

ITC

Performance Highlights

Quarterly result (Standalone)

(₹ cr)	3QFY16	3QFY15	% chg	2QFY16	%qoq
Revenue	9,177	8,943	2.6	8,904	3.1
EBITDA	3,605	3,464	4.1	3,560	1.3
OPM (%)	39.3	38.7	55bp	40.0	(70bp)
PAT	2,653	2,635	0.7	2,431	9.1

Source: Company, Angel Research

ITC posted a poor set of numbers for 3QFY2016, both on the top-line and bottom-line fronts. The top-line was subdued due to lower growth in Cigarettes & Hotel businesses and de-growth in Agri business, which in turn resulted in a lower profitability of the company.

Key highlights: ITC's net sales for the quarter grew by 2.6% yoy to ₹9,177cr. The Cigarettes business posted a 5.7% yoy growth in net sales to ₹4,380cr, aided by price hikes. A muted sales growth in the Cigarettes business resulted in the segment posting a 3.4% yoy growth in its EBIT. The FMCG (others) business, which posted a 7.1% yoy growth in net sales to ₹2,478cr, posted an EBIT level profit of ₹19cr. Further, the Paperboards and Packaging division posted a growth of 5.1% yoy and 12.7% yoy in revenue and segmental EBIT, respectively. The Hotels business posted a 4.5% yoy growth in its top-line, while it reported a de-growth at the EBIT level. The Agri business posted a de-growth of 7.3% yoy in revenue, while its EBIT de-grew by 3.1% on a yoy basis. Overall, the company's OPM expanded by 55bp yoy to 39.3%, owing to lower raw material costs (down 254bp yoy as a % of sales).

Outlook and valuation: We expect ITC to report a top-line and bottom-line CAGR of 4.5% and 5.0% respectively over FY2015-18E. **At the current market price, the stock is trading at 22.2x FY2018E EPS. We recommend buy on the stock with a target price of ₹359.**

Key financials (Standalone)

Y/E March (₹ cr)	FY2015	FY2016E	FY2017E	FY2018E
Net Sales	36,507	36,804	38,776	41,701
% chg	9.8	0.8	5.4	7.5
Net Profit (Adj)	9,608	9,783	10,357	11,107
% chg	9.4	1.8	5.9	7.2
EBITDA (%)	36.9	37.9	37.9	37.9
EPS (₹)	12.0	12.2	12.9	13.8
P/E (x)	25.6	25.2	23.8	22.2
P/BV (x)	8.0	7.0	6.2	5.5
RoE (%)	31.3	27.7	25.8	24.6
RoCE (%)	40.6	36.5	33.8	32.1
EV/Sales (x)	6.3	6.3	5.9	5.5
EV/EBITDA (x)	17.1	16.5	15.7	14.5

Source: Company, Angel Research; Note: CMP as of January 25, 2016

BUY

CMP	₹310
Target Price	₹359

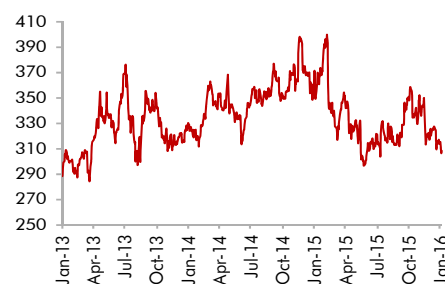
Investment Period	12 Months
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Stock Info	
Sector	FMCG
Market Cap (₹ cr)	248,776
Net Debt (₹ cr)	(15,928)
Beta	0.8
52 Week High / Low	410/295
Avg. Daily Volume	295,887
Face Value (₹)	1
BSE Sensex	24,486
Nifty	7,436
Reuters Code	ITC.BO
Bloomberg Code	ITC@IN

Shareholding Pattern (%)	
Promoters	0.0
MF / Banks / Indian Fls	20.7
FII / NRIs / OCBs	35.1
Indian Public / Others	44.2

Abs. (%)	3m	1yr	3yr
Sensex	(10.5)	(17.2)	21.8
ITC	(13.6)	(11.4)	6.9

3-year price chart



Source: Company, Angel Research

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Exhibit 1: Quarterly performance (Standalone)

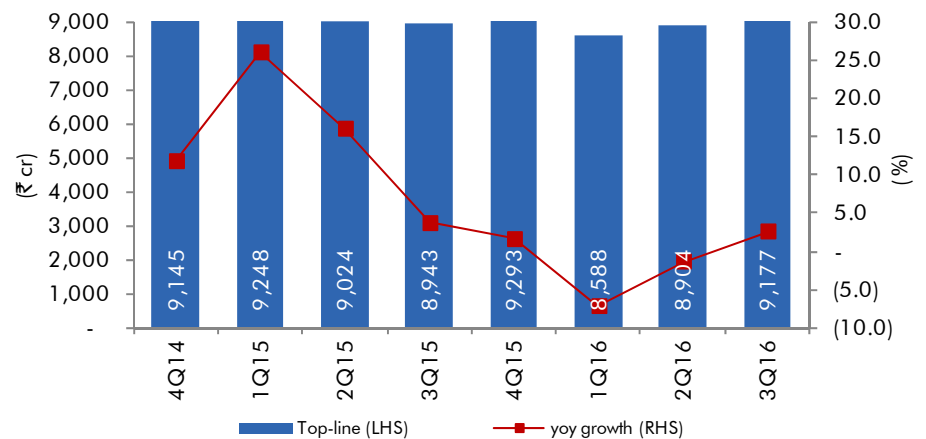
Y/E March (₹ cr)	3QFY16	3QFY15	% yoy	2QFY16	%qoq	9MFY16	9MFY15	% chg
Net Sales	9,177	8,943	2.6	8,904	3.1	26,669	27,215	(2.0)
Consumption of RM	3,336	3,478	(4.1)	3,219	3.6	9,723	11,010	(11.7)
(% of Sales)	36.35	38.89		36.15		36.5	40.5	
Staff Costs	450	419	7.3	451	(0.2)	1,418	1,326	7.0
(% of Sales)	4.9	4.7		5.1		5.3	4.9	
Other Expenses	1,786	1,582	12.9	1,674	6.7	4,976	4,648	7.1
(% of Sales)	19.5	17.7		18.8		18.7	17.1	
Total Expenditure	5,572	5,478	1.7	5,344	4.3	16,118	16,984	(5.1)
Operating Profit	3,605	3,464	4.1	3,560	1.3	10,551	10,230	3.1
OPM	39.3	38.7	55	40.0		39.6	37.6	197.2
Interest	16	8	92.2	10	56.1	37	42	(12.0)
Depreciation & Amortization	263	238	10.5	259	1.4	780	712	9.5
Other Income	678	582	16.5	399	69.8	1,392	1,173	18.7
PBT (excl. Extraordinary Items)	4,004	3,800	5.4	3,690	8.5	11,127	10,649	4.5
Extraordinary Income/(Expense)	-	-		-		-	-	
PBT (incl. Extraordinary Items)	4,004	3,800	5.4	3,690	8.5	11,127	10,649	4.5
(% of Sales)	43.6	42.5		41.4		41.7	39.1	
Provision for Taxation	1,352	1,165	16.0	1,259	7.4	3,777	3,403	11.0
(% of PBT)	33.8	30.7		34.1		33.9	32.0	
Reported PAT	2,653	2,635	0.7	2,431	9.1	7,350	7,247	1.4
PATM	29	29		27		28	27	
EPS (₹)	3.3	3.3	0.7	3.0	9.1	9.2	9.0	1.4

Source: Company, Angel Research

Top-line flat

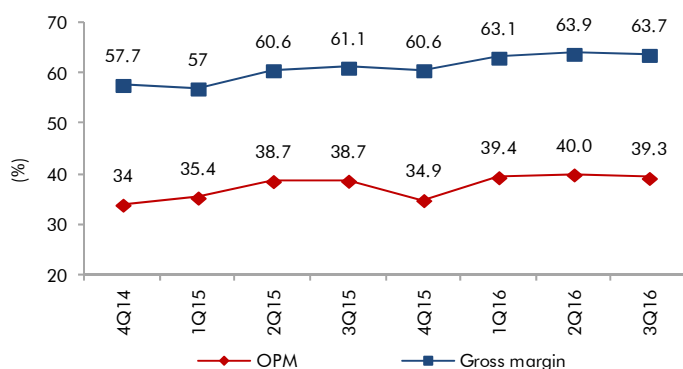
ITC's net sales for the quarter grew by 2.6% yoy to ₹9,177cr. The Cigarettes business posted a 5.7% yoy growth in net sales to ₹4,380cr, aided by price hikes. A muted sales growth in the Cigarettes business resulted in the segment posting a 3.4% yoy growth in its EBIT. The FMCG (others) business, which posted a 7.1% yoy growth in net sales to ₹2,478cr, posted an EBIT level profit of ₹19cr. Further, the Paperboards and Packaging division posted a growth of 5.1% yoy and 12.7% yoy in revenue and segmental EBIT, respectively. The Hotels business posted a 4.5% yoy growth in its top-line, while it reported a de-growth at the EBIT level. The Agri business posted a de-growth of 7.3% yoy in revenue, while its EBIT de-grew by 3.1% on a yoy basis.

Exhibit 2: Top-line flat



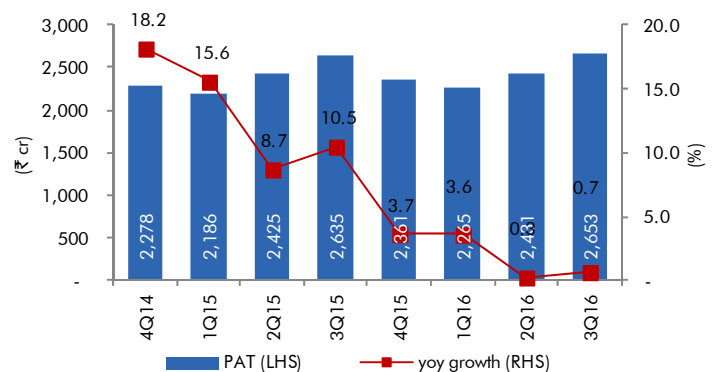
Source: Company, Angel Research

Exhibit 3: OPM increases by 55bp yoy to 39.3%



Source: Company, Angel Research

Exhibit 4: Earnings growth at 0.7% yoy



Source: Company, Angel Research

Operating profit up 4.1% yoy

The company reported an operating profit of ₹3,605cr for 3QFY2016, up 4.1% yoy. However, the company's OPM expanded by 55bp yoy to 39.3%, owing to lower raw material costs (down 254bp yoy as a % of sales).

Exhibit 5: Segment-wise performance (Standalone)

Y/E Mar (₹ cr)	3QFY16	3QFY15	% yoy	2QFY16	% qoq	9MFY16	9MFY15	% chg
Net Income								
Cigarettes	4,380	4,142	5.7	4,317	1.5	12,847	12,594	2.0
Others	2,478	2,314	7.1	2,352	5.4	7,000	6,445	8.6
Hotels	345	330	4.5	290	19.0	923	841	9.8
Agri Business	1,481	1,598	(7.3)	1,844	(19.7)	5,650	6,953	(18.7)
Paperboards & Packaging	1,260	1,199	5.1	1,254	0.5	3,779	3,771	0.2
PBIT								
Cigarettes	2,984	2,886	3.4	2,969	0.5	8,734	8,490	2.9
Others	19	11	63.6	(11)		(0)	(14)	
Hotels	26	29	(10.0)	(6)		13	7	85.2
Agri Business	231	239	(3.1)	294	(21.3)	759	740	2.7
Paperboards & Packaging	241	214	12.7	209	15.2	705	731	(3.6)
PBIT Margin (%)								
Cigarettes	68.1	69.7		68.8		68.0	67.4	
Others	0.8	0.5		(0.5)		(0.0)	(0.2)	
Hotels	7.5	8.7		(1.9)		1.4	0.8	
Agri Business	15.6	14.9		15.9		13.4	10.6	
Paperboards & Packaging	19.1	17.8		16.7		18.6	19.4	

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 in FY2015-17E:** 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 4.5% and 5.0% respectively over FY2015-18E. **At the current market price, the stock is trading at 22.2x FY2018E EPS. We recommend a Buy on the stock with a target price of ₹360.**

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	FY16E	FY17E	FY18E
Total operating income	29,901	33,239	36,507	36,804	38,776	41,701
% chg	18.9	11.2	9.8	0.8	5.4	7.5
Total Expenditure	19,274	20,784	23,034	22,855	24,080	25,896
Cost of Materials	12,066	13,156	14,672	14,685	15,627	16,847
Personnel	1,387	1,608	1,780	1,840	1,978	2,127
Others	5,821	6,019	6,582	6,330	6,476	6,922
EBITDA	10,628	12,455	13,474	13,949	14,696	15,805
% chg	20.1	17.2	8.2	3.5	5.4	7.5
(% of Net Sales)	35.5	37.5	36.9	37.9	37.9	37.9
Depreciation & Amortisation	796	900	962	1,038	1,123	1,256
EBIT	9,832	11,555	12,512	12,911	13,573	14,548
% chg	20.6	17.5	8.3	3.2	5.1	7.2
(% of Net Sales)	32.9	34.8	34.3	35.1	35.0	34.9
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	12.0	12.6	12.7
Share in profit of Associates	-	-	-	-	-	-
Recurring PBT	10,684	12,659	13,998	14,601	15,458	16,578
% chg	20.1	18.5	10.6	4.3	5.9	7.2
Extraordinary Expense/(Inc.)	-	-	-	-	-	-
PBT (reported)	10,684	12,659	13,998	14,601	15,458	16,578
Tax	3,266	3,874	4,390	4,818	5,101	5,471
(% of PBT)	30.6	30.6	31.4	33.0	33.0	33.0
PAT (reported)	7,418	8,785	9,608	9,783	10,357	11,107
Add: Share of associates	-	-	-	-	-	-
ADJ. PAT	7,418	8,785	9,608	9,783	10,357	11,107
% chg	20.4	18.4	9.4	1.8	5.9	7.2
(% of Net Sales)	24.8	26.4	26.3	26.6	26.7	26.6
Basic EPS (₹)	9.2	10.9	12.0	12.2	12.9	13.8
Fully Diluted EPS (₹)	9.2	10.9	12.0	12.2	12.9	13.8
% chg	20.4	18.4	9.4	1.8	5.9	7.2

Balance Sheet (Standalone)

Y/E March (₹ cr)	FY13	FY14	FY15	FY16E	FY17E	FY18E
SOURCES OF FUNDS						
Equity Share Capital	790	795	802	802	802	802
Reserves & Surplus	21,498	25,467	29,934	34,532	39,296	44,405
Shareholders Funds	22,288	26,262	30,736	35,333	40,098	45,207
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	37,499	42,264	47,373
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	21,172	23,120	26,556
Inventories	6,600	7,360	7,837	7,865	8,499	9,368
Sundry Debtors	1,163	2,165	1,722	2,017	2,656	3,085
Cash	3,615	3,289	7,589	7,610	7,700	8,265
Loans & Advances	1,154	1,803	843	1,840	2,327	2,919
Other	1,728	1,480	1,506	1,840	1,939	2,919
Current liabilities	10,448	11,604	11,775	11,218	10,778	11,351
Net Current Assets	3,812	4,494	7,722	9,954	12,342	15,205
Deferred Tax Asset	503	445	468	468	468	468
Mis. Exp. not written off	-	-	-	-	-	-
Total Assets	24,072	28,070	32,888	37,499	42,264	47,373

Cash flow statement (Standalone)

Y/E March (₹ cr)	FY13	FY14	FY15	FY16E	FY17E	FY18E
Profit before tax	10,684	12,659	13,998	14,601	15,458	16,578
Depreciation	796	900	962	1,038	1,123	1,256
Change in Working Capital	(1,049)	(1,732)	30	(2,128)	(2,297)	(2,299)
Interest / Dividend (Net)	(580)	(767)	(1,131)	60	65	70
Direct taxes paid	(2,886)	(3,797)	(4,226)	(4,818)	(5,101)	(5,471)
Others	(255)	(300)	(324)	-	-	-
Cash Flow from Operations	6,710	6,962	9,309	8,753	9,248	10,135
(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)	(5,185)	(5,593)	(5,998)
Interest / Dividend (Net)	273	(996)	3,619	(60)	(65)	(70)
Cash Flow from Financing	(2,333)	(4,465)	(190)	(5,232)	(5,657)	(6,068)
Inc./(Dec.) in Cash	796	(326)	4,299	21	90	565
Opening Cash balances	2,819	3,615	3,289	7,589	7,610	7,700
Closing Cash balances	3,615	3,289	7,589	7,610	7,700	8,265

Key ratios

Y/E March	FY13	FY14	FY15	FY16E	FY17E	FY18E
Valuation Ratio (x)						
P/E (on FDEPS)	33.2	28.0	25.6	25.2	23.8	22.2
P/CEPS	30.0	25.4	23.3	22.8	21.5	19.9
P/BV	11.1	9.4	8.0	7.0	6.2	5.5
Dividend yield (%)	1.7	2.0	2.0	2.1	2.3	2.4
EV/Sales	7.9	7.1	6.3	6.3	5.9	5.5
EV/EBITDA	22.2	18.8	17.1	16.5	15.7	14.5
EV / Total Assets	6.8	5.9	5.2	4.7	4.3	3.9
Per Share Data (₹)						
EPS (Basic)	9.2	10.9	12.0	12.2	12.9	13.8
EPS (fully diluted)	9.2	10.9	12.0	12.2	12.9	13.8
Cash EPS	10.2	12.1	13.2	13.5	14.3	15.4
DPS	5.3	6.0	6.2	6.5	7.0	7.5
Book Value	27.7	32.7	38.2	44.0	49.9	56.3
Returns (%)						
RoCE	44.0	43.9	40.6	36.5	33.8	32.1
Angel RoIC (Pre-tax)	84.1	81.3	84.6	66.6	56.4	50.9
RoE	33.3	33.5	31.3	27.7	25.8	24.6
Turnover ratios (x)						
Asset Turnover	1.8	1.8	1.7	1.5	1.4	1.3
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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Disclosure of Interest Statement

	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)
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