December 15, 2011

ACTION

Buy

ITC (ITC.BO)

Return Potential: 16%

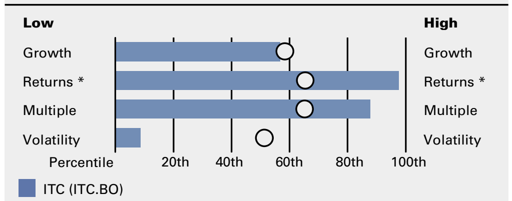
Equity Research

High FCF growth, robust pricing power; raise to Buy

Source of opportunity

ITC has corrected by 8% over the last 30 days, underperforming the sector by 4% and now trades 1SD below the sector aggregate on a 12-month forward P/E. We believe the correction has been led by broader market weakness and concerns on taxation given fiscal challenges. We view this as an entry opportunity since ITC enjoys tremendous pricing power which will help mitigate higher taxes and is not fully factored into the present stock price. We raise ITC to Buy with a revised 12-month target price of Rs232 (from Rs201) as we believe ITC is well protected in the current uncertain environment given improving cash returns and visibility of margins.

Investment Profile



* Returns = Return on Capital. For a complete description of the investment profile measures please refer to the disclosure section of this document.

Catalyst

We expect ITC to continue to show robust yoy volume growth of 8+% in 2HFY12 as seen in 1Q-2QFY12. ITC enjoys strong pricing power, with key brands seeing retail price increases at a 9% CAGR over the past 5 years against inflation of 6.5%. For FYTD ITC has increased prices by 3% (6% yoy) allowing it leverage to balance increases in taxation. We believe ITC is least affected by input cost inflation or INR depreciation in our coverage.

Valuation

ITC trades at FY13E P/E of 20.2X compared with 25.1X for the sector. We raise FY12E-14E EPS by 1%-7% to factor in higher volumes for the cigarette business. Our 12m TP is set at 24X FY13E EPS, backed by Director's Cut analysis. We raise our target multiple from 22X to factor in (1) increased cash generation and higher dividend payout ratio, (2) increased pricing power owing to strong brand portfolio and limited competition, and (3) improvement in CROCI to 50% in FY13E from 39% in FY11. We expect ITC cash surplus to increase to Rs61 bn in FY13E from Rs39 bn in FY11.

Key risks

(1) Increase in VAT rates over 20% by states and significant excise hikes, (2) Stringent anti-smoking legislation, (3) Sustained FMCG losses.

INVESTMENT LIST MEMBERSHIP

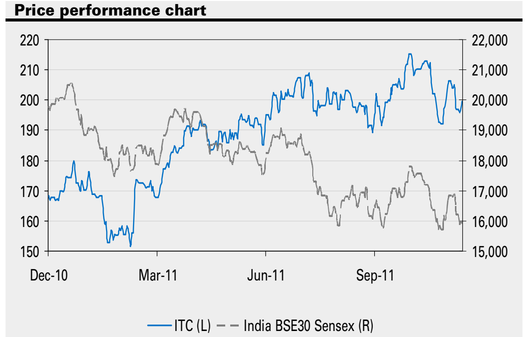
Asia Pacific Buy List

Coverage View: Neutral

Key data	Current
Price (Rs)	199.65
12 month price target (Rs)	232.00
Market cap (Rs mn / US$ mn)	1,544,921.4 / 29,026.2
Foreign ownership (%)	--

	3/11	3/12E	3/13E	3/14E
EPS (Rs) New	**6.49**	**7.86**	**9.68**	**11.22**
EPS revision (%)	0.0	1.2	5.7	7.3
EPS growth (%)	22.2	21.2	23.1	16.0
EPS (dil) (Rs) New	**6.49**	**7.86**	**9.68**	**11.22**
P/E (X)	30.8	25.4	20.6	17.8
P/B (X)	9.7	8.6	7.5	6.6
EV/EBITDA (X)	16.1	16.9	13.4	11.3
Dividend yield (%)	2.2	2.3	2.8	3.3
ROE (%)	33.2	35.9	39.0	39.7
CROCI (%)	33.9	44.8	50.5	54.0

Price performance chart



Share price performance (%)	3 month	6 month	12 month
Absolute	0.3	3.0	18.6
Rel. to India BSE30 Sensex	5.5	18.8	47.9

Source: Company data, Goldman Sachs Research estimates, FactSet. Price as of 12/14/2011 close.

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ITC: Summary Financials

Profit model (Rs mn)	3/11	3/12E	3/13E	3/14E
Total revenue	**211,675.8**	**250,083.8**	**299,670.0**	**344,673.4**
Cost of goods sold	(108,992.5)	(125,647.7)	(148,930.9)	(169,604.6)
SG&A	(37,708.8)	(45,267.2)	(51,252.5)	(58,287.0)
R&D	--	--	--	--
Other operating profit/(expense)	3,032.4	3,270.9	3,397.0	3,529.3
EBITDA	**74,566.7**	**89,569.6**	**111,295.3**	**130,017.3**
Depreciation & amortization	(6,559.9)	(7,129.8)	(8,411.8)	(9,706.2)
EBIT	**68,006.8**	**82,439.8**	**102,883.5**	**120,311.1**
Interest income	1,068.0	670.0	703.5	738.7
Interest expense	(481.3)	(505.4)	(530.6)	(557.2)
Income/(loss) from uncons. subs.	0.0	0.0	0.0	0.0
Others	4,088.0	5,993.5	5,808.5	5,623.5
Pretax profits	**72,681.5**	**88,598.0**	**108,864.9**	**126,116.2**
Income tax	(22,805.5)	(27,755.3)	(33,995.6)	(39,256.6)
Minorities	0.0	0.0	0.0	0.0
Net income pre-preferred dividends	**49,876.0**	**60,842.6**	**74,869.4**	**86,859.7**
Preferred dividends	0.0	0.0	0.0	0.0
Net income (pre-exceptionals)	**49,876.0**	**60,842.6**	**74,869.4**	**86,859.7**
Post-tax exceptionals	0.0	0.0	0.0	0.0
Net income	**49,876.0**	**60,842.6**	**74,869.4**	**86,859.7**
EPS (basic, pre-except) (Rs)	6.49	7.86	9.68	11.22
EPS (basic, post-except) (Rs)	6.49	7.86	9.68	11.22
EPS (diluted, post-except) (Rs)	6.49	7.86	9.68	11.22
DPS (Rs)	4.48	4.50	5.50	6.50
Dividend payout ratio (%)	69.0	57.2	56.8	57.9
Free cash flow yield (%)	3.4	3.0	3.6	4.3

Growth & margins (%)	3/11	3/12E	3/13E	3/14E
Sales growth	16.6	18.1	19.8	15.0
EBITDA growth	18.3	20.1	24.3	16.8
EBIT growth	19.5	21.2	24.8	16.9
Net income growth	22.8	22.0	23.1	16.0
EPS growth	20.9	21.2	23.1	16.0
Gross margin	48.5	49.8	50.3	50.8
EBITDA margin	35.2	35.8	37.1	37.7
EBIT margin	32.1	33.0	34.3	34.9

Cash flow statement (Rs mn)	3/11	3/12E	3/13E	3/14E
Net income pre-preferred dividends	49,876.0	60,842.6	74,869.4	86,859.7
D&A add-back	6,559.9	7,129.8	8,411.8	9,706.2
Minorities interests add-back	0.0	0.0	0.0	0.0
Net (inc)/dec working capital	52.0	(1,314.1)	(3,220.6)	(2,998.1)
Other operating cash flow	(19.0)	3,318.9	3,236.7	3,154.5
Cash flow from operations	**53,998.3**	**63,983.7**	**77,488.8**	**91,098.7**
Capital expenditures	(12,814.6)	(17,674.5)	(21,755.6)	(24,653.6)
Acquisitions	0.0	0.0	0.0	0.0
Divestitures	0.0	0.0	0.0	0.0
Others	5,550.0	4,730.0	4,627.2	4,524.4
Cash flow from investments	**(7,264.6)**	**(12,944.5)**	**(17,128.4)**	**(20,129.2)**
Dividends paid (common & pref)	(44,517.3)	(40,020.9)	(40,738.9)	(49,792.0)
Inc/(dec) in debt	(104.5)	0.0	0.0	0.0
Common stock issuance (repurchase)	9,038.2	0.0	0.0	0.0
Other financing cash flows	19.4	0.0	0.0	0.0
Cash flow from financing	**(35,564.2)**	**(40,020.9)**	**(40,738.9)**	**(49,792.0)**
Total cash flow	**11,169.5**	**11,018.3**	**19,621.4**	**21,177.5**

Balance sheet (Rs mn)	3/11	3/12E	3/13E	3/14E
Cash & equivalents	22,432.4	33,450.5	53,071.9	74,249.5
Accounts receivable	9,076.2	11,305.2	13,136.2	15,109.0
Inventory	52,675.3	58,443.5	69,095.1	78,394.4
Other current assets	17,655.8	18,538.6	19,465.5	20,438.8
Total current assets	**101,839.7**	**121,737.7**	**154,768.7**	**188,191.6**
Net PP&E	96,784.7	107,329.4	120,673.1	135,620.6
Net intangibles	0.0	0.0	0.0	0.0
Total investments	55,546.6	53,491.2	51,435.8	49,380.4
Other long-term assets	0.0	0.0	0.0	0.0
Total assets	**254,171.0**	**282,558.3**	**326,877.7**	**373,192.6**
Accounts payable	43,821.3	51,387.1	61,576.0	70,823.3
Short-term debt	0.0	0.0	0.0	0.0
Other current liabilities	41,806.5	42,524.5	51,577.6	60,630.7
Total current liabilities	**85,627.8**	**93,911.6**	**113,153.6**	**131,454.0**
Long-term debt	992.0	992.0	992.0	992.0
Other long-term liabilities	8,018.5	8,018.5	8,018.5	8,018.5
Total long-term liabilities	9,010.5	9,010.5	9,010.5	9,010.5
Total liabilities	**94,638.3**	**102,922.1**	**122,164.1**	**140,464.5**
Preferred shares	**0.0**	**0.0**	**0.0**	**0.0**
Total common equity	**159,532.7**	**179,636.2**	**204,713.5**	**232,728.1**
Minority interest	0.0	0.0	0.0	0.0
Total liabilities & equity	**254,171.0**	**282,558.3**	**326,877.7**	**373,192.6**
BVPS (Rs)	**20.62**	**23.21**	**26.46**	**30.08**

Ratios	3/11	3/12E	3/13E	3/14E
CROCI (%)	33.9	44.8	50.5	54.0
ROE (%)	33.2	35.9	39.0	39.7
ROA (%)	20.6	22.7	24.6	24.8
ROACE (%)	36.8	42.6	49.9	55.6
Inventory days	164.4	161.4	156.3	158.7
Receivables days	15.2	14.9	14.9	15.0
Payable days	131.0	138.3	138.4	142.5
Net debt/equity (%)	(13.4)	(18.1)	(25.4)	(31.5)
Interest cover - EBIT (X)	NM	NM	NM	NM

Valuation	3/11	3/12E	3/13E	3/14E
P/E (analyst) (X)	30.8	25.4	20.6	17.8
P/B (X)	9.7	8.6	7.5	6.6
EV/EBITDA (X)	16.1	16.9	13.4	11.3
EV/GCI (X)	8.7	9.9	9.0	8.1
Dividend yield (%)	2.2	2.3	2.8	3.3

Note: Last actual year may include reported and estimated data.

Source: Company data, Goldman Sachs Research estimates.

Analyst Contributors

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Buy for cash generation, EBIT growth; Valuations offer upside

We raise ITC to Buy with a revised 12-month target price of Rs232 (from Rs201) as we believe the current valuations do not fully capture improving cash returns (CROCI set to increase to 50% in FY13E from 39% in FY11). In our consumer coverage, only ITC has seen margin expansion for the last two years. ITC now trades 1SD below the sector aggregate on a 12-month forward P/E following 5% underperformance compared with the sector average over the last 60 days.

Robust cash generation leading to higher dividend payouts

ITC has seen a sharp jump in post tax cash from operations (before working capital changes) to Rs53bn in FY11 as compared with Rs32bn in FY08 given good growth across various businesses. However incremental capital requirements decreased due to lesser investments required in FMCG and paper businesses. This has led to surplus cash post capital employed in the business increasing to Rs40bn in FY11 as compared with Rs5bn in FY08. As cash generation increased ITC has raised dividend payout ratio to 94% and 69% in FY10 and FY11, respectively, as compared with 42%-45% in the previous 4 years (Exhibit 1).

Exhibit 1: Surplus cash generation has increased to Rs40bn in FY11 as compared with Rs4.6bn in FY08
Cash from operations and incremental capital employed (Rs mn)

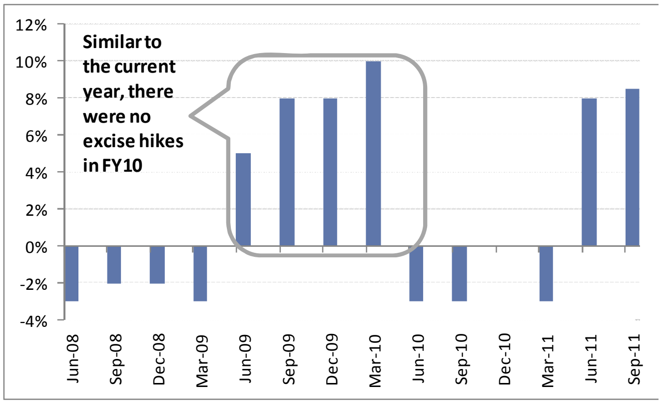
Rs mn	FY 2006	FY 2007	FY 2008	FY 2009	FY 2010	FY 2011	FY 2012E	FY 2013E	FY 2014E
Cash from operations (post tax but before WC changes)	**24,641**	**28,084**	**31,545**	**35,529**	**43,156**	**52,590**	**65,133**	**80,536**	**93,915**
Incremental capital employed	**(12,275)**	**(25,134)**	**(26,897)**	**(19,447)**	**(7,923)**	**(12,688)**	**(15,961)**	**(19,957)**	**(22,765)**
FMCG - Cigarettes	(3,267)	(6,388)	(4,519)	(9,195)	(525)	(2,935)	(4,159)	(5,438)	(6,761)
FMCG - Others	(2,402)	(4,931)	(9,066)	(3,265)	3,386	(3,240)	(2,492)	(3,136)	(3,948)
Hotels	(327)	(1,538)	(4,633)	(3,911)	(3,463)	(3,563)	(4,167)	(4,968)	(5,869)
Agri Business	(3,511)	(4,546)	(275)	3,917	(5,753)	(48)	(1,116)	(1,686)	(1,949)
Paperboards, paper and packaging	(2,768)	(7,732)	(8,404)	(6,993)	(1,568)	(2,902)	(4,028)	(4,729)	(4,239)
Surplus	12,366	2,950	4,647	16,082	35,233	39,902	49,172	60,580	71,150
Rolling 3 year average			**6,655**	**7,893**	**18,654**	**30,406**	**41,436**	**49,885**	**60,301**
yoy				*19%*	*136%*	*63%*	*36%*	*20%*	*21%*
Dividend	9,951	11,663	13,190	13,965	38,182	34,435	34,822	42,560	50,298
Dividend payout ratio	*45%*	*43%*	*42%*	*43%*	*94%*	*69%*	*57%*	*57%*	*58%*

Source: Company data, Goldman Sachs Research.

Tobacco business-high pricing power aiding returns, growth

We expect this business to continue to generate CROCI of 100+% given high pricing power owing to strong brand portfolio and limited competition. We expect EBIT CAGR of 18% between FY11-FY14E, inline with the recent past. ITC has consistently outsold other cigarette companies over the last few years despite taking up prices at a 9% CAGR over the past 5 years. This points to significant pricing power enjoyed by ITC brands (Exhibit 3). The cigarette division has seen EBIT margins expand from 23.9% of net sales in FY06 to 29.1% in FY11 and we are forecasting cigarette EBIT to expand to 31.4% in FY13E.

Exhibit 2: Volume growth has surprised in 1HFY12
Quarterly cigarette volume growth



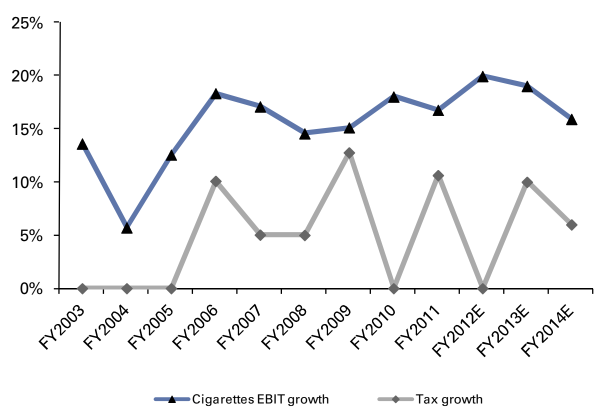
Source: Company data, Goldman Sachs Research.

Exhibit 3: Pricing has grown at a 9% CAGR since 2005
Cigarette prices (Rs/stick) and 2005-11 CAGR

Rs/stick	Gold Flake Kings	Navy Cut	Classic
2005	3.0	2.5	3.3
2011	4.8	4.4	5.5
2005-11 CAGR	***8.5%***	***9.9%***	***9.2%***
2005-11 Inflation CAGR	6.5%	6.5%	6.5%
2005-11 Real price growth	**2.0%**	**3.4%**	**2.7%**

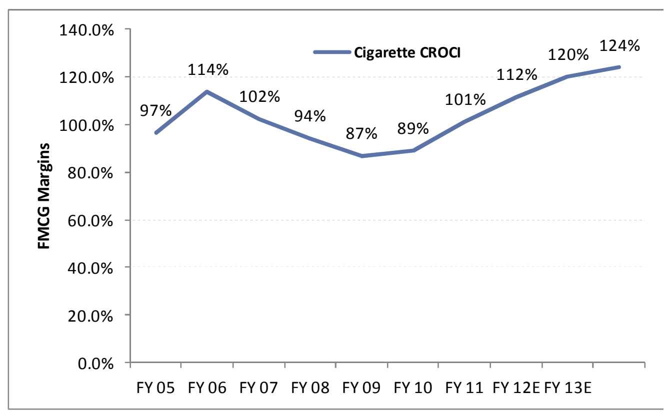
Source: Goldman Sachs Research.

Exhibit 4: Cigarette EBIT growth has shown stability
Cigarettes – EBIT growth and tax growth



Source: Company data, Goldman Sachs Research.

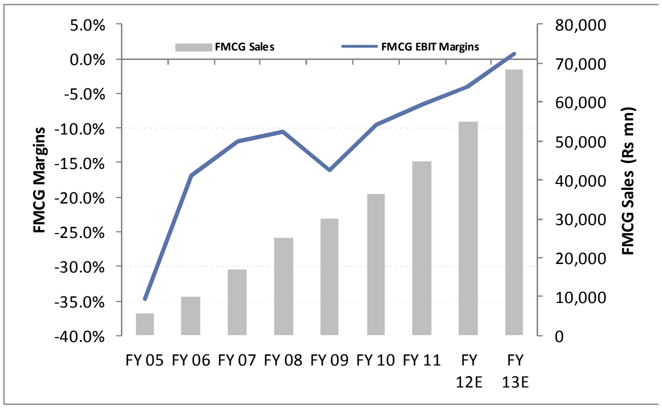
Exhibit 5: Cigarette CROCI still on the upswing
Cigarette division CROCI trend



Source: Goldman Sachs Research estimates.

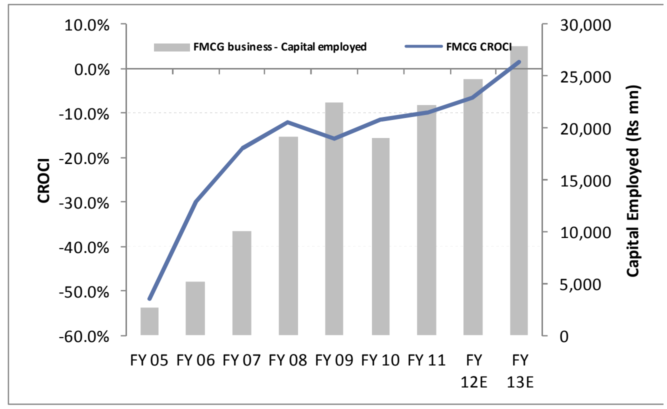
FMCG business. On the back on continued investments, ITC has seen FMCG sales growing at a CAGR of 21% between FY2008-11. As of FY2011, ITC has gross cash invested (GCI) of Rs25 bn and has also funded EBITDA losses of Rs21.4 bn. Based on better scale and brand stability, we forecast the business to turn profitable in FY13E. We expect scale benefits to accrue from market share gains (Personal care-soaps/ fairness creams, snacks - chips, biscuits and flour) as well as spreading of A&P and sales expenses over a larger base.

Exhibit 6: We expect break-even in FY13E for FMCG
FMCG division – Sales and EBIT margins



Source: Company data, Goldman Sachs Research.

Exhibit 7: Returns catching up with capital employed
FMCG division – CROCI and Capital Employed



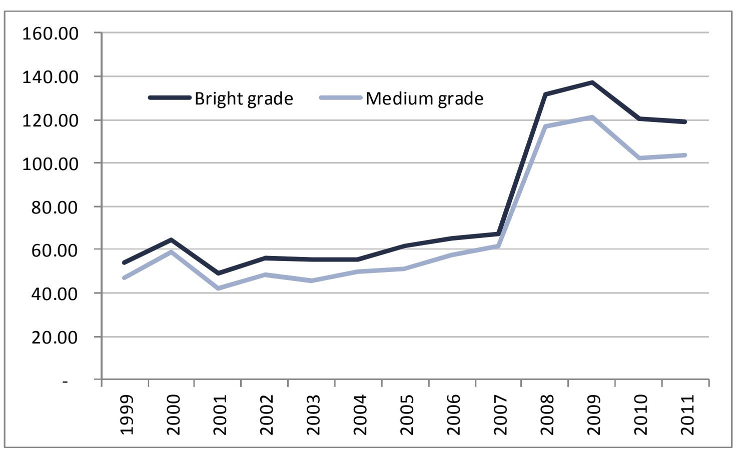
Source: Company data, Goldman Sachs Research.

ITC is least affected by raw material inflation, INR depreciation

The three largest constituents of raw material consumption are unmanufactured Tobacco, pulp and wheat amounting to more than 40% of raw material cost. Latest auction data indicate a marginal decline in tobacco prices yoy (Exhibit 8).

Among our coverage universe, ITC is least affect by INR depreciation as it is a net forex earning company. During FY2011, ITC and its subsidiaries earned Rs31.2 bn in foreign exchange driven by exports of agri commodities and hotel business while direct expenditure amounted to Rs12.5 bn. Thus it earned net foreign exchange of Rs19 bn.

Exhibit 8: Tobacco prices have declined since 2008
Karnataka auction - Tobacco prices by grade



Source: Indian Tobacco Board, Goldman Sachs Research.

Exhibit 9: ITC least affected by raw material inflation
GS Consumer coverage across key metrics

	Key raw material inflation		Pricing power in key categories		Competitve intensity in key categories		FY13E P/E	FY13E CROCI	FY11-13E CROCI	FY11-14E REV CAGR	FY11-14E PAT CAGR
	Current	Trend	Current	Trend	Current	Trend			Trend		
COLG.BO	High	Increasing	Medium	Stable	Medium	Increasing	25.7X	126%	Decreasing	16.0%	15.1%
DABU.BO	Medium	Increasing	Medium	Stable	Medium	Increasing	21.1X	28%	Increasing	20.0%	18.9%
HLL.BO	High	Increasing	Medium	Decreasing	High	Increasing	28.2X	142%	Decreasing	14.2%	12.5%
ITC.BO	Low	Decreasing	High	Increasing	Low	Stable	20.2X	50%	Increasing	17.6%	20.3%
MRCO.BO	Medium	Increasing	High	Stable	Medium	Stable	21.8X	30%	Increasing	23.6%	20.0%
NEST.BO	Medium	Decreasing	High	Decreasing	Medium	Increasing	33.6X	54%	Decreasing	20.0%	19.7%

Source: Goldman Sachs Research estimates.

ITC is amongst the few companies with 1st quartile CROCI that we expect to show further improvement in FY11-13. Other companies we expect to show improvement are primarily in commodities and automobiles. Within the FMCG universe, we expect ITC to show the largest improvement.

Exhibit 10: ITC has top quartile EBIT margins with significant expansion potential
EBIT margins and margin improvement – Top quartile companies under India coverage

	Top quartile EBIT margins FY2011	Margin improvement (bps) FY2011-FY2013E
GSPT.BO	80.1%	13
CAIL.BO	69.7%	(1,472)
JYPE.BO	64.9%	(2,312)
PGRD.BO	57.4%	**266**
PHOE.BO	55.6%	(105)
OEBO.BO	55.6%	**381**
SESA.BO	55.5%	(1,168)
HDIL.BO	55.1%	(1,209)
SUTV.BO	54.5%	(124)
HZNC.BO	51.9%	**249**
ADAN.BO	48.3%	(1,416)
NHPC.BO	47.9%	**535**
JNSP.BO	40.0%	(882)
KSKE.BO	37.9%	(199)
OILI.BO	37.1%	**324**
IRBI.BO	36.0%	80
GODR.BO	35.3%	(809)
DLF.BO	33.1%	**613**
ITC.BO	32.1%	**220**
JSWE.BO	30.2%	(123)
INFY.BO	29.5%	(97)
COAL.BO	28.7%	**219**
UNTE.BO	28.0%	(163)
TCS.BO	28.0%	(120)
ILFT.BO	27.0%	(147)
BSSL.BO	25.8%	(298)
ONGC.BO	25.5%	**613**
STRL.BO	24.3%	(153)

Source: Company data, Goldman Sachs Research estimates.

Exhibit 11: Exhibit 10: ITC has top quartile CROCI and we forecast CROCI to increase more than 600bp
CROCI and CROCI increase – Top quartile companies under India coverage

	Top quartile CROCI FY2013E	CROCI increase (bps) FY2011-FY2013E
HLL.BO	142%	(3,267)
COLG.BO	126%	(2,819)
BAJA.BO	111%	3,859
NEST.BO	54%	(594)
ITC.BO	50%	1,170
HZNC.BO	48%	(148)
INFY.BO	46%	(337)
TCS.BO	45%	(458)
COAL.BO	45%	1,435
HROM.BO	38%	1,555
DSTV.BO	32%	603
SUTV.BO	31%	(794)
OEBO.BO	31%	882
MRCO.BO	30%	(126)
BOSH.BO	29%	184
HVEL.BO	28%	271
DABU.BO	28%	(859)
BHEL.BO	26%	(1,345)
CAIL.BO	25%	1,030
EXID.BO	25%	108
HCLT.BO	23%	154
CUMM.BO	22%	(466)
WIPR.BO	20%	(388)
CROM.BO	20%	(599)
IRBI.BO	20%	(203)
MBFL.BO	20%	(2,193)
THMX.BO	19%	(1,270)
JYPE.BO	19%	(445)

Source: Company data, Goldman Sachs Research estimates.

Improving cash margins and asset turns driving returns

We believe ITC's CROCI will improve to 50% in FY13E, driven not only by the cigarette business but also increasing contributions from other businesses like FMCG-Others, Paper and Agri. Over the past few years ITC has invested surplus cash generated by the cigarette business into building better brands in other businesses. Several of these brands are now beginning to show robust revenue growth leading to better asset turns. The businesses are also increasingly profitable leading to an expansion in cash margins.

The cigarette business continues to deliver very robust returns and generates substantial cash flows. We expect the cigarette business to throw up an average DACF of Rs59bn between FY12E-14E, with CROCI expanding from 101% in FY11 to 124% in FY14E. This gives us a fair degree of confidence in our CROCI estimates.

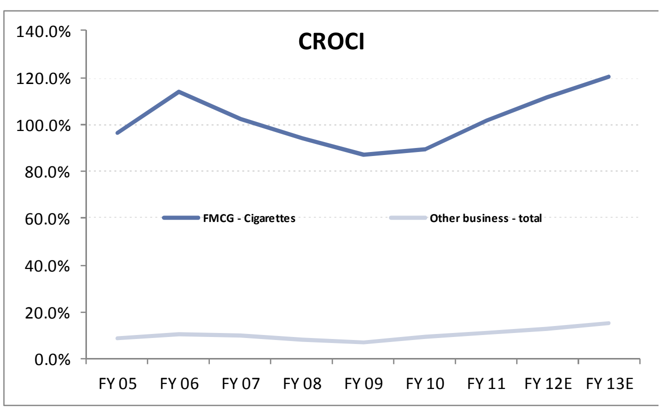
Exhibit 12: ITC is the only company in our India consumer coverage to have seen margin expansion in FY09-FY10
Change in EBIT margins (bps)

EBIT margin Δ (bps)	FY2005	FY2006	FY2007	FY2008	FY2009	FY2010	FY2011	FY2012E	FY2013E	FY2014E
COLG.BO	203	(88)	(111)	372	22	583	(127)	(102)	20	20
DABU.BO	579	224	154	56	(71)	179	(8)	(90)	39	9
HLL.BO	(533)	(140)	72	122	(66)	10	(187)	99	43	(8)
ITC.BO	1	(182)	(131)	(15)	(94)	205	77	84	137	57
MRCO.BO	32	145	161	100	(8)	61	(13)	(102)	(40)	20
NEST.BO	(131)	142	(176)	92	(24)	1	44	24	(13)	37
Coverage	(165)	(38)	14	59	(87)	144	(28)	47	81	26
Coverage ex ITC	(320)	(42)	35	125	(50)	74	(102)	30	26	11

Note: Blue highlight indicates substantial margin expansion, grey high light indicates significant contraction.

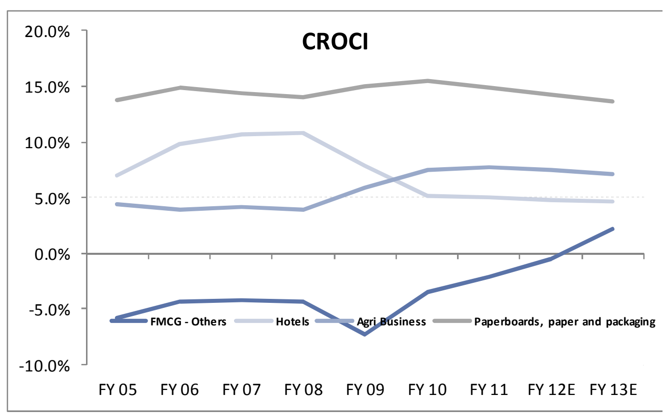
Source: Company data, Goldman Sachs Research estimates.

Exhibit 13: Cigarette division still drives CROCI
CROCI trend



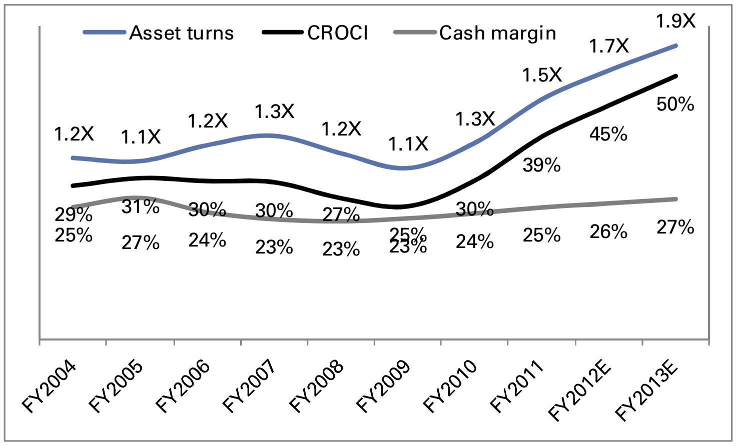
Source: Company data, Goldman Sachs Research estimates.

Exhibit 14: .. returns also improving for FMCG business
CROCI trend – divisions expect cigarettes



Source: Company data, Goldman Sachs Research estimates.

Exhibit 15: CROCI driven by asset turns and margins
CROCI, Asset turns (X) and cash margins



Source: Company data, Goldman Sachs Research estimates.

Valuations offer upside from current levels

ITC trades at an FY13E P/E of 20.2X as compared with 25.1X for the sector. We increased our FY12E-14E EPS estimates by 1%-7% to factor in higher volumes and pricing for the cigarette business. Our 12-month target price is set at 24X FY13E EPS of Rs9.68 and is backed by Director's Cut analysis. We raise our target multiple from 22X to factor in (1) ITC's increased cash generation and higher dividend payout ratio, (2) increased pricing power owing to strong brand portfolio and limited competition, and (3) improvement in CROCI to 50% in FY13E from 39% in FY11. ITC's DACF increased from Rs36bn in FY09 to Rs54bn in FY11 and we forecast Rs81bn in FY13E. Increased dividend payout also suggests that the company is generating cash and repaying equity investors. Our Director's Cut and SOTP analysis also suggest valuation similar valuation (Exhibit 16 & 17).

Exhibit 16: Our TP is broadly in-line with DC valuation
Director's Cut Valuation

DC Valuation	
DC Sector multiple	2.3X
FY2013E CROCI / WACC	4.6X
Implied value EV/GCI	**10.4X**
FY2013E GCI Rs mn	166,235
Implied EV Rs mn	**1,728,184**
FY2013E Net Debt Rs mn	(52,080)
Implied Mkt. Cap. Rs mn	**1,780,264**
FY2013E Shares out. mn	7,738
DC Implied Valuation Rs / share	**230**

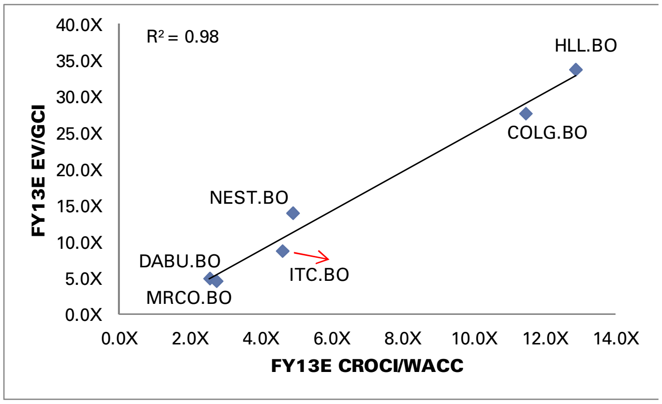
Source: Goldman Sachs Research estimates.

Exhibit 17: Also in-line with a SOTP based valuation
SOTP valuation

SOTP Value	Rs mn	Rs/share
EV	**1,687,010**	**218**
FMCG Cigarettes (24X FY13E EPS)	1,359,145	176
FMCG - Others (1.5X FY13E Sales)	102,326	13
Hotels (12X FY13E EBITDA)	59,100	8
Agri (6X FY13E EBITDA)	48,995	6
Paper (8X FY13E EBITDA)	117,444	15
Net debt - FY13E	-103,516	(13)
Equity Value	**1,790,526**	**231**
No of shares (mn)	7,738	

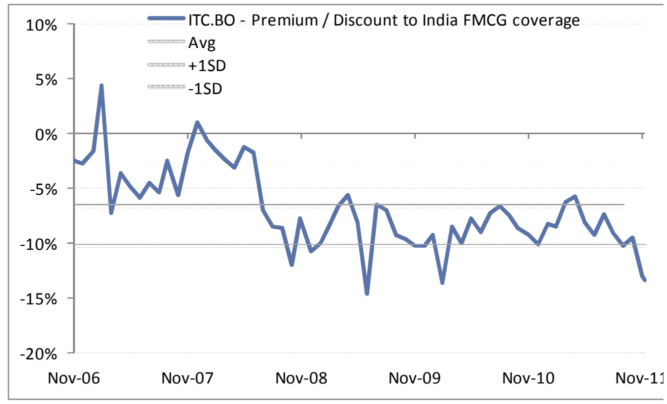
Source: Goldman Sachs Research estimates.

Exhibit 18: Trading below the line with increasing returns
FY13E EV/GCI vs FY13E CROCI/WACC



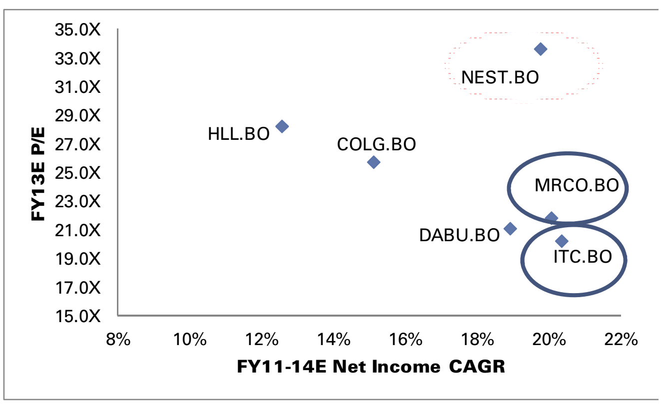
Source: Goldman Sachs Research estimates.

Exhibit 19: ITC discount - 1SD below 5 year mean
12-month fwd P/E relative to India consumer coverage



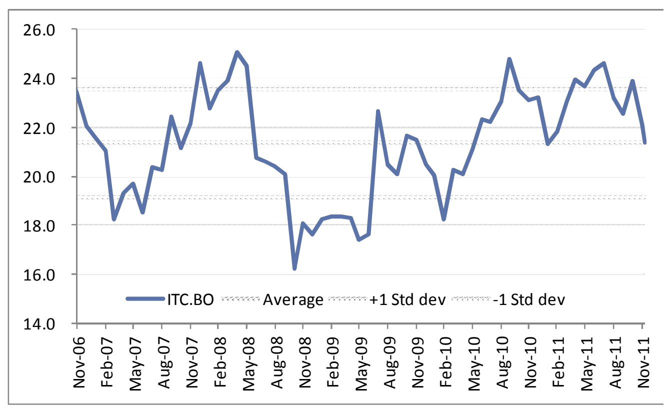
Source: Datastream, Company data, Goldman Sachs Research estimates.

Exhibit 20: ITC P/E does not capture growth potential
FY13E P/E and FY11-FY14E Net income CAGR



Source: Datastream, Company data, Goldman Sachs Research estimates.

Exhibit 21: ITC has corrected recently
12-month fwd P/E



Source: Datastream, Company data, Goldman Sachs Research estimates.

More than a cigarette company

ITC is India's leading cigarette company with more than 70% volume and value market share. ITC has 6 of the top 10 cigarette brands in India including the top three.

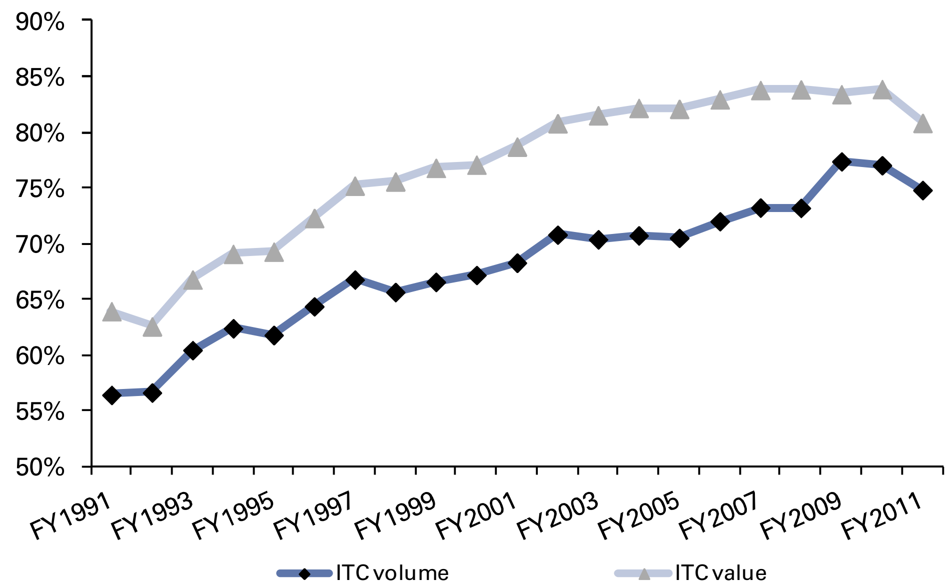
ITC also runs India's second largest chain of hotels under four brands - ITC Hotels, WelcomHotel, Fortune & WelcomHeritage

ITC's paper and paperboards business is India's largest with revenues >Rs8bn in FY11

ITC's agri business is India's largest in leaf tobacco trading and 2nd largest in agri commodities with farm linkages in 14 States covering Soya, Wheat, Marine products, Coffee etc.

ITC also has a consumer staples business with a focus on packaged food and personal care.

Exhibit 22: ITC has more than 2/3 of the value market share in cigarettes
ITC volume and value market share



Source: Company data, Goldman Sachs Research.

Exhibit 23: Share of cigarettes in EBIT reducing as other businesses turn more profitable
Sales and contribution (Rs mn)

Net sales (Rs mn)	FY 2007	FY 2008	FY 2009	FY 2010	FY 2011	FY 2012E	FY 2013E	FY 2014E
FMCG - Cigarettes	58,949	66,350	77,807	93,212	105,737	122,975	146,769	163,661
FMCG - Others	16,895	25,096	30,056	36,339	44,716	54,945	68,054	84,516
Hotels	9,058	10,121	9,355	8,507	10,008	11,351	13,493	15,899
Agri Business	35,013	38,684	38,460	38,621	47,480	56,398	66,502	75,789
Paperboards, paper and packaging	19,106	21,579	26,471	31,078	35,072	40,779	47,598	53,785
Eliminations	(17,378)	(22,355)	(26,029)	-	(31,337)	(36,364)	(42,745)	(48,976)
Consolidated total	**121,643**	**139,475**	**153,881**	**181,532**	**211,676**	**250,084**	**299,670**	**344,673**
Net sales Contribution	**FY 2007**	**FY 2008**	**FY 2009**	**FY 2010**	**FY 2011**	**FY 2012E**	**FY 2013E**	**FY 2014E**
FMCG - Cigarettes	48%	48%	51%	51%	50%	49%	49%	47%
FMCG - Others	14%	18%	20%	20%	21%	22%	23%	25%
Hotels	7%	7%	6%	5%	5%	5%	5%	5%
Agri Business	29%	28%	25%	21%	22%	23%	22%	22%
Paperboards, paper and packaging	16%	15%	17%	17%	17%	16%	16%	16%
Eliminations	-14%	-16%	-17%	-14%	-15%	-15%	-14%	-14%
Consolidated total	**100%**	**100%**	**101%**	**100%**	**100%**	**100%**	**100%**	**100%**
EBIT Contribution	**FY 2007**	**FY 2008**	**FY 2009**	**FY 2010**	**FY 2011**	**FY 2012E**	**FY 2013E**	**FY 2014E**
FMCG - Cigarettes	83%	84%	89%	83%	81%	80%	78%	78%
FMCG - Others	-5%	-6%	-10%	-6%	-4%	-3%	1%	1%
Hotels	9%	9%	7%	4%	4%	4%	4%	3%
Agri Business	3%	3%	5%	7%	8%	8%	7%	7%
Paperboards, paper and packaging	11%	10%	11%	12%	12%	11%	11%	11%
Eliminations	-1%	-1%	-2%	0%	0%	0%	0%	0%
Consolidated total	**100%**	**100%**	**100%**	**100%**	**100%**	**100%**	**100%**	**100%**
EBIT Margin	**FY 2007**	**FY 2008**	**FY 2009**	**FY 2010**	**FY 2011**	**FY 2012E**	**FY 2013E**	**FY 2014E**
FMCG - Cigarettes	24.7%	26.3%	27.7%	28.6%	29.1%	30.6%	31.4%	32.4%
FMCG - Others	-12.0%	-10.5%	-16.0%	-9.6%	-6.6%	-4.0%	0.8%	2.0%
Hotels	35.6%	37.3%	31.0%	23.8%	24.7%	26.0%	26.0%	25.0%
Agri Business	3.5%	3.3%	6.7%	11.3%	11.9%	12.0%	11.8%	11.0%
Paperboards, paper and packaging	19.8%	19.2%	18.0%	21.2%	22.3%	23.0%	23.5%	23.5%
Eliminations	1.7%	1.5%	3.8%	0.0%	0.0%	0.0%	0.0%	0.0%
Consolidated total	19.2%	19.6%	19.5%	23.1%	23.9%	25.1%	26.2%	26.5%

Source: Company data, Goldman Sachs Research estimates.

Disclosure Appendix

Reg AC

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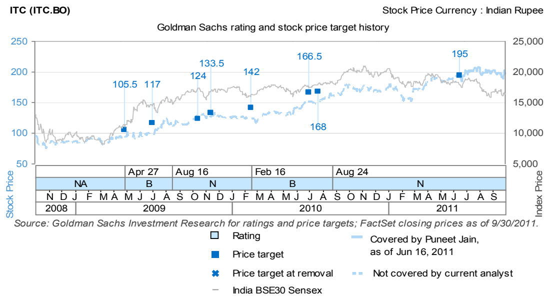

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