



ITC Ltd

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CMP (Rs)	Target Price (Rs)	Potential Upside (%)	52 Week H/L (Rs)	Mkt Cap (Rs mn)
253	315	24.5%	323 / 244	3098471

Key Highlights:

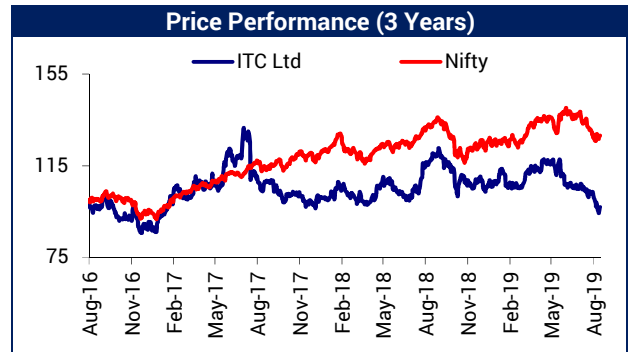
- ITC's 1QFY20 net profit of Rs. 31.8 bn (13% YoY) was in line with estimate due to higher than estimated other income (up 54% YoY to Rs. 6.2 bn). Overall operating performance was weak
- Revenues grew 6% YoY, 7% below our estimate due to 2% miss in cigarette and FMCG sales and a much higher miss in the agri and paperboard sales (net of inter-segmental sales). EBITDA at Rs. 45.7 bn (+9% YoY) was 4% below our estimate. The impact of Ind-AS 116 was negligible
- Cigarette revenues were up 6% YoY to Rs. 54.3 bn. Volumes grew 3% YoY (KIE 5.5%) and price/mix contributed 3%. A modest volume growth despite 2 years of stable taxation could be due to (1) share loss to illicit/smuggled volumes, (2) higher competitive intensity in select sub segments and (3) perhaps some change in consumer preferences
- We believe 7-9% EBITDA growth could be a new normal for the time being. FMCG sales growth moderated to 8% (like-for-like) from 11-12% run-rate; topline growth is a tad muted in the context of a plethora of new launches and the ongoing augmentation of distribution of several relatively new categories
- FMCG EBIT margin expanded 80 bps to 2.5% and EBIT grew 56% YoY off a low base. FMCG margin expansion was the only bright point in June quarter results. This trend should continue
- The agri business reported 15% YoY growth in revenues and a muted 4% EBIT growth. Hotels reported a good 15% topline growth led by new hotels; underlying demand was weak and EBIT declined 21% due to depreciation pertaining to new properties. Paperboards revenue grew 13% and EBIT grew 2% YoY
- We have tweaked our forecasts marginally and revised our fair value to Rs. 315/share from Rs. 335 earlier. We value (1) the cigarette business at 21x post-tax EBIT (23x earlier) given what now looks like a permanent leg down in EBIT growth potential, and (2) FMCG business at 5x EV/sales

Financials (Rs mn)*	FY19	FY20E	FY21E
Sales	444,327	478,552	525,739
Growth	10.38%	7.70%	9.86%
EBITDA	167,425	184,632	204,509
EBITDA margin	37.7%	38.6%	38.9%
PBT	183,737	202,545	224,852
Net profit	124,178	135,705	150,651
Adjusted EPS (Rs)	10.1	11.0	12.2
Growth	13.5%	8.9%	10.9%
P/E (x)	25.0	23.0	20.7
Div. Yield	2.2	2.4	2.8
EV/EBITDA	17.20	15.50	13.90
ROE	19.5%	20.6%	22.2%
ROCE	27.1%	27.4%	28.6%
Free Cash flow	89,896	105,201	116,742

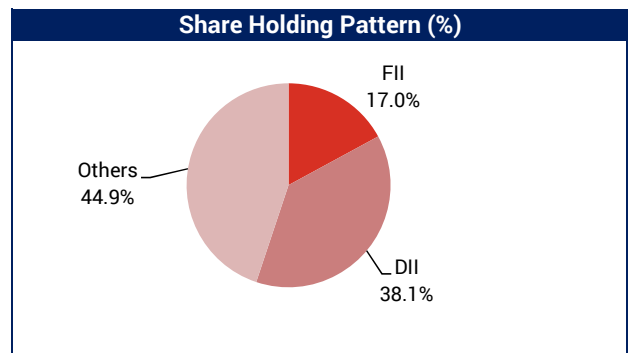
Source: Kotak Institutional Equities *Standalone

Financials (Rs mn)*	1QFY19	1QFY20	% Chg
Revenues	105,547	111,599	5.7%
EBITDA	42,021	45,657	8.7%
EBITDA Margin (%)	39.8%	40.9%	109 bps
PAT	28,187	31,739	12.6%
PAT Margin (%)	26.7%	28.4%	173 bps
EPS (Rs)	2.3	2.6	0.3

Source: Kotak Institutional Equities *Standalone



Source: Bloomberg



Source: Bloomberg

This one pager on the company is extracted from last KIE update dated August 4, 2019 and it does not contain events beyond that date. We take no obligation to update the KIE recommendations. While source of all other information is taken from Kotak Institutional Equities, the price performance and shareholding pattern chart is inputted by Kotak PCG research team (with source as Bloomberg). It is advisable to read the full KIE report before taking any investment decision on the above company recommendation.

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- BUY** – We expect the stock to deliver more than 15% returns over the next 12 months
- ADD** – We expect the stock to deliver 5% - 15% returns over the next 12 months
- REDUCE** – We expect the stock to deliver -5% - +5% returns over the next 12 months
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