

Date: 14/08/2019

Recommended Price: 246-248 · Target: 290-300 · Stoploss: 228

Time Frame: 3 months

ITC -Monthly Chart



ITC - Monthly Chart

- The stock on monthly scale is in strong uptrend for the long term. Currently, the stock is placed close to the previous breakout point, which is acting as strong support as highlighted in the above chart.
- On monthly scale, it has formed a bullish reverse AB=CD harmonic pattern with potential reversal zone (PRZ) at 246.
- The stock is placed close to the support of 50-Month SMA, which is placed at 250.
- Monthly trendline support is placed close to 230.
- RSI oscillator on monthly scale is placed close to the previous support zone and stochastics oscillator is placed close to oversold zone.
- Thus, we recommend to **BUY ITC** in the range of 246-248 with a stop loss of 228 on closing basis for a target of 290-300.

Key Data

Sector	FMCG
Recommended Price	247
Target Price	300
BSE Code	500875
NSE Code	ITC
Face Value (Rs)	1
Mkt Cap (Rs Cr)	303368
52 Week High	322.95
52 Week Low	244
Source: BSE,NSE	

Company background

Incorporated in 1910, headquartered in Kolkata, ITC Limited (ITC) is one of India's foremost FMCG companies. They began as a tobacco manufacturer and today, ITC has a wide diversified business in FMCG, Hotels, Packaging, Paperboards & Specialty Papers, and Agri-Business. The company is among India's '10 Most Valuable (Company) Brands', according to a study conducted by Brand Finance and ranks among Asia's 50 best performing companies compiled by Business Week.

At end-FY19, the company clocked a turnover of Rs.520.35bn with Rs.128bn profit consolidated from 13 businesses across five sectors.

Investment Rationale

- FMCG segment contributes ~25% to consolidated turnover having a turnover of Rs.12,000Cr and management targets to make it a Rs.1lakh Cr segment with product expansion. ITC is further expanding its FMCG segment with new products such as dairy products, health & wellness products, and confectionary. Its distribution network is expanding to reach out 6 mn retail outlets. During Q1FY20, under the personal care, Fiana Handwash and Engage perfume were launched in the premium segment.
- ITC has the second largest hotel chain in terms of revenue with forte in Green hoteliering. They have 105 properties across 70 locations with 9750 rooms. During FY19, ITC Kohenuur and ITC Grand Goa were operational adding 271 Keys and 252 keys respectively. During Q1FY20, ITC Royal Bengal, Kolkata commissioned with 256 keys under the first phase. Many more projects are in progress at Ahmedabad, Guntur, Bhubaneshwar, Amritsar, and Colombo. For the Q1FY20, segment revenue was up 14% QoQ to Rs.412Cr driven by robust performance of new properties although it was down 22% on YoY basis due to soft demand conditions.
- ITC is the market leader in fast growing Value Added Paperboards segment. Its Paperboards, Paper & Packaging Segment revenue grew 13% QoQ to Rs.1527Cr driven by strong growth in Value Added Paperboards segment and product mix enrichment. However, sales were flat on YoY basis, impacted by slowdown in the FMCG industry and exports. Q1FY20 profit grew 10% YoY to Rs.330Cr as pulp prices declined.
- ITC is investing in building 20 Integrated Consumer Goods Manufacturing and Logistics (ICML) facilities across country to rapidly scale up the FMCG businesses by building an extremely competitive supply chain. It will provide strength to the company's FMCG brands by enhancing cost efficiency, economies of scale, freshness, and close-to-market distribution channel. During the quarter, the manufacturing capability of ICML Trichy was augmented for Finger Snacks, Atta, and Biscuits.
- For Q1FY20, ITC's revenue grew 6% YoY to Rs.11361Cr, where the Cigarette business grew 1.5% YoY mainly on account of a favourable base. All the segments delivered strong double-digit growth except Cigarette and FMCG, which were lower largely due to consumption slowdown. Cigarettes volume growth was merely 3%. EBITDA and PAT grew 8.7% and 12.6% respectively to Rs.4565Cr and Rs.3174Cr respectively.
- At the current market price of Rs.247, the stock is trading at a 23.7x its FY19 EPS of Rs.10.37. We believe with an upturn in consumer demand, good monsoon, and expansion across the business segments, ITC has high growth prospects. Hence, we recommend **BUY** rating with a target price of Rs.300.

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