

Q3 2017 Tata Global Beverages Ltd Earnings Call

Edited Transcript of Tata Global Beverages Ltd earnings conference call or presentation
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Corporate Participants

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Tata Global Beverages Ltd - MD & CEO

* L. Krishna Kumar

Tata Global Beverages Ltd - Executive Director & Group CFO

* Sanjiv Sarin

Tata Global Beverages Ltd. - MD & CEO, Tata Coffee Limited

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Conference Call Participants

* Aniruddha Joshi

ICICI Securities Ltd. - Analyst

* Nillai Shah

Morgan Stanley - Analyst

* Sharad Shah

First Finance - Analyst

* Abhisek Puglia

IIFL Wealth Management Ltd - Analyst

* Anand Shah

Kotak Securities - Analyst

* Anish Jobalia

Jeetay Investments Pvt Ltd - Analyst

* Abhijeet Jain

SKS Capital - Analyst

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Operator [1]

Ladies and gentlemen. Good day and welcome to Tata Global Beverages Q3 FY17 Results 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.

(Operator Instructions)

Please note that this conference is being recorded. I now hand the conference over to Aniruddha Joshi. Thank you, and over to you, sir.

Aniruddha Joshi, ICICI Securities Ltd. - Analyst [2]

Thanks Aman. On behalf of ICICI Securities, we welcome you all Q3 FY17 results conference call of Tata Global Beverages. We have with us Mr. Ajoy Misra, Managing Director and CEO and Mr. L. Krishna Kumar, Executive Director and Group CFO. Now, I hand over the call to Mr. Ajoy Misra for the commentary on the Q3 FY17 results performance. Thanks, and over to you, sir.

Ajoy Misra, Tata Global Beverages Ltd - MD & CEO [3]

Yes, thank you. This is Ajoy Misra now speaking. Happy to welcome all the participants for this analyst call, which follows the Board meeting that happened last evening, where the results for the nine months, as well as for the quarter were announced.

To start with, a comment on the business performance. The key highlights for us have been that we have seen the third consecutive quarter of operating profit growth in the Company. It is also a quarter where we have continued to on our plan of significant investments behind brand and launches. We have seen a topline growth of 1% in the entire revenue of the consolidated Group and 2% actually in underlying currency for the year-to-date. For the quarter, our topline growth has been better and we've achieved a 3% topline growth for the quarter and 5% in underlying currencies, backed by a very decent volume growth that we have seen in tea, and I'll talk a little bit more about the different parts of the business and where the growth in volumes have come in tea, which is very good news.

The Group also in this quarter has continued on its plan of focusing on new product developments and we've set ourselves a very aggressive agenda for NPD to fuel our growth and to combat the competitive intensity that we have seen in certain developed markets. Happy to give you a headline that we are preparing very well on this agenda.

Also worthy of calling out at this point is that on the cost front, both in terms of commodity, but most -- more importantly, in terms of overall operating cost management, we have seen significant progress, and on commodity, of course, as you all know, there is a softness in tea prices in India, especially Northeast India, Assam Tea, as well as Kenya. South there was a little bumping up of the prices, but overall, I think we managed with very efficient buying, we've managed to bring our input cost in India down.

Coffee costs, while we did have commodity benefits in our branded business, we have also at the same time seen volatility during the year, especially in quarter three. The other highlights that is worth calling out is, what's happening in the currency markets that affect us. So this depreciation of the pound is part of the effect that we've had to cope with, mainly due to Brexit, which does have an adverse impact on the top line, though at this point, for this year at least, no material impact on operating profit. Matters are under control on that front for this year. The financials, of course, that we are reporting are under Ind-AS.

Other than these topline, which I spoke about, we have also -- in terms of profit before exceptional items, we have achieved a YTD figure of INR517 crores, which is a 34% increase. And in terms of Group net profits, we have achieved a figure of INR404 crores, which is a 74% increase over the previous year. In terms of quarter three, our total operating income, as I mentioned, has gone up by 3% and our profit before exceptional items for the quarter stood at INR146 crores, which was a 24% increase over the previous year. And our Group net profits for the quarter was at INR145 crores, which is a very good improvement of 119% over the previous year for the same quarter.

Coming to parts of our businesses that have given us these very encouraging results, like I mentioned, not just for the quarter, but for the last three quarters is India. Happy to report that we have seen good growth even in quarter three despite all the demonetization fears that existed. I think a fantastic job done by our sales team people on the ground, who we had rallied to take this crisis and convert it into an opportunity. We are very, very happy to note the results they have delivered. Though we did see some stress in November, but the way December has -- they've been able to bounce back, overall, we've ended the quarter with growth.

So, we continue in India to be the volume and value leader. Even though we have been continuing to be the volume and value leader, what I think needs calling out specifically is, we've actually gained market share and we've gained market share in India in branded Tata Tea and we are touching probably the highest levels in the last 18 months. I did mention effective management of commodity cost, that has also attributed to the India story.

India has seen very aggressive launches at the same time. Despite quarter three having its hiccups, we went ahead with Tea Veda launch, which was pre-committed anyway and I must compliment the team that with all of this happening, new launch that we had done, which we've talked about in the past of the Tata Tea Gold Mixture, that was a special blend we created for Maharashtra, which is a weak geography for us, it's doing well.

Our brand new launch of Tata Tea Elaichi has shown us spectacular results, well ahead of what we were budgeting and expecting. And our Tata Coffee Grand branded coffee play that we had launched, shows steady gains in market share and what we have gained in the market share in the last six months, it's very heartening to know that we are on the right track with branded coffee. So that's the India story.

Coming to UK, a geography that has been stressing us out for a while, very happy to report that while volume and EBIT pressures that of course are going to be there, but in a relative sense, we have been seeing very robust market share value gains month-on-month, quarter-on-quarter and I'm happy to report that at this point, we have achieved the highest MAT value share seen for the Tetley brand in UK since the early 2015. We've not only gained market share in only Green or in Decaf or in Rooibos but all the categories in which we play in the UK, we've had market share gains.

So that's good news coming from UK despite the Brexit and other pressures that we are facing. Our new campaign on Super Tea which we talked about I think the last time, also that has been our greatest NPD success story in the UK. The whole multimedia campaign broke in this quarter. Remember I mentioned that we are continuing in this quarter, we've had some handsome investments as per plan in our advertising and marketing area, and this whole launch of the TVC and the multimedia campaign for Super Tea was part of the investment that we made in this quarter, plan that was made earlier, but actually the investment rolled out in the quarter that went by.

This super series of our teas, whether it is Super Green, or now, our recently launched Super Fruits. We've got the Grocer New Product award in the UK and the Great Taste award on many of these new products which have given us the right to claim a special thing with our consumers in [EFFIE] about the NPD play that we have started. Of course also, our Tetley Smile Train Challenge, our CSR that ran along with the Tetley re-launch was also on good track in the last quarter.

Coming to USA, I think there has been a good performance we have seen by our branded Eight O'Clock Coffee. Our bagged coffee volume and sales have grown, we've also seen good improvement in operating profit. We've made some new launches, Brazilian Breakfast Coffee and some infusions that we brought out into the market. Sales are on pace. In a couple of new products, we have exceeded expectations like in Brazilian Breakfast Coffee SKU. We launched and brought our Super Green Tea product, which is such a success in UK, we brought it to the US market now. And in fact, even in the US, our Tetley Super Teas have won the Product of the Year award.

Coming to Canada, good topline performance. We maintained our volume and value leadership in this market, and we've had also new launches, the most successful of them being the new Ayurveda line of teas that we launched in Canada.

Stable performance in the rest of Europe, and in Russia, we've seen some topline growth because we've been able to -- or we found it necessary to take price increases, because of the economic conditions that prevail there.

Talking about non-branded business, I think the star in the non-branded business has been spectacular performance by Tata Coffee Limited, which even in this quarter continues its

increase in operating income, as well as operating profit compared to the previous year's (inaudible) period. The biggest improvement in this year's Tata Coffee Limited has come in the instant coffee part of their business. There has been a good improvement in coffee extraction driven by volume improvements. Then, also our instant tea in non-branded business has shown us stable, both top line and bottom line numbers.

Tea plantations, there has been an improvement this year in tea plantation incomes and financial health. Some of our incubatory businesses, let me talk about for the moment, Middle East, quarter three has shown a strong quarter growth which was always to be expected because it was in quarter three that some of our new initiatives were coming on to the shelves. Our fresh foil pack, Tetley pack has been launched. Fairly well appreciated by customers, I would say. And we have also backed the Tetley Green Tea relaunch with a new commercial that we have invested in and it broke on TV in this quarter in the Middle East.

Starbucks continues its very encouraging performance. And I must say, Starbucks is another thing I needed to call out talking about quarter three and the demonetization fears in which this business operates, because almost 60% to 65% or more of all the transactions have been cash transactions, but they were able to adapt and reverse that whole proportion quite dramatically within days of the demonetization happening, geared themselves to adapt and add capability to transact digitally hundreds of transactions, which were earlier happening per store manually and on cash.

They managed to, after a couple of days of slight affect, bounce back, recover and actually post very healthy growths in the full quarter as a whole and certainly in November and December; December has been a spectacular December for them. We have shown for the YTD, a fairly good top line growth. Most heartening has been the store level profitability and same-store growth levels. The expansion of stores are continuing steadily and we continue to do new formats to make ourselves more annualized. We believe we are well on track with our focus on cash breakeven to start with. Talking about NourishCo, something that is never given adequate attention, not by the management, but by those who observe our Company's fortunes, but very happy to call out that the other JV with Pepsi is also showing us steady and good growth. We've seen YTD as well as in the quarter, double-digit growth that is continuing in this entity, driven largely by Tata Gluco Plus and Himalayan. Both are showing double-digit growths and continue to do so steadily.

Tata Water Plus, our PET performance improves as we've seen in this quarter, as well as YTD. And the new news in this space is that we have brought out a new Himalayan Sparkling product in a glass bottle, a very attractive glass bottle. If you go to our website where we have uploaded our presentation that I'm talking through right now, you will find pictures of the Himalayan Sparkling bottle on that deck. Also, we have started a pilot launch of Himalayan flavored water, which we have selected some select channels where we are piloting this new launch. So there is good excitement happening around our water business too.

Other significant events that I want to mention that happened in this quarter, you may have noticed from our previous meetings that we have been saying that we are not going to hesitate to look at parts of our businesses that are not performing well and we are going to be very pragmatic about looking at rationalization of our portfolio or play along that intent.

Happy to, not happy, but calling out to mention that our China joint venture, factory and production venture that we had set up in Hangzhou, which was stretched out over the last few years, we had taken the call that we should look for exiting and as we speak and you may have noticed this news, since we had reported to SEBI a few days back, that we are well on the process of (inaudible) to complete definitive agreements to be able to have an exit from that business.

When we are exiting China on this B2B venture, China continues to be such a big attraction in terms of our market that we actually and simultaneously we have made an entry into the China with branded Tetley products, takeaways for that market and for past many months, we've been working to bring these products into China along with a partnership with Alibaba.com, which as you know is the largest e-commerce channel in China, in fact in the world, in terms of what it reaches and what throughput is.

So Tetley today, is available on Alibaba.com. We have four SKUs at the moment. We are getting a very good feel of the marketplace and if any of you get on to that website, you will be able to see that. So I think that's a very good start for us to get sense first-hand on the ground of the of the black tea play in China, which was largely a non-black tea market, but the recent trends have been that newer generations of people in China are moving to black tea just like the rest of the world. So, we want to play in that market.

On Tata Coffee Limited, you may have also noted (technical difficulty) I'm calling out that we have taken a call that Tata Coffee is going to set up a production unit, state-of-the-art green field factory for freeze dried instant coffee in Vietnam with a capacity of 5,000 metric tons per annum.

On the sustainability front, there is a landmark that we have achieved. We have set ourselves a target, we set ourselves a target about six years, seven years back that we are going to be 100% Rainforest Alliance certified in sourcing of all teas for our Tetley brand, for our play in UK, EMEA and CAA regions. Happy to report that by December 2016, we actually hit that target of now being 100% Rainforest Alliance. So those are some of the key -- I will talk about right at the beginning. And I'm going to now handover to L. Krishna Kumar, LKK, our ED, Finance and Group CFO to talk through some more details of the financial performance. So, over to you LK.

L. Krishna Kumar, Tata Global Beverages Ltd - Executive Director & Group CFO [4]

Thanks Ajoy and good evening everyone. I think we have the presentation, which is up on the site. Just talking through it, the operating income as Ajoy said for the nine months up by 1%, 2% in underlying currency, and for the quarter, a much higher growth at 3% and 5%. There has been good volume growth in branded tea business. Volume growth not only in India, which Ajoy talked about, but also in other markets like Canada, markets like UK, which are difficult markets and notwithstanding difficulty in terms of category growth, I think we have been gaining share. So it's been a strong performance in many markets. In the non-branded business, the tea extraction had good sales volumes.

And tea plantations performed better than the same period in the previous year. However, the reported top line is somewhat muted because of passing on price decreases, as well as adverse currency movements, particularly in the UK. In terms of profitability, you have seen a strong improvement in operating performance, both for the quarter, as well as for the nine months, driven by good commodity cost hedging, lower level of commodity costs, good control over FX and FX hedging.

Overall as Ajoy mentioned, there has been good cost management. For the quarter, if you have observed, there has been a fair amount of increase in ad spend on quarter-on-quarter, and that's because of high levels of advertising in India, in markets like the UK where we have launched Supers, and also in some of our expanding markets like the Middle East.

So, the operating performance is despite a much higher level of investment. And some of the new products in India, you are going to be seeing pretty soon -- some of the advertisements will be on air pretty soon. So there will be campaigns in India for strengthening the brand and some of the new products that will be more visible going forward. The profits have also improved because of lower interest cost and higher other income.

In terms of exceptionals, we have profit on treatment of Empirical, which is a joint venture we had in the foodservice business in the US as a subsidiary, basically because of change in control where we amended the agreement so that effectively (inaudible) control of the venture. In IFRS terms, it's treated as a sale and re-investment, so we did record a one-time gain based on fair value measurement. So overall, Group net profit is also higher, reflecting all these items we talked about.

In terms of -- I'm just going to go straight to the OCI. If you look at the OCI for the quarter, there is credit whereas for the full year, you had an adverse impact because of currency translation, primarily in the UK. The OCI represents the actuarial gain/losses on some of the retirement benefit schemes we have in overseas entities, the foreign currency translation and also cash flow hedges, which are reflected under reserves in Indian GAAP.

There is also the impact of our actuarial gain/loss on employee benefits in India and fair value accounting of investments as per the Ind-AS principles. If you look at region-wise income from operations, we have seen growth in revenues in the CAA, driven by strong performance in Canada and also a good underlying performance in Eight O'Clock more in the first six months than in the quarter. But that's more to do with phasing. EMEA because of currency translation, we're showing a drop. Underlying performance as I mentioned, in the UK market, has been strong with share gains. India, there is improvement in terms of volume and we've also had a good January as we speak.

Non-branded operations, again, reflect the good performance of extraction business in particular. If you look at the segment-wise performance, again, you'll see that in terms of revenue, similar trend of growth, but not fully reflecting the underlying volume growth because of currency and to some extent, in the current commodity environment and competitive environment, we have also taken price corrections. But that has not impacted profitability overall.

If you look at the segment results, again, significant improvement in coffee profitability and also in tea. And tea as Ajoy mentioned, we have in the current year, notwithstanding adverse impact of Brexit, we've been able to manage our currency and commodity costs at a fairly good level.

So overall, you're seeing an improvement both in profitability and also in return on capital employed because capital employed again, we have a lower capital employed for two reasons. There has been a significant improvement in working capital and cash release from working capital. Apart from that, we have benefited by currency translation.

We also have a statement of reconciliation between the earlier IGAAP and the Ind-AS and as we have been mentioning earlier, the main item is related to revenue being lowered because of netting off some promotion expenditure. The fact that we are equity accounting a lot of our incubatory businesses is also impacting the operating profits that we report.

So that's it from my side. Both Ajoy and I will be happy to answer any questions.

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Questions and Answers

Operator [1]

Thank you very much. Ladies and gentlemen, we will now begin with the question-and-answer session. (Operator Instruction) Nillai Shah, Morgan Stanley.

Nillai Shah, Morgan Stanley - Analyst [2]

My question is on the international businesses, both EOC and Tetley, over the last few years, we've seen almost a situation where in some cases or in some quarters, the revenue growth is strong, in some cases or in some quarters, the margin expansion is reasonable. That seems to be continuing. What are the drivers that you are putting in place to ensure less volatility on the earnings front for both these businesses?

Ajoy Misra, Tata Global Beverages Ltd - MD & CEO [3]

LK, you take the coffee part, I will handle UK after that.

L. Krishna Kumar, Tata Global Beverages Ltd - Executive Director & Group CFO [4]

Sure, sure, no problem. So let me -- I'm just going to talk -- Ajoy, I'll reply and then you can add to it Ajoy. I think first of all, one statement that we want to make is, there is volatility and there is more volatility today in FX and commodity that we've seen for -- seen that increasing over a period of time. The second point that we want to make is, on a quarter-to-quarter, the international markets and we've made that in the past, is driven by promotion and it's a market where there is a lot of retailer consolidation. So a particular quarter is impacted by whether we are doing a promotion, say, if you take Eight O'Clock example, in Wal-Mart this quarter and a particular promotion that we do every year, it so happens that we do in quarter three this year, whereas in the previous year, a similar promotion may have been started in quarter two.

So there are events like this, which will impact quarter-to-quarter. So that is something which is inherent in the nature of the business. Overall -- and there are a buzz of advertising, which happened on quarter-to-quarter. So we're really managing our business from a longer-term perspective, but these are events which impact quarter-to-quarter. We also take price corrections and hedging strategy would also change depending on our view of the market. In the recent years, we have taken a slightly longer-term view of the hedging strategy. So that's what I want to say and Ajoy, over to you to add to it.

Ajoy Misra, Tata Global Beverages Ltd - MD & CEO [5]

No. That I think pretty much sums it, but I just want to make one distinction when it comes to UK. In UK, it's not more of the same that we have been talking about or what we have seen, all the results that we produce. I think there is a secular trend of market share gains that we have seen for the last three quarters, like I mentioned month-on-month, quarter-on-quarter and it's quite a significant turnaround in the fortunes of the Tetley brand.

And our strategy of reducing over dependence on Everyday black, which is what they call, the black tea play there under the Tetley brand and a steady, but very aggressive shift to green tea and specialty teas, which is the non-black, non-green i.e. fruit and herbals and such like, we then take on that kind of play quite significantly. These are steps that actually are different today than they have been in the past. So, I just want to bring that distinction in addition to what LK has meant to explain some amount of volatility, which is promotion-led or otherwise.

Nillai Shah, Morgan Stanley - Analyst [6]

So if I just look at the margins in the international tea business on a long-term perspective, when you first acquired this business, correct me if I'm wrong, but the margins were in the vicinity of 15% plus. They dropped to about 7%, 8% and as of FY16, I think they very low-single digits. When do you see this trend reversing and over the long term, and the definition of long term would be two to three years, where do you see these margins sustaining on a sustainable basis?

L. Krishna Kumar, Tata Global Beverages Ltd - Executive Director & Group CFO [7]

I think we can give you a forward view and you're making a very general statement. I'm happy to have a conversation to explain what happened in respective years, but I can only say that what you saw last year was probably an aberration, but it's a function of also new product, new product introduction and change in portfolio. And as we have been mentioning in the past, it's also a function of some investments and some businesses turning around. We did make that statement, so it's wrong to just say that the business is the same and you're making 15%, it came down to 7%, it's now coming down to 8%. So you need to understand fundamentally that the business profile is changing. But having said that, I think last year was lower and I think I don't want to comment on any forward-looking margins to you.

Operator [8]

(Operator Instructions) [Sharad Shah, First Finance].

Sharad Shah, First Finance - Analyst [9]

Sir, I wanted to know, if possible, you can give the numbers of Starbucks, please, as you said it is doing very well?

Ajoy Misra, Tata Global Beverages Ltd - MD & CEO [10]

So Mr. Sharad, this is a JV where we have another partner and therefore, we are always a little conservative in actually giving out numbers because we have to conform to their norms versus ours. So I can't give you specific numbers, but what I can tell you is that the

percentage of stores that have become profitable at store level has gone up very significantly in the last nine months, that's metric number one.

Metric number two is, our same-store sales growth has probably outstripped any QSR player in the country quite handsomely with the kind of results that we have seen. So, those are two very broad metrics that I can give without naming a specific number and I can say that the same-store sales growth number is a very high single-digit percentage growth, which under the kind of market that all these kind of businesses, retail, QSR businesses are performing, is at the market beating performance.

So those are the things that I can mention and I've also told you that in quarter three, which was beset with, two months out of the three months in the quarter with demonetization, actually we've bounced and shown overall revenue growth, as well as same-store sales growth numbers higher than in the rest of the year, which is also a good performance. So, I think we're on a very strong performance wicket on that front, sir.

Sharad Shah, First Finance - Analyst [11]

We appreciate your concern of not sharing the numbers, but if you can, then we will be also very jubilant and appreciative. And on the stores front, since last year, we are around 35 stores to 90 stores. Say, two years, three years down the line, any numbers you have, all the stores that you want to open?

Ajoy Misra, Tata Global Beverages Ltd - MD & CEO [12]

Once again, it's an agreement with Starbucks that we don't want to name a number. But once again, giving you one or two comments which give you a good sense and that is that according to Howard Schultz of Starbucks who we engaged with recently and his team, they are extremely happy with the rate of growth of stores, as well as the business in India and they have publicly [added] this in their system as the fastest growing new developed market that Starbucks has entered. And the rate of growth in the first three-and-a-half years to four years they have seen in India, even beats their record in China, which they entered 10 years back. So I think we have enough indication out there that we are poised for a very exciting future with this business, sir.

Sharad Shah, First Finance - Analyst [13]

And Mr. LKK, on those China ventures that you are getting out, how much will be the write-off?

L. Krishna Kumar, Tata Global Beverages Ltd - Executive Director & Group CFO [14]

Mr. Shah, I think this is a B2B venture in China. We've just signed an agreement which is conditional, but we don't expect any adverse impact on the reported results.

Sharad Shah, First Finance - Analyst [15]

And sir, next year, you will show good numbers or bad numbers? It's not forward-looking, wishful statements; what is your wish?

Ajoy Misra, Tata Global Beverages Ltd - MD & CEO [16]

Yes sir, we want to pursue on this journey and on this trajectory. Of course, we have to cope with headwinds that keep coming up from time-to-time, but we're absolutely as a team committed, we seem to have delivered results, we energized the whole Company, management, leadership, down the line people, and it was going to take some time. Thank you for everyone to being patient and bearing with us, and we kept saying that we have a plan, so we have a strategy and bear with us and we will begin to see it playing out.

So that's what I can assure you that we do have a robust strategy in place, market-by-market. Conditions have been well understood, we have all the building block and the interventions to tackle each of those situations. So much of what we are talking about and when we say NPD and new launches and shift away from black tea and all that we are doing in India, doubling our number of launches that we've ever done before to try and open up new avenues of aggressive growth, all of that is well underway -- well into the next year, you will find us playing out similar tunes.

Operator [17]

(Operator Instructions) [Abhisek Puglia, IIFL Wealth Management Ltd.]

Abhisek Puglia, IIFL Wealth Management Ltd - Analyst [18]

Just wanted to understand like -- this question is pertaining to actually NourishCo. They are into water business, but still in spite of like number of years down the line, they have still not had a brand across India. So what's preventing us to be now -- actually leading us to grow because -- we're growing at around double-digits, but still because the potential is huge and the base is at double-digits, it should be very high percentages?

Ajoy Misra, Tata Global Beverages Ltd - MD & CEO [19]

Yes, you're right and let me explain. Under NourishCo, we have Himalayan source water, now we've launched sparkling and flavored also. We have Tata Gluco Plus and we have Tata Water Plus at this point. Himalayan, which is a source water, is actually national. Through the Pepsi distribution system, Himalayan is a national play. Tata Gluco Plus and Tata Water Plus are regional plays which keep unfolding across different districts and regions. And the reason why it has to be like that and it cannot go national is because these are bottled at a certain location. We need to have co-packers or co-bottlers so to speak, and we have to have a radius around that bottling plant of whatever 200 kilometers, 300 kilometers within which the sale has to happen, because the price point at which these products are sold, we cannot incur high transportation logistics costs because then we become uncompetitive.

So the whole roll out is a function, let's take Tata Gluco Plus where we've taken a call to go national, it is actually -- the constraint only is, how fast can you locate, certify and get local bottlers to adapt to be able to do your bottling. So, today starting with two states in South India, which is Tamil Nadu and Andhra, we are now in Karnataka, we've moved up into Maharashtra, UP, and are looking for bottling. We've found a bottler in Kashmir. So that hasn't stopped us from immediately setting up a line and introducing Tata Gluco Plus for the Kashmir market. So it's a question of getting and being able to attract bottlers.

But, we are very much on our progress on making it national. Tata Water Plus, we are being a little cautious at this point in time. It's essentially only in two states, Andhra and Tamil Nadu, because we are trying to crack a certain model in that proposition, a business model that makes it a more attractive play for us. So we are doing some R&D on that, both on the consumer proposition front, as well as packaging. So it cannot happen overnight like Himalayan, that's the reason as I explained, but absolutely agree with you that as you roll out to other states, the potential for growth is actually in multiples.

Abhisek Puglia, IIFL Wealth Management Ltd - Analyst [20]

(technical difficulty) which one of the verticals like Tata Global is much more confident and probably would be much more aggressive, and where in the higher sales growth would be seen going forward?

Ajoy Misra, Tata Global Beverages Ltd - MD & CEO [21]

I couldn't follow. Did anybody follow the question? Sorry, the voice was breaking off or not clear, I could not follow the question.

Abhisek Puglia, IIFL Wealth Management Ltd - Analyst [22]

Ajoy, (technical difficulty) tea and water. Like which one of the verticals would be like, most of the energy focused upon, like where in years -- as Tata Global, we are finding most of opportunities?

Ajoy Misra, Tata Global Beverages Ltd - MD & CEO [23]

So is your question that we are playing in tea, coffee and water, and you are asking which of these are we putting more focus on?

Abhisek Puglia, IIFL Wealth Management Ltd - Analyst [24]

Yes, yes, definitely.

Ajoy Misra, Tata Global Beverages Ltd - MD & CEO [25]

So it's like I have three children. Actually I have only two girls, but assuming I had three children, who would I focus more on, I think I wouldn't focus more on any one of the other. I

would look at each and try to exploit the inherent talent of each to the best of that entity's ability. So we look actually quite equally at growing these businesses, except that in tea, the base is so huge, so far already above 74%, 75% of the business that the rate of growth is on a very high base, whereas when it comes to water, the base is very small. But we are aiming for very aggressive growth numbers, because the base is small. But otherwise, focus-wise, it's not like we're constantly focusing less on any of these aspects of our business.

Abhisek Puglia, IIFL Wealth Management Ltd - Analyst [26]

So, by aggressive in the water terms, can you just throw some light as of what could be on a targeted kind of a percentage growth that Tata Global is looking at from its water verticals maybe next one year, two years?

Ajoy Misra, Tata Global Beverages Ltd - MD & CEO [27]

High double-digits beyond the normal double digits. So, I'm -- again like LK said, we don't really give figures into the future in terms numbers, but take it as very aggressive growth would certainly be very high double-digits year-on-year.

Abhisek Puglia, IIFL Wealth Management Ltd - Analyst [28]

(multiple speaker) maybe 50%, 60% on a year-on-year basis going forward?

L. Krishna Kumar, Tata Global Beverages Ltd - Executive Director & Group CFO [29]

I think Ajoy, we should just leave it. I think his comment was on water vertical when he talked of double-digit growth, right? So, we are not trying to project the rate of growth for the Company, sorry, we don't want to do that.

Operator [30]

(Operator Instructions) Anand Shah, Kotak Securities.

Anand Shah, Kotak Securities - Analyst [31]

I just had a few questions in the domestic business. So one is I mean, if you look at the domestic tea business, your topline growth has slowed down over the last few quarters to low single-digit. I mean it used to be high single-digit and double-digit a few years ago. So what exactly has happened here, is it because of price cuts or something or volumes have slowed down?

Ajoy Misra, Tata Global Beverages Ltd - MD & CEO [32]

No, it's just that we believe we also need to grow volumes and the increase in the topline should not only be a function of price. So I think we are achieving a fine balance of top line growth being driven both by underlying volume growth, which we are seeing much more than we were seeing in the recent past, as well as price that we should continue to look at relative price index. So it's a healthy mix of both. I would really say that's the answer plus, we are preparing for the future by launching products to widen the portfolio play. In fact, as you notice, we've even gone beyond branded tea, and we've got into coffee, branded coffee. We are building further on the coffee front also as part of the India plan. So that really is the strategy that is unfolding.

Anand Shah, Kotak Securities - Analyst [33]

But I mean, can you share any numbers for the nine months in terms of top line broken down into volume and pricing for the domestic?

Ajoy Misra, Tata Global Beverages Ltd - MD & CEO [34]

I think in top line, you will find in more or less in the standalone.

Anand Shah, Kotak Securities - Analyst [35]

Yes, but that will be all volume-led or it will be a fair mix of pricing volumes?

L. Krishna Kumar, Tata Global Beverages Ltd - Executive Director & Group CFO [36]

There is also a price reduction in that.

Anand Shah, Kotak Securities - Analyst [37]

There is a price reduction. So volume would be higher than the reported top line?

L. Krishna Kumar, Tata Global Beverages Ltd - Executive Director & Group CFO [38]

Yes, should be.

Anand Shah, Kotak Securities - Analyst [39]

Should be. Okay. And just on the margin front, I mean if you've seen over the last several years, I mean your margin in the domestic tea business has been more or less in that 11% EBITDA range. I mean you are obviously doing a lot of effort in terms of premiumizing your portfolio. So, over a longer term, not any near-term guidance, but over a longer term three years to five years, what should one look at as a sustainable EBITDA margin? Can it improve to mid-teens and what would drive that?

L. Krishna Kumar, Tata Global Beverages Ltd - Executive Director & Group CFO [40]

I think -- I don't want to comment on a margin percentage, but I think you will see greater impact of premiumization in IFRS going forward.

Anand Shah, Kotak Securities - Analyst [41]

Lastly on the EOC, I mean, can you comment on how the pots and the bags business are performing? I mean, pots definitely look to -- have seemed to slow down a bit and bags at least almost seem to have picked up a bit. So how that trajectory has been seen over the last nine months?

Ajoy Misra, Tata Global Beverages Ltd - MD & CEO [42]

So bag volumes are growing for us, as well as I must say for the category. So that is good news. You're right, the not so good news is, the pots business so to speak, categories for business seems -- the rate of growth seems to be slowing down. That is indeed a fact, but that's -- perhaps also because the base is getting bigger and bigger, but also perhaps there comes a point where the next wave begins to take over. But let's not forget that even in the pots category, the number of new entrants that are coming have really increased. So that's certainly what's happening, but I don't think the single-serve business is going out of fashion, not at all. I think, great coffee with such convenience is here to stay for a long, long while. So that's the comment on the pots business.

Anand Shah, Kotak Securities - Analyst [43]

As a mix of business, how much would be pots and how much would be bags for you overall?

Ajoy Misra, Tata Global Beverages Ltd - MD & CEO [44]

I would not have that number. LK do you have --?

L. Krishna Kumar, Tata Global Beverages Ltd - Executive Director & Group CFO [45]

No, I don't have it. I'll find and get back to it later.

Anand Shah, Kotak Securities - Analyst [46]

And just lastly one thing, has there been any correction in the royalty that you had from acquiring in terms of percentage or have you taken any price cuts for anything?

Ajoy Misra, Tata Global Beverages Ltd - MD & CEO [47]

Sanjiv, you want to comment on it?

Sanjiv Sarin, Tata Global Beverages Ltd. - MD & CEO, Tata Coffee Limited [48]

No I think it is market determinant and they have, as we've said, the agreement we will be reviewing next financial year. At this point in time, there's no change.

Operator [49]

[Abhijeet Jain, SKS Capital].

Abhijeet Jain, SKS Capital - Analyst [50]

I have one question, I just want to understand, is there any price hike you have taken in Britain because of Brexit due to input cost pressure, because I was reading somewhere, even Yorkshire Tea and Tetley has gone for a price hike? And that is mainly because of the higher input cost. Are we seeing some pressure on margins and how exactly (technical difficulty)?

L. Krishna Kumar, Tata Global Beverages Ltd - Executive Director & Group CFO [51]

So Ajoy, do you want me to answer?

Ajoy Misra, Tata Global Beverages Ltd - MD & CEO [52]

Let me answer and you jump in LK.

L. Krishna Kumar, Tata Global Beverages Ltd - Executive Director & Group CFO [53]

Okay, go ahead.

Ajoy Misra, Tata Global Beverages Ltd - MD & CEO [54]

So, there are two things happening. Input costs, tea is bought in dollars, so yes, everybody's cost is going up. In fact, anything imported into the UK right now and being sold there, all such products are facing this problem. Some companies have attempted to pass on the additional burden to customers quite aggressively. You've also read stories in the media about the reaction of some of the big multiples like Tesco and all to some of those moves. We have also been contemplating and finalizing our strategy. We're doing it in a manner that is a little more stable, we don't want to get suddenly delisted like some have. I must say that our team has done a great job, we managed to get some cost price increase. So yes -- but of course, you can't -- at this point in time everybody is waiting and watching, but there is, there are attempts to restructure and see how we can address some of the additional costs. LK?

L. Krishna Kumar, Tata Global Beverages Ltd - Executive Director & Group CFO [55]

No, I think you covered, so I think the short answer is yes, there has been some amount of price increase and as the inflation -- but I do think the trade has entirely got at this point in time all the input cost recovered through pricing fee, though discussions are on. So the charity has to be a combination of both cost and selective price increase.

Aniruddha Joshi, ICICI Securities Ltd. - Analyst [56]

Hello, sir. Aniruddha here from ICICI. Just three, four questions from my side. Can you indicate the impact on the business in India post demonetization? So how much revenue could have probably lost due to the channel inventory reduction, as well as demonetization? And what is our revenue breakup across channels, that is wholesale, distribution-led general trade, modern trade as well as CSD?

Ajoy Misra, Tata Global Beverages Ltd - MD & CEO [57]

I'm not sure I can give you those very specific pieces of information that you listed out. What I can say is that post demonetization in the month of November, we saw some pressure on continuing to grow volume in the momentum that we had set ourselves in the previous six months, seven months, but by December, we had cracked it and we bounced back very strongly and as you know, we've ended the quarter with a decent volume growth. So I think it's been a great recovery and we continue to post volume growth.

Aniruddha Joshi, ICICI Securities Ltd. - Analyst [58]

But have you observed any down trading trend because the categories like tea or [detergent] we have seen in the past that consumers tend move to probably lower price point products. Have you observed any trend like that or do you see a trend of premiumization continuing at the same pace that was before demonetization?

Ajoy Misra, Tata Global Beverages Ltd - MD & CEO [59]

Yes. So I roughly would say so, you're right. At the bottom end of the branded play, we have products as you know right, from Tata Tea Gold at the upper end and now Tea Veda and Tata Tea Select at the upper end, and we have Tata Tea Agni priced and positioned at the lower end of our spectrum of brands. So yes, we are seeing very good growth in Tata Tea Agni, which indicates that there is a lot of growth happening there. At the same time, we're seeing growth continues to happen at the premium end also at both ends.

Aniruddha Joshi, ICICI Securities Ltd. - Analyst [60]

Just two questions. Can you indicate the market share. I mean, the market share is at the peak level, I guess, in almost past 18 months. So can you indicate the market share and what has been the gain over the past 12 months to 18 months in BPS terms if you can share that? And lastly a housekeeping question, what is the CapEx, as well as income tax rate that you see for FY18?

Ajoy Misra, Tata Global Beverages Ltd - MD & CEO [61]

So we have gained approximately a percentage point plus, which as you know is a very significant increase because in the FMCG world, for any products to gain half a percentage point or one percentage point is not easy.

Aniruddha Joshi, ICICI Securities Ltd. - Analyst [62]

What is the current market share?

Ajoy Misra, Tata Global Beverages Ltd - MD & CEO [63]

Our current market share for volume is about 20%, 21% odd.

Aniruddha Joshi, ICICI Securities Ltd. - Analyst [64]

On the question on the CapEx and effective income tax rate that you see for FY18 on a consolidated basis?

L. Krishna Kumar, Tata Global Beverages Ltd - Executive Director & Group CFO [65]

I think you're asking for forward statement. I think the CapEx -- we're not seeing any major change in the level of CapEx from where we are barring the fact that there will be a Vietnam project in Tata Coffee, but it won't all happen in one year. On the tax rate, we are not seeing -- I think we're not seeing any material change to the existing effective tax rate maybe.

Aniruddha Joshi, ICICI Securities Ltd. - Analyst [66]

Lastly, we have seen almost nine months volume growth and topline growth. So probably volume growth was ahead of revenue growth. So have you raised any prices in maybe Q3 or maybe in Jan, so which will lead to price-led growth in coming quarters or we will continue to see volume growth remaining ahead of revenue growth?

L. Krishna Kumar, Tata Global Beverages Ltd - Executive Director & Group CFO [67]

Again, you're asking about -- you're sort of generalizing the period, and all that I can say is, at this point in time, we have not taken -- barring UK, which we talked of and there we'll be looking for price increases from where we are, some have happened and some will happen, but in India, we are not looking at price increases at this point in time. But the mix of premiumization changes and there would be changes because of mix, not because of price.

Ajoy Misra, Tata Global Beverages Ltd - MD & CEO [68]

My request is if we just now have one last question, because I have to go to my appointment which is waiting right now.

Aniruddha Joshi, ICICI Securities Ltd. - Analyst [69]

Aman, can you take the last question?

Operator [70]

Anish Jobalia, Jeetay Investments Pvt Ltd.

Anish Jobalia, Jeetay Investments Pvt Ltd - Analyst [71]

Just looking at your nine-month results, your gross margins have improved by around 1.5%. So is it possible for you to indicate if this is a result of premiumization and if yes, then what are the products that have actually resulted into the premiumization in the nine months?

L. Krishna Kumar, Tata Global Beverages Ltd - Executive Director & Group CFO [72]

So I don't think that there is -- there may be a small element of premiumization, but I guess it is and as Ajoy mentioned in the UK, I think we have done well in terms of specialty and fruit and herbal, but I would say that's a smaller proportion. It's a combination of better commodity cost management and better FX hedging. That's really what it reflects. It's not a fundamental change in the product portfolio right now.

Anish Jobalia, Jeetay Investments Pvt Ltd - Analyst [73]

So then, would you be -- would you think that this margin that you have achieved in this nine months, gross margins of around 46.5%, would that be sustainable or you think that, I mean, or is it like because, it's like a one year, you have an advantage of better cost management?

Ajoy Misra, Tata Global Beverages Ltd - MD & CEO [74]

I think you will have to wait. I think some of the cost management measures are continuing. So it's not one-off, but then commodity prices are volatile. So, I'd be hesitant to make a forward-looking statement. But some of these measures are continuing measures.

Operator [75]

Thank you. Ladies and gentlemen, that was our last question. I would like to hand the conference back to Mr. Aniruddha Joshi for closing comments. Thank you, and over to you, sir.

Aniruddha Joshi, ICICI Securities Ltd. - Analyst [76]

Thanks, Aman. On behalf of ICICI Securities, we thank all the participants, as well as the management of Tata Global Beverages who participated in the call. Now, I hand over Mr. Ajoy Mishra for the closing comments. Thanks, and over to you, sir.

Ajoy Misra, Tata Global Beverages Ltd - MD & CEO [77]

Thank you, I really appreciate all the analysts who had come on the call and shown interest in Tata Global Beverages. And it's been a pleasure interacting with you and it's always a bigger pleasure to keep reporting quarter-on-quarter improved performance. I thank you for your support over the years.

Operator [78]

Thank you very much. Ladies and gentlemen, on behalf of ICICI Securities that concludes this conference. Thank you for joining us. And you may now disconnect your lines.