

June 30, 2021

Tata Coffee Limited: Long-term rating upgraded to [ICRA]AA+(Stable); Short-term rating reaffirmed at [ICRA]A1+

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Fund-based Bank Facilities	150.0	150.0	[ICRA]AA+(Stable)/[ICRA]A1+; Long term rating upgraded from [ICRA]AA (Stable); [ICRA]A1+ Reaffirmed
Commercial Paper	30.00	30.00	[ICRA]A1+ Reaffirmed
Total	180.0	180.0	

*Instrument details are provided in Annexure-1

Rationale

The rating action primarily factors in the significant improvement in the consolidated performance of Tata Coffee Limited (TCL) in FY2021 and ICRA's expectations that the trend is likely to continue going forward. TCL's consolidated revenues grew by ~15% in FY2021 due to a steady volume growth in EOC and a significant increase in revenue from the freeze-dried instant coffee operations in Vietnam, while the standalone revenues remained largely stable. The consolidated operating margins increased by ~150 bps to 17.7% in FY2021 owing to an increase in profits from EOC and healthy contribution levels from Vietnam operations. Healthy profitability and low cost of overall debt resulted in strong coverage indicators with an interest cover and net debt/OPBITDA at 7.5 times and 2.1 times, respectively in FY2021 compared to 4.9 times and 3.2 times, respectively in the previous fiscal, which are expected to improve further in the current fiscal. The liquidity also remained strong with surplus cash and balance of ~Rs. 320 crore as on March 31, 2021.

The ratings continue to factor in TCL's diversified nature of operations, with presence in roast and ground coffee, instant coffee and plantation coffee along with a geographically diversified revenue base. The ratings also favourably factor in the conservative capital structure— both at standalone and consolidated levels. While the standalone gearing stood at 0.07 times, the consolidated gearing stood at 0.64 times as of end-FY2021. A conservative capital structure along with the status of being a Tata Group company and a subsidiary of Tata Consumer Products Limited (TCPL, rated at [ICRA]AAA/ Stable/A1+) provide significant financial flexibility to the company. However, the above strengths are offset to an extent as the company's coffee and tea businesses are exposed to agro-climatic conditions, notwithstanding the steps taken to reduce such risks. In addition, the commoditised nature of the instant coffee business, which faces intense competition, and the sensitivity of operating margins to adverse movements in coffee prices, impacts the business risk profile of the company, notwithstanding the integrated nature of operations of the standalone entity. Nonetheless, TCL's operating performance would be supported by its established presence and diversified product offerings across geographies. In FY2021, the capacity utilisation of the Vietnam plant remained healthy. In the current fiscal, the plant is running at optimum capacity, which is expected to further strengthen the operating profile. While revising the ratings, ICRA has taken cognisance of the large term loan repayment of the consolidated entity falling due shortly. However, the proven ability of the company to refinance debt at favourable terms in the past provides comfort.

Key rating drivers and their description

Credit strengths

Significant improvement in financial performance in FY2021; the trend is likely to continue in the current fiscal— In FY2021, TCL's financial performance improved considerably with healthy profits and cash generation, both at the standalone and consolidated levels. While an improvement in the standalone level was primarily driven by better performance of the plantation segment, continued improvement in EOC's volumes and healthy capacity utilisation of the Vietnam plant further supported the consolidated performance. Healthy profitability and low cost of overall debt resulted in strong coverage indicators with an interest cover and net debt/OPBITDA at 7.5 times and 2.1 times, respectively in FY2021 compared to 4.9 times and 3.2 times, respectively in the previous fiscal. The liquidity remained strong with surplus cash and balance of ~Rs. 320 crore as on March 31, 2021. The capital structure of the company, both at the standalone as well as the consolidated levels, also remained healthy with a gearing of 0.07 times and 0.64 times as of end-FY2021, respectively. While debt for the standalone entity only comprises working capital loans, the consolidated debt includes term loans towards EOC business as well as the instant coffee plant in Vietnam. Moreover ~34% of the term debt in EOC's books is from subsidiaries of Tata Consumer Products Limited (TCPL, rated at [ICRA]AAA (Stable) and [ICRA] A1+), the ultimate parent. While a significant portion of the long-term debt of the consolidated entity (entirely on overseas books) is due for repayment in the near to medium term, proven ability of the company to refinance debt at favourable terms in the past provides additional comfort. The term loans on the books of Tata Coffee Vietnam have an extended repayment schedule, supporting coverage indicators going forward. In addition, with expected healthy accruals and low finance cost, the debt metrics and liquidity are expected to improve further in the current fiscal.

Diversified nature of operations, geographically diversified revenue base – TCL has a diversified revenue base with presence in roasted and ground (R&G) coffee, plantation coffee, instant coffee, tea and pepper segments. In FY2021, income from the US-based Eight O'clock Coffee (EOC) accounted for ~57% of the consolidated turnover of the company, followed by instant coffee (IC) at ~26% and plantation coffee (including pepper) at ~9%. The balance is contributed by tea, allied products and others. The share of instant coffee has improved in the previous two fiscals with a significant ramp up of the Vietnam operations. In the current fiscal, the Vietnam plant is running at optimum capacity, which is expected to further strengthen the operating profile. EOC is an established player in the US R&G coffee market. The performance of EOC has remained healthy, aided by volumes growth in FY2020 and FY2021. With easing of Covid-19 restrictions in the US market, EOC's performance is expected to remain strong in the current fiscal as well. Exports account for the major portion of the standalone income. While green coffee is exported primarily to the premium markets of Europe, instant coffee is exported to many countries / geographies including Russia / CIS, the African continent, Europe, Middle East and South East Asia.

Integrated nature of operations focus on quality – At the standalone level, TCL is a fully-integrated coffee company with its own coffee plantations, curing unit, R&G coffee facility and instant coffee production plants. The integrated nature of its operations mitigates the adverse effects of volatility in coffee prices. The company's focus on selling high quality value added and differentiated coffee results in higher realisations compared to market/terminal prices. More than 90% of the company's plantation coffee is exported, with the major portion exported to the premium markets of Europe. The company is also the exclusive supplier of superior quality Arabica beans to Tata Starbucks stores in India. The instant coffee remains the major revenue contributor with a share of more than 50% of the standalone revenues. Though the capacity utilisation level of the domestic ICD capacities has been healthy at ~90-95% in the past, it was slightly impacted in FY2021 owing to Covid restrictions. However, in the current year, the capacities are operating at optimum level. The sales of pepper had also improved in FY2021 compared to the previous year. In the tea segment, the company has increased its focus on producing better quality orthodox teas, the share of which has shown an increasing trend. In addition, a significant improvement in tea prices in FY2021 also supported the performance of the tea segment.

Status as a subsidiary of Tata Consumer Products Limited – TCL's status as a Tata Group company and a 57.48% subsidiary of TCPL impart considerable financial flexibility. TCL also enjoys significant operational and managerial linkages with its parent. TCL supplies R&G coffee to Tata Starbucks Private Limited and manufactures coffee under the brand, Tata Coffee Grand, which is marketed and distributed by TCPL.

Credit challenges

Susceptibility of plantation business to adverse agro-climatic conditions – The performance of the plantation businesses of coffee, tea and pepper remains exposed to agro-climatic risks, including incidents of pest attacks. While TCL has worked extensively to mitigate such risks, including adequate irrigation facilities, adverse weather conditions had impacted coffee production in the past, which in turn affected the standalone financial performance of the company. In FY2021, however, coffee production for both Arabica and Robusta variety had improved.

Exposure to volatile coffee prices; commoditised nature of the instant coffee business – While the integrated nature of operations mitigates the adverse effects of volatile coffee prices, the overseas operations of TCL, namely EOC, are exposed to fluctuation in prices of Arabica coffee, which is the primary raw material. At the standalone level too, TCL remains partially exposed to volatility in coffee prices. However, a healthy product portfolio, with focus on speciality and premium differentiated coffees, established relationships with customers and consistent and superior quality of the offerings are expected to support the business profile, going forward.

Liquidity position: Strong

TCL's consolidated liquidity position is expected to remain comfortable given the healthy cash flow generation, sizeable cash and liquid investments of around Rs. 320 crore as on March 31, 2021 and sufficient undrawn lines of credit. The company also enjoys considerable financial flexibility given its status as a TCPL subsidiary.

Rating sensitivities

Positive factors – An upgrade in the long-term rating looks unlikely in the near term.

Negative factors – The ratings may be downgraded if there is an unfavourable movement in coffee prices and/or a deterioration in performance in the EOC business, leading to subdued performance of the consolidated entity. Specific triggers for ratings downgrade would be Net Debt/OPBDITA above 1.75 times on a sustained basis.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology
Parent/Group Support	Parent/Group Company: Tata Consumer Products Limited TCL is a 57.48% subsidiary of TCPL, which is rated [ICRA]AAA(Stable) / [ICRA]A1+. ICRA expects TCPL to be willing to extend financial support to TCL, should there be a need, given its strategic importance to Tata Consumer Products Limited, and out of its need to protect its reputation. However, ICRA does not foresee any such requirement in the near to medium term.
Consolidation/Standalone	For arriving at the ratings, ICRA has considered the consolidated financials of Tata Coffee Limited. As on March 31, 2021, the company had four subsidiaries, enlisted in Annexure-2

About the company

TCL, a 57.48% subsidiary of Tata Consumer Products Ltd., is a fully integrated coffee company with its own coffee plantations, coffee-curing factories, R&G coffee facility and instant coffee production plants. With a total area of around 7,400 hectares under coffee cultivation, spread over two districts in Karnataka and one estate at Valparai in Tamil Nadu, TCL accounts for around ~3% of the total coffee produced in India. TCL also has six tea plantations located in South India, with a total area of around 2,400 hectares, producing around 5.5 million kg (MKg) of black tea. The instant coffee business of TCL is supported

by its manufacturing plants, with an installed capacity of ~ 8,400 TPA, located at Toopran (in Telangana) and Theni (in Tamil Nadu). TCL acquired the US-based Eight O’Clock Coffee Company (EOC) in June 2006. The acquisition was structured as a leveraged buyout with the entire equity of EOC being held by Consolidated Coffee Inc (CCI). TCL holds a 50.08% stake in CCI while the rest is held, directly and indirectly, by TCPL. In May 2019, TCL commissioned a 5,000 MT freeze-dried instant coffee plant in Vietnam.

Key financial indicators- Consolidated (audited)

TCL	FY2019	FY2020	FY2021
Operating Income (Rs. crore)	1811.8	1963.5	2263.2
PAT (Rs. crore)	106.9	141.0	211.5
OPBDIT/OI (%)	14.2%	16.2%	17.7%
RoCE (%)	9.1%	9.8%	11.2%
Total Outside Liabilities/Tangible Net Worth (times)	1.1	1.1	1.0
Total Debt/OPBDIT (times)	4.5	3.9	2.9
Interest Coverage (times)	5.6	4.9	7.5
DSCR (times)	3.8	3.2	2.8

PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation; ROCE: PBIT/Avg (Total Debt + Tangible Net Worth + Deferred Tax Liability - Capital Work in Progress); DSCR: (PBIT + Mat Credit Entitlements - Fair Value Gains through P&L - Non-cash Extraordinary Gain/Loss)/(Interest + Repayments made during the Year)

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Rating (FY2022)			Rating History for the Past 3 Years			
		Type	Amount Rated	Amount Outstanding (March 31, 2021)	Current Rating June 30, 2021	FY2021 June 26, 2020	FY2020 Jul 19, 2019	FY2019 May 31, 2018
1	Fund-based Bank Facilities	Long-Term/Short-Term	150.0	73.0	[ICRA]AA+(Stable)/[ICRA]A1+	[ICRA]AA (Stable)/[ICRA]A1+	[ICRA]AA (Stable)/[ICRA]A1+	[ICRA]AA(Positive)/[ICRA]A1+
2	Commercial Paper	Short-Term	30.0	-	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+

Complexity level of the rated instrument

Instrument	Complexity Indicator
Fund based-Bank Facility	Simple
Commercial Paper	Very 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: [Click Here](#)

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	Fund-based Bank Facilities	-	-	-	150.00	[ICRA]AA+(Stable)/[ICRA]A1+
Unplaced	Commercial Paper	Unplaced	NA	NA	30.00	[ICRA]A1+

Source: Company

Annexure-2: List of entities considered for consolidated analysis

Company Name	Ownership	Consolidation Approach
Consolidated Coffee Inc.	50.08%	Full Consolidation
Eight O'Clock Holdings Inc.	50.08%	Full Consolidation
Eight O'Clock Coffee Company	50.08%	Full Consolidation
Tata Coffee Vietnam Company Limited	100.00%	Full Consolidation

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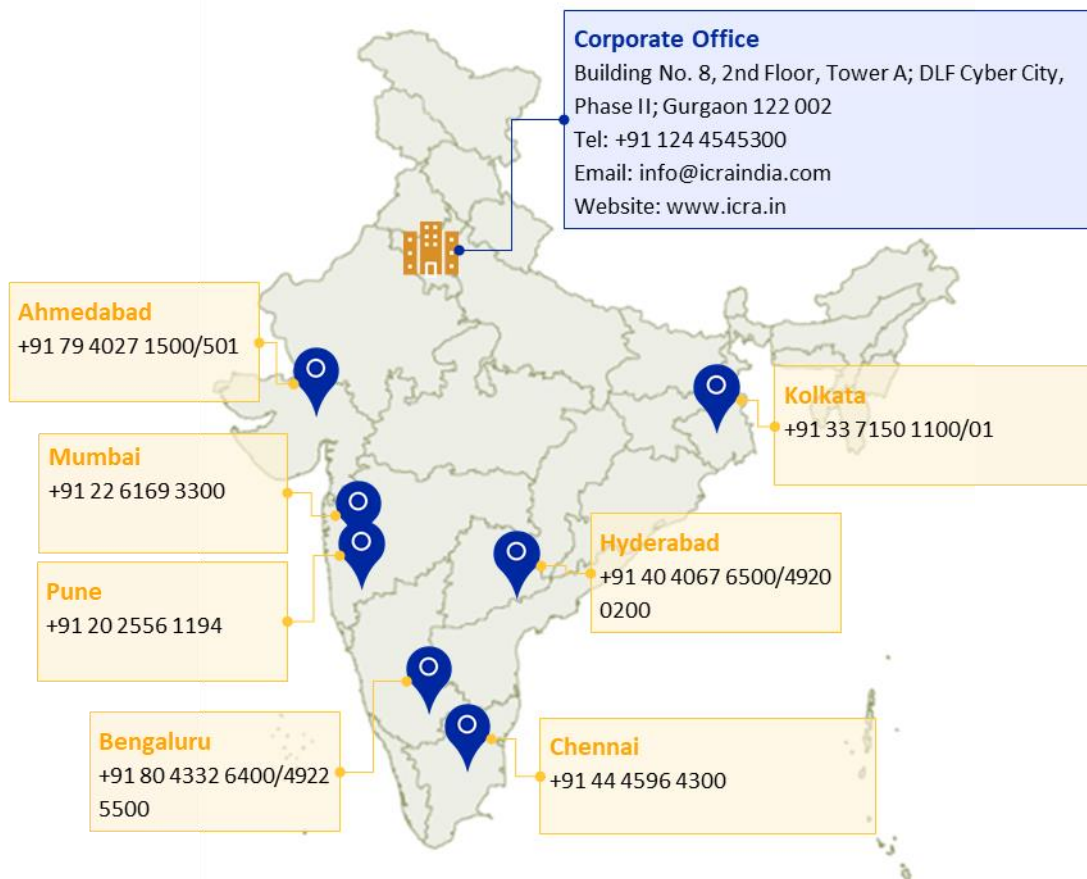


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