

Industry	Consum. Staples
Bloomberg	ITC IN
BSE CODE	500875

## Improvement in Cigarette business margin surprised positively

RATING	ACCUMULATE
CMP	265
Price Target	298
Potential Upside	13%

Rating Change	↑
Estimate Change	↔
Target Change	↔

### Stock Info

52wk Range H/L	323/263
Mkt Capital (Rs Cr)	324,753
Free float (%)	75%
Avg. Vol 1M (,000)	11,498
No. of Shares (Cr)	1,226
Promoters Pledged %	NA

### Research Analyst

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### 1QFY20 Result update

- ITC reported numbers largely in line with estimates; posted sales growth of 6% to Rs 11,503 cr (vs. Rs 11,669 cr) majorly led by strong growth in Paperboards, Hotels and FMCG-Others.
- Other FMCG (contri. 22% to Revenue) performed strongly, posted 7% revenue growth in spite of subdued market led by Atta, Potato chips, Premium cream biscuits & Noodles in the branded packaged foods business, Liquids in Personal Care and Notebooks in the Education & Stationery business.
- Other segments revenue growth: Cigarettes (contri. 39% to Revenue) grew by ~6%, Hotels (contri. 3% to Revenue) grew by ~15%, Agri Business (contri. 26% to Revenue) grew by ~15% and Paperboards Business (contri. 11% to Revenue) grew by ~13%.(revenue contribution as per Q1FY20)
- The company's EBITDA margin has expanded by 105 bps to 39.7% (vs expect. 39.9%); driven by improved gross margin, impact of Ind-AS 116 and enhanced product mix.
- PAT stood at Rs 3174 cr (vs. Rs 3080 cr), posting a YoY growth of 12.6% backed by improvement in margin.

### View and Valuation

ITC's numbers for Q1FY20 remained largely in line to our estimates, sales grew by 6% YoY to Rs 11503 cr(expec. Rs 11669 cr) while PAT grew by 13% YoY to Rs 3174 cr(vs expect. Rs 3080 cr). Cigarette volume as per our calculation suggest a growth of ~3% in Q1FY20. Positive for the quarter remained Cigarette EBIT margin which improved by 145 bps after three quarters of decline. Going forward, company's thrust on aggressive launch of new products, venturing out in to new categories and investment in existing brands in other FMCG business is expected to drive growth. While Improvement in margin of other FMCG and benefits of operating leverage is expected to help in stable margin going ahead. We keep close eye on the margin of cigarette business going forward. Presently, we kept our estimates largely the same whereas recent correction in the prices of the company prompted us change our rating from HOLD to ACCUMULATE with previous target price of 298.

### Key Risk to our rating and target

- A possible increase in duties in subsequent Council meetings .
- Deterioration in cigarette business margin.

Stand./Fig in Rs Cr

KEY FINANCIAL/VALUATIONS	FY17	FY18	FY19	FY20E	FY21E
Net Sales	42,777	43,449	49,862	53,300	58,688
EBITDA	15,436	16,483	18,406	21,071	23,247
EBIT	14,283	15,247	17,010	19,553	21,544
PAT	10,477	11,220	12,592	13,388	14,469
EPS (Rs)	9	9	10	11	12
EPS growth (%)	10%	9%	9%	6%	8%
ROE (%)	23%	22%	21%	22%	22%
ROCE (%)	31%	29%	29%	31%	33%
BV	38	43	48	51	53
P/B (X)	5.9	6.5	6.0	5.2	5.0
P/E (x)	26.3	29.7	28.2	24.2	22.4

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## 1QFY20 Results

### Largely Inline with estimates

Financials	Stand./Fig in Rs Cr									
	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20	YoY %	QoQ%	FY18	FY19	YoY %
Net Sales	10,875	11,069	11,228	12,206	11,503	5.8%	-5.8%	43,449	49,862	14.8%
Other Income	404	504	836	740	620	53.6%	-16.2%	1,832	2,174	18.7%
COGS	4,109	4,280	4,301	4,616	4,140	0.7%	-10.3%	15,855	17,420	9.9%
Gross Margin	62%	61%	62%	62%	64%	1.8%	1.8%	64%	65%	1.6%
Empl. Cost	743	596	629	760	690	-7.1%	-9.2%	3,761	4,178	11.1%
Other Exp.	1,820	1,987	1,972	2,259	2,107	15.8%	-6.7%	7,350	9,858	34.1%
EBITDA	4,202	4,206	4,326	4,572	4,566	8.7%	-0.1%	16,483	18,406	11.7%
EBITDA Mar.	39%	38%	39%	37%	40%	1.1%	2.2%	38%	37%	-1.0%
Depreciation	299	327	335	350	359	20.2%	2.5%	1,236	1,397	13.0%
EBIT	3,903	3,879	3,990	4,221	4,207	7.8%	-0.3%	15,247	17,010	11.6%
Interest	7	14	6	8	15	107.4%	96.6%	90	45	-49.5%
PBT	4,300	4,369	4,821	4,954	4,812	11.9%	-2.9%	17,402	19,138	10.0%
Excep. Item	-	-	-	-	-	-	-	413	-	-
Tax	1,481	1,414	1,612	1,472	1,638	10.6%	11.3%	5,916	6,314	6.7%
PAT	2,819	2,955	3,209	3,482	3,174	12.6%	-8.8%	11,485	12,824	11.7%
PAT Margin	26%	27%	29%	29%	28%	1.7%	-0.9%	26%	25%	-1.2%

## ITC's different segments performance

### Segment Revenue:

Segments	2QFY18	3QFY18	4QFY18	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20
Cigarettes	4,554	4,629	4,936	5,128	5,026	5,073	5,486	5,433
Others FMCG	2,804	2,872	3,052	2,870	3,160	3,201	3,274	3,060
Agri Business	1,968	1,531	1,808	3,151	2,220	1,925	2,101	3,611
Paperboards,	1,309	1,280	1,301	1,356	1,424	1,543	1,537	1,528
Hotels	300	404	408	341	363	452	510	393
Total	10,936	10,716	11,505	12,846	12,193	12,193	12,908	14,025

### Segment Growth:

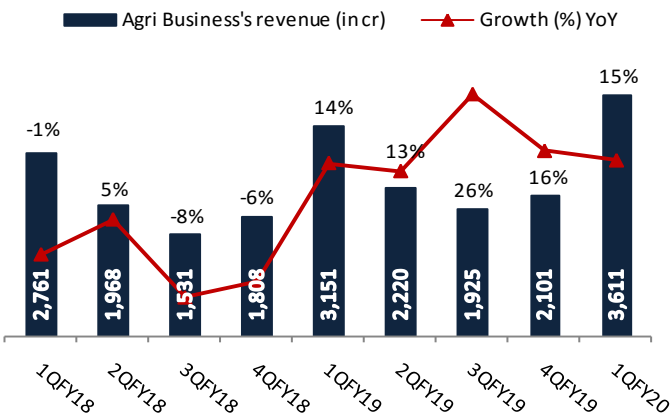
Segments	2QFY18	3QFY18	4QFY18	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20
Cigarettes	0%	17%	-3%	4%	10%	10%	11%	6%
Others FMCG	5%	12%	6%	10%	13%	11%	7%	7%
Agri Business	5%	-8%	-6%	14%	13%	26%	16%	15%
Paperboards,	-2%	-4%	-5%	0%	9%	21%	18%	13%
Hotels	1%	9%	6%	12%	21%	12%	25%	15%
Total	2%	8%	-1%	7%	11%	14%	12%	9%

### Segments EBIT Margin:

Segments	2QFY18	3QFY18	4QFY18	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20
Cigarettes	72%	71%	71%	69%	71%	70%	70%	71%
Others FMCG	1%	2%	3%	2%	2%	2%	6%	3%
Agri Business	13%	15%	7%	6%	11%	10%	7%	6%
Paperboards,	21%	21%	19%	22%	22%	22%	20%	22%
Hotels	1%	14%	18%	4%	4%	13%	17%	3%
Total	35%	36%	35%	32%	34%	35%	36%	32%

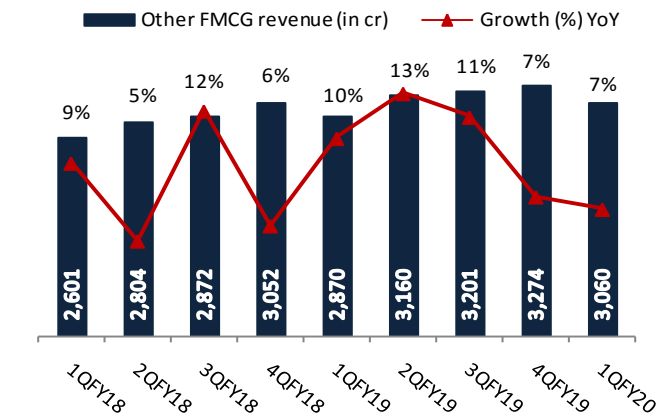
**Exhibit: Agri business and Growth(%)**

Agri Business (contri. ~26%) grew 15% backed by scaling up of value added part of the business.



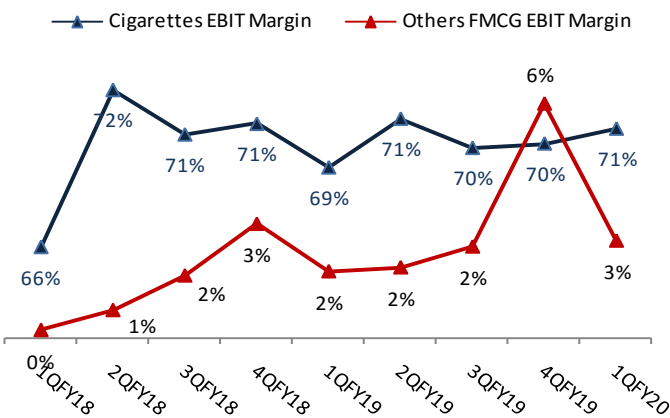
**Exhibit: Other FMCG revenue and Growth(%)**

Other FMCG (contributing ~22%) performed strongly, posted 7% revenue growth in spite of subdued market.



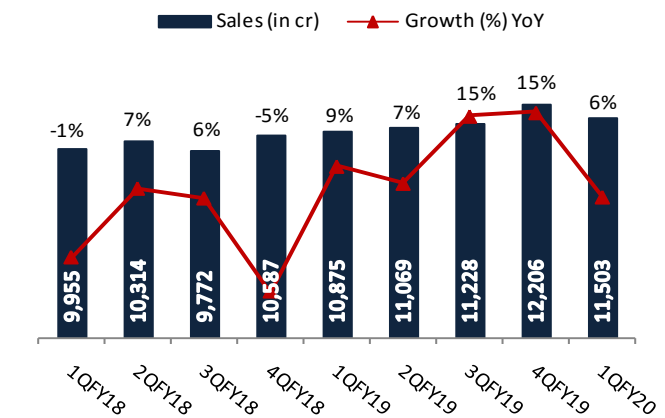
**Exhibit: Cigarettes & Others FMCG EBIT Margin(%)**

Cigarettes & Others FMCG EBIT Margin expanded by 145 bps & 80 bps respectively on YoY basis.



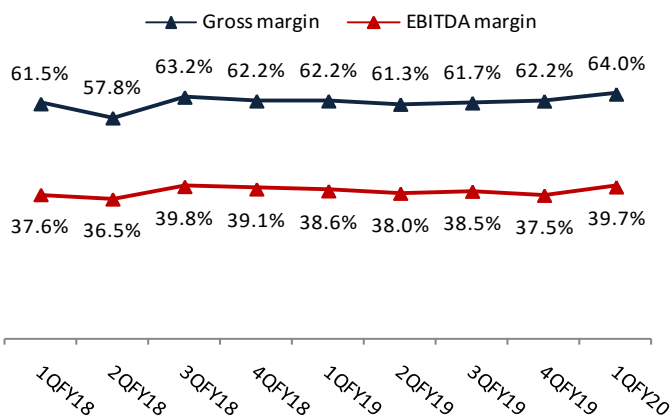
**Exhibit: Sales and Sales Growth**

Sales growth was mainly driven by strong growth in Paperboards, Hotels and FMCG-Others business.



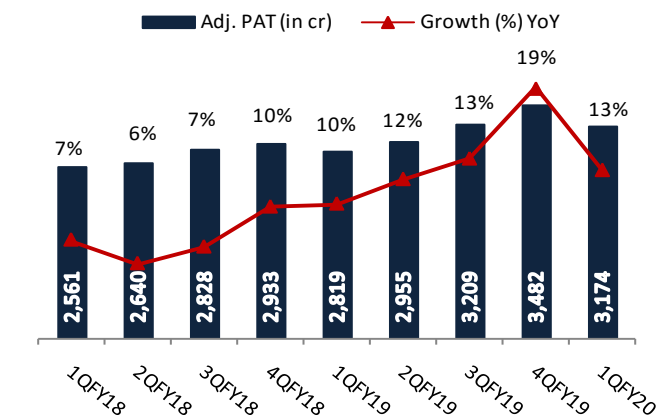
**Exhibit: Gross and EBITDA Margin**

Gross margin improved by 180 bps YoY to 64.0% & EBITDA margin improvement remained 105 bps to 39.7%.



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

PAT growth of 13% led by improved margins while PAT margin improved by 167 bps YoY.



## Financial Details

## Balance Sheet

Stand./Fig in Rs Cr

Y/E March	FY14	FY15	FY16	FY17	FY18	FY19	FY20E	FY21E
Share Capital	795	802	805	1,215	1,220	1,226	1,226	1,226
Reserves	26,442	37,533	41,875	45,198	51,290	57,915	60,897	64,120
<b>Networth</b>	<b>27,237</b>	<b>38,335</b>	<b>42,680</b>	<b>46,413</b>	<b>52,510</b>	<b>59,141</b>	<b>62,123</b>	<b>65,345</b>
Debt	227	225	71	38	29	10	6	2
Other Non Current Liab	1,481	1,855	2,066	2,096	2,183	2,294	2,294	2,294
<b>Total Capital Employed</b>	<b>27,464</b>	<b>38,559</b>	<b>42,750</b>	<b>46,450</b>	<b>52,539</b>	<b>59,151</b>	<b>62,129</b>	<b>65,347</b>
Net Fixed Assets (incl CWIP)	16,039	17,134	17,666	19,623	22,032	23,511	26,303	28,998
Non Current Investments	799	1,413	5,126	6,694	11,484	11,696	11,696	11,696
Other Non Current Assets	1,466	3,638	4,037	3,357	4,379	4,845	4,845	4,845
<b>Non Current Assets</b>	<b>18,303</b>	<b>22,185</b>	<b>26,829</b>	<b>29,674</b>	<b>37,895</b>	<b>40,051</b>	<b>42,843</b>	<b>45,538</b>
Inventory	8,255	8,507	9,062	8,671	7,495	7,860	8,401	9,251
Debtors	2,439	1,978	1,917	2,474	2,682	4,035	4,314	4,750
Cash & Bank	3,490	6,571	6,063	2,967	2,900	4,152	3,393	3,459
Other Current Assets	8,396	7,306	7,820	12,156	13,317	15,700	16,515	16,769
<b>Current Assets</b>	<b>22,581</b>	<b>24,362</b>	<b>24,863</b>	<b>26,269</b>	<b>26,394</b>	<b>31,747</b>	<b>32,623</b>	<b>34,229</b>
Creditors	2,106	1,977	2,339	2,659	3,496	3,510	3,752	4,131
Provisions	5,956	90	71	61	64	51	55	60
Other Current Liabilities	3,673	3,841	4,204	4,381	5,673	6,449	6,894	7,591
<b>Curr Liabilities</b>	<b>11,736</b>	<b>5,908</b>	<b>6,615</b>	<b>7,102</b>	<b>9,233</b>	<b>10,010</b>	<b>10,700</b>	<b>11,782</b>
<b>Net Current Assets</b>	<b>10,845</b>	<b>18,455</b>	<b>18,248</b>	<b>19,167</b>	<b>17,161</b>	<b>21,737</b>	<b>21,923</b>	<b>22,447</b>
<b>Total Assets</b>	<b>40,884</b>	<b>46,547</b>	<b>51,692</b>	<b>55,943</b>	<b>64,289</b>	<b>71,798</b>	<b>75,467</b>	<b>79,767</b>

## Income Statement

Stand./Fig in Rs Cr

Y/E March	FY14	FY15	FY16	FY17	FY18	FY19	FY20E	FY21E
Revenue from Operation	35,317	38,835	39,192	42,777	43,449	49,862	53,300	58,688
Change (%)	12%	10%	1%	9%	2%	15%	7%	10%
<b>EBITDA</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>21,071</b>	<b>23,247</b>
Change (%)	17%	9%	2%	7%	7%	12%	14%	10%
Margin (%)	37%	37%	37%	36%	38%	37%	40%	40%
Depr & Amor.	965	1,028	1,077	1,153	1,236	1,397	1,518	1,703
<b>EBIT</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>19,553</b>	<b>21,544</b>
Int. & other fin. Cost	6	68	54	24	90	45	58	51
Other Income	971	1,257	1,531	1,762	1,832	2,174	2,429	2,433
<b>EBT</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>19,983</b>	<b>21,595</b>
Exp Item	-	-	-	-	413	-	-	-
Tax	4,061	4,596	5,358	5,549	5,916	6,314	6,594	7,126
Minority Int & P/L share of Ass.	120	128	8	6	8	255	-	-
Reported PAT	8,891	9,663	9,501	10,477	11,493	12,592	13,388	14,469
<b>Adjusted PAT</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>13,388</b>	<b>14,469</b>
Change (%)	17%	9%	-2%	10%	10%	10%	6%	8%
Margin(%)	25%	25%	24%	24%	26%	25%	25%	25%

## Financial Details

## Key Ratios

Y/E March	FY14	FY15	FY16	FY17	FY18	FY19	FY20E	FY21E
ROE	33%	25%	22%	23%	22%	21%	22%	22%
ROCE	44%	34%	31%	31%	29%	29%	31%	33%
Asset Turnover	1	1	1	1	1	1	1	1
Debtor Days	25	19	18	21	23	30	30	30
Inv Days	85	80	84	74	63	58	58	58
Payable Days	22	19	22	23	29	26	26	26
Int Coverage	1,897	193	250	588	170	374	336	422
P/E	29	29	27	26	30	28	24	22
Price / Book Value	10	9	6	6	7	6	5	5
EV/EBITDA	13	13	12	18	21	19	15	14
FCF per Share	6	8	9	6	8	8	8	9
Div Yield	1.8%	1.8%	1.9%	2.5%	1.7%	1.8%	2.7%	2.9%

## Cash Flow Statement

Stand./Fig in Rs Cr

Y/E March	FY14	FY15	FY16	FY17	FY18	FY19	FY20E	FY21E
PBT	13,052	14,362	14,859	16,026	17,409	19,150	19,983	21,595
(inc)/Dec in Working Capital	(1,844)	31	(277)	44	1,736	(494)	(292)	(458)
Non Cash Op Exp	720	715	1,182	927	907	1,007	1,518	1,703
Int Paid (+)	6	68	54	24	90	45	58	51
Tax Paid	(3,984)	(4,449)	(5,078)	(5,492)	(6,000)	(5,803)	(6,594)	(7,126)
others	(606)	(885)	(941)	(903)	(973)	(1,321)	-	-
<b>CF from Op. Activities</b>	<b>7,344</b>	<b>9,843</b>	<b>9,799</b>	<b>10,627</b>	<b>13,169</b>	<b>12,583</b>	<b>14,673</b>	<b>15,764</b>
(inc)/Dec in FA & CWIP	(2,887)	(3,300)	(2,348)	(3,122)	(2,878)	(3,169)	(4,310)	(4,398)
Free Cashflow	4,456	6,543	7,451	7,506	10,291	9,414	10,363	11,367
(Pur)/Sale of Inv	(950)	916	(3,438)	(4,649)	(3,313)	(1,732)	(653)	-
others	583	(2,890)	1,865	4,519	(923)	(644)	-	-
<b>CF from Inv. Activities</b>	<b>(3,254)</b>	<b>(5,275)</b>	<b>(3,921)</b>	<b>(3,251)</b>	<b>(7,114)</b>	<b>(5,546)</b>	<b>(4,963)</b>	<b>(4,398)</b>
inc/(dec) in NW	691	979	532	1,067	913	969	-	-
inc/(dec) in Debt	(9)	(14)	(13)	(13)	2	(18)	(4)	(4)
Int. Paid	(48)	(16)	(28)	(25)	(49)	(98)	(58)	(51)
Div Paid (inc tax)	(4,927)	(5,688)	(6,125)	(8,333)	(7,088)	(7,733)	(10,406)	(11,246)
others	171	78	21	4	1	11	-	-
<b>CF from Fin. Activities</b>	<b>(4,122)</b>	<b>(4,661)</b>	<b>(5,613)</b>	<b>(7,301)</b>	<b>(6,221)</b>	<b>(6,869)</b>	<b>(10,469)</b>	<b>(11,301)</b>
Inc(Dec) in Cash	(32)	(93)	266	75	(166)	169	(759)	66
<b>Add: Opening Balance</b>	<b>309</b>	<b>276</b>	<b>(2)</b>	<b>264</b>	<b>339</b>	<b>174</b>	<b>4,152</b>	<b>3,393</b>
Closing Balance	276	183	264	339	174	343	3,393	3,459

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Registration Details of Group entities: G. Raj & Company Consultants Ltd (G RAJ)-BSE Broker INZ260010731; NSDL DP: IN-DP-NSDL-371-2014 || Narnolia Commerze Limited (Formerly Microsec Commerze Ltd.)-MCX/NCDEX Commodities Broker: INZ000051636 || NarnoliaVeloX Advisory Ltd.- SEBI Registered PMS: INP000005109 || Eastwind Capital Advisors Pvt Ltd. (EASTWIND)-SEBI Registered Investment Adviser: INA300005439 || Narnolia Insurance Brokers Limited (Formerly Microsec Insurance Brokers Ltd.)-IRDA Licensed Direct Insurance Broker (Life & Non-Life) Certificate No. 134, License No. DB046/02 || Narnolia Securities Ltd. (NSL)-AMFI Registered Mutual Fund distributor: ARN 20558, PFRDA NPS POP: 27092018 || Narnolia Capital Advisors Pvt. Ltd. - RBI Registered NBFC:B.05.02568.

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