

Consumer Staples | Q4FY23 Result Update

Strong FMCG performance; stable cigarette growth

- ITC's Q4FY23 results came in line with our anticipation. Our analysis suggest that the cigarette business reported ~12% volume growth during Q4FY23.
- FMCG business reported 19.3% revenue growth with 440bps improvement in EBIT margin. ITC reported one of the best EBIT performance amongst peers during the quarter.
- Continuous improvement in cigarette business is encouraging. The business reported 8.0% sales CAGR over last 4-yrs and 4.1% volume CAGR over the same period. We expect volume and MS gain in the business in the near term.
- We have marginally upward revised our FY24/25E EPS estimates at Rs 17.6/19.0 representing 1.5/2.1% revision. Twin impact of cigarette business market share re-gain from illicit trades and lower duty increase in the budget would help the business to improve margins. Hence, we have raised our TP to Rs 463 (SOTP valuation). However, due to recent run up in the stock price we have maintained Accumulate rating. BUY on dips.

Results came in line with estimate

Net sales increased 6.5% YoY to Rs 176.3bn – came in line with our estimate. Our analysis suggest that the volume growth was ~12% during the quarter. EBITDA grew by 18.3% YoY to Rs 66.2bn –came in line with our estimate at Rs 67bn. EBITDA margins expanded by 370bps to 37.6% as increase of 50/120bps in staff/other expenses was fully offset by 540bps decline in RM cost. APAT increased by 21.0% YoY to Rs 51.5bn – came in line with our estimate.

Cigarette business performance is expected to improve here on

Illicit cigarette sales was the biggest hurdle for the ITC's cigarette business growth. However, recent successful launch of new products are helping re-gain the lost share. New products like Classic Connect, Gold Flake Indie Mint, etc are gaining share against illicit trades. We believe that these products would help the company to accelerate volume growth momentum which was lost over FY14-21. Further stable duty on cigarettes in the recent past would help the company maintain high volume growth trajectory in the near term. We believe that the company has got comfort for next 12-18 months when the duties would remain stable.

Q4FY23 Result (Rs Mn)

Particulars	Q4FY23	Q4FY22	YoY (%)	Q3FY23	QoQ (%)
Revenue	1,76,349	1,65,555	6.5	1,77,045	(0.4)
Total Expense	1,10,109	1,09,561	0.5	1,09,998	0.1
EBITDA	66,240	55,994	18.3	67,047	(1.2)
Depreciation	4,614	4,670	(1.2)	4,471	3.2
EBIT	61,626	51,324	20.1	62,576	(1.5)
Other Income	6,097	4,986	22.3	5,954	2.4
Interest	122	107	13.4	92	31.9
EBT	67,601	56,204	20.3	68,438	(1.2)
Tax	16,080	13,607	18.2	17,737	(9.3)
RPAT	51,697	41,952	23.2	50,803	1.8
APAT	51,697	41,952	23.2	50,803	1.8
			(bps)		(bps)
Gross Margin (%)	61.6	56.2	544	61.1	56
EBITDA Margin (%)	37.6	33.8	374	37.9	(31)
NPM (%)	29.3	25.3	398	28.7	62
Tax Rate (%)	23.8	24.2	(42)	25.9	(213)
EBIT Margin (%)	34.9	31.0	394	35.3	(40)

CMP	Rs 420
Target / Upside	Rs 463 / 10%
NIFTY	18,130

Scrip Details

Equity / FV	Rs 12,428mn / Rs 1
Market Cap	Rs 5,159bn
	USD 62.8bn
52-week High/Low	Rs 433/ 259
Avg. Volume (no)	1,08,94,100
Bloom Code	ITC IN

Price Performance	1M	3M	12M
Absolute (%)	5	9	57
Rel to NIFTY (%)	1	8	43

Shareholding Pattern

	Sep'22	Dec'22	Mar'23
Promoters	0.0	0.0	0.0
MF/Banks/FIs	42.4	42.2	42.1
FIIIs	42.7	43.0	43.4
Public / Others	14.9	14.8	14.8

Valuation (x)

	FY23P	FY24E	FY25E
P/E	24.6	23.8	22.0
EV/EBITDA	18.9	17.2	15.7
ROE (%)	32.6	30.7	30.3
RoACE (%)	31.7	29.9	29.5

Estimates (Rs bn)

	FY23P	FY24E	FY25E
Revenue	691.0	760.3	812.2
EBITDA	262.0	285.4	308.5
PAT	209.5	216.4	234.5
EPS (Rs.)	17.0	17.6	19.1

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Exhibit 1: Actual V/s DART Estimates

Particulars (Rs mn)	Actual	Estimates	Variance (%)
Revenue	176,349	177,465	(0.6)
EBITDA	66,240	66,943	(1.1)
EBITDA margin %	37.6	37.7	(20bps)
APAT	51,522	51,401	0.2

Source: Company, DART

Exhibit 2: Change in estimates

Particulars (Rs mn)	FY24E			FY25E		
	New	Old	Chg (%)	New	Old	Chg (%)
Revenue	7,60,275	7,63,307	(0.4)	8,12,179	8,08,277	0.5
EBIDTA	2,85,422	2,82,247	1.1	3,08,451	3,03,097	1.8
EBIDTA margin (%)	37.5	37.0	60bps	38.0	37.5	50bps
PAT	2,16,393	2,13,290	1.5	2,34,481	2,29,691	2.1
EPS (Rs)	17.6	17.3	1.5	19.0	18.6	2.1

Source: Company DART

We have broadly maintained our FY24/25E revenue estimates however, we have increased our EBITDA margin estimates as the current margin profile is far better than what we anticipated earlier. In line with the change in EBITDA, we have increased our APAT estimates.

Exhibit 3: Segmental Performance

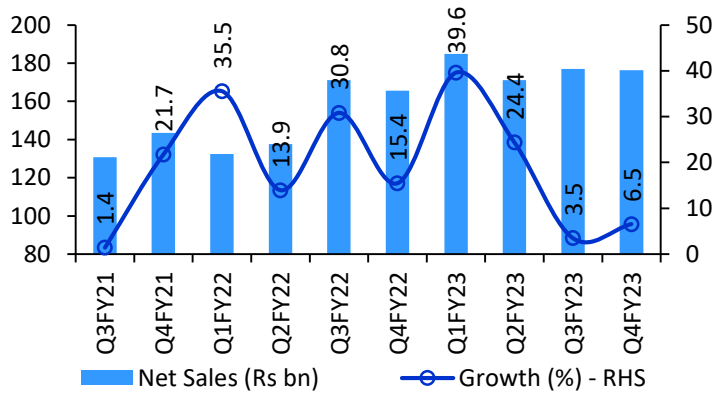
Particulars (Rs Mn)	Q4FY23	Q4FY22	YoY (%)	Q3FY23	QoQ (%)	Remarks
Cigarettes						
Revenue	80,823	71,770	12.6	80,857	-	<ul style="list-style-type: none"> Robust growth across markets with volume growth of ~12% in Q4. Reinforced market standing through innovation, premiumization, market intervention and strong execution.
EBIT	49,157	43,574	12.8	48,623	1.1	
EBIT Margin (%)	60.8	60.7	10bps	60.1	70bps	
FMCG Others						
Revenue	49,512	41,486	19.3	48,490	2.1	<ul style="list-style-type: none"> Robust growth in Discretionary/OOH categories and Staples & Convenience Foods. Margin expanded 440bps led by focus on cost management actions, premiumisation, judicious pricing actions, and favourable business mix.
EBIT	5,037	2,385	111.2	3,519	43.1	
EBIT Margin (%)	10.2	5.7	440bps	7.3	290bps	
Hotels						
Revenue	8,087	4,074	98.5	7,393	9.4	<ul style="list-style-type: none"> RevPAR was ahead of pre-pandemic levels driven by Retail, Leisure, Weddings and MICE segments. Margin expansion driven by higher RevPAR, operating leverage and structural cost interventions.
EBIT	2,049	(291)	NA	1,493	37.3	
EBIT Margin (%)	25.3	(7.1)	NA	20.2	510bps	
Agri Business						
Revenue	36,073	43,754	(17.6)	33,052	9.1	<ul style="list-style-type: none"> Revenue growth was impacted due to restrictions on wheat and rice exports (ex-wheat exports revenue was up 20%). Further, EBIT margin growth was driven by growth in leaf tobacco exports and value-added agri products. Focus remains on rapidly scaling up value-added product portfolio.
EBIT	3,046	2,443	24.7	4,366	(30.2)	
EBIT Margin (%)	8.4	5.6	290bps	13.2	(480bps)	
Paper & Packaging						
Revenue	22,210	21,828	1.8	23,055	(3.7)	<ul style="list-style-type: none"> Revenue growth was impacted due to planned shutdown of pulp mills capacity during Q4. Further, softening of pulp prices, muted demand and high base impacted performance.
EBIT	4,450	4,497	(1.0)	6,062	(26.6)	
EBIT Margin (%)	20.0	20.6	60bps	26.3	(630bps)	
Total						
Revenue	196,705	182,912	7.5	192,847	2.0	
EBIT	63,738	52,608	21.2	64,063	(0.5)	
EBIT Margin (%)	32.4	28.8	360bps	33.2	(80bps)	

Source: Company, DART

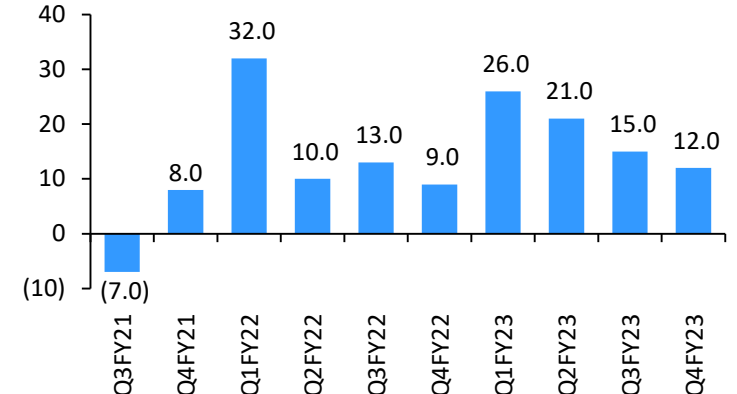
Exhibit 4: SOTP valuation

FY25E	Sales (Rs mn)	EBITDA	Basis	Multiple (x)	Total EV	Rs/share	Comments
Cigarettes	3,17,591	2,26,634	EV/EBITDA	12.0	27,19,613	219	In line with global and domestic peers
Paper	1,01,396	32,009	EV/EBITDA	6.0	1,92,055	15	Multiple in line with peers
Agri	1,07,465	18,075	EV/EBITDA	7.0	1,26,523	10	In line with domestic peers
New FMCG	2,35,551	25,692	EV/Sales	8.0	18,84,410	152	In line with most FMCG companies
Hotels	50,176	6,041	EV/Sales	7.0	3,51,232	28	In line with peers
Total	812179	3,08,451			52,73,833	424	
Gross Value						52,73,833	
Net Cash						4,78,504	
Net Value (Rs mn)						57,52,336	
No of Shares						12,428	
Per share (Rs)						463	

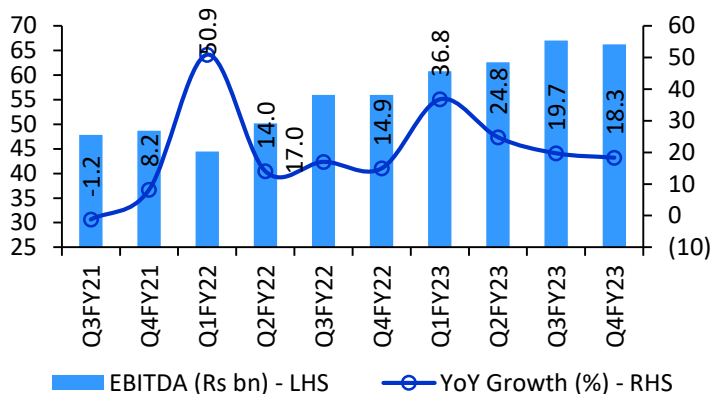
Source: Company, DART

Exhibit 5: Trend in Net Sales & YoY Growth (%)


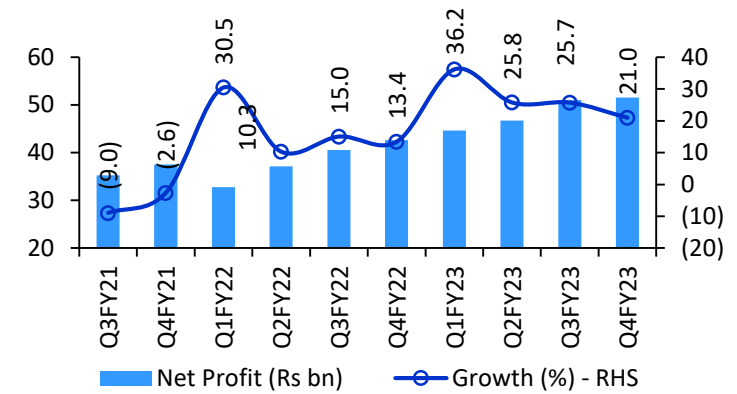
Source: Company, DART

Exhibit 6: Trend in Cigarette Volume Growth (%)


Source: Company, DART

Exhibit 7: Trend in EBITDA & YoY EBITDA growth (%)


Source: Company, DART

Exhibit 8: Trend in Net Profit & YoY Net Profit Growth (%)


Source: Company, DART

Financial Performance

Profit and Loss Account

(Rs Mn)	FY22A	FY23P	FY24E	FY25E
Revenue	5,63,413	6,91,040	7,60,275	8,12,179
Total Expense	3,76,474	4,29,027	4,74,853	5,03,728
COGS	2,64,723	2,95,167	3,14,868	3,33,100
Employees Cost	30,620	37,368	41,846	45,878
Other expenses	81,131	96,492	1,18,139	1,24,750
EBIDTA	1,86,939	2,62,013	2,85,422	3,08,451
Depreciation	16,522	16,627	19,483	20,543
EBIT	1,70,417	2,45,386	2,65,939	2,87,908
Interest	420	418	439	461
Other Income	25,900	24,515	26,922	29,418
Exc. / E.O. items	0	729	0	0
EBT	1,95,898	2,70,211	2,92,422	3,16,865
Tax	47,717	59,971	76,030	82,385
RPAT	1,48,181	2,10,240	2,16,393	2,34,480
Minority Interest	0	0	0	0
Profit/Loss share of associates	0	0	0	0
APAT	1,48,181	2,09,511	2,16,393	2,34,480

Balance Sheet

(Rs Mn)	FY22A	FY23P	FY24E	FY25E
Sources of Funds				
Equity Capital	12,323	12,428	12,428	12,428
Minority Interest	0	0	0	0
Reserves & Surplus	6,01,672	6,63,510	7,22,834	8,00,245
Net Worth	6,13,996	6,75,938	7,35,262	8,12,673
Total Debt	52	45	45	45
Net Deferred Tax Liability	16,671	16,211	21,200	21,200
Total Capital Employed	6,30,719	6,92,195	7,56,507	8,33,918

Applications of Funds

Net Block	2,33,495	2,41,892	2,42,409	2,41,866
CWIP	24,423	16,815	15,133	13,620
Investments	1,56,573	1,63,636	1,63,636	1,63,636
Current Assets, Loans & Advances	3,37,892	4,00,275	4,89,134	5,80,852
Inventories	1,00,265	1,05,939	1,55,745	1,65,052
Receivables	19,525	23,213	25,671	27,430
Cash and Bank Balances	38,779	38,313	72,832	1,51,343
Loans and Advances	34,921	43,241	44,538	45,874
Other Current Assets	3,934	25,998	26,778	27,582
Less: Current Liabilities & Provisions	1,21,664	1,30,423	1,53,805	1,66,056
Payables	42,233	43,513	58,694	62,125
Other Current Liabilities	79,431	86,910	95,111	1,03,930
<i>sub total</i>				
Net Current Assets	2,16,227	2,69,852	3,35,329	4,14,797
Total Assets	6,30,719	6,92,195	7,56,507	8,33,918

E – Estimates

Important Ratios

Particulars	FY22A	FY23P	FY24E	FY25E
(A) Margins (%)				
Gross Profit Margin	53.0	57.3	58.6	59.0
EBIDTA Margin	33.2	37.9	37.5	38.0
EBIT Margin	30.2	35.5	35.0	35.4
Tax rate	24.4	22.2	26.0	26.0
Net Profit Margin	26.3	30.4	28.5	28.9
(B) As Percentage of Net Sales (%)				
COGS	47.0	42.7	41.4	41.0
Employee	5.4	5.4	5.5	5.6
Other	14.4	14.0	15.5	15.4
(C) Measure of Financial Status				
Gross Debt / Equity	0.0	0.0	0.0	0.0
Interest Coverage	406.1	586.9	605.8	624.6
Inventory days	65	56	75	74
Debtors days	13	12	12	12
Average Cost of Debt	800.8	858.5	967.0	1015.3
Payable days	27	23	28	28
Working Capital days	140	143	161	186
FA T/O	2.4	2.9	3.1	3.4
(D) Measures of Investment				
AEPS (Rs)	12.1	17.0	17.6	19.1
CEPS (Rs)	13.4	18.4	19.2	20.7
DPS (Rs)	11.0	12.3	12.8	12.8
Dividend Payout (%)	91.4	72.3	72.6	67.0
BVPS (Rs)	50.0	55.0	59.8	66.1
RoANW (%)	24.6	32.6	30.7	30.3
RoACE (%)	24.0	31.7	29.9	29.5
RoAIC (%)	29.4	39.4	39.8	42.1
(E) Valuation Ratios				
CMP (Rs)	420	420	420	420
P/E	34.8	24.6	23.8	22.0
Mcap (Rs Mn)	51,59,036	51,59,036	51,59,036	51,59,036
MCap/ Sales	9.2	7.5	6.8	6.4
EV	49,79,842	49,57,198	49,22,679	48,44,168
EV/Sales	8.8	7.2	6.5	6.0
EV/EBITDA	26.6	18.9	17.2	15.7
P/BV	8.4	7.6	7.0	6.3
Dividend Yield (%)	2.6	2.9	3.0	3.0
(F) Growth Rate (%)				
Revenue	23.9	22.7	10.0	6.8
EBITDA	20.4	40.2	8.9	8.1
EBIT	22.1	44.0	8.4	8.3
PBT	14.1	37.9	8.2	8.4
APAT	13.7	41.4	3.3	8.4
EPS	13.7	41.4	3.3	8.4

E – Estimates

Cash Flow

Particulars	FY22A	FY23P	FY24E	FY25E
Profit before tax	1,95,898	2,69,482	2,92,422	3,16,865
Depreciation & w.o.	16,522	16,627	19,483	20,543
Net Interest Exp	420	418	439	461
Direct taxes paid	(4,510)	(58,006)	(76,030)	(82,385)
Change in Working Capital	1,841	(4,441)	(30,958)	(956)
Non Cash	(62,092)	(22,395)	0	0
(A) CF from Operating Activities	1,48,078	2,01,685	2,05,357	2,54,528
Capex {(Inc.)/ Dec. in Fixed Assets n WIP}	(16,748)	(18,095)	(18,319)	(18,487)
Free Cash Flow	1,31,330	1,83,591	1,87,038	2,36,041
(Inc.)/ Dec. in Investments	1,578	(33,499)	0	0
Other	0	0	0	0
(B) CF from Investing Activities	(15,171)	(51,594)	(18,319)	(18,487)
Issue of Equity/ Preference	2,918	24,774	0	0
Inc./(Dec.) in Debt	(548)	(527)	0	0
Interest exp net	(420)	(418)	(439)	(461)
Dividend Paid (Incl. Tax)	(1,35,471)	(1,51,504)	(1,57,069)	(1,57,069)
Other	(623)	(314)	4,989	0
(C) CF from Financing	(1,34,143)	(1,27,990)	(1,52,519)	(1,57,530)
Net Change in Cash	(1,236)	22,101	34,519	78,511
Opening Cash balances	40,015	38,779	38,313	72,832
Closing Cash balances	38,779	38,313	72,832	1,51,343

E – Estimates

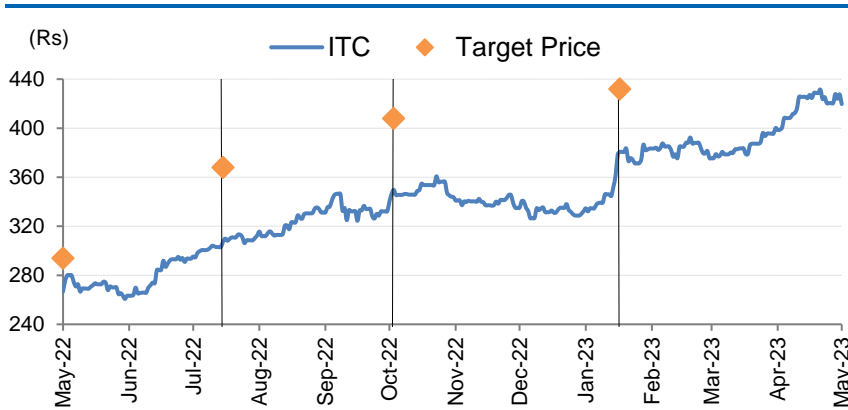
Notes

DART RATING MATRIX

Total Return Expectation (12 Months)

Buy	> 20%
Accumulate	10 to 20%
Reduce	0 to 10%
Sell	< 0%

Rating and Target Price History



Month	Rating	TP (Rs.)	Price (Rs.)
May-22	Accumulate	294	267
Aug-22	BUY	368	308
Oct-22	BUY	408	350
Feb-23	Accumulate	432	381

**Price as on recommendation date*

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