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Financial Results for the Quarter ended 31st December, 2015

22 Jan 2016

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Financial Results for the Quarter ended 31st December, 2015

Highlights



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Severe pressure continues on legal cigarette industry volumes even as illegal trade grows unabated.

FMCG-Others Segment registers revenue growth of 7.1% amidst a sluggish demand environment and supply chain disruption caused by heavy rainfall and floods in Chennai.

Hotels Segment Revenue up 4.5% aided by healthy growth in occupancy and Food & Beverage revenue. Segment Results include the impact of gestation costs of ITC Grand Bharat and Chennai floods.

Agri Business Segment Revenue impacted by lack of trading opportunities in wheat, coffee and soya coupled with subdued demand for leaf tobacco exports on the back of decline in global cigarette volumes.

Improvement in Paperboards, Paper & Packaging Segment Revenue and Profits driven by richer sales mix and benign input costs.

Domestic industry continues to face pressure on account of reduction of import duty under various regional Free Trade Agreements and cheap imports from China.

FMCG (/media-centre/press-releases-content.aspx?id=1646&type=C&news=Financial-Results-for-the-Quarter-ended-31st-December-2015#fmcg)| **Cigarettes** (/media-centre/press-releases-content.aspx?id=1646&type=C&news=Financial-Results-for-the-Quarter-ended-31st-December-2015#cigaret)| **Hotels** (/media-centre/press-releases-content.aspx?id=1646&type=C&news=Financial-Results-for-the-Quarter-ended-31st-December-2015#hotel)

Agri Business (/media-centre/press-releases-content.aspx?id=1646&type=C&news=Financial-Results-for-the-Quarter-ended-31st-December-2015#agri)| **Paperboards, Paper & Packaging** (/media-centre/press-releases-content.aspx?id=1646&type=C&news=Financial-Results-for-the-Quarter-ended-31st-December-2015#paper)

The Company's performance during the quarter remained subdued reflecting the severe pressure on legal cigarette industry volumes, lack of trading opportunities in agri-commodities and sluggish demand environment prevailing in the FMCG industry. Net Revenue for the quarter stood at Rs. 9102.66 crores. Profit Before Tax at Rs. 4004.49 crores and Net Profit at Rs. 2652.82 crores registered a growth of 5.4% and 0.7% respectively during the quarter. Earnings Per Share for the quarter stood at Rs. 3.30.

FMCG-Others

Segment Revenue registered a growth of 7.1% during the quarter. Weak demand - particularly in rural markets - coupled with a price deflationary environment and supply chain disruption caused by heavy rainfall and floods in Chennai impacted revenue growth. Additionally, synchronisation of trade pipeline ahead of the ensuing season by the Education and Stationery Products Business impacted revenue during the quarter. Most categories witnessed expansion in Gross Margin driven by product mix enrichment and benign input costs. However, Segment Results were impacted by gestation costs of new categories viz. Juices, Gums & Dairy and continuing brand investments towards communicating the superior value proposition offered by YiPee! Noodles.

The Company continues to leverage its state-of-the-art R&D facilities and robust product development processes to launch innovative and differentiated products in the market. Recent launches include 'Delishus Gourmet cookies - Chocolate Chip made with Ghana Cocoa', 'Marie Light Rich Taste' with a differentiated taste and flavour profile, 'Apple Awe' fruit juice under the 'B Natural' brand, new perfume sprays under the 'Engage' brand and several variants of soaps under the 'Fiama Di Wills', 'Vivel' and 'Savlon' brands.

During the quarter, the business forayed into the fast-growing Dairy category with the launch of 'Aashirvaad Svasti' - Pure Cow Ghee. Manufactured at ITC's own, state-of-the-art facility in Munger (Bihar), Aashirvaad Svasti Ghee delivers impeccable taste and consistent quality. Further, the special 'SloCook' process of manufacturing the product enhances its natural aroma, giving it a distinct flavour profile and a rich granular texture.

The Branded Packaged Foods Businesses posted healthy growth in revenue despite sluggish demand conditions, whilst enhancing market standing across most major categories.

In the Staples, Snacks and Meals Business, 'Aashirvaad' atta continued to grow well, consolidating its leadership position across markets. The Finger Snacks portfolio also gained consumer traction and improved market standing during the quarter. Sales of 'YiPee!' Noodles, which were impacted during the preceding quarter due to regulatory issues largely pertaining to a competitor's products, grew at a rapid pace aided by an integrated 360 degree communication campaign reassuring consumers of the quality and safety of the product.

In the Confections Business, the 'Mom's Magic' range of premium cookies sustained its rapid growth trajectory. The confectionery witnessed margin expansion on the back of mix enrichment and favourable input costs.

During the quarter, the Personal Care Products Business focused on augmenting its product portfolio and driving product mix enrichment. However, revenue growth was impacted by a deflationary pricing environment. The Business continues to leverage the recently acquired trademarks - 'Savlon' and 'Shower to Shower' to expand its product portfolio and gain acceptance among consumers.



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segments and markets.

The Company continued to make steady progress in building several state-of-the-art owned integrated consumer goods manufacturing and logistics facilities across regions in line with long-term demand forecasts. Currently, over 20 projects are underway and in various stages of development - from land acquisition/site development to construction of buildings and other infrastructure.

Cigarettes

The performance of the Cigarettes business remained muted during the quarter due to taxation and regulatory headwinds facing the legal cigarette industry in India.

Over the last 3 ½ years, the incidence of Excise Duty and VAT on cigarettes, at a per unit level, has gone up cumulatively by 98% and 124% respectively which is exerting severe pressure on legal industry volumes even as illegal trade grows unabated. It is pertinent to note that steep increases in Excise Duty on cigarettes in recent years have resulted in widening the differential in Excise Duty rates (on a per kg. of tobacco basis) between cigarettes and other tobacco products from 29 times in 2005/06 to over 53 times currently.

An analysis of the WHO Report on Tobacco Taxation, 2015 reveals that at 6.5% of per capita GDP (Excise Duty & State Taxes as a percentage of per capita GDP), cigarette taxes in India are amongst the highest in the world. In fact, cigarette taxes in India are 13 times higher than USA, 9 times higher than Japan, 7 times higher than China, 5 times higher than Australia and 3 times higher than Malaysia and Pakistan.

High incidence of taxation and a discriminatory regulatory regime on cigarettes in India have over the years led to a significant shift in tobacco consumption to lightly taxed or tax-evaded tobacco products like bidi, khaini, chewing tobacco, gutkha and illegal cigarettes which presently constitute over 89% of total tobacco consumption in the country. Thus, the share of legal cigarettes in overall tobacco consumption has progressively declined from 21% in 1981-82 to 11% in 2014-15 even as overall tobacco consumption has increased in India. Besides adversely impacting the performance of the legal cigarette industry, this has led to sub-optimisation of the revenue potential from the tobacco sector.


The imposition of discriminatory and punitive VAT rates by some States provides an attractive tax arbitrage opportunity for illegal cigarette trade by criminal elements. The consequential decline in legal cigarette volumes in such States has led to stagnation/decline in revenue collections, even as illegal cigarettes gained significant traction. On the other hand, the pragmatic decisions of several State Governments to rationalise VAT on cigarettes have facilitated improvement in revenue buoyancy and containing the growth of illegal trade.

According to an independent study conducted by Euromonitor International - a renowned global research organisation - India is now the 4th largest market for illegal cigarettes in the world. In fact, illegal trade comprising smuggled foreign and domestically manufactured tax-evaded cigarettes is estimated to constitute one-fifth of the overall cigarette industry in India resulting in a huge revenue loss of over Rs. 9000 crores per annum to the national exchequer.


The unprecedented fall in legal cigarette volumes and the consequent reduction in the utilisation of Indian Flue Cured Virginia tobacco in cigarette manufacture is having a devastating impact on tobacco farmers in the country. The sharp decline in domestic demand has led to a significant drop in tobacco prices in the ongoing auctions in Andhra Pradesh causing deep distress to the livelihoods of thousands of tobacco farmers. A stable, fair and equitable cigarette taxation policy would be imperative to provide a strong domestic demand base to the Indian tobacco farmer, insulating him from the volatilities typically associated with international markets while helping realise the full export potential of Indian leaf tobacco. This assumes critical significance especially in view of the fact that there are no economically viable alternative crops for farmers in the tobacco growing regions of the country.

The Company continues to engage with the concerned authorities, both at the Central Government and State level, highlighting the need for moderation in tax rates on cigarettes to maximise the revenue potential from the tobacco sector, arrest the growth of the illegal segment and protect the interest of the Indian tobacco farmer.


Hotels



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Despite a challenging operating environment, Segment Revenue recorded a growth of 4.5% driven by improvement in room occupancy and good growth in the Food & Beverage segment.

Segment Results, however, reflect the impact of floods in Chennai, gestation costs of the recently commissioned ITC Grand Bharat, Gurgaon and higher depreciation charge due to revision in useful life of fixed assets in accordance with Schedule II of the Companies Act 2013.

Agri Business

Segment Revenue and Profits for the quarter were impacted by lack of export opportunities in wheat, soya and coffee besides subdued demand for Indian leaf tobacco exports.

While exports of Indian wheat were adversely impacted by lower international prices and poor quality due to unseasonal rains, soya trading opportunities remained constrained due to adverse price parity in view of higher crop output in major origins. Leaf tobacco exports from India were impacted due to soft demand arising out of higher levels of uncommitted stocks and decline in global cigarette volumes. Steep currency depreciation in competing geographies also weighed on the prospects of agri-commodity exports from India.

The Business continued to provide strategic sourcing support to the Company's Cigarette business and leverage its deep rural linkages to source superior quality wheat, chip stock potato and fruit pulp at competitive prices for the Branded Packaged Foods Businesses.

Paperboards, Paper & Packaging

The muted demand environment prevailing in the FMCG and Cigarette industry weighed on the performance of the Paperboards, Paper & Packaging Segment. Reduction of import duties under various Free Trade Agreements, especially with ASEAN (which became effective from 1st January 2014), coupled with cheap imports from China continued to adversely impact the domestic Paper and Paperboard industry. A richer product mix and lower input prices contributed to the strong growth in Segment Results.

In an endeavour to reduce its dependence on imported pulp, the Business is in the process of setting up India's first Bleached Chemical Thermo-Mechanical Pulp mill at its Bhadrachalam unit. The project is progressing as per schedule.

The Board of Directors, at its meeting in Kolkata on 22nd January 2016, approved the financial results for the quarter ended 31st December 2015, which are enclosed.

[Click here for the Financial Results \(/about-itc/shareholder-value/key-financials/quarterly-results.aspx\)](/about-itc/shareholder-value/key-financials/quarterly-results.aspx)

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