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**The Indian Tea Industry**  
**FY14-15: Healthy Domestic Demand to Keep Tea Prices Firm**



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## EXECUTIVE SUMMARY

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Tea is globally one of the most popular and cheapest beverages with major production centres in India, China, Kenya, Sri Lanka, Turkey & Vietnam. The tea industry is one of the oldest organized industries in India with a large network of tea producers, retailers, distributors, auctioneers, exporters and packers. Total tea production in the world has exceeded 4 billion kgs with India producing about 1 billion kg of tea. During 2008 to 2013, black tea production in India increased at a compounded annual growth rate (CAGR) of 1.6% while consumption rose at a CAGR of 2.3%. India's total annual tea production in 2013 is estimated at 1200 million kgs out of which 65%, approximately 850 to 900 million kgs, is produced by the big tea gardens while about 250 million kgs tea is produced by small tea growers with land area ranging from 2 to 20 hectares. Tea export has remained flat over the years due to increasing competition in the global market and declining quality of tea produced in India. Thus the prices in the industry are expected to be stable with domestic consumption expected to be rising steadily.

## TEA MARKET OVERVIEW

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The Tea Industry in India derives its importance by being one of the major foreign exchange earner and for playing a vital role towards employment generation as the industry is highly labour intensive. India is the second largest producer of tea in the world and contributes to around 30% of the global tea production. The market size of tea is estimated to be approx. ₹10,000 Crore with a penetration of more than 90% in the domestic market. With an export of approx. 210 million kg of tea, India stands as the fourth largest exporter of tea in the world with China ranking at the first position. The tea sector in the country is largely organized since 72% of the total area under tea cultivation and 74% of the total production comes from the organized sector.

Tea in India is grown over an area of 600000 hectare (ha) which accounts for 16% of the total area under tea cultivation in the world. The Indian tea industry is having thousands of tea gardens spread across various states of India. In West Bengal and Assam there are around 8,500 tea estates, while in the southern states of Kerala, Karnataka and Tamil Nadu there are another 5,500 tea estates. Assam produces over half of India's tea and accounts for over 12% of the annual global tea yield, according to ASSOCHAM.

### Market Segmentation

Indian tea market is huge with large number of local and regional players. With the passage of time and due to change in the consumption pattern, there has been diversification and value addition in tea production. In India, tea is consumed in two forms: packaged (branded) or loose. While a major share of the market is of loose tea suppliers, branded tea manufacturers are also fast increasing their market share. The demand for packet tea is driven by rising consumer incomes, quality of tea and product diversification with flavoured tea production. The share of CTC tea constitutes 80% of the tea market followed by Orthodox Tea & Darjeeling Tea. Apart from them there are also a variety of flavoured teas such as green tea, earl grey tea, jasmine tea, ginseng oolong, masala chai, green lemon tea, etc.

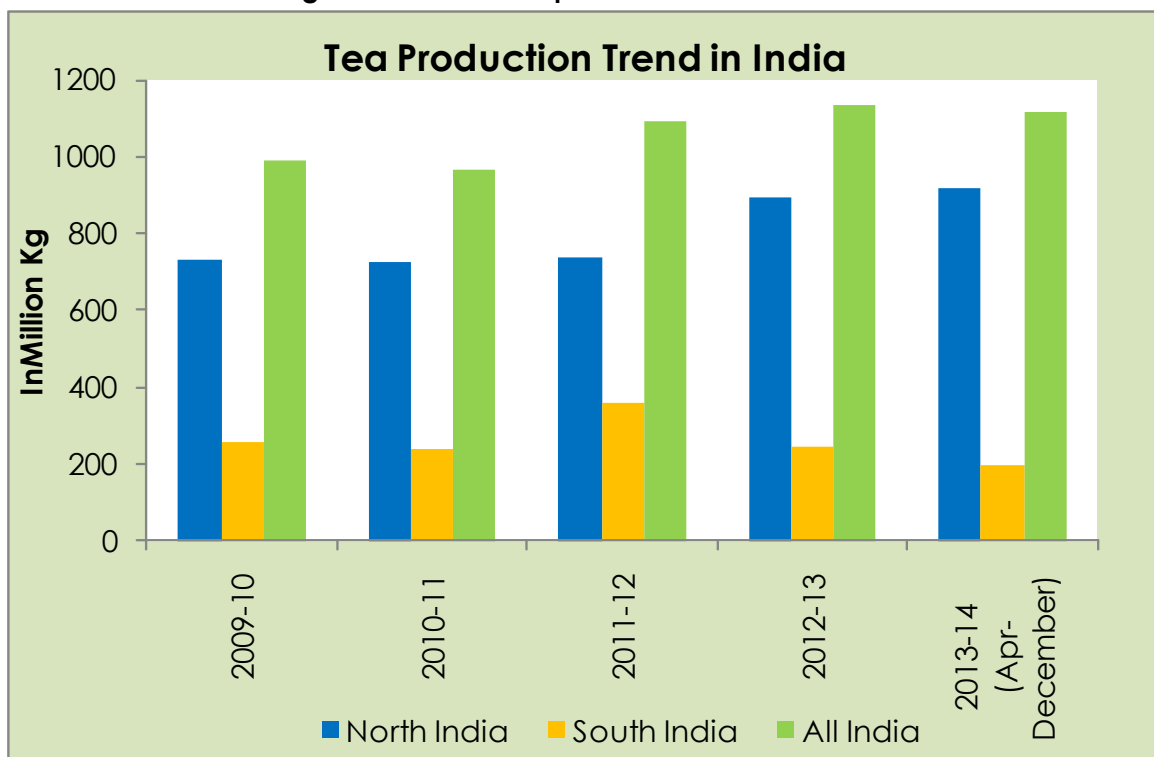
CTC (cut, twist and curl) tea is the major contributor in the tea market segment but with the increasing consciousness on the health issues, green tea sales are picking up. Specialty tea market in India is growing at the rate of 25% annually.

### Tea Production to remain stable

Tea production is expected to inch up marginally higher than last year in 2013-14 on account of better productivity from North India. India is the second largest producer of tea in the world with a 25% share of total production, but the country consumes 75-80% of its own production. Annual production of tea in 2013 stood at 1200 million kg, with North India accounting for 79% in total production and the rest coming from South India.

Tea production in India in 2013 grew by 6.5% with a production of 1200 million kgs as compared to 1,126 million kgs in 2012. The production increase had little impact on exports as the majority of this tea was CTC grade and effectively all was consumed by the fast-growing domestic market.

Figure 2: Trend in the production of Tea in India

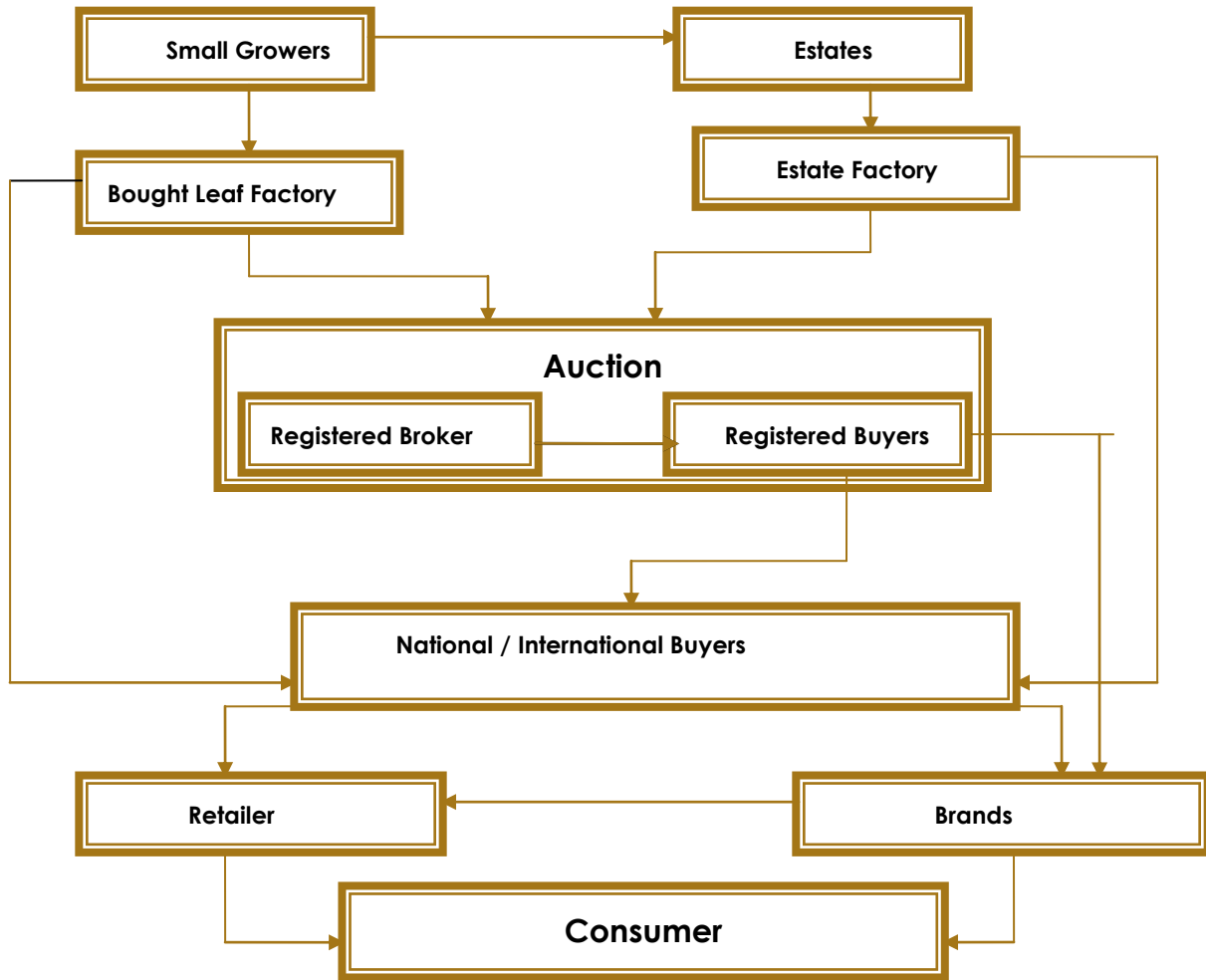


Although tea is produced in 14 States in India, five of them—Assam and West Bengal in North India, and Tamil Nadu, Kerala and Karnataka in South India account for over 98% of India's tea production.

### **Price Realisation**

In India more than 50% sales of tea is routed through auction at various auction centres located in North & South India. Tea generally moves directly from factory either to auction centre for sale or for direct sale to national or international buyers. Auction buying is much more fragmented and there exists a sizable gap between wholesale and retail prices. There is also a clear seasonality in prices of tea within a year. Another of the variable explaining the variance in auction prices is unit export price. Higher export price raises the bargaining position of sellers at auctions. Export volume also has an influence on the price formation at auctions as higher export reduces domestic availability and hikes up domestic price. Further, lots offered and quantity sold is inversely related with average price realization at auction.

Figure 3: Marketing chain of tea through Auction



Prices are bound to remain firm this year due to strong domestic demand as well increase in the demand from the export market. Last year due to agro climatic conditions, the production was below the standard production which left the demand unmet. That demand has been carry forwarded this year and therefore prices will remain firm this year. Usually, production increase causes prices to fall, but due to the rise in domestic consumption this has not been the case.

**Table 1: Trend in the Average Prices of Tea in different auction centres in India**

	January - December		
	2013 ₹/Kg	2012 ₹/Kg	% Change
Kolkata	157.65	149.55	5.4
Siliguri	122.01	120.17	1.5
Guwahati	132.56	131.01	1.2
Jalpaiguri	97.39	110.44	-11.8
Amritsar	57.49	61.57	-6.6
North India	<b>139.8</b>	<b>135.59</b>	<b>3.1</b>
Cochin	113.51	96.08	18.1
Coonoor	89.37	82.31	8.6
Coimbatore	94.99	83.73	13.4
South India	<b>98.75</b>	<b>87.83</b>	<b>12.4</b>
All India	<b>128.27</b>	<b>121.82</b>	<b>5.3</b>
Darjeeling	<b>317.76</b>	<b>368.64</b>	<b>-13.8</b>

As compared to North India, auction prices in South India are estimated to increase at a faster pace on account of continued decline in production in 2013-14. With consumption increasing at a faster rate than production, prices of CTC tea have witnessed a sharper increase in recent years thus narrowing, or even at times eliminating, the premium that orthodox tea has traditionally enjoyed in the domestic market.



## Export of tea has remained flat due to increasing competition

India is the fourth largest exporter of tea in the world with major export destinations as Russia, UAE, United Kingdom and Poland. Though tea production in India has grown over the last 10 years with a CAGR of 3%, the export has remained more or less static due to increase in the domestic consumption as well as increasing competition from other tea producing countries. Tea export from India during 2012-13 was estimated at around 216.23 million kgs valued at ₹4005.93 crore.

Over the years tea export has remained flat due to increasing competition from Kenya and Sri Lanka which are able to sell the tea at cheaper price with the same quality level. In India orthodox tea, CTC tea are main types in which tea is produced, however, green tea is also produced to some extent. India exports CTC grade tea mainly to Egypt, Pakistan and the UK, and the orthodox variety to Iraq, Iran and Russia.

Figure 4: Tea Export Quantity and Volume Trend in India



According to records available with the Tea Board, the CIS (Commonwealth of Independent States) countries import the highest quantity of tea from India, while, the exports to the UAE and Pakistan recorded a significant increase in 2013. India also imports small quantities of tea not only from Kenya and Sri Lanka but also from other countries, mainly for re-export and blending and value addition.

**Table 2: Destination wise Tea Exports from India**

Destination wise Tea Exports from India	2013 (Jan to Dec)		2012 (Jan to Dec)	
	Quantity (Million Kg)	% Share in Export	Quantity (Million Kg)	% Share in Export
<b>Total CIS</b>	52.81	24.93	57.94	27.82
Iran	22.34	10.54	20.23	9.71
UAE	22.09	10.43	7.83	3.76
Pakistan	18.97	8.95	11.19	5.37
UK	15.40	7.27	18.80	9.03
USA	14.07	6.64	14.42	6.92
Egypt	7.49	3.54	9.74	4.68
Germany	7.47	3.53	21.65	10.40
Others	51.22	24.18	46.46	22.31
<b>Total Exports</b>	<b>211.86</b>	<b>100.00</b>	<b>208.26</b>	<b>100.00</b>

On account of rising tea prices and healthy domestic demand, players are expected to focus on the local market. Moreover, import demand from few countries is anticipated to be subdued. Consequently, India's tea exports are estimated to decline by 5% to 195 million kg in 2014 on account of muted global prices and weak demand from Egypt and Middle Eastern countries due to political uncertainties. On the other hand, exports of orthodox tea, consumption of which is insignificant in India, are expected to rise by 5% to 95 million kg primarily on the back of healthy demand from countries including CIS and Turkey. In addition, global orthodox tea prices are estimated to increase by 10% due to flat global production, particularly from Sri Lanka, the largest exporter of orthodox tea.

## INDIA'S POSITION ON THE GLOBAL FRONT

Tea is among the world's most widely consumed beverages. One of the biggest markets for tea is the United States where Americans drink 3.6 billion gallons annually and supermarket sales top \$2 billion, according to the tea association of the USA. Black tea is predominantly produced and exported by Kenya and Sri Lanka. Green tea is mainly grown and consumed in China. Although black tea is by far the most produced and exported tea, production and exports of green tea are rapidly increasing.

Asia-Pacific dominates the global market and accounts for 40% of the total demand in the tea market. The maximum production of tea and the largest areas under tea plantation belong to India and China respectively. Leading tea-producing countries are China, India, Kenya and Sri Lanka. While production of black tea is growing 3.9% annually, production of green tea is growing 11% annually and herbal tea production is growing more than 15% each year. The trend towards health consciousness, coupled with this increased competitive pressure, will further drive new product development in the next five years, which will in turn drive industry demand.

The global market is highly concentrated. However, the presence of large unorganized market in Asia Pacific is expected to impact the profitability of Western producers.

**Table 3: World Tea Production and Share of Countries**

World Tea Production (Million Kg)	2009	2010	2011	2012	% Share (2012)
China	1358.64	1475.06	1623.21	1761.00	38.90
India	979.00	966.40	1115.72	1111.76	24.56
Kenya	314.2	399.01	377.91	369.56	8.16
Sri Lanka	289.78	331.43	328.23	326.28	7.21
Vietnam	175.00	170.00	178.00	158.00	3.49
Others	843.87	850.11	826.24	800.38	17.68
Total	3960.49	4192.01	4449.31	4526.98	100.00

**Table 4: India's share in World Export**

World Export (In Million Kg)	2009	2010	2011	2012
Kenya	342.48	441.02	421.27	430.21
China	302.95	302.53	322.58	321.79
Sri Lanka	279.84	296.38	301.27	304.49
India	197.9	222.02	215.42	201.08
Vietnam	120	127.97	143	135
Others	361.93	387.73	346.6	333.1
<b>Total</b>	<b>1605.1</b>	<b>1777.65</b>	<b>1750.14</b>	<b>1725.67</b>
<b>India's Share in Total Export (%)</b>	<b>12.33</b>	<b>12.49</b>	<b>12.31</b>	<b>11.65</b>

Tea Exports from India declined by 14 million kgs in 2012 mainly due to the higher price levels with teas from other origins looking more attractive price-wise. Import of tea into India in 2012 was only marginally lower than the previous year.

Indian tea exports average 200 million kg with the unit realisation averaging at about ₹175.30 per kg. India is the world's second largest producer after China and second largest consumer of tea, accounting for nearly 25-27% of world tea production. India accounts for around 10-12% of world tea exports. Further, certain varieties of tea (for example, Darjeeling) are grown only in India and are in great demand across the world. However, India has been losing its share of the global tea exports in the face of the threat coming from countries such as China, Sri Lanka and Kenya.

## REGULATORY ENVIRONMENT

**Special Purpose Tea Fund Scheme** – The Government has contributed towards the programme by way of capital infusion towards maintaining default reserve fund for facilitating loan assistance and capital subsidy.

**Quality Up-gradation & Product Diversification Scheme (QUPDS)** – The scheme was initiated in order to enable better technological capabilities and undertake investment in adopting modern technologies/ process (either for expansion or for replacement) so as to foster better quality and higher realizations through the value added teas. The overall objective of the scheme is thus to encourage quality up-gradation and product diversification in the tea processing units. All tea manufactures who are dealing with value addition of tea are eligible for claiming the subsidy. Bought leaf factories, single estate factories, and medium sized tea gardens would be given priority for availing of subsidy under the scheme. However, in the event of insufficient claimants, other applicants who are large estate tea growers would be permitted to avail of the subsidy.

**All India Tea Growers Advisory Committee** – Under the 12th plan ₹200 crore has been earmarked for the development of small tea growers sector. A separate small tea growers directorate has been formed that would be looking into pruning, rejuvenation, and improving plucking operations. Efforts would be made to promote micro and mini tea factories with subsidy from tea board.

Apart from industry wide benefits/subsidies including re-plantation and rejuvenation subsidy on the production of orthodox tea and setting aside a part of the profits with National Bank for Agriculture and Rural Development (NABARD) to reduce tax liabilities, there are some region specific benefits as well such as subsidy on transportation expenses for exports through the dry port of inland Container depot or Amingao (in Assam) and interest subsidy on interest paid towards working capital facilities from banks for the tea estates (in Assam).

Also the companies which are engaged in bulk tea manufacturing receive monetary benefits under the Videsh Krishi and Gram Udyog Yojana (VKGUY) scheme and duty drawback scheme for the volume of exports undertaken which adds to their income and profits.

## DEMAND DRIVERS

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**Value Added Variants of Tea** – Tea in value added formats and new exciting variant will increase its appeal as well as consumption. Promoting more flavours like fruits and herbal tea into tea like ginger, lemon, elaichee, etc. This will add up a new arena into tea industry.

**Health & Wellness** – Consumers are becoming increasingly conscious about health issues and it has been playing a determining role in the choice of food products. With the passage of time and excellent marketing techniques, consumers are now better aware of the health benefits of flavoured and green tea.

**Emerging Consumer Demands** – Drinking habits and lifestyles have changed in the last 15-20 years and people are now willing to pay more for quality tea. However increasing consumer attention to the quality of products, growing brand loyalty and active promotions by manufacturers reflect a shift from unbranded to the branded products. A positive sign is that with rising demand from consumers, tea exports are likely to increase. The potential of domestic market should be utilised because India is the biggest consumer of the tea, but per capita tea consumption is very low than the other countries.

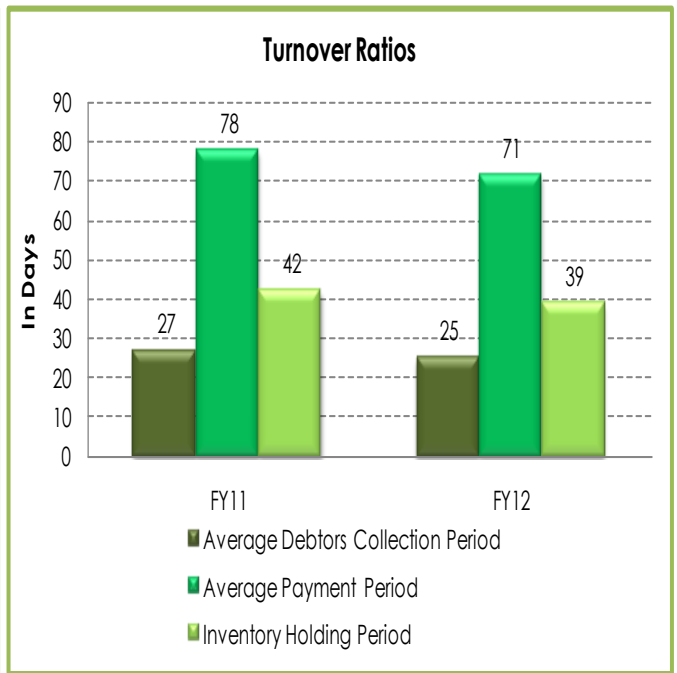
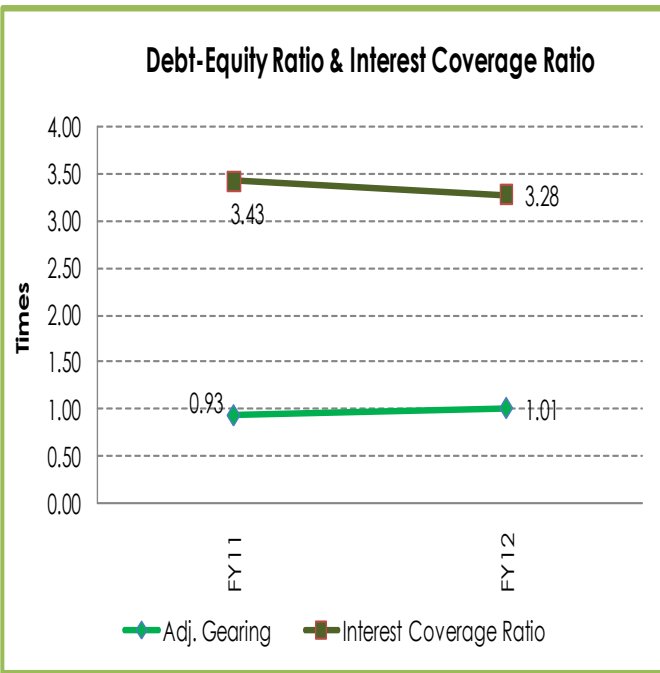
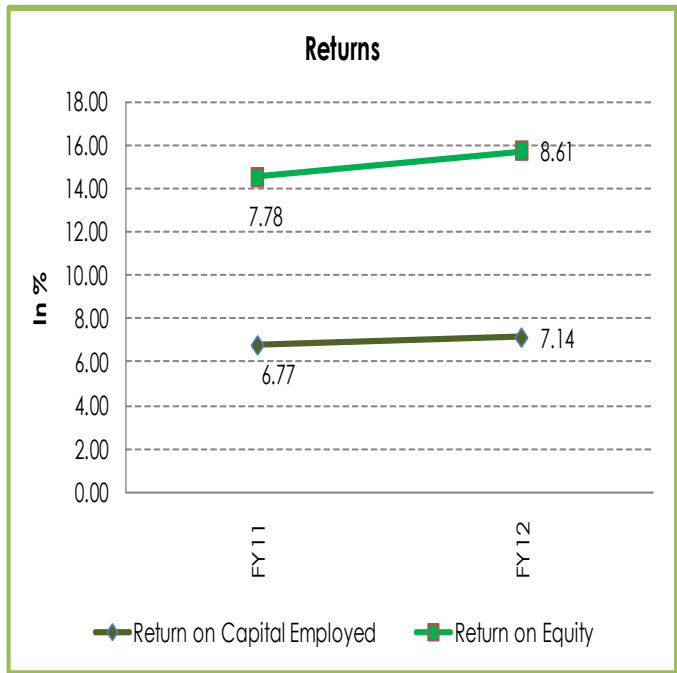
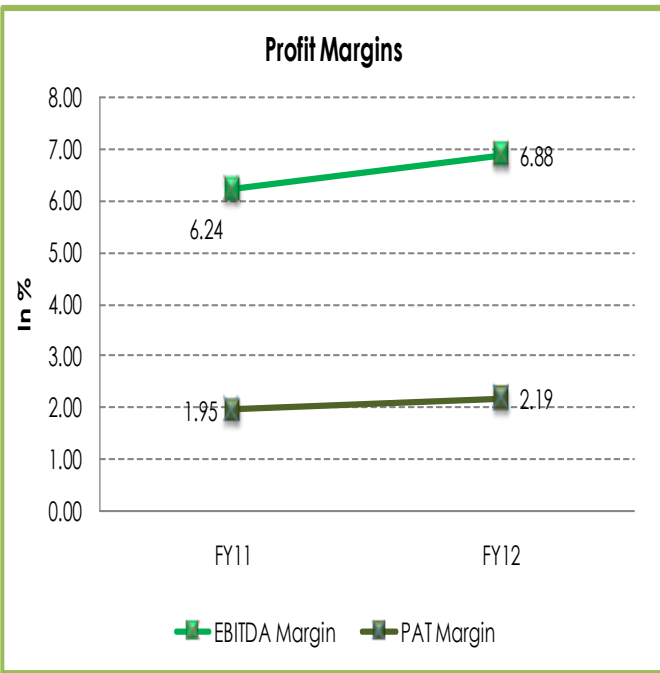
## ONICRA'S OUTLOOK ON SMEs IN INDIA

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Small Tea Growers (STGs) presently account for about 35% of India's total tea production, and their contribution has been projected to increase to 50% of the country's total tea production in another five to seven years. Bengal has approx. 40000 small growers and Assam has about 1 lakh small tea growers. The average annual yield from small holdings hovers around 2,500 kg of made tea /hectare, and this translates to 10,000 kg of green leaf. It has been decided by Tea Board of India that factories producing in the range of 22.5 - 225 kg of made tea per day would be classified as micro mini tea factories, and factories producing 450-500 kg of made tea would be labeled as mini-factories.

### Financial Performance

A financial analysis of SME units engaged in tea processing business was undertaken to understand the dynamics of the SMEs in Tea Industry. A sample set of 20 units was chosen from the entities that have been rated by Onicra over the period January 2013 to January 2014. The results of the financial analysis have been detailed below.





**High cost of production is keeping the margins low** – India has the highest cost of production among major tea producing countries in the world. The cost of sales is above the auction realization. Despite rising tea prices in India, the profitability position of the tea processing companies has remained slated on account of higher labour charges along with high power & fuel cost. Labour cost accounts for around half of the unit's cost of production and approximately 55-75% percent of that labour cost is due to plucking. Field and factory workers' productivity is also considered low in India. Therefore it is assumed that around 80 percent of the cost of production goes towards fixed expenses like fuel, power and labour. Apart from this due to intense competition, tea growers are unable to pass the rising cost to the market thereby increasing pressure on the margins.

**Low returns generated by small tea growing companies** – Both return on capital employed and return on equity has been low during the period under study. There has been a marginal increase in the return on capital employed due to an increase of 11% in the total capital employed as compared to an increase of 17% in the EBIT of the sample.

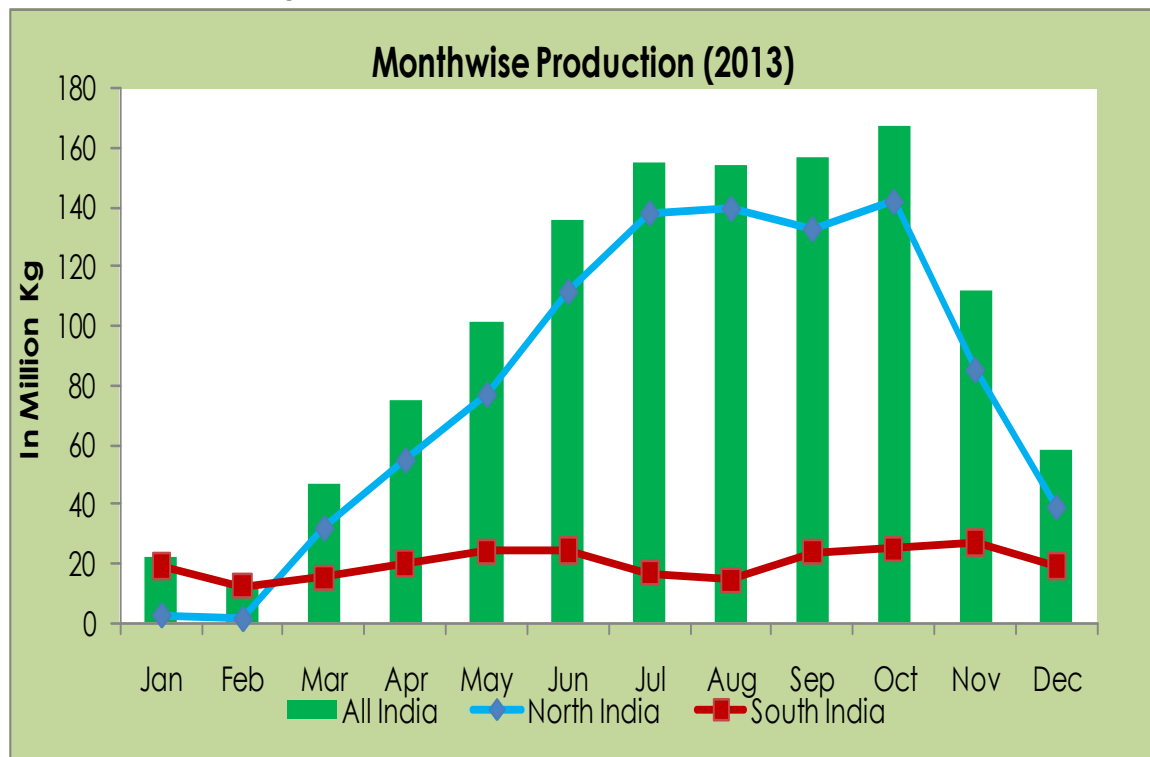
**Low dependence on borrowed funds and satisfactory interest coverage ratio** – As can be seen in the graphs above, the dependence on external borrowings has been low. Although the companies operating under the tea industry are not highly leveraged, but due to weak profitability position the interest coverage ratio has been moderate.

**Efficient Working Capital Management** – The units engaged in the manufacturing of tea are able to re-cycle their working capital faster which can be seen by inventory holding days of 39 days and debtors days of 25 days.

## CHALLENGES FORESEEN BY ONICRA FOR THE TEA INDUSTRY

**Fluctuations in the Production due to climatic changes** – Climate that is conducive to tea growth is one in which there is sunlight during the day and rain at night on an almost daily basis. Although the quantum of rain has not changed much, the frequency has reduced and the rise in temperature has adversely affected photosynthesis in the plants. These climatic changes have resulted in lower crops as well as a higher incidence of pests and diseases and yields are showing a downward and erratic trend. The production of tea is not same round the year. There is a wide variation in the monthly production of tea. Although total tea production in south India is less, but as far as the productivity is concerned they are better than rest of the country because of the climatic condition of the Southern states. In North India, there is a dormant winter period, therefore, the growth of tea bushes stopped and hence the productivity goes down considerably. Climatic conditions not only affect the productivity but also the quality of leaves harvested.

**Figure 5: Month wise Tea Production Trend in India**



**Slower pace of re-plantation** – India's productivity has not picked growth due to slower pace of re-plantation of old bushes. With no substantial increase in tea acreage the increase in productivity can be achieved through the re-plantation of old bushes. Lack of bush re-plantation and rejuvenation of bush health are major deterrents for Indian tea production. Over 1,48,305 hectare or 37% of entire Indian tea land is hosting bushes over 50 years of age those which have crossed their optimum producing age. Compared to that, over 70% tea land in Kenya and 68% in Srilanka are with bushes less than 40 years old. Entire tea plantation in Vietnam is less than 20 years old and near 35% of Chinese tea plantation is less than 10 years old.

**High cost of production and low productivity** – The production entails risk on account of weather conditions and falling prices. Labour cost is quite high since hand picking of tea is labour intensive. To reduce the cost, some plantations are resorting to longer picking cycles; say 15 to 18 days against the ideal 10 days. On top of this, they are also harvesting three or even four leave which is resulting in poor quality and is fetching low prices. The ideal is two leaves and a bud. The high cost of production is affecting the Assam tea's competitiveness in the global market.

**Increasing competition in the Global Tea Market** – India is a major exporter of CTC tea and faces stiff competition from Kenya. Demand for Kenyan teas is increasing due to relatively younger bushes which are of higher quality and is better suited for tea bags. Their labour costs are comparatively lower. Therefore, the tea industry in Kenya is more competitive than the Indian tea industry as is reflected by India's diminishing leadership in key markets.

**Coffee acting as a strong substitute to tea** - Apart from the severe competition that the country is facing from other tea producing countries, coffee is emerging as near perfect substitute and is posing greater challenge to the consumption of tea as many coffee outlets have been opened by Barista, Cafe Coffee Day and others. The branded tea players will have to aggressively take on these challenges and their success will hinge on the supply of high quality premium tea as well as organic tea.

## OUTLOOK

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Indian tea industry is expected to touch a turnover of nearly ₹ 33000<sup>1</sup> crore by 2015 driven by upsurge in demand from domestic market. Consumption of tea has increased as compared to production and this will help in better price realization. However, India needs to draw a number of initiatives in order to strengthen the stand in the global market and tap the potential market by improving the standards of plucking thereby enhancing the quality of the product sold. The export growth of the tea has been on a decline and this has resulted in lack of competitiveness in the global market.

New strategies aimed at adding value and reducing production and marketing costs are also needed. Value addition and diversification for a wide range of tea products need to be developed for balancing the supply demand scenario. We believe that the Special Purpose Tea Fund (SPTF) set up by commerce ministry to implement uprooting and replanting programme would help in improving productivity and yield and thereby reduce cost in coming years.

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<sup>1</sup> A study by ASSOCHAM

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