kotak Securities

Pick of the week

19th Oct'20

ITC Ltd

Recommendation	Time Period
Buy	12 Months

Current Price	Target Price	Potential Upside
₹166	₹260	56.6%

Investment Argument

- ARFY20 of ITC highlights that EBITDA growth print (+4% YoY) was impacted by higher taxation and Covid outbreak. FCF (Free cash flow) grew 30% to Rs117 bn led by reduction in Working- capital and tax rate cut. FMCG portfolio augmentation with steady margin expansion continued.
- Cigarette volumes which were down marginally at 0.8% YoY in FY20 due to taxation in the month of February; Covid-led lockdown in end March, dipped a bit in July and August 2020 (after normative levels in June) due to local lockdowns but have picked up again in September.
- FMCG core portfolio which grew 34% in Q1FY21,post key new launches in FY20 is tracking well except for slight moderation in biscuits, while discretionary/out of home (OOH) portfolio is witnessing some recovery.
- Stationery sales continue to be depressed as schools are shut and hotels topline weakness continues but losses are likely to moderate as compared to 1QFY21 levels.
- We believe concerns around taxation in view of stretched government finances and rising focus on Environmental, Social, and Corporate Governance (ESG)-compliant investment are more-than-adequately priced in.
- The stock offers a good combination of (1) inexpensive valuations; (2) healthy dividend yield (6%) and (3) promise of solid Long term growth in FMCG. We do not see any structural negative emerge for ITC from the ongoing pandemic.
- We are positive on ITC and recommend BUY with a Sum of the Parts (SoTP) based Fair Value of Rs260.

Note: The above is a brief note on the company, based on the inputs of KIE research report dated 24th September, 2020, which is available on our website at: https://www.kotaksecurities.com/ksweb/ResearchCall/Fundamental.