

Industry	Consum. Staples
Bloomberg	ITC IN
BSE CODE	500875

## Numbers inline, Cigarette business continues to shine

RATING	ACCUMULATE
CMP	249
Price Target	295
Potential Upside	18%

Rating Change	↔
Estimate Change	↔
Target Change	↔

### Stock Info

52wk Range H/L	310/234
Mkt Capital (Rs Cr)	305,872
Free float (%)	75%
Avg. Vol 1M (,000)	18,026
No. of Shares (Crs)	1,229
Promoters Pledged %	NA

### Research Analyst

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### 2QFY20 Result update

- ❑ ITC's number for 2QFY20 remained in line with our estimates. Sales grew by 5% YoY to Rs 11871 cr( vs expect. Rs 11783 cr)on the back of better growth in Cigarette, Hotel and Agri business.
- ❑ Cigarette ,Hotel and Agri business for the company grew by 6%,18% and 19% respectively while general FMCG business growth remained 4% impacted by general demand slow down and higher base (~13%).
- ❑ Gross margin expanded by 21 bps YoY to 62.2% while improvement in EBITDA margin remained 112 bps YoY to 38.4% backed by margin expansion in cigarette, other FMCG and Paperboards & packaging business.
- ❑ Improvement in Cigarette, Others FMCG and Paperboards& Packaging business PBIT margin remained 96,90 and 91 bps YoY to 72%,3% and 23% respectively while Agri and Hotel business witnessed margin deterioration of 121 and 21 bps to 9% and 4% respectively.
- ❑ EBITDA for the quarter grew by 8% YoY to Rs 4562 cr.
- ❑ The company has reported PAT growth of 36% YoY to Rs 4023 cr (vs our expect. Of Rs 4042 cr ) on the back of lower provisioning of Taxes to 16.3% of PBT (vs 32.4% in 2QFY19) and higher other income. Other income grew by 30% YoY to Rs 654 cr.(All points on Standalone numbers)

### View and Valuation

ITC's numbers remained inline with our estimates, Cigarette business continues to do well for the company with margin improvement. Going forward, company's thrust on aggressive launch of new products, venturing out in to new categories and investment in existing brands is expected to drive revenue growth. While Improvement in margin of other FMCG and benefits of operating leverage is expected to boost margin. We continue to remain positive on ITC with ACCUMULATE rating on it and a target price of Rs 295.

### Key Risk to our rating and target

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

Conso./Fig in Rs Cr

KEY FINANCIAL/VALUATIONS	FY17	FY18	FY19	FY20E	FY21E
Net Sales	42,777	43,449	49,862	52,927	58,617
EBITDA	15,436	16,483	18,406	21,007	23,040
EBIT	14,283	15,247	17,010	19,489	21,337
PAT	10,477	11,220	12,592	14,632	15,243
EPS (Rs)	9	9	10	12	12
EPS growth (%)	10%	9%	9%	16%	4%
ROE (%)	23%	22%	21%	22%	21%
ROCE (%)	31%	29%	29%	30%	30%
BV	38	43	48	53	58
P/B (X)	5.9	6.5	6.0	4.7	4.3
P/E (x)	26.3	29.7	28.2	20.9	20.1

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## 2QFY20 Results

### Inline with estimates

Financials	Stand./Fig in Rs Cr									
	2QFY19	3QFY19	4QFY19	1QFY20	2QFY20	YoY %	QoQ%	FY18	FY19	YoY %
Net Sales	11,273	11,228	12,206	11,503	11,871	5.3%	3.2%	43,449	49,862	14.8%
Other Income	504	836	740	620	654	29.8%	5.5%	1,832	2,174	18.7%
COGS	4,280	4,301	4,616	4,140	4,482	4.7%	8.3%	15,855	17,420	9.9%
Gross Margin	62%	62%	62%	64%	62%	0.2%	-1.8%	64%	65%	1.6%
Empl. Cost	596	629	760	690	632	6.0%	-8.4%	3,761	4,178	11.1%
Other Exp.	2,191	1,972	2,259	2,107	2,195	0.2%	4.2%	7,350	9,858	34.1%
EBITDA	4,206	4,326	4,572	4,566	4,562	8.5%	-0.1%	16,483	18,406	11.7%
EBITDA Mar.	37%	39%	37%	40%	38%	1.1%	-1.3%	38%	37%	-1.0%
Depreciation	327	335	350	359	396	20.8%	10.2%	1,236	1,397	13.0%
EBIT	3,879	3,990	4,221	4,207	4,167	7.4%	-1.0%	15,247	17,010	11.6%
Interest	14	6	8	15	13	-1.3%	-12.4%	90	45	-49.5%
PBT	4,369	4,821	4,954	4,812	4,808	10.0%	-0.1%	17,402	19,138	10.0%
Excep. Item	-	-	-	-	-	-	-	413	-	-
Tax	1,414	1,612	1,472	1,638	785	-44.5%	-52.1%	5,916	6,314	6.7%
PAT	2,955	3,209	3,482	3,174	4,023	36.2%	26.8%	11,485	12,824	11.7%
PAT Margin	26%	29%	29%	28%	34%	7.7%	6.3%	26%	25%	-1.2%

## ITC's different segments performance

### Segment Revenue:

Segments	Stand./Fig in Rs Cr								
	3QFY18	4QFY18	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20	2QFY20	
Cigarettes	4,629	4,936	5,128	5,026	5,073	5,486	5,433	5,327	
Others FMCG	2,872	3,052	2,870	3,160	3,201	3,274	3,060	3,288	
Agri Business	1,531	1,808	3,151	2,220	1,925	2,101	3,611	2,648	
Paperboards, Paper & Packaging	1,280	1,301	1,356	1,424	1,543	1,537	1,528	1,565	
Hotels	404	408	341	363	452	510	393	427	
Total	10,716	11,505	12,846	12,193	12,193	12,908	14,025	13,255	

### Segment Growth:

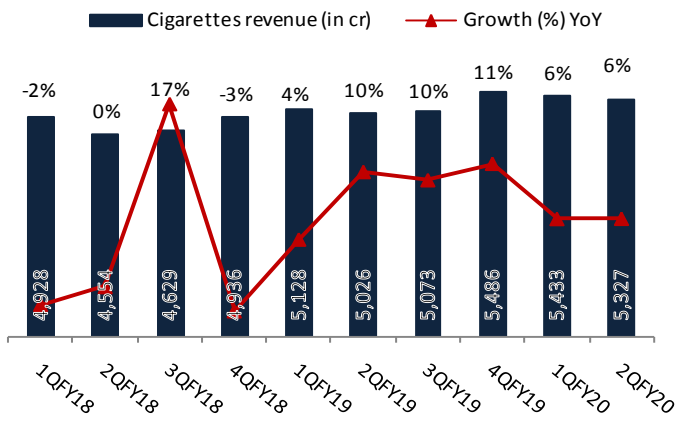
Segments	3QFY18	4QFY18	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20	2QFY20
Cigarettes	17%	-3%	4%	10%	10%	11%	6%	6%
Others FMCG	12%	6%	10%	13%	11%	7%	7%	4%
Agri Business	-8%	-6%	14%	13%	26%	16%	15%	19%
Paperboards, Paper & Packaging	-4%	-5%	0%	9%	21%	18%	13%	10%
Hotels	9%	6%	12%	21%	12%	25%	15%	18%
Total	8%	-1%	7%	11%	14%	12%	9%	9%

### Segments EBIT Margin:

Segments	3QFY18	4QFY18	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20	2QFY20
Cigarettes	71%	71%	69%	71%	70%	70%	71%	72%
Others FMCG	2%	3%	2%	2%	2%	6%	3%	3%
Agri Business	15%	7%	6%	11%	10%	7%	6%	9%
Paperboards, Paper & Packaging	21%	19%	22%	22%	22%	20%	22%	23%
Hotels	14%	18%	4%	4%	13%	17%	3%	4%
Total	36%	35%	32%	34%	35%	36%	32%	34%

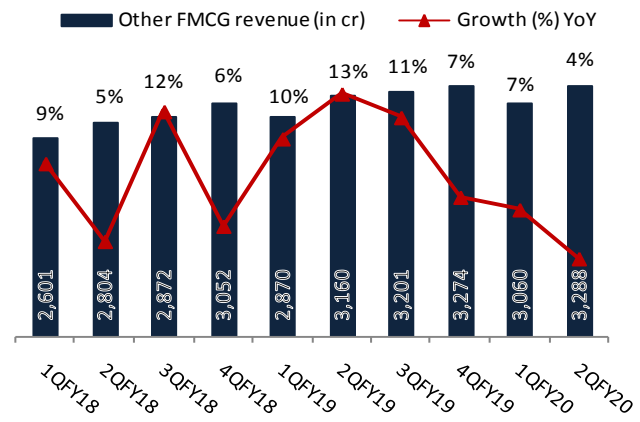
**Exhibit: Cigarettes revenue and Growth(%)**

Cigarette business continues to grow in spite of the higher base.



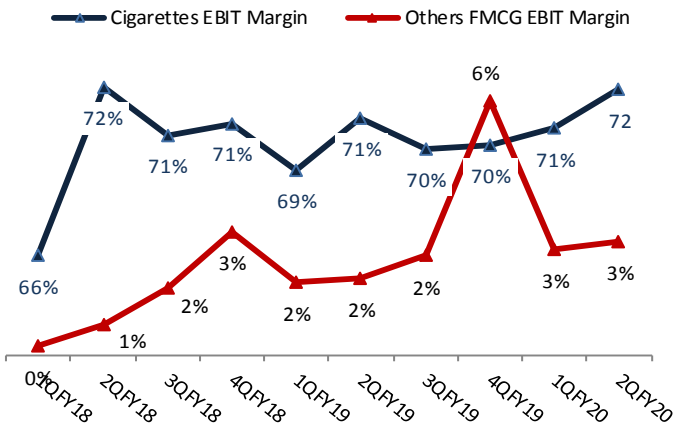
**Exhibit: Other FMCG revenue and Growth(%)**

General slowdown and higher base impacted the other FMCG business growth in this quarter.



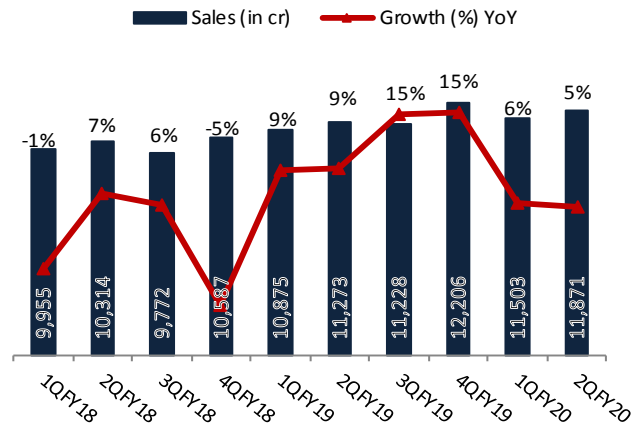
**Exhibit: Cigarettes & Others FMCG EBIT Margin(%)**

Positive remained continued expansion in the margins of Cigarette business for last 2 quarters.



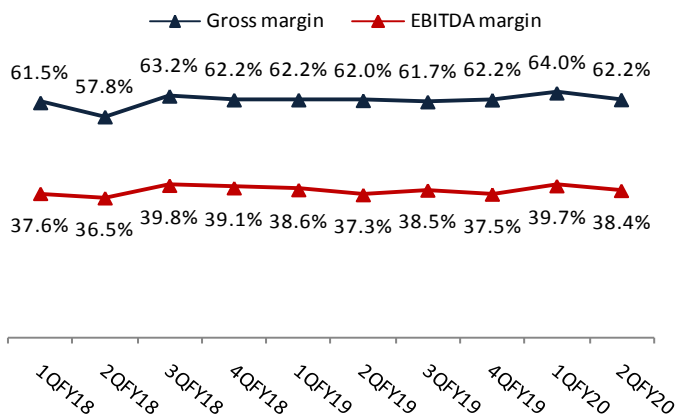
**Exhibit: Sales and Sales Growth**

sales grew by 5% YoY on the back of better growth in Cigarette, Hotel and Agri business.



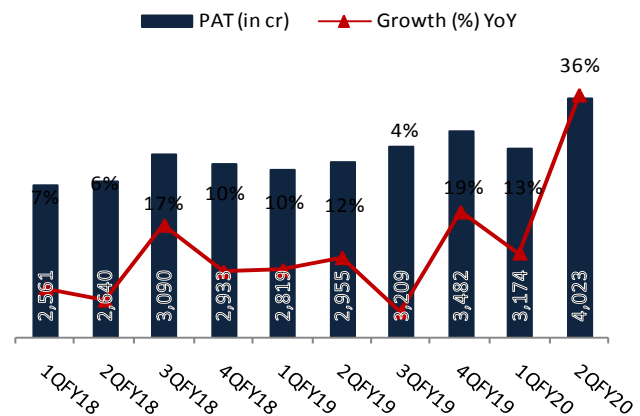
**Exhibit: Gross and EBITDA Margin**

Gross margin expanded by 21 bps YoY to 62.2% while improvement in EBITDA margin remained 112 bps.



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

PAT grew by 36% YoY to Rs 4023 cr backed by lower provis. of Taxes to 16.3% of PBT (vs 32.4% in 2QFY19)



## Financial Details

## Balance Sheet

Conso./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	1,229	1,229
Reserves	26,442	37,533	41,875	45,198	51,290	57,915	63,814	69,959
<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>65,042</b>	<b>71,188</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>65,048</b>	<b>71,190</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	8,343	9,240
Debtors	2,439	1,978	1,917	2,474	2,682	4,035	4,283	4,744
Cash & Bank	3,490	6,571	6,063	2,967	2,900	4,152	6,345	9,307
Other Current Assets	8,396	7,306	7,820	12,156	13,317	15,700	16,498	16,766
<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>35,468</b>	<b>40,057</b>
Creditors	2,106	1,977	2,339	2,659	3,496	3,510	3,725	4,126
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	6,846	7,582
<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>10,625</b>	<b>11,768</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>24,843</b>	<b>28,289</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>78,311</b>	<b>85,595</b>

## Income Statement

Conso./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	52,927	58,617
Change (%)	12%	10%	1%	9%	2%	15%	6%	11%
<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>21,007</b>	<b>23,040</b>
Change (%)	17%	9%	2%	7%	7%	12%	14%	10%
Margin (%)	37%	37%	37%	36%	38%	37%	40%	39%
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>19,489</b>	<b>21,337</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	3,266	2,795
<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>20,285</b>	<b>21,388</b>
Exp Item	-	-	-	-	413	-	-	-
Tax	4,061	4,596	5,358	5,549	5,916	6,314	5,652	6,144
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	14,632	15,243
<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>14,632</b>	<b>15,243</b>
Change (%)	17%	9%	-2%	10%	10%	10%	16%	4%
Margin(%)	25%	25%	24%	24%	26%	25%	28%	26%

## Financial Details

## Key Ratios

Y/E March	FY14	FY15	FY16	FY17	FY18	FY19	FY20E	FY21E
ROE	33%	25%	22%	23%	22%	21%	22%	21%
ROCE	44%	34%	31%	31%	29%	29%	30%	30%
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	335	418
P/E	29	29	27	26	30	28	21	20
Price / Book Value	10	9	6	6	7	6	5	4
EV/EBITDA	13	13	12	18	21	19	14	13
FCF per Share	6	8	9	6	8	8	9	10
Div Yield	1.8%	1.8%	1.9%	2.5%	1.7%	1.8%	2.4%	2.5%

## Cash Flow Statement

Conso./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	20,285	21,388
(inc)/Dec in Working Capital	(1,844)	31	(277)	44	1,736	(494)	(260)	(484)
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)	(5,652)	(6,144)
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>15,948</b>	<b>16,514</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	11,638	12,116
(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)	(8,733)	(9,098)
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>(8,796)</b>	<b>(9,153)</b>
Inc(Dec) in Cash	(32)	(93)	266	75	(166)	169	2,190	2,963
<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>6,345</b>
Closing Balance	276	183	264	339	174	343	6,342	9,307

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**Disclosure of Interest Statement-**

Analyst's ownership of the stocks mentioned in the Report	NIL
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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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