

## Gujarat Tea Processors and Packers Limited

September 20, 2024

Facilities/Instruments	Amount (₹ crore)	Rating <sup>1</sup>	Rating Action
Long-term bank facilities	320.08 (Reduced from 327.78)	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 for Gujarat Tea Processors and Packers Limited (GTPPL) continue to derive strength from its strong position as the third-largest player in the domestic packet tea market with a dominant market share in Gujarat, and its expanding presence in other states. The stable demand outlook for the Indian packet tea industry also supports its ratings. GTPPL also benefits from its expertise in tea blending, the strong recall of its flagship brand 'Wagh Bakri', and an established distribution network. Additionally, the company's growing scale of operations, stable operating profitability, comfortable capital structure, debt coverage indicators, and strong liquidity further underpin its ratings.

However, GTPPL's long-term rating is constrained considering the concentration on sales in western India and its profitability susceptible to fluctuations in bulk tea prices, although it generally maintains 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 its geographical presence while maintaining its profit before interest, lease rentals, depreciation, and taxation (PBILDT) margin between 13% and 14%, comfortable capital structure, and healthy return indicators.

#### Negative factors

- In case of deterioration in PBILDT margin below 10% on a sustained basis going forward.
- If company takes up 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 going forward.

### 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 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% in FY24 (refers to April 1 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 other states, resulting in reduced 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 crush-tear-curl (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 also established other brands, including 'Mili', 'Navchetan' and 'Good Morning' for catering to various socio-economic categories

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

of consumers. These brands enable the company to cater to a wide range of consumers across different price points and with differing value propositions. 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 in 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 programme, the company also operates around 50 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 especially in the western Indian states of Maharashtra, Madhya Pradesh, and Rajasthan, and now has presence in more than 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 42% in terms of sale volumes in FY24 (P.Y.: 36%). GTPPL also exports its packet tea, which remained between 4% and 6% of its total sales volume in the last three years ended FY24; growing at around 18-20% y-o-y despite being on a low base. GTPPL is rapidly expanding its presence in the export market and expects the contribution of exports to total sales to increase to 10% in the near to medium term.

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

The company's total operating income (TOI) grew by 8% y-o-y in FY24 supported by 9% growth in sales volume. During FY20-FY24, 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 CTC tea, i.e., finished bulk tea, and blends them according to the tastes/preferences of its various markets. Being an agri-commodity, tea availability and its price depend 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. Tea availability in other major growing countries such as China, Kenya, Sri Lanka, and Vietnam also affect the tea prices to a certain extent. As a result, the price of bulk tea is volatile in nature, exposing its customers to adverse movement in the same. However, despite this tea price volatility, 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 price volatility, and regular price revisions that it undertakes to protect its profitability.

The raw material, i.e., black CTC tea prices declined in FY24 over FY23 due to an improvement in tea production. This led to marginal improvement in GTPPL's gross margin and PBILDT margin in FY24, which remained at 28.01% and 11.25%, respectively (FY23: 27.04% and 10.99%, respectively). The gross margin of its processed tea which remained at around ₹82 per kg in FY20, have increased to ₹100 per kg in FY24. Consequently, its PBILDT per unit also increased to around ₹40/kg in FY24 from around ₹32/kg in FY20, demonstrating its strong pricing power. Black tea prices have sharply increased in Q1FY25 due to adverse weather conditions that have impacted the tea production in India. However, CARE Ratings expects GTPPL to adequately pass on the price increase to the end consumers maintaining its PBILDT margin. The company's return indicators continued to remain healthy marked by return on capital employed (ROCE) of 21% in FY24 (P.Y.: 21%) backed by low capital intensity. CARE Ratings expects GTPPL's PBILDT margin to remain stable in the range of 10-11% 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 0.39x and total outside liabilities (TOL)/ tangible net worth (TNW) of 0.55x as on March 31, 2024 (PY: 0.13x and 0.31x, respectively). 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 company's debt coverage indicators also remained comfortable, marked by a total debt (TD)/ gross cash accruals (GCA) of 1.84x and interest coverage of 7.46x in FY24 (PY: 0.71x and 15.67x, respectively).

The company had total debt of ₹403 crore (including finance lease of ₹16 crore) as on March 31, 2024, against which GTPPL had a liquid investment of ₹598 crore (mainly parked in bank fixed deposits and mutual funds) translating into debt-free status on net debt basis as on even date.

Increase in its total debt in FY24 compared to the previous year was on account of company financing its working capital requirement through external borrowing, which was earlier mainly financed through internal accruals. GTPPL is also planning to incur capex of ₹150 crore in the next 1-2 years to set-up new storage and manufacturing facility at Dakor, near Ahmedabad, which is expected to be funded by term debt of ₹90 crore and balance through internal accruals. The company's overall gearing is expected to remain comfortable and below 0.50x over FY25-FY27 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 world's second-largest producer of tea with production of around 1,327 million (Mn) kg in FY24, of which 80% - 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, instant tea, among others. 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 depend on 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 nine days in FY24, 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. 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 into an overall inventory holding period of around 90-100 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 88 days in FY24 (86 days in FY23). GTPPL has efficiently managed its working capital requirement, earning a cash flow from operations (CFO) of nearly ₹93 crore in FY24.

The average utilisation of its sanctioned working capital bank borrowings (secured and unsecured) remained at around 73% in the trailing 12 months ended August 2024. The company has term debt repayment obligation of around ₹34 crore in FY25 against the expected annual cash accruals of ₹180-190 crore in the said period. GTPPL's liquidity is further underpinned by its gross liquid investment, which stood at nearly ₹598 crore as on March 31, 2024.

### **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 (P.Y.: 78%). 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 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 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 (TATA, Brooke Bond Red Label, Brooke Bond Taj Mahal, Goodrick, and Society, among few others) and several regional players (Jivraj and 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 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 poses 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](#)

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[Short Term Instruments](#)

## About the company and industry

### Industry classification

Macroeconomic 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 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. Shri Piyush Desai is the non-executive Chairman of the company. The management team is headed by promoter directors, Shri Rasesh Desai, Vice Chairman & Managing Director, Shri Paras Desai, Executive Director, Shri Priyam Parikh, Whole-time Director and Smt. Vidisha Desai, Whole-time Director. Recently in the month of August 2024, the company has appointed Shri Sanjay Singal as a Chief Executive Officer of GTPPL.

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)	FY23 (A)	FY24 (UA)	Q1FY25 (UA)
Total operating income	1,877	2,032	547
PBILDT	206	229	73
PAT	143	178	NA
Overall gearing (times)	0.13	0.39	NA
Interest coverage (times)	15.67	7.46	9.98

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 (DD-MM-YYYY)	Coupon Rate (%)	Maturity Date (DD-MM-YYYY)	Size of the Issue (₹ crore)	Rating Assigned and Rating Outlook
Commercial paper- (Standalone)	INE369U14061	September 06, 2024	7.5%	October 04, 2024	50.00	CARE A1+
Fund-based - LT-Cash credit	-	-	-	-	297.00	CARE AA+; Stable
Fund-based - LT-Term loan	-	-	-	31-03-2025	23.08	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+

**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 (30-May-24)	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+ (30-May-24)	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+ (30-May-24)	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	Commercial paper- Commercial paper (Standalone)	ST	50.00	CARE A1+	1)CARE A1+ (30-May-24)	1)CARE A1+ (03-Oct-23)	1)CARE A1+ (19-Jan-23) 2)CARE A1+ (05-Jul-22)	1)CARE A1+ (24-Nov-21)
5	Fund-based - LT-Term loan	LT	23.08	CARE AA+; Stable	1)CARE AA+; Stable (30-May-24)	1)CARE AA+; Stable (03-Oct-23)	1)CARE AA+; Stable (19-Jan-23) 2)CARE AA+; Stable (05-Jul-22)	-

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 on the basis of complexity. Investors/market intermediaries/regulators or others are welcome to write to care@careedge.in for clarifications.

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### About us:

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