

TATA COFFEE

“Tata Coffee Limited Q1 FY2022 Results Conference Call”

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 **ICICI Securities**



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Moderator: Good morning ladies and gentlemen, welcome to the Tata Coffee Limited Q1 FY2022 earnings 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. Thank you and over to you Sir!

Aniruddha Joshi: Thanks, Lizaan. On behalf of ICICI Securities, we welcome you all to Q1 FY2022 Results Conference Call of Tata Coffee Limited. We have with us today Senior Management represented by Mr. Chacko Thomas – Managing Director and CEO, and Mr. K. Venkataramanan – Executive Director Finance and CFO. Now, I hand over the call to the management for their initial comments on the quarterly performance and then we will open the floor for question and answers. Thanks, and over to you Sir!

Chacko Thomas: Thanks, Aniruddha. Good morning. This is Chacko Thomas, I just wanted to begin the call by underlining the fact that the last couple of months were severely impacted on account of the second wave of COVID that hit us, and it impacted us as individuals and corporates across the country not just Tata Coffee alone; however, we were also impacted at the company due to shutdowns where it impacted our operations and unfortunate loss of life that took place in some of our establishments on account of COVID. However, we worked hard to try and minimize this impact on our employees, the communities that we operated and the business in general. Despite these challenges both on the domestic and global front on a standalone basis we were able to deliver a good financial performance for the quarter. On a standalone total income for Q1 stood at about Rs.179.5 Crores and same quarter of Rs.175.6 Crores. The standalone PAT was Rs.28.2 Crores versus Rs.10 Crores in the same quarter of last year and just being on account of good sales performance across most of the primary divisions.

Moving on to the businesses in the instant coffee rein both in India and Vietnam, I am pleased to report that amidst all the turmoil and uncertainties the instant coffee’s performance both in India and Vietnam have been pretty remarkable. Despite the restrictions that were imposed and the movement of material, men etc., in the middle

of the quarter, we still managed to continue with our operations in both Kenya and Bhutan.

There is a fairly good sales performance which we managed to clock in Q1. Also, there was a good focus on cost pull back and that continues to give us increased savings in the Indian operations also. In Vietnam again, I am very happy to report that we operated our plant is close to 98% capacity with that excellent sales performance, which is largely around high volumes across all the products that we had but especially the premium blends which we were able to monetize well during the quarter.

We still face the impact of the pandemic in certain ways because of repeated lockdowns in some of the regions and now at the moment we have issues that are there in Vietnam. We also have an inordinate increase in logistics cost, there is a difficulty in the shipping lines and there is of course increased input prices which have come by. But we are very confident that we would be able to surmount this by our focused new customer acquisition, agenda that we still continue to run very, very strongly in the entire company. This is also again through new products that we are coming up with and a higher percentage of premium blends that we are selling now at the moment. In my opinion this would help us mitigate any of these impacts that I have spoken about in the past.

On the plantation front, I think the weather so far has been quite conducive for a decent harvest of crop of both coffee and pepper. We feel that there have been no major incidents on any of the climate change that has typically impacted us in the past. With the lockdown now lifted we are now making sure all efforts are ongoing workforce is mobilized so that the upcoming harvest we are not impacted in any manner of course cost optimization is something which we continue to run quite robustly in both our plantations. Tea also has had a decent quarter with improved performance over the previous quarter, and we also have intent to invest into and turn these operations sustainably profitable as we go forward.

Now, moving to the consolidated results, the results for Q1 has been slightly lower than the same quarter last year and this is largely on account of lower volumes and sales from Eight O'Clock coffee. What is very important to remember here in Q1 of Financial Year 2021, we had seen higher sales primarily due to pantry loading which was fuelled by the COVID-19 issues that had come up in the US. This has normalized over the course of this quarter and on account of this, we consolidated

total income for Q1 is Rs.532 Crores as compared to Rs.587 Crores of the previous year.

To summarise, I think while there are pandemic induced challenges, and these are going to stay. Our efforts are largely concentrated towards capturing newer markets and there is a good show of traction on these lines that we are seeing. We have seen opportunities where there are orders that are coming our way and we want to execute the same in a timely manner and of course keep costs pretty steady and I think with all this we are very clear that we need to keep the safety and wellbeing of our employees at the forefront as we go with this.

Thank you and I just handover the call to my colleague Venkat, who will take you through the financial performance for the quarter.

K. Venkataramanan: Thank you Chacko. Good morning to all analysts. So, as Chacko has said the standalone results, the turnover is up due to good performance of instant coffee business. The one point to call out is on our plantation businesses; coffee business especially, the last quarter again is not a comparable one last year quarter because of some of the flow through of volumes from March 2020 into April 2020. So, to that extent it is fairly it will not be comparable and having said that there has been a good Robusta performance from the instant coffee division. The other income includes the dividends from Eight O'Clock of Rs.18 Crores, so that is one and thirdly on the cost side employee benefit costs are slightly higher but because last year the normal employee increments was not there this year that has been kind of given and the finance cost was lower compared to the previous year's quarter, tax rate not much of pinch and EPS for standalone is at Rs.1.51 compared to Rs.0.56 of the similar quarter the previous year.

Coming to consolidated, as Chacko, said that some of these peak demand normalizations have happened in Eight O'Clock due to pantry fillings happened previous year's quarter so, that is the reason for the drop in turnover. Vietnam has had a good quarter and overall profit before tax was for consolidated is at Rs.62.7 Crores compared to Rs.79 Crores of the previous year, largely attributable to the lower performance from Eight O'Clock coffee. Then that I hand over for Q and A. Thank you!

Moderator: Thank you. We will now begin for the question-and-answer session. The first question is from the line of Jeet Gala from Centra Advisors LLP. Please go ahead.

Jeet Gala: Sir, basically I want to understand, how we are exposed to the coffee commodity prices, I mean we have plantation so we will be selling our output on the plantations side. So, all of that happen on the spot market or we have some long-term contracts which are already fixed and with respect to that I want to understand these beans or these plantations also are a raw material cost into your value-added product so, net-net on the company's balance sheet how are we overall exposed to the commodity prices?

K. Venkataramanan: I will just summarise, so what is happening on the plantation side coffee is that, see there are two seasons crop which will come leaving apart these biological produced valuations etc., for the 2020–2021 crop which is being sold currently there are contracts in place they are not long-term contract, they are seasonal contracts in that sense, okay that is how it is. So, and 2021–2022 crop which is yet to come, okay where the harvest will start from say September-October onwards, those contracts are yet to be that will take some time to get fixed, so that is the way the equations will work on the plantation side. Having said that I want to call out that on pepper, we have seen quite a healthy increase in prices which will hold us in good stead. On the instant coffee side, yes there will be impact on account of we do carry inventories but having said that the kind of pricing will depend on the contract already there but also will factor in the kind of the new coffee cost which will come in. So, to say different manner as far as the instant coffee business is concerned there will be some amount, flow through on the increased commodity cost on to the prices because overall that is how the equations will work. On the Eight O'Clock side again they carry all the roasters carry 30 weeks – 40 weeks of inventory, so there is some amount of protection there, but again the commodity cost will impact them and normally it does happen as in FMCG there will be price close which will happen in due course.

Jeet Gala: Sir the output of the previous season, I mean is any quantity left to be sold on the spot market or everything has been contracted?

K. Venkataramanan: Most of it would have been sold because that is the way it will happen except there will be always qualities depend on the Robusta parchment and all that there will be something. But that is how there will be operation.

Jeet Gala: Sir going forward for all the future seasons also contracts will be there, I mean you all do not like to participate in the spot market, is that true?

K. Venkataramanan: No, spot will be there, but we also have some of the contracts which are there for the new season as well which will be there.

Chacko Thomas: Also, I think what is important to remember here is we have premiumized and differentiated our coffee, so there is that element which also comes into play, which is around similar origin and all. So, there is a fine line that you need to balance especially why you look at spots, right or a long-term kind of contracts. So, we do not feel with the kind of coffee and the kind of crops that we hope to have we would be placed in a good spot now.

Jeet Gala: Sir lastly on the standalone balance sheet, are we net-net buyers of the beans or we are the net sellers, I mean considering the plantation and the value added on the standalone balance sheet?

K. Venkataramanan: We will see that buyer's expense because we roughly produce around 8000 tons of coffee roughly. We buy almost double that quantity for the instant coffee side. But the nature of business is different.

Jeet Gala: Understood. Thank you so much, Sir.

Moderator: Thank you. The next question is from the line of Amit Doshi from Care PMS. Please go ahead.

Amit Doshi: Thank you. Sir, this Eight O'Clock brand of coffee is now being planned to launch in India or probably already launched in India through Tata Consumer Products. So, can you broadly tell us what could be the arrangement between the two because brand is being used, so would there be some sort of a royalty and what sort of sharing arrangement. So, broadly if you can through some light on that?

Chacko Thomas: I am unable to comment on that right now because it is just coming in so we will wait for some time.

Amit Doshi: It is already launched right, in the June month?

Chacko Thomas: It is only an online just getting in that is where it is.

Amit Doshi: Okay, but what is the plan, I mean nothing can be shared?

Chacko Thomas: No, nothing can be shared right now.

- Amit Doshi:** Okay, any impact of this third Corona wave in Vietnam we are seeing in our Vietnam plant operations, whether dispatches or operations, product anything?
- Chacko Thomas:** No, that we so far what is happening in Vietnam we are seeing increased number of cases, there are restrictions, employees have been asked to stay within the factory and all that. But so far there has been no impact from the production or shipment.
- Amit Doshi:** Or dispatches okay, both are same okay, fine and this while of course you answered a bit on the commodity prices earlier but now recently of course both the coffee prices are substantially up because of this expected crop losses, and you mentioned initially in your opening remarks that our plantation operations are intact there is no sort of impact as such. So, can you share some sort of an outlook for our coffee plantation business going forward?
- Chacko Thomas:** Plantation business we can tell two things, one the outlook for the crop is so far good compared to what the normal monsoons and all whatever we have rainfall. So, that effectively means all these goes to on and off cycles and all that but coffee and pepper the outlook remains quite safe in terms of crop. On the prices of course we will make because too early days to comment of course with then bullishness in prices, it will benefit the plantation.
- Amit Doshi:** Because this crop loss in Brazil will not be short-lived, right we have some sort of medium like 3% - 4% taxes?
- K. Venkataramanan:** Yes, correct but we are not getting the full picture on that slowly things are little more clarity what next few weeks or something.
- Chacko Thomas:** So, Amit it is like this, I mean depends on who you speak to, there are vast variances in terms of the pursuing loss of crops that have happened in Brazil that is coming out. When I talk about vast, we are talking somewhere we are talking from 2 million up to 10 million bags of coffee. So, I think having been in agriculture for fairly last period of I would say that to take an estimation just one week, 10 days after event, I think it is with a lot of uncertainties and also while there are again some talk about another COVID front building on and always is something that we will get a clearer picture maybe a month or 45 days where the actual impact of all these events would be clearly visible. Also, yes you are absolutely right it is something which would not just impact this year's crop but also the coming year's crop. So, that is something which in a severe influence of crops and again I am clarifying here we have no idea as what the intensity of crops has been, so varying shoots across you would even lose

your many, many bushes instead. So, that is where it is. I think we should wait for at least a month, month, and a half maybe up to two months to get a much, much clearer picture.

Amit Doshi: Fair enough, and in our Eight O’Clock business in terms of price hikes etc., so how it will happen because of this, I mean, I understand but generally how it happens because last year also there was a huge competition we have mentioned in past commentaries as well and we have done significant marketing expense as well. So, in terms now there will be some sort of price hikes or to improve the margins of Eight O’Clock anything on that?

K. Venkataramanan: No, right now we do not want to comment but it will be in line with what competition does also they will consider and that is how they will plan.

Amit Doshi: Sure, okay thank you and all the very best.

Moderator: Thank you. The next question is from the line of Nitin Aggarwal from Elite Wealth Limited. Please go ahead.

Nitin Aggarwal: This is Nitin Aggarwal from the Elite Wealth Limited. Thank you for this opportunity. Sir, my question is there Brazil cost has been misfired and it is expected that the coffee prices will shoot up in the future and the impact of crop will be global. So, what could be your view on this?

Chacko Thomas: Again, just a while back that I was speaking to Amit I was just making this point, there is still lack of clarity in terms of the actual extent of damage and the kind of reports that are coming out from Brazil to get vast variances in terms of the total quantum of crops that is going to be lost. Now, again the point that I was trying to make there is in agriculture it would be virtually impossible to be able to take an estimate which is factually correct within a week of an incident taken place. So, my reading into this is that while there are happening in damage definitely there is no doubts but the total quantum of damage and the actual impact that it would have on the future prices of coffee could be better understood maybe a month and a half–two months from now when everything would be much clearer and obviously since coffee is a globally traded commodity the increase or decrease of coffee prices would equally be applicable to Tata Coffee.

Nitin Aggarwal: Right enough, and my second question would be, can you guide me through your topline guideline for Q2 FY2022?

K. Venkataramanan: You are saying outlook for Q2?

Nitin Aggarwal: Yes.

K. Venkataramanan: No, outlook for Q2 we are not able to give you any specific numbers but having said that we have said that the coffee and pepper crops, coffee crop looks safe that much we can say and Vietnam we hope the order book is healthy and Eight O'Clock. Of course, we will have to depending on the situation in US in terms of market conditions that there will be. So, that is the kind of broad indications.

Nitin Aggarwal: Thank you so much.

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

Sameer Gupta: Good morning Sir. Thank you for taking my question. Just one, so basically even with without the crop loss in Brazil, there were decent amount of inflation in both Robusta and Arabica globally the coffee prices that we are seeing but despite being net buyers of coffee we are not seeing any major impact on our margins in fact on a consolidated basis our gross margin is of some 350 basis points. So, just trying to understand what has led to this increase is it just makes or is it more than that?

K. Venkataramanan: No, there are two–three reasons, one of course the mix will say not that we have got the different instant coffee products; one is the instant spray, Agglomerated and Freeze. So, there is a mix already there between India and Vietnam that mix will be the one factor which will be there and secondly of course we also carry some inventories so that also there will be and then the contract already priced in.

Chacko Thomas: The quality of sale in terms of the kind of blends that you would be selling that also has an impact on the overall margins. So, if there is a larger proportion of premium blends that you would be selling which is something which I had spoken about is what we are trying to spend more time on that would also help in margins expand a bit.

Sameer Gupta: Got it Sir and going forward let us say when you exhaust the lower cost inventory and let us say the prices they stay at where they are, I am not even considering the Brazil crop loss impact. Will it be a fair assumption that margin should technically then start to deteriorate just pricing in the higher coffee prices?

K. Venkataramanan: Typically, what will happen is the buyers will also price in the increase because that is the way the FMCG will operate. So, there will be some pass through expected because of these prices. Otherwise, there will be squeezing of margin which will not be there for long, for some months it is okay till the price hike settle down there will be some impact but otherwise margins will normally catch up depending on the coffee prices.

Sameer Gupta: But Sir, globally the demand is not going to or expected to increase in a sharp manner, right in fact with the COVID pandemic there is an out of home which has been impacted and overall, the demand probably will be lower, so margin technically should moderate in the near term it is not like a long-term thing but in there near term at least we should see some pressure logically on the margins, right?

K. Venkataramanan: See, the point if you are comparing to the previous year things have improved, if you really look at it what was there the previous year and now the things have sort of the pandemic have been controlled, vaccinations have happened etc., so while there would not be any increase in demand per se what we are looking probably the out of home consumption etc., in the near term will take time to catch up.

Sameer Gupta: Got it Sir. I will come back in the queue if I have more questions.

Moderator: Thank you. The next question is from the line of Chetan Thacker from ASK Investment Managers. Please go ahead.

Chetan Thacker: Good morning Sir. Sir just wanted to get a sense on the profitability for Vietnam operations. We have been successfully utilizing those capacities now, so in the next two years to three years how should we view the profitability of those operations and are the levers available by moving up on the value-added side to drive those higher?

K. Venkataramanan: Yes, see it is profitable Chetan. The thing you see overall the previous quarters also we commented, there are still levers which are available both on the cost side as the operations stabilize and we are trying to learn more about the operations, that will be one lever. Secondly, on the mix, there is potential to look at improvements there and thirdly we are also not so far into SKUs and all that we are only in the bulk sales. So, these are broadly three levers which will help us in the future that is what is our estimate is.

Chacko Thomas: Also I think this year what we have also been able to prove is that the better the blend mix or better the premium type of coffee that we produce from there, there is a

massive runway there available too and that is something which we have very distinctly worked on whether it is in new product at the same whether looking at single type of coffee's in there or very specific customers focused lens which again there is a massive runway available to us and it has as the name suggests it obviously has a premium in terms of not just the quality but also the price that we will be able to. So, there are some exciting things that we can do.

Chetan Thacker: Assumption that we are running with the sales that while utilization has come there is still a long way to go and what we could deliver in terms of profitability from that plant?

K. Venkataramanan: Yes, absolutely we do feel that.

Chetan Thacker: Sure, Sir. Thank you so much. All the best.

Moderator: Thank you. The next question is from the line of Shanti Patel from Shanti Patel and Associates LLP. Please go ahead.

Shanti Patel: Good morning, Sir. My question is Arabica and Robusta what was the price two months before and what is the price today and what will be the impact on our profitability in future of that price difference?

K. Venkataramanan: You are asking about the prices of Arabica, is it?

Shanti Patel: Yes, two months before what was the price prevalent and what is the price today?

Chacko Thomas: Of Arabica or Robusta, Sir?

Shanti Patel: Both?

Chacko Thomas: The prices has obviously moved up and if you were to look at what has happened after the use of frost in Brazil have been concerned, I think the prices have moved up substantially over what it was about two weeks back.

Shanti Patel: No, how much can you quantify difference?

Chacko Thomas: I will tell you, so before the news of the frost came in the prices were ranging anything between 150 cents and 165 cents per pound for Arabica which has moved right into the 200 Cents zone, and it is hanging around that level comes between 190 Cents and 210 Cents – 215 Cents and keeps coming down if there is some whatever

news is being flashed around. Similarly, just before this new came in Robusta was in the region of about \$1750 and it is now ranging around \$1900 odd, \$920 depending again on then situation. I hope that clarifies with question.

Shanti Patel: What will be the impact on our profitability in the second quarter?

K. Venkataramanan: As I explained Mr. Shanti Patel, the point is like this it will not depend on the season as we sell season crops, the 2021 crop is almost we are in the last legs of selling of the contracting and selling out and now what is the price is the new season crop, which is in the process, so it is very difficult to put a firm number to that. But if the numbers depending on the contracts what we have entered and what is remaining to be entered into when the crop is getting harvested this benefit will be realized.

Shanti Patel: No, but I mean it will be much better as compared to quarter first, do you agree?

K. Venkataramanan: If the prices are holding firm yes, Mr. Patel, but then the only thing is there are two factors you please bear in mind, so what happens is the entire season crop per se will be like this. Now we start harvesting somewhere in September–October for Arabica and then it moves up probably continues up to December by the time that the whole thing gets commercialized it will be couple of months down the line. Similarly, Robusta will be starting somewhere in November–December and then goes into next couple or two months–three months. So, that is the kind of elongated period. It takes some time before the crop gets commercialized, okay. So, the view and in between we follow something of biological produce valuation where it is based on the India Coffee Board prices, so some of these will now be realized. So, when we sell, we realize the gains and till that time it is valued basis on the Coffee Board prices which are not full, because we are valuer at my price value or my cost whichever is lower in that sense. So, in short, the answer will be the prices hold firm like this obviously we will stand the benefit, if the prices keep coming and is moving up and sort of moving down that volatility will have to be factor in.

Shanti Patel: Thank you very much. Thank you.

Moderator: Thank you. The next question is from the line of Harsh Sheth from HDFC Securities. Please go ahead.

Harsh Sheth: Good morning team. Thanks for the opportunity. Just couple of questions, firstly on our Vietnam operations, so, can you help me with the revenues that we generated for Q1?

K. Venkataramanan: See revenues are in the range of around Rs.8 million odd.

Harsh Sheth: So, it was Rs. 8 million in Q4, right so similar range?

K. Venkataramanan: No, might be maybe higher.

Harsh Sheth: Means slightly higher, and Sir when we speak about improving the mix, so we are trying to sell more of Freeze-Dried Coffee, is it right?

K. Venkataramanan: No, Vietnam is only Freeze dried. It is 100% Freeze Dried, so in the Freeze Dried there are various combinations possible, Single Origin, Decaf, we have some of the original blends which we can do. So, there are typically what we call premium, popular and all that, so that mix always there is a potential to play sort of depending on the orders we get we can improve.

Harsh Sheth: Alright, and Sir then if we have a good order book and we are running at around 98% utilization levels we still do not have any expansion plans in Vietnam specifically if you can?

K. Venkataramanan: No, we must wait Harsh, I understand we are also keen looking at we would like to but then the point is that we have started commercial operations only sometime in 2019. Obviously, we are now just two years into and then we have been successfully able to commercialize the operations and we are operating at close to 95% capacity, but we will need to wait and see how the market shapes up.

Harsh Sheth: Alright, and Sir which market are we specifically targeting in instant coffee if could help me out?

Chacko Thomas: So, large part of Europe and CIS is what we target out from Vietnam and then of course we have good presence in the African markets from our Indian operations. So, of course there is overlap of some of these other customers into Europe and then of course Russia from India also. But largely from Vietnam there are advantages in terms of take block advantages etc., so that is something which our maximum quantity will go into those two geographies.

Harsh Sheth: Alright, got it and the tax holiday is still 2024, is that right?

K. Venkataramanan: Yes, right. You are right.

Harsh Sheth: Sir, with regards to this MEIS scheme, I think we had accrued around Rs.14 Crores–Rs.15 Crores odd but have we received that payment and secondly is there any update on this RoDTEP scheme, anything which could be of our benefit?

K. Venkataramanan: No, MEIS scheme we have not accrued Rs.14 Crores we had accrued Rs.8 Crores last year okay, so that nothing has happened the portal is not open, but we are understanding is that the portal got opened for previous year, now we have to get for 2021 so that the portal for that year is not open. So, that we are expecting obviously the previous year 2018–2019, 2019–2020 and all got opened and claims were lodged, so we are expecting for further update on that from the government authorities. On the RoDTEP scheme so far, no indications, so the rates have not been announced.

Harsh Sheth: Just one thing in instant coffee if you could help me out with how our contracts are structured, just wanted to understand the pass-through mechanism that we have in place given the inflation in coffee prices if you could help us out?

K. Venkataramanan: No, these are all contracts which do not last, maybe for three months to six months kind of timeframes it will last and existing coffee prices in that sense that is how it is. We have back-to-back covers wherever we have sort of quoting.

Harsh Sheth: Back-to-back coating, right so we will not be impacted that much?

K. Venkataramanan: Yes, correct.

Harsh Sheth: Lastly on EOC the concern is the margins might take ahead with sharp rise in coffee prices so anything you could comment on how is the industry seeing, is industry planning to increase the coffee prices and how is the demand scenario there?

K. Venkataramanan: What we understand is some of the brands have taken up some prices so the local market is evaluating that. Obviously, these prices will get passed on in some form or the other depending on trade, consumer or increase in the pack so that is something the local market is looking at.

Harsh Sheth: What would be your reading on this very sharp uptrend in coffee prices, you did not mention last time around that it was a result of very speculative market, but do we expect that to correct at some point of time?

Chacko Thomas: I had made this comment I think at the beginning of the call. There are two factors which led to this increase, one is of course the drought that kind of people talked

about in the beginning of the year and the impact it possibly could have on the overall crop that is more speculative in nature then of course there has been this weather reason which is frost which has taken place in Brazil. As I was mentioning earlier the loss of crop and the quantum change in the total crop which is expected to be harvested from Brazil seems to be widely varying, widely fluctuating, I am talking about some of the big paid houses that we normally do business with. So, that fact remains that it is too early to be able to really put a number to the kind of losses that would have actually occurred, there is definitive loss which has taken place because there is enough documentary proof, photographic proof to be able to understand that there is a massive amount of damage which has happened, but what is the exact level of loss would be known a month, month-and-a-half from now and that definitely the market will factor in based on how the consumption and how things are opening up in the Western world as far as coffee consumption moves. So, I think it is best we wait and watch for at least a month, month-and-a-half before we draw any very specific conclusions around whether this is sustainable, the price cycle sustainable or it would come down. I hope I have answered your question.

Harsh Sheth: Alright, Sir that was helpful. So, you said on EOC I believe we source predominantly from Brazil and Columbia, so just wanted to understand if there is a scope to supply from India and Vietnam and thereby trying to gain some advantage over our competitors there, is there any scope?

K. Venkataramanan: No, now for example Vietnam we manufacture instant coffee that is an orangey flavor. Instant Coffee is not. US the instant coffee play and they predominantly use Arabica coffee which is they sourced from Brazil. So, India again produces smaller quantum of Arabica and secondly the price cost, etc., will be quite uncompetitive.

Harsh Sheth: If you find it fit to answer, are we planning to bid for, one of our large competitors I believe is planning to sell its plantation business so are we planning to bid for that?

K. Venkataramanan: No, we have no plans as such.

Harsh Sheth: No plans on adding more plantation, is it?

K. Venkataramanan: Yes.

Harsh Sheth: Alright, so thanks. Thank you.

Moderator: Thank you. The next question is from the line of Siddhant Punjabi from Way2Wealth Brokers Private Limited. Please go ahead.

Siddhant Punjabi: I just wanted to ask you regarding the Sonnets brand, how has the uptake been and if you could probably just give us some colour on what are your future plans for the brand?

Chacko Thomas: Sonnets actually has been pretty successful, so what we are hoping to do with Sonnets and again obviously this is marketed and sold on a B2C platform by Tata Consumer Products our parent company, but the entire produce actually comes from Tata Coffee's garden, so we have intrinsically connected with the entire thing. So, the idea was to actually give limited edition coffees which are produced only for that particular season from very specific manner of production of how you manufacture it. So, this year in fact the number of variants which are going to be sold has increased substantially, so the idea was that there has been good feedback and a good uptake, so we feel that this is something that we would be able to substantially scale up and especially considering these are specialties to be single state limited edition coffees.

Siddhant Punjabi: Okay, thank you so much. I just have one more question, just wanted an update on the JV that we have at Starbucks and basically the quantum or any colour on the tie up and the beans we are giving to Starbucks?

K. Venkataramanan: JV is between Tata Consumer and Starbucks okay, but we are the sole and exclusive supplier of Arabica beans, so we have a roastery for them in Kushalnagar, so recently about last year we expanded that roastery about 300 ton to 350 tons of beans which the roastery can process. There was pandemic some of the stores were closed but they have opened other channels and all the deliveries solutions they have sort of opened up, and the tie up has been extremely rewarding.

Siddhant Punjabi: Okay wow! That is it. Thank you so much. That is all from my end.

Moderator: Thank you. The next question is from the line of Falguni Dutta from Jet Age Securities Private Limited. Please go ahead.

Falguni Dutta: If you could just provide the growth potential of profits in each of your businesses which is Eight O'Clock and the Vietnam instant coffee division over three-year period, I am not asking for a guidance but just the profit growth potential that you see over three years for each of these two divisions?

K. Venkataramanan: Falguni, sorry we are not able to give any numbers in that sense, but obviously as we have explained earlier two things Eight O’Clock of course they are trying to have strong pipeline of innovation so that is the way some of the new products pipeline is with Eight O’Clock and then they are trying to expand whatever the reach and potential they have in US and as far Vietnam is concerned we mentioned that there are potential levers to expand the margins which is what we are working on. So, beyond that we are not able to give any growth percentage just for the next three years and all that.

Falguni Dutta: To put it differently, where do you see the company, which segment do you see the company enabling growth for the next three years, which segment would be let us say the leader in delivering growth for Tata Coffee over three years?

K. Venkataramanan: We will tell you. So, on the plantation side we are looking at diversification of crops, we have planted avocado so that is in the next two years and as we have earlier talked also we are expanding the pepper production so that is roughly now around 1000-1100 tonnes over a period of time that potentially we are looking at aggressive expansion, we have planted vines which will started yielding over the next couple of years. So, on the plantation phase clearly diversification and pepper are the two levers which we are working on, and the next growth engine is of course instant coffee. We have set up the Vietnam plant of FDC in 2019 it went into commercial production, and we have plans over a period of time we have to look at how to grow that market.

Falguni Dutta: Okay, Sir. Thank you. That is all from my side.

Moderator: Thank you. The next question is from the line of Himanshu Nayyar from Yes Securities. Please go ahead.

Himanshu Nayyar: First one you talked about the margin that you have for the Vietnam instant coffee business, but coming to the India instant coffee business where are we currently in terms of profitability and do you see any significant margin levers in the India business?

K. Venkataramanan: India we have all the three, Vietnam is only a Freeze-Dried business because the premium end, India we have the spray, agglomerated and the freeze dried all the three are there, so in terms of margin expansion it is a question of the mix which we are doing that is first one depending on again we have a kind of innovation led products in all these three especially on the spray and agglomerated. Secondly, on

the Tata Coffee Grand also if you recall that Tata Coffee Grand is manufactured by us and sold to Tata Consumer which markets with so there also we have found good traction. So, these are the kind of broadly two levers apart from the cost optimization levers which we are always trying to work on.

Himanshu Nayyar: Understood Sir and talking specifically about this quarter I understand that there is a margin risk going forward for Eight O’Clock but specific to this quarter we have seen a decline in topline, but you talked about cost controls and better realization so just on this quarter’s perspective have we been able to maintain our margins on Eight O’Clock?

K. Venkataramanan: Yes, Eight O’Clock what is happening there is the last year the volumes were higher because of pantries filling and all that, so this time it has got normalized, but having said that they are also having some headwinds in terms of the green crop so that is there to that extent there is a lag effect which will be there till they find some solutions around how the flow through on the pricing will happen.

Himanshu Nayyar: No, I was talking about the quarter gone by whether we have been able to maintain our margins because as of now that would not have hit us right?

K. Venkataramanan: No, Eight O’Clock there has been some dip in margin compared to the previous year’s quarter which we explained due to the higher kind on the overall cost.

Himanshu Nayyar: Understood and just my final question would be on the plantations business specifically related to tea could you give some colour on the growth and profitability out there given the current pricing environment?

K. Venkataramanan: Yes, Tea for example the last year was a good year for tea, we had a good operating performance led largely by higher prices. The quarter was also we have found that the prices holding on though we are now seeing some kind of higher levels of prices are coming out in this quarter, but having said that we have put in additional measures, new strategy has been put in place in respect of turnaround, we are also trying to synergize with the associate company Kannan Devan in Munnar so that way on the tea side we are investing, we are also investing behind the factory renovations and to improve the quality of tea, with all that we are looking for a fairly decent performance in tea going forward.

Himanshu Nayyar: Understood Sir. That is all from me, Sir. Thanks, and all the best.

- Moderator:** Thank you. The next question is from the line of Aniruddha Joshi. Please go ahead.
- Aniruddha Joshi:** Sir, just one important question. How much is Brazil as percent of total global coffee production and if you take ballpark estimate let us say 50% of the production is lost for this year, obviously it is very difficult to do such co-relations, but roughly what will be the impact on the coffee prices globally and generally such kind of large impact have we seen in previous one or two decades and if you can share from your experience what is generally the impact on coffee prices and for how long the impact remains?
- Chacko Thomas:** Aniruddha, I was just saying that the impact which has actually taken place has been purely on the Arabica crops, Brazil typically produces anything between 60% to 70% of the world's Arabica production so whatever the markets would move up and down would be around the Arabica productions alone and again if I remember the rest of the question I think it was around what the impact could be on the overall crop, that is something which we will really need to wait and watch as I mentioned earlier again. If the entire numbers were to come to a level of 8 million or 9 million bags which is what some of the people have actually spoken about then the impact of coffee prices increased would be there persisting for the next year too primarily because the frost typically would have such a large impact as well could have not just damaged the crop but also the coffee bushes in itself. The last time something of this happened was in the early 90s and that led to kind of a boom in coffee prices for four or five or six years actually. Again I must clarify, I must caution the actual loss of crop, the actual area that has been lost due to frost, the severity of the frost and the fact that some people talk about another cold front there we need to wait and watch for the next month, month-and-a-half at least two months to understand this before we pass any kind of judgement in terms of how coffee prices are going to be.
- Aniruddha Joshi:** That is very helpful. Just last question, now there is some increase in raw material cost obviously we have some inventory and forward curves, but have we started raising additional prices to our customers too and if any quantum?
- K. Venkataramanan:** No, on the instant coffee sale this contract as we explained it depends on the coffee prices it gets constantly re-priced. New contract has no factoring into the new prices and all that, that is how it will operate.
- Chacko Thomas:** Typically we have been running the plants with orders, so there is nothing which is lying there which can be re-priced or with variance in the price which is possible.

Aniruddha Joshi: Okay, so logically we can assume that there will not be any material impact on the margins for FY2022 or is it again too early to comment?

K. Venkataramanan: It is difficult to say because there are coffee prices are one, it will of course, since get contract we also price it based on prices and all that but there are also other indications you would have read about the freight costs and container issues and all that, that is one, then tin prices are high, we do lot of agglomerate SKUs for Africa, so those are all other things which we are still kind of navigating.

Aniruddha Joshi: Thank you Sir.

Moderator: Thank you. The next question is from the line of Pranav Lala from Augment Research. Please go ahead.

Pranav Lala: I had a question on the plantation side, currently 15% to 18% of your topline comes from plantations, how do you expect this mix to change in the future?

K. Venkataramanan: Two or three reasons, one of course has been the crop, coffee depending on the crop that will be one factor. Secondly, as I explained pepper, we are expecting growth in pepper production over next few years we have planted additional vines so all that we have. So, these two are on the crop side then the diversification which will happen as we have already planted avocados and all, so those are all getting into commercialization will take a couple of years so the third one and fourthly of course largely will also depend on the prices and fifth lever is also the Bolt coffee which we do around 3000 ton to 4000 tons of Bolt Coffee that also will be a lever going forward.

Pranav Lala: Okay, how much of this plantation revenue comes purely from coffee because I understand there is an amount of pepper and tea included in this, so how much on the topline would be purely from coffee plantations?

K. Venkataramanan: So, coffee alone roughly around 30%.

Pranav Lala: Okay, 13% you said or what?

K. Venkataramanan: 30.

Pranav Lala: Alright thank you.

Moderator: Thank you. Ladies and gentlemen, that was the last question. I now hand the conference over to the management for their closing comments.

Chacko Thomas: Thank you everyone for having joined us for this call. We hope to catch up with you all again at the end of the Q2 performance. Thank you.

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