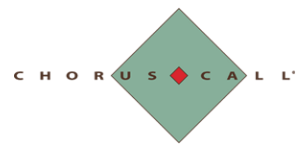




“TATA Coffee Limited  
Q1 FY '24 Earnings Conference Call”  
July 20, 2023



**MANAGEMENT: MR. CHACKO THOMAS – MANAGING DIRECTOR AND  
CHIEF EXECUTIVE OFFICER – TATA COFFEE LIMITED  
MR. ANANTHA MURTHY – HEAD – LEGAL AND  
COMPANY SECRETARY – TATA COFFEE LIMITED**

**MODERATOR: MR. VARUN SINGH – ICICI SECURITIES**

**Moderator:** Ladies and gentlemen, good day, and welcome to Tata Coffee Limited Q1 FY '24 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 star, then zero on your touchtone phone. Please note that this conference is being recorded.

I now hand the conference over to Mr. Varun Singh: from ICICI Securities. Thank you, and over to you, Mr. Singh.

**Varun Singh:** Yes. Thank you very much, Neerav. So, on behalf of ICICI Securities, I would like to thank the management of Tata Coffee for providing us this opportunity to hold this call. From management side, we have Mr. Chacko Thomas, MD and CEO of the company. We can kick start the call with discussion on the first quarter results followed by Q&A session. So over to you, sir.

**Chacko Thomas:** Thank you very much. Good morning. This is Chacko Thomas here, and welcome to the call. Before I get into the quarterly operational performance, I just wanted to share some of the market conditions that we experienced and also had an impact on the business performance for the quarter.

So firstly, I think the good news is that some of the markets that were closed for a considerable period of time for various reasons like Africa, the MENA region, etcetera, we see some renewed demand that is actually picking up there. But again, just on spray dried coffee, there seems to be challenges that we see world over. It's not restricted to one particular region. And this I think is a temporary phase and we will see some gradual improvements as we go forward.

As far as green coffee is concerned, again, there is some moderation in terms of demand. This has largely been on account of the Robusta prices that has actually shot up considerably. However, on the flip side, Arabica prices have moved down substantially over the last quarter. I think Brazil harvest that is underway, this would be an item to actually watch out going forward.

Moving on to Vietnam operations. Very happy to report that we have a very solid quarter, both on the back of an excellent performance of the plant, the plant is working at peak capacity and a lot of interest that we see on the value-added premium products in this factory. We have a very strong order book for the entire season from our Vietnam plant. Some of the other saving features of the quarter, I think it is pertinent report that the plantation, especially the coffee plantation area, the rainfall has been deficient, and it's actually only picked up in late July. On the other hand, tea operations in the quarter have had a much better start corresponding to the previous quarter -- previous year same quarter. And consequently, better crops and better price realizations.

On the financial performance, the total income for the quarter has increased by close to 7.5% compared to the previous year first quarter standalone revenue from operations has been up 10% compared to the same quarter, that is INR255 crores versus INR232 crores of the previous quarter or the previous year -- corresponding quarter of the previous year. And these have largely

been on account of the higher revenues that we have had from our coffee plantations, the higher prices that we realized on our instant coffee operations. And of course, as I mentioned earlier, better performance from the tea operations.

So, on a quarterly basis, the PAT has been at INR27 crores, marginally lower than the corresponding quarter of the previous year but on the whole, very satisfying performance. On the consolidated results for financial year '23, '24, the quarter we had an income of almost INR708 crores, which is 6.25% ahead of the previous year, which is about INR666 crores. This is again largely on account of the coffee prices that we realize in the plantations and the instant coffee plants across India and Vietnam. And I think the profit after tax for the first quarter is at INR62 crores. This is marginally lower than the previous year and due to the subdued performance of Eight O'Clock.

Just to spend a couple of a few seconds on Eight O'Clock. Just to spend a couple of -- a few seconds on Eight O'Clock. There has been an impact on the results. This is largely on account of some drop in volume of sales that we have seen and the higher green bean input costs. Despite the several market -- several price hikes that we took during the course of the year, very happy to report that we have not lost any market share whatsoever during this quarter.

We are now confident that, as I mentioned earlier, average coffee prices have come down. We have now moved into stocks that are much better priced. And I think we see great opportunities in the following quarter to improve performance at Eight O'Clock. So yes, so that's in a nutshell, the performance that we have had for the quarter. I now open up the floor for any questions that there may be to us.

**Moderator:** Thank you very much. The first question is from the line of Pranshu Jain from Neo Group. Please go ahead.

**Pranshu Jain:** Sir, congratulations on some of -- some spectacular results. Sir, when do you get the merger of Tata Coffee and Tata Consumer to get completed?

**Chacko Thomas:** Thanks, Pranshu. So, I have my Company Secretary, Mr. Anantha Murthy, here. He is there to take your question.

**Anantha Murthy:** Yes. Good morning. I am Anantha Murthy here. So just updating on the current process of the merger. Currently, it's in advanced stage before the NCLT Kolkata and Bangalore, and we expect to have this order received during this quarter, the final order.

**Moderator:** Thank you. The next question is from the line of Amol Rao: from Kitara Capital. Please go ahead.

**Amol Rao:** Sir, a couple of questions on the broad market. Sir mentioned that there remains certain challenges on the spray dried side. Could you elaborate a little bit on that, sir, because what would the challenges be? And are they specific to certain markets?

**Chacko Thomas:** Yes. So, thanks, Amol. So, the answer to that is, primarily, we do see that the Southeast Asian market, which is a large consumer of spray. And also, some parts of Africa, which is something

-- some very specific countries in Africa, I wouldn't like to go into specifics on which country, but these are large buyers of spray. And they do see at the moment, demand as well as consumer demand falling off.

But having said that, we have seen this happen in the past. And pure coffee, which is what we are talking about here, not the Afcasole type of coffee. We do see demand picking up as we move forward because as I mentioned, Africa is just about to open. So, to put things in perspective, it's a couple of geographies, which are largely dependent on spray or rather consume spray, who -- and that too the pure coffee type of spray, which is where we signed the spray market in a bit of a turmoil at the moment.

**Amol Rao:** So just an extension of that. Sir, is it correct to assume that this is not actually a structural change? It's basically some economical, political, financial, kind of...

**Chacko Thomas:** Absolutely. You are absolutely right because as things stand, Instant Coffee consumption as per what we see continues to be on a secular part of growth. Despite the fact that there are several challenges that you see in Europe, where you see recessionary trends, etcetera, but yet having said that, Instant Coffee as a whole portfolio, continues to grow. And it is largely around some of these political issues that you see in certain parts of Africa and certain parts of the Western hemisphere. I think that's where we do see some challenges.

**Amol Rao:** Got it, sir. And sir, this is with regards to Eight O'Clock Coffee. So, we had the curing part of that business, which is very promising and doing pretty decently as per my understanding. So how -- I mean, could you share some light without going into too much -- I don't want to see the numbers, but could you share some light on how that is doing, sir? How is the teapot business doing, the machine business doing? Can it be ramped up? Is it doing well? I mean, something of that nature, sir?

**Chacko Thomas:** Yes, sure. So let me answer this question by, I think, going back to the fact that on an overall basis, yes, Eight O'Clock has had a tough quarter, but what is very heartening is that we haven't lost any market share. And obviously, this points out to the fact, again, on the economic additions that prevail in that part of the world, where Eight O'Clock is extremely strong. We have added customers, only problem is that the demand has been -- demand has been muted on account of the economic conditions there.

So, I would say that the business, the fundamentals are absolutely in perfect condition. It's just once things improve as far as consumption and as far as we think it's consolidated, maybe also, as I mentioned, we have coffees, the input cost at the moment also are -- the consumption that is actually happening is also of coffees that are -- that were bought at very high prices at that point in time. We have a longest gestation period. And we now move into coffees that are considerate to the prices that we see coming in. So, I think the business is in a good place, especially the fact that we're not losing any market share.

**Amol Rao:** Got it. So -- and sorry, I'd like to ask one more question. Just putting together your response to the last 2 questions. So, the sense that I'm getting is that the economic conditions globally are taking a slight bit of toll on, let's say, the consumption pattern and -- or let's say, the offtake, the

pattern and the offtake. So is it right to assume that in certain markets, there may be down trading or let's say, people are going a couple of runs lower on the quality of coffee consumption. So, is that something that you are observing? Or do you think it's just something like a 2, 3 or maybe 4, 5 quarter cycle, which again reverts back to the mean after 4 or 5 quarters?

**Chacko Thomas:** So even when we talk about down trading, it is pretty much a phenomenon that actually happens for a couple of quarters. That's for it, right? So, I would leave it at that. I would say that I think at the moment, yes, there is -- and we're all aware there has been an inflationary pressure wherever in the western world we see. But I think eventually, this is a matter of a couple of quarters where things can pick us back again. And it's about people, again, going back to doing a coffee, people going back to traceability of coffee, etcetera, so I think that it will not go away.

**Moderator:** Thank you. The next question is from the line of Senthil Manikandan from ithubought PMS. Please go ahead.

**Senthil Manikandan:** First question is with respect to the spray dried coffee. So, you mentioned about the demand side, so how do you see on the supply side for the next 2, 3 years? Any new capacities coming up and taking like that?

**Chacko Thomas:** Yes. So, I think supply side, yes, there have been definitely new capacities that are coming up on stream in the last couple of quarters or even before that and all -- it has been the case in all these years. While supply comes in, the fact that supply comes in, in bunches of either 5,000 or 10,000 tons and not 1,000, 2,000, 3,000 tons. And that's the fact that once it increases secularly at 1% or 2% going forward, there is always a lag of being able to stand the supply and demand lag, which will continue to be there.

Maybe at this point in time, I won't rate too much into it because, as I mentioned in my previous response, it is around certain types of coffees, which is pure coffee and particular type of markets, which are under threat or rather the consumption being lesser and that in my opinion is something that right itself going forward. I don't think there is any supply mismatch or a huge issue between consumption and supply at the moment.

**Senthil Manikandan:** Now the second question is with respect to Vietnam. So, you mentioned that order book is strong, and you see capacity. So, any plans for holding the capacity of that?

**Chacko Thomas:** Yes. So, all options are on the table, right? And this is something that we are serious with. So, I'll leave it at that. As I said, all options are on the table, and we will look at whatever it takes to ensure that we continue to grow sustainably. So, all options are on the table.

**Senthil Manikandan:** Just last question. On the European Union's new norms with respect to the deforestation, sir. So, what's your view on that?

**Chacko Thomas:** Yes. So I think you are talking about the EUDR and -- which is something that I'm very glad that is happening because the reason being that Tata Coffee, both in terms of sustainability, in terms of traceability and in terms of practices that we have in our estate have been miles and miles ahead of any other producer worldwide. The fact I say this with confidence because we not only imbibe with principles of the Tata Group, which very clearly and categorically ensures

that environment, wildlife and the community are at forefront of everything and anything that we do. So that is one.

The second part is we've been -- already for the last many years, supplying our coffees to our consumers and our valued clients with complete traceability, and fortunately for us and for Indian coffee because coffee is grown under shade in India and the fact that most of the coffees are grown in -- pretty much in states which have got extremely stringent loss around deforestation, selling of trees, etcetera. The Forest Department and the government are very, very highly involved in this issue. We do not see any, any problem at all whatsoever. So, we are very glad that the UDR regulations are actually -- been announced, and we're looking forward to supplying coffee, which are totally traceable.

**Moderator:** Thank you. Next question is from the line of Mihir Shah from Nomura. Please go ahead.

**Mihir Shah:** So, I have a question on Eight O'Clock coffee. You mentioned that volumes were getting impacted due to the sharp price increases that were taken earlier. But now as you start consuming lower-priced coffee, would this mean that further price hikes are no longer required? And maybe if you can also share your thoughts around potential price cuts maybe in a few quarters. Will that be something that you can think about to support volumes?

**Chacko Thomas:** It will be very difficult to make a statement at this point whether we are going to take price cuts or we are not going to continue with the same -- the way we have gone ahead and taking price increases in the past. All I can say is that despite the price increases that we have taken, we have continued to maintain the market share, right? I think any decision on price cuts or price increases largely will be governed on how, obviously, the input costs are. And of course, marketing and sales requirements and exigencies that we come across. So, I won't be in a position to give you any kind of forward-looking statement of what we would do, but yes, I think I'll leave it at the fact that we have managed whatever price hikes that have taken place.

**Mihir Shah:** Historically, if you can share some thoughts on how the mass market has usually behaved when coffee prices have really come off and competitively, you had to kind of match to ensure you maintain your market share, like we believe that given that consumption is hit because of sharper price increases, the private labels would have kind of gained some share from other players, maybe you would have gained from somewhere else, but it seems that some downtrading would have happened and some private labels would have gained share. So, if they also take or initiate price cuts, you would -- one have to kind of follow suit as well. Historically, any sense that you can share how things have moved in the past?

**Chacko Thomas:** I don't want to get into specifics. But yes, we have in the past, definitely taken price hikes, and they have been following or even in certain cases, preceding some of the competition. Again, I mean, let just leave it on the table. The drop in volumes have been dictated largely on account of the economic conditions is our reading. And again, putting on the table that not losing market share despite the price hikes that we have taken always been for the brand and for the fact that Eight O'Clock is a strong brand in the areas that we play in. So, I would not want to get into specifics around that we follow someone or in the past have we done and how did we do it. I would just leave it at that, if that's okay with you, Mihir.

- Mihir Shah:** Sir, last question, I just want to check on your other initiatives of Avocado and other plantation and potential from those timelines and if you can share some of those timelines as well.
- Chacko Thomas:** Absolutely. And I think the plantations in Coorg, we have -- the plan on Avocado has continued to gather momentum. We are fairly -- we are almost at the fag end of the one of the largest Avocado plantations that you would see in this part of the world. And we -- the production obviously has a gestation period. The gestation period is between 4 and 5 years. And our first set of harvests have already started this year, and it's a very small harvest that we have gotten out from there. The quality, the grades, etcetera, have been extremely good.
- Now starting this harvest season, we would be going into slightly larger volumes, which would again give a good sense of how this initiative would shape the sustainability of the plantation business, where we need to -- the basic fact that we've always spoken about as to ensure that there is -- there are adequate number of alternate crops available with us, and we are utilizing every bit of land that we have because that's the biggest asset that we have. We do see that plantations -- coffee plantations have been profitable and extremely profitable at least in the last couple of years. And with the addition of avocado and several other initiatives that we have put in place on diversification, this will help us go forward. So avocado is really moving in the right direction.
- Moderator:** Thank you. The next question is from the line of Varun Singh from ICICI Securities. Please go ahead.
- Varun Singh:** So just wanted to understand, I mean, if you can throw some light on our capex plan going forward.
- Chacko Thomas:** So, I mean, I think at the moment, we are pretty much it's -- you wanted in number, or you wanted in whatever project because there are several projects that we are up to. So...
- Varun Singh:** The numbers would be good and maybe some detailing on that also.
- Chacko Thomas:** So, numbers, I would just leave it at what we were doing in the previous year. These largely kind of restricting it to that -- those levels and considering that we are having this transition between -- from Tata Coffee into Tata Consumer. I think the decision on some of the bigger projects will be taken appropriately because it's only fair that we do it when that happens.
- Moderator:** Thank you. As there are no further questions, I now hand the conference over to the management for closing comments.
- Chacko Thomas:** Thank you, everyone, for joining us on this call. We greatly appreciate and hope to see you some time soon. Thank you.
- Moderator:** Thank you very much. On behalf of ICICI Securities Limited, that concludes this conference. Thank you for joining us. You may now disconnect your lines. Thank you.