

# Stock Update ITC Limited

November 24, 2021





Industry	LTP	Recommendation	Base Case Fair Value	Bull Case Fair Value	Time Horizon
FMCG	Rs.231.6	Buy in Rs 229-234 band and add more on dips in Rs 204-209 band	Rs. 257	Rs. 272	2 quarters

HDFC Scrip Code	ITCLTDEQNR
BSE Code	500875
NSE Code	ITC
Bloomberg	ITC:IN
CMP (Nov 23, 2021)	231.6
Equity Capital (Rs Cr)	1230.5
Face Value (Rs)	1
Equity Share O/S (Cr)	1230.5
Market Cap (Rs Cr)	285338
Book Value (Rs)	48.8
Avg. 52 Wk Volumes (in '000s)	175709
52 Week High	265
52 Week Low	188

Share holding Pattern % (Sept, 2021)	
Promoters	0
Institutions	54.53
Non Institutions	45.47
Total	100.0



HDFCsec Retail research  
stock rating meter

for details about the ratings, refer at the end of the report

\* Refer at the end for explanation on Risk Ratings

**Fundamental Research Analyst**

Harsh Sheth

[Harsh.Sheth@hdfcsec.com](mailto:Harsh.Sheth@hdfcsec.com)

### Our Take:

#### ITC Ltd: A True Indian Conglomerate

ITC has a diversified presence in cigarettes, FMCG, hotels, packaging, paperboards & specialty papers and agri-business. Apart from having a near monopoly in its traditional business of cigarettes, ITC is the country's leading FMCG marketer, a clear market leader in the Indian paperboard and packaging industry, a globally acknowledged pioneer in farmer empowerment through its wide-reaching agribusiness and a pre-eminent hotelier in India - a trailblazer in 'Responsible Luxury' chain of hotels. ITC's wholly-owned subsidiary, ITC Infotech, is a specialized global digital solutions provider. Over the past decade, the company's relatively new consumer goods business has established a vibrant portfolio of many world-class Indian brands that create and retain value. ITC's world class FMCG brands, including Aashirvaad, Sunfeast, Yippee, Bingo, B Natural, ITC Master Chef, Fabelle, Sunbean, Fiama, Engage, Vivel, Savlon, Classmate, Paperkraft, Mangaldeep and, Aim and others have garnered encouraging consumer franchise within a short span of time. While many of these brands are market leaders in their respective segments, other brands from ITC stable are making appreciable progress.

The competitiveness of ITC's diverse businesses rests on the strong foundations of institutional strength derived from its deep consumer insights, cutting-edge research & development, differentiated product development capacity, brand-building capability, world-class manufacturing infrastructure, extensive rural linkages, efficient trade marketing and distribution network and dedicated human resources. The company's ability to leverage internal synergies across its diverse businesses lends it a unique type of competitive advantage.

On May 17, 2021, we had initiated coverage on the stock ([Link](#)) with a recommendation to 'Buy at LTP and add on dips to Rs 189-195 band' for base case fair value of Rs 228 and bull case fair value of Rs 250. The stock had achieved our base case target on September 17 and bull case target on October 13, 2021.

### Valuation & Recommendation:

ITC stock has underperformed the sector and benchmarks over past few years due to concerns, including (1) environment social and governance (ESG) norms (leading to outflow of FPI money), (2) regulatory/competitive challenges in the core cigarette business, and (3) concerns over capital allocation. Doing a deep-dive into financials, we found that ~60% of ITC's cashflows have been paid as dividends, while only 15% has been utilized to scale up capacities across segments, with majority deployed in the promising FMCG business, followed by hotels and paper & packaging business. The remaining portion is held as non-core investments. Paper/agri businesses are generating healthy ROCE and are capable of self-funding capex needs but hotel segment is playing a spoilsport. However, the company has developed a sizeable



footprint in hotels and the management has noted that it will henceforth go asset light for hotels, where the focus would now be on managed properties. In FMCG business, with significant front-end investment already done to build capacities, we expect a material decline in annual organic capex here. Financial re-engineering (apart from a recent increase in dividend payout ratio to 80-85%) can unlock value: (1) de-merger of capital guzzling and low-return-generating hotels business - since incremental expansion is expected to happen through management contract route and hence may not require cash infusion from parents, and (2) listing of ITC InfoTech - revenue of Rs 2445 Cr in FY21 – since it is completely unrelated to core cigarettes business. Cross synergies and ITC’s big ambitions for FMCG may restrict any demergers here but the scaling up of the FMCG business could provide another strong FCF generating business.

**Strong recovery in cigarettes business, focus on profitable growth in FMCG business** – With resumption of normalcy and higher mobility, we expect demand trends to improve to achieve cigarette recovery. A gradual FMCG business turnaround with improving profitability remains another important catalyst for stock outperformance over the medium term.

At 14.3x Sept’23 EPS, ITC trades at a steep discount to the FMCG sector. At these valuations, there is limited downside risk, and the risk-reward ratio in the current market scenario is favorable for ITC. **We feel investors can buy the stock in Rs 229-234 band (14.3x Sept’FY23E EPS) and add more on dips in Rs 204-209 band with a base case target of Rs.257 (18x Sept’FY23E EPS) and a bull case target of Rs.272 (19x Sept’23E EPS).**

**Financial Summary**

Particulars (Rs Cr)	Q2FY22	Q2FY21	YoY-%	Q1FY22	QoQ-%	FY21	FY22E	FY23E	FY24E
Net Revenues	13554	11977	13.2	12959	4.6	49273	54569	59027	63573
EBITDA	4615	4061	13.7	3923	17.7	17003	20068	21508	23096
APAT	3697	3232	14.4	3014	22.7	13383	15555	16935	18206
Diluted EPS (Rs)	3.0	2.6	14.4	2.4	22.7	10.9	12.6	13.8	14.8
P/E (x)						21.3	18.3	16.8	15.7
EV/EBITDA						15.0	12.6	11.7	10.8
RoCE-%						37.7	44.3	47.6	50.8

(Source: Company, HDFC sec)

**Q2FY22 Result Update**

ITC delivered an in-line revenue growth, with a few positives in key segments. Revenue was up 12% YoY with cigarettes/FMCG/hotels/agri/paper growing 11/3/254/-7/25% YoY. Cigarette revenue growth was 10%, with volume growth of 9.5%. Given the positive growth rate for cigarette volumes and potential for price hikes, we expect a sustainable cigarette recovery in H2FY22. Cigarette EBIT growth was at 10%. FMCG business registered steady 6% growth and clocked 11% two-year CAGR. FMCG EBITDA margin was at 10%



(+30bps YoY, >300bps in Q2FY20) despite commodity headwinds. The discretionary/OOH categories recorded strong YoY and sequential growth due to increased mobility. Staples and convenience foods growth remained moderate on a high base and saw a sequential pick-up this quarter as well. The company performed well across all channels, including MT, ecommerce (7% revenue share) and rural. It increased its market coverage/direct outlet servicing by 1.4/1.1x YoY. Hotel occupancy improved 3x over Q2FY21 and ARRs improved as well. Hotels saw strong cost control but reported an EBIT loss of INR 480mn (vs IRs 1.8bn in Q2FY21) due to negative operating leverage. The agri business exports saw strong growth in wheat, rice, leaf tobacco, aqua and spices. The paper business clocked 25% YoY growth, led by value-added products and demand revival. The paper margin improved, led by higher realisations, investments in pulp import substitution and cost competitive fibre chain.

### Segment Results

Segments	Revenue (in Rs Cr)					EBIT (in Rs Cr)				
	Q2FY22	Q2FY21	YoY-%	Q1FY22	QoQ-%	Q2FY22	Q2FY21	YoY-%	Q1FY22	QoQ-%
Cigarettes	6220	5628	11%	5803	7%	3762	3409	10%	3462	9%
FMCG	4044	3931	3%	3731	8%	275	283	-3%	174	58%
Hotels	311	88	254%	134	133%	-49	-194	-74%	-160	-69%
Agribusiness	2823	3041	-7%	4110	-31%	298	270	10%	195	53%
Paperboards, Paper & Packaging	1829	1459	25%	1459	25%	409	330	24%	393	4%
Others	736	580	27%	580	27%	209	129	62%	206	2%

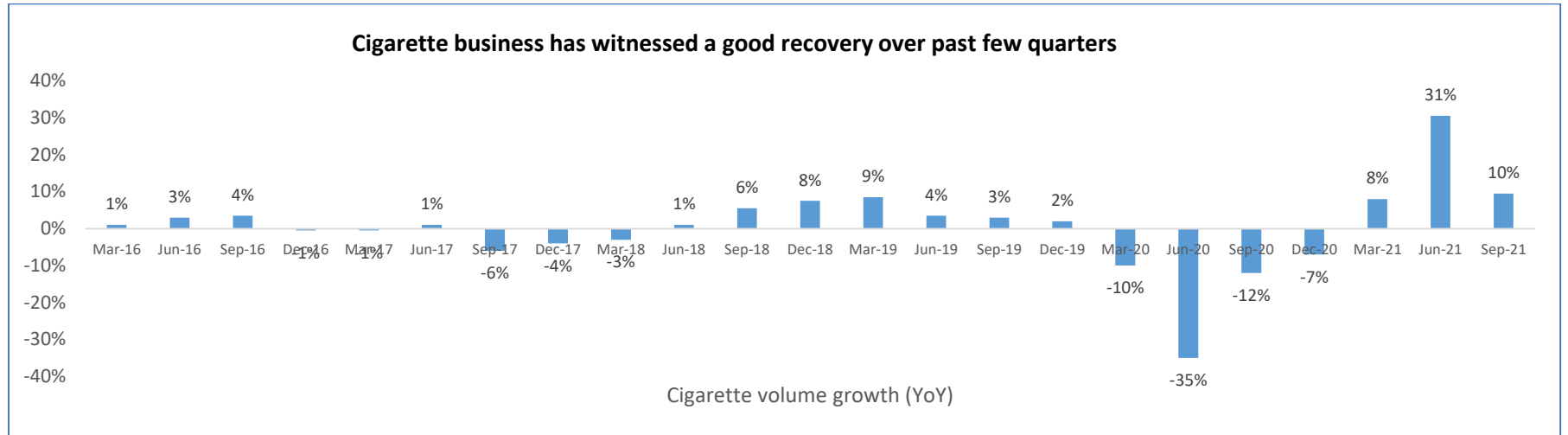
(Source: Company, HDFC sec)

### Key Triggers

#### **Cigarette volumes bouncing back to pre-Covid levels**

Cigarette category was one of the worst impacted by the pandemic in the last 18 months, in term of manufacturing & supply chain disruption in H1FY21 & slack demand conditions in H1FY22. The progressive normalisation of convenience stores across markets has helped ITC exit Q2FY22 at near pre-Covid-19 cigarette volumes. In Q2FY22, cigarette business recorded a 10.3% YoY (~5% vs Q2FY20) growth on the back of ~9% volume growth. In a big positive development, the company gained market share in cigarettes in H1FY22, particularly in metro cities. It also scaled up accessibility by augmenting its stockist network (2.1x YoY) as well as its rural servicing infrastructure (1.1x YoY). The cigarette EBIT grew 10% YoY to Rs 35.8bn in Q2FY22 (7% lower than Q2FY20), but a full EBIT recovery is awaited. ITC expects to take a price hike in cigarette in H2FY22.

With the normalisation of offices and increase in mobility, we believe cigarette volumes should grow strongly in H2FY22. Aggressive trade discounts, coupled with innovative launches/relaunches will enable ITC achieve industry leading growth.



(Source: Company, HDFC sec)

### Sharp increase in cigarette taxation remains unlikely

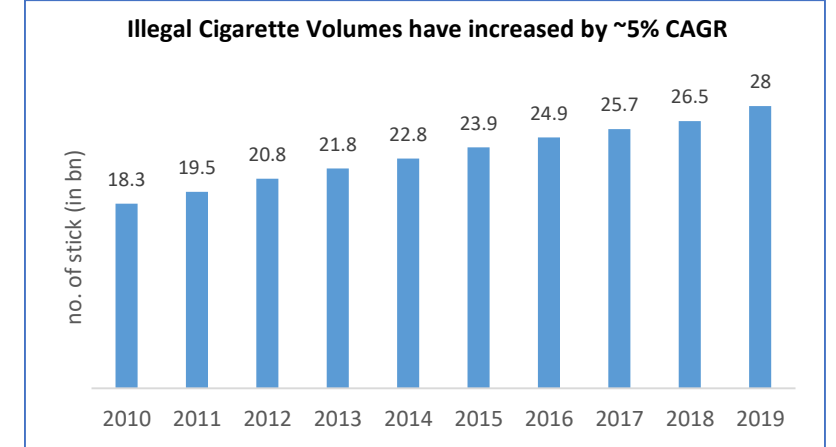
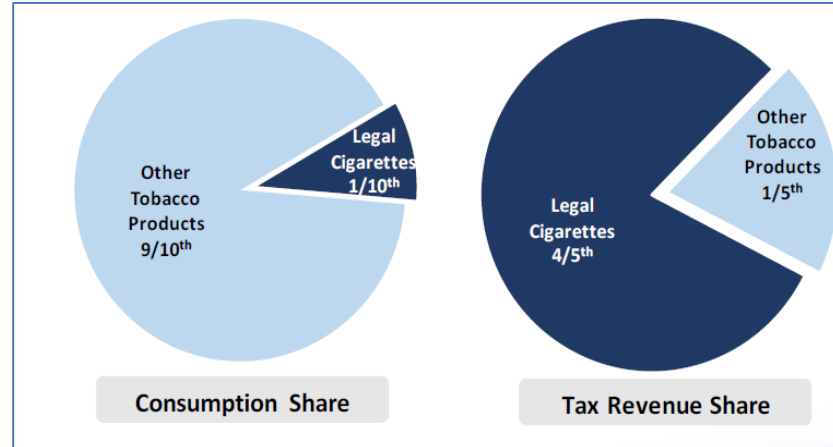
The cigarettes category remains heavily impacted by punitive and discriminatory taxation. It constitutes 9% of tobacco consumption but its contribution towards duties & taxes is 80% of the total tobacco products. On the other hand, other tobacco products (bidis, non-smoke tobacco products) contribute 91% to volumes and only 20% to duties & taxes.

In the period between 2011- 12 and 2017-18, taxes on cigarettes almost trebled (on a comparable basis). In July 2017, the industry was further impacted by a sharp increase of 13% in tax incidence under the GST regime. The short period of relative stability in taxes was halted in February 2020, with a sharp increase of 13% in tax. Cigarette taxes have hit the threshold of diminishing returns, as amply demonstrated over the past decade. Whilst the Central Excise Duty rates increased by a CAGR of 15.7% between 2012-13 and 2016-17, tax revenue from cigarettes grew at merely 4.7% CAGR during the same period. The government took cognizance of the same and did not raise taxes in Budget 2021.

The punitive taxes on the cigarette industry have also led to an alarming rise in illicit cigarette trade in the country. Euromonitor International ranks India as the fourth-largest illicit cigarette market globally. It is estimated that on account of illegal cigarettes alone, the revenue loss to the government is almost Rs. 15,000 Cr per annum. While legal cigarette industry volumes have declined by about 20% between 2010-11 and 2019-20, the illicit duty-evaded cigarette segment has grown 36% during the same period, accounting for about one-fourth of the domestic industry and making India one of the fastest growing illicit cigarette markets in the world.



### Legal Cigarettes contribute more than 4/5<sup>th</sup> of Tax Revenue, despite constituting less than 1/10<sup>th</sup> of Tobacco Consumption



(Source: Company, HDFC sec)

Recently, the Govt. has setup a panel ([link](#)) to prepare a comprehensive tax policy proposal covering all tobacco products. It led to sharp correction in ITC's stock price anticipating another tax hike. However, given the above factors, we expect Govt. to develop a framework to counter rising illicit market and increase taxes on other tobacco products rather than singling out cigarettes.

### Travel rebound lifts hotel business

ITC has infused ~Rs 7,300 Cr in its hotel business (vs Rs 7,600 Cr in FMCG) over FY10-21. This has helped it build a strong portfolio of 109 properties, with over 10,250 rooms under four distinct brands – 'ITC Hotels' in the luxury segment, 'Welcomhotel' in the upper-upscale segment, 'Fortune' in the midmarket to upscale segment and 'WelcomHeritage' in the leisure & heritage segment. With a large part of the capex for hotels already spent, the company is looking to incrementally optimise investments and drive revenue and profitability. Management has noted that it will go 'asset light' for hotels, where the focus would be on managed properties.

With easing of travel restrictions imposed during the second wave of Covid-19, domestic leisure segment and staycations witnessed an uptick during Q2FY22. Even business travel gained momentum. Occupancy levels have recovered strongly, though ARRs are still below pre-pandemic levels. Revenues surged 2.6x in Q2FY22, albeit on lower base.

The ongoing crisis would restrict overall room supply in the industry in next three to four years, auguring well for branded players. Along with the improved outlook, the company is also focusing on driving more efficiencies through cost optimization. The structural cost management actions undertaken in the past year by the company aided in reduction of controllable cash fixed costs by 31%. All this should enhance the company's profitability going forward.



### **FMCG Business - firmly on path for a profitable scale-up**

Over the past 20 years ITC has aggressively invested in the FMCG business (packaged food, personal care, stationery, incense sticks, safety matches) as its growth avenues for the future. Since its diversification out of cigarettes in 2001-02, ITC has expanded to have a portfolio of 25 Mother brands in various consumption categories with a total consumer spend of Rs 22,000 Cr, making it the third-largest F&B company by revenue. Of these 25 Mother brands, 9 are among the top 3 in their respective categories. The company continues to scale up this business by expanding in adjacencies, innovation, and premiumising the portfolio with value-added products. As discussed at length in our initiating coverage report ([Link](#)), ITC's addressable market offers a 13x opportunity headroom. The management has set an ambitious target of Rs. 1,00,000 Cr revenue in FMCG business (ex-cigarettes) by 2030, which is nearly 8X its current sales (Rs. 14,757 Cr). In its latest bid to expand its FMCG business, ITC has recently forayed into fast-growing Rs 10,000 Cr breakfast category with a ready-to-cook and ready-to-mix range and staples under the household brand "Aashirvaad".

ITC has also made some inorganic acquisitions to scale up the portfolio, including the Savlon brand (acquired from Johnson & Johnson group in FY15 (brand size at Rs10bn in FY21 vs. Rs3bn in FY15) and more recently spice maker Sunrise Foods (FY20). The majority of the business, however, has grown organically.

**Significant front-end investments made in building capacities:** Seeing the potential opportunity in organised foods and beverages, ITC has been aggressive over the last couple of decades in setting up capacity across this vertical. Since FY10, ITC's FMCG business has invested ~Rs 7,600 Cr in capex, while the business only turned EBITDA positive from FY13.

ITC has added nine integrated consumer goods manufacturing and logistics (ICML) facilities and is in process of setting up two more. These large facilities were built to augment ITC's manufacturing and sourcing footprint across categories with a view to provide structural advantages, including ensuring product freshness, improving market responsiveness, reducing the cost of servicing proximal markets and providing a heightened focus on product hygiene, safety and quality.

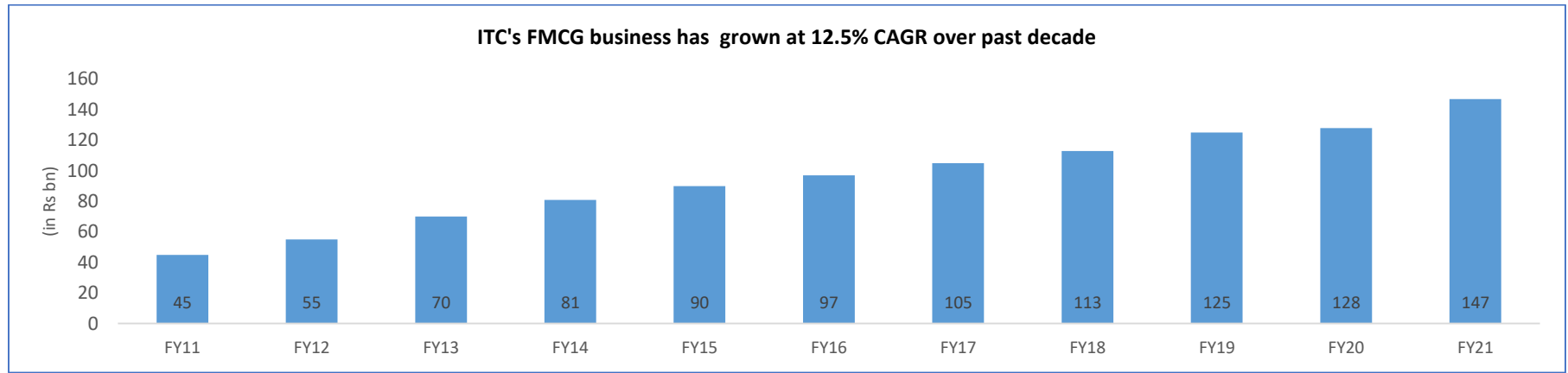
**Asset turnover to improve going ahead:** Once the two new ICML are completed, we expect a material decline in annual organic capex needs for the FMCG business. Along with the faster scale up of the FMCG business, this should help a recovery in asset turnover for the company.

**Focus on profitable growth:** From a business perspective, aggressive top-line expansion with no focus on profitability seems to be a flawed strategy. However, from the perspective of ITC, we believe diversifying revenue streams was the right strategy as management has already identified emerging headwinds for its core business of cigarettes. ITC has leveraged cash from its core business to fund capacity in the FMCG business. With capacity, distribution infrastructure, brand strength and scalability in place, we think the FMCG business is perfectly positioned to drive profitability.

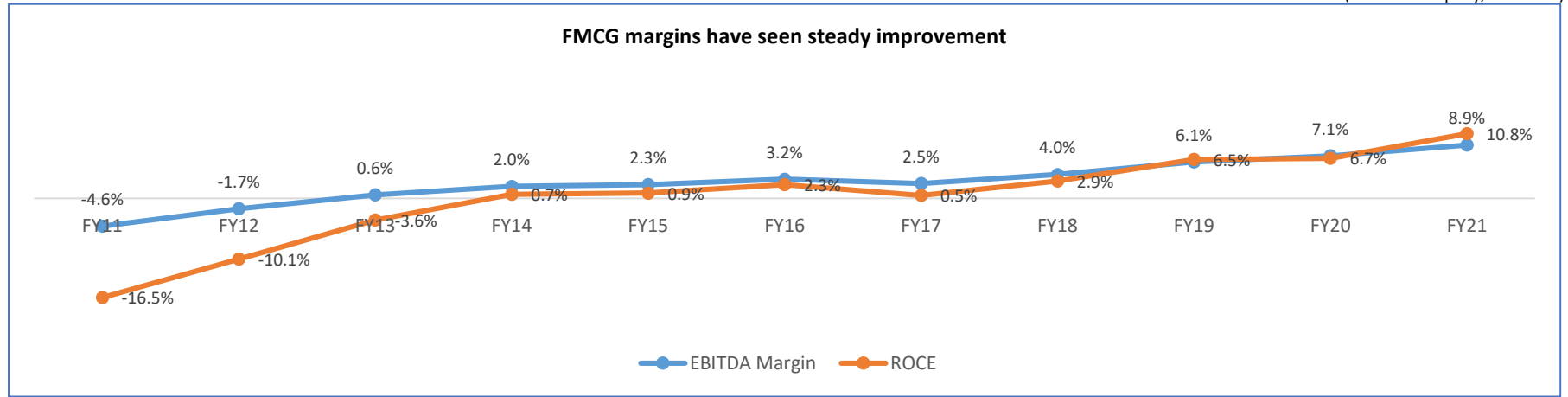


The focus on profitability has been rewarding and we expect profitability to accelerate. ITC attributes its margin expansion in the past decade to enhanced scale, a better product mix, reduced distance-to-market, and other strategic cost management initiatives after absorbing the impact of a sustained investment in brand building and gestation costs for new categories.

ITC's FMCG business EBITDA margins have been on an uptrend and have expanded by 640bps in the last four years. With nine ICML in place and two in the pipeline, we expect capital intensity to be low going forward. With scale driving up the margins and capital intensity lowering, the business is in a place to deliver sustained growth.



(Source: Company, HDFC sec)



(Source: Company, HDFC sec)



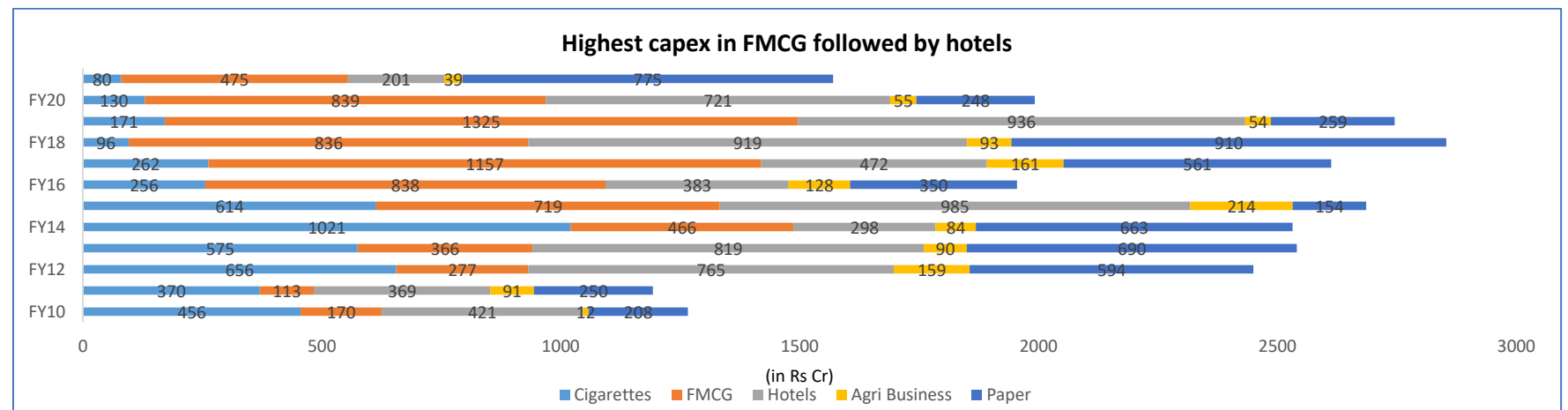


**Comparison with Britannia gives better perspective:** Britannia’s consolidated margin almost tripled from 5.2% in FY12 to 14.3% in FY17 on the back of consolidated manufacturing units, increased in-house manufacturing (leading to a correction in asset turnover), a focus on brand building, filling product gaps, eliminating waste by implementing best management practices, distribution expansion in relatively weak areas (Hindi heartland) and a focus on premiumisation and innovation.

**Initiatives to address the capital allocation issues**

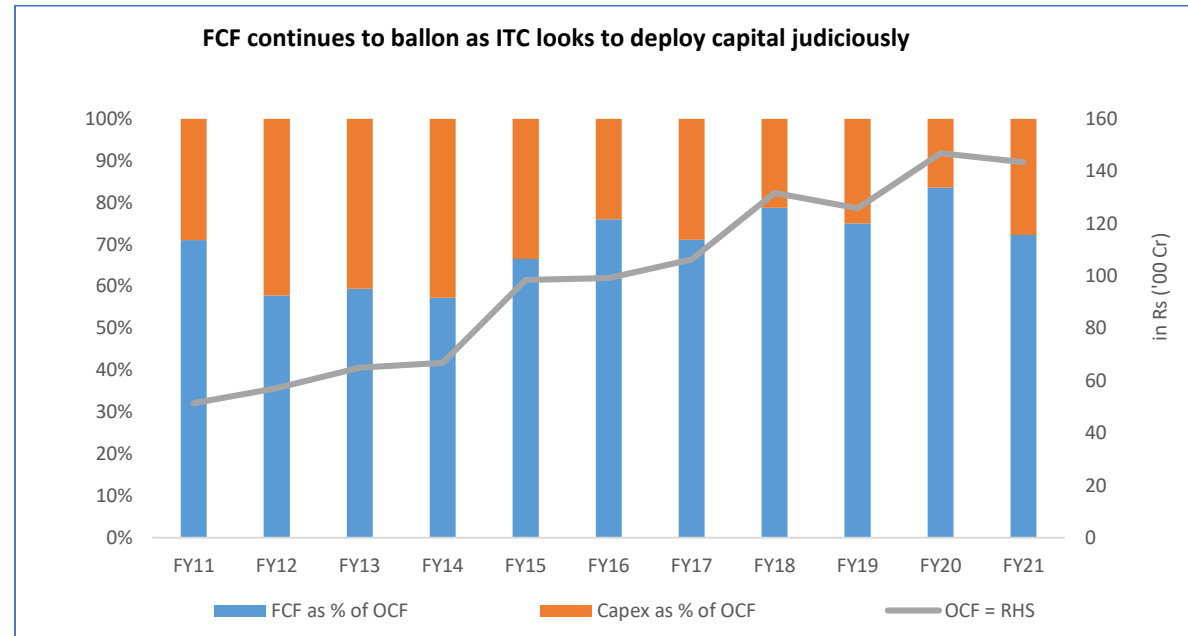
ESG related constraints (w.r.t its cigarette business) and concerns over capital allocation have been the two biggest factors leading to ITC’s underperformance in the past few years. It is interesting to note that, ITC is rated AA by MSCI on ESG, the highest among global tobacco players and better than most Indian FMCG companies. However, tobacco stocks (regarded as ‘sin stocks’) globally have witnessed their P/E multiples dropping due to selling from institutional investors, as they keep up with ESG mandates. FPI holding for ITC too has steadily fallen from 17.96% in Mar’18 to 10.81% in Sept’21.

The bigger of the two issues, according to us is capital allocation. ITC has made significant front-end manufacturing investments in its FMCG business. Along with this, the ~47% cumulative share of capex from the hotels, paper & packaging businesses in the past five years was concerning. We expect some of these concerns to be addressed, as the hotels business moves towards an asset light model, asset turnover rates improve for the FMCG business and the dividend payout increases (80-85% of profit after tax). With a large part of the capex spend in hotels, the company is incrementally looking to optimise investment there and drive revenue and profitability. Management has noted that it will go asset light for hotels, where the focus would now be on managed properties. In the FMCG business, once the two new ICML are completed, we expect a material decline in annual organic capex needs for the FMCG business. The company is however looking at M&A opportunities to meet its growth aspirations in the FMCG business, as highlighted by the chairman in recent AGM.





**Strong cashflow generation and healthy dividend yield** - ITC has a strong track record of generating free cash flows (average of ~Rs. 9,435 cr over the past five years), thanks to its cigarette business, which has been a cash spewing machine. As of 30th September, it had net cash balance of ~Rs. 26,000 Cr. Also, in the purview of lower capex requirements ahead, as discussed above, the company has come up with a new dividend policy and the payouts will be around 80-85% (higher than the decadal average of ~67%), making ITC's dividend yield one of the best in the FMCG industry.



(Source: Company, HDFC sec)

### The curious case of demerger

Based on media interactions, we understand that the ITC's board is cognizant of shareholder value and has looked at various suggestions to that end, including dividend distribution, buybacks, capital allocation, restructuring, etc. The company has assured to take initiatives to address concerns over capital allocation, as discussed above. While the distribution policy has been reworked, the buyback looks unlikely as it would mean an increase in BAT's (British American Tobacco) stake from current levels of 29.5% if they don't participate in the buyback programme. We however believe the company might undergo restructuring over next couple of years and any move in this direction could lift the valuation of the stock.



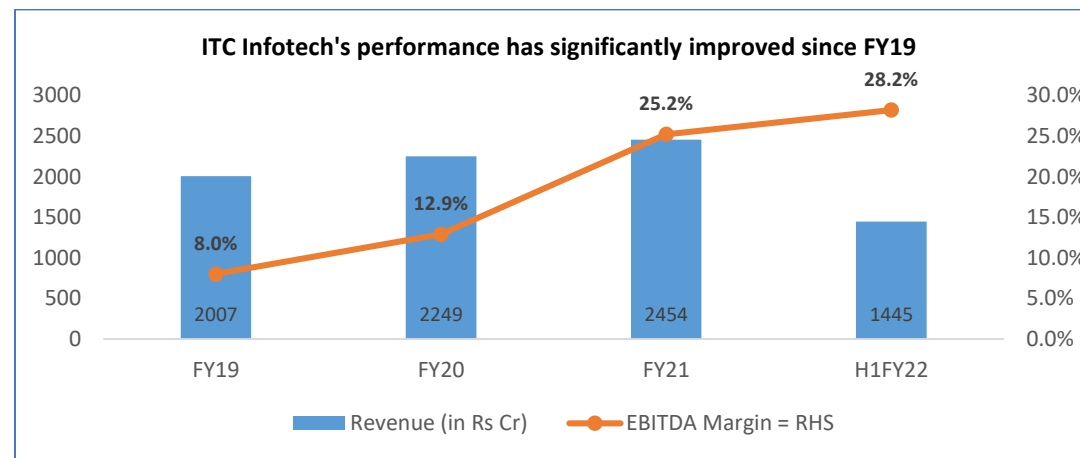
## IT & Hotels: the best candidates for demerger

### ITC Infotech: The unsung hero of ITC

ITC Infotech is the least spoken about the segment but it is the fastest growing and has created great value for itself. ITC Infotech’s revenue grew 22% over FY19-21 to Rs 2,454 Cr, while its net profit quadrupled to Rs 451 Cr. Its operating margin has leapfrogged—going up from 8% in 2019 to 25% in 2021. In H1FY22, the company’s operating margin was 28.2% (amongst the best in IT industry) and is on course to achieve Rs 3,000 Cr revenue in FY22, which stood at Rs 1445 Cr in H1FY22.

In early 2019, ITC Infotech brought in Mr. Sudip Singh, former senior executive at Infosys, as chief executive officer (CEO). It also simplified its business model, going from serving a bouquet of business segments to a specific handful, all while aggressively chasing big deals in contrast to focus on small deals earlier. ITC Infotech is a leading global technology services and solutions provider, led by Business and Technology Consulting. It provides technology solutions and services to enterprises across industries such as Banking & Financial Services, Healthcare, Manufacturing, Consumer Goods, Travel and Hospitality, through a combination of traditional and newer business models, as a long-term sustainable partner.

ITC Infotech is on track to grow in double digits annually for the next few years, faster than the other mature ITC businesses. The software business is also unlike its other verticals—ITC seeks synergies in capital allocation and supply chains from a conglomerate structure. ITC Infotech doesn’t need any of it. This means they could take the company public faster than the market thinks and we feel the company could get valuation of ~Rs 25,000 Cr assuming a >15% topline growth going forward.



(Source: Company, HDFC sec)

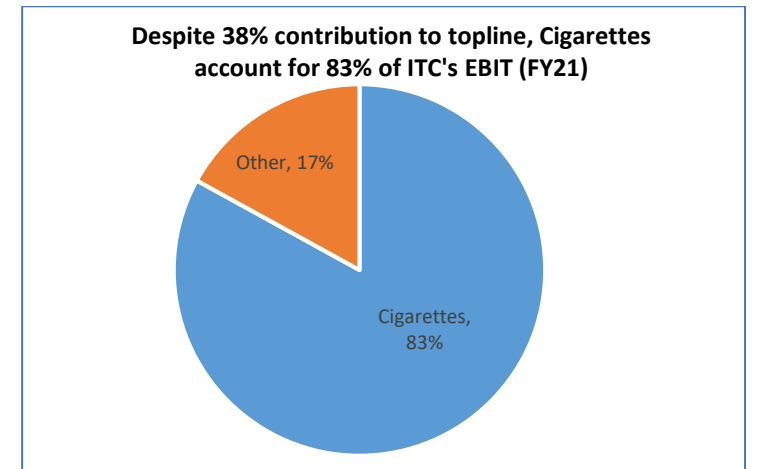
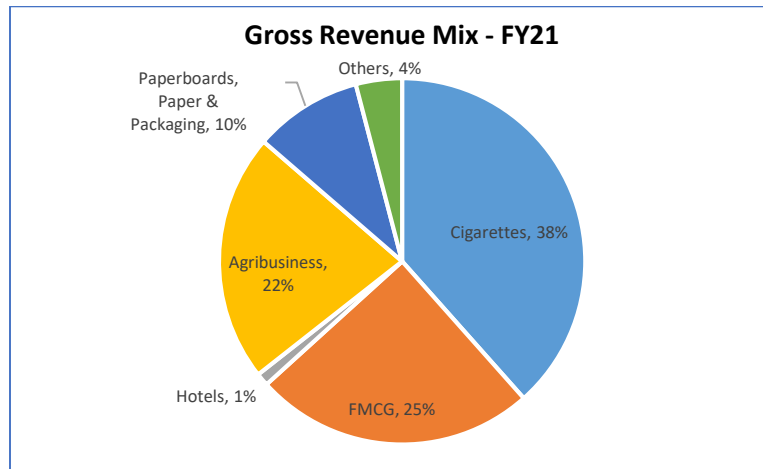


### With strong signs of recovery in hospitality industry, demerger can happen sooner

As discussed above, capital guzzling and low-return-generating hotels business of ITC has been the biggest disappointment for investors. The stretched pandemic made the situation worse for hospitality industry, which was under the pressure over past few years with demand-supply mismatch. However, last 2 quarters have shown strong signs of recovery and even the Chairman in his FY21 AGM address ([Link](#)) has highlighted that the company is looking at an alternative structure. With reduced capital spends (adoption of asset-right model) and expectations of full recovery over next few quarters, demerger of hotel business is likely on the cards over the next 2-3 years.

### How about FMCG?

While we expect greater appreciation of ITC's FMCG business value in ITC's overall valuation given its rising profitability, the full unlocking of the value of the FMCG business may need a potential re-structuring of the company. ***Is a complete demerger of FMCG possible?*** There are, however, challenges in this option. ITC's FMCG business gets competitive advantage from ITC's agri and paper & packaging business, which has a strong procurement infrastructure. Other than this, though ITC's FMCG business no longer needs support to fund its regular operations, ITC's high cash reserves make it possible for the FMCG business to do large acquisitions if the opportunity arises. Given the massive revenue targets (Rs 1,00,000 Cr) for the FMCG business by FY30, cash flows from FMCG business might not be sufficient to fund its capex needs. We feel that FMCG business may not be demerged in a hurry and hence the large value unlocking due to that may have to wait.



(Source: Company, HDFC sec)



### Key Risks

- Profitability and cash generation are heavily skewed towards the cigarettes business. Any further Covid waves and subsequent lockdowns can significantly affect profitability.
- Punitive taxation by the government on the cigarettes business could increase the illegal sales of the product and impact growth rates for ITC.
- Investors that emphasize on strong ESG values tend to avoid ITC because of the nature of its business, even though the company is one of the highest rated ESG companies in the world. If ESG acceptance becomes more widespread, it could result in further shrinkage in valuations.
- Poor capital allocation in the future can lead to lower returns for the company.
- Potential sale of the 7.93% government stake in ITC held by SUUTI.
- Potential change in smoker behaviour (especially fringe smokers) post the lockdown period.
- In case of rural slowdown due to weather or other reasons, ITC's FMCG sales growth can be impacted more, as there could be more down trading where ITC has a limited presence.

### Company Background

ITC is India's largest cigarette manufacturer, with presence in cigarettes for over 100 years and 77% market share. Its key brands include Gold Flake, Classic, American Club, Navy Cut, Players, Scissors, Capstan, Berkeley, Bristol, Flake, Silk Cut, Duke & Royal, etc. Over the years, the company has diversified across various businesses – paperboard, paper & packaging, hospitality, agri business, lifestyle retailing (scaled down in F19), information technology, branded packaged food, education/stationary products and agarbattis & safety matches, and personal care. The company continues to scale up the FMCG business by entering newer product categories. There are some synergy benefits across the different segments. Paper & packaging and the agri business segments support the packaging and commodity sourcing requirements for cigarettes and the FMCG business. As of FY21, cigarettes and FMCG were the two largest revenue contributors, contributing 38% and 25% of revenues, respectively.



Segmental Contribution							
Gross Revenue (in Rs Cr)							
Segment	FY15	FY16	FY17	FY18	FY19	FY20	FY21
Cigarettes	31856	34063	35878	24848	22913	23679	22557
FMCG	9054	9751	10537	11357	12535	12875	14757
Hotels	1256	1359	1414	1495	1747	1912	664
Agri Business	8380	7457	8385	8155	9565	5913	12883
Paperboards Paper and Packaging	5181	5328	5363	5249	5860	4499	5619
Others	1750	1849	1514	1603	1967	2122	2394
EBIT (in Rs Cr)							
Cigarettes	11637	12348	13204	14128	15412	15838	13498
FMCG	31	57	26	170	396	425	838
Hotels	52	61	117	145	186	154	-564
Agri Business	904	934	926	841	793	830	918
Paperboards, Paper and Packaging	921	908	966	1042	1239	1305	1099
Others	232	166	103	127	172	291	559

(Source: Company, HDFC sec)



## Financials

### Income Statement

(Rs Cr)	FY19	FY20	FY21	FY22E	FY23E	FY24E
<b>Net Revenues</b>	48353	49404	49273	54569	59027	63573
Growth (%)	11.3	2.2	-0.3	10.7	8.2	7.7
Operating Expenses	29946	30144	32270	34501	37519	40476
<b>EBITDA</b>	18406	19260	17003	20068	21508	23096
Growth (%)	11.7	4.6	-11.7	18.0	7.2	7.4
<b>EBITDA Margin (%)</b>	<b>38.1</b>	<b>39.0</b>	<b>34.5</b>	<b>36.8</b>	<b>36.4</b>	<b>36.3</b>
Depreciation	1397	1645	1646	1769	1859	1971
<b>EBIT</b>	17010	17615	15357	18299	19649	21125
Other Income	2174	2598	2633	2547	3044	3270
Interest expenses	45	55	45	48	50	52
PBT	19138	20026	17945	20797	22643	24344
Tax	6314	4442	4555	5235	5699	6127
<b>APAT</b>	12786	14888	13383	15555	16935	18206
Growth (%)	14.0	16.4	-10.1	16.2	8.9	7.5
<b>EPS</b>	10.4	12.1	10.9	12.6	13.8	14.8

### Balance Sheet

As at March	FY19	FY20	FY21	FY22E	FY23E	FY24E
<b>SOURCE OF FUNDS</b>						
Share Capital	1226	1229	1231	1231	1231	1231
Reserves	57915	64044	58779	60486	62343	64239
<b>Shareholders' Funds</b>	59141	65273	60010	61717	63574	65470
Long Term Debt	8	6	6	6	6	6
Short Term Debt	2	1	4	4	5	5
Net Deferred Taxes	1993	1571	1678	1777	1884	1999
Other Non-current Liabilities	242	523	694	694	694	694
<b>Minority Interest</b>	<b>343</b>	<b>377</b>	<b>347</b>	<b>355</b>	<b>364</b>	<b>374</b>
<b>Total Source of Funds</b>	<b>61729</b>	<b>67752</b>	<b>62738</b>	<b>64552</b>	<b>66525</b>	<b>68548</b>
<b>APPLICATION OF FUNDS</b>						
Net Block	19182	21516	22903	23804	24615	25314
CWIP	4563	3700	4453	3652	3011	2499
Goodwill	203	203	403	403	403	403
Other Non-Current Assets	4319	1634	1405	1540	1687	1850
<b>Total Non-Current Assets</b>	<b>28267</b>	<b>27052</b>	<b>29163</b>	<b>29398</b>	<b>29716</b>	<b>30066</b>
Inventories	7944	8966	10397	10807	11566	12457
Trade Receivables	4035	2562	2502	2771	2997	3228
Cash & Equivalents	29196	35941	29338	31303	32961	34577
Other Current Assets	2297	2790	2164	2273	2386	2506
<b>Total Current Assets</b>	<b>43472</b>	<b>50259</b>	<b>44402</b>	<b>47154</b>	<b>49911</b>	<b>52767</b>
Trade Payables	3510	3630	4319	4849	5246	5650
Other Current Liab & Provisions	6501	5929	6509	7150	7857	8636
<b>Total Current Liabilities</b>	<b>10010</b>	<b>9558</b>	<b>10827</b>	<b>12000</b>	<b>13103</b>	<b>14285</b>
Net Current Assets	33462	40700	33574	35154	36808	38482
<b>Total Application of Funds</b>	<b>61729</b>	<b>67752</b>	<b>62738</b>	<b>64552</b>	<b>66525</b>	<b>68548</b>



## Cash Flow Statement

(Rs Cr)	FY19	FY20	FY21	FY22E	FY23E	FY24E
Reported PBT	19149.8	20034.6	17945.1	20797.5	22642.9	24343.6
Non-operating & EO items	-416.7	-795.6	0.0	0.0	0.0	0.0
Interest Expenses	-1267.4	-1467.5	-1529.7	-1605.0	-1735.2	-1875.8
Depreciation	1396.6	1644.9	1645.6	1769.1	1858.7	1970.7
Working Capital Change	-475.5	296.2	752.3	250.7	-144.1	-220.9
Tax Paid	-5803.5	-5022.9	-4463.8	-5135.8	-5592.4	-6012.0
<b>OPERATING CASH FLOW ( a )</b>	<b>12583.4</b>	<b>14689.7</b>	<b>14349.6</b>	<b>16076.4</b>	<b>17029.9</b>	<b>18205.7</b>
Capex	-3141.3	-2414.2	-3985.6	-1869.1	-2029.3	-2157.4
Free Cash Flow	9442.1	12275.6	10364.0	14207.3	15000.6	16048.3
Investments	1421.9	-5442.1	3792.5	-1500.0	-1500.0	-1500.0
Non-operating income	297.1	865.9	1638.3	1605.0	1735.2	1875.8
<b>INVESTING CASH FLOW ( b )</b>	<b>-1422.3</b>	<b>-6990.4</b>	<b>1445.2</b>	<b>-1764.1</b>	<b>-1794.1</b>	<b>-1781.7</b>
Debt Issuance / (Repaid)	-10.6	0.0	2.1	0.4	0.4	0.5
Interest Expenses	-98.0	-43.8	0.0	0.0	0.0	0.0
FCFE	9333.6	12231.8	10366.1	14207.7	15001.1	16048.7
Share Capital Issuance	969.1	625.3	1.7	0.0	0.0	0.0
Dividend	-7732.8	-8709.0	-18647.8	-13847.4	-15078.3	-16309.2
Others	3.7	-53.9	0.0	0.0	0.0	0.0
<b>FINANCING CASH FLOW ( c )</b>	<b>-6868.6</b>	<b>-8181.4</b>	<b>-18644.0</b>	<b>-13847.0</b>	<b>-15077.9</b>	<b>-16308.7</b>
<b>NET CASH FLOW (a+b+c)</b>	<b>4292.5</b>	<b>-482.0</b>	<b>-2849.3</b>	<b>465.2</b>	<b>157.9</b>	<b>115.4</b>

## One Year Price Chart



## Key Ratios

Particulars	FY19	FY20	FY21	FY22E	FY23E	FY24E
<b>Profitability Ratio</b>						
EBITDA Margin	38.1	39.0	34.5	36.8	36.4	36.3
EBIT Margin	35.2	35.7	31.2	33.5	33.3	33.2
APAT Margin	26.4	30.1	27.2	28.5	28.7	28.6
RoE	22.9	23.9	21.4	25.6	27.0	28.2
RoCE	39.2	45.7	37.7	44.3	47.6	50.8
<b>Solvency Ratio</b>						
Net Debt/EBITDA (x)	(1.6)	(1.9)	(1.7)	(1.6)	(1.5)	(1.5)
Net D/E	(0.5)	(0.6)	(0.5)	(0.5)	(0.5)	(0.5)
<b>Per Share Data (in Rs)</b>						
EPS	10.4	12.1	10.9	12.6	13.8	14.8
CEPS	11.6	13.5	12.2	14.1	15.3	16.4
BV	48.2	53.1	48.8	50.1	51.6	53.2
Dividend	5.8	10.2	10.8	11.8	12.8	13.8
<b>Turnover Ratio</b>						
Debtor days	30.5	18.9	18.5	18.5	18.5	18.5
Inventory days	60.0	66.2	77.0	72.3	71.5	71.5
Creditors days	26.5	26.8	32.0	32.4	32.4	32.4
Cash Conversion (days)	32.2	35.2	31.4	25.8	23.8	22.4
<b>Valuation</b>						
P/E	22.2	19.1	21.3	18.3	16.8	15.7
P/BV	4.8	4.4	4.8	4.6	4.5	4.4
EV/EBITDA	13.8	12.9	15.0	12.6	11.7	10.8
EV / Revenues	5.3	5.0	5.2	4.7	4.3	3.9
Dividend Yield (%)	2.5	4.4	4.6	5.1	5.5	5.9

(Source: Company, HDFC sec)





## HDFC Sec Retail Research Rating description

### Green Rating stocks

This rating is given to stocks that represent large and established business having track record of decades and good reputation in the industry. They are industry leaders or have significant market share. They have multiple streams of cash flows and/or strong balance sheet to withstand downturn in economic cycle. These stocks offer moderate returns and at the same time are unlikely to suffer severe drawdown in their stock prices. These stocks can be kept as a part of long term portfolio holding, if so desired. This stocks offer low risk and lower reward and are suitable for beginners. They offer stability to the portfolio.

### Yellow Rating stocks

This rating is given to stocks that have strong balance sheet and are from relatively stable industries which are likely to remain relevant for long time and unlikely to be affected much by economic or technological disruptions. These stocks have emerged stronger over time but are yet to reach the level of green rating stocks. They offer medium risk, medium return opportunities. Some of these have the potential to attain green rating over time.

### Red Rating stocks

This rating is given to emerging companies which are riskier than their established peers. Their share price tends to be volatile though they offer high growth potential. They are susceptible to severe downturn in their industry or in overall economy. Management of these companies need to prove their mettle in handling cyclical of their business. If they are successful in navigating challenges, the market rewards their shareholders with handsome gains; otherwise their stock prices can take a severe beating. Overall these stocks offer high risk high return opportunities.

#### Disclosure:

I, **Harsh Sheth, MCom**, authors and the names subscribed to this report, hereby certify that all of the views expressed in this research report accurately reflect our views about the subject issuer(s) or securities. HSL has no material adverse disciplinary history as on the date of publication of this report. We also certify that no part of our compensation was, is, or will be directly or indirectly related to the specific recommendation(s) or view(s) in this report.

Research Analyst or her relative or HDFC Securities Ltd. **does not have** any financial interest in the subject company. Also Research Analyst or his relative or HDFC Securities Ltd. or its Associate may have beneficial ownership of 1% or more in the subject company at the end of the month immediately preceding the date of publication of the Research Report. Further Research Analyst or her relative or HDFC Securities Ltd. or its associate **does not have** any material conflict of interest.

Any holding in stock – No

HDFC Securities Limited (HSL) is a SEBI Registered Research Analyst having registration no. INH000002475.

#### Disclaimer:

This report has been prepared by HDFC Securities Ltd and is meant for sole use by the recipient and not for circulation. The information and opinions contained herein have been compiled or arrived at, based upon information obtained in good faith from sources believed to be reliable. Such information has not been independently verified and no guaranty, representation of warranty, express or implied, is made as to its accuracy, completeness or correctness. All such information and opinions are subject to change without notice. This document is for information purposes only. Descriptions of any company or companies or their securities mentioned herein are not intended to be complete and this document is not, and should not be construed as an offer or solicitation of an offer, to buy or sell any securities or other financial instruments.

This report is not directed to, or intended for display, downloading, printing, reproducing or for distribution to or use by, any person or entity who is a citizen or resident or located in any locality, state, country or other jurisdiction where such distribution, publication, reproduction, availability or use would be contrary to law or regulation or what would subject HSL or its affiliates to any registration or licensing requirement within such jurisdiction.

If this report is inadvertently sent or has reached any person in such country, especially, United States of America, the same should be ignored and brought to the attention of the sender. This document may not be reproduced, distributed or published in whole or in part, directly or indirectly, for any purposes or in any manner.

Foreign currencies denominated securities, wherever mentioned, are subject to exchange rate fluctuations, which could have an adverse effect on their value or price, or the income derived from them. In addition, investors in securities such as ADRs, the values of which are influenced by foreign currencies effectively assume currency risk.

It should not be considered to be taken as an offer to sell or a solicitation to buy any security. HSL may from time to time solicit from, or perform broking, or other services for, any company mentioned in this mail and/or its attachments.

HSL and its affiliated company(ies), their directors and employees may; (a) from time to time, have a long or short position in, and buy or sell the securities of the company(ies) mentioned herein or (b) be engaged in any other transaction involving such securities and earn brokerage or other compensation or act as a market maker in the financial instruments of the company(ies) discussed herein or act as an advisor or lender/borrower to such company(ies) or may have any other potential conflict of interests with respect to any recommendation and other related information and opinions.

HSL, its directors, analysts or employees do not take any responsibility, financial or otherwise, of the losses or the damages sustained due to the investments made or any action taken on basis of this report, including but not restricted to, fluctuation in the prices of shares and bonds, changes in the currency rates, diminution in the NAVs, reduction in the dividend or income, etc.

HSL and other group companies, its directors, associates, employees may have various positions in any of the stocks, securities and financial instruments dealt in the report, or may make sell or purchase or other deals in these securities from time to time or may deal in other securities of the companies / organizations described in this report.

HSL or its associates might have managed or co-managed public offering of securities for the subject company or might have been mandated by the subject company for any other assignment in the past twelve months.

HSL or its associates might have received any compensation from the companies mentioned in the report during the period preceding twelve months from t date of this report for services in respect of managing or co-managing public offerings, corporate finance, investment banking or merchant banking, brokerage services or other advisory service in a merger or specific transaction in the normal course of business.

HSL or its analysts did not receive any compensation or other benefits from the companies mentioned in the report or third party in connection with preparation of the research report. Accordingly, neither HSL nor Research Analysts have any material conflict of interest at the time of publication of this report. Compensation of our Research Analysts is not based on any specific merchant banking, investment banking or brokerage service transactions. HSL may have issued other reports that are inconsistent with and reach different conclusion from the information presented in this report.

Research entity has not been engaged in market making activity for the subject company. Research analyst has not served as an officer, director or employee of the subject company. We have not received any compensation/benefits from the subject company or third party in connection with the Research Report.

HDFC securities Limited, I Think Techno Campus, Building - B, "Alpha", Office Floor 8, Near Kanjurmarg Station, Opp. Crompton Greaves, Kanjurmarg (East), Mumbai 400 042 Phone: (022) 3075 3400 Fax: (022) 2496 5066

Compliance Officer: Binkle R. Oza Email: [complianceofficer@hdfcsec.com](mailto:complianceofficer@hdfcsec.com) Phone: (022) 3045 3600

HDFC Securities Limited, SEBI Reg. No.: NSE, BSE, MSEI, MCX: INZ000186937; AMFI Reg. No. ARN: 13549; PFRDA Reg. No. POP: 11092018; IRDA Corporate Agent License No.: CA0062; SEBI Research Analyst Reg. No.: INH000002475; SEBI Investment Adviser Reg. No.: INA000011538; CIN - U67120MH2000PLC152193

Mutual Funds Investments are subject to market risk. Please read the offer and scheme related documents carefully before investing.