Tata Tea, after the acquisition of Tetley, has become the world’s second largest branded tea company.

Background

Tata Tea, set up in 1964 as a joint venture named Tata Finlay, with UK-based James Finlay & Co to develop value-added tea, was among India’s first multinational companies. In 1983 the Tatas acquired the entire shareholding of James Finlay to rechristen the company as Tata Tea Limited. In the mid 1980s, to offset the erratic fluctuations in commodity prices Tata Tea felt it necessary to enter the branded market and launched its first brand Kanan Devan in polypack, thus heralding the polypack revolution in the country.

Today Tata Tea and UK-based Tetley Group represent the world’s second largest global branded tea operation with product and brand presence in 40 countries and a significant, albeit consciously declining presence, in plantation activity in India and Sri Lanka. The world-wide branded tea business of the Tata Tea Group contributes around 88 per cent of its consolidated turnover with the remaining 12 per cent coming from bulk tea, coffee, and investment income.

Tata Tea is headquartered in Kolkata (West Bengal) and owns 26 tea estates in India as an entity. With an area of 15,000 hectares under tea cultivation, the company produces around 40 million kilogrammes of black tea annually. Its tea estates are located in the states of Assam and West Bengal in eastern India and Kerala and Tamil Nadu in the south. The company has a strong distribution network in India reaching out to over 1.7 million retail outlets in India. Full-fledged research and development centres of the company focusing on the branded tea business include a facility at Teok (Assam) and a product development centre at Bangalore, Karnataka focused on the entire range of tea operations.

The Tata Group companies are the largest shareholders of Tata Tea with a stake of 29 per cent, followed by the public with around 23 per cent stake. Foreign institutional investors, foreign companies and non-residents hold around 18 per cent stake, with the remaining stake held by Indian financial institutions, mutual funds, banks and other companies.

Products and Brands

While Tata Tea is the second largest tea company in India after Hindustan Lever, it owns the single largest tea brand in the country, Tata Tea Premium. The company has five major brands in the Indian market catering to all major consumer segments.
for tea. Under the Tata Tea portfolio, three brands cater to the premium, popular and economy segment – Tata Tea Gold, Tata Tea Premium and Tata Tea Agni respectively. In addition Tata Tea in India has three very strong regional brands in the four Southern states, which are either number one or
number two in their respective geographies. These are Tetley, Kanan Devan, Chakra Gold and Gemini. Tetley in India, though a niche brand, is presented as the new face of tea – innovation brand. The Tata Tea brand leads market share in terms of value and volume in India.

Tetley acquired in 2000 is the market leader in the UK and Canada with 26 per cent and 40 per cent market share respectively by value. Tetley has also launched iced tea under Tea of Life brand in UK, which is making good progress. Tetley is establishing a presence in the ready-to-drink segment, for which Tetley Ice T has been launched in UK and Australia. Chayya, a recently launched Chai Latte brand in UK, is the first of its kind and is showing great promise. Besides Tetley also boasts of a wide range of fruit and herbals and speciality tea. In order to build its business in these high value segments, packaging innovations such as the “stay fresh” flip top carton are being introduced. Tata Coffee has the distinction of having six of the world’s ten best coffees in its line up. With the purchase of 8 O’Clock it now owns a strong brand in the US.

Financial analysis

In order to support these acquisitions Tata Tea has actively pursued operational and financial restructuring. The impact of this is evident from the consolidated financial results of the company - though sales have remained flat between 2003 and 2005, the operating margin has improved from 14.1 per cent to 18 per cent.

Over time, the group has grown from being a dominant plantation player into a branded international tea business. In line with this change of strategic focus, 17 of the 25 estates in South India were transferred to a new entity Kanan Devan Hills Plantation Company Private Limited (KDHP). KDPH is principally owned by the 13,000 employees of these plantations, with Tata Tea having 18.2 per cent interest in the new enterprise. The groundbreaking initiative, which delivers the company’s commitment to doing business in a sustainable manner, resulted in a one off profit this year and will deliver recurring costs benefit in future. Tata Tea has lowered major costs through stringent cost control and quality improvement measures, supported ably by its R&D centres. These initiatives have helped the company improve its operational performance.

Financial restructuring has also been the thrust for the company in the past. The acquisition of Tetley was a highly leveraged deal that increased the gearing of the company to 2.2 in the year 2002. Thereafter company has taken several steps to successfully replace its high-cost debt to reduce its gearing to 1.1 in the year 2005. These initiatives have allowed significant improvement in the Tetley Group’s cash flows that will enable the company to invest behind its brand globally, launch new products and consolidate its market shares in key geographies.

Tata Tea’s contribution in making “Made in India” global

Tata Tea, as part of its stated strategy to globalise, has charted out its vision to be the market leader in the country and increase reach in the global market. For this the company has followed a strategy of forming subsidiaries or entering into alliances in countries that have a significant presence in the tea market, both from the producer as well as consumer side.
The first move towards globalisation was the formation of its 100 per cent subsidiary in the USA in 1987. This was followed by its presence in the plantation industry in Sri Lanka. Over time the company realised that in order to go global, acquiring an international brand would be preferable to building one afresh the world over. Hence in 1995, the company bid for Tetley, a well-known innovator in tea packaging, buying, blending and logistics management and the second largest seller of tea in the world after Unilever, but failed. This however did not deter the company from reaching out again when the opportunity arose in the year 2000. It was a major landmark in the history of the company in that year when it acquired Tetley.

Tetley was a company that had a turnover of GBP 280 million, three times the turnover of Tata Tea Ltd. The acquisition took place through a special purpose vehicle (SPV) Tata Tea (GB) Limited at a cost of GBP 272 million, funded through a mix of debt and equity. This acquisition made Tata Tea the world’s second biggest tea company after Unilever. It was the biggest ever cross-border acquisition by an Indian company at that time and was also the first leveraged buyout by an Indian firm.

The acquisition was the perfect blend - Tata Tea the leader in India in the packaged tea segment with a presence in developing countries through exports and Tetley the second largest tea brand in the world, with a presence in developed economies of US, Canada, Europe and Australia. The integrated vista offered access to new markets and products to both companies, as well as synergies in tea buying and blending.

The Tetley Group now contributes around two-thirds of the total turnover of Tata Tea Ltd and its brand Tetley is the second largest tea bag brand in the world. Its manufacturing facility based at Eaglescliffe, in the north east of England, is believed to be the largest tea bag factory in the world. The combined portfolios of branded offerings cater specifically to the US, Canada, Western Europe, Australia, Middle East, West Asia, Africa, Poland, Russia and Kazakhstan markets in addition to the manufacturing and supply operations of Tetley’s subsidiary companies. More than 70 per cent of the consolidated sales of the company now come from outside India. Tetley has a customised portfolio of offerings for each country, ranging from black, green, fruit and herbal teas, iced ready-to-drink teas and an extensive range of exotic speciality tea.

Leveraging the Tetley acquisition further, in mid-2003, Tata Tea launched Tetley in Pakistan. This was followed by a joint venture with ACI in Bangladesh in the same year, to introduce Tetley in the country.

In step with its stated global expansion plan, Tata Tea acquired Good Earth, a specialty tea brand in the US, for USD 32 million. Good Earth has a
turnover of USD 16 million and is one of the fastest growing specialist tea brands in the US. For the buyout, Tata Tea’s subsidiary in the US signed an agreement with Good Earth Corporation and a company called FMALI Herb Inc, which has the license to use the brand. The Good Earth brand sells green, white, red, herbal, vanilla and medicinal teas. It has a 3.7 per cent share in the US specialty tea market and blends and packs tea at its base in Santa Cruz, California.

Tata Tea (GB) Ltd (subsidiary of Tata Tea Ltd), has signed a definitive agreement to acquire the assets of market leader in Czech Republic, JEM_A. The Tetley Group has funded the acquisition. JEM_A has 26.6 per cent volume share of the tea market in the Czech Republic and a turnover of 300 million Czech Koruna (USD 12.5 million). JEM_A has been in the business of tea since 1974, originally as part of a state owned company and later as part of the Alima Group of companies. It sells a wide range of black, green and fruit and herbal teas, which it produces at its factory in Jemnice, in the south east of Prague. JEM_A will continue to pack teas at its production facility in Jemnice and continue to trade under the JEM_A brand name. JEM_A has won a major award for the quality of its products and has been ranked consistently among the top 100 companies in the Czech Republic.

Tata Tea acquired a 30 per cent minority stake in Glacéau, the maker of vitaminwater® and announced its entry into the enhanced water business arena. Tata Tea, along with Glacéau®, announced the signing of a definitive agreement whereby Tata Sons and Tata Tea will jointly invest USD 677 million in Glacéau® to purchase the stake previously held by TSG Consumer Partners and provide additional growth capital. As a result of this investment, Tata will own 30 per cent of Glacéau®. This transaction ensures that Glacéau® continues to meet the explosive demand for its vitaminwater® brand fuelled by America’s health and wellness revolution. The Tata Group’s investment in Glacéau® strengthens its presence in the US and provides opportunities for global
growth for Tata’s beverage businesses. This transaction is being made through Tata Tea GB Ltd., which includes Tetley Tea’s operations worldwide.

**Factors fuelling Tata Tea’s global initiatives**

Though the Tetley acquisition was perceived negatively by the market for the next three years, the company carefully chose an approach to integrate the processes and explore synergies between the two companies with absence of any time pressures, while maintaining operational independence. The emphasis throughout was on revenue and growth and not on cost reduction. A common Mission-Vision-Values statement and strategy for both the companies was formulated after a debate in a joint managerial group of the two companies. A structure that facilitated joint working in several areas was implemented. A well-thought through process was adopted for the integration of the two companies with some of the highlights being:

- Identification of common beliefs: An international consulting firm was commissioned to identify the common beliefs between the two companies and suggest ways to bring the two closer together.
- Creation of a structure: A structure was put into place to create a steering committee with several task forces reporting to it and comprising managers of both companies. Some teams were given time-bound tasks while others worked on unification of some processes. This structure was then folded into the operations of both companies.
- Refinement of structure: The Steering Committee became a Supervisory Board reporting to the Board of Tata Tea, which started taking decisions on matters concerning both companies. Four integration teams supported this Board, one, a growth team having an agenda to drive geographical and product category growth and improve operational performance and the other three to drive common business processes. These include the Commercial and Business Processes Team to streamline and standardise marketing, the Global Supply Chain Team to handle raw materials, finished products, delivery and distribution, and the Support Team to look at finance, research, communications, Information Technology and Human Resources.

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<th>Merger implications</th>
<th>Tata Tea – pre acquisition</th>
<th>Tetley – pre acquisition</th>
<th>Consolidated – post acquisition</th>
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<td>Position in the value chain</td>
<td>40 per cent of turnover came from packet tea/tea bags</td>
<td>100 per cent of turnover came from packet tea/tea bags</td>
<td>Company has moved up the value chain – 84 per cent of turnover came from packet tea/tea bags</td>
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<td>Increased outsourcing</td>
<td>Produced 95 per cent of its tea requirement in-house</td>
<td>Outsourced entire requirement from 35 different countries, with an estimated procurement of 3 million kilogrammes of tea every week</td>
<td>Today, 70 per cent of Tata Tea’s tea requirement is outsourced from 20 different countries, thus reducing the risk associated with fluctuation in production arising out of various factors</td>
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<td>Predictable margins</td>
<td>Margins highly correlated with tea cycle</td>
<td>Margins inversely correlated to tea cycle</td>
<td>Margins hedged</td>
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<tr>
<td>Global footprint</td>
<td>Predominantly domestic operations</td>
<td>UK and USA account for bulk of sales</td>
<td>Global presence</td>
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Given the brand leadership role in its key markets and the current upturn in domestic demand in most countries, Tata Tea continues to invest in new product launches and explore geographic expansion. The out-of-home is a big opportunity that the company is looking to address. Out-of-home is becoming a significant feature of the tea market in India and elsewhere in the world. The company has made progress in this direction through Real Brew iced tea concentrate in the US and Comic vending machine, a real breakthrough.

The acquisition of 8 O’Clock has transformed Tata Coffee from being a regional plantation player to a significant branded player globally. The company would be looking to build a coffee play by moving up the value chain and extending existing brands into new geographies. With the foray into the mineral water through Glaceau acquisition the company has signalled its intentions of looking at an integrated beverage company where it leverages cross synergies for both branding and distribution.

Future plans

The world retail packaged tea market is worth USD 20.3 billion and the world ready-to-drink tea market is USD 24.5 billion. Currently Tata Tea Ltd and Tetley operate in countries accounting for 53 per cent of the world packaged tea volume. Thus a significant canvass is yet to be tarred by its global brush. The complexion of mature markets such as the UK and Canada is changing. Consumer demand for traditional black tea products is declining, while sectors such as speciality, green, fruit and herbal infusions are growing rapidly. To take advantage of this trend, Tata Tea has been building its business in these high value sectors during the past year by supporting key products, anticipating and responding to consumer needs with a range of new product developments, and making acquisitions.

The fragmented nature of the global tea market makes it ripe for consolidation and many tea markets have strong, established brands whose presence makes organic growth slow and costly. In this environment, acquisition is, and will remain, a vital element of our Tata Tea’s growth strategy. The Good Earth and Jemca brands have improved Tata Tea’s US portfolio and made it the brand leader in the Czech market.

An intense benchmarking process was conducted in Tata Tea, Tetley as well as other companies, the end result of which was to have world-class processes that are endemic to the branded business.

Globalisation at a glance

- World’s second largest global branded tea operation with product and brand presence in 40 countries
- Significant presence in plantation activity in India and Sri Lanka
- Subsidiary in the US overseeing operations in the country, joint ventures in Pakistan and Bangladesh to sell tea
- Acquisition of Tetley, a company that had a turnover three times the turnover of Tata Tea in India
- This was the biggest ever cross-border acquisition by an Indian company at that time and was also the first leveraged buyout by an Indian firm.

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