



“Tata Coffee Limited Q2 FY 2017 Result Earnings
Conference Call”

October 20, 2016



**MANAGEMENT: MR. SANJIV SARIN - MANAGING DIRECTOR AND
CHIEF EXECUTIVE OFFICER, TATA COFFEE LIMITED
MR. K. VENKATARAMANAN - EXECUTIVE DIRECTOR
AND CHIEF FINANCIAL OFFICER, TATA COFFEE
LIMITED**

MODERATORS: MR. ANAND MOUR - ICICI SECURITIES LIMITED.

- Moderator:** Ladies and gentlemen good day and welcome to the Q2 FY17 Results Conference Call of Tata Coffee hosted by ICICI Securities. As a remainder, 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 “*” and then “0” on your touchtone telephone. Please note that this conference is being recorded. I now hand the conference over to Mr. Anand Mour from ICICI Securities. Thank you and over to you, sir.
- Anand Mour:** Good morning everybody, pleasure to welcome you all to Q2 FY17 Post Result Conference Call of Tata Coffee limited. We have with us management from the Tata Coffee represented by Mr. Sanjiv Sarin - MD and CEO and Mr. K. Venkataramanan - ED and CFO. Over to you sir, for the opening remark and then followed by the question and answer sessions.
- Sanjiv Sarin:** Thank you Anand. Good morning everyone, this is Sanjiv Sarin here, MD and CEO Tata Coffee. So, let me start by wishing everyone a very happy auspicious festive season and I think this quarter has helped raise a good start to the festive season.
- At Tata Coffee we continue our endeavours to focus on premiumization, disintermediation, customer centricity and sustainable practices to drive profitable growth amidst volatile commodity prices. For the quarter ending September 2016 it has seen a strong performance. Tata Coffee standalone revenue has remained steady as compared to the same period last year. Turnover has been constant owing to a shift in product mix in our Instant Coffee portfolio; however, profitability is higher at 32 crores, versus last year same quarter at 10 crores. My colleague, Venkat, will share the details. In summary, this is the result of a positive shift in coffee terminals, especially in Robusta, direct roaster engagement and product development to cater to changing market conditions. We are seeing a shift in soluble coffee demand in Africa, which has enabled us to develop specific competitive products.
- On a consolidated basis for the quarter ending September 2016 - profit after taxes increased by 54% while turnover declined by 7% as compared to the same period last year. There are many views around the global coffee crop. A less than expected Brazilian and Vietnam Robusta crop has led to upward price movement, especially in Robusta. The New York ICE Arabica terminals increased from 140 cents per pound in July beginning to 151 pounds in October beginning whereas the London Robusta terminals moved from \$1688 US per metric ton in July to \$2004 per metric ton in October beginning. You will see a significant swing upwards in Robusta compared to the Arabica. Agile management of market conditions to supply chain, focus on quality, and direct roaster relationships has helped our green bean portfolio. Our direct sales to roasters have almost doubled over the same quarter last year. There is an increasing number of roasters visiting our estates and getting a first-hand experience of our cultivation and sustainability efforts.
- I am proud to say that our supply chain teams manage our raw material inventory very effectively to temper the impact of volatile terminals on the soluble business.

Our soluble coffee has boosted healthy volume in all geographies, driven by product development and strong customer relationships. We have added new customers to our fold, our geographical spread has increased. A strong volume performance has enabled us to reduce inventory and thereby reduce working capital usage in the business. Many of you had asked us last time about manufacturing capacity. We have adopted unique processes to successfully achieve a debottlenecking in our FDC plant enabling us to improve FDC volume. We have also expanded our Monsooning capacity for green coffee. Eight O'Clock turnover was lower by 14% while profit after tax was higher at 68% for the quarter ending September over the same period last year. Realization has dropped across the industry due to aggressive promotion. Eight O'Clock volume was affected by lower sales, forced and aggressive performance in quarter 1.

On a cumulative basis, Eight O'Clock volume is 5% ahead of last year and the market shares are stable. Profit has been higher on account of lower green cost. While our performance has been strong for a second quarter in row, we must realize that the markets continue to be volatile. The monsoon has been seeing erratic rainfall this year. The coffee board and the Karnataka Planters Association, as many of you may have read, have forecast 8% to 12% crop losses. It is premature for us to estimate impact because of our substantial irrigation capacities. Also, agri-crops have biennial cyclical pattern Continuing to manage such volatility would be a major focus area for us in the future. I am going to hand this over to my colleague Venkat to take you through financials.

K. Venkataramanan:

Hi good morning everybody, I will summarize the results for the benefit of everybody. I will first start with the standalone. The turnover has been flat as Sanjiv explained, due to the ICD mix, though the volumes have been higher. Substantially higher profitability on Instant Coffee by around 80% due to higher volumes, commodity and other cost management and as well as efficiency. Higher profits in coffee plantation driven by better margin, lower losses in tea during the quarter compared to the corresponding quarter in the previous year. There have been some higher corporate overheads due to some, one time projects which we hope to phase it out in the coming quarter and profits from operations thus has been substantially higher at 24 crores for the quarter compared to 13 for the previous year.

The other income is also higher. We had some surplus cash we generated in the operation earning as well as we received a dividend of around 2.5 million from Eight O'Clock coffee. Finance costs have been lowered. Tax rates have been lowered because last year we got the exemption from the Karnataka agriculture income tax got abolished. EPS is higher, given the higher performance and H1 PAT has also substantially helped and both Q1 and Q2 results have been very good. As well as consolidated, as Sanjiv has explained, the Eight O'Clock performance and the Eight O'Clock has reported superior performance though the turnover has been lower during the quarter, but the management of the green cost and overhead and group turnover is lower, but profit substantially higher. Group profit post minority is 30 crores compared to 19 in the previous year.

With this, I hand over for questions. Thank you very much.

Moderator: Thank you. Ladies and gentlemen, we will now begin with the question-and-answer session. We take the first question from the line of Sudarshan Padmanathan from Sundaram Mutual fund. Please go ahead.

Sudarshan Padmanathan: Good morning sir, thank you for taking my question and congratulations on good set of numbers. Sir, what I would like to understand is if I am actually looking at your business into two parts, the plantation and the value-added products. I mean, on the plantation side I think you know, even lot of media talks about, the coffee prices moving up and therefore there would have been some kind of a benefit, that is, that you might have seen in terms of the you know, coffee prices moving up. On the value-added product segment, both you know, the Eight O'Clock coffee as well as we have some in the standalone side, what I would like to understand is the jump that we see in the EBITDA margins and also the gross margins. How much of it is primarily because of the mix and how much of it is because of the low cost inventory, because I am sure that we would also benefit to some extent from the low cost inventory. And sir, one more question if I can ask, on the Eight O'Clock business, specifically on the volume side, I mean, we have been working with a lot of projects and you know, we have been talking about a lot of people visiting us and being on the negotiation side especially the K-Cup serves, etc., 5% volume seems to be a bit lesser compared to the kind of initiatives that we have been taking over a period of time? Can you give us some light and some kind of a road map over the next couple of years as to how do we see this kind of business gaining traction, both volumes and profitability?

Sanjiv Sarin: Thanks and just repeat the first question.

Sudarshan Padmanathan: Sir, the first question is if you can throw some light on, the plantation side of the business which has gained from better pricing of Robusta and you know, the coffee bean and how much of the benefit is primarily because of the coffee bean prices moving up and how much of it is because of, the inventory gains and the product mix.

Sanjiv Sarin: So, let me address the first question, yes you are right, it is a mix of both the areas. There have been some cost reductions, comparative to what the market is because of lower comparative cost of inventory which we were holding, but however that is meant a very depth management of the supply chain, when to buy, what to buy and keep the cost under control has been a significant part of managing with them; along with that we have been talking all along about the fact that we are going to, we are expanding our reach to customers and that itself is helping us get better product mixes going. I mention specifically of developing new products because of what we are seeing in certain geographies like Africa, which is helping us in our margin structure, so all these have really helped us build a better performance and the biggest one is the volumes have been significantly higher than last year, so all these things are really playing for our performance. On the second part about Eight O'Clock volume of 5% not being good enough, or as you mentioned, if you recall, the shares are holding, there is no movement, it is flat, which is very significant in the competitive environment like in the US. So Eight O'Clock has done a good job of holding the shares and getting this 5% volume gain.

- Sudarshan Padmanathan:** Sir, with respect to the low cost inventory would we continue to see the benefit or largely the benefits is done in the first half?
- Sanjiv Sarin:** You are asking a question which is very forward looking.
- K. Venkataramanan:** I think you have to understand like this, the point is yes, all of us even Eight O'Clock for that matter, roaster carry longer inventories and we also try to take advantage of our views on the market of carrying a little higher inventory than required, but having said that the instant coffee business is also akin to a some kind of an FMCG consumer business where if there are various movements in the prices, you are able to also look up at the prices and then pass it on. so, you have to look at it in that sense and I don't want to focus too much on the commodity cost benefit itself because we normally, that is a function which we have to do, because we will have to like a view on the market and in that sense carry higher inventories where required depending on the movement and which we will obviously we continue to gain at varying points of time.
- Sudarshan Padmanathan:** Sure sir. Sir with respect to the outlook of Eight O'Clock coffee, I mean, do we see further market share gain, given the fact that we are in talks with several players in the market, to, boost this business.
- Sanjiv Sarin:** That is not something I can answer right now. All I can say is all of us in the management want the companies to perform better and better and let's see if we can't predict what the competition is going to do. We can't predict the environment. We can do what we can do best which is under our control.
- K. Venkataramanan:** The Eight O'Clock has also recently launched the you know, infusion range and the Brazilian breakfast, so these type of product innovations would also be driving up the volumes in that sense.
- Sudarshan Padmanathan:** Hmmm So, I mean in short, I think we will be more looking at more of an FMCG trying to build brands as we move forward to get better realization and better, stickiness with the customers.
- Sanjiv Sarin:** See we are the B2B player largely and Eight O'Clock is the branded player, each one will do what they are best geared for.
- Moderator:** Thank you. We take the next question from the line of **Sameer Madan from Pi Square Investments**. Please go ahead.
- Sameer Madan:** Thank you, I just wanted to understand that over the last several years if we look at the standalone business of Tata Coffee, we know that the amount of land that we have under coffee crop is kind of constant and that is not likely to improve. However, if we look at how much, how many kgs of coffee does one acre yield for us in India, in Coorg for example, that is substantially below 1 ton per hectare, whereas if we look at comparable numbers from say, a country like Vietnam, which is a huge Robusta producer and exporter, their numbers are significantly higher, if I am not wrong, more than twice the yield. So, my question is Tata coffee being a part of Tata group, will obviously have access to excellent quality sister companies, which will be having high end capabilities in research etc. what are the plans to be

improving the yield which can obviously be a significant source of topline growth for us over the year.

Sanjiv Sarin: Yeah, this is an interesting question to me, thanks for that. Yeah, you are right, in fact if you would go to Latin America you will find significantly higher productivity numbers coming out over there. The fact is that a lot of effort goes into, it is a mix of what is the crop, what is the base crop which we are using, or the base seed which we are using. What are the climatic conditions which you have over here, how much is mechanized, not mechanized. So, all these things play a lot of role in what are the yields which we are getting generated. Obviously, we are always on the lookout for more and more information, networking and things like that and trying to see how, what we can do to improve our productivity in our own fields. You are right, the best way to earn more from fixed land is to produce is to get more, but simultaneously you must remember while one way is to get more product, other way is to improve realization from what you have and where we have been focusing significantly through direct roaster relationships, getting into premiumization of quality which we have. We have both these elements which we are working on.

Moderator: Thank you. We take the next question from the line of Sharad Shah, an individual investor. Please go ahead.

Sharad Shah: I would like to ask you that Starbucks will take a stake in the company at a later stage because they have a keen interest Nellore Estate and all that and you are a preferred supplier to Starbucks. So, Starbucks will take a stake in this company at a later stage?

Sanjaiv Sarin: I have no idea about the question which you are asking whether they are interested or not interested in that. We are very clear that we have to produce good quality coffee and you are right that we are exceedingly happy that one of our Micro-lots has met the international quality standards which Starbucks has for its reserve range which I think is an outstanding performance which reflects on our quality and ability to produce that high-end quality of products.

Sharad Shah: Yeah, I am sure of it that you will not be able to comment on it, but it is a distinct possibility, right?

K. Venkataramanan: Sharad, we don't want to comment on that because, we know we have a strong relationship with them, but we are not able to comment on their plans.

Sanjiv Sarin: Sharad, my focus is to be to build that relationship and get the best product for both the businesses.

Sharad Shah: And sir, are we planning to acquire various other assets to increase our capacity and turnover? Is there anything in the pipeline?

Sanjiv Sarin: We are hungry for growth. How it comes is something which we have to really farm out and clear and make happen in the future. Yeah, so like I mentioned briefly, we have done little bit

of debottlenecking of our FDC plant already, though the small amount, it is actually very innovative, what work has happened to get the debottlenecking done. We have expanded our monsooning capacity of our green beans. So, we are making this kind of efforts and like I mentioned to the previous person, Sameer, we are looking at ways to premiumize our products and therefore get better realization for what we have right now.

- Sharad Shah:** And sir, on pepper front, are we going to increase our production by manifolds in years to come?
- Sanjiv Sarin:** I would love to say we want to grow all ends of our business, Sharad, and therefore pepper is a strong performer, it is an important crop for us and therefore we will certainly see how we can grow that business also.
- Sharad Shah:** No, but are you looking to do it in a big way or just a small way?
- Sanjiv Sarin:** Sharad, I am afraid I cannot say, what is small for me might be big for you or what is big for me may be small for you. All I can say is we will certainly focus on all ends of our business to drive growth.
- Sharad Shah:** Okay. And sir, lastly, Eight O' Clock coffee I understand that a lot of efforts are being made for it to be listed on the US Stock Exchange along with Tetley, is it true?
- Sanjiv Sarin:** No, idea sir. No, we have no such plans, we have no such plans.
- Sharad Shah:** So, you do not have any plans?
- Sanjiv Sarin:** No, we do not have.
- Sharad Shah:** I am talking of next month say in....
- Sanjiv Sarin:** No, we do not have any such plans of listing Eight O' Clock.
- Moderator:** Thank you. We take the next question from the line of Kinjal Desai from Reliance Mutual Fund. Please go ahead.
- Kinjal Desai:** Sir, I just need to understand three points, sir. First is we have already given that Vietnam and Brazil crops volumes are lower and expected. Is there any such outlook that we have for the Indian crops overall?
- Sanjiv Sarin:** Yes, so like I mentioned that The Coffee Board and The Karnataka Planters' Association in their estimates have said 8% to 10% crop is what they see. But like I mentioned, it is very early stages for us to look at that because we have a lot of irrigation capacities and all that. So we have to wait and watch and see what comes up.

- Kinjal Desai:** Okay. And sir just second thing, as per standalone results while we have a flat top-line at this quarter and we have mentioned that Instant Coffee has done very good volume. So, am I to infer from that that the plantation business volumes have declined by any chance?
- Sanjiv Sarin:** No, the impact of this is largely coming from the ICD soluble business because the mix has changed a little bit like I mentioned the African market we are seeing a shift in the kind of products they want which is what we have done a lot of product development efforts to grow profitability and get throughout the customer over there is looking for.
- Kinjal Desai:** Okay. But sir, what I am trying to understand is just on the volume front directionally, is there that we have done flat volumes this time because from my understanding if Green Coffee sales are doing well which would mean that the value growth is good in it is that correct?
- Sanjiv Sarin:** Yes.
- Kinjal Desai:** So, if our top-line growth is flat, it would imply that the volumes while were selling at a premium at a higher price but the volumes are a little lower.
- K. Venkataramanan:** Kinjal you are right. See, we have to understand also that coffee plantation is a seasonal industry, . So, obviously the volumes would be in fact this quarter the volumes are lower and in respect of the Robusta crop what we have sold. So, that is bound to happen because it is a seasonal nature of production where, as instant coffee is more like we have rationalized capacities, we are trying to improve volumes whatever we can so, that is the way it goes.
- Sanjiv Sarin:** Remember that the bigger driver is our soluble business which is contributing to this.
- Kinjal Desai:** Okay. And sir, just on the balance sheet front, we have given the consolidated inventory for half year is Rs. 283 crores and if I see the March balance sheet it is Rs. 289 crores so, the inventory is flattish. So, if you could just give me an idea as to, is it because that we have exhausted our inventory now, the low-cost inventories so, to speak and now we have high cost inventory on books?
- K. Venkataramanan:** No, it is not like that. So, you have to correlate to the volumes of what we sell also,. The volumes have been higher. So, obviously that is kind of a movement which we are seeing.
- Kinjal Desai:** Okay, all right. So, the volumes have been higher for us and hence there is a slight decline?
- K. Venkataramanan:** Right.
- Sanjiv Sarin:** Also mention that because of our volume performance we have released working capital by reduction in inventories.
- Kinjal Desai:** Okay. So that has also impacted so we have to hold lower inventory per se.
- Sanjiv Sarin:** Yeah, and these are very conscious decision we are taking.

- Moderator:** Thank you. We take the next question from the line of Aman Vij from Astute Investment Management. Please go ahead.
- Aman Vij:** Just a couple of questions, first question on what is your current utilization level in the Instant Coffee out of the 8,500 metric ton which you have?
- K. Venkataramanan:** The capacity is fully maxed out Aman. We are selling to very-very close to 95% - 98% capacity.
- Aman Vij:** Okay. So, any plan of addition to that and what will be the approximate CAPEX from that?
- Sanjiv Sarin:** Which is what we mentioned, we have currently debottlenecked.
- K. Venkataramanan:** Yeah, so, what we are trying to do is we are trying to build-in and see whatever efficiencies in the existing plant so, that is what Sanjiv meant by debottlenecking. So, the best option is to sweat whatever existing assets we have so, that is what we are trying to do where the CAPEX is nothing substantial so, which we are trying to bottleneck and grow the volumes so, that is the first level of action which we have taken.
- Aman Vij:** I was asking about your Freeze Dry Instant Coffee capacity. Freeze Dry only.
- K. Venkataramanan:** Freeze Dried. Freeze Dried, is around 2,000 ton.
- Aman Vij:** Okay. And sir, this utilization level has been this higher for last year also if I am not wrong, you did some debottlenecking also last year, right?
- K. Venkataramanan:** No, last year I do not think any large spends we did but obviously if you see the last several few quarters performances in several quarters we have maxed out on capacity so, that is why so, obviously it has been much more consistent in the last few quarters.
- Aman Vij:** Okay. And second question, you were mentioning about some shift in the African market. so, could you throw some more light on that?
- Sanjiv Sarin:** We are experiencing a trend where customer is looking for more competitively priced products and therefore that is what I was talking about a shift in the mix. And therefore, it has been incumbent upon us to produce products which meet our requirement yet to do it profitably.
- Aman Vij:** Okay. And sir, what is the current market size of the African market coffee consumption?
- Sanjiv Sarin:** I wouldn't have the exact numbers on hand right now Aman that can be looked at.
- K. Venkataramanan:** We can get back to you on that.
- Aman Vij:** Okay. And last one, basically on the coffee consumption pattern. So, if I am not wrong Russia is one of the strongest market for us. So, could you throw some highlight not for this year

perspective but for three years - five years down the line which segment is the fastest growing and a rough numbers as the current market size of the different geographies?

Sanjiv Sarin: I can give you a broad overall global picture. Clearly demand is outstripping supply at the moment in terms of coffee. What is interesting really is that the Eastern Hemisphere is increasing faster in terms of coffee consumption forecasted is about 5% to 6% over the next couple of years. The Western is more on roast and ground fresh coffee and that is a kind of slightly slower growth. But overall, forecast will be higher than supply as of now.

Moderator: Thank you. We take the next question from the line of Jayant Mamania from Care PMS. Please go ahead.

Jayant Mamania: To what extent our Eight O' Clock sales was affected due to trade promotions and launch of new **inclusion** line?

Sanjiv Sarin: No, so understand a couple of things. One is quarter one of Eight O' Clock was a very strong performance because of strong promotion Eight O' Clock had which we spoke about last time. So, there is a bit of overhang of that and competitors have responded aggressively also this quarter. So, that is what is really driving why you are seeing the volumes a bit down for Eight O' Clock in this quarter which is why I mentioned if you look at one together the volumes are still 5% ahead of last year and maintaining the share.

Jayant Mamania: Okay. Sir, how is the response for the Tata Coffee Grand recently launched in the domestic market?

Sanjiv Sarin: Yeah, so, Tata Coffee Grand has got a very strong positive customer, consumer feedback which are coming in. The promotions have been run, volumes are picking up and therefore we have seen as a very positive move in the coffee category right now.

Jayant Mamania: Can you share figures of in quantity figures for this Tata Coffee Grand for the quarter?

Sanjiv Sarin: I think that is more important get it to Tata Global. I can tell you market shares which have indicated at (+1%) right now which is a great performance up from 0.6 or 0.7 a couple of months back. It is actually getting a very positive movement.

Jayant Mamania: Okay. So, can you share a figure from cash generated from supply to Starbucks?

Sanjiv Sarin: I am not too sure, we should be giving independent figures of each. You need to understand that the business is doing well. It is meeting our action standards and the growth is there in the business as the store expanding and each store sales are moving up. The business is moving in the positive direction.

Jayant Mamania: Yeah. Actually from 4% increase in instant coffee and value-added coffee sales we have generated 80% more profits so, will that trend continue?

- Sanjiv Sarin:** We can all pray, but who knows. Listen, I have told you a couple of things which have impacted the Green Coffee cost and there has been a lot of effort in customer management, there has been a lot of effort in trying to get higher-end of the business working and like I mentioned the volumes have been significantly higher than in the past so, a lot of effort is happening on both the ends. So, let us see where it takes us.
- Moderator:** Thank you. We take the next question from the line of Aditya Shah from Vikram Advisory Services. Please go ahead.
- Aditya Shah:** Most of my questions have been answered but one question I just wanted to understand is that why is there an increase in non-controlling interest let us say in quarter-on-quarter or even last six months as compared to the previous six months of the last year. What could be the reasons of that?
- K. Venkataramanan:** That is dependson the profitability, , so quarter-on-quarter. There is nothing, no change in the shareholding or anything.
- Aditya Shah:** So, let us say as a percentage of the net profit, I am asking let us say last six months, this year's six months this 3,300 is non-controlling interest and if you divide it by Rs. 10,875 which is the net profit, we get a figure of non-controlling it has been 30.03%; whereas, comparing with last year's six months 1,063 by Rs. 5,479 it gives us 26.07%. So, even the percentage is changing, I am not asking in the figures as a percentage it changes, why?
- K. Venkataramanan:** I am not able to understand this because it is largely movement in the profitability so, maybe we will look at that and get back to it.
- Aditya Shah:** Generally sir in most of the companies the percentage remains the same, the figure change obviously because of the profitability. But if there is a change in percentage it means there is a change in shareholding.
- K. Venkataramanan:** N, That is what I am saying there is no change in shareholding so, it is only because of profitability. So, we will just look at it and get back to you.
- Moderator:** Thank you. We take the next question from the line of Subhankar Ojha from SKS Capital. Please go ahead.
- Subhankar Ojha:** Just a quick question on the FDI limits or FII limits that the company has, I believe being in the plantation sector you are restricted in terms of certain. Could you just throw some light on that and if the company has any plans of potentially demerging the plantation business from the retail business?
- K. Venkataramanan:** We do not have any such plans of demerger or anything. Regarding FDI, the recent government press release in sometime in November '15 had mailed FDI in coffee plant it needs to be 100%; however, that is something which the investor in terms of FII should have to really clarify from their authorized dealers.

- Subhankar Ojha:** Okay. So, currently as far you are concerned, you are not aware of any restrictions that FII have on buying a stock?
- K. Venkataramanan:** See it is completely policy bound, we don't have anything to comment on that matter.
- Moderator:** Thank you. We take the next question from the line of Sharad Shah, an Individual Investor. Please go ahead.
- Sharad Shah:** Sir, on this minority interest it is directly related to the profits of Eight O' Clock coffee. If the profits are more the minority interest will...
- K. Venkataramanan:** You are right Sharad that is what we explained but he was not sort of convinced. So we will get back to you.
- Sharad Shah:** And sir, one last question, by 2020 where do you see your company in terms of volume and profits? Everybody says 2020, you should also tell us.
- Sanjiv Sarin:** Sharad, I cannot put a number and the stake in the ground on what turnover is going to look like or what the profit will look like.
- Sharad Shah:** But definitely it will be much more, right?
- Sanjiv Sarin:** As a company we are looking at growth and achieve repeating then we are all working towards that.
- Sharad Shah:** No, but sir, there are many companies which are talking of 2030 also. So, what is wrong if you talk about 2020?
- Sanjiv Sarin:** I can talk about 2020 without numbers.
- Moderator:** Thank you. Next question from the line of Avinash Nahata from Aditya Birla Money. Please go ahead.
- Avinash Nahata:** What is the export contribution in our standalone business and how it has behaved over the last two years? Thank you.
- K. Venkataramanan:** Standalone business is more or less it will be around 70% - 75% of it will export dependent and that has more or less remained in the same because in terms of local sales is very much except for not very substantial except for the bean sale and now recently of course Tata Coffee Grand is there but that is smaller volumes which is picking up.
- Avinash Nahata:** So, you said, 75% would be export sales?
- K. Venkataramanan:** Yeah, around 70% would be export. So, what is domestically sold is majorly is tea portfolio which is sold in the domestic options. Other than that coffee is whatever we sell is more of

bean export sales as well as some local sales to say like that our Tata Coffee Grand and all that. But substantially it is exports.

Moderator: Thank you. We take the next question from the line of **Chetan Cholera from Pragya Equities**. Please go ahead.

Chetan Cholera: In the valuation point of view, I just wanted to understand two things like we have other listed player in the market who is merely a converter and we have a lot of assets plantation and everything. So, can I have the analysis of profit and loss in plantation and other things like manufacturing and selling? So, just I wanted to understand whether plantation is a profitmaking business or just merely assets?

K. Venkataramanan: No, actually if you look at our segment results it is given Chetan. If you look at the segment results we have given the plantation as a separate segment.

Chetan Cholera: And the cost analysis wise like cost we are incurring versus gain we are getting out of plantation business.

K. Venkataramanan: Yeah, both the revenue and the segment results are given separately for plantation. For the quarter if you look at it the segment revenue for plantation is in range of Rs. 78 crores and the results are around Rs. 7.6 crores.

Chetan Cholera: Yeah, but if someone is converter and he is vis-à-vis a lot of business like more than us even so, we do not have any plant to have more conversion capacity.

K. Venkataramanan: Yeah, that is what Sanjiv has explained that we are right now the Instant Coffee see, our business is like this the plantation business consist of coffee, pepper and tea and the instant coffee side of the business is where we have this soluble coffee where the capacities are maxed out and we are trying to do enhancements through innovative bottlenecking of the existing capacities.

Chetan Cholera: Yeah, but why not to clear more capacities instead of this...

Sanjiv Sarin: That is a right question to be asked. So, let us evaluate.

Moderator: Thank you. We take the next question from the line of Avinash Nahata from Aditya Birla Money. Please go ahead.

Avinash Nahata: Just a quick question as to give us an indication basis the last deal what you have come to know which has happened in the coffee plantation area. So, what has been the deal in the region?

Sanjiv Sarin: Deal like deal meaning?

Avinash Nahata: I mean a coffee plantation being sold.

- K. Venkataramanan:** See, the problem is the land prices in India are very high. So, we are not having much of information on any substantial deals happening except if there has been two private planters' you may not come to know.
- Avinash Nahata:** Yeah, I was asking about the private planters only.
- K. Venkataramanan:** Yeah, that we may not come to know Avinash because these are all see we should understand that organized players we are perhaps the largest so, we look at it the next level it is a very fragmented kind of the plantations, it is a lot of small-small holding and many of them are family properties which people retain. So, I am sorry that we are not able to give you any specific info on that.
- Avinash Nahata:** And what are the yields for our plantations?
- K. Venkataramanan:** So, it in the region of around 650 is for Arabica and 1,400 for Robusta.
- Avinash Nahata:** 670 and 1,040?
- K. Venkataramanan:** 650 and 1,400.
- Moderator:** Thank you. We take the next question from the line of Dhruvi Vyas from Pi Square Investments. Please go ahead.
- Dhruvi Vyas:** Okay, so, my question goes like we already say that the capacity of what you guys have been producing is like 95% almost and you have constantly said that we would want to improve our reach to the customer base so, how do you plan to improve like reach more to the customers demand and that to you very well said that you are not improving and putting on any additional capacity so, how does that equation work?
- Sanjiv Sarin:** Interesting question the maths according to what you are saying does not work that is the point you are making.
- Dhruvi Vyas:** Yeah, sir, the others is just a tiny doubt I have so, if you could help me out with the numbers.
- Sanjiv Sarin:** Yeah, so, a similar question was post to us last time. See the first phase what we are getting into really is establishing our customer base, establishing customer relationships, upgrading our quality, getting our inventories right and moving up the value chain with that, okay that is where are focused right now. We are also extracting more and more like Venkat said from our existing capacity, okay, by these minor debottleneckings that we have done, okay and sweating what we have we have in the spray-dry, and agglomerated areas to get our mix right. After that in the future is something which we will evaluate certainly.
- Dhruvi Vyas:** Okay. And do you see a bright domestic market performance for your product?

- Sanjiv Sarin:** Like Venkat mentioned we are not a domestic player. Coffee is our largely internationally done except what we are supplying to Tata Coffee Grand. Domestically we have a tea business in India. So, that is where the Indian market is and like we have always said in the past that the Indian market is very nascent right now in coffee but I am sure it holds the future.
- Moderator:** Thank you. We take the next question from the line of **Jayant Mamania from Care PMS** Please go ahead.
- Jayant Mamania:** How our company plays as compares to Brazil and Vietnam in terms of labor cost per ton plantation cost and in terms of per hectare productivity.
- Sanjiv Sarin:** So, your question is Brazilian companies' certainly our productivities are higher, okay but that is a mix of multiple things - their crop patterns are different they are not shade grown, we are shadegrown, they are mechanized, so there are very starkly different ways of production and environmental climate which impact what is happening. But the bottom-line is the productivity is higher in Brazil than over here.
- Jayant Mamania:** What about the labor cost?
- Sanjiv Sarin:** Labor cost again what tends to happen because the productivity is so high over there it would be on a per ton basis a little lower than Indian.
- Moderator:** Thank you. We take the next question from the line of Jignesh Kamani from GMO. Please go ahead.
- Jignesh Kamani:** Sir, if you take about future in the US there is no much clear cut guidance on the instant coffee branding and the packaging and many of you can say that the player use the adulterate coffee which adulterate from the Brazil, Mexico, may be coffee containing corn or a rice (. Now, I think US government is trying to you can say, make it much more you can just stringent in terms of adulteration.
- Sanjiv Sarin:** Frankly I am not aware about the issues of Mexico about adulterated coffee is being imported and stuff like that. You have to understand Eight O' Clock is essentially a green....
- Jignesh Kamani:** No, I am mostly talking from the instant coffee perspective.
- Sanjiv Sarin:** Yeah, so, we have an instant coffee operation in the US, we are not really aware of this kind of issue which you are mentioning. It is a very-very small component of the total coffee business in the US and we have driven more by the roast and ground kind of an business. So, honestly I do not have response to what you have Jignesh this is an issue with all this.
- Jignesh Kamani:** Are we selling anything on the US market on the instant coffee?
- Sanjiv Sarin:** Instant coffee, no.

- Jignesh Kamani:** No. So, only mainly to Russian operation.
- Sanjiv Sarin:** All across the world yes, we do not to have an instant coffee business in the US.
- Jignesh Kamani:** Okay. And have we started receiving any enquiry from the US clients considering you can say development in the regulation?
- Sanjiv Sarin:** I have not heard of this issue which you are talking about Jignesh.
- Moderator:** Thank you. We take the next question from the line of **Aman Vij from Astute Investment Management**. Please go ahead.
- Aman Vij:** Sir, just one follow-up question. So, looking at your value added numbers for the half year, it shows Rs. 634 crores of sales so, in terms of volume what was the number?
- K. Venkataramanan:** Yeah, see annually it is around 8% so, we should be in the range of 50% on volumes.
- Aman Vij:** Okay. So assuming 4,000 tons sir, the realization per kg for your company is very high.
- Sanjiv Sarin:** Right. And the question therefore is.
- K. Venkataramanan:** I am not very sure Aman Vij because see the portfolio there is a mix, we have soluble we have a spray, Agglo, freeze, so I am not very sure that the comparison in that manner may give results.
- Aman Vij:** No, I understand that point. But considering we are mostly a B2B player we are now starting to enter this
- K. Venkataramanan:** One other addition sorry to interrupt. So, we are looking at the consolidated fragment, our value added products will also include the Eight O' Clock brand at business so, it may not be a right comparison.
- Aman Vij:** Okay, so, roughly how much of this will be say Eight O' Clock branded business?
- K. Venkataramanan:** Eight O' Clock we have said, see if you look at your \$60 million is Eight O' Clock turnover roughly in that range.
- Aman Vij:** Okay. So around Rs. 350 crores - Rs. 400 crores will be Eight O' Clock?
- K. Venkataramanan:** Rs. 400 crores will be Eight O' Clock, yeah.
- Moderator:** Thank you. We take the next question from the line of **Sameer Madan from Pi Square Investments** . Please go ahead.

- Sameer Madan:** My question is when we look at the stock business of instant coffee what kind of variations and can you please try to give some kind of sample figures so, we can understand this better and what kind of range of pricing do we see across the board. For example, the Micro-lots and then some of the other value ads which are not as price as the Micro-lots. What is the kind of range in the value added business which is possible as we move up the value chain?
- Sanjiv Sarin:** First of all, let me tell you that Micro-lots are doing because of the definition of a microlot it has indicated a very small component size and is not large. It is more defined by quality and the uniqueness of the particular lot which is being produced. It is not a significant or serious value driver for the organization what it is certainly doing is reflecting seriously in what our capability is and as image enhancer that we have the capability to produce the best and compare ourselves to the world's best. So, that clearly is the microlot. Now, Micro-lots can actually go from the prices go right from a index to 1:1 to 1:40, depending on what the buyers are looking for and where they are picking from. So, it is a huge variation very difficult to say one particular microlot what the prices are going to look like.
- Sameer Madan:** Understood. But my question was more related to Micro-lots as more an outlier, but what is the kind of targeted multiplier that we look for with bulk of the specialty coffee that we are targeting. You have mentioned that specialty coffee is one of triggers for our growth over the years.
- Sanjiv Sarin:** So, our certified coffees are about Rs. 4 to Rs. 5 higher than standards and then depending on customer to customer what kind of value of product we are developing what we are looking for the prices can range upward from that. It is very difficult to answer a question what is the multiplier we do because differential vary country by country, differential vary depending on what you are producing as many. So, it is very difficult to give a standard answer to your question.
- Moderator:** Thank you. We take the next question from the line of Rohit Lala, an Individual Investor. Please go ahead.
- Rohit Lala:** Sir, I am looking at the H1 numbers for FY 2017 and this is primarily related to Eight O' Clock so, correct me if I am wrong but Eight O' Clock has reported a 32% EBITDA margin for the half year FY 2017. Although a lot of it might be due to lower commodity cost. Going forward are the prices elastic as in can they be passed on to the end consumers in case of higher commodity cost?
- Sanjiv Sarin:** See, you have to understand that it is all linked to the power of the brand, okay. And globally brands, the reason you create brands to create customer loyalty and try to become relatively inelastic to price variation so, to that extent any branded player would be looking at what you are saying.
- Rohit Lala:** Okay. And sir, since we are doing a lot of business in Europe and Africa, are there any plans to expand the reach of Eight O' Clock globally like in some of the other geography of the world?

- Sanjiv Sarin:** At the moment, US and we build over there and build a stronger base in the U.S., what turns up in the future is too premature to talk about.
- Rohit Lala:** Okay. And sir, you keep mentioning like that we are primarily a B2B player, but the numbers say that 50% of our turnover is Eight O' Clock and 65% of the EBITDA margins are from Eight O' Clock itself. So, why is this like the B2B side of it has given more focus when the numbers are building more towards the consumer business?
- Sanjiv Sarin:** It is a relevant question. When I say B2B that defines there are two companies Tata Coffee Limited and there is an Eight O' Clock business. So, when I talk about B2B, it is the Tata Coffee Limited which is I am talking about as a standalone business and Eight O' Clock is our consumer facing business. So, when I address that we are the B2B player, it is Tata Coffee India which is the B2B player.
- Rohit Lala:** Okay, sir, okay. Sir, one last question, sir. So, our pepper capacity is at 1,300 metric ton considering the average prices of today that translates to around Rs. 80 crores of turnover in case of full capacity also. So what margins can be expected on such a turnover in case we operate at full capacity?
- Sanjiv Sarin:** See again, you have to realize that it is very difficult to project markets and margins because like coffee they depend on the terminal that are operative though there are no terminals which run in the coffee markets that are markets which defined by market supply and demand and they keep fluctuating.
- K. Venkataramanan:** Also you have to understand, see, pepper is also a off -season, on-season. So, when you say capacity it may not be right term to say because in a on-year it will be 1,100 - 1,200 could be there but off-year it also come down, because that is kind of soil and topography and the agro climatic reason.
- Sanjiv Sarin:** Very good point which I think everybody should know that we are agri based product. All agri based products have this on-year, off-year cyclicity.
- K. Venkataramanan:** Having said that pepper is a high margin business.
- Rohit Lala:** Sir, any numbers you can share, in case say even if it is an on-year and we produce 1,300 metric tons of pepper and...
- K. Venkataramanan:** See, we do not want to share specific numbers but it is a high margin business.
- Sanjiv Sarin:** So, like last year volumes were almost 700...
- K. Venkataramanan:** Yeah, 1,100.
- Sanjiv Sarin:** That is the off-year.

Moderator: Thank you. That was the last question. I now hand the conference over to the management for their closing comments.

Sanjiv Sarin: Thanks very much, I think the questions were very insightful, very useful and I am exceedingly happy that the interest that was in Tata Coffee are growing. And the kind of questions that have been coming up also reflect the interest the analyst is showing in our business and that is welcome sign. Let us continue this dialog every time we connect and thanks everyone so much for this engagement.

K. Venkataramanan: Thanks to ICICI Securities for hosting the call as well.

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