



“Tata Coffee Limited
Q2 FY2022 Earnings Conference Call”

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Moderator: Ladies and gentlemen, good day and welcome to the Q2 FY2022 earnings conference call of Tata Coffee 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 “*” 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: On behalf of ICICI Securities, we welcome you all to Q2 FY2022 Results Conference Call of Tata Coffee Limited. We have with us 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. Thanks, and over to you Sir!

Chacko Thomas: Thanks, Aniruddha, and Good morning everyone. This is Chacko Thomas, and I hope that everyone is safe and doing well. Thank you for joining today.

Let me start by giving you a brief outline of the overall performance of the company in Q2. We start by saying that the second COVID despite multiple challenges that which we have escalated basically on account irregularities that we faced in the supply chain that is non-availability of shipping containers, surge in input cost like coal, tin, etc., we were able to deliver a good financial performance both on a standalone and on a consolidated basis.

On the standalone the revenue from operations for Q2 stands at 190 Crores which is there at the same quarter last year and the standalone PAT of 18.2 Crores is slightly lower than Q2 of this year but that is on account of timing difference of the dividend that we received from the 8 O'clock which came in to the previous quarter in the last year. Otherwise I am very happy to report that the business has actually performed much better than the same quarter of last year.

Turning to now the instant coffee both in India and Vietnam let me start with the overall highlights: Both India and Vietnam have delivered strong sales performance across all key markets despite the logistics issues which I spoke about in the beginning both these plants in India are running at peak capacities and they are driving exceptional cost optimization projects to counter any of the external costs which is beyond our control.

Tata Coffee Vietnam also operated at near peak utilization and as there is an extremely good sales on the back of good growth in volumes and share of our premium and niche products. However challenges in the following quarters remain and our efforts towards further enriching these orders for the second half and strengthening the NPD portfolio I am sure will offset the impact of these challenges.

Moving onto the plantations and both coffee and tea. Coffee plantations thus far has experienced purely favorable weather conditions where we have received adequate rainfall and the harvest is to soon commence in this quarter. We are expecting a good amount of coffee and pepper harvest crop for the season and as you are all aware the prices at the moment seem to be positive and while we are hopeful that the impact of the logistics lock jam as I mentioned in the past would be offset by the higher prices and improving demand that we see worldwide; however tea performance was slightly impacted on account of the weather that we actually experienced in the degrowing regions. We are invested in improving efficiencies and we hope that consequently the performance in the coming quarters would also perfect the same.

Moving onto the consolidated results as you are aware the consolidated total income has moved up to 554 Crores from 546 Crores in the previous quarter and the consolidated results in Q2 has been higher than the same quarter last year attributable to improve operating performance of the Indian instant coffee business and of course Eight O'Clock.

To conclude while the overall situation with logistics and pricing pressure is on transport and also the demand is still picking up in the coming few quarters we are expecting things to be a bit challenging but I would like to mention that our efforts on focusing on cost innovation, increasing the share of differentiated products, we are very confident that we will continue to improve on our performance in the coming quarters.

I will now handover to Venkat who would take you through the financial performance for the quarter.

K. Venkataramanan: Thanks Chacko. Good morning to all. As Chacko has mentioned that on the standalone performance the turnover has been overall total income is slightly lower but while the revenue is okay, revenue has improved, the good performance in the instant coffee side and also on the coffee plantations there has been strong impact on the tea plantation largely due to lower crop and lower sales. On the other income part it is only due to receipt of the timing and the receipt of dividend from Eight O'Clock coffee though YTD September that is six months period we are ahead of the previous year in receptive dividend by about 3 Crores.

On the operating profit as mentioned instant coffee as India's instant coffee has had a good quarter despite whatever challenges we had in terms of logistics issues and the availability of containers etc., and on the consolidated performance as mentioned the overall consolidated profit before tax is higher by 22% and net profit by 27% and Eight O'Clock had a decent quarter in terms of better channel mix and overall cost management and this standalone of course on the instant coffee side we had a good quarter though impacted by the tea performance.

So with this I hand over for questions. Thank you very much.

Moderator: Thank you very much. We will now begin the question and answer session. The first question is from the line of Jayant Gangji Mamania from Care PMS. Please go ahead.

Jayant Gangji Mamania: Good morning. Congratulations for the good set of numbers. Looking at the financials on the standalone basis the inventory is substantially higher if you look at the September 2020 which was 238 Crores and as on September 2021 it is 323 Crores. Can you tell us of this inventory how much relates to our own plantation crop?

K. Venkataramanan: I will tell you. The overall inventory increase is on account of broadly I would summarize as two reasons one is the plantation we have the biological produced valuation and in this year we are expecting a little better crop compared to last year so there is obviously that is one reason. Second reason is also the prices. Prices have gone up so there is also that impact which will come in, in some of the biological produced valuation which is based on the coffee board rates and all that. On the instant coffee side, yes due to the little bit of container issues and deferment of shipments the inventory has gone up so these are the three broad reasons.

Jayant Gangji Mamania: How you value your own plantation crop particularly coffee?

K. Venkataramanan: Coffee is on the fair evaluation of the biological produce. See what happens is coffee there are two aspects one is on the harvested produce which is more or less this is the new season harvest has not come so whatever is balance remaining would be valued at more or less on the cost side and on the biological produce, we value of the fair market value which is the coffee board rates. So that is as per the applicable accounting standard.

Jayant Gangji Mamania: Can you tell us what is the difference in realization as the coffee prices has gone up as compared to corresponding quarter and the previous quarter, how better we got the realization this quarter?

K. Venkataramanan: Jayant the thing is like this. The terminals as you see have moved up quite a bit having said that see the coffee crop that we sell now these are all the old season crop which is of the previous year. So those prices have improved in relation to whatever we have been kind of seeing in the market place to some extent roughly I would say Rs.15, Rs.20 a kg would have gone up depending on the crop. For example, if you look at broadly the Arabica side that is where it is; the Robusta has not gone up so much I would say because it all depends on committed contracts and all that but more it will be going to look at towards the end of the year when new season also comes in but these are all the old season crop and of course not to the, forget about pepper, pepper also as we moving the prices have moved up but then those kind of the impacts or benefits of that will come in more in the Q4.

Jayant Gangji Mamania: You mean to say still in Q2 we have not realized the increase in the coffee benefit.

K. Venkataramanan: Not to the full extent as I mentioned. The extent of coffee whatever is sold which is of the old season crop we have realized some benefit but the new season crops is yet to come in because that will be harvested and become available commercialization of sales will be only in Q4.

Jayant Gangji Mamania: Sir there is a work-in-progress of 46 Crores in standalone financials can you throw some highlights on that?

K. Venkataramanan: Which is the line item you are mentioning?

Jayant Gangji Mamania: 46 Crores work-in-progress capex.

K. Venkataramanan: As I mentioned the plantation crop the biological produce we are supposed to value the coffee on the bush.

Jayant Gangji Mamania: So it is a capital asset in balance sheet?

K. Venkataramanan: Yes, it is an asset because we have to value on the basis of the growing as the growth happens on the coffee and pepper we have to value as per the relevant accounting standards based on the percentage growth.

Jayant Gangji Mamania: The last question the logistic and the shipping cost has gone up substantially so to what extent we have to sacrifice our profit?

K. Venkataramanan: We are by and large see the logistics cost is twofold what we have done. The certain contracts would be of the CIEF contract where we have to bare the freight cost but those also to seems we have also factored in till this whole freight costs you see the inflation impact has come over the last few months at a stretch so we are also wherever possible we have factored in and some of the contracts we have shifted to FOB in the sense where the buyer will pick up the freight cost by themselves in which case we have not impacted by the inflationary impact on ocean freight cost that is how we have managed it.

Jayant Gangji Mamania: Thanks a lot.

Moderator: Thank you. The next question is from the line of Akhil Parekh from Elara Capital. Please go ahead.

Akhil Parekh: Good morning, Sir. Thanks for the opportunity. My questions are around instant coffee would you be able to highlight how are the coffee realizations for Spray Dried Coffee and Freeze Dried Coffee at this point of time?

- Chacko Thomas:** Sorry can you just repeat your question once again?
- Akhil Parekh:** The coffee realization and the realization of SDC and FDC coffee?
- Chacko Thomas:** Yes, so we do not typically disclose the exact numbers, but yes I can tell you that realizations have been definitely higher than the previous quarter for both SDC and FDC and also the agglomeration.
- Akhil Parekh:** Would you be able to highlight at least percentage wise how much has gone up on a YoY basis?
- Chacko Thomas:** Maybe about 8% to 10%.
- Akhil Parekh:** As previously highlighted in previous comment you said that entire impact of higher prices have not been taken into lifting, we will absorb it in fourth quarter of FY2022, so should we expect some kind of inventory gains in the quarter?
- Chacko Thomas:** What we explained was that on the plantation side, because the plantation side, the new season crop will come into commercialization only in Q4 of this current financial year and depending on the prices at that time, we will be able to sell and get the gains. So this is currently what we are selling in the whole season crop. As I mentioned, we have realized some gains in line with the coffee prices, but those will also kind of muted to the extent of the contracts already which we would have had.
- Akhil Parekh:** But the coffee bean prices have moved up 30%, 40% upside on YoY basis if I look at it, while we have taken, while for our finished products the prices are up 8% to 10% so, should we expect another 15%, 20% of increase is coming?
- Chacko Thomas:** We do not want to put a number to it. As I mentioned, see the whole sits on the plantation, if we really look at the whole season crop, which we are selling now and there is a new season crop which will probably get sold in Q4 and the following quarters. So, whatever is the gains we realize would depend on the prices at the time when we sell the new season crop, which will be in Q4, which will include of course the coffee and pepper as well.
- K. Venkataraman:** Then it of course also depends on how the prices are at that point in time.
- Akhil Parekh:** We have been reading about the broad situation in Brazil, it is impacting across production, specifically on the Arabica side, how do you envisage like in the next few quarters or a year will the price trend continue to be on an upward range?
- Chacko Thomas:** It is like this Akhil. I think what we have seen in terms of and I have made this point in the past also the clarity in terms of what the crop loss has been on account of overall drought and the frost that has happened is still a bit unclear. I mean in terms of there are many,

many messages that keep coming out from the little based on reports which are from third parties and then you will also appreciate that there is not too much of travel, which is actually happening to be able to really put a number around what are the total impact. Then this impact has to be factored with the demand that one would see in the markets. Yes, there has been opening up of coffee markets, so the coffee markets would possibly see some traction in terms of overall consumption going up, but then that is again left to our imagination as to when and how much it will move up. The last bit is around the fact that a lot of the impact, the lot of what has happened has already to a great extent been factored in by most of the roasters. So, if you see and I do believe that yes the prices are substantially ahead of what they were same period last year in my opinion we have reached a point where these prices would possibly be plateauing and not going up substantially. We may have that 5 cents or 10 cents up and down, but I do not think it is going to go any further than this. I think that is the understanding that we definitely get from our side.

Akhil Parekh: Couple of more questions, before I get back in queue, like higher prices of coffee how does this impact our margins and also if the demand is elastic or inelastic, have you observed any kind of such situation if the prices have been on an upward trend and consumers have kind of retracted back from the demand perspective?

Chacko Thomas: It is like just to answer that you know coffee being an essential commodity, we do not sort of that elasticity works in our favor, because there will be a lag effect in terms of inventory, but generally the prices in the case of roasters for example, some of the branded players will get passed on and some of the plantation producers also it factors in. So, it is a chain. So, when we sell to roasters, roasters, do the private labeling or whatever it is and then sell it to the supermarkets so that gets passed on. So that is the point. So whatever gains, and prices when fall there is a lag effect because the terminal prices and for example, the Indian coffee production is only for a couple of months, the harvest between October and February or March, and that gets sold in the subsequent year so that lag effect will be seen.

Akhil Parekh: My question is on the demand side as well. Do we see that the demand gets slow in a rising price scenario?

Chacko Thomas: No, we do not see that. That we do not see. As I mentioned, there is a lag effect. So, people have the inventories, so obviously for example, just to illustrate, for you then the ocean freight impact last few quarters happened, there has been delayed kind of placement of orders because people would like to see when these freight kind of eases because that will directly impact the cost of inventories and cost of their supplies. So to that extent we could see some lag in demand, lag in placement of orders, but overall it does not last long, in the sense it comes back.

Akhil Parekh: Sir what percentage of instant coffee, and coffee beans we sell it on a spot price basis?

- Chacko Thomas:** On the instant coffee side you are asking?
- Akhil Parekh:** Yes on the instant coffee as well as on the coffee beans side also?
- Chacko Thomas:** Coffee bean side for example, since because of the harvesting is for a couple of months and then subsequently we sell, so the supplies will be for subsequent months. Suppose for example, we may have contracts for supplying say July of next year, which will be the new season crop, so that will get factored in case of the terminals which are available for the future, either it will be terminals to be opened and fixed it or the terminals will also be fixed. So that is the way it is and instant coffee side, it is more or less similar, normally instant coffee orders was say three to four, five months, so that would get priced on that basis. We still hold the inventories and all that for a couple of months we hold inventories and that is how it is. It is a B2B bus so we have customer orders in hand most often and then that is where it is. That is how it is done.
- Akhil Parekh:** The pricing of the instant coffee like for example, if a client gives you a contract today and you supply it two months down the line to him, the pricing is based on the two months down the line or the pricing is when the contract is given by the clients?
- Chacko Thomas:** When the contract is given we have a specific pricing agreed, so the pricing agreed will be considering when he wants to supply and what kind of coffee prices will be there either we have the stock in hand in which case, we will supply on that basis on the replacement side of it that is how it is.
- Akhil Parekh:** One last if I may, the container issue has been sorted out or it is still an ongoing issue at this point of time?
- Chacko Thomas:** The container issue is not sorted out. It is just continuing. The only thing is the intensity it has wavered. For example if you take Vietnam the situation is still not back to normal. India it is slightly better so that is where it is, but it is not going to go away in a short while. What we are seeing is that since there is a Christmas rush and all that so it will take a while, for the container easing will take quite some time. That is what we are being told.
- Akhil Parekh:** I will get back in queue. Thanks a lot.
- Chacko Thomas:** One clarification, I wanted to give for Jayant's question, he was probably asking about capital work-in-progress, but that is more to do with the replanting costs which are there in the books as well as some bit of instant coffee bit of agro expansion which we are doing in Theni.
- Moderator:** Thank you. The next question is from the line of Percy Panthaki from IIFL. Please go ahead.

- Percy Panthaki:** Good morning. My first question is can you give us an idea how much of sales happened from the Vietnam plant this quarter?
- Chacko Thomas:** See, we do not want to give you a number, but specific number, but we are operating at 95% capacity.
- Percy Panthaki:** Okay, because in the past, you have given some idea in terms of US million dollars how much it has been like \$9 million or something like that.
- Chacko Thomas:** It all depends because I will tell you Percy, we do not want to put a number in the sense because it all depends on and it is not good to look at a quarter-on-quarter because of the way the contract comes because certain quarters we have all these and what we manufacture while it is freeze dried, we also have the blends which are different. For example, we have the Arabica blend, or the decaf blend, which is higher, better priced, but in terms of commodities, we are pretty if you can divide 5000 by 4 you will get that.
- Percy Panthaki:** Understood. The only reason I was asking is that if I have this number, then I can derive what is the number for Eight O'Clock. So, that was the only purpose behind asking?
- Chacko Thomas:** You please do that Percy.
- Percy Panthaki:** Secondly, I just wanted to understand coffee prices have gone up, terminal prices, so on the one hand, this will be beneficial for your plantation business on the other hand, Eight O'Clock sort of is a consumer of coffee so input prices for Eight O'Clock go up, and we really do not know how much of that will get passed through the end consumer. So, what is your view? I mean, when the coffee prices go up on a consolidated basis, for an EBITDA margin or absolute EBITDA is this good for you or bad for you on a consolidated basis?
- K. Venkataramanan:** No, we have both sides. So, if you really look at the FMCG kind of play like the branded business though normally it gets passed on overtime, there is a lag effect and if you would have probably seen the way tea happens or coffee happens so that is where it is. On the plantation side, is a clear benefit for us in terms of the harvest prices. Instant coffee is again more akin to a branded kind of play so with a lag effect it gets passed on. So, having said that see there are three levers broadly, which we are using, one is of course on there is a coffee in stock, inventories are there, Eight O'Clock and all this will probably carrying a longer inventory in line with the roasters, or typically also we would have. Secondly for our India business though for the instant coffee business, we do not use our own production of coffee and we import coffee but there again, we will have a couple of months of inventories at hand. So, all these options are available in terms of inventories and also the price increases which will be reflective of course on the market conditions because you know Eight O'Clock is not the market leader in that front, there is a fair bit of competition and even in the B2B side, we will have to look at when we get orders from customers or private

label players and all that there is a market kind of position which we get to know and then based on that the pricing will happen, but generally what we have seen is in these kinds of higher pricing scenarios obviously the pricing, with the increased inflationary cost will get passed on but there are also other levers, which either the inventories in hand or the kind of promotions, and all that and overall of course Eight O'Clock does a typically good job in terms of overall cost management, all these factors will play.

Percy Panthaki:

Next question I have is on the plantation business volumes. So, I understand that coffee prices are up and you will definitely get advantage going ahead in terms of the price per kilo for the plantation sales, but is there a sort of wherewithal to actually ramp up the volume sold also because if there is a let us say shortage of production in Brazil or something like that and let us say because of that other origin coffees sort of fill in that gap so I am just wondering that is that something that is likely to happen or you believe that no, you do not have the wherewithal to sort of ramp up the sales volume because the plant can yield only so much, and there is not much left in the inventory to ramp up the sales volume?

K. Venkataramanan:

See, it is like this, it is difficult to ramp up the harvested produce in that sense because though we constantly do replanting which will give us better productivity in terms of coffee production per bush, it does not come that easily that fast. So definitely there are constraints, if you ask me suppose Brazil there is a shortfall or India can supply and all that it is not possible to on that front straightaway. So that is the answer. But having said that that is the position on coffee but we also have two other things one is on the coffee trading where we have been trying to focus more on coffee trading because we have the monsooning coffee unit in Mangalore which does that and we buy a bit of Arabica for our monsooning as well as for the value addition purpose so that is some lever which we have been using in the last two, three years on which we have put. For example, recently, you would have seen that we have made some efforts to look at the Odisha tribal coffee, so that we have gotten, so these are all kind of initial stages, we are not wanting to commit too much, I mean, confirm too much on that, but obviously we are looking at beyond on what we can produce in terms of looking at in for example the coffee from Yercaud, coffees from Odisha, so these are all newer initiatives which we have been focusing on for the last two three years and not to forget pepper. Pepper for example, is a growth area for us because we are able to and since we have a large timber wealth and we have planted so those pepper production, we are quite bullish in terms of how the pepper production by itself what we can produce can go up in the coming years.

Percy Panthaki:

That is all from me. Thanks and all the best.

Moderator:

Thank you. The next question is from the line of Bharat Sheth from Quest Investments. Please go ahead.

- Bharat Sheth:** Sorry, I joined little later, but in case, would you like to give some colour on this Eight O'Clock business; one is how it is doing in USA and what are the strategy to geographic expansion?
- K. Venkataramanan:** Geography expansion I do not think we are having any such, for example, we are now E-commerce marketing of Eight O'Clock is happening or has been introduced in India so that is there, but if you really look at Eight O'Clock has moved across to some other geographies and all, we are not able to comment at this stage, so that is it. But Eight O'Clock otherwise is slightly decent robust performance and we are investing behind the brand and we are also there is a good pipeline of products, so all these augers well for Eight O'Clock.
- Bharat Sheth:** Sir, this whatever launch we have done in India that we import from the US or we make it here?
- K. Venkataramanan:** Yes, we import from US.
- Bharat Sheth:** So, is there any strategy that going ahead, to produce those blends over here?
- K. Venkataramanan:** No, we do not have such plans.
- Bharat Sheth:** So, it will remain only a trading business in India?
- K. Venkataramanan:** It is brand within the group.
- Chacko Thomas:** The produce that comes, the coffee that comes in it is actually something that is specifically from a specific location and packed in the US.
- K. Venkataramanan:** It uses the superior Arabica from LATAM.
- Bharat Sheth:** So this is currently we are in US?
- K. Venkataramanan:** Coming into India. Eight O'Clock is a brand which plays in US only.
- Bharat Sheth:** Sir, have we launched pour business also in India or only for products for the shelves?
- Chacko Thomas:** We could not get the question, Bharat.
- Bharat Sheth:** In US we have also pour business.
- Chacko Thomas:** It is only the cake cups.

K. Venkataramanan: We have the batch business which is the primary one and we have bit of private label as well as cake cups.

Bharat Sheth: So, this cake cups have we launched in India also?

K. Venkataramanan: No, we have not yet.

Bharat Sheth: It is only a bag at this moment?

K. Venkataramanan: Yes correct.

Bharat Sheth: When do we plan to launch this cake cups?

Chacko Thomas: No idea. We are not able to comment on that. I think the marketing side is looked up well by Tata Consumer so maybe you can probably raise it up there.

Bharat Sheth: So, whether in E-com or through retail also and also we have launched our own brand also in India is that a fair understanding?

Chacko Thomas: We have got two coffee brands, one is Tata Coffee Grant which is again, which we pack and sell it to Tata Consumers for onward marketing, sales and marketing. We also got the brand called Sonnets which is our select premium Arabica, single estate Arabicas which are again marketed through the Tata Consumer Network. Both these brands are available widely. Tata Coffee Grant is widely available and they are also heavily present on Media and Sonnet is a specialty Arabica which is again sourced both through e-com as well as on the shelf.

Bharat Sheth: Sir, do we have any plan for the capacity addition of instant coffee?

Chacko Thomas: Right now we are not able to comment on that. We continuously evaluate, because just to mention we are saturated in terms of capacities both in India and Vietnam so we will continuously we are evaluating the right opportunities and we are possibly at the right time we may try for an expansion, but at this point, we are not able to comment on it.

Bharat Sheth: Thank you very much Sir.

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. Congratulations on a strong set of numbers despite the multiple headwinds. Firstly, if you could help us decode the performance of Eight O'Clock and despite the inflationary trends and against what immediate global processes have been reporting, we have rather delivered a strong set of

numbers, what helps us to achieve this. Is it largely because of low cost inventory or is there a structure?

Chacko Thomas: There are multiple reasons; one is of course on the channel mix, see they have the bag volumes, bag plus cake cups and private label, so the channel mix between these play has helped and secondly of course overall cost management not to mention only about the coffee greens there are also other overall in terms of cost where they have managed this well.

Harsh Sheth: Understood, and how is the demand shaping up in US now as the economy has fully opened up?

K. Venkataramanan: Demand is good. We are not having any issues. The only thing is last year of course COVID time was more of pantry filling and all that but that has dropped normally over the last two or three quarters. Online is also picking up. It looks quite positive.

Harsh Sheth: Sir, want to know the Brazilian views the Columbian coffee suppliers have also defaulted on deliveries and you will see, I believe import from Columbia and though we have a hedging mechanism in place, would that growth against us now as we may be starved off supplies and pushed by cost sells can you throw some light on this situation prevailing currently and what can be expected going ahead?

K. Venkataramanan: As I had mentioned earlier, I think it was to Akhil that most of the reduced inventory, reduced crops because of whatever disservice have taken place I think most of them have already been factored in by the roasters. In my opinion and this is my opinion that we have actually reached a kind of a plateau. We may have as I mentioned a 5 cents or 10 cents up and down that may take place on certain events per se, but I think we are very much where we should be as far as coffee prices are concerned, both for Arabica for more or Arabica rather than...

Chacko Thomas: I just want to make a note, there is no question of starving of supplies and all, they have a good supply chain planning, so we do not see any of those risks coming up.

Harsh Sheth: Understood. On Instant coffee side, I mean despite such a sharp inflation the order bookings have been pretty robust for instant coffee business as you have also mentioned in your presentation, just wanted to understand what is driving this demand? Also I understand we work on cost plus basis, now that the Brazilian supplies are likely to be affected and subsequent sharp recovery in demand, is there a scope for margin expansion there in the instant coffee business?

Chacko Thomas: We do not see margin expansion per se. What is happening is like this that we are having and while we are saying in India for example, you have the spray, agglomerate and freeze,

agglomerate to some extent has been impacted because of the African situation in Africa where there has been a slowdown in demand and all that but other geographies are robust, because we export more than 35-odd countries and other geographies we are finding are quite stable. So, while the margin expansion per se we are not wanting to comment, but having said that there are also the different blends are there in this. We have for example, Vietnam, we do have a lot of fair bit of blends working on Arabica or Decaf so these are premium blends, which we work and which we cogenerate with the customers. So those are the pockets for us where we see a fair bit of potential and that is where even in India for example, we do a lot of SKUs because of which demand has got impacted due to this container, freight as well as the current situation, largely because of this disproportionate increase in freight cost there has been some impact, some of the smaller players were not able to absorb this kind of increases that is what we are finding. So that situation should get eased.

Harsh Sheth: Understood. Sir, you did mention about your working on and developing some premium blends in Instant Coffee Segment. So, just wanting to understand how does current product pipeline look like and have we secured any new clients here?

Chacko Thomas: No. We have not secured new clients as of now. You are asking for factories?

Harsh Sheth: The new clients for our instant coffee right so we have been working on some blends?

Chacko Thomas: Yes, so it is like this for us and I think I have made this point in the past also for us NPD has been something which has been extremely important from the beginning but it is become more important once the pandemic actually came in and some of our successes that have come in the past at least in the last one, one and a half years our consistency in developing new products which include not just the decaf but different origin based coffees etc., so we have a very robust NPD process in place which we hope to be utilizing consistently for being able to deliver the kind of results that we have been able to do. So for us NPD is a way of life and we do believe that this is one thing that we would think it is useful for sustaining growth. So we have a fair number of products in the pipeline.

Harsh Sheth: Sir just wanted to understand how is the response been and are we marketing mostly to our existing clients and trying to mint more from them or is it we are planning to add some new clients and all geographies we would be specifically targeting and improve?

Chacko Thomas: It is a mix of both as because we do find that the existing customers for example they all at least during the peak of COVID they also had the same kind of issues that we had to be able to draw people in for example a coffee that has got nutritional properties along with it. So it can be develop something along with our customers we will be able to do that for them or a new customer altogether with a different geography altogether entering certain parts of the Middle East, for example or even getting into parts of South East Asia where we have

not been present in the past. So it has been a mix of all these things and it has been working with both existing customers and looking at new customers. I think what is important is that we have in our repository a fair number of new products which has also given us that to be able to give a new product and to be able to commercialize it takes anything between six to nine months. We have been able to cut that substantially, having these reports available with us.

Harsh Sheth:

That was very helpful, and Sir on Vietnam front while sourcing of coffee may not be a problem as I understand and I believe it to be phased issue and dispatches with regards to container availability and all so just wanted to understand what communications that now that supply has been taken space so do we stand to lose with customers as we may have to fulfill their demand any which ways?

Chacko Thomas:

No, not at all. In fact, what we have also been able to do is actually work very proactively with our existing customers to be able to advance sales to them because it also helps in a case, in a situation where freight cost continue to rise we have been able to take advantage of that by sending both quantities in advance so we find that we do not have an issue with the customers not being serviced. In fact, I think it is the other way round so that is the fact actually.

Harsh Sheth:

Sir lastly on plantation given the excessive rains in Karnataka and surrounding regions that we are seeing the news do we expect a significant drop and output for current season?

Chacko Thomas:

No. The crop this year is actually going to be at least for us pretty much a good crop and very much on the expected lines that we have been maintaining for the year. So we do not see any pressure on crop at least in Tata Coffee.

Harsh Sheth:

Sir lastly one final question if I may squeeze in, on this RoDTEP scheme so I think significant allocation has been made to the plantation exports so could you please comment on that how can that benefit us?

Chacko Thomas:

Yes, it will benefit. I just want to mention MEIS scheme we have the benefit both for our plantation producer is green beans as well as the instant coffee. Now the RoDTEP scheme so far while we are getting we are getting the benefit for the plantation production at least the green beans or coffee beans we have the extension of that benefit for instant coffee produce and EO use has not been done so far and that the government committee is examining when that would be extended. So to that extent we are awaiting that communication.

Harsh Sheth:

Thanks for detailed response and congratulations once again and best wishes.

Moderator: Thank you. The next question is from the line of Kashyap Javeri from Emkay Investment Managers. Please go ahead.

Kashyap Javeri: I have just one question in our instant coffee business I understand that for the India, Russia is a big trading partner and we have seen COVID cases rising substantially over there, in your press release also you have mentioned about the fact that when out-of-home was sort of not doing great, at home consumption actually took care of a fairly large part of the growth but particularly in Russia are we facing any issues in terms of subdued demand because of the rising cases?

Chacko Thomas: No. We did in the past but I think in this last quarter we have been quite okay. We did not find that kind of an impact, no.

Kashyap Javeri: The same goes for UK and Europe also where cases are rising?

Chacko Thomas: No, in fact UK and Europe is actually opening up much faster than, but for us we are not really doing much into UK but definitely they have actually opened up for more Europe yes definitely.

Kashyap Javeri: That is it from my side Sir. Thank you.

Moderator: Thank you. The next question is from the line of Kunal Bhatia from Dalal & Broacha. Please go ahead.

Kunal Bhatia: Congrats Sir. Thank you for the opportunity and thanks for the detailed responses you have given so far. Sir just wanted to understand your sense on the margin trajectory going forward because on one hand there are a lot of moving parts because you did mention that there is some amount of inventory that we have with us, secondly the current harvest, we would be selling that in Q4. So how does one look at the margin trajectory going forward so from here on do we still see a further improvement or there could be some dip? I just wanted to understand from the gross margin as well as the EBIT DA margin perspective?

K. Venkataramanan: It is like this on the plantation side as I mentioned it will depend more on the terminals and the movement, which we are not able to forecast in the sense it will be quite difficult to put a number to it, but generally I can tell you that what we have sold in the past is a whole season crop. The new season crop would depend on what terminals are there at the time when we commercialize and sell. So obviously when we are looking at the current prices of margins could be better.

Chacko Thomas: Could be better, we are not making a statement or forward-looking statement in the sense it could be better.

- K. Venkataramanan:** On instant coffee, our instant coffee side again there is always a lag because it would depend on couple of factors one is on the freight which has to get normalize because that is a sole point even for the buyers in that sense and normally depending on the crop and on the terminals and on the coffee prices these instant coffees normally the pricing sort of with a lag it gets passed on so that where it is. So we are not able to coming too much on the instant coffee margins because primarily it would depend on the couple of factors like this.
- Kunal Bhatia:** Sir to conclude meaning the way things are at this point in time the trajectory could be pointed is that a right assumption?
- Chacko Thomas:** Positive for one side of the business, plantations would be there. Instant coffee we are not able to put too much, we are not able to kind of comment on that because of we have moving part as you also mentioned about, there are many moving parts, which include coal prices, steel prices, tin prices, we still have not seen the end of the freight increases. So it has been a little circumspect in terms of making a comment on the margins on IC going forward.
- Kunal Bhatia:** Sir in terms if you are talking about freight, which seems to be the major concern how has been the movement on our month on month basis? Have you seen some kind of moderation there or still those are on a increasing cycle?
- K. Venkataramanan:** No. What we are seeing is the increase what we found for example the last two months they are sort of percentage of increase is not there so slightly it looks little subdued as of now.
- Chacko Thomas:** You have to remember that this is against a massive increase, which has happened over the last one year.
- K. Venkataramanan:** Especially our Vietnam operations have been hit by this increased freight. Hopefully more kind of because when they export to Europe customers and all that but hopefully with that if the situation gets corrected we could see some uptick in the market.
- Kunal Bhatia:** Thank you so much.
- Moderator:** Thank you. The next question is from the line of Shreyans J from Quest Investment Advisors. Please go ahead.
- Shreyans J:** Sir just had some clarifications. In the plantations business we have done about Rs.79 Crores versus Rs.96 Crores last year so just can you give us a breakup in terms of domestic as well as export?
- K. Venkataramanan:** No. Here in the plantations most of it will be exports. I will tell you if you saying the drop, the reason for the drop is majorly on account of tea where we have sold lesser quantities and

also the prices are not as good, as what was the last year, but the bulk of it will be exports only.

Shreyans J: So the drop is largely attributable to the global issues?

K. Venkataramanan: Domestic tea operations, to the domestic tea operations.

Shreyans J: Sir second is just to understand the inventory bit again so if I look at your note number six so can you help me understand that because I seem to be getting lost there. The changes in inventory is about Rs.35 odd Crores and the change in fair value about negative Rs.33 Crores, which gives us about Rs.1.67 Crores which comes under the face of the P&L so can you help me understand that?

K. Venkataramanan: On the change in inventories?

Shreyans J: Note number six?

K. Venkataramanan: It is an increase the change in fair value of biological assets till harvest is the increase because that is largely due to two reasons; one is on the price's side and the second is also on the crop.

Shreyans J: Sir if you look at the standalone the change in inventories is Rs.22 Crores versus change in value is negative Rs.33 Crores so just trying to wrap my head around those figures on the top Rs.22 Crores and Rs.35 Crores to Rs.33 Crores?

K. Venkataramanan: If you look at the quarter for example you can see Rs.33 Crores minus Rs.22 Crores is Rs.11 Crores you can see negative. That is the way to look at.

Shreyans J: What I am trying to understand is there is an increase in the value of the crop?

K. Venkataramanan: Yes correct because we are valuing the biological produce and that the prices of coffee, has also gone up, which gets reflected.

Chacko Thomas: In the first quarter you do not value any biological produce.

Shreyans J: When do you do that normally, Q2, Q3?

K. Venkataramanan: We start from Q2, yes.

Shreyans J: That helps. Thank you so much.

Moderator: Thank you. The next question is from the line of Richard Dsouza from SBI Mutual Fund. Please go ahead.

- Richard Dsouza:** Thank you Sir for giving me the opportunity. Just wanted to understand first in plantation coffee you said that most of it is exports can you highlight which market, which geography?
- Chacko Thomas:** You are talking about plantation coffee. Coffee is typically Europe, a lot of Middle East and some part of it of course goes into some niche customers into maybe South East Asia, a very, very small quantity.
- Richard Dsouza:** Generally what kind of quantities do you do in your plantation?
- K. Venkataramanan:** We do approximately 8000 tonnes of coffee that is about 1800 tonnes to 2000 tonnes of Arabica and 5000 tonnes to 6000 tonnes of Robusta.
- Richard D' Souza:** Thank you Sir. The second is for instant coffee which you process in India where do you source the beans from?
- K. Venkataramanan:** We import from African origins, we import from Vietnam wherever Robusta is grown, we use and if there is a requirement of Arabica, we import from Brazil or some of those countries LATAM countries.
- Richard D' Souza:** If I may just ask what would be the mix between agglomerate and sprayed dried in India?
- K. Venkataramanan:** Spray and then we convert to agglomerate.
- Chacko Thomas:** So that is how it is thing so it is a process which is there. Just to be clear, we produce about 2500 tonnes of freeze. The rest is sprayed and agglomerate put together.
- K. Venkataramanan:** We have around 9000 tonnes of capacity in India of that 2000 tonnes is freeze. The balance is split between sprayed and agglomerate.
- Richard D' Souza:** One last thing for Vietnam where do we source from?
- K. Venkataramanan:** Vietnam we source majorly from locally. Vietnam is the large producer of Robusta so we require Robusta is there we sold and we also import from parts of Africa and Arabica if required we import from Brazil and all that.
- Richard D' Souza:** Now what we understand is that Vietnam gives a lot of subsidies or tax benefits to manufacturing units so do we claim those tax benefits or is it?
- K. Venkataramanan:** We have the tax benefits. We have got the tax benefits for three to five years. There were tax holidays for some years and then the lower tax so those we are enjoying.
- Richard D' Souza:** One last thing Sir for Eight O'Clock where do we source from?

K. Venkataramanan: That is primarily from LATAM countries basically Arabica from some Ethiopia but mostly LATAM. They are using only primarily Arabica coffees.

Richard D' Souza: Thank you Sir.

Moderator: Thank you. The next question is from the line of Jayant Gangji Mamania from Care PMS. Please go ahead.

Jayant Mamania: Thank you for the opportunity. Sir you said this season we have a very good crop of coffee and pepper, last year we had a crop I think 7800 tonnes for coffee and around 800 tonnes for pepper so what is the estimate for the current year? What kind of growth we are expecting?

Chacko Thomas: I mentioned not very good. We have got a good crop so let us assume that the crop would be around the same numbers that we have achieved last year definitely for coffee and for pepper, we too see some increase happening over the last year's crop.

Jayant Mamania: Sir we had a pilot project on Avocado growing and also on the Natural Honey so can you throw some light on that about its commercialization?

Chacko Thomas: We have actually commercialized a very small quantity so as you are aware Avocado requires anything between three to four years for it to commercially start yielding; however, the earlier pilot area that we have actually put up was already come up for commercial production. It is a very small area, but that has already been commercially commercialized and already been sold this year. It is a very small area so small quantities that we have done so we do see this substantially scaling up going into next year and year after next. So the idea is we will continue to plant fairly large areas every year so we have a ramp up, which by I think around by 2025 we should be able to complete the entire area that we are commercially looking at.

Jayant Mamania: Sir what would be that area, if you can give your ballpark figure?

Chacko Thomas: Close to about 150 hectares to 168 hectares?

Jayant Mamania: So how much one hectare gives production?

Chacko Thomas: Let us wait and see. These are plants of a very particular variety called Hass and that Hass variety has got different yield levels and different locations in terms of the number of fruits that you actually get per tree. In certain locations it goes up to almost 20 to 25 kilos per tree so we have to see what it actually does on a slightly larger scale in India because this variety is not grown previously commercially in India so let us wait for another year before we start commenting on the exact yields for that like the way we do for pepper, etc.

- Jayant Mamania:** Sir what about Honey?
- Chacko Thomas:** Honey we have started the project. We have already started distilling and we are internally consuming the entire honey that we are getting at the moment and the idea is to substantially increase the quantum. This is obviously domestic honey production so we will have boxes which are going to be there so substantially increase in the number of boxes in the next three to four years which includes a phased increase happening so the overall experience that we have had so far is quite positive. We do feel that this could also substantially be higher as we move year-on-year.
- Jayant Mamania:** Sir in case of Sonnets we have launched many variants, I think around 30 plus variants and as you said we have started selling offline also is it right?
- Chacko Thomas:** No. We are not selling offline.
- K. Venkataramanan:** We are only selling online.
- Jayant Mamania:** Sir can you give us some idea about how is the sales?
- Chacko Thomas:** The sales have been pretty good and this obviously is being sold and marketed and branded and sold by TCPL and the sales have been pretty robust in fact that is the reason why we have increased the number of variants of Sonnets, but I think every year you will have a different set of variants because these are very specific towards specific location, based on certain tastes and certain profiles, which we pick up and that is then tasted by a master taster he decides or she decides what is the kind of coffees that we would be using this for like example, a medium roast, dark roast or will it be suitable for a French Press or a filter so every year you will find the numbers varying in terms of the number of variants but we see a good traction, good interest, good demand that is coming through. I think TCPL is doing an excellent job in marketing this.
- Jayant Mamania:** How is the initial response for Eight O'Clock launch in India?
- Chacko Thomas:** I think it has been quite positive. I think more information in terms of the exact numbers may be TCPL would be able to give you a better idea about it, but it looks quite promising.
- Jayant Mamania:** Thanks a lot. All the best.
- Moderator:** Thank you. Ladies and gentlemen this was the last question for today. I would now like to hand the conference over to management for closing comments.
- Chacko Thomas:** Thank you everyone for joining us. We would like to wish you all the very best and hope to see you in the next call. Thank you. Thank you ICICI Team. Thank you very much.

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