Tata Global Beverages Limited

October 25, 2018

Summary of rated instruments

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]AA+ (Stable) reaffirmed
Fund-based working capital limits#	400.00	400.00	[ICRA]AA+ (Stable)/ [ICRA]A1+ reaffirmed
Non-fund based limits	24.00	24.00	[ICRA]A1+ reaffirmed
Short-term debt (including Commercial Paper)**	715.00	715.00	[ICRA]A1+ reaffirmed
Total	**1489.00**	**1489.00**	

*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

Rating action

ICRA has reaffirmed the long-term rating of [ICRA]AA+ (pronounced ICRA double A plus) to the Rs. 350-crore[1] proposed long-term debt facilities (including non-convertible debentures) and Rs. 400-crore fund-based bank facilities of Tata Global Beverages Limited (TGBL) [2]. ICRA has also reaffirmed the short-term rating of [ICRA]A1+ (pronounced ICRA A one plus) to the Rs. 715-crore short-term debt (including Commercial Paper) programme and Rs. 24-crore non-fund based bank limits of TGBL. The Rs 400-crore fund-based facilities are interchangeable with short-term facilities, for which an [ICRA]A1+ rating is applicable. The outlook on the long-term rating is Stable.

Rationale

The rating action considers the sustained dominant position of TGBL in the domestic branded packet tea market, which, in turn, has resulted in continuous healthy operational and financial performance of TGBL, driven by volume growth and healthy contribution levels. In FY2018, TGBL's standalone operating income increased by ~5% to Rs. 3,217 crore mainly due to growth in volumes. The standalone operating profit margin (OPM) improved to ~15.5% in FY2018 from ~11.8% in FY2017 on account of better cost management. The consolidated OPM also increased, although at a much lower scale, by 38 bps to ~12.2% in FY2018, driven by a higher standalone profitability and a marginal improvement in TGBL's overseas operations, which offset the impact of a subdued performance of the non-branded coffee operations. The ratings also factor in the high level of financial flexibility that TGBL derives from its conservative capital structure and its status as one of the leading companies of the Tata Group. As of end-FY2018, TGBL's gearing stood at 0.02 times and 0.13 times at the standalone and consolidated levels, respectively. The conservative capital structure, along with a substantial cash and liquid investment portfolio, provide a high degree of financial flexibility. The company's debt-coverage indicators remain strong with interest cover of ~19.5 times in FY2018 at the consolidated level. Going forward, the company's debt protection metrics is expected to remain strong and the capital structure conservative. The long-term

[1] *100 lakh = 1 crore = 10 million*

[2] *For complete rating scale and definitions, please refer to ICRA's website www.icra.in or other ICRA Rating Publications*

rating, however, also factors in the subdued business returns at the consolidated level. The consolidated return on capital employed (RoCE), notwithstanding some improvement in the last two years, continues to be impacted by tepid demand conditions in some of the developed markets, where the overall environment remains challenging. ICRA, however, notes that the company has undertaken product innovations to be present in segments witnessing healthy demand, like non-black tea category, which is likely to benefit the company going forward. The company has further restructured its international operations in order to unlock synergies for the business and streamline operations. This, coupled with the recent exits from the loss-making businesses, is expected to lead to further improvement in the consolidated operating profitability, operating cash flows and overall business returns, going forward. The company has, in the past, entered into strategic joint ventures with Starbucks and Pepsico. While such businesses have been marginal contributors to the company's overall scale of operations, ICRA expects these alliances to contribute more meaningfully to TGBL's overall business growth in the medium to long term.

Outlook: Stable

The Stable outlook reflects ICRA's expectation that TGBL would continue to benefit from its established brand presence in the beverage industry along with its focus on innovation and increased market penetration both on national and global levels. The outlook may be revised to Positive if an improved performance of the overseas businesses leads to a substantial growth in revenue, profitability and business returns at the consolidated level. The outlook may be revised to Negative if there is a significant deterioration in profitability on a sustained basis, or if there is any major debt-funded capital expenditure / inorganic growth undertaken by the company.

Key rating drivers

Credit strengths

Leading brand in the domestic packet-tea industry - TGBL continues to be the largest branded packet tea company in India in volume terms. Volumes of TGBL'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. The company has established brands across all categories of packet teas, namely economy, popular and premium.

Significant geographical and product diversification of revenues across beverage classes on a consolidated basis, achieved through organic growth, acquisitions and strategic alliances - Apart from tea brands in India, TGBL also has an established presence in various beverages across a number of major markets globally, with well established brands like Tetley, Eight O'Clock (EOC) and Good Earth. Branded tea constituted ~72% of the overall consolidated turnover of the company in FY2018, branded coffee ~16%, and other segments the rest, including the non-branded businesses.

Tata Starbucks Private Limited, a joint venture between TGBL and Starbucks, has witnessed a healthy growth in its topline. The venture had 119 outlets as of end-June 2018. TGBL, in the recent past, had also formed a joint venture with PepsiCo India Holdings Private Limited. The JV named NourishCo Beverages Limited has launched various nutrient-enhanced hydration products such as Tata Water Plus and Tata Gluco Plus.

In terms of geographical distribution of TGBL's branded business, South Asia (mainly India) accounted for ~49% in FY2018, Europe, Middle East and Africa (EMEA) accounted for ~22% and Canada, America and Australia (CAA) accounted for ~29%.

Conservative capital structure; considerable financial flexibility emanating from large cash and liquid investment portfolio and status as a leading company of the Tata Group - TGBL has a conservative capital structure with a gearing of only 0.02 times as of end-FY2018 at the standalone level. TGBL, on a standalone basis, has only working-capital facilities. ICRA notes that on a consolidated basis too, TGBL has a conservative capital structure with a gearing of 0.13 times as of end-FY2018. Of the total loan of ~Rs. 1,068 crore at the consolidated level, ~Rs. 667 crore is long-term in nature. Such loans have a favourable repayment schedule. Further, the large cash and liquid investments of ~Rs. 1,807 crore provide considerable financial flexibility.

Credit challenges

Overall return on capital employed impacted by subdued performance in some of the overseas entities – The performance of TGBL's overseas entities under Tata Global Beverages Group Limited (TGBGL) has been impacted by declining demand trend in the black tea market and high competitive intensity in the developed market. Subdued performance of the overseas businesses has impacted the consolidated RoCE to an extent. However, the company has increased its focus on pursuing opportunities through innovative products which are witnessing traction. ICRA also notes that the company has increased its sale of value-added products as well as introduced new products in line with its focus on premiumisation. The company has further restructured its international operations in order to unlock synergies for the business and streamline operations. This, coupled with the recent exits from the loss-making businesses, is expected to lead to further improvement in the consolidated operating profitability, operating cash flows and overall business returns, going forward.

Margins exposed to fluctuating bulk tea prices; however, the company's ability to protect contribution levels provides some comfort – In the domestic market, TGBL is exposed to the volatility in bulk tea prices, which in turn impacts its contribution margins. Nonetheless, its established brand presence, procurement strategies and ability to pass on increase in bulk tea prices to the consumers, mitigate such risks.

Analytical approach: For arriving at the ratings, ICRA has considered the consolidated performance of TGBL. ICRA has applied its rating methodologies as indicated below**.**

Links to applicable criteria:

Corporate Credit Rating Methodology

About the company

TGBL, one of the leading companies of the Tata Group, is the largest company in the domestic packet tea industry. TGBL also has an established presence in various beverages across a number of major markets, globally. TGBL is the second largest tea company in the world. In addition to South Asia (mainly India), it also has presence in various other geographies including Canada, North America, Australia, Europe, Middle East and Africa.

In FY2018, the company reported a net profit of Rs. 534.32 crore on an operating income of Rs. 3,217.32 crore compared to a net profit of Rs. 276.00 crore on an operating income of Rs. 3,063.89 crore in the previous year. On a consolidated basis, TGBL reported a net profit of Rs. 567.26 crore on an operating income of Rs. 6,815.35 in FY2018 compared to a net profit of Rs. 463.65 crore on an operating income of Rs. 6,779.55 crore in FY2017.

Key financial indicators (audited- consolidated)

	FY2017	FY2018	Q1 FY2018	Q1 FY2019
Operating Income (Rs. crore)	6779.55	6815.35	1704.42	1802.59
PAT (Rs. crore)	463.65	567.26	142.97	133.60
OPBDIT/OI (%)	11.85%	12.23%	14.33%	13.80%
RoCE (%)	9.10%	9.42%		
Total Debt/TNW (times)	0.11	0.13		
Total Debt/OPBDIT (times)	0.98	1.28		
Interest coverage (times)	8.78	19.49	22.08	19.79

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for last three years:

		Current Rating (FY2019)				Chronology of Rating History for the Past 3 Years		
	Instrument	Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	Date & Rating October 2018	Date & Rating in FY2018 October 2017	Date & Rating in FY2017 November 2016	Date & Rating in FY2016 November 2015
1	Long-term debt (including non-convertible debentures)	Long Term	350	-*	[ICRA]AA+ (Stable)	[ICRA]AA+ (Stable)	[ICRA]AA+ (Stable)	
2	Fund-based working capital limits##	Long Term/ Short Term	400.00	NA	[ICRA]AA+ (Stable)/ [ICRA]A1+	[ICRA]AA+ (Stable)/ [ICRA]A1+	[ICRA]AA+ (Stable)/ [ICRA]A1+	[ICRA]AA+ (Stable)/ [ICRA]A1+
3	Non-fund based limits	Short Term	24.00	NA	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+
4	Short-term debt (including CP)**	Short Term	715.00	NA	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+

*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

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 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	Long-term debt (including non-convertible debentures)*	-	-	-	325.00	[ICRA]AA+(stable)
NA	Fund-based working capital limits	-	-	-	400.00	[ICRA]AA+(stable)/ [ICRA]A1+
NA	Non-fund based limits	-	-	-	24.00	[ICRA]A1+
NA	Short term debt (including CP)**	-	-	-	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 Global Beverages Limited

ANALYST CONTACTS

Jayanta Roy
+91 33 7150 1120
jayanta@icraindia.com

Kaushik Das
+91 33 7150 1104
kaushikd@icraindia.com

Subholakshmi Bose
+91 33 7150 1219
subholakshmi.bose@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:

+91-124-2866928 (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

Corporate Office
Building No. 8, 2nd Floor, Tower A; DLF Cyber City, Phase II; Gurgaon 122 002
Tel: +91 124 4545300
Email: info@icraindia.com
Website: www.icra.in

Registered Office
1105, Kailash Building, 11th Floor; 26 Kasturba Gandhi Marg; New Delhi 110001
Tel: +91 11 23357940-50

Branches

Mumbai	+ (91 22) 24331046/53/62/74/86/87
Chennai	+ (91 44) 2434 0043/9659/8080, 2433 0724/ 3293/3294,
Kolkata	+ (91 33) 2287 8839 /2287 6617/ 2283 1411/ 2280 0008,
Bangalore	+ (91 80) 2559 7401/4049
Ahmedabad	+ (91 79) 2658 4924/5049/2008
Hyderabad	+ (91 40) 2373 5061/7251
Pune	+ (91 20) 6606 9999