

May 18, 2022

RESULT REPORT Q4 FY22 | Sector: Consumer Staples

ITC

Strong all-round performance with normalization of cigarette volumes and solid FMCG growth; maintain BUY

Our view

ITC delivered a solid performance with another quarter of robust growth in cigarette volumes (~9%) which surpassed pre-Covid levels and now seems on growth trajectory, a steady 12% growth in FMCG business despite a high base with sequential improvement in margins, hotels business turning around and above expected growth in both the Agri (29% growth) and paperboards (32% growth) businesses on a high base. We believe this sort of consistency across segments with some visible relief on the cigarette taxation front can drive a further re-rating on the valuations front. We expect normalized growth in cigarette volumes going forward driven by stability in taxes, progressive claw back of illicit industry and better growth rates and margins in FMCG, in addition to margin improvement in cigarettes with positive operating leverage and a better mix. Hotels business should improve steadily while paper business performance reinforces confidence in ITC's ability to enhance competitiveness. We believe the cigarettes business deserves better valuation given positive volume growth expectations, improving geography and product mix and high ESG rankings. The FMCG business is growing well with acquisitions supporting the organic growth and margins moving up with scale. In other businesses, capital allocation concerns are being addressed with the peak capex cycle behind us, while the IT business can be another key value driver. We reiterate our BUY rating citing inexpensive valuations and a strong dividend yield.

Result Highlights

- **Result summary** – Revenue growth of 17% YoY (2-yr CAGR of 20%) led by FMCG and Cigarette business, steady performance from Agri and Paper business and continued recovery in Hotels business. EBITDA margin flat YoY however increased 140bps QoQ driven by gross margin improvement of 180bps QoQ and focused cost control initiatives. PAT grew 11.8% YoY due to lower other income by 13%.
- **Segmental performance (Standalone)** – Cigarettes saw 10% volume-led revenue and EBIT growth, FMCG saw 12.3% revenue and 5.7% EBIT margin, hotels revenue impacted by lower Covid-led Jan and Feb sales, resilient performance from agribusiness and Paper business with revenue growth of 30%/32% with improved EBIT margins at 5.6%/20.6%.

Valuation

Given the improving growth outlook and improvement in margin profiles in other businesses, we increase our EPS estimates by 6-9% and build in 8%/11%/12% revenue/EBITDA/PAT CAGR for the company over FY22-24E. Solid dividend yield and cash flows coupled with receding capital allocation concerns should keep the sentiment positive on the stock. We reiterate our BUY rating with a revised TP of Rs 308 based on 20x FY24E earnings, a significant discount of ~50% to sector peers and a 15% discount to its own long-term average multiple. Any incremental tax increase or unrelated diversification remain the key risks while any corporate restructuring initiatives or value accretive FMCG acquisitions could provide positive triggers.

Exhibit 1: Actual vs estimate

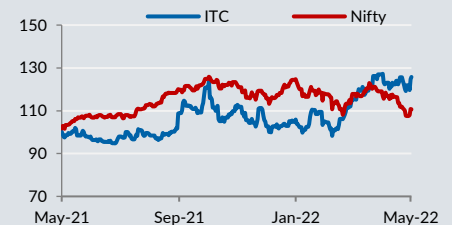
Rsmn	Actual	Estimate		% Variation		Remarks
		YES Sec	Consensus	YES Sec	Consensus	
Sales	1,55,309	151422	147615	2.6	5.2	Beat on revenue and margins front led by robust performance from FMCG and Cigarette business
EBITDA	52,244	48455	50453	7.8	3.5	
EBITDA Margin (%)	33.6	32.0	34.2	163.9	(54.0)	
Adjusted PAT	41,910	39348	41685	6.5	0.5	

Reco	: BUY
CMP	: Rs 267
Target Price	: Rs 308
Potential Return	: +15.4%

Stock data (as on May 18, 2022)

Nifty	16,240
52 Week h/l (Rs)	273 / 201
Market cap (Rs/USD mn)	3287845 / 42379
Outstanding Shares (mn)	12,323
6m Avg t/o (Rs mn):	5,305
Div yield (%):	3.9
Bloomberg code:	ITC IN
NSE code:	ITC

Stock performance



	1M	3M	1Y
Absolute return	-1.2%	20.2%	33.6%

Shareholding pattern (As of Dec'21 end)

Promoter	0.0%
FII+DII	54.8%
Others	45.2%

Δ in stance

(1-Yr)	New	Old
Rating	BUY	BUY
Target Price	308	288

Δ in earnings estimates

	FY23e	FY24e
EPS (New)	14.1	15.4
EPS (Old)	13.3	14.1
% change	6.0	9.2

Financial Summary

(Rs mn)	FY22	FY23E	FY24E
Revenue	6,06,681	6,67,977	7,12,491
YoY Growth (%)	23.1	10.1	6.7
EBIDTA	2,06,584	2,31,112	2,53,638
Margins (%)	34.1	34.6	35.6
PAT	1,52,427	1,73,465	1,89,853
YoY Growth (%)	15.8	13.8	9.4
ROE	24.8	27.2	28.5
ROCE	33.6	36.3	38.0
EPS	12.4	14.1	15.4
P/E	21.6	19.0	17.3
EV/EBITDA	15.7	14.1	12.7

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- **Other highlights** – Cigarette volume growth of around 10% on a base of +8% with stable pricing/mix while EBIT margin significantly up from 62.6% to 63.9% YoY, FMCG continued strong sequential momentum with discretionary/OOH witnessed robust growth and resilient performance in staples/foods while EBIT margin increased from 5.1% to 5.7 YoY, hotel recovery impacted by disruption in Jan and Feb sales due to covid third wave, paper margins expanded 110bps to 20.6% (vs 21.9% in Q3FY22) while agribusiness margins were stable at 5.6%. Declared final dividend of Rs 6.25/share taking total dividend to Rs 11.5/share implying dividend payout ratio of ~92%.

Exhibit 2: Quarterly snapshot (Consolidated)

Particulars (Rs mn)	4QFY21	1QFY22	2QFY22	3QFY22	4QFY22	% yoy	% qoq	FY22	FY21	% yoy
Sales	1,32,947	1,22,171	1,27,310	1,58,623	1,55,309	16.8	(2.1)	6,06,681	4,92,728	23.1
EBITDA	44,730	39,922	46,150	51,021	52,244	16.8	2.4	2,06,584	1,70,027	21.5
EBITDA Margin %	33.6	32.7	36.3	32.2	33.6	(0.7) bps	147.4 bps	34.1	34.5	(45.6) bps
Depreciation	3,880	3,955	4,015	4,093	4,459	14.9	8.9	17,324	16,456	5.3
EBIT	40,851	35,967	42,136	46,928	47,784	17.0	1.8	1,89,260	1,53,571	23.2
EBIT Margin %	30.7	29.4	33.1	29.6	30.8	4.0 bps	118.3 bps	31.2	31.2	2.8 bps
Interest charges	31	103	105	107	105	234.1	(1.9)	394	446	(11.7)
Other Income	7,720	4,290	6,770	8,099	6,741	(12.7)	(16.8)	18,364	26,326	(30.2)
PBT	48,539	40,154	48,801	54,920	54,420	12.1	(0.9)	2,07,230	1,79,451	15.5
Tax	11,055	10,019	11,829	13,358	12,511	13.2	(6.3)	52,373	45,553	15.0
Effective Tax Rate (%)	22.8	25.0	24.2	24.3	23.0			25.3	25.4	
PAT	37,484	30,135	36,972	41,562	41,910	11.8	0.8	1,54,857	1,33,898	15.7
PAT Margin %	28.2	24.7	29.0	26.2	27.0	(121.0) bps	3.0 bps	25.5	27.2	(165.0) bps
EPS (Rs)	3.0	2.4	3.0	3.4	3.4	11.8	0.8	12.6	10.9	15.7

Source: Company, YES Sec

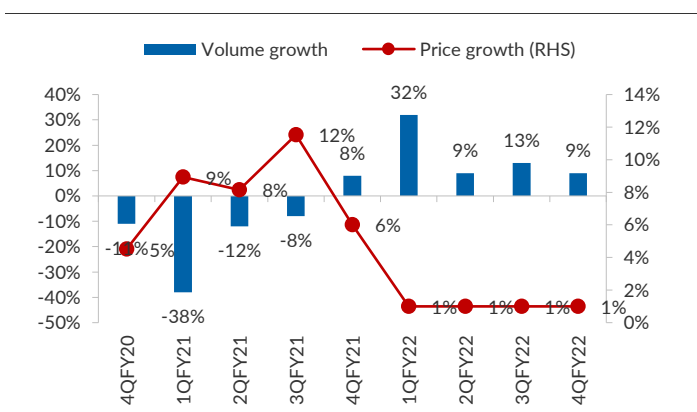
PRESENTATION HIGHLIGHTS

- **Quarter summary** - Gross revenue up 16%, PBT up 12% on a standalone basis; resilient performance from FMCG business on both growth and margins front amidst inflationary environment, strong performance from Agri business with growth of 29% and stable margin at 5.6%, Paper business registered robust 32% revenue growth aided by strong demand across segments.
- **FMCG business** – Revenue grew 12.3% YoY on a base of 16% growth driven by continued momentum in discretionary/OOH consumption and resilient performance in staples and foods category. EBITDA margin at 9.1% with increase in prices to mitigate inflation, Modern trade and e-com continue to grow strongly (grew 1.5x YoY), B2B app Unnati rolled out to 3 lacs vs 2.2lacs retailer QoQ. Steep inflation seen in Edible oil, soap noodles and Metalocene.
- **Distribution in FMCG** – Total reach increased 1.1x, direct reach by 1.9x, market coverage by 3.1x and stockiest by 6.7x over 2018 to 2022.
- **Cigarettes business** – Revenue growth of 10% YoY on a base of 14%, margin up 130bps YoY led by innovation and premiumization of portfolio.
- **Agribusiness** – Segment registered 29.6% revenue growth on a base of 78% YoY led by strong performance in wheat, rice, leaf, tobacco exports.

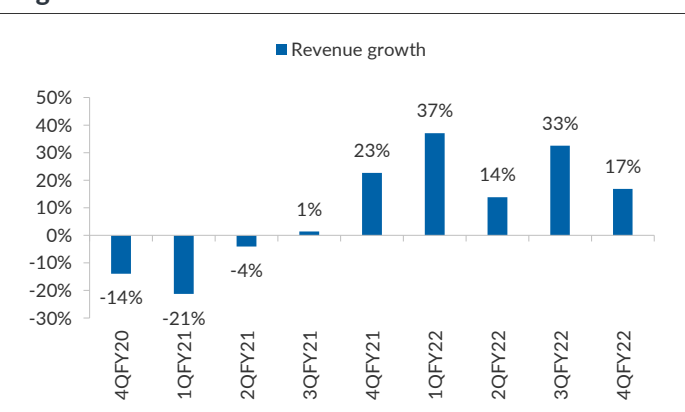
- **Paper business** – Revenue at Rs21.8bn up 32% led by better volumes and realizations, EBIT up 39%, Margin expansion drive to continue aided by operational and technological efficiency.
- **Hotels business** – Revenue at Rs 390cr, lower QoQ with operating loss of ~Rs 34cr. ARR and occupancy improving with recovery in economic activities. During the year, nine new properties were added to the Group portfolio, including four in the Welcomhotel portfolio at Bhubaneswar & Guntur (owned), and at Katra & Chail (managed). ITC Narmada project in Ahmedabad is progressing well and the hotel is expected to be commenced shortly. Cost savings measures led to 20% lower fixed cost vs FY20 levels.

Exhibit 3: Cigarette volume growth of 9% on base of +8%

Exhibit 4: Revenue grew 17% on a high base led by robust all-round performance especially in FMCG and Cigarette business



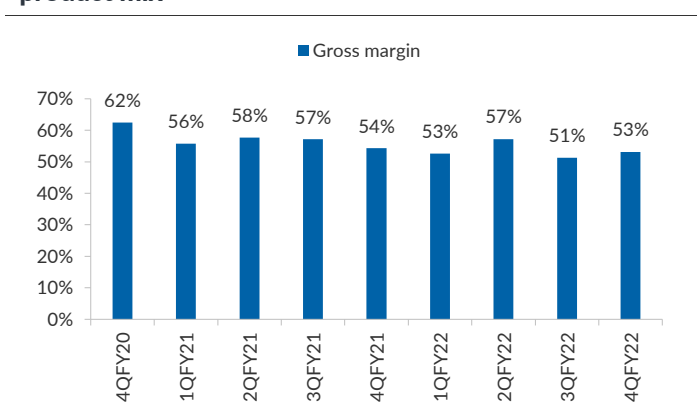
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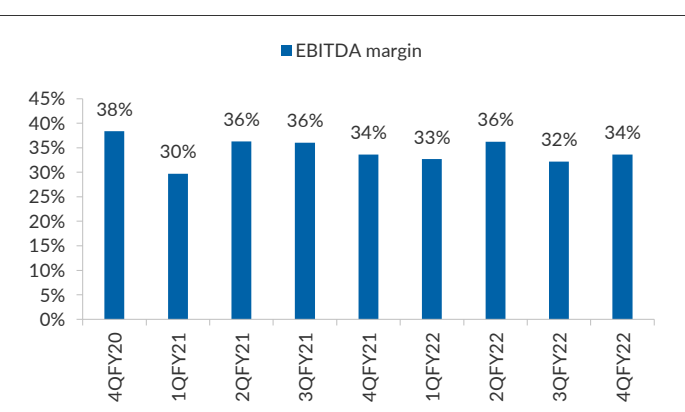
Source: Company, YES Sec

Exhibit 5: Gross margin fell 120bps YoY led by material inflation partially offset by higher volumes and superior product mix

Exhibit 6: EBITDA margin stable at 33.6% further helped by lower SGA expenses

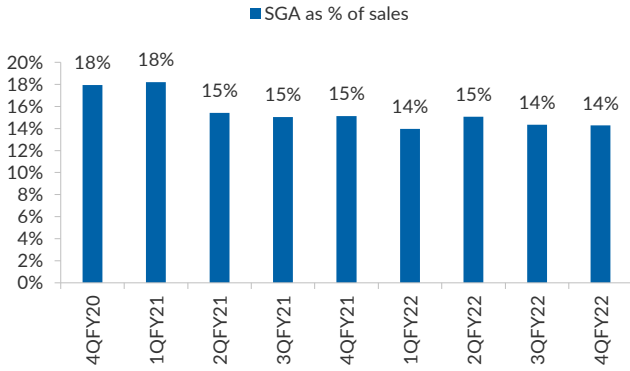


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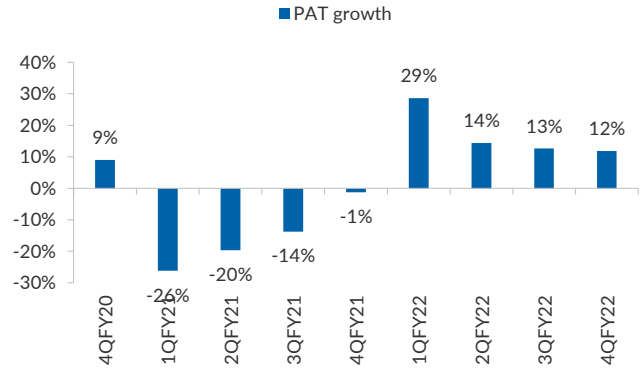
Source: Company, YES Sec

Exhibit 7: Tight control on SGA continues



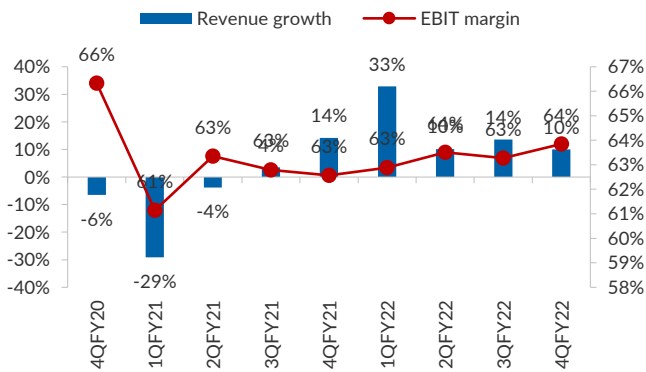
Source: Company, YES Sec

Exhibit 8: PAT grew 12% lower than revenue growth due to lower other income



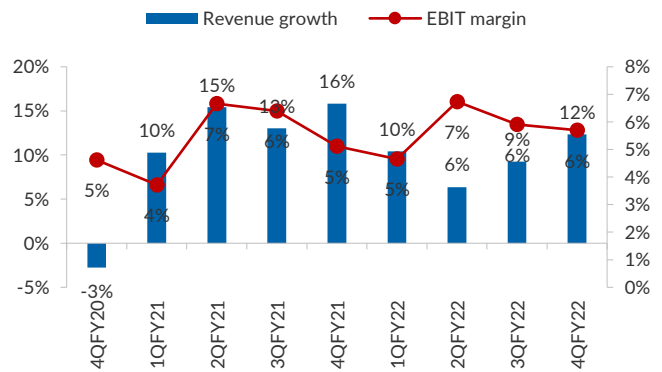
Source: Company, YES Sec

Exhibit 9: Cigarette revenues grew 10% on a base of 14%



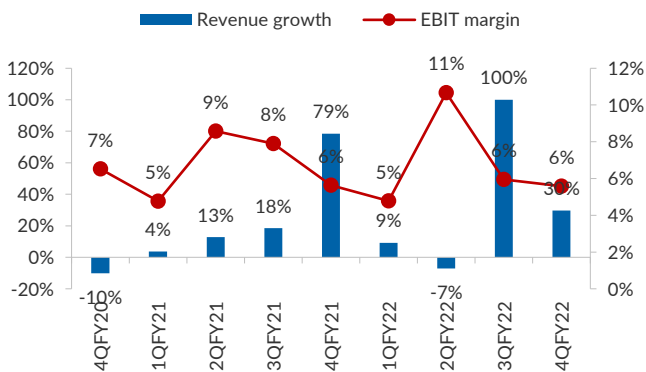
Source: Company, YES Sec

Exhibit 10: FMCG - Other delivered robust performance both on revenue and margin front



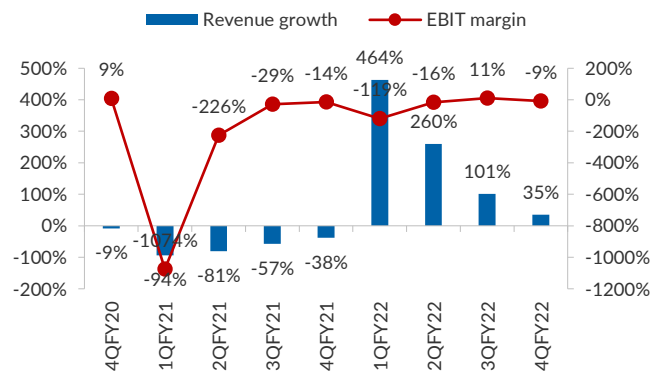
Source: Company, YES Sec

Exhibit 11: Agri business robust revenue growth driven by wheat, rice, spices and leaf tobacco exports while margins were stable at 5.6% YoY



Source: Company, YES Sec

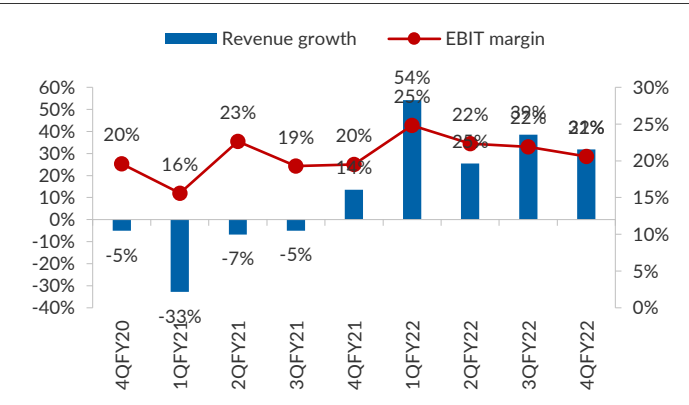
Exhibit 12: Hotel business recovery momentum to continue with improving occupancy while ARR



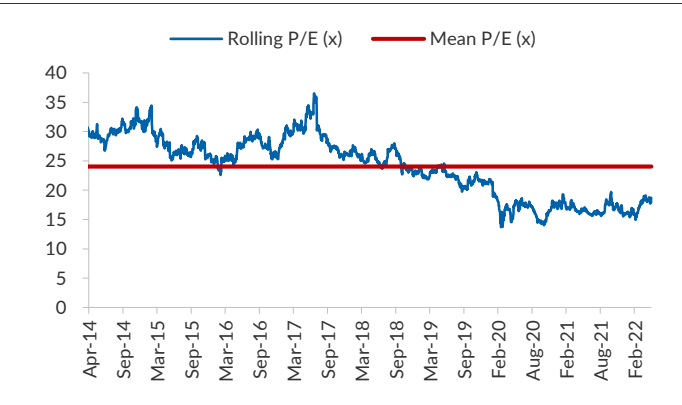
Source: Company, YES Sec

Exhibit 13: Strong 32% YoY growth in Paper business with improving margin performance

Exhibit 14: Currently trading at 18.7x 1-yr forward P/E



Source: Company, YES Sec



Source: Company, YES Sec

FINANCIALS

Y/e 31 Mar (Rs m)	FY20	FY21	FY22E	FY23E	FY24E
Equity capital	12,292	12,309	12,323	12,323	12,323
Reserves	6,40,440	5,91,165	6,12,232	6,36,894	6,70,503
Net worth	6,56,507	6,06,942	6,28,219	6,52,880	6,86,489
Debt	73	95	56	56	56
Deferred tax liab (net)	16,272	17,364	16,735	16,735	16,735
Other non current liabilities	5,234	6,935	5,957	6,254	6,567
Total liabilities	6,78,087	6,31,335	6,50,966	6,75,925	7,09,847
Fixed Asset	2,36,173	2,59,560	2,62,258	2,74,183	2,84,548
Investments	2,90,487	2,52,474	2,52,052	2,52,052	2,52,052
Other Non-current Assets	31,440	24,702	38,604	40,502	42,495
Net Working Capital	47,213	48,008	51,508	68,598	72,488
Inventories	88,793	1,03,972	1,08,642	1,18,955	1,26,882
Sundry debtors	25,625	25,017	24,619	36,601	39,041
Loans and Advances	63	35	68	183	195
Sundry creditors	36,298	43,187	44,173	45,752	48,801
Other current liabilities	57,803	61,731	76,662	82,353	87,841
Cash & equivalents	72,773	46,590	46,544	40,589	58,263
Total Assets	6,78,087	6,31,335	6,50,966	6,75,925	7,09,847

Source: Company, YES Sec

Exhibit 15: Income statement

Y/e 31 Mar (Rs m)	FY20	FY21	FY22E	FY23E	FY24E
Revenue	4,94,041	4,92,728	6,06,681	6,67,977	7,12,491
Operating profit	1,92,602	1,70,027	2,06,584	2,31,112	2,53,638
Depreciation	16,449	16,456	17,324	18,075	19,635
Interest expense	547	446	394	413	434
Other income	25,979	26,326	18,364	19,282	20,246
Profit before tax	2,01,585	1,79,451	2,07,230	2,31,905	2,53,815
Taxes	44,418	45,553	52,373	58,440	63,961
Minorities	-	2,286	2,430	-	-
Adj. PAT	1,57,167	1,31,612	1,52,427	1,73,465	1,89,853
Exceptional loss	1,239	69	-	-	-
Net profit	1,55,928	1,31,543	1,52,427	1,73,465	1,89,853

Source: Company, YES Sec

Exhibit 16: Cash flow statement

Y/e 31 Mar (Rs m)	FY20	FY21	FY22E	FY23E	FY24E
PBIT	2,02,131	1,79,897	2,07,624	2,32,318	2,54,249
Depreciation	16,449	16,456	17,324	18,075	19,635
Tax paid	(44,418)	(45,553)	(52,373)	(58,440)	(63,961)
Working capital Δ	(50,845)	30,225	22,321	(17,091)	(3,890)
Other operating items					
Operating cashflow	1,23,317	1,81,025	1,94,895	1,74,863	2,06,033
Capital expenditure	(17,516)	(39,843)	(20,022)	(30,000)	(30,000)
Free cash flow	1,05,801	1,41,181	1,74,873	1,44,863	1,76,033
Equity raised	30,162	(48,482)	10,374	(0)	-
Investments	5,955	6,993	(25,398)	-	-
Debt financing/disposal	(27)	21	(39)	-	-
Interest Paid	(547)	(446)	(394)	(413)	(434)
Dividends paid	(1,24,766)	(1,32,320)	(1,41,718)	(1,48,804)	(1,56,244)
Other items	14,673	6,869	(17,745)	(1,601)	(1,681)
Net Δ in cash	31,252	(26,183)	(46)	(5,955)	17,674

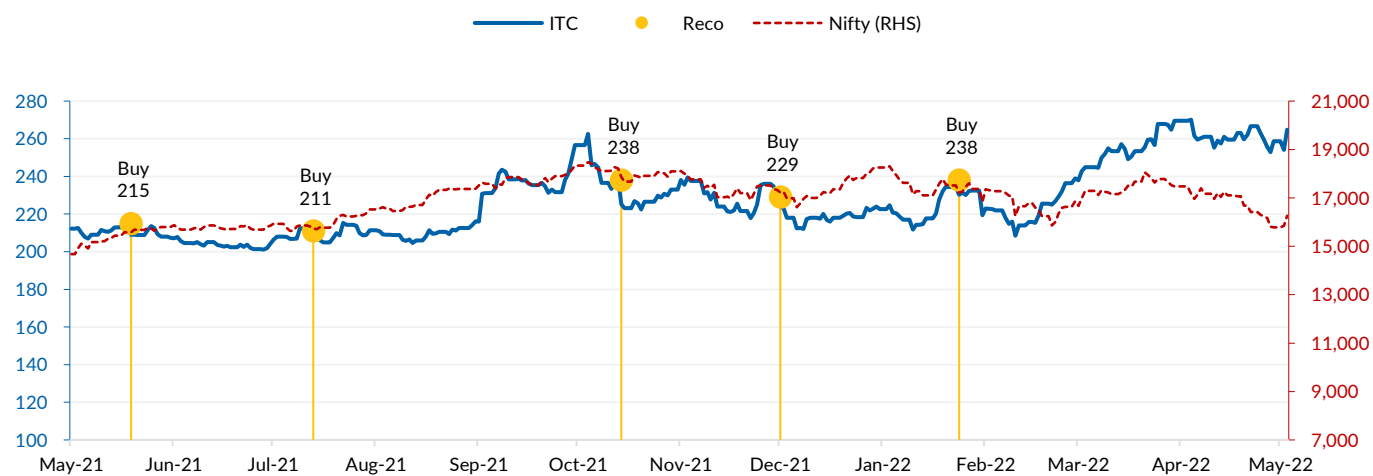
Exhibit 17: Growth and Ratio matrix

Y/e 31 Mar	FY20	FY21	FY22E	FY23E	FY24E
Growth matrix (%)					
Revenue growth	2.2	(0.3)	23.1	10.1	6.7
Op profit growth	4.6	(11.7)	21.5	11.9	9.7
EBIT growth	5.4	(11.0)	15.4	11.9	9.4
Net profit growth	22.6	(16.3)	15.8	13.8	9.4
Profitability ratios (%)					
OPM	39.0	34.5	34.1	34.6	35.6
EBIT margin	40.9	36.5	34.2	34.8	35.7
Net profit margin	31.8	26.7	25.1	26.0	26.6
RoCE	32.3	28.5	33.6	36.3	38.0
RoNW	25.3	21.0	24.8	27.2	28.5
RoA	21.1	17.4	20.2	22.0	23.0
Per share ratios					
EPS	12.8	10.7	12.4	14.1	15.4
Dividend per share	10.2	10.8	11.5	12.1	12.7
Cash EPS	14.1	12.0	13.8	15.5	17.0
Book value per share	53.4	49.3	51.0	53.0	55.7
Valuation ratios					
P/E	20.9	25.0	21.6	19.0	17.3

Y/e 31 Mar	FY20	FY21	FY22E	FY23E	FY24E
P/CEPS	18.9	22.2	19.4	17.2	15.7
P/B	5.0	5.4	5.2	5.0	4.8
EV/EBIDTA	16.7	19.1	15.7	14.1	12.7
Payout (%)					
Dividend payout	79.4	100.5	93.0	85.8	82.3
Tax payout	22.0	25.4	25.3	25.2	25.2
Liquidity ratios					
Debtor days	19	19	15	20	20
Inventory days	66	77	65	65	65
Creditor days	27	32	27	25	25

Source: Company, YES Sec

Recommendation Tracker



Source: Company, YES Sec

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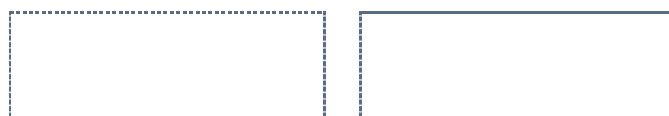
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