

Retail Equity Research

ITC Limited

Tobacco

BSE CODE: 500875

NSE CODE: ITC

Bloomberg CODE: ITC:IN

SENSEX: 52,444

BUY

12 Months Investment period

Rating as per Large Cap

CMP Rs. 209

TARGET Rs. 263

 RETURN 26% 

(Closing: 28-07-21)

KEY CHANGES:
TARGET 
RATING 
EARNINGS 

Steady results despite supply chain disruptions

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.

- Standalone revenue rose 36.6% YoY (-8.1% QoQ) on the back of growth across verticals, partially hindered by lockdowns in Q1FY22.
- EBITDA surged 50.8% YoY, as EBITDA margin expanded 300bps YoY to 31.0% owing to better product mix and cost management. PAT also rose 28.6% YoY, partly offset by lower other income and higher taxes.
- COVID second wave played a spoilsport during Q1FY22 limiting growth. However, we expect performance to improve going forward on the back of demand growth. We hereby reiterate our BUY rating on the stock with a revised target price of Rs. 263 based on SOTP valuation.

Pandemic disruptions impact growth sequentially

In Q1FY22, topline increased 36.6% YoY to Rs. 12,884cr (-8.1% QoQ), indicating a rebound in demand, only partially offset by the supply side disruptions caused by lockdowns during the quarter. ITC recorded significant growth vis-à-vis prior year levels and is expected to get back on track by the next quarter as activity picks up. FMCG business reported 22.4% YoY growth in sales, with Cigarettes sales rising 32.9% YoY to Rs. 5,122cr owing to surge in demand. Non-Cigarettes business also grew 10.4% YoY to Rs. 3,726cr. Paperboards, Paper & Packaging (PPP) segment sales went up 54.2% YoY to Rs. 1,583cr on higher demand as economic activity stirred to a start. Hotels business recorded ~5x growth in sales to Rs. 127cr, however the lockdown impact was observed as the sales de-grew 55.8% on QoQ basis.

EBITDA margin expands on YoY basis

EBITDA grew 50.8% YoY to Rs. 3,992cr (-10.8% QoQ), aided by growth in volumes and demand, coupled with a better product mix and efficient cost management. EBITDA margin improved 300bps YoY to 31.0%, although were down 90bps QoQ owing to supply side constraints. Cigarettes segment EBIT grew 37% YoY, with FMCG-Others reporting EBIT growth of 38% YoY. Moreover, PPP segment EBIT rose 145% YoY driven by premium product mix and higher realisations. PAT grew 28.6% YoY to Rs. 3,013cr (-19.6% QoQ), partially offset by lower other income (-52.2% YoY) due to lower market yields and higher taxes (+27.5% YoY).

Core business to drive growth as demand rebounds

Cigarettes business continues to significantly dominate ITC's overall sales. Despite a slowdown witnessed during the quarter owing to lockdown, both consumer demand and volumes are on a steady rise as economic activities pick up pace. Moreover, the non-cigarettes FMCG business is also doing quite well, aided by an increasing focus on ecommerce and modern trade channels like ITC s-Store and online aggregators like Swiggy, Zomato, etc. Company's agri business and other verticals are also on track to see gradual improvements from current levels.

Valuation

Barring a third COVID wave, ITC's woes look to be gradually disappearing as its various businesses rebound to near pre-COVID levels. Despite the disruptions experienced during the quarter, the company made strong recovery in both sales and margins over the last few quarters. We expect further improvements in performance on steady demand recovery and therefore reiterate our BUY rating on the stock with a revised target price of Rs. 263 based on SOTP valuation.

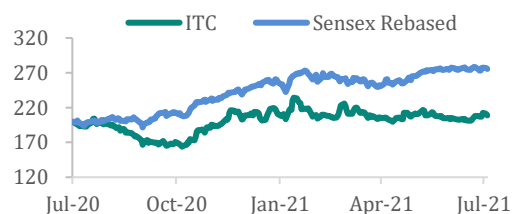
Company Data

Market Cap (cr)	Rs. 256,823
Enterprise Value (cr)	Rs. 257,151
Outstanding Shares (cr)	1,230.9
Free Float	71.0%
Dividend Yield	5.2%
52 week high	Rs. 239
52 week low	Rs. 163
6m average volume (lacs)	17.7
Beta	0.7
Face value	Rs. 1

Shareholding %	Q3FY21	Q4FY21	Q1FY22
Promoters	0.0	0.0	0.0
FII's	13.3	12.8	11.7
MFs/Insti	42.9	42.5	42.5
Public	12.2	12.9	14.0
Others	31.6	31.8	31.9
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	1.5%	-1.0%	6.3%
Absolute Sensex	7.4%	10.9%	38.6%
Relative Return*	-6.0%	-11.9%	-32.3%

*over or under performance to benchmark index



Standalone (cr)	FY21A	FY22E	FY23E
Sales	48,151	52,296	57,320
Growth (%)	3.9	8.6	9.6
EBITDA	15,522	19,320	21,374
EBITDA Margin (%)	32.2	36.9	37.3
Adj. PAT	13,032	15,773	17,398
Growth (%)	(14.6)	21.0	10.3
Adj. EPS	10.6	12.8	14.1
Growth (%)	(14.8)	21.0	10.3
P/E	20.6	16.3	14.8
P/B	4.6	4.3	4.1
EV/EBITDA	17.3	13.3	12.0
ROE (%)	22.1	26.3	27.5
D/E	0.0	0.0	0.0

Quarterly Financials (Standalone)

Profit & Loss Account

	Q1FY22	Q1FY21	YoY Growth %	Q4FY21	QoQ Growth %
Revenue	12,884	9,436	36.6	14,023	(8.1)
EBITDA	3,992	2,647	50.8	4,473	(10.8)
EBITDA margins	31.0	28.0	300bps	31.9	(90bps)
Depreciation	395	398	(0.7)	388	1.9
EBIT	3,597	2,248	60.0	4,085	(12.0)
Interest	10	17	(38.5)	3	228.7
Other Income	429	897	(52.2)	772	(44.4)
Exceptional Items	-	-	-	-	-
PBT	4,015	3,128	28.4	4,854	(17.3)
Tax	1,002	786	27.5	1,105	(9.4)
Share of profit from Associate	-	-	-	-	-
Minority Interest	-	-	-	-	-
Reported PAT	3,013	2,343	28.6	3,748	(19.6)
Adjustments	-	-	-	-	-
Adj. PAT	3,013	2,343	28.6	3,748	(19.6)
No. of shares	1,230.9	1,226.6	0.4	1,230.9	-
Adj. EPS (Rs.)	2.4	1.9	28.2	3.0	(19.6)

Segment Revenue

	Q1FY22	Q1FY21	YoY Growth %	Q4FY21	QoQ Growth %
FMCG	8,848	7,228	22.4	9,547	(7.3)
- Cigarettes	5,122	3,854	32.9	5,860	(12.6)
- Others	3,726	3,375	10.4	3,688	1.0
Papers & Packaging	1,583	1,026	54.2	1,656	(4.4)
Agri Business	4,091	3,746	9.2	3,369	21.4
Hotels	127	23	463.5	288	(55.8)
Inter-segment	(1,764)	(2,588)	31.8	(836)	(111.0)
Total Revenue	12,884	9,436	36.6	14,023	(8.1)

Change in Estimates

Year / Rs. cr	Old estimates		New estimates		Change %	
	FY22E	FY23E	FY22E	FY23E	FY22E	FY23E
Revenue	51,560	55,938	52,296	57,320	1.4	2.5
EBITDA	19,220	21,339	19,320	21,374	0.5	0.2
Margins (%)	37.3	38.1	36.9	37.3	(40bps)	(80bps)
Adj. PAT	15,697	17,375	15,773	17,398	0.5	0.1
Adj. EPS	12.8	14.1	12.8	14.1	0.5	0.1

Sum of the parts (SOTP) valuation

Particulars	Basis	Multiple	EBITDA/Sales (Rs. Cr)	Year	Value (Rs. Cr)	Value/share (Rs.)
Cigarettes	EV/EBITDA	11.5x	15,703	FY23E	180,585	147
FMCG - others	EV/Sales	6.0x	18,970	FY23E	113,820	92
Paperboards, Paper & Packaging	EV/EBITDA	10.0x	1,349	FY23E	13,494	11
Agri Business	EV/EBITDA	8.5x	1,502	FY23E	12,769	10
Hotels	EV/EBITDA	7.5x	427	FY23E	3,204	3
Enterprise Value					323,871	263
Net Debt					(142)	(0)
Equity Value					324,013	263

PROFIT & LOSS

Y.E March (Rs. cr)	FY19A	FY20A	FY21A	FY22E	FY23E
Revenue	45,221	46,324	48,151	52,296	57,320
% change	2.9	2.4	3.9	8.6	9.6
EBITDA	17,306	17,904	15,522	19,320	21,374
% change	11.4	3.5	(13.3)	24.5	10.6
Depreciation	1,312	1,563	1,562	1,621	1,745
EBIT	15,994	16,341	13,961	17,700	19,629
Interest	34	56	47	40	39
Other Income	2,485	2,882	3,251	3,116	3,247
PBT	18,444	19,167	17,164	20,775	22,837
% change	9.4	3.9	(10.4)	21.0	9.9
Tax	5,980	4,031	4,133	5,002	5,439
Tax Rate (%)	32.4	21.0	24.1	24.1	23.8
Reported PAT	12,464	15,136	13,032	15,773	17,398
Adj*	-	132	-	-	-
Adj PAT	12,464	15,268	13,032	15,773	17,398
% change	15.3	22.5	(14.6)	21.0	10.3
No. of shares (cr)	1230.1	1229.2	1230.9	1230.9	1230.9
Adj EPS (Rs.)	10.1	12.4	10.6	12.8	14.1
% change	14.8	22.6	(14.8)	21.0	10.3
DPS (Rs.)	5.8	10.2	10.8	10.3	10.2
CEPS (Rs.)	11.2	13.7	11.9	14.1	15.6

CASH FLOW

Y.E March (Rs. cr)	FY19A	FY20A	FY21A	FY22E	FY23E
Net inc. + Depn.	13,776	16,699	14,593	17,394	19,143
Non-cash adj.	(1,545)	(3,311)	(2,705)	(3,047)	(2,169)
Changes in W.C	(482)	418	(395)	795	(334)
C.F. Operation	11,749	13,806	11,494	15,141	16,639
Capital exp.	(2,759)	(2,114)	(1,579)	(1,619)	(1,574)
Change in inv.	(6,469)	(9,017)	(875)	(1,589)	(3,610)
Other invest.CF	4,146	5,614	8,952	1,347	1,482
C.F - Investment	(5,082)	(5,517)	6,498	(1,860)	(3,701)
Issue of equity	969	625	291	-	-
Issue/repay debt	(7)	(47)	(52)	(10)	(8)
Dividends paid	(6,285)	(7,049)	(18,629)	(13,232)	(12,622)
Other finance.CF	(1,278)	(1,420)	12	(40)	(39)
C.F - Finance	(6,601)	(7,891)	(18,379)	(13,283)	(12,670)
Chg. in cash	67	399	(387)	(1)	268
Closing cash	163	562	231	230	498

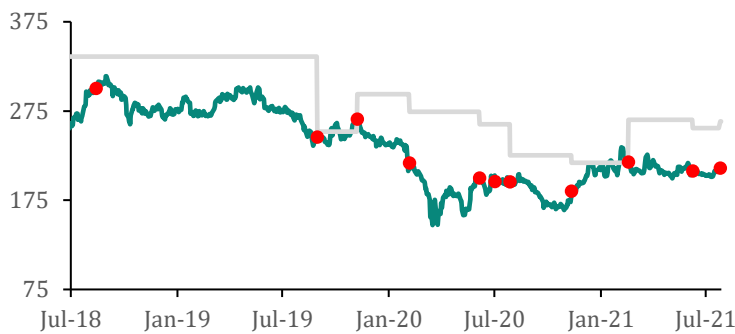
BALANCE SHEET

Y.E March (Rs. cr)	FY19A	FY20A	FY21A	FY22E	FY23E
Cash	163	562	231	230	498
Accounts Receivable	3,646	2,092	2,090	2,092	2,150
Inventories	7,587	8,038	9,471	8,792	9,322
Other Cur. Assets	18,173	26,200	20,023	20,272	20,735
Investments	14,071	13,456	12,950	14,361	17,611
Gross Fixed Assets	22,177	24,290	25,870	27,488	29,062
Net Fixed Assets	17,946	19,613	19,593	19,858	19,940
CWIP	3,391	2,776	3,330	3,163	3,005
Intangible Assets	551	523	2,585	2,485	2,389
Def. Tax (Net)	-	-	-	-	-
Other Assets	4,270	1,975	1,306	1,245	1,186
Total Assets	69,798	75,235	71,581	72,498	76,837
Current Liabilities	9,622	9,025	10,123	10,080	10,767
Provisions	133	144	157	172	189
Debt Funds	50	420	568	558	550
Other Liabilities	2,044	1,618	1,728	1,751	2,012
Equity Capital	1,226	1,229	1,231	1,231	1,231
Reserves & Surplus	56,724	62,800	57,774	58,706	62,088
Shareholder's Fund	57,950	64,029	59,005	59,937	63,319
Minority Interest	-	-	-	-	-
Total Liabilities	69,798	75,235	71,581	72,498	76,837
BVPS (Rs.)	47	52	48	49	51

RATIOS

Y.E March	FY19A	FY20A	FY21A	FY22E	FY23E
Profitab. & Return					
EBITDA margin (%)	38.3	38.7	32.2	36.9	37.3
EBIT margin (%)	35.4	35.3	29.0	33.8	34.2
Net profit mgn.(%)	27.6	32.7	27.1	30.2	30.4
ROE (%)	21.5	23.6	22.1	26.3	27.5
ROCE (%)	27.6	25.4	23.4	29.3	30.7
W.C & Liquidity					
Receivables (days)	29.4	16.5	15.8	14.6	13.7
Inventory (days)	153.1	159.3	150.2	149.7	147.8
Payables (days)	67.9	68.3	65.3	72.1	71.2
Current ratio (x)	3.1	4.1	3.1	3.1	3.0
Quick ratio (x)	2.1	2.9	2.0	2.0	1.9
Turnover & Leverage					
Gross asset T.O (x)	2.2	2.0	1.9	2.0	2.0
Total asset T.O (x)	0.7	0.6	0.7	0.7	0.8
Int. coverage ratio (x)	467.8	293.3	294.1	437.5	498.6
Adj. debt/equity (x)	0.0	0.0	0.0	0.0	0.0
Valuation					
EV/Sales (x)	8.2	4.6	5.6	4.9	4.5
EV/EBITDA (x)	21.3	11.8	17.3	13.3	12.0
P/E (x)	29.6	13.8	20.6	16.3	14.8
P/BV (x)	6.4	3.3	4.6	4.3	4.1

Recommendation Summary (Last 3 Years)



Dates	Rating	Target
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
8-Jun-21	BUY	256
29-Jul-21	BUY	263

Source: Bloomberg, Geojit research

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.

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.

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