

ITC

Soft quarter but setting up for a strong recovery in FY22, valuations remain attractive

- ✓ **View** - Given still attractive valuations at 15x FY23, we remain positive on the stock despite this muted performance and see a gradual re-rating towards 18-20x and move towards Rs 270 and beyond.
- ✓ **Summary** - Overall results weaker than expectations with flat revenue, 7% decline in EBITDA and 14% decline in PAT given muted revenue performance in FMCG and sharp margin decline in cigarettes and losses in hotels.
- ✓ **Revenue performance** - Cigarette revenue growth of 3.5% (~5% volume decline), 7.5% growth in FMCG (expected 14% growth), 57% decline in hotels, 18.5% growth in agri and 5% decline in paper.
- ✓ **Margins** - Cost saving initiatives partially offset the sharp gross margin decline of 400bps to 57.5% with EBITDA margin decline of 280bps to 36.3%; margins declined in all segments other than FMCG which saw 260bps growth to 5.8%, cigarettes saw a sharp decline of 800bps to 62.8% given inferior mix and volume decline.
- ✓ **Outlook** - Despite a muted FY21, FY22 should see a strong recovery with cigarettes volumes bouncing back and FMCG sustaining a strong growth trajectory coupled with improving margins.

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