

## ITC Q4FY20

### Financial Results & Highlights

#### **Brief Introduction:**

ITC Limited is an Indian multinational conglomerate company headquartered in Kolkata, West Bengal. Established in 1910 as the 'Imperial Tobacco Company of India Limited', the company was renamed as the 'India Tobacco Company Limited' in 1970 and later to 'I.T.C. Limited' in 1974. It has a diversified presence in FMCG, Hotels, Packaging, Paperboards & Specialty Papers and Agri-Business. It has many famous brands under its stable like Wills, Classic, Gold Flake, Aashirvaad, Sunfeast, Bingo, Fiama, Vivel, Classmate and many others.

Standalone Financials (In Crs)								
	Q4FY20	Q4FY19	YoY %	Q3FY20	QoQ %	FY20	FY19	YoY%
Sales	12176	12946	-5.95%	12997	-6.32%	49821	48269	3.22%
PBT	4512	4954	-8.92%	5036*	-10.41%	19167*	18444	3.92%
PAT	3797	3482	9.05%	4142	-8.33%	15136	12464	21.44%
Consolidated Financials (In Crs)								
	Q4FY20	Q4FY19	YoY %	Q3FY20	QoQ %	FY20	FY19	YoY%
Sales	13228	13902	-4.85%	13960	-5.24%	53991	52036	3.76%
PBT	4743	5142	-7.76%	5049*	-6.06%	20026*	19138	4.64%
PAT	3926	3593	9.27%	4048	-3.01%	15585	12824	21.53%

\*Includes an exceptional item of Rs 132.11 Cr which represents the loss of tobacco leaf stocks destroyed in a fire at a third party owned warehouse. The insurance claim for this is under process.

#### **Detailed Results:**

1. The company had a modest quarter with a 5% consolidated revenue decline YoY and a rise of 9% YoY in consolidated profits.
2. FY20 performance was decent with 4% consolidated revenue growth and 21.5% profit growth. The growth in profits was mainly due to fall in corporate tax rate which was instituted earlier this year.
3. Free cash flow in FY20 was up 30% YoY.
4. The Board recommended a dividend of Rs 10.15 for FY20.
5. FMCG-Others segment grew almost 5% YoY and segment EBITDA grew 32.8% YoY.
6. The Education and Stationery Products segment was doing well until February but was severely impacted in the peak month of March due to the closure of educational institutions from the COVID-19 lockdown. This segment grew 5% YoY in Q4.
7. The hotel business was similarly severely impacted in March due to the closure of the company's facilities. FY20 revenues grew 10% YoY while segment EBITDA grew 12 % YoY in the same period.
8. The Agribusiness was also impacted in March from the supply chain disruptions from COVID-19.
9. The paper & packaging segment saw modest revenue growth of 5.3% YoY in Q4 driven by higher in-house pulp production, enhanced operating efficiencies, and benign input costs.

10. The Company entered into a Share Purchase Agreement ('SPA') to acquire 100% of Sunrise Foods Private Limited (SFPL), an Indian company primarily engaged in the business of spices under the trademark 'Sunrise'.
11. ITC has been ranked #1 globally amongst peers (comprising companies with a market capitalization 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.
12. The cigarette business was the most impacted in Q4 due to the steep increase in taxes since Feb 2020 and the operational disruptions from the lockdown.
13. The FMCG-Others EBITDA margins rose 160 bps to 7.1% in Q4 despite the 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.
14. Earnings per share for FY20 was at Rs 12.33 vs Rs 10.19 a year ago.
15. In Q4 the company launched 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 fiber and a source of protein.
16. In the Spices segment, the company expanded its geographical footprint to 17 states and recorded healthy volume growth in FY20.
17. 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.
18. Due to the demand surge for Health & Hygiene products from COVID-19, the company 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.
19. The company also launched 'Savlon Surface Disinfectant Spray' and 'Savlon Hexa' hand sanitizing liquid for quick and persistent action.
20. The manufacturing facilities in staples category (atta, biscuits, and noodles) has returned back to 100 % utilization.
21. Other FMCG categories and Paperboards and Packaging are operating at 80-85% of normal levels.
22. The company developed and launched many products during the lockdown such as the Savlon Disinfectant Spray, Savlon Hexa with added protection, Savlon Wipes, Nimwash, B-natural Plus range of Immunity beverages, Home and Family Packs of some of the company's trusted brands, etc.
23. The company has also tied up with various companies like Dominos, Swiggy, Zomato, Dunzo, Amway, etc for the last-mile delivery of its products.
24. The company is also introducing innovations like 'ITC Store on Wheels' to ensure direct reach to consumers in residential agglomerations. It is also increasing availability in e-commerce platforms including the ITC eStore.

**Analyst's View:**

ITC has been one of the biggest conglomerates in the history of modern India. The company has done well to diversify into other FMCG segments and build many leading brands like Aashirvaad, Bingo, etc. The company has seen a modest performance in the current quarter with severe disruption in its FMCG-Cigarettes and the Hotels business due to the lockdown. The company is doing well in maintaining a leadership position in many of its brands. The company has shown resilient growth in its FMCG segment despite the supply chain constraints brought on by COVID-19. IT has also done well to expand the manufacturing capability of Savlon Brand and to capitalize on the demand surge for Health & Hygiene products by introducing two new products under the Savlon brand. It remains to be seen how the company will restructure its vast supply chain structure to function efficiently in the post COVID world and whether there are any more disruptions in the future from COVID-19. Nonetheless, given its history of building and maintaining durable brands, its leadership in various operating segments, and its mammoth cash-generating ability, ITC remains a critical stock to watch for any investor interested in the themes of FMCG and consumption.

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