

Retail Equity Research

ITC Limited

Tobacco

BSE CODE: 500875

NSE CODE: ITC

Bloomberg CODE: ITC:IN

SENSEX: 51,704

BUY

12M Investment period

Rating as per Large Cap

CMP Rs. 218

TARGET Rs. 265

 RETURN 21% 

(Closing: 17-02-21)

KEY CHANGES:
TARGET 
RATING 
EARNINGS 

Sequential recovery in Q3

ITC limited is a diversified conglomerate with presence in FMCG, Hotels, Paperboards & Specialty Papers, Packaging, and Agri-business. The company directly employs over 36,500 people across businesses.

- Q3FY21 standalone revenue up 4.9% YoY (+5.0% QoQ) led by growth in FMCG and Agri businesses.
- EBITDA margins improved further sequentially to 34.3% (vs. 34.1% in Q2FY21). PAT grew 13.3% QoQ to Rs. 3,663cr.
- Company declared interim dividend of Rs.5/share during the quarter.
- We see decent uptick in growth across all of ITC's segments over the coming quarters. Though GoI's draft bill on sales of loose cigarettes may have some impact on its cigarette business in the near term, ITC's diversified portfolio is expected to deliver strong growth over the longer term. Hence, we reiterate our BUY rating on the stock with a rolled forward target price of Rs. 265 based on SOTP.

Topline recovers on back of strong volume performance

Q3FY21 standalone revenue grew 5.0% QoQ (+4.9% YoY) to Rs. 12,492cr, primarily due to recovery in the cigarette business, as the markets opened up and mobility got enhanced by progressive easing of lockdown restrictions. Resultantly, Cigarette business revenues improved 7.4% QoQ (+3.5% YoY) to Rs. 5,498cr. Meanwhile, the non-cigarette FMCG business revenue registered a slight decline sequentially, however was up vs. the prior year numbers coming in at Rs. 3,562cr (+7.5% YoY, -6.1% QoQ), with health & hygiene products acting as the growth catalyst and e-commerce channels now accounting for 5% of the segment revenue. Agri business improved significantly at 18.5% YoY driven by the wheat supplies. Paper & packaging business (+1.3% QoQ) largely remained flat in terms of volumes owing to fall in price realizations. While Hotel business revenues jumped 187.0% QoQ, even if it still remains far from pre-COVID levels, however continuous and meaningful recovery is seen in the months ahead.

Margin expands further on improved demand recovery

EBITDA continued to see improvements during the quarter growing 5.4% QoQ to Rs. 4,281cr. EBITDA margins expanded marginally to 34.3% (+20bps QoQ). Segment EBITDA for the FMCG business went up 28% YoY, with margins expanding to 9.2%. On the other hand, company's Hotels business also turned EBITDA-positive in Q3FY21. As a result, reported PAT went up 13.3% QoQ to Rs. 3,663cr (-11.6% YoY). Board declared an interim dividend of Rs.5 per share to be paid on March 10, 2021.

Proposed ban on loose cigarette sales could impact FMCG business

The draft policy introduced by the GoI proposes to ban sale of loose cigarettes, as well as a ban on public smoking and increasing the minimum smoking age to 21 years. As ~70-80% of ITC's profits are derived from its Cigarettes business, this proposal may have a potential impact on the company's performance in the near-term, if implemented. On the other hand, the Non-Cigarette FMCG business is expected to continue a strong foothold on the back of its portfolio of brands such as Savlon, Sunfeast, and Aashirwad, and should help offset some of the impact.

Valuation

ITC's core FMCG business remains bright with strong portfolio of trusted brands. Agri and Paper businesses are also expected to improve as the economic activity increases at the level of customers. Despite concerns regarding the impact of ban on loose cigarettes, ITC's long term growth story remains intact. We reiterate our BUY rating on the stock with rolled forward target price of Rs. 265 based on our SOTP valuation.

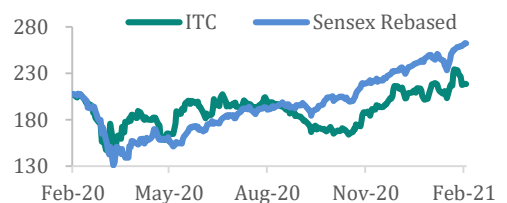
Company Data

Market Cap (cr)	Rs. 268,559
Enterprise Value (cr)	Rs. 268,222
Outstanding Shares (cr)	1,230.5
Free Float	70.0%
Dividend Yield	4.6%
52 week high	Rs. 239
52 week low	Rs. 135
6m average volume (lacs)	18.5
Beta	0.6
Face value	Rs. 1

Shareholding %	Q1FY21	Q2FY21	Q3FY21
Promoters	0.0	0.0	0.0
FII's	14.6	13.0	13.3
MFs/Insti	42.1	43.5	42.9
Public	10.7	12.0	12.2
Others	32.6	31.5	31.6
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	15.7%	11.1%	5.1%
Absolute Sensex	19.4%	37.6%	26.3%
Relative Return*	-3.7%	-26.5%	-21.2%

*over or under performance to benchmark index



Standalone (cr)	FY21E	FY22E	FY23E
Sales	45,607	51,562	56,348
Growth (%)	(1.5)	13.1	9.3
EBITDA	16,348	19,357	21,143
EBITDA Margin (%)	35.8	37.5	37.5
Adj. PAT	13,635	15,800	17,174
Growth (%)	(10.7)	15.9	8.7
Adj. EPS	11.1	12.8	14.0
Growth (%)	(10.8)	15.9	8.7
P/E	19.7	17.0	15.6
P/B	4.1	3.7	3.3
EV/EBITDA	16.4	13.9	12.6
ROE (%)	20.9	21.5	21.0
D/E	0.0	0.0	0.0

Quarterly Financials (Standalone)

Profit & Loss Account

	Q3FY21	Q3FY20	YoY Growth %	Q2FY21	QoQ Growth %	9MFY21	9MFY20	YoY Growth %
Revenue	12,492	11,912	4.9	11,892	5.0	33,819	35,024	(3.4)
EBITDA	4,281	4,613	(7.2)	4,061	5.4	10,989	13,741	(20.0)
EBITDA margins	34.3	38.7	(440bps)	34.1	20bps	32.5	39.2	(670bps)
Depreciation	391	416	(6.1)	383	2.2	1,172	1,171	0.1
EBIT	3,890	4,196	(7.3)	3,678	5.8	9,817	12,570	(21.9)
Interest	14	12	10.8	14	0.1	44	41	8.1
Other Income	971	984	(1.3)	610	59.2	2,478	2,258	9.7
Exceptional Items	-	(132)	n.m.	-	-	-	(132)	n.m.
PBT	4,848	5,036	(3.7)	4,274	13.4	12,250	14,655	(16.4)
Tax	1,185	894	32.6	1,042	13.7	3,012	3,316	(9.2)
Reported PAT	3,663	4,142	(11.6)	3,232	13.3	9,238	11,339	(18.5)
Adjustments	-	132	(100.0)	-	n.m.	-	132	(100.0)
Adj. PAT	3,663	4,274	(14.3)	3,232	13.3	9,238	11,471	(19.5)
No. of shares	1,230.5	1,229.1	0.1	1,230.5	0.0	1,230.5	1,229.1	0.1
Adj. EPS (Rs.)	3.0	3.5	(14.4)	2.6	13.3	7.5	9.3	(19.6)

Segment Revenue

	Q3FY21	Q3FY20	YoY Growth %	Q2FY21	QoQ Growth %	9MFY21	9MFY20	YoY Growth %
FMCG	9,060	8,623	5.1	8,916	1.6	25,205	25,732	(2.0)
- Cigarettes	5,498	5,311	3.5	5,121	7.4	14,474	16,071	(9.9)
- Others	3,562	3,312	7.5	3,795	(6.1)	10,731	9,661	11.1
Paperboards, Paper &	1,478	1,555	(5.0)	1,459	1.3	3,963	4,648	(14.8)
Agri Business	2,482	2,095	18.5	2,985	(16.9)	9,213	8,353	10.3
Hotels	235	552	(57.4)	82	187.0	340	1,372	(75.2)
Inter-segment	(763)	(914)	16.5	(1,550)	50.8	(4,901)	(5,082)	3.5
Total Revenue	12,492	11,912	4.9	11,892	5.0	33,819	35,024	(3.4)

Change in Estimates

Year / Rs. cr	Old estimates		New estimates			Change %	
	FY21E	FY22E	FY21E	FY22E	FY23E	FY21E	FY22E
Revenue	46,243	52,262	45,607	51,562	56,348	(1.4)	(1.3)
EBITDA	16,692	19,744	16,348	19,357	21,143	(2.1)	(2)
Margins (%)	36.1	37.8	35.8	37.5	37.5	(30bps)	(30bps)
Adj. PAT	13,900	16,034	13,635	15,800	17,174	(1.9)	(1.5)
Adj. EPS	11.3	13.0	11.1	12.8	14.0	(1.6)	(1.2)

Sum of the parts (SOTP) valuation

Particulars	Basis	Multiple	EBITDA/Sales (Rs. Cr)	Year	Value (Rs. Cr)	Value/share (Rs.)
Cigarettes	EV/EBITDA	12.5x	16,903	FY23E	211,285	172
FMCG - others	EV/Sales	5.0x	18,672	FY23E	93,362	76
Paperboards, Paper & Packaging	EV/EBITDA	10.5x	687	FY23E	7,215	6
Agri Business	EV/EBITDA	8.5x	1,108	FY23E	9,416	8
Hotels	EV/EBITDA	9.0x	472	FY23E	4,245	3
Enterprise Value					325,523	265
Net Debt					(142)	(0)
Equity Value					325,665	265



PROFIT & LOSS

Y.E March (Rs. cr)	FY19A	FY20A	FY21E	FY22E	FY23E
Revenue	45,221	46,324	45,607	51,562	56,348
% change	2.9	2.4	(1.5)	13.1	9.3
EBITDA	17,306	17,904	16,348	19,357	21,143
% change	11.4	3.5	(8.7)	18.4	9.2
Depreciation	1,312	1,563	1,604	1,639	1,691
EBIT	15,994	16,341	14,744	17,718	19,452
Interest	34	56	70	86	91
Other Income	2,485	2,882	3,074	2,935	2,994
PBT	18,444	19,167	17,748	20,567	22,355
% change	9.4	3.9	(7.4)	15.9	8.7
Tax	5,980	4,031	4,113	4,766	5,181
Tax Rate (%)	32.4	21.0	23.2	23.2	23.2
Reported PAT	12,464	15,136	13,635	15,800	17,174
Adj*	-	132	-	-	-
Adj PAT	12,464	15,268	13,635	15,800	17,174
% change	15.3	22.5	(10.7)	15.9	8.7
No. of shares (cr)	1230.1	1229.2	1230.5	1230.5	1230.5
Adj EPS (Rs.)	10.1	12.4	11.1	12.8	14.0
% change	14.8	22.6	(10.8)	15.9	8.7
DPS (Rs.)	5.8	10.2	6.2	7.2	7.8
CEPS (Rs.)	11.2	13.7	12.4	14.2	15.3

CASH FLOW

Y.E March (Rs. cr)	FY19A	FY20A	FY21E	FY22E	FY23E
Net inc. + Depn.	13,776	16,699	15,239	17,439	18,866
Non-cash adj.	(1,545)	(3,311)	(140)	(2,225)	(988)
Changes in W.C	(482)	418	46	(878)	(627)
C.F. Operation	11,749	13,806	15,145	14,336	17,251
Capital exp.	(2,759)	(2,114)	(2,107)	(2,382)	(2,604)
Change in inv.	(6,469)	(9,017)	(934)	(3,963)	(4,564)
Other invest.CF	4,146	5,614	364	(150)	(165)
C.F - Investment	(5,082)	(5,517)	(2,678)	(6,496)	(7,332)
Issue of equity	969	625	-	-	-
Issue/repay debt	(7)	(47)	(240)	-	-
Dividends paid	(6,285)	(7,049)	(12,477)	(7,635)	(8,848)
Other finance.CF	(1,278)	(1,420)	205	(86)	(91)
C.F - Finance	(6,601)	(7,891)	(12,512)	(7,722)	(8,939)
Chg. in cash	67	399	(45)	118	980
Closing cash	163	562	517	635	1,615

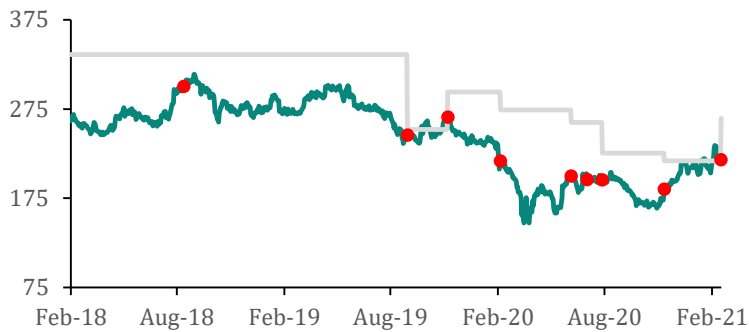
BALANCE SHEET

Y.E March (Rs. cr)	FY19A	FY20A	FY21E	FY22E	FY23E
Cash	163	562	517	635	1,615
Accounts Receivable	3,646	2,092	2,128	2,483	2,657
Inventories	7,587	8,038	7,926	8,943	9,694
Other Cur. Assets	18,173	26,200	19,919	18,389	18,865
Investments	14,071	13,456	22,202	29,148	34,853
Gross Fixed Assets	22,177	24,290	26,397	28,780	31,383
Net Fixed Assets	17,946	19,031	18,906	19,659	20,580
CWIP	3,391	3,358	3,324	3,291	3,258
Intangible Assets	551	523	1,186	1,210	1,234
Def. Tax (Net)	-	-	-	-	-
Other Assets	4,270	1,975	1,612	1,762	1,927
Total Assets	69,798	75,235	77,719	85,520	94,682
Current Liabilities	9,622	9,025	10,276	9,876	10,552
Provisions	133	144	156	169	183
Debt Funds	50	420	180	180	180
Other Liabilities	2,044	1,618	1,920	1,943	2,088
Equity Capital	1,226	1,229	1,229	1,229	1,229
Reserves & Surplus	56,724	62,800	63,958	72,123	80,449
Shareholder's Fund	57,950	64,029	65,187	73,352	81,679
Minority Interest	-	-	-	-	-
Total Liabilities	69,798	75,235	77,719	85,520	94,682
BVPS (Rs.)	47	52	53	60	66

RATIOS

Y.E March	FY19A	FY20A	FY21E	FY22E	FY23E
Profitab. & Return					
EBITDA margin (%)	38.3	38.7	35.8	37.5	37.5
EBIT margin (%)	35.4	35.3	32.3	34.4	34.5
Net profit mgn.(%)	27.6	32.7	29.9	30.6	30.5
ROE (%)	21.5	23.6	20.9	21.5	21.0
ROCE (%)	27.6	25.4	22.6	24.1	23.8
W.C & Liquidity					
Receivables (days)	29.4	16.5	17.0	17.6	17.2
Inventory (days)	153.1	159.3	164.3	166.1	165.2
Payables (days)	67.9	68.3	70.8	72.6	71.7
Current ratio (x)	3.1	4.1	3.0	3.1	3.1
Quick ratio (x)	2.1	2.9	1.9	1.9	1.9
Turnover & Leverage					
Gross asset T.O (x)	2.2	2.0	1.8	1.9	1.9
Total asset T.O (x)	0.7	0.6	0.6	0.6	0.6
Int. coverage ratio (x)	467.8	293.3	211.0	205.2	213.6
Adj. debt/equity (x)	0.0	0.0	0.0	0.0	0.0
Valuation					
EV/Sales (x)	8.2	4.6	5.9	5.2	4.7
EV/EBITDA (x)	21.3	11.8	16.4	13.9	12.6
P/E (x)	29.6	13.8	19.7	17.0	15.6
P/BV (x)	6.4	3.3	4.1	3.7	3.3

Recommendation Summary



Dates	Rating	Target
30-Aug-19	HOLD	252
7-Nov-19	BUY	294
5-Feb-20	BUY	274
5-Jun-20	BUY	260
2-Jul-20	BUY	260
28-Jul-20	BUY	225
11-Nov-20	BUY	217
17-Feb-21	BUY	265

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			

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. The stock may still be a quality stock.

Sell: Exit from the stock.

Not rated: The analyst has no investment opinion on the stock.

To satisfy regulatory requirements, we attribute 'Accumulate' as Buy and 'Reduce' as Sell.

The recommendations are based on 12 month horizon, unless otherwise specified. The investment ratings are on absolute positive/negative return basis. It is possible that due to volatile price fluctuation in the near to medium term, there could be a temporary mismatch to rating. For reasons of valuations/ return/lack of clarity/event we may revisit rating at appropriate time. Please note that the stock always carries the risk of being upgraded to BUY or downgraded to a HOLD, REDUCE or SELL.

General Disclosures and Disclaimers

CERTIFICATION

I, Vincent K A, author of this Report, hereby certify that all the views expressed in this research report reflect our personal views about any or all of the subject issuer or securities. This report has been prepared by the Research Team of Geojit Financial Services Limited, hereinafter referred to as Geojit.

COMPANY OVERVIEW

Geojit, a publically listed company, is engaged in services of retail broking, depository services, portfolio management and marketing investment products including mutual funds, insurance and properties. GEOJIT is a SEBI registered Research Entity and as such prepares and shares research data and reports periodically with clients, investors, stake holders and general public in compliance with Securities and Exchange Board of India Act, 1992, Securities And Exchange Board Of India (Research Analysts) Regulations, 2014 and/or any other applicable directives, instructions or guidelines issued by the Regulators from time to time.

DISTRIBUTION OF REPORTS: This document is not for public distribution and has been furnished to you solely for your information and must not be reproduced or redistributed to any other person. GEOJIT will not treat the recipients of this report as clients by virtue of their receiving this report.

GENERAL REPRESENTATION: The research reports do not constitute an offer or solicitation for the purchase or sale of any financial instruments, inducements, promise, guarantee, warranty, or as an official confirmation of any transaction or contractual obligations of any kind. This report is provided for assistance only and is not intended to be and must not alone be taken as the basis for an investment decision. The information contained herein is from publicly available data or other sources believed to be reliable, but we do not represent that it is accurate or complete and it should not be relied on as such. We have also reviewed the research report for any untrue statements of material facts or any false or misleading information. While we endeavor to update on a reasonable basis the information discussed in this material, there may be regulatory, compliance, or other reasons that prevent us from doing so.

RISK DISCLOSURE: GEOJIT and/or its Affiliates and its officers, directors and employees including the analyst/authors shall not be in any way be responsible for any loss or damage that may arise to any person from any inadvertent error in the information contained in this report. Investors may lose his/her entire investment under certain market conditions so before acting on any advice or recommendation in these material, investors should consider whether it is suitable for their particular circumstances and, if necessary, seek professional advice. This report does not take into account the specific

investment objectives, financial situation/circumstances and the particular needs of any specific person who may receive this document. The user assumes the entire risk of any use made of this information. Each recipient of this report should make such investigation as it deems necessary to arrive at an independent evaluation of an investment in the securities of companies referred to in this report (including the merits and risks involved). The price, volume and income of the investments referred to in this report may fluctuate and investors may realize losses that may exceed their original capital.

FUNDAMENTAL DISCLAIMER: We have prepared this report based on information believed to be reliable. The recommendations herein are based on 12 month horizon, unless otherwise specified. The investment ratings are on absolute positive/negative return basis. It is possible that due to volatile price fluctuation in the near to medium term, there could be a temporary mismatch to rating. For reasons of valuations/return/lack of clarity/event we may revisit rating at appropriate time. The stocks always carry the risk of being upgraded to buy or downgraded to a hold, reduce or sell. The opinions expressed are subject to change but we have no obligation to tell our clients when our opinions or recommendations change. This report is non-inclusive and does not consider all the information that the recipients may consider material to investments. This report is issued by GEOJIT without any liability/undertaking/commitment on the part of itself or any of its entities. We may have issued or may issue on the companies covered herein, reports, recommendations or information which is contrary to those contained in this report. The projections and forecasts described in this report should be evaluated keeping in mind the fact that these are based on estimates and assumptions and will vary from actual results over a period of time. The actual performance of the companies represented in the report may vary from those projected. These are not scientifically proven to guarantee certain intended results and hence, are not published as a warranty and do not carry any evidentiary value whatsoever. These are not to be relied on in or as contractual, legal or tax advice. Prospective investors and others are cautioned that any forward-looking statements are not predictions and may be subject to change without notice.

CRISIL has provided research support in preparation of this research report and the investment rational contained herein along with financial forecast. The target price and recommendation provided in the report are strictly Geojit's views and are NOT PROVIDED by CRISIL. Further, CRISIL expresses no opinion on valuation and the associated recommendations. CRISIL has no financial liability whatsoever, to the subscribers / users of this report.

JURISDICTION: The securities described herein may not be eligible for sale in all jurisdictions or to all categories of investors. The countries in which the companies mentioned in this report are organized may have restrictions on investments, voting rights or dealings in securities by nationals of other countries. Distributing/taking/sending/dispatching/transmitting this document in certain foreign jurisdictions may be restricted by law, and persons into whose possession this document comes should inform themselves about, and observe any such restrictions. Failure to comply with this restriction may constitute a violation of any foreign jurisdiction laws. Foreign currencies denominated securities are subject to fluctuations in exchange rates that could have an adverse effect on the value or price of or income derived from the investment. Investors in securities such as ADRs, the value of which are influenced by foreign currencies effectively assume currency risk.

REGULATORY DISCLOSURES: GEOJIT's Associates consists of privately held companies such as Geojit Technologies Private Limited (GTPL- Software Solutions provider), Geojit Credits Private Limited (GCPL- NBFC Services provider), Geojit Investment Services Limited (GISL- Corporate Agent for Insurance products), Geojit Financial Management Services Private Limited (GFMSL) & Geojit Financial Distribution Private Limited (GFDPL), (Distributors of Insurance and MF Units). In the context of the SEBI Regulations on Research Analysts (2014), GEOJIT affirms that we are a SEBI registered Research Entity and in the course of our business as a stock market intermediary, we issue research reports /research analysis etc that are prepared by our Research Analysts. We also affirm and undertake that no disciplinary action has been taken against us or our Analysts in connection with our business activities. In compliance with the above mentioned SEBI Regulations, the following additional disclosures are also provided which may be considered by the reader before making an investment decision:

1. Disclosures regarding Ownership*:

GEOJIT confirms that:

It/its associates have no financial interest or any other material conflict in relation to the subject company (ies) covered herein.

It/its associates have no actual beneficial ownership greater than 1% in relation to the subject company (ies) covered herein.

Further, the Analyst confirms that:

He, his associates and his relatives have no financial interest in the subject company (ies) covered herein, and they have no other material conflict in the subject company.

He, his associates and his relatives have no actual/beneficial ownership greater than 1% in the subject company covered

2. Disclosures regarding Compensation:

During the past 12 months, GEOJIT or its Associates:

(a) Have not received any compensation from the subject company; (b) Have not managed or co-managed public offering of securities for the subject company (c) Have not received any compensation for investment banking or merchant banking or brokerage services from the subject company (d) Have not received any compensation for products or services other than investment banking or merchant banking or brokerage services from the subject company and is in receipt of compensation from the subject company." (e) Have not received any compensation or other benefits from the subject company or third party in connection with the research report (f) The subject company is / was not a client during twelve months preceding the date of distribution of the research report.

3. Disclosure by GEOJIT regarding the compensation paid to its Research Analyst:

GEOJIT hereby confirms that no part of the compensation paid to the persons employed by it as Research Analysts is based on any specific brokerage services or transactions pertaining to trading in securities of companies contained in the Research Reports.

4. Disclosure regarding the Research Analyst's connection with the subject company:

It is affirmed that I, Vincent K A, Research Analyst(s) of GEOJIT have not served as an officer, director or employee of the subject company

5. Disclosure regarding Market Making activity:

Neither GEOJIT/its Analysts have engaged in market making activities for the subject company.

Please ensure that you have read the "Risk Disclosure Documents for Capital Market and Derivatives Segments" as prescribed by the Securities and Exchange Board of India before investing.

Geojit Financial Services Ltd. (formerly known as Geojit BNP Paribas Financial Services Ltd.), Registered Office: 34/659-P, Civil Line Road, Padivattom, Kochi-682024, Kerala, India. Phone: +91 484-2901000, Website: www.geojit.com. For investor queries: customercare@geojit.com, For grievances: grievances@geojit.com, For compliance officer: compliance@geojit.com.

Corporate Identity Number: L67120KL1994PLC008403, SEBI Stock Broker Registration No INZ000104737, Research Entity SEBI Reg No: INH200000345, Investment Adviser SEBI Reg No: INA200002817, Portfolio Manager: INP000003203, Depository Participant: IN-DP-325-2017, ARN Regn.Nos:0098, IRDA Corporate Agent (Composite) No.: CA0226