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Financial Results for the Quarter ended 31st December, 2019

31 Jan 2020

Financial Results for the Quarter ended 31st December, 2019

Highlights

Post tax profit up 29%

Financial Results for the Quarter ended 30th June, 2020
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FMCG-Others Segment Revenue up 6.1% on a comparable basis amidst continued slowdown in the FMCG industry.

- **Segment EBITDA up 48% to Rs. 256 crores** notwithstanding higher marketing investments, gestation and start-up costs of new categories/new facilities.

Strong growth in existing properties and robust performance of new properties drive Hotels Segment Revenue (up 22.2%) and Segment EBITDA (up 40.1%).

- **ITC Royal Bengal, Kolkata continues to set new benchmarks in culinary and service excellence in a relatively short span of time.**

- **Welcomhotel Amritsar, commissioned on 1st November 2019, receives excellent response.**

Paperboards, Paper & Packaging Segment Revenue witnessed muted growth on a relatively firm base due to slowdown in the FMCG and liquor industry and depressed realisations on softening of global pulp prices.

In the **Agri Business segment**, growth in Segment Revenue was driven by trading opportunities in oilseeds, pulses & coffee and scaling up of value added segments (spices and frozen snacks). Subdued demand for leaf tobacco in international markets accentuated by relatively steeper depreciation in currencies of competing origins and adverse business mix weighed on Segment Results.

Exceptional items represent cost of leaf tobacco stocks (including taxes) destroyed at a third party owned warehouse due to fire caused by lightning, for which insurance claim has been filed and is under process.

ITC has been ranked #1 globally amongst peers (comprising companies with market capitalisation between USD 38 Bln. and USD 51 Bln.) and **overall #3 globally on ESG performance** in the Food Products industry by **Sustainalytics** - a renowned global ESG ratings company.

FMCG | Cigarettes | Hotels Agri Business | Paperboards, Paper & Packaging


The macro-economic environment continues to be adversely impacted as reflected in deceleration in GDP growth, and persistent weakness in consumption demand and investments. Delayed arrival of the Kharif crop due to spatial variations in rainfall especially close to the harvest season, commodity price inflation together with disruptions in certain parts of the country exacerbated the already challenging operating environment during the quarter.

Expectations of a good Rabi crop and a slew of measures announced by the Government in recent months including reduction in corporate tax rates, initiatives to boost infrastructure and promote exports, augur well for the revival of the economy.


The Company posted a steady performance during the quarter amidst a particularly challenging operating environment as aforesaid. Gross Revenue for the quarter stood at Rs. 11912.16 crores, representing a growth of 5.0%, driven mainly by Hotels, Agri Business and FMCG-Others (excluding the Lifestyle Retailing Business). Profit after Tax at Rs. 4141.93 grew by 29.1%. Total Comprehensive Income stood at Rs. 3777.71 crores (previous year Rs. 3637.01 crores). Earnings Per Share for the quarter stood at Rs. 3.37.

FMCG-Others


The **FMCG-Others Segment** delivered a resilient performance during the quarter which witnessed a slowdown in overall growth rates both in urban and rural markets. Categories with relatively higher rural salience remain the most impacted. The Company continues to mitigate the impact of the slowdown through several proactive measures such as enhancing direct reach, introducing targeted relevant offers for value seeking consumers, investing in fast growing channels and extending credit judiciously to select trade partners.



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The **Branded Packaged Foods Businesses** delivered a steady performance during the quarter, anchored on innovative product launches and impactful communication campaigns in conventional and digital media.

- In the **Staples, Snacks and Meals Business**, 'Aashirvaad' atta continued to post robust growth, consolidating its leadership position across markets. Premium atta portfolio comprising Aashirvaad Select, Aashirvaad Multigrain & Aashirvaad Sugar Release Control recorded strong growth. In the Snacks category, the Tedhe Medhe range was augmented with the launch of two innovative variants - 'Herby Spin' and 'Chatpata Swing'. Shortage of potato due to extensive crop damage in parts of Karnataka and Maharashtra caused by excessive rainfall adversely impacted Bingo! potato chips sales. In the Instant Noodles category, the Business introduced 'YiPPee! Quik Mealz Khow Suey', a delicious bowl of noodles designed for on-the-go consumption.
- In the **Biscuits and Cakes Business**, the recently launched Bounce Cake variants continued to receive excellent response from consumers. During the quarter, the portfolio was augmented with the launch of 'Sunfeast' Bounce Loops in three exciting flavours - Vanilla, Chocolate and Jam. Available in select markets, Bounce Loops is an innovative offering with a delicious open cream layer sprinkled with sparkles on the top.
- In the **Confectionery Business**, higher salience of multi-unit packs contributed to portfolio premiumisation. The recently launched 'Candyman' Fantastik, a crispy wafer roll filled with luscious choco crème, continues to make rapid strides and garner increasing consumer traction across launch markets.

The Branded Packaged Foods Businesses continued to scale up presence in emerging categories through differentiated offerings such as 'B Natural' Mixed Fruit with Fruit inclusions in transparent bottle format and assortment of 'Fabelle' chocolates crafted specially for the gifting season.

The **Personal Care Products Business** continued to focus on product mix enrichment led by sustained growth in the Liquids (Handwash and Bodywash) and Floor Cleaner segments. Savlon Handwash is gaining traction and is consolidating its market standing in both value and volume terms. The quarter witnessed a spate of innovative product launches by the Business. The Deodorants product portfolio was expanded with the launch of two refreshing variants for Women under the 'Engage' brand - Engage W5 and Engage W6. The 'Dermafique' range of skin care products was strengthened with the launch of new variants - Soleil Defense Gel Crème & All Matte (best used for sun protection) and Biphasic Micellar Kajal Cleanser.

The Branded Packaged Foods and Personal Care Products Businesses continued to focus on deepening consumer engagement through innovative brand campaigns across key brands in conventional and social media platforms. The Businesses continue to leverage state-of-the-art integrated consumer goods manufacturing and logistics facilities (ICMLs) to service proximal markets in a highly efficient and responsive manner.

The **Education and Stationery Products Business** strengthened its leadership position in the Notebooks category leveraging a pipeline of innovative products of superior quality and enhanced consumer connect. During the quarter, the Paperkraft portfolio was augmented with the launch of Paperkraft Gift Series, a gift pack comprising a premium executive notebook and a stylish matte black pen. Available in four vibrant colours, the Paperkraft gift series promises consumers with a perfect alternative for the gifting season. New version of the website classmateshop.com was activated with enhanced user experience.

In the **Incense Sticks (Agarbatti) and Safety Matches Business**, 'Mangaldeep' agarbattis continue to delight consumers, providing innovative and specially crafted fragrances. During the quarter, the Business launched 'Mangaldeep Lo Smoke Agarbattis', a first-of-its-kind agarbatti powered with 'Lo Smoke Technology' that releases 80% lesser smoke as compared to normal agarbattis. In addition, the Business introduced several unique product offerings - Marigold Agarbatti, Treya Dhoop and Pushpanjali Dhoop. 'Mangaldeep Temple' range of dual fragranced agarbattis, launched in the previous quarter with 'Mangaldeep Temple - Lord Jagannath's Favourite Fragrances', was augmented with a new offering dedicated to Baba Vishwanath Temple, Varanasi. Manufactured by local rural women-based self-help groups, the new variants endeavour to help consumers experience the divinity of the temples in their homes.



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The Business sustained its leadership position in the industry through its unwavering focus on nurturing a portfolio of world-class brands anchored on superior consumer insights, a robust innovation pipeline and superior product development capabilities. The Business continues to introduce new variants and augment its product portfolio, catering to continuously evolving consumer preferences. Key market interventions in recent months include the launch of innovative and differentiated offerings such as Gold Flake Indie Mint, Gold Flake Neo and Classic Rich & Smooth in the premium end, deployment of focused offers under the 'American Club', 'Wave', 'Player's Gold Leaf', 'Pall Mall' and 'Flake' trademarks in strategic markets.

Performance during the quarter reflects the persistent weakness in the overall demand environment, especially in rural markets and wholesale channel, tight market liquidity conditions and the increasing salience of illicit trade especially at the premium end.

Extremely stringent regulations along with a punitive and discriminatory taxation regime on cigarettes in recent years have had numerous negative, albeit unintended repercussions. These include:

- decline in legal cigarette volumes in favour of lightly taxed and tax-evaded tobacco products, resulting in sub-optimisation of the revenue potential of the tobacco sector and significant loss to the Exchequer. It is estimated that on account of illegal cigarettes alone, the revenue loss to the Government is more than Rs. 13000 crores per annum.
- further fillip to the growth of illegal cigarettes in the absence of statutory pictorial and textual warnings on smuggled international brands. As a result, despite accounting for less than 1/10th of the tobacco consumed in the country, duty-paid cigarettes contribute more than 4/5ths of the revenue generated from the tobacco sector.
- widespread availability of illegal cigarettes and other tobacco products of dubious quality and hygiene to consumers at extremely affordable prices.
- a large component of tobacco consumption in the country, aggregating around 68% remaining outside the tax net.
- persistent negative impact on the livelihood of tobacco farmers and others dependent on tobacco. Studies by the Central Tobacco Research Institute (CTRI) indicate that on account of agro-climatic conditions, there is no equally remunerative alternate crop that can be grown in the FCV tobacco growing regions of the country.

It may be recalled that tax incidence on cigarettes increased by over 20% in 2017-18, representing the combined impact of transition to GST and increase in Excise Duty announced in the Union Budget 2017. While stability in taxes since the introduction of GST in July 2017 has provided some relief to the legal cigarette industry, volumes remain significantly below June 2014 levels. Moderation in taxes is critical for addressing the interests of all the stakeholders of this industry, including the tobacco farmers, the Exchequer and the consumers. As in the past, the Company continues to make representations to policy makers for equitable, non-discriminatory, pragmatic, evidence based regulations and taxation policies that balance the economic imperatives of the country and the tobacco control objectives, cognising for the unique tobacco consumption pattern in India.

TOP

Hotels

The Business posted a strong performance during the quarter with Segment Revenue and Segment EBITDA growing by 22.2% and 40.1% respectively. There was all-round improvement, with both existing and new properties recording robust increase in RevPAR and F&B sales. Higher room rates and operating leverage aided margin expansion.

The Business commissioned Welcomhotel Amritsar, a 101-room luxury property, exuding the charm of Amritsar's spiritual beauty and vibrant lifestyle. New properties in the ITC Hotels portfolio viz ITC Kohenur, ITC Grand Goa and ITC Royal Bengal continued to receive response from discerning guests, raising the bar for service excellence. The Kolkata complex comprising ITC Grand Bengal and ITC Grand Kolkata houses 15 signature F&B outlets with access to 1,000 sq.ft. of banqueting space, making it the right place for F&B and banqueting press releases content.aspx? (/media-centre/press-reports-content.aspx? (/stories-pop/khwahishc id=2302&type=C&news=standalone-financial-results-for-the-quarter-ended-30th-june-2020) id=2315&type=C&news=green-shoots-for-the-future-itc-taking-up-the-farmers-baton)

The Business continues to receive industry recognition, winning 4 prestigious Travel + Leisure magazine awards during the quarter. ITC Hotels was acknowledged as the 'Best Luxury Hotel Chain' in the country, ITC Grand Goa as the 'Best Wedding Venue (Domestic)', ITC Royal Bengal as the 'Best New Hotel (Domestic)' and Club ITC as the 'Best Hotel Loyalty Programme'.

The Business also made **steady progress during the quarter in the construction of an ITC Hotel in Ahmedabad and Welcomhotels in Guntur & Bhubaneswar.**

TOP

Agri Business

Segment Revenue grew by 8.8% as the Business leveraged trading opportunities, especially in Oilseeds, Pulses & Coffee and scaled up its portfolio of value-added products. Subdued demand for leaf tobacco in international markets, relatively steeper depreciation in currencies of competing origins and adverse business mix weighed on Segment Results.

The deep rural linkages and agri-commodity sourcing expertise resident in the Agri Business, including value-addition through identity preservation, traceability and certification are a critical source of competitive advantage for the Company. The Business stepped up strategic sourcing of agri commodities in the current quarter to support the growing requirements of the Branded Packaged Foods Businesses. Milk sourcing network in West Bengal continues to be scaled up to support the growing franchise of the Aashirvaad Svasti range of dairy products. The Business continues to focus on strengthening its portfolio of value-added products to cater to the specific requirements of the food service channel.

TOP

Paperboards, Paper & Packaging

Performance of the Paperboards, Paper & Packaging Segment continued to be impacted by the subdued demand environment prevailing in the FMCG and liquor industry. While the Paperboards Business witnessed volume growth in Value Added Paperboard segment, a sharp correction in global pulp prices exerted pressure on realisations. The Business continues to make structural interventions in the areas of strategic cost management, improvement in operational efficiencies and import substitution towards enhancing its market standing and competitive advantage.

The Business continues to work towards designing packaging in a way that it reduces the environmental impact arising out of post-consumer packaging waste without affecting integrity of the product. This is being done in a structured manner by optimising design, identifying alternative packaging material with lower environmental impact and suitable end-of-life solutions for packaging waste, further reinforcing ITC's commitment on sustainable development. The Paperboards Business continues to pursue several innovative interventions in the area of sustainable packaging including the recently launched Omegabev and Omegabarr (virgin fibre based boards with a bio-based barrier coating, which are fully biodegradable under suitable composting conditions). These products have received encouraging initial response.

During the quarter, the Packaging and Printing Business was recognised as the 'PrintWeek Printing Company of the Year 2019' and 'Green Company of the Year' for its operational excellence and creative packaging solutions. The Business continues to be acknowledged as a key associate by several large FMCG companies in the country for providing superior packaging solutions.

Contribution to Sustainable Development

ITC has been ranked **#1 globally amongst peers** (comprising companies with market capitalisation between USD 38 Bln. and USD 51 Bln.) and **overall #3 globally on ESG performance** in the Food Products industry by **Sustainalytics** - a renowned global ESG ratings company. ITC has been rated 'AA' by MSCI-ESG - the highest among global tobacco companies.



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Global exemplar in sustainability, the key highlights are given below:
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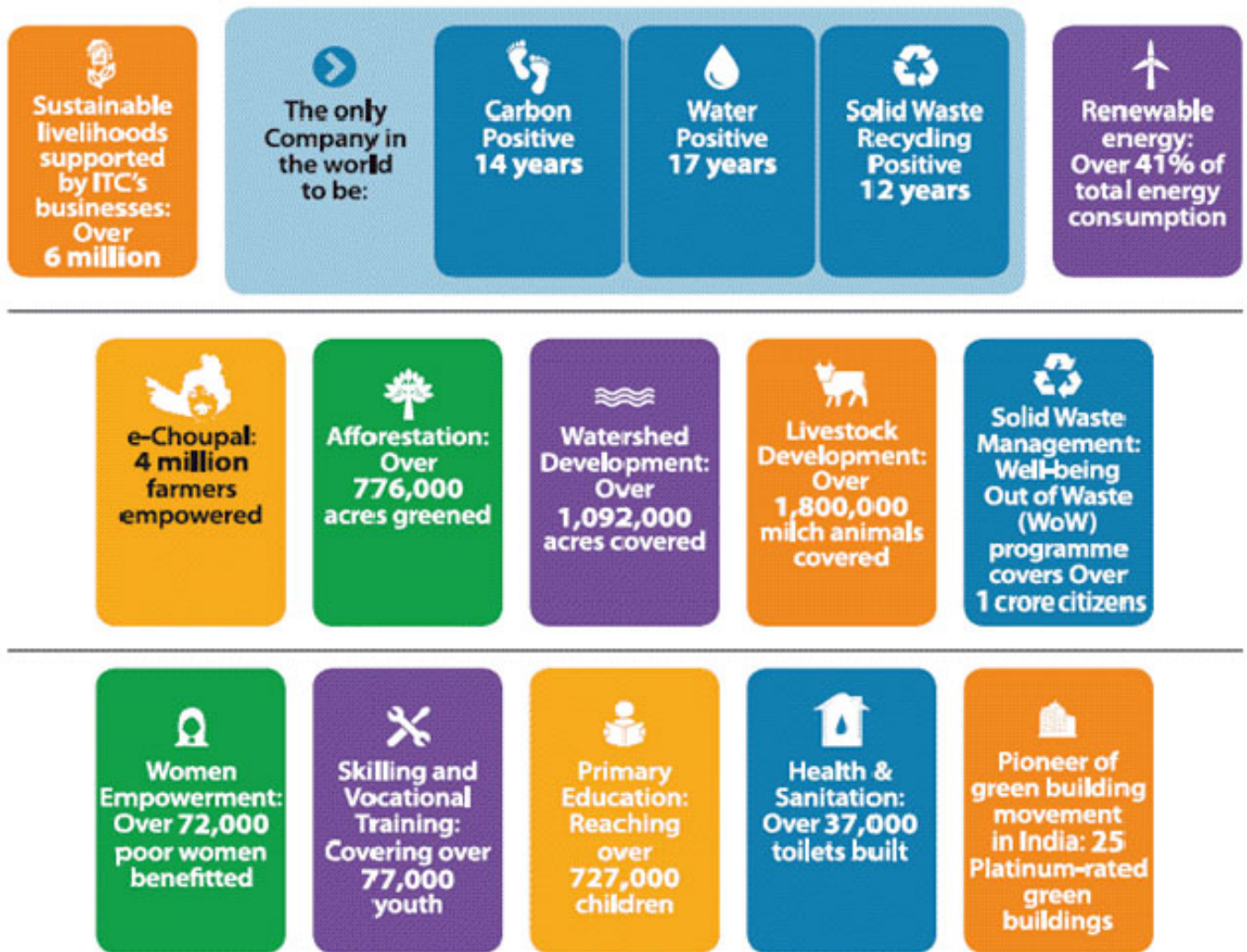
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ITC has recently launched a **first-of-its-kind model for sustainable management of Multi-Layered Plastic packaging waste** in Pune in partnership with SWaCH, a leading waste-pickers cooperative and with active patronage and cooperation from the Pune Municipal Corporation. Leveraging the expertise resident in the ITC Life Sciences and Technology Centre, viable options have been found to convert multi layered plastic waste into useful items of consumption. Efforts are underway to scale up this initiative and replicate the model in other parts of the country.

The Board of Directors, at its meeting in Kolkata on 31st January, 2020, approved the financial results for the quarter ended 31st December, 2019, which are enclosed.

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