

## ITC

### Performance Highlights

#### Quarterly result (Standalone)

(₹ cr)	1QFY17	1QFY16	% chg	4QFY16	%qoq
<b>Revenue</b>	<b>10,054</b>	<b>9,160</b>	<b>9.8</b>	<b>9,757</b>	<b>3.0</b>
EBITDA	3,526	3,252	8.4	3,608	(2.3)
OPM (%)	35.1	35.5	(43bp)	37.0	(191bp)
<b>PAT</b>	<b>2,385</b>	<b>2,166</b>	<b>10.1</b>	<b>2,379</b>	<b>0.2</b>

Source: Company, Angel Research

ITC posted a healthy set of numbers for 1QFY2017, both on the top-line and the bottom-line front. The top-line was strong due to healthy growth in Cigarettes, other FMCG & Agri businesses which resulted in a higher overall profitability of the company.

**Key highlights:** ITC's net sales for the quarter grew by 9.8% yoy to ₹10,054cr. In terms of segment wise performance (gross level), the Cigarettes business posted a 6.4% yoy growth in sales to ₹8,231cr, aided by price hikes and increase in volume. The FMCG (Others) business posted a 9.5% yoy growth in sales to ₹2,385cr. Further, the Agri business posted a strong sales growth of 20.2% yoy to ₹2,794cr. However, the Paperboards & Packaging and Hotel divisions posted a revenue de-growth of 1.6% yoy and 0.2% yoy for the quarter. Overall, the company's OPM contracted by 43bp yoy to 35.1%, owing to increase in raw material and staff costs.

**Outlook and valuation:** We expect ITC to report a top-line and bottom-line CAGR of 9.8% and 11.3% respectively over FY2016-18E. **At the current market price, the stock is trading at 24.6x its FY2018E EPS. We recommend an Accumulate on the stock with a target price of ₹283.**

#### Key financials (Standalone)

Y/E March (₹ cr)	FY2015	FY2016E	FY2017E	FY2018E
<b>Net Sales</b>	<b>36,507</b>	<b>36,837</b>	<b>40,059</b>	<b>44,439</b>
% chg	9.8	0.9	8.7	10.9
<b>Net Profit (Adj)</b>	<b>9,608</b>	<b>9,845</b>	<b>10,984</b>	<b>12,196</b>
% chg	9.4	2.5	11.6	11.0
EBITDA (%)	36.9	38.7	39.0	39.2
<b>EPS (₹)</b>	<b>8.0</b>	<b>8.1</b>	<b>9.1</b>	<b>10.1</b>
P/E (x)	31.2	30.4	27.3	24.6
P/BV (x)	9.8	8.5	7.4	6.5
RoE (%)	31.3	27.8	27.2	26.5
RoCE (%)	40.6	37.3	35.8	35.1
EV/Sales (x)	7.8	7.6	7.0	6.2
EV/EBITDA (x)	21.1	19.7	17.9	15.9

Source: Company, Angel Research; Note: CMP as of July 21, 2016

## ACCUMULATE

CMP	₹250
Target Price	₹283

Investment Period	12 Months
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#### Stock Info

Sector	FMCG
Market Cap (₹ cr)	3,01,456
Net Debt (₹ cr)	-14,583
Beta	0.8
52 Week High / Low	259/179
Avg. Daily Volume	7,14,229
Face Value (₹)	1
BSE Sensex	27,803
Nifty	8,541
Reuters Code	ITC.BO
Bloomberg Code	ITC@IN

#### Shareholding Pattern (%)

Promoters	0.0
MF / Banks / Indian Fls	38.7
FII / NRIs / OCBs	51.2
Indian Public / Others	10.1

Abs. (%)	3m	1yr	3yr
Sensex	7.1	(1.7)	37.5
ITC	19.8	14.1	19.9

#### 3-year price chart



Source: Company, Angel Research

**Amarjeet S Maurya**

022 – 3935 7800 Ext: 6831

amarjeet.maurya@angelbroking.com

**Exhibit 1: Quarterly performance (Standalone)**

Y/E March (₹ cr)	1QFY17	1QFY16	% yoy	4QFY16	%qoq
<b>Net Sales</b>	<b>10,054</b>	<b>9,160</b>	<b>9.8</b>	<b>9,757</b>	<b>3.0</b>
Consumption of RM	4,246	3,741	13.5	3,567	19.0
(% of Sales)	42.23	40.84		36.56	
Staff Costs	700	627	11.6	551	27.0
(% of Sales)	7.0	6.8		5.7	
Other Expenses	1,582	1,539	2.8	2,030	(22.1)
(% of Sales)	15.7	16.8		20.8	
<b>Total Expenditure</b>	<b>6,528</b>	<b>5,908</b>	<b>10.5</b>	<b>6,148</b>	<b>6.2</b>
<b>Operating Profit</b>	<b>3,526</b>	<b>3,252</b>	<b>8.4</b>	<b>3,608</b>	<b>(2.3)</b>
OPM	35.1	35.5	(43bp)	37.0	(191bp)
Interest	10	10	(3.4)	12	(17.7)
Depreciation & Ammortisation	261	258	1.4	254	2.8
Other Income	421	356	18.0	371	13.3
<b>PBT (excl. Extraordinary Items)</b>	<b>3,675</b>	<b>3,341</b>	<b>10.0</b>	<b>3,713</b>	<b>(1.0)</b>
Extraordinary Income/(Expense)	-	-		-	
<b>PBT (incl. Extraordinary Items)</b>	<b>3,675</b>	<b>3,341</b>	<b>10.0</b>	<b>3,713</b>	<b>(1.0)</b>
(% of Sales)	36.6	36.5		38.1	
Provision for Taxation	1,291	1,175	9.9	1,334	(3.3)
(% of PBT)	35.1	35.2		35.9	
<b>Reported PAT</b>	<b>2,385</b>	<b>2,166</b>	<b>10.1</b>	<b>2,379</b>	<b>0.2</b>
PATM	24	24		24	

Source: Company, Angel Research

### Top-line remains healthy

In terms of segment wise performance (gross level), the Cigarettes business posted a 6.4% yoy growth in sales to ₹8,231cr, aided by price hikes and increase in volume. The FMCG (Others) business posted a 9.5% yoy growth in net sales to ₹2,385cr. Further, the Agri business posted a strong sales growth of 20.2% yoy to ₹2,794cr. However, the Paperboards & Packaging and Hotel divisions posted a revenue de-growth of 1.6% yoy and 0.2% yoy for the quarter.

### Operating profit up 8.4% yoy

The company reported an operating profit of ₹3,526cr for 1QFY2017, up 8.4% yoy. Further, the company's OPM contracted by 43bp yoy to 35.1%, owing to increase in raw material and staff costs.

#### Exhibit 2: Segment-wise performance (Standalone)

Y/E Mar (₹ cr)	1QFY17	1QFY16	% yoy	4QFY16	% qoq
<b>Gross Income</b>					
Cigarettes	8231	7733	6.4	8545	(3.7)
Others	2385	2178	9.5	2711	(12.0)
Hotels	287	288	(0.2)	363	(20.8)
Agri Business	2794	2325	20.2	1806	54.7
Paperboards & Packaging	1323	1344	(1.6)	1315	0.6
<b>PBIT</b>					
Cigarettes	3005	2781	8.0	3019	(0.5)
Others	(5)	(8)	(42.0)	71	(106.4)
Hotels	1	(7)	(116.8)	43	(97.1)
Agri Business	237	234	1.5	170	39.3
Paperboards & Packaging	248	254	(2.7)	203	22.0
<b>PBIT Margin (%)</b>					
Cigarettes	36.5	36.0		35.3	
Others	(0.2)	(0.4)		2.6	
Hotels	0.4	(2.5)		11.7	
Agri Business	8.5	10.1		9.4	
Paperboards & Packaging	18.7	18.9		15.4	

Source: Company, Angel Research

## Investment rationale

- **Cigarettes business to enjoy strong pricing power:** We believe ITC's cigarettes business is well poised to continue to post a healthy profit growth over FY2016-18E due to its strong pricing power and improvement in volume.
- **Non-cigarettes businesses to register healthy growth over FY2016-18E:** While cigarettes remain the main profit center for the company, investments in the non-cigarettes businesses such as FMCG, Hotels and Paperboards have given the company a foothold in the respective businesses. We expect these businesses to play a major role in driving the company's long-term growth.

## Outlook and valuation

We expect ITC to report a top-line and bottom-line CAGR of 9.8% and 11.3% respectively over FY2016-18E. **At the current market price, the stock is trading at 24.6x its FY2018E EPS. We recommend an Accumulate on the stock with a target price of ₹283.**

## Company Background

ITC is a diversified conglomerate, present across various categories – Cigarettes (41% of revenue); Hotels (3% of revenue); Paperboards and Packaging (13% of revenue); Agri-business (22% of revenue); and other FMCG (branded apparel, personal care, stationery, safety matches and specialty papers [21% of revenue]) businesses. Although ITC is a market leader in the cigarettes category, it is rapidly gaining market share even in its evolving businesses of packaged foods and confectionery, branded apparel, personal care and stationery.

**Profit and loss statement (Standalone)**

Y/E March (₹ cr)	FY13	FY14	FY15	FY16	FY17E	FY18E
<b>Total operating income</b>	<b>29,901</b>	<b>33,239</b>	<b>36,507</b>	<b>36,837</b>	<b>40,059</b>	<b>44,439</b>
% chg	18.9	11.2	9.8	0.9	8.7	10.9
<b>Total Expenditure</b>	<b>19,274</b>	<b>20,784</b>	<b>23,034</b>	<b>22,599</b>	<b>24,436</b>	<b>27,019</b>
Cost of Materials	12,066	13,156	14,672	13,703	14,742	16,220
Personnel	1,387	1,608	1,780	1,884	2,083	2,355
Others	5,821	6,019	6,582	7,013	7,611	8,443
<b>EBITDA</b>	<b>10,628</b>	<b>12,455</b>	<b>13,474</b>	<b>14,238</b>	<b>15,623</b>	<b>17,420</b>
% chg	20.1	17.2	8.2	5.7	9.7	11.5
(% of Net Sales)	35.5	37.5	36.9	38.7	39.0	39.2
Depreciation & Amortisation	796	900	962	1,034	1,123	1,256
<b>EBIT</b>	<b>9,832</b>	<b>11,555</b>	<b>12,512</b>	<b>13,204</b>	<b>14,500</b>	<b>16,164</b>
% chg	20.6	17.5	8.3	5.5	9.8	11.5
(% of Net Sales)	32.9	34.8	34.3	35.8	36.2	36.4
Interest & other Charges	86	3	57	49	55	60
Other Income	939	1,107	1,543	1,804	1,950	2,100
(% of PBT)	8.8	8.7	11.0	12.1	11.9	11.5
Share in profit of Associates	-	-	-	-	-	-
<b>Recurring PBT</b>	<b>10,684</b>	<b>12,659</b>	<b>13,998</b>	<b>14,958</b>	<b>16,395</b>	<b>18,204</b>
% chg	20.1	18.5	10.6	6.9	9.6	11.0
Extraordinary Expense/(Inc.)	-	-	-	-	-	-
<b>PBT (reported)</b>	<b>10,684</b>	<b>12,659</b>	<b>13,998</b>	<b>14,958</b>	<b>16,395</b>	<b>18,204</b>
Tax	3,266	3,874	4,390	5,114	5,410	6,007
(% of PBT)	30.6	30.6	31.4	34.2	33.0	33.0
<b>PAT (reported)</b>	<b>7,418</b>	<b>8,785</b>	<b>9,608</b>	<b>9,845</b>	<b>10,984</b>	<b>12,196</b>
Add: Share of associates	-	-	-	-	-	-
<b>ADJ. PAT</b>	<b>7,418</b>	<b>8,785</b>	<b>9,608</b>	<b>9,845</b>	<b>10,984</b>	<b>12,196</b>
% chg	20.4	18.4	9.4	2.5	11.6	11.0
(% of Net Sales)	24.8	26.4	26.3	26.7	27.4	27.4
<b>Basic EPS (₹)</b>	<b>6.1</b>	<b>7.3</b>	<b>8.0</b>	<b>8.1</b>	<b>9.1</b>	<b>10.1</b>
<b>Fully Diluted EPS (₹)</b>	<b>6.1</b>	<b>7.3</b>	<b>8.0</b>	<b>8.1</b>	<b>9.1</b>	<b>10.1</b>
% chg	20.4	18.4	9.4	2.5	11.6	11.0

**Balance Sheet (Standalone)**

Y/E March (₹ cr)	FY13	FY14	FY15	FY16	FY17E	FY18E
<b>SOURCES OF FUNDS</b>						
Equity Share Capital	790	795	802	805	1,208	1,208
Reserves & Surplus	21,498	25,467	29,934	34,561	39,211	44,821
<b>Shareholders Funds</b>	<b>22,288</b>	<b>26,262</b>	<b>30,736</b>	<b>35,366</b>	<b>40,419</b>	<b>46,029</b>
Minority Interest	-	-	-	-	-	-
Total Loans	78	67	53	29	35	40
Deferred Tax Liability	1,706	1,741	2,099	2,099	2,099	2,099
<b>Total Liabilities</b>	<b>24,072</b>	<b>28,070</b>	<b>32,888</b>	<b>37,495</b>	<b>42,553</b>	<b>48,168</b>
<b>APPLICATION OF FUNDS</b>						
Gross Block	16,944	18,545	21,727	25,140	28,641	32,143
Less: Acc. Depreciation	5,735	6,532	7,548	8,583	9,706	10,963
<b>Net Block</b>	<b>11,209</b>	<b>12,013</b>	<b>14,178</b>	<b>16,557</b>	<b>18,935</b>	<b>21,181</b>
Capital Work-in-Progress	1,488	2,296	2,114	2,114	2,114	2,114
<b>Investments</b>	<b>7,060</b>	<b>8,823</b>	<b>8,405</b>	<b>12,854</b>	<b>12,854</b>	<b>12,854</b>
<b>Current Assets</b>	<b>14,260</b>	<b>16,097</b>	<b>19,498</b>	<b>19,735</b>	<b>22,528</b>	<b>27,021</b>
Inventories	6,600	7,360	7,837	7,872	8,780	9,984
Sundry Debtors	1,163	2,165	1,722	1,615	1,536	1,705
Cash	3,615	3,289	7,589	6,565	7,805	9,111
Loans & Advances	1,154	1,803	843	1,842	2,404	3,111
Other	1,728	1,480	1,506	1,842	2,003	3,111
Current liabilities	10,448	11,604	11,775	14,234	14,346	15,469
<b>Net Current Assets</b>	<b>3,812</b>	<b>4,494</b>	<b>7,722</b>	<b>5,501</b>	<b>8,182</b>	<b>11,552</b>
Deferred Tax Asset	503	445	468	468	468	468
Mis. Exp. not written off	-	-	-	-	-	-
<b>Total Assets</b>	<b>24,072</b>	<b>28,070</b>	<b>32,888</b>	<b>37,495</b>	<b>42,553</b>	<b>48,168</b>

**Cash flow statement (Standalone)**

Y/E March (₹ cr)	FY13	FY14	FY15	FY16	FY17E	FY18E
Profit before tax	10,684	12,659	13,998	14,958	16,395	18,204
Depreciation	796	900	962	1,034	1,123	1,256
Change in Working Capital	(1,049)	(1,732)	30	1,280	(1,440)	(2,064)
Interest / Dividend (Net)	(580)	(767)	(1,131)	49	55	60
Direct taxes paid	(2,886)	(3,797)	(4,226)	(5,114)	(5,410)	(6,007)
Others	(255)	(300)	(324)	-	-	-
<b>Cash Flow from Operations</b>	<b>6,710</b>	<b>6,962</b>	<b>9,309</b>	<b>12,208</b>	<b>10,723</b>	<b>11,449</b>
(Inc.)/ Dec. in Fixed Assets	(4,324)	(4,586)	(4,402)	(12,398)	(3,501)	(3,502)
(Inc.)/ Dec. in Investments	(744)	(1,763)	418	(4,449)	-	-
<b>Cash Flow from Investing</b>	<b>(3,581)</b>	<b>(2,823)</b>	<b>(4,820)</b>	<b>(7,949)</b>	<b>(3,501)</b>	<b>(3,502)</b>
Issue of Equity	922	691	979	3	-	-
Inc./(Dec.) in loans	(10)	(11)	(15)	(24)	6	5
Dividend Paid (Incl. Tax)	(3,518)	(4,148)	(4,772)	(5,218)	(5,932)	(6,586)
Interest / Dividend (Net)	273	(996)	3,619	(45)	(55)	(60)
<b>Cash Flow from Financing</b>	<b>(2,333)</b>	<b>(4,465)</b>	<b>(190)</b>	<b>(5,284)</b>	<b>(5,981)</b>	<b>(6,641)</b>
Inc./(Dec.) in Cash	796	(326)	4,299	(1,024)	1,241	1,306
<b>Opening Cash balances</b>	<b>2,819</b>	<b>3,615</b>	<b>3,289</b>	<b>7,589</b>	<b>6,565</b>	<b>7,805</b>
<b>Closing Cash balances</b>	<b>3,615</b>	<b>3,289</b>	<b>7,589</b>	<b>6,565</b>	<b>7,805</b>	<b>9,111</b>

**Key ratios**

Y/E March	FY13	FY14	FY15	FY16	FY17E	FY18E
<b>Valuation Ratio (x)</b>						
P/E (on FDEPS)	40.4	34.1	31.2	30.4	27.3	24.6
P/CEPS	36.5	30.9	28.3	27.5	24.7	22.3
P/BV	13.5	11.4	9.8	8.5	7.4	6.5
Dividend yield (%)	2.1	2.4	1.7	1.7	2.0	2.2
EV/Sales	9.7	8.7	7.8	7.6	7.0	6.2
EV/EBITDA	27.2	23.1	21.1	19.7	17.9	15.9
EV / Total Assets	8.4	7.2	6.4	5.4	4.9	4.4
<b>Per Share Data (₹)</b>						
EPS (Basic)	6.1	7.3	8.0	8.1	9.1	10.1
EPS (fully diluted)	6.1	7.3	8.0	8.1	9.1	10.1
Cash EPS	6.8	8.0	8.7	9.0	10.0	11.1
DPS	5.3	6.0	4.1	4.3	4.9	5.5
Book Value	18.4	21.7	25.4	29.2	33.4	38.1
<b>Returns (%)</b>						
RoCE	44.0	43.9	40.6	37.3	35.8	35.1
Angel RoIC (Pre-tax)	84.1	81.3	84.6	82.6	73.3	67.1
RoE	33.3	33.5	31.3	27.8	27.2	26.5
<b>Turnover ratios (x)</b>						
Asset Turnover	1.8	1.8	1.7	1.5	1.4	1.4
Inventory / Sales (days)	81	81	78	78	80	82
Receivables (days)	14	24	17	16	14	14
Payables (days)	24	25	22	24	26	26
Net Working capital (days)	71	79	74	70	68	70



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	ITC
1. Financial interest of research analyst or Angel or his Associate or his relative	No
2. Ownership of 1% or more of the stock by research analyst or Angel or associates or relatives	No
3. Served as an officer, director or employee of the company covered under Research	No
4. Broking relationship with company covered under Research	No

**Ratings (Based on expected returns over 12 months investment period):**

Buy (> 15%)

Accumulate (5% to 15%)  
Reduce (-5% to -15%)

Neutral (-5 to 5%)  
Sell (< -15)