

**Contacts:**

Jayanta Roy  
+91 33 7150 1120  
[jayanta@icraindia.com](mailto:jayanta@icraindia.com)

Kaushik Das  
+91 33 7150 1104  
[kaushikd@icraindia.com](mailto:kaushikd@icraindia.com)

Mahi Agarwal  
+91 33 7150 1106  
[mahi.agarwal@icraindia.com](mailto:mahi.agarwal@icraindia.com)

# Indian Bulk Tea Industry

*Significant increase in wages in North India continue to constrain margins even as increasing tea prices provide some relief*

## Table of Contents

Executive Summary	4
Tea Production Trends	6
Tea Export Trends	10
Tea Price Trends	13
Trends in Aggregate Financial Performance	16
Outlook: Indian Bulk Tea Industry	19
ICRA Ratings on Indian Bulk Tea Companies	22
Comparison of Key Bulk Tea Companies	24
Annexures	26
Company Section	29
MCLEOD RUSSEL INDIA LIMITED (MRIL)	30
GOODRICKE GROUP LIMITED (GGL)	33
ROSSELL INDIA LIMITED (RIL)	36
JAY SHREE TEA & INDUSTRIES LIMITED (JSTIL)	39
WARREN TEA LIMITED (WTL)	42
HARRISONS MALAYALAM LIMITED (HML)	45
DHUNSERI TEA & INDUSTRIES LIMITED (DTIL)	48

## WHAT'S INSIDE?

1. **Executive Summary**
2. **Tea Production:** Global and Domestic Production
  - Trend in Regional Production
  - Trend in Segment-Wise Production
3. **Trends in Exports**
  - Trend in export volumes and prices
4. **Tea Price Trends:** International and Domestic Prices
  - Current Year trends
5. **Trends in Aggregate Financial Performance of Bulk Tea Companies**
6. **Outlook:** Indian Bulk Tea Industry
7. **ICRA ratings on Indian bulk tea companies**
8. **Comparison of key bulk tea companies:** Comparison of financial performance of four bulk tea players
9. **Quarterly Performance Trend of Listed Bulk Tea Companies**

McLeod Russel India Limited  
 Goodricke Group Limited  
 Rossell India Limited  
 Jay Shree Tea & Industries Limited

Warren Tea Limited  
 Harrisons Malayalam Limited  
 Dhunseri Tea & Industries Limited

## Executive Summary

The steep increases of Rs. 30/day and Rs. 34.5/day<sup>1</sup> effected in wage rates for tea estate workers in Assam and West Bengal, respectively, in the current calendar year is expected to have a significant adverse impact on the operating cost of bulk tea players, given that Assam and West Bengal are the two largest tea producing states in India, accounting for almost 80% of India's bulk tea production. Thus, operating margins, which have already witnessed pressures over the last few years driven mainly by increased labour costs and inadequate increase in realisations, are expected to remain under check. However, a positive trend in realisations coupled with healthy cropping trends, as observed in recent months for companies in ICRA's sample set, could provide some near-term relief if such trends persist for the balance of the year.

*While Indian tea crop loss continued into July, 2018, some recovery is expected in August and September; the actual extent of such production would establish the annual production level*

*Ability to maintain adequate export volumes at remunerative prices going forward would be critical to the overall performance of the tea industry*

### Aggregate tea production across major tea-growing nations remained largely stagnant during 7M CY2018, with the decline in Indian production mostly setting off the increase in Kenyan production

India is the single largest producer of black tea in the world, accounting for around 43% of the total black tea production globally, followed by Kenya (16%) and Sri Lanka (10%). Over the past few years, however, Indian tea production has remained relatively stable, leading to movements in global tea production being primarily driven by variations in Kenyan and Sri Lankan crop levels. During 7M CY2018, aggregate tea production remained largely stagnant, with the increase in Kenyan crop being offset to a large extent by the decline in Indian production. Kenyan production continued on an uptrend on the back of favourable climatic conditions and precipitation patterns. Against this, however, both Indian and Sri Lankan tea production witnessed a decline during July, 2018. During 7M CY2018, domestic production declined by around 5%, with both NI and SI crop declining. Both the key regions in North India recorded a decline during the cumulative 7M CY2018 period, primarily on account of unfavourable weather conditions. South Indian production also declined during 7M CY2018, impacted by adverse weather in certain regions as well as the temporary suspension of operations at several bought-leaf factories in protest against the green leaf price fixed by the Tea Board. Production from the region is expected to remain low over the next few months as well, given the impact of the flood in Kerala. Hence for the full year, production from South India is likely to witness a decline in CY2018. Going forward, agro-climatic conditions would play a key role in determining the overall global cropping trends for the current year, with the trend in Kenyan production levels a particularly critical determinant of market dynamics.

### Indian export volumes rose by 6.6% during 7M; trends in tea production and realisations for Kenya will remain crucial in determining the overall supply-demand dynamics in the international tea market CY2018

India exports only around 20% of the black tea produced domestically. Notwithstanding the large domestic consumption base that India has, exports play a vital role in maintaining the overall demand-supply balance in the domestic market. During 7M CY2018, Indian export volumes witnessed a growth of 7%, driven by a rise in both NI and SI exports. Export realisations also recorded an uptrend, with North Indian export realisations witnessing a considerable hike, although overall prices remained somewhat muted in 7M CY2018. This was notwithstanding an increase in export volumes of 18% and lower realisation of Kenyan teas, India's main competitor for CTC teas. While Sri Lankan tea export volumes remained largely stagnant during H1 CY2018, realisations witnessed a downtrend, primarily on account of lower demand from Iran, post imposition of sanctions. Adverse sentiments given the uncertainties of the impact of the impending sanctions on Iran also impacted the export performance of high quality orthodox teas from India which had a bearing on the overall exports. However, in recent days, some positive trend has been witnessed as sentiments have improved marginally. Going forward, while increasing export levels from other key tea-producing nations may place some pressure on Indian tea exports, the sharp depreciation of the Indian rupee in recent months is likely to benefit major tea exporters in value terms.

<sup>1</sup> Not including ration subsidy of Rs. 9/day

## Executive Summary

*While NI realisations remain higher than those recorded in the previous year, there has been some tapering off in NI auction prices in recent weeks, primarily due to favourable weather conditions supporting production levels in Assam during August and September*

*Operating margins, which have already witnessed pressures over the last few years driven mainly by increased labour costs and inadequate increase in realisations, are expected to remain under check in FY19; however, a positive trend in realisations coupled with healthy cropping trends, could provide some relief*

**Prices at most major auction centres globally experience pressure during 7M CY2018; domestic auction prices, however, remained on an uptrend, notwithstanding some softening in NI prices in recent weeks**

Average auction prices (in US\$ terms) in the major centres of Kenya, Sri Lanka and Indian witnessed a YoY decline of 9%, 7% and 3% respectively, during 7M CY2018. Kenyan prices were adversely impacted by the increased tea production levels in the country. Sri Lankan weekly auction prices continued the downtrend witnessed over the past few months, largely on account of the impact of US sanctions on the demand of orthodox tea from Iran. Depreciation of the Turkish lira and the Russian ruble are expected to have an impact on realisations, going forward, as well. Indian auction prices in US\$ terms, which had remained firm till June, also witnessed some decline in 8M CY2018, impacted by supply-demand dynamics as well as the sharp depreciation in the rupee - in INR terms, Indian auction realisations continued to register an uptick, with pan-India cumulative auction prices recording a 3% YoY increase. Sharp reductions in crop levels during certain months and high demand supported overall auction realisations, although ICRA notes that there has been some tapering off in North Indian auction prices in recent weeks, primarily due to favourable weather conditions supporting production levels in Assam during August and September. Going forward, ICRA notes that supply-side dynamics, particularly in Kenya and Sri Lanka, given the high quantum of tea exports from these countries, together with currency movements, would remain crucial in determining the trajectory of international auction prices. In terms of domestic prices, anticipated shortages in overall domestic supplies during the balance tea producing months, given the floods in Kerala, together with increased exports, are likely to support firmness in Indian auction prices.

**While profit margins and debt coverage indicators for established bulk tea players improved in FY2018, the extent of increase in prices going forward would be a critical determinant of future financial performance, given the sharp increase in wage rates**

After registering a considerable decline in financial performance from FY2015 onwards, profit margins and debt coverage indicators for bulk tea players, particularly in North India, witnessed some improvement in FY2018 on the back of the increase in prices in the region, especially for players operating in relatively higher quality tea segments. Although prices at South Indian auctions were impacted by higher production levels, most large bulk tea players in South India did not witness any material contraction in operating profitability during the year, as the increase in production largely negated the impact of lower prices.

In FY2019, profit margins and debt coverage indicators for bulk tea players, in ICRA's sample, are estimated to witness some improvement on the back of firmer prices. While the sale of certain tea estates by one of the largest bulk tea players globally is expected to impact production levels, the resultant improvement in cost structure is expected to further support performance. However, the new wage structure applicable for tea plantation workers in the states of Assam and West Bengal is expected to continue to constrain operating profitability. The capital structure, however, is expected to remain conservative, primarily on account of the expected decline in debt levels and past accretions to reserves. Debt levels are expected to be favourably impacted by the sale of certain tea estates by one large player, with the proceeds being used mainly to pare debt.



### Business Contacts

Mr. L. Shivakumar  
E-mail: [shivakumar@icraindia.com](mailto:shivakumar@icraindia.com)  
Tel: +91 22 6114 3406 / +91 98210 86490

Mr. Jayanta Chatterjee  
E-mail: [jayantac@icraindia.com](mailto:jayantac@icraindia.com)  
Tel: +91 80 4332 6401/ +91 98450 22459

### Media and Public Relations

Ms. Naznin Prodhani  
E-mail: [communications@icraindia.com](mailto:communications@icraindia.com)  
Tel: +91 124 4545 860

### Branches

#### Registered Office:

1105, Kailash Building, <sup>11th</sup> Floor,  
26, Kasturba Gandhi Marg,  
New Delhi - 110 001  
Tel: + 91 11 2335 7940-45

#### Corporate Office:

Building No.8, 2<sup>nd</sup> Floor,  
Tower A, DLF Cyber City Phase II,  
Gurgaon- 122 002  
Tel: +91 124 4545300

#### Ahmedabad

907 & 908, Sakar – II,  
Ellisbridge, Opp. Town Hall,  
Ahmedabad - 380 006  
Tel: +91 79 4027 1500/01

#### Bengaluru 1

'The Millenia', Tower- B,  
Unit No. 1004, <sup>10th</sup> Floor, 1 & 2 Murphy  
Road,  
Bengaluru - 560 008  
Tel: +91 80 4332 6400

#### Bengaluru 2

<sup>2nd</sup> Floor, Vayudooth Chamber,  
15-16, Trinity Circle, M.G. Road,  
Bengaluru - 560 001  
Tel: +91 80 4922 5500

**Chennai**

5<sup>th</sup> Floor, Karumuttu Centre,  
634, Anna Salai, Nandanam  
Chennai - 600 035  
Tel: +91 44 4596 4300

**Hyderabad 1**

No. 7-1-58, 301, 3<sup>rd</sup> Floor, 'CONCOURSE',  
Above SBI-HPS Branch,  
Ameerpet,  
Hyderabad - 500 016  
Tel: +91 40 4920 0200

**Hyderabad 2**

4A, 4<sup>th</sup> Floor, SHOBHAN,  
6-3-927, A&B Somajiguda,  
Raj Bhavan Road,  
Hyderabad – 500082  
Tel: +91 40 40676500

**Kolkata**

A-10 & 11, 3<sup>rd</sup> Floor, FMC Fortuna 234/3A,  
A.J.C. Bose Road,  
Kolkata -700 020  
Tel: +91 33 7150 1100/01

**Mumbai**

3<sup>rd</sup> Floor, Electric Mansion  
Appasaheb Marathe Marg, Prabhadevi,  
Mumbai - 400 025  
Tel: +91 22 6169 3300

**Pune**

5A, 5<sup>th</sup> Floor, Symphony, S. No. 210  
CTS 3202 Range Hills Road, Shivajinagar,  
Pune - 411 020  
Tel: +91 20 2556 1194

**Email:** [info@icraindia.com](mailto:info@icraindia.com)

**Helpdesk:** 124 3341580

**Website:** [www.icra.in/](http://www.icra.in/) [www.icraresearch.in](http://www.icraresearch.in)

© Copyright, 2018, ICRA Limited. All Rights Reserved. All information contained herein has been obtained by ICRA from sources believed by it to be accurate and reliable. Although reasonable care has been taken to ensure that the information herein is true, such information is provided 'as is' without any warranty of any kind, and ICRA in particular, makes no representation or warranty, express or implied, as to the accuracy, timeliness or completeness of any such information. Also, ICRA or any of its group companies, while publishing or otherwise disseminating other reports may have presented data, analyses and/or opinions that may be inconsistent with the data, analyses and/or opinions presented in this publication. All information contained herein must be construed solely as statements of opinion, and ICRA shall not be liable for any losses incurred by users from any use of this publication or its contents.