



Media Statement

October 24, 2019

Financial Results for the Quarter ended 30th September, 2019

Highlights

Post tax profit up 36%

ITC ranked #1 globally amongst peers on ESG performance by Sustainalytics

- **ITC has been ranked #1 globally amongst peers** (comprising companies with market capitalisation between USD 38 Bln. and USD 51 Bln.) and **overall #3 globally on ESG performance** in the Food Products industry by **Sustainalytics** – a renowned global ESG ratings company.
 - **FMCG-Others Segment Revenue up 6.5% appx.** on a comparable basis amidst marked slowdown in the FMCG industry.
 - **Segment EBITDA up 39% to Rs. 221 crores** notwithstanding stepped up marketing investments, gestation and start-up costs of new categories/new facilities.
 - New properties drive robust growth in **Hotels Segment Revenue (up 18%)** and **Segment EBITDA (up 37%)**. Persistently sluggish demand conditions weighed on RevPar growth in most major markets.
 - **ITC Royal Bengal, Kolkata** receives excellent response, setting new benchmarks in culinary and service excellence in a relatively short span of time.
 - **Paperboards, Paper & Packaging Segment Revenue up 10%** driven by strong growth in Value Added Paperboards segment and product mix enrichment. Packaging & Printing Business, however, was impacted by slowdown in the FMCG and liquor industry.
 - In the **Agri Business segment**, growth in Segment Revenue was driven by trading opportunities in oilseeds & pulses, scaling up of value added segments (spices, frozen marine products and frozen snacks) and strategic sourcing support to the Branded Packaged Foods Businesses. Subdued demand for leaf tobacco in international markets, relatively steeper depreciation in currencies of competing origins and adverse business mix weighed on Segment Results.
 - The Company has exercised the option permitted under Section 115BAA of the Income-tax Act, 1961 as introduced by the Taxation Laws (Amendment) Ordinance, 2019. Accordingly, the Deferred Tax Liabilities (net) as at 31st March, 2019 (arising mainly on account of the Company's continued focus on 'Make In India' investments across sectors) and the estimate of tax expense for the year ending 31st March, 2020 have been re-measured. The resultant impact is being recognised over the current and the remaining quarters of the financial year.
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The operating environment was rendered particularly challenging during the quarter with further deceleration in economic activity accentuated by a drop in consumption, especially in rural areas, severe crunch in market liquidity conditions and disruptions/floods in several parts of the country. Several measures announced by the Government including reduction in corporate tax rates, various initiatives to infuse liquidity, promote exports and improve the ease of doing business in the country, and policy interest rate cuts by the RBI amongst others augur well for the revival of the economy. Record rainfall, albeit with significant spatial variations, and schemes to boost farmer income are expected to support consumption demand going forward.

The Company posted a steady performance during the quarter amidst a particularly challenging operating environment as aforesaid. Gross Revenue for the quarter stood at Rs. 11750.16 crores, representing a growth of 6%, driven mainly by Paperboards, Hotels and FMCG-Others (excluding the Lifestyle Retailing Business). Profit after Tax at Rs. 4023.10 grew by 36.2%. Total Comprehensive Income stood at Rs. 3979.73 crores (previous year Rs. 2754.55 crores). Earnings Per Share for the quarter stood at Rs. 3.28. Operating cash flow before working capital changes for the half year aggregated Rs. 9274.77 crores (previous year Rs. 8606.81 crores). Increase in working capital during the period is largely attributable to strategic sourcing of agri commodities, based on assessment of market dynamics to service the growing requirements of the Branded Packaged Foods Businesses.

FMCG-Others

The **FMCG-Others Segment** delivered a resilient performance during the quarter which witnessed a further slowdown in consumption both in urban and rural markets. Categories with relatively higher rural salience were impacted the most. The Company continued to mitigate the impact of the slowdown through several proactive measures such as enhancing direct reach, increasing the frequency of market servicing, introducing targeted offers for value seeking consumers, investing in fast growing channels such as modern trade/e-Commerce and extending credit judiciously to select trade partners.

Segment Revenue grew by 6.5% appx. on a comparable basis (excluding the Lifestyle Retailing Business) led by Atta, Potato Chips and Premium Cream Biscuits in the Branded Packaged Foods Businesses, Liquids (Handwash & Bodywash) in the Personal Care Products Business and Notebooks in the Education & Stationery Products Business. **Segment EBITDA** grew by 39% to Rs. 221 crores, with margins expanding by ~170 bps, despite stepped up marketing investments, gestation and start-up costs of new categories / new facilities.

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

- In the **Staples, Snacks and Meals Business**, 'Aashirvaad' atta continued to post robust growth, consolidating its leadership position across markets. Increasing consumer traction for 'Bingo!' Potato Chips and Tedhe Medhe continued to drive growth in the Snacks Business. 'Bingo! Starters', a baked and protein rich snack launched in the previous quarter, is being scaled up following encouraging response from discerning consumers. During the quarter, the Business augmented its 'Bingo! No Rulz' portfolio with the launch of No Rulz Curlz, a corn based baked snack in exciting flavours of Masala and Cheese.

- The **Biscuits and Cakes Business** continued to pursue portfolio premiumisation with 'Dark Fantasy Choco Fills' witnessing further acceleration in growth momentum driven by superior product attributes, focused communication, efficient distribution and consumer activation. The recently launched Bounce Cake variants continue to receive excellent response from consumers and are now available in all target markets. During the quarter, the Business launched 'Sunfeast' Veda Marie Light, a healthy offering infused with 5 natural ingredients, strengthening the brand's 'chai ka perfect partner' value proposition.
- In the **Confectionery Business**, multi-unit packs and higher salience of 'Re. 1 and above' products contributed to portfolio premiumisation. The recently launched 'Candyman' Fantastik, a crispy wafer roll filled with luscious choco crème, continues to garner consumer franchise across launch markets. The range was augmented with the introduction of 'Candyman' Fantastik Choco Mocha, a limited edition variant for the gifting space. The **Chocolates Business** continued to focus on augmenting its product portfolio by introducing several world-class and distinctive variants. During the quarter, the Business launched 'Fabelle' Dark Gianduja, made from a fine blend of rich dark and milk chocolate giving it a balanced bitter and sweet experience, and a range of assorted chocolate gift packs and hampers, providing consumers a luxurious chocolate experience to make the upcoming festival season unforgettable.
- In the **Dairy & Beverages Business**, the recently launched premium range of juices comprising 3 differentiated flavours, viz., Ratnagiri Alphonso, Himalayan Mixed Fruit and Dakshin Pink Guava in a unique transparent bottle format, continued to receive excellent response from consumers. 'Aashirvaad Svasti' pouch milk gained strong consumer traction on the back of high quality standards and superior taste profile, in Bihar and West Bengal where the product is currently available. Similarly, the 'Sunfeast Wonderz Milk' range of milk shakes has received encouraging response and is being extended to other markets.

The **Personal Care Products Business** continued to focus on product mix enrichment led by sustained growth in the Liquids (Handwash and Bodywash) and Floor Cleaner segments. The quarter witnessed a spate of innovative product launches by the Business. The Deodorants product portfolio stood expanded with the launch of two refreshing variants under the 'Engage' brand – Engage Intrigue and Engage Spirit. Product range in the Bodywash segment was augmented with the launch of Vivel Glycerin + Honey variant. The 'Dermafique' range of skin care products was strengthened with the launch of two new variants – Hydra Tonique Gel Crème and Hydra Tonique Gel Fluid, which are DermaHydration systems enriched with differentiated ingredients to provide increased hydration and prevent transepidermal water loss.

The Branded Packaged Foods and Personal Care Products Businesses continued to focus on deepening consumer engagement through clutter-breaking and high decibel campaigns across key brands in the conventional and social media platforms. 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.

The **Education and Stationery Products Business** strengthened its leadership position in the Notebooks category leveraging a pipeline of innovative products of superior quality and enhanced consumer connect. A dedicated manufacturing facility for notebooks, equipped with state-of-the-art machinery was commissioned at Gollapudi, Andhra Pradesh. The facility will enable

manufacturing of a complete range of high quality and differentiated notebooks and drive higher operational efficiencies.

In the **Incense Sticks (Agarbatti) and Safety Matches Business**, 'Mangaldeep' agarbattis continue to delight consumers, providing innovative and specially crafted fragrances. During the quarter, the Business launched 'Mangaldeep Temple - Lord Jagannath's Favourite Fragrances', a first-of-its-kind agarbatti with dual-fragrance sticks encompassing fragrances of items considered to be amongst the God's favourite. Manufactured by local rural women-based self-help groups, the new variants endeavour to help consumers experience the divinity of the temples in their homes.

Cigarettes

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

Performance during the quarter reflects the persistent weakness in the overall demand environment, especially in rural markets and wholesale channel, and tight market liquidity conditions. Disruptions/floods in several markets exacerbated the situation.

A punitive and discriminatory taxation and regulatory regime, together with sharp increase in illegal trade in recent years, continues to pose significant operating challenges to the legal cigarette industry in the country. Excessive taxation has made legal, duty-paid cigarettes in India amongst the costliest in the world in terms of per capita affordability. The high rates of tax on cigarettes provide attractive tax arbitrage opportunities for illicit trade allowing sale of these cigarettes to consumers at prices much lower than those of duty-paid domestic cigarettes.

It may be recalled that tax incidence on cigarettes increased by over 20% in 2017-18, representing the combined impact of transition to GST and increase in Excise Duty announced in the Union Budget 2017. While stability in taxes since the introduction of GST in July 2017 has provided some relief to the legal cigarette industry, it is pertinent to note that the legal cigarette industry volumes remain significantly below June 2014 levels. Moderation in taxes is critical for addressing the interests of all the stakeholders of this industry, including the tobacco farmers, the Exchequer and the consumers.

It is pertinent to note that taxes on cigarettes are effectively about 55 times higher than that on other tobacco products on a per kg basis. Such disparity in taxation of tobacco products has caused a progressive migration from consumption of duty-paid cigarettes to other lightly taxed / tax-evaded forms of tobacco products, comprising illegal cigarettes and bidis, chewing tobacco, gutkha, zarda, snuff, etc. While the share of legal cigarettes in total tobacco consumption in the country has declined considerably over the years, aggregate tobacco consumption has increased. As a result, despite accounting for merely 10% of the tobacco consumed in the country, duty-paid cigarettes contribute more than 86% of the revenue generated from the tobacco sector.

The cost disadvantage faced by duty-paid cigarettes as compared to illegal cigarettes is exacerbated by the fact that duty-paid cigarettes comply fully with provisions of applicable Indian legislation like The Cigarettes and Other Tobacco Products (Prohibition of Advertisement and Regulation of Trade and Commerce, Production, Supply and Distribution) Act, 2003 (COTPA) and

bear the statutorily mandated pictorial and textual warnings covering 85% of the surface area of the packet (one of the largest in the world). New graphic health warnings with even more gruesome images have been introduced from 1st September 2019. On the other hand, smuggled illegal cigarettes either do not bear 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, creating a perception that these smuggled cigarettes are relatively 'safer'.

It may be noted that, according to Euromonitor International, India is now the 4th largest market for illegal cigarettes in the world. It is estimated that on account of illegal cigarettes alone, the revenue loss to the Government is more than Rs. 13000 crores per annum. In respect of the other tobacco products also, the revenue losses are significant since about 68% of the tobacco consumed in the country remains outside the tax net.

The unfettered growth of illegal cigarettes in the country has caused collateral damage to the Indian tobacco farmers. In India, cigarettes are manufactured largely using Flue Cured Virginia Tobacco (FCV) which is 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 drop in demand for Indian FCV tobaccos in the domestic market. This, along with lack of export opportunities (favourable prices of competing origins and lower Indian crop), has adversely impacted earnings of the Indian tobacco farmer. It is estimated that in the four years since 2013-14, Indian tobacco farmers have suffered a cumulative drop in earnings of over Rs. 4000 crores. These developments have had a devastating impact on the Indian tobacco farmer and the 46 million dependent on the tobacco value chain for their livelihood. Ensuring stability in domestic demand is vital for the sustenance of tobacco farmers and to prevent risk exposure to the vagaries of volatility in international markets.

As in the past, the Company continues to make representations to policy makers for equitable, non-discriminatory, pragmatic, evidence based regulations and taxation policies that balance the economic imperatives of the country and the tobacco control objectives, cognising for the unique tobacco consumption pattern in India.

Hotels

The Business recorded a healthy growth in Segment Revenue and Segment EBITDA during the quarter driven by robust performance of recently commissioned hotels. Segment Results include the impact of additional depreciation pertaining to new properties. Sluggish demand environment contributed to relatively muted performance of the other properties.

New hotels in ITC's portfolio – ITC Kohenur, ITC Grand Goa and ITC Royal Bengal continue to receive excellent response from discerning guests, raising the bar of service excellence. The Kolkata complex comprising ITC Royal Bengal and ITC Sonar houses 15 signature F&B outlets with access to over 100,000 sq.ft of banqueting space, making it the most sought after F&B and banqueting destination in the city.

The Business made steady progress during the quarter in the construction of an ITC Hotel in Ahmedabad and WelcomHotels in Guntur & Bhubaneswar. The WelcomHotel Amritsar project has been completed and the 101-room hotel is expected to commence operations on November 1, 2019.

Agri Business

The Business continues to focus on strengthening its portfolio of value-added products to cater to the specific requirements of the food service channel. During the quarter, the 'ITC Master Chef' range of Frozen Snacks was augmented with the launch of several delectable variants viz., Achaari Beetroot Kebab, Mediterranean Chicken Kebab, Caribbean Chicken pops, etc. Segment Revenue grew by 19.3% as the Business leveraged trading opportunities especially in Oilseeds & Pulses and scaled up value-added products. Subdued demand for leaf tobacco in international markets, relatively steeper depreciation in currencies of competing origins and adverse business mix weighed on Segment Results.

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

Paperboards, Paper & Packaging

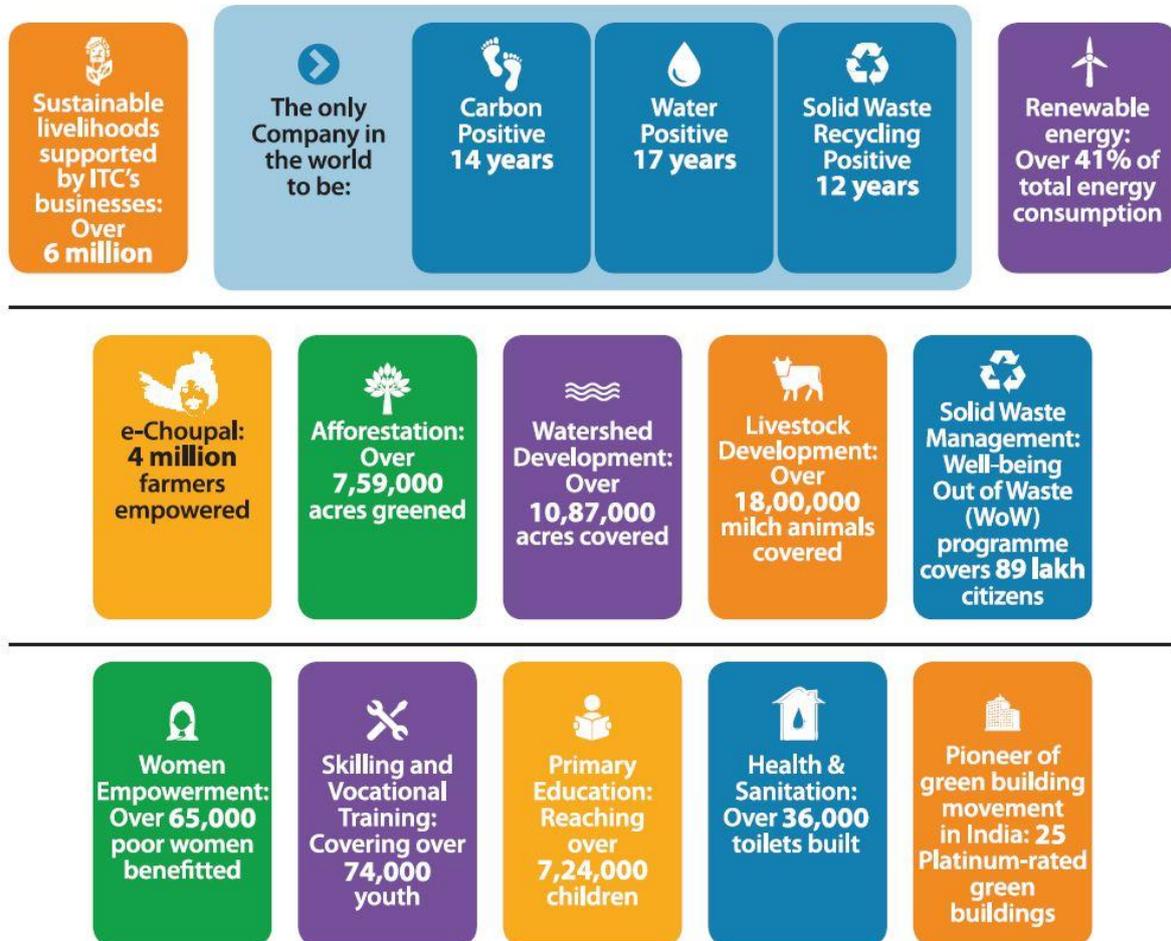
The paperboards business recorded robust growth driven by strong volume growth in the Value Added Paperboard segment and product mix enrichment. This was partially offset by muted demand for packaging & printing products due to sluggish demand conditions in the FMCG and liquor industry. Segment Results registered a healthy growth driven by product mix enrichment, strategic investments in imported pulp substitution and benefits of a cost-competitive fibre chain.

Capacity utilisation of the recently commissioned facilities, viz., Value Added Paperboard machine and Bleached Chemical Thermo Mechanical Pulp mill, was further ramped up during the quarter. The Business continues to make structural interventions in the areas of strategic cost management and import substitution towards enhancing its market standing and 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:



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

The Board of Directors, at its meeting in Kolkata on 24th October, 2019, approved the financial results for the quarter ended 30th September, 2019, which are enclosed.