May 2, 2023

National Stock Exchange of India Limited
Exchange Plaza, C-1, G Block
Bandra Kurla Complex, Bandra (E)
Mumbai 400 051
Scrip Code – **TATACONSUM**

BSE Limited
Phiroze Jeejeebhoy Towers
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Scrip Code - **500800**

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Scrip Code – **10000027 (Demat)**
27 (Physical)

Sub: Transcripts of Conference Call pertaining to Financial Results

Dear Sir/Madam,

We enclose herewith a copy of the Transcripts of Conference Call held on Wednesday, April 26, 2023, in respect of the Financial results for the quarter and year ended March 31, 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
Date: 2023.05.02 22:35:41 +05'30'
Neelabja Chakrabarty
Company Secretary & Compliance Officer

Encl: as above

“Tata Consumer Products Limited

Q4 FY’23 Earnings Conference Call”

April 26, 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 – HEAD OF INVESTOR RELATIONS AND CORPORATE COMMUNICATION**
MODERATOR:	**MR. ANIRUDDHA JOSHI - ICICI SECURITIES**

Moderator: Ladies and gentlemen, good day and welcome to Tata Consumer Products Limited Q4 FY'23 Earnings Conference Call hosted by ICICI Securities. As a reminder, all participant lines will be in a listen-only mode. And there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing star, then zero on your touchtone phone. Please note that this conference is being recorded.

I now hand the conference over to Mr. Aniruddha Joshi from ICICI Securities. Thank you, and over to you, sir.

Aniruddha Joshi: Yes, thanks, Aman. On behalf of ICICI Securities, we welcome you all to Q4 FY'23 Results Conference Call of Tata Consumer Products Limited. Now I hand over the call to Ms. Nidhi Verma, Head of Investor Relations and Corporate Communication, to take it forward. Thanks, and over to you, Nidhi.

Nidhi Verma: Thanks. Thanks, Anirudh. And hi, and welcome, everyone, to the Q4 FY'23 call of Tata Consumer. I'm joined here by Mr. Sunil D'Souza, MD and CEO, Mr. L Krishnakumar, Executive Director and Group CFO, and Mr. Ajit Krishnakumar, COO. As we usually do, we will spend about 15, 20 minutes walking you through some of the key highlights of the quarter and the year. And then we will open the floor for Q&A.

With that, it's over to you, Sunil.

Sunil D'Souza: Yes, thanks, Nidhi. So in summary, we had a strong fourth quarter, revenue growth of 14%, EBITDA margin of 14.3%. The good news was during the quarter, we had growth in the India beverages business. Specifically, volumes coming back to growth, up 3%. India foods business, despite all the price increases that we have taken, volume was on a strong trajectory. Salt business margin now with the price increases, normalizing is back to the normative range. International business, we have taken pricing actions. Not all of this has flowed through, but even what has flown through, we saw 11% revenue growth, 1% excluding acquisitions. And EBITDA, more or less in line with last year. So even on a bottom-line front, the international business has started to stabilize.

If I take the full year, revenue up 11%, India business growth of 10%. India business beverages grew 1%, negative 1% volume growth, because we had stress during the earlier quarters. Foods business, volume growth of 2%, value of 26% with the price increases. International business, ex-acquisitions was up 4% in constant currency, primarily driven by price increases.

We continue to drive the India growth business. They grew 53%, accounted for 15%. Starting from 6% when we took over, they're now up to 15%. So we're growing beyond tea and salt. During the year, we gained market share in salt, but tea volumes saw a marginal dip. We had for the full, for MAT, March 23, we had a 50-bps dip in volume share. On profitability, India business EBITDA margins expanded by 90 bps during the year, despite inflation in salt. And please remember that the volume growth that happened in the India beverages business start to reflect in market share in the quarters going ahead.

We continue to accelerate innovation, where we started from 0.8%, we are now at 3.4% for FY'23. We are in the top quartile, but we will continue to move this up. Free cash flow conversion from EBITDA was close to 99%, and our dividend is up by 40% year-on-year. In terms of performance, India beverages, as I mentioned, volume growth of 3%, revenue 8%. India foods, volume 8%, revenue 26%. US coffee, volume was negative 20%. Just to highlight that the way we took pricing in the US was by pack-price and degramming rather than taking naked pricing. So it shows on volume, but overall revenue was up 6%. International ex-acquisitions, volume growth 3%, and revenue growth ex-acquisitions of 6%. Tata Coffee, obviously you've seen the results, 14% volume and 16% revenue. Overall consolidated constant currency growth of 12%, reported 14%.

In group performance, we delivered revenue INR3,619 crores at 12% constant currency growth. INR518 crores of EBITDA, which was up 13%. Group net profit was up by 21% at INR290 crores, and we have roughly INR3,000 crores of cash. Margins expanded, and EPS for the full year was up by 28%. In terms of our strategic priorities, number one was we had made a statement in September of 2020 saying that in one year, we'll double our direct distribution, and in three years, we'll double our numeric reach. So the target was to hit 4 million outlets by September of '23. We are at 3.8 as of March, so well on track to achieve that.

And in terms of direct reach, we've expanded three times from where we started in FY'20. Going forward, you'll see two important things which will continue to accelerate this. A) is all 10 lakh plus towns. We are splitting our sales front end to provide focus on food and beverage and going down to appoint direct distributors in all 50,000 plus towns and significant amount of 20,000 plus to drive distribution and plug our share gaps in semi-urban and rural.

Alternate channels, good story. Overall, contribution from modern trade is now 14% and e-commerce 9%. Modern trade grew 21%. E-commerce grew 32%. The beauty about e-commerce, it allows us to pilot all our innovation and figure out what's working, what's not. And obviously, it's working because NPD contribution while overall I showed you a 3.4%, e-commerce is 10%. So it's a question of distributing that innovation and making it available to a wider audience.

Tea, our hyperlocal drive continues. Market share, as I mentioned, in volume terms, we were down 50 bps; value, we were down 113 bps. But we do expect, given the focus on execution, given the fact that our geographies of the north, where we are higher weighted and rural seeming to stabilize a bit, we do expect to make this and more than make up for it as we go forward.

Salt, the story has been expanding beyond the base Tata Salt. And here you see very clearly the amount of launches that have happened in the value-added spaces, whether it is iron, zinc, lite, superlite, focus on rock salt. And value-added salts from less than 1% in FY'20 are now up to 5%, significantly higher price indices. And overall, our salt share has gone up by 76 bps on a MAT basis.

Innovation, I talked about. We started at a 0.8%. We're now up to 3.4%. We have roughly doubled our launches compared to last year. And it's not only foods and beverages. It is new categories, including expanding Himalayan and entering the protein space. Digital has been a huge, huge move for us. We are completely on clouds, no servers. We run a single instance of SAP. Our entire front end is now digitized. And we are looking at taking it one step further now. Our entire supply chain runs on Blue Yonder IBP systems. And we've got dashboarding across functions, across businesses.

The key is now to leverage these pipelines that we have laid and the data that we gather to move into the next phase of data-driven NPD, things like web crawling, social listening to drive NPD, leveraging AI/ML to drive procurement, take revenue growth management to the next level by running analytics much more rigorously, and sharpen our spends on marketing with very, very clear data-driven ROI spends.

We had announced our global simplification, which was two parts, which was reducing the number of international entities, as well as delisting and merging Tata Coffee. We have made significant progress on that. And we expect somewhere in Q2 to be able to complete the NCLT process and thereby then start the process of collapsing the international entities.

Apart from that, we've consolidated our ownership in JVs. In Bangladesh, we've terminated our JV and we are setting out on our own out there. In South Africa, we upped our stake to take majority control and the founders will still continue with us to continue to drive the business there. New engines of growth moving beyond tea and salt, focus on Sampann, ready-to-drink, Soulfull, and the ready-to-eat, ready-to-cook portfolio. It's up to now 15% of our revenue in the India business and strong growth continues. Combined revenue growth was 53% for FY'23. We have made significant progress on the acquisitions that we have made. ~~Soulfull~~[Erratum: NourishCo] we acquired in FY, end of FY'20, it was INR180 crores. It is upwards of INR600 crores right now. Very, very high innovation to sales as we expand our portfolio and we've expanded our footprint and capacity significantly. Distribution up 70% year on year.

Soulfull doubled in revenue last year. The rupees 10 pack was instrumental in reaching ~~3000 outlets~~[Erratum: 300k outlets]. Masala oats has been tracking ahead and we've gained significant market share in places that we already distribute this. RTE, RTC is slightly behind on our timelines, but now the international expansion, which is key on this business has kicked off.

Starbucks scaling rapidly 10th year. We are now across the INR1000 crores mark. We added 71 stores, which is a record for Starbucks. We are now in 41 cities and 333 stores now nationally. You will see an aggressive expansion even going forward. More than that, we have also run this pilot, which we call Moonshot and fine-tuned four options to drive extra traffic into the outlets.

A) enhanced beverage offerings, including milkshakes, filter coffee and masala chai. New Pico size, both for affordability as well as ease of consumption for the Indian consumer. Number three is revamped our food to offer shareable and fresh options and refurbished interiors to make them less intimidating, more brighter and more inviting for Indian consumers, especially as we roll out to Tier 2, Tier 3 cities. We have put out our sustainability goals out there and on track or executing against the commitments that we have made.

In terms of the macro environment overall, we are now seeing a slight downtrend on tea prices, but keeping fingers crossed because there is a lot in the macro environment which can swing this. Coffee had started coming down but is now stable to slightly upwards bias as we go forward.

In terms of the businesses per se, India packaged beverages, 3% volume, 1% revenue, overall value 113 bps down, volume was down 50 bps. We do think that given the stress seeming to slightly reduce on the rural and especially the northern parts of the country, we will start seeing volume growth and market share coming back quickly. I already talked about salt volume growth of 8% and revenue growth of 26%, market share was 76 bps. Value added portfolio is now 5% of our mix. Tata Sampann continue to grow strongly, growing 35% for the quarter with the full year growth being 29%. Margins are almost back to normal. Soulfull doubled during the year.

NourishCo 80% revenue growth and Tata Copper is 2.2 times of its size. Tata Coffee overall growth 11% in plantations, 20% in extraction, a large part of this driven by coffee prices, but also enhanced a number of customers and NPD. Starbucks I talked about. International, the good news is we've taken pricing across markets and between pricing and cost restructuring, overall international EBIT margin is now coming back to its normalized phase. We're just about 100 bps off from where we were on international business versus the same quarter last year. More or less maintaining our market shares in UK, US, as well as Canada. LK.

L. Krishnakumar: Yes, thanks Sunil and morning everyone. We've had a good quarter as Sunil mentioned. We'll first talk about the standalone performance and if you see here, we have a revenue growth of about 12% and more than proportionate EBITDA growth in excess of 20%. So strong performance by the tea business where we had volume growth of 3% as Sunil mentioned and trend of improving margins compared to where we were in the previous couple of quarters or so. I think same holds good overall for the foods business as you will see. So strong margin growth, strong top line growth driven both by volume and price.

Moving on to the consolidated results and the numbers are with you where we have 14% top line growth, 12% in underlying terms. Roughly out of that, half and half is volume and price. So it's a quarter where we've had volume growth coming back in different parts of the business in different degrees and within that overall, the growth portfolio of Sampann, Water and Soulfull doing exceedingly well. In terms of profitability, we have sort of come back in this quarter to the kind of EBIT/EBITDA margin levels that we had in the same period last year, more or less there. But the point to be noted was that in the earlier quarters, international was lower than in the previous year. Whereas the absolute profitability in this quarter of the international business is more or less in line with the previous year. So we've arrested the decline, it's sort of stable, driven by price increases that we have taken. And in addition to various cost restructuring efforts, which are ongoing, you will see more of that as we go into the next year.

Moving on to the next slide. This is just a recap of financials and what we said in terms of EBITDA, you're seeing that we are more or less coming back to where we were on track in EBIT and EBITDA. Exceptional items in this quarter include a small element of acquisition of stake in our Bangladesh JV. So we had to account an accounting gain, there are restructuring costs. No major movement on the tax slabs. If you look at the share of profits from JVs and Associates, not called out here, but it's in the statutory, you'll find that it is slightly, the loss is slightly higher than the same period in the previous year. We had a slightly higher loss in the North India plantations where we don't have crop in this quarter, and Starbucks did well.

Moving on to the right-hand side for the full year, you're seeing 11% top line growth. The EBIT or EBITDA growth is lower than what you see in the quarter. So the quarter you're seeing, overall the ratio is much better than the full year performance, and that we see to be an improving trend. In terms of share of profits from JVs and Associates for the full year, you'll see that the loss is reduced because of increased performance of Starbucks.

So if you move on to the next slide, this is a standalone performance, and again, here I'll call out what I've already said, that the EBITDA growth is more than proportionate to the top line growth in the quarter, and also for the full year, we've seen strong growth in terms of performance relative to top line. So the underlying foods business doing very well, salt in particular driven by premiumization. We've had variants like Tata Salt Lite, Tata Salt Immuno, rock salt also doing very well in addition to the base salt. And as I mentioned, the growth businesses have also done well.

So moving on to the next slide in terms of segment performance, you'll see here that in India business, we have an improvement in segment results more than proportionate to the top line. In terms of international business, it is flat to marginally lower, but if you look at the absolute numbers, 127, 128, it's flattish. And if you see the previous quarters, you'd have seen that it was lower. That's the point I made earlier. Unbranded business did well in the quarter driven by improved coffee prices. And that is sustaining going into the next year. So overall in terms of proportion, India revenues 70% compared to 71% in terms of profits. So the proportion of India and the profitability of India continues to be better. And that's the trajectory you'll see more of going into the future.

So with that, we'll hand you back to the moderator, to Sunil for any concluding remarks before we open up for questions.

Sunil D'Souza: So if I look at FY23 in a nutshell, A) is we've seen huge amount of volatility, geopolitical, commodity, currency, crude, and stress across different parts of our businesses. But now we seem to be seeing green shoots, especially in our salient markets for tea in India, and remain cautiously optimistic. I wouldn't say that we are out of the woods as of yet, but we have started seeing volume growth coming back. Impact of inflation and monetary tightening on economic growth and demand seems to be slowing down in terms of the upward trajectory, but I would keep my fingers crossed and monitor it closely.

If I summarize FY'23, we delivered a double-digit top line while balancing margins in an extremely volatile and inflationary environment. Tea business in India was subdued due to demand challenges in our key markets, but we do think we've put various interventions in place, volume growth has started to come back, and we hope to continue this. In spite of the price increases that we took on salt, we continue to gain market share led by strong execution. Margin is now mostly back to its normative range.

Growth businesses have been on a strong trajectory, whether it is NourishCo, ready-to-drink, or it is Soulfull or Tata Sampann, everything has delivered as per expectations. Tata Starbucks is on a strong wicket, and the game now is to accelerate store openings still further. In the international business, huge amount of work done to combat inflation and adverse currency movements with pricing and various other structural interventions which have been put into place. And like LK said, not all of this, you've seen it flow through. We do expect in the next two quarters, you will start seeing more of this flowing through into the P&L.

Given the significant input cost inflation, increasing salience of the new businesses, we have minimized the consolidated EBITDA margin (clarification – contraction), and we will continue to focus on driving profitable growth. There is one more point that I would want to make upfront, is we have changed our reporting disclosures, and we have gone to a statutory reporting of advertising and sales promotion. You will see the numbers coming out in the annual report.

Going forward, while we will continue to report the statutory numbers as is, any extra information we are more than willing to provide. And just one or two extra points I would like to make on that is, not all the improvement in the India EBITDA has come out of A&P squeeze, number one. Number two is, please remember, when you say advertising and sales promotion, we're still not counting the discounts, trade promotions, etcetera, which happened to be captured in net sales.

So there is a whole bunch of price, consumer, trade, advertising, etcetera, which contributes to growth of the businesses. And yes, so any extra information, more than happy to provide, Nidhi will give it to you.

Nidhi Verma: Thank you, Sunil. Back to you, moderator.

Moderator: Thank you very much. The first question is in the line of Vivek M. from Jeffries. Please go ahead.

Vivek M: Hi, good afternoon, Sunil and team. Sunil, starting from where you left, so can you just give a help us with advertising spends for at consol as well as at standalone levels?

Sunil D'Souza: So Vivek, overall for the year, on a standalone basis, as well as consolidated, we have increased in absolute terms versus last year. For the quarter, it has been a bit lower than what it was last year, but you have to remember it's also planned around all our promotions, activities. And as we've seen growth slowing down in certain geographies, we've taken more action on pricing.

On salt, we've taken aggressive price increases, we've given back some to trade to make sure we oil the channels to drive volumes. So Yes, while it has been a slightly lower, but the intent is obviously to keep fueling our brands as we go forward. Quarter-to-quarter, you will see movements going up and down, but overall, the intent is not that we will cut advertising and drive bottom line, that's number one.

Number two, when you look at the standalone, it doesn't still portray the picture of our India business in totality, because things like Soulfull and NourishCo are outside that. If I remember the numbers right, there has been a upwards of 50% increase in the Soulfull and NourishCo businesses on A&P for the quarter itself.

Vivek M: And Sunil, is it still possible, so I understand you have moved to what is the -- let's say, bare minimum requirement. But in your press release, can you put advertising number because neither it is, let's say, competitive info which you can't share, nor it is something that we can ignore. So, it will be very useful if you can continue with that.

L Krishnakumar: I think Nidhi and company will make it available to you on an ongoing basis in the quarter. We'll see if we can add it to the investor presentation, but otherwise, Nidhi will share the numbers with you.

Vivek M: The second question, Sunil, is on international margins. So there is a smart recovery in margins, where do you think it settles in the next few quarters? Do you think we go back to the -- you go back to the historical levels?

Sunil D'Souza: So, Vivek, the intent absolutely is, not only to go back to historicals, but improve from there on. As we've always maintained, net EBIT margins of the international business have always been accretive in my mind to the Indian portfolio. Right now with the pricing and the cost take outs that we've done, pricing, for example, in the UK, we took pricing, a 15% price increase only in Feb. So you're not seeing the whole impact flow through. Or there are structural cost actions, which are still a work in process and should be completed by end of this month. So, I think between quarter 1 and quarter 2, you would see everything coming in, but I would expect international margins to come back solidly, if not better than where they were before we started off.

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

Percy Panthaki: Hi Sunil and Nidhi and and LKK sir. Good afternoon. My first question is on the tea business. So I just wanted to understand from you, Sunil, since you took over, let's say, over the last three, four years, has there been a more broad basing of the tea revenues in terms of the state contribution?

I understand that you have certain states where you are very strong, certain states where your market shares are very low. So, I just wanted to understand the latter where the states where you are low market share, what are the strategies there? And have they borne any fruit? And are you seeing sort of -- apart from the core states of the northern territories where, of course, there is a macro issue and that's why you are not growing, but apart from that, have we seen sort of some amount of improvement in states where we are weak? And do we like have a specific state-wise strategy as to how to grow market share in different states where we are underrepresented?

Sunil D'Souza: So Percy very specifically, yes, we do have a cluster-wise strategy for implementation by cluster. The brands are different. The pricing moves are different, and A&P spends are different. So, very specifically, for example, we are weaker in the South, stronger in the North. Again, in the North, if you feel it out, I mean, while we are strong in most parts of the North, Eastern UP is a weakness. So, we need to make up in Eastern UP, for example. There are very specific distribution, pricing, advertising product moves put in play.

In our weaker markets, we have made traction and you would have seen that resulting in our market share until about two quarters back, I mean, we were on upward trajectory on market share. Unfortunately, this is a mathematical exercise where; A) semi-urban and rural is where we have issues. Our portfolio was stronger in the mass to the value segments, which came under pressure. And that came specifically in the geographies for the North where we are stronger.

So host of different permutation combinations because of which we have seen a slip in market share. But that slip in market share is a reality. So going forward, there are two, three very, very specific actions that we are taking. And this is, not only to boost tea volume and share, but this is to boost the overall portfolio. Like I said, when we had started 3 years back to drive efficiency, we had created one common distribution system, which was selling both tea and foods.

And you saw the synergies coming through and the top lines being driven as a result of that. But now as we go forward, we are realizing that now this is also becoming a bottleneck for our growth because it's the same salesman now selling a far, far wider portfolio and there is a, for want of a better word, I'll say data overflow on that end. So we are now splitting the routes in all 10 lakhs plus towns, which is where we have scale, both for food and beverage to carry two separate salesmen.

Apart from that, as I mentioned, our weakness in market share was primarily in semi-urban and rural. And to that extent, in the first round, we had focused on building distribution in urban areas, and in the semi-urban rural, we had relied on sub-distributors, but as we have built scale, we have figured out now we can support distributors in all 50,000 plus towns, and quite a significant number of 20,000 plus towns.

Now the good news is, all the 20,000 plus towns where we think we can support scale are all in our weaker, but higher pricing for tea geographies. If you get what I mean. And therefore, we are going off on a significant expansion in quarter one and definitely by middle of quarter two, we'll finish that, which will put us in good stead as we go forward.

Fundamentally, on the brands basis, we don't think there is anything wrong. All brand metrics are strong, distribution remains healthy, and we just need to put our heads down and execute against our strategies and we do think that we will, not only, as I mentioned earlier, we will not only come back on share, but we expect to grow from here.

Percy Panthaki: Right. And the direct distribution which you have tripled over the last year or two. Is there further scope for that to increase? And if so, can you share over the next two to three years, these 1.2 million outlets, how much do you see it going up to?

Sunil D'Souza: So it's 1.5 million outlets as of now Percy. And as I said, as we move to 50,000 plus towns and 20,000 plus towns, we do expect to increase this direct distribution, but we also expect to move our numeric reach, which we are now in the short-term targeting to 4 million. We do expect to inch that still further. We are in the process of putting the numbers together, and we will make a statement on where we expect to land.

Percy Panthaki: Right, sir. Next question on Eight O'Clock, there is some, correct me if I'm wrong, 20% volume decline in this business, how is this possible, like in an FMCG category 20% volume decline. I mean, can you give some idea on what is happening here?

Sunil D'Souza: So, Percy, overall if you look at it, whether it is in tea or coffee across all the markets, there has been a volume decline, that's number one. Number two might be slightly more pronounced for Eight O'Clock because instead of taking naked pricing we have done a pack/price. So for the same price you're getting a lower volume. But the good news is, despite that, we've shown a revenue increase and margins are back to normal.

Percy Panthaki: But Sunil, wouldn't this clearly be a sort of dip in market shares, because I'm sure the overall consumption of coffee would not have reduced that much?

L Krishnakumar: Percy, I think there is no significant drop in market share. There is the other element that you need to remember, on a quarter-to-quarter or even on a year-to-year basis, is to do with phasing of promotions, right? In a particular quarter if Walmart decides to run promotions, volumes will be higher by 10%. Next quarter if it happens in the subsequent quarter and quarter-on-quarter will be a drop. So there are -- it is not a linear growth on a quarter-to-quarter, in the developed markets, not only for coffee, because the timing of promotions also can impact quarter-to-quarter.

Sunil D'Souza: And Percy just to answer your question, we have more or less maintained market share both in bags and K-Cups in Eight O'Clock Coffee in the US.

Percy Panthaki: Okay, sir. And lastly, just one request, now we have crossed INR1,000 crores on Starbucks and now we are like a significant player in the overall QSR space. So if you can increase the disclosures on this business, in terms of some things like SSSG, or pre-IndAS EBITDA margins on a quarterly basis. I mean, just a couple of data points of these sorts, not an entire P&L or anything of that sort, that will really help us sort of analyse this business because it is becoming of some material size now?

Sunil D'Souza: So, Percy, we don't think we are significant yet. I think we've got a long way to become much more significant and we will try and get back to you with more data.

Percy Panthaki: Sure. Thank you.

Moderator: Next question is from the line of Vivek M from Jefferies. Please go ahead. Vivek, your line went off queue. You may proceed with a follow-up. Sorry, you're not audible Vivek. Can we request to come closer to the mic? Vivek, you are still not audible. Please use the handset mode. I think there is some connectivity issue from the line of Vivek. We will move to the next question, that is from the line of Mihir Shah from Nomura. Please go ahead.

Mihir Shah: Hi, thank you very much. Thanks for taking the question. So I had a quick question on the normative range of salt margins, which you mentioned has come back to normative range. Can you share what the range would be, because in the past couple of years they have been you know, a yo-yo in quite a bit? What is a normative range that one should consider for salt margins?

Sunil D'Souza: I would just leave it as we are between the 32% to 37% gross margin as we calculate internally, and we are more or less in that range right now.

Mihir Shah: So on EBIT margin, if you can give us some sense, historically had shared EBIT margin. So from an EBIT margin perspective, I was asking from that point?

Sunil D'Souza: So, here's the thing. We have a common infrastructure now for the India business for the entire portfolio, and therefore, we've moved out from EBIT margin by category. We look at margin after advertising and promotion expenses by category and then a common infrastructure set of cost. We can do various permutation combinations and allocations, but we have moved out from that right now.

Mihir Shah: Understood. Sir, second question I wanted to check on your outlook for tea prices and the sustainability of this turnaround in tea volumes that we have witnessed, given that the plucking season will against start in sometime and historically also we've seen tea prices, again, moderating down in a quarter 1, 2, etcetera. Can that trigger another round of price cuts? And how will the volumes for tea shape up in that context, sir?

Sunil D'Souza: So let me answer the volume question first, right? The volume question, I don't think is related to your tea prices and tea costs as much as with the inflation and rural stress, which is the demand side of the equation. As I said, right now we are seeing early green shoots, and therefore we are seeing volumes come up on tea, and we do expect, barring any unforeseen things happening in the macro environment, we do expect volumes to continue, that's number one.

Number two, when tea prices go up or down depending on the crop, we would move pricing up and down, and therefore, in absolute terms of percentages, we would try to maintain the margins per se. If you dial back what happened in FY '23 is, I would say, two salient factors; A) is effects of the floods in June, July, and the droughts in October, November, which impacted the tea crop, and therefore, price.

The second piece is, Sri Lanka going out of the equation and Russia entering the market drove up prices. Now, the thing is, right now I think the market is levelled at all these pluses, minuses. We do expect a slightly downward trend on the tea pricing as we go forward. But like I said, I mean, we would keep a close eye on it and move up and down on our product prices to make sure that we are balancing volumes and margin.

Mihir Shah: Sir, my last question is on salts business. There is a likelihood that the sharp price increases that we have taken in the past couple of quarters, they start anniversarying from the first quarter onwards, and that growth will continue. The pricing-led leg of the growth will fade away. Now volumes have picked up this quarter for salts, given the prices now will be stabilized, can one expect a similar range of volume growth for salts to continue in the near term, sir?

Sunil D'Souza: It's not only for salt. I think we have very clearly said in the medium to longer term, we do expect both tea and salt businesses to grow mid-single digits in volumes. So I don't think anything changes from that. Yes, this year, we've had significant revenue growth on account of the pricing that we've taken, which will not be tenable going forward. But the volume growth is what we remain focused on.

Mihir Shah: Got it. Thank you very much sir. All the very best.

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

Sumant Kumar: Yes. Can you talk about the NourishCo state coverage and going forward how many states we are going to expand and also the channel expansion going forward?

Sunil D'Souza: So, NourishCo, when we started off three years back, we were primarily in Orissa, Andhra, Telangana, and a small part of Tamil Nadu. We've spent most of FY '21 stabilizing the business and in FY '22 moving to the East, FY '22 and FY '23, the focus has been to move to the North and a little bit of West. I would say, broadly, we are at least present in 75% to 80% of the country. Present, doesn't mean we've got real strength there. But the game is now to expand distribution, add manufacturing locations and grow in the places which we've already entered. INR180 crores to INR600 crores in three years, we would be targeting to be close to a 4-digit number in FY '24.

Sumant Kumar: Okay. And with channel expansion from say 6 lakh outlets to how much?

Sunil D'Souza: We would have an aggressive number for that to make sure the volume growth continues.

Sumant Kumar: Okay. Can you talk about the losses from share of JV and associate has increased, INR56 crores? What was the key reason for that?

Sunil D'Souza: That is only for this quarter. But if you take the full year, you will see an improvement on the bottom line. I would, again, urge you, given the fact that basically when you say JV and associates, it's primarily three factors driving the numbers; One is KDHP, APPL and Starbucks. And there are different seasonalities for the businesses per se. Starbucks, there has been a significant improvement. APPL, there has been a decent improvement. KDHP has more or less been performing to expectations for the full year. So, I would urge you to look at it from a full year perspective where you are seeing an improvement on the line.

Sumant Kumar: Thank you so much.

Moderator: Next question is from the line of Arnab Mitra from Goldman Sachs. Please go ahead.

Arnab Mitra: Hi good afternoon. My first question was on the growth businesses, which is now 15% of your India business. So normally, when these businesses start becoming bigger at the initial stage, the margin profile is much lower than the well-established businesses. So, is that true in your case, overall, if you look at this bucket of 15%? And as you expand, unlike other categories, do you need to up A&P significantly or this is more of a distribution-led growth even at this stage?

Sunil D'Souza: So, let me make 2, 3 points, yes? Number one, in terms of contributory margins, Soulfull is accretive, significantly accretive, NourishCo is about par and Sampann, obviously, given the profile is slightly below our total numbers. But then the growth opportunities for all these three businesses are on 3 different vectors. Sampann, obviously, is a huge runway. NourishCo is a significant number that we can play with. And then there is Soulfull. Now, as we grow these businesses, we are very, very mindful that contributory and overall gross margins have to be in the normative ranges. There will be spends on A&P as we build our businesses, and the growth will come out of both, primarily first distribution and backed by A&P and brand building.

Apart from that, portfolio expansion is an important play. So while Soulfull we started off with only breakfast cereals, then we moved into masala oats, which again has performed very well. And now, I would say, in the coming year, again two, three significant innovations. Same thing in NourishCo, geographic expansion has played a significant part. But more than that now you will also start seeing innovation getting ramped up. NourishCo innovation as a percentage of sales is already 13% versus our overall company norm of 3.4%, which I talked about. That also you will find it ramping up.

Arnab Mitra: Understood, and Sunil, the question on, when you have such high NPD, or let's say growth in new businesses, not really NPD, but growth businesses, how are you taking care of the risk of potential takebacks, excess inventory getting sold in, and those kinds of things, any sense on that? Because the initial distribution led growth, of course, comes, but then these are food categories where expiry dates and those kinds of things come into play?

Sunil D'Souza: So the good and bad part is now we've got a totally digitized sales system. Right from SSFA, DMS, etcetera. So we have full view on what is the secondary sales, what is the inventory being carried, in modern trade, we've got access to what is the inventory in each and every store. We are very, very mindful that secondaries and primaries have to match, and we are not driving numbers just by ramping up.

Yes, in a few categories, we do have learning. For example, when we took over Soulfull two years back, my guys were used to selling only tea and salt. They were not used to the fragile packaging of Soulfull, and or the different expiry dates, and or the fact that it was selling more in different types of outlets. So once that learning phase was passed, I mean, that is why now Soulfull is on a roll.

So we will have this small learning phases as we go forward, but I don't think we will have a car crash simply because A) we're data-driven, B) it's primary and secondary driven, and C)., these reviews are done on a periodic basis to make sure that we don't land up into issues. We would rather start slow, small, and then expand. For example, dry fruits, we launched only online to test out the strength of the product, and as we found it, now we are going to look at the offline spaces.

Arnab Mitra: Okay, thanks so much. That's it from my side, all the best.

Moderator: Thank you. Next question is from the line of Sheela Rathi from Morgan Stanley, please go ahead.

Sheela Rathi: Yes, thanks for taking my questions. I had two questions, Sunil. The first one is, is it fair to believe that all the headwinds around inflation or even supply chain across our portfolio, across geographies are now behind us?

Sunil D'Souza: You know, Sheela, I wish I could answer that question, but given what we've seen in the last one year, I wouldn't try to hazard a guess. All that I would say is, in the near term, we see a sort of stable operating environment, whether it is currency, whether it is crude, whether it is commodity in terms of tea or salt. So I would take it one quarter at a time. And I think given the last one year, the one thing that we have learned is to be agile, move around our different levers, focus on different pieces to make sure we're delivering numbers.

I would just say in the near term, we are seeing stability. We are seeing inflation sort of the slope starting to more plateau. We are starting to see demand slowly starting to come back, especially in India, in places where there is stress. Internationally, currencies, etcetera, we are seeing starting to move in a band. But like I said, we would take it one quarter at a time.

Sheela Rathi: Fair enough. And my second question was specific to Sampann portfolio. Just, Sunil, if you could step back pre-COVID, we had a strategy in place, we wanted to scale this business. Just when we look at what is happening currently, would it be again fair to say that the competitive intensity in this space has gone up significantly? And are we re-strategizing in terms of how we want to scale this business?

Sunil D'Souza: So Sheela, number one is, I don't think the ambition has changed pre-COVID and now. Sampann, we had always said that we will target a 30% growth. Can we target much more? Yes, we can. But to drive a profitable trajectory for Sampann is balancing between your top line and your margins. Margins also, we had said that they will be moving into double digits. Now we are starting to move the trajectory. Sampann margins also have started to move while this quarter we've delivered a 35% top line.

Competitive intensity, I don't think is going away, given the sheer size of the categories that Sampann is going to play in, A). B) the fact that all these categories have huge unbranded plays and therefore there is an opportunity to brand them. I think, I mean, everyone will look at, or different players will look at it from a very similar lens. I think we are quite happy with the trajectory. In fact, if I could maintain or slightly move up the margin lever, I would go for higher volume growth. But yes, I mean, that is an if I could, but I do think we've delivered to expectations.

Sheela Rathi: And any call out on the distribution strategy there, beyond the online positioning?

Sunil D'Souza: No, so that's exactly what I talked about. I think one of the things which we observed is when we set up the entire S&D system for Tata Consumer, way back in August, September of 2020, we had common salesmen who would sell tea and salt and then Sampann and then Soulfull and then Tata SmartFoodz. But as we've gone forward and all these different businesses have scaled, portfolio has expanded, SKUs have increased, we figured out that the salesman is becoming the bottleneck. And therefore we're splitting the routes in all 10 lakh-plus towns to, it will be beverages plus Soulfull and salt, plus Sampann, plus SmartFoodz.

So we will have more focus on Sampann. And I do think that itself is going to have a significant impact because the one thing we are confident about, Sampann as a product, quality, brand, everything is all green ticks, which is what you see online because in some of the online portals, we are the market leaders in the category that we operate. It's a question of putting it into stores and getting it to consumer's hands, which is what my offline distribution should do. By providing this extra focus and making sure we distribute, we are quite confident that we can accelerate the growth.

Sheela Rathi: Understood. Thank you.

Moderator: Thank you. Next question is from Abhishek Singhal from Naredi investment. Please go ahead.

Abhishek Singhal: Good afternoon, sir. Thanks for taking my question. First question. Starbucks, the turnover has also come in four digit and EBIT margin is positive for FY '23, but net profit is in loss. And what is the amount of loss and when will this business come in profit?

Sunil D'Souza: So Starbucks, according to Ind AS reporting, we are EBITDA positive and EBIT positive. And statutory reporting, according to that, the net PAT is negative. So we are in line with our reporting requirements, but the business is on a very, very strong footing.

L Krishnakumar: I think the only apprehension here is that because we are rapidly expanding stores and you have the interest and depreciation impact. And it is, in a loose sense on a WDV basis with the high cost in the initial year. So that's what's happening in the interest and, depreciation front. So underlying stores are all very profitable. There is no issue. And we clarified that. Whether it's Ind AS, whether it's management accounts, I think we are on a strong footing.

Abhishek Singhal: Sir, tell me what is the amount of a loss, sir? If you can share?

L Krishnakumar: You wait for the statutory, right, and you'll get the result.

Abhishek Singhal: Okay. And the second question, what are the expectations of EBIT margin in international business? And in what range will it be in FY '24?

Sunil D'Souza: EBIT margin for international business, as I mentioned, has recovered significantly and we're just 100 bps below what we delivered there in the same quarter last year. Going forward, international business will be accretive to the total company EBIT margins by at least 100 to 150 bps.

Abhishek Singhal: Okay. Thank you so much.

Nidhi Verma: Moderator, we'll now go to the webcast and take a few questions from there. There is a question from Chanchal. Sunil, he's asking, what is our beverage strategy for Tata Copper, Tata Gluco Plus and Himalayan? And what is the structure of the business?

Sunil D'Souza: Not sure I understand the question, but just as a perspective, NourishCo, we have two different distribution systems. One is the value and one is the premium end. The premium end handles the Himalayan part of the portfolio, which is very specifically targeted to high-end on-premises accounts. The value portion is primarily the Tata Copper and Gluco Plus. So the idea there is to expand both manufacturing and distribution footprint. As we've expanded, we figured out we have, consumers have resonated with the products. And that is why last year we've expanded our footprint by roughly 2x. And that will be the trend as we go forward for some time.

Nidhi Verma: Yes, thanks, Sunil. The next question is from Abneesh. He's asking what is the expectation on India tea prices in FY '24? As there are reports of severe weather conditions and unseasonal rain. And is there now confidence that Masala Oats Plus is now successful?

Sunil D'Souza: So let me answer the second question first. So Abneesh, let me say we have started to move into the higher double-digit market shares in specific modern trade accounts where we have placed Masala Oats. So we don't have a doubt that it is successful. It's a question of how fast can we expand distribution and get consumer trials. That's number one.

Number two, as I said, this year we had floods in Assam in June, July, and then we had drought in November. So I wouldn't hazard a guess on what would happen to tea crop and prices. All that I would say is right now our margins are more or less operating in the normative range. So as crop goes up or down and prices go up or down, we will keep moving our prices to make sure that A), we are competitive, B), we are delivering margin, and C), we are continuing to drive volume growth and market share.

Nidhi Verma: Okay, thanks, Sunil. There is a question from Rohit at White Oak. He's asking, what is the progress on geographical footprint expansion of NourishCo business? Are NourishCo sales still highly concentrated in a few states? How many states do you have manufacturing presence now for NourishCo? I think you've already partly addressed this question.

Sunil D'Souza: We're about 75%, 80% of the country. We expanded manufacturing footprint by 2x to 2.5x last year. And that will be the rate at which we will continue for some time. Even if it is not footprint, in the same plants also we are adding additional lines. We will be expanding our portfolio as well aggressively, and you'll see that play out.

Nidhi Verma: And there's a question from Tejas at Avendus. He's asking, in tea segment, how have we done on value market share and volume market share? I think we've already provided this data, Tejas, in the investor deck. And then he's asking, have we lost market share to big national players or to regional players as well?

Sunil D'Souza: So, Tejas, primarily, I think it is about 50 bps on a MAT basis, March '23 on volume. And we've got 113 bps on value. That is the negative. While major competitor has more or less maintained value share for the full year, it is primarily we've lost share to regional players.

Nidhi Verma: Okay, thanks. Thanks, Sunil. I think that's it from the webcast. I know we are out of time, but there might be more questions on the other Q&A queue. So perhaps we'll extend the call by another 10 minutes. So moderator, you can go back to the Q&A queue.

Moderator: Thank you. The next question is from Amit Purohit from Elara. Please go ahead.

Amit Purohit: Yes, hi. Thank you for the opportunity, sir. Just you highlighted that India business would also look some margin improvement. So I just wanted to understand what would be the drivers of this margin improvement, whether it will be driven by the food, which is largely the salt business, or the beverages also you feel margin improvement?

Sunil D'Souza: So I'm not sure. When you talk about margin improvement, I presume you talk of EBIT margins. EBIT margins would be driven primarily by volume growth while keeping cost under tight control. As we mentioned, gross margins on both tea and salt are broadly in the normative range. So the game is to increase volume growth, A), and B), make sure that we have tight control on cost. India business, the same quarter last year, has improved by 100 bps on EBIT. And we do expect improving momentum from here on.

Amit Purohit: Okay, and you don't think so that it would be driven by maybe salt kind of margin improvement if the RM index goes down, is that?

Sunil D'Souza: RM index going down, I don't think, is a straight correlation to margin. Because remember, we are operating in a competitive environment. Whether it is tea or salt, if RM goes down and we do see prices going down in the market, we would react. Like I said, it's a balance between volume, market share, and margin. You cannot take margins beyond a point in certain commodities. Very, very mindful of that. As I said, the game has to be driven by volume and therefore flow through into the bottom line.

Amit Purohit: And lastly, tax rate guidance for FY '24.

Sunil D'Souza: We don't guide for tax rates. We are compliant and pay all our taxes.

Amit Purohit: Sure. Thank you.

Moderator: Thank you. Next question is from the line of Senthil Manikandan from Ithought PMS. Please go ahead.

Senthil Manikandan: Hi, sir. Thanks for the opportunity. I have just one question on the tea business. So on the last call, you mentioned that in terms of taking some progress on closing the distribution gap with the competitor. So you mentioned like 10% to 12% companies began. So how far have we come? And you can quantify like how many quarters it will take to bridge the distribution gap?

Sunil D'Souza: I can't give you how many quarters on bridging the distribution gap because competitor also moves. Albeit we will move at a far faster pace. All that I can do is we have in tea, we started at a 2 million numeric reach. We are now at 2.9 million. But even with that, we have about I would say 10% or thereabouts numeric reach gap. As I mentioned, we're putting in actions in place to bridge that gap. Two specific actions – in the large cities, we are splitting the routes to give focus to beverages and food separately. And our distribution gaps, when you look at Nielsen perspective, is semi-urban and rural. We are now appointing distributors, direct distributors in all 50,000-plus towns and a significant number of 20,000-plus towns. So we have put out for the portfolio, we have put out a target of 4 million outlets, which we will reach definitely by

September. And as I mentioned earlier in the call, we are in the process of collating our next set of targets, both on direct reach and numeric, and we'll update.

Senthil Manikandan: This is second one on the coffee business. So with this consolidation, you can give a strategy point over the next two, three years, how we'll be expanding the coffee retail side?

Sunil D'Souza: Are you talking about Tata Coffee, Eight o'clock?

Senthil Manikandan: On domestic coffee?

Sunil D'Souza: India business?

Senthil Manikandan: India business, yes, sir?

Sunil D'Souza: India business coffee, we are still small in the scheme of things. The game is to continue to build the brand and do distribution. We've got a long way to go. This year, I think, A) we've expanded the distribution of the entry level INR2 packs. Number two is we expanded our range in the higher end of coffee, including launching Tata Coffee Gold. Number three is in the north; it is more coffee. In the south, it is a coffee chicory mix. So far, we were only operating in a coffee chicory mix. Now we have started focusing on the north with a separate red pack versus the regular blue pack. And launched a full coffee mixture up north. Yes, it's basically, again, making sure you've got a portfolio, making sure you drive distribution, and making sure you back it with brand building. I think that is the key. We're still small in the scheme of things. Long way to go.

Senthil Manikandan: Okay, sir. Thanks.

Moderator: Thank you. The next question is from the line of Aditya Joshi from Alchemy. Please go ahead.

Aditya Joshi: Good afternoon, sir. Thanks a lot for your time.

Sunil D'Souza: Sorry, we can't hear you.

Nidhi Verma: You're not audible.

Moderator: Can I request you to please speak up a bit?

Aditya Joshi: Hello, am I audible now?

Moderator: Yes.

Nidhi Verma: Yes.

Aditya Joshi: Yes, thanks a lot for your time, sir. So my first question is with respect to the distribution strategy. Sir, what percentage of total portfolio reaches to the entire 3.8 million outlets? And what percentage reaches directly to 1.5 million? And sir, when will be our entire portfolio, new and traditional business, reach the entire outlet that we serve right now?

Sunil D'Souza: I don't think for any company, the total company reach, you have the entire portfolio reaching the entire numbers. What we do target is direct reach. Like I said, right now we're at 1.5, and we're in the process of drawing up our targets to move further from here, A), and making sure that we drive numeric reach, which includes wholesalers and other listings. As I mentioned, tea, for example, is now in 2.9 million out of our total 4 million outlets, and we will continue to move that going forward.

Aditya Joshi: Got it. The next question is with respect to the demand and demand…

Moderator: Aditya, may I request you to please use the handset, please? You are not clearly audible.

Aditya Joshi: Am I audible now?

Moderator: Yes.

Sunil D'Souza: Yes.

Aditya Joshi: Yes, sorry for that. So next question is with respect to the demand environment in tea. The presentation mentions that there have been challenges. So what is the primary reason for that? Can you just...

Sunil D'Souza: I think we've mentioned that multiple times. It has been inflation. It has been rural stress. It has been geographies of the north.

Aditya Joshi: Got it, sir. And so lastly, from my side, the presentation mentions that there will be a lot of data-driven initiatives that have been done for innovation, new pipeline, new product pipeline, etcetera. So can you please elaborate a bit what kind of data-driven initiatives we have right now?

Sunil D'Souza: I already mentioned that during my discussion, saying we will use various things like web crawling, social listening, etcetera, and figure our NPD from there on.

Aditya Joshi: Got it, sir. Thanks a lot, sir. That was it.

Nidhi Verma: Moderator, we'll just take one final question.

Moderator: Sure. We'll be taking the last question. That is from the line of Percy Panthaki from IIFL. Please go ahead.

Percy Panthaki: Hi, sir. Just a question on the other expenses. You did mention that the ad spend was down for the quarter in the standalone business, but apart from ad spend, the remaining part of the other expenses, are there any structural changes or savings which we should expect will continue, which have been visible in this quarter and will continue going ahead?

L Krishnakumar: So, Percy, if you just go back to, I don't remember, three, four quarters back, other expenses proportion to say it's went up a little bit and all of you asked a number of questions, probably in the reverse to what you're asking now. And if you look at the trend, the other expenses, percentage to sales has been coming down. Overall, directionally, what will happen and what we want to happen is, as we increase ad spend in other expenses, a large part is relating to building the, what we call the pipeline, in terms of base, selling and distribution, other capabilities. On which we will, which is increasing fixed costs. So, as we build volumes and we build scale, that proportion will come down. That is starting to happen partly because of the scale we build, partly also because of price increases that we have taken. But directionally, as a proportion, we expect that to come down.

Sunil D'Souza: So, Percy, just to give you some numbers, as we drive scale, what happens to expenses overall, if you look at people expenses as a percentage of sales in the India business, it has come down steadily. If I am not mistaken, it's about 50 bps down versus where we started-off. Or other than manpower expenses, if you look at other expenses, they have come to roughly half of where we started three years back. So, as long as we keep those costs tight, as a percentage of sales, it will keep coming down. You might have movement between quarters as we recruit people. For example, now we are going to expand distribution into 50,000 -- 20,000 places. As we appoint those distributors, you will need supervisory control. And therefore, we will recruit. Or, for example, we are working on enhanced DMS and SSFA. As we put that into place, you will have that hitting starting that quarter. So, I would urge you to look at it directionally and not on a quarter-to-quarter basis.

Percy Panthaki: Right, sir. And secondly, on NourishCo, I think you mentioned, but I missed out, the EBITDA or EBIT margins on NourishCo, how would they compare with the remaining part of the India business?

Sunil D'Souza: So, contributory margins on NourishCo are on par with the India business. Right now, as we build for A&P, there is a different profile for the NourishCo business. But remember, as we gain scale, it's not A&P will not increase in line with that trajectory. And therefore, we do expect NourishCo to start coming on a positive note in this fiscal itself.

Percy Panthaki: Okay. And contributory margin is EBITDA-plus ad spend or anything else apart from that?

Sunil D'Souza: Contributory margin is basically product margin.

L Krishnakumar: No, it is all variable cost. Contribution after variable cost to fixed cost. That's the way we go.

Percy Panthaki: Okay, sir. That's all from me. Thanks and all the best.

Moderator: Thank you. Ladies and gentlemen, that would be our last question for today. I now hand the conference over to Ms. Nidhi Verma for closing comments. Thank you and over to you, ma'am.

Nidhi Verma: Thank you. Thank you, Aniruddha and team for hosting us. And thanks everyone for joining. If you do have any questions remaining, you can always get in touch with me. Thank you.

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.