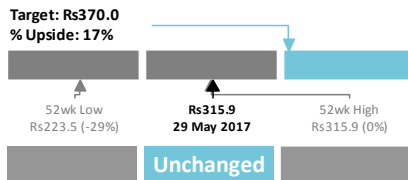


ITC (ITC IN)

Target Price **Rs370.0**
 Current Price **Rs315.9**
 % Upside **17%**

Q4 Performance In Line With Estimates

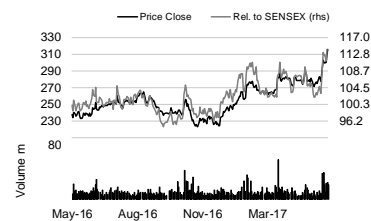
Tobacco
 India
 29 May 2017

BUY

Basic Share Information

Market cap Rs3,837b / US\$59.54b
 Daily traded value (3mth) US\$51.43m
 Shares outstanding 12,080m
 Free float 40%
 Net debt-to-equity -6.3%
 1 yr high Rs315.9
 1 yr low Rs223.5
 Foreign Shareholding 24.7%

Price/Volume



Source: Bloomberg

	1mth	3mth	12mth
Absolute	13.6%	20.5%	31.9%
Absolute USD	13%	25%	37.4%
Relative to SENSEX	9.9%	12.6%	15.5%

**Gaurang Kakkad**

Haitong International Research Ltd
 gaurang.kakkad@htisec.com

**Premal Kamdar**

Haitong International Research Ltd
 premal.kamdar@htisec.com

Hong Kong Office (852) 2899 7090
 Tokyo Office (81) 3 6402 7620
 London Office (44) 20 7397 2700
 New York Office (1) 212 867 7300
 Mumbai Office (91) 22 43156839

www.equities.htisec.com

Recovery in Cigarette Volume Growth from FY3/18

Summary: ITC reported its Q4 FY3/17 results which were largely in line with our and consensus estimates. Key highlight for the quarter was its cigarette division's (accounted for around 62% and 85% of the company's FY3/16 revenues and EBIT, respectively) gross revenues, which grew by 4.8% YoY with volumes remaining flat YoY while EBIT for the division grew by 8% YoY. Gross revenues for the other key business, fast moving consumer goods (FMCG; accounted for 18% of company's FY3/16 revenues) grew 6.5% YoY while EBIT declined by 21.6% YoY on account of inflation in raw material prices and brand building. We believe that with the revenue-neutral impact of announced goods and services tax (GST) rates for cigarettes, a key overhang for investors around high taxation on cigarettes has been removed. As a result, we forecast a cigarette volume growth revival through average annual growth of 3% over FY3/18–19. This coupled with prospects of profitability improvement in FMCG led by economies of scale kicking in, we estimate ITC's earnings CAGR improving to 15.2% over FY3/18–19 from 4.1% CAGR registered over FY3/16–17. We maintain our BUY rating.

Target Price and Catalyst: Our sum of the parts (SOTP) based target price rises to Rs370 (previously Rs330) as we increase our PER applied to ITC's cigarette division to 31x (28x previously) with the key overhang of GST going away. Key catalysts are volume growth recovery in cigarette business and improved profitability of FMCG business.

Earnings: For Q4 FY3/17, ITC reported net sales, EBITDA, NP growth of 14%, 7.5% and 12.1%, respectively, with estimated cigarettes volumes growth being flat YoY (in-line with our expectation). Cigarette division's gross revenues grew by 4.8% YoY while EBIT growth stood at 8% YoY. FMCG business reported sluggish revenue growth of 6.5% YoY on account of demand conditions remaining subdued. While the hotels division revenues grew by 6.5% YoY helped by higher average room rate and robust growth in food & beverage revenue. Agri business revenues grew by 6.2% YoY while paperboard reported revenue growth of 4.4% YoY was impacted by muted demand in FMCG and legal cigarette industry cheap imports from China. Cigarette business reported EBIT growth of 8% YoY with gross EBIT margins expanding by 110 bps YoY to 36.4%. FMCG/ agri business reported an EBIT decline of 21.6%/20.8%, respectively, while hotels/ paperboard EBIT margins improved by 560bps/200bps YoY to 17.3%/ 17.5%, respectively. We marginally lower our EPS over FY3/18–19 by 0.5–0.6% on account of lower other income.

Valuation: We raise our cigarette EBIT estimates by 3.3–4.3% over FY3/18–19 on expectation of higher margins than prior. Due to PER multiple for the cigarette division increasing to 31x from 28x previously, our target price moves up to Rs370 from Rs330 earlier. The main risks to our target price are: 1) lower volume growth in cigarette division than we currently estimate and 2) higher investment by ITC in its FMCG business than we currently factor into our forecasts leading to lower profitability than estimate.

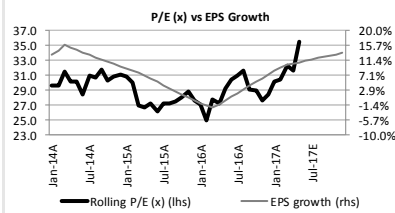
	Mar-15A	Mar-16A	Mar-17A	Mar-18E	Mar-19E	Trend
Total turnover (Rsm)	384,333	392,121	428,059	482,247	548,978	— — — — —
Operating profit (Rsm)	127,722	133,934	142,854	163,817	189,297	— — — — —
Pre-tax profit (Rsm)	143,621	148,506	160,226	183,906	212,425	— — — — —
Net income to ord equity (Rsm)	96,632	95,009	104,795	120,314	138,967	— — — — —
Net profit growth	8.7%	(1.7%)	10.3%	14.8%	15.5%	— — — — —
P/E (x)	39.15	40.05	36.40	31.71	27.46	— — — — —
Adj EV/EBITDA (x)	21.18	18.96	15.80	14.28	12.79	— — — — —
P/B (x)	11.97	8.93	8.22	7.56	6.92	— — — — —
ROE	32.8%	25.5%	23.5%	24.8%	26.3%	— — — — —
Dividend yield	1.3%	1.8%	1.5%	1.7%	2.0%	— — — — —
EPS HTI old (Rs)	8.07	8.23	8.81	10.02	11.56	— — — — —
EPS HTI New (Rs)	8.07	7.89	8.68	9.96	11.50	— — — — —
Consensus EPS (Rs)	8.26	8.33	8.75	10.03	11.42	— — — — —
HTI EPS vs Consensus	(2.3%)	(5.4%)	(0.9%)	(0.7%)	0.7%	— — — — —

Source: Company data, Bloomberg, HTI estimates

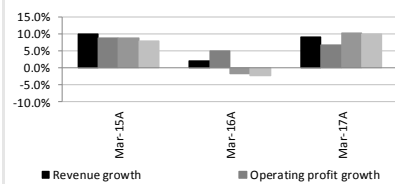
Note: FY15 Financials based on IGAAP while FY16–19 Financials based on IND AS

Click [here](#) to download the working model

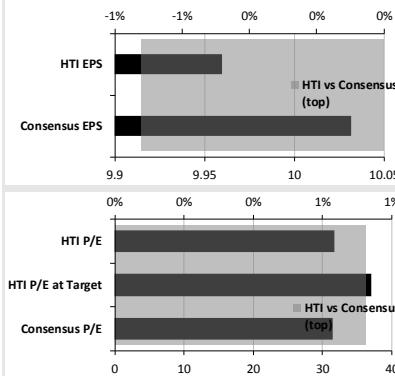
Valuation



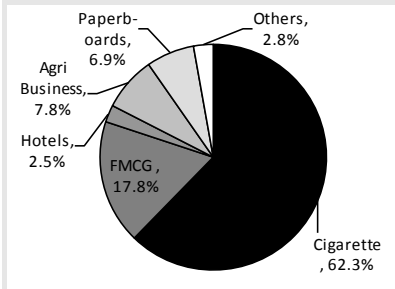
Earnings Trends



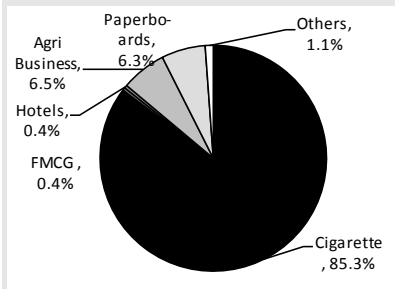
Earnings: HTI vs Consensus



ITC's Gross Sales Breakdown – FY3/16



ITC's EBIT Breakdown – FY3/16



Investment Thesis

Buy

► Post double-digit increases in excise duty on cigarettes and government announcement of revenue-neutral rate for cigarettes, we believe the cigarette division should witness average volume growth of 3% over FY3/18–19 as compared to volume decline of 5.4% over FY3/15–17. Additionally, EBIT CAGR should accelerate to 14% over FY3/18–19 from a CAGR of 5.7% over FY3/16–17.

► Based on increased government spend on rural wage scheme, increase in minimum selling price (MSP) of key crops and improving consumer sentiments as per Reserve Bank of India's (RBI) future consumer confidence index, we believe there should be a pickup in consumer spending in FY3/18. This in turn should support a revival in FMCG growth rate to double-digits.

► Additionally, with many brands of the company in the FMCG business starting to gain critical size, we estimate lower spends on brand building coupled together with cost efficiencies to lead to improved profitability in the FMCG business over FY3/18–19.

► Double-digit increase in excise duty on cigarettes in the last few years had put pressure on volume and EBIT growth of ITC's cigarette business, which translated into subdued EPS CAGR of 4.1% over FY3/16–17. However, we expect recovery in cigarette volume growth along with improvement in profitability of ITC's FMCG business to boost the company's EPS to a CAGR of 15.2% over FY3/18–19. We maintain our BUY rating on the stock and raise our target price to Rs370 (previously Rs330) as we assign a higher PER multiple of 31x (28x previously) to ITC's cigarette division in our SOTP valuation with the main GST overhang going away.

Company Snapshot

With market cap of Rs3,755bn as of 26th May, 2017, ITC ranks among top five listed companies in India. The company was founded on August 24, 1910 with its headquarters in Kolkata, India. ITC is a diversified company with presence across multiple segments namely cigarette, FMCG, hotels, agri products, paperboard, paper and packing products. The company is the dominant market leader in the cigarette industry with volume market share of around 80%. Cigarette business is the largest business for the company, contributing around 62% to its total gross sales and around 85% to total EBIT in FY3/16. In the FMCG business as well the company is one of the largest players with FY3/16 gross sales of Rs97.55bn and strong brands in both personal care and branded foods category such as *Aashirwad*, *Sunfeast*, *Classmate*, *Engage*, *Vivel* etc. With 99 properties across 71 locations in India, ITC's hotel business contributes around 2% of total sales in FY3/16, which consists of four brands namely *ITC Hotels*, *Welcom Hotel*, *Fortune* and *Welcom Heritage*. ITC is also the leading player in agri business in India with FY3/16 gross sales of Rs74.56bn.

Key Investment Metrics

Revenue Growth

Low Medium High

We forecast revenue CAGR to improve to 13.2% over FY3/18–19 from 5.5% CAGR over FY3/16–17.

Profit Margins

Low Medium High

We have built in EBITDA margin improving by 90bps over FY3/17–19 to 37% in FY3/19 led by improving profitability in cigarette and FMCG business.

Shareholder Returns

Low Medium High

We expect ROE of the Company to improve from 23.5% in FY3/17 to 26.3% in FY3/19 on account of improving margins.

Balance Sheet Risks

High Medium Low

With net cash position of Rs29.3bn and estimated free cash flow (FCF) generation of Rs88.9bn in FY3/17, we do not expect ITC to face any risk on balance sheet side.

Barriers to Entry

Low Medium High

The barrier to entry for a new player to start selling cigarette in the country is high as the regulations do not permit FDI in cigarette manufacturing. Also, strong brands created by ITC and their top of the mind recall amongst consumers differentiate it from any local or regional player and helps the Company in delivering volume growth on sustainable basis in years of benign taxation hikes.

International Exposure/Breakdown

High Medium Low

The company earned only 6.7% of its total gross revenues in FY3/16 through exports which is quite low when compared to its FMCG peers such as Dabur (DABUR IN) and Marico (MRCO IN), which derive around 32% and 22% of their FY3/16 revenues from international markets.

FX Exposure

High Medium Low

With foreign currency revenues of only Rs36.4bn (6.7% of total gross revenues) and expenditure of Rs16.72bn (6.8% of total expense) in FY3/16, the exposure towards foreign currency is low.

Corporate Governance

Low Medium High

With Bloomberg ESG (Environmental, Social and Governance) disclosure score of 50.8 as compared to its global peers (based on Bloomberg industry classification system) average score of 30.5, implies Company maintaining high transparency for its shareholders. Additionally, with Bloomberg governance disclosure score of 62.5 coupled with good size of board with 15 members (seven being independent directors) gives us the impression of strong governance culture maintained in the company.

Our Model Assumptions

We forecast a CAGR for revenue of 13.2% over FY3/18–19

We have built in EBITDA margin improvement of 90bps over FY3/17–19 to 37% in FY3/19

Profit & Loss (Rsm)	Mar-15A	Mar-16A	Mar-17A	Mar-18E	Mar-19E
Total turnover	384,333	392,121	428,059	482,247	548,978
Cost of sales	(147,722)	(135,685)	(160,492)	(180,041)	(201,792)
Gross profit	236,611	256,436	267,567	302,206	347,186
Total operating costs	(108,890)	(122,502)	(124,713)	(138,388)	(157,889)
Operating profit	127,722	133,934	142,854	163,817	189,297
Operating EBITDA	138,001	144,708	154,382	176,382	203,309
Depreciation and amortisation	(10,280)	(10,774)	(11,528)	(12,564)	(14,011)
Other recurring income	16,580	15,108	17,615	20,258	23,296
Interest expense	(681)	(536)	(243)	(169)	(169)
Pre-tax profit	143,621	148,506	160,226	183,906	212,425
Taxation	(45,964)	(53,582)	(55,491)	(63,659)	(73,530)
Minority interests	(1,025)	84	60	66	72
Net income to ord equity	96,632	95,009	104,795	120,314	138,967

Source: Company, HTI estimates

[Click For Interactive Model](#)

✓ Key P/L Takeaway

We expect a gradual recovery in volume growth for ITC's cigarette business coupled with improvement in profitability for its FMCG business to together boost the company's EPS growth

With some easing of regulation on cigarette taxation by the government with announcement of a revenue-neutral rate on cigarette under GST regime, we expect cigarette volume growth for ITC to recover to 3% per annum on average over FY3/18–19 as compared to volume decline of 5.4% per annum over FY3/15–17. This should help improve of the cigarette division's EBIT margin by 150bps over FY3/17–19 to 38.3% in FY3/19 on account of positive operating leverage. For its FMCG business, we forecast lower spend on brand building and positive operating leverage, which together should aid EBIT margin of the segment improving from 0.3% in FY3/17 to 4% in FY3/19. At the overall company level, we estimate EBITDA margin should improve by 90bps over FY3/17–19 to 37% in FY3/19 with gross margin expanding by 75bps over the same period. We project EPS to post a CAGR of 15.2% over FY3/18–19 from 4.1% over FY3/16–17.

Our Model Assumptions

We estimate total cash and equivalents improving from Rs29.7bn in FY3/17 to Rs82.1bn in FY3/19

We have built in capital expenditure of Rs30bn/31.5bn in FY3/18/19, respectively



Key B/S Takeaway

With EPS CAGR over FY3/18–19 improving versus FY3/16–17 and investment in capex largely in line with ITC's past, we expect the company to keep generating strong free cash flow (FCF) which would minimize any risk to balance sheet of the company

Balance Sheet (Rsm)	Mar-15A	Mar-16A	Mar-17A	Mar-18E	Mar-19E
Total cash and equivalents	78,962	60,633	29,674	58,573	82,112
Inventories	85,869	91,294	87,412	91,254	96,749
Accounts receivable	19,821	19,172	24,743	26,424	27,073
Other current assets	25,408	51,276	50,657	55,458	62,584
Total current assets	210,060	222,374	192,486	231,709	268,517
Tangible fixed assets	177,715	169,883	189,465	206,900	224,389
Intangible assets	2,320	6,780	6,769	6,769	6,769
Total investments	69,428	117,476	170,264	170,264	170,264
Total other assets	(16,042)	(18,395)	(18,338)	(18,338)	(18,338)
Total non-current assets	233,421	275,745	348,159	365,595	383,084
Total assets	443,480	498,119	540,645	597,304	651,601
Short-term debt	1,954	440	191	191	191
Accounts payable	20,205	23,393	26,593	31,409	33,982
Other current liabilities	101,109	45,680	49,152	57,842	62,593
Total current liabilities	123,267	69,512	75,937	89,443	96,766
Long-term debt	607	267	184	184	184
Other liabilities	-	(1,064)	(2,552)	-	-
Total non-current liabilities	607	(798)	(2,368)	184	184
Total liabilities	123,874	68,715	73,568	89,627	96,950
Common stocks	12,023	12,071	12,080	12,080	12,080
Other reserves	305,332	414,724	452,049	492,650	539,624
Shareholders' equity	317,355	426,795	464,129	504,730	551,704
Minority interests	2,251	2,609	2,947	2,947	2,947
Other equity	-	-	0	0	0
Total equity	319,606	429,404	467,077	507,678	554,651
Total liabilities & shareholders' equity	443,480	498,119	540,645	597,304	651,601

Source: Company, HTI estimates

[Click For Interactive Model](#)

We project a free cash flow (FCF) CAGR of 13.8% over FY3/18–19 which should drive cash and cash equivalents increasing from Rs29.7bn in FY3/17 to about Rs82.1bn in FY3/19. With strong FCF CAGR and robust cash balance, we foresee minimal risk related to the company's balance sheet.

Our Model Assumptions

We have built in capital expenditure of Rs30bn/31.5bn in FY3/18–19, respectively

We forecast a CAGR for FCF of 13.8% over FY3/18–19

✓ Key Cash Flow Takeaway

Despite high capital expenditure, we forecast ITC to clock FCF CAGR of 13.8% over FY3/18–19

Cash Flow (Rsm)	Mar-15A	Mar-16A	Mar-17A	Mar-18E	Mar-19E
Operating profit	127,722	133,934	142,854	163,817	189,297
Depreciation and amortisation	10,280	10,774	11,528	12,564	14,011
Changes in working capital	11,468	(82,884)	5,602	3,181	(5,946)
Other operating cash flow	15,899	82,538	15,884	22,641	23,128
Operating cash flow	165,368	144,362	175,868	202,204	220,490
Interest paid	(681)	(536)	(243)	(169)	(169)
Tax paid	(42,637)	(51,230)	(55,547)	(63,659)	(73,530)
Cash flow from operations	122,050	92,596	120,078	138,377	146,791
Capex	(30,091)	(23,909)	(31,109)	(30,000)	(31,500)
Other new investments	3,413	(1,540,890)	(52,788)	-	-
Other investing cash flow	(152)	1,525,142	409	66	72
Cash flow from investing activities	(26,831)	(39,657)	(83,488)	(29,934)	(31,428)
Dividends paid to ordinary shareholders	(47,719)	(50,097)	(68,401)	(57,637)	(66,172)
Proceeds from issue of shares	(1,549)	82,833	(9,824)	-	-
Other financing cash flow	(1,402)	(90,428)	10,676	(21,907)	(25,652)
Cash flow from financing activities	(50,671)	(57,692)	(67,549)	(79,544)	(91,825)
Cash at beginning of period	34,902	78,962	60,633	29,674	58,573
Total cash generated	44,548	(4,752)	(30,959)	28,899	23,539
Forex effects	(488)	(13,577)			
Implied cash at end of period	78,962	60,633	29,674	58,573	82,112
Free cash flow	91,959	68,688	88,968	108,377	115,291

Source: Company, HTI estimates
Note: FY3/17 Cash Flow are projected

[Click For Interactive Model](#)


Our capex projection range over FY3/18–19 is Rs30–31.5bn per annum and we forecast CAGR for FCF improving to 13.8% over the same period.

Our Model Assumptions

We forecast a CAGR for EPS of 15.2% over FY3/18–19

We build in a CAGR for revenue of 13.2% over FY3/18–19

We forecast EBITDA margin improving by 90bps over FY3/17–19

 **Key Driver Takeaway**
Improving business environment for cigarette business coupled with improved profitability of FMCG business should aid the company in posting a CAGR for EPS of 15.2% over FY3/18–19

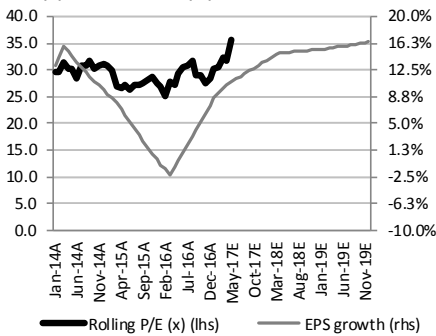
Per Share Data	Mar-15A	Mar-16A	Mar-17A	Mar-18E	Mar-19E
EPS (Rs)	8.07	7.89	8.68	9.96	11.50
FDEPS (Rs)	8.07	7.89	8.68	9.96	11.50
Revenue per share (Rs)	32.09	32.55	35.45	39.92	45.45
Operating EBITDA per share (Rs)	11.52	12.01	12.78	14.60	16.83
BVPS (Rs)	26.40	35.36	38.42	41.78	45.67
DPS (Rs)	4.17	5.67	4.77	5.48	6.33
Recurrent cash flow per share (Rs)	10.19	7.69	9.94	11.46	12.15
Shares in issue (million)	12,023	12,071	12,080	12,080	12,080
Year end adjusted shares in issue (m)	12,023	12,071	12,080	12,080	12,080
Key Ratios	Mar-15A	Mar-16A	Mar-17A	Mar-18E	Mar-19E
Valuation Measures					
P/Sales (x)	9.84	9.70	8.91	7.91	6.95
P/E (x)	39.15	40.05	36.40	31.71	27.46
P/CF (x)	30.99	41.09	31.76	27.57	25.99
P/B (x)	11.97	8.93	8.22	7.56	6.92
Adj EV/EBITDA (x)	21.18	18.96	15.80	14.28	12.79
Dividend yield	1.3%	1.8%	1.5%	1.7%	2.0%
Growth					
Revenue growth	9.9%	2.0%	9.2%	12.7%	13.8%
Operating profit growth	8.7%	4.9%	6.7%	14.7%	15.6%
Net profit growth	8.7%	(1.7%)	10.3%	14.8%	15.5%
Margins					
Gross margin	61.6%	65.4%	62.5%	62.7%	63.2%
Operating EBITDA margin	35.9%	36.9%	36.1%	36.6%	37.0%
Operating margin	33.2%	34.2%	33.4%	34.0%	34.5%
Pretax profit margin	37.4%	37.9%	37.4%	38.1%	38.7%
Tax rate	32.0%	36.1%	34.6%	34.6%	34.6%
Net profit margin	25.1%	24.2%	24.5%	24.9%	25.3%
Key Ratios					
ROE	32.8%	25.5%	23.5%	24.8%	26.3%
ROA	23.0%	20.2%	20.2%	21.1%	22.3%
Capex/revenue	7.8%	6.1%	7.3%	6.2%	5.7%
Current ratio (x)	1.70	3.20	2.53	2.59	2.77
Creditor days	49.92	63.10	60.48	63.68	61.47
Debtor days	18.82	17.89	21.10	20.00	18.00
Inventory days	212.2	246.3	198.8	185.0	175.0
Sales/avg assets	0.92	0.83	0.82	0.85	0.88
Credit analysis					
EBITDA/interest paid (x)	203	270	635	1,046	1,206
OCF/interest paid (x)	179.2	172.8	494.1	820.7	870.6
Debt/EBITDA (x)	0.02	0.00	0.00	0.00	0.00
Debt/equity	0.8%	0.2%	0.1%	0.1%	0.1%
Net debt to equity	(23.9%)	(14.0%)	(6.3%)	(11.5%)	(14.7%)

Source: Company, HTI estimates

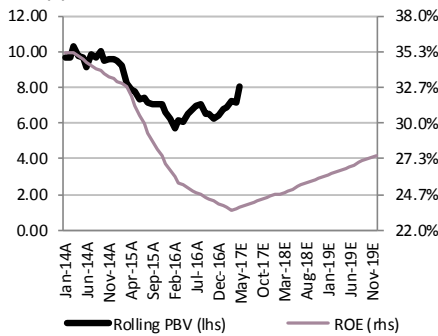
Click For Interactive Model

We build in a CAGR for revenue of 13.2% over FY3/18–19 with EBITDA margin improving by 90bps over FY3/17–19 to 37% in FY3/19 on the back of improving profitability for cigarette and FMCG business. We estimate CAGR for EPS to improve to 15.2% over FY3/18–19. We expect FCF for the company to clock a CAGR of 13.8% over FY3/18–19.

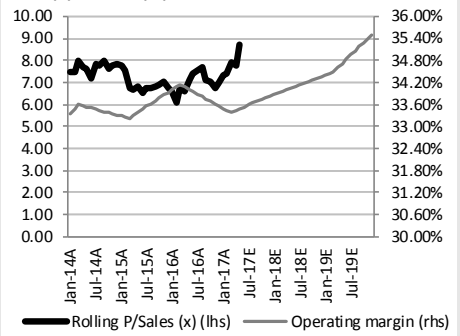
P/E (x) vs EPS Growth (%)



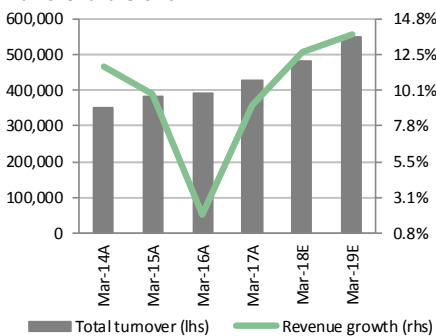
P/B (x) vs ROE



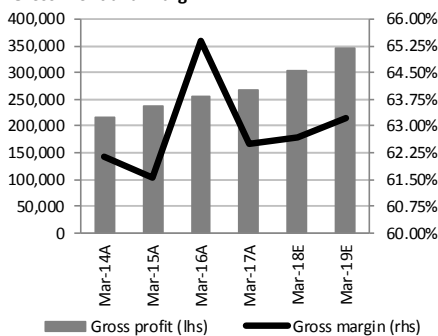
PSR (x) vs OPM (%)



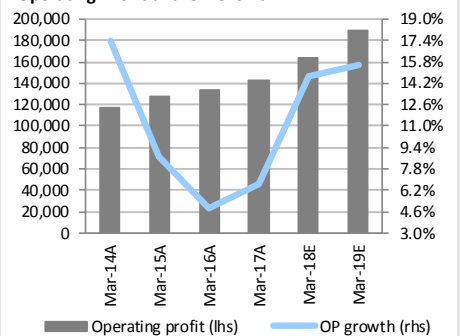
Turnover and Growth



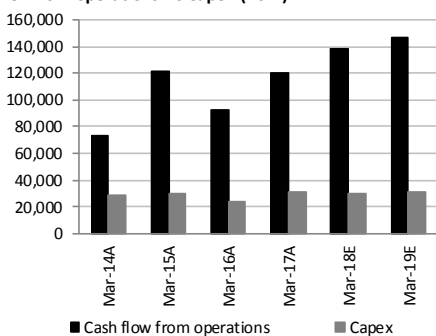
Gross Profit and Margin



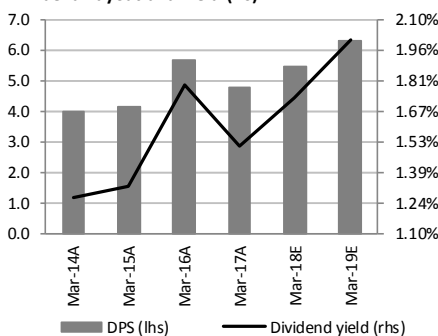
Operating Profit and OP Growth



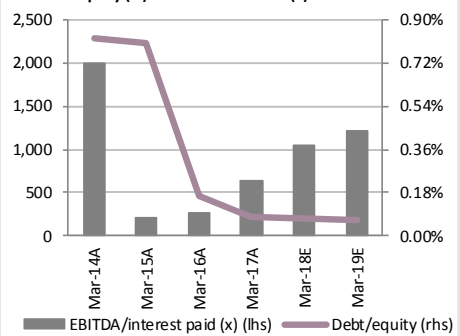
CF from operations vs Capex (Rsm)



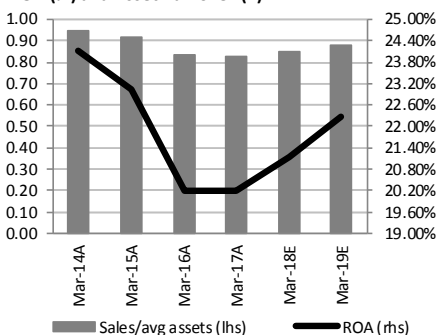
Dividend Payout and Yield (Rs)



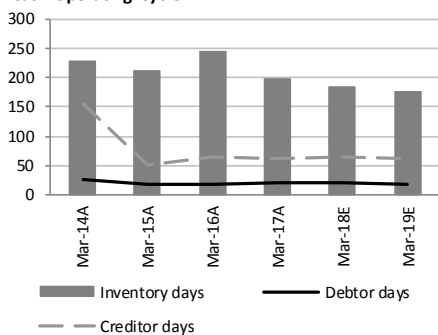
Debt to Equity (%) and Interest Cover (x)



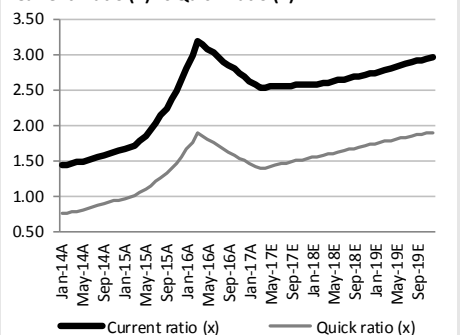
ROA (%) and Asset Turnover (x)



Cash Operating Cycle



Current Ratio (x) vs Quick Ratio (x)



IMPORTANT DISCLOSURES

This research report is distributed by Haitong International, a global brand name for the equity research teams of Haitong International Research Limited ("HTIRL"), Haitong Securities India Private Limited ("HSIPL"), Haitong International Japaninvest KK ("HTIJKK"), Haitong International Securities Company Limited ("HTISCL"), Haitong International Investment Services Limited ("HTIIS"), and any other members within the Haitong International Securities Group of Companies ("HTISG"), each authorized to engage in securities activities in its respective jurisdiction.

Analyst Certification: We, Gaurang Kakkad and Premal Kamdar, certify that (i) the views expressed in this research report accurately reflect our personal views about any or all of the subject companies or issuers referred to in this research and (ii) no part of our compensation was, is or will be directly or indirectly related to the specific recommendations or views expressed in this research report; and that we (including members of our household) have no financial interest in the security or securities of the subject companies discussed.

Conflict of Interest Disclosures

If no disclosures are included, it means that at the time of publication there is no conflict of interest pursuant to applicable regulations.

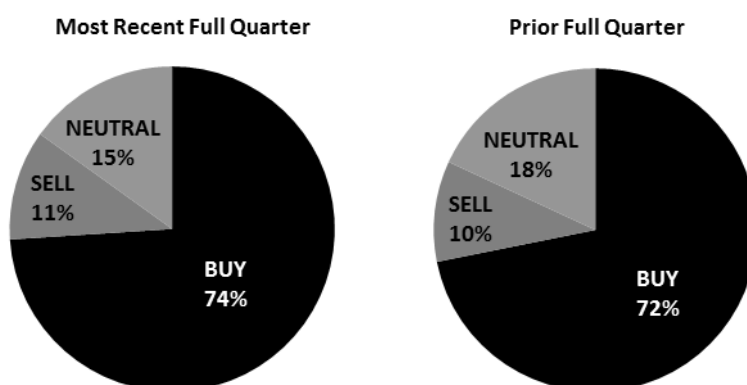
Ratings Definitions: Haitong International (sometimes referred to as "HTI") has three ratings, which are defined below. The percentage of BUY, SELL or NEUTRAL ratings out of the total number of rated notes appears in the Ratings Distribution chart. ALL rated stocks have a target price which represents the analyst's best estimate of the fundamental value of the stock on a 12 month forward basis.

BUY ≥ 15% absolute upside performance expected within the next 12 months

SELL ≥ 15% absolute downside performance expected within the next 12 months

NEUTRAL: A stock under coverage with insufficient upside or downside to justify a BUY or SELL rating. For purposes only of FINRA/NYSE ratings distribution rules, our Neutral rating falls into a hold rating category.

Ratings Distribution



Haitong International Equity Research Ratings Distribution, as of March 31, 2017

	BUY	Neutral (hold)	SELL
HTI Equity Research Coverage	74%	15%	11%
IB clients*	5%	3%	9%

*Percentage of investment banking clients in each rating category.

For purposes only of FINRA/NYSE ratings distribution rules, our Neutral rating falls into a hold rating category. Please note that stocks with an NR designation are not included in the table above.

Haitong International Non-Rated Research: Haitong International publishes quantitative, screening or short reports which may rank stocks according to valuation and other metrics or may suggest prices based on possible valuation multiples. Such rankings or suggested prices do not purport to be stock ratings or target prices or fundamental values and are for information only.

HTI Equity-Style Portfolios: Stocks are selected for Haitong International's equity-style portfolio products based on six different strategies: Value, Quality, Growth, Risk, Momentum and US Exposure. Each quarter, HTI's rated coverage is screened based on the selection criterion for each strategy and using a scoring methodology, the top 20 stocks for each strategy are identified and assigned to the portfolios. Note that the quantitative screening used to rank stocks for the HTI equity-style portfolios is separate from the fundamental analysis employed by HTI sector analysts, so there may be differences in the assessments of individual stocks.

HTI Themes: The Haitong International research department periodically identifies a select number of themes that it believes have longevity and identifies stocks from among its rated coverage that are relevant for these themes. These themes and the relevant stocks are reviewed on a quarterly basis. Note that the strategic attractiveness of a general theme may be different from the fundamental assessments of individual stocks within that theme.

Related SCNet Visits: The designation of a related SCNet visit means that the specified Haitong International non-rated company visit reports may provide additional perspective with regard to HTI's rated coverage. The research department selects these related SCNet visit reports on a quarterly basis. The process of compiling and publishing unrated SCNet notes is separate from the fundamental assessment and publication of individual rated stocks.

Haitong International Coverage of A-Shares: Haitong International may cover and rate A-Shares that are subject to the Hong Kong Stock Connect scheme with Shanghai and Shenzhen. Haitong Securities (HS; 600837 CH), the ultimate parent company of HTISG based in Shanghai, covers and publishes research on these same A-Shares for distribution in mainland China. However, the rating system employed by HS differs from that used by HTI and as a result there may be a difference in the HTI and HS ratings for the same A-share stocks.

Haitong International Quality 100 A-share (Q100) Index: HTI's Q100 Index is a quant product that consists of 100 of the highest-quality A-shares under coverage at HS in Shanghai. These stocks are carefully selected through a quality-based screening process in combination with a review of the HS A-share team's bottom-up research. The Q100 constituent companies are reviewed quarterly.

IMPORTANT DISCLAIMER:

For research reports on non-Indian securities: The research report is issued by Haitong International Research Limited ("HTIRL"), a wholly owned subsidiary of Haitong International Securities Group Limited ("HTISGL") and a licensed corporation to carry on Type 4 regulated activity (advising on securities) for the purpose of the Securities and Futures Ordinance (Cap. 571) of Hong Kong, with the assistance of Haitong International Japaninvest KK ("HTIJKK"), a wholly owned subsidiary of HTISGL and which is regulated as an Investment Adviser by the Kanto Finance Bureau of Japan.

For research reports on Indian securities: The research report is issued by Haitong Securities India Private Limited ("HSIPL"), an Indian company and a Securities and Exchange Board of India ("SEBI") registered Stock Broker, Merchant Banker and Research Analyst that, inter alia, produces and distributes research reports covering listed entities on the BSE Limited ("BSE") and the National Stock Exchange of India Limited ("NSE") (collectively referred to as "Indian Exchanges"). HSIPL was acquired and became part of the Haitong International Securities Group of Companies ("HTISG") on 22 December 2016.

All the research reports are globally branded under the name Haitong International and approved for distribution by Haitong International Securities Company Limited ("HTISCL") and/or Haitong International Investment Services Limited ("HTIIS"), and/or any other members within HTISG in their respective jurisdictions.

The information and opinions contained in this research report have been compiled or arrived at from sources believed to be reliable and in good faith but no representation or warranty, express or implied, is made by HTIRL, HTISCL, HTIIS, HSIPL, HTIJKK or any other members within HTISG from which this research report may be received, as to their accuracy, completeness or correctness. All opinions expressed herein are as of the date of this research report and are subject to change without notice. This research report is for information purpose only. Descriptions of any companies or their securities mentioned herein are not intended to be complete and this research report is not, and should not be construed expressly or impliedly as, an offer to buy or sell securities. The securities referred to in this research report may not be eligible for purchase or sale in some jurisdictions. If an investment product is denominated in a currency other than an investor's home currency, a change in exchange rates may adversely affect the investment. Past performance is not necessarily indicative of future results. Certain transactions, including those involving derivatives, give rise to substantial risk and are not suitable for all investors. You should also bear in mind that recommendations in this research report are not tailor-made for you. The analyst has not taken into account your unique financial circumstances, such as your financial situation and risk appetite. You must, therefore, analyze and should, where applicable, consult your own legal, tax, accounting, financial and other professional advisers to evaluate whether the recommendations suits you before investment. Neither HTISG nor any of its directors, employees or agents accepts any liability whatsoever for any direct or consequential loss arising from any use of the materials contained in this research report.

HTISG and our affiliates, officers, directors, and employees, excluding the analysts responsible for the content of this document, will from time to time have long or short positions in, act as principal in, and buy or sell, the securities or derivatives, if any, referred to in this research report. Sales, traders, and other professionals of HTISG may provide oral or written market commentary or trading strategies to the relevant clients and the companies within HTISG that reflect opinions that are contrary to the opinions expressed in this research report. HTISG may make investment decisions that are inconsistent with the recommendations or views expressed in this research report. HTI is under no obligation to ensure that such other trading decisions, ideas or recommendations are brought to the attention of any recipient of this research report.

Please refer to HTI's website www.equities.htisec.com for further information on HTI's organisational and administrative arrangements set up for the prevention and avoidance of conflicts of interest with respect to Research.

Non U.S. Analyst Disclosure: The HTI analyst(s) listed on the cover of this Research is (are) not registered or qualified as a research analyst with FINRA and are not subject to U.S. FINRA Rule 2241 restrictions on communications with companies that are the subject of the Research; public appearances; and trading securities by a research analyst.

DISTRIBUTION AND REGIONAL NOTICES:

Except as otherwise indicated below, any Recipient wishing to discuss this research report or effect any transaction in any security discussed in HTI's research should contact the Haitong International salesperson in their own country or region.

Notice to Hong Kong investors: The research report is distributed by Haitong International Securities Company Limited ("HTISCL") and/or Haitong International Investment Services Limited ("HTIIS"), both licensed corporations to carry on Type 1 regulated activity (dealing in securities) in Hong Kong. This research report does not constitute a solicitation or an offer of securities or an invitation to the public within the meaning of the SFO. This research report is only to be circulated to "Professional Investors" as defined in the SFO. This research report has not been reviewed by the Securities and Futures Commission. You should not make investment decisions solely on the basis of the information contained in this research report

Notice to U.S. investors: As described above, this research report was prepared by HTIRL, HSIPL or HTIJKK. Neither HTIRL, HSIPL, HTIJKK, nor any of the non U.S. HTISG affiliates is registered in the United States and, therefore, is not subject to U.S. rules regarding the preparation of research reports and the independence of research analysts. This research report is provided for distribution to "major U.S. institutional investors" and "U.S. institutional investors" in reliance on the exemption from registration provided by Rule 15a-6 of the U.S. Securities Exchange Act of 1934, as amended. Any U.S. recipient of this research report wishing to effect any transaction to buy or sell securities or related financial instruments based on the information provided in this research report should do so only through Haitong International Securities (USA) Inc. ("HTI USA"), located at 850 Third Avenue, Suite 9B, New York, NY 10022, telephone (212) 867-7300. HTI USA is a broker-dealer registered in the U.S. with the U.S. Securities and Exchange Commission (the "SEC") and a member of the Financial Industry Regulatory Authority, Inc. ("FINRA"). HTI USA is not responsible for the preparation of this research report nor for the analysis contained therein. Under no circumstances should any U.S. recipient of this research report contact the analyst directly or effect any transaction to buy or sell securities or related financial instruments directly through HSIPL, HTIRL or HTIJKK. The HSIPL, HTIRL or HTIJKK analyst(s) whose name appears in this research report is not registered or qualified as a research analyst with FINRA and, therefore, may not be subject to FINRA Rule 2241 restrictions on communications with a subject company, public appearances and trading securities held by a research analyst account. Investing in any non-U.S. securities or related financial instruments (including ADRs) discussed in this research report may present certain risks. The securities of non-U.S. issuers may not be registered with, or be subject to U.S. regulations. Information on such non-U.S. securities or related financial instruments may be limited. Foreign companies may not be subject to audit and reporting standards and regulatory requirements comparable to those in effect within the U.S. The value of any investment or income from any securities or related financial instruments discussed in this research report denominated in a currency other than U.S. dollars is subject to exchange rate fluctuations that may have a positive or adverse effect on the value of or income from such securities or related financial instruments.

All inquiries by U.S. recipients should be directed to:

Haitong International Securities (USA) Inc.
850 Third Avenue, Suite 9B
New York, NY 10022
Attn: Sales Desk at (212) 867-7300

People's Republic of China (PRC): In the PRC, the research report is directed for the sole use of those who receive the research report in accordance with the applicable PRC laws and regulations. Further, the information on the research report does not constitute "production and business activities in the PRC" under relevant PRC laws. This research report does not constitute a public offer of the security, whether by sale or subscription, in the PRC. Further, no legal or natural persons of the PRC may directly or indirectly purchase any of the security or any beneficial interest therein without obtaining all prior PRC government approvals or licenses that are required, whether statutorily or otherwise. Persons who come into possession of this research are required to observe these restrictions.

Notice to Canadian investors: Under no circumstances is this research report to be construed as an offer to sell securities or as a solicitation of an offer to buy securities in any jurisdiction of Canada. Any offer or sale of the securities described herein in Canada will be made only under an exemption from the requirements to file a prospectus with the relevant Canadian securities regulators and only by Haitong International Securities (USA) Inc., a dealer relying on the "international dealer exemption" under National Instrument 31-103 Registration Requirements, Exemptions and Ongoing Registrant Obligations ("NI 31-103") in Alberta, British Columbia, Ontario and Quebec. This research report is not, and under no circumstances should be construed as, a prospectus, an offering memorandum, an advertisement or a public offering of any securities in Canada. No securities commission or similar regulatory authority in Canada has reviewed or in any way passed upon this research report, the information contained herein or the merits of the securities described herein and any representation to the contrary is an offence. Upon receipt of this research report, each Canadian recipient will be deemed to have represented that the investor is an "accredited investor" as such term is defined in section 1.1 of National Instrument 45-106 Prospectus Exemptions or, in Ontario, in section 73.3(1) of the Securities Act (Ontario), as applicable, and a "permitted client" as such term is defined in section 1.1 of NI 31-103, respectively.

Notice to Singapore investors: This research report is provided in Singapore by or through Haitong International Securities (Singapore) Pte Ltd ("HTISSPL") [Co Reg No 201306644N], which is an Exempt Financial Adviser as defined in the Financial Advisers Act ("FAA") and regulated by the Monetary Authority of Singapore, and is only provided to accredited investors, expert investors and institutional investors, as defined in Section 4A of the Securities and Futures Act, Cap. 289. Recipients of this research report are to contact HTISSPL in respect of any matters arising from, or in connection with, the research report. If you are an accredited investor or expert investor, please be informed that in our dealings with you, we are relying on certain exemptions to the Financial Advisers Act. Cap. 110 ("FAA") - (1) the exemption in Regulation 33 of the Financial Advisers Regulations ("FAR"), which exempts us from complying with Section 25 of the FAA on disclosure of product information to clients; (2) the exemption set out in Regulation 34 of the FAR, which exempts us from complying with Section 27 of the FAA on recommendations; and (3) the exemption set out in Regulation 35 of the FAR, which exempts us from complying with Section 36 of the FAA on disclosure of certain interests in securities.

Notice to Japanese investors: This research report is distributed by Haitong International Japaninvest KK ("HTIJKK"), which is regulated as an Investment Adviser by the Kanto Finance Bureau of Japan. This research report is solely and exclusively directed at, and made available only to "Qualified Institutional Investors" as defined in the Financial Instruments and Exchange Law of Japan.

Notice to UK investors: This research report is distributed by Haitong International Securities (UK) Limited, which is authorised and regulated by the UK Financial Conduct Authority. The research report (and any advice contained therein) is directed only at, and made available only to, professional clients and eligible counterparties (as defined in the Financial Conduct Authority's rules) who are clients of Haitong International Securities (UK) Limited.

Notice to Australian investors: The research report is distributed in Australia by Haitong International Securities (Singapore) Pte Ltd, Haitong International Securities Company Limited, and Haitong International Securities (UK) Limited in reliance on ASIC Class Order 03/1102, 03/1103 or 03/1099, respectively, which exempts those HTISG entities from the requirement to hold an Australian financial services license under the Corporations Act 2001 in respect of the financial services it provides to wholesale clients in Australia. A copy of the ASIC Class Orders may be obtained at the following website, www.legislation.gov.au. Financial services provided by Haitong International Securities (Singapore) Pte Ltd, Haitong International Securities Company Limited, and Haitong International Securities (UK) Limited are regulated under foreign laws and regulatory requirements, which are different from the laws applying in Australia.

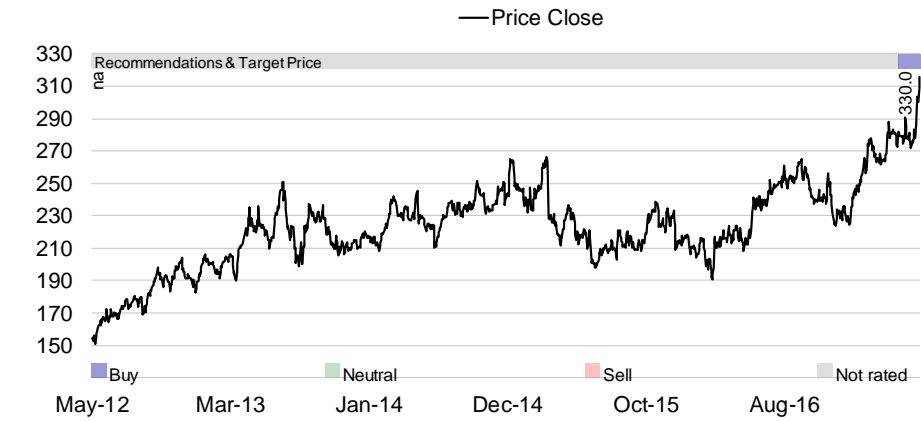
Notice to Indian investors: The research report is distributed by Haitong Securities India Private Limited ("HSIPL"), an Indian company and a Securities and Exchange Board of India ("SEBI") registered Stock Broker, Merchant Banker and Research Analyst that, inter alia, produces and distributes research reports covering listed entities on the BSE Limited ("BSE") and the National Stock Exchange of India Limited ("NSE") (collectively referred to as "Indian Exchanges").

This research report is intended for the recipients only and may not be reproduced or redistributed without the written consent of an authorized signatory of HTISG.

Copyright: Haitong International Securities Group Limited 2017. All rights reserved.

<http://equities.htisec.com/x/legal.html>

Recommendation Chart



Date	Recommendation	Target (Rs)	Price (Rs)
2017-04-12	Buy	330.0	281.9

Source: Company data Bloomberg, HTI estimates

Definitions for Key Investment Metrics

Business Growth

This is the metric which matches the top line in our report.

Business profit

This is the metric which best represents operating profit in our report

Shareholder Returns

Return on Equity

Balance Sheet Risk

Net Debt to Equity