

December 31, 2020

## Tata Consumer Products Limited: Rating upgraded to [ICRA]AAA(Stable)/A1+

### 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) upgraded from [ICRA]AA+(Stable)
Fund-based working capital limits#	400.00	400.00	[ICRA]AAA(Stable)/A1+ upgraded from AA+(Stable)/A1+
Non-fund based limits	24.00	24.00	[ICRA]A1+ reaffirmed
Commercial Paper**	715.00	715.00	[ICRA]A1+ reaffirmed
<b>Total</b>	<b>1489.00</b>	<b>1489.00</b>	

\*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 upward revision in the long-term rating reflects the improvement in the financial performance, standalone as well as consolidated, of Tata Consumer Products Limited (TCPL; formerly Tata Global Beverages Limited) in FY2020 and H1 FY2021, which ICRA believes is sustainable in the long term. The improvement in the recent past has been driven by a healthy increase in volumes and realisations in the branded tea business, strong performance from the recently acquired foods business, and an improvement in the performance of its overseas operations. In FY2020, TCPL had acquired the consumer products business of Tata Chemicals Limited (TCL), comprising the salt business under the Tata Salt brand, and spices, pulses and other food products under the Tata Sampann brand. This acquisition led to a diversification of cash flows for the company. Post acquisition, TCPL is under the process of integrating its food and beverages business segments, which are likely to lead to a significant cost savings for the company, going forward, leading to an improvement in its profitability. The ratings continue to take into consideration the sustained dominant position of TCPL in the domestic branded tea market. On a consolidated basis too, the company is well diversified both in terms of beverage category and geographical presence, with earnings from the UK, the US and Canada contributing substantially. All of TCPL's brands are well entrenched in their respective geographies. The ratings also factor in the high level of financial flexibility that TCPL derives from its conservative capital structure, substantial cash and liquid investments, both on a standalone and consolidated basis 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 ~18 times and gross debt/OPBITDA of ~1 times (when adjusted for its large cash balance, TCPL has a net cash position) in FY2020, and the same is expected to witness further improvement, going forward. ICRA, however, notes that the overall return on capital employed (RoCE) of the consolidated entity continues to be impacted, notwithstanding the sequential improvement witnessed in the recent years on the back of business restructuring of its overseas operations and exits from some of the marginal geographies like Czech Republic and MAP business in Australia, by low growth and category trends in some of the developed markets and high consideration for the acquisitions, including the recent acquisition of foods business from TCL, which has led to large goodwill<sup>1</sup> on the books. While revising the rating ICRA has also taken note of TCPL's exposure to the volatility in commodity prices of bulk tea and coffee. Nonetheless, the company's established brand presence, dynamic procurement strategies and ability to pass on an increase in costs, particularly that of bulk teas procured from the domestic market, mitigate such risks.

<sup>1</sup> Adjusting for the goodwill would lead to substantial improvement in the RoCE of the company

The Stable outlook reflects ICRA's expectation that TCPL would continue to benefit from the dominant position in most of the geographies that it operates in, and its focus on product innovation and increasing market penetration, both in Indian and overseas markets. Going forward, the consolidated cash flows of the company are expected to remain strong, with the benefits of the integration of the food and beverage businesses in India accruing over the short to medium term. ICRA expects the capital structure and debt coverage indicators to also remain strong, going forward.

## Key rating drivers and their description

### Credit strengths

**Significant improvement in TCPL's financial performance** – TCPL's standalone as well as consolidated performance has witnessed a significant improvement in FY2020 with growth in revenues by ~66% and ~33%, respectively after the inclusion of the foods business. Despite an adverse operating environment due to the pandemic, TCPL has been able to continue its growth momentum in the current year as well, driven by its brand strength and robust distribution network. The improvement in the recent past has been driven by a healthy increase in volumes (7% in FY2020 and ~8% in H1 FY2021) and realisations (~1% in FY2020 and ~8% in H1 FY2021) from the branded tea business, strong returns from the recently acquired foods business, and an improvement in the performance of its overseas operations.

**Synergies accruing from the merger of Tata Chemical's consumer product business** – The company acquired the consumer products business of TCL that 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' in FY2020. ICRA notes that Tata Salt is the market leader with over 30% market share in the branded salt segment. With the acquisition, the cash flows of the company, on a standalone basis, are now more diversified. It has also reduced the volatility in cash flows associated with the existing commodity business and expanded its product basket in the fast moving consumer goods market. TCPL is currently under the process of integrating its food and beverages business segments and expanding integrated distribution, which is likely to lead to significant revenue growth opportunities and cost savings for the company going forward and will result in an improvement in its profitability.

**Leading brand in the domestic branded-tea segment** – TCPL is a leading branded packet tea company in India, having the largest market share in terms of volumes. 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. TCPL has established brands across all categories, namely economy, popular and premium. ICRA notes that in the past, TCPL has acquired certain brands like Kala Ghoda and Lal Ghoda to strengthen its market presence in western India.

**Significant geographical and product diversification of revenues on a consolidated basis through organic growth, acquisitions and strategic alliances** – Apart from tea brands in India and the recently acquired foods business, TCPL also has an established presence in various beverage categories across a number of major markets globally, with well established brands like Tetley, Eight O'Clock (EOC) and Good Earth. Branded tea accounted for ~51% of the overall consolidated turnover of the company in FY2020, the food business ~21%, branded coffee ~11%, and the balance by 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 top line. The venture had 196 outlets as of end-September 2020. NourishCo Beverages Limited, now a wholly owned subsidiary 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-FY2020 at the standalone level. ICRA notes that on a consolidated basis too, TCPL has a conservative capital structure with a gearing of 0.1 times as of end-FY2020. Out of the total loan of ~Rs. 1,256 crore at the consolidated level,

~Rs. 868.6 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. 2,455 crore as of end-FY2020. TCPL's consolidated debt coverage indicators remain strong with an interest cover of ~18 times and gross debt/OPBITDA of ~1 times in FY2020 (when adjusted for its large cash balance, TCPL has a net cash position), and the same is expected to witness further improvement, going forward. The conservative capital structure, along with a 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 remains under pressure 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 amidst the impact of Brexit and high competitive intensity in the developed market over the last few years. Subdued performance of the overseas businesses in the past had 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 as evident from its improved financial performance. The improvement in the recent past has also been aided by revised strategy of business restructuring and consolidation, including exit from some of the marginal geographies, such as Czech Republic and the MAP business in Australia. However, notwithstanding the sequential improvement in the performance of its overseas operations, the overall RoCE of the consolidated entity remains under pressure. Going forward too, while ICRA expects the performance of the different businesses to remain healthy, the improvement in overall RoCE is likely to be limited by the high consideration, funded by an all equity deal, for the acquisition of the food business which has led to substantial goodwill<sup>2</sup>.

**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 bulk tea prices, which in turn impacts its contribution margins. For instance, in the current year, bulk tea prices are significantly higher, which would lead to some moderation in profit margins in H2 FY2021. Nonetheless, its established brand presence, procurement strategies and ability to pass on an increase in costs, particularly that of bulk teas, mitigate such risks. At the consolidated level, some of the geographies where TCPL is present, are witnessing tepid demand conditions. TCPL has undertaken product innovations and strengthening of brands to counter the same. The coffee business is also exposed to volatility in cash flows, however, TCPL's presence across plantation business, instant coffee as well as roast and ground coffee and addition of salt and other food products in its portfolio mitigates risks to an extent.

## Liquidity position: Superior

The company's liquidity profile remains **Superior**, 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. 1,462 crore and Rs. 2,455 crore, respectively as of end-FY2020. Moreover, the working capital utilisation remains low, compared to secured/unsecured fund-based facilities from banks.

## Rating sensitivities

**Positive triggers** – Not applicable

**Negative triggers** – The ratings could be downgraded in case of 1) deterioration in profitability and return indicators of the core business on a sustained basis and/or 2) any major debt-funded capital expenditure / inorganic growth undertaken by the company, leading to a weakening of the capital structure, with consolidated Net Debt/OPBITDA increasing to over 0.5 times on a sustained basis.

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<sup>2</sup> Adjusting for the goodwill would lead to substantial improvement in the RoCE of the company

## Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	<a href="#">Corporate Credit Rating Methodology</a>
Parent/Group Support	Not Applicable
Consolidation/Standalone	For arriving at the ratings, ICRA has considered the consolidated financials of TCPL. As on March 31, 2020, 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, 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 in many markets. In addition to South Asia (mainly India), it has presence in various other geographies including Canada, UK, North America, Australia, Europe, Middle East and Africa.

In FY2020, the company reported a net profit of Rs. 523.5 crore on an operating income of Rs. 5,690.2 crore compared to a net profit of Rs. 410.9 crore on an operating income of Rs. 3,429.7 crore in the previous year. On a consolidated basis, TCPL reported a net profit of Rs. 535.2 crore (impacted by non-cash impairment of goodwill of Rs. 223 crore relating largely to international out of home businesses) on an operating income of Rs. 9,637.4 crore in FY2020 compared to a net profit of Rs. 473.8 crore on an operating income of Rs. 7,251.5 crore in FY2019.

## Key financial indicators (audited - Consolidated)

	FY2019	FY2020	H1 FY2020	H1 FY2021
Operating Income (Rs. crore)	7251.5	9637.4	4739.4	5495.3
PAT (Rs. crore)	473.8	535.2	396.2	623.4
OPBDIT/OI (%)	10.9%	13.3%	14.0%	16.1%
PAT/OI (%)	6.5%	5.6%	8.4%	11.3%
Total Outside Liabilities/Tangible Net Worth (times)	0.3	0.2		
Net Debt*/OPBDIT (times)	The company is net debt negative			
Interest Coverage (times)	18.6	18.3	17.1	25.1

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 past three years

	Instrument	Current Rating (FY2021)				Rating History for the Past 3 Years				
		Type	Amount Rated	Amount Outstanding	Rating	FY2020			FY2019	FY2018
					Dec-31-2020	Feb-24-2020	Nov-25-2019	May-22-2019	Oct-25-2018	Oct-06-2017
1	Long-term debt (including NCDs)	Long Term	350	-*	[ICRA]AAA (Stable) upgraded	[ICRA]AA+ (Stable) outstanding	[ICRA]AA+ (Stable) reaffirmed	[ICRA]AA+ (Stable) outstanding	[ICRA]AA+ (Stable) reaffirmed	[ICRA]AA+ (Stable) reaffirmed
2	Fund-based working capital limits #	Long Term/ Short Term	400.00	NA	[ICRA]AAA(Stable) /A1+ upgraded	[ICRA]AA+ (Stable)/ A1+ outstanding	[ICRA]AA+ (Stable)/ A1+ reaffirmed	[ICRA]AA+ (Stable)/ A1+ outstanding	[ICRA]AA+ (Stable)/ A1+ reaffirmed	[ICRA]AA+ (Stable)/ A1+ reaffirmed
3	Non-fund based limits	Short Term	24.00	NA	[ICRA]A1+ reaffirmed	[ICRA]A1+ outstanding	[ICRA]A1+ reaffirmed	[ICRA]A1+ outstanding	[ICRA]A1+ reaffirmed	[ICRA]A1+ reaffirmed
4	Commercial Paper**	Short Term	715.00	NA	[ICRA]A1+ reaffirmed	[ICRA]A1+ outstanding	[ICRA]A1+ reaffirmed	[ICRA]A1+ outstanding	[ICRA]A1+ reaffirmed	[ICRA]A1+ reaffirmed

\*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

Amount in Rs. 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 [click here](http://www.icra.in)

## Annexure-1: Instrument details

ISI	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Long-term debt (including NCDs)*	-	-	-	350.00	[ICRA]AAA(Stable)
NA	Fund-based working capital limits	-	-	-	400.00	[ICRA]AAA(Stable)/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 Consumer Products Limited

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

Company Name	Ownership	Consolidation Approach
Tata Consumer Products UK Group Ltd (Formerly Tata Global Beverages Group Ltd)	89.1%	Full Consolidation
Tata Global Beverages Holdings Ltd	89.1%	Full Consolidation
Tata Global Beverages Services Ltd	89.1%	Full Consolidation
Tata Consumer Products GB Ltd (Formerly Tata Global Beverages GB Limited)	89.1%	Full Consolidation
Tata Consumer Products Overseas Holdings Ltd (formerly Tata Global Beverages Overseas Holding Ltd)	89.1%	Full Consolidation
Tata Global Beverages Overseas Limited	89.1%	Full Consolidation
Lyons Tetley Limited	89.1%	Full Consolidation
Drassington Ltd	89.1%	Full Consolidation
Teapigs Ltd	89.1%	Full Consolidation
Teapigs US LLC	89.1%	Full Consolidation
Stansand Ltd	89.1%	Full Consolidation
Stansand (Brokers) Ltd	89.1%	Full Consolidation
Stansand (Africa) Ltd	89.1%	Full Consolidation
Stansand (Central Africa) Ltd	89.1%	Full Consolidation
Tata Global Beverages Polska.sp.zo.o	89.1%	Full Consolidation
Tata Consumer Products US Holdings Inc (formerly Tata Global Beverages US Holdings Inc.)	89.1%	Full Consolidation
Tetley USA Inc	89.1%	Full Consolidation
Empirical Group LLC	49.9%	Full Consolidation
Tata Waters LLC	89.1%	Full Consolidation
Good Earth Corporation	89.1%	Full Consolidation
Good Earth Teas Inc	89.1%	Full Consolidation
Tata Consumer Products Canada Inc (formerly Tata Global Beverages Canada Inc.)	89.1%	Full Consolidation
Tata Consumer Products Australia Pty Ltd (formerly Tata Global Beverages Australia Pty Limited)	89.1%	Full Consolidation
Earth Rules Pty Ltd	89.1%	Full Consolidation
Tata Global Beverages Investments Ltd	89.1%	Full Consolidation

Campestres Holdings Ltd	89.1%	Full Consolidation
Kahutara Holdings Ltd	89.1%	Full Consolidation
Suntco Holding Ltd	89.1%	Full Consolidation
Onomento Co Ltd	89.1%	Full Consolidation
Coffee Trade LLC (under liquidation)	89.1%	Full Consolidation
Tata Consumer Products Capital Ltd.(formerly Tata Global Beverages Capital Limited)	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 Hills 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 (Proprietary) Ltd	51.70%	Equity Method
Southern Tea LLC	50.00%	Equity Method
NourishCo Beverages Ltd*	50.00%	Equity Method
Tata Starbucks Private Ltd	50.00%	Equity Method

*\*NourishCo Beverages became a wholly owned subsidiary of TCPL since May-2020*

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