

ITC

27 June 2020

Reuters: ITC.NS; Bloomberg: ITC IN

FMCG-Others and Agri business poised to do well; Upside limited

ITC Ltd's (ITC) 4QFY20 standalone topline (adjusting for excise duty; given separately this quarter) declined by 9.6% YoY to Rs108bn (est. 3.1% growth to Rs124bn). EBITDA declined by 8.9% to Rs41.6bn (est. 4.7% growth to Rs47.9bn). Adj. PAT grew by 9% to Rs38bn (est. -0.6% growth to Rs34.6bn), largely led by lower tax rate at 15.8% (tax rate stood at 20.9% for the full year vs est. 25.2%). Cigarette net sales declined by 6.5% YoY to Rs51.3bn. We believe that calculated cigarette volume would have declined by ~12% YoY (est. 2% cig. volume decline). In addition to the persistent weakness in the overall demand environment pre-Covid, especially in rural markets and wholesale channel, tight liquidity conditions and the increasing illicit cigarette trade (especially at the premium end), Covid related lockdown caused disruption in the supply chain at the end of the quarter. However, the company was able to resume operations quickly upon receipt of permissions and currently all factories are operational. Sales and distribution operations are also gradually normalizing. Cig. Business EBIT declined by 11.7% with EBIT margin contracting by 400bps YoY to 66.3%. Sales of FMCG-Others, Agri business, Paperboards, Paper and Packaging (PPP) and Hotels declined by 2.8%, 10.2%, 5.1% and 8.6% YoY, respectively. Prior to the Covid-19 outbreak, the FMCG-Others segment was on track to register double-digit revenue growth for the fourth quarter, on a comparable basis (excluding the Lifestyle Retailing Business). Overall EBITDA margin came in at 38.4%, up 30bps YoY (est. 38.7%), supported by gross margin expansion of 100bps. The stock is up ~20% from our last update and is now trading at 16.4x/14.9x FY21E/FY22E EPS. We thus downgrade ITC to Accumulate rating with a revised target price (TP) of Rs210 (earlier Rs205) due to limited upside on one-year basis, valuing it at a multiple of 15x on FY22E EPS.

FY20 performance: Sales, EBITDA and Adj. PAT grew by 1.4%, 3.5% and 22.5%, respectively. EBITDA margin expanded by 80bps to 39.2%. Cigarette Business net sales grew by 2.4% to Rs212bn with EBIT margin down 20bps to 70.1%. Sales of FMCG-Others grew by 2.7%.

Outlook and valuation: While the 4QFY20 topline performance was below our estimate, lower tax rate meant that PAT was above our expectation. There is 5.6%/2.9% cut to our FY21/FY22 EPS estimates to bake in lower sales growth in FY21 largely due to the sharp hit on the Hotels and the PPP business. In cigarettes business, we are building in ~3% volume decline in FY21 with a realization growth of ~10% (based on the price hike taken in Feb'2020). FMCG-Others business has ramped up well over the years and now contributes ~25% to the company's topline (ex. Inter-segment revenue) and is expected to do well in FY21 with robust pick-up in certain essentials (viz. staples, noodles, biscuits, dairy, etc.). The profitability of the segment is improving year-on-year (segment EBITDA margin rose by 160bps to 7.1% in FY20) but it will take the segment a few more years to contribute meaningfully to the company's profit (Cigarette EBIT still contributes 84.7% to overall EBIT while FMCG-Others EBIT contributes 2.4%, as on FY20). We are building in 3% EPS CAGR over FY20-22E due to tax rate of 25.17% in FY21/FY22 compared to 20.9% in FY20. The stock is up ~20% from our last update and is now trading at 16.4x/14.9x FY21E/FY22E EPS. We thus downgrade ITC to Accumulate rating with a revised TP of Rs210 (earlier Rs205), valuing it at a multiple of 15x on FY22E EPS.

NBIE Values your patronage- Vote for The Tam in the Asia Money poll 2020. [Click Here](#)

Downgrade to Accumulate
Sector: FMCG

CMP: Rs196

Target Price: Rs210

Upside: 7%

Vishal Punmiya

Research Analyst

vishal.punmiya@nirmalbang.com

+91-22-6273 8064

Key Data

Current Shares O/S (mn)	12,293.3
Mkt Cap (Rsbn/US\$bn)	2,399.6/31.7
52 Wk H / L (Rs)	283/135
Daily Vol. (3M NSE Avg.)	31,899,050

Price Performance (%)

	1 M	6 M	1 Yr
ITC	1.8	(17.6)	(29.6)
Nifty Index	15.0	(14.4)	(12.4)

Source: Bloomberg

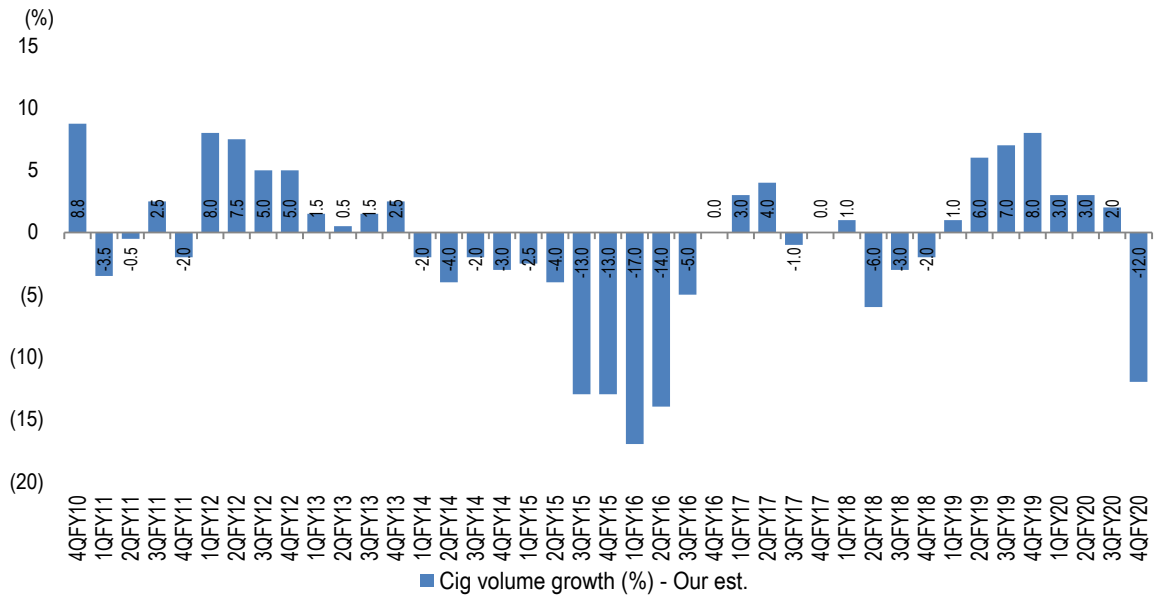
Y/E March (Rsmn)	4QFY19	3QFY20	4QFY20	YoY (%)	QoQ (%)	FY19	FY20	YoY (%)
Net Sales	1,19,921	1,20,130	1,08,423	-9.6	-9.7	4,49,957	4,56,197	1.4
COGS	46,156	45,465	40,671	-11.9	-10.5	1,73,052	1,72,351	-0.4
Gross margin %	61.5	62.2	62.5	1.0	0.3	61.5	62.2	0.7
Employee costs	7,600	6,691	6,665	-12.3	-0.4	27,284	26,582	-2.6
% of sales	6.3	5.6	6.1	-0.2	0.6	6.1	5.8	-0.2
Other expenses	20,449	21,847	19,452	-4.9	-11.0	76,566	78,221	2.2
% of sales	17.1	18.2	17.9	0.9	-0.2	17.0	17.1	0.1
EBITDA	45,717	46,127	41,635	-8.9	-9.7	1,73,055	1,79,043	3.5
EBITDA margin %	38.1	38.4	38.4	0.3	0.0	38.5	39.2	0.8
Depreciation	3,502	4,162	3,925	12.1	-5.7	13,117	15,633	19.2
EBIT	42,215	41,965	37,710	-10.7	-10.1	1,59,938	1,63,410	2.2
EBIT margin %	35.2	34.9	34.8	-0.4	-0.2	35.5	35.8	0.3
Interest expense	77	124	147	90.3	18.4	342	557	63.0
Other income	7,402	9,836	7,555	2.1	-23.2	24,845	30,137	21.3
Exceptional items	0	-1,321	0	-	-	0	-1,321	-
PBT	49,539	50,355	45,118	-8.9	-10.4	1,84,442	1,91,668	3.9
Tax	14,720	8,936	7,148	-51.4	-20.0	59,798	40,308	-32.6
Effective tax rate %	29.7	17.7	15.8	-13.9	-1.9	32.4	21.0	-11.4
PAT	34,819	41,419	37,971	9.1	-8.3	1,24,643	1,51,361	21.4
Adj PAT	34,819	42,740	37,971	9.1	-11.2	1,24,643	1,52,682	22.5
PAT margin %	27.3	32.9	32.7	5.4	-0.1	26.3	31.4	5.1
EPS	2.8	3.5	3.1	9.1	-11.2	10.2	12.5	22.5

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 1: ITC's segmental quarterly performance

	4QFY18	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20	2QFY20	3QFY20	4QFY20
Net sales (INR m)									
Cigarettes	49,365	51,276	50,261	50,734	54,859	54,334	53,268	53,110	51,305
FMCG - Others	30,518	28,700	31,604	32,010	32,739	30,601	32,883	33,123	31,836
Hotels	4,080	3,413	3,626	4,519	5,098	3,926	4,266	5,523	4,658
Agri business	18,083	31,513	22,197	19,246	21,009	36,112	26,475	20,947	18,873
Paper and packaging	13,008	13,558	14,245	15,425	15,374	15,275	15,654	15,554	14,589
Sales growth (YoY)									
Cigarettes	(4.3)	2.3	10.4	9.6	11.1	6.0	6.0	4.7	(6.5)
FMCG - Others	6.0	10.7	12.7	11.5	7.3	6.6	4.0	3.5	(2.8)
Hotels	5.6	11.9	20.8	11.7	24.9	15.0	17.7	22.2	(8.6)
Agri business	(5.7)	14.2	12.8	25.7	16.2	14.6	19.3	8.8	(10.2)
Paper and packaging	0.4	5.7	8.8	20.5	18.2	12.7	9.9	0.8	(5.1)
Sales Mix (%)									
Cigarettes	42.9	39.9	41.2	41.6	42.5	38.7	40.2	41.4	42.3
FMCG - Others	26.5	22.3	25.9	26.3	25.4	21.8	24.8	25.8	26.3
Hotels	3.5	2.7	3.0	3.7	3.9	2.8	3.2	4.3	3.8
Agri business	15.7	24.5	18.2	15.8	16.3	25.7	20.0	16.3	15.6
Paper and packaging	11.3	10.6	11.7	12.7	11.9	10.9	11.8	12.1	12.0
Volume growth (YoY)									
Cigarettes – our estimate	(2.0)	1.0	6.0	7.0	8.0	3.0	3.0	2.0	(12.0)
EBIT (INR m)									
Cigarettes	35,058	35,584	35,791	35,577	38,560	38,491	38,445	37,560	34,030
FMCG - Others	912	501	585	767	1,305	780	905	1,076	1,470
Hotels	755	132	156	603	887	104	174	873	426
Agri business	1,240	1,945	2,361	1,988	1,472	2,030	2,494	2,134	1,231
Paper and packaging	2,424	2,957	3,109	3,321	3,005	3,298	3,559	3,340	2,857
EBIT growth (YoY)									
Cigarettes	8	9	9	9	10	8	7	6	-12
FMCG - Others	64	823	185	63	43	56	55	40	13
Hotels	13	149	267	10	17	(21)	12	45	-52
Agri business	(8)	(17)	(8)	(15)	19	4	6	7	-16
Paper and packaging	1	15	13	24	24	12	14	1	-5
EBIT mix (%)									
Cigarettes	86.8	86.5	85.2	84.2	85.3	86.1	84.4	83.5	85.0
FMCG - Others	2.3	1.2	1.4	1.8	2.9	1.7	2.0	2.4	3.7
Hotels	1.9	0.3	0.4	1.4	2.0	0.2	0.4	1.9	1.1
Agri business	3.1	4.7	5.6	4.7	3.3	4.5	5.5	4.7	3.1
Paper and packaging	6.0	7.2	7.4	7.9	6.6	7.4	7.8	7.4	7.1
EBIT margin (%)									
Cigarettes	71.0	69.4	71.2	70.1	70.3	70.8	72.2	70.7	66.3
FMCG - Others	3.0	1.7	1.8	2.4	4.0	2.5	2.8	3.2	4.6
Hotels	18.5	3.9	4.3	13.3	17.4	2.6	4.1	15.8	9.1
Agri business	6.9	6.2	10.6	10.3	7.0	5.6	9.4	10.2	6.5
Paper and packaging	18.6	21.8	21.8	21.5	19.5	21.6	22.7	21.5	19.6
EBIT margin change (%)									
Cigarettes	7.8	4.1	(1.1)	(0.5)	(0.7)	1.4	1.0	0.6	(4.0)
FMCG - Others	1.1	1.5	1.1	0.8	1.0	0.8	0.9	0.9	0.6
Hotels	1.2	2.1	2.9	(0.2)	(1.1)	(1.2)	(0.2)	2.5	(8.2)
Agri business	(0.2)	(2.3)	(2.4)	(4.9)	0.2	(0.6)	(1.2)	(0.1)	(0.5)
Paper and packaging	0.0	1.8	0.9	0.6	0.9	(0.2)	0.9	(0.1)	0.0

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 2: Cigarette volume trend


Source: Nirmal Bang Institutional Equities Research Estimates

Exhibit 3: Financial summary

Y/E March (Rsmn)	FY18	FY19	FY20	FY21E	FY22E
Net sales	4,06,275	4,49,957	4,56,197	4,69,727	5,16,238
YoY growth (%)	1.3	10.8	1.4	3.0	9.9
EBITDA	1,55,639	1,73,294	1,79,043	1,82,328	2,02,303
EBITDA margin (%)	38.3	38.5	39.2	38.8	39.2
Reported PAT	1,12,233	1,24,643	1,51,361	1,46,834	1,62,134
Adjusted PAT	1,08,104	1,24,643	1,52,682	1,46,834	1,62,134
EPS	8.9	10.2	12.4	11.9	13.2
YoY change (%)	5.5	14.8	22.2	-3.8	10.4
RoCE (%)	21.6	22.1	24.4	21.8	22.8
RoE (%)	22.3	22.8	25.0	22.3	23.3
P/E (x)	22.1	19.3	15.8	16.4	14.9
P/B (x)	4.7	4.1	3.8	3.6	3.4
EV/EBITDA (x)	13.8	12.1	11.3	11.0	9.7

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 4: Our estimates versus actual performance

Y/E March (Rsmn)	4QFY19	3QFY20	4QFY20	YoY (%)	QoQ (%)	NBIE Estimates	Deviation (%)
Net sales	1,19,921	1,20,130	1,08,423	-9.6	-9.7	1,23,588	-12.3
EBITDA	45,717	46,127	41,635	-8.9	-9.7	47,886	-13.1
EBITDA (%)	38.1	38.4	38.4	0.3	0.0	38.7	-0.3
PAT	34,819	42,740	37,971	9.1	-11.2	34,620	9.7

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 5: Change in our estimates

Y/E March (Rsmn)	Old estimates		New estimates		Change (%)	
	FY21E	FY22E	FY21E	FY22E	FY21E	FY22E
Net sales	5,07,468	5,47,393	4,69,727	5,16,238	-7.4	-5.7
EBITDA	1,93,470	2,08,535	1,82,328	2,02,303	-5.8	-3.0
EBITDA (%)	38.1	38.1	38.8	39.2	0.7	2.9
PAT	1,55,527	1,66,905	1,46,834	1,62,134	-5.6	-2.9

Source: Company, Nirmal Bang Institutional Equities Research

Excerpts from ITC Ltd. (ITC) 4QFY20/FY20 results press release

- The company believes it is difficult to assess the future impact on the business operations at this point. However, it also believes it is well prepared to overcome any anticipated challenges and cater to the emerging needs of its consumers/customers/guests.
- Most of major categories i.e. FMCG segment, Paperboards and Packaging are operating at 80-85% of normal levels.

Changes in marketing/delivery models in response to COVID

- 'ITC Store on Wheels' was launched to ensure direct reach to consumers in residential areas.
- The company increased availability of its products on the e-commerce platform through the 'ITC eStore,' direct store deliveries to Modern Trade and expanding presence of its product portfolio in alternative outlets. It also supported retail outlets in identified geographies under the 'Suraksha Store' (initiative of the Department of Consumer Affairs, Government of India).
- The company tied-up with alternate delivery platforms like Dominos, Swiggy, Zomato, Dunzo, Amway for delivery of its products.
- ITC deepened consumer engagement by -
 - a. Leveraging social media platform through 'Recipes with Aashirvaad', 'Recipes with Sunfeast Yippee!', and broadcasting ITC Hotels 'Food for thought' and '5 Star Kitchen' series on 33 Star channels.
 - b. Through moment marketing i.e. focusing on hygiene, immunity, promoting staying inside etc.

Segment-wise commentary

- **Cigarettes**
 - a. In addition to the already challenge-struck industry, performance during FY20 was affected by persistent weakness in overall demand environment, especially in rural markets and wholesale channel, and tight market liquidity conditions. COVID-19 caused operational disturbances even before the nation-wide lockdown and the initial phase of the lockdown led to unprecedented disruption across the value chain.
 - b. Immediately upon receipt of permissions, the company resumed operations and swiftly ramped up production and availability of its brands across markets.
 - c. **All factories are currently operational with sales/distribution operations progressively normalizing.**
 - d. During FY20, ITC introduced new variants (Gold Flake Indie Mint and Gold Flake Luxury), along with extensions (Gold Flake Neo and Classic Rich and Smooth) and offers (under 'American Club', 'Wave', 'Player's Gold Leaf', 'Pall Mall', 'Navy Cut', and 'Flake').
- **FMCG-Others**
 - a. During FY20, FMCG industry growth decelerated sharply due to sluggish demand conditions, tight market liquidity and delayed monsoon followed by excessive rainfall in certain parts of the country.
 - b. **Overall, industry growth rate halved to ~7% in 3QFY20 versus 3QFY19.**
 - c. Rural markets, which account for around one-third of the industry, have been the key drivers of growth in recent years but witnessed a steep fall in growth rates. Rural growth stood at 0.8x of urban markets in FY20 versus 1.4x in FY19.
 - d. **Prior to the Covid-19 outbreak, the FMCG-Others segment (branded packaged foods, education and stationery products) was on track to register double-digit revenue growth in 4QFY20 versus 4QFY19.**

Branded Packaged Foods

- i. Essential consumer goods categories, including staples, noodles, biscuits, dairy etc. witnessed robust demand, reflecting consumer preference for trusted brands while demand for discretionary categories was relatively soft.
- ii. Capacities were ramped up in certain categories to cater to the surge in demand.
- iii. **Staples:** Aashirvaad Atta fortified its market standing across geographies, leveraging a robust product portfolio anchored on the company's agri-sourcing expertise. Aashirvaad Salt gained traction in key focus geographies and posted a healthy performance in FY20.
- iv. **Spices:** ITC expanded its geographical footprint to 17 states in the Spices category and recorded healthy volume growth.
- v. **Snacks:** Increasing consumer traction for 'Bingo!' Potato Chips and Tedhe Medhe continued to drive growth in this sub segment. Tedhe Medhe continues to be the most widely distributed snack brand in the country.
- vi. **Instant Noodles:** Yippee! sustained its growth momentum and held up its overall market rank as the No. 2 brand.

- vii. **Biscuits:** Dark Fantasy Choco Fills sustained its high growth trajectory, driven by superior product attributes, focused communication, efficient distribution and consumer activation. The recent launches after receiving excellent response from consumers are now available in all target markets. The company consolidated its leadership position in the super-premium segment with continued focus on enhancing brand affinity and increasing penetration in emerging channels of Modern Trade and e-commerce platforms.
- viii. **Dairy/Beverages:** The 'Aashirvaad Svasti' fresh dairy portfolio is currently available in Bihar and West Bengal and the portfolio gained strong consumer traction in these markets on the back of quality and superior taste profile. According to the company, Aashirvaad Svasti Ghee continues to gain excellent product feedback and is witnessing good traction, especially in Modern Trade and e-commerce channels. 'Sunfeast Wonderz Milk' range of milk shakes has received encouraging response and is being extended to other markets.
- ix. **Chocolates:** 'Fabelle' increased its presence in stores across Bengaluru, in Modern Trade and Independent Service Stores in select metro cities.

Personal Care Products

- i. ITC consolidated its market standing across categories, driven by sustained focus on innovation, portfolio premiumization and expansion of distribution reach, both in traditional trade as well as e-commerce.
- ii. **Bodywash and handwash:** While 'Fiama' bodywash and handwash, 'Vivel' bodywash, 'Savlon' Handwash and antiseptic liquid recorded robust growth, performance in the bar soaps was relatively subdued.
- iii. **Fragrances:** Fragrance products category was relatively subdued - in line with the slowdown in consumer demand witnessed during the year. 'Engage' consolidated its position as the second largest brand in the category and sustained market leadership position in the Pocket Perfume segment despite intense competition. The newly setup perfume manufacturing plant at Manpura, Himachal Pradesh was re-purposed in quick time to manufacture hand sanitizers and service increased demand.
- iv. **Floor cleaner:** Nimyle witnessed strong growth in the East and also expanded its geographical footprint to the South to become the 3rd largest brand nationally in a relatively short span of time.
- v. **Skin care:** The business continued to strengthen its presence in the premium skincare space through its 'Dermafique' brand and in the popular space through 'Charmis'. The brand is now available on all key e-commerce platforms and continues to receive encouraging consumer response.

Education and Stationery Products

- i. Industry was adversely impacted during the year due to sluggish demand and tight liquidity conditions. The onset of the COVID-19 pandemic towards the end of FY20 aggravated the demand environment as it led to postponement of the academic session across the country and also coincided with the peak season.
- ii. The company scaled up presence in the college and value segments of the notebook industry through the 'Classmate Pulse' and 'Saathi' brands, respectively with a view to consolidating its leadership position.
- iii. During FY20, ITC commissioned a dedicated facility for manufacturing notebooks under this segment.

Incense Sticks (Agarbattis) and Safety Matches

- i. The Mangaldeep brand sustained its leadership position in the Dhoop category and consolidated its position as the second largest brand in the Agarbatti category.
- ii. Consumer response to new launches ('Fragrance of God' range and 'Lo Smoke') has been very encouraging.
- iii. While demand conditions in the safety matches industry remained sluggish, ITC sustained its market leadership position through premiumisation and leveraging a robust portfolio of offerings across market segments.
- iv. W.e.f. 1st April, 2020, GST rates for all safety matches have been harmonised at 12%.

▪ Paperboards, Paper and Packaging

- a. Industry remained relatively muted in FY20 with general economic slowdown, sharp fall in rural demand and tight liquidity conditions affecting end-user demand across segments.
- b. But, the packaging business witnessed a marked slowdown in demand, especially in the FMCG and Liquor industries, which weighed on its performance.
- c. Recent capacity augmentation in the VAP segment at Bhadrachalam mill is operating at full capacity, delivering superior quality board, which has been well accepted in the market.
- d. **ITC has established itself as a one-stop shop for this segment by offering a wide range of superior and innovative packaging solutions. The company believes that with its comprehensive capability-set across multiple packaging platforms along with in-house cylinder making and blown film manufacturing lines, it will continue to provide innovative solutions to several key customers in India and overseas markets. The business continued to provide strategic support to the Cigarette and FMCG businesses.**

- **Agri Business**
 - a. Despite challenging market conditions, the company consolidated its leadership position as the largest Indian exporter of unmanufactured tobacco through new business development and enhanced value delivery to existing customers. It also scaled up strategic sourcing and supply chain interventions during the year.
 - b. Agri segment continued to provide strategic sourcing support to the company's cigarettes business and secured supplies of wheat towards meeting the growing requirements of Aashirvaad atta.
 - c. The growth in the external business was primarily on the back of opportunity trading in oil seeds, pulses and rapid scale up in value added portfolio, especially spices, frozen shrimps and frozen snacks.
 - d. During FY20, the company strengthened its milk procurement network for 'Aashirvaad Svasti' dairy products and increased daily milk collection. It also expanded its network in West Bengal and Bihar to support the growing requirement for fresh dairy products, and in Punjab towards supporting the increasing requirements of 'Sunfeast Wonderz Milk' dairy beverages.
 - e. Performance in 4QFY20 was affected due to supply chain disruptions amid the COVID-19 pandemic, leading to lower exports and domestic sales towards the end of the year.
 - f. **The company believes that its deep rural linkages and agri-commodity sourcing expertise will drive performance in this segment, and that it is well positioned to scale up in identified areas that lend to higher value addition while continuing to provide strategic sourcing support to its branded packaged foods businesses.**

- **Hotels**
 - a. FY20 was a mixed bag for the domestic hospitality industry. General elections and sluggish economic activity negatively weighed on occupancy and room rates in 1HFY20, but 2HFY20 witnessed a pick-up in growth momentum due to increase in tourism, meetings and conventions, and reduction in GST rates. However, this revival was hit by the COVID-19 outbreak in February 2020, which disrupted operations severely.
 - b. It is well known that the travel and hospitality sector is one of the most severely impacted industries amid the Covid-19 pandemic. However, the company believes that **the sector continues to hold immense potential, driven by positive long-term economic and tourism prospects of the country and outweighs the COVID led near-term challenges. The positive outlook is coupled with the company's ability to sustain its pre-eminent position in the Indian Hospitality industry.**
 - c. ITC's recently commissioned Hotels - ITC Kohenur, Hyderabad and ITC Grand Goa Resort, scaled up operations rapidly and strengthened customer franchise to establish them as leading hotels in their respective markets.

Outlook/guidance/other takeaways

- ITC continues to focus on strategic cost management interventions. Given the current situation, this is being supplemented by the following:
 - a. Strict focus on costs and cash conservation based on zero-based budgeting principles and
 - b. Elimination of discretionary/non-essential spends and deferring/curtailing activities in the short-term without compromising business outcomes.
- Assistance given to stakeholders by the company include:
 - a. Aiding supply chain partners (including many MSMEs) in obtaining permissions from the authorities to operate and obtain movement passes to ensure smooth supply of essential goods.
 - b. Credit extension to its customers to ease their working capital crunch and help them resume/scale up operations.
 - c. Facilitation and extension of financial support to its supply chain partners for obtaining COVID-19 insurance cover for their associates. Further, financial assistance was also extended to such associates along with provision of items of daily consumption to help tide over the immediate crisis.
- During the lockdown, ITC entered into a share purchase agreement to acquire 100% of the equity share capital of Sunrise Foods Pvt. Ltd.

Exhibit 6: Products/services launched during the lockdown

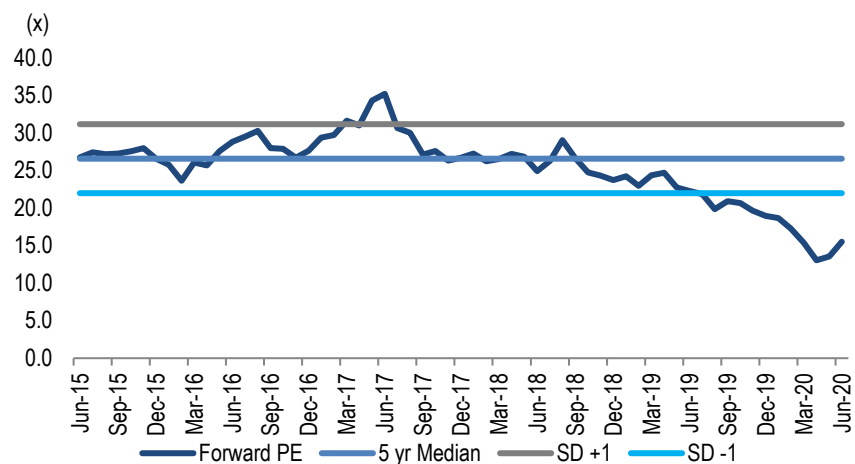
Products/Services
Savlon Disinfectant Spray
Savlon Hexa Soap
Savlon 50p Sanitizer Pouch
Aashirvaad Svasti Lassi
Premium Ball Pens
Savlon Hexa Sanitizer
Savlon Germ Protection Wipes
Nimwash Vegetable and Fruit Wash
Immunity Supporting and Other Juices
ITC Hotels 'WeAssure' Initiative and ITC Hotels drop and collect laundry services

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 7: Launches during the year

Category	Product
Staples	Aashirvaad Nature's Super Foods (Gluten Free Flour, Ragi Flour and Multi-Millet Mix)
Snacks	Tedhe Medhe ('Herby Spin' and 'Chatpata Swing')
Biscuits	Bounce Cake variants, 'Sunfeast' Veda Marie Light, Bounce Loops
Personal Wash and Hygiene category	Fiama Scents (2 variants)
Personal Wash and Hygiene category	Fiama mood uplifting handwash in premium segment (3 variants)
Personal care category	Premium skincare (Dermafique's Hydration range launched in 2 variants)
Education and Stationery Products	'Paperkraft' super premium pens and leather-bound notebook organizer.
Incense Sticks (Agarbattis)	Mangaldeep Temple 'Fragrance of God' range and 'Lo smoke' variants
Cigarettes	Premium (Gold Flake Indie Mint and Gold Flake Luxury)
Agri	ITC Master Chef (Kebabs)
Hotels	ITC Royal Bengal, Kolkata
Hotels	Welcomhotel Amritsar and Chennai (Chennai converted from Fortune to Welcom)

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 8: One-year forward P/E


Source: Company, Nirmal Bang Institutional Equities Research

Financials (standalone)
Exhibit 9: Income statement

Y/E March (Rsmn)	FY18	FY19	FY20	FY21E	FY22E
Net Sales	4,06,275	4,49,957	4,56,197	4,69,727	5,16,238
% Growth	1.3	10.8	1.4	3.0	9.9
COGS	2,09,651	2,29,854	2,29,225	2,34,975	2,56,825
Other expenses	40,986	46,809	47,930	52,424	57,109
Total expenses	2,50,636	2,76,663	2,77,154	2,87,399	3,13,935
EBITDA	1,55,639	1,73,294	1,79,043	1,82,328	2,02,303
% growth	6.6	11.3	3.3	1.8	11.0
EBITDA margin (%)	38.3	38.5	39.2	38.8	39.2
Other income	21,298	24,845	30,137	31,016	32,421
Interest costs	1,096	580	557	529	503
Depreciation	11,454	13,117	15,633	16,592	17,552
Profit before tax (before exceptional items)	1,64,388	1,84,442	1,92,989	1,96,223	2,16,670
Exceptional items	4,129	0	-1,321	0	0
Tax	56,285	59,798	40,308	49,389	54,536
PAT	1,12,233	1,24,643	1,51,361	1,46,834	1,62,134
Adj PAT	1,08,104	1,24,643	1,52,682	1,46,834	1,62,134
Adj PAT margin (%)	25.3	26.3	31.4	29.3	29.6
% Growth	6.0	15.3	22.5	-3.8	10.4

Source: Company, Nirmal Bang Institutional Equities Research; Note: Full year COGS also includes contract processing charges (included in other op. exps. in quarterly)

Exhibit 11: Balance sheet

Y/E March (Rsmn)	FY18	FY19	FY20	FY21E	FY22E
Share capital	12,204	12,259	12,292	12,292	12,292
Reserves	5,01,796	5,67,239	6,27,999	6,64,695	7,02,447
Minority Interest	0	0	0	0	0
Net worth	5,14,001	5,79,498	6,40,292	6,76,988	7,14,740
Total debt	69	32	56	56	56
Deferred tax liability	19,179	20,441	16,177	16,177	16,177
Total liabilities	5,33,249	5,99,972	6,56,524	6,93,220	7,30,972
Gross block	2,58,097	3,00,430	3,25,659	3,45,659	3,65,659
Depreciation	1,02,350	1,15,467	1,31,100	1,47,691	1,65,243
Net block	1,55,747	1,84,963	1,94,559	1,97,967	2,00,416
Capital work-in-progress	50,169	33,915	27,763	27,763	27,763
Investments	2,33,972	2,65,780	3,06,306	3,29,346	3,56,492
Inventories	72,372	75,872	80,380	79,007	85,174
Debtors	23,570	36,462	20,920	38,190	42,005
Cash	25,949	37,687	68,433	69,342	76,677
Loans and advances	49,451	56,351	34,859	35,556	36,268
Other current assets	12,584	6,949	8,477	8,901	9,346
Total current assets	1,83,925	2,13,322	2,23,725	2,41,652	2,60,125
Creditors	33,823	33,683	34,467	36,273	40,126
Other current liabilities and provisions	56,742	64,325	61,362	67,236	73,698
Total current liabilities	90,564	98,008	95,829	1,03,509	1,13,824
Net current assets	93,361	1,15,314	1,27,896	1,38,143	1,46,301
Total assets	5,33,249	5,99,972	6,56,524	6,93,220	7,30,972

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 10: Cash flow

Y/E March (Rsmn)	FY18	FY19	FY20	FY21E	FY22E
PAT	1,68,517	1,84,442	1,92,989	1,96,223	2,16,670
Depreciation	11,454	13,117	15,633	16,592	17,552
Other income	7,157	8,128	30,137	31,016	32,421
(Inc./dec. in working capital)	-19,202	4,997	-18,164	9,338	824
Cash flow from operations	1,26,509	1,17,491	1,56,899	1,23,601	1,46,944
Capital expenditure (-)	17,891	30,769	25,778	66,208	51,086
Net cash after capex	1,01,030	89,896	1,37,821	1,03,601	1,26,944
Issue of share capital (incl premium)	9,128	9,691	11,000	10,000	10,000
Dividends paid (-)	-57,700	-62,852	-70,487	-1,24,741	-1,21,138
Inc./(dec.) in investments	-34,769	-15,325	-40,526	-23,040	-27,146
Cash from financial activities	-60,199	-66,006	-73,251	-1,27,180	-1,23,550
Opening cash balance	27,473	25,949	37,687	68,433	69,342
Closing cash balance	25,949	37,687	68,433	69,342	76,677
Change in cash balance	-1,524	11,739	30,745	910	7,335

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 12: Key ratios

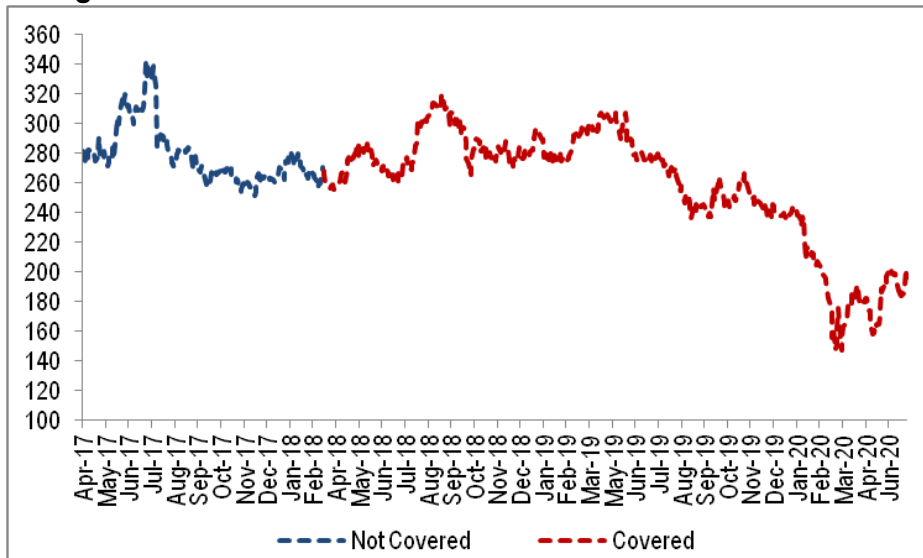
Y/E March	FY18	FY19	FY20	FY21E	FY22E
Per share (Rs)					
EPS	8.9	10.2	12.4	11.9	13.2
Book value	42.1	47.3	52.1	55.1	58.1
DPS	6.2	6.9	12.1	9.9	11.0
Valuation (x)					
EV/sales	5.3	4.7	4.5	4.3	3.9
EV/EBITDA	13.8	12.1	11.3	11.0	9.7
P/E	22.1	19.3	15.8	16.4	14.9
P/BV	4.7	4.1	3.8	3.6	3.4
Return ratios (%)					
RoCE	21.6	22.1	24.4	21.8	22.8
RoE	22.3	22.8	25.0	22.3	23.3
Profitability ratios (%)					
Gross margin	59.1	59.6	60.2	60.6	61.0
EBITDA margin	38.3	38.5	39.2	38.8	39.2
EBIT margin	35.5	35.6	35.8	35.3	35.8
PAT margin	25.3	26.3	31.4	29.3	29.6
Liquidity ratios (%)					
Current ratio	2.0	2.2	2.3	2.3	2.3
Quick ratio	1.2	1.4	1.5	1.6	1.5
Solvency ratio (%)					
Debt to Equity ratio	0.0	0.0	0.0	0.0	0.0
Turnover ratios					
Total asset turnover ratio (x)	0.8	0.7	0.7	0.7	0.7
Fixed asset turnover ratio (x)	2.6	2.4	2.3	2.4	2.6
Inventory days	126	120	128	123	121
Debtors days	21	25	23	23	29
Creditor days	59	53	55	56	57

Source: Company, Nirmal Bang Institutional Equities Research

Rating track

Date	Rating	Market price (Rs)	Target price (Rs)
13 March 2018	Accumulate	270	290
17 May 2018	Accumulate	286	290
27 July 2018	Accumulate	287	300
29 October 2018	Accumulate	281	310
24 January 2019	Accumulate	277	310
9 April 2019	Accumulate	292	320
14 May 2019	Accumulate	289	320
5 August 2019	Accumulate	264	300
25 October 2019	Buy	249	300
1 February 2020	Buy	235	285
30 March 2020	Buy	157	205
27 June 2020	Accumulate	196	210

Rating chart



DISCLOSURES

This Report is published by Nirmal Bang Equities Private Limited (hereinafter referred to as “NBEPL”) for private circulation. NBEPL is a registered Research Analyst under SEBI (Research Analyst) Regulations, 2014 having Registration no. INH000001436. NBEPL is also a registered Stock Broker with National Stock Exchange of India Limited and BSE Limited in cash and derivatives segments.

NBEPL has other business divisions with independent research teams separated by Chinese walls, and therefore may, at times, have different or contrary views on stocks and markets.

NBEPL or its associates have not been debarred / suspended by SEBI or any other regulatory authority for accessing / dealing in securities Market. NBEPL, its associates or analyst or his relatives do not hold any financial interest in the subject company. NBEPL or its associates or Analyst do not have any conflict or material conflict of interest at the time of publication of the research report with the subject company. NBEPL or its associates or Analyst or his relatives do not hold beneficial ownership of 1% or more in the subject company at the end of the month immediately preceding the date of publication of this research report.

NBEPL or its associates / analyst has not received any compensation / managed or co-managed public offering of securities of the company covered by Analyst during the past twelve months. NBEPL or its associates have not received any compensation or other benefits from the company covered by Analyst or third party in connection with the research report. Analyst has not served as an officer, director or employee of Subject Company and NBEPL / analyst has not been engaged in market making activity of the subject company.

Analyst Certification: I, Mr. Vishal Punmiya, the research analyst, the author of this report, hereby certify that the views expressed in this research report accurately reflects my/our personal views about the subject securities, issuers, products, sectors or industries. It is also certified that no part of the compensation of the analyst was, is, or will be directly or indirectly related to the inclusion of specific recommendations or views in this research. The analyst is principally responsible for the preparation of this research report and has taken reasonable care to achieve and maintain independence and objectivity in making any recommendations.

Disclaimer

Stock Ratings Absolute Returns

BUY > 15%

ACCUMULATE -5% to 15%

SELL < -5%

This report is for the personal information of the authorized recipient and does not construe to be any investment, legal or taxation advice to you. NBEPL is not soliciting any action based upon it. Nothing in this research shall be construed as a solicitation to buy or sell any security or product, or to engage in or refrain from engaging in any such transaction. In preparing this research, we did not take into account the investment objectives, financial situation and particular needs of the reader.

This research has been prepared for the general use of the clients of NBEPL and must not be copied, either in whole or in part, or distributed or redistributed to any other person in any form. If you are not the intended recipient you must not use or disclose the information in this research in any way. Though disseminated to all the customers simultaneously, not all customers may receive this report at the same time. NBEPL will not treat recipients as customers by virtue of their receiving this report. This report is not directed or intended for distribution to or use by any person or entity resident in a state, country or any jurisdiction, where such distribution, publication, availability or use would be contrary to law, regulation or which would subject NBEPL and its group companies to registration or licensing requirements within such jurisdictions.

The report is based on the information obtained from sources believed to be reliable, but we do not make any representation or warranty that it is accurate, complete or up-to-date and it should not be relied upon as such. We accept no obligation to correct or update the information or opinions in it. NBEPL or any of its affiliates or employees shall not be in any way responsible for any loss or damage that may arise to any person from any inadvertent error in the information contained in this report. NBEPL or any of its affiliates or employees do not provide, at any time, any express or implied warranty of any kind, regarding any matter pertaining to this report, including without limitation the implied warranties of merchantability, fitness for a particular purpose, and non-infringement. The recipients of this report should rely on their own investigations.

This information is subject to change without any prior notice. NBEPL reserves its absolute discretion and right to make or refrain from making modifications and alterations to this statement from time to time. Nevertheless, NBEPL is committed to providing independent and transparent recommendations to its clients, and would be happy to provide information in response to specific client queries.

Before making an investment decision on the basis of this research, the reader needs to consider, with or without the assistance of an adviser, whether the advice is appropriate in light of their particular investment needs, objectives and financial circumstances. There are risks involved in securities trading. The price of securities can and does fluctuate, and an individual security may even become valueless. International investors are reminded of the additional risks inherent in international investments, such as currency fluctuations and international stock market or economic conditions, which may adversely affect the value of the investment. Opinions expressed are subject to change without any notice. Neither the company nor the director or the employees of NBEPL accept any liability whatsoever for any direct, indirect, consequential or other loss arising from any use of this research and/or further communication in relation to this research. Here it may be noted that neither NBEPL, nor its directors, employees, agents or representatives shall be liable for any damages whether direct or indirect, incidental, special or consequential including lost revenue or lost profit that may arise from or in connection with the use of the information contained in this report.

Copyright of this document vests exclusively with NBEPL.

Our reports are also available on our website www.nirmalbang.com

Access all our reports on Bloomberg, Thomson Reuters and Factset.

Team Details:			
Name		Email Id	Direct Line
Rahul Arora	CEO	rahul.arora@nirmalbang.com	-
Girish Pai	Head of Research	girish.pai@nirmalbang.com	+91 22 6273 8017 / 18
Dealing			
Ravi Jagtiani	Dealing Desk	ravi.jagtiani@nirmalbang.com	+91 22 6273 8230, +91 22 6636 8833
Michael Pillai	Dealing Desk	michael.pillai@nirmalbang.com	+91 22 6273 8102/8103, +91 22 6636 8830

Nirmal Bang Equities Pvt. Ltd.

Correspondence Address

B-2, 301/302, Marathon Innova,
 Nr. Peninsula Corporate Park,
 Lower Parel (W), Mumbai-400013.

Board No. : 91 22 6273 8000/1; Fax. : 022 6273 8010