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## Rating Rationale

June 30, 2020 | Mumbai

### ITC Limited

*Ratings Reaffirmed*

#### Rating Action

Total Bank Loan Facilities Rated	Rs.1750 Crore
Long Term Rating	CRISIL AAA/Stable (Reaffirmed)
Short Term Rating	CRISIL A1+ (Reaffirmed)

1 crore = 10 million

Refer to annexure for Details of Instruments & Bank Facilities

#### Detailed Rationale

CRISIL has reaffirmed its ratings on the bank facilities of ITC Limited (ITC) at 'CRISIL AAA/Stable/CRISIL A1+'.

The ratings continue to reflect an excellent business risk profile due to a presence in diverse businesses, a dominant position in the Indian cigarette market, and strong sustainable profitability. The ratings also factor in an exceptionally strong financial risk profile. These rating strengths are partially offset by exposure to risks inherent in the various businesses.

#### Analytical Approach

CRISIL has combined the business and financial risk profiles of ITC and its subsidiaries, step down subsidiaries, associates, and joint ventures (JVs) because of significant business and financial linkages.

Please refer Annexure - List of Entities Consolidated, which captures the list of entities considered and their analytical treatment of consolidation.

#### Key Rating Drivers & Detailed Description

##### Strengths:

##### \* Dominant position in the Indian cigarette industry

A strong brand, a wide product portfolio, an established distribution network, and robust research and development capability have enabled the company to consolidate its position as the leader in the Indian cigarettes market. The strong brand loyalty of cigarette smokers is reflected in the sustained market share and profitability over the years, notwithstanding the increase in duties. Cigarettes are also exported to the US and the Middle East.

##### \* Healthy revenue diversity

ITC has evolved from a pure tobacco company into a well-diversified business conglomerate, with a strong presence in paperboards, printing and packaging, agricultural commodities, hotels, branded packaged foods, personal care products, branded apparel, stationery, safety matches, *agarbatti* (incense sticks), and other fast-moving consumer goods (FMCGs). It has also added luxury chocolates, ghee, dairy and frozen food products to its branded packaged foods segment. Acquisition of Sunrise Foods Pvt Ltd (SFPL; rated 'CRISIL A/Watch Positive/CRISIL A1') is expected to strengthen its market position in spices segment and further improve diversity.

##### \* Strong financial risk profile

Healthy internal cash accrual, low debt, and robust liquidity have strengthened the financial risk profile. For fiscal 2020, the consolidated operating margin was 39% (38.3% in fiscal 2019). Debt was minimal at around Rs 7 crore, against a large tangible networth of over Rs 64,900 crore as on March 31, 2020. Liquidity was exceptionally strong because of cash and liquid investments (bonds, debentures, mutual funds, and bank deposits) of over Rs 35,600 crore as on March 31, 2020. Consequently, a significant part of the expansion plans and acquisition of SFPL is expected to be funded through internal cash accrual of over Rs.5000 crore per fiscal (net of dividend payout) and available liquidity.

##### Weakness:

##### \* Exposure to regulatory risk in the cigarette business, and vulnerability of other business segments to economic cycles

Regulatory risks in the cigarette business include increase in taxes, and there are competitive pressures in the FMCG segment. These risks are partially offset by the focus on building cost efficiency, and strong backward integration in the cigarette business through the leaf tobacco and packaging businesses, and also in the agricultural commodity and packaged food business through the *e-choupal* initiative.

##### Liquidity Superior

Liquidity is superior, driven by expected cash accrual of over Rs.5000 crore per fiscal (net of dividend payout) in fiscals 2021 and 2022 and cash and cash equivalents of over Rs. 35,600 crore as on March 31, 2020. Long-term debt is also negligible. Cash accrual should be sufficient to finance capex and working capital requirement over the medium term.

##### Outlook: Stable

CRISIL believes ITC will maintain its robust financial risk profile and strong market position in the various segments in which it operates, over the medium term.

#### Rating Sensitivity Factors

##### Downward Factors

- \* Large, debt-funded capital expenditure (capex) or acquisition, adversely impacting the financial risk profile with the gearing increasing to above 0.5 time.
- \* Any adverse impact of changes in regulations in the cigarette industry
- \* Considerable decline in cash and liquid investments.

**About the Company**

ITC operates in a variety of business segments, including cigarettes, paperboards, printing and packaging, agricultural commodities, hotels, branded packaged foods, personal care products, branded apparel, stationery, safety matches, *agarbatti*, and other FMCGs. However, cigarette manufacturing and sales remain its largest economic activity in revenue terms.

**Key Financial Indicators (Consolidated)**

As on/for the period ended March 31	Units	2020	2019
Operating income	Rs crore	49,404	48,353
Profit after tax (PAT)	Rs crore	15,593	12,836
PAT margin	%	31.6	26.5
Adjusted debt/Adjusted networkth	Times	0.00	0.00
Interest coverage	Times	352.23	259.53

**Any other information:** Not applicable

**Note on complexity levels of the rated instrument:**

CRISIL complexity levels are assigned to various types of financial instruments and are included (where applicable) in the Annexure -- Details of Instrument in this Rating Rationale. For more details on the CRISIL complexity levels, please visit [www.crisil.com/complexity-levels](http://www.crisil.com/complexity-levels).

**Annexure - Details of Instrument(s)**

ISIN	Name of Instrument	Date of Allotment	Coupon Rate (%)	Maturity Date	Issue Size (Rs.Crore)	Complexity Level	Rating Assigned
NA	Long Term Bank Facility*	NA	NA	NA	1000.0	NA	CRISIL AAA/Stable
NA	Short Term Bank Facility**	NA	NA	NA	750.0	NA	CRISIL A1+

\*Interchangeable between cash credit limit, working capital demand loan, export packing credit (rupee and foreign currency), inland bill discounting, short-term line of credit, packaging credit, and forwarding credit.

\*\*Interchangeable between letter of credit and bank guarantee.

**Annexure - List of Entities Consolidated**

Names of Entities Consolidated	Extent of Consolidation	Rationale for Consolidation
ITC Infotech India Limited	100%	Wholly-owned subsidiary
ITC Infotech Limited (100% subsidiary of ITC Infotech India Limited)	100%	Step down subsidiary
ITC Infotech (USA), Inc. (100% subsidiary of ITC Infotech India Limited)	100%	Step down subsidiary
Indivate Inc. ( 100% subsidiary of ITC Infotech (USA), Inc.)	100%	Step down subsidiary
Surya Nepal Private Limited	100%	59% Subsidiary
Technico Pty Limited	100%	Wholly-owned subsidiary
Technico Agri Sciences Limited	100%	Wholly-owned subsidiary
Technico Technologies Inc. (100% subsidiary of Technico Pty Limited)	100%	Step down subsidiary
Technico Asia Holdings Pty Limited (100% subsidiary of Technico Pty Limited)	100%	Step down subsidiary
Technico Horticultural (Kunming) Co. Limited (100% subsidiary of Technico Asia Holdings Pty Limited)	100%	Step down subsidiary
Srinivasa Resorts Limited	100%	68% Subsidiary
Fortune Park Hotels Limited	100%	Wholly-owned subsidiary
Landbase India Limited	100%	Wholly-owned subsidiary
Bay Islands Hotels Limited	100%	Wholly-owned subsidiary
WelcomHotels Lanka (Private) Limited	100%	Wholly-owned subsidiary
Russell Credit Limited	100%	Wholly-owned subsidiary
Greenacre Holdings Limited (100% subsidiary of Russell Credit Limited)	100%	Step down subsidiary
Wimco Limited	100%	98.21% Subsidiary
Gold Flake Corporation Limited	100%	Wholly-owned subsidiary
ITC Investments & Holdings Limited	100%	Wholly-owned subsidiary
MRR Trading & Investment Company Limited (100% subsidiary of ITC Investments & Holdings Limited)	100%	Step down subsidiary
North East Nutrients Private Limited	100%	76% Subsidiary
Prag Agro Farm Limited	100%	Wholly-owned subsidiary
Pavan Poplar Limited	100%	Wholly-owned subsidiary
Espirit Hotels Private Limited	26%	Joint Venture
Logix Developers Private Limited	27.90%	Joint Venture
ITC Essentra Limited (joint venture of Gold Flake Corporation Limited)	50%	Joint Venture
Maharaja Heritage Resorts Limited	50%	Joint Venture
International Travel House Limited	48.96%	Associate
Russell Investments Limited	25.43%	Associate
Gujarat Hotels Limited	45.78%	Associate
Divya Management Limited	33.33%	Associate
ATC Limited	47.50%	Associate
Antrang Finance Limited	33.33%	Associate

**Annexure - Rating History for last 3 Years**

Instrument	Current		2020 (History)		2019		2018		2017		Start of 2017	
	Type	Outstanding Amount	Rating	Date	Rating	Date	Rating	Date	Rating	Date	Rating	Rating
<b>Fund-based Bank Facilities</b>	LT/ST	1750.00	CRISIL AAA/Stable/ CRISIL A1+			17-09-19	CRISIL AAA/Stable/ CRISIL A1+	20-09-18	CRISIL AAA/Stable/ CRISIL A1+	24-10-17	CRISIL AAA/Stable/ CRISIL A1+	CRISIL AAA/Stable/ CRISIL A1+

All amounts are in Rs.Cr.

**Annexure - Details of various bank facilities**

Current facilities			Previous facilities		
Facility	Amount (Rs.Crore)	Rating	Facility	Amount (Rs.Crore)	Rating
Long Term Bank Facility*	1000	CRISIL AAA/Stable	Long Term Bank Facility*	1000	CRISIL AAA/Stable
Short Term Bank Facility**	750	CRISIL A1+	Short Term Bank Facility**	750	CRISIL A1+
<b>Total</b>	<b>1750</b>	<b>--</b>	<b>Total</b>	<b>1750</b>	<b>--</b>

\*Interchangeable between cash credit limit, working capital demand loan, export packing credit (rupee and foreign currency), inland bill discounting, short-term line of credit, packaging credit, and forwarding credit.

\*\*Interchangeable between letter of credit and bank guarantee.

<b>Links to related criteria</b>
<a href="#">CRISILs Approach to Financial Ratios</a>
<a href="#">CRISILs Bank Loan Ratings - process, scale and default recognition</a>
<a href="#">Rating criteria for manufacturing and service sector companies</a>
<a href="#">Rating Criteria for Fast Moving Consumer Goods Industry</a>
<a href="#">CRISILs Criteria for Consolidation</a>

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