

Business Standard

McLeod's return from brink of IBC signals a brief respite for tea industry

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On September 3, the country's largest bulk [tea](#) producer, [McLeod Russel](#) India, hobbled its way out of insolvency proceedings after a settlement with financial creditor, Techno Electric & Engineering, a power infrastructure company. For the storied business house of Kolkata, it was a close shave. But for the past three years, it has been touch-and-go for the [tea](#) producer in the Brij Mohan Khaitan group.

In the world of tea, [McLeod Russel](#) is a Goliath of sorts, with a production of 44 million kg in India and 73 million kg globally, including Africa and Vietnam. Its troubles are more to do with the financial support extended to group company McNally Bharat Engineering and less with the deeper malaise in the [tea](#) industry. Before this loan, McLeod was a highly profitable company (between 2009-2010 and 2013-2014, the consolidated EBITDA margin was between 33.26 per cent and 20.91 per cent).

Yet, larger players see closure of the company's corporate insolvency resolution as a silver lining in a fragmenting industry.

"We need big [companies](#) to survive in the industry. They bring stability," said Atul Asthana, managing director and chief executive officer, Goodricke Group Ltd.

In an industry in which more than half the production is accounted for by the small growers, analysts believe that big players may help bring production and pricing discipline.

ALSO READ: [McLeod Russel steps out of insolvency after settlement with creditor](#)

Data from the Indian Tea Association (ITA) shows that the share of small tea growers increased from 51.03 per cent in 2019 to 53.28 per cent in 2021 (it was at 33 per cent in 2014-15, according to the Tea Board annual report). "If you look at the production trend in the last 15 years, the share of registered tea growers has not gone up but that of small tea growers has grown exponentially," Vivek Goenka, chairman, ITA, pointed out.

The industry believes that there is just too much tea in the system, which is making it structurally unsound. Excess tea has depressed prices for years. According to ICRA, operating profitability for a sample of large bulk tea [companies](#) declined significantly from around 15 per cent in FY2014 to less than 4 per cent in FY2020. It reflects a sharp increase in labour costs as against range-bound tea prices during this period, said Jayanta Roy, senior vice president, ICRA.

Figures underscore the point. In January 2015, the wage rate per day in Assam was Rs 115 and from February-end 2021, it increased to Rs 205. In West Bengal, it increased from Rs 123 to Rs 202 in the same period.

Against this, the average North India tea price remained between Rs 138 per kg in FY2014 and Rs 205 per kg, year-to-date for FY22, according to Tea Board and ICRA data.

Unlike small growers, the organised sector is subject to statutory provisions like social cost – health and welfare – under the Plantation Labour Act. "This is something that needs to be understood and addressed," said Goenka.

The stress is showing up on the balance sheet of tea [companies](#). McLeod is not the only company to land in the National Company Law Tribunal (NCLT). In 2018, Assam Company, the world's first tea company, was auctioned under the [Insolvency and Bankruptcy Code](#) (IBC).

BREWING TROUBLES				
	Figures in ₹crore			
	Net sales	PBIDT	Networth	Total debt
EVEREADY INDUSTRIES				
FY18	1,456.4	124.1	342.7	264.0
FY19	1,506.6	136.4	375.9	408.0
FY20	1,221.1	318.5	555.5	394.0
FY21	1,249.0	-232.2	249.1	361.0
MCNALLY BHARAT				
FY18	1,682.5	3.6	32.4	3,468.4
FY19	1,738.8	-331.1	130.9	2,339.6
FY20	730.1	-251.2	8.0	2,396.7
FY21	501.5	18.9	73.8	2,140.7
MCLEOD RUSSEL				
FY18	2,055.3	534.1	1,828.6	1,090.8
FY19	1,722.9	482.4	1,689.8	1,812.2
FY20	1,142.7	115.5	1,544.4	2,345.8
FY21	1,438.4	215.2	1,619.0	1,835.4

Figures for FY21 are as per unaudited results filing
Source Capitaline; Compiled by BS Research Bureau

The way to go would be to increase consumption, increase exports and reduce the supply of non-quality tea, said Goenka. "The margin between demand and supply needs to be narrowed down," he added.

That excess supply is a problem in the industry was evident last year, when tea prices touched record levels on the back of a significant drop in production during 2020 due to restrictions imposed to contain the Covid-19 pandemic (the drop in North India production was 137 million kg in 2020 over 2019). The average price for North India tea for April to August in FY2021 was Rs 259 per kg.

Profitability of bulk tea players is estimated to have improved to close to 12 per cent in FY2021 on the back of a spike in tea prices, said Roy.

But after a surge at the beginning of the season this year, prices dropped and ICRA expects operating profitability of the bulk tea players to decline to high single-digits in FY2022.

The continuous pressure on prices coupled with regulatory pressure on the organised sector is leaving little room for innovation and research and development. "There has to be a barrier to entry and competitive advantage for incumbents to take up any kind of innovation," said Rudra Chatterjee, managing director, Luxmi Tea.

Exports, too, have been stagnating. In the last five years, exports from India have largely stayed between 200 million kg and 250 million kg.

With myriad problems, plantations have been losing flavour for a while now. In the first quarter of 2006, Hindustan Unilever, then Hindustan Lever, completed its exit from its tea plantations business both in Assam and Tamil Nadu.

In 2007, Tata Tea hived off the plantation business into separate companies to focus on the branded business (Tata Tea was renamed Tata Global Beverages in 2010). Tata Consumer Products (formed by

merging the consumer products business of Tata Chemicals with Tata Global Beverages) now has an interest in plantations via two associate companies – Amalgamated Plantations (41.03 per cent) and Kanan Devan Hills Plantations Company (28.52 per cent).

There was an apprehension that insolvency of McLeod could further balkanise the already fragmented industry, which in turn would weigh on the quality of tea produced in the country. For now, the crisis has been averted and a debt resolution with the banks is in the works. But the open question is, for how long.

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