

Business Standard

Tata Tea-Pepsico to offer 'good for you' drinks

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Tata Tea and Pepsico are exploring joint venture opportunities in non-carbonated ready-to-drink beverages in the health and wellness category.

Tata Tea has signed a non-binding memorandum of understanding (MoU) with Pepsico for exploring such joint venture opportunities, taking it a step closer to its goal of becoming a global leader in "good for you" beverages.

Definitive agreements for the joint venture are likely to be finalised and executed over the next few months.

Senior executives close to the development said the joint venture was likely have equal participation from both the companies. However, it is not immediately clear whether the partnership will be limited to India or will extend to various geographies.

Tata Tea declined to comment on the details, saying that nothing would be known before the definitive agreements were signed. The company's shares were up 3.17 per cent to close at Rs 1,004.40 on the National Stock Exchange (NSE).

The partnership with Pepsico is expected to augment Tata Tea's wellness and health plat-



Tata Group Chairman Ratan Tata (right), Saad Abdul-Latif, CEO AMEA Division Pepsico Inc, during signing of an MoU between Tatas & Pepsico in Mumbai on Friday. PHOTO: PTI

form. Tata Tea began its journey of transformation into the "good for you" beverages with the launch of Himalayan natural mineral water and T'ON, a drink made from fruit juice, tea

extracts and ginseng which has been launched in south India.

Pepsico, on the other hand, has a presence in the healthy beverages segment through the sports drink, Gatorade and

fruit juice, Tropicana. The company is also going through a global move to make its products more healthier. Pepsico chief Indra Nooyi, during her recent visit to India, had said that she expects health drinks to contribute 50 per cent of the company's total sales in the coming years.

The size of the energy drink market in India is estimated at about Rs 500 crore and could double to over Rs 1,000 crore by the end of this year, as per market research firm Data-monitor. The carbonated drinks market in India is already valued at over Rs 6,000 crore, but the growth rate there is much slower as compared to non-carbonated space.

Senior executives following the deal say that the Tatas would benefit from Pepsico's distribution network for beverages as well as the large research and development support they can give.

They also point out that the health beverages portfolio could be dairy, tea or water based and many of the current product lines like the T'ON could be pushed through this proposed joint venture. For Pepsico, the tie up with the Tatas could allow it to shrug off its carbonated beverage drink company tag.

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THE TATAS of course have a long relationship with Pepsico as group company Voltas Ltd was one of the equity partners of Pepsi when it entered the country. India Hotels was also one of the bottlers for the multinational. However the company sold off its interest in the venture.

Beverage companies like Pepsico globally have used the joint venture route to expand into markets in product lines where they might not always have the expertise. Pepsico has a global tie up for marketing its tea beverage, and does so in India with the Lipton brand. CocaCola has a global tie up with Nestea to market and distribute its iced tea beverage and coffee in over 52 countries. It also has a similar tie up with coffee brand Ily.

Says a senior executive of a leading competing beverage company of Pepsico: "The key thing to watch is how will Pepsico deal with the fact that Unilever as well as Tata Tea have expertise in tea. Will they have both as partners? Also considering the fact that Himalyan is still a very small brand in terms of market share and the

TION is even not all India the company's expertise in the health and wellness segment remains to be tested".

Of course this is not the first time that Tata Tea has looked for a joint venture to get expertise in the health and wellness sector. The company had made an abortive attempt to enter the non-carbonated drinks market in a major way through Energy Brands Inc, which owned Glaceau, the enhanced vitamin water maker. It company wanted to leverage the US company's distribution network across the US. However, in 2007, Coca Cola bought Tata Tea and Tata Sons' 30 per cent stake for \$1.2 billion. The two Tata companies made a neat profit of \$523 million from the deal.

Sources said, Tata Tea had enough surplus to fund its investment plans in the non-carbonated drinks segment. As on March 31, 2009, Tata Tea has reserves and surplus of Rs 1,737 crore.

Tata Tea has been increasingly moving towards becoming a global beverage company from a tea company.

Tata Tea has identified four global brands—Tata Tea, Tetley, Good Earth, and Himalayan—which would have global



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scale. While Tetley is already a worldwide brand, Tata Tea and Himalayan are strong brands in the Indian market and Good Earth is a strong player in the US. The company plans to focus on distribution to make the brands global. As a step towards being a global company, the company is now headquartered in London.

Tata Tea has an ambitious plan of creating a \$10 billion enterprise over the next five years, about 10 times its current size.