

May 18, 2022

Q4FY22 Result Update

■ Change in Estimates | ☒ Target | ■ Reco

Change in Estimates

	Current		Previous	
	FY23E	FY24E	FY23E	FY24E
Rating	BUY		BUY	
Target Price	305		285	
Sales (Rs. m)	6,20,564	6,79,769	6,20,564	6,79,769
% Chng.	-	-	-	-
EBITDA (Rs. m)	2,09,554	2,32,542	2,09,554	2,32,542
% Chng.	-	-	-	-
EPS (Rs.)	13.2	14.7	13.2	14.7
% Chng.	-	-	-	-

Key Financials - Standalone

Y/e Mar	FY21	FY22	FY23E	FY24E
Sales (Rs. bn)	455	559	621	680
EBITDA (Rs. bn)	155	191	210	233
Margin (%)	34.1	34.1	33.8	34.2
PAT (Rs. bn)	130	150	164	182
EPS (Rs.)	10.6	12.1	13.2	14.7
Gr. (%)	(14.8)	14.7	9.0	10.7
DPS (Rs.)	10.8	11.1	11.8	12.8
Yield (%)	4.0	4.1	4.4	4.8
RoE (%)	21.2	25.0	26.1	27.4
RoCE (%)	22.7	29.0	30.7	32.2
EV/Sales (x)	6.8	5.6	5.0	4.6
EV/EBITDA (x)	20.0	16.4	14.9	13.5
PE (x)	25.2	22.0	20.2	18.2
P/BV (x)	5.6	5.4	5.1	4.8

Key Data

ITC.BO | ITC IN

52-W High / Low	Rs.273 / Rs.201
Sensex / Nifty	54,209 / 16,240
Market Cap	Rs.3,288bn / \$ 42,378m
Shares Outstanding	12,323m
3M Avg. Daily Value	Rs.6648.05m

Shareholding Pattern (%)

Promoter's	-
Foreign	11.99
Domestic Institution	42.77
Public & Others	45.24
Promoter Pledge (Rs bn)	-

Stock Performance (%)

	1M	6M	12M
Absolute	(1.2)	12.3	27.0
Relative	4.2	23.6	17.6

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ITC (ITC IN)

Rating: BUY | CMP: Rs267 | TP: Rs305

Stable taxation, growth revival to sustain re-rating

Quick Pointers:

- Cigarette volumes up ~8.75%, FMCG EBITDA margins up 70bps
- Paper margins up 110bps, Agri and Hotels report strong recovery

ITC posted resilient performance with ~8.75% cigarette volume growth and margin expansion across Cigarettes, paperboard and FMCG business. Hotels improved however it still remains in the red. Near term outlook remains positive given 1) positive cigarette volume traction given stable tax regime 2) Strong pricing and benefits of backward integration in paper board 3) benefits of supply chain disruption in leaf tobacco and strong wheat exports 4) Gradually improving ARR and occupancy levels in Hotels and 5) Sustained growth across in core segments in FMCG with steady margin expansion.

Although we expect near term margin pressure in FMCG, however strong traction in other businesses will enable ITC to sustain double digit profit growth. ITC trades at 18.2x FY24 EPS with 10% EPS CAGR over FY22-24. We note ROE/ ROCE of 27%/32% and ~80%+ dividend payout are positives. We increase valuation of cigarettes to 16x on improving growth and stable taxation (15x earlier) despite LT risks and assign higher multiples for FMCG and paper business. We increase SOTP based target price to Rs305 (Rs285 earlier) Maintain BUY.

- **Cigarettes volumes grew ~8.75%; EBIT up 12.2%:** Revenues grew by 10% YoY to Rs 64.4bn. Margins expanded by 130bps/60 bps YoY/QoQ to 63.9%. Robust recovery continued across markets aided by increase in mobility, focused portfolio/market interventions and agile execution.
- **FMCG EBITDA margins improved YoY:** FMCG Revenues grew by 12.3% YoY to Rs41.4bn. EBIT grew by 25.1% YoY to Rs2.4bn. Margins expanded by 60bps YoY to 5.7% driven by as higher profitability in education & stationary segment neutralized pressures in HPC and Foods portfolio significantly.
- **FMCG sales grew 12.3% to Rs41.4bn, EBITDA grew 22.5% to Rs3.7bn with margins at 9.0% (up 70bps YoY).** Discretionary/'Out-of-Home' products saw strong growth YoY. Core products in Biscuits, Atta, Noodles and Snacks sustained momentum. Hygiene products witnessed demand volatility with lower COVID cases. E-commerce sales grew 1.5x in FY22 and contributed 7% to sales channel mix. ITC continues to expand rural stockists (1.4x FY21). Unnati (B2B app) rolled out to ~300k retailers since national launch.
- **Hotels Revenues up 35.4% YoY:** Revenues grew by 35.4% YoY to Rs 3.9bn; Loss came at Rs 342mn in 4Q22 Vs Loss of Rs 401mn in 4Q21. Average occupancy level reached >60%. ARR improved QoQ, although it remained below pre covid levels. Demand outlook remains strong.
- **Paperboards, Paper & Packaging** Revenues grew 31.8% YoY to Rs21.8bn. EBIT grew 39.1% YoY to Rs4.5bn & margins expanded by 108bps YoY to 20.6%. Strong performance driven by demand revival across segments and higher realisations. New high pressure recovery boiler and expected increase in pulp capacity augurs well for margins in coming quarters as well.

- **Agri Business** revenues grew by 29.6% YoY to Rs43.7bn. EBIT grew by 28.5% YoY to Rs2.4bn. Performance driven by strong growth in wheat, rice, leaf tobacco exports leveraging strong customer relationships, robust sourcing network and agile execution and benefits of supply chain disruption.

Exhibit 1: 4QFY22 Result Overview: Net Sales up 16.8%, Adj. PAT up 11.8%

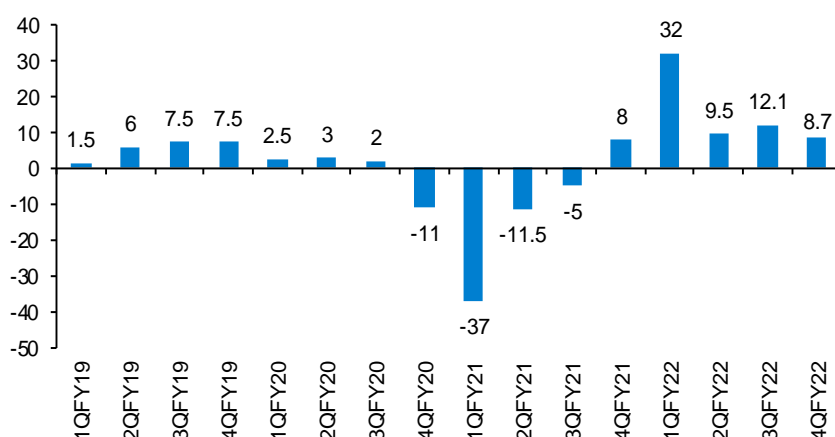
Y/e March	4QFY22	4QFY21	YoY gr. (%)	3QFY22	FY22	FY21	YoY gr. (%)
Net Sales	1,55,309	1,32,947	16.8	1,58,623	4,08,104	3,21,905	26.8
EBITDA	52,244	44,730	16.8	51,021	1,37,093	1,10,495	24.1
<i>Margins (%)</i>	<i>33.6</i>	<i>33.6</i>	<i>(0.0)</i>	<i>32.2</i>	<i>33.6</i>	<i>34.3</i>	<i>(0.7)</i>
Depreciation	4,459	3,880	14.9	4,093	12,062	11,739	2.8
Interest	104.9	31.4	234.1	106.9	314.6	443.3	(29.0)
Other Income	6,741	7,720	(12.7)	8,099	19,159	24,790	(22.7)
PBT	54,420	48,539	12.1	54,920	1,43,875	1,23,103	16.9
Tax	12,511	11,055	13.2	13,358	35,206	30,270	16.3
<i>Tax Rate (%)</i>	<i>23.0</i>	<i>22.8</i>	<i>0.2</i>	<i>24.3</i>	<i>24.5</i>	<i>24.6</i>	<i>(0.1)</i>
Adjusted PAT	41,910	37,484	11.8	41,562	1,08,669	92,833	17.1

Source: Company, PL

Sales increased 10.0% and EBIT up 12.2%.

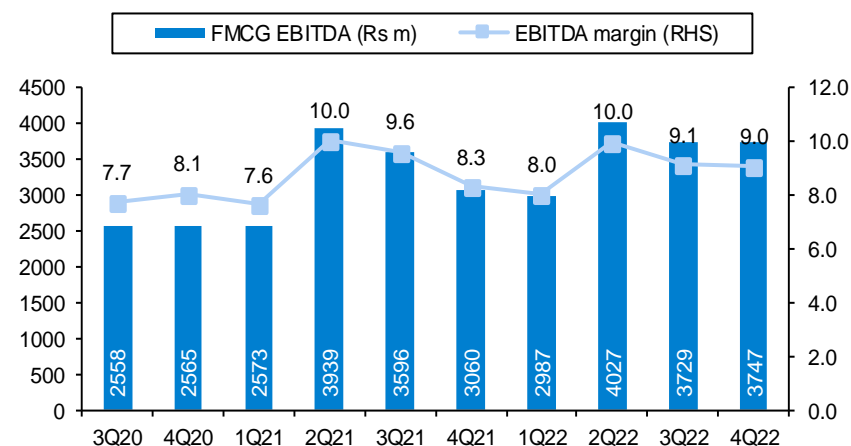
Robust broad-based recovery in Cigarettes despite disruptions due to the third wave, volumes surpass pre-pandemic levels

Exhibit 2: Cigarettes: Volumes up 8.75%



Source: Company, PL

Exhibit 3: FMCG EBITDA margins at 9.0%, Margins improved by 70 bps YoY



Source: Company, PL

Exhibit 4: Cigarette volumes grew ~8.75%, FMCG margins at 5.7%

	3QFY21	4QFY21	1QFY22	2QFY22	3QFY22	4QFY22
Cigarette Volume gr %	-5.0	9.0	33.0	9.5	11.9	8.7
Sales (INR m)	1,34,366	1,48,597	1,46,489	1,45,787	1,78,169	1,75,241
Cigarettes	54,984	58,596	51,222	56,417	62,441	64,434
FMCG	37,437	36,875	37,256	40,364	40,906	41,420
Hotels	2,352	2,878	1,272	2,947	4,734	3,896
Agri business	24,818	33,689	40,913	27,761	49,624	43,663
Paper and packaging	14,775	16,559	15,827	18,297	20,465	21,828
Sales growth (YoY)	4.8	22.5	21.8	8.5	32.6	17.9
Cigarettes	3.5	14.2	32.9	10.2	13.6	10.0
FMCG	13.0	15.8	10.4	6.4	9.3	12.3
Hotels	(57.4)	(38.2)	463.5	259.6	101.3	35.4
Agri business	18.5	78.5	9.2	(7.0)	100.0	29.6
Paper and packaging	(5.0)	13.5	54.2	25.4	38.5	31.8
EBIT (INR m)	41,059	43,281	38,315	45,123	49,869	50,097
Cigarettes	34,528	36,665	32,209	35,832	39,507	41,143
FMCG	2,393	1,886	1,734	2,719	2,419	2,360
Hotels	-673	-401	-1,515	-480	506	-342
Agri business	1,961	1,899	1,957	2,961	2,953	2,440
Paper and packaging	2,850	3,233	3,928	4,090	4,485	4,497
EBIT growth (YoY)	(8.7)	8.2	48.6	15.7	21.5	15.7
Cigarettes	(8.1)	7.7	36.7	10.4	14.4	12.2
FMCG	122.4	28.4	38.3	7.6	1.1	25.1
Hotels	NA	NA	NA	NA	NA	NA
Agri business	(8.1)	54.2	9.5	15.7	50.6	28.5
Paper and packaging	(14.7)	13.1	145.3	23.8	57.3	39.1
EBIT Margin (%)						
Cigarettes	62.8	62.6	62.9	63.5	63.3	63.9
FMCG	6.4	5.1	4.7	6.7	5.9	5.7
Hotels	(28.6)	(13.9)	(119.0)	(16.3)	10.7	(8.8)
Agri business	7.9	5.6	4.8	10.7	6.0	5.6
Paper and packaging	19.3	19.5	24.8	22.4	21.9	20.6

Source: Company, PL

Exhibit 5: SOTP FY24 - cigarette account of 55% of value

SOTP	Basis	X	EV (Rs mn)	PAT (Rs mn)	% of PAT	EPS (Rs)	Value/Share
Cigarettes	P/E	16		130681	79.8	10.6	169
FMCG - Others	EV/Sales	4.5	915454	10680	6.5	0.9	74
Hotels	EV/EBIDTA	22	1,60,978	2938	1.8	0.2	13
Agri business	P/E	15		10772	6.6	0.9	13
Paper and packaging	P/E	11		14964	9.1	1.2	13
Business Value						13.7	283
Cash and Invst			276928				22
Total Value/share							305

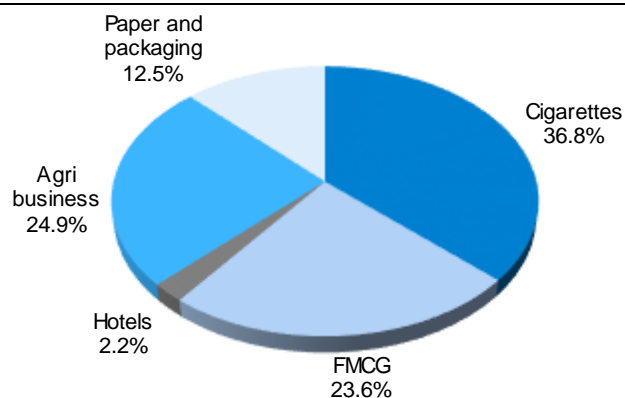
Source: PL

Exhibit 6: FMCG and Hotels to drive growth over FY22-24

	FY19	FY20	FY21	FY22E	FY23E	FY24E
Net Sales (Rs m)						
Cigarettes	199,069	201,439	182,663	2,13,790	2,29,924	2,42,708
FMCG	124,878	128,137	147,086	1,58,578	1,79,056	2,03,434
Hotel	16,482	18,234	6,236	14,134	17,985	19,586
Agri	93,965	102,407	125,822	1,65,320	1,82,611	2,02,287
Paper and Paperboard	58,622	61,072	56,186	75,607	88,433	99,760
Sales Growth (%)						
Cigarettes	3.2	1.2	(9.3)	17.0	7.5	5.6
FMCG	10.4	2.6	14.8	7.8	12.9	13.6
Hotel	17.4	10.6	(65.8)	126.7	27.2	8.9
Agri	16.5	9.0	22.9	31.4	10.5	10.8
Paper and Paperboard	11.7	4.2	(8.0)	34.6	17.0	12.8
EBIT (Rs m)						
Cigarettes	145,511	148,526	127,204	1,49,352	1,63,277	1,74,241
FMCG	3,862	4,231	8,327	8,722	11,101	14,240
Hotel	1,777	1,578	(5,349)	-565	2,698	3,917
Agri	7,766	7,889	8,207	11,076	12,783	14,362
Paper and Paperboard	12,392	13,053	10,987	17,011	19,013	19,952
EBIT Margin (%)						
Cigarettes	73.1	73.7	62.6	63.6	64.5	65.0
FMCG	3.1	3.3	5.7	5.5	6.2	7.0
Hotel	10.8	8.7	-85.8	-4.0	15.0	20.0
Agri	8.3	7.7	6.5	6.7	7.0	7.1
Paper and Paperboard	21.1	21.4	19.6	22.5	21.5	20.0
EBIT Growth (%)						
Cigarettes	9.1	2.1	-14.4	17.4	9.3	6.7
FMCG	135.3	9.5	96.8	4.7	27.3	28.3
Hotel	27.1	-11.2	-439.1	-89.4	-577.2	45.2
Agri	-8.5	1.6	4.0	35.0	15.4	12.4
Paper and Paperboard	18.9	5.3	-15.8	54.8	11.8	4.9

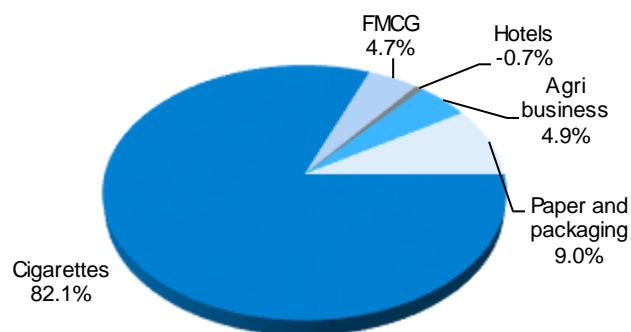
Source: Company, PL

Exhibit 7: Sales Mix: Cigarettes 36.8%, FMCG 23.6%



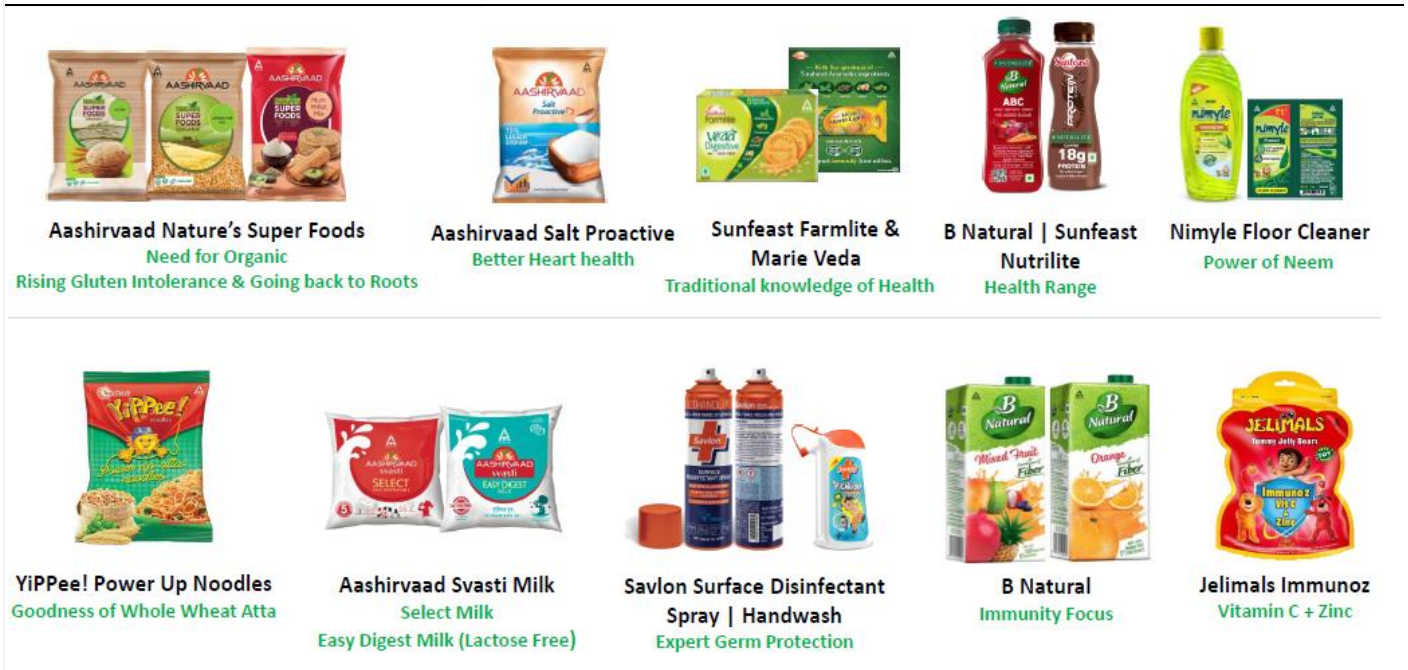
Source: Company, PL

Exhibit 8: Cigarettes contribute 82.1% of EBIT



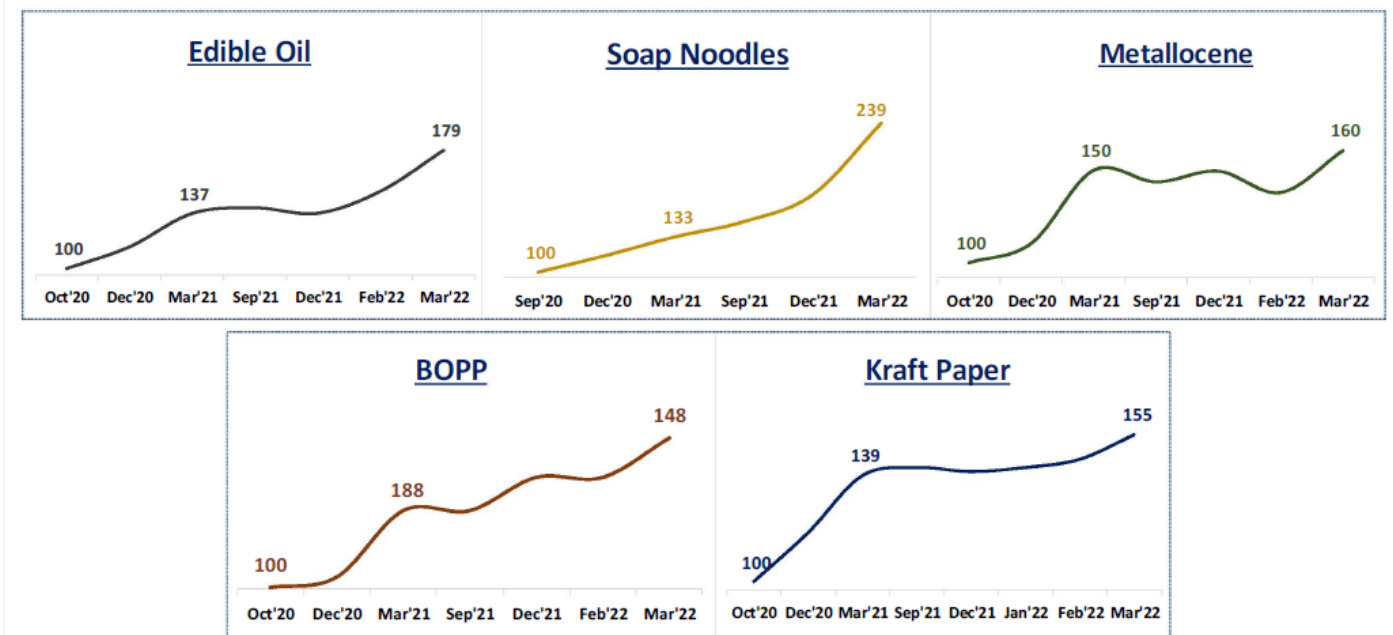
Source: Company, PL

Exhibit 9: Addressing long term consumer needs



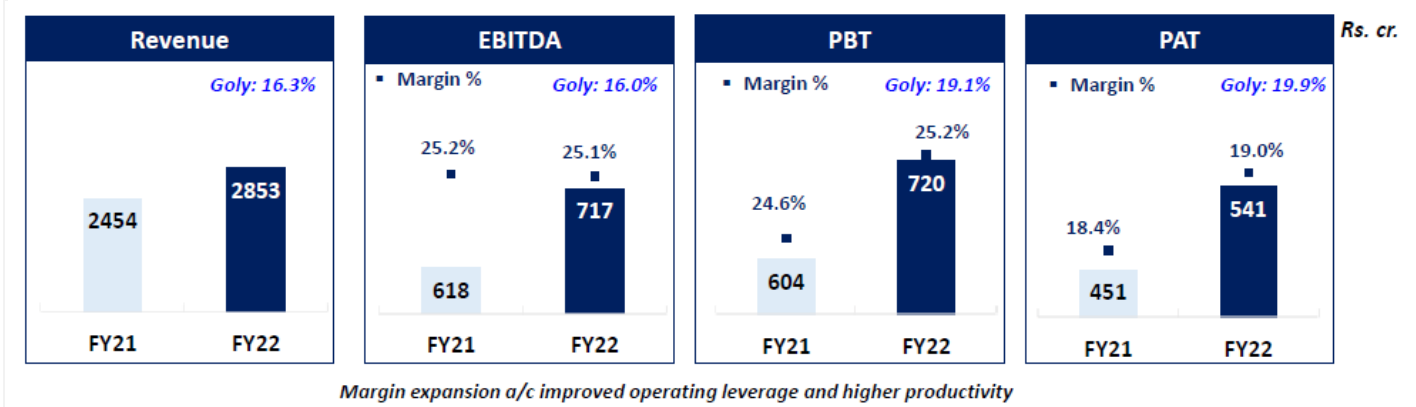
Source: PL, Company

Exhibit 10: Unprecedented rise in commodity prices



Source: Company, PL

Exhibit 11: ITC Infotech – Revenues up 16%, PAT up 19% YoY



Source: Company, PL

Financials

Income Statement (Rs m)

Y/e Mar	FY21	FY22	FY23E	FY24E
Net Revenues	4,54,851	5,58,853	6,20,564	6,79,769
YoY gr. (%)	(0.3)	22.9	11.0	9.5
Cost of Goods Sold	1,99,746	2,43,773	2,74,296	2,99,997
Gross Profit	2,55,105	3,15,080	3,46,268	3,79,772
Margin (%)	56.1	56.4	55.8	55.9
Employee Cost	28,210	32,969	36,221	39,259
Other Expenses	35,618	43,115	47,081	50,365
EBITDA	1,55,225	1,90,785	2,09,554	2,32,542
YoY gr. (%)	(13.3)	22.9	9.8	11.0
Margin (%)	34.1	34.1	33.8	34.2
Depreciation and Amortization	15,618	16,380	17,060	18,277
EBIT	1,39,606	1,74,405	1,92,495	2,14,265
Margin (%)	30.7	31.2	31.0	31.5
Net Interest	475	480	480	480
Other Income	32,510	25,290	26,390	28,667
Profit Before Tax	1,71,641	1,99,216	2,18,405	2,42,452
Margin (%)	37.7	35.6	35.2	35.7
Total Tax	41,288	49,306	54,601	60,613
Effective tax rate (%)	24.1	24.8	25.0	25.0
Profit after tax	1,30,353	1,49,910	1,63,804	1,81,839
Minority interest	-	-	-	-
Share Profit from Associate	-	-	-	-
Adjusted PAT	1,30,353	1,49,910	1,63,804	1,81,839
YoY gr. (%)	(14.6)	15.0	9.3	11.0
Margin (%)	28.7	26.8	26.4	26.8
Extra Ord. Income / (Exp)	-	-	-	-
Reported PAT	1,30,353	1,49,910	1,63,804	1,81,839
YoY gr. (%)	(13.9)	15.0	9.3	11.0
Margin (%)	28.7	26.8	26.4	26.8
Other Comprehensive Income	2,463	-	-	-
Total Comprehensive Income	1,32,816	1,49,910	1,63,804	1,81,839
Equity Shares O/s (m)	12,309	12,343	12,374	12,404
EPS (Rs)	10.6	12.1	13.2	14.7

Source: Company Data, PL Research

Balance Sheet Abstract (Rs m)

Y/e Mar	FY21	FY22	FY23E	FY24E
Non-Current Assets				
Gross Block	3,58,060	3,88,260	4,18,460	4,48,660
Tangibles	3,32,577	3,62,577	3,92,577	4,22,577
Intangibles	25,483	25,683	25,883	26,083
Acc: Dep / Amortization	1,49,317	1,65,025	1,81,400	1,98,982
Tangibles	1,43,877	1,58,814	1,74,413	1,91,213
Intangibles	5,440	6,210	6,987	7,769
Net fixed assets	2,08,743	2,23,236	2,37,060	2,49,678
Tangibles	1,88,700	2,03,763	2,18,164	2,31,365
Intangibles	20,043	19,473	18,896	18,314
Capital Work In Progress	33,300	25,000	25,000	25,000
Goodwill	5,772	5,772	5,772	5,772
Non-Current Investments	1,29,528	1,39,072	1,49,503	1,60,907
Net Deferred tax assets	(17,277)	(16,413)	(15,593)	(14,813)
Other Non-Current Assets	20,309	24,924	26,902	28,807
Current Assets				
Investments	1,40,467	1,21,178	1,15,873	1,16,047
Inventories	94,709	98,691	1,09,556	1,20,004
Trade receivables	20,904	30,366	33,709	36,924
Cash & Bank Balance	40,015	48,967	54,545	63,820
Other Current Assets	10,061	11,177	12,411	13,595
Total Assets	7,15,805	7,42,179	7,86,194	8,38,794
Equity				
Equity Share Capital	12,309	12,343	12,374	12,404
Other Equity	5,77,737	5,98,319	6,31,479	6,73,377
Total Network	5,90,046	6,10,661	6,43,853	6,85,781
Non-Current Liabilities				
Long Term borrowings	53	-	-	-
Provisions	1,571	1,720	1,897	2,065
Other non current liabilities	-	-	-	-
Current Liabilities				
ST Debt / Current of LT Debt	0	0	0	0
Trade payables	41,195	43,782	48,188	52,616
Other current liabilities	60,546	64,558	71,528	78,262
Total Equity & Liabilities	7,15,805	7,42,179	7,86,194	8,38,794

Source: Company Data, PL Research

Cash Flow (Rs m)

Y/e Mar	FY21	FY22	FY23E	FY24E
PBT	1,71,641	1,99,216	2,18,405	2,42,452
Add. Depreciation	15,618	16,380	17,060	18,277
Add. Interest	475	480	480	480
Less Financial Other Income	32,510	25,290	26,390	28,667
Add. Other	9,409	(4,925)	(2,232)	(2,099)
Op. profit before WC changes	1,97,144	2,11,150	2,33,712	2,59,109
Net Changes-WC	52,776	3,873	(7,331)	(13,715)
Direct tax	(41,288)	(49,306)	(54,601)	(60,613)
Net cash from Op. activities	2,08,632	1,65,718	1,71,779	1,84,782
Capital expenditures	(37,724)	(22,573)	(30,884)	(30,896)
Interest / Dividend Income	-	-	-	-
Others	5,052	(9,544)	(10,430)	(11,403)
Net Cash from Invt. activities	(32,672)	(32,116)	(41,314)	(42,299)
Issue of share cap. / premium	(55,833)	3,025	5,775	5,487
Debt changes	128	(53)	-	-
Dividend paid	(1,24,766)	(1,32,320)	(1,36,387)	(1,45,397)
Interest paid	(475)	(480)	(480)	(480)
Others	-	(477)	(299)	(297)
Net cash from Fin. activities	(1,80,946)	(1,30,304)	(1,31,391)	(1,40,688)
Net change in cash	(4,986)	3,297	(925)	1,795
Free Cash Flow	1,70,908	1,43,145	1,40,896	1,53,886

Source: Company Data, PL Research

Key Financial Metrics

Y/e Mar	FY21	FY22	FY23E	FY24E
Per Share(Rs)				
EPS	10.6	12.1	13.2	14.7
CEPS	11.9	13.5	14.6	16.1
BVPS	47.9	49.5	52.0	55.3
FCF	13.9	11.6	11.4	12.4
DPS	10.8	11.1	11.8	12.8
Return Ratio(%)				
RoCE	22.7	29.0	30.7	32.2
ROIC	26.1	30.5	31.3	32.5
RoE	21.2	25.0	26.1	27.4
Balance Sheet				
Net Debt : Equity (x)	(0.3)	(0.3)	(0.3)	(0.3)
Net Working Capital (Days)	60	56	56	56
Valuation(x)				
PER	25.2	22.0	20.2	18.2
P/B	5.6	5.4	5.1	4.8
P/CEPS	11.9	13.5	14.6	16.1
EV/EBITDA	20.0	16.4	14.9	13.5
EV/Sales	6.8	5.6	5.0	4.6
Dividend Yield (%)	4.0	4.1	4.4	4.8

Source: Company Data, PL Research

Quarterly Financials (Rs m)

Y/e Mar	Q1FY22	Q2FY22	Q3FY22	Q4FY22
Net Revenue	1,22,171	1,27,310	1,58,623	1,55,309
YoY gr. (%)	37.1	13.8	34.6	16.8
Raw Material Expenses	57,861	54,462	77,204	72,799
Gross Profit	64,310	72,848	81,420	82,510
Margin (%)	52.6	57.2	51.3	53.1
EBITDA	39,922	46,150	51,021	52,244
YoY gr. (%)	50.8	13.7	19.2	16.8
Margin (%)	32.7	36.3	32.2	33.6
Depreciation / Depletion	3,955	4,015	4,093	4,459
EBIT	35,967	42,136	46,928	47,784
Margin (%)	29.4	33.1	29.6	30.8
Net Interest	103	105	107	105
Other Income	4,290	6,770	8,099	6,741
Profit before Tax	40,154	48,801	54,920	54,420
Margin (%)	32.9	38.3	34.6	35.0
Total Tax	10,019	11,829	13,358	12,511
Effective tax rate (%)	25.0	24.2	24.3	23.0
Profit after Tax	30,135	36,972	41,562	41,910
Minority interest	-	-	-	-
Share Profit from Associates	-	-	-	-
Adjusted PAT	30,135	36,972	41,562	41,910
YoY gr. (%)	28.6	14.4	13.5	11.8
Margin (%)	24.7	29.0	26.2	27.0
Extra Ord. Income / (Exp)	-	-	-	-
Reported PAT	30,135	36,972	41,562	41,910
YoY gr. (%)	28.6	14.4	13.5	11.8
Margin (%)	24.7	29.0	26.2	27.0
Other Comprehensive Income	1,766	1,514	(233)	-
Total Comprehensive Income	31,901	38,485	41,329	41,910
Avg. Shares O/s (m)	12,309	12,320	12,323	12,292
EPS (Rs)	2.4	3.0	3.4	3.4

Source: Company Data, PL Research

Price Chart



Recommendation History

No.	Date	Rating	TP (Rs.)	Share Price (Rs.)
1	08-Apr-22	BUY	285	268
2	04-Feb-22	BUY	284	234
3	06-Jan-22	BUY	270	221
4	14-Dec-21	BUY	270	229
5	28-Oct-21	BUY	270	238
6	06-Oct-21	BUY	271	231
7	25-Jul-21	BUY	258	212
8	05-Jul-21	BUY	258	202
9	01-Jun-21	BUY	258	215

Analyst Coverage Universe

Sr. No.	Company Name	Rating	TP (Rs)	Share Price (Rs)
1	Asian Paints	BUY	3,511	3,086
2	Avenue Supermarts	BUY	4,651	3,231
3	Britannia Industries	BUY	3,770	3,385
4	Colgate Palmolive	Accumulate	1,664	1,565
5	Dabur India	Accumulate	603	529
6	Emami	Accumulate	611	428
7	Hindustan Unilever	BUY	2,384	2,145
8	ITC	BUY	285	268
9	Jubilant FoodWorks	Accumulate	3,230	2,792
10	Kansai Nerolac Paints	BUY	518	398
11	Marico	Accumulate	547	520
12	Mold-tek Packaging	BUY	781	705
13	Nestle India	Accumulate	19,426	18,203
14	Pidilite Industries	Hold	2,417	2,525
15	Restaurant Brands Asia	BUY	220	113
16	Titan Company	BUY	2,701	2,092
17	Westlife Development	BUY	645	497

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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