

Operations set for rebound in FY09

■ Improving cigarette sales growth from 2H FY08

We are revising up ITC's cigarette forecast from a 4.5% decline in sales for FY08 to a 2.7% decline with improvement expected in 2HFY08. The imposition of 12.5% VAT (Value Added Tax) in the state of UP replaces the previous 33.5% state trade tax, lowering the tax burden. We have raised our cigarette volume growth for FY09 from 3.5% to 4%.

■ Raising forecasts for FY08 through FY10

We are raising our EPS forecasts from Rs. 8.40 to Rs. 8.55 for FY08 and from Rs. 9.90 to Rs. 10.27 for FY09, both ahead of consensus. We have also raised FY10 EPS from Rs. 11.27 to Rs. 11.97.

■ FY09 budget expected to be benign on tax front

We are building in a 5% increase in excise duties in the forthcoming FY09 budget. Last year had seen a double whammy of imposition of 12.5% excise duty and a 5% increase in excise duties which in our view is unlikely to be repeated

■ Valuation: Raising PT from Rs. 200 to Rs. 280. Maintain BUY.

Our PT is based on a higher benchmark multiple of 28X 12 month-forward earnings up from 20X for our previous target. The Indian market is trading at 21.5X 12-month forward earnings. Strong volume growth in the cigarette business expands ITC's multiples. We expect a rebound in cigarette volume growth to rebound to 4% volume growth in FY08, driving multiple expansion.

Highlights (Rsm)	03/06	03/07	03/08E	03/09E	03/10E
Revenues	97,905	123,693	152,846	174,863	198,415
EBIT (UBS)	32,836	39,300	46,698	56,114	65,261
Net Income (UBS)	22,828	27,000	32,153	38,649	44,961
EPS (UBS, Rs)	6.08	7.18	8.55	10.27	11.95
Net DPS (UBS, Rs)	2.31	3.11	3.60	4.30	5.00

Profitability & Valuation	5-yr hist av.	03/07	03/08E	03/09E	03/10E
EBIT margin %	33.1	31.8	30.6	32.1	32.9
ROIC (EBIT) %	60.7	68.5	69.5	81.7	91.9
EV/EBITDA (core) x	9.7	14.8	16.2	13.3	11.1
PE (UBS) x	15.3	24.8	27.0	22.5	19.3
Net dividend yield %	2.3	1.7	1.6	1.9	2.2

Source: Company accounts, Thomson Financial, UBS estimates. (UBS) valuations are stated before goodwill, exceptionals and other special items. Valuations: based on an average share price that year, (E): based on a share price of Rs230.70 on 08 Jan 2008 23:38 HKT

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Tobacco

12-month rating **Buy**
Unchanged

12m price target **Rs280.00/US\$7.15**
Prior:Rs200.00/US\$5.11

Price **Rs230.70/US\$5.89 (ADR)**

RIC: ITC.BO BBG: ITC IN

10 January 2008

Trading data (local/US\$)

52-wk range	Rs231.10-140.95/US\$5.90-3.23
Market cap.	Rs866bn/US\$22.1bn
Shares o/s	3,755m (ORD)/3,755m (ADR)
ADR ratio	1 ADR:1 ORD
Free float	65%
Avg. daily volume ('000)	1,442/-
Avg. daily value (Rsm)	284.3/-

Balance sheet data 03/08E

Shareholders' equity	Rs123bn
P/BV (UBS)	7.0x
Net Cash (debt)	Rs46.0bn

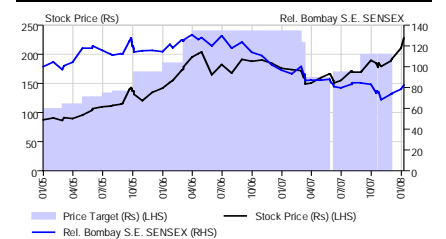
Forecast returns

Forecast price appreciation	+21.4%
Forecast dividend yield	1.6%
Forecast stock return	+23.0%
Market return assumption	12.5%
Forecast excess return	+10.5%

EPS (UBS, Rs)

	03/08E		03/07	03/10E
	From	To	Cons.	Actual
Q1E	-	-	-	1.74
Q2E	-	-	-	-
Q3E	-	-	-	-
Q4E	-	-	-	-
03/08E	8.40	8.55	8.32	-
03/09E	9.90	10.27	9.84	-

Performance (Rs)



Source: UBS

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ANALYST CERTIFICATION AND REQUIRED DISCLOSURES BEGIN ON PAGE 9.

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Improving Operational Environment

ITC's cigarette business has been under significant pressure in 2007, hit by a double whammy of taxation both at the central and state levels. Q2 FY08 saw the twin impact of VAT (12.5%) and UP state tax (33.5%) from 1 June 2007. This was in addition to the additional excise of 6% introduced on cigarettes from March 2007. Despite the imposition of high taxes, the underlying performance of the cigarette division has been significantly better than expected as the regular size and the king size filter cigarette segments have held volumes better than expected. We are revising the cigarette volume forecast from a decline of 4.5% projected in our note dated 31 Aug. 2007 (titled 'We raise our forecasts and price targets.') to a decline of 2.7% for FY08. Table 1 gives a trend of current expectations on cigarette volumes, sales and realizations.

Cigarette business has outperformed despite high excise duty increases

Table 1: ITC – Cigarette sales volumes, revenues and price realizations

Particulars	Mar-01	Mar-02	Mar-03	Mar-04	Mar-05	Mar-06	Mar-07	Mar-08 E	Mar-09 E	Mar-10 E
No. cigarettes (b sticks)	66.5	60.9	63.4	65.4	70.0	75.9	81.3	79.1	82.3	85.2
% change	0.5	(8.4)	4.2	3.1	7.1	8.4	7.1	(2.7)	4.0	3.5
Cigarette sales (INR m)	76,766	80,136	87,568	92,236	99,964	113,229	128,244	147,390	162,348	176,182
Price sticks) (per 1,000)	1,154.8	1,316.6	1,380.9	1,410.6	1,428.1	1,491.9	1,578.1	1,863.8	1,973.1	2,068.9
% change	10.1	14.0	4.9	2.2	1.2	4.5	5.8	18.1	5.9	4.9

Source: UBS estimates, Annual reports

As seen in table 1, we are projecting an 18% increase in cigarette prices, driven entirely by the excise duty increase. This has resulted in a 2.7% decline in cigarette volumes for FY08. We are building in a sharp recovery in volumes for cigarettes to 4% growth for FY09 and 3.5% for FY10. We are building in a 5% pa increase in excise duties for both FY09 and FY10.

Cigarette volume growth projected to recover sharply in FY09

Consumer products division

ITC's performance is increasingly driven more by the non-cigarette businesses as paperboard, hotels and consumer products become a greater part of revenues and earnings. The consumer products division remains the fastest growth segment for ITC. ITC's Consumer Goods business comprises primarily of staples and biscuits. ITC now has a leadership position in the staples category category, achieved within three years of national launch. ITC's sourcing strategy in this business benefits from the network of e-choupals created by the company. The other large category is the biscuits segment, launched under the *Sunfeast* label. In the regions where it is present, Sunfeast has gathered 10%+ share against established players such as Britannia and Parle. Table 2 gives the trend of revenues and profitability in the consumer segment

Consumer products division is turning the corner on existing businesses.

Table 2: Consumer products - sales and operating profit

	Sales, Rs mn	Operating Profit, Rs mn	Margin, %
Q1FY06	2,003	(547)	-27%
Q2FY06	2,469	(353)	-14%
Q3FY06	2,606	(395)	-15%
Q4FY06	3,057	(423)	-14%
FY06	10,135	(1,718)	-17%
Q1FY07	3,597	(582)	-16%
Q2FY07	4,096	(490)	-12%
Q3FY07	4,367	(465)	-11%
Q4FY07	4,985	(483)	-10%
FY07	17,044	(2,020)	-12%
Q1FY08	5,422	(446)	-8%
Q2FY08	5,870	(365)	-6%
1H08	11,292	(812)	-7%

Source: Company data

Table 3 below gives the movement of composition of sales over time for the cigarette business and other divisions of ITC. The consumer business of ITC has moved from 11% of sales for FY06 to 17% of sales in 1HFY08. The cigarette business comprises only 48% of sales for 1HFY08, though still contributes 85% of EBIT for the period. EBIT margins for the cigarette business have moved from -17% for FY06 to -7% for 1HFY08. We expect ITC's existing consumer business to move towards break even in 2HFY08, though new launches of shampoos in FY08, could put some pressure on margins.

Cigarette business now comprises less than 50% of sales, though still 85% of EBIT

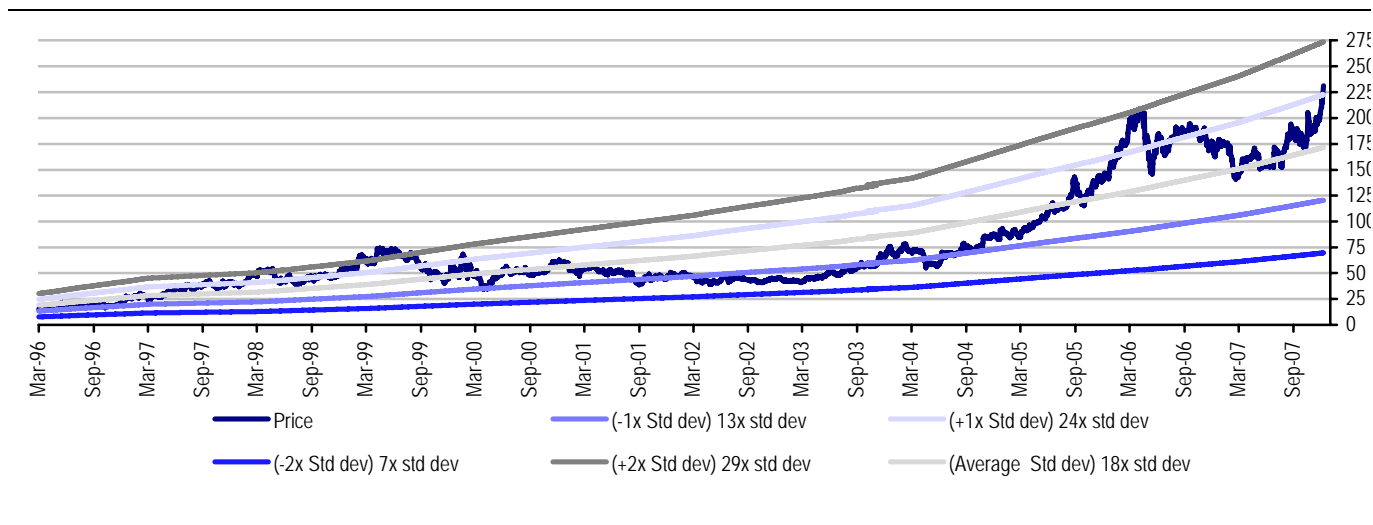
Table 3: Segmental sales and profit breakdown

	FY06	FY06	FY06	FY06	FY07	FY07	FY07	FY07	FY08	FY08			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	FY06	FY07	1H08
Sales break-down													
Net cigarette sales	53%	52%	48%	43%	47%	46%	45%	41%	49%	47%	49%	45%	48%
Consumer business	9%	12%	10%	11%	13%	15%	14%	15%	16%	18%	11%	14%	17%
Total FMCG	62%	64%	58%	55%	60%	60%	59%	56%	65%	65%	59%	59%	65%
Hotels	7%	7%	9%	10%	7%	7%	9%	9%	7%	7%	8%	8%	7%
Agribusiness	35%	22%	26%	30%	40%	31%	25%	28%	42%	22%	28%	31%	32%
Paperboards	21%	22%	20%	18%	18%	19%	18%	16%	16%	18%	20%	17%	17%
Total sales	124%	115%	113%	111%	125%	117%	111%	109%	129%	113%	116%	115%	121%
Inter-segment sales	24%	15%	13%	11%	25%	17%	11%	9%	29%	13%	16%	15%	21%
Net sales	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%
Segmental profits													
Cigarette	87%	86%	83%	82%	84%	83%	81%	81%	85%	84%	84%	82%	85%
Other FMCG	-7%	-4%	-5%	-5%	-6%	-5%	-5%	-5%	-4%	-4%	-5%	-5%	-4%
Total FMCG	80%	81%	78%	76%	78%	77%	76%	76%	81%	80%	79%	77%	81%
Hotels	4%	3%	9%	13%	6%	6%	12%	13%	6%	6%	7%	9%	6%
Agribusiness	5%	4%	2%	1%	5%	5%	2%	1%	5%	1%	3%	3%	3%
Paperboards	11%	12%	11%	10%	11%	12%	10%	11%	8%	12%	11%	11%	10%
Total EBIT	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%
Margins													
Cigarette (Net)	60%	63%	58%	54%	63%	61%	59%	53%	57%	55%	59%	59%	56%
Other FMCG	-27%	-14%	-15%	-14%	-16%	-12%	-11%	-10%	-8%	-6%	-17%	-12%	-7%
Total FMCG	47%	48%	45%	40%	46%	44%	43%	37%	41%	38%	45%	42%	40%
Hotels	21%	18%	35%	37%	29%	29%	42%	38%	29%	29%	30%	36%	29%
Agribusiness	5%	7%	2%	1%	4%	5%	3%	1%	4%	1%	3%	3%	3%
Paperboards	19%	20%	19%	17%	21%	21%	19%	18%	16%	20%	19%	20%	19%
Total EBIT Margin	36%	38%	33%	29%	35%	34%	33%	27%	33%	31%	34%	32%	32%

Source: Company data

PE bands

Chart 1: ITC PE Band chart



Source: Capital markets, UBS estimates

An analysis of ITC’s 12 year has brought about some interesting conclusions.

ITC has traded at an average of 18X 12-month forward earnings through its history. The bottom (-2 standard deviation) multiple is 7X, though it has never reached that level and the top multiple is 29X standard deviation. Higher cigarette sales volume growth results in re-rating of the stock and the imposition of high excise taxes results in derating of the stocks.

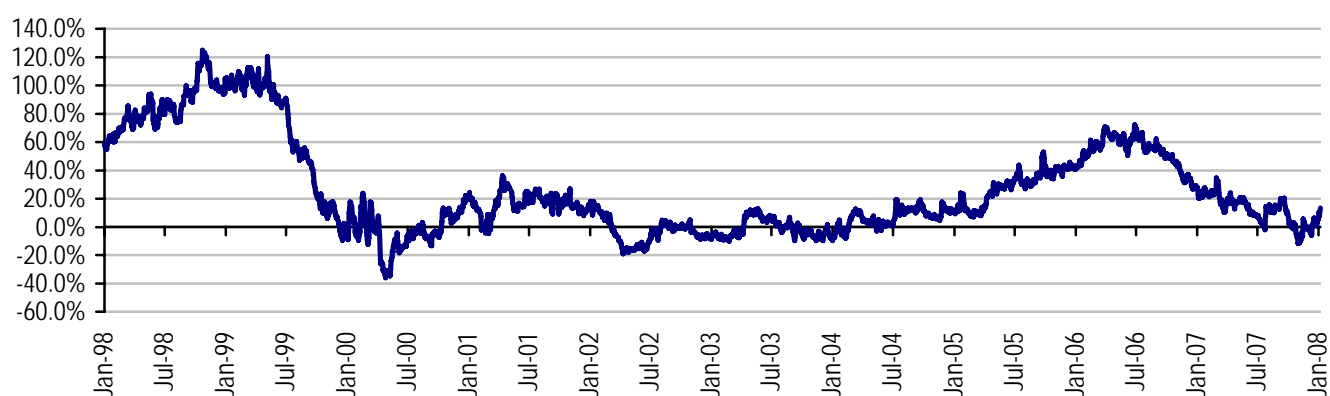
The other way of looking at this as a function of premium or discount to the market multiple. This approach helps us out put the impact of overall market multiple expansion or contraction on ITC’s valuations. Strong cigarette volume growth from FY03 to FY06 as seen in table 1 with volumes moving from 3.1% in FY04 to 7.1% for FY07. During that period ITC’s premium to the market moved from 15% premium for 2004 peaking at 65% premium in the middle of 2006.

ITC’s PE traded at a premium of ~34% to Sensex PE during FY98-02. This was the period of high excise duty increases which were passed through to consumer. Through FY03-07, the stock traded at a 20% premium to the Sensex PE despite being the faster growth period for cigarette volumes. Currently it trades at 13% premium to the Sensex. We believe a rebound in volume growth in cigarettes to 4% in FY07 and 3.5% for FY08 can expand ITC’s trading multiples.

ITC’s multiple premium/discount to the market expands with sustained volume growth in the cigarette business.

ITC set to expand trading multiples as volume growth returns to cigarette market

Chart 2: ITC 1 year forward P/E – premium/discount to BSE Sensex



Source: Company data, Reuters, UBS estimates

Table 4: Global comps

Company	Rating	Mkt Cap (US\$)	Pre-exp PE(x)						EV/Sales(x)					EV/EBITDA(x)				
			9-Jan-08	2005	2006	2007	2008	2009	2005	2006	2007	2008	2009	2005	2006	2007	2008	2009
UK																		
Altadis	Neutral (CBE)	18,546	27.2	24.2	28.5	25.4	20.4	3.0	3.2	3.5	4.0	4.2	9.7	10.8	12.2	13.4	13.4	
BAT UK	Buy	80,429	15.3	23.9	22.5	18.5	17.0	2.0	2.8	3.1	3.4	3.8	7.4	8.5	9.4	10.1	11.4	
Imperial Tobacco	Sell	35,360	43.6	33.9	21.9	19.9	18.2	4.1	4.6	5.1	5.9	6.6	9.7	10.3	11.1	12.3	13.8	
Swedish Match	Sell	6,833	24.5	27.8	19.8	21.3	19.5	2.1	2.2	3.0	3.4	4.1	8.7	8.8	10.9	13.6	15.2	
US																		
Altria Group	Buy	167,608	17.4	15.4	13.9	18.6	17.2	2.1	2.4	2.7	4.1	4.0	7.4	8.8	9.5	11.0	10.4	
Asia																		
ITC	Buy	21,870	46.0	37.5	31.8	26.7	22.2	3.3	4.6	5.2	5.4	4.6	9.1	12.4	14.8	16.0	13.1	
BAT (Malaysia)	Neutral	3,629	15.2	18.6	16.5	16.3	16.1	4.3	3.5	3.4	3.4	3.2	11.7	12.4	11.1	11.6	11.4	
Gudang Garam	Suspended	1,753	9.1	9.0	10.7	10.1	9.9	1.3	1.2	1.0	0.9	0.7	9.5	8.5	7.7	7.4	6.0	
KT&G	Buy	13,035	29.0	26.1	18.8	17.1	15.0	1.6	2.4	3.4	3.8	4.5	3.8	6.7	9.3	9.5	10.5	

Source: Company data, Reuters, UBS estimates

Income statement (Rsm)	03/03	03/04	03/05	03/06	03/07	03/08E	% ch	03/09E	% ch	03/10E	% ch
Revenues	58,658	64,704	76,395	97,905	123,693	152,846	23.6	174,863	14.4	198,415	13.5
Operating expenses (ex depre)	(37,069)	(41,089)	(48,438)	(64,607)	(84,101)	(105,610)	25.6	(118,450)	12.2	(133,325)	12.6
EBITDA (UBS)	21,589	23,616	27,957	36,159	42,929	51,073	19.0	61,114	19.7	70,261	15.0
Depreciation	(2,373)	(2,416)	(3,129)	(3,323)	(3,629)	(4,375)	20.5	(5,000)	14.3	(5,000)	0.0
Operating income (EBIT, UBS)	19,216	21,199	24,828	32,836	39,300	46,698	18.8	56,114	20.2	65,261	16.3
Other income & associates	1,696	2,249	2,358	0	0	0	-	0	-	0	-
Net interest	(298)	(248)	(424)	(119)	(33)	(100)	204.9	(100)	0.0	(100)	0.0
Abnormal items (pre-tax)	0	0	0	0	0	0	-	0	-	0	-
Profit before tax	20,613	23,200	26,762	32,717	39,267	46,598	18.7	56,014	20.2	65,161	16.3
Tax	(6,848)	(7,262)	(8,360)	(9,888)	(12,267)	(14,446)	17.8	(17,364)	20.2	(20,200)	16.3
Profit after tax	13,765	15,938	18,402	22,828	27,000	32,153	19.1	38,649	20.2	44,961	16.3
Abnormal items (post-tax)	0	0	0	0	0	0	-	0	-	0	-
Minorities / pref dividends	0	0	0	0	0	0	-	0	-	0	-
Net income (local GAAP)	13,765	15,938	18,402	22,828	27,000	32,153	19.1	38,649	20.2	44,961	16.3
Net Income (UBS)	13,765	15,938	18,402	22,828	27,000	32,153	19.1	38,649	20.2	44,961	16.3
Tax rate (%)	33	31	31	30	31	31	-0.8	31	0.0	31	0.0
Pre-abnormal tax rate (%)	36	35	34	30	31	31	-0.8	31	0.0	31	0.0
Per share (Rs)	03/03	03/04	03/05	03/06	03/07	03/08E	% ch	03/09E	% ch	03/10E	% ch
EPS (local GAAP)	3.71	4.29	4.96	6.08	7.18	8.55	19.1	10.27	20.2	11.95	16.3
EPS (UBS)	3.71	4.29	4.96	6.08	7.18	8.55	19.1	10.27	20.2	11.95	16.3
Net DPS	0.99	1.49	2.07	2.31	3.11	3.60	15.9	4.30	19.4	5.00	16.3
Cash EPS	4.35	4.94	5.80	6.96	8.14	9.71	19.3	11.60	19.5	13.28	14.5
BVPS	216.78	258.98	319.00	24.13	27.74	32.76	18.1	38.75	18.3	45.64	17.8
Balance sheet (Rsm)	03/03	03/04	03/05	03/06	03/07	03/08E	% ch	03/09E	% ch	03/10E	% ch
Net tangible fixed assets	31,700	36,121	41,369	44,051	56,109	51,573	-8.1	54,573	5.8	57,573	5.5
Net intangible fixed assets	0	0	0	0	0	0	-	0	-	0	-
Net working capital (incl. other assets)	3,249	(1,691)	737	4,033	10,591	16,045	51.5	15,245	-5.0	14,586	-4.3
Other liabilities	0	0	0	0	0	0	-	0	-	0	-
Operating invested capital	34,949	34,429	42,106	48,084	66,700	67,618	1.4	69,818	3.3	72,159	3.4
Investments	8,288	8,692	9,346	9,346	9,346	9,346	0.0	9,346	0.0	9,346	0.0
Total capital employed	43,237	43,122	51,452	57,429	76,046	76,963	1.2	79,163	2.9	81,505	3.0
Shareholders' equity	53,656	64,101	78,956	90,615	104,371	123,006	17.9	145,509	18.3	171,695	18.0
Minority interests	0	0	0	0	0	0	-	0	-	0	-
Total equity	53,656	64,101	78,956	90,615	104,371	123,006	17.9	145,509	18.3	171,695	18.0
Net debt / (cash)	(10,419)	(20,979)	(27,504)	(33,186)	(28,325)	(46,042)	62.6	(66,345)	44.1	(90,190)	35.9
Debt deemed provisions	0	0	0	0	0	0	-	0	-	0	-
Total capital employed	43,237	43,122	51,452	57,429	76,046	76,963	1.2	79,163	2.9	81,505	3.0
Cash flow (Rsm)	03/03	03/04	03/05	03/06	03/07	03/08E	% ch	03/09E	% ch	03/10E	% ch
Operating income (EBIT, UBS)	19,216	21,199	24,828	32,836	39,300	46,698	18.8	56,114	20.2	65,261	16.3
Depreciation	2,373	2,416	3,129	3,323	3,629	4,375	20.5	5,000	14.3	5,000	0.0
Net change in working capital	3,855	9,370	(10,092)	(3,829)	(6,836)	(1,695)	-75.2	(1,831)	8.0	(1,972)	7.7
Other (operating)	0	0	0	0	0	0	-	0	-	0	-
Operating cash flow	25,444	32,985	17,865	32,331	36,093	49,379	36.8	59,283	20.1	68,289	15.2
Net interest received / (paid)	(298)	(248)	(424)	(119)	(33)	(100)	204.9	(100)	0.0	(100)	0.0
Dividends paid	(3,341)	(3,713)	(5,588)	(8,676)	(11,347)	(11,663)	2.8	(13,518)	15.9	(16,147)	19.4
Tax paid	(6,407)	(8,135)	(7,403)	(9,725)	(13,925)	(14,444)	3.7	(17,362)	20.2	(20,198)	16.3
Capital expenditure	(4,274)	(6,837)	(8,377)	(6,006)	(15,687)	161	-	(8,000)	-	(8,000)	0.0
Net (acquisitions) / disposals	0	0	0	0	0	0	-	0	-	0	-
Other	698	(5,602)	(59)	(1,647)	(2,408)	2,158	-	0	-	0	0.0
Share issues	(484)	95	5,129	202	(1,581)	0	-	0	-	0	-
Cash flow (inc)/dec in net debt	11,338	8,545	1,142	6,361	(8,887)	25,491	-	20,303	-20.4	23,845	17.4
FX / non cash items	1,402	2,015	5,383	(680)	4,027	(7,774)	-	0	-100.0	0	-
Balance sheet (inc)/dec in net debt	12,740	10,560	6,525	5,681	(4,861)	17,717	-	20,303	14.6	23,845	17.4
Core EBITDA	21,589	23,616	27,957	36,159	42,929	51,073	19.0	61,114	19.7	70,261	15.0
Maintenance capital expenditure	0	0	0	0	0	0	-	0	-	0	-
Maintenance net working capital	3,855	9,370	(10,092)	(3,829)	(6,836)	(1,695)	-75.2	(1,831)	8.0	(1,972)	7.7
Operating free cash flow, pre-tax	25,444	32,985	17,865	32,331	36,093	49,379	36.8	59,283	20.1	68,289	15.2

Source: Company accounts, UBS estimates. (UBS) valuations are stated before goodwill, exceptionals and other special items. Note: For some companies, the data represents an extract of the full company accounts.

Company profile

ITC is the leading cigarette manufacturer in India with a 67% share of the market by volume and 83% by value. ITC has identified tobacco and paperboard, hotels and agri-business as its core businesses for the future.

Valuation (x)	5Yr Avg	03/06	03/07	03/08E	03/09E	03/10E
P/E (local GAAP)	15.3	21.1	24.8	27.0	22.5	19.3
P/E (UBS)	15.3	21.1	24.8	27.0	22.5	19.3
P/CEPS	13.2	18.4	21.9	23.8	19.9	17.4
Net dividend yield (%)	2.3	1.8	1.7	1.6	1.9	2.2
P/BV	1.2	5.3	6.4	7.0	6.0	5.1
EV/revenue (core)	3.6	4.6	5.2	5.4	4.6	3.9
EV/EBITDA (core)	9.7	12.4	14.8	16.2	13.3	11.1
EV/EBIT (core)	10.8	13.7	16.2	17.8	14.4	11.9
EV/OpFCF (core)	9.5	13.9	17.7	16.8	13.7	11.4
EV/op. invested capital	6.6	10.0	NM	NM	NM	NM

Enterprise value (Rsm)	03/06	03/07	03/08E	03/09E	03/10E
Average market cap	480,158	668,131	866,310	866,310	866,310
+ minority interests	0	0	0	0	0
+ average net debt (cash)	(30,345)	(30,755)	(37,184)	(56,194)	(78,268)
+ pension obligations and other	0	0	0	0	0
- non-core asset value	0	0	0	0	(9,346)
Core enterprise value	449,813	637,376	829,126	810,116	778,696

Growth (%)	5Yr Avg	03/06	03/07	03/08E	03/09E	03/10E
Revenue	17.9	28.2	26.3	23.6	14.4	13.5
EBITDA (UBS)	17.4	29.3	18.7	19.0	19.7	15.0
EBIT (UBS)	17.8	32.3	19.7	18.8	20.2	16.3
EPS (UBS)	17.1	22.7	18.0	19.1	20.2	16.3
Cash EPS	16.5	20.1	16.9	19.3	19.5	14.5
Net DPS	26.9	11.6	34.4	15.9	19.4	16.3
BVPS	-39.5	-92.4	15.0	18.1	18.3	17.8

Margins (%)	5Yr Avg	03/06	03/07	03/08E	03/09E	03/10E
EBITDA / revenue	36.9	36.9	34.7	33.4	34.9	35.4
EBIT / revenue	33.1	33.5	31.8	30.6	32.1	32.9
Net profit (UBS) / revenue	23.8	23.3	21.8	21.0	22.1	22.7

Return on capital (%)	5Yr Avg	03/06	03/07	03/08E	03/09E	03/10E
EBIT ROIC (UBS)	60.7	72.8	68.5	69.5	NM	NM
ROIC post tax	-	50.8	47.1	48.0	56.3	63.4
Net ROE	27.6	26.9	27.7	28.3	28.8	28.3

Coverage ratios (x)	5Yr Avg	03/06	03/07	03/08E	03/09E	03/10E
EBIT / net interest	NM	NM	NM	NM	NM	NM
Dividend cover (UBS EPS)	3.1	2.6	2.3	2.4	2.4	2.4
Div. payout ratio (% , UBS EPS)	33.7	38.0	43.3	42.1	41.9	41.8
Net debt / EBITDA	NM	NM	NM	NM	NM	NM

Efficiency ratios (x)	5Yr Avg	03/06	03/07	03/08E	03/09E	03/10E
Revenue / op. invested capital	1.8	2.2	2.2	2.3	2.5	2.8
Revenue / fixed assets	2.0	2.3	2.5	2.8	3.3	3.5
Revenue / net working capital	18.4	41.1	16.9	11.5	11.2	13.3

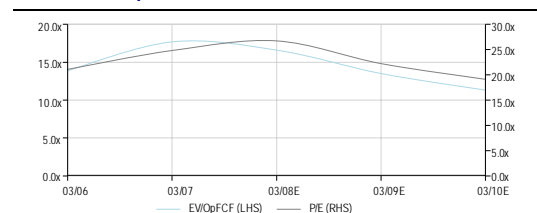
Investment ratios (x)	5Yr Avg	03/06	03/07	03/08E	03/09E	03/10E
OpFCF / EBIT	1.1	1.0	0.9	1.1	1.1	1.0
Capex / revenue (%)	10.8	6.1	12.7	NM	4.6	4.0
Capex / depreciation	2.8	1.8	4.3	NM	1.6	1.6

Capital structure (%)	5Yr Avg	03/06	03/07	03/08E	03/09E	03/10E
Net debt / total equity	(27.1)	(36.6)	(27.1)	(37.4)	(45.6)	(52.5)
Net debt / (net debt + equity)	(37.1)	(57.8)	(37.2)	(59.8)	(83.8)	NM
Net debt (core) / EV	(5.6)	(6.7)	(4.8)	(4.5)	(6.9)	(10.1)

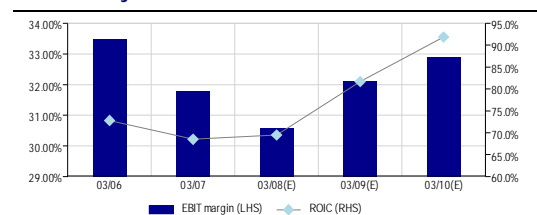
Source: Company accounts, UBS estimates. (UBS) valuations are stated before goodwill, exceptional and other special items.

Valuations: based on an average share price that year, (E): based on a share price of Rs230.70 on 08 Jan 2008 23:38 HKT Market cap(E) may include forecast share issues/buybacks.

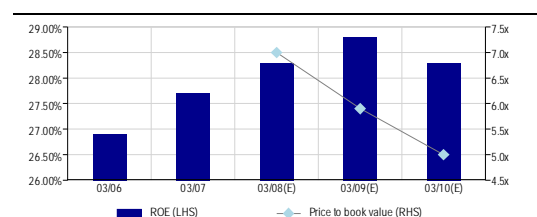
Value (EV/OpFCF & P/E)



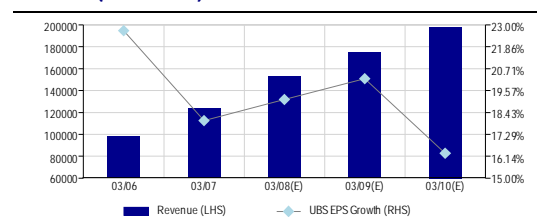
Profitability



ROE v Price to book value



Growth (UBS EPS)



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■ ITC

ITC is the leading cigarette manufacturer in India with a 67% share of the market by volume and 83% by value. ITC has identified tobacco and paperboard, hotels and agri-business as its core businesses for the future.

■ Statement of Risk

We believe higher excise duty is the key risk to ITC's earnings growth and valuations. A steady increase in excise duty would adversely affect the long term growth trend and lead to down trading by smokers.

■ Analyst Certification

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UBS Investment Research: Global Equity Rating Allocations

UBS 12-Month Rating	Rating Category	Coverage ¹	IB Services ²
Buy	Buy	55%	39%
Neutral	Hold/Neutral	36%	36%
Sell	Sell	8%	20%
UBS Short-Term Rating	Rating Category	Coverage ³	IB Services ⁴
Buy	Buy	less than 1%	25%
Sell	Sell	less than 1%	50%

1:Percentage of companies under coverage globally within the 12-month rating category.

2:Percentage of companies within the 12-month rating category for which investment banking (IB) services were provided within the past 12 months.

3:Percentage of companies under coverage globally within the Short-Term rating category.

4:Percentage of companies within the Short-Term rating category for which investment banking (IB) services were provided within the past 12 months.

Source: UBS. Rating allocations are as of 31 December 2007.

UBS Investment Research: Global Equity Rating Definitions

UBS 12-Month Rating	Definition
Buy	FSR is > 6% above the MRA.
Neutral	FSR is between -6% and 6% of the MRA.
Sell	FSR is > 6% below the MRA.
UBS Short-Term Rating	Definition
Buy	Buy: Stock price expected to rise within three months from the time the rating was assigned because of a specific catalyst or event.
Sell	Sell: Stock price expected to fall within three months from the time the rating was assigned because of a specific catalyst or event.

KEY DEFINITIONS

Forecast Stock Return (FSR) is defined as expected percentage price appreciation plus gross dividend yield over the next 12 months.

Market Return Assumption (MRA) is defined as the one-year local market interest rate plus 5% (a proxy for, and not a forecast of, the equity risk premium).

Under Review (UR) Stocks may be flagged as UR by the analyst, indicating that the stock's price target and/or rating are subject to possible change in the near term, usually in response to an event that may affect the investment case or valuation.

Short-Term Ratings reflect the expected near-term (up to three months) performance of the stock and do not reflect any change in the fundamental view or investment case.

EXCEPTIONS AND SPECIAL CASES

UK and European Investment Fund ratings and definitions are :

Buy: Positive on factors such as structure, management, performance record, discount; Neutral: Neutral on factors such as structure, management, performance record, discount; Sell: Negative on factors such as structure, management, performance record, discount.

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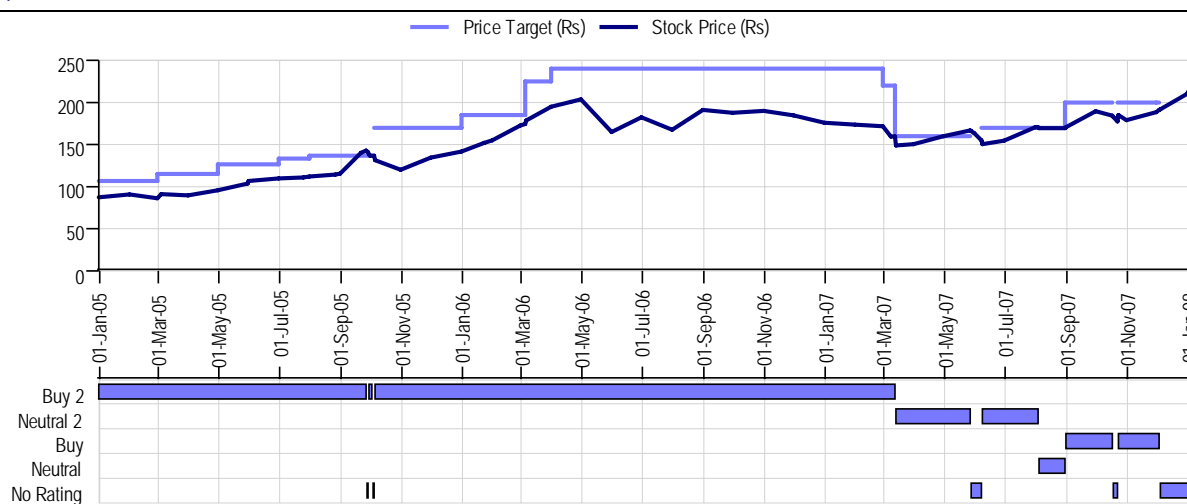
Company Disclosures

Company Name	Reuters	12-mo rating	Short-term rating	Price	Price date
ITC	ITC.BO	Suspended	N/A	Rs227.95	09 Jan 2008

Source: UBS. All prices as of local market close.

Ratings in this table are the most current published ratings prior to this report. They may be more recent than the stock pricing date

Unless otherwise indicated, please refer to the Valuation and Risk sections within the body of this report.

ITC (Rs)

Source: UBS; as of 09 Jan 2008

Note: On August 4, 2007 UBS revised its rating system. (See 'UBS Investment Research: Global Equity Rating Definitions' table for details). From September 9, 2006 through August 3, 2007 the UBS ratings and their definitions were: Buy 1 = FSR is > 6% above the MRA, higher degree of predictability; Buy 2 = FSR is > 6% above the MRA, lower degree of predictability; Neutral 1 = FSR is between -6% and 6% of the MRA, higher degree of predictability; Neutral 2 = FSR is between -6% and 6% of the MRA, lower degree of predictability; Reduce 1 = FSR is > 6% below the MRA, higher degree of predictability; Reduce 2 = FSR is > 6% below the MRA, lower degree of predictability. The predictability level indicates an analyst's conviction in the FSR. A predictability level of '1' means that the analyst's estimate of FSR is in the middle of a narrower, or smaller, range of possibilities. A predictability level of '2' means that the analyst's estimate of FSR is in the middle of a broader, or larger, range of possibilities. From October 13, 2003 through September 8, 2006 the percentage band criteria used in the rating system was 10%.

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