Index

Sharekhan Ltd
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Bharti Airtel

Apple Green

Stock Update

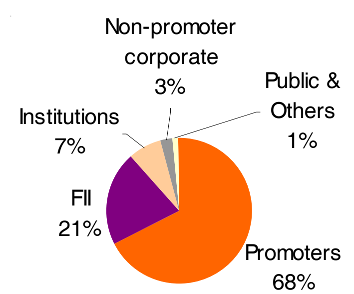
To review potential merger with MTN

Buy; CMP: Rs811

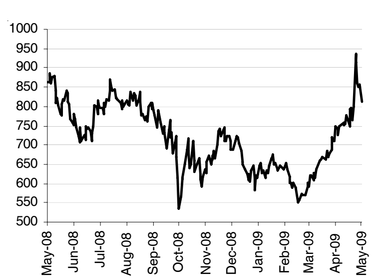
Company details

Price target:	Under review
Market cap:	Rs154,023 cr
52 week high/low:	Rs990/484
NSE volume: (No of shares)	44.6 lakh
BSE code:	532454
NSE code:	BHARTIARTL
Sharekhan code:	BHARTI
Free float: (No of shares)	62.4 cr

Shareholding pattern



Price chart



Price performance

(%)	1m	3m	6m	12m
Absolute	20.6	33.7	38.9	5.1
Relative to Sensex	-6.0	-14.8	-11.0	26.4

Key points

- Bharti Airtel (Bharti) and African telecom giant MTN have announced to review and discuss the potential merger transaction exclusively with one another until July 31, 2009.
- In terms of long-term strategy, the deal makes sense for Bharti as it provides the company entry into 13 fast growing and under-penetrated countries of Africa; the company is also poised to benefit from the huge scale and operating metrics (higher average revenue per unit [ARPU] and margins) of MTN, which is better than that of Bharti.
- The deal however has raised three concerns: 1) The broad contours of the deal leaves ambiguity about the extent of dilution in Bharti's equity capital to acquire 49% stake in MTN; 2) The deal will result in around $4 billion of net cash outflow from Bharti (this is in addition to $4-5 billion the company will require for 3G auction and other normal capital expenditure in the current year); 3) The deal would be earning per share (EPS) dilutive for Bharti in the next couple of years.
- We would wait for further and finer details of the deal. In the meantime, we maintain Buy on the stock and putting price target under review. At the current market price, the stock is trading at 15.5x its FY2010E earnings and 8.6x its enterprise value (EV)/earnings before interest, tax, depreciation and amortisation (EBITDA).

Contours of deal

Bharti and MTN have announced to review and discuss the potential merger transaction exclusively with one another until July 31, 2009. The preliminary discussions between the two telecom majors reveal the following major elements of the potential transaction:

- MTN would acquire around 25% post-transaction economic interest in Bharti for a consideration of US$2.9 billion in cash and newly issued shares of MTN (equal to 25% of the currently issued share capital of MTN).

Earnings table

Particulars	FY2007	FY2008	FY2009	FY2010E	FY2011E
Net profit (Rs cr)	4257.0	6700.2	8469.9	9947.6	11271.3
Nos of shares (crs)	189.6	189.8	189.8	190.0	190.0
EPS (Rs)	22.5	35.3	44.6	52.4	59.3
Yoy change (%)	88.4	57.2	26.4	17.3	13.3
PER (x)	36.1	23.0	18.2	15.5	13.7
Price/BV (x)	11.3	7.10	5.1	3.8	3.0
EV/EBIDTA(x)	21.3	14.3	10.4	8.6	7.6
Market cap/Sales	8.3	5.7	4.2	3.4	3.0
RoCE (%)	31.4	30.9	27.9	24.7	21.8
RoNW (%)	27.1	25.3	31.8	28.5	25.7

- Bharti would acquire around 36% of the currently issued share capital of MTN from its shareholders for a consideration of South African Rand (ZAR) 86 per share in cash and would issue 0.5 new share of Bharti in the form of global depository receipt (GDR) for every MTN share acquired.
- Bharti would have substantial participatory and governance rights in MTN, thereby enabling it fully to consolidate the accounts of MTN.
- MTN's economic interests would be accounted for equity and would have presentation on Bharti's board.

Concerns based on broad details

The broader details of the proposed deal have propped up three key concerns that have dented sentiments towards Bharti's stock.

- The broad contours of the deal leaves ambiguity about the extent of dilution in Bharti's equity capital to acquire 49% stake in MTN. The street estimates the dilution to be as high as 57-58% of the current equity capital. However, we believe this could be a case of over estimation.
- The deal will result in around $4 billion of net cash outflow from Bharti. Further, the company will also require additional $4-5 billion for 3G auction and other normal capital expenditure in the current year. This clearly is a tall order even taking into consideration the recent easing of the credit markets globally.
- Lastly, the deal would be EPS dilutive for Bharti in the next couple of years. Our rough calculations show that the earning dilution could be around 6-8% for the next two years. However, we await finer details.

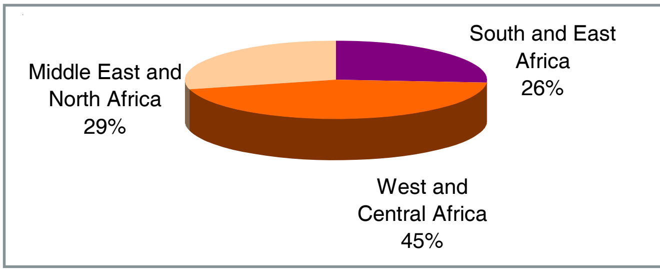
MTN—healthy subscriber growth and strong APRU

MTN is a fast growing telecom company with a total subscriber base of around 90.7 million (as on December 2008) and operations spread across 21 counties of Africa and the Middle East. The company reached 100 million subscriber mark in May 2009. The revenues grew by a strong 40.2% year on year (yoy) in FY2008, while the EBITDA margin remained strong at 42.1% (higher compared to 41% EBITDA margin of Bharti in FY2009). The net profit surged by 43.8% in 2008 and the subscriber base grew by a phenomenal 47.7% yoy during the year. Further, the company's ARPU per month at US$13.6 is higher compared to those of its Asian peers including that of Bharti in FY2009 at US$7.1 (almost half that of MTN). At the current market price, MTN is trading at 10.7x its FY2010E earnings and 4x its EV/EBITDA based on the Bloomberg consensus estimates.

MTN fact sheet

Financial highlights	FY2007	FY2008	% yoy
Revenues (ZAR million)	73145	102526	40.2
EBITDA (ZAR million)	31845	43166	35.6
EBITDA margin (%)	43.5	42.1	
Net profit (ZAR million)	11916	17135	43.8
Net profit margin (%)	16.3	16.7	
Operating highlights			
Subscribers (in million)	61.4	90.7	47.7
Blended APRU per month (in USD)	15.8	13.6	-13.8

Subscriber contribution by region



MTN - valuation table

Particulars	FY2008	FY2009	FY2010
Net profit (ZAR million)	17135	19602	22682
Nos of shares (cr)	1869	1869	1869
EPS (Rs)	9.17	10.49	12.13
Yoy change (%)		*14.4*	*15.7*
PER (x)	14.2	12.4	10.7
EV/EBIDTA (x)	5.9	4.9	4.0

Source: Bloomberg consensus estimates

Valuation

Given the concerns and unavailability of finer details of the deal, we maintain Buy on the stock and putting the price target under review. At the current market price, the stock is trading at 15.5x its FY2010E earnings and 8.6x its EV/EBITDA.

The author doesn't hold any investment in any of the companies mentioned in the article.

Deepak Fertilisers & Petrochemicals Corporation

Ugly Duckling

Stock Update

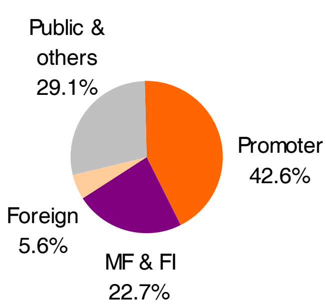
Downgraded to Hold

Hold; CMP: Rs100

Company details

Price target:	Rs109
Market cap:	Rs882 cr
52 week high/low:	Rs116/40
NSE volume: (No of shares)	1.2 lakh
BSE code:	500645
NSE code:	DEEPAKFERT
Sharekhan code:	DPKFERT
Free float: (No of shares)	5.1 cr

Shareholding pattern



Price chart

Price performance

(%)	1m	3m	6m	12m
Absolute	55.8	94.2	104.0	-0.1
Relative to Sensex	21.4	23.6	30.7	20.1

Result highlights

- For Q4FY2009 Deepak Fertilisers & Petrochemicals Corporation Ltd (DFPCL) reported a net profit of Rs39.6 crore, indicating an increase of 26.5% year on year (yoy). This was well above our estimate of Rs27.3 crore on account of a higher than expected improvement in the operating profit margin (OPM) and a lower tax outgo during the quarter.
- The company's total income from operations marginally declined by 1.2% yoy to Rs333.0 crore in Q4FY2009 on account of a sharp 30.7% year-on-year (y-o-y) decline in the revenues from the chemical segment. However, this was partially mitigated by a 78.2% y-o-y increase in the revenues from the fertiliser segment on account of higher revenues from trading in specialty fertilisers.
- The other income for Q4FY2009 came in at Rs4.1 crore, much higher compared with Rs1.6 crore in Q4FY2008. The other income was higher in Q4FY2009 because the company earned a higher income on its investments (mutual funds) during the quarter.
- On account of a sharp drop in the raw material cost, the OPM expanded to 20.4% in Q4FY2009 from 18.9% during the year-ago period. As a result, the operating profit grew by 6.7% yoy to Rs68.0 crore despite a marginal decline in the top line.
- On a segmental basis, the chemical segment registered a robust improvement of over 550 basis points yoy and of 450 basis points quarter on quarter (qoq) in its earnings before interest and tax (EBIT) margin. The fertiliser segment reported

Result table Rs (cr)

Particulars	Q4FY09	Q4FY08	% yoy	% qoq	FY09	FY08	% yoy
Net sales	**327.3**	**330.2**	**-0.9**	**-9.9**	**1388.1**	**1040.9**	**33.4**
Other income from ops	5.6	6.9	-18.5	-29.1	24.0	19.0	26.1
Total inc from ops	**333.0**	**337.1**	**-1.2**	**-10.4**	**1412.1**	**1059.9**	**33.2**
Total expenditure	264.9	273.4	-3.1	-17.2	1139.9	866.4	31.6
Operating profit	**68.0**	**63.8**	**6.7**	**31.8**	**272.2**	**193.5**	**40.6**
Other income	4.1	1.6	-	-32.8	36.0	21.4	68.2
EBITDA	72.2	65.4	10.4	24.9	308.2	214.9	43.4
Interest	7.9	4.1	90.8	-25.4	40.5	16.0	-
Depreciation	12.8	11.9	7.2	-7.5	52.4	44.7	17.2
PBT	51.5	49.3	4.4	54.3	215.3	154.3	39.6
Tax	11.7	17.4	-32.9	7.8	63.3	51.2	23.5
PAT	**39.8**	**31.9**	**24.7**	**76.6**	**152.0**	**103.0**	**47.5**
Extraordinary items	0.2	0.6	-70.2	6.3	3.3	2.8	19.9
Reported PAT	**39.6**	**31.3**	**26.5**	**77.1**	**148.7**	**100.3**	**48.3**
EPS	4.49	3.55	26.5	77.1	16.86	11.37	48.3
Adj. EPS	4.51	3.62	24.7	76.6	17.23	11.68	47.5
Margins (%)							
OPM	20.4	18.9			19.3	18.3	
PATM	11.9	9.3			10.5	9.5	

EBIT of just Rs69 lakh for the quarter as compared with a loss of Rs29 lakh during the corresponding quarter of the previous year. Notably, the real estate segment reported a segmental profit of Rs3.9 crore for Q4FY2009.

- The interest expense jumped up to Rs7.9 crore in Q4FY2009 from Rs4.1 crore during the year-ago period on account of a significant increase in the debt on the books and higher interest rates during the year.
- Moreover, the effective tax rate during the quarter stood at 22.8% as compared with 35.7% in Q4FY2008, as the company enjoyed tax benefits due to its captive power plant. The lower tax outgo during the quarter led to an improvement in the bottom line.
- After considering the Q4FY2009 results and the management commentary, we have fine-tuned our FY2010 estimates (net sales estimate down by 4.3% and net profit estimate lower by 3.7%). We have also introduced our FY2011 estimates in this note and expect the company's earnings to grow by 19.9% in FY2011. At the current market price of Rs100, the stock is trading at 6.8x its FY2010E earnings per share (EPS) and 6.8x its FY2010E enterprise value (EV)/earnings before interest, tax, depreciation and amortisation (EBITDA). We are revising our price target for the stock as we are rolling over our valuation multiples for the same to FY2011, valuing the company at 5x its FY2011E earnings and its specialty mall business at Rs20.8 per share. However, in view of the delay in the break-even of the company's realty business, the putting on hold of its joint venture with Yara International and the uncertainty over the realisation in its chemical business, the growth in DFPCL's earnings is likely to be slower than anticipated earlier. Moreover, the recent run-up in the stock price leaves limited room for an upside from the current levels. Hence, we are downgrading our recommendation on the stock to Hold from Buy with a revised price target of Rs109.

Chemical segment mars top line growth

In Q4FY2009, the total income from the operations of the company dipped marginally by 1.2% yoy to Rs333.0 crore from Rs337.1 crore in the corresponding quarter of the previous year. The quarter witnessed a sharp decline in the prices of chemicals on a y-o-y basis, leading to meaningful contraction in the realisation of the chemical segment. However, the revenues from the fertiliser segment maintained the robust growth momentum seen in the previous quarters, thereby partially mitigating the adverse impact of the decline in the revenues from the chemical segment.

Chemical segment: The revenues from the chemical segment declined sharply by 30.7% yoy to Rs167.4 crore from Rs241.5 crore in Q4FY2008. During the quarter there was no major trading activity in the chemical segment due to lower prices of methanol while the revenues from the manufacturing of chemicals contracted by 17% yoy. Furthermore, the company refrained from manufacturing methanol due to a sharp correction in the methanol prices during the quarter. However, the company has now commenced methanol production and this is likely to get reflected in its revenues in the quarters to come.

Fertiliser segment: The revenues from the fertiliser segment increased by 78.2% yoy to Rs161.3 crore from Rs90.6 crore in Q4FY2008. The revenues from the manufacturing of fertilisers dipped sharply on a sequential basis to Rs13.2 crore from Rs61.8 crore in the previous quarter. Notably, the revenues generated from trading of fertilisers grew strongly by 69.0% yoy to Rs148.1 crore in Q4FY2009 on account of higher trading in the specialty fertiliser segment.

Realty segment: The revenues from the specialty mall business, Ishanya Mall, stood at Rs4.6 crore during the quarter vs Rs2.7 crore in Q4FY2008.

Segmental revenues Rs (cr)

Particulars	Q4FY09	Q4FY08	% chg
Chemicals	**167.4**	**241.5**	**-30.7**
Manufactured	165.7	199.8	-17.0
Traded	1.7	41.7	-95.9
Fertilisers	**161.3**	**90.6**	**78.2**
Manufactured	13.2	2.9	-
Traded	148.1	87.7	69.0
Total	**328.8**	**332.1**	**-1.0**
Manufactured	179.0	202.7	-11.7
Traded	149.8	129.4	15.8
Realty	**4.6**	**2.7**	**72.7**
Others	0.6	2.3	-
Total	**334.0**	**337.0**	**-0.9**

OPM expands by ~650 basis points sequentially

In Q4FY2009, the OPM expanded by over 150 basis points yoy and by 650 basis points sequentially to 20.4% from 18.9% in Q4FY2008 and 13.9% in the previous quarter. The higher than expected decline in the raw material prices led to a sharp sequential increase in the OPM.

Chemical segment: The significant margin expansion was mainly driven by the expansion in the margin of the chemical segment. The profit before interest and tax (PBIT) of the chemical segment declined by 15.8% yoy to Rs52.5

crore during the quarter. Despite a sharp decline in the revenues, a significant expansion in the EBIT margin to 31.4% during the quarter from 25.8% during the year-ago period arrested the decline in the profit to an extent. We believe with the chemical prices showing signs of stability at the current levels, the company should be able to maintain its margins going forward.

Fertiliser segment: For the quarter the fertiliser segment reported a PBIT of just Rs69 lakh as against a loss of Rs29 lakh in Q4FY2008. Despite a strong growth in the revenues from this segment the profitability remained subdued. This could be attributed to higher trading activity during the quarter as over 90% of the revenues came from the traded segment.

Realty segment: For the quarter the realty segment reported a profit of Rs3.9 crore as compared with that of Rs97 lakh during the corresponding quarter of the previous year.

Segment-wise PBIT Rs (cr)

Particulars	Q4FY09	Q4FY08	% chg
Chemicals	52.5	62.4	-15.8
Fertilisers	0.7	-0.3	
Realty	3.9	1.0	
Others	-0.3	1.6	-
Total	**56.8**	**64.7**	**-12.2**

Segment-wise PBIT margin (%)

Particulars	Q4FY09	Q4FY08
Chemicals	31.4	25.8
Fertilisers	0.4	-
Realty	83.9	36.3
Others	-	71.0
Total	**17.1**	**19.2**

Other highlights

- The company's joint venture with Yara International has hit a roadblock. The company has mentioned that the joint venture has been put on hold due to the uncertain macro conditions and the slowdown in Europe faced by Yara International. The company has indicated that both the parties would resume talks and have a re-look at the proposal by September-October 2009.
- In FY2009, the company's specialty mall, Ishanya Mall, had an occupancy rate of ~55%. DFPCL expects this to go up to 90-95% by the end of the current fiscal. The company also expects its realty business to break even in the current fiscal and start contributing meaningfully to its bottom line from FY2011.

Dividend yield at 4%

At the current market price and dividend (Rs4.0 in FY2009), the stock provides a dividend yield of around 4%, offering a healthy margin of safety for the investor.

Valuation

After considering the Q4FY2009 results and the management commentary, we have fine-tuned our FY2010 estimates (net sales estimate down by 4.3% and net profit estimate lower by 3.7%). We have also introduced our FY2011 estimates in this note and expect the company's earnings to grow by 19.9% in FY2011. At the current market price of Rs100, the stock is trading at 6.8x its FY2010E EPS and 6.8x its FY2010E EV/EBITDA. We are revising our price target for the stock as we are rolling over our valuation multiples for the same to FY2011, valuing the company at 5x its FY2011E earnings and its specialty mall business at Rs20.8 per share. However, in view of the delay in the break-even of the company's realty business, the putting on hold of its joint venture with Yara International and the uncertainty over the realisation in its chemical business, the growth in DFPCL's earnings is likely to be slower than anticipated earlier. Moreover, the recent run-up in the stock price leaves limited room for an upside from the current levels. Hence, we are downgrading our recommendation on the stock to Hold from Buy with a revised price target of Rs109.

Valuation table

Particulars	FY07	FY08	FY09	FY10E	FY11E
Net sales (Rs cr)	833.1	1040.9	1388.1	1319.3	1463.9
Adj. net profit (Rs cr)	94.1	103.0	152.0	129.6	155.5
EPS (Rs)	10.5	11.4	16.9	14.7	17.6
PER (x)	9.5	8.8	5.9	6.8	5.7
Book value	72.0	79.2	91.1	102.4	115.9
P/BV (x)	1.4	1.3	1.1	1.0	0.9
EV/EBITDA	8.4	7.1	6.0	6.8	6.2
RoCE (%)	11.1	10.4	13.7	10.5	11.0
RoNW (%)	15.4	15.0	19.8	15.2	16.1

The author doesn't hold any investment in any of the companies mentioned in the article.

ITC

Apple Green

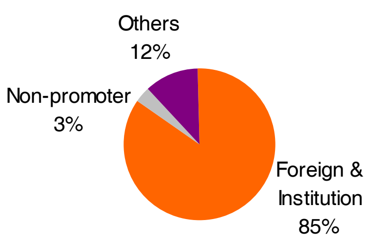
Stock Update

Results below expectations

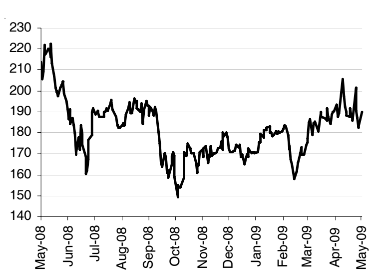
Buy; CMP: Rs190

Company details	
Price target:	Rs206
Market cap:	Rs71,695 cr
52 week high/low:	Rs229/132
NSE volume: (No of shares)	45.7 lakh
BSE code:	500875
NSE code:	ITC
Sharekhan code:	ITC
Free float: (No of shares)	58.2 cr

Shareholding pattern



Price chart



Price performance

(%)	1m	3m	6m	12m
Absolute	-3.6	1.9	8.1	-16.0
Relative to Sensex	-24.9	-35.1	-30.8	0.9

Result highlights

- ITC's Q4FY2009 results are below our expectation. In Q4FY2009 the net sales of the company declined by 2.8% year on year (yoy) to Rs3,927.4 crore, which is below our expectation of Rs4,477.5 crore. The net sales declined primarily because of a 51.2% year-on-year (y-o-y) drop in the agribusiness to Rs525.9 crore.
- During the quarter the operating profit margin (OPM) improved by 454 basis points yoy to 33.1%, which is ahead of our expectation. The improvement in the OPM was substantial mainly on account of a sharp y-o-y decline of 545 basis point in the raw material cost as a percentage of sales. Thus, the operating profit grew by 12.6% to Rs1,298.2 crore during the quarter.
- Aided by a strong improvement in the OPM, the adjusted net profit grew by 10.0% yoy to Rs808.9 crore, which is lower than our expectation of Rs849.8 crore.
- The cigarette business delivered an impressive performance with the gross sales growing by 10.2% yoy to Rs3,949.3 crore (the net sales up 16.3% yoy) and the profit before interest and tax (PBIT) increasing by 24.3% yoy to Rs1,081.4 crore during the quarter. The price increases (of 6-7% yoy) in its cigarette portfolio and an improved revenue mix led to a strong 310-basis-point y-o-y improvement in the PBIT margin to 27.4% in Q4FY2009. The cigarette volumes declined by ~3.5% yoy during the quarter.
- The sales of the non-cigarette fast moving consumer goods (FMCG) business grew moderately by 13.6% yoy in Q4FY2009 (a growth of 11.7% yoy in Q3FY2009), which is disappointing. In Q4FY2009 the company posted a segmental loss of Rs117.3 crore (which is lower than the loss of Rs127.0 crore recorded in Q3FY2009).
- The hotel business' revenues declined by 28.9% yoy to Rs241.3 crore in Q4FY2009 on account of a double-digit decline in occupancies and average room rates (ARRs). Consequently, the business PBIT decreased by 50.2% yoy to Rs71.1 crore during the quarter.

Result table Rs (cr)

Particulars	Q4FY09	Q4FY08	% yoy	FY2009	FY2008	% yoy
Net sales	**3927.4**	**4042.6**	**-2.8**	**15582.7**	**14182.0**	**9.9**
Other income	52.3	55.5	-5.8	340.3	376.4	-9.6
Total income	3979.7	4098.1	-2.9	15923.0	14558.4	9.4
Total expenditure	2629.2	2889.7	-9.0	10529.6	9543.6	10.3
Operating profit	**1298.2**	**1152.9**	**12.6**	**5053.2**	**4638.4**	**8.9**
Interest	13.7	2.7	406.7	18.3	4.6	297.4
Depreciation	145.1	121.5	19.4	549.4	438.5	25.3
Profit before tax	1191.7	1084.2	9.9	4825.7	4571.8	5.6
Tax	382.8	348.5	9.8	1562.2	1451.7	7.6
Reported profit after tax	**808.9**	**735.6**	**10.0**	**3263.6**	**3120.1**	**4.6**
OPM (%)	33.1	28.5	454 bps	32.4	32.7	(30) bps

- The agribusiness posted a decline of 51.2% to Rs525.9 crore due to lower soy volumes and the rationalisation of its agri-commodity portfolio towards high-margin commodities. The shift to a higher-margin commodities and the higher realisation from the leaf tobacco sales led to a 666-basis-point improvement in the agribusiness' PBIT margin to 10.1% during the quarter.

- The implications of the forth-coming budget and the mandatory requirement for pictorial warnings (effective from May 31, 2009) on ITC's cigarette business are the key monitorables in the near term. We broadly maintain our estimates for FY2010 and introduce our FY2011 estimates in this note. We expect ITC's top line to grow at a compounded annual growth rate (CAGR) of 12.9% and its bottom line to grow at a CAGR of 14.6% over FY2009-11. At the current market price the stock trades at 19.2x its FY2010 estimated earnings and 16.8x its FY2011 estimated earnings. We maintain our Buy recommendation on the stock with the price target of Rs206.

FY2009 performance

In FY2009 ITC's net sales grew by 9.9% yoy to Rs15,582.7 crore, driven by a y-o-y growth of 20.0% and 19.4% in the gross revenues of the non-cigarette FMCG business and the paperboards, paper & packaging business respectively. The cigarette business registered a price-led growth of 9.3% yoy in its gross revenues during the year. The OPM of the business remained flat and the operating profit grew by 8.9% yoy to Rs5,053.2 crore during the year. A lower other income led to a meagre 4.6% y-o-y growth in the reported net profit of the business to Rs3,263.6 crore.

Segmental performance

- **Cigarette:** Despite its exit from the non-filter cigarette business and the government's efforts to curb the consumption of tobacco and tobacco products, ITC's core business of cigarettes rendered an impressive performance with its gross sales growing by 10.2% yoy in Q4FY2009 and by 9.3% yoy in FY2009. The business' PBIT margin improved by 310 basis points yoy in Q4FY2009 mainly on account of an improved revenue mix (after the company's exit from non-filter cigarettes) and price increases. The volume sales declined by 3.5% yoy during the quarter. We expect ITC's cigarette volumes to grow by 6% yoy in FY2010. However, going forward the key things to watch include the status of the excise duty levy on cigarettes in the forthcoming budget to be announced by the new government and the impact of the mandatory requirement for pictorial warnings on the company's cigarette sales volumes.

- **Non-cigarette FMCG business:** The non-cigarette FMCG business grew by 20% yoy in FY2009, backed by the robust H1FY2009 performance (a 29% y-o-y growth in the first half of FY2009).

  Being small (a Rs200-crore plus business) ITC's personal care product business registered an impressive growth of around ~50% yoy in FY2009. The company has a market share of 2% in the soaps segment. The branded packaged food category (including the *Sun Feast* biscuit portfolio, *Bingo* snacks and staples) registered a steady growth in FY2009. However, the *Sun Feast* and *Bingo* brands have yet to break even. The stationery business recorded a robust sales growth of 60% yoy in FY2009.

Segment-wise gross revenue Rs (cr)

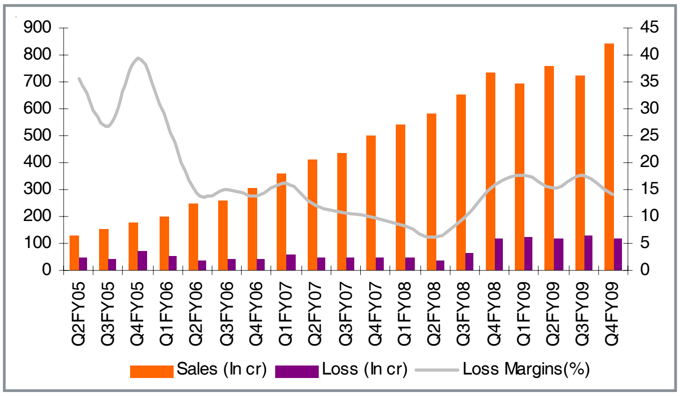
Particulars	Q4FY09	Q4FY08	% yoy chg	FY2009	FY2008	% yoy chg
FMCG - cigarettes	3,949.3	3,583.0	10.2	15115.1	13825.6	9.3
FMCG - others	838.8	738.4	13.6	3014.0	2511.1	20.0
Hotels	241.3	339.3	-28.9	1020.3	1100.2	-7.3
Agri-business	525.9	1,078.1	-51.2	3846.0	3868.4	-0.6
Paperboards, paper & packaging	747.0	620.0	20.5	2822.0	2364.3	19.4
Total	**6,302.4**	**6,358.8**	**-0.9**	**25817.3**	**23669.6**	**9.1**

Segment-wise PBIT Rs (cr)

Particulars	PBIT		% yoy	Margins (%)		Chg in
	Q4FY09	Q4FY08	chg	Q4FY09	Q4FY08	bps
FMCG - cigarettes	1081.4	870.1	24.3	27.4	24.3	310
FMCG - others	-117.3	-117.9	-	-14.0	-16.0	198
Hotels	71.1	142.8	-50.2	29.5	42.1	-1262
Agri-business	53.1	37.0	43.4	10.1	3.4	666
Paperboards, paper & packaging	151.9	122.7	23.8	20.3	19.8	54
Total	**1240.1**	**1054.7**	**17.6**	**19.7**	**16.6**	**309**

Overall, the profitability of the non-cigarette FMCG business was under pressure on account of a higher input cost (especially so in the branded food category), and higher spends towards brand building and promotional activities for new product launches in the personal care category. With the softening of the raw material prices, rationalisation of the biscuit portfolio to high-margin premium biscuits and an increase in the scale of the personal care business, the losses in the non-cigarette FMCG business are expected to be lower in FY2010.

Performance of non-cigarette FMCG business



- **Hotels:** The Indian hotel industry bore the brunt of both macro economic conditions and Mumbai terror strikes in H2FY2009. This led to a decline in domestic business travels as well as foreign tourist arrivals in India. ITC's hotel business registered a decline of 28.9% yoy in Q4FY2009 because of a double-digit slide in both occupancies and ARRs. Consequently, the business' PBIT decreased by 50.2% yoy to Rs71.1 crore during the quarter. The hotel industry and the Government of India jointly initiated a campaign called "Visit India 2009" to encourage tourism in India. With these initiatives and the withdrawal of travel advisories by various countries, foreign tourist arrivals to India are expected to improve gradually though the bleak macro environment may prevent any significant improvement.

  The construction of super-deluxe luxury hotels in Bangaluru (300 rooms, to be operational by October 2009) and Chennai (600 rooms, to be operational by Q3FY2011) is on schedule. We believe with occupancies and ARRs likely to remain subdued, it is the addition of these new properties that would drive ITC's hotel revenues.

- **Agribusiness:** The revenue of the agribusiness declined by 51.2% yoy in Q4FY2009 (remained flat in FY2009) due to lower soy bean volumes and the rationalisation of the agri-commodity portfolio. The shift to a higher-margin commodity and the higher realisation from the leaf tobacco sales aided the company to earn a better PBIT margin in Q4FY2009 (and FY2009). The business' margins are expected to sustain in the range of 6-7%, with an improvement in the company's product mix going forward.

- **Paperboards, paper and packaging:** During the year the company commenced its new paper mill (of 1 lakh tonne per annum [tpa] capacity at Bhadrachalam in July 2008) and its pulp facility (of 1.22 lakh tpa in Q1FY2009). Reaping the benefits of these new facilities, the company's paperboards, paper and packaging business posted an impressive growth of 20.5% yoy in the revenue and a 54-basis-point y-o-y improvement in the PBIT margin in Q4FY2009.

Outlook and valuation

The implications of the forth-coming budget and the mandatory requirement for pictorial warnings (effective from May 31, 2009) on ITC's cigarette business are the key monitorables in the near term. We broadly maintain our estimates for FY2010 and introduce our FY2011 estimates in this note. We expect ITC's top line to grow at a CAGR of 12.9% and its bottom line to grow at a CAGR of 14.6% over FY2009-11. At the current market price the stock trades at 19.2x its FY2010 estimated earnings and 16.8x its FY2011 estimated earnings. We maintain our Buy recommendation on the stock with the price target of Rs206.

Valuation table

Particulars	FY07	FY08	FY09	FY10E	FY11E
Net profit (Rs cr)	2700.0	3120.1	3263.6	3721.8	4259.6
Shares in issue (cr)	376.2	376.9	377.4	377.2	377.2
EPS (Rs)	7.2	8.3	8.6	9.9	11.3
yoy chg (%)	*18.2*	*15.4*	*4.4*	*14.1*	*14.4*
PER (x)	26.5	22.9	22.0	19.2	16.8
Book value (Rs)	27.7	32.0	36.2	42.5	50.2
P/BV (x)	6.8	5.9	5.2	4.5	3.8
EV/EBIDTA (x)	17.3	14.8	13.3	11.6	9.9
EV/Sales (x)	5.6	4.9	4.3	3.9	3.3
RoCE (%)	34.9	35.1	33.7	34.1	32.8
RoNW (%)	27.7	27.7	25.4	25.0	24.4

The author doesn't hold any investment in any of the companies mentioned in the article.

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