

ITC

BUY

Below expected

### Summary

ITC Limited (ITC) reported below expected numbers due to higher than expected raw-material inflation. Overall recovery in cigarette business, which reached nearly pre-covid levels during 4QFY21, was significantly impacted (13%QoQ revenue decline) due to restrictions on store operation during the 2nd wave. Progressive recovery in Hotel business witnessed severe impact (44% QoQ revenue decline). Positively, demand in FMCG and Agri Business remained resilient. Inflationary raw material prices contributed towards gross margin contraction but operating profit remained healthy due to cost savings and judicious price hikes. We have marginally trimmed our EPS estimates by c. 5% in FY22E. We maintain FY23E estimates. Our TP stands at Rs 275 with BUY rating.

### Key Highlights and Investment Rationale

#### Business recovery supported by FMCG and Agri Business

Revenue grew 37%YoY on a lower base (1QFY21 revenue declined 21%YoY). Revenue from cigarettes grew 33% YoY while declined 13%QoQ due to 2<sup>nd</sup> wave led disruptions. Revenue from FMCG – Other segment grew 19%YoY on comparable basis driven by strong demand for essentials. E-commerce now contributes 8% to FMCG Other segment's total revenue. Agri Business reported revenue growth of 9%YoY (4%YoY in 1QFY21) driven by zero-disruption in supplies to key customers despite significant operational challenge. Paperboard and packaging also reported healthy top line growth at 9%YoY. Hotel segment was most impacted (-56% QoQ) due to restrictions on mobility.

#### Inflation impacts gross margin; operating profit remains healthy

Gross Margin contracted 307bp YoY to 53% due to inflation in raw material prices. EBITDA margin expanded 298bp to 32.7% due to cost savings and price hikes. EPS grew 29%YoY to Rs 2.45.

#### Trim EPS estimate to factor-in inflation

We have factored in the impact of above expected inflation in our estimates. Accordingly, we have trimmed our EPS estimate for FY22E by 5%. We maintain FY23E estimates. Our ratings stands at BUY with SOTP based target price of Rs 275 implying a P/E multiple of 20x on FY23EPS.

TP Rs275  
CMP Rs212

Potential upside / downside +30%

### V/s Consensus

EPS (Rs)	FY22E	FY23E
IDBI Capital	12.2	14.0
Consensus	12.8	14.1
% difference	(4.9)	(0.5)

### Shareholding Pattern (%)

Promoters	0.0
FII	11.7
DII	38.9
Public	49.4

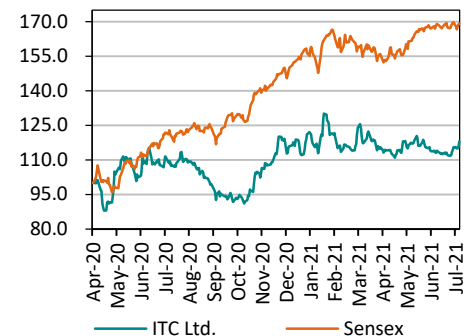
### Price Performance (%)

	-1m	-3m	-12m
Absolute	4.4	3.4	6.3
Rel to Sensex	3.9	(7.2)	(32.6)

### Key Stock Data

Bloomberg / Reuters	ITC IN / ITC.BO
Sector	FMCG
Shares o/s (mn)	12,309
Market cap. (Rs mn)	2,613,783
Market cap. (US\$ mn)	35,127
3-m daily average value (Rs mn)	2,896.9
52-week high / low	Rs 239 / 163
Sensex / Nifty	52,976 / 15,856

### Relative to Sensex (%)



### Financial snapshot

Year	FY19	FY20	FY21	FY22E	FY23E
Revenue	457,844	456,197	451,764	527,584	580,426
EBITDA	173,055	179,044	154,616	185,244	216,303
EBITDA (%)	37.8	39.2	34.2	35.1	37.3
Adj. PAT	124,643	151,362	129,864	149,587	172,859
EPS (Rs)	10.2	12.3	10.6	12.2	14.0
EPS Growth (%)	10.4	21.1	(14.3)	15.2	15.6
PE (x)	19.9	16.5	19.2	16.7	14.4
Dividend Yield (%)	2.5	2.8	7.5	4.9	5.7
EV/EBITDA (x)	14.1	13.5	15.9	13.2	11.2
RoE (%)	22.8	24.8	21.1	24.8	27.3
RoCE (%)	28.1	25.9	21.8	26.7	30.0

Source: Company; IDBI Capital Research

**Exhibit 1: Standalone Quarterly Snapshot**

(INR m)	Q1FY22	Q1FY21	YoY (%)	Q4FY21	QoQ (%)	FY21	FY20	YoY (%)
<b>Revenues</b>	<b>122,171</b>	<b>89,113</b>	<b>37.1</b>	<b>132,947</b>	<b>-8.1</b>	<b>4,51,764</b>	<b>4,56,197</b>	<b>-1.0</b>
COGS	57,861	39,469	46.6	60,762	-4.8	1,97,731	1,72,351	14.7
Gross profit	64,310	49,644	29.5	72,185	-10.9	2,54,034	2,83,845	-10.5
<b>Gross Margin (%)</b>	<b>52.6</b>	<b>55.7</b>	<b>-307 bps</b>	<b>54.3</b>	<b>-166 bps</b>	<b>56.2</b>	<b>62.2</b>	<b>-599 bps</b>
Employee expenses	7,341	6,969	5.3	7,356	-0.2	28,136	26,582	5.8
% of net sales	6.0	7.8	-181 bps	5.5	48 bps	6.2	5.8	40 bps
Other Expenses	17,048	16,209	5.2	20,099	-15.2	71,282	78,220	-8.9
% of net sales	14.0	18.2	-424 bps	15.1	-116 bps	15.8	17.1	-137 bps
<b>EBITDA</b>	<b>39,922</b>	<b>26,466</b>	<b>50.8</b>	<b>44,730</b>	<b>-10.8</b>	<b>1,54,616</b>	<b>1,79,044</b>	<b>-13.6</b>
<b>EBITDA Margin (%)</b>	<b>32.7</b>	<b>29.7</b>	<b>298 bps</b>	<b>33.6</b>	<b>-97 bps</b>	<b>34.2</b>	<b>39.2</b>	<b>-502 bps</b>
Depreciation	3,955	3,982	-0.7	3,880	1.9	15,596	15,633	-0.2
EBIT	35,967	22,484	60.0	40,851	-11.96	1,39,020	1,63,411	-14.9
Other Income	4,290	8,968	-52.2	7,720	-44.4	32,497	30,137	7.8
Interest Expenses	103	168	-38.5	31	228.7	475	557	-14.8
<b>PBT</b>	<b>40,154</b>	<b>31,284</b>	<b>28.3</b>	<b>48,539</b>	<b>-17.3</b>	<b>1,71,043</b>	<b>1,92,990</b>	<b>-11.4</b>
Taxes	10,019	7,857		11,055		41,179	40,308	
<b>Adjusted PAT</b>	<b>30,135</b>	<b>23,428</b>	<b>28.6</b>	<b>37,484</b>	<b>-19.6</b>	<b>1,29,864</b>	<b>1,52,683</b>	<b>-14.9</b>
Extra-ordinary items	0	0		0		0	-1,321	
<b>Reported PAT</b>	<b>30,135</b>	<b>23,428</b>	<b>28.6</b>	<b>37,484</b>	<b>-19.6</b>	<b>1,29,864</b>	<b>1,51,362</b>	<b>-14.2</b>
<b>EPS</b>	<b>2.45</b>	<b>1.91</b>	<b>28.5</b>	<b>3.05</b>	<b>-19.6</b>	<b>10.6</b>	<b>12.3</b>	<b>-14.3</b>

Source: Company; IDBI Capital Research

**Exhibit 2: Standalone Quarterly Snapshot**

Segmental Revenue	Q1FY22	Q1FY21	YoY (%)	Q4FY21	QoQ (%)	FY21	FY20	YoY (%)
FMCG: Cigarette	51,222	38,538	32.9	58,596	-12.6	2,03,331	2,12,017	-4.1
FMCG: Others	37,256	33,746	10.4	36,875	1.0	1,44,189	1,28,442	12.3
Hotels	1,272	226	463.5	2,878	-55.8	6,275	18,373	-65.8
Agri business	40,913	37,463	9.2	33,689	21.4	1,25,822	1,02,407	22.9
Paperboard, paper & packaging	15,827	10,264	54.2	16,559	-4.4	56,181	61,072	-8.0
Total	146,489	120,237	21.8	148,597	-1.4	5,35,799	5,22,312	2.6
Less: Inter segment revenue	17,645	25,881		8,363		57,377	59,074	
Total revenue	128,845	94,356	36.6	140,234	-8.1	4,78,422	4,63,237	3.3
Segmental EBIT	Q1FY22	Q1FY21	YoY (%)	Q4FY21	QoQ (%)	FY21	FY20	YoY (%)
FMCG: Cigarette	32,209	23,564	36.7	36,665	-12.2	1,27,204	1,48,526	-14.4
FMCG: Others	1,734	1,254	38.3	1,886	-8.1	7,741	4,231	83.0
Hotels	-1,515	-2,426	-37.6	-401	277.7	-5,349	1,578	-439.1
Agri business	1,957	1,787	9.5	1,899	3.1	8,207	7,889	4.0
Paperboard, paper & packaging	3,928	1,601	145.3	3,233	21.5	10,987	13,053	-15.8
Segmental Margins	Q1FY22	Q1FY21	YoY (%)	Q4FY21	QoQ (%)	FY21	FY20	YoY (%)
FMCG: Cigarette	62.9%	61.1%	174 bps	62.6%	31 bps	62.6%	70.1%	-749 bps
FMCG: Others	4.7%	3.7%	94 bps	5.1%	-46 bps	5.4%	3.3%	207 bps
Hotels	-119.0%	-1074.3%	NA	-13.9%	NA	-85.2%	8.6%	-9383 bps
Agri business	4.8%	4.8%	1 bps	5.6%	-85 bps	6.5%	7.7%	-118 bps
Paperboard, paper & packaging	24.8%	15.6%	922 bps	19.5%	530 bps	19.6%	21.4%	-182 bps

Source: Company; IDBI Capital Research

**Exhibit 3: Actual vs. Estimates**

(Rs mn)

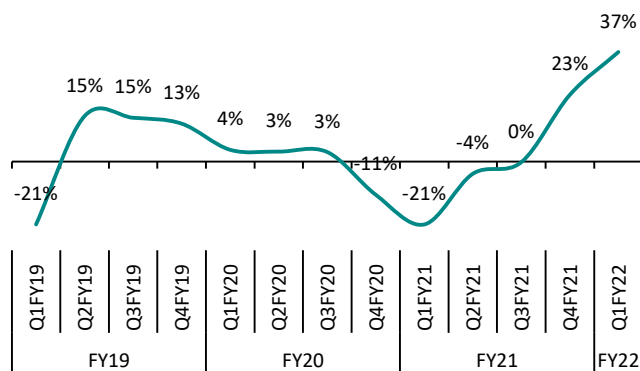
Particulars	Actual	IDBI Estimate	% variation IDBI
Revenue	122,171	117,726	4
EBITDA	39,922	39,085	2
Margin (%)	33	33	
PAT	30,135	31,979	-6

Source: Company; IDBI Capital Research

**Exhibit 4: Change in estimates**

	FY22E			FY23E		
	Old	New	(%) Chg	Old	New	(%) Chg
Revenue (Rs mn)	527,584	527,584	0.0	580,426	580,426	0.0
EBITDA (Rs mn)	195,796	185,244	-5.4	216,303	216,303	0.0
EBITDA margin (%)	37.1	35.1	-5.4	37.3	37.3	0.0
Net profit (Rs mn)	157,430	149,587	-5.0	172,809	172,859	0.0
EPS (Rs)	12.8	12.2	-5.0	14.0	14.0	0.0

Source: Company; IDBI Capital Research

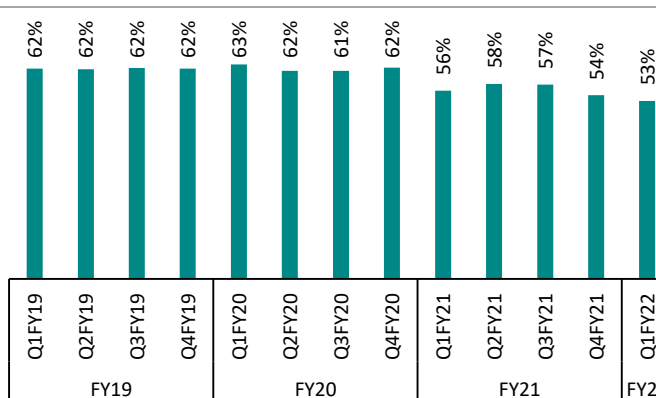
**Exhibit 5: Revenue growth trend (% YoY)**


Source: Company; IDBI Capital Research

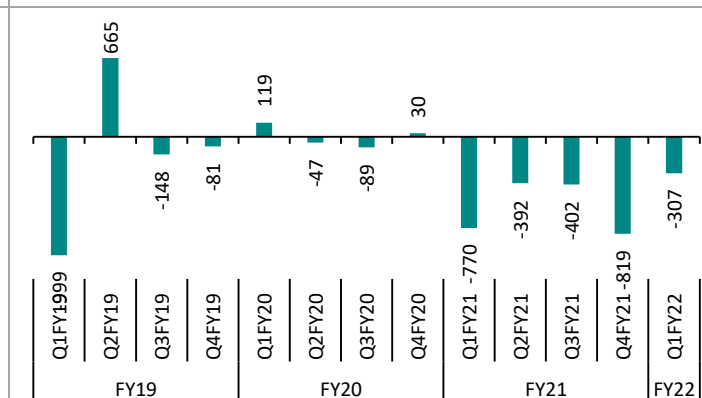
**Exhibit 6: Segmental revenue growth trend**

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%
Q1FY22	33%	10%	464%	9%	54%

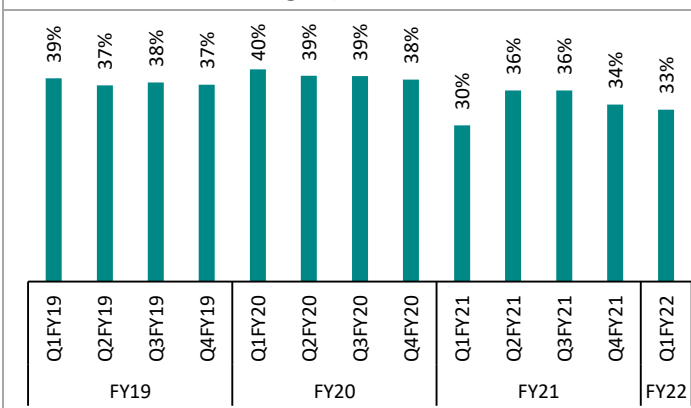
Source: Company; IDBI Capital Research

**Exhibit 7: Gross Margin (%)**


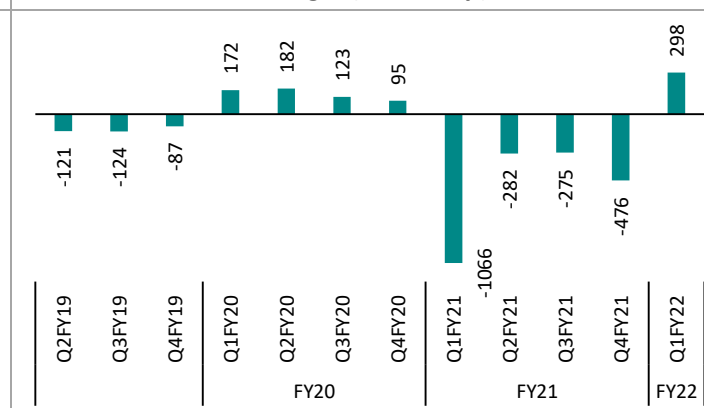
Source: Company; IDBI Capital Research

**Exhibit 8: Gross Margin (YoY in bp)**


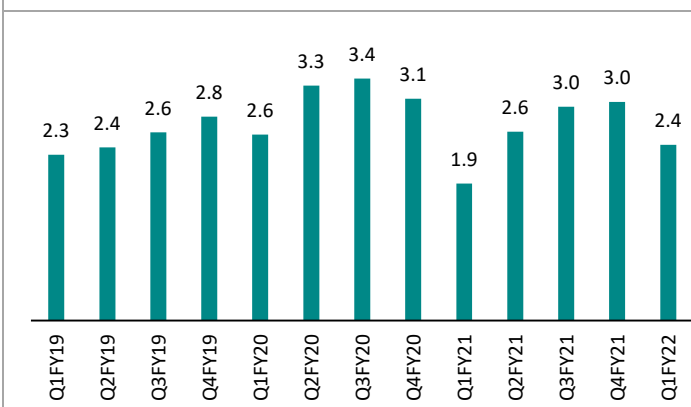
Source: Company; IDBI Capital Research

**Exhibit 9: EBITDA Margin (%)**


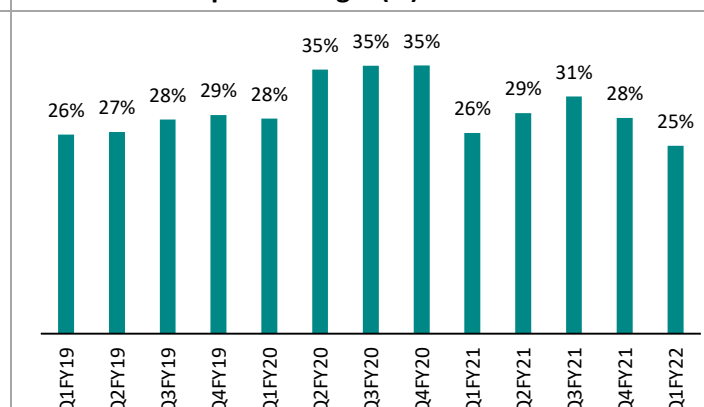
Source: Company; IDBI Capital Research

**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
<b>Net sales</b>	<b>456,197</b>	<b>451,764</b>	<b>527,584</b>	<b>580,426</b>
<i>growth (%)</i>	<i>(0.4)</i>	<i>(1.0)</i>	<i>16.8</i>	<i>10.0</i>
Operating expenses	(277,153)	(297,148)	(342,340)	(364,124)
<b>EBITDA</b>	<b>179,044</b>	<b>154,616</b>	<b>185,244</b>	<b>216,303</b>
<i>growth (%)</i>	<i>3.5</i>	<i>-13.6</i>	<i>19.8</i>	<i>16.8</i>
Depreciation	(15,633)	(15,596)	(17,989)	(19,571)
<b>EBIT</b>	<b>163,411</b>	<b>139,020</b>	<b>167,256</b>	<b>196,732</b>
Interest paid	(557)	(475)	(498)	(523)
Other income	30,137	32,497	33,226	34,887
<b>Pre-tax profit</b>	<b>192,990</b>	<b>171,043</b>	<b>199,983</b>	<b>231,095</b>
Tax	(40,308)	(41,179)	(50,396)	(58,236)
<i>Effective tax rate (%)</i>	<i>20.9</i>	<i>24.1</i>	<i>25.2</i>	<i>25.2</i>
Minority Interest	-	-	-	-
<b>Net profit</b>	<b>152,683</b>	<b>129,864</b>	<b>149,587</b>	<b>172,859</b>
Exceptional items	1,321	-	-	-
<b>Adjusted net profit</b>	<b>151,362</b>	<b>129,864</b>	<b>149,587</b>	<b>172,859</b>
<i>growth (%)</i>	<i>21.4</i>	<i>(14.2)</i>	<i>15.2</i>	<i>15.6</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	191,669	171,043	199,983	231,095
Depreciation	13,344	15,558	17,989	19,571
Tax paid	(46,501)	(39,566)	(50,396)	(58,236)
Chg in working capital	4,180	(3,948)	(312)	(7,485)
Other operating activities	(24,630)	(28,147)	498	523
<b>Cash flow from operations (a)</b>	<b>138,062</b>	<b>114,940</b>	<b>167,762</b>	<b>185,469</b>
Capital expenditure	(21,404)	(15,821)	(29,427)	(25,119)
Chg in investments	(39,275)	88,039	-	-
Other investing activities	5,511	(7,239)	-	-
<b>Cash flow from investing (b)</b>	<b>(55,167)</b>	<b>64,979</b>	<b>(29,427)</b>	<b>(25,119)</b>
Equity raised/(repaid)	6,253	2,907	-	-
Debt raised/(repaid)	-	(4)	4	-
Dividend (incl. tax)	(70,487)	(186,293)	(122,661)	(141,744)
Chg in minorities	-	-	-	-
Other financing activities	(14,675)	(399)	(2,251)	(523)
<b>Cash flow from financing (c)</b>	<b>(78,909)</b>	<b>(183,789)</b>	<b>(124,909)</b>	<b>(142,268)</b>
<b>Net chg in cash (a+b+c)</b>	<b>3,986</b>	<b>(3,871)</b>	<b>13,426</b>	<b>18,082</b>

**Balance Sheet**

(Rs mn)

Year-end: March	FY20	FY21	FY22E	FY23E
Net fixed assets	222,322	244,049	255,487	261,035
Investments	138,410	133,269	133,269	133,269
Other non-curr assets	26,553	20,333	20,333	20,333
<b>Current assets</b>	<b>365,069</b>	<b>318,154</b>	<b>327,793</b>	<b>356,758</b>
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	51,510	69,081
<b>Total assets</b>	<b>752,354</b>	<b>715,805</b>	<b>736,882</b>	<b>771,395</b>
<b>Shareholders' funds</b>	<b>640,292</b>	<b>590,046</b>	<b>616,971</b>	<b>648,086</b>
Share capital	12,292	12,309	12,309	12,309
Reserves & surplus	627,999	577,737	604,663	635,777
<b>Total Debt</b>	<b>56</b>	<b>53</b>	<b>56</b>	<b>56</b>
Secured loans	56	53	56	56
Unsecured Loans	-	-	-	-
Other Liabilities	21,112	23,965	22,212	22,212
<b>Curr Liab &amp; prov</b>	<b>90,894</b>	<b>101,742</b>	<b>97,642</b>	<b>101,040</b>
Current liabilities	89,715	100,051	95,952	99,861
Provisions	1,179	1,691	1,691	1,179
<b>Total liabilities</b>	<b>112,062</b>	<b>125,760</b>	<b>119,911</b>	<b>123,309</b>
<b>Total equity &amp; liab.</b>	<b>752,354</b>	<b>715,805</b>	<b>736,882</b>	<b>771,395</b>
<b>Book Value (Rs)</b>	<b>52</b>	<b>48</b>	<b>50</b>	<b>53</b>

Source: Company; IDBI Capital Research

**Financial Ratios**

Year-end: March	FY20	FY21	FY22E	FY23E
Adj. EPS (Rs)	12.3	10.6	12.2	14.0
Adj. EPS growth (%)	21.1	(14.3)	15.2	15.6
EBITDA margin (%)	39.2	34.2	35.1	37.3
Pre-tax margin (%)	42.3	37.9	37.9	39.8
ROE (%)	24.8	21.1	24.8	27.3
ROCE (%)	25.9	21.8	26.7	30.0
<b>Turnover &amp; Leverage ratios (x)</b>				
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	28.4	29.8
Net Debt/Equity (x)	(0.1)	(0.1)	(0.1)	(0.1)
<b>Working Capital &amp; Liquidity ratio</b>				
Inventory days	64	77	63	63
Receivable days	17	17	16	16
Payable days	45	51	42	43

**Valuation**

Year-end: March	FY20	FY21	FY22E	FY23E
P/E (x)	16.5	19.2	16.7	14.4
Price / Book value (x)	3.9	4.2	4.0	3.8
PCE (x)	14.9	17.1	14.9	13.0
EV / Net sales (x)	5.3	5.4	4.6	4.2
EV / EBITDA (x)	13.5	15.9	13.2	11.2
Dividend Yield (%)	2.8	7.5	4.9	5.7





# Notes

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

**BUY:** 15%+; **HOLD:** -5% to 15%; **SELL:** -5% and below.

**IDBI Capital Markets & Securities Ltd.**

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