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Financial Results for the Quarter and Year ended 31st March, 2020

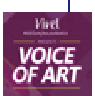
26 Jun 2020

Financial Results for the Quarter and Year ended 31st March, 2020

Highlights

Post-tax profit fo r up 21.4% to Rs.15136 crores.

Robust growth of 30% in Free Cash Flow generation.



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GREEN SHOOTS FOR THE FUTURE

Green sho up the farr
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Board recommends Dividend of Rs.10.15 per share for FY20.

ITC ranked #1 globally amongst peers on ESG performance by Sustainalytics in Food Products industry.

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

Financial year ended 31st March, 2020

FMCG-Others Segment Revenue up appx. 5% on a comparable basis (excluding the Lifestyle Retailing Business).

- Robust growth in **Segment EBITDA (up 32.8% to 914 cr.)** driven by enhanced scale, product mix enrichment and strategic cost management initiatives, notwithstanding increase in input costs, sustained investments in brand building, gestation costs of new categories, start-up costs of new facilities and impact due to disruptions following the outbreak of COVID-19 pandemic.

- Prior to the outbreak of the pandemic, the FMCG-Others segment was on track to register double-digit revenue growth for the fourth quarter, on a comparable basis.

The Education and Stationery Products Business (ESPB), which reported strong growth till February 2020, was severely impacted in the peak month of March 2020 due to closure of educational institutions and deferment of new academic sessions across states pursuant to nation-wide lockdown.

- Comparable revenue growth (excluding ESPB and Lifestyle Retailing Business) stood at appx. 5% during the fourth quarter.

- Strong momentum has been witnessed in essential consumer goods and the Company has ramped up capacity to service surge in demand across categories. Demand in the Education & Stationery products continued to be subdued pending resumption of the educational institutes.

The Hotels Business posted strong growth in Segment Revenue and Segment Results of appx. 19% and 29% respectively during the first nine months of the year. This momentum was sustained in January'20 and February'20. However, the Business was severely impacted by the outbreak of COVID-19 pandemic towards the end of the year.

In the first 9 months, Agri Business witnessed strong revenue growth of appx. 15% driven by trading opportunities in **oilseeds & pulses** and **scale-up of the value-added portfolio,** especially **spices, frozen shrimps** and **frozen snacks.** Subdued demand for leaf tobacco in international markets, relatively steeper depreciation in currencies of competing origins and adverse business mix weighed on Segment Results. Performance in the fourth quarter was impacted due to supply chain disruptions towards the end of the year caused by the outbreak of COVID-19 pandemic. Operations in the Agri Business have since then normalized.

In the **Paperboards, Paper & Packaging Segment**, while capacity addition in the Value Added Paperboards segment bolstered Revenue, slowdown in customer offtake due to sluggish demand in end-user industries weighed on the performance of the packaging segment. Despite the adverse impact on Revenue in the fourth quarter due to supply chain disruptions following the outbreak of the pandemic towards the end of the year, Segment Results were up 5.3% driven by higher in-house pulp production, enhanced operating efficiencies and benign input costs.

In the Union Budget 2020, a steep increase in National Contingent Calamity Duty **on cigarettes** was announced w.e.f. 1st February 2020. [illegible] the end of the year, the COVID-19 pandemic caus[illegible]ational disturbances even before the nation-wid[illegible]wn. During [illegible] phase of the lockdown, unprecedented disrupt[illegible] witnessed across the value chain which impacte[illegible]nt Revenue and Segment Results. However, all factories are currently [illegible]onal and sales & distribution operations are prog[illegible] normalising.

Free Cash Flow generation (net of tax and capital expenditure) during the year stood at Rs. [illegible] crores, representing a robust growth of

30% over the previous year. The Company remains the clear leader in the FMCG industry in terms of annual Free Cash Flow generation.

The Company was one of the fastest off the blocks to resume operations after obtaining necessary permissions in the lockdown phase, with safety and employee well-being accorded paramount importance. Capacity has been significantly ramped up to meet the surge in demand for essential consumer goods. While essential consumer goods have witnessed buoyancy in demand, discretionary categories is likely to recover over time; the Company is approaching the future with due caution in light of the heightened uncertainty in the environment.

On 23rd May, 2020, the Company entered into a **Share Purchase Agreement ('SPA')** to acquire 100% of the equity share capital of Messrs. **Sunrise Foods Private Limited (SFPL)**, an Indian company primarily engaged in the business of spices under the trademark 'Sunrise', subject to fulfilment of various terms and conditions as specified in the SPA.

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.

In line with **ITC's credo 'Nation First: Sab Saath Badhein',** and as a responsible and compassionate corporate citizen, the Company along with ITC Education and Healthcare Trust and ITC Rural Development Trust has set up a COVID-19 Contingency Fund of Rs.215 cr. Several initiatives were taken which include contribution of Rs.100 cr. to PMCARES fund, contribution of Rs.28 cr. to CMs' Relief Fund across states, assistance through distribution of dry/cooked food, distribution of food and personal hygiene products to frontline staff, migrant labour, healthcare professionals and rendering support directly or through NGOs to the needy etc.

TOP

Financial Performance

The macro-economic environment for the year under review was particularly challenging, marked by deceleration in economic activity accentuated by a sharp decline in consumption, especially in rural areas. Just as the business environment was showing signs of an incipient recovery in the beginning of the fourth quarter, the onset of COVID-19 pandemic, changed the situation dramatically. In the initial stages, the contagion had a significant impact on the Hotels and Education and Stationery Products businesses as it coincided with the peak period and the onset of the school season, respectively.

The Cigarettes Business consolidated its market standing during the year through continued focus on delivering world-class products along with best-in-class execution. However, persistent weakness in the demand environment coupled with growth in illicit cigarette trade weighed on performance. Steep increase in taxes w.e.f. 1st February 2020 and disruptions in operations in March 2020 exacerbated the situation. In the FMCG-Others Segment, comparable revenue grew ahead of the industry, amidst subdued demand conditions, while profitability improved significantly. Segment EBITDA margins improved by appx. 160 bps to 7.1% during the year despite heightened competitive intensity, early closure of educational institutions that impacted the Education & Stationery Products Business, elevated input costs, gestation costs of new products/categories and manufacturing facilities and impact due to disruptions following the outbreak of the pandemic. In the Hotels Business, while the first three quarters witnessed strong performance, driven largely by excellent response to the Company's new iconic properties, the outbreak of COVID-19 pandemic severely impacted performance in the fourth quarter. Sluggish growth in end-user industries such as FMCG, Pharma and Liquor resulted in muted customer offtake in the Paperboards, Paper and Packaging segment; margin expansion was driven by higher in-house pulp production, enhanced operating efficiencies and benign input costs. While trading opportunities in oilseeds & pulses and scale-up of the value-added portfolio were the key drivers of revenue growth in the Agri Business segment, 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.

Overall for FY 2019/20, Gross Revenue at Rs.46323.72 crores increased by 2.4%, while PBT (before exceptional items) at Rs.19298.92 cr. grew by 4.6% over FY 2018/19. Profit after Tax grew at a faster pace of 21.4% to Rs.15136.05 crores, aided by reduction in corporate income tax rates during the year (net of calibration in pricing).

[illegible]nal items during the year represent cost of leaf t[illegible] stocks (including taxes) destroyed at a third part[illegible] warehouse [illegible]e, for which insurance claim has been filed and i[illegible] process.

Earnings Per Share for the year stood at Rs.12.33 (previous year Rs.10.19).

The Directors are pleased to recommend an Ordinary Dividend of Rs.10.15 per share (previous year Ordinary Dividend of Rs.5.75 per share) for the year ended 31st March, 2020. Total cash outflow in this regard will be Rs.12,476.61 crores.

FMCG-Others

FMCG industry growth decelerated sharply during the year due to sluggish demand conditions, tight market liquidity and delayed monsoons followed by excessive rainfall in certain parts of the country. Overall, industry growth rates halved to ~7% in Q3 FY20 compared to same period last year, with the situation getting worse in Q4 FY20 due to the COVID-19 pandemic induced lockdowns across the country. Rural markets, which account for around one-third of the industry and have been the key driver of growth in recent years, witnessed a steep fall in growth rates. Rural growth stood at 0.8x of urban markets in FY20 compared to 1.4x in FY19.

Despite the challenging conditions prevailing during the year and the significant slowdown following the outbreak of the pandemic, the Company's FMCG-Others businesses recorded Segment Revenue of Rs.12844.23 crores representing an increase of 5% over the previous year (on comparable basis, excluding the Lifestyle Retailing Business). Most major categories enhanced their market standing during the year. Prior to the outbreak of the pandemic, the FMCG-Others segment was on track to register double-digit revenue growth for the fourth quarter, on a comparable basis.

Segment EBITDA for the year registered robust growth of 32.8% to Rs.914 crores with significant margin expansion of ~160 bps. This was driven by enhanced scale, product mix enrichment, reduced distance-to-market and other strategic cost management initiatives after absorbing the impact of sustained investment in brand building, gestation costs of new categories & facilities and the impact due to disruptions following the outbreak of the pandemic.

TOP

Branded Packaged Foods

Against the backdrop of an extremely challenging operating environment, the Company sustained its position as one of the fastest growing branded packaged foods businesses in the country, leveraging a robust portfolio of brands, a slew of first-to-market offers, a range of distinctive products customised to address regional tastes and preferences, along with an efficient supply chain and distribution network. Whilst the Business was on track to register a double-digit revenue growth in the last quarter of the financial year, the momentum was severely disrupted by the onset of COVID-19 pandemic.

Business operations were severely impacted with the outbreak of COVID-19 pandemic and the consequent nationwide lockdown. However, the Company was able to successfully overcome these challenges and resume operations within a very short time frame. The categories in the essential consumer goods space, viz. staples, noodles, biscuits, dairy etc. witnessed robust demand, reflecting consumer preference for trusted brands; demand for discretionary categories was relatively soft. The Business also ramped up capacity in certain categories to cater to surge in demand. The Branded Packaged Foods Businesses remain focused on addressing emerging consumer needs and are anchoring innovations on the vectors of health, wellness, immunity and naturals to address heightened concerns in these areas in the aftermath of the COVID-19 pandemic.

In the Staples Business, Aashirvaad atta fortified its market standing across geographies leveraging a robust product portfolio anchored on the Company's agri-sourcing expertise. The range of value-added products was augmented with the launch of Aashirvaad Nature's Super Foods, a differentiated range of products comprising Gluten Free Flour, Ragi Flour and Multi-Millet Mix which are naturally gluten free, rich in dietary fibre and a source of protein.

Supported by its new positioning, 'Created by Sun and Sea - pure just like nature intended it to be', Aashirvaad Salt gained traction in key focus geographies and posted a healthy performance during the year. In the Spices category, during the year, the Company expanded its geographical footprint to 17 states and recorded healthy volume growth.

Increasing consumer traction for 'Bingo!' Potato Chips and Tedhe Medhe continued to drive growth in the Snacks Business. Tedhe Medhe continues to be the most widely distributed snack brand in the country. The Tedhe Medhe range was augmented with the launch of innovative variants - 'Wow Spin' and 'Chatpata Sw... Business continues to be the market leader in th... s sub-s... and improved its market standing in potato chip...

In the Instant Noodles category, YiPPee! noodles sustained its growth momentum and overall market standing as a strong, competitive #2 brand in the noodles space. YiPPee! led the industry in terms of packaging innovation in family packs, enabling impactful visibility, reducing breakages and driving growth in Modern Trade.

In the Biscuits category, Dark Fantasy Choco Fills sustained its high growth trajectory driven by superior product attributes, focused communication, efficient distribution and consumer activation. The recently launched innovative offers such as Bounce Cake variants, 'Sunfeast' Veda Marie Light, Bounce Loops, continue to receive excellent response from consumers and are now available in all target markets. The Business consolidated its leadership position in the super-premium segment with continued focus on enhancing brand affinity and increasing penetration in emerging channels of Modern Trade & e-commerce platforms.

In the Confectionery Business, multi-unit packs and higher salience of 'Re. 1 and above' products contributed to portfolio premiumisation. 'Candyman' Fantastik, continues to make rapid strides and garner increasing consumer traction across markets.

In the Dairy & Beverages Business, the 'B Natural' range of juices anchored on the proposition of '100% Indian Fruit, 0% concentrate' with the added 'goodness of fibre', continues to deepen consumer connect by providing a more nutritive and 'natural' tasting experience. The premium range of juices with fruit inclusions, in an appealing transparent bottle format, comprising unique region-specific fruits viz. Ratnagiri Alphonso, Himalayan Mixed Fruit and Dakshin Guava, continued to receive excellent response from consumers and is now available in all target markets.

The 'Aashirvaad Svasti' fresh dairy portfolio comprising pouch milk, pouch curd and paneer, gained strong consumer traction on the back of high quality standards and superior taste profile, in Bihar and West Bengal where the portfolio is currently available. Aashirvaad Svasti Ghee continues to gain excellent product feedback and is witnessing good traction, especially in Modern Trade and e-commerce channels. Similarly, the 'Sunfeast Wonderz Milk' range of milk shakes has received encouraging response and is being extended to other markets.

'Fabelle' chocolates continue to receive excellent response from discerning consumers. During the year, the Business adopted a focused geography approach, backed by innovative brand campaigns on digital platforms, increasing its presence in stores across Bengaluru, in Modern Trade & Independent Service Stores in select metro cities.

The Business implemented several initiatives to improve profitability encompassing strategic cost management, supply chain optimisation, smart procurement and productivity improvement through automation, leveraging new-age tools such as Industry 4.0 and Smart Utilities which helped in mitigating escalation in input costs and absorbing start-up costs of new Integrated Consumer goods Manufacturing and Logistics (ICML) facilities and strategic investments in brand building for new categories viz. Dairy, Juices, Chocolates and Coffee.

TOP

Personal Care Products

The Company's Personal Care Products Business consolidated its market standing across categories driven by sustained focus on innovation, portfolio premiumisation and expansion of distribution reach, both in traditional trade as well as e-commerce. While 'Fiama' bodywash and handwash, 'Vivel' bodywash, 'Savlon' Handwash and antiseptic liquid and 'Nimyle' floor cleaner witnessed robust growth, performance in the bar soaps and fragrancing products categories was relatively subdued in line with the slowdown in consumer demand witnessed during the year.

In the Personal Wash & Hygiene category, the Business augmented the 'Fiama' bodywash range with the launch of 'Fiama' Scents in two exciting variants, thereby strengthening the brand's 'mood upliftment' value proposition. The Business also introduced a first-of-its-kind Fiama 'mood uplifting' handwash in the premium segment with three refreshing variants.

Towards the end of the financial year, heightened awareness for personal hygiene in the wake of the COVID-19 pandemic led to a surge in demand for products in the 'Health and Hygiene' portfolio such as hand sanitizers, handwash, antiseptic liquids and floor cleaners. Demonstrating a high degree of agility and responsiveness to the market dynamics at play, the Business rapidly expanded manufacturing capacity manifold and enhanced availability of the 'Savlon' antiseptic liquid, soap, handwash, hand sanitizer and 'Fiama' handwash products in the market. The newly setup perfume manufacturing plant at Manpura, Himachal Pradesh was re-purposed in quick time to manufacture hand sanitizers and service increased demand. The Business also launched two innovative products in ... me – **'Savlon Surface Disinfectant Spray'** and **'Sav...'** hand sanitizing liquid for quick and persistent a... ne ...ent and the subsequent launch of these produc... s India in a short span of time, is a testament to ... ve and passionate teams working round the clock to fight against the virus and keep India safe.

In the Fragrances category, 'Engage' consolidated its position as the second largest brand in the category. 'Engage' sustained its clear market leadership position in the Pocket Perfume segment despite intense competition.

The Business continued to expand its presence in the Floor Cleaner category leveraging the recently acquired 'Nimyle' brand. During the year, Nimyle witnessed strong growth in the East and also expanded its geographical footprint to the South, to become the 3rd largest brand nationally in a relatively short span of time.

The Business continued to strengthen its presence in the premium skincare space through its 'Dermafique' brand and in the popular space through 'Charmis'. During the year, Dermafique's Hydration range was extended with launch of 2 new variants tailor-made for summer skincare needs. The brand is now available on all key e-commerce platforms and continues to receive encouraging consumer response.

TOP

Education and Stationery Products

The Education and Stationery Products industry was adversely impacted during the year due to sluggish demand and tight liquidity conditions. The situation was exacerbated by the onset of the COVID-19 pandemic towards the close of the year which led to postponement of the academic session across the country. This also coincided with the peak season for sales.

Notwithstanding the challenging business environment, the Business was on track to deliver a double-digit revenue growth, prior to the outbreak of the pandemic. The Business sustained its clear market leadership position in the industry leveraging a portfolio of world-class brands and products, continued strategic interventions towards strengthening supply chain efficiencies and a deep and wide distribution network.

During the year, the 'Classmate' product portfolio was augmented with the launch of first-to-market innovative variants while the premium 'Paperkraft' portfolio was enriched with the launch of super premium pens with world-class technology and leather-bound notebook organiser. The Business also scaled up presence in the college and value segment of the notebook industry through the 'Classmate Pulse' and 'Saathi' brands respectively with a view to consolidating its leadership position.

During the year, the Business commissioned a dedicated facility for manufacturing notebooks. Equipped with state-of-the-art machinery, the facility provides the Business with the capability to develop innovative and highly differentiated notebook formats, drive cost reduction through process automation and higher operational efficiencies, and exploit opportunities in the overseas markets.

Incense Sticks (Agarbattis) and Safety Matches

The Mangaldeep brand sustained its leadership position in the Dhoop category and consolidated its position as the second largest brand in the Agarbatti category with all-round improvement in brand measures. During the year, the Business launched the Mangaldeep Temple 'Fragrance of God' range of products anchored on the core proposition of 'bringing home the divinity of the temple'. The Business also introduced an innovative 'Lo smoke' variant which emits 80% lesser smoke than regular agarbattis. Consumer response to these interventions have been very encouraging.

While demand conditions in the Safety Matches industry remained sluggish, the Business sustained its market leadership position through portfolio premiumisation and by leveraging a robust portfolio of offerings across market segments.

With effect from 1st April, 2020, GST rates for all safety matches irrespective of process of manufacture (mechanized/semi-mechanised units and 'handmade' safety matches) have been harmonised at 12% compared to 18% for mechanized/semi-mechanised and 5% for handmade matches earlier. The harmonized rates offer a level playing field for the organized players who were disadvantaged earlier and will enable the Company to strengthen its market standing.

TOP

s

A punitive and discriminatory taxation and regulatory regime along with a sharp increase in illegal trade in recent years, especially at the premium end, continue to pose significant challenges to the legal cigarette industry in the country. Performance during the year under review was additionally impacted by persistent weakness in overall demand environment, especially in rural markets and wholesale channel, and tight market liquidity conditions.

Towards the end of the year, the COVID-19 pandemic caused operational disturbances even before the nation-wide lockdown. During the initial phase of the lockdown, unprecedented disruption was witnessed across the value chain. However, all factories are currently operational and sales & distribution operations are progressively normalising.

Immediately upon receipt of permissions, the Company was able to resume operations and swiftly ramp up production and availability of its brands across markets. This is a testimony to the extraordinary resilience and deep commitment of the Company's workforce and business partners.

Notwithstanding the extremely challenging operating landscape and the headwinds faced during the year under review, the Company sustained its leadership position in the cigarette industry including modern variants through its unwavering focus on nurturing a portfolio of world-class products, superior consumer insights, a strategy of continuous innovation and superior product development capabilities. Several new variants were introduced during the year to cater to the continuously evolving consumer preference and ensure the future readiness of the Company's product portfolio. Key market interventions during the year include the launch of innovative and differentiated offerings at the premium end such as Gold Flake Indie Mint & Gold Flake Luxury and the extension of Gold Flake Neo & Classic Rich & Smooth to other markets. The Business also deployed focused offers under the 'American Club', 'Wave', 'Player's Gold Leaf', 'Pall Mall', 'Navy Cut', and 'Flake' trademarks in strategic markets towards bolstering and strengthening its market standing.

While stability in taxation between the sharp increase in July'17 under GST till the period up to Jan'20, provided some relief to the legal cigarette industry and lent buoyancy to tax collections, industry volumes remained significantly below June 2014 levels. This period of relative stability in taxes was halted with the sharp increase of 13% in tax incidence as a result of a significant hike in National Calamity Contingency Duty in February 2020.

It is pertinent to note that since 2016-17 i.e. pre-GST, taxes on cigarettes have increased by 40%, i.e. at a compound annual growth rate (CAGR) of about 12% (on a comparable basis) - over thrice the rate of inflation during the same period.

Discriminatory taxation on cigarettes, has caused progressive migration from consumption of duty-paid cigarettes to other lightly taxed/tax-evaded forms of tobacco products, comprising illegal cigarettes and bidi, chewing tobacco, Gurkha, Zarda, snuff, etc. Consequently, while the share of legal cigarettes in total tobacco consumption in the country has declined considerably from 21% in 1981-82 to a mere 9% (against global average of 90%), aggregate tobacco consumption has increased over the same period.

Illicit cigarette trade in the country has been growing at an alarming rate. Euromonitor International ranks India as the 4th largest illicit cigarette market globally - a dubious distinction arising due to punitive taxation of cigarettes which has created a hugely attractive tax arbitrage and extremely lucrative opportunities for unscrupulous players. While legal cigarette industry volumes have declined by about 20% between 2010/11 and 2019/20, the illicit duty-evaded cigarette segment has grown by 36% during the same period, accounting for about one-fourth of the domestic industry and making India one of the fastest growing illicit cigarette markets in the world. The 13% increase in cigarette taxes with effect from 1st February 2020 as aforementioned will provide further fillip to the large and rapidly growing illicit cigarette trade in the country.

The regulatory framework for cigarettes in the country is one of the strictest in the world. The Cigarettes and Other Tobacco Products (Prohibition of Advertisement and Regulation of Trade and Commerce, Production, Supply and Distribution) Act, 2003 (COTPA) require cigarette packages to bear the statutorily mandated pictorial and textual warnings covering 85% of the surface area of the packet (one of the largest in the world).

Smuggled illegal cigarettes do not bear any of the mandated pictorial or textual warnings or bear much smaller pictorial warnings as per the tobacco laws of the countries from where these cigarettes are sourced. As reported in prior years, findings from research conducted by IMRB International, an independent market research organisation, show that the lack of pictorial warnings on packets of smuggled cigarettes or their diminutive size creates a perception in the consumer's mind that smuggled cigarettes are 'safer' than
duty-paid cigarettes that carry the 85% pictori gs. Along with low prices to consumers enabled tax evasion,
pened the floodgates for contraband cigarettes

The large and rapidly growing illicit cigarette trade also has a deleterious impact on the millions of farmers and farm workers engaged in the tobacco value chain. In India, cigarettes are manufactured largely using Flue Cured Virginia Tobacco (FCV) grown in the states of Andhra Pradesh, Telangana and Karnataka. FCV tobaccos are also traded internationally and India is an exporter of this commodity. Since smuggled international brands of cigarettes do not use Indian tobaccos, in addition to revenue losses, the growth of the illegal cigarette trade has also resulted in a severe drop in demand for Indian FCV tobaccos in the domestic market. Along with decline in leaf exports (due to lower availability of Indian crop, favourable prices of competing origins and lower export incentives), this has adversely impacted earnings of the Indian tobacco farmer.

It is pertinent to note that several other major tobacco producing countries, including the USA have framed regulatory frameworks for tobacco taking into consideration the economic interests of their tobacco farmers. The inadvertent and unforeseen consequence of the stringent Indian tobacco regulations and discriminatory taxation continues to adversely impact the livelihood of Indian tobacco farmers with corresponding gains to tobacco farmers in the countries that have opted for moderate and equitable tobacco regulations. These developments have had a devastating impact on 46 million livelihoods including the Indian tobacco farmer dependent on the Tobacco Value Chain. It is estimated that since 2013-14, Indian tobacco farmers have suffered a cumulative drop in earnings of appx. Rs.5,175 crores. Stability in taxes on cigarettes will have the salutary effect of enabling the legal cigarette industry to claw back volumes thereby engendering domestic demand for Indian tobaccos. This will also help cushion the impact of volatility in international markets.

TOP

Hotels

2019-20 turned out to be a mixed bag for the domestic Hospitality industry. While General Elections and sluggish economic activity weighed on occupancy and room rates during the first half of the year, the second half witnessed a pick-up in growth momentum driven by increase in inbound & domestic tourism, meetings & conventions and retail segments. Reduction in GST rates announced in September 2019 also contributed to the recovery. The revival in demand was, however, short-lived with the onset of the COVID-19 pandemic, the impact of which was felt as early as February 2020, severely disrupting operations. The Travel & Hospitality sector is amongst the most severely impacted ones in the wake of the COVID-19 pandemic. With severe restrictions in travel for business as well as leisure, and heightened sensitivity around hygiene and social distancing, revenue streams across all segments of operations have been significantly impacted.

Segment Revenue for the 9 months ended 31st December, 2019 recorded robust growth of 19% appx. driven mainly by the newer properties in the portfolio. Segment EBITDA grew faster at 34% appx. on the back of higher RevPar, and operational leverage, notwithstanding gestation costs of the new properties. The impact of COVID-19 weighed on performance for the fourth quarter leading to full year Segment Revenue growth of 10% appx. to Rs.1837 cr. and Segment EBITDA growth of 12% appx. to Rs.420 cr.

Recently commissioned Hotels - ITC Kohenur, Hyderabad and ITC Grand Goa Resort & Spa, Goa - scaled up operations rapidly and strengthened customer franchise to establish themselves as leading hotels in their respective markets.

During the year, the Business commissioned ITC Royal Bengal, Kolkata. Located adjacent to ITC Sonar and in close proximity to the new business districts of Kolkata, this 'One of A Kind' luxury hotel is an ode to the region's cultural heritage and lineage. In its first year of operations, the hotel has been able to establish a pre-eminent position in the luxury hospitality & Meetings, Incentives, Conferences and Exhibitions landscape of the region, besides being the most sought after F&B and banquets destination in the city. The Welcomhotel portfolio was augmented with the addition of Welcomhotel Amritsar. The Business also made steady progress during the year in the construction of a Luxury Collection hotel in Ahmedabad, Welcomhotel Bhubaneswar & Welcomhotel Guntur.

In recent years, the Company has adopted an 'asset-right' strategy that envisages a large part of incremental room additions going forward to accrue through management contracts. The Company continues to successfully build on this strategy with a steady pipeline of managed properties - a Welcomhotel conveniently located close to the business districts at GST Road, Chennai was opened during the year.

...re are significant near-term challenges on acco... e outbreak of COVID-19 pandemic, the sector co... o hold ... potential in view of the robust long-term econo... tourism prospects of the country. With its portf... rld-class properties, iconic cuisine brands and best-in-class levels of service excellence anchored on 'Responsible Luxury' ethos and the highest standards of hygiene at all touchpoints, the Company is well-positioned to sustain its pre-eminent position in the Indian Hospitality industry and to successfully overcome these challenges.

TOP

Agri Business

After declining for 6 years in a row, global production of Flue Cured tobacco in 2019 remained stable at around 3470 million kgs. Indian Flue Cured tobacco supplies are stabilizing at around 220-230 million kgs. However, it still remains far below the levels of 2014 representing a drop of over 30%.

A punitive and discriminatory taxation and regulatory regime on cigarettes, apart from severely impacting the domestic legal Cigarette industry, has also resulted in significant pressure on the leaf tobacco crop grown in India. This, together with declining trend of global cigarette demand, excess production in certain geographies, relative strength of the Indian Rupee compared to currencies of competing origins, lower export incentives and heightened illicit trade in cigarettes has culminated in reduced demand for Indian tobacco. Consequently, leaf tobacco exports have declined by more than 25% over the last six years to 174 million kgs. in 2019-20.

Despite such challenging market conditions, the Company consolidated its leadership position as the largest Indian exporter of unmanufactured tobacco. This was achieved through new business development and enhanced value delivery to existing customers by leveraging the Business's expertise in crop development, superior product integrity and sourcing, and world-class processing facilities. To offset the declining offtake by global majors, the Business has acquired several new customers in recent years, generating substantial revenue during the year. The Business continued to provide strategic sourcing support to the Company's Cigarettes Business, meeting all requirements at competitive prices.

The Business continued to leverage its strong farm linkages and wide sourcing network across geographies to secure supplies of critical grades of wheat with benchmark quality, towards meeting the growing requirements of Aashirvaad atta. During the year, the Business further scaled up its strategic sourcing and supply chain interventions. These include focused crop development towards securing the right varieties for Aashirvaad atta with a view to providing consumers best-in-class product quality and experience, use of multi-modal transportation comprising rail, road & coastal routes and blend/cost optimisation through geographical and varietal arbitrage.

The growth in the external business was largely driven by opportunity trading in oil seeds, pulses and rapid scale up in value added portfolio especially spices, frozen shrimps and frozen snacks.

The Business leveraged its extensive sourcing network and associated infrastructure in key growing areas coupled with deep-rooted farmer linkages to source high quality fruit pulp for the Company's 'B Natural' juices brand.

During the year, the Business also strengthened its milk procurement network for 'Aashirvaad Svasti' dairy products with significant increase in daily milk collection. The Business expanded its network in West Bengal and Bihar to support the growing requirement for fresh dairy products, and in Punjab towards supporting the increasing requirements of 'Sunfeast Wonderz Milk' dairy beverages.

The Agri Business remains focused on enhancing its presence in identified high value-added segments viz. spices for 'food-safe' markets, processed fruits, frozen marine products, etc. This includes the 'ITC Master Chef' range of 'Super Safe' frozen prawns, which adhere to stringent standards prevalent in USA, Europe, and Japan. Launched in eight cities, leveraging the Company's experience of catering to customers in international markets, the range has been well appreciated for its taste and quality. During the year, the 'ITC Master Chef' range of frozen snacks was augmented with the launch of a unique range of kebabs for the retail segment. The frozen snacks range, currently comprising 11 vegetarian and 6 non-vegetarian delicacies, is available in over 50 cities and is gaining good consumer traction.

Performance in the fourth quarter was impacted due to supply chain disruptions amidst the COVID-19 pandemic. This led to lower exports and domestic sales towards the end of the year. To ensure steady support to the Branded packaged foods Business as also to support the agri sector during this critical time, the Business was able to secure necessary permissions expeditiously to ramp up agri operations including direct buying from farmers, leveraging its e-Choupal network to expand the buying locations at the village level to overcome labour and transport challenges from the market yards which were non-operational during March and April. The Business a... aged its supply chain network and ensured tran... on through multiple modes, with due adherence ... sary safety ... s and with necessary support both from the adm... on and supply chain partners.

The Company's Agri Business, with its deep rural linkages and agri-commodity sourcing expertise, is well positioned to scale up in identified areas that lend to higher value addition while continuing to provide strategic sourcing support to the Company's Branded Packaged Foods Businesses.

TOP

Paperboards, Paper & Packaging

After witnessing a robust 2018-19 in terms of strong end-user demand and higher realisations on the back of higher pulp prices, the Paper and Paperboard industry remained relatively muted in 2019-20. General economic slowdown, sharp fall in rural demand and tight liquidity conditions impacted end-user demand across segments. Against the backdrop of a challenging environment as aforestated, the Company delivered a competitively superior performance in the Paperboards, Paper & Packaging segment. Strategic investments in pulp import substitution, proactive capacity addition in Value Added Paperboard (VAP) segment, process improvements and a cost-competitive fibre chain supported by effective go-to-market strategies helped the Company deliver robust growth in revenue and substantial improvement in profitability in paperboards and paper. The packaging business, however, witnessed a marked slowdown in demand especially in the FMCG and Liquor industries, which weighed on its performance.

The Company remains the clear leader in the VAP segment and continues to consolidate its preferred supplier position amongst leading end-use customers and brands. It is also a leading player in the eco-labelled products segment and premium recycled fibre based boards space. Recent capacity augmentation in VAP segment at Bhadrachalam mill is operating at full capacity, delivering superior quality board which has been well accepted in the market. In line with its pursuit of providing sustainable packaging, the Company introduced recyclable barrier board 'Filo' series - a substitute for single-use plastics in the food service segment. The biodegradable 'Omega Series', launched as an alternative to plastic coated containers and cups is gaining significant customer franchise. In the Speciality Papers segment, the recently commissioned Décor Papers machine at the Tribeni unit caters to a diverse range of world-class products and continues to be well accepted by discerning customers.

The Business continues to make structural interventions to reduce operating costs and dependence on imported pulp. Significant increase in in-house pulp production was achieved during the year through strategic interventions, Industry 4.0 initiatives and improved wood mix. Capacity utilisation of Bleached Chemical Thermo Mechanical Pulp mill (BCTMP) at Bhadrachalam unit was further scaled up during the year. Innovations in the pulp mill have resulted in higher pulp production and improvement in pulp quality and yield. Initiatives such as bund plantation and plantation in core catchment area in Odisha (Malkangiri) will help in further reducing delivered cost of wood at the Bhadrachalam mill.

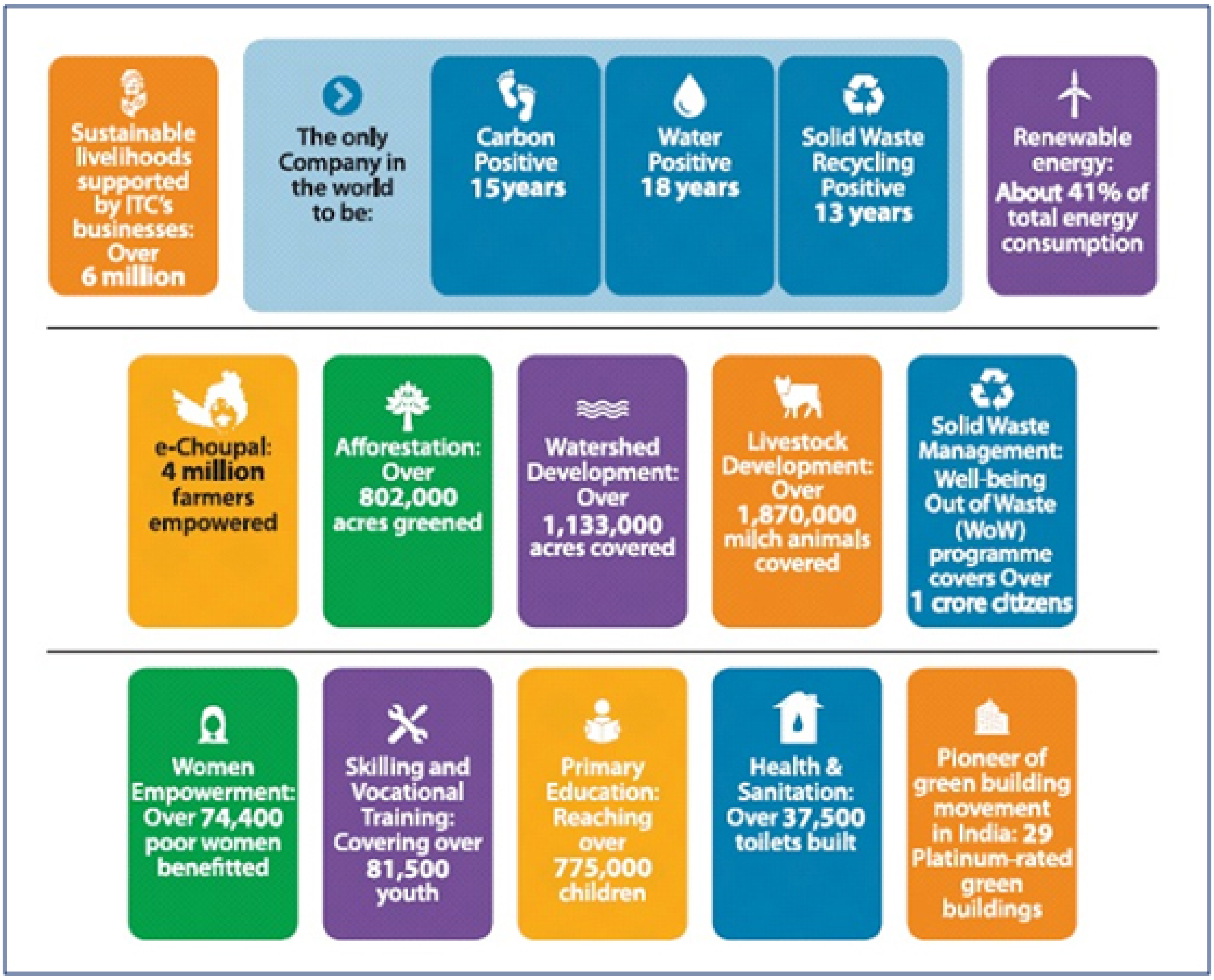
The Packaging and Printing Business has established itself as a one-stop shop, offering a wide range of superior and innovative packaging solutions. The Business caters to the packaging requirements of leading players across several industry segments viz. Food & Beverage, Personal Care, Home care, Footwear, Consumer Electronics, Pharma, Liquor and Tobacco. With its comprehensive capability-set across multiple packaging platforms, coupled with in-house cylinder making and blown film manufacturing lines, the Business continues to provide innovative solutions to several key customers in India and overseas. The Business continued to provide strategic support to the Cigarette and FMCG businesses.

TOP

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.

ITC is a **global exemplar in sustainability**, the key highlights of which are given below:



The Board of Directors, at its meeting in Kolkata on 26th June 2020, approved the financial results for the year ended 31st March 2020, which are enclosed.

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

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

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For any queries or grievances, contact Mr. Aurko Dasgupta at contactus@itc.in (mailto:contactus@itc.in)

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