ICRA

February 24, 2020 (Revised)

# Tata Consumer Products Limited (Formerly known as Tata Global Beverages Limited): Update Note

## Summary of rated instruments

| 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]AA+ (Stable) outstanding |
| Fund-based working capital limits# | 400.00 | 400.00 | [ICRA]AA+ (Stable)/ [ICRA]A1+ outstanding |
| Non-fund based limits | 24.00 | 24.00 | [ICRA]A1+ outstanding |
| Commercial Paper** | 715.00 | 715.00 | [ICRA]A1+ outstanding |
| **Total** | **1489.00** | **1489.00** | |

**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 CP and fund-based facilities from banks to remain within an overall limit of Rs. 715 crore

## Rationale

The ratings consider the sustained dominant position of Tata Consumer Products Limited (TCPL; formerly Tata Global Beverages Limited) in the domestic branded packet tea market and healthy improvement in performance in 9M FY2020. The ratings also factor in the high level 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. 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 the recent years, continues to be impacted by category trends in some of the developed markets, where the overall environment remains challenging. ICRA, however, notes that the company has undertaken product innovations and investment behind brands which is likely to benefit the operating profitability.

ICRA notes that TCPL has acquired the consumer products business of Tata Chemicals Limited (TCL), comprising the salt business under the Tata Salt brand, spices, pulses and other food products under Tata Sampann brand on February 7, 2020. The appointed date is April 1, 2019. Consequently, the company has been renamed as Tata Consumer Products Limited from Tata Global Beverages Limited. The consideration would be an all-equity deal whereby 1.14 shares of TCPL will be issued for one TCL share held. This acquisition would lead to further diversification of cashflows for the company, thus strengthening its operating profile. However, ICRA estimates the overall business returns to be remain subdued in the near to medium term.

The Stable outlook reflects ICRA's expectation that TCPL would benefit from the acquisition of the consumer products vertical which would augment its cash flows. This, along with its established brand presence in the beverage industry and its focus on innovation and increased market penetration, both on national and global levels, would support the company's credit profile going forward. Going forward, the company's debt protection metrics is expected to remain strong and the capital structure conservative.

## Key rating drivers

## 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 key marketing initiatives undertaken by the company. The company has established brands across all categories of packet teas, namely economy, popular and premium. In the current year, the company acquired the packet tea business of Dhunseri Tea & Industries Limited for Rs. 101 crore. This acquisition would enable TCPL to expand its market presence in Western India going forward.

**Potential synergies accruing from the merger of Tata Chemical's consumer product business** – The acquired consumer products business of TCL comprises sourcing, packaging, marketing, distribution and sales of salt under the brand 'Tata Salt', and spices, pulses and other food products under the brand 'Tata Sampann'. TCPL would be able to diversify its cash flows and expand its product basket in the fast moving consumer goods market, in addition to benefits arising from synergies on supply chain and better economies of scale.

**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, TCPL also has an established presence in various beverages across a number of major markets globally, with well established brands like Tetley, Eight O'Clock (EOC) and Good Earth. Branded tea constituted ~71% of the overall consolidated turnover of the company in FY2019, branded coffee ~17%, and the balance in other segments including the non-branded businesses. The company also has a number of Joint Ventures, both in India and overseas. Tata Starbucks Private Limited, a joint venture between TCPL and Starbucks, has witnessed a healthy growth in its topline. The venture had 174 outlets as of end-December 2019. The company also has a joint venture with PepsiCo India Holdings Private Limited. The JV named NourishCo Beverages Limited has launched various nutrient-enhanced hydration products such as Tata Water Plus and Tata Gluco Plus.

**Conservative capital structure; considerable financial flexibility emanating from large cash and liquid investment portfolio and status as a leading company of the Tata Group -** TCPL has a conservative capital structure with nil gearing as of end-FY2019 at the standalone level. ICRA notes that on a consolidated basis too, TCPL has a conservative capital structure with a gearing of 0.14 times as of end-FY2019. With the acquisition of the consumer products business of TCL being funded through an all-equity deal, the capital structure would remain conservative. Of the total loan of ~Rs. 1,141 crore at the consolidated level, ~Rs. 811 crore is long-term in nature. Such loans have a favourable repayment schedule. Further, the company has large cash and liquid investments to the tune of ~Rs. 1,616 crore as of end-FY2019. Adjusting for the same, the company has a net cash position. The conservative capital structure, along with substantial cash and liquid investment portfolio and status as a leading company of the Tata Group, provide a high degree of financial flexibility.

## Credit challenges

**Overall return on capital employed to remain subdued -** The performance of TCPL's overseas entities under Tata Global Beverages Group Limited (TGBGL) has been impacted by declining demand trend in the black tea market and high competitive intensity in the developed market over the last few years. Subdued performance of the overseas businesses in the past impacted the consolidated RoCE to an extent. However, the company has increased its focus on pursuing opportunities through new innovative products and strengthening of brands which are witnessing traction. This, coupled with restructuring of the international operations and business consolidation, has led to improvement in the performance of the overseas entities in the current financial year. Such a trend is expected to continue going forward. Notwithstanding the positive impact of the same on the RoCE, ICRA expects that the overall return would be impacted in the near to medium term because of the large consideration for the acquisition of the consumer products business of TCL.

**Margins exposed to fluctuating bulk tea prices although company's ability to protect margins provides some comfort; demand conditions in developed markets remain tepid –** In the domestic market, TCPL 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 increase in bulk tea prices to the consumers, mitigate such risks. At the consolidated level, some of the geographies that TCPL is present in have been witnessing tepid demand conditions. TCPL has undertaken product innovations and strengthening of brands to counter the same.

## Liquidity position: Strong

The company's liquidity profile remains strong, aided by a sizeable cash and liquid investment portfolio, healthy cash flow generation and undrawn bank lines. TCPL's standalone and consolidated cash and liquid investment balance stood at Rs. 972 crore and Rs. 1,616 crore, respectively as of end-FY2019. Moreover, the working capital utilisation remains low, compared to secured/unsecured fund-based facilities from banks.

## Rating sensitivities

**Positive triggers** – The long-term rating may be upgraded if there is substantial improvement in the consolidated RoCE of the company while other financial parameters do not show any significant deterioration

**Negative triggers** – Pressure on TCPL's ratings may arise if there is any significant investment/ inorganic growth undertaken by the company which leads to a weakening of the capital structure with consolidated Net debt/OPBITDA increasing to over 1.5 times.

## 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, 2019, the company had 38 subsidiaries, three associates and six JVs, that have been enlisted in Annexure-2. |

## About the company

TCPL, one of the leading companies of the Tata Group, is the largest company in the domestic packet tea industry. TCPL also has an established presence in various beverages across a number of major markets, globally. TCPL is the second largest tea company in the world. In addition to South Asia (mainly India), it also has presence in various other geographies including Canada, North America, Australia, Europe, Middle East and Africa. In February 2020 TCPL acquired the consumer products business of Tata Chemicals Limited, comprising branded salt, spices, pulses and other food products.

In FY2019, the company reported a net profit of Rs. 410.93 crore on an operating income of Rs. 3,429.66 crore compared to a net profit of Rs. 534.32 crore on an operating income of Rs. 3,217.32 crore in the previous year. On a consolidated basis, TCPL reported a net profit of Rs. 473.83 crore on an operating income of Rs. 7,251.50 in FY2019 compared to a net profit of Rs. 567.26 crore on an operating income of Rs. 6,815.35 crore in FY2018.

## Key financial indicators (audited- consolidated)

| | FY2018 | FY2019 | 9M FY2019 | 9M FY2020 |
|---|---|---|---|---|
| Operating Income (Rs. crore) | 6,815.35 | 7,251.50 | 5,476.04 | 5,693.09 |
| PAT (Rs. crore) | 567.26 | 473.83 | 380.01 | 432.81 |
| OPBDIT/OI (%) | 12.23% | 11.07% | 11.17% | 12.98% |
| RoCE (%) | 9.42% | 8.74% | | |
| | | | | |
| Total Outside Liabilities/Tangible Net Worth (times) | 0.31 | 0.30 | | |
| Net Debt*/OPBDIT (times) | The company is net debt negative | | | |
| Interest Coverage (times) | 19.49 | 15.30 | 16.54 | 12.85 |
| DSCR | 9.72 | 11.12 | | |

*Source: TCPL*

**Net Debt = (Gross Debt less cash & cash equivalent and liquid investments)*

## Status of non-cooperation with previous CRA: Not applicable

## Any other information: None

## Rating history for last three years:

| | Instrument | Current Rating (FY2020) Type | Amount Rated (Rs. crore) | Amount Outstanding (Rs. crore) | Date & Rating 24-Feb-2020 | Date & Rating 25-Nov-2019 | Chronology of Rating History for the Past 3 Years: Date & Rating in FY2019 25-Oct-2018 | Date & Rating in FY2018 6-Oct-2017 | Date & Rating in FY2017 29-Nov-2016 |
|---|---|---|---|---|---|---|---|---|---|
| 1 | Long-term debt (including non-convertible debentures) | Long Term | 350 | -* | [ICRA]AA+ (Stable) | [ICRA]AA+ (Stable) | [ICRA]AA+ (Stable) | [ICRA]AA+ (Stable) | [ICRA]AA+ (Stable) |
| 2 | Fund-based working capital limits # | Long Term/ Short Term | 400.00 | NA | [ICRA]AA+ (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 limits | Short Term | 24.00 | NA | [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+ |

*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](http://www.icra.in)

## Annexure-1: Instrument Details

| ISIN No | Instrument Name | Date of Issuance / Sanction | Coupon Rate | Maturity Date | Amount Rated (Rs. crore) | Current Rating and Outlook |
|---|---|---|---|---|---|---|
| NA | Long-term debt (including non-convertible debentures)* | - | - | - | 350.00 | [ICRA]AA+(stable) |
| NA | Fund-based working capital limits | - | - | - | 400.00 | [ICRA]AA+(stable)/ [ICRA]A1+ |
| NA | Non-fund based limits | - | - | - | 24.00 | [ICRA]A1+ |
| NA | Commercial Paper | - | - | - | 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

## Annexure-2: List of entities considered for consolidated analysis

| Company Name | Ownership | Consolidation Approach |
|---|---|---|
| Tata Global Beverages Group Ltd | 89.10% | Full Consolidation |
| Tata Global Beverages Holdings Ltd | 89.10% | Full Consolidation |
| Tata Global Beverages Services Ltd | 89.10% | Full Consolidation |
| Tata Global Beverages GB Ltd | 89.10% | Full Consolidation |
| Tata Global Beverages Overseas Holdings Ltd | 89.10% | Full Consolidation |
| Tata Global Beverages Overseas Ltd | 89.10% | 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 Global Beverages Polska.sp.zo.o | 89.10% | Full Consolidation |
| Tata Global Beverages US Holdings Inc | 89.10% | Full Consolidation |
| Tetley USA Inc | 89.10% | Full Consolidation |
| Empirical Group LLC | 49.90% | Full Consolidation |
| Tata Water LLC | 89.10% | Full Consolidation |
| Good Earth Corporation | 89.10% | Full Consolidation |
| Good Earth Teas Inc | 89.10% | Full Consolidation |
| Tata Global Beverages Canada Inc | 89.10% | Full Consolidation |
| Tata Global Beverages Australia Pty Ltd | 89.10% | Full Consolidation |
| Earth Rules Pty Ltd | 89.10% | Full Consolidation |
| Tata Global Beverages Investments Ltd | 89.10% | Full Consolidation |
| Campestres Holdings Ltd | 89.10% | Full Consolidation |
| Kahutara Holdings Ltd | 57.92% | Full Consolidation |
| Suntyco Holding Ltd | 57.92% | Full Consolidation |
| Onomento Co Ltd | 57.92% | Full Consolidation |
| Coffee Trade LLC | 57.92% | Full Consolidation |
| 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 |
| Tata Tea Holdings Private Ltd | 100.00% | Full Consolidation |
| Amalgamated Plantations Private Ltd | 41.03% | Equity Method |
| Kanan Devan Hill Plantations Co Pvt Ltd | 28.52% | Equity Method |
| TRIL Constructions Ltd | 32.50% | Equity Method |
| Tetley Clover (Private) Ltd | 50.00% | Equity Method |
| Tetley ACI (Bangladesh) Ltd | 50.00% | Equity Method |
| Joekels Tea Packers (Proprietory) Ltd | 51.70% | Equity Method |
| Southern Tea LLC | 50.00% | Equity Method |
| NoursishCo Beverages Ltd | 50.00% | Equity Method |
| Tata Starbucks Private Ltd | 50.00% | Equity Method |

**Corrigendum**

The press release dated February 24, 2020 has been revised. The relationship contact person's details have been corrected/updated (Changed from Mr Jayanta Chatterjee to Mr L Shivakumar).

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## About ICRA Limited:

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