

May 29, 2017

₹ 310

ITC Ltd (ITC)

GST implementation to aid volume growth

- ITC reported revenue growth of 6.1% YoY to ₹ 14882.8 crore, largely in line with our estimate of ₹ 14574.1 crore. Cigarette grew 4.8% YoY, FMCG, agri & hotel segments grew ~6.5% YoY each. Paperboards, paper and packaging segment grew 4.4% YoY
- Excise duty for the quarter declined 11.4% YoY largely on account of shift in sales mix towards 64 mm cigarettes (~32% of total cigarette volume vs. ~20% in Q4FY16). Thus, EBITDA grew marginally by 2.7% YoY to ₹ 3875.4 crore (I-direct estimate: ₹ 3982.0 crore). However, the EBITDA margin remained flat at 25.8%
- At the EBIT level, hotel segment witnessed a significant expansion in EBIT margin by 557 bps on account of better occupancy and higher revenue from the F&B segment. Paperboard and cigarette segment clocked EBIT margin expansion of 206 bps and 107 bps YoY, respectively. However, EBIT margin for agri and FMCG contracted 239 bps and 97 bps, respectively. Thus, PAT grew 12.1% YoY to ₹ 2669.5 crore (I-direct estimate: ₹ 2739.6 crore)

Neutral tax incidence under GST to support cigarette volume

The GST Council, in their last meeting, finalised the rate and cess on the cigarette industry. On expected lines, tax incidence on cigarettes would be neutral for companies with GST rate at 28% (currently average VAT for ITC - cigarettes is ~26%) in addition to cess. The cess has been identified to be 5% plus a) ₹ 1.59/stick for below 65 mm, b) ₹ 2.12/stick for 65-70mm, c) ₹ 2.86/stick for 70-75 mm and d) ₹ 4.17/stick for cigarettes above 75 mm, which we believe replaces the current excise duty structure. As per our calculation, the change in the 'tax on tax' structure may lead to a significant jump in the EBITDA (roughly ~ ₹ 3500 crore) which would be passed on to customers through ~7-8% price cut, considering the anti-profiteering law. Though this could be a huge volume booster, we will await clarity on the same because it looks very unlikely to us given the tax revenue loss for the government. We are factoring in 4.0% volume CAGR and 7.5% realisation CAGR over FY17-19E.

Opportunities galore for company in packaged foods segment

ITC's growth in the FMCG segment has been phenomenal at 16.4% CAGR in FY08-17. For FY17, the branded packaged food segment's gross sales growth was sluggish at 8.0% to ₹ 10511.8 crore on account of subdued demand environment and heavy discounting amid competition. Additionally, the investment in brand building and gestation costs of new categories, juices, dairy, chocolates and coffee, led to a muted operating performance. However, with strong brands like Aashirvaad, Sunfeast (with annual sales of over ₹ 3000 crore & ₹ 2500 crore, respectively), Classmate & Bingo with annual sales of more than ₹ 1000 crore brands and entry in dairy segment with the launch of Aashirvaad Svasti ghee, we believe ITC remains one of the key beneficiaries of demand revival and change in consumption pattern (shift from unorganised to organised sector), going forward. Thus, we remain positive on ITC's non-cigarette FMCG business and model revenue CAGR of 12.3% in FY17-19E.

Clarity on GST tax bracket provides relief; maintain BUY

With clarity on GST and its implementation around the corner, we are factoring in 4% and 7.5% volume and realisation CAGR for cigarette business. Additionally, ITC's focus on growing its FMCG business by entering newer segments and tapping opportunity in foods segment would be a catalyst for topline growth in the long run. We maintain our **BUY** recommendation on the stock with a revised target price of ₹ 345.

Rating matrix		
Rating	:	Buy
Target	:	₹ 345
Target Period	:	12 months
Potential Upside	:	12%

What's changed?	
Target	Changed from ₹ 300 to ₹ 345
EPS FY18E	Changed from ₹ 9.6 to ₹ 10.3
EPS FY19E	Changed from ₹ 10.4 to ₹ 11.6
Rating	Unchanged

Quarterly performance					
₹ crore	Q4FY17	Q4FY16	YoY (%)	Q3FY17	QoQ (%)
Sales	14882.8	14032.4	6.1	13470.9	10.5
EBITDA	3875.4	3605.1	7.5	3546.4	9.3
EBITDA (%)	25.8	25.5	32 bps	26.1	-31 bps
PAT	2669.5	2380.7	12.1	2646.7	0.9

Key financials				
₹ Crore	FY16	FY17	FY18E	FY19E
Revenue	51,582.5	55,001.7	59,796.4	67,278.1
EBITDA	13,714.6	14,578.0	17,245.5	19,490.8
Net Profit	9,328.4	10,200.9	12,508.2	14,135.0
EPS (₹)	7.7	8.4	10.3	11.6

*From FY16 onwards, financials are reported as per Ind AS

Valuation summary				
	FY16	FY17	FY18E	FY19E
P/E	40.3	36.8	30.0	26.6
Target P/E	44.9	41.1	33.5	29.7
Div. Yield	2.7	1.5	2.4	2.4
Mcap/Sales	7.3	6.8	6.3	5.6
RoNW (%)	22.4	22.5	26.5	27.9
RoCE (%)	33.2	32.9	38.1	40.2

*From FY16 onwards, financials are reported as per Ind AS

Stock data	
Particular	Amount
Market Capitalization (₹ Crore)	375,476.1
Total Debt (FY17) (₹ Crore)	18.0
Cash and Investments (FY17) (₹ Crore)	12,847.1
EV (₹ Crore)	362,647.1
52 week H/L	313 / 222
Equity capital	₹ 1214.7 crore
Face value	₹ 1

Price performance				
	1M	3M	6M	12M
ITC	6.2	16.2	34.9	27.8
VST Industries	2.3	14.5	41.8	87.5
Godfrey Phillip	3.7	18.7	29.8	41.2

Research Analyst	
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Variance analysis

	Q4FY17	Q4FY17E	Q4FY16	YoY (%)	Q3FY17	QoQ (%)	Comments
Gross Sales	14,882.8	14,574.1	14,032.4	6.1	13,470.9	10.5	Sales grow 6.1% led by 4.8% YoY growth in cigarette segment, ~6.5% growth in hotels, FMCG and agri business
Operating Income	126.1	122.3	106.4	18.5	99.1	27.2	
Raw Material Expenses	4,682.8	4,053.1	3,567.2	31.3	3,376.6	38.7	Raw material grew significantly on account of a sharp increase in wheat, sugar, maida, etc
Employee Expenses	571.4	626.7	554.7	3.0	572.3	-0.2	
Excise Duty	3,883.3	4,023.4	4,382.1	-11.4	4,321.6	-10.1	Excise duty declined 11.4% YoY largely on account of a change in sales mix towards the 64 mm cigarettes (~32% of total cigarette volume against ~20% in same quarter last year)
Other operating Expenses	1,996.0	2,011.2	2,029.8	-1.7	1,753.1	13.9	
EBITDA	3,875.4	3,982.0	3,605.1	7.5	3,546.4	9.3	EBITDA grew 7.5% YoY in line with sales growth
EBITDA Margin (%)	25.8	27.1	25.5	32 bps	26.1	-31 bps	
Depreciation	241.8	282.7	246.5	-1.9	266.5	-9.3	
Interest	-11.5	11.1	12.3	-193.4	13.6	-184.3	
Other Income	402.1	399.7	371.2	8.3	687.9	-41.6	
PBT	4,047.1	4,087.9	3,717.5	8.9	3,954.2	2.4	
Tax Outgo	1,377.7	1,348.3	1,336.9	3.1	1,307.5	5.4	
PAT	2,669.5	2,739.6	2,380.7	12.1	2,646.7	0.9	
Key Metrics YoY growth (%)							
Cigarette Growth (%)	4.8		10.2		2.2		Cigarette segment grew 4.8% YoY, largely led by realisation growth; volume remained flat for the quarter
FMCG (Others) Growth (%)	6.5		5.4		3.4		FMCG- others grew 6.5%; consumers continue to curb their discretionary spend and rural demand remained sluggish
Hotels Growth (%)	6.5		4.8		7.3		Witness growth of 6.5% YoY and EBIT margin expansion by 557 bps led by better occupancy and growth in F&B segment
Agri Business Growth (%)	6.2		26.5		12.9		Agri segment witnesses growth of 6.2% on account of trading opportunities in domestic wheat market
Paperboards Growth (%)	4.4		3.0		-0.1		Segment grows marginally by 4.4% because of slowdown in FMCG industry. However, favourable product mix led to ~200 bps expansion in EBIT margin

Source: Company, ICICIdirect.com Research

Change in estimates

(₹ Crore)	FY18E			FY19E			Comments
	Old	New	% Change	Old	New	% Change	
Sales	58393.9	59796.4	2.4	65947.0	67278.1	2.0	Revised cigarette volumes upward
EBITDA	16895.8	17245.5	2.1	18279.0	19490.8	6.6	
EBITDA Margin (%)	28.7	28.6	-11 bps	27.5	28.7	121 bps	
PAT	11567.2	12508.2	8.1	12531.3	14135.0	12.8	
EPS (₹)	9.6	10.3	7.3	10.4	11.6	11.9	

Source: Company, ICICIdirect.com Research

Assumptions

	Current			Earlier			Comments
	FY16E	FY17E	FY18E	FY19E	FY18E	FY19E	
Cigarettes (₹ cr)	32,348.3	34,002.0	37,129.4	42,474.1	36,338.7	41,918.3	We have revised our cigarette volume upwards considering the clarity on the GST rate
Cigarette Vol. Growth (%)	-10.0	2.0	4.0	4.0	3.0	3.0	
Cigarette Price Growth (%)	12.0	3.0	5.0	10.0	3.0	12.0	
FMCG - Others (₹ cr)	9,731.2	10,511.8	11,750.5	13,247.8	11,732.7	13,227.8	
Hotels (₹ cr)	1,286.2	1,341.7	1,487.8	1,537.5	1,487.8	1,524.0	
Agri Business (₹ cr)	7,456.9	8,264.6	8,882.8	9,590.8	8,769.7	9,466.3	
Paperboards (₹ cr)	5,327.7	5,362.9	5,803.7	6,027.1	5,793.5	6,016.5	

Source: Company, ICICIdirect.com Research

Company Analysis

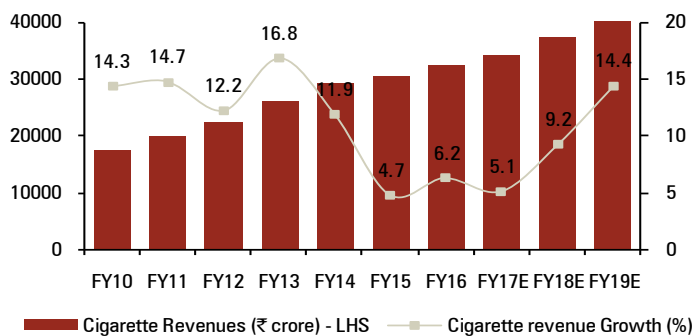
Cigarette volume growth expected to trend upwards in FY18E

Being the leader in the Indian cigarette industry (brands: *Gold Flake, Wills, Bristol, Scissors*), ITC commands complete pricing power in the segment. The revenue growth of 12.4% (CAGR FY09-15) from cigarettes (~46.6% of revenues) has been led by 12.9% price led CAGR. Volume growth witnessed a setback in FY15 (-9%) following a cumulative price hike of ~16% and ~22% in FY14 and FY15, respectively. The significant price hikes taken by the company were on the back of ~18%, ~16% and ~15% increase in excise duty (on sticks above 65 mm) for FY14, FY15 and FY16, respectively. Further, led by the considerable increase in excise in above 65 mm sticks, cigarette companies forayed into the 64 mm segment to vary their sales mix. ITC has also extended its existing brands, *Scissors, Bristol* and *Capstan* in the 64 mm segment at ₹ 5/stick to revive its volume growth and target downtrading consumers.

Over the past five years, the excise duty and VAT on cigarettes have gone up cumulatively by 131% and 157%, respectively, hurting the volume growth for the company as every hike is passed on by way of gradual price hikes. Now, with GST implementation around the corner, and clarity on the GST rate and cess, we believe the cigarette industry should witness volume growth. As per our calculation, the change in the 'tax on tax' structure may lead to a significant jump in the EBITDA (roughly ~ ₹ 4000 crore) that would be passed on to customers through ~7-8% price cut, considering the anti-profiteering law. Though this could be a huge volume booster, we will await clarity on the same because it looks very unlikely to us given the tax revenue loss for the government. We factor in 4.0% volume CAGR and 7.5% realisation CAGR in FY17-19E.

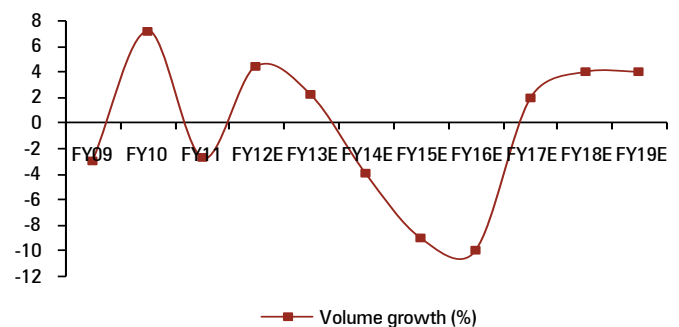
Further, ITC is increasing its sales mix towards the below 64 mm category. It was 35% in Q4FY17 (~20% in Q4FY16). We believe that this strategic move of increasing share of 64mm cigarettes coupled with wide price gap between below 65 mm cigarettes (~₹ 5/stick) and above 65-70 mm cigarettes (~₹ 9/stick), would be a volume driver with the shift happening for price sensitive customers. In future any increase in below 65 mm cigarette category can boost the EBITDA significantly on account of lower tax incidence and higher volumes. We believe ITC's dominance in the cigarette segment in India would continue to aid its dominance in ITC's EBIT at ~82.0% with EBIT growth at 8.6% CAGR in FY17-19E.

Exhibit 1: Cigarette revenues, revenue growth (YoY)



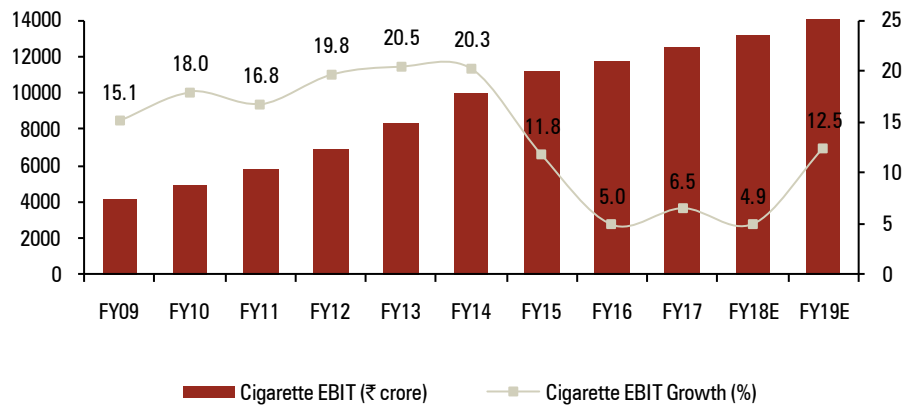
Source: Company, ICICIdirect.com, Research

Exhibit 2: Cigarette volume growth (YoY)



Source: Company, ICICIdirect.com, Research

Exhibit 3: Cigarette EBIT (₹ crore) and cigarette EBIT growth (%)



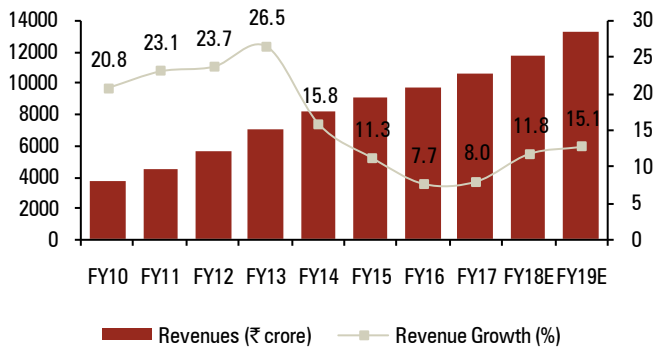
Source: Company, ICICIdirect.com Research

Aggressive expansion into packaged foods indicates its focus on FMCG

ITC's emerging strength is the FMCG (others) business led by robust growth of 20.1% CAGR (FY09-15) and strong brands like *Aashirvaad*, *Sunfeast*, *Bingo*, *Candyman* (branded packaged foods), *Vivel*, *Fama Di Wills*, *Superia* (personal care), *Classmate*, *Paperkraft* (education & stationery) and *Wills Lifestyle & John Players* (lifestyle retailing). Post strong growth of 21.9% CAGR in FY08-12, revenue from the segment has been steadily growing at 13.6% CAGR (during FY12-17). The company's constant endeavour to enter higher growth segments, especially in the branded packaged foods segment, has aided it to carve out a significant place for itself in the Indian FMCG markets with gross revenues of ₹ 10511.8 crore in FY17. We believe ITC has an edge over other FMCG players in the segment led by its strong and established distribution network of cigarettes. We expect ITC's presence in the segment to continue to grow at 12.3% revenue CAGR in FY17-19E led by further strengthening of its brand equity in established segments and entry into new segments like beverages, milk, chocolates and coffee.

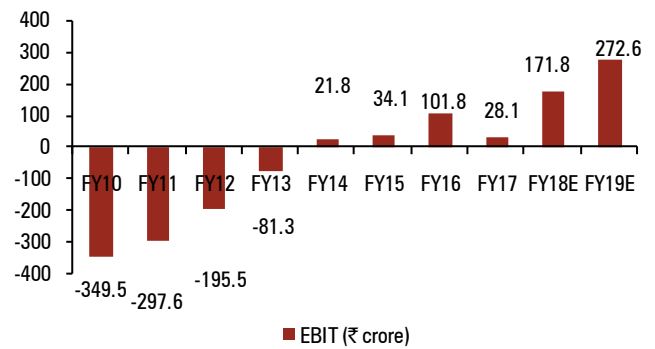
Despite growing at a healthy pace, the FMCG business has been able to achieve breakeven in FY15 since inception (2001) led by entry into new segments, year after year. However, losses have declined much faster than anticipated from ₹ 483.5 crore (FY09) to ₹ 81.3 crore (FY13) with marginal profit at ₹ 28.12 crore in FY17, which we estimate to grow to ₹ 272.6 crore in FY19E. With the company's brands gaining strength across segments and operational efficiency (back-end integration with ITC's agri business and paperboards business) yielding positive results, we expect the FMCG business to increasingly contribute to profits in a staggered manner in FY18E-19E.

Exhibit 4: FMCG revenues (₹ crore) and growth (%)



Source: Company, ICICIdirect.com, Research

Exhibit 5: FMCG EBIT (₹ crore)

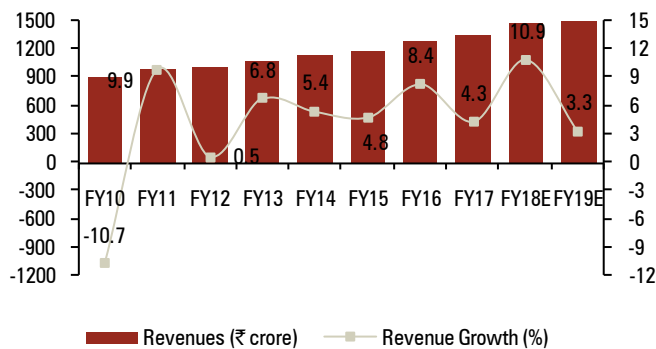


Source: Company, ICICIdirect.com, Research

Hotel business to remain drag on return ratios

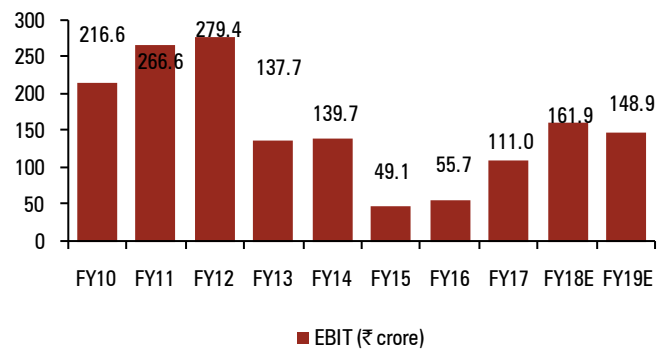
ITC's hotel business (2.5% of revenues FY17) has remained a drag on return ratios given the huge capital employed in the segment (~₹ 4475 crore in FY16). However, the earnings (EBIT) recovered in FY17 to ₹ 111.0 crore in FY17 against ₹ 55.7 crore in FY16 led by an improvement in occupancy level and higher growth in the F&B segment. With the company actively investing in the segment, we expect upcoming new properties along with gradually improving occupancy levels to aid revenue growth at 7.0% CAGR in FY17-19E. Going forward, we do not expect any significant turnaround in the business with earnings from the segment improving marginally to ₹ 148.9 crore by FY19E.

Exhibit 6: Hotel revenues (₹ crore) and growth (%)



Source: Company, ICICIdirect.com, Research

Exhibit 7: Hotel EBIT (₹ crore)



Source: Company, ICICIdirect.com, Research

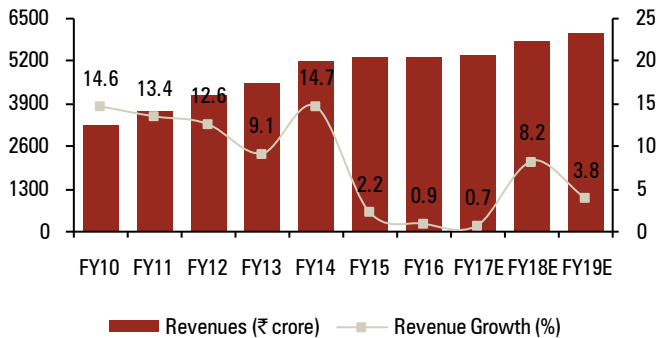
During the year, the company commenced construction of WelcomHotels at Guntur and Bhubaneswar. Additionally, following the company's commitment towards building world-class hotel properties, the business has made steady progress in construction of luxury hotels at Hyderabad, Kolkata, Ahmedabad and Srinagar.

Slower growth in cigarettes & FMCG and cheaper imports impacting paperboard business

ITC's paperboards business (9.0% of revenues in FY17) posted modest revenue CAGR (FY08-15) of 12.2% led by 8% volume CAGR and ~4% price led CAGR. With ITC being the leader in the paperboards and speciality papers segment and the company increasing its capacity in the segment (brownfield expansion in Bhadrachalam, Andhra Pradesh) we expect ITC's dominance to strengthen further. The company has set up a

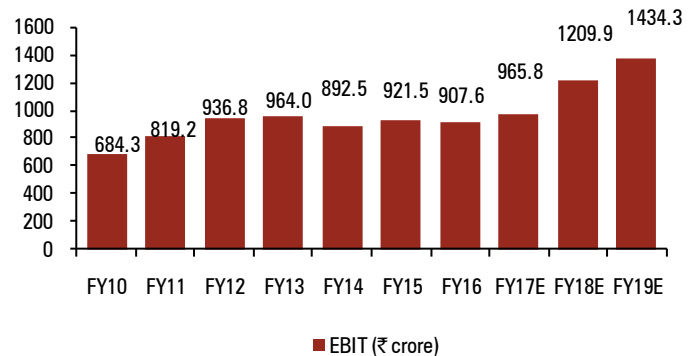
pulp mill at its Bhadrachalam unit to reduce dependence on imported pulp. It is also planning a capacity expansion in the value added paperboards and decor segments, which will provide better profitability. Thus, we expect profitability from the segment to improve though we are factoring moderate growth in the segment at 6.0% CAGR in FY17-19E.

Exhibit 8: Paperboards revenues (₹ crore) and growth (%)



Source: Company, ICICIdirect.com, Research

Exhibit 9: Paperboards EBIT (₹ crore)



Source: Company, ICICIdirect.com, Research

Treading into new frontiers with clear long term vision

ITC has been aggressive in recent times to shape itself into India's leading FMCG company. It has set before itself an ambitious vision of achieving a topline of ₹ 100000 crore from non-cigarette FMCG business by 2030. This translates to a CAGR of 17.4% in this segment in FY15-30E. After starting the FMCG business from scratch in 2001, it had a topline of ₹ 10511.8 crore from this segment in FY17. Further, ITC's enjoys strong presence in foods portfolio, on the back of strong brands like Sunfeast, Aashirvaad, and Yippee. Additionally, ITC ventured into new business of dairy products with the launch of Aashirvaad Svasti cow ghee, luxury chocolates under Fabelle and dairy whitener segment under Sunfresh. We believe it would continue to leverage the brand equity of its prominent brands by driving line extensions.

Additionally, the expanse of opportunities for the company can be gauged from the untapped potential in the organised wheat flour market, which is estimated at ~₹ 7500 crore. India's wheat production was at ~86.5 million tonnes (MT) in 2015. Of this, the size of the organised wheat flour market is ~2.5 MT while the unorganised sector accounts for ~12.5 MT. This translates to a potential market size of ~₹ 46000 crore. Thus, the organised wheat flour market currently constitutes ~16% of this potential size.

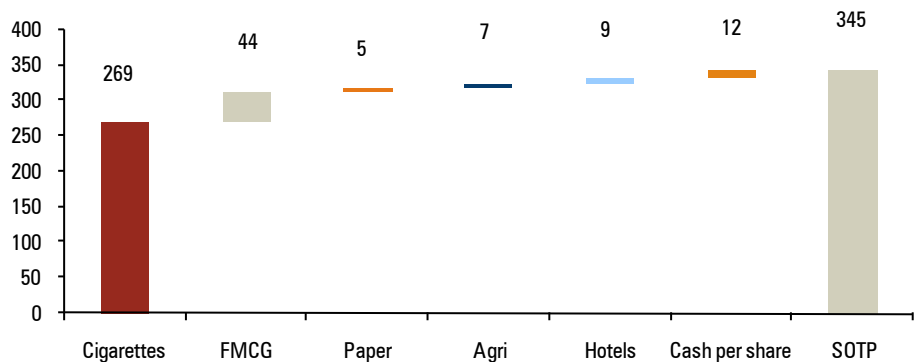
With growing urbanisation and changing lifestyles of Indian households, if more consumers shift to organised wheat flour, taking 16% to ~50% levels in the next four or five years, then the expected organised wheat flour market size comes to ~₹ 23000 crore. ITC (Aashirvaad atta) is expected to be the major beneficiary by virtue of its current market of ~40%. This may translate into 3x growth to ~₹ 9000 crore for the company from branded wheat flour category alone.

Outlook & valuation

Now, with GST implementation around the corner, and clarity on the GST rate and cess, we believe the cigarette industry should witness volume growth. As per our calculation, the change in the 'tax on tax' structure may lead to a significant jump in the EBITDA (roughly ~ ₹ 4000 crore), which would be passed on to customers through ~7-8% price cut, considering the anti-profiteering law. Though this could be a huge volume booster, we will await clarity on the same because it looks very unlikely to us given the tax revenue loss for the government. We are factoring in 4.0% volume CAGR and 7.5% realisation CAGR in FY17-19E for the cigarette business. Additionally, ITC's focus on growing its FMCG business (estimated to grow at a 12.3% CAGR over FY17-19E) by entering newer segments and tapping opportunity in foods segment would be a catalyst for topline growth in the long run.

We reiterate our **BUY** recommendation on the stock with a target price of ₹ 345 valuing it on SOTP basis. We have valued the cigarettes business at ₹ 269 (higher multiple of 28x FY19E EPS), FMCG at ₹ 44 (4x MCap/sales FY19E), paperboards at ₹ 5 (3x FY19E EV/EBITDA), agri-business at ₹ 7 (3x P/BV FY19E) and hotels at ₹ 9 (2x EV/room FY19E) and also added the cash per share of ₹ 12.

Exhibit 10: Sum of the parts valuation



Source: Company, ICICIdirect.com Research

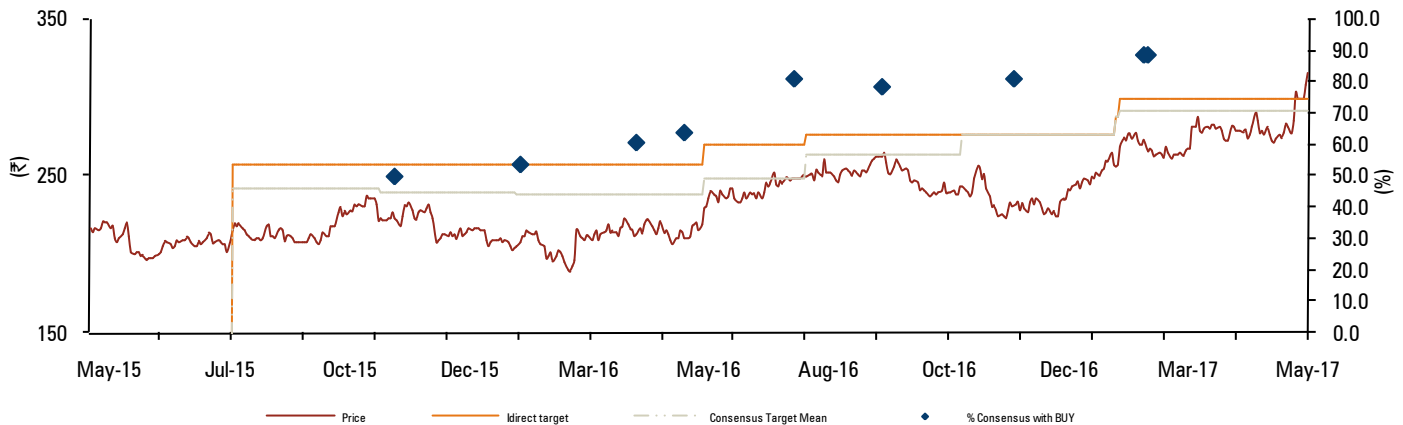
Exhibit 11: Valuations

	Sales (₹ cr)	Growth (%)	EPS (₹)	Growth (%)	PE (x)	EV/EBITDA (x)	RoNW (%)	RoCE (%)
FY16	51582.5	43.0	7.7	-2.9	40.3	27.0	22.4	33.2
FY17	55001.7	6.6	8.4	9.4	36.8	25.6	22.5	32.9
FY18E	59796.4	8.7	10.3	22.6	30.0	21.5	26.5	38.1
FY19E	67278.1	12.5	11.6	13.0	26.6	19.0	27.9	40.2

Source: Company, ICICIdirect.com Research

*From FY16 onwards, financials are reported as per Ind AS

Recommendation history vs. Consensus



Source: Bloomberg, Company, ICICIdirect.com Research

Key events

Date	Event
Feb-10	The Gol reduces excise duty on < 64 mm cigarettes by ~23% while increasing the excise on above 64 mm cigarettes by ~14% for its FY11 Budget
Dec-10	ITC shuts all its five cigarette manufacturing units awaiting clarity from the government on the pictorial representation of packs
Feb-11	The Gol leaves excise duty unchanged in its FY12 Budget; a key positive for the company
Feb-12	Gol increases basic excise duty on cigarettes by whopping 20% in its FY13 Budget
Sep-12	Inaugurates its largest luxury hotel, Grand Chola, in Chennai. It has a capacity of ~600 rooms
Dec-12	Begins the construction of milk processing unit in Munger, Bihar
Feb-13	The Gol in its Budget again raises the basic excise duty on cigarettes by 18%
May-13	For the first time during the quarter the company reports a profit in its FMCG (others) business
Jul-14	Gol increases excise duty on cigarettes for a third consecutive year. It announces an increase of 11-72% in excise duty in its FY15E Budget
Oct-14	Health Ministry proposes ban on loose cigarettes, higher penalty on smoking in public places
Dec-14	Volume declines significantly in Q3FY15 as excessive price hike in last two years impacts growth
Feb-15	Acquisition of Shower To Shower, Savlon brands from Johnson & Johnson
Feb-15	Excise hike of 25% in below 65 mm category & 15% in above 65 mm category in Budget 2015
Feb-16	Excise hike of 10% on cigarettes in Budget 2016

Source: Company, ICICIdirect.com Research

Top 10 Shareholders

Rank	Name	Latest Filing Date	% O/S	Position (m)	Change (m)
1	British American Tobacco PLC	31-Mar-17	24.52	2,978.3	0.0
2	Life Insurance Corporation of India	31-Mar-17	16.26	1,975.1	242.5
3	UTI Asset Management Co. Ltd.	31-Mar-17	9.08	1,102.6	-242.5
4	Myddleton Investments Co., Ltd.	31-Mar-17	4.00	486.3	0.0
5	General Insurance Corporation of India	31-Mar-17	1.75	213.1	-1.2
6	The New India Assurance Co. Ltd.	31-Mar-17	1.69	205.5	-6.1
7	Oriental Insurance Company Ltd.	31-Mar-17	1.39	169.4	-7.0
8	Rothmans International Enterprises, Ltd.	31-Mar-17	1.28	155.0	0.0
9	GIC Private Limited	31-Mar-17	1.27	154.9	-6.8
10	National Insurance Company Limited	31-Dec-16	1.21	146.7	-0.4

Source: Reuters, ICICIdirect.com Research

Shareholding Pattern

(in %)	Mar-16	Jun-16	Sep-16	Dec-16	Mar-17
Promoter	-	-	-	-	-
FII	20.5	20.6	20.8	21.3	20.8
DII	35.2	35.1	34.9	35.0	35.7
Others	44.4	44.4	44.2	43.7	43.5

Recent Activity

Buys			Sells		
Investor name	Value	Shares	Investor name	Value	Shares
Life Insurance Corporation of India	1048.25m	242.52m	UTI Asset Management Co. Ltd.	-1048.25m	-242.52m
Lyxor Asset Management	51.91m	12m	Capital Research Global Investors	-104.7m	-29.44m
Newton Investment Management Ltd.	50.3m	11.64m	Carmignac Gestion	-52.8m	-14.84m
Aberdeen Asset Management Company Ltd. (Thailand)	41.78m	10.63m	Vontobel Asset Management, Inc.	-59.87m	-13.85m
Columbia Threadneedle Investments (US)	23.75m	5.49m	Oriental Insurance Company Ltd.	-30.46m	-7.05m

Source: Reuters, ICICIdirect.com Research

Financial summary

Profit and loss statement ₹ Crore				
	FY16	FY17	FY18E	FY19E
Total operating Income	51,944.6	55,448.5	60,319.1	67,889.6
Growth (%)	42.3	6.7	8.8	12.6
Raw Material Expenses	13,450.0	15,976.3	16,699.3	18,287.8
Employee Expenses	2,331.6	2,444.3	2,690.8	3,027.5
Marketing Expenses	0.0	0.0	598.0	740.1
Administrative Expenses	0.0	0.0	1,375.3	1,547.4
Excise Duty	15,361.9	15,359.8	17,404.9	19,884.8
Other expenses	7,086.5	7,090.0	4,305.3	4,911.3
Total Operating Expenditure	38,230.0	40,870.4	43,073.7	48,398.8
EBITDA	13,714.6	14,578.0	17,245.5	19,490.8
Growth (%)	1.8	6.3	18.3	13.0
Depreciation	1,000.7	1,038.0	1,308.9	1,467.9
Interest	49.1	23.0	44.5	50.1
Other Income	1,769.3	1,985.9	2,776.8	3,124.3
PBT	14,434.1	15,503.0	18,668.9	21,097.1
Total Tax	5,105.7	5,302.1	6,160.7	6,962.0
PAT	9,328.4	10,200.9	12,508.2	14,135.0
Growth (%)	-2.9	9.4	22.6	13.0
EPS (₹)	7.7	8.4	10.3	11.6

Source: Company, ICICIdirect.com Research

*From FY16 onwards, financials are reported as per Ind AS

Cash flow statement ₹ Crore				
(Year-end March)	FY16	FY17E	FY18E	FY19E
Profit After Tax	9,328.4	10,200.9	12,508.2	14,135.0
Add: Depreciation	1,000.7	1,038.0	1,308.9	1,467.9
(Inc)/dec in Current Assets	-1,092.4	-4,195.4	-657.7	-2,808.6
Inc/(dec) in CL and Provisions	701.0	475.8	915.2	969.1
CF from operating activities	9,937.6	7,519.3	14,074.6	13,763.4
(Inc)/dec in Investments	-3,975.2	-1,632.3	-688.7	-1,147.9
(Inc)/dec in LT loans & advances	1.2	2.3	-50.0	-50.0
(Inc)/dec in Fixed Assets	-1,417.4	-3,025.1	-583.0	-2,020.0
Others	198.3	-1.7	0.0	0.0
CF from investing activities	-5,610.1	-3,906.2	-1,336.4	-3,217.9
Issue/(Buy back) of Equity	3.2	410.0	0.0	0.0
Inc/(dec) in loan funds	-12.9	-7.8	10.0	10.0
Dividend paid & dividend tax	-8,181.6	-6,895.2	-10,645.2	-10,645.2
Inc/(dec) in Sec. premium	0.0	0.0	0.0	0.0
Others	11.5	19.2	18.7	19.5
CF from financing activities	-7,652.8	-6,473.8	-10,616.4	-10,615.6
Net Cash flow	-3,325.3	-2,860.7	2,121.8	-70.1
Opening Cash	-279.3	-3,604.6	2,747.3	4,869.1
Closing Cash	5,639.2	2,747.3	4,869.1	4,799.0

Source: Company, ICICIdirect.com Research

Balance sheet ₹ Crore				
(Year-end March)	FY16	FY17	FY18E	FY19E
Liabilities				
Equity Capital	804.7	1,214.7	1,214.7	1,214.7
Reserve and Surplus	40,851.7	44,126.2	45,989.2	49,479.1
Total Shareholders funds	41,656.4	45,341.0	47,203.9	50,693.8
LT Borrowings & Provisions	25.8	18.0	28.0	38.0
Deferred Tax Liability	1,867.4	1,871.7	1,871.7	1,871.7
Others Non-current Liabilities	127.3	140.6	159.3	178.8
Total Liabilities	43,677.0	47,371.2	49,262.9	52,782.3
Assets				
Gross Block	21,781.3	23,696.7	25,696.7	27,696.7
Less: Acc Depreciation	8,189.3	9,227.4	10,536.3	12,004.2
Net Block	13,592.0	14,469.3	15,160.4	15,692.5
Capital WIP	2,419.2	3,537.0	2,100.0	2,100.0
Net Intangible Assets	419.0	410.9	430.9	450.9
Non-current Investments	6,853.2	8,485.5	9,174.2	10,322.1
LT loans & advances	8.1	5.8	55.8	105.8
Current Assets				
Inventory	8,519.8	7,864.0	9,010.4	10,137.8
Debtors	1,686.4	2,207.5	2,293.6	2,580.5
Loans and Advances	3.9	3.4	3.7	4.1
Other Current Assets	913.4	1,615.5	1,802.1	2,027.6
Cash	5,639.2	2,747.3	4,869.1	4,799.0
Current Investments	647.1	10,099.8	938.1	10,506.4
Current Liabilities	6,354.3	6,830.1	7,745.3	8,714.4
Creditors	2,228.0	2,551.2	2,785.0	3,133.5
Provisions	57.6	41.8	45.5	51.2
Short term debt & other CL	4,068.7	4,237.0	4,914.8	5,529.7
Application of Funds	43,677.0	47,371.2	49,262.9	52,782.3

Source: Company, ICICIdirect.com Research

*From FY16 onwards, financials are reported as per Ind AS

Key ratios				
(Year-end March)	FY16	FY17	FY18E	FY19E
Per share data (₹)				
EPS	7.7	8.4	10.3	11.6
Cash EPS	8.5	9.3	11.4	12.8
BV	34.3	37.3	38.9	41.7
DPS	8.5	4.8	7.3	7.3
Cash Per Share	4.6	2.3	4.0	4.0
Operating Ratios (%)				
EBITDA Margin	26.4	26.3	28.6	28.7
PBT / Total Operating income	27.8	28.0	31.0	31.1
PAT Margin	18.0	18.4	20.7	20.8
Inventory days	60.3	52.2	55.0	55.0
Debtor days	11.9	14.6	14.0	14.0
Creditor days	15.8	16.9	17.0	17.0
Return Ratios (%)				
RoE	22.4	22.5	26.5	27.9
RoCE	33.2	32.9	38.1	40.2
RoIC	37.3	32.7	38.7	40.3
Valuation Ratios (x)				
P/E	40.3	36.8	30.0	26.6
EV / EBITDA	27.0	25.6	21.5	19.0
EV / Net Sales	7.2	6.8	6.2	5.5
Market Cap / Sales	7.3	6.8	6.3	5.6
Price to Book Value	9.0	8.3	8.0	7.4
Solvency Ratios				
Debt/EBITDA	0.0	0.0	0.0	0.0
Debt / Equity	0.0	0.0	0.0	0.0
Current Ratio	2.8	3.2	2.9	2.9
Quick Ratio	1.4	2.0	1.7	1.7

Source: Company, ICICIdirect.com Research

ICICIdirect.com coverage universe (FMCG)

Sector / Company	CMP		Rating	M Cap (₹ Cr)	EPS (₹)			P/E (x)			Price/Sales (x)			RoCE (%)			RoE (%)		
	(₹)	TP(₹)			FY17E	FY18E	FY19E	FY17E	FY18E	FY19E	FY17E	FY18E	FY19E	FY17E	FY18E	FY19E	FY17E	FY18E	FY19E
Colgate (COLPAL)	1,001	990	Hold	27,045	21.2	23.6	26.0	47.1	42.5	38.0	6.0	5.5	5.0	64.1	71.4	70.4	45.3	50.2	49.3
Dabur India (DABIND)	270	305	Hold	50,368	7.2	7.5	8.0	37.2	36.0	38.0	6.5	6.1	5.6	28.0	25.6	25.5	26.4	23.4	22.6
GSK CH (GLACON)	5,326	6,074	Buy	22,079	156.1	176.3	199.2	34.1	30.2	30.5	5.0	4.4	3.8	30.8	30.3	31.3	21.0	21.2	21.7
Hindustan Unilever (HINLEV)	1,041	1,100	Buy	216,086	20.8	22.8	26.7	50.1	45.7	41.2	6.4	5.9	5.3	74.9	82.2	85.6	66.6	66.7	69.0
ITC Limited (ITC)	310	345	Buy	375,476	8.4	10.3	11.6	36.9	30.1	29.6	6.8	6.3	5.6	32.9	46.9	48.7	22.5	32.9	34.1
Jyothy Lab (JYOLAB)	370	397	Hold	6,751	11.1	10.7	12.7	33.3	34.5	31.3	4.0	3.6	3.2	28.1	29.0	30.5	30.9	27.1	28.0
Marico (MARLIM)	315	341	Hold	40,641	6.3	6.9	8.4	50.0	45.6	40.4	6.9	5.9	5.0	44.6	45.1	49.4	34.9	34.6	37.7
Nestle (NESIND)	6,649	7,420	Buy	63,637	103.9	133.4	154.5	64.0	49.8	48.0	6.8	5.9	5.3	34.9	36.7	44.3	36.2	40.0	44.1
Tata Global Bev (TATGLO)	147	147	Hold	9,041	8.2	8.8	9.4	17.9	16.7	15.7	1.3	1.2	1.1	9.5	9.9	10.1	8.0	8.7	8.7
VST Industries (VSTIND)	3,130	3,320	Hold	4,790	108.3	127.1	150.8	28.9	24.6	22.0	5.1	4.5	4.0	45.0	47.2	49.5	31.1	32.8	34.8

Source: Company, ICICIdirect.com Research

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