

Strong performance; GST to bolster growth

India Equity Research | Consumer Goods

ITC's Q4FY17 revenue, EBITDA and PAT growth of 14.0%, 7.5% and 12.1% YoY, respectively, came in line with estimate driven by flattish cigarette volumes (slightly ahead of our 1-2% YoY dip estimate). Fifth consecutive quarter of non-negative cigarette volume growth and no negative surprise in GST rate reaffirms our confidence of sustenance of cigarette volumes. Though FMCG sales grew 6.5% YoY, up from 3.4% YoY in Q3FY17, they were still lower than expected; we expect it to grow in double digit in FY18 helped by entry in new segments. We expect ITC to clock EBIT CAGR of ~15.6% over FY17-19E led by recovery in cigarette volumes and it remains our top pick (valuation gap with HUL at 40% to narrow). Maintain 'BUY'.

Cigarette going strong; FMCG recovering gradually

Cigarette gross sales jumped 4.8% YoY led by flattish volumes (2.2% YoY sales growth with flattish volumes in Q3FY17) as 64mm segment continued to outstrip other segments (salience is more than 30% of total volumes). Cigarette margin also improved 107bps YoY despite higher salience of 64mm. FMCG growth was soft at 6.5% YoY impacted by tepid branded apparel (pressure due to heavy discounting in the segment) and education businesses. Growth was, however, strong in staples (led by *Aashirvaad atta* and *Bingo*), biscuits (likely gaining market share), noodles (back on growth trajectory) and personal care. The FMCG segment was profitable on a full year basis with EBIT of INR261.5mn despite new launches and entry in new segments such as juices, coffee, chocolates, ghee, etc (EBIT of INR887.1mn in FY16).

Rest of the businesses: Good show in hotels and paper

Hotels and paper businesses grew 6.5% and 4.4% YoY with 557bps (improved room rentals) and 206bps YoY, margin expansion, respectively. Agri business, however, grew 6.2% YoY with 239bps YoY margin dip due to adverse mix impact.

Outlook and valuations: Positive; maintain 'BUY'

With per capita consumption 1/18th China's, cigarette opportunity in India remains attractive. Though illegal cigarettes are a big menace (one-fifth of overall cigarette industry in India), GST implementation will mitigate the impact. We maintain 'BUY/SO' with target price of INR370.

Financials*

(INR mn)

Year to March	Q4FY17	Q4FY16	% change	Q3FY17	% change	FY17	FY18E	FY19E
Total op inc.	111,255	97,567	14.0	92,484	21.6	428,036	477,247	547,797
EBITDA	38,754	36,051	7.5	35,464	9.3	154,359	175,289	204,884
Adj. profit	26,695	23,807	12.1	26,467	0.9	104,773	122,000	142,323
Adj Dil. EPS (INR)	2.2	2.0	11.8	2.2	0.9	8.7	10.1	11.8
Diluted P/E (x)						35.5	30.5	26.1
EV/EBITDA (x)						23.1	20.2	17.2
ROAE (%)						29.0	30.5	31.9

*Quarterly numbers are standalone; Annual numbers are consolidated

 Edelweiss Research is also available on www.edelresearch.com,
 Bloomberg EDEL <GO>, Thomson First Call, Reuters and Factset.

EDELWEISS 4D RATINGS

Absolute Rating	BUY
Rating Relative to Sector	Outperform
Risk Rating Relative to Sector	Medium
Sector Relative to Market	Underweight

MARKET DATA (R: ITC.BO, B: ITC IN)

CMP	: INR 309
Target Price	: INR 370
52-week range (INR)	: 314 / 222
Share in issue (mn)	: 12,147.4
M cap (INR bn/USD mn)	: 3,755 / 58,265
Avg. Daily Vol.BSE/NSE('000)	: 11,266.4

SHARE HOLDING PATTERN (%)

	Current	Q3FY17	Q2FY17
Promoters *	-	-	-
MF's, FI's & BK's	35.7	35.3	34.9
FII's	20.0	20.2	20.8
Others	44.2	44.4	44.2
* Promoters pledged shares (% of share in issue)	:		NIL

PRICE PERFORMANCE (%)

	Stock	Nifty	EW Consumer goods Index
1 month	6.3	2.6	4.4
3 months	16.4	7.3	13.3
12 months	28.6	18.9	22.9

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Table 1: ITC segmental snapshot

(%)	Q3FY15	Q4FY15	Q1FY16	Q2FY16	Q3FY16	Q4FY16	Q1FY17	Q2FY17	Q3FY17	Q4FY17
Net Revenues growth YoY										
FMCG-Cigarettes	0.6	3.2	(1.2)	1.6	5.7	10.2	6.4	7.1	2.2	4.8
FMCG-Others	11.4	10.9	12.2	7.1	7.1	5.4	9.5	13.3	3.4	6.5
Hotels	4.7	8.1	15.7	10.9	4.5	4.8	(0.2)	2.5	7.3	6.5
Agribusiness	(10.6)	(28.8)	(29.4)	(10.4)	(7.3)	26.5	20.2	2.0	12.9	6.2
Paperboards, paper & packaging	(4.7)	(4.6)	(1.8)	(2.3)	5.1	3.0	(1.6)	-	(0.1)	4.4
EBIT growth YoY										
FMCG-Cigarettes	8.8	6.0	2.2	3.0	3.4	11.5	8.0	8.4	1.7	8.0
FMCG-Others	10.7	12.6	48.9	(7.7)	63.6	46.0	(43.3)	(70.6)	(204.9)	(29.3)
Hotels	(53.8)	(29.8)	(40.0)	(42.2)	(10.0)	1.5	(116.8)	NM	63.2	56.9
Agribusiness	16.3	13.0	15.5	(1.4)	(3.1)	6.1	1.5	1.0	0.7	(20.8)
Paperboards, paper & packaging	(7.7)	1.1	(7.4)	(13.6)	12.7	6.5	(2.7)	10.8	2.1	18.3
EBIT margins										
FMCG-Cigarettes	69.7	64.3	67.0	37.3	68.1	65.1	36.5	37.7	36.6	36.4
FMCG-Others	0.5	1.9	(0.4)	(0.5)	0.8	2.6	(0.2)	(0.1)	(0.8)	1.9
Hotels	8.7	12.1	(2.5)	(1.9)	7.5	11.8	0.4	0.2	11.4	17.3
Agribusiness	14.9	11.5	10.1	15.9	15.6	9.7	8.5	15.8	14.2	7.0
Paperboards, paper & packaging	17.8	15.8	20.1	15.7	19.1	16.4	18.7	17.4	18.4	17.5
Overall EBIT margins	38.4	34.3	38.3	27.6	38.5	34.9	26.5	27.7	26.3	25.2

Note: Q4FY17 nos. for Cigarette, FMCG-Others, are not strictly comparable owing to adoption of IND-AS from Q1FY17

Source: Company, Edelweiss research

Cigarettes: sustained positive volumes

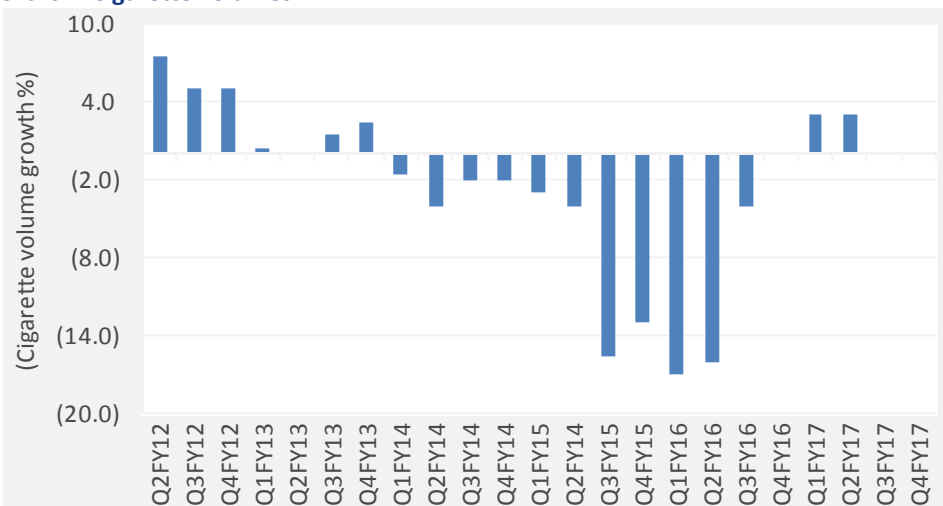
Cigarette net sales (revised IND-AS compliant) jumped 4.8% YoY and EBIT growth came in at 8% YoY. Volumes for the quarter were flattish (we expected 1-2% YoY dip). EBIT margin improved 107bps to 36.4%.

ITC's cigarette business was impacted by tight liquidity conditions and continued regulatory & taxation pressures on the legal cigarette industry in India. Over the past 5 years, the incidence of excise duty and VAT on cigarettes, at a per unit level, has risen cumulatively by 131% and 157%, respectively, thereby exerting severe pressure on legal industry volumes even as illegal trade grows unabated. Sharp excise duty hikes has resulted in widening the differential in excise duty rates (on per kg of tobacco basis) between cigarettes and other tobacco products from 29x in FY06 to over 53x currently. High incidence of taxation and a discriminatory regulatory regime on cigarettes have, over the years, led to significant shift in tobacco consumption to lightly taxed or tax-evaded tobacco products like bidi, khaini, chewing tobacco, gutkha and illegal cigarettes which currently constitute over 89% of total tobacco consumption in the country. Besides adversely impacting the performance of the legal cigarette industry, this has led to sub-optimisation of the revenue potential from the tobacco sector. It is estimated that almost 68% of the tobacco consumed in the country remains outside the tax net on account of evasion.

The operating environment for the legal cigarette industry has been rendered even more challenging during the quarter in the wake of a further increase of 10% in excise duty announced in the Union Budget 2016 as well as introduction of new 85% graphic health warnings (GHW) on cigarette packages. India is now the 4th largest market for illegal cigarettes in the world. Illegal trade comprising smuggled foreign and domestically manufactured tax-evaded cigarettes is estimated to constitute one-fifth of the overall cigarette industry and cost the exchequer revenue loss of more than INR90bn per annum.

Despite the challenging operating environment, ITC, commendably, continues to consolidate its market leadership through relentless focus on delivering world-class products, continuous innovation & value addition and best-in-class execution. Some of the strategic initiatives during the year include the launch of *Gold Flake Kings Blue Tropical Switch*, *Classic Citric Burst*, *Classic Tangy Burst*, *Classic Fine Taste Plus Low Smell*, *American Club*, *Players Fruity Cool Flavour*, *Flake Mint Capsule*, *Silk Cut Mint Capsule* and *Navy Cut Mint Capsule*.

Chart 1: Cigarette volumes



Source: Company, Edelweiss research

FMCG-others: growth soft due to lifestyle retailing business

ITC's FMCG revenue grew 6.5% YoY impacted by subdued demand for the fourth successive year. The segment's Q4FY17 numbers were impacted by sustained investment in brand building and gestation costs of new categories (juices, dairy, chocolates and coffee), sharp increase in input cost, besides disruption in sales momentum due to the cash crunch.

Branded packaged foods business posted good growth. *Aashirvaad atta* recorded healthy growth and consolidated its leadership across markets. The value-added product portfolio, comprising Multigrains, Select and Sugar Release Control atta, continued to record robust growth. In the branded spices category, the company launched *ITC Master Chef Super Safe Spices*, which have been tested for over 470 pesticide residues in accordance with European standards compared to only 9 required under Indian regulations. The *Bingo!* range of snack foods continued to grow well driven by the *Tedhe Medhe* variant and *Bingo! Yumitos Original Style* potato chips. *Sunfeast Mom's Magic* range of premium cookies sustained growth momentum. ITC expanded the footprint of *Fabelle Chocolate Boutiques* to ITC Grand Central & ITC Maratha in Mumbai and ITC Windsor in Bengaluru during the quarter. With this, *Fabelle Chocolate Boutiques* are now operational at 7 luxury ITC hotels. The instant noodles industry saw steady recovery during the year.

Personal care products business delivered strong performance during FY17 against a backdrop of sluggish demand. The business continued to focus on improving product portfolio and product mix. Recently, variants in the hand wash and antiseptic liquid categories under the *Savlon* brand continued to gain traction amongst consumers. Two key innovations during the year which marked introduction of *Engage ON Pocket Perfumes* in 6

exciting variants and 2 differentiated variants of *Savlon Hand Wash* in 10ml multi use sachets.

Growth in education & stationary business was soft amidst challenging operating environment; also impacted by destocking in the trade. The branded apparel industry faced severe pressure during the year in the wake of consumers cutting discretionary spends, heavy discounting by industry players and emergence of value retailing by e-commerce majors.

Paper

Paper segment revenue grew 4.4% YoY with EBIT growth of 18.3% YoY. In an endeavour to further reduce its dependence on imported pulp, the business commissioned India's first Bleached Chemical Thermo Mechanical pulp mill at its Bhadrachalam unit during the quarter. Capacity expansion in the value-added paperboards and décor segments is also underway.

During the year, the business invested in new product lines viz., rigid boxes and flexo corrugated packaging, and augmented capacity in the carton and flexibles packaging segments with the addition of state-of-the-art lines at its facility at Tiruvottiyur.

Agri

Agri business revenue grew 6.2% YoY, while EBIT slipped 20.8% YoY. Growth supplies of imported wheat in the domestic market, thereby easing the acute shortage in India. This business continues to provide strategic support to the FMCG business in wheat, chip stock potato, spices, fruit pulp and leaf tobacco sourcing. The segment Q4FY17 numbers reflect the slowdown in FMCG & legal cigarette industry, adverse mix and increase in leaf tobacco prices.

Hotel

Revenue of the hotel business grew 6.5% YoY and EBIT jumped 56.9% YoY. Growth and margins were driven by improvement in ARRs and robust spurt in F&B sales. Construction of ITC Hotels at Hyderabad, Kolkata, Ahmedabad, Srinagar and WelcomHotels in Coimbatore, Guntur and Bhubaneswar is on track.

Outlook and valuations: Positive, to re-rate further; maintain 'BUY'

ITC's cigarette volumes, over the past few years, have come under tremendous pressure impacted by unabated increase in taxes on cigarettes (Budget 2016 was the fifth consecutive year of harsh tax increase on cigarettes, though lowest in past 5 instances). However, in Budget 2017 the hike was lower than expected at 6%. and amidst this ITC has **commendably posted 5 consecutive quarters of positive volumes**. We expect cigarette volumes to jump led by lower price hikes at customer end and also by the government's harsh stance on other forms of tobacco and unorganised cigarette industry which can lead to potential shift to organised players. GST rates have been announced and the new rates, which are a mix of ad-valorem (small portion) and specific duty, are neutral. This is a big positive not only from taxation point of view, but also from gaining share from the unorganised segment—India is now 4th largest market for illegal cigarettes in the world.

ITC is currently trading at ~40% discount to HUL. During FY12, when excise duty had not been hiked, the discount had reduced to much lower level. We expect ITC to re-rate owing to better EBIT growth and pick up in FMCG sales growth led by innovations and rural

stimulus. We remain positive on ITC over the long term as per capita consumption of cigarettes in India is 1/18th of China, while the proportion of legal cigarettes in overall tobacco consumption remains low at 11%. We maintain **'BUY/Sector Outperformer'**. We value ITC on SOTP basis and peg our target price at INR370.

Table 2: SOTP valuation

		FY19E	Methodology	Target multiple	Per share contribution
Cigs	EPS	9.6	P/E	30x	289
FMCG	Sales/Share	10.0	P/S	4x	40
Hotels	EBITDA/Share	0.4	EV/EBITDA	15x	5
Agri	EBITDA/Share	1.0	EV/EBITDA	10x	10
Paper	EBITDA/Share	1.2	EV/EBITDA	10x	12
Net cash					13
Value of share					370

Source: Edelweiss research

Chart 2: 1 year forward price to earning



Source: Bloomberg, Edelweiss research

Financial snapshot

(INR mn)

Year to March	Q4FY17	Q4FY16	% change	Q3FY17	% change	FY17	FY18E	FY19E
Total operating Income	111,255	97,567	14.0	92,484	20.3	428,036	477,247	547,797
Raw material costs	46,828	35,672	31.3	33,766	38.7	160,492	177,010	201,074
Staff costs	5,714	5,547	3.0	5,723	(0.2)	36,317	40,703	46,193
Other expenses	19,960	20,298	(1.7)	17,531	13.9	76,868	84,245	95,646
Total expenditure	25,674	25,845	(0.7)	23,254	10.4	113,185	124,948	141,839
EBITDA	38,754	36,051	7.5	35,464	9.3	154,359	175,289	204,884
Depreciation	2,418	2,465	(1.9)	2,665	(9.3)	11,528	12,849	13,999
EBIT	36,336	33,586	8.2	32,799	10.8	142,832	162,440	190,885
Other income	4,021	3,712	8.3	6,879	(41.6)	17,615	22,434	24,670
Interest	(115)	123	NA	136	NA	243	127	30
Profit before tax	40,471	37,175	8.9	39,542	2.4	160,204	184,747	215,525
Provision for taxes	13,777	13,369	3.1	13,075	5.4	55,491	62,814	73,279
Minority interest						(60)	(67)	(77)
Associate profit share								
Reported net profit	26,695	23,807	12.1	26,467	0.9	104,773	122,000	142,323
Adjusted Profit	26,695	23,807	12.1	26,467	0.9	104,773	122,000	142,323
Diluted shares (mn)	12,112	12,071		12,112		12,040	12,040	12,040
Adjusted Diluted EPS	2.2	2.0	11.8	2.2	0.9	8.7	10.1	11.8
Diluted P/E (x)	-	-		-		35.5	30.5	26.1
EV/EBITDA (x)	-	-		-		23.1	20.2	17.2
ROAE (%)	-	-		-		29.0	30.5	31.9

As % of net revenues

COGS	42.1	36.6		36.5		37.5	37.1	36.7
Employee cost	5.1	5.7		6.2		8.5	8.5	8.4
Other expenditure	17.9	20.8		19.0		18.0	17.7	17.5
EBITDA	34.8	36.9		38.3		36.1	36.7	37.4
EBIT	32.7	34.4		35.5		33.4	34.0	34.8
PBT	36.4	38.1		42.8		37.4	38.7	39.3
Adjusted net profit	24.0	24.4		28.6		24.5	25.6	26.0
Tax rate	34.0	36.0		33.1		34.6	34.0	34.0

Company Description

ITC is one of the largest consumer companies in India with businesses spanning cigarettes, hotels, paper and agri-commodities. Its branded foods division with products such as staples, confectionery, noodle, snacks and biscuits is doing well and gaining strong market share across many categories. ITC has been successful in foods and constantly expanding its personal product portfolio (soaps, shampoos, deo, talc). Though the cigarettes division is still the major source of revenue, other businesses (agri, paper, hotel) have grown over the years. Recently ITC has entered the nicotine gum space with the launch of Kwiknic.

Investment Theme

ITC has sustained its market leadership in the cigarettes space and delivered robust performance (both topline and profitability) amidst heavy taxation burden (three consecutive years of steep excise hike on cigarettes in Union Budget) and regulations with constant focus on innovation and distribution. The e-Choupal network established by ITC gives it a phenomenal sourcing edge, which has helped it transform into a consumer giant. ITC's FMCG business is likely to remain profitable. Paper business helps address packaging needs of FMCG business with consistent quality and comparatively lower costs. Agri business has seen robust performance aided by tobacco leaf and traded commodities exports; provides strategic sourcing support to the company's cigarette and branded packaged foods businesses by ensuring high quality supplies. We expect ITC's cigarette EBIT growth to remain resilient and FMCG's profitability surge to sustain. With a business-friendly government at the Centre, we expect hotel, paper and FMCG growth rates to improve over ensuing years.

Key Risks

High incidence of taxation and strict regulatory norms on cigarette usage in public and packaging poses threat to cigarette volume growth.

Growing contraband market of cigarettes also poses significant threat for the cigarettes business.

Slowdown in macro-economic environment is a major threat to hotels business.

Financial Statements

Key Assumptions

Year to March	FY16	FY17	FY18E	FY19E
Macro				
GDP(Y-o-Y %)	7.2	6.5	7.1	7.7
Inflation (Avg)	4.9	4.8	5.0	5.2
Repo rate (exit rate)	6.8	6.0	5.8	5.8
USD/INR (Avg)	65.0	67.5	69.0	69.0
Company				
Revenue growth (Y-o-Y %)				
Cigs-Volume growth (dom)	(8.5)	1.5	5.0	5.0
Cigs-Price change (dom)	15.9	3.5	8.0	7.0
FMCG sales growth (dom)	7.7	7.7	14.6	18.5
Hotel sales growth (dom)	8.5	4.0	12.0	15.0
Agri sales growth (dom)	(22.6)	11.0	14.0	16.0
Paper sales growth (dom)	5.9	-	6.0	12.0
Overall growth (%)	1.0	9.2	11.7	14.8
Cig margin (dom)	38.2	39.0	39.2	40.0
FMCG margin (dom)	0.6	0.4	3.0	4.0
Hotel margin (dom)	4.8	9.0	10.0	10.0
Agri margin (dom)	21.3	18.5	18.5	18.5
Paper margin (dom)	23.6	25.0	24.0	24.0
EBITDA margin assumpn				
COGS as % of sales	34.6	37.5	37.1	36.7
A&P as % of sales	2.3	2.3	2.3	2.3
Employee cost (% of rev)	8.8	8.5	8.5	8.4
Financial assumptions				
Tax rate (%)	36.1	34.6	34.0	34.0
Capex (INR mn)	10,529	17,849	25,000	25,000
Debtor days	18	18	18	18
Inventory days	239	230	230	230
Payable days	60	60	60	60
Cash conversion cycle	197	188	188	188
Dep. (% gross block)	4.6	4.5	4.6	4.6
Dividend payout	86.1	65.0	65.0	65.0
Yield on cash	10.6	10.9	13.0	13.0

Income statement

(INR mn)

Year to March	FY16	FY17	FY18E	FY19E
Gross revenues	546,732	582,880	659,913	752,197
Excise duties	158,690	159,279	186,625	208,754
Net revenue	388,042	423,600	473,288	543,443
Other Operating Income	3,879	4,436	3,959	4,354
Total operating income	391,921	428,036	477,247	547,797
Materials costs	135,685	160,492	177,010	201,074
Gross profit	256,236	267,545	300,237	346,723
Manufacturing expenses	68,369	67,125	73,360	83,147
Employee costs	34,410	36,317	40,703	46,193
Ad. & sales costs	8,949	9,743	10,886	12,499
EBITDA	144,509	154,359	175,289	204,884
Depreciation	10,774	11,528	12,849	13,999
EBIT	133,735	142,832	162,440	190,885
Add: Other income	15,307.99	17,615.3	22,433.84	24,670.18
Less: Interest Expense	536	243	127	30
Profit Before Tax	148,507	160,204	184,747	215,525
Less: Provision for Tax	53,582	55,491	62,814	73,279
Less: Minority Interest	(84)	(60)	(67)	(77)
Reported Profit	95,009	104,773	122,000	142,323
Adjusted Profit	95,009	104,773	122,000	142,323
Shares o /s (mn)	12,040	12,040	12,040	12,040
Adjusted Basic EPS	7.9	8.7	10.1	11.8
Diluted shares o/s (mn)	12,108	12,040	12,040	12,040
Adjusted Diluted EPS	7.8	8.7	10.1	11.8
Adjusted Cash EPS	8.8	9.7	11.2	13.0
Dividend per share (DPS)	5.7	4.7	5.5	6.4
Dividend Payout Ratio(%)	86.1	65.0	65.0	65.0

Common size metrics

Year to March	FY16	FY17	FY18E	FY19E
Materials costs	34.6	37.5	37.1	36.7
Staff costs	8.8	8.5	8.5	8.4
Ad. & sales costs	2.3	2.3	2.3	2.3
Other expenses	17.4	15.7	15.4	15.2
EBITDA margins	36.9	36.1	36.7	37.4
EBIT margins	34.1	33.4	34.0	34.8
Net Profit margins	24.2	24.5	25.6	26.0

Growth ratios (%)

Year to March	FY16	FY17	FY18E	FY19E
Revenues	1.0	9.2	11.7	14.8
EBITDA	1.8	6.8	13.6	16.9
PBT	3.4	7.9	15.3	16.7
Adjusted Profit	(1.7)	10.3	16.4	16.7
EPS	(1.9)	10.9	16.4	16.7

Balance sheet		(INR mn)			
As on 31st March	FY16	FY17	FY18E	FY19E	
Share capital	8,047	8,047	8,047	8,047	
Reserves & Surplus	331,597	368,267	410,967	460,780	
Shareholders' funds	339,644	376,315	419,014	468,828	
Minority Interest	2,623	2,564	2,497	2,420	
Short term borrowings	571	514	457	400	
Long term borrowings	428	385	342	300	
Total Borrowings	999	899	799	699	
Long Term Liabilities	1,869	1,869	1,869	1,869	
Def. Tax Liability (net)	18,205	18,205	18,205	18,205	
Sources of funds	363,341	399,851	442,384	492,021	
Gross Block	241,824	266,824	291,824	316,824	
Net Block	147,567	161,039	173,190	184,191	
Capital work in progress	31,151	24,000	24,000	24,000	
Intangible Assets	6,400	6,400	6,400	6,400	
Total Fixed Assets	185,119	191,440	203,591	214,592	
Non current investments	45,565	45,565	45,565	45,565	
Cash and Equivalents	136,186	157,457	177,695	201,663	
Inventories	91,564	101,132	111,540	126,704	
Sundry Debtors	19,198	20,890	23,340	26,800	
Loans & Advances	28,987	28,987	28,987	28,987	
Other Current Assets	5,602	5,602	5,602	5,602	
Current Assets (ex cash)	145,351	156,610	169,469	188,093	
Trade payable	24,042	26,382	29,097	33,053	
Other Current Liab	124,838	124,838	124,838	124,838	
Total Current Liab	148,880	151,220	153,935	157,891	
Net Curr Assets-ex cash	(3,528)	5,391	15,534	30,202	
Uses of funds	363,341	399,851	442,384	492,021	
BVPS (INR)	28.1	31.3	34.8	38.9	

Free cash flow		(INR mn)			
Year to March	FY16	FY17	FY18E	FY19E	
Reported Profit	95,009	104,773	122,000	142,323	
Add: Depreciation	10,774	11,528	12,849	13,999	
Interest (Net of Tax)	343	159	84	20	
Others	(11,863)	24	(22)	(64)	
Less: Changes in WC	1,666	8,919	10,144	14,668	
Operating cash flow	92,596	107,565	124,766	141,610	
Less: Capex	10,529	17,849	25,000	25,000	
Free Cash Flow	82,067	89,716	99,766	116,610	

Peer comparison valuation

Name	Market cap (USD mn)	Diluted P/E (X)		EV / EBITDA (X)		ROAE (%)	
		FY18E	FY19E	FY18E	FY19E	FY18E	FY19E
ITC	58,265	30.5	26.1	20.2	17.2	30.5	31.9
Asian Paints	16,855	46.5	37.5	29.2	23.4	33.0	34.5
Hindustan Unilever	34,961	44.9	37.6	31.1	25.8	106.5	113.0
Marico	6,300	42.7	37.4	28.9	25.1	38.1	37.1
Nestle Ltd	9,947	49.7	38.4	27.3	21.5	39.4	41.9
United Spirits	4,638	42.1	30.0	24.6	19.0	27.3	28.9

Source: Edelweiss research

Cash flow metrics		FY16	FY17	FY18E	FY19E
Year to March					
Operating cash flow		92,596	107,565	124,765	141,608
Investing cash flow		(39,657)	(17,849)	(25,000)	(25,000)
Financing cash flow		(57,692)	(68,445)	(79,527)	(92,640)
Net cash Flow		(4,752)	21,271	20,238	23,968
Capex		(10,529)	(17,849)	(25,000)	(25,000)
Dividend paid		(51,327)	(68,102)	(79,300)	(92,510)

Profitability and efficiency ratios

Year to March	FY16	FY17	FY18E	FY19E
ROAE (%)	28.7	29.0	30.5	31.9
ROACE (%)	44.8	44.4	46.1	48.2
Inventory Days	239	230	230	230
Debtors Days	18	18	18	18
Payable Days	60	60	60	60
Cash Conversion Cycle	197	188	188	188
Current Ratio	1.9	2.1	2.3	2.5
Adjusted Debt/Equity	-	-	-	-
Interest Coverage Ratio	249.5	587.8	1,275.1	6,368.8

Operating ratios

Year to March	FY16	FY17	FY18E	FY19E
Total Asset Turnover	1.1	1.1	1.1	1.2
Fixed Asset Turnover	2.6	2.7	2.8	3.0
Equity Turnover	1.2	1.2	1.2	1.2

Valuation parameters

Year to March	FY16	FY17	FY18E	FY19E
Adj. Diluted EPS (INR)	7.8	8.7	10.1	11.8
Y-o-Y growth (%)	(1.9)	10.9	16.4	16.7
Adjusted Cash EPS (INR)	8.8	9.7	11.2	13.0
Diluted P/E (x)	39.4	35.5	30.5	26.1
P/B (x)	11.0	9.9	8.9	7.9
EV / Sales (x)	9.2	8.3	7.4	6.4
EV / EBITDA (x)	24.8	23.1	20.2	17.2
Dividend Yield (%)	1.8	1.5	1.8	2.1

Additional Data

Directors Data

Yogesh Chander Deveshwar	Chairman	Nakul Anand	Executive Director
Sanjiv Puri	Executive Director	R Tandon	Executive Director
Zafir Alam	Non-Executive Director	Sunil Behari Mathur	Non-Executive Director
Pillappakkam Bahukutumbi Ramanujam	Non-Executive Director	Sahibzada Syed Habib-ur-Rehman	Non-Executive Director
Meera Shankar	Non-Executive Director	Suryakant Balkrishna Mainak	Non-Executive Director
S Banerjee	Non-Executive Director	Nirupama Rao	Non-Executive Director
A Duggal	Non-Executive Director		

Auditors - Deloitte Haskins & Sells, Kolkata

Holding – Top10

	Perc. Holding		Perc. Holding
Tobacco manufacturer	24.52	Life insurance corp	16.26
Unit trust of india	11.07	Myddleton invest coy	4
Aberdeen	2	General insurance co	1.76
New india assurance	1.74	Oriental insurance c	1.45
Gic private limited	1.33	Rothmans intl enterp	1.28

**in last one year*

Bulk Deals

Data	Acquired / Seller	B/S	Qty Traded	Price
07 Feb 2017	Lic A/C Lic Allocation Contra Fund	Buy	80840763	275.85
07 Feb 2017	Administrator Of The Specified Undertaking Of The Uti-1964	Sell	80840763	275.85
07 Feb 2017	Administrator Of The Specified Undertaking Of The Unit Trus	Sell	80840763	275.85
07 Feb 2017	Uti Admnstr Of The Specified Undertaking Of Uti-Unit Schm 64	Sell	80840763	275.85
07 Feb 2017	Life Insurance Corporation (Scheme 5)	Buy	80840763	275.85
07 Feb 2017	Life Insurance Corporation Of India Ltd	Buy	80840763	275.85

**in last one year*

Insider Trades

Reporting Data	Acquired / Seller	B/S	Qty Traded
19 May 2017	Rajeev Pathak	Sell	25000.00
19 May 2017	D. M. Hazarika	Sell	15000.00
04 May 2017	G. Vijaya Kumar	Sell	30000.00
03 May 2017	Barun Kar	Sell	17000.00
03 May 2017	A. Madhusudhana Rao	Sell	32345.00

**in last one year*

Company	Absolute reco	Relative reco	Relative risk	Company	Absolute reco	Relative reco	Relative Risk
Asian Paints	BUY	SO	M	Bajaj Corp	HOLD	SU	H
Berger Paints	BUY	SO	L	Britannia Industries	BUY	SO	L
Colgate	HOLD	SP	M	Dabur	BUY	SO	M
Emami	BUY	SO	H	GlaxoSmithKline Consumer Healthcare	HOLD	SU	M
Godrej Consumer	BUY	SO	H	Hindustan Unilever	HOLD	SP	L
ITC	BUY	SO	M	Marico	BUY	SO	M
Nestle Ltd	HOLD	SP	L	Pidilite Industries	BUY	SO	M
United Spirits	HOLD	SP	H				

ABSOLUTE RATING

Ratings	Expected absolute returns over 12 months
Buy	More than 15%
Hold	Between 15% and - 5%
Reduce	Less than -5%

RELATIVE RETURNS RATING

Ratings	Criteria
Sector Outperformer (SO)	Stock return > 1.25 x Sector return
Sector Performer (SP)	Stock return > 0.75 x Sector return
	Stock return < 1.25 x Sector return
Sector Underperformer (SU)	Stock return < 0.75 x Sector return

Sector return is market cap weighted average return for the coverage universe within the sector

RELATIVE RISK RATING

Ratings	Criteria
Low (L)	Bottom 1/3rd percentile in the sector
Medium (M)	Middle 1/3rd percentile in the sector
High (H)	Top 1/3rd percentile in the sector

Risk ratings are based on Edelweiss risk model

SECTOR RATING

Ratings	Criteria
Overweight (OW)	Sector return > 1.25 x Nifty return
Equalweight (EW)	Sector return > 0.75 x Nifty return
	Sector return < 1.25 x Nifty return
Underweight (UW)	Sector return < 0.75 x Nifty return

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Aditya Narain

Head of Research

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Coverage group(s) of stocks by primary analyst(s): Consumer Goods

Asian Paints, Bajaj Corp, Berger Paints, Britannia Industries, Colgate, Dabur, Godrej Consumer, Emami, Hindustan Unilever, ITC, Marico, Nestle Ltd, Pidilite Industries, GlaxoSmithKline Consumer Healthcare, United Spirits

Recent Research

Date	Company	Title	Price (INR)	Recos
22-May-17	Pidilite Industries	Volumes on recovery road; GST to propel growth; <i>Result Update</i>	740	Buy
17-May-17	Hindustan Unilever	Good recovery; healthy mix of volumes and pricing; <i>Result Update</i>	1,009	Hold
15-May-17	Colgate Palmolive	Sequential recovery in volumes; success in Naturals key; <i>Result Update</i>	994	Hold

Distribution of Ratings / Market Cap

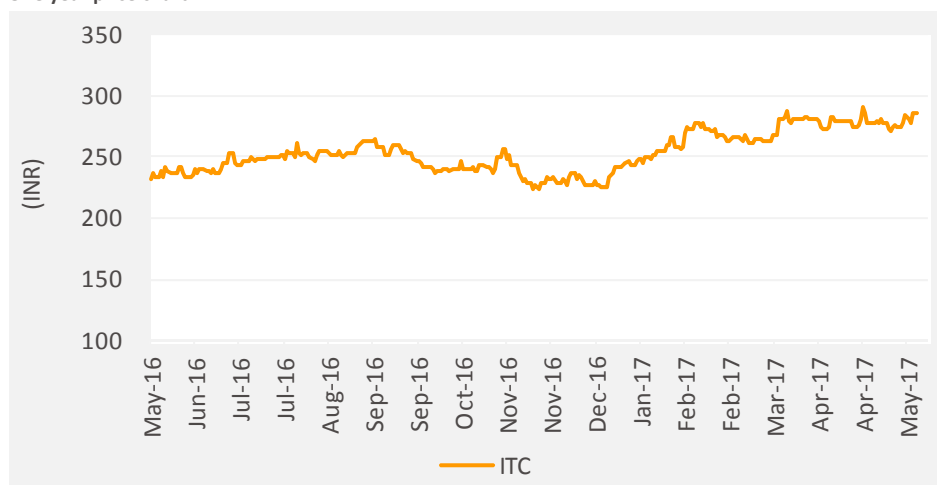
Edelweiss Research Coverage Universe

	Buy	Hold	Reduce	Total
Rating Distribution*	161	67	11	240
* 1stocks under review				
	> 50bn	Between 10bn and 50 bn	< 10bn	
Market Cap (INR)	156	62	11	

Rating Interpretation

Rating	Expected to
Buy	appreciate more than 15% over a 12-month period
Hold	appreciate up to 15% over a 12-month period
Reduce	depreciate more than 5% over a 12-month period

One year price chart



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