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Financial Results for the Quarter ended 30th June, 2018

26 Jul 2018

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Financial Results for the Quarter ended 30th June, 2018


Highlights

Gross Sales Value up 13.5%


Net Profit up 10.1% driven by robust performance across most segments

Financial Results for the Quarter ended 30th June, 2020


Green shoots up the farm



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Steep escalation in tax incidence under GST regime continues to weigh on FMCG-Cigarettes performance.

FMCG-Others Segment Revenue up 14.3% on a relatively firm base (based on Gross Sales Value which includes adjustments only for taxes that are excluded from reported Gross Revenue).

- Most major categories enhanced their market standing.

- Robust growth in Segment EBITDA (up 86% to 128 cr.) driven by enhanced scale, product mix enrichment and cost management initiatives, notwithstanding higher investments in brand building and gestation costs of new categories.

Higher room rates, strong F&B sales and high operating leverage boost Hotels segment performance. ITC Kohenur, Hyderabad commissioned on 1st June 2018; receives excellent initial response.

Paperboards, Paper & Packaging Segment Profit up 15% driven by strategic investments in imported pulp substitution, process innovation leading to improved pulp yield, benefits of a cost-competitive fibre chain, product mix enrichment and higher realisation. Capacity utilisation of recently commissioned Décor machine scaled up.

Trading opportunities in Oilseeds, Rice, Spices and Coffee drive Agribusiness Revenue growth. Pressure on legal cigarette industry volumes, adverse quality and leaf cost escalation pertaining to Andhra 2017 crop, and lower export incentives weigh on Segment Results.

FMCG (</media-centre/press-releases-content.aspx?id=2006&type=C&news=financial-results-for-the-quarter-ended-30th-june-2018#fmcg>) | **Cigarettes** (</media-centre/press-releases-content.aspx?id=2006&type=C&news=financial-results-for-the-quarter-ended-30th-june-2018#cigarettes>) | **Hotels** (</media-centre/press-releases-content.aspx?id=2006&type=C&news=financial-results-for-the-quarter-ended-30th-june-2018#hotel>)

Agri Business (</media-centre/press-releases-content.aspx?id=2006&type=C&news=financial-results-for-the-quarter-ended-30th-june-2018#agri>) | **Paperboards, Paper & Packaging** (</media-centre/press-releases-content.aspx?id=2006&type=C&news=financial-results-for-the-quarter-ended-30th-june-2018#paper>)

The Company delivered a healthy performance during the quarter amidst subdued demand conditions and continuing pressure on the legal cigarette industry. On a comparable basis, Gross Sales Value (net of rebates/discounts) for the quarter stood at Rs 18171.66 crores, representing a growth of 13.5% driven mainly by the Agribusiness, FMCG-Others and FMCG-Cigarettes Segments. Profit Before Depreciation, Interest and Tax at Rs 4202.12 cr. and Profit After Tax at Rs 2818.68 cr. grew by 12.2% and 10.1% respectively. Total Comprehensive Income stood at Rs 2897.10 crores (previous year Rs 2717.32 crores). Earnings Per Share for the year stood at Rs 2.31 (previous year Rs 2.11).

FMCG-Others

Segment Revenue grew by 14.3% during the quarter on a relatively firm base (based on Gross Sales Value which includes adjustments only for taxes that are excluded from reported Gross Revenue). This was led by Staples, Snacks and Meals Business in the Branded Packaged Foods Business, Deodorants and Liquids (handwash & bodywash) in the Personal Care Products Business, Classmate Notebooks and Agarbattis offset by the ongoing restructuring of retail footprint and trade presence in the Lifestyle Retailing Business.

Segment EBITDA at Rs 127.76 cr. registered robust growth of 86% on the back of enhanced scale, product mix enrichment and cost management initiatives, despite sustained investment in brand building and gestation costs of new categories viz. Juices, Dairy, Chocolates, and Health & Hygiene segment in the Personal Care Products Business.

The **Branded Packaged Foods Businesses** posted robust growth in revenue with most major categories recording improvement in market standing.



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- In the **Staples, Snacks and Meals Business**, Aashirvaad atta staged progressive recovery after the concerted attack on the brand by rumour mongers in the previous quarter, and consolidated its leadership position across markets. Increasing consumer traction for Bingo! Potato Chips and Tedhe Medhe continued to drive growth in the Snacks Business. During the quarter, the Business introduced several innovative variants in the market including Mad Angles Fillos, a first-to-market snack format with peanut masala filing, Mad Angles Very Peri Peri and Tedhe Medhe Wakhra, inspired by the popular pickle flavours from the city of Amritsar. In the Instant Noodles Category, YiPPee! Magic Masala continued to garner consumer franchise anchored on superior quality and a differentiated value proposition. Product portfolio stood augmented with the launch of 'Wow Chicken' - a unique offering which can be consumed in both dry and cooked formats - in West Bengal and North East markets. The new products have received encouraging response and are being rolled out to target markets.

- In the **Confections Business**, Dark Fantasy Choco Fills and Mom's Magic range of premium cookies accelerated their growth momentum driven by superior product attributes, focused communication and consumer activation. During the quarter, the Business forayed into the fast-growing Cakes segment with the launch of 2 exciting variants each under the Dark Fantasy Choco Jellifills and Bounce brands. The Biscuits portfolio was augmented with the launch of Bounce Minis strawberry flavoured bite-sized centre-filled biscuits and Marie Light Vita, a variant enriched with 11 essential nutrients. Portfolio premiumisation continued in the Confectionery category with higher salience of 'Re.1 and above' products in the sales mix. During the quarter, the Business launched a differentiated offer - Candyman Fruitee Delite.

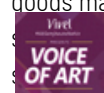
- In the **Dairy & Beverages Business**, B Natural juices scaled up volumes during the quarter leveraging a portfolio of differentiated products anchored on the 'Not from Concentrate' platform. This initiative not only provides consumers a more nutritive and natural tasting experience but also promotes the use of fruit pulp procured from Indian farmers, thereby supporting the Indian farm and food processing sector. The juices portfolio was augmented during the quarter with the launch of Masala Phalsa and Masala Jamun variants tailored to regional tastes and preferences.

- Product portfolio of the **Fabelle** range of luxury chocolates was strengthened with the introduction of Choco Mousse with Nuts & Berries, a premium centre-filled chocolate bar with visible inclusions. The Business also introduced the range in several Modern Trade and premium outlets across Bengaluru in addition to the exclusive Fabelle chocolate boutiques in 8 ITC hotels. Fabelle continues to receive excellent response from discerning consumers setting a new benchmark in the luxury chocolates segment.

The **Personal Care Products Business** enhanced its market standing during the quarter with robust growth in sales of fragrant products and liquids (handwash and bodywash). The Business launched several new products during the quarter including Engage ON+ pocket perfume for men in a unique slider-flip pack, Savlon hand sanitiser gel, a range of bathing accessories under the Fama brand and a premium range of anti-ageing, specialised hydrating creams, cleansing and toning products under the 'Dermafique' brand. Dermafique has been developed at the Company's state-of-the-art Life Sciences and Technology Centre leveraging the latest breakthroughs in bioscience, nanotechnology and derma science. Vivel body wash, launched in the previous quarter in two natural variants - Lavender Almond Oil & Mint Cucumber, continued to receive excellent response in the launch markets. The quarter also marked the Business's foray into the floor cleaner segment under the recently acquired 'Nimyle' brand. Plans are on the anvil to scale up the brand's presence in existing markets and extend the same to other target markets progressively.

The Business continued to focus on deepening consumer engagement through innovative brand campaigns in conventional and social media platforms. During the quarter, Savlon's unique 'Healthy Hands Chalk Sticks' campaign won the prestigious Grand Prix for 'creative effectiveness' at the Cannes Lions 2018 while Vivel leveraged its 'Ab Samjhauta Nahin' campaign to lead the conversation on legal rights for gender equality with renowned Supreme Court advocate Ms. Karuna Nundy explaining how laws can protect women at home and at work.

The Branded Packaged Foods and Personal Care Products Businesses continue to leverage state-of-the-art integrated consumer goods manufacturing facilities (ICML) to service proximal markets in a highly efficient and responsive manner. Capacity utilisation was high at the recently commissioned ICMLs at Kapurthala and Guwahati. Over 15 projects are under construction of buildings, equipment and other infrastructure. Vivel Celebrates #WomensEqualityDay with #VoicedofArt - viz. land acquisition/site development - read more <https://www.itcportal.com/media-centre/press-releases-content.aspx?id=2302&type=C&news=standalone-financial-results-for-the-quarter-ended-30th-june-2020>



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The **Education and Stationery Products Business** strengthened its leadership position in the Notebooks category leveraging a portfolio of innovative products and superior quality. During the quarter the Business launched the 'MyClassmate App' towards enhancing consumer connect. The App contains several useful features for students such as modules pertaining to subject concepts, personal timetable organiser & metrics converter and has received encouraging initial response with excellent ratings from users. The unique Classmate 'Be Better Than Yourself' campaign, launched recently, continued to promote conversations amongst parents on the critical topic of supporting children to pursue their ambitions and has garnered wide followership across social media platforms. Aimed at driving tangible changes in society by encouraging children to realise their full potential by pursuing their personal goals and ambitions rather than comparing them with peers in terms of their marks and other achievements, the campaign has aided in deepening consumer connect and driving brand preference.

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Cigarettes

A punitive and discriminatory taxation and regulatory regime continues to exert severe pressure on the domestic legal cigarette industry even as illegal cigarette trade grows unabated.

The legal cigarette industry, already reeling under the cumulative impact of steep increase in taxation over the last five years and intense regulatory pressures, was further impacted by a sharp increase of 13% in tax incidence on cigarettes (19% increase for the king-size filter segment) under the GST regime. Coupled with the increase in Excise Duty rates announced in the Union Budget 2017, this resulted in an incremental tax burden of over 20% on the Cigarette Business post implementation of GST.

It is pertinent to note that the tax incidence on cigarettes has nearly trebled over the last six years, on a comparable basis. The high rates of tax on cigarettes also provide attractive tax arbitrage opportunities to unscrupulous players, fanning the growth of illegal cigarette trade in the country. While the legitimate cigarette industry has declined steadily since 2010-11 at a compound annual rate of 4.8% p.a., illegal cigarette volumes in contrast have grown at about 5% p.a. during the same period, making India one of the fastest growing illegal cigarette markets in the world. It may be noted that, according to Euromonitor International, India is now the 4th largest illegal cigarette market in the world.

Another factor that fuels the growth of smuggled international brands is that such cigarette packs do not carry the excessively large (85% of the surface area of both sides of the cigarette package) pictorial warnings with extremely gruesome and unreasonable images that are prescribed under Indian laws. While the legal cigarette industry scrupulously complies with the statutory provisions, smuggled international brands of cigarettes either do not bear any pictorial or other health warnings or bear warnings of much smaller dimensions, that too different from what is mandated under Indian law. Findings from research conducted by IMRB International, an independent organisation, indicate that the lack of warnings or their diminutive size creates a perception in the consumer's mind that the smuggled cigarettes are 'safer' than domestic duty-paid cigarettes that carry the statutory warnings. The attractive tax arbitrage opportunity for smuggled cigarettes allows unscrupulous players to make the products available to consumers at a fraction of the price of duty-paid domestic cigarettes. In fact, the affordability of illegal cigarettes and the other cheaper tobacco products (by reason of lower tax incidence as well as evasion of taxes) has been driving the consumption of tobacco from duty-paid cigarettes to the other forms.

The growth of smuggled international brands has also adversely impacted the demand for domestic Flue Cured Virginia (FCV) tobacco that is used in cigarette manufacture. The absence of a strong domestic demand base has not only resulted in loss of income but also exposed the Indian tobacco farmer to the volatilities of the international market, thereby sub-optimising earnings from tobacco crop exports as well. These developments have had a devastating impact on the Indian tobacco farmer and the 47 million livelihoods dependent on the tobacco value chain. Soft demand for Indian FCV tobacco has prompted the Tobacco Board of India to reduce the authorised crop size for three successive years i.e. 2015-16, 2016-17, 2017-18. Further, the unprecedented drought in Andhra Pradesh in late 2016 played havoc on the actual crop output in 2017 besides adversely impacting its quality. This, in turn, has also led to lower exports of tobacco. It is estimated that the cumulative drop in farmer earnings is in excess of Rs 3450 crores over the last three years,

Although India is the 3rd largest tobacco grower in the world, it has put in place extremely stringent tobacco control laws. For instance, the statutorily prescribed pictorial warning occupying 85% of both sides of a cigarette pack ranks India in the 2nd position globally in terms of their stringency. Unfortunately, these laws have fuelled, albeit unintentionally, the growth of illegal cigarettes in the country and consequently, impacted adversely on farmer incomes. In contrast, several major tobacco producing countries, including the USA,

Despite an extremely challenging operating environment, the Business consolidated its leadership position in the industry and continued to improve its standing in key competitive markets across the country. This demonstrates the resilience of the Company's portfolio of brands, superior consumer insights and its relentless focus on value creation. Some of the key interventions during the quarter include the launch of innovative variants viz., Hollywood (triple segment filter) and Flake Taste Pro (dual segment filter). Additionally, two brands, American Club and Players, which were launched towards the end of 2016-17 continue to be scaled up.

Hotels

The Business made steady progress during the quarter in the construction of ITC Hotels at Kolkata & Ahmedabad and WelcomHotels in Guntur & Bhubaneswar.

Agri Business

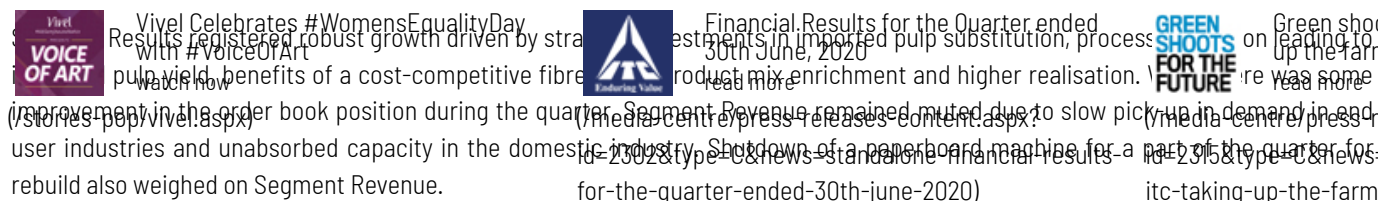
The Business leveraged market opportunities in Oilseeds, Rice, Spices and Coffee resulting in robust growth in revenue during the quarter. However, pressure on legal cigarette industry volumes, adverse quality and leaf cost escalation pertaining to Andhra 2017 crop, and lower export incentives weighed 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 continues to leverage its wide geographical sourcing network, multiple sourcing models and customised infrastructure towards meeting the growing requirements for Aashirvaad atta and deliver substantial savings to the system through efficient logistics management and other cost-optimisation initiatives. Similarly, the Business sources high quality fruit pulp for B Natural through its extensive sourcing network and associated infrastructure in key growing areas in the country, while also enabling migration to 'Not From Concentrate' fruit pulp sourced from Indian farmers.

The Business continues to step up initiatives in the area of value added agriculture to create new vectors of growth by leveraging its agri-commodity sourcing and processing expertise and the strong distribution network of the Company. These include the launch of packaged prawns, super safe spices, fresh fruits and vegetables and dehydrated onions under the ITC MasterChef and Farmland brands. Plans are afoot to rapidly scale up these interventions in the ensuing months.

Paperboards, Paper & Packaging



Operations of the Bleached Chemical Thermo Mechanical Pulp mill was scaled up during the quarter thereby reducing import dependency and delivering substantial savings to the Business, especially in view of the sharp increase in imported pulp prices in recent months.

Capacity utilisation was also scaled up at the recently commissioned Décor machine at the Tribeni unit. Rebuild of a paperboard machine at the Bhadrachalam unit is nearing completion and is likely to be commissioned in the ensuing quarter.

Contribution to Sustainable Development

The Company's Social Investments Programme aims to address the challenges arising out of poverty, environmental degradation and climate change through a range of activities with the overarching objective of creating sustainable sources of livelihood for stakeholders.



The footprint of the Company's Social Investments Programme is given in the table below:


Intervention Areas	Unit of Measurement	Cumulative till date
Social and Farm Forestry	Lakh Acres	6.88
Soil and Moisture Conservation Programme	Lakh Acres	9.33
Sustainable Agricultural Practices		
Compost Units	Number	37,592
Sustainable Livelihoods Initiative		
Cattle Development Centres	Number	165
Animal Husbandry Services	Artificial Inseminations (in lakhs)	22.42
Economic Empowerment of Women		
Ultra Poor Women covered	Number	20,100
Self Help Group Members	Number	38,127
Livelihoods created	Number	61,166
Primary Education		
Children covered	Number (in lakhs)	5.72
Health and Sanitation		
Low Cost Sanitary Units	Number	32,055
Households covered under Solid Waste Management	Number	100,427
Vocational Training		
Students Enrolled	Number	57,810

The Board of Directors, at its meeting in Kolkata on 26th July 2018, approved the financial results for the quarter ended 30th June 2018, 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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