

Crackdown on poor tea could boost prices in 2019

Board's directive to not pluck end-season teas, robust exports to lend some cheer to the sector

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The Indian tea industry, which has been reeling under the pressure of rising costs outstripping price realisations over the past few years, expects prices to firm up in 2019.

The anticipated drop in production following the early closure directive by the Tea Board of India, and firming up of demand in international markets are likely to keep prices on a steady upward trend, sources said.

As on December 22, average prices of teas across various auction centres in India have increased by around ₹8-13 a kg this year vis-à-vis same period last year, as per statistics available on the Tea Board website.

According to Kaushik Das, Vice-President and Sector Head, Corporate Sector Ratings, ICRA, prices are likely to remain firm within immediate short-term.

The Tea Board had, in October 2018, directed tea gardens not to carry out plucking beyond December 10, in order to reduce the quantity of sub-standard teas. Tea gardens usu-



Tea gardens usually carry on plucking almost till the end of December leading to a flooding of poor quality leaves

ally carry on plucking almost till the end of December leading to an increased supply of poor quality leaves. Such poor quality teas exert pressure on prices.

"Following the Tea Board directive the availability of end of season tea is expected to be lower and hence prices are expected to be firm," Das told *BusinessLine*.

Drop in production

The country's tea production is likely to be down by around 50 million kg (mkg) this year. As per statistics available on Tea Board website, production of tea in October 2018 is down by nearly seven per cent to 150.55 mkg, as compared with 162.06 mkg same period last year.

The country produced close to 117.62 mkg of tea during the January-October period this year.

Production in November is likely to be lower by around 10-15 mkg; while that during December-January period is expected to be down by another 25 mkg.

"With this kind of drop in production, prices are expected to be lot firmer as compared to last year. We expect the new crop to open on a strong note," said Vivek Goenka, Chairman of Indian Tea Association.

The early closure of gardens will allow estates to take up pruning work in a planned manner and lead to production of better quality of teas at the beginning of next season, which begins in March. This will also help in better price discovery.

"The bottom end of teas which were selling around ₹80-100 a kg last year are currently selling at around ₹100-120 a kg. The medium and top

end are yet to see the impact, but we expect it to happen soon," Goenka said.

It is to be noted that while fixed costs for tea plantation has increased by close to 45 per cent (largely on account of increase in labour wages); price realisation has increased only by about 17 per cent in the past three years. The firming up of prices will, therefore, help benefit growers to some extent.

Strong export market

According to Azam Monem, wholetime director of McLeod Russel, Kenya, which had a 'huge crop' in 2018, is likely to witness lower production this year. The demand from Iran, Sri Lanka, Pakistan and Egypt is also likely to be firm. This will help shore up prices of Indian teas by around 10-15 per cent this year as compared to last year.

"The excess African tea production is likely to be absorbed by February. If we can get 5-10 mkg of Indian teas shipped to Pakistan and Egypt; and with the special dispensation to Iran materialising, we expect exports to be over 250 mkg in 2019. This will help keep prices firm," Monem said.

India's tea exports in 2018 is likely to be marginally lower at around 245 mkg, as compared to record exports of around 252 mkg in 2017.