PRESS RELEASES

Financial Results for the Quarter ended 31st December, 2016

27 Jan 2017

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Financial Results for the Quarter ended 31st December, 2016

Highlights

Revenue from Operations up 4.5%

fit up 5.7%

FMCG-Others Segment Revenue up 3.4% amidst lower consumer offtake and reduction of trade pipelines in the wake of cash crunch during the quarter. Segment Results reflect the impact of disruption in sales momentum due to adverse liquidity conditions in trade channel, sharp escalation in input cost, gestation cost of new categories and sustained investment in brand building.

Legal cigarette industry volumes remain under severe pressure even as illegal trade grows unabated.

Hotels Segment Revenue up 7% aided by higher Average Room Rate and robust growth in Food & Beverage revenue.

Paperboards, Paper and Packaging Segment Revenue impacted by subdued demand in FMCG & legal Cigarette industry, zero duty imports under Free Trade Agreement with ASEAN countries and cheap imports from China. Improvement in profitability driven by benign input costs and richer product mix.

King Maker Marketing, Inc. USA (KMM) ceased to be a subsidiary of the Company with effect from 16th November, 2016 consequent to divestment of the Company's entire shareholding in KMM.

FMCG (/media-centre/press-releases-content.aspx?id=1781&type=C&news=Financial-Results-for-the-Quarter-ended-31st-December-2016#fmcg) | **Cigarettes** (/media-centre/press-releases-content.aspx?id=1781&type=C&news=Financial-Results-for-the-Quarter-ended-31st-December-2016#cigaret) | **Hotels** (/media-centre/press-releases-content.aspx?id=1781&type=C&news=Financial-Results-for-the-Quarter-ended-31st-December-2016#hotel)
Agri Business (/media-centre/press-releases-content.aspx?id=1781&type=C&news=Financial-Results-for-the-Quarter-ended-31st-December-2016#agri) | **Paperboards, Paper & Packaging** (/media-centre/press-releases-content.aspx?id=1781&type=C&news=Financial-Results-for-the-Quarter-ended-31st-December-2016#paper)

The operating environment was extremely challenging during the quarter. FMCG sales were adversely impacted as a result of lower consumer offtake and reduction in trade pipelines particularly in the immediate aftermath of the Government's decision to withdraw specified high denomination currency notes. While the impact was felt across all operating segments, sales of biscuits, snacks, noodles, personal care products and branded apparel were impacted the most in the initial phase.

The Company implemented several initiatives towards mitigating the impact including increasing the service frequency of grocery outlets, enhancing presence in modern trade outlets, increasing direct servicing of select low population group markets and extending temporary credit to select customers. These initiatives, coupled with progressive easing of the liquidity situation, led to substantial recovery of sales momentum towards the end of the quarter.

The Company also had to contend with continuing regulatory and taxation pressures on the Cigarette business, rising input prices in the FMCG businesses and subdued demand conditions in the Hotels and Paperboards, Paper & Packaging segments.

The Company delivered steady performance during the quarter amidst the challenging business context as aforestated. Revenue from Operations for the quarter stood at Rs. 13470.89 crores representing a growth of 4.5%. Profit Before Tax at Rs. 3954.20 crores and Net Profit at Rs. 2646.73 crores registered a growth of 2.8% and 5.7% respectively during the quarter. Earnings Per Share for the quarter stood at Rs. 2.18. Total comprehensive Income (TCI) for the quarter stood at Rs. 2485.12 crores (for the quarter ended 31st December, 2015: Rs. 2787.07 crores).
Financial results for the quarter ended 31st December, 2016 have been prepared in accordance with Indian Accounting Standards (Ind AS). Results for quarter ended 31st December, 2015 have been recast in accordance with Ind AS to facilitate comparison.

FMCG-Others

Segment Revenue recorded a growth of 3.4% during the quarter against the backdrop of subdued demand conditions exacerbated by the tight liquidity position. Segment Results were adversely impacted by temporary disruption in sales momentum; sharp increase in cost of inputs such as wheat, maida, sugar, cashew, soap noodles; early 'end of season sales' and heavy discounting in the Lifestyle Retailing Business and sustained investment in brand building activities. Segment Results also include the gestation cost relating to new categories viz. Juices, Chocolates, Dairy and Health & Hygiene segment in the Personal Care Products Business.
The **Branded Packaged Foods Businesses** posted steady growth in revenue despite the challenging operating environment with most ...egories recording improvement in market stan...

- In the **Staples, Snacks and Meals Business**, 'Aashirvaad' atta recorded healthy growth and consolidated its leadership position across markets. The 'Bingo!' range of snack foods continued to grow well, driven by the 'Tedhe Medhe' variant and 'Bingo! Yumitos Original Style' potato chips.

- In the **Confections Business**, the 'Sunfeast Mom's Magic' range of premium cookies sustained its robust growth momentum driven by superior product attributes and continuing investment in brand building. Portfolio premiumisation continued in the Confectionery category driven by a higher salience of 'Re.1 and above' products in the sales mix. The recently launched 'Candyman Jellicious Jelimals' variant has been well received by consumers and is now available nationally. During the quarter, the Business launched an innovative variant in the Jellies segment under the sub-brand 'Candyman Jellicious DubbleZ'. The product is available in select markets and has received encouraging consumer response.

- The Business expanded the footprint of **'Fabelle Chocolate Boutiques'** to ITC Grand Central & ITC Maratha in Mumbai and ITC Windsor in Bengaluru during the quarter. With this, Fabelle Chocolate boutiques are now operational at 7 luxury ITC Hotels. During the quarter, the Business launched a range of 'Fabelle' gift hampers comprising a special collection of delectable chocolates. The range received excellent response from consumers during the festive season.

In November 2016, the Business commissioned a state-of-the-art facility at Uluberia, West Bengal for in-house manufacturing of atta, potato chips and biscuits. This facility will enable servicing of proximal markets in an efficient manner by enhancing product freshness and improving supply chain responsiveness. The Business continued to leverage the recently established biscuits manufacturing facility at Mangaldoi, Assam (set up by North East Nutrients Private Ltd. - a joint venture company) to enhance its market standing significantly in the fast growing north-eastern market.

The **Personal Care Products Business** continued to focus on augmenting its product portfolio and enriching product mix. Recently launched variants in the Hand Wash and Antiseptic Liquid categories under the Savlon brand continue to gain traction amongst consumers.
The Company made steady progress during the quarter towards setting up state-of-the-art integrated consumer goods manufacturing facilities at Panchla (West Bengal), Kapurthala (Punjab) and Ambarnath (Maharashtra). Currently, over 20 projects are underway and in various stages of development – from land acquisition/site development to construction of buildings and other infrastructure.

Cigarettes

The performance of the Cigarette Business during the quarter was subdued on account of tight liquidity conditions prevailing in the market and continued regulatory and taxation pressures on the legal Cigarette industry in India.

Over the last 4 years, the incidence of Excise Duty and VAT on cigarettes, at a per unit level, has gone up cumulatively by 118% and 145% respectively thereby exerting severe pressure on legal industry volumes even as illegal trade grows unabated. It is pertinent to note that steep increases in Excise Duty on cigarettes in recent years have resulted in widening the differential in Excise Duty rates (on a per kg. of tobacco basis) between cigarettes and other tobacco products from 29 times in 2005/06 to over 53 times currently. High incidence of taxation and a discriminatory regulatory regime on cigarettes in India have over the years led to a significant shift in tobacco consumption to lightly taxed or tax-evaded tobacco products like bidi, khaini, chewing tobacco, gutkha and illegal cigarettes which presently constitute over 89% of total tobacco consumption in the country. Besides adversely impacting the performance of the legal cigarette industry, this has led to sub-optimisation of the revenue potential from the tobacco sector.

The operating environment for the legal Cigarette industry in India was rendered even more challenging in the wake of a further increase of 10% in Excise Duty announced in the Union Budget 2016 and introduction of the new 85% graphic health warnings (GHW) on cigarette packages.

On 4th May 2016, the Honourable Supreme Court directed the Honourable High Court of Karnataka to hear and dispose of within six [illegible] legal challenge to GHW pending in several Hig[illegible]. The Honourable Supreme Court however, also [illegible] that any [illegible]r granted by any High Court would not be given e[illegible] till the cases are finally disposed of. The Compa[illegible]rently [illegible] manufacturing cigarettes with 85% warning in compliance with the interim requirements pending final decision by the Honourable Karnataka High Court on the matter. Hearings on the matter are currently underway.

The proposed GHW is excessively large, extremely gruesome and unreasonable. There is no evidence to suggest that cigarette smoking would cause the diseases depicted in the pictures or that large GHW will lead to reduction in consumption. It is pertinent to note that the global average size for GHW is only about 30% coverage of the principal display area. Moreover, the top three cigarette consuming countries - USA, China and Japan - which together account for 51% of global cigarette consumption have only text based warnings and have not adopted pictorial / graphic health warnings.

According to an independent study, India is now the 4th largest market for illegal cigarettes in the world. In fact, illegal trade comprising smuggled foreign and domestically manufactured tax-evaded cigarettes is estimated to constitute one-fifth of the overall cigarette industry in India and is estimated to cost the exchequer a revenue loss of more than Rs. 9000 crores per annum. The new GHW will encourage the flow of illegal trade of brands owned by international companies into the country since such brands are manufactured in many jurisdictions which do not mandate the printing of graphic health warnings on cigarette packages as applicable in India. The legal cigarette industry in India will be hard pressed to counter the menace of illegal cigarettes as they will be perceived by the consumer to be safer in the absence of the statutorily mandated health warnings. Coupled with the fact that illegal cigarettes are available at a fraction of the price of legal cigarettes, the new GHW will provide further fillip to the growth of illegal cigarettes in the country.

It may be noted that the Department of Commerce, in its submissions to the Parliamentary Committee on Subordinate Legislation, has stated that "large warnings will lead to an increase in overall tobacco consumption and illegal cigarettes; when large quantities of non-cigarette tobacco products from unorganised sector are sold loose and / or without any health warnings, it gives an impression of these products being relatively safer than cigarettes."

As always, the Company complies fully with all laws and regulations and continues to engage with policy-makers for reasonable, pragmatic and evidence based regulation and taxation policies that balance the health, employment and economic imperatives of the country.
Amidst the challenging operating environment as aforestated, the Company consolidated its market leadership through relentless focus on delivering world-class products, continuous innovation & value addition and best-in-class execution.

Hotels

The hospitality sector continues to be adversely impacted by a weak pricing scenario in the backdrop of excessive room inventory in key domestic markets and sluggish macroeconomic environment both in India and major source markets. Despite a challenging operating environment, the Business recorded a healthy growth in Segment Revenue and Profit during the quarter driven by improvement in Average Room Rate and robust growth in the Food & Beverage revenue.

While Segment Results improved significantly as compared to the corresponding quarter in the previous year, profitability remained relatively muted due to the challenging business context as aforestated and gestation costs of the recently commissioned ITC Grand Bharat, Gurgaon.
Construction activities at the luxury hotel projects in Kolkata, Hyderabad and Ahmedabad are progressing satisfactorily.

Agri Business

Segment Revenue grew by 12.9% driven by trading opportunities in the domestic wheat market, external sales of leaf tobacco offset by lower supplies to the Company's FMCG businesses (mainly account timing differences in offtake).
The Business provides strategic sourcing support to the Company's Cigarette business and leverages its deep rural linkages to source superior quality wheat, chip stock potato, spices and fruit pulp at competitive prices for the Branded Packaged Foods Businesses. The Business continues to leverage the e-Choupal network to source superior quality wheat at competitive cost and deliver substantial savings to the system through efficient logistics management and other cost-optimisation initiatives.

Paperboards, Paper & Packaging

The performance of Paperboards, Paper & Packaging Segment continued to be impacted by sluggish demand conditions prevailing in [illegible] and [illegible] imports [illegible] SEAN Free Trade Agreement, cheap imports fr[illegible] along with [illegible] ramp up by other industry players adversely im[illegible] egment Revenue during the quarter. Segment R[illegible] owever, improved on the back of benign input costs and improved mix.
In an endeavour to reduce its dependence on imported pulp, the Business is in the process of setting up India's first Bleached Chemical Thermo Mechanical Pulp mill at its Bhadrachalam unit. The facility is expected to be commissioned shortly. Capacity expansion in the Value Added Paperboards and Décor segments is also underway.

Contribution to Sustainable Development

The Company's Social Investments Programme aims to address the challenges arising out of poverty, environmental degradation and climate change through a range of activities with the overarching objective of creating sustainable sources of livelihood for stakeholders.
The footprint of the Company's Social Investments Programme can be viewed at a glance in the following chart:

Intervention Areas	Unit of Measurement	Cumulative till date
Social and Farm Forestry	Hectare	249,671
Soil and Moisture Conservation Programme	Hectare	286,241
Sustainable Agricultural Practices		
Compost Units	Number	32,864
Sustainable Livelihoods Initiative		
Cattle Development Centres	Number	223
Animal Husbandry Services	Artificial Inseminations (in lakhs)	19.47
Economic Empowerment of Women		
Ultra Poor Women covered	Number	12,750
Self Help Group Members	Number	29,851
Livelihoods created	Number	53,616
Primary Education		
Children covered	Number (in lakhs)	5.04
Health and Sanitation		
Low Cost Sanitary Units	Number	20,093
Households covered under Solid Waste Management	Number	47,910
Vocational Training		
Students Enrolled	Number	40,446

The Board of Directors, at its meeting in Kolkata on 27th January 2017, approved the financial results for the quarter ended 31st December 2016, which are enclosed.

Click here for the Financial Results (/about-itc/shareholder-value/key-financials/quarterly-results.aspx)

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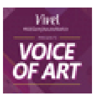

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