

SCIENCE AND TECHNOLOGY PROJECT

FUNDAMENTAL ANALYSIS OF STOCK



CHHAVI AGARWAL-200295

PRIYA SINGH-200729

ITC LIMITED



ITC Limited

INTRODUCTION AND OVERVIEW

The Indian Tobacco Company Limited was established on 24 August 1910 under the name Imperial Tobacco Company of India Limited.

Sanjiv Puri is the chairman and managing director of the company and the headquarters are located in Kolkata, West Bengal.

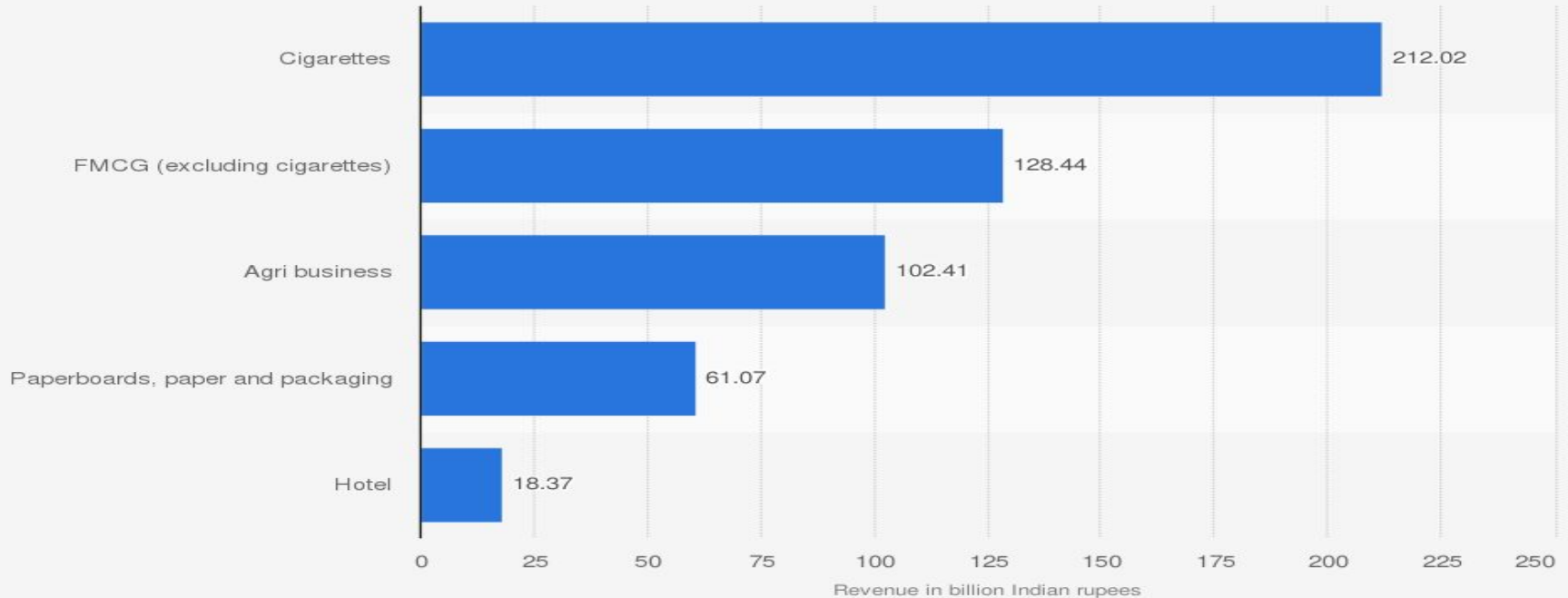
It is India's foremost private sector company having its presence in industries such as Cigarettes, Hotels, Paperboards and speciality Papers Packaging, Agri-Business packaged foods and FMCG products. The company has a gross sales values of around Rs 77,000 crores and net profit of around Rs 15,000 crores. ITC and its business companies employee over 36,000 people directly, the sustainable development models and value chains have supported creation of around 6 million sustainable livelihood.

ITC'S BUSINESS PORTFOLIO



HOW DOES ITC MAKE MONEY

Gross revenue of ITC Limited in financial year 2020, by segment (in billion Indian rupees)

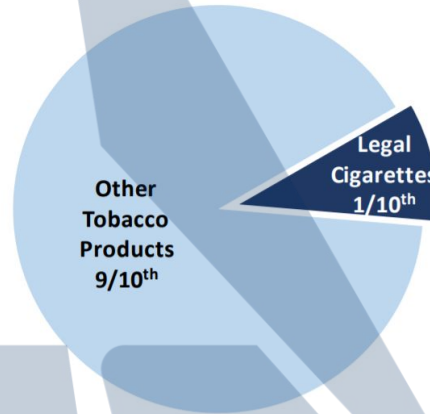


Source
ITC Limited
© Statista 2021

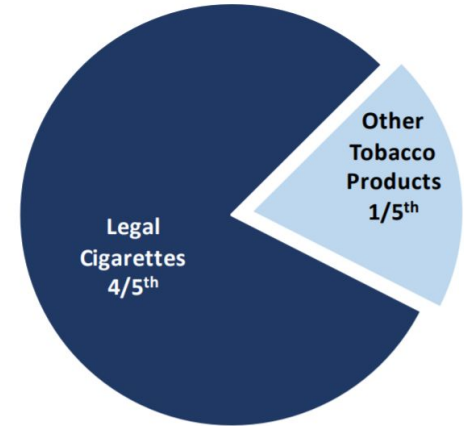
Additional Information:
India; FY 2020

FMCG CIGARETTES

- A punitive and discriminatory taxation and regulatory regime along with a sharp increase in illegal trade in recent years, especially at the premium end, continue to pose significant challenges to the legal cigarette industry in the country.
- It is estimated that on account of illegal cigarettes alone, revenue loss to the Government is almost ` 15,000 crores per annum. About 68% of the total tobacco consumed in the country remains outside the tax net.
- The large and rapidly growing illicit cigarette trade also has a deleterious impact on the millions of farmers and farm workers engaged in the tobacco value chain.



Consumption Share



Tax Revenue Share

FMCG CIGARETTES Q4 Y21

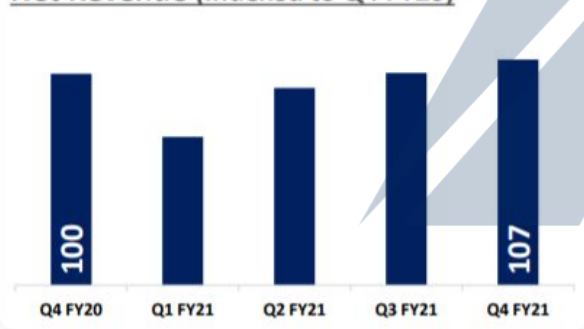
Segment Revenue

5860 cr. ▲ 14.2%

Segment Results

3666 cr. ▲ 7.7%

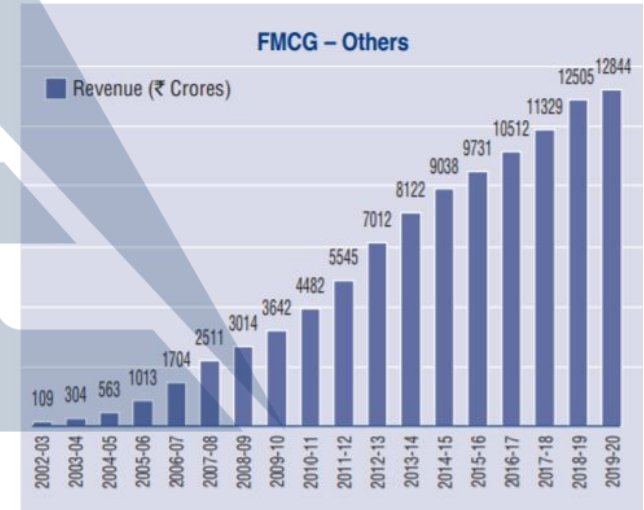
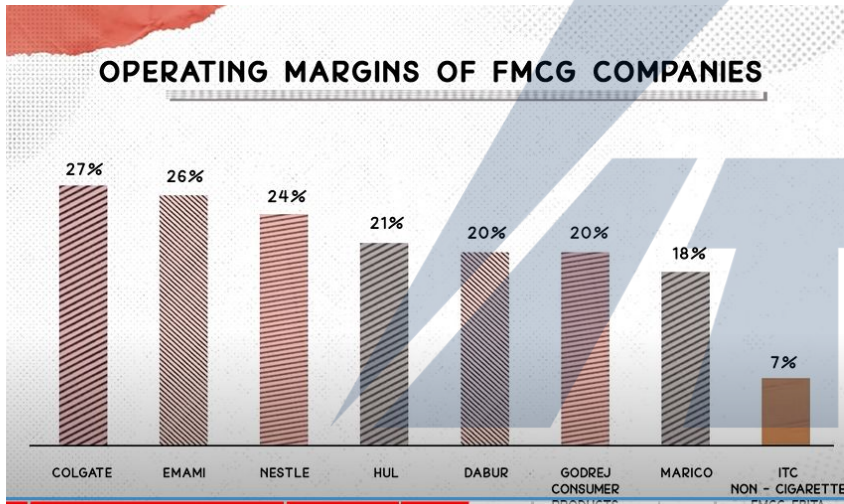
Net Revenue (Indexed to Q4 FY20)



- Legal Industry volumes remain impacted due to 13% Tax hike w.e.f. 1st Feb'20.
- As aforesaid, after a challenging first half, the Business staged a robust recovery with the easing of restrictions with volumes nearly touching pre-Covid levels towards the close of the year.
- The outbreak of the second wave is expected to cause disruptions in the front-end supply chain operations in the near term.
- Also a very important point is the shadow over ESG compliance. ESG funds are funds which invest in companies which are environment, social and governance conscious. This trend is fast catching up and a large amount of money is going into ESG companies. But for ITC which generates 80% of EBITA from cigarettes, ESG funds won't invest in ITC.

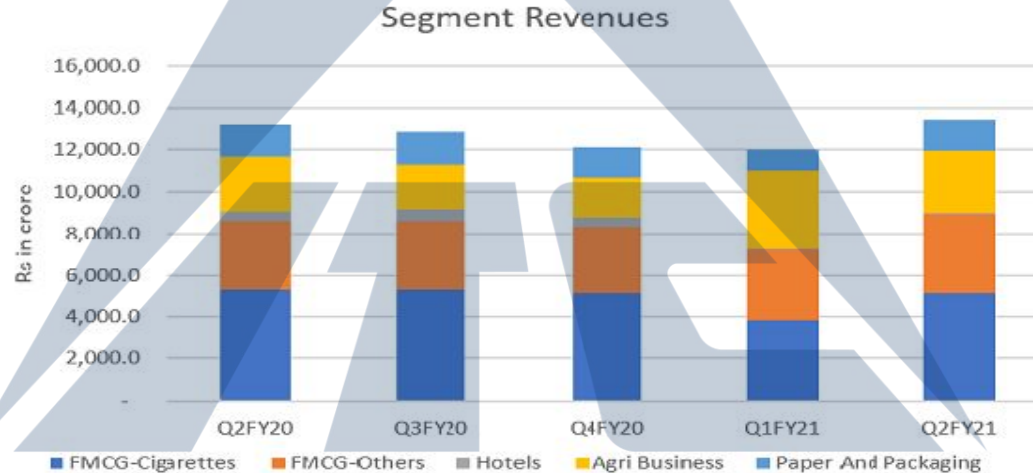
FMCG OTHERS

- About 30% of ITC products fall in the low margin products like atta, staples. One can't increase the margin for a brand name. That could lead to problem.
- But the FMCG sector of ITC is a constantly growing sector.
- In May 2020, ITC had acquired Sunrise Foods—a spice maker—for Rs 2,150 crore. The company plans to use its supply chain prowess to scale up its acquisition of Sunrise Foods to drive profitable growth.



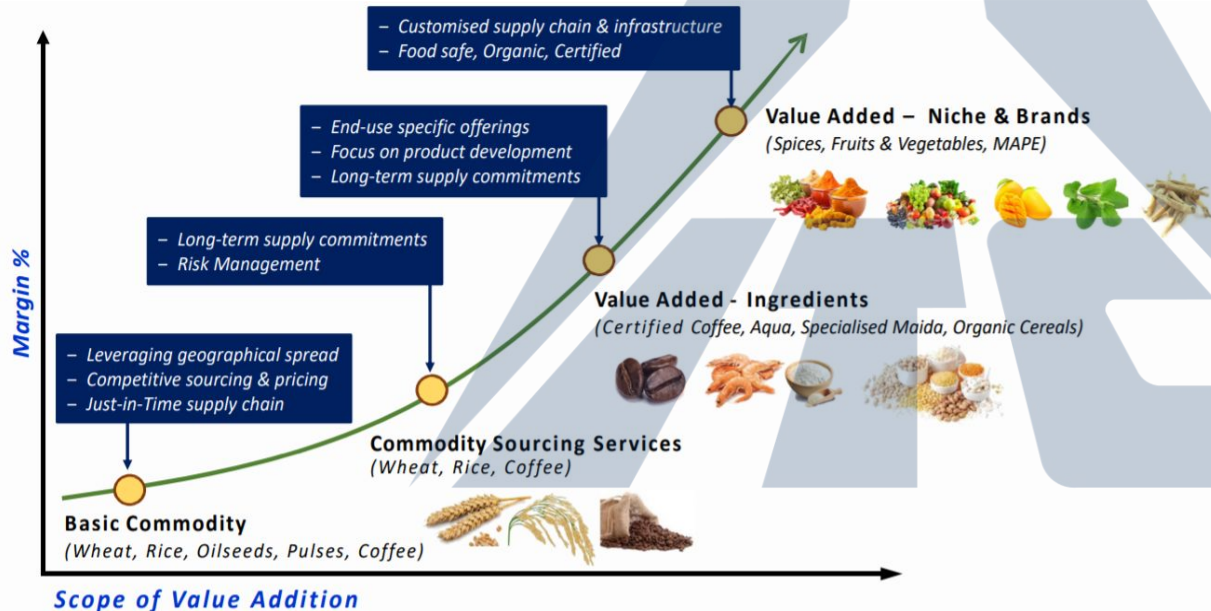
HOTELS

- ITC Hotels helps in Indian tourism due to their luxury promises.
- ITC has put in a lot of capital into their hotels business to set it up and for its growth.
- ITC barely makes a return of 3% on all the capital (money) they've deployed in creating this business. That's **ROCE** (Return on Capital Employed) by the way
- Incurred huge failure due to covid-19 scenario and is yet struggling.



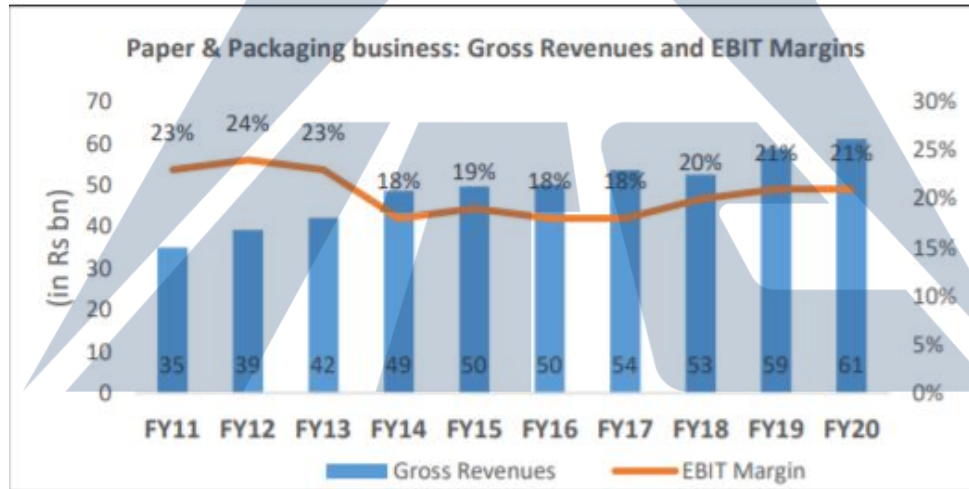
AGRI BUSINESS

- Leveraging Information Technology for the transformational 'e-Choupal' initiative
 - Rural India's largest Internet-based intervention with over 35000 villages linked through around 6100 e-Choupals servicing about 4 million farmers
 - Cost-effective sourcing for exports/domestic external business



PAPERBOARDS AND PACKAGING BUSINESS

- Value-added Paperboards - the fastest growing segment in India driven by : Increasing demand for branded packaged products
Growth in organised retail
Use of packaging as a key differentiator, especially in the FMCG sector
ITC lead in value-added Paperboards sector.
- Developing Sustainable Paperboard & Packaging solutions



ITC'S RANKING

Among the Private Sector Companies:

PBT Ranking - 4

PAT Ranking - 4

ESG Performance - 3

Market Capitalisation - 6

EVOLUTION OVER DECADES

The company witnessed moderate beginnings with its existence in an office on the Radha Bazar lane to shifting the headquarters building to the Virginia House.

During the first six decades, the company primarily focused on the growth of Cigarettes and Leaf Tobacco Business.

In the later centuries, the company started the establishment of Hotel Business, entered the Paperboard Business, Agri Business, launched education and stationery products and expanded business to rest of the industries.

ITC HOTELS

The ITC Hotels in the recent years have expanded business internationally and also tied up with hotels and resorts to manage hotels in Dubai and India under the brand “5-Star Welcomhotel”.

FOOD INDUSTRY

ITC'S foray into food business is a successful example depicting that in over a decade and a half from 2001, the food business has grown to a significant size under distinct brands with a rapidly growing market share and solid market standing.

IT INDUSTRY

The ITC Infotech Limited is also one of the India's fastest growing global IT and IT- enabled services companies.

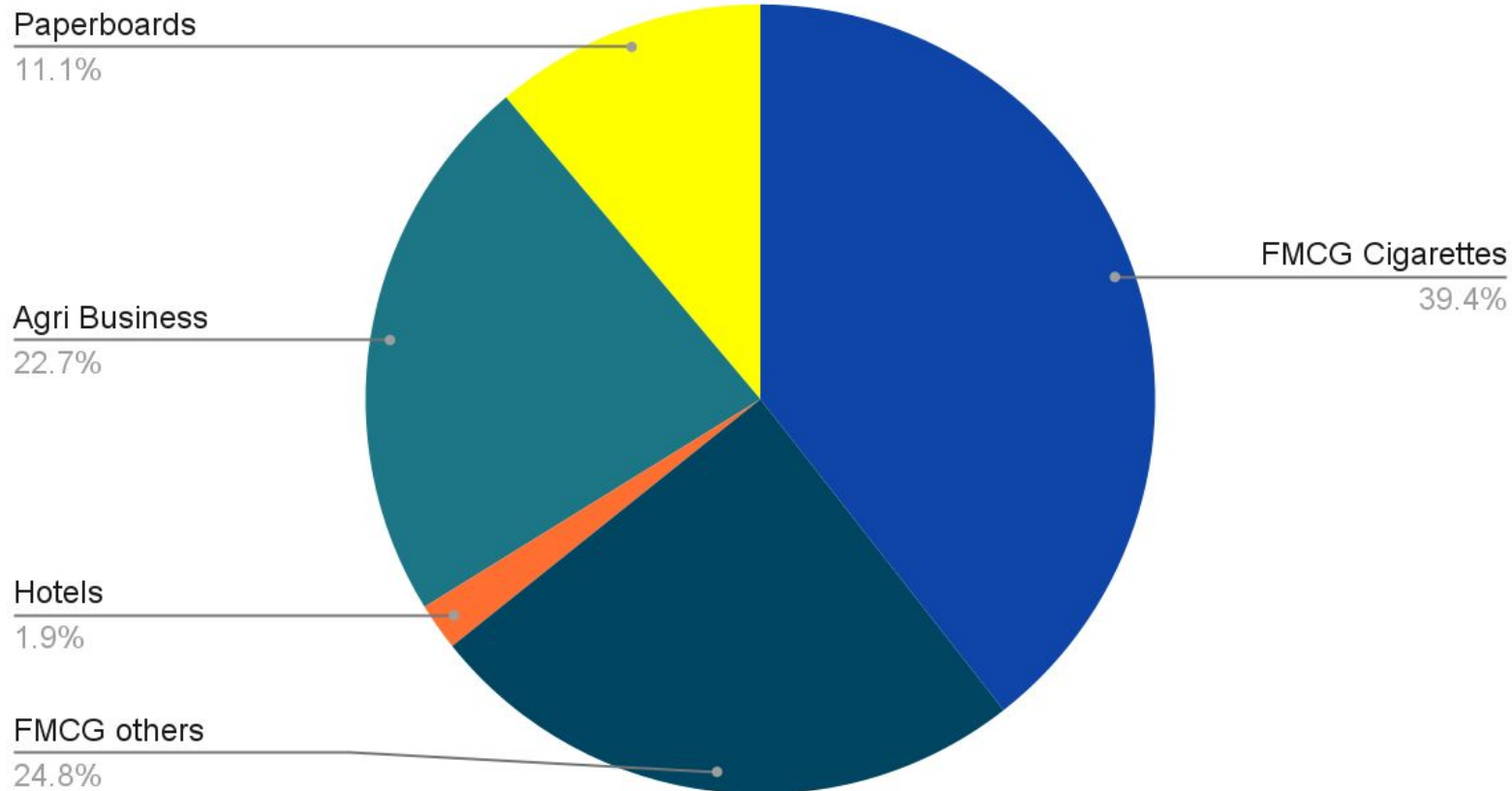


ITC FINANCIALS OVER THE YEARS

₹ in crores

| HEADS | 2019-20 | 2018-19 | 2017-18 |
|---|-----------|-----------|-----------|
| TOTAL INCOME | 49821 | 48268 | 45280.8 |
| TOTAL EXPENSES | -30522.08 | -29824.77 | -28292.17 |
| PROFIT BEFORE EXCEPTIONAL ITEMS AND TAX | 19298.92 | 18444.16 | 16988.63 |
| PROFIT BEFORE TAX | 19166.81 | 18444.16 | 17401.53 |
| TAX EXPENSE | -4030.76 | -5718.64 | -5916.43 |
| PROFIT OF THE YEAR | 15136.05 | 12464.32 | 11485.1 |
| EARNINGS PER SHARE | 12.3 | 10.2 | 9 |

REVENUES(Q4 FY21)



PROFIT(Q4 FY21)

Paperboards

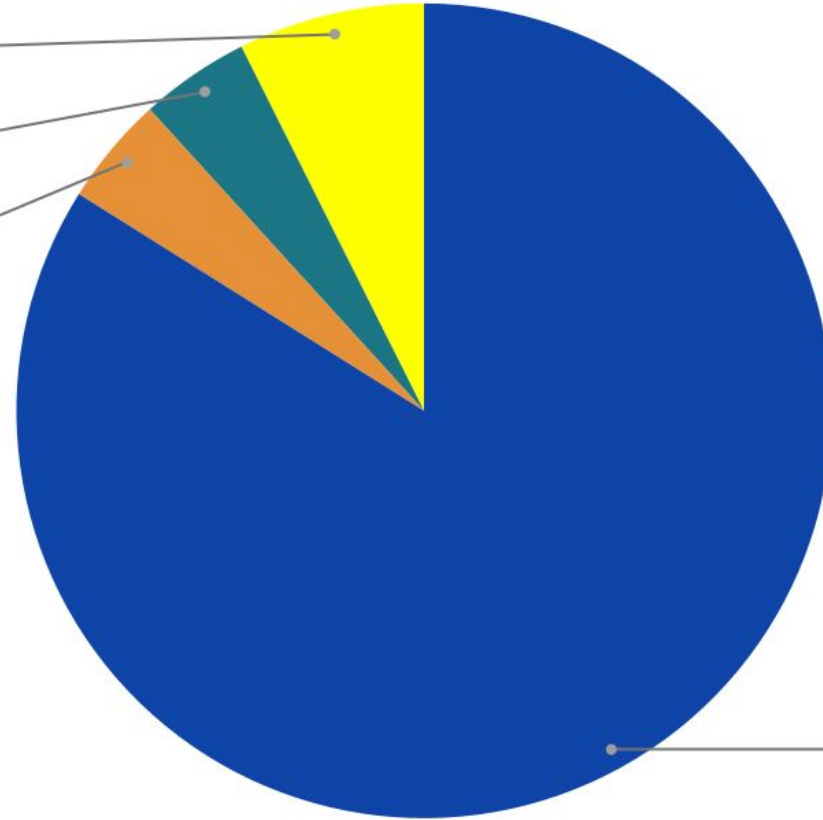
7.4%

Agri business

4.3%

FMCG Others

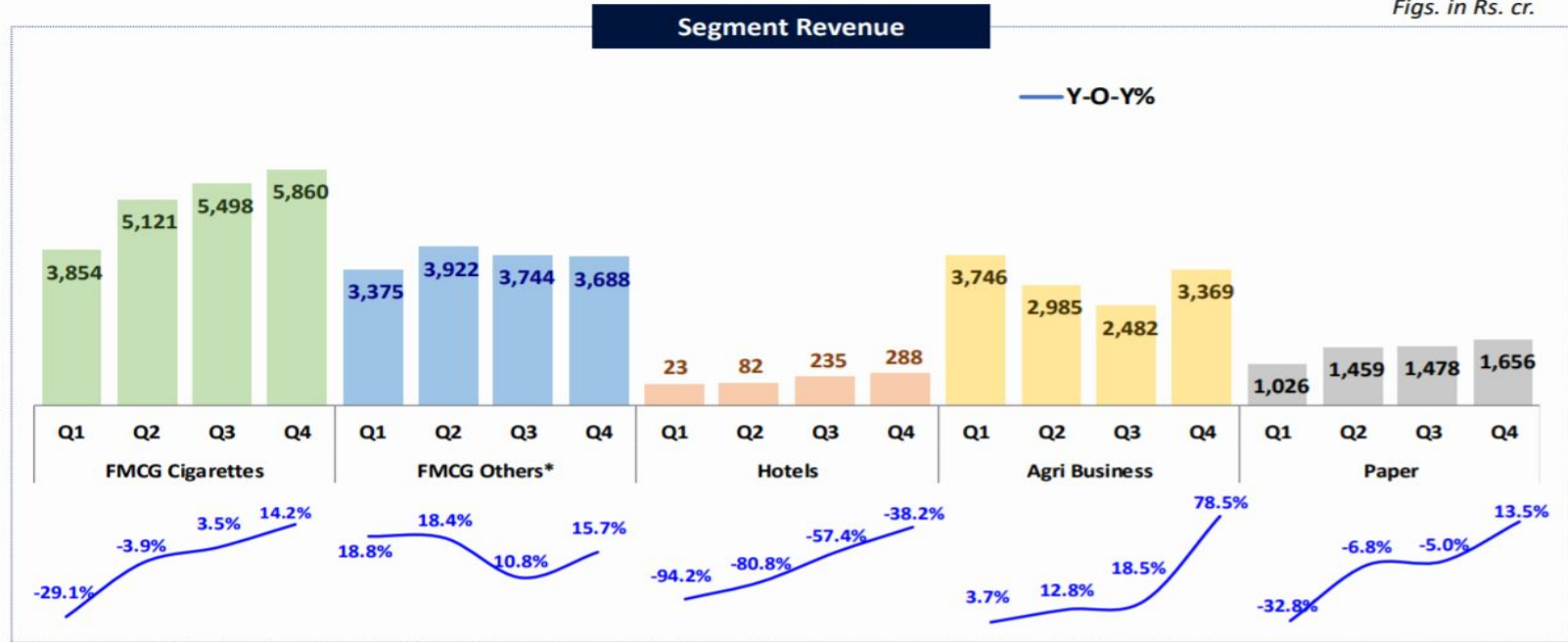
4.3%



FMCG Cigarettes

83.9%

Figs. in Rs. cr.



GOLY% reported on a comparable basis.

YOY - Year over Year

ITC AND ITS PEERS COMPARISON

A stock's peers are companies which have similar business interest belonging to the same industry sector. It provides insights in a company's stock, growth outlook and the company as a whole.

ITC is a diversified company that engages in various businesses and faces competition from its peer companies.

MAJOR PEERS OF ITC

Hindustan Unilever Limited(HUL)

Dabur

Nestle

VST Industries

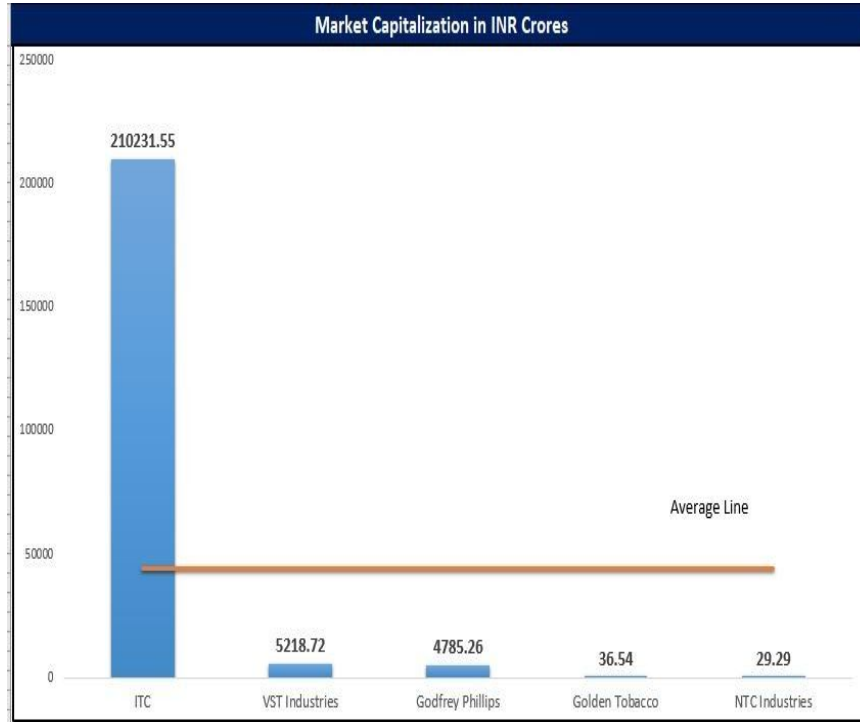
Godfrey Phillips

Golden Tobacco

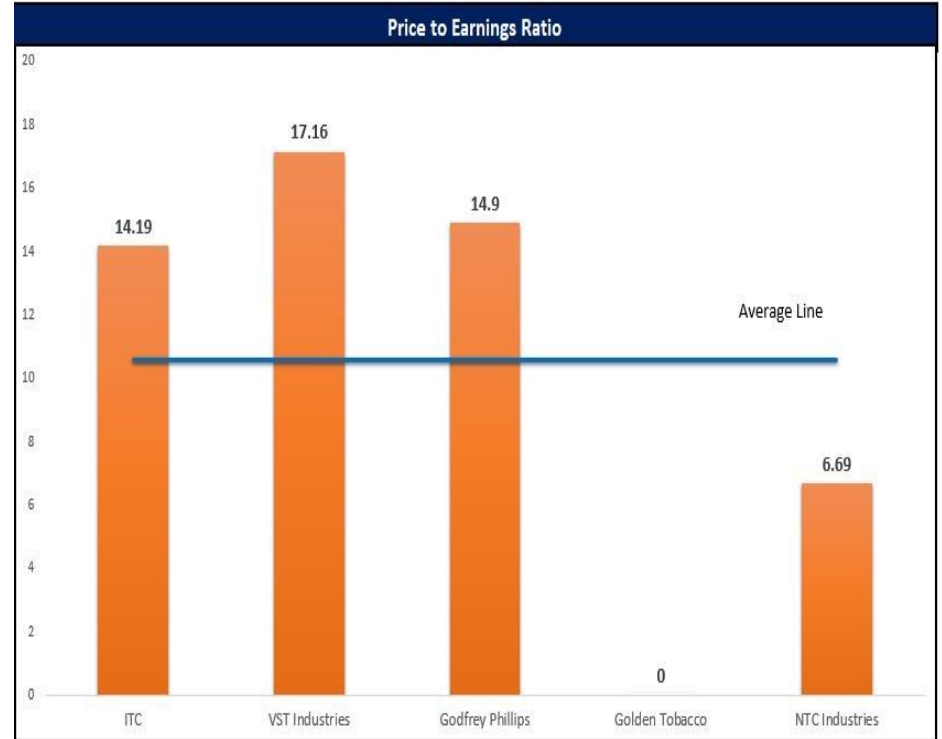
NTC Industries

COMPARISON WITH PEERS

MARKET CAPITALIZATION

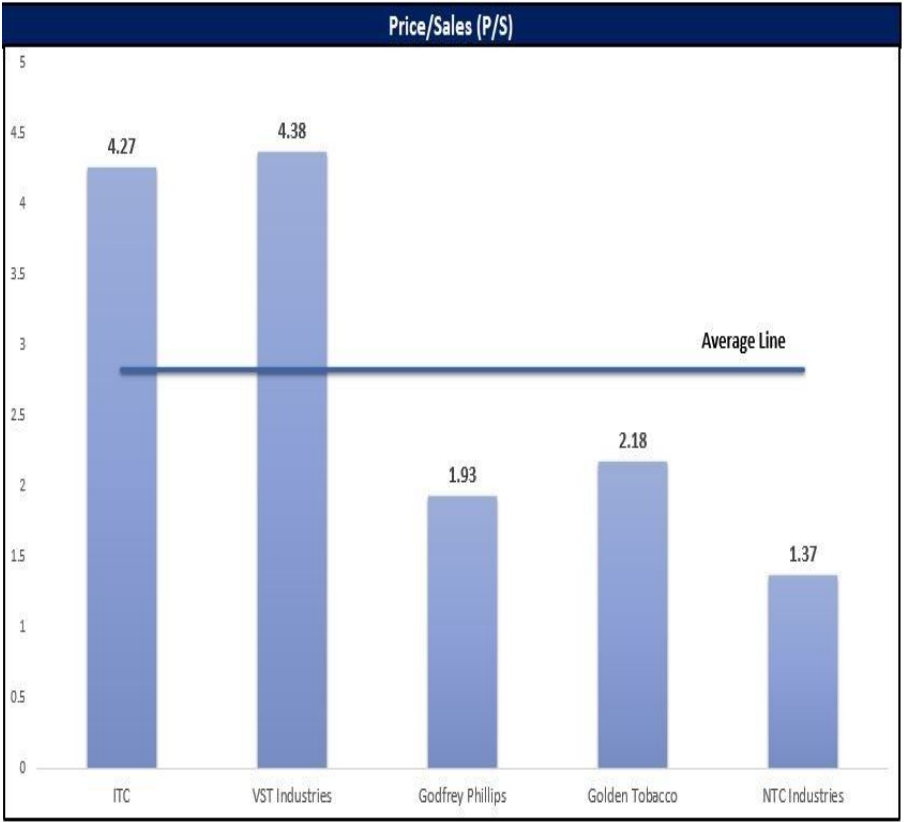
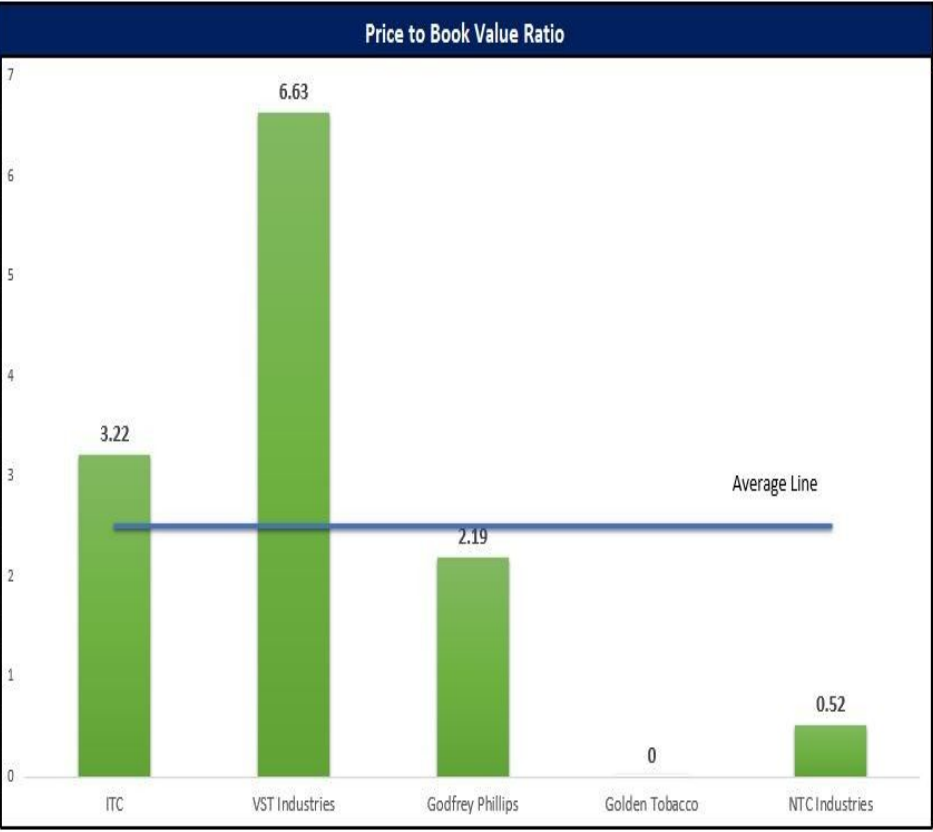


PRICE TO EARNING RATIO(P/E)



PRICE/BOOK VALUE RATIO

PRICE/SALES RATIO



ANALYSIS OF ABOVE GRAPH

MARKET CAPITALIZATION

Market capitalization is calculated by multiplying the total number of company's outstanding shares by the current market price of one share. Out of the 5 peer companies, ITC has the highest market capitalization among its peers. This shows highest enterprise value amongst the competitors.

PRICE/EARNING RATIO

The ratio is used for valuing companies and to find out whether they are overvalued or undervalued. ITC has the third highest P/E ratio and it is above industry average, so its shares are overvalued on this parameter.

PRICE/BOOK VALUE RATIO

It is a financial ratio used to compare a company's current market price to its book value. ITC shares have the second highest P/B amongst the competitors.

PRICE/SALES RATIO

The lower the P/S ratio, the more attractive the investment. ITC has the second highest ratio amongst its competitors making its shares highly overvalued on this parameter.

ITC vs HUL: STOCK AND BUSINESS COMPARISON

ITC vs HUL



ITC Historical PE



HUL and ITC are two of the biggest FMCG companies in India. The graph above compares their stock performances in the past years. While HUL has created immense wealth, ITC has given negative impacts.

The graph shows clearly that HUL has outperformed ITC in the past 5 years. An investment of Rs 1 lakh in HUL in 2015 would be around Rs 2,4 lakhs today whereas the same investment in ITC would be around Rs 80,000 i.e a loss of 5%. However, the past performance does not guarantee future returns.

WHY IS HUL OUTPERFORMING ITC

- One of the main reason is that HUL is a pure FMCG company where as bulk of the revenue of ITC comes from Tobacco segment. Though ITC has diversified into other segments, but the contribution of revenue is still small. So it will always trade at a discount to its peers in FMCG unless the share of revenue from other verticals like hotels, FMCG increases.
- Volume Growth Maintained: Despite a difficult demand environment, HUL has been able to maintain its volume growth on a high base.
- High Investment In Brands: HUL has spent 14.6 percent of its revenues on advertising, highest in the past five years. Historically whenever the company has stepped up spend on advertising, the results are seen in the next few quarters in the form of higher revenues.

The PE graph also shows that ITC is at historically low evaluations in the last 15 years. Currently Coronavirus led market crash, current stock trading at a PE of just 14. Whereas HUL inspite corona scare remains little solid at the earnings of the company as its products are being used in every household and people won't stop spending on goods required for survival.

REASONS BEHIND FALL OF ITC

- ITC has a heavy dependency on the Cigarette Business of around 40% to the revenue. So any adverse impact on the cigarette segment directly hits the bottom-line. So it will always trade at a discount to its peers in FMCG unless the share of revenue from other verticals like hotels, FMCG increases
- High Government Duty: The government's constant effort is to use these sin products as cash flow. Recently the government increased the NCCD on cigarettes between 200-400%.
- Competitors are not playing the same rules.
- Technical Problems with ITC

Conclusion:

While ITC holds an impressive position among many of its peers, it also lags behind in some factors with other top companies. Improvements need to be implemented in some of its industries so as to reach at the top position in the future.

FUTURE PREDICTIONS

1. FMCG CIGARETTES

Considering the government's impetus on driving the rural economy through creating jobs (focus on labor intensive sectors), we don't foresee the government raising cigarette taxes to an extent that will impact tobacco farmers.

2. FMCG OTHERS

The profitability has been improving due to enhanced scale, better product mix (increasing premiumisation), investment in supply chain, and various cost saving initiatives.

3. HOTELS

The hotels business of ITC remains amongst the fastest growing hospitality chains in the country with 109 properties and over 10,250 rooms under four distinct brands

4. AGRI BUSINESS

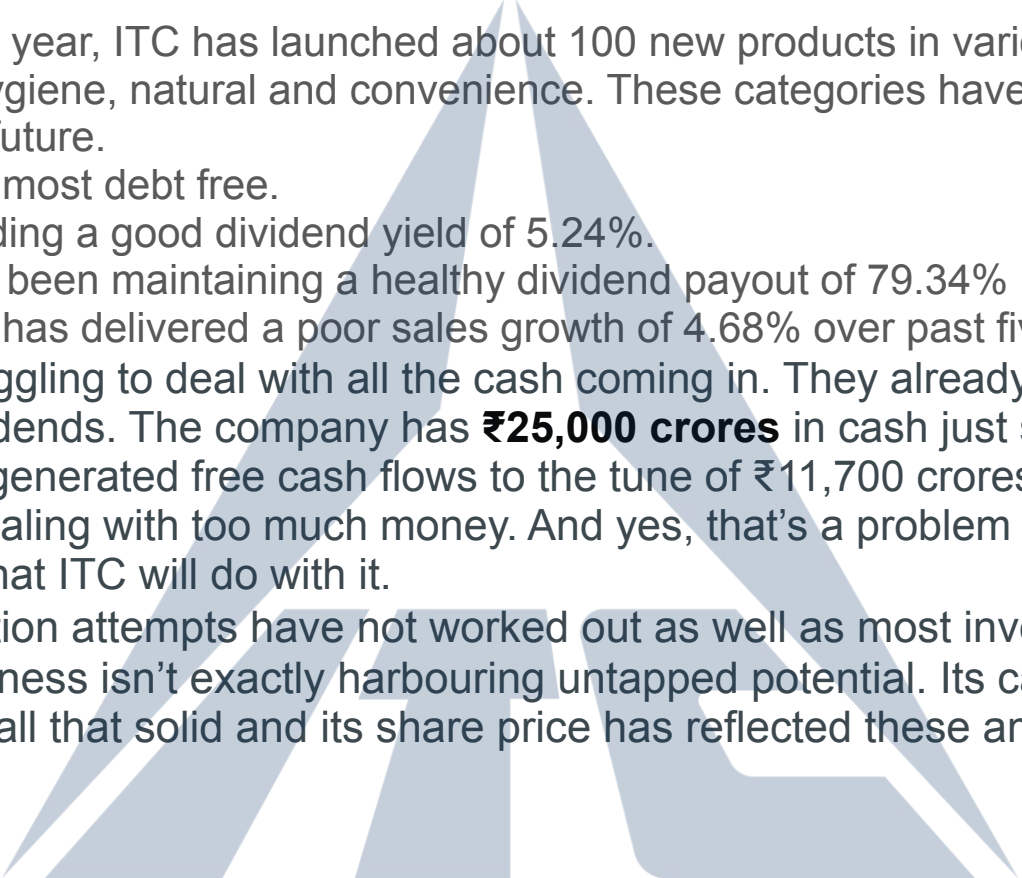
Agribusiness is largely a trading business which consists of unmanufactured tobacco (over one-third of revenue mix) and other agri products and commodities (wheat, soya, spices, coffee, etc.). Like any other commodity business, the agribusiness is prone to high volatility

5. PAPERBOARDS,PAPER & PACKAGING

We expect that with higher growth in FMCG and other end-user industries, ITC's paper business can sustain low double-digit revenue growth.

MANAGEMENT

- Mr. Sanjiv Puri, Chairman and Director at ITC, is an alumnus of IIT Kanpur. He has been associated with company for over 35 years now. Puri was appointed as a Wholetime Director on the Board of ITC with effect from December 6, 2015, Chief Executive Officer in February 2017 and re-designated as the Managing Director in May 2018. He was also appointed as the Chairman effective May 13, 2019.
- Another strength of ITC is its brand value. Names like Ashirvaad, Bingo, Savlon are known in every household.
- The innovative and agile business model is another boon. ITC joined hands with Swiggy, Zomato and Domino's during the pandemic to deliver to the customers at the doorstep. They also launched ITC's STORE ON WHEELS
- Also ITC believes not just in growth but in Sustainable Growth.
- It has a large distribution network. Today ITC products are sold over 60 lakh retail stores.
- ITC is on the way of transformation from cigarette major to FMCG major. Though its too long a way to go.

- 
- In the last one year, ITC has launched about 100 new products in various sectors like health & wellness, hygiene, natural and convenience. These categories have a scope of huge growth in the future.
 - Company is almost debt free.
 - Stock is providing a good dividend yield of 5.24%.
 - Company has been maintaining a healthy dividend payout of 79.34%
 - The company has delivered a poor sales growth of 4.68% over past five years.
 - They are struggling to deal with all the cash coming in. They already pay out 85% of their profits as dividends. The company has **₹25,000 crores** in cash just sitting on its balance sheet. And it generated free cash flows to the tune of ₹11,700 crores(FY20). They have a problem of dealing with too much money. And yes, that's a problem because investors don't know what ITC will do with it.
 - Its diversification attempts have not worked out as well as most investors expected. Its cigarette business isn't exactly harbouring untapped potential. Its capital allocation strategy isn't all that solid and its share price has reflected these ambiguities.

FMCG business's revenues & profitability

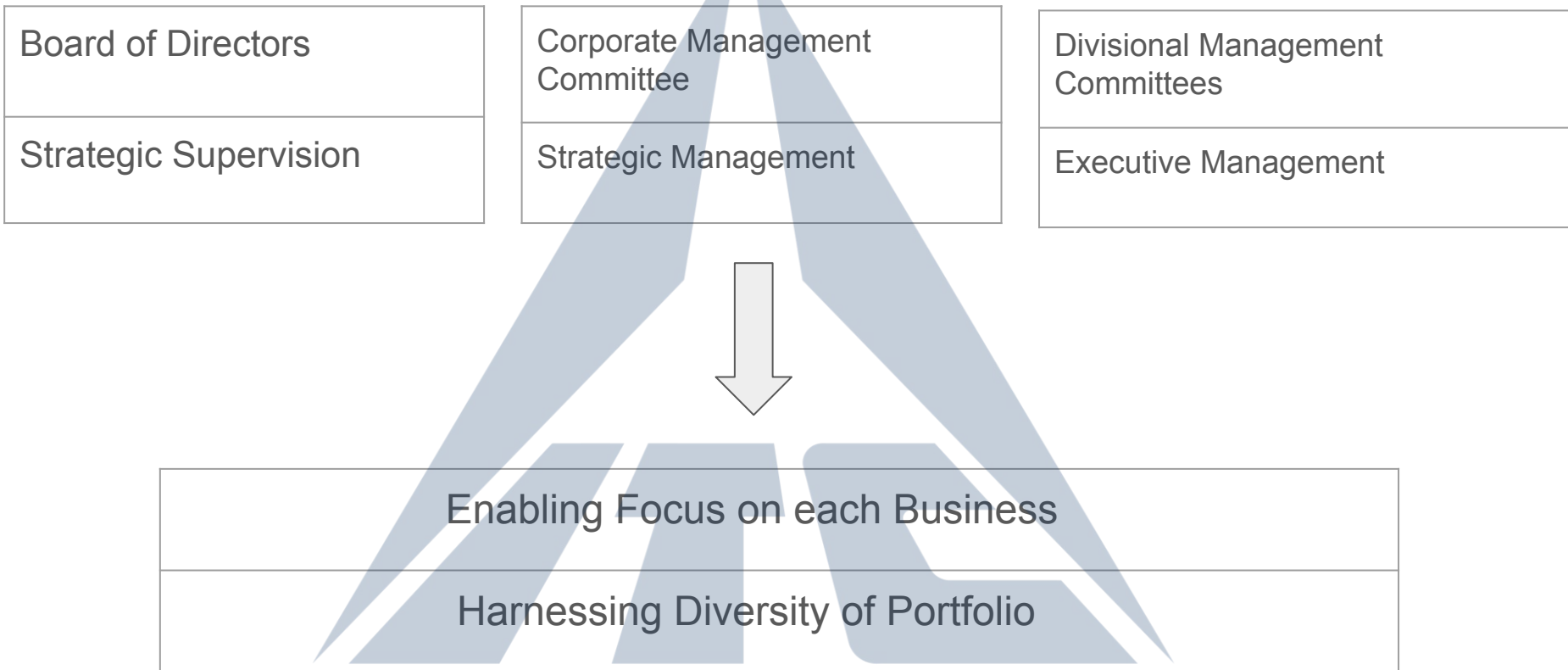
| Financial Year | Revenue | as percent of total sales | Profits (EBIT) | as percent of total profits | Margins |
|----------------|---------|--------------------------------------|----------------|-----------------------------|---------|
| FY10 | 3,661 | 19.14% | -380 | 0.00% | -10.0% |
| FY11 | 4,504 | 19.96% | -332 | 0.00% | -6.7% |
| FY12 | 5,564 | 20.98% | -215 | 0.00% | -3.5% |
| FY13 | 7,038 | 22.26% | -89 | 0.00% | -1.2% |
| FY14 | 8,141 | 23.06% | 12 | 0.09% | 0.3% |
| FY15 | 9,054 | 23.32% | 31 | 0.22% | 0.4% |
| FY16 | 9,751 | 24.88% | 57 | 0.40% | 0.7% |
| FY17 | 10,537 | 24.64% | 26 | 0.17% | 0.3% |
| FY18 | 11,357 | 26.14% | 170 | 1.03% | 1.4% |
| FY19 | 12,535 | So the margins have been increasing. | | 2.14% | 2.5% |

ITC has one of the most extensive distribution networks in India. Its products are available at 4.3 million of the estimated eight million retail stores in India. Of this, about 2 million are under ITC's direct distribution network. ITC will replicate the new factory-to-retail point distribution in phases, and eventually bring all the 2 million retail points under the new structure.

KEY CORPORATE STRATEGIES

- Create multiple drivers of growth by developing a portfolio of world class business that best matches organizational capability with opportunities in domestic and export markets.
- Focus on business portfolio - FMCG, Hotels, Paperboards, Agribusiness, Information technology and others.
- Blend diverse core competencies residing in various businesses to enhance the competitive power of the portfolio.
- Ensure that each of its business is a world class and internationally competitive.
- Position each business to attain leadership on the strength of world class standards in quality and costs.
- Continuously strengthen and refine corporate governance processes and systems to catalyse the entrepreneurial energies of management by striking the golden balance between executive freedom and the need for effective control and accountability.

3-TIERED GOVERNANCE STRUCTURE



THANKYOU