

Industry  
Bloomberg  
BSE CODE

Consum. Staples  
ITC IN  
500875

RATING	ACCUMULATE
CMP	200
Price Target	228
Potential Upside	14%

Rating Change	↔
Estimate Change	↔
Target Change	↔

STOCK INFO	
52wk Range H/L	273/135
Mkt Capital (Rs Cr)	245,475
Free float (%)	75%
Avg. Vol 1M (,000)	34,763
No. of Shares (Crs)	1,229
Promoters Pledged %	NA

## RESEARCH ANALYST

### RAJEEV ANAND

rajeev.anand@narnolia.com  
+91-22-62701229

## Strong performance by FMCG Segment

### 1QFY21 Result Update

- ITC reported mixed result; posted revenue de-growth of 21.2% YoY to Rs.8,911 crs (vs. expect. Rs 8,536 crs) majorly on account of disruption in Cigarette business due to COVID-19 led lockdown across the country.
- Cigarettes, Hotel and Papers & Packaging business de-grew by 29.1% 94.2% and 32.8% YoY respectively in the quarter. However, Other FMCG and Agri business reported growth of 10.3% and 3.7% YoY respectively being part of essential goods category.
- Gross margin contracted by 770 bps YoY to 55.7%. EBITDA margin contracted by 1066 bps YoY to 29.7%, due to decline in segmental margins on account of weaker operating leverage in the quarter.
- Segmental Margins: Other FMCG business's margin improved by 117 bps YoY to 4%. However, Cigarettes, Agri & Paperboard business margin reported decline in EBIT margin by 970bps, 85bps and 599bps YoY to 61%, 5% and 16% respectively. Hotels Segment was severely impacted with restrictions on travel and hotel operations and had negative EBIT margin due to sales de-growth and higher fixed cost.
- PAT stood at Rs 2,343 crs (vs. expect. Rs 2,580 crs) and decline in PAT margin of 743bps YoY to 26.3% due to decline in above margins and weaker operating leverage. PAT de-grew by 26.2% YoY in the quarter.

### View and Valuation

The company's FMCG products anchored on vectors of health, wellness and immunity, remained the growth drivers for the company and reported strong growth of 10.3% YoY amid the outbreak off COVID-19. Going forward, FMCG segment is expected to give strong performance seeing solid brand base, the company's thrust to expand the segment, ramped up distribution and continuous new launches. Cigarettes business was impacted due to lockdown and is expected to make a comeback in near term considering normalization in sales & distribution operations. We largely maintain our FY21 estimates. We value ITC at 18x FY22e EPS and maintain our previous target price of Rs.228 and continue with ACCUMULATE rating.

### Key Risks to our rating and target

- A possible increase in duties in subsequent Council meetings.
- Performance of cigarette business .

Conso./Fig in Rs Cr

KEY FINANCIAL/VALUATIONS	FY18	FY19	FY20	FY21E	FY22E
Net Sales	43,449	49,862	49,404	50,540	54,487
EBITDA	16,483	18,406	19,260	18,829	20,306
EBIT	15,247	17,010	17,615	16,978	18,461
PAT	11,220	12,592	15,696	14,754	15,688
EPS (Rs)	9	10	13	12	13
EPS growth (%)	9%	9%	24%	-5%	6%
ROE (%)	22%	21%	24%	22%	22%
ROCE (%)	29%	29%	27%	25%	26%
BV	43	48	53	56	58
P/B (X)	6.5	6.0	3.7	3.6	3.4
P/E (x)	29.7	28.2	15.4	16.6	15.6

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## 1QFY21 Results

## Mixed result

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

FINANCIALS	1QFY20	2QFY20	3QFY20	4QFY20	1QFY21	YoY%	QoQ%	FY19	FY20	YoY%
Net Sales	11,503	11,871	11,806	10,842	8,911	-21.2%	-17.8%	49,862	49,404	-0.9%
Other Income	620	654	984	756	897	44.6%	18.7%	2,174	2,598	19.5%
COGS	4,140	4,482	4,546	4,067	3,947	-4.7%	-3.0%	17,420	17,345	-0.4%
Gross Margin	64%	62%	61%	62%	56%	-7.7%	-6.8%	65%	65%	-0.2%
Empl. Cost	690	632	669	667	697	1.0%	4.6%	4,178	4,296	2.8%
Other Exp.	2,107	2,195	1,977	1,945	1,621	-15.4%	-16.7%	9,858	8,503	-13.7%
EBITDA	4,566	4,562	4,613	4,164	2,647	-42.0%	-36.4%	18,406	19,260	4.6%
EBITDA Mar.	40%	38%	39%	38%	30%	-10.7%	-8.7%	37%	39%	2.1%
Depreciation	359	396	416	393	398	10.9%	1.4%	1,397	1,645	17.8%
EBIT	4,207	4,167	4,196	3,771	2,248	-46.6%	-40.4%	17,010	17,615	3.6%
Interest	15	13	12	15	17	10.3%	14.0%	45	55	20.4%
PBT	4,812	4,808	5,168	4,512	3,128	-35.0%	-30.7%	19,138	20,026	4.6%
Excep. Item	-	-	(132)	-	-	-	-	-	(132)	-
Tax	1,638	785	894	715	786	-52.0%	9.9%	6,314	4,442	-29.7%
PAT	3,174	4,023	4,142	3,797	2,343	-26.2%	-38.3%	12,824	15,585	21.5%
PAT Margin	28%	34%	35%	35%	26%	-1.8%	-8.7%	25%	32%	6.3%

## ITC's different segments performance

## Segment Revenue:

Stand./Fig in Rs Cr

SEGMENTS	2QFY19	3QFY19	4QFY19	1QFY20	2QFY20	3QFY20	4QFY20	1QFY21
Cigarettes	5,026	5,073	5,486	5,433	5,327	5,311	5,131	3,854
Others FMCG	3,160	3,201	3,274	3,060	3,288	3,312	3,184	3,375
Agri Business	2,220	1,925	2,101	3,611	2,648	2,095	1,887	3,746
Paperboards, Paper & Packaging	1,424	1,543	1,537	1,528	1,565	1,555	1,459	1,026
Hotels	363	452	510	393	427	552	466	23
Total	12,193	12,193	12,908	14,025	13,255	12,826	12,126	12,024

## Segment Growth:

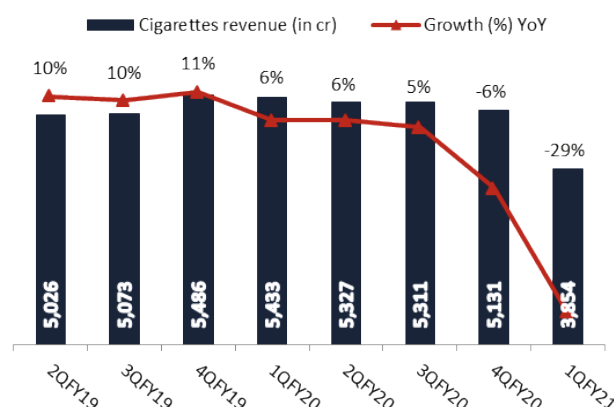
SEGMENTS	2QFY19	3QFY19	4QFY19	1QFY20	2QFY20	3QFY20	4QFY20	1QFY21
Cigarettes	10%	10%	11%	6%	6%	5%	-6%	-29%
Others FMCG	13%	11%	7%	7%	4%	3%	-3%	10%
Agri Business	13%	26%	16%	15%	19%	9%	-10%	4%
Paperboards, Paper & Packaging	9%	21%	18%	13%	10%	1%	-5%	-33%
Hotels	21%	12%	25%	15%	18%	22%	-9%	-94%
Total	11%	14%	12%	9%	9%	5%	-6%	-14%

## Segments EBIT Margin:

SEGMENTS	2QFY19	3QFY19	4QFY19	1QFY20	2QFY20	3QFY20	4QFY20	1QFY21
Cigarettes	71%	70%	70%	71%	72%	71%	66%	61%
Others FMCG	2%	2%	6%	3%	3%	3%	5%	4%
Agri Business	11%	10%	7%	6%	9%	10%	7%	5%
Paperboards, Paper & Packaging	22%	22%	20%	22%	23%	21%	20%	16%
Hotels	4%	13%	17%	3%	4%	16%	9%	-1074%
Total	34%	35%	36%	32%	34%	35%	33%	21%

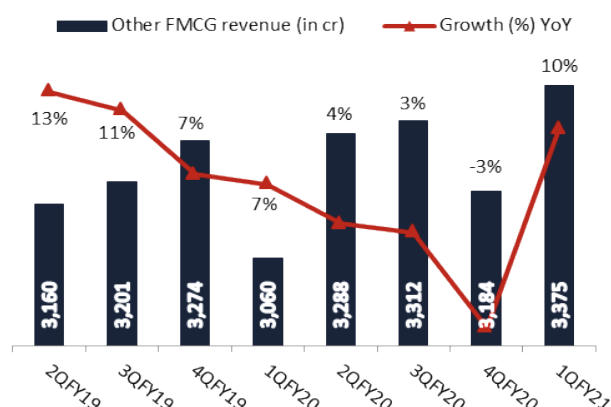
## Exhibit: Cigarettes revenue and Growth(%)

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



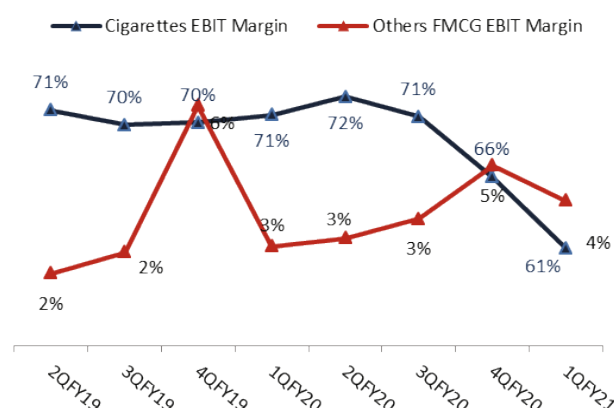
## Exhibit: Other FMCG revenue and Growth(%)

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



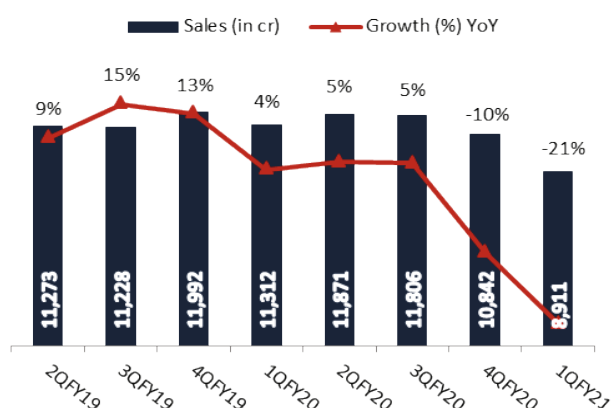
## Exhibit: Cigarettes & Others FMCG EBIT Margin(%)

Cigarettes and other FMCG EBIT margin stood at 61% and 4% in the quarter.



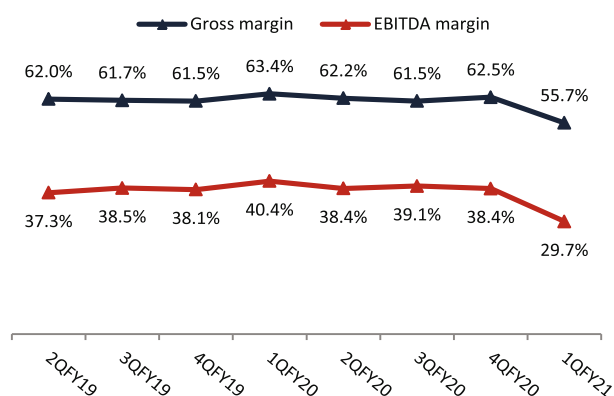
## Exhibit: Sales and Sales Growth

Sales revenue de-grew on account of disruption in Cigarette business due to COVID-19 led lockdown.



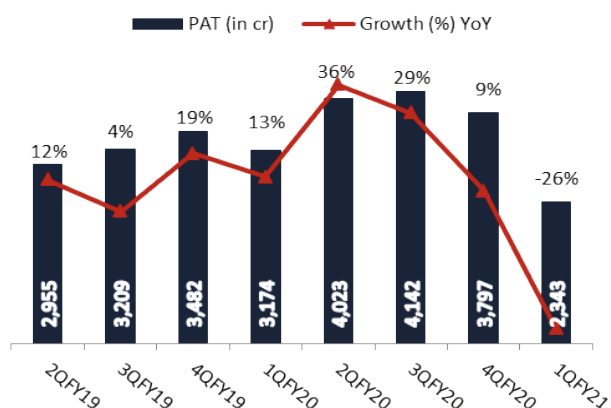
## Exhibit: Gross and EBITDA Margin

GM% declined by 770 bps YoY and EBITDA m% contracted by 1066 bps YoY, due to decline in segmental margins.



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

PAT de-grew by 26.2% YoY in the quarter due to decline in the margins.



## Financial Details

### Balance Sheet

Conso./Fig in Rs Cr

Y/E March	FY15	FY16	FY17	FY18	FY19	FY20	FY21E	FY22E
Share Capital	802	805	1,215	1,220	1,226	1,229	1,229	1,229
Reserves	37,533	41,875	45,198	51,290	57,915	64,044	66,995	70,133
<b>Networth</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>68,224</b>	<b>71,361</b>
Debt	225	71	38	29	10	7	3	3
Other Non Current Liab	1,855	2,066	2,096	2,183	2,294	1,947	1,947	1,947
<b>Total Capital Employed</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>68,227</b>	<b>71,364</b>
Net Fixed Assets (incl CWIP)	17,134	17,666	19,623	22,032	23,511	24,970	27,400	27,331
Non Current Investments	1,413	5,126	6,694	11,484	11,696	10,715	10,715	10,715
Other Non Current Assets	3,638	4,037	3,357	4,379	4,845	2,177	2,177	2,177
<b>Non Current Assets</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>40,292</b>	<b>40,223</b>
Inventory	8,507	9,062	8,671	7,495	7,860	8,879	9,083	9,793
Debtors	1,978	1,917	2,474	2,682	4,035	2,562	2,621	2,826
Cash & Bank	6,571	6,063	2,967	2,900	4,152	7,277	8,632	11,455
Other Current Assets	7,306	7,820	12,156	13,317	15,700	20,786	19,903	20,130
<b>Current Assets</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>40,240</b>	<b>44,204</b>
Creditors	1,977	2,339	2,659	3,496	3,510	3,630	3,713	4,003
Provisions	90	71	61	64	51	148	152	163
Other Current Liabilities	3,841	4,204	4,381	5,673	6,449	5,716	5,848	6,305
<b>Curr Liabilities</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>9,777</b>	<b>10,535</b>
<b>Net Current Assets</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>30,463</b>	<b>33,669</b>
<b>Total Assets</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>80,531</b>	<b>84,427</b>

### Income Statement

Conso./Fig in Rs Cr

Y/E March	FY15	FY16	FY17	FY18	FY19	FY20	FY21E	FY22E
<b>Revenue from Operation</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>50,540</b>	<b>54,487</b>
Change (%)	10%	1%	9%	2%	15%	-1%	2%	8%
<b>EBITDA</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>18,829</b>	<b>20,306</b>
Change (%)	9%	2%	7%	7%	12%	5%	-2%	8%
Margin (%)	37%	37%	36%	38%	37%	39%	37%	37%
Depr & Amor.	1,028	1,077	1,153	1,236	1,397	1,645	1,851	1,845
<b>EBIT</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>16,978</b>	<b>18,461</b>
Int. & other fin. Cost	68	54	24	90	45	55	51	51
Other Income	1,257	1,531	1,762	1,832	2,174	2,598	2,674	2,527
<b>EBT</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>19,601</b>	<b>20,937</b>
Exp Item	-	-	-	413	-	(132)	-	-
Tax	4,596	5,358	5,549	5,916	6,314	4,442	4,847	5,249
Minority Int & P/L share of Ass.	128	8	6	8	255	8	-	-
Reported PAT	9,663	9,501	10,477	11,493	12,592	15,593	14,754	15,688
<b>Adjusted PAT</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>14,754</b>	<b>15,688</b>
Change (%)	9%	-2%	10%	10%	10%	24%	-5%	6%
Margin(%)	25%	24%	24%	26%	25%	32%	29%	29%

## Financial Details

## Key Ratios

Y/E March	FY15	FY16	FY17	FY18	FY19	FY20	FY21E	FY22E
ROE	25%	22%	23%	22%	21%	24%	22%	22%
ROCE	34%	31%	31%	29%	29%	27%	25%	26%
Asset Turnover	1	1	1	1	1	1	1	1
Debtor Days	19	18	21	23	30	19	19	19
Inv Days	80	84	74	63	58	66	66	66
Payable Days	19	22	23	29	26	27	27	27
Int Coverage	193	250	588	170	374	322	333	362
P/E	29	27	26	30	28	15	17	16
Price / Book Value	9	6	6	7	6	4	4	3
EV/EBITDA	13	12	18	21	19	12	13	12
FCF per Share	8	9	6	8	8	10	10	13
Div Yield	1.8%	1.9%	2.5%	1.7%	1.8%	3.0%	4.8%	5.1%

## Cash Flow Statement

Conso./Fig in Rs Cr

Y/E March	FY15	FY16	FY17	FY18	FY19	FY20	FY21E	FY22E
PBT	14,362	14,859	16,026	17,409	19,150	20,035	19,601	20,937
(inc)/Dec in Working Capital	31	(277)	44	1,736	(494)	296	(110)	(382)
Non Cash Op Exp	715	1,182	927	907	1,007	858	1,851	1,845
Int Paid (+)	68	54	24	90	45	55	51	51
Tax Paid	(4,449)	(5,078)	(5,492)	(6,000)	(5,803)	(5,023)	(4,847)	(5,249)
others	(885)	(941)	(903)	(973)	(1,321)	(1,530)	-	-
<b>CF from Op. Activities</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>16,546</b>	<b>17,202</b>
(inc)/Dec in FA & CWIP	(3,300)	(2,348)	(3,122)	(2,878)	(3,169)	(2,441)	(4,281)	(1,777)
Free Cashflow	6,543	7,451	7,506	10,291	9,414	12,249	12,265	15,425
(Pur)/Sale of Inv	916	(3,438)	(4,649)	(3,313)	(1,732)	(2,013)	948	-
others	(2,890)	1,865	4,519	(923)	(644)	267	-	-
<b>CF from Inv. Activities</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>(3,333)</b>	<b>(1,777)</b>
inc/(dec) in NW	979	532	1,067	913	969	625	-	-
inc/(dec) in Debt	(14)	(13)	(13)	2	(18)	(3)	(4)	-
Int. Paid	(16)	(28)	(25)	(49)	(98)	(44)	(51)	(51)
Div Paid (inc tax)	(5,688)	(6,125)	(8,333)	(7,088)	(7,733)	(8,709)	(11,803)	(12,550)
others	78	21	4	1	11	(1)	-	-
<b>CF from Fin. Activities</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>(11,858)</b>	<b>(12,601)</b>
Inc(Dec) in Cash	(93)	266	75	(166)	169	334	1,355	2,824
<b>Add: Opening Balance</b>	<b>276</b>	<b>(2)</b>	<b>264</b>	<b>339</b>	<b>174</b>	<b>343</b>	<b>7,277</b>	<b>8,632</b>
Closing Balance	183	264	339	174	343	677	8,632	11,455

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Disclosure of Interest Statement-

Analyst's ownership of the stocks mentioned in the Report	NIL
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Correspondence Office Address: Arch Waterfront, 5th Floor, Block GP, Saltlake, Sector 5, Kolkata 700 091; Tel No.: 033-40541700; [www.narnolia.com](http://www.narnolia.com).

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Compliance Officer: Manish Kr Agarwal, Email Id: [mkagarwal@narnolia.com](mailto:mkagarwal@narnolia.com), Contact No.:033-40541700.

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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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