

December 23, 2021

Tata Consumer Products Limited: Ratings reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term debt (including Non-Convertible Debentures)	350.00	350.00	[ICRA]AAA (Stable); reaffirmed
Long-term/Short-term – fund-based working capital facilities#	400.00	400.00	[ICRA]AAA (Stable)/[ICRA]A1+; reaffirmed
Short-term – Non-fund based facilities	24.00	24.00	[ICRA]A1+; reaffirmed
Commercial Paper**	715.00	715.00	[ICRA]A1+; reaffirmed
Total	1,489.00	1,489.00	

*Instrument details are provided in Annexure-1

#Long-term fund-based limits can also be utilised as short-term fund-based limits wherein the short-term rating of [ICRA]A1+ would be applicable

**Total borrowing under Commercial Paper and fund-based facilities from banks to remain within an overall limit of Rs. 715 crore.

Rationale

ICRA has taken a consolidated view on Tata Consumer Products Limited (TCPL), which includes its subsidiaries, step-down subsidiaries, joint ventures and associate companies, while assigning the credit ratings, given the significant operational and financial linkages among them.

The ratings continue to favourably factor in the sustained dominant position of TCPL in the domestic and global branded tea market and healthy improvement in its performance in FY2021 and H1 FY2022. With the acquisition of the consumer products division of Tata Chemicals Limited, comprising Tata Salt and Tata Sampann brands, the company is well diversified both in terms of products and categories, with earnings from the UK, the US and Canada contributing substantially. The ratings also take into account the high degree of financial flexibility that TCPL derives from its conservative capital structure, substantial cash and liquid investments and its status as one of the leading companies of the Tata Group. TCPL's consolidated debt coverage indicators remain strong with an interest cover of ~24 times and gross debt/OPBDITA of ~0.8 times in FY2021. However, when adjusted for its large cash and liquid investments portfolio, TCPL continues to have a net cash position.

ICRA, however, notes that the overall return on capital employed (RoCE)¹ of the entity continues to be impacted by the high levels of goodwill arising from past acquisitions, notwithstanding the sequential improvement witnessed in the recent years on the back of business restructuring of its overseas operations and exits from some marginal geographies. The company is undertaking product innovations and investing in its brands which are expected to improve its operating profitability in the future. The ratings also factor in TCPL's exposure to volatility in commodity prices of bulk tea and coffee. Nonetheless, the company's established brand presence, dynamic procurement strategies and ability to pass on the increase in costs, particularly that of bulk tea procured from domestic market, help mitigate the risk to some extent and provide comfort to the ratings.

The Stable outlook reflects ICRA's expectations that TCPL would continue to benefit from its established brand presence in the food and beverages industry. The company's focus on innovation and increasing market penetration, both in domestic and global markets, would support its credit profile, going forward. ICRA expects TCPL's capital structure to remain conservative and debt protection metrics to remain strong in the near term. Further, the synergy benefits from integrations of the foods business are expected to augment the company's profitability.

¹Adjusting for goodwill would lead to a substantial improvement in the RoCE of the company

Key rating drivers and their description

Credit strengths

Leading brand in the domestic packet-tea industry – TCPL is a leading branded packet tea company in India. Volumes of TCPL's brands are supported by various factors including a steady increase in tea consumption in India, its brand strength with an established distribution network, launch of premium segment products, widening market reach with increasing rural penetration and other marketing initiatives undertaken by the company. The company has a diverse brand portfolio comprising offerings across categories of packet teas, namely economy, popular and premium.

Significant geographical and product diversification of revenues on a consolidated basis through organic growth, acquisitions and strategic alliances – With the acquisition of consumer products business from Tata Chemicals Limited in FY2020, TCPL has diversified its India business with food business (comprising Tata Salt and Tata Sampann brands) contributing a healthy proportion to its revenues. Apart from this, TCPL also has an established presence in various beverage categories across a number of major markets globally with brands like Tetley, Eight O'Clock (EOC), Good Earth and Teapigs. Branded tea accounted for ~52% of the consolidated turnover in FY2021 followed by branded food business at ~21%, branded coffee at ~10% and the balance by other segments including the non-branded business. The company also has a number of joint ventures, both in India and overseas, including Tata Starbucks Private Limited which established a significant footprint spanning 233 stores across 19 Indian cities as on September 30, 2021.

Conservative capital structure; considerable financial flexibility emanating from substantial cash and liquid investments portfolio and status as a leading company of the Tata Group – TCPL continues to maintain a conservative capital structure with nil gearing at the standalone level as of end-FY2021. At the consolidated level too, TCPL's capital structure remains comfortable with a gearing of 0.08 times as of end-FY2021. Of the total debt of ~Rs. 1206.6 crore at the consolidated level, ~Rs. 773.6 crore is long term in nature. Further, the company has a sizeable cash and liquid investments portfolio worth ~Rs. 3,398 crore at the consolidated level. TCPL's debt protection metrics remain strong with an interest cover of 23.7 times and net cash position. The same is expected to witness further improvement, going forward. A conservative capital structure along with a substantial cash and liquid investments portfolio and the company's status as a leading company of the Tata Group lends a high degree of financial flexibility.

Healthy operating performance of TCPL in FY2021 – TCPL's standalone and consolidated performance remained healthy in FY2021 with revenue growth of ~26% and ~20%, respectively. The tea business recorded a healthy volume growth and a steep increase in average realisations due to commodity price inflation. The India foods business also experienced improvement in realisations due to increased premiumisation, backed by volume growth. After the completion of integration of foods business in FY2021, ICRA expects further augmentation of TCPL's business with realisation of synergies.

Credit challenges

Overall return on capital employed continues to remain subdued despite improvement over the past few years – The performance of TCPL's overseas entities has been impacted by declining demand trend in the black tea segment and intense competition in the developed market over the last few years. Subdued performance of the overseas businesses in the past has impacted the RoCE to an extent. However, the company has increased its focus on pursuing opportunities through innovative products and strengthening of brands. This, coupled with restructuring of the international operations including exit from the marginal business, led to an improvement in the performance of overseas entities in the recent past. This trend is expected to continue in the future. Notwithstanding a sequential improvement in performance of its overseas operations, the overall RoCE of the consolidated entity remains subdued. Going forward, while ICRA expects the performance of different businesses to remain healthy, the improvement in RoCE is likely to be limited due to high levels of goodwill² on the books of the company as a result of past acquisitions.

²Adjusting for goodwill would lead to substantial improvement in RoCE of the company

Margins exposed to fluctuating commodity prices although company's ability to protect margins provides comfort; demand conditions in developed markets remain tepid – In the domestic market, TCPL is exposed to the volatility in prices of bulk tea, which in turn impacts its contribution margins. In FY2021, there was a steep increase in the prices of bulk tea in India, which led to an increase in the average raw material cost for the company. Nonetheless, TCPL's established brand presence allows the company to pass on the increase in costs to its customers. This, coupled with the company's procurement strategies, helps TCPL to mitigate the risks emanating from price volatility. At the consolidated level, demand from everyday black tea, which has remained the mainstay of TCPL's overseas operations, has been witnessing tepid demand in some of the geographies in which TCPL operates. To counter this, TCPL has undertaken product innovation and invested in its brands. The coffee business is also exposed to volatility in cash flows. However, the same is mitigated to an extent by TCPL's presence across the value chain from plantations, instant coffee as well as roast and ground coffee.

Liquidity position: Superior

TCPL's liquidity profile remains **Superior**, aided by a sizeable cash and liquid investments portfolio, healthy cash flow generation and undrawn bank lines. The company's standalone and consolidated gross cash and cash equivalents stood at Rs. 1,916.1 crore and Rs. 3,320.6 crore, respectively as on March 31, 2021. Moreover, the working capital utilisation remains low compared to secured/unsecured fund-based facilities sanctioned by banks.

Rating sensitivities

Positive factors – Not applicable

Negative factors – The ratings could be downgraded in case of a deterioration in profitability and return indicators of the core business on a sustained basis and/or any major debt funded capital expenditure / inorganic growth undertaken by the company leading to a weakening of the capital structure with consolidated Net Debt/OPBDITA increasing to over 0.5 times on a sustained basis.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology
Parent/Group Support	Not Applicable
Consolidation/Standalone	For arriving at the ratings, ICRA has considered the consolidated financials of TCPL. As on March 31, 2021, the company had 38 subsidiaries, 3 associates and 4 joint ventures which are all enlisted in Annexure-2.

About the company

Tata Consumer Products Limited (TCPL) is one of the leading companies of the Tata Group with presence in the food and beverages business in India and internationally. It is the second largest tea company globally and has significant market presence and leadership position in many global markets. In addition to South Asia (mainly India), TCPL has interests in various geographies including Canada, the UK, the US, Australia, Europe, Middle East and Africa. In February 2020, TCPL acquired the consumer products business of Tata Chemicals Limited comprising branded salt, pulses, spices and other food products.

In FY2021, the company reported a net profit of Rs. 619.5 crore on an operating income of Rs. 7,154.4 crore compared to a net profit of Rs. 523.5 crore on an operating income of Rs. 5,690.2 crore in the previous year. On a consolidated basis, TCPL reported a consolidated net profit of Rs. 993.8 crore on an operating income of Rs. 11,602.0 crore in FY2021 compared to a net profit of Rs. 535.2 crore on an operating income of Rs. 9,637.4 crore in the previous year.

Key financial indicators (audited)

TCPL Consolidated	FY2020	FY2021	H1 FY2021	H1 FY2022
Operating Income (Rs. crore)	9,637.4	11,602.0	5,495.3	6,041.6
PAT (Rs. crore)	535.2	993.8	623.4	502.0
OPBDIT/OI (%)	13.3%	13.3%	16.1%	13.5%
PAT/OI (%)	5.6%	8.6%	11.3%	8.3%
Total Outside Liabilities/Tangible Net Worth (times)	0.24	0.29		
Net Debt/OPBDIT (times)	The company is net debt negative			
Interest Coverage (times)	18.3	23.7	25.1	20.2

PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation; Net Debt = (Gross Debt less cash and cash equivalents and liquid investments)

Source: TCPL

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current Rating (FY2022)				Chronology of Rating History for the past 3 years				
		Type	Amount Rated (Rs. crore)	Amount Outstanding as of Mar 31, 2021 (Rs. crore)	Date & Rating in	Date & Rating in FY2021	Date & Rating in FY2020			Date & Rating in FY2019
					Dec 23, 2021	Dec 31, 2020	Feb 24, 2020	Nov 25, 2019	May 22, 2019	Oct 25, 2018
1	Long-term debt (including NCDs)	Long-term	350.00	~*	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	[ICRA]AA+ (Stable)	[ICRA]AA+ (Stable)	[ICRA]AA+ (Stable)	[ICRA]AA+ (Stable)
2	Fund-based working capital facilities#	Long-term/ Short-term	400.00	NA	[ICRA]AAA (Stable)/ [ICRA]A1+	[ICRA]AAA (Stable)/ [ICRA]A1+	[ICRA]AA+ (Stable)/ [ICRA]A1+	[ICRA]AA+ (Stable)/ [ICRA]A1+	[ICRA]AA+ (Stable)/ [ICRA]A1+	[ICRA]AA+ (Stable)/ [ICRA]A1+
3	Non-fund based facilities	Short-term	24.00	NA	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+
4	Commercial Paper**	Short-term	715.00	NA	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+

*yet to be placed

#Long-term fund based limits can also be utilised as short-term fund-based limits, wherein the short term rating of [ICRA]A1+ would be applicable

**Total borrowing under commercial paper and fund based facilities from banks to remain within overall limit of Rs. 715 crore

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long-term debt (including Non-Convertible Debentures)	Simple
Long-term/ Short -term – Fund Based Working Capital facilities	Simple
Non-fund based facilities	Simple
Commercial Paper	Simple

The Complexity Indicator refers to the ease with which the returns associated with the rated instrument could be estimated. It does not indicate the risk related to the timely payments on the instrument, which is rather indicated by the instrument's credit rating. It also does not indicate the complexity associated with analyzing an entity's financial, business, industry risks or complexity related to the structural, transactional, or legal aspects. Details on the complexity levels of the instruments, is available on ICRA's website: www.icra.in

Annexure-1: Instrument details

ISIN No/Banker Name	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (RS Crore)	Current Rating and Outlook
NA	Long-term debt (including NCDs*)	NA	NA	NA	350.00	[ICRA]AAA (Stable)
NA	Fund-based Working Capital facilities	NA	NA	NA	400.00	[ICRA]AAA (Stable)/[ICRA]A1+
NA	Non-fund based facilities	NA	NA	NA	24.00	[ICRA]A1+
#	Commercial Paper**	NA	NA	NA	715.00	[ICRA]A1+

Source: Company

*Yet to be placed, **Total borrowings under commercial paper and fund based facilities from banks to remain within overall limit of Rs. 715.00 crore

#Unplaced

Annexure-2: List of entities considered for consolidated analysis

Company Name	Ownership	Consolidation Approach
Subsidiaries		
Tata Consumer Products UK Group Ltd. (Formerly Tata Global Beverages Group Ltd.)	89.10%	Full Consolidation
Tata Global Beverages Holding Ltd.	89.10%	Full Consolidation
Tata Global Beverages Services Ltd.	89.10%	Full Consolidation
Tata Consumer Products GB Ltd. (Formerly Tata Global Beverages GB Ltd.)	89.10%	Full Consolidation
Tata Consumer Products Overseas Holdings Ltd. (Formerly Tata Global Beverages Overseas Holding Ltd.)	89.10%	Full Consolidation
Tata Global Beverages Overseas Ltd.	10%	Full Consolidation
Lyons Tetley Limited	89.10%	Full Consolidation
Drassington Ltd.	89.10%	Full Consolidation
Teapigs Ltd.	89.10%	Full Consolidation
Teapigs US LLC	89.10%	Full Consolidation
Stansand Ltd.	89.10%	Full Consolidation
Stansand (Brokers) Ltd.	89.10%	Full Consolidation
Stansand (Africa) Ltd.	89.10%	Full Consolidation
Stansand (Central Africa) Ltd.	89.10%	Full Consolidation
Tata Consumer Products Polska.sp.zo.o (Formerly Tata Global Beverages Polska.sp.zo.o)	89.10%	Full Consolidation
Tata Consumer Products US Holdings Inc. (Formerly Tata Global Beverages US Holdings Inc.)	89.10%	Full Consolidation
Tetley USA Inc.	89.10%	Full Consolidation
Empirical Group LLC (up to March 31, 2021)	-	-
Tata Waters LLC	89.10%	Full Consolidation
Good Earth Corporation	89.10%	Full Consolidation
Good Earth Teas Inc.	89.10%	Full Consolidation
Tata Consumer Products Canada Inc. (Formerly Tata Global Beverages Canada Inc.)	89.10%	Full Consolidation
Tata Consumer Products Australia Pty. Ltd. (Formerly Tata Global Beverages Australia Pty. Ltd.)	89.10%	Full Consolidation
Earth Rules Pty. Ltd.	89.10%	Full Consolidation
Tata Global Beverages Investment Ltd.	89.10%	Full Consolidation
Camprestres Holdings Ltd.	89.10%	Full Consolidation
Kahutara Holdings Ltd.	89.10%	Full Consolidation

Company Name	Ownership	Consolidation Approach
Suntyco Holdings Ltd.	89.10%	Full Consolidation
Coffee Trade LLC (liquidated on April 09, 2020)	-	-
Onomento Co Ltd.	89.10%	Full Consolidation
Tata Consumer Products Capital Ltd. (Formerly Tata Global Beverages Capital Ltd.)	100.00%	Full Consolidation
Tata Coffee Ltd.	57.48%	Full Consolidation
Tata Coffee Vietnam Company Ltd.	57.48%	Full Consolidation
Consolidated Coffee Inc.	78.70%	Full Consolidation
Eight O'Clock Holdings Inc.	78.70%	Full Consolidation
Eight O'Clock Coffee Company	78.70%	Full Consolidation
Tata Tea Extractions Inc.	100.00%	Full Consolidation
NourishCo Beverages Ltd. (w.e.f May 18, 2020)	100.00%	Full Consolidation
Tata Consumer Soufull Private Ltd. (Formerly Kottaram Agro Foods Private Ltd.) (w.e.f. February 17, 2021)	100.00%	Full Consolidation
Tata Tea Holding Private Ltd.	100.00%	Full Consolidation
Joint Ventures		
Tetley Clover (Pvt.) Ltd. (under liquidation)	50.00%	Equity Method
Tetley ACI (Bangladesh) Ltd.	50.00%	Equity Method
Joekels Tea Packers (Proprietary) Ltd.	51.70%	Equity Method
Southern Tea, LLC (up to March 31, 2021)	-	-
Tata Starbucks Private Ltd.	50.00%	Equity Method
NourishCo Beverages Ltd. (up to May 17, 2020)	-	-
Associates		
Amalgamated Plantations Pvt. Ltd.	41.03%	Equity Method
Kanan Devan Hill Plantation Company Pvt. Ltd.	28.52%	Equity Method
TRIL Constructions Ltd.	32.50%	Equity Method

Source: TCPL annual report FY2021

Note: ICRA has taken a consolidated view of the parent (TCPL), its subsidiaries, joint ventures and associates while assigning the ratings.

ANALYST CONTACTS

Jayanta Roy

+91 33 7150 1120

jayanta@icraindia.com

Kaushik Das

+91 33 7150 1104

kaushikd@icraindia.com

Vipin Jindal

+91 124 4545355

vipin.jindal@icraindia.com

Raunak Modi

+91 8377850550

raunak.modi@icraindia.com

RELATIONSHIP CONTACT

Jayanta Chatterjee

+91 80 4332 6401

jayantac@icraindia.com

MEDIA AND PUBLIC RELATIONS CONTACT

Ms. Naznin Prodhani

Tel: +91 124 4545 860

communications@icraindia.com

Helpline for business queries

+91-9354738909 (open Monday to Friday, from 9:30 am to 6 pm)

info@icraindia.com

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ICRA Limited



Registered Office

B-710, Statesman House, 148, Barakhamba Road, New Delhi-110001
Tel: +91 11 23357940-45



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