

ITC Ltd.



The
Giant 
Awakens



VENTURA

Kyon ki bhaiya, sabse bada rupaiya.

BUY @ CMP INR 272.7
Target: INR 350 in 18 months
Upside Potential: 28.3%

The giant awakens

Although ITC Ltd. has been a stark underperformer over the last few years, we believe that this is set to change. Having achieved critical scale, the FMCG business which has been dragging profitability is expected to witness robust growth (16% CAGR to INR 22,729 cr) with improving margins (+290 bps to 8.6%). Increasing migration towards sustainable packaging and revenge travel post pandemic should help bolster revenue growth and profitability of both verticals. With buoyancy in tax collections, the stress on rising cigarette taxation is diminished and should help drive cigarette volume growth. The agri-commodity business prospects have sharply improved post the Ukraine invasion and the IT vertical is expected to continue its strong double digit revenue growth with top percentile margins.

With all verticals set to fire on all four cylinders, we expect revenue / EBIT / PAT to grow at a CAGR of 17.7% /17.0% /14.5% to INR 86,678.6 cr/ INR 24,613.5 cr/ INR 19,739.9 cr over the period FY21-24. However, we have not modeled any margin expansion given the systemic inflationary pressures.

We initiate coverage with a strong BUY rating for a price target of INR 350 representing an upside of 28.3% over the next 18 months from the CMP of INR 272.7. To arrive at this price objective, we have used an average of the SOTP, DCF and DDM valuation methodologies.

Among Nifty 50 stocks, ITC is one of the few stocks that provide a strong growth opportunity along with an attractive dividend yield of 4.20%. The market has not taken cognizance of the fact that ITC's FY24 EBIT of INR 24,613.5 cr is expected to be more than 1.6X that of HUL (which is the 2nd most profitable listed consumer player) and equal to the combined EBIT of the next 4 players. We believe that this dominance should result in the rerating of the stock as the growth story unfolds. Another kicker for the valuation rerating is the potential demerger plan as outlined in the Dec-21 corporate communication.

A detailed treatise on ITC's investment story will be published soon.

Key Financial Data (INR Cr, unless specified)

	Revenue	EBITDA	Net Profit	EBITDA (%)	Net Profit (%)	EPS (INR)	BVPS (INR)	RoE (%)	RoIC (%)	P/E (X)	P/BV (X)
FY20	51,393	19,284	15,306	37.5	29.8	12.4	53.3	23.4	44.0	22.0	5.1
FY21	53,155	17,015	13,161	32.0	24.8	10.7	49.3	21.8	37.6	25.5	5.5
FY22	65,205	20,658	15,244	31.7	23.4	12.4	51.0	24.4	41.6	22.0	5.3
FY23E	76,834	23,341	17,232	30.4	22.4	14.0	52.3	26.9	49.1	19.5	5.2
FY24E	86,679	26,513	19,740	30.6	22.8	16.0	53.8	29.9	56.3	17.0	5.1

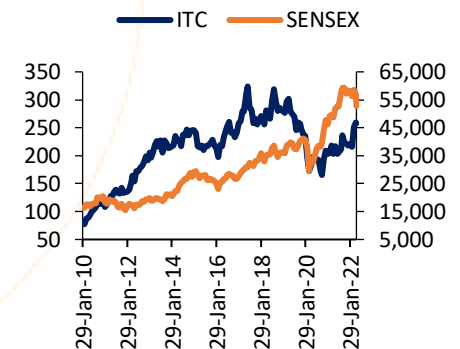
Industry FMCG

Script Details

Face Value (INR)	1.0
Market Cap (INR Cr)	3,35,995
Price (INR)	272.7
No of Shares O/S (Cr)	1,232
3M Avg Vol (000)	23,251
52W High/Low (INR)	282/201
Dividend Yield (%)	4.20

Shareholding (%) March 2022

Promoter	0.0
Institution	54.76
Public	45.24
TOTAL	100.0

Price Chart


Financial Analysis & Projections

Fig in INR Cr (unless specified)	FY19	FY20	FY21	FY22	FY23E	FY24E	Fig in INR Cr (unless specified)	FY19	FY20	FY21	FY22	FY23E	FY24E
Income Statement							Per share data & Yields						
Revenue	49,862.1	51,393.5	53,155.1	65,205.0	76,833.8	86,678.6	Adjusted EPS (INR)	10.2	12.4	10.7	12.4	14.0	16.0
YoY Growth (%)		3.1	3.4	22.7	17.8	12.8	Adjusted Cash EPS (INR)	11.4	13.8	12.0	13.8	15.5	17.6
Raw Material Cost	17,420.3	17,345.5	20,131.4	26,385.1	34,037.4	38,181.9	Adjusted BVPS (INR)	48.3	53.3	49.3	51.0	52.3	53.8
RM Cost to Sales (%)	34.9	33.8	37.9	40.5	44.3	44.1	Adjusted CFO per share (INR)	10.2	11.9	10.2	12.7	15.7	19.1
Employee Cost	4,177.9	4,295.8	4,463.3	4,890.6	5,355.2	5,869.2	CFO Yield (%)	3.7	4.4	3.7	4.7	5.7	7.0
Employee Cost to Sales (%)	8.4	8.4	8.4	7.5	7.0	6.8	Adjusted FCF per share (INR)	6.3	10.7	8.3	11.2	10.2	13.2
Other Expenses	9,838.5	10,468.0	11,545.4	13,270.9	14,099.9	16,114.0	FCF Yield (%)	2.3	3.9	3.1	4.1	3.7	4.8
Other Exp to Sales (%)	19.7	20.4	21.7	20.4	18.4	18.6	Solvency Ratio (X)						
EBITDA	18,425.4	19,284.2	17,014.9	20,658.4	23,341.4	26,513.4	Total Debt to Equity	0.0	0.0	0.0	0.0	0.0	0.0
Margin (%)	37.0	37.5	32.0	31.7	30.4	30.6	Net Debt to Equity	(0.3)	(0.4)	(0.3)	(0.3)	(0.3)	(0.3)
YoY Growth (%)		4.7	(11.8)	21.4	13.0	13.6	Net Debt to EBITDA	(0.9)	(1.3)	(1.1)	(0.8)	(0.9)	(0.8)
Depreciation & Amortization	1,396.6	1,644.9	1,645.6	1,732.4	1,816.7	1,899.8	Return Ratios (%)						
EBIT	17,028.8	17,639.3	15,369.3	18,926.0	21,524.7	24,613.5	Return on Equity	21.3	23.4	21.8	24.4	26.9	29.9
Margin (%)	34.2	34.3	28.9	29.0	28.0	28.4	Return on Capital Employed	19.3	21.0	19.0	22.6	25.1	27.9
YoY Growth (%)		3.6	(12.9)	23.1	13.7	14.4	Return on Invested Capital	40.9	44.0	37.6	41.6	49.1	56.3
Other Income	2,180.7	2,600.6	2,633.7	1,836.4	1,847.0	2,114.7	Working Capital Ratios						
Finance Cost	71.4	81.4	58.0	39.4	20.9	19.4	Payable Days (Nos)	26	26	30	25	25	25
Interest Coverage (X)	238.5	216.8	265.1	480.8	1,030.9	1,268.7	Inventory Days (Nos)	58	63	71	61	63	63
Exceptional Item	0.0	(132.1)	0.0	0.0	0.0	0.0	Receivable Days (Nos)	30	18	17	14	18	18
PBT	19,138.1	20,026.4	17,945.1	20,723.0	23,350.8	26,708.8	Net Working Capital Days (Nos)	61	55	59	50	56	56
Margin (%)	38.4	39.0	33.8	31.8	30.4	30.8	Net Working Capital to Sales (%)	16.8	15.2	16.1	13.7	15.3	15.3
YoY Growth (%)		4.6	(10.4)	15.5	12.7	14.4	Valuation (X)						
Tax Expense	6,313.9	4,441.8	4,555.3	5,237.3	5,877.4	6,722.6	P/E	26.7	22.0	25.5	22.0	19.5	17.0
Tax Rate (%)	33.0	22.2	25.4	25.3	25.2	25.2	P/BV	5.6	5.1	5.5	5.3	5.2	5.1
PAT	12,824.2	15,584.6	13,389.8	15,485.7	17,473.4	19,986.2	EV/EBITDA	17.3	16.1	18.6	15.4	13.5	11.8
Margin (%)	25.7	30.3	25.2	23.7	22.7	23.1	EV/Sales	6.4	6.0	6.0	4.9	4.1	3.6
YoY Growth (%)		21.5	(14.1)	15.7	12.8	14.4	Cash Flow Statement						
Min Int/Sh of Assoc	(231.9)	(278.3)	(228.6)	(241.7)	(241.7)	(246.6)	PBT	19,138.1	20,026.4	17,945.1	20,723.0	23,350.8	26,708.8
Net Profit	12,592.3	15,306.2	13,161.2	15,243.9	17,231.7	19,739.7	Adjustments	1,463.3	(1,468.2)	(94.6)	109.0	4,680.8	5,112.7
Margin (%)	25.3	29.8	24.8	23.4	22.4	22.8	Change in Working Capital	(1,704.1)	573.3	(768.2)	116.5	(2,851.8)	(1,506.9)
YoY Growth (%)		21.6	(14.0)	15.8	13.0	14.6	Less: Tax Paid	(6,313.9)	(4,441.8)	(4,555.3)	(5,237.3)	(5,877.4)	(6,722.6)
Balance Sheet							Cash Flow from Operations	12,583.4	14,689.7	12,527.1	15,711.2	19,302.4	23,592.0
Share Capital	1,225.9	1,229.2	1,230.9	1,232.3	1,232.3	1,232.3	Net Capital Expenditure	(3,141.3)	(2,414.1)	(1,834.1)	(2,008.5)	(2,248.7)	(2,316.2)
Total Reserves	58,258.5	64,421.5	59,463.3	61,589.4	63,234.8	65,119.7	Change in Investments	(2,404.4)	(3,759.9)	7,517.0	124.8	472.0	(211.6)
Shareholders Fund	59,484.3	65,650.7	60,694.2	62,821.7	64,467.1	66,352.0	Cash Flow from Investing	(5,545.7)	(6,174.0)	5,682.9	(1,883.8)	(1,776.7)	(2,527.8)
Long Term Borrowings	8.2	5.9	5.6	4.9	4.9	4.9	Change in Borrowings	(1,247.1)	(1,423.8)	14.9	245.7	(0.7)	0.0
Deferred Tax Assets / Liabilities	1,992.7	1,570.9	1,677.9	1,673.5	1,673.5	1,673.5	Less: Finance Cost	(71.4)	(81.4)	(58.0)	(39.4)	(20.9)	(19.4)
Other Long Term Liabilities	79.9	348.1	506.0	374.6	441.4	498.0	Proceeds from Equity	969.1	625.3	290.7	1.4	0.0	0.0
Long Term Trade Payables	0.0	0.0	0.0	0.0	0.0	0.0	Buyback of Shares	0.0	0.0	0.0	0.0	0.0	0.0
Long Term Provisions	162.0	175.4	187.5	221.1	242.0	265.3	Dividend Paid	(6,519.2)	(7,301.6)	(18,881.4)	(13,788.3)	(15,586.3)	(17,854.8)
Total Liabilities	61,727.1	67,751.0	63,071.1	65,095.7	66,828.9	68,793.6	Cash flow from Financing	(6,868.6)	(8,181.5)	(18,633.8)	(13,580.5)	(15,607.9)	(17,874.2)
Net Block	19,374.2	21,328.0	22,921.9	23,198.1	23,630.1	24,046.5	Net Cash Flow	169.1	334.2	(43.5)	246.9	1,917.8	3,190.0
Capital Work in Progress	4,126.2	3,251.6	4,004.5	3,198.5	0.0	0.0	Forex Effect	0.0	0.0	0.0	0.0	0.0	0.0
Intangible assets under developm	10.2	4.9	6.8	27.1	0.0	0.0	Opening Balance of Cash	173.8	342.9	677.0	633.6	880.5	2,798.2
Non Current Investments	11,696.0	11,100.4	10,401.1	13,609.9	14,698.7	15,874.6	Closing Balance of Cash	342.9	677.0	633.6	880.5	2,798.2	5,988.3
Long Term Loans & Advances	3,260.3	2,109.8	1,401.3	2,887.4	2,887.4	3,464.9							
Other Non Current Assets	1,524.9	10.8	33.2	105.8	124.7	140.7							
Net Current Assets	21,735.3	29,945.6	24,302.3	22,068.9	25,487.9	25,266.9							
Total Assets	61,727.1	67,751.0	63,071.1	65,095.7	66,828.9	68,793.6							

Source: Company Reports & Ventura Research

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Corporate Office: I-Think Techno Campus, 8th Floor, 'B' Wing, Off Pokhran Road No 2, Eastern Express Highway, Thane (W) – 400608