

**Tata Consumer Products Limited**  
**(erstwhile Tata Global Beverages Limited)**

July 07, 2020

**Ratings**

Facilities	Amount (Rs. crore)	Rating <sup>1</sup>	Rating Action
Commercial Paper (CP)	715 (Rs. Seven Hundred Fifteen crore only)	CARE A1+ (A One Plus)	Re-affirmed

*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 derive strength from its superior liquidity position marked by improving cash accruals, high cash and bank balance and largely unutilized sanctioned WC limits. Overall financial risk profile continues to remain strong driven by low debt levels, healthy capital structure and debt coverage indicators. The rating takes note of completion of acquisition of consumer product business of Tata Chemicals Limited (CARE AA+; Stable/ CARE A1+) on February 7, 2020 (with an effective date of April 1, 2019). This merger would add prominent brands like Tata Salt and Tata Sampann and create a consumer company with diversified portfolio of leading Indian and international Brands. The acquisition is expected to benefit company from the synergies in form of distribution, marketing and supply chain and increased consumer base. The rating continues to positively factor in TCPL being part of Tata group driven by established and experienced management, company's long and established track record in branded tea industry with dominant market position in both the domestic and international market place, its established presence in other beverages segment across geographies with strong brand portfolio. Tata Salt also enjoys highest market share in Indian Salt market though Tata Sampann has relatively smaller scale. Over the years, company has also been entering into new product categories to keep pace with changing consumer preferences. The rating also takes note of significant growth in sales and PBIDTA during FY20 primarily driven by addition of the food business however, net profits have remained flat due to higher exceptional expenses (non-cash impairment loss on goodwill relating to the business in Australia and tea business in the US) and increased losses of JVs/associates.

**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*

- Any potential leveraged acquisitions impacting earnings accretion and the liquidity of the company

**Detailed description of the key rating drivers**
**Key Rating Strengths**

**Acquisition of consumer food business of Tata Chemicals Limited leading to diversification in revenue stream:** The group in order to create a sizeable consumer product company with enhanced market reach and better focus on segment, demerged consumer food business of Tata Chemicals Limited into TCPL in an all equity deal. TCPL has acquired brand and sales & distribution network of consumer food business of Tata Chemicals which includes primarily Tata Salt and Tata Sampann. TCPL is expected to benefit from the synergies in distribution, marketing and supply chain with increased market reach. The combined entity has a reach of 200 mn households through 2.5 mn outlets and about 5,000 stockists/distributors. The merger has offered TCPL an enhanced scale with far reaching distribution network besides diversification of its product portfolio. Pursuant to the merger, TCPL has acquired net assets of Rs. 6,099 crore as at April 1, 2019 which includes Goodwill of Rs. 3563 crore, intangible assets (including brands) of Rs. 2459 crore and other assets (net of liabilities) of Rs. 77 crore.

**Part of Tata group with strong leadership:** Tata Group is one of the largest conglomerate having global presence and combined turnover of USD 113 bn during FY19. TCPL is the largest domestic player and second largest global player in branded tea industry and a key Tata Group company. Tata Sons Private Limited, the principle investment holding company and promoter of Tata group together with its promoter group companies holds 34.68% shares in TCPL.

TCPL is ably supported by strong and established leadership team. Mr. N. Chandrasekaran, Chairman of TCPL is also Chairman 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 2009-2017.

With effect from April 4, 2020, TCPL has appointed Mr. Sunil D'souza as MD & CEO of company post retirement of earlier MD & CEO Mr. Ajoy Mishra.

<sup>1</sup>Complete definition of the ratings assigned are available at [www.careratings.com](http://www.careratings.com) and other CARE publications

**Well established brand portfolio and geographic presence:** Company's product portfolio comprises of globally known brands including Tetley, Tata Tea, Eight O Clock having strong brand recall value. Tata Tea continues to enjoy market leadership position in the category by volume in India. Tetley, international tea brand of group, holds #1 and #3 position in Canada and UK respectively. Tata Salt also commands higher market share among peers in India. By geography India Beverages accounted for 35% of income in FY20, India Foods 21% and International Beverages accounting for 34%. Plantation and extraction business constituted the balance. Company's branded portfolio is supported by well-developed distribution network with a reach of 200 million households through 2.5 million outlets and about 5000 stockists/ distributors.

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, but it has been witnessing slow/ declining growth across international 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 premiumisation and innovation into new product categories to keep pace with changing consumer preferences.

**Strong financial risk profile marked by increased scale of operations, healthy capital structure but low return ratios:** Company's sales and PBDIT during FY20 increased by 33% and 53% respectively led by acquisition of consumer food business of Tata Chemicals Limited. This apart, company also acquired Lal Ghoda and Kala Ghoda tea brands from Dhunseri Tea and Industries Limited. On comparable basis, company's revenue and PBDIT grew by 4% and 12% respectively in FY20. Nevertheless, despite increase in PBDIT, company's PAT remained flat due to higher exceptional expenses (mainly driven by non-cash impairment loss on goodwill relating to the business in Australia and tea business in the US) and increased losses in Associates and JVs. TCPL's capital structure at the consolidated level remains comfortable with a gearing of 0.33x as on March 31, 2020 (Mar'19: 0.27x). Slight deterioration in gearing was on account of classification of operating leases of Rs. 329.9 crore under debt post implementation of Ind AS 116. As such, company continues to maintain net cash position, both on standalone and consolidated basis. Meanwhile, RoCE continue to remain low impacted by recent acquisition of food business, benefits of which is yet to accrue and performance of its international business, though it had seen improvement post restructuring efforts.

#### Key Rating Weaknesses

**Exposure to commodity and currency risk:** TCPL's profitability is susceptible to volatile commodity prices, notwithstanding TCPL's ability to limit the impact as demonstrated over the years with strategies in place for procurement and hedging. TCPL manages sourcing of tea through auctions and from private producers. Risk associated with coffee is hedged through various available structures. Further, TCPL having operations in various geographies is exposed to foreign currency risk which is managed through forwards and option contracts under Board approved hedging policies.

#### Liquidity: Strong

Company's liquidity indicators are strong supported by stable cash accruals and high cash balances and liquid investments. Company continues to maintain robust liquidity with cash and bank balance of Rs. 2443 crore on consolidated basis as on Mar 31, 2020 (on standalone basis, cash balance of Rs. 1462 crore) and maintains negative net debt position. Of Rs. 400 crore sanctioned WC limits, utilization level remains below 7% for 12 months ending Mar'20.

**Analytical approach:** 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.

#### Applicable Criteria

##### Rating Methodology- Manufacturing Companies

##### Criteria for Short Term Instruments

##### Consolidation and Factoring Linkages in Ratings

##### Policy on Default Recognition

##### Financial ratios- Non Financial Sector

##### Liquidity Analysis for 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 the world with growing interest in coffee and water and 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 and water in various value added forms. Non branded segment consists of Plantation and extraction business of tea, coffee and other produce.

During Feb'20, erstwhile Tata Global Beverages Limited completed the acquisition of consumer food 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.

**Covenants of rated instrument / facility:** *Not Applicable. Company has not raised CP in past 3 years*

Brief Financials (Rs. crore)	FY19 (A)	FY20 (A)
Total operating income	7252	9637
PBDIT	837	1310
PAT	457	460
Overall gearing (times)	0.27	0.33@
Interest coverage (times)	15.95	16.82

A: Audited | @ Overall gearing include classification of operating leases under debt post implementation of 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

#### 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	-	-	-	7-365 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 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018
1.	Short Term Instruments-CP/ Short Term loan	ST	715.00	CARE A1+	-	1)CARE A1+ (05-Jul-19) 2)CARE A1+ (24-May-19)	1)CARE A1+ (28-Dec-18)	1)CARE A1+ (29-Dec-17)

#### Annexure3: List of Subsidiaries and Associates/JVs considered for consolidation

##### Subsidiaries

SI no	Name of Entry	Effective ownership %
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	89.10
16	Tata Global Beverages Czech Republic a.s. (ceased w.e.f January 13, 2020)	—
17	Tata Consumer Products US Holdings Inc. (Formerly Tata Global Beverages US Holdings Inc.)	89.10
18	Tetley USA Inc.	89.10
19	Empirical Group LLC	49.90
20	Tata Waters LLC	89.10
21	Good Earth Corporation	89.10
22	Good Earth Teas Inc.	89.10
23	Tata Consumer Products Canada Inc.(Formerly Tata Global Beverages Canada Inc.	89.10
24	Tata Consumer Products Australia Pty Ltd. Formerly Tata Global Beverages Australia Pty Ltd.)	89.10
25	Earth Rules Pty Ltd	89.10
26	Tata Global Beverages Investments Ltd.	89.10
27	Campestres Holdings Ltd.	89.10
28	Kahutara Holdings Ltd.	89.10
29	Suntyno Holding Ltd.	89.10
30	Onomento Co Ltd.	89.10
31	Coffee Trade LLC (under liquidation)	89.10
32	Tata Consumer Products Capital Ltd. (Formerly Tata Global Beverages Capital Ltd.)	100.00
33	Tata Coffee Ltd.	57.48
34	Tata Coffee Vietnam Company Ltd.	57.48
35	Consolidated Coffee Inc.	78.70
36	Eight O’Clock Holdings Inc.	78.70
37	Eight O’Clock Coffee Company.	78.70
38	Tata Tea Extractions Inc.	100.00
39	Tata Tea Holdings Private Ltd.	100.00

**Associates/JV**

SI no	Name of Entry	Effective ownership %
1	Amalgamated Plantation Private Limited	41.03
2	Kanan Devan Hill Plantation Company Pvt. Ltd.	28.52
3	TRIL Constructions Limited	32.50
4	Tetley Clover (Pvt.) Ltd.	50
5	Tetley ACI (Bangladesh) Ltd.	50
6	Joekels Tea Packers (Proprietary) Ltd.	51.7
7	Southern Tea, LLC	50
8	NourishCo Beverages Ltd.	50
9	Tata Starbucks Private Ltd.	50

**Note on complexity levels of the rated instrument:** CARE has classified instruments rated by it on the basis of complexity. This classification is available at [www.careratings.com](http://www.careratings.com). Investors/market intermediaries/regulators or others are welcome to write to [care@careratings.com](mailto:care@careratings.com) for any clarifications.

## Contact us

### Media Contact

Mradul Mishra

Contact no. – +91-22-6837 4424

Email ID – mradul.mishra@careratings.com

### Analyst Contact 1

Himanshu Jain

080-46625528

[Himanshu.jain@careratings.com](mailto:Himanshu.jain@careratings.com)

### Analyst Contact 2

Karthik Raj K

080-46625566

[Karthik.raj@careratings.com](mailto:Karthik.raj@careratings.com)

### Relationship Contact

Nitin Kumar Dalmia

080-46625555

[Nitin.dalmia@careratings.com](mailto:Nitin.dalmia@careratings.com)

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