

ITC Ltd. Q1FY18

Growing despite temporary GST woes

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Good performance in tough situation

ITC delivered a steady performance against the backdrop of continuing pressure on cigarette industry, sluggishness in demand for FMCG products (exacerbated by destocking in trade channels due to GST) subdued demand and unabsorbed capacity in the domestic paperboard industry and lower crop output & adverse quality of the Andhra leaf tobacco due to drought in 2016. Company's revenues increased by 4.1% YoY (7.3% fall QoQ) to Rs. 13,800.4 crore in Q1FY18 from Rs. 13,253.1 crore in Q1FY17. Amongst segments, Cigarette business grew by 6.6% YoY from Rs 8,230.6 crore to Rs 8,774.2, Hotel business was up 6.1% YoY from Rs 287.4 crore to Rs 304.9 crore, Agri business witnessed de-growth of 1.2% from Rs 2794.1 to Rs 2760.5 in Q1FY18, Paper business grew by 2.8% from Rs 1,322.9 crore to Rs 1,359.8 crore, FMCG business grew by 9.1% from Rs 2,385.2 crore to Rs 2,600.9 crore. EBITDA increased by 7% YoY (1.3% fall QoQ) to Rs. 4,223.2 crore from Rs. 3,946.8 crore in Q1FY17. EBITDA margins increased by 82 bps (186 bps QoQ) to 30.6% in Q1FY18 from 29.8% in Q1FY17 on the back of falling inventory cost. PAT grew by 7.4% YoY (4% fall QoQ) to Rs. 2,560.5 crs as against Rs. 2,384.7 crs in Q1FY17. PAT margin was at 18.6% in Q1FY18 vs 18% in Q1FY17 (62 bps rise QoQ) rising by 56 basis points on the back of strong operating performance.

Cigarette business to remain under pressure

Revised rate of compensation cess has been announced by GST council w.e.f. 18th July 2017 resulting in sharp escalation of tax incidence, coupled with the already increased excise duty under the GST regime . There is an overall 20% increase in tax burden which the company is likely to pass to its consumers affecting volumes.

Growing despite temporary GST woes

FMCG grows despite odds

Amidst muted demand and destocking of FMCG products in trade channels ahead of GST implementation, this segment registered a robust growth of 9%. This was achieved majorly due to Continued improvement despite higher input costs, sustained investment in brand building and gestation costs of new categories.

Hotel segment also grows

This segment witnessed 6.1% growth aided by improvement in average room rate and healthy growth in F&B sales. Profitability improvement was led by operating leverage and cost management. Ban on sales of liquor from outlets in proximity to highways resulted in revenue loss at certain properties (particularly ITC Grand Chola, Chennai).

Paperboard and Agri business take a hit

This was impacted by destocking of FMCG and pharma products, unabsorbed capacity in domestic industry and cheap imports from China and ASEAN countries. Segment results improved on strength of richer product mix and benign input prices. Agri business degrew during the current quarter, this was due to lower crop output & adverse quality of the Andhra leaf tobacco due to drought in 2016. Also the company had limited trading opportunities in other agri-commodities.

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Valuation

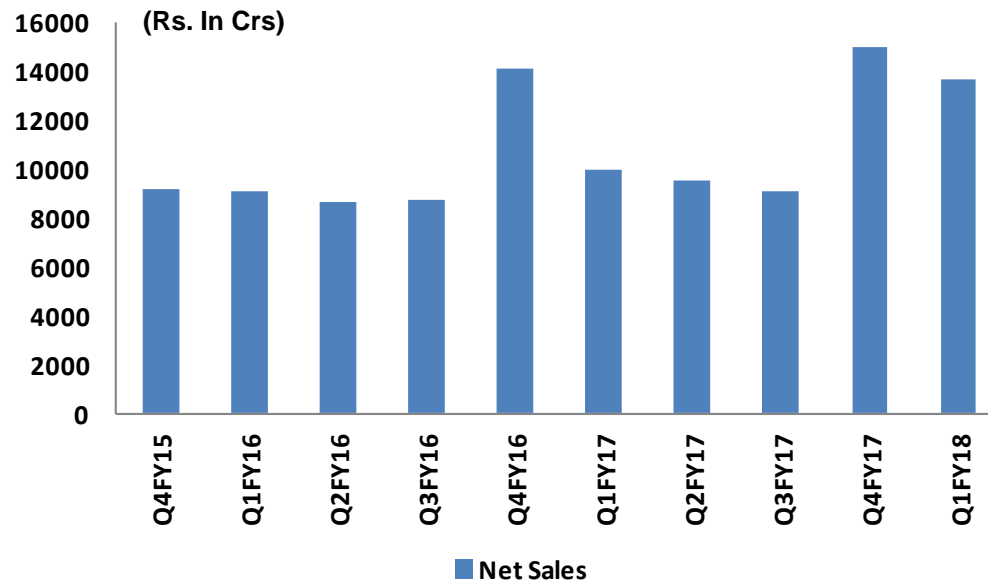
We expect similar good performance to continue with steady rise in revenues and improvement in margins post settlement of GST. Higher taxation will put a stress on cigarette volumes but that being a business with inelastic demand, is expected to bounce back in the long term. Currently the stock trades at 26.8X FY19 PE. We recommend a BUY on the stock.

Revenues growth on back of strong performance by Cigarette and FMCG

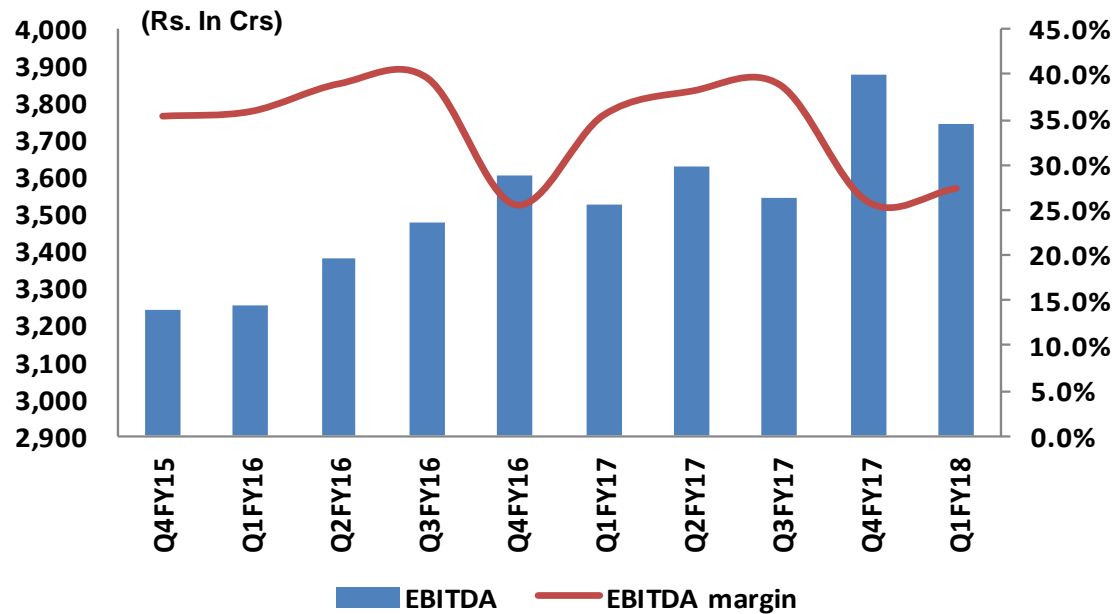


VENTURA

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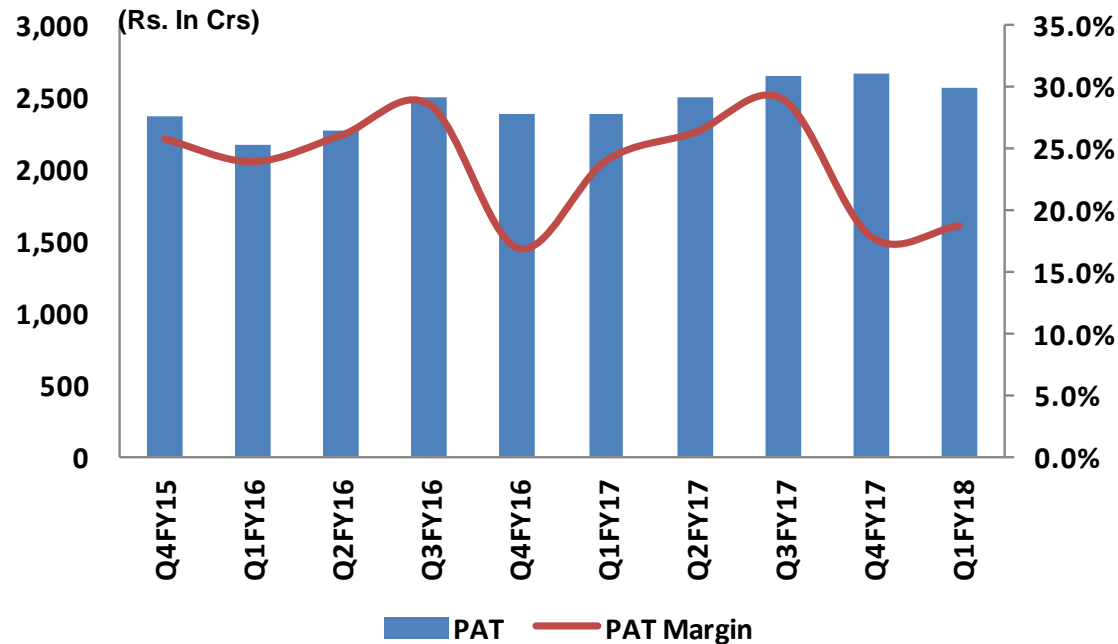


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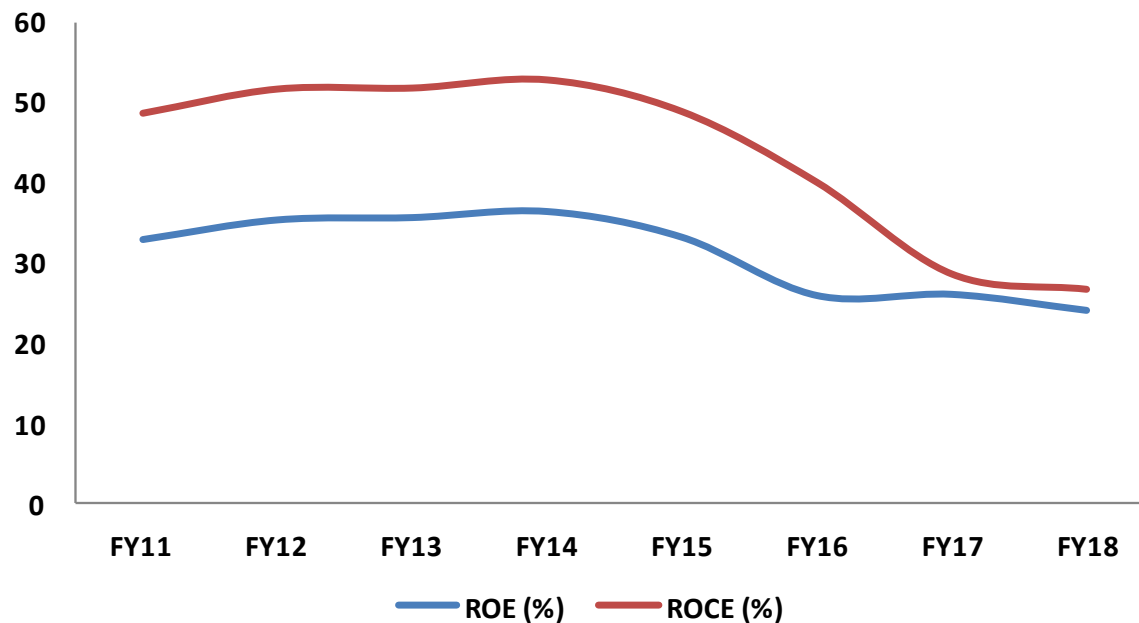
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Hotel and FMCG businesses surprise positively



PAT grew by 7.4% YoY (4% fall QoQ) to Rs. 2,560.5 crs as against Rs. 2,384.7 crs in Q1FY17. PAT margin was at 18.6% in Q1FY18 vs 18% in Q1FY17 (62 bps rise QoQ) rising by 56 basis points on the back of strong operating performance.

Return ratios were lower



Return ratios degrew in the current quarter, from a ROE of 26.1% in FY17 to 24.1% in FY18 YTD and from a ROCE of 28.6% in FY17 to 26.7% in FY18 YTD.

Financial QoQ



Kyon ki bhaiya, sabse bada rupaiya.

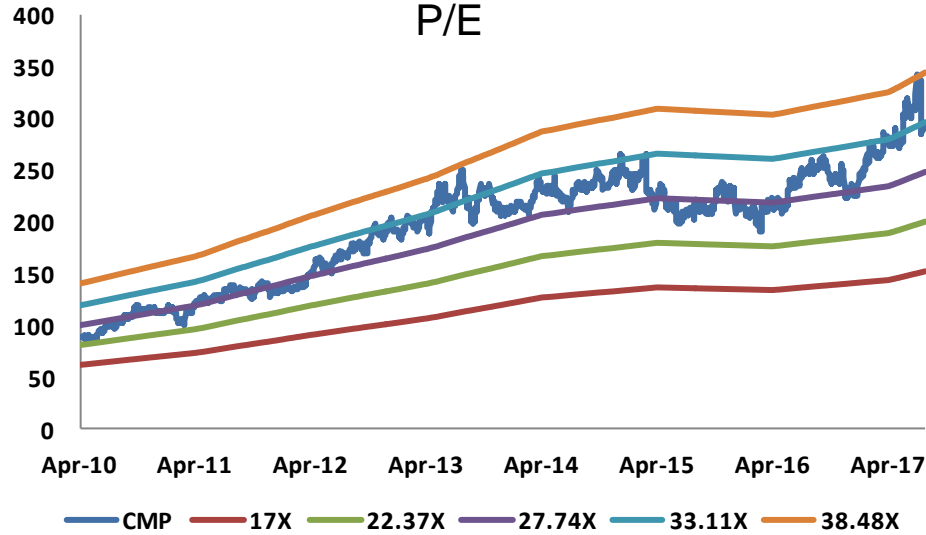
Particular	Mar-16	Growth	Jun-16	Growth	Sep-16	Growth	Dec-16	Growth	Mar-17	Growth	Jun-17	Growth
Gross Sales	14138.8		13156.7		13491.4		13470.9		15008.8		13722.2	
Less: Excise Duty	0.0		0.0		3955.9		4321.6		0.0		0.0	
Net Sales	14138.8	61%	13156.7	-7%	9535.5	-28%	9149.3	-4%	15008.8	64%	13722.2	-9%
Other operating income	0.0		96.4		125.2		99.1		0.0		78.2	
<i>As a % of sales</i>	<i>0.0%</i>		<i>0.7%</i>		<i>1.3%</i>		<i>1.1%</i>		<i>0.0%</i>		<i>0.6%</i>	
Net Sales	14138.8		13253.1		9660.7		9248.4		15008.8		13800.4	
Total Expenditure	10533.7		9726.8		6030.7		5702.0		11133.4		10054.0	
<i>As a % of sales</i>	<i>74.5%</i>		<i>73.9%</i>		<i>63.2%</i>		<i>62.3%</i>		<i>74.2%</i>		<i>73.3%</i>	
PBITD (Excl OI)	3605.1	4%	3526.2	-2%	3630.0	3%	3546.4	-2%	3875.4	9%	3746.4	-3%
<i>As a % of sales</i>	<i>25.5%</i>		<i>26.8%</i>		<i>38.1%</i>		<i>38.8%</i>		<i>25.8%</i>		<i>27.3%</i>	
Other Income	371.2		420.5		475.4		687.9		402.1		476.8	
<i>As a % of sales</i>	<i>2.6%</i>		<i>3.2%</i>		<i>5.0%</i>		<i>7.5%</i>		<i>2.7%</i>		<i>3.5%</i>	
Operating Profit	3976.3	-4%	3946.8	-1%	4105.4	4%	4234.3	3%	4277.5	1%	4223.2	-1%
<i>As a % of sales</i>	<i>28.1%</i>		<i>30.0%</i>		<i>43.1%</i>		<i>46.3%</i>		<i>28.5%</i>		<i>30.8%</i>	
Interest	12.3		10.1		10.7		13.6		-11.5		10.4	
<i>As a % of sales</i>	<i>0.1%</i>		<i>0.1%</i>		<i>0.1%</i>		<i>0.1%</i>		<i>-0.1%</i>		<i>0.1%</i>	
Exceptional Items	0.0		0.0		0.0		0.0		0.0		0.0	
<i>As a % of sales</i>	<i>0.0%</i>		<i>0.0%</i>		<i>0.0%</i>		<i>0.0%</i>		<i>0.0%</i>		<i>0.0%</i>	
PBDT	3964.0	-3%	3936.7	-1%	4094.7	4%	4220.7	3%	4289.0	2%	4212.8	-2%
<i>As a % of sales</i>	<i>28.0%</i>		<i>29.9%</i>		<i>42.9%</i>		<i>46.1%</i>		<i>28.6%</i>		<i>30.7%</i>	
Depreciation	246.5		261.3		268.4		266.5		241.8		268.2	
<i>As a % of sales</i>	<i>1.7%</i>		<i>2.0%</i>		<i>2.8%</i>		<i>2.9%</i>		<i>1.6%</i>		<i>2.0%</i>	
PBT	3717.5		3675.4		3826.2		3954.2		4047.1		3944.6	
<i>As a % of sales</i>	<i>26.3%</i>		<i>27.9%</i>		<i>40.1%</i>		<i>43.2%</i>		<i>27.0%</i>		<i>28.7%</i>	
Tax	1336.9		1290.7		1326.2		1307.5		1377.7		1384.1	
<i>As a % of sales</i>	<i>9.5%</i>		<i>9.8%</i>		<i>13.9%</i>		<i>14.3%</i>		<i>9.2%</i>		<i>10.1%</i>	
Profit After Tax	2380.7	-5%	2384.7	0%	2500.0	5%	2646.7	6%	2669.5	1%	2560.5	-4%
<i>As a % of sales</i>	<i>16.8%</i>		<i>18.1%</i>		<i>26.2%</i>		<i>28.9%</i>		<i>17.8%</i>		<i>18.7%</i>	

Financial YoY

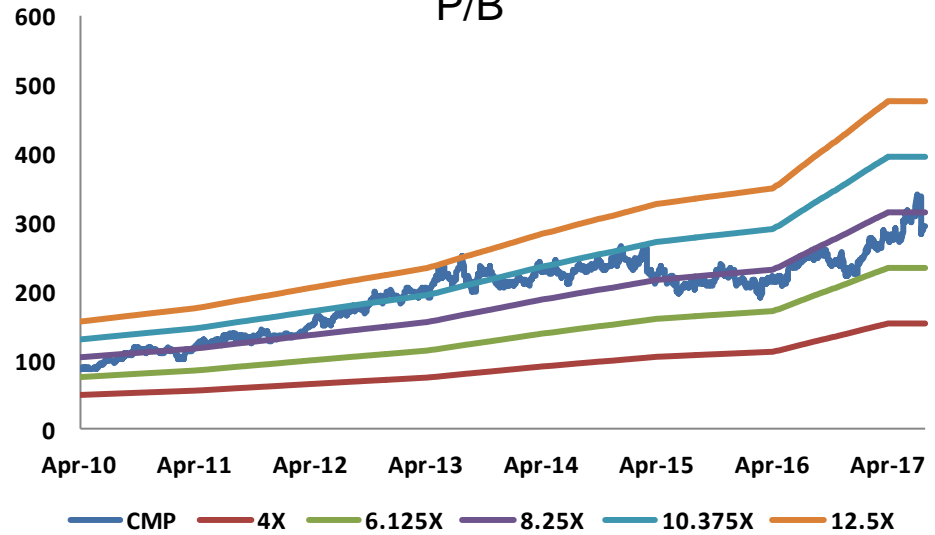
DESCRIPTION	Mar-11	Mar-12	Mar-13	Mar-14	Mar-15	Mar-16	Mar-17
Gross Sales	31993.1	36617.5	43920.8	34984.7	38433.3	55061.1	58731.5
Less: Excise Duty	9714.0	10437.9	12597.3	0.0	0.0	0.0	0.0
Net Sales	22279.1	26179.5	31323.5	34984.7	38433.3	55061.1	58731.5
Other operating income	295.6	345.9	304.1	332.4	401.5	0.0	0.0
Net Sales & Other Operating Income	22574.7	26525.4	31627.5	35317.1	38834.8	55061.1	58731.5
(Increase) / Decrease In Stocks	-272.7	-85.7	-256.8	-112.7	-235.7	-195.4	592.6
Cost of Services & Raw Materials	7136.9	7808.8	9069.8	10376.1	11089.1	11168.7	11979.0
Purchase of Finished Goods	1296.8	1921.2	3305.2	2977.0	3918.8	2595.2	3477.6
Excise Duty	0.0	0.0	0.0	0.0	0.0	15869.0	15927.9
Operating & Manufacturing Expenses	5036.4	5736.4	6189.4	6520.7	7088.7	7731.8	7686.8
Electricity, Power & Fuel Cost	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Employee Cost	1708.5	1935.1	2145.6	2504.2	2772.3	3441.0	3631.7
Miscellaneous Expenses	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Total Expenditure	14905.9	17315.7	20453.2	22265.2	24633.2	40610.2	43295.6
as a % of sales	66.9%	66.1%	65.3%	63.6%	64.1%	73.8%	73.7%
Operating Profit (Excl OI)	7668.8	9209.8	11174.3	13051.9	14201.6	14450.9	15435.9
Operating Margin	34.4%	35.2%	35.7%	37.3%	37.0%	26.2%	26.3%
Other Income	536.1	784.4	877.6	971.0	1256.5	1530.8	1761.5
Operating Profit	8204.9	9994.1	12051.9	14022.8	15458.1	15981.7	17197.4
Interest	70.9	80.5	87.2	6.4	68.1	53.6	24.3
Exceptional Items	0.0	0.0	0.0	0.0	0.0	0.0	0.0
PBDT	8134.0	9913.6	11964.8	14016.5	15390.0	15928.1	17173.1
Depreciation	699.1	745.5	859.1	964.9	1028.0	1077.4	1152.8
PBT	7434.9	9168.2	11105.7	13051.6	14362.1	14850.7	16020.4
Tax	2365.5	2845.8	3412.1	4060.9	4596.4	5358.2	5549.1
Provisions and Contingencies	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Profit After Tax	5069.4	6322.4	7693.6	8990.6	9765.6	9492.4	10471.3
Profit Margin	22.8%	24.2%	24.6%	25.7%	25.4%	17.2%	17.8%
Net Profit (after Extraordinary Items)	5069.4	6322.4	7693.6	8990.6	9765.6	9492.4	10471.3

P/E, P/B & EV/EBITDA Trends for the upcoming Years

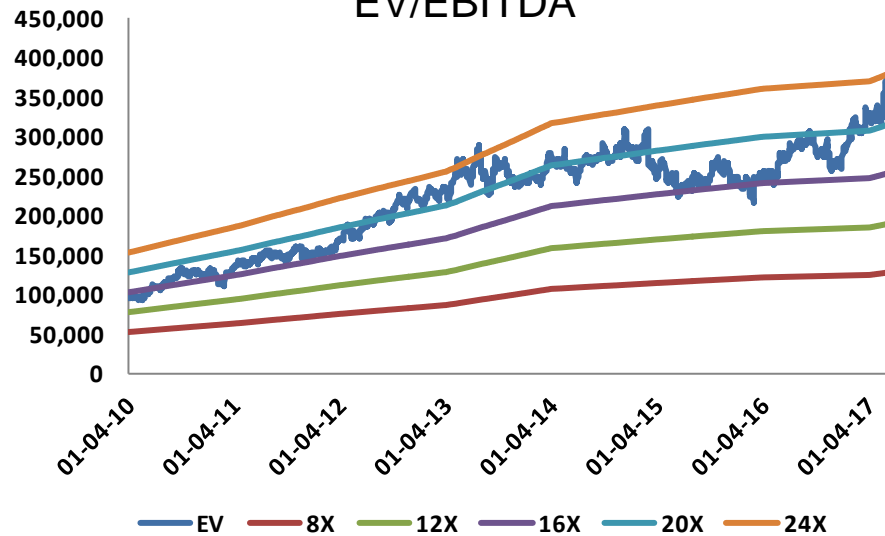
P/E



P/B



EV/EBITDA





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Ventura Securities Limited

Corporate Office: I Think Techno Campus, 8th Floor, B Wing, Pokharna Road No. 02, Off Eastern Express Highway, Thane, Maharashtra – 400067.