

July 27, 2023

Company Update

■ Change in Estimates | Target | ■ Reco

Change in Estimates

	Current		Previous	
	FY24E	FY25E	FY24E	FY25E
Rating	ACCUMULATE		ACCUMULATE	
Target Price	478		455	
Sales (Rs. m)	7,25,509	7,93,354	7,25,509	7,93,354
% Chng.	-	-	-	-
EBITDA (Rs. m)	2,65,073	2,92,833	2,65,073	2,92,833
% Chng.	-	-	-	-
EPS (Rs.)	16.8	18.4	16.8	18.4
% Chng.	-	-	-	-

Key Financials - Standalone

Y/e Mar	FY22	FY23	FY24E	FY25E
Sales (Rs. bn)	563	660	726	793
EBITDA (Rs. bn)	189	239	265	293
Margin (%)	33.6	36.3	36.5	36.9
PAT (Rs. bn)	151	187	209	229
EPS (Rs.)	12.2	15.0	16.8	18.4
Gr. (%)	15.4	23.0	11.8	9.4
DPS (Rs.)	11.1	15.5	13.5	15.0
Yield (%)	2.4	3.3	2.9	3.2
RoE (%)	25.0	29.0	30.5	31.6
RoCE (%)	28.7	34.5	36.1	37.8
EV/Sales (x)	9.9	8.4	7.7	7.0
EV/EBITDA (x)	29.5	23.3	21.1	19.0
PE (x)	38.1	30.9	27.7	25.3
P/BV (x)	9.3	8.6	8.3	7.7

Key Data

	ITC.BO ITC IN
52-W High / Low	Rs.500 / Rs.299
Sensex / Nifty	66,267 / 19,660
Market Cap	Rs.5,794bn/ \$ 70,707m
Shares Outstanding	12,458m
3M Avg. Daily Value	Rs.5360.88m

Shareholding Pattern (%)

Promoter's	-
Foreign	12.87
Domestic Institution	42.08
Public & Others	45.05
Promoter Pledge (Rs bn)	-

Stock Performance (%)

	1M	6M	12M
Absolute	4.5	35.2	53.9
Relative	-	21.1	29.6

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Hotel demerger to increase ROCE by 19ppt

Quick Pointers:

- ROCE to improve 19ppts post demerger of hotel business.
- Hotel outlook remains strong over near to medium term.

We believe demerger of Hotel business is positive for unlocking shareholder value as 1) it solves capital allocation issue (given hotels business has seen capex of Rs75bn since it was merged into this entity) 2) de-merger will increase ROCE by 19ppt, as Hotels business has ROCE of just ~9.7% with 2.3% contribution to EBIT and 3) lower room additions in the past and low penetration makes outlook positive for medium term. Near to medium term outlook for hotel industry looks favourable with G20, revival in business & foreign tourist travel. Moreover, the new entity will continue to follow an asset light strategy for the business, while ITC will hold 40% stake and is open to further partnerships in the separated entity for long term. We believe strong growth momentum in cigarette business and steady margin expansion in FMCG are positives. ITC trades at 25.3x FY25 EPS with ROE/ROCE of 30%+/35%+ and ~80%+ dividend payout. We increase our SOTP based target price to Rs478 (Rs455 earlier, cigarette multiples increased to 22x). Retain 'Accumulate'.

Key takeaways

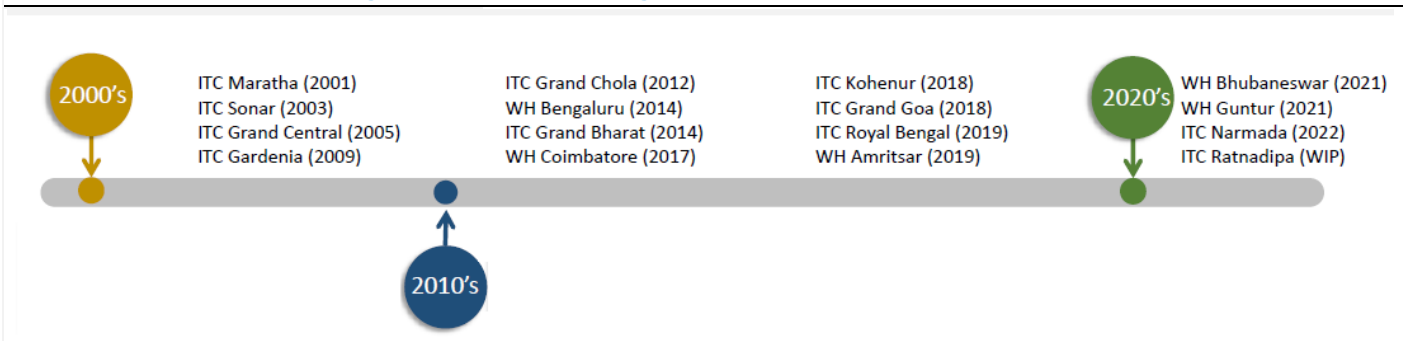
- ITC's plans for demerger had been delayed due to COVID pandemic. Time is now right, as tourism industry is doing well with overall positive outlook.
- Transaction is expected to be tax neutral, as it satisfies all necessary conditions required. Stamp duty costs would be required for properties in respective states. ITC will work with respective states & local authorities.
- ITC wants the new entity to have an undiluted focus and grow in a faster fashion. The new entity will continue to share synergies with ITC and vice versa. Accordingly, the hotel will be gaining from corporate brand, goodwill, systems & processes and talent while ITC will gain cuisine knowledge for FMCG division in packaged foods & food tech business (being incubated in Bangalore).
- Hotels division accounts for 20% of capital employed. Assets & liabilities will be transferred to the new entity & be accounted for as an associate company. ITC expects 10/18-20ppts improvement in ROIC (post tax)/ROCE.
- New entity is expected to have Rs60bn of net assets with zero debt. The company will leverage its balance sheet to raise capital over & above cash flows it generates.
- The new entity will be able to attract investors given its strong hotel assets, market standing, service excellence and cuisine expertise.
- ITC and the new entity would have a royalty arrangement in place for usage of brand name etc. which would be based on industry benchmarks. ITC will consult advisors for the same, but does not expect a high royalty rate.

Exhibit 1: Properties across budgets & occasions



Source: Company, PL

Exhibit 2: ITC Hotels had undergone an investment led growth phase between FY03-17



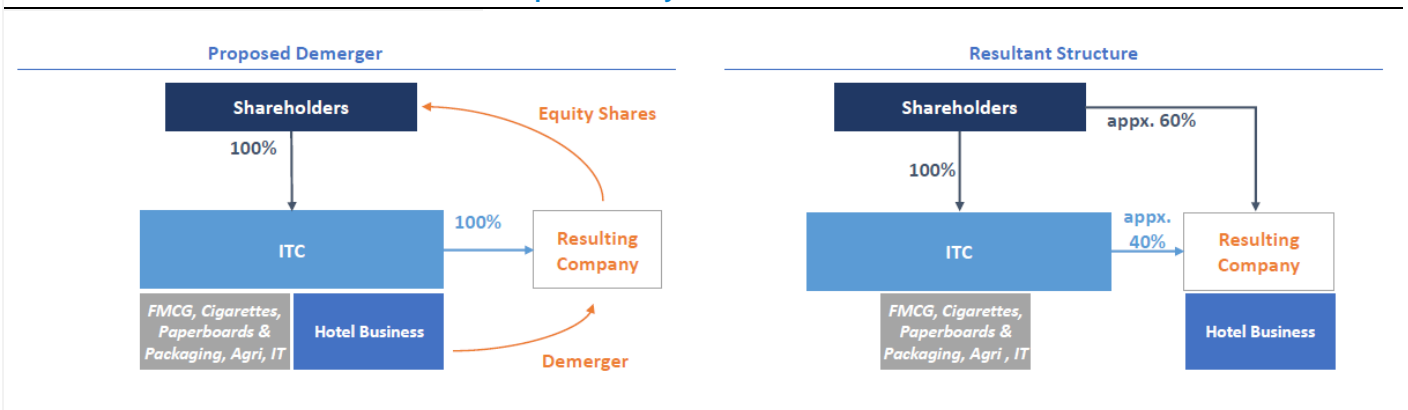
Source: Company, PL

Exhibit 3: Pivoted to an asset right model post FY18

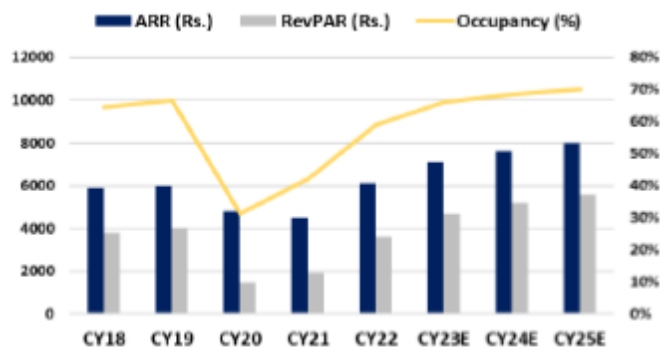
Asset right	Continued investment to enhance brand equity	Capital productivity
Bouquet of brands catering to relevant need spaces	Responsible Luxury	Sweating existing assets
18 Hotels opened in last 16 Months	Signature cuisines	Augment new revenue streams
Strong pipeline	Indigenous Experiences	Extreme Cost and Margin focus
	World Class Loyalty Programs – Marriott Bonvoy & Club ITC	

Source: Company, PL

Exhibit 4: ITC to carve out Hotel division as separate entity – ITC Hotels



Source: PL, Company

Exhibit 5: Strong recovery by hotel industry post COVID


Source: HVS Anarock

Source: Company, PL

Exhibit 6: Supported by low room supply penetration

Region	Room Supply (mn)	Population (mn)	Penetration (Rooms/'000)
India	0.15	1418	0.11
USA	5.40	338	15.96
China	4.00	1426	2.81
World	17.00	7836	2.17

Source: US Census Bureau, STR

Next 5 yr. Supply CAGR 5%
Vs. Demand CAGR >7%

Source: Company, PL

Exhibit 7: Hotel business - Rs75 bn capex since merger in 2003

(Rs mn)	FY03	FY08	FY13	FY18	FY23
Net Sales	1,710	10,121	10,742	14,175	25,850
EBIDTA	317	4,843	2,403	3,124	8,316
EBIDTA Margin	18.5%	47.8%	22.4%	22.0%	32.2%
Capex (5 year total)		6,901	22,235	25,406	20,445
Rooms	4,472				11,600+

Source: Company, PL

Exhibit 8: Ex Hotels – ITC ROCE improves by ~19ppts in FY22/23

(Rs mn)	Current		ex Hotels		bps change	
	FY22	FY23	FY22	FY23		
PBIT	183,404	234,649	185,234	229,230		
Hotels	(1,831)	5,419	NA	NA		
<i>% Of Total</i>	<i>1.0%</i>	<i>2.3%</i>				
Capital Employed	269,563	277,729	212,538	221,989		
Hotels	57,025	55,740	NA	NA		
<i>% Of Total</i>	<i>21.2%</i>	<i>20.1%</i>				
ROCE	68.0%	84.5%	87.2%	103.3%	1,912	1,877
Hotels	-3.2%	9.7%	NA	NA		

Source: Company, PL

Exhibit 9: Cigarettes, FMCG and Hotels to drive growth over FY23-25

	FY20	FY21	FY22	FY23	FY24E	FY25E
Net Sales (Rs m)						
Cigarettes	201,439	182,663	2,09,598	2,39,988	285,091	305,332
FMCG	128,137	147,086	1,59,648	1,91,225	217,856	247,336
Hotel	18,234	6,236	12,793	25,850	28,804	31,573
Agri	102,407	125,822	1,61,961	1,81,723	182,662	201,830
Paper and Paperboard	61,072	56,186	76,416	90,814	92,435	98,558
Sales Growth (%)						
Cigarettes	1.2	(9.3)	14.7	19.7	10.5	7.1
FMCG	2.6	14.8	8.5	19.6	14.2	13.5
Hotel	10.6	(65.8)	105.2	101.2	11.9	9.6
Agri	9.0	22.9	28.7	12.2	0.5	10.5
Paper and Paperboard	4.2	(8.0)	36.0	18.8	1.8	6.6
EBIT (Rs m)						
Cigarettes	148,526	127,204	1,48,691	1,79,271	203,713	222,193
FMCG	4,231	8,327	9,232	13,742	16,339	19,787
Hotel	1,578	-5,349	-1,831	5,419	7,201	8,525
Agri	7,889	8,207	10,312	13,277	13,700	15,137
Paper and Paperboard	13,053	10,987	17,000	22,940	21,260	22,176
EBIT Margin (%)						
Cigarettes	73.7	62.6	63.4	74.7	64.5	65.5
FMCG	3.3	5.7	5.8	7.2	7.5	8.0
Hotel	8.7	-85.8	-14.3	21.0	25.0	27.0
Agri	7.7	6.5	6.4	7.3	7.5	7.5
Paper and Paperboard	21.4	19.6	22.2	25.3	23.0	22.5
EBIT Growth (%)						
Cigarettes	2.1	-14.4	16.9	20.6	13.6	9.1
FMCG	9.5	96.8	10.9	48.8	18.9	21.1
Hotel	-11.2	-439.1	-65.8	NA	32.9	18.4
Agri	1.6	4.0	25.6	28.8	3.2	10.5
Paper and Paperboard	5.3	-15.8	54.7	34.9	-7.3	4.3

Source: Company, PL

Exhibit 10: SOTP on Mar25 - cigarette accounts for 62% of value

SOTP	Basis	X	EV	PAT (Rs mn)	% of PAT	EPS	Value/Share
Cigarettes	P/E	22		167312	89.7	13.4	296
FMCG - Others	EV/Sales	4.5	1108487	14839	8.0	1.2	89
Hotels	EV/EBIDTA	25	2,89,775	6243	3.3	0.5	23
Agri business	P/E	15		11379	6.1	0.9	14
Paper and packaging	P/E	12		17700	9.5	1.4	17
ITC Infotech	P/E	20		5941		0.5	10
Business Value						17.5	448
Cash and Invst			378901				30
Total Value/share							478

Source: Company, PL

Financials

Income Statement (Rs m)

Y/e Mar	FY22	FY23	FY24E	FY25E
Net Revenues	5,63,413	6,60,433	7,25,509	7,93,354
YoY gr. (%)	23.9	17.2	9.9	9.4
Cost of Goods Sold	2,62,325	2,88,802	3,16,652	3,46,870
Gross Profit	3,01,087	3,71,631	4,08,856	4,46,484
Margin (%)	53.4	56.3	56.4	56.3
Employee Cost	30,620	35,695	39,528	43,219
Other Expenses	40,728	48,183	51,440	54,642
EBITDA	1,89,337	2,39,445	2,65,073	2,92,833
YoY gr. (%)	22.0	26.5	10.7	10.5
Margin (%)	33.6	36.3	36.5	36.9
Depreciation and Amortization	16,523	16,627	17,675	19,058
EBIT	1,72,814	2,22,817	2,47,398	2,73,776
Margin (%)	30.7	33.7	34.1	34.5
Net Interest	420	418	471	471
Other Income	25,900	24,376	30,754	30,809
Profit Before Tax	1,98,294	2,46,775	2,77,682	3,04,114
Margin (%)	35.2	37.4	38.3	38.3
Total Tax	47,717	59,971	68,588	75,116
Effective tax rate (%)	24.1	24.3	24.7	24.7
Profit after tax	1,50,577	1,86,804	2,09,095	2,28,998
Minority interest	-	-	-	-
Share Profit from Associate	-	-	-	-
Adjusted PAT	1,50,577	1,86,804	2,09,095	2,28,998
YoY gr. (%)	15.5	24.1	11.9	9.5
Margin (%)	26.7	28.3	28.8	28.9
Extra Ord. Income / (Exp)	-	729	-	-
Reported PAT	1,50,577	1,87,533	2,09,095	2,28,998
YoY gr. (%)	15.5	24.5	11.5	9.5
Margin (%)	26.7	28.4	28.8	28.9
Other Comprehensive Income	-	293	-	-
Total Comprehensive Income	1,50,577	1,87,826	2,09,095	2,28,998
Equity Shares O/s (m)	12,323	12,428	12,442	12,456
EPS (Rs)	12.2	15.0	16.8	18.4

Source: Company Data, PL Research

Balance Sheet Abstract (Rs m)

Y/e Mar	FY22	FY23	FY24E	FY25E
Non-Current Assets				
Gross Block	3,04,561	3,29,004	3,59,204	3,89,404
Tangibles	2,82,197	3,06,110	3,36,110	3,66,110
Intangibles	22,363	22,894	23,094	23,294
Acc: Dep / Amortization	85,016	1,00,043	1,16,510	1,34,422
Tangibles	82,725	97,522	1,13,575	1,31,067
Intangibles	2,291	2,520	2,936	3,355
Net fixed assets	2,19,544	2,28,962	2,42,694	2,54,982
Tangibles	1,99,472	2,08,588	2,22,535	2,35,043
Intangibles	20,072	20,374	20,159	19,939
Capital Work In Progress	24,423	16,815	25,000	25,000
Goodwill	5,772	5,772	5,772	5,772
Non-Current Investments	1,56,624	1,63,676	1,69,424	1,82,036
Net Deferred tax assets	(16,671)	(16,211)	(15,401)	(14,631)
Other Non-Current Assets	35,142	55,359	58,881	59,635
Current Assets				
Investments	1,16,250	1,63,571	1,65,885	1,96,909
Inventories	99,978	1,05,939	1,17,869	1,28,883
Trade receivables	19,525	23,213	25,538	27,925
Cash & Bank Balance	38,779	38,313	28,143	26,544
Other Current Assets	11,952	13,881	15,236	16,660
Total Assets	7,50,925	8,22,618	8,62,622	9,33,746
Equity				
Equity Share Capital	12,323	12,428	12,442	12,456
Other Equity	6,01,672	6,63,510	6,83,413	7,41,649
Total Network	6,13,996	6,75,938	6,95,856	7,54,105
Non-Current Liabilities				
Long Term borrowings	45	33	-	-
Provisions	1,869	2,018	2,442	2,670
Other non current liabilities	-	-	-	-
Current Liabilities				
ST Debt / Current of LT Debt	0	0	0	0
Trade payables	42,234	43,513	51,129	55,702
Other current liabilities	72,547	80,644	93,665	1,02,415
Total Equity & Liabilities	7,50,925	8,22,618	8,62,622	9,33,747

Source: Company Data, PL Research

Cash Flow (Rs m)

Y/e Mar	FY22	FY23	FY24E	FY25E
PBT	1,98,294	2,46,416	2,77,682	3,04,114
Add. Depreciation	16,523	16,720	17,675	19,058
Add. Interest	420	471	471	471
Less Financial Other Income	25,900	24,376	30,754	30,809
Add. Other	(16,736)	(19,927)	(4,080)	(1,471)
Op. profit before WC changes	1,98,500	2,43,679	2,91,747	3,22,171
Net Changes-WC	21,462	(35,308)	21,263	(33,211)
Direct tax	(47,717)	(59,953)	(68,588)	(75,116)
Net cash from Op. activities	1,72,245	1,48,419	2,44,423	2,13,843
Capital expenditures	(18,318)	(18,529)	(39,592)	(31,346)
Interest / Dividend Income	-	-	-	-
Others	(27,199)	(7,062)	(5,747)	(12,610)
Net Cash from Inv. activities	(45,517)	(25,591)	(45,339)	(43,957)
Issue of share cap. / premium	5,692	11,652	3,457	(2,778)
Debt changes	(7)	(13)	(33)	-
Dividend paid	(1,32,320)	(1,36,172)	(1,92,634)	(1,67,970)
Interest paid	(420)	(471)	(471)	(471)
Others	14	266	266	248
Net cash from Fin. activities	(1,27,040)	(1,24,738)	(1,89,414)	(1,70,971)
Net change in cash	(312)	(1,910)	9,669	(1,084)
Free Cash Flow	1,53,927	1,29,890	2,04,830	1,82,497

Source: Company Data, PL Research

Key Financial Metrics

Y/e Mar	FY22	FY23	FY24E	FY25E
Per Share(Rs)				
EPS	12.2	15.0	16.8	18.4
CEPS	13.6	16.4	18.2	19.9
BVPS	49.8	54.4	55.9	60.5
FCF	12.5	10.5	16.5	14.7
DPS	11.1	15.5	13.5	15.0
Return Ratio(%)				
RoCE	28.7	34.5	36.1	37.8
ROIC	29.0	35.9	37.0	38.5
RoE	25.0	29.0	30.5	31.6
Balance Sheet				
Net Debt : Equity (x)	(0.3)	(0.3)	(0.3)	(0.3)
Net Working Capital (Days)	50	47	46	47
Valuation(x)				
PER	38.1	30.9	27.7	25.3
P/B	9.3	8.6	8.3	7.7
P/CEPS	13.6	16.4	18.2	19.9
EV/EBITDA	29.5	23.3	21.1	19.0
EV/Sales	9.9	8.4	7.7	7.0
Dividend Yield (%)	2.4	3.3	2.9	3.2

Source: Company Data, PL Research

Quarterly Financials (Rs m)

Y/e Mar	Q1FY23	Q2FY23	Q3FY23	Q4FY23
Net Revenue	1,72,897	1,61,299	1,62,257	1,63,980
YoY gr. (%)	41.5	26.7	2.3	5.6
Raw Material Expenses	84,768	69,380	66,712	67,941
Gross Profit	88,128	91,919	95,545	96,038
Margin (%)	51.0	57.0	58.9	58.6
EBITDA	56,475	58,643	62,232	62,094
YoY gr. (%)	41.5	27.1	22.0	18.9
Margin (%)	32.7	36.4	38.4	37.9
Depreciation / Depletion	4,115	4,220	4,072	4,219
EBIT	52,360	54,423	58,160	57,875
Margin (%)	30.3	33.7	35.8	35.3
Net Interest	91	107	102	118
Other Income	3,127	5,069	8,717	7,463
Profit before Tax	55,396	59,385	66,775	65,219
Margin (%)	32.0	36.8	41.2	39.8
Total Tax	13,702	14,725	16,465	15,079
Effective tax rate (%)	24.7	24.8	24.7	23.1
Profit after Tax	41,694	44,661	50,310	50,140
Minority interest	-	-	-	-
Share Profit from Associates	-	-	-	-
Adjusted PAT	41,694	44,661	50,310	50,140
YoY gr. (%)	38.4	20.8	21.0	19.6
Margin (%)	24.1	27.7	31.0	30.6
Extra Ord. Income / (Exp)	-	-	-	729
Reported PAT	41,694	44,661	50,310	50,869
YoY gr. (%)	38.4	20.8	21.0	21.4
Margin (%)	24.1	27.7	31.0	31.0
Other Comprehensive Income	(3,357)	5,301	(373)	(1,279)
Total Comprehensive Income	38,337	49,962	49,938	49,590
Avg. Shares O/s (m)	12,309	12,309	12,309	12,309
EPS (Rs)	3.4	3.6	4.1	4.1

Source: Company Data, PL Research

Price Chart
Recommendation History


No.	Date	Rating	TP (Rs.)	Share Price (Rs.)
1	06-Jul-23	Accumulate	455	474
2	18-May-23	Accumulate	455	420
3	11-Apr-23	Accumulate	444	389
4	03-Feb-23	Accumulate	438	381
5	06-Jan-23	Accumulate	365	335
6	20-Oct-22	Accumulate	365	350
7	04-Oct-22	Accumulate	340	324
8	01-Aug-22	Accumulate	327	308

Analyst Coverage Universe

Sr. No.	Company Name	Rating	TP (Rs)	Share Price (Rs)
1	Asian Paints	Hold	3,527	3,400
2	Avenue Supermarts	BUY	4,574	3,678
3	Britannia Industries	Hold	4,800	5,174
4	Colgate Palmolive	Hold	1,869	1,898
5	Dabur India	Accumulate	590	592
6	Emami	Accumulate	517	427
7	Hindustan Unilever	Hold	2,775	2,700
8	ITC	Accumulate	455	474
9	Jubilant FoodWorks	Hold	490	476
10	Kansai Nerolac Paints	Accumulate	328	320
11	Marico	Accumulate	550	528
12	Mold-tek Packaging	Hold	968	1,074
13	Nestle India	Accumulate	22,600	23,099
14	Pidilite Industries	Hold	2,664	2,649
15	Restaurant Brands Asia	Accumulate	146	112
16	Titan Company	Accumulate	3,242	3,088
17	Westlife Foodworld	Accumulate	800	864

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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