

October 28, 2021

Q2FY22 Result Update

■ Change in Estimates | Target | ■ Reco

Change in Estimates

	Current		Previous	
	FY23E	FY24E	FY23E	FY24E
Rating	BUY		BUY	
Target Price	270		271	
Sales (Rs. m)	575,918	625,867	575,918	625,867
% Chng.	-	-	-	-
EBITDA (Rs. m)	217,189	234,674	217,189	234,674
% Chng.	-	-	-	-
EPS (Rs.)	13.5	14.5	13.5	14.5
% Chng.	-	-	-	-

Key Financials - Standalone

Y/e Mar	FY21	FY22E	FY23E	FY24E
Sales (Rs. bn)	461	524	576	626
EBITDA (Rs. bn)	162	203	217	235
Margin (%)	35.1	38.6	37.7	37.5
PAT (Rs. bn)	132	156	167	180
EPS (Rs.)	10.8	12.6	13.5	14.5
Gr. (%)	(13.4)	17.5	7.0	7.5
DPS (Rs.)	10.8	11.5	12.0	12.5
Yield (%)	4.5	4.8	5.0	5.2
RoE (%)	21.5	25.7	26.2	26.8
RoCE (%)	23.8	30.6	31.1	32.0
EV/Sales (x)	6.0	5.3	4.8	4.4
EV/EBITDA (x)	17.0	13.7	12.8	11.9
PE (x)	22.2	18.9	17.6	16.4
P/BV (x)	5.0	4.7	4.5	4.3

Key Data

	ITC.BO ITC IN
52-W High / Low	Rs.265 / Rs.163
Sensex / Nifty	61,143 / 18,211
Market Cap	Rs.2,935bn/ \$ 39,124m
Shares Outstanding	12,310m
3M Avg. Daily Value	Rs.12634.46m

Shareholding Pattern (%)

Promoter's	-
Foreign	10.81
Domestic Institution	43.72
Public & Others	45.47
Promoter Pledge (Rs bn)	-

Stock Performance (%)

	1M	6M	12M
Absolute	(0.1)	16.1	42.6
Relative	(1.8)	(7.1)	(5.5)

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All round recovery even as FMCG slows down

Quick Pointers:

- Cigarette volumes up 9.5%, FMCG margins flat
- Cigarette recovery faster than first wave; exit volumes at pre covid levels.
- Hotels cash fixed costs down 31% over 2QFY20.

ITC reported a smart recovery in the cigarette business led by fast recovery across states and segments even as FMCG business suffered due to high base and higher input costs. ITC is focusing on innovations and distribution expansion across FMCG and cigarettes which should bode well in coming years. near term outlook seems mixed with improved outlook in cigarettes, strong growth and margin outlook in paper board, rising occupancy and EBIDTA positive in Hotels and steady leaf tobacco prices and benefits of currency depreciation. ITC InfoTech has reported 23% growth in sales and 67% PAT for 1HFY22 and the outlook seems positive with 4x deal wins in last 2 years. ITC trades at 17x Sept23 EPS, with ~5% dividend yield and 12.2% EPS CAGR over FY21-23. Maintain BUY with SOTP based target price of Rs270.

- **Cigarettes volumes grow ~9.5%; EBIT up 10.4%:** Cigarette sales increased 10.2% to Rs56.4bn (~9.5% volume growth), led by broad-based recovery across markets with exit volumes at near pre-Covid levels. Volumes grew faster than first wave however certain markets in Kerala and East remained subdued. ITC has scaled up accessibility by augmenting stockist network (2.1x YoY) & rural servicing infrastructure (1.1x YoY).
- **FMCG EBIDTA margins remained flat:** FMCG sales grew 2.9% at Rs 40.4bn. FMCG EBITDA grew 2.2% to Rs 4.02bn with margins at 10.0%. Sharp recovery witnessed in Discretionary/OOH portfolio while staples and hygiene sales moderated due to a strong base and lower intensity of the pandemic. Ecom grew 3x over 1HFY20, Rural stockists grew 2x YoY while market coverage/Direct outlet servicing grew 1.4x/1.1x.
- **Hotels – QoQ improvement, still behind pre Covid levels:** Hotels revenues grew ~2.6x YoY to Rs 2.95bn, EBIT loss at Rs 480mn. Occupancy/ARR/RevPAR improved sequentially, still below pre-covid levels. Launched two new brands – 'Storii' and 'Mementos' – to expand footprint across the country.
- **Paperboards, Paper & Packaging** Paperboard and Paper sales up 25.4% to Rs 18.3bn, EBIT up by 23.8% to Rs 4.1bn. Benefits of backward integration and improved mix neutralised higher input costs. Near term outlook seems good despite increase in chemicals prices.
- **Agri Business** Agri Business sales down 7% at Rs 27.8bn, EBIT up 15.7% at Rs 3bn. Shortage in availability of shipping containers/port congestions and inclement weather delayed customer call-offs. Leaf tobacco gained from lower competition, INR depreciation and steady global prices.

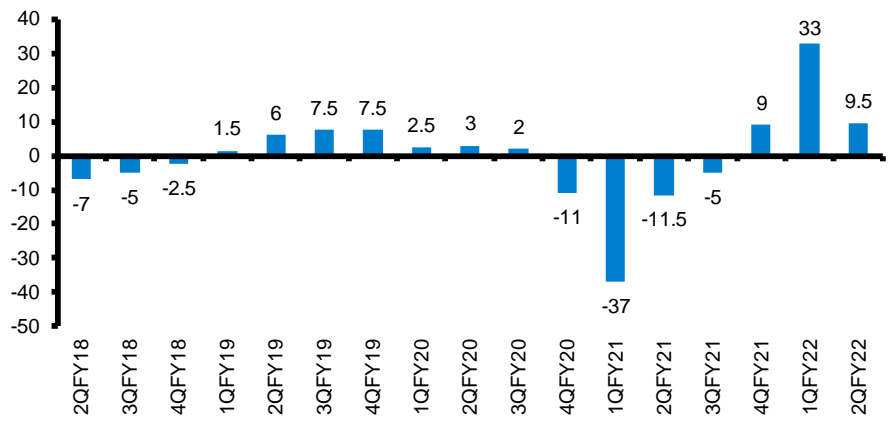
Exhibit 1: Q2FY22 Result Overview: Net Sales up 12.6%, Adj. PAT up 13.7%

Y/e March	Q2FY22	Q2FY21	YoY gr. (%)	Q1FY22	1HFY22	1HFY21	YoY gr. (%)
Net Sales	1,27,310	1,13,101	12.6	1,22,171	2,49,481	2,02,214	23.4
EBITDA	46,150	40,882	12.9	39,922	86,072	67,347	27.8
<i>Margins (%)</i>	<i>36.3</i>	<i>36.1</i>	<i>0.1</i>	<i>32.7</i>	<i>34.5</i>	<i>33.3</i>	<i>1.2</i>
Depreciation	4,015	3,834	4.7	3,955	7,969	7,815	2.0
Interest	104.5	137.6	(24.1)	103.2	207.7	305.5	(32.0)
Other Income	6,770	6,104	10.9	4,290	11,060	15,072	(26.6)
PBT	48,801	43,014	13.5	40,154	88,955	74,299	19.7
Tax	11,829	10,488	12.8	10,019	21,848	18,345	19.1
<i>Tax Rate (%)</i>	<i>24.2</i>	<i>24.4</i>	<i>(0.1)</i>	<i>25.0</i>	<i>24.6</i>	<i>24.7</i>	<i>(0.1)</i>
Adjusted PAT	36,972	32,526	13.7	30,135	67,107	55,954	19.9

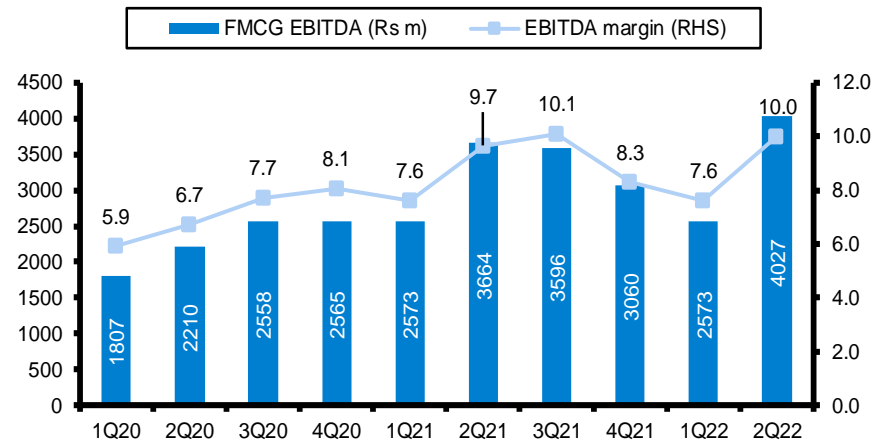
Source: Company, PL

Sales increased 10.2% and EBIT up 10.4%.

Faster recovery than first wave; exit volumes at pre covid levels.

Exhibit 2: Cigarettes: Volumes up 9.5%


Source: Company, PL

Exhibit 3: FMCG EBITDA margins at 10%, flattish YoY


Source: Company, PL

Discretionary/'Out-of-Home' products grew YoY led by snacks, confectionary and beverages.

Sales moderated across staples, convenience foods and hygiene segments.

Continued closure of educational institutions impacts ESPB sales.

Aashirvaad' Atta consolidated its leadership position in branded atta industry; forayed into vermicelli category

ITC e commerce grew 3x over 1HFY20 levels.

Hotels - Structural cost management actions resulted in reduction of cash fixed costs by 31% over 2QFY20

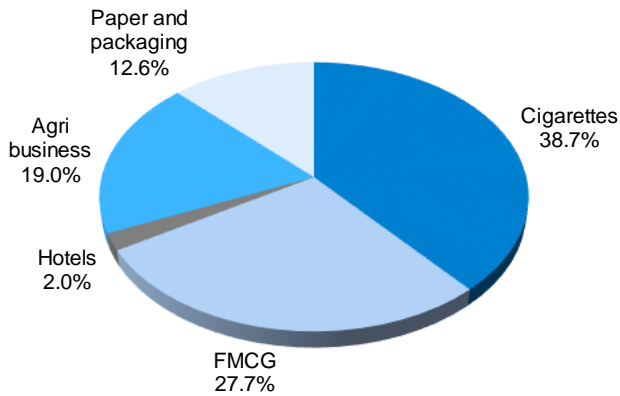
Packaging and printing performed well

Exhibit 4: Cigarette volumes grew 9.5%, FMCG margins at 7.5%

	1QFY21	2QFY21	3QFY21	4QFY21	1QFY22	2QFY22
Cigarette Volume gr %	-37.0	-11.5	-5.0	9.0	33.0	9.5
Sales (INR m)	1,20,237	1,34,421	1,32,548	1,48,597	1,46,489	1,48,829
Cigarettes	38,538	51,213	54,984	58,596	51,222	56,099
FMCG	33,746	37,950	35,618	36,875	37,256	40,600
Hotels	226	820	2,352	2,878	1,272	3,413
Agri business	37,463	29,853	24,818	33,689	40,913	31,942
Paper and packaging	10,264	14,587	14,775	16,559	15,827	16,775
Sales growth (YoY)						
Cigarettes	(29.1)	(3.9)	3.5	14.2	32.9	9.5
FMCG	10.3	15.4	7.5	15.8	10.4	7.0
Hotels	(94.2)	(80.8)	(57.4)	(38.2)	463.5	316.4
Agri business	3.7	12.8	18.5	78.5	9.2	7.0
Paper and packaging	(32.8)	(6.8)	(5.0)	13.5	54.2	15.0
EBIT (INR m)	25,781	38,989	40,739	43,281	38,315	46,328
Cigarettes	23,564	32,448	34,528	36,665	32,209	36,464
FMCG	1,254	2,527	2,074	1,886	1,734	3,045
Hotels	-2,426	-1,849	-673	-401	-1,515	154
Agri business	1,787	2,561	1,961	1,899	1,957	2,555
Paper and packaging	1,601	3,303	2,850	3,233	3,928	4,110
EBIT growth (YoY)	(42.3)	(14.5)	(9.4)	8.2	48.6	18.8
Cigarettes	(38.8)	(15.6)	(8.1)	7.7	36.7	12.4
FMCG	60.7	179.3	92.7	28.4	38.3	20.5
Hotels	NA	NA	NA	NA	NA	NA
Agri business	(11.9)	2.7	(8.1)	54.2	9.5	(0.2)
Paper and packaging	(51.4)	(7.2)	(14.7)	13.1	145.3	24.4
EBIT Margin (%)						
Cigarettes	61.1	63.4	62.8	62.6	62.9	65.0
FMCG	3.7	6.7	5.8	5.1	4.7	7.5
Hotels	NA	(225.6)	(28.6)	(13.9)	(119.0)	4.5
Agri business	4.8	8.6	7.9	5.6	4.8	8.0
Paper and packaging	15.6	22.6	19.3	19.5	24.8	24.5

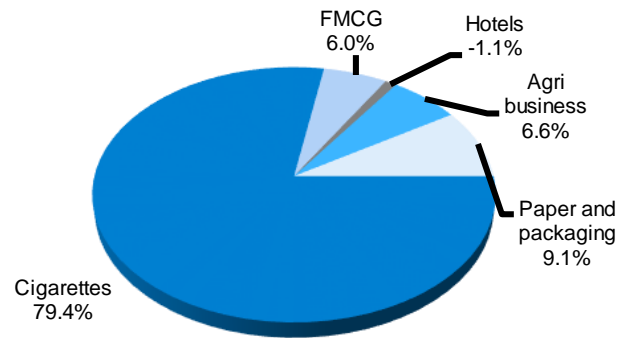
Source: Company, PL

Exhibit 5: Sales Mix: Cigarettes 38.7%, FMCG 27.7%



Source: Company, PL

Exhibit 6: Cigarettes are 79.4% of EBIT



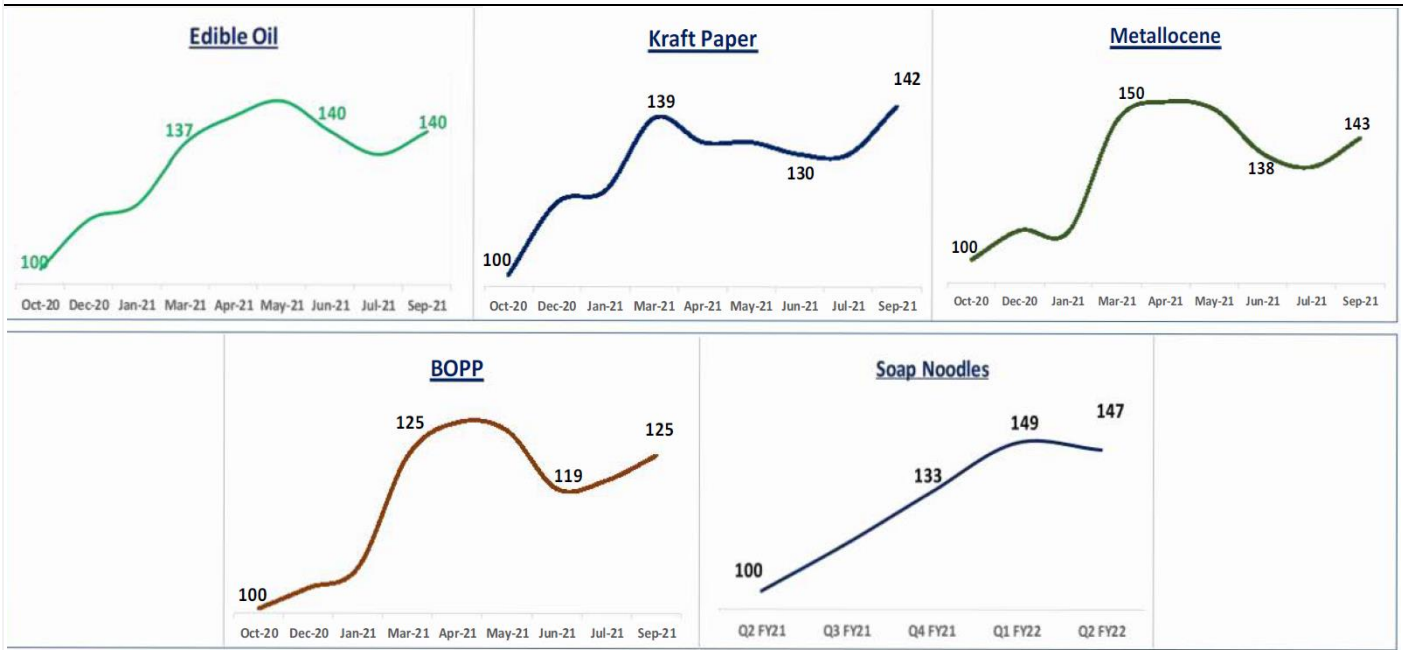
Source: Company, PL

Exhibit 7: Purposeful Innovations

Health & Hygiene			Indulgence		
Aashirvaad Vermicelli	B Natural / Sunfeast Nutrilite Health Range	Savlon Handwash Powder	Dark Fantasy Vanilla Fills	Sunfeast Bounce Fruit Fills	Sunfeast All Rounder
Nimeasy Spray; Nimyle Lemongrass Floor Cleaner	Savlon Moisturizing Hand Sanitizer	Savlon Soaps Cool Hexa	Sunfeast Yippee! Max Masala	Fantastik Chocobar XL	Bingo Cream & Onion

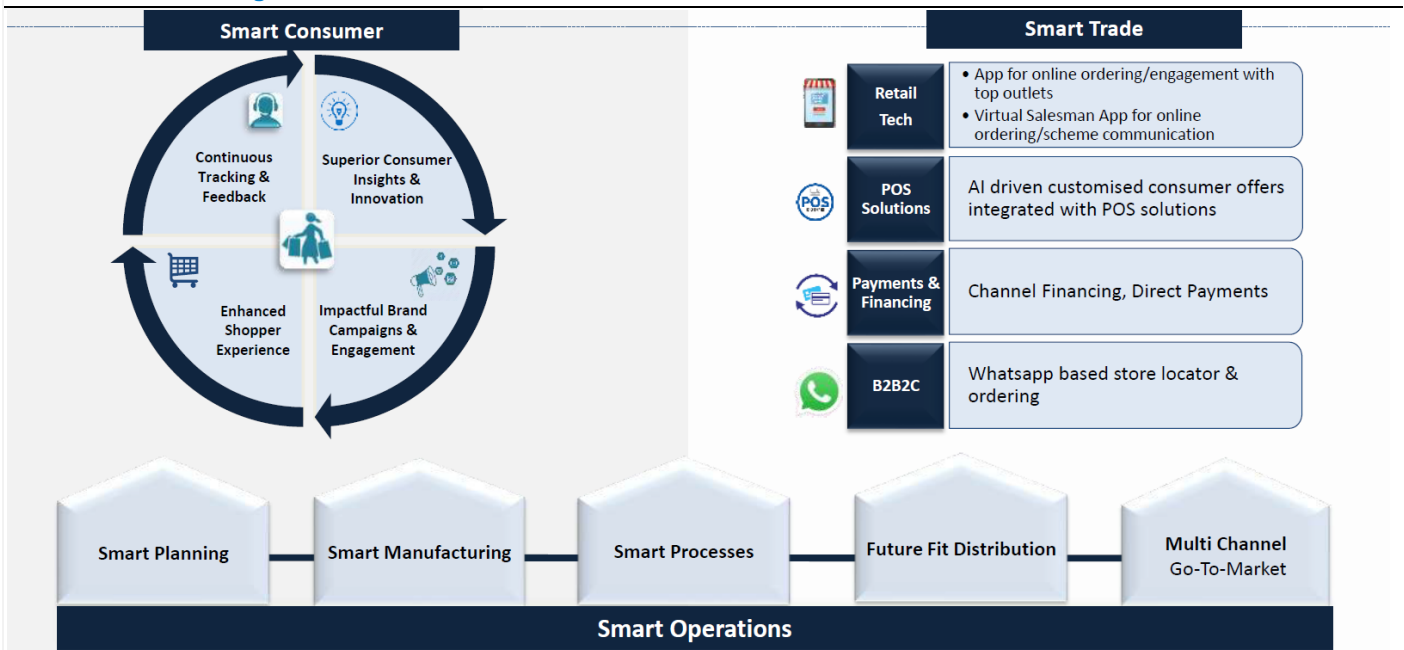
Source: PL, Company

Exhibit 8: Unprecedented inflations witnessed

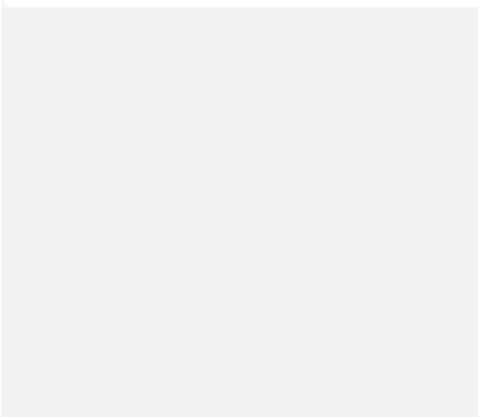


Source: Company, PL

Exhibit 9: Power of digital network



Source: Company, PL



Financials

Income Statement (Rs m)

Y/e Mar	FY21	FY22E	FY23E	FY24E
Net Revenues	461,387	524,396	575,918	625,867
YoY gr. (%)	1.1	13.7	9.8	8.7
Cost of Goods Sold	199,746	212,379	241,142	265,366
Gross Profit	261,641	312,017	334,776	360,501
Margin (%)	56.7	59.5	58.1	57.6
Employee Cost	28,210	29,761	31,941	34,686
Other Expenses	34,120	38,742	42,207	45,207
EBITDA	161,761	202,593	217,189	234,674
YoY gr. (%)	(9.7)	25.2	7.2	8.1
Margin (%)	35.1	38.6	37.7	37.5
Depreciation and Amortization	15,618	17,207	18,517	19,826
EBIT	146,142	185,385	198,672	214,847
Margin (%)	31.7	35.4	34.5	34.3
Net Interest	557	557	557	557
Other Income	29,521	21,324	23,256	24,122
Profit Before Tax	175,106	206,153	221,371	238,413
Margin (%)	38.0	39.3	38.4	38.1
Total Tax	42,743	50,260	54,236	58,411
Effective tax rate (%)	24.4	24.4	24.5	24.5
Profit after tax	132,363	155,893	167,135	180,002
Minority interest	-	-	-	-
Share Profit from Associate	-	-	-	-
Adjusted PAT	132,363	155,893	167,135	180,002
YoY gr. (%)	(13.3)	17.8	7.2	7.7
Margin (%)	28.7	29.7	29.0	28.8
Extra Ord. Income / (Exp)	-	-	-	-
Reported PAT	132,363	155,893	167,135	180,002
YoY gr. (%)	(12.6)	17.8	7.2	7.7
Margin (%)	28.7	29.7	29.0	28.8
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	132,363	155,893	167,135	180,002
Equity Shares O/s (m)	12,309	12,341	12,371	12,399
EPS (Rs)	10.8	12.6	13.5	14.5

Source: Company Data, PL Research

Balance Sheet Abstract (Rs m)

Y/e Mar	FY21	FY22E	FY23E	FY24E
Non-Current Assets				
Gross Block	358,884	389,049	419,249	449,449
Tangibles	333,316	363,281	393,281	423,281
Intangibles	25,568	25,768	25,968	26,168
Acc: Dep / Amortization	150,141	166,680	184,517	203,652
Tangibles	144,616	160,124	176,922	195,010
Intangibles	5,525	6,556	7,595	8,641
Net fixed assets	208,743	222,369	234,733	245,798
Tangibles	188,700	203,157	216,359	228,271
Intangibles	20,043	19,212	18,374	17,527
Capital Work In Progress	33,300	25,000	25,000	25,000
Goodwill	5,772	-	-	-
Non-Current Investments	129,528	156,653	169,282	183,113
Net Deferred tax assets	(17,277)	(16,413)	(15,593)	(14,813)
Other Non-Current Assets	20,309	23,845	25,517	27,143
Current Assets				
Investments	140,467	123,115	113,487	108,926
Inventories	94,709	92,546	101,679	110,530
Trade receivables	20,904	28,476	31,286	34,009
Cash & Bank Balance	40,015	48,127	54,672	63,927
Other Current Assets	10,061	10,488	11,518	12,517
Total Assets	715,805	744,440	783,062	829,230
Equity				
Equity Share Capital	12,309	12,341	12,371	12,399
Other Equity	577,737	610,143	641,079	678,101
Total Networkth	590,046	622,484	653,450	690,499
Non-Current Liabilities				
Long Term borrowings	53	-	-	-
Provisions	1,571	1,576	1,707	1,855
Other non current liabilities	-	-	-	-
Current Liabilities				
ST Debt / Current of LT Debt	0	0	0	0
Trade payables	41,195	38,167	41,926	45,898
Other current liabilities	60,546	60,721	65,186	70,810
Total Equity & Liabilities	715,806	744,440	783,062	829,231

Source: Company Data, PL Research

Cash Flow (Rs m)

Y/e Mar	FY21	FY22E	FY23E	FY24E
PBT	175,106	206,153	221,371	238,413
Add. Depreciation	15,618	17,207	18,517	19,826
Add. Interest	557	557	557	557
Less Financial Other Income	29,521	21,324	23,256	24,122
Add. Other	9,409	(4,036)	(1,972)	(1,842)
Op. profit before WC changes	200,691	219,881	238,472	256,954
Net Changes-WC	52,776	1,186	(3,695)	(8,273)
Direct tax	(42,743)	(50,260)	(54,236)	(58,411)
Net cash from Op. activities	210,724	170,807	180,542	190,271
Capital expenditures	(37,257)	(16,762)	(30,880)	(30,892)
Interest / Dividend Income	-	-	-	-
Others	5,052	(27,125)	(12,628)	(13,830)
Net Cash from Invt. activities	(32,205)	(43,887)	(43,508)	(44,722)
Issue of share cap. / premium	(57,843)	8,865	5,751	5,498
Debt changes	(4)	(53)	-	-
Dividend paid	(124,766)	(132,320)	(141,921)	(148,450)
Interest paid	(557)	(557)	(557)	(557)
Others	(335)	(400)	(266)	(263)
Net cash from Fin. activities	(183,504)	(124,464)	(136,993)	(143,772)
Net change in cash	(4,985)	2,456	41	1,777
Free Cash Flow	173,466	154,045	149,662	159,379

Source: Company Data, PL Research

Key Financial Metrics

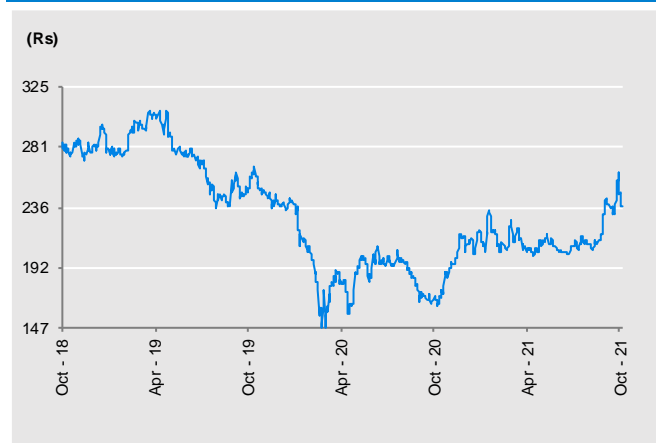
Y/e Mar	FY21	FY22E	FY23E	FY24E
Per Share(Rs)				
EPS	10.8	12.6	13.5	14.5
CEPS	12.0	14.0	15.0	16.1
BVPS	47.9	50.4	52.8	55.7
FCF	14.1	12.5	12.1	12.9
DPS	10.8	11.5	12.0	12.5
Return Ratio(%)				
RoCE	23.8	30.6	31.1	32.0
ROIC	27.3	32.3	32.3	32.7
RoE	21.5	25.7	26.2	26.8
Balance Sheet				
Net Debt : Equity (x)	(0.3)	(0.3)	(0.3)	(0.3)
Net Working Capital (Days)	59	58	58	58
Valuation(x)				
PER	22.2	18.9	17.6	16.4
P/B	5.0	4.7	4.5	4.3
P/CEPS	12.0	14.0	15.0	16.1
EV/EBITDA	17.0	13.7	12.8	11.9
EV/Sales	6.0	5.3	4.8	4.4
Dividend Yield (%)	4.5	4.8	5.0	5.2

Source: Company Data, PL Research

Quarterly Financials (Rs m)

Y/e Mar	Q3FY21	Q4FY21	Q1FY22	Q2FY22
Net Revenue	117,874	132,947	122,171	127,310
YoY gr. (%)	(1.9)	22.6	37.1	13.8
Raw Material Expenses	50,131	60,762	57,861	54,462
Gross Profit	67,743	72,185	64,310	72,848
Margin (%)	57.5	54.3	52.6	57.2
EBITDA	42,814	44,730	39,922	46,150
YoY gr. (%)	(7.2)	7.4	50.8	13.7
Margin (%)	36.3	33.6	32.7	36.3
Depreciation / Depletion	3,909	3,880	3,955	4,015
EBIT	38,904	40,851	35,967	42,136
Margin (%)	33.0	30.7	29.4	33.1
Net Interest	138	31	103	105
Other Income	9,710	7,720	4,290	6,770
Profit before Tax	48,476	48,539	40,154	48,801
Margin (%)	41.1	36.5	32.9	38.3
Total Tax	11,848	11,055	10,019	11,829
Effective tax rate (%)	24.4	22.8	25.0	24.2
Profit after Tax	36,629	37,484	30,135	36,972
Minority interest	-	-	-	-
Share Profit from Associates	-	-	-	-
Adjusted PAT	36,629	37,484	30,135	36,972
YoY gr. (%)	(14.3)	(1.3)	28.6	14.4
Margin (%)	31.1	28.2	24.7	29.0
Extra Ord. Income / (Exp)	-	-	-	-
Reported PAT	36,629	37,484	30,135	36,972
YoY gr. (%)	(11.6)	(1.3)	28.6	14.4
Margin (%)	31.1	28.2	24.7	29.0
Other Comprehensive Income	633	270	1,766	1,514
Total Comprehensive Income	37,262	37,754	31,901	38,485
Avg. Shares O/s (m)	12,305	12,292	12,309	12,320
EPS (Rs)	3.0	3.0	2.4	3.0

Source: Company Data, PL Research

Price Chart
Recommendation History


No.	Date	Rating	TP (Rs.)	Share Price (Rs.)
1	6-Oct-21	BUY	271	231
2	25-Jul-21	BUY	258	212
3	5-Jul-21	BUY	258	202
4	1-Jun-21	BUY	258	215
5	7-Apr-21	BUY	248	214
6	11-Feb-21	BUY	254	226
7	7-Jan-21	BUY	254	205
8	6-Nov-20	BUY	254	174

Analyst Coverage Universe

Sr. No.	Company Name	Rating	TP (Rs)	Share Price (Rs)
1	Asian Paints	BUY	3,675	3,002
2	Avenue Supermarts	Accumulate	5,359	5,324
3	Bajaj Electricals	Hold	1,246	1,284
4	Britannia Industries	Accumulate	4,260	3,939
5	Burger King India	BUY	251	159
6	Colgate Palmolive	Accumulate	1,852	1,532
7	Crompton Greaves Consumer Electricals	BUY	530	451
8	Dabur India	Hold	647	615
9	Emami	Accumulate	624	545
10	Havells India	Accumulate	1,400	1,286
11	Hindustan Unilever	Accumulate	2,930	2,547
12	ITC	BUY	271	231
13	Jubilant FoodWorks	Accumulate	4,111	3,965
14	Kansai Nerolac Paints	Accumulate	661	646
15	Marico	Hold	532	564
16	Mold-tek Packaging	BUY	669	666
17	Nestle India	Accumulate	19,501	19,368
18	Pidilite Industries	Reduce	2,221	2,416
19	Titan Company	BUY	2,554	2,148
20	Titan Company	BUY	2,554	2,148
21	Voltas	UR	-	1,250
22	Westlife Development	BUY	605	554

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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