October 23, 2024

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Mumbai 400 051
Scrip Code – **TATACONSUM**

BSE Limited
Phiroze Jeejeebhoy Towers
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Mumbai 400001
Scrip Code - **500800**

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Scrip Code – **10000027 (Demat)**
27 (Physical)

Sub: Transcript of Conference Call pertaining to financial results for the quarter and half ended September 30, 2024

Dear Sir/Madam,

In accordance with Regulation 30 of the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015 ("Listing Regulations"), we are submitting the transcript of Conference Call held on Friday, October 18, 2024, in respect of the financial results for the quarter and half year ended September 30, 2024.

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

This is for your information and records.

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

Delnaz Dara Harda
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Delnaz Dara Harda
Company Secretary & Compliance Officer
Membership No. ACS73704
Encl.: as above

Public

TATA CONSUMER PRODUCTS

"Tata Consumer Products Limited

Q2 FY '25 Earnings Conference Call"

October 18, 2024

TATA CONSUMER PRODUCTS ICICI Securities CHORUS CALL

MANAGEMENT: **MR. SUNIL D'SOUZA – MANAGING DIRECTOR AND CHIEF EXECUTIVE OFFICER**
MR. ASHISH GOENKA – GROUP CHIEF FINANCIAL OFFICER
MR. AJIT KRISHNAKUMAR – EXECUTIVE DIRECTOR AND CHIEF OPERATING OFFICER
MS. NIDHI VERMA – HEAD, INVESTOR RELATIONS AND CORPORATE COMMUNICATIONS

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

Moderator: Ladies and gentlemen, good day and welcome to Q2 FY '25 Earnings Conference Call of Tata Consumer Products Limited, hosted by ICICI Securities. As a reminder, all participant lines will be in the listen-only mode, and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing star, then zero on your touchtone phone. Please note that this conference is being recorded.

I now hand the conference over to Mr. Manoj Menon from ICICI Securities. Thank you and over to you.

Manoj Menon: Hi, everyone. As usual, it's a wonderful good morning, afternoon, evening, depending on part of the world you are joining this call from. This is Manoj Menon representing ICICI Securities, and it's our absolute pleasure to welcome the Tata Consumer Management team for the 2Q FY '25 Results Conference Call.

Without much ado, over to Nidhi from the management for the further proceedings, please.

Nidhi Verma: Thank you so much, Manoj, for hosting us. Hi, everyone. Welcome. We announced our Q2 FY '25 results this afternoon, and we hope you have had some time to go through the materials. In the room, I have with me Mr. Sunil D'Souza, Managing Director and CEO; Mr. Ashish Goenka, Group CFO; and Mr. Ajit Krishnakumar, Executive Director and COO.

In terms of the format, what we'll do is walk you through some of the key updates during the quarter and then open the floor for Q&A. I would just want to draw your attention towards the disclaimer statement that is up on the screen. And with that, I will hand it over to Sunil.

Sunil D'Souza: So I would say in the face of what was a tough operating environment, I think we delivered a decent result. Up -- revenue up 13%. India Beverages up 3% with tea volumes actually declining year-on-year. Just as a perspective, I think this is probably after a long, long time, we have seen a decline in tea volumes. India Foods revenue grew 28%, 9% organically because Capital Foods, for example, is collated here and volume growth was 1%. As a perspective, again, for salt, last quarter, we had grown 8%, and this quarter was 1%.

International business continued to fire, 7% revenue growth, 5% in constant currency and significantly improved profitability, primarily led by the U.K. continuing to go from strength to strength. Growth businesses grew by 15% organically. It's primarily because on the Ready-to-Drink business, we were impacted by unfavorable weather on one part. And the second part was there was competitive pricing, which we were late to the party. We have now corrected the pricing across the geographies. We are competitive now. And therefore, I would expect us to be coming back to our normative 25% to 30% growth very soon.

Newly acquired businesses continued. We have finished the integrations. We're now focusing on growing. And quarter-on-quarter, we are seeing growth coming in. Capital Foods quarter-on-quarter grew 25%. Organic India grew 45%. As we understand the business in more details, including the back-end channels, products, I think we will very soon be on a very strong wicket here.

Consolidated EBITDA grew 11%. Margin actually contracted 30 bps to 14.9%, primarily led by higher input costs for the India tea business. As a perspective, tea costs have gone up by about 25% to 30%, and we expect them to stay elevated for some points of time. While we have taken gradual tea price increases, we have not so far passed on the entire tea cost increase to the consumer.

Salt market share continued to strengthen. We're now up by 150 bps on an MAT basis. Our tea business was marginal value movement of 20 bps. Just a point on market share out here. We've always maintained Nielsen is a sampling and doesn't pick up market share accurately. But finally, for the first time, now they have started to pick up competitive moves also in line. So that is an encouraging sign. Incubation of food services channel, which we had committed, we've started pilots in Mumbai and Ahmedabad and pharma channel across 10 cities, on both these things, we've started -- we're still not -- I would guess we will finish appointing all the distributors by end of this month, but initial results look quite encouraging.

We had NCLT approval, and therefore, we finished the merger of our wholly owned subsidiaries. And therefore, in line with that, you will also see a tax impact on our P&L because we had the advantage of offsetting some of the accrued losses in the wholly owned subsidiary. We continue to remain focused on the longer-term business opportunity in India for Starbucks. So Tata Starbucks is now the largest cafe operator in India with 457 stores across 70 cities.

Overview. As I mentioned, India Beverages revenue grew 3%, and revenue was about INR1,380 crores. India Foods about INR1,368 crores, revenue growth of 29%. International at INR1,000 crores, revenue growth of 7%. Overall, Non-branded, primarily driven by coffee prices, and to an extent -- a small extent with tea prices also had a 19% growth, reaching close to INR500 crores of revenue, all-in consolidated, 13% growth at INR4,200 crores.

Therefore, for the first half overall, India Beverages is a 4% growth. Foods is 29%. International is 9%, Non-branded 26%, all in INR8,500 crores at a 15% growth. So overall, 13% revenue for the quarter, INR4,200 crores, 11% EBITDA, PBT minus 16%. Just as a perspective, we still had debt on our books as we entered Q2. We finished the rights issue in the middle of Q2. And now as we exit the quarter, we are debt free, and therefore, there will be a positive impact from that perspective as we go forward.

But that said, you will still have an issue with -- because we used to carry cash, and therefore, there was an interest income. While we are now building up cash from the INR332 crores piece. So there will be a gradual build-up to the same level of other income that you would see on the P&L.

For the first half, 15% revenue, minus 11% PBT, group net profit minus 4%. Yes. And as you can see, now we are starting to be cash positive. So overall, a lot of action on some basic work across different functions. Overall, now we are into -- we are 30 out of our 43 -- roughly 30 of our 43 C&FAs are now on centralized planning and dispatch. As in orders from the distributors come to these locations. And therefore, it is just dispatch instructions which go to the C&FAs.

The C&FAs don't have to sit and do their collation of orders, make the loads, calling the trucks. It's all done centrally, which, a) therefore, efficiency; b) in terms of monitoring service deliveries. Then the distributors, we have gone to an auto replenishment system. At the end of the quarter, it's now in 100% of the distributors where forecast minus inventory equals orders – as simple as that. And therefore, there is no time spent by the sales guys on negotiating orders.

More importantly, the new products launched, the smaller SKUs, etcetera, which normally get lost in the system will all start to balloon up, and we will make sure we are executing our entire range across every single distributor.

Lastly, we had rolled out our new DMS, which we named MAVIC starting last quarter, that is Q1. Now we are in 100% of the distributors. I would dare say we are now best-in-class on the system, albeit I would also say that not all the functionality is yet loaded in because we are going in phases. And very soon, there will be multiple capabilities, which will be loaded on here. Modern trade is now almost -- I mean continuing the trend. So the softness which you saw in the last quarter was primarily in general trade. Modern trade continued to deliver at 17% growth. E-commerce was 50% growth. And in e-commerce, we saw quick commerce come in very, very strongly.

I already talked about the food services and pharma channel. We continue -- despite the softness, we want to continue to strengthen our brands and our A&P-to-sales ratio in India continued at 7.5%. I talked about the market share [salt] plus 150 and [tea] minus 20. We continued our focus on innovation. Innovation-to-sales ratio, we were at about 4.1% for the quarter. which is on track to -- for us to deliver a 5% plus for the full year.

We had committed saying growth businesses will be 30%. Yes, we also said they'll be growing at 30%, which did not happen. But overall now, they are at a 30% contribution to TCPL [India] business. The growth businesses grew at 15%. And as I mentioned, primarily because of an impact on the NourishCo business, which we should see getting reversed soon. We did get an award for being the most sustainable consumer goods company, in fact, being Number 2 among the top 50 most sustainable companies across sectors from Business World's IMSC rankings in 2024.

In macro terms, you would see the dark blue line showing you the tea prices in Northern India, which are up by about 30% compared to 25% compared to last year. Similarly, while you will not make out just because of the scale differences, even South India has moved from INR102 to INR128. So there also, you're seeing a 30% swing. So tea prices on the upswing. Coffee prices, I don't comprehend the logic now for this anymore, but they continue to move up. We've -- just as a perspective, earlier, we used to put Robusta in terms of dollars per kilo, but just to show you that they're moving in tandem, we've moved both of them to cents per ounce.

In terms of business performance, we talked about packaged beverages, negative 3% on revenue, now negative 4% on volume. I talked about the raw tea prices. As I mentioned earlier, we have taken staggered price increases. We have not translated the entire cost increase into consumer price increase. Coffee continued its strong trajectory, and we grew 29% during the quarter. And we sort of re-launched the Tata Tea Premium hyperlocal campaign in version 2.0 in the key markets of UP, Punjab and Haryana and that has been received very well.

On India Foods, 28% growth, 9% of it was organic growth and 1% was volume. Salt market share, we continue to go from strength to strength. Value-added salts in line with their continued trajectory so far, continued to grow strong double-digit, grew 26%. Rock Salt continues to scale new heights every quarter. Sampann had a strong quarter, 26% growth. We did have impact on cost for salt because Mithapur recorded its highest ever rain since 1929. And in line with mitigating the cost increase, we've announced a INR2 price increase, which will start getting into the market this month.

On Ready-to-Drink, this was what I talked about. Revenue was negative 11%. We've re-indexed our pricing, and that was primarily to do with Tata Copper+ -- sorry, Tata Gluco+. Tata Copper+ continued to grow. It is up by 6%, but that is not on par with our expectations for this category. And we do expect that it will come back to growth very, very quickly.

New acquisitions have -- as I mentioned, we have continued to see growth quarter-on-quarter. Overall, Organic India, INR102 crores, Capital Foods, INR206 crores, both put together a 31% quarter-on-quarter growth. Gross margins for both the businesses are in line with expectations, accretive to the company. More importantly, we've started seeing synergies in both the businesses with very, very strong EBITDA expansion year-on-year.

Capital Foods, we had taken over at about 250,000 outlets. It now reaches close to 500,000 outlets. Organic India also, we have started to move aggressively on growing the brand. Sampling is the key focus. We have reached about 400,000 outlet -- households in Q2. Non-branded business, another strong quarter, 19% revenue growth, but just a piece of caution is now we are starting to see stress on demand in the Solubles business when pricing has reached, I would probably use a slightly loose term saying stratospheric levels. So therefore, now we are starting to see the stress there on Solubles.

We continue to be very, very watchful of coffee prices to make sure we don't get caught on a wrong footing in case there’s a correction.

Starbucks, 19 new stores, as I mentioned, 457 stores now in 70 cities. A bit of stressful quarter here as well. And I would probably say in line with what we are hearing of across the QSR category. Traffic is the issue. Ticket size is not because once the consumer enters, we do see spending happening. Revenue grew only 2%. The team has put together a range of initiatives to try to drive traffic back very quickly, including launching a new classic range, which is both food as well as coffee, the pricing being the attractive piece to draw consumers into the stores.

Our International, a strong quarter overall. UK, we are now officially the Number 2 branded tea player, Tetley share of 15%, Teapigs and Good Earth put together, adding to that share story. Revenue was up 7%. US, I would say, stabilized right now from being quite turbulent for about three quarters in a row. Coffee revenue up 2%, tea up 6% and market share now stable, both across bags as well as K-Cups.

Canada, a bit of a hiccup, I would say, as we implemented our new packs from the Eaglescliffe factory. This is the most sustainable packaging, PLA-based tea bags, with better quality of tea as well, which was launched in the UK is now being rolled across Canada. So as they've phased in and phased out, there has been a little bit of a hiccup, nothing fundamentally wrong with the business per se. Ashish?

Ashish Goenka: Thank you, Sunil. I think Sunil has talked about most of the key highlights on financials. Let me just cover some key points overall. At a consolidated level, I think quarter, we've seen 13% growth. In terms of EBITDA, we saw 11% growth over last year. Margins came in at 14.9%, this is a contraction of 30 basis points over last year, largely led by India. However, we did see significant margin expansion both in international and the non-branded business.

On a first half basis, overall, revenue at a consolidated level came in at a 15% growth. We saw growth across India, International and Non-branded business. Even at an organic level, the growth was 4% in India and at an overall portfolio level was at 7%. On a consolidated margin level, EBITDA margins came in at 15.2%. This is an expansion of 30 basis points over last year, and we saw margin expansion across India, International and non-branded.

On the consolidated financials, I think Sunil has talked about the numbers, maybe just two callouts. One is on the interest line, given that we have already squared off the bridge finance that we had taken for the acquisition, and this was done through the rights issue proceeds. We should now see significantly enhanced flow-through from EBIT to PBT as the interest cost comes down. And we will also see improvement in our other income as we start to build back cash.

The other point to highlight is on the tax line. The ETR for the quarter was significantly lower and as Sunil mentioned, this was on account of a one-off benefit that we got this quarter on account of the carry forward losses from our three wholly owned subsidiaries that got merged in the consolidated results. So I think that’s about it from my side. I'll probably hand over to Sunil for the concluding remarks.

Sunil D'Souza: Thanks, Ashish. So in summary, erratic weather patterns have affected tea and salt production leading to input cost inflation. And we will start passing this off into consumer price. Global coffee category continues to face demand headwinds owing to record high coffee prices. India Foods, International and non-branded business delivered a strong performance, while India beverages had a soft quarter. Tea prices remain elevated. I would say you could expect to see that getting into quarter 1 of next year.

And therefore, staggered price increases have been actioned and you will see more price increases around the corner. We announced a price increase in Tata Salt effective October to mitigate the salt cost increase. We will continue to build momentum in the new businesses of Capital Foods and Organic India. We've done the rights issue, short term debt paid off and therefore company is now net cash positive. I will pause here.

Nidhi Verma: Thank you. We can open up the call for Q&A.

Moderator: Thank you very much. We will now begin the question-and-answer session. We'll take our first question from the line of Jay Doshi from Kotak. Please go ahead.

Jay Doshi: Hi, thanks for the opportunity. I have a couple of questions on profitability. Now India branded business EBIT was down 26% Y-o-Y. How should we think about now since you've taken a few staggered price increases in tea as well as price increase in salt. Going forward, sequentially will margins improve or will there be more pain before margins recover from September quarter levels? And this is primarily India branded business organic EBITDA margins.

Sunil D'Souza: So Jay, let me slice it in two or three different ways. For salt I think more or less we mitigated the cost increase. So that is done. You could see us maintaining/inching up slightly the margin. I would say no significant movement there.

Jay Doshi: Was there a significant headwind from salt also in September quarter in terms of your profitability?

Sunil D'Souza: No. September quarter the cost has not come in through us. Remember the cost comes in at Mithapur which then flows in into our system. When we knew this cost is coming through because they had to buy brine because of the excessive rains, our own fields could not supply the brine. Therefore, we had to buy brine which is the cost. And therefore, when we knew it was happening, we have proactively mitigated it with the price increase.

On tea there are two things. A) in a logical world, you would pass on the cost to a consumer, albeit maybe in a graded way so that you don't pass 100 at one shot, you pass it in two parts or three parts. Now the thing -- key thing is you have to remember, it's a competitive environment out there and the one thing we will not do is sacrifice the long term to deliver a short term.

Therefore, I will -- and I've maintained this earlier market share is a very, very important metric to me. Profitability is probably the next. Ideally, I would like to see both of them there. But therefore, we will make sure we are competitive out there and move lockstep as competitors move.

Therefore, while I expect the margins to be slightly better, I would not put a wager on it because it depends on the competitive environment as well. I've given a long answer to a short question, but I do overall think that they will probably move better. How much? I'm not very sure.

Jay Doshi: Sure. A follow-up there. First of all, I think India business EBITDA on organic basis has declined 23%, that you've called out in the presentation. So what would be the decline for branded business because I believe the India business would also include some non-branded component?

And I initially referred to 26% EBIT decline that you report in segmental, but I'm assuming that would have some inorganic component also. So if I can understand what is the branded business India EBITDA decline Y-o-Y?

Ashish Goenka: So Jay we will reach out and give you the numbers separately, but I think the branded business the largest impact was in the tea cost as Sunil mentioned, because year-on-year we are seeing almost a 20% decrease in tea cost. And the unmitigated portion of the tea cost because as we started taking staggered price we could not fully mitigate the cost. So that's the largest impact. And probably that's the only impact in terms of the overall EBITDA for the India branded business.

Jay Doshi: Understood. And a separate question on non-branded -- you've been -- incremental Y-o-Y EBITDA has been about INR50 crores for the past two, three quarters and that is led by coffee realization. So how long will it sustain? The current run rate of INR100 crores EBIT -- segmental EBIT INR100 crores plus is sustainable or it will you think over the next few quarters settle back at INR50 crores, INR60 crores levels?

Sunil D'Souza: So Jay, if I knew that, I would be in a different planet. So that's number one, but just to give you an educated guess, if I may call it. There are two parts of the unbranded business. One is the solubles business where it is a pass-through. So whatever upsides you would have seen was because of inventory carry forwards and the future prices being better than where it is now. So that's number one.

And then there is the plantations where it's a pure naked realization game because cost of inputs is not going up in line with that. Now the catch is what we are seeing on the solubles piece is now demand softness. As the prices have reached those levels, I think now we are testing the boundaries I don't know if they will continue to go up sequentially because now what we are hearing across from all the top coffee roasters around is they are starting to -- when I see the word saying demand destruction being used, I know there is stress.

So I think you will -- my guess is you will probably see prices hovering around this level, which means you will start to see us coming back to EBITDA on wherever we used to have because there is no forward inventory advantage. It might be there for a quarter, but going forward, I don't think you will see that.

Jay Doshi: Understood. So just to be clear, soluble business is inventory advantage that lasts for three, four quarters and you are towards the fag end of that cycle, but coffee plantations can continue to see solid profitability or the contracts there also get revised upwards in terms of your costing?

Sunil D'Souza: No, that's more or less you will see steady profitability there. I don't think you will see an increase, but here's the thing -- I mean, when I'm buying this quarter and selling next quarter, the prices have already gone up and that's where the EBITDA continues to go up. Now if that starts to plateau, you'll start to see a normative level come in.

Jay Doshi: Understood. One final question on competitive intensity. In the previous inflationary cycles, we saw price increases being taken more proactively by the leading players. Why is it that this time around we did not see any price increase until probably early October or end September? And I mean, your competitor is also facing equal margin pressure. So what has changed this time around that the industry did not take the price increase almost 3 months indeed?

Sunil D'Souza: So, Jay, I have no clue about that. But my only point is and I use this word with Nidhi. If one can play the game, two can play the game. So if the game is saying that they will outlast or they will hold on for longer and put stress on the rest of the industry. I would just say rest of the industry minus Tata Consumer is who's going to feel the stress. So I will not forgo market share because gaining back market share in the longer term is a far more painful and far more expensive proposition.

Jay Doshi: Understood. I'll get back in the queue, but I'll just request your comments on Starbucks later sometime on the call if somebody asks the question. I mean does it warrant -- demand is very weak. Would you like to reevaluate or reconsider your store opening strategy there? Maybe you can answer it later. I'll get back in the queue. Thank you so much.

Moderator: Thank you. We'll take our next question from the line of Manoj Menon from ICICI Securities. Please go ahead. Mr. Menon please go ahead with your question.

Manoj Menon: Sorry, I was on mute actually. So it's audible, right?

Moderator: Yes.

Manoj Menon: Sunil, actually when I look at the longer term of what the information we have on the salt value growth, volume growth and market share and I do recall many conversations earlier where it never actually moved in synchronization with the reality, particularly the market share aspect. And this time it has actually come. So what I'm trying to understand here is while I would assume that the value shares are going much faster than volume, but when I look at a quarter in which largely most of the line items are flat, you have 150 bps.

There's two questions here. One, that is there some corrective measures in your understanding which Nielsen have taken where it is reflecting this. Point number two, what would be the broad, let's say, difference between the value shares and volume shares for you?

Sunil D'Souza: So let me answer the second question first, Manoj. So if I'm not mistaken, my volume share is about 30%, 31%, and my value share is 37%, 38%, right? So it's about a 20% premium. That's number one. Number 2, while we have taken a price increase, what I would urge is this price increase of INR2 on a INR28 base, which is roughly around 7%, comes after a two-year hiatus, right? So, in the last two years, we've not even taken general cost of inflation increase. So therefore, I don't think there will be this thing. If anything, I would say the team continues to focus with the primary objective being to continue to gain market share.

Manoj Menon: Understood. Personally, just delving on that volume aspect or the volume market share leading into the value market share later. Post integration, the erstwhile Tata Tea and Salt coming into it, there was a rather numeric placement led market share gains opportunity. Now when I think about the medium term, how do I understand that, let's say the volume market shares will actually happen? Is it something to do with product? Or is this going to be sales vector-driven or marketing-vector driven?

Sunil D'Souza: So, Manoj, I would say a bit of both. And the reason is while we have expanded distribution, we are still at 43% numeric distribution. Of a possible universe of 100, I'm present only in 43 outlets. And that's primarily the gaps would be semi-urban and rural, which is where we are building out width of distribution. That's number one. Number two is, we've always maintained saying there is space below Tata Salt and there is space above Tata Salt to play. So Shuddh, which we've launched in the southern states, we did a relaunch last year because we learned a few things in the pilot and corrected. Now it seems to be on a solid wicket.

Above Tata Salt, there is a range of games that we are playing. One is the plain and simple value addition in terms of Immuno, which is loaded with Zinc. Now we've launched a Iron fortified salt. We've launched a Panch Tatva and then there is Rock Salt, which is on a different planet in terms of growth. Rock Salt, I think the growth targets are month-on-month and not even quarter-on-quarter, forget year-on-year. So I think there is enough space to play both on width as well as in terms of portfolio expansion.

Manoj Menon: Understood. Okay. If I may, just one follow-up. Actually, I completely appreciate the growth opportunity in the non-base variant. Given that the base variant is probably the highest, right? I mean just trying to understand, apart from sales, there's no other marketing vector on the base variant, right?

Sunil D'Souza: No. On the base variant, the primary thing is with the top-of-mind awareness that exists in Tata Salt, the game is to put in reminders and continue to gain saliency. Let me say there, the marketing job is just to remind people that it is Tata Salt, it is purity, and it is guaranteed. As soon as we've done that, we've seen all the numbers move up and this was pre-price increase. So, if anything, a part of the price increase, we will be using to up the reminder game on Tata Salt.

Manoj Menon: Very clear. Sir, the second and last question, then I'll come back in the queue. When I look at the presentation on the HORECA opportunity, I do find that the picture that you have put probably includes many of the brands. But which in your opinion, are the top 3 brands, which has got the HORECA opportunity?

And point number 2, when you look at HORECA, what exactly are you defining internally as the actual opportunity, not the numbers as such. For example, let's say, if a restaurant is adding a Tata Salt by paying a premium in terms of sourcing, how will the restaurant monetize is a question which comes to my mind. The same thing maybe for a Tata Soulfull also.

Sunil D'Souza: So, Manoj, let me put it this way. I would look at four big categories to drive the business in the HORECA channel. Number 1 is obviously salt. Number 2 is Sampann especially pulses. Number 3 is the Capital Foods and, Capital Foods I would include the sauces as well as we are in the process of launching mayo targeted at the HORECA channel. And then, of course, there is the tea and coffee. Primarily tea more than tea and coffee.

Now that said, the reason why the outlet would buy from us, A) is because it is consistent service delivery, number 1, number 2, guaranteed products and number 3, he has to use some salt, right? And instead of buying a no name salt from the corner when he gets Tata Salt delivered to the doorstep and incidentally, I mean if you talk of premium etcetera, from a restaurant perspective, instead of paying INR15 for a no name salt, he is paying INR30 and getting Tata Salt, right? So INR15 in the scheme of things is not a deal breaker for a quality listing.

And that is why we were running the pilot to prove the hypothesis. The other good part is we are getting higher traction in our lower share geographies, which, means then it helps me to strengthen the brand image there as well. So that is the other hypothesis, which we are testing is do we get a bigger bang in the high market share or the low market share. The low market share is giving me a higher number, which then from a brand development perspective also, then this channel helps me out.

Manoj Menon: Very clear. And I fall back in the queue. But I must congratulate Jay for asking a fifth question by not asking about Starbucks.

Moderator: We'll take our next question from the line of Abneesh Roy from Nuvama. Please go ahead.

Abneesh Roy: My first question is on your two acquisitions which you have done. So in terms of two quarters, we have now a fair bit of data. So, if you could tell us what are the key wins in both the acquisition of Organic India and Capital Foods? And what are the things which did not pan out and what are the learnings?

And in terms of growth metrics, I'm not talking about FY25. This is the first year of acquisition and always is a more challenging year. But from FY26 and FY27 in terms of growth expectations for these two, would you like to recalibrate slightly lower versus initial expectation?

Sunil D'Souza: So, number 1, Abneesh, I'll start by answering your last question. I don't think we're calibrating anything lower. In fact, while we started with a lower base than what we thought it was, we remain quite bullish that we will be able to catch up to our business case numbers very quickly. That's number one.

Number 2, in terms of learnings, I can write a long book on the learnings. A) we integrated pretty quickly and got going. But through this process, let me give an example. In Organic India, one of the things that we learned were there were about 1,000 outlets across the country, which were the primary volume drivers for the business. And what had happened during the integration, when the team rationalized the discounts, promotions, etcetera, they'd rationalized and therefore suddenly these outlet sales had dropped. But very quickly, the team did an analysis, figured out, okay.

So, they've gone back with a revised proposition to the stores and started to enrol the stores back and guess what they're coming back. So we remain quite bullish coming up with that. So that's the example for Organic India. In Capital Foods, there is a whole host of things, including the fact that the Capital Foods team was very, very nimble and agile on, for example, the ginger garlic paste recipe. They used to keep modifying it to make sure that they are in line with commodity trends. And typical in a large company, that doesn't happen.

So, for the first month, we saw our margin dip saying why? Because we were not agile enough. So now we've created a playbook of 10 different recipes, which we've loaded up on

SAP, so depending on what the commodity prices are, the team selects the optimal thing, number one. Number two, there are certain geographies where we figured out that there is an issue. So, while we had selected the best distributor in the town among Organic India, Capital Foods and TCPL, in some places we figured that the TCPL distributor was not delivering up to par. And then when we figured out that in some of the places, for example, the Capital Foods distributors were getting into confectionery wholesalers, and that's where their volume was coming from. And my guys were not going there. So now we figured out in many of these towns, we appointed the erstwhile Capital Food distributors as sub distributors for certain channel and a portfolio. We figured that some of the suppliers of Capital Foods, especially for the frozen stock, etcetera, were not up to par, but we had not proactively scouted around for suppliers. So there was a bit of a hiccup on that supply front. So the learning is now we proactively keep a list of suppliers and definitely more than one supplier in a category so that we don't land up in this hiccup again.

But what was the positive surprise across both the pieces, is the strength of the brands, even where they were not distributed. So for example, when we took Capital Foods to the South, hardly any resistance in terms of distribution and the South has taken off very, very nicely. Organic India, I was not as bullish on the organic food range. But now when you see the demand for organic jaggery, organic ghee, organic rock salt, now we're chasing our tails trying to make sure the supply chains are in place.

Abneesh Roy: My last question will be on NourishCo. So three, four quarters, we have seen growth being well below your own expectations. There has been a business head change also, I think, in NourishCo. And you spoke about Gluco+ challenges. Now what is the way forward here? Next one year, how do you see this business given base is very favorable? And you must have thought about the corrective actions.

And if you could talk about Campa Cola because that's available at INR10 pet bottle. I know still very early days in terms of market penetration for them. But would you need to go back to the drawing board and because your pricing is also INR10 for Tata Gluco+, but when customers sees a INR10 Campa Cola pet bottle and when he sees your product.

What is the design change, what is the pricing change needed to succeed in the broader scheme of things. It may not be like-to-like for the customer, but ultimately, customer, everything is thirst quenching. So if you could comment on that.

Sunil D'Souza: So Abneesh, absolutely right. Technically, I think a new player coming in with a different price point disrupted the industry. While on paper, it is INR10 versus INR10. The other piece that you have -- at least it had not -- it didn't surface quickly enough was that it was -- while the INR10 was the same to the consumer, the trade price was dramatically different. So -- and the other big multinationals adapted their pricing on the trade very, very quickly. We did not.

And obviously, I use the word from my Whirlpool days, which my marketing head used say, ‘is there gold in Whirlpool?’. So it's that, right? You've got a fantastic product, but you've got to be competitive on price. There is a level up to which you can charge a premium, not beyond that. We were roughly about, I would say, about 30% premium to competitor A, and about 20% premium to the multinationals in terms of price to retail.

Now just as a perspective, we know at that price to retail that is not sustainable, and the loss is roughly INR2 -- INR1.50 to INR2 per bottle. So this is a penetration strategy. So -- but here's the point. I will repeat what I said in the beverages piece as well. I am here for the long haul, and I will not forgo market share. We have gone in there, we made the corrective actions, we've taken down price.

And that's why I emphasized the impact was on Tata Gluco+ only, not as much on Tata Copper+ because there is not all this action out there. And therefore, we have re-indexed our pricing. We have corrected some other stuff happening through this thing because of the stress in -- when a business is stressed, there are 10 other things which pile up. We took that in our stride in September and it's cleaned up.

And we do expect -- I would say, by end of this quarter, we should be back to our 25%, 30% growth levels.

Abneesh Roy: Okay. Understood...

Sunil D'Souza: Just one more thing, Abneesh. The other thing in the whole food and beverage business is marketing and innovation is the lifeblood of getting new consumers in, right? You cannot afford to get complacent. So the other piece that you will see kicking in big time. And I think, if I'm not mistaken, starts kicking in from October -- November, actually, is that you will start seeing a flavor, format, pack innovation starting to kick in aggressively in Tata Gluco+.

Moderator: We'll take our next question from the line of Mihir Shah from Nomura.

Mihir Shah: So firstly, I wanted to check if you can throw some light on how the unorganized players are behaving with rising tea prices? And the kind of quantum of price increase you have taken, Essentially, I'm trying to understand is the down trading that was happening in tea will stop. And will volumes recover in the near term? Or we expect with the tea price increases, volume to continue to see an impact?

Sunil D'Souza: So Mihir, logically, and this is what we saw during the COVID time, when there is a sharp increase in prices, normally, the local players, A) have issues on working capital and, therefore, also on inventory. So it is not only pricing, which they start taking up very quickly, but also they run out of tea because there's that much money that they put on the table and it takes some time for them to raise their working capital.

So in the short term, last time around, we did see -- but there is one fundamental difference. Last time around, we saw one jump, a massive jump, and it went from 0% to 70% increase in the space of, I think, about 15 days -- 15 days, 30 days, whereas here, it has been over a period of time if you've seen the graphs which happened. So I think people have got time to adjust.

But that said, I do expect overall loose tea prices to -- loose players to be more stressed than the organized players. And to -- I think, Jay's original question in terms of what is the competitor trying to do. Maybe it's putting stress on the locals and gaining share from there. I'm just second guessing it. So logically, there should be a stress and therefore, organized players should gain faster.

But so far, at least from the Nielsen numbers, I have not seen that happening, but I'm keeping my fingers crossed.

Mihir Shah: Sir, one small quick question on quick-commerce. We are seeing that space growing aggressively. I wanted to check are you seeing large packs being sold of your products in quick-commerce? Or do you think they are just top up products or top-up orders that are getting sold. And if you can share any saliency of these large packs or are the saliency of large packs increasing? Anything on that? And one quick question on amortization, if you can share the number on amortization as well. That's all from me.

Sunil D'Souza: So Mihir, amortization, the exact numbers, I think Nidhi will share with you this thing. I just -- ballpark about INR50 crores, right, for a quarter. But quick-commerce, here's my thing. When people are buying iPhone 16s on quick-commerce, I'm sure they can afford a 1 kilo tea on quick-commerce, right? So -- but on a more serious note, people are buying large packs as well.

Why should a person buy? I can't answer that question, right? But people are buying. I don't see the mix of -- apart from -- if you leave the value packs -- I mean, the paise packs, as we call it, the LUPs out of the equation because that you don't see it happening on quick-commerce. But otherwise, on quick-commerce, the range is equally spread among different pack sizes.

Moderator: We'll take our next question from the line of Aditya Soman from CLSA.

Aditya Soman: Sir, two questions. One, can you give us some sense of how margins are trending for Sampann? And secondly, on Starbucks, can you just give us some understanding of what same-store sales -- that our same-store sales growth is there at Starbucks? And also, why we are seeing so much stress in the channel? Is it the weather or is it something else?

Sunil D'Souza: Let me answer with the last question first. I don't think -- last quarter, we did feel that it was weather simply because it was significantly hot. The good and bad part is, I think the stress is being seen across the QSR segments. I think it's an overall consumer spending issue, especially in urban areas. And my hypothesis is probably food inflation is higher than what we think it is and the impact is far higher.

And therefore, there is a tightening of belts, A. B) also, you have to remember there is a shift in festival dates, Śhradh. I think, almost ended around September and therefore, that might have had an impact. That said, said same-store sales is negative, and I think it is negative for the sector for now.

Aditya Soman: There's a question on Sampann margin?

Ashish Goenka: So I think Sampann margin, we see sequential and year-on-year improvement. I think we do not disclose the number, but structurally, we are improving the margins on Sampann...

Sunil D'Souza: Yes. I think we've publicly said from, I think, close to 0 plus when we started four years back, we are now trending towards a very high single-digit, close to double-digit number. And we don't see a reason why that will not continue going forward.

Aditya Soman: Yes. That's very clear. And maybe just a follow-up on that Sampann margin number. What's the best way to understand why this is happening? Is this just a function of leverage as you scale up the business and you get leverage over fixed cost? Or is it a better sourcing efficiency or pricing?

Sunil D'Souza: So it's a bunch of things. A) it's a product mix. Originally, when we started, we started only with pulses. As we are moving up, say, for example, spices will have it depending on what it is 25% to 35% margin. There are other products like dry fruits, which is a higher margin. There is -- so it's a mix as we launch products, which are accretive to the base margin, that will improve. That's number one.

Number 2, as we build and advertise our brand, our ability to charge a premium in certain products. That's number 2. And number three, as we become larger, the simple ability to negotiate price basis scale, that's number 3.

Moderator: We'll take our next question from the line of Lokesh Gusain from BOB Capital Markets.

Lokesh Gusain: So just a couple. First of all, what was the sales growth in both businesses, ex NourishCo and M&A? And then secondly, how much pricing do you need in tea to fully offset the inflation? And what percentage of the portfolio have put through the pricing yet?

Sunil D'Souza: So let me answer the second question first. If there is a 30% cost increase, you have to put through at least 30%, if not more, to recover margin as well, right...

Lokesh Gusain: I'm sorry. My question is more around like you've taken, I think, 4% pricing. I'm talking at a bucket level, like if the tea category as a whole, how much pricing do you need to put through at an aggregate level to offset the inflation?

Sunil D'Souza: So that's what I was saying for that. If there a 30% cost increase. I had to put up a 30% price increase to jog in the spot, right?

Lokesh Gusain: Yes, okay.

Sunil D'Souza: And I think your other question was the details between growth businesses, NourishCo and this thing. I think Nidhi can get in touch with you and walk you through the details.

Moderator: We'll take our next question from the line of Vivek Maheshwari from Jefferies.

Vivek Maheshwari: On the Starbucks bit, you mentioned about the demand environment, urban consumption, food inflation. In terms of, let's say, FMCG demand, Sunil, what is your view? I mean we have seen so far, let's say, DMart, Bajaj Auto, Nestle also posting okay-ish numbers. What do you think about demand scenario right now and your outlook, let's say, for the next few months or quarters?

Sunil D'Souza: So Vivek, first of all, on the outlook, I'm very bad at forecasting, right? So that's number one. So I normally react to conditions and react quickly. That said, at least my current view is that rural is recovering from where it was. I think a good monsoon and therefore, the Kharif crop is only going to help in the rural recovery, but it is still not at the stage where it gives us a double-digit volume growth and the penetration growth, etc. But while this has happened, urban has softened.

As I said, I think we are probably underestimating the stress on the consumer in terms of the food inflation, etc. That's number one. Number 2, I also think that a large part of the GDP growth was driven by government capex and spending. And given the elections, I think there was a bit of a pause on that, a and b) from what I hear recently, even the cash flows, which were supposed to be released post budget have not been released there. And therefore, the multipliers might not have happened.

I'm just hoping that -- I heard that they've been released and they are moving. I'm just hoping that, therefore, spurs demand in the urban environment to come back because like I believe 4-wheelers are soft, which is my -- normally my indicator for urban. Recently, another let me say, food and beverage company, which I think has strength in urban released its results. You saw that. You hear the same stress in the DMart results overall, Reliance as well.

So I do think there is stress on consumer spending. But I do think given the recent whatever government spending coming back, rural coming back, I think you'll start to see recovery. How fast and how much? Your guess is as good as mine.

Vivek Maheshwari: And just one another question on the tea business. So we have spoken about the other part of beverages. On the tea side, what is your outlook on both volume and revenue growth as we go forward?

Sunil D'Souza: So Vivek, my presumption is, let me say, sanity will prevail in the sector, and you will start seeing industry taking -- all competitors taking pricing in line with cost increases. Like I said, if they don't, we will not. So therefore, if there is logic out there and prices go up, there will be revenue increases. And I'll draw you back to the COVID era, where you saw significant revenue increases in line with pricing, but there was pressure on volumes.

Volumes didn't go negative. There was immense stress, but there was no growth, if I may. I think you will probably see that scenario play out because if there is a 30%, 35% price increase, which will have to happen to translate this cost in, I do think you will start seeing stress on volume.

Vivek Maheshwari: And since you mentioned versus COVID, Sunil, the difference that I see is this time around the last few quarters, volumes have not been that good in tea either. So can that help? And even while you're taking up prices, there may be some bit of better volume growth compared to what we saw in the past in such cycle?

Sunil D'Souza: I am not very sure about that Vivek because like the difference is when we entered COVID and tea inflation hit the roof, at that point of time, demand was not such a big issue when you entered COVID, right? Right now, I'm seeing stress on overall consumer demand. And therefore, it's not only tea. It's the overall basket from a consumer spending that I see, which people will think about.

Moderator: We'll take our next question from the line of Sheela Rathi from Morgan Stanley.

Sheela Rathi: Thanks for the update on how you think about the recovery. Just one question. Going into the second half, which part of the portfolio you think that can surprise positively? Because from beverage portfolio point of view, Gluco Plus, you said, NourishCo. But we're getting into a season which will be more on the cooler side, so probably there could be some -- and then we have tea inflation and volumes have been dipping. So how should we think about the growth outlook going into the second half? And obviously, there is a wall of worry to climb, but still, how are you positioning yourself?

Sunil D'Souza: So overall, if I say and I would say you're probably seeing us play at the bottom in terms of growth expectations, right? I think overall, you will start seeing improvement from here on. How much and how quickly I'm not very sure. In terms of categories, A) I would expect salt to chug along because it's a strong enough brand. And the focus for us now has to be on maintaining volume share as we go forward. Tea, again, it is probably maintaining volume and value share as we move forward.

NourishCo, I think it will recover. And NourishCo, if you remember, there are 2 parts of the business A) there is Tata Gluco+, which is seasonal, but Tata Copper Water, which is non-seasonal. I think that you will continue to see the growth and Capital Foods and Organic India, I would say you would see quarter-on-quarter growth continuing for some time.

Sheela Rathi: Sunil, if you could guide us how large would be Tata Copper for us now?

Sunil D'Souza: I would say probably about -- out of the INR850 crores about 40% would be Tata Copper+ and 60% will be Tata Gluco+.

Sheela Rathi: And just a second and final question is last year -- I mean, in the last few quarters, you have mentioned that 15.3% would be the margin, which was the number we had for FY '24 would be the base for us. How should we think about the margins? And I know you have answered this question, but should we -- how should we think about the aggregate margins for FY '25?

Sunil D'Souza: See, overall, like I said, it's not quarter-on-quarter. You should look at margins over a slightly longer period of time because there are multiple moving parts every quarter. But fundamentally, we will improve margins year-on-year. We are at the lowest end of the FMCG sector in terms of -- while we have improved from where we've come from, we've still got a long way to go to come up to, I would say, benchmarks in the food and beverage sector. So we've got some way to go.

Ashish Goenka: And in the near term, Sheela, I think, of course, a large dependence will be on how that impact dynamics between price and cost play out in the tea segment. I think that's the key watch out for quarter 3, quarter 4. But as Sunil said, in the long run, of course, we'll be looking at structurally improving our margins. Also, we have now tailwinds from the new acquisitions that we made, which comes in at a significant accretion to overall margins.

Sunil D'Souza: So -- and Sheela, just to add, right? If -- for a minute, if you assume that the competitive environment allows us to pass on the cost into price in tea, there is no reason why we will not continue to improve EBITDA margins.

Moderator: We'll take a last question from the line of Jitendra Arora from ICICI Prudential Life Insurance Company. There is no response from Mr. Arora's connection.

I will now hand over the call to the management team for closing comments. Over to you.

Nidhi Verma: Thanks, everyone, for joining us late into Friday evening. On behalf of the management, thanks again. And I know that perhaps there were some questions, which we couldn't address, so you can get in touch with us for those. Thank you.

Sunil D'Souza: Thank you.

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