

BUY

CMP (Rs)	274
Target Price (Rs)	332
Potential Upside	21.2%
Sensex	53,019
Nifty	15,780

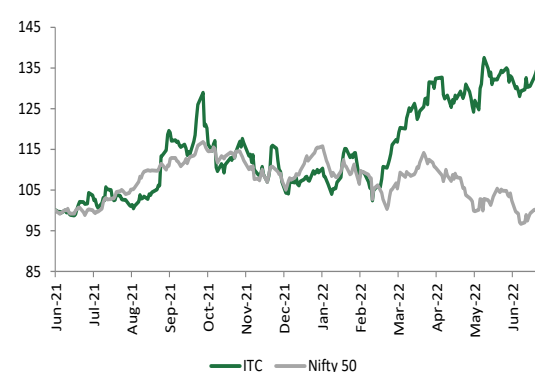
Key Stock data

BSE Code	500875
NSE Code	ITC
Bloomberg	ITC:IN
Shares o/s, Cr (FV 1)	1230.9
Market Cap (Rs Cr)	337,041
3M Avg Volume	18,920,262
52 week H/L	282/201

Shareholding Pattern

(%)	Sep-21	Dec-21	Mar-22
Promoter	0.0	0.0	0.0
FII	10.8	10.0	12.0
DII	43.7	43.8	42.8
Others	45.5	46.2	45.2

1 Year relative price performance



Research Analyst

Nirvi Ashar, MBA

nirvi.ashar@religare.com

A steady defensive bet

High Conviction Idea | Sector: FMCG | July 01, 2022

One of the largest players in consumer: ITC is one of the largest cigarette manufacturers and the second-largest FMCG player by market capitalization. It has a diversified business presence across FMCG (cigarettes & other products), hotels, paperboards and packaging and agri-business.

Cigarettes remain the core while other segments are on a path of revival: After a challenging FY21, ITC witnessed a strong volume revival across all its segments such as cigarettes, hotels, Agri & FMCG as well as paperboards in FY22. The growth was largely driven by easing restrictions, improvement in demand, focus on innovation and premiumization of products. However, amongst the segments, cigarettes still contribute the highest and are a core earning segment with a share of ~40.5% and

Continuous scaling of FMCG segment: ITC has been diversifying from cigarettes to FMCG and now its contribution to revenue has increased to 25.5% in FY22 from 11.3% in FY08. The next leg of growth will be led by a focus on product mix & premiumization, go-to-market strategy, increasing focus on direct-to-consumer platform and investment in brands by acquiring the stake.

Consistently rewarding shareholders: ITC is one of the private sector companies which have been consistently rewarding shareholders by paying dividends. In the last 5 years, the company has paid an average of 83% as dividend payout. Going ahead as well, the company announced that it is expected to maintain its dividend payout ratio on similar lines i.e. ~80-85%.

Cash-rich with zero debt: ITC has a strong balance sheet as it is debt-free and generates a healthy free cash flow of more than Rs 13,000 cr as of FY22 which is positive.

Valuation: We have estimated its revenue/EBITDA/PAT to grow at 10%/11.9%/12.2% CAGR over FY22-24E. We believe continuous growth in cigarettes along with a revival in all other segments largely FMCG and Agri will drive growth for the company. In addition, high dividend payout, debt-free status and strong free cash flow generation as compared to its peers make it one of the preferred picks in the sector. We have initiated coverage on ITC with a Buy rating and a target price of Rs 332.

Key Risk: 1) Increase in taxes on cigarettes. 2) High Inflation in raw material prices.

Financial Summary – consolidated

Particulars, Rs cr	FY21	FY22	FY23E	FY24E
Net revenue	49,273	60,669	66,705	73,376
EBITDA	17,003	20,659	23,168	25,879
EBITDAM (%)	34.5	34.1	34.7	35.3
APAT	13,390	15,486	17,399	19,496
APATM (%)	27.2	25.5	26.1	26.6
EPS (Rs)	10.9	12.6	14.1	15.8
PE (x)	25.2	21.8	19.4	17.3
RoE (%)	21.8	24.4	26.2	28.0

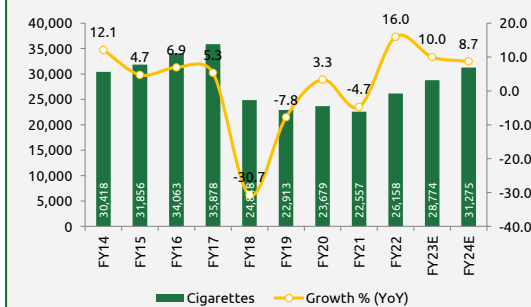
Source : RBL Research

Cigarette is a core earning segment with share of ~40.5% and 78.7% in revenue and profit. Innovation and strengthening the portfolio as per consumer needs would be on cards

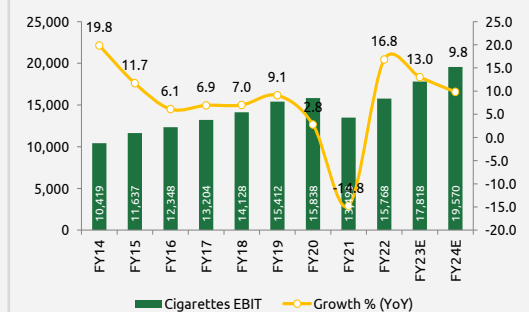
Cigarettes remain a core segment

Over the years, ITC has been highly dependent on cigarettes for its revenue as well as profits. In FY08, its share in revenue and profits from cigarettes was 64.2% and 82.4%, respectively. However, due to increase in taxation (excise duty and GST) on tobacco and cigarettes led to increase in the price per unit which hampered volumes to a certain extent. The company thus planned to diversify its business into other segments. Although, it could manage to diversify its revenue stream but on the profit front still the charm of cigarettes has not faded as other segments could not scale up their profits as anticipated. At present (in FY22), cigarettes remain a core earning segment as its contribution is highest with a share of ~40.5% and 78.7% in revenue and profit (before tax). In FY21, the company's cigarette revenue was impacted due to Covid-led disruption however easing of restrictions, innovation of differentiated variants, focus on premiumization and no increase in taxes of cigarettes (from the past 2 years) has aided the recovery in volumes of legal cigarettes to illicit trade. Going ahead, innovation and strengthening the portfolio as per consumer needs would be on cards. Besides, lower input cost pressure will drive margin growth.

Cigarettes revenue (Rs Cr) and growth trend (%)



Cigarettes EBIT (Rs Cr) and growth trend (%)

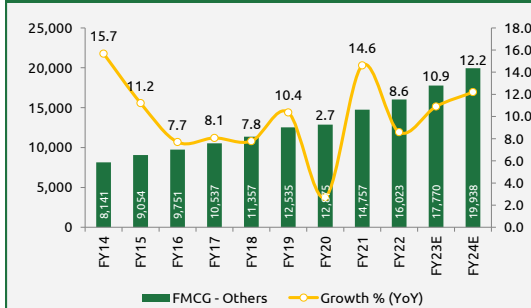


Source : RBL Research

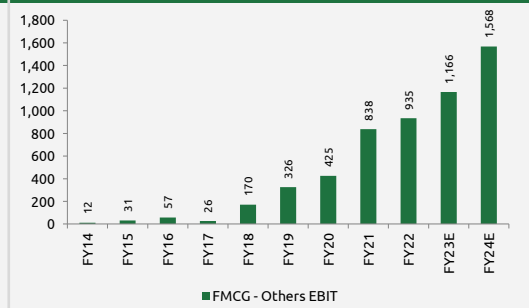
Focus to be on continuous scaling of FMCG segment

ITC has been continuously focusing on scaling up its other businesses to diversify from cigarettes. FMCG (other) segment revenue has seen a CAGR of 8% in FY20-22 driven by demand for products in out-of-home categories, staples and health & hygiene portfolios. Meanwhile, the focus will be to strengthen core brands such as Aashirwad, Sunfeast, Bingo, Savlon, Yipee, as well build adjacent categories including, Fabelle, B-natural, Fiama, etc. Besides, the company's multi-channel go-to-market strategy is aiding growth for the segment. It would aim to strengthen the direct-to-consumer (D2C) platform, increase coverage of outlets, drive sales from e-commerce and enhance reach to rural markets. Moreover, the company's constant focus is on product mix, premiumization and innovation that has helped to mitigate the risk of the rise in input cost which has been a concern in the recent past. In addition, the company is looking for inorganic growth opportunities that are value accretive and investment in manufacturing and logistics facilities would help in reducing cost and timely delivery. All these strategies would help drive the management goal of double-digit growth and enhancing margins.

FMCG revenue to witness consistent growth (Rs Cr)



FMCG EBIT to grow at a steady pace (Rs Cr)



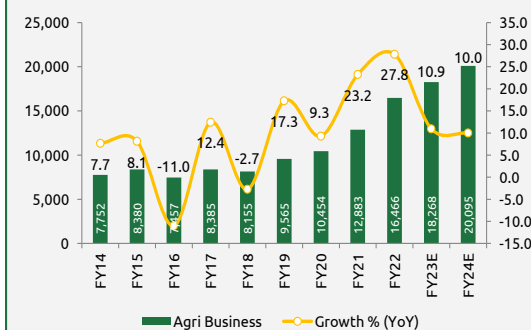
Source : RBL Research

Demand improvement, recovery in revenue and focus on value added products will drive growth for ITC's agri, hotel and paperboard businesses

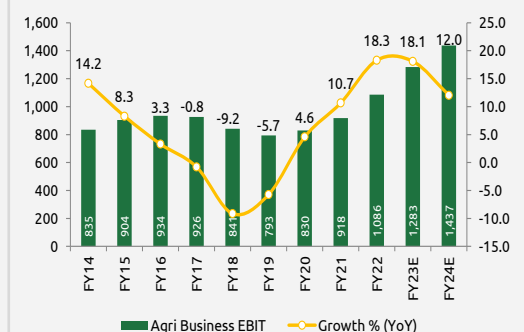
Steady recovery in other businesses

ITC's other businesses witnessed a smart recovery in FY22, after a decline in FY21. The growth in the Agri business was driven largely by exports of leaf tobacco, wheat, rice and spices coupled with a wide sourcing network across geographies and multi-modal transport capability. In the future as well, ITC would continue with the same strategy as it would strengthen its leadership position. For the Hotel segment, the company saw a recovery in occupancy on the back of the lower impact of the third wave, easing restriction, pick-up in travel activity for leisure and business and demand for wedding and weekend stay. Further, along with demand improvement, the company's efforts of cost control and property addition will drive growth. For the paperboards segment, increase in demand from end-user segments, product mix with a focus on value-added products and higher realization drove growth. Further, the company has set up a manufacturing facility in West India which is expected to be commissioned by FY23 and that would aid in developing suitable paper and paperboard substrates to replace single-use plastics, and at the same time cater to the rising demand for paper products.

Agri revenue (Rs Cr) & growth trend (%)

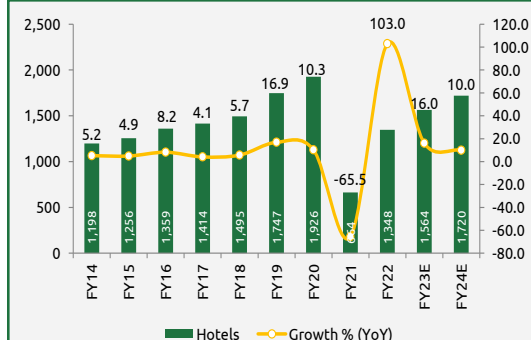


Agri Business EBIT (Rs Cr) and growth trend

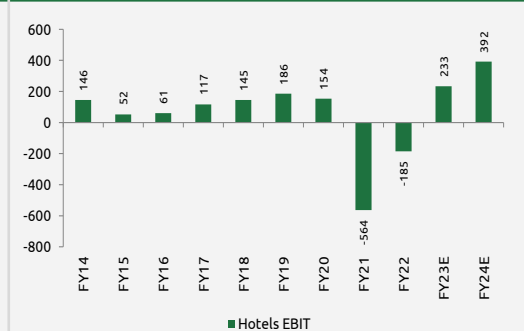


Source : RBL Research

Hotel business to grow with improvement in occupancy

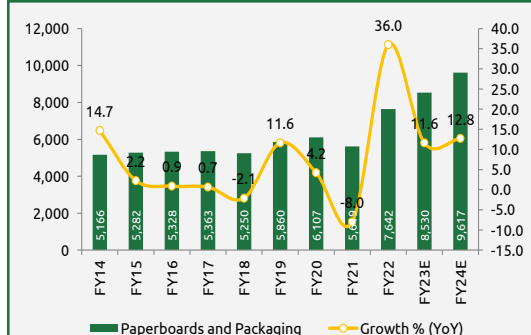


Hotel EBIT to turn profitable (Rs Cr)

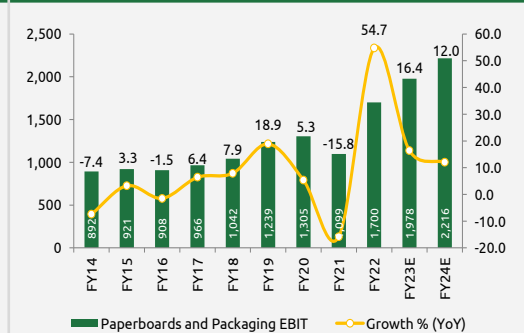


Source : RBL Research

Value added products to drive Paperboard revenue



Paperboards & Packaging EBIT (Rs Cr)

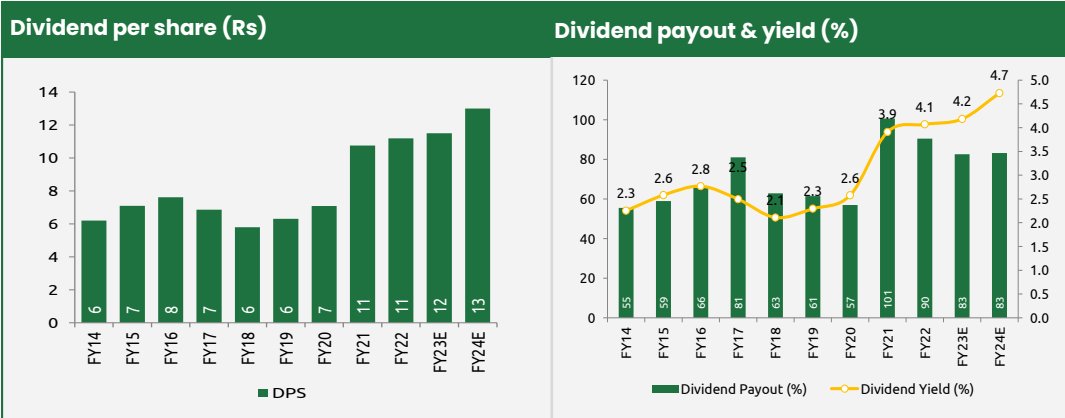


Source : RBL Research

ITC's dividend payout ratio is expected to be in the range of 80-85%

Strong dividend paying company

ITC is one of the private sector companies which have been consistently rewarding shareholders by paying dividends. The dividend yield in FY22 has been ~4.1% and is expected to increase to 6.3% by FY24E with better performance, lower capital expenditure and high cash generation. Further, in the last 5 years, the company's dividend payout has been an average of 83% and they are expected to maintain the ratio in the range of 80-85% which is positive.

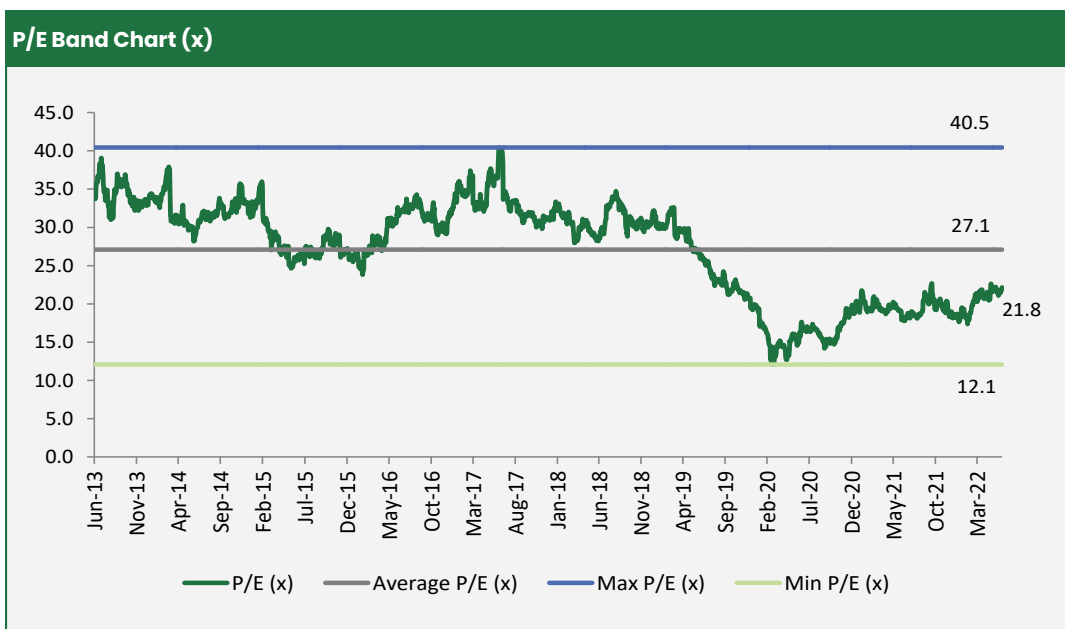


Source : RBL Research

ITC's continuous focus on driving segmental growth via innovation, investment and inorganic opportunities is positive. In addition, high dividend payout, debt-free status and strong free cash flow makes it one of our preferred pick in the sector

Valuation

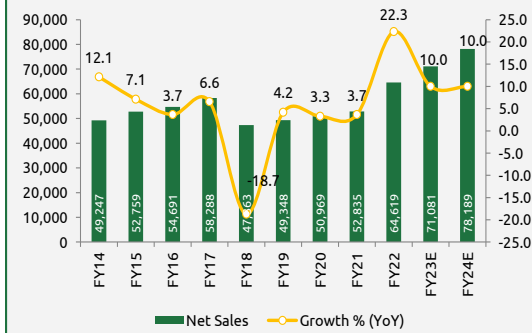
ITC is a well-diversified player across segments like FMCG (cigarettes, others), Hotels, paperboards, and IT. Apart from growing in cigarettes, the company's main focus will be to drive FMCG business by focusing on core brands, innovating and investing behind adjacent brands and setting up distribution manufacturing facilities which would help cost optimization. In addition, concentration on sales via digital and direct to consumers will aid sentiments. Moreover, ITC plans to focus on scaling its Agri, hotels and paperboard segments by continuously introducing value-added products, digital enhancement and managing the supply chain. We have estimated its revenue/EBITDA/PAT to grow at 10%/11.9%/12.2% CAGR over FY22-24E. In addition, its high dividend payout, debt-free status and strong free cash flow generation as compared to its peers make it one of the preferred picks in the sector. We have initiated coverage on ITC with a Buy rating and a target price of Rs 332.



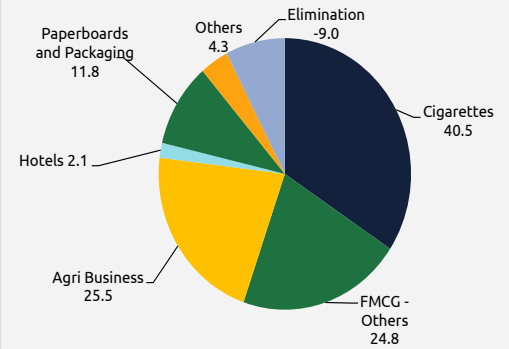
Source : RBL Research

Story in charts

Net sales expected to grow at 10% CAGR over FY22-24E

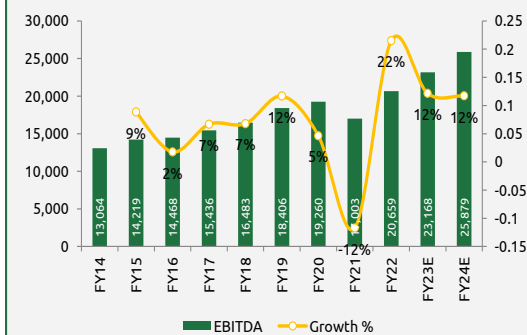


Segment share in gross revenue (%)

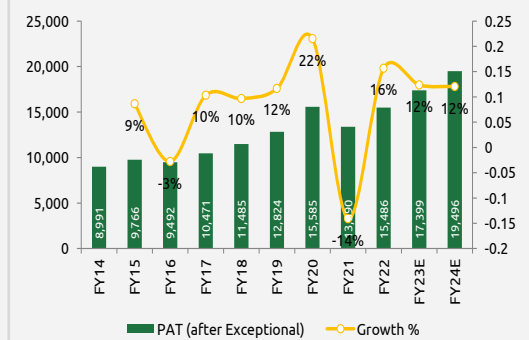


Source : RBL Research

EBITDA expected to grow at 11.9% CAGR over FY22-24E

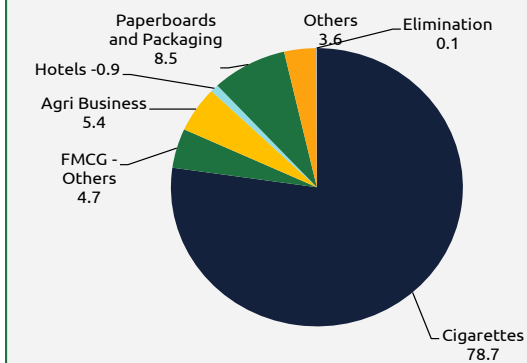


PAT expected to grow at 12.2% CAGR over FY22-24E

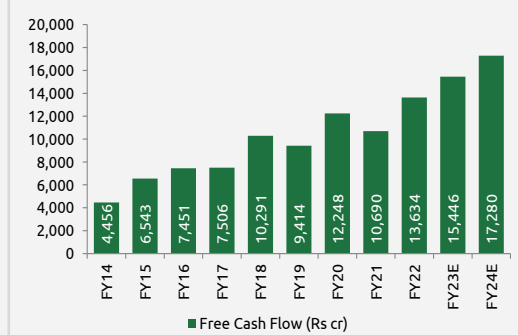


Source : RBL Research

Segment share in EBIT (%)

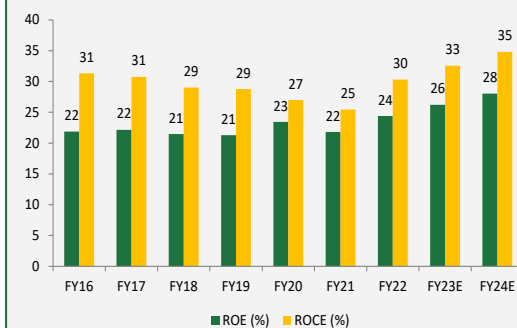


Free cash flow (Rs Cr)

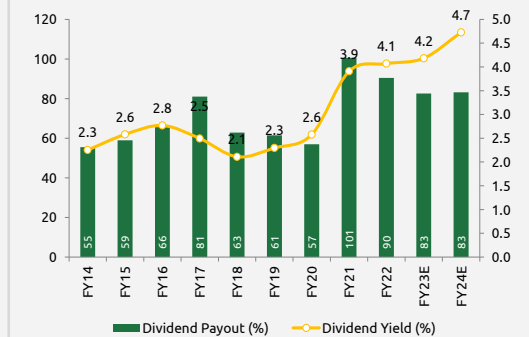


Source : RBL Research

ROE and ROCE is expected to improve (%)



Dividend payout & yield (%)



Source : RBL Research

Company Background



FMCG Businesses

- o India's Leading FMCG marketer
- o 25+ Mother Brands in Foods, Personal Care Products, Education & Stationery Products, Agarbattis & Matches
- o Annual consumer spend of over ₹24,000 crores
- o Exporting to over 60 countries
- o Products reach over 200 million households in India
- o Products available in nearly 7 million retail outlets in India
- o ITC e-Store: 45+ categories, over 700 products
- o Extensive digital adoption across manufacturing, distribution, consumer insighting



Agri Business

- o Powering NextGen Agriculture through value addition, digital adoption and climate smart agriculture
- o Extensive engagement with farmers for over 100 years
- o ITCMAARS*- bringing the power of digital technologies to farmers
- o ITC e-Choupal has empowered 4 million farmers
- o Sourcing over 4 mn tonnes of agri produce from 22 states
- o Supporting over 20 value chain clusters
- o Largest procurer of wheat after the Government's FCI
- o One of India's largest exporters of agri commodities



Paperboards & Packaging Businesses

- o One of India's largest, greenest and most technologically advanced
- o Clear leader in the Value-added Paperboards segment
- o Leading provider of superior value-added packaging solutions
- o Anchoring local forestry value chains, empowering farmers, enhancing green cover
- o First in India to obtain Forest Stewardship Council-Forest Management (FSC-FM)
- o Extensive use of Industry 4.0 technologies
- o Pioneer in sustainable packaging



Source : Company

Company Background



ITC Hotels

- o Trailblazer in 'Responsible Luxury' & Sustainability
- o One of India's pre-eminent hospitality chains
- o 113 hotel properties in over 70 locations
- o Iconic Cuisine Brands
- o All luxury collection hotels are LEED® Platinum certified
- o ITC Hotels and Welcomhotels have achieved the global 2030 Carbon emissions targets well ahead of time
- o ITC Windsor, ITC Grand Chola and ITC Gardenia - first three LEED® Zero Carbon Hotels in the world



ITC Infotech

- o Wholly owned subsidiary of ITC Limited
- o Leading global technology services and solutions provider with presence in 29 countries
- o Partner of choice for customers in their Digital Transformation and Software as a Service (SaaS) adoption journey
- o One of industry's largest organizations of Product Lifecycle Management services expertise
- o Focus on sharpening domain-led offerings in Digital Manufacturing Solutions, Digital Workplace Solutions, Core Hospitality Automation and Customer Experience
- o Business-friendly solutions leveraging strategic pillars of Customer Centricity, Employee Centricity and Operational Excellence



Source : Company

P&L Account – consolidated

Particulars, Rs cr	FY21	FY22	FY23E	FY24E
Net sales	49,273	60,669	66,705	73,376
Expenditure				
Cost of materials	13,940	16,400	17,860	19,488
Purchase of stock in trade	6,837	10,671	11,620	12,782
(Increase) / Decrease In Stocks	(645)	(686)	(717)	(789)
Total raw materials	20,131	26,385	28,762	31,481
Gross Profit	29,141	34,284	37,943	41,895
Gross Margins %	59.1	56.5	56.9	57.1
Employee cost	4,463	4,891	5,308	5,760
Other expenses	7,675	8,734	9,468	10,257
Total expenditure	32,270	40,010	43,538	47,497
EBITDA	17,003	20,659	23,168	25,879
EBITDAM (%)	34.5	34.1	34.7	35.3
Depreciation	1,646	1,732	1,865	1,972
PBIT	15,357	18,927	21,303	23,906
Other income	2,633	1,836	2,020	2,222
Interest expenses	45	39	39	39
PBT	17,945	20,724	23,283	26,089
Tax	4,555	5,237	5,884	6,593
PAT (after Exceptional)	13,390	15,486	17,399	19,496
PAT Margin %	27.2	25.5	26.1	26.6
EPS	10.9	12.6	14.1	15.8

Source : RBL Research

Balance Sheet – consolidated

Particulars, Rs cr	FY21	FY22	FY23E	FY24E
Share Capital	1,231	1,232	1,232	1,232
Reserves & Surplus	59,116	61,223	64,209	67,445
Total Shareholder's	60,347	62,456	65,442	68,678
Minority Interest	347	366	366	366
Long term borrowings	6	5	5	5
Short term borrowing	4	1	1	1
Total Debt	9	6	6	6
Deferred tax liabilities	1,736	1,673	1,793	1,972
Long term provision	188	221	243	267
Other long term liabilities	506	375	412	453
Total	2,430	2,269	2,448	2,693
Current Liabilities				
Trade payables	4,319	4,417	4,913	5,620
Short term provisions	194	80	88	96
Other current liabilities	6,173	7,666	8,607	9,468
Total	10,686	12,163	13,607	15,184
Total liabilities	73,819	77,260	81,869	86,927
Application of Assets				
Net Block	22,526	23,479	26,055	28,940
Current work in process	4,004	3,198	3,198	3,198
Non current investment	10,025	12,577	13,628	14,202
Tax assets	92	106	116	128
Long term loans and advances	4	7	7	8
Other non-current assets	1,397	2,881	3,169	3,486
Total	38,827	43,027	46,954	50,742
Current Assets				
Current investments	14,846	12,264	13,054	14,202
Inventories	10,397	10,864	11,889	13,078
Trade receivables	2,502	2,462	2,653	2,853
Cash & Bank Balance	4,659	4,654	2,933	1,310
Short term loans and advances	3	7	7	8
Other current assets	2,584	3,981	4,379	4,734
Total	34,992	34,232	34,916	36,185
Total assets	73,819	77,260	81,869	86,927

Source : RBL Research

Cashflow – consolidated

Particulars, Rs cr	FY21	FY22	FY23E	FY24E
Profit before tax	17,938	20,741	23,302	26,110
Add: Depreciation	1,646	1,732	1,865	1,972
Add: Interest cost	45	39	39	39
Less: Other Income / Interest Rec	(1,298)	(1,083)	(1,010)	(1,111)
Others	(1,004)	(573)	-	-
Operating profit before working capital changes	17,326	20,857	24,197	27,011
Changes in wc	(413)	(100)	(290)	(252)
Cash from Operations	16,913	20,757	23,907	26,758
Less: Taxes	(4,387)	(4,982)	(5,884)	(6,593)
Cash flow from Operations	12,527	15,776	18,022	20,165
Net cash used in Investing				
Purchase of fixed assets	(1,837)	(2,142)	(2,576)	(2,885)
Purchase of investments	(57,553)	(69,776)	(1,841)	(1,721)
Sales of fixed assets	62,797	71,123	-	-
Sales of investments	4	(6)	-	-
Dividend Income//Interest Rec.	1,282	1,051	1,010	1,111
Cash flow from investing	5,683	(2,238)	(3,407)	(3,495)
Cash flow from Financing				
Proceeds from Equity shares	291	292	-	-
Sales of borrowings	(57)	(60)	-	-
Dividend (Incl dividend tax)	(18,867)	(13,788)	(14,172)	(16,020)
Interest cost	(41)	(40)	(39)	(39)
Others	41	15	-	-
Cash flow from Financing	(18,634)	(13,581)	(14,211)	(16,060)
Net cash Inflow/Outflow	(424)	(43)	404	610
Opening cash	677	310	271	676
Closing Cash & Bank	4,659	4,654	2,933	1,310

Source : RBL Research

Key ratios – consolidated

Particulars	FY21	FY22	FY23E	FY24E
Per share Data				
EPS (Rs)	10.9	12.6	14.1	15.8
Book value per share (Rs)	49.0	50.7	53.1	55.7
Dividend per share (Rs)	10.8	11.2	11.5	13.0
Dividend Yield (%)	100.5	90.5	82.6	83.2
Dividend Yield (%)	3.9	4.1	4.2	4.7
Profitability Ratios				
EBITDAM(%)	34.5	34.1	34.7	35.3
PBTM (%)	36.4	34.2	34.9	35.6
NPM (%)	27.2	25.5	26.1	26.6
RoE (%)	21.8	24.4	26.2	28.0
RoCE (%)	25.4	30.3	32.5	34.8
Efficiency Data				
Debt-Equity Ratio	0.0	0.0	0.0	0.0
Interest Cover Ratio	344.5	480.9	541.2	607.4
Fixed Asset Ratio	0.4	0.4	0.4	0.4
Debtors (Days)	17.2	13.8	13.5	13.2
Inventory (Days)	71.4	60.8	60.5	60.5
Payable (Days)	29.7	24.7	25.0	26.0
WC (Days)	58.9	49.9	49.0	47.7
Valuation				
P/E (x)	25.2	21.8	19.4	17.3
P/BV	5.6	5.4	5.2	4.9
EV/EBITDA	19.8	16.3	14.5	13.0
EV/Sales	6.3	5.2	4.7	4.3

Source : RBL Research

Research Team

Head Of Research		
Name	Designation	Email ID
Siddarth Bhamre	Head of Research	siddarth.bhamre@religare.com

Equity Research		
Name	Designation	Email ID
Ajit Mishra	Technical	ajit.mishra@religare.com
Suhanee Shome	Technical	suhanee.shome@religare.com
Rohit Khatri	Fundamental	rohit.khatri@religare.com
Nirvi Ashar	Fundamental	nirvi.ashar@religare.com
Manoj Vayalar	Derivatives	manoj.vayalar@religare.com
Gaurav Arora	Derivatives	gaurav.arora3@religare.com

Commodity, Currency and Agri Research		
Sugandha Sachdeva	Metals, Energy & Currency and Agri	sugandha.sachdeva@religare.com
Amandeep Singh	Currency	amandeep.sg@religare.com
Vipul Srivastava	Metals & Energy	vipul.srivastava@religare.com
Sagar Chaudhary	Metals & Energy	sagar.chaudhary@religare.com
Gaurav Sharma	Metals & Energy	gauravsharma2@religare.com
Abhijeet Banerjee	Agri	abhijeet.banerjee@religare.com

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Specific analyst(s) specific disclosure(s) inter-alia as required under Securities and Exchange Board of India (Research Analysts) Regulations, 2014 is/are as under:

Statements on ownership and material conflicts of interest , compensation– Research Analyst (RA)

S. No.	Statement	Answer	
		Tick appropriate	
		Yes	No
	I/we or any of my/our relative has any financial interest in the subject company? [If answer is yes, nature of Interest is given below this table]		No
	I/we or any of my/our relatives, have actual/beneficial ownership of one per cent. or more securities of the subject company, at the end of the month immediately preceding the date of publication of the research report or date of the public appearance?		No
	I / we or any of my/our relative, has any other material conflict of interest at the time of publication of the research report or at the time of public appearance?		No
	I/we have received any compensation from the subject company in the past twelve months?		No
	I/we have managed or co-managed public offering of securities for the subject company in the past twelve months?		No
	I/we have received any compensation for brokerage services from the subject company in the past twelve months?		No
	I/we have received any compensation for products or services other than brokerage services from the subject company in the past twelve months?		No
	I/we have received any compensation or other benefits from the subject company or third party in connection with the research report?		No
	I/we have served as an officer, director or employee of the subject company?		No
	I/we have been engaged in market making activity for the subject company?		No

[Please note that only in case of multiple RAs, if in the event answers differ inter-se between the RAs, then RA specific answer with respect to questions under F (a) to F(j) below , are given separately]

Nature of Interest (if answer to F (a) above is Yes :

.....

Name(s) with Signature(s) of RA(s).

[Please note that only in case of multiple RAs and if the answers differ inter-se between the RAs, then RA specific answer with respect to questions under F (a) to F(j) above , are given below]

SS.No.	Name(s) of RA.	Signatures of RA	Serial Question of question which the signing RA needs to make a separate declaration / answer	Yes	No.

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