

A puzzle for value hunters...

ITC's 1Q performance was soft vs. its FY19 show but in-line with FMCG peers. We expect 1Q growth trajectory to replicate over FY20, led by higher base of cig. volume growth and consumption slowdown. We value ITC on SoTP basis ([link to table](#)) and arrive at a TP of Rs 362 (implied P/E of 28x vs. earlier assigned P/E of 32x). We de-rate cigarette business by 10% (EV/EBITDA 18x vs. 20x implied earlier) owing to slower than expected volume growth in the era of stable taxes. Maintain BUY.

HIGHLIGHTS OF THE QUARTER

- Cig. revenue growth missed estimates with value/volume growth of 6/3.5% (10/5.5% in FY19) vs. exp. of 9/5.5%. 5th consecutive quarter of volume growth vs. -4% CAGR over FY12-18. A high base and slowdown impacted volume growth in 1Q.
- Cig. EBIT grew by 8% (6.5% CAGR over FY15-19) vs. exp. of 9% growth. Cig. EBIT margins expanded by 145bps owing to (1) Price hikes (~3%) and (2) Scaling manufacturing of capsules (70% in-house by Dec-19). Margin decline in FY19 was the key concern on the street, we expect this to reverse in FY20. We expect cig EBIT CAGR of 8% over FY19-22E.
- Non-cig business grew by 12% (exp. 11%). FMCG biz growth of 8% was in-line vs. its peers (HUL/Dabur/Marico/Colgate 7/11/6/6%). FMCG EBITDAM expanded by 140bps to 5.9%.

Financial Summary (Consolidated)

YE March (Rs mn)	1QFY20	1QFY19	YoY (%)	4QFY19	QoQ (%)	FY18	FY19	FY20E	FY21E	FY22E
Net Revenues	115,028	108,746	5.8	122,060	(5.8)	434,489	483,527	517,249	567,558	623,201
EBITDA	45,657	42,021	8.7	45,717	(0.1)	164,830	184,064	199,187	219,992	243,353
APAT	31,739	28,187	12.6	34,324	(7.5)	112,202	127,864	139,183	152,885	167,832
Diluted EPS (Rs)	2.6	2.3	12.1	2.8	(7.5)	9.2	10.4	11.4	12.5	13.7
P/E (x)						29.1	25.7	23.6	21.5	19.5
EV / EBITDA (x)						18.3	16.3	14.8	13.2	11.7
Core RoCE (%)						37.2	39.2	40.6	43.8	46.3

Source: Company, HDFC sec Inst Research

- Hotels/Agri/Paper revenue grew by 15/15/13% with EBIT growth of -21/4/12%. Non-cig EBIT grew by 12% (7% CAGR over FY14-19).
- GM expanded by 180bps to 64% owing to cig price hikes. Employee/other expense grew by -7/2% resulting in 9% EBITDA growth (11% in FY19 and 7% CAGR over FY15-18). APAT growth of 13% was driven by other income (+54%) and 41bps decline in tax rate.

STANCE

Stable taxes in FY19 accelerated cig volume/EBIT growth to 5.5/9% vs. -5/7% CAGR during FY15-18. Even then ITC did not enjoy a re-rating as investors flocked towards peers like HUL, Dabur and Britannia etc. Rather, cig business saw a de-rating (20-25%, based on assigning fair valuation to other segments) over the last 12-months.

We believe the quantum of de-rating is unfair and expect implied cig valuation will recover to its 5 year average EV/EBITDA of 18x (20% discount to Colgate's 1 year forward EV/EBITDA of 22x; similar market leadership, vol growth and pricing power). Mean reversion in cig valuation will be led by (1) Stable taxes, (2) EBIT margin expansion and (3) Pickup in rural consumption. FMCG margin expansion is the other catalyst for a re-rating. We believe that unfair valuation discount will narrow.

INDUSTRY	FMCG
CMP (as on 02 Aug 2019)	Rs 268
Target Price	Rs 362
Nifty	10,997
Sensex	37,118
KEY STOCK DATA	
Bloomberg	ITC IN
No. of Shares (mn)	12,272
MCap (Rs bn) / (\$ mn)	3,246/46,614
6m avg traded value (Rs mn)	3,732
STOCK PERFORMANCE (%)	
52 Week high / low	Rs 323/263
	3M 6M 12M
Absolute (%)	(13.3) (5.8) (11.6)
Relative (%)	(8.5) (7.6) (11.5)
SHAREHOLDING PATTERN (%)	
	Mar-19 Jun-19
Promoters	0 0
FIs & Local MFs	38.20 38.40
FPIs	17.04 16.75
Public & Others	44.76 44.85
Pledged Shares	0.00 0.00

Source : BSE

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Net revenues grew by 6% (exp of 10%) as cig. vol growth moderated

Cigarette volumes grew by 3.5% (exp 5.5%; 1% in 1QFY19)

FMCG business grew by 8% (adjusting for retail restructuring) driven by packaged foods and personal care products

Exceptional item in 4QFY19 is due to restructuring of retail business (net sale proceeds of John Players)

APAT growth of 13% (exp. 10%) was driven by higher other income and lower taxes.

Quarterly Financials (Standalone)

Year to March (Rs mn)	1QFY20	1QFY19	YoY (%)	4QFY19	QoQ (%)	FY19	FY18	YoY (%)
Net Revenue	1,15,028	1,08,746	5.8	1,22,060	(5.8)	4,57,844	4,04,840	13.1
Material Expenses	41,399	41,094	0.7	46,156	(10.3)	1,73,052	1,57,745	9.7
Employee Expenses	6,903	7,430	(7.1)	7,600	(9.2)	27,284	24,875	9.7
Other Operating Expenses	21,070	18,201	15.8	22,588	(6.7)	84,453	66,655	26.7
EBITDA	45,657	42,021	8.7	45,717	(0.1)	1,73,055	1,55,565	11.2
Depreciation	3,589	2,987	20.2	3,502	2.5	13,966	11,454	21.9
EBIT	42,068	39,034	7.8	42,215	(0.3)	1,59,089	1,44,111	10.4
Other Income	6,202	4,039	53.6	7,402	(16.2)	17,744	16,377	8.3
Interest Cost	152	73	107.4	77	96.6	342	866	(60.5)
PBT before exceptional	48,117	42,999	11.9	49,539	(2.9)	1,84,442	1,64,389	12.2
Exceptional	-	-	na	-	na	-	4,129	na
PBT	48,117	42,999	11.9	49,539	(2.9)	1,84,442	1,68,518	9.4
Tax	16,378	14,813	10.6	14,720	11.3	59,798	56,285	6.2
RPAT	31,739	28,187	12.6	34,819	(8.8)	1,24,643	1,12,233	11.1
Adjustment	-	-	na	(495)	na	(495)	(2,700)	na
APAT	31,739	28,187	12.6	34,324	(7.5)	1,24,148	1,09,533	13.3
EPS	2.6	2.3	12.1	2.8	(7.5)	10.1	9.0	12.8

% Of Net Revenue	1QFY20	1QFY19	YoY (bps)	4QFY19	QoQ (%)	FY19	FY18	YoY (bps)
Material Cost	36.0	37.8	(180)	37.8	(182)	37.8	39.0	(117)
Employee Expenses	6.0	6.8	(83)	6.2	(23)	6.0	6.1	(18)
Other Expenses	18.3	16.7	158	18.5	(19)	18.4	16.5	198
EBITDA	39.7	38.6	105	37.5	224	37.8	38.4	(63)
Tax Rate	34.0	34.4	(41)	29.7	432	32.4	33.4	(98)
APAT	27.6	25.9	167	28.1	(53)	27.1	27.1	6

Source: Company, HDFC sec Inst Research

Note: Excise duty reversal we have included in other expenses

Cigarette business grew by 6% during the quarter with ~3.5% volume growth. We were expecting 9% cigarette growth with 5.5% volume growth

Non-cig. portfolio continued to show healthy growth, registered 12% growth

Hotel biz grew by 15% driven launch of new hotels

Paper grew by 13% driven by value added paperboards and richer product mix

Quarterly Segmental (Reported)

Year to March (Rs mn)	1QFY20	1QFY19	YoY (%)	4QFY19	QoQ (%)	FY19	FY18	YoY (%)
Segmental Revenues								
Cigarettes*	54,334	51,276	6.0	54,859	(1.0)	2,07,130	2,28,940	10.0
FMCG	30,601	28,700	8.0	32,739	(6.5)	1,25,053	1,13,286	12.6
Hotels	3,926	3,413	15.0	5,098	(23.0)	16,655	14,175	17.5
Agribusiness	36,112	31,513	14.6	21,009	71.9	93,965	80,677	16.5
Paperboards, Paper & Packaging	15,275	13,558	12.7	15,374	(0.6)	58,602	52,496	11.6
Total	1,40,248	1,28,460	9.2	1,29,079	8.7	5,01,404	4,89,574	2.4
Less: Inter-segment revenue	26,635	21,238	25.4	8,437	215.7	49,190	50,005	(1.6)
Total	1,13,614	1,07,222	6.0	1,20,642	(5.8)	4,52,214	4,39,569	2.9
Segmental EBIT								
Cigarettes	38,491	35,584	8.2	38,560	(0.2)	1,45,511	1,33,408	9.1
FMCG	780	501	55.7	2,010	(61.2)	3,862	1,641	135.3
Hotels	104	132	(21.4)	887	(88.3)	1,777	1,398	27.1
Agribusiness	2,030	1,945	4.3	1,472	37.8	7,766	8,486	(8.5)
Paperboards, Paper & Packaging	3,298	2,957	11.5	3,005	9.7	12,392	10,422	18.9
Total	44,703	41,119	8.7	45,934	(2.7)	1,71,309	1,55,355	10.3
Less:								
(a) Interest Cost & Bank Charges	152	73	107.4	77	96.6	342	866	(60.5)
(b) Other Un-allocable Expenses	(3,567)	(1,954)	82.6	(3,683)	(3.1)	(13,475)	(14,028)	(3.9)
PBT	48,117	42,999	11.9	49,539	(2.9)	1,84,442	1,68,517	9.4
Capital Employed								
Cigarettes	34,122	32,113	6.3	35,944	(5.1)	35,944	33,321	7.9
FMCG	74,557	67,115	11.1	60,758	22.7	60,758	57,167	6.3
Hotels	54,942	50,921	7.9	54,079	1.6	54,079	49,991	8.2
Agribusiness	36,069	25,610	40.8	29,937	20.5	29,937	25,072	19.4
Paperboards, Paper & Packaging	61,714	60,970	1.2	62,108	(0.6)	62,108	59,527	4.3
Total	2,61,404	2,36,729	10.4	2,42,826	7.7	2,42,826	2,25,078	7.9
Unallocated corporate assets	3,37,689	3,07,725	9.7	3,36,672	0.3	3,36,672	2,88,923	16.5
Total capital employed	5,99,093	5,44,455	10.0	5,79,498	3.4	5,79,498	5,14,001	12.7

Source: Company, HDFC sec Inst Research *like-to-like revenue growth for FY19

Cig EBIT margins expanded owing to 3% price hike

FMCG EBIT margin expansion was driven by enhanced scale, product mix enrichment and cost management initiatives notwithstanding higher investments in brand building and gestation costs of new categories

Hotel EBIT margin declined owing to higher depreciation from new hotels. EBITDA grew by 18%.

EBIT Margin (Reported)

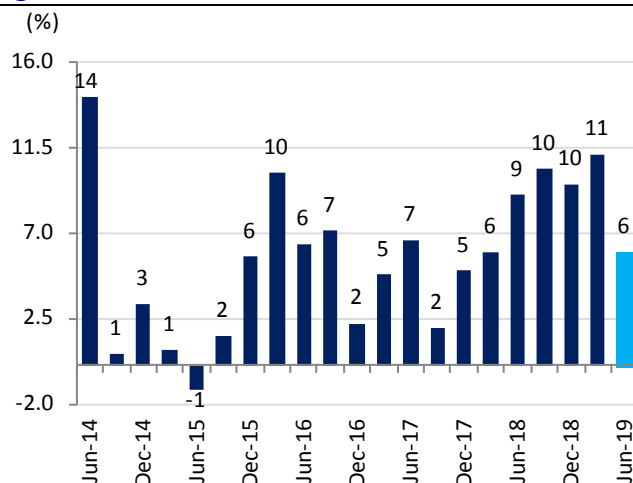
Year to March (Rs mn)	1QFY20	1QFY19	YoY (bps)	4QFY19	QoQ (%)	FY19	FY18	YoY (bps)
Cigarettes*	70.8	69.4	145	70.3	55	70.3	70.8	(60)
FMCG*	2.5	1.7	80	6.1	(359)	3.1	1.4	164
Hotels	2.6	3.9	(123)	17.4	(1,475)	10.7	9.9	81
Agribusiness	5.6	6.2	(55)	7.0	(139)	8.3	10.5	(225)
Paperboards, Paper & Packaging	21.6	21.8	(22)	19.5	204	21.1	19.9	129
Total	31.9	32.0	(14)	35.6	(371)	34.2	31.7	243

Source: Company, HDFC sec Inst Research * EBIT margin based on like-like revenue

5th consecutive quarter of positive volume growth. We expect 3.5% volume growth in FY20E/21E

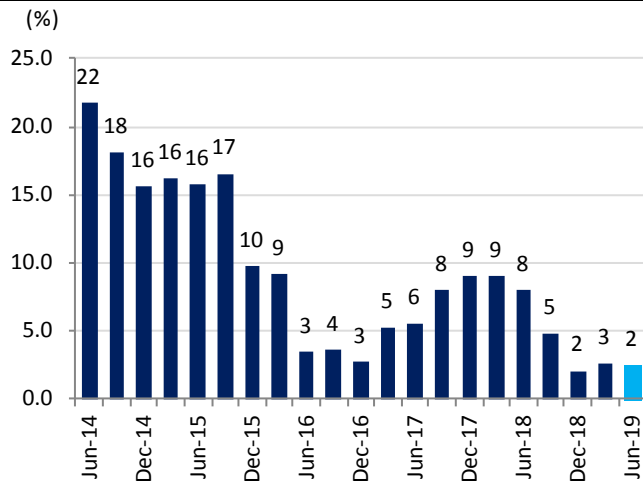
Cigarette EBIT growth of 8% was slightly below our estimate of 9%. We expect cig. EBIT to grow faster vs. revenue growth in FY20

Cigarette Value Growth



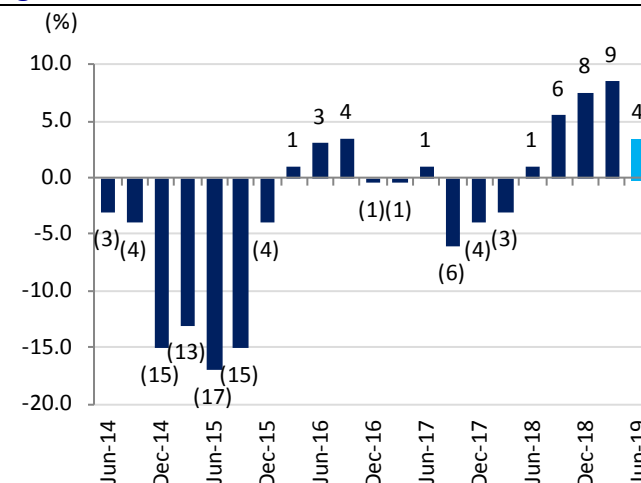
Source: Company, HDFC sec Inst Research

Cigarette Price Growth



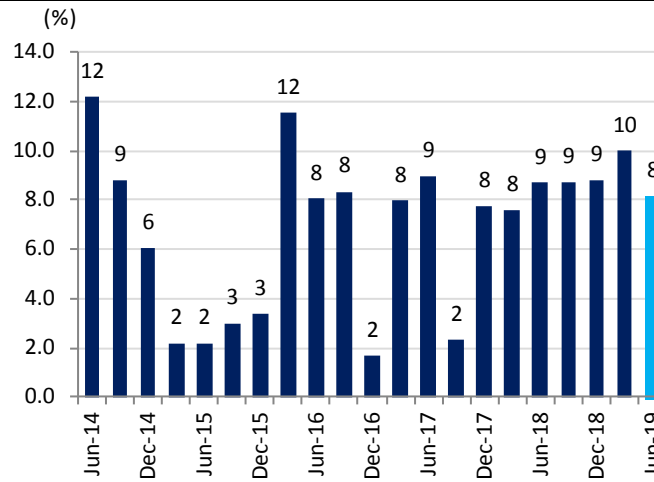
Source: Company, HDFC sec Inst Research

Cigarette Volume Growth



Source: Company, HDFC sec Inst Research

Cigarette EBIT Growth



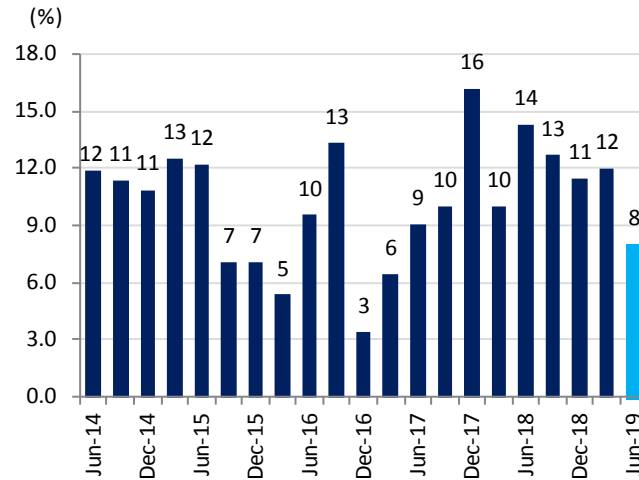
Source: Company, HDFC sec Inst Research

ITC's FMCG business growth in the recent quarters is at par with HUL

Hotel business is on a strong momentum driven by higher occupancy rates and ARR

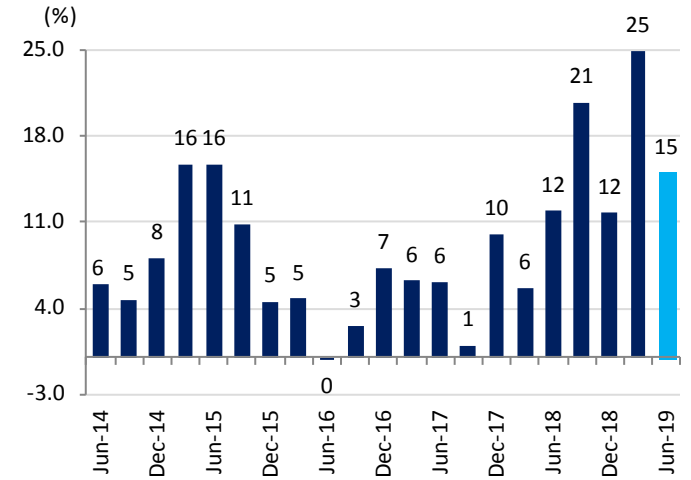
Paper business is beginning to now recover owing to favourable industry dynamics

FMCG Revenue Growth



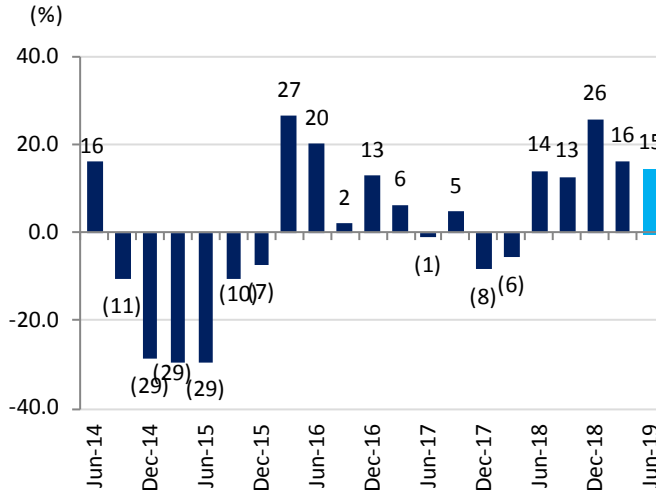
Source: Company, HDFC sec Inst Research

Hotel Revenue Growth



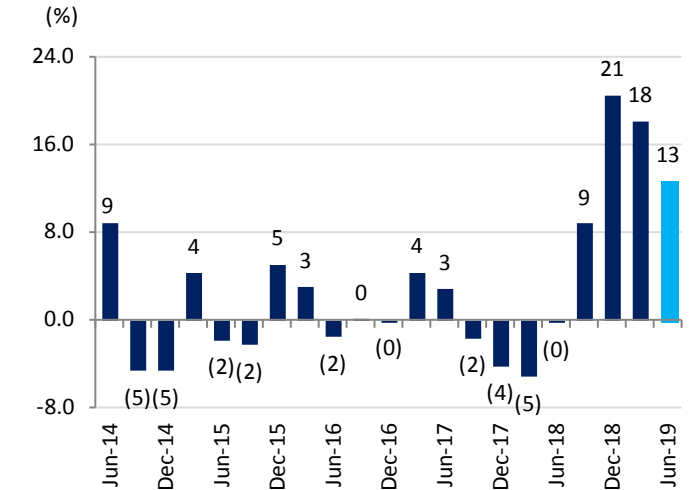
Source: Company, HDFC sec Inst Research

Agri Revenue Growth



Source: Company, HDFC sec Inst Research

Paper Revenue Growth



Source: Company, HDFC sec Inst Research

FMCG segment mapping: ITC's addressable market offers a 13x opportunity headroom

Brand	Current Presence	Possible Extension	Brand Position	Mkt Position	Est. Market Size (Rs mn)	Est. ITC Revenue at Consumer level (Rs mn)	Key competitors
Food							
Aashirvaad	<ul style="list-style-type: none"> - Wheat - Ghee - Spices - Instant mixes - Read-to-eat - Rice - Milk, Curd, Paneer - Salt 	<ul style="list-style-type: none"> - Pickles - Grains (white flour, semolina, gram flour) - Distribution expansion of new launches 	Mid	No. 1	150,000	45,000	<ul style="list-style-type: none"> - Pillsbury Atta (General Mills) - Silver Coin (Sanghvi Group) - Mother's Recipe
Sunfeast	<ul style="list-style-type: none"> - Biscuits - Cookies - Cake - Beverage - Pasta 	<ul style="list-style-type: none"> - Modern milk products - Rusk/Bread - Chocolates - Oats - Breakfast packaged food 	Mid to Premium	No.1 in premium biscuit segment	590,000	38,000	- Britannia, Parle, PriyaGold, Anmol
Bingo	<ul style="list-style-type: none"> - Extruded snacks - Potato Chips 	<ul style="list-style-type: none"> - Healthy variants in salty snacks 	Mid to Premium	No. 1	219,000	25,000	- Lays (Pepsi), Diamond (Prataap snacks), Too Yumm!, Haldiram
YiPPee	<ul style="list-style-type: none"> - Noodles - Pasta 	<ul style="list-style-type: none"> - Oats 	Mid	No. 2	153,000	11,000	- Maggi (Nestle), Top Ramen (Nissin)
Mint-o, Candyman, GumOn	<ul style="list-style-type: none"> - Confectionery 	<ul style="list-style-type: none"> - More variants 	Mid	Top 5	40,800	6,000	
B-Naturals	<ul style="list-style-type: none"> - Juices 	<ul style="list-style-type: none"> - More variants - Healthy supplements 	Mid to Premium	Emerging	20,000	4,800	- Real (Dabur), Tropicana (Pepsi)
Fabelle	<ul style="list-style-type: none"> - Chocolate 	<ul style="list-style-type: none"> - Mass premium - Eventually, capture full portfolio 	Super-premium	Emerging	80,000	150	- Cadburry (Mondelez), Nestle
Sunbean	<ul style="list-style-type: none"> - Coffee paste 	<ul style="list-style-type: none"> - Ready to drink - Distribution expansion 	Premium	Emerging	15,000	100	- Nescafe (Nestle), Bru (HUL)
ITC Master Chef	<ul style="list-style-type: none"> - Ready-to-eat - Frozen foods (prawns) - Fresh vegetables and fruits - Spices - Masala 	<ul style="list-style-type: none"> - Variants in frozen foods - Distribution expansion 	Mid to Premium	Emerging	4,000		

Brand	Current Presence	Possible Extension	Brand Position	Mkt Position	Est. Market Size (Rs mn)	Est. ITC Revenue at Consumer level (Rs mn)	Key competitors
Personal Care							
Fiama	- Shower Gel - Soap Bar - Talc	- Shampoo - Shaving Cream - Talc - Face wash	Premium	No. 2	20,000	3,600	- Nivea: leader with 20% share (Beiersdorf Global) - Palmolive - Dove
Vivel	- Soap Bar	-More variants	Mid	na			- Lux, Lifebuoy, Dove, Pears, Hamam (HUL) - Godrej No 1, Cinthol (GCPL)
Superia	- Soap Bar	-More variants	Mass	na	200,000	6,000	- Santoor (Wipro) - Dettol (RB)
Superia	- Shampoo	-More variants	Mass	na	60,000		
Engage	- Deos - Perfume - Pocket Perfume	- Face Wash - Talc - More variants	Mid to Premium	No. 2	30,000	3,300	- Fogg : market leader with 17% (Vini) - Wild Stone - Nivea - Park Avenue - Axe
Essenza Di Wills	- Perfume	- Face cream - Moisturiser - Deo	Super-premium	Emerging	20,000	na	- Fogg (Vini) - Skinn (Titan) - Park Avenue (Raymond)
Savlon	- Anti-septic liquid - Soaps - Handwash - Hand sanitizer	- Hand wash - Shaving Cream - Shower Gel - Disinfectant liquid	Mid	No. 2	10,000	2,000	- Dettol (RB)
Charmis	- Cold cream	- Moisturiser	Mid	na	na	na	- Nivea (Beiersdorf Global) - Pond's (HUL)
Dermafique	- Anti-aging	- More variants	Premium	Emerging	na	na	- Olay (P&G) - Lakme (HUL) - Nivea (BG)
Shower to Shower	- Talc	- Shower Gel - Soap Bar - Talc	Mid	na	4,000	240	- Himalaya - Dermi Cool (RB) - Boroplus (Emami) - Nycil (Kraft Heinz)
Home Care							
Nimyle	Floor Cleaner	- Kitchen cleaner - More Variants	Mid	Emerging	100,000	na	- Lizol (RB) - Domex (HUL) - Mr. Muscle (SC Johnson)

Brand	Current Presence	Possible Extension	Brand Position	Mkt Position	Est. Market Size (Rs mn)	Est. ITC Revenue at Consumer level (Rs mn)	Key competitors
Others							
Classmate Paperkraft	- Notebooks - Pen - Pencil - Geometric box - Art instruments	- More variants - Office stationery	Premium	No. 2	100,000	10,000	- Navneet - Luxor - BILT (Balrampur)
Wills Aim Ship Home Lites	Life Style Safety Matches	- Restructure business - Cigarette and gas stove lighters	Premium Mid	na No. 1	na 10,000	7,185 2,422	- All leading mens formal wear brands - Largely unorganised

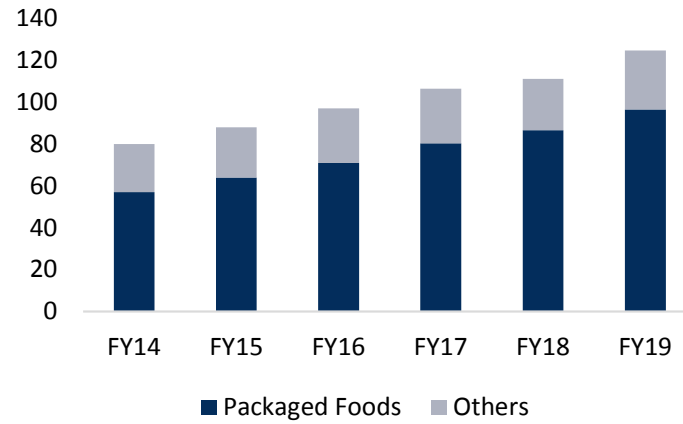
Source: Company, HDFC sec Inst Research

ITC's FMCG business is dominated by packaged foods (77% revenue mix vs. 71% in FY14)

Gross margins for FMCG business is at par with peers (40-45%). However, mid-single digit EBITDAM is owing to (1) Higher upfront brand investments and (2) Losses in retail business

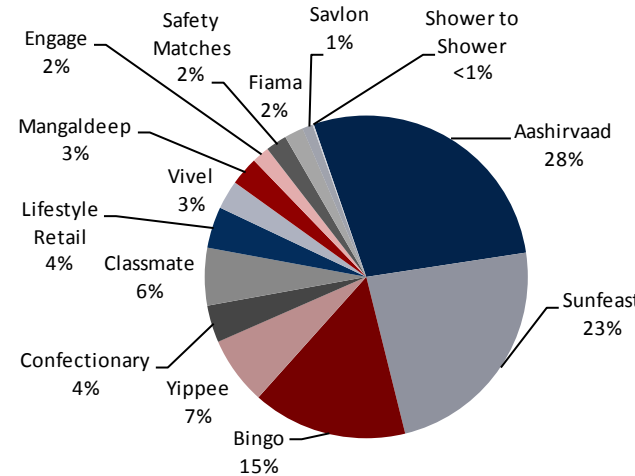
EBIT margins are steadily expanding as brands gain critical scale and co has restructured retail biz

FMCG Revenue mix: Packaged food dominates



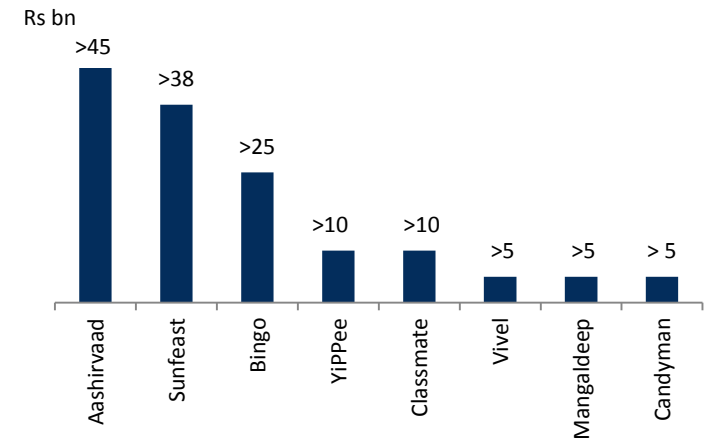
Source: Company, HDFC sec Inst Research

FMCG revenue mix product-wise



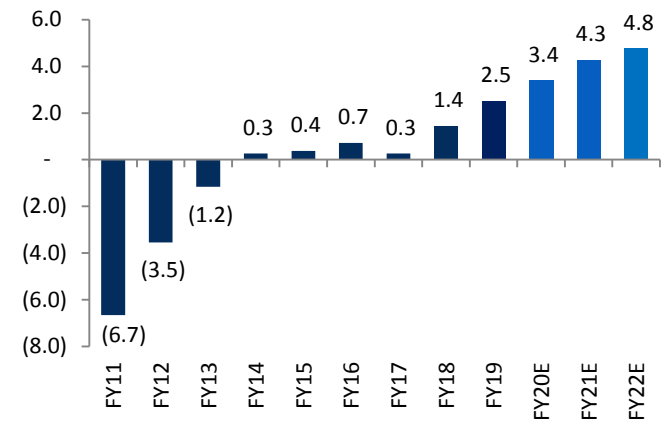
Source: Company, HDFC sec Inst Research

Top brands in FMCG (size at consumer level)



Source: Company, HDFC sec Inst Research

FMCG EBIT margins: ~9% swing over FY11-19



Source: Company, HDFC sec Inst Research

Assumptions

Particulars	FY16	FY17	FY18	FY19	FY20E	FY21E	FY22E
Cigarette							
Revenue Gr (%)	6.2	5.1	4.9	10.3	6.9	7.1	7.1
Volume Gr (%)	(8.8)	1.4	(3.0)	5.6	3.6	3.5	3.5
Cig. Price Gr (%)	15.0	3.7	7.9	4.6	3.2	3.6	3.6
EBIT Gr (%)	5.0	6.5	6.6	9.1	8.5	7.7	7.7
FMCG							
Revenue Gr (%)	7.7	8.0	11.3	12.6	8.9	13.0	13.0
EBIT Margin (%)	0.7	0.3	1.4	2.5	3.4	4.3	4.8
Hotel							
Revenue Gr (%)	11.5	1.6	5.6	17.3	11.7	10.1	10.5
EBIT Gr (%)	13.4	99.3	26.0	27.1	7.4	14.8	14.7
EBIT Margin (%)	4.3	8.3	9.9	10.7	12.5	13.0	13.0
Agri business							
Revenue Gr (%)	0.2	(5.8)	(15.0)	16.9	10.7	10.4	10.4
EBIT Gr (%)	2.8	(2.6)	(6.3)	(8.5)	9.9	12.0	12.0
EBIT Margin (%)	12.5	11.0	10.5	8.3	8.1	8.3	8.4
Paper & Paper boards							
Revenue Gr (%)	5.9	(0.8)	(0.7)	10.1	11.5	11.6	11.7
EBIT Gr (%)	(1.5)	6.4	7.9	18.9	12.4	12.6	12.5
EBIT Margin (%)	17.0	18.0	19.9	21.1	21.5	22.0	22.5
Gross Margin (%)	65.4	62.5	63.5	64.0	64.7	65.1	65.3
Employee (% of sales)	8.8	8.5	8.7	8.6	8.8	8.8	8.8
ASP (% of sales)	2.5	1.9	2.1	2.1	2.1	2.2	2.2
Distribution (% of sales)	2.2	2.0	2.1	2.4	2.3	2.4	2.4
Other Expenses (% of sales)	15.0	14.1	12.8	12.8	13.0	12.9	12.9
EBITDA Margin (%)	36.9	36.1	37.9	38.1	38.5	38.8	39.0
Tax Rate (%)	36.1	34.6	34.0	33.0	34.0	34.0	34.0

Source: HDFC sec Inst Research

Based on our assumptions, implied 5 year historical valuations for ITC's cig business ranges between 15-20x EV/EBITDA

We believe FMCG business has witnessed a re-rating over the years owing to higher scale and margin expansion

Re-rating in hotels is led by favourable industry dynamics (higher ARR and occupancy rate)

Re-rating in paper is led by recovery in volume growth in FMCG industry. Co has also expanded margins owing to richer product mix (focus on value added)

ITC's segment-wise historical valuations

Segments (Rs bn)		FY15	FY16	FY17	FY18	FY19
Cigarette	EBITDA	103	115	121	128	136
	EV/EBITDA (x)	20.1	15.2	16.7	16.6	16.1
	EV (1Yr Fwd)	2,072	1,748	2,019	2,123	2,191
	Per share	185	160	183	194	201
	Rev Gr (%)	9%	4%	5%	5%	10%
	Vol Gr (%)	-8.8%	-8.8%	1.4%	-3.0%	5.6%
	EBIT Gr (%)	12%	5%	6%	7%	9%
FMCG	Revenue	90	97	105	113	125
	EV/Revenue (x)	4.1	4.3	4.5	4.8	5.0
	EV (1Yr Fwd)	400	454	514	595	680
	Per share	33	38	42	49	55
	Rev Gr (%)	11%	8%	8%	11%	13%
	EBIT Marg (%)	0.4%	0.7%	0.3%	1.4%	2.5%
	EBIT Gr (%)	56%	107%	-60%	484%	135%
Hotel	EBITDA	3	2	2	3	3
	EV/EBITDA (x)	13.7	15.0	16.5	18.2	20.0
	EV (1Yr Fwd)	33	34	47	62	79
	Per share	3	3	4	5	6
Agri	EBITDA	9	10	10	10	9
	EV/EBITDA (x)	8	8	8	8	8
	EV (1Yr Fwd)	76	78	78	74	68
	Per share	6	6	6	6	6
Paper	EBITDA	11	12	12	12	14
	EV/EBITDA (x)	8.2	8.6	9.1	9.5	10.0
	EV (1Yr Fwd)	96	100	113	130	159
	Per share	8	8	9	11	13
EV		2,677	2,415	2,771	2,985	3,179
Cash+Invest		148	180	205	250	278
Mkt cap		2,825	2,595	2,976	3,234	3,457
Shares		12	12	12	12	12
CMP (Avg)		235	215	245	265	282

Source: Company, HDFC sec Inst Research

SOTP Valuation

Segments	Criteria	Value
Cigarette	EBITDA (Rs mn)	164
	EV/EBITDA (x)	18
	EV (Rs mn)	2,955
FMCG	Revenue (Rs mn)	159
	EV/Revenue (x)	5
	EV (Rs mn)	793
Hotel	EBITDA (Rs mn)	4
	EV/EBITDA (x)	20
	EV (Rs mn)	89
Agri	EBITDA (Rs mn)	10
	EV/EBITDA (x)	8
	EV (Rs mn)	77
Paper	EBITDA (Rs mn)	18
	EV/EBITDA (x)	10
	EV (Rs mn)	183
Total EV		4,097
Cash+Investment		340
Mkt Cap		4,437
TP		362

Source: HDFC sec Inst Research

Changes In Estimates

	FY20E			FY21E		
	New	Old	Change (%)	New	Old	Change (%)
Revenue	517,249	514,164	0.6	567,558	567,274	0.0
EBITDA	199,187	197,999	0.6	219,992	219,882	0.0
APAT	139,183	138,819	0.3	152,885	152,188	0.5
EPS	11.4	11.3	0.3	12.5	12.4	0.5

Source: HDFC sec Inst Research

Peer Set Comparison

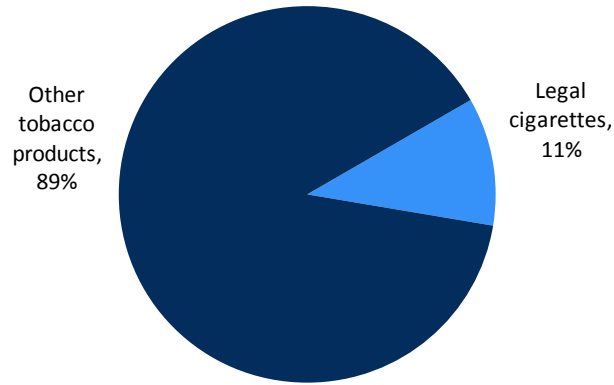
Company	MCap (Rs bn)	CMP (Rs)	Reco.	TP (Rs)	EPS (Rs)			P/E (x)			EV/EBITDA (x)			Core RoCE (%)		
					FY19P	FY20E	FY21E	FY19P	FY20E	FY21E	FY19P	FY20E	FY21E	FY19P	FY20E	FY21E
HUL	3,740	1,731	NEU	1,847	28.1	32.7	39.9	61.5	52.9	43.4	41.4	38.1	30.1	248.6	36.6	25.6
ITC	3,246	268	BUY	362	10.4	11.4	12.5	25.7	23.6	21.5	16.3	14.8	13.2	39.2	40.6	43.8
Nestle	1,106	11,470	NR	11,064	167.1	206.5	245.9	68.6	55.5	46.7	39.4	33.8	28.9	82.1	101.4	121.4
Dabur	742	421	BUY	463	8.2	9.8	11.7	51.4	42.8	35.9	41.2	34.1	29.2	50.1	54.9	60.8
Britannia	625	2,601	NEU	3,011	48.1	55.2	66.9	54.1	47.1	38.9	35.3	30.0	24.8	39.2	40.4	45.0
Marico	466	361	BUY	395	7.2	8.8	10.5	50.1	40.9	34.3	36.2	28.7	25.0	48.8	48.0	54.1
Colgate	322	1,183	NEU	1,281	27.6	30.8	35.5	42.9	38.4	33.4	25.7	23.0	20.1	67.2	70.6	78.4
Emami	149	320	BUY	500	11.0	13.6	15.6	29.0	23.5	20.5	19.6	16.4	14.2	21.5	28.4	34.1
Jub. Food	157	1,189	BUY	1,778	24.1	29.3	36.9	49.3	40.5	32.2	25.0	15.4	12.5	45.8	47.5	40.0
United Spirits	418	575	BUY	650	10.2	12.4	15.7	56.2	46.5	36.7	32.9	25.9	21.4	15.6	18.1	21.1
Radico Khaitan	40	299	BUY	481	14.1	15.9	18.5	21.1	18.8	16.2	12.3	11.0	9.5	11.5	12.3	13.2

Source: Company, HDFC sec Inst Research

High rates of tax on cigarettes provide attractive tax arbitrage opportunities to unscrupulous players, fanning the growth of illegal cigarette trade in the country

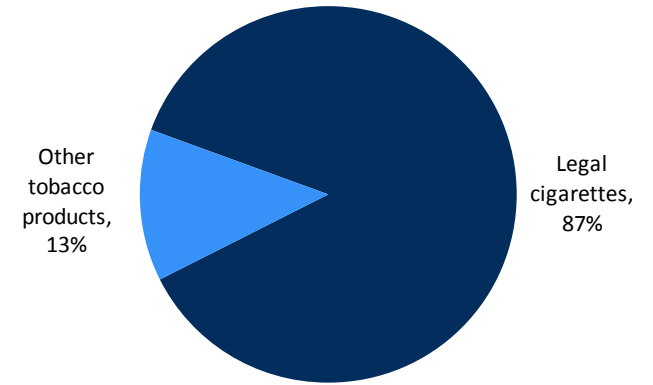
The legitimate cigarette industry has declined steadily since 2010-11 at a compound annual rate of 4.8% p.a., illegal cigarette volumes in contrast have grown at about 5% p.a.

India's Tobacco Consumption
Tobacco consumption share



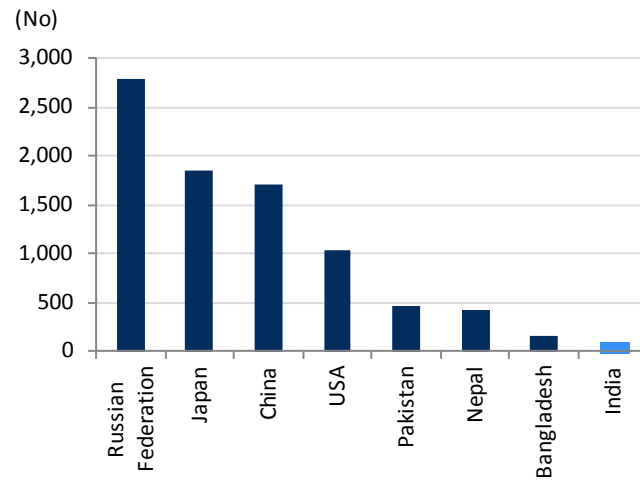
Source: Company, HDFC sec Inst Research

Tax revenue share



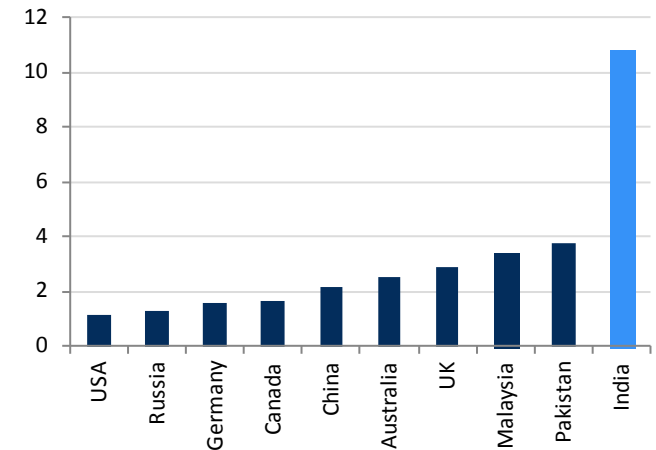
Source: Company, HDFC sec Inst Research

Per capita consumption of Tobacco in India – Per annum



Source: Company, HDFC sec Inst Research

Affordability (% of per capita GDP required to purchase 100 packs of 20 cigarettes of most sold brand)



Source: Company, HDFC sec Inst Research

Income Statement

(Rs mn)	FY18	FY19	FY20E	FY21E	FY22E
Net Revenues	434,489	483,527	517,249	567,558	623,201
Growth (%)	4.5	11.3	7.0	9.7	9.8
Material Expenses	158,555	174,203	182,589	198,078	216,251
Employee Expense	37,609	41,779	45,698	50,010	54,753
ASP Expense	9,041	9,946	10,862	12,486	13,710
Distribution Expense	9,041	11,765	11,897	13,621	14,957
Other Expenses	55,414	61,770	67,015	73,370	80,178
EBITDA	164,830	184,064	199,187	219,992	243,353
EBITDA Growth (%)	6.8	11.7	8.2	10.4	10.6
EBITDA Margin	37.9	38.1	38.5	38.8	39.0
Depreciation	12,363	13,966	15,359	16,914	18,609
EBIT	152,467	170,098	183,829	203,078	224,743
Other Income (Including EO)	18,319	21,738	27,087	28,572	29,523
Interest	899	454	236	241	246
PBT	174,016	191,381	210,679	231,409	254,021
Total Tax	59,164	63,139	71,631	78,679	86,367
RPAT	114,927	128,359	139,183	152,885	167,832
Exceptional Gain/(loss)	2,725	495	-	-	-
Adjusted PAT	112,202	127,864	139,183	152,885	167,832
APAT Growth (%)	7.1	14.0	8.9	9.8	9.8
Adjusted EPS (Rs)	9.19	10.43	11.35	12.47	13.69
EPS Growth (%)	6.6	13.5	8.9	9.8	9.8

Source: Company, HDFC sec Inst Research

Balance Sheet

(Rs mn)	FY18	FY19	FY20E	FY21E	FY22E
SOURCES OF FUNDS					
Share Capital - Equity	12,204	12,259	12,259	12,259	12,259
Reserves	512,897	565,114	619,460	679,999	746,394
Total Shareholders' Funds	525,101	577,372	631,719	692,258	758,652
Minority Interest	3,345	3,435	3,300	3,145	2,967
Long Term Debt	115	82	82	82	82
Short Term Debt	174	19	20	23	25
Total Debt	289	100	102	104	106
Net Deferred Taxes	18,749	19,927	21,248	22,674	24,215
Other non current liabilities	2,596	2,484	2,484	2,484	2,484
TOTAL SOURCES OF FUNDS	550,080	603,318	658,852	720,665	788,425
APPLICATION OF FUNDS					
Net Block	163,907	191,530	207,481	236,567	248,658
CWIP	77,353	63,618	55,366	48,764	43,483
Goodwill	2,314	2,314	2,314	2,314	2,314
LT Loans & Advances	21,014	16,960	18,349	19,852	21,481
Total Non-current Assets	264,587	274,422	283,510	307,497	315,935
Inventories	74,951	79,440	81,937	87,145	93,113
Debtors	26,823	40,353	30,518	33,486	36,769
Other Expenses	26,523	30,852	32,394	34,014	35,715
Cash & Equivalents	249,525	278,353	339,820	378,425	438,444
Total Current Assets	377,821	428,997	484,669	533,070	604,041
Creditors	34,962	35,096	38,065	41,767	45,862
Other Current Liabilities & Provns	57,367	65,006	71,261	78,135	85,690
Total Current Liabilities	92,328	100,101	109,326	119,902	131,552
Net Current Assets	285,493	328,896	375,342	413,168	472,489
TOTAL APPLICATION OF FUNDS	550,080	603,318	658,852	720,665	788,425

Source: Company, HDFC sec Inst Research

Cash Flow Statement

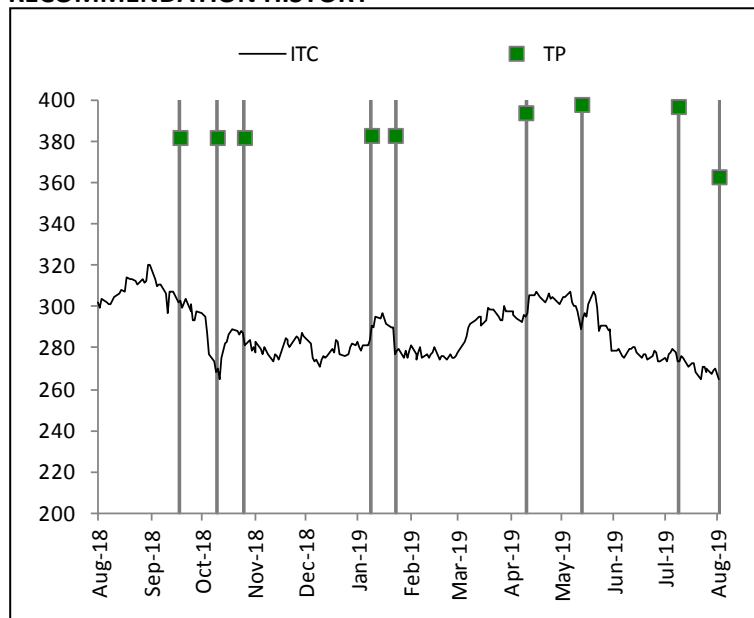
(Rs mn)	FY18	FY19	FY20E	FY21E	FY22E
Reported PBT	174,091	191,381	210,679	231,409	254,021
Non-operating & EO Items	(3,379)	-	-	-	-
Interest Expenses	(8,748)	(12,674)	(13,942)	(15,072)	(16,292)
Depreciation	12,363	13,966	15,359	16,914	18,609
Working Capital Change	17,364	(10,521)	13,632	(724)	(931)
Tax Paid	(59,996)	(61,916)	(70,310)	(77,253)	(84,827)
OPERATING CASH FLOW (a)	131,694	120,237	155,417	155,276	170,581
Capex	(27,985)	(27,855)	(23,058)	(39,398)	(25,418)
Free Cash Flow (FCF)	103,709	92,382	132,360	115,878	145,163
Investments	(50,814)	(29,906)	(15,000)	(15,000)	(15,000)
Non-operating Income	7,660	13,182	14,178	15,312	16,537
INVESTING CASH FLOW (b)	(71,139)	(44,579)	(23,880)	(39,086)	(23,881)
Debt Issuance/(Repaid)	24	(188)	2	2	2
Interest Expenses	(486)	(454)	(236)	(241)	(246)
FCFE	103,247	91,740	132,125	115,639	144,919
Share Capital Issuance	9,128	54	(0)	0	0
Dividend	(70,884)	(75,647)	(84,836)	(92,346)	(101,437)
Others	8	-	-	-	-
FINANCING CASH FLOW (c)	(62,211)	(76,236)	(85,071)	(92,585)	(101,681)
NET CASH FLOW (a+b+c)	(1,656)	(578)	46,467	23,605	45,019
EO Items, Others	(978)	-	-	-	-
Closing Cash & Equivalents	28,996	27,918	74,385	97,990	143,009

Source: Company, HDFC sec Inst Research

Key Ratios

	FY18	FY19	FY20E	FY21E	FY22E
PROFITABILITY (%)					
GPM	63.5	64.0	64.7	65.1	65.3
EBITDA Margin	37.9	38.1	38.5	38.8	39.0
EBIT Margin	35.1	35.2	35.5	35.8	36.1
APAT Margin	25.8	26.4	26.9	26.9	26.9
RoE	22.7	23.2	23.0	23.1	23.1
RoIC (or Core RoCE)	37.2	39.2	40.6	43.8	46.3
RoCE	22.6	23.1	22.9	23.0	23.1
EFFICIENCY					
Tax Rate (%)	34.0	33.0	34.0	34.0	34.0
Fixed Asset Turnover (x)	0.6	0.7	0.7	0.7	0.7
Inventory (days)	63.0	60.0	57.8	56.0	54.5
Debtors (days)	22.5	30.5	21.5	21.5	21.5
Other Current Assets (days)	22.3	23.3	22.9	21.9	20.9
Payables (days)	29.4	26.5	26.9	26.9	26.9
Other Current Liab & Provns (days)	48.2	49.1	50.3	50.2	50.2
Cash Conversion Cycle (days)	30.2	38.2	25.1	22.3	19.9
Net D/E (x)	(0.5)	(0.5)	(0.5)	(0.5)	(0.6)
Interest Coverage (x)	169.6	374.5	778.4	843.6	914.5
PER SHARE DATA (Rs)					
EPS	9.2	10.4	11.4	12.5	13.7
CEPS	10.2	11.6	12.6	13.9	15.2
Dividend	5.2	5.8	6.3	6.9	7.5
Book Value	43.0	47.1	51.5	56.5	61.9
VALUATION					
P/E (x)	29.1	25.7	23.6	21.5	19.5
P/BV (x)	6.2	5.7	5.2	4.7	4.3
EV/EBITDA (x)	18.3	16.3	14.8	13.2	11.7
EV/Revenues (x)	6.9	6.2	5.7	5.1	4.6
OCF/EV (%)	4.4	4.0	5.3	5.4	6.0
FCF/EV (%)	3.4	3.1	4.5	4.0	5.1
FCFE/Mkt Cap (%)	3.2	2.8	4.0	3.5	4.4
Dividend Yield (%)	1.9	2.1	2.3	2.6	2.8

Source: Company, HDFC sec Inst Research

RECOMMENDATION HISTORY


Date	CMP	Reco	Target
19-Sep-18	303	BUY	382
10-Oct-18	268	BUY	382
27-Oct-18	286	BUY	382
9-Jan-19	284	BUY	383
23-Jan-19	278	BUY	383
10-Apr-19	296	BUY	394
14-May-19	289	BUY	398
9-Jul-19	273	BUY	397
5-Aug-19	268	BUY	362

Rating Definitions

- BUY** : Where the stock is expected to deliver more than 10% returns over the next 12 month period
NEUTRAL : Where the stock is expected to deliver (-)10% to 10% returns over the next 12 month period
SELL : Where the stock is expected to deliver less than (-)10% returns over the next 12 month period

INSTITUTIONAL RESEARCH

Disclosure:

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