

Industry	Consum. Staples
Bloomberg	ITC IN
BSE CODE	500875

## Result mixed, Cigarette margin remained dampener

RATING	ACCUMULATE
CMP	290
Price Target	340
Potential Upside	17%

Rating Change	↔
Estimate Change	↔
Target Change	↔

## Stock Info

52wk Range H/L	323/259
Mkt Capital (Rs Cr)	355,316
Free float (%)	75%
Avg. Vol 1M (,000)	9,593
No. of Shares (Crs)	1,226
Promoters Pledged %	NA

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## 4QFY19 Result update

- ❑ In 4QFY19, ITC Ltd. reported mixed set of numbers; Sales grew by 13.3% YoY to Rs 11,992 cr (vs. expect. Rs 12,387 cr) largely driven by in Cigarette business, Agri Business, Paperboards and Hotels business.
- ❑ Under FMCG, Cigarette's business revenue (contri. ~43% to total revenue) grew by 11% YoY registering volume growth of ~7% (cal.), has shown gradual recovery while other FMCG (contri. ~25% to total revenue) grew by 7% YoY.
- ❑ While Agri business, Paper & Packaging and Hotels segment delivered strong performance with YoY revenue growth of 16%, 18% & 25% respectively.
- ❑ Gross margin contracted by 69 bps YoY to 61.5% while EBITDA margin declined by 102 bps YoY to 38.1% led by higher COGs (up by 69 bps) and employee expenses (up by 56 bps).
- ❑ Cigarette business EBIT margin remained dampener, declined by 73 bps YoY led by higher tobacco leaf cost on the other hand EBIT margin of other FMCG, Agri, Paper & Packaging expanded by 100,15,91 bps respectively while EBIT margin for Hotel business declined by 110 bps YoY in 4QFY19.
- ❑ Company's PAT stood at Rs 3,482 cr (vs. expect. Rs 3,317 cr), reflecting a growth of 18.7% YoY led by better product mix in other FMCG and improved realization in Paperboards.

## View and Valuation

ITC's numbers for 4QFY19 remained mixed; sales grew by 13% YoY to Rs 11992 cr (vs. expect. Rs 12387 cr) led by better performance in Agri, Paperboards and Hotels business while PAT grew by 19% YoY Rs 3482 cr (vs expect. Rs 3317 cr). Positive remained cigarette volume which grew by ~7%(cal.) (vs expect. of 5%) showing gradual improvement in volume while EBIT margin of cigarette business remained dampener and declined by 73 bps YoY to 70%. Going forward, company's thrust on aggressively launching new products, venturing in to new categories and investment in existing brand in other FMCG business is expected to drive the revenue growth. The company is strategically reducing its dependence on cigarettes and investing in new growth drivers while improvement in operating leverage and cost efficiency measures taken by the company is likely give cushion to the overall margin. For, cigarette business decisive pricing action is needed however stable tax outlook makes us positive on ITC. We have kept our sales and PAT estimates for FY20e largely unchanged and maintain our ACCUMULATE rating with the same target price of Rs 340.

## Key Risk to our rating and target

- ❑ Possibility of increase in Cess going forwards.

KEY FINANCIAL/VALUATIONS	FY16	FY17	FY18	FY19	FY20E
Net Sales	39,192	42,777	43,449	48,353	53,153
EBITDA	14,451	15,436	16,483	18,406	21,310
EBIT	13,373	14,283	15,247	17,010	19,798
PAT	9,501	10,477	11,220	12,592	15,218
EPS (Rs)	8	9	9	10	12
EPS growth (%)	-2%	10%	9%	9%	21%
ROE (%)	22%	23%	22%	21%	24%
ROCE (%)	31%	31%	29%	29%	32%
BV	35	38	43	48	51
P/B (X)	6.1	5.9	6.5	6.0	5.7
P/E (x)	27.4	26.3	29.7	28.2	23.4

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**4QFY19 Results****Mixed numbers**

<i>Financials</i>	<i>4QFY18</i>	<i>1QFY19</i>	<i>2QFY19</i>	<i>3QFY19</i>	<i>4QFY19</i>	<i>YoY %</i>	<i>QoQ%</i>	<i>FY18</i>	<i>FY19</i>	<i>YoY %</i>
Net Sales	10,587	10,707	11,069	11,228	11,992	<b>13.3%</b>	<b>6.8%</b>	43,449	48,353	<b>11.3%</b>
Other Income	517	404	504	836	740	<b>43.3%</b>	<b>-11.5%</b>	1,832	2,174	<b>18.7%</b>
COGS	4,001	4,109	4,280	4,301	4,616	<b>15.4%</b>	<b>7.3%</b>	15,855	17,420	<b>9.9%</b>
Gross Margin	62%	62%	61%	62%	62%	<b>-0.7%</b>	<b>-0.2%</b>	64%	64%	<b>0.5%</b>
Empl. Cost	611	743	596	629	760	<b>24.3%</b>	<b>20.8%</b>	3,761	4,178	<b>11.1%</b>
Other Exp.	1,830	1,653	1,987	1,972	2,045	<b>11.7%</b>	<b>3.7%</b>	7,350	8,348	<b>13.6%</b>
EBITDA	4,144	4,202	4,206	4,326	4,572	<b>10.3%</b>	<b>5.7%</b>	16,483	18,406	<b>11.7%</b>
EBITDA Mar.	39%	39%	38%	39%	38%	<b>-1.0%</b>	<b>-0.4%</b>	38%	38%	<b>0.1%</b>
Depreciation	304	299	327	335	350	<b>15.2%</b>	<b>4.4%</b>	1,236	1,397	<b>13.0%</b>
EBIT	3,840	3,903	3,879	3,990	4,221	<b>9.9%</b>	<b>5.8%</b>	15,247	17,010	<b>11.6%</b>
Interest	23	7	14	6	8	<b>-66.7%</b>	<b>38.0%</b>	90	45	<b>-49.5%</b>
PBT	4,333	4,300	4,369	4,821	4,954	<b>14.3%</b>	<b>2.8%</b>	17,402	19,138	<b>10.0%</b>
Excep. Item	-	-	-	-	-	-	-	413	-	-
Tax	1,401	1,481	1,414	1,612	1,472	<b>5.1%</b>	<b>-8.7%</b>	5,916	6,314	<b>6.7%</b>
PAT	2,933	2,819	2,955	3,209	3,482	<b>18.7%</b>	<b>8.5%</b>	11,485	12,824	<b>11.7%</b>
PAT Margin	28%	26%	27%	29%	29%	<b>1.3%</b>	<b>0.5%</b>	26%	26%	<b>-0.4%</b>

**ITC's different segments performance****Segment Revenue:**

Segments	<i>1QFY18</i>	<i>2QFY18</i>	<i>3QFY18</i>	<i>4QFY18</i>	<i>1QFY19</i>	<i>2QFY19</i>	<i>3QFY19</i>	<i>4QFY19</i>
Cigarettes	5,005	4,554	4,629	4,936	5,128	5,026	5,073	5,486
Others FMCG	2,601	2,804	2,872	3,052	2,870	3,160	3,201	3,274
FMCG	7,606	7,358	7,501	7,988	7,998	8,186	8,274	8,760
Agri Business	2,761	1,968	1,531	1,808	3,151	2,220	1,925	2,101
Paperboards, Paper & Packaging	1,292	1,309	1,280	1,301	1,356	1,424	1,543	1,537
Hotels	305	300	404	408	341	363	452	510
Total	11,963	10,936	10,716	11,505	12,846	12,193	12,193	12,908

**Segment Growth:**

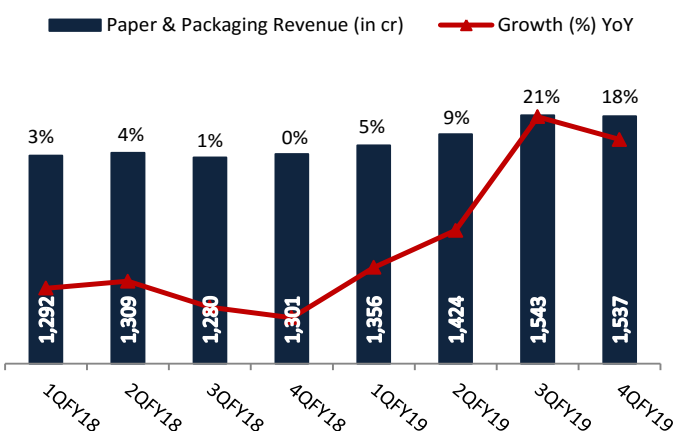
Segments	<i>1QFY18</i>	<i>2QFY18</i>	<i>3QFY18</i>	<i>4QFY18</i>	<i>1QFY19</i>	<i>2QFY19</i>	<i>3QFY19</i>	<i>4QFY19</i>
Cigarettes	-2%	-2%	14%	-4%	2%	10%	10%	11%
Others FMCG	9%	5%	12%	6%	10%	13%	11%	7%
FMCG	2%	0%	13%	-1%	5%	11%	10%	10%
Agri Business	-1%	5%	-8%	-6%	14%	13%	26%	16%
Paperboards, Paper & Packaging	3%	4%	1%	0%	5%	9%	21%	18%
Hotels	6%	1%	9%	6%	12%	21%	12%	25%
Total	1%	2%	8%	-1%	7%	11%	14%	12%

**Segments EBIT Margin:**

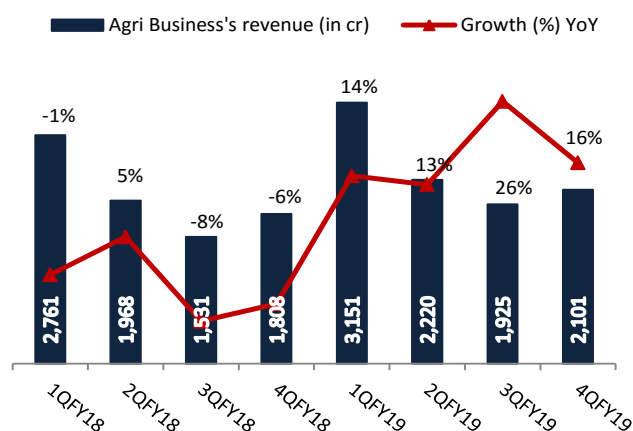
Segments	<i>1QFY18</i>	<i>2QFY18</i>	<i>3QFY18</i>	<i>4QFY18</i>	<i>1QFY19</i>	<i>2QFY19</i>	<i>3QFY19</i>	<i>4QFY19</i>
Cigarettes	65%	72%	71%	71%	69%	71%	70%	70%
Others FMCG	0%	1%	2%	3%	2%	2%	2%	4%
FMCG	43%	45%	44%	45%	45%	44%	44%	46%
Agri Business	9%	13%	15%	7%	6%	11%	10%	7%
Paperboards, Paper & Packaging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

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

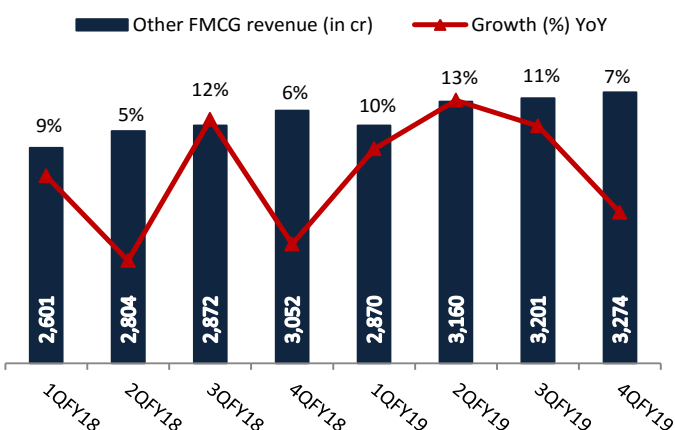
Paper & Packaging business (contributing ~12%) grew on back of higher volumes & improved realisation.

**Exhibit: Agri business and Growth(%)**

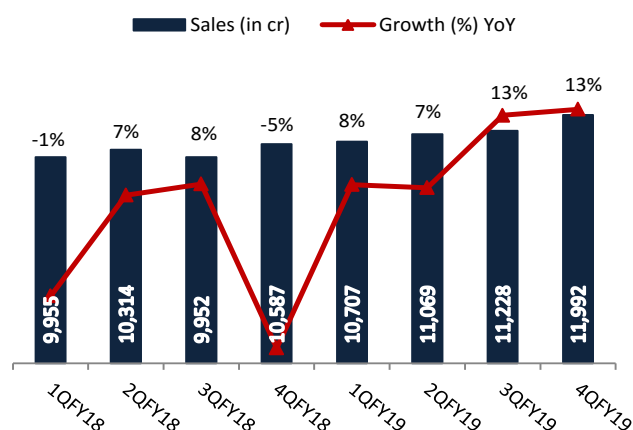
Agri Business (contributing ~16%) growth was led by trading opportunities in Oilseeds, Wheat & Coffee.

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

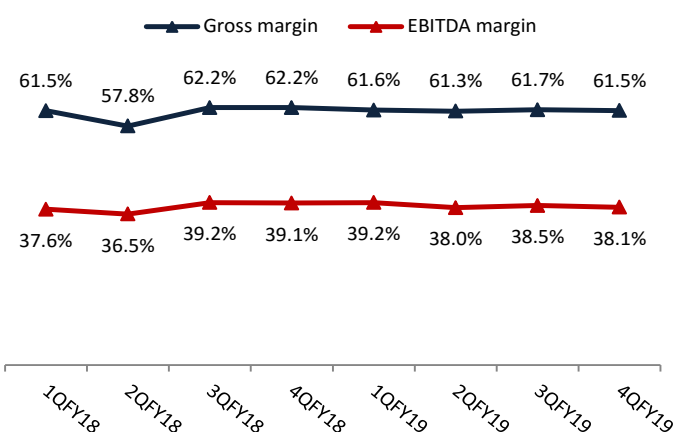
Other FMCG (contributing ~25%) growth rate impacted by ongoing restructuring in Lifestyle Retailing Business.

**Exhibit: Sales and Sales Growth**

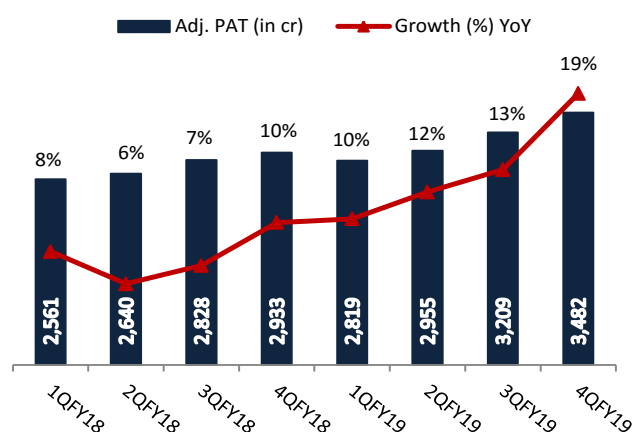
Sales growth was mainly driven by Cigarette, Agri Business, Hotels and Paperboards segments.

**Exhibit: Gross and EBITDA Margin**

Gross margin contracted by 69 bps YoY to 61.5% while EBITDA margin declined by 102 bps YoY to 38.1%.

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

PAT growth was led by better product mix in other FMCG & improved realization in Paperboards.



## Financial Details

## Balance Sheet

Y/E March	FY13	FY14	FY15	FY16	FY17	FY18	FY19	FY20E
Share Capital	790	795	802	805	1,215	1,220	1,226	1,226
Reserves	22,368	26,442	30,934	41,875	45,198	51,290	57,915	61,305
<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>59,141</b>	<b>62,530</b>
Debt	91	227	256	71	38	29	10	6
Other Non Current Liab	1,399	1,481	1,810	2,066	2,096	2,183	2,294	2,294
<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>59,151</b>	<b>62,536</b>
<b>Net Fixed Assets (incl CWIP)</b>	<b>14,202</b>	<b>16,039</b>	<b>18,003</b>	<b>17,666</b>	<b>19,623</b>	<b>22,032</b>	<b>23,511</b>	<b>26,072</b>
Non Current Investments	814	799	808	5,126	6,694	11,484	11,696	11,696
Other Non Current Assets	1,272	1,466	1,605	4,037	3,357	4,318	4,816	2,431
<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>40,051</b>	<b>40,228</b>
Inventory	7,522	8,255	8,587	9,062	8,671	7,495	7,860	8,640
Debtors	1,396	2,439	1,982	1,917	2,474	2,682	4,035	4,436
Cash & Bank	3,828	3,490	7,896	6,063	2,967	2,900	4,152	6,787
Other Current Assets	6,320	8,396	7,109	7,820	12,156	13,317	15,700	16,087
<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>31,747</b>	<b>35,949</b>
Creditors	1,772	2,106	2,020	2,339	2,659	3,496	3,510	3,858
Provisions	5,194	5,956	6,162	71	61	64	51	56
Other Current Liabilities	3,560	3,673	3,782	4,204	4,381	5,673	6,449	7,089
<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>10,010</b>	<b>11,004</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>21,737</b>	<b>24,945</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>71,798</b>	<b>76,177</b>

## Income Statement

Y/E March	FY13	FY14	FY15	FY16	FY17	FY18	FY19	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>48,353</b>	<b>53,153</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>18,406</b>	<b>21,310</b>
Change (%)		17%	9%	2%	7%	7%	12%	16%
<b>Margin (%)</b>	<b>35%</b>	<b>37%</b>	<b>37%</b>	<b>37%</b>	<b>36%</b>	<b>38%</b>	<b>38%</b>	<b>40%</b>
Depr & Amor.	859	965	1,028	1,077	1,153	1,236	1,397	1,511
<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>17,010</b>	<b>19,798</b>
Int. & other fin. Cost	87	6	68	54	24	90	45	45
Other Income	878	971	1,257	1,531	1,762	1,832	2,174	2,280
<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>19,138</b>	<b>22,033</b>
Exp Item	-	-	-	-	-	413	-	-
Tax	3,412	4,061	4,596	5,358	5,549	5,916	6,314	6,826
Minority Int & P/L share of Ass.	107	120	128	8	6	8	255	12
<b>Reported PAT</b>	<b>7,608</b>	<b>8,891</b>	<b>9,663</b>	<b>9,501</b>	<b>10,477</b>	<b>11,493</b>	<b>12,592</b>	<b>15,218</b>
<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>12,592</b>	<b>15,218</b>
Change (%)		17%	9%	-2%	10%	10%	10%	21%
<b>Margin(%)</b>	<b>24%</b>	<b>25%</b>	<b>25%</b>	<b>24%</b>	<b>24%</b>	<b>26%</b>	<b>26%</b>	<b>29%</b>

## Financial Details

## Key Ratios

Y/E March	FY13	FY14	FY15	FY16	FY17	FY18	FY19	FY20E
ROE	33%	33%	30%	22%	23%	22%	21%	24%
ROCE	44%	44%	41%	31%	31%	29%	29%	32%
Asset Turnover	1	1	1	1	1	1	1	1
Debtor Days	16	25	19	18	21	23	30	30
Inv Days	87	85	81	84	74	63	59	59
Payable Days	20	22	19	22	23	29	26	26
Int Coverage	118	1,897	193	250	588	170	374	440
P/E	28	29	29	27	26	30	28	23
Price / Book Value	9	10	9	6	6	7	6	6
EV/EBITDA	12	13	13	12	18	21	19	16
FCF per Share	6	6	8	9	6	8	8	12
Div Yield	0	0	0	0	2.5%	1.7%	1.8%	2.8%

## 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	19,138	22,033
(inc)/Dec in Working Capital	(1,101)	(1,844)	31	(277)	44	1,736	(900)	1,964
Non Cash Op Exp	615	720	715	1,182	927	907	1,171	1,522
Int Paid (+)	87	6	68	54	24	90	45	45
Tax Paid	(3,015)	(3,984)	(4,449)	(5,078)	(5,492)	(6,000)	(6,314)	(6,826)
others	(590)	(606)	(885)	(941)	(903)	(973)	9	-
<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>13,150</b>	<b>18,738</b>
(inc)/Dec in FA & CWIP	(2,644)	(2,887)	(3,300)	(2,348)	(3,122)	(2,878)	(2,875)	(4,073)
Free Cashflow	4,458	4,456	6,543	7,451	7,506	10,291	10,275	14,665
(Pur)/Sale of Inv	(561)	(950)	916	(3,438)	(4,649)	(3,313)	(2,991)	(153)
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>(5,866)</b>	<b>(4,226)</b>
inc/(dec) in NW	922	691	979	532	1,067	913	1,582	-
inc/(dec) in Debt	(12)	(9)	(14)	(13)	(13)	2	(19)	(4)
Int. Paid	(71)	(48)	(16)	(28)	(25)	(49)	(45)	(45)
Div Paid (inc tax)	(4,163)	(4,927)	(5,688)	(6,125)	(8,333)	(7,088)	(7,549)	(11,829)
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>(6,031)</b>	<b>(11,878)</b>
Inc(Dec) in Cash	(90)	(32)	(93)	266	75	(166)	1,253	2,635
<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>4,152</b>
Closing Balance	309	276	183	264	339	174	4,152	6,787

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