

## ITC

### Performance Highlights

#### Quarterly result (Standalone)

(₹ cr)	2QFY17	2QFY16	% yoy	1QFY17	%qoq
Revenue	9,661	8,799	9.8	10,054	(3.9)
EBITDA	3,630	3,383	7.3	3,526	2.9
OPM (%)	37.6	38.4	(87bp)	35.1	250bp
PAT	2,500	2,263	10.5	2,385	4.8

Source: Company, Angel Research

ITC posted a healthy set of numbers for 2QFY2017, both on the top-line and the bottom-line front. The top-line was healthy due to decent growth in cigarettes and other FMCG 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 ₹9,661cr. In terms of segment wise performance (gross level), the cigarettes business posted a growth of 7.1% yoy in sales to ₹8,528cr, aided by price hike and increase in volume (which grew by 3% yoy during the quarter). The other FMCG businesses posted a growth of 13.3% yoy in sales to ₹2,672cr. However, the paperboards & packaging, hotel divisions and agri business posted a flat growth on revenue front, during the quarter. Overall, the company's OPM declined by 87bp yoy to 37.6%, 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 10% and 15%, respectively, over FY2016-18E. **At the current market price, the stock is trading at 23.7x its FY2018E EPS. We recommend a Buy rating on the stock with a target price of ₹284.**

#### Key financials (Standalone)

Y/E March (₹ cr)	FY2015	FY2016	FY2017E	FY2018E
Net Sales	36,507	36,583	40,059	44,439
% chg	9.8	0.2	9.5	10.9
Net Profit (Adj)	9,608	9,311	10,846	12,243
% chg	9.4	(3.1)	16.5	12.9
EBITDA (%)	36.9	37.5	38.3	39.2
EPS (₹)	8.0	7.7	9.0	10.1
P/E (x)	30.2	31.1	26.7	23.7
P/BV (x)	9.4	8.8	7.5	6.5
RoE (%)	31.3	28.3	27.8	27.5
RoCE (%)	40.6	38.5	36.7	36.4
EV/Sales (x)	7.5	7.4	6.7	6.1
EV/EBITDA (x)	20.3	19.7	17.6	15.5

Source: Company, Angel Research; Note: CMP as of November 1, 2016

## BUY

CMP	₹240
Target Price	₹284

Investment Period	12 Months
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#### Stock Info

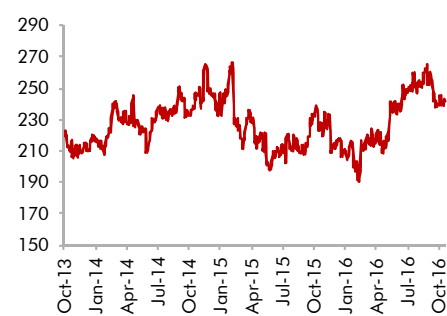
Sector	FMCG
Market Cap (₹ cr)	265,518
Net Debt (₹ cr)	(19,376)
Beta	0.8
52 Week High / Low	266/179
Avg. Daily Volume	1,364,529
Face Value (₹)	1
BSE Sensex	27,877
Nifty	8,626
Reuters Code	ITC.BO
Bloomberg Code	ITC@IN

#### 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	0.3	4.8	32.8
ITC	(4.2)	8.4	9.5

#### 3-year price chart



Source: Company, Angel Research

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

Y/E March (₹ cr)	2QFY17	2QFY16	% yoy	1QFY17	%qoq
<b>Net Sales</b>	<b>9,661</b>	<b>8,799</b>	<b>9.8</b>	<b>10,054</b>	<b>(3.9)</b>
Consumption of RM	3671.35	3113.48	17.9	4,246	(13.5)
(% of Sales)	38.00	35.38		42.23	
Staff Costs	600	578	3.9	700	(14.3)
(% of Sales)	6.2	6.6		7.0	
Other Expenses	1,759	1,725	2.0	1,582	11.2
(% of Sales)	18.2	19.6		15.7	
<b>Total Expenditure</b>	<b>6,031</b>	<b>5,416</b>	<b>11.3</b>	<b>6,528</b>	<b>(7.6)</b>
<b>Operating Profit</b>	<b>3,630</b>	<b>3,383</b>	<b>7.3</b>	<b>3,526</b>	<b>2.9</b>
OPM	37.6	38.4	-87	35.1	250
Interest	11	10	4.0	10	6.1
Depreciation & Ammortisation	268	258	4.0	261	2.8
Other Income	475	393	21.1	421	13.0
<b>PBT (excl. Extraordinary Items)</b>	<b>3,826</b>	<b>3,507</b>	<b>9.1</b>	<b>3,675</b>	<b>4.1</b>
Extraordinary Income/(Expense)	-	-		-	
<b>PBT (incl. Extraordinary Items)</b>	<b>3,826</b>	<b>3,507</b>	<b>9.1</b>	<b>3,675</b>	<b>4.1</b>
(% of Sales)	39.6	39.9		36.6	
Provision for Taxation	1,326	1,244	6.6	1,291	2.7
(% of PBT)	34.7	35.5		35.1	
<b>Reported PAT</b>	<b>2,500</b>	<b>2,263</b>	<b>10.5</b>	<b>2,385</b>	<b>4.8</b>
PATM	26	26		24	

Source: Company, Angel Research

### Top-line remains healthy

In terms of segment wise performance (gross level), the cigarettes business posted a growth of 7.1% yoy in sales to ₹8,528cr, aided by price hikes and increase in volume (which grew 3% yoy during the quarter). The other FMCG businesses posted a growth of 13.3% yoy in sales to ₹2,672cr. However, the paperboards & packaging, hotel divisions and agri business posted a flat growth on revenue front, during the quarter.

### Operating profit up 7.3% yoy

The company reported an operating profit of ₹3,630cr during 2QFY2017, up by 7.3% yoy. Further, the company's OPM declined by 83bp yoy to 37.6%, owing to increase in raw material and staff costs.

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

Y/E Mar (₹ cr)	2QFY17	2QFY16	% yoy	1QFY17	% qoq
<b>Gross Income</b>					
Cigarettes	8,528	7,963	7.1	8,231	3.6
Others	2,672	2,358	13.3	2,385	12.0
Hotels	297	290	2.5	287	3.5
Agri Business	1,880	1,844	2.0	2,794	(32.7)
Paperboards & Packaging	1,331	1,331	0.0	1,323	0.6
<b>PBIT</b>					
Cigarettes	3,217	2,969	8.4	3,005	7.1
Others	(3)	(11)	-	(5)	-
Hotels	1	(6)	-	1	-
Agri Business	297	294	1.0	237	25.1
Paperboards & Packaging	232	209	10.8	248	(6.4)
<b>PBIT Margin (%)</b>					
Cigarettes	37.7	37.3		36.5	
Others	(0.1)	(0.5)		(0.2)	
Hotels	0.2	(1.9)		0.4	
Agri Business	15.8	15.9		8.5	
Paperboards & Packaging	17.4	15.7		18.7	

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 10% and 15%, respectively, over FY2016-18E. **At the current market price, the stock is trading at 23.7x its FY2018E EPS. We recommend a Buy rating on the stock with a target price of ₹284.**

## 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 businesses (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
<b>Total operating income</b>	<b>29,901</b>	<b>33,239</b>	<b>36,507</b>	<b>36,583</b>	<b>40,059</b>	<b>44,439</b>
% chg	18.9	11.2	9.8	0.2	9.5	10.9
<b>Total Expenditure</b>	<b>19,274</b>	<b>20,784</b>	<b>23,034</b>	<b>22,865</b>	<b>24,716</b>	<b>27,019</b>
Cost of Materials	12,066	13,156	14,672	13,450	14,742	16,220
Personnel	1,387	1,608	1,780	2,328	2,083	2,355
Others	5,821	6,019	6,582	7,086	7,892	8,443
<b>EBITDA</b>	<b>10,628</b>	<b>12,455</b>	<b>13,474</b>	<b>13,718</b>	<b>15,342</b>	<b>17,420</b>
% chg	20.1	17.2	8.2	1.8	11.8	13.5
(% of Net Sales)	35.5	37.5	36.9	37.5	38.3	39.2
Depreciation & Amortisation	796	900	962	1,032	1,049	1,187
<b>EBIT</b>	<b>9,832</b>	<b>11,555</b>	<b>12,512</b>	<b>12,686</b>	<b>14,293</b>	<b>16,233</b>
% chg	20.6	17.5	8.3	1.4	12.7	13.6
(% of Net Sales)	32.9	34.8	34.3	34.7	35.7	36.5
Interest & other Charges	86	3	57	49	55	60
Other Income	939	1,107	1,543	1,769	1,950	2,100
(% of PBT)	8.8	8.7	11.0	12.3	12.0	11.5
Share in profit of Associates	-	-	-	-	-	-
<b>Recurring PBT</b>	<b>10,684</b>	<b>12,659</b>	<b>13,998</b>	<b>14,406</b>	<b>16,188</b>	<b>18,273</b>
% chg	20.1	18.5	10.6	2.9	12.4	12.9
Extraordinary Expense/(Inc.)	-	-	-	-	-	-
<b>PBT (reported)</b>	<b>10,684</b>	<b>12,659</b>	<b>13,998</b>	<b>14,406</b>	<b>16,188</b>	<b>18,273</b>
Tax	3,266	3,874	4,390	5,095	5,342	6,030
(% of PBT)	30.6	30.6	31.4	35.4	33.0	33.0
<b>PAT (reported)</b>	<b>7,418</b>	<b>8,785</b>	<b>9,608</b>	<b>9,311</b>	<b>10,846</b>	<b>12,243</b>
Add: Share of associates	-	-	-	-	-	-
<b>ADJ. PAT</b>	<b>7,418</b>	<b>8,785</b>	<b>9,608</b>	<b>9,311</b>	<b>10,846</b>	<b>12,243</b>
% chg	20.4	18.4	9.4	(3.1)	16.5	12.9
(% of Net Sales)	24.8	26.4	26.3	25.5	27.1	27.6
<b>Basic EPS (₹)</b>	<b>6.1</b>	<b>7.3</b>	<b>8.0</b>	<b>7.7</b>	<b>9.0</b>	<b>10.1</b>
<b>Fully Diluted EPS (₹)</b>	<b>6.1</b>	<b>7.3</b>	<b>8.0</b>	<b>7.7</b>	<b>9.0</b>	<b>10.1</b>
% chg	20.4	18.4	9.4	(3.1)	16.5	12.9

**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	32,124	37,746	43,378
<b>Shareholders Funds</b>	<b>22,288</b>	<b>26,262</b>	<b>30,736</b>	<b>32,929</b>	<b>38,954</b>	<b>44,586</b>
Minority Interest	-	-	-	-	-	-
Total Loans	78	67	53	42	40	40
Deferred Tax Liability	1,706	1,741	2,099	2,370	2,370	2,370
<b>Total Liabilities</b>	<b>24,072</b>	<b>28,070</b>	<b>32,888</b>	<b>35,341</b>	<b>41,364</b>	<b>46,996</b>
<b>APPLICATION OF FUNDS</b>						
Gross Block	16,944	18,545	21,727	22,648	27,184	30,684
Less: Acc. Depreciation	5,735	6,532	7,548	8,443	9,493	10,679
<b>Net Block</b>	<b>11,209</b>	<b>12,013</b>	<b>14,178</b>	<b>14,205</b>	<b>17,691</b>	<b>20,004</b>
Capital Work-in-Progress	1,488	2,296	2,114	2,501	2,501	2,501
<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>19,959</b>	<b>22,044</b>	<b>24,423</b>
Inventories	6,600	7,360	7,837	8,520	9,329	10,471
Sundry Debtors	1,163	2,165	1,722	1,686	1,646	1,705
Cash	3,615	3,289	7,589	6,564	7,263	7,804
Loans & Advances	1,154	1,803	843	903	1,202	1,555
Other	1,728	1,480	1,506	2,285	2,604	2,889
Current liabilities	10,448	11,604	11,775	14,699	14,247	13,308
<b>Net Current Assets</b>	<b>3,812</b>	<b>4,494</b>	<b>7,722</b>	<b>5,260</b>	<b>7,796</b>	<b>11,115</b>
Deferred Tax Asset	503	445	468	522	522	522
Mis. Exp. not written off	-	-	-	-	-	-
<b>Total Assets</b>	<b>24,072</b>	<b>28,070</b>	<b>32,888</b>	<b>35,341</b>	<b>41,364</b>	<b>46,996</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	16,188	18,273
Depreciation	796	900	962	1,034	1,049	1,187
Change in Working Capital	(1,049)	(1,732)	30	(162)	(1,837)	(2,777)
Interest / Dividend (Net)	(580)	(767)	(1,131)	(1,179)	55	60
Direct taxes paid	(2,886)	(3,797)	(4,226)	(4,828)	(5,342)	(6,030)
Others	(255)	(300)	(324)	(573)	-	-
<b>Cash Flow from Operations</b>	<b>6,710</b>	<b>6,962</b>	<b>9,309</b>	<b>9,251</b>	<b>10,113</b>	<b>10,713</b>
(Inc.)/ Dec. in Fixed Assets	(4,324)	(4,586)	(4,402)	(11,075)	(3,500)	(3,500)
(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>(6,626)</b>	<b>(3,500)</b>	<b>(3,500)</b>
Issue of Equity	922	691	979	3	-	-
Inc./(Dec.) in loans	(10)	(11)	(15)	(11)	(2)	-
Dividend Paid (Incl. Tax)	(3,518)	(4,148)	(4,772)	(4,935)	(5,857)	(6,611)
Interest / Dividend (Net)	273	(996)	3,619	1,292	(55)	(60)
<b>Cash Flow from Financing</b>	<b>(2,333)</b>	<b>(4,465)</b>	<b>(190)</b>	<b>(3,650)</b>	<b>(5,914)</b>	<b>(6,671)</b>
Inc./(Dec.) in Cash	796	(326)	4,299	(1,025)	699	541
<b>Opening Cash balances</b>	<b>2,819</b>	<b>3,615</b>	<b>3,289</b>	<b>7,589</b>	<b>6,564</b>	<b>7,263</b>
<b>Closing Cash balances</b>	<b>3,615</b>	<b>3,289</b>	<b>7,589</b>	<b>6,564</b>	<b>7,263</b>	<b>7,804</b>

**Key ratios**

Y/E March	FY13	FY14	FY15	FY16	FY17E	FY18E
<b>Valuation Ratio (x)</b>						
P/E (on FDEPS)	39.1	33.0	30.2	31.1	26.7	23.7
P/CEPS	35.3	29.9	27.4	28.0	24.4	21.6
P/BV	13.0	11.1	9.4	8.8	7.5	6.5
Dividend yield (%)	2.2	2.5	1.7	1.7	2.0	2.3
EV/Sales	9.3	8.4	7.5	7.4	6.7	6.1
EV/EBITDA	26.3	22.3	20.3	19.7	17.6	15.5
EV / Total Assets	8.1	7.0	6.1	5.4	4.9	4.5
<b>Per Share Data (₹)</b>						
EPS (Basic)	6.1	7.3	8.0	7.7	9.0	10.1
EPS (fully diluted)	6.1	7.3	8.0	7.7	9.0	10.1
Cash EPS	6.8	8.0	8.7	8.6	9.8	11.1
DPS	5.3	6.0	4.1	4.1	4.8	5.5
Book Value	18.4	21.7	25.4	27.2	32.2	36.9
<b>Returns (%)</b>						
RoCE	44.0	43.9	40.6	38.5	36.7	36.4
Angel RoIC (Pre-tax)	84.1	81.3	84.6	93.6	75.7	67.7
RoE	33.3	33.5	31.3	28.3	27.8	27.5
<b>Turnover ratios (x)</b>						
Asset Turnover	1.8	1.8	1.7	1.6	1.5	1.4
Inventory / Sales (days)	81	81	78	85	85	86
Receivables (days)	14	24	17	17	15	14
Payables (days)	24	25	22	25	26	26
Net Working capital (days)	71	79	74	77	74	74



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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)