

Mixed performance; long term story intact; Maintain Buy

Q2FY24 Result Update | Sector: FMCG | October 20, 2023

BUY

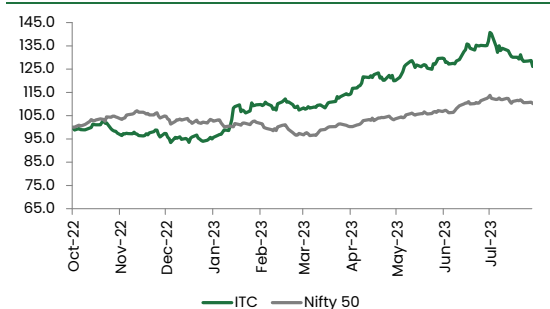
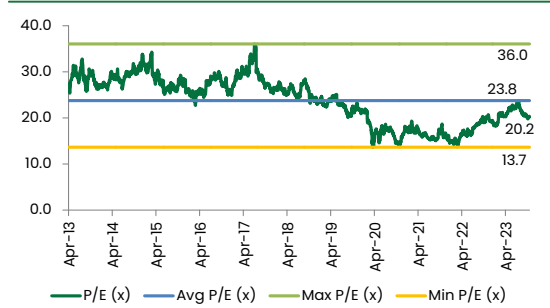
CMP (Rs)	450
Target Price (Rs)	535
Potential Upside	18.8%
Sensex	65,629
Nifty	19,625

Key Stock data

BSE Code	500875
NSE Code	ITC
Bloomberg	ITC:IN
Shares o/s, Cr (FV 1)	1242.8
Market Cap (Rs Cr)	561,689
3M Avg Volume	11,047,688
52 week H/L	500/325

Shareholding Pattern

(%)	Mar-23	Jun-23	Sep-23
Promoter	0.0	0.0	0.0
FII	43.4	43.6	43.3
DII	42.1	42.0	42.0
Others	14.5	14.4	14.7

1 Year relative price performance

1 year P/E Forward (x)

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Steady revenue growth: ITC's gross sales for Q2FY24 grew by 3.6% YoY and 3.4% QoQ to Rs 19,270cr while its net sales came in at Rs 17,734cr which is an increase of 3.9% YoY and 3.6% QoQ. The top line growth was driven largely by its cigarettes, FMCG and hotel business while muted performance was seen from agri and paperboard segment.

Margins remain muted for Q2FY24: The company's gross profit grew by 3.7% YoY and 0.9% QoQ to Rs 10,705cr and margins at 60.2% down by 9bps YoY and 161bps QoQ as raw material prices trend was mixed during the quarter. Some commodity prices declined but uptick in certain commodities such as wheat, maida, sugar, potato, etc impacted growth. Further, EBITDA grew by 3.1% YoY but de-grew by 3.2% QoQ to Rs 6,454cr and margins down by 27bps and 255bps as their focus was towards spending on advertisement, brand building, as they started facing intense competition from locals. Further, PAT improved by 6% YoY but de-grew by 4.3% QoQ to Rs 4,964.5cr and margins increased by 56bps YoY/230bps QoQ.

Decent growth of Cigarettes segment: ITC's cigarettes segment revenue for Q2FY24 grew by 9.1% YoY but was flat QoQ to Rs 8,328cr. Further its contribution to revenue came in at 43.2% which is an improvement of 218bps YoY but share decreased sequentially by 161bps. On the profit front, it still remains the largest share contributor with sharing 75% of profits in Q2FY24. Its profits grew by 7.9% YoY and 1.2% QoQ to Rs 5,003cr. Overall growth was mainly driven by launch of differentiated variants, strong product portfolio and focus on premiumization aided sentiments.

FMCG sector growing strong: ITC's FMCG sector has shown strong growth both on revenue and margin front. Its revenue for Q2FY24 grew by 8.4% YoY and 2.5% QoQ to Rs 5,303cr and its profits grew by 36.5% YoY and 1.9% QoQ to Rs 442cr. FMCG now contributes 27.5% in revenue and 6.6% in profits. Despite the challenging environment, FMCG business growth was led by Atta, Spices, Personal Wash and Agarbatti as well as notebooks and pens while for margin improvement it focused on cost management, product mix with mainly premiumization and lastly price actions. Besides, it is facing competition from local vendors however they continue to focus on spending on advertisement and brand building as well as innovative products in categories such as Bingo, Sunfeast, Bounce, Fantasy, Salvon, Sunrise, classmate, Frozen snacks, Engage. Additionally, with strong opportunity in the sector, the company aims to grow and increase its contribution to revenue and profits from this sector.

Outlook & Valuation: ITC reported mixed set of numbers for Q2FY24 with single digit revenue growth and muted margins on the back of mixed trend amongst its segments. Going ahead, their plan is to focus on ITC Next strategy and continue to scale its FMCG and cigarettes business led by innovation and premiumization. Besides, the demerging hotel business is moving as per plan which is positive. We are positive on the growth prospects ahead and financially estimated its Revenue/PAT to grow at 15%/19.2% CAGR over FY23-25E. We maintain our **Buy** rating with a target price of **Rs 535** on the stock.

Financial Summary - consolidated

Particulars, Rs cr	FY22	FY23	FY24E	FY25E
Net revenue	60,669	70,937	81,577	93,814
EBITDA	20,659	25,665	30,716	36,436
EBITDAM (%)	34.1	36.2	37.7	38.8
APAT	15,504	19,477	23,273	27,680
APATM (%)	25.6	27.5	28.5	29.5
EPS (Rs)	12.6	15.7	18.7	22.3
PE (x)	35.8	28.7	24.0	20.2
RoE (%)	24.4	27.8	30.0	30.9

Source : RBL Research

Growth continued for the Hotel segment: Its Hotel segment revenue was at Rs 675cr, higher by 20.5% YoY and 8% QoQ on the back of Strong growth in ARR's across properties while occupancy was flat because of fewer wedding dates and pre-season renovations. Its profits grew by 53.1% YoY but were down by 1% sequentially to Rs 133cr while strong YoY growth was led by operating leverage. Further, Hotel business revenue and profits contribute ~3.5% and 2%, respectively and its plan of demerger is progressing well as per schedule.

Agri & paperboard segment revenue performance was subdued while margins were mixed: ITC's Agri's revenue de-grew by 1.3% YoY and 30.4% QoQ to Rs 3,988cr. Also its contribution towards revenue decreased to 20.7% from 30.7% in Q1FY24. Further, geopolitical tensions & climate emergencies raise concerns on food security and food inflation as well as trade restrictions imposed by Govt. on agri commodities limit business opportunities for the segment. Further margins grew by 0.8% YoY and 1.8% QoQ to Rs 359cr. For the paperboards segment, revenue de-grew by 9.5% YoY and 2.4% QoQ to Rs 2,070cr and its margins saw a de-growth of 50% YoY and 33.2% QoQ to Rs 315cr. Subdued performance was because of muted demand in export markets, sharp reduction in global pulp prices and high-base effect.

P&L Account Quarterly - consolidated

Particulars, Rs cr	Q2FY24	Q2FY23	Y-o-Y (%)	Q1FY24	Q-o-Q (%)
Gross Sales	19,270.0	18,608.0	3.6	18,639.5	3.4
Excise Duty	1,495.6	1,500.0	(0.3)	1,475.0	1.4
Net Sales	17,774.5	17,108.0	3.9	17,164.5	3.6
Cost of Raw Materials	5,451.7	5,197.9	4.9	5,054.9	7.8
Purchase of Finished Goods	1,280.2	988.4	29.5	1,828.4	(30.0)
(Increase) / Decrease In Stocks	336.8	601.8	-	(333.6)	-
Total Raw material cost	7,068.7	6,788.2	4.1	6,549.7	7.9
Gross Profit	10,705.8	10,319.8	3.7	10,614.8	0.9
Gross Margins %	60.2	60.3	-9bps	61.8	-161bps
Employee Cost	1,507.9	1,476.0	2.2	1,482.1	1.7
Other Expense	2,743.7	2,584.7	6.2	2,462.6	11.4
Total Expenditure	11,320.2	10,848.9	4.3	10,494.4	7.9
EBITDA	6,454.2	6,259.1	3.1	6,670.1	(3.2)
EBITDA Margins (%)	36.3	36.6	-27bps	38.9	-255bps
Depreciation	453.0	462.4	(2.0)	442.5	2.4
EBIT	6,001.2	5,796.7	3.5	6,227.6	(3.6)
Other Income	664.9	454.7	46.2	722.3	(7.9)
Interest	9.9	12.6	(21.6)	9.9	(0.3)
PBT	6,656.2	6,238.8	6.7	6,940.0	(4.1)
Exceptional/Shares of profits	8.6	11.5	-	9.5	-
PBT	6,664.8	6,250.3	6.6	6,949.5	(4.1)
Tax	1,700.3	1,568.5	8.4	1,759.9	(3.4)
PAT	4,964.5	4,681.9	6.0	5,189.6	(4.3)
PAT Margin (%)	27.9	27.4	56bps	30.2	-230bps
EPS	4.0	3.8	6.0	4.2	(4.0)

Source : RBL Research

Revenue grew and single digit because of the mixed performance among sectors

Revenue growth was driven by Cigarettes, FMCG & Hotel segment

Segmental Revenue

Particulars, Rs cr	Q2FY24	Q2FY23	YoY (%)	Q1FY24	Q-o-Q (%)
Cigarettes	8,328.2	7,635.4	9.1	8,355.7	(0.3)
% of revenue	43.2	41.0	218bps	44.8	-161bps
FMCG	5,303.3	4,894.3	8.4	5,172.7	2.5
% of revenue	27.5	26.3	122bps	27.8	-23bps
Hotel	675.0	560.4	20.5	624.9	8.0
% of revenue	3.5	3.0	49bps	3.4	15bps
Agri Business	3,987.8	4,038.7	(1.3)	5,727.0	(30.4)
% of revenue	20.7	21.7	-101bps	30.7	-1003bps
Paperboards, Paper & Packaging	2,069.9	2,287.6	(9.5)	2,120.8	(2.4)
% of revenue	10.7	12.3	-155bps	11.4	-64bps
Others	912.7	801.7	13.8	820.6	11.2
	21,276.8	20,218.0	5.2	22,821.6	(6.8)
Less: Intersegment	2,139.3	1787.5	19.7	4,313.4	(50.4)
Add: Operating Income	133	177.5	(25.1)	131.0	1.5
Total Revenue	19,270.5	18,608.0	3.6	18,639.2	3.4

Source : RBL Research

Cigarettes, FMCG & Hotel segments drove the profits

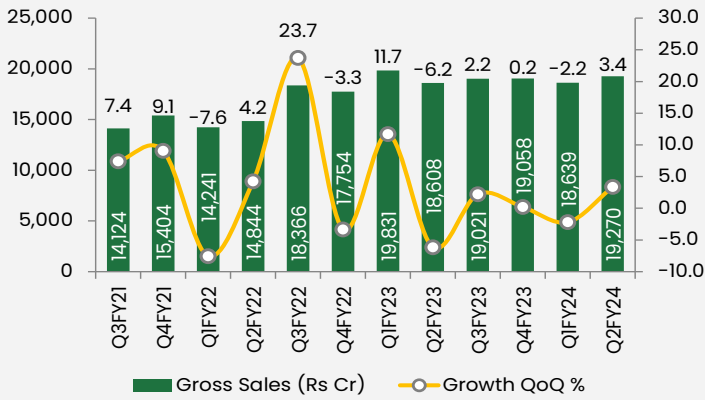
Segmental Profits

Particulars, Rs cr	Q2FY24	Q2FY23	YoY (%)	Q1FY24	Q-o-Q (%)
Cigarettes	5,003	4,635	7.9	4,944	1.2
% of PBT	75.1	74.2	91bps	71.1	392bps
FMCG	442	324	36.5	434	1.9
% of PBT	6.6	5.2	145bps	6.2	39bps
Hotel	133	87	53.1	134	(1.0)
% of PBT	2.0	1.4	61bps	1.9	6bps
Agri Business	359	356	0.8	352	1.8
% of PBT	5.4	5.7	-31bps	5.1	31bps
Paperboards, Paper & Packaging	315	630	(50.0)	471	(33.2)
% of PBT	4.7	10.1	-535bps	6.8	-206bps
Others	149	104	42.3	93	59.4
	6,400	6,136	4.3	6,429	(0.4)
Others	265	115	130.8	520	(49.2)
PBT	6,665	6,250	6.6	6,950	(4.1)

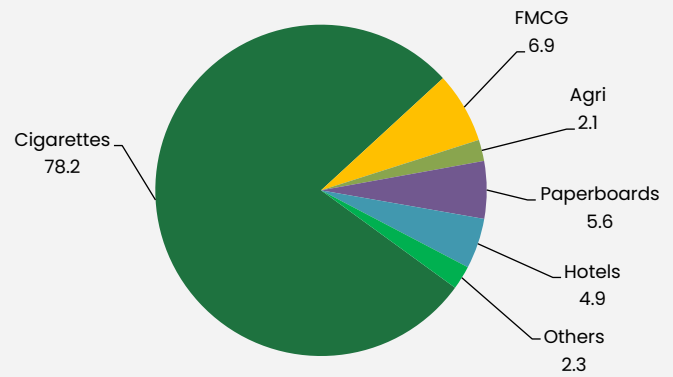
Source : RBL Research

Story in charts

Gross Sales increased by 3.6% YoY and 3.4% QoQ

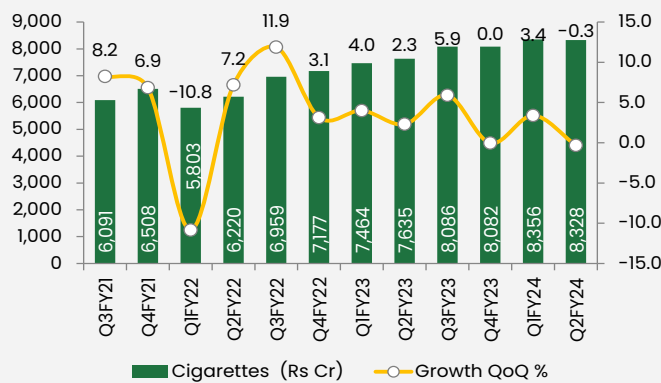


Cigarettes contributes highest to its profits (%)

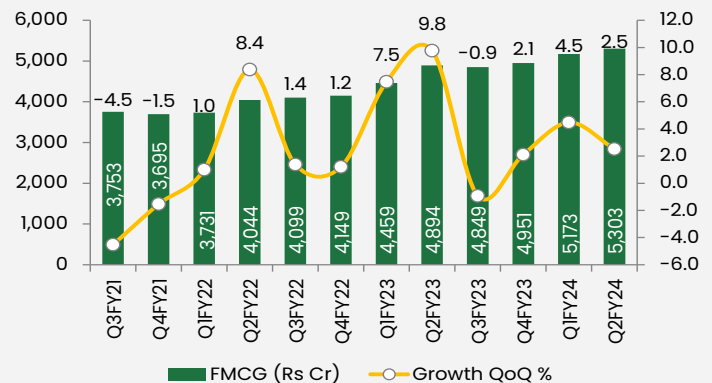


Source : RBL Research

Cigarettes revenue grew by 9.1% YoY but was flat QoQ

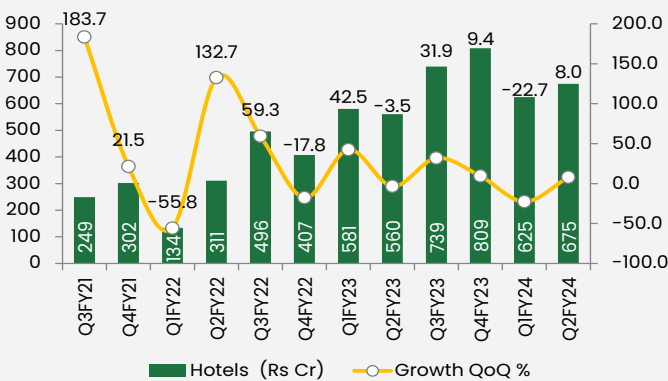


FMCG revenue grew by 8.4% YoY and 2.5% QoQ

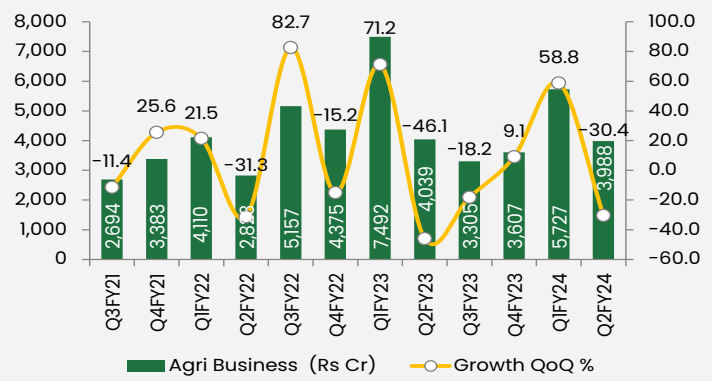


Source : RBL Research

Hotel revenue grew by 20.5% YoY and 8.0% QoQ

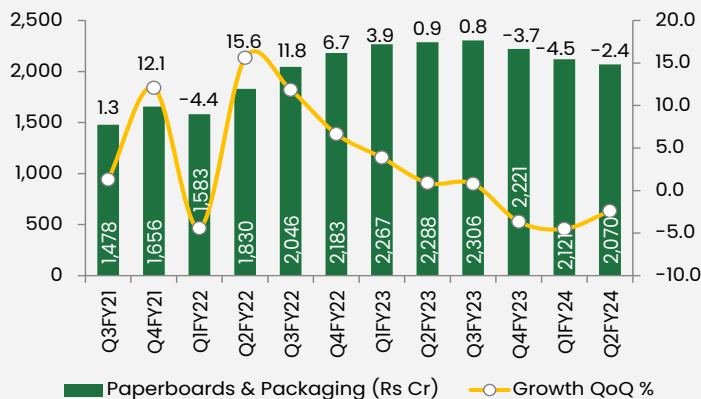


Agri segment revenue declined by 1.3% YoY and 30.4% QoQ

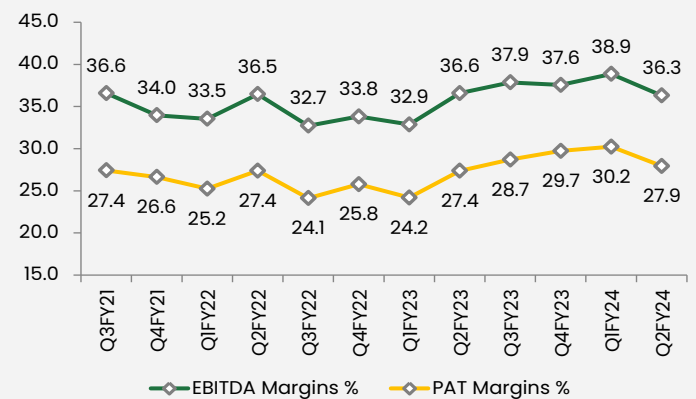


Source : RBL Research

Paper segment revenue declined by 9.5% YoY and 2.4% QoQ



EBITDA/PAT margin was at 36.0%/27.9% in Q2FY24



Source : RBL Research

P&L Account – consolidated

Particulars, Rs cr	FY22	FY23	FY24E	FY25E
Net sales	60,669	70,937	81,577	93,814
Expenditure				
Cost of materials	16,400	20,276	22,879	26,007
Purchase of stock in trade	10,671	9,088	10,120	11,131
(Increase) / Decrease In Stocks	(686)	(359)	(440)	(506)
Total raw materials	26,385	29,006	32,558	36,633
Gross Profit	34,284	41,931	49,019	57,181
Gross Margins %	56.5	59.1	60.1	61.0
Employee cost	4,891	5,736	6,424	7,387
Other expenses	8,734	10,530	11,879	13,358
Total expenditure	40,010	45,272	50,862	57,378
EBITDA	20,659	25,665	30,716	36,436
EBITDAM (%)	34.1	36.2	37.7	38.8
Depreciation	1,732	1,809	1,936	2,125
PBIT	18,927	23,856	28,780	34,311
Other income	1,836	1,980	2,278	2,619
Interest expenses	39	43	43	43
PBT	20,724	25,793	31,014	36,887
Tax	5,237	6,438	7,742	9,208
Reported PAT	15,486	19,355	23,273	27,680
Exceptional & Share of Profits	17	122	-	-
PAT (after Exceptional)	15,504	19,477	23,273	27,680
PAT Margin %	25.6	27.5	28.5	29.5
EPS	12.6	15.7	18.7	22.3

Source : RBL Research

Balance Sheet – consolidated

Particulars, Rs cr	FY22	FY23	FY24E	FY25E
Share Capital	1,232	1,243	1,243	1,243
Reserves & Surplus	61,223	67,912	75,531	87,559
Total Shareholder's Fund	62,456	69,155	76,773	88,802
Minority Interest	366	384	384	384
Long term borrowings	5	3	3	3
Short term borrowing	1	35	35	35
Total Debt	6	39	39	39
Deferred tax liabilities	1,673	2,541	2,922	3,360
Long term provision	221	259	298	343
Other long term liabilities	375	713	820	943
Total	2,269	3,513	4,040	4,646
Current Liabilities				
Trade payables	4,417	4,659	5,358	6,162
Short term provisions	80	101	116	133
Other current liabilities	7,666	8,033	9,238	10,624
Total	12,163	12,792	14,711	16,918
Total liabilities	77,260	85,883	95,947	110,788
Application of Assets				
Net Block	23,479	25,090	26,432	28,328
Current work in process	3,198	2,985	2,985	2,985
Goodwill on consolidation	780	780	780	780
Non current investment	12,577	12,182	14,343	18,215
Tax assets	106	118	136	156
Long term loans and advances	7	5	9	10
Other non-current assets	2,881	5,052	5,720	7,084
Total	43,027	46,212	50,404	57,558
Current Assets				
Current investments	12,264	17,233	19,818	23,275
Inventories	10,864	11,771	13,537	15,567
Trade receivables	2,462	2,956	3,400	3,910
Cash & Bank Balance	4,654	4,880	5,533	6,735
Short term loans and advances	7	7	8	9
Other current assets	3,981	2,823	3,247	3,734
Total	34,232	39,671	45,543	53,230
Total assets	77,260	85,883	95,947	110,788

Source : RBL Research

Cashflow – consolidated

Particulars, Rs cr	FY22	FY23	FY24E	FY25E
Profit before tax	20,741	25,915	31,038	36,914
Add: Depreciation	1,732	1,809	1,936	2,125
Add: Interest cost	39	43	43	43
Less: Other Income/Interest Rec	(1,083)	(1,534)	(1,139)	(1,310)
Others	(573)	(339)	(500)	(500)
Operating profit before working capital changes	20,857	25,895	31,378	37,273
Changes in working capital	(100)	(767)	(877)	(1,602)
Cash from Operations	20,757	25,128	30,501	35,671
Less: Taxes	(4,982)	(6,250)	(7,742)	(9,208)
Cash flow from Operations	15,776	18,878	22,759	26,464
Net cash used in Investing				
Purchase of fixed assets	(2,142)	(2,743)	(3,278)	(4,021)
Purchase of investments	(69,776)	(3,704)	(4,746)	(7,329)
Sales of fixed assets	71,123	49	-	-
Sales of investments	(6)	-	-	-
Dividend Income/Interest Rec.	1,051	1,398	1,139	1,310
Others	(2,488)	(733)	-	-
Cash flow from investing	(2,238)	(5,732)	(6,885)	(10,041)
Cash flow from Financing				
Proceeds from Equity shares	292	2,477	-	-
Sales of borrowings	(60)	-	-	-
Dividend (Incl dividend tax)	(13,788)	(15,418)	(15,418)	(15,418)
Interest cost	(40)	(41)	(43)	(43)
Others	15	(24)	-	-
Cash flow from Financing	(13,581)	(13,006)	(15,461)	(15,461)
Net cash Inflow/Outflow	(43)	139	414	962
Opening cash	310	267	406	820
Other investments	4.7	57.4	-	-
Closing cash	267	406	820	1,782
Bank Balance	4,383	4,417	4,714	4,953
Closing Cash & Bank	4,654	4,880	5,533	6,735

Source : RBL Research

Key ratios – consolidated

Particulars	FY22	FY23	FY24E	FY25E
Per share Data				
EPS (Rs)	12.6	15.7	18.7	22.3
Book value per share (Rs)	50.7	55.6	61.8	71.5
Dividend per share (Rs)	11.2	12.4	12.4	12.4
Dividend Payout (%)	90.4	80.1	66.9	56.2
Dividend Yield (%)	2.5	2.8	2.8	2.8
Profitability Ratios				
EBITDAM(%)	34.1	36.2	37.7	38.8
PBTM (%)	34.2	36.4	38.0	39.3
NPM (%)	25.6	27.5	28.5	29.5
RoE (%)	24.4	27.8	30.0	30.9
RoCE (%)	30.3	34.5	37.5	38.6
Efficiency Data				
Debt-Equity Ratio	0.0	0.0	0.0	0.0
Interest Cover Ratio	480.9	552.2	666.2	794.2
Fixed Asset Ratio	0.4	0.3	0.3	0.3
Debtors (Days)	13.8	14.1	14.1	14.1
Inventory (Days)	60.8	56.1	56.1	56.1
Payable (Days)	24.7	22.2	22.2	22.2
WC (Days)	49.9	48.0	48.0	48.0
Valuation				
P/E (x)	35.8	28.7	24.0	20.2
P/BV	8.9	8.1	7.3	6.3
EV/EBITDA	26.6	21.6	18.0	15.2
EV/Sales	8.4	7.2	6.3	5.5

Source : RBL Research

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Statements on ownership and material conflicts of interest, compensation– Research Analyst (RA)

S. No.	Statement	Answer	
		Yes	No
		Tick appropriate	
		Yes	No
	I/we or any of my/our relative has any financial interest in the subject company? [If answer is yes, nature of Interest is given below this table]		No
	I/we or any of my/our relatives, have actual/beneficial ownership of one per cent. or more securities of the subject company, at the end of the month immediately preceding the date of publication of the research report or date of the public appearance?		No
	I / we or any of my/our relative, has any other material conflict of interest at the time of publication of the research report or at the time of public appearance?		No
	I/we have received any compensation from the subject company in the past twelve months?		No
	I/we have managed or co-managed public offering of securities for the subject company in the past twelve months?		No
	I/we have received any compensation for brokerage services from the subject company in the past twelve months?		No
	I/we have received any compensation for products or services other than brokerage services from the subject company in the past twelve months?		No
	I/we have received any compensation or other benefits from the subject company or third party in connection with the research report?		No
	I/we have served as an officer, director or employee of the subject company?		No
	I/we have been engaged in market making activity for the subject company?		No

[Please note that only in case of multiple RAs, if in the event answers differ inter-se between the RAs, then RA specific answer with respect to questions under F (a) to F(j) below, are given separately]

Nature of Interest (if answer to F (a) above is Yes :

.....

Name(s) with Signature(s) of RA(s).

[Please note that only in case of multiple RAs and if the answers differ inter-se between the RAs, then RA specific answer with respect to questions under F (a) to F(j) above , are given below]

SS.No.	Name(s) of RA.	Signatures of RA	Serial Question of question which the signing RA needs to make a separate declaration / answer	Yes	No.

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