"Tata Consumer Products Limited Q1 FY-22 Results Conference Call"

August 4, 2021

MANAGEMENT: **MR. SUNIL D'SOUZA – MANAGING DIRECTOR AND CHIEF EXECUTIVE OFFICER, TATA CONSUMER PRODUCTS LIMITED**
MR. L. KRISHNAKUMAR – EXECUTIVE DIRECTOR AND GROUP CHIEF FINANCIAL OFFICER, TATA CONSUMER PRODUCTS LIMITED
MR. AJIT KRISHNAKUMAR – CHIEF OPERATING OFFICER, TATA CONSUMER PRODUCTS LIMITED
MS. NIDHI VERMA – HEAD INVESTOR RELATIONS AND COMMUNICATION, TATA CONSUMER PRODUCTS LIMITED

MODERATOR: **MR. MANOJ MENON – ICICI SECURITIES LIMITED**

Moderator: Ladies and gentlemen, good day and welcome to the Tata Consumer Products Q1 FY22 results conference call 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 * then 0 on your touchtone telephone. Please note that this conference is being recorded. I now hand the conference over to Mr. Manoj Menon from ICICI Securities. Thank you and over to you Mr. Menon.

Manoj Menon: It is an absolute pleasure at ICICI for us to host the Q1 FY22 results conference call of Tata Consumer Products Limited. The company is represented today by Mr. Sunil D'Souza – Managing Director and CEO; Mr. L. Krishnakumar – Executive Director and Group CFO; Mr. Ajit Krishnakumar – COO; Ms. Nidhi Verma – Head Investor Relations and Communication.

Having covered the Tata Consumer stock over the last 14 years, this analyst and at ICICI, we continue to have the constructive view. Over to the management for the opening remarks and the Q&A after that. Thank you.

Nidhi Verma: Thank you. Thank you, Manoj for hosting us. And hi, everyone, and welcome to the call. I hope all of you are keeping safe and doing well. In terms of the format for today's call, we will spend about 15 to 20 minutes, giving you key updates and highlights of the quarter and then reserve more time to answer your questions.

So, without further ado, I would now like to hand it over to Sunil. Sunil, over to you.

Sunil D'Souza: Thanks, Nidhi. I just like to add to what Nidhi said. So, compared to our earlier calls, you would see two differences coming up. Number one is the timing of the call. We have got feedback from various quarters saying we were not giving enough time to people to digest the numbers and the disclosures before the call, and therefore, they would like more time so that they can ask more questions.

So that is why, while we were ready with our results, yesterday evening, we have chosen to have this call around noon today so that all of you get time to go through, understand the details so that we can get into questions. That is number one. Number two is we have already uploaded the deck. So, we would want to spend time only on a few pages giving you the highlights. So that again, we reserve more time for Q&A in line with the feedback that you have got from various quarters.

With that, I will go straight over to the executive summary. All in all, I would say we have done a decent performance for the quarter. Our consolidated revenue grew 11% year-on-year despite a challenging operating environment and a very high base. Now just to put it in perspective, we are cycling a quarter of last year where revenue grew by 13% and EBIT grew by 43.% So, on that 13 we have still grown 11% and this is despite a severe second wave of COVID.

Now the India business has performed very well while international market as expected saw a decline owing to pantry loading in the base quarter. Overall, India business grew by 25%. India beverages up by 28% with a 3% volume growth, while India Foods continued its strong momentum of a 20% revenue with a 17% volume growth.

International business which has shown very strong results last year both in terms of top line, as well as bottom line because of reduced promotional and A&P expenses, this time around declined 13% with an underlying decline of 16% because remember, we have also divested certain businesses, which are sitting in our base, namely Map coffee, as well as Empirical.

The EBITDA margin for the quarter was 13.4% sequentially up quarter-on-quarter by 300 basis points, but down by 452 basis points driven by A&P investments in the India business as well as last year tea costs versus this year there is a significant difference and that has impacted the bottom line.

Now the group net profit declined 42% year-on-year. However adjusted for exceptional items because last year, we had a onetime gain of about Rs. 84 crores on account of the NourishCo transaction that we have done while there was offset of over Rs. 21 crores in terms of restructuring expenses that we had taken, net-net Rs. 63 crores were sitting in the base. We do not have that. If I adjust it for exceptional items, we have declined 27%.

We continue to invest behind our brands to drive long term growth. So, we are close to a 50% increase in A&P in India this year, in this quarter, in line with the commitments that we have made in terms of strengthening our brands, and we gained market shares in both the core categories of tea and salt in India.

The tea market share was up by 170 basis points. And salt where we are number one by far, we continue to go from strength to strength and our market share was up by 370 basis points. We now have a fully harmonized pan India distribution system, there were a few pockets where we had still not touched it in line with what we had done last September. Whereas during this quarter, we have taken those on and now the entire country is harmonized on one system. And in line with the commitments that we had made of completing the Soulful integration within 100 days, well on track to achieve that.

In addition, we continue to streamline operation and drive synergies, and this is driving synergies beyond what we have committed. We had committed Rs. 100 crores to Rs. 150 crores of synergies in 18 to 24 months when we did the integration of the food and beverage business. Having completed 18 months we are well ahead on the Rs. 100 crores bottom of the guidance that we had given and well on track to achieve both in terms of quantum as well as in time on the Rs. 150 crores.

On top of that we are constantly looking for synergies, including network optimization in India. In addition, we have started an exercise on simplifying the international business but more of that because that is right now work in process.

If I go down to performance overview and go straight down to group performance key businesses for Q1 FY22. India business Rs. 1,267 crores volume up 3%, revenue up 28%.

India Foods strong volume growth of 17%, revenue growth of 20%. In this 17% very strong volume growth by salt. Sampann, overall top line growth of 12% but remember it was cycling a very, very strong base of about 50% last year. CAGR still 30% plus. US Coffee and international tea both of which saw strong pantry loading last year in the same quarter declined both in volume and revenue. But shares fairly stable. Tata Coffee had a fairly decent quarter. Volume was negative 6% primarily driven by plantations, tea, and coffee, but all other businesses of pepper extraction etcetera have performed very well on the volume and revenue front. Overall consolidated Rs. 3,008 crores, 11% revenue growth for the quarter.

If I move on to overall group performance, I talked about the Rs. 3008 crores up by 11% EBITDA Rs. 403 crores, negative 17% versus same quarter last year. Margins at 13.5% down by 452 basis points. PBT at Rs. 342 crores down 22% at 11.3% margins. Group net profits at 200, negative 42 margin of 6.7%. And despite the fact that we have paid out more dividends this year than what we had last year, we were still sitting on Rs. 2,169 crores of net cash.

If I move on to the strategic priorities and talk a bit about where we are, just to give you some snapshots of where we are.

In terms of strengthening and accelerating core businesses,, I will just talk about the details out here. We had made a commitment on expanding our outlets where we started from 500,000 outlets. We had said by September of this year, we should be at a million. We have ended the quarter at 820,000 outlets. Well on track to reach the 1 million target that we have set. On top of that we have started our rural expansion.

As I had mentioned in our earlier call, we had tripled the number of feet on street on rural and we are targeting to expand rural distributors. We have already added 3,000 distributors. On strengthening and accelerating core, the big thing is to build brands. And as I mentioned to you our A&P in India this quarter is up by 50% year-on-year.

And you will see that trend continuing as we move forward. Our tea market share, which is the result of strengthening and accelerating core is up by 170 basis points. Salt market share up by 370 basis points.

Drive digital and innovation- we formulated our digital strategy, we have formulated a new digital structure to make sure we are driving both efficiency and effectiveness. And we have started to put it in place. All in all, as I have mentioned in an earlier call, our entire plumbing, if

I may, whether it is from a common data lake, to a DMS and SFA system, a new ERP system, a new integrated business planning system, and a new analytics platform, all of that in place.

On the innovation side, this quarter, we have had several launches, including a Super Lite in the salt business 30% reduced salt (sodium), we are the only ones in the market with that. We have launched Chakra Gold Care. We are just about launching Eight O'Clock Coffee out here and we have expanded our Sampann range. In terms of unlocking synergies, I talked to you about delivering the Rs. 100 crores and Rs. 150 crores of numbers, but on top of that results per se, our working capital is down by two days versus the same quarter last year. So efficient working capital management. And if you adjust for some timing differences versus last year, we have continued to deliver 101% of EBITDA into cash this year.

Future ready organization- all the capabilities that we are building in terms of whether it is digital, revenue growth management, ecommerce, the entire organizations are in play and now (a) we are building out the teams and (b) making sure they have got the tools to drive opportunities as they come forward.

Exploring new opportunities organically- We have just launched on our D2C journey. And while we started with Tata Coffee Sonnets, we have now launched 1868 tea, which is a range of curated teas, premium curated teas, and just about stepping out into Eight O'Clock.

And lastly, embedding sustainability. We have made several strides, including featuring among the top three FMCG companies in the recently released CRISIL sustainability metrics.

With that, I will just go straight to macro and commodity overview to just give you a perspective of where margins are headed, because the one question on everyone's mind is- what is tea prices doing to your overall business. So, if you see the middle of the slide, that shows you how tea pricing has mowed, and I will urge you to stay in the dark blue line in the middle of the chart.

Q2 last year was the peak of tea prices as we came out of the lockdown, and a bit of flooding in Northern India. From thereon tea prices have started to ease and you would see that reflected in our business because in the India beverage business, if you look at gross margins, Q3 last year was the bottom.

From there from 19, we move to 21 and sequentially moved to 26. And you could expect to see this graph going upwards. Now, from Q4 21, we did see a bit of an uptick into Q1 FY22. That is primarily the result of two things happening. One is, there was a bit of a drought scare in Assam and North India. More I would say in Assam than Dooars

That caused a bit of an uptick. But apart from that, I think the second wave and the lockdowns which happened, people were highly, I would say tense about the fact that the scenario what happened a year back with lockdowns, 50% working, reduction in crop etcetera would repeat and that is why there was an uptick. That said, from where we saw June end, we are seeing about Rs. 20 to Rs. 30 coming up already as we speak.

And we do expect to see tea prices stabilize, sort of normalize as we go forward. In conjunction with the fact that over the last one year looking at tea costs, we have taken up our prices up, making sure that we are maintaining consumer elasticity, competitive positioning, making sure we are not compromising on momentum or growth, I would say margins on the upward trend. And you could see them coming back strongly in a quarter or two.

Coffee prices on the other side, you are seeing an uptrend. And the spike has probably got exaggerated in the last 10 days or so, as (a) the initial spike was caused by a bit of drought like conditions in Brazil, but about 10 days back there was frost on one of the days.

And people were highly skeptical about both short term and long-term coffee output. And that is why prices went up. Two impacts on us. Positive for the Tata Coffee side, and possibly could have an impact on our Eight O'Clock business. But fortunately, Eight O'Clock, we are more or less hedged for our entire commodity input for FY22. With that, I will move on and ask LK to walk you through the financials please.

L. Krishnakumar: Thanks Sunil and good afternoon everyone. I'll just take you through highlights. And I am on slide number 37 for those of you who have the deck. It is coming up in a minute. So, starting with standalone revenue for the quarter at Rs. 1,966 crores, an increase of 22% over the same period in the previous year. Strong performance both in beverages and foods. India beverages grew by 28%, of which volume growth was about 3%. India Foods grew by 20% with about 17% volume growth.

So notwithstanding that we had a very difficult quarter and particularly in the month of May, we saw a good bounce back in June and we are seeing good trajectory in July. Looking on consolidated revenues Rs. 3,008 crores up by 11%. The growth rate is lower than what we saw in standalone because the International Business declined by 13%. A combination of the fact that the previous year had a lot of pantry loading which is not repeated.

Plus, also due to the fact that we exited some business which we had in the same period last year, which was the Empirical Food Service business. Commenting on the EBITDA, EBITDA for the quarter in the standalone business is Rs. 274 crores down by 16%. Largely a function of tea costs which we have talked about. Possibly we are seeing some respite in tea costs and hopefully the following quarter it should be better.

In addition, we have had a fair amount of increase in advertising spend during the quarter because of which the profitability is lower. Similar trend on lower profitability in the consolidated results, Rs. 403 crores EBITDA versus Rs. 486 crores. So, in addition to the spends we made on India, it was the impact of lower sales in the international business, which has resulted in a drop in EBITDA.

Moving on to the next slide. We have just standalone and consolidated results that we have released, some highlights from the SEBI format. The point that I want to make here is the EBIT margin, especially in consolidated at 11.2% is higher than what we saw in the previous quarter.

While it is lower than the 15.6%, we saw the same period last year. There is clearly an improving trend which I want to call out.

In the standalone results, you will notice that while EBIT has been lower at Rs. 239 crores versus Rs. 296 crore, PBT and PAT are higher than the same period last year. That is primarily because of dividend inflow. In the previous year, we had record performance of our international businesses and we chose to bring back some cash into India in the form of dividend. So, that is a big reason why you have an improved bottom line notwithstanding that operating performance is somewhat lower.

Moving to segment wise performance, in terms of segment revenue, we saw India Beverages 28% of which we said volume is 3%. India Foods 20% growth volume is 17% in that. International business I just explained because of pantry loading, the previous quarter was exceptional, which is not repeated. Non-branded business grew by 5% in the quarter driven largely by the extraction business performance.

Commenting on the segment results, the decline from 212 to 151 in the case of beverages is a function of the tea cost escalation that we spoke about plus some increase in advertising expenditure. The India Foods lower at 96 versus 115. I want to make a couple of observations here. The first quarter last year was before we started restructuring and we did a fair amount of change in the structures and we have also invested for future growth of our foods business, all of which happened in subsequent quarter.

Secondly, in the current quarter, there is an increase in advertising, plus there is also investment behind the Soulfull brand. So, we need to keep this in mind when we compare. The other comment that I want to make is the Rs. 96 crores of profit in quarter 1 FY22 is higher than what you saw for the foods business in quarter 4 of last year. So, overall, there is good revenue growth and improving profitability.

There is some amount of dampener on profitability ratios because of investment. The international beverages, lower segment results, because of what we saw primarily due to lower turnover. So, net operating segment total EBIT is Rs. 336 crores versus Rs. 499 crores of last year. Commenting on the proportion of different parts of the business, India beverages 46%, India foods 26% and International 28%.

So, India is now 72% of the total revenue. If you look at the segment results, we are having a similar trend, not very different. 72% of the profits come from India and 28% from the International business. So, with that, I think we are concluding the presentation. So, over to you to respond to questions that you have.

Sunil D'Souza: Yeah, I will just take a brief this thing on the outlook per se. So, while I said we had a decent quarter, and this is in light of the second wave of COVID in India now receding. So, we had, for those of you who have been through the deck, we have shown our numbers month-on-month indexed. So, May, we saw a significant dip and June has come back and July has come back stronger than June. International markets- US, UK, Canada are now seeing a return to pre-COVID demand trends.

So again, we saw a dip during the quarter and all the three markets seem to be coming back to normalcy right now. US and UK, slightly ahead of Canada and coming back to the normal phase. In terms of business, we are very clearly focused on accelerating the momentum in our business. India Beverages we talked about moderation of tea costs, and we will stay focused on competitive and profitable growth.

We will continue distribution expansion, and innovation. We had held that back during the second wave because we saw execution issues, but now we will start with our innovation launches very quickly. We do see significant improvement in Starbucks and further acceleration in NourishCo. Just as a perspective, NourishCo despite the second wave grew by 90% in revenue terms, and Starbucks was some 350% plus because by now the team has learned how to tackle the lockdowns, drive delivery, and maximize sales in a constrained environment.

The International business we will see resumption with normalization of in-home consumption. And we will continue to focus on the growing categories of non-black tea and drive innovations in coffee and tea. With that, I would request for questions. So, Nidhi, Manoj up to you.

Nidhi Verma: Thanks, Sunil. So, moderator, we can take the questions from the Q&A queue, please.

Moderator: Thank you very much. We will now begin the question-and-answer session. The first question is from the line of Abneesh from Edelweiss. Please go ahead.

Abneesh: My first question is on salt. So, you've reported 20% value growth. So, I want to understand what is the volume growth? And how the markets are behaving in the mass end because you have said 34% growth in the premium, so I want to understand the gain in market share, is it primarily because of the premium going fast or even in mass end you are gaining share and from which players are you gaining share?

Sunil D'Souza: I would say significant amount has come from volume and not in value in the overall top line growth for salt. That is number one. Because salt, I think (a) we are gaining by distribution, better execution, and making sure our supply chains are much more efficient. That is number one. On the premium salt, premium salt is still a small portion of the portfolio, Abneesh. But the whole objective is, it is significantly accretive to the P&L. Number one.

And number two, it does great things of both from a brand image perspective, as well as the future growth perspective. And that is why we are focused on that. So, 34% incidentally, I would just like to say the single biggest item in the premium salt for us and that is, we had held it back till the second wave got over, which was SuperLite, which is a 30% reduced sodium. We have just launched that. So, you could see this 34% holding/accelerating as we go forward.

Abneesh: And one follow-up. Are you giving the mix of mass and premium in salt?

Sunil D'Souza: We have not given the mix of mass and premium, but you could touch base with Nidhi, and she can give you some more color on that piece.

Abneesh: Last question on Sampann. Q4 was disappointing and there is a recovery here. But on the small base 30% CAGR over two years are you happy with that? And within Sampann, there are multiple products. So which ones are doing the best? So, for example, poha, pulses, spices, or anything ready to cook, etcetera, which ones are you the most confident?

Sunil D'Souza: So Abneesh, I said this earlier, 30% is not a good enough benchmark for us. Our ambition is much higher, and we are working towards that. So we would target very aggressive numbers in Sampann as we go forward. That is point number one. Point number two, if you look at the overall segments, which we play in, I think pulses, poha, spices and probably mixes in that order is the scale of the different categories per se.

But the biggest traction in terms of growth we are seeing in poha followed by pulses and followed by spices. Mixes is still a relatively smaller segment per se. So, I would not comment on growth because it is a very small base. That said, I think, like I said, Sampann across the portfolio, (we have) work to do to make sure we are accelerating the entire Sampann top line.

Moderator: Thank you. The next question is from the line of Jaykumar Doshi from Kotak. Please go ahead.

Jaykumar Doshi: I have got two questions. The first one is the tea commodity prices are down about 20% from the last year's peak, but it is still up about Rs. 50, Rs. 70 per kg versus the year before. So, if the prices remained at current level, would you be able to recover profitability and you mentioned about recovery and profitability over the next two quarters. So, were you referring to recovery on an EBITDA per ton basis or do you think that at EBITDA margin perspective also you can get back to that 16%, 17% margins that tea business used to generate?

Sunil D'Souza: So, let me give you a few data points before I get to answering the specific number. One is while we are seeing prices coming down, they are still significantly above where we started in say calendar year 2019. And we do think that as we go forward, while they will settle down, they will still be higher than where they were in 2019.

Now where they will settle, your guess is as good as mine. Because there will be several twists and turns on the road as we go forward. That is number one. Number two, while we have taken pricing in tea over the last 12 to 15 months or so, we have taken it in different spots making sure that we are remaining competitive both from a consumer perspective as well as from a competition and therefore market share perspective.

That said, we have not translated the entire cost increase on tea into pricing. So, there is still a gap. And therefore, when the tea cost comes down, we do expect a margin expansion. Now, when we are talking about margins, we are talking of percentage margins per se, and not absolute margin. But the absolute margins depend on where the tea prices finally settle.

But in percentage terms, I would say in a quarter or two, you would see us coming back to normal levels.

Jaykumar Doshi: And that is 2020 levels, 2019-20 levels?

Sunil D'Souza: Thereabouts, yes.

Jaykumar Doshi: And my second question is you now have three brands in coffee; Tata Grand Coffee, Sonnets, Eight O'Clock. So, what is your strategy for coffee business in India and if you can, you also mentioned that a lot of innovations are underway? So, I would like to hear your thoughts on where do you see this business and your broad strategy?

Sunil D'Souza: So, before I answer that, let me give you the landscape of the coffee market in India. The big coffee market in India is an instant coffee business. And there is a smaller play in the whole beans and the roast and ground etcetera. Therefore, all the brands that we have launched so far have a distinct role to play in the different categories. Tata Coffee Grand primarily plays in the instant coffee space and is going after the roughly Rs. 2,500 crores market out there. We have got a small share.

But given the distribution that we have, given the coffee expertise that we have, given the Tata Coffee brand name per se, we do think we can get to a high single digit, low double-digit market share per se. Long way to go. But we have started the journey. That is point number one. Point number two, both Tata Coffee, Sonnets and Eight O'Clock Coffee are targeted at a premium consumer. The consumer who is looking for very specific origin and micro lots is what Tata Sonnets addresses.

Whereas there is a consumer who is more in tune with the international trends and looking for a premium coffee from the international space. That is where Eight O'Clock Coffee comes in. Both Tata Coffee Sonnets and Eight O'Clock because they are premium and not as much scale as Tata Coffee Grand. We have right now gone with the online model - we are testing out the waters, we will see where it goes, we are learning the D2C space.

First of all, we will fine tune that and if we find that it has legs, then you will probably see us slowly expanding into the offline space. But that is if and when, at a later date. So very clearly three different brands focused on three different segments executed differently.

Moderator: Thank you. The next question is from the line of Arnab Mitra from Credit Suisse. Please go ahead.

Arnab Mitra: So, my question was on the volume growth slowdown we have seen in this quarter. What we have seen in most other companies is wherever the end demand has not been impacted, let us say something like a skincare or ice cream, we have seen the May impact being made up in June and most companies had a normalized volume growth in the quarter. So, any reason why you would think your business got more impacted, especially tea?

Because what I see is that dip in May was lot more in packaged tea rather than in foods. And is there any chance that the very high price increases that have been taken in tea are starting to impact the demand and the slightly mid to premium price segment? So just wanted your thoughts on that.

Sunil D'Souza: So, number one, I would say the cost of tea in the end cup of tea, the total price, this thing is actually insignificant. So, while the prices have gone up significantly, I am not sure that has a direct bearing on the volume that you see. That is number one. Number two, I think it is primarily the result of lockdowns.

If I just point out to May is when the dip happened, and June started coming back. Now the entire country did not unlock in June, especially some of the southern states held on to their lockdown still, I think about the third week of June and very stringent lock downs. And in tea remember, a significant portion of consumption happens out of home, either in the tea stalls or in the restaurants etcetera.

Even the restaurants etcetera, even after opening up are still at 50% capacity. So that has an impact. Like I said, June has been better than May and July has been better than June. We are just hoping that this is the start of a trend where everything comes back to normal but keeping fingers crossed.

Arnab Mitra: And the second question was you made a comment about potentially looking at simplifying international business as one of the future focus areas. So, broadly will we see more about cost efficiencies, profitability improvement projects or is this more of some potential strategic review of certain businesses? Just wanted a broad thinking of that.

Sunil D'Souza: So, let me leave you with-On a strategic review basis, we do that every quarter. So, there is no new news in that. And as a result of that, if you saw we first divested Map Coffee and then we divested Empirical. So, this is not an exercise. This is a onetime overall exercise to look at the entire international business and figure out where we can simplify various things that we do.

This is not a strategic review per se, but you could expect the end result to be driving efficiency and effectiveness.

Arnab Mitra: Sir, one last question. On your standalone, EBITDA margins are almost back to what they were before that tea commodity inflation started. Now if you recover your gross margins from here, would you expect ad spends to also kind of go up to the 7%, 8% levels or do you think you could end up at a significantly higher normal of margins once you have recovered your gross margins back to the old level? That was my last question.

Sunil D'Souza: So, I would just leave you with- One of our stated strategic objectives is to strengthen our brands and make sure we are putting enough fuel behind our brands. We have already demonstrated this quarter despite being under pressure, we have still upped the ante in India and upwards of 50% increase on A&P. You would see that trend going up.

That said, we have got our entire stakeholders, shareholders, board everyone to manage. So, we will make sure that we are delivering good top line growth, making sure that we are doing the right things to build the business for the future while delivering short term results.

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

Percy Panthaki: Sir, my question is on the tea prices, and how the company would respond to that? So, typically, we have seen that tea is a very competitive segment. And when the tea prices come down, the smaller players, or sometimes even the slightly larger players pass on the benefits to the consumer.

So, what is your read on the situation? Do you think anything has changed because of COVID that, like the small players have fallen by the wayside, and therefore you have better pricing power? Or, I mean, just trying to understand what gives you the confidence that if tea prices come down, there will not be a pass through to the consumers?

Sunil D'Souza: So firstly, let me just say, I do not think we made a statement saying if tea prices come down, it will not be a pass through. There will be a fine balance, there will be a pass through, there will be some sort of holdback, but I am not trying to second guess what will happen in the future. That is number one. Number two, we have said very, very clearly that we will strengthen both our execution as well as brands going forward. And therefore, we should be on a stronger wicket when we go out to the market.

Just for the perspective, this quarter, we have gained share 170 basis points compared to last year. And please remember, this is in spite of having an intense competition. This is in spite of having the large competitors, small competitors, everyone per se. Again, the pricing actions that we have taken, it is not a one size fits all. There are geographies in the country where we have dropped prices in this quarter. There are geographies in the country where we have taken prices up in the quarter.

So, depending on what we want to achieve market-by-market, we are going surgical behind it while making sure we are keeping the full portfolio in sight not to lose the total margins and deliveries that we have to do.

Percy Panthaki: Right and while you said that you would come back very soon to the EBITDA margin, which you used to do before the inflation hit, I am sure that that is not the end objective. I mean, even before the inflation hit, what margins you had, you would want to expand on those margins. So, would you give some kind of idea as to in the medium term, what kind of EBITDA margins you would consider reasonable for your tea business and for your salt business?

Sunil D'Souza: So, Percy, I will just leave you with- we have got more internal pressure to deliver good profitability than outside pressure, right. So, we will continue to make sure that we are delivering top notch results. Like I said, we have always made these statements and we will make sure that we are gaining market share, driving strong double digit top line, keeping costs very, very tight, and making sure that there is a flow through on the bottom line.

So, as we get to scale and keep our fixed costs constant, you should start seeing the shape of the P&L come back very strongly.

Percy Panthaki: Right Sir, and my last question is that in terms of the growth of the India tea business and the market share gains. Which would you say are your sort of top performing or best growing states in India?

Sunil D'Souza: So ideally, the larger states is where we should grow to make the biggest impact. So, this is scattered across the place, most of the southern states, and some of the northern states are the big picture, apart from a few in the West. That said, we have got a very clear state-by-state objectives, state-by-state strategy, including which brand to play in what state and what pricing to make sure that when we put the whole picture together, we will be landing up on top.

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

Tejas Shah: Sir, my first question pertains to cost synergies in other expenses. So last four quarters since our inflation started off hyperinflation started, we did very well to absorb GM pressure at EBITDA level. But last two quarters, that element is missing. And you had called out that there was some one-off cost in last quarters, other expenses, or employee both because of some integration in capability building costs. So just wanted to understand on that line item, in particular?

Sunil D'Souza: If you are looking at employee costs per se, you will see last quarter to this quarter is broadly constant. And this is despite the fact that we have given salary increases, etcetera and build extra capability to boot. But I will ask LK to come in and comment.

L. Krishnakumar: There are different elements if you look at quarter-to-quarter. Overall, the message I think I have made the point exactly **(Inaudible 41:05)** right at 11.8, I think are better than where we ended at consolidated last year. And that is what I think should be the focus because the shape of things would change from quarter-to-quarter.

Sunil D'Souza: And if I can just add, please separate out the synergies piece and the investment piece.

L. Krishnakumar: And the point I made late last quarter was also that there is, if we look at quarter-to-quarter there are some costs which we have to account in the quarter. But it is not a balancing with revenue and other things in the same quarter. So that is the point I was trying to make when we talked about employee costs. ,. If we take employee costs as an example, we may have increased people in certain functions.

But in that quarter we have recruited, so there is increase. So that does not mean that we are going to compare it with revenue and percentage on a quarter-to-quarter. Some of the benefits as we build infrastructure, we increase salesforce, we invest in IT, these are all for contracts, because we do a particular study in a quarter, it will come in that quarter. That is the point and these are all coming under the other expenditure category. So do not compare that.

Tejas Shah: Sir, my next question pertains to recent changes in the leadership team. And pardon my ignorance here but most of the changes shared on PPT are mostly replacement except Mr. T. V. Swaminathan, Global Digital Officer. So just wanted to understand what is the digital roadmap for the company? And is it largely internal efficiency led, or you want to expand the same in form of online direct to reach consumers, that kind of initiative as well?

Sunil D'Souza: So, digital actually is all encompassing. It is not only just driving efficiency within the company. Like I said, we have right now finished laying out the base plumbing in terms of an ERP system, business planning system, a common data lake, setting up an analytics platform. So right now, we are at the stage where we are able to collect data from across the organization. But we need to now figure out how to leverage that data using analytics to drive both efficiency as well as effectiveness.

So, there is work happening across different functions, whether it is a frontline sales, to enable better selling or procurement to enable more cost-effective procurement or to your point within the organization driving digitization to help reduce bureaucracy, enable speed of decision making, etcetera. Apart from looking at how to engage with consumers, whether it is on media, or it is on commerce and online sales.

So, across the board, so Swami and team are responsible for this entire strategy per se. And I did mention in my overview saying that we have sort of finished the strategy and broad structure to boot to make sure that we are able to execute this strategy. Now we will start both staffing as well as executing against this.

Tejas Shah: And sir, last question pertains to NourishCo. You mentioned in your opening remarks also that despite the second wave NourishCo did very well. If you can share some thoughts on the brand and midterm target here? And are we sensing that the scalability of NourishCo may be easier than Sampann and if you can comment on the margin profile also of the business?

Sunil D'Souza: So, I would not want to compare Sampann and NourishCo. I would say there are opportunities in both of them. And there are completely two different opportunities per se. In Sampann it is more about product and price, in NourishCo it is about scaling geography and portfolio. Now just as a perspective, in NourishCo if I dissect the pieces, all the brands have done well but relatively Tata Water Plus, and Himalayan have done significantly well.

Remember last year at the same time Himalayan was outsourced distribution, we took it in house and started scaling it through. So, we are extremely bullish about where NourishCo can go, because especially like I said, despite the lockdown, we have grown 90% on NourishCo. So, the objective for them is not percentage growth, it is multifold growth. And that is what the team is focused on.

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

Sumant Kumar: So, my question is, regarding the food business margin. So, we have seen in the past two quarters 13.5%, 13.6% kind of margins. But when going by the data of the Q2 and Q3 of '21, the margin was in the range of 15 to 16%. Can you talk more about what is the sustainable margin in the food business going forward?

L. Krishnakumar: I think we would certainly improve from where we are. And remember let me again repeat, we are investing on Soulfull, we are investing on faster growth in Sampann. Right. And we are investing in, we talked of digital as an example, right? We are investing in digital and some of the costs will also have to be borne by the foods business.

So, the return, if you take these three examples the return will come from growth for Soulfull as well as the Sampann portfolio and digitization will accelerate revenue growth or reorient the structure in a set of shape. But that will not happen in a quarter. So, long story short, it is impacted by some of these initiatives. And we expect to get to the earlier margins or improve on it going forward.

Nidhi Verma: Okay, moderator, we will go to the webcast and take a couple of questions from there. Okay, so there is a question from Aditya at Goldman Sachs. He is asking why is there such a pronounced impact for India Beverages in May and June? Was this supply driven or demand driven?

Sunil D'Souza: Yeah. So essentially, I think I did allude to it in an earlier answer. This was not a supply driven issue per se. As in this year, there was no issue of raw tea and therefore finished goods and packaging but that said, there was severe challenge on last mile logistics as infection spread across the board, both within our team and across different partners including distributors, C&FA etcetera.

So that was one big challenge. But I think the real impact in terms of volume, etcetera, that you see is driven more by the fact of the lockdowns, fact that a significant amount of consumption happens out of home, in restaurants, the tea stalls on the roads etcetera and in several parts of the country, it was almost a total standstill.

So, I would say demand driven but it is not as in consumers drop demand. It is simply because the demand was not accessible. As simple as that. Like I said, June has come back compared to May and July has come back better than June. So, we are I mean, I think significantly enroute to getting back to a normal business growth.

Nidhi Verma: And there is a question on Sampann. And Aditya I think that has been answered by Sunil in one of the earlier questions. There is a question from Devanshu at Yes Securities on instant coffee. Again, I think Sunil has addressed this question earlier in the call. There is a question from Rohit from Entrust. He is again asking about the dichotomy in volume growth between India Foods and India Beverages, which Sunil has just answered, talking about the out of home saliency of tea. There is a question from him on what are the medium-term plans to scale up the India branded coffee business and any thoughts on divesting non-core business in India and international?

Sunil D'Souza: So, I'll take the medium-term plans and scaling up the India branded coffee business. I did talk about -we have got three brands now out there. Eight O'Clock, Sonnets as well as Tata Coffee Grand. Tata Coffee Grand is probably a low single digit share in the instant coffee market right now. We do believe if we play things right we should be able to get to a high single digit, low double digit market share and that remains the ambition.

And this will not happen as a result of only the execution that we have in the market or the products that we have in the market. You will see both execution scale up as well as the innovation pipeline beginning to play out. A very exciting innovation pipeline, I would say. So that is number one. On the looking at the non-core businesses per se, I did talk about saying we look at it on a constant basis.

It is not a one-off exercise that we do. And as a result of that, you have seen us divest Map, as well as Empirical in the short term. But even over the longer term, if you look at the company, we have walked out of Russia, we walked out of China, and most recently, we walked out of Czech. So, taking decisions on what does not fit in or what is not performing, is not a very difficult decision for us to make.

Nidhi Verma: Moderator, we will go back to the Q&A queue now please.

Moderator: Thank you very much. The next question is from the line of Viraj from Securities Investment Management. Please go ahead.

Viraj: Most of my questions have been answered. Just I have two questions. On Sampann, if you look at overall business scale, it was still around Rs. 500 crores, ex of salt kind of a scale business. So, it is not much of a scale yet. And we talked about aggressive growth going forward. So can you kind of give some color because in last year, or two or more, we have seen many new launches as well.

So, are there any product brands, which are more than Rs. 30 crores, Rs. 50 crores kind of a scale? What's the coverage of existing products, which have been launched? Earlier we were primarily into category A stores, and probably in the main metro cities.

So, how is the coverage now? What is the roadmap there? And of the products which have been launched, what is the repetitive sales any indication you could say how is traction building up on existing sales for Sampann? And second is on the synergy part, I think a quarter or two back you talk about the run rate of being around Rs. 6 crores to Rs. 7 crores per month. How is that now? So just two questions.

Sunil D'Souza: So, let me start with your second question first. The Rs. 6 crores to Rs. 7 crores that we are alluded to was purely cost synergies. We had still not counted revenue synergies. And when we had made the commitment, it was Rs. 100 crores to Rs. 150 crores of costs and revenue.

And I did talk about we are right now already ahead of the Rs. 100 crores per month run rate. Significant amount coming from cost itself, which is directly bankable. So, that is number one. And we remain confident of getting to that Rs. 150 crores run rate, again significant portion coming from costs more than revenue synergies per se, within the 24 months' timeline that we had laid out.

Now, if I come back to Sampann per se, the big categories that we are playing around and we will be focused on will be poha, pulses and spices, not necessarily in that order. But just as a perspective, your question about repeatability. If there is one thing that I have figured out as a result of multiple market visits, consumer touchpoints, as well as talking to retailers is -all that you have to do is make sure the consumer takes Sampann home once. Because once you have done that, given the quality of the product and the fact that we deliver to our promise, you would find a very, very, very high sticky rate.

So, the question then is to make sure (a) we have got the right product portfolio per se. And number two, we are executing it and we are getting into distribution on scale. Now, just as a very simple example, right now we are slicing and dissecting about which product to focus in which market in the Sampann portfolio. For example, there is masoor, which sells in the east of the country and toor which sells in the west of the country.

So, there are different formulas that we are adapting to make sure that we are driving scale, which is relevant in that market. Apart from that the sales team is now immensely focused on making sure that they are driving right now, like I said, we have got 820,000 direct outlets. They are now focused on driving distribution of Sampann into a significant number of those 820,000 outlets.

Again, we just want to make sure that we get into the relevant outlets. So, you will not see it reaching all the 820,000 outlets. But definitely where this category is relevant, and the stores are significant you will see the sales team pushing in.

Viraj: So, the 1 million target which we will be eventually by September end, what is the relevant coverage for Sampann brand and where we would be right now?

Sunil D'Souza: Right now, we are very small in the scheme of things. Again, it is not a percentage growth that we are seeking for Sampann. It is a multiple growth. I would say please watch this space.

Moderator: Thank you. The next question is from the line of Ankit Kanodia from Smart Sync Services. Please go ahead.

Ankit Kanodia: My question was related to the Big Basket acquisition which Tata Sons has made recently. So, just to draw an analogy with what happens with us, say like Zomato wherein they have all the data of the customers all around the country who is ordering what.

So, how much of that we think can play a role in our journey as well, specifically in terms of Tata Sampann going forward with this Big Basket acquisition by Tata Sons? And has this any role to play in the last quarter as well?

Sunil D'Souza: So, let me give you two specific answers to that. Number one, in any business, once you have got consumer data, you can leverage it to the hilt in terms of what is the profile of the consumer, how often do they buy, what are the products, other products that they buy. So, there is a whole range of analytics which you can do to it.

So, consumer data in any form or manner is extremely valuable. So that is one piece. The second piece is Big Basket is a group company and we are working closely with them trying to figure out areas where we can cooperate, and we can drive mutual synergy.

Ankit Kanodia: Right. And so, one thing again related to that only. What I noticed, we generally order a lot from Big Basket and many products which were earlier non branded, but we are seeing a lot of Tata Consumer products in that, specifically like say dhania or something like gud powder. So how do how see the margins in these products compared to the other products?

Sunil D'Souza: See, as we expand the portfolio, each product is dependent on scale and margin profile. And what is the incrementality that it brings to the profile. That is one piece I would leave on the table. The other piece, I would say you would find enhanced availability and visibility of Tata over all Tata Consumer products, but more specifically Tata Sampann products, not only in Big Basket, but also in Amazon, Flipkart, and all the other platforms.

Ankit Kanodia: And this Soulfull integration is still not done so current numbers do not include any sales of Soulfull, right?

Sunil D'Souza: Soulfull integration started at the end of the quarter, middle to end of the quarter. So, the Soulfull numbers are collated into this. But the integration is just about complete. I would say that real traction begins now.

Moderator: Thank you.

Nidhi Verma: Moderator, we will just take one last question now.

Moderator: The next question is from the line of Jaykumar Doshi from Kotak. Please go ahead.

Jaykumar Doshi: What is the profitability of Poha? And is it comparable to pulses, spices? And what is the threshold you have in terms of what are the categories in staples that you are not present in which fit into your criteria from a profitability perspective, and you can potentially enter?

Sunil D'Souza: So, let me leave you with-We have done a very, very detailed analysis of every possible segment that we could enter in the pantry space, which is where Sampann is focused on. And we have made specific choices depending on the scale of that segment, profitability in that segment, fragmentation, number of competitors, growth rates, what does the Tata name do in that space? What are the capabilities that we have? What differentiation can we bring to bear and then we made a conscious choice to play or not play in certain categories.

All that I would leave you with is, we have got an internal threshold on which we play. But we also got some categories where the percentages are lower. We have also got a plan on how to move the margins upwards through either procurement efficiencies or scale efficiencies or bringing in differentiation and a premium play later on.

Moderator: Thank you. Ladies and gentlemen, this was the last question for today. I now hand the conference over to Mr. Manoj Menon for his closing comments. Over to you, sir.

Manoj Menon: Thanks Tata Consumer team for the opportunity to host. Nidhi, would you want to have any closing remarks from your side?

Nidhi Verma: Yes, thanks. Thanks, Manoj for hosting us. And thanks, everyone, for joining and for your time. If you have any remaining questions, please feel free to get in touch with me. Thank you. And thanks from everyone here.

Moderator: Thank you, members of the management. Ladies and gentlemen, on behalf of ICICI Securities, that concludes this conference call. Thank you for joining us and you may now disconnect your lines.