

## Tata Consumer Products Limited (Revised)

January 23, 2024

Instruments	Amount (₹ crore)	Rating <sup>1</sup>	Rating Action
Commercial Paper	3,000.00	CARE A1+	Assigned
Short Term Instruments-CP/ Short Term loan	500.00	CARE A1+	Assigned
Short Term Instruments-CP/ Short Term loan	715.00	CARE A1+	Reaffirmed

Details of instruments/facilities in Annexure-1.

Total borrowing under commercial paper to remain within an overall limit of ₹4215 crore.

### Rationale and key rating drivers

The reaffirmation of rating assigned to the commercial paper (CP) instrument of Tata Consumer Products Limited (TCPL) continues to factor in its strong business profile with well-established brands and the dominant market position across geographies. TCPL has, over the years, also been foraying into new product categories to keep pace with the changing consumer preferences through new product launches and strategic acquisitions. During FY23, the company has witnessed growth in sales revenue, despite moderation in tea volumes, driven by improved sales performance from its salt and India growth businesses (Ready-To-Drink beverages, Tata Sampann, Tata Soufull and Ready-To-Eat). The rating continues to positively factor in TCPL being part of the Tata group, driven by an established and experienced management; TCPL's long and established track record in the branded tea industry with a dominant market position in both, the domestic and international marketplace; and its established presence in the other beverages segment across geographies, with a strong brand portfolio, along with the market leadership position in branded salt in India. The rating continues to positively factor in TCPL being part of the Tata group, driven by an established and experienced management. The overall financial risk profile of the company is expected to remain strong in the long term, driven by low debt levels, healthy capital structure, and strong debt coverage indicators, despite near term deterioration owing to the recently announced acquisitions.

TCPL announced on 12<sup>th</sup> January 2024 that it has signed definitive agreements to acquire:

- 100% equity shares of Capital Foods, in a phased manner; 75% of the equity shareholding will be acquired upfront and the balance 25% shareholding will be acquired within the next three years.
- 100% of the issued equity share capital of Organic India.

The upfront cash consideration payable by TCPL is expected to be ~Rs. 5,700 crore. Majority of the acquisition (75% in Capital Foods and 100% in Organic India) is expected to be completed by March 2024 and the subsequent stake (25% in Capital foods) purchase by FY27/FY28. The above consideration will be funded through a mix of commercial paper and balance through existing cash reserve. TCPL's board, at its meeting on January 19, 2024, has approved raising an amount not exceeding Rs. 3,500 crore through allotment of commercial paper. TCPL's board has also approved for raising fresh equity capital of up to Rs. 3,000 crore through a rights issue, the proceeds of which could be utilized to repay any bridge financing. CARE Ratings notes that the refinancing risk is minimal considering the strong financial flexibility, established brand and backing of Tata group.

These rating strengths far outweigh the risks arising out of commodity and currency fluctuations, which the company's operations are exposed to.

### Rating sensitivities: Factors likely to lead to rating actions

#### Positive factors: Not applicable

#### Negative factors

- Large debt-funded acquisition impacting earnings accretion and the liquidity of the company and resulting in net debt to PBILDT rising more than 1x on sustained basis.

### Analytical approach: Consolidated

The consolidated approach is considered due to the strong operational, managerial, and financial linkages between TCPL and its subsidiaries. The list of subsidiaries, joint ventures (JVs), and associates are provided in Annexure-6.

### Outlook: Not applicable

<sup>1</sup>Complete definition of the ratings assigned are available at [www.careedge.in](http://www.careedge.in) and other CARE Ratings Ltd.'s publications

## Detailed description of the key rating drivers:

### Key strengths

**Ability to consistently achieve sales growth while maintaining profitability levels:** The company has been able to generate consistent growth in its topline with a compounded annual growth rate (CAGR) of 13% (FY20-FY23), while maintaining the PBILDT margins in the 12%-14% range for the past 3 years. During FY23, TCPL's total operating income (TOI) grew by 11%, from ₹12,425 crore in FY22 to ₹13,783 crore in FY23. The India salt segment witnessed 25% growth in revenue, the India growth segment witnessed 53% growth in revenue, and non-branded business witnessed a growth of 21%. The growth in India Beverages was 1% owing to lower volumes sold mainly due to stress in rural demand and delayed onset of winter. The PBILDT margin in FY23 moderated slightly to 13.5% from 13.8% in FY22, primarily owing to inflation. The profit after tax (PAT) margin during FY23 has improved to 9.58%, as against 8.17% in FY22, due to the exceptional income and improved performance of Tata Starbucks. Higher exceptional income is mainly on account of accounting gain on the conversion of Joint Ventures in South Africa and Bangladesh into subsidiaries and profit on the sale of investment property in Tata Coffee Limited partly offset by one off costs relating to restructuring and re-organization. The continuing strong cash generation has maintained the liquidity at strong levels, leading to a negative net debt position. The gross cash accruals (GCA) improved from ₹1,450 crore in FY22 to ₹1,601 crore in FY23. In H1FY24 TCPL achieved a ~12% growth in sales to Rs. 7475 crores with PBT increasing from Rs. 861 crores to Rs. 980 crores. Going forward, as per CARE Ratings' estimates, the company is expected to grow by 10%-12% (excluding impact of recent acquisitions) while maintaining stable PBILDT%.

**Well-established brand portfolio and geographic presence:** TCPL has well-established products across different categories and geographies. Its product portfolio consists of globally-known brands, including Tetley, Tata Tea, Teapigs, Tata Salt, and Eight O Clock, having strong brand equity. Tata Tea continues to be one of the market leaders in the tea category in India. Tetley, the international tea brand of the group, is the fourth-largest tea brand in the UK and the largest tea brand in Canada. In the India food segment, Tata Salt commands the highest market share among its peers, while Tata Sampann and Tata Soulfull are leading brands in the pulses and millets-based breakfast cereal and snack brands, respectively. In liquid beverages, TCPL owns the Himalayan and Tata Gluco+ brands. It also operates Tata Starbucks cafes, which is a 50:50 JV with Starbucks Coffee International Inc, with 370 stores across 49 cities in India as on Sept 30, 2023.

Overall, in FY23, the India beverages segment accounted for 37% of the revenue, India foods 27%, and international beverages accounted for 26%. The Tata Coffee segment constituted the balance 10%. The company's branded portfolio in India is supported by well-developed distribution network of 11,000+ (including retailers and D2C), with a reach of 3.8 million outlets. The company has been launching new products to keep pace with the changing consumer preferences and in FY23 TCPL has introduced 34 new products. In its crown jewel salt segment, there were three new launches in the health and wellness space – (1) Iodized Pink Salt; (2) Tata Salt Vitamin Shakti; and (3) Tata Salt Plus.

**Part of the Tata group with a strong leadership team:** The Tata group, established by Jamshedji Tata in 1868, is a global enterprise, headquartered in India, comprising 30 companies across 10 verticals. The group operates in more than 100 countries across six continents. Tata Sons Limited, the principal investment-holding company and promoter of the Tata group, together with Tata Investment Corporation Limited, holds a 33.89% share in TCPL as on Sept 30, 2023. The board of directors of TCPL consists of five independent directors, one non-independent director, and three directors. N Chandrasekaran, Chairman of TCPL, is also the Chairman of the board of Tata Sons (since January 2017). He also chairs the boards of several group companies, including Tata Steel, Tata Motors, Tata Power, Indian Hotels, and Tata Consultancy Services (TCS), of which he was the Chief Executive from 2009-17. The board of directors is backed by an experienced top management team consisting of Sunil Dsouza, Managing Director, and Ajit Krishnakumar, Whole Time Director & Ashish Goenka Group Chief Financial Officer. With over 27 years of rich experience, Sunil Dsouza has a strong domain knowledge of the consumer products business, with distinct focus on strategy, growth, and execution.

**Comfortable credit risk profile:** The debt profile of TCPL includes borrowings and lease liabilities aggregating to ₹1,511 crores as on Sept 30, 2023. The company has cash (₹1,385 crore) and bank balance (₹1,123 crore) and current investments (₹537 crore) to the tune of ₹3,045 crore on consolidated level on Sept 2023. Hence, on a net basis, the company continues to maintain a cash surplus. The financial risk profile of TCPL stood comfortable marked by low gearing and comfortable debt coverage metrics. The overall gearing and interest coverage for FY23 were 0.26 and 21x, respectively.

### Recently announced acquisition impacting near term liquidity:

TCPL announced on 12<sup>th</sup> January 2024 that it has signed definitive agreements to acquire:

1. 100% equity shares of Capital Foods, in a phased manner; 75% of the equity shareholding will be acquired upfront and the balance 25% shareholding will be acquired within the next three years.
2. 100% of the issued equity share capital of Organic India.

The upfront cash consideration payable by TCPL is expected to be ~Rs. 5,700 crore. Majority of the acquisition (75% in Capital Foods and 100% in Organic India) is expected to be completed by March 2024 and the subsequent stake (25% in Capital foods) purchase by FY27/FY28. The above consideration will be funded through a mix of commercial paper and balance through existing cash reserve. TCPL's board, at its meeting on January 19, 2024, has approved raising an amount not exceeding Rs. 3,500 crore through allotment of commercial paper. TCPL's board has also approved for raising fresh equity capital of up to Rs. 3,000 crore through a rights issue, the proceeds of which could be utilized to repay any bridge financing. CARE Ratings notes that the refinancing risk is minimal considering the strong financial flexibility, established brand and backing of Tata group.

The increase in debt along with the fall in cash and liquid investments will distort the credit metrics and impact liquidity in the short term. Given that commercial paper is a form of bridge financing and the same will be replaced with equity, the credit profile is expected to improve going forward.

### Key weakness

#### Exposure to commodity and currency risk:

TCPL manages the sourcing of tea through auctions and from private producers and is exposed to fluctuations in the prices of tea and coffee. TCPL manages commodity risk by actively managing the sourcing of tea and with the ability to take price increase, when deemed necessary. TCPL's profitability is susceptible to the volatile commodity prices (tea and coffee), notwithstanding TCPL's ability to limit the impact, as demonstrated over the years, with strategies in place for procurement and hedging. The risks associated with coffee is hedged through various available structures. Furthermore, TCPL, having operations in various geographies, is exposed to the foreign currency risk, which is managed through forwards and option contracts under the board-approved hedging policies.

#### Liquidity: Strong

The debt profile of TCPL includes borrowings and lease liabilities aggregating to ₹1,511 crores as on Sept 30, 2023. The company has cash (₹1,385 crore) and bank balance (Rs. 1,123 crore) and current investments (Rs. 537 crore) to the tune of Rs. 3,045 crore on consolidated level on Sept 2023. Hence, on a net basis, the company continues to maintain a cash surplus. The impending acquisition is expected to impact the near-term liquidity and credit profile of the company. The upfront cash consideration payable by TCPL is expected to be ~Rs. 5,700 crore. Majority of the acquisition (75% in Capital Foods and 100% in Organic India) is expected to be completed by March 2024 and the subsequent stake (25% in Capital foods) purchase by FY27/FY28. The above consideration will be funded through a mix of commercial paper and balance through existing cash reserve. For the interim period, the total gross debt, will be in the Rs. 4500-5500 crores, until the commercial paper is repaid. This combined with the fall in cash and liquid investments will distort the credit metrics and impact liquidity in the short term. Given that commercial paper is a form of bridge financing and the same will be replaced with equity, the credit metrics are expected to return to FY23 levels once the transactions are completed.

### Assumptions/Covenants – Not applicable

#### Environment, social, and governance (ESG) risks

1. Since TCPL has a healthy dependence on agricultural commodities, like tea and coffee, agro climatic conditions have a significant impact on the financials of the company. On one hand, it will impact the input prices and on the other it will impact the rural demand for its other products. The other environmental factors that have an impact on FMCG companies are the eco-friendly packaging and carbon emissions.

The company's environmental targets include the following:

Net zero by 2040, water neutral, zero waste to landfill and 100% packing material to be recyclable, compostable or reusable across geographies by 2030.

2. Social risks include product safety and prioritising employee safety. In terms of product safety, the company has established company-wide quality assurance programs and in terms of nutrition content, the company has been introducing various innovative products focusing on the health and wellness of its consumers. TCPL prioritises employee health and wellbeing and takes numerous measures to provide a safe working environment.
3. Governance remains a universal concept affecting all the companies. TCPL has obtained certificate regarding compliances of all the mandatory conditions of the Corporate Governance as per the relevant regulations. The company's past track record and ongoing commitment towards high governance mitigates the associated risks to a great extent.

TCPL has identified product stewardship, access to nutrition, circular economy and consumer connect as its top ESG priorities.

## Applicable criteria

[Policy on default recognition](#)

[Consolidation](#)

[Financial Ratios – Non financial Sector](#)

[Liquidity Analysis of Non-financial sector entities](#)

[Rating Outlook and Credit Watch](#)

[Short Term Instruments](#)

[Manufacturing Companies](#)

## About the company and industry

### Industry classification

Macro Economic Indicator	Sector	Industry	Basic Industry
Fast Moving Consumer Goods	Fast Moving Consumer Goods	Diversified FMCG	Diversified FMCG

TCPL, a Tata group company, is among the top 10 FMCG companies in India, with a portfolio of offerings in foods and beverages. The company's portfolio of products includes tea, coffee, water, Ready-To-Drink, salt, pulses, spices, Ready-To-Cook and Ready-To-Eat offerings, breakfast cereals and snacks. The company owns brands like Tata Tea, Tata Salt, Tetley, and Eight O'Clock Coffee, as well as new-age brands like Tata Sampann, Teapigs, Good Earth, Himalayan Water, Tata Gluco Plus, Tata Soufull, and Tata Q and Ready-To-Eat (Tata Sampann Yumside and internationally Tata RAASA). It is the second-largest branded tea player globally and houses the largest salt brand in India, and is expanding its portfolio into other product categories like staples, snacks, Ready-To-Eat and Ready-To-Cook products, and coffee. It has a brand presence in over 40 countries across USA, Canada, Europe, Russia, the Middle East, South Asia, and Africa.

Brief Financials (Consolidated) (₹ crore)	March 31, 2022 (A)	March 31, 2023 (A)	H1FY24 (UA)
Total operating income	12,425	13,783	7,475
PBILDT	1,719	1,856	1,082
PAT	1,015	1,320	702
Overall gearing (times)	0.25	0.26	0.24
Interest coverage (times)	23.62	21.30	20.12

A: Audited UA: Unaudited; Note: 'the above results are latest financial results available'

**Status of non-cooperation with previous CRA:** not applicable

**Any other information:** not applicable

**Rating history for last three years:** Please refer Annexure-2

**Covenants of rated instrument / facility:** Detailed explanation of covenants of the rated instruments/facilities is given in Annexure-3

**Complexity level of various instruments rated:** Annexure-4

**Lender details:** Annexure-5

### Annexure-1: Details of instruments/facilities

Name of the Instrument	ISIN	Date of Issuance (DD-MM-YYYY)	Coupon Rate (%)	Maturity Date (DD-MM-YYYY)	Size of the Issue (₹ crore)	Rating Assigned along with Rating Outlook
Commercial Paper-Commercial	Proposed	-	-	7-365 days	3000.00	CARE A1+

Paper (Standalone)						
Short Term Instruments-CP/ Short Term loan	Proposed	-	-	7-365 days	500.00	CARE A1+
Short Term Instruments-CP/ Short Term loan	Proposed	-	-	7-365 days	365.00	CARE A1+
Short Term Instruments-CP/ Short Term loan	INE192A14358	11-Dec-2023	7.45%	07-Mar-24	50	CARE A1+
Short Term Instruments-CP/ Short Term loan	INE192A14366	14-Dec-2023	7.42%	13-Mar-24	100	CARE A1+
Short Term Instruments-CP/ Short Term loan	INE192A14374	28-Dec-2023	7.47%	20-Mar-24	50	CARE A1+
Short Term Instruments-CP/ Short Term loan	INE192A14382	29-Dec-2023	7.47%	21-Mar-24	50	CARE A1+
Short Term Instruments-CP/ Short Term loan	INE192A14390	08-Jan-2024	7.32%	15-Mar-24	50	CARE A1+
Short Term Instruments-CP/ Short Term loan	INE192A14408	09-Jan-2024	7.34%	28-Mar-24	50	CARE A1+

#### Annexure-2: Rating history for the last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating History			
		Type	Amount Outstanding (₹ crore)	Rating	Date(s) and Rating(s) assigned in 2023-2024	Date(s) and Rating(s) assigned in 2022-2023	Date(s) and Rating(s) assigned in 2021-2022	Date(s) and Rating(s) assigned in 2020-2021
1	Short Term Instruments-CP/ Short Term loan	ST	715.00	CARE A1+	1)CARE A1+ (25-Jul-23)	1)CARE A1+ (04-Aug-22)	1)CARE A1+ (05-Aug-21) 2)CARE A1+ (06-Jul-21)	1)CARE A1+ (07-Jul-20)

2	Commercial Paper- Commercial Paper (Standalone)	ST	3000.00	CARE A1+				
3	Short Term Instruments-CP/ Short Term loan	ST	500.00	CARE A1+				

### Annexure-3: Detailed explanation of covenants of the rated instruments - Not Applicable

### Annexure-4: Complexity level of the various instruments rated

Sr. No.	Name of the Instrument	Complexity Level
1	Commercial Paper-Commercial Paper (Standalone)	Simple
2	Short Term Instruments-CP/ Short Term loan	Simple

### Annexure-5: Lender details

To view the lender wise details of bank facilities please [click here](#)

### Annexure-6: List of subsidiaries/associates considered for consolidation:

S. no	Name of Entry	Effective ownership %
1	Tata Consumer Products UK Group Ltd. (wef Oct 2022, 100% subsidiary)	100.0
2	Tata Global Beverages Holdings Ltd.	100.0
3	Tata Global Beverages Services Ltd.	100.0
4	Tata Consumer Products GB Ltd.	100.0
5	Tata Consumer Products Overseas Holdings Ltd.	100.0
6	Tata Global Beverages Overseas Ltd.	100.0
7	Lyons Tetley Ltd.	100.0
8	Drassington Ltd.	100.0
9	Teapigs Ltd.	100.0
10	Teapigs US LLC	100.0
11	Stansand Ltd.	100.0
12	Stansand (Brokers) Ltd.	100.0
13	Stansand (Africa) Ltd.	100.0
14	Stansand (Central Africa) Ltd.	100.0
15	Tata Consumer Products Polska sp.zo.o	100.0
16	Tata Consumer Products US Holdings Inc.	100.0
17	Tata Consumer Products US, Inc. (formerly Tetley USA Inc)	100.0
18	Tata Waters LLC	100.0
19	Good Earth Corporation	100.0
20	Good Earth Teas Inc.	100.0
21	Tata Consumer Products Canada Inc.	100.0
22	Tata Consumer Products Australia Pty Ltd.	100.0
23	Tata Global Beverages Investments Ltd.	100.0
24	Campestres Holdings Ltd.	100.0
26	Kahutara Holdings Ltd.	100.0
25	Sunttyco Holding Ltd.	100.0
26	Onomento Co Ltd.	100.0
27	Tata Consumer Products Capital Ltd.	100.0
28	Joekels Tea Packers (Proprietary) Ltd. (w.e.f December 28, 2022)	75.0
29	Tetley ACI (Bangladesh) Ltd. (w.e.f February 9, 2023)	100.0
30	Tata Coffee Vietnam Company Ltd.	100.0
31	Consolidated Coffee Inc.	100.0
32	Eight O'Clock Holdings Inc.	100.0

S. no	Name of Entry	Effective ownership %
33	Eight O'Clock Coffee Company.	100.0
34	Tata Tea Extractions Inc.	100.0
35	NourishCo Beverages Ltd.	100.0
36	Tata Consumer Soufull Private Ltd.	100.0
37	Tata SmartFoodz Ltd (w.e.f Nov 16, 2021)	100.0
38	TCPL Beverages & Foods Ltd (w.e.f Feb 25, 2022)	100.0
39	TRIL Constructions Ltd. (w.e.f Nov 17, 2021)	80.5*
40	Tata Tea Holdings Private Ltd.	100.0
<b>Joint Ventures</b>		
1	Tetley Clover (Pvt) Ltd. (under liquidation)	50.0
2	Tata Starbucks Private Ltd.	50.0
<b>Associates</b>		
1	Amalgamated Plantations Pvt. Ltd.	41.0
2	Kanan Devan Hills Plantation Co. Pvt. Ltd.	28.5

\*on a fully diluted basis

Source: TCPL annual report FY2023, amended to reflect the current position as on 22nd January 2024 (this is considering the Scheme of Arrangement amongst Tata Consumer Products Limited, Tata Coffee Limited and TCPL Beverages and Foods Limited becoming effective from 1st January 2024)

**Note on the complexity levels of the rated instruments:** CARE Ratings has classified instruments rated by it on the basis of complexity. Investors/market intermediaries/regulators or others are welcome to write to care@careedge.in for any clarifications.

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