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ITC

More than price hike, Not Rated

April 2, 2012

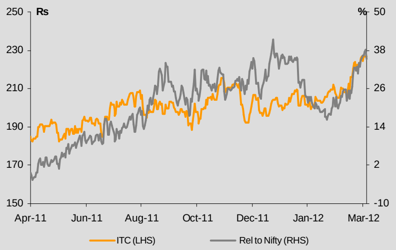
Reco	**Previous Reco**
Not Rated	Not Rated
CMP	**Target Price**
Rs 227	NA
EPS change FY12E/13E (%)	NA
Target Price change (%)	NA
Nifty	5,296
Sensex	17,404

Price Performance

(%)	1M	3M	6M	12M
Absolute	9	13	15	25
Rel. to Nifty	11	(1)	7	38

Source: Bloomberg

Relative Price Chart



Source: Bloomberg

Stock Details

Sector	Consumers
Bloomberg	ITC@IN
Equity Capital (Rs mn)	7818
Face Value(Rs)	1
No of shares o/s (mn)	7818
52 Week H/L	228/175
Market Cap (Rs bn/USD mn)	1,774/34,888
Daily Avg Volume (No of sh)	8759010
Daily Avg Turnover (US$mn)	36.1

Shareholding Pattern (%)

	Dec-11	Sep-11	Jun-11
Promoters	0.0	0.0	0.0
FII/NRI	48.1	47.2	46.6
Institutions	34.8	35.2	35.9
Private Corp	5.9	6.2	6.2
Public	11.2	11.4	11.3

Source: Capitaline

We met the management of ITC during our Kolkata visit with institutional clients

- Effective indirect taxation increase of 15% in Cigarettes; requires price hike of 7%, if everything else remains constant
- Retains focus on Ebit growth in Cigarettes; implies portfolio actions and operations management alongside pricing actions
- Focus on non-cigarettes business continues – (1) aiming breakeven in fmcg business (2) increasing room inventory by 40% or 3200 rooms and (3) paper-n-pulp capacity to increase 18% or 100,000 MT
- With consensus forecasts of Rs9.2/Share and Rs10.6/share for FY13E and FY14E, ITC is trading at PER of 21X FY14E

Effective indirect taxation increase of 15% in Cigarettes; requires price hike of 7% to maintain Ebit

The union budget 2013 alongside the respective state budget has led to effective excise increase of 14-15% and VAT increase of 1% (17.5% to 18.5%) on the Cigarettes portfolio. Hence, ITC has to implement a 7% price hike to maintain its Ebit, assuming everything else remains constant.

FY12 ends on 6-7% volume growth with 6% price increase; what is in store for FY13E?

ITC cigarette portfolio is expected to record 6-7% volume growth and 6% effective price-led growth in FY12E. This should be viewed in context of volume decline of -2.8% in FY11. Thus, assuming 7% price hike in FY13E, the volume growth can fall in positive zone versus consensus volume growth expectation of -2% to 0%, implying upside bias to earnings in ensuing quarters.

ITC focuses on Ebit growth; implies there is more then price hike in offing

ITC reiterated its focus on Ebit growth in Cigarette portfolio and highlighted the performance of last 5 years amidst hike in indirect taxation, price increases and volume degeneration. It indicated at more portfolio actions alongside price hike i.e. (1) contemplating reduction in the length of Cigarettes in existing portfolio (2) exploring the less then 65 mm category, where ITC is absent; through a suitable brand and pricing strategy and (3) reaping benefits from Rs20 bn technology upgradation investments implemented in last 3 years.

FMCG portfolio aiming to breakeven in FY13E; eyeing large and meaningful categories

ITC has guided for breakeven in FMCG portfolio in FY13E versus Ebit loss of Rs2.3 bn in FY12E. Currently, 67% of portfolio is at break-even (foods portfolio), 20% of portfolio is Ebit positive (matches, sticks, education and stationery) and 10% of portfolio is Ebit loss (personal care). The Ebit loss in personal care is driven by Soaps category which contributes 80-90% of ITC's personal care portfolio. Company is aiming to curtail loss in Soaps portfolio to achieve breakeven in FMCG business. Also, ITC reiterates its strategy of entering large and meaningful category in FMCG category alongside its erstwhile choices of participating in biscuits, snacks, soaps, shampoos, skin cream, etc.

Financial Snapshot **Rs Mn**

YE-Mar	Net Sales	EBITDA (Core)	EBITDA (%)	AEPS (Rs)	AEPS % chg	RoE (%)	P/E (x)	EV/ EBITDA(x)	P/BV (x)
FY11	211676	72334	18.1	6.5	21.1	33.2	35.0	23.7	11.0
FY12E	249468	89211	23.3	7.9	21.5	35.0	28.8	19.7	9.6
FY13E	288895	104637	17.3	9.2	16.7	35.6	24.7	16.8	8.3
FY14E	338730	120945	15.6	10.6	15.0	36.6	21.4	14.6	7.2

Hotels; No light at end of tunnel for cyclical turnaround

Hotels industry continues to witness influx of room inventory in all major cities of India. The room addition pegged is approximately 2000 Nos in last 18 months. However, only positive is ARR are maintained and occupancy are at healthy level (all India average) despite the room addition. However, there is no light at end of tunnel for cyclical turnaround. ITC continues to allocate capital for hotels business and eyeing to increase its room inventory by 40% or 3200 rooms in next 3 years.

Paper would see capacity addition of 18% at the Bhadrachalan unit

Paper continues to attract capital and investments and retains its focus in ITC's diversified business initiatives. Company is augmenting capacity by 18% or 100000 MT at the Bhadrachalan unit. The capacity will increase to 650000 MT in the integrated paper-n-pulp plant (board paper). Hence, hinting at continued growth in the paper business.

Emkay Global Financial Services Ltd.

7th Floor, The Ruby, Senapati Bapat Marg, Dadar - West, Mumbai - 400028. India

Tel: +91 22 66121212 Fax: +91 22 66121299 Web: www.emkayglobal.com