

ITC Ltd.

Rs 208

KRChoksey
 INTEGRATED FINANCIAL SOLUTIONS

Strong performance continues...

HOLD

FMCG major ITC reported strong performance with Net sales up by 18% y-o-y to Rs 5974.2 crores, inline with our estimates on the back of strong double digit growth in Cigarette (16%), FMCG-Others (27%) & Agri (15%).

Cigarette segment delivered strong revenue growth of 16% y-o-y to Rs 2968 crores driven by volume growth of ~8-9%. This coupled with price hikes resulted in EBIT margins increasing by 107 bps y-o-y.

Losses from the FMCG business declined to Rs 56 crores for the quarter.

EBITDA grew by 18% y-o-y to Rs 2107 crores. Gross margins contracted by 220 bps y-o-y on account of high RM cost, partially offset by price hikes, product mix, lower employee cost & other expenditure. Consequently OPM contraction was lower at 6 bps y-o-y to 35.3%.

Net profit improved by higher rate of 21% y-o-y to Rs 1514 crores on the back of higher other income.

Healthy volume growth & price hikes drive Cigarette segment performance:

ITC's cigarette segment reported strong 16% y-o-y growth in Net sales driven by 8-9% volume growth. EBIT margins improved by 107 bps y-o-y on the back of price hikes & improved product mix. We expect the core business to maintain strong growth driven by healthy volume growth (7-8%) for FY12E, driving the overall revenue growth for ITC.

FMCG losses continue to decline, agri business continues to do well:

Net Revenue from FMCG Others grew by 27% y-o-y to Rs 1341 crores driven by Packaged food, Personal care & Stationary segment. Losses declined by 16% y-o-y to Rs 56 crores on account of improved product mix & better realizations. Agri business reported growth of 15% y-o-y led by higher soya, wheat & coffee sales & EBIT improved by 18% y-o-y. We believe ITC would continue to invest behind brands, enhancing manufacturing & distribution network in order to tap the emerging opportunities in these segments. With strong branded portfolio & growing consumer franchise we expect the FMCG business to deliver sales CAGR of 18% & EBIT CAGR of 20% over FY11-13E.

Sluggish growth in Paper & Hotel Business:

Paper segment grew by 9% y-o-y & EBIT margins improved marginally by 45 bps y-o-y on the back of strong growth in value added paper board & improved realizations. Hotel business growth was sluggish with net sales growth of 1% y-o-y to Rs 211 crores on account of decline in slowdown in the business activities & travel.

Overall ITC's EBITDA improved by 18% y-o-y, partially impacted by higher RM costs. However superior product mix & decline in employee cost and other expenses as a % to sales resulted in OPM contraction of 6 bps y-o-y only. **Net profit grew by higher rate of 21% y-o-y to Rs 1514 crores** on the account of 45% y-o-y increase in other income (improved yields)

Valuations & Views – We expect ITC to continue with its strong performance driven by superior product mix, leadership position, continued investments behind brands & enhanced manufacturing & distribution network. We recommend a **HOLD** on ITC with a SOTP based target price of Rs 226, an upside potential of 9%.

Key Financials

(Rs. Crore)

Particulars	FY10	FY11	FY12E	FY13E
Net Sales	18153.2	21167.6	25103.8	29121.5
EBITDA	6515.8	7745.9	9255.6	10884.2
PAT	4061.0	4987.6	5992.4	7068.6
EPS	5.3	6.5	7.8	9.2
OPM	35.4%	36.1%	36.3%	36.8%
NPM	22.4%	23.6%	23.9%	24.3%
PE	39.3	32.0	26.6	22.6

Target Price (Rs): 226

Potential Upside : 9%

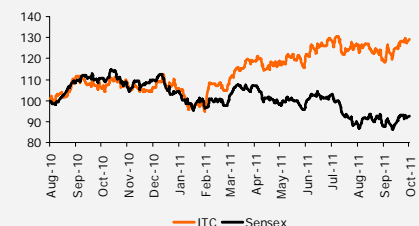
Previous TP (Rs): 226

Market Data	
Shares outs (Cr)	766.9
Equity Cap (Rs. Cr)	766.9
Mkt Cap (Rs. Cr)	161428
52 Wk H/L (Rs)	211/150
Avg Vol (1yr avg)	226510
Face Value (Rs)	1.0
Bloomberg Code	ITC IN

Market Info:

SENSEX	16,973
NIFTY	5,108

Price Performance



Share Holding pattern (%)

Particulars	Sep -11	Jun -11	Chg
Promoters	0.0	0.0	-
DII	35.2	35.9	-0.7
FIIIs	15.3	14.6	0.7
Public	49.5	49.5	0.0
Total	100.0	100.0	

Source: BSE

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Source: Company Data, KRChoksey Research

Q2FY12 Result (Rs Crore)

Particulars	Q2FY12	Q1FY12	Q2FY11	q-o-q	y-o-y	Key Comments
NET SALES	5974.2	5767.5	5061.2	4%	18%	Strong growth in Cigarette businesses (8% volume growth)
OTHER OP INC	111.0	92.7	86.0	20%	29%	
NET INCOME	6085.2	5860.2	5147.2	4%	18%	
Total Expenses	3866.2	3884.1	3272.3	0%	18%	
(Inc) / dec in stock	-39.8	-118.1	-211.2	-66%	-81%	
Raw material Cost	1856.0	1981.9	1789.3	-6%	4%	
Purchase of goods	502.9	435.4	275.1	16%	83%	
Employees cost	265.0	394.2	261.2	-33%	1%	
Other expenditure	1282.1	1190.6	1157.9	8%	11%	
EBITDA	2108.0	1883.4	1788.9	12%	18%	Effective sourcing & product mix offset rising input costs
Depreciation	170.1	166.5	164.0	2%	4%	
Other Income	180.8	143.8	124.5	26%	45%	Higher Yields
Interest	14.2	16.5	5.4	-14%	165%	
PBT	2215.5	1937.0	1830.0	14%	21%	
Tax	701.2	604.3	583.3	16%	20%	
PAT	1514.3	1332.7	1246.7	14%	21%	
EPS	2.0	1.7	1.6	14%	21%	
Margins						
GPM	61.2%	60.1%	63.4%	105 bps	-220 bps	High RM Cost
OPM	35.3%	32.7%	35.3%	263 bps	-6 bps	

Net Revenue	Q2FY12	Q1FY12	Q2FY11	Q-o-Q	Y-o-Y	Comments
Cigarettes	2968.1	2873.6	2550.1	3%	16%	Volume growth of ~8-9%
FMCG Others	1340.7	1197.8	1055.6	12%	27%	Driven by strong performance of key brands, like Sunfeast, Bingo, Aashirvaad, Vivel & improved mix
Hotels	211.1	230.5	208.9	-8%	1%	Sluggis Business activity
Agri Business	1434.5	1707.1	1249.6	-16%	15%	Higher trading in soya, Wheat & Coffee
Paper	1005.4	959.6	919.2	5%	9%	High growth in value added products
Total	6959.9	6968.5	5983.5	0%	16%	

Source: Company Data, KRChoksey Research

Segment Results (Rs Crore)	Q2FY12	Q1FY12	Q2FY11	Q-o-Q	Y-o-Y
FMCG - Cigarettes	1728.9	1576.7	1458.2	10%	19%
FMCG Others	-55.9	-76.3	-66.9	-27%	-16%
Hotels	43.4	51.3	39.9	-15%	9%
Agri Business	238.8	157.1	202.4	52%	18%
Paper	289.7	227.0	245.6	28%	18%
Total	2244.9	1935.8	1879.2	16%	19%

Source: Company Data, KRChoksey Research

EBIT Margins	Q2FY12	Q1FY12	Q2FY11	Q-o-Q	Y-o-Y
FMCG - Cigarettes	58.2%	54.9%	57.2%	338 bps	107 bps
FMCG Others	-4.2%	-6.4%	-6.3%	220 bps	217 bps
Hotels	20.6%	22.3%	19.1%	-169 bps	149 bps
Agri Business	16.6%	9.2%	16.2%	744 bps	45 bps
Paperboards, Paper & Packaging	28.8%	23.7%	26.7%	516 bps	209 bps

SOTP Valuation

Segment	Methodology	Multiple(x)	Per Share
Cigarette	EV/EBITDA	15	160.1
Paper	EV/EBITDA	7	12.6
Hotels	EV/EBITDA	15	9.6
Agri	EV/EBITDA	7	7.1
FMCG	EV/Sales	3	25.6
Add Net Cash			11.0
Equity value			226.0

Source: Company Data, KRChoksey Research

Profit & Loss Account (Rs Crore)

Particulars	FY10	FY11	FY12E	FY13E
Net Sales	18153	21168	25104	29122
Other Op Inc	249	301	400	430
Total Op Inc	18402	21468	25504	29551
Total Expenses	12109	14014	16559	19005
EBITDA	6516	7746	9256	10884
OPM (%)	35.4%	36.1%	36.3%	36.8%
Depreciation	608.7	656.0	693.8	755.7
EBIT	5937	7121	8562	10128
Interest Expense	65	48	55	55
Interest income	366	518	552	582
PBT	6015	7268	8748	10319
Tax	1954	2281	2756	3251
Tax Rate	32.5%	31.4%	31.5%	31.5%
PAT	4061	4988	5992	7069

Cash Flow (Rs Crore)

Particulars	FY10	FY11	FY12E	FY13E
PBT	6015.3	7268.2	8748.0	10319.1
Operating CF	4641.8	5264.2	5976.8	7486.3
Investing CF	-3542.5	-616.2	-1250.0	-1250.0
Financing CF	-1010.1	-3551.6	-4534.2	-5338.9
Change in Cash	89.2	1096.4	192.5	897.5
Opening cash	993.7	1082.9	2179.3	2371.8
Closing cash	1082.9	2179.3	2371.8	3269.3

Balance Sheet (Rs Crore)

Particulars	FY10	FY11	FY12E	FY13E
Share Capital	382	774	774	774
Reserve & Surplus	13683	15179	16646	18375
Net Worth	14064	15953	17420	19149
Total Loans	108	99	91	91
Deferred Tax - Net	785	802	802	802
Total Liabilities	14957	16854	18312	20042
Net Fixed Assets	9151	9678	10235	10729
Investments	5727	5555	5555	5555
Current Assets	8128	10184	11882	14291
Current Liabilities	8049	8563	9359	10532
Net Current Assets	79	1621	2523	3758
Total Assets	14957	16854	18312	20042

Key Ratios

Particulars	FY10	FY11	FY12E	FY13E
OPM	32.7%	33.6%	34.1%	34.8%
EBITDA Margin	35.9%	36.6%	36.9%	37.4%
NPM	22.4%	23.6%	23.9%	24.3%
ROCE	39.7%	42.3%	46.8%	50.5%
ROE	28.9%	31.3%	34.4%	36.9%
PE	39.1	31.8	26.5	22.5
EV/EBITDA	23.3	19.5	16.3	13.8
EPS	5.3	6.5	7.8	9.2
BVPS	18.3	20.8	22.7	25.0
D/E	0.0	0.0	0.0	0.0
Capex/Sales	7%	5%	5%	4%

Du-Pont Analysis

	FY10	FY11	FY12E	FY13E
NPM	22.4%	23.6%	23.9%	24.3%
Asset Turnover	121.4%	125.6%	137.1%	145.3%
Financial Leverage	106.3%	105.6%	105.1%	104.7%
ROE	28.9%	31.3%	34.4%	36.9%

Source: Company Data, KRChoksey Research

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ITC Ltd			
	CMP (Rs)	TP (Rs)	Recommendation
25-Oct-11	208	226	HOLD
01-Aug-11	208	226	HOLD
23-May-11	185	225	BUY
24-Jan-11	169	200	BUY

Rating Legend	
Our Rating	Upside
Buy	More than 15%
Hold	5% - 15%
Reduce	0 – 5%
Sell	Less than 0%

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