

## ITC Ltd

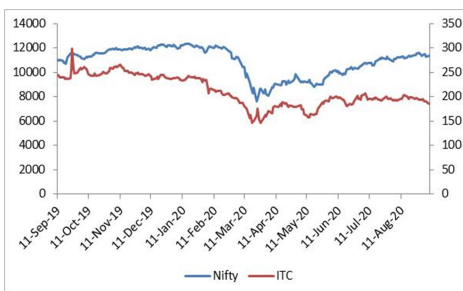
Analyst Recommendation: BUY

BSE Code: 500875      NSE: ITC Ltd      Reuters Code: ITC.NS      Bloomberg Code: ITC:IN

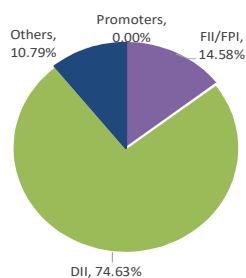
**CMP: Rs 188**  
**2 Year Target - Rs 240**

Face Value	1.0
Market Cap (Rs cr)	2,31,513
52 week high/low	134.6/266.3
Beta	0.65
Shares O/S (Cr)	1231
Book Value per Share (Rs)	53.3
Sensex	38,365
Nifty	11,317

### 1 yr. Price Chart of Stock and Nifty



### Shareholding pattern as on 31<sup>st</sup> Mar 2020.



### Investor's Rationale

#### ➤ Discounted Valuation as compared to peers for FMCG Business

ITC aspires to generate Rs 1tn sales from its FMCG business by 2030. Over 60 new products were launched in FY20. The company's robust pipeline mainly comprises packaged foods and hygiene segments. In response to the surge in demand of packaged food (staples, noodles, biscuits, dairy) and hygiene products post Covid threat, company has scaled up manufacturing manifold in these products. Ashirvaad atta, Yippee noodles have grown >30% YoY; Sunfeast biscuits and Bingo grew >7% from FY19. Savlon and Nimyle brands also witnessed exceptional growth due to the pandemic. In keeping with the times, a slew of innovative products like Savlon surface disinfectant spray, Savlon Hexa hand sanitising liquid, Savlon germ protection wipes etc. were launched. However FMCG business of ITC has always traded at discount as compared to its peers. We anticipate going forward ITC's FMCG business should command valuation in line to its peers.

ITC's robust supply chain and distribution network covers +6mn retail outlets across various trade channels in rural and urban. ITC's FMCG products reach >140mn households in India. The company sustained its strong growth momentum in the MT channel and increased presence in E-com through ITC e-Store. In order to ensure availability of its products during lockdown, ITC developed direct-to-home distribution models like 'ITC Store on wheels' and partnerships with food aggregators like Dominos, Swiggy, Zomato etc

**Considering its solid positioning in tobacco business and growing reach of FMCG business. We value the stock at 20x its FY23E earnings to arrive at our Target Price of Rs 240.**

	FY19	FY20E	FY21E	FY22E
Revenue (Rs.Cr)	44,995.7	45,619.7	42,042.3	46,595.8
EBITDA (Rs. cr)	17,305.5	17,904.3	14,844.7	17,096.8
Adj. profit (Rs.Cr)	12,464.3	15,136.1	13,052.7	14,762.4
Adj. EPS (Rs.)	10.1	12.4	10.6	12.0
P/E (x)	18.7	15.2	17.8	15.7
EV/Net Sales	5.0	4.8	5.0	4.4
EV/EBITDA (x)	13.0	12.1	14.1	11.9
ROE (%)	0.2	0.2	0.2	0.2
ROCE (%)	0.2	0.2	0.2	0.2

## FMCG Cigarettes

Despite accounting for merely 10% of the tobacco consumed in the country, duty-paid cigarettes contribute more than 80% of the tax revenue generated from the tobacco sector.

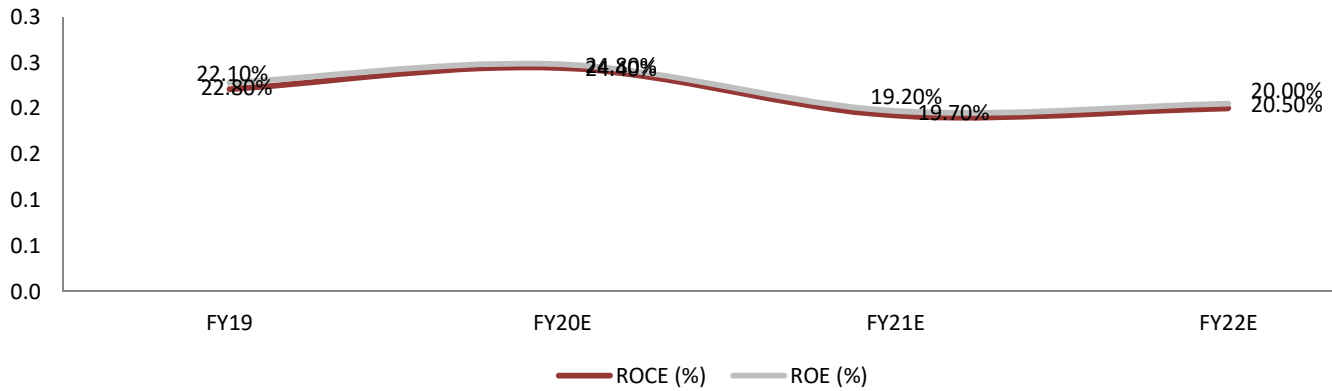
- On account of illegal cigarettes alone, the revenue loss to the Government is more than ` 150bn pa. About 68% of the tobacco consumed in the country remains outside the tax net.
- The tax incidence on cigarettes has nearly trebled (on a comparable basis) between FY12-18 and taxes on cigarettes are effectively about 55x higher than taxes on other tobacco products (on a per kg basis).
- In July 2017, the industry was further impacted by a sharp increase of 13% in tax incidence under the GST regime. While relative stability in taxation up to January 2020 provided some relief to the legal cigarette industry, with growth in tax revenue from cigarette >10% , volumes continued to be below June 2014 levels. Sharp increase of 13% in cigarette tax announced in the Union Budget in Feb'20 provide further fillip to the large and rapidly growing illicit cigarette trade in the country.
- The disparity in taxation on tobacco products has caused a progressive migration from consumption of duty-paid cigarettes to other lightly taxed / tax-evaded forms of tobacco products, comprising illegal cigarettes and bidi, chewing tobacco, gutkha, zarda, snuff, etc.
- During FY20 ITC launched innovative and differentiated offerings at the premium end such as Gold Flake Indie Mint & Gold Flake Luxury and extended Gold Flake Neo and Classic Rich & Smooth to other markets. It also deployed focused offers under the 'American Club', 'Wave', 'Player's Gold Leaf', 'Pall Mall', 'Navy Cut', and 'Flake' trademarks in strategic markets towards strengthening its market share.
- Covid-19 impact- Shutdown of manufacturing facilities and closure of markets and outlets across the country due to the pandemic led to considerable supply chain disruptions and significant decline in volume growth. However, after receiving permissions, ITC was able to resume operations and swiftly ramp up production and availability of its brands across markets

## FMCG-Others

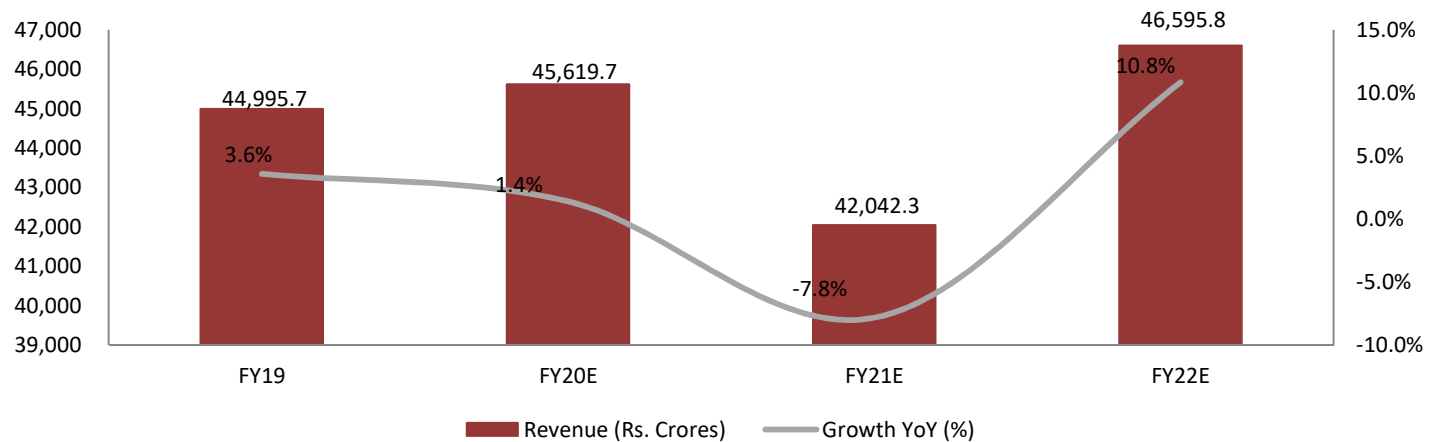
- Over the last 10 years, ITC's Non Cigarette FMCG business has grown ~3x at a CAGR of 13% to Rs 128bn. During the year, ITC sustained its market standing as the 3rd largest food company in the country (publicly listed) driven by sustained focus on innovation, brand building and expansion of distribution reach, both in traditional trade as well as e-commerce. During the year, more than 60 new products were launched across geographies.
- ITC is the market leader in packaged atta (Aashirvaad), premium cream biscuits (Sunfeast), and the bridges segment in snacks (Bingo). In terms of annual consumer spend, 'Aashirvaad' is ~Rs 60bn; 'Sunfeast' is over ` 40bn; 'Bingo!' ~Rs 27bn; 'Classmate' + ` 14bn; 'YiPee!' ~ Rs 13bn , 'Mangaldeep' + Rs 8bn and 'Vivel' ~ ` 5bn
- ITC's core portfolio of these eight brands represents an annual consumer spend of > ` 197bn in FY20 from ` 180bn in FY19.
- Staples business continued to focus on growing the value-added portfolio, consisting of Multigrain, Select and Sugar Release Control atta, which posted robust growth driven by higher salience in Modern Trade and e-Commerce channels. ITC also launched Gluten Free Flour, Ragi Flour and Multi-Millet Mix.
- In the Spices category, the company expanded its geographical footprint to 17 states and recorded healthy volume growth. In May 2020, ITC entered into a share purchase agreement on 23 May 2020 to acquire 100% of the equity share capital of Kolkata based Sunrise Foods Private Limited (SFPL) , which is primarily engaged in the business of spices under the trademark 'Sunrise'. The acquisition is aligned to ITC's aspiration to significantly scale up its spices business and expand its footprint across the country.
- YiPee! Noodles sustained its overall market standing as a strong, competitive No. 2 brand in the noodles space.

## Return ratios to be impacted due to reduced earning

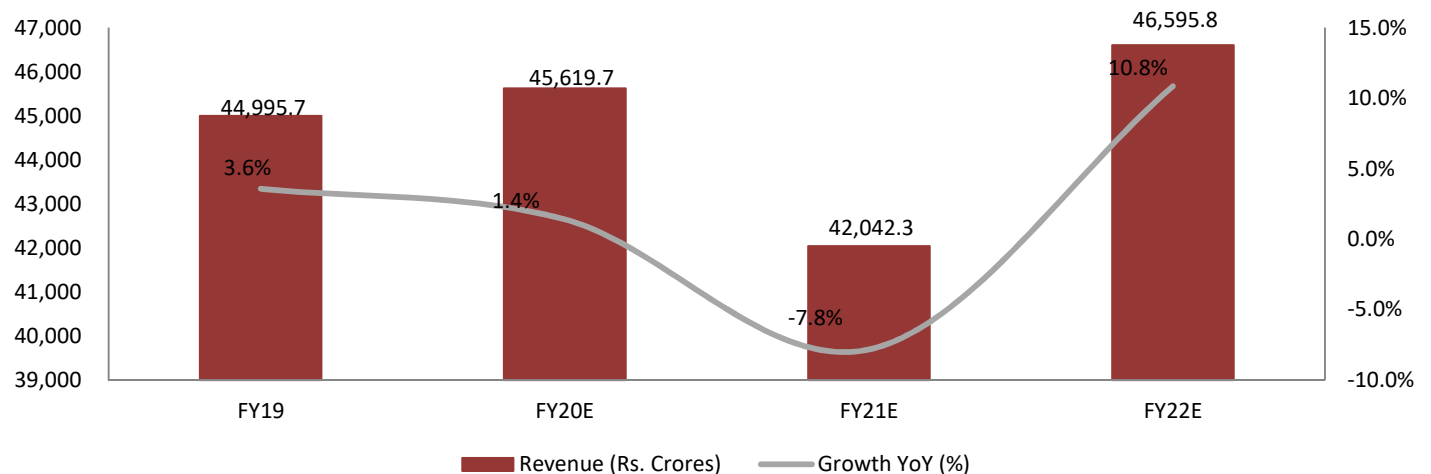
We expect substantial impact on earnings in FY21E and a gradual recovery o FY20-23E. We expect retrun ration to show improvement and return back to pre-covid levels from FY22.



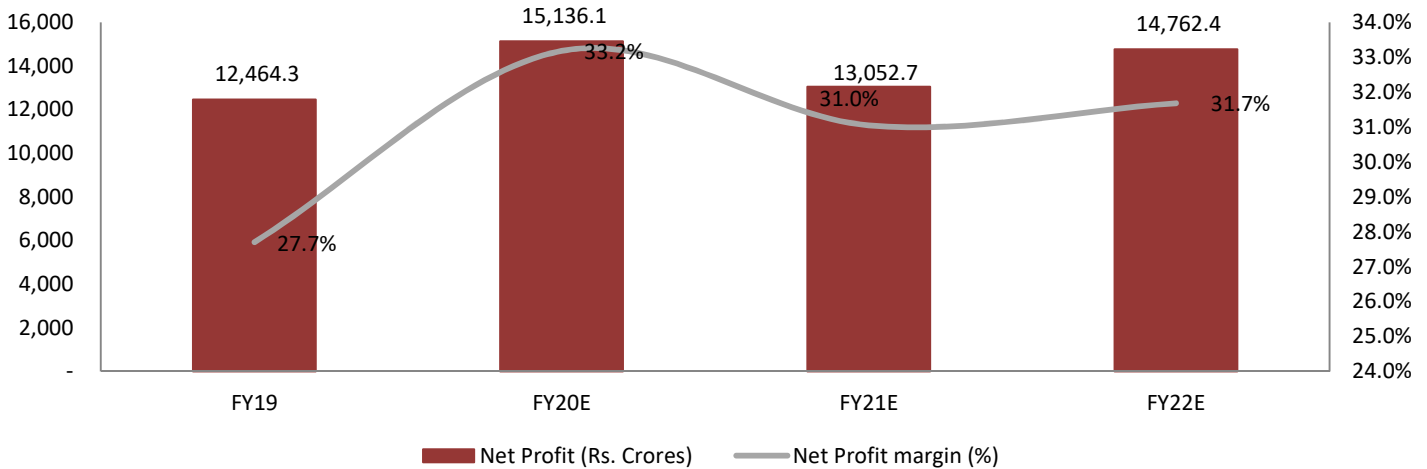
## Revenue growth will pick up starting from Jan-2021



## EBITDA to experience pressure



## Net profit to experience pressure for FY21



## Outlook and Valuation

Considering its solid positioning in tobacco business and growing reach of FMCG business. We value the stock at 20x its FY23E earnings to arrive at our Target Price of Rs 240. A potential upside of 28% from CMP of Rs 188

## ITC Ltd- Company Overview

ITC Limited is an Indian multinational conglomerate company headquartered in Kolkata, West Bengal. Established in 1910 as the Imperial Tobacco Company of India Limited, the company was renamed as the India Tobacco Company Limited in 1970 and later to I.T.C. Limited in 1974. The company now stands renamed to ITC Limited, where 'ITC' today is no longer an acronym or an initialised form. ITC has a diversified presence across industries such as Cigarettes, FMCG, Hotels, Packaging, Paperboards & Specialty Papers and Agribusiness. The company completed 100 years in 2010

## Key Risks

- Market not valuing the stock as per Intrinsic inherent Value.
- Sluggish demand growth on account of slump in economy
- Increased taxation on cigarettes by govt to meet the revenue shortfall



## Balance sheet (Consolidated)

(Rs crore)	FY19	FY20	FY21E	FY22E
<b>Liabilities</b>				
Paid up capital	1226	1229	1229	1229
Reserves and Surplus	56724	62800	67571	74051
<b>Net worth</b>	<b>57950</b>	<b>64029</b>	<b>68800</b>	<b>75280</b>
Minority interest	-	-	-	-
Total Debt	8	6	6	6
Other non- current liabilities	2044	1618	2120	2120
<b>Total Liabilities</b>	<b>60002</b>	<b>65652</b>	<b>70926</b>	<b>77406</b>
<b>Assets</b>				
Total fixed assets	19215	20198	20909	21411
Capital WIP	3,391.50	2,776.30	2,776.30	2,776.30
Loans and Advances	4,143.70	3,647.90	3,177.90	3,177.90
Investments	14,071.50	13,455.60	12,866.70	12,303.60
Inventory	-	-	-	-
Net Current Assets	19181	25575	31195	37738
Other non- current assets				
<b>Total Assets</b>	<b>60002</b>	<b>65652</b>	<b>70926</b>	<b>77406</b>

## Equity Research

## Profit & Loss Account (Consolidated)

(Rs crore)	FY19	FY20	FY21E	FY22E
<b>Total operating Income</b>				
Raw Material cost	17305	17235	17123	18798
Employee cost	2728	2658	2732	2871
Other operating expenses	7657	7822	7343	7830
<b>EBITDA</b>	<b>17306</b>	<b>17904</b>	<b>14845</b>	<b>17097</b>
Depreciation	1312	1563	1488	1499
<b>EBIT</b>	<b>15994</b>	<b>16341</b>	<b>13357</b>	<b>15598</b>
Interest cost	34	56	59	61
Other Income	2485	2882	3515	3478
<b>Profit before tax</b>	<b>18444</b>	<b>19167</b>	<b>16813</b>	<b>19015</b>
Tax	5980	4031	3760	4253
<b>Profit after tax</b>	<b>12464</b>	<b>15136</b>	<b>13053</b>	<b>14762</b>
Minority Interests	-	-	-	-
P/L from Associates	-	-	-	-
<b>Adjusted PAT</b>	<b>12464</b>	<b>15136</b>	<b>13053</b>	<b>14762</b>



# Equity Research

## Cash Flow (Consolidated)

Y.E March (Rs crore)	FY19	FY20	FY21E	FY22E
<b>Pretax profit</b>	<b>18444</b>	<b>19167</b>	<b>16813</b>	<b>19015</b>
Depreciation	1312	1563	1488	1499
Chg in Working Capital	-6395	-6395	-6542	-6542
Others	4330	3626	8978	6557
Tax paid	-5980	-4031	-3760	-4253
<b>Cash flow from operating activities</b>	<b>11712</b>	<b>13931</b>	<b>16977</b>	<b>16276</b>
Capital expenditure	412	368	712	501
Chg in investments	0	616	589	563
Other investing cashflow	-6850	-6779	-737	-2501
<b>Cash flow from investing activities</b>	<b>-6438</b>	<b>-5795</b>	<b>564</b>	<b>-1437</b>
<b>Cash flow from financing activities</b>	<b>-4100</b>	<b>-5062</b>	<b>-7838</b>	<b>-8343</b>
<b>Net chg in cash</b>	<b>1174</b>	<b>3075</b>	<b>9702</b>	<b>6496</b>

## Key Ratios & Valuations (Consolidated)

Y.E March (Rs crore)	FY19	FY20E	FY21E	FY22E
<b>Growth (%)</b>				
Net Sales	10.8%	1.4%	-7.8%	10.8%
EBITDA	11.4%	3.5%	-17.10%	15.2%
Net profit	15.3%	22.5%	14.5%	10.1%
<b>Margin (%)</b>				
EBITDA	38.5%	39.2%	35.3%	36.7%
NPM	27.7%	33.2%	31.0%	31.7%
<b>Return Ratios (%)</b>				
RoE	22.8%	24.8%	19.7%	20.5%
RoCE	22.1%	24.4%	19.2%	20.0%
<b>Valuation(x)</b>				
P/E	18.7	15.2	17.8	15.7
EV/EBITDA	13.0	12.1	14.1	11.9
EV/Net Sales	5.0	4.8	5.0	4.4
<b>Per share data (Rs.)</b>				
EPS	10.1	12.4	10.6	12.0



# Equity Research

Large Cap.	Return	Mid/Small Cap.	Return
<b>Buy</b>	More than equal to 10%	<b>Buy</b>	More than equal to 15%
<b>Hold</b>	Between 10% & -5%	<b>Accumulate*</b>	Upside between 10% & 15%
<b>Reduce</b>	Less than -5%	<b>Hold</b>	Between 0% & 10%
		<b>Reduce/sell</b>	Less than 0%

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



**Member: BSE, NSE, MCX, MCX-SX, CDSL**

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