

Assam tea plantation workers' wage hike may hit margins

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MARGINS OF BULK tea producers in the two largest tea producing states are estimated to come under pressure with the interim enhancement of wages, according to a report by ICRA.

India is the second largest producer of tea in the world and makes up 26% of the global tea production.

Assam government has decided to notify an interim enhancement of wages of tea plantation workers by a minimum amount of ₹30 per day with retrospective effect from March 1, 2018, till finalisation of the revised minimum wages proposed earlier by the state government.

With wage rates increasing in Assam, West Bengal, the other major producer of bulk tea, is also likely to implement an increase shortly, given the historical alignment of wage revisions in the two states, ICRA reports and adds that large tea players have commenced pay-out of wages at the increased rate from 1st August 2018.

This steep increase is expected to have a significant adverse impact on the operating cost of bulk tea players, given that Assam and West Bengal are the two largest tea producing states in India, accounting for almost 80% of India's bulk tea produc-



tion, ICRA report said.

Commenting on the likely development, Kaushik Das, vice president and sector head, corporate sector ratings, Icra, said, "Bulk tea players have already witnessed pressures on operating margins over the last few years, driven mainly by increased labor 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."

Tea is a fixed cost-intensive industry,

with labor costs accounting for around 60% of the total cost of production.

The increase of ₹30 in cash wage is estimated to result in an increase of around 16% in overall cost of labor per day for tea estates. "Based on a productivity of around 2.8 kg of tea produced per man-day for tea estates in Assam, this translates into an increase in per Kg cost of around ₹17," added Das.

With other input costs such as fuel, agro-chemicals and fertilizers also witnessing increases, tea prices as per ICRA estimates would have to witness an increase of around 15% to enable large bulk tea players to maintain operating margins at around the levels recorded in FY2018.

"While average North Indian tea auction prices have witnessed an increase of around 7-9% in recent weeks on the back of lower supplies, sustainability of a firm price trend is crucial for the financial health of the tea industry," Das said.

The interim increase is expected to be in place till the finalization of the composite and all-inclusive wage structure proposed earlier by the Government of Assam, of ₹351 per day. Apart from daily wages, tea plantation workers receive a host of other benefits, which include free housing, medical facilities, ration and firewood.