

# A CASE STUDY ON ITC: FMCG LEADING PROGRESSIVE NORMALISATION IN THE POST COVID -19 PHASE

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## Abstract

The economic slowdown and suppressed demand due to the pandemic is witnessed in almost all the sectors till now. FMCG is seen as the least and the last to suffer during any economic crisis, however this sector also has not been spared this time. The present study is therefore taken up to understand the disorder in the FMCG sector by probing into financial performances and projections of ITC Ltd.

The objective is to examine whether this sector is able to manage the risks of the crisis in all the segments as efficiently as others and able to cope up in terms of quantitative returns. The study focuses on the key financial indicators (overall as well as segmental) of the quarter 2 ended September, 2020 and few projections for March 2021. The data is collected from secondary sources. It is based on comparative analysis of variances and the findings are depicted in the form of tables.

The study concludes that the pandemic has impacted certain business segments adversely and gave a boost to others. In case of ITC Ltd., the overall negative impact of the crisis is diluted as the weak performance of certain segment is wiped off by the strong performance of the other segments.

**Key words: Fast Moving Consumer Goods-FMCG, diversified business, Segmental results, Crisis of Covid -19**

## 1. Introduction

Covid-19 pandemic has triggered an economic crisis which has resulted in substantial erosion of market capitalization across the globe. International Monetary Fund (IMF) has projected crisis global economic growth as -4.9%, and the industries growth rate to go down by 6% to 7% (Report of ITC Ltd., <http://capitaline.com>)

FMCG sector performs well even during downturns. Very few other industries can claim of having a consistent track record performance as FMCG. According to the report of Manoj Menon, senior analyst at Kotak Institutional Equities, on FMCG sector in India, the consumer sector typically is the least and the last to suffer during a slack. (Menon, 2012) However, the crisis of Pandemic has been a hard hit for FMCG too.

How the pandemic has affected the financials of FMCG? Is this sector as resilient to the crisis as it was to many such economic turmoils? Whether diversified business could dilute the impact of the crisis.

ITC Ltd. is a leading diversified corporate representing FMCG sector in India with diversified business in Tobacco, PCPB, Hotels, Agri. business, Paper products etc. The effect of Covid-19 was not much in the initial stage, but later, with the world wide blasts of the pandemic, ITC Ltd. got affected significantly.

“The company posted a 20% fall in standalone net profit to ₹ 3232.40 cr. in Q2 September 2020 from ₹ 4023 cr. reported in Q2 September 2019. Net sales fell 3.81% to ₹ 11,098.24 cr. in Q2 FY21 over Q2 FY20.” (Report of ITC Ltd., <http://capitaline.com>)

This research paper gives an insight in to the performance of ITC Ltd. with respect to Revenues, EBITDA, EBIT and EAT since September 2019 till September 2020, to understand the impact after the outbreak of the crisis and the change in overall as well as the segmental financial results.

## 2. Objectives

- 1) To understand and analyse the impact of diversified business on financials of FMCG sector during crisis with respect to ITC Ltd.
- 2) To compare the actual financial results of Q2 and Q4 ending on September 2020 and March 2021 with corresponding Q2 and Q4 of September 2019 and March 2020 of ITC Ltd.
- 3) To examine whether the diversified business of ITC Ltd. with varied segmental performance could dilute the overall negative returns during the crisis.

## 3. Methodology

The present study is analytical in nature. It is a comparative analysis of factual and projected financial indicators and it is based on the case study approach.

### 3.1 Source of data

The data is collected mainly through professional Data base viz. Capitaline and secondary sources like Annual Reports, Journals, Newspapers, company websites, and other relevant links.

### 3.2 Sample

An Indian conglomerate, ITC Ltd. representing third largest company in the FMCG sector in India. has been selected and analysed overall and segment wise.

### 3.3 Period

The period under study is September 2019 (Q2 of 2019-2020), March 2020 (Q4 of 2019-2020), September 2020 (Q2 of 2020-2021) and for March 2021 ( Q4 of 2020-2021)

### 3.4 Analysis

Analysis of the data is done by comparing quarterly results available. The data is presented through relevant tables.

## 4. Limitations

- The scope of the study is limited to a single sample company representing FMCG sector
- This study is relevant for a specific current situation so it may not be applicable when the economy reverts to normalcy.

- The analysis is purely based on quantitative details, the qualitative aspects and its impact are not considered.

## 5. Need

Crisis disrupts a large part of everybody's life styles and suppresses the demand of even the consumer goods. At the same time, it opens up scope for newer opportunities. FMCG is a sector, which can turn the adversities into opportunities. The present study is proposed to get insight into the financial situation in this sector during crisis and where it needs to focus to overcome such crisis.

The focus of the study therefore is on understanding and analysing the impact of diversified business on financials of FMCG sector with respect to the overall and segmental results of ITC Ltd.

## 6. Background of the study (Literature Review)

- (Garg, 2020) Reports that Covid-19 pandemic has stifled the corporate performances and changed the lifestyles, at the same time it has opened up unprecedented opportunities. This can work effectively for the FMCGs, where the goods move very quickly through the value chains, provided the constant innovation is a part of business strategy.
- (Koncar, Aleksandar, & Vucenovic, 2020) The researchers in Serbia emphasises on WHO's policy of lockdown as the major challenge for disruption in FMCG supply chains. The study aims to analyse the setbacks to the digitalisation and the sustainability of the FMCG supply chains based on the implementation of IOT.
- (Leone, Elizabeth Racine, & Barbara Baquero, 2020) This research paper reflects the effects of pandemic on retail food environment and consumer behaviour. It reports that in US the pandemic has changed the patterns of distribution, sales, purchase, preparation and consumption of food. To understand, describe and overcome this, the FMCGs have started working with Retail Food Environment and Customer Interaction Model.
- (Hossain, Polas, & Jamadar, 2020) The researchers tried to explore the impact and consequences of Covid-19 on FMCG Industry in Bangladesh. On the basis of qualitative data analysis and focused group discussion. The study concluded that there a significant negative impact of the pandemic on this sector in Bangladesh.
- (Nielsen, 2020) States that the FMCGs are badly knocked out by Covid-19, depicting the slowest growth in last four years. Further it is projected that after the lowest volume performance in Q4 in the last decade- the worst is yet to be seen. This sector is expected to see flat growth in 2020 due to extended lockdowns
- (Riley, June 2010) Observed that the economy keep swinging between optimism and pessimism. The study propagates that some sectors, especially FMCG and Pharma can

survive any challenge. Even in the adverse circumstances there can be opportunity for value play for these sectors, provided it is combined with discipline and patience.

Reviewing the above, it is observed that FMCG sector can survive any challenges and is independent of business cycle. (Rawal, 2005) (Riley, June 2010). Contradicting with these the recent studies, which are conducted in India, US, Bangladesh and Serbia analyse and state that how significantly and negatively the pandemic has impacted FMCG sector across the globe.

However the present study examines the segmental performance of FMCG where the negative impact on certain segments is wiped off by the strong performance of the other segments so that the negative impact is subdued.

## 7. Findings and Analysis:

From the data collected through secondary sources following tables are prepared and analysed as under.

**Table 7.1**  
**Key Financial Indicators for Q2- 2019 and Q2- 2020**

(₹ in cr.)

Particulars	Sept' 2019 ₹	Sept' 2020 ₹	Difference ₹	Variance % (GOLY)
Net Sales	25,291.75	23,501.57	-1,790.18	-7.08
Other Income	1,277.17	1507.38	230.21	18.03
EBITDA	11,056.98	8,853.94	-2203.04	-19.92
EBT	10,233.63	8,001.26	-2232.37	-21.81
EAT	7,610.23	5,985.76	-1,624.47	-21.35

(Prepared by the researcher) (Source – Capitaline Database)

### Observation and Interpretation:

Table 7.1 compares the key financial indicators for the quarter ended Sept' 2020 with the corresponding previous year's period, i.e. Sept'2019. ITC's net sales fell down by 7.08 % to ₹ 23,501.57 Cr., compared to the corresponding previous year period. Company's operating margins (EBITDA) has been decreased by 19.92 %. As a result Earning after Tax (EAT) fell by 21.35% to ₹ 5985.76 cr. Normally FMCG sector shows consistent growth in returns of about 22 % every year, irrespective of the downswing of market or any other economic crisis. (Menon, 2012) If that is compared, the actual reduction in growth of returns is about 40% to 42%. Therefore negative effects of Covid-19 are seen very clearly.

**Table 7.2**  
**Key Financial Indicators for Q4- 2019-2020 and Projections for Q4-2020-2021**  
(₹ in cr.)

Particulars	March 2020 ₹	March 2021 ₹	Difference ₹
Net Sales	49,404.05	45111.81	-4292.24
Other Income	2,606.11	3250.99	644.88

EBITDA	21,760.86	18,773.49	-2987.37
EBT	20,034.57	17,164.19	-2870.38
EAT	15,448.11	13031.68	-2416.43

(Prepared by the researcher) (Source – Capitaline Database)

Observation and Interpretation:

Table 7.2 compares the actual figures of Q4 of 2019-2020 (March 2020) with the actual figures of the corresponding period. As per the results it is seen that except Other Income, rest all segments are showing negative impact on key financial indicators. The EBITDA, EBIT and EAT are adversely affected ranging between 13% to 16%.

**Table 7.1 and 7.2 accomplish objective 2**, i.e. to compare the actual financial results of Q2 and Q4 ending on September 2020 and March 2021 (projected) with corresponding Q2 and Q4 of September 2019 and March 2020 of ITC Ltd.

**Table 7.3**

**Segment wise Revenue for Q4 2019-2020, Q2 – 2020-2021 and Q4 2020-2021** (₹ in cr.)

	March' 2020 ₹	Sept' 2020 ₹	March' 2021 ₹	Variances % (GOLY)
FMCG – Cigarettes	23,679.13	9,457.72	19,675.69	-16.91
FMCG- Others	12,875.08	7,309.47	14,880.72	+15.58
Hotels	1,926.44	112.65	253.07	-86.86
Agri. business	10,453.87	6,805.4	11,299.71	+8.09
Paper boards, Paper and packaging	6,107.18	2,585.11	4,906.97	-19.65
Others	2,262.77	1,136.27	2,417.32	+6.83
Total	57,304.47	27,406.62	53,433.48	-6.76

(Prepared by the researcher) (Source – Capitaline Database)

**Table 7.4**

**Segment wise EBIT for Q4 2019-2020, Q2 – 2020-2021 and Q4 2020-2021** (₹ in cr.)

	March' 2020 ₹	Sept' 2020 ₹	March' 2021 ₹	Projected Variances % (GOLY)
FMCG – Cigarettes	15,838.46	5944.44	11506.79	-27.35
FMCG- Others	424.94	411.91	1,018.07	+139.58
Hotels	154	-451.36	-2,590.73	-1782.29
Agri. business	829.74	448.93	825.60	-0.50
Paper boards, Paper and packaging	1305.33	490.4	933.59	-28.48
Others	290.95	243.79	486.15	+67.09
Total				

Observation and Interpretation:

Table 7.3 and Table 7.4 enumerate segmental analysis of Revenues and Earnings before Interest and tax (EBIT). This analysis is very crucial as it would depict the actual performance of each product segment and help to understand that though the overall net sales is -7.08% ; segmental results are different. They are shocking especially in case of hotels, cigarettes and

paper boards, which are showed in terms of EBIT as -1782.29%, -27.35% and -28.48% respectively. The downfall in case of these segments turned out to be substantially high especially in hotels; Yet the increase in revenue and EBIT of FMCG – Others driven by staples, health and hygiene products or the convenience foods were quite strong i.e. about 139.58 % and Others at 67.09% which could dilute the overall negative results to some extent. If the performance of segment-hotel is ignored completely, the negative results could be completely wiped off.

**This accomplishes objective 3**, i.e. ‘To examine whether the diversified business with varied segmental performance could dilute the overall negative returns.

- 1) **Objective 1**, i.e ‘To understand and analyse the impact of diversified business on financials of FMCG sector during the crisis with respect to ITC Ltd.

## 8. Conclusion

The study concludes that the crisis of Covid-19 stifled the company’s performance during the quarter 2 of 2020-21. Certain segments like FMCG- Others, Agri. business & others fared well but some of the segments failed to resist massive down turn and losses. Hotels, Cigarettes and Paper boards & Packaging businesses are impacted the most.

In the present case study, FMCG-Others, which performed strong, could not make over the losses on account other segments. The negative impact could not be completely wiped off, though diluted. By observing projections it can be said that other than the hotel business, all other operating segments showed progressive normalization.

## 9. Recommendations:

- Some segments of ITC Ltd. may take a back seat for a while. In that case the company may take leverage on the segments, where recovery momentum in these segments is higher compared to other segments.
- The company may fast-track the volume in case of staples, health and hygiene products, and reposition company’s brand through introducing a vigorous portfolio of significant and innovative products.
- Company may consider customer experience, insights, personalization, price cuts, lucrative offers and creating value proposition through analytics – driven sales and appropriate products. The company can set up Customer Interaction Model as suggested by (Leone, Elizabeth Racine, & Barbara Baquero, 2020)
- ITC Ltd. acquired Sunrise Foods Private Limited recently. The company may think such acquisitions to increase the market share in other segments too.

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