

Tata Global Beverages Limited

December 28, 2018

Ratings

Facilities	Amount (Rs. crore)	Rating ¹	Rating Action
Proposed Commercial Paper [^]	715 (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 assigned to the instrument of Tata Global Beverages Limited (TGBL) continue to derive strength from the fact of TGBL being a being part of TATA Group, its long and established track record with dominant market presence in both domestic and international branded tea market, its well diversified product portfolio across beverage categories with prominent brand presence globally. The rating also derives strength from TGBL's strong financial risk profile characterized by stable cash flow generation, healthy capital structure, high level of cash and liquid investments. During FY18, company has reported stagnant revenue growth but strong improvement in operating profitability. The overseas operations, has been impacted by declining demand trend in the black tea market and high competitive intensity in the developed market. The company is exposed to the volatility in commodity prices, which in turn can have an impact on its contribution margins. CARE takes note of various initiatives taken by the company to increase its business and improve overall profitability, such as new product development, adding various new variants in existing brands, entering new product categories with a focus on premiumization, and exiting several loss making international markets. The company has further restructured its international operations, in-order to unlock synergies and streamline its operations. Going ahead, improved performance of the overseas businesses leading to better business returns will be the key rating sensitivities.

Detailed description of the key rating drivers

Key Rating Strengths

Part of TATA Group with experienced management: Tata Global Beverages is the second-largest tea company in the world and is part of the Tata Group. Tata Group is India's one of the largest conglomerate having global presence. The company have an experienced management team led by Chairman - Mr. N. Chandrasekaran, who is also the Chairman of Tata Sons, and Mr. Ajoy Misra, Managing Director and CEO of TGBL.

Well diversified product range and geographic presence: 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, Eight O Clock are some of the prominent brands TGBL owns. In terms of geography, TGBL's branded business, South Asia (mainly India) accounted for ~49% in FY2018, Europe, Middle East and Africa (EMEA) accounted for ~22% and Canada, America and Australia (CAA) accounted for ~29%. In terms of branded and non-branded terms, TGBL earns majority of its revenue of around 72% through branded tea segment, 16%, from sale of branded coffee segment, and balance from other segment including the non-branded operations. In the branded sales also, company derives more than three fourth of its revenue from the Indian Tea Brands, Tetley and Eight O Clock coffee. TGBL has been adding various new variants in existing brands, and entering new product categories and out of home stores, with a focus on premiumization to improve its overall profitability.

Stagnant revenue, but improvement in operating margins; however international operations continues to be drag on the overall profitability: During FY18, TGBL had a stagnant growth in its revenue from operations of around 0.53%. The reason for muted growth was owing to low growth of around 1.36% in branded income in FY18, mainly due to business restructuring and significant de-growth of 8.43% in FY18 in the Non-Branded Business mainly due to abnormal and extreme weather conditions resulting in substantially lower coffee crop harvested coupled with lower commodity prices for coffee.

TGBL's operating margin has improved on a standalone basis, mainly owing to the lower commodity costs in India, and rationalization of several overheads; however gains were partially offset by the higher commodity cost for international operations, leading to moderate rise in the PBILDT margin (on a consolidated basis) from 12.73% in FY17 to 13.50% in FY18.

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

Moreover during FY18, company reported an overall exceptional loss of Rs.21.13 crore, pertaining to Re-organization and Business restructuring costs (Rs.65.13 crore), which was partially offset by profit on sale of Sri-Lankan Associate's shares, and disposal of the Chinese subsidiary.

Though the profitability was impacted by the exceptional items, it was offset by the gains from the lower finance cost, depreciation, and lower incidence of tax (mainly on account of reduction in USA tax rates), leading to rise in the PAT levels from around Rs.455 crore in FY17 to around Rs.557 crore. However international operations continue to remain impacted by higher commodity cost, rising competition, change in consumer's preference for non-everyday black tea category, and limited bargaining power against the retailers in the international operations.

Strong financial risk profile, marked by low debt levels, and high cash and liquid investments: TGBL's capital structure at the consolidated levels, remains healthy with a gearing of 0.13x times, as on March 31, 2018, as against 0.11x times as on March 31, 2017. The networth levels also improved owing to foreign currency translation impact of subsidiaries of Rs.407.80 crore in FY18 (as against negative impact of Rs.567.36 crore in FY17)

At the standalone level, debt comprises of only working capital loans (of Rs.84.25 crore), and at consolidated level total debt mainly includes working capital loans (Rs.400.19 crore), term loans towards Eight O Clock business (Rs.440.95 crore) as well as the upcoming Instant coffee plant in Vietnam (Rs.226.44). Both the above term loans have an extended repayment schedule.

The company's reliance on working capital debt has been low. On a consolidated basis, due to lower interest cost, TGBL's interest coverage and Total Debt / Gross Cash accruals (TDGCA) remained strong at 21.82x and 1.82x in FY18, as against 9.55x and 1.43x in FY17 respectively.

TGBL has a high cash and liquid investment of around Rs.1797.02 crore as on March 31, 2018 (Rs.732.07 crore as in March 31, 2017). Moreover company has also certain other financial assets in the form of quoted and unquoted equity & preference shares, intercorporate loans to several parties. Going forward, any large debt funded acquisition impacting earnings accretion and the liquidity position of the company significantly, could have an impact on the rating of company.

Stable demand outlook for the Indian packet tea industry: Indian packet tea industry is dominated by three large players which command more than half of the total packet tea industry and is dominated by regional tastes. While the Indian tea industry is expected to grow at a steady pace, the growth and the profitability of the individual industry players are dependent upon their ability to supply a consistent quality of tea as per the local choices. Organized 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.

Key Rating Weaknesses

Exposure to commodity and forex exposure: 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, hedging and passing on the cost impact to customers. For tea, TGBL manages sourcing of tea, (through own associate companies, auction purchase, and through private players) and alternate blending strategies. For Coffee, company uses derivative instruments (futures and options) for USA coffee operations to reduce the risk associated with forecasted purchase of coffee beans.

Besides, company's performance continues to remain impacted by intense competition in both the domestic and international market from other well established players. In the developed market, the consumption / demand for everyday black tea, where company has significant operations, is on a decline. To mitigate this, company has committed resources to bolster both black tea and non-black tea portfolios with innovative product launches. Further, as TGBL operates in multiple geographies, exchange rates movement poses a challenge. Nonetheless, established treasury policies are in place to manage the currency exposures.

Liquidity position:

TGBL holds cash & bank balance, and liquid investments in mutual funds to the tune of around Rs.1797 crore as on March 31, 2018 (Rs.732 crore as on March 31, 2017). Company's reliance on working capital borrowings has been limited, which is reflected from lower interest cost for the year.

Analytical approach: Consolidated. List of subsidiaries and Joint ventures of the company is attached as Annexure-3

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](#)

[Rating Methodology: Factoring Linkages in Ratings](#)

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 . TGBLs 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 started with investment in plantations at domestic level in 1960s and expanded to domestic tea production in 1980s. TGBL further consolidated its presence in beverages segment with acquisition of interest in coffee plantations in 1990s. TGBL started on inorganic growth path with a series of acquisitions across the globe from 2000 onwards and renamed itself as TATA Global Beverages Limited in 2010.

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 with presence in 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 are managed through Indian division (includes Middle-east), and international division (which mainly includes UK, Europe, Canada, America and Australia).

Brief Financials (Rs. crore)	FY17 (A)	FY18 (A)
Total income	6862.65	6909.50
PBILDT	874.23	933.06
PAT	454.80	556.50
Total debt to equity (times)	0.11	0.13
Interest coverage (times)	9.55	21.82

A: Audited

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

Rating History for last three years: Please refer Annexure-2

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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In case of partnership/proprietary concerns, the rating /outlook assigned by CARE is based on the capital deployed by the partners/proprietor and the financial strength of the firm at present. The rating/outlook may undergo change in case of withdrawal of capital or the unsecured loans brought in by the partners/proprietor in addition to the financial performance and other relevant factors.

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-CP/ Short Term loan	-	-	-	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	Date(s) & Rating(s) assigned in 2015-2016
1.	Short Term Instruments-CP/ Short Term loan	ST	715.00	CARE A1+	-	1)CARE A1+ (29-Dec-17)	-	-

Annexure-3: List of subsidiaries & Joint venture

S. No	Name of entity
1	TATA Global Beverages Group Ltd
Subsidiaries of Tata Global Beverages Group Ltd	
2	Tata Global Beverages Holding Ltd
3	Tata Global Beverages Services Ltd
4	Tata Global Beverages GB Ltd
5	Tata Global Beverages Overseas Holdings Ltd
6	Tata Global Beverages Overseas Ltd
7	Lyons Tetley Ltd
8	Drassington Ltd
9	Teapigs Ltd.
10	Teapigs US LLC
11	Stansand Ltd
12	Stansand (Brokers) Ltd
13	Stansand Africa Ltd
14	Stansand (Central Africa) Ltd
15	Tata Global Beverages Polska Sp.zo.o
16	Tata global Beverages Czech Republic a.s.
17	Tata global beverages US holdings Inc
18	Tetley USA Inc.
19	Empirical Group LLC

20	Tata Water LLC
21	Good Earth Corporation
22	Good Earth Teas Inc
23	Tata Global Beverages Canada Inc.
24	Tata Global Beverages Australia Pty Ltd
25	Earth Rules Pty Ltd
26	Tata Global Beverages Investments Ltd
27	Campestres Holdings Ltd
28	Kahutara Holdings Ltd
29	Suntyno Holdings Ltd
30	Onomento Co. Ltd.
31	Coffee Trade LLC
32	Tata Global Beverages Capital Ltd
33	Tata Coffee Ltd
Subsidiaries of Tata Coffee Ltd	
34	Tata Coffee Vietnam Company Ltd.
35	Consolidated Coffee Inc.
Subsidiaries of Consolidated Coffee Inc.	
36	Eight o clock Holdings Inc.
37	Eight o clock Coffee Company
38	Tata Tea Extractions Inc.
39	Tata Tea Holdings Pvt Ltd
Joint Ventures	
40	NourishCo Beverages Ltd
41	Tata Starbucks Pvt Ltd
42	Southern Tea LLC
43	Tetley ACI (Bangladesh) Ltd
44	Tetley Clover Pvt Ltd
45	Jokels Tea Packers (Proprietary) Ltd
Associates	
46	Amalgamated Plantations Pvt Ltd
47	Kanan Devan Hills Plantation Co.. Pvt Ltd
48	TRIL Construction Ltd

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