

## Gujarat Tea Processors and Packers Limited

October 03, 2023

Facilities/Instruments	Amount (₹ crore)	Rating <sup>1</sup>	Rating Action
Long-term bank facilities	100.86 (Reduced from 137.00)	CARE AA+; Stable	Reaffirmed
Long-term / Short-term bank facilities	2.50	CARE AA+; Stable/ CARE A1+	Reaffirmed
Short-term bank facilities	0.50	CARE A1+	Reaffirmed
Commercial paper	50.00	CARE A1+	Reaffirmed

Details of instruments/facilities in Annexure-1.

### Rationale and key rating drivers

The ratings assigned to the bank facilities/instrument of Gujarat Tea Processors and Packers Limited (GTPPL) continue to derive strength from its established position as the third-largest player in the domestic packet tea market with a dominant market share in Gujarat, its gradually increasing presence across few other states in the country and the long-term stable demand outlook for the Indian packet tea industry. GTPPL's growth is aided by its expertise in tea blending, strong recall of its flagship brand 'Waghbakri', and its established distribution network. GTPPL's ratings are also underpinned by its growing scale of operation, healthy and stable operating profitability, comfortable capital structure & debt coverage indicators, and strong liquidity.

The long-term rating of GTPPL is, however, constrained on account of the concentration of the majority of its sales in western India and the susceptibility of its profitability to volatile bulk tea prices; albeit the company has been largely able to maintain its margins due to its strong brand.

### Rating sensitivities: Factors likely to lead to rating actions

#### Positive factors

- Significant increase in its scale of operations along with greater diversification of its geographical presence while maintaining its PBILDT margin in the range of 13%-14%, comfortable capital structure and healthy return indicators.

#### Negative factors

- Deterioration in the PBILDT margin below 10% on a sustained basis.
- Any large-sized debt-funded capex or investment plan resulting in a significant adverse impact on its leverage, dilution in liquidity and debt coverage indicators.

### Analytical approach: Standalone

#### Outlook: Stable

The stable outlook reflects CARE Ratings Limited's (CARE Ratings') expectations that GTPPL will continue to benefit from its strong market position in Gujarat and increasing penetration in newer markets. CARE Ratings expects capital structure and debt coverage indicators are likely to remain comfortable due to low reliance on external debt.

### Detailed description of the key rating drivers:

#### Key strengths

**One of the leading players in the domestic packet tea industry with a dominant position in Gujarat:** GTPPL is one of the leading players in the domestic packet tea industry with a market share of around 10-12% during FY23 (refers to the period April 1 to March 31), with a presence in over 19 states across the country. This PAN-India market presence is underpinned by its dominant position in Gujarat, its base state, where its presence dates to the year 1919, through its associate entity, Gujarat Tea Depot Co., established by the founder, Narandas Desai. A long track record has helped the company navigate through business cycles over the years while withstanding seasonality in the tea industry. GTPPL also benefits from its healthy brand re-call in the branded tea segment in Gujarat with market share of around 55-60%. The sale of tea in Gujarat contributed around 58% of GTPPL's total sales volume during FY23 (P.Y.: 63%).

**Strong brand backed by strength in blending of tea along with its established distribution network:** GTPPL sells its packet tea under the 'Waghbakri' brand, which has established itself as a strong brand. The brand is owned by Gujarat Tea Depot Co., a promoter-owned entity, for which GTPPL pays a royalty to it. Under its 'Waghbakri' umbrella brand, GTPPL has also established other brands, including 'Mili', 'Navchetan' and 'Good Morning' for catering to various socio-economic categories of consumers. These brands enable the company to cater to a wide range of consumers across different price points and with

<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

differing value propositions. Furthermore, GTPPL focuses on its strength in the blending of various grades of tea, so as to arrive at a uniform desired taste, despite variation in the characteristics of tea leaves obtained during various seasons. Different regions have different taste preferences, hence, GTPPL blends the tea to arrive at the desired taste preference of a particular region. This enhances its product uniformity, which is a key determinant in the packet tea market. It has also helped GTPPL to maintain a sustained market share over the years.

In addition to being a strong brand, GTPPL has also established its distribution network in various states, which enables it to reach deeper in these territories. As a part of its brand awareness program, the company also operates around 26 tea lounges/kiosks across Delhi, Mumbai, Ahmedabad, Pune, Noida, Gurugram, and Ghaziabad which it plans to double in a couple of years.

**Gradually increasing presence across various states outside Gujarat:** GTPPL was initially established specifically for selling packet tea in Gujarat in 1980; and from 1989, it started selling tea in other states as well. Over the years, it has created its presence especially in the western Indian states of Maharashtra, Madhya Pradesh and Rajasthan, and now has presence across 19 states in the country. The market for tea is highly fragmented with each region preferring a particular flavour and taste. Over the years, GTPPL has launched its tea in various markets across the country and has sustained its marketing and distribution efforts to further gain market share in these regions. The sales to states other than Gujarat stood at 36% in FY23 (P.Y.: 32%). GTPPL also exports its packet tea, which remained in the range of 4-6% of its total sales volume in the last three years ended FY23; growing at around 18-20% on a y-o-y basis albeit on a low base.

**Growing scale of operations with relatively stable operating profitability despite volatility in prices of bulk tea:** The total operating income (TOI) of the company grew by 8% on a y-o-y basis during FY23 supported by 5% growth in sales volume and 3% growth in average sales realisation. During FY19-FY23, the company's packet tea sales volume grew at a compounded annual growth rate (CAGR) of 6%. GTPPL's sales volume growth remained largely in line with the industry growth, which indicates its established presence in its key markets. CARE Ratings expects GTPPL to maintain stable sales volume growth of 6-7%, going forward.

GTPPL procures black crush-tear-curl (CTC) tea, i.e., finished bulk tea, and blends them according to the tastes/preferences of its various markets. Being an agri-commodity, the availability and price of tea are dependent on various factors including the climate and rainfall in the major tea-growing regions of Assam and West Bengal (northern states), Tamil Nadu, Kerala and Karnataka (southern states), and its harvesting is highly labour intensive in nature. Furthermore, the availability of tea in other major growing countries like China, Kenya, Sri Lanka and Vietnam also affects the price of tea to a certain extent. As a result, the price of bulk tea is volatile in nature, exposing its customers to any adverse movement in the same. However, despite this volatility in the price of tea, GTPPL has been able to maintain its profitability at a healthy level, primarily due to its expertise in blending various grades of tea to achieve the desired output quality, which provides it with the flexibility to deal with volatility in prices, as well as regular price revisions that it undertakes to protect its profitability.

The raw material, i.e., black CTC tea prices declined in FY23 over FY22 due to an improvement in the production of tea. With easing of raw material prices, the gross margin of the company improved by 265 bps and stood at 30.30% during FY23 as compared with 27.67% during FY22. The gross margin of its processed tea which remained at around ₹90-95 per kg during FY18-FY22, have increased to ₹108 per kg during FY23. Consequently, its PBILDT per unit also increased by around 10% to ₹39/kg during FY23 which largely remained stable within a narrow range of ₹34 to ₹36 over the years, thereby demonstrating its strong pricing power. Furthermore, the return indicators of the company continued to remain healthy marked by return on capital employed (ROCE) of 21% in FY23 (P.Y.: 23%) backed by low capital intensity. CARE Ratings expects GTPPL's PBILDT margin to remain stable in range of 10-11% and ROCE to remain at around 20% in the medium term.

**Strong capital structure along with comfortable debt coverage indicators which is expected to sustain:** GTPPL's capital structure continued to remain strong marked by overall gearing of 0.13x and total outside liabilities (TOL)/ tangible net worth (TNW) of 0.31x as on March 31, 2023. This is primarily due to the low capital intensity of its business model, conservative practice towards the use of debt and the ability to maintain steady profitability on the back of its established brand and distribution network. The debt coverage indicators of the company also remained comfortable, marked by a total debt (TD)/ gross cash accruals (GCA) of 0.71x and interest coverage of 15.67x in FY23.

The company had total debt of ₹119 crore (including finance lease of ₹13 crore) as on March 31, 2023 against which GTPPL had a liquid investment of ₹401 crore (mainly parked in bank fixed deposits and debt mutual funds) translating into debt-free status on net debt basis as on even date. GTPPL had completed its green-field project at Kheda near Ahmedabad, Gujarat (for increase its blending and packaging capacity as well as its storage capacities) within the envisaged cost and time parameters. The cost of the project was ₹110 crore, which was funded through term loan of ₹90 crore and the remaining through internal accruals. The overall gearing of the company is expected to remain comfortable and below 0.20x over FY24-FY26 supported by a healthy net worth base. The debt coverage indicators are also expected to remain comfortable due to the healthy profitability and cash accruals.

**Stable demand outlook for the Indian packet tea industry:** Tea is one of the most popular beverages globally with major production centres in India, China, Sri Lanka, Kenya, and Vietnam. India is the second-largest producer of tea in the world with production of around 1,375 million (Mn) kg during FY23, of which 85% is consumed domestically. The black CTC tea industry grew at a CAGR of around 8% supported by volume growth of around 3-4% and value growth of around 4-5% over the period of last five years ended FY23. The packet tea/ branded tea segment is one of the most penetrated consumer beverage products in India. In terms of product classification, tea is primarily divided into black and green tea and there are some variants of fruit/herbal tea, instant tea, etc. Indian consumers mainly prefer regular black tea. The Indian packet tea industry is dominated by three large players, namely, Tata Consumer Products Limited (TCPL), Hindustan Unilever Limited (HUL) and GTPPL, which command more than half of the total packet tea industry. While the Indian tea industry is expected to grow at a steady pace, the growth and profitability of the individual industry players is dependent upon their ability to supply consistent quality of tea as per the local taste. Organised players also invest heavily in branding and marketing efforts to protect and increase their market share in the wake of the competition in the industry and continued expansion by large players to grow their share of the pie.

### Liquidity: Strong

GTPPL had a short collection period of 8 days in FY23, given its fast-moving consumer goods (FMCG) nature of business. It operates largely through distributors appointed in each geographic area due to which it has strong control on the overall collection cycle. Furthermore, tea being a seasonal business, GTPPL is required to stock inventory, primarily raw material for blending purposes. It generally maintains a stock of 3-4 months of raw material inventory, which goes slightly higher during the prime harvesting season. This translates into an overall inventory holding period of around 100 days. Furthermore, GTPPL procures CTC tea of differing varieties through auctions, brokers as well as from private entities and the credit period is short in these transactions. Collectively, a short collection period and a moderate inventory period translate into a moderate operating cycle for the company. The operating cycle largely remained stable at 89 days in FY23 (103 days in FY22). GTPPL has efficiently managed its working capital requirement, thereby earning a cash flow from operations (CFO) of nearly ₹159 crore as against gross cash accruals (GCA) of ₹167 crore during FY23.

The average utilisation of its sanctioned working capital bank borrowings (secured and unsecured) remained low at around 15% during the trailing 12 months ended June 2023. Furthermore, the working capital limit utilisation generally remains marginally higher than the average during the prime harvesting season for the procurement of black tea. The company has term debt repayment obligation of around ₹33-34 crore per annum during FY24-FY25 against the expected cash accruals of ₹175-185 crore during the said period. GTPPL's liquidity is further underpinned by its liquid investment, which stood at nearly ₹401 crore as on March 31, 2023.

### Key weaknesses

**Geographic concentration of sales in western India:** GTPPL's packet tea sales remain concentrated in western India, primarily in the states of Gujarat, Madhya Pradesh, Rajasthan, and Maharashtra, which accounted for around 78% of its sales during FY23 (P.Y.: 81%). This translates into some geographic concentration of sales and its overall growth would be limited to increase in its sales in these regions. However, GTPPL's sales to the Gujarat region reduced from 74% of its total sales in FY16 to 58% in FY23, which also indicates its continuous effort to diversify its geographical presence. GTPPL continues to enter new markets to increase its geographic footprint with the launch of tea as per the regional taste and preferences. CARE Ratings envisages GTPPL to continue to incur sizeable marketing expenditure and gradually penetrate into newer geographies.

**Competition limits pricing flexibility to an extent:** The company faces competition from other well-established brands (namely TATA, Brooke Bond Red Label, Brooke Bond Taj Mahal, Goodrick, and Society, among few others) and several regional players (Jivraj, Ginnar, among others) in the branded tea segment.

### Environment, social, and governance (ESG) risks

Parameter	Compliance and action by the company
Environmental	Minimum risk, the operations of the company is not a power or fuel intensive. Moreover, the company has already installed a roof-top solar power plants on its manufacturing facilities which reduces its dependency on conventional power.
Social	GTPPL has corporate Social Responsibilities (CSR) policy with focus on healthcare and road safety.
Governance	Being a closely-held company, there is limited requirement of disclosure and timely dissemination of information which pose certain risk. However, the company submits all relevant information on demand and there is a high level of transparency in sharing of information.

## Applicable criteria

[Policy on default recognition](#)

[Financial Ratios – Non financial Sector](#)

[Liquidity Analysis of Non-financial sector entities](#)

[Rating Outlook and Credit Watch](#)

[Short Term Instruments](#)

[Manufacturing Companies](#)

[Policy on Withdrawal of Ratings](#)

## About the company and industry

### Industry classification

Macro-Economic Indicator	Sector	Industry	Basic Industry
Fast Moving Consumer Goods	Fast Moving Consumer Goods	Food Products	Other Food Products

GTPPL (CIN: U01132GJ1980PLC003946) is engaged in the blending and processing of packet tea and is the third-largest player in the organised segment of the domestic packet tea industry. The company is promoted by the Ahmedabad-based Desai family, which has been engaged in the tea business since 1892 through Gujarat Tea Depot Co., a partnership firm owned by the promoters. The management team is headed by the promoter directors, Piyush O. Desai, Chairman, Pankaj R. Desai, Vice Chairman and Rasesh R. Desai, Managing Director. GTPPL had an aggregate blending capacity of 2.04 lakh kilo grams (kgs) of tea per shift at its three plants located near Ahmedabad in Gujarat. It also has a captive solar rooftop power plant of 125 kilo watt (kW), which meets around 20% of its power requirement. GTPPL manufactures and sells its packet tea under the 'Waghbakri' umbrella brand name.

Brief Financials (₹ crore)	FY22 (A)	FY23 (A)	Q1FY24 (UA)
Total operating income	1,742	1,877	487
PBILDT	179	206	NA
PAT	139	143	NA
Overall gearing (times)	0.14	0.13	NA
Interest coverage (times)	21.97	15.67	NA

A: Audited UA: Unaudited; NA: Not Available; Note: 'the above results are latest financial results available'

**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:** Annexure-4

**Lender details:** Annexure-5

### 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
Fund-based - LT-Cash credit	-	-	-	-	47.00	CARE AA+; Stable
Fund-based - LT-Term loan	-	-	-	31-03-2025	53.86	CARE AA+; Stable
Non-fund-based - LT/ ST-BG/LC	-	-	-	-	2.50	CARE AA+; Stable/ CARE A1+
Non-fund-based - ST-Credit exposure limit	-	-	-	-	0.50	CARE A1+
Commercial paper (Standalone)	- ^	-	-	7-364 days	50.00	CARE A1+

\* Not applicable as there is no outstanding CP issuance

## 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 2023-2024	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
1	Fund-based - LT-Cash credit	LT	47.00	CARE AA+; Stable	-	1)CARE AA+; Stable (19-Jan-23) 2)CARE AA+; Stable (05-Jul-22)	1)CARE AA+; Stable (24-Nov-21) 2)CARE AA+; Stable (28-Sep-21)	1)CARE AA+; Stable (07-Oct-20)
2	Non-fund-based - LT/ ST-BG/LC	LT/ST*	2.50	CARE AA+; Stable / CARE A1+	-	1)CARE AA+; Stable / CARE A1+ (19-Jan-23) 2)CARE AA+; Stable / CARE A1+ (05-Jul-22)	1)CARE AA+; Stable / CARE A1+ (24-Nov-21) 2)CARE AA+; Stable / CARE A1+ (28-Sep-21)	1)CARE AA+; Stable / CARE A1+ (07-Oct-20)
3	Non-fund-based - ST-Credit exposure limit	ST	0.50	CARE A1+	-	1)CARE A1+ (19-Jan-23) 2)CARE A1+ (05-Jul-22)	1)CARE A1+ (24-Nov-21) 2)CARE A1+ (28-Sep-21)	1)CARE A1+ (07-Oct-20)
4	Fund-based - LT-Term loan	LT	53.86	CARE AA+; Stable	-	1)CARE AA+; Stable (19-Jan-23) 2)CARE AA+; Stable (05-Jul-22)	-	-
5	Commercial paper-Commercial paper (Standalone)	ST	50.00	CARE A1+	-	1)CARE A1+ (19-Jan-23) 2)CARE A1+ (05-Jul-22)	1)CARE A1+ (24-Nov-21)	-

\*Long term/Short term.

## Annexure-3: Detailed explanation of covenants of the rated instruments/facilities: Not applicable

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

Sr. No.	Name of the Instrument	Complexity Level
1	Fund-based - LT-Cash credit	Simple
2	Fund-based - LT-Term loan	Simple
3	Non-fund-based - LT/ ST-BG/LC	Simple
4	Non-fund-based - ST-Credit exposure limit	Simple
5	Commercial paper-Commercial paper (Standalone)	Simple

#### Annexure-5: Lender details

To view the lender wise details of bank facilities please [click here](#)

**Note on the 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](mailto:care@careedge.in) for any clarifications.

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#### About us:

Established in 1993, CARE Ratings is one of the leading credit rating agencies in India. Registered under the Securities and Exchange Board of India, it has been acknowledged as an External Credit Assessment Institution by the RBI. With an equitable position in the Indian capital market, CARE Ratings provides a wide array of credit rating services that help corporates raise capital and enable investors to make informed decisions. With an established track record of rating companies over almost three decades, CARE Ratings follows a robust and transparent rating process that leverages its domain and analytical expertise, backed by the methodologies congruent with the international best practices. CARE Ratings has played a pivotal role in developing bank debt and capital market instruments, including commercial papers, corporate bonds and debentures, and structured credit.

#### Disclaimer:

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