

Packaged foods, hygiene products to be silver lining

ITC reported a dismal set of numbers with cigarette volumes down ~12% on account of 10 days loss of sales in March. The tax incidence increased 13% in Budget while the company took a blended price hike of 9% to cover this hike. Revenues fell 6.4% (net of excise dip of 9.6%) impacted by supply chain & manufacturing disruption. Operating profit also declined 8.9%. However earnings witnessed growth of 9.1%, mainly on account of a cut in corporate tax and reassessment of deferred tax liability.

Severely impacted by lockdown

Though cigarettes sales have returned to previous levels on a daily sales basis by mid-June after lockdown was slowly lifted in most states, we believe ITC would have lost 40-45 days of sales in Q1FY21. FMCG business saw a 2.8% sales dip during the quarter with supply chain & manufacturing disruption in the last 10-15 days of March 2020. However, the business is likely to witness sharp growth in Q1FY21 given most of the product portfolio consist of essentials (packaged food & soaps). The hotels business was worst hit due to lockdown with occupancy levels coming down from ~65% to single digit and recovery in the business likely to be prolonged.

Packaged foods to turn the tide

The growth in packaged foods is likely to be a silver lining in FY21E given most of the product portfolio is part of essentials (except education & stationery). A consumer shift towards packaged foods has accelerated in the last three months given decline in 'out of home' consumption and increasing consumer caution about health & hygiene. The company has increased capacities in some categories to fulfil the sudden surge in demand. ITC also increased capacity of hygiene products with re-purposing of its perfume plant to produce hand sanitisers and liquid soaps. It has launched Savlon surface disinfectant spray and Savlon Hexa hand sanitiser & wipes. We believe ITC would be able to leverage its distribution network to capture the opportunity in entire personal & home hygiene categories. We expect FMCG business to grow at 17.9% CAGR (includes Sunrise acquisition) during FY20-22E. FMCG segment profit (EBITDA) witnessed robust 33% growth in FY20 while segment margins increased 160 bps to 7.1%. We expect the business to reach double digit segment margins in the next two to three years.

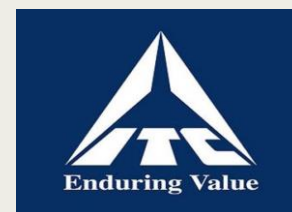
Valuation & Outlook

With the capex cycle of hotels business coming to an end, we believe capital allocation is likely be further rationalised. ITC has increased its dividend payout to 80% (though the market was also expecting a special dividend). With more than ₹ 20,000 crore of cash & liquid investment and consistent free cash flow generation of ₹ 10,000-12000 crore, we believe the company would continue to pay a large part of this as dividends. This translates to a dividend yield of 5-6%. With the increasing scale & margins of FMCG business, we believe it is likely to be valued close to peers in the industry. We value the stock on SOTP based method valuing cigarette business at 12x PE & FMCG business at 5x price to sales with a target price of ₹ 250/share.

Key Financial Summary

Key Financials	FY18	FY19	FY20	FY21E	FY22E	CAGR (FY20-22E)
Net Sales	41711.9	44432.7	46323.7	44684.5	51192.6	3.4%
EBITDA	16998.2	17305.5	17904.3	17295.3	19762.2	3.3%
EBITDA Margin %	40.8	38.9	38.7	38.7	38.6	
Net Profit	12680.5	12464.3	15136.1	14103.8	16500.8	2.9%
EPS (₹)	10.4	10.3	12.5	11.6	13.6	
P/E	18.7	19.0	15.6	16.8	14.4	
RoNW %	24.1	21.5	23.8	21.5	23.7	
RoCE (%)	33.7	30.8	29.4	28.0	30.9	

Source: Company, ICICI Direct Research



Particulars

Particulars (₹ crore)	Amount
Market Capitalization	236,874.3
Total Debt (FY20)	70.5
Cash and Investments (FY20)	24,018.3
EV	212,926.5
52 week H/L (₹)	310 / 134
Equity capital	1,229.2
Face value (₹)	1.0

Key Highlights

- Cigarette volume growth severely impacted by lockdown in March 2020 with 10 days of sales loss. FMCG business dipped by 2.8% during the quarter.
- FMCG EBIT increased by 13% during the quarter and margins improved by 60 bps
- Maintain BUY with revised target price of ₹ 250

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Exhibit 1: Variance Analysis

	Q4FY20	Q4FY20E	Q4FY19	YoY (%)	Q3FY20	QoQ (%)	Comments
Total Operating Income	11,420.0	11,710.5	12,206.0	-6.4	12,013.0	-4.9	Revenues decline 6.4% on account of 10 days loss of sales negatively impacted by lockdown
Operating Income	120.0	171.2	141.9	-15.4	100.9	19.0	
Raw Material Expenses	4,067.1	4,746.9	4,615.6	-11.9	4,546.5	-10.5	
Employee Expenses	666.5	723.1	760.0	-12.3	669.1	-0.4	
Other operating Expenses	1,945.2	2,128.9	2,044.9	-4.9	1,977.4	-1.6	
EBITDA	4,163.5	4,111.6	4,571.7	-8.9	4,612.7	-9.7	
EBITDA Margin (%)	36.5	35.1	37.5	-100 bps	38.4	-194 bps	With loss of sales & negative operating leverage, operating margins contracted 100 bps
Depreciation	392.5	434.0	350.2	12.1	416.2	-5.7	
Interest	14.7	16.6	7.7	90.3	12.4	18.4	
Other Income	755.5	829.1	740.2	2.1	983.6	-23.2	
PBT	4,511.8	4,490.2	4,953.9	-8.9	5,035.5	-10.4	
Tax Outgo	714.8	1,508.6	1,472.0	-51.4	893.6	-20.0	
PAT	3,797.1	2,981.6	3,481.9	9.1	4,141.9	-8.3	Net profit increased 9.1% with cut in corporate tax earlier in the year & reassessment of deferred tax liabilities
Adjusted PAT	3,797.1	2,981.6	3,481.9	9.1	4,250.6	-10.7	
Key Metrics YoY growth (%)							
Cigarette Growth (%)	-6.5	-0.7	11.1		4.7		Volume dip of 12% in cigarettes space
FMCG (Others) Growth (%)	-2.8	7.9	7.3		3.5		FMCG business impacted by supply chain disruptions
Hotels Growth (%)	-8.6	-8.5	24.9		22.2		
Agri Business Growth (%)	4.3	3.2	16.2		19.3		
Paperboards Growth (%)	-5.1	0.8	18.2		9.9		

Source: Company, ICICI Direct Research

Exhibit 2: Change in estimates

₹ Crore	FY21E			FY22E			Comments
	Old	New	% Change	Old	New	% Change	
Sales	46280.3	44684.5	-3.4	51980.1	51192.6	-1.5	We change our estimates factoring in negative impact of lockdown
EBITDA	18190.9	17295.3	-4.9	20530.4	19762.2	-3.7	
EBITDA Margin (%)	38.8	38.2	-61 bps	39.0	38.1	-89 bps	
PAT	14560.4	14103.8	-3.1	16589.9	16500.8	-0.5	
EPS (₹)	12.1	11.6	-3.7	13.7	13.6	-1.2	

Source: Company, ICICI Direct Research

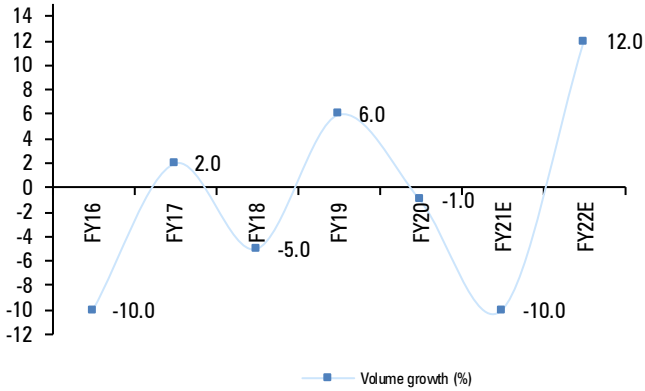
Exhibit 3: Assumptions

	Current						Earlier		Comments
	FY17	FY18	FY19	FY20	FY21E	FY22E	FY21E	FY22E	
Cigarettes (₹ cr)	34,002.0	22,894.0	20,713.0	21,201.7	20,972.8	24,075.7	22,265.1	24,874.9	
Cigarette Vol. Growth (%)	2.0	-4.0	6.0	-1.0	-10.0	12.0	-10.0	9.0	Change in volume growth estimate for FY22 factoring in swift recovery
Cigarette Price Growth (%)	3.0	12.0	9.5	4.0	10.0	2.5	10.0	2.5	
FMCG - Others (₹ cr)	10,498.6	11,314.4	12,505.3	12,844.2	15,928.9	17,863.5	14,411.0	15,623.9	Factoring in higher FMCG growth with consumer shift towards packaged foods & greater awareness about hygiene products
Hotels (₹ cr)	1,329.3	1,404.1	1,665.5	1,837.3	1,021.3	1,912.8	1,021.3	1,912.8	
Paperboards (₹ cr)	3,819.0	5,249.6	5,860.2	6,107.2	5,826.4	6,173.5	6,320.4	6,735.5	

Source: Company, ICICI Direct Research

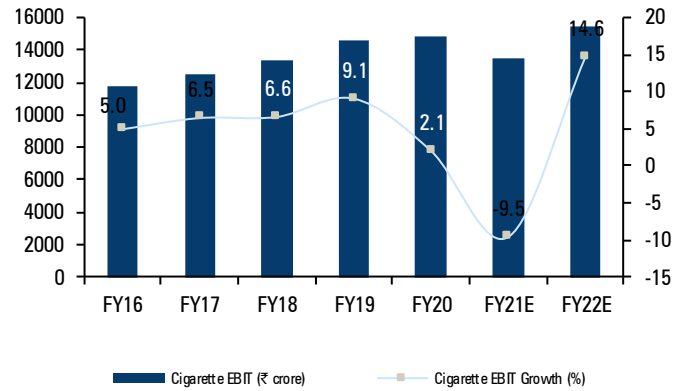
Key Metrics

Exhibit 4: Cigarette volume growth trend



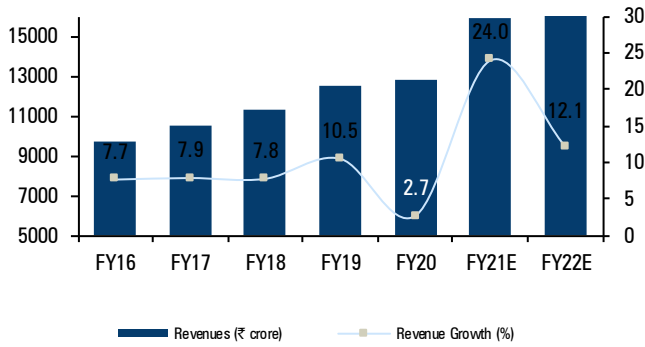
Source: Company, ICICI Direct Research

Exhibit 5: Cigarette EBIT growth trend



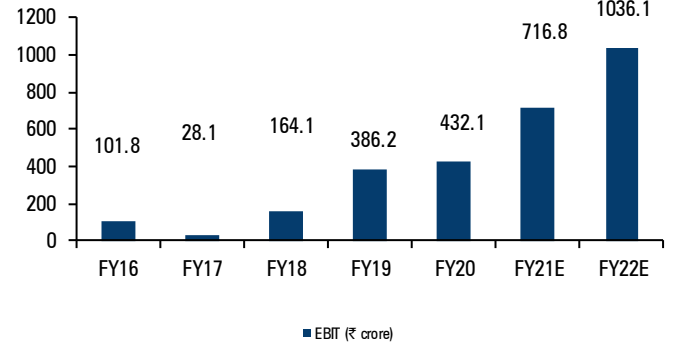
Source: Company, ICICI Direct Research

Exhibit 6: FMCG revenue (₹ crore) and growth (%) trend



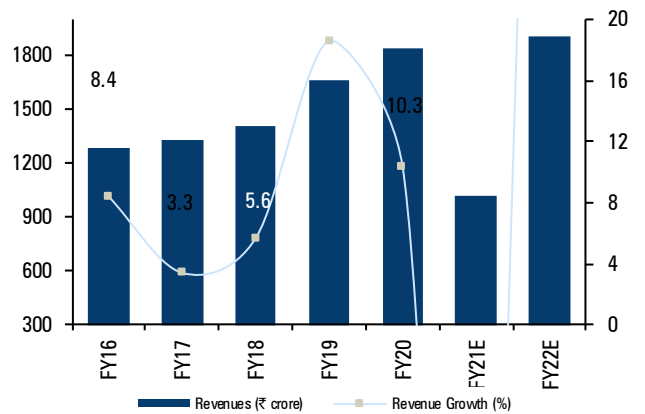
Source: Company, ICICI Direct Research

Exhibit 7: FMCG EBIT (₹ crore) trend



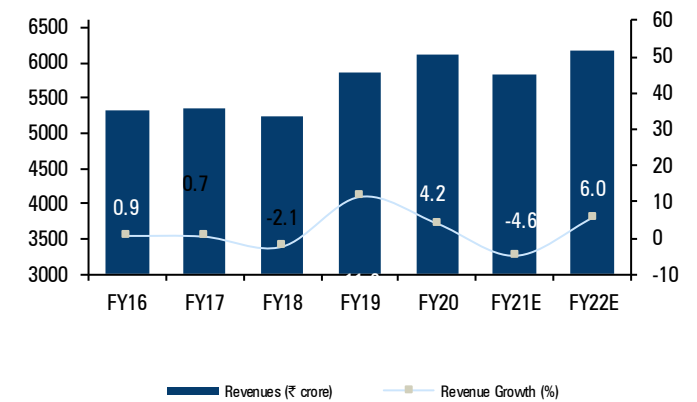
Source: Company, ICICI Direct Research

Exhibit 8: Hotel revenue (₹ crore) and growth (%) trend



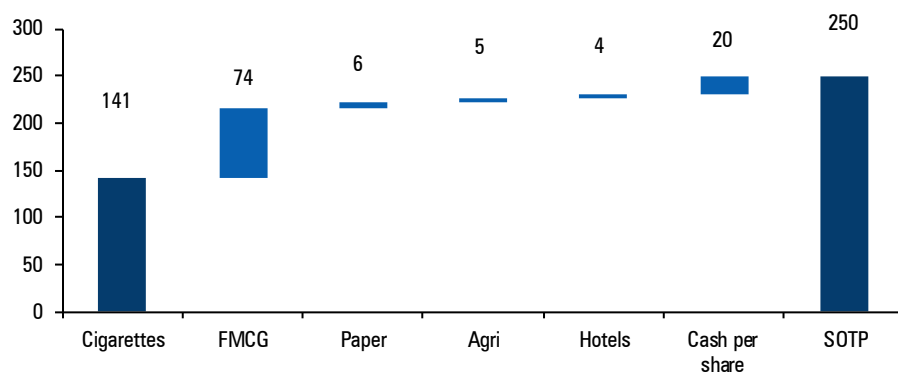
Source: Company, ICICI Direct Research

Exhibit 9: Paperboards revenue (₹ crore) and growth (%) trend



Source: Company, ICICI Direct Research

Exhibit 10: Sum of the parts valuation



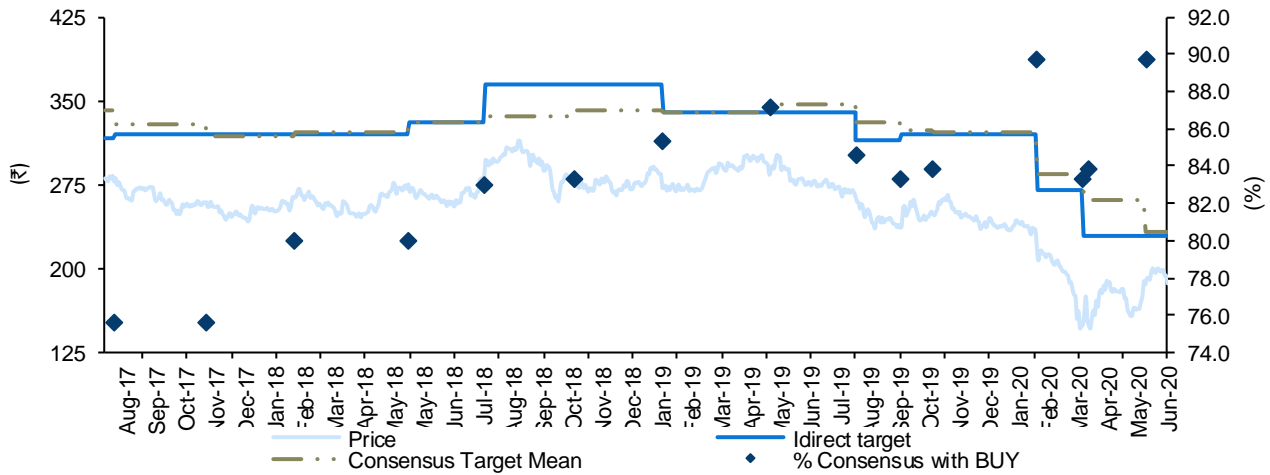
Source: Company, ICICI Direct Research

Exhibit 11: Valuations

	Sales (₹ cr)	Growth (%)	EPS (₹)	Growth (%)	PE (x)	EV/EBITDA (x)	RoNW (%)	RoCE (%)
FY19	44432.7	10.4	10.3	11.1	19.0	13.5	21.5	30.8
FY20	46323.7	4.3	12.5	21.4	15.6	12.9	23.8	29.4
FY21E	44684.5	-3.5	11.6	-6.8	16.8	13.4	21.5	28.0
FY22E	51192.6	14.6	13.6	17.0	14.4	11.8	23.7	30.9

Source: Company, ICICI Direct Research

Exhibit 12: Recommendation History vs. Consensus



Source: Bloomberg, Company, ICICI Direct Research

Exhibit 13: Top 10 Shareholders

Rank	Investor Name	Filing Date	% O/S	Position (m)	Change (m)
1	British American Tob	31-Mar-20	29.4	3619.6	0.0
2	Life Insurance Corp	31-Dec-19	16.3	1997.6	0.0
3	Oriental Insurance C	31-Dec-19	11.1	1363.6	1227.6
4	Unit Trust Of India	30-Jun-19	7.9	974.5	0.0
5	Hdfc Asset Managemen	31-Mar-20	2.4	294.5	19.8
6	Sbi Funds Management	31-Mar-20	2.3	285.3	40.2
7	Icici Prudential Ass	31-Mar-20	2.1	259.2	7.3
8	General Insurance Co	31-Dec-19	1.8	215.9	4.3
9	Jpmorgan Chase & Co	22-Apr-20	1.5	183.3	42.7
10	New India Assurance	31-Dec-19	1.5	181.5	-4.8

Source: Reuters, ICICI Direct Research

Exhibit 14: Shareholding Pattern

(in %)	Mar-19	Jun-19	Sep-19	Dec-19	Mar-20
Promoter	-	-	-	-	-
FII	17.0	16.8	15.6	15.2	14.65
DII	38.2	38.4	42.5	42.6	42.5
Others	44.8	44.9	41.9	42.2	42.9

Source: Company, ICICI Direct Research

Financial summary

Exhibit 15: Profit and loss statement				
	₹ crore			
(Year-end March)	FY19	FY20	FY21E	FY22E
Total operating Income	44,995.7	46,807.3	45,277.4	51,886.2
Growth (%)	10.8	4.0	-3.3	14.6
Raw Material Expenses	17,305.2	17,235.1	17,728.4	19,953.2
Employee Expenses	2,728.4	2,658.2	2,769.9	3,098.0
Marketing Expenses	976.5	0.0	777.5	1,161.7
Administrative Expenses	4,518.4	0.0	1,700.8	1,880.9
Excise Duty	788.7	1187.6	3147.2	3462.0
Other expenses	2,161.6	7,822.1	5,005.3	6,030.0
Total Operating Expenditure	27,690.1	28,903.1	27,982.1	32,123.9
EBITDA	17,305.5	17,904.3	17,295.3	19,762.2
Growth (%)	11.4	3.5	-3.4	14.3
Depreciation	1,311.7	1,563.3	1,573.2	1,438.4
Interest	34.2	55.7	49.7	50.7
Other Income	2,484.5	3,013.7	3,183.0	3,786.8
PBT	18,444.2	19,166.8	18,855.3	22,059.9
Total Tax	5,979.8	4,030.8	4,751.5	5,559.1
PAT	12,464.3	15,136.1	14,103.8	16,500.8
Growth (%)	11.1	21.4	-6.8	17.0
EPS (₹)	10.3	12.5	11.6	13.6

Source: Company, ICICI Direct Research

Exhibit 16: Cash flow statement				
	₹ crore			
(Year-end March)	FY19	FY20	FY21E	FY22E
Profit After Tax	12,958.3	14,516.7	14,103.8	16,500.8
Add: Depreciation	1,311.7	1,563.3	1,573.2	1,438.4
(Inc)/dec in Current Assets	-1,048.8	1,076.5	-90.3	-2,510.2
Inc/(dec) in CL and Provisions	549.1	-658.5	-307.1	428.1
CF from operating activities	11,749.1	13,806.2	15,279.6	15,857.2
(Inc)/dec in Investments	0.0	0.0	-3,683.7	-3,898.8
(Inc)/dec in LT loans & advances	0.0	0.0	0.0	0.0
(Inc)/dec in Fixed Assets	-2,759.5	-2,113.6	-1,020.0	-1,020.0
Others	0.0	0.0	0.0	0.0
CF from investing activities	-5,081.8	-5,516.7	-4,803.7	-5,018.8
Issue/(Buy back) of Equity	5.4	3.4	0.0	0.0
Inc/(dec) in loan funds	-6.9	-3.2	10.0	10.0
Dividend paid & dividend tax	-7,486.9	-8,422.2	-12,476.6	-12,476.6
Others	0.0	0.0	25.5	28.8
CF from financing activities	-6,600.6	-7,890.9	-12,441.1	-12,437.8
Net Cash flow	66.7	398.6	-1,965.2	-1,599.4
Opening Cash	96.0	162.8	561.9	-1,403.3
Cash with Bank	3,606.0	6,281.4	6,281.4	6,281.4
Closing Cash	3,768.7	6,842.8	4,878.1	3,278.7

Source: Company, ICICI Direct Research

Exhibit 17: Balance sheet				
	₹ crore			
(Year-end March)	FY19	FY20	FY21E	FY22E
Liabilities				
Equity Capital	1,225.9	1,229.2	1,229.2	1,229.2
Reserve and Surplus	56,723.9	62,799.9	64,427.1	68,451.4
Total Shareholders funds	57,949.8	64,029.2	65,656.4	69,680.6
LT Borrowings & Provisions	7.9	5.6	15.6	25.6
Deferred Tax Liability	2,044.1	1,617.7	1,617.7	1,617.7
Others Non-current Liabilities	174.5	234.3	259.7	288.5
Total Liabilities	60,176.4	65,886.7	67,549.4	71,612.4
Assets				
Gross Block	32,259.3	32,180.3	34,960.5	35,960.5
Less: Acc Depreciation	11,684.4	13,247.7	14,820.9	16,259.4
Net Block	20,574.9	18,932.6	20,139.5	19,701.1
Capital WIP	3,401.4	2,780.2	1,000.0	1,000.0
Net Intangible Assets	540.8	1,199.6	1,219.6	1,239.6
Non-current Investments	14,071.5	13,455.6	17,139.3	21,038.0
LT loans & advances	6.2	3.3	3.3	3.3
Current Assets				
Inventory	7,587.2	8,038.1	8,324.8	8,415.2
Debtors	3,646.2	2,092.0	4,284.8	4,207.6
Loans and Advances	5.0	4.9	5.0	5.8
Other Current Assets	2,055.2	2,353.7	2,448.5	2,805.1
Cash	3,768.7	6,843.3	4,878.1	3,278.7
Current Investments	12,506.6	17,175.0	14,690.8	16,830.4
Current Liabilities	9,621.6	9,089.4	8,782.3	9,210.4
Creditors	3,368.3	3,446.7	3,183.0	3,506.3
Provisions	25.2	117.9	25.4	29.1
Short term debt & other CL	6,228.0	5,524.7	5,573.9	5,675.0
Application of Funds	60,176.4	65,886.7	67,549.4	71,612.4

Source: Company, ICICI Direct Research

Exhibit 18: Key ratios				
	₹ crore			
(Year-end March)	FY19	FY20	FY21E	FY22E
Per share data (₹)				
EPS	10.3	12.5	11.6	13.6
Cash EPS	11.3	13.7	12.9	14.8
BV	47.7	52.7	54.0	57.4
DPS	5.8	10.2	10.2	11.6
Cash Per Share	3.1	5.6	4.0	2.7
Operating Ratios (%)				
EBITDA Margin	38.5	38.3	38.2	38.1
PBT / Total Operating income	41.0	41.2	41.6	42.5
PAT Margin	27.7	32.3	31.1	31.8
Inventory days	62.3	63.3	68.0	60.0
Debtor days	30.0	16.5	35.0	30.0
Creditor days	27.7	27.2	26.0	25.0
Return Ratios (%)				
RoE	21.5	23.8	21.5	23.7
RoCE	30.8	29.4	28.0	30.9
RoIC	29.5	29.1	26.3	28.1
Valuation Ratios (x)				
P/E	19.0	15.6	16.8	14.4
EV / EBITDA	13.5	12.9	13.4	11.8
EV / Net Sales	5.2	5.0	5.2	4.6
Market Cap / Sales	5.3	5.1	5.3	4.6
Price to Book Value	4.1	3.7	3.6	3.4
Solvency Ratios				
Debt/EBITDA	0.0	0.0	0.0	0.0
Debt / Equity	0.0	0.0	0.0	0.0
Current Ratio	2.7	3.3	3.4	3.5
Quick Ratio	1.9	2.4	2.5	2.6

Source: Company, ICICI Direct Research

Exhibit 19: ICICI Direct coverage universe (FMCG)

Sector / Company	CMP	TP	Rating	M Cap	EPS (₹)			P/E (x)			Price/Sales (x)			RoCE (%)			RoE (%)		
	(₹)	(₹)		(₹ Cr)	FY20	FY21E	FY22E	FY20	FY21E	FY22E	FY20	FY21E	FY22E	FY20	FY21E	FY22E	FY20	FY21E	FY22E
Colgate (COLPAL)	1,394	1,350	Hold	37,915	30.0	29.3	33.6	46.4	47.5	41.5	8.4	8.3	7.6	60.7	66.2	77.5	52.2	51.2	50.8
Dabur India (DABIND)	456	520	Buy	80,096	8.2	8.8	10.3	55.7	51.8	44.4	9.2	9.1	7.9	26.1	25.7	28.3	21.9	22.5	24.8
Hindustan Unilever (HINLEV)	2,151	2,250	Hold	505,356	31.2	33.5	41.3	69.0	64.1	52.0	13.2	12.6	0.0	82.5	24.4	30.3	85.7	20.2	25.0
ITC Limited (ITC)	195	250	Buy	236,874	12.5	11.6	13.6	15.6	16.8	14.4	5.1	5.3	4.6	29.4	28.0	30.9	23.8	21.5	23.7
Jyothy Lab (JYOLAB)	125	115	Hold	4,590	5.3	4.3	4.1	23.7	29.0	30.2	2.6	2.8	3.0	28.6	24.3	23.3	22.6	21.7	18.8
Marico (MARLIM)	344	300	Hold	44,383	8.1	7.8	9.5	42.6	43.9	36.4	6.1	6.3	5.4	41.0	40.1	46.9	34.5	33.8	40.3
Nestle (NESIND)	16,676	18,000	Hold	160,790	204.3	230.9	269.4	81.6	72.2	61.9	13.1	12.1	10.6	56.9	59.3	65.9	101.9	114.1	123.1
Tata Consumer Product (TATGLO)	384	440	Buy	35,386	5.0	8.7	10.9	76.8	44.2	35.2	3.7	3.4	3.2	6.9	7.9	8.8	4.6	5.9	7.1
VST Industries (VSTIND)	3,138	4,000	Buy	4,846	196.9	124.8	216.3	15.9	25.1	14.5	3.9	4.4	3.5	52.1	32.9	45.6	38.6	24.3	33.7
Varun Beverage (VARBEV)	690	580	Reduce	19,593	16.6	9.9	18.1	41.5	69.7	38.1	4.9	3.8	2.7	15.5	11.3	16.3	14.2	8.8	14.2
Zydus Wellness (ZYDWEL)	1,275	1,530	Buy	7,352	32.2	31.6	50.3	39.5	40.3	25.4	4.2	4.4	3.6	5.9	5.7	7.4	5.4	5.1	7.5

Source: Company, ICICI Direct Research

RATING RATIONALE

ICICI Direct endeavours to provide objective opinions and recommendations. ICICI Direct assigns ratings to its stocks according to their notional target price vs. current market price and then categorizes them as Buy, Hold, Reduce and Sell. The performance horizon is two years unless specified and the notional target price is defined as the analysts' valuation for a stock

Buy: >15%

Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%



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