

North Indian tea producers likely to see contraction in margins during current fiscal

Shobha Roy | Updated on August 08, 2021

This is due to the increased cost of production due to wage hike and drop in tea prices

A majority of the bulk tea producing companies which operate estates in North India (Assam and West Bengal), are likely to witness a contraction in margins during the current fiscal on the back of an increased cost of production due to wage hike and drop in prices.

The tea industry in North India, which registered 12-13 per cent decline in production last year, had its costs rising by Rs 35-40 a kg. However, the average price of tea increased by Rs 60-65 a kg last year, thereby pushing up the margins of companies.

BK Birla group outfit, Jay Shree Tea and Industries. for instance, saw its net profit margin (NPM) swell to 10.75 per cent during the last fiscal against (-5.73 per cent) in 2019-20. Warren Tea's NPM increased to 30.61 per cent (-19.66 per cent) while that of Goodricke increased to 2.19 per cent (2.06 per cent) in FY-21, over the year ago period.

According to Kaushik Das, Vice-President and Sector Head, Corporate Sector Ratings, ICRA, the EBITDA margin of a majority of tea companies increased to 12 per cent in 2020-21, which is also estimated to be one of the highest in recent times. But, as things stand now, margins are likely to be lower by 300-400 basis points in

2021-22. However, it would still be higher as compared to the years preceding 2020.

“The EBITDA margin for tea companies has been hovering three-to-four per cent for the last few years (before 2021). However, it went up to nearly 12 per cent in FY-21. This year we are expecting a 300-400 basis points decline in margins assuming a 10-15 per cent decline in prices,” Das told *BusinessLine*.

It is to be noted that the tea industry has been going through rather difficult times in recent years with cost outstripping price realization. Most companies have been cash starved and also have been facing issues on the profitability front. Companies had also been resorting to sale of estates and other assets to pare debt and strengthen their financial position. The industry had been pinning hopes on a fair increase in prices so as to be able to stay afloat at a time when there has been a steady rise in production, primarily coming in from small tea growers (almost 50 per cent of total production).

So, the steep drop in production in 2020 and the resultant spike in prices came as a breather for the industry shoring up their profitability.

Rise in input cost

It is to be noted that wages account for 60-70 per cent of the total cost of the organized sector. In 2021, wage cost in Assam has increased by Rs 38 a day while that in West Bengal has gone up by Rs 26 a day.

The wage hike is likely to weigh heavily on the cost of production. Moreover, the crop is also likely to be 10-15 per cent lower compared with 2019, said Atul Asthana, MD & CEO, Goodricke Group.

Tea production in Assam from January to June this year, is lower by 19 per cent at around 179.32 mkg compared with 220.11 mkg during same period in 2019. Production of 2020 was an aberration due to Covid-19 induced lockdown.

“It is going to be very tough this year on the margins front because prices is not supporting us, cost is up and crop is also down so all the three parameters which determine the company’s profitability is impacted this year,” he said.

According to Bidyananda Barkakoty, Adviser, North-Eastern Tea Association (NETA), the average price realisation of tea is lower by Rs 44 a kg, which is 18 per cent lower compared with last year. However, the cost of production has gone up due to hike in wages and inputs.

“Cost of production of tea has also increased due to hike in cost of inputs like fertilizer, pesticides, diesel, natural gas, coal, transportation etc. Therefore, the net negative impact on the industry till date is to the tune of Rs 76 a kg of made tea,” he said.

The average price realisation of CTC tea at the Guwahati Tea Auction Centre (GTAC) this year, from April to July, is Rs 208.02 a kg, whereas it was Rs 252.21 a kg same period last year. Moreover, the unsold quantity at GTAC is more than double compared to last year.

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<https://www.thehindubusinessline.com/economy/agri-business/north-indian-tea-producers-likely-to-see-contractions-in-margins-during-current-fiscal/article35796296.ece>