

ITC

HOLD

In-line result

Summary

ITC Limited (ITC) reported in-line result. Revenue continues to grow at high double digit across all operating segments. Volume growth in cigarette business remained strong at c. 22%+ driven by market share gains from illicit trade. FMCG revenue growth accelerated to 14% 3 year CAGR (vs 7-9% CAGR over previous 5-6 quarters) driven by recovery in discretionary, OOH and ESPB. Revenue from Hotel segment grew 8% 3-year revenue driven by above pre-pandemic ARR and occupancy. Agri and Paperboard business reports healthy 15% and 13% 3-year-revenue-CAGR. Operating profit margins remained stable due to cost savings and operating leverage. We maintain our EPS estimates. At current price our rating stands at HOLD with target price of Rs 380.

Key Highlights and Investment Rationale

- Growth momentum continues:** Revenue grew 27%YoY driven by 23% YoY growth in Cigarette and 21%YoY in FMCG Branded foods & Others. Agri business revenue grew 44%YoY driven by strong export demand for wheat, rice and leaf tobacco. Paperboard and packaging grew 25%YoY led by higher volumes and realization. Hotel business revenue grew 8% 3-year-CAGR (ARR and Occupancy surpassed pre-covid level)
- Stable margins:** Contraction in gross margin moderated to 23bp YoY YoY (10th consecutive quarter) to 57%. However, EBITDA margin expanded marginally 11 bp YoY at 36.4% led by cost efficiencies. APAT grew 21%YoY to Rs 45bn.
- HOLD:** We broadly maintain our estimates for FY23-24E. At current price, our rating is revised to HOLD. We value ITC on SOTP basis. Our target price stands at Rs 380.

TP **Rs 380**CMP **Rs 350**

Potential upside/downside 9%

Previous Rating BUY

Price Performance (%)

	-1m	-3m	-12m
Absolute	4.2	17.3	41.8
Rel to Sensex	5.0	10.4	45.2

V/s Consensus

EPS (Rs)	FY23E	FY24E
IDBI Capital	13.6	15.3
Consensus	14.3	15.8
% difference	(4.6)	(3.5)

Key Stock Data

Bloomberg/Reuters	ITC IN / ITC.BO
Sector	FMCG
Shares o/s (mn)	12,404
Market cap. (Rs mn)	4,337,632
3-m daily average value (Rs mn)	240.5
52-week high / low	Rs 350 / 207
Sensex / Nifty	59,203 / 17,564

Shareholding Pattern (%)

Promoters	0.0
FII	12.7
DII	38.9
Public	48.4

Financial snapshot

(Rs mn)

Year	FY20	FY21	FY22	FY23E	FY24E
Revenue	456,197	451,764	563,413	606,396	669,799
Change (yoy, %)	(0)	(1)	25	8	10
EBITDA	179,044	154,227	189,337	225,421	254,487
Change (yoy, %)	3	(14)	23	19	13
EBITDA Margin(%)	39.2	34.1	33.6	37.2	38.0
Adj.PAT	151,362	129,475	150,578	167,241	188,381
EPS (Rs)	12.3	10.5	12.2	13.6	15.3
Change (yoy, %)	21.1	(14.6)	16.2	11.1	12.6
PE(x)	28.4	33.2	28.6	25.8	22.9
Dividend Yield (%)	1.6	4.3	3.1	3.2	3.6
EV/EBITDA (x)	23.6	27.7	22.6	19.1	16.8
RoE (%)	24.8	21.0	25.0	26.6	28.5
RoCE (%)	25.9	21.7	27.6	31.8	34.3

Source: IDBI Capital Research

Exhibit 1: Standalone Quarterly Snapshot

(INR m)	Q2FY23	Q2FY22	YoY (%)	Q1FY23	QoQ (%)	YTD FY23	YTD FY22	YoY (%)
Revenues	161,299	127,310	26.7	172,897	-6.7	334,196	249,481	34.0
COGS	69,380	54,462	27.4	84,768	-18.2	154,148	112,323	37.2
Gross profit	91,919	72,848	26.2	88,128	4.3	180,048	137,158	31.3
Gross Margin (%)	57.0	57.2	-23 bps	51.0	601 bps	53.9	55.0	-110 bps
Employee expenses	9,364	7,532	24.3	8,621	8.6	17,985	14,873	20.9
<i>% of net sales</i>	<i>5.8</i>	<i>5.9</i>	<i>-11 bps</i>	<i>5.0</i>	<i>82 bps</i>	<i>5.4</i>	<i>6.0</i>	<i>-58 bps</i>
Other Expenses	23,912	19,166	24.8	23,032	3.8	46,944	36,214	29.6
<i>% of net sales</i>	<i>14.8</i>	<i>15.1</i>	<i>-23 bps</i>	<i>13.3</i>	<i>150 bps</i>	<i>14.0</i>	<i>14.5</i>	<i>-47 bps</i>
EBITDA	58,643	46,150	27.1	56,475	3.8	115,119	86,072	33.7
EBITDA Margin (%)	36.4	36.3	11 bps	32.7	369 bps	34.4	34.5	-5 bps
Depreciation	4,220	4,015	5.1	4,115	2.5	8,336	7,969	4.6
EBIT	54,423	42,136	29.2	52,360	3.94	106,783	78,103	36.7
Other Income	5,069	6,770	-25.1	3,127	62.1	8,196	11,060	-25.9
Interest Expenses	107	105	2.1	91	16.9	198	208	-4.7
PBT	59,385	48,801	21.7	55,396	7.2	114,781	88,955	29.0
Taxes	14,725	11,829	24.5	13,702	7.5	28,427	21,848	30.1
Adjusted PAT	44,661	36,972	20.8	41,694	7.1	86,354	67,107	28.7
Extra-ordinary items	0	0		0		0	0	
Reported PAT	44,661	36,972	20.8	41,694	7.1	86,354	67,107	28.7
EPS	3.62	3.00	20.8	3.38	7.1	7.0	5.4	28.6

Source: Company; IDBI Capital Research

Exhibit 2: Standalone Quarterly Snapshot

Segmental Revenue	Q2FY23	Q2FY22	YoY (%)	Q1FY23	QoQ (%)	YTFY23	YTFY22	YoY (%)
FMCG: Cigarette	69,538	56,417	23.3	66,090	5.2	135,628	107,639	26.0
FMCG: Others	48,848	40,364	21.0	44,514	9.7	93,362	77,620	20.3
Hotels	5,360	2,947	81.8	5,550	-3.4	10,909	4,220	158.5
Agri business	39,970	27,761	44.0	74,730	-46.5	114,700	68,674	67.0
Paperboard, paper & packaging	22,876	18,297	25.0	22,672	0.9	45,548	34,124	33.5
Total	186,591	145,787	28.0	213,555	-12.6	400,146	292,276	36.9
Less: Inter segment revenue	16,879	12,225		31,920		48,799	29,870	
Total revenue	169,712	133,562	27.1	181,636	-6.6	351,347	262,406	33.9

Segmental EBIT	Q2FY23	Q2FY22	YoY (%)	Q1FY23	QoQ (%)	YTFY23	YTFY22	YoY (%)
FMCG: Cigarette	44,293	35,832	23.6	41,889	5.7	86,183	68,041	26.7
FMCG: Others	3,206	2,719	17.9	2,039	57.2	5,245	4,454	17.8
Hotels	840	-480	-275.1	1,122	-25.1	1,962	-1,994	-198.4
Agri business	3,452	2,961	16.6	2,840	21.5	6,292	4,919	27.9
Paperboard, paper & packaging	6,298	4,090	54.0	6,130	2.7	12,428	8,019	55.0

Segmental Margins	Q2FY23	Q2FY22	YoY (%)	Q1FY23	QoQ (%)	YTFY22	YTFY22	YoY (%)
FMCG: Cigarette	63.7%	63.5%	18 bps	63.4%	31 bps	63.5%	63.2%	33 bps
FMCG: Others	6.6%	6.7%	-17 bps	4.6%	198 bps	5.6%	5.7%	-12 bps
Hotels	15.7%	-16.3%	3195 bps	20.2%	-454 bps	18.0%	-47.3%	6524 bps
Agri business	8.6%	10.7%	-203 bps	3.8%	484 bps	5.5%	7.2%	-168 bps
Paperboard, paper & packaging	27.5%	22.4%	518 bps	27.0%	49 bps	27.3%	23.5%	379 bps

Source: Company; IDBI Capital Research

Exhibit 3: Actual vs. Estimates

(Rs mn)

Particulars	Actual	IDBI Estimate	% variation IDBI
Revenue	161,299	173,291	-7%
EBITDA	58,643	60,354	-3%
Margin (%)	36%	35%	
PAT	44,661	44,840	0%

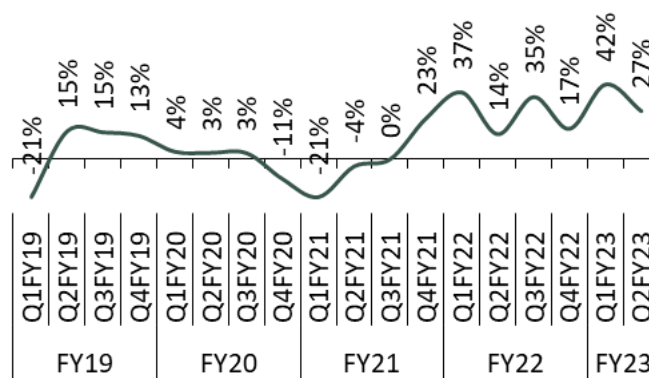
Source: Company; IDBI Capital Research

Exhibit 4: Change in estimates

	FY23E			FY24E		
	Old	New	(%) Chg	Old	New	(%)Chg
Revenue (Rs mn)	604,291	606,396	0.3%	667470	669,799	0.3%
EBITDA (Rs mn)	214,252	225,421	5.2%	244134	254,487	4.2%
EBITDA margin (%)	35.5%	37.2%	4.8%	36.58%	38.0%	3.9%
Net profit (Rs mn)	168,178	167,241	-0.6%	190142	188,381	-0.9%
EPS (Rs)	13.6	13.6	-0.6%	15	15.3	-0.9%

Source: Company; IDBI Capital Research

Exhibit 5: Revenue growth trend (% YoY)



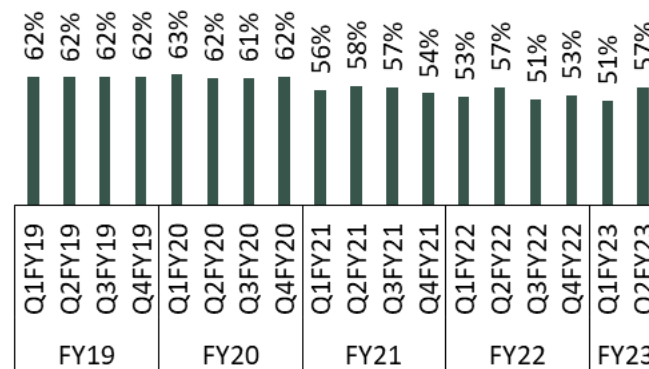
Source: Company; IDBI Capital Research

Exhibit 6: Segmental revenue growth trend

Revenue (%YoY)	FMCG: Cigarette	FMCG: Others	Hotel	Agri-business	Paperboard, paper and packaging
Q2FY21	-4%	15%	-81%	13%	-7%
Q3FY21	4%	13%	-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%
Q2FY23	23%	21%	82%	44%	25%

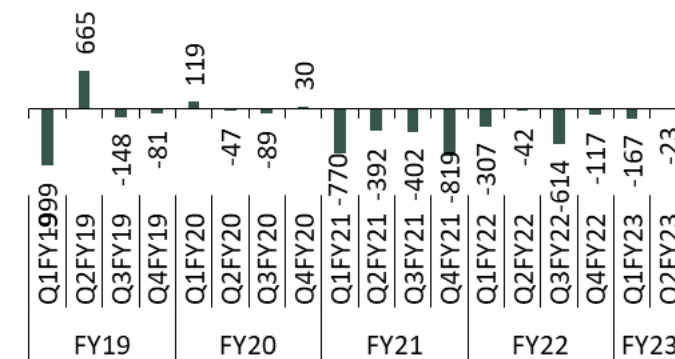
Source: Company; IDBI Capital Research

Exhibit 7: Gross Margin (%)



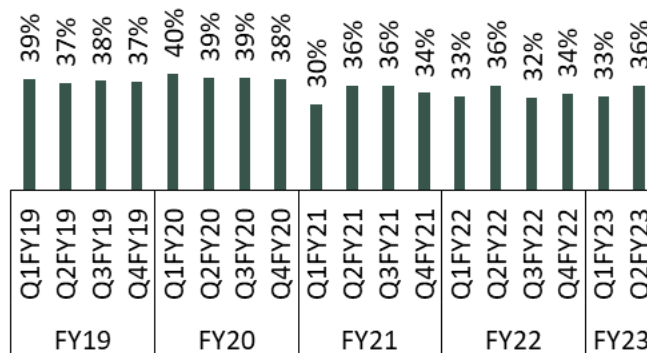
Source: Company; IDBI Capital Research

Exhibit 8: Gross Margin (YoY in bp)



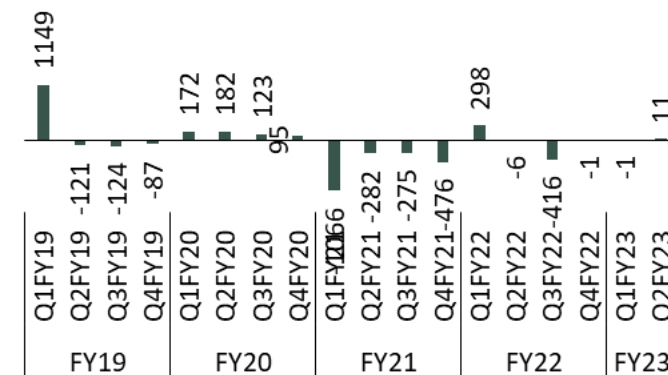
Source: Company; IDBI Capital Research

Exhibit 9: EBITDA Margin (%)



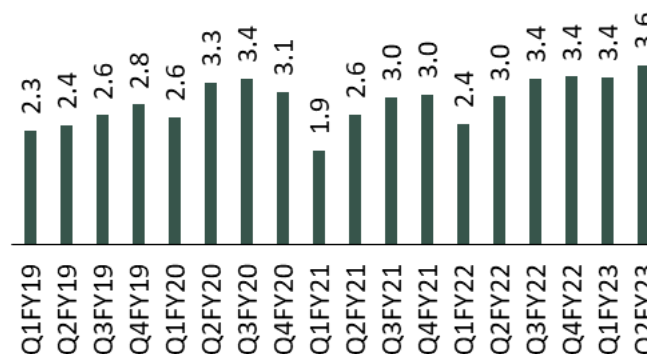
Source: Company; IDBI Capital Research

Exhibit 10: EBITDA Margin (YoY in bp)



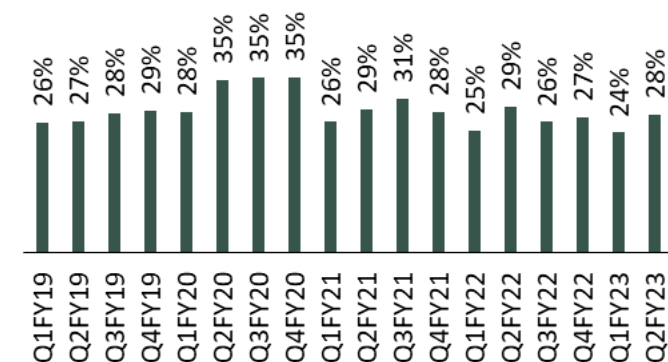
Source: Company; IDBI Capital Research

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	457,844	456,197	451,764	563,413	606,396	669,799
<i>Change (yoy, %)</i>	3.3	(0.4)	(1.0)	24.7	7.6	10.5
Operating expenses	(284,789)	(277,153)	(297,538)	(374,076)	(380,975)	(415,312)
EBITDA	173,055	179,044	154,227	189,337	225,421	254,487
<i>Change (yoy, %)</i>	11.4	3.5	-13.9	22.8	19.1	12.9
<i>Margin (%)</i>	37.8	39.2	34.1	33.6	37.2	38.0
Depreciation	(13,117)	(15,633)	(15,596)	(16,522)	(18,457)	(20,092)
EBIT	159,938	163,411	138,631	172,815	206,964	234,395
Interest paid	(342)	(557)	(475)	(420)	(545)	(573)
Other income	24,845	30,137	32,497	25,900	17,165	18,023
Pre-tax profit	184,442	192,990	170,654	198,295	223,584	251,846
Tax	(59,798)	(40,308)	(41,179)	(47,717)	(56,343)	(63,465)
<i>Effective tax rate (%)</i>	32.4	20.9	24.1	24.1	25.2	25.2
Minority Interest	-	-	-	-	-	-
Net profit	124,643	152,683	129,475	150,578	167,241	188,381
Exceptional items	-	1,321	-	-	-	-
Adjusted net profit	124,643	151,362	129,475	150,578	167,241	188,381
<i>Change (yoy, %)</i>	11.1	21.4	(14.5)	16.3	11.1	12.6
EPS	10.2	12.3	10.5	12.2	13.6	15.3
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	579,498	640,292	590,046	613,996	644,099	678,008
Share capital	12,259	12,292	12,309	12,323	12,323	12,323
Reserves & surplus	567,239	627,999	577,737	601,672	631,776	665,684
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	101,742	114,774	111,248	115,938
Current liabilities	95,963	89,715	100,051	114,218	109,557	114,247
Provisions	252	1,179	1,691	556	1,691	1,691
Total liabilities	118,481	112,062	125,760	136,929	134,653	137,723
Total equity & liabilities	697,979	752,354	715,805	750,925	778,752	815,730
Net fixed assets	218,878	222,322	244,049	246,098	251,899	259,058
Investments	140,715	138,410	133,269	160,215	160,215	160,215
Other non-curr assets	42,698	26,553	20,333	35,192	35,192	35,192
Current assets	295,690	365,069	318,154	309,420	294,516	324,336
Inventories	75,872	80,381	94,709	99,978	104,167	115,059
Sundry Debtors	36,462	20,920	20,904	19,525	26,582	29,361
Cash and Bank	37,687	68,433	40,015	38,779	12,629	28,778
Loans and advances						
Total assets	697,979	752,354	715,805	750,925	778,752	815,730

Cash Flow Statement

(Rs mn)

Year-end: March	FY19	FY20	FY21	FY22	FY23E	FY24E
Pre-tax profit	184,442	191,669	170,654	198,295	223,584	251,846
Depreciation	13,117	13,344	15,596	16,522	18,457	20,092
Tax paid	(54,859)	(46,501)	(39,566)	(18,621)	(56,343)	(63,465)
Chg in working capital	(4,997)	4,180	(3,948)	1,841	(8,624)	(8,981)
Other operating activities	(20,213)	(24,630)	(27,795)	(49,959)	545	573
Cash flow from operations (a)	117,491	138,062	114,940	148,078	177,620	200,065
Capital expenditure	(27,686)	(21,404)	(15,821)	(18,120)	(24,259)	(27,251)
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)	(24,259)	(27,251)
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)	(186,293)	(135,471)	(137,137)	(154,472)
Chg in minorities	-	-	-	-	-	-
Other financing activities	(12,776)	(14,675)	(399)	(814)	711	(2,193)
Cash flow from financing (c)	(66,006)	(78,909)	(183,789)	(133,370)	(136,434)	(156,665)
Net chg in cash (a+b+c)	667	3,986	(3,870)	(463)	16,927	16,149

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	15.3
Adj EPS growth (%)	10.4	21.1	(14.6)	16.2	11.1	12.6
EBITDA margin (%)	37.8	39.2	34.1	33.6	37.2	38.0
Pre-tax margin (%)	40.3	42.3	37.8	35.2	36.9	37.6
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	31.8	34.3
ROE (%)	22.8	24.8	21.0	25.0	26.6	28.5

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	1.2
Net margin (%)	27.2	33.2	28.7	26.7	27.6	28.1

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	43	44

Valuations

Year-end: March	FY19	FY20	FY21	FY22	FY23E	FY24E
PER (x)	34.4	28.4	33.2	28.6	25.8	22.9
Price/Book value (x)	7.4	6.7	7.3	7.0	6.7	6.4
EV/Net sales (x)	9.3	9.3	9.4	7.6	7.1	6.4
EV/EBITDA (x)	24.6	23.6	27.7	22.6	19.1	16.8
Dividend Yield (%)	1.5	1.6	4.3	3.1	3.2	3.6

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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