

Q3 2019 Tata Global Beverages Ltd Earnings Call

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Corporate Participants

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Tata Global Beverages Limited - MD, CEO & Executive Director

\* L. Krishna Kumar

Tata Global Beverages Limited - Group CFO & Executive Director

\* Rakesh Sony

Tata Global Beverages Limited - Global Head of Strategy and M&A

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Operator [1]

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Ladies and gentlemen, good day, and welcome to the Tata Global Beverages Limited Q3 FY 2019 Earnings Conference Call hosted by ICICI Securities Limited. (Operator Instructions) Please note that this conference is being recorded.

I now hand the conference over to Mr. Vismaya Agarwal from ICICI Securities Limited. Thank you. And over to you, Mr. Agarwal.

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Vismaya Agarwal, [2]

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Thank you, Bharat. And good afternoon, everyone. It is a pleasure to welcome you all on behalf of ICICI Securities to the Q3 FY '19 Tata Global Beverages Earnings Conference Call. We have with us today from the management: Mr. Ajoy Misra, Managing Director and CEO; and Mr. L. Krishna Kumar, Executive Director and Group CFO. I now hand over the call to you, sir, for your opening comments.

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Ajoy Kumar Misra, Tata Global Beverages Limited - MD, CEO & Executive Director [3]

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Right. Thank you. Let me start this quarter 3 investor presentation by bringing the attention of all participants to the disclaimer, which is there at the beginning of our presentation which has been uploaded. And I hope everybody would have taken note of that.

The key highlights of the quarter are as follows. There are some positives that I'd like to point out and there are some challenges that I'd like to point out for the quarter. There has been an improvement in operating performance, which has been aided by top line growth in Branded business.

India results for the quarter has grown at 5% in value and 7% in volume. Green tea in India continues to grow and in this quarter, grew by 14% with a volume growth of 7%. There has been a top line improvement in U.S. coffee by 28% in underlying terms, aided by the K-Cup sales. There has been improved performance in this quarter in the U.K., a growth of 6% in underlying terms. And we have gained some market share there.

Tata Coffee, which didn't have a good time last time, there has been an improvement in this quarter driven mainly by the instant coffee sales. And our JVs have had very robust growth in excess of around 30%, both Tata Starbucks and NourishCo in this quarter.

The challenges that we have faced is Indian markets, the competitive headwinds continue, higher fee commodity costs in India. And there have been lower realization and lower crops in coffee plantation businesses.

The consolidated financials, now I'm on Slide #5. The consolidated financials for the quarter are: we've had good growth in revenue of 12% and 11% in underlying terms; and it's the Branded business that's grown by 12%; and the Non Branded business has grown by 5%, but the bulk of our business is in Branded. In terms of PBT, we have degrown by 17% in the Branded business and 14% if you look at Non Branded and unallocated costs. And we will explain in a while as to how to put this in perspective in terms of the numbers and the underlying factors.

In terms of consolidated financials, year-to-date, our revenue has grown by 10%, aided by a 10% growth in Branded business, largely. And our PBT is minus 7%. And like I mentioned, we will mention the factors and how to put that in perspective and explain the strategy behind wanting to drive volume and bring back growth in the top line.

The region-wide performance, coming to that. In India, it's been a story of a volume-led top line growth, where the tea portfolio has grown by 7% in volume and 5% in value terms. There has been growth in both national as well as regional brands. And green tea continues to grow both in volume and value, aided by a very successful campaign, which I had shared and mentioned before, which Deepika Padukone being our brand ambassador. However, in India, we have been hit by a higher commodity cost. And since nobody else has taken up prices, we have been restrained in being able to recover the higher commodity costs. Though in some of our brands, we have taken some price increases.

We've had new launches in the quarter. In the South, we brought out the Chakra Gold, a lychee version. And as you know, our new initiative continues to pilot different formats in

Bangalore. This is our tea retail venture called Tata Cha. The sixth store opened very recently as part of our pilot. And in the text that has been uploaded, you will see the 6 stores -- the pictures of the 6 stores for Tata Cha.

In U.S. and Canada. In the U.S., coffee sales are up in U.S. by 28% in underlying terms. And this is aided largely by direct K-Cup sales, which we have undertaken now. Tea sales have also shown an increase in the U.S. It's grown by 3%, driven by growth largely in Good Earth and in Empirical, our food service tea business. Margin has been impacted by sales mix and higher A&P expense in this quarter. New variants and expansion into new age beverages has been undertaken to target the young customer base. In Canada, the sales are nearly flat. Growth was in speciality, offset by lower sales in black. So overall, it's flat. We have recently launched Tetley Super Teas, which are performing fairly well.

In the U.K., as I mentioned earlier, sales are higher by 6% in underlying terms. It's essentially a volume-led growth. And the gains are both in volume as well as in value. This is despite an overall declining tea market in the U.K. Our operating profits are higher. We also, in the U.K. faced the reverse of what we're facing in India, and there's a slight softening of commodity costs in the African tea, which are the bulk of what goes into Tetley.

The focus is also on stabilizing the new launches. We are very excited about a very, very successful new launch under Tetley called Infusions, which has created a whole new category for tea. Perhaps it was aided by a very hot summer on the Continent and in the U.K. But we had a great 4 months of sales of the Cold Infusions, which we have entered and pioneered along with one other player, who simultaneously entered the category with us.

Our other international businesses are Australia and rest of Europe. And in Australia, coffee sales are lower. That's because for the -- all the business in Australia, we are in the process of transitioning from our earlier arrangement with Caffitaly system. And we are moving to a new licensing arrangement to another partner. So there has been a dip in the quarter for sales. But that's something that will correct itself once we go past the transition period. In rest of Europe, in Poland and Czech, we're going to focus on synergies in manufacturing and cost-out projects. Tetley Iced Tea was launched in Portugal in a range of flavors to appeal to younger customers.

I mentioned in terms of the joint ventures, Tata Starbucks has had a very robust double-digit top line growth, in the range of 30%, driven by new stores and improved in-store performance. Until date, 136 stores have opened. And we've had 20 new stores during this year so far. All cities in which we are operating at store level are profitable.

NourishCo also is back into growth with this quarter showing a nearly 30% growth in top line for the quarter, driven mainly by value improvement in Tata Gluco Plus. We have entered with Tata Gluco Plus, now West Bengal and Jharkhand, in addition to a very successful business that we have in Orissa. These are sales where glucose is something that is in high demand and such products at the right price point are an excellent proposition. In Bangladesh, our top line growth is flat, but tea costs have impacted profitability a bit.

The next slide shows some of our new Starbucks stores that have opened in this quarter. In terms of other businesses, Tata Coffee has had a 3% growth in operating income, I

mentioned on the back of improved performance in instant coffee sales. But it's had an adverse performance in plantation businesses. You may be aware of the adverse climate condition and extreme rainfall conditions in that part of the country with which everybody's plantation suffered. But fortunately, we have instant coffee to offset that plantation company's negatives.

You will recall that we are setting up a freeze-dried coffee plant in Vietnam. It's on track. And in March, we will be commissioning the plant. But meanwhile, the pilot samples are already being sent out to key customers for sampling. Our instant tea business is stable both in sales and profit.

In terms of associates, APPL, the sales are flat, lower volumes. And our profitability is impacted by wage increases and lower volumes and essentially lower crop because of also adverse climate conditions. And in KDHP, we have -- despite the plantations coming under severe stress during the rain, we still had a relatively improved performance, largely driven by better realizations.

I am now going to request my colleague, Mr. L. Krishna Kumar, to take you through further details of our financial performance.

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

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Thanks, Ajoy, and good afternoon, everyone. I'll just walk you through the highlights of the financial performance, just building on what Ajoy spoke about. You've seen revenue from operations up by 12% on a like-to-like basis. In the previous year, we had the Russian business. I think from next quarter onwards, it will be more like-to-like. So the growth is 7% in constant currency.

3 drivers of growth, growth by the India Branded business, which Ajoy spoke about. We're seeing underlying trend of improved volume overall in the tea business. And at this point in time, most market players are choosing to ride on the volume gain, notwithstanding the commodity cost increases, which are not fully passed on. Direct K-Cup sales in the U.S. is because of transitioning into an arrangement to directly sell K-Cups as opposed to the royalty model we had earlier. So that's contributing significantly to the bottom line. We had a strong quarter in the U.K. with a good 6% underlying growth and also increase in market share. So all this has contributed to growth in revenues.

The profit before tax, however, is not -- it has been impacted by the commodity costs that [are affecting] India and high investment behind brands. In this quarter particularly, we had advertising spend behind the Eight O'Clock brand in the U.S. and also behind the Tetley brand in Canada, among other things.

Group net profit lower by 42%. One important element you need to keep in mind is that in the previous year, we had a one-time tax credit of INR 53 crores because of reforms in the

U.S. taxation. We got a credit in our Eight O'Clock business. That's not being repeated. So that's a one-off which we had benefit in the previous year.

If you look at the line of profits from associates and joint ventures, again it's lower than the same period last year. Starbucks, there have been some one-off costs in Starbucks. And secondly, more importantly, there has been adverse impact on the shareholding we have in amalgamated plantations because of lower crop, also to do with the Tea Board's directives and a element of lower realization. So these are the parameters that affect performance for the quarter.

Moving on to the next slide. I'm not going to talk through this because largely we have covered the points. But I want to make a few comments for those who have the detailed financial report [you read] from us. If you look at the individual line items, you'll find that in terms of material costs, there's an increase, which is largely attributable to the tea cost increase in India that I referred to. And to our benefit expenses, you'll see that a proportion of sales has been steadily coming down to do with restructure and also some outsourcing.

In terms of advertisement and sales charges, you will see increase in the quarter, which I referred to earlier. Other expenses, you will see a significant increase. There are a few reasons, partly because of the change in model, taking on K-Cups within our own management. Secondly, there's also an impact of certain one-offs like donations we've had to make for the Kerala floods and some bunching off of professional fees.

There's also an increase because with outsourcing, while there's a savings in employee costs, some of it comes back as professional fees. So on a like-to-like basis, these are some of the contributors. But I would say that there is an impact of 1% to 2% on gross margin because of one-off items in the quarter. Tax expense, we've covered off. And group net profit, we've talked about. Share of profit or loss in associates, you see a loss compared to a profit last year and largely due to APPL, as I mentioned earlier.

Moving on to the next slide on OCI. The major movement is exchange difference on translation of foreign currency operations because of change in exchange rates.

In terms of the standalone results, again you will see that profitability is lower because of commodity costs and also because of some amount of increase in other expenses. Some of the reasons, I did mention earlier in the context of consolidated performance.

Again, comparing with the previous year on a standalone basis, we had in 2017 a profit of INR 102 crores on sale of our interest in one of our associate companies. So on a like-to-like basis, results are not comparable. You have to take out the impact of that exceptional item.

Moving on to segment performance, just comment on segment margins. The tea margins clearly are a reflection of higher advertising spend and increase in commodity cost quarter-on-quarter. In coffee, it's a function again of higher ad spend on Eight O'Clock in this quarter as well as structurally because of the change in model, you'll have the profit percentage coming down. These are the important parameters you need to keep in mind when you look at segment performance.

Going to the last slide on region-wise revenue from operations. You see a significant improvement, a growth of 17% in the international business. Part of that is currency. But in underlying terms, we have strong growth in the U.K., good performance in some of the markets, joint venture markets. And also we had increase in turnover because of change in the operating model in the U.S.

India, we saw strong volume growth. Since there was an element of competitive intensity, we are now seeing the same number. Reflected value growth is lower at 5% compared to the volume growth. Commenting on the Non Branded operations for Tata Coffee. Extractions saw an increase in sales. But revenues from plantations, mainly Robusta, and to a larger extent, pepper, were impacted by weather. And that is impacting both the revenues and the profits for the quarter.

So that's it from our side. And we'll be happy to answer any questions. Thank you.

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#### Questions and Answers

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Operator [1]

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(Operator Instructions) The first question is from the line of Sameer Gupta from India Infoline.

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Percy Panthaki, IIFL Research - VP [2]

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Sir, this is Percy Panthaki here. Sir, my first question is on the standalone accounts. The other expenses has gone up 30%. You mentioned there are certain one-off costs in that. Could you quantify the extent of these one-off costs and their nature, please?

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L. Krishna Kumar, Tata Global Beverages Limited - Group CFO & Executive Director [3]

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I just mentioned that, so it's -- some of it is one-off, some of it is because of shipments from staff expenses to other expenses. And I did give some guidance at about 1% to 2% impact on the margin is because of one-off. And there's also been, I said, some donations because of contributions because of the Kerala floods, which have also come in the quarter.

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Percy Panthaki, IIFL Research - VP [4]

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Okay. So the impact on EBITDA is 1% to 2%. And this is going to be limited to this quarter only. We don't expect any more one-offs in the coming quarters?

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L. Krishna Kumar, Tata Global Beverages Limited - Group CFO & Executive Director [5]

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No, I think we have -- I would say a fair amount of these one-offs are really specific to this quarter.

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Percy Panthaki, IIFL Research - VP [6]

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Okay. Okay, sir. And secondly, on the Eight O'Clock coffee. It's now been quite some time since we changed the business model and we are doing the sales and distribution ourselves. I understand there are one-off costs, like listing fees in [branded] retail, et cetera. But it's been now 3, 4 quarters since the profits are sort of down Y-o-Y. So any idea until how long will these costs continue? And when can we see the EBITDA coming back to the levels which were there before we changed the contracts?

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Ajoy Kumar Misra, Tata Global Beverages Limited - MD, CEO & Executive Director [7]

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I think this is still the first year of the rollout, where we are directly taking the pods -- Tata pods, coffee pods to market. And therefore, listing fees and certain other things which we are doing to the first time directly, which all of this while Keurig was doing is the reason where there is an increase in costs and therefore pressure on the margin. And I think going forward, once it stabilizes and we get the rhythm and the momentum, I think we should begin to see a little more healthy margin coming in.

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Percy Panthaki, IIFL Research - VP [8]

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Right, sir. And any kind of guidance on how far that is?

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Ajoy Kumar Misra, Tata Global Beverages Limited - MD, CEO & Executive Director [9]

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I just mentioned that we are still in the middle of the first year. I think we could probably see a few more months. And that's...

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L. Krishna Kumar, Tata Global Beverages Limited - Group CFO & Executive Director [10]

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No, I think start you'll start seeing improvements in the next financial year.

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Rakesh Sony, Tata Global Beverages Limited - Global Head of Strategy and M&A [11]

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So Percy, this is Rakesh here. I think one of the other reasons why you see the margins at the coffee business in the U.S. is the advertisement cost. So this quarter specifically, we had just launched our new ad campaign. And that is also one of the reasons the margins are [looking at]. As mentioned to you earlier, we are putting (inaudible) brands to the U.S. and the U.K. both. And it's the strategic reason that we have taken to develop market share impact. We have already seen that impact in the U.K., where our market shares have gone up this quarter. And we are very confident that in the U.S. also, we'll see some market share impact. So that is the reason why you'll see a little bit dip in margins in the U.S.

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Percy Panthaki, IIFL Research - VP [12]

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Understood, sir. And finally, on the India business, basically there is a hit in the absolute amount of gross profit, it's marginally down Y-o-Y on account of inflation and input costs. So just wanted to understand the scenario around the pricing. Are we -- is the competitive scenario conducive for us to take pricing up in the near future? Have you taken pricing up towards the back end of Q3 and it is not really reflecting in the margins? Or we believe that, no, the competition is very tough and margins are likely to remain under pressure for the foreseeable future?

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Ajoy Kumar Misra, Tata Global Beverages Limited - MD, CEO & Executive Director [13]

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Yes. So this is Ajoy here. So yes, we saw the price increases. And we wanted to cover some part of that because we hadn't anticipated this kind of an increase in commodity costs. So selectively, we have taken up prices in the South with Chakra. And we've also taken up prices recently. And yes, you will see the effect of that probably coming in later in the Tata Tea Gold and in Tata Tea Premium. And we expected others to also take up prices. Actually, as of date, we haven't seen anybody else take up prices. But we have, so - not on all brands but in select brands.

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Percy Panthaki, IIFL Research - VP [14]

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Okay. And the prices you have taken up thus far, are they enough to sort of offset the input price inflation? Or they are only sort of will partially offset?

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Ajoy Kumar Misra, Tata Global Beverages Limited - MD, CEO & Executive Director [15]

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So it's not enough obviously, it's partial. And that's why you're seeing that pressure in this quarter on the Indian margin. But we are hoping that the macro competitive situation will probably enable us or once we have taken to take root, let's see how it goes going ahead.

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Operator [16]

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(Operator Instructions) The next question is from the line of Rushabh Sheth from Karma Capital.

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Rushabh Sheth, Karma Capital Advisors Pvt Ltd - Co-Founder Director [17]

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This is Rushabh. This is (inaudible) question I had. If you look at 10-year track record for us, we've grown EBITDA at less than 3% CAGR if you look at 2008 to 2018. And the return to capital employed has never exceeded double digit in this 10-year period. So from a investor

standpoint, is this kind of -- how long will it take for us to really get out of this morass of super slow growth for the company in the last 10 years?

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L. Krishna Kumar, Tata Global Beverages Limited - Group CFO & Executive Director [18]

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I think we are conscious of the fact that the results have been -- that in fact, it is -- you are taking a 10-year period. If you split that into 2 parts, and I'm just -- I don't have the numbers before me. But I think the impact is more in the last 3, 4, 5 years time than in the first part of that. I know from an investor perspective, you are not concerned about what happens. But there have been some impact of what's happening both to the market and to the environment in the U.K. and to some extent, in markets like Russia, which we had -- was nearly [gone into] at that time. So I think that is reflecting really -- [the punches] of that, we're seeing growth coming back in India. And I think the focus is going to be on, I think, there's further cost to come out. And focus is on definitely looking at the two levers, which should give us scale as we simplify the structure of the business.

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Rushabh Sheth, Karma Capital Advisors Pvt Ltd - Co-Founder Director [19]

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Yes, because this issue is that you are not even getting a top line growth. You're not even -- and also you've entered a lot of new areas globally. But you've not seen any impact of that on an overall revenue line. Forget the profitability -- really profitable follows days of revenue growth. There has not been any revenue growth. And therefore, there has not been any profitability growth. And hence, return on capital has been in a kind of dire straits over the last 10 years. And every time we hear some reason or the other, but the issue from an investor standpoint is that, "Okay, I can understand 1 quarter, 2 quarters." Then of course, after 2, 3 years, 5 years, then you start to rethink that, "What is happening with the business? Is the company rethinking in terms of what they are doing?" And that really sometimes is surprising because we every time hear every quarter that there is some reason why the quarter has not gone well. But if you look at even a longer period, 2, 3, 5 years, it kind of is surprising that the company is really not able to do anything to really accelerate either the top line or the bottom line growth.

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Ajoy Kumar Misra, Tata Global Beverages Limited - MD, CEO & Executive Director [20]

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So I think to be fair, we are pushing the top line growth. We are conscious that to really bring back momentum in both top line and bottom line, it's fundamentally important to start also growing. And I think quarter-on-quarter, including on this quarter, if you look at our top line numbers, we -- there is an extra emphasis on pushing volumes as well as revenues.

Yet for that investment that we have put in, it's showing up in the EBITDA. But certainly, the strategy at this point is to bring back growth. And I think that's where you will begin to find the difference.

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Rushabh Sheth, Karma Capital Advisors Pvt Ltd - Co-Founder Director [21]

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Yes, I sincerely hope that we start to see that kind of a momentum in both revenue and profitability because it's been -- it's a long time that it's been just going along, so I hope that the management takes some concrete action to really accelerate both the revenue and profitability growth going forward. That's just kind of a feedback that I have.

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Ajoy Kumar Misra, Tata Global Beverages Limited - MD, CEO & Executive Director [22]

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Thanks for your feedback. And yes, in fact, this quarter, our 11% underlying growth as well as when you look at India business volume growth, otherwise. The first 3 quarters, we have grown faster than we have grown in a while. But that's not still good enough. But I take your point. And that's really where the effort of let's bring the top line growth in and then let's then follow through with cost restructuring, et cetera, to get the bottom line going. So rest assured, the management and the board sees it's an uphill, but we are up to the task. Thank you for your feedback.

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Operator [23]

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(Operator Instructions) The next question is from the line of Nisarg Vakharia from Lucky Investments.

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Nisarg Vakharia, [24]

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I had a slightly micro question because of the fact that you had not really demonstrated serious top line growth like all of the consumer companies. Is this because that the tea market in India is somewhat like the salt market, which is like a semi-commodity, semi-branded business, that no matter how hard you try, it's very difficult to get high volume growth in which is a completely saturated market? What is your opinion and thought on that, sir?

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Ajoy Kumar Misra, Tata Global Beverages Limited - MD, CEO & Executive Director [25]

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So to a certain extent, you are right. Tea is not one of those categories on fire. In the FMCG world, there are many categories which are on fire. Tea is slow and steady. Tea can grow by either of 2 or 3 levers. It can grow by increase in consumption. But it's a very saturated market. It can grow by conversion from loose unbranded to branded. I think there's a slow conversion happening on that. And the third is premiumization. So it's the latter 2 that we are focusing on. And that's where we believe we can still continue to grow. And our new launches or our efforts at volume expansion is also focused on converting more into from loose to branded. And by the way, there's quite a bit of a headwind there -- headroom there, sorry, I meant. Because by volume, almost 40%, 45% of the entire tea is still unbranded. So that's really where the picture is in India.

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Nisarg Vakharia, [26]

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Sir, my second question was that, I mean, there are 2 ways to look at it, glass empty or glass half full. There's -- obviously there's a large addressable market and you have an extremely solid brand presence. I have not looked at the numbers of some of these regional players like Wagh Bakri. And although they become big in size, do you think they've done a reasonable job at doing what you've done over the last 5 years?

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Ajoy Kumar Misra, Tata Global Beverages Limited - MD, CEO & Executive Director [27]

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To be fair, I think the brand that you mentioned has done a reasonably good job. I think out of all the other companies other than the top 2, they certainly have done a good job and they are very worthy competitors, yes.

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Nisarg Vakharia, [28]

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So there's no reason to believe that whenever a strategy falls in place, that is also the sort of size or scalable business that we can sort of generate considering our brand name and the reach that we have across the country, right?

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

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Wagh Bakri is a much smaller business so I don't entirely understand the comment that you're making from a scale perspective.

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Nisarg Vakharia, [30]

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Sir, my comment is that the addressable market is extremely large, whether it is Wagh Bakri or you. So if a smaller player with smaller brand presence, smaller reach can do what it has done over last 5 years, I'm sure Tata Global can do an even better job is what I'm trying to say.

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Ajoy Kumar Misra, Tata Global Beverages Limited - MD, CEO & Executive Director [31]

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Yes, which is...

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L. Krishna Kumar, Tata Global Beverages Limited - Group CFO & Executive Director [32]

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I'd like to comment on this case.

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Ajoy Kumar Misra, Tata Global Beverages Limited - MD, CEO & Executive Director [33]

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Yes. I didn't mean to say they're doing a better job than us. I thought your question was you think they're doing a fair job, and I just wanted to give a very fair comment that I think they're doing a fair job but that does not mean that you take it as they're doing a better job than us. I don't think so.

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Nisarg Vakharia, [34]

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Sure, sure. Sir, would you -- how would you rate the other product company, Tata Chemicals? They have a solid business. Which business would you rate as a better consumer business in terms of premiumization or achieving size and scale and also getting a larger share of the unorganized market, in your opinion?

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Ajoy Kumar Misra, Tata Global Beverages Limited - MD, CEO & Executive Director [35]  
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I think both categories have a good scope for unorganized to organized, without naming or getting into a reference -- referencing any other category. I think Tea has enormous flexibility in playing on the premiumization, because in Tea, you have -- it's like you have various blends, you have various taste. It's like wine. You can almost sort of endlessly keep creating the blends and categories, and the same grape, you can keep producing produce which is x and 2x in price and 5x and 10x in price if you do all the right things and if the marketplace is ready to accept, and more and more, we are seeing that it is possible. And since we are a global company, we've seen it happening outside of India. For instance, our experience with Teapigs as a brand, which are incubated in U.K. and today, we are probably selling in a dozen very mature markets of the world. We have seen that you can actually get a cup of tea, you can sell in a tea bag or (inaudible), as they call it, at 8x or 10x of the price of a regular tea bag tea. So -- but the market also has to be varied. The U.K., Europe, Scandinavia, U.S., it's probably more mature right now to accept very premium products. India may not, but India with a lag follows the trend that happens elsewhere. So I'm very bullish that it's the premiumization opportunity in tea, which, if the market can move into that very quickly as GDP and per capita incomes increase, which is happening, and we hope will continue happening in an accelerated way.

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Nisarg Vakharia, [36]  
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Sir, the last question from my side is that -- considering that we are the market leader in the tea segment in the country, I believe you should be the one who would be taking charge of taking a price hike or not. So is it that tea as a commodity, when you have to -- say, whenever the commodity prices shoot up, we are not able to take price increases the way we wanted, you'll also have to take a hit on margin? And we will only make margin when the tea prices or the tea commodity prices are at the lower end. I hope I phrased my question well.

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Ajoy Kumar Misra, Tata Global Beverages Limited - MD, CEO & Executive Director [37]  
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So I just commented a short while back, maybe you didn't get it, let me repeat. We are the only company, only tea company that has taken up prices for tea for 3 very significant brands of ours. And so we are leading the tea market in that.

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Nisarg Vakharia, [38]

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Sir, if I could rephrase my question. Across consumer companies in India, most of these companies are able to take price hikes just at the right time without having to face an impact in a single quarter. So I'm saying that because the tea market is so unorganized and so many players are present, is it difficult for us to take price increases exactly when the raw material prices shoot up?

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Ajoy Kumar Misra, Tata Global Beverages Limited - MD, CEO & Executive Director [39]

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It's a choice. Of course, there is -- obviously, to take up prices, there is a profit. And do we want to do it immediately or do we want to do it in a measured way? These are all commercial calls that our team takes, yes.

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Nisarg Vakharia, [40]

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Sir, does it mean that the consumer switches to a brand which has not taken a price increase because you take a price increase? Does it ever happen like that?

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Ajoy Kumar Misra, Tata Global Beverages Limited - MD, CEO & Executive Director [41]

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Sorry. Sorry, say that again?

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Nisarg Vakharia, [42]

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So I'm saying that there is brand A and there is Tata brand, if Tata has taken a price increase, while brand A has not taken a price increase. Is it very easy for the consumer to buy brand A because, ultimately, these are sort of a commodity in the mind of the consumer?

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Ajoy Kumar Misra, Tata Global Beverages Limited - MD, CEO & Executive Director [43]

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Yes. Theoretically, it's possible, but we are also talking about the brand strength in this case. So all of those metrics come into play. And it's also degree of price increase. Then while you might take a price increase, but you also have levers of promotion that are available to you to fight short-term competitiveness. So yes, that's the dynamic that happens, and we have to keep a close tab on it.

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Operator [44]

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(Operator Instructions) The next question is from the line of [Abhishek Lika] from Desai Wealth Management Services Private Limited.

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Unidentified Analyst, [45]

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Just wanted to understand, like, in terms of water business, what is the coverage that we have on, like, in terms of number of sales that we are into? And second is, like, besides Gluco Plus and (inaudible), are launching something like vitamin water and other stuff within the water segment to enhance your portfolio?

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Ajoy Kumar Misra, Tata Global Beverages Limited - MD, CEO & Executive Director [46]

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Sorry, what was your last question? Is there a possibility to launch what kind of water products?

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L. Krishna Kumar, Tata Global Beverages Limited - Group CFO & Executive Director [47]



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Vitamin.

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Unidentified Analyst, [48]

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Vitamin water.

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Ajoy Kumar Misra, Tata Global Beverages Limited - MD, CEO & Executive Director [49]

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Okay, okay. So to answer your first question, our water play is Himalayan and Tata Gluco Plus largely. We also have a small play with Tata Water Plus. Himalayan is national because it's sourced water, bottled, untouched by hand [on the site factory] in the foothills of the Himalayas, and then it's sold nationally. Tata Gluco Plus is a value player for energy drink, and that economics of that product, it has to be bottled close to the marketplace and sold within a radius of x distance. And therefore, multiple bottling plants have to be set up. We currently have Tata Gluco Plus is in Tamil Nadu, Andra, Telangana. It's in parts of Western Marash, Madhya Pradesh, Western UP. It's in North India, in these northern states of Punjab, Haryana, Delhi. It's also in Orissa. And this quarter, we have entered West Bengal and Jharkhand. So it's not yet pan-national, but it's moving very steadily. And Tata Water Plus is actually our fortified water. It is fortified with copper. We have had a variant fortified with copper and zinc. It's still something that we are trying to get the proposition and the price point right. Currently, Tata Water Plus is only available in the southern states of Tamil Nadu and Andra, Telangana. But once we get the proposition and the price point right, we will then look to play a bigger play with that.

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Unidentified Analyst, [50]

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How long will it take at least to get all those things right? Because, ultimately, with regard to (inaudible) water segment, we have been, like, listening to quite some time, like, these are close to the, like, manufactured and the bottled and again, make move to the customer. But unfortunately, we have not seen the penetration that -- and it's been quite some time now.

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Ajoy Kumar Misra, Tata Global Beverages Limited - MD, CEO & Executive Director [51]

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So the performance of this is actually to be seen in our joint venture, NourishCo. And in NourishCo, we have seen that last year and also carrying into this year, we have turned profitable after many years. And you're right, we've been at it for a while. I think we've cracked the model, we've turned profitable. I mentioned this quarter, we've clocked close to a 30% growth in NourishCo. And I think we struggled a bit, but I think we are now making good progress on it, but yes, it's taken some time.

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Unidentified Analyst, [52]

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Can you just, like, give us a reason in terms of what is, like, reason in terms of, like, a joint venture in terms of NourishCo or Tata Gluco Plus for next 1, 2, 3 years, something like that?

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Ajoy Kumar Misra, Tata Global Beverages Limited - MD, CEO & Executive Director [53]

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I think Tata Gluco Plus, which is really the bulk of NourishCo, because it's at a price point and it's scalable more easily than Himalayan, which is a very super premium brand and a price point which is -- cannot ever be mass. So the real heart and engine of NourishCo is Tata Gluco Plus. And I think Tata Gluco Plus, in the last, barring 1 or 2 quarters, when the GST and the temporary weight of GST increased, and therefore, we had to pick up prices, which didn't quite work for the smart product, but we're back at the competitive price in a cup format of INR 10 a serve. We have seen momentum come back, and that's where mid to high 20% growth is, on an average, roughly what we have been clocking barring that blip. And I think that momentum as we open new states could easily continue.

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Unidentified Analyst, [54]

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Okay. And any cases like vitamin water?

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Ajoy Kumar Misra, Tata Global Beverages Limited - MD, CEO & Executive Director [55]

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So vitamin water, we are not into vitamin water, but we are into the Tata Water Plus, which is fortified with minerals. That I don't think is a significant play for us at this point in time or in the near future till we get the proposition right. Not sure the Indian market is ready for that

kind of a product with that kind of a scale for us to make a business of the kind that vitamin water is in America or some parts of the Western world yet.

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Unidentified Analyst, [56]

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And then, like, in U.K., you're launching the squashes alone. So how -- have you, like, contemplating to launch any of those segments in India?

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Ajoy Kumar Misra, Tata Global Beverages Limited - MD, CEO & Executive Director [57]

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We hold those options with us. We want to carefully train how many categories we want to open up in liquid beverages in India. So those are all options because we are learning from all these experiences internationally, but we have those options. Not sure that squash is a very growing market in India, but we do look at all of these periodically.

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Unidentified Analyst, [58]

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Okay. And then just if you could just help us out in understanding like by which quarter or which financial year we should have like a CAGR kind of an EBITDA growth levels on a sustainable basis or on a (inaudible), by this quarter, we should have our growth back.

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Ajoy Kumar Misra, Tata Global Beverages Limited - MD, CEO & Executive Director [59]

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We don't give guidance on EBITDA going forward, so I'm afraid I will not be able to be so specific. But all efforts are on to make it happen fairly soon, quarter-wise.

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Operator [60]

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The next question is from the line of Dhruv Muchhal from Motilal Oswal Financial Services.

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Dhruv Muchhal, Motilal Oswal Securities Limited, Research Division - Research Analyst [61]  
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Sir, the question was on the India tea market. You mentioned that the organized -- unorganized market is around 40% to 45%. If you can help us understand, what will accelerate growth toward the organized market, is it the distribution reach or the price points or anything else? If you can help us understand that.

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Ajoy Kumar Misra, Tata Global Beverages Limited - MD, CEO & Executive Director [62]  
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Both. Both. I think price point is important because that segment of the market is obviously very price-conscious. In fact, our Tata Tea Agni plays pretty close to that price point where it converts -- And in fact, Agni has shown a very growth rate. I think we've clocked a fairly decent double-digit growth with Agni of late. And the other one is, of course, distribution reach, because while we reach almost 19 to 20 lakh outlets, there is much more to be reached. So both the levers and we are looking at playing both the levers.

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Dhruv Muchhal, Motilal Oswal Securities Limited, Research Division - Research Analyst [63]  
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So is there any target in terms of the outlets which we can see? Are you targeting increasing the outlets to, say, a particular number within next 2, 3 years?

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Ajoy Kumar Misra, Tata Global Beverages Limited - MD, CEO & Executive Director [64]  
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Yes, we do. Yes, we do have a plan in which the current 19-odd lakh will be scaled up, but for competitive reasons, I can't reveal that number. But absolutely, absolutely, we expect that, given the Indian team targets, to increase distribution.

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Dhruv Muchhal, Motilal Oswal Securities Limited, Research Division - Research Analyst [65]  
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Sure, sir. And sir, second question was on the quarterly standalone other expenses. I believe you mentioned 2 reasons. One is the Kerala floods and second is the professional fees bunching up. So the Kerala will be one-off and the professional fees will be...

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L. Krishna Kumar, Tata Global Beverages Limited - Group CFO & Executive Director [66]

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Yes, sorry, go ahead.

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Dhruv Muchhal, Motilal Oswal Securities Limited, Research Division - Research Analyst [67]

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So the Kerala will be one-off and the professional fees will be a recurring thing, if I understand correctly, or the professional fees is also...

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L. Krishna Kumar, Tata Global Beverages Limited - Group CFO & Executive Director [68]

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I just gave those 2 as examples. There are others (inaudible) element of exchange on some of the receivables. So there are a number of items. As I said, some of them, but I think a lot of them will not repeat in the subsequent quarters. And even in professional fees, there are some parts which is recurring. There are some, we don't do that, we don't have the sources every quarter. I think the element is high source. There are a number of items, and I gave you these as examples.

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Dhruv Muchhal, Motilal Oswal Securities Limited, Research Division - Research Analyst [69]

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Sir, 1% or 2% is probably the one-off portion. 1% or 2% of the margin, as you said, is the one-off portion we should consider?

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L. Krishna Kumar, Tata Global Beverages Limited - Group CFO & Executive Director [70]

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Yes.

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Operator [71]  
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The next question is from the line of Archit Singhal from Safe Enterprises.  
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Archit Singhal, [72]  
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Just one question from my end. Just wanted to hear management thoughts on the leadership succession plan as regards the new CEO, because as I understand, currently, our current CEO would retire by March of 2019. So just wanted to have your thoughts on this?  
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Ajoy Kumar Misra, Tata Global Beverages Limited - MD, CEO & Executive Director [73]  
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Yes, so this is your current CEO speaking. So well, we're already in Feb. I -- or you should have heard something, that's all I can say. So at this point in time, so there is no reason to believe that there is anything of that kind. It's only the current -- as you said, the current contract, but that -- there is still headroom in the term. But I wouldn't want to talk to you on that.  
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L. Krishna Kumar, Tata Global Beverages Limited - Group CFO & Executive Director [74]  
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Are there any other questions?  
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Ajoy Kumar Misra, Tata Global Beverages Limited - MD, CEO & Executive Director [75]  
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Hello, if the line is still on, any other questions?  
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Operator [76]

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The next question is from the line of Ekta Bhalja from Karma Capital Advisors.

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Ekta Bhalja, Karma Capital Advisors Pvt Ltd - Senior Manager of Research [77]

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Can you share the domestic industry growth [in theory]?

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Ajoy Kumar Misra, Tata Global Beverages Limited - MD, CEO & Executive Director [78]

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Sorry, domestic industry growth in...

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Ekta Bhalja, Karma Capital Advisors Pvt Ltd - Senior Manager of Research [79]

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Category. Category growth.

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L. Krishna Kumar, Tata Global Beverages Limited - Group CFO & Executive Director [80]

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Category growth in India.

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Ajoy Kumar Misra, Tata Global Beverages Limited - MD, CEO & Executive Director [81]

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Yes. So there are 3 ways in which to look at it. One is you can either look at it as a Nielsen number of category growth of the category. But if you look at Nielsen category growth number, then you must look at Nielsen's growth number for Tata Tea and -- or you can look at Kantar household panel, or you can look at Tea Board's consumption data, which shows the consumption of tea irrespective of the Nielsen method of counting it or the Kantar panel way of counting the household listing. So it's a little dangerous to look at only one, but we internally triangulate between all these 3 sources because Nielsen only goes to a certain number of a sample outlet and then they extrapolate, and Kantar has its own methodology.

But if you triangulate all of that, we believe that the actual growth rate of tea consumption or tea (inaudible) is somewhere in the last couple of years, it would fluctuate somewhere between 5% to 6% to 6.5%.

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Ekta Bhalja, Karma Capital Advisors Pvt Ltd - Senior Manager of Research [82]

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And in the last 9 months?

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Ajoy Kumar Misra, Tata Global Beverages Limited - MD, CEO & Executive Director [83]

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I would say it's somewhere around 5.5% to 6%.

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Ekta Bhalja, Karma Capital Advisors Pvt Ltd - Senior Manager of Research [84]

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Okay. So -- but you are saying that you maintained your market share in the last 9 months?

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Ajoy Kumar Misra, Tata Global Beverages Limited - MD, CEO & Executive Director [85]

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Yes. So we have -- for this time, we have shown a volume growth of 7%.

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Ekta Bhalja, Karma Capital Advisors Pvt Ltd - Senior Manager of Research [86]

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Okay. Okay, so these are volume numbers?

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Ajoy Kumar Misra, Tata Global Beverages Limited - MD, CEO & Executive Director [87]



Yes. And just for your information, if you take the Nielsen number, I don't know exactly, but if the Nielsen number for category growth was 12.3% Nielsen number for TGB category growth, so TGB's [clarity] growth rate was 12.5% or thereabouts.

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Ekta Bhalja, Karma Capital Advisors Pvt Ltd - Senior Manager of Research [88]

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Understood. And so what are the steps that we're taking to increase the mix towards the premium end because we are seeing higher growth on that side?

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Ajoy Kumar Misra, Tata Global Beverages Limited - MD, CEO & Executive Director [89]

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Right. So we have -- our most premium brands are in the mainstream. Our most premium brands are Tata Tea Gold, the Tata Tea Chakra, and one for pan India and [lastly not], a Southern brand. And both of these in this year, we have invested behind restage of Tata Tea Gold and we have also taken a price increase. And even in Tata Tea Chakra, we have restaged it. So there are all these in the mainstream that we are doing. Thirdly, we have put investment behind, and we are pushing Tetley Green Tea where we've seen good growth. That obviously is a premiumization because per unit, the -- it's far more premium than the regular tea. So things like that. Plus, we introduced Tata Tea Veda -- Teaveda, which is fortified with herbs and cinnamon and ginger and all of that. That also is a premium offering. So these are all efforts at premiumizing further and further. And at the end of the day, as a portfolio and as a tea company, I think our foray into the retail with Tata Cha is another form in which we will be working on, so to speak, glamorizing tea and making it more like what the coffee cafés have done to coffee. So that's a indirect way in which we are working as market leaders and as category leaders to lift the profile of tea.

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Ekta Bhalja, Karma Capital Advisors Pvt Ltd - Senior Manager of Research [90]

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Sure. Can you share the mix between the value and premium segment of teas that is (inaudible)?

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Ajoy Kumar Misra, Tata Global Beverages Limited - MD, CEO & Executive Director [91]

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So if you were to look at Tata Tea Gold, Tata Tea premium, and Chakra and Gemini, these are our Southern brands, I would say this would probably be more than 50% of our -- 50% to 55% of our premium play and (inaudible).

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Ekta Bhalja, Karma Capital Advisors Pvt Ltd - Senior Manager of Research [92]

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So the premium is 50%, 55% of the revenue?

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Ajay Kumar Misra, Tata Global Beverages Limited - MD, CEO & Executive Director [93]

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I've taken the liberty of including Tata Tea Premium into premium, so it probably sits on the border between -- it sits on the border. But yes, I've taken the liberty of adding back into it. If I take the full amount of that, it would probably be more than 60%. But if I take, adjust for some parts, where we -- because they are different blends at slightly different price points, so if I take one end, it comes to -- but either way, it's somewhere there.

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Ekta Bhalja, Karma Capital Advisors Pvt Ltd - Senior Manager of Research [94]

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Sure. And how is this next move over the next, let's say, 2 years?

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Ajay Kumar Misra, Tata Global Beverages Limited - MD, CEO & Executive Director [95]

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I think both are moving. The value I talked about, Tata Tea Agni, is also moving as well as the Premium end is also moving. So I think that's kind of a phenomenon that you see in tea that as more and more gets converted from unbranded to branded that's at value price points, there is growth there, and then there's growth at the premium end also.

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Ekta Bhalja, Karma Capital Advisors Pvt Ltd - Senior Manager of Research [96]

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No, I'm saying how the mix was 2 years back? So it's like 50%, 55% is the premium today?

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Ajay Kumar Misra, Tata Global Beverages Limited - MD, CEO & Executive Director [97]

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I wouldn't have the precise figure, but I would say premium is moving a little faster.

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Ekta Bhalja, Karma Capital Advisors Pvt Ltd - Senior Manager of Research [98]

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Okay, okay. So then why do we not see that as a differential between the volume and the value? So the mix impact should also be there in the revenue, right?

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Ajay Kumar Misra, Tata Global Beverages Limited - MD, CEO & Executive Director [99]

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Should be there, but that's the issue of seeing it either month-by-month or quarter-by-quarter, but you should see it in a slightly longer timeframe once all the tactics have played out, is all I can say. But yes, you're right. We should see it, and that's exactly where I think you will.

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Ekta Bhalja, Karma Capital Advisors Pvt Ltd - Senior Manager of Research [100]

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Okay. So does it mean that we will need incremental investments to see that higher growth in the premium end?

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Ajay Kumar Misra, Tata Global Beverages Limited - MD, CEO & Executive Director [101]

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Yes. In fact, that's part of -- maybe not so much in India in this quarter, but in year-to-date, you certainly will see that there is increased investment, and we had planned to put that. Because you can't -- we can't have both. You need to invest -- if you want more premium growth, you need to invest behind the brand also with the kind of balance it -- in a fine manner.

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Operator [102]

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Ladies and gentlemen, that was the last question for today. I would now like to hand the conference over to the management for closing comments.

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Ajoy Kumar Misra, Tata Global Beverages Limited - MD, CEO & Executive Director [103]

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So I think I would like to thank all the participants in your interest. I am aware of your concerns. I -- we take feedback. We take feedback from other stakeholders also. Yet, we are a slightly different kind of company compared to other FMCG companies in India because we essentially are 98% in branded tea, and that's a commodity which has different dynamics compared to maybe some of the other companies you're looking at. We have -- I consciously talked about us looking at other categories and looking to be a broader play company. We have been actively engaging for a while. I have nothing to announce at this point, but we continue to do so. And yes, we're also the kind of company that is global and [55%] of our business is outside of India in very mature markets. We are working to see how we can look at a full portfolio to bring focus into areas that can bring profitable growth. So maybe start playing out quarter by quarter, but I just wanted to share that, and thank everyone for their interest in Tata Global Beverages.

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Operator [104]

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Thank you. On behalf of ICICI Securities Limited, that concludes this conference. Thank you for joining us, and you may now disconnect your lines.

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Ajoy Kumar Misra, Tata Global Beverages Limited - MD, CEO & Executive Director [105]

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Thank you.

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