



Between the Lines

Daily Corporate News Analysis

May 27th 2009

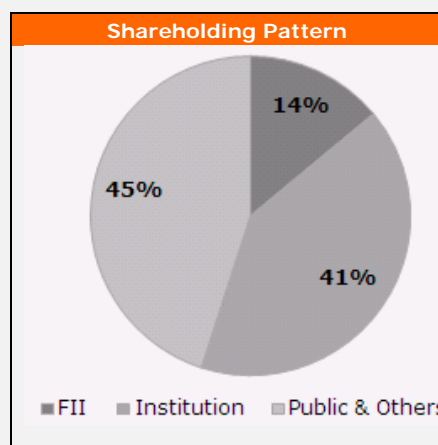
ITC

Result Update

Market Performer ; HOLD

Company Info	
CMP	184
Target Price	209
Sector	FMCG
52 week H/L	225 / 132.05
BSE Code	500875
NSE Code	ITC
Face Value	1
Market Cap	69,468

Price Performance			
%	1m	3m	1yr
Absolute	-3.0%	0.5%	-
Relative to Sensex	20.4%	34.2%	5.4%



INVESTMENT RATIONALE

Diversified portfolio: From a cigarette player, ITC has diversified into hotel business, FMCG, agri-business and lifestyle retailing. FMCG cigarette business now contributes ~ 46%, non-cigarette FMCG contributes 19%, paperboard 15%, agribusiness 12% and hotels 5% to ITC's top line.

Result Update: ITC posted a marginal 1% decline in net sales of 3,891.8 crore. Operating profit grew by 24% y-o-y to Rs. 1,298.4 crore and operating margins expanded by 651bps to 33.1%. Net profit grew by 29% y-o-y to Rs. 809.0 crore.

De-growth in top line was mainly because of 29% decline in hotel business and 51% decline in agri business: Sales were mainly impacted due to decline in occupancy rates in hotels by 40-50% and 20-30% decline in ARR (average room rent) affecting realization and adverse market conditions affected exports of agri commodities. We expect the hotel business to stabilize from H2FY10E. Net revenue from cigarette business grew by 16% y-o-y on the back of improved realizations from price hikes taken during the quarter though volume declined c3.5%. Non-cigarette FMCG business (contributing ~18% to ITC's top line) grew by 14% y-o-y, lower than compared to the other FMCG peers.

Valuations

ITC, a well diversified player is likely to grow at a CAGR of 10% in FY2008-10E. Cigarette, which clocks ~45% revenue and contributes >80% to EBIT will continue to drive growth as the company exits the non-filter space. With 2 consecutive years of increase in excise/VAT in the Union Budget the probability for a further rate increase is less in the coming budget. Revenue from non-cigarette FMCG business is likely to grow and losses from the same are likely to decline in FY10E. We expect hotel business to stabilize from H2FY10. At CMP of Rs. 184, we maintain our 'HOLD' recommendation on the stock with a target price of Rs. 209, which gives it an upside potential of 14%. At the CMP, the stock is trading at 18.4x FY10E earnings of Rs. 10.0.

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