



Wage hike storm to hit tea plantation firms' margin

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The operating margins of the tea companies may be further hit with the cost of production rising by up to Rs 26 per kilogram due to the interim wage hike for Assam tea workers.

For the last few years, most tea plantation companies have been reeling under stress and many fear that the wage hike will only add to their woes unless there is a price increase. Some small companies may even have to exit the business.

Wages comprise over 60% of the production cost for tea companies. The Assam government recently hiked daily tea wages by Rs 30 to Rs 167 per worker, effective retrospectively from March 1, 2018. This will see a proportionate increase in provident fund, gratuity and other cash benefits offered to the workers. Besides, the industry pays in kind for ration, medical, housing, firewood, etc. Nearly six lakh workers are employed with the tea industry in Assam and wages in tea gardens are paid on a weekly basis.

In Assam, the wage revision was due since January 1, 2018. Recently, the government of West Bengal too announced an interim wage hike of Rs 17.50 per day per worker for the Dooars and Darjeeling, which was implemented since January 2018. The earlier wage agreement for West Bengal expired in March 2017.

Traditionally, wages of tea workers were decided through bipartite agreement (trade unions and tea producers) in Assam and tripartite agreements (trade unions, state government and tea producers) in West Bengal. Wages are finalized for a period of three years, with a fixed increase rate annually. The impact of wage revision is usually highest in the first year. However, this time the Assam government directly intervened in the wage revision, ruling out any negotiation between unions and producers. The cost of production for Assam tea industry is likely to go up by Rs 525-780 crore, say experts. Organized industry in Assam produces around 300 million kg of tea annually.

Jagjeet Kandal, MD, Amalgamated Plantation Pvt Ltd (APPL), a Tata group company and the second largest bulk tea producer in the country, said that despite the cost of production rising, tea prices have remained subdued in the last four to five years. "Markets have not reacted at all," he said, adding that the wage hike will hit the organized industry in a big way, raising cost of production by up to Rs 26. APPL, which is already reeling under losses, may see a hit of Rs 14-15 crore per annum on account of wage hike. With 25 gardens spread across Assam and the Dooars in West Bengal with an annual production of 42 million kg, APPL employs around 31,000 workers. The recent wage hike will see APPL's production cost going up from Rs 205 per kg to Rs 240 per kg, whereas its average selling price is around Rs 180-185 per kg, Kandal said, adding that while the company is able to have certain profit margin on green leaves purchased from small tea growers, in its own gardens, it is incurring losses due to high production cost. In its recent annual general meeting in June, APPL chairman Ranjit Barthakur had said the financial result of the company at net of taxes was at a negative of Rs 28.42 crore last fiscal. Kandal said if prices don't react in tandem with the wage hike, there could be defaults in the industry, which may lead to the closure of some gardens.

Himanshu Shah, chairman, M K Shah Exports Ltd, echoed similar concerns. The company has recently signed an agreement to acquire eight tea estates in Assam from the Williamson Magor Group company McLeod Russel India Ltd, the largest bulk tea producer globally, for Rs 331 crore. McLeod, with around 65

tea estates in Assam, Vietnam and Africa, has been looking to pare its debt by Rs 400-500 crore through asset sale. Shah said that though there had been an average price increase of Rs 12 per kg over last year, the wage increase will see the cost of production rising between Rs 15 and Rs 20, depending on the yields. "Though we have factored in the wage hike while negotiating with the Magor, our margins will still have some impact," Shah said.

Vivek Goenka, president, Warren Tea Ltd, said discussions are going on with the Assam government to help the industry with ration and other items in order to compensate for the increase to some extent. "Otherwise, such an increase will be unsustainable for most of the industry," Goenka added. In 2017-18, Warren Tea reported a net loss of Rs 7.89 crore.

In a recent report by Icria Ltd, Kaushik Das, vice president and sector head, corporate sector ratings, said that bulk tea players have already witnessed pressures on operating margins over the last few years, mainly driven by increased labour costs and inadequate increase in realizations. "With this sharp increase of around 22% in cash wages, organized bulk tea players are likely to witness further contraction in operating margins, unless there is a commensurate rise in tea prices," Das said.

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