

# ITC Ltd.



# ITC Ltd

**Growth continues across segments, sequential margin improvement**

CMP <b>INR 346</b>	Target <b>INR 400</b>	Potential Upside <b>15.5%</b>	Market Cap (INR Mn) <b>INR 42,91,356</b>	Recommendation <b>BUY</b>	Sector <b>Consumer</b>
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## Result Highlights of Q2FY23:

- For Q2FY23, ITC reported consolidated operating revenue of INR 1,86,080 mn (+25.4% YoY/ -6.2% QoQ). For H1FY23, ITC's revenue increased by 32.2% YoY to INR 3,84,393 mn.
- ITC's EBITDA for Q2FY23 was INR 62,591 mn (+24.7% YoY/ +3.0% QoQ). EBITDA margin for the quarter was at 33.6%, which declined by 16 bps YoY while improving by 299 bps QoQ. For H1FY23, EBITDA margin contracted by 44 bps YoY to 32.1%.
- In Q2FY23, PAT improved by 24.4% YoY and 5.2% QoQ to INR 46,198 mn. PAT margin for Q2FY23 was at 24.8% (-19 bps YoY/ +269 bps QoQ). For H1FY23, PAT increased by 28.9% YoY to INR 90,095 mn, while PAT margin declined by 60 bps YoY.

## MARKET DATA

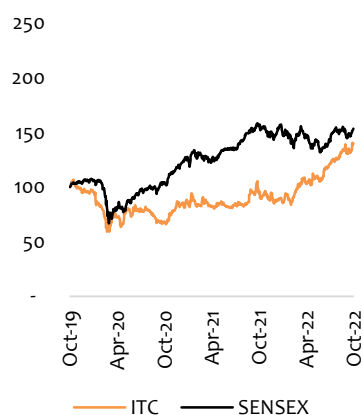
Shares outs (Cr)	1,240
Mkt Cap (INR Mn)	42,91,356
52 Wk H/L (INR)	353/207
Volume Avg (3m K)	12,982
Face Value (INR)	1
Bloomberg Code	ITC IN

## KEY FINANCIALS

INR Mn	FY20	FY21	FY22	FY23E	FY24E
Revenue	5,13,935	5,31,551	6,52,050	7,65,333	7,93,066
EBITDA	1,92,602	1,70,027	2,06,584	2,47,168	2,66,682
PAT	1,53,062	1,31,612	1,52,427	1,81,381	1,94,277
Adj PAT	1,57,249	1,31,612	1,52,427	1,81,381	1,94,277
EPS (INR)	12.5	10.7	12.4	14.6	15.7
Adj. EPS (INR)	12.8	10.7	12.4	14.6	15.7
EBITDA Margin (%)	37.5%	32.0%	31.7%	32.3%	33.6%
NPM (%)	29.8%	24.8%	23.4%	23.7%	24.5%

Source: Company, KRChoksey Research

## SHARE PRICE PERFORMANCE



**Continued revenue traction across business segments:** ITC reported consolidated operating revenue of INR 1,86,080 mn (+25.4% YoY/ -6.2% QoQ) in Q2FY23. Excluding the agri business, which is seasonal by nature, revenue growth was at +23.1% YoY/ +4.3% QoQ. Cigarettes business revenue was at INR 76,354 mn (+22.8% YoY/ +2.3% QoQ). ITC continued to see volume recovery in cigarettes by taking away share from illicit trade. FMCG- Others segment revenue was at INR 48,943 mn (+21.0% YoY/ +9.8% QoQ), driven by growth in staples & convenience foods, as well as discretionary/ Out of Home categories. The FMCG-Others revenue is approximately 1.5x of Q2FY20 pre-covid levels. Hotels business revenue was INR 5,604 mn (+80.2% YoY/ -3.5% QoQ). ARR and Occupancy were ahead of pre-pandemic levels driven by Retail (packages), Leisure, Weddings and MICE segments. Agri segment revenue was INR 40,387 mn (+43.1% YoY/ -46.1% QoQ). The YoY growth was driven by wheat, rice and leaf tobacco exports. The Paperboards, paper and packaging business had revenue of INR 22,876 mn (+25.0% YoY/ +0.9% QoQ). The growth was driven by strong demand across end-user segments, rapid growth in Value Added Paperboard (VAP), and robust performance of the fine paper segment.

**Sequential EBIT margin improvement in all segments except Hotels:** ITC's EBITDA for Q2FY23 was INR 62,591 mn (+24.7% YoY/ +3.0% QoQ). EBITDA margin for the quarter was at 33.6%, which declined by 16 bps YoY while improving by 299 bps QoQ. EBIT margin improved by 19 bps YoY/ 272 bps QoQ. On a consolidated basis, the Cigarette business EBIT margins improved by 22 bps YoY/ 82 bps QoQ to 60.7%. EBIT margin for the FMCG- others segment was at 6.6% (-20 bps YoY/ +198 bps QoQ) where the material cost inflation was mitigated by several initiatives such as strategic cost management, premiumisation, supply chain agility, judicious pricing actions, fiscal incentives and digital. The Hotels business EBIT margin was at 15.5% in Q2FY23 vs. -15.9% in Q2FY22, supported by higher RevPAR, operating leverage and cost rationalization initiatives. Agri segment saw EBIT margin movement of -175 bps YoY/ +503 bps QoQ. The Paperboards, paper and packaging business continued to witness strong EBIT margin of 27.5% (+518 bps YoY/ +49 bps QoQ), driven by investments in VAP capacity, pulp import substitution, cost-competitive fibre chain, decarbonisation of operations, data analytics and Industry 4.0.

## MARKET INFO

SENSEX	59,544
NIFTY	17,656

## SHARE HOLDING PATTERN (%)

Particulars	Sep-22	Jun-22	Mar-22
Promoters	0.0	0.0	0.0
FIIIs	13.5	12.7	11.9
DIIIs	43.8	42.8	42.9
Others	42.7	44.5	45.2
Total	100.0	100	100

# 10.3%

 Revenue CAGR between  
FY22 and FY24E

# 12.9%

 PAT CAGR between FY22 and  
FY24E

## ANALYST

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## KRChoksey Research

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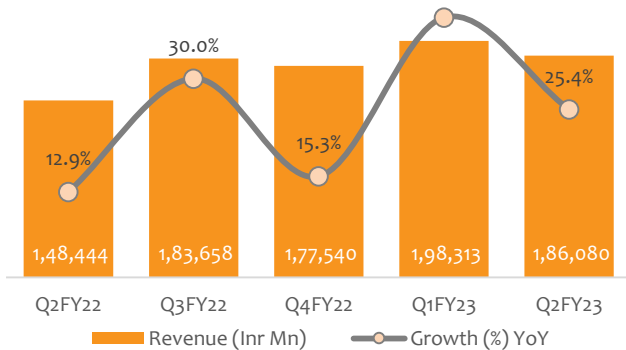
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## Press Release Key Takeaways:

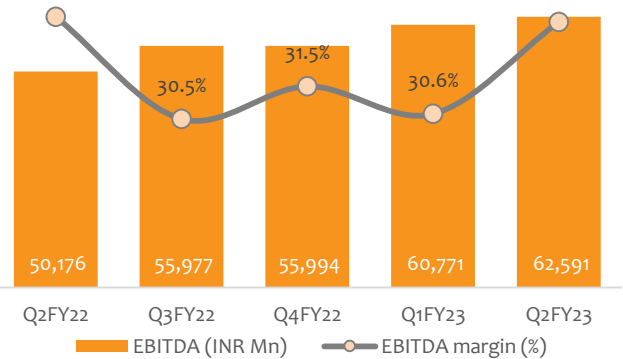
(1) In the FMCG- Others segment, Staples & Convenience Foods recorded robust growth while Discretionary/Out of Home categories also continued to grow strongly. The hygiene segment was subdued but remained well above pre-pandemic levels. (2) FMCG- Others growth was across urban and rural markets, driven by a ramp-up in outlet coverage, enhanced penetration and last-mile execution. (3) The market and outlet coverage was at about 2.0x and 1.3x of pre-pandemic levels, respectively. (4) e-commerce and modern trade channels are scaling up. (5) Under Branded Packaged Foods, Aashirvaad’s value-added atta range witnessed robust growth. Bingo snacks, Yippee noodles, Sunfeast biscuits and cakes, and dairy and beverages also recorded robust growth. (6) Notebook sales continued to witness strong traction in the premium portfolio. (7) Under the Cigarette segment, ITC continued to launch several differentiated variants to further strengthen the portfolio. Recent launches continue to gain traction. (8) The Hotels segment witnessed strong performance driven by Retail (packages), Leisure, Weddings and MICE segments, while domestic business travel continued to normalize gradually. (9) EBITDA margin for the Hotels segment improved to 29.0% in Q2FY23 vs. 20.4% in the pre-covid quarter of Q2FY20. (10) The 291-key hotel in Ahmedabad, ITC Narmada, was launched in August 2022. 2 new properties, 1 each in Goa and Dharamshala were added to the portfolio under ‘Storii’ by ITC Hotels. (11) ITC has a pipeline of management contracts under its brands viz. Welcomhotel, Mementos, Storii and Fortune. (12) Paperboards, Paper & Packaging Segment growth was growth driven by strong demand across end-user segments and exports. Value Added Paperboard (VAP) sales grew at a rapid pace aided by higher realisations and strong exports. (13) The sustainable products portfolio witnessed robust growth across applications, at about 2.5x of last year’s levels. (14) Packaging & Printing facility at Nadiad, Gujarat commenced operations during Q2FY23. (15) The value-added spices manufacturing facility at Guntur is expected to be commissioned shortly. The facility to manufacture and export Nicotine & Nicotine derivative products will be commissioned by end of FY23E.

**Valuation and view:** ITC is seeing broad-based growth across segments, markets, and channels. Expected pick-up in consumption in the coming quarters led by softening inflation, normal monsoons and proactive measures taken by the Government and RBI augurs well for ITC. We continue to like ITC for its competitive advantage in terms of sourcing, market share gains from illicit trade in the cigarettes business, increasing penetration of the FMCG business, innovative launches in FMCG and packaging businesses, and revival of the hotels business. **We value ITC shares using the SOTP approach applying 12.6x EV/EBITDA (unchanged) on the FY24E EBITDA of Cigarette business; 21.0x EV/EBITDA (previously 18.9x) on the FY24E EBITDA of Hotels business; 8.6x EV/EBITDA (unchanged) on FY24E EBITDA of Agri business; 6.0x EV/EBITDA (unchanged) on FY24E EBITDA of Paper business and 8.8x EV/Revenue (previously 8.0x) on FY24E Revenue of FMCG business – we increase our target price to INR 400 per share (previously INR 369); an upside of 15.5% over the CMP. Accordingly, we maintain our “BUY” rating on ITC Ltd shares.**

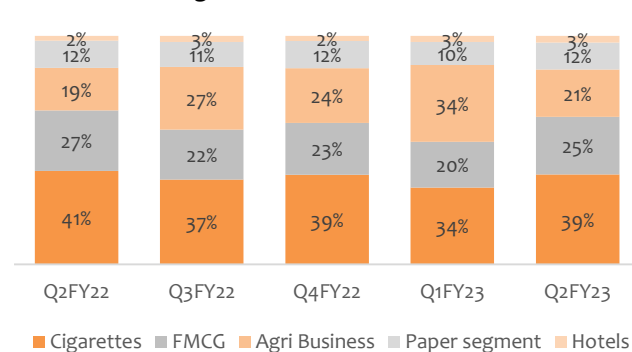
**Strong double digit YoY revenue growth across all segments**



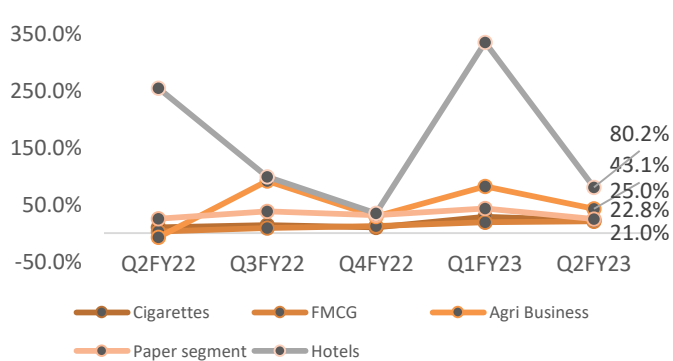
**Sequential improvement in EBITDA Margin**



**Segment Revenue Mix (%) Agri contribution normalizes**



**Segment wise Revenue growth YoY (%)**



Source: Company, KRChoksey Research

**ANALYST**

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## KEY FINANCIALS

Particulars (INR Mn)	Q2FY23	Q1FY23	Q2FY22	Q-o-Q	Y-o-Y	H1FY23	H1FY22	YoY
<b>Total Operating Revenue</b>	<b>1,86,080</b>	<b>1,98,313</b>	<b>1,48,444</b>	<b>-6.2%</b>	<b>25.4%</b>	<b>3,84,393</b>	<b>2,90,851</b>	<b>32.2%</b>
<b>Total Expenditure</b>	<b>1,23,489</b>	<b>1,37,541</b>	<b>98,268</b>	<b>-10.2%</b>	<b>25.7%</b>	<b>2,61,030</b>	<b>1,96,238</b>	<b>33.0%</b>
Cost of Raw Materials	51,979	48,399	40,298	7.4%	29.0%	1,00,379	79,232	26.7%
Purchase of Stock	9,884	48,981	19,064	-79.8%	-48.2%	58,865	42,307	39.1%
Changes in Inventories	6,018	-11,865	-4,636	-150.7%	-229.8%	-5,847	-8,745	-33.1%
Excise Duty	15,000	13,418	10,872	11.8%	38.0%	28,418	20,807	36.6%
Employee Cost	14,760	13,707	12,187	7.7%	21.1%	28,467	23,904	19.1%
Other Expenses	25,847	24,901	20,483	3.8%	26.2%	50,748	38,732	31.0%
<b>EBITDA</b>	<b>62,591</b>	<b>60,771</b>	<b>50,176</b>	<b>3.0%</b>	<b>24.7%</b>	<b>1,23,362</b>	<b>94,613</b>	<b>30.4%</b>
<b>EBITDA Margins (%)</b>	<b>33.6%</b>	<b>30.6%</b>	<b>33.8%</b>	<b>299 bps</b>	<b>-16 bps</b>	<b>32.1%</b>	<b>32.5%</b>	<b>-44 bps</b>
Depreciation	4,624	4,381	4,217	5.5%	9.6%	9,005	8,359	7.7%
<b>EBIT</b>	<b>57,967</b>	<b>56,390</b>	<b>45,959</b>	<b>2.8%</b>	<b>26.1%</b>	<b>1,14,357</b>	<b>86,255</b>	<b>32.6%</b>
Interest Expense	126	93	98	36.1%	29.1%	218	191	14.4%
Other Income	4,547	3,207	4,688	41.8%	-3.0%	7,754	9,158	-15.3%
<b>PBT</b>	<b>62,388</b>	<b>59,505</b>	<b>50,549</b>	<b>4.8%</b>	<b>23.4%</b>	<b>1,21,893</b>	<b>95,222</b>	<b>28.0%</b>
Exceptional Items	0	0	0	NA	NA	0	0	NA
Tax	15,685	14,882	12,912	5.4%	21.5%	30,567	24,150	26.6%
Share of Profit & MI	-506	-725	-500	-30.3%	1.2%	-1,230	-1,169	5.2%
<b>PAT</b>	<b>46,198</b>	<b>43,898</b>	<b>37,138</b>	<b>5.2%</b>	<b>24.4%</b>	<b>90,095</b>	<b>69,902</b>	<b>28.9%</b>
<b>PAT Margin</b>	<b>24.8%</b>	<b>22.1%</b>	<b>25.0%</b>	<b>269 bps</b>	<b>-19 bps</b>	<b>23.4%</b>	<b>24.0%</b>	<b>-60 bps</b>
<b>EPS</b>	<b>3.7</b>	<b>3.6</b>	<b>3.0</b>	<b>4.8%</b>	<b>23.5%</b>	<b>7.3</b>	<b>5.7</b>	<b>28.2%</b>

Income Statement INR Mn	FY20	FY21	FY22	FY23E	FY24E
<b>Revenues</b>	<b>5,13,935</b>	<b>5,31,551</b>	<b>6,52,050</b>	<b>7,65,333</b>	<b>7,93,066</b>
COGS	1,93,349	2,40,138	3,09,219	3,59,714	3,68,572
<b>Gross profit</b>	<b>3,20,586</b>	<b>2,91,413</b>	<b>3,42,830</b>	<b>4,05,619</b>	<b>4,24,494</b>
Employee cost	42,958	44,633	48,906	57,418	58,678
Other expenses	85,026	76,753	87,341	1,01,032	99,133
<b>EBITDA</b>	<b>1,92,602</b>	<b>1,70,027</b>	<b>2,06,584</b>	<b>2,47,168</b>	<b>2,66,682</b>
<b>EBITDA Margin</b>	<b>37.5%</b>	<b>32.0%</b>	<b>31.7%</b>	<b>32.3%</b>	<b>33.6%</b>
Depreciation & amortization	16,449	16,456	17,324	18,975	20,879
<b>EBIT</b>	<b>1,76,153</b>	<b>1,53,571</b>	<b>1,89,260</b>	<b>2,28,193</b>	<b>2,45,804</b>
Interest expense	547	446	394	433	476
Exceptional items	-1,321	0	0	0	0
Other income	25,979	26,326	18,364	17,465	17,465
<b>PBT</b>	<b>2,00,264</b>	<b>1,79,451</b>	<b>2,07,230</b>	<b>2,45,225</b>	<b>2,62,793</b>
Tax	44,418	45,553	52,373	61,647	66,224
Minority interest	2,866	2,217	2,605	2,646	2,759
<b>PAT</b>	<b>1,53,062</b>	<b>1,31,612</b>	<b>1,52,427</b>	<b>1,81,381</b>	<b>1,94,277</b>
<b>Adj. PAT</b>	<b>1,57,249</b>	<b>1,31,612</b>	<b>1,52,427</b>	<b>1,81,381</b>	<b>1,94,277</b>
<b>EPS (INR)</b>	<b>12.5</b>	<b>10.7</b>	<b>12.4</b>	<b>14.6</b>	<b>15.7</b>
<b>Adj. EPS</b>	<b>12.8</b>	<b>10.7</b>	<b>12.4</b>	<b>14.6</b>	<b>15.7</b>

Cash Flow Statement INR Crores	FY20	FY21	FY22	FY23E	FY24E
Net Cash Generated From Operations	1,46,897	1,25,270	1,57,755	1,62,080	2,13,670
Net Cash Flow from/(used in) Investing Activities	(61,740)	56,829	(22,385)	(26,787)	(31,723)
Net Cash Flow from Financing Activities	(81,815)	(1,86,338)	(1,35,805)	(1,32,408)	(1,74,850)
Net Inc/Dec in cash equivalents	3,341	(4,239)	(435)	2,885	7,098
Opening Balance	3,429	6,770	3,102	2,667	5,552
Closing Balance Cash and Cash Equivalents	6,770	2,531	2,667	5,552	12,650

Source: Company, KRChoksey Research

# ITC Ltd

Balance Sheet INR Mn	FY20	FY21	FY22	FY23E	FY24E
<b>Non-current assets</b>					
Property, plant and equipment	1,96,329	1,91,539	2,02,074	2,09,886	2,20,729
Capital work-in-progress	32,516	40,045	31,985	31,985	31,985
Intangible assets	5,254	20,111	20,131	20,131	20,131
Intangible assets under development	49	68	271	271	271
Right to use assets	9,672	9,772	8,671	8,671	8,671
Investment property	3,854	3,766	3,642	3,642	3,642
Investments	1,07,150	1,00,245	1,25,767	1,25,767	1,25,767
Loans	53	41	66	66	66
Other financial assets	6,157	1,019	15,896	15,896	15,896
Deferred tax assets (Net)	563	585	635	635	635
Non-current tax assets (Net)	384	330	423	423	423
Other non-current assets	14,612	12,955	12,912	12,912	12,912
<b>Total non-current assets</b>	<b>3,78,617</b>	<b>3,88,273</b>	<b>4,30,271</b>	<b>4,38,082</b>	<b>4,48,926</b>
<b>Current assets</b>					
Inventories	88,793	1,03,972	1,08,642	1,31,074	1,34,302
Investments	1,80,345	1,49,564	1,23,737	1,23,737	1,23,737
Trade receivables	25,625	25,017	24,619	31,452	32,592
Cash and cash equivalents	6,504	2,904	2,714	5,552	12,650
Other Balances with Banks	66,270	43,686	43,831	43,828	43,834
Loans	63	35	68	68	68
Other financial assets	18,185	13,790	25,654	25,654	25,654
Assets classified as Held for Sale	0	0	0	0	0
Other current assets	9,268	10,952	13,061	13,061	13,061
<b>Total current assets</b>	<b>3,95,054</b>	<b>3,49,920</b>	<b>3,42,325</b>	<b>3,74,428</b>	<b>3,85,894</b>
<b>TOTAL ASSETS</b>	<b>7,73,670</b>	<b>7,38,193</b>	<b>7,72,596</b>	<b>8,12,510</b>	<b>8,34,820</b>
<b>EQUITY AND LIABILITIES</b>					
<b>Equity</b>					
Equity share capital	12,292	12,309	12,323	12,323	12,323
Other equity	6,40,440	5,91,165	6,12,232	6,63,851	6,86,037
Equity attributable to the equity shareholders	6,52,733	6,03,473	6,24,556	6,76,175	6,98,361
Non-controlling interests	3,775	3,468	3,663	3,663	3,663
<b>Total equity</b>	<b>6,56,507</b>	<b>6,06,942</b>	<b>6,28,219</b>	<b>6,79,838</b>	<b>7,02,024</b>
<b>LIABILITIES</b>					
<b>Non-current liabilities</b>					
Borrowings	59	56	49	49	49
Lease liabilities	2,040	2,070	1,937	1,937	1,937
Other financial liabilities	1,279	2,835	1,445	1,445	1,445
Provisions	1,754	1,875	2,211	2,211	2,211
Non current tax liabilities	16,272	17,364	16,735	16,735	16,735
Other non-current liabilities	162	155	364	364	364
<b>Total non-current liabilities</b>	<b>21,565</b>	<b>24,355</b>	<b>22,740</b>	<b>22,740</b>	<b>22,740</b>
<b>Current liabilities</b>					
Borrowings	14	39	7	7	7
Trade payables	36,298	43,187	44,173	32,468	32,592
Other financial liabilities	13,949	14,919	18,129	18,129	18,129
Other current liabilities	40,727	42,944	51,160	51,160	51,160
Provisions	1,482	1,940	796	796	796
Current tax liabilities (Net)	2,489	3,328	6,871	6,871	6,871
<b>Total current liabilities</b>	<b>95,598</b>	<b>1,06,897</b>	<b>1,21,637</b>	<b>1,09,933</b>	<b>1,10,056</b>
<b>Total liabilities</b>	<b>1,17,163</b>	<b>1,31,252</b>	<b>1,44,377</b>	<b>1,32,673</b>	<b>1,32,796</b>
<b>TOTAL EQUITY AND LIABILITIES</b>	<b>7,73,670</b>	<b>7,38,193</b>	<b>7,72,596</b>	<b>8,12,510</b>	<b>8,34,820</b>
<b>Key Ratio</b>	<b>FY20</b>	<b>FY21</b>	<b>FY22</b>	<b>FY23E</b>	<b>FY24E</b>
EBITDA Margin (%)	37.5%	32.0%	31.7%	32.3%	33.6%
Tax rate (%)	22.2%	25.4%	25.3%	25.1%	25.2%
Net Profit Margin (%)	29.8%	24.8%	23.4%	23.7%	24.5%
RoE (%)	23.3%	21.7%	24.3%	26.7%	27.7%
RoCE (%)	26.8%	25.3%	30.1%	33.6%	35.0%
EPS (INR)	12.5	10.7	12.4	14.6	15.7
PE	27.8x	32.3x	27.9x	23.6x	22.1x

Source: Company, KRChoksey Research

**ANALYST**

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**KRChoksey Research**

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[www.krchoksey.com](http://www.krchoksey.com)

# ITC Ltd

ITC Ltd.				Rating Legend (Expected over a 12-month period)	
Date	CMP (INR)	TP (INR)	Recommendation	Our Rating	Upside
27-10-22	346	400	BUY	<b>Buy</b>	More than 15%
02-08-22	309	369	BUY		
20-05-22	276	325	BUY	<b>Accumulate</b>	5% – 15%
08-02-22	230	310	BUY		
01-11-21	223	310	BUY	<b>Hold</b>	0 – 5%
28-07-21	209	228	ACCUMULATE		
30-06-21	203	228	ACCUMULATE	<b>Reduce</b>	-5% – 0
02-06-21	206	228	ACCUMULATE		
17-03-21	208	228	ACCUMULATE	<b>Sell</b>	Less than – 5%
15-12-20	216	228	ACCUMULATE		

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