TATA CONSUMER PRODUCTS

"Tata Consumer Products Limited Q4 FY2022 Results Conference Call"

May 05, 2022

TATA CONSUMER PRODUCTS ICICI Securities CHORUS CALL

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Moderator: Ladies and gentlemen, good day and welcome to the Tata Consumer Products Limited Results Conference Call hosted by ICICI Securities Limited. As a reminder all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call please signal an operator by pressing "*" then "0" on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Aniruddha Joshi from ICICI Securities Limited. Thank you and over to you Sir!

Aniruddha Joshi: Thanks Faizan. On behalf of ICICI Securities we welcome you all to Q4 FY2022 and FY2022 results conference call of Tata Consumer Products Limited. Now I hand over the call to Ms. Nidhi Verma - Head of Investor Relations & Corporate Communications. Thanks and over to you Nidhi!

Nidhi Verma: Thanks Aniruddha and welcome everyone. I hope you had the time to go through our results that we announced last evening. For today's call I am joined by Sunil D'Souza - Managing Director & CEO; L Krishnakumar - Executive Director & Group CFO; and Ajit Krishnakumar – COO. So what we will do is we will spend about 15 minutes or so walking you through some of the key highlights of the quarter and the year and then we will spend about 45 minutes to answer your questions, so without further ado over to you Sunil!

Sunil D'Souza: Thanks Nidhi. I will go straight to slide #6, which is the executive summary. During the quarter, our consolidated revenue grew 6% like-for-like full year therefore came in at a 9% net of all the exits that were done. On a two-year CAGR basis this translates to a 15% revenue growth like-for-like business. EBITDA for the quarter was up 45% bringing the full year to 11%, on a two-year CAGR it is up by 16%. The India business for the year grew by 13% with 3% volume and 10% revenue for India beverages, 8% volume and 19% revenue for India foods. International grew by 1% cycling an elevated base where the last year we had grown by 12%. Now the critical thing is with the tea inflation is tapering off, India beverage margin saw significant improvement, just as a perspective margins moved by close to 1500 basis points for the quarter-on-quarter versus same quarter of last year. Now we invested a significant amount of that into the new businesses and still expanded the consolidated EBITDA which was up by nearly 400 basis points despite significant inflation in the food business and despite 29% increase in A&P for the India business. With that said I will just urge you and I walk you through the details later, but India foods business is two parts one is salt and one is all the growth businesses. On the salt we maintain margins and we have driven the growth in the new businesses. Overall our growth businesses are up by 52% for the year. We had strong free cash flow conversion , FCFC to EBITDA came in at 100%, market share was up, India beverages up to 100 basis points, India foods up by 400 and we continue to make progress against our strategic priorities. We acquired Tata SmartFoodz, strengthened our S&D infrastructure, and tripled our innovation from where we started three years back, invested in new drivers of growth and of late with the Tata Coffee and international restructuring, a new global simplification plan to drive efficiencies and significant synergies.

Next we go to slide #8. If I talk about Q4 2022 India beverages 3% volume, negative 1% percent revenue as prices became normalized, India foods like I said there are two parts of the story, salt had steady margin, little bit of pressure, but overall for the year we grew 8% but for the quarter it was a bit soft as we took pricing, but Sampann has continued to grow and revenue up by 19%. US Coffee volume up 3%, we had international tea volume up 5% overall 3175 Crores of revenue. For the full year beverages volume up by 3%, revenue up 10%, India foods volume up 8%, and revenue up 19%. US Coffee negative on volume because in the early part of the year international overall we were cycling the pantry loading of COVID, same thing you will see in international tea negative 3, but now the volumes are starting to come back. Tata Coffee including Vietnam full year 3% volume, 11% revenue and overall 12425 Crores of revenue. In terms of Q4 revenue growth of 6% like-to-like, EBITDA growth of 45%, PBT up 54%, group net profit 222% and before exceptional 89%, and now we are sitting with 2486 Crores of cash which incidentally despite the investment in Tata SmartFoodz, the recapitalization of APPL, investment into taking control of the TRIL JV and Starbucks investment is still higher than where we were last year.

On full year basis revenue up 7% at 12425 Crores, EBITDA up 11%, PBT is up 12%, so you will see a perfect flow through from revenue down to PBT, group net profit up by 9 and before exceptional is up by 12%, EPS up by 9% year-on-year. If I talk about strategic priorities the six pillars that we have strengthened accelerating core, driving digital and innovation, unlocking costs and synergies, creating a future ready organization, new opportunities and embedding sustainability and we made progress against all of them. We had made a commitment of 1.3 million outlets by March we are up there. Going forward by next year we are saying 1.5 because now the focus is on rest of urban and rural and therefore wholesale and while we are powering our brand expect a 2.5 plus multiplier to get us to 4 million outlets which we had committed by September 2023. We will continue to raise numeric reach if you take the average for the year beverages up by 18%, salt by 15%. We are completely digitized in our chain and apart from appointing distributors now we are focused on rural and semi-urban because that is where the numeric opportunity for us lies.

Great progress in alternate channels, modern trade is now up 30% year-on-year crossing 1000 Crores and e-commerce we are the market leader and the good news is despite COVID waning and consumers going back to their old styles of shopping we are still 7.3% e-commerce as a percentage of sales.

We upped A&P we have spent 22% higher this year on A&P in our India business versus last year focused on the premium brands of Tata Tea premium, focused on the South with

Chakra as well as coffee which has trade dividends with coffee growing 44%, and tea overall 100 basis points share increase.

In foods , (salt)market share is up by 400 basis points, focus on premium salt which has given us results and you see later we grew by 26% there. Tata Soulfull once we focused on the No Maida Choco and the affordable pack is off to a fantastic start. We have launched solar salt, Tata Shuddh in the south gained market share out there and in our strongholds in North and the East we are seeing some look-alikes pop-up so we are going on a consumer education to show them that every salt is not Tata Salt.

Premiumization starting to show results, Sampann up by 28%, value-added salt up 26%, Tata coffee up by 45% and our new launches to expand our premium brands like Tata Tea Gold Care is now 4.5% of Tata Tea Gold.

I would not drain this slide but for overall a two-year CAGR of 19% in the beverages, 18% in food, international up by 6%, so significant improvement over the last two years.

Innovation continues to be on a roll, we started off with 0.9% as a percentage of sales, and we have exited the year at 2.7% which is significant improvement. A lot of work in the last two years on creating an agile and efficient supply chain, we have roughly 11000 drop-off points service to 38 centers across India, integration has yielded great results, we have got more than a 25% reduction in secondary trade because of integrating all our businesses and logistics, completely digitized back-end as well as supply chain. Focus on sustainability with 24% of our energy for the supply chain coming out of renewables and we have a rinse and repeat model now with integration and we have integrated Soulfull as well as Tata SmartFoodz within three months of transaction close.

We have announced our plan for Tata Coffee merger as well as simplification of the international business, which will yield us operational efficiencies for management, legal and administrative costs, faster decision making and execution, taking out the minorities and creating a single listed entity, capturing the full value of the group, creating focused business verticals for extraction and a dedicated plantation vertical and unlocking significant potential synergies going forward.

We are enroute to becoming a large FMCG company so our new engines of growth are firing- NourishCo, Sampann, Tata Soulfull, and Tata Q have shown a 52% revenue growth for FY2022.

Inorganic acquisitions making progress, 100-day integration, rebranding of Soulfull to Tata Soulfull, collaborating with outside world with IIMR for developing new products and as I said the Rs.10 No Maida Choco is offto what I would term as a rocket start. NourishCo we have broken even on Himalayan for the first time ever since we acquired the brand, great progress once we have rebranded Tata Water Plus to Tata Copper growing more than three times in FY2022, distribution is up by 80% which should yield us result now when we see the first full summer for NourishCo under TCPL, expanded geography which again will bear results starting this year, we have expanded capacity all ready for growth, all lines up by 50% and driving innovation which is up to 10% of sales. Focused on sustainability whether it is with the pledged friendly products in the US, Tata Coffee winning awards in health and safety, Tata Tea focusing on social awareness for water and driving sustainability at Starbucks.

Just a quick snapshot on the different businesses if I just go to slide #31. India beverages 3% volume, 6% revenue, 100 bps market share gain. The big news here is EBIT margin is up by 400 bps year-on-year in FY2022. For the quarter alone gross margin was up by 1500 basis points. India revenue grew by 6% lapping a 32% growth in FY2021 and just for perspective for Q4 we were lapping at almost 55%, 60% growth and we still delivered a decent performance.

India foods 8% volume, 19% revenue, more importantly a 400 bps market share gain. We are now touching the 38 per share for total salt. EBIT margin did decline but here again I would emphasize there is two parts of this business one is salt where we are maintaining margin and the second thing is our growth businesses where they are investing for growth.

NourishCo 86% revenue touching 350 Crores in revenue, significant growth and more importantly I think we are well geared for driving growth for this year.

Tata Coffee plantations revenue growth was soft negative 3%, revenue growth was 11%. There could be a point where everyone says why was your volume growth low this quarter just in perspective Tata Coffee we have been seeing significant shipping issues and therefore you would have seen a bump in Q3 as we made sure that we did not hold any inventory in any of the plants and shipped out volume as and when it happened but despite that FY2022 overall a 19% revenue growth.

Tata Starbucks this is probably the second most normalized quarter that we have seen despite the pickup of Omicron in the beginning of the quarter, but now we are in 26 cities 268 stores, 96% of our stores are reopened, the only ones which are not are the ones either in office complexes or in IT Parks. Good news is 18% same store sales growth versus pre-COVID period and we are seeing great traction and remain very confident about this business going forward. We did open 23 stores for Starbucks in a single quarter which was the record bringing the whole year to a 50 stores that just provides the base of what the team can execute.

International businesses, UK we more or less maintained our share in everyday black at a 19 plus. Teapigs which is a focus for growth up by 7% for FY2022 while overall revenue growth as I mentioned was cycling a high of COVID was down by negative 2%. The US coffee bags share of 4.3%, flat coffee growth despite taking significant pricing, so there was a fine balance between margin, volume and revenue out here. Tea growth negative 8% again cycling COVID of last year. Canada maintaining market share at a 27%, 28%, specialty has dipped significantly and therefore negative 9% and they also cycled the high COVID peak and negative 7% revenue growth. Financial performance LK very quickly.

L Krishnakumar: Thanks Sunil and good morning everyone. On the standalone basis we grew revenue for the quarter by 5% and this is driven both by volume growth in the tea business as well as some pricing in the salt. In terms of EBITDA we saw 102% drop largely a function of recovery of tea margins to a normalized level coupled with some investment behind the growth initiatives.

Moving on to the consolidated performance the increase was 5%, 6% on a constant basis driven by a similar rate of growth in all businesses and in terms of margin the growth was higher at 45% driven largely by the improvement in margins in the India business. In the international business also we saw slightly improved margins because of a strong performance in the last quarter by the coffee business and lower rate of A&P and other expenses. Non-branded business slightly lower margins impacted by lower realization in the tea plantations.

On a standalone basis the financials for the quarter, the standalone reflects basically the India beverages, India foods and a little bit of exports into the overseas markets. We have seen a growth rate of 5% and improved margin, improved margins is a function two things. We talked about the improving operating margins in tea, but also if you look at the results you will see there is a higher investment behind brands. We saw this growth in margins is not withstanding a significant increase in the A&P spend. PAT higher at 152% reflecting largely the improved operating performance but also a lower rate of exceptional items. For the full year we grew 11% with a PAT growth of 43%. On the consolidated basis we saw revenues up by 5% for the quarter, a strong margin improvement of 4% driven by the India business as well as improving margins in the international business, exceptional items were lower, PAT at 289 versus 133 Crores and group net profit 239 versus 74 Crores. I just want to make one comment on the share of profit on JV and associates, you will see that the number is flat for the full year but slightly lower for the quarter reflects that there are two significant parts to this, one is the Tata Starbucks business and the second is the plantation businesses that we have. Tata Starbucks had an improved performance related to the previous year, but the plantation businesses were impacted by lower crop and lower tea prices. So this is an impact of both and the other point I want to call out because some analysts have still been asking questions that when we have the plantation interest in North India we need to remember that north India plantations do not have crops for most of last quarter, so the loss in plantations tends to be higher in the last quarter that is a phenomenon some analysts have not fully come to grips with, so I thought I will make a mention of it.

Moving on to segmental results and we have changed the segmental presentation to talk of. So we have presented on a like-to-like basis here we have changed the presentation to India and International business. The reason being we already told that in the last analyst call that we are managing the India business on an integrated basis and we often allocate capital between businesses and subgroups of businesses, but equally important is that the organization structure is a single structure with a common sales, supply and other functions, so it is only natural that we combine the businesses, we will continue to give revenue and appropriate margin guidance going forward. So if you look at the profile 69% of the revenues come from the India business and 31% from International businesses, more or less a similar profile in terms of the segment results with the International business improving profitability over the last few quarters and few years. So we are happy with the performance overall on the margin improvements in the International business, India business the margins are a reflection of improved performance in the tea business but also higher investment behind some of the growth initiatives, which over the medium-term will also deliver improved margin. So overall as a company our guidance still continues to be improving margins in the medium-term.

Sunil D' Souza: Just to give you a summary to conclude and what we are seeing going forward. The good news is the recovery following the third wave has been swift, but the geopolitical situation is evolving and exaggerating inflationary pressure. The good news for us is the three big commodities for us the coffee, tea and salt we have seen the price in the past and hopefully they are range bound right now. We are not too exposed to the new emerging inflation because of the geopolitical situation in wheat, oil, palm oil and sunflower oil for example, but that said overall inflation and its impact on consumer behavior is going to be a key monitorable. In the International space again we have been taking rapid price increases in line with the inflation that we have seen, but the in-home consumption is also tapering off as well as the impact of broad-based inflation needs to be monitored and we need to be agile in moving pricing around. In terms of business we think we have delivered competitive growth in our core businesses, we have gained 100 bps in tea, 400 bps in salt and we aim to continue that going forward. India packaged beverages have seen a return to normalized margins. In terms of growth we are cautiously optimistic given the macro environment. Just as a perspective for January and March, Nielsen does report close to a 5% volume growth coming back in India which is good news and we will continue to focus on execution to drive growth. For the year, the food business has seen good volume growth both salt and Sampann, for this coming quarter we are lapping a high quarter and therefore we need to be mindful about that. The cost pressure however will continue for a while and we have got to be agile moving around. In out of home businesses both Starbucks and NourishCo have delivered a fantastic performance despite the two waves of the pandemic. Given that we are seeing this pandemic slowly receding hopefully therefore we expect continued momentum in the businesses if there are no new surprises. Our new businesses our Soulfull, TSFL are on track and we expect to drive growth. TSFL we could expect to see significant momentum end of Q2 early Q3 as the Exports India ramps up. In the international business the focus will be on executing against plans especially three brand strategy and gaining share in fruits and herbals and specialty and like I said we will be taking pricing actions as appropriate. Given the inflation and investment required for some of the new businesses we will continue to optimize margins at the consolidated level, balancing margin, and market share and volume momentum. With that I hand it back to Nidhi.

Nidhi Verma: Thank you Sunil. Moderator we can go back to the Q&A queue now to take some questions.

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

Abneesh Roy: Thanks Sir. My first question is on e-commerce market share in tea almost 41.9% market share, which is almost double of your national market share, so my questions here are which e-commerce platform this data is based on and which is the agency which is doing it and is it possible to replicate this kind of a success in your other categories and is BigBasket acquisition by the group also already helping in a significant manner here and what really brings this kind of a gain in market share, I just checked on the pricing bit I did see that your pricing is a bit lower than the other large player so apart from pricing and say buying the banners and marketing what has really bring the market share?

Sunil D'Souza: Let me respond to you on the pricing question. I think you will see pricing go up and down in the e-commerce space in line with, I think right now everyone has got a summer sale is going for example, I think we are running a program around that, but you will see the pluses and minuses happening all the time number one. Number two is the high market share in e-commerce only points to the strength of the brands that we have and assuming that this brand is available at all places, the kind of market share that we could hope to have in the general market, so that just points out to more importantly our distribution ramps up, so I would read it that way. Number three it is the overall market share I think it covers Amazon and a few other platforms and it is not only limited to BigBasket so this is not a one pack listing and I will qualify that if I am not mistaken and Nidhi will confirm this to you this is basis syndicated data coming out from the e-commerce but again just to highlight this shows the strength of our brand and the ability to gain market share if they are evenly distributed and that is the big focus. So even if I take offline number I am about 10% behind on numeric versus my biggest competitor and 10% behind on market share, so just by equating distribution I could get to close to leadership and that will continue to remain the focus.

Abneesh Roy: One followup on tea business this is more in terms of raw material for FY2023 what is your take given Russia a large importer that seems to be a bit difficult but on the other hand Sri Lanka which is a large exporter is also not able to export, so are these two cancelling each other, so you do not see the big inflation for India tea raw material FY2023?

Sunil D'Souza: So I will just give you a slight bit of color on that one. In FY2021 the tea price has spiked up because of the lockdowns and therefore the inability to harvest especially the first and second flushes. FY2022 we thought it would normalize but then there were droughts in Assam in the months of May and November and therefore the shortage on crop and that kept the prices high, but that said the pricing came down significantly from where it was in the same period a year ago. Right now it is operating broadly range bound so that is number one. It broadly depends on the rainfall and the crop output going forward, right now if you believe IMD being a good forecaster of 98%, 99% of long-term rainfall, we should see a decent monsoon and therefore a decent crop and therefore pricing should be range bound if not with a slight downward bias that is number one. Number two to answer your question on Russia and Sri Lanka both the places remember it is an orthodox market and a slightly higher quality orthodox, India is more of a CTC market and less on orthodox so while this imbalance on demand and supply could cause some of the customers to shift to orthodox from CTC but capacity is limited and the fact that we expect a slightly better crop this year than last year should broadly hold if not to the slight downward bias on tea pricing.

Abneesh Roy: My last question is on Himalayan and Tata Q, the Himalayan breakeven for the first time is it sustainable and what led to it and in Tata Q you said number two brand in this category so wanted to understand who is number one and how big is the total addressable market for Tata Q?

Sunil D'Souza: Himalayan, just similar to all the brands that we have I think we have got fantastic brands, but this has simply not been available to consumers. As we are expanding distribution this FYI think September 2020 is when we detached the Himalayan distribution from Varun beverages and went on our own and that is when we started to see the traction and this is led by distribution it is not led by pricing, it is not led by any other extraordinary effort, yes, extraordinary efforts in terms of distribution, more accessibility and more offtake, so therefore there is no reason to believe it is not sustainable, more importantly there is no reason to believe it cannot continue to grow exponentially going forward so that is number one. Number two, on Tata Q I think MTR is the market leader right now we are number two but that said I think we have got a long way to go. The addressable market in India is not as big as the export market so while we are rejigging our portfolio both from a product as well as a marketing communication perspective for India I think the bigger focus is to make sure that we are ready for the export markets with all approvals, etc. As I said I think you will start seeing greater traction at the end of Q2 early Q3 as we get our export engine ramp up.

Abneesh Roy: Thanks Sir, that is all from my side. Thank you.

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

Jaykumar Doshi: Hi! Thanks for the opportunity. When I compare your India business tea segmental margins with second half of FY2020 it appears to be higher both in percentage terms as well as per unit basis and even though the prices when I look at commodity prices of the last couple of quarters versus second half of FY2020 it is about 20%higher. So with 20% higher pricing you managed the commodity prices, you managed to fully recover and perhaps exceed your previous highs, is this sustainable or you think the competitive landscape would force you to reduce the prices further and maybe margins may settle at a slightly lower level?

Sunil D'Souza: Just to give you a perspective one of the fundamental assumptions in putting this company together was that they have got a fantastic four-letter brand called Tata and sub brands under it which are not getting leverage, therefore if we create a dedicated consumer entity focus on execution against the brands we will get returns and that is exactly what you are seeing. So just as a perspective our direct distribution earlier for beverages was about 500000 and numeric reach was about 2 million when we started off end of FY2020 which you are talking about this is when Tata Consumer was formed. Right now we are about 1.3 million and our numeric reach is about 2.7, so we are seeing that expansion as we are reaching more outlets directly there is an upside. Number two if you observe we have been ramping up our investment behind brands- moving from a completely or overwhelmingly push strategy to a more pull strategy therefore creating better brand power and therefore better pricing power. We have narrowed the indices between us and competition significantly and therefore taken up relative pricing that is the second piece of margin and the third piece of margin is when you follow up with strategy you put a lot of money into trade as you start taking some of that out we have redeployed it into brand and that is why you are seeing the margins go up and I think we are at a fairly comfortable position right now from a gross margin perspective on beverages and there is no reason to say we cannot continue this if not improve on this slightly going forward.

Jaykumar Doshi: That is helpful. Thank you. On the foods portfolio do you need further price increases in salt to offset the inflationary headwinds, can you talk a little bit about what is the incremental inflationary pressure if at all any between December quarter and now and what would be the price increase that you may need to offset that?

Sunil D'Souza: Just as a perspective there we have taken roughly Rs.4 price increase on Rs.21 so we moved from 21 to 25 from July to April 1 the last price increase that we have taken is just now on April 1. The reason for that is the inflationary headwinds are coming in the form of two pieces number one is the fact that there were extended monsoons in Gujarat and therefore lesser brine available to make salt and therefore brine prices went up and therefore cost of goods went up that is one piece. The second piece is to convert brine into salt you do need energy and large amount of that energy is coal and large percentage of the coal that we use is imported coal and with the coal prices and shipping prices going up you have seen a jump of that. Now overall we have seen a significant jump in overall cost in Q2 and Q3. Q4 right now there might be a small increase but it will not be as steep as what we saw in Q2 and Q3 and we have taken a price increase like I said in April 1 in a little bit of anticipation but we will remain nimble to make sure that if needed we will make sure that we put pricing in play to make sure we are maintaining margins, but the more important thing here I would say is despite taking that pricing we are continuing to ramp up market share, we just showed the power of the brand and the execution that the team is putting behind it. Overall market share despite all that pricing that we have taken which is roughly 19% in a space of nine months our market share for the year is still up by 400 basis points, but like I said we need to stay close the only thing is there might be a 30, 45 day lag between cost going up and us being able to take pricing.

Jaykumar Doshi: Understood, thank you so much, that is it from my side.

Moderator: Thank you. The next question is from the line of Vishal Gutka from PhillipCapital. Please go ahead.

Vishal Gutka: Thanks a lot for detailed presentation. Just on the salt distribution front is it possible to accelerate the distribution network because direct reach is a very critical component for driving sales of salt so I wanted to know because this year the increase is here in the region of 15% so was it due to COVID led challenges that you are able to increase only by 15% overall numerical distribution for salt business?

Sunil D'Souza: So let me say I would say total numeric reach is the most important piece probably direct being slightly higher for salt than for tea, but that said I think right now what we are seeing is on the metros and Tier-1, Tier-2 towns we are fairly good on overall numeric reach, I think our opportunity areas are more in rest of urban and rural and to get to rest of urban and rural, yes, can we go direct why not I can move from 1.3 to 2 or whatever, but I think it is more efficient for us to move to a decent number and I would say 1.5 broadly for FMCG is a good it is not best in class yes it is a good number to target, but this year the focus will be to get the multiplier of the wholesales that is where the focus is because one of the commitments that we did make when we formed this company is that we will double our total numeric reach by September 2023 which is 4 million, so mathematically if I go to a 1.5 million and get a 2.5 multiplier I will be close to that number to deliver the total numeric reach which in turn will deliver us volume and market share.

Vishal Gutka: Thank you.

Moderator: Thank you. The next question is from the line of Nikunj Gala from Sundaram AMC. Please go ahead.

Nikunj Gala: Good afternoon everyone. My question is with respect to India food business so India food business except for salt in next three to five years if the company can ramp up to the kind of goalcompany has desired what kind of a marginal ROCE level we are working with?

Sunil D'Souza: Let me put it this way I said that Tata Consumer was formed to become a large FMCG company. As step one we are becoming a large F&B company and if you look at the opportunities for growth just from a field of play perspective there is more opportunity in food than beverages therefore we do expect a significant ramp up in the food business. Now important thing as we grow the businesses we have to remember there is a target long-term stable margin and there is a margin in the interim while building out those businesses. So we are very, very mindful about the businesses that we are getting into whether it is organic or inorganic to make sure that the long-term margin profile of the business is accretive to our current portfolio, but that said going forward you could see investments in businesses to make sure that we are coming up the path to scale. So I would not hazard a specific number to you but do expect a double-digit growth in the India food business with margins continuing to improve as we move forward.

Nikunj Gala: The question was like for example in the spices can we go up to what peers are doing the margins or even at the aggregate level you believe the margins would be in line with what company is delivering right now?

Sunil D'Souza: Every category that we play in we aim to be in the top two or three players and the top two or three players not only in terms of volume and market share but also in terms of margin, there is no reason we cannot get to industry margins in any of the categories but that said over a period of time. It will not be instantaneous because a) you have to build scale, second you have to build a brand.

Nikunj Gala: Second question with respect to the media article stating that the company is planning to get into the home and personal care through acquisition led strategy I just wanted your thought on that?

Sunil D'Souza: I will repeat what I said is Tata Consumer was formed to fulfill the FMCG ambitions of the Tata Group. As step one we have done a F&B company and moved from being just beyond the tea and salt company so that is number one. Number two is if you go by the group norms of simplify, synergize and scale for the last two years while we have been doing a bit of scale up the focus has also been to simplify and synergize the businesses, the last simplifying synergy being the Tata Coffee and the International restructuring. Now that we are broadly done with the heavy lifting and there will be a continued focus on synergies for example on cost, etc. Now you could see a traction on the scaling up perspective. I would not comment on speculative articles on which category we are getting into or which we are not, all that I would say is any category that we get into we are very, very mindful about a) the scale for that category, the margins in that category, the number of brands that play in that category whether it is too fragmented, consolidated, what does the Tata brand name do, what are the capabilities that we have that is number one. Number two, every category that we will consider we will also look at is the best bang for the buck going organic or inorganic. So we will become a large FMCG company, we will have scale, we will deliver superior financial returns, but over a period of time.

Nikunj Gala: Thank you for that comment. Just on that, is there any threshold ROCE you look at when you consider any category or any product in that way or that is just a ballpark number you work with that, that is a good ROCE to work with, to get into the category that was my last question?

Sunil D'Souza: I do not think we only look at ROCE when we enter into category. Just for example in pulses ROCE is almost infinite right because there is no capital, we are using third party it is just working capital and inventory that we are holding and we are selling it off. So ROCE is not the only determinant. The determinant is the scale of the category, the margins in the category, how accretive is it to our business, do we have the capabilities to synergize and scale, for example getting into a Cold chain does not make sense for me right now maybe it is later, but today no Cold chain products will be on the table since irrespective of the ROCE or the margin because I do not have synergy, so there are multiple things that we consider when we get into a category to make sure that ultimately as Tata Consumer we are creating financial value.

Nikunj Gala: Sure thank you. Thanks a lot. All the best.

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

Percy Panthaki: Hi! Sir, my first question is on costs. So when we had acquired the consumer business of Tata Chemicals we had said that there are a lot of synergies not only on the topline which I understand but also in terms of cost and we have realized a lot of those synergies I remember you mentioned that there was one redundant layer of distribution which you removed, etc., so what I want to understand is where we are in that journey of realizing cost synergies from the merger, are we sort of 50% through that journey, are we 80% through some kind of flavor you can give on that, and a sub question to that is apart from cost synergies from the merger are there any other low hanging items in terms of sort of cost rationalization which you can implement. See there will always be some cost rationalization possibilities for any FMCG companies even after a century of existence and sort of good management. I am not talking about those I am talking about something more obvious and something more sort of low hanging which you can extract over the next one or two years, so these two sub questions are my first question.

Sunil D'Souza: We had made an announcement of taking out between 100 to 150 Crores of synergies. Now you are right, topline is a derived calculation, but costs are real, and we were presenting the amount of cost till I think about September quarter if I'm not mistaken where we had almost delivered that entire 100 and 150 Crores and it came in various pieces, it was a layer of management system, it was layered in the supply chain with the super distributors and C&FAs, it was with the beverages and foods operating as two separate units, it was at the integrated structure, it was in procurement multiple pieces. So we have delivered that and the proof of the fact apart from this just that you would have believed the management when they say that they have delivered in the P&L itself. We have fueled significant amount of new categories and invested behind those categories number one. Even in the core business we have ramped up our A&P significantly while continuing to deliver improved financial returns. All that is possible simply because we have been taking cost out from the P&L, large part of that from the synergy. Just for example even in this presentation I showed you the secondary freight per kilometer is down by more than 25% just because we combine the salt and tea and that is a mathematical proven number that is on the table. So synergy is almost completely delivered as committed, but as you rightly said it is not a one stop per se. We will continue to look for synergies just for example right now we have announced the Tata Coffee merger and the international restructuring there is significant money on the table apart from the simplification, legal management teams, etc., there is tangible value on the table which we will take out but that we will quantify once we finish the entire exercise you could expect a significant number to come out that is number one. Number two the example that this is a constant exercise and we will keep looking for it, looking for opportunities is as we expand the Sampann portfolio for example we are leveraging 3P manufacturers across the country and as we grow this business aggressively we have to look at the footprint that we operate in because between freight and sourcing is where there is a significant amount of money. So we have just finished an exercise which relayers our entire or significantly changes parts of our footprint on sourcing and logistics again with a significant bill in terms of synergies to be realized at the end of it. So it is an ongoing exercise I would say 3% to 5% productivity on the cost angle will be a constant endeavor for this company going forward.

Percy Panthaki: Second question on Starbucks and you have done very well in terms of store expansion and city expansion footprint, etc., I just wanted to also spend a little time on the margins so what my understanding of this business having studied other QSR formats is that typically beverages versus food, beverages has an edge in terms of better gross margins and secondly also given where Starbucks price points are which are definitely at a premium to other sort of chains in the industry I would have thought that margins would be better especially now since your 250 stores plus so the scale is not a big issue anymore. My expectation is that for a format like this pre Ind AS 116 and pre-royalty EBITDA margin should be close to 20% and I do not think we are there yet so do you think that is a fair target first of all and if yes what is required for us to go to that level?

Sunil D'Souza: I would not dispute your target of the 20% margin and I would say we are quite close to that we are not way off right and you have to remember the margins is a function of also the total cost that we are bearing and the throughput that we are getting through. During COVID and closure we have had significant issues in terms of the traffic in the stores and therefore the drop in revenue while the costs have not changed significantly we have managed to bring down cost a bit, but they have not changed significantly, the revenues dropped and therefore the net margins have come down on the EBITDA level. That said right now we are seeing them come I would say between 15% to 20% and therefore we do not see an issue in ramping up going forward.

L Krishnakumar: Just one another point you need to bear in mind is what you are saying without commenting specifically but overall profit numbers will be different in a steady state than that when you are expanding. We have opened as Sunil said over 25 stores in the last quarter so we are not in steady state yet so please remember that.

Percy Panthaki: Sure. Just a clarification on this, this 15%, 20% number which you spoke about is that a number which is pre-Ind AS 116 or it is under the 116 reporting standard?

L Krishnakumar: Let us have a conversation offline.

Sunil D'Souza: Just to give you some more color on that revenue grew by 76% and EBITDA grew by 160% so just the throughput or the traffic in the stores itself moves up the EBITDA in a big way and as I said on the out of home piece I think for NourishCo and Starbucks the last quarter was almost normal apart from the Omicron hiccups that happened. So you could expect to see these pieces ramping up as we go forward.

Percy Panthaki: That is all from me. Thanks and all the best.

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

Sumant Kumar: Hi! Sir. My question is regarding tea margin. In the month of April we have seen a CTC leaf prices have go up by 12% to 16% and you talked about the tea price likely to correct so if it is not going to correct and can you talk about how things are going to be for the price increase side and margin side for the tea business in the next couple of quarters?

Sunil D'Souza: Let me comment in two different ways. Number one is as tea prices go up or down we will modify our pricing in the market to make sure we are more or less maintaining margins while maintaining competitive stances and volume momentum so that is number one. Number two just as a perspective in the month of April if I am not mistaken while there were some small upticks in the North Indian tea, the South Indian tea saw a downward pressure so that is number two, and number three April is probably the wrong month for making a conclusion on tea pricing because the first flush happens about May and from May onwards is when you could see the price movements going up or down, but broadly like I said tea prices were range bound in the last quarter per se we will see some ups and downs but not as significant as what we have seen in FY2021 and quite a large part of the beginning of FY2022. If we have a normal crop this year you could see a downward pressure on prices overall, but anything that moves up or down we will make sure that we are moving our algorithm in line to make sure maintaining margin and maintaining momentum.

Sumant Kumar: Last question the other expense is higher in Q4 what is the key reason for that?

Sunil D'Souza: Sorry.

Nidhi Verma: Other expenses are higher in Q4.

L. Krishnakumar: It is not only in Q4 but overall other expenses there are number of reasons .The first is the fact that we are investing in infrastructure whether sales, digital as we expect. Second is compared to the previous year there are new businesses which have come in like Soulfull, like Tata Q, third reason is we are ramping up Sampann and other things and there is an element of inflation which all of us have, so all these are contributors.

Sumant Kumar: Thank you so much.

Moderator: Thank you. The next question is from the line of Trilok from Dymon Asia. Please go ahead. As there is no response from the current participant we will move on to the next question.

Nidhi Verma: Moderator perhaps please go to the webcast now and take some questions from there.

Moderator: Sure.

Nidhi Verma: So there is a question from Alok Shah at Ambit. He is asking that distribution in tea and salt has increased by 15% and 13% CAGR over FY2020 to 2022 , wanted to check how much more distribution is yet to be covered and against this distribution expansion tea and salt volume growth CAGR has been 7% and 9% over the same period which is lower than the distribution expansion so is this understanding correct and how do they reconcile this?

Sunil D'Souza: I will answer this in two or three parts. As I mentioned our target in terms of numeric reach is 4 million outlets we are at a 2.7 so we have got at least 50% more ground to cover and at 4 million outlets I think we will be in the top quartile of FMCG company that is the target that is number one. Number two I do not think you can do a direct linkage with the distribution expansion for the same time period because this takes time to build up and number two as we are expanding distribution as I mentioned rest of urban and rural is the opportunity where you would expect to see slightly lower volume/value throughput and number three it is also a function of industry ups and downs while long-term the beverage industry in India for example the tea industry has been growing between 5% and 7% volume, we have seen significant softness in the beginning part of this year as I said at January and March two months have come in at a 5% volume growth and the industry looks to be coming back. I would not draw straight line correlation I would urge to go on the hypothesis saying that a) if you are present in 4 million outlets, if you have got strong brands and therefore share of handlers therefore you will be getting volume market share and therefore a good bottomline at the end of it.

Nidhi Verma: Thanks Sunil and he has another question perhaps LK can take this. ICDs have gone up from 730 million to 4.99 billion can you share some more details on the same?

L Krishnakumar: This is a deployment of surplus funds - we have preferred deposits with strong companies for example HDFC is one company where we made deposits so they are not within the group, when we get a better return than employing them in short-term mutual fund, so these are examples of where we have placed it

Nidhi Verma: The last question is what is the gross margin profile of NourishCo versus tea business?

Sunil D' Souza: So broadly the gross margin profile of NourishCo is in the ballpark of the tea business in fact once we get our innovation engine fired up it should be slightly accretive to where the tea business would be on a steady state. As I said the big opportunity in NourishCo is that even after the expansion that we have done I think we still got about 45% to 50% geography of the country to cover, NourishCo has not delivered to its full potential on the bottomline simply because it has been hindered by the two waves of the second wave and the Omicron which we have seen, I am keeping my fingers crossed that this is the first full year in which they see a full summer and would have executed in all the expanded geographies that they have operated in and therefore you should start seeing significant traction on that business.

Nidhi Verma: I think we can go back to the Q&A queue and perhaps we can extend the call by 10 minutes so that we can address rest of the questions.

Moderator: The next question is from the line of Devika Jain from Ratnabali Investments. Please go ahead.

Devika Jain: Hi! I just wanted to understand what is the growth strategy for Sampann so I see Sampann is one of the biggest growth drivers of the Indian business so I just wanted to understand when in the bigger scheme of things what would your strategy be going forward on a long-term basis?

Sunil D'Souza: I can go on for about half a day on the Sampann growth strategy but to just give you in a nutshell, Sampann is going to be the pantry brand for us and therefore all the categories that we will enter with Sampann is pantry. So right now we have got spices, we have got pulses, we have got besan, all of it are doing very well, Poha has grown more than 100%. Overall Sampann has grown by more than 30%. Sampann the other categories have been identified in which to enter we have just entered the dry fruit category which again is a high margin but trust deficit category because there is no big brand operating there. Sampann I think the critical case is to make sure a) we will get into the right categories, b) we build the brand on which I think we have got a lot of work to do, c) expand distribution, and d) most importantly once we get to a certain level of scale start leveraging procurement at the back and lastly is start putting in value-added innovation as we go through to make sure we move up the margin profile.

Devika Jain: A little bit of guidance as to can we expect growth of more than 30% going forward?

Sunil D'Souza: I would say you can expect very healthy growth across TCPL but Sampann should be outpacing the TCPL growth number significantly.

Devika Jain: Sure thank you that was helpful.

Moderator: Thank you. The next question is from the line of Shirish Pardeshi from Centrum Capital. Please go ahead.

Shirish Pardeshi: Hi! Sunil, Nidhi, LK good afternoon thanks for the opportunity. I have one question. In reference of slide #13 where you have seen strategic priorities six pillars. I would like to see in the context you said you are holding about 2500 Crores cash so the point what I wanted to understand is explore new opportunities so what is it that you are looking, are you looking for brand, channels, D2C or format that would be helpful and the sub question on that we too acquire brands Soulfull and Tata foods, in the medium to long-term say three years what is their expectation in terms of scale, distribution, profitability and maybe revenue?

Sunil D'Souza: Let me answer the first part of your question. The 2400 cash is kept ready and powder dry to deploy in case we see opportunities I think the critical piece is creating value for Tata

Consumers we are extremely mindful of the return ratios of the business but also we have got to make sure that we fulfill the ambitions in terms of scale so every opportunity is looked at from every multiple angle to make sure it is creating value. Soulfull for example and that is a classic example that I can give you. Great brand in the geography which it was operating and we thought we can scale it across the country they had a unique proposition of millet which was a differentiated proposition from a consumer perspective, but also entry barrier simply because they possess the technology to process millets very efficiently which not many companies can. Number four they have brought in a great team we have leveraged that by keeping the team separate and only integrating where TCPL will create value. So is there a specific one piece that I can give you saying we would go deploy against brands or we will deploy again D2C no, we look at every possible opportunity that is there, there is a set of targets that we have which we go after but it has to create total value. As I said every single acquisition has to make sense on strategic filters as I mentioned but also more importantly the financial filters for us to make sure that it is value accretive.

Shirish Pardeshi: On the two acquired brands long-term target say three to five years where do you think this business can go?

Sunil D'Souza: So it is to multiply the topline and the bottomline multifold for all the businesses. Soulfull is already on its way like I said it had a slow start just because of two things one is we had to integrate that business and number two is I think our team took a little bit of more time to understand the category because we have never operated in that place earlier, but now that we have got it, now it is into triple digit growth for the last couple of months and we expect to continue a very, very strong momentum going forward apart from the fact that we will expand portfolio. On Tata SmartFoodz I did mention earlier that we have work process going on to, we have already integrated the business, but from a portfolio angle and more importantly the big bang for the buck will be the export market making sure we have the brand, the product portfolio and the regulatory approvals to start ramping up that business.

Shirish Pardeshi: Let me take a little more, I have tested both the brands and I have seen, I am a big fan of processed food while if I give anecdotal evidence McCain came in India with potato variants for long time but they have not been able to scale up of course I am not saying the time is different that today time is very different, in a medium to long-term to reach over 10 billion brand do you think you will require four years, five years, six years?

Sunil D'Souza: I would not give you a specific number one and I would not try to draw parallels because I can give you the name of one of the big competitors in India who did try to get into salt as well as Atta, but there are other players like we have succeeded in salt and someone else has succeeded in Atta. So just because "A" player tried a category and did not succeed does not mean others can succeed or fail. Every company has to evaluate what its strengths are, where are they playing to, make sure we are differentiating, make sure we have the ability to execute and then go for it. As I said Tata Consumers we have got lofty ambitions but as I just said just now I think we have just about seen 10 minutes of a two-hour movie so we have got a long movie to go stay tuned.

Shirish Pardeshi: Sure thank you and all the best Sunil.

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

Moderator: The next question is from the line of Bharat Sheth from Quest Investment Advisors, Please go ahead.

Bharat Sheth: Hi! Sunil congratulations on good set of numbers. You have answered, on the portfolio expansion of Soulfull, but on NourishCo how do we really look and second this ready to eat so it will be among the whole, full kind of a day right now we have Soulfull which is for morning breakfast so how do we expand that portfolio on the hygienic or nutri side and NourishCo. And export engine that you said so how do we see this will be distribution model, will be there for export?

Sunil D'Souza: If I understood the question right I think NourishCo we have got a huge opportunity for growth. Just for example NourishCo grew by close to 90% for the year and this is without having a normal year I think the product portfolio that they have is Tata Gluco Plus, Tata Water Plus, Himalayan, we just introduced Fruski, we have just launched the Tata ORS we just launched the Jelly Variant, I think just expanding in the beverage spaces where we can create a differentiation and value for the consumer and executing against it I think we are in a good place on NourishCo. On Soulfull I think the core differentiator is millet. Soulfull was brought in to specifically cater to the demand spaces of breakfast, snacking and mini meals and therefore the portfolio that you will see coming out of Soulfull and I think the first product should come out by new product, new, new product would start coming out by end of this month early next month, it is in the same space the big differentiator being millet and superior products per se. On Tata SmartFoodz like I said there is work in process to make sure that we have got a portfolio which appeals to the Indian consumer as well as for the International market appeals to the International consumer. In International we will play both the ethnic as well as the world food aisle in the mainline supermarkets.

Bharat Sheth: Any thought process on the revenue from these three business contribution on the topline and EBITDA in over a three to five years timeframe?

Sunil D'Souza: So both on topline as well as EBITDA we would expect it to be incremental and significantly I would not hazard a guess to give you a number in the future, but just to give you past performance the boilerplate here is past performance can be a guarantee of future performance and we have grown this year. The growth businesses have grown 52% our endeavor will be to continue to maintain that momentum going forward.

Bharat Sheth: Thank you and all the best.

Moderator: Thank you. Ladies and gentlemen that was the last question for today. I would now like to hand the conference over to Ms. Nidhi Verma for closing comments.

Nidhi Verma: Thank you. Thanks ICICI for hosting us. On behalf of the management thanks everyone for joining us. If you do have any remaining questions, please get in touch with me.

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