

# ITC

## In-line show; FMCG continues to shine

ITC's 3QFY21 was broadly in line as the company saw sequential recovery across categories. FMCG sustained broad-based double digit growth, and cigarettes continued sequential recovery. Cigarette net revenue/vol/EBIT clocked -8/-7/-8% YoY growth vs. our expectation of -3/-7/-7% growth. Comparable FMCG growth at 11% was ahead of peers like Britannia (6% YoY). Urban growth continued to lag rural for cigarettes, although the product mix improved. Increased mobility of consumers and gradual return to offices will support recovery in cigarettes over the next few months. FMCG continues to shine as new launches and the essentials portfolio maintained its momentum, and ITC continued to capitalise on the high demand for health, hygiene and packaged food products. OOH and discretionary categories are expected to continue the strong growth witnessed in 3QFY21. We remain optimistic on the company's ability to delivery healthy earnings growth and maintain our EPS estimates for FY22/FY23. We value ITC on SoTP to derive a target price of Rs 245 (implied P/E of 18x P/E Mar-23E EPS). Maintain BUY.

- In-line revenue, FMCG outperformance continues:** Net revenue grew by 5% YoY (+5% in 3QFY20 and +1% in 2QFY21). Cigarettes saw 4% YoY growth in gross revenue while net revenue declined by 8% YoY, with a volume decline of ~7% (HSIE 7% dip). FMCG/Agri clocked 8/19% YoY growth while Hotels/Paper declined by 57/5% YoY. FMCG clocked 11% growth on a comparable basis. The growth was broad-based across hygiene, packaged foods, discretionary and OOH categories as sentiments improved. FMCG EBITDA margin was at 9.2% (up 140bps YoY). Hotel occupancy improved due to increased mobility of consumers. ITC saw strong growth in Agri driven by trading opportunity in rice, soya and wheat.
- Flat cigarette EBIT margin, strong FMCG margin:** GM contracted by 200bps YoY to 60.2% (-23bps in 3QFY20 and -180bps in 2QFY21) vs expectation of 35bps YoY expansion. Employee/other expenses grew by 8/17% YoY. EBITDA margin dipped by 437bps YoY to 34% (+56bps in 3QFY20 and -453bps in 2QFY21) vs expectation of 204bps YoY contraction. EBITDA declined by 7% YoY (HSIE -6%). Cigarettes EBIT declined by 8% while margin was flat YoY after contraction in 1HFY21. FMCG clocked EBIT/EBITDA margin of 5.8/9.2% (28% growth in EBITDA). Hotels clocked an EBIT loss of Rs 673mn (breakeven at EBITDA). High other income restricted the decline in PBT to 4% YoY while APAT was down 3% YoY.
- Other takeaways:** (1) Savlon reached Rs 10bn at consumer spends; (2) ITC saw market share gains in cigarettes; (3) e-comm revenue salience stood at 5%; (4) the company expanded its market and outlet coverage to 1.3 and 1.1x of pre-COVID level; (5) hotels reached breakeven at EBITDA level and the company reduced controllable cash costs by 44%; (5) DPS was at Rs 5/share.

### Quarterly/Annual Financial summary

YE Mar (Rs mn)	3QFY21	3QFY20	YoY (%)	2QFY21	QoQ (%)	FY20	FY21E	FY22E	FY23E
Net Sales	125,804	120,130	4.7	119,768	5.0	494,041	482,918	546,911	589,080
EBITDA	42,814	46,127	(7.2)	40,606	5.4	192,602	171,009	203,776	218,069
APAT	36,629	37,766	(3.0)	32,324	13.3	152,275	134,346	161,638	172,288
Diluted EPS (Rs)	3.0	3.1	(3.1)	2.6	13.3	12.4	10.9	13.1	14.0
P/E (x)						18.2	20.7	17.2	16.1
EV / EBITDA (x)						12.6	14.1	11.6	10.7
RoCE (%)						45.7	38.6	45.8	47.3

Source: Company, HSIE Research

BUY

CMP (as on 11 Feb 2021)	Rs 226
Target Price	Rs 245
NIFTY	15,173

KEY CHANGES	OLD	NEW
Rating	BUY	BUY
Price Target	Rs 243	Rs 245
EPS %	FY22E	FY23E
	1%	1%

### KEY STOCK DATA

Bloomberg code	ITC IN
No. of Shares (mn)	12,305
MCap (Rs bn) / (\$ mn)	2,787/38,245
6m avg traded value (Rs mn)	6,863
52 Week high / low	Rs 239/135

### STOCK PERFORMANCE (%)

	3M	6M	12M
Absolute (%)	22.2	11.5	6.5
Relative (%)	4.0	(22.6)	(18.5)

### SHAREHOLDING PATTERN (%)

	Sep-20	Dec-20
Promoters	0.00	0.00
FIs & Local MFs	43.54	42.94
FPIs	12.96	13.31
Public & Others	43.50	43.75
Pledged Shares	0.00	0.00

Source : BSE

Pledged shares as % of total shares

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