

RESULT UPDATE

LARGE CAP

Share Data

Reuters code	ITC.BO
Bloomberg code	ITC IN
Market cap. (US\$ mn)	32,090
6M avg. daily turnover (US\$ mn)	30.7
Issued shares (mn)	7,738
Target price (Rs)	205

Performance (%) 1M 3M 12M

Absolute	(2)	20	45
Relative	4	19	31

Valuation ratios

Yr to 31 Mar	FY12E	FY13E
EPS (Rs)	7.6	9.0
+/- (%)	17.8	18.2
PER (x)	24.6	20.8
PBV (x)	7.9	6.7
Dividend/Yield (%)	1.7	2.1
EV/Sales (x)	5.6	4.8
EV/EBITDA (x)	16.3	13.7

Major shareholders (%)

FII's	14
MF's	15
BFSI's	21
Public & Others	50

Financial highlights

(Rs mn)	4QFY10	4QFY11	YoY (%)	FY10	FY11	YoY (%)	FY12E	YoY (%)	FY13E	YoY (%)
Net Sales	50,538	58,363	15.5	181,532	211,676	16.6	246,371	16.4	288,589	17.1
EBITDA	15,401	17,891	16.2	61,217	71,534	16.9	85,548	19.6	100,721	17.7
EBITDA Margin (%)	30.5	30.7	-	33.7	33.8	-	34.7	-	34.9	-
Other Income	1,370	2,259	64.9	5,556	8,188	47.4	8,402	2.6	9,599	14.2
Interest	(185)	(140)	-	(534)	(481)	(9.8)	(427)	(11.3)	(378)	(11.5)
Depreciation	(1,539)	(1,642)	6.7	(6,087)	(6,560)	7.8	(7,088)	8.0	(7,760)	9.5
PBT	15,048	18,368	22.1	60,153	72,682	20.8	86,435	18.9	102,182	18.2
Tax	(4,766)	(5,553)	16.5	(19,654)	(22,806)	16.0	(27,659)	21.3	(32,698)	18.2
Adjusted PAT	10,282	12,815	24.6	40,499	49,876	23.2	58,776	17.8	69,484	18.2
Adjusted EPS (Rs)	1.35	1.66	23.0	5.30	6.45	21.5	7.60	17.8	8.98	18.2

ITC

Maintain Outperformer

Price: Rs 187

BSE Index: 18,326

20 May 2011

4QFY11 Result – Strong earnings growth maintained...cigarette volumes to pick-up

ITC reported 16% growth in net sales to Rs 58.3 bn and 25% growth in PAT to Rs 12.8 bn, in line with our expectations. Cigarette volumes were lower than expected with a 2% decline but margin expansion led to a strong 18% PBIT growth. Other divisions posted impressive performance with 17% growth in FMCG, 9% in Agri-business, 17% in Hotels and 14% in Paper division.

Cigarette division performance has been below expectations during the quarter, however, secondary sales of cigarettes have been healthy and management expects to report better volume growth in the coming quarters. With no excise hike during the Union Budget and marginal price hike of 3-5%, we expect ITC's cigarette division to post improved volumes and margins, resulting in a strong PBIT growth of 16% in FY12. FMCG division has shown significant improvement with market share of soaps increasing to 6%, in just two years of its launch, strong double-digit growth in foods portfolio and the decline in division losses by 16%, despite a high input inflation environment. Performance of other divisions has also been impressive and we expect further improvement across its other divisions, along with the strong growth in cigarettes and FMCG, to drive strong 18% earnings CAGR during FY11-13 period. With the strong sales momentum and positive margin outlook, ITC continues to be our preferred pick in the FMCG space.

We have introduced our FY13 estimates and have rolled forward our valuations to FY13, increasing target price to Rs 205 (from Rs 180). While stock has appreciated recently and our target price provides upsides of only 10% from current levels, we believe further upsides could come in from higher than expected volume growth in cigarettes and turnaround of FMCG division. We reiterate our Outperformer rating on the stock.

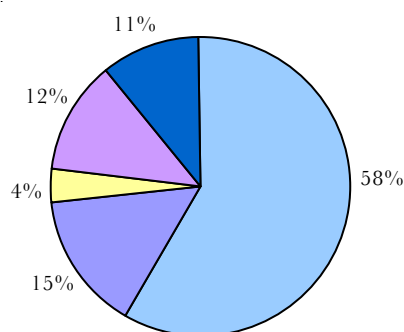
Highlights

- Cigarette sales increased by 13%, led by price increases of 15-16% and a volume decline of 2% during the quarter. PBIT margins have expanded by 210 bps, on the back of another 3% price hike effected during the quarter and also due to improvement in product

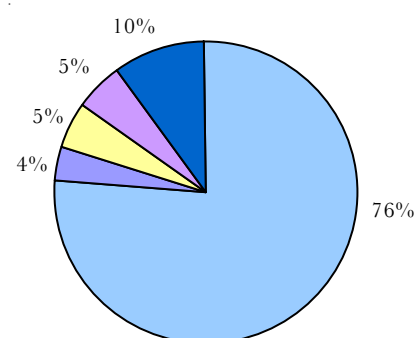
mix. Though the company has reported lower cigarette sales for the quarter, management has indicated cigarette sales to be buoyant at the retail level. While we believe ITC's decision to increase Gold Flake price to Rs 38 and vacating the Rs 3.5 price point could affect volumes, management remains positive on its strategy and expects to deliver a healthy volume growth.

- FMCG division has reported a healthy 17% growth during the quarter with biscuits growing at 20%+ and staples growing in high teens. Packaged foods have grown by a strong 25% during the year. In soaps, market share has improved to 6% in just two years of launch, which is very impressive. PBIT losses of the division have declined by 16% despite the high input inflation due to an improvement in product mix and efficient sourcing of inputs. ITC's recent launches, 'Vivel Active Fair' fairness cream and 'Sunfeast Yippee' instant noodles have received good response and company is in the process of rolling it out nationally.
- Higher soya and stable tobacco volumes resulted in a 9% increase in agribusiness sales and 210 bps increase in margins. Hotels registered a further improvement in performance with 17% revenue growth and 27% PBIT growth, led by a RevPAR increase of 7-8% for the quarter. ITC Gardenia has delivered profits in the first full year of its operations. With improving room demand and the opening of its 600 room Chennai property expected in 3QFY12, we expect healthy growth from the hotel division during FY12-13 period.
- Paper division has reported healthy 15% sales and PBIT growth maintaining its margins at 21%. ITC plans to add capacity of 100,000 tonnes in paperboard by FY12-13, with a capex outlay of Rs 5-7 bn.
- Other income has been higher on better yields while other expenses are higher on increase in freight and marketing spends.

4QFY11 revenue break-up (Rs 82.3 bn)



4QFY11 PBIT break-up (Rs 17.9 bn)



■ Cigarettes ■ FMCG ■ Hotels ■ Agribusiness ■ Paperboards, Paper & Packaging

Source: Company

Segment financials

(Rs mn)	4QFY10	4QFY11	YoY (%)	FY10	FY11	YoY (%)
Segment revenue (Gross)						
Cigarettes	45,168	51,111	13.2	172,830	198,276	14.7
FMCG	11,253	13,148	16.8	36,417	44,824	23.1
Hotels	2,743	3,243	18.2	9,108	10,774	18.3
Agribusiness	9,881	10,818	9.5	38,621	47,480	22.9
Paperboards, Paper & Packaging	8,360	9,615	15.0	32,336	36,669	13.4
Less: Inter-segment revenue	5,817	5,595	(3.8)	26,717	31,978	19.7
Total-Gross	71,587	82,341	15.0	262,596	306,044	16.5
Segment revenue (Net)						
Cigarettes	24,530	27,673	12.8	93,212	105,737	13.4
FMCG	11,227	13,125	16.9	36,339	44,716	23.1
Hotels	2,562	3,003	17.2	8,507	10,008	17.6
Agribusiness	9,881	10,818	9.5	38,621	47,480	22.9
Paperboards, Paper & Packaging	8,030	9,170	14.2	31,078	35,072	12.9
Less: inter segment revenue	5,692	5,427	(4.6)	26,225	31,337	–
Total-Net	50,538	58,363	15.5	181,532	211,676	16.6
Segment results (PBIT)						
Cigarettes	12,512	14,706	17.5	49,381	57,668	16.8
FMCG	(787)	(678)	(13.8)	(3,495)	(2,976)	(14.9)
Hotels	782	997	27.5	2,166	2,666	23.0
Agribusiness	697	998	43.1	4,478	5,663	26.5
Paperboards, Paper & Packaging	1,688	1,937	14.7	6,843	8,192	19.7
Total	14,893	17,959	20.6	59,373	71,213	19.9
Segment margins on net revenues (%)						
Cigarettes	51.0	53.1	–	53.0	54.5	–
FMCG	(7.0)	(5.2)	–	(9.6)	(6.7)	–
Hotels	30.5	33.2	–	25.5	26.6	–
Agribusiness	7.1	9.2	–	11.6	11.9	–
Paperboards, Paper & Packaging	21.0	21.1	–	22.0	23.4	–
Total	29.5	30.8	–	32.7	33.6	–

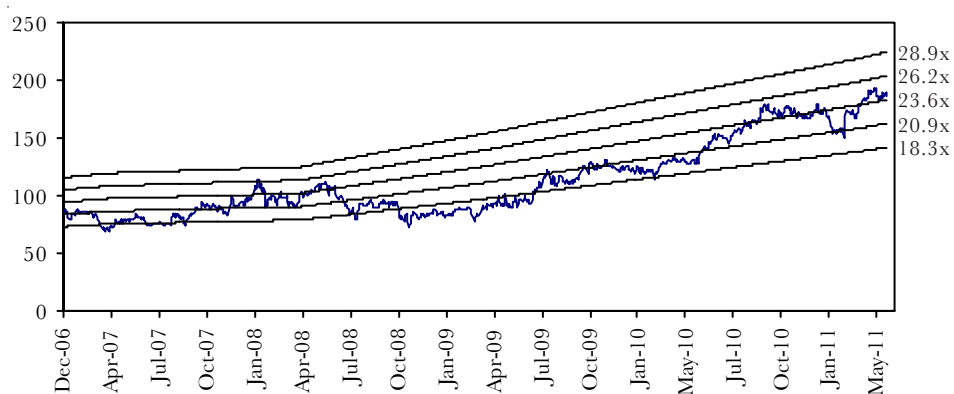
Revised estimates (FY12E)

Rs mn	Old	New	Change (%)
Net sales	240,961	246,371	2.2
EBITDA	83,888	85,548	2.0
EBITDA margin (%)	34.8	34.7	(0.3)
PAT	56,771	58,776	3.5
EPS (Rs)	7.4	7.6	3.2

SOTP valuation

Division	Rs per share	Notes
Cigarettes (a)	156.1	Based on DCF valuation
FMCG	13.2	2x FY13E sales to categories that have broken even, 1x FY13E to the other categories
Hotels	8.6	Based on 12x FY13E EV / EBIDTA
Paper & Paperboards	10.7	6x FY13 EV/EBITDA
Agribusiness	6.4	6x FY13 EV/EBIDTA
Cash and investment in subsidiaries	9.5	At current valuations
Total of the non-cigarettes business divisions (b)	48.4	
TOTAL (a+b)	205	

PER Band



Source: B&K Research

Income Statement

Yr end 31 Mar (Rs mn)	FY10	FY11	FY12E	FY13E
Net sales	181,532	211,676	246,371	288,589
<i>Growth (%)</i>	<i>16.3</i>	<i>16.6</i>	<i>16.4</i>	<i>17.1</i>
Operating expenses	(120,792)	(140,141)	(160,823)	(187,867)
Operating profit	60,740	71,534	85,548	100,721
EBITDA	60,740	71,534	85,548	100,721
<i>Growth (%)</i>	<i>23.9</i>	<i>17.8</i>	<i>19.6</i>	<i>17.7</i>
Depreciation	(6,087)	(6,560)	(7,088)	(7,760)
Other income	6,034	8,188	8,402	9,599
EBIT	60,687	73,163	86,862	102,560
Interest paid	(534)	(481)	(427)	(378)
Pre-tax profit (before non-recurring)	60,153	72,682	86,435	102,182
Pre-tax profit (after non-recurring)	60,153	72,682	86,435	102,182
Tax (current + deferred)	(19,543)	(22,806)	(27,659)	(32,698)
Net profit (before Minority Interest, Pref. Dividend, etc.)	40,610	49,876	58,776	69,484
Reported PAT	40,610	49,876	58,776	69,484
Adjusted net profit	40,610	49,876	58,776	69,484
<i>Growth (%)</i>	<i>24.4</i>	<i>22.8</i>	<i>17.8</i>	<i>18.2</i>

Balance Sheet

Yr end 31 Mar (Rs mn)	FY10	FY11E	FY12E	FY13E
Cash and Marketable sec.	54,963	52,575	56,058	75,396
Other current assets	70,008	79,076	88,537	100,923
Investments	13,569	13,569	13,569	13,569
Net fixed assets	91,514	99,709	111,411	127,978
Total assets	230,053	244,928	269,575	317,866
Current liabilities	80,482	82,399	77,697	92,688
Total debt	1,077	1,009	908	817
Other non-current liab.	7,850	7,850	7,850	7,850
Total liabilities	89,410	91,258	86,455	101,356
Share capital	3,818	7,738	7,738	7,738
Reserves & surplus	136,826	145,932	175,382	208,773
Shareholders' funds	140,644	153,670	183,120	216,511
Total equity & liab.	230,053	244,928	269,575	317,866
Capital employed	149,571	162,529	191,878	225,178

Cash Flow Statement

Yr end 31 Mar (Rs mn)	FY10	FY11E	FY12E	FY13E
Pre-tax profit	60,153	72,682	86,435	102,182
Depreciation	6,087	6,560	7,088	7,760
Change in working capital	6,541	(2,782)	(3,335)	(4,163)
Total tax paid	(20,365)	(22,806)	(27,659)	(32,698)
Cash flow from oper. (a)	52,416	53,654	62,528	73,081
Capital expenditure	(12,041)	(14,804)	(18,790)	(24,327)
Change in investments	(28,891)	0	0	0
Others	(700)	49	0	0
Cash flow from inv. (b)	(41,633)	(14,755)	(18,790)	(24,327)
Free cash flow (a+b)	10,784	38,900	43,738	48,754
Equity raised/(repaid)	7,207	3,920	0	0
Debt raised/(repaid)	(698)	(68)	(101)	(91)
Dividend (incl. tax)	(16,339)	(44,523)	(40,154)	(29,326)
Others	(1)	(616)	0	0
Cash flow from fin. (c)	(9,831)	(41,288)	(40,255)	(29,417)
Net chg in cash (a+b+c)	953	(2,388)	3,483	19,338

Key Ratios

Yr end 31 Mar (%)	FY10	FY11E	FY12E	FY13E
Adjusted EPS (Rs)	5.3	6.4	7.6	9.0
Growth	23.0	21.2	17.8	18.2
Book NAV/share (Rs)	18.3	19.8	23.6	27.9
Dividend/share (Rs)	5.0	4.5	3.3	4.0
Dividend payout ratio	109.6	80.5	49.9	51.9
Tax	32.5	31.4	32.0	32.0
EBITDA margin	33.5	33.8	34.7	34.9
EBIT margin	33.4	34.6	35.3	35.5
RoCE	40.8	46.9	49.0	49.2
Net debt/Equity	(38.3)	(33.6)	(30.1)	(34.4)

Valuations

Yr end 31 Mar (x)	FY10	FY11E	FY12E	FY13E
PER	35.1	28.9	24.6	20.8
PCE	30.5	25.6	21.9	18.7
Price/Book	10.2	9.4	7.9	6.7
Yield (%)	2.7	2.4	1.7	2.1
EV/Net sales	7.7	6.6	5.6	4.8
EV/EBITDA	23.1	19.4	16.3	13.7

Du Pont Analysis – ROE

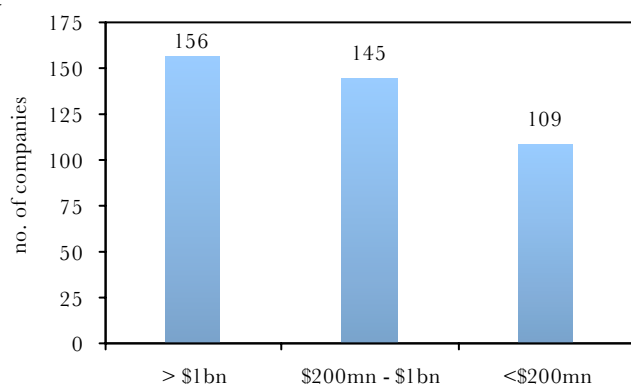
Yr end 31 Mar (x)	FY10	FY11E	FY12E	FY13E
Net margin (%)	22.4	23.6	23.9	24.1
Asset turnover	0.9	0.9	1.0	1.0
Leverage factor	1.5	1.6	1.5	1.5
Return on equity (%)	29.2	33.9	34.9	34.8

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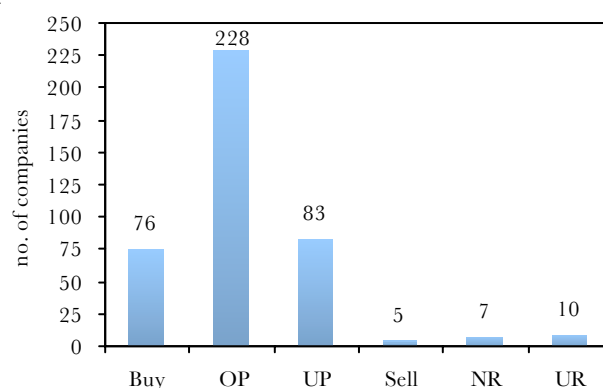
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B&K Universe Profile

By Market Cap (US\$ mn)



By Recommendation



B&K Securities is the trading name of Batlivala & Karani Securities India Pvt. Ltd.

B&K Investment Ratings:

1. **BUY:** Potential upside of > +25% (absolute returns)
2. **OUTPERFORMER:** 0 to +25%
3. **UNDERPERFORMER:** 0 to -25%
4. **SELL:** Potential downside of < -25% (absolute returns)

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