

The Telegraph India

More asset sale on McLeod menu

Sambit Saha Aug 10, 2018 00:00 IST

Calcutta: McLeod Russel, the world's largest producer of bulk tea, plans to go asset light.

In a major strategic shift, the company intends to focus on outsourcing leaf and processing it into tea rather than going through the rigors of producing from its own estates.

The company, which has already shed nearly 15 million kg tea from the Assam portfolio by hiving off 12 gardens, hinted at more pruning of estates which can or are making losses if the price rise is not commensurate with the costs.

"We are trying to follow the bought-leaf model like the Kenyans. As a company, we have to change and model ourselves in a way in which we feel the business will grow over the next 10 years. This means focus on bought leaf and packet tea," Aditya Khaitan, vice-chairman and managing director of McLeod Russel, said.

Small growers, though organized, account for two-thirds of the nearly 450 million kg produced in Kenya, Africa's largest producer of tea. State-owned Kenya Tea Development Agency Holdings Ltd buys leaf from the small growers and managing houses such as Brook Bond, Finely and Camellia.

Vietnam, a large Asian tea producer, also follows the same model. Of the total production of 1,321 million kg in 2017 in India, nearly 500 million kg is produced by small growers whose share in the overall pie is steadily climbing.

Estimates suggest the production cost of bought leaf sourced from small growers is at least Rs 60-70 less per kg than organized players. Packers and large marketers are unwilling to pay a premium for good quality tea from the estates and rather buy from the small growers. Recent research suggests consumer preference for cost over quality.

Selling gardens, however, would not mean McLeod would bring down production. The loss from its own crop will be made up by bought leaf.

"We have 55 tea gardens...We are identifying the gardens where the yield is low. The idea is not to make fresh investments in these gardens but rather sell them and use the capital in packet and bought leaf," Khaitan said.

In the tea industry, gardens operate as a separate profit centre. There is little scope to merge the gardens and rationalize the workforce. The workers' wages, which recently went up in Assam by Rs 30 per day, account for 60 per cent of the cost.

Khaitan said there was not much scope for emotion in business. Ten years back it was thought to be prudent, going by the demand-supply scenario, to buy more gardens. With production leapfrogging after the advent of small tea growers, it now appears to make sense to sell gardens and compensate the volume with bought leaf, Khaitan said, giving the example of the Dooars.

McLeod is, however, not blending bought leaf with estates as the latter fetches more premium in the market.

The company made a profit of Rs 1.51 crore in the first quarter against a loss of Rs 1.66 crore over the same period last year. Total income grew to Rs 269.9 crore in April-June 2018-19 from Rs 228.2 crore a year ago.

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