

- ❑ ITC Limited (ITC) has reported an increase of 35.5% YoY in its consolidated revenue at ₹1,32,473 million in Q1FY22 as against ₹ 97,741 million in Q1FY21. Revenue increase was mainly on account of low base effect. Increase in demand was seen along with disruption in supply caused by lockdown during the quarter.
- ❑ On profitability front, the company's operating margins have improved by ~341 basis points to 33.5% at ₹ 44,437 million in Q1FY22 as against 30.1% at ₹ 29,456 million in Q1FY21. The company has reported a growth of 30.5% YoY in its net profit which came in at ₹ 32,765 million in Q1FY22 as against ₹ 25,110 million in Q1FY21. Lower Other Income due to lower market yields and treasury corpus limited the flow through to Net profit.
- ❑ FMCG Cigarette Revenue came in at ₹ 58,026.7 million during Q1FY22 as against ₹ 43,300.5 millions during Q1FY21 recording a growth of 34% YoY. Certain markets in the South, metro cities and towns were relatively more impacted. Week on week improvement underway since mid June'21 with most markets returning to normalcy and witnessing faster recovery compared to first wave. The company Sustained leadership position in the cigarette industry. FMCG Other Segment also saw an increase of 10% YoY in revenue to ₹ 37,314 million during Q1FY22. The company saw Robust growth in Health & Hygiene, Fragrances, Snacks, Spices, Dairy and Agarbatti. Sales in the E-commerce channel more than doubled YoY. Education & Stationery Products Business remains impacted due to continued closure of educational institutions.
- ❑ After severe disruptions during the quarter, the hotel segment business is rebounding with the easing of restrictions led by leisure destinations, staycations and weekend getaways. The segment recorded Revenue of ₹ 1,336.7 million during Q1FY22 as against ₹ 249 million during Q1FY21. The company launched Curated Packages to drive business. Food takeaway/home delivery business ramped up with 'Flavours' and 'Gourmet Couch' home delivery/takeaway offerings garner good response. It is Operational in 17 cities with 24 hotels, doubling over the previous quarter.
- ❑ In Agri Business, the company saw Strong growth in external revenue driven by wheat, rice and leaf tobacco exports as well as demand for soya in the domestic market. The Segment recorded a revenue of ₹ 41,098 million during Q1FY22 as against ₹ 37,646 million during Q1FY21, a growth of 9.2% YoY. Value Added Spices to Food Safe markets continue to gain traction. The Company's wholly owned subsidiary, IIVL is progressing construction of a world-class manufacturing facility at Mysuru, for export of Nicotine & Nicotine derivative products to US/EU.

- ❑ In the Paperboards, Paper & Packaging Segment, the company recorded a revenue growth of ~54% YoY to ₹ 15,827 million during Q1FY22. The robust growth was driven by Value Added Paperboards, Décor Paper (Soft base) and Carton packaging along with Significant growth in Exports. Business relatively insulated by in-house pulp capacity & integrated business model. The company saw Significant improvement in profitability led by richer product mix, higher realisations on the back of surge in global pulp prices and structural cost saving interventions
- ❑ As economic activities pick up pace, we expect growth prospects to improve across all of ITC's verticals in the months ahead. Despite the disruptions experienced during the quarter, the company made strong recovery in both sales and margins over the last few quarters. We have factored in the impact of above expected inflation in our estimates. However, pace of pickup in volumes and demand remains crucial. Keeping an optimistic outlook on the company's performance, we reiterate our **BUY** rating on the stock with a target price of ₹ **285** based on SOTP valuation.

## Financial Results

Consolidated			
(In ₹ mn)	Q1-FY22	Q1-FY21	Chg
Net Sales	132,473	97,741	35.5%
Operating Expense	88,035	68,285	28.9%
EBITDA	44,437	29,456	50.9%
Other Income	4,470	9,251	-51.7%
Depreciation	4,141	4,190	-1.2%
EBIT	44,767	34,517	29.7%
Interest	93	158	-41.0%
PBT	44,673	34,359	30.0%
Tax	11,239	8,688	29.4%
Exceptional Items	-	-	
PAT	33,434	25,671	30.2%
Minority /Other Adj.	(670)	(561)	19.4%
<b>Consolidated PAT</b>	<b>32,765</b>	<b>25,110</b>	<b>30.5%</b>

## Margins

Consolidated			
Margins	Q1-FY22	Q1-FY20	Chg BPS
Operating Margin %	33.5%	30.1%	341
Net Margin %	24.7%	25.7%	-96

Source: Company, Anand Rathi Research

(In ₹ mn)	FY-20	FY-21	FY-22E	FY-23E
Net Sales	494,041	492,728	536,850	587,953
Operating Expense	301,199	322,579	328,552	361,591
EBITDA	192,842	170,149	208,298	226,362
Other Income	26,006	26,337	26,843	29,398
Depreciation	16,449	16,456	17,684	19,368
EBIT	202,398	180,031	217,456	236,392
Interest	814	580	565	565
Misc. items	(1,321)	-	-	-
PBT	200,264	179,451	216,891	235,827
Tax	44,418	45,553	55,057	59,864
Minority Interest	(2,783)	(2,286)	-	-
PAT	153,062	131,612	161,834	175,963

Margins	FY-20	FY-21	FY-22E	FY-23E
Sales Growth %	2.2%	-0.3%	9.0%	9.5%
Operating Margin %	39.0%	34.5%	38.8%	38.5%
Net Margin %	31.0%	26.7%	30.1%	29.9%

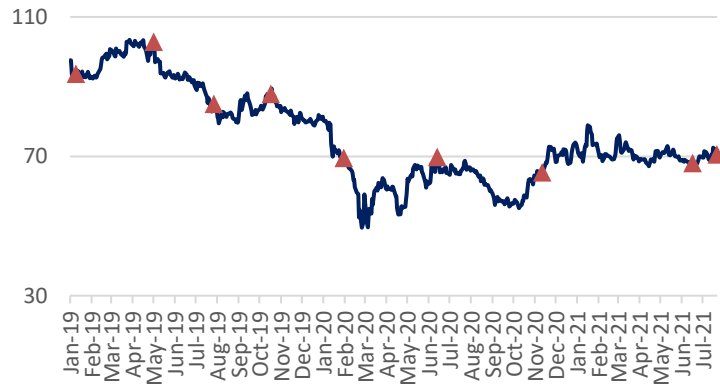
(In ₹ mn)	FY-20	FY-21	FY-22E	FY-23E
<b>Liabilities</b>				
Equity Share Capital	32,514	29,374	29,374	29,374
Reserves & Surplus	620,219	574,099	735,933	911,896
Total Shareholder's Funds	652,733	603,473	765,307	941,270
Minority Interest	3,775	3,468	3,468	3,468
Long-Term Liabilities	59	56	56	56
Other Long-term Liabilities	5,234	6,935	6,935	6,935
Deferred Tax Liability	15,709	16,779	16,779	16,779
Short-term Liabilities	95,598	106,897	104,409	112,713
<b>Total</b>	<b>773,108</b>	<b>737,608</b>	<b>896,953</b>	<b>1,081,221</b>
<b>Assets</b>				
Net Fixed Assets	245,844	269,332	258,155	268,848
Long-Term L&A	21,098	14,013	14,013	14,013
Non Current Investments	111,004	104,011	104,011	104,011
Other Non-Current Assets	108	332	332	332
Current Asset	395,054	349,920	520,442	694,018
<b>Total</b>	<b>773,108</b>	<b>737,608</b>	<b>896,953</b>	<b>1,081,221</b>

Particulars	FY-20	FY-21	FY-22E	FY-23E
EPS (₹)	12.5	10.7	13.1	14.3
P/E (x)	16.7	19.5	15.8	14.6
P/B (x)	3.9	4.2	3.3	2.7
ROE	23.4%	21.8%	21.1%	18.7%



## Rating and Target Price History:

ITC rating history & price chart



Source: Ace Equity, Anand Rathi Research

NOTE: Prices are as on 11 August 2021 close.

ITC rating details

Date	Rating	Target Price	Share Price
29-Jan-19	BUY	352	278
21-May-19	BUY	352	306
16-Aug-19	BUY	352	253
06-Nov-19	BUY	352	261
19-Feb-20	BUY	306	207
03-Jul-20	BUY	285	208
07-Jun-21	BUY	285	209
11-Aug-20	BUY	285	209

Source: Ace Equity, Anand Rathi Research

## Risks :

- Regulatory Risks.
- Macro Economic Risks.
- Regulatory Norms On Cigarette.

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