

November 30, 2021

ITC Limited: Ratings reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Commercial Paper	500.0	500.0	[ICRA]A1+; reaffirmed
Total	500.00	500.00	

*Instrument details are provided in Annexure-1

Rationale

The reaffirmation of the rating continues to consider the dominant position of ITC in the domestic cigarette market, which resulted in strong cash flows, despite pandemic induced disruption in FY2021, a highly favourable financial profile characterised by strong return on capital employed (RoCE), a conservative gearing and large cash and liquid investments. ITC is also the leading company in the paperboards and specialty packaging segments in India and has a strong presence in FMCG, Hotels and in agri business segment. While reaffirming the rating, ICRA has also noted the robust performance of ITC's FMCG Others business segment in the current year, driven by a strong demand for staples, convenience foods and health and hygiene products. The agri business continues to support ITC's other businesses in terms of sourcing of the required raw materials. ITC's hotel division was adversely impacted due to restrictions on travel and tourism with the onset of the Covid-19 pandemic; however, gradual relaxation of restrictions has led to improvement in mobility and the occupancy levels have improved considerably led by leisure segment. Strong Balance Sheet with no external debt supported by a substantial cash balance and large liquid investments on its books remain strong sources of financial flexibility for the company.

Key rating drivers and their description

Credit strengths

Market leader in cigarettes, with a dominant market share and a strong presence in the almost price-inelastic premium segment – ITC is the market leader in the organised domestic cigarette industry, with a market share of about 80%. The cigarette business remains the mainstay of ITC's profitability. In FY2021, the cigarette segment contributed ~38% to ITC's net segment revenues and 83% to its segment PBIT.

Increasing diversity in revenue mix with strong inter-segment synergies – ITC has a diversified portfolio with an established presence in cigarettes, FMCG, paper and paperboards, agri-business and hotels. Cigarettes contributed ~38% to ITC's consolidated net segment revenue, followed by FMCG-Others at 25%, agri-business at 22%, paper and paperboards at 10% and hotels at 1% in FY2021. The agri business and the paper and packaging business support ITC's other businesses in terms of sourcing of the required raw materials, and the packaging requirements, respectively.

Improved performance of FMCG-Others Segment – The FMCG-Others segment has posted a robust growth in the current fiscal with gross revenues increasing by 15% in FY2021 compared to the same period last year. Despite subdued demand from discretionary and education and stationery product categories, the performance of this division was driven by a strong demand from staples, convenience foods and health and hygiene products and ITC's robust distribution network. The segment PBIT also increased to ~Rs. 838 crore in FY2021 from ~Rs. 425 crore in FY2020 mainly due increased scale, premiumisation of the portfolio and strategic cost management.

Strong financial profile characterised by high profitability and RoCE, negligible debt, and large liquid investments – ITC has demonstrated its ability to maintain the operating profit margin, which stood at a healthy ~36%¹ (on standalone basis) in FY2021. ITC's net profitability continues to be supported by the healthy returns from its investment portfolio. As on March 31, 2021, on a consolidated basis, ITC had cash and liquid investments of around Rs. 29267 crore. The RoCE of the company continues to be healthy at ~30% in FY2021.

Credit challenges

Exposure of the cigarette business, which continues to be the main profit-earning division, to Government policies and regulations – ICRA notes that in the FY2021, cigarette business was impacted due to the nationwide lockdown, followed by various localised lockdowns, which caused disruptions in manufacturing and distribution of cigarettes. Additionally, a ~13% increase in tax incidence on cigarettes from February 2020 also weighted on the cigarette segment to an extent. Nonetheless, ITC has been able to maintain its leadership position in the domestic cigarettes industry in a scenario of high taxes and stringent Government policies including implementation of 'The Cigarettes and Other Tobacco Products (Packaging and Labelling) Amendment Rules 2014' from April 1, 2016, which increased the size of the graphic health warning stamped across cigarette packets to 85% from 40% as well as high cess under the GST structure. While the segment remains exposed to regulatory challenges, strong brand equity, presence of brands across categories and price points, and an extensive nationwide distribution network provide comfort. That apart, Cigarette business grew 21%YoY (Segment revenue H1FY2022 vs H1FY2021) driven by strong recovery across all regions with exit volumes at pre-covid levels. Pace of vaccinations and restrictions on mobility and convenience store operations will be the key monitorables in the ensuing months. Notwithstanding such challenges, the company continues to closely track the developments and remains confident of responding with agility to the dynamic environment to maintain its leadership position in the cigarette industry leveraging its strategies and innovative capabilities. Strong equity, well-laddered portfolio coupled with an extensive nationwide distribution network has helped ITC maintain its dominant position in the domestic cigarette market.

Hotel business adversely impacted due to restrictions in travel and tourism – ITC Hotels is the second-largest hotel chain in India, with nearly 108 hotels at 70 locations in the country, operating across multiple market segments. The nationwide lockdown in April and May 2020, to contain the spread of the pandemic, were followed by sporadic localised lockdowns, which caused hotels to either remain shut or they operated at minimal occupancies in FY2021. While the easing of restrictions has led to some improvement in second half of FY2021, it further improved in H1 FY2022. The segment should witness further recovery with Business travel confidence progressively improving.

Liquidity position: Superior

ITC's liquidity position is superior, as reflected by a healthy cash and liquid investment portfolio of Rs. 29,267 crore as on March 31, 2021. ITC remains debt free as on date. Healthy accruals from the business, combined with lack of debt obligations, lead to a very strong liquidity profile.

Rating sensitivities

Positive factors – NA

Negative factors – Pressure on ITC's rating may arise if there are any adverse regulatory changes in the cigarette industry, which may have a material impact on the profit metrics of the company or if there is a large debt-funded inorganic/organic growth plan, relative to the existing balance sheet size, which may adversely impact the coverage indicators and liquidity position.

¹ Operating profit = Operating income less operating cost (excludes Non operating income)

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, 2021, the company had 16 subsidiaries, eight stepdown subsidiaries, six associates and four JVs, that have been enlisted in Annexure-2

About the company

Established in 1910, ITC is the largest cigarette manufacturer and seller in the country. ITC operates in five business segments at present — FMCG Cigarettes, FMCG Others, Hotels, Paperboards, Paper and Packaging, and Agri Business.

Key financial indicators (audited)

ITC Limited (Consolidated)	FY2020	FY2021
Operating Income (Rs. crore)	49529.1	49387.4
PAT (Rs. crore)	15584.6	13389.9
OPBDIT/OI (%)	39.2%	34.7%
PAT/OI (%)	31.5%	27.1%
Total Outside Liabilities/Tangible Net Worth (times)	0.2	0.2
Total Debt/OPBDIT (times)	0.0	0.0
Interest Coverage (times)	237.7	294.6

Operating revenues in FY2021 = Gross revenues Rs 53155 crore less excise Rs 3767.7 crore, corresponding figure in FY2020 is Gross Revenues Rs 51393.5 crore less excise Rs 1864.34 crore. PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation. Financial ratios and figures are adjusted as per ICRA standard adjustments.

Any other information: None

Rating history for past three years

	Instrument	Current Rating (FY2022)				Chronology of Rating History for the past 3 years		
		Type	Amount Rated (Rs. crore)	Amount Outstanding as of Nov 26, 2021 (Rs. crore)	Date & Rating in	Date & Rating in FY2021	Date & Rating in FY2020	Date & Rating in FY2019
					Nov 30, 2021	Nov 27, 2020	Nov 01, 19	Oct 15, 2018
1	Commercial Paper	Short Term	500.0	0.0	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+

Complexity level of the rated instruments

Instrument	Complexity Indicator
Commercial Papers	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 analyzing 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, is available on ICRA's website: www.icra.in

Disclosure: 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.

Annexure-1: Instrument details

ISIN No/Banker Name	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (RS Crore)	Current Rating and Outlook
-	Commercial Paper Programme	Not issued	-	-	500.00	[ICRA]A1+

Source: Company

Annexure-2: List of entities considered for consolidated analysis

Company Name	ITC Ownership	Consolidation Approach
Russell Credit Limited	100.00%	Full Consolidation
Greenacre Holdings Limited	100.00%	Full Consolidation
Welcom Hotels Lanka (Private) Limited	100.00%	Full Consolidation
Technico Agri Sciences Limited	100.00%	Full Consolidation
Prag Agro Farm Limited	100.00%	Full Consolidation
Pavan Popular Limited	100.00%	Full Consolidation
ITC Infotech India Limited	100.00%	Full Consolidation
ITC Indivision Limited	100.00%	Full Consolidation
ITC Infotech Limited, UK	100.00%	Full Consolidation
ITC Infotech (USA), Inc.	100.00%	Full Consolidation
Indivate Inc.	100.00%	Full Consolidation
Landbase India Limited	100.00%	Full Consolidation
Bay Islands Hotels Limited	100.00%	Full Consolidation
Technico Pty 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
ITC Investments & Holdings Limited	100.00%	Full Consolidation
MRR Trading & Investment Company Limited	100.00%	Full Consolidation
Fortune Park Hotels Limited	100.00%	Full Consolidation
Gold Flake Corporation Limited	100.00%	Full Consolidation
Surya Nepal Private Limited	100.00%	Full Consolidation
North East Nutrients Private Limited	76.00%	Full Consolidation
Wimco Limited	98.21%	Full Consolidation
Srinivasa Resorts Limited	68.00%	Full Consolidation
Gujarat Hotels Limited	45.78%	Equity Method
International Travel House Limited	48.96%	Equity Method
ATC Limited	47.50%	Equity Method
Divya Management Limited	33.33%	Equity Method
Antrang Finance Limited	33.33%	Equity Method
Russell Investments Limited	25.43%	Equity Method
Maharaja Heritage Resorts Limited	50.00%	Equity Method
Espirit Hotels Private Limited	26.00%	Equity Method
Logix Developers Private Limited	27.90%	Equity Method
ITC Essentra Limited	50.00%	Equity Method

Source: ITC Ltd. annual report FY2021

Note: ICRA has taken a consolidated view of the ITC Ltd., its subsidiaries and associates while assigning the ratings.

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About ICRA Limited:

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For more information, visit www.icra.in

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Branches



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