

Retail Equity Research

ITC Limited

Tobacco

BSE CODE: 500875

NSE CODE: ITC

Bloomberg CODE: ITC:IN

SENSEX: 42,597

BUY

12M Investment period

Rating as per Large Cap

CMP Rs. 178

TARGET Rs. 217

RETURN 22% 

(Closing: 10-11-20)

KEY CHANGES:

TARGET 

RATING 

EARNINGS 

Sequential uptick seen in performance

- Q2FY21 standalone revenue jumped 26.0% QoQ (+1.2% YoY) aided by growth in FMCG, Hotels and Paper businesses as economy opened up.
- EBITDA margin improved sequentially to 34.1% from 28.0% in Q1FY20, owing to comparatively lower operational costs, however was down by 470bps vis-à-vis prior year levels.
- Company further increased stake in Delectable Technologies during the quarter, acquiring second tranche of 1,964 compulsorily convertible preferred shares of Rs. 10 each.
- As economic activities pick up pace, we expect growth prospects to improve across all of ITC's verticals in the months ahead. However, pace of pickup in volumes and demand remains crucial. Keeping an optimistic outlook on the company's performance, we reiterate our BUY rating on the stock with a revised target price of Rs. 217 based on SOTP valuation.

Topline pick-up sequentially; led by easing lock-down restrictions

Q2FY21 standalone revenue witnessed robust improvement sequentially (+26.0% QoQ, +1.2% YoY) to Rs. 11,892cr driven by easing of lockdown restrictions. Sales improvement was seen across the board, such as Cigarettes (+32.9% QoQ, -3.9% YoY), Non-Cigarettes FMCG (+12.5% QoQ, +15.4% YoY), Hotels (+263.0% QoQ, -80.8% YoY), and Paperboards, Paper & Packaging (+42.1% QoQ, -6.8% YoY) businesses. On the other hand, Agri business revenues declined during the quarter to Rs. 2,985cr (-20.3% QoQ, +12.8% YoY) owing to a marked decline in demand for produce and on higher logistics costs. Cigarette segment recovery remained subdued on YoY basis as localized lockdowns still restricted full recovery, however further improvement is expected from Sep 2020 onwards as restrictions were eased further. Within Hotel business, demand pick was seen as people are traveling to leisure locations. However, still remains far from pre-COVID levels.

EBITDA improves on cost efficiencies

EBITDA improved 53.4% QoQ to Rs. 4,061cr (-11.0% YoY), however remained subdued as against corresponding quarter levels. EBITDA margin improved 610bps QoQ (-470bps YoY) to 34.1% helped by lower raw material and other operational costs relative to revenue during the quarter. As a result, and despite higher tax provisions made during the quarter, reported PAT grew 38.0% QoQ (-19.7% YoY) to Rs. 3,232cr, partly aided by lower borrowing costs at Rs. 14cr (vs. Rs. 17cr in Q1FY21).

FMCG remains the key

As could be seen in Q2FY21, ITC's gains were primarily coming from its FMCG Others business (18.4% YoY growth excl. Education & stationary and Life style retailing), and shall continue to play a crucial role in the months ahead for the company to get back into a firm footing towards growth. Although the cigarette business is here to stay and may see a gradual recovery, however the segment is strained due counterfeit products. Customized packages and F&B initiatives might help in the revival of Hotel segment.

Valuation

We expect demand as well as volumes to go up in the months ahead thereby aiding growth in ITC's core FMCG business along with Agri and Paper business from current levels. Additionally, Hotels are also expected to shine as the economy gradually unfastens further leading to a flurry of activity as travelling picks up. Hence we maintain an optimistic outlook and reiterate our BUY rating on the stock with a target price of Rs. 217 based on our SOTP valuation.

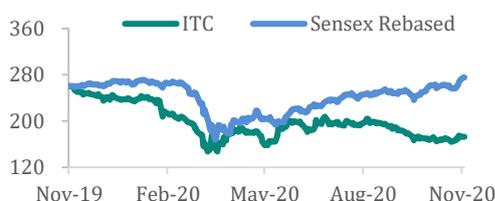
Company Data

Market Cap (cr)	Rs. 213,190
Enterprise Value (cr)	Rs. 212,752
Outstanding Shares (cr)	1,233.7
Free Float	70.0%
Dividend Yield	5.9%
52 week high	Rs. 262
52 week low	Rs. 135
6m average volume (lacs)	13.3
Beta	0.6
Face value	Rs. 1

Shareholding %	Q4FY20	Q1FY21	Q2FY21
Promoters	0.0	0.0	0.0
FII's	15.2	14.7	14.6
MFs/Insti	42.7	42.5	42.1
Public	9.9	10.4	10.7
Others	32.3	32.5	32.6
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	-11.9%	9.2%	-33.7%
Absolute Sensex	12.0%	34.6%	5.6%
Relative Return*	-23.8%	-25.5%	-39.3%

*over or under performance to benchmark index



Standalone (cr)	FY20A	FY21E	FY22E
Sales	46,324	46,243	52,262
Growth (%)	2.4	(0.2)	13.0
EBITDA	17,904	16,692	19,744
EBITDA Margin (%)	38.7	36.1	37.8
Adj. PAT	15,268	13,900	16,034
Growth (%)	22.5	(9.0)	15.4
Adj. EPS	12.4	11.3	13.0
Growth (%)	22.6	(9.3)	15.4
P/E	13.8	15.3	13.3
P/B	3.3	3.3	3.0
EV/EBITDA	11.8	12.7	10.8
ROE (%)	23.6	21.2	22.8
D/E	0.0	0.0	0.0

Quarterly Financials (Standalone)

Profit & Loss Account

	Q2FY21	Q2FY20	YoY Growth %	Q1FY21	QoQ Growth %	H1FY21	H1FY20	YoY Growth %
Revenue	11,892	11,750	1.2	9,436	26.0	21,328	23,112	(7.7)
EBITDA	4,061	4,562	(11.0)	2,647	53.4	6,707	9,128	(26.5)
EBITDA margins	34.1	38.8	(470bps)	28.0	610bps	31.4	39.5	(810bps)
Depreciation	383	396	(3.3)	398	(3.9)	781	755	3.5
EBIT	3,678	4,167	(11.7)	2,248	63.6	5,927	8,373	(29.2)
Interest	14	13	3.2	17	(18.0)	31	29	7.0
Other Income	610	654	(6.8)	897	(32.0)	1,507	1,275	18.2
Exceptional Items	-	-	-	-	-	-	-	-
PBT	4,274	4,808	(11.1)	3,128	36.6	7,403	9,619	(23.0)
Tax	1,042	785	32.8	786	32.6	1,828	2,422	(24.6)
Reported PAT	3,232	4,023	(19.7)	2,343	38.0	5,575	7,197	(22.5)
Adjustments	-	-	-	-	-	-	-	-
Adj. PAT	3,232	4,023	(19.7)	2,343	38.0	5,575	7,197	(22.5)
No. of shares	1,233.7	1,230.3	0.3	1,226.6	0.6	1,233.7	1,230.3	0.3
Adj. EPS (Rs.)	2.6	3.3	(19.9)	1.9	37.2	4.5	5.8	(22.8)

Segment Revenue

	Q2FY21	Q2FY20	YoY Growth %	Q1FY21	QoQ Growth %	H1FY21	H1FY20	YoY Growth %
FMCG	8,916	8,615	3.5	7,228	23.4	16,145	17,109	(5.6)
- Cigarettes	5,121	5,327	(3.9)	3,854	32.9	8,975	10,760	(16.6)
- Others	3,795	3,288	15.4	3,375	12.5	7,170	6,348	12.9
Paperboards, Paper & Pack.	1,459	1,565	(6.8)	1,026	42.1	2,485	3,093	(19.7)
Agri Business	2,985	2,648	12.8	3,746	(20.3)	6,732	6,259	7.6
Hotels	82	427	(80.8)	23	263.0	105	819	(87.2)
Inter-segment	(1,550)	(1,505)	(3.0)	(2,588)	40.1	(4,138)	(4,168)	0.7
Total Revenue	11,892	11,750	1.2	9,436	26.0	21,328	23,112	(7.7)

Change in Estimates

Year / Rs. cr	Old estimates		New estimates		Change %	
	FY21E	FY22E	FY21E	FY22E	FY21E	FY22E
Revenue	46,192	51,133	46,243	52,262	0.1	2.2
EBITDA	16,665	19,119	16,692	19,744	0.2	3.3
Margins (%)	36.1	37.4	36.1	37.8	0bps	40bps
Adj. PAT	13,878	15,722	13,900	16,034	0.2	2.0
Adj. EPS	11.3	12.8	11.3	13.0	(0.2)	1.6

Sum of the parts (SOTP) valuation

Particulars	Basis	Multiple	EBITDA/Sales (Rs. Cr)	Year	Value (Rs. Cr)	Value/share (Rs.)
Cigarettes	EV/EBITDA	12.0x	15,894	FY22E	190,733	155
FMCG - others	EV/Sales	3.5x	16,672	FY22E	58,351	47
Paperboards, Paper & Packaging	EV/EBITDA	11.0x	626	FY22E	6,887	6
Agri Business	EV/EBITDA	8.0x	1,013	FY22E	8,101	7
Hotels	EV/EBITDA	8.5x	411	FY22E	3,496	3
Enterprise Value					267,569	217
Net Debt					(142)	(0)
Equity Value					267,711	217

PROFIT & LOSS

Y.E March (Rs. cr)	FY18A	FY19A	FY20A	FY21E	FY22E
Revenue	43,957	45,221	46,324	46,243	52,262
% change	(20.7)	2.9	2.4	(0.2)	13.0
EBITDA	15,541	17,306	17,904	16,692	19,744
% change	6.6	11.4	3.5	(6.8)	18.3
Depreciation	1,145	1,312	1,563	1,604	1,641
EBIT	14,396	15,994	16,341	15,089	18,103
Interest	87	34	56	70	107
Other Income	2,543	2,485	2,882	3,074	2,874
PBT	16,852	18,444	19,167	18,093	20,871
% change	8.7	9.4	3.9	(5.6)	15.4
Tax	5,628	5,980	4,031	4,193	4,837
Tax Rate (%)	33.4	32.4	21.0	23.2	23.2
Reported PAT	11,223	12,464	15,136	13,900	16,034
Adj*	(413)	-	132	-	-
Adj PAT	10,810	12,464	15,268	13,900	16,034
% change	6.0	15.3	22.5	(9.0)	15.4
No. of shares (cr)	1224.7	1230.1	1229.2	1233.7	1233.7
Adj EPS (Rs.)	8.8	10.1	12.4	11.3	13.0
% change	5.4	14.8	22.6	(9.3)	15.4
DPS (Rs.)	5.2	5.8	10.2	9.0	10.4
CEPS (Rs.)	9.8	11.2	13.7	12.6	14.3

CASH FLOW

Y.E March (Rs. cr)	FY18A	FY19A	FY20A	FY21E	FY22E
Net inc. + Depn.	12,369	13,776	16,699	15,503	17,675
Non-cash adj.	(1,638)	(1,545)	(3,311)	(297)	(1,314)
Changes in W.C	1,920	(482)	418	(1,374)	74
C.F. Operation	12,651	11,749	13,806	13,832	16,435
Capital exp.	(2,548)	(2,759)	(2,114)	(2,137)	(2,415)
Change in inv.	(7,604)	(6,469)	(9,017)	509	(2,486)
Other invest.CF	3,460	4,146	5,614	364	(150)
C.F - Investment	(6,691)	(5,082)	(5,517)	(1,264)	(5,051)
Issue of equity	913	969	625	-	-
Issue/repay debt	(8)	(7)	(47)	(185)	-
Dividends paid	(5,770)	(6,285)	(7,049)	(12,477)	(11,090)
Other finance.CF	(1,155)	(1,278)	(1,420)	205	(107)
C.F - Finance	(6,020)	(6,601)	(7,891)	(12,457)	(11,197)
Chg. in cash	(60)	67	399	111	188
Closing cash	96	163	562	673	860

BALANCE SHEET

Y.E March (Rs. cr)	FY18A	FY19A	FY20A	FY21E	FY22E
Cash	96	163	562	673	860
Accounts Receivable	2,357	3,646	2,092	2,019	2,203
Inventories	7,237	7,587	8,038	9,822	9,961
Other Cur. Assets	14,813	18,173	26,200	21,796	20,078
Investments	13,494	14,071	13,456	18,682	23,889
Gross Fixed Assets	18,149	22,177	24,290	26,427	28,841
Net Fixed Assets	15,120	17,946	19,031	18,935	19,718
CWIP	5,017	3,391	3,358	3,324	3,291
Intangible Assets	455	551	523	1,186	1,210
Def. Tax (Net)	-	-	-	-	-
Other Assets	3,793	4,270	1,975	1,612	1,762
Total Assets	62,381	69,798	75,235	78,049	82,972
Current Liabilities	8,857	9,622	9,025	10,254	10,205
Provisions	122	133	144	156	169
Debt Funds	46	50	420	235	235
Other Liabilities	1,956	2,044	1,618	1,952	1,968
Equity Capital	1,220	1,226	1,229	1,229	1,229
Reserves & Surplus	50,180	56,724	62,800	64,223	69,166
Shareholder's Fund	51,400	57,950	64,029	65,452	70,395
Minority Interest	-	-	-	-	-
Total Liabilities	62,381	69,798	75,235	78,049	82,972
BVPS (Rs.)	42	47	52	53	57

RATIOS

Y.E March	FY18A	FY19A	FY20A	FY21E	FY22E
Profitab. & Return					
EBITDA margin (%)	35.4	38.3	38.7	36.1	37.8
EBIT margin (%)	32.7	35.4	35.3	32.6	34.6
Net profit mgn.(%)	25.5	27.6	32.7	30.1	30.7
ROE (%)	21.8	21.5	23.6	21.2	22.8
ROCE (%)	28.0	27.6	25.4	23.0	25.6
W.C & Liquidity					
Receivables (days)	19.6	29.4	16.5	15.9	15.4
Inventory (days)	135.5	153.1	159.3	200.8	182.5
Payables (days)	63.3	67.9	68.3	77.3	76.6
Current ratio (x)	2.8	3.1	4.1	3.3	3.2
Quick ratio (x)	1.7	2.1	2.9	2.1	1.9
Turnover & Leverage					
Gross asset T.O (x)	2.5	2.2	2.0	1.8	1.9
Total asset T.O (x)	0.8	0.7	0.6	0.6	0.6
Int. coverage ratio (x)	166.1	467.8	293.3	215.9	170.0
Adj. debt/equity (x)	0.0	0.0	0.0	0.0	0.0
Valuation					
EV/Sales (x)	7.1	8.2	4.6	4.6	4.1
EV/EBITDA (x)	20.1	21.3	11.8	12.7	10.8
P/E (x)	28.9	29.6	13.8	15.3	13.3
P/BV (x)	6.1	6.4	3.3	3.3	3.0

Recommendation Summary



Dates	Rating	Target
13-Aug-18	BUY	336
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

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.

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