

Warren Tea group set to exit plantation, expand in IT

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Kolkata, 23 November

Warren Tea, which traces its lineage to the 1850s, is getting out of the tea plantation business. The Vinay Goenka-led firm has signed a memorandum of understanding (MoU) with the C K Dhanuka-promoted Dhunseri group to sell its remaining four estates in Assam.

Goenka plans to focus on more remunerative businesses in the group, such as IT and hospitality. "We have had the plantation business since 1983 and it has been stable. But we want to focus on our IT and hotels businesses, where the return on investment (RoI) is better. So, getting out of plantations was purely a business decision," Vivek Goenka, president, Warren Tea, said. Expansion plans on software, and

hotels are on the cards.

"As far as Warren Tea is concerned, we want to focus on value addition in tea and are looking at getting into retailing online or offline," Goenka said. The software and hotels businesses of the promoters are under separate companies — Softweb Technologies and Maple Hotels & Resorts, respectively.

Warren's decision underlines the low RoI in tea. "The return on capital employed (RoCE) in the tea industry is on the lower side. Profit from the business as a percentage of investment is in the mid-or-high single digits," said ICRA vice-president Kaushik Das.

But it wasn't always like this. "Companies were enjoying decent margins till 2014. Thereafter, employee expenses started rising while tea prices remained stagnant

till 2020. After this, they jumped due to Covid-related shortages," Das said.

Dhanuka, who is buying the gardens, believes a proposal from the industry to fix a minimum floor price will be accepted sooner or later. "There is no way to survive in the tea industry without a floor price linked to the cost of production. When that happens, the tea business will look up. And if the industry benefits, then the two million people directly employed in it will see an increase in wages," Dhanuka said. There is also an emotional angle to Dhanuka's purchase, though.

He added, "This is my 50th year in tea. I started when I was 17 — that is the emotional reason. And, I am passionate about the tea industry." The sector has seen some consolidation in the last few years, prompted by financial stress. In

2018, Assam Company, the world's first tea company, was auctioned under the Insolvency and Bankruptcy Code (IBC).

Between FY19 and FY20, the country's largest bulk tea producer, McLeod Russel India, sold 18 gardens, though the decision was primarily led by group-related issues.

The stress, however, is more palpable in Darjeeling, where the yield is lower and cost of production higher. "In the last few years, 8-10 gardens have been sold in Darjeeling, all to non-tea players. Another six are slated to be sold," said Anshuman Kanoria, chairman, Indian Tea Exporters Association.

"Assam is in a much better position and the pandemic gave it a new life with an increase in prices. Darjeeling looks more like an ICU case," Kanoria added.



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