

December 26, 2023

## Tata Consumer Products Limited: Ratings reaffirmed

### Summary of rating action

| Instrument*                                                | Previous Rated Amount<br>(Rs. crore) | Current Rated Amount<br>(Rs. crore) | Rating Action                            |
|------------------------------------------------------------|--------------------------------------|-------------------------------------|------------------------------------------|
| Long-term debt – 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                                           | 715.00                               | 715.00                              | [ICRA]A1+; reaffirmed                    |
| <b>Total</b>                                               | <b>1,489.00</b>                      | <b>1,489.00</b>                     |                                          |

\*Instrument details are provided in Annexure-I

### Rationale

ICRA has taken a consolidated view of 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 healthy operating performance in FY2023 and H1 FY2024 and ICRA's expectations of continued healthy performance over the medium term while maintaining a favourable financial risk profile. TCPL's consolidated operating income recorded a growth of 11% YoY in FY2023 and 12% YoY in H1 FY2024 on the back of steady demand across its products portfolio coupled with improving realisations for most products. The company recorded an operating profit margin of 13.4% in FY2023, which improved to 14.5% in H1 FY2024 aided by better gross margin and operating leverage. ICRA expects TCPL's performance to remain steady over the coming years on the back of steady demand for its core product portfolio (tea, coffee and salt) and increasing contribution from its growth portfolio (staples, ready-to-drink liquids, breakfast cereals, snacks, ready-to-eat products, among others) translating into healthy cash flow from operations. In addition to the merger of Tata Coffee Limited (which would become effective from Q4 FY2024), the company has also announced its plans for the merger of its three domestic subsidiaries – Tata Soulful, Tata Smartfoodz and NourishCo Beverages – with TCPL, subject to necessary approvals. This is expected to further simplify its group structure.

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 22.5 times and TOL/TNW of 0.3 times in FY2023 along with a substantial net cash position.

ICRA, however, notes that the entity's overall return on capital employed (RoCE)<sup>1</sup> continues to be impacted by the high level 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 exit 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

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

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 dominant brand presence in the beverages and food segments coupled with its key focus on increasing market penetration and innovations (both in domestic and global markets). ICRA further expects that TCPL will continue to maintain a conservative capital structure and strong debt coverage indicators, aided by healthy cash flow from operations.

## 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, which include its brand strength, established distribution network, wide product portfolio, improving market reach with 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. TCPL's entrenched presence in the domestic branded packet tea market supports its overall performance and is likely to strengthen the retail presence and brand awareness of its other food and beverages offerings.

**Significant geographical and product diversification 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 100% acquisition of Tata Soufull (millet-based snacks), NourishCo Beverages (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 strong debt coverage metrics. At the standalone level, TCPL's outstanding debt (excluding lease liabilities) comprised working capital borrowings of Rs. 20 crore as on September 30, 2023. At the consolidated level, TCPL's total debt (excluding lease liabilities) of Rs. 1,075 crore includes term loans of Rs. 242 crore (in Tata Coffee Vietnam Company Limited), translating into a gearing of 0.1 times as on September 30, 2023. Further, the company had a sizeable cash and liquid investments portfolio worth more than Rs. 3,500 crore at the consolidated level as on September 30, 2023. TCPL's debt protection metrics remain strong with an interest cover of 20.1 times in H1 FY2024. A conservative capital structure along with a substantial cash and liquid investments portfolio and TCPL's status as a leading company of the Tata Group lend a high degree of financial flexibility.

### 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 the 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 except in FY2023 when the margin moderated due to cost pressure and adverse currency movement. Nevertheless, 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 goodwill<sup>2</sup> 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 preference and taste 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

**Environmental considerations** – TCPL remains exposed to physical climate risks as its key raw materials including 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. Further, 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, the company has a sustainability strategy encompassing initiatives towards sustainable sourcing, natural resource management, circular economy and community development which are expected to mitigate the risks to an extent.

**Social considerations** – TCPL is exposed to social risks such as compliance (or the 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. Most 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. 3,500 crore at the consolidated level and more than Rs. 1,800 crore at the standalone level as on September 30, 2023. 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, 2023.

### Rating sensitivities

**Positive factors** – Not applicable

**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,

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

leading to weakening of the capital structure or the 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 | <a href="#">Corporate Credit Rating Methodology</a><br><a href="#">Rating Methodology - FMCG</a>                                                                                                              |
| Parent/Group support            | Not Applicable                                                                                                                                                                                                |
| Consolidation/Standalone        | For arriving at the ratings, ICRA has considered the consolidated financial statements of TCPL, including its subsidiaries, step-down subsidiaries, associates and joint ventures, 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 overseas. It is among the largest tea companies globally and has a significant presence in many markets including India, Canada, the US, the UK and Australia. In February 2020, TCPL acquired the consumer products business of Tata Chemicals Limited comprising branded salt, pulses, spices and other food products. In FY2023, the company derived ~63% of its consolidated revenue from its India branded business segment, ~26% from its international branded business segment and the balance from the non-branded business.

## Key financial indicators

| Consolidated                                         | FY2022<br>(audited)                             | FY2023<br>(audited) | H1 FY2024<br>(unaudited) |
|------------------------------------------------------|-------------------------------------------------|---------------------|--------------------------|
| Operating income                                     | 12,425                                          | 13,783              | 7,475                    |
| PAT                                                  | 1,079                                           | 1,347               | 718                      |
| OPBDIT/OI                                            | 13.8%                                           | 13.4%               | 14.5%                    |
| PAT/OI                                               | 8.7%                                            | 9.8%                | 9.6%                     |
| Total outside liabilities/Tangible net worth (times) | 0.3                                             | 0.3                 | 0.3                      |
| Total debt/OPBDIT (times)                            | 0.8                                             | 0.9                 | 0.7                      |
| Net debt/OPBDIT (times)                              | The company continue to have a net cash surplus |                     |                          |
| Interest coverage (times)                            | 26.1                                            | 22.5                | 20.1                     |

PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation; Amount in Rs crore

Note: All financial ratios as per ICRA's calculation

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

## Any other information: None

## Rating history for past three years

| Instrument                              | Type                 | Current rating (FY2024)  |                                                   | Chronology of rating history for the past 3 years |                              |                              |                              |                              |
|-----------------------------------------|----------------------|--------------------------|---------------------------------------------------|---------------------------------------------------|------------------------------|------------------------------|------------------------------|------------------------------|
|                                         |                      | Amount rated (Rs. crore) | Amount outstanding as of Sep 30, 2023 (Rs. crore) | Date & rating in FY2024                           | Date & rating in FY2023      |                              | Date & rating in FY2022      | Date & rating in FY2021      |
|                                         |                      |                          |                                                   | Dec 26, 2023                                      | Dec 19, 2022                 | Apr 05, 2022                 | Dec 23, 2021                 | Dec 31, 2020                 |
| 1 Long-term debt (NCDs)                 | Long-term            | 350.00                   | -                                                 | [ICRA]AAA (Stable)                                | [ICRA]AAA (Stable)           | [ICRA]AAA (Stable)           | [ICRA]AAA (Stable)           | [ICRA]AAA (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]AAA (Stable)/[ICRA]A1+ |
| 3 Non-fund based facilities             | Short-term           | 24.00                    | -                                                 | [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+                    |

## Complexity level of the rated instruments

| Instrument                                                 | Complexity Indicator |
|------------------------------------------------------------|----------------------|
| Long-term debt – Non-Convertible Debentures                | Simple               |
| Long-term/short-term fund based working capital facilities | Simple               |
| Short-term non-fund based facilities                       | Very 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 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   |
|--------------|---------------------------------------|------------------|-------------|--------------|--------------------------|------------------------------|
| N.A.*        | Long-term debt (NCDs)                 | N.A.             | N.A.        | N.A.         | 350.00                   | [ICRA]AAA (Stable)           |
| N.A.         | Fund based working capital facilities | N.A.             | N.A.        | N.A.         | 400.00                   | [ICRA]AAA (Stable)/[ICRA]A1+ |
| N.A.         | Non-fund based facilities             | N.A.             | N.A.        | N.A.         | 24.00                    | [ICRA]A1+                    |
| INE192A14358 | Commercial Paper                      | Dec 11, 2023     | 7.45%       | Mar 07, 2024 | 50.00                    | [ICRA]A1+                    |
| INE192A14366 | Commercial Paper                      | Dec 14, 2023     | 7.42%       | Mar 13, 2023 | 100.00                   | [ICRA]A1+                    |
| N.A.*        | Commercial Paper                      | N.A.             | N.A.        | N.A.         | 565.00                   | [ICRA]A1+                    |

Source: Company; \*Yet to be placed

Note: 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                                     | TCPL Ownership | Consolidation Approach |
|--------------------------------------------------|----------------|------------------------|
| <b>Subsidiaries</b>                              |                |                        |
| Tata Consumer Products UK Group Limited          | 100.00%        | Full consolidation     |
| Tata Global Beverages Holdings Limited (Dormant) | 100.00%        | Full consolidation     |
| Tata Global Beverages Services Limited (Dormant) | 100.00%        | Full consolidation     |
| Tata Consumer Products GB Limited                | 100.00%        | Full consolidation     |
| Tata Consumer Products Overseas Holdings Limited | 100.00%        | Full consolidation     |
| Tata Global Beverages Overseas Limited (Dormant) | 100.00%        | Full consolidation     |
| Lyons Tetley Limited (Dormant)                   | 100.00%        | Full consolidation     |
| Drassington Limited (Dormant)                    | 100.00%        | Full consolidation     |
| Teapigs Limited                                  | 100.00%        | Full consolidation     |
| Teapigs US LLC                                   | 100.00%        | Full consolidation     |
| Stansand Limited (Dormant)                       | 100.00%        | Full consolidation     |
| Stansand Brokers Limited (Dormant)               | 100.00%        | Full consolidation     |
| Stansand (Africa) Limited                        | 100.00%        | Full consolidation     |
| Stansand (Central Africa) Limited                | 100.00%        | Full consolidation     |
| Tata Consumer Products Polska.sp.zo.o            | 100.00%        | Full consolidation     |
| Tata Consumer Products US Holdings Inc.          | 100.00%        | Full consolidation     |
| Tetley USA Inc.                                  | 100.00%        | Full consolidation     |
| Tata Waters LLC                                  | 100.00%        | Full consolidation     |
| Good Earth Corporation                           | 100.00%        | Full consolidation     |
| Good Earth Teas Inc.                             | 100.00%        | Full consolidation     |
| Tata Consumer Products Canada Inc.               | 100.00%        | Full consolidation     |
| Tata Consumer Products Australia Pty. Limited    | 100.00%        | Full consolidation     |
| Earth Rules Pty. Limited (Dormant)               | 100.00%        | Full consolidation     |
| Joekels Tea Packers (Proprietary) Limited*       | 75.00%         | Full consolidation     |
| Tetley ACI (Bangladesh) Limited**                | 100.00%        | Full consolidation     |

| Company Name                                         | TCPL Ownership | Consolidation Approach |
|------------------------------------------------------|----------------|------------------------|
| Tata Global Beverages Investment Limited (Dormant)   | 100.00%        | Full consolidation     |
| Campestres Holdings Limited                          | 100.00%        | Full consolidation     |
| Kahutara Holdings Limited                            | 100.00%        | Full consolidation     |
| Suntco Holdings Limited                              | 100.00%        | Full consolidation     |
| Onomento Co Limited                                  | 100.00%        | 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 Soufull 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     |
| <b>Associates</b>                                    |                |                        |
| Amalgamated Plantation Private Limited               | 41.03%         | Equity Method          |
| Kanan Devan Hills Plantation Company Private Limited | 28.52%         | Equity Method          |
| <b>Joint Ventures</b>                                |                |                        |
| Tetley Clover (Private) Limited^^                    | 50.00%         | Equity Method          |
| Tata Starbucks Private Limited                       | 50.00%         | Equity Method          |

Source: TCPL annual report FY2023

\*converted to subsidiary w.e.f. December 28, 2022

\*\*converted to subsidiary w.e.f. February 09, 2023

^Yet to commence operations

^^Under liquidation

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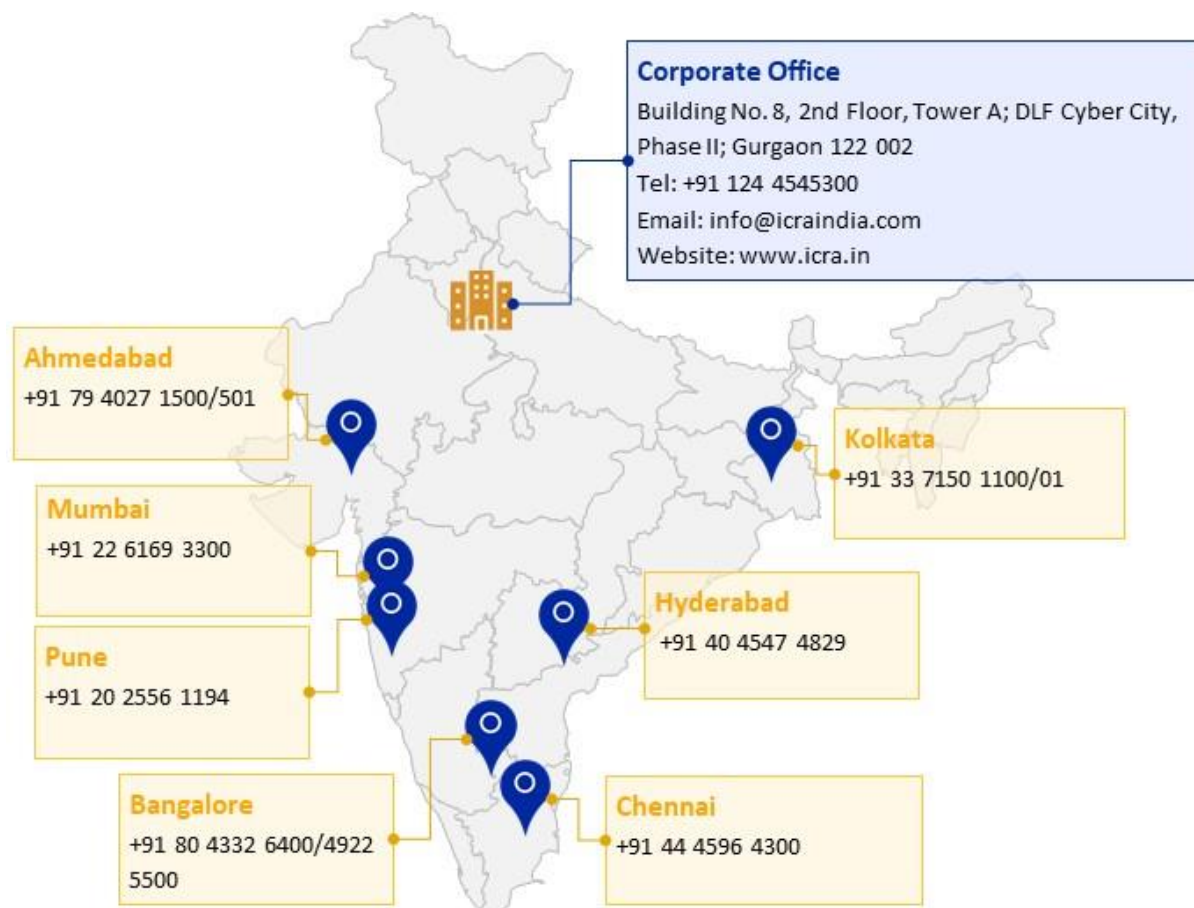


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