

ITC Ltd.

Initiating Coverage

Date	: 16/07/2021
CMP	: 207.56
Recommendation	: BUY
Target	: 239.42

MARKET DATA	
NSE code	ITC
BSE code	500875
Face Value	1
Equity Capital (Rs. Cr.)	1230.88
Market Cap. (Rs. Cr.)	255900
Average Volume (20d)	16079105
BVPS	49.31
EPS	10.69
P/E	24.48
P/BV	4.22

Shareholding Pattern	
Promoter	0%
FII	12.79%
DII	42.5%
Public	44.7%
Others	0.01%

Return	3 M	6 M	12 M
ITC	-0.02%	-5.39%	7.24%
NIFTY	8.93%	11.49%	48.26%

ITC is one of the leading companies in FMCG sector with a market capitalization of Rs. 255900 Cr. It operates in Cigarettes segment as its core business contributing 38% to the total revenue and 83% to the profits making itself the major driver of profitability to the company. With India Cigarettes industry finding itself in crosshairs again and again, ITC has over the years diversified its way out of it and has ventured into different business verticals. FMCG-Others segment which over the years has grown manifolds through a strong and diverse portfolio along with robust manufacturing and logistics mechanisms. Other segments are Agri-Business and Paper & Packaging Business which provides a strong backward integration to the FMCG segment along with external business.

ITC cigarettes segment maintaining its bodyline monopoly has well captured mid-level market. Despite of unfavorable tax environment and illicit market. ITC has managed to perform with increasing margins over the years. There is an opportunity present rooting from improvement in current underpenetrated market and recovery from Covid impact. FMCG-others segment with its vibrant portfolio has 25 mother brands many of which are market leaders. It has been consistently entering in newer segments and extending its current portfolio to seize realizable opportunities.

Till FY 20 ITC maintained a CAGR growth of 13%, being FY21 a Covid impacted year, ITC recorded a 14% decrease in profits due to cigarettes and hotel business being heavily impacted. Due to increment in excise duty on cigarettes in Feb 2020 and heavy losses in hotels business, operating and net profit margins have decreased by 5% which we expect to recover in near future. ITC has increased its payout ratio from 55% in FY19 – 80% in FY20 to 99% in FY21 in the purview of lower capex requirements ahead, committing towards shareholder's wealth creation. The company maintains a debt free position with debt to equity ratio at 0.02% and a strong liquidity position.

With strong financials and way below P/E ratio than that of industry average, ITC is positioned as **undervalued** among its peers. Using PE method for valuation we recommend a **BUY** action on the equity with CMP of 204 and a target of 239.42 for one-year horizon giving **16% return**.

INVESTMENT ARGUMENTS

Cigarette segment manage to stay afloat amidst cross wind

Despite heavy barriers in India's cigarette industry, ITC has managed to retain its position as market leader. Offering premium products at reasonable price compared to its peers that has led ITC to capture a big market share which had helped ITC to hold its position in market. On the back of strong consumer sentiments and improving penetration of cigarettes in tobacco industry, bringing in new improved and engaging products and curbing illicit trades, business is growing over the years. Many hurdles in the industry such as stringent taxation and marketing regulations on cigarettes in India, penetration of other tobacco products, rising illegal markets, in spite of these, assuming stable taxation and Covid impact wearing off in long run, business will bounce back with strong recovery in volume. In this scenario, with opportunity rooting from current under penetrated market with improving lifestyle of consumers we have predicted that ITC can deliver mid-single digit volume growth.

FMCG business is in a favourable position

Being in a defensive sector, FMCG others segment of ITC provided as a firm supporting pillar of the organization in these hard times as the economy stagnated due to Covid. Over the years ITC has dedicated its resources to develop a more focused and innovative FMCG others segment of the organisation, which has given fruitful results of generating 25% revenue of the total. The FY21 has been a boon to ITC FMCG others segment which witnessed a strong revenue growth of ~15% YoY compared to 9% CAGR of last five years. In recent years' business gained momentum due to boost in revenue generation driven by hygiene and personal care segment and proactive launches post lockdown. ITC has built 25 powerful brands, many of which are market leaders in their segments. Over the years its portfolio has scaled many times over through exploring new possible categories and extending several in house brands. We see a great potential in biscuits, dairy products and chocolates which is an underpenetrated market yet for ITC. With consistently improving operating margins over the years, this segment paints a promising picture for the company future with an expectation of mid-double digit growth.

Hotels business is likely bounce back

The hotels business which contributed around 3.4% (FY20) to the total revenue has been heavily impacted in the view of COVID on the accounts of lockdown imposed and persistent travel restrictions post lockdown. This has led to decline in revenue by 65% which forms 1.1% of total revenue in FY21. ITC has been strengthening its position by deploying major capex and upgrading its business model. In times of Covid it has adopted cost cutting measures and improving cash generation. Assuming the 3rd wave if it presents itself, will not be as severe, not affecting the economy majorly, the hotel industry can revert back to the pre-Covid level in near future.

Paperboards and Paper industry: a strategic move

Backed by major in-house consumption, this segment has proven to be a strategic advantage in the FMCG Cigarettes and Others businesses. With paperboards and packaging being market leader forms an 80:20 ratios in revenue contribution with printed papers segment. Backed by in-house and external demand driven by growth in FMCG (Cigarettes and Food & Beverages) and liquor business. We can expect the segment's revenue to grow at mid-high single digit.

Acquisition have been a major success

ITC has bagged a number of successful acquisitions and placed the brands on new heights through its ability to leverage its image as brand maker and reshape brands into market leaders. ITC has a perfect track record of brand building be it in-house mother brands or acquired ones. Over the years it acquired SAVLON and shower to shower in health and hygiene segment in 2015, B-naturals in beverages in 2014, Nimyle in home care segment in 2018 and Sunrise Pvt. Limited in spices in May 2020.

Savlon-acquired in 2015 from Johnson & Johnson has been a major hit on the accounts of 1) Launching of variety of personal care products in view of pandemic in record time 2) Extending its distribution network. Since its Acquisition, brand has witnessed 50% CAGR, with major boost in volumes in recent year. ITC entered into spices market with its acquisition of Sunrise Foods Pvt. Limited in May 2020. It is by far the largest acquisition in history of ITC, with Sunrise having an already market build up reputation and sales volumes of its own covering east India. Strengthening its backward integration, with Ashirvaad spices range and Masterchef, the brand promises a bright future.

Capex spend on FMCG, Hotels and Paperboards

ITC has majorly focused on their capital expenditure over three segments- FMCG, Hotels, Paperboards. Tapping on the potential in FMCG market company has spent capex on strengthening its manufacturing and logistics facility in addition to acquisitions to enter new markets. In the hotels segment, ITC has launched new hotels as well as renovating and increasing capacity of existing ones. And as in the paperboards and packaging segment, ITC has been strengthening its key areas to retain the market leader position which has been a success in past years.

CONCERNS

Too many overhanging factors for cigarette industry

This can be a major concern to ITC. ITC business rely a little too much on FMCG cigarettes segment which contributes 85% to the profit with only 41% revenue contribution. Over the year's company has diversified its way through the unstable situation (punitive taxation and illicit market) in cigarettes industry in India. Though with improving consumer lifestyle, choosing Cigarettes over other tobacco products can aid ITC to tap into the opportunity of the present underpenetrated market.

Agri-business is prone to volatility

Agri-business segment had a good financial year with increase of 23.23% in revenue with a slight dip in PBT margins. This segment is largely driven by in house consumption and exports mainly of unprocessed tobacco and Agri-commodities. Even though company has developed a strong network with farmers across country (with initiatives like E-choupal and ITC analytical services) which promises smooth procurement and transition process, segment hasn't been able to subside the volatility present in the very core of the agri-business. Even with increasing revenue, this segment has witnessed decreasing margins over the years.

ITC- A BUSINESS OVERVIEW

ITC has a diversified presence across industries such as cigarettes, FMCG, hotels, packaging, paperboards, specialty papers and agribusiness. The company has a total of 13 businesses in 5 segments. Also there are 90 countries where ITC exports its products. Its products are available in 6 million retail outlets.

Over 900 patents filed, 200 manufacturing units, it employs over 28000 people at more than 60 locations across India with creating 6 million sustainable livelihoods and is part of the Forbes 2000 list. Within a relatively short span of time, ITC has built 25 mother brands, many of which are market leaders in their segments. This vibrant portfolio of brands represents an annual consumer spends of over Rs. 19,700 crores in aggregate. ITC's world-class Indian brands anchor competitive and inclusive value chains that create, capture and retain larger value within the country.

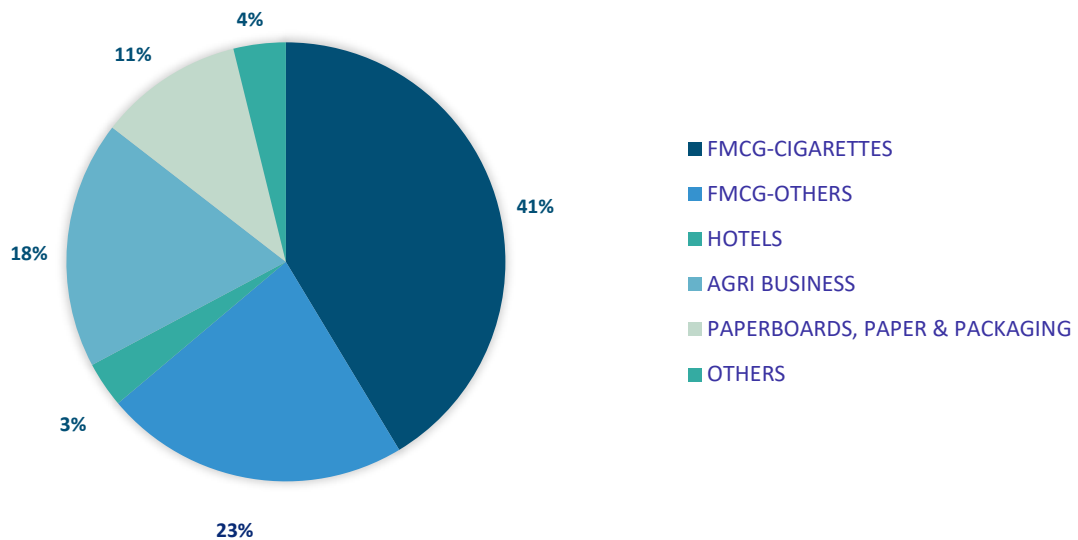
FAST MOVING CONSUMER GOODS (FMCG)	PACKAGING	GROUP COMPANIES	
<ul style="list-style-type: none"> - Cigarettes & Cigars - Foods - Personal Care - Education And Stationery - Lifestyle Retailing - Safety Matches - Agarbattis & Dhoop 	AGRI BUSINESS <ul style="list-style-type: none"> - Agri Commodities & Rural Services - Agri Business-ILTD - e-Choupal - ITC Analytical Services INFORMATION TECHNOLOGY	MAJOR SUBSIDIARIES <ul style="list-style-type: none"> • ITC Infotech • Surya Nepal Private Limited • Landbase India Limited • Russell Credit Limited • Srinivasa Resorts Limited • Fortune Park Hotels Limited • Welcomhotels Lanka (Private) Limited, Sri Lanka • Technico Pty Limited 	OPERATIONAL JOINT VENTURES <ul style="list-style-type: none"> • Maharaja Heritage Resorts Ltd. • ITC Essentra Limited LISTED ASSOCIATE COMPANIES <ul style="list-style-type: none"> • Gujarat Hotels Limited • International Travel House Limited
HOTELS	ITC BRANDWORLD		
PAPERBOARDS & SPECIALTY PAPERS			

ITC is the country's leading FMCG marketer, the clear market leader in the Indian Paperboard and Packaging industry, a globally acknowledged pioneer in farmer empowerment through its wide-reaching Agri-Business, a pre-eminent hotel chain in India that is a trailblazer in 'Responsible Luxury' with 109 Hotels in 73 locations. ITC's wholly-owned subsidiary, ITC InfoTech, is a specialized global digital solutions provider. ITC is investing in India's future by building world-class consumer goods factories and iconic hospitality assets that will contribute to the country's competitive capacity.

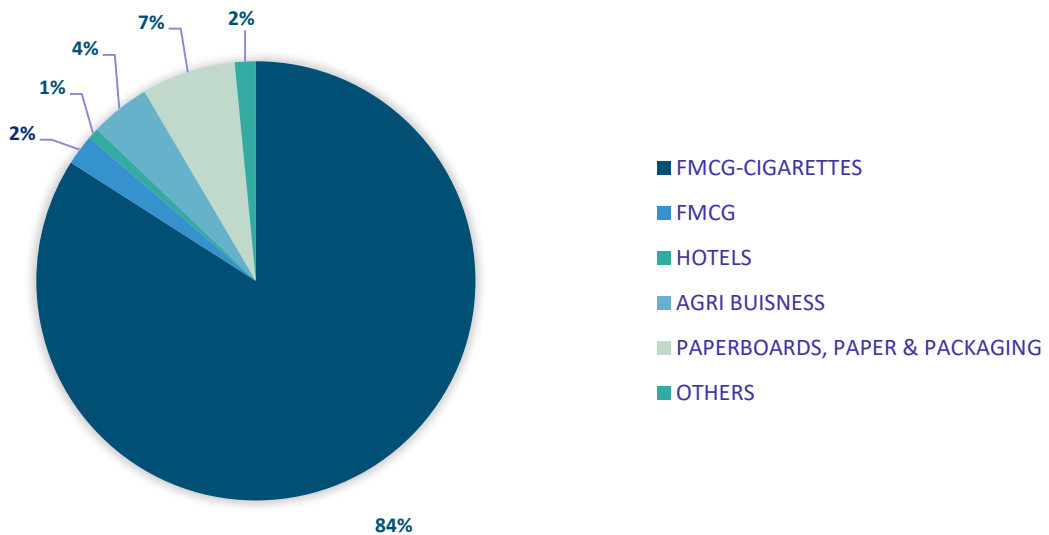
- Over the last five years, the Value-Added by your Company, ITC remain amongst the Top 3 Indian corporates in the private sector in terms of Contribution to Exchequer. The value created by the economic activities of ITC and its employees, aggregated around Rs. 232000 crores of which over Rs. 166000 crores accrued to the Exchequer.
- Inter-segmental is a significant part of ITC's business model with increasing revenue. This backward integration provides an over the top advantage covering every possible ground of revenue generation.

- ITC strategic response to pandemic situation include ramping up operations in anticipation of increase in demand in particular segments, proactive launches of products in record time and deployment of innovative distribution solution like ITC Store on Wheels and ITC e-Store.

REVENUE



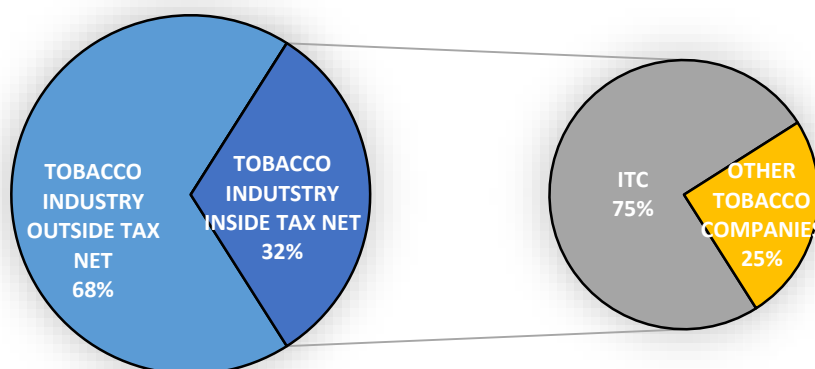
PBT



Note: We have used FY20 figures to demonstrate segmental revenue and profit considering the effect of Covid impacted segments like cigarettes and hotels business in FY21 figures.

FMCG-CIGARETTES

ITC is the market leader in its long established cigarettes business in India with a market share of over 75% (of the legal bracket). With its unwavering focus on nurturing a portfolio of world-class products, superior consumer insights, a strategy of continuous innovation and superior product development capabilities, ITC consistently pursues to strengthen its position in Indian market. ITC's wide range of brands includes Gold Flake, Flake, Classic, Insignia, India Kings, American Club, Wills Navy Cut, Players, Scissors, Capstan, Berkeley, Bristol, Silk Cut, Duke & Royal.



After China, India is the second largest producer of tobacco in the world. However, India today holds a meagre 0.7% share of the US \$ 30 billion global trade in tobacco, with cigarettes contributing for 85% of the country's total tobacco exports. Globally cigarette forms 90% of tobacco consumption vs. India's 15% (including 4% illegal cigarettes). Of the total tobacco produced in the country, around 48% is consumed in the form of chewing tobacco, 38% as bidis, and 14% as cigarettes. Today India's per capita consumption of cigarettes is a tenth of the world average.

➤ Punitive Taxations

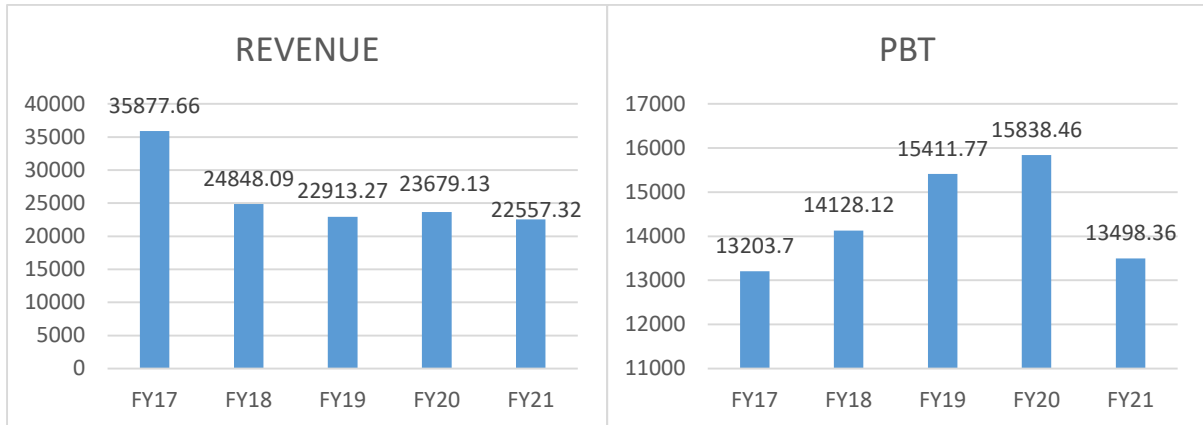
- 1) Industry severely impacted by punitive and discriminatory taxation, tripled from FY13 till now.
- 2) People who use cigarettes form 15% of total tobacco users but contribute only 85% to taxes on tobacco, while the rest is paid by other tobacco users.
- 3) The highest GST rate of 28% is levied on cigarettes in addition to the GST compensation cess (21%), national calamity contingent duty (NCCD) and basic excise duty (BED).
- 4) Discriminatory taxation on cigarettes has caused migration from consumption of duty-paid cigarettes to other lightly taxed/tax-evaded forms of tobacco products, comprising illegal cigarettes, bidi, chewing tobacco, gutkha, zarda, snuff, etc.

➤ Illegal market on the rise

- 1) Euromonitor International ranks India as the fourth-largest illicit cigarette market globally as a after effect of heavy taxation on cigarettes.
- 2) Due to advertising norms, 85% pictorial warning enforced by the supreme court, which has affected the legal cigarettes business, gave a chance to illegal market to rise.

➤ Covid impact

- 1) Due to nationwide lockdown and cigarettes being a non-essentials product, the sales volume decreases.
- 2) With restriction imposed on restaurant, bars and travel industry, social smoking has gone down.
- 3) During these troubled times, smokers are even avoiding cigarettes to build immunity and good health as in view of Covid impacting lungs severely.



Key Takeaways

- FMCG cigarettes contributes 41% to total revenue generation but contributing 84% of total PBT for the company.
- Segmental contribution of cigarettes business to total gross revenue has decreased over the years due to 1) punitive tax brackets 2) rising illicit cigarettes market. Over the year's revenue from cigarettes being decreasing yet the margin averages out to be nearly ~60%.
- Despite decrease in volumes, EBIT has increased at 12% CAGR and increasing margins indicating supreme pricing power of ITC in the market.
- Government had a neutral stand on taxes in Budgets 2021.

FMCG-OTHERS

The new FMCG businesses, nurtured over the last decade or so, have crafted a vibrant portfolio of 25 mother brands that are increasingly gaining standards.



Some of ITC's brands that have gained significant market standing among consumers are Aashirvaad, Sunfeast, Bingo!, Yippee!, Candyman, mint-o and Kitchens of India in the Branded Packaged Foods space; Essenza Di Wills, Fama, Vivel and Superia in the Personal Care

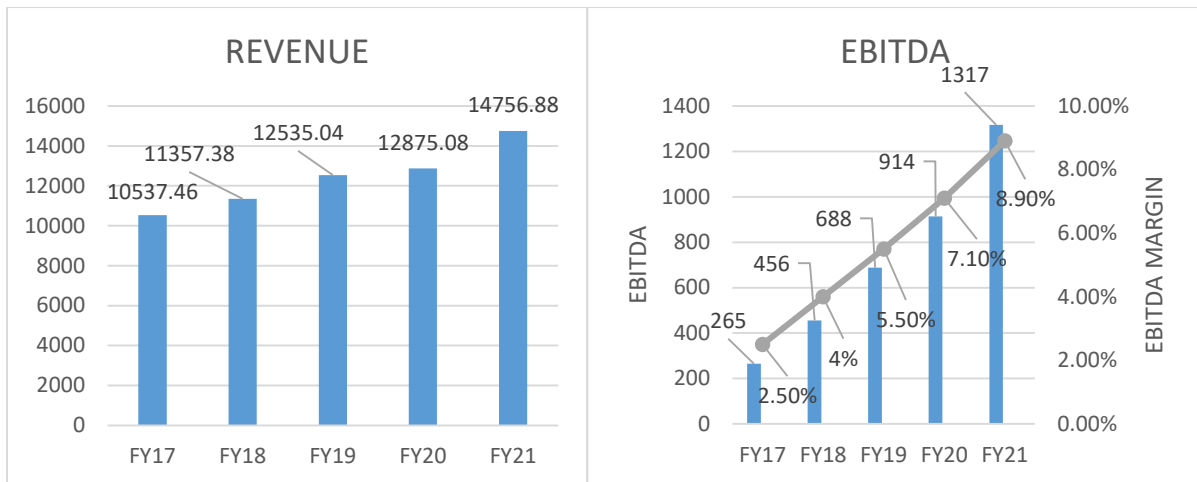
Products segment; Classmate and Paperkraft in Education & Stationery products; WLS in the Lifestyle Apparel business; Mangaldeep in Agarbattis as well as Aim in Matches.

- Over the years, in addition to strengthening its core portfolio company continues to explore opportunities to exploit adjacent spaces with a special focus on augmenting the health and nutrition portfolio within the chosen categories.
- On May 23rd 2020, ITC entered into a SPA (share purchase agreement to acquire 100% equity share capital of Sunrise Foods Pvt. Limited.
- In view of pandemic situation, by focusing on health and hygiene portfolio company adapted to take advantage of a potential opening and launched innovative products to cater the consumer's urgent needs for health, wellness and hygiene solutions and ramped up its production in record time.

BRAND	MARKET PRESENCE	MARKET POSITION	CONSUMER SPENT (RS. Cr.)	KEY COMPETITORS
FOODS AND BEVERAGES				
Aashirvaad	Wheat Flour	No. 1	6000	Silver Coin, Pillsbury Atta, Mother's Recipie
	Spices And Masala	-		MDH, Everest, Catch
	Svasti- Dairy Products	-		AMUL, SANCHI
	Instant Mixes And Meals	-		Gangwal, MTR
	Salt	-		TATA, NIRMA, PURO
	Nature's Super Foods- Normal And Organic	-		-
Sunfeast	Biscuits And Cookies	No. 1	4000	Brittania, Parle, Mc Vities, Priya Gold, Unibic, Cadbury Oreo
	Cakes	-		-
	Sunfeast Wonderz Milk	-		Amul, Hershey's, Cavins, Mother's Dairy
Bingo	Package Snacks	No. 1	2700	Lay's, Uncle Chipps, Pringles, Balaji, Diamond, Parle, Haldirams
Yippee!	Noodles	No. 2	1300	Maggie (Nestle), Chings Secret Instant, Knorr (Unilever), Top Ramen (Nissin)
	Pasta	-		
B-Naturals	Beverages	-	-	Real Juice By Dabur, Tropicana By Pepsi Co., Paperboats By Hector Beverages

Candyman	Confectionery	-	-	-
Fabelle	Chocolates	-	-	Amul, Ferrero Rocher, Nestle, Cadbury
PERSONAL CARE				
Savlon	Hygiene Portfolio	-	-	Dettol, Lifebuoy, Godrej Protekt Germ, Santoor Classic
Fiama	Shower Gel	No.2	-	Palmolive, Dove, Nivea
	Gel Bars, Handwash, Bath Accessories, Essential Oils, Body Oils	-	-	
Vivel Superia	Soap Bars	-	500	Dettol, Lifebuoy, Cinthol
Enagage	Deo And Perfume	No.2	-	Park Avenue, Denver, Nivea
Essenza Di Wills	Perfume	-	-	Park Avenue, Nautica Blue
Charmis Dermafique	Skin Care Products	-	-	Nivea, L'Oréal, Olay, Lakmé
Shower To Shower	Talc	-	-	Yardley, Ponds, Nivea, Cinthol
Nimyle	Floor Cleaner Under Home Care Portfolio	-	-	Lizol, Maxkleen, Domex, Dettol
STATIONERY, AGARBATTIES & MATCHES				
Classmate	Stationery Products	No. 1	1400	Navneet, Kokuyo Camlin Ltd, G.M.Pens (Reynolds), Linc
Paperkraft		-	-	
Wills Lifestyle	Apparels	-	-	Levi's, Allen Solly, Van Heusen, Monte Carlo
Mangaldeep	Dhoop	No.1	800	Cycle Pure, Moksh, Zed Black, Patanjali
	Agarbattis	No.2		
AIM	Safety Matches	No.1	-	-
Home lites		-		
Ship		-		

- In nutrition's portfolio, ITC has launched a wide variety of products in foods and beverages section such as B-naturals juices with variety of flavours, expanding its portfolio in "**Aashirvaad Svasti**" dairy products focusing on East India market.
- During lockdown, ITC deployed ITC stores on wheels and ITC e-store for easy access to products to consumer during difficult times.
- Company has strengthened its end-to-end cold chain network in line with growing requirement of frozen foods and chocolate categories.

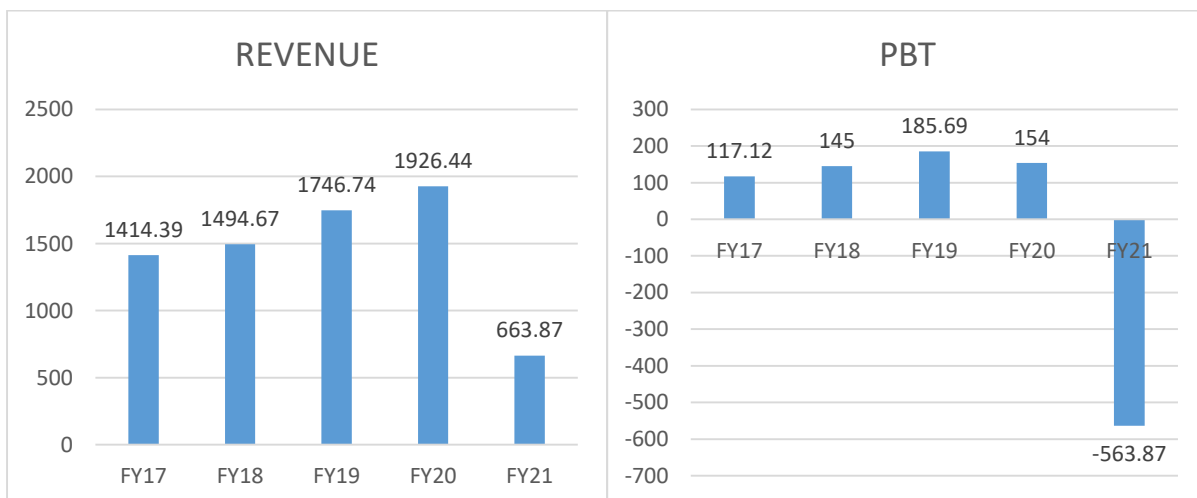


Key Takeaways

- Profit margins have been increasing significantly over the years.
- Since early 2000s when ITC gave greater emphasis on FMCG sector, segments contribution has increased manifold. The strong in house brands have well penetrated the market in a very short span of time. In the last 5 years while revenue has increased by 8.78% CAGR, EBITDA has increased by 49.30% CAGR on the back of increasing margins consistently.
- This segment has shown a strong growth trajectory since its inception, it can well be said that the segment can show similar growth moving forward.

HOTELS

Launched in 1975, ITC Hotels, India's premier chain of luxury hotels, has become synonymous with Indian hospitality. With 110 hotels in over 74 destinations, ITC Hotels has set new standards of excellence in the hotel industry in Accommodation, Cuisine, Environment and Guest Safety. Today, these unique interventions have made ITC Hotels a trailblazer in green hoteliering with all its premium luxury hotels LEED (Leadership in Energy and Environmental Design) Platinum certified.



ITC Hotels properties are classified under four distinct brands:

ITC HOTELS	<ul style="list-style-type: none">• presence in the luxury segment.• exclusive tie-up with Marriott's 'The Luxury Collection'
Welcomhotel	<ul style="list-style-type: none">• offers five-star hospitality for the discerning business and leisure traveller in the upper-upscale segment.
Fortune Hotels	<ul style="list-style-type: none">• operates mid-market to upscale properties in the first-class, full-service business hotel segment all over India.
WelcomHeritage	<ul style="list-style-type: none">• presence in the leisure and heritage segment• brings together a chain of palaces, forts, havelis and resorts reflecting architectural legacies present across India.

Latest Hotel Launches

- ITC GRAND GOA
- ITC ROYAL BENGAL
- WELCOMHOTEL AMRITSAR
- ITC KOHENUR

Projects Underway

- ITC HOTELS AT AMHEDABAD
- WELCOMHOTELS AT BHUBANESWAR AND GUNTUR
- COMPANY'S FIRST OVERSEAS PROJECT IN COLOMBO

AGRI BUISNESS

ITC is one of India's largest integrated agri business enterprise with significant presence across every node of the agri value chain. ITC's pre-eminent position as one of India's leading corporates in the agricultural sector is based on strong and enduring farmer partnerships that has revolutionized and transformed the rural agricultural sector through initiatives like E-choupal.

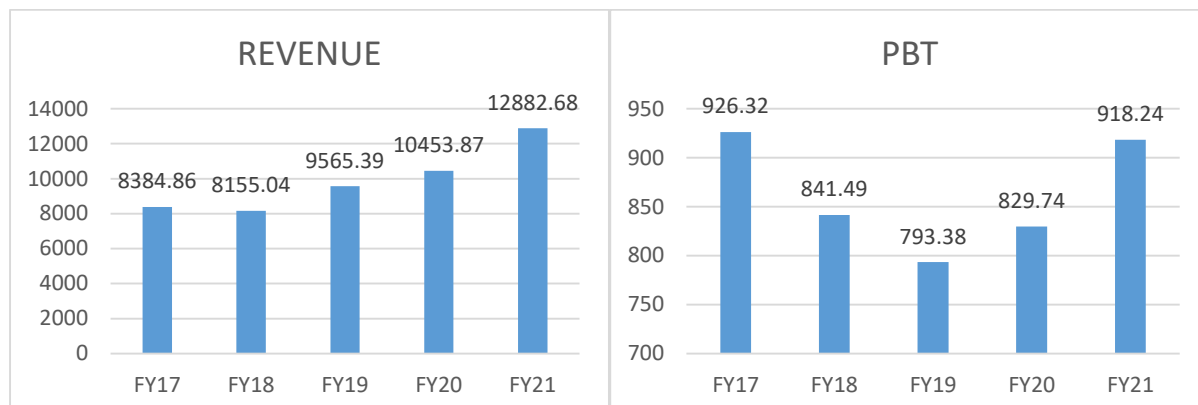
ITC's Agri-Business is the country's second largest exporter of agri-products. It currently focuses on exports and domestic trading of:

- Feed Ingredients
 - Soyameal
- Food Grains
 - Wheat & Wheat Flour, Rice, Pulses, Barley & Maize
- Marine Products
 - Shrimps and Prawns
- Processed Fruits
 - Fruit Purees/Concentrates, IQF/Frozen Fruits, Organic Fruit Products
- Coffee

ITC-ILTD

ITC pioneered the cultivation and development of Leaf Tobaccos in India. The Leaf Tobacco business' partnership with the farmer is also almost a 100 years old. ITC has helped the Indian

farmer grow quality leaf tobaccos and linked him to global markets. ITC is the largest buyer, processor and exporter of leaf tobaccos in India - creating a global benchmark as the single largest integrated source of quality tobaccos. ITC co-creates and delivers value at every stage of the leaf tobacco value chain. ITC buys nearly 50 per cent of all cigarette tobacco types grown in India.

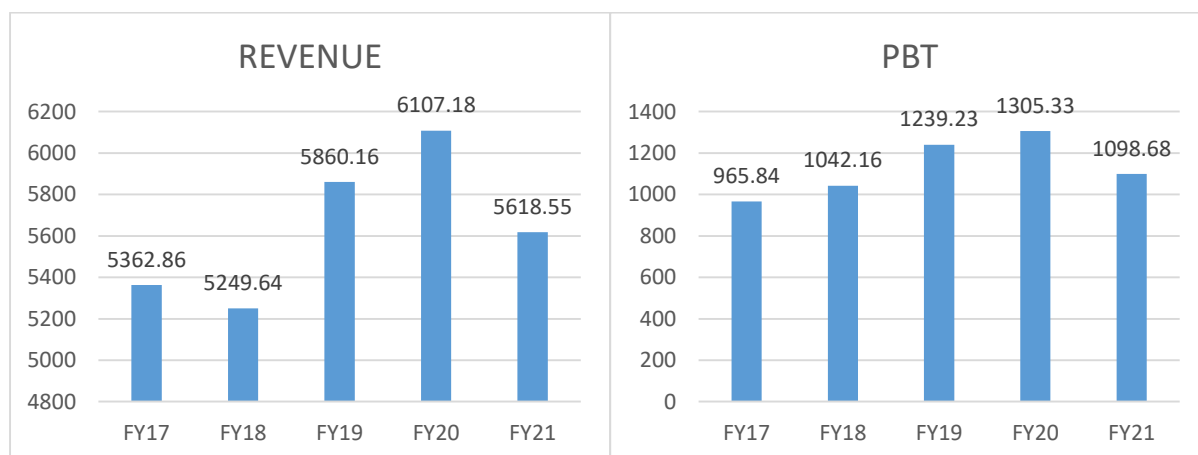


PAPERBOARDS, PAPER & PACKAGING

ITC's Paperboards and Specialty Papers Business is the leader in volume, product range, market reach and environmental performance, and is the clear market leader in the value-added paperboards segment. Providing internationally competitive quality and cost, the Business caters to a wide spectrum of packaging, graphic, communication, writing, printing and specialty paper requirements.

ITC's Packaging & Printing Business is the largest value added converter of paperboard packaging in South Asia. It converts over 70,000 tonnes of paper, paperboard and laminates per annum into a variety of value-added packaging solutions for the food & beverage, personal products, cigarette, liquor and consumer goods industries. State-of-the-art technology, world-class quality and a highly skilled and dedicated team have combined to position ITC as the first-choice supplier of high value added packaging.

The Division supplies value-added packaging to ITC's various FMCG businesses. Its client list includes several well-known national and international companies like Nokia, Colgate Palmolive, Pernod Ricard, Diageo, British American Tobacco, Philip Morris International, Agio Cigars, UB Group, Tata Tetley, Tata Tea, Reckitt Benckiser, Radico Khaitan, Akbar Brothers, Surya Nepal, VST Industries, etc.



FINANCIALS

PROFIT AND LOSS STATEMENT	FY19	FY20	FY21	FY22E	FY23E
Net Revenue	48352.68	49404.05	49272.78	54735.65	61605.45
Growth%	11%	2%	0%	11%	13%
Operating Expense	29946.32	30143.89	32270.08	0	0
EBITDA	18406.36	19260.16	17002.7	20799.55	24026.13
Growth%	12%	5%	-12%	22%	16%
EBITDA Margin	38%	39%	35%	38%	39%
Other Income	2173.79	2597.89	2632.56	2915.16	3193.55
Depreciation And Amortization	1396.61	1644.91	1645.59	1791.13	1914.88
EBIT	19183.54	20213.14	17989.67	21923.58	25304.80
Finance Cost	45.42	54.68	44.58	51.21	51.21
Profit Of Associates & Jv	11.7	8.22	-6.92	-5	5
PBT(Adjusted)	19149.82	20034.57	17938.17	21867.37	25258.59
Tax	6313.92	4441.79	4555.29	5466.844	6314.647
PAT (Net)	12835.9	15592.78	13382.88	16400.53	18943.94
Growth%	12%	21%	-14%	23%	16%
PAT Margin	27%	32%	27%	30%	31%

BALANCE SHEET	FY19	FY20	FY21	FY22E	FY23E
Assets					
Non-Current Assets	40051.14	37861.69	38827.31	39789.68	40176.8
Current Assets	31747.27	39505.35	34991.99	36641.16	39305.63
Total Assets	71798.41	77367.04	73819.3	76430.84	79482.43
Equity And Liabilities					
Equity	59484.34	65650.73	60694.15	63154.23	65995.82
Liabilities	12314.07	11716.31	13125.15	13276.61	13486.61
Non-Current Liabilities	2302.08	2156.54	2435.47	2475.39	2515.39
Current Liabilities	10011.99	9559.77	10689.68	10801.22	10971.22
Total Equity And Liabilities	71798.41	77367.04	73819.3	76430.84	79482.43

CASH FLOW STATEMENT	FY19	FY20	FY21	FY22E	FY23E
From Operating Activities	12583.41	14689.66	12527.09		
Used In Investing Activities	-5545.68	-6174.02	5682.91		
Used In Financing Activities	-6868.64	-8181.48	-18633.8		
Net Cash Flow	169.09	334.16	-423.83		
Opening C&CE	173.79	342.88	677.04		
C & CE Acquired On Business Combination	0	0	56.95		
Closing C&CE	342.88	677.04	310.16		

RATIO ANALYSIS	FY19	FY20	FY21	FY22E	FY23E
----------------	------	------	------	-------	-------

PROFITABILITY

EBITDA MARGIN	38%	39%	35%	38%	39%
PAT MARGIN	27%	32%	27%	30%	31%

LIQUIDITY RATIO

CURRENT RATIO	3.17	4.13	3.27	3.39	3.58
ACID TEST RATIO	2.39	3.20	2.30	2.61	2.87
CASH RATIO	1.75	2.64	1.82	2.12	2.37

RETURN RATIO

ROE	22%	24%	22%	26%	29%
CAPITAL EMPLOYED	59494.35	65658.05	60703.61	63162.73	66004.32
ROCE	32%	31%	30%	35%	38%
ROA	18%	20%	18%	21%	24%
NOPAT	12858.50	15731.76	13421.30	16442.69	18978.60
INVESTED CAPITAL	22861.49	24352.83	23950.90	25865.71	25531.83
ROIC	56%	65%	56%	64%	74%

SOLVENCY RATIOS

D:E	0.02%	0.01%	0.02%	0.01%	0.01%
INTEREST COVERAGE RATIO	422.36	369.66	403.54	428.12	494.15
DEBT TO CAPITAL	0.02%	0.01%	0.02%	0.01%	0.01%
FINANCE LEVERAGE	1.21	1.18	1.22	1.21	1.20

VALUATION RATIOS

PE (PRICE TO EARNING)	27.03	19.68	17.83	17.83	17.83
PB (PRICE TO BOOK)	5.83	4.68	3.93	4.63	5.12
PS (PRICE TO SALES)	7.17	6.21	4.84	5.34	5.48
DIVIDEND YEILD	2%	4%	6%	5%	5%
EV/EBITDA	17.90	14.63	12.88	12.96	12.97

VALUATIONS

We have valued ITC by “lateral valuation using forward PE method”. Beforehand assuming our arguments, we have forecasted the forward results using the SoTP method for different business verticals considering competitive intensity and ITC’s bargaining power in the segments.

	FY22	FY23
EXPECTED EPS	13.43	15.64
FORWARD PE	17.83	17.83
MARKET PRICE	239.42	278.86

In valuation, using Forward PE (based on last year, recent market fluctuations) and expected EPS the target price for 1-year horizon is 239.81.

Peers comparison

FMCG COMPANIES					
FY2021	OPERATING MARGIN	NET PROFIT MARGIN	REVENUE GROWTH	ROE	PE
ITC	36.51%	27.17%	-0.27%	21.80%	20.42
MARICO	19.20%	14.92%	10.02%	36.17%	45.30
HUL	23.30%	17.00%	18.21%	16.77%	71.45
DABUR	21.83%	17.73%	10.09%	22.09%	56.42
GODREJ CONSUMER	20.41%	15.60%	11.28%	18.23%	43.33
COLGATE PALMOLIVE	28.04%	21.38%	6.98%	88.80%	40.96
BRITANIA	19.97%	14.08%	13.25%	52.53%	46.82
INDUSTRY AVERAGE	24.18%	18.27%	9.94%	36.63%	46.39

Compared to its peers ITC was heavy struck by pandemic due to segments: FMCG –cigarettes, hotels dependence on the economic environment. With stable taxation in the near foreseeable future and subsiding pandemic situation, these sectors are on the way of recovery. With plenty of room for growth and overhead opportunity present, investor can take a call to invest.

ITC has far than better financials than industry average with PE ratio 20.42 as compared to industry average of 46.39, positioning it as undervalued among its peers. Given the market leadership in company core business and powerful and growing brands in FMCG others segments and possible recovery. our take on ITC is that it has a promising future. Based on above we are optimistic on ITC limited prospects and recommend a BUY on the stock from the CMP of 204 towards and upside potential of 16% in one-year horizon.