CHAPTER - I

INTRODUCTION
CHAPTER - I

INTRODUCTION

CONTENTS

- History of Tea
- Tea in Indian Economy
- Types of Tea
- Objectives of the study
- Scope and limitation
- Period
- Hypothesis
- Research methodology
- Chapter Scheme
CHAPTER – I

INTRODUCTION:

Tea is just something one drinks every day after which the packet is thrown away without a second thought.

Very few know anything about the origins of one of the world’s most important beverage “Tea”? But for those of us who are prepared to believe into its secrets, “the story of this most used beverage is so strange, and was so full of dangers to its pioneers that one could hardly drink a cup of tea again, without a sense of wonder”¹.

History of Tea:

Tea had its genesis in China untold centuries ago. Everything known of its beginning is so mythical and fabulous that we can only vaguely surmise what is fact and what is fancy.

“It is rather difficult to know when tea was first used as a beverage nor how it was discovered that tea leaves could be treated and used to make a palatable drink, or when and how the cultivation of the plant began”².

It was from China that tea came. Its origin back to 5,000 years ago. One of the stories related to tea is about an emperor who use to set good example for his subjects, of always boiling his drinking water. “One day it so happened that a few leaves from the branches burning under the water pot fell into the water, giving it a delightful scent and flavor. The branches were those of the wild tea plant”³. By the fifth century tea had become an article of trade and in the late sixth century the Chinese generally began to regard tea as something more than a medicinal drink.
Its uses as a refreshing beverage were discovered by them. For it must be remembered that tea, then as precious as rubies, was not a subject to be lightly discussed with foreigners, nor were the secrets of its growth and preparation to be disclosed.

By the eighth century, its use had become so widespread that in A.D. 793 tax was levied on it, and soon after, tea cultivation spread from China to Japan, where tea drinking became the subject of ceremonial. By the time tea got introduced in Europe, it has become the national drink of both these countries.

According to Dr. Bretschneider "the use of ideograph, Ch’a for tea was not general before the publication of the Ch’a Ching, or tea classic, in A.D. 780".

The translation of the Chinese world for tea into other languages began with the earliest sale of the commodity to foreign people. So the Arabs called it "shai" and the Turks "Chay". However Japanese adopted the Chinese ideograph. Whereas the Persians and the Portuguese called it cha. But it was Dutch who followed the Amoy dialect and romanized it as thee, the English tea, derived through the Dutch.

**Introduction of Tea in Europe and America:**

Tea drinking is one of the great temperance customs that the East shares most generously with the West. Of the world's three great temperance beverages Cocoa, tea and coffee, cocoa was first introduced into Europe in 1528 by the Spanish. It was almost a century later, in 1610 that Dutch brought tea to Europe.

"The earliest known mention of tea in the literature of Europe appeared in about 1559, referred as Chai – Catai, Tea of China by Giambattisa Ramusio a noted Venetian author".
Further news of tea reached Italy in 1565 in a letter from father Louies Almeiela, a Missionary to Japan. He wrote “The Japanese are very fond of an herb agreeable to the taste which they call Chai.”

Hajji Mohammed, a Persian merchant, who was credited with having brought the first knowledge of tea to Europe. According to him, “the drink most commonly used in the district of Cathay is known as Chai catair.” The people they used plant or rather its leaves dry or fresh and boil it well in water. One or two cups of this decoction taken on an empty stomach removed fever, headache, stomach ache, pain in joints and it should be taken as hot as one can bear it.

Another author Venetian Govannie Batero, who in 1589, in his work on the causes of greatness in cities, stated “The Chinese have an herb from which they press a delicate juice which they serve instead of wine. It also preserves the health and frees them from all those evils that the immoderate use of wine doth breed in us.”

In 1650 the first English coffee house had been opened by a Jew from Jabanon. The coffee houses made much of the new beverage. These unique gathering places, each with its own more or less distinct persons, whether of business men, professional men or literature men, were called coffee house, instead of tea houses, because the public sale of coffee as a beverage in England was dated earlier than the public sale of tea by a few years. Coffee houses soon appeared in various parts of the metropolis as well as throughout the country. “These were open exclusively for men, they were called penny universities, because for a penny any man could get a pot of tea, and a copy of newspaper.” It was Sultaness head coffee house who introduced tea as part of its entertainment. Tea, coffee and chocolate all gained a quick popularity in the London coffee houses.
Tea became a fashionable drink for the ladies of England with the coming of the princess Cathereine of Braganza with her marriage to king Charles-II, who had brought the tea habit with her from Portugal where it had become the fashionable drink. She was the first tea drinking Queen of England. In the seventeenth century, tea was highly fashionable in France and elsewhere in Western Europe. “In Britain it was only in 1750 that tea became the principal beverage of all classes, without distinction of rank or income”1.

Both English and Dutch colonists had brought tea to the new world and tea drinking had became as wide-spread in America as in Britain.

**Boston Tea Party:**

In America both tea and coffee were drank until Boston tea party 1773. The British Parliament imposed duties on various imports into the American colonies, but after 1767 all duties repealed except those on tea. The colonists showed their disapproval by boarding merchant men in Boston harbour, and throwing over board their chest of tea. Thus this party was to lead the Americans for changing their national drink wholly to coffee.

The huge increase in Britain’s tea drinking was only possible by the progressive opening up of new tea lands in India and Ceylon, which enable the ever growing demand to be satisfied at prices that all could afford.

In the last fifty years the world has steadily continued to drink more tea. In the United Kingdom, annual consumption has risen from 6 lb to over 9 lb per head, or say 1800 cups a year for every man, women and child and consume nearly half of all the tea exported to the world. So also India and Ceylon are no longer the
greatest tea producing countries as their people have learned to appreciate tea drinking and now represent an important market for consumption.

Today tea, next to water, is the world’s principle as well as a cheapest beverage. Every day over 800 million cups of tea cheer and refresh people of every race and country the world over. In China and Japan, tea has never lost its ancient hold. Tea drinking is particularly a common wealth habit and a common wealth drink. “Over 80 percent of the tea exported to the world is grown in the common wealth, and the common wealth countries account for more than 65% of world imports”\(^{12}\).

And if the tea industry has brought project to British merchants and British shipping, it has also brought prosperity to the other countries. In India tea ranks next to jute as a source of foreign exchange.

**Tea in Indian Economy:**

India emerges on top in all aspects of tea production, consumption and export. “Tea is grown only in rural areas and it contributes significantly towards the national economy. During 1984 foreign exchange earning from tea export stood at Rupee 740 crores and Rupees 1,100 crores in 1992. Tea contributes annually at least Rupees 1000 crores to central and state exchequers”\(^{13}\).

Tea provides direct employment to about one million people, and unlike other agricultural crops, tea provides the highest employment. It provides the largest quantum of jobs to rural people, people in the weaker section of society and women in particular, many of them are employed in sectors related to tea machinery, packings, agricultural chemicals throughout the country. More than 70% of the country’s population comes in contact with tea to play a key role in India’s economy and society both directly and indirectly.
How Tea is Grown:

The original methods of tea cultivation and manufacture were developed in China. All countries producing tea commercially had to go to Chinese either directly or indirectly, to learn the secrets of its production. The tea pioneers in Java and India at first imported China men and Chinese plants, and methods of China, in both field and factory for growing and manufacturing tea.

The story of the tea plant which incidentally come from the large family of Camellias, so well known to us in our parks and gardens for the beauty of their flowers and shiny dark green leaves. If the tea bush were left unplucked, it would have waxy white flowers and would grow up to 30 feet high.

Camellia sinensis original home was probably in the monsoon swept forest of the wild mountainous region where India, Burma, Indo-China and China meet. It thrives best in conditions resembling this natural habitat. It also flourishes on grasslands such as in the Uva province of Ceylon. “The plants has been cultivated commercially in China from early centuries of the Christian era, and in Japan from 800 A.D. Today, tea cultivation also forms a major industry in Ceylon, India, Pakistan, Indonesia, Kenya, Uganda, and Nyasaland”\(^14\).

Present day methods of tea management by Europeans are almost the opposite to those of China. For planting, the available land is chosen, the seed first is put out in nurseries, the plants are selected and then replanted. The bush is carefully pruned to give it a shape conducive to high yield, and leaf is plucked with a view to encouraging later flushes that is young leaf shoots.

Tea usually is grown from seed in nursery beds. The young plants are transplanted to the prepared tea fields when they are six to eight inches high, or
usually in six months times. They are set out in row, three to six feet apart, and in two years they reach a height of four to six feet. Then they are cut down to something less than a foot. By the end of the third year they are ready for plucking. Japanese and Formosa tea growers do not set out nurseries, but propagate their tea bushes by planting the seeds directly where they are to be grown or by laying, that is transplanting rooted branches. Weeding, cultivation between the rows, and pruning goes on regularly at different periods for twenty five to fifty years, which is the average life of a tea bush. After several pruning which helps the bush to produce leaves in successive flushes instead of wood, and it assumes a shape like that of a champagne glass. In some countries like Southern India, Ceylon, Java and Sumatra plucking is continuous throughout the year. In northern India it extends from June to December. In Formosa from April to November, in Japan from May to October in China from April to October.

Each tea bush will be plucked every seven to eight days, higher up, where growth is slower the interval may be a fortnight. Normal plucking consists in picking the small un-opened leaf bud and the first two tender leaves from each shoot. In fine plucking the leaf bud and the two next leaves are gathered, the medium plucking the third is also taken, in coarse plucking four or more leaves are taken. The bud represents the finest ten. It is a delicate and most skilled operation, traditionally carried out by women. The plucked leaves are put into cloth bags or bamboo baskets at their sides, or toss them over their shoulders into baskets hung open their backs by thongs passing over their foreheads. Tea pluckers using both hand plucks about 30,000 shoots a day. It requires about 3,200 shoots to make one pound of manufactured.
Types of Tea:

Three main types of tea enter the worlds markets, but they all come from the same kind of plant and their difference is one of manufacture and not of cultivation. They are:

Black Tea:

Black tea account for 98% of all tea exported. Its particular characteristic is that the leaves are fully oxidized or fermented and yields are a hearty flavoured, amber brew.

Green Tea:

In green tea, which is mainly produced in China and Japan, the leaves do not under go any oxidization. Green tea has a more delicate taste and is light green golden in colour. It is gaining popularity in the U.S. due to a recent scientific study showing links of green tea drinking with reduce cancer risk.

Oolong Tea:

Oolong tea is semi-oxidized and is made in China and Formosa. Some of the popular black teas include English breakfast tea. Its hearty flavour mixes well with milk, Darjeeling and orange pekoe.

Manufacturing of Tea:

Every tea estate has its factory, a big three or four storey building, where the green leaf comes from the pluckers baskets to be turned into tea. In the first factory process withering takes place in the upper storey. These are filled with racks on to which the green leaves are thinly and evenly spread as soon as they reach the factory. The method of withering is used to reduce the moisture in the leaves until it becomes flaccid. This is achieved either by the natural circulation of fresh air,
or when conditions are very humid, by fans forcing heated airs over the racks. This process takes about 18 to 20 hours.

In the second stage the leaf is then brought down to the ground floor of the factory and is fed into rolling machines in order to break up the leaf cells and release the natural juices and enzymes and to give the leaf its characteristic twist. During rolling the leaf begins to change colour and gives out the fresh and tangy apply like smell of twisted sticky lumps. These have to be broken up on vibrating sieves called roll breakers.

The third stage is commonly known as fermenting, but oxidization or the absorption of oxygen by the leaf is a true description. The leaves are further taken to roll breakers into fermenting room, where it is spread on glass or cement tables in a cool, humid atmosphere this process takes about three hours and the leaf turns to a bright copper colour. The fourth stage is firing process, that is when the leaf is put on moving trays inside a large iron chamber into which a continuous blast of hot, dry air is forced. After half an hour, further oxidization of leaf is stopped till it goes into the teapot.

For manufacturing of green tea leaves are processed till fermentation stage only. Further manufacturing process is stopped.

**Storing and Grading of Tea:**

Finally comes the storing and grading of the leaf. Before being packed for sale, the direct leaves have to be stored into various grades on machines consisting of series of moving sieves with different sized meshes. There are two main grades of tea, broken and leaf. "The tea are classed as flowering orange pekoe, orange pekoe No. 1 and are known as unbroken teas"\(^{15}\).
The first mentioned is the least coarse and finest tea, but the coarser tea which does not shift through the meshes is transferred to breaking machines and broken up and again shifted, "the products being known as broken orange pekoe, pekoe No. 2"\textsuperscript{16}. The tea dust which accumulates during these processes is kept separate from the better qualities, and is shipped as Dust and Fannings.

The tea is then packed into lead-lined chests, stamped with the same name of the garden or factory and are ready for auction.

The prices at these auctions also govern the prices of private sale.

**Tasting of Tea:**

Tasting of tea is an expert job, requiring years of training. Tasting is largely a mater of comparison. An equal weight of tea is used for each sample, with equal quantity of boiling water and an equal time for brewing either five to six minutes. The taster has the dry leaf, and in front of him. At the back is the tin containing the dry leaf, and in front of it a white China pot and bowl. The bowl holds the infused tea or liquor as the taster calls it, and the infused leaf is placed in reversed lid of the pot. Dry leaf, infused leaf and liquor are thus all ready to be displayed for the taster, who examines the dry leaf, inspects and smells the infused leaf and tastes the liquor with a spoon, sucking it on to the palate before spitting it out.

The taster has his own vocabulary for the reports he makes. Good quality dry leaf should be clean, even and well made. The infused leaf should be bright like the colour of a new penny and not dull, green or uneven. The liquor should also be bright and not dull, should have Aroma and should be pungent, mattly or full in taste.

"One of the greatest figures in the history of advertising is, of course, Sir Thomas Lipton. Lipton entered into the tea trade by once breaking his journey to Australia at Ceylon, where tea had recently began to replace coffee. Lipton thought to bring the fine leaves come through the sieve first and are taken away. The remainder is again put on the roll breaker. This process is repeated four or five times"\textsuperscript{17}.

Ceylon tea to the masses. He had his own tea gardens in Ceylon and started selling a blend of good quality Ceylon tea in attractive standardized packets at the
lowest possible price. His slogan was direct from the tea garden to the tea port; and drink Lipton’s tea. He had his slogan return on hoardings, on buses, in trains, and his message hit the public eye. Liptons tea is today the biggest selling brand in American market. Lipton spread the names of Lipton and Ceylon identifying the island’s interest with his own, which helped Ceylon better known then.

Tea is mankind’s oldest established and most loved beverage because a cup of tea is good to the taste and because it makes life more pleasant by the feeling of well being that it gives to mind and body. As that great tea drinker Gladstone said “If you are cold, tea will warm you; if you are too heated, it will cool you; if you are depressed, it will cheer you; if you are excited, it will calm you”.

The world drinks tea because they like it. Tea is not just an important article of commerce, nor is it just and excellent and harmless beverage. Thank God for tea, what would the world do without tea.

Objectives:

The present study is confined to financial study of tea industry in India. It comprises the study of 20 companies, on the basis of published data taken from stock exchange directory, Mumbai. The study is undertaken to have detail analysis of the following objectives:

1) To identify the trend of the financial position and evaluate on the basis of ratio analysis techniques.

2) To analyse the growth and development of selected companies.

3) To examine the Short Term Solvency of the industry taking the related parameters.

4) To study the Long Term Solvency of the industry by finding out the relationship between various related variables.

5) To study the Operational Efficiency of the industry on the basis of profound study of assets utilization, capital utilization etc.

6) It also aims to study the Profitability trend and Dividend policy of the industry.

Scope and Limitation:

The present study confines its scope to the 20 tea companies of private sectors, whose shares are listed at Bombay Stock Exchange and the data relating to
these companies is derived from stock exchange directory published by the stock exchange foundation, Bombay.

**Period:**
The present study covers eleven years period from 1985 to 1995.

**Hypothesis:**
However the financial study of this industry aims to test the following hypotheses:

i) The industry is not facing financial encumbrances in short run.

ii) The industry is effectively utilizing the outsiders capital in generating the amount of profit.

iii) There is stability in earning of the profits.

iv) The industry is resorting to the reinvestment of some portion of profit earned (ploughing back process) for growth and development.

**Methodology:**
The study is entirely based on the secondary data for financial analysis. The Stock Exchange Directory published by Stock Exchange Foundation is the prime source. The financial results from 1985 to 1995 of sample 20 companies has been taken for application of various financial and statistical techniques in gauging and evaluating the results of the tea industry in private sector. A computer data base is being created to store and analyse the data pertaining to selected companies for the period 1985 to 1995. The system is designed and developed for the data analysis based on popular financial technique and statistical tools viz., Ratio Analysis, Mean, Standard Deviation, Coefficient of variation, etc.
Chapter scheme:
The thesis is divided into eight chapters.

The first chapter deals with introduction of tea, history of tea, tea in Indian economy, types of tea and also covers objectives of the study, scope and limitation of the study and methodology.

The second chapter covers the growth and development of tea industry, focusing mainly on area and production, export, sales and market share of tea industry in different years.

The third chapter contains conceptual exposition of Ratio Analysis.

The fourth chapter presents results showing trend for Short Term Solvency for the selected twenty individual companies for the period of 1985 to 1995.

The fifth chapter presents the study of Long Term Solvency for the period under study.

The Sixth chapter presents the analysis of data showing Operational Efficiency for the twenty selected companies undertaken for the study.

The seventh chapter deals with the Profitability of Tea Industry and Dividend Policy for selected companies undertaken.

The eight chapter presents the conclusion of the study undertaken.
References:

1. William Hukers M.A., “The Romances of Tea”, Published by Alfred A.
   8.
5. Ghosh H.A., “The Sphere of Tea: A brief note on the cultivation,
   manufacture and trade of tea in India”, Tata McGraw Hill, New Delhi, 1933,
   p. 43.
   TEA, p. 74.
   House, Nungambakkam, High Road, Madras, 1982, p. 1736.
8. William Hukers, “The Romances of Tea”, Published by Alfred A Knopf,
    60.
    Published by Manager of Publications, New Delhi, 1956, p. 06.
13. Ibid. p. 07.
14. Kothari’s Industrial Directory of India, Kothari Enterprises, Nungambakkam,
    High Road, Madras, 1956, p. 81.
16. Industrial Survey, The Stock Exchange Foundation Publication, Mumbai,
    1994, p. 34.
17. Ibid. p. 36.