

ITC

BUY

Positive surprise!

Summary

ITC Limited (ITC) reported above expected result. ITC reported strong all-around top-line performance led by robust recovery across markets due to rise in mobility and efficient distribution system. Value growth in Cigarette, branded FMCG, Paper Board business is highly encouraging (8%/12%/15% 2-year CAGR). Revenue from agri-business doubled driven by strong export demand. Hotel business recovered to 86% pre-covid. Input cost inflation impacted gross margin. Positively, hotel business turned EBIT positive at Rs 51cr. Also, paper board business recorded maximum expansion in EBIT margin at 262bp YoY followed by 40+ bp improvement in Cigarette and Other FMCG business. Broadly we maintain our estimates for FY22-24E. Accordingly, we maintain our BUY rating with TP of Rs 300.

Key Highlights and Investment Rationale

- Strong performance all-around except hotel:** Revenue (ex-agri) grew 16%YoY driven by strong underlying growth in Cigarette (at 14%YoY on a base of 4%) and FMCG Branded Food (at 9%YoY on a high base of 13%). Revenue in hotel business stood at 86% pre-covid. Agri business revenue grew 100%YoY driven by strong export demand. Paperboard and packaging grew 39%YoY led by demand revival across most end user segment.
- Input cost inflation impacts operating margins:** Gross Margin contracted 614bp YoY to 51% due to steep inflation in raw material prices. Consequently, EBITDA margin contracted 416bp YoY to 32%. EPS grew 13% YoY to Rs 3.
- Maintain BUY:** We have marginally adjusted our EPS estimate by 0.5-2% for FY22-24E. As per SOTP our TP stands at Rs 300. At current valuation; our BUY rating stands unchanged.

TP **Rs 300**CMP **Rs 234**Potential upside/downside **+28%**Previous Rating **BUY**

Price Performance (%)

	-1m	-3m	-12m
Absolute	6.9	5.3	8.1
Rel to Sensex	7.6	6.9	(8.9)

V/s Consensus

EPS (Rs)	FY22E	FY23E	FY24E
IDBI Capital	11.8	13.8	15.2
Consensus	12.3	13.8	15.0
% difference	(4.0)	0.4	1.4

Key Stock Data

Bloomberg/Reuters	ITC IN / ITC.BO
Sector	FMCG
Shares o/s (mn)	12,323
Market cap. (Rs mn)	2,887,217
3-m daily average value (Rs mn)	417.4
52-week high / low	Rs 265 / 199
Sensex / Nifty	58,788 / 17,560

Shareholding Pattern (%)

Promoters	0.0
FII	10.0
DII	40.2
Public	49.8

Financial snapshot

Year	FY20	FY21	FY22E	FY23E	FY24E
Revenue	4,56,197	4,51,764	5,47,816	5,99,716	6,59,054
Change (yoy, %)	(0)	(1)	21	9	10
EBITDA	1,79,044	1,54,616	1,80,789	2,17,560	2,40,851
Change (yoy, %)	3	(14)	17	20	11
EBITDA Margin(%)	39.2	34.2	33.0	36.3	36.5
Adj.PAT	1,51,362	1,29,864	1,44,845	1,69,823	1,87,032
EPS (Rs)	12.3	10.6	11.8	13.8	15.2
Change (yoy, %)	21.1	(14.3)	11.4	17.2	10.1
PE(x)	19.0	22.2	19.9	17.0	15.4
Dividend Yield (%)	2.5	6.5	4.1	4.8	5.3
EV/EBITDA (x)	15.7	18.4	15.6	12.9	11.6
RoE (%)	24.8	21.1	24.0	26.9	28.2
RoCE (%)	25.9	21.8	26.3	30.4	32.1

Source: IDBI Capital Research

Exhibit 1: Standalone Quarterly Snapshot

(INR m)	Q3FY22	Q3FY21	YoY (%)	Q2FY22	QoQ (%)	YTD FY22	YTD FY21	YoY (%)
Revenues	1,58,623	1,17,874	34.6	1,27,310	24.6	4,08,104	3,18,818	28.0
COGS	77,204	50,131	54.0	54,462	41.8	1,89,526	1,36,969	38.4
Gross profit	81,420	67,743	20.2	72,848	11.8	2,18,578	1,81,849	20.2
Gross Margin (%)	51.3	57.5	-614bps	57.2	-589bps	53.6	57.0	-348bps
Employee expenses	7,652	7,201	6.3	7,532	1.6	22,525	20,780	8.4
<i>% of net sales</i>	<i>4.8</i>	<i>6.1</i>	<i>-129bps</i>	<i>5.9</i>	<i>-109bps</i>	<i>5.5</i>	<i>6.5</i>	<i>-100bps</i>
Other Expenses	22,747	17,729	28.3	19,166	18.7	58,960	51,183	15.2
<i>% of net sales</i>	<i>14.3</i>	<i>15.0</i>	<i>-70bps</i>	<i>15.1</i>	<i>-71bps</i>	<i>14.4</i>	<i>16.1</i>	<i>-161bps</i>
EBITDA	51,021	42,814	19.2	46,150	10.6	1,37,093	1,09,886	24.8
EBITDA Margin (%)	32.2	36.3	-416bps	36.3	-409bps	33.6	34.5	-87bps
Depreciation	4,093	3,909	4.7	4,015	2.0	12,062	11,716	3.0
EBIT	46,928	38,904	20.6	42,136	11.37	1,25,031	98,170	27.4
Other Income	8,099	9,710	-16.6	6,770	19.6	19,159	24,778	-22.7
Interest Expenses	107	138	-22.4	105	2.3	315	443	-29.0
PBT	54,920	48,476	13.3	48,801	12.5	1,43,875	1,22,504	17.4
Taxes	13,358	11,848		11,829		35,206	30,124	
Adjusted PAT	41,562	36,629	13.5	36,972	12.4	1,08,669	92,380	17.6
Extra-ordinary items	0	0		0		0	0	
Reported PAT	41,562	36,629	13.5	36,972	12.4	1,08,669	92,380	17.6
EPS	3.37	2.98	13.3	3.00	12.4	8.8	7.5	17.4

Source: Company; IDBI Capital Research

Exhibit 2: Standalone Quarterly Snapshot

Segmental Revenue	Q3FY22	Q3FY21	YoY (%)	Q2FY22	QoQ (%)	YTD FY22	YTD FY21	YoY (%)
FMCG: Cigarette	62,441	54,984	13.6	56,417	10.7	1,70,080	1,44,735	17.5
FMCG: Others	40,906	37,437	9.3	40,364	1.3	1,18,525	1,09,132	8.6
Hotels	4,734	2,352	101.3	2,947	60.6	8,954	3,397	163.5
Agri business	49,624	24,818	100.0	27,761	78.8	1,18,297	92,133	28.4
Paperboard, paper & packaging	20,465	14,775	38.5	18,297	11.8	54,589	39,622	37.8
Total	1,78,169	1,34,366	32.6	1,45,787	22.2	4,70,445	3,89,021	20.9
Less: Inter segment revenue	11,831	7,631		12,225		41,700	49,014	
Total revenue	1,66,339	1,26,735	31.2	1,33,562	24.5	4,28,745	3,40,006	26.1

Segmental EBIT	Q3FY22	Q3FY21	YoY (%)	Q2FY22	QoQ (%)	YTD FY22	YTD FY21	YoY (%)
FMCG: Cigarette	39,507	34,528	14.4	35,832	10.3	1,07,548	90,539	18.8
FMCG: Others	2,419	2,074	16.6	2,719	-11.1	6,872	5,855	17.4
Hotels	506	-673	-	-480	-	-1,489	-4,948	-
Agri business	2,953	1,961	50.6	2,961	-0.3	7,872	6,309	24.8
Paperboard, paper & packaging	4,485	2,850	57.3	4,090	9.6	12,503	7,754	61.2

Segmental Margins	Q3FY22	Q3FY21	YoY (%)	Q2FY22	QoQ (%)	YTD FY22	YTD FY21	YoY (%)
FMCG: Cigarette	63.3%	62.8%	48bps	63.5%	-24bps	63.2%	62.6%	68bps
FMCG: Others	5.9%	5.5%	37bps	6.7%	-82bps	5.8%	5.4%	43bps
Hotels	10.7%	-28.6%	3931bps	-16.3%	2696bps	-16.6%	-145.6%	12902bps
Agri business	6.0%	7.9%	-195bps	10.7%	-472bps	6.7%	6.8%	-19bps
Paperboard, paper & packaging	21.9%	19.3%	262bps	22.4%	-44bps	22.9%	19.6%	333bps

Source: Company; IDBI Capital Research

Exhibit 3: Actual vs. Estimates

(Rs mn)

Particulars	Actual	IDBI Estimate	% variation IDBI
Revenue	1,58,623	1,29,602	22%
EBITDA	51,021	46,398	10%
Margin (%)	32%	36%	
PAT	41,562	37,470	11%

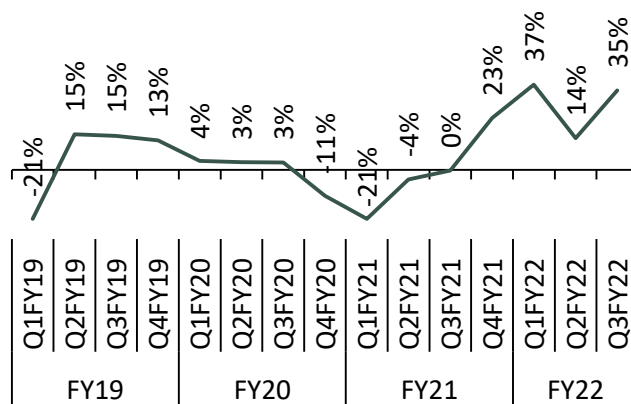
Source: Company; IDBI Capital Research

Exhibit 4: Change in estimates

	FY22E			FY23E			FY24E		
	Old	New	(%) Chg	Old	New	(%) Chg	Old	New	(%)Chg
Revenue (Rs mn)	5,24,146	5,47,816	4.5%	5,76,234	5,99,716	4.1%	633902	6,59,054	4.0%
EBITDA (Rs mn)	1,77,942	1,80,789	1.6%	2,07,744	2,17,560	4.7%	230294	2,40,851	4.6%
EBITDA margin (%)	33.9%	33.0%	-2.8%	36.1%	36.3%	0.6%	36.3%	36.5%	0.6%
Net profit (Rs mn)	1,44,159	1,44,845	0.5%	1,66,532	1,69,823	2.0%	183427	1,87,032	2.0%
EPS (Rs)	11.7	11.8	0.5%	13.5	13.8	2.0%	15	15.2	1.9%

Source: Company; IDBI Capital Research

Exhibit 5: Revenue growth trend (% YoY)



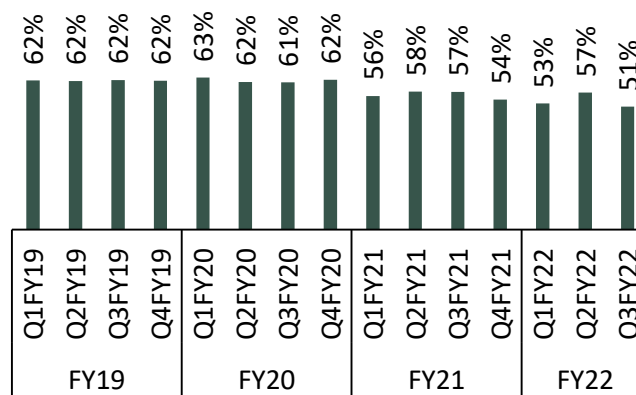
Source: Company; IDBI Capital Research

Exhibit 6: Segmental revenue growth trend

Revenue (%YoY)	FMCG: Cigarette	FMCG: Others	Hotel	Agri-business	Paperboard, paper and packaging
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%
Q1FY22	33%	10%	464%	9%	54%
Q2FY22	10%	6%	260%	-7%	25%
Q3FY22	14%	9%	101%	100%	39%

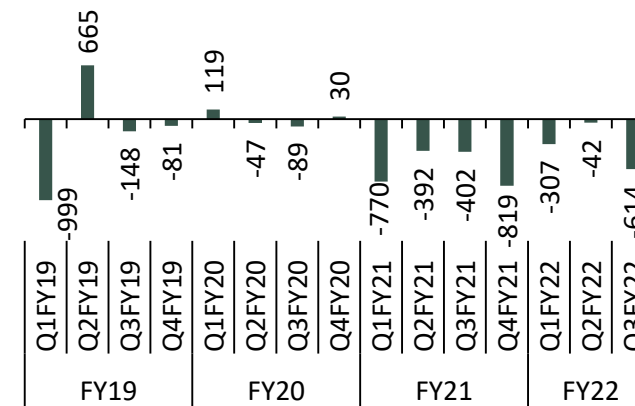
Source: Company; IDBI Capital Research

Exhibit 7: Gross Margin (%)



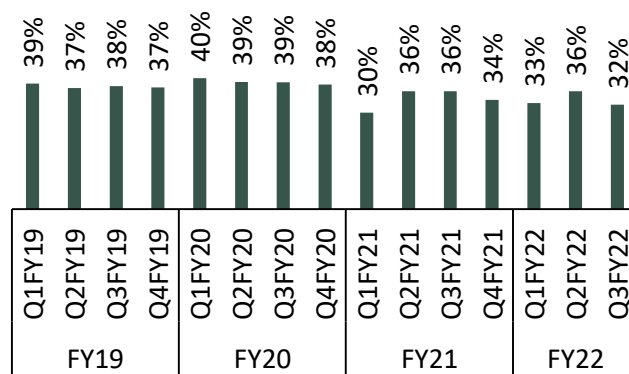
Source: Company; IDBI Capital Research

Exhibit 8: Gross Margin (YoY in bp)



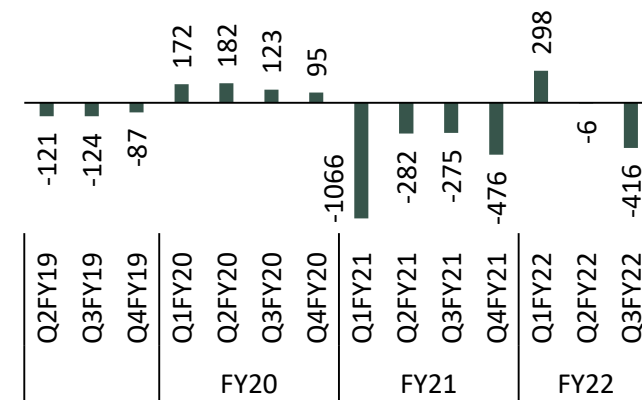
Source: Company; IDBI Capital Research

Exhibit 9: EBITDA Margin (%)



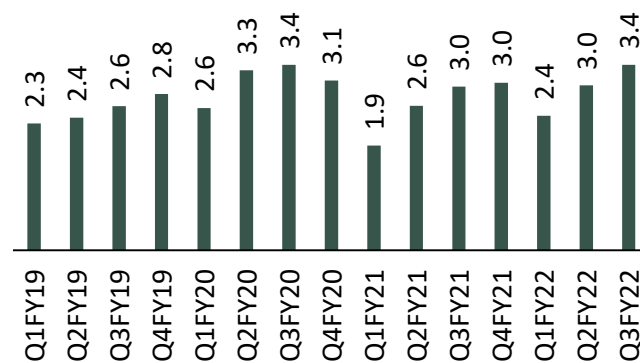
Source: Company; IDBI Capital Research

Exhibit 10: EBITDA Margin (YoY in bp)



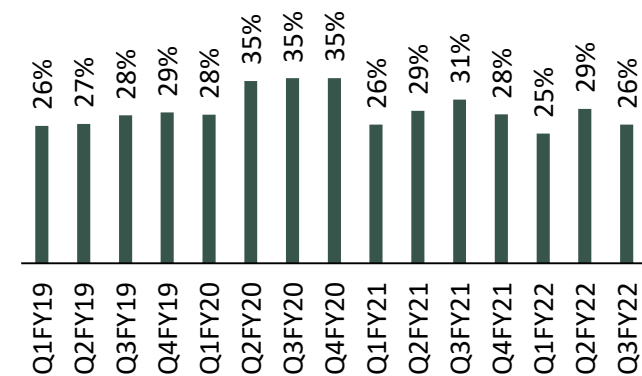
Source: Company; IDBI Capital Research

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	FY22E	FY23E	FY24E
Net sales	4,57,844	4,56,197	4,51,764	5,47,816	5,99,716	6,59,054
<i>Change (yoy, %)</i>	3.3	(0.4)	(1.0)	21.3	9.5	9.9
Operating expenses	(2,84,789)	(2,77,153)	(2,97,148)	(3,67,027)	(3,82,156)	(4,18,203)
EBITDA	1,73,055	1,79,044	1,54,616	1,80,789	2,17,560	2,40,851
<i>Change (yoy, %)</i>	11.4	3.5	-13.6	16.9	20.3	10.7
<i>Margin (%)</i>	37.8	39.2	34.2	33.0	36.3	36.5
Depreciation	(13,117)	(15,633)	(15,596)	(16,065)	(19,004)	(20,713)
EBIT	1,59,938	1,63,411	1,39,020	1,64,724	1,98,556	2,20,138
Interest paid	(342)	(557)	(475)	(498)	(523)	(550)
Other income	24,845	30,137	32,497	27,623	29,004	30,454
Pre-tax profit	1,84,442	1,92,990	1,71,043	1,91,848	2,27,036	2,50,043
Tax	(59,798)	(40,308)	(41,179)	(47,003)	(57,213)	(63,011)
<i>Effective tax rate (%)</i>	32.4	20.9	24.1	24.5	25.2	25.2
Minority Interest	-	-	-	-	-	-
Net profit	1,24,643	1,52,683	1,29,864	1,44,845	1,69,823	1,87,032
Exceptional items	-	1,321	-	-	-	-
Adjusted net profit	1,24,643	1,51,362	1,29,864	1,44,845	1,69,823	1,87,032
<i>Change (yoy, %)</i>	11.1	21.4	(14.2)	11.5	17.2	10.1
EPS	10.2	12.3	10.6	11.8	13.8	15.2
Dividend per sh	5	6	15	10	11	12
<i>Dividend Payout %</i>	50	47	143	82	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	6,16,118	6,46,686	6,80,352
Share capital	12,259	12,292	12,309	12,309	12,309	12,309
Reserves & surplus	5,67,239	6,27,999	5,77,737	6,03,809	6,34,377	6,68,043
Total Debt	79	56	53	56	56	56
Other liabilities	22,187	21,112	23,965	22,212	22,212	22,212
Curr Liab & prov	96,216	90,894	1,01,742	99,139	1,02,467	1,06,856
Current liabilities	95,963	89,715	1,00,051	97,448	1,01,288	1,05,677
Provisions	252	1,179	1,691	1,691	1,179	1,179
Total liabilities	1,18,481	1,12,062	1,25,760	1,21,408	1,24,736	1,29,125
Total equity & liabilities	6,97,979	7,52,354	7,15,805	7,37,526	7,71,422	8,09,477
Net fixed assets	2,18,878	2,22,322	2,44,049	2,48,825	2,54,478	2,60,895
Investments	1,40,715	1,38,410	1,33,269	1,33,269	1,33,269	1,33,269
Other non-curr assets	42,698	26,553	20,333	20,333	20,333	20,333
Current assets	2,95,690	3,65,069	3,18,154	3,35,099	3,63,342	3,94,980
Inventories	75,872	80,381	94,709	94,104	1,03,020	1,13,213
Sundry Debtors	36,462	20,920	20,904	24,014	26,289	28,890
Cash and Bank	37,687	68,433	40,015	54,453	71,506	90,350
Loans and advances	-	-	-	-	-	-
Total assets	6,97,979	7,52,354	7,15,805	7,37,526	7,71,422	8,09,477

Cash Flow Statement

(Rs mn)

Year-end: March	FY19	FY20	FY21	FY22E	FY23E	FY24E
Pre-tax profit	1,84,442	1,91,669	1,71,043	1,91,848	2,27,036	2,50,043
Depreciation	13,117	13,344	15,596	16,065	19,004	20,713
Tax paid	(54,859)	(46,501)	(39,566)	(47,003)	(57,213)	(63,011)
Chg in working capital	(4,997)	4,180	(3,948)	(3,178)	(7,351)	(8,405)
Other operating activities	(20,213)	(24,630)	(28,185)	498	523	550
Cash flow from operations (a)	1,17,491	1,38,062	1,14,940	1,58,231	1,81,999	1,99,889
Capital expenditure	(27,686)	(21,404)	(15,821)	(20,841)	(24,656)	(27,130)
Chg in investments	(38,419)	(39,275)	88,039	-	-	-
Other investing activities	15,288	5,511	(7,239)	-	-	-
Cash flow from investing (b)	(50,818)	(55,167)	64,979	(20,841)	(24,656)	(27,130)
Equity raised/(repaid)	9,691	6,253	2,907	-	-	-
Debt raised/(repaid)	(69)	-	(4)	4	-	-
Dividend (incl. tax)	(62,852)	(70,487)	(1,86,293)	(1,18,773)	(1,39,255)	(1,53,366)
Chg in minorities	-	-	-	-	-	-
Other financing activities	(12,776)	(14,675)	(399)	(2,251)	(523)	(550)
Cash flow from financing (c)	(66,006)	(78,909)	(1,83,789)	(1,21,021)	(1,39,778)	(1,53,916)
Net chg in cash (a+b+c)	667	3,986	(3,870)	16,369	17,564	18,843

Financial Ratios

Year-end: March	FY19	FY20	FY21	FY22E	FY23E	FY24E
Book Value (Rs)	47	52	48	50	52	55
Adj EPS (Rs)	10.2	12.3	10.6	11.8	13.8	15.2
Adj EPS growth (%)	10.4	21.1	(14.3)	11.4	17.2	10.1
EBITDA margin (%)	37.8	39.2	34.2	33.0	36.3	36.5
Pre-tax margin (%)	40.3	42.3	37.9	35.0	37.9	37.9
Net Debt/Equity (x)	(0.1)	(0.1)	(0.1)	(0.1)	(0.1)	(0.1)
ROCE (%)	28.1	25.9	21.8	26.3	30.4	32.1
ROE (%)	22.8	24.8	21.1	24.0	26.9	28.2

DuPont Analysis

Asset turnover (x)	0.7	0.6	0.6	0.8	0.8	0.8
Leverage factor (x)	1.2	1.2	1.2	1.2	1.2	1.2
Net margin (%)	27.2	33.2	28.7	26.4	28.3	28.4

Working Capital & Liquidity ratio

Inventory days	60	64	77	63	63	63
Receivable days	29	17	17	16	16	16
Payable days	43	45	51	40	42	43

Valuations

Year-end: March	FY19	FY20	FY21	FY22	FY23E	FY24E
PER (x)	23.0	19.0	22.2	19.9	17.0	15.4
Price/Book value (x)	4.9	4.5	4.9	4.7	4.5	4.2
EV/Net sales (x)	6.2	6.2	6.3	5.2	4.7	4.2
EV/EBITDA (x)	16.4	15.7	18.4	15.6	12.9	11.6
Dividend Yield (%)	2.2	2.5	6.5	4.1	4.8	5.3

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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SEBI Registration: BSE & NSE (Cash & FO) – INZ000007237, NSDL – IN-DP-NSDL-12-96, Research – INH000002459, CIN – U65990MH1993GOI075578**Compliance Officer:** Christina D'souza; Email: compliance@idbicapital.com; Telephone: (91-22) 2217 1907**Disclaimer**

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