April 05, 2022 (Revised)

Tata Coffee Limited: Long-term rating placed under watch with positive implications; short-term rating reaffirmed

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+%/[ICRA]A1+; Long-term rating placed under watch with positive implications; short-term rating reaffirmed
Commercial Paper	30.00	30.00	[ICRA]A1+; reaffirmed
Total	**180.0**	**180.0**	

**Instrument details are provided in Annexure – 1*

% - Under watch with positive implications

Rationale

On March 29, 2022, Tata Coffee Limited (TCL) announced that the Board of Directors of the company has approved a Composite Scheme of Arrangement amongst TCL, Tata Consumer Products Limited (TCPL; rated [ICRA]AAA(Stable)/[ICRA]A1+) and TCPL Beverages and Foods Limited (TBFL). The scheme, inter alia, provides for the following:

1. Demerger of the demerged undertaking, comprising the Plantation Business of TCL, into TBFL for a consideration of one equity share of TCPL for every twenty two equity shares of TCL
2. Amalgamation of TCL, comprising the remaining business, with TCPL for a consideration of fourteen equity shares of TCPL for every fifty five equity shares of TCL

ICRA has taken note of this development and has placed the long-term rating of [ICRA]AA+ (pronounced ICRA double A plus) under watch with positive implications and reaffirmed the short-term rating at [ICRA]A1+ (pronounced ICRA A one plus). ICRA expects the proposed Composite Scheme of Arrangement to further strengthen the operational, financial and managerial linkages between TCL and TCPL.

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 March 31, 2021. A conservative capital structure along with the status of being a Tata Group company and a subsidiary of Tata Consumer Products Limited provides 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 uncertainties, notwithstanding the steps taken by the company to reduce such risks. In addition, the commoditized 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 utilization 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.

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 as well – In FY2021, TCL's financial performance witnessed considerable improvement with healthy profits and cash generation, both at the standalone and consolidated levels. While the improvement in standalone performance was primarily driven by better performance of plantation segment, the continued improvement in EOC's volumes and healthy capacity utilisation of Vietnam plant, further supported the consolidated performance. Healthy profitability and low cost of overall debt resulted in strong coverage indicators with interest cover and net debt/OPBITDA at 7.5 times and 2.1 times respectively in FY2021 as 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 31st March 2021. The capital structure of the company, both at the standalone as well as the consolidated levels, also remained healthy with 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 also includes term loans towards the instant coffee plant in Vietnam as well as loans from subsidiaries of Tata Consumer Products Limited (TCPL, rated at [ICRA]AAA (stable) and [ICRA] A1+), the ultimate parent. 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. 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 (incl Pepper) at ~9%. The balance is contributed by tea, allied products and others. The share of Instant Coffee has improved in previous two fiscals with the 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 restrictions in US market, EOC 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 number of 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 the 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 a major portion 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 as 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, the 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 imparts 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, the 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 is exposed to fluctuation in Arabica coffee prices, 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 specialty 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 – Please refer to the following link for the previous detailed rationale that captures the rating sensitivities: Click here

Analytical approach

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

About the company

Tata Coffee Limited (TCL), a 57.48% subsidiary of Tata Consumer Products Limited (TCPL; rated [ICRA]AAA(Stable)/[ICRA]A1+), is a fully integrated coffee company with its own coffee plantations, coffee curing facilities, roast & ground coffee facility and instant coffee production plants. With a total area of ~7,400 hectares under coffee cultivation, spread over two districts in Karnataka and one estate in Valparai in Tamil Nadu, TCL accounts for ~3% of the total coffee produced in India. The company also has six tea plantations in South India with area under cultivation of ~2,400 hectares, producing ~5.5 million kg 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 (Telangana) and Theni (Tamil Nadu). TCL acquired the US-based Eight O'Clock Coffee Company (EOC) in June 2006 and commissioned a 5,000 MTPA freeze-dried instant coffee plant in Vietnam in May 2019.

Key financial indicators (audited)

TCL Consolidated	FY2020	FY2021
Operating Income (Rs. crore)	1,963.5	2,263.2
PAT (Rs. crore)	141.0	211.5
OPBDIT/OI (%)	16.2%	17.7%
PAT/OI (%)	9.8%	11.2%
Total Outside Liabilities/Tangible Net Worth (times)	1.1	1.0
Total Debt/OPBDIT (times)	3.9	2.9
Interest Coverage (times)	4.9	7.5

PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current Rating (FY2023)				Chronology of Rating History for the past 3 years		
		Type	Amount Rated (Rs. crore)	Amount Outstanding as of Mar 31, 2021 (Rs. crore)	Date & Rating in	Date & Rating in FY2022	Date & Rating in FY2021	Date & Rating in FY2020
					Apr 05, 2022	Jun 30, 2021	Jun 26, 2020	Jun 19, 2019
1	Fund based bank facilities	Long-term/ short-term	150.00	-	[ICRA]AA+%/ [ICRA]A1+	[ICRA]AA+ (Stable)/ [ICRA]A1+	[ICRA]AA (Stable)/ [ICRA]A1+	[ICRA]AA (Stable)/ [ICRA]A1+
2	Commercial Paper	Short-term	30.00	-	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+

%= Under watch with positive implications

Complexity level of the rated instrument

Instrument	Complexity Indicator
Fund based bank facilities	Simple
Commercial Paper	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, is available on ICRA's website: 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	Fund based bank facilities	NA	NA	NA	150.00	[ICRA]AA+%/[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

Source: *Annual Report FY2021*

Note: *ICRA has taken a consolidated view of the parent (TCL) and its subsidiaries while assigning the ratings.*

Corrigendum:

Rationale dated April 05, 2022 has been corrected with revisions as detailed below:

The analytical approach table on Page No. 3 has been updated to include ICRA's Rating Approach – Consolidation and ICRA's Rating Approach – Implicit Support of Parent or Group.

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 8377850550
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