



ITC Q3FY12 Result Update

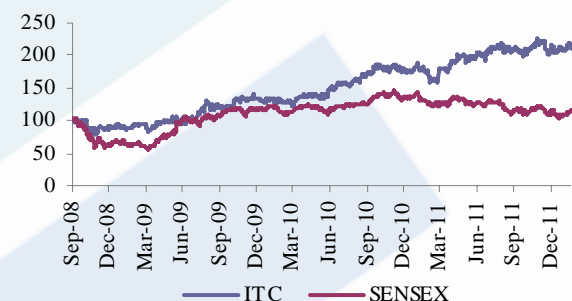
Recommendation	BUY
CMP	Rs. 205
Target Price	Rs. 234
Sector	FMCG
Return (%)	14%

Stock Data	
Bloomberg	ITC
BSE Code	500875
NSE Code	ITC
52 Weeks High/Low	216 / 150
Market Cap (Rs in Cr.)	158729

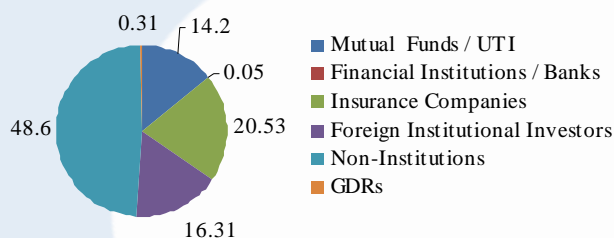
Description	FY10	FY11	FY12E	FY13E
Revenue	19136	22274	25896	30357
EBITDA	6981	8216	9566	11312
<i>EBITDAM</i>	<i>25.28%</i>	<i>25.62%</i>	<i>25.49%</i>	<i>25.71%</i>
PBT	6246	7435	8674	10300
PAT	4211	5070	5899	7055
<i>PATM</i>	<i>15.25%</i>	<i>15.81%</i>	<i>15.72%</i>	<i>16.04%</i>
EPS (Rs.)	10.92	6.48	7.60	9.16

(Rs. in Crs.)

ITC v/s Sensex



Shareholding Pattern as on December 2011



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Key Highlights

ITC reported net sale of Rs. 6195 Crs. for Q3FY12 (up 14% y-o-y) & (up 22% q-o-q) in line with our expectations mainly driven by the price hikes on cigarette that were taken during the previous quarters to neutralize the effect of increase in VAT rates in various states and pick up in the hotel business.

The company also saw 48% growth y-o-y in its other income to Rs. 285 Crs. on the account of sale of investments and higher yields.

Total expenses at Rs. 3867 Crs. rose by 11 % y-o-y on account of higher manufacturing expenses – Rs. 1396 Crs. (grew 20% y-o-y); a result of higher input costs.

However effective cost management practices implemented by the company in the form of price hikes have lead to improved EBITDA margins by 229 bps y-o-y.

Net Profit which stood at Rs. 1700 Crs. saw margin improvement of 200 bps over the previous year's PAT margin of 25.47%.

Cigarettes continue to be the cash cow for the company

ITC's cigarette business, the largest contributor (60%) to the revenue continued to grow at 11% y-o-y. In an attempt to immune itself from the excise hike of 15% on tobacco products in the upcoming Union Budget., ITC raised the prices of certain brands by up to 15%.

Price of Classic has increased from Rs. 50 to Rs. 55; Wills Navy Cut now costs Rs. 44 as against Rs. 40; Bristol hiked by Rs. 3 to Rs. 28 for a pack of 10.

Its flagship brand Gold Flake Kings (GFK) saw a rise as much as 15% to Rs. 110 from Rs. 96 for a pack of 20 sticks.

In spite of the higher price across all cigarette brands, we believe this would not hinder the volume growth for FY13, considering the fact that ITC commands 78% market share in terms of volume and 87% in terms of value.

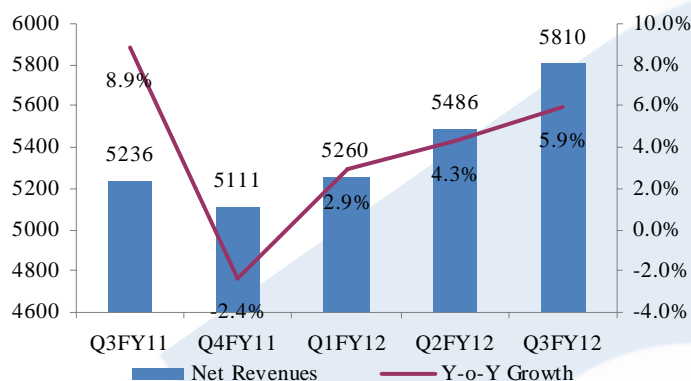
The margins in this segment improved 247bps y-o-y and 220 q-o-q to 31.7%, as a result of price hikes.

Taking into consideration the initiatives taken by the company across the brand portfolio in terms of pack modernization, improvement in smoke profile and introduction of new brands and variants such as 'Player's', 'Classic Citric Twist' and 'Hero' during the quarter, we expect an improved overall market share and a growth of 7% in this segment totaling the revenue to Rs. 22800 Crs. for current fiscal.

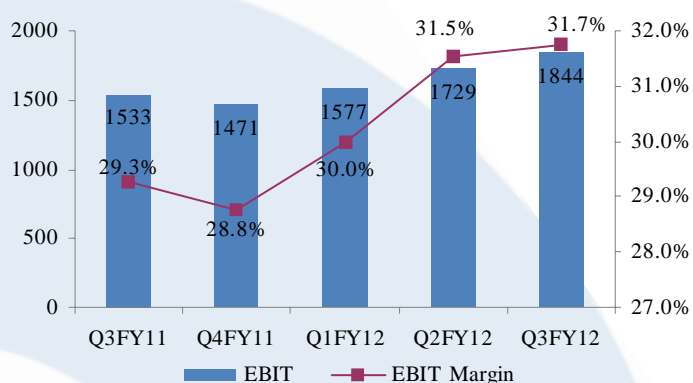


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Cigarette Sales



Cigarette EBIT



Source: Padmakshi Research

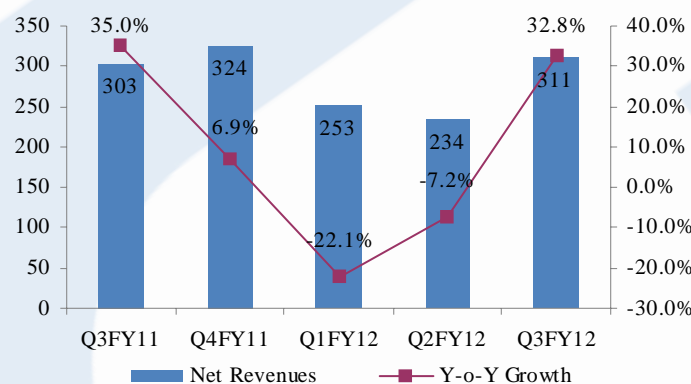
Hotel profits begin to pick up

The Hotels business registered a growth of 2.6% same quarter previous year due to weak global scenario and slowdown in the Indian economy. However the profitability of the division improved by 15% to Rs. 102 Crs., resulting in an improvement of 348 bps in the EBIT Margin at 32.7%. This was primarily led by higher ARR's as compared to the flattish occupancy rates of 70% on account of high supply in terms of capacity additions done by many players in the industry.

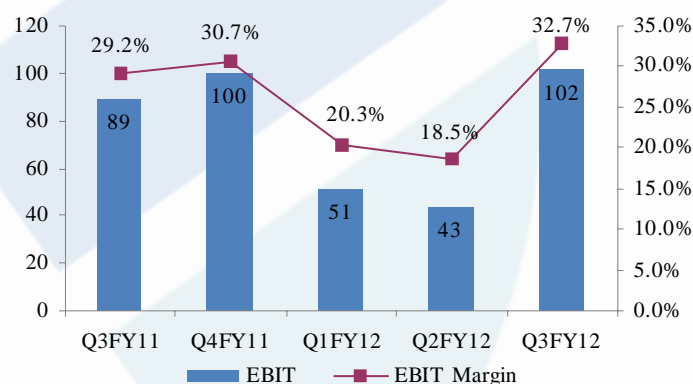
The company has laid down plans for the capacity additions with a positive outlook for the industry with the launches of super luxury properties at Chennai, Kolkata and at Classic Golf Resort near Gurgaon in progress and process of investing in land for a luxury hotel property in Colombo, Sri Lanka.

We remain positive on this industry and believe that the Hotels will contribute close to 4% of ITC's total revenues in FY13 as against 3.3% in FY11.

Hotel Sales



Hotel EBIT



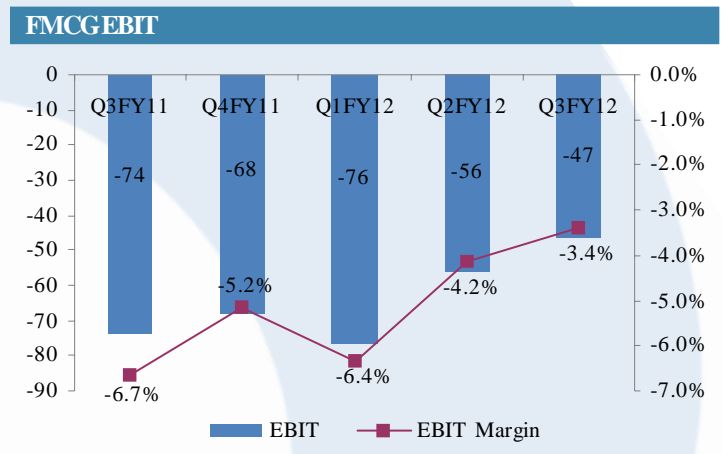
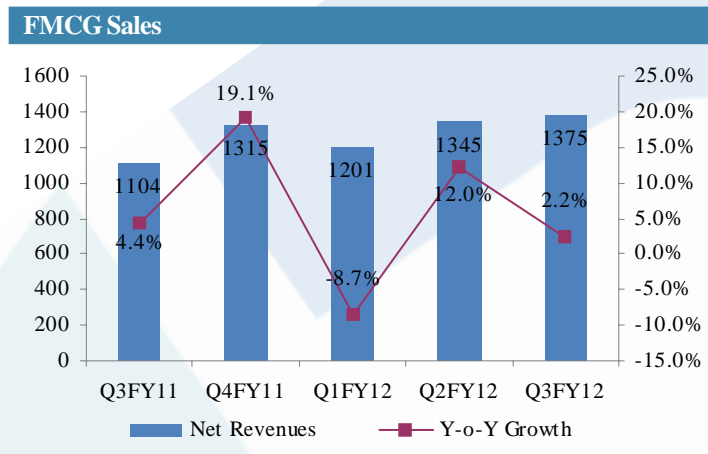
Source: Padmakshi Research



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FMCG - Losses cut further

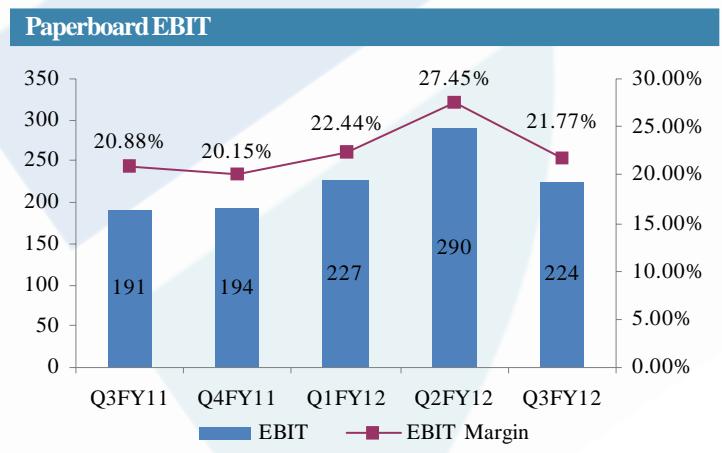
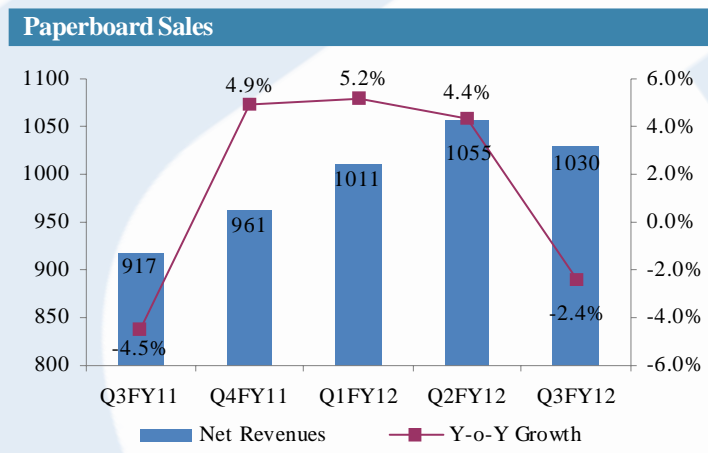
Along with cigarette division, this segment was the next best sector (14%) that contributed to the overall share of ITC's business line. With a growth of 25% y-o-y to Rs. 1375 Crs., it also saw a 37% cut in its losses. Branded Packaged Foods and Personal Care were the star performers in this category with Sunfeast having introduced variants of its biscuits and further penetration of its Dark Fantasy and Dark Fantasy Choco Fills. Essenza Di Wills', 'Fiama Di Wills', 'Vivel' and 'Superia' brands continued to gain consumer franchise with revenues growing significantly during the quarter. We expect the non cigarette FMCG business to breakeven at EBIT levels in FY13.



Source: Padmakshi Research

Paperboard, Paper & Packaging

The business witnessed a y-o-y growth of 12.4% to Rs. 1030 Crs. but sequentially fell by 2.4% q-o-q. The same trend was witnessed in its margins where the margins improved by 89 bps y-o-y to Rs. 224 Crs. but declined by 568 bps q-o-q. Decline in the margins was due to high fuel and fibre costs. The company's new paperboard line project at Bhadrachalam which has a capacity of one lakh tons per annum is progressing as per schedule. We expect the segment to grow at 15% on an annual basis and thereby taking its contribution to 6.6% to the total revenues.



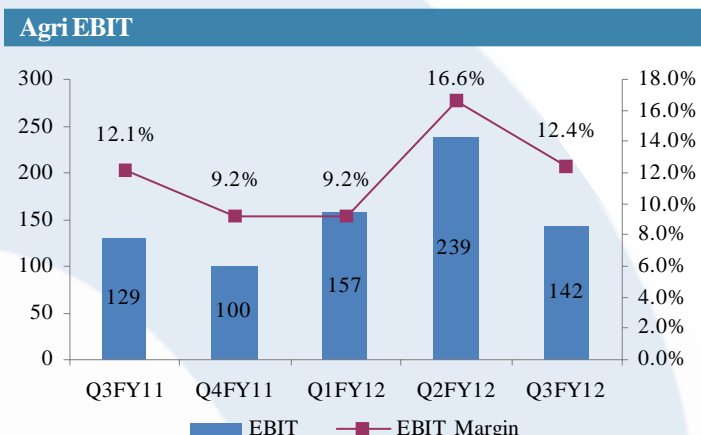
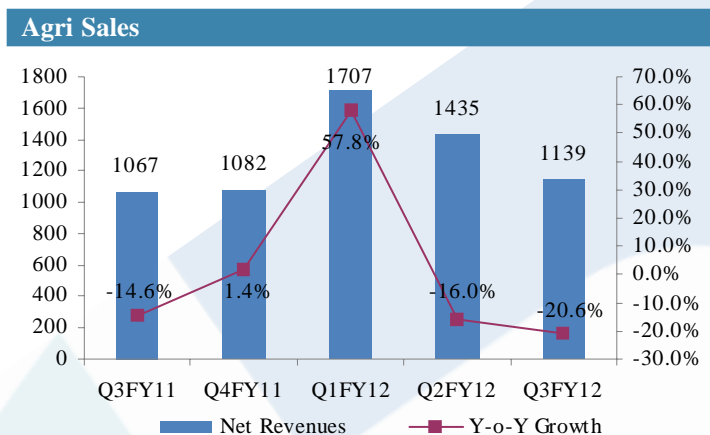
Source: Padmakshi Research



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Agri Business

The Agri business continued its sustainability with respect to revenue growth of 7% and a segment result of 10% growth. This growth was primarily driven by higher trading volumes and improved realizations in leaf and wheat.



Source: Padmakshi Research

Valuation

ITC's Q3FY12 performance has been in line with our estimates hence we continue to maintain our view on the stock with a target price of Rs. 234. However we would consider re-rating if there would be a key take away in the upcoming budget in the current quarter which would be critical for ITC's cigarette business, given the possibility of an increase in excise rates. At CMP of 205, the stock is trading at 22.38x FY13E EPS of Rs. 9.16.



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Income Statement (INR Crs.)					
	FY09	FY10	FY11	FY12E	FY13E
Net Revenues	16556	19136	22274	25896	30357
Add:- Non operating Income	512	630	777	963	1204
EBITDA	5615	6981	8216	9566	11312
Less :- Depreciation & Amortization	581	644	699	773	844
EBIT	5034	6338	7517	8793	10468
Less:- Interest Expenses	50	92	82	119	168
PBT	4985	6246	7435	8674	10300
Less :- Taxes	1625	2035	2365	2776	3244
Net Profit	3359	4211	5070	5899	7055
Add/Less: - Extra-ordinaries	(35)	(43)	(51)		
Consolidated Net Profit	3325	4168	5018	5882	7089

Balance Sheet (INR Crs.)					
	FY09	FY10	FY11	FY12E	FY13E
Share Capital	377	382	774	774	774
Reserves	13651	14076	15688	17424	19709
Borrowings	187	111	125	102	82
Total Liabilities	15205	15490	17539	19190	21455
Gross Block	11551	12993	13993	15304	16708
Less:- Accumulated Depreciation	3662	4213	4844	5617	6461
Net Block	7889	8780	9150	9687	10248
Add:- Capital work in progress	1243	1023	1368	1814	2114
Investments	2507	5000	4868	4868	4868
Net Working Capital	3572	678	2146	2813	4212
Total Assets	15205	15490	17539	19190	21455



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Cash Flow Statement (INR Crs.)

	FY09	FY10	FY11	FY12E	FY13E
Profit Before Tax	4985	6246	7435	8674	10300
Cash profit adjusted for non cash items	250	371	285	957	1031
Changes In working Capital	(227)	(85)	12	(598)	(654)
Cash Flow after changes in Working Capital	5008	6532	7732	9033	10677
Cash From Operating Activities	3498	4457	5454	6257	7433
Cash Flow from Investing Activities	(1383)	(3360)	(816)	(1311)	(1404)
Cash from Financing Activities	(1585)	(1070)	(3580)	(4775)	(5399)
Net Cash Inflow / Outflow	530	27	1058	171	629
Opening Cash & Cash Equivalents	742	1278	1305	2363	2534
Closing Cash & Cash Equivalent	1278	1305	2363	2534	3230

Ratio Analysis

	FY09	FY10	FY11	FY12E	FY13E
Income Statement Ratios(%)					
Revenue Growth	12.94%	15.58%	16.40%	16.26%	17.23%
EBITDA Growth	8.51%	24.33%	17.68%	16.43%	18.25%
PAT Growth	5.70%	25.34%	20.39%	16.35%	19.61%
EBITDA Margin	23.05%	25.28%	25.62%	25.49%	25.71%
Net Margin	13.79%	15.25%	15.81%	15.72%	16.04%
Return & Liquidity Ratios					
Net Debt/Equity (x)	0.01	0.01	0.01	0.01	0.00
ROE (%)	25.65	29.69	32.96	34.24	36.67
ROCE (%)	35.64	41.45	45.74	48.15	51.77
Per Share data & Valuation Ratios					
EPS (INR/Share)	8.81	10.92	6.48	7.60	9.16
DPS (INR/Share)	3.70	10.00	4.45	5.24	5.93
P/E Ratio (x)	23.27	18.78	31.61	26.97	22.38
EV/EBITDA (x)	13.58	11.03	19.03	16.33	13.75
EV/Net Sales (x)	4.61	4.03	7.02	6.03	5.12
P/BV (x)	5.54	5.44	9.70	8.77	7.78



ITC Q3FY12 Result Update

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