

November 29, 2024

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 reaffirmation of the rating continues to consider the leadership position of ITC Limited (ITC) in the domestic cigarettes market, translating into strong cash flows and a robust financial profile, characterised by healthy return metrics, a conservative capital structure, strong coverage indicators and a sound liquidity profile. ICRA expects ITC's strong brand name in the segment and established market position to continue to support its operating as well as financial performances. ITC continues to maintain its leading position in the domestic cigarette industry, a strong market position in the paperboards and specialty packaging segments coupled with a robust and widening presence in the fast-moving consumer goods (FMCG) segment, and a steady performance in hotel, trading of agricultural commodities and IT solutions/ services divisions.

ICRA notes the proposed scheme of arrangement, wherein its hotels business would be demerged into a new entity, ITC Hotels Limited (ITCHL), has been approved by the National Company Law Tribunal (NCLT) in October 2024. Approvals from the stock exchanges and No Objection Certificate (NOC) from other regulatory bodies have already been received. The process is expected to be completed in Q4 FY2025 with the new entity getting listed separately. Post the demerger, ITC will have a 40% shareholding in the new entity and the balance 60% will be held by ITC's existing shareholders in the proportion of their shareholding in ITC. ICRA does not expect the demerger to have a material impact on the financial risk profile of ITC as the hotels business accounts for less than 5% of its revenue and profits, on a consolidated basis.

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 a steady YoY growth in margins despite headwinds in the form of commodity cost inflation. The revenue from the agri-business was impacted in FY2024 owing to various trade restrictions on agricultural commodities. However, the segment has witnessed a revenue growth of ~32% in H1 FY2025 vis-à-vis H1 FY2024, mainly driven by leaf tobacco and value-added agricultural products. The Paperboards, Paper & Packaging segment had to contend with soft domestic and export demand, and low-cost Chinese supplies in international markets, which significantly impacted realisations. Unseasonal rainfall adversely impacted availability, quality and procurement price of wood. Subdued realisation, increase in domestic wood prices and ocean freight continue to exert pressure on the margins. The segment registered a decline in revenue and PBIT by ~8% and ~40%, respectively in FY2024 on a YoY basis. While there has been some recovery in revenue in H1 FY2025, it remained ~2% lower than H1 FY2024 and PBIT remained ~38% lower than what the company achieved in H1 FY2024. The Hotels segment continued to record a steady growth with addition to its portfolio, supported by favourable business and leisure travel. The performance of the 'Others' segment, which primarily includes IT solutions/ services, remained comfortable with increasing revenue and relatively stable margin. ICRA expects the company to continue to register a healthy revenue growth with elevated margins over the medium term. 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 leader in the domestic cigarettes industry – ITC continues to remain the leader in the organised domestic cigarettes industry with a market share of more than 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 accounted for around 39% of the segment revenue and nearly 78% of the company's profits (earnings before interest and taxes – EBIT), on a consolidated basis, in FY2024.

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, agri business, and IT solutions/ services. The contribution of cigarettes to ITC's segment revenue, on a consolidated basis, has successively reduced to around 36% in H1 FY2025 from around 47% in FY2018. Segment revenue contribution from FMCG-Others stood at 23%, agri-business stood at 26%, paperboards and packaging stood at 8%, hotels stood at 3% and others segment stood at 4% in H1 FY2025. The integrated nature of ITC's business models, including proficiency in agri-commodity sourcing, cost-competitive manufacturing and strong omni-channel distribution platform are sources of competitive advantages for the company.

Robust financial profile, characterised by healthy profitability, negligible debt and substantial liquid investments – The operating profit margin (OPM) of ITC, on a consolidated basis, stood healthy over the past years, primarily supported by strong margins from its cigarette business. The net profit margin (NPM) also stood at a healthy level of around 29% in FY2024. Despite some moderation of its OPM to around 34% in H1 FY2025 vis-à-vis 38% in H1 FY2024, owing to lower margin from the hotel segment and weak performance of its paperboard division, along with increased share of relatively lower margin agri-business in the overall mix, ICRA expects the company to maintain its healthy profitability, going forward. The capital structure of the company continues to remain highly conservative on the back of healthy net worth and low reliance on external borrowings. As on March 31, 2024, the company had substantial free cash and liquid investments of more than Rs. 20,000 crore with nominal debt. In addition to this, the company also had non-current investments of more than Rs. 17,600 crore (mainly in market securities) as on March 31, 2024, strengthening its liquidity position.

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 development can 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.

Environmental and social risks

Environmental considerations – ITC remains exposed to physical climate risks as the key raw materials for most of its business segments are agricultural commodities. Vagaries of the climate translating into variation in crop output could adversely impact ITC's operations in terms of both availability of raw materials and increase in commodity costs. The company remains exposed to the impact of changes in the regulatory norms with respect to the treatment of manufacturing residual discharge/waste. Further, increasing awareness and restrictions on usage of different grades of plastics for packaging and the need to find eco-friendly solutions could impact ITC's cost structure. As per the disclosures in ITC's annual report, the company has articulated Sustainability 2.0 agenda with defined targets and timelines to make the company more environment friendly, including its plans to source 50% of its energy requirements from renewable sources and reduce specific greenhouse gas emissions by 50% within 2030 and become a 100% biodegradable packaging company by 2028.

Social considerations – Tobacco consumption is considered a social hazard due to its ill effects on public health and is thus strictly regulated. Any changes in the regulatory environment for cigarettes could adversely impact the business prospects of the company. The sector also has a prominent dependence on human capital, in terms of direct and indirect employees as well as contractual labour. Being an interplay of manufacturing and services businesses, maintaining healthy relationships with employees and retaining talent are essential for disruption free operations. Certain product categories of ITC, including food and beverages, have health implications on consumers and any quality concerns could impact its brand name and lead to additional costs for the company.

Liquidity position: Superior

The liquidity position of ITC, on a consolidated basis, continues to remain Superior, as reflected in its healthy cash and liquid investments portfolio of more than Rs. 20,000 crore as on March 31, 2024, despite sizeable dividend payouts, supported by robust cash flow from operations. In addition to this, the company had non-current investments of more than Rs. 17,600 crore (mainly in market securities) as on March 31, 2024, which provide additional liquidity buffer. There were hardly any utilisation of fund-based working capital limits in the past. The company has long-term debt repayment obligations of around Rs. 63 crore, including lease liabilities, in the current fiscal. ITC is expected to continue to generate healthy cash accruals from its business to meet its capex and working capital requirements and debt servicing obligations.

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 organic/inorganic growth plan, relative to the size of the company's balance sheet, adversely impacts its coverage indicators and liquidity position on a sustained basis.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology FMCG
Parent/Group support	Not Applicable
Consolidation/Standalone	For arriving at the ratings, ICRA has considered the consolidated financials of ITC Limited, including its subsidiaries, step-down subsidiaries, joint ventures and associates, which are enlisted in Annexure – II.

About the company

ITC Limited (ITC) is the largest cigarette manufacturer and seller in the country. It was established in 1910 and devoted its first six decades to the growth and consolidation of the cigarettes and leaf tobacco businesses. It currently operates in six business segments — FMCG-Cigarettes, FMCG-Others, Hotels, Paperboards, Paper and Packaging, Agri Business and Other businesses, which mainly include IT solutions/ services.

Key financial indicators (audited)

ITC	Standalone		Consolidated			
	FY2023	FY2024	FY2023	FY2024	H1 FY2024*	H1 FY2025*
Operating income	66,043.3	65,440.8	70,936.9	70,881.0	34,938.9	39,193.2
PAT	18,753.3	20,422.0	19,427.7	20,723.8	10,136.0	10,215.7
OPBDIT/OI	36.3%	37.3%	36.2%	37.0%	37.6%	34.5%
PAT/OI	28.4%	31.2%	27.4%	29.2%	29.0%	26.1%
Total outside liabilities/Tangible net worth (times)	0.2	0.2	0.2	0.2	0.3	0.2
Total debt/OPBDIT (times)	0.0	0.0	0.0	0.0	0.0	0.0
Interest coverage (times)	572.8	534.2	594.2	570.1	663.8	489.0

Source: ITC Limited, ICRA Research; * Unaudited numbers; All ratios as per ICRA's calculations; Amount in Rs. crore

PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

Instrument		Current rating (FY2025)			Chronology of rating history for the past 3 years		
		Type	Amount rated (Rs. crore)	Date & rating in FY2025	Date & rating in FY2024	Date & rating in FY2023	Date & rating in FY2022
				Nov 29, 2024	Nov 30, 2023	Nov 30, 2022	Nov 30, 2021
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
NA*	Commercial Paper	-	-	-	500.00	[ICRA]A1+

Source: ITC Limited; * yet to be placed

Annexure II: List of entities considered for consolidated analysis

Company Name	ITC's Ownership	Consolidation Approach
ITC Infotech India Limited	100.00%	Full consolidation
ITC Infotech Limited@	100.00%	Full consolidation
ITC Infotech (USA), Inc.®	100.00%	Full consolidation
Indivate Inc. (a subsidiary of ITC Infotech (USA), Inc.)	100.00%	Full consolidation
ITC Infotech Do Brasil LTDA.®	100.00%	Full consolidation
ITC Infotech Malaysia SDN. BHD.®	100.00%	Full consolidation
ITC Infotech France SAS®	100.00%	Full consolidation
ITC Infotech GmbH®	100.00%	Full consolidation
ITC Infotech de Mexico, S.A. de C.V. ® (w.e.f. April 17, 2023)	100.00%	Full consolidation
ITC Infotech Arabia Limited® (w.e.f. December 17, 2023)	100.00%	Full consolidation
ITC Infotech Italia s.r.l (w.e.f. July 23, 2024)	100.00%	Full consolidation
Surya Nepal Private Limited	59.00%	Full consolidation
Surya Nepal Ventures Private Limited (w.e.f. July 03, 2023)	59.00%	Full consolidation
Technico Agri Sciences Limited	100.00%	Full consolidation
Technico Pty Limited	100.00%	Full consolidation
Technico Technologies Inc. (a subsidiary of Technico Pty Limited)	100.00%	Full consolidation
Technico Asia Holdings Pty Limited (a 100% subsidiary of Technico Pty Limited)	100.00%	Full consolidation
Technico Horticultural (Kunming) Co. Limited (a 100% subsidiary of Technico Asia Holdings Pty 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 (a 100% subsidiary of Russell Credit Limited)	100.00%	Full consolidation
Wimco Limited	100.00%	Full consolidation
Gold Flake Corporation Limited	100.00%	Full consolidation
ITC Integrated Business Services Limited (erstwhile ITC Investments & Holdings Limited)	100.00%	Full consolidation
MRR Trading & Investment Company Limited (a 100% subsidiary of ITC Integrated Business Services Limited)	100.00%	Full consolidation
North East Nutrients Private Limited	76.00%	Full consolidation
Prag Agro Farm Limited	100.00%	Full consolidation
Pavan Poplar Limited	100.00%	Full consolidation

Company Name	ITC's Ownership	Consolidation Approach
ITC IndiVision Limited	100.00%	Full consolidation
ITC Fibre Innovations Limited	100.00%	Full consolidation
ITC Hotels Limited (w.e.f. July 28, 2023)	100.00%	Full consolidation
Logix Developers Private Limited	27.90%	Equity method
ITC Filtrona Limited (erstwhile ITC Essentra Limited)	50.00%	Equity method
Maharaja Heritage Resorts Limited	50.00%	Equity method
Gujarat Hotels Limited	45.78%	Equity method
International Travel House Limited	48.96%	Equity method
Russell Investments Limited (an associate of Russell Credit Limited)	25.43%	Equity method
Divya Management Limited (an associate of Russell Credit Limited)	33.33%	Equity method
Antrang Finance Limited (an associate of Russell Credit Limited)	33.33%	Equity method
ATC Limited (an associate of Gold Flake Corporation Limited)	47.50%	Equity method
Delectable Technologies Private Limited	39.32% [#]	Equity method
Mother Sparsh Baby Care Private Limited	26.50% [#]	Equity method
Sproutlife Foods Private Limited (w.e.f. May 04, 2023)	44.74% [#]	Equity method

Source: Annual report of 2023-24, quarterly disclosure for Q2 of 2024-25, ITC Limited

@ subsidiaries of ITC Infotech India Limited

* on a fully diluted basis

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