

Institutional Equity Research

ITC

FMCG | India

2QFY19 Result Update | October 29, 2018

CMP (Rs)	282
Bloomberg Ticker	ITC IN
Market Cap. (Rs bn)	3,439
Free Float (%)	68
Shares O/S (mn)	12,191

NOT RATED

Solid Quarter; Valuation Attractive

ITC has reported largely an in-line performance in Q2FY19 with an estimated cigarettes volume of ~7% YoY. Despite a robust YoY growth in cigarettes volume, cigarettes revenue declined by 2% QoQ. Further, EBIT growth at 9% YoY is slightly disappointing. Total EBIDTA growth stood at healthy 12% YoY helped by 77% growth in FMCG others segment. PAT grew by 12% YoY, in line with our estimate. At CMP, the stock trades at 25x FY20E earnings, which is reasonable considering the improving business performance. **We continue to maintain our positive stance on ITC.**

Key Quarterly Takeaways

Cigarettes Business Volumes Normalising: Cigarettes volumes grew by a healthy ~7% YoY, but on a low base of -7%. Segmental revenues grew by 10.4% YoY (lower than our estimate), as the price growth was lower. Considering 2% QoQ decline in revenues, we believe there has not been much improvement sequential growth in volume. The segment registered an EBIT growth of 9% YoY, as the cost increased by 14% YoY. Notably, the cigarettes volumes have started normalising after years of sluggishness, but the future continues to be uncertain. Whilst the volume growth ahead largely depends on taxation environment, the high growth of illicit cigarettes owing to high tax environment has markedly dented the legal cigarettes business.

Robust Growth in FMCG Others Segment: The FMCG others segment grew by 12.7% YoY to Rs31.6bn led by branded packaged foods business. Notably, Aashirvaad aata consolidated its leadership position, while the snacks business gained further traction and premium confectionery products i.e. Dark Fantasy Choco Fills witnessed further acceleration in momentum. Notwithstanding the rising input cost, the segmental EBIDTA grew by 77% YoY to Rs1.6bn.

Other Segments also Gain Traction: Hotels business registered a solid revenue growth of 21% YoY with all the key operating metrics registering an upbeat performance. Paper and Paperboards business grew by 9% YoY after reporting sluggish growth for a prolonged period. The paper business is impacted by the cigarettes business volume growth to an extent, which has seen recovery. EBIT growth of hotels business remained strong at 270% YoY, while the paper segment registered an EBIT growth of 13% YoY. Agri business was a mixed bag with higher revenues and lower EBIT YoY, as quarterly business fluctuations are difficult to predict.

EBIDTA & Earnings Growth Well-managed: Gross profit growth was strong at 13% YoY, while gross margins expanded by 330bps YoY notwithstanding the rising input cost. Total EBIDTA grew by 12% YoY to Rs42bn. Though the employee expenses remained well under control, other operating expenses increased significantly on YoY basis. With PAT at Rs29.55bn, the Company is well poised to meet the current year consensus expectations, in our view.

Outlook & Valuation

Overall, ITC reported a solid quarter with most businesses gaining traction. The cigarettes business still contributes to most of ITC's profitability and its future has become more uncertain in GST environment, as there could be imposition of cess or additional levies anytime during the year. However, the FMCG others business has gained scale and will drive profitability, going forward. At CMP, the stock trades at attractive valuations, which discounts the regulatory challenges of cigarettes business, but the other fast-growing businesses are undervalued. **We remain positive on ITC on attractive valuation and improving business prospects.**

Key Financials (Rs mn)	FY18E	FY19E	FY20E	FY21E
Net Sales	434,489	470,447	514,059	561,933
EBIDTA	164,830	179,477	198,205	218,415
Net Profit	110,722	122,992	137,769	152,341
EPS (Rs)	9.2	10.2	11.5	12.7
PER (x)	30.4	27.4	24.4	22.1
EV/EBIDTA (x)	20.2	18.4	16.7	15.0
ROE (%)	21.1	22.7	23.7	24.1

Source: Company, RSec Research

Share price (%)	1 mth	3 mth	12 mth
Absolute performance	(5.0)	(6.0)	6.5
Relative to Nifty	2.0	5.0	8.5

Shareholding Pattern (%)	Jun'18	Sep'18
Promoter	-	-
Public	100.0	100.0

1 Year Stock Price Performance



Naveen Kulkarni

Head of Research

Contact : (022) 3303 4660

Email : naveen.kulkarni@relianceada.com

Institutional Equity Research

ITC

FMCG | India

CMP* (Rs) 282

Bloomberg Ticker ITC IN

NOT RATED

Exhibit 1: Quarterly Performance

(Rs mn)	2QFY19	1QFY19	qoq growth %	2QFY18	yoy growth %	Reliance yoy growth expectations %
Volume growth est. (% yoy)	7.0	1.5		(7.0)		6.0
Price growth est. (%yoy)	3.0	10.0		12.0		
Net Sales	108,912	105,547	3.2	102,264	6.5	8.0
Gross Profits	66,116	64,453	2.6	58,700	12.6	7.1
Gross Margin (%)	60.7	61.1	(36)bps	57.4	330 bps	34 bps
Staff costs	5,963	7,430	(19.7)	6,065	(1.7)	(6.4)
Other operating expenses	19,869	16,526	20.2	15,897	25.0	8.5
EBITDA	42,060	42,021	0.1	37,615	11.8	13.0
EBITDA margin (%)	38.6	39.8	(119) bps	36.8	184 bps	107 bps
PBT	43,691	42,999	1.6	39,443	10.8	13.0
Tax rate (%)	32.4	34.4	(207) bps	33.1	(70) bps	
Adj. PAT	29,547	28,187	4.8	26,398	11.9	13.0

Source: Company, RSec Research

Institutional Equity Research

ITC

FMCG | India

CMP* (Rs) 282

Bloomberg Ticker ITC IN

NOT RATED
Profit & Loss Statement

Y/E Mar, Rs mn	FY18E	FY19E	FY20E	FY21E
Net sales	434,489	470,447	514,059	561,933
Growth, %	1.5	8.3	9.3	9.3
Other income	0	0	0	0
Total income	434,489	470,447	514,059	561,933
Raw material expenses	(158,555)	(168,871)	(181,970)	(198,463)
Employee expenses	(37,609)	(40,618)	(43,867)	(47,377)
Other Operating expenses	(73,496)	(81,481)	(90,017)	(97,678)
EBITDA (Core)	164,830	179,477	198,205	218,415
Growth, %	6.8	8.9	10.4	10.2
Margin, %	37.9	38.2	38.6	38.9
Depreciation	(12,363)	(13,630)	(14,787)	(16,082)
EBIT	152,467	165,847	183,418	202,334
Growth, %	6.7	8.8	10.6	10.3
Margin, %	35.1	35.3	35.7	36.0
Interest paid	(899)	(971)	(1,020)	(1,040)
Other Non-Operating Income	18,319	22,898	27,936	31,288
Pre-tax profit	169,886	187,774	210,334	232,582
Tax provided	(59,164)	(64,782)	(72,565)	(80,241)
Profit after tax	110,722	122,992	137,769	152,341
Net Profit	110,722	122,992	137,769	152,341
Growth, %	5.7	11.1	12.0	10.6
Net Profit (adjusted)	110,722	122,992	137,769	152,341
Unadj. shares (m)	12,023	12,023	12,023	12,023
Wtd avg shares (m)	12,023	12,023	12,023	12,023

Balance Sheet

Y/E Mar, Rs mn	FY18E	FY19E	FY20E	FY21E
Cash & bank	28,996	64,795	50,415	84,992
Debtors	26,823	21,911	23,942	26,172
Inventory	74,951	69,399	74,782	81,560
Loans & advances	71,267	71,267	51,807	51,807
Total current assets	201,118	226,454	200,028	243,612
Investments	220,529	220,529	220,529	220,529
Gross fixed assets	197,172	227,172	257,172	287,172
Less: Depreciation	(33,957)	(47,588)	(62,375)	(78,457)
Add: Capital WIP	55,083	37,299	37,299	37,299
Net fixed assets	218,298	216,883	232,096	246,014
Total assets	639,944	663,865	652,653	710,155
Current liabilities	92,090	99,341	49,672	54,146
Provisions	638	638	638	638
Total current liabilities	92,728	99,979	50,310	54,784
Non-current liabilities	22,115	22,115	22,115	22,115
Total liabilities	114,843	122,094	72,425	76,899
Paid-up capital	12,204	12,204	12,204	12,204
Reserves & surplus	512,897	529,567	568,023	621,052
Shareholders' equity	525,101	541,771	580,227	633,256
Total equity & liabilities	639,944	663,865	652,653	710,155

Institutional Equity Research

ITC

FMCG | India

CMP* (Rs) 282

Bloomberg Ticker ITC IN

NOT RATED

Cash Flow Statement

Y/E Mar, Rs mn	FY18E	FY19E	FY20E	FY21E
Pre-tax profit	169,886	187,774	210,334	232,582
Depreciation	12,363	13,630	14,787	16,082
Chg in working capital	12,265	17,714	(39,462)	(4,534)
Total tax paid	(58,722)	(64,782)	(72,565)	(80,241)
Cash flow from operating activities	134,691	153,144	124,421	165,063
Capital expenditure	(36,452)	(12,216)	(30,000)	(30,000)
Chg in investments	(50,265)	0	0	0
Cash flow from investing activities	(83,129)	(12,216)	(30,000)	(30,000)
Free cash flow	51,562	140,928	94,421	135,063
Equity raised/(repaid)	60,969	16,670	38,456	53,029
Dividend (incl. tax)	(99,312)	(106,406)	(99,312)	(99,312)
Cash flow from financing activities	(55,244)	(27,126)	(32,200)	(33,380)
Net chg in cash	(3,682)	113,802	62,220	101,683

Key Ratio

Y/E Mar	FY18E	FY19E	FY20E	FY21E
Per Share data				
EPS (INR)	9.2	10.2	11.5	12.7
Growth, %	5.7	11.1	12.0	10.6
Book NAV/share (INR)	43.7	45.1	48.3	52.7
FDEPS (INR)	9.2	10.2	11.5	12.7
CEPS (INR)	10.2	11.4	12.7	14.0
CFPS (INR)	9.8	10.9	7.2	11.0
DPS (INR)	7.1	7.6	7.1	7.1
Return ratios				
Return on assets (%)	18.6	19.0	21.0	22.4
Return on equity (%)	21.1	22.7	23.7	24.1
Return on capital employed (%)	21.5	22.2	23.7	24.3
Turnover ratios				
Asset turnover (x)	1.5	1.6	1.7	1.7
Sales/Total assets (x)	0.7	0.7	0.8	0.8
Sales/Net FA (x)	2.1	2.2	2.3	2.4
Working capital/Sales (x)	0.2	0.1	0.2	0.2
Working capital days	67.2	48.3	71.0	67.9
Liquidity ratios				
Current ratio (x)	2.2	2.3	4.0	4.5
Quick ratio (x)	1.4	1.6	2.5	3.0
Dividend cover (x)	1.3	1.3	1.6	1.8
Valuation				
PER (x)	30.4	27.4	24.4	22.1
Price/Book (x)	6.4	6.2	5.8	5.3
Yield (%)	2.5	2.7	2.5	2.5
EV/Net sales (x)	7.7	7.0	6.5	5.8
EV/EBITDA (x)	20.2	18.4	16.7	15.0
EV/EBIT (x)	21.9	19.9	18.1	16.2

Institutional Equity Research

ITC

FMCG | India

CMP* (Rs)	282
Bloomberg Ticker	ITC IN

NOT RATED

Rating Guides

Rating	Expected absolute returns (%) over 12 months
BUY	>10%
HOLD	-5% to 10%
REDUCE	>-5%

Reliance Securities Limited (RSL), the broking arm of Reliance Capital is one of the India's leading retail broking houses. Reliance Capital is amongst India's leading and most valuable financial services companies in the private sector. Reliance Capital has interests in asset management and mutual funds, life and general insurance, commercial finance, equities and commodities broking, wealth management services, distribution of financial products, private equity, asset reconstruction, proprietary investments and other activities in financial services. The list of associates of RSL is available on the website www.reliancecapital.co.in. RSL is registered as a Research Analyst under SEBI (Research Analyst) Regulations, 2014

General Disclaimers: This Research Report (hereinafter called 'Report') is prepared and distributed by RSL for information purposes only. The recommendations, if any, made herein are expression of views and/or opinions and should not be deemed or construed to be neither advice for the purpose of purchase or sale of any security, derivatives or any other security through RSL nor any solicitation or offering of any investment /trading opportunity on behalf of the issuer(s) of the respective security(ies) referred to herein. These information / opinions / views are not meant to serve as a professional investment guide for the readers. No action is solicited based upon the information provided herein. Recipients of this Report should rely on information/data arising out of their own investigations. Readers are advised to seek independent professional advice and arrive at an informed trading/investment decision before executing any trades or making any investments. This Report has been prepared on the basis of publicly available information, internally developed data and other sources believed by RSL to be reliable. RSL or its directors, employees, affiliates or representatives do not assume any responsibility for, or warrant the accuracy, completeness, adequacy and reliability of such information / opinions / views. While due care has been taken to ensure that the disclosures and opinions given are fair and reasonable, none of the directors, employees, affiliates or representatives of RSL shall be liable for any direct, indirect, special, incidental, consequential, punitive or exemplary damages, including lost profits arising in any way whatsoever from the information / opinions / views contained in this Report.

Risks: Trading and investment in securities are subject to market risks. There are no assurances or guarantees that the objectives of any of trading / investment in securities will be achieved. The trades/ investments referred to herein may not be suitable to all categories of traders/investors. The names of securities mentioned herein do not in any manner indicate their prospects or returns. The value of securities referred to herein may be adversely affected by the performance or otherwise of the respective issuer companies, changes in the market conditions, micro and macro factors and forces affecting capital markets like interest rate risk, credit risk, liquidity risk and reinvestment risk. Derivative products may also be affected by various risks including but not limited to counter party risk, market risk, valuation risk, liquidity risk and other risks. Besides the price of the underlying asset, volatility, tenor and interest rates may affect the pricing of derivatives.

Disclaimers in respect of jurisdiction: The possession, circulation and/or distribution of this Report may be restricted or regulated in certain jurisdictions by appropriate laws. No action has been or will be taken by RSL in any jurisdiction (other than India), where any action for such purpose(s) is required. Accordingly, this Report shall not be possessed, circulated and/or distributed in any such country or jurisdiction unless such action is in compliance with all applicable laws and regulations of such country or jurisdiction. RSL requires such recipient to inform himself about and to observe any restrictions at his own expense, without any liability to RSL. Any dispute arising out of this Report shall be subject to the exclusive jurisdiction of the Courts in India.

Disclosure of Interest: The research analysts who have prepared this Report hereby certify that the views /opinions expressed in this Report are their personal independent views/opinions in respect of the securities and their respective issuers. None of RSL, research analysts, or their relatives had any known direct /indirect material conflict of interest including any long/short position(s) in any specific security on which views/opinions have been made in this Report, during its preparation. RSL's Associates may have other potential/material conflict of interest with respect to any recommendation and related information and opinions at the time of publication of research report. RSL, its Associates, the research analysts, or their relatives might have financial interest in the issuer company(ies) of the said securities. RSL or its Associates may have received a compensation from the said issuer company(ies) in last 12 months for the brokerage or non brokerage services. RSL, its Associates, the research analysts or their relatives have not received any compensation or other benefits directly or indirectly from the said issuer company(ies) or any third party in last 12 months in any respect whatsoever for preparation of this report.

The research analysts has served as an officer, director or employee of the said issuer company(ies)?: No

RSL, its Associates, the research analysts or their relatives holds ownership of 1% or more, in respect of the said issuer company(ies).?: No

Copyright: The copyright in this Report belongs exclusively to RSL. This Report shall only be read by those persons to whom it has been delivered. No reprinting, reproduction, copying, distribution of this Report in any manner whatsoever, in whole or in part, is permitted without the prior express written consent of RSL.

RSL's activities were neither suspended nor have defaulted with any stock exchange with whom RSL is registered. Further, there does not exist any material adverse order/judgments/strictures assessed by any regulatory, government or public authority or agency or any law enforcing agency in last three years. Further, there does not exist any material enquiry of whatsoever nature instituted or pending against RSL as on the date of this Report.

Important These disclaimers, risks and other disclosures must be read in conjunction with the information / opinions / views of which they form part of.

RSL CIN: U65990MH2005PLC154052. SEBI registration no. (Stock Brokers: NSE - INB / INF / INE 231234833; BSE - INB / INF / INE 011234839, Depository Participants: CDSL IN-DP-257-2016 IN-DP-NSDL-363-2013, Research Analyst: INH000002384); AMFI ARN No.29889.