KRChoksey INSTITUTIONAL

ITC Ltd.

RESULT UPDATE

27th July, 2017

ITC Ltd

Mix growth ahead

CMP	Target	Potential Upside	Market Cap (INR Mn)	Recommendation	Sector
INR 289	**INR 349**	**20.7%**	**3568277.5**	**BUY**	**FMCG**

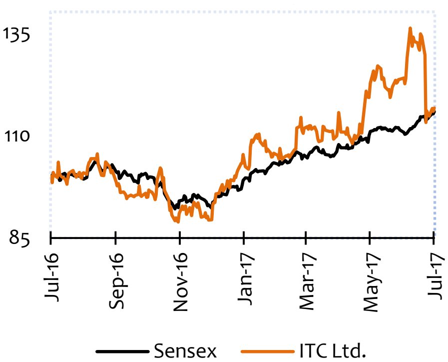
Result highlights

ITC Ltd posted its Q1FY18 results which were in-line with our estimates, Net revenue for Q1FY18 reported at INR 138004.2 Mn which showed a growth of 4.1% yoy and de-growth by 8.1% qoq. EBIDTA during the quarter improved to 27.1% and stood at INR 37464.0Mn with an increase of 54bps yoy and 133bps qoq. PAT after exceptional item for Q1FY18 stood at INR 25605.0Mn with improvement in PAT margin at 18.6% which was an increase of 56bps yoy and 77bps qoq.

MARKET DATA

Shares outs (Mn)	12162
EquityCap (INR Mn)	12162
Mkt Cap (INR Mn)	3568277.5
52 Wk H/L (INR)	353/222
Volume Avg (3m K)	15976.7
Face Value (INR)	1
Bloomberg Code	ITC IN

SHARE PRICE PERFORMANCE



MARKET INFO

SENSEX	32382
NIFTY	10021

KEY FINANCIALS

Particulars (INR Mn)	FY15	FY16	FY17	FY18E	FY19E
Gross Sales	531605.9	550610.8	587315.2	646046.7	723572.3
EBITDA	142016.3	144508.5	154359.1	171514.0	194205.0
PAT	97666.0	94924.4	104712.6	116927.6	131601.2
EBITDA Margins %	26.7%	26.2%	26.3%	26.5%	26.8%
PAT Margins %	18.4%	17.2%	17.8%	18.1%	18.2%
EPS	12.2	11.8	8.6	9.6	10.8
ROE	30.8%	22.2%	22.6%	23.7%	24.4%

Source: Company, KRChoksey Research

Expansion in Margin: EBIDTA margins for ITC in Q1FY18 was at 27.1% which saw an improvement of 54bps yoy and 133bps qoq majorly due to stable raw material price, while excise duty saw an rise of 20.0% yoy and decline of 1.0% qoq. Other cost like employee showed 3.7% decline yoy while increase 18.1% qoq and other operating cost increase by 7.3% yoy and decline by 14.9% qoq. So mix of all these lead to expansion of EBIDTA. In Q1FY18 EBIDTA stood at INR 37464.0 Mn with growth of around 6.2% yoy and de-growth by 3.3%. Reported PAT for Q1FY18, was at INR 25605.0 Mn with growth of 7.4% yoy and de-growth by 4.1% qoq. We also enhancement in PAT margins which stood at 18.6% in Q1FY18 vis-à-vis 18.0% in Q1FY17 and 17.8% in Q4FY17 mainly due to rise in other income by 13.4% yoy and 18.6% qoq.

Revenue growth in-line with our estimates: ITC Ltd posted its Q1FY18 revenue of INR 138004.2 Mn with growth of 4.1% yoy and de-growth of 8.1% qoq due to implementation of GST from 1st July, 2017. Revenue contributed among its business out of which Cigarette remained the largest with 56% revenue share and its Revenue stood at INR 87741.6 Mn which was growth of 6.6% yoy and de-growth of 2.0% qoq. Cigarette business saw improvement at EBIT levels and stood at INR 32741.4 Mn with growth of 9.0% yoy 0.5% qoq. EBIT margins saw an expansion by 81bps yoy and 93bps qoq. With Diversifying from Cigarettes to FMCG company is seeing improvement yoy. Its FMCG still contributes only 16% of the total revenue which is expected to improve to 20-22% in next 3-4 years. FMCG revenue stood at INR 26008.9 Mn with growth of 9.0% yoy and de-growth by 9.9% qoq, while EBIT improved yoy by 20.1% to INR 54.3 Mn. Other business of ITC contributes around 28%. Hotel revenue stood at INR 3048.9 Mn with growth of 6.1% yoy and de-growth of 21.1% qoq. It contributes minimum to revenue at 1.9%. EBIT margins remained at 1.7% in Q1FY18. Agri business contribution to revenue was at around 17.5% with revenue of INR 27605.2 Mn with de-growth of 1.2% and growth of 43.9% qoq. EBIT saw an improvement by 74.2% qoq and decline by 0.9% yoy with EBIT margins at 8.5%. Paper, Paperboards and packaging business revenue stood at INR 13598.2Mn with growth 2.8% yoy and de-growth of 0.9% qoq with contribution to total revenue of around 8.6%. EBIT margins improved by 20bps yoy and 143 bps qoq with EBIT at INR 2572.9Mn.

SHARE HOLDING PATTERN (%)

Particulars	Mar 17	Dec 16	Sep16
Promoters	0	0	0
FIIs	19.99	20.04	20.23
DIIs	35.85	35.72	35.35
Others	44.17	44.24	44.43
Total	100	100	100

8.0%

Revenue CAGR between FY15 and FY19E

7.7%

PAT CAGR between FY15 and FY19E

ANALYST
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ITC Ltd

Valuations & Views: ITC remains one of the largest FMCG company with presence in different business like cigarettes, FMCG, Hotels, Agri and Paper & paper products. With regulatory pressure cigarettes business which is the large revenue contributor is facing problem in terms of high taxation in GST, we believe that cigarettes business would remain under pressure while other business would see improvement. However its is diversifying its business into FMCG and has plans to grow it by entering new segment with innovative products and aims to generate around 20-22% revenue from FMCG in next 3-4 years. We believe that ITC has maintained its leadership position and has created brand image with its strong product portfolio. We expect ITC Ltd to post its revenue growth around 10-12% in FY18E & FY19E and growth will be driven mainly by its FMCG and other businesses. At the CMP of INR 289, ITC is trading at an EPS of INR 10.8 its FY19E. We recommend 'BUY' rating on the stock, with a target price of INR 349 that offers a potential upside of 20.7%.

Q1FY18 Result Snapshot

Exhibit 1 – Q1FY18 Quarterly Income Statement (INR Mn)

Particulars	Q1 FY18	Q4 FY17	Q1 FY17	Q-o-Q % Change	Y-o-Y % Change
Net Sales & Other Operating Income	**138004.2**	**150088.2**	**132530.6**	-8.1%	4.1%
Total Expenditure	**100540.2**	**111334.3**	**97268.1**	-9.7%	3.4%
Cost of Raw Materials	28949.0	29728.4	28800.4	-2.6%	0.5%
Purchase of Finished Goods	9908.9	11957.3	10048.4	-17.1%	-1.4%
(Increase) / Decrease In Stocks	-497.9	5142.3	3607.0	-	-
Excise Duty	38457.6	38832.8	31990.0	-1.0%	20.2%
Employee Cost	6746.3	5713.6	7003.1	18.1%	-3.7%
Operating & Manufacturing Expenses	16976.3	19959.9	15819.2	-14.9%	7.3%
EBIDTA	**37464.0**	**38753.9**	**35262.5**	-3.3%	6.2%
EBITDA Margins (%)	27.1%	25.8%	26.6%	*133bps*	*54bps*
Depreciation	2682.1	2418.1	2612.5	10.9%	2.7%
EBIT	**34781.9**	**36335.8**	**32650.0**	-4.3%	6.5%
Other Income	4767.7	4021.0	4205.2	18.6%	13.4%
Interest	103.8	-114.6	101.0	9.4%	2.8%
PBT	**39445.8**	**40471.4**	**36754.2**	-2.5%	7.3%
Tax	13840.8	13776.7	12907.3	0.5%	7.2%
PAT before Exceptional	**25605.0**	**26694.7**	**23846.9**	**-4.1%**	**7.4%**
PAT Margin (%)	18.6%	17.8%	18.0%	*77bps*	*56bps*
EPS	2.1	2.2	2.0	-4.5%	6.6%

Source: Company, KRChoksey Research

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Exhibit 2 – Q1FY18 Segmental Revenue (INR Mn)

Particulars	Q1 FY18	Q4 FY17	Q1 FY17	Q-o-Q % Change	Y-o-Y % Change
FMCG - Cigarettes	87741.6	89549.4	82306.0	-2.0%	6.6%
FMCG - Others	26008.9	28857.6	23851.5	-9.9%	9.0%
Total FMCG	**113750.5**	**118407.0**	**106157.5**	**-3.9%**	**7.2%**
Hotel	3048.9	3865.2	2873.6	-21.1%	6.1%
Agri Business	27605.2	19184.9	27940.8	43.9%	-1.2%
Paperboards, Paper & Packing	13598.2	13727.3	13229.0	-0.9%	2.8%
Total	**158002.8**	**155184.4**	**150200.9**	**1.8%**	**5.2%**
Less: Inter segment Revenue	20780.7	6356.9	18634.1	226.9%	11.5%
TOTAL	**137222.1**	**148827.5**	**131566.8**	**-7.8%**	**4.3%**

Source: Company, KRChoksey Research

Exhibit 3 – Q1FY18 Segmental EBIT (INR Mn)

Particulars	Q1 FY18	Q4 FY17	Q1 FY17	Q-o-Q % Change	Y-o-Y % Change
FMCG - Cigarettes	32741.4	32587.6	30045.8	0.5%	9.0%
FMCG - Others	54.3	555.6	-45.2	-90.2%	20.1%
Total FMCG	**32795.7**	**33143.2**	**30000.6**	**-1.0%**	**9.3%**
Hotel	53.1	669.3	12.2	-92.1%	335.2%
Agri Business	2351.1	1349.3	2373.1	74.2%	-0.9%
Paperboards, Paper & Packing	2572.9	2401.7	2476.9	7.1%	3.9%
Total	**37772.8**	**37563.5**	**34862.8**	**0.6%**	**8.3%**
Less: interest Exp	103.8	-114.6	101.0	-190.6%	2.8%
Add/Less: (other)	-1776.9	-2793.4	-1992.2	-	-
PBT	**39445.9**	**40471.5**	**36754.0**	**-2.5%**	**7.3%**

Source: Company, KRChoksey Research

Exhibit 4 – Q1FY18 Segmental EBIT Margins (INR Mn)

Particulars	Q1 FY18	Q4 FY17	Q1 FY17	Q-o-Q % Change	Y-o-Y % Change
FMCG - Cigarettes	37.3%	36.4%	36.5%	93bps	81bps
FMCG - Others	0.2%	1.9%	-0.2%	-172bps	40bps
Total FMCG	28.8%	28.0%	28.3%	84bps	57bps
Hotel	1.7%	17.3%	0.4%	-1557bps	132bps
Agri Business	8.5%	7.0%	8.5%	148bps	2bps
Paperboards, Paper & Packing	18.9%	17.5%	18.7%	143bps	20bps
Total	37.3%	36.4%	36.5%	93bps	81bps

Source: Company, KRChoksey Research

ITC Ltd

Exhibit 5 - Income Statement (INR Mn)

INR Mn	FY15	FY16	FY17	FY18E	FY19E
Gross Sales	531605.9	550610.8	587315.2	646046.7	723572.3
EXPENDITURE :					
Cost of Materials Consumed	110891.0	111686.8	119790.3	131364.3	146337.0
Purchase of Stock In Trade	39188.0	25952.0	34775.6	37952.3	42278.1
(Increase) / Decrease In Stocks	-2357.2	-1953.8	5925.7	875.8	975.6
Total RM Costs	147721.8	135685.0	160491.6	175152.4	195116.0
Excise Duty	143257.7	158689.8	159279.1	175078.7	196088.1
Employee Cost	27722.8	34409.7	36317.3	39550.5	43241.9
Other Expenses	70887.3	77317.8	76868.1	84751.1	94921.3
Total Expenditure	389589.6	406102.3	432956.1	474532.7	529367.3
Operating Profit (EBIDTA)	142016.3	144508.5	154359.1	171514.0	194205.0
EBIDTA Margin %	26.7%	26.2%	26.3%	26.5%	26.8%
Depreciation	10270.0	10774.0	11527.9	12920.9	14471.4
Operating Profit (EBIT)	131746.3	133734.5	142831.2	158593.1	179733.6
Other Income	12565.1	15308.0	17615.3	19376.8	20260.0
Interest	681.2	536.0	243.0	268.4	295.3
Profit before Tax	143630.2	148506.5	160203.5	177701.5	199698.3
Provision for Tax	45964.2	53582.1	55490.9	60773.9	68097.1
Profit After Tax	97666.0	94924.4	104712.6	116927.6	131601.2
PAT Margin %	18.4%	17.2%	17.8%	18.1%	18.2%

Source: Company, KRChoksey Research

ITC Ltd

Exhibit 6 - Balance Sheet (INR Mn)

INR Mn	FY15	FY16	FY17	FY18E	FY19E
EQUITY AND LIABILITIES					
Share Capital	8015.5	8047.2	12147.4	12147.4	12147.4
Total Reserves	309339.4	418748.0	451981.9	482138.6	526969.0
Shareholder's Funds	317354.9	426795.2	464129.3	494286.0	539116.4
Minority Interest	2251.2	2609.0	2947.3	2947.3	2947.3
Long-Term Borrowings	606.8	734.3	596.1	649.4	714.4
Deferred Tax Assets / Liabilities	16427.7	18800.0	18787.7	18787.7	18787.7
Long Term Provisions	1241.6	1354.2	1584.2	1938.1	2170.7
Other Long Term Liabilities	426.7	41.5	177.9	193.8	217.1
Total Non-Current Liabilities	18702.8	20930.0	21145.9	21569.1	21889.9
Current Liabilities					
Trade Payables	20204.7	23392.9	26593.3	29272.0	32608.4
Short Term Borrowings	1953.9	439.5	191.1	216.5	238.1
Short Term Provisions	61620.1	714.0	611.6	646.0	723.6
Other Current Liabilities	37820.4	42038.2	43814.1	47161.4	52820.8
Total Current Liabilities	121599.1	66584.6	71210.1	77296.0	86390.9
Total Liabilities	459908.0	516918.8	559432.6	596098.4	650344.5
ASSETS					
Non-Current Assets					
Net Block	151009.6	149348.5	157366.4	166132.7	187606.9
Capital Work in Progress	26705.0	25289.7	36842.0	36842.0	36842.0
Godwill on consolidation	2319.7	2025.3	2025.3	2025.3	2025.3
Non Current Investments	8076.8	51258.1	66939.9	66939.9	66939.9
Deffered tax assets	385.7	405.4	449.5	449.5	449.5
Long Term Loans & Advances	15654.7	129.8	85.4	64.6	72.4
Other Non Current Assets	12.4	39837.2	33033.2	38762.8	43414.3
Total Non-Current Assets	204163.9	268294.0	296741.7	311216.8	337350.3
Current Assets					
Inventories	85868.7	90621.0	86711.0	93809.5	105066.7
Sundry Debtors	19820.7	19171.8	24742.9	25806.5	28903.2
Cash and Bank	78962.2	60633.0	29674.0	39806.2	50381.1
Currents Investments	61351.5	66217.8	103323.9	103323.9	103323.9
Short Term Loans and Advances	5686.7	5775.0	10968.0	14129.0	15824.5
Other Current Assets	4054.3	6206.4	7271.2	8006.5	9494.7
Total Current Assets	255744.1	248625.0	262691.0	284881.6	312994.2
Total Assets	459908.0	516919.0	559432.7	596098.4	650344.5

Source: Company, KRChoksey Research

ITC Ltd

Exhibit 7 - Cash flow statement (INR Mn)

INR Mn	FY15	FY16	FY17E	FY18E	FY19E
PBT	143630.2	148597.0	160263.2	177701.5	199698.3
Add: Depreciation	10270.0	10774.0	11527.9	12920.9	14471.4
Add: Interest	681.2	536.0	243.0	268.4	295.3
Cash flow from Operations	98432.1	97996.7	106273.1	115633.6	126350.4
Cash flow from Investing Activity	-52754.3	-39208.1	-32507.9	-28302.3	-36178.6
Cash flow from Financing Activity	-46608.5	-56129.3	-73010.3	-85543.2	-85570.0
Net change in Cash (Inflow/Outflow)	-930.7	2659.3	754.9	1788.1	4601.8
Total Cash & Bank Balance	78962.2	60633.0	29674.0	39806.2	50381.1

Source: Company, KRChoksey Research

Exhibit 8 - Ratio Analysis

INR Mn	FY15	FY16	FY17E	FY18E	FY19E
EPS	12.2	11.8	8.6	9.6	10.8
BV	39.6	53.0	38.2	40.7	44.4
DPS	6.1	6.4	5.8	6.0	6.0
EBITDA Margin (%)	36.6%	36.9%	36.1%	36.4%	36.8%
PAT Margin (%)	25.1%	24.2%	24.5%	24.8%	24.9%
Net Sales Growth %	8.9%	0.9%	9.2%	10.0%	12.0%
EBIDTA Growth %	-4.4%	1.8%	6.8%	11.1%	13.2%
PAT Growth %	-9.5%	-2.8%	10.3%	11.7%	12.5%
PE (x)	23.7	24.5	33.5	30.0	26.7
Price/BV	7.3	5.4	7.6	7.1	6.5
EV/EBITDA	15.8	15.7	22.6	20.2	17.8
EV/Sales	5.8	5.8	8.1	7.4	6.6
ROE (%)	30.8%	22.2%	22.6%	23.7%	24.4%
Debt/Equity %	0.8%	0.3%	0.2%	0.2%	0.2%

Source: Company, KRChoksey Research

ITC Ltd

ITC Ltd.			
Date	CMP (INR)	TP (INR)	Recommendation
27-Jul-17	289	349	BUY
26-May-17	309	349	ACCUMULATE
27-Jan-17	258	305	BUY
26-Oct-16	239	286	BUY
22-July-16	250*	351	BUY
20-May-16	330	430	BUY
20-Apr-16	335	430	BUY
22-Jan-16	309	468	BUY
12-Jan-16	316	395	BUY
30-Oct-15	336	405	BUY

Rating Legend	
Our Rating	Upside
Buy	More than 15%
Accumulate	5% – 15%
Hold	0 – 5%
Reduce	-5% – 0
Sell	Less than – 5%

*Note: Split in ratio 3:2 from 1st July, 2016

ANALYST CERTIFICATION:

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