

## Robust growth in FMCG, cigarettes recovery delayed

ITC reported flat revenues impacted by 12% cigarette volume decline, dismal growth in the paper business. Hotels sales also continues to stay impacted with 80.8% sales decline. However, FMCG business saw strong 15.4% growth led by splendid growth in branded foods segment. There was a considerable increase in demand for essentials (atta, biscuits), instant food (noodles) & entire hygiene portfolios (Savlon). The company expects Savlon sales (consumer spends) to reach ₹ 1000 crore in FY21 (₹ 250 crore in FY20), which would become one of the largest brands in hygiene space despite clutter of new brands in category. Agri business also saw healthy 12.8% growth aided by export opportunity in rice, mustard, coffee. Value added products (spices, processed fruits, frozen snacks) posted 25% growth. Operating margins contracted 453 bps to 33.9% mainly due to cigarette sales decline, losses in hotels business. PAT de-grew 19.7% to ₹ 3232.4 crore impacted by dip in operating profit, lower income tax in base quarter.

## Impressive FMCG growth; continuous margin improvement

The FMCG business' impressive growth was led by trend of higher 'at-home' consumption. With restaurants, hotels, cafes staying closed for substantial part of the quarter, atta, noodles, biscuits & other food products saw robust growth. Further, increase in hygiene consciousness also led to splendid growth in Savlon, Nimyle (floor cleaner). Staples, essential, health & hygiene products that comprise 75% of the portfolio saw growth of 25% (Q1 growth was 34%). Discretionary portfolio (deodorants, confectionary, body wash), which comprises 25% of the portfolio, saw 2% decline (25% decline in Q1) during the quarter. Further, FMCG margins improved 300 bps to 9.7%. We believe essential portfolio is poised for a structure shift from unbranded to branded products. The robust growth in Savlon is striking given growth in the category has tapered down after more than 400 brand were launched in the last six months. We expect the FMCG business to grow at 13.6% CAGR with double digit operating margins in FY22E.

## Cigarettes disruption continues

The 12% fall in cigarette volume was impacted by continued supply disruptions due to lockdown in July, August. Product mix was inferior with metro cities & certain southern markets impacted more than others. Also, excise hike in Budget is a factor in dragging volume. Moreover, with many offices continuing with work from home & socialising still remaining minimal, cigarettes segment faced demand challenges. We expect 15% volume dip in FY21E & slower recovery in FY22E with 12% volume growth.

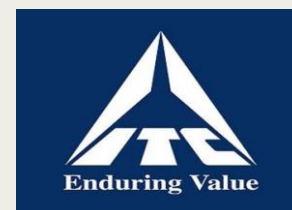
## Valuation & Outlook

Given, the completion of capex in hotels segment and ITC not venturing into many newer FMCG categories, we believe the capital allocation would rationalise. ITC would continue to pay 80% dividend with 20% being kept for any capex or acquisition opportunities. The company has ₹ 24,000 crore of cash or equivalents. We value the stock on an SOTP basis valuing cigarette business at 11x FY23E price to earning & FMCG business at 5x FY23E price to sales with a target price of ₹ 225 & **BUY** recommendation.

### Key Financial Summary

Key Financials	FY19	FY20	FY21E	FY22E	FY23E	CAGR (FY20-22E)
Net Sales	44432.7	46323.7	45551.4	51467.3	56112.3	6.6%
EBITDA	17305.5	17904.3	16324.6	18522.4	20747.3	5.0%
EBITDA Margin %	38.9	38.7	35.8	36.0	37.0	
Net Profit	12464.3	15136.1	13600.0	14635.1	16265.9	2.4%
EPS (₹)	10.3	12.5	11.2	12.0	13.4	
P/E	17.0	14.0	15.5	14.4	13.0	
RoNW %	21.5	23.8	20.9	23.4	27.5	
RoCE (%)	30.8	29.4	27.2	30.5	35.7	

Source: Company, ICICI Direct Research



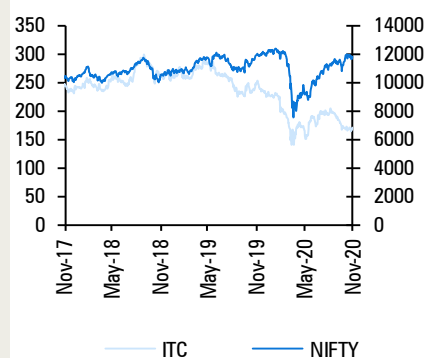
### Particulars

Particulars (₹ crore)	Amount
Market Capitalization	213,884.3
Total Debt (FY20)	70.5
Cash and Investments (FY20)	24,018.3
EV	189,936.5
52 week H/L (₹)	310 / 134
Equity capital	1,229.2
Face value (₹)	1.0

### Key Highlights

- Cigarette volume fell ~12% with supplies disrupted in July & August due to localised lockdowns
- FMCG sales saw robust growth & EBITDA margin expanded 300 bps to 9.7%
- Maintain BUY with target price of ₹ 225 /share

### Price Chart



### Research Analyst

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**Exhibit 1: Variance Analysis**

	Q2FY21	Q2FY21E	Q2FY20	YoY (%)	Q1FY21	QoQ (%)	Comments
Total Operating Income	11,976.8	11,675.7	11,871.5	0.9	9,501.8	26.0	Net sales were flat with dismal sales of cigarettes, Peper & hotels business. However, FMCG & agri witnessed strong growth trends
Operating Income	84.8	81.1	121.3	-30.1	66.1	28.3	
Raw Material Expenses	4,737.0	4,371.9	4,481.7	5.7	3,946.9	20.0	Gross margins contracted mainly due to decline in cigarette sales & losses in hotels business
Employee Expenses	661.0	680.1	632.3	4.6	696.9	-5.1	
Other operating Expenses	1,724.5	1,681.2	1,983.0	-13.0	1,620.9	6.4	
EBITDA	4,060.6	4,090.2	4,562.4	-11.0	2,646.6	53.4	Operating margins impacted by decline in gross margins and some operational fixed cost
EBITDA Margin (%)	33.9	35.0	38.4	-453 bps	27.9	605 bps	
Depreciation	382.5	393.3	395.7	-3.3	398.2	-3.9	
Interest	13.8	13.1	13.3	3.2	16.8	-18.0	
Other Income	610.0	885.0	654.3	-6.8	896.8	-32.0	
PBT	4,274.3	4,568.9	4,807.7	-11.1	3,128.4	36.6	
Tax Outgo	1,041.9	1,151.4	784.6	32.8	785.7	32.6	
PAT	3,232.4	3,417.5	4,023.1	-19.7	2,342.8	38.0	Net profit declined 19.7% on account of 11% decline in operating profits & low income tax in base quarter
Adjusted PAT	3,232.4	3,417.5	4,023.1	-19.7	2,342.8	38.0	
<b>Key Metrics YoY growth (%)</b>							
Cigarette Growth (%)	-3.9	5.0	6.0		-29.1		Cigarette sales down 3.9%. However, net of excise, sales were down 15%
FMCG (Others) Growth (%)	15.4	12.0	4.0		10.3		FMCG business saw strong 15.4% growth led by food & hygiene product portfolio. Discretionary portfolio also saw sharp recovery with out of home activity increasing
Hotels Growth (%)	-80.8	-82.0	17.7		-94.2		Hotels business saw sub 20% occupancies
Agri Business Growth (%)	12.8	10.0	19.3		3.7		Strong export demand for rice, coffee. Only acqua sub-segment saw sales decline due to non-availability of labour
Paperboards Growth (%)	-6.8	-10.0	9.9		-32.8		Paper business largely normalised except publication, wedding cards segment

Source: Company, ICICI Direct Research

**Exhibit 2: Change in estimates**

(₹ Crore)	FY21E			FY22E			FY23E		Comments
	Old	New	Change	Old	New	% Change	New		
Sales	47244.2	45551.4	-3.6	53936.0	51467.3	-4.6	56,112.3		With some demand destruction in cigarettes due to reduced out of home activity, we change our cigarette volume estimate downwards. We also expect slower recovery in FY22. We introduce FY23E numbers
EBITDA	17137.9	16324.6	-4.7	20026.7	18522.4	-7.5	20747.3		
EBITDA Margin (%)	36.3	35.5	-75 bps	37.1	35.6	-153 bps	37.0		
PAT	14260.4	13600.0	-4.6	15834.4	14635.1	-7.6	16265.9		
EPS (₹)	11.7	11.2	-4.3	13.0	12.0	-7.3	13.2		

Source: Company, ICICI Direct Research

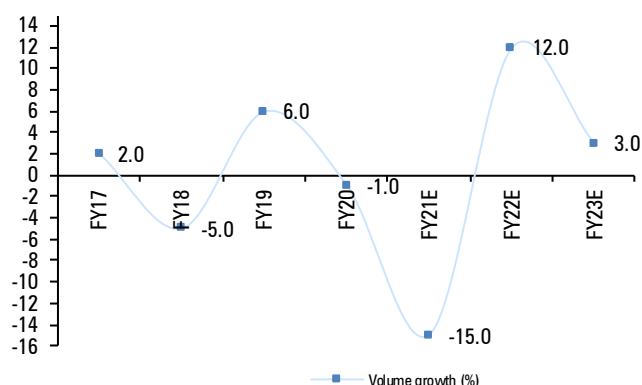
**Exhibit 3: Assumptions**

	Current						Earlier		Comments
	FY18	FY19	FY20	FY21E	FY22E	FY23E	FY21E	FY22E	
Cigarettes (₹ cr)	22,894.0	20,713.0	21,201.7	19,808.3	22,184.5	23,421.2	21,205.7	24,343.1	We change our cigarettes sales estimate on account of higher-than-expected volume decline
Cigarette Vol. Growth (%)	-4.0	6.0	-1.0	-15.0	12.0	3.0	-9.0	12.0	We expect cigarette volume to decline 15% in FY21 against our previous estimate of 9% decline
Cigarette Price Growth (%)	12.0	9.5	4.0	10.0	0.0	2.5	10.0	2.5	
FMCG - Others (₹ cr)	11,314.4	12,505.3	12,844.2	14,749.9	16,555.4	18,849.1	14,749.9	16,555.4	
Hotels (₹ cr)	1,404.1	1,665.5	1,837.3	544.1	1,329.4	1,361.8	544.1	1,329.4	
Paperboards (₹ cr)	5,249.6	5,860.2	6,107.2	5,826.4	6,173.5	6,576.8	5,826.4	6,173.5	

Source: Company, ICICI Direct Research

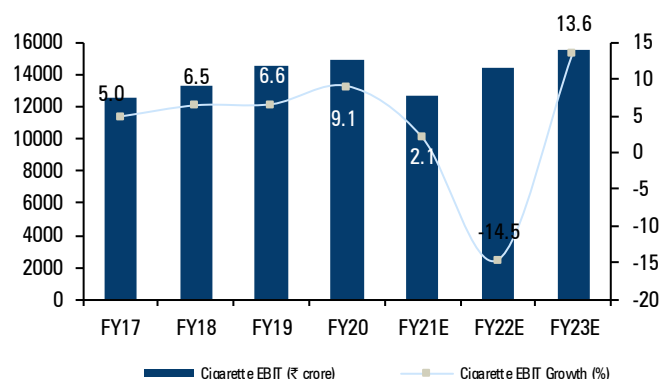
## Key Metrics

Exhibit 4: Cigarette volume growth trend



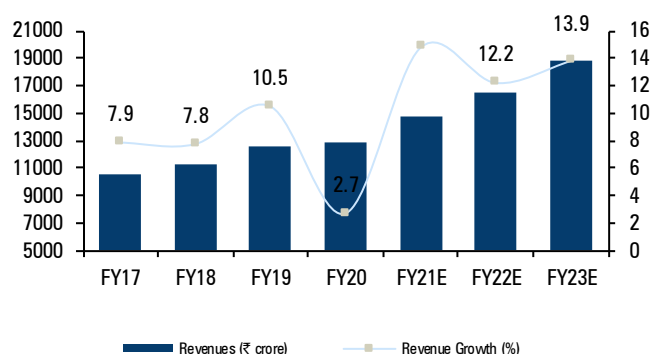
Source: Company, ICICI Direct Research

Exhibit 5: Cigarette EBIT growth trend



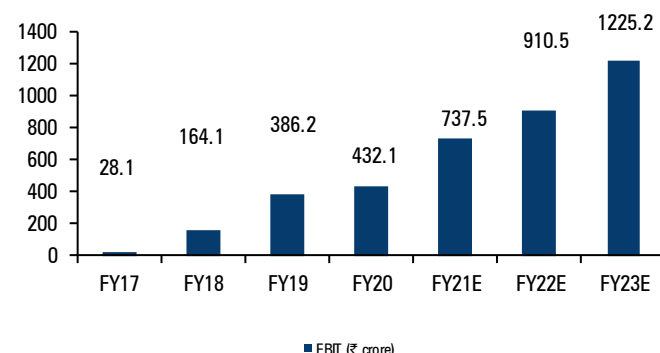
Source: Company, ICICI Direct Research

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



Source: Company, ICICI Direct Research

Exhibit 7: FMCG EBIT (₹ crore) trend



Source: Company, ICICI Direct Research

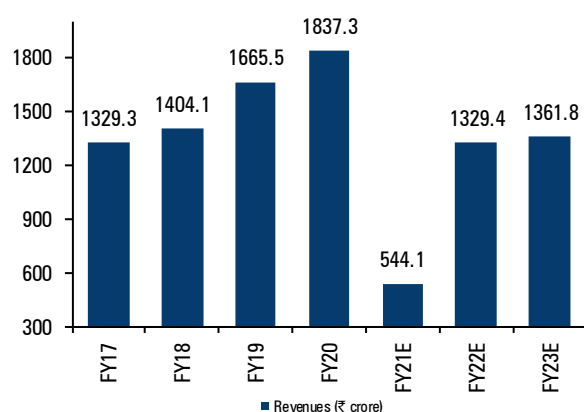
## FMCG new launches to complement strong demand conditions

The company was aggressive in new launches with 70 new products launched in the last six months. We believe some launches in sanitisers & disinfectant segments would be leveraging Savlon brand with its antiseptic proposition. Similarly, Aashirvaad brand extensions in salt, ready to eat chapatti and organic pulses would be complementing the sudden rush in demand and the trend of consumption shift from loose to packaged food. We believe these trends would accelerate growth in these segments.

## Hotels & paper business performance

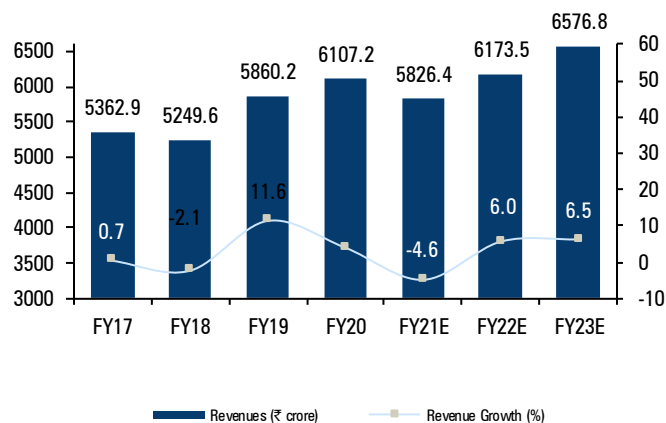
The 6.8% decline in the paper business was impacted by slower traction in some user sub-categories like publications, notebooks & wedding card, which were impacted by norms against socialising & schools, colleges remaining shut. We believe these categories would gradually recover by the end of the year. Hotels business sales dipped 80.8% as occupancies were ~18-20% in Q2. The segment would continue to suffer till the time travel & tourism is completely restored. We believe fresh lockdowns in developed countries & possible travel restrictions would result in rough recovery for the hotels business. The segment reported ₹ 184.9 crore loss during the quarter.

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



Source: Company, ICICI Direct Research

**Exhibit 11: Paperboards revenue (₹ crore) and growth (%) trend**



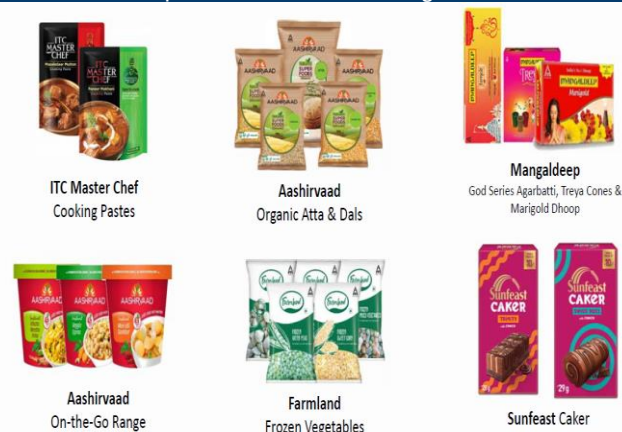
Source: Company, ICICI Direct Research

**Exhibit 9: New product launches during lockdown**



Source: Company, ICICI Direct Research

**Exhibit 12: New product launches during lockdown**

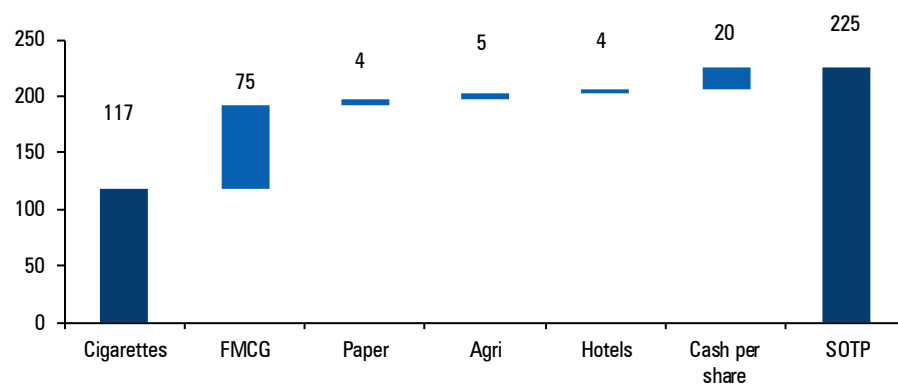


Source: Company, ICICI Direct Research

**Exhibit 10: New product launches during lockdown**



Source: Company, ICICI Direct Research

**Exhibit 13: Sum of the part valuation**


Source: Company, ICICI Direct Research

**Exhibit 14: Valuations**

	Sales	Growth	EPS	Growth	PE	EV/EBITDA	RoNW	RoCE
	(₹ cr)	(%)	(₹)	(%)	(x)	(x)	(%)	(%)
FY20	46323.7	4.3	12.5	21.4	14.0	11.6	23.8	29.4
FY21E	45551.4	-1.7	11.2	-10.1	15.5	12.8	20.9	27.2
FY22E	51467.3	13.0	12.0	7.6	14.4	11.1	23.4	30.5
FY23E	56112.3	9.0	13.4	11.1	13.0	10.2	27.5	35.7

Source: Company, ICICI Direct Research

## Financial summary

Exhibit 15: Profit and loss statement ₹ crore				
(Year-end March)	FY20	FY21E	FY22E	FY23E
<b>Total operating Income</b>	<b>46,807.3</b>	<b>45,956.7</b>	<b>52,034.8</b>	<b>56,736.5</b>
Growth (%)	4.0	-1.8	13.2	9.0
Raw Material Expenses	17,235.1	17,312.3	19,310.3	20,512.9
Employee Expenses	2,658.2	2,640.6	2,919.6	3,171.9
Marketing Expenses	0.0	555.9	938.5	1,019.5
Administrative Expenses	0.0	1,436.1	1,616.2	1,755.9
Excise Duty	1187.6	3147.2	3462.0	3808.2
Other expenses	7,822.1	4,540.0	5,265.8	5,720.8
Total Operating Expenditure	28,903.1	29,632.1	33,512.4	35,989.2
<b>EBITDA</b>	<b>17,904.3</b>	<b>16,324.6</b>	<b>18,522.4</b>	<b>20,747.3</b>
Growth (%)	3.5	-8.8	13.5	12.0
Depreciation	1,563.3	1,573.2	1,438.4	1,478.4
Interest	55.7	50.7	51.0	55.7
Other Income	3,013.7	3,481.1	2,532.6	2,532.6
PBT	19,166.8	18,181.8	19,565.6	21,745.8
Total Tax	4,030.8	4,581.8	4,930.5	5,479.9
<b>PAT</b>	<b>15,136.1</b>	<b>13,600.0</b>	<b>14,635.1</b>	<b>16,265.9</b>
Growth (%)	21.4	-10.1	7.6	11.1
EPS (₹)	12.5	11.2	12.0	13.4

Source: Company, ICICI Direct Research

Exhibit 16: Cash flow statement ₹ crore				
(Year-end March)	FY20	FY21E	FY22E	FY23E
Profit After Tax	14,516.7	13,600.0	14,635.1	16,265.9
Add: Depreciation	1,563.3	1,573.2	1,438.4	1,478.4
(Inc)/dec in Current Assets	1,076.5	1,131.7	8,840.4	-1,900.4
Inc/(dec) in CL and Provisions	-658.5	-13.2	183.3	829.8
<b>CF from operating activities</b>	<b>13,806.2</b>	<b>16,291.7</b>	<b>25,097.2</b>	<b>16,673.7</b>
(Inc)/dec in Investments	0.0	-4,016.2	-3,679.2	-1,908.9
(Inc)/dec in LT loans & advance	0.0	0.0	0.0	0.0
(Inc)/dec in Fixed Assets	-2,113.6	-1,020.0	-1,020.0	-1,020.0
Others	0.0	0.0	0.0	0.0
<b>CF from investing activities</b>	<b>-5,516.7</b>	<b>-5,136.2</b>	<b>-4,799.2</b>	<b>-3,028.9</b>
Issue/(Buy back) of Equity	3.4	0.0	0.0	0.0
Inc/(dec) in loan funds	-3.2	10.0	10.0	10.0
Dividend paid & dividend tax	-8,422.2	-12,476.6	-17,209.1	-19,667.5
Others	0.0	19.4	12.4	19.6
<b>CF from financing activities</b>	<b>-7,890.9</b>	<b>-12,447.2</b>	<b>-17,186.7</b>	<b>-19,638.0</b>
Net Cash flow	398.6	-1,291.6	3,111.4	-5,993.1
Opening Cash	162.8	561.9	-729.8	2,381.6
Cash with Bank	6,281.4	6,281.4	6,281.4	6,281.4
<b>Closing Cash</b>	<b>6,842.8</b>	<b>5,551.7</b>	<b>8,663.0</b>	<b>2,669.9</b>

Source: Company, ICICI Direct Research

Exhibit 17: Balance sheet ₹ crore				
(Year-end March)	FY20	FY21E	FY22E	FY23E
<b>Liabilities</b>				
Equity Capital	1,229.2	1,229.2	1,229.2	1,229.2
Reserve and Surplus	62,799.9	63,923.4	61,349.3	57,947.7
Total Shareholders funds	64,029.2	65,152.6	62,578.6	59,176.9
LT Borrowings & Provisions	5.6	15.6	25.6	35.6
Deferred Tax Liability	1,617.7	1,617.7	1,617.7	1,617.7
Others Non-current Liability:	234.3	253.7	266.1	285.7
<b>Total Liabilities</b>	<b>65,886.7</b>	<b>67,039.5</b>	<b>64,487.9</b>	<b>61,115.9</b>
<b>Assets</b>				
Gross Block	32,180.3	34,960.5	35,960.5	36,960.5
Less: Acc Depreciation	13,247.7	14,820.9	16,259.4	17,737.8
Net Block	18,932.6	20,139.5	19,701.1	19,222.7
Capital WIP	2,780.2	1,000.0	1,000.0	1,000.0
Net Intangible Assets	1,199.6	1,219.6	1,239.6	1,259.6
Non-current Investments	13,455.6	17,471.8	21,150.9	23,059.8
LT loans & advances	3.3	3.3	3.3	3.3
<b>Current Assets</b>				
Inventory	8,038.1	8,111.9	8,460.4	9,223.9
Debtors	2,092.0	3,743.9	4,230.2	4,612.0
Loans and Advances	4.9	5.1	5.8	6.3
Other Current Assets	2,353.7	2,496.0	2,820.1	3,074.6
Cash	6,843.3	5,551.7	8,663.0	2,669.9
Current Investments	17,175.0	14,175.0	4,175.0	4,675.0
Current Liabilities	9,089.4	9,076.2	9,259.5	10,089.3
Creditors	3,446.7	3,369.6	3,525.2	3,843.3
Provisions	117.9	25.9	29.2	31.9
Short term debt & other CL	5,524.7	5,680.8	5,705.1	6,214.2
<b>Application of Funds</b>	<b>65,886.7</b>	<b>67,039.5</b>	<b>64,487.9</b>	<b>61,115.9</b>

Source: Company, ICICI Direct Research

Exhibit 18: Key ratios ₹ crore				
(Year-end March)	FY20	FY21E	FY22E	FY23E
<b>Per share data (₹)</b>				
EPS	12.5	11.2	12.0	13.4
Cash EPS	13.7	12.5	13.2	14.6
BV	52.7	53.6	51.5	48.7
DPS	10.2	14.0	16.0	18.0
Cash Per Share	5.6	4.6	7.1	2.2
<b>Operating Ratios (%)</b>				
EBITDA Margin	38.3	35.5	35.6	36.6
PBT / Total Operating income	41.2	39.6	37.6	38.3
PAT Margin	32.3	29.6	28.1	28.7
Inventory days	63.3	65.0	60.0	60.0
Debtor days	16.5	30.0	30.0	30.0
Creditor days	27.2	27.0	25.0	25.0
<b>Return Ratios (%)</b>				
RoE	23.8	20.9	23.4	27.5
RoCE	29.4	27.2	30.5	35.7
RoIC	29.1	25.2	32.4	34.9
<b>Valuation Ratios (x)</b>				
P/E	14.0	15.5	14.4	13.0
EV / EBITDA	11.6	12.8	11.1	10.2
EV / Net Sales	4.5	4.6	4.0	3.8
Market Cap / Sales	4.6	4.7	4.2	3.8
Price to Book Value	3.3	3.2	3.4	3.6
<b>Solvency Ratios</b>				
Debt/EBITDA	0.0	0.0	0.0	0.0
Debt / Equity	0.0	0.0	0.0	0.0
Current Ratio	3.3	3.2	2.1	2.2
Quick Ratio	2.4	2.3	1.2	1.2

Source: Company, ICICI Direct Research



**Exhibit 19: ICICI Direct coverage universe (FMCG)**

	CMP	TP		M Cap	EPS (₹)			P/E (x)			Price/Sales (x)			RoCE (%)			RoE (%)		
	(₹)	(₹)	Rating	(₹ Cr)	FY20	FY21E	FY22E	FY20	FY21E	FY22E	FY20	FY21E	FY22E	FY20	FY21E	FY22E	FY20	FY21E	FY22E
Colgate (COLPAL)	1,507	1,700	Buy	38,812	30.0	33.4	35.4	50.2	45.2	42.6	8.6	8.4	7.7	60.7	83.5	100.8	51.2	64.2	78.0
Dabur India (DABIND)	527	595	Buy	90,864	8.2	9.6	10.7	64.3	55.1	49.2	10.4	9.5	8.6	26.1	25.9	26.7	21.9	22.3	22.7
Hindustan Unilever (HINLEV)	2,094	2,500	Buy	510,548	31.2	32.4	38.8	67.1	64.6	54.0	13.3	12.0	10.4	89.5	24.5	28.5	85.7	18.6	21.9
ITC Limited (ITC)	174	225	Buy	213,884	12.5	11.2	12.0	14.0	15.5	14.4	4.6	4.7	4.2	29.4	27.2	30.5	23.8	20.9	23.4
Jyothy Lab (JYOLAB)	134	150	Hold	4,957	4.3	5.8	6.1	31.2	23.3	22.0	3.0	2.7	2.5	24.3	31.1	30.9	21.7	25.7	25.1
Marico (MARLIM)	380	440	Buy	46,834	8.1	8.8	9.5	47.0	43.2	39.9	6.4	6.2	5.6	41.0	42.3	45.1	34.5	36.3	38.5
Nestle (NESIND)	17,006	18,000	Hold	152,970	204.3	223.4	253.4	83.3	76.1	67.1	12.4	11.5	10.4	56.9	59.9	66.6	101.9	119.1	139.2
Tata Consumer Products (TATGLO)	504	525	Buy	49,578	5.0	9.8	11.7	101.0	51.6	43.2	5.1	4.6	4.3	6.9	8.8	9.4	4.6	6.6	7.5
VST Industries (VSTIND)	3,436	3,850	Hold	5,307	196.9	206.0	211.9	17.4	16.7	16.2	4.3	4.5	4.2	52.1	45.3	46.1	38.6	33.6	34.2
Varun Beverage (VARBEV)	694	730	Hold	19,429	16.4	11.3	21.7	42.4	61.4	31.9	2.7	3.0	2.5	15.5	12.3	18.6	14.2	10.1	16.7
Zydus Wellness (ZYDWEL)	1,760	2,300	Buy	11,359	24.6	27.8	65.7	71.6	63.4	26.8	6.4	6.1	5.4	5.9	6.9	8.3	5.4	5.9	8.6

Source: Company, ICICI Direct Research

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Buy: >15%

Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%



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