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Tata Consumer Products' margins to improve in quarters ahead as inflation in tea tapers off

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[Tata Consumer Products](#), the fast-moving consumer goods or FMCG arm of the Tata group, expects margins to further improve in the quarters ahead as core inflation tapers off and the economy heads back to normal with the easing of the second wave of the pandemic, the company's chairman and managing director Sunil D'Souza said while addressing investors on Monday.

"The core inflation which was impacting our margins has tapered off and we have seen a sequential improvement in our gross margins for the second consecutive quarter," said D'Souza.

Margins, he added, are expected to improve sequentially at least for the next two to three quarters.

Tata Consumer Products registered a 9 percent year-on-year jump in consolidated revenue to Rs 3,033 crore and a 4.2 percent climb in net profit to Rs 268 crore for the quarter ended September (Q2). While the company's Ebitda (earnings before interest, taxes, depreciation and amortisation) took a hit due to higher advertising and promotional spending, gross margins showed an improvement.

"Ebitda margin contracted by 70 basis points year-on-year to 13.6 percent due to higher advertising and promotions and other expenses but was offset by a 190 basis points year-on-year and 200 basis points quarter-on-quarter

improvement in gross margin to 42.8 percent. Ebitda grew 3 percent year-on-year to Rs 410 crore,” Motilal Oswal Institutional Equities said in a note.

Several FMCG companies have been battling high input costs on account of inflation for more than a year now. However, of late, prices of some commodities such as tea have started to ease, offering relief to packaged consumer goods companies.

“The price of tea has started to come down from their highs. They are range-bound at the moment but significantly less than their peak of September-October 2020 and at a level where we started in 2019,” said D’Souza.

“Considering our pricing actions have already happened, we expect margin improvement going ahead,” he added.

According to a Motilal Oswal report in September, with the return of normalcy and increase in tea production, prices of the commodity fell from their peak in August 2020 to Rs 173 per kilogram in August 2021. FMCG companies, however, continue to battle high inflation on several other fronts, from freight to commodities such as palm oil.

“Inflation in certain commodities like palm oil, crude-based derivatives and ocean freight has been unprecedented. We haven’t seen this kind of inflation for many years,” [Hindustan Unilever](#) chairman and managing director Sanjiv Mehta said last week while addressing investors.

The way ahead

Tata Consumer Products is far more bullish about the days ahead than its peer. According to the company, as the easing of the second wave of the COVID-19 and more people getting vaccinated will lead to a faster economic recovery. Globally, too, it is witnessing a return to pre-COVID demand trends for packaged tea and coffee categories.

“International business is returning to near normalcy and we will see improving trends with the normalisation of base period growth rates,” it said in a note.

“In India, the packaged beverages segment has seen a moderation in tea costs and we will be dynamic in pricing to drive competitive volume and value growth. The momentum in the food business should continue with a focus on distribution and investment behind brands and innovation,” it added.

The company indicated that its out-of-home business is also rapidly recovering and coffeehouse chain Starbucks and non-aerated beverages business NourishCo will continue their recovery momentum in the quarter ahead.

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