

ITC

Performance Highlights

Quarterly result (Standalone)

(₹ cr)	3QFY17	3QFY16	% yoy	2QFY17	%qoq
Revenue	9,248	8,867	4.3	9,661	(4.3)
EBITDA	3,546	3,475	2.1	3,630	(2.3)
OPM (%)	38.3	39.2	(84bp)	37.6	77bp
PAT	2,647	2,504	5.7	2,500	5.9

Source: Company, Angel Research

For 3QFY2017, ITC has reported below estimates numbers, both on the top-line and bottom-line fronts, on the back of lower Cigarettes volume growth due to demonetization of Indian currency. However, healthy growth was witnessed in other businesses like Hotels, Agri Business, etc.

Key highlights: ITC's net sales for the quarter grew by 4.3% yoy to ₹9,248cr. In terms of segment wise performance (gross level), the Cigarettes business posted a growth of 2.2% yoy in sales to ₹8,288cr, aided by price hike (volume was flatish during the quarter). The other FMCG businesses posted a growth of 3.4% yoy in sales to ₹2,569cr. However, the Hotel division and Agri business posted a healthy revenue growth of ~7% and ~13% respectively, during the quarter. Overall, the company's OPM declined by 84bp yoy to 38.3% owing to an increase in raw material cost.

Outlook and valuation: We expect ITC to report top-line and bottom-line CAGR of 9% and 12% respectively over FY2016-18E. **At the current market price, the stock is trading at 26.9x its FY2018E EPS. We recommend an Accumulate 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	38,935	43,170
% chg	9.8	0.2	6.4	10.9
Net Profit (Adj)	9,608	9,311	10,361	11,594
% chg	9.4	(3.1)	11.3	11.9
EBITDA (%)	36.9	37.5	38.3	39.2
EPS (₹)	8.0	7.7	8.6	9.6
P/E (x)	32.4	33.5	30.1	26.9
P/BV (x)	10.2	9.5	8.1	7.1
RoE (%)	31.3	28.3	26.8	26.3
RoCE (%)	40.6	38.5	35.5	35.4
EV/Sales (x)	8.1	8.0	7.5	6.7
EV/EBITDA (x)	21.9	21.3	19.6	17.2

Source: Company, Angel Research; Note: CMP as of January 30, 2016

ACCUMULATE

CMP	₹257
Target Price	₹284

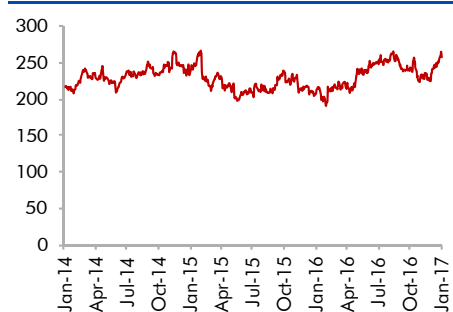
Investment Period	12 Months
-------------------	-----------

Stock Info	
Sector	FMCG
Market Cap (₹ cr)	311,035
Net Debt (₹ cr)	(19,376)
Beta	0.8
52 Week High / Low	267/179
Avg. Daily Volume	916,990
Face Value (₹)	1
BSE Sensex	27,850
Nifty	8,633
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	0.1	13.8	34.6
ITC	5.8	5.8	18.3

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)	3QFY17	3QFY16	% yoy	2QFY17	%qoq
Net Sales	9,248	8,867	4.3	9,661	(4.3)
Consumption of RM	3,377	3,028	11.5	3,671	(8.0)
(% of Sales)	36.51	34.15		38.0	
Staff Costs	572	571	0.2	600	(4.7)
(% of Sales)	6.2	6.4		6.2	
Other Expenses	1,753	1,793	(2.2)	1,759	(0.3)
(% of Sales)	19.0	20.2		18.2	
Total Expenditure	5,702	5,392	5.7	6,031	(5.5)
Operating Profit	3,546	3,475	2.1	3,630	(2.3)
OPM	38.3	39.2	(84)	37.6	77
Interest	14	16	(15.5)	11	26.8
Depreciation & Ammortisation	267	262	1.8	268	(0.7)
Other Income	688	649	6.0	475	44.7
PBT (excl. Extraordinary Items)	3,954	3,846	2.8	3,826	3.3
Extraordinary Income/(Expense)	-	-		-	
PBT (incl. Extraordinary Items)	3,954	3,846	2.8	3,826	3.3
(% of Sales)	42.8	43.4		39.6	
Provision for Taxation	1,307	1,342	(2.6)	1,326	(1.4)
(% of PBT)	33.1	34.9		34.7	
Reported PAT	2,647	2,504	5.7	2,500	5.9
PATM	29	28		26	

Source: Company, Angel Research

Top-line remains subdued

ITC's net sales for the quarter grew by 4.3% yoy to ₹9,248cr. In terms of segment wise performance (gross level), the Cigarettes business posted a growth of 2.2% yoy in sales to ₹8,288cr aided by price hike (volume was flattish during the quarter). The other FMCG businesses posted a growth of 3.4% yoy in sales to ₹2,569cr. However, the Hotel division and Agri business posted a healthy revenue growth of ~7% and ~13% respectively during the quarter.

Operating profit up 2% yoy

The company reported an operating profit of ₹3,546cr during 3QFY2017, up 2% yoy. Further, the company's OPM declined by 84bp yoy to 38.3% owing to an increase in raw material cost.

Exhibit 2: Segment-wise performance (Standalone)

Y/E Mar (₹ cr)	3QFY17	3QFY16	% yoy	2QFY17	% qoq
Gross Income					
Cigarettes	8,288	8,106	2.2	8,528	(2.8)
Others	2,569	2,485	3.4	2,672	(3.8)
Hotels	371	345	7.3	297	24.6
Agri Business	1,672	1,481	12.9	1,880	(11.1)
Paperboards & Packaging	1,336	1,338	(0.1)	1,331	0.3
PBIT					
Cigarettes	3,034	2,984	1.7	3,217	(5.7)
Others	(20)	19	(204.9)	(3)	503.1
Hotels	42	26	63.2	1	6384.6
Agri Business	237	235	0.7	297	(20.3)
Paperboards & Packaging	246	241	2.1	232	6.1
PBIT Margin (%)					
Cigarettes	36.6	36.8		37.7	
Others	(0.8)	0.8		(0.1)	
Hotels	11.4	7.5		0.2	
Agri Business	14.2	15.9		15.8	
Paperboards & Packaging	18.4	18.0		17.4	

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 record healthy 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% and 12% respectively over FY2016-18E. **At the current market price, the stock is trading at 26.9x its FY2018E EPS. We recommend an Accumulate 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
Total operating income	29,901	33,239	36,507	36,583	38,935	43,170
% chg	18.9	11.2	9.8	0.2	6.4	10.9
Total Expenditure	19,274	20,784	23,034	22,865	24,023	26,248
Cost of Materials	12,066	13,156	14,672	13,450	14,328	15,757
Personnel	1,387	1,608	1,780	2,328	2,025	2,288
Others	5,821	6,019	6,582	7,086	7,670	8,202
EBITDA	10,628	12,455	13,474	13,718	14,912	16,923
% chg	20.1	17.2	8.2	1.8	8.7	13.5
(% of Net Sales)	35.5	37.5	36.9	37.5	38.3	39.2
Depreciation & Amortisation	796	900	962	1,032	1,162	1,328
EBIT	9,832	11,555	12,512	12,686	13,750	15,595
% chg	20.6	17.5	8.3	1.4	8.4	13.4
(% of Net Sales)	32.9	34.8	34.3	34.7	35.3	36.1
Interest & other Charges	86	3	57	49	55	60
Other Income	939	1,107	1,543	1,769	1,769	1,769
(% of PBT)	8.8	8.7	11.0	12.3	11.4	10.2
Share in profit of Associates	-	-	-	-	-	-
Recurring PBT	10,684	12,659	13,998	14,406	15,464	17,304
% chg	20.1	18.5	10.6	2.9	7.3	11.9
Extraordinary Expense/(Inc.)	-	-	-	-	-	-
PBT (reported)	10,684	12,659	13,998	14,406	15,464	17,304
Tax	3,266	3,874	4,390	5,095	5,103	5,710
(% of PBT)	30.6	30.6	31.4	35.4	33.0	33.0
PAT (reported)	7,418	8,785	9,608	9,311	10,361	11,594
Add: Share of associates	-	-	-	-	-	-
ADJ. PAT	7,418	8,785	9,608	9,311	10,361	11,594
% chg	20.4	18.4	9.4	(3.1)	11.3	11.9
(% of Net Sales)	24.8	26.4	26.3	25.5	26.6	26.9
Basic EPS (₹)	6.1	7.3	8.0	7.7	8.6	9.6
Fully Diluted EPS (₹)	6.1	7.3	8.0	7.7	8.6	9.6
% chg	20.4	18.4	9.4	(3.1)	11.3	11.9

Balance Sheet (Standalone)

Y/E March (₹ cr)	FY13	FY14	FY15	FY16	FY17E	FY18E
SOURCES OF FUNDS						
Equity Share Capital	790	795	802	805	1,208	1,208
Reserves & Surplus	21,498	25,467	29,934	32,124	37,523	42,856
Shareholders Funds	22,288	26,262	30,736	32,929	38,731	44,064
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
Total Liabilities	24,072	28,070	32,888	35,341	41,141	46,475
APPLICATION OF FUNDS						
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	9,605	10,933
Net Block	11,209	12,013	14,178	14,205	17,579	19,751
Capital Work-in-Progress	1,488	2,296	2,114	2,501	2,501	2,501
Investments	7,060	8,823	8,405	12,854	12,854	12,854
Current Assets	14,260	16,097	19,498	19,959	21,427	23,647
Inventories	6,600	7,360	7,837	8,520	9,067	10,172
Sundry Debtors	1,163	2,165	1,722	1,686	1,600	1,656
Cash	3,615	3,289	7,589	6,564	7,061	7,502
Loans & Advances	1,154	1,803	843	903	1,168	1,511
Other	1,728	1,480	1,506	2,285	2,531	2,806
Current liabilities	10,448	11,604	11,775	14,699	13,741	12,800
Net Current Assets	3,812	4,494	7,722	5,260	7,686	10,847
Deferred Tax Asset	503	445	468	522	522	522
Mis. Exp. not written off	-	-	-	-	-	-
Total Assets	24,072	28,070	32,888	35,341	41,141	46,475

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	15,464	17,304
Depreciation	796	900	962	1,034	1,162	1,328
Change in Working Capital	(1,049)	(1,732)	30	(162)	(1,929)	(2,720)
Interest / Dividend (Net)	(580)	(767)	(1,131)	(1,179)	55	60
Direct taxes paid	(2,886)	(3,797)	(4,226)	(4,828)	(5,103)	(5,710)
Others	(255)	(300)	(324)	(573)	-	-
Cash Flow from Operations	6,710	6,962	9,309	9,251	9,649	10,262
(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)	-	-
Cash Flow from Investing	(3,581)	(2,823)	(4,820)	(6,626)	(3,500)	(3,500)
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)	(5,595)	(6,261)
Interest / Dividend (Net)	273	(996)	3,619	1,292	(55)	(60)
Cash Flow from Financing	(2,333)	(4,465)	(190)	(3,650)	(5,652)	(6,321)
Inc./(Dec.) in Cash	796	(326)	4,299	(1,025)	497	441
Opening Cash balances	2,819	3,615	3,289	7,589	6,564	7,061
Closing Cash balances	3,615	3,289	7,589	6,564	7,061	7,502

Key ratios

Y/E March	FY13	FY14	FY15	FY16	FY17E	FY18E
Valuation Ratio (x)						
P/E (on FDEPS)	42.0	35.5	32.4	33.5	30.1	26.9
P/CEPS	37.9	32.2	29.5	30.1	27.0	24.1
P/BV	14.0	11.9	10.2	9.5	8.1	7.1
Dividend yield (%)	2.0	2.3	1.6	1.6	1.8	2.0
EV/Sales	10.1	9.0	8.1	8.0	7.5	6.7
EV/EBITDA	28.3	24.1	21.9	21.3	19.6	17.2
EV / Total Assets	8.7	7.6	6.6	5.8	5.3	4.9
Per Share Data (₹)						
EPS (Basic)	6.1	7.3	8.0	7.7	8.6	9.6
EPS (fully diluted)	6.1	7.3	8.0	7.7	8.6	9.6
Cash EPS	6.8	8.0	8.7	8.6	9.5	10.7
DPS	5.3	6.0	4.1	4.1	4.6	5.2
Book Value	18.4	21.7	25.4	27.2	32.0	36.4
Returns (%)						
RoCE	44.0	43.9	40.6	38.5	35.5	35.4
Angel RoIC (Pre-tax)	84.1	81.3	84.6	93.6	72.9	65.7
RoE	33.3	33.5	31.3	28.3	26.8	26.3
Turnover ratios (x)						
Asset Turnover	1.8	1.8	1.7	1.6	1.4	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

Research Team Tel: 022 - 39357800

 E-mail: research@angelbroking.com

 Website: www.angelbroking.com

DISCLAIMER

Angel Broking Private Limited (hereinafter referred to as "Angel") is a registered Member of National Stock Exchange of India Limited, Bombay Stock Exchange Limited and Metropolitan Stock Exchange Limited. It is also registered as a Depository Participant with CDSL and Portfolio Manager with SEBI. It also has registration with AMFI as a Mutual Fund Distributor. Angel Broking Private Limited is a registered entity with SEBI for Research Analyst in terms of SEBI (Research Analyst) Regulations, 2014 vide registration number INH000000164. Angel or its associates has not been debarred/ suspended by SEBI or any other regulatory authority for accessing /dealing in securities Market. Angel or its associates/analyst has not received any compensation / managed or co-managed public offering of securities of the company covered by Analyst during the past twelve months.

This document is solely for the personal information of the recipient, and must not be singularly used as the basis of any investment decision. Nothing in this document should be construed as investment or financial advice. Each recipient of this document should make such investigations as they deem necessary to arrive at an independent evaluation of an investment in the securities of the companies referred to in this document (including the merits and risks involved), and should consult their own advisors to determine the merits and risks of such an investment.

Reports based on technical and derivative analysis center on studying charts of a stock's price movement, outstanding positions and trading volume, as opposed to focusing on a company's fundamentals and, as such, may not match with a report on a company's fundamentals. Investors are advised to refer the Fundamental and Technical Research Reports available on our website to evaluate the contrary view, if any.

The information in this document has been printed on the basis of publicly available information, internal data and other reliable sources believed to be true, but we do not represent that it is accurate or complete and it should not be relied on as such, as this document is for general guidance only. Angel Broking Pvt. Limited or any of its affiliates/ group companies shall not be in any way responsible for any loss or damage that may arise to any person from any inadvertent error in the information contained in this report. Angel Broking Pvt. Limited has not independently verified all the information contained within this document. Accordingly, we cannot testify, nor make any representation or warranty, express or implied, to the accuracy, contents or data contained within this document. While Angel Broking Pvt. Limited endeavors to update on a reasonable basis the information discussed in this material, there may be regulatory, compliance, or other reasons that prevent us from doing so.

This document is being supplied to you solely for your information, and its contents, information or data may not be reproduced, redistributed or passed on, directly or indirectly.

Neither Angel Broking Pvt. Limited, nor its directors, employees or affiliates shall be liable for any loss or damage that may arise from or in connection with the use of this information.

Disclosure of Interest Statement

	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)