

ITC (ITC IN)

Rating: BUY | CMP: Rs226 | TP: Rs254

February 11, 2021

Q3FY21 Result Update

■ Change in Estimates | ■ Target | ■ Reco

Change in Estimates

	Current		Previous	
	FY22E	FY23E	FY22E	FY23E
Rating	BUY		BUY	
Target Price	254		254	
Sales (Rs. m)	5,16,879	5,65,088	5,16,879	5,65,088
% Chng.	-	-	-	-
EBITDA (Rs. m)	1,97,732	2,10,371	1,97,732	2,10,371
% Chng.	-	-	-	-
EPS (Rs.)	12.4	13.1	12.4	13.1
% Chng.	-	-	-	-

Key Financials - Standalone

Y/e Mar	FY20	FY21E	FY22E	FY23E
Sales (Rs. bn)	456	455	517	565
EBITDA (Rs. bn)	179	170	198	210
Margin (%)	39.2	37.4	38.3	37.2
PAT (Rs. bn)	153	136	154	162
EPS (Rs.)	12.4	11.1	12.4	13.1
Gr. (%)	22.2	(10.9)	12.4	5.2
DPS (Rs.)	10.2	10.0	10.5	11.0
Yield (%)	4.5	4.4	4.6	4.9
RoE (%)	25.0	21.0	22.7	22.7
RoCE (%)	26.8	23.6	26.5	26.7
EV/Sales (x)	5.6	5.6	5.0	4.5
EV/EBITDA (x)	14.2	15.0	13.0	12.2
PE (x)	18.2	20.5	18.2	17.3
P/BV (x)	4.3	4.2	4.0	3.8

Key Data

ITC.BO | ITC IN

52-W High / Low	Rs.239 / Rs.135
Sensex / Nifty	51,532 / 15,173
Market Cap	Rs.2,787bn/ \$ 38,245m
Shares Outstanding	12,305m
3M Avg. Daily Value	Rs.16664.24m

Shareholding Pattern (%)

Promoter's	-
Foreign	13.31
Domestic Institution	42.94
Public & Others	43.75
Promoter Pledge (Rs bn)	-

Stock Performance (%)

	1M	6M	12M
Absolute	11.8	11.5	6.5
Relative	6.9	(16.9)	(14.8)

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FMCG profits on track, Cigarettes remain a drag

Quick Pointers:

- 3Q Cigarette volumes decline ~5%
- 3Q FMCG EBITDA at 9.2%, Staples, Foods and Hygiene sales up 11%.
- Hotels business turned EBITDA positive in Dec'20

ITC's FMCG business continues its upward trajectory with 11% comparable sales growth and 9.2% EBITDA margins. Cigarette volume continue to disappoint with 5% decline. Hotel business also turned EBITDA positive in Dec'20 though we do not expect it to impact overall EBITDA significantly. We believe strong sales momentum in Foods, Hygiene and growth across the discretionary portfolio will aid in overall recovery. We believe ITC would be one of the key beneficiary of an uptick in consumer demand given the depth and width of its portfolio, fast paced launches and innovations. We believe sustained double digit EBITDA margins in FMCG business by FY22/23 and relative stable cigarette tax regime can re-rate the stock. ITC trades at 17.3x FY23 EPS, ~45% discount to our coverage universe with 4% dividend yield and 4.4% PBT CAGR over FY20-23. Maintain BUY with SOTP based target price of Rs254 (valuing cigarette business at 15x FY23 EPS, 59% of value).

- Cigarettes volumes decline ~5%; EBIT down 8.1%:** Sales increased 3.5% as volumes declined by ~5% led by 1) Smart recovery in metros and large town markets after a soft H1. 2) Metros more impacted compared to pre-covid levels. Small packs, innovative offerings do well even as sales mix remains impacted. We expect volume growth to turn positive from 4Q21.
- FMCG EBITDA expanded 150 bps to 9.2%:** Sales grew 7.5% (comparable sales up 11%) driven by 11% growth in essentials (Atta, Noodles, Personal Wash & Hygiene products), discretionary sales also increased 11%. EBITDA margins expanded 150bps to 9.2% (8.9% in 9M21). Broadening of purchase assortment by consumers and lower 'at home' consumption resulted in moderation of staples and convenience food. Discretionary and OOH consumption regained momentum with double digit growth in snacks.
- Hotels turn EBITDA positive in Dec'20:** Sales down 57.4% YoY with EBIT loss of Rs 673mn. ~44% reduction in controllable cash fixed costs. Wedding business, staycations/motorable getaways were the key drivers. Leisure locations continue to witness strong demand with high occupancy levels. Commissioned Welcomhotel Shimla and relaunched Welcomhotel Port Blair. Worst seems over as the business reported breakeven in December.
- Paperboards, Paper & Packaging** revenue decreased by 5% due to subdued demand in domestic market partly offset by robust growth in Exports. EBIT declined 14.7% due to adverse mix, softer realisations and negative operating leverage despite higher operational efficiencies. Strong demand recovery is seen in Pharma, Cup-Stock, Décor & Personal Care segments. Segments catering to use in Liquor, offices, writing and printing and stationery were

impacted with soft realisations. We expect gradual recovery given opening of offices and educational institutions.

- **Agri Business** sales up 18.5% but EBIT down 8.1%. Revenue growth driven by trading opportunities in Rice, Soya & Wheat for Aashirvaad Atta. Leaf Tobacco exports remain impacted by lower volumes, adverse crop mix amidst soft global demand. Value added spices continues to gain strong traction.

Exhibit 1: Q3FY21 Result Overview: Net Sales down 0.2%, Adj. PAT down 14.3%

Y/e March	Q3FY21	Q3FY20	YoY gr. (%)	Q2FY21	9MFY21	9MFY20	YoY gr. (%)
Net Sales	1,17,874	1,18,056	(0.2)	1,11,831	3,18,818	3,47,774	(8.3)
EBITDA	42,814	46,127	(7.2)	40,606	1,09,886	1,37,407	(20.0)
<i>Margins (%)</i>	<i>36.3</i>	<i>39.1</i>	<i>(2.8)</i>	<i>36.3</i>	<i>34.5</i>	<i>39.5</i>	<i>(5.0)</i>
Depreciation	3,909	4,162	(6.1)	3,825	11,716	11,708	0.1
Interest	137.8	124.4	10.8	137.6	443.3	409.9	8.1
Other Income	9,710	9,836	(1.3)	6,100	24,778	22,581	9.7
PBT	48,476	51,676	(6.2)	42,743	1,22,504	1,47,871	(17.2)
Tax	11,848	8,936	32.6	10,419	30,124	33,160	(9.2)
<i>Tax Rate (%)</i>	<i>24.4</i>	<i>17.3</i>	<i>7.1</i>	<i>24.4</i>	<i>24.6</i>	<i>22.4</i>	<i>2.2</i>
Adjusted PAT	36,629	42,740	(14.3)	32,324	92,380	1,14,711	(19.5)

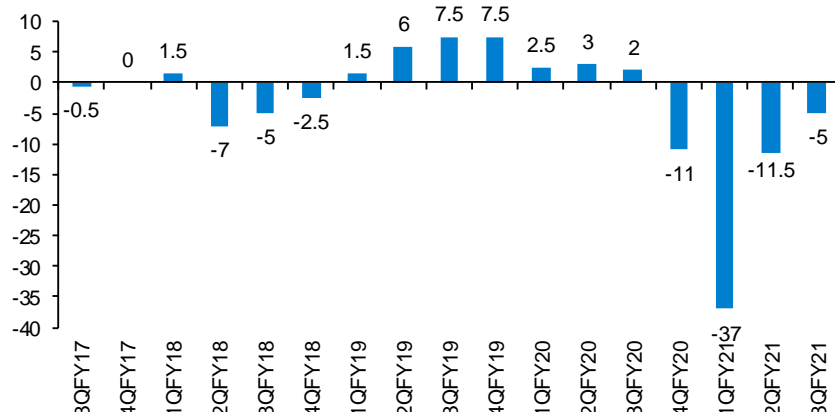
Source: Company, PL

Sales increased 3.5% and EBIT down 8.1%.

Metro markets remain more impacted compared to pre Covid levels.

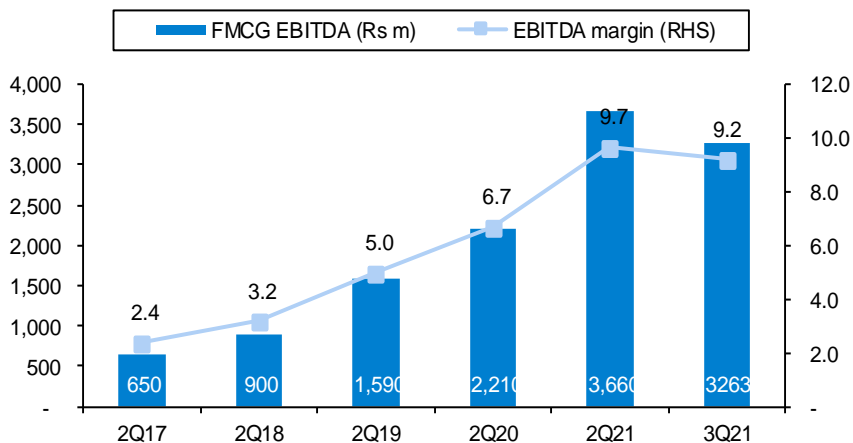
Smart recovery in metros and large towns after soft H1.

Exhibit 2: Cigarettes: Volumes decline ~5%



Source: Company, PL

Exhibit 3: FMCG EBITDA margins at 9.2%



Source: Company, PL

Robust growth in Health & Hygiene, Noodles, Spices, Dairy, Agarbatti and Matches

Savlon clocks Rs 10bn consumer spend

Sharp recovery in Discretionary/OOH portfolio

Snacks category witnesses double digit growth in Q3;

Sequential recovery in Deos & Confectionery

E Commerce channel continues to witness robust growth, now 5% of sales

Hotel business turned EBIDTA positive in Dec'20

Wedding business, staycations /motorable getaways were the key drivers.

L eisure locations continue to witness strong demand

Exhibit 4: Cigarette volumes down 5%, FMCG margins on an uptick

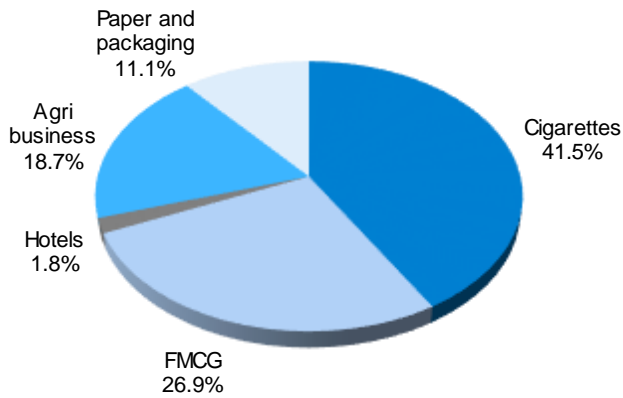
	2QFY20	3QFY20	4QFY20	1QFY21	2QFY21	3QFY21
Cigarette Volume gr %	3.0	2.0	-11.0	-37.0	-11.5	-5.0
Sales (INR m)	1,32,547	1,28,257	1,21,259	1,20,237	1,34,421	1,32,548
Cigarettes	53,268	53,110	51,305	38,538	51,213	54,984
FMCG	32,883	33,123	31,836	33,746	37,950	35,618
Hotels	4,266	5,523	4,658	226	820	2,352
Agri business	26,475	20,947	18,873	37,463	29,853	24,818
Paper and packaging	15,654	15,554	14,588	10,264	14,587	14,775
Sales growth (YoY)						
Cigarettes	6.0	4.7	(6.5)	(29.1)	(3.9)	3.5
FMCG	4.0	3.5	(2.8)	10.3	15.4	7.5
Hotels	17.7	22.2	(8.6)	(94.2)	(80.8)	(57.4)
Agri business	19.3	8.8	(10.2)	3.7	12.8	18.5
Paper and packaging	9.9	0.8	(5.1)	(32.8)	(6.8)	(5.0)
EBIT (INR m)	45,577	44,983	40,014	25,781	38,989	40,739
Cigarettes	38,445	37,560	34,030	23,564	32,448	34,528
FMCG	905	1,076	1,470	1,254	2,527	2,074
Hotels	174	873	426	-2,426	-1,849	-673
Agri business	2,494	2,134	1,231	1,787	2,561	1,961
Paper and packaging	3,559	3,340	2,857	1,601	3,303	2,850
EBIT growth (YoY)	8.5	6.5	(11.5)	(42.3)	(14.5)	(9.4)
Cigarettes	7.4	5.6	(11.7)	(38.8)	(15.6)	(8.1)
FMCG	54.8	40.4	12.6	60.7	179.3	92.7
Hotels	12.0	44.8	(52.0)	NA	NA	NA
Agri business	5.7	7.4	(16.4)	(11.9)	2.7	(8.1)
Paper and packaging	14.5	0.6	(4.9)	(51.4)	(7.2)	(14.7)
EBIT Margin (%)						
Cigarettes	72.2	70.7	66.3	61.1	63.4	62.8
FMCG	2.8	3.2	4.6	3.7	6.7	5.8
Hotels	4.1	15.8	9.1	NA	(225.6)	(28.6)
Agri business	9.4	10.2	6.5	4.8	8.6	7.9
Paper and packaging	22.7	21.5	19.6	15.6	22.6	19.3

Source: Company, PL

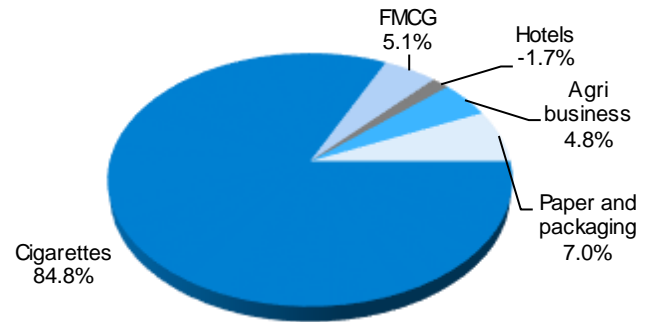
Exhibit 5: SOTP – Cigarette business is now 59% of SOTP value

SOTP	Basis	X	EV	PAT (Rs mn)	% of PAT	EPS	Value/Share
Cigarettes	P/E	15		123448	76.1	10.0	149
FMCG - Others	EV/Sales	3.5	661632	13349	8.2	1.1	54
Hotels	EV/EBIDTA	20	5,668	1834	1.1	0.1	9
Agri business	P/E	12		7302	4.5	0.6	7
Paper and packaging	P/E	10		11661	7.2	0.9	9
Business Value						12.7	229
Cash and Invst			313054				25
Total Value/share							254

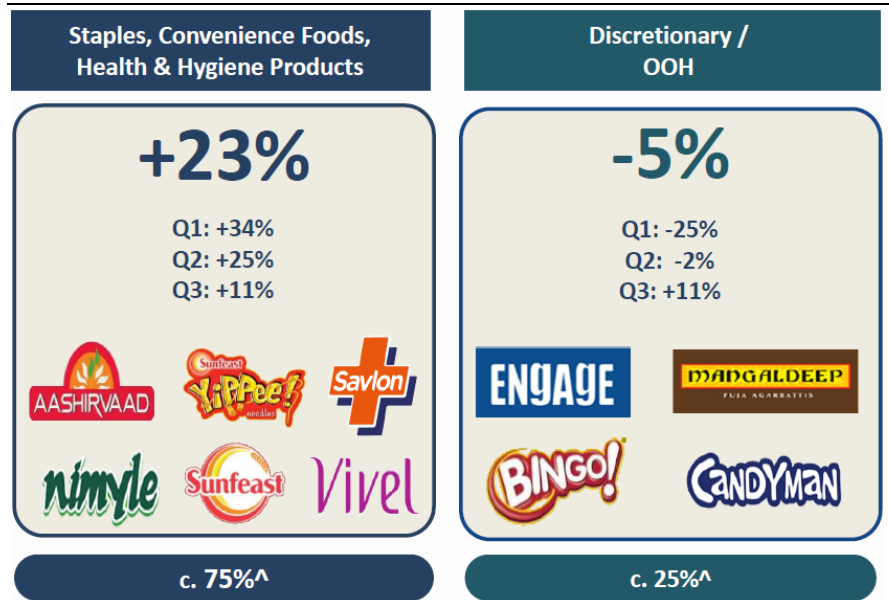
Source: PL

Exhibit 6: Sales Mix: Cigarettes 41.5%, FMCG 26.9%


Source: Company, PL

Exhibit 7: Cigarettes are 84.8% of EBIT


Source: Company, PL

Exhibit 8: Staples & Health portfolio and discretionary portfolio grow 11%


Source: Company, PL

Exhibit 9: Launched 100+ products in 9MFY21 in FMCG segment

<p>B Natural Immunity Soups</p>	<p>Yippee! Saucy Masala</p>	<p>Sunfeast Dark Fantasy Choco Chip, Choco Nut Fills</p>	<p>Aashirvaad Organic Atta & Dals</p>	<p>ITC Master Chef All purpose Gravies</p>
<p>Aashirvaad Crystal & Proactive Salt</p>	<p>Fabelle Luxury Chocolates</p>	<p>Aashirvaad On-the-Go Range</p>	<p>Sunfeast Caker</p>	<p>ITC Master Chef Bakery Range</p>
<p>Charmis Facewash, Face Serum & Hand Cream</p>	<p>Nimeasy & Nimwash Dish Wash Liquid; Fruits & Vegetable Cleaner</p>	<p>Nimyle Neem & Lemon Grass</p>	<p>Dermafique Bio Cellulose face masks</p>	<p>Savlon Hand Wash Pichkiao</p>
<p>Engage On Value Pack</p>	<p>Vivel Glycerin Neem Oil Soap</p>	<p>Savlon Hexa soaps, body wash Disinfectant Sprays</p>	<p>Savlon Masks Germ Protection Wipes</p>	<p>Mangaldeep 'Fragrance of God' Agarbatti, Treya Cone & Marigold Dhoop</p>

Source: Company, PL

Financials

Income Statement (Rs m)

Y/e Mar	FY20	FY21E	FY22E	FY23E
Net Revenues	4,56,197	4,54,945	5,16,879	5,65,088
YoY gr. (%)	1.4	(0.3)	13.6	9.3
Cost of Goods Sold	1,72,351	1,85,403	2,10,779	2,38,831
Gross Profit	2,83,846	2,69,543	3,06,100	3,26,256
Margin (%)	62.2	59.2	59.2	57.7
Employee Cost	26,582	28,204	29,328	31,333
Other Expenses	38,886	33,705	38,259	41,478
EBITDA	1,79,043	1,70,073	1,97,732	2,10,371
YoY gr. (%)	3.5	(5.0)	16.3	6.4
Margin (%)	39.2	37.4	38.3	37.2
Depreciation and Amortization	15,633	16,938	18,337	19,736
EBIT	1,63,410	1,53,135	1,79,395	1,90,635
Margin (%)	35.8	33.7	34.7	33.7
Net Interest	557	557	557	557
Other Income	30,137	30,724	27,699	28,045
Profit Before Tax	1,92,989	1,83,302	2,06,537	2,18,124
Margin (%)	42.3	40.3	40.0	38.6
Total Tax	40,308	46,889	52,770	55,992
Effective tax rate (%)	20.9	25.6	25.6	25.7
Profit after tax	1,52,682	1,36,413	1,53,767	1,62,131
Minority interest	-	-	-	-
Share Profit from Associate	-	-	-	-
Adjusted PAT	1,52,682	1,36,413	1,53,767	1,62,131
YoY gr. (%)	22.5	(10.7)	12.7	5.4
Margin (%)	33.5	30.0	29.7	28.7
Extra Ord. Income / (Exp)	(1,321)	-	-	-
Reported PAT	1,51,361	1,36,413	1,53,767	1,62,131
YoY gr. (%)	21.4	(9.9)	12.7	5.4
Margin (%)	33.2	30.0	29.7	28.7
Other Comprehensive Income	(13,818)	-	-	-
Total Comprehensive Income	1,37,542	1,36,413	1,53,767	1,62,131
Equity Shares O/s (m)	12,292	12,327	12,359	12,389
EPS (Rs)	12.4	11.1	12.4	13.1

Source: Company Data, PL Research

Balance Sheet Abstract (Rs m)

Y/e Mar	FY20	FY21E	FY22E	FY23E
Non-Current Assets				
Gross Block	3,33,562	3,58,723	3,88,923	4,19,123
Tangibles	3,23,262	3,48,224	3,78,224	4,08,224
Intangibles	10,300	10,500	10,700	10,900
Acc: Dep / Amortization	1,35,149	1,51,461	1,69,162	1,88,250
Tangibles	1,30,044	1,45,936	1,63,209	1,81,861
Intangibles	5,105	5,525	5,953	6,389
Net fixed assets	1,98,413	2,07,262	2,19,761	2,30,873
Tangibles	1,93,218	2,02,287	2,15,015	2,26,363
Intangibles	5,195	4,975	4,747	4,511
Capital Work In Progress	27,763	25,000	25,000	25,000
Goodwill	-	-	-	-
Non-Current Investments	1,34,589	1,45,129	1,56,664	1,69,293
Net Deferred tax assets	(16,177)	(15,368)	(14,599)	(13,869)
Other Non-Current Assets	26,520	26,637	28,612	30,178
Current Assets				
Investments	1,71,751	1,60,484	1,50,525	1,43,797
Inventories	80,381	80,329	91,186	99,728
Trade receivables	20,920	24,717	28,057	30,685
Cash & Bank Balance	68,433	71,660	82,420	94,148
Other Current Assets	8,477	9,099	10,338	11,302
Total Assets	7,52,354	7,66,931	8,11,667	8,56,968
Equity				
Equity Share Capital	12,292	12,327	12,359	12,389
Other Equity	6,27,999	6,46,156	6,82,824	7,21,057
Total Network	6,40,292	6,58,483	6,95,183	7,33,446
Non-Current Liabilities				
Long Term borrowings	56	-	-	-
Provisions	1,438	1,444	1,553	1,675
Other non current liabilities	-	-	-	-
Current Liabilities				
ST Debt / Current of LT Debt	0	0	0	0
Trade payables	34,467	34,822	37,821	41,440
Other current liabilities	56,427	53,370	59,106	63,158
Total Equity & Liabilities	7,52,354	7,66,930	8,11,667	8,56,969

Source: Company Data, PL Research

Cash Flow (Rs m)

Y/e Mar	FY20	FY21E	FY22E	FY23E
PBT	1,92,990	1,83,302	2,06,537	2,18,124
Add. Depreciation	15,633	16,938	18,337	19,736
Add. Interest	557	557	557	557
Less Financial Other Income	30,137	30,724	27,699	28,045
Add. Other	19,279	(715)	(2,419)	(1,946)
Op. profit before WC changes	2,28,459	2,00,082	2,23,012	2,36,470
Net Changes-WC	(70,722)	(3,423)	(9,317)	(12,195)
Direct tax	(40,308)	(46,889)	(52,770)	(55,992)
Net cash from Op. activities	1,17,429	1,49,770	1,60,925	1,68,283
Capital expenditures	(29,733)	(23,024)	(30,837)	(30,848)
Interest / Dividend Income	-	-	-	-
Others	6,159	(10,539)	(11,534)	(12,628)
Net Cash from Invst. activities	(23,575)	(33,563)	(42,371)	(43,476)
Issue of share cap. / premium	(6,951)	6,544	6,201	5,900
Debt changes	2,570	(56)	-	-
Dividend paid	(84,937)	(1,24,766)	(1,23,268)	(1,29,768)
Interest paid	(557)	(557)	(557)	(557)
Others	-	(259)	(257)	(254)
Net cash from Fin. activities	(89,875)	(1,19,094)	(1,17,880)	(1,24,679)
Net change in cash	3,980	(2,886)	673	128
Free Cash Flow	87,696	1,26,746	1,30,088	1,37,435

Source: Company Data, PL Research

Key Financial Metrics

Y/e Mar	FY20	FY21E	FY22E	FY23E
Per Share(Rs)				
EPS	12.4	11.1	12.4	13.1
CEPS	13.7	12.4	13.9	14.7
BVPS	52.1	53.4	56.2	59.2
FCF	7.1	10.3	10.5	11.1
DPS	10.2	10.0	10.5	11.0
Return Ratio(%)				
RoCE	26.8	23.6	26.5	26.7
ROIC	31.9	28.6	31.0	30.8
RoE	25.0	21.0	22.7	22.7
Balance Sheet				
Net Debt : Equity (x)	(0.4)	(0.4)	(0.3)	(0.3)
Net Working Capital (Days)	53	56	57	57
Valuation(x)				
PER	18.2	20.5	18.2	17.3
P/B	4.3	4.2	4.0	3.8
P/CEPS	13.7	12.4	13.9	14.7
EV/EBITDA	14.2	15.0	13.0	12.2
EV/Sales	5.6	5.6	5.0	4.5
Dividend Yield (%)	4.5	4.4	4.6	4.9

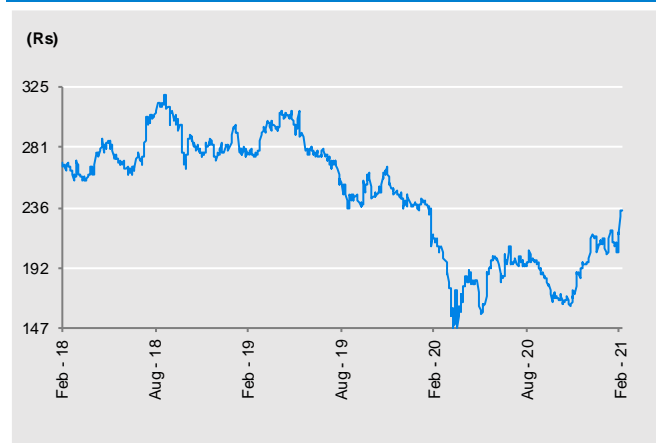
Source: Company Data, PL Research

Quarterly Financials (Rs m)

Y/e Mar	Q4FY20	Q1FY21	Q2FY21	Q3FY21
Net Revenue	1,08,423	89,113	1,11,831	1,17,874
YoY gr. (%)	(9.6)	(22.5)	(5.8)	(1.9)
Raw Material Expenses	40,671	39,469	47,370	50,131
Gross Profit	67,752	49,644	64,461	67,743
Margin (%)	62.5	55.7	57.6	57.5
EBITDA	41,635	26,466	40,606	42,814
YoY gr. (%)	(8.9)	(42.0)	(11.0)	(7.2)
Margin (%)	38.4	29.7	36.3	36.3
Depreciation / Depletion	3,925	3,982	3,825	3,909
EBIT	37,710	22,484	36,781	38,904
Margin (%)	34.8	25.2	32.9	33.0
Net Interest	147	168	138	138
Other Income	7,555	8,968	6,100	9,710
Profit before Tax	45,118	31,284	42,743	48,476
Margin (%)	41.6	35.1	38.2	41.1
Total Tax	7,148	7,857	10,419	11,848
Effective tax rate (%)	15.8	25.1	24.4	24.4
Profit after Tax	37,971	23,428	32,324	36,629
Minority interest	-	-	-	-
Share Profit from Associates	-	-	-	-
Adjusted PAT	37,971	23,428	32,324	36,629
YoY gr. (%)	9.1	(26.2)	(25.9)	(14.3)
Margin (%)	35.0	26.3	28.9	31.1
Extra Ord. Income / (Exp)	-	-	-	-
Reported PAT	37,971	23,428	32,324	36,629
YoY gr. (%)	9.1	(26.2)	(25.9)	(11.6)
Margin (%)	35.0	26.3	28.9	31.1
Other Comprehensive Income	(7,612)	(57)	-	633
Total Comprehensive Income	30,359	23,370	32,324	37,262
Avg. Shares O/s (m)	12,292	12,242	12,242	12,305
EPS (Rs)	3.1	1.9	2.6	3.0

Source: Company Data, PL Research

Price Chart



Recommendation History

No.	Date	Rating	TP (Rs.)	Share Price (Rs.)
1	07-Jan-21	BUY	254	205
2	06-Nov-20	BUY	254	174
3	08-Oct-20	BUY	244	167
4	25-Jul-20	BUY	262	200
5	08-Jul-20	BUY	262	194
6	27-Jun-20	BUY	251	195
7	15-Apr-20	BUY	250	189

Analyst Coverage Universe

Sr. No.	Company Name	Rating	TP (Rs)	Share Price (Rs)
1	Asian Paints	Hold	2,829	2,740
2	Avenue Supermarts	BUY	3,296	2,968
3	Bajaj Electricals	BUY	884	768
4	Britannia Industries	BUY	4,280	3,474
5	Colgate Palmolive	Hold	1,651	1,564
6	Crompton Greaves Consumer Electricals	BUY	447	412
7	Dabur India	Accumulate	550	515
8	Emami	BUY	568	483
9	GlaxoSmithKline Consumer Healthcare	Hold	9,377	9,247
10	Havells India	Hold	1,126	1,131
11	Hindustan Unilever	BUY	2,502	2,391
12	ITC	BUY	254	205
13	Jubilant FoodWorks	Accumulate	2,941	2,646
14	Kansai Nerolac Paints	BUY	653	579
15	Marico	Accumulate	440	411
16	Nestle India	Hold	17,640	18,515
17	Pidilite Industries	Hold	1,739	1,670
18	Polycab India	BUY	1,247	1,278
19	Titan Company	UR	-	1,573
20	Voltas	UR	-	882

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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