

## Gujarat Tea Processors And Packers Limited

May 30, 2024

Facilities/Instruments	Amount (₹ crore)	Rating <sup>1</sup>	Rating Action
Long-term bank facilities	327.78 (Enhanced from 100.86)	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

Ratings assigned to 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 majority of Indian states and 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 'Wagh bakri', 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 and debt coverage indicators, and strong liquidity.

However, GTPPL's long-term rating is constrained considering concentration of majority sales in western India and profitability susceptible to volatile bulk tea prices; despite the company largely maintaining margins due to its strong brand.

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

#### Positive factors

- Significantly increasing scale of operations and greater diversification of geographical presence, while maintaining profit before interest, lease rentals, depreciation, and taxation (PBILDT) margin in the range of 13%-14%, comfortable capital structure and healthy return indicators.

#### Negative factors

- Deteriorating PBILDT margin below 10% on a sustained basis.
- Large-sized debt-funded capex or investment plan, resulting in a significant adverse impact on its leverage, diluting 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 the capital structure and debt coverage indicators will likely remain comfortable due to low reliance on external debt.

### Detailed description of key rating drivers:

#### Key strengths

##### One of the leading players in 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% in FY24 (refers to April 01 to March 31), with a presence in over 23 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 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%. GTPPL is gradually expanding its presence in the other states, resulting in reducing dependency on the Gujarat market. The sale of tea in Gujarat contributed around 54% of GTPPL's total sales volume in FY24 as compared to 58% in FY23 and 63% in FY22.

##### Strong brand backed by strength in blending of tea and its established distribution network

GTPPL sells its packet tea (i.e., including Black CTC, Spiced Tea, Instant Pemix HWS & Iced Tea, Specialty Tea & Green Teabags) under the 'Wagh bakri' 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 license fees. Under its 'Wagh bakri' umbrella brand, GTPPL has established other

<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.

brands, including 'Mili', 'Navchetan' and 'Good Morning' for catering to socio-economic categories of consumers. These brands enable the company to cater to a wide range of consumers across price points with differing value propositions. GTPPL focuses on its strength in blending grades of tea to arrive at a uniform desired taste, despite variation in characteristics of tea leaves obtained across seasons. Different regions have different taste preferences, hence, GTPPL blends tea to arrive at desired preferences of a particular region. This enhances its product uniformity, which is a key determinant in the packet tea market. It has also helped GTPPL maintain a sustained market share over the years.

In addition to being a strong brand, GTPPL has also established its distribution network across states, which enables it to reach deeper in these territories. As a part of its brand awareness program, the company also operates around 47 tea lounges/ kiosks across Delhi, Mumbai, Bangalore, Ahmedabad, Pune, Noida, Gurugram, Vadodara, Haridwar, Ghaziabad, Mehsana, Anand and Gandhinagar.

### **Gradually increasing presence across 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 in Maharashtra, Madhya Pradesh, and Rajasthan, and now retails across 23 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 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 40% in FY24 (PY: 36%). 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 FY24; growing at around 18-20% on a y-o-y basis despite being on a low base.

### **Growing scale of operations with relatively stable operating profitability despite bulk tea price volatility**

The net sales of the company grew by 8% on a y-o-y basis during FY24 (Provisional) supported by 9% growth in sales volume. The company's average sales realisation declined marginally by around 1% considering nearly 2% decline in the cost of raw material. 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, finished bulk tea, and blends them according to tastes/preferences of its markets. Being an agri-commodity, the availability and price of tea depend on factors including climate and rainfall in major tea-growing regions of Assam and West Bengal (north-eastern states), Tamil Nadu, Kerala and Karnataka (southern states), and its harvesting is highly labour intensive. Furthermore, the availability of tea in other major growing countries such as China, Kenya, Sri Lanka and Vietnam also affect the price of tea to a certain extent. As a result, the price of bulk tea is volatile, exposing its customers to adverse movement in the same. However, despite this volatility, GTPPL has been able to maintain profitability at a healthy level, primarily due to its expertise in blending different grades of tea to achieve the desired output quality, which provides it with flexibility to deal with volatility in prices, and regular price revisions that it undertakes to protect its profitability.

The raw material, black CTC tea, prices declined in FY24 over FY23 due to an improvement in the production of tea. With easing of raw material prices, the PBILDT margin improved to 11.75% in 9MFY24 (Provisional) as compared to 10.99% in FY23 (A), demonstrating its strong pricing power. Furthermore, the company's return indicators company continued to remain healthy, marked by return on capital employed (ROCE) of 21% in FY23 (PY: 23%) backed by low capital intensity. CARE Ratings expects GTPPL's PBILDT margin to remain stable in range of 11-12% and ROCE to remain at around 20% in the medium term.

### **Strong capital structure and 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) to 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) to gross cash accruals (GCA) of 0.71x and interest coverage of 15.67x in FY23.

The company had total debt of ₹370 crore (including finance lease) as on March 31, 2024 (Provisional) against which GTPPL had a liquid investment of around ₹590 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 (to increase its blending and packaging capacity and its storage capacities) within the envisaged cost and time parameters. The cost of the project was ₹145 crore, funded through term loan of ₹90 crore and the remaining through internal accruals. Additionally, GTPPL has bought a land parcel near S. G. Highway, Ahmedabad for ₹148 crore in March 2024 for setting-up a corporate office, which was entirely funded through available cash and bank balance. The company's overall gearing is expected to remain comfortable and below 0.20x over FY24-FY26 supported by a healthy net worth base. Debt coverage indicators are also expected to remain comfortable due to healthy profitability and cash accruals.

### Stable demand outlook for 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 in 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 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, and instant tea, among others. Indian consumers mainly prefer regular black tea. The Indian packet tea industry is dominated by three large players; 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, growth and profitability of the individual industry players depend on their ability to supply consistent quality of tea 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 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 eight 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 in the prime harvesting season. This translates in an overall inventory holding period of around 100 days. GTPPL procures CTC tea of differing varieties through auctions, brokers and 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, earning a cash flow from operations (CFO) of nearly ₹159 crore as against gross cash accruals (GCA) of ₹167 crore in FY23.

The average utilisation of its sanctioned working capital bank borrowings (secured and unsecured) remained at around 55% in 12-months ended April 2024. The working capital limit utilisation generally remains marginally higher than the average in the prime harvesting season for the procurement of black tea. The company has term debt repayment obligation of around ₹33-34 crore per annum in FY24-FY25 against expected cash accruals of ₹175-185 crore in the said period. GTPPL's liquidity is further underpinned by its liquid investment, which stood at nearly ₹590 crore as on March 31, 2024 (Provisional).

### Key weaknesses

#### Geographic concentration of sales in western India

GTPPL's packet tea sales remain concentrated in western India, primarily in Gujarat, Madhya Pradesh, Rajasthan, and Maharashtra, which accounted for around 74% of its sales in FY24 (PY: 78%). This translates to 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 54% in FY24, 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 per regional taste and preferences. CARE Ratings envisages GTPPL to continue incurring 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 (TATA, Brooke Bond Red Label, Brooke Bond Taj Mahal, Goodrick, and Society, among few others) and several regional players (Jivrjaj, Girnar, among others) in the branded tea segment.

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

Parameter	Compliance and action by the company
Environmental	Minimum risk, the company's operations are not power or fuel intensive. Moreover, the company has already installed a roof-top solar power plants on its manufacturing facilities, reducing 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

- [Definition of Default](#)
- [Liquidity Analysis of Non-financial sector entities](#)
- [Rating Outlook and Rating Watch](#)
- [Manufacturing Companies](#)
- [Financial Ratios – Non financial Sector](#)
- [Short Term Instruments](#)

## 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 blending and processing 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. Piyush O. Desai is the non-executive Chairman of the company. The management team is headed by promoter directors, Rasesh Ramdas Desai (Vice Chairman & Managing Director), Paras Pankajkumar Desai (Executive Director), Priyam Bimal Parikh (Whole-time Director) and Vidisha Parag Desai (Whole-time Director). GTPPL had an aggregate blending capacity of 2.04 lakh kilo grams (kgs) of tea per shift at its three plants near Ahmedabad in Gujarat. It also has a captive solar rooftop power plant of 927 kilo watt (kW), which meets around 45% of its power requirement. GTPPL manufactures and sells its packet tea under the 'Wagh bakri' umbrella brand name.

Brief Financials (₹ crore)	FY22 (A)	FY23 (A)	9MFY24 (UA)
Total operating income	1,742	1,877	1,574
PBILDT	179	206	185
PAT	139	143	NA
Overall gearing (times)	0.14	0.13	NA
Interest coverage (times)	21.97	15.67	9.54

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

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

**Any other information:** Not applicable

**Rating history for last three years:** Annexure-2

**Covenants of rated instrument / facility:** Annexure-3

**Complexity level of 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	-	-	-	-	297.00	CARE AA+; Stable
Fund-based - LT-Term Loan	-	-	-	31-03-2025	30.78	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)	-*	-	-	-	50.00	CARE A1+

\* Not applicable as there is no outstanding CP issuance

**Annexure-2: Rating history for 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 2024-2025	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
1	Fund-based - LT-Cash Credit	LT	297.00	CARE AA+; Stable	-	1)CARE AA+; Stable (03-Oct-23)	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)
2	Non-fund-based - LT/ ST-BG/LC	LT/ST	2.50	CARE AA+; Stable / CARE A1+	-	1)CARE AA+; Stable/ CARE A1+ (03-Oct-23)	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)
3	Non-fund-based - ST-Credit Exposure Limit	ST	0.50	CARE A1+	-	1)CARE A1+ (03-Oct-23)	1)CARE A1+ (19-Jan-23) 2)CARE A1+ (05-Jul-22)	1)CARE A1+ (24-Nov-21) 2)CARE A1+ (28-Sep-21)
4	Fund-based - LT-Term Loan	LT	30.78	CARE AA+; Stable	-	1)CARE AA+; Stable (03-Oct-23)	1)CARE AA+; Stable (19-Jan-23) 2)CARE AA+; Stable (05-Jul-22)	-
5	Commercial Paper (Standalone)	ST	50.00	CARE A1+	-	1)CARE A1+ (03-Oct-23)	1)CARE A1+ (19-Jan-23) 2)CARE A1+ (05-Jul-22)	1)CARE A1+ (24-Nov-21)

LT: Long term; ST: Short term; LT/ST: Long term/Short term

**Annexure-3: Detailed explanation of covenants of rated instruments/facilities:** Not applicable**Annexure-4: Complexity level of instruments rated**

Sr. No.	Name of the Instrument	Complexity Level
1	Commercial Paper-Commercial Paper (Standalone)	Simple
2	Fund-based - LT-Cash Credit	Simple
3	Fund-based - LT-Term Loan	Simple
4	Non-fund-based - LT/ ST-BG/LC	Simple
5	Non-fund-based - ST-Credit Exposure Limit	Simple

**Annexure-5: Lender details**

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

**Note on complexity levels of rated instruments:** CARE Ratings has classified instruments rated by it based on complexity. Investors/market intermediaries/regulators or others are welcome to write to [care@careedge.in](mailto:care@careedge.in) for clarifications.

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### About us:

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