

Pick of the Week

- In an ever-changing business environment, some of our investment ideas seem more convincing than others due to better earning visibility and/or attractive valuation. Every Monday, we bring you such fundamental stock ideas through our “Pick of the Week” report.
 - **Investment Horizon:** Though the ideal investment horizon for such ideas remain 6-9 months, our picks may provide some profit-making opportunities even to short-term investors.
 - **Risk-Return Profile:** Pick of the week ideas are the best high return research ideas at this point in time.

Scrip	Mcap (Rs Cr)	CMP	Target Price *	Potential Upside (%)	Reco
ITC Ltd	371,527	304	335	10.0%	Buy

* Note: Investment horizon Approx. 6 months., CMP as on 21st Sep, 2018.

CMP	Target
304	335

MARKET DATA

No. of Shares	: 1222.1
Market Cap	: Rs 371,527 Cr
52-week High / Low	: Rs 323/250
BSE Code	: 500875
NSE Code	: ITC

Investment Rationale

- ❑ **Strong Quarterly performance:** In Q1FY19 ITC reported 8% revenue growth, 12% EBITDA growth (highest in past 15 quarters) and 10% YoY growth in recurring PAT. EBITDA margin expanded 160 bps YoY led by lower other expenses. Recurring PAT growth was partially dragged by 15% YoY drop in other income. Robust EBITDA growth was aided by improved profitability across segments.(ex agri).
- ❑ **Growth in FMCG segment:** Comparable FMCG sales grew ~14% YoY on good growth in personal products (deos and liquids), packaged food (snacks led by Bingo!, biscuits led by premiumization efforts and juices led by ITC's differentiated offerings; atta business back on recovery path) and educational stationery, partly offset by the ongoing restructuring of retail footprint and trade presence in the lifestyle retailing business. Most major categories posted market share gains.
- ❑ We expect ITC's earnings growth trajectory to improve in near term aided by favorable base and lower drag from punitive taxation in cigarettes (no GST hike this year, so far). Improving cigarette volume trajectory (3-7% decline in base over next 3 quarters) and FMCG profitability remain key near-term catalysts.
- ❑ We have **BUY** with target of Rs 335.

Financial Summary

Y/E Mar	Sales (Rs Cr)	PAT (Rs Cr)	EPS (Rs)	RoE (%)	RoCE (%)
FY18	40,255	10,953	9.0	22.6	32.8
FY19E	44,280	12,159	10.0	22.9	33.2
FY20E	48,676	13,692	11.2	24.4	35.3

Source: Axis Securities, Bloomberg, Capitaline

No of Stocks Matrix		
No of Stocks	< 9m	>9m
Met Target	21	-
Not Met Target	18	-

Performance Matrix		
% Return	< 9m	>9m
Met Target	14.98%	-
Not Met Target	(7.61%)	-

Benchmark Performance Matrix		
% Return	< 9m	>9m
Met Target	1.70%	-
Not Met Target	7.93%	-

Note : performance of the pick of the week is calculated for stocks recommended Dec-17 To Aug-18

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DEFINITION OF RATINGS	
Ratings	Expected absolute returns over 12 months
BUY	More than 10%
HOLD	Between 10% and -10%
SELL	Less than -10%

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