



DALAL & BROACHA
STOCK BROKING PVT. LTD.

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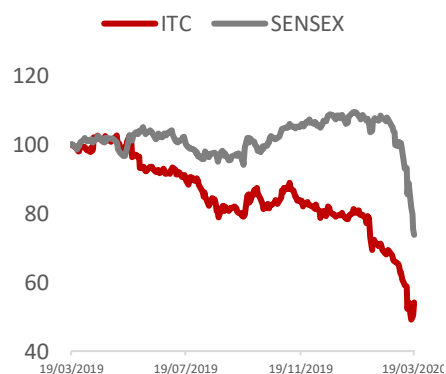
ACCUMULATE

Current Price	150
52 Week Range	135/310

Key Share Data

Market Cap (Rs.bn)	1840
Market Cap (US\$ bn)	24.20
No of o/s shares (mn)	12291.12
Face Value	1
Monthly Avg. vol(BSE+NSE) Nos'000	33333
BSE Code	500875
NSE Code	ITC
Bloomberg	ITC:IN

Price performance



% Shareholding	Dec-19	Sep-19
Promoters	0.00	0.00
Public	100	100
Others	0.00	0.00
Total	100.0	100.0

Financials (Rs. Mn)

Particulars	Revenue	Growth(%)	EBITDA	Margins(%)	PAT	Growth(%)	EPS (in Rs.)	P/E(x)
FY19	4,98,620	4.60%	1,85,280	37.20%	1,25,920	12%	10.3	14.563
FY20E*	5,11,150	2.50%	1,72,169	33.70%	1,53,216	22%	12.46	12.039
FY21E*	5,49,888	7.60%	1,86,967	34.00%	1,64,010	7%	13.36	11.228
FY22E*	5,98,114	8.80%	2,00,166	33.50%	1,82,090	11%	14.78	10.149

*As per Bloomberg Estimates

ITC operates in several business such as **Cigarettes** (41% of FY19 revenues), Branded Packaged Food products and other products such as Agarbatti, Stationary among others (25% of FY19 revenues), **Hotels** (3% of FY19 revenues), **Agri business** (19% of FY19 revenues) and **Paperboards, Paper & Packaging** which contributes 12% to FY19 revenues. Company has delivered a Revenue, EBITDA and PAT CAGR (FY14-19) of 6.5%, 7.24% and 7.21% respectively. *On a current market cap of Rs 2150bn cash and investments stands at 12% @ Rs 280bn (as per Half yearly balance sheet FY20)*

Strong Brands across portfolio: ITC is a leading name across all its segments which is aided by several brands that are known nationwide. Some example include Bingo!, Sunfeast, BNatural, Aashirvaad, ITC Hotels, Candyman, Yippee!, Fiamma, Savlon, Dermafique, Vivel, and Classmate among many others. These brands are very large in their own segments and the company through most of these brands reach a **total 124 million households in India.**

Q3FY20 review: Standalone revenues grew by 7% YoY and 1.4% QoQ to Rs. 119.12bn led by 4.7% YoY (2% volume and 2.7% Value or mix growth) and -ve 0.3% QoQ growth in **Cigarette revenues** to Rs. 53.11bn, **Branded food products** grew 3.5% YoY and 0.7% QoQ to Rs. 33.12bn and **Hotels business** grew 22.5% YoY and 29.5% QoQ to Rs. 5.52bn. **EBITDA** grew by 6.6% to Rs. 45.62bn, i.e. margin of 38.4% and **PAT** grew by 29.1% YoY to Rs. 41.42bn due to **lower taxes** on adoption of new tax regime. **EPS** reported Rs. 3.4 as against Rs. 2.6 YoY.

Segmental: **Cigarettes** reported a growth of 5.6% YoY and -2.3% QoQ to Rs. 37.56bn largely due to difficulties in wholesale channel. EBIT margins stood at 70.7% as against 70.1% YoY and 72.2% QoQ.

Branded products reported a growth of 40.4% YoY and 19% QoQ to Rs. 1.08bn. EBIT margins stood at 3.2% as against 2.4% YoY and 2.8% QoQ. Growth was led by higher sale of premium products while rural dominated products continued to face problems.

Hotels reported a growth of 44.8% YoY and 401% QoQ to Rs. 0.87bn and EBIT Margins stood at 15.8% v/s 13.3% YoY and 4.1% QoQ. The growth was largely led by higher room rates and operating leverage.

High Dividend Payout Ratio: The company has been known to have dividend payout ratio of 55-57% of profits historically. **In recent announcement the company has declared to increase their dividend payout ratio to 80-85% of profits which can indicate that a large part of capex has been done.**

Risks: The pace of cigarette earnings could get affected even more if there is any material GST increase, as over 85% of EBIT is contributed by cigarettes.

However the company is putting all efforts to diversify and reach a target of Rs 1000bn by 2030 into other FMCG business wherein it achieved a turnover of Rs 125bn in FY19.

Outlook and Valuation: ITC is a leading player in the FMCG space with strong fundamentals and brands under its wing. It is trading at inexpensive valuations (**Cheapest in the entire FMCG space**) due to its dependence on Cigarettes which faces risks of government taxations. The stock has corrected significantly from its 52 Week High of Rs. 310, i.e. 50% correction. A higher dividend payout ratio of 80%- 85% indicates a consistent dividend per share of ~Rs. 10 to Rs 12 per share. At CMP the dividend yield thus comes to 6.7%. **At CMP as per Bloomberg estimates, the stock is trading at 11.23x and 10.15x FY21e and FY22e EPS of Rs. 13.36 and 14.78 respectively.**



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