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[McLeod Russel bankruptcy case may fan winds of change in tea industry]

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Whatever the outcome of the insolvency proceedings initiated against the company, experts say it is time to fix the structural deformities in the tea plantations business

The tea industry is debating the impact of McLeod Russel's bankruptcy on the sector, which hasn't been in the best of health of late.

McLeod Russel India Ltd., the largest tea-producing company in the world, faces one of the worst crises in its corporate history, which some experts said could have implications for the sector.

The National Company Law Appellate Tribunal last week put off a decision on staying insolvency proceedings initiated against the company for an alleged loan default. The tea industry is debating the impact of this development on the sector, which hasn't been in the best of health of late.

The tribunal in New Delhi admitted the insolvency petition in early August, which McLeod Russel has contested.

While Kolkata-based McLeod Russel has appealed against the formation of a committee of creditors to deal with the insolvency resolution process, the tribunal will decide on the stay after getting a response from Techno Electric & Engineering Ltd., the company that dragged McLeod Russel to court for allegedly defaulting on a Rs 100 crore loan. The next hearing is scheduled on September 8.

Experts attribute McLeod Russel's troubles partly to market factors and partly to the company's rising debt. Some expect the outcome of the proceedings to result in a change of ownership of McLeod Russel, while others are of the view that this is a mere blip for the company, which has been in the tea business for over 150 years.

According to N Dharmaraj, a trustee of Tea Vision, an independent think tank of retired tea industry professionals, the McLeod Russel bankruptcy issue will have an impact on the production and supply of tea in the medium term.

“It is better that somebody else takes over and I doubt if any one company will buy. Only those who are interested in running plantations will buy if it is sold,” said Dharmaraj, former director and CEO of Harrisons Malayalam Ltd. “With the land reforms getting more stringent, it is difficult to use plantation land for any other purpose. Gone are the days when people bought estates for asset value.”

Kausshal Dugarr, founder of startup Teabox, shares the view and said ownership of the company will change hands and among the suitors will be Indian companies that bought estates sold by McLeod Russel over the past few years to service its mounting debt.

According to Dharmaraj, excluding 2020, which was an aberration with prices shooting up after the Covid-19 lockdown, the tea industry in India, the second-largest globally, has not done well in the past few years. Until the 1980s, India’s tea industry was operated by standalone companies that ploughed back profit.

“But from the late 80s, plantation ownership underwent a change with business groups taking over… They spent more money on companies that gave them better returns on investment. Almost 80 percent of the groups did not support the plantations business, which gave comparatively less returns on investment. This created a structural deformity in the industry,” said Dharmaraj.

Companies including Unilever and the Tatas started pulling out of captive tea production.

“When milk is cheap, why buy a cow?” Dharmaraj asked, referring to why the changes took place.

The owners of McLeod Russel, the Aditya Khaitan Group, acquired a 51 percent stake in Union Carbide Ltd. in the mid-nineties and rechristened it Eveready Industries India Ltd. The group carried on with the tea and battery businesses for some years before demerging them into separate divisions.

It was after the formation of McLeod Russel that the company went on an acquisition spree of tea estates in India and abroad.

However, Anshuman Kanoria, chairman of the Indian Tea Exporters' Association, said it was an unfortunate incident about a going concern and will not have an impact on the industry.

"All its operations are normal and we are hopeful that a glorious old company like McLeod Russel will come out of the crisis," he said.

Time for change

Dugarr said the industry must adopt modern marketing strategies to add value, adding that the incident was a signal for change.

"There are a lot of structural problems within the industry that need to be sorted out. Unless that is done, such incidents will continue to happen, not just to McLeod Russel, but to other tea companies, too," he said. "We have seen estates change hands a lot on a smaller scale in Darjeeling. People buy estates and find they can't run it profitably and sell it off after one or two years."

McLeod Russel, a part of the Williamson Magor Group, reported a net loss of Rs 52.4 crore on consolidated net sales of Rs 1,438.4 crore in FY21 compared with a loss of Rs 147.8 crore and sales of Rs 1,142.7 crore a year earlier, on higher tea prices in the latter half of FY21.

The company's financials have been on the decline since FY18, when it notched up a net profit of Rs 219.2 crore on consolidated sales of Rs 2.055.3 crore.

McLeod Russel has been in the tea business since 1869. The company has 31 tea estates in Assam Valley and two in the Dooars region of West Bengal, three factories in Vietnam, six estates in Uganda and management control of Gisovu estate in Rwanda. The company's total production exceeds 80 million kg of black tea annually

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