

Margin gains offset slower volume growth in cigarette

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Q3 results marginally ahead of estimates; reiterate Buy

ITC's 23% jump in Q3 PAT was marginally ahead of estimates. Lower than expected volume growth in cigarettes but at higher margins and continued growth in FMCG were the key highlights. We see upside risks to numbers from better than expected margins in cigarettes as well as performance in FMCG. Post the results we reiterate Buy with an unchanged price objective of Rs235.

Cigarettes: lower volumes compensated by margin gains

Volume growth in cigarettes at ~5% was lower vs expected 7% led by 1) higher base in Q3FY11 and 2) price hikes taken through FY12 to counter tax hikes likely impacting demand. However margins jumped 176bp yoy at higher prices. We expect cigarette volumes to pick up in Q4 as price hikes are absorbed and as base effect normalizes.

Ex cigarette businesses show mixed performance

FMCG revenue growth was strong at 24% led by over 15% volume growth. Segmental losses declined 37% yoy due to operating leverage and improving profitability in snacks business. Paper/paper board EBIT jumped 17% with 111bp margin gains led by better mix. Hotels revenue declined 1% yoy given lower room rates due to slowdown in tourist arrivals. Agribusiness revenue growth at 10% yoy was marginally below expected due to raw material availability/quality issues.

Valuations remain attractive; expect softness till budget

ITC trades at 23x1yr fwd PE for 19% estimated EPS CAGR. We see upside risk to our estimates led by: (1) better-than-expected margins in cigarettes given price hikes, and (2) lower losses in FMCG. However we expect stock price to remain soft in the short-term pending possible changes in excise on cigarettes in the FY13 budget. We would view any volatility as an opportunity. PO of INR235 is based on DCF and is validated by SOTP.

Estimates (Mar)

(Rs)	2010A	2011A	2012E	2013E	2014E
Net Income (Adjusted - mn)	40,610	49,876	59,739	70,870	82,223
EPS	5.32	6.45	7.72	9.16	10.63
EPS Change (YoY)	23.0%	21.2%	19.8%	18.6%	16.0%
Dividend / Share	5.00	4.93	4.63	5.95	7.44
Free Cash Flow / Share	8.92	5.21	6.08	7.79	9.28

Valuation (Mar)

	2010A	2011A	2012E	2013E	2014E
P/E	37.80x	31.18x	26.04x	21.95x	18.92x
Dividend Yield	2.49%	2.45%	2.30%	2.96%	3.70%
EV / EBITDA*	22.70x	19.15x	16.09x	13.63x	11.75x
Free Cash Flow Yield*	4.38%	2.59%	3.03%	3.88%	4.62%

* For full definitions of *iQmethod*SM measures, see page 9.

Stock Data

Price	Rs201.00
Price Objective	Rs235.00
Date Established	20-Jul-2011
Investment Opinion	C-1-7
Volatility Risk	HIGH
52-Week Range	Rs147.72-Rs216.20
Mrkt Val / Shares Out (mn)	US\$30,906 / 7,738.1
Average Daily Volume	6,472,362
BofAML Ticker / Exchange	ITCTF / NSI
Bloomberg / Reuters	ITC IN / ITC.NS
ROE (2012E)	35.5%
Net Dbt to Eqty (Mar-2011A)	-13.4%
Est. 5-Yr EPS / DPS Growth	15.0% / 15.0%
Free Float	67.0%

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Refer to important disclosures on page 10 to 12. Analyst Certification on Page 8. Price Objective Basis/Risk on page 8. Link to Definitions on page 8.11128642

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iQprofileSM ITC Limited

Key Income Statement Data (Mar)	2010A	2011A	2012E	2013E	2014E
(Rs Millions)					
Sales	181,532	211,676	249,078	291,413	335,417
Gross Profit	65,571	77,747	92,516	109,198	126,680
Sell General & Admin Expense	NA	NA	NA	NA	NA
Operating Profit	59,259	71,213	85,383	101,521	118,450
Net Interest & Other Income	894	1,469	2,469	2,699	2,466
Associates	NA	NA	NA	NA	NA
Pretax Income	60,153	72,682	87,852	104,221	120,916
Tax (expense) / Benefit	(19,543)	(22,806)	(28,113)	(33,351)	(38,693)
Net Income (Adjusted)	40,610	49,876	59,739	70,870	82,223
Average Fully Diluted Shares Outstanding	7,636	7,738	7,738	7,738	7,738

Key Cash Flow Statement Data

Net Income	40,610	49,876	59,739	70,870	82,223
Depreciation & Amortization	6,313	6,535	7,134	7,676	8,231
Change in Working Capital	6,313	6,535	7,134	7,676	8,231
Deferred Taxation Charge	NA	NA	NA	NA	NA
Other Adjustments, Net	28,413	(10,788)	(14,690)	(13,678)	(14,587)
Cash Flow from Operations	81,648	52,157	59,317	72,545	84,097
Capital Expenditure	(13,518)	(11,805)	(12,250)	(12,250)	(12,250)
(Acquisition) / Disposal of Investments	(4,622)	(2,065)	0	0	0
Other Cash Inflow / (Outflow)	NA	NA	NA	NA	NA
Cash Flow from Investing	(18,139)	(13,870)	(12,250)	(12,250)	(12,250)
Shares Issue / (Repurchase)	7,207	9,038	0	0	0
Cost of Dividends Paid	(44,517)	(44,517)	(41,937)	(53,897)	(67,340)
Cash Flow from Financing	(38,008)	(35,564)	(41,937)	(53,897)	(67,340)
Free Cash Flow	68,130	40,351	47,067	60,295	71,847
Net Debt	(10,186)	(21,440)	(26,570)	(32,968)	(37,475)
Change in Net Debt	(26,198)	(2,807)	(5,130)	(6,398)	(4,507)

Key Balance Sheet Data

Property, Plant & Equipment	91,514	96,785	101,901	106,475	110,494
Other Non-Current Assets	25,842	27,819	29,584	31,526	33,663
Trade Receivables	8,588	9,076	10,918	12,774	14,703
Cash & Equivalents	11,263	22,432	27,562	33,960	38,467
Other Current Assets	92,847	98,059	107,483	118,037	129,008
Total Assets	230,053	254,171	277,449	302,773	326,336
Long-Term Debt	1,077	992	992	992	992
Other Non-Current Liabilities	53,350	49,067	49,067	49,067	49,067
Short-Term Debt	NA	NA	NA	NA	NA
Other Current Liabilities	34,983	44,579	50,055	58,406	67,086
Total Liabilities	89,410	94,638	100,114	108,465	117,145
Total Equity	140,644	159,533	177,335	194,308	209,191
Total Equity & Liabilities	230,053	254,171	277,449	302,773	326,336

iQmethodSM - Bus Performance*

Return On Capital Employed	23.7%	25.9%	28.5%	31.2%	33.7%
Return On Equity	29.3%	33.2%	35.5%	38.1%	40.8%
Operating Margin	32.6%	33.6%	34.3%	34.8%	35.3%
EBITDA Margin	36.1%	36.7%	37.1%	37.5%	37.8%

iQmethodSM - Quality of Earnings*

Cash Realization Ratio	2.0x	1.0x	1.0x	1.0x	1.0x
Asset Replacement Ratio	2.1x	1.8x	1.7x	1.6x	1.5x
Tax Rate (Reported)	32.5%	31.4%	32.0%	32.0%	32.0%
Net Debt-to-Equity Ratio	-7.2%	-13.4%	-15.0%	-17.0%	-17.9%
Interest Cover	NM	NM	NM	NM	NM

Key Metrics

* For full definitions of iQmethodSM measures, see page 9.

Company Description

ITC is India's largest cigarette company with about 70%+ volume share and 85%+ value share. Cigarettes account for 50% of turnover and 81% of EBIT. The company has diversified into non-tobacco businesses, such as consumer products, apparel retailing, hotels, paper, and agricultural exports. Key strengths: (1) extensive distribution, (2) strong brands across price segments, and (3) a healthy balance sheet.

Investment Thesis

We like ITC given its leadership position in cigarettes that sees intact demand and resilient margins. Other businesses are going through a sweet spot and provide strong earnings growth support. Key strength is the near-monopoly in cigarettes, strong brands and extensive distribution. We expect strong balance sheet and healthy cash flow to sustain. ITC remains a fast-growing large-cap consumer company at attractive valuation.

Stock Data

Price to Book Value 8.8x

Result highlights

Table 1: Q3FY12 results table

Profit and loss statement INR mn	Q3FY12	Q3FY11	YoY	Q2FY12	QoQ	Q3FY12E	Act vs Est	Remarks
Net sales	61954.3	54,243	14.2%	59,742	3.7%	64,011	-3.2%	# Cigarettes and FMCG were key growth drivers; Hotels growth remained muted
Other Operating Income	524.1	486	7.9%	1,110	-52.8%	500	4.8%	
Net sales including other operating income	62,478	54,728	14.2%	60,852	2.7%	64,511	-3.2%	
Expenditure								
(increase)/ decrease in stock in trade and WIP	(733)	(587)	24.9%	(398)	84.1%	(700)	4.8%	
Raw / packing materials	19,277	17,666	9.1%	18,560	3.9%	20,698	-6.9%	
Purchase of traded goods	3,181	2,905	9.5%	5,029	-36.8%	3,226	-1.4%	
Employee costs	2,981	2,773	7.5%	2,650	12.5%	3,226	-7.6%	
Other expenditure	13,962	11,593	20.4%	12,821	8.9%	14,192	-1.6%	
Total Expenditure	38,667	34,349	12.6%	38,662	0.0%	40,642	-4.9%	
EBITDA	23,811	20,293	17.3%	22,190	7.3%	23,869	-0.2%	
Depreciation	1,737	1,681	3.3%	1,701	2.1%	1,750	-0.7%	
EBIT	22,072	18,612	18.6%	20,489	7.7%	22,119	-0.2%	
Other income	2,851	1,930	47.7%	1,808	57.7%	1,750	62.9%	
Interest	157	230	-31.8%	142	10.5%	200	-21.7%	
PBT	24,767	20,313	21.9%	22,155	11.8%	23,669	4.6%	
Tax expense	7,757	6,422	20.8%	7,012	10.6%	7,101	9.2%	
Recurring PAT	17,010	13,891	22.5%	15,143	12.3%	16,568	2.7%	
Margins	Q3FY12	Q3FY11	YoY	Q2FY12	QoQ	Q3FY12E	Act vs Est	
EBITDA	38.1%	36.8%	131bp	36.5%	165bp	37.0%	111bp	# Margin gain was led by gains in cigarettes, FMCG, Hotels and Paper/paperboard business
EBIT	35.3%	33.8%	158bp	33.7%	166bp	34.3%	104bp	
Recurring PAT	27.2%	25.2%	204bp	24.9%	234bp	25.7%	155bp	
Effective tax rate	31.3%	31.6%	-30bp	31.6%	-33bp	30.0%	132bp	
Costs as % of sales	Q3FY12	Q3FY11	YoY	Q2FY12	QoQ	Q3FY12E	Act vs Est	
Raw material	34.8%	37.1%	-237bp	38.1%	-334bp	36.0%	-123bp	
Employee costs	4.8%	5.0%	-26bp	4.4%	42bp	5.0%	-23bp	
Other expenditure	22.3%	21.0%	132bp	21.1%	128bp	22.0%	35bp	

Source: Company, BofAML Global Research

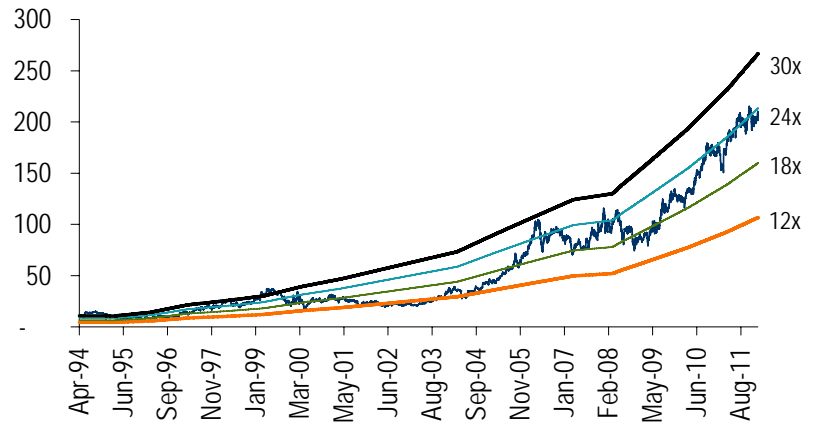
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Table 2: Segmental performance (standalone)

Rs mn	Q3FY12	Q3FY11	YoY	Q2FY12	QoQ	Remarks
FMCG						
Cigarettes (Net)	32,328	27,726	16.6%	29,681	8.9%	# -5% volume growth but at higher prices led by hikes as well as mix
Others (Net)	13,707	11,021	24.4%	13,407	2.2%	# Revenue growth remained robust led by over 15% volume growth
Total FMCG (Net)	46,036	38,747	18.8%	43,088	6.8%	
Hotels (Net)	2,787	2,816	-1.0%	2,111	32.0%	# Lower tourist arrivals resulted in decline in room rents; outlook remains soft medium term
Agri Business (Gross)	11,394	10,375	9.8%	14,345	-20.6%	# Agribusiness performance was marginally below expected as raw material availability/ quality issues persisted
Agri Business (Net)	11,394	10,375	9.8%	14,345	-20.6%	
Paperboards, Paper & Packaging (Net)	9,784	8,773	11.5%	10,054	-2.7%	
Others (Net)	-	-	-	-	-	
Less: inter segment (Net)	8,047	6,469	24.4%	9,857	-18.4%	
Total (Gross)	88,410	79,360	11.4%	85,495	3.4%	
Total (Net)	61,954	54,243	14.2%	59,742	3.7%	
Segment Results PBIT	Q3FY12	Q3FY11	YoY	Q2FY12	QoQ	
FMCG						
Cigarettes	18,442	15,330	20.3%	17,289	6.7%	
Others	(466)	(736)	-36.6%	(559)	-16.6%	
Total FMCG	17,976	14,594	23.2%	16,730	7.4%	
Hotels	1,017	886	14.8%	434	134.2%	
Agri Business	1,417	1,411	0.4%	2,388	-40.7%	
Paperboards, Paper & Packaging	2,243	1,914	17.2%	2,897	-22.6%	
Others	-	-	-	-	-	
Total	22,653	18,805	20.5%	22,449	0.9%	
Less:Interest & Financial Expenses	(157)	(230)	-31.8%	(142)	10.5%	
Less:Unallocable expenditure net off unallocable income	2,270	1,738	-30.6%	(153)	-1587.7%	
Profit / (Loss) Before Tax	24,767	20,313	21.9%	22,155	11.8%	
Segmental margins	Q3FY12	Q3FY11	YoY	Q2FY12	QoQ	
Cigarettes	57.0%	55.3%	176bp	58.2%	-120bp	# Higher prices and better mix resulted in margin gains
Others- FMCG	-3.4%	-6.7%	328bp	-4.2%	77bp	# Margins improved as operating leverage kicked in and as profitability in snacks business improved
Hotels	36.5%	31.5%	504bp	20.6%	1593bp	# Personal Care is still in investment phase and few years away from breakeven
Agri Business	12.4%	13.2%	-79bp	16.6%	-421bp	# Cost rationalization led to margin gains
Paperboards, Paper & Packaging	22.9%	21.8%	111bp	28.8%	-589bp	# Mix and pricing led margin gains
Capital Employed(Segment Assets-Segment Liabilities)	Q3FY12	Q3FY11	YoY	Q2FY12	QoQ	
FMCG						
Cigarettes	41,757	33,942	23.0%	38,990	7.1%	
Others	18,525	17,192	7.8%	19,242	-3.7%	
Total FMCG	60,282	51,134	17.9%	58,232	3.5%	
Hotels	30,608	26,004	17.7%	29,893	2.4%	
Agri Business	15,592	14,795	5.4%	14,874	4.8%	
Paperboards, Paper & Packaging	40,823	37,340	9.3%	40,059	1.9%	
Others	-	-	-	-	-	
Total	147,305	129,272	13.9%	143,057	3.0%	

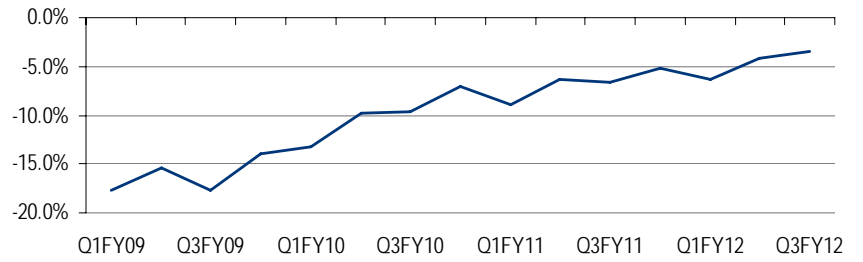
Source: Company, BofAML Global Research

Chart 1: PE Band



Source: Bloomberg for prices, BofAML Global Research

Chart 2: FMCG margins continue to improve



Source: Company, BofAML Global Research

Financial tables

Table 3: Profit and loss statement

INR mn	FY10	FY11	FY12E	FY13E	FY14E
Net sales	181,532	211,676	249,078	291,413	335,417
COGS	115,961	133,929	156,562	182,215	208,737
EBITDA	65,571	77,747	92,516	109,198	126,680
Depreciation	6,313	6,535	7,134	7,676	8,231
EBIT	59,259	71,213	85,383	101,521	118,450
Less: Eliminations	311	716	737	759	782
Less: unallocable expense (net of income)	2,017	2,516	2,591	2,669	2,749
Adjusted EBIT	56,931	67,981	82,054	98,093	114,919
Net interest income	3,222	4,700	5,797	6,127	5,997
PBT	60,153	72,682	87,852	104,221	120,916
Total Tax	19,543	22,806	28,113	33,351	38,693
Recurring PAT	40,610	49,876	59,739	70,870	82,223

Source: Company, BofAML Global Research

Table 4: Key ratios

Margins	FY10	FY11	FY12E	FY13E	FY14E
EBITDA	36.1%	36.7%	37.1%	37.5%	37.8%
EBIT	32.6%	33.6%	34.3%	34.8%	35.3%
PAT	22.4%	23.6%	24.0%	24.3%	24.5%
Effective tax rate	32.5%	31.4%	32.0%	32.0%	32.0%
Per Share Data	FY10	FY11	FY12E	FY13E	FY14E
EPS (INR)	5.3	6.4	7.7	9.2	10.6
CEPS (INR)	6.1	7.3	8.6	10.2	11.7
Dividend Payout %	94%	77%	60%	65%	70%
Dividend Per Share (INR)	5.0	4.9	4.6	6.0	7.4
Book-value (INR)	18.4	20.6	22.9	25.1	27.0
Growth Ratios	FY10	FY11	FY12E	FY13E	FY14E
Revenue	16.3%	16.6%	17.7%	17.0%	15.1%
EBITDA	23.0%	18.6%	19.0%	18.0%	16.0%
EBIT	23.9%	20.2%	19.9%	18.9%	16.7%
PAT	24.4%	22.8%	19.8%	18.6%	16.0%
EPS	23.0%	21.2%	19.8%	18.6%	16.0%
Other Key Metrics	FY10	FY11	FY12E	FY13E	FY14E
Debt to equity ratio	-38.1%	-38.3%	-37.3%	-37.4%	-36.9%
Assets Turnover	122%	133%	140%	150%	159%
DSO	17	16	16	16	16
Capex as % of sales	9.6%	6.4%	4.7%	4.2%	3.7%
Capex as % of operating cash flow	51.1%	16.6%	22.6%	20.7%	16.9%
Cash and cash equivalents	29,476	54,698	62,081	67,211	73,609
Free cash flow	63,508	38,287	47,067	60,295	71,847

Source: Company, BofAML Global Research

Table 5: Balance Sheet

As on 31st Mar, INR mn	FY10	FY11	FY12E	FY13E	FY14E
Assets					
Gross Block (Net of Intang)	119,679	127,658	139,908	152,158	164,408
Revaluation Reserve	-	-	-	-	-
Gross Block	119,679	127,658	139,908	152,158	164,408
Accumulated Depreciation	(38,255)	(44,208)	(51,341)	(59,017)	(67,248)
Net Block	81,424	83,451	88,567	93,141	97,160
Capital Work in Progress	10,090	13,334	13,334	13,334	13,334
Net Fixed Assets	91,514	96,785	101,901	106,475	110,494
Total Investments	57,269	55,547	55,547	55,547	55,547
Total Current Assets less cash	70,008	79,407	92,439	106,791	121,828
TOTAL OTHER LIABILITIES	34,983	44,579	50,055	58,406	67,086
Total Provisions	45,499	41,048	41,048	41,048	41,048
Total Current Liabilities	80,482	85,628	91,103	99,454	108,135
Net Current Assets w/o cash	(10,474)	(6,221)	1,336	7,337	13,693
Cash and Bank Balances	11,263	22,432	27,562	33,960	38,467
Total Assets	149,571	168,543	186,345	203,319	218,201
Liabilities					
Equity Share Capital	3,818	7,738	7,738	7,738	7,738
Share Premium Reserve	12,935	18,053	18,053	18,053	18,053
General Reserve	119,076	124,063	141,865	158,839	173,721
Other Reserves	4,815	9,678	9,678	9,678	9,678
Net Worth	140,644	159,533	177,335	194,308	209,191
Deferred tax (asset)/ liability	7,850	8,019	8,019	8,019	8,019
Debt	1,077	992	992	992	992
Total Liabilities	149,571	168,543	186,345	203,319	218,201

Source: Company, BofAML Global Research

Table 6: Cash flow statement

INR mn	FY10	FY11	FY12E	FY13E	FY14E
Profit after tax	40,610	49,876	59,739	70,870	82,223
Depreciation	6,313	6,535	7,134	7,676	8,231
Op profit bef W.Cap changes	46,923	56,411	66,873	78,546	90,453
Changes in working capital	34,725	(4,254)	(7,556)	(6,002)	(6,356)
(Inc) / dec in inventories	507	(7,185)	(9,424)	(10,555)	(10,971)
(Inc) / dec in debtors	(1,901)	(488)	(1,842)	(1,856)	(1,929)
(Inc) / dec in other assets	2,674	(1,727)	(1,766)	(1,942)	(2,136)
Inc / (dec) in creditors	5,162	9,349	5,475	8,351	8,680
Inc / (dec) in other liabilities	28,284	(4,204)	-	-	-
Cash from operations	81,648	52,157	59,317	72,545	84,097
Capex	(13,518)	(11,805)	(12,250)	(12,250)	(12,250)
(Inc) / dec in investments	(4,622)	(2,065)	(0)	-	-
Cash from investing	(18,139)	(13,870)	(12,250)	(12,250)	(12,250)
Free cash flow	63,508	38,287	47,067	60,295	71,847
Inc / (dec) in debt	(698)	(85)	-	-	-
Dividends paid	(38,182)	(38,182)	(35,844)	(46,066)	(57,556)
Dividends taxes paid	(6,336)	(6,336)	(6,093)	(7,831)	(9,785)
Inc in capital	7,207	9,038	-	-	-
Cash from financing	(38,008)	(35,564)	(41,937)	(53,897)	(67,340)
Total Cash Flow	25,500	2,722	5,130	6,398	4,507
Opening Cash & equivalents	29,476	54,698	62,081	67,211	73,609
Closing Cash & equivalents	54,976	57,421	67,211	73,609	78,116

Source: Company, BofAML Global Research

Price objective basis & risk

ITC Limited (ITCTF)

We value ITC on Discounted Cash Flow basis and validate PO with Sum of the Parts (SOTP) where we compare cigarettes business to international cigarettes comparable peer and FMCG, Hotels and Paper business with Indian industry peers. Our DCF based PO of Rs235 is in line with SOTP. PO implies a 1yr fwd multiple of 24x at a higher end of historical trading range for ITC. We believe this is justified given improving return ratios, sustained dividend payout and successful diversification.

Risks: (1) competitive FMCG intensity could delay breaking even, (2) severe monsoon failure could impact raw material availability and (3) upside risks from better-than-expected performance in non-cigarette FMCG.

Link to Definitions

Industrials

Click [here](#) for definitions of commonly used terms.

Analyst Certification

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India - Consumer Coverage Cluster

Investment rating	Company	BofA Merrill Lynch ticker	Bloomberg symbol	Analyst
BUY				
	Dabur India	DBUIF	DABUR IN	Prasad Deshmukh
	Hindustan Unilever	HINLF	HUVR IN	Prasad Deshmukh
	ITC Limited	ITCTF	ITC IN	Prasad Deshmukh
	McLeod Russel India Ltd.	XCVFF	MCLR IN	Prasad Deshmukh
UNDERPERFORM				
	Colgate India	CPIYF	CLGT IN	Prasad Deshmukh
	Nestle India	XNTEF	NEST IN	Prasad Deshmukh

iQmethodSM Measures Definitions

Business Performance	Numerator	Denominator
Return On Capital Employed	$\text{NOPAT} = (\text{EBIT} + \text{Interest Income}) * (1 - \text{Tax Rate}) + \text{Goodwill Amortization}$	$\text{Total Assets} - \text{Current Liabilities} + \text{ST Debt} + \text{Accumulated Goodwill Amortization}$
Return On Equity	Net Income	Shareholders' Equity
Operating Margin	Operating Profit	Sales
Earnings Growth	Expected 5-Year CAGR From Latest Actual	N/A
Free Cash Flow	Cash Flow From Operations – Total Capex	N/A
Quality of Earnings		
Cash Realization Ratio	Cash Flow From Operations	Net Income
Asset Replacement Ratio	Capex	Depreciation
Tax Rate	Tax Charge	Pre-Tax Income
Net Debt-To-Equity Ratio	$\text{Net Debt} = \text{Total Debt, Less Cash \& Equivalents}$	Total Equity
Interest Cover	EBIT	Interest Expense
Valuation Toolkit		
Price / Earnings Ratio	Current Share Price	Diluted Earnings Per Share (Basis As Specified)
Price / Book Value	Current Share Price	Shareholders' Equity / Current Basic Shares
Dividend Yield	Annualised Declared Cash Dividend	Current Share Price
Free Cash Flow Yield	Cash Flow From Operations – Total Capex	Market Cap. = Current Share Price * Current Basic Shares
Enterprise Value / Sales	$\text{EV} = \text{Current Share Price} * \text{Current Shares} + \text{Minority Equity} + \text{Net Debt} + \text{Sales} + \text{Other LT Liabilities}$	
EV / EBITDA	Enterprise Value	Basic EBIT + Depreciation + Amortization

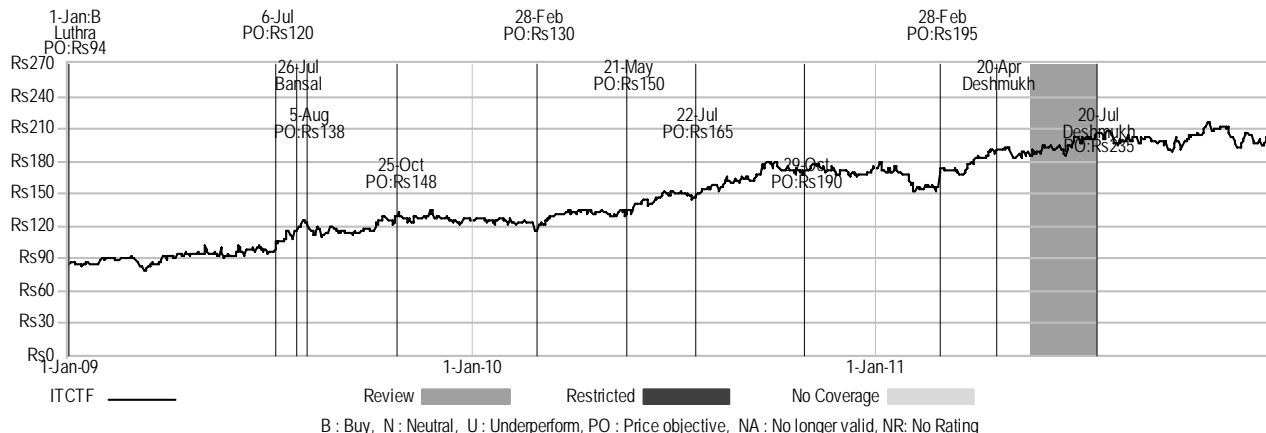
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ITCF Price Chart



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Investment Rating Distribution: Industrials/Multi-Industry Group (as of 01 Jan 2012)

Coverage Universe	Count	Percent	Inv. Banking Relationships*	Count	Percent
Buy	52	61.90%	Buy	38	86.36%
Neutral	20	23.81%	Neutral	14	82.35%
Sell	12	14.29%	Sell	9	81.82%

Investment Rating Distribution: Global Group (as of 01 Jan 2012)

Coverage Universe	Count	Percent	Inv. Banking Relationships*	Count	Percent
Buy	2029	52.00%	Buy	1337	72.11%
Neutral	1009	25.86%	Neutral	657	71.34%
Sell	864	22.14%	Sell	487	60.20%

* Companies in respect of which BofA Merrill Lynch or one of its affiliates has received compensation for investment banking services within the past 12 months. For purposes of this distribution, a stock rated Underperform is included as a Sell.

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Investment rating	Total return expectation (within 12-month period of date of initial rating)	Ratings dispersion guidelines for coverage cluster*
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Neutral	≥ 0%	≤ 30%
Underperform	N/A	≥ 20%

* Ratings dispersions may vary from time to time where BofA Merrill Lynch Research believes it better reflects the investment prospects of stocks in a Coverage Cluster.

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