

3 Year  
XIRR RETURNS

19%

5 Year  
XIRR RETURNS

14%

10 Year  
XIRR RETURNS

17%

## Risks and concerns

- Low margin of non-cigarette business
- Increased competition from Dabur and Patanjali
- Better usage of cash

## Valuation & prospect

- Expect 23% returns on equity (RoE) and 35% Return On Capital Employed (ROCE)
- Expected higher earnings in future means that the stock's value can increase further

## Why to start SIP in ITC?

### 1. Double-digit earnings growth expected in the near future

- Expected net profit margin: 30%
- Likely EBIDTA growth: 40%
- Annual free cash flows of more than ~Rs. 8,000 cr expected

### 2. Strong, diversified portfolio across different segments is a positive

- Cigarettes
- Paper and packaging
- FMCG (mainly packaged foods & personal care)
- Agri-business
- Hotels
- Information technology (IT)

### 3. Cigarettes, its high-margin, cash cow business, is expected to see growth in volumes

- High-margin business: Contributes to 85% of profits (before interest and tax) despite earning only 40% of ITC's revenues
- Seeing growth in volumes after one year of GST implementation.
- Helps grow other businesses
- Risk of higher taxes manageable in future

### 4. Focus on growing other businesses means diversification of risk for a conglomerate

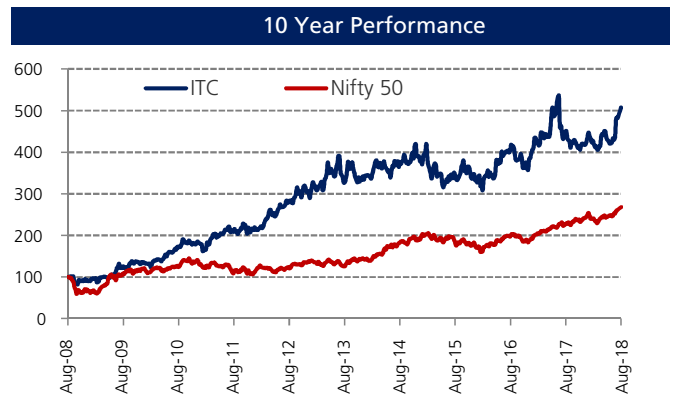
- Plans to invest Rs 25,000 crore in non-Cigarette businesses
- ~80% of operating capital (money used for its daily operations) used in other businesses

### 5. FMCG business, the biggest contributor after Cigarettes, is expected see further growth

- Historical growth: ~15% over 10 years
- Further growth possible due to potential market share increases in atta, potato chips, premium cream biscuits, noodles, and deodorants segments

FINANCIALS (Rs.cr)	FY16	FY17	FY18
Net Sales	39,192	42,777	43,449
Growth	1.0%	9.1%	1.6%
EBITDA	16,015	17,228	18,760
EBITDA margin	40.9%	40.3%	43.2%
PBT	14,859	16,026	17,409
Net profit	9,380	10,201	11,007
EPS (Rs)	6.9	8.5	9.2
EPS Growth	-3.8%	22.4%	9.1%
BVPS(Rs)	35.4	38.3	43.0
DPS (Rs)	8.5	4.8	5.2
ROE (%)	25.5	23.5	23.3
ROCE (%)	39.8	35.9	35.2

Source: Capitaline, Kotak Institutional Equities and Kotak PCG



Source: Company, Kotak PCG

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## RATING SCALE

### Definitions of ratings

**XIRR returns** : These are extended internal rate of return (XIRR) returns generated by the stock over various time frames. For XIRR returns we have assumed investment of Rs.10,000 made on a monthly basis for different time frames. For example XIRR Return over 3 years means returns on investment of Rs,10,000 done per month for 3 years (including dividends).

**Note** : The time frame and investment objective for auto invest stocks is five years with decent expected XIRR returns. Since the time frame is very long (i.e. 5 years) we have not provided any target price. To this extent the views and write-ups prepared in this document may or may not match with the views of Kotak Institutional Equities research or Kotak Private Client Group research for the company.

For past XIRR calculation we have considered the entire Rs.10,000 invested by an investor per month. For the calculation purpose we have considered fractional shares. We have not considered any brokerage or statutory charges while calculating the XIRR. In the XIRR calculation we have considered annual or any special dividends to be reinvested and deployed along with the next SIP instalment. Kindly note that real time investments may not be able to capture these minute working of fractional shares and hence to that extent it may defer with actual returns.

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