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FIRST LIGHT

07 February 2023

RESEARCH

ITC | TARGET: Rs 459 | +20% | BUY

Stellar show continues; outlook bright

STAR CEMENT | TARGET: Rs 138 | +24% | BUY

In-line performance; maintain BUY

SUMMARY

ITC

- Q3 revenue grew 3.5% YoY and gross margin expanded 700bps driven by a strong performance across categories
- FMCG business delivered strong, sustained growth with double-digit segmental EBITDA margin
- We assume coverage with BUY and a TP of Rs 459, offering 20% upside

Click here **for the full report.**

STAR CEMENT

- Q3 volumes up 5% YoY to 0.9mt backed by healthy realisation gains; price hike impact to reflect fully in Q4
- Average cost tracking in line with our full-year estimate for FY23; fuel cost inflation a key monitorable in the medium term
- Maintain BUY with an unchanged TP of Rs 138, valuing the stock at 8x FY25E EV/EBITDA

Click here **for the full report.**

Daily macro indicators

Indicator	02-Feb	03-Feb	Chg (%)
US 10Y yield (%)	3.39	3.52	13bps
India 10Y yield (%)	7.30	7.28	(2bps)
USD/INR	82.18	81.84	0.4
Brent Crude (US$/bbl)	82.2	79.9	(2.7)
Dow	34,054	33,926	(0.4)
Hang Seng	21,958	21,660	(1.4)
Sensex	59,932	60,842	1.5
India FII (US$ mn)	**01-Feb**	**02-Feb**	**Chg ($ mn)**
FII-D	350.2	118.1	(232.0)
FII-E	310.6	(443.9)	(754.5)

Source: Bank of Baroda Economics Research

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BUY
TP: Rs 459 | ⮝ 20%

ITC | Consumer Staples | 06 February 2023

Stellar show continues; outlook bright

- **Q3 revenue grew 3.5% YoY and gross margin expanded 700bps driven by a strong performance across categories**
- **FMCG business delivered strong, sustained growth with double-digit segmental EBITDA margin**
- **We assume coverage with BUY and a TP of Rs 459, offering 20% upside**

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Strong all-round performance: ITC witnessed 3.5% YoY revenue growth to Rs 177bn in Q3FY23 led by an uptick in cigarettes, FMCG – others, hotels, and paper and paperboards, while the agriculture business was adversely affected by the ban on wheat and rice exports. In the FMCG – others segment, revenue and EBITDA grew 1.5x and 1.9x respectively over Q3FY20. Consolidated EBITDA margin expanded 480bps YoY (150bps QoQ) to 35.5% amidst elevated commodity prices. Adj. PAT grew 23% YoY to Rs 50bn with margin expansion of 460bps. The company announced interim dividend of Rs 6/sh.

Momentum continues in cigarettes: Cigarette volumes increased 14-15% YoY. Per management, stability in cigarette taxation, backed by the deterrent actions of enforcement agencies, continues to enable recovery of volumes from illicit trade, resulting in higher demand. Recent launches continued to gain traction along with robust growth across regions and markets.

FMCG margin in double-digits for the first time: The FMCG business is seeing sustained traction, with segment revenue growing 18% YoY led by higher sales across staples, biscuits, noodles, snacks, dairy, beverages, and frozen foods. FMCG segment margin improved by 90bps YoY to 10% despite elevated input costs even as some commodities witnessed sequential moderation in prices. The margin expansion was backed by cost rationalisation initiatives, premiumisation, supply chain agility, judicious pricing actions, fiscal incentives, and digital investments.

BUY, TP Rs 459: We expect ITC to sustain its strong growth momentum across categories and model for a revenue/EBITDA/PAT CAGR of 12%/14%/14% over FY22-FY25. The cigarettes business continues to deliver volume growth and market share gains in the absence of competition from illicit trade, with the recent tax hike unlikely to dent sales. The FMCG segment too has outperformed some peers, and we expect margins to improve as input costs soften. We assume coverage on ITC with BUY and value the stock on SOTP basis at a TP of Rs 459.

Ticker/Price	ITC IN/Rs 383
Market cap	US$ 57.5bn
Free float	71%
3M ADV	US$ 51.4mn
52wk high/low	Rs 388/Rs 207
Promoter/FPI/DII	0%/43%/57%

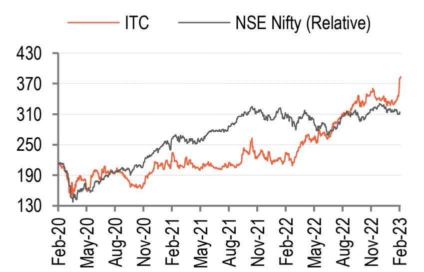
Source: NSE | Price as of 6 Feb 2023

Key financials

Y/E 31 Mar	FY22A	FY23E	FY24E
Total revenue (Rs mn)	6,06,681	7,03,269	7,61,674
EBITDA (Rs mn)	2,06,584	2,55,615	2,72,606
Adj. net profit (Rs mn)	1,55,031	1,90,557	2,03,519
Adj. EPS (Rs)	12.6	15.2	16.2
Consensus EPS (Rs)	12.6	14.6	15.8
Adj. ROAE (%)	24.3	27.5	28.1
Adj. P/E (x)	30.4	25.3	23.7
EV/EBITDA (x)	23.0	18.6	17.5
Adj. EPS growth (%)	15.8	20.2	6.8

Source: Company, Bloomberg, BOBCAPS Research

Stock performance



Source: NSE

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BUY
TP: Rs 138 | ⮝ 24%

STAR CEMENT | Cement | 06 February 2023

In-line performance; maintain BUY

- **Q3 volumes up 5% YoY to 0.9mt backed by healthy realisation gains; price hike impact to reflect fully in Q4**
- **Average cost tracking in line with our full-year estimate for FY23; fuel cost inflation a key monitorable in the medium term**
- **Maintain BUY with an unchanged TP of Rs 138, valuing the stock at 8x FY25E EV/EBITDA**

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Higher volumes and realisations drive revenue: STRCEM's Q3FY23 revenue grew 12% YoY (+4% QoQ) to Rs 6.2bn backed by higher realisations (+8% YoY/ +2% QoQ to Rs 6,823/t) and volumes (+5% YoY/+1% QoQ to ~0.9mt), indicating healthy demand in key markets. The company hiked prices in mid-December and hence the full impact will be reflected in Q4FY23.

High energy cost due to rise in clinker production: Overall cost increased 1% YoY to Rs 5,629/t while declining 4% QoQ as energy cost (adjusted for raw material cost) softened by 1% YoY and 6% QoQ. However, energy cost per tonne spiked 45% YoY to Rs 1,765/t as clinker production jumped 42%. Freight cost/t declined 2% YoY as lead distance reduced from 224km to 211km, but rose 5% QoQ due to the busy period surcharge. Other expenditure grew 6% YoY to Rs 873/t and fell 10% QoQ despite a 2% rise in sequential volumes, indicating judicious cost control.

Profits constrained by lower tax benefits: EBITDA grew 61% YoY to Rs 1.1bn and EBITDA margin rose to 17% from 11% (in both Q2 and Q3FY22). EBITDA/t increased 55% YoY (+53% QoQ) to Rs 1,194/t. However, adj. PAT grew only 21% YoY to Rs 529mn as tax expenses increased due to the tax exemption sunset related to STRCEM's Guwahati unit and its subsidiary company.

Capex to be supported by healthy internal accruals: Of the total capex of Rs 21bn envisaged for capacity expansion, Rs 2bn was incurred in Q3 with ~Rs 3bn guided for Q4FY23. FY24 will be capex-heavy with ~Rs 11.5bn to be spent on a clinkerisation unit in Meghalaya and a 2mt grinding unit in Guwahati. Residual capex of ~Rs 5bn is earmarked toward a 2mt grinding unit at Silchar (Assam) in FY25.

Maintain BUY: We like STRCEM for its strong presence in the remunerative northeast market, plans to derisk revenue, and light debt burden despite capex. Further, healthy realisations imply improvement in ROE/ROCE (13-14% by FY25E). We maintain BUY, valuing the stock at 8x FY25E EV/EBITDA for an unchanged TP of Rs 138 – implying a replacement cost of Rs 6.6bn/mt, a 6% discount to the benchmark (for details, see our initiation report).

Key changes

Target	Rating
◀ ▶	◀ ▶

Ticker/Price	STRCEM IN/Rs 112
Market cap	US$ 571.5mn
Free float	33%
3M ADV	US$ 0.5mn
52wk high/low	Rs 124/Rs 81
Promoter/FPI/DII	67%/1%/6%

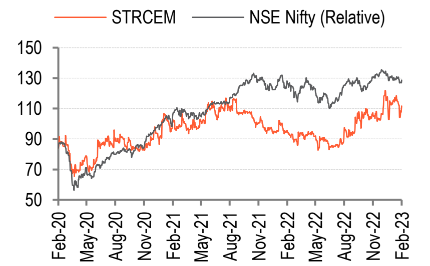
Source: NSE | Price as of 3 Feb 2023

Key financials

Y/E 31 Mar	FY22A	FY23E	FY24E
Total revenue (Rs mn)	22,187	26,769	32,869
EBITDA (Rs mn)	3,453	4,042	5,405
Adj. net profit (Rs mn)	2,468	2,156	2,606
Adj. EPS (Rs)	5.9	5.1	6.2
Consensus EPS (Rs)	5.9	5.2	5.7
Adj. ROAE (%)	11.6	9.6	10.7
Adj. P/E (x)	19.0	21.7	18.0
EV/EBITDA (x)	12.5	10.7	9.5
Adj. EPS growth (%)	(2.0)	(12.6)	20.9

Source: Company, Bloomberg, BOBCAPS Research

Stock performance



Source: NSE

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Recommendation scale: Recommendations and Absolute returns (%) over 12 months

BUY – Expected return >+15%

HOLD – Expected return from -6% to +15%

SELL – Expected return <-6%

Note: Recommendation structure changed with effect from 21 June 2021

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