ITC Limited
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Enduring Value

2nd August, 2019

The Manager
Listing Department
National Stock Exchange of India Ltd.
Exchange Plaza
Plot No. C-1, G Block
Bandra-Kurla Complex
Bandra (East)
Mumbai 400 051

The General Manager
Dept. of Corporate Services
BSE Ltd.
P. J. Towers
Dalal Street
Mumbai 400 001

The Secretary
The Calcutta Stock Exchange Ltd.
7, Lyons Range
Kolkata 700 001

Dear Sirs,

Unaudited Financial Results – Media Statement

Further to our letter dated 2nd August, 2019 forwarding the Unaudited Standalone and Consolidated Financial Results of the Company for the Quarter ended 30th June, 2019, we now enclose a copy of the Media Statement issued by the Company on the subject.

Yours faithfully,
ITC Limited

(R. K. Singhi)
Executive Vice President &
Company Secretary

Encl. as above.

Enduring Value

cc: Securities Exchange Commission
Division of Corporate Finance
Office of International Corporate Finance
Mail Stop 3-9
450 Fifth Street
Washington DC 20549
U.S.A.

cc: Societe de la Bourse de Luxembourg
35A Boulevard Joseph II
L-1840 Luxembourg

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Enduring Value

Media Statement
August 2, 2019

Standalone Financial Results for the Quarter ended 30th June, 2019

Highlights

Post tax profit for the quarter up 12.6%

- **FMCG-Others Segment Revenue up 8% appx. on a comparable basis amidst sluggish demand conditions.**

  - **Segment EBITDA up 41% to 181 crores** notwithstanding stepped up investments in brand building, gestation and start-up costs of new categories/new facilities.

- **Hotels Segment Revenue up 15% driven by robust performance of new properties, amidst relatively soft demand conditions. While Segment EBITDA grew 18%, additional depreciation pertaining to new properties weighed on Segment Results. ITC Royal Bengal, Kolkata commissioned on 1st June 2019, has received excellent initial response.**

- **Paperboards, Paper & Packaging Segment Revenue up 13% driven by strong growth in Value Added Paperboards segment and product mix enrichment.** Packaging & Printing Business, however, was impacted by slowdown in the FMCG industry and exports.

- In the Agri Business segment, subdued demand for leaf tobacco in international markets, steeper depreciation in currencies of competing origins in recent years, limited trading opportunities in Oilseeds & Pulses and adverse business mix weighed on Segment Results.

The Company posted a steady performance during the quarter amidst sluggish demand conditions. Gross Revenue for the quarter stood at Rs. 11361.35 crores, representing a growth of 6%, driven mainly by Paperboards, Hotels and FMCG-Others (excluding the Lifestyle Retailing Business). Profit after Tax at Rs. 3173.94 grew by 12.6%. Total Comprehensive Income stood at Rs. 2960.93 crores (previous year Rs. 2897.10 crores). Earnings Per Share for the year stood at Rs. 2.59 (previous year Rs. 2.31).

FMCG-Others

The **FMCG-Others Segment** delivered a resilient performance during the quarter amidst a marked slowdown in the FMCG industry across urban and rural markets. Segment Revenue grew by 8% appx. on a comparable basis (excluding the Lifestyle Retailing Business) led by Atta, Potato Chips, Premium Cream Biscuits and Noodles in the Branded Packaged Foods Business, Liquids (Handwash & Bodywash) in the Personal Care Products Businesses and Notebooks in the Education & Stationery Products Business. **Segment EBITDA** at Rs. 181 crores recorded a

growth of 41% despite stepped up investments in brand building, gestation and start-up costs of new categories / new facilities.

The **Branded Packaged Foods Businesses** delivered a steady performance during the quarter, anchored on continued focus on innovative product launches and impactful communication campaigns in conventional and digital media.

- In the **Staples, Snacks and Meals Business**, 'Aashirvaad' atta recorded healthy growth and consolidated its leadership position across markets. The Business launched Aashirvaad Nature's Super Foods, a differentiated range of products comprising Gluten Free Flour, Ragi Flour and Multi-Millet Mix which are naturally gluten free, rich in dietary fibre and a source of protein. Available across select general and modern trade outlets as well as leading e-commerce platforms, the products cater to consumers' nutri-wellness requirements with taste that suits their preferences.

  In the Snacks category, the Business launched 'Bingo! Starters', an innovative range of snacks offering tasty yet healthy everyday snacking options. Available in four exciting variants, Bingo! Starters is completely baked and is a rich source of protein & dietary fibre. In the Instant Noodles category, product portfolio stood augmented with the launch of 'YiPPee! Quik Mealz – Asian Surprise', a first-of-its-kind delicious bowl of noodles designed for on-the-go consumption. The product is currently available on Indigo airlines and has been well received by consumers.

- In the **Confections Business**, Dark Fantasy Choco Fills witnessed further acceleration in growth momentum driven by superior product attributes, focused communication, efficient distribution and consumer activation. The recently launched Bounce Cake variants have recorded robust growth in launch markets and are being rolled out to other markets. Portfolio premiumisation continued in the Confectionery category with higher salience of 'Re. 1 and above' products in the sales mix. Availability of the recently launched 'Candyman Fantastik', a crispy wafer roll filled with luscious choco crème, was expanded further and the product continues to garner increasing consumer franchise.

- In the **Dairy & Beverages Business**, the 'B Natural' range of juices anchored on the '100% Indian Fruit, 0% concentrate' proposition continues to deepen consumer connect by providing a more nutritive and 'natural' tasting experience. The premium range of juices comprising Ratnagiri Alphonso, Himalayan Mixed Fruit and Dakshin Guava in an appealing transparent bottle format, continued to receive excellent response from consumers and is now available in all target markets. 'Aashirvaad Svasti' pouch milk continued to gain strong consumer traction in Bihar and West Bengal where the product is currently available on the back of its high quality standards and superior taste profile. Similarly, the 'Sunfeast Wonderz Milk' range of milk shakes has received encouraging response and is being extended to other markets.

- During the quarter, the 'Fabelle' range of chocolates was augmented with the launch of four exciting variants of centre filled luxury bars, viz., Fire, Wood, Tiramisu and Strawberry Cheesecake. Fabelle continues to receive excellent response from discerning consumers setting a new benchmark in the luxury chocolates segment.

In the **Personal Care Products Business,** Liquids (Handwash and Bodywash) and the 'Nimyle' range of herbal floor cleaners performed well and were extended to new markets. Product range in the Bodywash segment was augmented with the launch of 'Fiama' Scents in two exciting variants. Fiama Scents, a first-to-market product in India, is crafted with fragrance encapsulation

technology which enables long lasting fragrance delivery through skin friendly micro fragrance capsules, which burst on touch or a slight rub. The quarter also witnessed the launch of Fiama Handwash in the premium segment in three refreshing variants and the augmentation of Engage range of perfumes with the launch of 'Engage' L'amante, a premium perfume for men and women.

The Branded Packaged Foods and Personal Care Products Businesses sustained their focus on deepening consumer engagement through refreshed and high decibel campaigns across key brands in the conventional and social media platforms. The Businesses continue to leverage state-of-the-art integrated consumer goods manufacturing facilities (ICMLs) to service proximal markets in a highly efficient and responsive manner. During the quarter, the manufacturing capability of ICML Trichy was augmented with the commissioning of state-of-the-art lines for Finger Snacks, Atta and Biscuits.

The **Education and Stationery Products Business** strengthened its leadership position in the Notebooks category leveraging a pipeline of innovative products of superior quality and enhanced consumer connect. The dedicated manufacturing facility for notebooks being set up in Gollapudi, Andhra Pradesh, is nearing completion. Equipped with state-of-the-art machinery, the facility will enable manufacturing of a range of high quality and differentiated notebooks and drive higher operational efficiencies.

Cigarettes

A punitive and discriminatory taxation and regulatory regime, together with sharp increase in illegal trade in recent years, continues to pose significant operating challenges to the legal cigarette industry in the country. Performance during the quarter was also impacted by weakness in the overall demand environment.

It may be recalled that tax incidence on cigarettes increased by over 20% in 2017-18, representing the combined impact of transition to GST and increase in Excise Duty announced in the Union Budget 2017. It is pertinent to note that the tax incidence on cigarettes has nearly trebled (on a comparable basis) between 2011-12 and 2017-18 and taxes on cigarettes are effectively about 55 times higher than taxes on other tobacco products on a per kg basis.

Excessive taxation has made legal, duty-paid cigarettes in India amongst the costliest in the world in terms of per capita affordability.

The high rates of tax on cigarettes provide attractive tax arbitrage opportunities for illicit trade allowing sale of these cigarettes to consumers at prices much lower than those of duty-paid domestic cigarettes. This has encouraged mushrooming of unscrupulous operators who indulge in clandestine manufacturing of cigarettes across the country and also provided a huge impetus to large-scale smuggling of international brands into the country. Seizures of large quantum of smuggled cigarettes by enforcement agencies across the country over the recent years confirm the growing menace of illegal cigarettes trade in the country. While the legitimate cigarettes industry has declined steadily since 2010-11 at a compound annual rate of over 4% p.a., volume of illegal cigarettes in contrast has grown at nearly 5% p.a. during the same period, making India one of the fastest growing markets for illegal cigarettes in the world. It may be noted that, according to Euromonitor International, India is now the 4th largest market for illegal cigarettes in the world.

The disparity in taxation on tobacco products has caused a progressive migration from consumption of duty-paid cigarettes to other lightly taxed / tax-evaded forms of tobacco products, comprising illegal cigarettes and bidis, chewing tobacco, gutkha, zarda, snuff, etc. As a

consequence, while the share of legal cigarettes in total tobacco consumption in the country has declined considerably over the years, aggregate tobacco consumption has increased during the same period. As a result, despite accounting for merely 10% of the tobacco consumed in the country, duty-paid cigarettes contribute more than 86% of the revenue generated from the tobacco sector. It is estimated that on account of illegal cigarettes alone, the revenue loss to the Government is more than Rs. 13000 crores per annum. In respect of the other tobacco products also, the revenue losses are significant since about 68% of the tobacco consumed in the country remains outside the tax net.

The cost disadvantage faced by duty-paid cigarettes as compared to illegal cigarettes is exacerbated by the fact that duty-paid cigarettes comply fully with provisions of applicable Indian legislation like The Cigarettes and Other Tobacco Products (Prohibition of Advertisement and Regulation of Trade and Commerce, Production, Supply and Distribution) Act, 2003 (COTPA) and bear the statutorily mandated pictorial and textual warnings covering 85% of the surface area of the packet (one of the largest in the world). On the other hand, the smuggled illegal cigarettes do not bear any such pictorial or textual warnings or bear much smaller pictorial warnings as per the tobacco laws of the countries from where these cigarettes are sourced. As reported in prior periods, findings from research conducted by IMRB International, an independent market research organisation, show that the lack of pictorial warnings on packets of smuggled cigarettes or their diminutive size creates a perception in the consumer's mind that smuggled cigarettes are 'safer' than domestic duty-paid cigarettes that carry the 85% pictorial warnings. Along with low prices to consumers (enabled through tax evasion), this has opened the floodgates for contraband cigarettes.

It is pertinent to note that several other major tobacco producing countries, including the USA, have framed regulatory frameworks for tobacco taking into consideration the economic interests of their tobacco farmers and decided not to adopt large or excessive pictorial warnings. The inadvertent and unforeseen consequence of the stringent Indian tobacco regulations is one of continuing losses to the Indian tobacco farmer with corresponding gains to tobacco farmers in the countries that have opted for moderate and equitable tobacco regulations. These developments have had a devastating impact on the Indian tobacco farmer and the 46 million dependent on the tobacco value chain for their livelihood.

In India, cigarettes are manufactured largely using Flue Cured Virginia Tobacco (FCV) which is grown in the states of Andhra Pradesh, Telangana and Karnataka. FCV tobaccos are also traded internationally and India is an exporter of this commodity. Since smuggled international brands of cigarettes do not use Indian tobaccos, in addition to revenue losses, the growth of the illegal cigarette trade has also resulted in a drop in demand for Indian FCV tobaccos in the domestic market. This decline in domestic demand, together with lack of export opportunities (favourable prices of competing origins and lower Indian crop) has adversely impacted earnings of the Indian tobacco farmer. It is estimated that in the four years since 2013-14, Indian tobacco farmers have suffered a cumulative drop in earnings of over Rs. 4000 crores. Ensuring stability in domestic demand will aid in cushioning the impact of any volatility in the international markets.

As in the past, your Company continues to make representations to policy makers for equitable, non-discriminatory, pragmatic, evidence based regulations and taxation policies that balance the economic imperatives of the country and the tobacco control objectives, cognising for the unique tobacco consumption pattern in India. While stability in taxes since the introduction of GST in July 2017 has provided some relief to the legal cigarette industry, it is pertinent to note that the legal cigarette industry volumes remain significantly below June 2014 levels. Moderation in taxes is critical for addressing the interests of all the stakeholders of this industry, including the tobacco farmers, the Exchequer and the consumers.

The Company's unwavering focus on nurturing a portfolio of world-class products, superior consumer insights and a strategy of continuous innovation and value creation helped deliver superior competitive performance. Deep consumer insights and a robust innovation pipeline enabled the Business to introduce new variants catering to the continuously evolving consumer preferences. These include Classic Rich & Smooth, Classic Verve Low Smell and Gold Flake NEO which have received positive response in the market. Similarly, recently introduced brands/variants such as American Club, Player's Gold Leaf and Wave continue to strengthen their market standing.

Hotels

The Business recorded a steady performance with Segment Revenue growing by 15% during the quarter driven by the recently commissioned hotels - ITC Kohenur, Hyderabad and ITC Grand Goa, Resort & Spa, Goa. These new hotels in the ITC Hotels portfolio continue to receive excellent reviews from discerning guests, raising the bar of service excellence. However, the performance of existing hotels was relatively subdued due to slowdown in the conferences and banqueting segment. While Segment EBITDA posted strong growth of 18%, additional depreciation charge pertaining to the new properties weighed on Segment Results.

The Business unveiled its latest offering with the opening of first phase of ITC Royal Bengal, a Luxury Collection Hotel, comprising 254 rooms along with five signature restaurants, on 1st June, 2019. The property has received excellent initial response from discerning guests. The Business made **steady progress during the quarter in the construction of an ITC Hotel in Ahmedabad and WelcomHotels in Amritsar, Guntur & Bhubaneswar.**

Agri Business

In line with its focus on strengthening the value-added products portfolio, the Business launched attribute-based maida in the food service channel suited for bakery and pizza products. The recent foray into the Frozen Snacks segment under the 'ITC Master Chef' brand, buoyed by encouraging consumer response, continues to be scaled up. However, lack of trading opportunities in Oilseeds and Pulses, subdued demand for leaf tobacco in international markets, relatively steeper depreciation in currencies of competing origins in recent years and adverse business mix weighed on Segment Results.

The deep rural linkages and agri-commodity sourcing expertise resident in the Agri Business, including value-addition through identity preservation, traceability and certification are a critical source of competitive advantage for the Company. During the quarter, the Business established a robust milk sourcing network in West Bengal to cater to the increasing requirements on the back of the growing franchise of the Aashirvaad Svasti range of dairy products. The Business continues to step up initiatives in the area of value-added agriculture to create new vectors of growth by leveraging its agri-commodity sourcing and processing expertise and the strong distribution network of the Company.



Paperboards, Paper & Packaging

The Paperboards Business continued to record robust growth driven by strong volume growth in the Value Added Paperboard segment and product mix enrichment. However, growth in the Packaging & Printing Business was impacted due to sluggish demand conditions in the FMCG industry and exports. Segment Results registered a healthy growth driven by product mix enrichment, higher realisation, strategic investments in imported pulp substitution and benefits of a cost-competitive fibre chain.

Capacity utilisation of the recently commissioned facilities, viz., Value Added Paperboard machine, Bleached Chemical Thermo Mechanical Pulp mill and Décor machine, was further ramped up during the quarter. The Business continues to make structural interventions in the areas of strategic cost management and import substitution towards enhancing its market standing and competitive advantage.

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 is given in the table below:

Intervention Areas	Unit of Measurement	Cumulative till date
Social and Farm Forestry	Lakh Acres	**7.34**
Soil and Moisture Conservation Programme	Lakh Acres	**10.68**
Sustainable Agricultural Practices		
Compost Units	Number	**41,048**
Sustainable Livelihoods Initiative		
Cattle Development Centres	Number	**141**
Animal Husbandry Services	Artificial Inseminations (in lakhs)	**23.88**
Economic Empowerment of Women		
Ultra Poor Women covered	Number	**23,710**
Self Help Group Members	Number	**43,195**
Livelihoods created	Number	**65,053**
Primary Education		
Children covered	Number (in lakhs)	**7.02**
Health and Sanitation		
Low Cost Sanitary Units	Number	**36,492**
Households covered under Solid Waste Management	Number	**215,581**
Vocational Training		
Students Enrolled	Number	**70,755**

The Board of Directors, at its meeting in Hyderabad on 2nd August, 2019, approved the financial results for the quarter ended 30th June, 2019, which are enclosed.

(Nazeeb Arif)
Executive Vice President
Corporate Communications