

November 30, 2023

## 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
<b>Total</b>	<b>500.00</b>	<b>500.00</b>	

\*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 performances. ITC continues to maintain its strong market position 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.

ICRA notes the scheme of arrangement approved by ITC's board on August 14, 2023, wherein its hotels business would be demerged into a new entity – ITC Hotels Limited. ITC will continue to 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. The scheme is subject to approval from the shareholders, stock exchanges and regulators and the process is expected to be concluded over the next 12-15 months. 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.

ITC's operating income grew by ~17% YoY to more than Rs. 71,000 crore (net of excise duty) in FY2023, supported by broad based recovery across all business segments, with the momentum continuing in H1 FY2024. 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. 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 FY2023 and H1 FY2024 with the opening of the economy and commencement of business and leisure travel. While the paperboards and packaging segment recorded healthy revenue growth and profitability in FY2023, its performance in H1 FY2024 was impacted by inflationary headwinds and moderate demand. The agri business segment's revenue growth was impacted in H1 FY2023 due to the ban on wheat exports from India and increase in export duty on specific varieties of rice. Nevertheless, its profitability remained intact. 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

more than 35% of segment revenue and more than 75% of segment results in FY2023 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 less than 40% in FY2023 from ~57% in FY2017. Segment revenue contribution from FMCG-Others stood at 23%, agri business stood at 23%, paperboards and packaging stood at 11% and hotels stood at 3% in FY2023. 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 36.1% in FY2023. As on March 31, 2023, the company had substantial free cash and liquid investments of more than Rs. 22,000 crore with negligible debt (except lease liabilities).

### 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 employee relations 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

ITC's liquidity position continues to remain Superior, as reflected in its healthy cash and liquid investments portfolio of more than Rs. 22,000 crore as on March 31, 2023, despite sizeable dividend payouts of more than Rs. 11,800 crore in H1 FY2024, supported by robust cash flow from operations. In addition to this, the company also had non-current investments of more than Rs. 11,800 crore (mainly in market securities) as on March 31, 2023, which provide additional liquidity buffer. 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	<a href="#">Corporate Credit Rating Methodology</a> <a href="#">Rating Methodology – FMCG</a> <a href="#">Rating Methodology - Hotels</a>
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

Established in 1910, ITC Limited (ITC) is the largest manufacturer and seller of cigarettes in India. The company operates across five business segments – FMCG-Cigarettes, FMCG-Others, Hotels, Agri Business and Paperboards, Paper and Packaging.

### Key financial indicators (audited)

Consolidated	FY2022	FY2023
Operating income	60,715	71,128
PAT	15,486	19,428
OPBDIT/OI	34.0%	36.1%
PAT/OI	25.5%	27.3%
Total outside liabilities/Tangible net worth (times)	0.2	0.2
Total debt/OPBDIT (times)	0.0	0.0
Interest coverage (times)	525	594

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

Note: Operating Income for FY2023 = Gross revenue of Rs. 76,518 crore less excise duty of Rs. 5,390 crore. The corresponding figures for FY2022 are gross revenue of Rs. 65,205 crore less excise duty of Rs. 4,490 crore. Financial ratios and figures are adjusted as per ICRA’s standard adjustments.

### Status of non-cooperation with previous CRA: Not applicable

### Any other information:

A member on 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 (FY2024)			Chronology of rating history for the past 3 years			
		Amount rated (Rs. crore)	Amount outstanding as of Sep 30, 2023 (Rs. crore)	Date & rating in FY2024	Date & rating in FY2023	Date & rating in FY2022	Date & rating in FY2021	
				Nov 30, 2023	Nov 30, 2022	Nov 30, 2021	Nov 27, 2020	
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
N.A.*	Commercial Paper	NA	NA	NA	500.00	[ICRA]A1+

Source: Company; \*yet to be placed

**Annexure II: List of entities considered for consolidated analysis**

Company Name	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
ITC Infotech Do Brasil LTDA.	100.00%	Full consolidation
ITC Infotech France SAS	100.00%	Full consolidation
ITC Infotech Malaysia Sdn Bhd^	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 GmbH	100.00%	Full consolidation
Surya Nepal Private Limited	59.00%	Full consolidation
Surya Nepal Ventures Pvt. Ltd. (w.e.f. July 03, 2023)	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 Integrated Business Services Limited (erstwhile 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 Poplar Limited	100.00%	Full consolidation
ITC IndiVision Limited	100.00%	Full consolidation
ITC Fibre Innovations Limited	100.00%	Full consolidation

Company Name	Ownership	Consolidation Approach
<b>ITC Hotels Limited (w.e.f. July 28, 2023)</b>	100.00%	Full consolidation
<b>Espirit Hotels Private Limited**</b>	26.00%	Equity method
<b>Logix Developers Private Limited</b>	27.90%	Equity method
<b>ITC Filtrona Limited (erstwhile ITC Essentra Limited)</b>	50.00%	Equity method
<b>Maharaja Heritage Resorts Limited</b>	50.00%	Equity method
<b>International Travel House Limited</b>	48.96%	Equity method
<b>Russell Investments Limited</b>	25.43%	Equity method
<b>Gujarat Hotels Limited</b>	45.78%	Equity method
<b>Divya Management Limited</b>	33.33%	Equity method
<b>ATC Limited</b>	47.50%	Equity method
<b>Antrang Finance Limited</b>	33.33%	Equity method
<b>Delectable Technologies Private Limited</b>	33.42%*	Equity method
<b>Mother Sparsh Baby Care Private Limited</b>	22.00%*	Equity method
<b>Sproutlife Foods Private Limited (w.e.f. May 04, 2023)</b>	39.40%	Equity method

Source: ITC annual report FY2023

\*\*On April 07, 2023, ITC divested its entire shareholding of 26% of the paid-up share capital of Espirit Hotels Private Limited

^The company was incorporated on February 03, 2023 and did not commence operations till March 31, 2023

\*on a fully diluted basis

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## About ICRA Limited:

ICRA Limited was set up in 1991 by leading financial/investment institutions, commercial banks and financial services companies as an independent and professional investment Information and Credit Rating Agency.

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.

For more information, visit [www.icra.in](http://www.icra.in)

## ICRA Limited



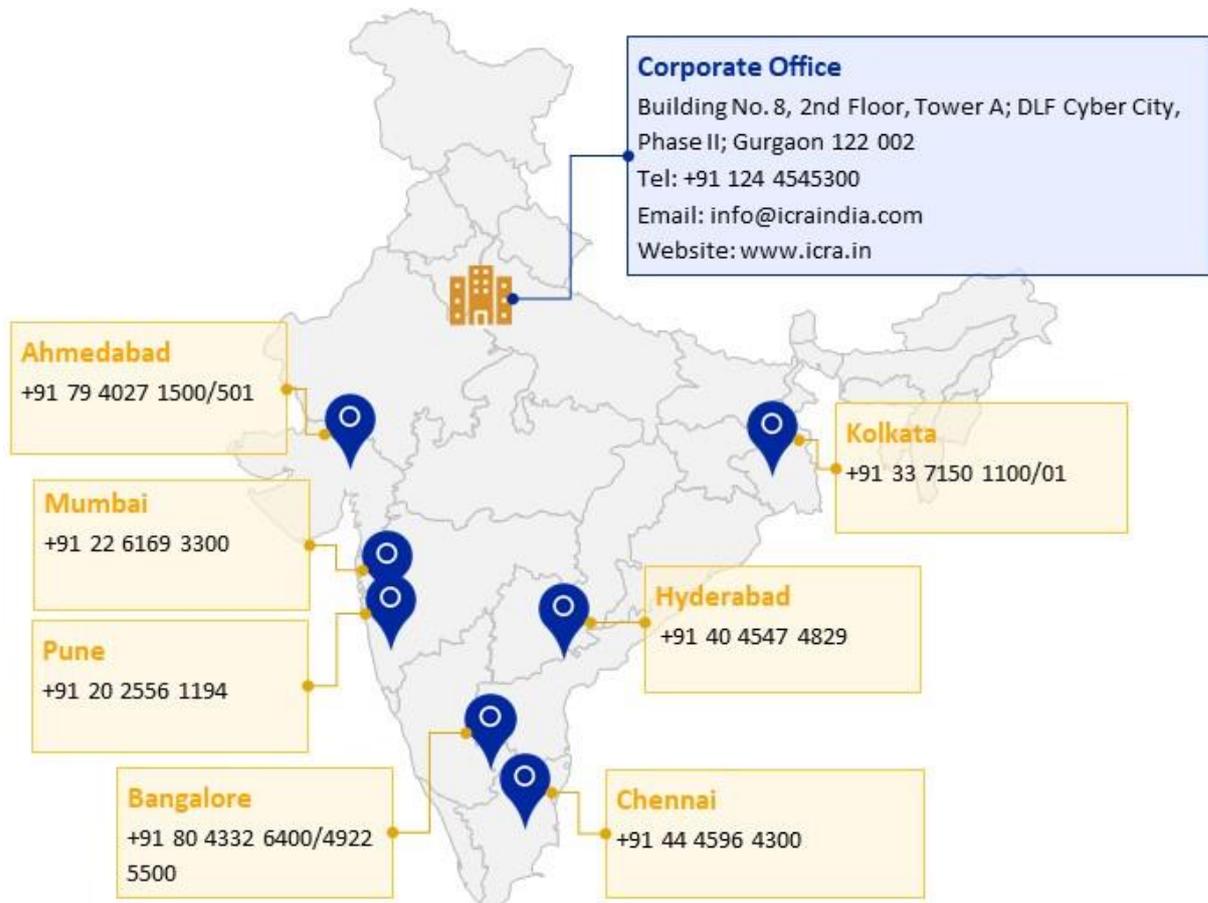
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### Branches



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