

Retail Equity Research

ITC Limited

Tobacco


BSE CODE: 500875

NSE CODE: ITC

Bloomberg CODE: ITC:IN

SENSEX: 58,388

BUY

12 Months Investment period Rating as per Large Cap
CMP Rs. 311 TARGET Rs. 352 RETURN 13% 
(Closing: 05-08-22)

KEY CHANGES:

TARGET 

RATING 

EARNINGS 

Robust operating performance

ITC is a diversified conglomerate with presence in FMCG, hotels, paperboards and specialty papers, packaging, and agri-business. The company directly employs over 36,500 people across businesses.

- ITC's standalone revenue in Q1FY23 stood at Rs. 18,164cr, up 41.0% YoY and 11.9% QoQ, led by strong show across operating segments.
- EBITDA grew 41.5% YoY to Rs. 5,648cr, with a stable EBITDA margin of 31.1% despite input cost pressure. PAT stood at Rs. 4,169cr, up 38.4% YoY and down 0.5% QoQ. The reason for the sequential decline is a fall in other income
- The company has a sharp focus on investing in cutting-edge technology, leveraging customer relationships and delivering strong performance across segments. We expect the coming festival season to boost consumption expenditure, which will support growth momentum. Hence, we reiterate our BUY rating on the stock with a rolled forward TP of Rs. 352 based on SOTP valuation

Stellar performance across operating segments

ITC's standalone revenue grew 41.5% YoY and 11.9% QoQ to Rs. 18,164cr driven by robust performance across operating segments. Revenue from agri-business grew a robust 82.7% YoY to Rs.7,473cr, led by wheat, rice and leaf tobacco exports. Paperboards, paper & packaging (PPP) revenue rose 43.3% YoY to Rs. 2,267cr aided by higher realisation and strong demand due to reopening of educational institutions. The cigarettes business revenue grew 29.0% YoY to Rs. 6,609cr, driven by green shoots of volume recovery and focused portfolio interventions along with agile execution. Revenue from FMCG and others was Rs. 4,451cr, up 19.5% YoY and 7.5% QoQ as rural demand picked up. The company saw a sharp rebound in hotels revenue as ARR (Average Room Rate) and occupancy surpassed that of pre-pandemic levels with a YoY growth of 336.2% to Rs. 555cr.

Margins sustained despite input cost pressure

Standalone EBITDA grew in line with revenue — up 41.5% YoY to Rs. 5,648cr. Margin remained steady at 31.1% despite input cost pressure as a result of commodity inflation. Gross profit grew 36.2% to Rs. 8,656cr slightly impacted by doubling of purchase of stock in trade. Purchase of stock in trade increased 109.9% to Rs. 4,917cr accounting for 27.0% of revenue compared with 18.2% in Q1FY22. PAT increased 38.4% YoY to Rs. 4,169cr, offset by reduced other income.

Key quarter highlights

- ITC is focused on acceleration of customers' digital transformation initiatives using SaaS (Software as a Service)
- The management believes all businesses are aligned with its 2030 sustainability targets

Valuation

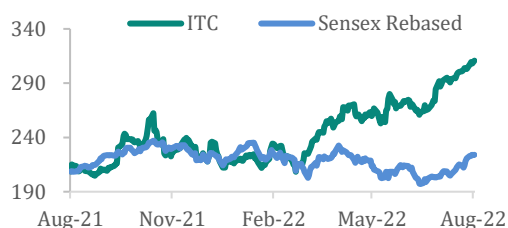
ITC delivered a strong operational and financial performance across business segments despite the ongoing challenges, including high inflation. We expect a good festival season ahead which will lead to a pick-up in consumption expenditure. We also expect leisure, FMCG, PPP and agri-businesses to deliver strong performance by leveraging strong customer relationships. ITC continues to focus on investment in cutting-edge technology by accelerating digital presence. With a promising outlook and trust in the stock's resilience in the current market volatility, we reiterate our BUY rating with rolled forward TP of Rs. 352 using SOTP valuation.

Company Data

Market Cap (cr)	Rs. 382,925		
Enterprise Value (cr)	Rs. 383,157		
Outstanding Shares (cr)	1,233.5		
Free Float	70.0%		
Dividend Yield	3.7%		
52 week high	Rs. 317		
52 week low	Rs. 205		
6m average volume (cr)	0.1		
Beta	0.7		
Face value	Rs. 1		
Shareholding %	Q3FY22	Q4FY22	Q1FY23
Promoters	0.0	0.0	0.0
FII's	10.0	12.0	12.7
MFs/Insti	43.8	42.8	42.8
Public	14.3	13.4	13.0
Others	31.9	31.8	31.5
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	18.6%	32.7%	44.4%
Absolute Sensex	4.8%	-0.4%	7.1%
Relative Return*	13.8%	33.2%	37.3%

*over or under performance to benchmark index



Standalone (cr)	FY22A	FY23E	FY24E
Sales	59,101	65,581	72,763
Growth (%)	22.7	11.0	11.0
EBITDA	18,934	22,046	24,284
EBITDA Margin (%)	32.0	33.6	33.4
Adj. PAT	15,058	17,239	19,098
Growth (%)	15.5	14.5	10.8
Adj. EPS	12.2	14.0	15.5
Growth (%)	15.4	14.5	10.8
P/E	20.5	22.2	20.0
P/B	5.0	6.0	5.2
EV/EBITDA	16.3	17.4	15.8
ROE (%)	24.5	27.1	26.1
D/E	0.0	0.0	0.0



Quarterly Financials (Standalone)

Profit & Loss Account

	Q1FY23	Q1FY22	YoY Growth %	Q4FY22	QoQ Growth %
Revenue	18,164	12,884	41.0	16,227	11.9
EBITDA	5,648	3,992	41.5	5,224	8.1
EBITDA margins	31.1	31.0	10bps	32.2	(110bps)
Depreciation	412	395	4.1	446	(7.7)
EBIT	5,236	3,597	45.6	4,778	9.6
Interest	9	10	(11.5)	10	(13.0)
Other Income	313	429	(27.1)	674	(53.6)
Exceptional Items	-	-	n.m.	-	n.m.
PBT	5,540	4,015	38.0	5,442	1.8
Tax	1,370	1,002	36.8	1,251	9.5
Share of profit from Associate	-	-	n.m.	-	n.m.
Minority Interest	-	-	n.m.	-	n.m.
Reported PAT	4,169	3,013	38.4	4,191	(0.5)
Adjustments	-	-	n.m.	-	n.m.
Adj. PAT	4,169	3,013	38.4	4,191	(0.5)
No. of shares	1,233.5	1,230.0	0.3	1,232.6	0.1
Adj. EPS (Rs.)	3.4	2.5	38.0	3.4	(0.6)

Segment Revenue

	Q1FY23	Q1FY22	YoY Growth %	Q4FY22	QoQ Growth %
FMCG	11,060	8,848	25.0	10,585	4.5
- Cigarettes	6,609	5,122	29.0	6,443	2.6
- Others	4,451	3,726	19.5	4,142	7.5
Paperboards, Paper & Pack.	2,267	1,583	43.3	2,183	3.9
Agri Business	7,473	4,091	82.7	4,366	71.1
Hotels	555	127	336.2	390	42.4
Inter-segment	(3,192)	(1,764)	(80.9)	(1,297)	(146.0)
Total Revenue	18,164	12,884	41.0	16,227	11.9

Change in Estimates

	Old estimates		New estimates		Change %	
Year / Rs. cr	FY23E	FY24E	FY23E	FY24E	FY23E	FY24E
Revenue	59,073	65,013	65,581	72,763	11	11.9
EBITDA	20,434	22,668	22,046	24,284	7.9	7.1
Margins (%)	34.6	34.9	33.6	33.4	(100bps)	(150bps)
Adj. PAT	16,647	18,461	17,239	19,098	3.6	3.5
Adj. EPS	13.5	15.0	14.0	15.5	3.4	3.3

Sum of the Parts (SOTP) valuation

Particulars	Basis	Multiple	EBITDA/Sales (Rs. Cr)	Year	Value (Rs. Cr)	Value/share (Rs.)
Cigarettes	EV/EBITDA	13.0x	18,596	FY24E	241,742	196
FMCG – others	EV/Sales	8.0x	21,153	FY24E	169,222	137
Paperboards, Paper & Packaging	EV/EBITDA	9.0x	421	FY24E	3,785	3
Agri Business	EV/EBITDA	8.0x	1,903	FY24E	15,225	12
Hotels	EV/EBITDA	7.0x	551	FY24E	3,855	3
Enterprise Value					433,829	352
Net Debt					(83)	(0)
Equity Value					433,913	352

PROFIT & LOSS

Y.E March (Rs. cr)	FY20A	FY21A	FY22A	FY23E	FY24E
Revenue	46,324	48,151	59,101	65,581	72,763
% change	2.4	3.9	22.7	11.0	11.0
EBITDA	17,904	15,522	18,934	22,046	24,284
% change	3.5	(13.3)	22.0	16.4	10.2
Depreciation	1,563	1,562	1,652	2,260	2,197
EBIT	16,341	13,961	17,282	19,786	22,087
Interest	56	47	42	42	36
Other Income	2,882	3,251	2,590	2,699	2,812
PBT	19,167	17,164	19,830	22,443	24,863
% change	3.9	(10.4)	15.5	13.2	10.8
Tax	4,031	4,133	4,772	5,204	5,765
Tax Rate (%)	21.0	24.1	24.1	23.2	23.2
Reported PAT	15,136	13,032	15,058	17,239	19,098
Adj*	132	-	-	-	-
Adj PAT	15,268	13,032	15,058	17,239	19,098
% change	22.5	(14.6)	15.5	14.5	10.8
No. of shares (cr)	1229.2	1230.9	1232.2	1232.2	1232.2
Adj EPS (Rs.)	12.4	10.6	12.2	14.0	15.5
% change	22.6	(14.8)	15.4	14.5	10.8
DPS (Rs.)	10.2	10.8	11.5	7.3	8.1
CEPS (Rs.)	13.7	11.9	13.6	15.8	17.3

BALANCE SHEET

Y.E March (Rs. cr)	FY20A	FY21A	FY22A	FY23E	FY24E
Cash	562	231	185	59	236
Accounts Receivable	2,092	2,090	1,953	1,967	2,328
Inventories	8,038	9,471	9,998	8,921	9,983
Other Cur. Assets	26,200	20,023	18,807	16,353	16,172
Investments	13,456	12,950	15,657	24,040	34,085
Gross Fixed Assets	24,290	25,870	27,544	29,047	30,729
Net Fixed Assets	19,613	19,593	19,915	19,273	18,861
CWIP	2,776	3,330	3,163	3,005	2,855
Intangible Assets	523	2,585	2,608	2,710	2,816
Def. Tax (Net)	-	-	-	-	-
Other Assets	1,975	1,306	2,806	2,561	2,610
Total Assets	75,235	71,581	75,093	78,888	89,948
Current Liabilities	9,025	10,123	11,477	12,583	13,906
Provisions	144	157	187	206	226
Debt Funds	420	568	102	301	301
Other Liabilities	1,618	1,728	1,927	2,185	2,393
Equity Capital	1,229	1,231	1,232	1,524	1,816
Reserves & Surplus	62,800	57,774	60,167	62,090	71,306
Shareholder's Fund	64,029	59,005	61,400	63,614	73,122
Minority Interest	-	-	-	-	-
Total Liabilities	75,235	71,581	75,093	78,888	89,948
BVPS (Rs.)	52	48	50	52	59

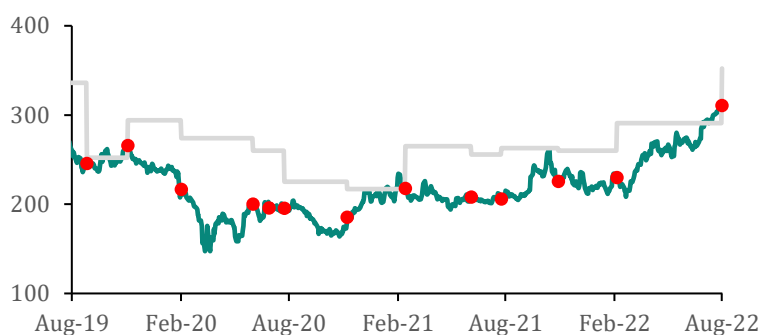
CASH FLOW

Y.E March (Rs. cr)	FY20A	FY21A	FY22A	FY23E	FY24E
Net inc. + Depn.	16,699	14,593	16,710	19,499	21,295
Non-cash adj.	(3,311)	(2,705)	(2,086)	(602)	(1,182)
Changes in W.C	418	(395)	184	1,180	(872)
C.F. Operation	13,806	11,494	14,808	20,077	19,242
Capital exp.	(2,114)	(1,579)	(1,675)	(1,502)	(1,682)
Change in inv.	(9,017)	(875)	(2,842)	(6,085)	(9,889)
Other invest.CF	5,614	8,952	3,000	1,105	1,216
C.F - Investment	(5,517)	6,498	(1,517)	(6,482)	(10,356)
Issue of equity	625	291	292	292	292
Issue/repay debt	(47)	(52)	(55)	199	(0)
Dividends paid	(7,049)	(18,629)	(13,547)	(14,171)	(8,964)
Other finance.CF	(1,420)	12	(27)	(42)	(36)
C.F - Finance	(7,891)	(18,379)	(13,337)	(13,721)	(8,708)
Chg. in cash	399	(387)	(46)	(126)	178
Closing cash	562	231	185	59	236

RATIOS

Y.E March	FY20A	FY21A	FY22A	FY23E	FY24E
Profitab. & Return					
EBITDA margin (%)	38.7	32.2	32.0	33.6	33.4
EBIT margin (%)	35.3	29.0	29.2	30.2	30.4
Net profit mgn.(%)	32.7	27.1	25.5	26.3	26.2
ROE (%)	23.6	22.1	24.5	27.1	26.1
ROCE (%)	25.4	23.4	28.1	31.0	30.1
W.C & Liquidity					
Receivables (days)	16.5	15.8	12.1	11.0	11.7
Inventory (days)	159.3	150.2	123.1	109.5	110.6
Payables (days)	68.3	65.3	52.0	53.3	54.2
Current ratio (x)	4.1	3.1	2.7	2.2	2.1
Quick ratio (x)	2.9	2.0	1.5	1.2	1.1
Turnover & Leverage					
Gross asset T.O (x)	2.0	1.9	2.2	2.3	2.4
Total asset T.O (x)	0.6	0.7	0.8	0.9	0.9
Int. coverage ratio (x)	293.3	294.1	412.0	475.7	608.8
Adj. debt/equity (x)	0.0	0.0	0.0	0.0	0.0
Valuation					
EV/Sales (x)	4.6	5.6	5.2	5.8	5.3
EV/EBITDA (x)	11.8	17.3	16.3	17.4	15.8
P/E (x)	13.8	20.6	20.5	22.2	20.0
P/BV (x)	3.3	4.6	5.0	6.0	5.2

Recommendation Summary (Last 3 Years)



Source: Bloomberg, Geojit research

Dates	Rating	Target
28-Jul-20	BUY	225
11-Nov-20	BUY	217
17-Feb-21	BUY	265
8-Jun-21	BUY	256
29-Jul-21	BUY	263
2-Nov-21	BUY	260
9-Feb-22	BUY	291
8-Aug-22	BUY	352

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/Neutral			

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/Neutral: 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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