

BUY

TP: Rs 486 | ▲ 16%

ITC

Consumer Staples

19 May 2023

Strong performance amid macro headwinds

- Growth momentum continues with 330bps YoY EBITDA margin expansion; we expect 12% topline growth in FY24
- FMCG business sustains healthy double-digit growth momentum at 19% YoY with steady margin improvement
- Continued investment in capacity and strong execution to drive growth; maintain BUY with a higher TP of Rs 486 (earlier Rs 459)

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Strong performance across the portfolio: ITC posted 6.5% YoY revenue growth to Rs 176bn in Q4FY23 led by strong growth in cigarettes, FMCG – others, and hotels, while the paper and paperboards business slowed. The agri business remained affected by the ban on wheat and rice exports. Consolidated EBITDA margin expanded 330bps YoY (-30bps QoQ) to 35.2% despite elevated commodity prices. Adj. PAT grew 22% YoY to Rs 51bn with 360bps margin expansion. FY23 revenue/EBITDA/adj. PAT grew 17%/24%/25%. The company announced interim dividend of Rs 2.75/sh, taking the total to Rs 15.5/sh in FY23 vs. Rs 11.5/sh in FY22.

Momentum continues in cigarettes with stable margins: Cigarette revenue grew 13.7% YoY (volumes up ~12% YoY) in Q4 and continued to form ~41% of total sales, with EBIT margin stable at ~60%. Per management, stability in cigarette taxation backed by deterrent action from enforcement agencies continues to enable recovery of volumes from illicit trade, resulting in improved demand. Recent launches are steadily gaining traction along with robust growth across regions and markets.

Stellar performance in FMCG – others segment: The FMCG business is seeing sustained traction across the portfolio, with segment revenue and EBITDA growing 19% and 76% YoY respectively backed by premiumisation, judicious pricing action, supply chain agility and digital investments. Staples, biscuits, noodles, snacks, dairy, beverages, soaps and fragrances all continue to perform well.

Maintain BUY: We expect ITC to sustain its strong growth momentum across categories and accordingly model for a revenue/EBITDA/PAT CAGR of 14%/16%/16% over FY22-FY25. The cigarettes business continues to deliver double-digit volume growth and market share gains in the absence of competition from illicit trade, even as the recent tax hike is unlikely to dent sales. The FMCG – others segment too has registered healthy growth across markets and portfolios, and we expect margins to improve as input costs soften. We raise our FY24/FY25 EPS estimates by ~5% each and maintain BUY with a revised SOTP-based TP of Rs 486 (vs. Rs 459).

Key changes

Target	Rating
▲	◀ ▶

Ticker/Price	ITC IN/Rs 420
Market cap	US\$ 63.5bn
Free float	71%
3M ADV	US\$ 54.1mn
52wk high/low	Rs 433/Rs 259
Promoter/FPI/DII	0%/43%/57%

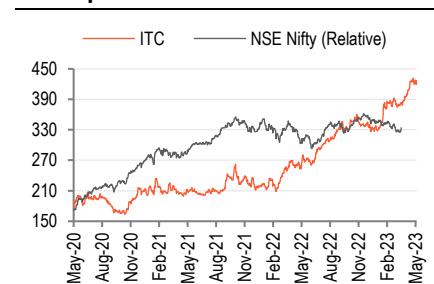
Source: NSE | Price as of 19 May 2023

Key financials

Y/E 31 Mar	FY23P	FY24E	FY25E
Total revenue (Rs mn)	7,09,369	7,94,958	8,97,358
EBITDA (Rs mn)	2,56,649	2,84,518	3,24,844
Adj. net profit (Rs mn)	1,94,039	2,12,995	2,42,377
Adj. EPS (Rs)	15.4	16.9	19.3
Consensus EPS (Rs)	15.4	15.8	17.8
Adj. ROAE (%)	27.9	29.2	31.5
Adj. P/E (x)	27.2	24.8	21.8
EV/EBITDA (x)	20.3	18.3	16.1
Adj. EPS growth (%)	22.4	9.7	13.8

Source: Company, Bloomberg, BOBCAPS Research | P – Provisional

Stock performance



Source: NSE



Result highlights

Cigarettes: Sustained volume clawback from illicit trade

- ITC's cigarette revenue grew 13.7% YoY (net of excise duty/NCCD on sales) in Q4FY23 aided by launches, enhanced product availability and a focus on premiumisation across categories. The segment reported strong growth across markets and regions.
- The company expanded its presence in focus markets with the launch of differentiated offerings across segments and strengthened its presence in duty-free outlets at international as well as domestic airports.
- Per management, sustained volume clawback in cigarettes from illicit trade on the back of deterrent actions by enforcement agencies and relative stability in taxes are resulting in higher demand.
- Recent launches such as *Classic Connect*, *Gold Flake Mixpod*, *Gold Flake SLK*, *Gold Flake Indie Mint* and *American Club Clove Mint* continue to gain traction.

FMCG – Others: Strong growth across categories

- Sales in the FMCG – Others segment grew 19% YoY to Rs 49.5bn in Q4 driven by strong growth across the major categories of branded packaged foods, viz. staples, biscuits, noodles, and beverages. The *Fiama* and *Vivel* range of personal wash products did well while the hygiene portfolio witnessed slower demand, though the category remained well ahead of pre-pandemic levels.
- In the education & stationery products business, notebook sales registered sharp growth with the resumption of educational institutions. The incense sticks (*agarbatti*) business witnessed strong recovery during FY23 after two years of pandemic-induced disruptions.
- Segment EBITDA margin expanded by 115bps YoY in Q4 amidst severe inflationary pressures. The segment continued to drive improvement in profitability through premiumisation, judicious pricing actions, digital initiatives, strategic cost management and fiscal incentives (including production-linked incentives).
- More than 90 new products were launched across markets during FY23 across the health & nutrition, hygiene, protection & care, convenience & on-the-go, and indulgence categories.
- During FY23, market coverage stepped up to ~2.1x of pre-pandemic levels, in line with ITC's multi-channel go-to-market strategy. In rural markets, direct reach enhancement was supported through a hub-and-spoke distribution model, a more than doubling of the rural stockist network over FY22 and collaborations with rural-focused eB2B players.
- Sales through the e-commerce channel were 4.7x over FY20 levels, taking the channel salience to over 10%.
- Direct-to-consumer platform 'ITC e-Store' is now operational in 10,000+ pin-codes and continues to receive a strong consumer response.

- The FMCG businesses continue to expand export footprint and now span over 60 countries. The PLI scheme has provided a fillip to the company's exports across biscuits & cakes, snacks, dairy and ready-to-eat categories.
- In the staples business, *Aashirvaad* witnessed robust growth on an elevated base, and fortified its market standing across geographies.
- In the dairy & beverages business, the *Aashirvaad Svasti* fresh dairy portfolio comprising pouch milk, curd, lassi and *paneer* continued to gain strong consumer traction. These products are currently available in Bihar, West Bengal and Jharkhand.
- The company is setting up a state-of-the-art personal care and home care products manufacturing unit in Uluberia, West Bengal.

Hotels: Weddings, leisure, and MICE segments buoying growth

- In FY23, revenue from ITC's hotels business doubled YoY and stood at 1.4x of pre-pandemic levels, with the segmental EBITDA margin at 32.2%, up 930bps over FY20.
- Going ahead, a substantial part of incremental room additions will accrue through management contracts, in line with the company's 'asset-right' strategy.
- The company launched two new brands last year – *Mementos* in the luxury lifestyle segment and *Storii* in the premium segment. During FY23, it launched *ITC Narmada* – a luxury 291-key hotel in Ahmedabad.
- During the year, 11 new properties were added under management contracts, including Mementos Ekaaya Udaipur, Storii Shanti Morada at Goa, Storii Amoha Retreat at Dharamshala, Welcomhotel Jim Corbett at Uttarakhand and Welcomhotel Ahmedabad.

Paperboards, Paper & Packaging: Resilient showing

- Paper and paperboard revenue grew 18.8% YoY and segment profits grew 34.9% in Q4. Both the paperboards and specialty papers business delivered a robust performance in the face of heightened inflationary pressures.
- The packaging and printing business remained resilient and registered robust growth in domestic and exports markets.
- The company commissioned a greenfield manufacturing plant in Nadiad, Gujarat, with state-of-the-art equipment for the 'cartons platform'. Capacity utilisation at the facility is being progressively scaled up.
- During FY23, ITC set up a new wholly owned subsidiary, ITC Fibre Innovations, to foray into the fast-growing premium moulded fibre products (MFP) space which has applications across industries, including food serving and delivery, pharmaceuticals, beauty and electronics.
- Construction of a state-of-the-art MFP manufacturing facility in Sehore, Madhya Pradesh, is underway.

Agri: Ban on exports of wheat and rice hampered performance

- Agri segment revenue grew 12% YoY in FY23 despite a ban on the export of wheat and rice. Segment profitability grew 28.8% as margins expanded driven by leaf tobacco exports and value-added agri products.
- Several initiatives implemented in recent years have led to improved operating efficiencies across manufacturing and supply chains.
- The state-of-the-art facility to manufacture and export nicotine & nicotine derivative products being set up by wholly owned subsidiary, ITC IndiVision, is expected to be commissioned shortly.
- In line with its strategy of expanding the value-added portfolio, ITC has commissioned a state-of-the-art spice processing facility in Andhra Pradesh.

ITC Infotech: A muted quarter

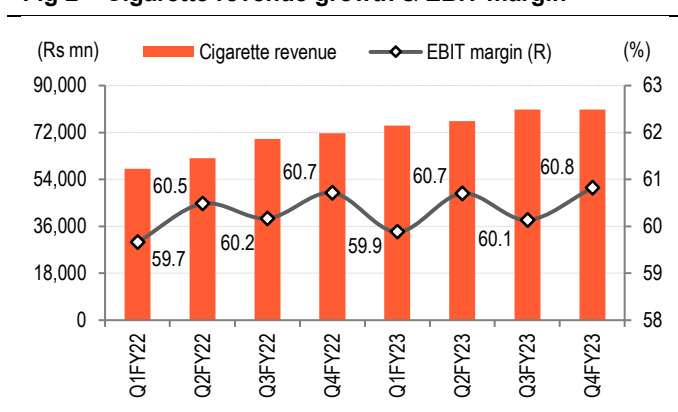
- ITC Infotech's revenue remained muted during Q4 at Rs 8.8bn, with adjusted EBITDA margin at the upper end of the band for mid-tier IT companies.
- Revenue for FY23 stood at Rs 33bn as against Rs 28.5bn in FY22. EBITDA for the year declined sharply to Rs 5.8bn (Rs 71.7bn in FY22), primarily due to costs associated with a strategic partner agreement signed with PTC Inc.
- During the year, investments toward capability building continued in strategic focus areas and infrastructure.

Fig 1 – Quarterly performance

(Rs mn)	Q4FY23	Q3FY23	Q4FY22	QoQ (%)	YoY (%)	FY23	FY22	YoY (%)
Revenue	176,349	177,045	165,555	(0.4)	6.5	709,369	606,681	16.9
EBITDA	66,240	67,047	55,994	(1.2)	18.3	256,649	206,584	24.2
Adj. PAT	51,026	50,067	41,957	1.9	21.6	194,039	155,031	25.2
Gross Margin (%)	61.6	61.1	56.2	50bps	540bps	59.1	56.5	259bps
EBITDA Margin (%)	35.2	35.5	31.9	(30bps)	330bps	36.2	34.1	213bps
Adj. PAT Margin (%)	28.9	28.3	25.3	60bps	360bps	27.4	25.6	180bps

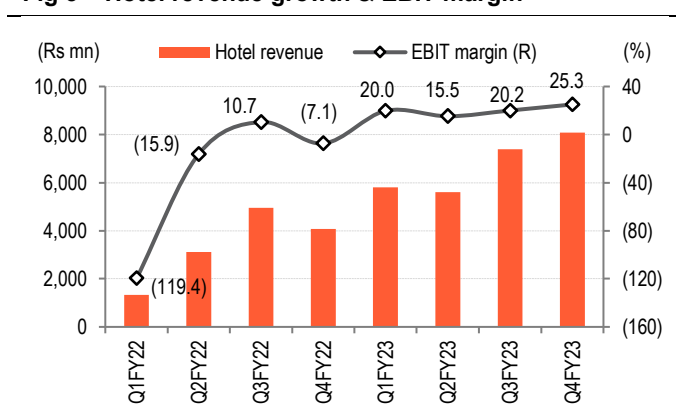
Source: Company, BOBCAPS Research

Fig 2 – Cigarette revenue growth & EBIT margin

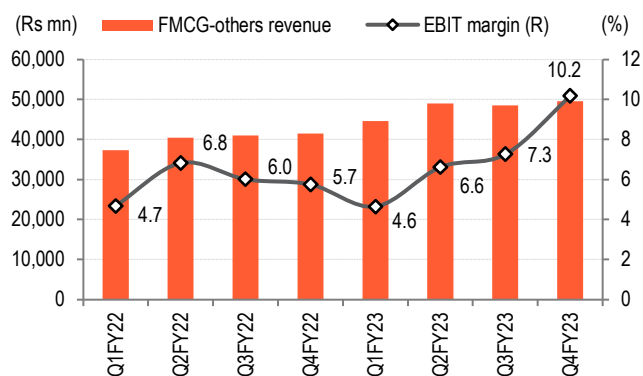


Source: Company, BOBCAPS Research

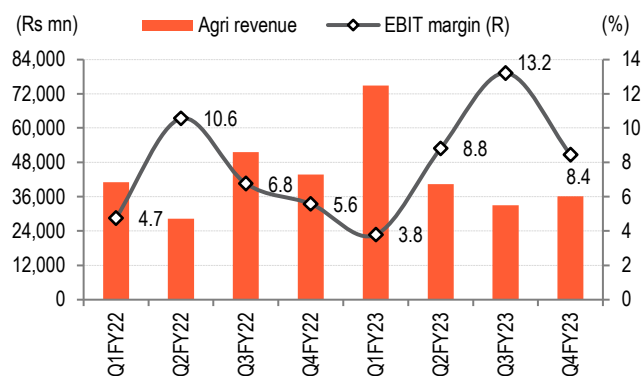
Fig 3 – Hotel revenue growth & EBIT margin



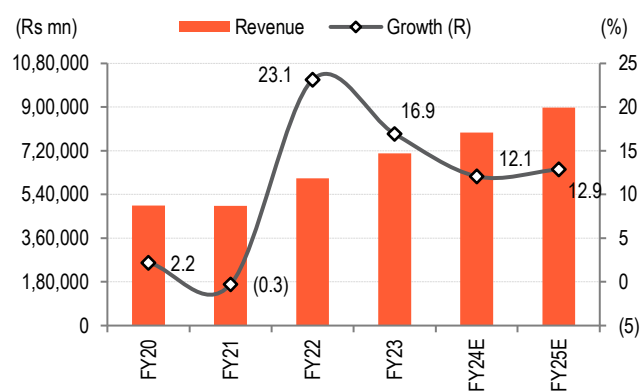
Source: Company, BOBCAPS Research

Fig 4 – FMCG – Others Revenue & EBIT margin

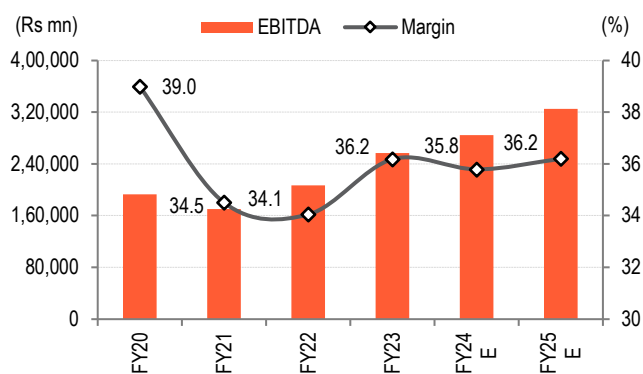
Source: Company, BOBCAPS Research

Fig 5 – Agri Revenue & EBIT margin

Source: Company, BOBCAPS Research

Fig 6 – Consolidated Revenue & growth forecast

Source: Company, BOBCAPS Research

Fig 7 – EBITDA and margin forecast

Source: Company, BOBCAPS Research

Valuation methodology

We expect ITC to sustain its strong growth momentum across categories and model for a revenue/EBITDA/PAT CAGR of 14%/16%/16% over FY22-FY25. The cigarettes business continues to deliver double-digit volume growth and market share gains in the absence of competition from illicit trade, even as the recent tax hike is unlikely to dent sales. The FMCG – others segment too has registered healthy growth across markets and portfolios, and we expect margins to improve as input costs soften.

ITC continues to invest in digital channels and capacity expansion in the FMCG, paper and agri segments to drive growth. We like the company's policy of adding new properties under management contracts in the hotel segment.

Post Q4FY3, we raise our FY24/FY25 EPS estimates by ~5% each and maintain BUY with a revised SOTP-based TP of Rs 486 (vs. Rs 459) as we upgrade target multiples across most businesses. Barring FMCG, we have valued the other segments based on FY25E EV/EBITDA as follows: (i) cigarettes at 15.6x (earlier 14.6x), (ii) hotels at 18.5x (earlier 17.4x), (iii) agriculture at 6.2x (earlier 7.7x), and (iv) paper at 6.5x (earlier 6.2x). We assign the FMCG – others segment an EV/Revenue multiple of 6.8x (earlier 6.6x) on FY25E revenue.

Fig 8 – Revised estimates

(Rs mn)	New		Old		Change (%)	
	FY24E	FY25E	FY24E	FY25E	FY24E	FY25E
Revenue	794,958	897,958	761,674	851,732	4.4	5.4
EBITDA	284,518	324,844	272,606	308,327	4.4	5.4
Adj. PAT	212,995	242,377	203,519	229,912	4.7	5.4
EBITDA Margin (%)	35.8	36.2	35.8	36.2	-	-
Adj. PAT Margin (%)	26.8	27.0	26.7	27.0	10bps	-

Source: BOBCAPS Research

Key risks

Key downside risks to our estimates are:

- a further increase in duty on cigarettes, and
- input cost inflation.

Sector recommendation snapshot

Company	Ticker	Market Cap (US\$ bn)	Price (Rs)	Target (Rs)	Rating
Britannia Industries	BRIT IN	13.2	4,500	5,623	BUY
Dabur India	DABUR IN	11.2	519	628	BUY
Godrej Consumer Products	GCPL IN	12.6	1,010	1,159	BUY
Hindustan Unilever	HUVR IN	85.2	2,641	3,069	BUY
ITC	ITC IN	63.5	420	486	BUY
Marico	MRCO IN	8.3	526	629	BUY
Nestle India	NEST IN	25.4	21,690	24,670	BUY
Tata Consumer Products	TATACONS IN	8.7	765	924	BUY

Source: BOBCAPS Research, NSE | Price as of 19 May 2023

Financials

Income Statement

Y/E 31 Mar (Rs mn)	FY21A	FY22A	FY23P	FY24E	FY25E
Total revenue	4,92,728	6,06,681	7,09,369	7,94,958	8,97,358
EBITDA	1,70,027	2,06,584	2,56,649	2,84,518	3,24,844
Depreciation	16,456	17,324	18,090	20,540	22,209
EBIT	1,53,571	1,89,260	2,38,559	2,63,977	3,02,634
Net interest inc./(exp.)	(446)	(394)	(432)	(475)	(523)
Other inc./(exp.)	26,326	18,364	19,805	20,562	21,145
Exceptional items	0	0	(729)	0	0
EBT	1,79,451	2,07,230	2,58,661	2,84,064	3,23,257
Income taxes	45,553	52,373	64,384	71,584	81,461
Extraordinary items	0	0	0	0	0
Min. int./Inc. from assoc.	(69)	175	490	515	582
Reported net profit	1,33,829	1,55,031	1,94,767	2,12,995	2,42,377
Adjustments	0	0	(729)	0	0
Adjusted net profit	1,33,829	1,55,031	1,94,039	2,12,995	2,42,377

Balance Sheet

Y/E 31 Mar (Rs mn)	FY21A	FY22A	FY23P	FY24E	FY25E
Accounts payables	43,187	44,173	46,590	36,519	41,367
Other current liabilities	42,944	51,160	55,714	55,714	55,714
Provisions	3,815	3,006	3,598	3,598	3,598
Debt funds	95	56	388	388	388
Other liabilities	41,211	45,982	57,153	57,153	57,153
Equity capital	12,309	12,323	12,428	12,428	12,428
Reserves & surplus	5,94,633	6,15,895	6,82,960	7,17,444	7,56,685
Shareholders' fund	6,06,942	6,28,219	6,95,388	7,29,872	7,69,113
Total liab. and equities	7,38,193	7,72,596	8,58,830	8,83,243	9,27,332
Cash and cash eq.	2,904	2,714	4,634	10,710	9,232
Accounts receivables	25,017	24,619	29,562	33,128	37,396
Inventories	1,03,972	1,08,642	1,17,712	1,30,689	1,46,031
Other current assets	10,952	13,061	15,617	15,617	15,617
Investments	2,49,809	2,49,505	2,95,580	2,91,900	3,12,248
Net fixed assets	1,91,539	2,02,074	2,11,171	2,16,069	2,21,678
CWIP	40,045	31,985	29,847	29,847	29,847
Intangible assets	20,179	20,402	27,459	27,459	27,459
Deferred tax assets, net	585	635	520	520	520
Other assets	93,190	1,18,960	1,26,728	1,27,303	1,27,303
Total assets	7,38,193	7,72,596	8,58,830	8,83,243	9,27,332

Cash Flows

Y/E 31 Mar (Rs mn)	FY21A	FY22A	FY23P	FY24E	FY25E
Cash flow from operations	1,25,270	1,57,755	1,88,776	2,06,921	2,49,825
Capital expenditures	(18,366)	(21,416)	(27,430)	(25,439)	(27,818)
Change in investments	52,592	(18,536)	(94,376)	3,680	(20,348)
Other investing cash flows	22,604	17,567	64,482	0	0
Cash flow from investing	56,829	(22,385)	(57,323)	(21,759)	(48,166)
Equities issued/Others	2,907	2,918	24,774	0	0
Debt raised/repaid	(570)	(597)	(598)	0	0
Interest expenses	(412)	(396)	(414)	0	0
Dividends paid	(1,88,674)	(1,37,883)	(1,53,971)	(1,78,511)	(2,03,137)
Other financing cash flows	412	153	149	0	0
Cash flow from financing	(1,86,338)	(1,35,805)	(1,30,060)	(1,78,511)	(2,03,137)
Chg in cash & cash eq.	(4,239)	(435)	1,392	6,651	(1,477)
Closing cash & cash eq.	2,904	2,714	4,633	10,710	9,232

Per Share

Y/E 31 Mar (Rs)	FY21A	FY22A	FY23P	FY24E	FY25E
Reported EPS	10.7	12.4	15.5	16.9	19.3
Adjusted EPS	10.9	12.6	15.4	16.9	19.3
Dividend per share	15.3	11.2	11.3	14.4	16.4
Book value per share	49.0	50.7	56.1	58.9	62.0

Valuations Ratios

Y/E 31 Mar (x)	FY21A	FY22A	FY23P	FY24E	FY25E
EV/Sales	10.6	8.6	7.4	6.6	5.8
EV/EBITDA	30.7	25.3	20.3	18.3	16.1
Adjusted P/E	38.6	33.3	27.2	24.8	21.8
P/BV	8.6	8.3	7.5	7.1	6.8

DuPont Analysis

Y/E 31 Mar (%)	FY21A	FY22A	FY23P	FY24E	FY25E
Tax burden (Net profit/PBT)	74.6	74.8	75.0	75.0	75.0
Interest burden (PBT/EBIT)	116.9	109.5	108.4	107.6	106.8
EBIT margin (EBIT/Revenue)	31.2	31.2	33.6	33.2	33.7
Asset turnover (Rev./Avg TA)	66.7	78.5	82.6	90.0	96.8
Leverage (Avg TA/Avg Equity)	1.2	1.2	1.2	1.2	1.2
Adjusted ROAE	22.0	24.7	27.9	29.2	31.5

Ratio Analysis

Y/E 31 Mar	FY21A	FY22A	FY23P	FY24E	FY25E
YoY growth (%)					
Revenue	(0.3)	23.1	16.9	12.1	12.9
EBITDA	(11.7)	21.5	24.2	10.9	14.2
Adjusted EPS	(13.4)	15.8	22.4	9.7	13.8

Profitability & Return ratios (%)

EBITDA margin	34.5	34.1	36.2	35.8	36.2
EBIT margin	31.2	31.2	33.6	33.2	33.7
Adjusted profit margin	27.2	25.6	27.4	26.8	27.0
Adjusted ROAE	22.0	24.7	27.9	29.2	31.5
ROCE	25.3	30.1	34.3	36.1	39.3

Working capital days (days)

Receivables	19	15	15	15	15
Inventory	189	150	148	148	148
Payables	78	61	59	59	59

Ratios (x)

Gross asset turnover	1.9	2.1	2.2	2.3	2.4
Current ratio	3.3	2.8	2.9	3.3	3.4
Net interest coverage ratio	344.5	480.8	552.2	555.5	579.0
Adjusted debt/equity	0.0	0.0	0.0	0.0	0.0

Source: Company, BOBCAPS Research | Note: TA = Total Assets

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Recommendation scale: Recommendations and Absolute returns (%) over 12 months

BUY – Expected return >+15%

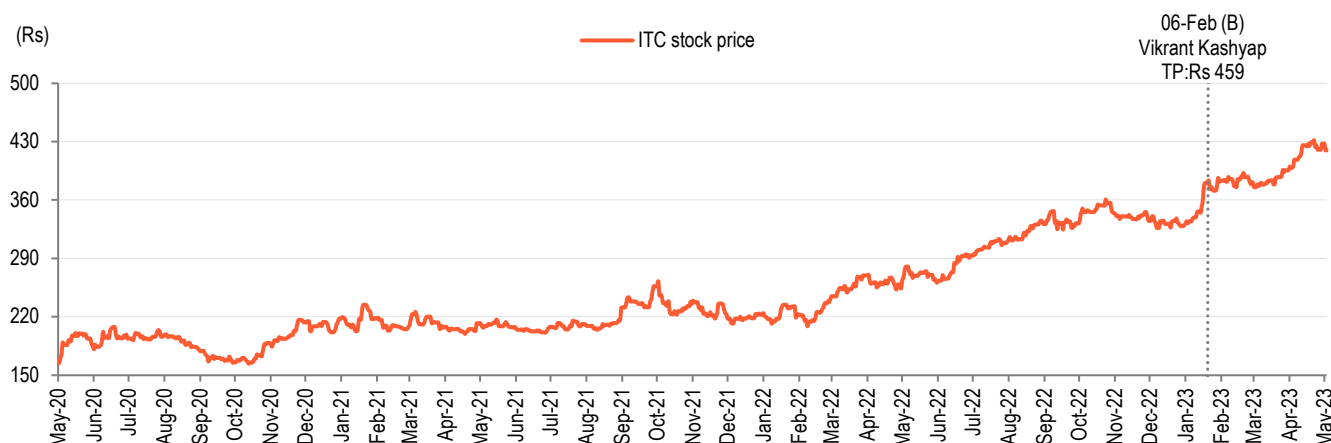
HOLD – Expected return from -6% to +15%

SELL – Expected return <-6%

Note: Recommendation structure changed with effect from 21 June 2021

Our recommendation scale does not factor in short-term stock price volatility related to market fluctuations. Thus, our recommendations may not always be strictly in line with the recommendation scale as shown above.

Ratings and Target Price (3-year history): ITC (ITC IN)



B – Buy, H – Hold, S – Sell, A – Add, R – Reduce

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