

## Tata Consumer Products Limited

August 04, 2022

### Rating

Facilities/Instruments	Amount (₹ crore)	Rating <sup>1</sup>	Rating Action
Short-term instruments – commercial paper <sup>®</sup>	715.00	CARE A1+ (A One Plus)	Reaffirmed
<b>Total short-term instruments</b>	<b>715.00</b> <b>(₹ Seven hundred and fifteen crore only)</b>		

Details of instruments/facilities in Annexure-1.

<sup>®</sup>Total borrowing under commercial paper and fund-based facilities from banks to remain within an overall limit of ₹715 crore

### Detailed rationale and key rating drivers

The rating assigned to the commercial paper (CP) issue of Tata Consumer Products Limited (TCPL) continues to factor in its the strong business profile with well-established brands and the market position across geographies. TCPL has, over the years, also been foraying into new product categories to keep pace with the changing consumer preferences through new product launches and strategic acquisitions. The product portfolio of the company is further strengthened by the acquisition of Tata Smartfoodz Ltd engaged in ready to eat portfolio through Tata Q brand, which is the No. 2 brand in the ready-to-eat market in India. TCPL also marked its entry into the premium honey and preserve category under its Himalayan brand. During FY22, the company has witnessed growth in sales revenue, driven by improved sales performance from its Indian beverages and foods business. The earlier uptick in tea prices due to the COVID-induced shortage in crop tapered off in FY22 and resulted in an improvement in margins in the tea business. The overall financial risk profile of the company continues to remain strong, driven by low debt levels, healthy capital structure, and strong debt coverage indicators. TCPL's liquidity profile continues to remain strong, with negative net debt position and largely unutilised sanctioned working capital limits.

The rating continues to positively factor in TCPL being part of the Tata group, driven by an established and experienced management; TCPL's long and established track record in the branded tea industry with a dominant market position in both, the domestic and international market place; and its established presence in the other beverages segment across geographies, with a strong brand portfolio.

These rating strengths far outweigh the risks arising out of commodity and currency fluctuations, which the company's operations are exposed to.

CARE Ratings Limited (CARE Ratings) also takes note of TCPL's reorganisation plan encompassing the consolidation of minority interest from Tata Coffee Limited & Tata Consumer Products UK to TCPL, with an objective to simplify, align, and synergise its business. The above development is not expected to have any material impact on the credit profile of the company, as CARE Ratings, in its analysis, has already considered the consolidated financial profile of TCPL, along with its subsidiaries, affiliates and joint ventures (JVs), which is expected to largely remain unchanged after the proposed business reorganisation.

### Rating sensitivities

#### Positive factors – Factors that could lead to positive rating action/upgrade:

Not applicable

#### Negative factors – Factors that could lead to negative rating action/downgrade:

- Large debt funded acquisition impacting earnings accretion and the liquidity of the company significantly

### Detailed description of the key rating drivers

#### Key rating strengths

**Improved financial performance and cash accruals during FY22:** During FY22, TCPL's total operating income (TOI) grew by 7%, from ₹11,602 crore in FY21 to ₹12,425 crore in FY22, with the India beverages segment witnessing 10% growth in revenue, the India food segment witnessing 19% growth in revenue, and international business witnessing a moderation of 5%. The non-branded business grew by 8% in FY22. The earlier uptick in tea prices due to the COVID-induced shortage in crop tapered off and resulted in an improvement in margins in the tea business. The profit before interest, lease rentals, depreciation and taxation (PBILDT) margin improved to 13.83% in FY22 from 13.41% in FY21. The profit-after-tax (PAT) margin during FY22 has improved to 8.17%, as against 8.02% in FY21. The continuing strong cash generation has maintained the liquidity at strong levels, leading to a negative net debt position. The gross cash accruals (GCA) improved from ₹1,404 crore in FY21 to ₹1,450 crore in FY22.

<sup>1</sup>Complete definition of the ratings assigned are available at [www.careedge.in](http://www.careedge.in) and other CARE Ratings Ltd.'s publications

**Well-established brand portfolio and geographic presence:** TCPL has well-established products across different categories and geographies. Its product portfolio consists of globally-known brands, including Tetley, Tata Tea, Teapigs, Tata Salt, and Eight O Clock, having strong brand equity. Tata Tea continues to be one of the market leaders in the tea category in India. Tetley, the international tea brand of the group, is the fourth-largest tea brand in the UK and the largest tea brand in Canada. In the Indian food segment, Tata Salt commands the highest market share among its peers, while Tata Sampann and Tata Soufull are leading brands in the pulses and millets-based breakfast cereal and snack brands, respectively. In liquid beverages, TCPL owns the Himalayan and Tata Gluco+ brands. TCPL also operates Tata Starbucks cafes, which is a 50:50 JV with Starbucks Coffee International Inc, with 268 stores across 26 cities in India as on March 31, 2022. Overall, in FY22, the India beverages segment accounted for 40% of the revenue, India foods 23%, and international beverages accounted for 27%. The plantation and extraction business constituted the balance 10%. The company's branded portfolio in India is supported by well-developed distribution network of 2,000 direct distributors and 8,000 rural and semi-urban distributors, with a reach of 2.6 million outlets. Furthermore, the company has improved its sales contribution from the e-commerce segment to 7.3% of the annual sales in FY22, as compared with 5.2% in FY21.

The company has been launching new products to keep pace with the changing consumer preferences. During FY22, TCPL has launched 25 new products in India and other geographies. This apart, the product portfolio of the company is further strengthened by the acquisition of the ready-to-eat products business of Tata Smartfoodz Ltd, which includes Tata Q brand, which is the No. 2 brand in the ready-to-eat market in India. TCPL also marked its entry into the premium honey and preserve category under its Himalayan brand recently.

**Part of the Tata group with a strong leadership team:** The Tata group, established by Jamshedji Tata in 1868, is a global enterprise, headquartered in India, comprising 30 companies across 10 verticals. The group operates in more than 100 countries across six continents. Tata Sons Limited, the principal investment-holding company and promoter of the Tata group, together with Tata Investment Corporation Limited, holds a 34.72% share in TCPL as on June 30, 2022.

The board of directors of TCPL consists of five independent directors, one non-independent director, and three directors. N Chandrasekaran, Chairman of TCPL, is also the Chairman of the board of Tata Sons (since January 2017). He also chairs the boards of several group companies, including Tata Steel, Tata Motors, Tata Power, Indian Hotels, and Tata Consultancy Services (TCS), of which he was the Chief Executive from 2009-17. The board of directors is backed by an experienced top management team consisting of Sunil Dsouza, Managing Director, and Lakshmanan Krishnakumar, Executive Director & Group Chief Financial Officer. In his previous role, Sunil Dsouza served as the Managing Director of Whirlpool India Ltd for over four years. Prior to this, he spent almost 15 years at PepsiCo, where he held several leadership roles. He began his career at Hindustan Unilever Ltd in 1993. With over 26 years of rich experience, he has strong domain knowledge of the consumer products business, with distinct focus on strategy, growth, and execution.

#### **Key rating weaknesses**

**Exposure to commodity and currency risk:** TCPL manages the sourcing of tea through auctions and from private producers and is exposed to fluctuations in the prices of tea and coffee. TCPL manages commodity risk by actively managing the sourcing of tea and with the ability to take price increase, when deemed necessary. TCPL's profitability is susceptible to the volatile commodity prices (tea and coffee), notwithstanding TCPL's ability to limit the impact, as demonstrated over the years, with strategies in place for procurement and hedging. Risks associated with coffee is hedged through various available structures. Furthermore, TCPL, having operations in various geographies, is exposed to foreign currency risk, which is managed through forwards and option contracts under the board-approved hedging policies.

#### **Liquidity: Strong**

The liquidity is marked by stable cash accruals and comfortable cash and cash equivalents and liquid investments to the tune of ₹2,798 crore on consolidated basis (including ₹521 crore bank overdraft). The company maintains a negative net debt position as on March 31, 2022, in the backdrop of significant cash and liquid investments. With an overall gearing of 0.25x as on March 31, 2022, the company has sufficient gearing headroom to raise additional debt for its capex if any. During FY22, the company generated GCA of ₹1,450 crore against total long-term debt repayment obligations of ₹56 crore for FY23. Furthermore, the company has sanctioned fund-based working capital limits, which is mostly unutilised, providing the company additional liquidity.

#### **Analytical approach**

The consolidated approach is considered due to the strong operational, managerial, and financial linkages between TCPL and its subsidiaries. The list of subsidiaries, JVs, and associates are provided in Annexure-6.

#### **Applicable criteria**

[Consolidation](#)

[Financial ratios – Non-financial sector](#)

[Liquidity analysis of non-financial sector entities](#)

[Rating outlook and credit watch](#)

[Short-term instruments](#)

[Manufacturing companies](#)

### About the company

TCPL, a Tata group company, is among the top 10 FMCG companies in India, with a portfolio of offerings in foods and beverages. The company's portfolio of products includes tea, coffee, water, ready-to-drink, salt, pulses, spices, ready-to-cook and ready-to-eat offerings, breakfast cereals and snacks. The company owns brands like Tata Tea, Tata Salt, Tetley, and Eight O'Clock Coffee, as well as new-age brands like Tata Sampann, Teapigs, Good Earth, Himalayan Water, Tata Gluco Plus, Tata Soufull, and Tata Q. It is the second-largest branded tea player globally and houses the largest salt brand in India, and is expanding its portfolio into other product categories like staples, snacks, ready-to-eat and ready to-cook products, and coffee. It has a brand presence in over 40 countries across USA, Canada, Europe, Russia, the Middle East, South Asia, and Africa.

Brief Financials (₹ crore)	March 31, 2021 (A)	March 31, 2022 (A)	June 30, 2022
TOI	11,602	12,425	NA
PBILDT	1,544	1,719	NA
PAT	930	1,015	NA
Overall gearing (times)	0.31	0.25	NA
Interest coverage (times)	22.47	23.62	NA

A: Audited, NA: Not available.

**Status of non-cooperation with previous CRA:** Not applicable

**Any other information:** Not applicable

**Rating history for the last three years:** Please refer Annexure-2

**Covenants of the rated instruments/facilities:** Detailed explanation of covenants of the rated instruments/facilities is given in Annexure-3

**Complexity level of various instruments rated for this company:** Annexure-4

### Annexure-1: Details of instruments/facilities

Name of the Instrument	ISIN	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (₹ crore)	Rating Assigned along with Rating Outlook
Short-term instruments-CP/short-term loan	-	Not yet placed	-	7 to 365 days	715.00	CARE A1+

### Annexure-2: Rating history for the last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating History			
		Type	Amount Outstanding (₹ crore)	Rating	Date(s) and Rating(s) assigned in 2022-2023	Date(s) and Rating(s) assigned in 2021-2022	Date(s) and Rating(s) assigned in 2020-2021	Date(s) and Rating(s) assigned in 2019-2020
1.	Short-term instruments-CP/short-term loan	ST	715.00	CARE A1+	-	1)CARE A1+ (August 05, 2021) 2)CARE A1+ (July 06, 2021)	1)CARE A1+ (July 07, 2020)	1)CARE A1+ (July 05, 2019) 2)CARE A1+ (May 24, 2019)

\*Long term/Short term.

### Annexure-3: Detailed explanation of the covenants of the rated instruments/facilities

Not applicable

### Annexure-4: Complexity level of the various instruments rated for this company

Sr. No.	Name of Instrument	Complexity Level
1.	Short-term instruments-CP/short-term loan	Simple

### Annexure-5: Bank lender details for this company

To view the lender-wise details of the bank facilities, please click here.

### Annexure-6: List of subsidiaries/associates considered for consolidation

S. no	Name of Entry	Country of incorporation	Principal Activities	Effective ownership % as on March 31, 2022
1	Tata Consumer Products UK Group Ltd.	UK	Holding Company	89.85
	<b>Subsidiaries of Tata Consumer Products UK Group Ltd.</b>			
2	Tata Global Beverages Holdings Ltd.	UK	Dormant	89.85
3	Tata Global Beverages Services Ltd.	UK	Dormant	89.85
4	Tata Consumer Products GB Ltd.	UK	Manufacturing, marketing and distribution of tea	89.85
5	Tata Consumer Products Overseas Holdings Ltd.	UK	Holding company	89.85
6	Tata Global Beverages Overseas Ltd.	UK	Dormant	89.85
7	Lyons Tetley Ltd.	UK	Dormant	89.85
8	Drassington Ltd.	UK	Dormant	89.85
9	Teapigs Ltd.	UK	Marketing and distribution of tea	89.85
10	Teapigs US LLC	USA	Marketing and distribution of tea	89.85
11	Stansand Ltd.	UK	Dormant	89.85
12	Stansand (Brokers) Ltd.	UK	Dormant	89.85
13	Stansand (Africa) Ltd.	Kenya	Purchase and sale of tea	89.85
14	Stansand (Central Africa) Ltd.	Malawi	Purchase and sale of tea	89.85
15	Tata Global Beverages Polska sp.zo.o	Poland	Marketing and distribution of tea	89.85
16	Tata Consumer Products US Holdings Inc.	USA	Holding company	89.85
17	Tetley USA Inc.	USA	Marketing and distribution of tea	89.85
18	Tata Waters LLC	USA	Marketing and distribution of Water	89.85
19	Good Earth Corporation	USA	Holding company	89.85
20	Good Earth Teas Inc.	USA	Marketing and distribution of tea	89.85
21	Tata Consumer Products Canada Inc.	Canada	Marketing and distribution of tea	89.85
22	Tata Consumer Products Australia Pty Ltd.	Australia	Marketing and distribution of tea	89.85
23	Earth Rules Pty Ltd	Australia	Marketing and distribution of tea	89.85
24	Tata Global Beverages Investments Ltd.	UK	Dormant	89.85
25	Campestres Holdings Ltd.	Cyprus	Holding company	89.85
26	Kahutara Holdings Ltd.	Cyprus	Holding company	89.85
27	Suntyco Holding Ltd.	Cyprus	Holding company	89.85
28	Onomento Co Ltd.	Cyprus	Holding and assignment of Trademark	89.85
29	Tata Consumer Products Capital Ltd.	UK	Holding company	100.00
30	Tata Coffee Ltd.	India	Manufacturing, marketing and distribution of coffee & tea	57.48
	<b>Subsidiaries of Tata Coffee Ltd.</b>			
31	Tata Coffee Vietnam Company Ltd.	Vietnam	Manufacturing, marketing and distribution of coffee	57.48
32	Consolidated Coffee Inc.	USA	Holding company	78.70
	Subsidiaries of Consolidated Coffee Inc.			
33	Eight O'Clock Holdings Inc.	USA	Holding company	78.70
34	Eight O'Clock Coffee Company.	USA	Manufacturing, marketing and distribution of coffee	78.70
35	Tata Tea Extractions Inc.	USA	Manufacturing, marketing and distribution of tea	100.00
36	NourishCo Beverages Ltd.	India	Marketing and distribution of Water	100.00
37	Tata Consumer Soufull Private Ltd.	India	Manufacturing, marketing and distribution of food products	100.00
38	Tata SmartFoodz Ltd (w.e.f Nov 16, 2021)	India	Manufacturing, marketing and distribution of food products	100.00

S. no	Name of Entry	Country of incorporation	Principal Activities	Effective ownership % as on March 31, 2022
39	TCPL Beverages & Foods Ltd (w.e.f Feb 25, 2022)	India	Manufacturing, marketing and distribution of beverages & food products	100.00
40	TRIL Constructions Ltd. (w.e.f Nov 17, 2021)	India	Development of real estate and infrastructure facilities	80.46
41	Tata Tea Holdings Private Ltd.	India	Investment company	100.00
<b>Joint Ventures</b>				
1	Tetley Clover (Pvt) Ltd. (under liquidation)	Pakistan	Manufacturing, marketing and distribution of tea	50.00
2	Tetley ACI (Bangladesh) Ltd.	Bangladesh	Manufacturing, marketing and distribution of tea	50.00
3	Joekels Tea Packers (Proprietary) Ltd.	South Africa	Manufacturing, marketing and distribution of tea	51.70
4	Tata Starbucks Private Ltd.	India	Operating Starbucks cafes in India	50.00
<b>Associates</b>				
1	Amalgamated Plantations Pvt. Ltd.	India	Manufacturing, marketing and distribution of tea	41.03
2	Kanan Devan Hills Plantation Co. Pvt. Ltd.	India	Manufacturing, marketing and distribution of tea	28.52

**Note on complexity levels of the rated instruments:** CARE Ratings has classified instruments rated by it on the basis of complexity. Investors/market intermediaries/regulators or others are welcome to write to care@careedge.in for any clarifications.

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### About us:

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