

Retail Equity Research ITC Limited

Tobacco

BSE CODE: 500875

NSE CODE: ITC

Bloomberg CODE: ITC:IN

SENSEX: 52,276

BUY

12 Months Investment period

Rating as per Large Cap

CMP Rs. 214

TARGET Rs. 256

RETURN 20% 

(Closing: 08-06-21)

KEY CHANGES:

TARGET 

RATING 

EARNINGS 

Topline growth continues; Outlook positive

ITC limited is a diversified conglomerate with presence in FMCG, Hotels, Paperboards & Specialty Papers, Packaging, and Agri-business. The company directly employs over 36,500 people across businesses.

- Q4FY21 standalone revenue grew 24.1% YoY, with improvements seen across all the segments.
- EBITDA rose 7.4% YoY to Rs. 4,473cr in Q4FY21, despite contraction in margins (-490bps YoY to 31.9%). PAT was marginally down by 1.3% to Rs. 3,748cr, impacted by higher tax outgo (+54.7% YoY).
- Management declared a final dividend of Rs. 5.75/share, taking total dividend for FY21 to Rs. 10.75/share.
- ITC's business segments have been performing well on the back of demand growth, aiding topline performance. With margins expected to improve moving forward, we maintain our BUY rating on the stock with a revised target price of Rs. 256 based on SOTP valuation

Decent performance in FMCG; Agri business outperforms

Q4FY21 standalone revenue rose 24.1% YoY (+16% on comparable basis) to Rs. 14,023cr on account of robust recovery across all the segments boosted by increased demand for discretionary products. During the quarter, Cigarettes sales volumes almost recovered to pre-COVID levels aiding sales growth of 14.2% YoY to Rs. 5,860cr. FMCG-Others business grew 15.8% YoY to Rs. 3,688cr mainly due to strong performance of Out-of-home categories supported by stable demand from food and Hygiene products. Agri business reported a robust 78.5% YoY growth in revenue to Rs. 3,369cr, while Paper & Packaging business topline grew 13.5% YoY to Rs. 1,656cr driven by strong demand from pharma and decor industries. Meanwhile, Hotels business declined by 38.2% YoY to Rs. 288cr, as the Travel & Tourism industry remained impacted due to the COVID-19 pandemic.

FMCG margin expansion supports EBITDA and PAT

For Q4FY21, EBITDA grew 7.4% YoY to Rs. 4,473cr (+3.7% QoQ), despite EBITDA margin contraction of 490bps YoY to 31.9% primarily on higher cost of sales and other operating costs. EBITDA margin expansion was observed across some of the segments, but FMCG business led the expansion, as demand for branded foods increased. EBIT improved by 8.3% YoY to Rs. 4,085cr, whereas PAT remained largely stable at Rs. 3,748cr (vs. Rs. 3,797cr in Q4FY20), partially impacted by higher taxes (+54.7% YoY).

Growth momentum to continue in FMCG business

Integration of Sunrise Foods should help ITC focus on value adding niche products (Ex: Spices, etc.) which further enables margin expansion for this segment. Additionally, changing consumer buying preferences from private labels to branded ones should help drive demand. This shift in behavior could largely be attributed to increased concerns over hygiene and safety in the current pandemic scenario. ITC is well-positioned to benefit from this opportunity with adequate inventory levels, coupled with rapid expansion on outlet and stockists front to capture demand going forward.

Valuation

With constant focus on innovation and improving product-mix, ITC is well-placed to capture demand across segments. Steady topline growth along with improved margins going forward should help reduce its operational leverage, further boosted by its ability to implement structural changes in its value chain. We maintain a positive view on the stock and reiterate our BUY rating with a revised target price of Rs. 256 based on SOTP valuation.

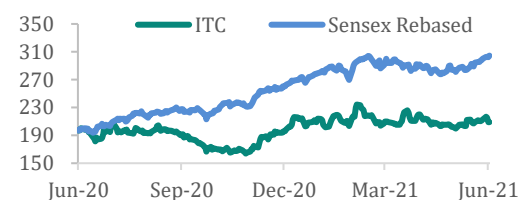
Company Data

Market Cap (cr)	Rs. 257,378
Enterprise Value (cr)	Rs. 257,672
Outstanding Shares (cr)	1,230.9
Free Float	70.0%
Dividend Yield	5.1%
52 week high	Rs. 239
52 week low	Rs. 163
6m average volume (lacs)	18.6
Beta	0.6
Face value	Rs. 1

Shareholding %	Q2FY21	Q3FY21	Q4FY21
Promoters	0.0	0.0	0.0
FII's	13.0	13.3	12.8
MFs/Insti	43.5	42.9	42.5
Public	12.0	12.2	12.9
Others	31.5	31.6	31.8
Total	100.0	100.0	100.0
Promoters' pledge	0.0	0.0	0.0

Price Performance	3 Month	6 Month	1 Year
Absolute Return	-0.4%	6.5%	6.2%
Absolute Sensex	1.5%	17.0%	53.1%
Relative Return*	-1.9%	-10.5%	-46.9%

*over or under performance to benchmark index



Standalone (cr)	FY21A	FY22E	FY23E
Sales	48,151	51,560	55,938
Growth (%)	3.9	7.1	8.5
EBITDA	15,522	19,220	21,339
EBITDA Margin (%)	32.2	37.3	38.1
Adj. PAT	13,032	15,697	17,375
Growth (%)	(14.6)	20.5	10.7
Adj. EPS	10.6	12.8	14.1
Growth (%)	(14.8)	20.5	10.7
P/E	20.6	16.4	14.8
P/B	4.6	4.3	4.1
EV/EBITDA	17.3	13.4	12.1
ROE (%)	22.1	26.2	27.5
D/E	0.0	0.0	0.0

Quarterly Financials (Standalone)

Profit & Loss Account

	Q4FY21	Q4FY20	YoY Growth %	Q3FY21	QoQ Growth %	FY21	FY20	YoY Growth %
Revenue	14,023	11,300	24.1	12,673	10.7	48,151	46,324	3.9
EBITDA	4,473	4,164	7.4	4,315	3.7	15,522	17,904	(13.3)
EBITDA margins	31.9	36.8	(490bps)	34.0	(210bps)	32.2	38.7	(650bps)
Depreciation	388	393	(1.2)	392	(1.1)	1,562	1,563	(0.1)
EBIT	4,085	3,771	8.3	3,922	4.1	13,961	16,341	(14.6)
Interest	3	15	(78.7)	14	(77.2)	47	56	(14.8)
Other Income	772	756	2.2	972	(20.6)	3,251	3,014	7.9
Exceptional Items	-	-	-	-	-	-	-	-
PBT	4,854	4,512	7.6	4,880	(0.5)	17,164	19,167	(10.4)
Tax	1,105	715	54.7	1,193	(7.3)	4,133	4,031	2.5
Sh. of profit from Associate	-	-	-	-	-	-	-	-
Minority Interest	-	-	-	-	-	-	-	-
Reported PAT	3,748	3,797	(1.3)	3,688	1.6	13,032	15,136	(13.9)
Adjustments	-	-	-	-	-	-	132	n.m.
Adj. PAT	3,748	3,797	(1.3)	3,688	1.6	13,032	15,268	(14.6)
No. of shares	1,230.9	1,229.2	0.1	1,230.5	0.0	1,230.9	1,229.2	0.1
Adj. EPS (Rs.)	3.0	3.1	(1.4)	3.0	1.6	10.6	12.4	(14.8)

Segment Revenue

	Q4FY21	Q4FY20	YoY Growth %	Q3FY21	QoQ Growth %	FY21	FY20	YoY Growth %
FMCG	9,547	8,314	14.8	9,242	3.3	35,061	34,046	3.0
- Cigarettes	5,860	5,131	14.2	5,498	6.6	20,333	21,202	(4.1)
- Others	3,688	3,184	15.8	3,744	(1.5)	14,728	12,844	14.7
Paperboards, Paper &	1,656	1,459	13.5	1,478	12.1	5,619	6,107	(8.0)
Agri Business	3,369	1,887	78.5	2,482	35.7	12,582	10,241	22.9
Hotels	288	466	(38.2)	235	22.4	628	1,837	(65.8)
Inter-segment	(836)	(826)	n.m.	(763)	n.m.	(5,738)	(5,907)	2.9
Total Revenue	14,023	11,300	24.1	12,673	10.7	48,151	46,324	3.9

Change in Estimates

Year / Rs. cr	Old estimates		New estimates		Change %	
	FY22E	FY23E	FY22E	FY23E	FY22E	FY23E
Revenue	51,562	56,348	51,560	55,938	(0.0)	(0.7)
EBITDA	19,357	21,143	19,220	21,339	(0.7)	0.9
Margins (%)	37.5	37.5	37.3	38.1	(20bps)	60bps
Adj. PAT	15,800	17,174	15,697	17,375	(0.7)	1.2
Adj. EPS	12.8	14.0	12.8	14.1	(0.7)	1.1

Sum of the parts (SOTP) valuation

Particulars	Basis	Multiple	EBITDA/Sales (Rs. Cr)	Year	Value (Rs. Cr)	Value/share (Rs.)
Cigarettes	EV/EBITDA	11.0x	14,832	FY23E	163,147	133
FMCG - others	EV/Sales	6.0x	18,970	FY23E	113,820	92
Paperboards, Paper & Packaging	EV/EBITDA	9.5x	2,198	FY23E	20,885	17
Agri Business	EV/EBITDA	9.0x	1,490	FY23E	13,407	11
Hotels	EV/EBITDA	8.0x	427	FY23E	3,415	3
Enterprise Value					314,674	256
Net Debt					(142)	(0)
Equity Value					314,816	256

PROFIT & LOSS

Y.E March (Rs. cr)	FY19A	FY20A	FY21A	FY22E	FY23E
Revenue	45,221	46,324	48,151	51,560	55,938
% change	2.9	2.4	3.9	7.1	8.5
EBITDA	17,306	17,904	15,522	19,220	21,339
% change	11.4	3.5	(13.3)	23.8	11.0
Depreciation	1,312	1,563	1,562	1,621	1,743
EBIT	15,994	16,341	13,961	17,599	19,595
Interest	34	56	47	40	35
Other Income	2,485	2,882	3,251	3,116	3,247
PBT	18,444	19,167	17,164	20,675	22,807
% change	9.4	3.9	(10.4)	20.5	10.3
Tax	5,980	4,031	4,133	4,978	5,432
Tax Rate (%)	32.4	21.0	24.1	24.1	23.8
Reported PAT	12,464	15,136	13,032	15,697	17,375
Adj*	-	132	-	-	-
Adj PAT	12,464	15,268	13,032	15,697	17,375
% change	15.3	22.5	(14.6)	20.5	10.7
No. of shares (cr)	1,230.1	1,229.2	1,230.9	1,230.9	1,230.9
Adj EPS (Rs.)	10.1	12.4	10.6	12.8	14.1
% change	14.8	22.6	(14.8)	20.5	10.7
DPS (Rs.)	5.8	10.2	10.8	10.2	10.2
CEPS (Rs.)	11.2	13.7	11.9	14.1	15.5

CASH FLOW

Y.E March (Rs. cr)	FY19A	FY20A	FY21A	FY22E	FY23E
Net inc. + Depn.	13,776	16,699	14,593	17,318	19,119
Non-cash adj.	(1,545)	(3,311)	(2,705)	(3,115)	(2,219)
Changes in W.C	(482)	418	(395)	949	(536)
C.F. Operation	11,749	13,806	11,494	15,152	16,363
Capital exp.	(2,759)	(2,114)	(1,579)	(1,596)	(1,536)
Change in inv.	(6,469)	(9,017)	(875)	(1,589)	(3,610)
Other invest.CF	4,146	5,614	8,952	1,347	1,482
C.F - Investment	(5,082)	(5,517)	6,498	(1,837)	(3,663)
Issue of equity	969	625	291	-	-
Issue/repay debt	(7)	(47)	(52)	(10)	(8)
Dividends paid	(6,285)	(7,049)	(18,629)	(13,232)	(12,561)
Other finance.CF	(1,278)	(1,420)	12	(40)	(35)
C.F - Finance	(6,601)	(7,891)	(18,379)	(13,283)	(12,604)
Chg. in cash	67	399	(387)	32	95
Closing cash	163	562	231	263	358

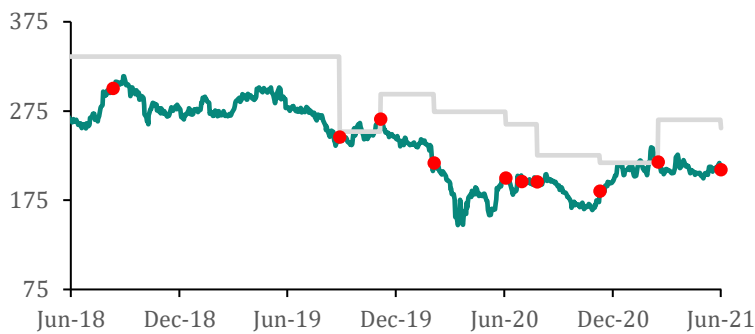
BALANCE SHEET

Y.E March (Rs. cr)	FY19A	FY20A	FY21A	FY22E	FY23E
Cash	163	562	231	263	358
Accounts Receivable	3,646	2,092	2,090	2,062	2,461
Inventories	7,587	8,038	9,471	8,551	8,813
Other Cur. Assets	18,173	26,200	20,023	20,272	20,735
Investments	14,071	13,456	12,950	14,361	17,611
Gross Fixed Assets	22,177	24,290	25,870	27,465	29,001
Net Fixed Assets	17,946	19,613	19,593	19,835	19,881
CWIP	3,391	2,776	3,330	3,163	3,005
Intangible Assets	551	523	2,585	2,485	2,389
Def. Tax (Net)	-	-	-	-	-
Other Assets	4,270	1,975	1,306	1,245	1,186
Total Assets	69,798	75,235	71,581	72,238	76,440
Current Liabilities	9,622	9,025	10,123	9,905	10,411
Provisions	133	144	157	172	189
Debt Funds	50	420	568	558	550
Other Liabilities	2,044	1,618	1,728	1,742	2,010
Equity Capital	1,226	1,229	1,231	1,231	1,231
Reserves & Surplus	56,724	62,800	57,774	58,630	62,050
Shareholder's Fund	57,950	64,029	59,005	59,861	63,281
Minority Interest	-	-	-	-	-
Total Liabilities	69,798	75,235	71,581	72,238	76,440
BVPS (Rs.)	47	52	48	49	51

RATIOS

Y.E March	FY19A	FY20A	FY21A	FY22E	FY23E
Profitab. & Return					
EBITDA margin (%)	38.3	38.7	32.2	37.3	38.1
EBIT margin (%)	35.4	35.3	29.0	34.1	35.0
Net profit mgn.(%)	27.6	32.7	27.1	30.4	31.1
ROE (%)	21.5	23.6	22.1	26.2	27.5
ROCE (%)	27.6	25.4	23.4	29.1	30.7
W.C & Liquidity					
Receivables (days)	29.4	16.5	15.8	14.6	16.1
Inventory (days)	153.1	159.3	150.2	149.7	147.8
Payables (days)	67.9	68.3	65.3	72.1	71.2
Current ratio (x)	3.1	4.1	3.1	3.1	3.1
Quick ratio (x)	2.1	2.9	2.0	2.0	2.0
Turnover & Leverage					
Gross asset T.O (x)	2.2	2.0	1.9	1.9	2.0
Total asset T.O (x)	0.7	0.6	0.7	0.7	0.8
Int. coverage ratio (x)	467.8	293.3	294.1	435.1	554.2
Adj. debt/equity (x)	0.0	0.0	0.0	0.0	0.0
Valuation					
EV/Sales (x)	8.2	4.6	5.6	5.0	4.6
EV/EBITDA (x)	21.3	11.8	17.3	13.4	12.1
P/E (x)	29.6	13.8	20.6	16.4	14.8
P/BV (x)	6.4	3.3	4.6	4.3	4.1

Recommendation Summary (Last 3 Years)



Dates	Rating	Target
7-Nov-19	BUY	294
5-Feb-20	BUY	274
5-Jun-20	BUY	260
2-Jul-20	BUY	260
28-Jul-20	BUY	225
11-Nov-20	BUY	217
17-Feb-21	BUY	265
8-Jun-21	BUY	256

Source: Bloomberg, Geojit research

Investment Rating Criteria

Ratings	Large caps	Midcaps	Small Caps
Buy	Upside is above 10%	Upside is above 15%	Upside is above 20%
Accumulate	-	Upside is between 10%-15%	Upside is between 10%-20%
Hold	Upside is between 0% - 10%	Upside is between 0%-10%	Upside is between 0%-10%
Reduce/sell	Downside is more than 0%	Downside is more than 0%	Downside is more than 0%
Not rated			

Definition:

Buy: Acquire at Current Market Price (CMP), with the target mentioned in the research note.

Accumulate: Partial buying or to accumulate as CMP dips in the future.

Hold: Hold the stock with the expected target mentioned in the note.

Reduce: Reduce your exposure to the stock due to limited upside.

Sell: Exit from the stock.

Not rated: The analyst has no investment opinion on the stock.

To satisfy regulatory requirements, we attribute 'Accumulate' as Buy and 'Reduce' as Sell.

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