

**ITC Ltd.****₹ 314****New Ways to Grow!****Accumulate**

Jul 24, 2015

**Company Background**

ITC was incorporated on August 24, 1910 under the name Imperial Tobacco Company of India Ltd. As its ownership progressively Indianised, the name was changed to India Tobacco Company Limited in 1970 and then to I.T.C. Limited in 1974. The Company's multi-business portfolio encompasses a wide range of businesses - Fast Moving Consumer Goods comprising Foods, Personal Care, Cigarettes and Cigars, Branded Apparel, Education and Stationery Products, Incense Sticks, Hotels, Paperboards & Specialty Papers, Packaging, Agri-Business and Information Technology. ITC is an associate of BAT (British American Tobacco) controls more than 2/3rd of the cigarette market in India. ITC has emerged as a diversified conglomerate with leading presence in Paperboards, Hotels and processed foods. E-Choupal, its agri rural initiative has been widely appreciated for its foresight in harnessing the potential in the rural market.

**Key Highlights**

- ➔ ITC launched KwikNic nicotine chewing gum adding the pharmaceutical channel to the distribution footprint. The last FY also saw ITC's foray into the Electronic Vaping Device category under the 'EON' brand.
- ➔ The Company reduced its dependence further on Tobacco Segment as the FMCG-Others Businesses clocked Segment Revenue of Rs 9038 crores during the year, representing a growth of 11% over the previous year.
- ➔ ITC has further strengthened its comprising a large and diverse product portfolio, multiple brands, hundreds of SKUs covering over 1 lakh markets and directly servicing over 2 million retail outlets across trade channels.
- ➔ ITC has been taking the opportunity to leverage the existing FMCG Chain by adding newer goods into the basket for which a market is already available. The latest foray is into the fast-growing Juices category with the launch of 7 exciting variants under the 'B Natural' brand in January 2015.
- ➔ In February 2015, ITC acquired the 'Savlon' and 'Shower to Shower' trademarks and other IPRs for identified markets from Johnson & Johnson group. This makes clear that the company is in search of all segments where the demand is already there and intends to expand organically or by buyouts.

**Key Financials**

Year Ended 31 <sup>st</sup>	Mar 13	Mar 14	Mar 15
Revenue (INR mn)	3,02,541.2	3,49,138.3	3,77,961.2
Rev. growth (%)	16.7	15.4	8.3
EBITDA (INR mn)	1,16,071.2	1,37,927.3	1,50,952.6
Net profit (INR mn)	74,190.0	88,138.9	96,383.1
Shares outstanding (mn)	7,901.8	7,953.2	8,015.5
EPS (INR)	9.4	11.1	12.0
EPS growth (%)	17.4	18.0	8.5
P/E (x)	32.9	31.8	27.1
RONW (%)	36.3	36.0	33.8
ROCE (%)	36.1	35.9	33.8

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**Info Codes**

Reuters	: ITC.BO
Bloomberg	: ITC@IN
NSE	: ITC
BSE	: 500875

**Market Data**

52 Wk Range (₹)	: 295 / 410
Shares in Issue (mn)	: 8015.5
Mkt. Cap (₹ bn)	: 2520.28
BSE 2 Wk Avg Vol	: 345000

**Share Holding Pattern (%)**

Promoters	: 0.00
FII's	: 15.47
DII's	: 40.22
Others	: 44.31

**Investment Theme**

Continuing with ITC's chosen strategy of creating multiple drivers of growth, it is today, the leading FMCG marketer in India, the 2nd largest Hotel chain, a clear leader in Indian Paperboard & Packaging industry & India's foremost Agri business player. Its wholly owned subsidiary, ITC Infotech India Limited, is one of India's fast growing InfoTech company in mid-tier segment. Further, over last 18 years, ITC's Gross Revenues and Net Profits have recorded impressive and consistent growth. ITC today is one of India's most admired and valuable corporations with a market capitalisation of nearly INR 2514 bn & has consistently featured, over the last 20 years, amongst the top 10 private Co's in terms of market cap and profits. Its variety of brands touch lives of every Indian every day. The best part, its a professionally managed company without promoters.

**From Cigarettes to FMCG**

## Financial Statements

### Income Statement

(₹ mn)

Year end	Mar 13	Mar 14	% Chg	Mar 15	% Chg
Total Sales + Excise	421055.1	470686.6	11.79	503890.1	7.05
Other Income	9774.0	12351.7	26.37	16567.7	34.13
Change in Stocks	9358.3	(2417.7)	(125.83)	6231.2	(357.73)
Raw Material Con.	91574.0	105014.3	14.68	112215.4	6.86
Employee Exp.	14300.7	16517.0	15.50	18310.9	10.86
Indirect Taxes	133109.4	136809.8	2.78	147744.1	7.99
Other Exp.	86224.3	85524.0	(0.81)	98523.9	15.20
Operating Exp.	315850.1	346282.8	9.64	370563.1	7.01
Operating Profit	105205.0	124403.8	18.25	133327.0	7.17
Total Interest	1059.1	1018.5	(3.83)	784.5	(22.97)
Gross Profit	113919.9	135737.0	19.15	149110.2	9.85
Net Dep.	6941.3	7973.3	14.87	8762.8	9.90
Total Taxation	32788.6	39624.8	20.85	43964.3	10.95
Net Profit/Loss	74190.0	88138.9	18.80	96383.1	9.35

### 4 Years Balance Sheet

(₹ mn)

Balance Sheet as on 31 <sup>st</sup>	Mar 12	Mar 13	Mar 14	Mar 15
<b>SOURCES OF FUNDS</b>	<b>1,88,279.6</b>	<b>2,23,127.7</b>	<b>2,62,761.5</b>	<b>3,07,363.0</b>
Equity Share capital	7,818.4	7,901.8	7,953.2	8,015.5
Share Application Money	0.0	0.0	0.0	0.0
Preference Share Capital	0.0	0.0	0.0	0.0
Reserves & Surplus	1,79,570.0	2,14,449.2	2,54,142.9	2,98,817.3
Long Term Loans	873.5	776.7	664.0	530.0
Short Term Loans	17.7	0.0	1.4	0.2
<b>USES OF FUNDS</b>	<b>1,88,279.6</b>	<b>2,23,127.7</b>	<b>2,62,761.5</b>	<b>3,07,363.0</b>
Gross Block	1,41,443.5	1,69,443.8	1,85,448.7	2,17,269.7
Less : Revaluation Reserves	530.5	527.5	524.1	524.1
Less : Accumulated Depreciation	50,451.6	57,350.4	65,321.3	75,484.8
Net Block	90,461.4	1,11,565.9	1,19,603.3	1,41,260.8
Capital Work in Progress	22,767.5	14,877.9	22,957.3	21,141.4
Investments	63,165.9	70,602.9	88,234.3	84,054.6
Current Assets	1,17,443.0	1,47,913.0	1,65,776.8	2,00,191.0
Less : Current Liabilities	1,05,558.2	1,21,832.0	1,33,810.2	1,39,284.8
Total Net Current Assets	11,884.8	26,081.0	31,966.6	60,906.2
Misc. Expenses not writtenoff	0.0	0.0	0.0	0.0
<b>NOTE</b>				
Bk Val Unquoted Investments	22,699.1	23,861.7	25,832.7	25,448.1
Mkt Val. Quoted Investments	40,799.2	34,258.7	65,470.2	63,273.1
Contingent Liabilities	25,600.1	21,492.3	20,373.4	20,183.6
Dividend (%)	450	525	600	625

## Quarterly Income Sheets

(₹ mn)

Quarter Ended	Jun 14	Sep 14	Dec 14	Mar 15
Net Sales	92482.9	90237.4	89425.9	92927.8
Cost Of Sales	59707.0	55350.9	54783.9	60496.7
Operating Profit	32775.9	34886.5	34642.0	32431.1
Recurring Income	2345.5	3562.2	5819.9	3703.7
Adjusted PBDIT	35121.4	38448.7	40461.9	36134.8
Financial Expenses	151.5	183.9	83.7	155.1
Depreciation	2313.2	2432.2	2376.3	2495.7
Other Write Offs	0.0	0.0	0.0	0.0
Adjusted PBT	32656.7	35832.6	38001.9	33484.0
Tax Charges	10792.8	11581.0	11651.9	9872.2
Adjusted PAT	21863.9	24251.6	26350.0	23611.8
Non Recurring Items	0.0	0.0	0.0	0.0
Other Non Cash Adjust	0.0	0.0	0.0	0.0
Net Profit	21863.9	24251.6	26350.0	23611.8

## 52 Week Index Relative Percentage Appreciation



## ITC vs SENSEX

## Risks Associated

Policy directives from the union government form the biggest risk to ITC. The tobacco sector is highly levered to policy decision from the central and state governments. Any changes in the tax structure could prove to be a negative for the company. Stricter laws against smoking and potential changes to include plain packaging could also have a negative impact on ITC's earnings and thus market price. ITC has a dominant 70% market share by volume in India's cigarette sector, with the cigarette business accounting for over 80% of ITC's profits. Any potential opening up of the sector to foreign companies would increase competition, which could hurt ITC's dominant position in the market. Additionally, continuing losses in the FMCG business is a risk.

Indians are known for their dual consumption of tobacco, which means a tobacco consumer would consume tobacco in more than one form. While Cigarettes are considered the premium segment, so is the government tax burden always on their anvil, rather the government has lower taxes for all other forms of tobacco and some are even tax free industries. The rising tax burden on cigarettes may force the consumers to shift to other cheaper modes of tobacco in the long run thus harming revenues for the company. This fact is further quantified by the fact that the total tobacco consumption in India increased from 406 mn kg to 475 mn kg in a span of last 30 years however the consumption in the form of cigarettes declined from 86 mn kg to 72 mn kg.

**In a Nutshell**

ITC has been sincerely trying to increase its non Tobacco Revenue from last many years considering the inherent policy risk in the segment. It has been ITC's tireless endeavour to create and nurture world-class Indian brands. Powered by deep consumer insights, cutting-edge R&D, superior agri-sourcing capabilities, internationally benchmarked manufacturing and an extensive trade marketing and distribution infrastructure, ITC's wide spectrum of over 50 trusted FMCG brands ranging from wheat flour to pickles and Readimixes to Perfumes continues to gain consumer franchise, earning significant market standing across segments. ITC's energetic brands have already garnered an annualised consumer spend of over Rs 11,000 crore. It is the companies aspiration to become India's no 1 FMCG player. The Company aims at achieving a revenue of Rs 1,00,000 crore from the new FMCG businesses by 2030. Even in the Tobacco and related Segment it has introduced Nicotine Replacement Therapy with KwikNic nicotine gums and has also forayed into the Electronic Vaping Device category with the launch of the 'Eon' brand. Its Lifestyle Retailing Business continues to grow its market standing by investing in brand building, enhancing product vitality and supply chain capabilities; expanding its retail footprint across the country. With more than 100 hotels in over 70 destinations in the country, ITC Hotels has redefined the fine art of hospitality. ITC's hotel group operates under 4 brands: 'ITC Hotel' at the luxury end, 'WelcomHotel' in the 5 star segment, 'Fortune' in the mid-market to upscale segment and 'WelcomHeritage' in the heritage leisure segment. Considering the diversification of the company into many business segments we would place it into low risk medium growth category.

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**Rating Interpretation**

**Buy** : Expected to appreciate 20% or more over 12-months

**Accumulate** : Expected to appreciate 10% to 20% over 12-months

**Trade Buy** : Expected to appreciate more than 10% over 45-days

**Reduce** : Expected to depreciate up to 10% over 12-months

**Sell** : Expected to depreciate 10% or more over 12-months

**Trade Sell** : Expected to depreciate more than 10% over 45-days

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