ICRA

October 06, 2017

Tata Global Beverages Limited

Summary of rated instruments

Instrument*	Rated Amount (Rs. crore)	Rating Action
LT Debt (including Non Convertible Debentures)	25.00	[ICRA]AA+ (stable) reaffirmed
LT Debt (including Non Convertible Debentures)	325.00	[ICRA]AA+ (stable) assigned
LT Debt (including Non Convertible Debentures)	325.00^	[ICRA]AA+ (stable) withdrawn
Fund Based WC Limits##	400.00	[ICRA]AA+(stable)/A1+ reaffirmed
Non-fund based	24.00	[ICRA]A1+ reaffirmed
Short term debt (including CP)**	715.00 (enhanced from 465.00)	[ICRA]A1+ reaffirmed/assigned
Total	**1489**	

**Instrument details are provided in Annexure-1*

*## Long term fund based limits can also be utilized as short term fund based limits, wherein the short term rating of [ICRA]A1+ would be applicable; ** Total borrowing under CP and fund based facilities from banks to remain within an overall limit of Rs 715 crore*

^Rs. 325 crore NCD has been fully repaid

Rating action

ICRA has assigned a [ICRA]AA+ (pronounced ICRA double A plus) rating to the proposed Long term debt (including Non Convertible Debentures) of Rs 325 crore[1] of Tata Global Beverages Limited (TGBL) [2]. ICRA has also reaffirmed the [ICRA]AA+ rating of the Rs 25 crore for the proposed long-term debt facilities (including Non Convertible Debentures) and Rs 400 crore fund-based bank facilities of TGBL. ICRA has also reaffirmed the [ICRA]A1+ (pronounced ICRA A one plus) rating of the Rs 715 crore (enhanced from Rs. 465 crore) short-term debt (including Commercial Paper) programme and Rs 24 crore non-fund based bank limits of TGBL. The Rs 400 crore fund based facilities are interchangeable with short term facilities, for which an [ICRA]A1+ rating is applicable. The outlook on the long term rating is stable. ICRA has also withdrawn the outstanding rating of [ICRA]AA+(Stable) on the Rs. 325 crore non-convertible debentures since it has been repaid by the company.

Rationale

The rating action takes into account the sustained dominant position of TGBL in the domestic branded packet tea market with market leadership position in both volume and value terms. Such a position resulted in continuous healthy operational and financial performance of TGBL, driven by volume growth and healthy contribution levels. In FY2017, TGBL's standalone operating income increased by ~2.6% to Rs 3064 crore mainly due to growth in volumes, even while average realisations witnessed a marginal decline due to a change in sales mix and pass on of softer input commodity prices to customers. The volume growth was supported by introduction of new brands and variants. As a result, the operating profitability remained steady at ~11.8% in FY2017. The ratings also factor in the high level of financial flexibility that TGBL derives from its conservative capital structure and its status as a leading company of the Tata Group. As of end-FY2017, TGBL's gearing stood at 0.01 times and 0.11 times at the standalone

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[1] *100 lakh = 1 crore = 10 million*

[2] *For complete rating scale and definitions, please refer to ICRA's website www.icra.in or other ICRA Rating Publications*

and consolidated levels respectively. In addition the recent sale of non-core investments has resulted in a considerable cash inflow to the company to an extent of ~Rs 675 crore. Thus, TGBL is estimated to have a large cash and liquid investment balance both at the standalone and consolidated levels. This substantial cash balance provides a high degree of financial flexibility. The company's debt-coverage indicators remain strong with interest cover of 8.5 times in FY2017 at the consolidated level. The long term rating, however, also factors in the subdued business returns at the consolidated level. The consolidated return on capital employed (RoCE), notwithstanding some improvement in FY2017, continues to be impacted by tepid demand conditions in some of the developed markets, where the overall environment remains challenging. In addition, an adverse foreign-exchange translational movement also impacted TGBL's consolidated performance to an extent. Over the past few years the company has substantially impaired the goodwill and/or brand valuations of the international operations given the lower than expected performance in these markets. ICRA however notes that with the recent restructuring of businesses in certain geographies and disposal of stake in loss-making entities, the operating profitability, operating cash flows and overall business returns are expected to witness some improvement. In addition, the company's financial performance remains sensitive to fluctuations in commodity tea prices. Going forward, debt protection metrics is expected to remain strong and the capital structure conservative. The company has, in the past, entered into strategic joint ventures, and ICRA expects these alliances to contribute to TGBL's overall business growth in the medium to long term.

Key rating drivers

Credit strengths

- **Leading brand in the domestic packet-tea industry in both volume and value terms** - TGBL continues to be the largest branded packet tea company in India in both volume and value terms. Volumes of TGBL's brands are supported by a combination of factors including steady increase in tea consumption in India, its brand strength with established distribution network, launch of premium segment products, widening market reach with increasing rural penetration and other key marketing initiatives undertaken by the company. The company has established brands across all categories of packet teas, namely economy, popular and premium.
- **Significant geographical and product diversification of revenues across beverage classes on a consolidated basis, achieved through organic growth, acquisitions and strategic alliances** - Apart from tea brands in India, TGBL also has an established presence in various beverages across a number of major markets globally, with well-entrenched brands including Tetley, Eight O'Clock (EOC), Good Earth, and others. Branded tea constituted ~71% of the overall consolidated turnover of the company in FY2017, with branded coffee contributing ~16%, and the rest being generated from other segments including the non-branded businesses. During FY2012, TGBL entered into a JV with Starbucks, with the name Tata Starbucks Private Limited, to open Starbucks coffee shops (A Tata Alliance) across the country. The venture has now touched the 100 outlets milestone as at end September 2017. TGBL in the recent past had also formed a joint venture with PepsiCo India Holdings Private Limited. The JV named NourishCo Beverages Limited (with 50% stake owned by both entities) has launched Tata Water Plus & Tata Gluco Plus - nutrient enhanced hydration products. In terms of geographical distribution of TGBL's branded business, South Asia (mainly India) accounted for ~46% in FY2017; Europe, Middle East and Africa (EMEA) accounted for ~26% and Canada, America and Australia (CAA) accounted for ~27%.

- **Conservative capital structure; considerable financial flexibility emanating from large cash and liquid investment portfolio and status as a leading company of the Tata Group-** TGBL has a conservative capital structure with a gearing of only 0.01 times as on March 31, 2017 at the standalone level. TGBL, on a standalone basis, has only working-capital facilities, after the redemption of Rs. 325 crore NCDs. ICRA notes that on a consolidated basis too, TGBL has a conservative capital structure with a gearing of 0.11 times as on March 31, 2017. Of the total loans of ~ Rs. 780 crore at the consolidated level, only ~Rs. 460 crore is long term in nature. Such loans have a favourable repayment schedule with ~85% scheduled for repayment after 5 years. Further, the large cash and liquid investments mainly on account of sale of non-core investments in September 2017 provide considerable financial flexibility.

Credit weaknesses

- **Overall return on capital employed impacted by performance in some of the overseas entities-** Subdued performance of the overseas businesses, along with sub-optimal returns on its large cash and bank balance, which are strategic in nature, has impacted, to an extent, the RoCE of the consolidated entity. However, with the recent round of business restructuring and focus on high margin non-black tea segments, which is growing, the operating profitability and business returns are expected to witness an improving trend going forward.
- **Tepid demand conditions in developed international markets weigh on volume growth-** The growth in tea sales volumes of TGBL's overseas entities under Tata Global Beverages Group Limited (TGBGL) has been impacted by decline in the black tea market and high competitive intensity, in the developed market. However, the company has increased its focus on pursuing opportunities through innovative products in the non black tea markets which, though small, are witnessing traction. ICRA also notes that the company has increased its sale of value-added products as well as introduced new products in line with its focus on premiumisation.
- **Margins exposed to fluctuating bulk tea prices; however, demonstrated ability of the company to protect contribution levels provides some comfort -** TGBL is exposed to the volatility in bulk tea prices, which in turn impacts its contribution margins. Nonetheless, its established brand presence, procurement strategies and ability to pass on increases in bulk tea prices to the consumers, mitigate such risks.

Analytical approach: For arriving at the ratings, ICRA has applied its rating methodologies as indicated below**.**

Links to applicable criteria:
Corporate Credit Rating Methodology

About the company:
TGBL, one of the leading companies of the Tata group, is the largest company in the domestic packet tea industry. TGBL also has an established presence in various beverages across a number of major markets globally. Globally TGBL is the second largest tea company in the world. In addition to South Asia (mainly India), it also has a presence in various other geographies including Canada, North America, Australia, Europe, Middle East and Africa.

In FY2017, the company reported a net profit of Rs. 276.00 crore on an operating income of Rs. 3063.89 crore, as compared to a net profit of Rs. 226.49 crore on an operating income of Rs. 2986.79 crore in the previous year.

Key Financial Indicators – Standalone (Audited)

	FY2016	FY2017
Operating Income (Rs. crore)	2986.79	3063.89
PAT (Rs. crore)	226.49	276.00
OPBDIT/ OI (%)	11.79%	11. 79%
RoCE (%)	9.81%	11.42%
Total Debt/ TNW (times)	0.13	0.01
Total Debt/ OPBDIT (times)	1.24	0.09
Interest coverage (times)	5.20	7.36
NWC/ OI (%)	24%	17%

OI: Operating Income; PAT: Profit after Tax (excluding OCI); OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation; ROCE: PBIT/Avg (Total Debt + Tangible Net-Worth + Deferred Tax Liability - Capital Work - in Progress);
NWC: Net Working Capital

Status of non-cooperation with previous CRA: Not applicable

Any other information: Not applicable

Rating history for last three years:

Table:

S. No.	Instrument	Current Rating (FY2018)				Chronology of Rating History for the past 3 years		
		Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs Crore)	Date & Rating	Date & Rating in FY2017	Date & Rating in FY2016	Date & Rating in FY2015
					October 2017	November 2016	November 2015	December 2014
1	LT Debt (including Non Convertible Debentures)	Long Term	25.00	-*	[ICRA]AA+ (Stable)	[ICRA]AA+ (Stable)		
2	LT Debt (including Non Convertible Debentures)	Long Term	325.00	-*	[ICRA]AA+ (Stable)			
3	LT Debt (including Non Convertible Debentures)	Long Term	325^	-		[ICRA]AA+ (Stable)	[ICRA]AA+ (Stable)	[ICRA]AA+ (Stable)
4	LT Debt (including Non Convertible Debentures)	Long Term						[ICRA]AA+ (Stable) withdrawn
5	Fund Based WC Limits##	Long Term/ Short Term	400.00		[ICRA]AA+ (Stable)/A1+	[ICRA]AA+ (Stable)/A1+	[ICRA]AA+ (Stable)/A1+	[ICRA]AA+ (Stable)/A1+
6	Non-fund based	Short Term	24.00		[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+
7	Short term debt (including CP)**	Short Term	715.00	-	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+

^Rs. 325 crore NCD has been fully repaid; *yet to be placed;
Long term fund based limits can also be utilized as short term fund based limits, wherein the short term rating of [ICRA]A1+ would be applicable; ** Total borrowing under CP and fund based facilities from banks to remain within an overall limit of Rs 715 crore

Complexity level of the rated instrument:

ICRA has classified various instruments based on their complexity as "Simple", "Complex" and "Highly Complex". The classification of instruments according to their complexity levels is available on the website www.icra.in

Annexure-1
Instrument Details

ISIN No	Instrument	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
	LT Debt (including Non Convertible Debentures)*	-	-	-	25.00	[ICRA]AA+ (stable)
	LT Debt (including Non Convertible Debentures)*	-	-	-	325.00	[ICRA]AA+(stable)
	Fund Based WC Limits	-	-	-	400.00	[ICRA]AA+(stable)/A1+
	Non-fund based limits	-	-	-	24.00	[ICRA]A1+
	Short term debt (including CP)**	-	-	-	715.00	[ICRA]A1+

*yet to be placed; **Total borrowing under CP and fund based facilities from banks to remain within an overall limit of Rs 715 crore
Source: Tata Global Beverages Limited

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About ICRA Limited:

ICRA Limited was set up in 1991 by leading financial/investment institutions, commercial banks and financial services companies as an independent and professional investment Information and Credit Rating Agency.

Today, ICRA and its subsidiaries together form the ICRA Group of Companies (Group ICRA). ICRA is a Public Limited Company, with its shares listed on the Bombay Stock Exchange and the National Stock Exchange. The international Credit Rating Agency Moody's Investors Service is ICRA's largest shareholder.

For more information, visit **www.icra.in**

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