

ITC Ltd.

Rs 199

KRChoksey
 wealth enhancement solutions


Strong Cigarette volumes & Margins drive growth

HOLD

FMCG major ITC delivered strong performance with Net sales up by 20% y-o-y to Rs 5767.5 crores, inline with our estimates on the back of double digit growth across the segments. The topline growth was largely driven by Cigarette, FMCG-Others, Paperboard, Agri & Hotel segment which grew by 16%, 20, 21%, 26% & 10% y-o-y respectively.

Cigarette segment delivered strong performance with volume growth of 8% resulting in a revenue growth of 16% y-o-y to Rs 2873.3 crores. This coupled with improved product mix resulted in EBIT margins increasing by 233 bps y-o-y.

Losses from FMCG -Others business continued to decline y-o-y but were up 12% q-o-q on back of higher adspends.

EBITDA grew by 17% y-o-y to Rs 1883 crores. Gross margins contracted by 270 bps y-o-y on account of high RM cost, partially offset by lower other expenditure. Consequently OPM contraction was lower at 66 bps y-o-y to 32.7%.

Net profit improved by higher rate of 25% y-o-y to Rs 1332 crores on the back of higher other income & lower effective tax rate.

Strong rebound in volumes & superior Product mix drive cigarette revenues & margins: ITC's cigarette segment reported strong revival with volume growth of -8%, resulting in net sales growth of 16% y-o-y to Rs 2873 crores. EBIT margins improved by 233 bps y-o-y on the back of price hikes, lower excise payout & effective product mix. We expect the core business to continue deliver healthy volume growth (7-8%) for FY12, driving the overall revenue growth for ITC.

Strong margin improvement in the Non-Cigarette FMCG businesses: Non-Cigarette FMCG business showed healthy topline & EBIT growth, Revenue from FMCG Others grew by 20% y-o-y driven by led by Packaged food, Personal care & Stationary segment. Losses declined by 15% y-o-y to Rs 76.3 crores. In the FMCG category, packaged foods business grew by 21% y-o-y led by strong performance of its key brands Aashirvaad, Bingo & Sunfeast, improved product mix & better realizations. Agri business reported growth of 26% y-o-y led by higher soya & coffee sales & EBIT improved by 20% y-o-y. Paper segment saw double digit growth in revenue as well as EBIT on account of product mix & improved realizations. Hotel business grew by 10% y-o-y to Rs 230 crores (ARR improved by 10%) & margins improved by 391 bps y-o-y. Overall ITC's EBITDA improved by 17% y-o-y, partially impacted by higher RM costs. However improved realizations & decline in other expenses as a % to sales resulted in OPM contraction of 66bps y-o-y only. We believe ITC would continue to invest behind brands, enhancing manufacturing & distribution network in order to tap the emerging opportunities in these segments. With strong branded portfolio & growing consumer franchise we expect the FMCG business to deliver sales CAGR of 17% & EBIT CAGR of 24% over FY11-13E.

Net profit grew by higher rate of 25% y-o-y to Rs 1332 crores on the account of 46% y-o-y increase in other income (improved yields) & 63 bps y-o-y decline in effective tax rate.

Valuations & Views - ITC Ltd continues to post strong performance across all its segments. We expect cigarette volumes & margins to improve going forward on the back of product mix. Also Non-cigarette FMCG business would continue to post strong growth driven by superior product mix, continued investments behind brands & enhancing manufacturing & distribution network. ITC remains our top bet in the FMCG space due to its diversified business model & pricing power. We expect ITC's earnings to grow at a CAGR of 19% over FY11-13E. We recommend a BUY on ITC with a SOTP based target price of Rs 226, an upside potential of 14%.

Key Financials

(Rs. Crore)

Particulars	FY10	FY11	FY12E	FY13E
Net Sales	18153.2	21167.6	25103.8	29121.5
EBITDA	6515.8	7745.9	9255.6	10884.2
PAT	4061.0	4987.6	5992.4	7068.6
EPS	5.3	6.5	7.8	9.2
OPM	35.4%	36.1%	36.3%	36.8%
NPM	22.4%	23.6%	23.9%	24.3%
PE	39.3	32.0	26.6	22.6

Target Price (Rs): 226

Potential Upside : 14%

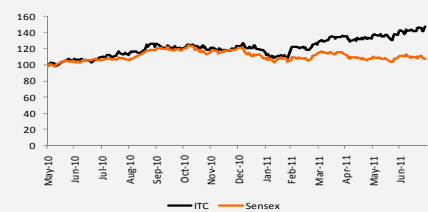
Previous TP (Rs): 225

Market Data	Oct 07, 2011
Shares outs (Cr)	766.9
Equity Cap (Rs. Cr)	766.9
Mkt Cap (Rs. Cr)	161185
52 Wk H/L (Rs)	211/150
Avg Vol (1yr avg)	226510
Face Value (Rs)	1.0
Bloomberg Code	ITC IN

Market Info:

SENSEX	16,232
NIFTY	4,888

Price Performance



Share Holding pattern (%)

Particulars	Jun -11	Mar -11	Chg
Promoters	0.0	0.0	-
MF/Ins. Co.	35.91	35.89	0.02
FII's	14.56	14.04	0.52
Public	49.53	50.07	-0.54
Total	100.0	100.0	

Source: BSE