

PRESS RELEASE
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Drop in tea prices, along with wage rate hikes to shrink margin for tea estates in North India; sector outlook revised to Negative: ICRA

- *Low export demand and sluggish rural consumption to dampen tea realisations for North India estates by Rs. 10 to Rs. 15/kg in FY2024*
- *Wage rate hikes in West Bengal and Assam to increase cost of production by ~Rs. 5/Kg in FY2024 on a full year basis*

ICRA expects the margin for tea estates based out of North India (NI) to be significantly impacted in FY2024 due to the double whammy of increase in cost of production, following the wage rate hikes in West Bengal and Assam and the drop in realisation due to the low export demand and a sluggish rural consumption. According to ICRA's recent note on the sector, the operating profit margin (OPM) of NI-based bulk tea players is expected to be significantly impacted in FY2024 and, given the current operating environment in the tea industry, both domestic and international, any material improvement in profitability during FY2025 appears unlikely at present. The rating agency has thus revised the sector outlook to **Negative from Stable**.

The all-India auction prices of orthodox (ODX) tea in 10M CY2023 witnessed a significant decline of Rs. 51/ kg (~21%) on a YoY basis. The same was primarily driven by a sharp drop in the North India ODX tea prices by Rs. 70/ kg during 10M CY2023 on a YoY basis. The price fall witnessed in South India (SI) ODX tea was, however, limited to Rs. 7/ kg (~5%) during the same period. The slump in ODX tea realisation was due to lower export demand, primarily from Iran.

Similarly, the all-India cumulative auction average of crush-tear-curl (CTC) tea also witnessed a decline during 10M CY2023, but to a lower extent of ~Rs. 6/ kg (~3%). This was entirely due to the decline in NI CTC price by Rs. 10/ kg (~5%) as the SI CTC price registered an increase of Rs. 6/ kg during 10M CY2023 on a YoY basis. Sluggish rural demand, along with headwinds in export markets due to oversupply of Kenyan teas, India's main competitor as far as CTC teas are concerned, have contributed to the decline.

Commenting on the same, **Mr. Sujoy Saha, Vice President and Sector Head, Corporate Sector Ratings, ICRA**, said: *"A sharp decline in exports to Iran, Russia and the UAE has impacted tea prices at auction centres in India in the current year. Direct exports to Iran, which is primarily an ODX market, have decreased by ~80% during 9M CY2023 on a YoY basis. Consequently, prices of ODX teas, mostly exported from India, have declined by more than Rs. 50 /kg."*

The all-India production of bulk teas in the first 10 months of CY2023 moderated by 22 Mkg (~2%) on a YoY basis and ICRA expects the full-year production to ease by ~1% compared to CY2022. Tea output in Kenya is likely to increase in CY2023 over the previous year, given that their production in 8M CY2023 is already up by ~7% on a YoY basis. Although production in Sri Lanka has risen by ~5 Mkg (~2%) to ~215 Mkg in 10M CY2023 on a YoY basis, full-year production would still remain materially lower than the pre-pandemic level of ~300 Mkg in CY2019.

Operating margin of bulk tea players in the ICRA sample set remained flat at ~5% over the past two fiscals. *"Wage rates in West Bengal and Assam were raised from June '23 and Oct '23 respectively. This would result in an increase in the cost of manpower by around Rs. 5/ kg for the full year of FY2024. This, along with the decline in tea realisations, is likely to result in a slide in the operating margin of NI-based bulk tea players of the ICRA sample set by ~280 basis points to ~2.1% in FY2024. Moreover, the introduction of the 'Bharat' auction system from April 2023 in NI auction centres is likely to have weighed on the auction prices in the current year. Restrictions on the division of lots, which limited participation by smaller players, and inflexibility in revising pre-entered bid prices during the*

auction process have reportedly led to an inefficient price discovery. The Tea Board of India has reverted now to the earlier 'English' auction system in NI from November 2023. While the trend in prices in recent auctions, post the change, seems to be encouraging, the long-term impact of the same remains to be seen," Mr. Sujoy Saha, Vice President and Sector Head, Corporate Sector Ratings, ICRA, said.

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