

INDIAN BULK TEA INDUSTRY

**Increase in tea prices to offset the
impact of recent wage rate hike in
North India**

SEPTEMBER 2022



Executive Summary

Industry Outlook: Stable

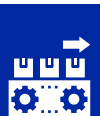
Top-quality CTC teas continue to fetch significant higher prices compared to industry averages. Prices of ODX tea have also moved up sharply, on a YoY basis, on the back of a demand-supply mismatch in the international market due to production disruption in Sri Lanka. Such firm prices of quality teas are likely to offset the recently announced increase in wage rates in West Bengal and Assam. Hence, producers of top-quality CTC teas and ODX teas are likely to perform significantly better than the industry on an average.



- The recent hike in basic wage rate by ~15% & ~13% in West Bengal and Assam respectively effective from January and August 2022 respectively would lead to a substantial increase in the cost of production for North India (NI)-based bulk tea players. This follows the wage cost hike witnessed in FY2022 (by 15-23%) from Q4 FY2021.



- Global black tea production increased by ~3% in CY2021 driven by higher production in India and Sri Lanka. Although, all-India production increased by ~88 Mkg (~7%) in CY2021 on a YoY basis it still remained lower by ~47 Mkg (~3%) over pre-Covid levels. In 7M CY2022 all-India production is down by ~15 Mkg on a YoY basis. The full-year production is likely to remain flattish compared to CY2021.



- The cumulative prices for NI CTC teas in 5M FY2023 were up by ~Rs. 9/kg (~5%) on YoY basis, mainly driven by a significant rise in auction prices in August 2022 by Rs. 30/kg compared to August 2021. The uptrend in NI CTC prices is supported by an increasing demand for top quality teas, which is likely to sustain. However, in 5M FY2023, the cumulative prices for SI CTC teas remained lower compared to the previous two years.



- The NI auction average of orthodox (ODX) teas increased sharply by Rs. 83/kg (~34%) in 5M FY2023 on a YoY basis. SI ODX prices in 5M FY2023 are also up by ~5% on a YoY basis. The ODX prices are up on the back of a demand-supply mismatch for ODX teas in the international market arising from a production disruption in Sri Lanka.



- Increase in wage cost and moderation in tea prices, compared to FY2021, is estimated to have pulled down the operating profit margin (OPM) of the ICRA sample set to around ~5.2% in FY2022 from 10.8% in FY2021 but remained higher than 4.4% reported in FY2020. The OPM in FY2023 is likely to improve to ~6.5% despite the back-to-back increase in wage rates in West Bengal and Assam from January and August 2022, respectively, given the considerable increase in prices of quality CTC as well as ODX teas in the recent past.

1 Outlook for Bulk Tea Industry



2 Production Trends



3 Exports Trend



4 Trend in Tea Prices



5 Industry Financials



6 Peer Comparison





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