



## RESEARCH REPORT AS ON 30-04-2022

### 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 borderline 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.

# HISTORY

1910 Incorporated on August 24, 1910 under the name of 'Imperial Tobacco Company of India Limited

1925 Packaging & Printing Business was set up as a strategic backward integration for ITC's Cigarettes Business

1975 Launched its hotel business by the name 'ITC-Welcomgroup Hotel Chola'.

1979 Entered into manufacturing paperboards, packaging & printing business

1985 Set up Surya Tobacco Co. in Nepal, now a subsidiary of ITC.

1990 Set up the Agri Business Division for export of agri-commodities based on partnership with farmers

2000 Launched a line of greeting cards under the brand name 'Expressions, further extension in stationery

Entered in lifestyle retailing business with the Wills Sport

ITC InfoTech India was set up in 2000 to provide outsourcing solutions

Introduced e-Choupal initiative in 2000 with soya farmers in Madhya Pradesh

2001 Entered food business in 2001 with the introduction of 'Kitchens of India'

2002 Entered the confectionery and staples segments with the launch of the brands mint-o and Candyman confectionery and Aashirvaad Atta

2003 Entered the biscuits segment with Sunfeast

Forayed into the marketing of Agarbattis (incense sticks)

2005 Entered personal care with Essenza Di Wills, an exclusive range of fine fragrances and bath & body care products

2007 Entered the fast growing branded snacks category with Bingo!

Launched the 'Superia' range of Soaps and Shampoos in the mass-market segment followed by Vivel range

2010 Entered the Indian instant noodles market with Sunfeast Yippee!

Expanded its product portfolio in personal care with the launch of Engage deodorants

Expanded the tobacco portfolio with launch of its handrolled cigar, Armenteros, in the Indian market

2014 Entered e-cigarette business

2015 Acquired Savlon and 'Shower to Shower' from Johnson & Johnson Ltd., India

Entered the Fruit-based juices and beverages market with the launch of B Natural Fruit beverages

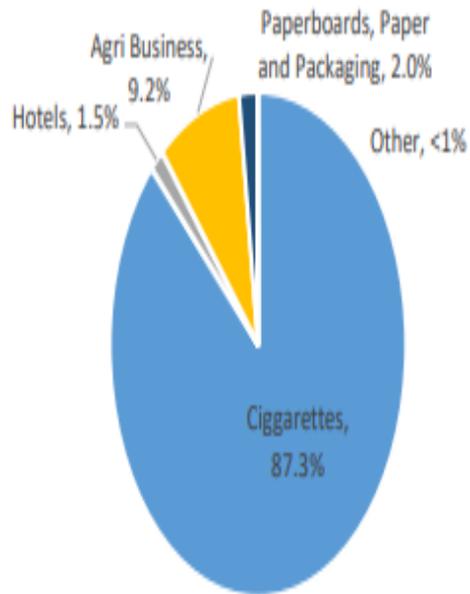
Forayed into the dairy segment with the launch of Aashirvaad Svasti Ghee in November 2015.

Acquired the brand Nimyle to enter the floor cleaner space

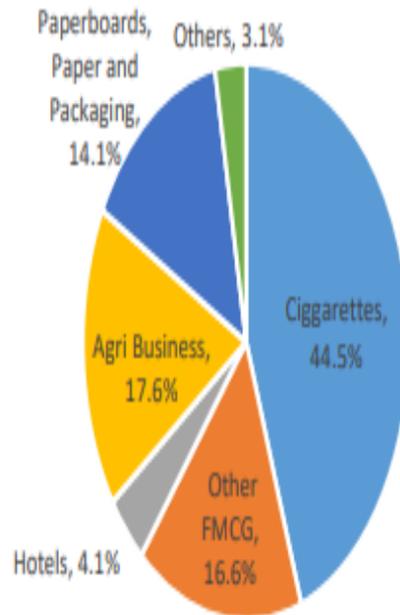
2020 Acquired entire stake in Sunrise Foods

## A glimpse at past 3 decades of ITC

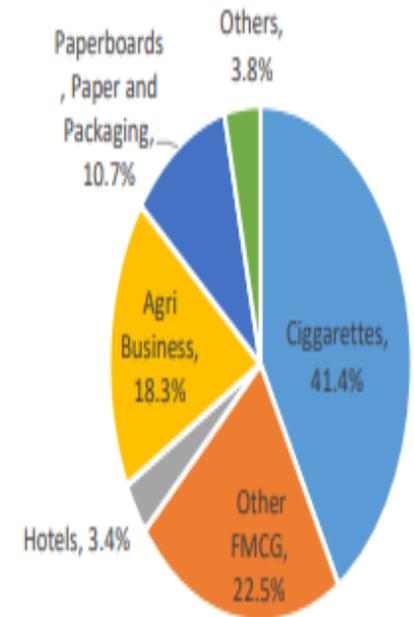
Gross Revenue Mix of ITC in FY 1999-00



Gross Revenue Mix of ITC in FY 2009-10



Gross Revenue Mix of ITC in FY 2019-20



The percentage of revenue from cigarette business has reduced from 87.3% in 1999-2000 to 41.4% in 2019-2020

# MAIN BUSINESS : CIGARETTE BUSINESS

ITC earns more than 80% EBIT margin from its Cigarette business.

There are many entry barriers in this business because of government regulations. Government don't issue a license to new companies to manufacture cigarettes. So it a very concentrated industry where ITC is the market leader with more than 75% market share.

ITC has brands like Gold flake and Classic which are very famous brands.

But there have been few problems in this business.

High taxation by the government: If we compare with rest of the world then in India, consumption of cigarette has fallen. As tax increases the affordability reduces which in turn reduce the demand of the cigarettes.

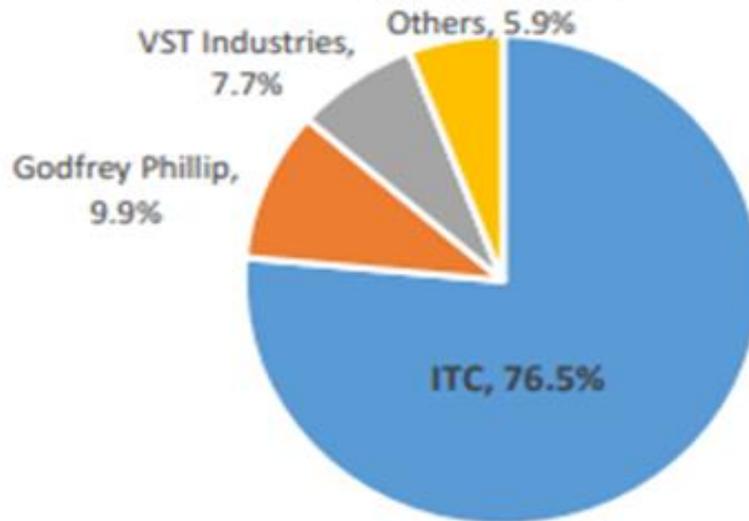
But cigarette is a habit product, so ITC has the pricing power.

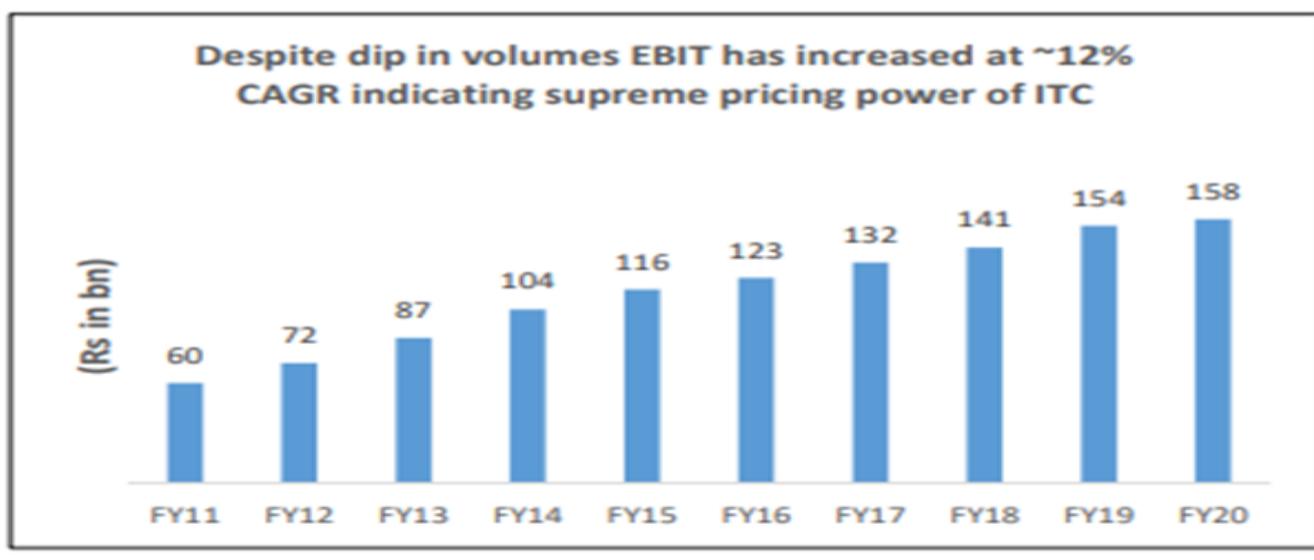
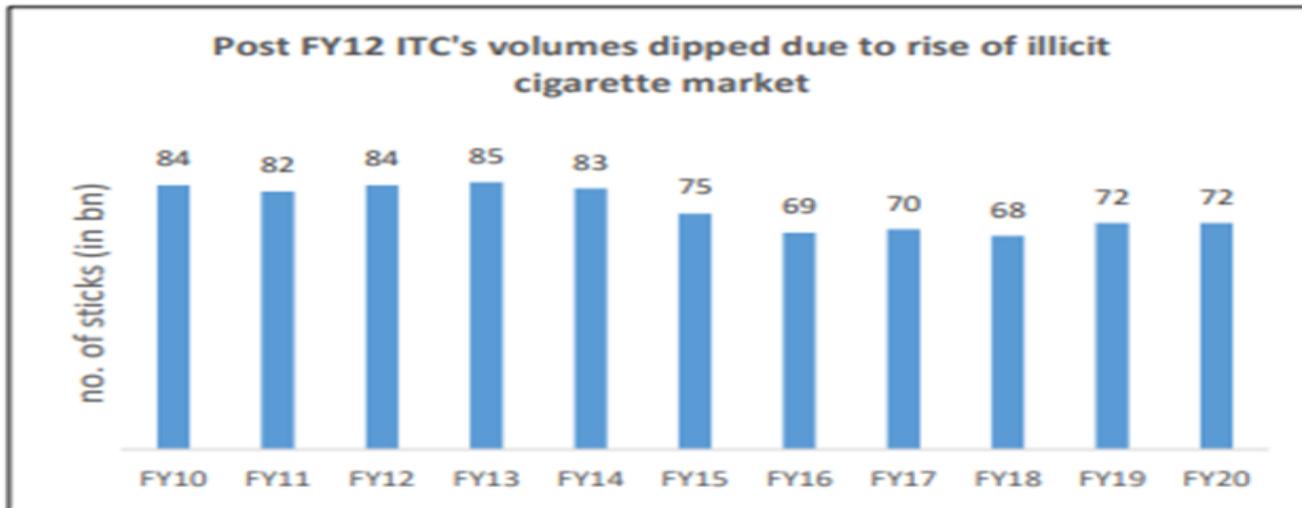
Though the volume growth of consumption of cigarette is less yet the EBIT margins have grown due to price hikes.

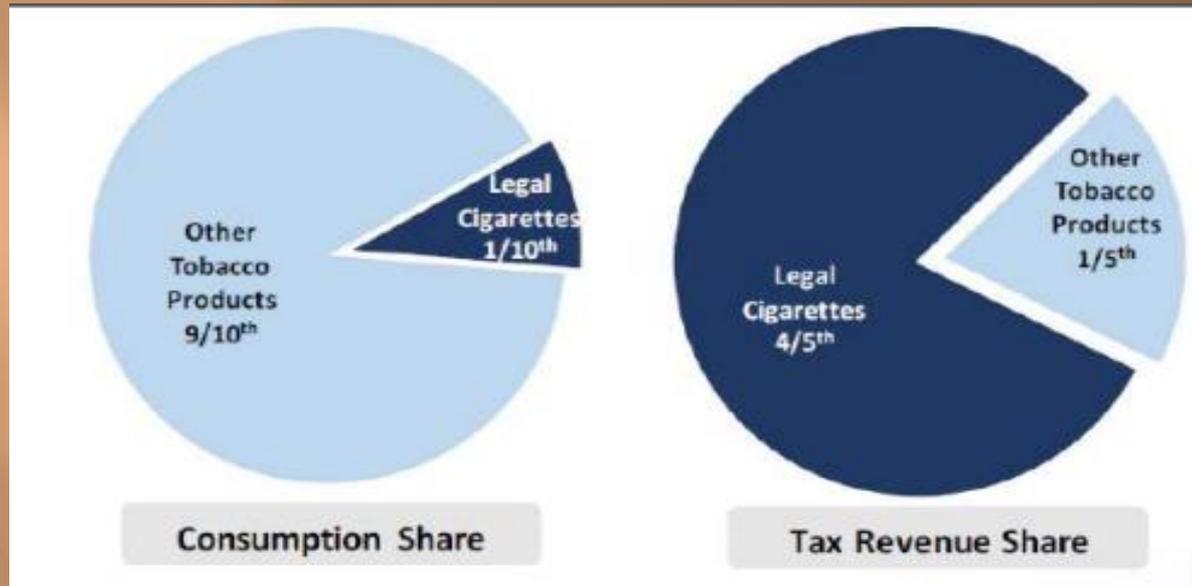
Well established portfolio of in-house parent brands



ITC dominates the organised cigarette industry with ~77% volume market share

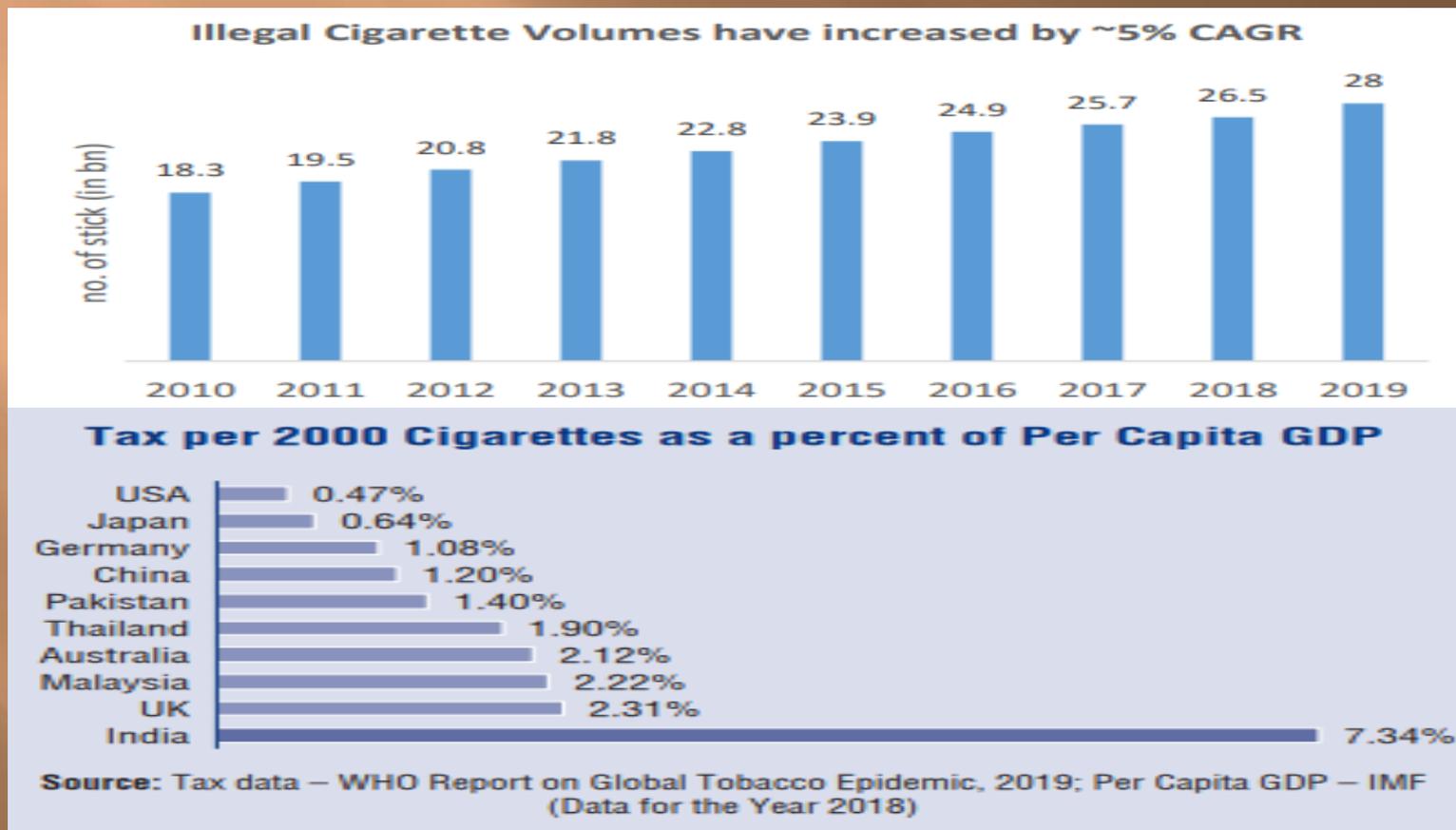






Over the years, discriminatory and punitive taxation on cigarettes has led to a progressive migration from consumption of duty-paid cigarettes to other lightly taxed/tax-evaded forms of tobacco products, comprising illegal cigarettes and bidi, chewing tobacco, gutkha, zarda, snuff, etc. Consequently, while the share of legal cigarettes in total tobacco consumption has declined from 21% in 1981-82 to a mere 9%, aggregate tobacco consumption in the country has increased over the same period. As a result, despite accounting for less than 1/10th of the tobacco consumed in the country, duty-paid cigarettes contribute more than 4/5th of the tax revenue generated from the tobacco sector.

While India is the world's second largest consumer of tobacco, legal cigarettes constitute only 9% of overall tobacco consumption in India, as against a global average of 90%. Legal Cigarettes contribute more than 4/5th of Tax Revenue, despite constituting less than 1/10th of Tobacco Consumption. This causes ITC to continuously increase prices of cigarettes and hence there is reduction in the sales of legal cigarettes.



# FMCG BUSINESS

Since 2000, ITC used the cash flow generated from cigarette business to grow the FMCG business. Since 2000 till today the sales of this FMCG business has risen from 100 crores to somewhere more than 12000 crores. FMCG business is the fastest growing amongst all the company's business segments.

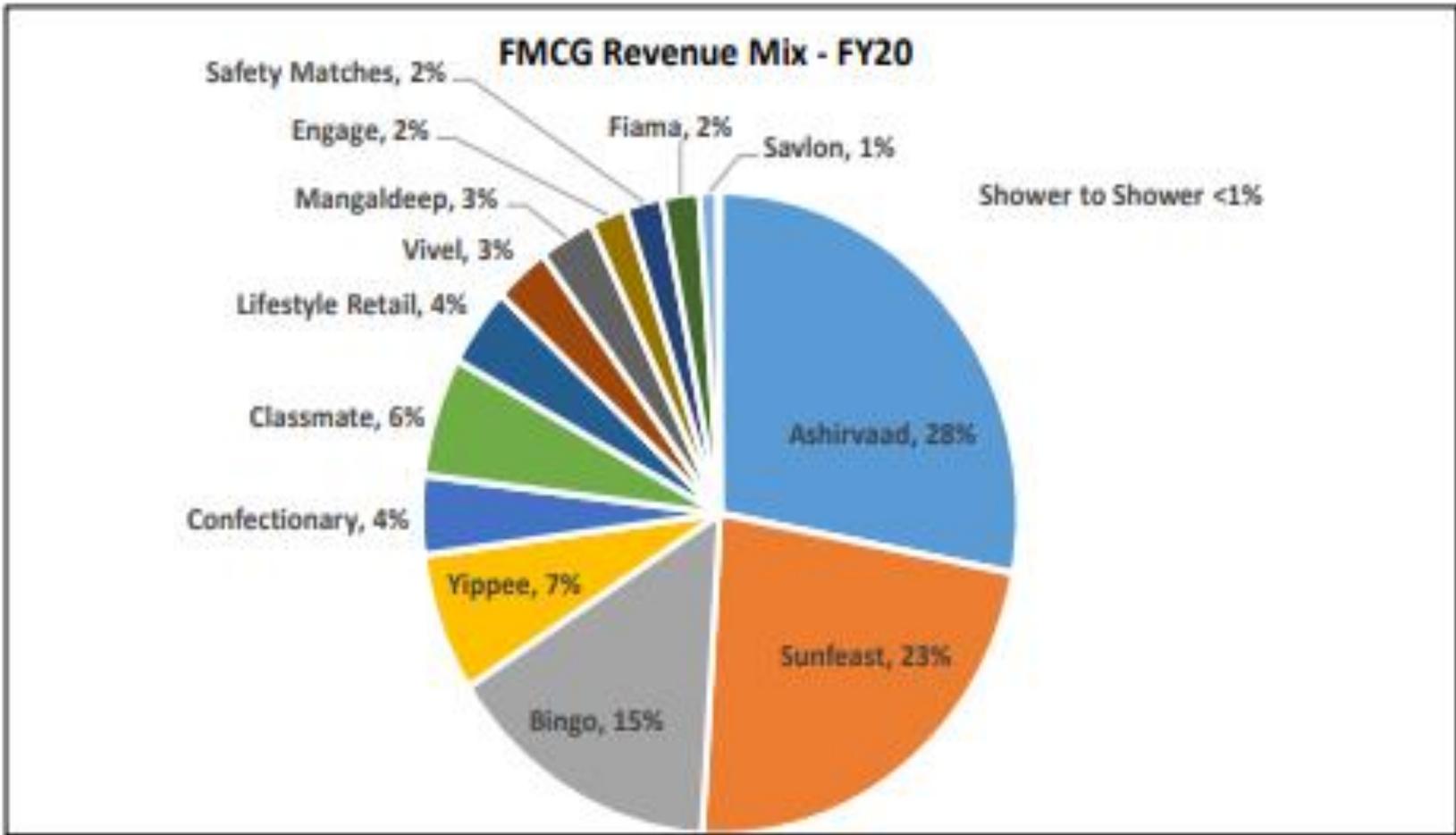
Top brands in the FMCG segment include Aashirwad which is ~6000 Cr brand and No. 1 brand in the Aata segment, Sunfeast is over 4000 Cr brand and No. 1 in cream biscuit segment, Bingo with ~ 2700 Cr brand and No. 1 in the snack food segment, Yippee is 1300 Cr brand and No. 2 in noodles segment, Classmate is ~ 1400 Cr brand and No. 1 in notebooks. Mangaldeep Agarbatti is over 800 Cr brand and No. 2 in the Agarbatti segment.

Investment phase in FMCG business is reducing. It has already more than 25 brands so it may prefer to do more acquisitions.

Moreover, they have acquired brands like Savlon and Nimyle which have been very successful acquisitions.

ITC: Powered by the Vitality  
of world-class Indian Brands





# HOTEL BUSINESS

ITC Hotel Group is the hospitality business of ITC Limited. ITC Hotels, launched in 1975, is one of India's premier chain of luxury hotels which has become synonymous with Indian Hospitality. At present there are more than 100 hotels of ITC in over 70 cities. Some of the hotels include ITC Royal Bengal, a Luxury Collection Hotel, Kolkata; ITC Grand Chola, a Luxury Collection Hotel, Chennai; ITC Maurya, a Luxury Collection Hotel, New Delhi.

Now rather than owning the properties, ITC is going through managing contracts in Hotel business.

The hotel business has a significant impact due to COVID. It suffered a loss of 57.4% in revenue.

# OTHER BUSINESS SEGMENTS

**ITC Agri Business** is one of the leading domestic players and exporters of numerous agricultural commodities. It works with farmers to improve the productivity and quality of various crops and sources the finest of Grains, Oil Seeds, Pulses and a range of value-added agri products such as Processed Fruits, Coffee and Shrimps across multiple geographies in India. It is No. 1 in producing Leaf Tobacco.

ITC's globally acknowledged E-choupal initiative empowers 4 million farmers. While the farmers benefit through enhanced farm productivity and higher farm gate prices, ITC benefits from the lower net cost of procurement (despite offering better prices to the farmer) having eliminated costs in the supply chain that do not add value.

ITC Paperboard and Specialty paper division is India's largest, technically advanced and eco-friendly paperboard business. It caters to a wide spectrum of Packaging, Graphics, Communication, Writing, Printing and Specialty paper requirements. It converts over 70,000 tonnes of paper, paperboard and lamination per annum into variety of value-added packaging solutions of various industries including food & beverage, personal products, cigarette, liquor, and consumer goods.

# COMPETITIVE STRENGTH

Strong Brand Name: Today, the majority of people in India are aware of many brands of ITC including Aashirwaad, Sunfeast, Bingo, Yipee, Savlon, Classmate, etc. It takes a lot of effort to build a brand value and ITC has a strong competitive advantage due to this brand value as people recognize and prefer these brands over the competitors.

Innovative and agile business: To stay relevant and sustainable for the long term, it is very important for a business to innovate. ITC has been very innovative and agile in terms of business. For example, during COVID lockdown, they partnered with Dominos, Zomato, and Swiggy to deliver products to the consumer at their doorstep. They also launched ITC stores on wheels.

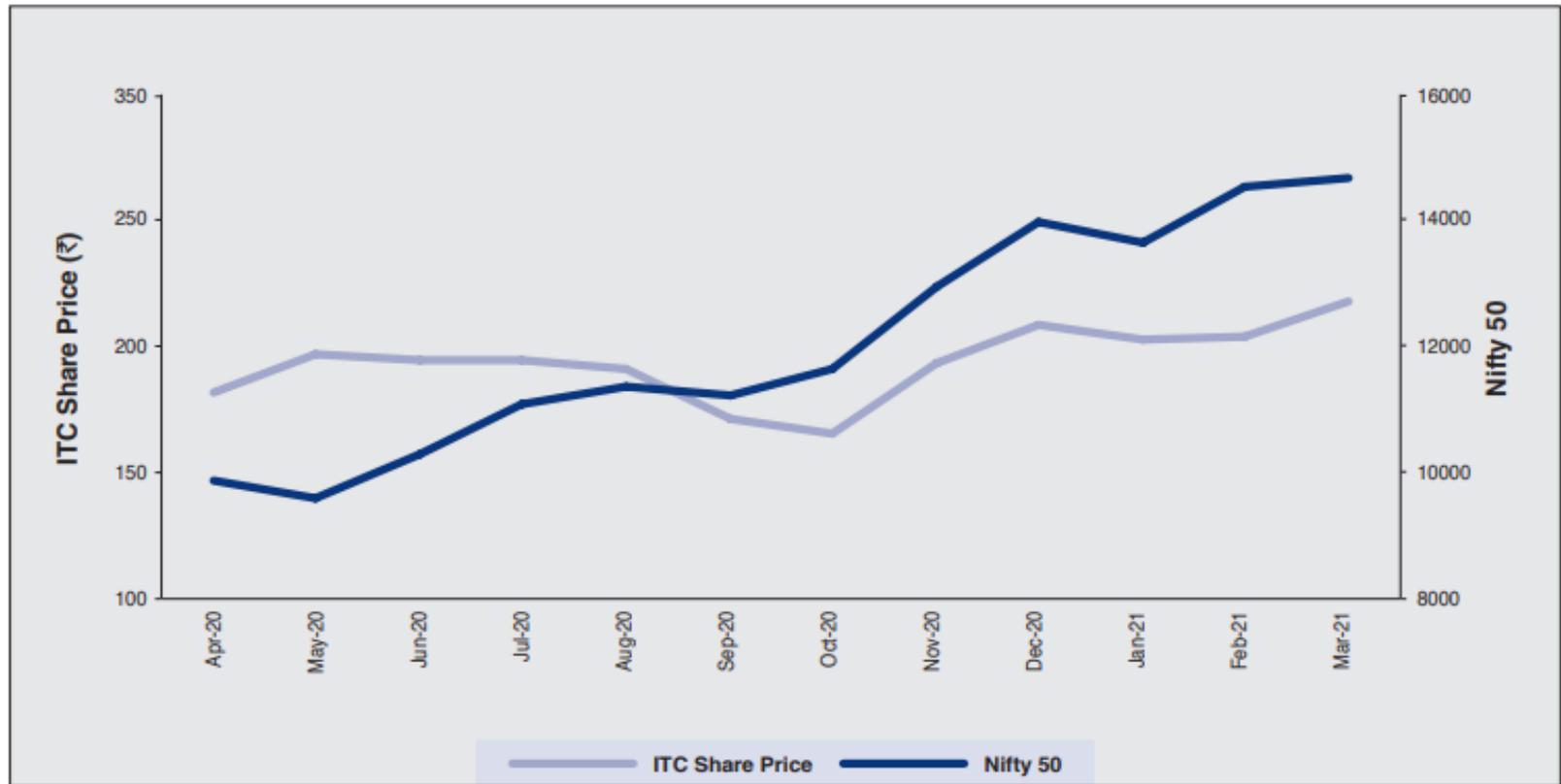
Sustainable growth: The future is not just about growth but sustainable growth without harming the environment. ITC's one of the biggest strength is sustainable growth. It is a carbon positive company for 15 years with afforestation, water positive for 18 years with watershed development, and solid waste recycling positive for 13 years with livestock development and solid waste management.

Strong distribution network: Distribution is the backbone of an FMCG company. Over the past 110 years, ITC has built a very strong distribution network. Today, its products are sold at over 60 lakh retail outlets all over the country. ITC can use this distribution network to sell all the products including the new launches.

# Key risks

- Profitability and cash generation are heavily skewed towards the cigarettes business, which is not expected to see any significant recovery in the short term.
  - Punitive taxation by the government on the cigarettes business could increase the illegal sales of the product.
  - Investors that emphasize on strong ESG values tend to exclude ITC because of the nature of its business even though the company is one of the highest rated ESG companies in the world. ESG acceptance becomes more widespread resulting in further shrinkage in valuations.
  - Hospitality sector is one of the worst affected by the ongoing pandemic and now with the coming of the second wave, recovery in this business may be further prolonged, which would impact ITC.
- 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.

## ITC Share Price vis-à-vis Nifty 50

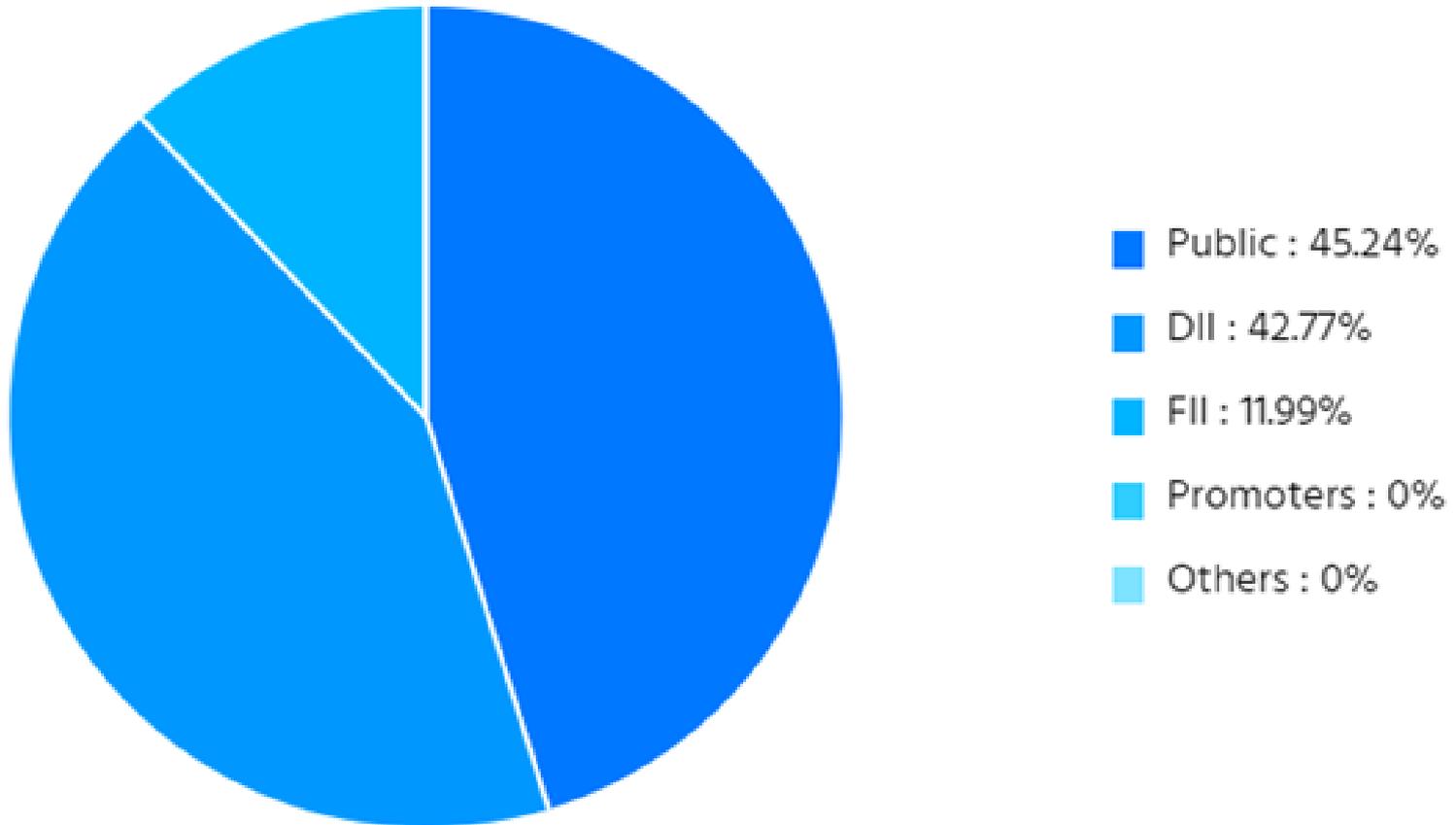


## Dividend History (Last 10 years)

As one of India's foremost private sector companies, the Company has performed consistently for over a century and has rewarded Shareholders since inception with uninterrupted dividends.

Financial Year	Dividend per Share (₹)	Dividend (₹ in Crores)	Dividend Distribution Tax (₹ in Crores)	Total Dividend including Dividend Distribution Tax, where applicable (₹ in Crores)
2020-21	5.75 *	7,077.59	N.A.	7,077.59
	5.00 #	6,152.68	N.A.	6,152.68
2019-20	10.15	12,476.63	N.A.	12,476.63
2018-19	5.75	7,048.71	1,448.88	8,497.59
2017-18	5.15	6,285.21	1,291.94	7,577.15
2016-17	4.75 \$	5,770.01	1,174.64	6,944.65
2015-16	8.50 ^	6,840.13	1,392.48	8,232.61
2014-15	6.25	5,009.71	1,019.86	6,029.57
2013-14	6.00	4,771.91	810.99	5,582.90
2012-13	5.25	4,148.46	705.03	4,853.49
2011-12	4.50	3,518.29	570.75	4,089.04

# SHAREHOLDING PATTERN



# FINANCIALS

## Balance Sheet as at 31st March, 2021

	As at 31st March, 2021 (₹ in Crores)		As at 31st March, 2020 (₹ in Crores)	
<b>ASSETS</b>				
<b>Non-current assets</b>				
(a) Property, Plant and Equipment	19153.94		19632.92	
(b) Capital work-in-progress	4004.45		3251.61	
(c) Investment Property	376.56		385.36	
(d) Goodwill	779.73		202.53	
(e) Other Intangible assets	2011.06		525.37	
(f) Intangible assets under development	6.84		4.85	
(g) Right of Use Assets	977.19		967.16	
(h) Investment accounted for using the equity method	262.55		266.56	
	27572.32		25236.36	
(i) Financial Assets				
(i) Investments	9761.99		10448.46	
(ii) Loans	4.07		5.27	
(iii) Others	101.87	9867.93	615.65	11069.38
(j) Deferred tax assets (Net)		58.54		56.29
(k) Income Tax Assets (Net)		33.04		38.42
(l) Other non-current assets		1295.48		1461.24
		38827.31		37861.69
<b>Current assets</b>				
(a) Inventories	10397.16		8879.33	
(b) Biological assets other than bearer plants	110.06		86.20	
(c) Financial Assets				
(i) Investments	14846.33		17948.33	
(ii) Trade receivables	2501.70		2562.48	
(iii) Cash and cash equivalents	290.42		650.35	
(iv) Other Bank Balances	4368.60		6626.99	
(v) Loans	3.47		6.33	
(vi) Others	1379.02	23389.54	1818.54	29613.02
(d) Other current assets		1095.23		926.80
		34991.99		39505.35
<b>TOTAL ASSETS</b>		<b>73819.30</b>		<b>77367.04</b>

**EQUITY AND LIABILITIES****Equity**

(a) Equity Share capital	1230.88		1229.22	
(b) Other Equity	59116.46		64044.04	

**Attributable to owners of the parent** 60347.34 65273.26

**Non-controlling interests** 346.81 60694.15 377.47 65650.73

**Liabilities****Non-current liabilities**

(a) Financial Liabilities					
(i) Borrowings	5.58		5.90		
(ii) Lease liabilities	206.96		204.00		
(iii) Other financial liabilities	283.50	496.04	127.87	337.77	
(b) Provisions		187.50		175.37	
(c) Deferred tax liabilities (Net)		1736.39		1627.20	
(d) Other non-current liabilities		15.54	2435.47	16.20	2156.54

**Current liabilities**

(a) Financial Liabilities					
(i) Borrowings		3.88		1.42	
(ii) Trade payables					
Total outstanding dues of micro enterprises and small enterprises	61.15		37.93		
Total outstanding dues of creditors other than micro enterprises and small enterprises	4257.58	4318.73	3591.90	3629.83	
(iii) Lease liabilities		54.06		63.87	
(iv) Other financial liabilities		1491.85		1394.88	
(b) Other current liabilities		4294.40		4072.72	
(c) Provisions		194.01		148.18	
(d) Current Tax Liabilities (Net)		332.75	10689.68	248.87	9559.77

**TOTAL EQUITY AND LIABILITIES** 73819.30 77367.04

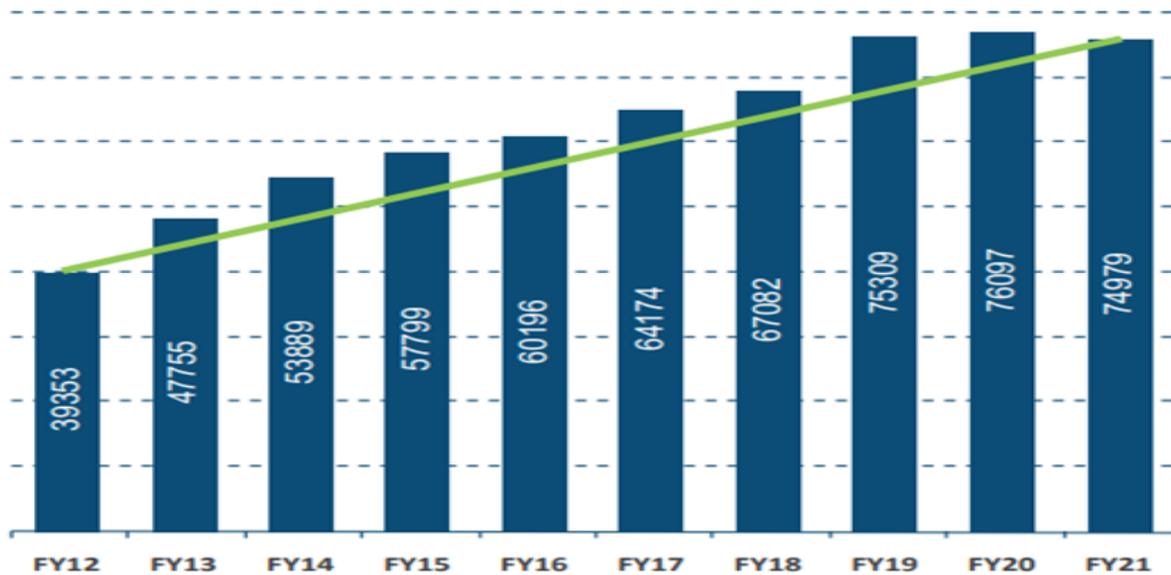
# Consolidated Statement of Profit and Loss for the year ended 31st March, 2021

	For the year ended 31st March, 2021 (₹ in Crores)	For the year ended 31st March, 2020 (₹ in Crores)
I Revenue From Operations	53155.12	51393.47
II Other Income	2632.56	2597.89
<b>III Total Income (I+II)</b>	<b>55787.68</b>	<b>53991.36</b>
<b>IV EXPENSES</b>		
Cost of materials consumed	13939.84	13810.70
Purchases of Stock-in-Trade	6836.87	4237.90
Changes in inventories of finished goods, Stock-in-Trade, work-in-progress and intermediates	(645.27)	(703.13)
Excise duty	3882.34	1989.42
Employee benefits expense	4463.33	4295.79
Finance costs	44.58	54.68
Depreciation and amortization expense	1645.59	1644.91
Other expenses	7675.31	8502.63
<b>Total expenses (IV)</b>	<b>37842.59</b>	<b>33832.90</b>
V Share of profit/(loss) of Associates and Joint Ventures	(6.92)	8.22
<b>VI Profit before exceptional items and tax (III-IV+V)</b>	<b>17938.17</b>	<b>20166.68</b>
VII Exceptional Items	–	(132.11)
<b>VIII Profit before tax (VI+VII)</b>	<b>17938.17</b>	<b>20034.57</b>
<b>IX Tax expense:</b>		
Current Tax	4463.74	4846.15
Deferred Tax	91.55	(404.36)
<b>X Profit for the year (VIII-IX)</b>	<b>13382.88</b>	<b>15592.78</b>

<b>Other Comprehensive Income</b>		
A (i) Items that will not be reclassified to profit or loss:		
– Remeasurements of the defined benefit plans	(22.44)	(127.57)
– Equity instruments through other comprehensive income	288.90	(1349.52)
– Effective portion of gains/(losses) on designated portion of hedging instruments in a cash flow hedge	(6.64)	(1.29)
– Share of OCI in Associates and Joint Ventures	1.69	(12.60)
(ii) Income tax relating to items that will not be reclassified to profit or loss	(1.38)	10.14
B (i) Items that will be reclassified to profit or loss:		
– Exchange differences in translating the financial statements of foreign operations	(83.72)	36.98
– Effective portion of gains/(losses) on designated portion of hedging instruments in a cash flow hedge	40.76	(36.24)
(ii) Income tax relating to items that will be reclassified to profit or loss	(10.26)	10.13
<b>XI Other Comprehensive Income [A(i+ii)+B(i+ii)]</b>	<b>206.91</b>	<b>(1469.97)</b>
<b>XII Total Comprehensive Income for the year (X+XI)</b>	<b>13589.79</b>	<b>14122.81</b>
<b>Profit for the year</b>		
Attributable to:		
Owners of the parent	13161.19	15306.23
Non-controlling interests	221.69	286.55
<b>Total Comprehensive Income for the year</b>		
Attributable to:		
Owners of the parent	13368.35	13835.90
Non-controlling interests	221.44	286.91
<b>XIII Earnings per equity share (Face Value ₹ 1.00 each):</b>		
(1) Basic (in ₹)	10.70	12.47
(2) Diluted (in ₹)	10.70	12.45

### Gross Sales Value#

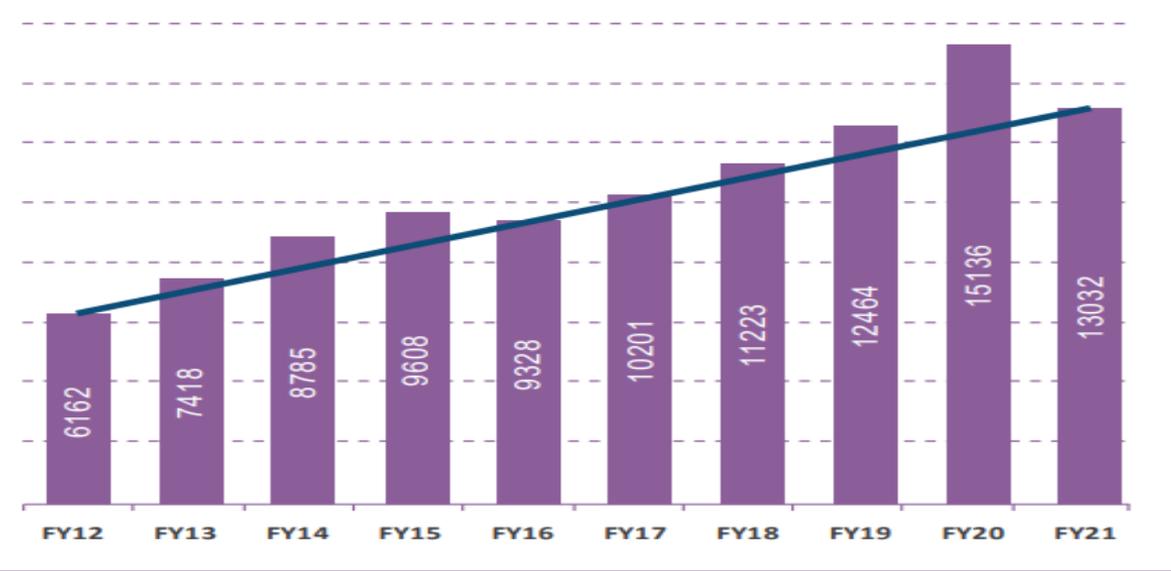
₹ Crores



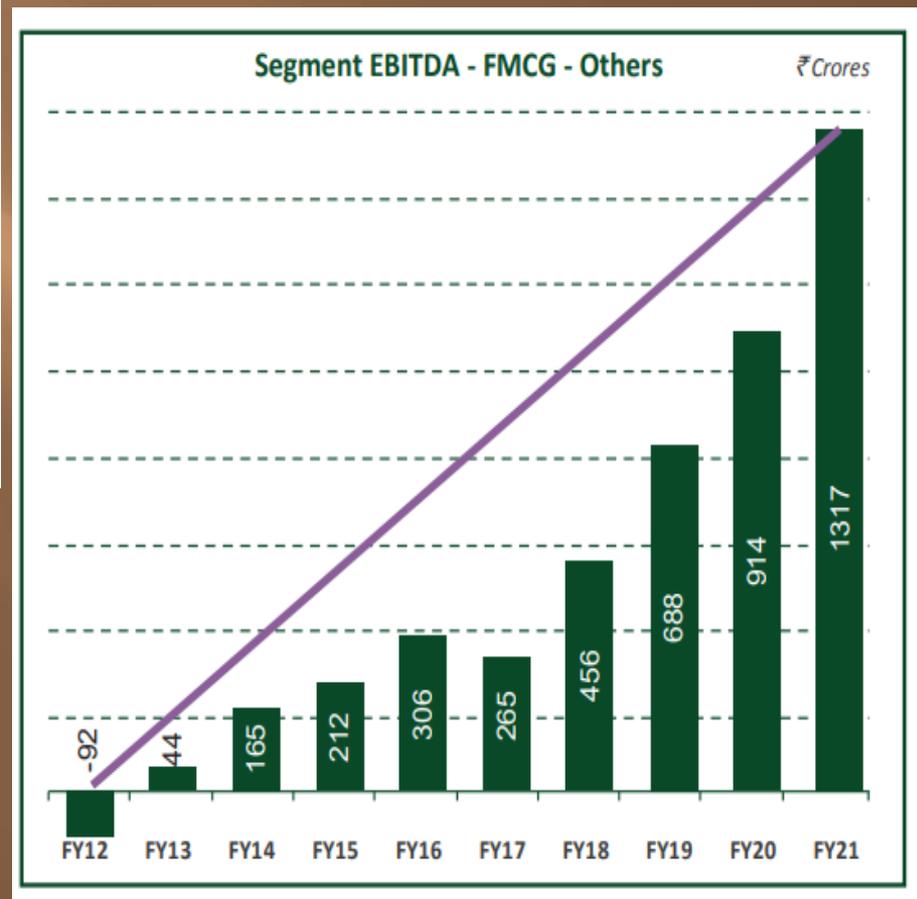
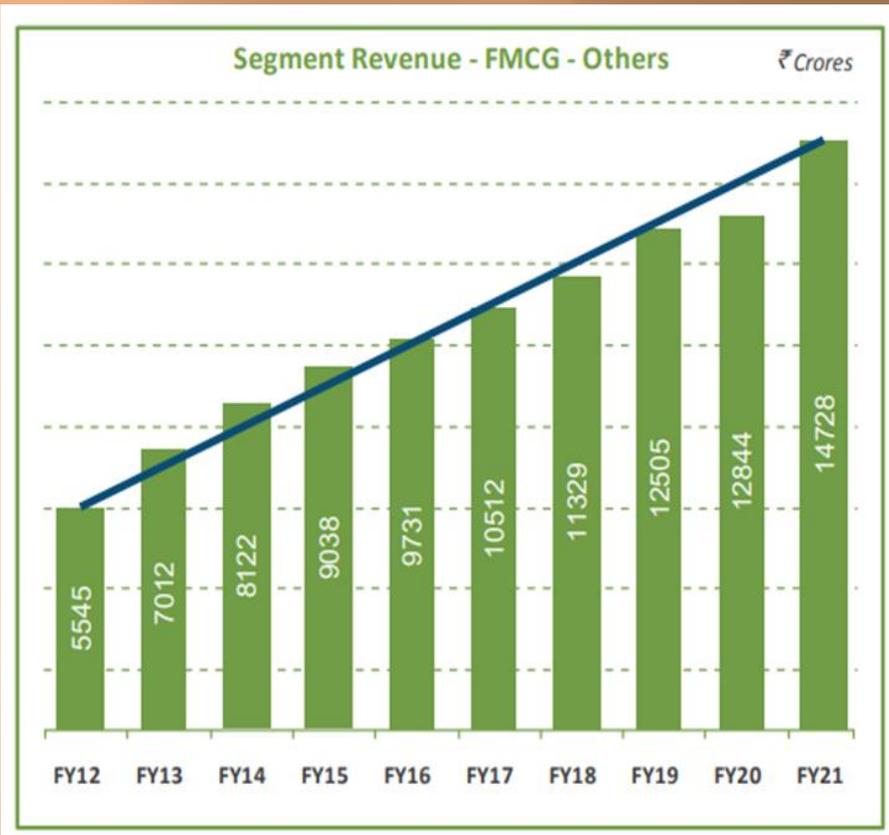
The company's sales has grown by 5% over the last 5 years.

### PAT

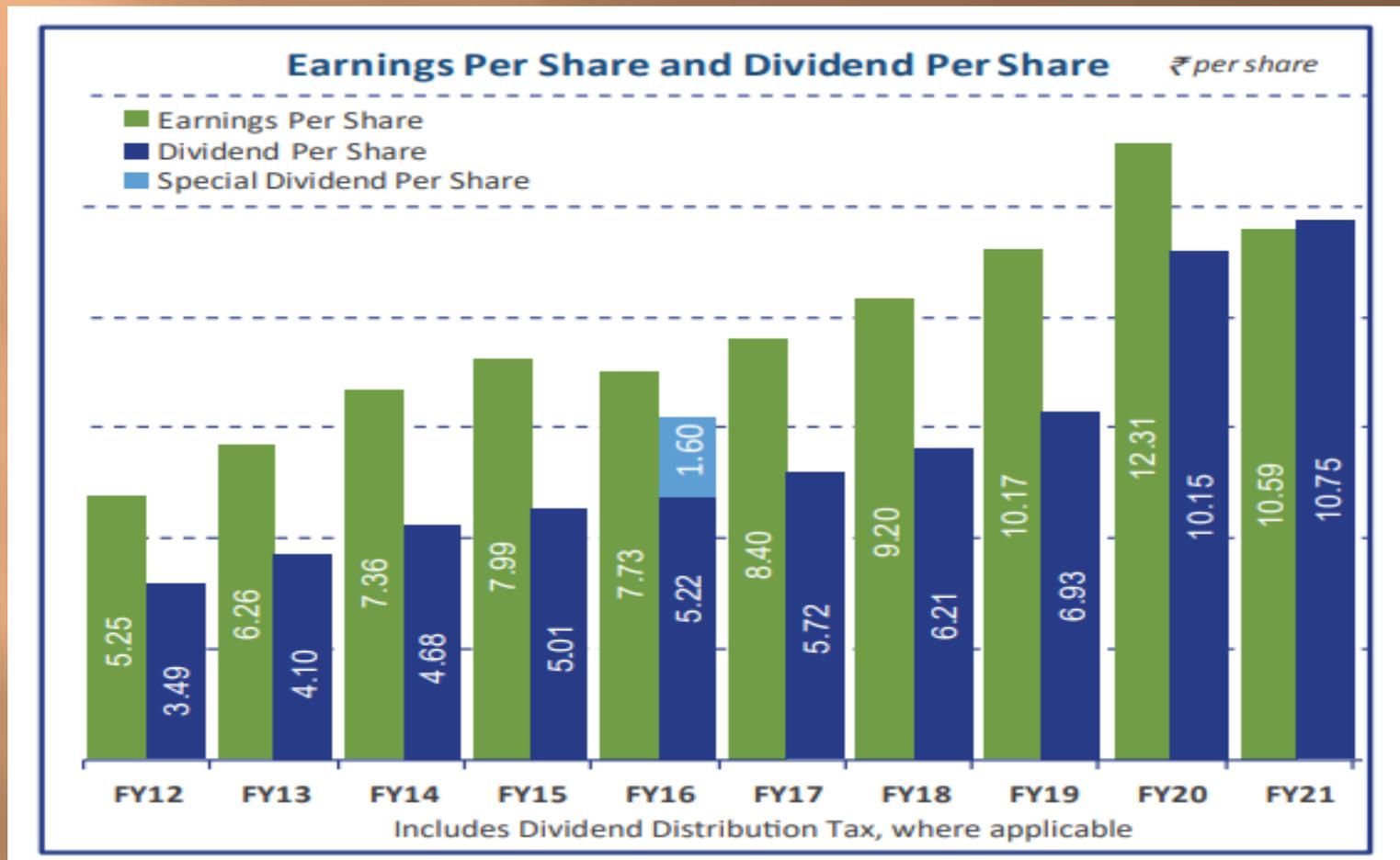
₹ Crores



Profit has grown by 7% over the last 5 years.



**PEE AAR SECURITIES LTD.**



Around 80-85% of the profits are given as dividend.

Overall for FY 2020-21, Gross Revenue stood at 48151.24 crores increased by 3.9%.

Profit Before Tax (before exceptional items) at 17164.15 crores degrew by 11.1% over FY 2019-20 and Profit After Tax stood at 13031.64 crores (previous year 15136.05 crores).

Total Comprehensive Income for the year stood at 13277.89 crores (previous year 13754.24 crores).

Earnings Per Share for the year stood at 10.59 (previous year 12.33).

Compounded Profit Growth	
10 Years:	10%
5 Years:	7%
3 Years:	6%
TTM:	12%

Compounded Sales Growth	
10 Years:	8%
5 Years:	5%
3 Years:	4%
TTM:	23%

# KEY RATIOS

Company is almost debt free.

The company has delivered a poor sales growth of 4.68% over past five years but volume of sales is good.

ITC is a cash-rich company and has huge reserves. It has increased from Rs 15,716 Cr to the levels of Rs 57,853 Cr.

Return on Capital Employed : The ROCE measures the ability of a firm to generate profits from its total capital (shareholder capital plus debt capital) employed in the company. ITC has 29% ROCE for the latest year. Higher ROCE is better.

Return on Equity	
10 Years:	26%
5 Years:	23%
3 Years:	23%
Last Year:	21%

Return on Equity (ROE): ROE measures the ability of a firm to generate profits from its shareholders investments in the company. In other words, the return on equity ratio shows how much profit each rupee of common stockholders' equity generates. ITC has a healthy ROE track record of 20 %

# CONCLUSION

Over the years, ITC share has fallen from the high of Rs 340 in 2017 to currently at Rs 250. The reason is their Cigarette business which is also known as the SIN business. Over the last few years, FII has consistently reduced its stake in ITC from 18% on Mar 18 to currently at 13%. There is a lot of pressure on the tobacco business due to an increase in tax. However, ITC is consistently increasing its FMCG business and in the next 3-5 years, food and personal care would contribute more to the revenues. Currently, it is investing a lot of money in its FMCG business.

Those who are looking to invest for the next 5-10 years should have ITC in their portfolio.