



“TATA Coffee Q3 FY2016  
Earnings Conference Call”

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**TATA** COFFEE

**TATA** SECURITIES



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**Moderator:** Ladies and gentlemen, good day and welcome to the Tata Coffee Q3 FY 2016 earnings conference call hosted by Tata Securities Limited. As a reminder all participants' line 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 any assistance during the conference call, please signal an operator by pressing "\*" then "0" on your touchtone telephone. Please note that this conference is being recorded. I would now like to hand the conference over to Mr. Subham Sinha. Thank you and over to you Sir!

**Subham Sinha:** Good morning everyone. Subham Sinha here from Tata Securities Limited. I welcome everyone to the Q3 FY2016 conference call of Tata Coffee. Congratulations to the management for a good set of numbers. For discussing them we have here with us Mr. Sanjiv Sarin, MD and CEO of the company and Mr. Venkataramanan, who is CFO of the company. I now hand over to Mr. Sanjiv Sarin.

**Sanjiv Sarin:** Thanks Subham. Thanks for that initial warm up of the good quarter. This is Sanjiv here, Managing Director and CEO of Tata Coffee. Before going any further let me wish everybody a belated Happy New Year and a great Republic Day.

A brief overview, the coffee environment globally continues to be very uncertain. So the coffee environment as I was saying continues to be very uncertain with a terminal staying very soft and the key international currencies depreciating probably all we aware that the Arabica terminals are ranging between \$114 to \$120 odd and currencies like Russia Ruble have hit 80 plus to a dollar and the Brazilian Real is probably frequent to breach four Real to a Dollar.

From our end Tata Coffee continues to focus on its premium differentiated coffee and developing very strong customer relationship to tide-over the environmental issue. We have got some of the best name in the roasters whom we are dealing with like **(inaudible) 2.10** amongst the large global ones and our direct share with them is increasing because of a very strong focus and quality and sustainability.

We have also focused on our key relationships and customer relationship in the soluble business, which has resulted in very good performances across especially in Africa and East Russia and Russia continues to perform at a strong level despite all the issues on currency which I just mentioned to you.

You will also be happy to know that last quarter Tata Coffee and Tata Global Beverages launched Tata Coffee Grand in the Indian coffee market and the initial feedback is very, very positive. I had mentioned last time, that we are focusing on our supply chain and I am very happy to share that one of the reasons for our good performance this quarter has been a

result of this. Our supply chain now reflects almost real time the green coffee costs, which is helping us in our entire ability to price right to the customers.

Same what is happening in the environment over the last couple of months we as a leadership team at Tata Coffee had very consciously begun cost saving initiatives like efficiencies and energy and other areas and all these have therefore helped us deliver a very strong performance in the quarter.

In the soluble business category, our efforts in sustainability and energy conservation were recognized at the national level. Our Toopran plant was presented the second prize in the food sector at the National Energy Conservation Award 2015 and our Theni plants were awarded the CII-IPC sustainability award for excellence in sustainable business.

Our subsidiary Eight O'clock showed an improved performance with sale turnover and profit growth for the quarter driven significantly by promotional efforts and lower raw material cost. I had also mentioned last time that the Eight O'clock had tied up with Wal-Mart for supply of instant coffee. The supply begun in September and the initial response again are positive while all this is happening the US environment continues to be exceedingly competitive with large players entering the marketplace.

With all the above actions that have taken by the company we have performed like Subham mentioned exceedingly well. The consolidated PAT for the group is 64% up versus last year and a turnover increase of 8%. I am now going to hand it over to Venkat our CFO who will take us through the results.

**Venkataramanan:**

Good morning to all of you. As Sanjiv mentioned, the company had a robust quarter three. The overall consolidated income grew by 8% amidst of course challenging business conditions. We have had benefit of lower input cost which has translated into a good bottomline. The operating level profit have moved from 57 Crores in the previous year to 76 Crores in the current quarter and the group consolidate net profit has grown by 66% from 18 Crores to 30 Crores. This is on the consolidated.

On this standalone we have one second had a good quarter with around to 10% growth in the topline and the operating profit level they have moved from 18 Crores to 27 Crores which is again 54% increase in operating profit.

The line on exceptional item represents one-time statutory employee cost that have become applicable prospectively by government notification towards bonus for the employees, which has been accounted as a one-time exceptional item and net profit for the period is lower also on account of the fact that the previous year's quarter had the benefit of overseas dividend, which could be a timing issue.

At this point of time that explains the drop of net profit from 25 Crores to 17 Crores though the operating level the profit has been substantially higher. With this we look forward to any question from the analysts.

**Moderator:** Thank you. Ladies and gentlemen we will now begin the question and answer session. We have the first question from the line of Shivani Vishwanathan of Way2Wealth. Please go ahead.

**Shivani Vishwanathan:** Good morning. Sir I just wanted you to throw some light on what is happening in the US coffee market? How is the K-Pods doing over there and how is the roasted coffee segment doing over there industry wise Sir?

**Venkataramanan:** Shivani, the K-Cup business is actually on the increase and so is our performance in the K-Cup. That is on the first part it. The overall coffee category has also grown not as much as K-Cup, it is a little bit on backed area it is slightly down but as far as Eight O'clock coffee is concerned it is all the sectors playing it rather than Eight O'clock and other than the bags, the volumes are increased right now.

**Shivani Vishwanathan:** Sir basically the US Roasted Coffee Industry is seeing growth is what you are saying volume wise because?

**Venkataramanan:** Volume growth yes.

**Shivani Vishwanathan:** I will come back in the queue for more questions.

**Moderator:** Thank you. The next question comes from the line of Chahchal Khandelwal of Birla Mutual Fund. Please go ahead.

**Chahchal Khandelwal:** Sir, congrats on the good set of numbers. Wanted to understand the plantation business the profit has doubled, and the profit has gone up is it because of the pepper business?

**Sanjiv Sarin:** We have had good sales of both Robusta and pepper. **(Inaudible) 10.02** have been sold during the quarter as well as the realizations have been beneficial.

**Chahchal Khandelwal:** Robusta prices have been going down. So is it that we have tied-up with someone at a price we will buy it I mean how does this business worked if you can spend a time and explain it to us?

**Venkataramanan:** So it is like that you are right that the international terminals are down but in Robusta volumes have moved up very well and also in pepper realizations have been good like I mentioned in my opening that we are increasingly dealing with roasters directly with roasters and that itself gives us better realization and the fact that our coffees are certified

gives us slight margin ahead of that. So all this will helping us manage our plantations sector. We will start to realize that our Robusta are lot of it is at the specialty premium coffee range with Robusta which help us get better realizations in the market.

**Chahchal Khandelwal:** What is the mix of the Robusta and Arabica today and how much can this mix improve going forward?

**Sanjiv Sarin:** This improved no actually you got to realize that unfortunately all these agri products have an on and off cycle. One year one produces the other one go down the tricycle because every year the mix changes really. So our effort really is to continue improving productivity in each of the categories you are playing in and improving our marketing capabilities and better realization to higher quality efforts.

**Chahchal Khandelwal:** How much percentage Robusta will be able to share that figure with us?

**Sanjiv Sarin:** Overall we produce around 8000 tonnes roughly, Chahchal of that Arabica is been range of around 2000.

**Chahchal Khandelwal:** Sir lastly on the value added product, the standalone business of the Instant Coffee we had set up a plant there. So how is the response you guys supposed to be looking to tie up with some international brands, so how is the Instant Coffee business shaping up and also your Starbucks business how is that shaping up?

**Sanjiv Sarin:** I think you understand we have not set up any plant, extended capacity to two to three years. Chahchal we expanded the Instant Coffee capacity.

**Chahchal Khandelwal:** You extended the capacity.

**Venkataramanan:** To start a new plant that is about three years back and a very fact that we are touching 8000 to 10000 tonnes of Instant Coffee because of the enhanced capacity. So we are actually producing the capacity and selling to capacity right now and that explain therefore which we are making in the market place. What was the second end of the question Starbucks? Starbucks we continue to be the sole supplier for the Indian business and as their demand increases our supplies even increase. We also have blend of which is marketed in the international with them to the store called India estate blend and we are working with them to see how that can be enhanced across the market place.

**Chahchal Khandelwal:** So as of now it is only India. It is not Singapore and others have not yet started?

**Sanjiv Sarin:** No India estate blend is sold globally. Our supply to roasters is only for India.

**Chahchal Khandelwal:** That business is reported as a part of value added piece right?

**Sanjiv Sarin:** Yes.

**Chahchal Khandelwal:** Thank you Sir that was useful. Just lastly if I may with regards to Eight O'clock coffee business so this quarter we have seen a strong if I remove the standalone and consolidated you are seeing a strong EBITDA growth where the gross profit go to just 7%. So few line items you have rationalized. Can you explain us I mean what is going on in that business and what can we model in next two to three years within the growth be 8% to 10% in terms of topline?

**Sanjiv Sarin:** It is a very difficult question to answer what the future potent, but I think some of you have asked last time also the business is clearly focusing or enhancing its offerings. They are looking at new product introduction. They had tied up with Wal-Mart a couple of months back which I also shared the performance very briefly. So they are making all their efforts to get a larger share of their entire segments that we are operating in. How this will pan out in the future and all it is left to performances and the market condition but from the managerial side of it, we will make all the efforts to perform to grow the businesses.

**Chahchal Khandelwal:** That is it from my side. Wish you all the best Sir.

**Sanjiv Sarin:** Thank you very much.

**Moderator:** Thank you. We will take the next question from the line of Manoj Menon of Deutsche Bank. Please go ahead.

**Manoj Menon:** Congratulations on a good performance. I have only one question regarding your entry into the India Coffee Retail market. So if you could just help us understand the market size, market growth and what exactly are you looking at in that given the duopoly nature of the India Coffee Retail market. So that is one that is external part. From an internal point of view could you just talk about company's managerial ability because you have tried marketing in the past as well? So that is one. The learning's from that and how it is different this time and also on the front-end part of it the distribution etc., we already have a distribution or you need to build it because how do I think about this in the real medium term three to five years of your retail foray?

**Sanjiv Sarin:** I think you asked three sets of questions. The Indian Coffee Market is small compared to the tea category but it is growing, have slowed down recently but it is on a fast track of growth and as the coffee culture in the country enhances this category will certainly grow and that is our anticipation of the growth. Actually you addressed the issue you yourself saying it is a duopoly, which really makes it an opportune moment for a large strong player to come into the market and challenge what is happening in the market and very clearly the third question itself which you asked was the only reason we can succeed is to have a

strongly differentiated product into the market place. I am not sure you have tried a product. Have you tried the product?

**Manoj Menon:**

No not yet.

**Sanjiv Sarin:**

So it is a highly differentiated product. It is a mix of freeze-dry, agglomerated in chicory developed by Tata Coffee through the Bean which are currently being sourced from our plantations and developed by us and through all the consumer inside work done by Tata Global Beverages the blends have been tested and out in the market place and the initial feedback is extremely positive on the category and certainly obviously once you are in the market place we are here for the long stay and I do not think we should get bogged down that we did not succeed as a company five, seven years or 10 years back and not come back strongly in the market right like we are doing right now.

**Manoj Menon:**

Understood Sir actually just please allow me couple of follow-ups here. One is there any existing product like what you have launched or is it a completely new product?

**Sanjiv Sarin:**

The Indian market is new, completely new. Actually our suspect will be new across.

**Manoj Menon:**

So if I understood correct is it more like an instant coffee with chicory added?

**Sanjiv Sarin:**

You have to understand the chicory is certainly a part, there are other brands in the market also which have chicory but the real differentiation is the product which we have and which they are calling as decoction crystals, which is giving the taste, which the customer is really looking for. The reason why taste is so critical you see you will find that people are gradually moving from let us say filter coffees to instant coffee for the convenient part of it. The gap really is in the taste and therefore what we are coming out is giving as close a taste to the filter coffee in an instant format. So it is actually win-win for the consumer.

**Manoj Menon:**

Sir couple of things on the market size currently and of course the market growth if you can talk about in the let us say last one or two years and also the distribution capability or arrangement what you have?

**Sanjiv Sarin:**

Market is over 2000 Crores, and we are growing at about 10%, 15% I think last year we slowed down a bit but as I mentioned earlier this will certainly ramp up as we go forward. The big advantage which we have in our distribution is actually not setting up a new distribution because Tata Global Beverages have a very, very strong distribution network and tea and coffee are complimentary when they go to the stores.

**Manoj Menon:**

Fair to say that this product is more South India oriented?

**Sanjiv Sarin:**

No it is national.

- Manoj Menon:** It is national. Thank you and all the best.
- Moderator:** Thank you. There is a follow-up question from Chahchal Khandelwal from Birla Mutual Fund. Please go head.
- Chahchal Khandelwal:** Sir on the same thing which Manoj was asking what is the arrangement with Tata Global on this brand so will we pay them a distribution fees or how does it work?
- Sanjiv Sarin:** The product, which we are producing, they are marketing so jointly run by the two companies.
- Chahchal Khandelwal:** Which part of the margin will be captured by Tata Global?
- Sanjiv Sarin:** Since it is confidential agreement but whatever arrangements have been done have been done arm length agreement done by excellent consultant.
- Chahchal Khandelwal:** That is it.
- Moderator:** Thank you. Our next question is from the line of Jignesh Kamani of GMO. Please go ahead.
- Jignesh Kamani:** Sir I joined the call little late. So apologize if my question is repetitive. Just want to check on the Russian market. How is the demand environment you can see from Russia and if you take apart Brazil which is the largest you can say producer of both crop and instant coffee?
- Sanjiv Sarin:** Just repeat Jignesh the question. The Russian market we could hear.
- Jignesh Kamani:** Secondly if take about Brazil. Brazil is largest you can say producer of the green coffee beans and also the one of the leading exporter of the instant coffee and they devalue the currency drastically now you can say. So how is the competitive scenario for the Indian coffee exporter in terms of instant coffee compared to Brazil now?
- Sanjiv Sarin:** Let me answer the second question first. Actually what the thing is probably the core of what is happening in the market place. The Brazilian currencies are devalued. It is putting a lot of pressure on the market place, which is putting a pressure on the commodities, realizations in the market and therefore whether you are talking about the fact that why we have succeeded and we are focusing more and more on differentiated of the relationship in the market to get performance at the moment. That is serious issue, which is impacting the growth. We will have a very strong production of crop so there is pressure on Brazil. As far as Russia concerned again you are right their Ruble get improved constantly touched about 82 a dollar a couple of days back. So that really pushed a lot of pressure on the buying it in the market. The tension over there becomes high. Now for us Russia has been a very important market. Again coming back in anticipation of what was happening really

enhanced our focus with customer relationships. Both of them doing product development and engaging with them therefore our performance in Russia it has really been very good right through this year.

**Jignesh Kamani:** But if you take about how is the pricing happened, it has happened in the dollar term where most of the contract and hence our depreciation of Ruble would not have a drastic impact or a normal instant coffee manufacturers has to you can say be in a burn even though Ruble has depreciated?

**Sanjiv Sarin:** It is in dollar term Jignesh.

**Jignesh Kamani:** Neither your rupee depreciation there will be pressure on you can instant coffee manufacturer to absorb the part of the loss which a brand owner will make?

**Sanjiv Sarin:** Jignesh, the point is on the pricing pressures we always we are constantly faced but then we are also having long-term customer relationship and there is a clearly definitive superior product offering from our side. So what you say is right in terms of pricing pressures. We are also able to sort of go through the pressure with our own kind of product offerings and long-term relationship.

**Venkataramanan:** Let me just add to that since it is a pressure on the pricing like the ability to give superior product does give us a slightly differential price. What you also mentioned the impact of Brazil the green cost are coming down. So part of that gets (inaudible) 24.33 by that area probably you missed out because we have been having a much focused cost reduction program in the organization to manage the impact, so all this has really helped us to a strong performance in this quarter.

**Jignesh Kamani:** Thanks a lot.

**Moderator:** As there are no further questions from the participants I now hand the floor back to Mr. Subham Sinha for closing comments.

**Subham Sinha:** On behalf of Tata Securities this concludes the concall. I thank everyone for attending.

**Sanjiv Sarin:** Thank you very much.

**Moderator:** Thank you. Ladies and gentlemen that concludes this conference. Thank you for joining us. You may now disconnect your lines.