

ITC

BUY

Recovery witnessed across segment

Summary

ITC Limited (ITC) reported below expected result. Cigarette business witnessed healthy recovery with exit volume during the quarter reaching pre-covid levels. FMCG business delivered resilient performance on a high base. Staples and convenience food witnessed moderation in demand on a high base. Demand for hygiene portfolio declined in-line with lower intensity of the pandemic. Closure of educational institution impacted demand for ESPB business. In hotel business; occupancy levels improved significantly (3x YoY) thereby turning EBITDA positive during the quarter. Impact of inflation on gross margin has been moderate while EBITDA margin remained stable due to lower other expenses (as % of revenue). As per revised outlook on raw material inflation; we have trimmed our EPS estimates by 3-4% during FY22-23E. We have introduced FY24E in our estimates. Our revised TP based on SOTP valuation stands at Rs 299 (vs previous TP of Rs 275). We maintain BUY rating.

Key Highlights and Investment Rationale

■ Demand picks-up across segments; cigarette exit volume reach pre-covid levels

Revenue (ex-agri business) grew 12%YoY driven by resilient performance of FMCG (+23% vs 2QFY20) due to sharp re-bounce in out-of-home consumption. Cigarette business grew 10%YoY driven by strong recovery across all regions with exit volumes at pre-covid levels. Occupancy in hotel business improved by 3x YoY as business travel gathers momentum while leisure destination continues the growth momentum. Paperboard and packaging segment Adj.PAT grew 25% aided by revival in demand across end-user segments. Revenue contribution from e-commerce stands at 7%.

■ Inflation impacts gross margin; operating profit remains stable

Gross Margin contracted 42bp YoY to 57% due to inflation in raw material prices. EBITDA margin remained flat at 36% due to lower other expenses. EPS grew 14% YoY to Rs 3.

TP	Rs299
CMP	Rs238
Potential upside / downside	+25%
Previous Rating	BUY

V/s Consensus

EPS (Rs)	FY22E	FY23E	FY24E
IDBI Capital	10.6	13.5	14.9
Consensus	12.5	14.0	14.9
% difference	(15.1)	(3.6)	0.1

Shareholding Pattern (%)

Promoters	0.0
FII	13.6
DII	39.9
Public	46.5

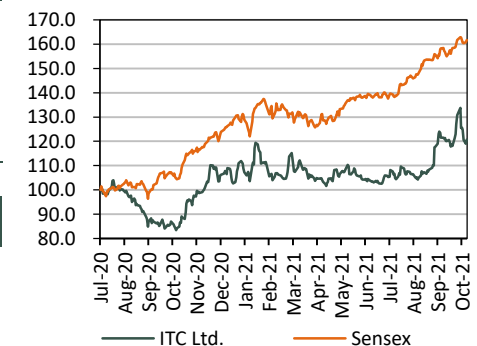
Price Performance (%)

	-1m	-3m	-12m
Absolute	(0.1)	14.3	42.6
Rel to Sensex	(1.8)	(2.0)	(8.3)

Key Stock Data

Bloomberg / Reuters	ITC IN / ITC.BO
Sector	FMCG
Shares o/s (mn)	12,322
Market cap. (Rs mn)	2,937,470
Market cap. (US\$ mn)	39,188
3-m daily average value (Rs mn)	417.4
52-week high / low	Rs 265 / 163
Sensex / Nifty	61,143 / 18,211

Relative to Sensex (%)



Financial snapshot

Year	FY20	FY21	FY22E	FY23E	FY24E
Revenue	457,844	456,197	451,764	5,76,234	6,33,902
EBITDA	173,055	179,044	154,616	2,07,744	2,30,294
EBITDA(%)	37.8	39.2	34.2	36.1	36.3
Adj.PAT	124,643	151,362	129,864	1,66,532	1,83,427
EPS(Rs)	10.2	12.3	10.6	13.5	14.9
EPSGrowth(%)	10.4	21.1	(14.3)	15.5	10.1
PE(x)	19.9	16.5	19.2	17.6	16.0
DividendYield(%)	2.5	2.8	7.5	4.6	5.1
EV/EBITDA(x)	14.1	13.5	15.9	13.8	12.4
RoE(%)	22.8	24.8	21.1	26.4	27.7
RoCE(%)	28.1	25.9	21.8	28.8	30.5

Source: IDBI Capital Research;

Exhibit 1: Standalone Quarterly Snapshot

(INR m)	Q2FY22	Q2FY21	YoY (%)	Q1FY22	QoQ (%)	YTFY22	YTFY21	YoY (%)
Revenues	1,27,310	1,11,831	13.8	1,22,171	4.2	2,49,481	2,00,944	24.2
COGS	54,462	47,370	15.0	57,861	-5.9	1,12,323	86,839	29.3
Gross profit	72,848	64,461	13.0	64,310	13.3	1,37,158	1,14,105	20.2
Gross Margin (%)	57.2	57.6	-42 bps	52.6	458 bps	55.0	56.8	-181 bps
Employee expenses	7,532	6,610	13.9	7,341	2.6	14,873	13,580	9.5
% of net sales	5.9	5.9	1 bps	6.0	-9 bps	6.0	6.8	-80 bps
Other Expenses	19,166	17,245	11.1	17,048	12.4	36,214	33,454	8.2
% of net sales	15.1	15.4	-37 bps	14.0	110 bps	14.5	16.6	-213 bps
EBITDA	46,150	40,606	13.7	39,922	15.6	86,072	67,072	28.3
EBITDA Margin (%)	36.3	36.3	-6 bps	32.7	357 bps	34.5	33.4	112 bps
Depreciation	4,015	3,825	5.0	3,955	1.5	7,969	7,807	2.1
EBIT	42,136	36,781	14.6	35,967	17.15	78,103	59,265	31.8
Other Income	6,770	6,100	11.0	4,290	57.8	11,060	15,068	-26.6
Interest Expenses	105	138	-24.1	103	1.3	208	306	-32.0
PBT	48,801	42,743	14.2	40,154	21.5	88,955	74,028	20.2
Taxes	11,829	10,419		10,019		21,848	18,276	
Adjusted PAT	36,972	32,324	14.4	30,135	22.7	67,107	55,752	20.4
Extra-ordinary items	0	0		0		0	0	
Reported PAT	36,972	32,324	14.4	30,135	22.7	67,107	55,752	20.4
EPS	3.00	2.63	14.1	2.45	22.6	5.4	4.5	20.1

Source: Company; IDBI Capital Research

Exhibit 2: Standalone Quarterly Snapshot

Segmental Revenue	Q2FY22	Q2FY21	YoY (%)	Q1FY22	QoQ (%)	YTD FY22	YTD FY21	YoY (%)
FMCG: Cigarette	56,417	51,213	10.2	51,222	10.1	1,07,639	89,751	19.9
FMCG: Others	40,364	37,950	6.4	37,256	8.3	77,620	71,695	8.3
Hotels	2,947	820	259.6	1,272	131.6	4,220	1,045	303.6
Agri business	27,761	29,853	-7.0	40,913	-32.1	68,674	67,316	2.0
Paperboard, paper & packaging	18,297	14,583	25.5	15,827	15.6	34,124	24,847	37.3
Total	1,45,787	1,34,417	8.5	1,46,489	-0.5	2,92,276	2,54,654	14.8
Less: Inter segment revenue	12,225	15,502		17,645		29,870	41,383	
Total revenue	1,33,562	1,18,915	12.3	1,28,845	3.7	2,62,406	2,13,271	23.0
Segmental EBIT	Q2FY22	Q2FY21	YoY (%)	Q1FY22	QoQ (%)	YTD FY22	YTD FY21	YoY (%)
FMCG: Cigarette	35,832	32,448	10.4	32,209	11.2	68,041	56,012	21.5
FMCG: Others	2,719	2,527	7.6	1,734	56.8	4,454	3,781	17.8
Hotels	-480	-1,849	-74.1	-1,515	-68.3	-1,994	-4,275	-53.3
Agri business	2,961	2,561	15.7	1,957	51.3	4,919	4,348	13.1
Paperboard, paper & packaging	4,090	3,303	23.8	3,928	4.1	8,019	4,904	63.5
Segmental Margins	Q2FY22	Q2FY21	YoY (%)	Q1FY22	QoQ (%)	YTD FY22	YTD FY21	YoY (%)
FMCG: Cigarette	63.5%	63.4%	15 bps	62.9%	63 bps	63.2%	62.4%	80 bps
FMCG: Others	6.7%	6.7%	8 bps	4.7%	208 bps	5.7%	5.3%	46 bps
Hotels	-16.3%	-225.6%	20932 bps	-119.0%	10275 bps	-47.3%	-408.9%	36165 bps
Agri business	10.7%	8.6%	209 bps	4.8%	588 bps	7.2%	6.5%	70 bps
Paperboard, paper & packaging	22.4%	22.6%	-29 bps	24.8%	-247 bps	23.5%	19.7%	376 bps

Source: Company; IDBI Capital Research

Exhibit 3: Actual vs. Estimates

(Rs mn)

Particulars	Actual	IDBI Estimate	% variation IDBI
Revenue	1,27,310	1,34,358	-5%
EBITDA	46,150	48,638	-5%
Margin (%)	36%	36%	
PAT	36,972	39,137	-6%

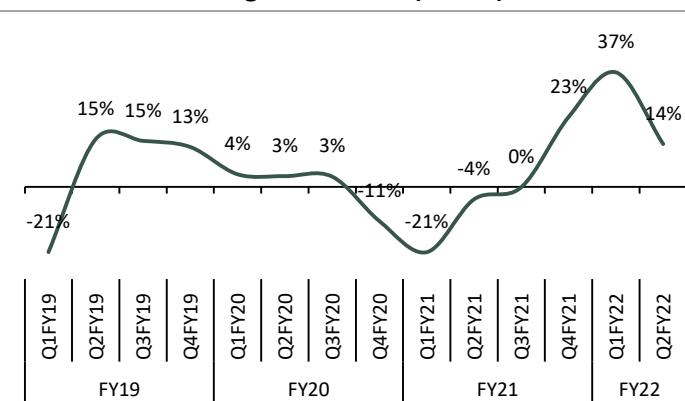
Source: Company; IDBI Capital Research

Exhibit 4: Change in estimates

	FY22E			FY23E			FY24E
	Old	New	(%) Chg	Old	New	(%) Chg	New
Revenue (Rs mn)	5,27,584	5,24,146	-0.7%	5,80,426	5,76,234	-0.7%	6,33,902
EBITDA (Rs mn)	1,85,244	1,77,942	-3.9%	2,16,303	2,07,744	-4.0%	2,30,294
EBITDA margin (%)	35.1%	33.9%	-3.3%	37.3%	36.1%	-3.3%	36.3%
Net profit (Rs mn)	1,49,587	1,44,159	-3.6%	1,72,809	1,66,532	-3.6%	1,83,427
EPS (Rs)	12.2	11.7	-3.7%	14.0	13.5	-3.7%	14.9

Source: Company; IDBI Capital Research

Exhibit 5: Revenue growth trend (% YoY)



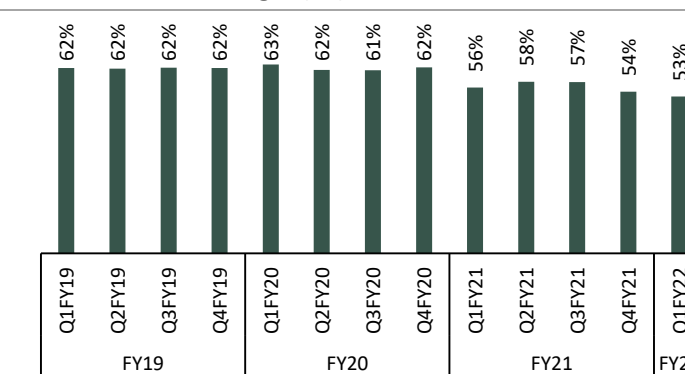
Source: Company; IDBI Capital Research

Exhibit 6: Segmental revenue growth trend

Revenue (%YoY)	FMCG: Cigarette	FMCG: Others	Hotel	Agri-business	Paperboard, paper and packaging
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%
Q2FY22	10%	6%	260%	-7%	25%

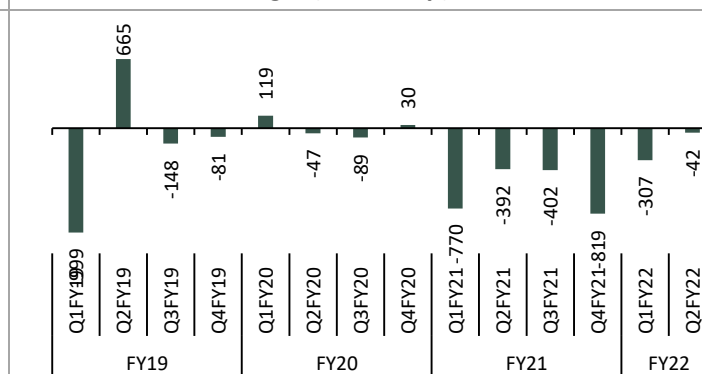
Source: Company; IDBI Capital Research

Exhibit 7: Gross Margin (%)

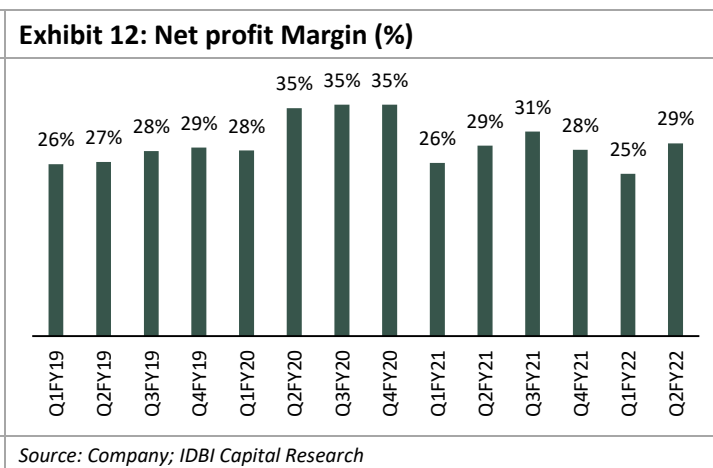
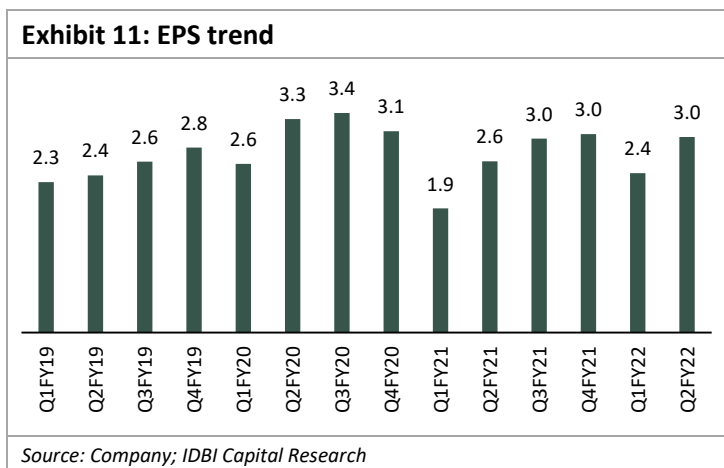
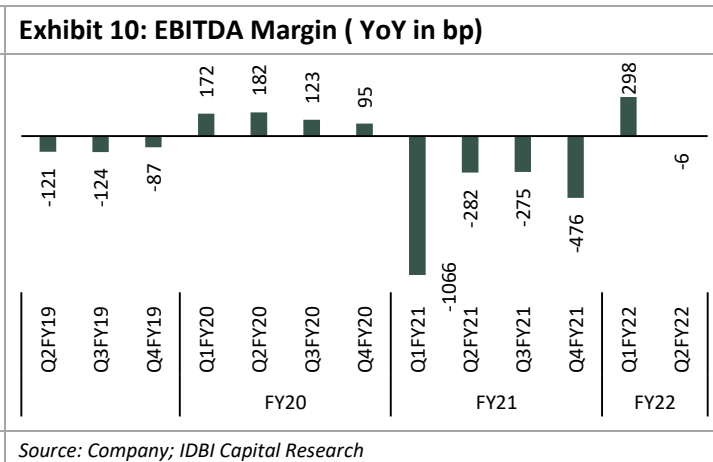
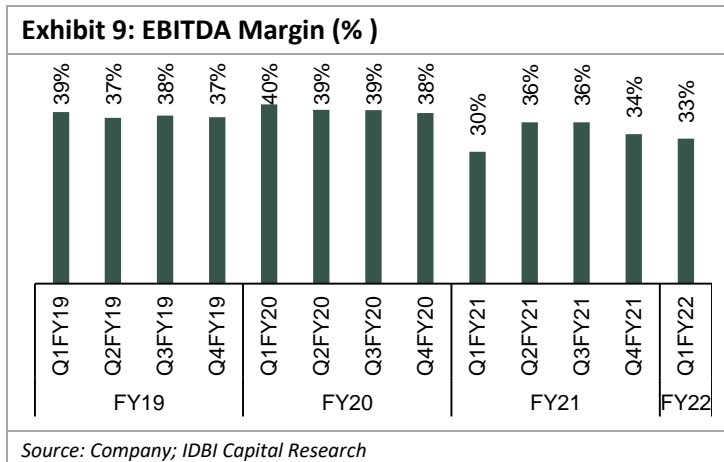


Source: Company; IDBI Capital Research

Exhibit 8: Gross Margin (YoY in bp)



Source: Company; IDBI Capital Research



Financial Summary

Profit & Loss Account

(Rs mn)

Year-end: March	FY21	FY22E	FY23E	FY24E
Net sales	4,51,764	5,24,146	5,76,234	6,33,902
<i>Growth (%)</i>	<i>(1.0)</i>	<i>16.0</i>	<i>9.9</i>	<i>10.0</i>
Operating expenses	(2,97,148)	(3,46,204)	(3,68,490)	(4,03,608)
EBITDA	1,54,616	1,77,942	2,07,744	2,30,294
<i>Growth (%)</i>	<i>-13.6</i>	<i>15.1</i>	<i>16.7</i>	<i>10.9</i>
Depreciation	(15,596)	(17,943)	(19,471)	(21,153)
EBIT	1,39,020	1,59,999	1,88,273	2,09,141
Interest paid	(475)	(498)	(523)	(550)
Other income	32,497	33,226	34,887	36,631
Pre-tax profit	1,71,043	1,92,726	2,22,636	2,45,223
Tax	(41,179)	(48,567)	(56,104)	(61,796)
<i>Effective tax rate (%)</i>	<i>24.1</i>	<i>25.2</i>	<i>25.2</i>	<i>25.2</i>
Minority Interest	-	-	-	-
Net profit	1,29,864	1,44,159	1,66,532	1,83,427
Exceptional items	-	-	-	-
Adjusted net profit	1,29,864	1,44,159	1,66,532	1,83,427
<i>Growth (%)</i>	<i>(14.2)</i>	<i>11.0</i>	<i>15.5</i>	<i>10.1</i>
<i>Shares o/s (mn nos)</i>	<i>12,309</i>	<i>12,320</i>	<i>12,320</i>	<i>12,320</i>

Cash Flow Statement

(Rs mn)

Year-end: March	FY21	FY22E	FY23E	FY24E
Pre-tax profit	1,71,043	1,92,726	2,22,636	2,45,223
Depreciation	15,558	17,943	19,471	21,153
Tax paid	(39,566)	(48,567)	(56,104)	(61,796)
Chg in working capital	(3,948)	175	(7,378)	(8,168)
Other operating activities	(28,147)	498	523	550
Cash flow from operations (a)	1,14,940	1,62,775	1,79,149	1,96,961
Capital expenditure	(15,821)	(28,697)	(24,263)	(26,693)
Chg in investments	88,039	-	-	-
Other investing activities	(7,239)	-	-	-
Cash flow from investing (b)	64,979	(28,697)	(24,263)	(26,693)
Equity raised/(repaid)	2,907	-	-	-
Debt raised/(repaid)	(4)	4	-	-
Dividend (incl. tax)	(1,86,293)	(1,18,211)	(1,36,556)	(1,50,410)
Chg in minorities	-	-	-	-
Other financing activities	(399)	(2,251)	(523)	(550)
Cash flow from financing (c)	(1,83,789)	(1,20,458)	(1,37,080)	(1,50,959)
Net chg in cash (a+b+c)	(3,871)	13,620	17,806	19,309

Balance Sheet

(Rs mn)

Year-end: March	FY21	FY22E	FY23E	FY24E
Net fixed assets	2,44,049	2,54,803	2,59,595	2,65,134
Investments	1,33,269	1,33,269	1,33,269	1,33,269
Other non-curr assets	20,333	20,333	20,333	20,333
Current assets	3,18,154	3,27,246	3,55,772	3,87,515
Inventories	94,709	90,038	98,986	1,08,892
Sundry Debtors	20,904	22,976	25,260	27,787
Cash and Bank	40,015	51,704	68,999	88,308
Total assets	7,15,805	7,35,651	7,68,969	8,06,251
Shareholders' funds	5,90,046	6,15,994	6,45,970	6,78,987
Share capital	12,309	12,309	12,309	12,309
Reserves & surplus	5,77,737	6,03,686	6,33,661	6,66,678
Total Debt	53	56	56	56
Secured loans	53	56	56	56
Other liabilities	23,965	22,212	22,212	22,212
Curr Liab & prov	1,01,742	97,388	1,00,730	1,04,996
Current liabilities	1,00,051	95,697	99,551	1,03,816
Provisions	1,691	1,691	1,179	1,179
Total liabilities	1,25,760	1,19,657	1,22,999	1,27,264
Total equity & liabilities	7,15,805	7,35,651	7,68,969	8,06,251
Book Value (Rs)	48	50	52	55

Source: Company; IDBI Capital Research

Financial Ratios

Year-end: March	FY21	FY22E	FY23E	FY24E
Adj. EPS (Rs)	10.6	11.7	13.5	14.9
Adj. EPS growth (%)	(14.3)	10.9	15.5	10.1
EBITDA margin (%)	34.2	33.9	36.1	36.3
Pre-tax margin (%)	37.9	36.8	38.6	38.7
ROE (%)	21.1	23.9	26.4	27.7
ROCE (%)	21.8	25.6	28.8	30.5
Turnover & Leverage ratios (x)				
Asset turnover (x)	0.6	0.7	0.8	0.8
Leverage factor (x)	1.2	1.2	1.2	1.2
Net margin (%)	28.7	27.5	28.9	28.9
Net Debt/Equity (x)	(0.1)	(0.1)	(0.1)	(0.1)
Working Capital & Liquidity ratio				
Inventory days	77	63	63	63
Receivable days	17	16	16	16
Payable days	51	41	42	42

Valuation

Year-end: March	FY21	FY22E	FY23E	FY24E
P/E (x)	22.6	20.4	17.6	16.0
Price / Book value (x)	5.0	4.8	4.5	4.3
PCE (x)	20.2	18.1	15.8	14.4
EV / Net sales (x)	6.4	5.5	5.0	4.5
EV / EBITDA (x)	18.7	16.2	13.8	12.4
Dividend Yield (%)	6.3	4.0	4.6	5.1



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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