

June 27, 2020

Q4FY20 Result Update

■ Change in Estimates | Target | ■ Reco

Change in Estimates

	Current		Previous	
	FY21E	FY22E	FY21E	FY22E
Rating	BUY		BUY	
Target Price	251		250	
Sales (Rs. m)	4,85,434	5,37,077	4,85,434	5,37,077
% Chng.	-	-	-	-
EBITDA (Rs. m)	1,86,052	2,11,789	1,86,052	2,11,789
% Chng.	-	-	-	-
EPS (Rs.)	12.0	13.6	12.0	13.5
% Chng.	-	-	-	-

Key Financials - Standalone

Y/e Mar	FY19	FY20	FY21E	FY22E
Sales (Rs. bn)	450	456	485	537
EBITDA (Rs. bn)	173	179	186	212
Margin (%)	38.5	39.2	38.3	39.4
PAT (Rs. bn)	125	153	148	168
EPS (Rs.)	10.2	12.4	12.0	13.6
Gr. (%)	10.6	22.2	(3.7)	13.5
DPS (Rs.)	5.8	10.2	10.0	11.0
Yield (%)	2.9	5.2	5.1	5.6
RoE (%)	22.8	25.0	22.2	23.4
RoCE (%)	29.2	26.8	25.5	27.0
EV/Sales (x)	5.0	4.7	4.6	4.1
EV/EBITDA (x)	12.9	12.1	11.9	10.4
PE (x)	19.2	15.7	16.3	14.4
P/BV (x)	4.1	3.7	3.5	3.2

Key Data

	ITC.BO ITC IN
52-W High / Low	Rs.283 / Rs.135
Sensex / Nifty	35,171 / 10,383
Market Cap	Rs.2,400bn/ \$ 31,723m
Shares Outstanding	12,293m
3M Avg. Daily Value	Rs.11298.87m

Shareholding Pattern (%)

Promoter's	-
Foreign	14.65
Domestic Institution	42.46
Public & Others	42.89
Promoter Pledge (Rs bn)	-

Stock Performance (%)

	1M	6M	12M
Absolute	1.8	(17.6)	(29.6)
Relative	(11.4)	(3.5)	(20.8)

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Cigarette and FMCG lead recovery; BUY

Quick Pointers:

- Cigarette volumes decline ~11% in 4Q, expect 1Q exit at pre Covid levels
- Strong growth in Foods and Personal Hygiene products, expect high teens growth and steady margin expansion

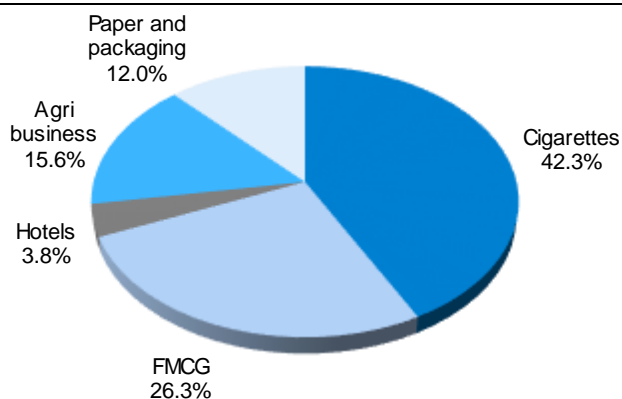
ITC's 4Q20 cigarette volume decline of 11% disappointed whereas 160bps margin expansion for FY20 in FMCG business was a big positive. Although 1Q is likely to show significant pressure due to washout in April across Cigarettes and Hotels business, expect high teens growth in FMCG due to strong traction in Biscuits, Atta, Noodles and personal hygiene products. We believe cigarette business has picked up well and might achieve exit volumes equal to pre Covid levels, despite 9% price increase in Feb. We expect tepid recovery in Hotels business for next couple of quarters with losses in 1H due to low occupancy and higher fixed cost business. We believe ITC would be one of the key beneficiary of an uptick in FMCG demand and is inching towards double digit EBIDTA margins over next 2-3 years. ITC trades at 14.4x FY22 EPS, ~60% discount to our coverage universe with 5% dividend yield (80% payout) and 8.9% PBT CAGR over FY20-22. Maintain BUY with target price of Rs251 on SOTP (valuing cigarette business at 15x FY22 EPS).

- **Cigarettes volumes decline ~11%; EBIT down 11.7%:** Cigarettes volumes declined ~11% mainly due to Covid19 induced lockdown. April was a complete washout, however we believe business has shown considerable pickup in last 6 weeks and should reach pre Covid level on exit basis. Sales mix has not seen any deterioration despite 9% price increase post duty changes.
- **FMCG EBIDTA margin expanded 110bps, at 8.1%:** Reported revenues down 6.5% (5% growth on comparable basis) due to loss in peak season sales of stationary and impact of covid19. FY20 EBIDTA margins expanded 160bps to 7.1%. We note select food products like Biscuits, Atta, Noodles and personal care hygiene products have shown spurt in demand. We expect high teens growth in FMCG business in 1Q, except stationary and Lifestyle retailing business. Improved economies of scale will enable business achieve double digit EBIDTA margins over next 2 years.
- **Hotels performance impacted due to travel ban:** Sales down 8.6% YoY led by severe restrictions in travel for business as well as leisure, and heightened sensitivity around hygiene and social distancing. EBIT margins halved during 4Q. We expect delayed recovery as ARR are currently ruling around below teens, we expect near term losses due to high fixed cos nature of business.
- **Paperboards, Paper & Packaging** revenue decreased 5.1% due to sluggish growth in end-user industries like pharma, FMCG and Liquor. Margins flat at 19.6% due to higher in-house pulp production, operating efficiencies and benign inputs. Paperboards is currently operating at 80-85% of normal levels.
- **Agri Business** sales down 10.2% due to supply chain disruptions. However, Operations in the Agri Business have since then normalized. EBIT down 16.4%, while margins contracted 50bps to 6.5%.

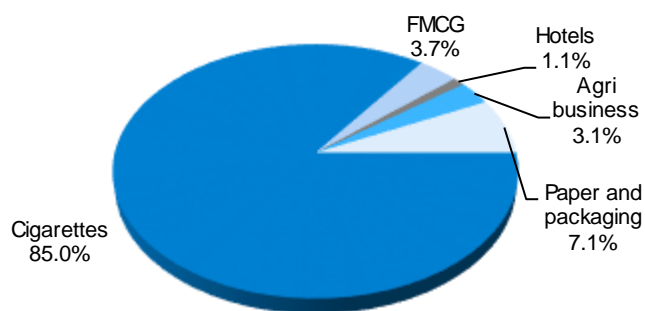
Exhibit 1: Q4FY20 Result Overview: Net Sales down 9.6%, Adj. PAT up 9.1% led by lower tax rate

Y/e March	Q4FY20	Q4FY19	YoY gr. (%)	Q3FY20	FY20	FY19	YoY gr. (%)
Net Sales	1,08,423	1,19,921	(9.6)	1,20,130	4,56,197	4,49,957	1.4
EBITDA	41,635	45,717	(8.9)	46,127	1,79,043	1,73,055	3.5
<i>Margins (%)</i>	<i>38.4</i>	<i>38.1</i>		<i>38.4</i>	<i>39.2</i>	<i>38.5</i>	
Depreciation	3,925	3,502	12.1	4,162	15,633	13,117	19.2
Interest	147.3	77.4	90.3	124.4	557.2	341.9	63.0
Other Income	7,555	7,402	2.1	9,836	30,137	24,845	21.3
PBT	45,118	49,539	(8.9)	51,676	1,92,989	1,84,442	4.6
Tax	7,148	14,720	(51.4)	8,936	40,308	59,798	(32.6)
<i>Tax Rate (%)</i>	<i>15.8</i>	<i>29.7</i>		<i>17.3</i>	<i>20.9</i>	<i>32.4</i>	
Adjusted PAT	37,971	34,819	9.1	42,740	1,52,682	1,24,643	22.5

Source: Company, PL

Exhibit 2: Cigarettes revenue share at 42.3%, FMCG 26.3%


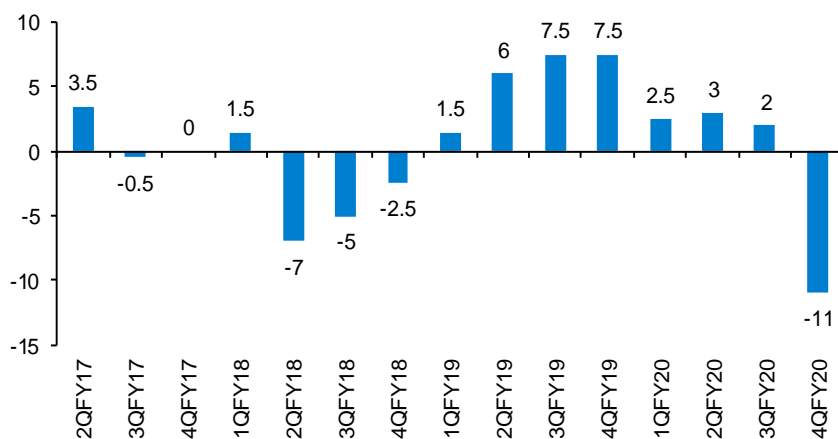
Source: Company, PL

Exhibit 3: Cigarettes are 85.0% of EBIT


Source: Company, PL

Cigarette volume decreased 11% due to nation-wide lockdown

Sales fell 6.5%, EBIT down 11.7%.
EBIT Margins contracted 400bps.

Exhibit 4: Cigarettes: Volumes down ~11% due to lockdown


Source: Company, PL

Prior to the outbreak of the pandemic, the FMCG-Others segment was on track to register double-digit revenue growth for the fourth quarter, on a comparable basis

Launched two products in record time - 'Savlon Surface Disinfectant Spray' and 'Savlon Hexa' hand sanitizing liquid, Nim wash-Vegetable and Fruit Wash and germ protection wipes. manufacturing has been substantially

Currently utilisation of staples (atta, biscuits and noodles at 100%.

Tie-ups for delivery of its products to consumers include diverse companies such as Dominos, Swiggy, Zomato, Dunzo, Amway etc. 'ITC Store on Wheels' to ensure direct reach to consumers.

Overall, FMCG industry growth rates halved to ~7% in Q3 FY20 compared to same period last year, with the situation getting worse in Q4 FY20 due to the COVID-19 pandemic induced lockdowns across the country. Rural growth stood at 0.8x of urban markets in FY20 compared to 1.4x in FY19.

Commissioned ITC Royal Bengal, Kolkata, this 'One of A Kind' luxury hotel is an ode to the region's cultural heritage and lineage. In its first year of operations, the hotel has been able to establish a pre-eminent position.

Entered into a Share Purchase Agreement to acquire 100% of Sunrise Foods Private Limited (SFPL), an Indian company primarily engaged in the business of spices under the trademark 'Sunrise'.

In the Spices category, during the year, the Company expanded its geographical footprint to 17 states and recorded healthy volume growth

The Tedhe Medhe range was augmented with the launch of two innovative variants – 'Herby Spin' and 'Chatpata Swing.'

Exhibit 5: Cigarette volumes under pressure, FMCG margins on an uptick

	3QFY19	4QFY19	1QFY20	2QFY20	3QFY20	4QFY20
Cigarette Volume gr %	7.5	7.5	2.5	3.0	2.0	-11.0
Sales (INR m)	1,21,933	1,29,079	1,40,248	1,32,547	1,28,257	1,21,259
Cigarettes	50,734	54,859	54,334	53,268	53,110	51,305
FMCG	32,010	32,739	30,601	32,883	33,123	31,836
Hotels	4,519	5,098	3,926	4,266	5,523	4,658
Agri business	19,246	21,009	36,112	26,475	20,947	18,873
Paper and packaging	15,425	15,374	15,275	15,654	15,554	14,588
Sales growth (YoY)						
Cigarettes	9.6	11.1	6.0	6.0	4.7	(6.5)
FMCG	11.5	7.3	6.6	4.0	3.5	(2.8)
Hotels	11.7	24.9	15.0	17.7	22.2	(8.6)
Agri business	25.7	16.2	14.6	19.3	8.8	(10.2)
Paper and packaging	20.5	18.2	12.7	9.9	0.8	(5.1)
EBIT (INR m)	42,256	45,229	44,703	45,577	44,983	40,014
Cigarettes	35,577	38,560	38,491	38,445	37,560	34,030
FMCG	767	1,305	780	905	1,076	1,470
Hotels	603	887	104	174	873	426
Agri business	1,988	1,472	2,030	2,494	2,134	1,231
Paper and packaging	3,321	3,005	3,298	3,559	3,340	2,857
EBIT growth (YoY)	9.1	12.0	8.7	8.5	6.5	(11.5)
Cigarettes	8.8	10.0	8.2	7.4	5.6	(11.7)
FMCG	63.1	43.1	55.7	54.8	40.4	12.6
Hotels	10.1	17.5	(21.4)	12.0	44.8	(52.0)
Agri business	(14.8)	18.8	4.3	5.7	7.4	(16.4)
Paper and packaging	23.8	24.0	11.5	14.5	0.6	(4.9)
EBIT Margin (%)						
Cigarettes	70.1	70.3	70.8	72.2	70.7	66.3
FMCG	2.4	4.0	2.5	2.8	3.2	4.6
Hotels	13.3	17.4	2.6	4.1	15.8	9.1
Agri business	10.3	7.0	5.6	9.4	10.2	6.5
Paper and packaging	21.5	19.5	21.6	22.7	21.5	19.6

Source: Company, PL

Exhibit 6: SOTP

SOTP	Basis	X	EV	PAT (Rs mn)	% of PAT	EPS	Value/Share
Cigarettes	P/E	15		122280	72.6	9.9	148
FMCG - Others	EV/Sales	3.0	499144	8052	4.8	0.6	40
Hotels	EV/EBIDTA	20	7,083	3040	1.8	0.2	11
Agri business	P/E	12		9557	5.7	0.8	9
Paper and packaging	P/E	10		11120	6.6	0.9	9
Business Value						12.4	218
Cash and Invst			407025				33
Total Value/share							251

Source: PL

Financials

Income Statement (Rs m)

Y/e Mar	FY19	FY20	FY21E	FY22E
Net Revenues	4,49,957	4,56,197	4,85,434	5,37,077
YoY gr. (%)	10.8	1.4	6.4	10.6
Cost of Goods Sold	1,73,051	1,72,351	1,90,033	2,07,630
Gross Profit	2,76,905	2,83,846	2,95,401	3,29,447
Margin (%)	61.5	62.2	60.9	61.3
Employee Cost	27,284	26,582	30,681	32,924
Other Expenses	37,282	37,448	37,851	41,809
EBITDA	1,73,055	1,79,043	1,86,052	2,11,789
YoY gr. (%)	11.4	3.5	3.9	13.8
Margin (%)	38.5	39.2	38.3	39.4
Depreciation and Amortization	13,117	15,633	16,554	17,504
EBIT	1,59,938	1,63,410	1,69,497	1,94,284
Margin (%)	35.5	35.8	34.9	36.2
Net Interest	342	557	574	574
Other Income	24,845	30,137	29,521	32,547
Profit Before Tax	1,84,442	1,92,989	1,98,444	2,26,257
Margin (%)	41.0	42.3	40.9	42.1
Total Tax	59,798	40,308	50,762	57,809
Effective tax rate (%)	32.4	20.9	25.6	25.6
Profit after tax	1,24,643	1,52,682	1,47,682	1,68,448
Minority interest	-	-	-	-
Share Profit from Associate	-	-	-	-
Adjusted PAT	1,24,643	1,52,682	1,47,682	1,68,448
YoY gr. (%)	11.1	22.5	(3.3)	14.1
Margin (%)	27.7	33.5	30.4	31.4
Extra Ord. Income / (Exp)	-	(1,321)	-	-
Reported PAT	1,24,643	1,51,361	1,47,682	1,68,448
YoY gr. (%)	11.1	21.4	(2.4)	14.1
Margin (%)	27.7	33.2	30.4	31.4
Other Comprehensive Income	3,626	(13,818)	-	-
Total Comprehensive Income	1,28,269	1,37,542	1,47,682	1,68,448
Equity Shares O/s (m)	12,259	12,292	12,352	12,412
EPS (Rs)	10.2	12.4	12.0	13.6

Source: Company Data, PL Research

Balance Sheet Abstract (Rs m)

Y/e Mar	FY19	FY20	FY21E	FY22E
Non-Current Assets				
Gross Block	3,06,152	3,31,381	3,51,542	3,71,742
Tangibles	2,96,042	3,20,963	3,40,924	3,60,924
Intangibles	10,110	10,418	10,618	10,818
Acc: Dep / Amortization	1,21,189	1,36,822	1,53,376	1,70,881
Tangibles	1,16,486	1,31,598	1,47,622	1,64,585
Intangibles	4,703	5,224	5,755	6,296
Net fixed assets	1,84,963	1,94,559	1,98,166	2,00,862
Tangibles	1,79,457	1,89,365	1,93,302	1,96,339
Intangibles	5,506	5,195	4,864	4,523
Capital Work In Progress	33,915	27,763	30,000	30,000
Goodwill	-	-	-	-
Non-Current Investments	1,49,402	1,34,589	1,71,347	1,84,652
Net Deferred tax assets	(20,441)	(16,177)	(15,368)	(14,599)
Other Non-Current Assets	34,010	30,373	48,765	52,173
Current Assets				
Investments	1,25,066	1,71,750	1,35,354	1,55,657
Inventories	75,872	80,381	97,099	1,08,955
Trade receivables	36,462	20,920	28,211	32,687
Cash & Bank Balance	37,687	68,433	52,897	56,094
Other Current Assets	6,949	8,477	13,107	14,501
Total Assets	6,97,979	7,52,354	7,91,460	8,54,567
Equity				
Equity Share Capital	12,259	12,292	12,352	12,412
Other Equity	5,67,239	6,27,999	6,78,862	7,34,614
Total Network	5,79,498	6,40,292	6,91,214	7,47,026
Non-Current Liabilities				
Long Term borrowings	79	56	-	-
Provisions	1,326	1,438	1,557	1,690
Other non current liabilities	-	-	-	-
Current Liabilities				
ST Debt / Current of LT Debt	0	0	0	0
Trade payables	33,683	34,467	28,902	31,378
Other current liabilities	62,532	56,427	50,831	56,187
Total Equity & Liabilities	6,97,978	7,52,354	7,91,460	8,54,567

Source: Company Data, PL Research

Cash Flow (Rs m)

Y/e Mar	FY19	FY20	FY21E	FY22E
PBT	1,84,442	1,91,120	1,98,444	2,26,257
Add. Depreciation	13,117	15,925	16,554	17,504
Add. Interest	342	575	574	574
Less Financial Other Income	24,845	30,137	29,521	32,547
Add. Other	(2,532)	10,654	(18,992)	(3,945)
Op. profit before WC changes	1,95,369	2,18,273	1,96,580	2,40,390
Net Changes-WC	(42,050)	(72,402)	16,420	(38,908)
Direct tax	(59,798)	(38,262)	(50,762)	(57,809)
Net cash from Op. activities	93,521	1,07,610	1,62,238	1,43,674
Capital expenditures	(26,079)	(30,025)	(22,398)	(20,200)
Interest / Dividend Income	-	-	-	-
Others	(7,148)	14,784	(36,757)	(13,303)
Net Cash from Inv. activities	(33,227)	(15,242)	(59,155)	(33,503)
Issue of share cap. / premium	15,723	(7,127)	28,006	10,886
Debt changes	(32)	2,570	(56)	-
Dividend paid	(74,869)	(84,937)	(1,24,766)	(1,23,522)
Interest paid	(342)	(575)	(574)	(574)
Others	-	-	-	-
Net cash from Fin. activities	(59,520)	(90,068)	(97,390)	(1,13,211)
Net change in cash	774	2,299	5,693	(3,040)
Free Cash Flow	67,442	77,584	1,39,840	1,23,474

Source: Company Data, PL Research

Quarterly Financials (Rs m)

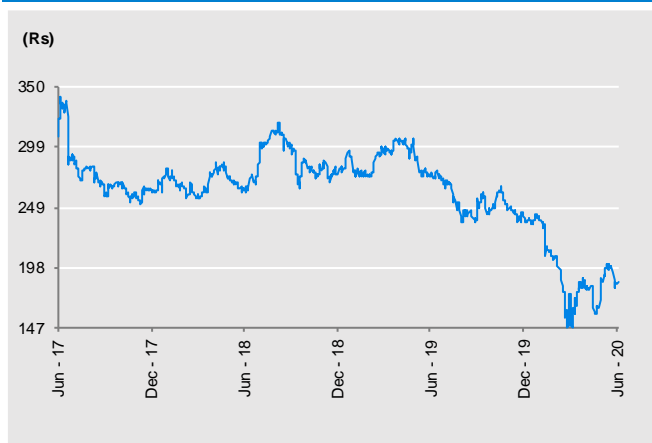
Y/e Mar	Q1FY20	Q2FY20	Q3FY20	Q4FY20
Net Revenue	1,15,028	1,18,715	1,20,130	1,08,423
YoY gr. (%)	7.4	7.3	7.0	(9.6)
Raw Material Expenses	41,399	44,817	45,465	40,671
Gross Profit	73,630	73,898	74,665	67,752
Margin (%)	64.0	62.2	62.2	62.5
EBITDA	45,657	45,624	46,127	41,635
YoY gr. (%)	8.7	8.5	6.6	(8.9)
Margin (%)	39.7	38.4	38.4	38.4
Depreciation / Depletion	3,589	3,957	4,162	3,925
EBIT	42,068	41,667	41,965	37,710
Margin (%)	36.6	35.1	34.9	34.8
Net Interest	152	133	124	147
Other Income	6,202	6,543	9,836	7,555
Profit before Tax	48,117	48,077	51,676	45,118
Margin (%)	41.8	40.5	43.0	41.6
Total Tax	16,378	4,446	8,936	7,148
Effective tax rate (%)	34.0	9.2	17.3	15.8
Profit after Tax	31,739	43,631	42,740	37,971
Minority interest	-	-	-	-
Share Profit from Associates	-	-	-	-
Adjusted PAT	31,739	43,631	42,740	37,971
YoY gr. (%)	12.6	47.7	33.2	9.1
Margin (%)	27.6	36.8	35.6	35.0
Extra Ord. Income / (Exp)	-	-	(1,321)	-
Reported PAT	31,739	43,631	41,419	37,971
YoY gr. (%)	12.6	47.7	29.1	9.1
Margin (%)	27.6	36.8	34.5	35.0
Other Comprehensive Income	(2,130)	-	-	(7,612)
Total Comprehensive Income	29,609	43,631	41,419	30,359
Avg. Shares O/s (m)	12,242	12,242	12,242	12,292
EPS (Rs)	2.6	3.6	3.5	3.1

Source: Company Data, PL Research

Key Financial Metrics

Y/e Mar	FY19	FY20	FY21E	FY22E
Per Share(Rs)				
EPS	10.2	12.4	12.0	13.6
CEPS	11.2	13.7	13.3	15.0
BVPS	47.3	52.1	56.0	60.2
FCF	5.5	6.3	11.3	9.9
DPS	5.8	10.2	10.0	11.0
Return Ratio(%)				
RoCE	29.2	26.8	25.5	27.0
ROIC	29.9	31.9	28.1	30.2
RoE	22.8	25.0	22.2	23.4
Balance Sheet				
Net Debt : Equity (x)	(0.3)	(0.4)	(0.3)	(0.3)
Net Working Capital (Days)	64	53	72	75
Valuation(x)				
PER	19.2	15.7	16.3	14.4
P/B	4.1	3.7	3.5	3.2
P/CEPS	11.2	13.7	13.3	15.0
EV/EBITDA	12.9	12.1	11.9	10.4
EV/Sales	5.0	4.7	4.6	4.1
Dividend Yield (%)	2.9	5.2	5.1	5.6

Source: Company Data, PL Research

Price Chart
Recommendation History


No.	Date	Rating	TP (Rs.)	Share Price (Rs.)
1	15-Apr-20	BUY	250	189
2	31-Jan-20	BUY	310	235
3	03-Jan-20	BUY	346	239
4	24-Oct-19	BUY	344	249
5	03-Oct-19	BUY	344	262
6	02-Aug-19	BUY	367	265
7	04-Jul-19	BUY	369	278

Analyst Coverage Universe

Sr. No.	Company Name	Rating	TP (Rs)	Share Price (Rs)
1	Asian Paints	Accumulate	1,722	1,689
2	Avenue Supermarts	Reduce	1,658	2,398
3	Britannia Industries	BUY	3,744	3,510
4	Colgate Palmolive	Reduce	1,224	1,313
5	Crompton Greaves Consumer Electricals	BUY	267	199
6	Dabur India	Hold	422	431
7	Emami	Hold	285	227
8	Future Retail	Under Review	-	332
9	GlaxoSmithKline Consumer Healthcare	Hold	9,377	9,247
10	Havells India	Reduce	485	511
11	Hindustan Unilever	Hold	2,017	2,195
12	ITC	BUY	250	189
13	Jubilant FoodWorks	Hold	1,392	1,530
14	Kansai Nerolac Paints	BUY	487	389
15	Marico	Hold	318	284
16	Nestle India	Reduce	13,127	17,462
17	Pidilite Industries	Hold	1,317	1,391
18	Titan Company	Hold	936	997
19	Voltas	Accumulate	564	539

PL's Recommendation Nomenclature (Absolute Performance)

Buy	: > 15%
Accumulate	: 5% to 15%
Hold	: +5% to -5%
Reduce	: -5% to -15%
Sell	: < -15%
Not Rated (NR)	: No specific call on the stock
Under Review (UR)	: Rating likely to change shortly

ANALYST CERTIFICATION

(Indian Clients)

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