gen story is kind of challenges on facilities like Starbucks mitigated by the plantation companies and markets like South Africa, which have done better. I am not talking about quarter-to-quarter. I am talking about overall for the business and quarter-on-quarter, but as far as the plantation company, especially, North India is concerned, there is volatility, because a lot of the crop comes in the second quarter, so the second quarter will be a big profitability coming down a bit in quarter three, and then not having much loss in quarter four. So that volatility of plantation will be there, but the underlying story is the plantation companies doing well compensating for accounting losses in Starbucks. Starbucks, as Sunil said, has been doing well progressively and I think for the month of December, they have been positive in EBITDA terms.

Tejas Shah: So, the sequential drop is largely to do with plantation business volatility rather than the Starbucks?

L. Krishnakumar: So, it depends on the period of time that is why I am not commenting if you just take what I am just saying. So, the plantations were expected in quarter one, because of the lock down, starting their own, I think the plantation business has picked up. Starbucks was severely impacted and is now picking up. So, I would say right now all look to be in the positive direction, but like I said, Starbucks is still at 90% of last year levels, EBITDA positive in the last quarter and right now seems to be on track to get back with you.

Tejas Shah: That is all from my side Thanks and all the best.

Moderator: Thank you. The next question is from the line of Devika Jain from Ratnabali Investments. Please go ahead.

Devika Jain: So basically, when the new chairman joined our group, he stated the vision reduce a number of listed entities within the group so do you see a consolidation of consumer entities within Tata Consumer, could you throw some light on that?

Sunil D'Souza: So, the new Chairman's Mantra was simplify, synergize, and scale and we are fully in line with that and we are working towards those objectives.

Devika Jain: One more question was what is the vision for NourishCo?

Sunil D'Souza: Sorry, what is for NourishCo?

Devika Jain: Vision for NourishCo?

Sunil D'Souza: Vision for NourishCo is obviously, we saw great potential in the brands that they have albeit it was restricted very much in terms of geography. Tata Water Plus, Tata Gluco Plus have been very strong. Like I said, we have exited December with a 40% growth. We see geographic expansion, capacity expansion, and portfolio expansion has been the key, and we see this business as growing multifold over the next few years.

Devika Jain: Thank you so much.

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

Sumant Kumar: Sir, the Tata Consumer you said have gained market share of 94 bps in this quarter, so with the increase in direct reach, how is the market share increase expected in next three to five years?

Sunil D'Souza: So, we have got a very clear objective to continue to grow our market share and remember this 94 basis points is just as we have started our execution drive, which fell in place in December, and the numbers of 94 basis point at December quarter 2020 versus December quarter 2019, as we start executing and expanding our reach, especially direct reach, expanding our portfolio, making sure we power it with provision and APL, we do expect continued share momentum.

Sumant Kumar: With the decline of more than 20% to 25% tea prices recently and we have already taken price increase as on date, so can we expect the gross margin liking to be normalized in this coming quarter?

Sunil D'Souza: As I mentioned we have taken price increases, but not completely in line with the tea cost, tea costs are expected to normalize by, I would say early quarter one of next year, till then, I did mention that it is a fine line to walk between margin, volume and share. The tea prices have been volatile through this year, they did come down and December probably saw the bottom, but again it started to inch up in January, so I would not hazard a guess on where it is headed and how it is headed, only when the next season crop comes in, we do expect to see normalization.

Rakesh Sony: We will take couple of questions from the webcast now. I think the first question is from Pauras and his question is, what will be the impact on the company post budget disallowing amortization of goodwill for the accrual income. LK, could you take this?

L. Krishnakumar: We are just reviewing the fine print, but yes there could be an impact in taxes, but not so much in accounting terms, so we are trying to quantify, but there could be some cash outflows.

Rakesh Sony: Another question is from Nikhil. He is from SIMPL. He says, we have made an acquisition of Kottaram, also we have brand called Fab Star, which is also in ready to eat cook, although not in Tata Consumers, so do we have any plans to integrate outside businesses, so I will take that? Nikhil, Fab Sta is actually a private label brand of Star Bazaar and it is not owned by Tata Consumer, so it is their private label and it will continue to be theirs, because it is part of their strategy. Soulfull we are acquiring is the brand which is largely into breakfast cereals and healthy snacks category that is fairly different from what Fab Star sells today. Himanshu Nair, his question is, can you share the plans for Tata Coffee Grand, a branded coffee market, Sunil would you take this?

Sunil D'Souza: Yes, I do believe that with the Tata Coffee heritage and origins with us, given the Tata brand name, I do think we can make a decent dent into the coffee category. Nestlé and Unilever dominate this category. Today, we have an insignificant share, will we become very, very significant, probably not, but I do think we can make a meaningful play in the coffee category. Distribution, brand, ATL, and disruptive innovation is what will play a part and you will see these things coming out very quickly.

Moderator: Sure. The next question is from the line of Viraj from Securities Investment Management. Please go ahead.

Viraj: Thanks for the opportunity. Just had three questions; one on the tea business, if you can just provide how has our market share moved in the Hindi speaking belt, region, last couple of months, last nine months, how has the market share moved? Second is on the Sampann brand and the India Food business, we have been launched a couple of products before taking over as well and in last nine months, we also added new products to the portfolio, so if you could just provide a more granular detail of how the product scale-up has been and are there any products that are more 50 Crores or plus 100 Crores kind of a scale, so how much of the growth is coming from new launches and the scale up of the existing, which we have. so I think any color you can provide on that, that is all, thank you?

Sunil D'Souza: I am not sure I got the question on tea shares, but we did talk about growth versus last quarter, as well as growth versus last year same quarter and we have seen growth almost across all geographies, that is number one. Number two on Sampann, I think right now the growth is still happening on the categories that the products that we acquired and we are seeing that through a simple formula of distribution & ATL. We are just embarking on our expansion of the Sampann portfolio and Poha we showed you is one example, but Poha for example, we have had it for the last one year, right now, we are seeing about 5x growth on the Poha portfolio and adding in Poha to it, it will only expand the business, but on Sampann both for spices and pulses, you could expect to see more rapid launches coming up very quickly.

Viraj: So on tea, what I meant is, before we took our market share in the Hindi speaking belt region was low-single digit, so how has that moved for us?

Sunil D'Souza: Sorry, I did not get you in what region?

Viraj: Our market share in the Hindi speaking belt region has been low single-digit in the tea business, so how has that moved for us in last nine months?

Sunil D'Souza: I am not sure, actually one of our stronghold territories is in the Hindi speaking belt, Punjab, Haryana, UP, all these places and Delhi remain a very strong market for us, I am not sure of the data on single-digit in fact, those are some of our stronger markets.

Viraj: So say MP and other markets or other markets Rajasthan, those are the areas where market share has been traditionally low?

Sunil D'Souza: So, as I mentioned, I would not comment on state-by-state per se, but overall, we are gaining market share and we are happy to see the momentum.

Viraj: Thank you.

Sunil D'Souza: I think, we can take one last question.

Moderator: Sure. We take the next question from the line of Nikhil from SIMPL. Please go ahead.

Nikhil: Sir, thanks for the opportunity and congrats on good set of numbers. Sir, my question was in Starbucks, where you mentioned that we are operating at 77% and still we have turned EBITDA positive, so is it some structural changes at operating level, which we have brought in, which has helped us to reach this level, which means that probably as we come back to that 100% of the revenue of our pre-COVID operation, our margin profile could be much better than what we were doing earlier, so had there been any structural changes, which we have brought in at the operating level?

Sunil D'Souza: So 77% is the index of the same store versus last year, the comps, but overall versus last year because of the addition of stores we are operating about a 90%, so A, we have increased scale and therefore leveraged fixed costs and the support center head office cost, if I may, that is number one. Number two, there is been a very, very strong focus on cost both at the center as well as in the stores, especially on rentals and other things. I think the team has done a phenomenal work of renegotiating rentals etc. Going forward, now how those cost play out, your guess is as good as mine, but I do expect because of our continued thrust on opening new stores, and as I mentioned, we expect to open close to the number of stores that we opened last year, even this year, so we do expect that we will come out stronger out of the COVID impact as we exit and the business would be on very strong momentum.

Nikhil: Thanks a lot.

Sunil D'Souza: Yes. I think we are good to go, so over to you Nidhi.

Nidhi Verma: In the interest of time, we are concluding, but if you have any further questions, please feel free to get in touch with us and thanks for joining again,

Rakesh Sony: Thanks ICICI Securities for hosting us again and we look forward to meeting you all next quarter. Have a good evening. Thank you.

Moderator: Thank you very much. On behalf of ICICI Securities Limited that concludes this conference. Thank you for joining us, ladies, and gentlemen. You may now disconnect your lines.