

In-line result
Summary

ITC Limited (ITC) reported in-line results. Overall business witnessed strong recovery in discretionary and out of home products which grew 23%YoY (vs 5% decline in 3QFY21) while health, hygiene and food portfolio grew 13%YoY. Cigarettes business also witnessed continued recovery (volumes reached pre-covid levels towards the end of Mar'21) driven by progressive easing of restriction and increased mobility. Revenue growth of agri and paperboards, paper and packaging segment also remained very strong. Hotel business after breaking even in 3QFY21 recorded positive EBITDA of Rs 250mn in 4QFY21 driven by cost interventions and business recovery. On margins; except FMCG-non-cigarette business, all other segments witnessed operating profit margin contraction YoY. Broadly we maintain our previous estimates for FY22-23E and target price at Rs 275. We maintain our BUY rating on the stock due to in-expensive valuation.

Key Highlights and Investment Rationale

- Topline better than expected driven by recovery in discretionary and out of home**
 Revenue grew 23%YoY on a lower base (4QFY20 revenue declined 11%YoY). This was driven by 14% YoY growth in Cigarette business (volumes touched pre-covid levels at the close of the year) followed by 16%YoY in FMCG, 79%YoY in Agri Business, and 14%YoY growth in Paper board and packaging business. Revenue from Hotel business declined 38%YoY. Recovery in hotel business is better than expected aided by higher occupancy and F&B business.
- Operating profit margin declines**
 Gross and EBITDA margin contracted 819bp (to 54%) and 476bp (to 33.6%) respectively. EBITDA grew 7%YoY after 4 consecutive quarter of decline. However, PAT declined 1%YoY due to higher effective tax rate in 4QFY21 (at 23%) vs 16% in 4QFY20.
- Maintain previous estimates and BUY rating**
 We broadly maintain our previous estimates. We maintain our BUY rating on the stock with SOTP based target price of Rs 275 implying a P/E multiple of 20x on FY23EPS.

TP	Rs275
CMP	Rs215
Potential upside / downside	+28%
Previous Rating	BUY

V/s Consensus

EPS (Rs)	FY22E	FY23E
IDBI Capital	12.8	14.0
Consensus	13.1	14.2
% difference	(2.4)	(1.7)

Shareholding Pattern (%)

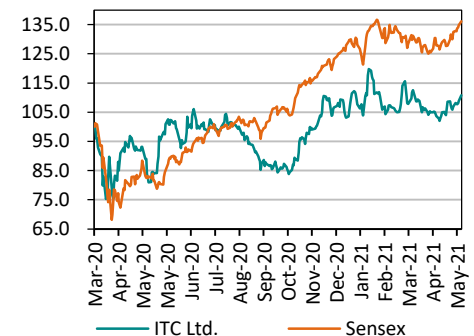
Promoters	0.0
FII	12.8
DII	38.7
Public	48.5

Price Performance (%)

	-1m	-3m	-12m
Absolute	6.2	2.5	9.0
Rel to Sensex	(0.3)	1.6	(51.2)

Key Stock Data

Bloomberg / Reuters	ITC IN / ITC.BO
Sector	FMCG
Shares o/s (mn)	12,309
Market cap. (Rs mn)	2,648,863
Market cap. (US\$ mn)	36,336
3-m daily average value (Rs mn)	3,100.5
52-week high / low	Rs 239 / 163
Sensex / Nifty	51,935 / 15,575

Relative to Sensex (%)

Financial snapshot

Year	FY19	FY20	FY21E	FY22E	FY23E
Revenue	457,844	456,197	451,764	527,584	580,426
EBITDA	173,055	179,044	154,616	195,796	216,303
EBITDA (%)	37.8	39.2	34.2	37.1	37.3
Adj. PAT	124,643	151,362	129,864	157,430	172,809
EPS (Rs)	10.2	12.3	10.6	12.8	14.0
EPS Growth (%)	10.4	21.1	(14.3)	21.2	9.8
PE (x)	21.2	17.5	20.5	16.9	15.4
Dividend Yield (%)	2.4	2.7	7.0	4.9	5.3
EV/EBITDA (x)	15.1	14.4	16.9	13.3	12.0
RoE (%)	22.8	24.8	21.1	26.1	27.3
RoCE (%)	28.1	25.9	21.8	28.3	30.0

Source: Company; IDBI Capital Research

Exhibit 1: Standalone Quarterly Snapshot

(INR m)	Q4FY21	Q4FY20	YoY (%)	Q3FY21	QoQ (%)	FY21	FY20	YoY (%)
Revenues	1,32,947	1,08,422	22.6	1,17,874	12.8	4,51,764	4,56,197	-1.0
COGS	60,762	40,671	49.4	50,131	21.2	1,97,731	1,72,351	14.7
Gross profit	72,185	67,752	6.5	67,743	6.6	2,54,034	2,83,845	-10.5
<i>Gross Margin (%)</i>	54.3	62.5	-819 bps	57.5	-317 bps	56.2	62.2	-599 bps
Employee expenses	7,356	6,665	10.4	7,201	2.1	28,136	26,582	5.8
<i>% of net sales</i>	5.5	6.1	-61 bps	6.1	-58 bps	6.2	5.8	40 bps
Other Expenses	20,099	19,450	3.3	17,729	13.4	71,282	78,220	-8.9
<i>% of net sales</i>	15.1	17.9	-282 bps	15.0	8 bps	15.8	17.1	-137 bps
EBITDA	44,730	41,636	7.4	42,814	4.5	1,54,616	1,79,044	-13.6
<i>EBITDA Margin (%)</i>	33.6	38.4	-476 bps	36.3	-268 bps	34.2	39.2	-502 bps
Depreciation	3,880	3,925	-1.2	3,909	-0.8	15,596	15,633	-0.2
EBIT	40,851	37,711	8.3	38,904	5.00	1,39,020	1,63,411	-14.9
Other Income	7,720	7,555	2.2	9,710	-20.5	32,497	30,137	7.8
Interest Expenses	31	147	-78.7	138	-77.2	475	557	-14.8
PBT	48,539	45,120	7.6	48,476	0.1	1,71,043	1,92,990	-11.4
Taxes	11,055	7,148		11,848		41,179	40,308	
Adjusted PAT	37,484	37,972	-1.3	36,629	2.3	1,29,864	1,52,683	-14.9
Extra-ordinary items	0	0		0		0	-1,321	
Reported PAT	37,484	37,972	-1.3	36,629	2.3	1,29,864	1,51,362	-14.2
EPS	3.05	3.09	-1.4	2.98	2.3	10.6	12.3	-14.3

Source: Company; IDBI Capital Research

Exhibit 2: Standalone Quarterly Snapshot

Segmental Revenue	Q4FY21	Q4FY20	YoY (%)	Q3FY21	QoQ (%)	FY21	FY20	YoY (%)
FMCG: Cigarette	58,596	51,305	14.2	54,984	6.6	2,03,331	2,12,017	-4.1
FMCG: Others	36,875	31,836	15.8	35,618	3.5	1,44,189	1,28,442	12.3
Hotels	2,878	4,658	-38.2	2,352	22.4	6,275	18,373	-65.8
Agri business	33,689	18,873	78.5	24,818	35.7	1,25,822	1,02,407	22.9
Paperboard, paper & packaging	16,559	14,589	13.5	14,775	12.1	56,181	61,072	-8.0
Total	1,48,597	1,21,260	22.5	1,32,548	12.1	5,35,799	5,22,312	2.6
Less: Inter segment revenue	8,363	8,259		7,631		57,377	59,074	
Total revenue	1,40,234	1,13,001	24.1	1,24,916	12.3	4,78,422	4,63,237	3.3
Segmental EBIT	Q4FY21	Q4FY20	YoY (%)	Q3FY21	QoQ (%)	FY21	FY20	YoY (%)
FMCG: Cigarette	36,665	34,030	7.7	34,528	6.2	1,27,204	1,48,526	-14.4
FMCG: Others	1,886	1,470	28.4	2,074	-9.0	7,741	4,231	83.0
Hotels	-401	426	-194.1	-673	-40.4	-5,349	1,578	-439.1
Agri business	1,899	1,231	54.2	1,961	-3.2	8,207	7,889	4.0
Paperboard, paper & packaging	3,233	2,857	13.1	2,850	13.4	10,987	13,053	-15.8
Segmental Margins	Q4FY21	Q4FY20	YoY (%)	Q3FY21	QoQ (%)	FY21	FY20	YoY (%)
FMCG: Cigarette	62.6%	66.3%	-376 bps	62.8%	-22 bps	62.6%	70.1%	-749 bps
FMCG: Others	5.1%	4.6%	50 bps	5.8%	-71 bps	5.4%	3.3%	207 bps
Hotels	-13.9%	9.1%	-2308 bps	-28.6%	1469 bps	-85.2%	8.6%	-9383 bps
Agri business	5.6%	6.5%	-89 bps	7.9%	-227 bps	6.5%	7.7%	-118 bps
Paperboard, paper & packaging	19.5%	19.6%	-6 bps	19.3%	23 bps	19.6%	21.4%	-182 bps

Source: Company; IDBI Capital Research

Exhibit 3: Actual vs. Estimates

(Rs mn)

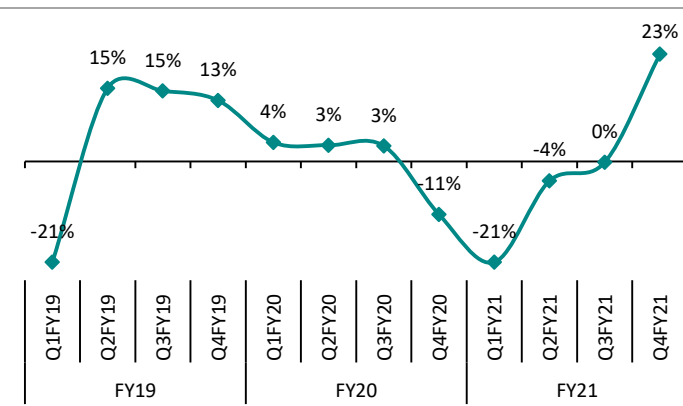
Particulars	Actual	IDBI Estimate	% variation IDBI
Revenue	1,32,947	1,19,062	12%
EBITDA	44,730	44,578	0%
Margin (%)	34%	37%	
PAT	37,484	38,450	-3%

Source: Company; IDBI Capital Research

Exhibit 4: Change in estimates

	FY22E			FY23E		
	Old	New	(%) Chg	Old	New	(%) Chg
Revenue (Rs mn)	5,15,513	5,27,584	2.3%	5,67,338	5,80,426	2.3%
EBITDA (Rs mn)	1,92,794	1,95,796	1.6%	2,12,800	2,16,303	1.6%
EBITDA margin (%)	37.4%	37.1%	-0.8%	37.5%	37.3%	-0.6%
Net profit (Rs mn)	1,55,004	1,57,343	1.5%	1,70,021	1,72,718	1.6%
EPS (Rs)	12.6	12.8	1.3%	13.8	14.0	1.4%

Source: Company; IDBI Capital Research

Exhibit 5: Revenue growth trend (% YoY)


Source: Company; IDBI Capital Research

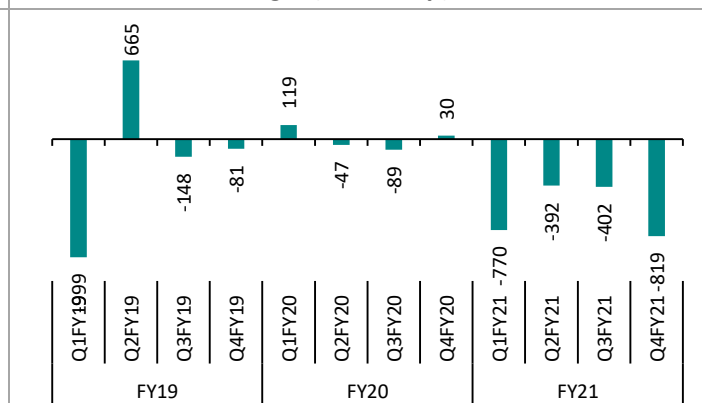
Exhibit 6: Segmental revenue growth trend

Revenue (%YoY)	FMCG: Cigarette	FMCG: Others	Hotel	Agri-business	Paperboard, paper and packaging
Q1FY20	6%	7%	15%	15%	13%
Q2FY20	6%	4%	18%	19%	10%
Q3FY20	5%	3%	22%	9%	1%
Q4FY20	-6%	-3%	-9%	-10%	-5%
Q1FY21	-29%	10%	-94%	4%	-33%
Q2FY21	-4%	15%	-81%	13%	-7%
Q3FY21	4%	8%	-57%	18%	-5%
Q4FY21	14%	16%	-38%	79%	14%

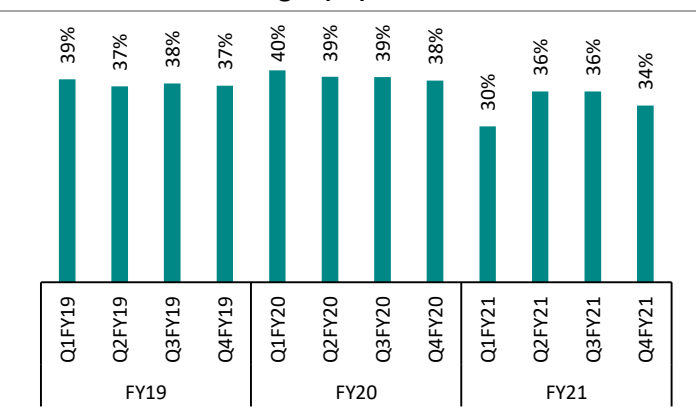
Source: Company; IDBI Capital Research

Exhibit 7: Gross Margin (%)

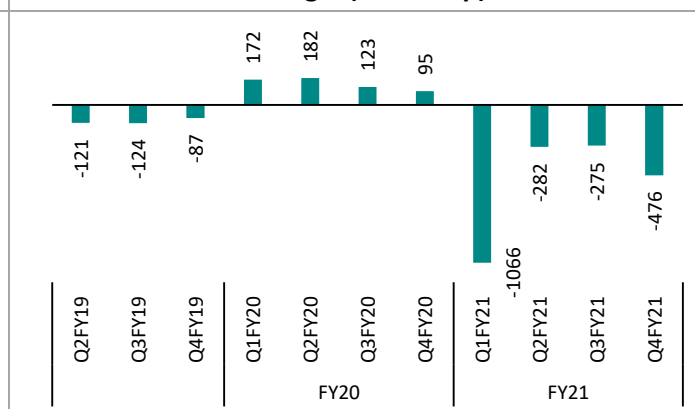

Source: Company; IDBI Capital Research

Exhibit 8: Gross Margin (YoY in bp)


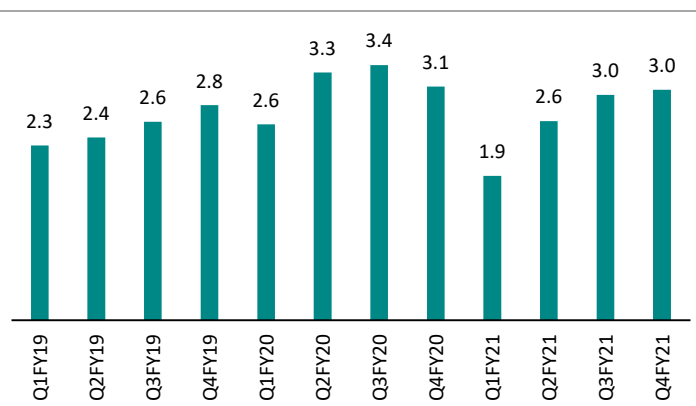
Source: Company; IDBI Capital Research

Exhibit 9: EBITDA Margin (%)


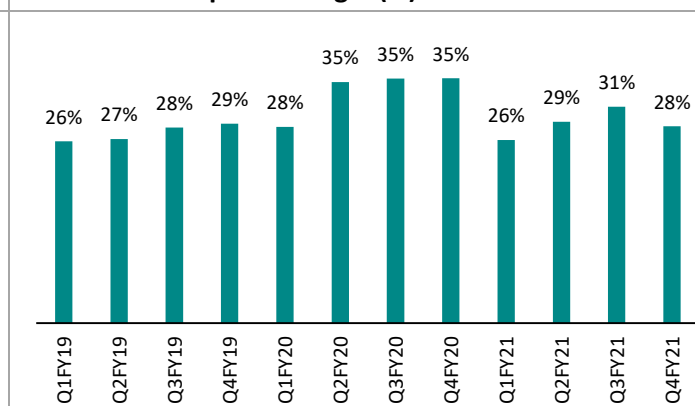
Source: Company; IDBI Capital Research

Exhibit 10: EBITDA Margin (YoY in bp)


Source: Company; IDBI Capital Research

Exhibit 11: EPS trend


Source: Company; IDBI Capital Research

Exhibit 12: Net profit Margin (%)


Source: Company; IDBI Capital Research

Financial Summary

Profit & Loss Account (Rs mn)

Year-end: March	FY20	FY21	FY22E	FY23E
Net sales	4,56,197	4,51,764	5,27,584	5,80,426
<i>growth (%)</i>	<i>(0.4)</i>	<i>(1.0)</i>	<i>16.8</i>	<i>10.0</i>
Operating expenses	(2,77,153)	(2,97,148)	(3,31,788)	(3,64,124)
EBITDA	1,79,044	1,54,616	1,95,796	2,16,303
<i>growth (%)</i>	<i>3.5</i>	<i>(13.6)</i>	<i>26.6</i>	<i>10.5</i>
Depreciation	(15,633)	(15,596)	(18,055)	(19,638)
EBIT	1,63,411	1,39,020	1,77,741	1,96,665
Interest paid	(557)	(475)	(498)	(523)
Other income	30,137	32,497	33,226	34,887
Pre-tax profit	1,92,990	1,71,043	2,10,468	2,31,029
Tax	(40,308)	(41,179)	(53,038)	(58,219)
<i>Effective tax rate (%)</i>	<i>20.9</i>	<i>24.1</i>	<i>25.2</i>	<i>25.2</i>
Minority Interest	-	-	-	-
Net profit	1,52,683	1,29,864	1,57,430	1,72,809
Exceptional items	1,321	-	-	-
Adjusted net profit	1,51,362	1,29,864	1,57,430	1,72,809
<i>growth (%)</i>	<i>21.4</i>	<i>(14.2)</i>	<i>21.2</i>	<i>9.8</i>
<i>Shares o/s (mn nos)</i>	<i>12,292</i>	<i>12,309</i>	<i>12,309</i>	<i>12,309</i>

Cash Flow Statement (Rs mn)

Year-end: March	FY20	FY21	FY22E	FY23E
Pre-tax profit	1,91,669	1,71,043	2,10,468	2,31,029
Depreciation	13,344	15,558	18,055	19,638
Tax paid	(46,501)	(39,566)	(53,038)	(58,219)
Chg in working capital	4,180	(3,948)	(312)	(7,485)
Other operating activities	(24,630)	(28,147)	498	523
Cash flow from operations (a)	1,38,062	1,14,940	1,75,672	1,85,486
Capital expenditure	(21,404)	(15,821)	(30,482)	(25,119)
Chg in investments	(39,275)	88,039	-	-
Other investing activities	5,511	(7,239)	-	-
Cash flow from investing (b)	(55,167)	64,979	(30,482)	(25,119)
Equity raised/(repaid)	6,253	2,907	-	-
Debt raised/(repaid)	-	(4)	4	-
Dividend (incl. tax)	(70,487)	(1,86,293)	(1,29,093)	(1,41,704)
Chg in minorities	-	-	-	-
Other financing activities	(14,675)	(399)	(2,251)	(523)
Cash flow from financing (c)	(78,909)	(1,83,789)	(1,31,340)	(1,42,227)
Net chg in cash (a+b+c)	3,986	(3,871)	13,849	18,140

Balance Sheet

(Rs mn)

Year-end: March	FY20	FY21	FY22E	FY23E
Net fixed assets	2,22,322	2,44,049	2,56,476	2,61,957
Investments	1,38,410	1,33,269	1,33,269	1,33,269
Other non-curr assets	26,553	20,333	20,333	20,333
Current assets	3,65,069	3,18,154	3,28,216	3,57,238
Inventories	80,381	94,709	90,629	99,706
Sundry Debtors	20,920	20,904	23,127	25,443
Cash and Bank	68,433	40,015	51,933	69,562
Total assets	7,52,354	7,15,805	7,38,294	7,72,798
Shareholders' funds	6,40,292	5,90,046	6,18,383	6,49,489
Share capital	12,292	12,309	12,309	12,309
Reserves & surplus	6,27,999	5,77,737	6,06,074	6,37,180
Total Debt	56	53	56	56
Secured loans	56	53	56	56
Unsecured Loans	-	-	-	-
Other Liabilities	21,112	23,965	22,212	22,212
Curr Liab & prov	90,894	1,01,742	97,642	1,01,040
Current liabilities	89,715	1,00,051	95,952	99,861
Provisions	1,179	1,691	1,691	1,179
Total liabilities	1,12,062	1,25,760	1,19,911	1,23,309
Total equity & liab.	7,52,354	7,15,805	7,38,294	7,72,798
Book Value (Rs)	52	48	50	53

Source: Company; IDBI Capital Research

Financial Ratios

Year-end: March	FY20	FY21	FY22E	FY23E
Adj. EPS (Rs)	12.3	10.6	12.8	14.0
Adj. EPS growth (%)	21.1	(14.3)	21.2	9.8
EBITDA margin (%)	39.2	34.2	37.1	37.3
Pre-tax margin (%)	42.3	37.9	39.9	39.8
ROE (%)	24.8	21.1	26.1	27.3
ROCE (%)	25.9	21.8	28.3	30.0
Turnover & Leverage ratios (x)				
Asset turnover (x)	0.6	0.6	0.7	0.8
Leverage factor (x)	1.2	1.2	1.2	1.2
Net margin (%)	33.2	28.7	29.8	29.8
Net Debt/Equity (x)	(0.1)	(0.1)	(0.1)	(0.1)
Working Capital & Liquidity ratio				
Inventory days	64	77	63	63
Receivable days	17	17	16	16
Payable days	45	51	43	43

Valuation

Year-end: March	FY20	FY21	FY22E	FY23E
P/E (x)	17.5	20.5	16.9	15.4
Price / Book value (x)	4.1	4.5	4.3	4.1
PCE (x)	15.9	18.3	15.1	13.8
EV / Net sales (x)	5.7	5.8	4.9	4.5
EV / EBITDA (x)	14.4	16.9	13.3	12.0
Dividend Yield (%)	2.7	7.0	4.9	5.3



Notes

Dealing	(91-22) 6836 1111	dealing@idbicapital.com
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Key to Ratings Stocks:

BUY: Absolute return of 15% and above; **ACCUMULATE:** 5% to 15%; **HOLD:** Upto ±5%; **REDUCE:** -5% to -15%; **SELL:** -15% and below.

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SEBI Registration: BSE & NSE (Cash & FO) – INZ000007237, NSDL – IN-DP-NSDL-12-96, Research – INH000002459, CIN – U65990MH1993GOI075578

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