

ITC

Performance Highlights

Quarterly result (Standalone)

(₹ cr)	4QFY16	4QFY15	% chg	3QFY16	% qoq
Revenue	10,169	9,293	9.4	9,177	10.8
EBITDA	3,687	3,243	13.7	3,605	2.3
OPM (%)	36.3	34.9	136bp	39.3	(303bp)
PAT	2,495	2,361	5.7	2,653	(5.9)

Source: Company, Angel Research

ITC posted a healthy set of numbers for 4QFY2016, both on the top-line and the bottom-line front. The top-line was strong due to higher growth in Cigarettes & Agri businesses; however, higher taxes slightly dragged down the overall profitability of the company.

Key highlights: ITC's net sales for the quarter grew by 9.4% yoy to ₹10,169cr. The Cigarettes business posted a 10.2% yoy growth in net sales to ₹4,639cr, aided by price hikes, which enabled an 11.5% yoy growth in the segment's EBIT. The FMCG (Others) business posted a 5.4% yoy growth in net sales to ₹2,704cr, and an EBIT level profit of ₹71cr. Further, the Paperboards and Packaging division posted a growth of 3.0% yoy and 6.5% yoy in revenue and EBIT, respectively. The Hotels business posted a 4.8% yoy growth in its top-line, while it reported a flat growth at the EBIT level. The Agri business posted a strong growth of 26.5% yoy in revenue, while its EBIT grew by 6.1% on a yoy basis. Overall, the company's OPM expanded by 136bp yoy to 36.3%, owing to reduction in overall operating expenses.

Outlook and valuation: We expect ITC to report a top-line and bottom-line CAGR of 8.3% and 9.3% respectively over FY2016-18E. **At the current market price, the stock is trading at 22.6x FY2018E EPS. We recommend a Buy on the stock with a target price of ₹380.**

Key financials (Standalone)

Y/E March (₹ cr)	FY2015	FY2016E	FY2017E	FY2018E
Net Sales	36,507	36,837	39,726	43,194
% chg	9.8	0.9	7.8	8.7
Net Profit (Adj)	9,608	9,845	10,844	11,754
% chg	9.4	2.5	10.2	8.4
EBITDA (%)	36.9	38.7	38.8	38.8
EPS (₹)	11.9	12.2	13.5	14.6
P/E (x)	27.6	27.0	24.5	22.6
P/BV (x)	8.7	7.5	6.6	5.8
RoE (%)	31.3	27.8	26.9	25.7
RoCE (%)	40.6	37.3	35.4	33.8
EV/Sales (x)	6.8	6.7	6.2	5.6
EV/EBITDA (x)	18.5	17.3	15.9	14.6

Source: Company, Angel Research; Note: CMP as of May 20, 2016

BUY

CMP	₹330
Target Price	₹380

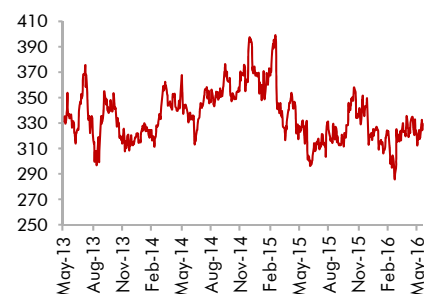
Investment Period	12 Months
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Stock Info	
Sector	FMCG
Market Cap (₹ cr)	2,65,518
Net Debt (₹ cr)	-15,928
Beta	0.8
52 Week High / Low	360/268
Avg. Daily Volume	6,90,195
Face Value (₹)	1
BSE Sensex	25,302
Nifty	7,750
Reuters Code	ITC.BO
Bloomberg Code	ITC@IN

Shareholding Pattern (%)	
Promoters	0.0
MF / Banks / Indian Fls	38.7
FII / NRIs / OCBs	51.2
Indian Public / Others	10.1

Abs. (%)	3m	1yr	3yr
Sensex	6.7	(9.1)	25.8
ITC	8.2	(0.8)	6.9

3-year price chart



Source: Company, Angel Research

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Exhibit 1: Quarterly performance (Standalone)

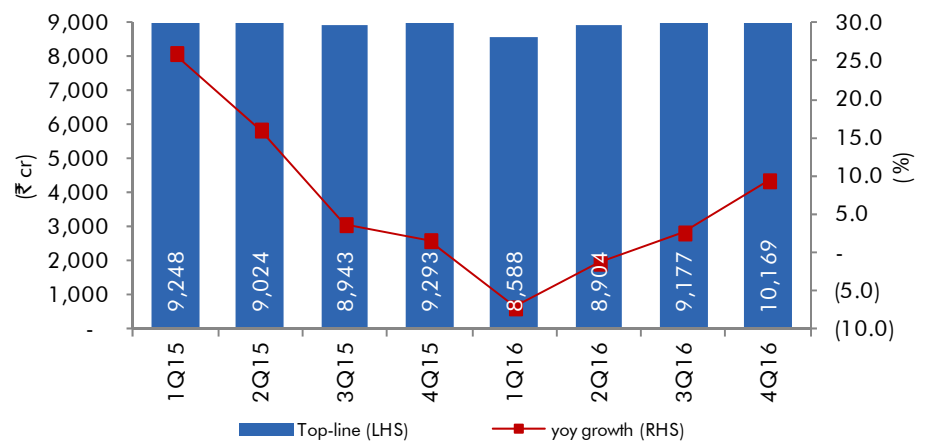
Y/E March (₹ cr)	4QFY16	4QFY15	% yoy	3QFY16	%qoq	FY2016	FY2015	% chg
Net Sales	10,169	9,293	9.4	9,177	10.8	36,837	36,507	0.9
Consumption of RM	3,980	3,662	8.7	3,336	19.3	13,703	14,672	(6.6)
(% of Sales)	39.14	39.40		36.35		37.2	40.2	
Staff Costs	465	454	2.4	450	3.5	1,884	1,780	5.8
(% of Sales)	4.6	4.9		4.9		5.1	4.9	
Other Expenses	2,037	1,934	5.3	1,786	14.0	7,013	6,582	6.5
(% of Sales)	20.0	20.8		19.5		19.0	18.0	
Total Expenditure	6,482	6,050	7.1	5,572	16.3	22,599	23,034	(1.9)
Operating Profit	3,687	3,243	13.7	3,605	2.3	14,238	13,474	5.7
OPM	36.3	34.9	136	39.3	(303)	38.7	36.9	174.5
Interest	12	16	(20.9)	16	(23.7)	49	57	(14.4)
Depreciation & Amortization	255	250	2.1	263	(2.9)	1,034	962	7.6
Other Income	412	370	11.1	678	(39.3)	1,804	1,543	16.9
PBT (excl. Extraordinary Items)	3,832	3,348	14.4	4,004	(4.3)	14,958	13,998	6.9
Extraordinary Income/(Expense)	-	-		-		-	-	
PBT (incl. Extraordinary Items)	3,832	3,348	14.4	4,004	(4.3)	14,958	13,998	6.9
(% of Sales)	37.7	36.0		43.6		40.6	38.3	
Provision for Taxation	1,336	987	35.4	1,352	(1.1)	5,114	4,390	16.5
(% of PBT)	34.9	29.5		33.8		34.2	31.4	
Reported PAT	2,495	2,361	5.7	2,653	(5.9)	9,845	9,608	2.5
PATM	25	25		29		27	26	
EPS (₹)	3.1	2.9	5.7	3.3	(5.9)	12.3	12.0	2.5

Source: Company, Angel Research

Top-line remains healthy

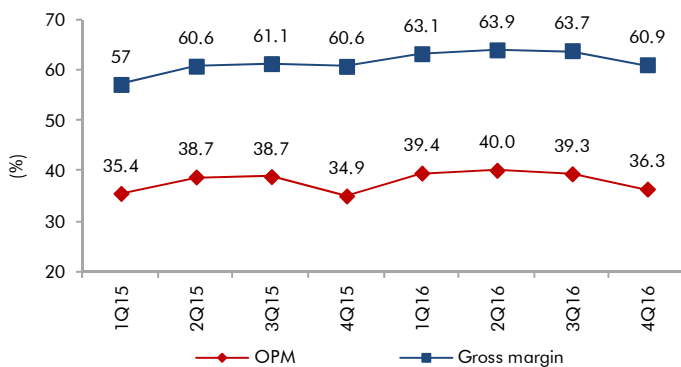
ITC's net sales for the quarter grew by 9.4% yoy to ₹10,169cr. The Cigarettes business posted a 10.2% yoy growth in net sales to ₹4,639cr, aided by price hikes, which enabled an 11.5% yoy growth in the segment's EBIT. The FMCG (Others) business posted a 5.4% yoy growth in net sales to ₹2,704cr, and an EBIT level profit of ₹71cr. Further, the Paperboards and Packaging division posted a growth of 3.0% yoy and 6.5% yoy in revenue and EBIT, respectively. The Hotels business posted a 4.8% yoy growth in its top-line, while it reported a flat growth at the EBIT level. The Agri business posted a strong growth of 26.5% yoy in revenue, while its EBIT grew by 6.1% on a yoy basis.

Exhibit 2: Top-line grows 9.4% yoy



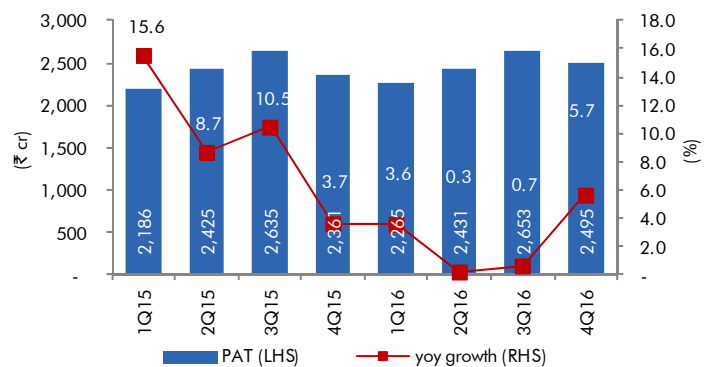
Source: Company, Angel Research

Exhibit 3: OPM increases by 136bp yoy to 36.3%



Source: Company, Angel Research

Exhibit 4: Earnings grow 5.7% yoy



Source: Company, Angel Research

Operating profit up 13.7% yoy

The company reported an operating profit of ₹3,687cr for 4QFY2016, up 13.7% yoy. Further, the company's OPM expanded by 136bp yoy to 36.3%, owing to reduction in overall operating expenses.

Exhibit 5: Segment-wise performance (Standalone)

Y/E Mar (₹ cr)	4QFY16	4QFY15	% yoy	3QFY16	% qoq	FY2016	FY2015	% chg
Net Income								
Cigarettes	4639	4211	10.2	4380	5.9	17486	16805	4.1
Others	2704	2567	5.4	2478	9.1	9704	9011	7.7
Hotels	363	346	4.8	345	5.1	1286	1187	8.4
Agri Business	1806	1428	26.5	1481	22.0	7457	8380	(11.0)
Paperboards & Packaging	1238	1203	3.0	1260	(1.7)	5017	4974	0.9
PBIT								
Cigarettes	3019	2706	11.5	2984	1.2	11752	11196	5.0
Others	71	49	46.0	19	277.8	71	34	106.9
Hotels	43	42	1.5	26	65.1	56	49	13.5
Agri Business	174	164	6.1	231	(24.6)	934	904	3.3
Paperboards & Packaging	203	191	6.5	241	(15.8)	908	921	(1.5)
PBIT Margin (%)								
Cigarettes	65.1	64.3		68.1		67.2	66.6	
Others	2.6	1.9		0.8		0.7	0.4	
Hotels	11.8	12.1		7.5		4.3	4.1	
Agri Business	9.7	11.5		15.6		12.5	10.8	
Paperboards & Packaging	16.4	15.8		19.1		18.1	18.5	

Source: Company, Angel Research

Investment rationale

- **Cigarettes business to enjoy strong pricing power:** We believe ITC's cigarettes business is well poised to continue to post a healthy profit growth over FY2016-18E due to its strong pricing power and improvement in volume growth.
- **Non-cigarettes businesses to register healthy growth over FY2016-18E:** While cigarettes remain the main profit center for the company, investments in the non-cigarettes businesses such as FMCG, Hotels and Paperboards have given the company a foothold in the respective businesses. We expect these businesses to play a major role in driving the company's long-term growth.

Outlook and valuation

We expect ITC to report a top-line and bottom-line CAGR of 8.3% and 9.3% respectively over FY2016-18E. **At the current market price, the stock is trading at 22.6x FY2018E EPS. We recommend a Buy on the stock with a target price of ₹380.**

Company Background

ITC is a diversified conglomerate, present across various categories – Cigarettes (41% of revenue); Hotels (3% of revenue); Paperboards and Packaging (13% of revenue); Agri-business (22% of revenue); and other FMCG (branded apparel, personal care, stationery, safety matches and specialty papers [21% of revenue]) businesses. Although ITC is a market leader in the cigarettes category, it is rapidly gaining market share even in its evolving businesses of packaged foods and confectionery, branded apparel, personal care and stationery.

Profit and loss statement (Standalone)

Y/E March (₹ cr)	FY13	FY14	FY15	FY16E	FY17E	FY18E
Total operating income	29,901	33,239	36,507	36,837	39,726	43,194
% chg	18.9	11.2	9.8	0.9	7.8	8.7
Total Expenditure	19,274	20,784	23,034	22,599	24,312	26,435
Cost of Materials	12,066	13,156	14,672	13,703	14,619	15,766
Personnel	1,387	1,608	1,780	1,884	2,066	2,289
Others	5,821	6,019	6,582	7,013	7,627	8,380
EBITDA	10,628	12,455	13,474	14,238	15,414	16,759
% chg	20.1	17.2	8.2	5.7	8.3	8.7
(% of Net Sales)	35.5	37.5	36.9	38.7	38.8	38.8
Depreciation & Amortisation	796	900	962	1,034	1,123	1,256
EBIT	9,832	11,555	12,512	13,204	14,290	15,503
% chg	20.6	17.5	8.3	5.5	8.2	8.5
(% of Net Sales)	32.9	34.8	34.3	35.8	36.0	35.9
Interest & other Charges	86	3	57	49	55	60
Other Income	939	1,107	1,543	1,804	1,950	2,100
(% of PBT)	8.8	8.7	11.0	12.1	12.0	12.0
Share in profit of Associates	-	-	-	-	-	-
Recurring PBT	10,684	12,659	13,998	14,958	16,185	17,543
% chg	20.1	18.5	10.6	6.9	8.2	8.4
Extraordinary Expense/(Inc.)	-	-	-	-	-	-
PBT (reported)	10,684	12,659	13,998	14,958	16,185	17,543
Tax	3,266	3,874	4,390	5,114	5,341	5,789
(% of PBT)	30.6	30.6	31.4	34.2	33.0	33.0
PAT (reported)	7,418	8,785	9,608	9,845	10,844	11,754
Add: Share of associates	-	-	-	-	-	-
ADJ. PAT	7,418	8,785	9,608	9,845	10,844	11,754
% chg	20.4	18.4	9.4	2.5	10.2	8.4
(% of Net Sales)	24.8	26.4	26.3	26.7	27.3	27.2
Basic EPS (₹)	9.2	10.9	11.9	12.2	13.5	14.6
Fully Diluted EPS (₹)	9.2	10.9	11.9	12.2	13.5	14.6
% chg	20.4	18.4	9.4	2.5	10.2	8.4

Balance Sheet (Standalone)

Y/E March (₹ cr)	FY13	FY14	FY15	FY16E	FY17E	FY18E
SOURCES OF FUNDS						
Equity Share Capital	790	795	802	805	805	805
Reserves & Surplus	21,498	25,467	29,934	34,561	39,550	44,956
Shareholders Funds	22,288	26,262	30,736	35,366	40,354	45,761
Minority Interest	-	-	-	-	-	-
Total Loans	78	67	53	29	35	40
Deferred Tax Liability	1,706	1,741	2,099	2,099	2,099	2,099
Total Liabilities	24,072	28,070	32,888	37,495	42,489	47,900
APPLICATION OF FUNDS						
Gross Block	16,944	18,545	21,727	25,140	28,641	32,143
Less: Acc. Depreciation	5,735	6,532	7,548	8,583	9,706	10,963
Net Block	11,209	12,013	14,178	16,557	18,935	21,181
Capital Work-in-Progress	1,488	2,296	2,114	2,114	2,114	2,114
Investments	7,060	8,823	8,405	12,854	12,854	12,854
Current Assets	14,260	16,097	19,498	19,735	22,316	26,273
Inventories	6,600	7,360	7,837	7,872	8,707	9,704
Sundry Debtors	1,163	2,165	1,722	1,615	1,524	1,657
Cash	3,615	3,289	7,589	6,565	7,716	8,865
Loans & Advances	1,154	1,803	843	1,842	2,384	3,024
Other	1,728	1,480	1,506	1,842	1,986	3,024
Current liabilities	10,448	11,604	11,775	14,234	14,199	14,989
Net Current Assets	3,812	4,494	7,722	5,501	8,117	11,284
Deferred Tax Asset	503	445	468	468	468	468
Mis. Exp. not written off	-	-	-	-	-	-
Total Assets	24,072	28,070	32,888	37,495	42,489	47,900

Cash flow statement (Standalone)

Y/E March (₹ cr)	FY13	FY14	FY15	FY16E	FY17E	FY18E
Profit before tax	10,684	12,659	13,998	14,958	16,185	17,543
Depreciation	796	900	962	1,034	1,123	1,256
Change in Working Capital	(1,049)	(1,732)	30	1,280	(1,465)	(2,017)
Interest / Dividend (Net)	(580)	(767)	(1,131)	49	55	60
Direct taxes paid	(2,886)	(3,797)	(4,226)	(5,114)	(5,341)	(5,789)
Others	(255)	(300)	(324)	-	-	-
Cash Flow from Operations	6,710	6,962	9,309	12,208	10,557	11,054
(Inc.)/ Dec. in Fixed Assets	(4,324)	(4,586)	(4,402)	(12,398)	(3,501)	(3,502)
(Inc.)/ Dec. in Investments	(744)	(1,763)	418	(4,449)	-	-
Cash Flow from Investing	(3,581)	(2,823)	(4,820)	(7,949)	(3,501)	(3,502)
Issue of Equity	922	691	979	3	-	-
Inc./(Dec.) in loans	(10)	(11)	(15)	(24)	6	5
Dividend Paid (Incl. Tax)	(3,518)	(4,148)	(4,772)	(5,218)	(5,856)	(6,347)
Interest / Dividend (Net)	273	(996)	3,619	(45)	(55)	(60)
Cash Flow from Financing	(2,333)	(4,465)	(190)	(5,284)	(5,905)	(6,402)
Inc./(Dec.) in Cash	796	(326)	4,299	(1,024)	1,151	1,149
Opening Cash balances	2,819	3,615	3,289	7,589	6,565	7,716
Closing Cash balances	3,615	3,289	7,589	6,565	7,716	8,865

Key ratios

Y/E March	FY13	FY14	FY15	FY16E	FY17E	FY18E
Valuation Ratio (x)						
P/E (on FDEPS)	35.8	30.2	27.6	27.0	24.5	22.6
P/CEPS	32.3	27.4	25.1	24.4	22.2	20.4
P/BV	11.9	10.1	8.7	7.5	6.6	5.8
Dividend yield (%)	1.6	1.8	1.9	2.0	2.2	2.4
EV/Sales	8.5	7.6	6.8	6.7	6.2	5.6
EV/EBITDA	24.0	20.4	18.5	17.3	15.9	14.6
EV / Total Assets	7.4	6.4	5.6	4.8	4.3	3.9
Per Share Data (₹)						
EPS (Basic)	9.2	10.9	11.9	12.2	13.5	14.6
EPS (fully diluted)	9.2	10.9	11.9	12.2	13.5	14.6
Cash EPS	10.2	12.0	13.1	13.5	14.9	16.2
DPS	5.3	6.0	6.2	6.5	7.3	7.9
Book Value	27.6	32.6	38.1	43.9	50.1	56.8
Returns (%)						
RoCE	44.0	43.9	40.6	37.3	35.4	33.8
Angel RoIC (Pre-tax)	84.1	81.3	84.6	82.6	72.1	64.4
RoE	33.3	33.5	31.3	27.8	26.9	25.7
Turnover ratios (x)						
Asset Turnover	1.8	1.8	1.7	1.5	1.4	1.3
Inventory / Sales (days)	81	81	78	78	80	82
Receivables (days)	14	24	17	16	14	14
Payables (days)	24	25	22	24	26	26
Net Working capital (days)	71	79	74	70	68	70

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Disclosure of Interest Statement	ITC
1. Analyst ownership of the stock	No
2. Angel and its Group companies ownership of the stock	No
3. Angel and its Group companies' Directors ownership of the stock	No
4. Broking relationship with company covered	No

Note: We have not considered any Exposure below ₹1 lakh for Angel, its Group companies and Directors

Ratings (Based on expected returns over 12 months investment period):

Buy (> 15%)

Accumulate (5% to 15%)
Reduce (-5% to -15%)

Neutral (-5 to 5%)
Sell (< -15)