November 25, 2019

Tata Global Beverages Limited: Ratings reaffirmed

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
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

Rationale

The rating action considers the sustained dominant position of TGBL in the domestic branded packet tea market, stable performance in FY2019 and a healthy improvement in performance in H1 FY2020. The ratings also factor in the high level of financial flexibility that TGBL derives from its conservative capital structure, substantial cash and liquid investments and its status as one of the leading companies of the Tata Group. The long-term 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 recent years, continues to be impacted by category trends in some of the developed markets, where the overall environment remains challenging. ICRA, however, notes that the company has undertaken product innovations and investment behind brands which is likely to benefit the operating profitability.

While reaffirming the ratings, ICRA has taken note that TGBL would be acquiring the consumer products business of Tata Chemicals Limited (TCL), comprising the salt business under the Tata Salt brand, spices, pulses and other food products under Tata Sampann brand. The consideration would be an all-equity deal whereby 1.14 shares of TGBL will be issued for one TCL share held. This acquisition would lead to further diversification of cashflows for the company, thus strengthening its operating profile. However, ICRA estimates the overall business returns to be remain subdued in the near to medium term.

The Stable outlook reflects ICRA's expectation that TGBL would benefit from the proposed acquisition of the consumer products vertical which would augment its cash flows. This, along with its established brand presence in the beverage industry and its focus on innovation and increased market penetration, both on national and global levels, would support the company's credit profile going forward. Going forward, the company's debt protection metrics is expected to remain strong and the capital structure conservative.

Key rating drivers

Credit strengths

Leading brand in the domestic packet-tea industry - TGBL is a leading branded packet tea company in India. 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. In the current year, the company acquired the packet tea business of Dhunseri Tea & Industries Limited for Rs. 101 crore. This acquisition would enable TGBL to expand its market presence in Western India going forward.

Potential synergies accruing from the proposed merger of Tata Chemical's consumer product business – The proposed acquisition of the consumer products business of TCL by TGBL comprises sourcing, packaging, marketing, distribution and sales of salt under the brand 'Tata Salt', and spices, pulses and other food products under the brand 'Tata Sampann'. TGBL would be able to diversify its cash flows and expand its product basket in the fast moving consumer goods market, in addition to benefits arising from synergies on supply chain and better economies of scale. Post the deal, the company would be renamed as Tata Consumer Products Limited. The company has received most of the approvals and it is expected to conclude the transaction by end of this fiscal.

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 ~71% of the overall consolidated turnover of the company in FY2019, branded coffee ~17%, and the balance in other segments including the non-branded businesses. The company also has a number of Joint Ventures, both in India and overseas. Tata Starbucks Private Limited, a joint venture between TGBL and Starbucks, has witnessed a healthy growth in its topline. The venture had 163 outlets as of end-September 2019. The company also has 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.

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 nil gearing of end-FY2019 at the standalone level. ICRA notes that on a consolidated basis too, TGBL has a conservative capital structure with a gearing of 0.14 times as of end-FY2019. With the acquisition of the consumer products business of TCL being funded through an all-equity deal, the capital structure would remain conservative. Of the total loan of ~Rs. 1,141 crore at the consolidated level, ~Rs. 811 crore is long-term in nature. Such loans have a favourable repayment schedule. Further, the company has large cash and liquid investments to the tune of ~Rs. 1,616 crore as of end-FY2019. Adjusting for the same, net debt turns negative. The conservative capital structure, along with substantial cash and liquid investment portfolio and status as a leading company of the Tata Group, provide a high degree of financial flexibility.

Credit challenges

Overall return on capital employed to remain subdued - 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 over the last few years. Subdued performance of the overseas businesses in the past impacted the consolidated RoCE to an extent. However, the company has increased its focus on pursuing opportunities through new innovative products and strengthening of brands which are witnessing traction. This, coupled with restructuring of the international operations and business consolidation, has led to improvement in the performance of the overseas entities in the current financial year. Such a trend is expected to continue going forward. Notwithstanding the positive impact of the same on the RoCE, ICRA expects that the overall return would be impacted in the near to medium term because of the large consideration for the acquisition of the consumer products business of TCL.

Margins exposed to fluctuating bulk tea prices although company's ability to protect margins provides some comfort; demand conditions in developed markets remain tepid – 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. At the consolidated level, some of the geographies that TGBL is present in have been witnessing tepid demand conditions. TGBL has undertaken product innovations and strengthening of brands to counter the same.

Liquidity position: Strong

The company's liquidity profile remains strong, aided by a sizeable cash and liquid investment portfolio, healthy cash flow generation and undrawn bank lines. TGBL's standalone and consolidated cash and liquid investment balance stood at Rs. 972 crore and Rs. 1,616 crore, respectively as of end-FY2019. Moreover, the working capital utilisation remains low, compared to secured/unsecured fund-based facilities from banks.

Rating sensitivities

Positive triggers – The long-term rating may be upgraded if there is substantial improvement in the consolidated RoCE of the company while other financial parameters dot not show any significant deterioration

Negative triggers – The ratings maybe downgraded if there is any major debt-funded capital expenditure / inorganic growth undertaken by the company which leads to a weakening of the capital structure with consolidated Net debt/OPBITDA increasing to over 1.5 times.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology
Parent/Group Support	Not Applicable
Consolidation/Standalone	For arriving at the ratings, ICRA has considered the consolidated financials of TGBL. As on March 31, 2019, the company had 39 subsidiaries, three associates and six JVs, that have been enlisted in Annexure-2.

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 FY2019, the company reported a net profit of Rs. 410.93 crore on an operating income of Rs. 3,429.66 crore compared to a net profit of Rs. 534.32 crore on an operating income of Rs. 3,217.32 crore in the previous year. On a consolidated basis, TGBL reported a net profit of Rs. 473.83 crore on an operating income of Rs. 7,251.50 in FY2019 compared to a net profit of Rs. 567.26 crore on an operating income of Rs. 6,815.35 crore in FY2018.

Key financial indicators (audited- consolidated)

	FY2018	FY2019	H1 FY2019	H1 FY2020
Operating Income (Rs. crore)	6,815.35	7,251.50	3,563.46	3,731.19
PAT (Rs. crore)	567.26	473.83	258.69	292.34
OPBDIT/OI (%)	12.23%	11.07%	11.66%	13.39%
RoCE (%)	9.42%	8.74%		
Total Outside Liabilities/Tangible Net Worth (times)	0.31	0.30		
Net Debt*/OPBDIT (times)	The company is net debt negative			
Interest Coverage (times)	19.49	15.30	17.28	13.04
DSCR	9.72	11.12		

Source: TGBL
**Net Debt = (Gross Debt less cash & cash equivalent and liquid investments)*

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for last three years:

	Instrument	Current Rating (FY2020) Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	Date & Rating 25-Nov-2019	Chronology of Rating History for the Past 3 Years: Date & Rating in FY2019 25-Oct-2018	Date & Rating in FY2018 6-Oct-2017	Date & Rating in FY2017 29-Nov-2016
1	Long-term debt (including non-convertible debentures)	Long Term	350	-*	[ICRA]AA+ (Stable)	[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	Commercial Paper**	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)*	-	-	-	350.00	[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	Commercial Paper*	-	-	-	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

Annexure-2: List of entities considered for consolidated analysis

Company Name	Ownership	Consolidation Approach
Tata Global Beverages Group Ltd	89.10%	Full Consolidation
Tata Global Beverages Holdings Ltd	89.10%	Full Consolidation
Tata Global Beverages Services Ltd	89.10%	Full Consolidation
Tata Global Beverages GB Ltd	89.10%	Full Consolidation
Tata Global Beverages Overseas Holdings Ltd	89.10%	Full Consolidation
Tata Global Beverages Overseas Ltd	89.10%	Full Consolidation
Lyons Tetley Limited	89.10%	Full Consolidation
Drassington Ltd	89.10%	Full Consolidation
Teapigs Ltd	89.10%	Full Consolidation
Teapigs US LLC	89.10%	Full Consolidation
Stansand Ltd	89.10%	Full Consolidation
Stansand (Brokers) Ltd	89.10%	Full Consolidation
Stansand (Africa) Ltd	89.10%	Full Consolidation
Stansand (Central Africa) Ltd	89.10%	Full Consolidation
Tata Global Beverages Polska.sp.zo.o	89.10%	Full Consolidation
Tata Global Beverages Czech Republic a.s	89.10%	Full Consolidation
Tata Global Beverages US Holdings Inc	89.10%	Full Consolidation
Tetley USA Inc	89.10%	Full Consolidation
Empirical Group LLC	49.90%	Full Consolidation
Tata Water LLC	89.10%	Full Consolidation
Good Earth Corporation	89.10%	Full Consolidation
Good Earth Teas Inc	89.10%	Full Consolidation
Tata Global Beverages Canada Inc	89.10%	Full Consolidation
Tata Global Beverages Australia Pty Ltd	89.10%	Full Consolidation
Earth Rules Pty Ltd	89.10%	Full Consolidation
Tata Global Beverages Investments Ltd	89.10%	Full Consolidation
Campestres Holdings Ltd	89.10%	Full Consolidation
Kahutara Holdings Ltd	57.92%	Full Consolidation
Suntyco Holding Ltd	57.92%	Full Consolidation
Onomento Co Ltd	57.92%	Full Consolidation
Coffee Trade LLC	57.92%	Full Consolidation

Tata Global Beverages Capital Ltd	100.00%	Full Consolidation
Tata Coffee Ltd	57.48%	Full Consolidation
Tata Coffee Vietnam Company Ltd	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
Tata Tea Holdings Private Ltd	100.00%	Full Consolidation
Amalgamated Plantations Private Ltd	41.03%	Equity Method
Kanan Devan Hill Plantations Co Pvt Ltd	28.52%	Equity Method
TRIL Constructions Ltd	32.50%	Equity Method
Tetley Clover (Private) Ltd	50.00%	Equity Method
Tetley ACI (Bangladesh) Ltd	50.00%	Equity Method
Joekels Tea Packers (Proprietory) Ltd	51.70%	Equity Method
Southern Tea LLC	50.00%	Equity Method
NoursishCo Beverages Ltd	50.00%	Equity Method
Tata Starbucks Private Ltd	50.00%	Equity Method

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About ICRA Limited:

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