



# Enduring Value

NATION FIRST: SAB SAATH BADHEIN

## RESULTS UPDATE & FAQ Q2 FY21



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## Q1. What is ITC's Vision and Mission?

### Vision:

To sustain ITC's position as one of **India's most valuable and admired corporations** through **world-class performance**, creating **growing value for the Indian economy** and the **Company's stakeholders**.

### Mission:

To enhance the wealth generating capability of the enterprise in a globalising environment, **delivering superior and sustainable stakeholder value**.

## Q2. What are the Core Values of ITC?

ITC's core values are aimed at developing a customer focused, high-performance organisation which create values for all its stakeholders.

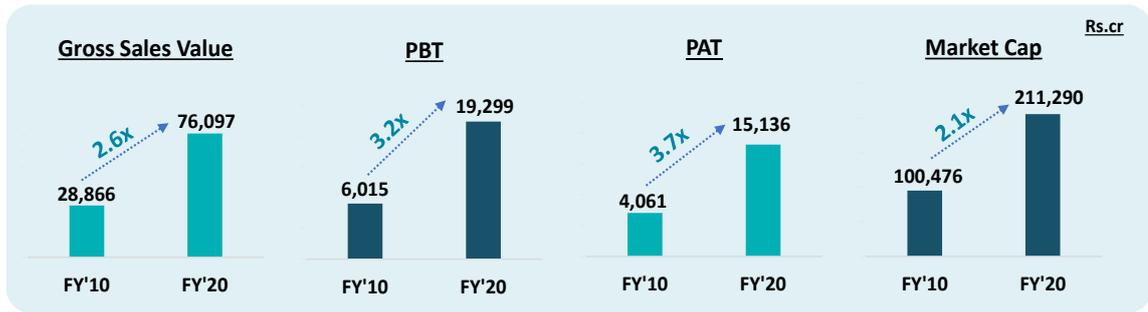


Please refer <https://www.itcportal.com/about-itc/values/index.aspx#sectionb2%20for%20more%20details>

## Q3. How does the Company effectively manage a highly diversified business portfolio? What is the Company's Corporate Governance structure?

ITC's 'Strategy of Organisation' is crafted in a manner that enables focus on each business while harnessing the diversity of the portfolio to create unique sources of competitive advantage. Please refer to the following link <http://www.itcportal.com/about-itc/values/corporate-governance-structure.aspx> for details of ITC's Governance Structure.

**Q4. What has been the financial performance track record of the Company over the last decade?**



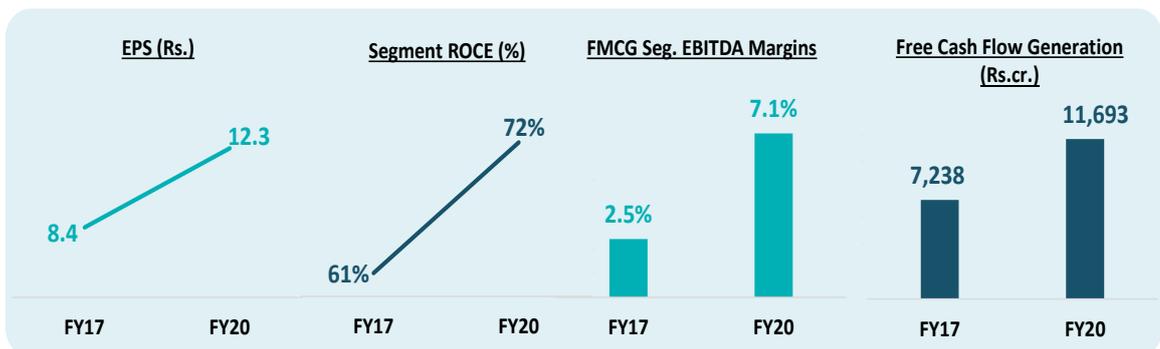
**ROIC in FY20 at 58% Vs. 44% in FY10**  
**Growth largely organic and funded through Retained Earnings**

*Gross Sales Value includes all taxes (GST, Compensation Cess, VAT, Excise Duty, NCCD, etc.)*

ITC has been a **consistent performer** in terms of shareholder value creation. During the last decade i.e. between FY10 and FY20, Total Shareholder Returns **have clocked compound annual growth rate of ~10% outperforming the Sensex which grew at 7.7% (based on market price as on 30<sup>th</sup> Sep 2020).**

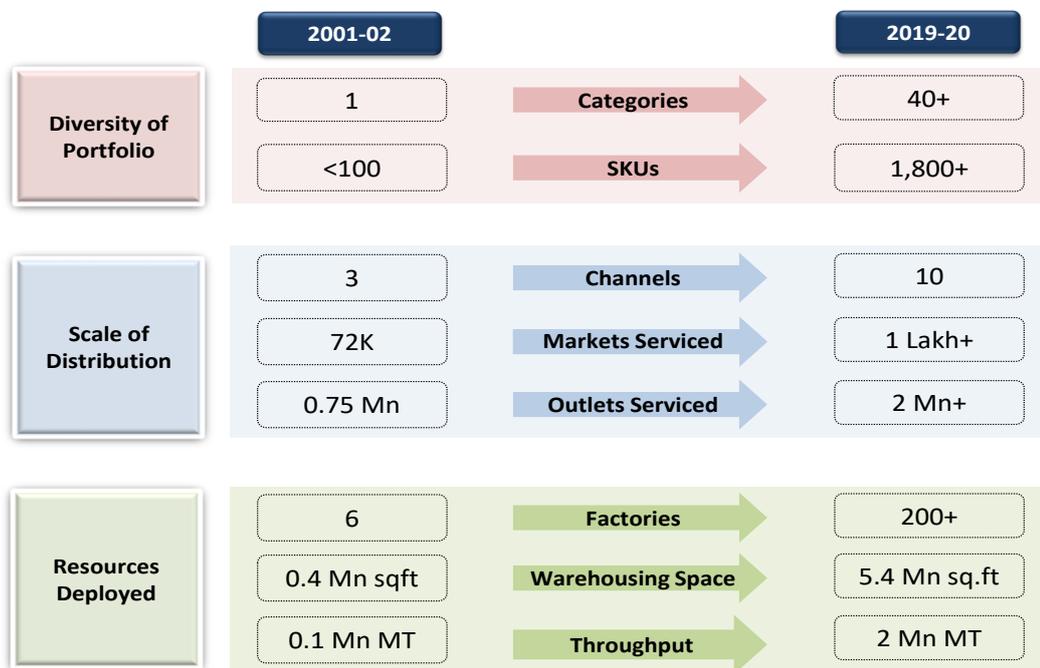
**Q5. What has been the performance track record of the Company over the last 3 years?**

- Between FY17 and FY20, ITC's **Earnings Per Share (EPS)** has grown by **46%** in absolute terms from Rs. 8.4 to Rs. 12.3 (Cagr 14%) and **Return on Segment Capital Employed (ROCE)** has improved from 61% to **72%**.
- Segment EBITDA grew at a CAGR of 51% in the FMCG-Others segment; 14.5% in the Hotels segment and 11% in the Paperboards, Paper & Packaging Segment. **FMCG-Others Segment EBITDA margins have increased by 460 bps over the last 3 years.**
- **ITC is the clear leader in the FMCG industry in terms of Free Cash Flow generation (FCF).** In FY 20, FCF grew by over 30% to ~11,700 cr.



**Q6. Please provide some dimensions of the Company's transformation in the FMCG-Others Business over the years.**

ITC's FMCG-Others Segment has grown manifold in scale, diversity of portfolio and in terms of resources deployed, as shown below:



**Q7. In the FMCG-Others Segment, please provide an overview ITC's scale, offerings, Brands and market standing.**

Over the years, ITC has developed 25 world-class brands which garner an annual consumer spend of ~19,700 cr. The market standing and offerings under various brands are as detailed below:

Brands	Consumer Spends (FY20)	Market Standing	Offerings
	Rs. 6,000 cr.	#1 in Branded Atta	- Atta, Salt & Spices
	Rs. 4,000 cr.	#1 in Cream Biscuits #3 in Overall Biscuits	- Biscuits & Cakes
	Rs. 2,700 cr.	#1 in Bridges #1 in Potato Chips (South)	- Bridges, Potato chips & Namkeens
	Rs. 1,400 cr.	#1 in Notebooks	- Educational & Stationery products
	Rs. 1,300 cr.	#2 in Noodles	- Noodles & Pasta
	Rs. 800 cr.	#1 in Dhoop #2 in Agarbatti	- Matches, Dhoop & Agarbatti
	> Rs. 500 cr.	#2 in Deodorants #2 in Body Wash	- <b>Vivel:</b> Soaps, Bodywash & Handwash - <b>Candyman:</b> Confectionery products
<b>Annual Consumer Spends of ~19,700 cr. in FY20</b>			

**Q8. Please provide an overview of other Operating segments.**

Hotels 2 <sup>nd</sup> largest Hotel Chain	AGRI No 1. Agri business Player	Paper Clear Market Leader
<ul style="list-style-type: none"> <li>▪ <b>108 properties with over 10,000 Keys</b></li> <li>▪ <b>Leader in Profitability</b></li> <li>▪ <b>Fastest growing</b> hospitality chain in India</li> <li>▪ <b>Trailblazer</b> in Green Hoteliering (<i>All ITC Luxury Hotels LEED Platinum certified</i>)</li> </ul>	<ul style="list-style-type: none"> <li>▪ <b>Leading Agri Business</b> player in India</li> <li>▪ <b>Pioneer</b> in rural transformation (<i>e-Choupal</i>)</li> <li>▪ <b>Largest procurer of Wheat</b> after FCI</li> <li>▪ No 1. leaf tobacco exporter in India (5<sup>th</sup> largest in World)</li> <li>▪ <b>Best-in-class</b> profitability</li> <li>▪ <b>Sourcing &amp; Supply</b> operations in <b>22 states</b></li> </ul>	<ul style="list-style-type: none"> <li>▪ <b>No. 1</b> in Revenue</li> <li>▪ <b>No. 1</b> in Profitability</li> <li>▪ <b>World Class</b> Environmental Performance</li> <li>▪ <b>Best-in-Class</b> operating metrics</li> </ul>
<ul style="list-style-type: none"> <li>▪ <b>World-class properties and iconic cuisine brands</b></li> <li>▪ <b>Asset right</b> growth strategy</li> <li>▪ Focus on <b>sweating existing assets</b></li> </ul>	<ul style="list-style-type: none"> <li>▪ <b>Delivering competitive advantage</b> to ITC's Foods Business through distinctive sourcing capabilities</li> <li>▪ <b>World Class</b> processing facilities</li> <li>▪ <b>Focus on scaling up Value-added segment</b> (<i>Fresh F&amp;V, Frozen Snacks, Spices, Aqua, etc.</i>)</li> </ul>	<ul style="list-style-type: none"> <li>▪ <b>Integrated Operations</b> (<i>BCTMP first-of-kind in India</i>)</li> <li>▪ <b>Secure, sustainable &amp; cost competitive fibre base</b> (<i>Cumulative plantations @ 8 lakh acres</i>)</li> <li>▪ <b>42% of energy</b> consumption from <b>renewable sources</b></li> </ul>

**Q9. How does the Company choose new categories in the FMCG space? Which are the new categories it has forayed into in recent years?**

The choice of category is guided by its growth prospects, profitability profile and the ability of the Company to effectively leverage its institutional strengths with a view to achieving leadership status within a reasonable time frame. Synergies with existing categories in terms of overlap of distribution reach, brand extension possibility, procurement efficiencies etc. are considered while choosing new categories.

In the Branded Packaged Foods Business, Chocolates, Dairy, Coffee and frozen foods are some of the areas that the Company has entered into over the last few years. In the Personal Care Products Business, the Business has successfully entered the Hygiene space with the acquisition of Savlon brand about five years ago and more recently, the Nimyle brand in the Floor Cleaner segment.

**Q10. Is the Company open to making acquisitions in order to accelerate growth in the FMCG segment?**

ITC examines prospects for inorganic growth that arise from time to time not only in this business segment but also in the other businesses, guided by considerations such as strategic fit, valuation, financial viability and ease of integration.

In recent times, Company has acquired Brands such as 'Savlon', 'Nimyle' and 'Charmis' to strengthen its presence in Personal Care Products segment. In July'20, the Company has **acquired 100% of the equity share capital of M/s Sunrise Foods Private Limited (SFPL)**, an Indian company primarily engaged in the business of spices under the trademark 'Sunrise'.

The Company shall continue to pursue opportunities for inorganic growth that are value-accretive and synergistic.

**Q11. What is the rationale behind acquisition of M/s Sunrise Foods? What was the consideration paid by the Company for the same?**

**Sunrise Foods Private Limited (SFPL) is mainly engaged in the business of spices under the trademark 'Sunrise'.** Sunrise is a **market leader in eastern India** in the fast-growing Spices category with a **rich heritage and brand legacy of over 70 years**. Over the years, the brand has built a loyal consumer franchise, both in the basic and blended spice segments.

ITC's Aashirvaad range of spices has strong presence in Telangana and Andhra Pradesh and the Company is one of India's leading producers and exporters of high-quality food safe spices. The acquisition will **augment the Company's product portfolio and is aligned to ITC's aspiration to significantly scale up its Spices business** and expand its footprint across the country. The deep consumer-connect of Sunrise in the focus markets, together with **synergies arising out of the sourcing and supply chain capabilities of the Company's Agri Business** and its pan-India distribution network, will provide significant value creation opportunities for the Company.

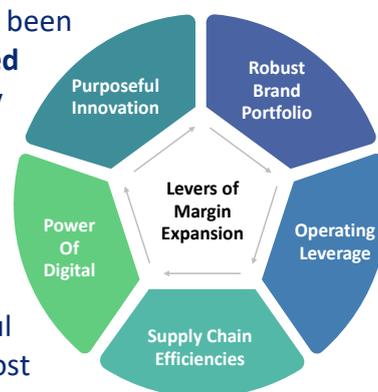
The upfront **consideration for the acquisition is Rs. 2,150 crores** on a cash-free, debt-free basis. In addition, the sellers are entitled to contingent consideration of an amount not exceeding Rs. 150 crores, which is payable upon Sunrise achieving mutually agreed operational and financial milestones, over a period of two years.

**Q12. (a) Please update on the margin expansion trajectory in the FMCG-Others segment**

The **Segment EBITDA margins** of the FMCG-Others segment have been on an upward trajectory over the last three years and have **moved up by ~460 bps**. In FY20, segment EBITDA margins expanded by 160 bps y-o-y.

**Segment EBITDA for Q2 FY21 grew by 65.8% to Rs. 366 crores**, with Segment EBITDA margins expanding by ~300 bps y-o-y.

The expansion in EBITDA margins is attributable to enhanced scale & availability, product mix enrichment, impactful communication, reduced distance to market and other strategic cost management initiatives.



**(b) Please provide an overview of the margin profile of the Branded Packaged Foods Business and the Personal Care Products Business.**

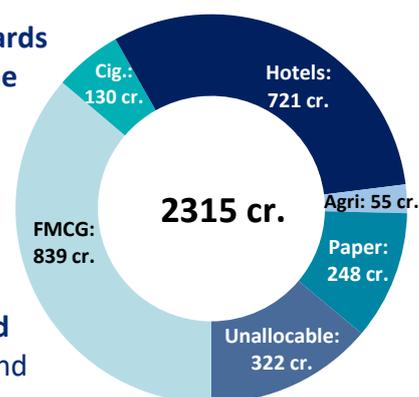
**The Branded Packaged Foods Businesses** of the Company comprise 'Staples & Meals', 'Snacks', 'Dairy & Beverages', 'Biscuits & Cakes' and 'Chocolates, Coffee & Confectionery'. These Businesses **have evolved over a period of time and are currently at different stages of their lifecycles**. As such, the revenue dimensions, cost structures and profitability profiles of each of these businesses are distinct from one another. For example, **EBIT margin for the Staples business**, which is a relatively mature category, is in the **high single digit range** while for **Snack Foods** the same is in the **mid-single digit range** representing upfront investments towards category development and brand building.

**The Personal Care Products Business** comprise 'Personal Wash & Hygiene', 'Health', 'Fragrances', 'Home Care', 'Skin Care' and 'Talc' categories. The Company continues to **make**

**significant investments** in this Business primarily in the **area of brand building, R&D and product development** towards competing effectively with incumbent players comprising firmly entrenched MNCs and domestic companies. Presently, each category is **operating at industry benchmarked gross margins**. With enhanced scale and consumer connect, each category is expected to earn best-in-class EBIT margins progressively over the medium-term.

**Q13. Please provide an overview of the capex plan of the Company**

The Company’s capex plans are directed primarily towards **capacity gearing, productivity enhancement, ensuring the highest standards in quality and environment, health & safety, and R&D**. Refer chart alongside for Company’s Capex spends during the FY20.



In the FMCG-Others segment, in the recent years, the Company has been investing behind setting up **state-of-the-art owned integrated consumer goods manufacturing and logistics facilities (ICMLs)** across regions in line with demand projections.

These ICMLs provide structural advantages such as enhancing market responsiveness, reducing the cost of servicing proximal markets, ensuring delivery of products fresher to the market and providing heightened focus on product hygiene, safety and quality. Currently, **nine ICMLs have been operationalized** and two more are at an advanced stage (Hyderabad and Odisha). Going forward, additional investments in equipment lines will be added on a modular basis in line with demand growth.

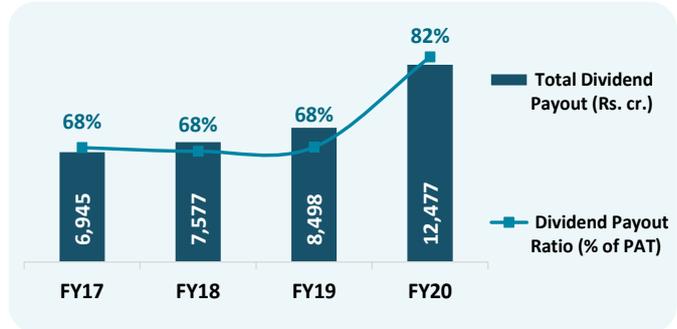
**In the Hotels Business**, most of the planned investments in the current capex cycle are expected to be completed shortly – the construction of ITC Hotel at Ahmedabad and WelcomHotels at Guntur and Bhubaneswar are at an advanced stage of completion and are expected to be commissioned shortly. In line with the Company’s **asset-right strategy**, a large part of incremental room additions going forward is expected to accrue through management contracts. Towards engendering enhanced value creation, the Company will continue to aggressively pursue this strategy, focus on sweating existing assets, create additional revenue streams and examine alternative structures.

The major items of capital expenditure in the **Paperboards, Paper and Packaging segment** going forward comprise of investments for gaining structural cost advantages in the segment and are in line with the growth needs of the Business.

In the short term, the Company shall primarily focus on timely completion/operationalisation of the ongoing projects. The spends would be appropriately calibrated depending on several factors such as pick-up in economic activity and improvement in demand conditions.

**Q14. What is the Dividend policy of the Company? What has been trend of dividend pay-outs in recent years?**

As per the Dividend Distribution policy approved by the Board of Directors on 18th March'20, effective financial year 2019-20, in the medium term, the dividend pay-out ratio is expected to be around 80% to 85% of the Profit After Tax of the Company. The Board may declare interim dividend(s) at its discretion. The Board's recommendation to the shareholders on the final dividend may include special dividend(s) as considered appropriate. Dividend paid out by the Company since FY17 is given alongside.



Please refer to the following link for the Dividend Distribution policy of the Company. <http://www.itcportal.com/about-itc/policies/dividend-distribution-policy.pdf>

**Q15. Please provide a brief overview of Q2 FY21 results.**

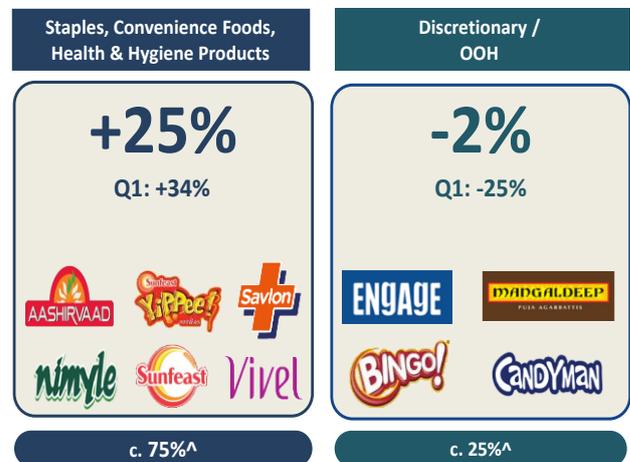
The operating environment remained extremely challenging during the quarter with the unabated increase in daily Covid cases prompting several states to impose localised lockdowns. This impacted the recovery momentum, particularly in the months of July'20 and August'20, and posed significant challenges to sales operations. The situation continues to improve with the progressive easing of restrictions from September'20.

Against this backdrop, the Company recorded a **strong recovery in revenue across all operating segments including Cigarettes. Gross Revenue stood at Rs.11891.91 crores** representing a growth of 26% q-o-q and 1.2% y-o-y.

The FMCG-Others Segment delivered another quarter of **strong performance driven by Staples, Convenience Foods, Health & Hygiene products** leveraging the strong equity of the Company's brands and a robust portfolio of relevant and innovative products. **Segment Revenue stood at Rs. 3795 crores representing a growth of 18.4% on a comparable basis.** Most major categories enhanced their market standing during the quarter.

It is pertinent to note that Staples, Convenience Foods, Health & Hygiene Products which comprises of **75% of the portfolio, posted a strong growth of 25%.** On the other hand, demand for discretionary categories and those with higher 'out-of-home' consumption salience was adversely impacted. These contribute 25% to the overall portfolio and de grew by 2%, recovering smartly vis-à-vis Q1 FY21.

**FMCG-Others Segment EBITDA grew by 66% to Rs.366 crores with margins expanding by 300 bps y-o-y to 9.7%.**



^% Portfolio salience

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The Hotels Business continues to remain adversely impacted due to restrictions on travel and tourism while closure of educational institutions across the country weighed on the performance of the Education and Stationery Products Business.

The impact of negative operating leverage was partially mitigated through relentless focus on cost reduction. **Profit After Tax stood at Rs.3232.40 crores representing a decline of 12.2% on a comparable basis** (adjusting for one-time benefit of Rs. 340 crores in base period due to reduction of corporate tax rate). Total Comprehensive income stood at Rs. 3394.02 crores (previous year Rs.3979.73 crores). Earnings Per Share for the quarter was Rs.2.62 (previous year Rs.3.28).

Progressive normalization was witnessed across all operating segments with increased mobility and recovery in economic activity. The Company continues to closely monitor the situation and respond with agility to strengthen its market standing while sharply focusing on cost reduction measures.

The safety and wellbeing of the Company's employees, partners and associates are of paramount importance. Accordingly, the Company has instituted the highest standards of hygiene and safety protocols across all nodes of operations. Extensive and frequent communication by senior leaders, programs to support employee well-being, sharing of health and hygiene related best practices and precautions, and the recognition of exceptional contribution of employees have all played a pivotal role in sustaining ITC's highly committed workforce and delivering high levels of performance in these unprecedented/testing times. Out of the Contingency Fund of Rs. 215 crores set up for the purpose of supporting the fight against Covid-19, over 80% has already been deployed.

*Please refer to the quarterly Press Release and Investor Presentation uploaded on the Corporate Website for detailed segment wise update*

1. Quarterly Press Release: <https://www.itcportal.com/media-centre/press-releases-content.aspx?id=2343&type=C&news=financial-results-for-the-quarter-ended-30th-september-2020#link>
2. Investor Presentation: <https://www.itcportal.com/about-itc/shareholder-value/ITC-Corporate-Presentation-Q2-FY2021.pdf>

**Q16. Please explain the Company’s ‘Triple Bottom Line’ philosophy & Environment, Social & Governance (ESG) credentials**



Inspired by the opportunity to sub-serve larger national priorities, the Company redefined its Vision to not only reposition the organisation for extreme competitiveness but also make societal value creation the bedrock of its corporate strategy. This superordinate Vision spurred innovative strategies to address some of the most challenging societal issues including widespread poverty, unemployment and environmental degradation.

The Company’s sustainability strategy aims at creating significant value for the nation through superior ‘Triple Bottom Line’ performance that builds and enriches the country’s economic, environmental and social capital. The sustainability strategy is premised on the belief that the transformational capacity of business can be very effectively leveraged to create significant societal value through a spirit of innovation and enterprise.

**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 and impactful social performance**, the key highlights of which are given below:



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

To contribute to the nation's efforts in combating climate change, the Company's strategy of adopting a **low-carbon growth path** is manifest in its **growing renewable energy portfolio**, establishment of green buildings, large-scale afforestation programme and achievement of international benchmarks in energy and water consumption. In FY 18-19, about **41% of the Company's total energy requirements were met from renewable energy sources** - a creditable performance given its expanding manufacturing base. The Company is well positioned to benefit from energy conservation and renewable energy promotion schemes such as Perform, Achieve and Trade (PAT) and Renewable Energy Certificates (RECs) promoted by the Government of India. As a responsible corporate citizen, the Company has made a commitment to reduce dependence on energy from fossil fuels. Accordingly, all factories incorporate appropriate green features and premium luxury hotels and office complexes continue to be certified at the highest level by either the US Green Building Council, Indian Green Building Council or the Bureau of Energy Efficiency (BEE).

The Company has adopted a comprehensive set of sustainability policies that are being implemented across the organisation in pursuit of its 'Triple Bottom Line' agenda. These policies are aimed at strengthening the mechanisms of engagement with key stakeholders, identification of material sustainability issues and progressively monitoring and mitigating the impacts along the value chain of each Business.

The Company's **17<sup>th</sup> Sustainability Report**, published during the year detailed the progress made across all dimensions of the 'Triple Bottom Line' for the year 2019-20. This report is in conformance with the Global Reporting Initiative (GRI) standards under 'In Accordance – Comprehensive' category and is **third-party assured at the highest criteria of 'reasonable assurance'** as per International Standard on Assurance Engagements (ISAE) 3000.

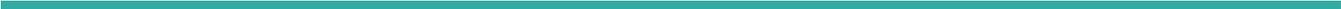
**Please refer to the following link**

- **17<sup>th</sup> Sustainability Report:** <https://www.itcportal.com/sustainability/sustainability-report-2020/sustainability-report-2020.pdf>

- **ITC Sustainability at a glance:** <https://www.itcportal.mobi/itc-csr-brochure.pdf>

In addition, the **Business Responsibility Report (BRR)**, annexed to the Report and Accounts 2020, maps the sustainability performance of the Company against the reporting framework suggested by Securities and Exchange Board of India.

The Company has voluntarily prepared its **Integrated Report** for the financial year 2019-20. As a green initiative, the Report has been hosted on the Company's corporate website at <https://www.itcportal.com/about-itc/shareholder-value/itc-integrated-report-2020.pdf>



## Notes

