

Tata Consumer Products Limited
(erstwhile Tata Global Beverages Limited)

August 05, 2021

Ratings

Facilities/Instruments	Amount (Rs. crore)	Ratings	Rating Action
Short Term Instruments – Commercial Paper @	715.00	CARE A1+ (A One Plus)	Reaffirmed
Total Short Term Instruments	715.00 (Rs. Seven Hundred Fifteen Crore Only)		

Details of instruments/facilities in Annexure-1

@ Total borrowing under CP and fund based facilities from banks to remain within an overall limit of Rs. 715 crore out of which Tata Consumer Products Limited has a sanctioned fund based working capital limit of Rs.400 crore

Detailed Rationale & Key Rating Drivers

The rating assigned to the Commercial Paper Issue of Tata Consumer Products Limited (TCPL) continues to factor in its strong business profile with well established brands and market position across geographies. The product portfolio of the company is further strengthened by acquisition of consumer products business of Tata Chemicals Ltd which includes prominent brands like Tata Salt, market leader in salt segment in India and Tata Sampann. TCPL has completed the business integration of India Food & Beverages businesses by Q4FY21 for all critical work streams. Harmonization of processes have enhanced synergies in sales & distribution, supply chain and increased reach to customer base which has contributed to both sales growth and cost savings. Apart from this, TCPL has also been entering into new product categories over the years to keep pace with changing consumer preferences through new product launches and through strategic acquisitions.

During FY21, TCPL has witnessed robust growth in sales revenue driven by improved sales performance from its Indian beverages business (Tea & Coffee). Nevertheless, Indian beverages segment margins which were impacted by increase in tea prices during the year which was partially offset by price hike across products and improved margins from other divisions viz. India Foods, International beverages, and non-branded business. 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 unutilized sanctioned working capital limits. The rating continues to positively factor in TCPL being part of Tata group driven by established and experienced management, the company's long and established track record in branded tea industry with dominant market position in both the domestic and international market place, and its established presence in other beverages segment across geographies with strong brand portfolio. These rating strengths far outweigh the risk arising out of commodity and currency fluctuation risks which the company's operations are exposed to. CARE also takes note of continuing business restructuring efforts being undertaken by the company on its International business front leading to exiting its coffee business in Australia and foodservice business in United States of America (USA).

Rating Sensitivities

Negative Factors- Factors that could lead to negative rating action/downgrade:

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

Detailed description of the key rating drivers

Key Rating Strengths

Improved financial performance and cash accruals during FY21

During FY21, company's operating revenue grew by 20% to 11,602 crore as against Rs. 9,637 crore in FY20, led by 36% growth in revenue and 12% growth in volume witnessed in India beverages segment during the year. India food business reported 18% growth in revenue and 11% growth in volume during FY21 over FY20. International beverages and non-branded segments recorded growth of 8% and 15% respectively during the same period. Consolidated group profit has almost doubled from Rs. 460 crore in FY20 to Rs. 930 crore in FY21 driven by strong operational performance and reduction in exceptional expenses which the company has incurred during FY20. The exceptional expenses in FY20 comprises of impairment of goodwill and merger & integration costs relating to the India Foods business. Nevertheless, increasing tea prices during FY21 has impacted India beverages segment's PBDIT (Profit before depreciation & Income Tax) margins which declined from 15.6% in FY20 to 12.3% in FY21. This along with increased spending on advertisement & promotion has also led to decline in PBDIT margins of the company sequentially on q-o-q basis in FY21. However, all other segments reported improvement in margins which negated the impact of India beverages resulting in similar PBDIT margins during FY21 vis-à-vis FY20.

Continuing strong cash accrual generation has maintained the liquidity at strong levels leading to negative net debt position. Meanwhile, RoCE continue to remain low impacted by recent acquisition of food business, benefits of which is yet to accrue and moderate performance of its international business, though it had seen improvement post restructuring efforts.

However, adjusted RoCE, excluding goodwill & brand from operating capital employed stood healthy at 37.5% during FY21 as against 28.7% in FY20.

Well established brand portfolio and geographic presence

TCPL has well established products across different categories and geographies. TCPL's product portfolio comprises 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 tea category in India. Tetley, international tea brand of the group is the 4th largest tea brand in UK and the largest tea brand in Canada. Tata Salt also commands higher market share among peers in India. Overall, India Beverages segment accounted for 40% of revenue in FY21, India Foods 21% and International Beverages accounted for 30%. Plantation and extraction business constituted the balance (9%). Company's branded portfolio is supported by well-developed distribution network of 1,500 direct distributors and 2,500 sub distributors with a reach of 2.4 million outlets. Further, the company has improved its sales contribution from e-commerce segment to 5.2% of annual sales in FY21 compared to 2.5% in FY20.

The company has been launching new products to keep pace with the changing consumer preferences. In tea segment, TCPL was pre-dominantly into black tea segment. As such regular black tea continues to be the largest category share in the overall global tea market, which has been witnessing slow/ declining growth across markets. Non-black tea (Fruit and Herbal, Specialty, Decaf, Cold infusions etc.) is witnessing strong growth in international markets, led by shift in consumer preference for health and wellness products. TCPL has been able to leverage its strong brand with premiumization and innovation into new product categories to keep pace with changing consumer preferences. During FY21, TCPL has launched 14 new products in India and 10 new products in International businesses. Apart from this, during FY21 the company acquired Nourishco from JV partner whose product portfolio includes non-carbonated, ready-to-drink beverages. TCPL also acquired Kottaram Agro Foods P Ltd during FY21 which is engaged in the business of breakfast cereals and millet-based snacks under the brand name Tata Soulfull.

Part of Tata group with strong leadership team

Tata Group is one of the largest conglomerates having global presence and combined turnover of USD 106 bn during 2019-20. There are 29 publicly listed Tata enterprises with a combined market capitalization of USD 123 billion as on March 31, 2020. TCPL is one of the leading domestic players and second largest global player in branded tea industry and a key Tata Group company. Tata Sons Limited, the principle investment holding company and promoter of Tata group together with its promoter group companies holds 34.68% shares in TCPL as on June 30, 2021. TCPL is ably supported by strong and established leadership team. Mr. N. Chandrasekaran, Chairman of TCPL is also Chairman of 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 Chief Executive from 2009-17. TCPL's Board of Directors comprises of 8 directors including 4 independent directors. The Board of Directors are backed by an experienced top management team consisting of Mr. Sunil Dsouza, Managing Director (appointed on April 04, 2020) and Mr. Lakshmanan Krishnakumar, Executive Director & Chief Financial Officer.

Key Rating Weaknesses

Exposure to commodity and currency risk:

TCPL manages sourcing of tea through auctions and from private producers. TCPL sources 60% of its India tea business and 100% of procurement for Tetley tea in the International business from certified farms. During FY21, average tea price per kilogram in Indian market has increased owing to floods in North-East India and COVID-19 related restrictions imposed by Government which affected tea estate operations during Q1FY21. TCPL partly offset this cost by increasing the prices of the products. TCPL's profitability is susceptible to volatile commodity prices (tea), notwithstanding TCPL's ability to limit the impact as demonstrated over the years with strategies in place for procurement and hedging. Risk associated with coffee is hedged through various available structures. Further, TCPL having operations in various geographies and is exposed to foreign currency risk which is managed through forwards and option contracts under Board approved hedging policies.

Liquidity: Strong

Liquidity is marked by stable cash accruals and comfortable cash & liquid investments to the tune of Rs. 3,320 crore on consolidated basis (Rs. 1,916 crore on standalone basis) as on March 31, 2021. The company maintains negative net debt position as on March 31, 2021 in the backdrop of significant cash and liquid investments. With a gearing of 0.31 times as on March 31, 2021, the company has sufficient gearing headroom, to raise additional debt for its capex if any. Considering the cash accruals generated by the company during the past along with the comfortable cash & liquid investments that the company has as on March 31, 2021, it is expected that the company will be able to meet the debt obligations on time comfortably.

Analytical approach: Consolidated

Consolidated approach taken due to strong operational, managerial and financial linkages between TCPL and its subsidiaries. List of subsidiaries/JVs/associates are provided in Annexure-5

Applicable Criteria[Rating Methodology- Manufacturing Companies](#)[Criteria for Short Term Instruments](#)[Rating Methodology- Consolidation and factoring linkages](#)[Factoring Linkages Parent Sub JV Group](#)[Policy on Default Recognition](#)[Financial Ratios – Non financial Sector](#)[Liquidity Analysis of Non-financial sector entities](#)**About the Company**

Tata Consumer Products Limited (TCPL; erstwhile Tata Global Beverages Limited), a Tata Group company is the second largest branded tea player in India with growing interest in coffee & water and has brand presence in over 40 countries across Europe, Russia, Middle East, South Asia and Africa.

TCPL's business is classified into Branded and Non-branded segment. Branded segment consists of Tea, Coffee water in various value added forms and the food business acquired from Tata Chemicals Limited. Non-branded segment consists of plantation and extraction of tea, coffee and other produce.

In Feb'20, erstwhile Tata Global Beverages Limited completed the acquisition of consumer products business of Tata Chemicals Limited (with appointed date of April 1, 2019), consequent to which company's name is changed to Tata Consumer Products Limited.

Brief Financials (Rs. crore)	FY20 (A)	FY21 (A)
Total operating income	9,637	11,602
PBILDT	1,310	1,569
PAT	460	930
Overall gearing (times) @	0.26	0.23
Interest coverage (times)	14.92	20.53

A: Audited, @ excluding lease liabilities created under Ind AS-116

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

Rating History for last three years: Please refer Annexure-2

Covenants of rated instrument / facility: 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 (Rs. crore)	Rating assigned along with Rating Outlook
Short Term Instruments-CP/ Short Term loan	-	-	-	7 to 365 days	715.00	CARE A1+

Annexure-2: Rating History of last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating history			
		Type	Amount Outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2021-2022	Date(s) & Rating(s) assigned in 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019
1.	Short Term Instruments-CP/ Short Term loan	ST	715.00	CARE A1+	1)CARE A1+ (06-Jul-21)	1)CARE A1+ (07-Jul-20)	1)CARE A1+ (05-Jul-19) 2)CARE A1+ (24-May-19)	1)CARE A1+ (28-Dec-18)

Annexure-3: Detailed explanation of covenants of the rated instrument / facilities – Not Applicable

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

Sr. No.	Name of the Instrument	Complexity Level
1.	Short Term Instruments-CP/ Short Term loan	Simple

Annexure-5: List of subsidiaries / joint ventures / associates of TCPL getting consolidated

S. no	Name of Entity	Effective ownership as on March 31, 2021 (%)
	Subsidiaries	
1	Tata Consumer Products UK Group Ltd. (formerly Tata Global Beverages Holdings Ltd.)	89.10
2	Tata Global Beverages Holdings Ltd.	89.10
3	Tata Global Beverages Services Ltd.	89.10
4	Tata Consumer Products GB Ltd. (Formerly Tata Global Beverages GB Ltd.)	89.10
5	Tata Consumer Products Overseas Holdings Ltd. (Formerly Tata Global Beverages Overseas Holdings Ltd.)	89.10
6	Tata Global Beverages Overseas Ltd.	89.10
7	Lyons Tetley Ltd.	89.10
8	Drassington Ltd.	89.10
9	Teapigs Ltd.	89.10
10	Teapigs US LLC	89.10
11	Stansand Ltd.	89.10
12	Stansand (Brokers) Ltd.	89.10
13	Stansand (Africa) Ltd.	89.10
14	Stansand (Central Africa) Ltd.	89.10
15	Tata Global Beverages Polska sp.zo.o (Formerly Tata Global Beverages Polska sp.zo.o)	89.10
16	Tata Consumer Products US Holdings Inc. (Formerly Tata Global Beverages US Holdings Inc.)	89.10
17	Tetley USA Inc.	89.10
18	Empirical Group LLC (upto March 31, 2021)	-
19	Tata Waters LLC	89.10
20	Good Earth Corporation	89.10
21	Good Earth Teas Inc.	89.10
22	Tata Consumer Products Canada Inc. (Formerly Tata Global Beverages Canada Inc.)	89.10
23	Tata Consumer Products Australia Pty Ltd. (Formerly Tata Global Beverages Australia Pty Ltd.)	89.10
24	Earth Rules Pty Ltd	89.10
25	Tata Global Beverages Investments Ltd.	89.10
26	Campestres Holdings Ltd.	89.10
27	Kahutara Holdings Ltd.	89.10
28	Suntycy Holding Ltd.	89.10
29	Onomento Co Ltd.	89.10
30	Coffee Trade LLC (Liquidated on April 09, 2020)	-
31	Tata Consumer Products Capital Ltd. (Formerly Tata Global Beverages Capital Ltd.)	100.00
32	Tata Coffee Ltd.	57.48
33	Tata Coffee Vietnam Company Ltd.	57.48
34	Consolidated Coffee Inc.	78.70
35	Eight O'Clock Holdings Inc.	78.70
36	Eight O'Clock Coffee Company.	78.70
37	Tata Tea Extractions Inc.	100.00
38	Tata Tea Holdings Private Ltd.	100.00
39	NourishCo Beverages Ltd. (w.e.f 18th May'2020)	100.00
40	Tata Consumer Soufull Private Ltd. (Formerly	100.00

S. no	Name of Entity	Effective ownership as on March 31, 2021 (%)
	Kottaram Agro Foods Private Ltd.) (w.e.f February 17, 2021)	
	Joint Ventures	
1	NourishCo Beverages Ltd. (upto 17th May, 2020)	-
2	Tata Starbucks Private Ltd.	50.00
3	Southern Tea LLC (upto 31st March, 2021)	-
4	Tetley ACI (Bangladesh) Ltd.	50.00
5	Tetley Clover (Pvt) Ltd. (under liquidation)	50.00
6	Joekels Tea Packers (Proprietary) Ltd.	51.70
	Associates	
1	Amalgamated Plantations Pvt. Ltd.	41.03
2	Kanan Devan Hills Plantation Co. Pvt. Ltd.	28.52
3	TRIL Constructions Ltd.	32.50

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

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