

## ITC

## Resilience in challenging times

ITC's 1QFY21 beat revenue expectations as the company clocked 17% YoY decline vs the estimated decline of 28% YoY. Cigarette (adjusted for excise duty on inventory) net revenue/EBIT declined by 35/39% YoY with a volume dip of 35% YoY. The company saw sequential improvement in cigarette revenue with marginal sales in April, 30-35% YoY decline in May and a strong recovery in June. However, the last 10 days have been challenging due to the return of lockdowns. FMCG showed strong momentum as the company saw a comparable growth of 12% YoY, with 34% YoY growth in staples, convenience foods and health & hygiene (75% of the portfolio). The growth was led by packaged foods (biscuits, atta, and noodles) and hygiene products. We expect the FMCG momentum to sustain, at a slightly lower growth rate. We maintain our EPS estimate for FY21/FY22/FY23 as we expect a recovery in the company 2HFY21 onwards. We value ITC on SoTP and arrive at a target price of Rs 236 (implied P/E of 18x P/E Jun-22E EPS). Maintain BUY.

- Beat in revenue:** Net revenue for ITC declined by 17% YoY (+6% in 1QFY20 and -6% in 4QFY20). Cigarette (net)/Hotels/Paper declined 35/94/33% YoY, while FMCG/Agri business saw 12/4% YoY growth. Cigarette revenue remained under pressure, with a volume decline of ~35% YoY, although the company has seen sequential improvement since May. FMCG portfolio (75% mix) showed strong growth of 34% YoY, led by robust growth in hygiene (Savlon grew to 5x YoY), noodles (>50% YoY) and atta (>30% YoY).
- Margins under pressure:** Gross margin fell sharply by 555bps YoY to 58.5% (+180bps in 1QFY20 and +220bps in 4QFY20) vs an expectation of flat YoY GM. Employee/other expenses grew 1/5% YoY, leading to an EBITDAM dip of 1,184bps YoY (+105bps in 1QFY20 and -100bps in 4QFY20). Overall EBITDA declined by 42% YoY. Cigarette (adjusting for excise duty on inventory)/Hotels/Agri/Paper EBIT margins dipped by 170/1,339/85/599bps YoY. FMCG EBITDA/EBIT margin expanded by 170/117bps YoY to 7.6/3.7%. Lower taxes and higher other income restricted the decline in APAT to 26% YoY.
- Press release and management call takeaways:** (1) 40-50% cigarette shops are operational across the country. South has the highest number of open shops; (2) cigarette channel inventory is back to the normal level; (3) the company saw market share gains in most FMCG categories; (4) modern trade/e-comm registered a growth of 20/90% YoY; (5) biscuits saw continued strength in demand in the first two weeks of July, but the momentum has now slowed down industry-wide.

## Quarterly/Annual Financial summary

| YE Mar (Rs mn)   | 1Q<br>FY21 | 1Q<br>FY20 | YoY<br>(%) | 4Q<br>FY20 | QoQ<br>(%) | FY20     | FY21E    | FY22E    | FY23E    |
|------------------|------------|------------|------------|------------|------------|----------|----------|----------|----------|
| Net Sales        | 95,018     | 1,15,028   | (17.4)     | 1,14,200   | (16.8)     | 4,94,041 | 4,86,060 | 5,44,314 | 5,85,611 |
| EBITDA           | 26,466     | 45,657     | (42.0)     | 41,635     | (36.4)     | 1,92,602 | 1,86,037 | 2,09,842 | 2,25,906 |
| APAT             | 23,428     | 31,739     | (26.2)     | 37,971     | (38.3)     | 1,52,275 | 1,41,330 | 1,59,451 | 1,70,653 |
| Diluted EPS (Rs) | 1.9        | 2.6        | (26.4)     | 3.1        | (38.3)     | 12.4     | 11.5     | 13.0     | 13.9     |
| P/E (x)          |            |            |            |            |            | 15.8     | 17.0     | 15.1     | 14.1     |
| EV / EBITDA (x)  |            |            |            |            |            | 10.7     | 11.1     | 9.6      | 8.8      |
| RoCE (%)         |            |            |            |            |            | 44.8     | 40.4     | 44.7     | 46.9     |

Source: Company, HSIE Research

## BUY

|                         |        |
|-------------------------|--------|
| CMP (as on 24 Jul 2020) | Rs 200 |
| Target Price            | Rs 236 |
| NIFTY                   | 11,194 |

| KEY CHANGES  | OLD    | NEW    |
|--------------|--------|--------|
| Rating       | BUY    | BUY    |
| Price Target | Rs 236 | Rs 236 |
| EPS %        | FY21E  | FY22E  |
|              | 0%     | 0%     |

## KEY STOCK DATA

|                             |              |
|-----------------------------|--------------|
| Bloomberg code              | ITC IN       |
| No. of Shares (mn)          | 12,293       |
| MCap (Rs bn) / (\$ mn)      | 2,455/32,820 |
| 6m avg traded value (Rs mn) | 5,804        |
| 52 Week high / low          | Rs 273/135   |

## STOCK PERFORMANCE (%)

|              | 3M     | 6M     | 12M    |
|--------------|--------|--------|--------|
| Absolute (%) | 10.9   | (16.1) | (26.3) |
| Relative (%) | (10.8) | (7.8)  | (27.0) |

## SHAREHOLDING PATTERN (%)

|                 | Mar-20 | June-20 |
|-----------------|--------|---------|
| Promoters       | 0.00   | 0.00    |
| FIs & Local MFs | 42.46  | 42.09   |
| FPIs            | 14.65  | 14.60   |
| Public & Others | 42.89  | 43.31   |
| Pledged Shares  | 0.00   | 0.00    |

Source : BSE

Pledged shares as % of total shares

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