

INDIAN BULK TEA INDUSTRY

**Below average production in CY2022
to result in further tightness in
pipeline stock; likely to support
prices going into the new season**

NOVEMBER 2022



Executive Summary

Industry Outlook: Stable

After CY2021 domestic tea production is estimated to remain below pre-Covid level in CY2022. While production has been impacted, exports may see a material increase on a YoY basis in CY2022, which is likely to keep the domestic supply-demand balance tight. Three consecutive years (2020 to 2022) of sub-normal production is expected to result in a significant tightness in pipeline stock, thus providing some support to prices going into the new season. Top-quality CTC teas would continue to fetch significantly higher prices compared to industry averages. Prices of orthodox (ODX) teas are likely to witness a firm trend going forward as well.



- During 7M CY2022, aggregate global black tea production is lower by around 54 Mkg, reflecting a YoY contraction of ~5%, majorly driven by production loss in Sri Lanka. With Sri Lanka likely to suffer further losses, albeit at a decreasing rate, for the balance period of the year, global production is likely to witness around 3% contraction in CY2022. In India, tea production, during 9M CY2022 remained marginally higher by ~2% at ~984 Mkg compared to 9M CY2021. However, production in North India (NI) is estimated to have been impacted by the festive season in October. Consequently, ICRA expects annual production in CY2022 to remain flat on a YoY basis.
- Export from India during 8M CY2022 is up by ~15%, in volume terms, on a YoY basis. While NI export volumes increased by ~17 Mkg (~25%), South India (SI) volumes grew marginally by ~1 Mkg (~2%) in 8M CY2022 on a YoY basis. Lower production and exports from Sri Lanka is expected to support export volumes, particularly that of ODX variety, from India for the balance period of the year.
- The cumulative prices for NI CTC teas in 7M FY2023 were up by ~Rs. 12/kg (~6%) on YoY basis. The uptrend in NI CTC prices is supported by an increasing demand for top quality teas, which is likely to sustain. However, in 7M FY2023, the cumulative prices for SI CTC (crush-tear-curl) teas remained lower compared to the previous two years due to its inferior quality.
- The NI auction average of orthodox (ODX) teas increased sharply by Rs. 72/kg (~32%) in 7M FY2023 on a YoY basis. SI ODX prices in 7M FY2023 are also up by ~9% on a YoY basis. The ODX prices are up on the back of a demand-supply mismatch for ODX teas in the global market arising from a production disruption in Sri Lanka.
- The increase in wage cost and moderation in tea prices, compared to FY2021, had pulled down the operating profit margins (OPM) of the ICRA sample set in FY2022. Notwithstanding another round of wage increase in CY2022, the OPM of bulk tea players is likely to improve in FY2023, given the buoyancy in tea prices particularly of good quality CTC and ODX. Tea prices in the first half of CY2023 are also likely to remain firm. The FY2024 performance of bulk tea players will remain dependent primarily on production and export levels.

1 Outlook for Bulk Tea Industry



2 Production Trends



3 Exports Trend



4 Trend in Tea Prices



5 Industry Financials



6 Peer Comparison





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