

ITC Ltd.



ITC Ltd

FMCG-others segment sustains double-digit revenue growth

CMP INR 209	Target INR 228	Potential Upside 9.2%	Market Cap (INR Mn) INR 2,570,308	Recommendation ACCUMULATE	Sector Consumer
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Result Highlights of Q1FY22:

- In Q1FY22, Total revenue grew by 35.9% YoY (-7.9% QoQ) to INR 142,408 Mn which was above our estimates (est. INR 132,888 Mn)
- EBITDA margin expanded 309 bps YoY (down 42 bps QoQ) to 31.2% while absolute EBITDA grew by 50.9% YoY (-8.8% QoQ) to INR 44,437 Mn
- EBIT grew by 59.5% YoY (-9.7% QoQ) to INR 40,296 Mn.
- Adj PAT grew by 30.5% YoY (-12.8% QoQ) to INR 32,765 Mn, PAT margin contracted by 96 bps YoY (down 137 bps QoQ) to 23%.

MARKET DATA

Shares outs (Cr)	1,231
Mkt Cap (INR Mn)	2,570,308
52 Wk H/L (INR)	239/163
Volume Avg (3m K)	24,127
Face Value (INR)	1
Bloomberg Code	ITC IN

KEY FINANCIALS

INR Mn	FY19	FY20	FY21	FY22E	FY23E
Revenue	457,844	513,935	531,551	591,585	640,421
EBITDA	173,055	192,602	170,027	221,019	246,562
PAT	124,643	153,062	131,612	169,446	191,203
Adj PAT	124,643	157,249	131,612	169,446	191,203
EPS (INR)	10.2	12.5	10.7	13.8	15.6
Adj. EPS (INR)	10.2	12.8	10.7	13.8	15.6
EBITDA Margin (%)	37.8%	37.5%	32.0%	37.4%	38.5%
NPM (%)	27.2%	29.8%	24.8%	28.6%	29.9%

Source: Company, KRChoksey Research

Revenue on double-digit growth as demand surges:

ITC's revenue during the Q1FY22 stood at INR 142,408 Mn (+35.9% YoY / -7.6% QoQ). The growth was mainly driven by strong recovery across all the operating segments including Cigarettes (+34% YoY). The FMCG-Others had a robust performance led by Sunrise Biscuits, the FMCG segment revenue grew by 10.4% YoY. After several quarters of de-growth, the Hotels segment has witnessed signs of recovery, its revenue grew by 436% YoY, however the segment is yet to fully recover from the disruption due to the second wave of the pandemic. Share of contribution from Cigarette segment was 41% (42% in Q1FY21), FMCG segment was 26% (32% in Q1FY21), Hotel segment and Agri business contributed 1% and 29% respectively against 0% and 36% in Q1FY21 respectively to revenue and paper board and packaging segment share remained flat at 11%.

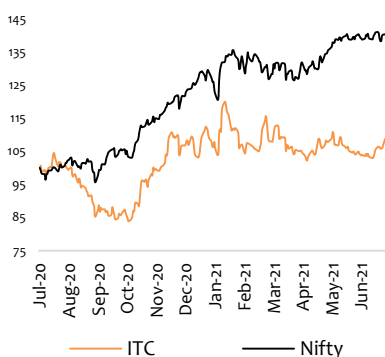
Margin expansion within FMCG segment, high excise impacts Cigarette margin

ITC also performed well at the operating level as compared to the last year. EBITDA margin expanded by 309 bps YoY (down 42 bps QoQ) to 31.2% while absolute EBITDA grew by 50.9% YoY (-8.8% QoQ) to INR 44,437 Mn due to recovery in demand and better product mix, the margins were impacted on QoQ basis due to higher excise duty which increased by 41% YoY due to increase in National Contingent Calamity Duty (NCCD). EBIT margin growth was mainly supported by FMCG business (+100 bps YoY) due to strong momentum witnessed in essential category, cigarette business (+210bps YoY) and Hotel segment EBITDA saw a positive swing of INR 870 Mn YoY; while Agri business segment EBITDA grew by 10% YoY to INR 1,960 Mn. Overall, PAT grew by 30.5% YoY to INR 32,765 Mn, with NPM at 23% (-96 bps YoY) due to higher tax expenses.

Multiple initiatives undertaken to successfully counter the COVID-19 impact

Localized lockdowns and mobility restrictions imposed by the states in a bid to contain the spread of COVID-19 cases rendered the operating performance. During the quarter, the company faced extreme challenges as the strong recovery momentum was disrupted. With progressive easing of restrictions and increased mobility from mid-June '21 the business environment is likely to improve. The Company also formed strategic partnerships, deployed innovative delivery models and enhanced usage of digital technologies for efficient market servicing. With safety and wellbeing of the Company's employees, partners and associates accorded paramount importance, the Company instituted the highest standards of hygiene and safety protocols across all nodes of operations. Relentless focus on cost reduction across Businesses aided in partially mitigating the impact of negative operating leverage.

SHARE PRICE PERFORMANCE



MARKET INFO

SENSEX	52,579
NIFTY	15,746

SHARE HOLDING PATTERN (%)

Particulars	Jun-21	Mar-21	Dec-20
Promoters	0.00	0.00	0.00
FIIs	11.7	12.8	13.3
DIIIs	42.4	42.5	42.9
Others	45.9	44.7	43.8
Total	100	100	100

9.8%

 Revenue CAGR between
FY21 and FY23E

20.5%

 PAT CAGR between FY21 and
FY23E

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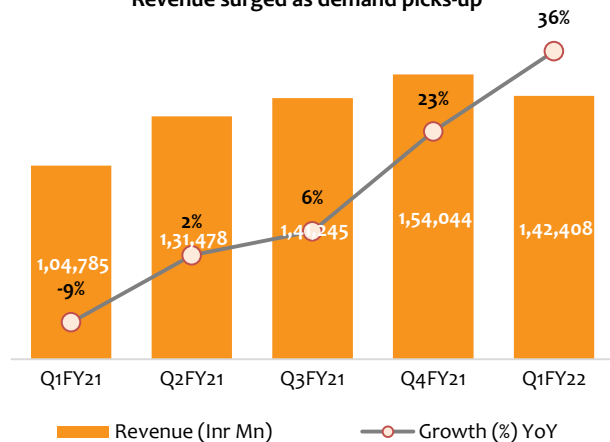
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Press Release Key Takeaways:

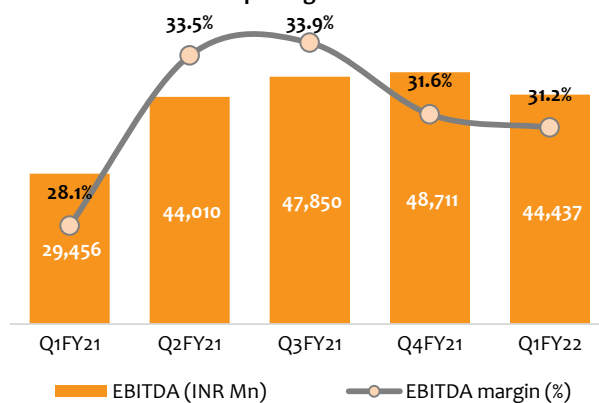
(i) Strong rebound across operating segments despite operational constraints in the wake of the second wave, revenue was up by 35.9% YoY and EBITDA up by 50.9% YoY. (ii) Strong sequential recovery momentum in Cigarettes led to volumes reaching nearly pre-Covid levels; second wave caused disruptions in convenience store operations during the quarter; there was gradual improvement since mid June'21 with most markets returning to normalcy and witnessing faster recovery compared to the first wave. Certain markets in Kerala, Odisha and North-East remain partially impacted. (iii) Progressive recovery in Hotels witnessed in H2FY21, impacted by second wave. After severe disruptions during the quarter, business is rebounding with the easing of restrictions led by leisure destinations, staycations and weekend getaways. (iv) Robust performance by FMCG-Others Segment; Revenue up 10.4% including Sunrise on a high base (+10.4% YoY, comparable +18.8% YoY) driven mainly by Hygiene products, Fragrances, Spices, Snacks, Dairy and Agarbattis. (v) Strong growth in external revenue of Agri Businesses driven by wheat, rice and leaf tobacco exports, leveraging strong customer relationships and robust sourcing network. There was a zero disruptions in supplies to key customers despite significant operational challenges. (vi) Paperboards, Paper and Packaging Segment Revenue up 54% and Segment EBIT up 145% driven by Value Added Paperboards, Décor paper and Carton packaging; significant improvement in profitability driven by richer product mix, higher realisations on the back of surge in global pulp prices and structural cost saving interventions.

Valuation and view: ITC with diversified operations across non-cyclical sectors, a resilient business model, strong brand leadership position in cigarette business, product innovation track record & premiumization drive is establishing itself as a FMCG major. Despite the ongoing Covid related slowdown, we see recovery signs in recent months and the current valuation attractive for long term investors. **Since our last recommendation, the stock price of ITC has been at the same level. We take a conservative stance to value ITC shares using an SOTP (Sum of the parts) approach implying 9.2x EV/EBITDA on FY23E to Cigarette business (earlier 10.0x on FY22E); 16.1x EV/EBITDA on Hotel segment (earlier 18.0x on FY22E); an average 6x EV/EBITDA on Agri/Paper business (earlier 5x on FY22E); and 7.8x on EV/Revenue on FMCG segment (earlier 6.8x on FY22E) – we retain our target price of INR 228 per share; an upside of 9.2% over the CMP. Accordingly, we retain “ACCUMULATE” rating on the shares of ITC Ltd.**

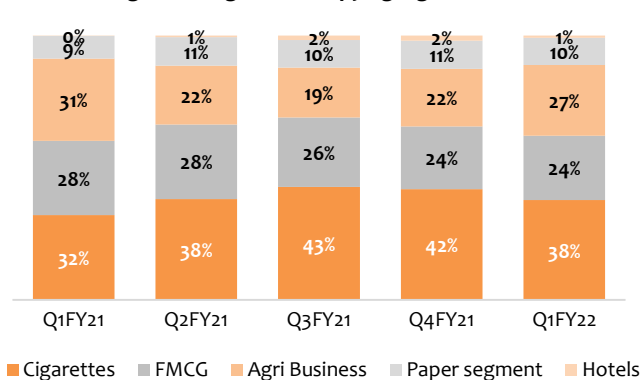
Revenue surged as demand picks-up



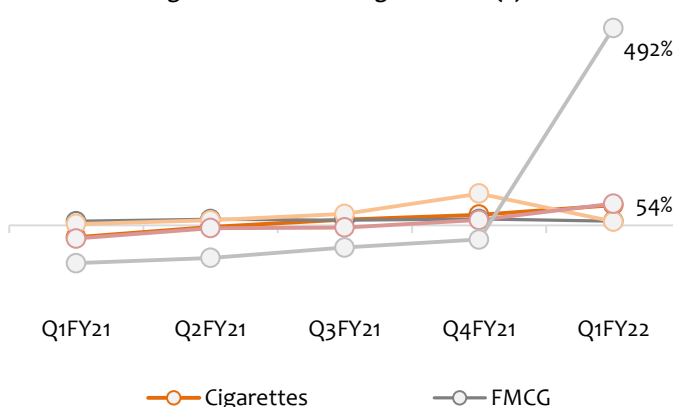
Margin growth supported by Cigarette, FMCG and Paper segment



Segment Revenue Mix (%)
Cigarette segment occupying highest share



Segment wise Revenue growth YoY (%)



Source: Company, KRChoksey Research

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KEY FINANCIALS

Quarterly Income Statement INR Mn	Q1FY22A	Q4FY21A	Q1FY21A	Q-o-Q	Y-o-Y
Total Operating Revenue	142,408	154,044	104,785	-7.6%	35.9%
Total Expenditure	97,970	105,333	75,329	-7.0%	30.1%
Cost of Raw Materials	38,934	36,840	30,866	5.7%	26.1%
Purchase of Stock	23,244	24,423	16,461	-4.8%	41.2%
Changes in Inventories	-4,108	114	-7,372	-3697.5%	-44.3%
Excise Duty	9,935	10,621	7,044	-6.5%	41.0%
Employee Cost	11,718	11,446	11,048	2.4%	6.1%
Other Expenses	18,249	21,888	17,283	-16.6%	5.6%
EBITDA	44,437	48,711	29,456	-8.8%	50.9%
EBITDA Margins (%)	31.2%	31.6%	28.1%	-42 bps	309 bps
Depreciation	4,141	4,085	4,190	1.4%	-1.2%
EBIT	40,296	44,626	25,266	-9.7%	59.5%
Interest Expense	93	29	158	224.3%	-41.0%
Other Income	4,470	5,795	9,251	-22.9%	-51.7%
PBT	44,673	50,392	34,359	-11.3%	30.0%
Exceptional Items	0	0	0	NM	NM
Tax	11,239	12,224	8,688	-8.1%	29.4%
Share of Profit & MI	670	614	561	9.1%	19.4%
PAT	32,765	37,555	25,110	-12.8%	30.5%
PAT Margin	23.0%	24.4%	24.0%	-137 bps	-96 bps
Adjusted PAT	32,765	37,555	25,110	-12.8%	30.5%
Adj. PAT Margin	23.0%	24.4%	24.0%	-137 bps	-96 bps
EPS	2.7	3.1	2.0	-12.8%	30.4%

Income Statement INR Mn	FY19	FY20	FY21	FY22E	FY23E
Revenues	457,844	513,935	531,551	591,585	640,421
COGS	180,939	193,349	240,138	234,859	246,562
Gross profit	276,905	320,586	291,413	356,726	393,859
Employee cost	27,284	42,958	44,633	50,285	51,234
Other expenses	76,566	85,026	76,753	85,422	96,063
EBITDA	173,055	192,602	170,027	221,019	246,562
EBITDA Margin	37.8%	37.5%	32.0%	37.4%	38.5%
Depreciation & amortization	13,117	16,449	16,456	17,748	17,932
EBIT	159,938	176,153	153,571	203,272	228,630
Interest expense	342	547	446	490	539
Exceptional items	0	-1,321	0	0	0
Other income	24,845	25,979	26,326	26,194	29,894
PBT	184,442	200,264	179,451	228,976	257,985
Tax	59,798	44,418	45,553	57,244	64,496
Minority interest	0	2,866	2,217	2,217	2,217
PAT	124,643	153,062	131,612	169,446	191,203
Adj. PAT	124,643	157,249	131,612	169,446	191,203
EPS (INR)	10.17	12.45	10.71	13.78	15.55
Adj. EPS	10.17	12.79	10.71	13.78	15.55

Cash Flow Statement INR Mn	FY19	FY20	FY21	FY22E	FY23E
Net Cash Generated From Operations	117,491	146,897	125,271	176,775	205,537
Net Cash Flow from Investing Activities	(50,818)	(62,007)	56,829	(63,275)	(71,037)
Net Cash Flow from Financing Activities	(66,006)	(80,014)	(185,699)	(106,813)	(117,135)
Net Inc/Dec in cash equivalents	667	4,876	(3,599)	6,687	17,364
Opening Balance	960	1,628	6,504	2,904	9,591
Closing Balance Cash and Cash Equivalents	1,628	6,504	2,904	9,591	26,955

Source: Company, KRChoksey Research

ANALYST

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Balance Sheet INR Mn	FY19	FY20	FY21	FY22E	FY23E
Property, plant and equipment	179,457	196,329	191,539	202,061	214,656
Capital work-in-progress	33,915	32,516	40,045	40,045	40,045
Intangible assets	5,408	5,254	20,111	20,111	20,111
Intangible assets under development	99	49	68	68	68
Right to use assets	0	9,672	9,772	9,772	9,772
Investment property	0	3,854	3,766	3,766	3,766
Investments	140,715	107,150	100,245	120,294	144,353
Loans	62	53	41	41	41
Other financial assets	23,805	6,157	1,019	1,019	1,019
Deferred tax assets (Net)	0	563	585	0	0
Non-current tax assets (Net)	0	384	330	0	0
Other non-current assets	18,831	14,612	12,955	12,955	12,955
Total non-current assets	402,290	378,617	388,273	417,928	454,582
Current assets					
Inventories	75,872	88,793	103,972	101,686	106,753
Financial assets					
Investments	125,066	180,345	149,564	164,520	180,972
Trade receivables	36,462	25,625	25,017	26,610	28,734
Cash and cash equivalents	1,627	6,504	2,904	9,591	26,955
Other Balances with Banks	36,060	66,270	43,686	43,686	43,686
Loans	50	63	35	35	35
Other financial assets	13,603	18,185	13,790	13,790	13,790
Other current assets	6,949	9,268	10,952	10,952	10,952
Total current assets	295,690	395,054	349,920	370,870	411,878
TOTAL ASSETS	697,979	773,670	738,193	788,799	866,460
EQUITY AND LIABILITIES					
Equity share capital	12,259	12,292	12,309	12,309	12,309
Other equity	567,239	640,440	591,165	658,830	735,184
Equity attributable to the equity shareholders	579,498	652,733	603,473	671,139	747,492
Non-controlling interests	0	3,775	3,468	0	0
Total equity	579,498	656,507	606,942	671,139	747,492
Non-current liabilities					
Borrowings	79	59	56	56	56
Lease liabilities	0	2,040	2,070	2,070	2,070
Other financial liabilities	419	1,279	2,835	2,835	2,835
Provisions	1,326	1,754	1,875	1,875	1,875
Non current tax liabilities	20,441	16,272	17,364	17,364	17,364
Other non-current liabilities	0	162	155	0	0
Total non-current liabilities	22,266	21,565	24,355	24,199	24,199
Current liabilities					
Borrowings	0	14	39	0	0
Trade payables	33,683	36,298	43,187	29,790	31,097
Other financial liabilities	9,729	13,949	14,919	14,919	14,919
Other current liabilities	49,104	40,727	42,944	42,944	42,944
Provisions	252	1,482	1,940	1,940	1,940
Current tax liabilities (Net)	3,447	2,489	3,328	3,328	3,328
Total current liabilities	96,216	95,598	106,897	93,461	94,768
Total liabilities	118,481	117,163	131,252	117,660	118,967
TOTAL EQUITY AND LIABILITIES	697,979	773,670	738,193	788,799	866,460
Key Ratio					
EBITDA Margin (%)	37.8%	37.5%	32.0%	37.4%	38.5%
Tax rate (%)	32.4%	22.2%	25.4%	25.0%	25.0%
Net Profit Margin (%)	27.2%	29.8%	24.8%	28.6%	29.9%
RoE (%)	21.5%	23.3%	21.7%	25.2%	25.6%
RoCE (%)	27.6%	26.8%	25.3%	30.3%	30.6%
EPS (INR)	10.17	12.45	10.71	13.78	15.55

Source: Company, KRChoksey Research

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ITC Ltd.				Rating Legend (Expected over a 12-month period)	
Date	CMP (INR)	TP (INR)	Recommendation	Our Rating	Upside
28-07-21	209	228	ACCUMULATE	Buy	More than 15%
30-06-21	203	228	ACCUMULATE		
02-06-21	206	228	ACCUMULATE	Accumulate	5% – 15%
17-03-21	208	228	ACCUMULATE		
15-12-20	216	228	ACCUMULATE	Hold	0 – 5%
24-09-20	173	228	BUY		
29-06-20	197	228	BUY	Reduce	-5% – 0
23-04-20	181	222	BUY		
04-02-20	208	259	BUY	Sell	Less than – 5%
26-10-19	248	289	BUY		

ANALYST CERTIFICATION:

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