

- ITC Limited (ITC) has reported a decline of 7.9% in its consolidated revenue at ₹1,17,822 million in Q4-FY20 as against ₹1,27,892 million in Q4-FY19. Revenue decline was mainly due to loss of sales in last 10 days of march which affected all the segments with Cigarettes, FMCG, Hotel, Agri and Paper businesses registering a decline of 4.9%, 2.8%, 6.7%, 10.0% and 5.1% respectively. Cigarettes business registered a volume decline of ~12% after factoring in the price hike taken in this segment.
- On profitability front, the company's operating margins have improved by ~44 basis points to 38.2% at ₹45,036 million in Q4-FY20 as against 37.8% at ₹48,322 million in Q4-FY19. The company has reported a growth of 9.1% in its net profit which came in at Rs.38,565 million in Q4-FY20 as against Rs.35,351 million in Q4-FY19.
- FMCG business saw a 2.8% sales dip during the quarter with supply chain & manufacturing disruption in the last 10 days of March 2020. However, the business is likely to witness sharp growth in Q1-FY21 given most of the product portfolio consist of essentials (packaged food & soaps). The growth in packaged foods is likely to be a silver lining in FY21E given most of the product portfolio is part of essentials (except education & stationery).
- A consumer shift towards packaged foods has accelerated in the last three months given decline in 'out of home' consumption and increasing consumer caution about health & hygiene. The company has increased capacities in some categories to fulfil the sudden surge in demand. ITC also increased capacity of hygiene products with re-purposing of its perfume plant to produce hand sanitisers and liquid soaps. It has launched Savlon surface disinfectant spray and Savlon Hexa hand sanitiser & wipes.
- The hotels business was worst hit due to lockdown with occupancy levels coming down from ~65% to single digit and recovery in the business likely to be prolonged. With its portfolio of world-class properties, iconic cuisine brands and best-in-class levels of service excellence anchored on 'Responsible Luxury' ethos and the highest standards of hygiene at all touch points, the Company is well-positioned to sustain its pre-eminent position in the Indian Hospitality industry and to successfully overcome these challenges.
- In Agri Business, performance was impacted due to supply chain disruptions amidst the COVID-19 pandemic. This led to lower exports and domestic sales towards the end of the financial year. To ensure steady support to the branded packaged foods business as also to support the agri sector during this critical time, the business was able to secure necessary permissions expeditiously to ramp up agri operations including direct buying from farmers, leveraging its e-Choupal network to expand the buying locations at the village level to overcome labour and transport challenges from the market yards which were non-operational during March and April.
- In the Paperboards, Paper & Packaging Segment, while capacity addition in the Value Added Paperboards segment bolstered revenue, slowdown in customer offtake due to sluggish demand in end-user industries weighed on the performance of the packaging segment. Despite the adverse impact on revenue in the fourth quarter due to supply chain disruptions following the outbreak of the pandemic towards the end of the year, segment results were up 5.3% driven by higher in-house pulp production, enhanced operating efficiencies and benign input costs.
- Free Cash Flow generation (net of tax and capital expenditure) during the year stood at Rs.11693 crores, representing a robust growth of 30% over the previous year. The Company remains the clear leader in the FMCG industry in terms of annual Free Cash Flow generation., we continue to remain positive on the company over medium to longer term perspective and maintain our **BUY** rating on the stock with a revised target price of **Rs.285 per share**.

## Financial Results

Consolidated			
(In ₹ mn)	Q4-FY20	Q4-FY19	Chg
Net Sales	1,17,822	1,27,892	-7.9%
Operating Expense	72,785	79,569	
EBITDA	45,036	48,322	-6.8%
Other Income	6,678	6,901	
Depreciation	4,132	3,708	
EBIT	47,582	51,516	
Interest	147	96	
PBT	47,435	51,419	
Tax	8,170	15,491	
Exceptional Items	-	-	
PAT	39,265	35,928	
Minority /Other Adj.	(699)	(577)	
<b>Consolidated PAT</b>	<b>38,565</b>	<b>35,351</b>	<b>9.1%</b>

## Margins

Consolidated			
Margins	Q4-FY20	Q4-FY19	Chg BPS
Operating Margin %	38.2%	37.8%	44
Net Margin %	32.7%	27.6%	509

Source: Company, Anand Rathi Research

(In ₹ mn)	FY-19	FY-20	FY-21E	FY-22E
Net Sales	4,83,527	4,94,041	4,76,947	5,39,838
Operating Expense	2,99,273	3,01,439	2,95,707	3,33,080
EBITDA	1,84,254	1,92,602	1,81,240	2,06,758
Other Income	21,807	25,979	23,381	25,719
Depreciation	13,966	16,449	17,865	20,221
EBIT	1,92,095	2,02,131	1,86,756	2,12,256
Interest	714	547	547	547
Misc. items	-	(1,321)	-	-
PBT	1,91,381	2,00,264	1,86,209	2,11,709
Tax	63,139	44,418	46,869	53,287
Minority Interest	(2,319)	(2,783)	-	-
PAT	1,25,923	1,53,062	1,39,340	1,58,422

Margins	FY-19	FY-20	FY-21E	FY-22E
Sales Growth %	11.3%	2.2%	-3.5%	13.2%
Operating Margin %	38.1%	39.0%	38.0%	38.3%
Net Margin %	26.0%	31.0%	29.2%	29.3%

(In ₹ mn)	FY-19	FY-20	FY-21E	FY-22E
<b>Liabilities</b>				
Equity Share Capital	32,238	12,292	12,292	12,292
Reserves & Surplus	5,59,171	6,40,440	7,79,781	9,38,202
Total Shareholder's Funds	5,91,409	6,52,733	7,92,073	9,50,495
Minority Interest	3,435	3,775	3,775	3,775
Long-Term Liabilities	82	59	59	59
Other Long-term Liabilities	2,419	5,234	5,234	5,234
Deferred Tax Liability	19,927	15,709	15,709	15,709
Short-term Liabilities	1,00,120	95,598	92,290	1,04,460
<b>Total</b>	<b>7,17,390</b>	<b>7,73,108</b>	<b>9,09,140</b>	<b>10,79,731</b>
<b>Assets</b>				
Net Fixed Assets	2,35,106	2,40,026	2,45,499	2,64,100
Long-Term L&A	32,603	16,265	16,265	16,265
Non Current Investments	1,16,960	1,07,150	1,07,150	1,07,150
Other Non-Current Assets	15,249	14,612	14,612	14,612
Current Asset	3,17,473	3,95,054	5,25,613	6,77,604
<b>Total</b>	<b>7,17,390</b>	<b>7,73,108</b>	<b>9,09,140</b>	<b>10,79,731</b>

Particulars	FY-19	FY-20	FY-21E	FY-22E
EPS (₹)	10.2	12.5	11.3	12.9
P/E (x)	20.3	16.7	18.3	16.1
P/B (x)	4.3	3.9	3.2	2.7
ROE	21.3%	23.4%	17.6%	16.7%

## Rating and Target Price History:

ITC rating history & price chart



Source: Ace Equity, Anand Rathi Research

NOTE: Prices are as on 3 July 2020 close.

ITC rating details

Date	Rating	Target Price	Share Price
21-Jan-19	BUY	352	290
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

Source: Ace Equity, Anand Rathi Research

## Risks :

- Regulatory Risks.
- Macro Economic Risks.

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Ratings Guide (12 months)	Buy	Hold	Sell
Large Caps (>₹300Bn.)	15%	5%-10%	Below 5%
Mid/Small Caps (<₹300 Bn.)	20%	10%-15%	Below 10%

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