



## **Media Statement**

**July 24, 2020**

### **Standalone Financial Results for the Quarter ended 30<sup>th</sup> June, 2020**

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#### **Highlights**

**Unprecedented disruption in operations due to nationwide lockdowns weighed on performance.**

**Strong performance by FMCG-Others Segment: Revenue up 12.2% on a comparable basis\* (18.8% excl. Education and Stationery Products Business); Segment PBIT up 61% with EBITDA margin expansion of 170 bps.**

\* Excluding Lifestyle Retailing Business

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**· FMCG-Others Segment Revenue up 12.2% on a comparable basis [up 18.8% excl. Education and Stationery Products Business (ESPB)].**

- **Staples, Convenience Foods and Health & Hygiene products, representing around 75% of the portfolio** (in base period excl. ESPB), **recorded strong growth of 34%**; Discretionary categories and those with higher 'out-of-home' consumption salience degrew by 25%, but are witnessing progressive normalisation with improved growth momentum.

- Company pivoted smartly to address emergent consumer needs in the health and hygiene segment; twelve innovative and relevant products with compelling value propositions launched in record time.

- Agility and responsiveness enabled expeditious resumption of manufacturing, supply chain, sales & distribution operations; strategic partnerships, innovative delivery models and enhanced usage of digital technologies supported efficient market servicing.

- ESPB remained impacted due to deferment of academic session across the country.

- **Segment EBITDA up 42.4% to Rs. 257 crores** notwithstanding incremental costs due to COVID-19, gestation and start-up costs of new categories/ facilities. Segment EBITDA margins up 170 bps.

· **Hotels Segment** severely impacted with operations coming to a standstill due to restrictions on travel and hotel operations. Negative operating leverage weighed on segment profits; aggressive reduction in controllable fixed costs partly mitigated the impact.

· **Paperboards, Paper & Packaging Segment** performance impacted by lower offtake from end-user industries; robust growth in exports partly mitigated the weak domestic demand environment.

- Swift resumption of business ahead of competition, strong dealer network and agility in servicing customer needs aided significant enhancement of market standing in the premium Value Added Paperboards segment.

· **Agri Business Segment Revenue up appx. 4%** on the back of trading opportunities in oil seeds and rice.

- Leveraged e-choupal network to cater to surge in wheat requirements for Aashirvaad atta.

- Subdued demand for leaf tobacco in international markets and adverse business mix weighed on Segment Results.

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Unprecedented disruptions in economic activity caused by nationwide lockdowns in the wake of COVID-19 pandemic weighed on the Company's performance during the quarter. Gross Revenue stood at Rs.9435.61 crores representing a decline of 17% - Hotels, Cigarettes, ESPB and Paperboards & Packaging Businesses were impacted the most. FMCG-Others Segment delivered a strong performance driven by Staples, Convenience Foods and Health & Hygiene products, leveraging the strong equity of the Company's brands and a robust portfolio of relevant and innovative products. Negative operating leverage and adverse business mix weighed on profits which was partially mitigated through extreme focus on cost reduction. Expenses for the quarter include incremental spends of Rs. 92 crores on CSR initiatives which were directed mainly towards combating the COVID-19 pandemic. Profit After Tax and Total Comprehensive income stood at Rs. 2342.76 crores (previous year Rs.3173.94 crores) and Rs.2337.03 crores (previous year Rs. 2960.93 crores) respectively. Earnings Per Share for the quarter was Rs. 1.91 (previous year Rs. 2.59).

Other than the Hotels segment, progressive normalisation was witnessed in the later part of the first quarter across all operating segments. The recent imposition of localized lockdowns in several parts of the country, however, are posing operational challenges and impacting the recovery momentum. The Company shall continue to closely monitor the situation and respond with agility to strengthen its market standing while sharply focusing on cost reduction measures.

## FMCG-Others

The onset of COVID-19 pandemic and the consequent lockdowns to curb its spread caused severe disruption in manufacturing, supply chain, and sales & distribution operations. Amidst such challenging circumstances, the Company was amongst 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.

**Segment Revenue grew 12.2% on a comparable basis** (excl. Lifestyle Retailing). Excluding the Education and Stationery Products Business, which was impacted by the closure of educational institutions in the wake of the pandemic, **Segment Revenue grew by 18.8%. Segment EBITDA grew by 42% to 257 cr., with margins expanding by 170 bps y-o-y**, notwithstanding the gestation costs of new categories/facilities and the incremental operating costs due to the COVID-19 pandemic.

Following the outbreak of the pandemic, there is heightened awareness of quality products anchored on vectors of health, wellness and immunity. There is a rising trend of 'at-home' as opposed to 'out-of-home' consumption. Apart from a thrift mindset, consumers are also preferring larger pack formats as they seek to reduce frequency of purchase. Heightened concerns on hygiene and safety are also manifesting in consumers' preference for trusted brands. Consequently, staples, noodles, biscuits, dairy, sanitizers, hand wash, floor cleaners, etc. witnessed robust demand. On the other hand, discretionary categories and those with relatively higher salience of 'out-of-home' consumption witnessed contraction. The Businesses significantly ramped up capacity in certain categories as heightened concerns on health & hygiene and uncertainty on the duration of lockdowns led to a surge in demand.

The **Branded Packaged Foods Businesses** delivered a robust performance during the quarter **driven by** Atta, Noodles, Biscuits and Fresh Dairy. Most major categories gained market share during the quarter.

- In the **Staples, Snacks and Meals category**, 'Aashirvaad' atta posted strong growth across markets. The brand further fortified its leadership position in the branded packaged atta industry during the quarter with significant value and volume growth. 'Yippee!' Noodles posted substantial growth driven by increased 'at-home' consumption and leveraging high-decibel brand campaigns. The 'Bingo!' Snacks category, which saw subdued operational performance during the initial phase of the lockdown due to restricted mobility, rapidly normalised after the restrictions of complete lockdown were lifted.

- 'Sunfeast' **Biscuits and Cakes** recorded robust growth driven mainly by surge in 'at home' consumption and the consumers' preference for trusted brands. Veda Marie, launched last year, continued to record impressive growth in all target markets.

- In the **Dairy & Beverages** category, 'Aashirvaad Svasti' range of fresh dairy products and ghee recorded strong growth. The range of milk products was augmented with the launch of Aashirvaad Svasti Lassi, which has received encouraging consumer response. The 'B Natural' range of juices anchored on the 'goodness of fibre' proposition was augmented with the

launch of two innovative variants addressing immunity needs in partnership with Amway. The immunity range has met with encouraging response from discerning consumers.

- **The Chocolates and Confectionery** categories were severely impacted reflecting the subdued demand for discretionary products; these categories are witnessing progressive normalisation as the lockdowns are being eased across the country.

The **Personal Care Products Business** recorded substantial growth in revenue driven by heightened awareness and demand for hygiene products such as hand sanitizers, handwash, antiseptic liquids and floor cleaners in the wake of COVID-19 pandemic. However, the 'Engage' range of fragrancing products witnessed a tepid quarter due to significant decline in demand.

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 'Savlon' antiseptic liquid, soap, handwash, hand sanitizer and 'Fiama' handwash products in the market. The newly set-up perfume manufacturing plant at Manpura, Himachal Pradesh was re-purposed in quick time to manufacture hand sanitizers and service increased demand. Savlon, which has gained repute over the years for effectiveness in protection against germs, grew manifold driven by significant surge in demand, backed by innovative products and rapid scale-up in capacity. The portfolio was augmented with the launch of several innovative products in record time viz., '*Savlon Surface Disinfectant Spray*', '*Savlon Hexa*' hand sanitizing liquid, '*Savlon Germ Protection Wipes*', '*Savlon Hand Sanitizer Sachet*', '*Savlon Hexa advanced*' Soap. These products have received excellent consumer response and are being scaled up across markets. The formulations of all the new products launched during the quarter have been developed in-house at the Company's state-of-the-art Life Sciences and Technology Centre. During the quarter, one of the brand's signature campaigns, Savlon Healthy Hands Chalk Sticks, featured in the Cannes Lions 'iconic work' of the decade.

The Business continued to expand its presence in the **Floor Cleaner** category leveraging the 'Nimyle' brand gaining market leadership in Odisha, while further strengthening its market standing in West Bengal. Nimyle also posted appreciable growth in the South. The Hygiene portfolio was augmented with the launch of 'Nimwash' - Vegetables & Fruit Wash Liquid – a 100% natural action solution made with Neem & Citrus extracts that assures the effective removal of pesticides and 99.9% germs from fruits & vegetables. The product has received encouraging response and is being scaled up.

The Businesses continue to leverage state-of-the-art integrated consumer goods manufacturing facilities (ICMLs) to service proximal markets in a highly efficient and responsive manner.

As stated earlier, **ESPB** was severely impacted during the quarter due to deferment of new academic sessions and closure of educational institutions across the country. Proactive interventions such as online order taking, Direct-to-Consumer delivery in select cities, alternative hyperlocal delivery models, ramping up availability through e-Com channels etc. are being pursued to mitigate the impact. The scenario in the short-term remains challenging with uncertainty around resumption timelines of academic sessions across various states. Notwithstanding this uncertainty, the Company, with its strong brands, superior quality and environment-friendly paper, robust product portfolio, collaborative

linkages with small & medium enterprises and superior distribution is well poised to strengthen its leadership position in the industry.

The **Agarbatti** industry was confronted with significant operational challenges, especially in the initial lockdown phase, mainly due to higher focus of consumers and trade channels on essential products. Proactive steps taken by the Business have enabled it to stage a smart recovery in the month of June'20. The Business continues to focus on scaling up the availability of recently launched innovative products, sustaining product superiority and enhancing supply chain efficiency to drive growth across all key segments.

With effect from 1<sup>st</sup> April, 2020, GST rates for all **safety matches** irrespective of process of manufacture (mechanised/semi-mechanised units and 'handmade' safety matches) have been harmonised at 12% compared to 18% for mechanised/semi-mechanised and 5% for handmade matches earlier, thereby levelling the playing field. Despite supply chain disruptions due to the pandemic, the Business was able to quickly ramp up availability across markets and consolidate its market standing on the back of narrowing of the price gap of its products compared to competitors as a result of uniformity in GST rates.

The Company responded with agility, speed and resilience, together with a structured process of proactive planning, to operate in the 'new normal'. The Company fast tracked the design, development and go-to-market strategy of new products and launched twelve innovative and relevant products in record time to meet the increasing demand for safety, immunity and hygiene products.

The significant surge in demand across categories in the portfolio was met through technology enabled solutions leveraging predictive analytics tools, shortened demand planning cycles, focus on fewer SKUs and higher-value packs, backed by flexible manufacturing plans and responsive supply chain operations to cater to variability in demand. During the lockdown phase, nearly two-thirds of the throughput was delivered direct to customer/market from factories leading to reduction in time-to-market, which was a key consumer need given the anxiety around the COVID-19 pandemic.

A series of concerted actions were taken to realign the distribution infrastructure so as to respond to the multiple challenges arising out of restricted mobility of people and goods, curbs on working hours and outlet operations. Several technology-driven solutions were deployed to effectively service the surge in demand. The Company was the first in the industry to launch an online ordering system for retailers. The Company also facilitated swift scaling up of tele-calling and Whatsapp based order taking from retailers and deployed mechanised and non-mechanised delivery modes. The Company also pioneered an innovative model - ITC Store on Wheels - to directly service consumers in residential complexes (catered to 800+ unique residential societies in top markets). The exclusive 'ITC e-store', launched just prior to the implementation of the lockdown, facilitated on-demand direct deliveries to consumers. The Company also enhanced the presence of its product portfolio in alternative channels and entered into collaboration with several companies such as Dominos, Swiggy, Zomato, Dunzo to efficiently service consumers.

The Company expanded its presence in the emerging channels of **Modern Trade** and **e-Commerce** during the quarter, growing at over 20% and 90% respectively. In the Modern Trade channel, the Company carried out direct store deliveries, significantly reducing the

time to market. It also scaled up presence on popular e-Commerce platforms on the back of preference for contactless shopping and home delivery. Sales in rural markets grew rapidly leveraging the stockist channel.

The Branded Packaged Foods, Personal Care Products and the Agarbatti Businesses sustained their focus on deepening consumer engagement through refreshed and high decibel campaigns in conventional and social media platforms, with contextual communication to enhance discoverability and stay relevant to consumers in challenging times. The Company leveraged its marketing command centre - 'Sixth Sense'- to deepen engagement with consumers through 'moment marketing' campaigns on social media platforms.

The Company's employees, trade partners, transporters and their associates were provided extensive training – both online and at the place of work - in social distancing and personal protection. Standard Operating Processes (SOPs) were developed and implemented to ensure safe and hygienic work conditions both at the work place as well as in the market. The Company facilitated the process of obtaining insurance against COVID-19 for associates of trade partners and also rendered financial assistance in this regard, thereby forging stronger ties with them.

## **Cigarettes**

Unprecedented disruption was witnessed across the value chain with manufacturing and selling & distribution operations being severely restricted following the imposition of lockdown. During the quarter, manufacturing operations were resumed in mid-May and thereafter rapidly scaled up. Currently all factories are operational and production has been scaled up to pre-COVID levels. The sales & distribution operations have largely normalised. However, re-imposition of localized lockdowns towards the end of June'20 and in recent weeks in certain parts of the country have caused closure of outlets and restrictions in operations in the containment zones, posing operational challenges.

The Company took focused actions during the quarter to consolidate its market standing. Deep consumer insights and a robust innovation pipeline enabled the Business to introduce new variants catering to the continuously evolving consumer preferences. Gold Flake Luxury filter in the Longs segment, and Navy Cut Deluxe Filter, Gold Flake Indie Mint and Capstan Fresh in the regular size filter segment, were extended to target markets. The Business also introduced Gold Flake Super Star (Supermint), Gold Flake Star and Royal in the DSFT segment in competitive markets straddling key price points. The Flake brand was launched in an innovative 5s pack in target markets. During the quarter, the Company leveraged its extensive footprint to quickly scale up availability through the grocery channel while the stockist network was augmented to service rural/semi-urban markets in an efficient manner.

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, Gutkha, Zarda, snuff, etc. Rapid growth in illicit cigarette volumes has resulted 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 almost Rs. 15000 crores

per annum. 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. The stability in taxation between the sharp increase in July'17 under GST till the period up to January'20, provided some relief to the legal cigarette industry and lent buoyancy to tax collections. However, 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'20, thus providing a further fillip to this large and rapidly growing illicit cigarette trade in the country. In fact, it is a matter of grave concern that while legal cigarettes trade was severely impacted, smuggled cigarettes continued to be widely available, despite the deterrent actions taken by the authorities to curb the menace.

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.

Notwithstanding the challenges as enumerated above, the Company remains confident of fortifying its market standing in the legal cigarette industry by leveraging its superior strategies, execution excellence, investments in cutting-edge technology and a future ready product portfolio. Being the market leader, the Company is well placed to capture all opportunities and emerge stronger with the continuing support of consumers.

## Hotels

The outbreak of COVID-19 pandemic in the last quarter of FY20 continues to weigh heavily on the Hotels Business. Operations during the quarter came to a standstill with operations limited mainly to service stranded guests and wherever required, as quarantine facilities. With severe restrictions on travel and heightened sensitivity around hygiene and social distancing, revenue streams across all segments of operations have been significantly impacted. Negative operating leverage weighed on segment profits, while aggressive reduction in controllable fixed costs partly mitigated the impact.

The Business resumed operations in accordance with the prescribed guidelines, from the second week of June'20, with a refreshed and revamped service design. To reassure guests at the Company's iconic Hotels and to provide best in class experience in hygiene and safety, the **"WeAssure" programme** has been launched. This programme has been designed in collaboration with medical professionals and disinfection experts. The programme further enhances the existing hygiene and cleaning protocols across all hotels. The Business is also progressing towards an accreditation by National Accreditation Board for Hospitals & Healthcare Providers (NABH) for its procedures, and is working on assurance of higher levels of hotel operating standards by DNV GL Business Assurance by building on the pillars of health, hygiene, safety and pathogen control.

Several interventions have also been implemented by the Business to mitigate the impact of the challenging business environment and help bounce back stronger. These include customised packages for short getaways/staycations, revamped packages with curated offers for the MICE (meetings, incentives, conferencing, exhibitions) segment, extension of additional benefits to members of the Club ITC loyalty programme, launch of 'Lavenderia' -

premium in-house Dry Cleaning & Laundry Service in select cities, enhanced guest connect through sharing of contextual content in social media etc.

For presenting unique cuisine experiences to discerning guests during the lockdown, ITC Hotels launched 'Flavours' and 'Gourmet Couch' menus as home delivery and takeaway offerings. The Gourmet Couch menu consists of a medley of the finest cuisines from the signature restaurants at ITC Hotels with its iconic dishes like Dal Bukhara, Dum Pukht Biryani, Barrah Kebab, etc. Crafted with care by ITC Hotels and handled with utmost attention to hygiene, the mindfully created menus bring unique food experiences for diners across all major cities in India. The Business also partnered with food delivery platforms 'Zomato' and 'Swiggy' to enable wider availability of the offering. The initiative has been widely welcomed by the target customers.

The Hotels and Foods Businesses together curated a first-of-its-kind cooking show, '5 STAR Kitchen ITC Chef's Special'. The 12-episode series, featuring delectable creations of 12 ITC masterchefs using the Company's food brands, was aired on the STAR TV Network across 33 channels in 7 languages and Hotstar, reaching an audience of 157 million. The content was also dubbed in 7 regional languages.

While there are significant near-term challenges on account of the outbreak of the COVID-19 pandemic, the sector continues to hold immense potential in view of the robust long-term economic and tourism prospects of the country. With its portfolio of world-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.

## **Agri Business**

The Agri Business recorded a growth of 3.7% in Segment Revenue driven by trading opportunities mainly in oilseeds and rice.

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. Despite the supply chain disruptions caused by the COVID-19 pandemic, the Business pro-actively engaged with Centre and State authorities to secure permissions expeditiously to commence sourcing operations. The Business leveraged deep farmer connect built through over two decades of the e-Choupal network, to scale up direct farm purchases. Together with the multi-modal procurement & supply chain model (covering network of transporters operating on road, rail and coastal routes), the Business was able to ramp up the volume of wheat procurement substantially to cater to the surge in demand for Aashirvaad atta.

During the quarter, the Business also ramped up the direct milk sourcing network in West Bengal to cater to the increasing requirements on the back of the growing franchise of the Aashirvaad Svasti range of dairy products.

The 'ITC Master Chef' range of Frozen Snacks posted robust growth in the retail channel. The range of Frozen Snacks was augmented with the launch of eight new exciting variants and the range was extended to 70+ cities during the quarter.

Subdued demand for leaf tobacco in international markets and adverse business mix weighed on Segment Results. Despite operational challenges, the leaf tobacco sub-segment ensured business continuity for key export customers by carrying out first level quality evaluation through internal teams leveraging knowledge of customer product standards, offered substitute grades to mitigate disruptions in supply from other origin and leveraged technology to facilitate remote inspections.

## **Paperboards, Paper & Packaging**

Segment revenue declined by 32.8% largely on account of the disruptions caused by the outbreak of the COVID-19 pandemic. Significant growth in exports partly mitigated the weak domestic demand environment.

While demand for paperboards and packaging from Pharma and FMCG end-user customer segments was relatively stable, relatively subdued offtake in certain segments (e.g. liquor, cupstock, tobacco, hosiery) and significant adverse impact in others (such as publications, décor, wedding cards etc.) impacted operational performance. The demand for writing and printing paper has also been impacted due to closure of educational institutions and offices in the wake of the pandemic. In the packaging sub-segment, flexibles packaging witnessed robust demand while cartons packaging, impacted by sluggish demand in the end-user segments as enumerated above, was subdued.

Swift resumption of business ahead of competition, strong dealer network and agility in servicing customer needs aided in further strengthening market share in the Value Added Paperboards segment. Proactive investments made by the Business over the years to make structural interventions in the areas of strategic cost management and import substitution continue to aid margin expansion and strengthen competitive advantage.

## 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:



During the quarter, the Company had submitted a letter to SEBI and stock exchanges on its response to COVID-19. The link for the same is <https://www.itcportal.com/about-itc/shareholder-value/pdf/lodr26062020-d.pdf>.

The Board of Directors, at its meeting in Kolkata on 24<sup>th</sup> July, 2020, approved the financial results for the quarter ended 30<sup>th</sup> June, 2020, which are enclosed.

[Click here for the Standalone Financial Results](#)

[Click here for the Consolidated Financial Results](#)