

RESULTS FIRST LOOK

ITC's Q4FY11 results were marginally below at the revenue line but slightly ahead at the PAT line helped by higher other income vs. our expectations. Cigarette volumes were -2% for the quarter, although this was due to stocking up ahead of price increases last March. The company expects cigarette business volume growth to trend back to normalised levels of mid- to high-single digits in FY12F, which should help deliver another strong year of earnings. We maintain ITC as our top pick in the large-cap space in the sector. BUY.

Price target: 200.0 INR

Price (19 May 2011): 189.05 INR

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Q4FY11 results inline

- Earnings vs. our Forecast: **IN LINE**

Likely Impact:

- Earnings Estimates: **NO CHANGE**

- Dividend Estimates: **NO CHANGE**

- Price Target: **NO CHANGE**

- Long-term View: **STRONGER**

Key highlights of Q4FY11 results

- ITC's Q4FY11 results were marginally below our estimates at the top line, with performance in the core cigarettes and agri business slightly below, and the hotels and paper businesses better than our expectations.
- Net revenues at INR58.36bn (up 15.5% y-y) were slightly shy of our estimates. Cigarette division revenues were +12.8%.
- EBITDA was up 16.2% to INR17.9bn. EBITDA margins improved 20bps y-y to 30.7%.
- PAT came in at INR12.82bn vs. INR10.28bn LY, for growth of 24.6% y-y. This was ~4% higher than our estimate, although helped by other income of INR2.26bn.
- The company has declared a dividend of INR2.80 per share and a special dividend of INR1.65 per share for FY11.

Figure 1 – Headline details from Q4FY11 results

(Rs. mn)	Mar '11	Mar '10	YoY % Chg	Dec '10	QoQ % Chg
Net Sales	58,363	50,538	15.5	54,535	7.0
EBIDTA	17,891	15,402	16.2	19,690	(9.1)
Other income	2,259	1,484	52.2	2,533	(10.8)
PBIDT	20,150	16,886	19.3	22,223	(9.3)
Depreciation	1,642	1,539	6.7	1,681	(2.3)
Interest	140	299	(53.1)	230	(39.0)
PBT	18,368	15,048	22.1	20,313	(9.6)
Tax	5,553	4,766	16.5	6,422	(13.5)
Reported PAT	12,815	10,282	24.6	13,891	(7.7)
No. of shares (mn)	7,738	7,636		7,706	
EBIDTA margins (%)	30.7	30.5		36.1	
PBIDT margins (%)	34.5	33.4		40.8	

Source: Company data, Nomura research

Revenues growth performance was slightly short of our expectations.

- The core cigarettes business saw revenues +12.8% y-y to INR27.67bn. This was impacted not only by volume growth of -2% during the quarter, but also by stocking up in March last year ahead of price increases. The company expects the trend to revert back to normalised levels starting Q1FY12.
- Amongst the other division, agri business saw revenues +9.5% to INR10.82bn. This was lower than our expectations.
- The hotels business performance was ahead of our expectations with revenues +17.2% to INR3bn.
- The paper business was also ahead of our expectations with revenues +14.2% to INR9.17bn
- FMCG business under performed in the quarter with revenues +16.9% to INR13.2bn.

Figure 2 – Revenue performance by division

(Rs. mn)	Mar '11	Mar '10	YoY % Chg	Dec '10	QoQ % Chg
Cigarette	27,673	24,530	12.8	27,726	(0.2)
Agri	10,818	9,881	9.5	10,667	1.4
Paper	9,170	8,030	14.2	8,773	4.5
Hotels	3,003	2,562	17.2	2,816	6.6
Others	13,125	11,227	16.9	11,021	19.1
Total	63,790	56,229	13.4	61,004	4.6

Source: Company data, Nomura research

- Profit performance at the core cigarette division was +17.5% y-y to INR14.7bn. Margins improved by 210bps y-y.
- Agri division EBIT was +71% y-y to INR998mn, margins improved 330bps y-y.
- Margins in the hotels business improved by 260bps y-y to 33.2%, the highest in the last 9 quarters with EBIT +27.3% to INR996mn.
- Losses in the other business came down y-y to INR678mn. The company has guided for this to decline by 15-20% each year over the next couple of years.

Figure 3 – Divisional PBIT for Q4FY11

(Rs. mn)	Mar '11	Mar '10	YoY % Chg	Dec '10	QoQ % Chg
Cigarette	14,706	12,512	17.5	15,330	(4.1)
Agri	998	583	71.1	1,411	(29.3)
Paper	1,937	1,688	14.7	1,914	1.2
Hotels	996	782	27.3	886	12.4
Others	(678)	(787)	(13.8)	(736)	(7.8)
Total	17,958	14,779	21.5	18,805	(4.5)

Source: Company data, Nomura research

Figure 4 – PBIT margins by division Q4FY11 results

	Mar '11	Mar '10	YoY Bps Chg	Dec '10	QoQ Bps Chg
Cigarette	53.1	51.0	213	55.3	(215)
Agri	9.2	5.9	332	13.2	(400)
Paper	21.1	21.0	10	21.8	(69)
Hotels	33.2	30.5	263	31.5	169
Others	(5.2)	(7.0)	184	(6.7)	151
Total	28.2	29.9	(177)	30.8	(267)

Source: Company data, Nomura research

FY11 numbers were largely in line with our expectations. With cigarette business volume growth expected to be in the mid- to high-single digits in FY12F, ITC is well placed to deliver another strong year, in our view. Performance of the hotels and paper businesses saw significant improvement in the quarter, which we think bodes well for FY12F. ITC remains our top pick in the large cap space in the sector.

Valuation Methodology and Investment Risks: We value the company using a sum-of-the-parts valuation methodology. We value the core cigarettes business at INR149 per share based on a P/E multiple of 22x FY11F earnings. The other core businesses are valued at around INR44 per share. We have valued the net cash (after deducting corporate expenses) at book value. Risks: Policy directives from the

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Mentioned companies

Issuer name	Ticker	Price	Price date	Stock rating	Disclosures
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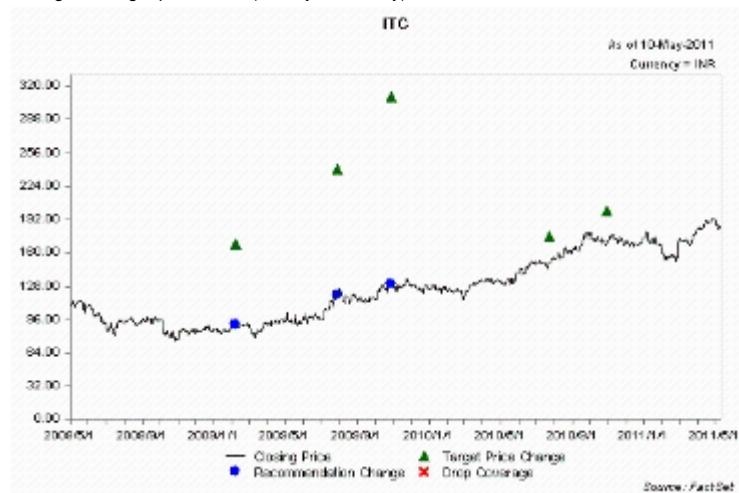
Previous Rating

Issuer name	Previous Rating	Date of change
ITC	Neutral	29 Oct 2009

ITC (ITC IN)

189.05 INR (19 May 2011) Buy

Rating and target price chart (three year history)



Date	Rating	Target price	Closing price
29-Oct-2010		200.00	171.15
23-Jul-2010		176.00	150.35
29-Oct-2009		309.00	129.75
29-Oct-2009	Buy		129.75
29-Jul-2009		240.00	118.62
29-Jul-2009	Neutral		118.62
06-Feb-2009		168.00	91.25
06-Feb-2009	Reduce		91.25

For explanation of ratings refer to the stock rating keys located after chart(s)

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As at 31 March 2011.

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