

July 25, 2021

Q1FY22 Result Update

☑ Change in Estimates | ■ Target | ■ Reco

Change in Estimates

	Current		Previous	
	FY22E	FY23E	FY22E	FY23E
Rating	BUY		BUY	
Target Price	258		258	
Sales (Rs. m)	5,24,396	5,75,918	5,24,396	5,75,918
% Chng.	-	-	-	-
EBITDA (Rs. m)	2,02,593	2,17,189	2,02,593	2,17,189
% Chng.	-	-	-	-
EPS (Rs.)	12.6	13.5	12.9	13.7
% Chng.	(2.0)	(1.3)	-	-

Key Financials - Standalone

Y/e Mar	FY20	FY21	FY22E	FY23E
Sales (Rs. bn)	456	461	524	576
EBITDA (Rs. bn)	179	162	203	217
Margin (%)	39.2	35.1	38.6	37.7
PAT (Rs. bn)	153	132	156	167
EPS (Rs.)	12.4	10.8	12.6	13.5
Gr. (%)	22.2	(13.4)	17.5	7.1
DPS (Rs.)	10.2	10.8	11.5	12.0
Yield (%)	4.8	5.1	5.4	5.6
RoE (%)	25.0	21.5	25.7	26.2
RoCE (%)	26.8	23.8	30.6	31.1
EV/Sales (x)	5.2	5.3	4.7	4.3
EV/EBITDA (x)	13.2	15.0	12.1	11.3
PE (x)	17.1	19.8	16.8	15.7
P/BV (x)	4.1	4.4	4.2	4.0

Key Data

	ITC.BO ITC IN
52-W High / Low	Rs.239 / Rs.163
Sensex / Nifty	52,976 / 15,856
Market Cap	Rs.2,615bn/ \$ 35,139m
Shares Outstanding	12,310m
3M Avg. Daily Value	Rs.10143.93m

Shareholding Pattern (%)

Promoter's	-
Foreign	11.74
Domestic Institution	42.40
Public & Others	45.86
Promoter Pledge (Rs bn)	-

Stock Performance (%)

	1M	6M	12M
Absolute	4.5	0.8	6.4
Relative	4.4	(8.0)	(23.4)

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Cigarettes recovery tepid, FMCG margins shine

Quick Pointers:

- Cigarette volumes up 33%, FMCG margins up 40bps despite inflation
- Higher prices increase paper and paperboard margins by 530bps QOQ

We are marginally decreasing FY22/23 EPS estimates by 2%/1.2% on account of lower other income which halved during 1Q. Cigarette volumes recovery has been impacted due to restrictions in Kerala, Odisha and NE and recovery is expected to be slower than expected. FMCG margins have seen benefit of higher scale, rigorous cost control, closer to market production units and rising direct coverage and trend is expected to continue. Paperboard has gained margins in inflationary input cost scenario due to backward integration and medium term outlook remains intact. We expect Hotels business recovery to be delayed due to the second wave however traction at leisure locations bodes well for the company. Agri business outlook looks good for near term as supply chain has been restored and recovery in leaf tobacco exports has improved the sales mix. ITC trades at 13.5x FY23 EPS, steep discount to our coverage universe with ~5% dividend yield and 12.3% EPS CAGR over FY21-23. Maintain BUY with an unchanged SOTP based target price of Rs258

- **Cigarettes volumes grow ~33%; EBIT up 36.7%:** Cigarette sales increased 32.9% to Rs51.22bn (~33% volume growth), led by most markets returning to normalcy and witnessing faster recovery compared to first wave. Certain markets in Kerala, Odisha and North East still remain partially impacted. EBIT up 36.7% at Rs32.20bn.
- **FMCG EBIDTA expanded 40 bps despite RM inflation:** FMCG sales grew 10.4% at Rs 37.25bn. FMCG EBITDA grew 16.1% to Rs 2.98bn with margins at 8.0%. Personal care products & discretionary performed well while staples sales moderated due to a strong base. Biscuits grew in low single digits. ITC increased market & outlet coverage to 1.4x and 1.1x of pre-Covid levels and undertook cost control measures which helped in margin expansion.
- **Hotels – QoQ improvement, still behind pre Covid levels:** Hotels revenues grew ~5x to Rs 1.27bn (on a very low base), EBIT loss at Rs 1.5bn. Occupancy at 30-35%. Tourist destinations like Goa, Agra, Mussourie, Shimla saw good traction however metros continued to suffer.
- **Paperboards, Paper & Packaging** Paperboard and Paper sales up 54.2% to Rs 15.82bn, EBIT up by 145.3% to Rs 3.92bn. Growth driven by Value Added Paperboards, Décor paper and Carton packaging. Richer product mix, higher realisations (surge in global pulp prices) and backward integration drove profitability. Near term outlook seems intact
- **Agri Business** Agri Business sales and volume increase ~9.2% at Rs 40.91bn, EBIT up 9.5% at Rs 1.95bn as restoration of leaf tobacco supply chain improved mix. Near term outlook remains positive.

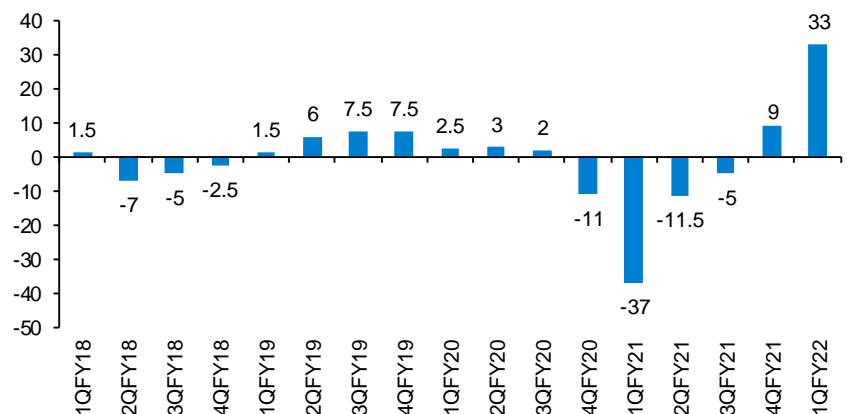
Exhibit 1: Q1FY22 Result Overview: Net Sales up 37%, Adj. PAT up 28.6%

Y/e March	Q4FY21	Q4FY20	YoY gr. (%)	Q3FY21	FY21	FY20	YoY gr. (%)
Net Sales	1,22,171	89,113	37.1	1,32,947	4,54,851	4,56,197	(0.3)
EBITDA	39,922	26,466	50.8	44,730	1,55,225	1,79,043	(13.3)
<i>Margins (%)</i>	<i>32.7</i>	<i>29.7</i>	<i>3.0</i>	<i>33.6</i>	<i>34.1</i>	<i>39.2</i>	<i>(5.1)</i>
Depreciation	3,955	3,982	(0.7)	3,880	15,618	15,633	(0.1)
Interest	103.2	167.9	(38.5)	31.4	474.7	557.2	(14.8)
Other Income	4,290	8,968	(52.2)	7,720	32,510	30,137	7.9
PBT	40,154	31,284	28.4	48,539	1,71,642	1,92,989	(11.1)
Tax	10,019	7,857	27.5	11,055	41,325	40,308	2.5
<i>Tax Rate (%)</i>	<i>25.0</i>	<i>25.1</i>	<i>(0.2)</i>	<i>22.8</i>	<i>24.1</i>	<i>20.9</i>	<i>3.2</i>
Adjusted PAT	30,135	23,428	28.6	37,484	1,30,316	1,52,682	(14.6)

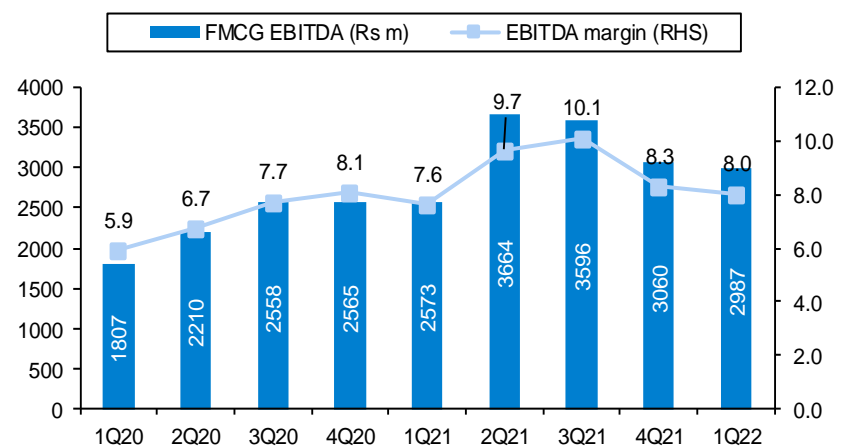
Source: Company, PL

Sales increased 32.9% and EBIT up 36.7%.

Saw week-on-week improvement in market conditions from mid-June'21

Exhibit 2: Cigarettes: Volumes up 33%


Source: Company, PL

Exhibit 3: FMCG EBITDA margins at 8%


Source: Company, PL

Discretionary/'Out-of-Home' products grew YoY; sequential performance impacted

FMCG Growth driven by Hygiene products, Fragrances, Spices, Snacks, Dairy and Agarbattis.

Continued closure of educational institutions impacts ESPB sales.

7% reduction in fixed 'Other Expenses' YoY

ITC e commerce FMCG Sales doubled: now ~8% of revenue.

Hotels - Extreme focus on cost reduction; led to a 50% positive swing at the EBITDA level (+ Rs.87 crores) compared to the base quarter.

Strong Network ensured unhindered supply of Agri products

Exhibit 4: Cigarette volumes grew 33%, FMCG margins at 8%

	4QFY20	1QFY21	2QFY21	3QFY21	4QFY21	1QFY22
Cigarette Volume gr %	-11.0	-37.0	-11.5	-5.0	9.0	33.0
Sales (INR m)	1,21,259	1,20,237	1,34,421	1,32,548	1,48,597	1,46,489
Cigarettes	51,305	38,538	51,213	54,984	58,596	51,222
FMCG	31,836	33,746	37,950	35,618	36,875	37,256
Hotels	4,658	226	820	2,352	2,878	1,272
Agri business	18,873	37,463	29,853	24,818	33,689	40,913
Paper and packaging	14,588	10,264	14,587	14,775	16,559	15,827
Sales growth (YoY)						
Cigarettes	(6.5)	(29.1)	(3.9)	3.5	14.2	32.9
FMCG	(2.8)	10.3	15.4	7.5	15.8	10.4
Hotels	(8.6)	(94.2)	(80.8)	(57.4)	(38.2)	463.5
Agri business	(10.2)	3.7	12.8	18.5	78.5	9.2
Paper and packaging	(5.1)	(32.8)	(6.8)	(5.0)	13.5	54.2
EBIT (INR m)	40,014	25,781	38,989	40,739	43,281	38,315
Cigarettes	34,030	23,564	32,448	34,528	36,665	32,209
FMCG	1,470	1,254	2,527	2,074	1,886	1,734
Hotels	426	-2,426	-1,849	-673	-401	-1,515
Agri business	1,231	1,787	2,561	1,961	1,899	1,957
Paper and packaging	2,857	1,601	3,303	2,850	3,233	3,928
EBIT growth (YoY)	(11.5)	(42.3)	(14.5)	(9.4)	8.2	48.6
Cigarettes	(11.7)	(38.8)	(15.6)	(8.1)	7.7	36.7
FMCG	12.6	60.7	179.3	92.7	28.4	38.3
Hotels	(52.0)	NA	NA	NA	NA	NA
Agri business	(16.4)	(11.9)	2.7	(8.1)	54.2	9.5
Paper and packaging	(4.9)	(51.4)	(7.2)	(14.7)	13.1	145.3
EBIT Margin (%)						
Cigarettes	66.3	61.1	63.4	62.8	62.6	62.9
FMCG	4.6	3.7	6.7	5.8	5.1	4.7
Hotels	9.1	NA	(225.6)	(28.6)	(13.9)	(119.0)
Agri business	6.5	4.8	8.6	7.9	5.6	4.8
Paper and packaging	19.6	15.6	22.6	19.3	19.5	24.8

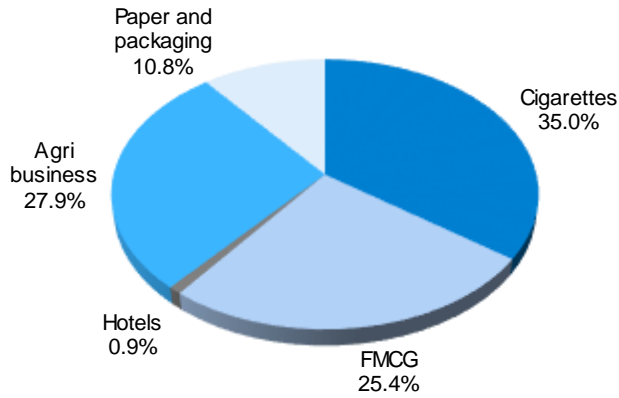
Source: Company, PL

Exhibit 5: SOTP – Cigarette business is now 58% of SOTP value

SOTP	Basis	X	EV	PAT (Rs mn)	% of PAT	EPS	Value/Share
Cigarettes	P/E	15		124479	74.4	10.1	151
FMCG - Others	EV/Sales	3.5	652731	10560	6.3	0.9	53
Hotels	EV/EBIDTA	20	7,313	3105	1.9	0.3	12
Agri business	P/E	12		9739	5.8	0.8	9
Paper and packaging	P/E	10		11790	7.0	1.0	10
Business Value						12.9	235
Cash and Invst			288426				23
Total Value/share							258

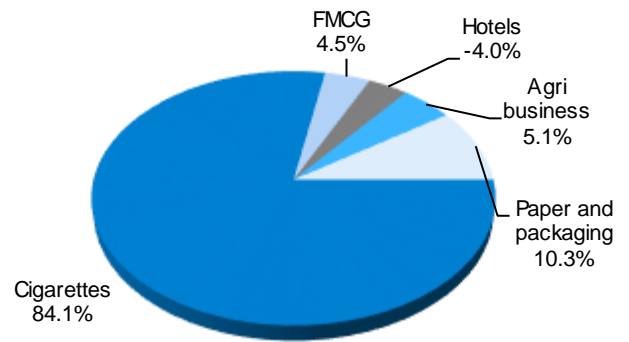
Source: PL

Exhibit 6: Sales Mix: Cigarettes 35%, FMCG 25.4%



Source: Company, PL

Exhibit 7: Cigarettes are 84.1% of EBIT



Source: Company, PL

Exhibit 8: Personalized Consumer Journey across Touchpoints

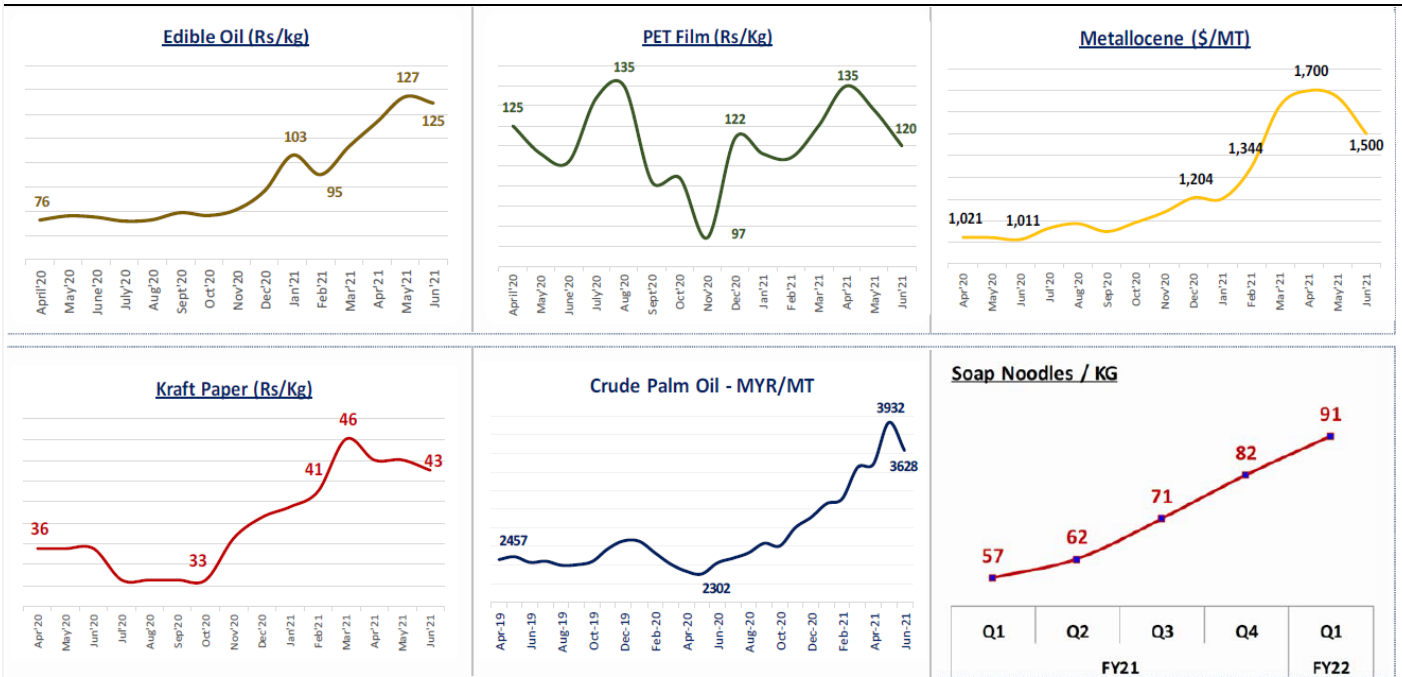


Source: Company, PL

Exhibit 9: Purposeful Innovations



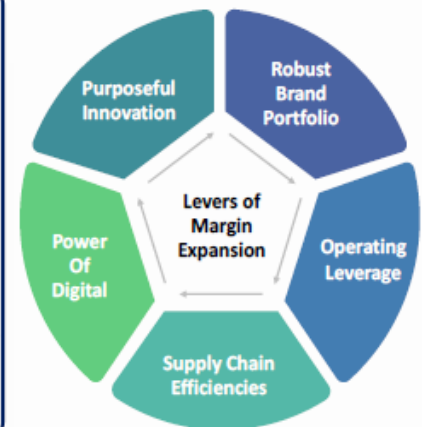
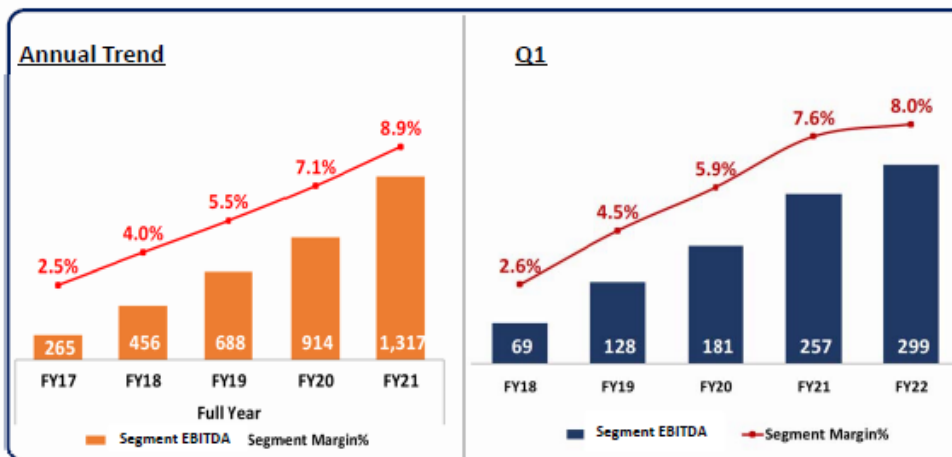
Source: PL, Company

Exhibit 10: Growth in margins despite RM inflation


Source: Company, PL

Exhibit 11: Growth in margins despite RM inflation

- Segment Revenue up 10.4% in Q1; sequentially revenue up 1.1% despite second wave led operational disruptions
 - Robust growth in Health & Hygiene, Fragrances, Snacks, Spices, Dairy and Agarbatti
 - High base effect in Staples and Convenience Foods



Q1 FY22: Impact of Inflation mitigated through judicious pricing & ongoing cost saving programmes and richer business/category mix

Source: Company, PL

Financials

Income Statement (Rs m)

Y/e Mar	FY20	FY21	FY22E	FY23E
Net Revenues	4,56,197	4,61,387	5,24,396	5,75,918
YoY gr. (%)	1.4	1.1	13.7	9.8
Cost of Goods Sold	1,72,351	1,99,746	2,12,379	2,41,142
Gross Profit	2,83,846	2,61,641	3,12,017	3,34,776
Margin (%)	62.2	56.7	59.5	58.1
Employee Cost	26,582	28,210	29,761	31,941
Other Expenses	38,886	34,120	38,742	42,207
EBITDA	1,79,043	1,61,761	2,02,593	2,17,189
YoY gr. (%)	3.5	(9.7)	25.2	7.2
Margin (%)	39.2	35.1	38.6	37.7
Depreciation and Amortization	15,633	15,618	17,207	18,517
EBIT	1,63,410	1,46,142	1,85,385	1,98,672
Margin (%)	35.8	31.7	35.4	34.5
Net Interest	557	557	557	557
Other Income	30,137	29,521	21,446	23,613
Profit Before Tax	1,92,989	1,75,106	2,06,274	2,21,728
Margin (%)	42.3	38.0	39.3	38.5
Total Tax	40,308	42,743	50,290	54,323
Effective tax rate (%)	20.9	24.4	24.4	24.5
Profit after tax	1,52,682	1,32,363	1,55,985	1,67,405
Minority interest	-	-	-	-
Share Profit from Associate	-	-	-	-
Adjusted PAT	1,52,682	1,32,363	1,55,985	1,67,405
YoY gr. (%)	22.5	(13.3)	17.8	7.3
Margin (%)	33.5	28.7	29.7	29.1
Extra Ord. Income / (Exp)	(1,321)	-	-	-
Reported PAT	1,51,361	1,32,363	1,55,985	1,67,405
YoY gr. (%)	21.4	(12.6)	17.8	7.3
Margin (%)	33.2	28.7	29.7	29.1
Other Comprehensive Income	(13,818)	-	-	-
Total Comprehensive Income	1,37,542	1,32,363	1,55,985	1,67,405
Equity Shares O/s (m)	12,292	12,309	12,341	12,371
EPS (Rs)	12.4	10.8	12.6	13.5

Source: Company Data, PL Research

Balance Sheet Abstract (Rs m)

Y/e Mar	FY20	FY21	FY22E	FY23E
Non-Current Assets				
Gross Block	3,33,562	3,58,884	3,89,049	4,19,249
Tangibles	3,23,262	3,33,316	3,63,281	3,93,281
Intangibles	10,300	25,568	25,768	25,968
Acc: Dep / Amortization	1,35,149	1,50,141	1,66,680	1,84,517
Tangibles	1,30,044	1,44,616	1,60,124	1,76,922
Intangibles	5,105	5,525	6,556	7,595
Net fixed assets	1,98,413	2,08,743	2,22,369	2,34,733
Tangibles	1,93,218	1,88,700	2,03,157	2,16,359
Intangibles	5,195	20,043	19,212	18,374
Capital Work In Progress	27,763	33,300	25,000	25,000
Goodwill	-	5,772	-	-
Non-Current Investments	1,34,589	1,29,528	1,56,653	1,69,282
Net Deferred tax assets	(16,177)	(17,277)	(16,413)	(15,593)
Other Non-Current Assets	26,520	20,309	23,845	25,517
Current Assets				
Investments	1,71,751	1,40,467	1,26,359	1,19,169
Inventories	80,381	94,709	92,546	1,01,679
Trade receivables	20,920	20,904	28,476	31,286
Cash & Bank Balance	68,433	40,015	48,127	54,672
Other Current Assets	8,477	10,061	10,488	11,518
Total Assets	7,52,354	7,15,805	7,47,684	7,88,744
Equity				
Equity Share Capital	12,292	12,309	12,341	12,371
Other Equity	6,27,999	5,77,737	6,10,235	6,41,440
Total Networkth	6,40,292	5,90,046	6,22,576	6,53,811
Non-Current Liabilities				
Long Term borrowings	56	53	-	-
Provisions	1,438	1,571	1,576	1,707
Other non current liabilities	-	-	-	-
Current Liabilities				
ST Debt / Current of LT Debt	0	0	0	0
Trade payables	34,467	41,195	38,167	41,926
Other current liabilities	56,427	60,546	60,721	65,186
Total Equity & Liabilities	7,52,354	7,15,806	7,44,532	7,83,424

Source: Company Data, PL Research

Cash Flow (Rs m)

Y/e Mar	FY20	FY21	FY22E	FY23E
PBT	1,92,990	1,75,106	2,06,274	2,21,728
Add. Depreciation	15,633	15,618	17,207	18,517
Add. Interest	557	557	557	557
Less Financial Other Income	30,137	29,521	21,446	23,613
Add. Other	19,279	9,409	(4,036)	(1,972)
Op. profit before WC changes	2,28,459	2,00,691	2,20,003	2,38,829
Net Changes-WC	(70,722)	52,776	(2,059)	(6,132)
Direct tax	(40,308)	(42,743)	(50,290)	(54,323)
Net cash from Op. activities	1,17,429	2,10,724	1,67,655	1,78,374
Capital expenditures	(29,733)	(37,257)	(16,762)	(30,880)
Interest / Dividend Income	-	-	-	-
Others	6,159	5,052	(27,125)	(12,628)
Net Cash from Inv. activities	(23,575)	(32,205)	(43,887)	(43,508)
Issue of share cap. / premium	(6,951)	(57,843)	8,865	5,751
Debt changes	2,570	(4)	(53)	-
Dividend paid	(84,937)	(1,24,766)	(1,32,320)	(1,41,921)
Interest paid	(557)	(557)	(557)	(557)
Others	-	(335)	(400)	(266)
Net cash from Fin. activities	(89,875)	(1,83,504)	(1,24,464)	(1,36,993)
Net change in cash	3,980	(4,985)	(696)	(2,127)
Free Cash Flow	87,696	1,73,466	1,50,893	1,47,494

Source: Company Data, PL Research

Key Financial Metrics

Y/e Mar	FY20	FY21	FY22E	FY23E
Per Share(Rs)				
EPS	12.4	10.8	12.6	13.5
CEPS	13.7	12.0	14.0	15.0
BVPS	52.1	47.9	50.4	52.9
FCF	7.1	14.1	12.2	11.9
DPS	10.2	10.8	11.5	12.0
Return Ratio(%)				
RoCE	26.8	23.8	30.6	31.1
ROIC	31.9	27.3	32.3	32.3
RoE	25.0	21.5	25.7	26.2
Balance Sheet				
Net Debt : Equity (x)	(0.4)	(0.3)	(0.3)	(0.3)
Net Working Capital (Days)	53	59	58	58
Valuation(x)				
PER	17.1	19.8	16.8	15.7
P/B	4.1	4.4	4.2	4.0
P/CEPS	13.7	12.0	14.0	15.0
EV/EBITDA	13.2	15.0	12.1	11.3
EV/Sales	5.2	5.3	4.7	4.3
Dividend Yield (%)	4.8	5.1	5.4	5.6

Source: Company Data, PL Research

Quarterly Financials (Rs m)

Y/e Mar	Q2FY21	Q3FY21	Q4FY21	Q1FY22
Net Revenue	1,11,831	1,17,874	1,32,947	1,22,171
YoY gr. (%)	(5.8)	(1.9)	22.6	37.1
Raw Material Expenses	47,370	50,131	60,762	57,861
Gross Profit	64,461	67,743	72,185	64,310
Margin (%)	57.6	57.5	54.3	52.6
EBITDA	40,606	42,814	44,730	39,922
YoY gr. (%)	(11.0)	(7.2)	7.4	50.8
Margin (%)	36.3	36.3	33.6	32.7
Depreciation / Depletion	3,825	3,909	3,880	3,955
EBIT	36,781	38,904	40,851	35,967
Margin (%)	32.9	33.0	30.7	29.4
Net Interest	138	138	31	103
Other Income	6,100	9,710	7,720	4,290
Profit before Tax	42,743	48,476	48,539	40,154
Margin (%)	38.2	41.1	36.5	32.9
Total Tax	10,419	11,848	11,055	10,019
Effective tax rate (%)	24.4	24.4	22.8	25.0
Profit after Tax	32,324	36,629	37,484	30,135
Minority interest	-	-	-	-
Share Profit from Associates	-	-	-	-
Adjusted PAT	32,324	36,629	37,484	30,135
YoY gr. (%)	(25.9)	(14.3)	(1.3)	28.6
Margin (%)	28.9	31.1	28.2	24.7
Extra Ord. Income / (Exp)	-	-	-	-
Reported PAT	32,324	36,629	37,484	30,135
YoY gr. (%)	(25.9)	(11.6)	(1.3)	28.6
Margin (%)	28.9	31.1	28.2	24.7
Other Comprehensive Income	-	633	270	1,766
Total Comprehensive Income	32,324	37,262	37,754	31,901
Avg. Shares O/s (m)	12,242	12,305	12,292	12,309
EPS (Rs)	2.6	3.0	3.0	2.4

Source: Company Data, PL Research

Price Chart
Recommendation History


No.	Date	Rating	TP (Rs.)	Share Price (Rs.)
1	05-Jul-21	BUY	258	202
2	01-Jun-21	BUY	258	215
3	07-Apr-21	BUY	248	214
4	11-Feb-21	BUY	254	226
5	07-Jan-21	BUY	254	205
6	06-Nov-20	BUY	254	174
7	08-Oct-20	BUY	244	167

Analyst Coverage Universe

Sr. No.	Company Name	Rating	TP (Rs)	Share Price (Rs)
1	Asian Paints	BUY	3,511	3,159
2	Avenue Supermarts	BUY	3,744	3,397
3	Bajaj Electricals	Hold	1,084	1,050
4	Britannia Industries	Accumulate	3,755	3,545
5	Burger King India	BUY	250	158
6	Colgate Palmolive	Accumulate	1,794	1,690
7	Crompton Greaves Consumer Electricals	BUY	454	450
8	Dabur India	UR	-	590
9	Emami	BUY	579	564
10	Havells India	Accumulate	1,226	1,151
11	Hindustan Unilever	Accumulate	2,535	2,378
12	ITC	BUY	258	202
13	Jubilant FoodWorks	Accumulate	3,404	3,065
14	Kansai Nerolac Paints	Accumulate	620	587
15	Marico	UR	-	520
16	Nestle India	Accumulate	18,450	17,602
17	Pidilite Industries	UR	-	2,179
18	Titan Company	Accumulate	1,869	1,763
19	Voltas	Hold	955	1,015
20	Westlife Development	BUY	572	496

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

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