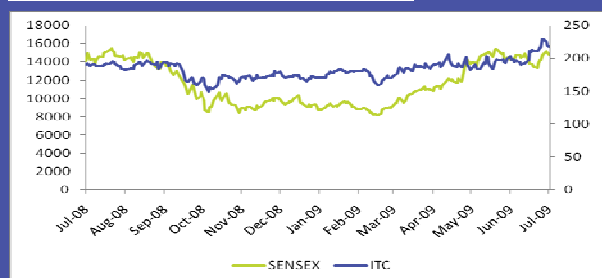


Recommendation	HOLD
CMP (23rd July 09)	Rs. 230
Sector	FMCG
Stock Data	
52 Weeks High/Low	233/132.05
BSE Code	500875
NSE Code	ITC
Market Cap (Rs. in Cr.)	Rs. 82225.30
Daily Avg. Vol. (1Mth)	966526 (BSE)
Key Financials Q1 FY10 (Rs. in Cr.)	
Revenue	4082.68
EBITDA	1474.90
PBT	1317.47
PAT	878.7
Margins (%)	
EBITDA	36.13
PAT	21.52
EPS (Rs.)	
Basic	2.33
Diluted	2.33

Relative Performance

	3-Mth	6-Mth	1-Yr
ITC	18.9%	20.5%	14.7%
Sensex	6.9%	68.3%	5.2%

One Year Price Graph ITC Vs. Sensex

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SNAPSHOT:

ITC is the largest private sector cigarette company with a diversified portfolio comprising hotels, paperboards & specialty papers, packaging, agri-business, packaged foods and confectionery, branded apparel, greeting cards and other FMCG products. ITC is the market leader in its businesses of cigarettes, hotels, paperboards, packaging and agri-exports, it is rapidly gaining market share even in its nascent businesses of Packaged Foods & Confectionary, Branded Apparel, Personal Care and Stationary.

Q1 FY10 Standalone RESULT ANALYSIS:

ITC Ltd. reported its Q1 FY10 results is in line with our expectations:

- ✍ Net Sales for Q1 FY10 went up by 4.7% to Rs. 4082.68 crores as compared to Rs. 3899.7 crores in Q1 FY09 and was up by 4.9% from Rs. 3891.81 crores in Q4 FY09. FMCG and Paper & Packaging businesses grew handsomely on the net revenues front up by 19% and 16% respectively, overall turnover growth for the Quarter was muted at 4.7% due to the de-growth in Hotels and Agribusinesses as compared to the Q1 FY09.
- ✍ EBITDA increased by 18.8% to Rs. 1474.9 crores in Q1 FY10 compared to Rs. 1241.47 crores in Q1 FY09 and increased by 9.2% from Rs. 1350.56 crores in Q4 FY09.
- ✍ Net Profit for Q1 FY10 went up by 17.4% to Rs. 878.7 crores as compared to Rs. 748.67 crores in Q1FY09 and increased by 8.6% from Rs. 808.99 crores in Q4 FY09.
- ✍ The Company reported an EBITDA margin of 36.1% in Q1 FY10, up by 430 basis points as compared to 31.8% in the Q1 FY09 and up by 140 bps as compared to 34.7% in Q4 FY09. The other income was up by 9.4% to Rs. 87.57 crores in Q1 FY10 from Rs. 80.05 crores in Q1 FY09 and by 56.7% from Rs. 52.25 crores.
- ✍ The total expenditure was almost flat to Rs. 2745.59 crores in Q1 FY10 as compared to Rs. 2772.58 crores in Q1 FY09 and was up by 4.4% from Rs. 2629.1 crores in Q4 FY09.
- ✍ ITC reported a PAT margin of 21.5% in Q1 FY10, as compared to 19.2% in Q1 FY09 and 20.8% in Q4 FY09.
- ✍ The Company has reported an EPS of Rs. 2.33 in Q1 FY10 as against Rs. 2.15 in Q4 FY09.

- ✍ The revenue from the **Cigarette** segment grows by 23.3% to Rs. 2145.6 crores in Q1 FY10 from Rs. 1739.67 crores in Q1 FY09 and by 6.7% from Rs. 2011.54 crores in Q4 FY09. Pictorial graphic warnings on cigarette packs implemented w.e.f 31st May 2009 & Maharashtra, Delhi and Rajasthan increasing the VAT rate from 12.5% to 20% did not have any major negative impact on its cigarettes earnings which accounts for around 50% of the total revenue. The company was able to off-set the rise in excise duty by some states by increasing the price of its certain brands.
- ✍ The government in the Union budget 2010 did not increase the excise duty in cigarettes which also boosted the cigarette revenues in Q1 FY10.
- ✍ The revenues in the **Hotel** business fell by 27.7% to Rs. 172.81 crores in Q1 FY10 from Rs. 238.97 crores in Q1 FY09 and by 21.8% from Rs. 221.03 crores in Q4 FY09. The squeeze on corporate travel along with the steep reduction in international travel as a fallout of the global financial crisis has triggered a significant slide in occupancies and average room rates. The consumers have lost confidence in the leisure travel, post- Mumbai terror strikes, and the swine flu case, has negatively impacted the hotel business.
- ✍ The business maintained its market leadership in the **Paperboard and Packaging** business with net segment revenues increasing by 16% to Rs. 702.62 crores in Q1 FY10 from Rs. 605.92 crores in Q1 FY09. This was driven by the growth of the premium value added paperboard segment, successful penetration of the paper markets and robust performance of the packaging business.
- ✍ The revenues in the **Other FMCG** business was up by 9.5% to Rs. 757.25 crores in Q1 FY10. The company is able to expand its presence in the market with the help of aggressive communication strategy and increasing its reach to the consumers which has further leveraged its brand position and brand awareness among the consumers.
- ✍ The revenue in the **Agri-business** was decreased by 48.7% to Rs. 940.61 crores in Q1 FY10 from Rs. 1834.49 crores in Q1 FY09. Lack of market opportunities resulted in lower throughput of soya and wheat volumes, impacting agri product revenues during the period. The leaf-tobacco was the major contributor in the revenue.

VALUATION & RECOMMENDATION:

At the CMP of Rs.230 per share, the stock is currently trading at a PE of 20.2x FY10E & 17.8x FY11E, which looks a bit undervalued when compared to the peers in the industry. The FMCG segment as a whole trades at an Average PE of around 24x earnings. ITC historically has traded in the PE range of 21x to 27x with an average PE of around 24x. At Rs. 230 per share the stock is trading at a discount of 9% from our intrinsic price of Rs. 250 per share (PE of 22x FY10E) which is 22x FY10E and 19.4x FY11E earnings. We recommend to hold the stock at current price.

Q1FY10 ANALYSIS:
ITC Ltd. (Stand alone)

Particulars	Rs. In crores				
	Q1FY10	Q1FY09	YoY%	Q4FY09	QoQ%
Net Sales	4082.68	3899.7	4.7%	3891.81	4.9%
Other Income	137.81	114.35	20.5%	87.85	56.9%
Total Income	4220.49	4014.05	5.1%	3979.66	6.1%
Total Expenditure	2745.59	2772.58	-1.0%	2629.1	4.4%
PBIDT	1474.9	1241.47	18.8%	1350.56	9.2%
Interest	5.84	1.41	314.2%	13.68	-57.3%
PBDT	1469.06	1240.06	18.5%	1336.88	9.9%
Depreciation	151.59	126.11	20.2%	145.11	4.5%
Tax	438.77	365.28	20.1%	382.78	14.6%
Reported Profit After Tax	878.7	748.67	17.4%	808.99	8.6%
Extra-ordinary Items	0	0		0	
Adjusted Profit After Extra-ordinary item	878.7	748.67	17.4%	808.99	8.6%
EPS (Unit Curr.)	2.33	1.99		2.15	
Equity	377.44	376.86		377.44	
Face Value	1	1		1	
PBIDTM(%)	36.1%	31.8%	430*	34.7%	140*
PBDTM(%)	36.0%	31.8%	420*	34.4%	160*
PATM(%)	21.5%	19.2%	230*	20.8%	70*

*Basis Point

SEGMENT RESULT (Standalone):

Particulars	Rs. In crores				
	Q1FY10	Q1FY09	YoY%	Q4FY09	QoQ%
FMCG - Cigarettes	2145.6	1739.67	23.3%	2011.54	6.7%
FMCG - Others	757.25	691.39	9.5%	836.8	-9.5%
Hotels	172.81	238.97	-27.7%	221.03	-21.8%
Agri Business	940.61	1834.49	-48.7%	525.89	78.9%
Paperboards, Paper & Packaging	702.62	605.92	16.0%	713.63	-1.5%
Total	4718.89	5110.44		4308.89	
Profit / Loss before Interest & Tax					
FMCG - Cigarettes	1125.39	961.41	17.1%	1081.35	4.1%
FMCG - Others	-99.77	-122.61	-18.6%	-117.28	-14.9%
Hotels	30.59	85.27	-64.1%	71.1	-57.0%
Agri Business	99.89	76.54	30.5%	53.06	88.3%
Paperboards, Paper & Packaging	127.81	123.43	3.5%	151.91	-15.9%
Total	1283.91	1124.04		1240.14	
Less:					
Interest (Net)	5.84	1.41		13.68	
Other un-allocable income net of un-allocable exp.	-39.4	8.68		34.69	
Profit before Tax	1317.47	1113.95		1191.77	
Less: Tax Expense	438.77	365.28		382.78	
Profit After Tax	878.7	748.67	17.4%	808.99	8.6%

FINANCIALS:
Income Statement Consolidated (RS. in crores)

	FY 2007	FY 2008	FY2009	FY 2010E	FY 2011E
Sales	20,003.8	22,308.5	24,363.7	27,208.5	31,513.4
Excise	7,408.1	7,670.5	8,546.6	9,250.9	10,714.5
Net Sales	12,595.7	14,638.0	15,817.1	17,957.6	20,798.8
Other Income	377.2	607.7	526.4	750.0	700.0
Total Income	12,972.9	15,245.7	16,343.4	18,707.6	21,498.8
Cost Of Raw Material	5,259.1	5,924.8	6,507.7	6,938.2	8,035.9
Stock Adjustment	(245.7)	(2.9)	(628.4)	-	-
Employee Expenses	863.2	1,067.7	1,326.8	1,251.6	1,449.6
Power, Oil & Fuel	272.6	331.6	415.7	408.1	469.5
Selling & Administrative Expenses	1,376.5	1,689.7	1,930.3	1,972.6	2,269.0
Other Operating expenses	298.5	332.5	394.3	394.5	472.7
Misc. Expenses	681.9	719.5	781.9	870.7	992.7
Total Expenditure	8,506.1	10,062.8	10,728.3	11,835.7	13,689.4
EBITDA	4,466.8	5,182.9	5,615.2	6,871.9	7,809.4
Interest	17.3	27.0	49.6	18.8	19.0
Depreciation & Amortization	393.8	472.9	580.9	753.0	873.0
Profit Before Tax	4,055.7	4,683.0	4,984.8	6,100.0	6,917.4
Total Taxes	1,274.7	1,497.0	1,304.1	1,769.0	2,006.0
Net Income After Taxes	2,781.0	3,186.0	3,359.4	4,331.0	4,911.3
Minority Interest in Income	25.7	28.3	34.8	41.5	41.5
Extraordinary Items	5.0	10.5	36.7	-	-
Adjusted Net Profit	2,750.3	3,147.3	3,287.9	4,289.5	4,869.8
Preferred Dividends	-	-	-	-	-
Net Income Available to EqSh holders	2,750.3	3,147.3	3,287.9	4,289.5	4,869.8
Earnings Per Share (Rs)	7.4	8.5	8.9	11.5	13.0
Total Common Dividends	1,166.3	1,319.0	1,396.5	1,801.6	2,045.3
Shares Outstanding (Diluted)	376.2	376.9	377.4	377.4	377.4
Retained Earnings	1,584.0	1,828.2	1,891.4	2,487.9	2,824.5

BALANCE SHEET
Balance Sheet Consolidated (Rs. in crores)

	FY 2007	FY 2008	FY2009	FY 2010E	FY 2011E
Sources of Funds					
Shareholders' Equity	376.2	376.9	377.4	377.4	377.4
Reserves	10270.4	11910.9	13650.7	16190.9	19040.4
Share Holders Funds	10646.6	12287.8	14028.2	16568.3	19417.8
Minority Interest	107.6	113.2	130.0	171.5	213.0
Secured Loans	60.8	15.0	18.9	20.0	20.0
Unsecured Loans	140.1	209.9	167.8	170.0	170.0
Total Debt	200.9	224.9	186.7	190.0	190.0
Net Deferred Tax	470.7	543.2	860.6	860.6	860.6
Total Liabilities and Equity	11425.8	13169.1	15205.4	17790.4	20681.4
Application Of Funds					
Gross Fixed Assets	7795.2	9819.5	11550.6	13550.6	15550.6
Less:Depreciation	2686.6	3148.4	3668.0	4421.0	5294.0
Net Fixed Assets	5099.9	6662.8	7882.6	9129.6	10256.6
Investments	2505.9	2607.9	2507.1	3000.0	3200.0
WIP	876.1	1156.5	1243.2	1295.4	1320.4
Current Assets, Loans & Adv					
Cash	1086.5	776.8	1318.6	1741.2	2998.5
Receivables	746.4	893.0	817.3	912.8	1122.4
Inventories	3934.7	4268.3	4794.3	5590.8	6043.7
Loans and Advances	1180.3	1409.5	1595.9	1782.3	2158.4
Total Current Assets	6947.9	7347.5	8526.2	10027.0	12323.0
Current Liabilities & Prov					
Current Liabilities	2562.0	2984.3	3228.5	3466.3	4011.6
Provisions	1442.0	1621.3	1725.2	2195.3	2407.0
Total Curr.Liabs & Prov.	4004.0	4605.6	4953.6	5661.6	6418.6
Net Current Assets	2943.9	2741.9	3572.5	4365.4	5904.4
Total Assets	11425.8	13169.1	15205.4	17790.4	20681.4

NOTE

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