

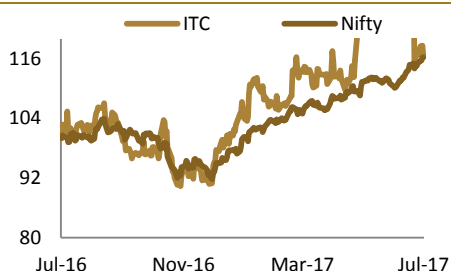
Market statistics

Current stock price (₹)	289
Shares O/S (cr.)	1216.2
Mcap (₹cr)	350,929
52W H/L (₹)	368/222
6m avg. volume	14,320,731
Bloomberg	ITC in

Shareholding pattern

Promoters	0.00
Domestic Institution	35.91
Foreign Institution	20.03
Non-institution	44.06
of which more than 1%	
Life Insurance Corporation of India	16.29
General Insurance Corporation of India	1.76

ITCvs Nifty



Capital efficiency & valuations

Particulars	FY17	FY18E	FY19E
RoE (%)	22.7	22.3	23.9
RoCE (%)	33.0	31.9	34.7
P/B (x)	7.3	7.1	6.6
EV/OCF (x)	30.1	30.2	26.5
EV/EBITDA (x)	20.7	20.8	17.8
P/E (x)	32.3	31.9	27.6

Associate

Ritu Chaudhary

+91-22 4224 5183

ritu.chaudhary@trustgroup.in

ITC, based on IND AS, has reported gross sales growth of 4.3% YoY to ₹137.2bn – lower than our expectation of 6.5%. Higher Excise duty of 28% Vs 24.3% of last year led to net Sales decline of 1% YoY to ₹99.5bn.

Gross sales for Cigarette, FMCG, Hotel, Agri and Paper business were at 6.6%, 9.0%, 6.1%, -1.2% & 2.8%, respectively.

Gross Margin expanded by 369bps YoY to 61.5%. Employee & Other expenses (% of sales) moved by -55bps & 132bps YoY. Hence, EBITDA Margin expanded by 256bps to 37.6%. EBITDA grew by 6.2% YoY to Rs37.4bn.

Interest cost grew by 2.8% & ETR stood at 35.1% YoY. Hence, Reported PAT grew by 7.4% to ₹ 27.1bn. Other comprehensive income was at ₹ 1,568mn in Q4FY17 vs. ₹636mn in Q1FY17. Hence APAT (post other comprehensive income) has increased by 11.0% YoY to ₹27.1bn.

Cigarette revenues grew healthy by 6.6% YoY: ITC’s cigarette gross sales grew by 6.6% in Q1FY18 against the backdrop of GST rollout leading to de-stocking in trade channel. Cigarette sales have been under pressure the last several quarters due to consistent hike in excise & VAT. But volume pick from last 3-4 few qtrs supported Cigarettes revenues and combated the higher excise rates to some level. However, the GST council meeting on 17th July revised GST rates on cigarettes and revised the fixed cess according to the different length size and increased the ad valorem cess. This has significantly pushed up the overall tax rate for Cigarettes. ITC reacted by taking price hike to the range of 5-8% depending on length size to absorb the additional cost. We expect volume growth to gain momentum from Q2FY18. Cigarette EBIT grew healthy by 9.0% while Cigarette EBIT Margin improved by 81bps to 37.3%.

Non-Cigarette Sales & EBIT increased by 3.5% & 4.5% in Q1FY18: ITC’s non-Cigarette business grew by 3.5% driven by healthy growth in FMCG & Hotels. FMCG business showed strong growth of 9.0% YoY led by packaged foods & personal products and stationary products partially offset by the ongoing restructuring of retail footprint and trade presence by the Lifestyle Retailing Business which also saw an early 'end of season sale' and heavy discounting triggered by GST transition. FMCG EBIT margin expanded by 40bps to 0.2% YoY. Hotel business grew by 6.1% led by improvement in average room rate and higher foods & Beverages Sales. An agribusiness sale was poor and declined by 1.2% in Q1FY18 due to lower crop output and adverse quality of the Andhra leaf tobacco crop due to drought in 2016 and limited trading opportunities in other agri-commodities. Paper business too showed slow growth of 2.8%. Non – Cigarette EBIT grew by 4.5%. Non- Cigarette EBIT margin expanded by 7bps to 7.2%.

Valuation & Outlook: Although ITC is a dominant player in cigarette business – with >75% market share – high increase in excise & VAT rate along with social & regulatory pressure has been impacting ITC’s cigarette growth. However, cigarette growth has improved from Q2FY17 led by pick up in volumes. With current revised GST rates on Cigarettes, tax rate have moved up significantly by 20% and hence, ITC took price hike to combat the effect. We expect 4% & 6% volume growth in FY18 & FY19. However, we expect volume to pick up from 2HFY18 as illegally imported cigarette industry would be restricted going ahead under GST regime. FMCG business growth of 8-9% is highly encouraging and we expect it improve further in coming quarters. We expect Sales, EBITDA & PAT to show CAGR of 7%, 10% & 10% from FY17-FY19E.

ITC is well placed as compared to HUL in the Large Cap FMCG space. Despite huge valuation difference of ~40% from HUL. ITC’s business has more scope for better operating performance in the coming years. ITC’s FCF yield is ~4.5% as compared to <3% for HUL. ITC still trades at a P/E of 32x and 28x of FY18 & FY19 estimated EPS, respectively. **We maintain BUY rating.**



Segmental Performance

Exhibit 1: Cigarette Business

Particulars	Dec-15	Mar-16	Jun-16	Sep-16	Dec-16	Mar-17	Jun-17
Gross Sales (` mn)	81,063	85,455	82,306	85,285	82,880	89,549	87,742
Net Sales Growth (%)	na	na	6.4	7.1	2.2	4.8	6.6
Net Sales Mix (%)	58.9	58.0	54.8	58.0	58.2	57.7	55.5
EBIT Margin (%)	36.8	35.3	36.5	37.7	36.6	36.4	37.3
EBIT Mix (%)	85.1	86.1	86.2	85.9	85.7	86.8	86.7

Source: Company, Trust

Cigarette business grew healthy by 6.6% YoY. EBIT Margin improved by 81bps to 37.3%. The legal cigarette industry remain impacted due to steep increase in taxation.

Exhibit 2: FMCG Business

Particulars	Dec-15	Mar-16	Jun-16	Sep-16	Dec-16	Mar-17	Jun-17
Gross Sales (` mn)	24,849	27,108	23,852	26,717	25,693	28,858	26,009
Net Sales Growth (%)	na	na	9.5	13.3	3.4	6.5	9.0
Net Sales Mix (%)	18.1	18.4	15.9	18.2	18.0	18.6	16.5
EBIT Margin (%)	0.8	2.6	(0.2)	(0.1)	(0.8)	1.9	0.2
EBIT Mix (%)	0.5	2.0	(0.1)	(0.1)	(0.6)	1.5	0.1

Source: Company, Trust

FMCG business grew by 9.0% led by branded packaged foods & personal products. Although EBIT margin improved YoY to 0.2% is very low compared to 1.9% margin in Q1FY17.

Exhibit 3: Hotel Business

Particulars	Dec-15	Mar-16	Jun-16	Sep-16	Dec-16	Mar-17	Jun-17
Gross Sales (` mn)	3,453	3,630	2,874	2,973	3,705	3,865	3,049
Net Sales Growth (%)	na	na	(0.2)	2.5	7.3	6.5	6.1
Net Sales Mix (%)	2.5	2.5	1.9	2.0	2.6	2.5	1.9
EBIT Margin (%)	7.5	11.8	0.4	0.2	11.4	17.3	1.7
EBIT Mix (%)	0.7	1.2	0.0	0.0	1.2	1.8	0.1

Source: Company, Trust

Hotel business recovery sustained and grew by 6.1%. This performance is led by improvement in average room rates & higher food & beverage sales. EBIT Margin improved by 132bps to 1.7% YoY.

Exhibit 4: Agribusiness

Particulars	Dec-15	Mar-16	Jun-16	Sep-16	Dec-16	Mar-17	Jun-17
Net Sales (` mn)	14,810	18,068	27,941	18,801	16,719	19,185	27,605
Net Sales Growth (%)	na	na	20.2	2.0	12.9	6.2	(1.2)
Net Sales Mix (%)	10.8	12.3	18.6	12.8	11.7	12.4	17.5
EBIT Margin (%)	15.9	9.4	8.5	15.8	14.2	7.0	8.5
EBIT Mix (%)	6.7	4.9	6.8	7.9	6.7	3.6	6.2

Source: Company, Trust

Agribusiness sales declined by 1.2% in Q1FY18 due to lower crop output & adverse quality of the Andhra leaf tobacco crop due to drought in 2016 and limited trading opportunities in other agri-commodities.

Exhibit 5: Paper, Paperboard & Packaging Business

Particulars	Dec-15	Mar-16	Jun-16	Sep-16	Dec-16	Mar-17	Jun-17
Gross Sales (` mn)	13,377	13,150	13,229	13,314	13,358	13,727	13,598
Net Sales Growth (%)	na	na	(1.6)	0.0	(0.1)	4.4	2.8
Net Sales Mix (%)	9.7	8.9	8.8	9.1	9.4	8.8	8.6
EBIT Margin (%)	18.0	15.4	18.7	17.4	18.4	17.5	18.9
EBIT Mix (%)	6.9	5.8	7.1	6.2	7.0	6.4	6.8

Source: Company, Trust

Paper business showed positive growth of 2.8% in Q4FY17. However, challenges in growth of FMCG industry, & cheap imports from China continue to persist. EBIT Margin improved by 20bps due to better product mix & benign input prices

**Result Highlights**

Particulars (₹ mn) - (IND AS)	Q1FY17	Q4FY17	Q1FY18	YoY Chg. (%)
Gross Sales	1,31,567	1,50,088	1,37,222	4.3%
Excise duty	31,990	38,833	38,458	20.2%
(% of Sales)	24.3%	25.9%	28.0%	371bps
Net Sales	99,577	1,11,255	98,765	-0.8%
Total RM cost	42,455	46,828	38,360	-9.6%
Gross profit	58,086	64,427	61,187	5.3%
Gross margin %	57.8%	57.9%	61.5%	369bps
Employee Expenses	7,003	5,714	6,746	-3.7%
(% of Sales)	7.0%	5.1%	6.8%	-20bps
Other Expenses	15,819	19,960	16,976	7.3%
(% of Sales)	15.9%	17.9%	17.2%	130bps
EBITDA	35,263	38,754	37,464	6.2%
EBITDA Margin %	35.1%	34.8%	37.6%	256bps
Depreciation	2,613	2,418	2,682	2.7%
Other Income	4,205	4,021	4,768	13.4%
Interest	101	(115)	104	2.8%
PBT	36,755	40,471	39,446	7.3%
Total tax	12,907	13,777	13,841	7.2%
Effective Tax Rate (%)	35.1%	34.0%	35.1%	-3bps
Reported PAT	23,848	26,695	25,605	7.4%
Other comprehensive income	636	2,002	1,568	146.7%
Total comprehensive income	24,484	28,697	27,173	11.0%



Consolidated Financials

Income Statement

Y/E Mar (₹ mn)	FY15	FY16	FY17	FY18E	FY19E
Net Revenues	3,84,333	3,91,921	4,28,036	4,36,525	4,93,726
% Growth	9.9	2.0	9.2	2.0	13.1
Raw Material	1,47,722	1,35,685	1,60,492	1,60,954	1,77,467
Staff	27,723	34,410	36,317	37,125	42,294
Other Expenses	70,659	77,073	76,621	79,302	87,937
Total Expenditures	2,46,104	2,47,168	2,73,429	2,77,380	3,07,698
EBITDA	1,38,229	1,44,754	1,54,607	1,59,144	1,86,028
% Growth	8.5	4.7	6.8	2.9	16.9
EBITDA Margins (%)	36.0	36.9	36.1	36.5	37.7
Other Income	16,580	15,308	17,615	19,816	20,445
Interest	910	781	490	490	490
Depreciation	10,279	10,774	11,528	11,462	13,288
Profit Before Tax	1,43,621	1,48,506	1,60,204	1,67,008	1,92,696
Provision for tax	45,964	53,582	55,491	56,783	65,517
Effective tax rate (%)	32.0	36.1	34.6	34.0	34.0
Reported PAT	96,632	94,209	1,05,196	1,10,288	1,27,245
% Growth	8.4	(2.5)	11.7	4.8	15.4
Adjusted Net Profit	96,632	94,209	1,05,196	1,10,288	1,27,245
% Growth	8.4	(2.5)	11.7	4.8	15.4

Balance Sheet

Y/E Mar (₹ mn)	FY15	FY16	FY17	FY18E	FY19E
Equity Share Capital	8,016	8,016	12,147	12,173	12,173
Reserves & surplus	3,75,332	4,18,748	4,51,982	4,83,429	5,19,711
Shareholders' funds	3,83,347	4,26,764	4,64,129	4,95,602	5,31,884
Minorities interests	2,251	2,609	2,947	2,947	2,947
Total Debt	824	776	774	774	774
Capital Employed	3,86,423	4,30,148	4,67,851	4,99,323	5,35,605
Net fixed assets	1,71,344	1,76,664	1,96,234	2,14,772	2,31,484
Cash & Cash Eq.	65,712	60,633	29,674	30,043	33,550
Net Other current assets	75,251	83,390	89,010	1,01,608	1,17,705
Investments	90,630	1,27,856	1,71,271	1,71,271	1,71,271
Net Deferred tax Assets	(16,516)	(18,395)	(18,338)	(18,370)	(18,404)
Total Assets	3,86,423	4,30,148	4,67,851	4,99,323	5,35,605

**Cash Flow Statement**

Y/E Mar (₹ mn)	FY15	FY16	FY17	FY18E	FY19E
Pre-tax profit	1,43,621	1,48,591	1,60,263	1,67,008	1,92,696
Depreciation	10,280	10,774	11,528	11,462	13,288
Total Tax Paid	(44,486)	(50,778)	(54,916)	(56,751)	(65,482)
Chg in working capital	312	(2,770)	444	(12,598)	(16,097)
Other operating activities	(11,294)	(7,826)	(11,046)	552	556
Cash flow from oper (a)	98,432	97,990	1,06,273	1,09,674	1,24,960
Capital Expenditure	(32,913)	(23,402)	(30,715)	(30,000)	(29,999)
Chg in investments	9,165	(34,379)	(50,196)	-	1
Other investing activities	(29,006)	18,573	48,402	-	-
Cash flow from inv.(b)	(52,754)	(39,208)	(32,509)	(30,000)	(29,998)
Free cash flow (a+b)	45,678	58,782	73,764	79,674	94,962
Equity raised/(repaid)	9,788	5,317	10,670	26	0
Debt raised/(repaid)	315	(104)	(132)	-	-
Interest paid	(161)	(275)	(255)	(490)	(490)
Dividend (incl. Tax)	(48,756)	(51,327)	(69,941)	(66,173)	(76,347)
Other financing activities	(7,796)	(9,736)	(13,353)	(12,668)	(14,616)
Cash flow from fin. (c)	(46,610)	(56,125)	(73,010)	(79,305)	(91,453)
Net chg in cash (a+b+c)	(932)	2,657	754	369	3,509

Key Ratios

Y/E Mar	FY15	FY16	FY17	FY18E	FY19E
Raw Material Cost/Sales (%)	38.4	34.6	37.5	36.9	35.9
Manpower Cost/Sales (%)	7.2	8.8	8.5	8.5	8.6
Operating & Other Cost/Sales (%)	18.4	19.7	17.9	18.2	17.8
Revenue Growth (%)	9.9	2.0	9.2	2.0	13.1
EBITDA Margins (%)	36.0	36.9	36.1	36.5	37.7
Net Income Margins (%)	25.1	24.0	24.6	25.3	25.8
ROCE (%)	35.8	33.7	33.0	31.9	34.7
ROE (%)	25.2	22.1	22.7	22.3	23.9

Valuation Parameters

Y/E Mar	FY15	FY16	FY17	FY18E	FY19E
EPS (₹.)	8.0	7.8	8.7	9.1	10.5
P/E (x)	27.4	26.8	32.3	31.9	27.6
BV (₹.)	31.9	35.5	38.2	40.7	43.7
P/BV (x)	6.9	5.9	7.3	7.1	6.6
EV/EBITDA (x)	18.0	16.1	20.7	20.8	17.8
Fixed assets turnover ratio (x)	2.2	2.2	2.2	2.0	2.1
Net Debt/Equity (x)	(0.2)	(0.1)	(0.1)	(0.1)	(0.1)
EV/Sales	6.5	6.0	7.5	7.6	6.7



Institutional Equity Team

Names	Designation	Sectors	Email ID's	Desk-Number
Naren Shah	Head Of Equity		naren.shah@trustgroup.in	+91-22-4084-5074
Sales Trading & Dealing				
Rajesh Ashar	Sales Trader		rajesh.ashar@trustgroup.in	+91-22-4224-5123
Dealing Desk			trustfin@bloomberg.net	+91-22-4084-5089
Research Team				
BinyamTaddese	Analyst	Rates & Credit Research	binyam.taddese@trustgroup.in	+91-22-4224-5037
Naushil Shah	Analyst	Technology, Media & Telecom	naushil.shah@trustgroup.in	+91-22-4224-5125
Tushar Chaudhari	Analyst	Commodities, Auto & Mid-caps	tushar.chaudhari@trustgroup.in	+91-22-4224-5119
Ritu Chaudhary	Associate	FMCG & Consumer Durable	ritu.chaudhary@trustgroup.in	+91-22-4224-5183



DISCLAIMER

This document has been prepared by Trust Financial Consultancy Services Private Limited (hereinafter referred to as TFCSP) to provide information about the company (ies) and/sector(s), if any, covered in the report. This report is for personal information of the selected recipient/s and does not constitute to be any investment, legal or taxation advice to you. This research report does not constitute an offer, invitation or inducement to invest in securities or other investments and TFCSP is not soliciting any action based upon it. This report is not for public distribution and has been furnished to you solely for your general information and should not be reproduced or redistributed to any other person in any form. This report does not constitute a personal recommendation or take into account the particular investment objectives, financial situations, or needs of individual clients. Before acting on any advice or recommendation in this material, investors should consider whether it is suitable for their particular circumstances and, if necessary, seek professional advice.

Information and opinions presented in this report were obtained or derived from sources that TFCSP believes to be reliable, but TFCSP makes no representations or warranty, express or implied, as to their accuracy or completeness or correctness. TFCSP accepts no liability for loss arising from the use of the material presented in this report, except that this exclusion of liability does not apply to the extent that liability arises under specific statutes or regulations applicable to TFCSP. Information, opinions and estimates contained in this report reflect a judgment of its original date of publication by TFCSP and are subject to change without notice. Past performance should not be taken as an indication or guarantee of future performance, and no representation or warranty, express or implied, is made regarding future performance.

Other Disclosures by Trust Financial Consultancy Services Private Limited (hereinafter referred to as TFCSP) under SEBI (Research Analysts) Regulations, 2014 with reference to the subject companies(s) covered in this report:

TFCSP is engaged in the business of Retail & Institutional Stock Broking. TFCSP is a member of the National Stock Exchange of India Limited, BSE Limited and Metropolitan Stock Exchange of India Limited.

The associate/subsidiary companies of TFCSP are engaged in the businesses of Merchant Banking, portfolio management, lending, wealth management etc.

TFCSP's activities were neither suspended nor has it defaulted with any stock exchange authority with whom it has been registered in the last five years.

TFCSP has not been debarred from doing business by any Stock Exchange / SEBI or any other authority.

No disciplinary action has been taken by any regulatory authority against TFCSP impacting its equity research analysis activities.

TFCSP and its associate/subsidiary companies may have managed or co-managed public offering of securities, may have received compensation for merchant banking or brokerage services, may have received any compensation for products or services other than merchant banking or brokerage services from the subject company in the past 12 months.

TFCSP and its associate/subsidiary companies have not received any compensation or other benefits from the subject company or third party in connection with the research report.

Subject Company may have been a client of TFCSP or its associate/subsidiary companies during twelve months preceding the date of distribution of the research report. TFCSP and/or its associate/subsidiary companies and/or employees may have interests/positions, financial or otherwise of over 1% at the end of the month immediately preceding the date of publication of the research in the securities mentioned in this report.

TFCSP is registered as a Research Analyst under SEBI (Research Analyst) Regulations, 2014. SEBI Reg. No. INH000001543.

Analyst Certification: The views expressed in this research report accurately reflect the personal views of the analyst(s) about the subject company securities or issues, and no part of the compensation of the research analyst(s) was, is, or will be directly or indirectly related to the specific recommendations and views expressed by research analyst(s) in this report. The research analysts, strategists, or research associates principally responsible for preparation of TFCSP research receive compensation based upon various factors, including quality of research, investor client feedback, stock picking, competitive factors and firm revenues

Disclosure of Interest Statement	Name of Company
Analyst Ownership of Stock	No
Served as Director or Employee	No

Stock Ratings are defined as follows :-Recommendation Interpretation

Recommendation	Expected absolute returns (%) over 12 months
Buy	More than 15%
Hold	15% to -15%
Sell	Less than -15%

Regional Disclosures (outside India): This report is not directed or intended for distribution to or use by any person or entity resident in a state, country or any jurisdiction, where such distribution, publication, availability or use would be contrary to law, regulation or which would subject TFCSP or its associate/subsidiaries.