

ITC Ltd.



RESULT UPDATE

1st November 2021

ITC Ltd

FMCG-others segment sustains double-digit revenue growth

CMP INR 223	Target INR 310	Potential Upside 39%	Market Cap (INR Mn) INR 2,750,180	Recommendation BUY	Sector Consumer
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Result Highlights of Q2FY22:

- Total revenue grew by 12.9% YoY (+4.2% QoQ) to INR 148,444 Mn which was above our estimates (est. INR 141,996 Mn)
- EBITDA margin expanded 33 bps YoY (+260 bps QoQ) to 33.8% while absolute EBITDA grew by 14% YoY (+12.9% QoQ) to INR 50,176 Mn
- EBIT grew by 15% YoY (14.1% QoQ) to INR 45,959 Mn.
- Adj PAT grew by 10.3% YoY (13.3% QoQ) to INR 37,138 Mn, PAT margin contracted by 60 bps YoY (+201 bps QoQ) to 25%.

MARKET DATA

Shares outs (Cr)	1,231
Mkt Cap (INR Mn)	2,750,180
52 Wk H/L (INR)	265/163
Volume Avg (3m K)	26,768
Face Value (INR)	1
Bloomberg Code	ITC IN

KEY FINANCIALS

INR Mn	FY20	FY21	FY22E	FY23E	FY24E
Revenue	513,935	531,551	573,837	625,125	678,430
EBITDA	192,602	170,027	200,903	223,170	248,984
PAT	153,062	131,612	154,758	173,980	195,904
EPS (INR)	12.5	10.7	12.6	14.2	15.9
EBITDA Margin (%)	37.5%	32.0%	35.0%	35.7%	36.7%
NPM (%)	29.8%	24.8%	27.0%	27.8%	28.9%

Source: Company, KRChoksey Research

Revenue witnessed double-digit growth as demand surges

ITC's revenue during the Q2FY22 stood at INR 148,444 Mn (+12.9% YoY / +4.2% QoQ). The growth was driven by strong recovery across all the operating segments including Cigarettes (+10.5% YoY). Cigarettes volume witnessed smart recovery with exit volumes near pre-covid levels. The FMCG - Other's performance was led by snacks, confectionery, and beverages; the segment delivered resilient performance growing on a high base of Q2FY21. ITC witnessed sharp rebound in out of home consumption on the back of improved mobility even as at home consumption moderates. ITC is focusing on expansion of distribution network and innovation which will help the company to sustain its growth trajectory in near to medium term. The pandemic impacted Hotels segment witnessed progressive recovery, its revenue grew by 254.5% YoY. For H1FY22, revenue stood at INR 290,851 Mn (23.1% YoY). Leisure destinations continued to perform well while business travel gathered momentum. Faster recovery in the segment was driven by increased occupancy rate (3x of Q2FY21).

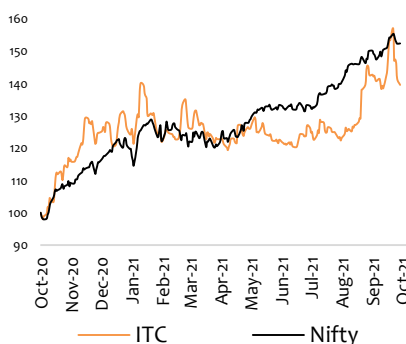
Margin expansion in FMCG segment, Hotels EBITDA turns positive

ITC also performed well at the operating level as compared to the last year. EBITDA margin expanded by 33 bps YoY / 260 bps QoQ to 33.8%, while absolute EBITDA grew by 14% YoY / 12.9% QoQ to INR 50,176 Mn due to better product mix and gradual signs of recovery. For H1FY22, EBITDA stood at INR 94,613 Mn (+28.8% YoY), with OPM at 32.5% (+143 bps YoY) due to recovery in demand and better product mix. The FMCG – Other's segment EBITDA stood at INR 4,030 Mn (+35% QoQ and +82% over Q2FY20), while the segment EBITDA margins sustained at 10% in spite of unprecedented commodity inflation. Q2FY22 Hotels segment EBITDA turns positive (INR +1,340 Mn) as compared to the EBITDA in Q1FY21. Overall, PAT grew by 10.3% YoY to INR 37,138 Mn, with NPM at 25% (-60 bps YoY) due to higher tax expenses. For H1FY22, PAT stood INR 69,902 Mn (+18.9% YoY), with NPM at 24% (-85 bps YoY).

Multiple initiatives undertaken to successfully counter the COVID-19 impact

The FMCG Businesses continue to leverage cutting-edge digital technologies including Industry 4.0, Advanced Analytics, Big Data and industrial Internet of Things (IoT) to enhance productivity, drive efficiency and reduce costs. These initiatives encompass drawing actionable insights for sharp-focused interventions, synchronized planning & forecasting, next generation agile supply chain, smart manufacturing & sourcing, deepening connect with retailers and smart demand capture & fulfilment. 'ITC e-store', the Company's exclusive D2C platform is now operational in 15 cities. Powered by state-of-the-art digital technologies and a robust fulfilment infrastructure, the platform offers consumers on-demand access to a wide range of the Company's FMCG products across 45+ categories and over 850 products under one roof. Consumer response has been excellent.

SHARE PRICE PERFORMANCE



MARKET INFO

SENSEX	59,307
NIFTY	17,672

SHARE HOLDING PATTERN (%)

Particulars	Sep-21	Jun-21	Mar-21
Promoters	0.00	0.00	0.00
FIIIs	10.8	11.7	12.8
DIIIs	43.7	42.4	42.5
Others	45.5	45.9	44.7
Total	100	100	100

8.5%

Revenue CAGR between
FY21 and FY24E

14.2%

PAT CAGR between FY21 and
FY24E

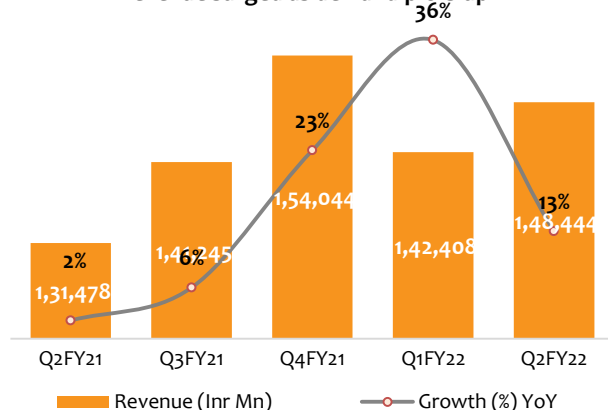
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Press Release Key Takeaways:

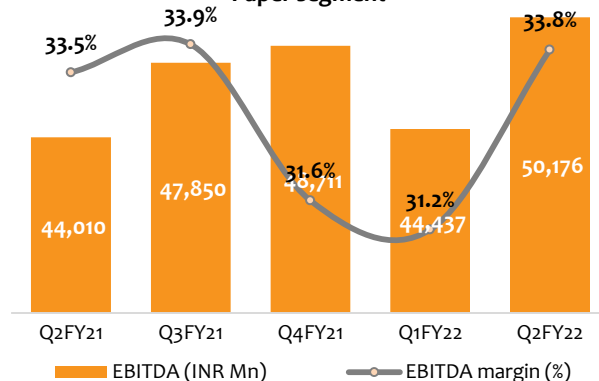
(i) Modern Trade sales grew strongly, both y-o-y (favorable base) and sequentially on the back of improved mobility and store footfalls. (ii) E-Commerce channel posted robust growth on the back of account specific strategies, new product introductions including e-Commerce first brands and customized supply chain solutions; channel salience stood at 7% in H1 – 3x of H1 FY20 level. (iii) ‘Aashirvaad’ Atta consolidated its leadership position in the branded atta industry; forayed into the valueadded adjacent vermicelli category, leveraging the strong equity of the Aashirvaad brand. (iv) The FMCG Businesses continue to leverage alternate and on-the-go channels to enhance product accessibility. Recent interventions include strategic partnerships with large food service outlet chains, covering a range of brands including ‘B Natural’, ‘Sunfeast’, ‘Kitchens of India’, etc. (v) Cigarette's segment witnessed Faster recovery in volumes vs. first wave; exit volumes near pre-Covid levels. (vi) Recent launches include differentiated offerings anchored on the vectors of filters, variants and packaging formats- Classic Connect, Gold Flake Neo SMART Filter, Gold Flake Kings Mixpod, American Club Smash, Wave Boss and Flake Nova. (vii) With easing of travel restrictions imposed during the second wave, domestic leisure segment and staycations witnessed an uptick during the quarter; Business travel continues to gather momentum. Strong recovery in Occupancy levels; ARRs improve on sequential and y-o-y basis but remain below pre-Covid levels. (viii) Paperboards and Specialty Papers Business witnessed revival of demand across most end-user segments. Publications, Quick Service Restaurants (QSR) and wedding card segments, however, remain relatively subdued. (ix) The Businesses continue to focus on developing sustainable paperboard and packaging solutions for end customers leveraging the expertise of ITC LSTC. (x) Robust growth in External Businesses led by Wheat, Rice, Leaf Tobacco, Aqua and Spices exports. Margin expansion driven by favorable business and customer mix.

Valuation and view: ITC with a diversified operations across non-cyclical sectors, a resilient business model, strong brand leadership position in cigarette business, product innovation track record & premiumization drive is establishing itself as a FMCG major. Despite the ongoing Covid related slowdown, we see recovery signs in recent past and believe the current valuation is attractive for long term investors. **Since our last recommendation, the stock price of ITC achieved our target price of INR 228. We value ITC shares using an SOTP (Sum of the parts) approach implying 10.1x EV/EBITDA on FY24E to Cigarette business (earlier 9.2x on FY23E); 18.8x EV/EBITDA on Hotel segment (earlier 16.1x on FY23E); an average 5.5x EV/EBITDA on Agri/Paper business (earlier 5x on FY23E); and 10.2x on EV/Revenue on FMCG segment (earlier 7.8x on FY23E) – we revise our target price to INR 310 per share; an upside of 39% over the CMP. Accordingly, we assign a “BUY” (earlier ACCUMULATE) rating on the shares of ITC Ltd.**

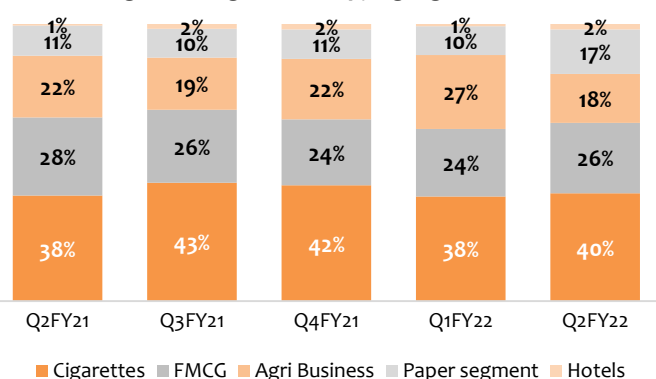
Revenue surged as demand picks-up



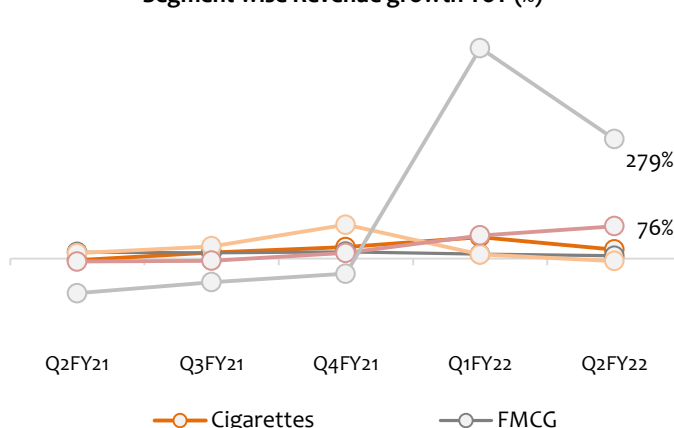
Margin growth supported by Cigarette, FMCG and Paper segment



Segment Revenue Mix (%)
Cigarette segment occupying highest share



Segment wise Revenue growth YoY (%)



Source: Company, KRChoksey Research

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KEY FINANCIALS

Quarterly Income Statement INR Mn	Q2FY22A	Q1FY22A	Q2FY21A	Q-o-Q	Y-o-Y	H1FY22	H1FY21	Y-o-Y
Total Operating Revenue	148,444	142,408	131,478	4.2%	12.9%	290,851	236,263	23.1%
Total Expenditure	98,268	97,970	87,468	0.3%	12.3%	196,238	162,797	20.5%
Cost of Raw Materials	40,298	38,934	36,370	3.5%	10.8%	79,232	67,235	17.8%
Purchase of Stock	19,064	23,244	11,665	-18.0%	63.4%	42,307	28,126	50.4%
Changes in Inventories	-4,636	-4,108	-423	12.8%	995.7%	-8,745	-7,795	12.2%
Excise Duty	10,872	9,935	10,711	9.4%	1.5%	20,807	17,755	17.2%
Employee Cost	12,187	11,718	10,705	4.0%	13.8%	23,904	21,752	9.9%
Other Expenses	20,483	18,249	18,441	12.2%	11.1%	38,732	35,724	8.4%
EBITDA	50,176	44,437	44,010	12.9%	14.0%	94,613	73,466	28.8%
EBITDA Margins (%)	33.8%	31.2%	33.5%	260 bps	33 bps	32.5%	31.1%	143 bps
Depreciation	4,217	4,141	4,046	1.8%	4.2%	8,359	8,236	1.5%
EBIT	45,959	40,296	39,964	14.1%	15.0%	86,255	65,230	32.2%
Interest Expense	98	93	133	4.4%	-26.5%	191	291	-34.4%
Other Income	4,688	4,470	5,823	4.9%	-19.5%	9,158	15,074	-39.2%
PBT	50,549	44,673	45,654	13.2%	10.7%	95,222	80,013	19.0%
Exceptional Items	0	0	0	NM	NM	0	0	NM
Tax	12,912	11,239	11,467	14.9%	12.6%	24,150	20,155	19.8%
Share of Profit & MI	500	670	505	-25.4%	-1.1%	1,169	1,066	9.7%
PAT	37,138	32,765	33,682	13.3%	10.3%	69,902	58,792	18.9%
PAT Margin	25.0%	23.0%	25.6%	201 bps	-60 bps	24.0%	24.9%	-85 bps
Adjusted PAT	37,138	32,765	33,682	13.3%	10.3%	69,902	58,792	18.9%
Adj. PAT Margin	25.0%	23.0%	25.6%	201 bps	-60 bps	24.0%	24.9%	-85 bps
EPS	3.0	2.7	2.7	13.5%	10.2%	5.7	4.8	18.8%

Income Statement INR Mn	FY20	FY21	FY22E	FY23E	FY24E
Revenues	513,935	531,551	573,837	625,125	67,843
COGS	193,349	240,138	234,125	245,674	25,984
Gross profit	320,586	291,413	339,711	379,451	41,859
Employee cost	42,958	44,633	55,949	62,513	6,784
Other expenses	85,026	76,753	82,859	93,769	10,176
EBITDA	192,602	170,027	200,903	223,170	24,898
EBITDA Margin	37.5%	32.0%	35.0%	35.7%	36.7%
Depreciation & amortization	16,449	16,456	17,215	17,504	1,832
EBIT	176,153	153,571	183,688	205,666	23,067
Interest expense	547	446	490	539	59
Exceptional items	-1,321	0	0	0	0
Other income	25,979	26,326	26,194	29,894	34,180
PBT	200,264	179,451	209,392	235,021	26,425
Tax	44,418	45,553	52,348	58,755	6,606
Minority interest	2,866	2,217	2,217	2,217	222
PAT	153,062	131,612	154,758	173,980	19,590
Adj. PAT	157,249	131,612	154,758	173,980	19,590
EPS (INR)	12.45	10.71	12.59	14.15	15.94
Adj. EPS	12.79	10.71	12.59	14.15	15.94

Cash Flow Statement INR Mn	FY20	FY21	FY22E	FY23E	FY24E
Net Cash Generated From Operations	146,897	125,271	161,814	187,988	21,066
Net Cash Flow from Investing Activities	(62,007)	56,829	(62,388)	(70,272)	(7,918)
Net Cash Flow from Financing Activities	(80,014)	(185,699)	(97,991)	(106,790)	(11,996)
Net Inc/Dec in cash equivalents	4,876	(3,599)	1,436	10,925	1,152
Opening Balance	1,628	6,504	2,904	4,340	1,527
Closing Balance Cash and Cash Equivalents	6,504	2,904	4,340	15,266	2,678

Source: Company, KRChoksey Research

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Balance Sheet INR Mn	FY20	FY21	FY22E	FY23E	FY24E
Property, plant and equipment	196,329	191,539	201,706	213,964	22,786
Capital work-in-progress	32,516	40,045	40,045	40,045	4,004
Intangible assets	5,254	20,111	20,111	20,111	2,011
Intangible assets under development	49	68	68	68	7
Right to use assets	9,672	9,772	9,772	9,772	977
Investment property	3,854	3,766	3,766	3,766	377
Investments	107,150	100,245	120,294	144,353	17,322
Loans	53	41	41	41	4
Other financial assets	6,157	1,019	1,019	1,019	102
Deferred tax assets (Net)	563	585	0	0	0
Non-current tax assets (Net)	384	330	0	0	0
Other non-current assets	14,612	12,955	12,955	12,955	1,295
Total non-current assets	378,617	388,273	417,573	453,890	49,666
Current assets					
Inventories	88,793	103,972	101,368	106,369	11,250
Financial assets					
Investments	180,345	149,564	164,520	180,972	19,907
Trade receivables	25,625	25,017	25,774	28,014	3,032
Cash and cash equivalents	6,504	2,904	4,340	15,266	2,678
Other Balances with Banks	66,270	43,686	43,686	43,686	4,369
Loans	63	35	35	35	3
Other financial assets	18,185	13,790	13,790	13,790	1,379
Other current assets	9,268	10,952	10,952	10,952	1,095
Total current assets	395,054	349,920	364,466	399,084	43,714
TOTAL ASSETS	773,670	738,193	782,040	852,974	93,379
EQUITY AND LIABILITIES					
Equity share capital	12,292	12,309	12,309	12,309	1,231
Other equity	640,440	591,165	652,965	722,441	80,067
Equity attributable to the equity shareholders	652,733	603,473	665,273	734,749	81,298
Non-controlling interests	3,775	3,468	0	0	0
Total equity	656,507	606,942	665,273	734,749	81,298
Non-current liabilities					
Borrowings	59	56	56	56	6
Lease liabilities	2,040	2,070	2,070	2,070	2,070
Other financial liabilities	1,279	2,835	2,835	2,835	2,835
Provisions	1,754	1,875	1,875	1,875	188
Non current tax liabilities	16,272	17,364	17,364	17,364	1,736
Other non-current liabilities	162	155	0	0	0
Total non-current liabilities	21,565	24,355	24,199	24,199	2,420
Current liabilities					
Borrowings	14	39	0	0	0
Trade payables	36,298	43,187	28,896	30,355	3,294
Other financial liabilities	13,949	14,919	14,919	14,919	1,492
Other current liabilities	40,727	42,944	42,944	42,944	4,294
Provisions	1,482	1,940	1,940	1,940	194
Current tax liabilities (Net)	2,489	3,328	3,328	3,328	333
Total current liabilities	95,598	106,897	92,567	94,025	9,661
Total liabilities	117,163	131,252	116,766	118,225	12,081
TOTAL EQUITY AND LIABILITIES	773,670	738,193	782,040	852,974	93,379
Key Ratio	FY20	FY21	FY22E	FY23E	FY24E
EBITDA Margin (%)	37.5%	32.0%	35.0%	35.7%	36.7%
Tax rate (%)	22.2%	25.4%	25.0%	25.0%	25.0%
Net Profit Margin (%)	29.8%	24.8%	27.0%	27.8%	28.9%
RoE (%)	23.3%	21.7%	23.3%	23.7%	24.1%
RoCE (%)	26.8%	25.3%	27.6%	28.0%	28.4%
EPS (INR)	12.45	10.71	12.59	14.15	15.94

Source: Company, KRChoksey Research

ITC Ltd

ITC Ltd.				Rating Legend (Expected over a 12-month period)	
Date	CMP (INR)	TP (INR)	Recommendation	Our Rating	Upside
01-11-21	223	310	BUY	Buy	More than 15%
28-07-21	209	228	ACCUMULATE		
30-06-21	203	228	ACCUMULATE	Accumulate	5% – 15%
02-06-21	206	228	ACCUMULATE		
17-03-21	208	228	ACCUMULATE	Hold	0 – 5%
15-12-20	216	228	ACCUMULATE		
24-09-20	173	228	BUY	Reduce	-5% – 0
29-06-20	197	228	BUY		
23-04-20	181	222	BUY	Sell	Less than – 5%
04-02-20	208	259	BUY		

ANALYST CERTIFICATION:

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