

ITC Ltd.

₹280

*Building Right...!!!***Accumulate**

Nov 02, 2018

**Company Background**

ITC was incorporated on August 24, 1910 under the name Imperial Tobacco Company of India Ltd. Company's multi-business portfolio encompassing a wide range of businesses-FMCG comprising Foods, Personal Care, Cigarettes and Cigars, Branded Apparel, Education and Stationery Products, Incense Sticks and Safety Matches, Hotels, Paperboards & Specialty Papers, Packaging, Agri-Business. Packaging & Printing Business was set up in 1925 as a strategic backward integration for ITC's Cigarettes business. It is India's most sophisticated packaging house today. In 1975, Company launched its Hotels business with the acquisition of a hotel in Chennai which was rechristened ITC-Welcomgroup Hotel Chola (now renamed My Fortune, Chennai). The objective of ITC's entry into the hotels business was rooted in the concept of creating value for the nation. ITC chose the Hotels business for its potential to earn high levels of foreign exchange, create tourism infrastructure and generate large scale direct and indirect employment. Hotels under four brands namely; ITC Hotels-Luxury Collection, Welcom Hotels, Fortune Hotels & Welcom Heritage. ITC Hotels recently took its first step toward international expansion with super premium luxury hotel in Colombo, Sri Lanka.

**Key Highlights**

- ➔ During the year, ITC commissioned two world-class Integrated Consumer Goods Manufacturing and Logistics Units (ICMLs) at Panchla, West Bengal and Kapurthala, Punjab.
- ➔ ITC announced the first phase of its integrated food manufacturing & logistic facility at Pudukottai in Tamil Nadu. It will be operated in Q3FY19, products manufactured at this plant would be biscuits, atta, and noodles. With an investment of about ₹ 1,000 crore, this project is coming up on 55 acres with a built-up area of 14 lakh square feet.
- ➔ During the year, ITC entered into the Pouch Milk segment with the launch of Aashirvaad Svasti milk in select markets in Bihar.
- ➔ Out of its total product portfolio Cigarettes & Branded Packaged Foods are major products, contributing 51.64% & 19.56% respectively for FY18.

**Key Financials**

Year Ended 31 <sup>st</sup>	Mar 16	Mar 17	Mar 18
Revenue (INR mn)	5,37,138.3	5,74,343.7	4,68,725.1
Rev. growth (%)	3.43	6.93	(18.39)
EBITDA (INR mn)	1,55,066.8	1,65,863.3	1,81,066.7
Net profit (INR mn)	93,283.7	1,02,009.0	1,12,232.5
Shares outstanding (mn)	8,047.2	12,147.4	12,204.3
EPS (INR)	10.4	8.4	9.2
EPS growth (%)	(2.99)	(19.15)	9.52
P/E (x)	21.05	33.39	27.82
RONW (%)	25.79	23.45	23.20
ROCE (%)	39.92	35.60	34.92

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**Info Codes**

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

**Market Data**

52 Wk Range (₹)	: 250/323
Shares in Issue (mn)	: 12,204.3
Market. Cap ( bn)	: 3457
BSE 2 Wk Avg Vol	: 6,47,000

**Share Holding Pattern (%)**

Public & Others	: 10.47
Corporate Holding	: 04.23
Foreign Institution	: 47.63
Institutions	: 37.67

**Investment Theme**

Company continued to make investments during the year towards enhancing brand quality. Along this company implementing strategic cost management measures across the value chain. Several initiatives were also implemented during the year towards leveraging rapidly growing e-commerce channel with a view to enhancing the reach of Company's products. During the year, Company commissioned two world-class Integrated Consumer Goods Manufacturing and Logistics Units (ICMLs) in West Bengal & Punjab. Currently, over 15 projects are underway and in various stages of development-from land acquisition/site development to the construction of buildings and other infrastructure. Planning to commission new lines at the Kapurthala, Panchla and Guwahati facilities in the coming year. Investments & Planning to launch to new product lines will improve company's top & bottom lines.

**We build tomorrow...!!!**

## Financial Statements

### Income Statement

(₹ mn)

Year end	Mar 16	Mar 17	% Chg	Mar 18	% Chg
Net Operating Income	3,65,826.7	4,00,886.8	9.6	4,06,275.4	1.3
Other Income	17,692.6	19,859.1	12.2	25,427.4	28.0
Change in Stocks	1,965.5	(6,441.7)	(427.7)	(10,418.5)	61.7
Fuel Charges	1,36,465.5	1,53,321.3	12.4	1,47,481.9	(3.8)
Employee Exp.	23,569.7	24,443.1	3.7	24,874.6	1.8
Indirect Taxes	1,53,619.0	1,53,597.8	(0.0)	37,022.3	(75.9)
Other Exp.	(83,236.2)	(82,921.3)	(0.4)	30,838.8	(137.2)
Operating Exp.	2,30,418.0	2,48,440.9	7.8	2,40,217.6	(3.3)
Operating Profit	1,55,066.8	1,65,863.3	7.0	1,81,066.7	9.2
Total Interest	719.3	453.3	(37.0)	1,096.0	141.8
Gross Profit	1,54,347.5	1,65,410.0	7.2	1,79,970.7	8.8
Net Dep.	10,006.8	10,380.4	3.7	11,453.7	10.3
Total Taxation	51,057.0	53,020.6	3.8	56,284.5	6.2
Net Profit/Loss	93,283.7	1,02,009.0	9.4	1,12,232.5	10.0

### 4 Years Balance Sheet

(₹ mn)

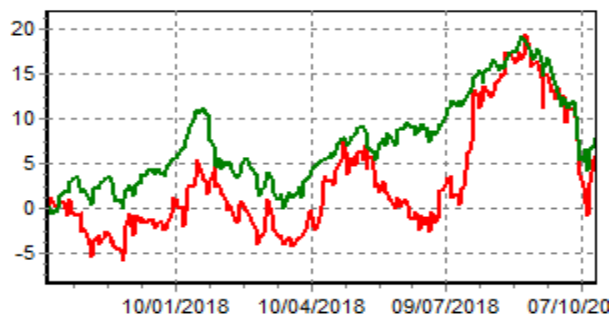
Balance Sheet as on 31 <sup>st</sup>	Mar 15	Mar 16	Mar 17	Mar 18
<b>SOURCES OF FUNDS</b>	<b>3,08,964.8</b>	<b>4,18,260.4</b>	<b>4,55,220.3</b>	<b>5,16,136.3</b>
Equity Share capital	8,015.5	8,047.2	12,147.4	12,204.3
Equity Application Money	0.0	0.0	0.0	0.0
Equity Share Warrants	0.0	0.0	0.0	0.0
Reserves & Surplus	2,99,341.4	4,08,517.1	4,41,262.2	5,01,796.4
Secured Loans	0.2	36.0	0.1	0.0
Unsecured Loans	1,607.7	1,660.1	1,810.6	2,135.6
<b>USES OF FUNDS</b>	<b>3,08,964.8</b>	<b>4,18,260.4</b>	<b>4,55,220.3</b>	<b>5,16,136.3</b>
Gross Block	2,17,269.7	1,50,053.2	1,68,955.9	1,86,900.8
Less : Revaluation Reserves	0.0	0.0	0.0	0.0
Less : Accumulated Depreciation	75,484.8	9,943.5	20,153.5	31,240.9
Net Block	1,41,784.9	1,40,109.7	1,48,802.4	1,55,659.9
Capital Work in Progress	21,141.4	24,191.7	35,370.2	50,255.8
Investments	84,054.6	1,33,245.3	1,85,852.9	2,33,972.2
Current Assets	1,79,912.1	1,67,625.9	1,44,376.1	1,45,995.5
Less : Current Liabilities	1,16,675.8	63,378.1	68,222.2	88,497.4
Total Net Current Assets	63,236.3	1,04,247.8	76,153.9	57,498.1
Misc. Expenses not writtenoff	(1,252.4)	16,465.9	9,040.9	18,750.3
<b>NOTE</b>				
Book Value of Unquoted Investments	66,028.8	56,496.3	99,145.4	1,05,442.9
Market Value of Quoted Investments	22,692.4	77,203.8	87,255.6	1,28,891.7
Contingent Liabilities	5,859.5	6,089.5	7,162.3	8,124.5
Dividend (%)	625.0	850.0	475.0	515.0

## Quarterly Income Sheets

(₹ mn)

Quarter Ended	Dec 17	Mar 18	Jun 18	Sep 18
Net Sales	96,725.7	1,04,792.4	1,05,546.6	1,08,912.3
Cost Of Sales	58,675.2	64,427.2	65,049.1	68,628.8
Operating Profit	38,050.5	40,365.2	40,497.5	40,283.5
Other Income	11,392.7	6,239.9	5,562.2	6,817.4
Adjusted PBDIT	49,443.2	46,605.1	46,059.7	47,100.9
Financial Expenses	240.2	232.4	73.4	135.0
Depreciation	2,907.5	3,039.9	2,986.9	3,274.7
Other Write Offs	0.0	0.0	0.0	0.0
Adjusted PBT	46,295.5	43,332.8	42,999.4	43,691.2
Tax Charges	15,393.5	14,005.7	14,812.6	14,144.5
Reported Profit	30,902.0	29,327.1	28,186.8	29,546.7
Extra Ordinary Items	0.0	0.0	0.0	0.0
Other Non Cash Adjust	0.0	0.0	0.0	0.0
Adjusted Net Profit	30,902.0	29,327.1	28,186.8	29,546.7

## 52 Week Index Relative Percentage Appreciation



ITC vs SENSEX

## Risks Associated

- ➔ Public health groups along with doctors and economists have encourage the Group of Ministers in the GST Council to increase cess on tobacco products. If cess increase, that will impact negatively the company performance, as the company has morethan 50% of revenue from Cigarettes.
- ➔ Over the last six years, cigarette taxation was high. Such sharpe increase in taxation has led to substantial growth in the illegal cigarette industry. Overall tobacco consumption has increased over the years, however, the legal cigarette industry has declined and its share of tobacco consumption has reduced to 11%.

## Scope of Growth

- ➔ Company has 46 MW wind energy project in Andhra Pradesh. Permission for inter-state wheeling of power was not granted by the authorities post bifurcation of the State of Andhra Pradesh. After several representations & discussions, Company received permission during the year for wheeling of power from Andhra Pradesh to Telangana. Thereby, enabling the Bhadrachalam mill to utilise wind energy to meet its energy requirements.
- ➔ Company's Spices Business continued to expand in Food Safe Markets like; USA, EU & Japan. Export of spices growing well, by the addition of new customers and new markets such as Australia, Germany, Turkey & Ukraine.
- ➔ During the year, It launched the ITC Master Chef range of Super Safe frozen prawns which are par to international standards prevalent in USA, Europe & Japan.
- ➔ Company is also working with dairy farmers in Bihar and Punjab to improve farm productivity through several extension services and to facilitate higher milk production.
- ➔ Company has achieved over 99% waste recycling with the Paperboards & Specialty Papers Business, which accounts for 90% of the total waste generated.

**In a Nutshell**

ITC was incorporated on August 24, 1910 as an Imperial Tobacco Company of India Ltd. Company's multi-business portfolio has a wide range of businesses-FMCG comprising Foods, Personal Care, Cigarettes and Cigars, Branded Apparel, Education and Stationery Products, Incense Sticks and Safety Matches, Hotels, Paperboards & Specialty Papers, Packaging, Agri-Business. Company's net sales improved marginally by 1.34% to ₹ 4,06,275.40 million, operating profit rose by 9.16% to ₹ 1,81,066.7 million finally the net profit also jumped by 10% to ₹ 1,12,232.5 million for FY18 on Y-o-Y basis. Its first major business segment is cigarettes, during the FY18 its performance was down by 32.67% to ₹ 2,28,940.1 million as compare to FY17, the under performance was due to implementation of GST. The second major business segment is Packaged Foods performed well by 7.87% to ₹ 86,687.20 million for FY18. Savlon' handwash comes under Personal Care Products segment, it continued to gain ground, with the launch of a new small pack at an attractive price. The new launches received excellent response from consumers during the year and were supported with refreshing communication and engaging consumer activations. During the FY18, Company & its subsidiaries earned ₹ 41,890 million in foreign exchange. The direct foreign exchange earned by the company amounted to ₹ 34,800 million, mainly on account of exports of agri-commodities. Company's expenditure in foreign currency amounted to ₹ 20,380 million, comprising purchase of raw materials, spares & other expenses of ₹ 15,060 million and imports of capital goods at ₹ 5,320 million. Recently, announced its entry into the floor cleaner segment with the brand Nimyle. This will help some additions to top & bottom line of ITC.

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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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