

November 30, 2022

ITC Limited: Rating reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Commercial Paper	500.00	500.00	[ICRA]A1+; reaffirmed
Total	500.00	500.00	

*Instrument details are provided in Annexure-I

Rationale

The rating reaffirmation continues to consider the leadership position of ITC Limited (ITC) in the domestic cigarettes market translating into strong cash flows and a highly favourable financial profile characterised by strong return metrics, a conservative capital structure, robust coverage indicators and a healthy liquidity profile. ICRA expects ITC's strong brand name in the segment and established market position to continue to support its operating and financial performance. ITC continues to maintain its market leadership in the paperboards and specialty packaging segments coupled with a strong presence in the fast-moving consumer goods (FMCG), hotels and agricultural commodity trading segments.

After two years of muted revenue growth, ITC's operating income grew by ~23% YoY to Rs. 60,715 crore (net of excise duty) in FY2022, supported by broad based recovery across all business segments, aided by the waning impact of the pandemic. The momentum continued in H1 FY2023, albeit on a low base, impacted by the pandemic-induced disruptions. The FMCG-Cigarettes segment continues to record a healthy revenue growth and stable margins, aided by the relatively stable tax regime. The growth of FMCG-Others segment is marked by healthy traction from staples and convenience foods with sustained margins despite headwinds in the form of commodity cost inflation. While rural demand for FMCG is expected to remain muted due to erratic monsoon and high inflation, higher share of food and beverages in ITC's product basket is expected to mitigate the impact to an extent. The hotels segment recorded a robust recovery in H1 FY2023 with the opening up of the economy and commencement of business and leisure travel. The paperboards and packaging segment continues to record a healthy revenue growth and margin augmentation, driven by strong demand across end-user segments and premiumisation of its product portfolio. ICRA expects the company to continue to register a healthy revenue growth with stable margins. Further, negligible debt and substantial free cash and liquid investments remain strong sources of financial flexibility for the company.

Key rating drivers and their description

Credit strengths

Market leadership position in cigarettes – ITC continues to remain the market leader in the organised domestic cigarettes industry with a market share of about 80% and healthy brand equity through its focus on continuous product innovation, supported by consumer insights and strong on-ground execution capabilities. The cigarettes business segment accounted for ~37% of segment revenue and ~79% of segment results in FY2022 compared to ~57% of segment revenue and 86% of segment results in FY2017.

Increasing revenue diversity of business with strong inter-business synergies – ITC's business portfolio is diversified with substantial presence across cigarettes, FMCG, hotels, paperboards and packaging and agri business. The contribution of cigarettes to ITC's segment revenue has successively reduced to ~37% in FY2022 from ~57% in FY2017. Segment revenue contribution from other business segments have improved to 23% from FMCG-Others, 23% from agri business, 11% from paperboards and packaging and 2% from hotels in FY2022. The integrated nature of ITC's business models – including

proficiency in agri-commodity sourcing and cost-competitive manufacturing - is a source of competitive advantage for the company.

Robust financial profile characterised by healthy profitability, negligible debt and substantial liquid investments – ITC continues to maintain healthy profitability metrics with EBITDA/OI of 34.0%. As on March 31, 2022, the company remained debt free and had substantial free cash and liquid investments worth Rs. 29,226 crore.

Credit challenges

Exposure of cigarettes business to Government policy and regulations – The cigarettes business is highly regulated in India with stringent taxation and statutory compliance requirements. Any material regulatory developments could have a significant impact on the business. However, a strong brand equity, presence across categories and price segments and an extensive nationwide distribution network are expected to aid ITC in maintaining its leadership position and mitigating the risks to an extent.

Liquidity position: Superior

ITC's liquidity position continues to remain Superior, as reflected in its healthy cash and liquid investments portfolio of Rs. 29,226 crore as on March 31, 2022. The company remained debt free as on March 31, 2022. ITC is expected to continue to generate healthy cash accruals from its business.

Rating sensitivities

Positive factors – Not applicable

Negative factors – Pressure on ITC's rating could arise if regulatory developments in the cigarettes industry have a material adverse impact on the profitability of the company or any unanticipated large debt-funded capital organic/inorganic growth plan, relative to the size of the company's balance sheet, adversely impacts the coverage indicators and liquidity position of the company on a sustained basis.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology
Parent/Group support	Not Applicable
Consolidation/Standalone	For arriving at the ratings, ICRA has considered the consolidated financials of ITC Limited. As on March 31, 2022, the company had 25 subsidiaries and 11 associates/joint ventures, which are all enlisted in Annexure-2.

About the company

Established in 1910, ITC Limited is the largest cigarettes manufacturer and seller in India. ITC operates across five business segments at present – FMCG Cigarettes, FMCG Others, Hotels, Paperboards, Paper and Packaging and Agri Business.

Key financial indicators (audited)

ITC Consolidated	FY2021	FY2022
Operating income*	49,387	60,715
PAT	13,390	15,486
OPBDIT/OI	34.4%	34.0%
PAT/OI	27.1%	25.5%
Total outside liabilities/Tangible net worth (times)	0.2	0.2
Total debt/OPBDIT (times)	0.0	0.0
Interest coverage (times)	381	525

PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation; Amount in Rs. Crore

*Operating Income for FY2022 = Gross revenue of Rs.65,205 crore less excise duty of Rs. 4,490 crore; corresponding figure for FY2021 is gross revenue of Rs. 53,155 crore less excise duty of Rs. 3,768 crore. Financial ratios and figures are adjusted as per ICRA standard adjustments.

Status of non-cooperation with previous CRA: Not applicable

Any other information:

A member of the board of directors of ICRA Limited is also an independent director on the board of directors of ITC Limited. This director was not involved in any of the discussions and processes related to the rating of the instrument(s) mentioned herein.

Rating history for past three years

Instrument	Type	Current rating (FY2023)		Chronology of rating history for the past 3 years			
		Amount rated (Rs. crore)	Amount outstanding as of Nov 28, 2022 (Rs. crore)	Date & rating in FY2023	Date & rating in FY2022	Date & rating in FY2021	Date & rating in FY2020
				Nov 30, 2022	Nov 30, 2021	Nov 27, 2020	Nov 01, 2019
1 Commercial Paper	Short-term	500.00	-	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+

Complexity level of the rated instruments

Instrument	Complexity Indicator
Commercial Paper	Very Simple

The Complexity Indicator refers to the ease with which the returns associated with the rated instrument could be estimated. It does not indicate the risk related to the timely payments on the instrument, which is rather indicated by the instrument's credit rating. It also does not indicate the complexity associated with analysing an entity's financial, business, industry risks or complexity related to the structural, transactional or legal aspects. Details on the complexity levels of the instruments are available on ICRA's website: [Click Here](#)

Annexure I: Instrument details

ISIN	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (Rs. crore)	Current Rating and Outlook
Unplaced	Commercial Paper	NA	NA	NA	500.00	[ICRA]A1+

Source: Company

Annexure II: List of entities considered for consolidated analysis

Company Name	ITC Ownership	Consolidation Approach
ITC Infotech India Limited	100.00%	Full consolidation
ITC Infotech (USA), Inc.	100.00%	Full consolidation
ITC Infotech Limited	100.00%	Full consolidation
Indivate Inc.	100.00%	Full consolidation
Surya Nepal Private Limited	59.00%	Full consolidation
Technico Pty Limited	100.00%	Full consolidation
Technico Agri Sciences Limited	100.00%	Full consolidation
Technico Technologies Inc.	100.00%	Full consolidation
Technico Asia Holdings Pty Limited	100.00%	Full consolidation
Technico Horticultural (Kunming) Co. Limited	100.00%	Full consolidation
Srinivasa Resorts Limited	68.00%	Full consolidation
Fortune Park Hotels Limited	100.00%	Full consolidation
Landbase India Limited	100.00%	Full consolidation
Bay Islands Hotels Limited	100.00%	Full consolidation
WelcomHotels Lanka (Private) Limited	100.00%	Full consolidation
Russell Credit Limited	100.00%	Full consolidation
Greenacre Holdings Limited	100.00%	Full consolidation
Wimco Limited	100.00%	Full consolidation
Gold Flake Corporation Limited	100.00%	Full consolidation
ITC Investments & Holdings Limited	100.00%	Full consolidation
MRR Trading & Investment Company Limited	100.00%	Full consolidation
North East Nutrients Private Limited	76.00%	Full consolidation
Prag Agro Farm Limited	100.00%	Full consolidation
Pavan Popular Limited	100.00%	Full consolidation
ITC IndiVision Limited	100.00%	Full consolidation
Espirit Hotels Private Limited	26.00%	Equity method
Logix Developers Private Limited	27.90%	Equity method
ITC Essentra Limited	50.00%	Equity method
Maharaja Heritage Resorts Limited	50.00%	Equity method
International Travel House Limited	48.96%	Equity method
Russell Investments Limited	25.43%	Equity method
Gujarat Hotels Limited	45.78%	Equity method

Company Name	ITC Ownership	Consolidation Approach
Divya Management Limited	33.33%	Equity method
ATC Limited	47.50%	Equity method
Antrang Finance Limited	33.33%	Equity method
Delectable Technologies Private Limited	27.34%*	Equity method

Source: ITC annual report FY2022; *on a fully diluted basis

Note: i) ICRA has taken a consolidated view of the parent (ITC), its subsidiaries, associates and joint ventures while assigning the ratings.

ii) During the year, pursuant to the Order of the Hon'ble National Company Law Tribunal, Allahabad Bench, Hobbits International Foods Private Limited (Hobbits) and Sunrise Sheetgarh Private Limited (Sheetgarh), wholly owned subsidiaries, were amalgamated with the company and hence dissolved without winding up with effect from August 12, 2021.

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About ICRA Limited:

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Today, ICRA and its subsidiaries together form the ICRA Group of Companies (Group ICRA). ICRA is a Public Limited Company, with its shares listed on the Bombay Stock Exchange and the National Stock Exchange. The international Credit Rating Agency Moody's Investors Service is ICRA's largest shareholder.

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Branches



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