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Tata Tea in JV with PepsiCo for health drink

■ Lacklustre tea growth prompts Tata move

fe Bureau

Mumbai, Apr 9: Tata Tea, part of the Rs 3.25-lakh crore (\$70.8-billion) Tata group, said on Friday it signed a preliminary agreement with beverages major PepsiCo to explore a joint venture in the non-carbonated beverages market, focusing on health and enhanced wellness.

Analysts say the diversification move by Tata Tea has been necessitated by lacklustre growth in the demand of its core business of tea, which posted an anemic, under 1% growth every year between 2003 and 2008. The tea segment is expected to grow around the same rate up to 2013, according to Crisile estimates.

For PepsiCo, there is much riding on this partnership with the world's second

largest packaged tea maker after Unilever, as its chairman & CEO Indra Nooyi pushes to broaden the cola major's portfolio to include more healthier snack and beverages options.

The proposed venture, if and when it materialises, will join the ranks of similar global alliances in Beverage Partners Worldwide—Coca-Cola Company's JV with Swiss food major Nestle to sell tea drinks—and Pepsi Lipton International, the world's second biggest cola maker's venture with Unilever to hawk ice-tea. In India though, the Pepsi-Hindustan Unilever partnership for Lipton has been a kind of a non-starter.

In a media release, Tata Tea said its board "has approved a non-binding memorandum of understanding with PepsiCo Inc, with the intention of exploring the formation of a joint venture in the area of non-carbonated ready-to-drink beverages, focused on health and enhanced wellness."

The details of the JV were not disclosed and will be available only when the definitive agreements are finalised and executed.

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Tata Tea-PepsiCo JV

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The transaction will be subject to corporate and statutory approvals as may be required, the company said. Tata Tea shares rose 2.83% on the BSE on Friday to close at Rs 1,000.05.

The latest move is in step with Tata Tea's avowed objective of becoming a global beverage company, a journey it has embarked in 2000 with the acquisition of UK's Tetley. A string of global acquisitions quickly followed Tetley—Good Earth herbal tea and Eight O'Clock Coffee in the US and South African tea maker Joekels in mid-2000s.

In 2007, Tata Tea, along with parent Tata Sons, acquired a 30% stake in Glaceau, a US vitamin water maker, for \$677 million (over Rs 3,000 crore) to enter the wellness market, but had to sell out its stake to Coca-Cola a year later for \$1.2

billion (over Rs 4,900 crore) as part of a \$4.2-billion buy-out of Glaceau by Coke.

On Friday, Tata Tea said, "The proposed JV is not intended to conflict with any existing arrangements of either party." The definitive agreements for the proposed JV could be finalised over the next few months. Tata Tea's operations span the entire value chain in tea, including research and development, tea cultivation, manufacture of black and instant tea, blending, packaging, branding, marketing, and sales and distribution. PepsiCo, which entered India in 1989, has 41 beverage bottling plants in India and three food plants. Globally, it has 19 different brands generating over one billion dollar in annual sales each. Apart from its carbonated drinks, PepsiCo markets Tropicana and Nimbooz.