

ITC

Mixed bag; FMCG continues to shine

ITC delivered a mixed bag result in a challenging environment. Most OOH consumption categories were impacted in 2Q, and the cigarettes category was not left out. Cigarette net revenue/vol/EBIT clocked -14/-12/-16% growth as compared to our expectation of -8/-10/-8% YoY. FMCG revenue growth was at 15% (HSIE 12.5%), better than Nestle/Britannia (10/11% YoY). EBIT/EBITDA margin was at 6.7/9.7% (HSIE 3.6/7%). Localised lockdowns impacted the recovery in August to mid-Sep for cigarettes, which was witnessed in June-July. Key markets like Karnataka, Maharashtra, and Tamil Nadu were weak with COVID impact. Cigarette mix was also unfavourable and impacted margin. Volume recovery at the end of the quarter is a positive sign. FMCG continues to shine, and ITC is capitalising the high demand for health, hygiene and packaged food products. We cut our EPS estimate for FY21 by 3% while maintaining it for FY22/FY23. We value ITC on SoTP and maintain target price at Rs 236 (implied P/E of 18x P/E Sep-22E EPS). Maintain BUY.

- FMCG remains strong:** Net revenue for ITC grew by 1% YoY (+6% in 2QFY20 and -17% in 1QFY21) vs. the expectation of 4% YoY decline. Cigarette (net)/Hotels/Paper declined 14/81/7% YoY, while FMCG/Agri business saw 18/13% YoY growth. South, metros and large towns were the worst impacted in 2Q. Cigarette demand has improved in most regions except the west, where recovery is slow. Cigarette volume mix is also expected to improve in 2HFY21. FMCG saw comparable growth of 18% YoY, with 25% YoY growth in staples, convenience foods and health & hygiene (75% of the portfolio). Essential products are normalising now while discretionary products are seeing acceleration. E-comm (2x YoY) and GT continued their growth trajectory while MT remained under pressure. ITC gained market share across the portfolio (Aashirvaad, Yippee, Savlon).
- Margins under pressure:** Gross margin fell by 180bps YoY to 60.4% (+21bps in 2QFY20 and -555bps in 1QFY21) vs the expectation of contraction of 75bps YoY. Employee/other expenses grew 5/15% YoY, leading to an EBITDAM dip of 453bps YoY (+112bps in 2QFY20 and -1,184bps in 1QFY21). Overall EBITDA declined by 11% YoY. Cigarette (adjusting for excise duty on inventory)/Agri/Paper EBIT margins dipped by 135/84/9bps YoY while Hotels clocked an EBIT loss of Rs 1.8bn. FMCG EBITDA/EBIT margin expanded by 300/391bps YoY to 9.7/6.7%. PBT declined by 11% YoY while PAT declined by 20% YoY (lower tax rate in the base quarter).
- Press release takeaways:** (1) Cigarette margin was impacted by higher impact in states with a higher premium mix; (2) ITC saw substantial market share gains within capsules; (3) e-comm revenue salience stood at 5%; (4) aggressive cost rationalisation led to savings of 50% of cash fixed costs in hotels; (5) Savlon remains on course to become a Rs 10-bn brand in FY21.

Quarterly/Annual Financial summary

YE Mar (Rs mn)	2QFY21	2QFY20	YoY (%)	1QFY21	QoQ (%)	FY20	FY21E	FY22E	FY23E
Net Sales	119,768	118,715	0.9	95,018	26.0	494,041	485,694	546,001	590,055
EBITDA	40,606	45,624	(11.0)	26,466	53.4	192,602	172,436	203,298	218,584
APAT	32,324	40,231	(19.7)	23,428	38.0	152,275	136,299	159,094	170,441
Diluted EPS (Rs)	2.6	3.3	(19.8)	1.9	37.8	12.4	11.1	12.9	13.9
P/E (x)						14.0	15.7	13.4	12.5
EV / EBITDA (x)						9.2	10.3	8.5	7.8
RoCE (%)						45.7	39.0	45.6	47.5

Source: Company, HSIE Research

BUY

CMP (as on 06 Nov 2020)	Rs 174
Target Price	Rs 236
NIFTY	12,264

KEY CHANGES	OLD	NEW
Rating	BUY	BUY
Price Target	Rs 236	Rs 236
	FY21E	FY22E
EPS %	-3%	0%

KEY STOCK DATA

Bloomberg code	ITC IN
No. of Shares (mn)	12,305
MCap (Rs bn) / (\$ mn)	2,140/28,864
6m avg traded value (Rs mn)	5,529
52 Week high / low	Rs 266/135

STOCK PERFORMANCE (%)

	3M	6M	12M
Absolute (%)	(11.0)	6.1	(33.4)
Relative (%)	(21.1)	(26.1)	(37.0)

SHAREHOLDING PATTERN (%)

	June-20	Sep-20
Promoters	0.00	0.00
FIs & Local MFs	42.09	43.54
FPIs	14.60	12.96
Public & Others	43.31	43.50
Pledged Shares	0.00	0.00

Source : BSE

Pledged shares as % of total shares

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Disclosure:

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