

Double digit FMCG margins in sight...

ITC reported 17.4% decline in sales with cigarettes revenues seeing de-growth of 29.1%. The volume dip of 40% was better than our expectation given 45 days business loss. We believe trade (distributor, retailers) inventory would have depleted during lockdown despite retail shops staying closed. Preferred pack buying over loose cigarettes also helped restore volumes. These factors would have helped company to re-fill trade pipeline given manufacturing & supply chain operations normalised in June. The trade normally holds 14 days inventory. Comparable FMCG sales grew 12.2% with strong demand in staples, packaged foods & hygiene product and steep decline in discretionary & stationary businesses. Operating margins contracted 1184 bps mainly impacted by negative operating leverage & excise hike earlier in budget. Net profit de-grew 26.2%.

FMCG to grow at faster pace; double digit margins in sight

The 75% of FMCG business products (ex-stationary) consists of staples, packaged foods, hygiene products that witnessed impressive growth of 34%. On the other hand, 25% of products (discretionary categories) like snacks (Bingo), deodorants & juices saw de-growth of 25%. Education & stationary revenue was worst hit with a decline of 65% as education institutions remained closed. FMCG business margins (EBITDA) saw 170 bps improvement to 7.6%. We believe the company's strong packaged foods portfolio would continue to benefit from increased 'in-home' consumption in the medium term. Further, we believe growth in hygiene category would be structural with increase in per capita spends. The expansion of Savlon brand in home & personal hygiene products coupled with its proposition as antiseptic is likely to lead in market share gains. Juices & deodorants are unlikely to impact growth in the next two quarters given peak summer season sales have already been lost. However, education & stationary would continue to suffer until educational institutes reopen. With strong growth in large part of the portfolio, we expect the FMCG business to grow at 13.5% CAGR (FY20-22) with double digit margins by FY22E.

Cigarettes volumes restored to normal

We change our cigarette volume de-growth estimate for FY21E to 9% from 10% earlier with faster restoration of trade inventory. We believe category can see positive volume growth in medium term as contraband cigarette sales were impacted by stalled international travel, sealed borders, rise in seizing of illicit cigarettes. We expect full recovery of cigarette volumes with 12% growth in FY22E. ITC took ~9% price hike in February after excise duty hike in Budget 2020. We expect 7.2% CAGR in cigarette sales in FY20-22E.

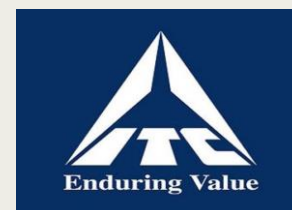
Valuation & Outlook

With the end of capex cycle in most businesses (except FMCG), we believe capital allocation has been rationalised. With more than ₹ 20,000 crore of cash & liquid investment and consistent free cash flow generation of ₹ 10,000-12000 crore, we expect dividend of ₹ 20/share including special dividend in FY21E. We value the stock on SOTP basis valuing cigarette business at 14x PE & FMCG business at 5x price to sales with a target price of ₹ 250/share.

Key Financial Summary

Key Financials	FY18	FY19	FY20	FY21E	FY22E	CAGR (FY20-22E)
Net Sales	41711.9	44432.7	46323.7	47244.2	53936.0	5.2%
EBITDA	16998.2	17305.5	17904.3	17137.9	20026.7	3.8%
EBITDA Margin %	40.8	38.9	38.7	36.3	37.1	
Net Profit	12680.5	12464.3	15136.1	14260.4	15834.4	1.5%
EPS (₹)	10.4	10.3	12.5	11.7	13.0	
P/E	19.1	19.5	16.0	17.0	15.3	
RoNW %	24.1	21.5	23.8	21.7	27.7	
RoCE (%)	33.7	30.8	29.4	28.3	36.1	

Source: Company, ICICI Direct Research



Particulars

Particulars (₹ crore)	Amount
Market Capitalization	245,475.2
Total Debt (FY20)	70.5
Cash and Investments (FY20)	24,018.3
EV	221,527.4
52 week H/L (₹)	310 / 134
Equity capital	1,229.2
Face value (₹)	1.0

Key Highlights

- Cigarette volume fell ~40% with the loss of 45 days sales during the quarter. FMCG business growth was 12.2%
- FMCG EBITDA saw growth of 42.4% to ₹ 257.3 crore with margin improvement of 170 bps
- Maintain BUY with target price of ₹ 250 /share

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Exhibit 1: Variance Analysis

	Q1FY21	Q1FY21E	Q1FY20	YoY (%)	Q4FY20	QoQ (%)	Comments
Total Operating Income	9,501.8	8,558.7	11,502.8	-17.4	11,420.0	-16.8	Revenues declined by 17.4% as cigarettes, hotels, paperboard business were severely impacted by pandemic induced lockdown
Operating Income	66.1	148.2	141.5	-53.2	120.0	-44.9	
Raw Material Expenses	3,946.9	3,013.8	4,139.9	-4.7	4,067.1	-3.0	
Employee Expenses	696.9	692.5	690.3	1.0	666.5	4.6	
Other operating Expenses	1,620.9	1,721.3	1,916.6	-15.4	1,945.2	-16.7	
EBITDA	2,646.6	2,437.8	4,565.7	-42.0	4,163.5	-36.4	
EBITDA Margin (%)	27.9	28.5	39.7	-1184 bps	36.5	-860 bps	Operating margin contraction due to negative operating de-leverage & excise hike earlier in Budget
Depreciation	398.2	393.3	358.9	10.9	392.5	1.4	
Interest	16.8	24.9	15.2	10.3	14.7	14.0	
Other Income	896.8	795.8	620.2	44.6	755.5	18.7	
PBT	3,128.4	2,815.4	4,811.7	-35.0	4,511.8	-30.7	
Tax Outgo	785.7	709.5	1,637.8	-52.0	714.8	9.9	
PAT	2,342.8	2,105.9	3,173.9	-26.2	3,797.1	-38.3	Net profit decline by 26.2% impacted by operating profit decline however cut in income set off some of the earnings decline
Adjusted PAT	2,342.8	2,105.9	3,173.9	-26.2	3,797.1	-38.3	
Key Metrics YoY growth (%)							
Cigarette Growth (%)	-29.1	-45.0	11.1		-6.5		Cigarettes volumes declined by ~40% with ~10% realisation growth
FMCG (Others) Growth (%)	10.3	18.0	7.3		-2.8		FMCG business witnessed a strong growth in packaged foods & hygiene products & negative growth in stationary, deos, juices & snacks
Hotels Growth (%)	-94.2	-80.0	24.9		-8.6		washout quarter for hotels business with single digit occupancy
Agri Business Growth (%)	3.7	-30.0	16.2		-10.2		
Paperboards Growth (%)	-32.8	-30.0	18.2		-5.1		Paperboard business decline impacted of subdued demand from end user industry

Source: Company, ICICI Direct Research

Exhibit 2: Change in estimates

(₹ Crore)	FY21E			FY22E			Comments
	Old	New	% Change	Old	New	% Change	
Sales	44684.5	47244.2	5.7	51192.6	53936.0	5.4	We change our cigarettes volume estimate with better than expected sales during the quarter
EBITDA	17295.3	17137.9	-0.9	19762.2	20026.7	1.3	
EBITDA Margin (%)	38.2	36.0	-223 bps	38.1	36.7	-134 bps	
PAT	14103.8	14260.4	1.1	16500.8	15834.4	-4.0	We change our FY21 earnings estimate downward with lower other income with expected dip in cashflows estimating the payment of special dividend in FY21E
EPS (₹)	11.6	11.7	1.1	13.6	13.0	-4.0	

Source: Company, ICICI Direct Research

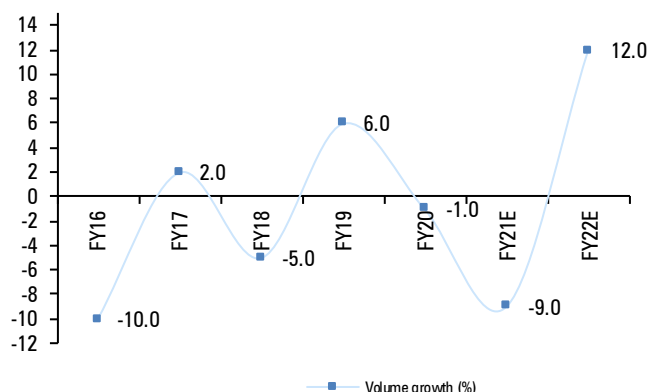
Exhibit 3: Assumptions

	Current						Earlier		Comments
	FY17	FY18	FY19	FY20	FY21E	FY22E	FY21E	FY22E	
Cigarettes (₹ cr)	34,002.0	22,894.0	20,713.0	21,201.7	21,205.7	24,343.1	20,972.8	24,075.7	Small change in cigarettes volumes
Cigarette Vol. Growth (%)	2.0	-4.0	6.0	-1.0	-9.0	12.0	-10.0	12.0	
Cigarette Price Growth (%)	3.0	12.0	9.5	4.0	10.0	2.5	10.0	2.5	
FMCG - Others (₹ cr)	10,498.6	11,314.4	12,505.3	12,844.2	14,749.9	16,555.4	15,928.9	17,863.5	we change our fmcg sales estimate factoring in steep decline in stationary business
Hotels (₹ cr)	1,329.3	1,404.1	1,665.5	1,837.3	544.1	1,329.4	1,021.3	1,912.8	Change our hotels business estimates with expected delayed recovery
Paperboards (₹ cr)	3,819.0	5,249.6	5,860.2	6,107.2	5,826.4	6,173.5	5,826.4	6,173.5	

Source: Company, ICICI Direct Research

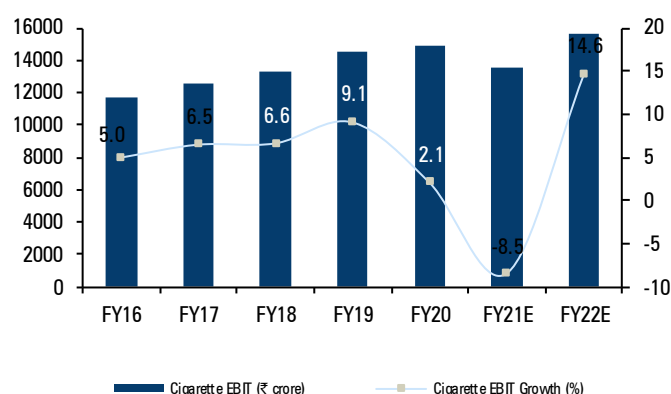
Key Metrics

Exhibit 4: Cigarette volume growth trend



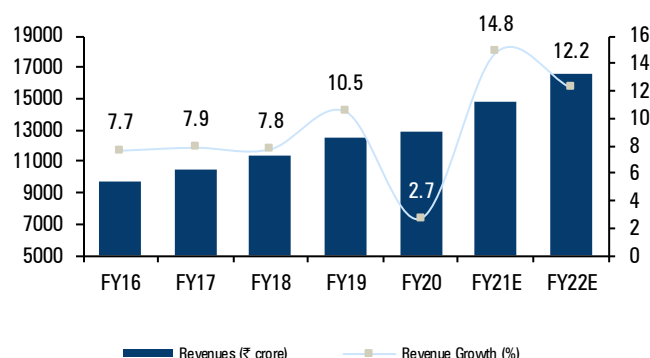
Source: Company, ICICI Direct Research

Exhibit 5: Cigarette EBIT growth trend



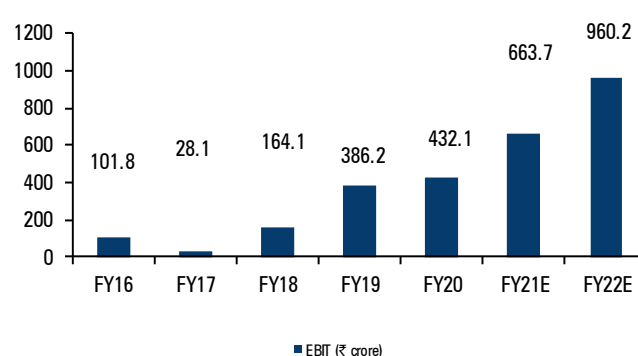
Source: Company, ICICI Direct Research

Exhibit 6: FMCG revenue (₹ crore) and growth (%) trend



Source: Company, ICICI Direct Research

Exhibit 7: FMCG EBIT (₹ crore) trend

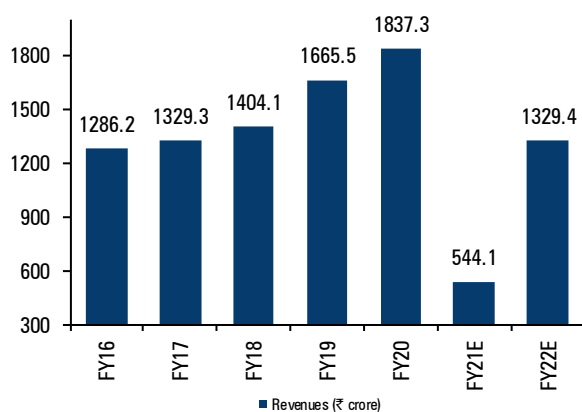


Source: Company, ICICI Direct Research

Hotels, paperboard business severely hit by lockdown

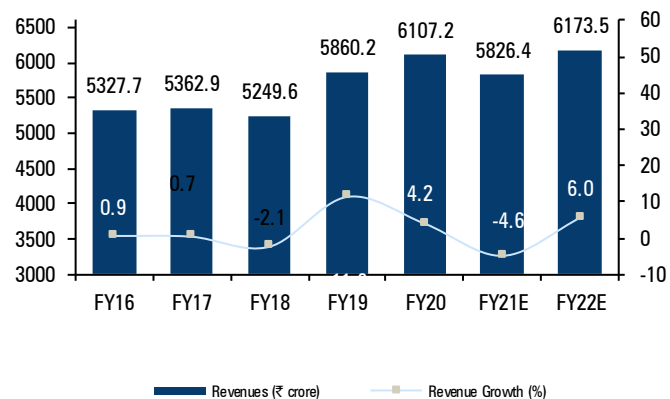
The hotels business was a complete washout with 94% decline in sales given single digit occupancy. The segment incurred a loss of ₹ 242 crore. Agri business saw a growth of 3.7% with trading opportunity in oilseeds & rice but demand for leaf tobacco was subdued in international markets. Paper & paperboard business declined 32.8% with dismal demand from end user industries (liquor, cupstock, publications, wedding cards, writing & printing paper). We believe the hotels business would continue to remain impacted by pandemic with a much delayed recovery. However, agri & paperboard business is expected to see a recovery as demand comes back to normal in H2FY21.

Exhibit 8: Hotel revenue (₹ crore) and growth (%) trend



Source: Company, ICICI Direct Research

Exhibit 10: Paperboards revenue (₹ crore) and growth (%) trend

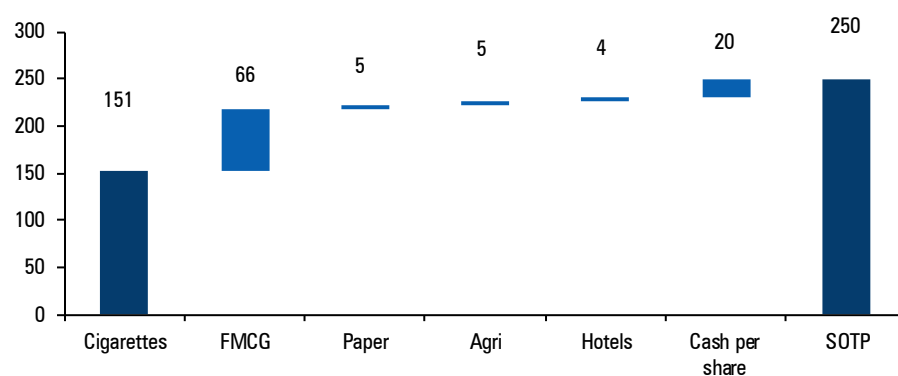


Source: Company, ICICI Direct Research

Exhibit 9: New product launches during lockdown



Source: Company, ICICI Direct Research

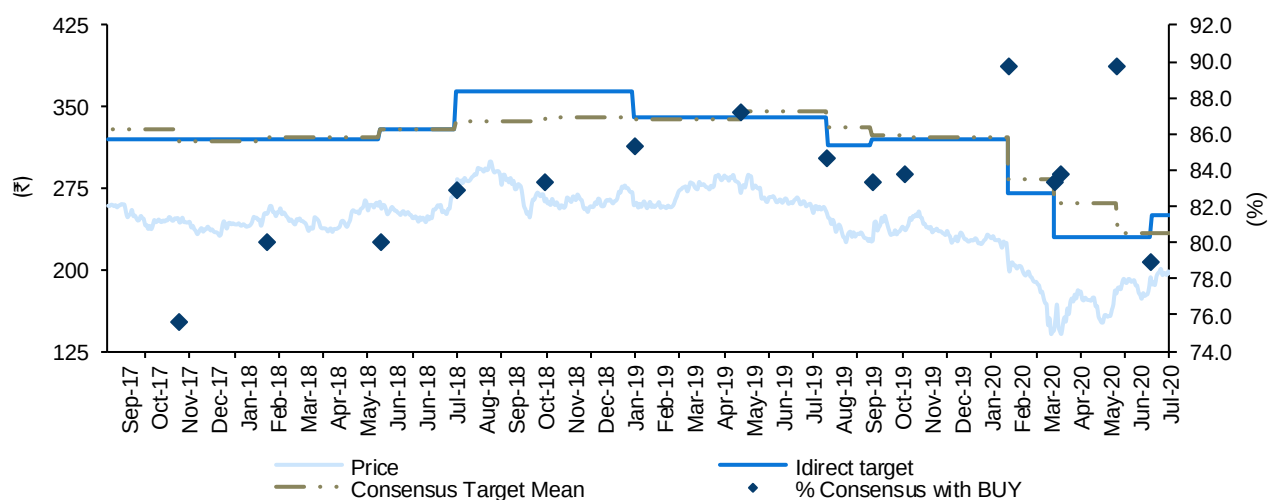
Exhibit 11: Sum of the parts valuation


Source: Company, ICICI Direct Research

Exhibit 12: Valuations

	Sales	Growth	EPS	Growth	PE	EV/EBITDA	RoNW	RoCE
	(₹ cr)	(%)	(₹)	(%)	(x)	(x)	(%)	(%)
FY19	44432.7	6.5	10.3	-1.7	19.5	14.0	21.5	30.8
FY20	46323.7	4.3	12.5	21.4	16.0	13.3	23.8	29.4
FY21E	47244.2	2.0	11.7	-5.8	17.0	14.0	21.7	28.3
FY22E	53936.0	14.2	13.0	11.0	15.3	12.2	27.7	36.1

Source: Company, ICICI Direct Research

Exhibit 13: Recommendation History vs. Consensus


Source: Bloomberg, Company, ICICI Direct Research

Exhibit 14: Top 10 Shareholders

Rank	Investor Name	Filing Date	% O/S	Position (m)	Change (m)
1	British American Tob	31-Mar-20	29.4	3619.6	0.0
2	Life Insurance Corp	31-Mar-20	16.3	1997.5	0.0
3	Unit Trust Of India	31-Mar-20	7.9	974.5	0.0
4	Hdfc Asset Managemen	31-May-20	2.4	288.3	-1.8
5	Icici Prudential Ass	31-May-20	1.8	218.8	-5.7
6	General Insurance Co	31-Mar-20	1.8	216.3	0.4
7	Jpmorgan Chase & Co	31-May-20	1.6	194.8	35.7
8	New India Assurance	31-Mar-20	1.5	183.3	1.8
9	Republic Of Singapor	31-Mar-20	1.2	152.8	-26.9
10	Oriental Insurance C	31-Mar-20	1.1	136.4	0.0

Source: Reuters, ICICI Direct Research

Exhibit 15: Shareholding Pattern

(in %)	Jun-19	Sep-19	Dec-19	Mar-20	Jun-20
Promoter	-	-	-	-	-
FII	16.8	15.6	15.2	14.65	14.6
DII	38.4	42.5	42.6	42.5	42.1
Others	44.9	41.9	42.2	42.9	43.3

Source: Company, ICICI Direct Research

Financial summary

Exhibit 16: Profit and loss statement ₹ crore				
(Year-end March)	FY19	FY20	FY21E	FY22E
Total operating Income	44,995.7	46,807.3	47,649.5	54,503.5
Growth (%)	6.9	4.0	1.8	14.4
Raw Material Expenses	17,305.2	17,235.1	17,628.7	19,830.0
Employee Expenses	2,728.4	2,658.2	2,720.3	3,040.5
Marketing Expenses	976.5	0.0	668.1	977.3
Administrative Expenses	4,518.4	0.0	1,574.9	1,683.1
Excise Duty	788.7	1187.6	3147.2	3462.0
Other expenses	2,161.6	7,822.1	4,772.4	5,483.8
Total Operating Expenditure	27,690.1	28,903.1	30,511.6	34,476.7
EBITDA	17,305.5	17,904.3	17,137.9	20,026.7
Growth (%)	1.8	3.5	-4.3	16.9
Depreciation	1,311.7	1,563.3	1,573.2	1,438.4
Interest	34.2	55.7	52.6	53.4
Other Income	2,484.5	3,013.7	3,552.6	2,634.1
PBT	18,444.2	19,166.8	19,064.7	21,169.0
Total Tax	5,979.8	4,030.8	4,804.3	5,334.6
PAT	12,464.3	15,136.1	14,260.4	15,834.4
Growth (%)	-1.7	21.4	-5.8	11.0
EPS (₹)	10.3	12.5	11.7	13.0

Source: Company, ICICI Direct Research

Exhibit 17: Cash flow statement ₹ crore				
(Year-end March)	FY19	FY20	FY21E	FY22E
Profit After Tax	12,958.3	14,516.7	14,260.4	15,834.4
Add: Depreciation	1,311.7	1,563.3	1,573.2	1,438.4
(Inc)/dec in Current Assets	-1,048.8	1,076.5	598.1	8,629.7
Inc/(dec) in CL and Provisions	549.1	-658.5	321.7	289.4
CF from operating activities	11,749.1	13,806.2	16,753.4	26,191.9
(Inc)/dec in Investments	0.0	0.0	-4,665.5	-4,044.4
(Inc)/dec in LT loans & advances	0.0	0.0	0.0	0.0
(Inc)/dec in Fixed Assets	-2,759.5	-2,113.6	-1,020.0	-1,020.0
Others	0.0	0.0	0.0	0.0
CF from investing activities	-5,081.8	-5,516.7	-5,785.5	-5,164.4
Issue/(Buy back) of Equity	5.4	3.4	0.0	0.0
Inc/(dec) in loan funds	-6.9	-3.2	10.0	10.0
Dividend paid & dividend tax	-7,486.9	-8,422.2	-12,476.6	-24,584.4
Others	0.0	0.0	27.3	18.9
CF from financing activities	-6,600.6	-7,890.9	-12,439.2	-24,555.5
Net Cash flow	66.7	398.6	-1,471.3	-3,528.0
Opening Cash	96.0	162.8	561.9	-909.4
Cash with Bank	3,606.0	6,281.4	6,281.4	6,281.4
Closing Cash	3,768.7	6,842.8	5,372.0	1,844.0

Source: Company, ICICI Direct Research

Exhibit 18: Balance sheet ₹ crore				
(Year-end March)	FY19	FY20	FY21E	FY22E
Liabilities				
Equity Capital	1,225.9	1,229.2	1,229.2	1,229.2
Reserve and Surplus	56,723.9	62,799.9	64,583.7	55,833.7
Total Shareholders funds	57,949.8	64,029.2	65,812.9	57,062.9
LT Borrowings & Provisions	7.9	5.6	15.6	25.6
Deferred Tax Liability	2,044.1	1,617.7	1,617.7	1,617.7
Others Non-current Liabilities	174.5	234.3	261.6	280.5
Total Liabilities	60,176.4	65,886.7	67,707.8	58,986.7
Assets				
Gross Block	29,630.1	32,180.3	34,960.5	35,960.5
Less: Acc Depreciation	11,684.4	13,247.7	14,820.9	16,259.4
Net Block	17,945.7	18,932.6	20,139.5	19,701.1
Capital WIP	3,401.4	2,780.2	1,000.0	1,000.0
Net Intangible Assets	540.8	1,199.6	1,219.6	1,239.6
Non-current Investments	14,071.5	13,455.6	18,121.1	22,165.5
LT loans & advances	6.2	3.3	3.3	3.3
Current Assets				
Inventory	7,587.2	8,038.1	8,413.3	8,866.2
Debtors	3,646.2	2,092.0	3,883.1	4,433.1
Loans and Advances	5.0	4.9	5.3	6.1
Other Current Assets	2,055.2	2,353.7	2,588.7	2,955.4
Cash	3,768.7	6,843.3	5,372.0	1,844.0
Current Investments	12,506.6	17,175.0	14,175.0	4,175.0
Current Liabilities	9,621.6	9,089.4	9,411.1	9,700.6
Creditors	3,368.3	3,446.7	3,494.8	3,694.2
Provisions	25.2	117.9	26.8	30.6
Short term debt & other CL	6,228.0	5,524.7	5,889.5	5,975.7
Application of Funds	60,176.4	65,886.7	67,707.8	58,986.7

Source: Company, ICICI Direct Research

Exhibit 19: Key ratios ₹ crore				
(Year-end March)	FY19	FY20	FY21E	FY22E
Per share data (₹)				
EPS	10.3	12.5	11.7	13.0
Cash EPS	11.3	13.7	13.0	14.2
BV	47.7	52.7	54.2	47.0
DPS	5.8	10.2	20.0	10.9
Cash Per Share	3.1	5.6	4.4	1.5
Operating Ratios (%)				
EBITDA Margin	38.5	38.3	36.0	36.7
PBT / Total Operating income	41.0	41.2	40.0	38.8
PAT Margin	27.7	32.3	29.9	29.1
Inventory days	62.3	63.3	65.0	60.0
Debtor days	30.0	16.5	30.0	30.0
Creditor days	27.7	27.2	27.0	25.0
Return Ratios (%)				
RoE	21.5	23.8	21.7	27.7
RoCE	30.8	29.4	28.3	36.1
RoIC	31.0	29.1	26.2	34.4
Valuation Ratios (x)				
P/E	19.5	16.0	17.0	15.3
EV / EBITDA	14.0	13.3	14.0	12.2
EV / Net Sales	5.4	5.2	5.1	4.5
Market Cap / Sales	5.5	5.3	5.2	4.6
Price to Book Value	4.2	3.8	3.7	4.3
Solvency Ratios				
Debt/EBITDA	0.0	0.0	0.0	0.0
Debt / Equity	0.0	0.0	0.0	0.0
Current Ratio	2.7	3.3	3.1	2.1
Quick Ratio	1.9	2.4	2.2	1.2

Source: Company, ICICI Direct Research

Exhibit 20: ICICI Direct coverage universe (FMCG)

Sector / Company	CMP	TP	Rating	M Cap	EPS (₹)			P/E (x)			Price/Sales (x)			RoCE (%)			RoE (%)		
	(₹)	(₹)		(₹ Cr)	FY20	FY21E	FY22E	FY20	FY21E	FY22E	FY20	FY21E	FY21E	FY20	FY21E	FY22E	FY20	FY21E	FY22E
Colgate (COLPAL)	1,383	1,350	Hold	37,620	30.0	29.3	33.6	46.1	47.1	41.1	8.4	8.2	7.5	60.7	66.2	77.5	51.2	50.8	59.5
Dabur India (DABIND)	471	520	Buy	83,283	8.2	8.8	10.3	57.5	53.5	45.9	9.6	9.5	8.2	26.1	25.7	28.3	21.9	22.5	24.8
Hindustan Unilever (HINLEV)	2,210	2,410	Hold	519,159	31.2	32.4	40.1	70.8	68.2	55.1	13.6	12.2	10.6	89.5	26.7	33.0	85.7	20.3	25.4
ITC Limited (ITC)	200	250	Buy	245,475	12.5	11.7	13.0	16.0	17.0	15.3	5.3	5.2	4.6	29.4	28.3	36.1	23.8	21.7	27.7
Jyothy Lab (JYOLAB)	124	115	Hold	4,535	4.3	4.1	5.7	28.8	29.9	21.5	2.7	2.9	2.4	24.3	23.3	28.8	21.7	18.8	23.8
Marico (MARLIM)	357	300	Hold	46,086	8.1	7.8	9.5	44.2	45.5	37.7	6.3	6.6	5.6	41.0	40.1	46.9	34.5	33.8	40.3
Nestle (NESIND)	17,231	18,000	Hold	166,145	204.3	230.9	269.4	84.4	74.6	64.0	13.5	12.5	11.0	56.9	59.3	65.9	101.9	114.1	123.1
Tata Consumer Products (TATGLO)	409	440	Buy	37,667	5.0	8.7	10.9	81.9	47.1	37.6	3.9	3.7	3.4	6.9	7.9	8.8	4.6	5.9	7.1
VST Industries (VSTIND)	3,201	4,000	Buy	4,942	196.9	124.8	216.3	16.3	25.6	14.8	4.0	4.5	3.5	52.1	32.9	45.6	38.6	24.3	33.7
Varun Beverage (VARBEV)	697	571	Reduce	20,122	16.4	9.7	17.8	42.6	71.6	39.1	2.8	3.3	2.7	15.5	11.3	16.3	14.2	8.8	14.2
Zydus Wellness (ZYDWEL)	1,638	1,530	Buy	9,445	24.6	31.6	50.3	66.6	51.8	32.6	5.3	5.7	4.6	5.9	5.7	7.4	5.4	5.1	7.5

Source: Company, ICICI Direct Research

RATING RATIONALE

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Buy: >15%

Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%



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