

ITC

BUY

Above expected; firing on all cylinders

Summary

ITC Limited (ITC) reported above expected result. Revenue growth was strong across all operating segments. Volume growth in cigarette business remained strong at c. 25%+ driven by market share gains from illicit trade. FMCG revenue growth accelerated to 13% 3 year CAGR (vs 7-9% CAGR over last 5-6 quarters) driven by recovery in discretionary, OOH and ESPB. Hotel segment witnessed sharp re-bounce (12% 3-year revenue CAGR) while revenue from Agri and Paperboard business continued to grow at 27% and 14% 3-year-CAGR. Operating profit margins remained stable due to cost savings despite inflationary pressure (167bp gross margin contraction). On this backdrop of outperformance; we upgrade our rating to BUY with a revised TP of Rs 377. We value ITC on SOTP basis.

Key Highlights and Investment Rationale

- Robust growth across segments:** Revenue grew 42%YoY driven by 29% YoY growth in Cigarette (on base of 33%) and 20%YoY in FMCG Branded foods & Others (on base of 10%). Agri business revenue grew 83%YoY driven by strong export demand for wheat, rice and leaf tobacco. Paperboard and packaging grew 43%YoY led by higher volumes and realization. Hotel business revenue grew 12% on 3 year CAGR (ARR and Occupancy surpassed pre-covid level)
- Stable EBITDA margins:** Gross Margin contracted 167bp YoY (9th consecutive quarter) to 51% due to input cost pressure. However, EBITDA margin remained flat at 32.7% led by cost efficiencies. PAT stood at Rs42 bn.
- Upgrade to BUY:** We broadly maintain our estimates for FY23-24E. However, we have upgraded our valuation multiple of cigarette business to 20x FY24E EV/EBITDA. Accordingly, we upgrade our rating to BUY.

TP **Rs 377**CMP **Rs 308**

Potential upside/downside +23%

Previous Rating HOLD

Price Performance (%)

	-1m	-3m	-12m
Absolute	8.2	18.6	50.0
Rel to Sensex	(1.7)	16.7	39.5

V/s Consensus

EPS (Rs)	FY23E	FY24E
IDBI Capital	13.6	15.4
Consensus	13.8	15.4
% difference	(1.4)	0.2

Key Stock Data

Bloomberg/Reuters	ITC IN / ITC.BO
Sector	FMCG
Shares o/s (mn)	12,375
Market cap. (Rs mn)	3,805,958
3-m daily average value (Rs mn)	202.0
52-week high / low	Rs 308 / 205
Sensex / Nifty	58,116 / 17,340

Shareholding Pattern (%)

Promoters	0.0
FII	12.7
DII	38.9
Public	48.4

Financial snapshot

Year	FY20	FY21	FY22	FY23E	FY24E
Revenue	4,56,197	4,51,764	5,63,413	6,04,291	6,67,470
Change (yoy, %)	(0)	(1)	25	7	10
EBITDA	1,79,044	1,54,227	1,89,337	2,14,252	2,44,134
Change (yoy, %)	3	(14)	23	13	14
EBITDA Margin(%)	39.2	34.1	33.6	35.5	36.6
Adj.PAT	1,51,362	1,29,475	1,50,578	1,68,178	1,90,142
EPS (Rs)	12.3	10.5	12.2	13.6	15.4
Change (yoy, %)	21.1	(14.6)	16.2	11.7	13.1
PE(x)	25.0	29.2	25.2	22.5	19.9
Dividend Yield (%)	1.9	4.9	3.6	3.6	4.1
EV/EBITDA (x)	20.7	24.3	19.8	17.6	15.4
RoE (%)	24.8	21.0	25.0	26.7	28.7
RoCE (%)	25.9	21.7	27.6	30.1	32.8

Source: IDBI Capital Research

Exhibit 1: Standalone Quarterly Snapshot

(INR m)	Q1FY23	Q1FY22	YoY (%)	Q4FY22	QoQ (%)	YTD FY23	YTD FY22	YoY (%)
Revenues	1,72,897	1,22,171	41.5	1,55,309	11.3	1,72,897	1,22,171	41.5
COGS	84,768	57,861	46.5	72,799	16.4	84,768	57,861	46.5
Gross profit	88,128	64,310	37.0	82,510	6.8	88,128	64,310	37.0
Gross Margin (%)	51.0	52.6	-167bps	53.1	-215bps	51.0	52.6	-167bps
Employee expenses	8,621	7,341	17.4	8,095	6.5	8,621	7,341	17.4
<i>% of net sales</i>	<i>5.0</i>	<i>6.0</i>	<i>-102bps</i>	<i>5.2</i>	<i>-23bps</i>	<i>5.0</i>	<i>6.0</i>	<i>-102bps</i>
Other Expenses	23,032	17,048	35.1	22,171	3.9	23,032	17,048	35.1
<i>% of net sales</i>	<i>13.3</i>	<i>14.0</i>	<i>-63bps</i>	<i>14.3</i>	<i>-95bps</i>	<i>13.3</i>	<i>14.0</i>	<i>-63bps</i>
EBITDA	56,475	39,922	41.5	52,244	8.1	56,475	39,922	41.5
EBITDA Margin (%)	32.7	32.7	-1bps	33.6	-97bps	32.7	32.7	-1bps
Depreciation	4,115	3,955	4.1	4,459	-7.7	4,115	3,955	4.1
EBIT	52,360	35,967	45.6	47,784	9.58	52,360	35,967	45.6
Other Income	3,127	4,290	-27.1	6,741	-53.6	3,127	4,290	-27.1
Interest Expenses	91	103	-11.5	105	-13.0	91	103	-11.5
PBT	55,396	40,154	38.0	54,420	1.8	55,396	40,154	38.0
Taxes	13,702	10,019	36.8	12,511	9.5	13,702	10,019	36.8
Adjusted PAT	41,694	30,135	38.4	41,910	-0.5	41,694	30,135	38.4
Extra-ordinary items	0	0		0		0	0	
Reported PAT	41,694	30,135	38.4	41,910	-0.5	41,694	30,135	38.4
EPS	3.38	2.45	38.2	3.40	-0.5	3.4	2.4	38.2

Source: Company; IDBI Capital Research

Exhibit 2: Standalone Quarterly Snapshot

Segmental Revenue	Q1FY23	Q1FY22	YoY (%)	Q4FY22	QoQ (%)	YTD FY23	YTD FY22	YoY (%)
FMCG: Cigarette	66,090	51,222	29.0	64,434	2.6	66,090	51,222	29.0
FMCG: Others	44,514	37,256	19.5	41,420	7.5	44,514	37,256	19.5
Hotels	5,550	1,272	336.2	3,896	42.4	5,550	1,272	336.2
Agri business	74,730	40,913	82.7	43,663	71.1	74,730	40,913	82.7
Paperboard, paper & packaging	22,672	15,827	43.3	21,828	3.9	22,672	15,827	43.3
Total	2,13,555	1,46,489	45.8	1,75,241	21.9	2,13,555	1,46,489	45.8
Less: Inter segment revenue	31,920	17,645		12,975		31,920	17,645	
Total revenue	1,81,636	1,28,845	41.0	1,62,266	11.9	1,81,636	1,28,845	41.0

Segmental EBIT	Q1FY23	Q1FY22	YoY (%)	Q4FY22	QoQ (%)	YTD FY23	YTD FY22	YoY (%)
FMCG: Cigarette	41,889	32,209	30.1	41,143	1.8	41,889	32,209	30.1
FMCG: Others	2,039	1,734	17.6	2,360	-13.6	2,039	1,734	17.6
Hotels	1,122	-1,515	NA	-342	NA	1,122	-1,515	NA
Agri business	2,840	1,957	45.1	2,440	16.4	2,840	1,957	45.1
Paperboard, paper & packaging	6,130	3,928	56.0	4,497	36.3	6,130	3,928	56.0

Segmental Margins	Q1FY23	Q1FY22	YoY (%)	Q4FY22	QoQ (%)	YTD FY23	YTD FY22	YoY (%)
FMCG: Cigarette	63.4%	62.9%	50 bps	63.9%	-47 bps	63.4%	62.9%	50 bps
FMCG: Others	4.6%	4.7%	-8 bps	5.7%	-112 bps	4.6%	4.7%	-8 bps
Hotels	20.2%	-119.0%	13924 bps	-8.8%	2899 bps	20.2%	-119.0%	13924 bps
Agri business	3.8%	4.8%	-98 bps	5.6%	-179 bps	3.8%	4.8%	-98 bps
Paperboard, paper & packaging	27.0%	24.8%	222 bps	20.6%	644 bps	27.0%	24.8%	222 bps

Source: Company; IDBI Capital Research

Exhibit 3: Actual vs. Estimates

(Rs mn)

Particulars	Actual	IDBI Estimate	% variation IDBI
Revenue	1,72,897	1,53,275	13%
EBITDA	56,475	50,896	11%
Margin (%)	33%	33%	
PAT	41,694	40,425	3%

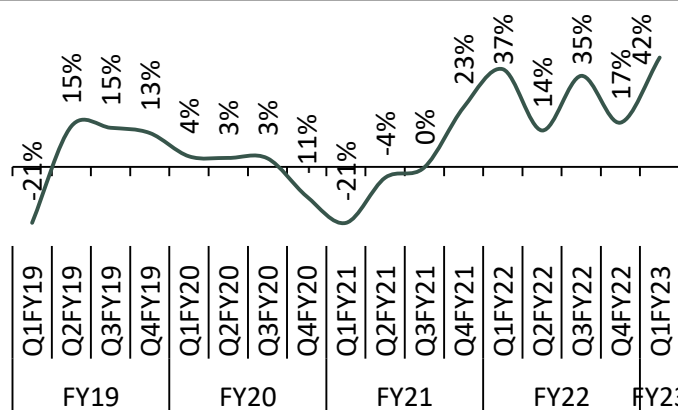
Source: Company; IDBI Capital Research

Exhibit 4: Change in estimates

	FY23E			FY24E		
	Old	New	(%) Chg	Old	New	(%)Chg
Revenue (Rs mn)	6,06,275	6,04,291	-0.3%	665947	6,67,470	0.2%
EBITDA (Rs mn)	2,14,761	2,14,252	-0.2%	237649	2,44,134	2.7%
EBITDA margin (%)	35.4%	35.5%	0.1%	35.69%	36.6%	2.5%
Net profit (Rs mn)	1,68,965	1,68,178	-0.5%	185984	1,90,142	2.2%
EPS (Rs)	13.7	13.6	-0.5%	15	15.4	2.2%

Source: Company; IDBI Capital Research

Exhibit 5: Revenue growth trend (% YoY)



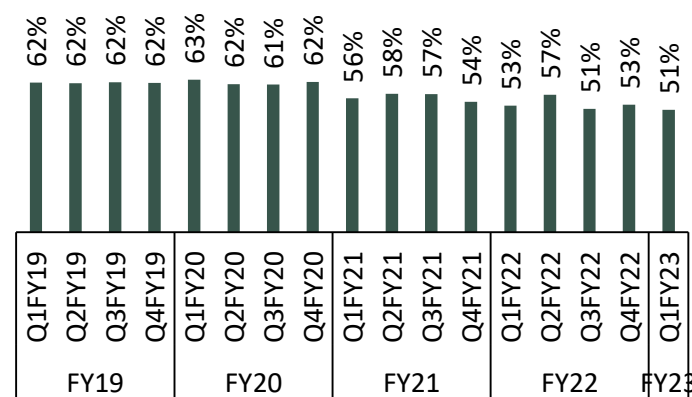
Source: Company; IDBI Capital Research

Exhibit 6: Segmental revenue growth trend

Revenue (%YoY)	FMCG: Cigarette	FMCG: Others	Hotel	Agri-business	Paperboard, paper and packaging
Q1FY21	-29%	10%	-94%	4%	-33%
Q2FY21	-4%	15%	-81%	13%	-7%
Q3FY21	4%	8%	-57%	18%	-5%
Q4FY21	14%	16%	-38%	79%	14%
Q1FY22	33%	10%	464%	9%	54%
Q2FY22	10%	6%	260%	-7%	25%
Q3FY22	14%	9%	101%	100%	39%
Q4FY22	10%	12%	35%	30%	32%
Q1FY23	29%	19%	336%	83%	43%

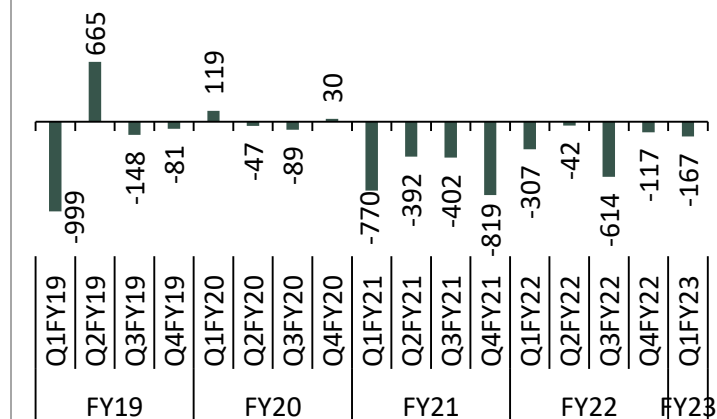
Source: Company; IDBI Capital Research

Exhibit 7: Gross Margin (%)



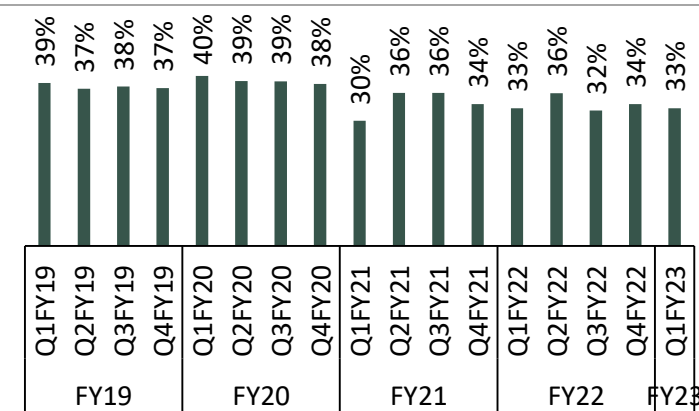
Source: Company; IDBI Capital Research

Exhibit 8: Gross Margin (YoY in bp)



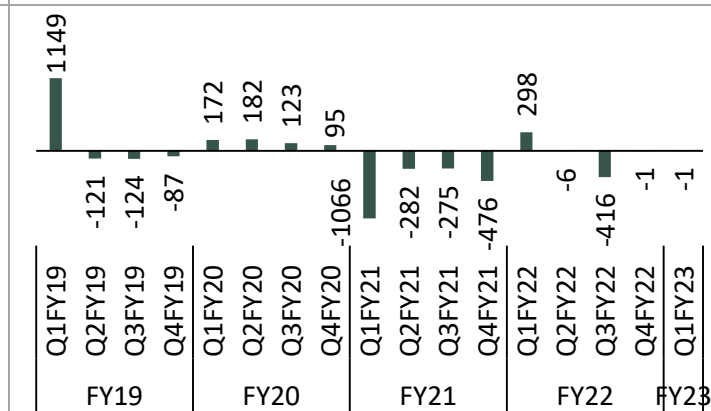
Source: Company; IDBI Capital Research

Exhibit 9: EBITDA Margin (%)



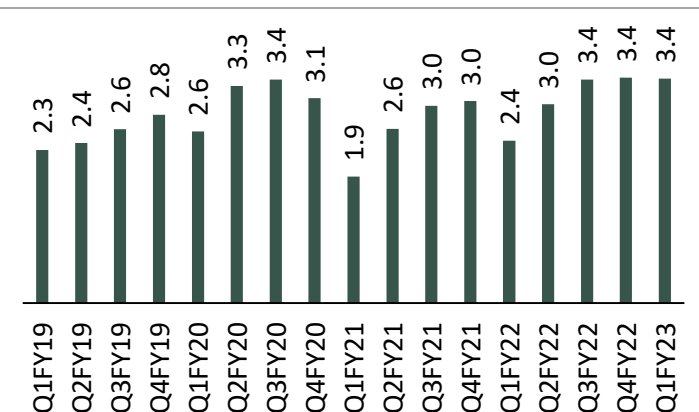
Source: Company; IDBI Capital Research

Exhibit 10: EBITDA Margin (YoY in bp)



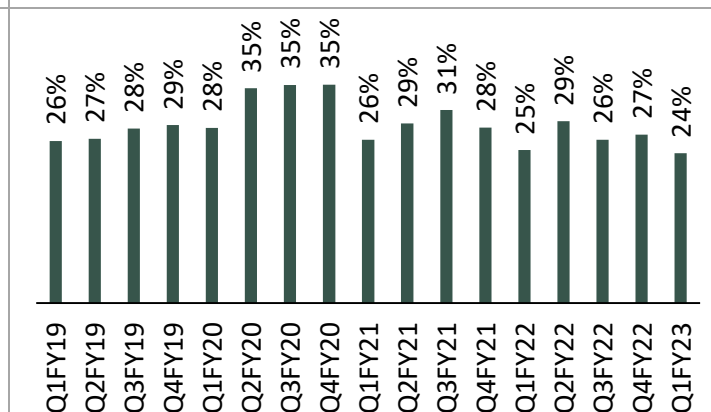
Source: Company; IDBI Capital Research

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	FY19	FY20	FY21	FY22	FY23E	FY24E
Net sales	4,57,844	4,56,197	4,51,764	5,63,413	6,04,291	6,67,470
<i>Change (yoy, %)</i>	3.3	(0.4)	(1.0)	24.7	7.3	10.5
Operating expenses	(2,84,789)	(2,77,153)	(2,97,538)	(3,74,076)	(3,90,040)	(4,23,336)
EBITDA	1,73,055	1,79,044	1,54,227	1,89,337	2,14,252	2,44,134
<i>Change (yoy, %)</i>	11.4	3.5	-13.9	22.8	13.2	13.9
<i>Margin (%)</i>	37.8	39.2	34.1	33.6	35.5	36.6
Depreciation	(13,117)	(15,633)	(15,596)	(16,522)	(18,155)	(20,111)
EBIT	1,59,938	1,63,411	1,38,631	1,72,815	1,96,097	2,24,023
Interest paid	(342)	(557)	(475)	(420)	(440)	(462)
Other income	24,845	30,137	32,497	25,900	29,181	30,640
Pre-tax profit	1,84,442	1,92,990	1,70,654	1,98,295	2,24,837	2,54,200
Tax	(59,798)	(40,308)	(41,179)	(47,717)	(56,659)	(64,059)
<i>Effective tax rate (%)</i>	32.4	20.9	24.1	24.1	25.2	25.2
Minority Interest	-	-	-	-	-	-
Net profit	1,24,643	1,52,683	1,29,475	1,50,578	1,68,178	1,90,142
Exceptional items	-	1,321	-	-	-	-
Adjusted net profit	1,24,643	1,51,362	1,29,475	1,50,578	1,68,178	1,90,142
<i>Change (yoy, %)</i>	11.1	21.4	(14.5)	16.3	11.7	13.1
EPS	10.2	12.3	10.5	12.2	13.6	15.4
Dividend per sh	5	6	15	11	11	13
<i>Dividend Payout %</i>	50	47	144	90	82	82

Balance Sheet

(Rs mn)

Year-end: March	FY19	FY20	FY21	FY22	FY23E	FY24E
Shareholders' funds	5,79,498	6,40,292	5,90,046	6,13,996	6,44,268	6,78,493
Share capital	12,259	12,292	12,309	12,323	12,323	12,323
Reserves & surplus	5,67,239	6,27,999	5,77,737	6,01,672	6,31,945	6,66,170
Total Debt	79	56	53	53	45	45
Other liabilities	22,187	21,112	23,965	22,103	23,359	21,739
Curr Liab & prov	96,216	90,894	1,01,742	1,14,774	1,11,092	1,15,766
Current liabilities	95,963	89,715	1,00,051	1,14,218	1,09,402	1,14,075
Provisions	252	1,179	1,691	556	1,691	1,691
Total liabilities	1,18,481	1,12,062	1,25,760	1,36,929	1,34,497	1,37,550
Total equity & liabilities	6,97,979	7,52,354	7,15,805	7,50,925	7,78,765	8,16,044
Net fixed assets	2,18,878	2,22,322	2,44,049	2,46,098	2,52,286	2,59,653
Investments	1,40,715	1,38,410	1,33,269	1,60,215	1,60,215	1,60,215
Other non-curr assets	42,698	26,553	20,333	35,192	35,192	35,192
Current assets	2,95,690	3,65,069	3,18,154	3,09,420	2,94,141	3,24,054
Inventories	75,872	80,381	94,709	99,978	1,03,806	1,14,659
Sundry Debtors	36,462	20,920	20,904	19,525	26,489	29,259
Cash and Bank	37,687	68,433	40,015	38,779	12,708	28,999
Loans and advances	-	-	-	-	-	-
Total assets	6,97,979	7,52,354	7,15,805	7,50,925	7,78,765	8,16,044

Cash Flow Statement

(Rs mn)

Year-end: March	FY19	FY20	FY21	FY22	FY23E	FY24E
Pre-tax profit	1,84,442	1,91,669	1,70,654	1,98,295	2,24,837	2,54,200
Depreciation	13,117	13,344	15,596	16,522	18,155	20,111
Tax paid	(54,859)	(46,501)	(39,566)	(18,621)	(56,659)	(64,059)
Chg in working capital	(4,997)	4,180	(3,948)	1,841	(8,325)	(8,949)
Other operating activities	(20,213)	(24,630)	(27,795)	(49,959)	440	462
Cash flow from operations (a)	1,17,491	1,38,062	1,14,940	1,48,078	1,78,448	2,01,767
Capital expenditure	(27,686)	(21,404)	(15,821)	(18,120)	(24,343)	(27,477)
Chg in investments	(38,419)	(39,275)	88,039	(15,255)	-	-
Other investing activities	15,288	5,511	(7,239)	18,204	-	-
Cash flow from investing (b)	(50,818)	(55,167)	64,979	(15,171)	(24,343)	(27,477)
Equity raised/(repaid)	9,691	6,253	2,907	2,918	-	-
Debt raised/(repaid)	(69)	-	(4)	(4)	(7)	-
Dividend (incl. tax)	(62,852)	(70,487)	(1,86,293)	(1,35,471)	(1,37,906)	(1,55,916)
Chg in minorities	-	-	-	-	-	-
Other financing activities	(12,776)	(14,675)	(399)	(814)	816	(2,082)
Cash flow from financing (c)	(66,006)	(78,909)	(1,83,789)	(1,33,370)	(1,37,098)	(1,57,999)
Net chg in cash (a+b+c)	667	3,986	(3,870)	(463)	17,007	16,290

Financial Ratios

Year-end: March	FY19	FY20	FY21	FY22	FY23E	FY24E
Book Value (Rs)	47	52	48	50	52	55
Adj EPS (Rs)	10.2	12.3	10.5	12.2	13.6	15.4
Adj EPS growth (%)	10.4	21.1	(14.6)	16.2	11.7	13.1
EBITDA margin (%)	37.8	39.2	34.1	33.6	35.5	36.6
Pre-tax margin (%)	40.3	42.3	37.8	35.2	37.2	38.1
Net Debt/Equity (x)	(0.1)	(0.1)	(0.1)	(0.1)	(0.0)	(0.0)
ROCE (%)	28.1	25.9	21.7	27.6	30.1	32.8
ROE (%)	22.8	24.8	21.0	25.0	26.7	28.7

DuPont Analysis

Asset turnover (x)	0.7	0.6	0.6	0.8	0.8	0.9
Leverage factor (x)	1.2	1.2	1.2	1.2	1.2	1.1
Net margin (%)	27.2	33.2	28.7	26.7	27.8	28.5

Working Capital & Liquidity ratio

Inventory days	60	64	77	65	63	63
Receivable days	29	17	17	13	16	16
Payable days	43	45	51	41	42	43

Valuations

Year-end: March	FY19	FY20	FY21	FY22	FY23E	FY24E
PER (x)	30.2	25.0	29.2	25.2	22.5	19.9
Price/Book value (x)	6.5	5.9	6.4	6.2	5.9	5.6
EV/Net sales (x)	8.2	8.1	8.3	6.7	6.3	5.6
EV/EBITDA (x)	21.6	20.7	24.3	19.8	17.6	15.4
Dividend Yield (%)	1.7	1.9	4.9	3.6	3.6	4.1

Source: Company; IDBI Capital Research



Notes

Dealing

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Key to Ratings Stocks:**BUY:** 15%+; **HOLD:** -5% to 15%; **SELL:** -5% and below.**IDBI Capital Markets & Securities Ltd.****Equity Research Desk**

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