

# Management Discussion And Analysis

## 1. Economic Environment

### Economic Environment during the Year

As per the International Monetary Fund (IMF), global economic growth strengthened in 2017 to 3.8%, an increase of 0.6% from 2016 levels, driven by both developed and emerging economies. The year also witnessed two landmark tax reforms - India's introduction of the Goods and Services tax (GST), and the USA's approval of a tax reform bill.

In India, FY 2017-18 was marked by a number of key structural reforms to build sustainable long term growth. The most significant initiative was the implementation of GST in July 2017 with the vision to create a unified market with a modern, transparent and technologically driven indirect tax system. The Indian economy witnessed some slowdown in growth during the transition period to the new GST regime from the erstwhile tax regime.

In the USA, the tax reform bill enacted in December 2017 lowered the tax rates for corporates which is likely to be beneficial to growth across industries.

In the UK, one of Tata Global Beverages' key operating markets, economic growth was impacted due to concerns around Brexit negotiations and increase in inflation impacting household spending.

### Outlook on the Economic Environment

Global growth momentum is projected to continue in the next year with broad based growth both in developed and emerging economies.

According to projections, economic growth in the USA will be led by improvement in domestic demand and the boost provided by the December 2017 tax reform which is expected to stimulate investment activity.

India's GDP growth is expected to bounce back to 2016 levels, led by higher private consumption and structural reforms as the transitional impact of the GST launch declines. India's growth outlook remains favourable led by positive indicators such as expected growth in industrial activity and recovery in investment levels, decreasing impact of GST transition and on-going structural reform in the economy. Increase in oil prices will have some inflationary impact on the Indian Economy.

Concerns around arrangements post Brexit will continue to impact economic outlook in the UK.

## 2. Market Trends

### i) Tea Industry

#### Industry insight

According to Euromonitor, tea is approximately a \$40bn industry globally, growing at a 5 year CAGR of 3.3%. Tea, Coffee, Carbonated Soft Drinks (CSD) and juice consumption is projected to increase to twice the amount from 663 bn ltrs in 1999 to 1,366 bn ltrs in 2020. By volume, tea's share of throat is expected to increase from 35% in 1999 to 39% in 2020.

Everyday black tea forms the largest tea category sub-segment in most economies globally, followed by non-black teas like Green tea, Fruit & Herbal, Rooibos, Decaf etc. Though there is an overall trend of non-black tea growing faster than black tea, this is at different stages of evolution across various geographies.

In the developed/advanced economies, we continue to see a trend of declining everyday black tea consumption, replaced by growth in non black sub-segments such as Green tea, Fruit & Herbal etc. In developing economies like India, while Green tea is growing faster than Black tea; it currently occupies a very small share of the market.

#### Tea Production and Prices

In terms of production, the global crop position in 2017 was lower by 10 Million kgs over the previous year. India and Sri Lanka registered an increased crop while Kenya and Bangladesh registered a reduced crop.

On account of the reduced supply position in Kenya, the Mombasa auction average was dearer compared to the prior year. In India, North India tea prices were a mixed bag reflecting the demand supply situation in the various tea growing districts. While Assam auction prices were higher, Orthodox tea prices were marginally lower than the previous year. Darjeeling tea supplies were severely hit as a result of prolonged strikes due to agitation. The South India auction averages saw a downward trend consequent to increased availability over the previous year.

During the year 2018, North India experienced timely rainfall resulting in good crop at the start of the season. There is good demand forecast for the year with some expected appreciation in price levels for all varieties of teas. The Darjeeling market opened on a strong note, however there will be an inevitable softening of price levels as the year progresses. The South India market opened dearer due to poor weather and consequently lower crop. However, prices are expected to soften.

In the international markets, FY 2018-19 opened with Kenyan price levels at record highs due to political uncertainty. Since then prices have eased with improved crops and stability. The market is forecasted to be flat to slightly lower than the previous year.

### Industry trends

With increasing disposable income and growing aspirations, the Indian market is witnessing premiumisation – both at the bottom end of the pyramid through conversion from loose to branded teas and at the top end through super premium offerings and variety in tea. At the top end, consumers are discovering a wide range of offerings through different tea origins and flavours. There is also a range of wellness teas becoming popular where the goodness of tea is enhanced with natural herbs or fortified with vitamins as consumers become more health conscious.

The out of home tea channel is also gaining in demand both in India and International markets where retailers are creating new opportunities for consumers to experiment with tea and brewing techniques. There is early momentum in this segment, with opportunities in tea retail stores and cafes.

E-retail is also another growing channel where a lot of companies are directly selling online without having a retail store. This trend is picking up as consumers' trust in e-retail grows. This channel also offers exciting opportunities for consumers to interact with and experience different varieties of tea.

### Outlook

Tea continues to be a strong everyday consumption beverage. Hot tea consumption is growing in markets like India. In addition there are additional growth drivers such as premiumisation and conversion of unbranded to branded tea. In many developed markets, while everyday black tea is declining, there is growth in a variety of non-black teas. There is also an emergence of small niche players who are gaining share by launching innovative products thereby capitalising on industry trends.

Consumer preferences for beverages continue to be mainly driven by 'health and wellness' and 'premiumisation'. In developed markets, consolidation of retailers, growth in online sales and to some extent growth in private labels also impact consumer branded businesses like ours.

## ii) Coffee Industry

### Industry insight

According to Euromonitor, coffee is approximately a \$80bn industry globally, growing at a 5 year CAGR of 3.1%. Coffee's share of throat by volume is expected to increase from 22% in 1999 to 23% in 2020.

Globally, coffee has four sub-segments: Roast & Ground (R&G) bags, Beans, Pods and Instant Coffee. In developing economies which have larger tea markets, instant coffee forms the dominant sub-category. However, in advanced/developed economies, where the coffee category is larger than tea, R&G forms the dominant sub-category. In countries with a strong café culture, coffee pods are popular as they help consumers re-create the café experience at home.

USA is the largest coffee market by value contributing to approximately 15% of the global market and is projected to remain a significant contributor to global category growth. In recent years, there has been consolidation of the industry with a number of European coffee companies interested in gaining a strong foothold in the USA and other markets via mergers and acquisitions.

India is still a small coffee market. In the North, there is high coffee consumption mainly during the winters while in the South, consumers drink coffee throughout the year.

### Coffee Production and Prices

In terms of production, the global coffee markets in FY 2017-18 was mainly influenced by the alternating Brazilian "on" and "off" crops. Global coffee production was 159.66 Million bags, 1.2% higher than the previous year with a 12.1% increase in Robusta output offsetting a 4.6% decline in Arabica production. The decline in Arabica production was due to lower estimated output of Colombian Milds at 15.21 Million bags and Brazilian Naturals estimated at 50.23 Million bags. The estimated Robusta production rose from 55.6 Million bags in 2016-17 to 62.24 Million bags in 2017-18 largely due to increases in output from Vietnam and Indonesia. Vietnam's production is estimated at 29.5 Million bags of coffee in 2017-18, 15.5% higher than the previous year. Coffee in 2017-18 was surplus for the second consecutive year, with production exceeding consumption. This excess is weighing down on global coffee prices in the current year.

### Industry trends

Consumer behaviour patterns are largely being influenced by convenience, increase in out of home consumption and premiumisation across the globe. The coffee market is also growing at a faster pace than the tea category across the markets in which we operate. We are also witnessing increasing consolidation in the coffee market as players are looking at driving synergies with larger scale.

USA, which is one of the largest Pods markets, is witnessing a slowdown in pods category growth from high double digit a few years back to single digit growth. The industry is also witnessing price-led competition among the players including private labels, to garner higher market share.

### Outlook

Global coffee consumption continues to enjoy steady growth. However, there is increasing consolidation in the market and a lot of global coffee players are showing interest in this trend. The Nestle Starbucks deal is one such example. We expect the competition to intensify further and will be closely monitoring the evolution of this market.

### iii) Water

#### Industry insight

The Indian Liquid Refreshment Beverage (LRB) market is approximately Rs. 180 bn growing at 6% yoy (LRB includes Dairy, Juices, Carbonated Soft Drinks (CSD's) and Bulk Water). Packaged Water constitutes approximately 18% of LRB (by value) and is growing at 1.5x the category.

#### Industry trends

Indian packaged drinking water category growth is led by increasing disposable incomes and changing lifestyles, with consumers looking at convenient and hygienic options for hydration.

Health and Wellness is a strong trend in this industry with consumers increasingly opting for healthier alternatives, giving growth impetus to categories like value added waters which are perceived to be healthier.

### Outlook

In mature markets, premium natural mineral waters and functional beverages are leading category growth. In India, there is a growing trend towards functional beverages with fortification through vitamins and minerals.

India's value added water segment will continue to enjoy good growth with increase in distribution and penetration for the next few years.

### iv) Other factors influencing Market Outlook

#### Interest Rates and Exchange Rates

Tata Global Beverages operates in multiple geographies and hence both interest rates and exchange rates across geographies are of significant importance to our business.

The interest rates in India have hardened in the later part of the year due to concerns over rising fiscal deficit and inflation, and are expected to remain volatile. UK continues to witness low interest rates given the volatility and uncertainty looming around the economy as a result of UK's exit from the European Union. In USA, the interest rates increased as the central bank hiked the policy rates with expectation of subsequent rate hikes going forward.

The rupee traded weak against the dollar during most part of the year due to stronger growth, upside inflationary pressure and interest rate hike in USA and is expected to remain range bound going forward. Sterling recovered against USD from its earlier lows post Brexit in June 2016 and is expected to remain volatile.

The Company did well in mitigating the currency and interest rate exposures by adhering to the Board approved treasury policies and are also reasonably covered in respect of its immediate trade flows.

## 3. Review of Business

### i) Consolidated Business

#### Business Overview

Tata Global Beverages is among the world's largest tea companies with a growing coffee and water portfolio. Our vision is to be a world-class beverages company that is admired globally for its innovation and quality, a company that puts smiles on the faces of millions of consumers. We are focused on an aggressive profitable growth strategy of strengthening our core brands, launching innovative new products, category expansion and rationalising non-profitable businesses. The previous year has seen significant profit growth driven by improved operating performance, restructuring and good cost management in the branded business. We will continue to innovate in tea, coffee and water with new blends and beverage experiences.

Your Company's strategy is formulated keeping in mind the industry trends. We will strive to continually deliver improvements based on the following pillars of growth:

- a) Rejuvenate the base business – Focused approach to continually improve brands in the core categories of tea, coffee and water. The objective is to achieve profitable growth in core businesses in our regions with a focus on brand building, premiumisation, enhancing distribution reach and developing alternate channels.
- b) Invest for growth – Focus on future growth engines by continually expanding geographical presence and brand reach in spaces where we have not been present along with strengthening and expanding our incubatory businesses.
- c) Drive innovation – focus on innovative products based on the industry trends of premiumisation, health and wellness and convenience.
- d) Improve operational effectiveness – reinforce organisational capabilities, efficiently manage spends and actively manage commodity costs.
- e) Review portfolio options and additional avenues for growth.

During the year under review, your Company focussed on all the above pillars to drive improvements and target growth. We enhanced focus on innovation across categories to deliver exciting new products. We tapped white space geographies and new product categories while strengthening our brands in existing markets and investing in strong marketing campaigns. We also significantly expanded our offerings in the green tea and fruit & herbal tea segment and are steadily adding to our portfolio in branded coffee and the functional water segment.

### Financial review

Tata Global Beverages delivered a strong brand performance during the year despite increased competitor intensity across some markets and adverse macro-economic conditions prevailing in some countries. The good performance came on the back of a continued focus on the global health and wellness trend and innovative product launches.

In keeping with our purpose of creating magical beverage moments for consumers across the world, we launched many exciting new products. Many of these launches leverage the health & wellness trend across geographies. During the year, we launched Ready-to-Drink (RTD) products in Canada and India. We launched a range of indulgent teas and also a squash product in the UK. In India, we launched Tata Tea Masala chai. We are exploring convenience formats through a pilot Chai store branded as 'Tata Cha' opened in Bangalore. The global marketing function continues to focus on developing a strong global brand portfolio with an enhanced global innovation agenda. Your Company will increase focus on its 4 power brands namely Tetley, Tata Tea, Eight O' Clock coffee and Himalayan. These power brands are being managed in a globally consistent manner which includes creating a global brand identity.

From a product category viewpoint, both branded tea and coffee registered good performance. The non-branded operations performed lower than previous year due to the impact of adverse weather conditions and lower commodity prices.

Financial highlights during the year:

- Revenue from operations at Rs. 6,815 Crores was higher than the previous year by 1%. However, excluding the impact of sale and restructuring of some businesses, the increase is 2% in constant currency on a comparable basis. The increase in revenue is attributed to the improvement in branded business notwithstanding the challenging market conditions. There was significant de-growth in the Non Branded Business mainly due to underperformance in tea and coffee plantations and coffee extraction business, mainly due to abnormal and extreme weather conditions coupled with low terminal prices for Robusta Coffee.

- Profit before exceptional items and tax at Rs. 774 Crores improved by 18% over the previous year aided by lower tea commodity costs in India, good cost management, restructuring of businesses and lower finance costs. However, high commodity costs prevailed in the international markets in both tea and Arabica Coffee.
- Exceptional items include profit on divestments of our stake in Estate Management Services Pvt. Ltd, Sri Lanka and in Zhejiang Tata Tea Extraction Co. Ltd, China offset by restructuring costs incurred mainly in the international markets.
- Group Net Profit for the year at Rs. 557 Crores was higher than previous year by 22% largely driven by improvement in operating performance.

### Performance Snapshot

The consolidated financial highlights for FY 2017-18 are as follows:

	Rs. in Crores		
	2017-18	2016-17	Variance
Revenue from Operations	6,815	6,780	35
Profit before exceptional items and taxes	774	657	117
Exceptional items (net)	(21)	5	(26)
Profit before tax	753	662	91
Profit after tax	567	464	103
Group net profit	557	455	102

### ii) Standalone Business

Financial highlights during the year:

- Revenue from operations at Rs. 3,217 Crores grew 5% over the previous year driven by improved branded operations. Improvements were recorded across most national brands and regional brands.
- Profit before tax and exceptional items at Rs. 608 Crores improved aided by higher sales and lower commodity costs. Additionally, the company benefited from lower interest costs, non-recurring items and higher dividend / interest income.
- Exceptional items include a profit on divestment of our stake in Estate Management Services Pvt. Ltd, Sri Lanka and in Zhejiang Tata Tea Extraction Co. Ltd, China.
- Profit before and after tax reflected significant improvement driven by higher operating profits and exceptional income.

- The business had a smooth transition into the GST era. GST rate on most of our products were in line with rates under the erstwhile regime. GST will provide a level playing field for the organised and the unorganised players to compete, which is a positive outcome for your Company. Our operation and supply chain models have been restructured wherever necessary to enable efficiency and compliance. The Company will continue to review the business and operating models to improve efficiencies and effectiveness.

### Performance Snapshot

The standalone financial highlights for FY 2017-18 are as follows:

	Rs. in Crores		
	2017-18	2016-17	Variance
Revenue from Operations	3,217	3,064	153
Profit before exceptional items and taxes	608	386	222
Exceptional items (net)	115	-	115
Profit before tax	723	386	337
Profit after tax	534	276	258

### iii) Brand and Product Performance

#### a) Branded Tea Business

##### Business overview

Your Company is one of the largest tea companies globally. We are among the leading players in tea in three large markets - India, UK and Canada. Our current portfolio has higher weightage of Black teas (largest sub category within tea globally) and we have been growing our non-black portfolio in-line with trends such as health and wellness, premiumisation and convenience. To achieve this shift in revenues, we have been building our innovation pipeline with new blends, category expansion and packaging formats to grow new customer base.

We delivered a strong brand performance during the year led by Indian tea brands. In the international markets, we faced challenges on account of over-indexation to every day black tea category, high competitive intensity and increasing power of retailers led by consolidation. We are launching innovative products to reduce dependence on every day black by growing the non-black speciality categories and entering into newer categories. This approach is expected to deliver growth in the coming years.

##### India

FY 2017-18 saw India tea business deliver a strong volume and value growth despite short disruption caused by GST in the

initial few months of launch. We retained our volume leadership in India. Tata Tea brand ranking jumped to # 2 from # 13 in ET Brand Equity's India's Most Trusted Brands in Hot Beverages Category. During the financial year, based on the success of Tata Tea Elaichi, we launched another variant - Tata Tea Masala which provides consumers a refreshing variant of popular spices with traditional teas. Both continue to perform well in the market and have exceeded our projections.

The India retail narrative has set the tone for a growing legion of premiumised products and traditional variants in the country. The Company introduced the Tetley Super Green tea range to India in early 2017. The product line offers refreshment and nutrients in a single cup, eliminating the need for additional vitamin supplements. We recently launched a new ad campaign – "Andar se clean and Bahar se Active" with our brand ambassador Deepika Padukone.

Another interesting line launched in India is Tata Tea Teaveda, a select range that combines Ayurvedic elements with Assam black tea, providing consumers access to everyday practical Ayurveda. As TGB works on the growing opportunity provided by higher standards of living, the beverages repertoire in India is poised to become bigger and better.

The year also marked the pilot into two new formats – a Ready-to-Drink Beverage - Tata Tea Fruski and an out of home retail tea format – Tata Cha. Fruski was launched at the start of the year in Delhi and Western Uttar Pradesh. The beverage combines green tea with ayurvedic ingredients and is available in mango and orange flavours; with the single serve format available at an affordable price of Rs. 12. The pilot has helped us in identifying areas for improvement in supply chain, before we do a larger roll-out in North India.

The first Tata Cha store was launched in the third quarter of FY 2017-18 in Bangalore and another store was subsequently opened in the fourth quarter. We have received encouraging response to the new tea stores and depending on store performance, will explore further expansion.

This year, we carried forward the Jaago Re 2.0 drive (launched in early 2017) with the theme 'Alarm Bajne se Pehle Jaago Re', urging people to 'pre-act' on issues to avert a future crisis. In the current year, the focus of the drive was on two petitions which aim to make gender sensitisation compulsory in the school curriculum, and sports a compulsory subject in schools. Your Company was able to garner support from nearly 1.8 million people across the nation and we presented the petition to Shri Prakash Javadekar, Union Minister of Human Resource Development, Government of India in February 2018.

##### Europe, Middle East and Africa (EMEA)

With the growing trend towards health & wellness and premiumisation, Tetley continues to strengthen its non-

everyday black tea portfolio with 'Super teas'. During FY 2017-18, we extended our range in the UK market with two new variants: Super Green tea- Sunshine (green tea blended with vitamin D) and Super Green tea- Matcha (has finely milled, rich green tea powder known for its unique taste and natural healthy goodness). We also launched an array of specialty teas, curated under the Indulgence range, crafted specifically for a younger demographic segment to help Tetley establish a significant foothold in the premium black tea category. We launched four blends under the Indulgence range during the year: Chocolate mint, Cookies and cream, Spiced apple and Gingerbread.

Additionally, we also entered a new category in the UK – "Super Squash", a blend of real fruit juices enhanced by added vitamins carrying approved health benefits - building on the success of Super Teas. The product is available in three flavours- Sunshine with added vitamin D, Boost with vitamin B6 and Immune with vitamin C.

Teapigs, our super premium tea brand, continued to deliver growth both in UK and International markets. In FY 2017-18, we expanded our range with three new feel-good teas: Happy, Calm and Trim.

In France, Tetley Signature presented a collection of luxuriant flavours to consumers wanting to experiment in bringing home the tea boutique experience. Tetley Signature was positioned in the super premium price segment, second only to a handful of other luxury tea lines.

In Western Europe, the Super Teas launch in Portugal was received well. Tetley is delivering good growth across all segments i.e. Black tea, Green tea and Fruit & Herbal tea.

#### Canada, America and Australia (CAA)

We entered two different categories - Ready-to-Drink range of Iced Teas in Canada under the "Tetley" brand (three flavours- Lemon Ginger, Orange Blossom Peach Mango and Hibiscus Pomegranate Berry) and pilot launch of Kombucha under the "Good Earth" brand in the last quarter in Australia (Kombucha is a tea based ready to drink product and was launched in three flavours - passion fruit and lime; pomegranate and acai; and lemongrass and ginger).

The Good Earth tea brand which was recently re-launched in the USA through an online digital boutique is receiving positive market feedback.

#### Road ahead & Strategy

The Indian market remains a key strategic focus for your Company. We have started the journey of driving higher growth from our brands with new launches and entry into new product categories. India provides opportunities for growth with strong

consumer demand and favourable demographics. We will continue to accelerate growth across all brands and categories and explore adjacent categories for growth by building on the Fruski and Tata Cha platform.

In the International market, we will continue to focus on driving sales for our key power brands and supporting them with investments. We will continue to build on the innovation platform to support growth specifically in the non-black tea category. Tetley is a key power brand for your Company and we will continue to strongly invest behind its growth. We will continue to build on the success of Supers in UK by expanding the range, entering different geographies and leveraging the differentiation for entering new categories. Along with this, we will explore innovation platforms to capitalise on the health and wellness, premiumisation and convenience growth trends in tea and build market share.

In addition, we will continue to explore opportunities to build efficiency across the supply chain with cost transformative projects.

#### b) Branded Coffee Business

##### Business overview

Coffee is an important strategic segment for TGB. Unlike tea, our branded coffee play is limited to three geographies – USA, Australia and India. During the year, your Company restructured its Russia operations. USA is our largest play with Eight O' Clock coffee (present across Roast & Ground – Beans & Bags and Pods/ K-cups).

FY 2017-18 has been a challenging year for coffee where we faced a difficult market environment in our largest market USA with slowdown in growth of pods segment, increased cost of doing business and high competitive intensity.

##### Canada, America and Australia (CAA)

Eight O' Clock Coffee (EOC) in the USA recently expanded its Infusions line with three new varieties- Super Spice (a medium roast blended with turmeric and cinnamon – a perfectly balanced, smooth, mild spiced blend to awaken the senses); Acai Glow (medium roast, featuring acai berry for a rich, fruity, vibrant coffee experience) and B6 Metabolism (dark roasted and crafted to help support normal energy yielding metabolism with a fruit and herbal blend rich in vitamin B6). These launches helped meet consumers' expectations of enhanced experiences from our products. EOC has renegotiated pods/ K-cup agreement with Keurig which will help us gain control of majority of the sales channel resulting in higher share of sales and profit. While partial impact of the same was seen in this financial year; the full term impact of the re-negotiation will be seen in the next financial year. In addition EOC's private label sales also added to the topline.

Australia business faced a difficult year led by highly competitive markets in both consumer and Food Service channel.

### India

India business continues to show good growth on a small base. Portfolio expansion in the South region has been done through the launch of a R&G variant and a filter coffee variant. The R&G variant helped in gaining shelf space in shops and is performing well. The Filter coffee variant has been very well received by customers- both the smart new packaging as well as the product's taste profile and has rapidly increased its volume sales. Our Hot Tea Shop variant - a blend of Spray Dried Coffee with Chicory, which was launched in the previous year is delivering stable volume growth and slowly increasing outlet penetration.

### Road ahead & Strategy

There is increasing consolidation in the USA market with interest from a lot of global coffee players, including the recently concluded Nestle - Starbucks global coffee licensing deal. We expect the competitive intensity to further increase and will be closely looking at how the marketplace evolves. EOC remains a key power brand for TGB and we will continue to support the brand for growth.

India is a key strategic priority market for TGB and we will continue to drive further growth in distribution and expansion into more states/ stores.

### c) Other Branded Businesses

#### Business overview

This mainly includes water and enhanced beverages. In the last quarter of FY 2017-18, Himalayan natural mineral water was launched in the USA market and is now available in two markets internationally including Singapore.

Himalayan's foray into the USA market makes it one of the first premium Indian FMCG brands to target the broader American audience. The premium end of the water market in the country is growing rapidly and Himalayan is well positioned to leverage the growth in this segment. We entered into an agreement with Talking Rain Beverage Company (maker of Sparkling Ice flavored sparkling waters) for distributing and marketing the brand in the USA market. Through this arrangement, we will be able to capitalise on Talking Rain's extensive go to market and execution capabilities in the USA, which synergises well with TGB's product expertise and marketing capability. We also recently received Carbon Neutral certification for the USA

market – making Himalayan the first Indian water brand to receive this recognition. In the USA, Himalayan is currently available in Chicago city and through Amazon online. We plan to enter more cities in a phased manner.

The business also supplies TGB water products to NourishCo Beverages (a joint venture with PepsiCo), for marketing and distribution of these products within India. The performance of NourishCo is given under the section "other business interests".

### Road ahead & Strategy

Water is currently a small part of our beverage portfolio but is a key strategic business which we believe is well poised to contribute significantly to our growth in future years. Along with the domestic market, we are also closely looking at international markets for growth as we believe our premium source water brand Himalayan has the potential to be a global brand. We have high ambitions for Himalayan and plan to expand its presence in a phased manner beyond USA and Singapore.

### d) Non-Branded Business

#### Business overview

Our Non Branded business consists of plantations and extraction verticals. In plantations, we primarily manufacture and sell tea, coffee and other plantation produce like pepper while the extraction business caters to both instant tea and instant coffee consumers. Tata Coffee Limited, our listed subsidiary, is a significant contributor to non-branded sales.

FY 2017-18 has been an exceptionally difficult year for non-branded business where both the plantation and coffee extraction verticals underperformed. The business witnessed lower realisation in Pepper and Arabica coffee plantations. Coffee plantations were impacted by crop loss due to abnormal and extreme weather conditions, while there were lower volumes in the Coffee Extraction business. Our Tea plantation sales were impacted by both lower production and realisation. Our Instant tea business however had a stable performance during the year.

Tata Coffee Limited is setting up a state-of-the-art Freeze Dried Instant Coffee plant in Vietnam with an installed capacity of 5,000 MT per annum. Freeze Dried coffee is a growing segment worldwide in the premium Instant Coffee space. This move is expected to further strengthen the Company's growth in the Instant Coffee segment and further expand our global foot print. Vietnam offers an attractive business environment besides being the largest Robusta Coffee growing region.

The instant coffee operation continues to focus on operational discipline, cost reduction and sustainability in operations. With a specific focus on cost reduction, various alternatives have been pursued to reduce the power and fuel costs in the instant coffee factories.

### Road ahead & Strategy

While FY 2017-18 has been a difficult year, where we faced challenges due to abnormal weather conditions and volatile commodity costs, we are focused on turning around our operations and delivering growth both in sales and profit.

#### e) Other Business Interests

Our incubatory businesses in India - Tata Starbucks and NourishCo Beverages showed good growth.

Tata Starbucks, our JV with Starbucks, improved sales by 28% in FY 2017-18 with robust in-store performance coupled with new stores added during the year. Various in-store initiatives and the loyalty program coupled with the ambience provided in stores resulted in improved existing store performance. We crossed the 100<sup>th</sup> store milestone this year. We added 25 stores during the year taking the total store count to 116 as on 31<sup>st</sup> March, 2018. This year also marked the entry into Kolkata in West Bengal and we have opened 3 stores till date in the city. Our stores are now open in 7 cities across India. FY 2017-18 is also the first year we recorded a positive EBITDA.

NourishCo Beverages, our water business in India, delivered 8% growth driven by the improved performance of Tata Gluco Plus (TGP), Tata Water Plus and domestic sales of Himalayan. TGP continues to deliver double digit growth. For the first time since it came into existence, the company is close to break even levels mainly due to improved sales performance and structural improvement in the cost base. We also launched two new products in Himalayan - Orchard Pure range of flavored water (three variants – Strawberry, Apple and Peach) and Sparkling water launched with premium chains of hotels.

Tata Gluco Plus (TGP) is one of the successful drink launches in India. In the current financial year, TGP was relaunched with a new “with fruit juice” formulation and was accompanied by a pack change and new brand campaign. This has enhanced the already strong consumer proposition. TGP continues to deliver double digit growth aided by distribution expansion and improvement in margins.

## 4. Threats, Risks and Concerns

Over the past few years, we are seeing a shift away from black tea in developed markets. In UK, USA and other

developed markets there is a decline in the black tea category coupled with competitive intensity and retailer consolidation. Our portfolio has a higher weightage of black teas. The non-black category is growing and we are rapidly rejigging our portfolio with various innovative products in keeping with this trend.

There are some inherent risks associated with the success of any innovation. The Company has rolled out an innovation process that follows a structured review through stages and gates from ideation to post launch to minimize the risks and strengthen the success of innovation. In addition, the Company reviews and monitors its pricing and promotion strategy very closely and benchmarks with industry practices.

Volatility in commodity prices will have an impact on the business. Further, political, social and weather changes may impact commodity availability as well. The Company focuses on development of market relationships, innovation of alternate supplier channels and exploring alternate sources of teas in other parts of the world to safeguard the earnings and availability. Tea is a multi-harvest agricultural commodity and is sold through public auction or by private treaty. There is no futures market in tea. Price levels reflect supply/demand position and as an agricultural crop supply/demand balance may change quickly when weather conditions are adverse. To manage supply risk the Company spreads its buying between public auction and private treaties.

Cyclical swings in coffee commodity markets are common and the most recent years have been especially volatile for the price of coffee. Increases in the cost of green coffee could reduce our gross margin and profit. There can be no guarantee that we will be successful in passing commodity price increases to our customers without losses in sales volume or gross margin. Precipitous decreases in the cost of green coffee could result in significant headwinds causing us to lower sales prices before realising cost reductions in our green coffee inventory. Your Company has a robust framework in place to protect its interests from risks arising out of market volatility. The Risk Management team, based on market intelligence and continuous monitoring advises the sales and procurement teams on appropriate strategy to deal with such market volatility.

Volatility in currency exchange movements like USD, GBP, CAD and AUD can pose challenges to the Company's operations through earnings dilution. The Company has established currency hedging policies and practices to manage these risks.

As a global organisation, the Company is exposed to breach of information security through cyber-attacks. Your Company has a robust information and security policy to safeguard its resources against any unforeseen events.

As a player in the beverage industry, your Company is subject to extensive laws and regulations which are complex and changing. These regulations could affect the performance and reputation of the Company. Your Company has developed a legal organisation at the regional levels. The Company and its subsidiaries are assisted by their legal departments and/or external legal advisors to take steps to ensure that they comply with applicable laws and regulations. In addition, your Company has developed and implemented internal policies and procedures relating to compliance.

## 5. Risk Management

The Company has a system of documenting and reviewing key risks. Apart from management reviews, the risks are also periodically reviewed by the Board and Risk Management Committee. The Audit Committee has additional oversight in the area of financial risks and controls. A detailed analysis of the financial risks management is given as a part of the financials.

## 6. Human Resources and Industrial Relations

Your Company continued its initiatives towards achieving enhanced capabilities and the highlights of key initiatives undertaken during the year are:

**Learning and Development:** We continue to leverage Leadership programs to build leadership capability. We focused on building sales capability to achieve best-in class capabilities in the company. Across regions, employees have undergone specific Learning & Development programs such as Manufacturing Excellence practices in FMCG sector (India), collaborative leadership workshops (UK) and compliance training (CAA).

**Employee Engagement:** We continued to focus on engagement initiatives across geographies with various events organised throughout the year.

**High Performance Culture:** As a part of Global Reward strategy and benchmarking, we continue to sharpen the focus on differentiating rewards for our top performers aligned to global best practices. Our global reward strategy follows a balanced scorecard methodology to ensure strong linkages to organisational goals.

**Rewards and Recognition:** We undertook activities to promote a culture of peer-to-peer recognition. 2500+ monetary and non-monetary peer-to-peer rewards were shared globally.

The total number of employees on the rolls of Tata Global Beverages Limited as on 31<sup>st</sup> March, 2018 was 2,565.

## 7. Internal Controls and Governance

The Company's internal financial control framework is commensurate with the size and operations of the business and is in line with requirements of the regulations. The Company has laid down procedures and policies to guide the operations of the business. Unit/functional heads are responsible for ensuring compliance with the policies and procedures laid down by the management. The Company's internal control systems are routinely tested by the Management, Statutory Auditors and Internal Auditors. The Tata Code of Conduct has prescribed guidelines outlining the key disclosure and governance requirements besides mandating the observance of applicable statutory requirements by the Company. Your Company and its senior management have affirmed adherence to the Code.

## 8. Internal Audit

The Internal audit function carries out a focused and risk based annual internal audit plan approved by the Audit Committee. The internal audit primarily focuses on the adequacy of appropriate systems and controls. The internal audit reports are reviewed by the Audit Committee periodically.

## 9. Cautionary statement

Certain statements made in this report relating to the Company's objectives, projections, outlook, expectations, estimates, among others may constitute 'forward-looking statements' within the meaning of applicable laws and regulations. Actual results may differ from such expectations, projections etc., whether express or implied. Several factors could make a significant difference to the Company's operations. These include climatic conditions, economic conditions affecting demand and supply, government regulations and taxation, natural calamity, currency rate changes, among others over which the Company does not have any direct control.

## 10. Conclusion

Your Company's primary focus will be to grow volumes across markets. The Company will address each market depending on local conditions and consumer trends. While we recognise that the global environment is extremely challenging, there are new opportunities emerging to meet consumer needs. Your Company will focus on profitable growth through a mix of brand led growth, innovation and cost efficiencies.