February 14, 2024

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Sub: Transcripts of Conference Call pertaining to financial results for the quarter and period ended December 31, 2023

Dear Sir/Madam,

In accordance with Regulation 30 of the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015 ("Listing Regulations"), we are submitting the Transcripts of Conference Call held on Thursday, February 8, 2024, in respect of the financial results for the quarter and period ended December 31, 2023

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

This is for your information and records.

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

SIVASANKARAN SIVAKUMAR
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"Tata Consumer Products Limited

Q3 FY '24 Earnings Conference Call"

February 08, 2024

MANAGEMENT:	**MR. SUNIL D'SOUZA – MANAGING DIRECTOR AND CHIEF EXECUTIVE OFFICER** **MR. L. KRISHNAKUMAR – SENIOR ADVISOR** **MR. ASHISH GOENKA – GROUP CFO** **MR. AJIT KRISHNAKUMAR – EXECUTIVE DIRECTOR AND CHIEF OPERATING OFFICER** **MS. NIDHI VERMA – HEAD INVESTOR RELATIONS AND CORPORATE COMMUNICATIONS**
MODERATOR:	**MR. ANIRUDDHA JOSHI – ICICI SECURITIES LIMITED**

Moderator: Ladies and gentlemen, good day, and welcome to Q3 FY '24 Earnings Conference Call of Tata Consumer Products Limited, hosted by ICICI Securities As a reminder, all participant lines will be in the listen-only mode, and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing star, then zero on your touchtone phone. Please note that this conference is being recorded.

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

Aniruddha Joshi: Thanks, Yashashri. On behalf of ICICI Securities, we welcome you all to Q3 FY '24 Results Conference Call of Tata Consumer Products. Now I hand over the call to Ms. Nidhi Verma, Head of Investor Relations and Corporate Communications, to take the call forward. Thanks, and over to you, Nidhi.

Nidhi Verma: Thanks, Aniruddha, for hosting us, and welcome everyone, to the Q3 FY '24 call for Tata Consumer. As you all would have seen, we've announced our quarterly results last evening. We also published all the materials, hope you had a chance to go through those. As we usually do in our calls, we'll spend about 15, 20 minutes sharing the key highlights of the quarter with you, and then we will open up the floor for Q&A.

I'd just like to draw your attention to the disclaimer statement, which should have been on your screen right now. But yes, with that, I'll just hand it over to Sunil.

Sunil D'Souza: Thanks, Nidhi. So if you can go to the executive summary. We've delivered another strong quarter of performance with consolidated revenue growth of 9%. If I take constant currency, it's 8%. And growth across all our businesses. Effectively, our CAGR for 4 years is now 11%. We had volume growth in tea of 2% and India Beverages grew 8%. NourishCo grew 34%, bringing the 9-month growth to 41%.

India Foods volumes were up 5%. Revenue was up 13%, and Tata Sampann was another strong quarter, growing 40% year-on-year. International business is on an upswing, recorded 11% revenue growth, 6% in constant currency. EBIT more importantly, growth of 23%. India growth businesses continued their trajectory, grew 42%, and now they account for 17% of our total businesses. Our consolidated EBITDA was up 26%, expanded margins by 190 bps.

Profitability profile of our growth businesses continues to improve as we grow scale in these businesses. On a MAT basis, there was a marginal dip on India tea and salt. Salt was just a very, very mathematical number. But on tea, I'd just like to point, saying that while you see improving trend while it's negative on a MAT basis, quarter-on-quarter, we have gained share.

Tata Salt recorded its highest ever, and ever is ever monthly share -- market share, in December '23, so on a very, very strong trajectory. Innovation, which is a prime focus for us, continued to deliver. Same quarter last year was about 3%. This quarter was 5.3%.

Following all the regulatory approvals, merger of Tata Coffee has been effective 1st January. Right now, we're in the process of the final pieces of integration. Apart from that, in the middle of the quarter, we announced the acquisition of Capital Foods, which is the owner of Ching's Secret and Smith & Jones, and Organic India. And right now, we have closed Capital Foods and are in the process of integrating.

Just like to point out that we have made substantial progress on front-end integration. We had actually started invoicing both primary and secondary, primaries on the 1st (of February), secondaries on the 2nd (of February). And we are through a substantial way ahead on the front-end integration. We will now focus on completing the front-end integration, hopefully by the middle of this month, and then getting to the organization and the back-end integration. Both the businesses, as we had stated earlier, are gross margin accretive to our business, and we see significant potential to derive both revenue and cost synergies.

If you move, in terms of businesses, I talked about the 2% volume, 8% revenue in India Beverages; 5% volume, 13% in India Foods. US Coffee, overall, the coffee business is under pressure on the demand side in the US, and also there is a huge amount of volatility on coffee. Coffee had spiked up, was coming down. Now in the last probably 2 months, 2 to 3 months, we are seeing an upswing. So this is something that we've got to tackle. But tea is now on a strong footing. Volume growth of 10% overall, revenue growth of 22%.

Tata Coffee has had another good quarter, 6% volume, 3% revenue. But more importantly, when you see the numbers, profitability has improved significantly. So overall, INR3,800 crores at a 9% growth. On a 9-month basis, 3% volume and 9% revenue in India Beverages; 5% volume, 17% India Foods. US Coffee, as I said, is still, overall the coffee category in the US is under a bit of pressure. Tea continues on a strong run, 11% volume, 21% revenue.

Tata Coffee, you would see volume growth negative because of the sharp runoff of prices early in the year. But now volume growth has started to come back and revenue growth for 9 months was 6%. Overall, for 9 months, INR11,279 crores of top line and 11% growth.

Summary of performance, 9% revenue, 26% EBITDA. Before exceptional items, and this exceptional item, just to point out, the most significant piece is something relating to 25 years back. So if I net that off, we've had a 27% growth in PBT. Group net before exceptional is 31%. But the reported with exceptional is a negative 17% at INR300 crores.

The other thing I wanted to point out is INR2,945 crores of cash sitting on our balance sheet at the end of 9 months. Just to put it in perspective, last year, same quarter, we had about INR2,090-odd crores. So while delivering top line growth and value from the businesses and focusing on working capital, which we brought down by 7 days, it has translated to cash, which is 40% up versus the same quarter last year.

Nine months, 11% top line, 25% EBITDA. Before exceptionals, 29% PBT. 23% group net. Reported is negative 3%, which is INR1,000 crores. Net cash of INR2,900. For the 9 months, on a before exceptional basis, EPS growth of 22%.

Just in terms of our strategic moves. Our direct reach is now 1.5 million and total reach is 3.9 million. We are continuing to power ahead on modern trade and e-commerce. E-commerce, we are market leaders in tea. Apart from that, revenue growth of 37%. Most importantly, now we've crossed the double-digit mark on the channel contribution. It's now 10.7%. In modern trade, which is what allows us to play our entire portfolio very easily, our Sampann, Soulfull revenue growth is 49%, and we've introduced 45 new SKUs.

Sorry, if you just go back to the previous page. The one point I would want to highlight is we had stated that we will have distributors in all 50,000-plus towns, and we will focus our attention now below that because that is where there is a distribution, more importantly, market share opportunity for us. So now the focus is on the 10,000 to 20,000 plus population towns, where we are either appointing distributors or more importantly, laying out, re-laying the network of super-stockist and sub-distributors.

India business, we continue to grow our A&P investment. It was up by 6% versus last year. MAT share in tea, I talked about, while you'll see these mathematical numbers, for the last quarter on volume, quarter-to-quarter, we've gained 30 bps, and value has gone up by 16 basis points.

Market share in Salt. This is, again, you're looking at MAT, which is minus 10 bps. But just we clocked a 39-plus share on value for Salt, which is the ever highest in the month of December.

We continue to drive premiumization through innovation. We've introduced new SKUs in Sonnets. Sonnets incidentally is our brand for everything that is made by Tata Coffee. So on the right-hand side top, you'll see cardamom, pepper, honey. This is all from the estates. Dry fruits, while we had played the mainline dry fruits, the big value creation is in the flavored and roasted, etc. So we have just entered into that piece. Right now, it is online. We will be looking at an offline expansion. In line with our value creation in salt and premium categories, we've launched Black Salt and continued to expand our premium portfolio with the cold brew coffee cans in Tata Coffee.

With that -- sorry, next slide. Our growth engines, which is primarily Sampann, NourishCo, Soulfull and Yumside now has grown 42% for the quarter. And the growth businesses, like you see same quarter last year, was 13% contribution to the India business, is now 17%. And when we did the acquisitions, I think we have clearly said we are looking at ending this year close to 20% of contribution, growing at 30%. But with the addition of Organic India and Capital Foods, we are targeting to take that contribution to 30%, growing at 30%. Now over to Ajit to talk you through where we are on the integration of the 2 businesses.

Ajit Krishnakumar: Thanks, Sunil. I think we've already shown this on the 12th when we did the acquisitions. But the broad highlights are for both Capital Foods and Organic India, if you step back, they are strong brands. They have significant growth potential from a revenue perspective. They are also EBITDA accretive as far as we're concerned from our – relative to our current portfolio, therefore, very attractive for us.

From an execution perspective, what is going to become critical is that we integrate these businesses quickly into our system. Therefore, we've already started. As Sunil mentioned, we move to the next page here. As Sunil mentioned, we closed the acquisition of Capital Foods on the 1st, and we're able to move very quickly in terms of integrating the front line. We've made references to our playbook several times before since we have done this several times, we're able to do this very quickly.

So within about 2 to 3 days, we have been able to substantially complete the front-end integration. To be clear, this means that the Capital Foods products flow into our common warehouses, into our common distributors and into our common sales force. And this work has been substantially complete. The rest of the work should be completed in the next 60 to 90 days, and we are reasonably confident that we can do this.

Organic India, as we indicated at the time of the acquisition, would take about 45 to 60 days to close. We remain on track for that. We should be in a position at the end of March or early April to integrate. And we expect to be able to similarly integrate this into our TCPL distribution system and therefore, start realizing the synergies that we hope to drive.

With that, I would hand it back to Sunil.

Sunil D'Souza: Yes. So to quickly walk you through our current businesses and the performance. India Packaged Beverages, I talked about tea volume growth of 2% and revenue growth of 4%. This is the fourth consecutive quarter of positive volume growth. So for a 4-year CAGR, we are now at 8% revenue growth.

Most importantly, we've always said that our opportunity for growth is from the mass premium to the premium, which is the higher range of the portfolio. That is significantly now outperforming our popular and economy segments. Coffee also, which is a focus for us, grew at 32%.

Next slide. Foods business, overall 5% volume, 13% revenue. Basically, the 4-year CAGR of Salt is now 16%. Value-added Salts, which is growing the higher end of the portfolio, again is a focus, that grew 23% during the quarter. And Sampann, as I talked about, delivered another strong quarter growing at 40%. So the 4-year revenue CAGR for Sampann in line with what we have guided for, saying we are targeting for 30% growth, is at 29%, mostly in line with our aspirations.

Dry fruits, which is another big category that we're targeting, had a strong quarter, growing at 70%. Next slide. NourishCo, 34% revenue growth, INR160 crores for the quarter. It remains on track for delivering INR900 crores to INR1,000 crores for the full year. Both the value businesses, which is Tata Gluco Plus and Copper Plus, as well as the premium business of Himalayan, grew strongly. Most importantly, profitability has continued to improve quarter-on-quarter. We're targeting a breakeven this quarter -- this year. And the profitability will only improve as we gain scale from here on.

Tata Coffee, plantations grew 44%, in line with both actually, output as well as price. But overall, Tata Coffee, including Vietnam, had a 3% revenue growth. But had a stellar quarter in terms of the bottom line. Overall, for the extractions business, while revenue has declined 3% year-on-year, margins have seen a significant improvement.

Tata Starbucks opened 22 new stores, 392 is the total store count. In line with what you would have probably heard from all the other QSRs around, this was a quarter of a bit of pressure. So the top line has only grown at 7%. But year-to-date, they're still at a healthy 14% growth. We have already publicly announced saying we are targeting 1,000 stores by FY '28. If anything, we should deliver before that.

International coming back quite strongly. U.K., our whole game plan of revamping the entire back-end, new sustainable packaging, upgraded product, improved execution and higher A&P has started to deliver. Revenue growth of 14%. We have gained value market share. We are now at close to 20%. Most importantly, Fruit & Herbals and Specialty, which is the other target, we started to make traction on that as well. That Fruit & Herbal market share is now close to a double-digit on MAT basis.

US, I talked about the category being under pressure. Revenue growth of negative 9%. We more or less maintain market share. But most importantly, here, too, in line with our expansion, U.K., I had already talked about Joyfull having secured listings in Tesco, 400-plus stores last quarter. In US, we've got listings in Giant Eagle, which should be starting to deliver end of this quarter.

Canada, I keep saying jewel in the crown, revenue growth of 0 for the quarter, but continuing to grow share. We had a record share of 61.5% in black tea for the month of December. Of course, we will not hold on to the 61.5%, we will go for the top line. Most importantly, the ethnic portfolio in Canada has started to get strong traction.

With that, I hand over to LK to walk you through the financial performance. LK?

L Krishnakumar: Thanks, Sunil, and hi, everyone. Let me talk you through the financial performance for the quarter and the 9 months, starting with the performance highlights for the quarter.

Consolidated revenues grew by 9%. And within that, the India business grew by 10%. And within the India business, the growth initiatives, which is NourishCo, Sampann, Soulfull and the like, grew by about 40%. In the international business, we saw a growth of 6% in constant currency. It was flat excluding the impact of acquisitions. The non-branded business grew by 4%.

Moving on to EBITDA margin, strong growth of 26%. EBITDA margin improvement by almost 2 basis points -- 2 percentage points. The India business EBITDA grew by 22%. Our EBITDA margin expansion is a function of better mix which Sunil talked of, operating leverage as well as some softness in tea costs.

International business grew by 19%. Margin expansion, apart from softening input costs, was also due to price increases we have taken in some markets like the U.K. as well as cost restructuring we did in the last year. EBITDA for the non-branded business grew by 54%, largely due to high coffee realization. But it's important to note that the high coffee prices have some impact -- adverse impact on the branded business, particularly the US coffee.

Moving on to performance highlights for the 9 months. Consolidated revenue grew by 11%. India business, again, strong growth of 12%, driven also by the growth portfolio. Non-branded business grew by 4%, more or less the growth in line with what we saw for the 3 months, slightly higher. EBITDA margin grew by 25%. India business, 17%. International business EBITDA growth at 23% was slightly higher than what we saw for this quarter. And non-branded business continues to have strong performance.

Moving on to the next slide, which has the consolidated performance. We talked about the revenue growth of 9%, EBITDA growth of 26%, and there's a PBT growth of 27% for the quarter. Let me stop for a minute on the exceptional items. You see, a cost of INR92 crores versus an income of INR79 crores.

In the previous year, the main exceptional income was arising out of increasing stake in Joekels in South Africa. In the current year, we have 3 items under the head Exceptional. There is the cost relating to U.K. pension. I'll explain it in a minute. There are also costs relating to acquisitions and costs relating to restructuring.

In the case of U.K. pensions, we are accounting for some past service costs of earlier years. We are in a stage where we are looking to remove the pension liability from our balance sheet in the next year or two. And in that context, looking at doing a deeper investigation, right from the origin of the fund so that we can then give it on to insurance companies.

In the course of that review, it came to light that certain regulations or case loss in the 1990s have not been properly given effect to in the scheme. We are not alone in that. There are other schemes in the U.K., where similar interpretation is happening. Consequently, we have taken a one-time hit in terms of past service costs. So profit before exceptional items, strong growth, but because of the impact of an income in the last quarter and a higher exceptional cost in the current quarter, the PAT growth in this quarter is negative.

On the 9 months performance, revenue growth of 11% and EBITDA growth of 25%. Again, exceptional items playing a role for reported profit being only at 3% growth. On the share of profit of JVs & Associates, if you look at the SEBI format, you will see that both in the quarter and year-to-date, the losses are slightly higher than the losses or profits reported in the same period in the previous year.

The losses in the Starbucks business are higher because of expansion and the way accounting standards work. Also a little bit of softness in the market, but more importantly, because of lower tea costs and because of wage increases. The performance of Amalgamated Plantations in North India is lower than what it was in the same period previous year.

So that's the change in the share of profit of JVs & Associates. From a 9-month perspective, we had a small element of Joekels also in the 9-month results last year.

Moving on to financial for stand-alone. I won't repeat a lot of what I said. What is important to note is that the EBIT margins at 15.6%, compared to 13.5% and 14.7% compared to 13.6%. There is a clear improvement in EBITDA margins driven by premiumization mix, some amount of softness in commodity costs and also by operating leverage.

So that, I think, is a good step. So again, repeat, strong double-digit growth by the India business and improving EBITDA margin.

Moving on to segment performance. We're seeing India business a strong growth of 23%, 10% in revenue and 23% in terms of operating profit. International, 11% and 23%. Non-branded, 5% revenue growth for a significant improvement in segment results driven by high commodity costs.

India business accounts for 70% of revenue and 77% of the segment results. Similar trend in the 9-month performance. India business, 72% of revenues and 76% of the segment results. Back to Sunil for concluding remarks.

Sunil D'Souza: Thanks, LK. So to conclude, we've seen stable demand trends and most importantly, stable cost trends in the India business and remain cautiously optimistic of volume growth. Branded coffee category saw a decline in the US, a key international market, which we've got to tackle and the UK tea category saw growth led by pricing, and now we're seeing volume growth also starting to come back.

In Q3 '24, we've delivered a strong quarter. Our India and international branded businesses grew in double digits. Interventions that we put in place of our India tea business continued to yield positive results, volume growth with improving mix and most importantly, margins also more or less where we want them to trend.

We continue to premiumize our portfolio, and we will continue to run for share. In salt business, growth was led both by volume and premiumization, value-added salts growing 23% and overall volume growth, highest market share that we saw in December.

Our growth businesses continue to grow at 42% and now account for 17%, up from 13% last year. Starbucks is now 392 stores across 55 cities. Totally during this year, so far, we've added close to 59 stores. We have closed Capital Foods, started integration. Organic India expected to close within 45 to 60 days.

We will complete both the integrations as and when -- the Capital Foods has already happened, even when Organic India happens, we'll close it in 100 days. We'll finish the integration in 100 days.

In line with our simplification agenda, we had announced India and global restructuring. We have already started work on the Tata Coffee India leg, and we will now move to the international businesses. This will help us move to the next phase overall -- in terms of our simplification agenda, giving us legal, tax, reduction of managerial time, etcetera, apart from some other financial benefits. With that, I hand you over back to Nidhi.

Nidhi Verma: Thank you, Sunil. I think we can just go to the Q&A now, moderator.

Moderator: Thank you very much. We will now begin the question and answer session. We have our first question from the line of Abneesh Roy from Nuvama. Please go ahead.

Abneesh Roy: Congrats on the good numbers. My first question is on the innovation. So when I see spices and honey, you have launched under Sonnets. You also have some spices like haldi, etcetera, under Sampann. So why have two brands and similarly honey, you do have Himalayan honey also and you have now got Sonnets honey also? Plus, is the label on the spices and honey, etcetera, saying by Tata Coffee. So it's looking a bit strange, right? You have cardamom and black pepper and then, say, by Tata Coffee. So I wanted to understand all this in terms of brand architecture and positioning.

Sunil D'Souza: So thanks, Abneesh. So let me say, Sampann is the mass market brand where we will play for the larger market and we will compete in the mainline spice business of whatever, INR60,000 crores, total INR20,000 crores on branded spice category. That is the big play.

The Sonnets by Tata Coffee is a very, very niche play. Right now, it is online. If it gains traction, we will see how to take it elsewhere. This is an origin of Tata Coffee. That is the brand positioning. Everything that you see out there is authentically grown on Tata Coffee or honey, for example, is harvested from Tata Coffee estates. It is a significant premium to the Sampann portfolio.

Himalayan, on the other hand, is everything from the Himalayas per se. Again, this is a premium above Sonnets also. And that is, again, origin/provenance brand that we are playing. Right now, again, that is primarily online, a little bit in offline outlets, but I would say the significant thrust on top line and growth share will be behind Tata Sampann.

Abneesh Roy: Sure. My second question is on your foods business. So we are seeing the market leader in masala oats see significant slowdown in Q3 with mid-single-digit kind of growth. So in your Soulfull portfolio, how is the growth rate in Q3? I understand you have come out with a lot of new products, so your growth rate could be good. But if you could comment on the existing non-masala oats portfolio of Soulfull? Plus, how is the performance within masala oats? Are you taking good market share in the e-commerce and modern trade?

Sunil D'Souza: So Abneesh, overall, I wouldn't comment about other competitors, but all I can say is we remain focused on our growth businesses. Growth businesses delivered 42% growth. Soulfull itself delivered a 47% growth for the quarter, a vast majority of it coming from the base and not from the new launches like Choco Sticks, etcetera.

On masala oats specifically, quarter-on-quarter, we continue to gain share. I would say, broadly, we are trending towards a double-digit share. But in modern trade, where we are present for a decent amount of time, we are already into the high teens sort of market share.

Abneesh Roy: Sure. My last question on NourishCo. So you have grown strongly in Q3 at 34% and 9 months also at 41%. You had very ambitious target of around INR1,000 crores business in FY '24 on this. It seems that you are going a bit slower than that. So if you could comment on Q4, do you think that you'll be able to have a good catch-up on that? And any reason for slightly slower growth than the initial ambition?

Sunil D'Souza: So Abneesh, we remain focused on the INR900 crores to INR1,000 crores that we had talked about for NourishCo for the full year. But just to put it in perspective, Q3 is normally the slowest quarter of the year, given the seasonality, especially in Northern India. The season would actually start kicking in end of January, early February, so to speak. So this quarter will be a substantially higher number.

For NourishCo, I think the growth rates are immaterial. The number -- the highway is vast. And I will remain quite confident that we'll deliver the INR900 crores to INR1,000 crores number.

Moderator: We have our next question from the line of Vivek M. from Jefferies. Please go ahead.

Vivek M: My first question is related to what earlier participant asked. Sunil, in terms of portfolio, so while we like the growth agenda, but do you not think that there is a bit of a complexity in the portfolio with Organic India also overlapping with some of the existing portfolio, and so on and so forth. How do you think about this? Do you think at some point of time, you will have to think about consolidation? And can this also have a drag on the bandwidth of the team?

Sunil D'Souza: So Vivek, let me answer it this way. For the overall complexity and before commenting on Organic India specifically. Complexity is dealt with depending on how you structure your team to play on, right? So while you see a lot of new launches, etcetera, they are not on the offline business. They're not in the general trade because that is where the confusion can arise because of limited amount of bandwidth for the front end.

Some of it is not even in modern trade because I do not think these products will move off the shelf in modern trade and/or create complexity for the team. So you would see the entire portfolio definitely play online because on online for my entire portfolio without complicating anyone's life. So that's number one.

So the -- for example, dry fruits, we launched only online. Then as it gained traction, we are looking at select -- we're still not into -- we are not into all of modern trade. We are looking at select modern trade. We have still not ventured into general trade, but products which have got traction, we go all across the place.

Sonnets, for example, will be for the foreseeable future only online. It was that these products were already being produced by Tata Coffee. They were under various different brand names or being sold B2B. We do see an opportunity to make some money out of this while building a decent provenance brand of Tata Coffee. Now coming specifically to Organic India. Organic India portfolio is primarily into, I would say, 2 parts: the first part is what I call organic tea and more importantly, infusions. And the second part is supplements.

Supplements, absolutely, there is no overlap at all, and that is completely on its own. On the tea space -- on the infusion space, we play in tea, organic. And most of it is loose tea, a little bit of teabags under Tetley green, black and various flavors. Organic India is completely tea -- completely organic, and more importantly, the large part of their portfolio is infusions.

If anything, it right now, the way we see it, it complements our portfolio. But that said, we have just started work on building out the entire innovation pipeline and where to play in both Capital Foods and Organic India. As we work through the details, extremely mindful of the point that you made is not to create confusion in the ranks as we execute, making sure that all these businesses are value accretive.

Vivek M: Got it, Sunil, for the detailed explanation. Just a kind of a follow-up to this. I mean, over the last few years, you have done small to reasonably sized acquisition. And I remember at the time of acquisition call recently, you mentioned that the capital raise would be with the mindset that you still want to have enough cash on your balance sheet.

But -- and again, I understand the uncertainty around M&As. But do you think that you have brand architecture pretty much in place, so the acquisition, incremental acquisitions need to be really solving some problem or a portfolio gap? Or let me ask you what would be your thought process in terms of M&As from here? What kind of targets you will go after, now that you have like quite a few brand platforms architecture in place?

Sunil D'Souza: So Vivek, let me put it this way. When we started our journey 4 years back. We had done detailed mapping of the food and beverage universe. Every category of size, if I remember, we had looked at 30-odd different categories of INR5,000 crores plus where there were options for us to play and create value.

We have made substantial progress, but we are not there quite yet. Capital Foods, for example, complements from a cuisine perspective. We cover all the 3 cuisines, I would say, Indian with Sampann, Western with Smith & Jones, and then I would call the oriental piece with Capital Foods. Apart from that, it gets us into categories of chutneys, dips, sauces, noodles, which we did not have in our portfolio. Similarly for Organic India.

Now while these have filled in some gaps in our portfolio, I think we've still got options to play. But as you rightly said, and we have always maintained, we will grow organically, inorganically. We've also publicly said that right now, in the short term, we will put our heads down, make sure we integrate these businesses and deliver value. But we remain quite open to organic and inorganic options to go forward.

So short answer, this is not the end of the road for M&A. We've still got options to play, providing they make sense, both from a strategic and financial perspective. And when I say the strategic perspective, filling gaps faster than what we can on our own on our entire food and beverage road map.

Vivek M: Got it, Sunil. And last question on margins, if I look at exit margin as in the December quarter margins for both India and international businesses at EBIT level, let's say, is it fair to say that India margin expansion from here will be more modest, whereas there is still a catch-up in case of international business over the next few quarters?

Sunil D'Souza: So Vivek, let me put it this way. When I look at our peer set, I think we've still got opportunity on EBIT margins. As we bolt on these value-accretive inorganic acquisitions that we've done along with the growth that we aspire to in our base businesses, we will continue to leverage economies of scale and margin-accretive categories.

I think overall as a company, now 15% EBITDA margins is something which we had aspired to deliver. Now we are there. Now that becomes the base. From here on, we will be continuing to target higher. And upfront, I mean, even in the food and beverage space or in the overall FMCG space, when you look at the peer set, we are still not even in the middle of the heap.

Vivek M: Got it. I understand, Sunil. But I know smaller contribution from international, but I would imagine that international margin expansion should be far higher than what you can do in India in the next, let's say, few quarters. Is that fair?

Sunil D'Souza: Absolutely. Vivek, International, I've always maintained margin-wise, has to be accretive to the India business. The growth will be slower, margin-accretive. The one good thing that is happening with these acquisitions, we will -- add a decent amount of value on the top line as well to both these businesses, along with the expansion of Joyfull, etcetera. But you're absolutely right. Our international business margin has to be accretive to India. We directionally started to move in that space. I think there is still a decent amount of runway to go.

Moderator: We have next question from the line of Mihir Shah from Nomura. Please go ahead.

Mihir Shah: Congrats on a good set of numbers. So my question again is on the margin front. But just taking a step back, while if one -- the gross margin, when one looks at the gross margins, you are seeing better-than-expected improvement in gross margins. Can you share which business has led to this improvement? Is it the softness in the tea cost? Or is it the improving profitability in the growth businesses that is driving this or maybe some other reason for that?

Sunil D'Souza: So Mihir, let me answer it in 3 or 4 different pieces, right? Overall, commodity costs have been benign, whether it is in -- and when I say benign, tea costs are pricing cyclical. You have to remember that. So when I compare to the same quarter last year, it's largely benign.

Salt costs are largely benign. More importantly, other input costs and our gross margin, when we quote, is inclusive of variable freight, etcetera. So given our whole petroleum prices being flat, therefore, logistics costs being largely, I would say, flattish. That is where a contribution -- where our gross margins have improved. Both for tea and salt, gross margins are broadly in the bracket where we want it to be.

On the growth businesses, obviously, as we gain scale, whether it is ready-to-drink, Sampann, Soulfull, as long as we continue to gain scale, leverage, operating cost leverage, margins are continuing to improve. So it's a mix of various parameters that's driving up the overall gross margin portfolio.

Mihir Shah: Okay. Sir, can you highlight what is the differential gap between the EBIT food margin and EBIT margins for beverages now currently as the major...

Sunil D'Souza: Mihir, we look at the India business in totality as a food and beverage portfolio because we always make choices depending on where we can create the greatest value. So we segregate up to the gross margin level or margin after promotion, but -- promotion and advertising. But below that, it is all common cost of the India structure. Therefore, we don't break up the EBIT margins for India Food and India Beverage.

Mihir Shah: Okay, okay. So just another follow-up on margins. You mentioned that international margins should be accretive to the overall business. Can you share any timelines that you have in mind by when can we expect international margins to be accretive to the overall business?

Sunil D'Souza: So let me just before that, just to qualify the statement that I had made earlier. The way we are structured is by category in India. So packaged beverages is a category. Packaged foods is a category. Soulfull is a category, etcetera. So therefore, all these category leaders have accountability up to margin after promotion expenses. The balance, everything, the back end, front end and all the other functional costs are all common. And that's why we don't look at separate, this thing.

I mean you could do it by allocation, but then it's a theoretical exercise. On the international business itself, broadly, if I look at it, U.K. has started to come back into a very strong space. As I said, EBIT margins had -- I've never seen it in the past 3 years. Last quarter, we saw double-digit EBIT margins. Canada has always delivered very, very strong margins and continuing to do so. The US is a little bit of work in process. I would say, over the next 6 to 12 months, you should see substantial progress on that front.

Mihir Shah: Wonderful. Sir, sorry, 1 more follow-up on margins. Now after reaching 15% EBITDA level, can you share what kind of headroom opportunity do we see out here? Any medium-term guidance, if you can talk about, will be wonderful.

Sunil D'Souza: So, Mihir, we always benchmark to our peer set, right? And if you look around in the other FMCG companies, I think the range is between -- depending on -- if you take food and beverage, it's about 17% to 25%. But overall, I would say, broadly, people are, if you take a median, it's about 18% to 20%. So there is a decent amount of headroom for us to grow margin. But the most important piece is we are a growth company, but we are a growth plus profitability company. So we will continue to deliver double-digit growth while improving margins at the same time.

Mihir Shah: Got it. Got it. Sir, secondly, I wanted to check on the coffee business. When one looks at the coffee volumes, both for India and US, they seem to have stabilized. Can one expect improvement from here on? And no further drag on volumes like we had seen in earlier quarters? And also on pricing, on US Coffee, it's turned negative. Have we taken price cuts because coffee prices are actually trending upwards? So I'm unable to understand that math.

Sunil D'Souza: So let me answer your second question first, Mihir. Starting July 2021 onwards, first Arabica up and then Robusta ran up in conjunction with Arabica. Some time around March, April of 2023, prices started coming down. Again, Arabica started coming down first, followed by Robusta. So the secular trend was for a decline in coffee prices.

But starting around September of this year onwards, again, driven by a little bit of niggling issues in Brazil and the Vietnam crop not coming on to the market completely, Robusta prices have started to climb up. Arabica has started to climb up in conjunction with Robusta.

Now the forecasts are that they will start to plateau/soften towards the end of this calendar year. But again, a forecast is a forecast. So we continue to move up and down along with coffee prices and the activity that we see on the shop floors in terms of promotions, pricing, etcetera. Because ultimately, we will maintain our market share/grow market shares. So that is why you will see the ups and downs.

As of now, I think the prices are starting to move slightly north, but I wouldn't try to forecast too far into the future given the volatility that we're seeing. We would try to play close to where the market is. So that's number one.

On the coffee volumes itself, the category itself is soft in the US, overall. And we are also soft in line with the category or maybe a slight bit more, but we will get back to category-plus numbers. India business, we grew 32% on coffee, but it's a small portion of our business, and it continues to be a growth focus.

Mihir Shah: Got it, sir. And lastly, any synergy benefits that you can expect to call out on that can accrue on the integration of international and the coffee business that you've worked out now?

Sunil D'Souza: So there are synergy benefits. The bigger substantial benefits are in legal, tax, cash flow and management time. But as we work through, we will come out with very specific numbers as we go forward.

Nidhi Verma: Moderator, can we please request everyone to limit their questions to max two at a time?

Moderator: We'll take our next question from the line of Percy from IIFL. Please go ahead.

Percy: My first question is on the new portfolio, the new businesses, which are growing at 35%, 40%. So just wanted to understand, is the growth currently being driven mainly by plugging the availability gaps? Or are there some other drivers of growth as well? Now I understand it will always be a combination of many things. But is it mainly the availability gap, which you are plugging which is driving the growth? Or there are other strong or important factors as well?

Sunil D'Souza: So Percy, incidentally, we are growing at 42%. We have grown at 42% for the last quarter. But just to come back to your question, very, very specifically, for example, in NourishCo, we had said both geography and portfolio. When we inherited the business, it was just a Gluco Plus and it was a Tata Water Plus, which we transitioned to Tata Copper Plus.

Tata Copper Plus is growing far faster than Gluco Plus. But -- there is a bit of geographic expansion, but there's also portfolio. We've launched Tata Gluco Plus Jelly. We have launched Himalayan. We've expanded our distribution. We've launched the Himalayan provenance range. We've entered cold coffee. We've just started to pilot sports drinks, energy drinks. So it is both geography and portfolio.

Similarly, in Sampann, the big business was pulses. We've started to expand into spices. We've gone into mix. We've expanded poha. And it is both a combination of new categories as well as, I would say, in Sampann, it is points of availability. In NourishCo, it is points of distribution and manufacturing. And in Soulfull, it is plain and simple getting the product across to multiple people. And we've now entered muesli. We've entered choco sticks, and there is a whole range of more innovation. I would say equal weightage to both geography and portfolio.

Percy: And in terms of geography, are there any sort of white spaces right now? So one is, of course, in a city, you can always cover more outlets which are not covered. But do you still think there is easy pickings in terms of going to cities and towns which you have not gone at all until now?

Sunil D'Souza: So, yes and no, because different parts of the portfolio play differently. In NourishCo, I would say we probably have manufacturing, and we have started, and the keyword is started, distribution in about, I would say, 80%, 85% of the country. And that started distribution has to now play out and there is expansion in number of outlets that we will do.

But Soulfull, for example, from where they were with about 15,000, 20,000 outlets, is now about -- trending about 5.5 lakhs, 6 lakh-plus outlets. But there is still -- remember, just in terms of direct outlets, I touched 1.5 million. So there is that much room to grow.

Sampann, similarly because remember, I am also competing with the kirana owner himself, who is normally selling loose/locally packaged pulses, spices, etcetera. So while we are present in modern trade throughout, there is, I think, a huge amount of runway in still expanding distribution in general trade with Sampann. So different parts of the portfolio, different opportunities. But as we had said, we are targeting to exit close to 20% of our portfolio with growth businesses growing at 30%, which we will now, with the acquisitions, take it up to 30%, growing at 30%.

Percy: Right. I am asking only this one question. So allow me to delve a little deeper into this. So when you talk about something like a Sampann and you say there is a scope for going into GT. So typically, see, what happens is that availability, of course, drive growth. But there is a limit to that, right? So if there is a product which I want to buy, if it's not available in one shop, I get it in another, it really doesn't incrementally improve sales very much by making it available in the nearby shop. So what my question for Sampann is that do you think that as of now, the audience for it and the people who want to buy it are already buying it and it's not as if they are not getting the product when they want to buy it?

Sunil D'Souza: I would beg to disagree with you, Percy, because the key barrier is to overcome the margin difference between the local loose versus Sampann and getting into the Kirana store. Because once we get into the Kirana store, then I've never heard of a consumer who shifted back into any other portfolio, right? So from that perspective, creating consumer preference is part number one. Making sure we put it into the store and make it available is part number two. On both the pieces, I think we've got a significant amount of runway to play.

Percy: Okay. So the main challenge here is bringing down the price premium of products like Sampann?

Sunil D'Souza: No. I think maintaining the price premium, creating the consumer pull and making sure that we provide a compelling proposition for the retailer to stock the product. I think that is the problem to solve.

Moderator: We have our next question from the line of Arnab Mitra from Goldman Sachs. Please go ahead.

Arnab Mitra: My first question was on NourishCo again. So in terms of distribution, where do you think you end up in FY '24 in terms of direct reach or weighted average availability in the category? I was just trying to understand how much more headroom do you think is there after what you've done already this year.

And a related question to that is that the energy drink that we launched, so it's very early days. Any sense of consumer response? Does it look like something which can significantly ramp up quickly? Or it is something which is a little more of an evolved product and therefore, will need more time for consumer acceptance?

Sunil D'Souza: So Arnab, let me answer your second question first. We are still at a pilot stage with the energy drink. The whole thing is to give the proposition of a INR10 energy drink giving the same efficacy that the consumer seeks for in other brands. We've got to get our -- both our distribution act together as well as our marketing mix perfected before we roll it out. So very early days.

Energy drinks, India and globally seems to be a booming segment. And therefore, getting the proposition right is the key because I do believe if we get it right and given the price points that we are looking to target, I think we'll have substantial throughput. So that's point number one.

Point number two is with respect to number of outlets. I think by the end of this year, we'll exit at about 8.5 lakhs, 9 lakhs or so. But just to put it in perspective, if you benchmark and against the other big beverage majors, and look at their number of outlets, I would think we are probably scratching the surface. We are about 20%, 25% there of their total universe. So we've still got substantial ground to cover.

Arnab Mitra: And my last question is on the acquisition of Ching's. So what we've seen in other companies is typically when a large company acquires a small company, there is a lot more inventory in the distributor channel, in the retail channel that has expired stock, and there is some kind of initial hiccups in the first couple of quarters. So based on what you have, what you know and what you've seen because the business is already -- the transaction is completed, do you anticipate any issues in the first couple of quarters, which will be cleaned up for reduction in inventory?

Sunil D'Souza: So, I mean, I think Ching's was a decently run company when we took it over. The big impetus for us to give distribution expansion. In many, many parts of the country, they are not distributed. So it is all incremental distribution.

But where they were already distributed, we are clearly having a full-fledged integration process where we go through the whole piece of taking inventory, making sure we clean up the -- any damage, expiries, which are there, making sure we're helping existing distributors to transition very, very smoothly. So far, it's already been about 7 to 8 days of integration. We are not seeing any major hiccup. There will be small niggles here and there, but nothing that I would really worry about.

Moderator: We have our next question from the line of Sheela Rathi from Morgan Stanley. Please go ahead.

Sheela Rathi: Sunil, my first question was again on EBITDA margins. I heard you say that 15% is now the bottom with respect to the margins. And I also understand this is coming from the commodity deflation which we are seeing. But is there something more which is driving this confidence on EBITDA margins, especially coming from the growth businesses?

Sunil D'Souza: So Sheela, number one is, I would say, the confidence stems from 3 or 4 different pieces, right? The gross margins of tea and salt are broadly now where they should be. And this is, when I say they should be, given the historical numbers that we have.

Number two is the growth businesses are on a very strong trajectory. But overall, as we are adding businesses, we are not adding costs on the bottom line. So the whole advantage of scale and operating leverage is what is helping us derive efficiency on the bottom line. And again, when you look at benchmark companies around, there is no reason we should not be getting to -- like I said, 15% is a base. I mean even with this, we are still not in the middle of the pack when it comes to EBITDA margin.

So overall, given top line growth, given gross margin efficiencies, given our cost focus on the middle of the P&L, I don't think there is a reason. Just one rider, I would say. While I say 15% is a base. There will be some ups and downs. But we would say directionally, 15% would be the base, and we will grow beyond this.

Sheela Rathi: Understood. And my second and final question is we talk about e-commerce share for us being at about 11%. But if you -- just trying to understand what the share of e-commerce would be for the growth businesses right now?

Sunil D'Souza: Okay. So Sheela, we have not actually dissected the share of the Growth. But broadly, for Sampann, I think I would have a higher share on e-commerce versus offline from the simple fact that I said, I mean, we compete with the kirana stores themselves in many categories, that's number one.

For Soulfull again, we would have probably higher than what we have as overall e-comm share because, again, availability and drive continues to be an opportunity for us. NourishCo, I mean I think our offline share would be higher. But overall, I think 10.7% e-comm, I would think we would be in the top quartile of FMCG companies in the country.

And just to highlight, when we have started our journey, we had said we will build very strong muscles in modern trade and e-commerce. And functionally, we had said we will build RTD and digital. And you can see that all that translating down into the business.

Moderator: We have our next question from the line of Amit Purohit from Elara. Please go ahead.

Amit Purohit: Just on the salt business, wherein we are clocking a very strong volume growth. Anything you could highlight in terms of any specific plan or segments which has been doing well for us in salt? I know the premium is doing well, but other than the premium part?

Sunil D'Souza: So Amit, first of all, the opportunity in the salt business is immense because I think top 5 brands account for about 50%, 52% of the total branded market. And remember, I am 39%. So you can imagine the rest of the brands. So the balance, large part of the salt landscape is what I call no-name brands. It's not loose, but it's not specific brands per se. So there is a huge runway for us to continue to gain share, that's number one.

Number two, overall salt volume, I would say, is still very, very highly dependent on base Tata Salt because that is the big boy in the pack. If I'm not mistaken, close to about 87%, 88% of our volume is primarily from Tata Salt itself. So unless Tata Salt grows, the rest of the portfolio doesn't grow.

Value-added salts grew 23% this quarter, but the volume growth of 5% was largely led by Tata Salt. And I would attribute it primarily to the factors that prices are now stable for almost a year now. And as prices have begun to be stable, volume growth has started to come back into the category.

Amit Purohit: And any update on the Shuddh launch in solar salt?

Sunil D'Souza: So Shuddh launch in Solar salt was very, very targeted into geographies where, A) we had a relatively lower share and where it was solar salt, which was the big category. Right now, we seem to be doing well. But again, we've got a long, long way to go.

Amit Purohit: Sure. And lastly, would you be able to share the salience of the water in the NourishCo?

Sunil D'Souza: I would say water would be largely 50% or so of the total NourishCo portfolio. While it is growing faster right now, I would think once we get our entire innovation act together in the Gluco Plus and the cup formats and expand the geographic footprint, you would see Gluco Plus also coming to the party on growth big time.

Nidhi Verma: Moderator, since we've already reached the end of time, if there are any other questions on webcast, perhaps we can take it offline. I request everyone to reach out to us if there are any remaining questions. Can we just close the call now, please?

Moderator: Sure, ma'am. On behalf of ICICI Securities, that concludes this conference. Thank you for joining us, and you may now disconnect your lines.