

Industry Con. Staples  
Bloomberg ITC IN  
BSE CODE 500875

## Strong revenue growth across all segments, but margin remain dampener

**RATING** BUY

**CMP** 278  
**Price Target** 339  
**Potential Upside** 22%

**Rating Change** ↔

**Estimate Change** ↔

**Target Change** ↔

### Stock Info

52wk Range H/L 323/251  
Mkt Capital (Rs Cr) 340096  
Free float (%) 75%  
Avg. Vol 1M (,000) 9406  
No. of Shares (Crs) 1225  
Promoters Pledged % NA

### Research Analyst

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### Q3FY19 Result update

- ❑ ITC's sales grew by 13% to Rs.11228 Crs (vs expec. Rs.10975 Crs) while PAT grew by 4% YoY to Rs.3209 Crs(expec. Rs 3123cr). Impacted by exceptional income of Rs.413 Crs Q3FY18.
- ❑ Cigarette Business contributing 42% of revenue, grew by 10% while posted EBIT growth of 9%.Cigarettes EBIT was lower by 49 bps YoY to 70.1% led by consumption of higher cost leaf tobacco and increased salience of capsule cigarettes in the sales mix(key negative).
- ❑ Other FMCG contributing 26% of revenue, grew by 11% led by Atta, Snacks, Premium Biscuits and Noodles & Personal Care Products Business.
- ❑ Paper & Packaging business contributing 12%, grew 21% driven by strong demand and capacity augmentation in value added paperboard and Décor segments.
- ❑ Agri business grew by 26% led by market opportunities in Wheat and Oilseeds while Hotels business posted growth of 12% driven by improvement in Average Room Rate.
- ❑ Gross margin declined by 51 bps YoY to 61.7% while EBITDA margin declined by 71 bps YoY to 38.5% on account of brand building, gestation cost of new categories. EBITDA grew by 11% YoY to Rs.4326 Crs (expec. Rs.4346). Other income for this quarter grew by 33% YoY to Rs 836 cr.

### View and Valuation

ITC has posted mixed set of numbers for Q3FY19, sales grew by 13% YoY to Rs Rs.11228 Crs (largely inline) while EBITDA margin contracted by 71 bps YoY to 38.5%(below than our expec. by 107 bps). Cigarette Business grew by 10% (expec. Volume growth ~6%) while posted EBIT growth of 9%. EBIT was lower by 49 bps YoY to 70.1%. Other FMCG sales grew by 11% led by Atta, Snacks, Premium Biscuits and Noodles & Personal Care Products Business. Paper & Packaging business grew 21% driven by strong demand and capacity augmentation in value added paperboard and Décor segments. Agri business reported strong revenue growth of 26% led by Market opportunities in Wheat and Oilseeds while Hotels business posted growth of 12% driven by improvement in Average Room Rate (ARR). Hence strong sales show but margin remains dampener than our estimates but considering company thrust on aggressively launching new products, venturing in new categories and investment in existing brand, it is understandable. The company is strategically reducing its dependence on cigarettes and investing in new growth drivers. Considering strong show in sales and valuation comfort,We continue to remain positive on ITC and value it at 28x FY20's eps and retain our BUY rating with the target price of Rs 339.

### Key Risk to our rating and target

- ❑ Possibility of increase in Cess and GST rates going forwards.

KEY FINANCIAL/VALUATIONS	FY16	FY17	FY18	FY19E	FY20E
Net Sales	39192	42777	43449	48332	53383
EBITDA	14451	15436	16483	18590	21464
EBIT	13373	14283	15247	17298	20075
PAT	9501	10477	11220	12872	14823
EPS (Rs)	8	9	9	11	12
EPS growth (%)	-2%	10%	9%	12%	15%
ROE (%)	22%	23%	22%	23%	25%
ROCE (%)	31%	31%	29%	31%	34%
BV	35	38	43	45	48
P/B (X)	6.1	5.9	6.5	6.1	5.8
P/E (x)	27.4	26.3	29.7	26.4	22.9

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## Q3FY19 Results

## Mixed

Financials	3QFY18	4QFY18	1QFY19	2QFY19	3QFY19	YoY %	QoQ%	FY17	FY18	YoY %
Net Sales	9,952	10,587	10,707	11,069	11,228	12.8%	1.4%	42,777	43,449	1.6%
Other Income	627	517	404	504	836	33.4%	65.9%	1,762	1,832	4.0%
COGS	3,761	4,001	4,109	4,280	4,301	14.3%	0.5%	16,049	15,855	-1.2%
Gross Margin	62%	62%	62%	61%	62%	-0.5%	0.4%	62%	64%	1.0%
Employee Ex.	595	611	743	596	629	5.7%	5.5%	3,632	3,761	3.6%
Other Expen.	1,691	1,830	1,653	1,987	1,972	16.6%	-0.7%	7,660	7,350	-4.0%
EBITDA	3,905	4,144	4,202	4,206	4,326	10.8%	2.8%	15,436	16,483	6.8%
EBITDA Mar.	39%	39%	39%	38%	39%	-0.7%	0.5%	36%	38%	1.9%
Depreciation	291	304	299	327	335	15.3%	2.4%	1,153	1,236	7.2%
EBIT	3,614	3,840	3,903	3,879	3,990	10%	2.9%	14,283	15,247	6.7%
Interest	24	23	7	14	6	-77%	-58.4%	24	90	270.0%
PBT	4,217	4,333	4,300	4,369	4,821	14.3%	10.3%	16,020	17,402	9%
Exceptional	413	-	-	-	-	-100.0%	0.0%	-	413	0%
Tax	1,539	1,401	1,481	1,414	1,612	4.7%	14.0%	5,549	5,916	7%
PAT	3,090	2,933	2,819	2,955	3,209	3.8%	8.6%	10,471	11,485	10%
PAT Margin	31%	28%	26%	27%	29%	-2.5%	1.9%	24%	26%	2.0%

## ITC's different segments performance:

Segments:	2QFY17	3QFY17	4QFY17	1QFY18	2QFY18	3QFY18	4QFY18	1QFY19	2QFY19	3QFY19
Cigarettes	4652	4053	5149	5005	4554	4629	4936	5128	5026	5073
Others FMCG	2672	2569	2886	2601	2804	2872	3052	2870	3160	3201
<b>FMCG</b>	<b>7323</b>	<b>6622</b>	<b>8035</b>	<b>7606</b>	<b>7358</b>	<b>7501</b>	<b>7988</b>	<b>7998</b>	<b>8186</b>	<b>8274</b>
Agri Business	1880	1672	1918	2761	1968	1531	1808	3151	2220	1925
Paper &	1265	1269	1304	1292	1309	1280	1301	1356	1424	1543
Hotels	297	371	387	305	300	404	408	341	363	452
<b>Total</b>	<b>10766</b>	<b>9934</b>	<b>11644</b>	<b>11963</b>	<b>10936</b>	<b>10716</b>	<b>11505</b>	<b>12846</b>	<b>12193</b>	<b>12193</b>

## Segments Growth

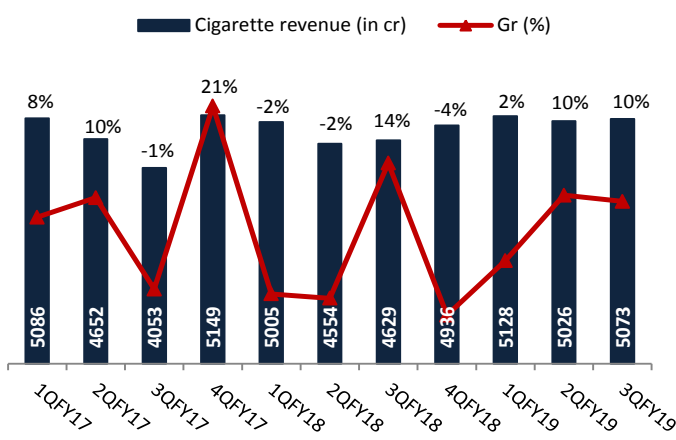
Segments:	2QFY17	3QFY17	4QFY17	1QFY18	2QFY18	3QFY18	4QFY18	1QFY19	2QFY19	3QFY19
Cigarettes	10%	-1%	21%	-2%	-2%	14%	-4%	2%	10%	10%
Others FMCG	13%	3%	6%	9%	5%	12%	6%	10%	13%	11%
<b>FMCG</b>	<b>11%</b>	<b>1%</b>	<b>15%</b>	<b>2%</b>	<b>0%</b>	<b>13%</b>	<b>-1%</b>	<b>5%</b>	<b>11%</b>	<b>10%</b>
Agri Business	2%	13%	6%	-1%	5%	-8%	-6%	14%	13%	26%
Paper &	0%	0%	4%	3%	4%	1%	0%	5%	9%	21%
Hotels	3%	7%	6%	6%	1%	9%	6%	12%	21%	12%
<b>Total</b>	<b>8%</b>	<b>3%</b>	<b>12%</b>	<b>1%</b>	<b>2%</b>	<b>8%</b>	<b>-1%</b>	<b>7%</b>	<b>11%</b>	<b>14%</b>

## Segments EBIT Margin:

Segments:	2QFY17	3QFY17	4QFY17	1QFY18	2QFY18	3QFY18	4QFY18	1QFY19	2QFY19	3QFY19
Cigarettes	69%	75%	63%	65%	72%	71%	71%	69%	71%	70%
Others FMCG	0%	-1%	2%	0%	1%	2%	3%	2%	2%	2%
<b>FMCG</b>	<b>44%</b>	<b>46%</b>	<b>41%</b>	<b>43%</b>	<b>45%</b>	<b>44%</b>	<b>45%</b>	<b>45%</b>	<b>44%</b>	<b>44%</b>
Agri Business	16%	14%	7%	9%	13%	15%	7%	6%	11%	10%
Paper &	18%	19%	18%	20%	21%	21%	19%	22%	22%	22%
Hotels	0%	11%	17%	2%	1%	14%	18%	4%	4%	13%
<b>Total</b>	<b>35%</b>	<b>36%</b>	<b>32%</b>	<b>32%</b>	<b>35%</b>	<b>36%</b>	<b>35%</b>	<b>32%</b>	<b>34%</b>	<b>35%</b>

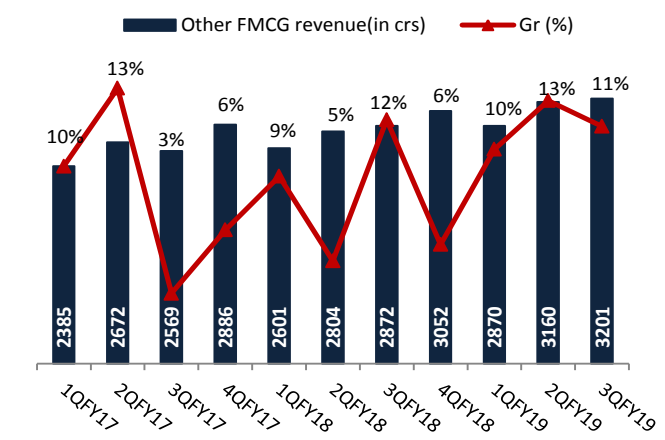
**Exhibit: Cigarettes Revenue and Growth(%)**

Cigarettes revenue grew by 10% YoY, showing signs of improvement.



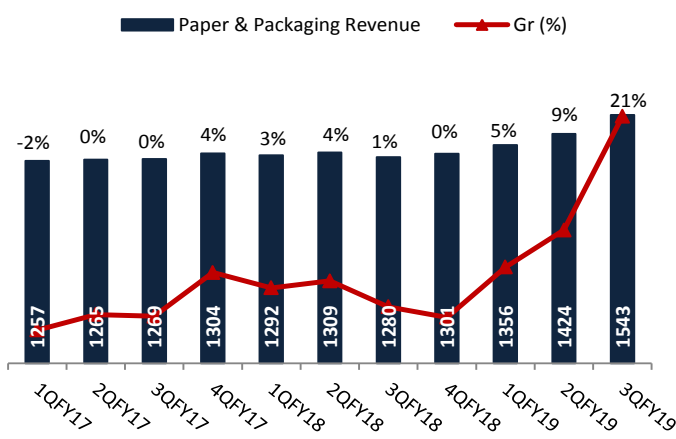
**Exhibit: Other FMCG revenue and Growth(%)**

Other FMCG grew by 11% on the back of enhancing its standing in most categories.



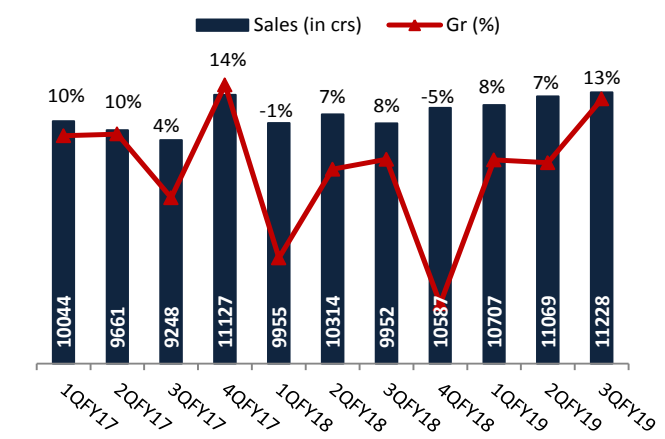
**Exhibit: Paper & Packaging Revenue and Growth(%)**

Paper & Packaging Revenue grew by 21% on account of product mix enrichment.



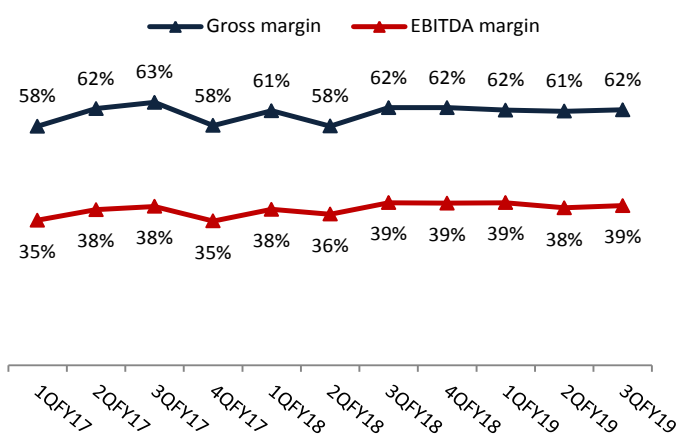
**Exhibit: Sales and Sales Growth**

ITC's sales grew by 13% to Rs.11228 Crs (vs expec. Rs.10975 Crs).



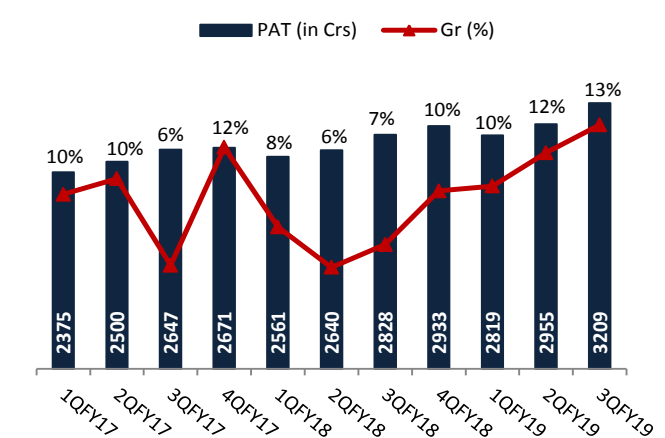
**Exhibit: Gross and EBITDA Margin**

Gross margin declined by 51 bps YoY to 61.7% while EBITDA margin fell by 71 bps YoY to 38.5%.



**Exhibit: Adj. PAT and Adj. PAT Growth**

Adj. PAT growth is 13% in this quarter due to Rs 413 cr exceptional gain in the Q3FY18.



## Financial Details

## Balance Sheet

Y/E March	FY13	FY14	FY15	FY16	FY17	FY18	FY19E	FY20E
Share Capital	790	795	802	805	1,215	1,220	1,220	1,220
Reserves	22,368	26,442	30,934	41,875	45,198	51,290	54,156	57,458
<b>Networth</b>	<b>23,158</b>	<b>27,237</b>	<b>31,735</b>	<b>42,680</b>	<b>46,413</b>	<b>52,510</b>	<b>55,377</b>	<b>58,678</b>
Debt	91	227	256	71	38	29	22	17
Other Non Current Liab	1,399	1,481	1,810	2,066	2,096	2,183	2,183	2,183
<b>Total Capital Employed</b>	<b>23,249</b>	<b>27,464</b>	<b>31,992</b>	<b>42,750</b>	<b>46,450</b>	<b>52,539</b>	<b>55,399</b>	<b>58,695</b>
<i>Net Fixed Assets (incl CWIP)</i>	14,202	16,039	18,003	17,666	19,623	22,032	23,418	24,658
<i>Non Current Investments</i>	814	799	808	5,126	6,694	11,484	11,484	11,484
<i>Other Non Current Assets</i>	1,588	1,763	1,837	4,240	3,559	4,520	4,520	4,520
<b>Non Current Assets</b>	<b>16,288</b>	<b>18,303</b>	<b>20,416</b>	<b>26,829</b>	<b>29,674</b>	<b>37,895</b>	<b>39,281</b>	<b>40,521</b>
Inventory	7,522	8,255	8,587	9,062	8,671	7,495	8,338	9,209
Debtors	1,396	2,439	1,982	1,917	2,474	2,682	2,984	3,296
Cash & Bank	3,828	3,490	7,896	6,063	2,967	2,900	2,528	2,655
Other Current Assets	6,320	8,396	7,109	7,820	12,156	13,317	15,056	16,876
<b>Current Assets</b>	<b>19,066</b>	<b>22,581</b>	<b>25,574</b>	<b>24,863</b>	<b>26,269</b>	<b>26,394</b>	<b>28,906</b>	<b>32,035</b>
Creditors	1,772	2,106	2,020	2,339	2,659	3,496	3,889	4,296
<i>Provisions</i>	5,194	5,956	6,162	71	61	64	71	78
Other Current Liabilities	3,560	3,673	3,782	4,204	4,381	5,673	6,310	6,970
<b>Curr Liabilities</b>	<b>10,526</b>	<b>11,736</b>	<b>11,965</b>	<b>6,615</b>	<b>7,102</b>	<b>9,233</b>	<b>10,271</b>	<b>11,344</b>
<b>Net Current Assets</b>	<b>8,540</b>	<b>10,845</b>	<b>13,610</b>	<b>18,248</b>	<b>19,167</b>	<b>17,161</b>	<b>18,636</b>	<b>20,691</b>
<b>Total Assets</b>	<b>35,353</b>	<b>40,884</b>	<b>45,991</b>	<b>51,692</b>	<b>55,943</b>	<b>64,289</b>	<b>68,187</b>	<b>72,556</b>

## Income Statement

Y/E March	FY13	FY14	FY15	FY16	FY17	FY18	FY19E	FY20E
<b>Revenue from Operation</b>	<b>31,628</b>	<b>35,317</b>	<b>38,835</b>	<b>39,192</b>	<b>42,777</b>	<b>43,449</b>	<b>48,332</b>	<b>53,383</b>
Change (%)		12%	10%	1%	9%	2%	11%	10%
<b>EBITDA</b>	<b>11,174</b>	<b>13,052</b>	<b>14,202</b>	<b>14,451</b>	<b>15,436</b>	<b>16,483</b>	<b>18,590</b>	<b>21,464</b>
Change (%)		17%	9%	2%	7%	7%	13%	15%
<i>Margin (%)</i>	35%	37%	37%	37%	36%	38%	38%	40%
<i>Depr &amp; Amor.</i>	859	965	1,028	1,077	1,153	1,236	1,292	1,390
<b>EBIT</b>	<b>10,315</b>	<b>12,087</b>	<b>13,174</b>	<b>13,373</b>	<b>14,283</b>	<b>15,247</b>	<b>17,298</b>	<b>20,075</b>
<i>Int. &amp; other fin. Cost</i>	87	6	68	54	24	90	48	48
Other Income	878	971	1,257	1,531	1,762	1,832	2,095	2,495
<b>EBT</b>	<b>11,106</b>	<b>13,052</b>	<b>14,362</b>	<b>14,851</b>	<b>16,020</b>	<b>17,402</b>	<b>19,345</b>	<b>22,522</b>
<i>Exp Item</i>	-	-	-	-	-	413	-	-
Tax	3,412	4,061	4,596	5,358	5,549	5,916	6,482	7,706
Minority Int & P/L share of Ass.	107	120	128	8	6	8	8	8
<i>Reported PAT</i>	7,608	8,891	9,663	9,501	10,477	11,493	12,871	14,823
<b>Adjusted PAT</b>	<b>7,608</b>	<b>8,891</b>	<b>9,663</b>	<b>9,501</b>	<b>10,477</b>	<b>11,220</b>	<b>12,871</b>	<b>14,823</b>
Change (%)		17%	9%	-2%	10%	10%	12%	15%
Margin(%)	24%	25%	25%	24%	24%	26%	27%	28%

## Financial Details

## Key Ratios

Y/E March	FY13	FY14	FY15	FY16	FY17	FY18	FY19E	FY20E
ROE	33%	33%	30%	22%	23%	22%	23%	25%
ROCE	44%	44%	41%	31%	31%	29%	31%	34%
Asset Turnover	1	1	1	1	1	1	1	1
Debtor Days	16	25	19	18	21	23	23	23
Inv Days	87	85	81	84	74	63	63	63
Payable Days	20	22	19	22	23	29	29	29
Int Coverage	118	1,897	193	250	588	170	358	416
P/E	28	29	29	27	26	30	26	23
Price / Book Value	9	10	9	6	6	7	6	6
EV/EBITDA	12	13	13	12	18	21	18	16
FCF per Share	6	6	8	9	6	8	9	11
Div Yield	2%	2%	2%	2%	2%	2%	2%	3%

## Cash Flow Statement

Y/E March	FY13	FY14	FY15	FY16	FY17	FY18	FY19E	FY20E
PBT	11,106	13,052	14,362	14,859	16,026	17,409	19,345	22,522
(inc)/Dec in Working Capital	(1,101)	(1,844)	31	(277)	44	1,736	(415)	(429)
Non Cash Op Exp	615	720	715	1,182	927	907	1,300	1,397
Int Paid (+)	87	6	68	54	24	90	48	48
Tax Paid	(3,015)	(3,984)	(4,449)	(5,078)	(5,492)	(6,000)	(6,482)	(7,706)
others	(590)	(606)	(885)	(941)	(903)	(973)	-	-
<b>CF from Op. Activities</b>	<b>7,102</b>	<b>7,344</b>	<b>9,843</b>	<b>9,799</b>	<b>10,627</b>	<b>13,169</b>	<b>13,796</b>	<b>15,831</b>
(inc)/Dec in FA & CWIP	(2,644)	(2,887)	(3,300)	(2,348)	(3,122)	(2,878)	(2,677)	(2,630)
Free Cashflow	4,458	4,456	6,543	7,451	7,506	10,291	11,119	13,201
(Pur)/Sale of Inv	(561)	(950)	916	(3,438)	(4,649)	(3,313)	(1,431)	(1,500)
others	(676)	583	(2,890)	1,865	4,519	(923)	-	-
<b>CF from Inv. Activities</b>	<b>(3,881)</b>	<b>(3,254)</b>	<b>(5,275)</b>	<b>(3,921)</b>	<b>(3,251)</b>	<b>(7,114)</b>	<b>(4,108)</b>	<b>(4,130)</b>
inc/(dec) in NW	922	691	979	532	1,067	913	-	-
inc/(dec) in Debt	(12)	(9)	(14)	(13)	(13)	2	(7)	(5)
Int. Paid	(71)	(48)	(16)	(28)	(25)	(49)	(48)	(48)
Div Paid (inc tax)	(4,163)	(4,927)	(5,688)	(6,125)	(8,333)	(7,088)	(10,004)	(11,521)
others	13	171	78	21	4	1	-	-
<b>CF from Fin. Activities</b>	<b>(3,310)</b>	<b>(4,122)</b>	<b>(4,661)</b>	<b>(5,613)</b>	<b>(7,301)</b>	<b>(6,221)</b>	<b>(10,059)</b>	<b>(11,575)</b>
Inc(Dec) in Cash	(90)	(32)	(93)	266	75	(166)	(371)	126
<b>Add: Opening Balance</b>	<b>398</b>	<b>309</b>	<b>276</b>	<b>(2)</b>	<b>264</b>	<b>339</b>	<b>2,900</b>	<b>2,528</b>
Closing Balance	309	276	183	264	339	174	2,529	2,655

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