

Industry  
Bloomberg  
BSE CODE

Consum. Staples  
ITC IN  
500875

## FMCG segment to drive growth going forward

RATING	BUY
CMP	195
Price Target	228
Potential Upside	17%
Rating Change	↔
Estimate Change	↑
Target Change	↑

STOCK INFO	
52wk Range H/L	283/135
Mkt Capital (Rs Cr)	239,206
Free float (%)	75%
Avg. Vol 1M (,000)	34,163
No. of Shares (Crs)	1,229
Promoters Pledged %	NA

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### 4QFY20 Result Update

- ITC reported mixed set of numbers; Revenue de-grew by 9.6% YoY to Rs 10,842 crs (vs. expect. Rs.12,497 crs) impacted due to low demand sentiment and outbreak of COVID-19 in mid-march followed by lockdown across the country disrupting sales as well as production levels of the company.
- Cigarettes, other FMCG, Agri, Hotel and Papers&Packaging business de-grew by 6.5%, 2.8%, 10.2%, 8.6% and 5.1% YoY respectively in the quarter.
- Segmental EBIT margin contracted by 396 bps, 152 bps, 825 bps & 49 bps YoY to 66%, 5%, 9% & 7% of Cigarettes, Other FMCG, Hotels & Agri segments respectively. However, Paper&Packaging business's EBIT margin remained flat at 20% YoY.
- Gross margin expanded by 30 bps YoY to 62.5% and EBITDA margin expanded by 95 bps YoY to 38.4% on account of improved GM% and product mix enrichment.
- PAT stood at Rs 3,797 crs (vs. expect. Rs 3,277 crs), showing a growth of 9.1% YoY on account of lower tax rate in the quarter.
- ITC made various products launches during the lockdown: Disinfectant Spray, Hexa Sanitizer, Hexa Soap, Germ Protection Wipes, Sanitizer Pouch (Rs 0.50), Vegetable & Fruit Wash, Aashirvaad Svasti Lassi, Immunity Supporting & Other Juices and Premium Ball Pens.

### View and Valuation

Outbreak of COVID-19 and lockdown has impacted all industries. Government is easing the lockdown in phases; it will help in recovery of cigarettes business revenue. Under the new normal, demand sentiment would improve backed by government efforts for improving economy, decent monsoon, good rabi crops and improved liquidity in market. Going ahead, Other FMCG to be the growth driver for the company in the long term led by huge brand base, strong portfolio and company's stepped-up marketing initiatives for the division and various recent launches made under the segment. Margin is expected to remain range bound considering favorable commodity prices. Taking this into account, we value ITC at 18x FY21e EPS to arrive at a target price of Rs.228 and maintain 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	FY20	FY21E
Net Sales	42,777	43,449	49,862	49,404	50,224
EBITDA	15,436	16,483	18,406	19,260	19,427
EBIT	14,283	15,247	17,010	17,615	17,761
PAT	10,477	11,220	12,592	15,696	15,577
EPS (Rs)	9	9	10	13	13
EPS growth (%)	10%	9%	9%	24%	0%
ROE (%)	23%	22%	21%	24%	22%
ROCE (%)	31%	29%	29%	27%	25%
BV	38	43	48	53	58
P/B (X)	5.9	6.5	6.0	3.7	3.3
P/E (x)	26.3	29.7	28.2	15.4	15.4

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## 4QFY20 Results

### Mixed result

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

FINANCIALS	4QFY19	1QFY20	2QFY20	3QFY20	4QFY20	YoY%	QoQ%	FY19	FY20	YoY%
Net Sales	12,206	11,503	11,871	12,013	10,842	-11.2%	-9.7%	49,862	49,404	-0.9%
Other Income	740	620	654	984	756	2.1%	-23.2%	2,174	2,598	19.5%
COGS	4,616	4,140	4,482	4,546	4,067	-11.9%	-10.5%	17,420	17,345	-0.4%
Gross Margin	62%	64%	62%	62%	62%	0.3%	0.3%	65%	65%	-0.2%
Empl. Cost	760	690	632	669	667	-12.3%	-0.4%	4,178	4,296	2.8%
Other Exp.	2,259	2,107	2,195	2,185	1,945	-13.9%	-11.0%	9,858	8,503	-13.7%
EBITDA	4,572	4,566	4,562	4,613	4,164	-8.9%	-9.7%	18,406	19,260	4.6%
EBITDA Mar.	37%	40%	38%	38%	38%	0.9%	0.0%	37%	39%	2.1%
Depreciation	350	359	396	416	393	12.1%	-5.7%	1,397	1,645	17.8%
EBIT	4,221	4,207	4,167	4,196	3,771	-10.7%	-10.1%	17,010	17,615	3.6%
Interest	8	15	13	12	15	90.3%	18.4%	45	55	20.4%
PBT	4,954	4,812	4,808	5,168	4,512	-8.9%	-12.7%	19,138	20,026	4.6%
Excep. Item	-	-	-	(132)	-	-	-	-	(132)	-
Tax	1,472	1,638	785	894	715	-51.4%	-20.0%	6,314	4,442	-29.7%
PAT	3,482	3,174	4,023	4,142	3,797	9.1%	-8.3%	12,824	15,585	21.5%
PAT Margin	29%	28%	34%	34%	35%	6.5%	0.5%	25%	32%	6.3%

## ITC's different segments performance

### Segment Revenue:

Stand./Fig in Rs Cr

SEGMENTS	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20	2QFY20	3QFY20	4QFY20
Cigarettes	5,128	5,026	5,073	5,486	5,433	5,327	5,311	5,131
Others FMCG	2,870	3,160	3,201	3,274	3,060	3,288	3,312	3,184
Agri Business	3,151	2,220	1,925	2,101	3,611	2,648	2,095	1,887
Paperboards, Paper & Packaging	1,356	1,424	1,543	1,537	1,528	1,565	1,555	1,459
Hotels	341	363	452	510	393	427	552	466
Total	12,846	12,193	12,193	12,908	14,025	13,255	12,826	12,826

### Segment Growth:

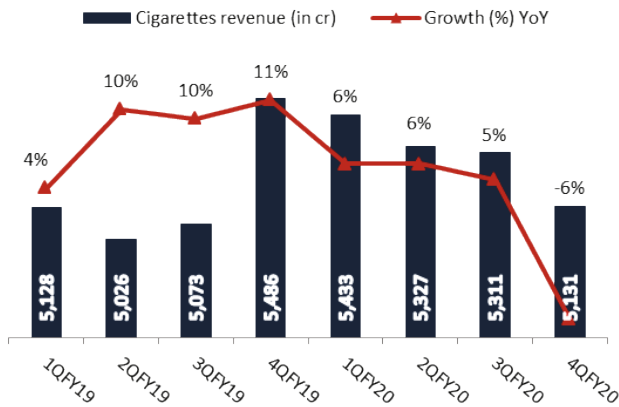
SEGMENTS	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20	2QFY20	3QFY20	4QFY20
Cigarettes	4%	10%	10%	11%	6%	6%	5%	-6%
Others FMCG	10%	13%	11%	7%	7%	4%	3%	-3%
Agri Business	14%	13%	26%	16%	15%	19%	9%	-10%
Paperboards, Paper & Packaging	0%	9%	21%	18%	13%	10%	1%	-5%
Hotels	12%	21%	12%	25%	15%	18%	22%	-9%
Total	7%	11%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

### Segments EBIT Margin:

SEGMENTS	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20	2QFY20	3QFY20	4QFY20
Cigarettes	69%	71%	70%	70%	71%	72%	71%	66%
Others FMCG	2%	2%	2%	6%	3%	3%	3%	5%
Agri Business	6%	11%	10%	7%	6%	9%	10%	7%
Paperboards, Paper & Packaging	22%	22%	22%	20%	22%	23%	21%	20%
Hotels	4%	4%	13%	17%	3%	4%	16%	9%
Total	32%	34%	35%	36%	32%	34%	35%	31%

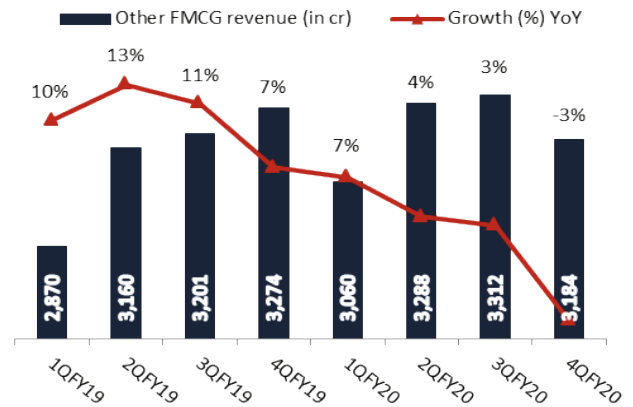
## Exhibit: Cigarettes revenue and Growth(%)

Cigarettes business de-grew by 6% YoY and 3% on QoQ basis.



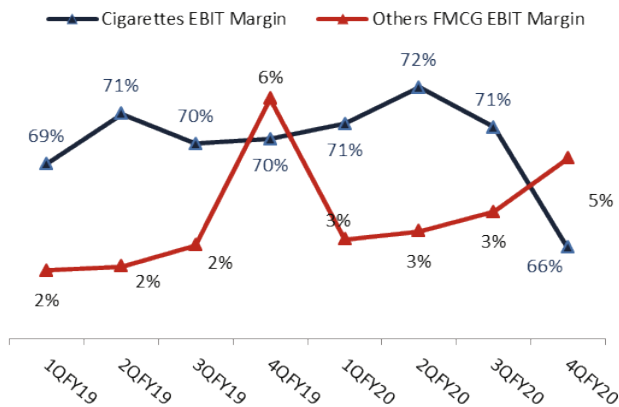
## Exhibit: Other FMCG revenue and Growth(%)

Other FMCG business de-grew by 3% YoY less impacted due to stepped up initiatives and new launches done.



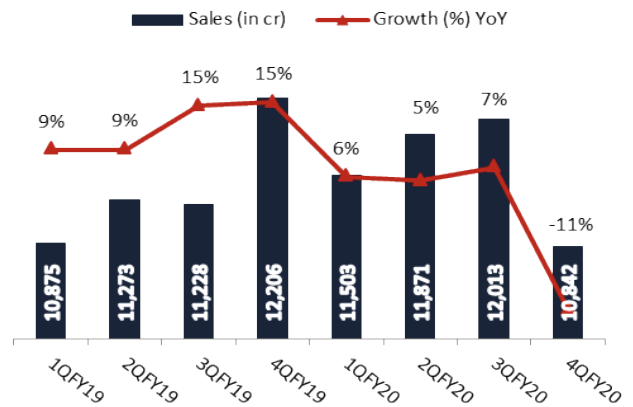
## Exhibit: Cigarettes & Others FMCG EBIT Margin(%)

Cigarettes and other FMCG EBIT margin stood at 66% and 5% in 4QFY20.



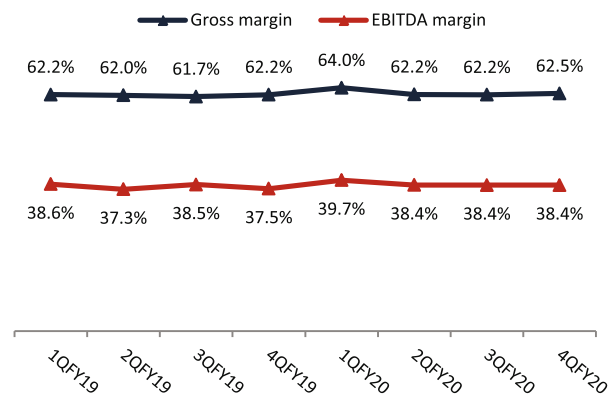
## Exhibit: Sales and Sales Growth

Sales revenue de-grew due to decline in sales of Agri business by 10% and Cigarettes business by 6.5%.



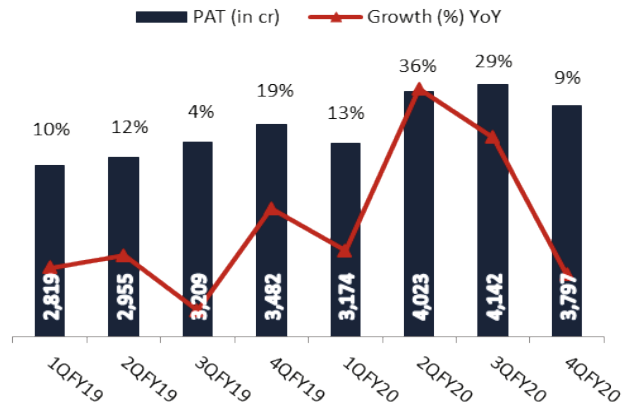
## Exhibit: Gross and EBITDA Margin

GM% expanded by 30 bps YoY and EBITDA m% expanded by 95 bps YoY led by improved GM% and product mix.



## Exhibit: Adj. PAT and Adj. PAT Growth

PAT showed a growth of 9.1% YoY on account of lower tax rate in the quarter.



## Financial Details

### Balance Sheet

Conso./Fig in Rs Cr

Y/E March	FY14	FY15	FY16	FY17	FY18	FY19	FY20	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	64,044	70,324
<b>Networth</b>	<b>27,237</b>	<b>38,335</b>	<b>42,680</b>	<b>46,413</b>	<b>52,510</b>	<b>59,141</b>	<b>65,273</b>	<b>71,553</b>
Debt	227	225	71	38	29	10	7	3
Other Non Current Liab	1,481	1,855	2,066	2,096	2,183	2,294	1,947	1,947
<b>Total Capital Employed</b>	<b>27,464</b>	<b>38,559</b>	<b>42,750</b>	<b>46,450</b>	<b>52,539</b>	<b>59,151</b>	<b>65,281</b>	<b>71,556</b>
Net Fixed Assets (incl CWIP)	16,039	17,134	17,666	19,623	22,032	23,511	24,970	27,602
Non Current Investments	799	1,413	5,126	6,694	11,484	11,696	10,715	10,715
Other Non Current Assets	1,466	3,638	4,037	3,357	4,379	4,845	2,177	2,177
<b>Non Current Assets</b>	<b>18,303</b>	<b>22,185</b>	<b>26,829</b>	<b>29,674</b>	<b>37,895</b>	<b>40,051</b>	<b>37,862</b>	<b>40,494</b>
Inventory	8,255	8,507	9,062	8,671	7,495	7,860	8,879	7,917
Debtors	2,439	1,978	1,917	2,474	2,682	4,035	2,562	4,065
Cash & Bank	3,490	6,571	6,063	2,967	2,900	4,152	7,277	12,322
Other Current Assets	8,396	7,306	7,820	12,156	13,317	15,700	20,786	19,370
<b>Current Assets</b>	<b>22,581</b>	<b>24,362</b>	<b>24,863</b>	<b>26,269</b>	<b>26,394</b>	<b>31,747</b>	<b>39,505</b>	<b>43,673</b>
Creditors	2,106	1,977	2,339	2,659	3,496	3,510	3,630	3,535
Provisions	5,956	90	71	61	64	51	148	52
Other Current Liabilities	3,673	3,841	4,204	4,381	5,673	6,449	5,716	6,496
<b>Curr Liabilities</b>	<b>11,736</b>	<b>5,908</b>	<b>6,615</b>	<b>7,102</b>	<b>9,233</b>	<b>10,010</b>	<b>9,558</b>	<b>10,083</b>
<b>Net Current Assets</b>	<b>10,845</b>	<b>18,455</b>	<b>18,248</b>	<b>19,167</b>	<b>17,161</b>	<b>21,737</b>	<b>29,947</b>	<b>33,590</b>
<b>Total Assets</b>	<b>40,884</b>	<b>46,547</b>	<b>51,692</b>	<b>55,943</b>	<b>64,289</b>	<b>71,798</b>	<b>77,367</b>	<b>84,167</b>

### Income Statement

Conso./Fig in Rs Cr

Y/E March	FY14	FY15	FY16	FY17	FY18	FY19	FY20	FY21E
<b>Revenue from Operation</b>	<b>35,317</b>	<b>38,835</b>	<b>39,192</b>	<b>42,777</b>	<b>43,449</b>	<b>49,862</b>	<b>49,404</b>	<b>50,224</b>
Change (%)	12%	10%	1%	9%	2%	15%	-1%	2%
<b>EBITDA</b>	<b>13,052</b>	<b>14,202</b>	<b>14,451</b>	<b>15,436</b>	<b>16,483</b>	<b>18,406</b>	<b>19,260</b>	<b>19,427</b>
Change (%)	17%	9%	2%	7%	7%	12%	5%	1%
Margin (%)	37%	37%	37%	36%	38%	37%	39%	39%
Depr & Amor.	965	1,028	1,077	1,153	1,236	1,397	1,645	1,666
<b>EBIT</b>	<b>12,087</b>	<b>13,174</b>	<b>13,373</b>	<b>14,283</b>	<b>15,247</b>	<b>17,010</b>	<b>17,615</b>	<b>17,761</b>
Int. & other fin. Cost	6	68	54	24	90	45	55	51
Other Income	971	1,257	1,531	1,762	1,832	2,174	2,598	3,106
<b>EBT</b>	<b>13,052</b>	<b>14,362</b>	<b>14,851</b>	<b>16,020</b>	<b>17,402</b>	<b>19,138</b>	<b>20,026</b>	<b>20,816</b>
Exp Item	-	-	-	-	413	-	(132)	-
Tax	4,061	4,596	5,358	5,549	5,916	6,314	4,442	5,238
Minority Int & P/L share of Ass.	120	128	8	6	8	255	8	-
Reported PAT	8,891	9,663	9,501	10,477	11,493	12,592	15,593	15,577
<b>Adjusted PAT</b>	<b>8,891</b>	<b>9,663</b>	<b>9,501</b>	<b>10,477</b>	<b>11,220</b>	<b>12,592</b>	<b>15,696</b>	<b>15,577</b>
Change (%)	17%	9%	-2%	10%	10%	10%	24%	0%
Margin(%)	25%	25%	24%	24%	26%	25%	32%	31%

## Financial Details

### Key Ratios

Y/E March	FY14	FY15	FY16	FY17	FY18	FY19	FY20	FY21E
ROE	33%	25%	22%	23%	22%	21%	24%	22%
ROCE	44%	34%	31%	31%	29%	29%	27%	25%
Asset Turnover	1	1	1	1	1	1	1	1
Debtor Days	25	19	18	21	23	30	19	30
Inv Days	85	80	84	74	63	58	66	58
Payable Days	22	19	22	23	29	26	27	26
Int Coverage	1,897	193	250	588	170	374	322	348
P/E	29	29	27	26	30	28	15	15
Price / Book Value	10	9	6	6	7	6	4	3
EV/EBITDA	13	13	12	18	21	19	12	12
FCF per Share	6	8	9	6	8	8	10	11
Div Yield	1.8%	1.8%	1.9%	2.5%	1.7%	1.8%	3.0%	3.2%

### Cash Flow Statement

Conso./Fig in Rs Cr

Y/E March	FY14	FY15	FY16	FY17	FY18	FY19	FY20	FY21E
PBT	13,052	14,362	14,859	16,026	17,409	19,150	20,035	20,816
(inc)/Dec in Working Capital	(1,844)	31	(277)	44	1,736	(494)	296	517
Non Cash Op Exp	720	715	1,182	927	907	1,007	858	1,666
Int Paid (+)	6	68	54	24	90	45	55	51
Tax Paid	(3,984)	(4,449)	(5,078)	(5,492)	(6,000)	(5,803)	(5,023)	(5,238)
others	(606)	(885)	(941)	(903)	(973)	(1,321)	(1,530)	-
<b>CF from Op. Activities</b>	<b>7,344</b>	<b>9,843</b>	<b>9,799</b>	<b>10,627</b>	<b>13,169</b>	<b>12,583</b>	<b>14,690</b>	<b>17,811</b>
(inc)/Dec in FA & CWIP	(2,887)	(3,300)	(2,348)	(3,122)	(2,878)	(3,169)	(2,441)	(4,298)
Free Cashflow	4,456	6,543	7,451	7,506	10,291	9,414	12,249	13,513
(Pur)/Sale of Inv	(950)	916	(3,438)	(4,649)	(3,313)	(1,732)	(2,013)	948
others	583	(2,890)	1,865	4,519	(923)	(644)	267	-
<b>CF from Inv. Activities</b>	<b>(3,254)</b>	<b>(5,275)</b>	<b>(3,921)</b>	<b>(3,251)</b>	<b>(7,114)</b>	<b>(5,546)</b>	<b>(6,174)</b>	<b>(3,350)</b>
inc/(dec) in NW	691	979	532	1,067	913	969	625	-
inc/(dec) in Debt	(9)	(14)	(13)	(13)	2	(18)	(3)	(4)
Int. Paid	(48)	(16)	(28)	(25)	(49)	(98)	(44)	(51)
Div Paid (inc tax)	(4,927)	(5,688)	(6,125)	(8,333)	(7,088)	(7,733)	(8,709)	(9,298)
others	171	78	21	4	1	11	(1)	-
<b>CF from Fin. Activities</b>	<b>(4,122)</b>	<b>(4,661)</b>	<b>(5,613)</b>	<b>(7,301)</b>	<b>(6,221)</b>	<b>(6,869)</b>	<b>(8,181)</b>	<b>(9,353)</b>
Inc(Dec) in Cash	(32)	(93)	266	75	(166)	169	334	5,109
<b>Add: Opening Balance</b>	<b>309</b>	<b>276</b>	<b>(2)</b>	<b>264</b>	<b>339</b>	<b>174</b>	<b>343</b>	<b>7,277</b>
Closing Balance	276	183	264	339	174	343	677	12,386

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Analyst's ownership of the stocks mentioned in the Report	NIL
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Registration details of Company: Narnolia Financial Advisors Ltd. (NFAL): SEBI Stock Broker Registration: INZ000166737 (NSE/BSE/MSEI); NSDL/CDSL: IN-DP-380-2018; Research Analyst: INH300006500, Merchant Banking: (Registration No.: INM000010791), PMS: (Registration No.: INP000002304), AMFI Registered Mutual Fund distributor: ARN 3087

Registration Details of Group entities: G. Raj & Company Consultants Ltd (G RAJ)-BSE Broker INZ260010731; NSDL DP: IN-DP-NSDL-371-2014 || Narnolia Commerce Limited (Formerly Microsec Commerce Ltd.)-MCX/NCDEX Commodities Broker: INZ000051636 || NarnoliaVeloX Advisory Ltd.- SEBI Registered PMS: INP000005109 || Eastwind Capital Advisors Pvt Ltd. (EASTWIND)-SEBI Registered Investment Adviser: INA300005439 || Narnolia Insurance Brokers Limited (Formerly Microsec Insurance Brokers Ltd.)-IRDA Licensed Direct Insurance Broker (Life & Non-Life) Certificate No. 134, License No. DB046/02 || Narnolia Securities Ltd. (NSL)-AMFI Registered Mutual Fund distributor: ARN 20558, PFRDA NPS POP: 27092018 || Narnolia Capital Advisors Pvt. Ltd. - RBI Registered NBFC:B.05.02568.

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