

December 19, 2022

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 Programme^ | 715.00 | 715.00 | [ICRA]A1+; reaffirmed |
| Total | 1,489.00 | 1,489.00 | |

*Instrument details are provided in Annexure-I

^Total borrowing under commercial paper and fund based bank facilities to remain within an overall limit of Rs. 715.00 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 reaffirmation of the ratings reflects the company's robust operating performance in FY2022 and H1 FY2023 and ICRA's expectations of continued healthy performance over the medium term while maintaining a favourable financial profile. The ratings continue to favourably factor in the dominant position of TCPL in the domestic and global branded tea market along with improving diversification of the domestic branded business across products and categories on the back of new product launches and strategic acquisitions. The ratings also consider 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 ~26 times and gross debt/OPBDITA of ~0.6 times in FY2022. However, when adjusted for its large cash and liquid investments portfolio, TCPL continues to have a net cash position. Nonetheless, ICRA will continue to monitor the developments on any potential acquisitions and would reassess the credit quality of TCPL when there is more clarity on the same.

ICRA, however, notes that the entity's overall return on capital employed (RoCE)¹ 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 ratings also factor in TCPL's exposure to currency fluctuations and 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 in the 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, is expected to 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.

¹ Adjusting 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 with offerings across categories of packet teas, namely economy, popular and premium, enabling it to cater to a wide market segment.

Significant geographical and product diversification of revenues on a consolidated basis through organic growth, acquisitions and strategic alliances – With the merger of the consumer product business of Tata Chemicals Limited in FY2020, TCPL has diversified its domestic business with brands like Tata Salt (market leader in edible salt) and Tata Sampann (offering staples like pulses, poha, besan, spices, etc.) and further diversified through the acquisition of Tata Soufull (millet-based snacks), Himalayan, Tata Copper Water, Tata Gluco Plus and Tata Sampann Yummside (ready-to-eat category), among others. Additionally, its product portfolio comprises globally recognised brands including Tetley, Tata Tea, Teapigs and Eight O'Clock, which have strong brand equity across key markets of the US, the UK and Canada. TCPL's wide distribution network, product innovation and investment behind brand building are expected to continue to support its business diversification.

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 on September 30, 2022. At the consolidated level, TCPL's capital structure remains comfortable with a gearing of 0.06 times as on September 30, 2022. Of the total debt of ~Rs. 887 crore at the consolidated level, ~Rs. 225 crore is long term in nature (term debt at Tata Coffee Vietnam Company Ltd.). Further, the company has a sizeable cash and liquid investments portfolio worth more than Rs. 2,800 crore at the consolidated level as on September 30, 2022. TCPL's debt protection metrics remain strong with an interest cover of 26 times and net cash position in FY2022. A conservative capital structure along with a substantial cash and liquid investments portfolio and the TCPL's status as a leading company of the Tata Group lend a high degree of financial flexibility.

Healthy operating performance of TCPL in H1 FY2023 – TCPL recorded a healthy performance in H1 FY2023 with a consolidated revenue growth of ~11% YoY and operating margins sustaining above 13%, despite cost pressure. While the margins of international branded business contracted in Q2 FY2023 owing to higher costs from increase in Kenyan tea prices and a substantial appreciation of USD against GBP, the domestic branded business sustained its margins on account of softening bulk tea prices and price hikes made by the company, mainly across the Tata Salt portfolio, to mitigate the cost pressure. The company is expected to continue to record a healthy operating performance over the medium term.

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. TCPL has increased its focus on pursuing opportunities through innovative products and strengthening its brands. This, coupled with restructuring of the international operations including exit from the marginal business, has led to an improvement in the performance of overseas entities in the recent past. However, the operating margin of TCPL's international branded business contracted in H1 FY2023 due to cost pressure and adverse currency movement. Notwithstanding the sequential improvement, 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 level of goodwill² on the books of the company because of past acquisitions.

Margins exposed to fluctuating commodity prices although company's ability to protect margins provides comfort; business exposed to currency movements and changes in consumer preferences – In the domestic market, TCPL is exposed to the volatility in prices of bulk tea, which in turn impacts its contribution margins. 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 international level, TCPL's offerings are dominated by everyday black tea, the demand growth for which, has remained muted in key markets. TCPL remains exposed to changes in consumer preferences and tastes across geographies. To counter this, TCPL continues to invest in product innovation and brand building. 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 branded coffee in the international markets and plantations and instant coffee on the non-branded side.

Environmental and social risks

TCPL remains exposed to physical climate risks as its key raw materials, tea, coffee, pulses and spices, among others, are agricultural commodities. Vagaries of the climate translating into variation in crop output could adversely impact TCPL's operations in terms of both availability of raw materials and increase in commodity costs. The company also remains exposed to changes in environmental norms with respect to treatment of manufacturing residual discharge/waste, which could lead to disproportional upfront capital expenditure. Accordingly, TCPL could face operational disruptions if regulatory norms are not complied with. Further, the increasing awareness and restrictions on usage of different grades of plastics for packaging and the need to find eco-friendly solutions could impact TCPL's cost structure. As per TCPL's annual report for FY2022, the company has a sustainability strategy encompassing initiatives towards sustainable sourcing, natural resource management, net zero, circular economy and community development which are expected to mitigate the risks to an extent.

TCPL is exposed to social risks such as compliance (or lack of it) with health and safety standards besides evolving consumer lifestyle changes. The sector also has prominent dependence on human capital, in terms of direct and indirect employees as well as contractual labour. Being an interplay of manufacturing and services businesses, maintaining healthy employee relationship and retaining talent are essential for disruption-free operations. Majority of TCPL's products, including food and beverages, have health implications on consumers and any quality concerns could impact its brand name and lead to additional costs for the company. Further, the company is dependent on plantation workers and local communities and tribes for the productivity of its plantations. However, TCPL's track record of carrying out its operations responsibly over the years provides comfort.

Liquidity position: Superior

TCPL's liquidity profile remains superior, characterised by sizeable free cash and liquid investments of more than Rs. 2,800 crore at the consolidated level and more than Rs. 1,600 crore at the standalone level as on September 30, 2022. The liquidity profile is supported by healthy cash flow from operations and buffer available in the form of sanctioned bank facilities (with commensurate drawing power), which remain largely unutilised. The company maintains a negative net debt position as on September 30, 2022.

Rating sensitivities

Positive factors – Not applicable

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

Negative factors – Pressure on TCPL’s ratings could arise in case of a deterioration in profitability and return indicators of the business on a sustained basis. Any major debt-funded capital expenditure/inorganic growth undertaken by the company, leading to a weakening of the capital structure or liquidity profile, could also put pressure on the ratings. Specific credit metrics that could lead to a ratings downgrade include net debt/OPBDITA of more than 0.5 times on a sustained basis.

Analytical approach

| Analytical Approach | Comments |
|---------------------------------|---|
| Applicable rating methodologies | Corporate Credit Rating Methodology Rating Approach - Consolidation |
| Parent/Group support | Not Applicable |
| Consolidation/Standalone | For arriving at the ratings, ICRA has considered the consolidated financials of TCPL as detailed in Annexure II |

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 FY2022, the company reported a net profit of Rs. 886 crore on an operating income of Rs. 7,932 crore compared to a net profit of Rs. 619.5 crore on an operating income of Rs. 7,154 crore in the previous year. On a consolidated basis, TCPL reported a consolidated net profit of Rs. 1,079 crore on an operating income of Rs. 12,425 crore in FY2022 compared to a net profit of Rs. 994 crore on an operating income of Rs. 11,602 crore in the previous year.

Key financial indicators (audited)

| TCPL Consolidated | FY2021 | FY2022 | H1 FY2022 | H1 FY2023 |
|--|---|--------|-----------|-----------|
| Operating income | 11,602 | 12,425 | 6,042 | 6,690 |
| PAT | 994 | 1,079 | 502 | 631 |
| OPBDIT/OI | 13.3% | 13.8% | 13.5% | 13.3% |
| PAT/OI | 8.6% | 8.7% | 8.3% | 9.4% |
| Total outside liabilities/Tangible net worth (times) | 0.3 | 0.3 | | |
| Net debt/OPBDIT (times) | The company continue to have a net cash surplus | | | |
| Interest coverage (times) | 23.7 | 26.1 | 20.2 | 24.9 |

PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation; Amount in Rs. Crore; Net Debt = Gross Debt less cash and cash equivalents and liquid investments

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

| Instrument | Type | Current rating (FY2023) | | Chronology of rating history for the past 3 years | | | | | | |
|---|----------------------|--------------------------|---|---|----------------------------------|----------------------------------|----------------------------------|----------------------------------|----------------------------------|----------------------------------|
| | | Amount rated (Rs. crore) | Amount outstanding as of Sep 30, 2022 (Rs. crore) | Date & Rating in | | Date & Rating in FY2022 | | Date & Rating in FY2021 | | |
| | | | | Dec 19, 2022 | Apr 05, 2022 | Dec 23, 2021 | Dec 31, 2020 | Feb 24, 2020 | Nov 25, 2019 | May 22, 2019 |
| 1 Long-term debt (including NCDs) | Long-term | 350.00 | - | [ICRA]AAA (Stable) | [ICRA]AAA (Stable) | [ICRA]AAA (Stable) | [ICRA]AAA (Stable) | [ICRA]AA+ (Stable) | [ICRA]AA+ (Stable) | [ICRA]AA+ (Stable) |
| 2 Fund-based working capital facilities | Long-term/short-term | 400.00 | - | [ICRA]AAA (Stable)/ [ICRA]A1+ | [ICRA]AAA (Stable)/ [ICRA]A1+ | [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+ |
| 3 Non-fund based facilities | Short-term | 24.00 | - | [ICRA]A1+ | [ICRA]A1+ | [ICRA]A1+ | [ICRA]A1+ | [ICRA]A1+ | [ICRA]A1+ | [ICRA]A1+ |
| 4 Commercial Paper | Short-term | 715.00 | - | [ICRA]A1+ | [ICRA]A1+ | [ICRA]A1+ | [ICRA]A1+ | [ICRA]A1+ | [ICRA]A1+ | [ICRA]A1+ |

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 |
| Short-term non-fund based facilities | Simple |
| Commercial Paper Programme | 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 analysing 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 are available on ICRA's website: [Click Here](#)

Annexure I: Instrument details

| ISIN | 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+ |
| NA | Commercial Paper* | NA | NA | NA | 715.00 | [ICRA]A1+ |

Source: Company

[^]Yet to be placed; *Unplaced; Total borrowing under commercial paper and fund based bank facilities to remain within overall limit of Rs. 715.00 crore

Annexure II: List of entities considered for consolidated analysis

| Company Name | LTHL Ownership | Consolidation Approach |
|--|----------------|------------------------|
| Subsidiaries | | |
| Tata Consumer Products UK Group Limited | 89.85% | Full consolidation |
| Tata Global Beverages Holdings Limited (Dormant) | 89.85% | Full consolidation |
| Tata Global Beverages Services Limited (Dormant) | 89.85% | Full consolidation |
| Tata Consumer Products GB Limited | 89.85% | Full consolidation |
| Tata Consumer Products Overseas Holdings Limited | 89.85% | Full consolidation |
| Tata Global Beverages Overseas Limited (Dormant) | 89.85% | Full consolidation |
| Lyons Tetley Limited (Dormant) | 89.85% | Full consolidation |
| Drassington Limited (Dormant) | 89.85% | Full consolidation |
| Teapigs Limited | 89.85% | Full consolidation |
| Teapigs US LLC | 89.85% | Full consolidation |
| Stansand Limited (Dormant) | 89.85% | Full consolidation |
| Stansand Brokers Limited (Dormant) | 89.85% | Full consolidation |
| Stansand (Africa) Limited | 89.85% | Full consolidation |
| Stansand (Central Africa) Limited | 89.85% | Full consolidation |
| Tata Consumer Products Polska.sp.zo.o | 89.85% | Full consolidation |
| Tata Consumer Products US Holdings Inc. | 89.85% | Full consolidation |
| Tetley USA Inc. | 89.85% | Full consolidation |
| Tata Waters LLC | 89.85% | Full consolidation |
| Good Earth Corporation | 89.85% | Full consolidation |
| Good Earth Teas Inc. | 89.85% | Full consolidation |
| Tata Consumer Products Canada Inc. | 89.85% | Full consolidation |
| Tata Consumer Products Australia Pty. Limited | 89.85% | Full consolidation |
| Earth Rules Pty. Limited | 89.85% | Full consolidation |
| Tata Global Beverages Investment Limited (Dormant) | 89.85% | Full consolidation |
| Campestres Holdings Limited | 89.85% | Full consolidation |
| Kahutara Holdings Limited | 89.85% | Full consolidation |
| Suntycy Holdings Limited | 89.85% | Full consolidation |

| Company Name | LTHL Ownership | Consolidation Approach |
|---|----------------|------------------------|
| Onomento Co Limited | 89.85% | Full consolidation |
| Tata Consumer Products Capital Limited | 100.00% | Full consolidation |
| Tata Coffee Limited | 57.48% | Full consolidation |
| Tata Coffee Vietnam Company Limited | 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 Limited | 100.00% | Full consolidation |
| Tata Consumer Soulfull Private Limited | 100.00% | Full consolidation |
| Tata Smartfoodz Limited | 100.00% | Full consolidation |
| TCPL Beverages & Foods Limited ^ | 100.00% | Full consolidation |
| TRIL Constructions Limited^^ | 80.46% | Full consolidation |
| Tata Tea Holdings Private Limited | 100.00% | Full consolidation |
| Associates | | |
| Amalgamated Plantation Private Limited | 41.03% | Equity Method |
| Kanan Devan Hills Plantation Company Private Limited | 28.52% | Equity Method |
| Joint Ventures | | |
| Tetley Clover (Private) Limited^^^ | 50.00% | Equity Method |
| Tetley ACI (Bangladesh) Limited | 50.00% | Equity Method |
| Joekels Tea Packers (Proprietary) Limited | 51.70% | Equity Method |
| Tata Starbucks Private Limited | 50.00% | Equity Method |

Source: TCPL annual report FY2022

^Yet to commence operations

^^Converted to subsidiary w.e.f. November 17, 2021

^^^Under liquidation

Note: ICRA has taken a consolidated view of the parent (TCPL), its subsidiaries 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 22 6169 3368

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

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

ICRA Limited



Registered Office

B-710, Statesman House, 148, Barakhamba Road, New Delhi-110001

Tel: +91 11 23357940-45



Branches



© Copyright, 2022 ICRA Limited. All Rights Reserved.

Contents may be used freely with due acknowledgement to ICRA.

ICRA ratings should not be treated as recommendation to buy, sell or hold the rated debt instruments. ICRA ratings are subject to a process of surveillance, which may lead to revision in ratings. An ICRA rating is a symbolic indicator of ICRA's current opinion on the relative capability of the issuer concerned to timely service debts and obligations, with reference to the instrument rated. Please visit our website www.icra.in or contact any ICRA office for the latest information on ICRA ratings outstanding. All information contained herein has been obtained by ICRA from sources believed by it to be accurate and reliable, including the rated issuer. ICRA however has not conducted any audit of the rated issuer or of the information provided by it. While reasonable care has been taken to ensure that the information herein is true, such information is provided 'as is' without any warranty of any kind, and ICRA in particular, makes no representation or warranty, express or implied, as to the accuracy, timeliness or completeness of any such information. Also, ICRA or any of its group companies may have provided services other than rating to the issuer rated. All information contained herein must be construed solely as statements of opinion, and ICRA shall not be liable for any losses incurred by users from any use of this publication or its contents.