

Tata Global Beverages Limited

July 05, 2019

Ratings

Facilities	Amount (Rs. crore)	Rating ¹	Rating Action
Proposed Commercial Paper (CP)	715.00[^] [Seven Hundred and Fifteen crore only]	CARE A1+ [A One Plus]	Reaffirmed

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.

Detailed Rationale & Key Rating Drivers

The rating continues to derive strength from TGBL being a part of TATA group driven by established and experienced management, its 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 and the company's continuous emphasis on new product categories and variants to augment its presence and address changing consumer preferences. The rating also factors in the company's recent efforts including exits from loss making businesses and restructuring of its international business in order to optimize costs and streamline operations going forward. The rating continues to derive strength from strong financial risk profile driven by stable cash accruals, low debt levels and high cash & bank balances and liquid investments.

The rating takes note of growth in consolidated income during FY19 but decline in net profits y-o-y. The moderation in profits was due to high commodity cost of tea in India and higher spending towards branding in overseas operations besides higher tax provisions and exceptional items. These negatives were softened to some extent by lower commodity cost of tea and coffee in international markets. Maintaining growth while protecting its profit margins going forward remains key rating factor.

CARE also takes note of foray of TGBL into FMCG segment with proposed merger of consumer products business of TATA Chemicals Limited in an all stock purchase, subject to approval of various statutory bodies.

Detailed description of the key rating drivers

Key Rating Strengths

Part of Tata Group with experienced management

Tata Group is India's one of the largest conglomerate having global presence and combined turnover of USD 110 bn as on March'18. TGBL is the largest domestic player and second largest global player in branded tea industry and a key Tata Group company. TGBL has an experienced management team led by Chairman - Mr. N. Chandrasekaran, who is also the Chairman of Tata Sons, and Mr. Ajoy Mishra, Managing Director and CEO of TGBL.

Emphasis on new products and variants in tea and focus on instant coffee to augment international and domestic performance besides restructuring of international operations

TGBL's branded operations include tea, coffee and water supported by plantations and extraction verticals under the non-branded operations. The various brands of company are consumed in more than 40 countries across the globe. TGBL is the market leader in the domestic branded tea market and second largest globally. Tetley, Tata Tea, Good Earth and Eight O Clock are some of the prominent brands. TGBL continued to focus on product innovation and introduction of premium tea segment with launch of multiple new variants/flavours during 2018-19. Indian markets witnessed multiple new blends of tea customized for the regional tastes such Chakra Gold Elaichi, Chakra Gold Acti Plus, Kanan Devan Duet etc. TGBL has also focused on inorganic growth with proposed acquisition of branded tea business of Dhunseri Tea & Industries Limited (DTIL), having leading regional brands in Rajasthan – 'Lal Ghoda and Kala Ghoda'. Key launches in International markets include - Tetley cold infusions in UK and Tetley Super teas in Canada. Tetley super teas remained the top performing tea variant of all new teas launched in the year 2018-19 driving 25% value growth in specialty tea category. With commissioning of new freeze dried coffee plant in Vietnam, TGBL is expected to strengthen its position in instant coffee segment.

Growth in revenue in both branded and non-branded category offset by lower profitability during FY19

Consolidated income grew by 6% in FY19 (overall growth of 3% at constant currency) due to improved performance in both branded and non-branded category. The Indian business recorded strong topline growth during the year, with 9% volume improvement, showing growth across both its national and regional brands. Growth in International markets was led by volume and value growth in tea category along with new launches, growth in branded coffee aided by model change in pods business and growth in tea extractions business. The above positives were partially offset by higher commodity cost in India and higher investments behind branding and promotion in US leading to PBT being marginally lower (by 2%) over the

¹Complete definition of the ratings assigned are available at www.careratings.com and other CARE publications

previous year (notwithstanding lower commodity cost of tea and coffee in international markets). Overall group profitability declined marginally due to impact of higher taxes in current year as compared to previous year (prior year included one time tax credit on account of tax legislative changes in US), higher exceptional items and higher share of loss from plantations (crop losses suffered on account of floods in Kerala and adverse plantation conditions).

Joint Ventures

The company has, in the past, entered into strategic joint ventures with Starbucks and Pepsico. While such businesses have been marginal contributors to the company's overall scale of operations, it is anticipated that these alliances can contribute more meaningfully to TGBL's overall business growth in the medium to long term.

Strong financial risk profile due to low debt levels, high cash and bank balances and liquid investments

TGBL's capital structure at the consolidated level remains healthy with a gearing of 0.27x times as on March 31, 2019. The net-worth remained strong with accretion of profits. Though TDGCA witnessed moderation due to loan taken for Coffee plant in Vietnam, interest coverage remained healthy at 15.64x (FY18: 19.11x). TGBL has high cash and liquid investments to the tune of Rs. 1862 crore against total debt of Rs. 1141.1 crores consequent into net cash surplus and low working capital utilization.

Amalgamation of consumer products business of Tata Chemicals Limited

TGBL has proposed merger of consumer products business of TATA Chemicals Limited in an all stock purchase, subject to approval of various statutory bodies and stakeholders. Post completion of merger, TGBL shall be renamed as Tata Consumer Products Limited and shall have expanded products portfolio consisting of Salt, Pulses, Spices etc in addition to existing Tea, Coffee and Water. The company is expected to benefit from synergies in sales and distribution with deeper market penetration and economies of scale.

Exposure to commodity and currency risk

TGBL's profitability is susceptible to volatile commodity prices, notwithstanding TGBL's ability to limit the impact as demonstrated over the years with strategies in place for procurement and hedging. TGBL manages sourcing of tea through auctions and from private producers. Risk associated with coffee is hedged through various available structures. Further TGBL 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

Company's liquidity indicators are strong supported by stable cash accruals and high cash balances and liquid investments. Of the overall approved working capital limit of Rs. 715 crore (including CP and short term bank borrowings) company's utilization remained below 5% for past 12 months ended May 2019. TGBL holds cash & bank balance and liquid investments in mutual funds to the tune of around Rs. 1862 crores against total debt of Rs. 1141.1 crore as on March 31, 2019 on a consolidated basis.

Analytical approach: Consolidated

(List of Subsidiaries/JVs & Associates enclosed in Annexure)

Applicable Criteria

[Criteria on assigning Outlook to Credit Ratings](#)

[CARE's Policy on Default Recognition](#)

[Criteria for Short Term Instruments](#)

[Financial ratios – Non-Financial Sector](#)

[Rating Methodology - Manufacturing Companies](#)

About the Company

TGBL, (erstwhile TATA TEA 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. TGBL'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. TGBL and its subsidiaries, Joint ventures and Associates (together referred as group) are engaged in trading, production and distribution of tea, coffee and mineral water integrated with own plantations. The group has branded beverages business presence in India, Europe, US, Canada and Australia and non-branded business comprising plantation business in India and extraction business in India and US. The operational business of TGBL consists of India (which included Middle East) and International (which includes Europe, UK, Canada, America and Australia).

Brief Financials (Rs. crore)	FY18 (A)	FY19 (A)
Revenue from operations	6815	7252
PBT	753	735
PAT	557	457
Interest coverage (times)	19.11	15.64

A: Audited

Status of non-cooperation with previous CRA: NIL

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	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Short Term Instruments- Commercial Paper	-	-	-	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 2018-2019	Date(s) & Rating(s) assigned in 2017-2018	Date(s) & Rating(s) assigned in 2016-2017
1.	Short Term Instruments- CP/ Short Term loan	ST	715.00	CARE A1+	1)CARE A1+ (28-Dec-18)	1)CARE A1+ (29-Dec-17)	-

List of Subsidiaries/JV/Associates

S. No	Name of entity	Effective ownership, March 31,2019
1	TATA Global Beverages Group Ltd	89.10%
2	Tata Global Beverages Holding Ltd	100.00%
3	Tata Global Beverages Services Ltd	100.00%
4	Tata Global Beverages GB Ltd	100.00%
5	Tata Global Beverages Overseas Holdings Ltd	100.00%
6	Tata Global Beverages Overseas Ltd	100.00%
7	Lyons Tetley Ltd	100.00%
8	Drassington Ltd	100.00%
9	Teapigs Ltd.	100.00%
10	Teapigs US LLC	100.00%
11	Stansand Ltd	100.00%
12	Stansand (Brokers) Ltd	100.00%
13	Stansand Africa Ltd	100.00%
14	Stansand (Central Africa) Ltd	100.00%
15	Tata Global Beverages Polska Sp.zo.o	100.00%

S. No	Name of entity	Effective ownership, March 31,2019
16	Tata global Beverages Czech Republic a.s.	100.00%
17	Tata global beverages US holdings Inc	100.00%
18	Tetley USA Inc.	100.00%
19	Empirical Group LLC	56.00%
20	Tata Water US LLC	100.00%
21	Tetley USA Inc.	100.00%
22	Good Earth Corporation	100.00%
23	Good Earth Teas Inc	100.00%
24	Tata Global Beverages Canada Inc.	100.00%
25	Tata Global Beverages Australia Pty Ltd	100.00%
26	Earth Rules Pty Ltd	100.00%
27	Tata Global Beverages Investments Ltd	100.00%
28	Campestres Holdings Ltd	100.00%
29	Kahutara Holdings Ltd	65.00%
30	Suntycos Holdings Ltd	100.00%
31	Onomento Co. Ltd.	100.00%
32	Coffee Trade LLC	100.00%
33	Tata Global Beverages Capital Ltd	100.00%
34	Jokels Tea Packers (Proprietary) Ltd	51.70%
35	Tata Coffee Ltd	57.48%
36	Tata Coffee Vietnam Company Ltd.	100.00%
37	Consolidated Coffee Inc.	100.00%
38	Eight o clock Holdings Inc.	100.00%
39	Eight o clock Coffee Company	100.00%
40	Tata Tea Extractions Inc.	100.00%
41	Tata Tea Holdings Pvt Ltd	100.00%

Joint Ventures:

S. No	Name of entity	Effective ownership, March 31, 2019
1	NourishCo Beverages Ltd	50%
2	Tata Starbucks Pvt Ltd	50%
4	Southern Tea LLC	50%
5	Tetley ACI (Bangladesh) Ltd	50%
6	Tetley Clover Pvt Ltd	50%

Associates:

S. No	Name of entity	Effective ownership, March 31, 2019
1	Amalgamated Plantations Pvt Ltd	41.03%
2	Kanan Devan Hills Plantation Co.. Pvt Ltd	28.52%
3	TRIL Construction Ltd	48.40%

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. Investors/market intermediaries/regulators or others are welcome to write to care@careratings.com for any clarifications.

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