

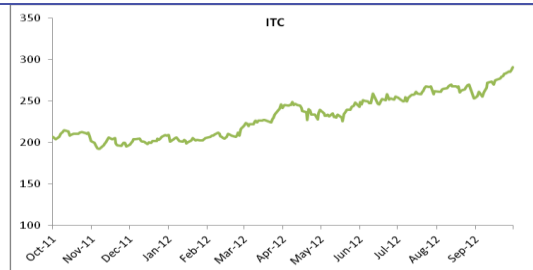
ITC Ltd.

Recommendation	HOLD
CMP	Rs. 298
Target Price	Rs. 317
Sector	FMCG

Stock Details

BSE Code	500875
NSE Code	ITC
Bloomberg Code	ITC IN
Market Cap (Rs cr)	195030
Free Float (%)	100%
52- wk HI/Lo (Rs)	299/189
Avg. volume BSE (Quarterly)	367960
Face Value (Re)	1.00
Shares o/s (Cr)	782.3

Relative Performance	1Mth	3Mth	1Yr
ITC	14.7%	14.4%	40.7%
Sensex	1.6%	9.4%	10.0%



Shareholding Pattern	30 th Sept 12
Institutional (Incl. FII)	53.0%
Corporate Bodies (incl. foreign)	36.4%
Public & others	10.6%

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Smoking Performance!!!

ITC's second quarter net profit rose better than consensus estimates by 21% YoY to Rs 1836 crores, helped especially by strong growth in its Other FMCG and Agri business. ITC continues to see robust growth in its core cigarettes and other FMCG business, which includes processed foods and personal care products. The Cigarette margin improved YoY by 320bps and by 390bps on QoQ basis driven by the price hike, better product mix (new launch in the >65mm filter category as in FY13 budget the excise rates were kept unchanged). The increase in the cigarette margin shows the ITC's pricing power and also the new addition of cigarette consumers every year will keep the demand of cigarettes un-deterred. ITC has taken a judiciously price hike in cigarette and Other FMCG during the quarter supported the revenue growth and expansion in margin in Q2FY13. The Other FMCG business has started to narrow losses which in our view will attain break even in 1HFY14E.

Standalone Net Sales for Q2FY13 went up by 19% YoY to Rs. 7227 crores and up by 8% QoQ. The company posted remarkable revenue growth primarily driven by 41% YoY growth in Agri business, 26% YoY growth in Other FMCG business and 14% YoY growth in Cigarette business.

EBITDA increased by 21% YoY to Rs. 2688 crores in Q2FY13 and by 14% QoQ. The cigarette segment reported a strong EBIT growth of 20% YoY. EBIT margins for the cigarette increased by 320bps YoY to 61.4%, driven largely by price increase taken during the quarter and product mix improvement. Other FMCG revenues grew by 26% YoY even as segment losses reduced by 46% YoY. Paperboard reported a decline in EBIT margin by 210bps YoY to 26.7% due to steep rise in input price particularly wood. Agri business reported a decline in EBIT margin by 380bps YoY to 12.8%. Hotel continues to report subdued performance where the EBIT margin is declined by 1350bps YoY due to weak economic conditions. The Company reported an EBITDA margin of 37.6% in Q2FY13, as compared to 37.1% in Q2FY12 and 35.6% in Q1FY13.

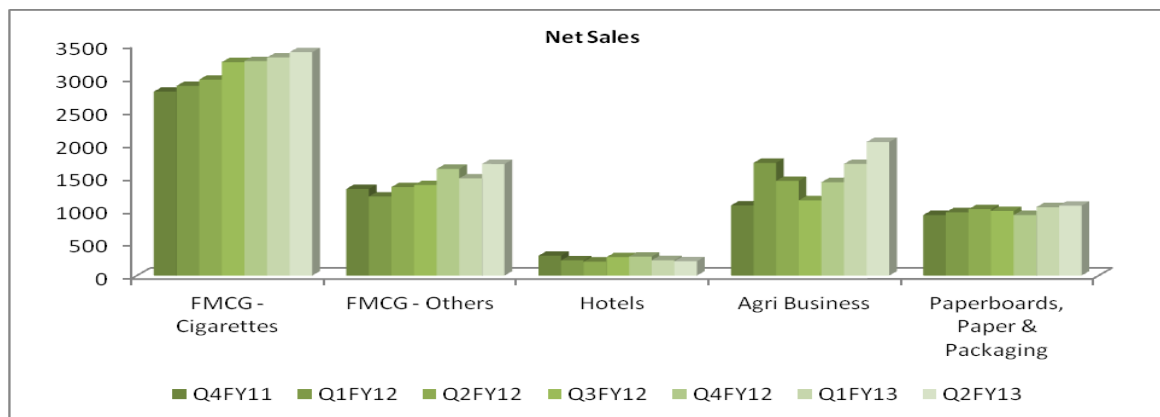
Valuation & Recommendation

We forecast ITC's sales to rise at a CAGR of 15.7% for FY12-14, with most segments recording relatively steady growth over the next two years. We have forecasted flat sales-volume in Cigarette business for FY13E and sales-volume growth of 5% YoY for FY14E. We are positive on ITC due to its strong pricing power and strong earnings growth visibility which is likely to support valuations. Many states have banned or are in the process to ban chewing tobacco which would encourage steady shift to cigarettes, in our view. **We feel that the government effort to curb tobacco consumption may affect sentiments, but fundamentally, there will be no major impact on ITC. At CMP of Rs. 298 per share, the stock is trading at a PE of 32.3x FY13E & 27.4x FY14E. We recommend "HOLD" rating and revised our target price of Rs. 317 per share (earlier Rs. 266 per share) based on SOTP (FY14E).**

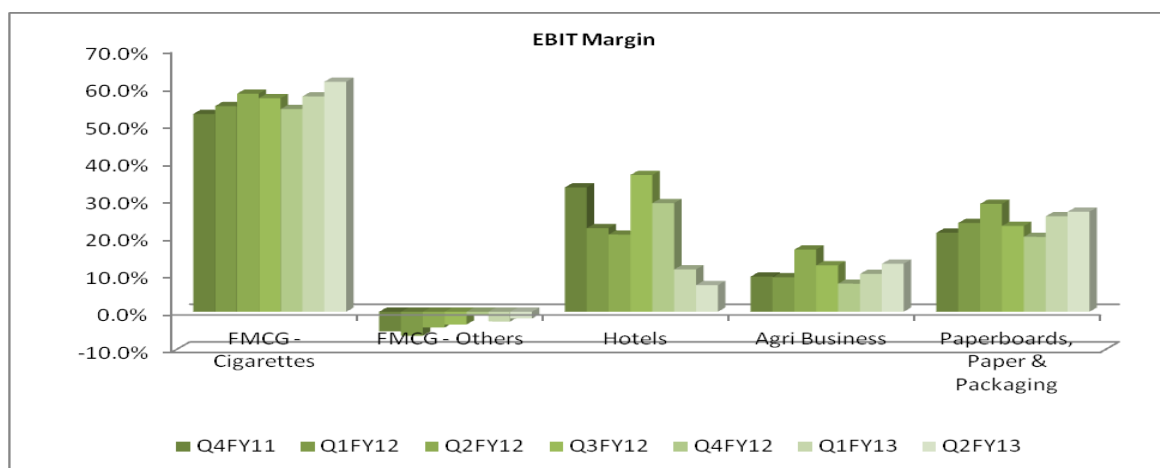
Year	Net Sales (Rs cr)	Growth (%)	EBIDTA	Margin (%)	PAT (Rs cr)	Margin (%)	EPS (Rs.)	P/E (x)	P/BV (x)	RoE
FY11	22279.1	16.4%	8204.9	33.1%	5017.9	22.5%	6.5	45.9	14.0	32.4%
FY12	26179.5	17.5%	9994.1	33.8%	6258.1	23.9%	8.0	37.2	12.0	34.8%
FY13E	30166.0	15.2%	11786.5	34.9%	7201.1	23.9%	9.2	32.3	10.1	33.8%
FY14E	35037.9	16.2%	13787.1	35.6%	8480.2	24.2%	10.8	27.4	8.8	34.2%

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Annexure:



Source: Company & Nirmal Bang Research



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SOTP Valuation: FY14E

	EV/EBIDTA (x)	Rs. / share
Cigarettes	20	246
FMCG Others (EV/Sales)	3	29
Hotels	12	9
Agri Business	8	7
Paper	5	9
Net (debt)/Cash per share		17
Target Price		317

Source: Nirmal Bang Research

We have increased the multiple of Cigarettes from 17x to 20x as the company has shown resilient towards the cigarette business by taking price hike, change in product mix which has resulted into the continuous improvement in EBIT margin for the past couple of quarters. We have also increased the multiple of Other FMCG business from 2x to 3x owing to the reduced losses and ability of the company to take price hike. However, we have reduced the multiple of Hotel business from 15x to 12x as the industry is marred by the adverse economic condition resulting into the poor performance for the past couple of quarters and ITC's investment of Rs. 10,000 crores in this segment poses a matter of concern.

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Q2FY13 Result Analysis

Rs. in crores

Particulars	Q2FY13	Q2FY12	YoY%	Q1FY13	QoQ%
Net Sales	7146.0	5974.18	19.6%	6652.21	7.4%
Other Operating Income	80.58	111.04	-27.4%	60.86	32.4%
Total Income	7226.58	6085.22	18.8%	6713.07	7.6%
Increase / Decrease in Stock	-318.06	-39.84	698.3%	-249.56	27.4%
Consumption of raw material	2079.41	1856.04	12.0%	2068.27	0.5%
Purchase of traded goods	1103.03	502.94	119.3%	757.91	45.5%
Employees Cost	289.24	265.04	9.1%	412.45	-29.9%
Other Expenditure	1384.69	1282.05	8.0%	1355.66	2.1%
Total Expenditure	4538.31	3866.23	17.4%	4344.73	4.5%
EBITDA	2688.27	2218.99	21.1%	2368.34	13.5%
Interest	23.29	14.18	64.2%	13.76	69.3%
Other Income	184.98	180.8	2.3%	176.76	4.7%
PBDT	2849.96	2385.61	19.5%	2531.34	12.6%
Depreciation	188.86	170.13	11.0%	194.79	-3.0%
Tax	824.68	701.17	17.6%	734.41	12.3%
Reported Profit After Tax (PAT)	1836.42	1514.31	21.3%	1602.14	14.6%
EPS (Unit Curr.)	2.35	1.96		2.05	
Equity	782.29	773.81		782.29	
Face Value	1	1		1	
EBITDA(%)	37.6%	37.1%		35.6%	
PBDT(%)	39.9%	39.9%		38.1%	
PAT(%)	25.7%	25.3%		24.1%	

Source: Company and Nirmal Bang Research

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Segment Analysis

Particulars	Rs. in crores				
	Q2FY13	Q2FY12	YoY%	Q1FY13	QoQ%
FMCG - Cigarettes	3385.15	2968.14	14.0%	3304.24	2.4%
FMCG - Others	1690.8	1340.66	26.1%	1473.05	14.8%
Hotels	216.96	211.14	2.8%	232.35	-6.6%
Agri Business	2023.68	1434.54	41.1%	1691.42	19.6%
Paperboards, Paper & Packaging	1059	1005.42	5.3%	1036.12	2.2%
Total	8375.59	6959.9	20.3%	7737.18	8.3%
Profit / Loss before Interest & Tax					
FMCG - Cigarettes	2080.17	1728.9	20.3%	1899.81	9.5%
FMCG - Others	-30.3	-55.9	-45.8%	-38.84	-22.0%
Hotels	15.3	43.44	-64.8%	26.23	-41.7%
Agri Business	259.74	238.78	8.8%	171.37	51.6%
Paperboards, Paper & Packaging	282.53	289.7	-2.5%	264.71	6.7%
Total	2607.44	2244.92	16.1%	2323.28	12.2%
Less:					
Interest (Net)	23.29	14.18		13.76	
Other un-allocable income net of un-allocable exp.	-76.96	15.26		-27.03	
Profit before Tax	2661.11	2215.48		2336.55	
Less: Tax Expense	824.68	701.17		734.41	
Profit After Tax	1836.43	1514.31	21.3%	1602.14	14.6%
EBIT Margin					
FMCG - Cigarettes	61.4%	58.2%	320	57.5%	390
FMCG - Others	-1.8%	-4.2%	240	-2.6%	80
Hotels	7.1%	20.6%	-1350	11.3%	-420
Agri Business	12.8%	16.6%	-380	10.1%	270
Paperboards, Paper & Packaging	26.7%	28.8%	-210	25.5%	120

Source: Company and Nirmal Bang Research

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Financials

Profitability (Rs. In Cr)	FY11	FY12	FY13E	FY14E
Y/E - March				
Revenues - Net	22279.1	26179.5	30166.0	35037.9
% change	16.4%	17.5%	15.2%	16.2%
EBITDA	7373.2	8837.5	10536.9	12485.4
Interest	70.9	80.5	84.2	91.7
Other Income	831.69	1156.62	1249.64	1301.71
EBDT	8134.0	9913.6	11702.3	13695.4
Depreciation	699.1	745.5	854.1	933.5
Extraordinary/Exceptional	0.0	0.0	0.0	0.0
PBT	7434.9	9168.1	10848.2	12761.8
Tax	2365.5	2845.8	3579.9	4211.4
PAT	5069.4	6322.4	7268.3	8550.4
Share of Profit & loss	9.6	11.3	13.3	15.3
Minority Interest in Income	61.1	75.5	80.5	85.5
Adj PAT	5017.9	6258.1	7201.1	8480.2
Shares o/s (No. in Cr.)*	773.8	781.8	782.3	782.3
EPS	6.1	8.0	9.2	10.8
Adj EPS*	6.1	8.0	9.2	10.8
Cash EPS	7.5	9.0	10.4	12.1
DPS (Rs.)	4.5	4.5	5.5	7.0
Quarterly (Rs. In Cr)	Dec.11	Mar.12	Jun.12	Sep.12
Net Revenue	6280.0	6954.6	6713.1	7226.6
EBITDA	2384.6	2263.4	2368.3	2688.3
Interest	22.3	14.8	13.8	23.3
EBDT	2362.3	2248.5	2354.6	2665.0
Dep	173.9	188.0	194.8	188.9
Other Income	288.3	207.9	176.8	185.0
Extraordinary	0.0	0.0	0.0	0.0
PBT	2476.7	2268.4	2336.6	2661.1
Tax	775.7	654.0	734.4	824.7
PAT from ordinary activities	1701.0	1614.4	1602.1	1836.4
Minority Interest	0.0	0.0	0.0	0.0
PAT	1701.0	1614.4	1602.1	1836.4
EPS (Rs.)	2.2	2.1	2.0	2.4
Operational Ratio	FY11	FY12	FY13E	FY14E
EBITDA margin (%)	33.1%	33.8%	34.9%	35.6%
Adj.PAT margin (%)	22.5%	23.9%	23.9%	24.2%
Adj.PAT Growth (%)	20.4%	24.7%	15.1%	17.8%
Price Earnings (x)	45.9	37.2	32.3	27.4
Book Value (Rs.)	21.3	24.9	29.6	33.9
ROCE (%)	48.2%	51.1%	51.1%	51.5%
RONW (%)	32.4%	34.8%	33.8%	34.2%
Debt Equity Ratio	0.0	0.0	0.0	0.0
Price / Book Value (x)	14.0	12.0	10.1	8.8
EV / Sales	7.0	6.1	5.2	4.4
EV / EBITDA	27.2	22.4	18.9	15.9

Balance Sheet (Rs. In Cr)	FY11	FY12	FY13E	FY14E
Share Capital	773.8	781.8	782.3	782.3
Preference Share Capital	0.0	0.0	0.0	0.0
Reserves & Surplus	15716.1	18676.7	22360.3	25706.3
Net Worth	16489.9	19458.6	23142.6	26488.6
Minority Interest	140.8	157.1	237.6	323.2
Total Loans	113.8	107.3	117.3	127.3
Net Deferred Tax Assets	798.1	865.8	865.8	865.8
Total Liabilities	17542.5	20588.7	24363.2	27804.8
Net Fixed Assets	10269.2	12089.8	13853.7	14437.7
Investments	4867.8	5206.8	5206.8	5206.8
Goodwill in Consolidation	270.4	314.1	314.1	314.1
Other Assets	96.3	131.6	151.3	175.8
Inventories	5734.8	6428.1	7799.1	9058.6
Sundry Debtors	1086.7	1203.8	1455.0	1690.0
Cash & Bank	2426.9	3130.1	5391.8	8225.2
Loans & Advances	1639.3	1559.1	1746.1	2028.0
C A L&A	10887.7	12321.2	16391.9	21001.9
CL & P	8848.9	9474.8	11554.7	13331.6
Working Capital	2038.8	2846.4	4837.2	7670.3
Total Assets	17542.5	20588.7	24363.2	27804.8
Cash Flow (Rs. In Cr)	FY11	FY12	FY13E	FY13E
Operating				
Profit Before Tax	7434.9	9168.1	10848.2	12761.8
Direct Taxes paid	-2365.5	-2845.8	-3579.9	-4211.4
Depreciation	699.1	745.5	854.1	933.5
Change in WC	-379.0	-139.7	251.1	-24.1
Interest Expenses	70.9	80.5	84.2	91.7
Other Income	-814.2	-1088.9	-1249.6	-1301.7
CF from Operation	4646.2	5919.8	7208.1	8249.8
Investment				
Capex	-951.8	-2430.1	-1801.2	-1124.3
Other Investment	132.7	-339.0	0.0	0.0
Interest Received	831.7	1156.6	1249.6	1301.7
Total Investment	12.6	-1612.5	-551.6	177.4
Free Cash Flow	4658.8	4307.3	6656.5	8427.2
Financing				
Equity raised/(repaid)	0.0	0.0	0.0	0.0
Inc/Dec in Reserves	0.0	0.0	0.0	0.0
Debt raised/(repaid)	3.0	-6.5	10.0	10.0
Dividend (incl. tax) paid	-3512.6	-3517.1	-4320.6	-5512.1
Deferred Revenue Exp.	0.0	0.0	0.0	0.0
Interest Expenses	-70.9	-80.5	-84.2	-91.7
Cash Flow from Financing Activities	-3580.5	-3604.1	-4394.8	-5593.8
Net Cash Flow	1078.3	703.3	2261.7	2833.4
Beginning Cash Flow	1348.6	2426.9	3130.1	5391.8
Cash as reported in Balance Sheet	2426.9	3130.1	5391.8	8225.2

Source: Company and Nirmal Bang Research

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