

We would optimize costs to deliver decent bottom line: Sunil D'Souza



Sunil D'Souza, MD & CEO of Tata Consumer Products. 4 min read . 12:19 AM IST [Suneera Tandon](#)

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In its September quarter earnings announcement last week, Tata Consumer Products Ltd (TCPL) said the beverages business in India grew 14%, while foods business volumes were up 16% year-on-year. The company, which owns brands such as Tata Sampann and Tata Tea, said it will modify pack sizes, prices, channels, and marketing spends to keep costs under control. In an interview, the company's managing director and chief executive officer Sunil D'Souza said it is also launching new products and expanding its coffee chain Starbucks. Edited excerpts:

Are tea prices more stable?

India tea costs hit an all-time high in September 2020—about 70% higher than in September 2019. That was primarily due to the demand-supply gap where supply fell short because of the covid-led lockdown when plucking at tea estates was not allowed. They have since been coming down a bit. I would say in May and June this year, there was again a small bit of an uptick. Right now, it is sort of range-bound. It's about 30% down from the peak, but it's still around 20% up from when it started in 2019.

The good news is, over the last 12 months or so, we have been taking price increases. Unless there is a disruption, we see a stable environment. Therefore, the margin in the tea business would see improving quarter-on-quarter growth. This quarter itself it has improved significantly versus the last quarter. We will see further improvement, and will go back to normalcy in the third and fourth quarter.

What about food inflation?

Food (inflation) is playing diametrically opposite to the beverage business because in foods the biggest piece for us is salt, which is getting impacted by two big inflationary trends. One, the downstream impact of oil, including freight, plastics and, therefore, packaging, etc. Two, is the recent upsurge, but has come up very strongly, is the cost of coal. Note, we have got to evaporate brine and then extract salt—so, there is significant usage of coal.

That said, we will look at multiple items, and will tweak pack sizes, prices, channels, A&P (advertising and promotions) spends, and discretionary spends besides other costs. We will try and optimize every single cost to make sure we deliver decent bottom lines.

How has inflation affected monthly household consumption?

I don't think it has hit households as yet. I don't think the inflation has fully got translated into pricing. We may have heard various companies making different comments about price hikes, but we have not seen the whole impact play out yet. For us, we are in the staples business, every house uses salt and tea. The impact might not be as much as for other companies in the discretionary fast-moving consumer goods space.

Are you seeing a slowdown in rural consumption?

Overall, for TCPL, our urban footprint is much more significant than our rural footprint. In fact, our urban market shares are significantly higher than rural market shares. Therefore, the opportunity for us is to expand to rural. This year, so far, we have added about 4,000 rural distributors, who did not exist a year ago. The target by March is to get to over 5,000. But if you go by the Nielsen numbers, you do see softness in rural compared to urban.

However, unlike the first wave, the second covid-19 wave hit right in the hinterland. People probably stopped in their tracks for a bit. But going forward, with a good monsoon, interventions by the government, and higher minimum support prices (MSP), there is no reason why rural should be lagging urban significantly.

How has Starbucks recovered?

In Starbucks we have got a very strong brand. Unfortunately, we could not open too many stores in the first quarter because of the lockdown. In the last quarter, we opened 14 stores. Now the momentum on store opening is building up. As soon as the second wave receded and the economy started opening, we've seen consumers coming back. During the lockdowns, the Starbucks team figured out how to dial up delivery; delivery continues to stabilize at high double digit. It was about 17-18% of the mix in the last quarter. Also, during lockdown, the teams figured out how to tighten their belts—be it rental costs, or other expenses, spillages and wastage. Now, the ball is in our court as to how quickly it can go from here.

I wouldn't go into how many stores India can take, but if I look at comparable countries around the world, they're all in excess of four digits.

So, we've got a long way to go in terms of store openings. We have still not finalized with the board—but let me just say we're putting some aggressive numbers in place.

LC: <https://www.livemint.com/companies/people/we-will-optimize-costs-to-deliver-decent-bottom-line-tata-consumer-md-ceo-11635257478884.html>