Tea Market in India – Problems and prospects

Mains: GS III – Economy

Why in News?

In recent years, India's tea giants face rising competition from cheaper alternatives.

What is the status of tea production in India?

- **Global position** – India is the second-largest tea producer in the world.
- The country produces over 1.3 billion kilograms of tea annually, consuming roughly 80% domestically while exporting the rest.
- **Major Producing Regions**
  - **Assam** – Yields over 50% of national production (~687 million kg), famous for bold, malty black and CTC teas from the Brahmaputra Valley.
  - **West Bengal** – Accounts for about 30% of output (~411 million kg), home to famous growing areas like Darjeeling, Dooars, and Terai.
  - **Southern India** – Contributes the remaining share via Tamil Nadu (~171 million kg) and Kerala (~58 million kg) with smooth Nilgiri teas.

What are the climatic requirements?

- **Temperature** – 20°C to 30°C for optimal growth.
- Temperatures above 35°C or below 10°C can damage the bush and stunt leaf growth.
- **Sunlight** – Requires at least 5 hours of bright sunlight daily.
- **Annual rainfall –** 150 cm to 300 cm, evenly distributed across the year.
- **Moisture** – Needs high relative humidity and frequent showers to support continuous flushing of tender leaves.
- **Drainage** – Waterlogging harms roots, making sloped terrain or well-drained soil vital.
- **Soil Requirements**
  - **Acidity** – Prefers slightly acidic soils with a pH between 4.5 and 5.5.
  - **Composition** – Rich in organic matter, humus, and iron, and free of calcium with a porous sub-soil.

What is the performance of organised tea companies?

- **Tata Consumer Products Ltd –** It owns brands such as **Tata Tea** and **Tetley**, reported only **2% volume growth** in its tea and coffee segment, while segment revenue declined by **4%**.
- Although coffee recorded **24% growth**, tea operations weighed on overall performance. The company attributed the decline in revenue to passing on lower tea costs to consumers.
- **Hindustan Unilever Ltd. (HUL)** – It markets brands such as **Lipton** and **Brooke Bond**, reported only **low single-digit underlying volume growth** in its premium tea segment.
- **Goodricke** – It is a Kolkata-based tea producer with plantations in Darjeeling and Assam, reported a **nearly 14% decline in revenues during 2025–26**, citing higher operating costs and weakness in the overall tea market.

What are the factors behind the slowdown in the tea market?

- **Deflationary Market Conditions –** The tea market has remained in a deflationary phase for the past four to five quarters.
- Falling tea prices have reduced revenues for organised players despite modest volume growth.
- **Adverse Weather Conditions –** Weather-related disruptions have significantly affected tea production.
- Prolonged summer heatwaves led to higher pest infestations, reducing crop quality.
- Extreme heat also weakened consumer demand for tea.
- Erratic monsoon rainfall over successive years caused both shortages and landslides in tea-growing regions, reducing the availability of high-quality tea.
- These factors affected tea auctions, where major companies such as Tata Consumer and HUL procure tea leaves.
- **Rise in Cheaper Imports –** Imports of lower-priced tea from countries such as **Nepal** and **Kenya** have increased competition in the domestic market.

- These imports have contributed to falling tea prices in India.
- **Growth of the Unorganised Sector –** Tea is largely a commodity business with relatively low brand loyalty.
- Falling prices have encouraged consumers to shift towards lower-priced products offered by the unorganised sector or cheaper sub-brands.
- This has compelled organised companies to reduce prices, leading to lower realisations.
- **Temporary LPG Shortage –** Tea retailers also faced a temporary setback due to shortages of liquefied petroleum gas (LPG) associated with the West Asia conflict.
- According to Tata Consumer's management, fuel shortages in households discouraged tea purchases during the period.
- **Challenges in Premiumisation –** In response to market pressures, organised companies have increasingly focused on premiumisation.
- Tata Consumer has expanded its premium portfolio through products such as **Tetley Premium** and **Tata Tea Gold**.
- HUL has strengthened premium offerings under the **Brooke Bond** portfolio.

> ***Premiumisation*** *is a business strategy where companies make products or services feel* ***more expensive, special, and high-quality*** *so people will pay more money for them.*

- According to industry analysts, Tata Consumer offers products ranging from **₹250 per kg to ₹3,000 per kg**, reflecting its long-term strategy of expanding premium offerings.
- However, premiumisation remains difficult because tea consumption is strongly influenced by established consumer preferences.
- Consumers are generally more willing to shift to lower-priced alternatives during periods of financial pressure than to adopt premium products.
- Consequently, while premiumisation may create long-term value, its benefits are expected to materialise gradually.

How the companies have reacted to this challenges?

- **Diversification Beyond Tea –** Recognising the limitations of a commodity-linked business, major companies have diversified into faster-growing segments.
- For **Tata Consumer**, revenue from growth businesses—including **Tata Sampann**, **Soulfull**, and cold beverages—surpassed tea and coffee revenues for the first time in the first quarter.
- **Goodricke** has expanded beyond tea plantations into dairy, alternative crops, solar energy, and selective hospitality.
- Diversification has become an important strategy for reducing dependence on the volatile tea business.
- **Emerging Trends and Outlook –** Following the prolonged deflationary cycle, tea prices have recovered since late June, with inflation estimated at **7–10%**.
- Tata Consumer implemented a **1–2% price increase** in June and indicated that additional price hikes may follow if inflation continues.

- HUL also acknowledged similar inflationary trends in the tea market.
- However, analysts remain uncertain whether higher prices will significantly improve revenues.
- If inflation remains moderate while local players continue selling lower-cost tea stocks, organised companies may find it difficult to pass higher costs on to consumers.
- In addition, the adverse effects of the expected **El Niño** during late **2026** and **2027** could further affect tea production and prices.

What lies ahead?

- India's organised tea industry is facing multiple challenges arising from adverse weather, cheaper imports, growing competition from the unorganised sector, and changing market dynamics.
- While premiumisation and diversification offer avenues for long-term growth, consumer preferences and the commodity nature of tea continue to limit rapid transformation.
- The future performance of the sector will depend on the evolution of tea prices, companies' ability to manage cost pressures, and the impact of climatic conditions on production.

Reference

[The Indian Express| Tea Production and Challenges]

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