

Retail Equity Research

ITC Limited

FMCG

BSE CODE: 500875

NSE CODE: ITC

Bloomberg CODE: ITC:IN

SENSEX: 35,414

BUY

12M Investment period

Rating as per Large Cap

CMP Rs. 203

TARGET Rs. 260

RETURN 28% ↑

(Closing: 01-07-20)

KEY CHANGES:

TARGET ↔

RATING ↔

EARNINGS ↓

Resilient performance despite tough conditions

ITC Limited is an Indian multinational conglomerate with diversified presence in cigarettes, hotels, paperboards & specialty papers, packaging, agri business and FMCG products. It has around 34,000 employees.

- Q4FY20 Standalone revenues declined 6.3% YoY on account of logistical disruptions and weak demand amidst lockdown.
- EBITDA fell 8.9% YoY with margin shrinking 105bps YoY to 36.8%. PAT rose 9.1% YoY aided by lower taxes. Dividend hiked 77% YoY.
- With operations back on track and strong cash flows generation, the company is expected to fare better than its peers. We continue to remain optimistic on ITC's performance and reiterate our BUY rating on the stock with a TP of Rs. 260 based on SOTP valuation.

Drastic demand drop impacts topline

Q4FY20 standalone revenue stood at Rs. 11,300cr (-6.3% YoY). FMCG revenue declined 5.0% YoY to Rs. 8,314cr, of which Cigarettes business revenue stood at Rs. 5,131cr (-6.5% YoY). Hotels revenue dropped 8.4% YoY to Rs. 466cr, while from Agri business came in at 1,887cr (-10.2% YoY). Revenue from Paperboards, Paper & Packaging went down 5.1% YoY to Rs. 1,459cr. EBITDA declined 8.9% to Rs. 4,164cr, as EBITDA margin contracted 105bps YoY to 36.8% on account of higher costs and deteriorated product mix. PAT improved to Rs. 3,797cr (+9.1% YoY) on lower taxes post new tax regime.

Acquisition of Sunrise Foods to provide boost to its FMCG business

On 23rd May, ITC entered into a share purchase agreement for a 100% acquisition of Sunrise Foods Pvt. Ltd. Sunrise product offerings include a variety of spice mixes, papad (pappadums) and mustard oil with an annual turnover of over Rs. 500cr. The company has four manufacturing facilities - Bikaner, Jaipur, Agra and Kolkata - that cater to the domestic Indian market, but also to Bangladesh and Nepal. While the deal value is not disclosed yet, market estimates the acquisition to be priced between Rs. 1,800-2,000cr. While ITC has an established presence in the South and West regions, the deal offers the company greater access to markets in the North and East regions where Sunrise's products have a strong foothold. This will help the company increase its share of non-cigarette, F&B product offerings at a rapid pace and further improve its bottom-line. Furthermore, the deal helps strengthen ITC's distribution reach even more and is a positive addition to its FMCG portfolio.

Operations resume across all facilities

The company has all of its factories operational and is in the process of quickly ramping up production. This is in contrast to its peers, some of which have not been able to initialize operations or are running at low utilizations. ITC thereby has an advantage when it comes to getting the products to the market to cater to improved demand as parts of the country look to slowly come out of the lockdown. The company has also witnessed a strong momentum in essential consumer goods and has been able to increase capacity to service the surge in demand across categories.

Valuation

ITC is expected to fare comparatively better than its peers over the coming quarters with its operations back on track and quickly ramping up to meet the demand surge, and contribution from the recent acquisition of Sunrise Foods. At current price levels, ITC is available at attractive valuations. Given current upside potential, we reiterate our BUY rating on the stock with a target price of Rs. 260 based on our SOTP valuation.

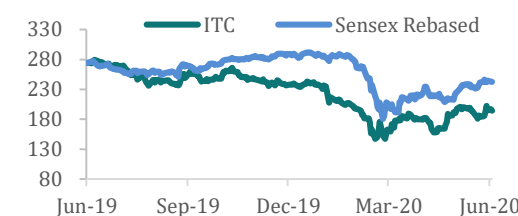
Company Data

Market Cap (cr)	Rs. 249,163
Enterprise Value (cr)	Rs. 248,333
Outstanding Shares (cr)	1,229.2
Free Float	75.0%
Dividend Yield	5.0%
52 week high	Rs. 283
52 week low	Rs. 135
6m average volume (lacs)	12.6
Beta	0.7
Face value	Rs. 1

Shareholding %	Q2FY20	Q3FY20	Q4FY20
Promoters	0.0	0.0	0.0
FII's	15.6	15.2	14.7
MFs/Insti	42.5	42.6	42.9
Public	9.7	9.9	10.4
Others	32.2	32.3	32.5
Total	100.0	100.0	100.0
Promotor pledge	0.0	0.0	0.0

Price Performance	3 Month	6 Month	1 Year
Absolute Return	17.0%	-18.3%	-29.2%
Absolute Sensex	25.3%	-14.3%	-10.8%
Relative Return*	-8.3%	-4.0%	-18.4%

*over or under performance to benchmark index



Standalone (cr)	FY20A	FY21E	FY22E
Sales	46,324	47,350	51,289
Growth (%)	2.4	2.2	8.3
EBITDA	17,904	18,235	20,109
EBITDA Margin (%)	38.7	38.5	39.2
Adj. PAT	15,268	14,694	15,926
Growth (%)	22.5	(3.8)	8.4
Adj. EPS	12.4	12.0	13.0
Growth (%)	22.6	(3.8)	8.4
P/E	13.8	17.0	15.6
P/B	3.3	3.8	3.6
EV/EBITDA	11.8	13.6	12.4
ROE (%)	23.6	22.2	22.7
D/E	0.0	0.0	0.0

Quarterly Financials (Standalone)

Profit & Loss Account

	Q4FY20	Q4FY19	YoY Growth %	Q3FY20	QoQ Growth %	FY20	FY19	YoY Growth %
Revenue	11,300	12,064	(6.3)	11,912	(5.1)	46,324	45,221	2.4
EBITDA	4,164	4,572	(8.9)	4,613	(9.7)	17,904	17,306	3.5
EBITDA margins	36.8	37.9	(105bps)	38.7	(190bps)	38.7	38.3	40bps
Depreciation	393	350	12.1	416	(5.7)	1,563	1,312	19.2
EBIT	3,771	4,221	(10.7)	4,196	(10.1)	16,341	15,994	2.2
Interest	15	8	90.3	12	18.4	56	34	63.0
Other Income	756	740	2.1	984	(23.2)	3,014	2,485	21.3
Exceptional Items	-	-	-	(132)	n.m.	(132)	-	n.m.
PBT	4,512	4,954	(8.9)	5,036	(10.4)	19,167	18,444	3.9
Tax	715	1,472	(51.4)	894	(20.0)	4,031	5,980	(32.6)
Reported PAT	3,797	3,482	9.1	4,142	(8.3)	15,136	12,464	21.4
Adjustments	-	-	-	132	n.m.	132	-	n.m.
Adjusted PAT	3,797	3,482	9.1	4,010	(5.3)	15,268	12,464	20.4
No. of shares	1,229.2	1,230.1	(0.1)	1,232.7	(0.3)	1,229.2	1,230.1	(0.1)
EPS (Rs.)	3.1	2.8	9.1	3.3	(4.3)	12.4	10.1	22.6

Segment Revenue

	Q4FY20	Q4FY19	% YoY Growth	Q3FY20	% QoQ Growth	FY20	FY19	% YoY Growth
FMCG	8,314	8,760	(5.1)	8,623	(3.6)	34,046	33,218	2.5
- Cigarettes	5,131	5,486	(6.5)	5,311	(3.4)	21,202	20,713	2.4
- Others	3,184	3,274	(2.8)	3,312	(3.9)	12,844	12,505	2.7
Paperboards, Paper & Pack.	1,459	1,537	(5.1)	1,555	(6.2)	6,107	5,860	4.2
Agri Business	1,887	2,101	(10.2)	2,095	(9.9)	10,241	9,397	9.0
Hotels	446	510	(8.6)	552	(15.7)	1,837	1,665	10.3
Inter-segment	(826)	(844)	2.1	(914)	9.6	(5,907)	(4,919)	(20.1)
Total Revenue	11,300	12,064	(6.3)	11,912	(5.1)	46,324	45,221	2.4

Change in Estimates

Year / Rs. cr	Old estimates		New estimates		Change %	
	FY21E	FY22E	FY21E	FY22E	FY21E	FY22E
Revenue	53,456	58,494	47,350	51,289	(11.4)	(12.3)
EBITDA	21,095	23,243	18,235	20,109	(13.6)	(13.5)
Margins (%)	39.5	39.7	38.5	39.2	(95bps)	(53bps)
Adj. PAT	16,108	17,203	14,694	15,926	(8.8)	(7.4)
EPS	13.1	14.0	12.0	13.0	(8.5)	(7.2)

Sum of the parts (SOTP) valuation

Particulars	Basis	Multiple	EBITDA/Sales (Rs. cr)	Year	Value (Rs. cr)	Value/share (Rs.)
Cigarettes	EV/EBITDA	15.0x	15,886	FY22E	238,288	194
FMCG - others	EV/Sales	3.0x	16,248	FY22E	48,744	40
Paperboards, Paper & Pack.	EV/EBITDA	11.0x	1,724	FY22E	18,959	15
Agri Business	EV/EBITDA	9.0x	1,008	FY22E	9,075	7
Hotels	EV/EBITDA	10.0x	489	FY22E	4,894	4
Enterprise Value					319,960	260
Net Debt (Cash)					(142)	(0)
Equity Value					320,102	260

PROFIT & LOSS

Y.E March (Rs. cr)	FY18A	FY19A	FY20A	FY21E	FY22E
Revenue	43,957	45,221	46,324	47,350	51,289
% change	(20.7)	2.9	2.4	2.2	8.3
EBITDA	15,541	17,306	17,904	18,235	20,109
% change	6.6	11.4	3.5	1.8	10.3
Depreciation	1,145	1,312	1,563	1,604	1,645
EBIT	14,396	15,994	16,341	16,631	18,465
Interest	87	34	56	70	410
Other Income	2,543	2,485	2,882	3,074	3,228
PBT	16,852	18,444	19,167	19,635	21,283
% change	8.7	9.4	3.9	2.4	8.4
Tax	5,628	5,980	4,031	4,942	5,356
Tax Rate (%)	33.4	32.4	21.0	25.2	25.2
Reported PAT	11,223	12,464	15,136	14,694	15,926
Adj*	(413)	-	132	-	-
Adj PAT	11,636	12,464	15,268	14,694	15,926
% change	14.1	7.1	20.4	(2.1)	8.4
No. of shares (cr)	1224.7	1230.1	1229.2	1229.2	1229.2
Adj EPS (Rs.)	9.5	10.1	12.2	12.0	13.0
% change	5.4	14.8	22.6	(3.8)	8.4
DPS (Rs.)	5.2	5.8	10.2	9.9	10.7
CEPS (Rs.)	10.4	11.2	13.5	13.3	14.3

CASH FLOW

Y.E March (Rs. cr)	FY18A	FY19A	FY20A	FY21E	FY22E
Net inc. + Depn.	12,369	13,776	16,699	16,297	17,571
Non-cash adj.	(1,638)	(1,545)	(3,311)	(1,859)	(826)
Changes in W.C	1,920	(482)	418	(200)	(651)
C.F. Operation	12,651	11,749	13,806	14,238	16,094
Capital exp.	(2,548)	(2,759)	(2,114)	(2,188)	(2,370)
Change in inv.	(7,604)	(6,469)	(9,017)	1,182	(1,286)
Other invest.CF	3,460	4,146	5,614	3	3
C.F - Investment	(6,691)	(5,082)	(5,517)	(1,003)	(3,653)
Issue of equity	913	969	625	-	-
Issue/repay debt	(8)	(7)	(47)	-	-
Dividends paid	(5,770)	(6,285)	(7,049)	(12,477)	(12,112)
Other finance.CF	(1,155)	(1,278)	(1,420)	(70)	(410)
C.F - Finance	(6,020)	(6,601)	(7,891)	(12,546)	(12,522)
Chg. in cash	(60)	67	399	689	(80)
Closing cash	96	163	562	1,251	1,170

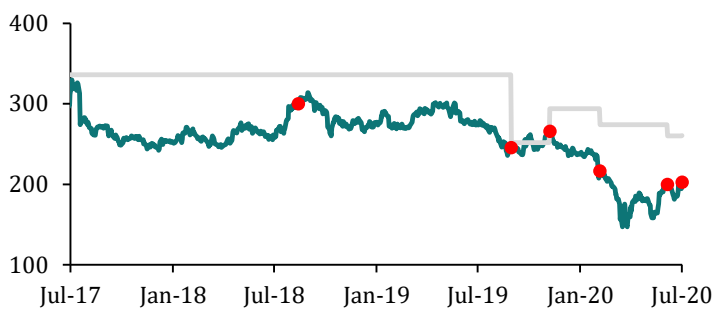
BALANCE SHEET

Y.E March (Rs. cr)	FY18A	FY19A	FY20A	FY21E	FY22E
Cash	96	163	562	1,251	1,170
Accounts Receivable	2,357	3,646	2,092	2,209	2,470
Inventories	7,237	7,587	8,038	8,235	8,980
Other Cur. Assets	14,813	18,173	26,200	21,397	19,540
Investments	13,494	14,071	13,456	18,009	22,016
Gross Fixed Assets	18,149	22,177	24,290	26,478	28,848
Net Fixed Assets	15,120	17,946	19,031	19,675	20,458
CWIP	5,017	3,391	3,358	3,324	3,291
Intangible Assets	455	551	523	497	473
Def. Tax (Net)	-	-	-	-	-
Other Assets	3,793	4,270	1,975	1,972	1,969
Total Assets	62,381	69,798	75,235	76,570	80,366
Current Liabilities	8,857	9,622	9,025	8,759	9,181
Provisions	122	133	144	156	169
Debt Funds	46	50	420	420	420
Other Liabilities	1,956	2,044	1,618	988	536
Equity Capital	1,220	1,226	1,229	1,229	1,229
Reserves & Surplus	50,180	56,724	62,800	65,017	68,831
Shareholder's Fund	51,400	57,950	64,029	66,246	70,060
Minority Interest	-	-	-	-	-
Total Liabilities	62,381	69,798	75,235	76,570	80,366
BVPS (Rs.)	42	47	52	54	57

RATIOS

Y.E March	FY18A	FY19A	FY20A	FY21E	FY22E
Profitab. & Return					
EBITDA margin (%)	35.4	38.3	38.7	38.5	39.2
EBIT margin (%)	32.7	35.4	35.3	35.1	36.0
Net profit mgn.(%)	25.5	27.6	32.7	31.0	31.1
ROE (%)	21.8	21.5	23.6	22.2	22.7
ROCE (%)	28.0	27.6	25.4	24.9	26.2
W.C & Liquidity					
Receivables (days)	19.6	29.4	16.5	17.0	17.6
Inventory (days)	135.5	153.1	159.3	159.6	160.0
Payables (days)	63.3	67.9	68.3	69.0	69.7
Current ratio (x)	2.8	3.1	4.1	3.8	3.5
Quick ratio (x)	1.7	2.1	2.9	2.5	2.2
Turnover & Leverage					
Gross asset T.O (x)	2.5	2.2	2.0	1.9	1.9
Total asset T.O (x)	0.8	0.7	0.6	0.6	0.7
Int. coverage ratio (x)	166.1	467.8	293.3	238.0	45.1
Adj. debt/equity (x)	0.0	0.0	0.0	0.0	0.0
Valuation					
EV/Sales (x)	7.1	8.2	4.6	5.2	4.8
EV/EBITDA (x)	20.1	21.3	11.8	13.6	12.4
P/E (x)	28.9	29.6	13.8	17.0	15.6
P/BV (x)	6.1	6.4	3.3	3.8	3.6

Recommendation Summary



Dates	Rating	Target
12-Jun-17	BUY	336
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

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.

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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