

CMP- ₹204

ITC Ltd  
Re-iterate HOLD

Re-iterate TP- ₹226

### Market Data

Bloomberg Code	ITC IN
Reuters Code	ITC.BO
SENSEX	16751
NIFTY	5046
Dividend Yield (%)	2
52 Week High/ Low(₹)	216/149
Equity Capital(₹mn)	3762
Face Value (₹)	1
Market Cap (₹mn)	1596880
Avg. 10 day Vol. NSE	6972176

Source: Ace Equity, R K Global Research, as on 23<sup>rd</sup> Jan'12

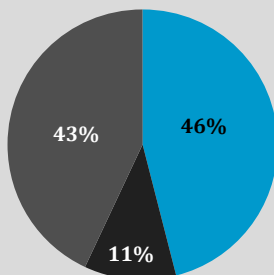
### Key Market Ratios

TTM Latest EPS (₹)	7.6
TTM Book Value (₹)	21.0
TTM PE (x)	28.0
TTM P/BV (x)	8.0
TTM EV/EBIDTA (x)	17.0
EV/TTM Sales (x)	6.0
Mcap/TTM Sales (x)	6.0

Source: Ace Equity, R K Global Research, as on 31<sup>st</sup> Dec'11

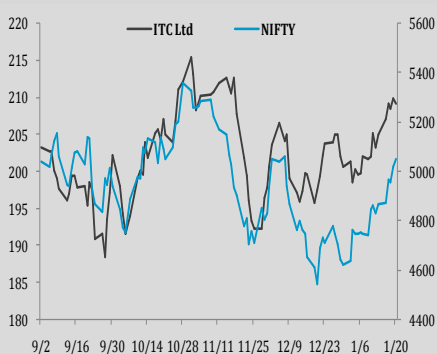
### Share-Holding Pattern (%)

■ FIIs ■ Public ■ DIIs & Others



Source: Company, R K Global Research, as on 31<sup>st</sup> Dec'11

### Price v/s NIFTY



Source: Ace Eq, NSE, R K Global Research, as on 20<sup>th</sup> Jan'12

### Research Analysts:

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**ITC posted yet another impressive performance during the quarter with healthy top-line growth and high quality earnings. Net revenue at ₹61,954 mn grew ~20% YoY (lower than our estimates at ~24% YoY, due to slight fall in cigarette volumes) driven primarily by Branded Packaged Foods, Personal Care, Agri and Cigarettes businesses. EBIDTA grew by ~43%, while post-tax profits stood at ₹17,012 v/s our expectation of ₹14,653 mn**

The performance for the quarter was close to our projections, though saw a ~3% fall from our estimates. The revenue for Q3FY'12 have increased by ~20% to ₹61,954 mn driven primarily by Packaged Foods, Personal Care, Agri and Cigarettes businesses. Cigarette sales was up by ~17% to ₹32,320 mn, FMCG by ~24% to ₹13,700 mn, Agri by ~10% to ₹11,390 mn and paper & paperboard by ~12% to ₹9,780 mn. Hotels business has shown fall of ~1% in revenue to ₹2,780 mn. The Branded Packaged Foods business continued to grow rapidly driven by further premiumization of the portfolio, higher volumes and improved profitability. The business achieved significant growth in revenues aided by new launches and introduction of product variants and extensions in target markets. Improvement in profitability was further aided by improvements in product and process efficiencies and smart sourcing. This division registered a rise in the standalone net sales of ~10% to ₹11,390 mn for Q3FY'12.

**PBIDTA saw a ~43% YoY, Margins rose by ~7% to 43% in Q3FY'12**

PBIT margins of the cigarette division inclined by 180 bps to ~57% on account of price hike. PBIDTA grew by ~43% to ₹26,662 mn. The segment accounted for ~81% of total PBIDTA. ITC hiked prices again at December end in preparation of the budget. Prices of flag ship brand 'Gold Flake' hiked by 15%. This impressive performance was primarily driven by higher trading volumes and improved realizations in leaf and wheat.

**Valuation & Outlook: ITC's other businesses, such as hotel, Agri, FMCG-Others business and paper, paperboard and packaging, are showing a strong up-move and will provide a cushion to the overall profit in Q3FY'12 & beyond.** At CMP, the stock trades at a P/E & P/BVPS of ~24 and ~7.4x of FY'13E EPS & BVPS. Therefore, we are remaining on our stance of **HOLD** (re-rating would depend on Q4FY'12 cigarette segment volume), re-affirming on our earlier TP of ₹226 (with a potential upside of ~11% from current levels). On our TP the stock would be trading at a P/E of ~26.5 and P/BVPS of ~8.2x, factored over FY'13E EPS of ₹8.5 & BVPS of ₹27.5

Desc. (₹ mn)	Q3FY'12E	Q3FY'12A	VAR(%)	Q3FY'11A	YoY(%)	Q2FY'12A	QoQ(%)
Revenue	63,762	61,954	(3)	51,580	20	59,730	3.7
Expenditure	41,658	38,667	(8)	34,844	11	39,355	(1.7)
<b>EBIDTA</b>	<b>22,104</b>	<b>23,811</b>	<b>7</b>	<b>16,736</b>	<b>42</b>	<b>20,375</b>	<b>16.8</b>
Other Income	1,863	2,851	35	1,930	48	1,868	52.6
<b>PBIDTA</b>	<b>23,967</b>	<b>26,662</b>	<b>10</b>	<b>18,666</b>	<b>43</b>	<b>22,243</b>	<b>19.8</b>
Depreciation	1,719	1,738	1	1,500	16	1,719	1.1
Interests	23	156	86	25	524	23	593.1
Income Tax	7,573	7,756	2	5,656	37	7,169	8.1
<b>PAT</b>	<b>14,653</b>	<b>17,012</b>	<b>14</b>	<b>11,484</b>	<b>48</b>	<b>13,333</b>	<b>27.5</b>
Basic EPS (₹)	1.9	2.23	14	1.5	48	1.7	27.5
Diluted EPS (₹)	1.9	2.20	13	1.5	46	1.7	26.0

Source: Company, R K Global Research Estimates  
Financials: Consolidated Figures, Period ended 31<sup>st</sup> Dec'2012  
\*\*Computed over CMP of ₹204, as on 23<sup>rd</sup> January'2011

**Segment-wise Revenue: Forecasted & Actual**

Segment (₹ mn)	Q2FY'12A	Q3FY'12E*	Q3FY'12A	Q4FY'12E	FY'12E
FMCG-Cigarettes	29,680	33,328	32,320	36,251	1,27,981
FMCG-Others	13,400	14,015	13,700	14,335	53,405
Hotels & Hospitality	2,110	2,422	2,780	3,228	10,428
Agri-Business	14,340	14,047	11,390	10,897	53,697
Paperboards	10,050	10,647	9,780	10,292	39,712
<b>Less: Intra-Segment Transfers</b>	<b>9,850</b>	<b>10,699</b>	<b>8,040</b>	<b>10,543</b>	<b>40,585</b>
<b>Total Revenue</b>	<b>59,730</b>	<b>63,760</b>	<b>61,930</b>	<b>64,460</b>	<b>2,44,638</b>

**ITC Ltd, Financials##: Reported & Forecasted**

Income statement					Balance Sheet				
Desc. (₹ mn)	FY'10	FY'11	FY'12E	FY'13E	Desc. (₹ mn)	FY'10	FY'11	FY'12E	FY'13E
Revenue	183,822	207,449	244,639	285,013	Net Fixed Assets	91,514	83,402	94,886	108,393
Other Income	3,743	5,640	7,322	8,536	Investment	67,584	55,546	48,660	53,527
Total Revenue	187,566	213,089	251,961	293,549	Cash & Equivalent	23,688	47,778	23,580	21,153
Cost of Services	110,764	123,407	146,444	170,807	Accounts Receivable	1,077	972	26,810	31,234
Employee Expenses	10,028	11,978	13,410	15,716	Total Current assets (Excl Cash)	54,135	61,796	96,168	110,738
<b>EBDITA</b>	<b>66,774</b>	<b>77,705</b>	<b>92,107</b>	<b>107,025</b>	<b>Capital Deployed</b>	<b>193,927</b>	<b>195,904</b>	<b>238,699</b>	<b>269,944</b>
Depreciation	6,087	6,002	6,864	7,869	Accounts Payable	26,548	22,325	45,438	52,943
EBIT	60,687	71,703	85,243	99,156	Current Liability	25,658	13,158	9,390	6,009
Interest	534	100	90	81	Total Debt	1,077	992	992	992
PBT	60,153	71,603	85,153	99,075	Equity Capital	3,818	7,636	7,636	7,636
Income Tax	19,543	23,629	29,325	34,501	Share Holder Fund	140,644	159,430	182,878	209,999
<b>Net Profit</b>	<b>40,610</b>	<b>47,974</b>	<b>55,828</b>	<b>64,574</b>	<b>Capital Employed</b>	<b>193,927</b>	<b>195,904</b>	<b>238,699</b>	<b>269,944</b>
Capital	3,818	7,636	7,636	7,636	<b>Cash Flow Statement</b>				
EPS	11	8	7	8	Desc. (₹ mn)	FY'10	FY'11	FY'12E	FY'13E
CEPS	12	9	8	9	Profit Before Tax	60,153	71,603	85,153	99,075
<b>Key Financial Ratio</b>					Depreciation	6,087	6,002	6,864	7,869
<b>Descriptions</b>	<b>FY'10</b>	<b>FY'11</b>	<b>FY'12E</b>	<b>FY'13E</b>	Total Adjustment	534	100	90	81
<b>Profitability Ratios</b>					OCFBWC	66,774	77,705	92,107	107,025
Return on Assets (ROA)	17.1	19.3	21.2	22.0	WC-Change	34,388	1,962	(62,393)	(15,299)
Return on Equity (ROE)	28.9	30.1	30.5	30.7	Cash Flow-Operations	101,161	79,666	29,714	91,726
Return on Capital Employed (ROCE)	20.9	24.5	23.4	23.9	Direct Taxes Paid	(19,543)	(23,629)	(29,325)	(34,501)
<b>DuPont Analysis-ROE Decomposition</b>					Cash Flow (EOI)	81,618	56,037	389	57,225
PAT/PBT (Tax Efficiency)	0.7	0.7	0.7	0.7	Net cash inflow/(outflow): Investment	(51,248)	14,149	(11,462)	(26,242)
PBT/EBIT (Interest Burden)	1.0	1.0	1.0	1.0	Net cash inflow/ (outflow): Financing	(17,005)	(46,096)	(13,124)	(33,410)
EBIT/Sales (OPM)	0.3	0.3	0.3	0.3	Net Change In Borrowings	(698)	(85)	-	-
Sales/Total Assets (Asset Turnover)	0.9	1.1	1.0	1.1	Dividends Paid	(44,523)	(22,260)	(32,380)	(37,453)
TA/NW (Financial Leverage)	1.4	1.2	1.3	1.3	Net cash inflow	13,365	24,090	(24,198)	(2,427)
<b>Liquidity Ratios (X)</b>					Closing Balance	23,689	47,778	23,580	21,153
Current Ratio	1.5	1.4	5.7	6.9					
Acid Test Ratio	0.9	1.3	3.5	3.8					
Debt-Equity Ratio	0.3	0.1	0.1	0.1					
<b>Margin Ratios (%)</b>									
EBITDA Margin	36.3	37.5	37.7	37.6					
Pre-Tax Margin	32.7	34.5	34.8	34.8					
Net Profit Margin	22.1	23.1	22.8	22.7					
<b>Assets Turnover Ratio (X)</b>									
Working Capital Turnover Ratio	1.1	1.4	1.8	1.8					
F.A. Turnover Ratio	0.5	0.4	0.4	0.4					
C.A. Turnover Ratio	0.3	0.3	0.4	0.4					
<b>Per Share Ratios (₹)</b>									
Adi.EPS	10.7	7.6	7.3	8.5					
CEPS	12.3	8.6	8.2	9.5					
DPS	11.7	2.9	4.2	4.9					
BVPS	36.8	20.9	23.9	27.5					
Cash Per Share	6.2	6.3	3.1	2.8					
<b>Relative Valuation Parameters (X)</b>									
P/E**	24	28	27	25					
P/BV***	7	8	9	7					
EV/EBITDA	15	17	18	16					
EV/SALES	5	6	7	7					
Mcap/Sales	6	6	7	8					

Source: Company, R K Global Research Estimates

\*\*P/E &amp; P/BV\*\*\*, Computed over FY'13E EPS &amp; BVPS Respectively

##Financial Figures: All Figures rounded off

**For Suggestions, clarifications & your valuable feedback write back to us at:**

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<b>Chennai</b>	163/2, Kutcherry Road, Mylapore Chennai- 600 004	+91 (44) 4593 9999

### Rating Criteria

- BUY** Stock to generate return above 15% from CMP over the next 12 months period  
**HOLD** Stock to generate return between 0-15% from CMP over the next 12 months period  
**SELL** Stock to generate less than 0% from CMP over the next 12 months period

### Coverage Terminology

- IC = Initiating Coverage  
 RU = Result Update  
 EU = Event Update  
 NC = Not Covered

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