

Industry
Bloomberg
BSE CODE

Consum. Staples
ITC IN
500875

Hike in NCCD to may impact Cigarette volume going ahead

RATING	BUY
CMP	208
Price Target	259
Potential Upside	25%

Rating Change	↑
Estimate Change	↓
Target Change	↓

STOCK INFO	
52wk Range H/L	310/205
Mkt Capital (Rs Cr)	259,233
Free float (%)	75%
Avg. Vol 1M (,000)	11,080
No. of Shares (Crs)	1,229
Promoters Pledged %	NA

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3QFY20 Result Update

- ITC reported numbers are largely inline with our estimates; sales grew by 7% YoY to Rs 12,013 cr (vs. estimate. Rs 11,909 cr) led by 4.7% growth in Cigarettes business with 41% contribution to total sales.
- Segmental Growth: Other FMCG, Hotels, Agri & Paperboards business grew by 3.5%, 22.5%, 8.8% and 0.8% YoY respectively.
- Segmental Margins: Cigarette, Other FMCG & Hotels reported EBIT margin expansion of 60 bps, 85 bps and 247 bps YoY at 71%, 3% and 16% respectively. However, Agri & Paperboard margin declined by 14 bps & 6 bps YoY to 10% & 21% respectively.
- Gross margin expanded by 46 bps to 62.2% on YoY basis. EBITDA margin declined by 13 bps YoY to 38.4% on account of higher other expenses by 62 bps to 18.2%.
- PAT stood at Rs 4142 cr, reporting growth of 29% YoY on account of decreased Tax rate. Tax rate for the quarter was low at 17.3% against 34% (in 3QFY19).
- Exceptional item of Rs 132 cr represent cost of leaf tobacco stocks (including taxes) destroyed due to fire and insurance claim for same has been filed.
- Government has hiked NCCD rate in recent budget in the range of 2x-4x. To counter the hike, ITC may have to take price hike in the tune of ~5-6% which may negatively impact the cigarette volume going ahead.

View and Valuation

ITC posted sales growth of 7% led by 4.7% growth in Cigarettes business amidst a challenging operating environment. Expectations of a good rabi crop and a slew of measures announced by the government are expected to augur well for the revival of the economy. Going ahead, we expect Other FMCG to be the growth driver for the company in the long term led by company's stepped up marketing investments for the division. However, increase in National Calamity Contingency Duty (NCCD) on cigarettes (in the range of 2x-4x) will compel company to take price hike in the tune of 5-6% which will impact the revenue growth of Cigarette business going ahead. Taking this into account, we have reduced our FY21e, SALES/PAT estimates by 2%/5% with lowering target price to Rs 259 (from Rs 272) with BUY rating.

Key Risks to our rating and target

- A possible increase in duties in subsequent Council meetings.
- Deterioration in cigarette business margin.

Conso./Fig in Rs Cr

KEY FINANCIAL/VALUATIONS	FY17	FY18	FY19	FY20E	FY21E
Net Sales	42,777	43,449	49,862	52,391	56,850
EBITDA	15,436	16,483	18,406	20,896	21,985
EBIT	14,283	15,247	17,010	19,294	20,194
PAT	10,477	11,220	12,592	14,950	14,470
EPS (Rs)	9	9	10	12	12
EPS growth (%)	10%	9%	9%	19%	-4%
ROE (%)	23%	22%	21%	23%	20%
ROCE (%)	31%	29%	29%	30%	28%
BV	38	43	48	53	58
P/B (X)	5.9	6.5	6.0	3.9	3.6
P/E (x)	26.3	29.7	28.2	17.0	17.7

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3QFY20 Results

Largely Inline with estimates

Qtrly - Stand. & Annl - conso./Fig in Rs Cr

FINANCIALS	3QFY19	4QFY19	1QFY20	2QFY20	3QFY20	YoY %	QoQ%	FY18	FY19	YoY %
Net Sales	11,228	12,206	11,503	11,871	12,013	7.0%	1.2%	43,449	49,862	14.8%
Other Income	836	740	620	654	984	17.6%	50.3%	1,832	2,174	18.7%
COGS	4,301	4,616	4,140	4,482	4,546	5.7%	1.4%	15,855	17,420	9.9%
Gross Margin	62%	62%	64%	62%	62%	0.5%	-0.1%	64%	65%	1.6%
Empl. Cost	629	760	690	632	669	6.3%	5.8%	3,761	4,178	11.1%
Other Exp.	1,972	2,259	2,107	2,195	2,185	10.8%	-0.5%	7,350	9,858	34.1%
EBITDA	4,326	4,572	4,566	4,562	4,613	6.6%	1.1%	16,483	18,406	11.7%
EBITDA Mar.	39%	37%	40%	38%	38%	-0.1%	0.0%	38%	37%	-1.0%
Depreciation	335	350	359	396	416	24.1%	5.2%	1,236	1,397	13.0%
EBIT	3,990	4,221	4,207	4,167	4,196	5.2%	0.7%	15,247	17,010	11.6%
Interest	6	8	15	13	12	121.7%	-6.7%	90	45	-49.5%
PBT	4,821	4,954	4,812	4,808	5,168	7.2%	7.5%	17,402	19,138	10.0%
Excep. Item	-	-	-	-	(132)	-	-	413	-	-
Tax	1,612	1,472	1,638	785	894	-44.6%	13.9%	5,916	6,314	6.7%
PAT	3,209	3,482	3,174	4,023	4,142	29.1%	3.0%	11,485	12,824	11.7%
PAT Margin	29%	29%	28%	34%	34%	5.9%	0.6%	26%	25%	-1.2%

ITC's different segments performance

Segment Revenue:

Stand./Fig in Rs Cr

SEGMENTS	4QFY18	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20	2QFY20	3QFY20
Cigarettes	4,936	5,128	5,026	5,073	5,486	5,433	5,327	5,311
Others FMCG	3,052	2,870	3,160	3,201	3,274	3,060	3,288	3,312
Agri Business	1,808	3,151	2,220	1,925	2,101	3,611	2,648	2,095
Paperboards, Paper & Packaging	1,301	1,356	1,424	1,543	1,537	1,528	1,565	1,555
Hotels	408	341	363	452	510	393	427	552
Total	11,505	12,846	12,193	12,193	12,908	14,025	13,255	12,826

Segment Growth:

SEGMENTS	4QFY18	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20	2QFY20	3QFY20
Cigarettes	-3%	4%	10%	10%	11%	6%	6%	5%
Others FMCG	6%	10%	13%	11%	7%	7%	4%	3%
Agri Business	-6%	14%	13%	26%	16%	15%	19%	9%
Paperboards, Paper & Packaging	-5%	0%	9%	21%	18%	13%	10%	1%
Hotels	6%	12%	21%	12%	25%	15%	18%	22%
Total	-1%	7%	11%	14%	12%	9%	9%	5%

Segments EBIT Margin:

SEGMENTS	4QFY18	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20	2QFY20	3QFY20
Cigarettes	71%	69%	71%	70%	70%	71%	72%	71%
Others FMCG	3%	2%	2%	2%	6%	3%	3%	3%
Agri Business	7%	6%	11%	10%	7%	6%	9%	10%
Paperboards, Paper & Packaging	19%	22%	22%	22%	20%	22%	23%	21%
Hotels	18%	4%	4%	13%	17%	3%	4%	16%
Total	35%	32%	34%	35%	36%	32%	34%	35%

Exhibit: Cigarettes revenue and Growth(%)

Cigarettes business grew by 5% YoY although on QoQ it remained flat.

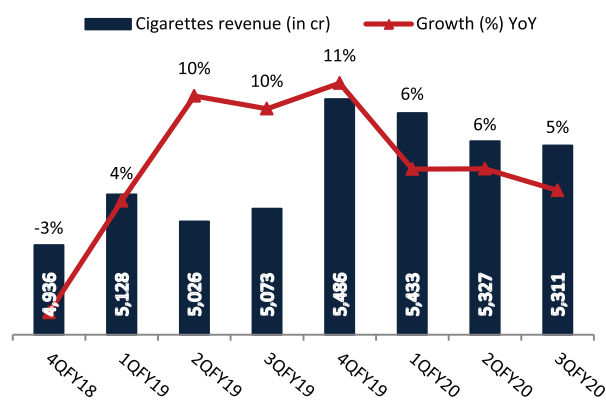


Exhibit: Other FMCG revenue and Growth(%)

Other FMCG business grew by 3% YoY led by stepped up marketing investments for the division.

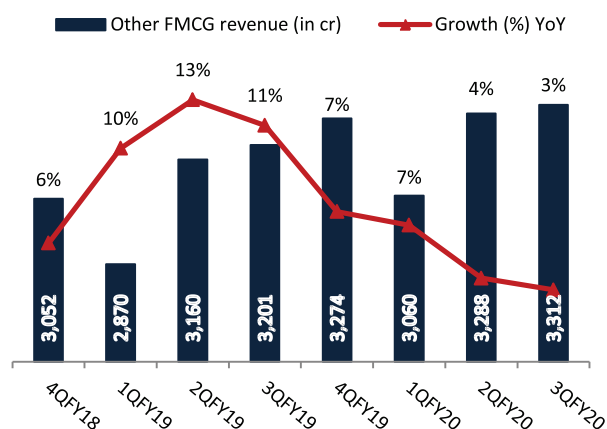


Exhibit: Cigarettes & Others FMCG EBIT Margin(%)

Cigarettes and other FMCG EBIT margin stood at 71% and 3% in 3QFY20

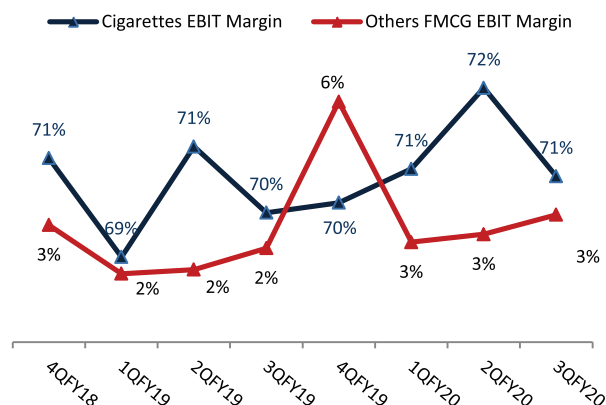


Exhibit: Sales and Sales Growth

Sales grew by 7% YoY to Rs 12,013 cr led by 4.7% growth in Cigarettes business.

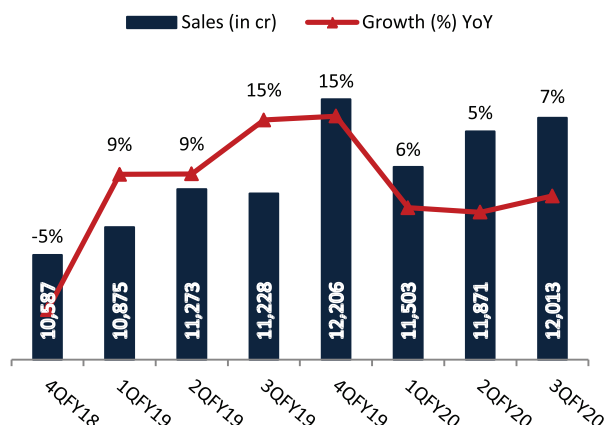


Exhibit: Gross and EBITDA Margin

Gross margin expanded by 46 bps to 62.2% on YoY basis and EBITDA margin declined by 13 bps YoY to 38.4%.

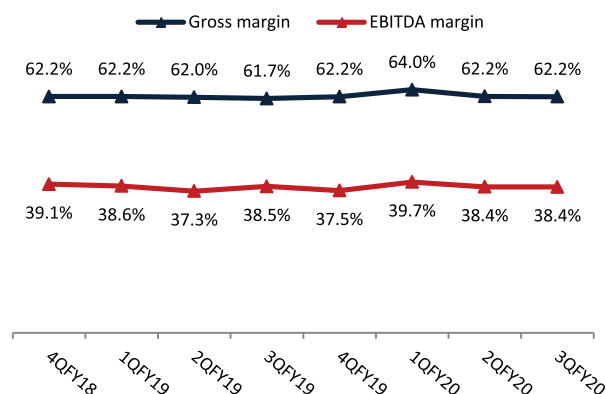
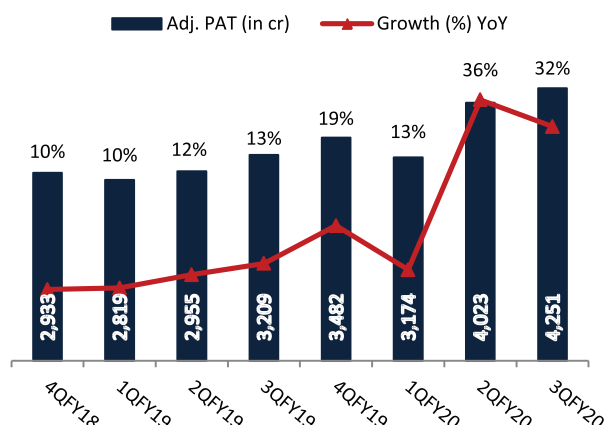


Exhibit: Adj. PAT and Adj. PAT Growth

Adj. PAT stood at Rs. 4,251 cr. with a PAT growth at 32% YoY led by lower tax rate.



Financial Details

Balance Sheet

Conso./Fig in Rs Cr

Y/E March	FY14	FY15	FY16	FY17	FY18	FY19	FY20E	FY21E
Share Capital	795	802	805	1,215	1,220	1,226	1,229	1,229
Reserves	26,442	37,533	41,875	45,198	51,290	57,915	63,982	69,815
Networth	27,237	38,335	42,680	46,413	52,510	59,141	65,211	71,044
Debt	227	225	71	38	29	10	6	2
Other Non Current Liab	1,481	1,855	2,066	2,096	2,183	2,294	2,294	2,294
Total Capital Employed	27,464	38,559	42,750	46,450	52,539	59,151	65,217	71,046
Net Fixed Assets (incl CWIP)	16,039	17,134	17,666	19,623	22,032	23,511	26,219	28,826
Non Current Investments	799	1,413	5,126	6,694	11,484	11,696	11,696	11,696
Other Non Current Assets	1,466	3,638	4,037	3,357	4,379	4,845	4,845	4,845
Non Current Assets	18,303	22,185	26,829	29,674	37,895	40,051	42,759	45,366
Inventory	8,255	8,507	9,062	8,671	7,495	7,860	8,258	8,961
Debtors	2,439	1,978	1,917	2,474	2,682	4,035	4,240	4,601
Cash & Bank	3,490	6,571	6,063	2,967	2,900	4,152	6,642	9,486
Other Current Assets	8,396	7,306	7,820	12,156	13,317	15,700	16,472	16,683
Current Assets	22,581	24,362	24,863	26,269	26,394	31,747	35,612	39,730
Creditors	2,106	1,977	2,339	2,659	3,496	3,510	3,688	4,001
Provisions	5,956	90	71	61	64	51	54	59
Other Current Liabilities	3,673	3,841	4,204	4,381	5,673	6,449	6,776	7,353
Curr Liabilities	11,736	5,908	6,615	7,102	9,233	10,010	10,518	11,413
Net Current Assets	10,845	18,455	18,248	19,167	17,161	21,737	25,094	28,317
Total Assets	40,884	46,547	51,692	55,943	64,289	71,798	78,372	85,096

Income Statement

Conso./Fig in Rs Cr

Y/E March	FY14	FY15	FY16	FY17	FY18	FY19	FY20E	FY21E
Revenue from Operation	35,317	38,835	39,192	42,777	43,449	49,862	52,391	56,850
Change (%)	12%	10%	1%	9%	2%	15%	5%	9%
EBITDA	13,052	14,202	14,451	15,436	16,483	18,406	20,896	21,985
Change (%)	17%	9%	2%	7%	7%	12%	14%	5%
Margin (%)	37%	37%	37%	36%	38%	37%	40%	39%
Depr & Amor.	965	1,028	1,077	1,153	1,236	1,397	1,602	1,791
EBIT	12,087	13,174	13,373	14,283	15,247	17,010	19,294	20,194
Int. & other fin. Cost	6	68	54	24	90	45	58	51
Other Income	971	1,257	1,531	1,762	1,832	2,174	2,628	2,795
EBT	13,052	14,362	14,851	16,020	17,402	19,138	20,137	20,245
Exp Item	-	-	-	-	413	-	132	-
Tax	4,061	4,596	5,358	5,549	5,916	6,314	4,959	5,773
Minority Int & P/L share of Ass.	120	128	8	6	8	255	-	-
Reported PAT	8,891	9,663	9,501	10,477	11,493	12,592	15,046	14,472
Adjusted PAT	8,891	9,663	9,501	10,477	11,220	12,592	14,946	14,472
Change (%)	17%	9%	-2%	10%	10%	10%	19%	-4%
Margin(%)	25%	25%	24%	24%	26%	25%	29%	25%

Financial Details

Key Ratios

Y/E March	FY14	FY15	FY16	FY17	FY18	FY19	FY20E	FY21E
ROE	33%	25%	22%	23%	22%	21%	23%	20%
ROCE	44%	34%	31%	31%	29%	29%	30%	28%
Asset Turnover	1	1	1	1	1	1	1	1
Debtor Days	25	19	18	21	23	30	30	30
Inv Days	85	80	84	74	63	58	58	58
Payable Days	22	19	22	23	29	26	26	26
Int Coverage	1,897	193	250	588	170	374	331	396
P/E	29	29	27	26	30	28	17	18
Price / Book Value	10	9	6	6	7	6	4	4
EV/EBITDA	13	13	12	18	21	19	12	11
FCF per Share	6	8	9	6	8	8	10	9
Div Yield	1.8%	1.8%	1.9%	2.5%	1.7%	1.8%	2.9%	2.8%

Cash Flow Statement

Conso./Fig in Rs Cr

Y/E March	FY14	FY15	FY16	FY17	FY18	FY19	FY20E	FY21E
PBT	13,052	14,362	14,859	16,026	17,409	19,150	20,141	20,245
(inc)/Dec in Working Capital	(1,844)	31	(277)	44	1,736	(494)	(215)	(379)
Non Cash Op Exp	720	715	1,182	927	907	1,007	1,605	1,791
Int Paid (+)	6	68	54	24	90	45	58	51
Tax Paid	(3,984)	(4,449)	(5,078)	(5,492)	(6,000)	(5,803)	(4,960)	(5,775)
others	(606)	(885)	(941)	(903)	(973)	(1,321)	-	-
CF from Op. Activities	7,344	9,843	9,799	10,627	13,169	12,583	16,497	15,933
(inc)/Dec in FA & CWIP	(2,887)	(3,300)	(2,348)	(3,122)	(2,878)	(3,169)	(4,310)	(4,398)
Free Cashflow	4,456	6,543	7,451	7,506	10,291	9,414	12,187	11,535
(Pur)/Sale of Inv	(950)	916	(3,438)	(4,649)	(3,313)	(1,732)	(653)	-
others	583	(2,890)	1,865	4,519	(923)	(644)	-	-
CF from Inv. Activities	(3,254)	(5,275)	(3,921)	(3,251)	(7,114)	(5,546)	(4,963)	(4,398)
inc/(dec) in NW	691	979	532	1,067	913	969	-	-
inc/(dec) in Debt	(9)	(14)	(13)	(13)	2	(18)	(4)	(4)
Int. Paid	(48)	(16)	(28)	(25)	(49)	(98)	(58)	(51)
Div Paid (inc tax)	(4,927)	(5,688)	(6,125)	(8,333)	(7,088)	(7,733)	(8,982)	(8,636)
others	171	78	21	4	1	11	-	-
CF from Fin. Activities	(4,122)	(4,661)	(5,613)	(7,301)	(6,221)	(6,869)	(9,044)	(8,691)
Inc(Dec) in Cash	(32)	(93)	266	75	(166)	169	2,490	2,844
Add: Opening Balance	309	276	(2)	264	339	174	4,152	6,642
Closing Balance	276	183	264	339	174	343	6,642	9,486

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