

Tata Global Beverages Limited

December 29, 2017

Ratings

Instruments	Amount (Rs. crore)	Rating ¹	Rating Action
Proposed Commercial Paper [^]	715.00	CARE A1+ (A One Plus)	Assigned
Total	715.00 (Rs. Seven hundred and fifteen crore only)		

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 derives strength from Tata Global Beverages Limited (TGBL) being part of TATA Group, 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 as well as strong financial risk profile characterised by healthy capital structure, stable cash flows generation and liquidity.

These credit strengths outweigh the subdued returns from overseas operations, susceptibility of profitability to fluctuations in commodity prices and intense competition as well as changing consumption patterns.

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

Part of Tata Group with experienced management

Tata Global Beverages Limited is the second-largest branded tea company in the world and is part of Tata Group. The group operates in more than 100 countries across six continents with combined revenue of USD 100.39 Bn in 2016-17. Tata Sons is the principal investment holding company and promoter of Tata companies and holds majority stake in TGBL. The experienced management team of TGBL is headed by Chairman - Mr. N. Chandrasekaran, who is also the Chairman of Tata Sons, aided by Mr. Ajoy Misra (Managing Director and CEO) of TGBL who has more than three decades of experience.

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. TGBL is the market leader in the domestic branded tea market and second largest globally. Tetley, Tata Tea, Good Earth, Eight O Clock, Grand are among the prominent brands TGBL owns. Approximately 71% of the consolidated total income is derived from branded tea business, 16% from branded coffee and balance from other segment including the non-branded operations. TGBL's diverse geographic presence is well supported by global distribution and procurement capabilities. South Asia (including India) remains TGBL's largest market contributing to about 46% of total branded income during FY17. Canada, America & Australia (CAA) and Europe, Middle East and Africa (EMEA) contributed 27% and 26% respectively of branded income during FY17.

Strong financial risk profile but subdued performance of the overseas business

TGBL's performance over the last three years has been stable with improved performance in FY17 aided by both branded and non-branded businesses benefitting from low commodity prices. Profit in FY16 was impacted by accounting impairment losses relating to certain businesses in Europe and US. EBITDA margin at 11.49% and RoCE at 9.01 % during

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

FY17 though showed improvement over the prior year, the overall returns remained subdued, impacted by the performance of some of the overseas subsidiaries. Nonetheless, TGBL maintains a strong risk profile on a consolidated basis with healthy capital structure and debt coverage metrics. Company's financial flexibility is further strengthened by considerable cash and liquid investments. With recent restructuring of business and disposal of stake in loss making entities, overall business return is expected to improve.

Susceptibility to fluctuations in commodity prices and competition

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. Besides, company's performance is 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 its non-black tea portfolio with innovative product launches.

Analytical approach: Consolidated

Applicable Criteria

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

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

[Criteria for Short Term Instruments](#)

[Rating Methodology- Manufacturing Companies](#)

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

[Factoring in Linkages in rating](#)

About the Company:

TATA Global Beverages Limited (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. TGBL has significant brand presence across various geographies including South Asia, Canada, North America, Australia, Europe, Middle East and Africa. TGBL's business is classified into Branded and Non-Branded segments. 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.

Consolidated:

(Amount in Cr)

Brief Financials (Rs. crore)	FY16 (A)	FY17 (A)
Total operating income	6636.54	6779.55
EBITDA	647.96	778.78
PAT	-37.09	454.80
Total debt to equity (times)	0.19	0.11
Interest coverage (times)	5.54	8.51

A: Audited

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable.

Rating History for last three years: Not Applicable.

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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****For detailed Rationale Report and subscription information, please contact us at www.careratings.com**

About CARE Ratings:

CARE Ratings commenced operations in April 1993 and over two decades, it has established itself as one of the leading credit rating agencies in India. CARE is registered with the Securities and Exchange Board of India (SEBI) and also recognized as an External Credit Assessment Institution (ECAI) by the Reserve Bank of India (RBI). CARE Ratings is proud of its rightful place in the Indian capital market built around investor confidence. CARE Ratings provides the entire spectrum of credit rating that helps the corporates to raise capital for their various requirements and assists the investors to form an informed investment decision based on the credit risk and their own risk-return expectations. Our rating and grading service offerings leverage our domain and analytical expertise backed by the methodologies congruent with the international best practices.

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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

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 (Proposed)	-	-	-	715.00	CARE A1+

Annexure-2: Rating History of last three years

Sr. No.	Name of the Instrument	Current Ratings			Rating history			
		Type	Amount Outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2017-2018	Date(s) & Rating(s) assigned in 2016-2017	Date(s) & Rating(s) assigned in 2015-2016	Date(s) & Rating(s) assigned in 2014-2015
1.	Short Term Instruments-CP/ Short Term loan	ST	715.00	CARE A1+	-	-	-	-

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CIN - L67190MH1993PLC071691