

BSE SENSEX

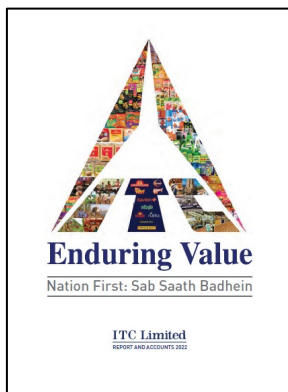
53,027

S&P CNX

15,799

CMP: INR274
TP: INR335 (+22%)
Buy

Motilal Oswal values your support in the Asiamoney Brokers Poll 2022 for India Research, Sales, Corporate Access and Trading team. We request your ballot.


Stock Info

Bloomberg	ITC IN
Equity Shares (m)	12,259
M.Cap.(INRb)/(USDb)	3376.6 / 42.8
52-Week Range (INR)	282 / 201
1, 6, 12 Rel. Per (%)	5/35/34
12M Avg Val (INR M)	5577
Free float (%)	100.0

Financials Snapshot (INR b)

Y/E Mar	2022	2023E	2024E
Sales	563.4	609.6	669.7
Sales Gr. (%)	23.9	8.2	9.8
EBITDA	189.5	213.3	244.2
Margins (%)	33.6	35.0	36.5
Adj. PAT	150.6	171.0	194.7
Adj. EPS (INR)	12.2	13.9	15.8
EPS Gr. (%)	15.4	13.6	13.8
BV/Sh.(INR)	49.8	52.1	56.2

Ratios

RoE (%)	25.0	27.2	29.2
RoCE (%)	24.3	26.5	28.5
Payout (%)	94.1	90.0	80.0

Valuations

P/E (x)	22.4	19.7	17.3
P/BV (x)	5.5	5.3	4.9
EV/EBITDA (x)	16.1	14.2	12.2
Div. Yield (%)	4.2	4.6	4.6

Steadily progressing on a sustainable path

In this report, we present the key takeaways from ITC's FY22 Annual Report:

- Refreshed post-pandemic strategy:** ITC's refreshed strategy across business divisions places digital prowess and sustainability at its center, as it focuses on remaining nimble to address the fast-evolving trends and consumer preferences. Management will also explore growth opportunities through the M&A route and will undertake higher investments to drive exports.
- Infrastructure and ICMLs:** ITC has 10 operational integrated consumer goods manufacturing and logistical (ICML) facilities located close to high demand centers. These facilities have resulted in shorter distance to market, reduced emissions, improved quality and hygiene, as well as an improved supply chain.
- Positive outlook for Cigarettes:** After subdued demand over the last two years, cigarette volumes surpassed pre-pandemic levels in the latter half of FY22. Relative stability in cigarette taxation in recent years has helped the organized industry partially claw back the volumes lost to illicit trade with ITC being a prime beneficiary.
- Enhancing FMCG-Others distribution:** ITC's FMCG-Others business now reaches 7m retail outlets. The company strengthened its direct reach during the year with market/outlet coverage growing ~40%/10% YoY, respectively. Direct reach enhancement in rural markets was supported by a hub-and-spoke distribution model with a 40% expansion in the rural stockist network over FY21 and collaborations with rural-focused eB2B players.
- Improving operating metrics of Hotels:** The Hotels business bounced back towards the end of FY22 after the third COVID wave disrupted demand in Jan'22. Occupancy rates at the end of Mar'22 surpassed pre-pandemic levels and while average room rates improved YoY, they remained below the pre-pandemic levels.
- Paper and paperboards:** Paperboard demand is likely to be driven by end-user segments such as household appliances, consumer goods, ready-made garments, e-Commerce, pharmaceuticals, etc. Writing and printing paper demand is also expected to bounce back in the short term following the re-opening of educational institutions.
- Agri business:** Strong FY22 performance was driven by growth in wheat, rice, spices and leaf tobacco exports despite logistical challenges. The Agri business continues to focus on: a) enhancing its Value-added Agri Products (VAAP) portfolio, b) creating an Agri-tech platform for Indian farmers, and c) promoting 'Climate Smart Agriculture'.

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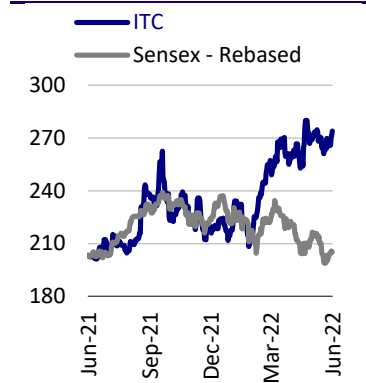
Investors are advised to refer through important disclosures made at the last page of the Research Report.

Motilal Oswal research is available on www.motilaloswal.com/Institutional-Equities, Bloomberg, Thomson Reuters, Factset and S&P Capital.

Shareholding pattern (%)

As on	Mar-22	Dec-21	Mar-21
Promoter	0.0	0.0	0.0
DII	42.7	43.7	42.5
FII	12.1	10.1	12.9
Others	45.2	46.2	44.7

FII Includes depository receipts

Stock performance (one-year)**A good defensive play in a volatile environment; maintain BUY**

- As highlighted in our recent [Upgrade to BUY](#) report: a) better-than-expected demand recovery and a healthy margin outlook in cigarettes, b) healthy sales momentum in the FMCG business, c) lower drag from the Hotels business, and d) better capital allocation in recent years lead us to turn constructive on the stock.
- A stable tax environment for cigarettes in recent years has allowed ITC to calibrate price increases to avoid a disruption in demand. We expect this trend to continue and this should result in improved cigarette volumes and earnings visibility over the medium term.
- The breadth of ITC's FMCG product portfolio gives it an advantage in a rapidly changing demand environment. Its leadership position in some categories gives it pricing power to offset incremental input cost pressures in other categories, where pricing power is not as strong.
- The resilient nature of its core business, amid an uncertain environment in the sector, and a 4-5% dividend yield make it a good defensive play in the ongoing volatile interest rate environment.
- The company's earnings CAGR at the PBT level stood at 5% over FY17-22. We expect ITC to post 15% earnings CAGR over FY22-24.
- While valuations of global Tobacco peers have been restored to their pre-pandemic levels (Jan'19), ITC still trades at a 24% discount to its Jan'19 valuation of 25.4x one-year forward EPS. We value ITC at 21x FY24E EPS, implying a 65% premium to its global peer average. We believe the premium multiples are justified, given its strong visibility over the medium term and the defensive nature of its business, especially in a volatile macro environment.
- **We maintain our BUY rating on the stock with a TP of INR335.**

Highlights from the FY22 Annual Report

ITC's refreshed post-pandemic strategy

- ITC's refreshed strategy across business divisions makes an effort to put in place sustainable growth drivers while remaining nimble to address the fast-evolving trends and consumer preferences.
- Management has been exploring opportunities to leverage the concepts of digitalization and sustainability to create novel business models by utilizing the company's institutional strengths.
- The principles of 'ITC Next' include: a) leveraging ITC's institutional synergies and power brands, b) creating a future-ready portfolio, c) focusing on purposeful and agile science-based innovation, and d) undertaking accelerated investments in digitalization and sustainability.
- ITC will also explore inorganic growth opportunities as well as the need for higher investments to drive exports.

Exhibit 1: Strategic pillars for 'ITC Next'



Source: Company, MOFSL

Infrastructure and supply chain

- ITC has over 200 manufacturing units and 113 hotel properties.
- Its FMCG-Others business now reaches 7m retail outlets.
- ITC has 10 operational ICML facilities that are located close to high demand centers. The advantages of these facilities are:
 - Shorter distance to market
 - Reduced emissions
 - Quality, hygiene and freshness resulting in better customer experience
 - Responsive supply chain.

Exhibit 2: Four mainstays of ITC's digital strategy



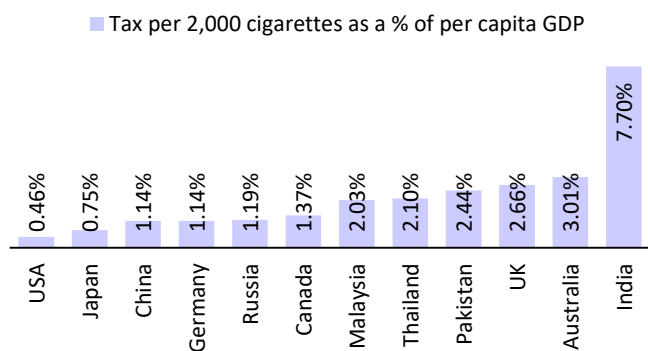
Source: Company, MOFSL

Business segments

Cigarettes

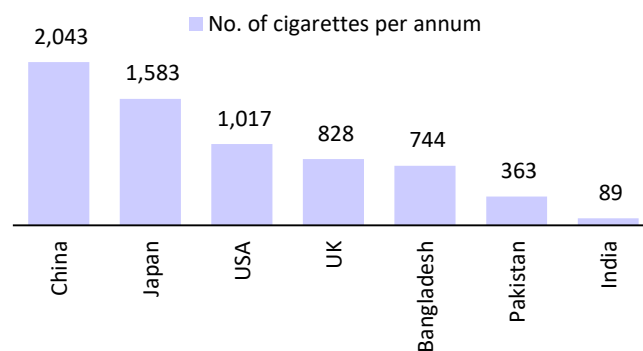
- After subdued demand over the last two years, cigarette volumes surpassed pre-pandemic levels in the latter half of FY22.
- ITC was able to leverage the learning from prior COVID waves to respond with agility during subsequent disruptions, which included realigning its supply chain, strengthening direct reach, and augmenting the stockist network to service rural and semi-urban markets efficiently.
- **Taxes on cigarettes:** India has one of the highest tax incidents on cigarettes as a percentage of per capita GDP. It is several times higher than that of developed countries including the US, Japan, and Germany as well as substantially higher than that in neighboring countries.
- **Stability in taxes helps government and industry:** During FY13-17, excise duty on cigarettes reported a CAGR of 15.7%; however, tax revenue from cigarettes posted a mere 4.7% CAGR during the same period. The increase in excise duty and transition to the GST regime in FY18 further hurt the organized cigarette industry that saw a sharp rise of 20% in tax incidence. Thereafter, relative stability in taxation until Jan'20 helped the organized industry partially claw back volumes lost to the illicit trade in earlier years; consequently, revenue collections witnessed a marked buoyancy growing by 10.2% during this period.

Exhibit 3: India has one of the highest taxes on cigarettes as a percentage of per capita GDP



Source: WHO Report on Global Tobacco Epidemic, 2021, MOFSL

Exhibit 4: Per capita cigarette consumption in India is among the lowest in the world

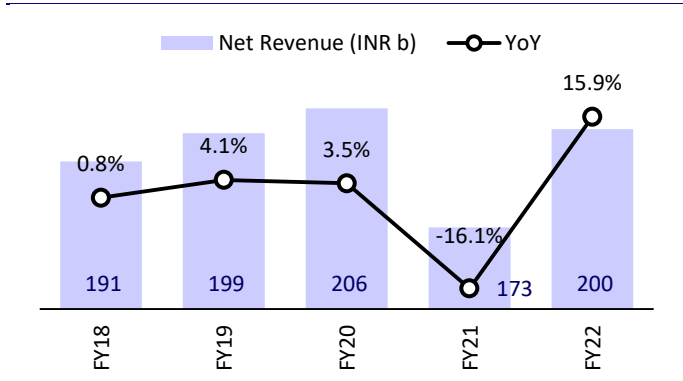


Source: The Tobacco Atlas – 6th Edition, 2018, MOFSL

- **Government efforts:** The Union Minister of State for Commerce & Industry stated that the seizure of illicit cigarettes saw a quantum jump over previous years. It is estimated that due to illicit cigarettes alone, revenue loss to the government stands at ~INR170b per annum. The revenue loss because of other tobacco products is significant as well, since about 68% of the total tobacco consumed in the country remains outside the tax net.
- As seen in the past, stability in taxes on cigarettes enables the organized cigarette industry to recover the volumes lost to the illicit trade, thus, bolstering demand for legal cigarettes and mitigating loss of tax revenue of the government.
- **New launches:** ITC launched several variants catering to evolving consumer preferences. These included 'Classic Connect', 'Gold Flake Indie Mint', 'Gold Flake Neo SMART Filter', 'Wills Protech', 'Capstan Excel', 'American Club Smash',

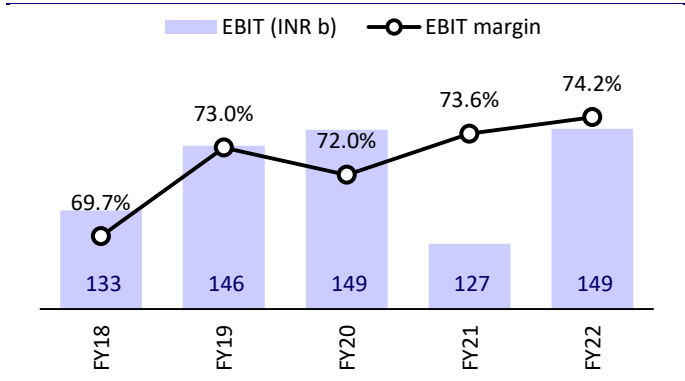
'Gold Flake Kings Mixpod', 'Wave Boss' and 'Flake Nova'. The business also expanded its presence in focus markets with the launch of differentiated offerings across segments.

Exhibit 5: Cigarette volumes surpassed pre-pandemic level in recent months



Source: MOFSL, Company

Exhibit 6: Cigarette EBIT margin expanded 440bp over last five years



Source: MOFSL, Company

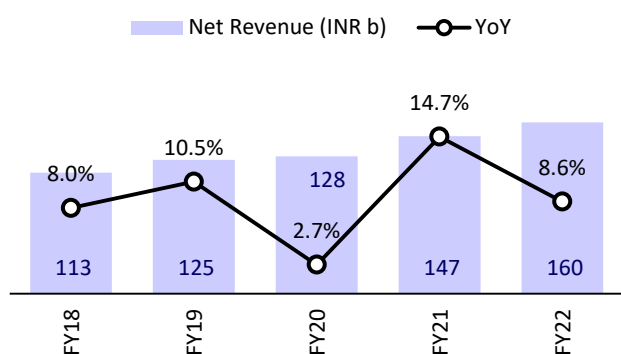
FMCG-Others

- ITC's products are used in over 200m households in India with annual consumer spend of INR240b. It has a distribution reach to nearly 7m retail outlets.
- **Boosting its technological edge:** ITC continues to increasingly leverage its AI-powered platform to gain insights on market trends and consumer behavior, allowing it to tailor its brand communication and product development.
- **New launches:** Over 110 new products were launched across target markets in FY22, a testament to its state-of-the-art R&D facility. The Nimyle brand (floor cleaner) was rolled-out nationally during the year and received good response.
- **Logistics improvements led by ICMLs:** ITC commissioned its 10th ICML in Mar'22. Investments in ICMLs over the years have delivered advantages such as ensuring product freshness, enhancing agility and responsiveness of supply chain operations, reducing cost of servicing adjacent markets, and ensuring high standards of product hygiene, safety and quality. Capacity utilization at the 10 operational ICMLs continues to be ramped up.
- **Update on the acquisition of Sunrise spices:** The integration of M/s. Sunrise Foods Private Limited (acquired in early FY21) was successfully completed and the Sunrise brand delivered robust growth in FY22. The brand strengthened its market leadership in West Bengal and extended its leadership position in other markets in the East/North East regions.
- **D2C acquisitions:** During FY22, ITC acquired a minority stake in 'Mother Sparsh', a premium ayurvedic and natural personal care start-up, with a focus on mother and baby care. In Apr'22, the company also acquired a minority stake in 'Mylo', a community eco-system that addresses the parenting needs of consumers. Management believes these investments will enable the company to enhance its presence in this space that has enormous growth potential, while leveraging its early mover advantage.
- **Distribution expansion:** ITC's FMCG-Others business now reaches 7m retail outlets. The company strengthened its direct reach during the year with market/outlet coverage growing ~40%/10% YoY, respectively. Direct reach

enhancement in rural markets was supported by a hub-and-spoke distribution model with a 40% expansion in the rural stockist network over FY21 and collaborations with rural-focused eB2B players.

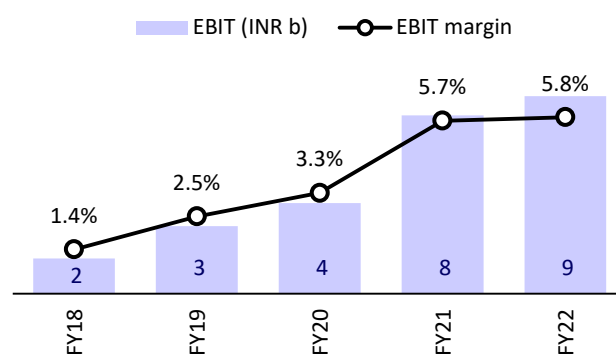
- **Improving technology adoption among channel partners:** UNNATI – ITC’s app-based anytime ordering system for retailers now covers nearly 300k outlets as of FY22. It continues to improve the company’s engagement with retailers, allows for better analytics, personalized recommendations of hyper local baskets based on consumer purchase insights, and offers deeper brand engagement. In FY22, ITC also scaled up VIRU (Virtual Salesman), a technology solution to enable contactless ordering by retailers and direct communication with trade, especially during times of limited mobility or absence of a sales force. The company used machine learning for hyper-personalization.
- **Ecommerce and D2C:** Sales through the e-Commerce channel in FY22 grew to 3x FY20 levels, taking the channel salience to 7%. ‘ITC e-Store’, the exclusive D2C platform, is now operational in 15 cities and continues to receive good consumer response. The platform offers access to over 700 FMCG products across 45+ categories.

Exhibit 7: FMCG-Others delivered a 9% CAGR over FY18-22



Source: MOFSL, Company

Exhibit 8: FMCG-Others EBIT grew 5.6x over past five years



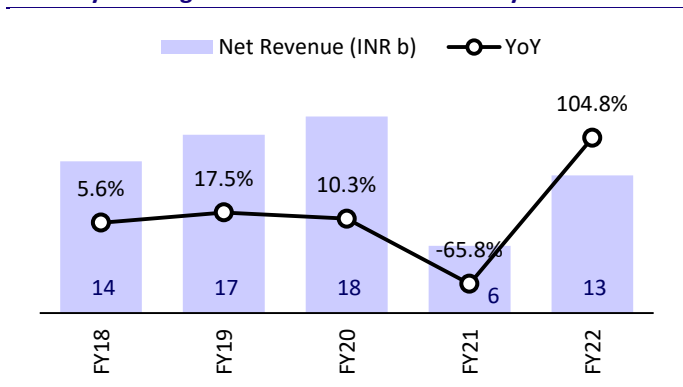
Source: MOFSL, Company

Hotels

- The third COVID wave in Jan’22 briefly halted the recovery momentum for the hospitality industry. It, however, bounced back towards the end of FY22 with exit occupancy rates surpassing pre-pandemic levels and business travel sentiments improving.
- While average room rates (ARRs) improved v/s FY21, they remained below the pre-pandemic levels.
- ITC’s Hotels business remains among the fastest growing hospitality chains in India with 113 properties and over 10,700 rooms under four distinct brands:
 - *ITC Hotels* in the Luxury segment
 - *Welcomhotel* in the premium segment
 - *Fortune* in the mid-market to upscale segment
 - *WelcomHeritage* in the leisure and heritage segment
- During FY22, nine new properties were added to the portfolio, including four under the Welcomhotel brand.

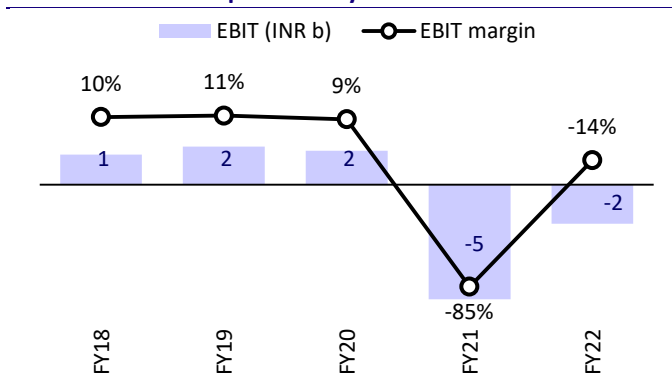
- **Sustainability:** 'Responsible Luxury' continues to guide business best practices in line with ITC's 'Triple Bottom Line' philosophy. ITC Hotels and Welcomhotel have achieved 2030 carbon emission targets based on *COP 21 Paris* agreement.
- The business will continue to enhance its renewable electrical energy portfolio.

Exhibit 9: COVID-led disruptions impacted the hospitality industry denting Hotels' sales in the last two years



Source: MOFSL, Company

Exhibit 10: With a revival in mobility, the drag of the Hotels business on overall profitability will reduce

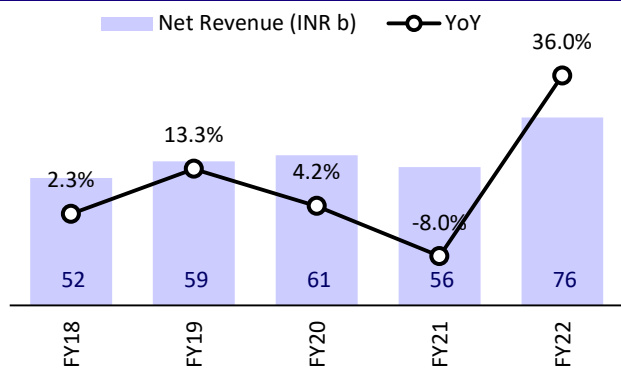


Source: MOFSL, Company

Paper and paperboards

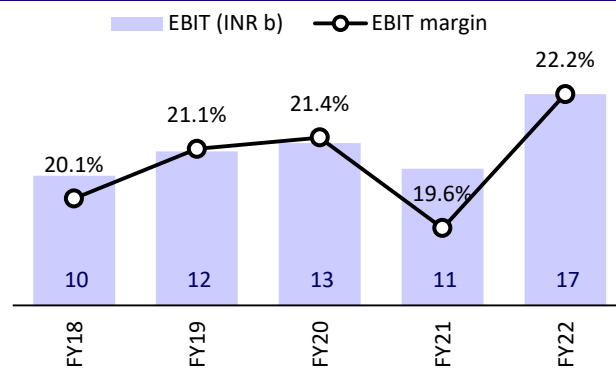
- ITC continued to strengthen its competitive advantage with the help of structural interventions across the value chain including: developing high yielding clones, augmenting manufacturing capacities for value-added paperboard and in-house pulp, building a superior distribution infrastructure, focusing on product & process innovation, digital interventions, etc.
- It expanded its footprint in key geographies such as the UK, West Europe, the Middle East and the Mediterranean region.
- **Innovation:** ITC has set up a dedicated 'Nextgen Cell', which is actively engaged in building a robust innovation pipeline. In FY22, it launched an anti-viral and anti-bacterial Specialty Paper – 'NPP Pro' for use in pharmaceutical leaflets and packaging applications.
- ITC continues to reduce its dependence on imported pulp thus, reducing its operating costs.
- **Sustainability:** ITC was the first Indian company to obtain the Forest Stewardship Council-Forest Management (FSC®-FM) certification, confirming compliance with the highest international benchmarks of plantation management. To date, it has received FSC®-FM certification for close to 130k acres of plantations involving over 30,000 farmers.
- **Outlook:** Paperboard demand is likely to be driven by end-user segments such as household appliances, consumer goods, ready-made garments, e-Commerce, pharmaceuticals, etc. Writing and printing paper demand is also expected to bounce back in the short term following the re-opening of educational institutions.
- **Capacity expansion:** ITC has made investments to expand its manufacturing footprint in the Western region and the facility is likely to be commissioned in FY23, providing opportunities to tap the growing demand in the region.

Exhibit 11: Paperboards posted a CAGR of 10% over FY18-22



Source: MOFSL, Company

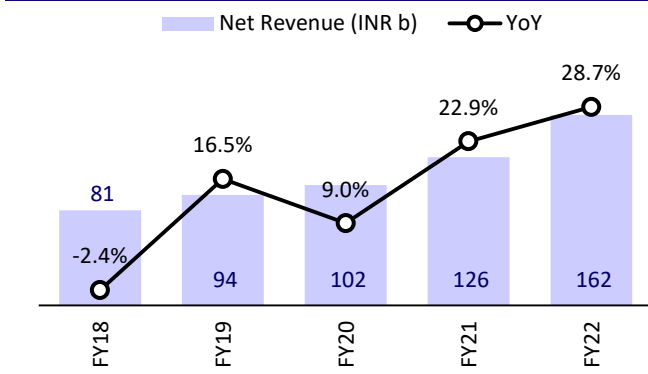
Exhibit 12: EBIT margin expanded 210bp



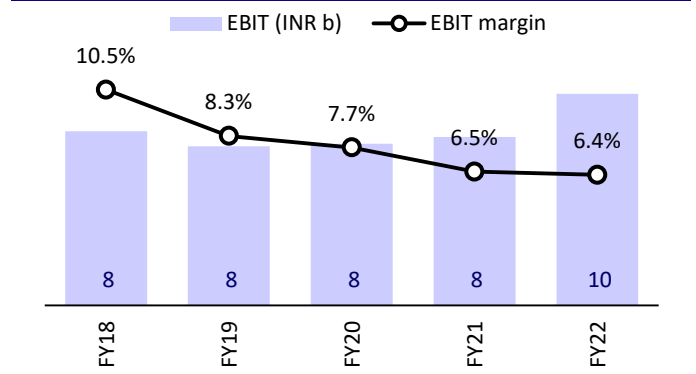
Source: MOFSL, Company

Agri business

- ITC's Agri business continues to focus on enhancing its VAAP portfolio, creating a full-stack Agri-tech platform for Indian farmers and promoting 'Climate Smart Agriculture'.
- The business is scaling up its VAAP portfolio comprising Spices, Coffee, Frozen Marine Products and Processed Fruits among others for domestic and export markets.
- Strong performance for the segment in FY22 was driven by growth in wheat, rice, spices and leaf tobacco exports despite logistical challenges (severe shortages in container availability, congestion in ports and steep hike in freight rates).
- Foreign exchange earnings of the ITC Group have aggregated to ~USD8.2b over the last 10 years, of which Agri exports constituted 59%.
- **Increased market share in tobacco exports:** ITC consolidated its position as the largest Indian exporter of unmanufactured tobacco and improved its market share by ~600bp.
- **Cost management:** Strategic cost management across the value chain continues to be a key focus area. The AI/ML powered smart buying platform continues to be scaled up to facilitate efficient leaf tobacco buying across auction platforms.
- **Widening its scope:** The scope and scale of operations have grown manifold over the years and currently encompass over 4MT in 22 states and over 20 agri-value chains.
- **Export of spices to 'food safe' markets:** ITC is a leading exporter of whole spices. It has, in recent years, expanded into 'food safe' markets viz. the US, EU and Japan.
- **Marine business:** ITC is one of the leading exporters of value-added frozen marine products from India with expertise in processing individually quick-frozen (IQF), raw, and cooked products that adhere to the highest standards of safety and hygiene prevalent in developed markets such as the US, EU and Japan. During FY22, the business touched record levels of sales driven by expansion into new markets in North America and the Middle East.
- The domestic business also posted robust growth backed by higher off-take from large format retailers.
- ITC's **e-Choupal** network now encompasses 4m farmers.

Exhibit 13: Agri revenue five year CAGR stood at 19%

Source: MOFSL, Company

Exhibit 14: EBIT margin remained flat YoY in FY22

Source: MOFSL, Company

ITC Infotech

- In FY22, consolidated total income grew 17% YoY to INR 28.8b. PBT stood at INR 7.2b and reported PAT was at INR 5.4b, up ~20% YoY.
- A key element of the company's strategy going forward is to pursue inorganic opportunities to accelerate growth and profitability for which it has identified priority areas including:
 - Digital Experience: Data Analytics and AI, Salesforce and BPM Tools;
 - Infrastructure Services: Service Management and
 - Cloud Service Providers and Product 4.0: Digital Factory and Digital Thread
- Building on the successful 20-year alliance with PTC Inc., ITC recently announced a 10-year strategic partner agreement to accelerate customers' digital transformation initiatives through jointly developed offerings and Go-to-Market strategies focused on facilitating conversion of customers' *Product Lifecycle Management* implementations to SaaS.

ESG and Sustainability 2.0

Sustainability 2.0

- ITC has embarked on an even more ambitious Sustainability 2.0 agenda to enable the transition to a net zero economy, work towards: a) improving water security, b) restoring biodiversity, c) creating an effective circular economy for post-consumer packaging waste, and d) scaling up programs that support sustainable livelihoods.
- The company exceeded its commitment on plastic neutrality made in FY21 by collecting and managing more than 54,000 tons of plastic waste across 35 states and union territories of India.

Government's efforts on food processing units and ITC's role

- The government's initiatives to promote FPOs in order to enhance market access for farmers and leverage economies of scale are expected to reap dividends for the Agri sector in the medium term.
- ITC believes that a collaborative approach, as opposed to a traditional transactional approach, can contribute meaningfully towards building the next generation agriculture that is climate resilient and capable of supporting livelihoods.
- Digitalization of agriculture offers the potential to increase productivity and foster structural changes across the value chain enabling efficient use of resources.
- ITC has been included under the PLI scheme towards sales-based incentives in the Ready-to-Eat, Fruits & Vegetables, and Marine categories, as well as for incentives towards expenditure incurred for branding and marketing in export markets.

Use of technology to benefit farmers

- ITC's digital training platforms were leveraged during the year through customized apps together with the formation of more than 6,200 WhatsApp groups in around 18,900 villages, building capacity of 590,000 farmers to achieve the objectives of ITC's collaborative initiative with NITI Aayog.
- These interventions have led to improvement in yields and reduction in cultivation costs, thereby augmenting farmers' incomes by up to 60%.
- ITC has also partnered with the State Government of Andhra Pradesh towards improving the quality of chili produced in the country to meet global standards. A Public Private Partnership program – 'Integrated Agri-Extension Platform for Chili Farm Value Chain Development' – has been conceptualized under which 40,000 farmers covering about 100,000 acres are expected to be benefited by 2025. In FY21-22, the program covered over 16,400 farmers and 52,500 acres across 107 villages.
- The company's research has prepared state-level agriculture climate change adaptation plans for three states i.e. Rajasthan, Maharashtra and Madhya Pradesh and continues to engage with the respective governments for adoption of the same. Further, ITC's Climate Smart Village intervention in Madhya Pradesh demonstrated an average increase in yield of 38% and 15% in soyabean

and wheat, respectively, over the baseline. Along with the reduction in cost of cultivation, this has led to an average increase in net income by 93% in soyabean and 46% in wheat over the baseline.

High ratings on sustainability

- ITC retained its 'AA' rating by MSCI-ESG for the fourth successive year – the highest among global tobacco companies.
- ITC has also been included in the Dow Jones Sustainability Emerging Markets Index.
- The company has also been rated at the 'Leadership Level' score of 'A-' for both Climate Change and Water Security (Asia and Global average at 'B-' for climate change and 'B' for water security) by CDP.

Story in charts

Exhibit 15: Segmental snap shot

Particulars	FY18	FY19	FY20	FY21	FY22
Gross Sales (INR b)	486	498	519	540	644
Cigarettes	229	207	212	203	235
FMCG	113	125	128	147	160
Hotels	14	16	18	6	13
Agri Business	81	94	102	126	162
Paperboards & Paper	50	55	58	58	75
Sales Growth (%)					
Cigarettes	-32.7	-9.5	2.4	-4.1	15.3
FMCG	7.8	10.4	2.6	14.8	8.5
Hotels	5.6	17.4	10.6	-65.8	105.2
Agri Business	-2.4	16.5	9.0	22.9	28.7
Paperboards & Paper	-3.1	11.6	4.2	-0.2	29.9
Saliency					
Cigarettes	47.1	41.6	40.9	37.6	36.4
FMCG	23.3	25.1	24.7	27.2	24.8
Hotels	2.9	3.3	3.5	1.2	2.0
Agri Business	16.6	18.9	19.8	23.3	25.2
Paperboards & Paper	10.2	11.1	11.1	10.7	11.6
EBIT (INR b)	155	171	175	149	183
Cigarettes	133	146	149	127	149
FMCG	2	3	4	8	9
Hotels	1	2	2	-5	-2
Agri Business	8	8	8	8	10
Paperboards & Paper	10	12	13	11	17
EBIT Margin (%)					
Cigarettes EBIT margin - Gross Sales (%)	58.3	70.3	70.1	62.6	63.4
FMCG	1.5	2.5	3.3	5.7	5.8
Hotels	10.0	10.8	8.7	(85.8)	(14.3)
Agri Business	10.5	8.3	7.7	6.5	6.4
Paperboards & Paper	21.0	22.4	22.6	19.1	22.7
EBIT Growth (%)					
Cigarettes EBIT growth (%)	6.6	9.1	2.1	(14.4)	16.9
FMCG	483.6	92.4	34.0	96.8	10.9
Hotels	26.0	27.1	(11.2)	(439.1)	(65.8)
Agri Business	(6.3)	(8.5)	1.6	4.0	25.6
Paperboards & Paper	7.9	18.9	5.3	(15.8)	54.7
Saliency					
Cigarettes	85.9	85.3	84.7	85.2	81.1
FMCG	1.1	1.9	2.4	5.6	5.0
Hotels	0.9	1.0	0.9	(3.6)	(1.0)
Agri Business	5.5	4.6	4.5	5.5	5.6
Paperboards & Paper	6.7	7.3	7.4	7.4	9.3

Source: MOFSL, Company

Exhibit 16: Consolidated revenue delivered a CAGR of 8.5% over FY18-22

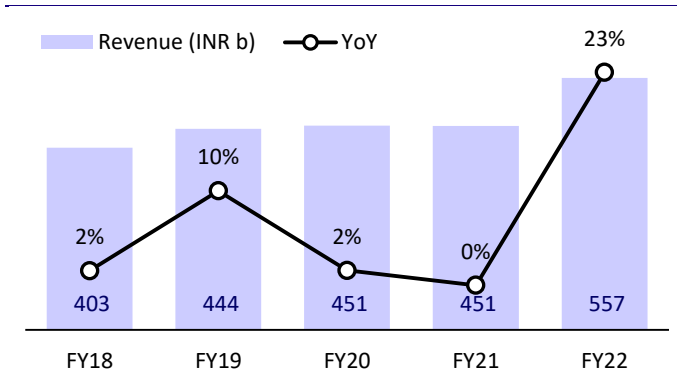


Exhibit 17: Higher material costs impacted gross profit margin...

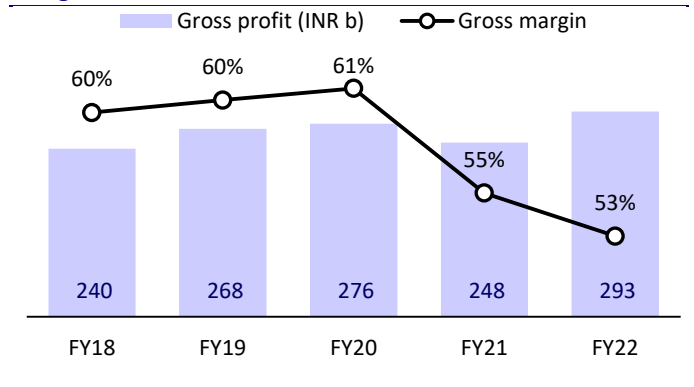


Exhibit 18: ...which also impacted EBITDA margin

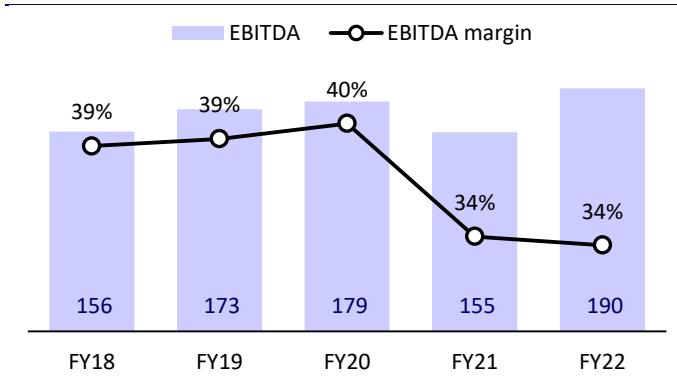
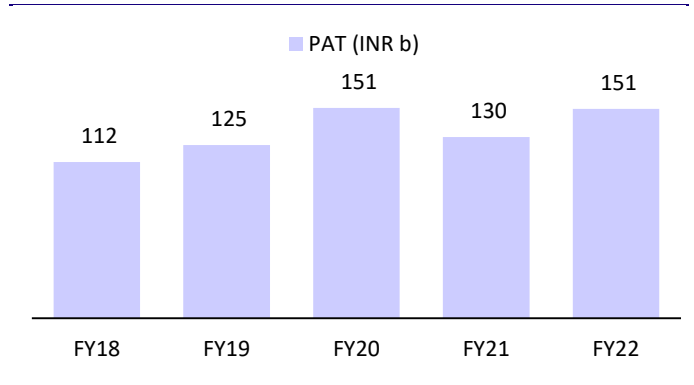


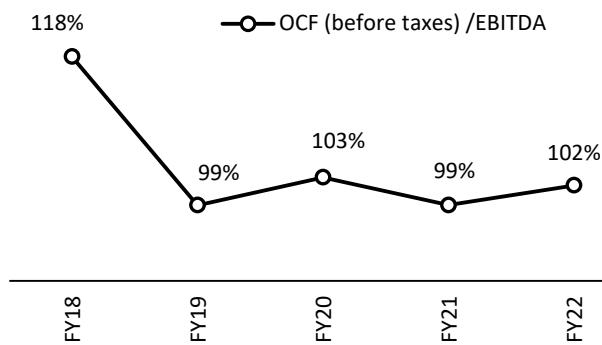
Exhibit 19: Five year PAT CAGR stood at 7.6%



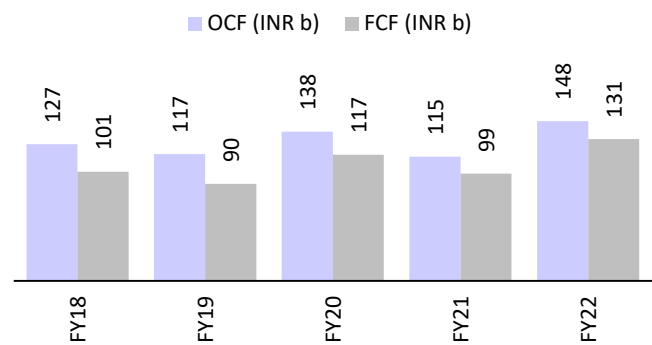
- Cash conversion cycle (on an average basis) reduced to 49 days in FY22 from 71 in FY17.
- Cash conversion cycle (on year-end basis) reduced to 50 days in FY22 from 68 in FY17.
- ITC's earnings to cash flow conversion is consistently at ~100%.

Exhibit 20: Cash conversion cycle

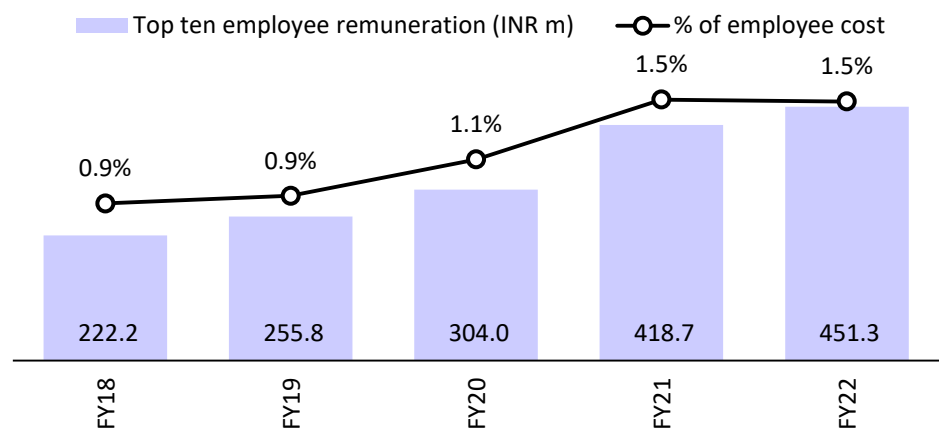
Cash conversion cycle (CCC)	FY17	FY18	FY19	FY20	FY21	FY22	FY23E	FY24E
Inventory days	75	68	60	63	70	63	63	62
Debtor days	18	21	24	23	17	13	14	16
Creditor days	22	27	27	27	30	27	29	30
CCC (avg. basis)	71	62	57	58	57	49	49	48
CCC								
Inventory days	72	65	62	64	76	65	67	63
Debtor days	20	21	30	17	17	13	17	17
Creditor days	23	30	27	28	33	27	33	31
CCC (year-end basis)	68	56	64	53	60	50	51	49

Exhibit 21: Healthy earnings to cash conversion

Source: MOFSL, Company

Exhibit 22: Consistent generation of FCF

Source: MOFSL, Company

Exhibit 23: Total remuneration of top ten employees

Source: MOFSL, Company

Exhibit 24: ITC is spending more than the prescribed amount for its CSR activities (INR m)

Particulars	FY17	FY18	FY19	FY20	FY21	FY22
Average net profits	1,37,633	1,45,234	1,53,277	1,63,086	1,76,419	1,77,444
Prescribed amount	2,753	2,905	3,066	3,262	3,528	3,549
Prescribed amount net of losses	2,753	2,905	3,066	3,262	3,528	3,543
Amount spent	2,760	2,910	3,070	3,265	3,535	3,511
Amount transferred to unspent CSR account	-	-	-	-	-	39
Total amount spent inc. trf. To unspent CSR A/c	2,760	2,910	3,070	3,265	3,535	3,550
Excess amount spent	7	5	4	3	6	8

Source: MOFSL, Company

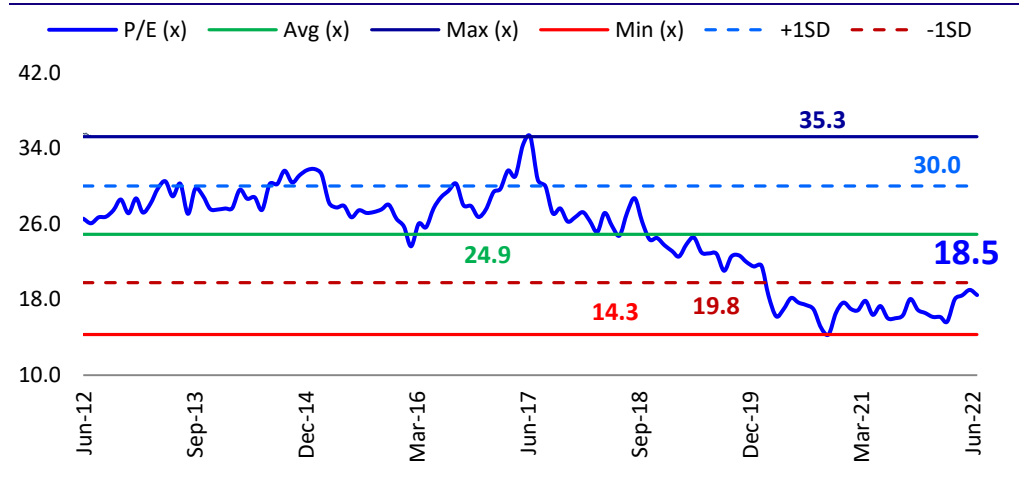
A good defensive play in a volatile environment; maintain BUY

- As highlighted in our recent [Upgrade to BUY](#) report: a) better-than-expected demand recovery and a healthy margin outlook in cigarettes, b) healthy sales momentum in the FMCG business, c) lower drag from the Hotels business, and d) better capital allocation in recent years lead us to turn constructive on the stock.
- A stable tax environment for cigarettes in recent years has allowed ITC to calibrate price increases to avoid a disruption in demand. We expect this trend to continue and this should result in improved cigarette volumes and earnings visibility over the medium term.
- The breadth of ITC's FMCG product portfolio gives it an advantage in a rapidly changing demand environment. Its leadership position in some categories gives

it pricing power to offset incremental input cost pressures in other categories, where pricing power is not as strong.

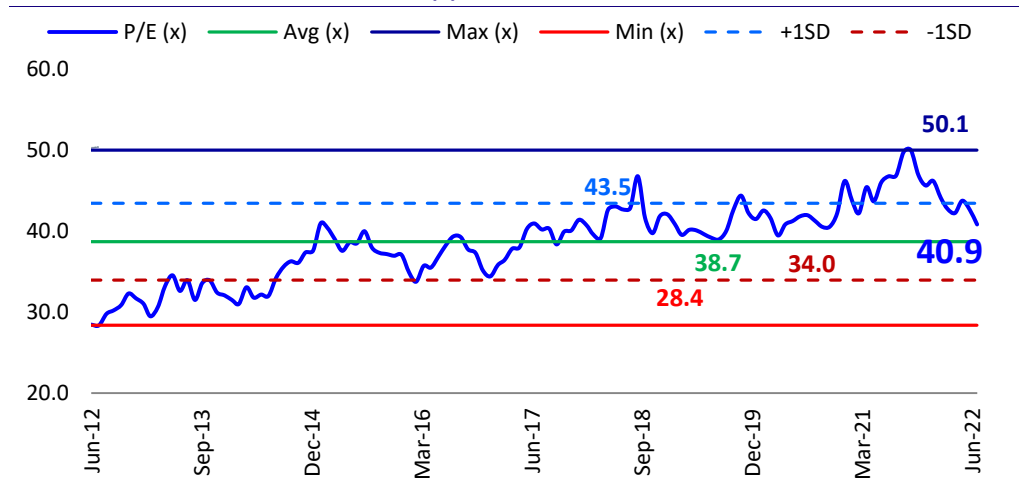
- The resilient nature of its core business, amid an uncertain environment in the sector, and a 4-5% dividend yield make it a good defensive play in the ongoing volatile interest rate environment.
- The company’s earnings CAGR at the PBT level stood at 5% over FY17-22. We expect ITC to post 15% earnings CAGR over FY22-24.
- While valuations of global Tobacco peers have been restored to their pre-pandemic levels (Jan’19), ITC still trades at a 24% discount to its Jan’19 valuation of 25.4x one-year forward EPS. We value ITC at 21x FY24E EPS, implying a 65% premium to its global peer average. We believe the premium multiples are justified, given its strong visibility over the medium term and the defensive nature of its business, especially in a volatile macro environment.
- **We maintain our BUY rating on the stock with a TP of INR335.**

Exhibit 25: P/E ratio (x) for ITC



Source: Bloomberg, MOFSL

Exhibit 26: Consumer sector P/E ratio (x)



Source: Bloomberg, MOFSL

Financials and valuations

Income Statement							(INR b)
Y/E March	2018	2019	2020	2021	2022	2023E	2024E
Net Sales	402.5	444.3	451.4	451.1	557.0	602.8	662.5
Operational Income	3.7	5.6	4.8	3.7	6.4	6.8	7.1
Total Revenue	406.3	450.0	456.2	454.9	563.4	609.6	669.7
Change (%)	1.3	10.8	1.4	-0.3	23.9	8.2	9.8
Gross Profit	240.1	268.3	275.5	248.4	292.9	342.4	394.9
Margin (%)	59.1	59.6	60.4	54.6	52.0	56.2	59.0
Other operating expenditure	84.5	95.0	96.2	93.0	103.4	129.2	150.7
EBITDA	155.6	173.3	179.3	155.3	189.5	213.3	244.2
Change (%)	6.6	11.3	3.5	-13.4	22.0	12.5	14.5
Margin (%)	38.3	38.5	39.3	34.2	33.6	35.0	36.5
Depreciation	11.5	13.1	15.6	15.6	16.5	17.9	19.2
Int. and Fin. Charges	1.1	0.6	0.8	0.6	0.6	0.2	0.2
Other Inc. - Recurring	21.3	24.8	30.1	32.5	25.9	33.3	35.3
Profit before Taxes	164.4	184.4	193.0	171.6	198.3	228.5	260.1
Change (%)	6.0	12.2	4.6	-11.1	15.5	15.2	13.8
Margin (%)	40.5	41.0	42.3	37.7	35.2	37.5	38.8
Tax	56.0	58.5	44.4	40.4	48.3	57.5	65.5
Deferred Tax	0.3	1.3	-4.1	1.0	-0.6	0.0	0.0
Tax Rate (%)	34.2	32.4	20.9	24.1	24.1	25.2	25.2
Profit after Taxes	108.1	124.6	152.7	130.3	150.6	171.0	194.7
Change (%)	6.0	15.3	22.5	-14.6	15.5	13.6	13.8
Margin (%)	26.6	27.7	33.5	28.7	26.7	28.0	29.1
Non-rec. (Exp)/Income	4.1	0.0	-1.3	0.0	0.0	0.0	0.0
Reported PAT	112.2	124.6	151.4	130.3	150.6	171.0	194.7

Balance Sheet							(INR b)
Y/E March	2018	2019	2020	2021	2022	2023E	2024E
Share Capital	12.2	12.3	12.3	12.3	12.3	12.3	12.3
Reserves	501.8	567.2	628.0	577.7	601.7	629.8	679.7
Net Worth	514.0	579.5	640.3	590.0	614.0	642.1	692.0
Loans	0.1	0.0	3.3	3.3	3.1	0.0	0.0
Deferred Liability	19.2	20.4	16.2	17.3	16.7	16.7	16.7
Capital Employed	533.2	600.0	659.8	610.6	633.8	658.8	708.7
Gross Block	258.1	300.4	336.3	362.7	389.7	405.7	425.7
Less: Accum. Depn.	102.3	115.5	131.1	146.7	163.2	181.1	200.2
Net Fixed Assets	155.7	185.0	205.2	216.0	226.4	224.6	225.4
Capital WIP	50.2	33.9	27.8	33.3	24.7	24.7	24.7
Goodwill	0.0	0.0	0.0	5.8	5.8	5.8	5.8
Investments	234.0	265.8	306.3	270.0	272.8	278.2	314.2
Curr. Assets, L&A	183.9	213.3	213.1	190.8	221.2	262.1	285.0
Inventory	72.4	75.9	80.4	94.7	100.0	111.2	116.1
Account Receivables	23.6	36.5	20.9	20.9	19.5	28.1	30.9
Cash and Bank Balance	25.9	37.7	68.4	40.0	38.8	52.3	65.8
Others	62.0	63.3	43.3	35.1	63.0	70.5	72.3
Curr. Liab. and Prov.	90.6	98.0	92.6	105.2	117.1	136.5	146.4
Account Payables	33.8	33.7	34.5	41.2	42.2	54.4	56.3
Other Liabilities	56.7	64.3	58.1	64.0	74.9	82.2	90.1
Net Current Assets	93.4	115.3	120.5	85.6	104.1	125.6	138.6
Application of Funds	533.2	600.0	659.8	610.6	633.8	658.8	708.7

E: MOFSL Estimates

Financials and valuations

Ratios

Y/E March	2018	2019	2020	2021	2022	2023E	2024E
Basic (INR)							
EPS	8.9	10.2	12.4	10.6	12.2	13.9	15.8
Cash EPS	9.8	11.2	13.7	11.9	13.6	15.3	17.4
BV/Share	42.1	47.3	52.1	47.9	49.8	52.1	56.2
DPS	6.2	6.9	10.2	10.8	11.5	12.5	12.6
Payout %	68	68	82	102	94	90	80
Valuation (x)							
P/E	30.9	26.9	22.1	25.9	22.4	19.7	17.3
Cash P/E	28.0	24.4	20.0	23.1	20.2	17.9	15.8
EV/Sales	7.7	6.9	6.6	6.8	5.5	5.0	4.5
EV/EBITDA	19.9	17.6	16.7	19.6	16.1	14.2	12.2
P/BV	6.5	5.8	5.3	5.7	5.5	5.3	4.9
Dividend Yield (%)	2.3	2.5	3.7	3.9	4.2	4.6	4.6
Return Ratios (%)							
RoE	22.3	22.8	25.0	21.2	25.0	27.2	29.2
RoCE	21.6	22.1	24.3	20.6	24.3	26.5	28.5
RoIC	42.4	44.6	49.8	40.4	46.5	48.6	55.4
Working Capital Ratios							
Debtor (Days)	21	25	23	17	13	14	16
Asset Turnover (x)	0.8	0.7	0.7	0.7	0.9	0.9	0.9
Leverage Ratio							
Debt/Equity (x)	0.0	0.0	0.0	0.0	0.0	0.0	0.0

Cash Flow Statement

Y/E March	2018	2019	2020	2021	2022	2023E	2024E
(INR b)							
OP/(loss) before Tax	168.5	184.4	191.7	171.6	198.3	228.5	260.1
Financial other income	7.2	8.1	13.1	17.0	13.9	33.3	35.3
Depreciation and Amort.	11.5	13.1	15.6	15.6	16.5	17.9	19.2
Interest Paid	-8.3	-12.1	-13.8	-11.8	-9.6	0.2	0.2
Direct Taxes Paid	57.2	54.9	46.5	39.6	45.1	57.5	65.5
Incr in WC	-19.2	5.0	-4.2	3.9	-1.8	8.0	-0.5
CF from Operations	126.5	117.5	138.1	114.9	148.1	147.8	179.2
Other items	-7.6	3.2	44.6	-30.8	12.4	22.0	34.3
Incr Decr in FA	25.5	27.6	21.1	15.8	16.7	16.0	20.0
Free Cash Flow	101.0	89.9	116.9	99.1	131.3	131.7	159.2
Pur of Investments	34.8	15.3	51.9	-87.0	11.6	5.3	36.1
CF from Invest.	-67.8	-39.7	-28.4	40.4	-15.9	0.6	-21.7
Issue of shares	9.1	9.7	6.3	2.9	2.9	10.0	10.0
Incr in Debt	-0.1	-0.1	-0.5	-0.5	-0.5	-3.1	0.0
Net Interest Paid	0.5	0.9	0.5	0.4	0.4	0.2	0.2
Dividend Paid	57.7	62.9	84.2	186.2	135.5	141.7	153.9
Others	-11.1	-11.9	0.0	0.4	0.2	0.2	0.2
CF from Fin. Activity	-60.2	-66.0	-78.9	-183.8	-133.4	-134.9	-144.0
Incr of Cash	-1.5	11.7	30.7	-28.4	-1.2	13.5	13.5
Add: Opening Balance	27.5	25.9	37.7	68.4	40.0	38.8	52.3
Closing Balance	25.9	37.7	68.4	40.0	38.8	52.3	65.8

E: MOFSL Estimates

Explanation of Investment Rating	
Investment Rating	Expected return (over 12-month)
BUY	>=15%
SELL	< - 10%
NEUTRAL	< - 10 % to 15%
UNDER REVIEW	Rating may undergo a change
NOT RATED	We have forward looking estimates for the stock but we refrain from assigning recommendation

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