

ITC

Performance Highlights

Quarterly result (Standalone)

(₹ cr)	2QFY16	2QFY15	% chg	1QFY16	%qoq
Revenue	8,904	9,024	(1.3)	8,588	3.7
EBITDA	3,560	3,489	2.0	3,386	5.1
OPM (%)	40.0	38.7	132bp	39.4	56bp
PAT	2,431	2,425	0.3	2,265	7.3

Source: Company, Angel Research

ITC posted a poor set of numbers for 2QFY2016, both on the top-line and bottom-line fronts. The top-line was subdued due to underperformance across segments, barring other FMCG and Hotel businesses, which in turn resulted in a lower profitability of the company.

Key highlights: ITC's net sales for the quarter declined by 1.3% yoy to ₹8,904cr. The Cigarettes business posted a 1.6% yoy growth in net sales to ₹4,317cr, aided by price hikes. A muted sales growth resulted in the Cigarettes business posting a 3.0% yoy growth in its EBIT. The other FMCG business, which posted a 7.1% yoy growth in net sales to ₹2,352cr, posted an EBIT level loss of ₹11cr. The Paperboards and Packaging division posted a de-growth of 2.3% yoy and 13.6% yoy in revenue and segmental EBIT, respectively. Further, the Agri business posted a de-growth of 10.4% yoy in revenue, while its EBIT remained flat on a yoy basis. The Hotels business posted a 10.9% yoy growth in its top-line, while it reported an EBIT level loss of ₹6cr. Overall, the company's OPM expanded by 132bp yoy to 40.0%, owing to lower raw material costs (down 325bp yoy as a % of sales).

Outlook and valuation: We expect ITC to report a top-line and bottom-line CAGR of 6.5% and 7.1% respectively over FY2015-18E. **At the current market price, the stock is trading at 22.8x FY2018E EPS. We recommend an accumulate on the stock with a target price of ₹382.**

Key financials (Standalone)

Y/E March (₹ cr)	FY2015	FY2016E	FY2017E	FY2018E
Net Sales	36,507	38,237	40,623	44,077
% chg	9.8	4.7	6.2	8.5
Net Profit (Adj)	9,608	10,164	10,873	11,792
% chg	9.4	5.8	7.0	8.4
EBITDA (%)	36.9	37.1	37.2	37.3
EPS (₹)	12.0	12.7	13.5	14.7
P/E (x)	28.0	26.5	24.7	22.8
P/BV (x)	8.8	7.6	6.6	5.9
RoE (%)	31.3	28.6	26.8	25.7
RoCE (%)	40.6	37.0	34.5	33.0
EV/Sales (x)	6.9	6.6	6.2	5.7
EV/EBITDA (x)	18.8	17.8	16.7	15.3

Source: Company, Angel Research; Note: CMP as of November 2, 2015

ACCUMULATE

CMP	₹337
Target Price	₹382

Investment Period	12 Months
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Stock Info

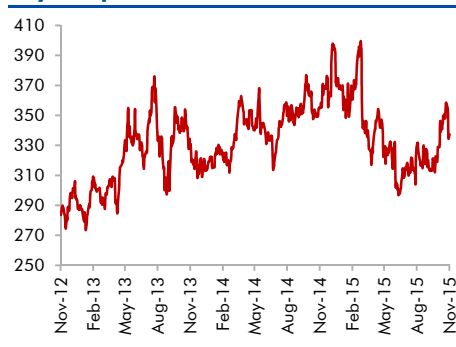
Sector	FMCG
Market Cap (₹ cr)	2,70,773
Net Debt (₹ cr)	-15,928
Beta	0.8
52 Week High / Low	410/295
Avg. Daily Volume	5,22,748
Face Value (₹)	1
BSE Sensex	26,559
Nifty	8,051
Reuters Code	ITC.BO
Bloomberg Code	ITC@IN

Shareholding Pattern (%)

Promoters	0.0
MF / Banks / Indian FIs	20.7
FII / NRIs / OCBs	35.1
Indian Public / Others	44.2

Abs. (%)	3m	1yr	3yr
Sensex	15.5	33.9	20.1
ITC	3.4	4.3	41.6

3-year price chart



Source: Company, Angel Research

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Exhibit 1: Quarterly performance (Standalone)

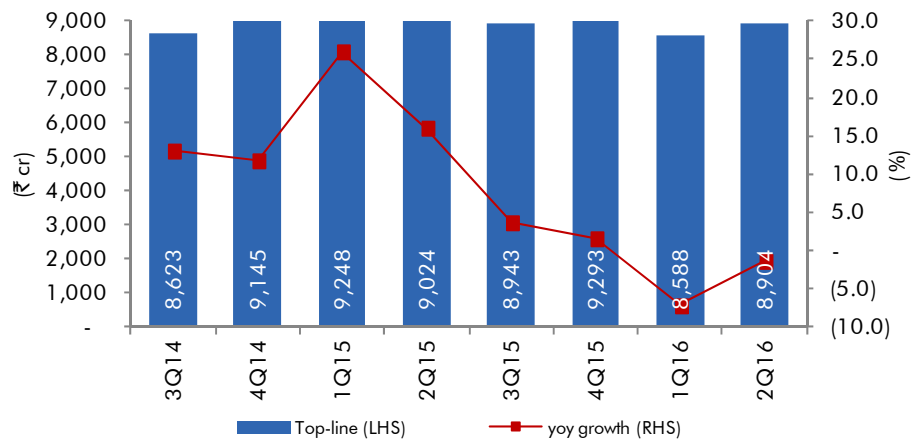
Y/E March (₹ cr)	2QFY16	2QFY15	% yoy	1QFY16	%qoq	FY2015	FY2014	% chg
Net Sales	8,904	9,024	(1.3)	8,588	3.7	36,507	33,239	9.8
Consumption of RM	3,219	3,555	(9.5)	3,169	1.6	14,672	13,156	11.5
(% of Sales)	36.15	39.40		36.90		40.2	39.6	
Staff Costs	451	398	13.3	517	(12.9)	1,780	1,608	10.7
(% of Sales)	5.1	4.4		6.0		4.9	4.8	
Other Expenses	1,674	1,582	5.8	1,515	10.5	6,582	6,019	9.4
(% of Sales)	18.8	17.5		17.6		18.0	18.1	
Total Expenditure	5,344	5,535	(3.4)	5,202	2.7	23,034	20,784	10.8
Operating Profit	3,560	3,489	2.0	3,386	5.1	13,474	12,455	8.2
OPM	40.0	38.7	132	39.4	56	36.9	37.5	(56.5)
Interest	10	18	(43.9)	10	(1.4)	57	3	1,846.4
Depreciation & Amortization	259	243	6.4	258	0.2	962	1,107	(13.1)
Other Income	399	356	12.1	315	26.7	1,543	971	58.9
PBT (excl. Extraordinary Items)	3,690	3,583	3.0	3,432	7.5	13,998	12,316	13.7
Extraordinary Income/(Expense)	-	-		-		-	-	
PBT (incl. Extraordinary Items)	3,690	3,583	3.0	3,432	7.5	13,998	12,316	13.7
(% of Sales)	41.4	39.7		40.0		38.3	37.1	
Provision for Taxation	1,259	1,158	8.7	1,167	7.9	4,390	3,874	13.3
(% of PBT)	34.1	32.3		34.0		31.4	31.5	
Reported PAT	2,431	2,425	0.3	2,265	7.3	9,608	8,442	13.8
PATM	27	27		26		26	25	
EPS (₹)	3.0	3.0	0.3	2.8	7.3	12.0	10.5	13.8

Source: Company, Angel Research

Top-line flat

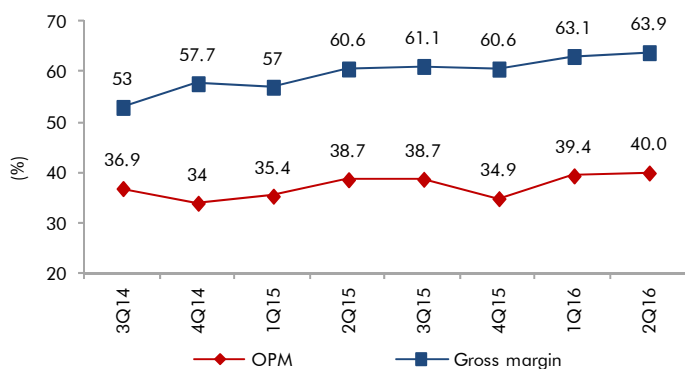
ITC's net sales for the quarter declined by 1.3% yoy to ₹8,904cr. The Cigarettes business posted a 1.6% yoy growth in net sales to ₹4,317cr, aided by price hikes. A muted sales growth resulted in the Cigarettes business posting a 3.0% yoy growth in its EBIT. The other FMCG business, which posted a 7.1% yoy growth in net sales to ₹2,352cr, posted an EBIT level loss of ₹11cr. The Paperboards and Packaging division posted a de-growth of 2.3% yoy and 13.6% yoy in revenue and segmental EBIT, respectively. Further, the Agri business posted a de-growth of 10.4% yoy in revenue, while its EBIT remained flat on a yoy basis. The Hotels business posted a 10.9% yoy growth in its top-line, while it reported an EBIT level loss of ₹6cr.

Exhibit 2: Top-line was flat



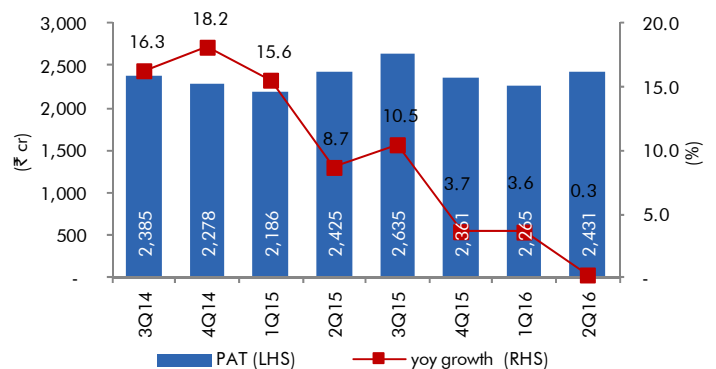
Source: Company, Angel Research

Exhibit 3: OPM increases by 132bp yoy to 40.0%



Source: Company, Angel Research

Exhibit 4: Earnings growth at 0.3% yoy



Source: Company, Angel Research

Operating profit up 2.0 % yoy

The company reported an operating profit of ₹3,560cr for 2QFY2016, up marginally by 2.0% yoy. However, the company's OPM expanded by 132bp yoy to 40.0%, owing to lower raw material costs (down 325bp yoy as a % of sales).

Exhibit 5: Segment-wise performance (Standalone)

Y/E Mar (₹ cr)	2QFY16	2QFY15	% yoy	1QFY15	% qoq	FY2015	FY2014	% chg
Net Income								
Cigarettes	4,317	4,251	1.6	4,150	4.0	16,805	15,456	8.7
Others	2,352	2,196	7.1	2,171	8.3	9,011	8,099	11.3
Hotels	290	262	10.9	288	0.8	1,187	1,133	4.8
Agri Business	1,844	2,059	(10.4)	2,325	(20.7)	8,380	7,752	8.1
Paperboards & Packaging	1,254	1,284	(2.3)	1,265	(0.9)	4,974	4,861	2.3
PBIT								
Cigarettes	2,969	2,882	3.0	2,781	6.8	11,196	10,016	11.8
Others	(11)	(10)	7.7	(8)	39.3	34	22	56.2
Hotels	(6)	(10)	(42.2)	(7)	(23.6)	49	140	(64.9)
Agri Business	294	298	(1.4)	234	25.7	904	835	8.3
Paperboards & Packaging	209	242	(13.6)	254	(17.8)	921	892	3.3
PBIT Margin (%)								
Cigarettes	68.8	67.8		62.6		66.6	64.8	
Others	(0.5)	(0.5)		1.9		0.4	0.3	
Hotels	(1.9)	(3.7)		18.7		4.1	12.3	
Agri Business	15.9	14.5		7.3		10.8	10.8	
Paperboards & Packaging	16.7	18.9		15.0		18.5	18.4	

Source: Company, Angel Research

Investment rationale

- **Cigarettes business to enjoy strong pricing power:** We believe ITC's cigarette business is well poised to continue to post a healthy profit growth over FY2015-17E due to its strong pricing power and improvement in volume growth.
- **Non-cigarette businesses to register healthy growth FY2015-17E:** While cigarettes remain the main profit center for the company, investments in the non-cigarette 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 6.5% and 7.1% respectively over FY2015-18E. At the current market price, the stock is trading at 22.8x FY2018E EPS. We recommend an accumulate on the stock with a target price of ₹382.

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). 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
Total operating income	29,901	33,239	36,507	38,237	40,623	44,077
% chg	18.9	11.2	9.8	4.7	6.2	8.5
Total Expenditure	19,274	20,784	23,034	24,051	25,511	27,636
Cost of Materials	12,066	13,156	14,672	15,562	16,655	18,071
Personnel	1,387	1,608	1,780	1,912	2,072	2,248
Others	5,821	6,019	6,582	6,577	6,784	7,317
EBITDA	10,628	12,455	13,474	14,186	15,112	16,441
% chg	20.1	17.2	8.2	5.3	6.5	8.8
(% of Net Sales)	35.5	37.5	36.9	37.1	37.2	37.3
Depreciation & Amortisation	796	900	962	1,038	1,123	1,256
EBIT	9,832	11,555	12,512	13,148	13,988	15,184
% chg	20.6	17.5	8.3	5.1	6.4	8.5
(% of Net Sales)	32.9	34.8	34.3	34.4	34.4	34.4
Interest & other Charges	86	3	57	60	65	70
Other Income	939	1,107	1,543	1,750	1,950	2,100
(% of PBT)	8.8	8.7	11.0	11.8	12.3	12.2
Share in profit of Associates	-	-	-	-	-	-
Recurring PBT	10,684	12,659	13,998	14,838	15,874	17,214
% chg	20.1	18.5	10.6	6.0	7.0	8.4
Extraordinary Expense/(Inc.)	-	-	-	-	-	-
PBT (reported)	10,684	12,659	13,998	14,838	15,874	17,214
Tax	3,266	3,874	4,390	4,674	5,000	5,422
(% of PBT)	30.6	30.6	31.4	31.5	31.5	31.5
PAT (reported)	7,418	8,785	9,608	10,164	10,873	11,792
Add: Share of associates	-	-	-	-	-	-
ADJ. PAT	7,418	8,785	9,608	10,164	10,873	11,792
% chg	20.4	18.4	9.4	5.8	7.0	8.4
(% of Net Sales)	24.8	26.4	26.3	26.6	26.8	26.8
Basic EPS (₹)	9.2	10.9	12.0	12.7	13.5	14.7
Fully Diluted EPS (₹)	9.2	10.9	12.0	12.7	13.5	14.7
% chg	20.4	18.4	9.4	5.8	7.0	8.4

Balance Sheet (Standalone)

Y/E March (₹ cr)	FY13	FY14	FY15	FY16	FY17E	FY18E
SOURCES OF FUNDS						
Equity Share Capital	790	795	802	802	802	802
Reserves & Surplus	21,498	25,467	29,934	34,711	39,713	45,137
Shareholders Funds	22,288	26,262	30,736	35,513	40,515	45,939
Minority Interest	-	-	-	-	-	-
Total Loans	78	67	53	66	67	67
Deferred Tax Liability	1,706	1,741	2,099	2,099	2,099	2,099
Total Liabilities	24,072	28,070	32,888	37,678	42,681	48,105
APPLICATION OF FUNDS						
Gross Block	16,944	18,545	21,727	25,144	28,645	32,147
Less: Acc. Depreciation	5,735	6,532	7,548	8,587	9,710	10,966
Net Block	11,209	12,013	14,178	16,557	18,935	21,181
Capital Work-in-Progress	1,488	2,296	2,114	2,114	2,114	2,114
Investments	7,060	8,823	8,405	8,405	8,405	8,405
Current Assets	14,260	16,097	19,498	21,633	23,918	27,801
Inventories	6,600	7,360	7,837	8,171	8,904	9,902
Sundry Debtors	1,163	2,165	1,722	2,095	2,782	3,260
Cash	3,615	3,289	7,589	7,543	7,764	8,468
Loans & Advances	1,154	1,803	843	1,912	2,437	3,085
Other	1,728	1,480	1,506	1,912	2,031	3,085
Current liabilities	10,448	11,604	11,775	11,500	11,160	11,864
Net Current Assets	3,812	4,494	7,722	10,133	12,758	15,937
Deferred Tax Asset	503	445	468	468	468	468
Mis. Exp. not written off	-	-	-	-	-	-
Total Assets	24,072	28,070	32,888	37,678	42,681	48,105

Cash flow statement (Standalone)

Y/E March (₹ cr)	FY13	FY14	FY15	FY16	FY17E	FY18E
Profit before tax	10,684	12,659	13,998	14,838	15,874	17,214
Depreciation	796	900	962	1,038	1,123	1,256
Change in Working Capital	(1,049)	(1,732)	30	(2,373)	(2,405)	(2,474)
Interest / Dividend (Net)	(580)	(767)	(1,131)	60	65	70
Direct taxes paid	(2,886)	(3,797)	(4,226)	(4,674)	(5,000)	(5,422)
Others	(255)	(300)	(324)	-	-	-
Cash Flow from Operations	6,710	6,962	9,309	8,889	9,657	10,644
(Inc.)/ Dec. in Fixed Assets	(4,324)	(4,586)	(4,402)	(3,500)	(3,501)	(3,502)
(Inc.)/ Dec. in Investments	(744)	(1,763)	418	-	-	-
Cash Flow from Investing	(3,581)	(2,823)	(4,820)	(3,500)	(3,501)	(3,502)
Issue of Equity	922	691	979	-	-	-
Inc./(Dec.) in loans	(10)	(11)	(15)	13	1	-
Dividend Paid (Incl. Tax)	(3,518)	(4,148)	(4,772)	(5,387)	(5,872)	(6,367)
Interest / Dividend (Net)	273	(996)	3,619	(60)	(65)	(70)
Cash Flow from Financing	(2,333)	(4,465)	(190)	(5,434)	(5,936)	(6,437)
Inc./(Dec.) in Cash	796	(326)	4,299	(45)	220	704
Opening Cash balances	2,819	3,615	3,289	7,589	7,543	7,764
Closing Cash balances	3,615	3,289	7,589	7,543	7,764	8,468

Key ratios

Y/E March	FY13	FY14	FY15	FY16	FY17E	FY18E
Valuation Ratio (x)						
P/E (on FDEPS)	36.2	30.6	28.0	26.5	24.7	22.8
P/CEPS	32.7	27.8	25.4	24.0	22.4	20.6
P/BV	12.1	10.3	8.8	7.6	6.6	5.9
Dividend yield (%)	1.6	1.8	1.9	2.0	2.2	2.4
EV/Sales	8.6	7.7	6.9	6.6	6.2	5.7
EV/EBITDA	24.3	20.6	18.8	17.8	16.7	15.3
EV / Total Assets	7.5	6.5	5.7	5.1	4.7	4.2
Per Share Data (₹)						
EPS (Basic)	9.2	10.9	12.0	12.7	13.5	14.7
EPS (fully diluted)	9.2	10.9	12.0	12.7	13.5	14.7
Cash EPS	10.2	12.1	13.2	14.0	14.9	16.3
DPS	5.3	6.0	6.2	6.7	7.3	7.9
Book Value	27.7	32.7	38.2	44.2	50.4	57.2
Returns (%)						
RoCE	44.0	43.9	40.6	37.0	34.5	33.0
Angel RoIC (Pre-tax)	84.1	81.3	84.6	67.0	57.3	52.1
RoE	33.3	33.5	31.3	28.6	26.8	25.7
Turnover ratios (x)						
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	20	25	27
Payables (days)	24	25	22	24	26	26
Net Working capital (days)	71	79	74	74	79	83

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	ITC
1. Analyst ownership of the stock	No
2. Angel and its Group companies ownership of the stock	No
3. Angel and its Group companies' Directors ownership of the stock	No
4. Broking relationship with company covered	No

Note: We have not considered any Exposure below ₹1 lakh for Angel, its Group companies and Directors

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)