

ITC

Performance Highlights

Quarterly result (Standalone)

(₹ cr)	2QFY13	2QFY12	% chg	1QFY13	%qoq
Revenue	7,146	5,974	19.6	6,652	7.4
EBITDA	2,608	2,108	23.7	2,307	13.0
OPM (%)	36.5	35.3	121bp	34.7	180bp
PAT	1,836	1,514	21.3	1,602	14.6

Source: Company, Angel Research

For 2QFY2013, ITC posted a robust 21.3% yoy growth in its net profit to ₹1,836cr, ahead of our estimates. The cigarette division posted a strong 20.3% improvement in its EBIT. The company's non-cigarette FMCG business reported a substantial decline in its losses to ₹30cr from ₹56cr in 2QFY2012.

Key highlights: ITC's top-line rose by 19.6% on a yoy basis. The cigarettes business posted a 14.0% yoy growth in net sales to ₹3,385cr, with the volumes remaining flat. The other (non-cigarette) FMCG business posted a healthy 26.1% yoy growth in net sales to ₹1,691cr. The agri business surprised with a remarkably good 41.1% yoy growth in net sales to ₹2,024cr, aided by wheat exports. The OPM came in at 36.5% up 121bp on yoy basis, with the cigarette business posting a healthy margin expansion. However, margins of the agri business fell on a high base. The bottom-line rose by 21.5% yoy to ₹1,836cr.

Outlook and valuation: We expect ITC to report a top-line and bottom-line CAGR of 17.2% and 17.7% respectively over FY2012-14E, driven by the company's diversified business model and ability to invest in growing businesses. **At the current market price, the stock is trading at 26.9x FY2014E EPS. We maintain a Neutral rating on the stock.**

Key financials (Standalone)

Y/E March (₹ cr)	FY2011	FY2012	FY2013E	FY2014E
Net Sales	21,168	24,799	29,409	34,060
% chg	16.6	17.2	18.6	15.8
Net Profit (Adj)	4,988	6,162	7,289	8,543
% chg	22.8	23.6	18.3	17.2
EBITDA (%)	33.6	34.2	35.7	36.1
EPS (₹)	6.4	7.9	9.3	10.9
P/E (x)	46.1	37.3	31.5	26.9
P/BV (x)	14.3	12.2	10.5	8.7
RoE (%)	33.2	35.5	35.8	35.3
RoCE (%)	40.5	42.3	45.4	45.5
EV/Sales (x)	10.4	8.8	7.4	6.4
EV/EBITDA (x)	30.8	25.7	20.8	17.7

Source: Company, Angel Research

NEUTRAL

CMP	₹294
Target Price	-

Investment Period	-
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Stock Info	
Sector	FMCG
Market Cap (₹ cr)	230,818
Net Debt (₹ cr)	(6,618)
Beta	0.8
52 Week High / Low	299/189
Avg. Daily Volume	357,775
Face Value (₹)	1
BSE Sensex	18,793
Nifty	5,717
Reuters Code	ITC.BO
Bloomberg Code	ITC@IN

Shareholding Pattern (%)	
Promoters	0.0
MF / Banks / Indian Fls	33.8
FII / NRIs / OCBs	18.9
Indian Public / Others	47.3

Abs. (%)	3m	1yr	3yr
Sensex	10.7	11.3	11.3
ITC	19.2	46.1	140.3

V.Srinivasan

022 – 3935 7800 Ext: 6831

v.srinivasan@angelbroking.com

Exhibit 1: Quarterly performance (Standalone)

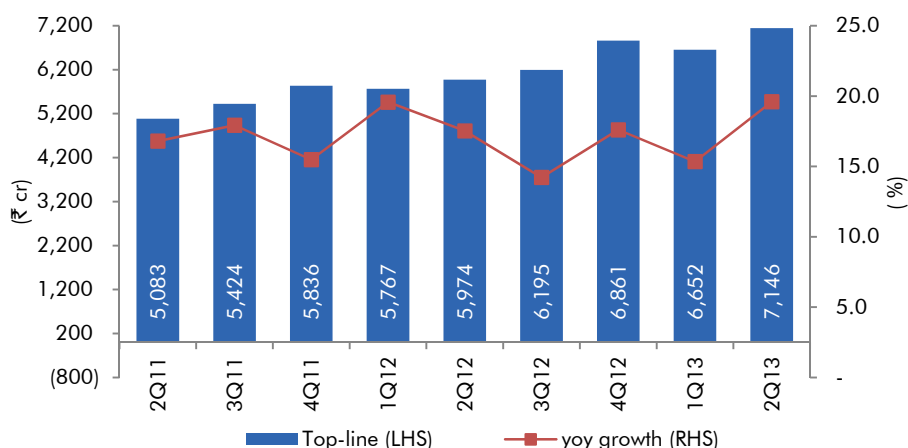
Y/E March (₹ cr)	2QFY13	2QFY12	% yoy	1QFY13	%qoq	1HFY2013	1HFY2012	% chg
Net Sales	7,146	5,974	19.6	6,652	7.4	13,798	11,742	17.5
Consumption of RM	2,864	2,319	23.5	2,577	11.2	5,441	4,640	17.3
(% of Sales)	40.1	38.8		38.7	3.5	39.4	39.5	
Staff Costs	289	265	9.1	412	(29.9)	702	644	8.9
(% of Sales)	4.0	4.4		6.2	(34.7)	5.1	5.5	
Other Expenses	1,385	1,282	8.0	1,356	2.1	2,734	2,472	10.6
(% of Sales)	19.4	21.5		20.4	(4.9)	19.8	21.1	
Total Expenditure	4,538	3,866	17.4	4,345	4.5	8,876	7,757	14.4
Operating Profit	2,608	2,108	23.7	2,307	13.0	4,922	3,985	23.5
OPM	36.5	35.3	121	34.7	180	35.7	33.9	173.4
Interest	23	14	64.2	14	69.3	37	41	(9.1)
Depreciation & Amortization	189	170	11.0	195	(3.0)	384	337	14.0
Other Income	266	292	(9.0)	238	11.7	496	545	(8.9)
PBT (excl. Extraordinary Items)	2,661	2,215	20.1	2,337	13.9	4,998	4,152	20.4
Extraordinary Income/(Expense)	-	-		-		-	-	
PBT (incl. Extraordinary Items)	2,661	2,215	20.1	2,337	13.9	4,998	4,152	20.4
(% of Sales)	37.2	37.1		35.1	6.0	36.2	35.4	
Provision for Taxation	825	701	17.6	734	12.3	1,559	1,305	19.4
(% of PBT)	31.0	31.6		31.4	(1.4)	31.2	31.4	
Reported PAT	1,836	1,514	21.3	1,602	14.6	3,439	2,847	20.8
PATM	26	25		24	6.7	25	24	
Equity shares (cr)	786	777		782	0.0	786	777	
EPS (₹)	2.3	1.9	21.3	2.0	14.6	4.4	3.6	20.8

Source: Company, Angel Research

Top-line growth impressive at 19.6% yoy

ITC reported a top-line growth of 19.6% yoy to ₹7,146cr. The cigarette division registered a 14.0% yoy growth in net revenue to ₹3,385cr on the back of higher realization due to the price hikes taken by the company during the year. The impressive top-line growth was led by the non-cigarette FMCG and agri businesses. While the non-cigarette FMCG business reported a robust revenue growth of 26.0% yoy to ₹1,691cr, the agriculture business reported a strong 41.1% yoy growth due to wheat exports. The paperboards and packaging business reported a flat top-line of ₹1,059cr. The hotel business continued to be a disappointment, registering a de-growth of 6.7% yoy.

Exhibit 2: Steady top-line growth of 19.6% yoy

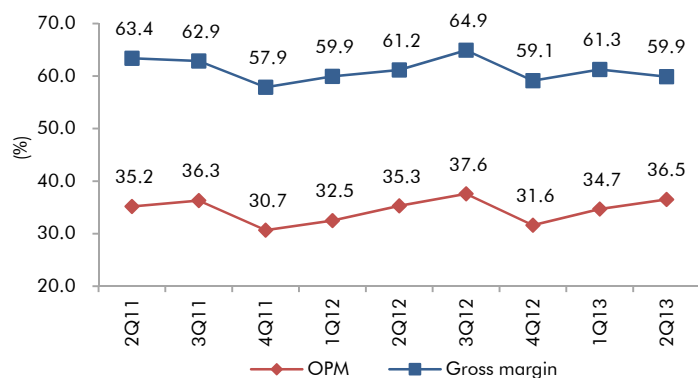


Source: Company, Angel Research

Earnings grew by 21.3% yoy led by 121bp yoy OPM expansion

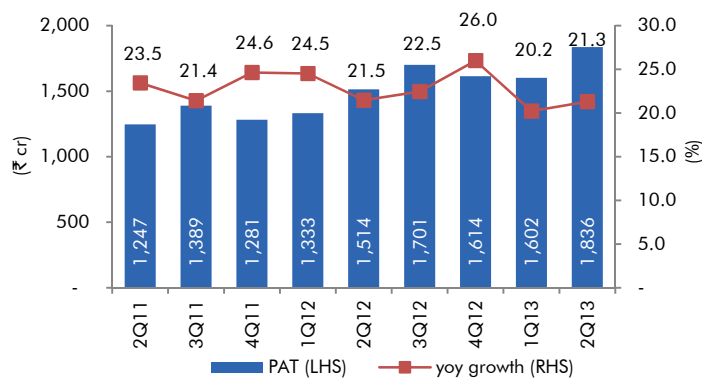
The earnings for the quarter grew by a robust 21.3% yoy to ₹1,836cr driven by a double digit top-line growth and 121bp yoy expansion in OPM to 36.5%. The operating margin rose during the quarter driven by price hikes taken by the company over the past one year. However, the gross margin fell by 135bp yoy to 59.9%.

Exhibit 3: OPM expands 121bp yoy to 36.5%



Source: Company, Angel Research

Exhibit 4: Strong earnings growth rate at 21.3% yoy



Source: Company, Angel Research

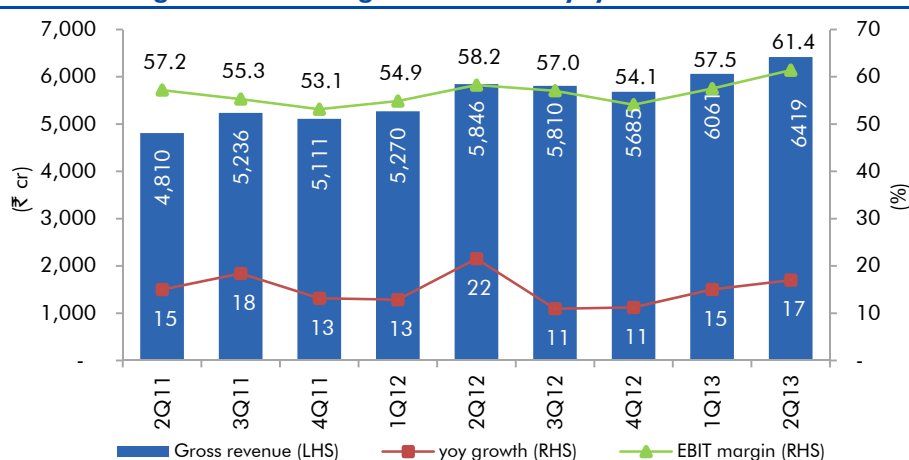
Exhibit 5: Segment-wise performance (Standalone)

Y/E Mar (₹ cr)	2QFY13	2QFY12	% yoy	1QFY13	% qoq	1HFY13	1HFY12	% chg
Cigarettes	3,385	2,968	14.0	3,304	2.4	6,689	5,842	14.5
Others	1,691	1,341	26.1	1,473	14.8	3,164	2,538	24.6
Hotels	217	211	2.8	232	(6.6)	1,006	1,001	0.5
Agri Business	2,024	1,435	41.1	1,691	19.7	3,715	3,142	18.3
Paperboards & Packaging	1,059	1,005	5.3	1,059	0.0	2,118	1,965	7.8
Less: Inter-segmental Revenues	1,230	986	24.8	986	24.8	2,337	2,187	6.9
Total Gross Income (Excl Other Income)	7,146	5,974	19.6	6,774	5.5	14,355	12,301	16.7
Cigarettes	2,080	1,729	20.3	1,900	9.5	3,980	3,306	20.4
Others	(30)	(56)		(39)		(69)	(132)	
Hotels	15	43	(64.8)	26	(41.7)	42	95	(56.2)
Agri Business	260	239	8.8	171	51.6	431	396	8.9
Paperboards & Packaging	283	290	(2.5)	265	6.7	547	517	5.9
Total PBIT	2,607	2,245	16.1	2,323	12.2	4,931	4,181	17.9
PBIT Margin (%)								
Cigarettes	61.4	58.2		57.5		59.5	56.6	
Others	(1.8)	(4.2)		(2.6)		(2.2)	(5.2)	
Hotels	7.1	20.6		11.3		4.1	9.5	
Agri Business	12.8	16.6		10.1		11.6	12.6	
Paperboards & Packaging	26.7	28.8		25.0		25.8	26.3	

Source: Company, Angel Research

Cigarette division growth driven by price hikes

ITC's cigarette division posted a 17.0% yoy growth to ₹6,419cr in gross revenue (14.0% yoy growth in net revenue to ₹3,385cr) on the back of ~17% price hike taken in cigarettes over the last one year. Volumes remained flat despite the price hikes, indicating the company's pricing power. On the margin front, the cigarette division's EBIT margin rose by 320bp yoy to 61.4%.

Exhibit 6: Cigarette division grows at 17.0% yoy


Source: Company, Angel Research

Non-cigarette FMCG witnessing strong revenue traction

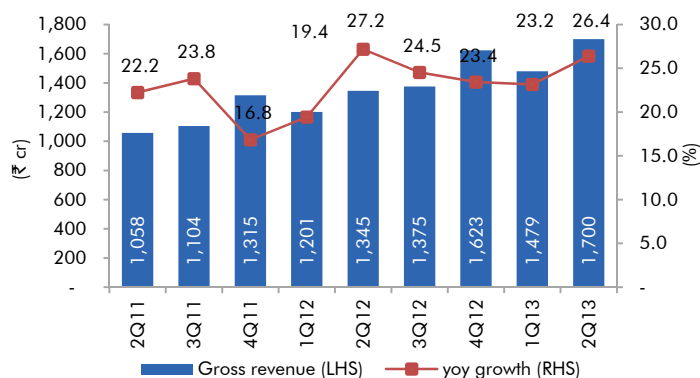
ITC's non-cigarette FMCG business registered a strong revenue growth of 26.4% yoy to ₹1,700cr in gross revenue (26.1% yoy to ₹1,691cr in net revenue), driven by an impressive performance by both, the packaged foods and the personal products segments. Growth in packaged foods was healthy in biscuits, atta and noodles categories.

Sunfeast biscuits sustained its robust growth trajectory led by a portfolio of differentiated and innovative products such as *Dream Cream*, *Dark Fantasy* and *Choco Fills*. The Sunfeast brand has emerged as a clear market leader in the highly competitive premium cream biscuits segment. *Aashirvad* atta too consolidated its leadership position with premium offerings such as *Select* and multi-grain variants enjoying increased customer traction.

Personal care products sustained their impressive growth trajectory during the quarter with the soap category garnering significant consumer franchise driven by *Vivel Luxury Creme* and *Vivel Clear* variants.

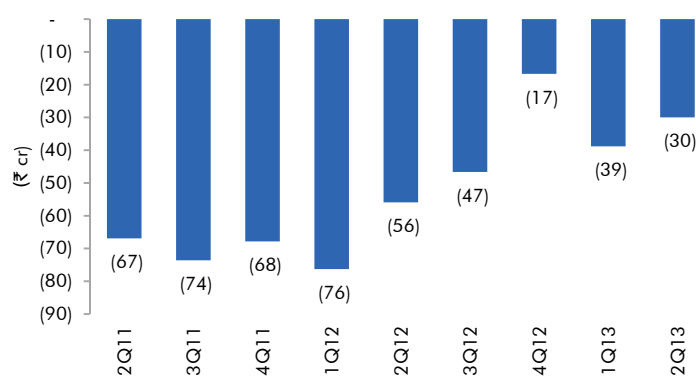
The operating losses of the other (non-cigarette) FMCG business reduced to ₹30cr in 2QFY2013 from ₹56cr in 2QFY2012.

Exhibit 7: Non-cig FMCG revenue growth at 26.4% yoy



Source: Company, Angel Research

Exhibit 8: Non-cig. FMCG losses reduce yoy to ₹30cr



Source: Company, Angel Research

Investment rationale

- **Cigarettes to continue to grow in double digits:** We believe ITC's cigarette business is well poised to continue to post a double-digit sales growth over FY2012-14E. The company has continued to take price hikes over the past one year and it has not impacted its volumes much, indicating the company's strong pricing power.
- **Non-cigarette businesses to register an ~15% CAGR over FY2012-14E:** While cigarettes remain the main profit center for the company, investments in the non-cigarette businesses such as FMCG, hotels and paperboards have given the company a foothold into diversified business. We expect these businesses to play a major role in driving the company's long-term growth.

Outlook and valuation

We expect ITC to report a top-line and bottom-line CAGR of 17.2% and 17.7% respectively over FY2012-14E, driven by the company's diversified business model and ability to invest in growing businesses. **At the current market price, the stock is trading at 26.9x FY2014E EPS. We maintain our Neutral rating on the stock.**

Exhibit 9: Peer valuation

Company	Reco	Mcap (₹ cr)	CMP (₹)	TP (₹)	Upside (%)	P/E (x)		EV/Sales (x)		RoE (%)		CAGR #	
						FY13E	FY14E	FY13E	FY14E	FY13E	FY14E	Sales	EPS
Asian Paints	Neutral	37,657	3,926	-	-	32.4	27.1	3.2	2.7	37.4	35.3	17.0	18.5
Britannia	Buy	5,830	488	584	20	23.6	19.2	0.9	0.7	43.1	41.9	17.4	27.4
Colgate	Neutral	17,084	1,256	-	-	35.2	29.7	5.5	4.8	101.0	93.5	12.8	13.6
Dabur	Neutral	22,730	131	-	-	29.2	25.2	3.7	3.2	43.2	41.4	15.3	18.3
GCPL	Neutral	23,717	697	-	-	31.9	26.3	4.1	3.4	25.5	25.4	22.1	28.3
GSKCHL*	Neutral	12,760	3,034	-	-	27.2	23.0	3.7	3.1	36.3	34.0	16.8	24.9
HUL	Neutral	123,022	569	-	-	39.9	34.6	4.6	4.0	70.9	59.8	15.5	17.6
ITC	Neutral	229,705	294	-	-	31.5	26.9	7.4	6.4	35.8	35.3	17.2	17.7
Marico	Neutral	12,676	206	-	-	30.4	24.4	2.6	2.2	31.4	29.7	18.6	27.6
Nestle*	Neutral	45,709	4,741	-	-	41.3	33.9	5.2	4.4	71.2	60.3	16.5	15.0
Tata Global	Neutral	9,876	160	-	-	24.2	20.4	1.3	1.1	8.6	9.5	9.7	16.6

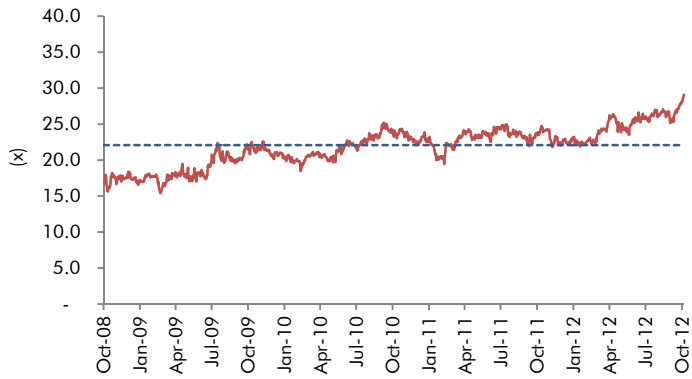
Source: Company, Angel research; Note: # Denotes CAGR over FY2012-14E, *December Year Ending.

Exhibit 10: Angel vs. consensus estimates

Top-line (₹ cr)	FY2013E	FY2014E	EPS (₹)	FY2013E	FY2014E
Angel estimates	29,409	34,060	Angel estimates	9.3	10.9
Consensus	29,000	33,730	Consensus	9.4	11.1
Diff. (%)	1.4	1.0	Diff. (%)	(0.6)	(1.6)

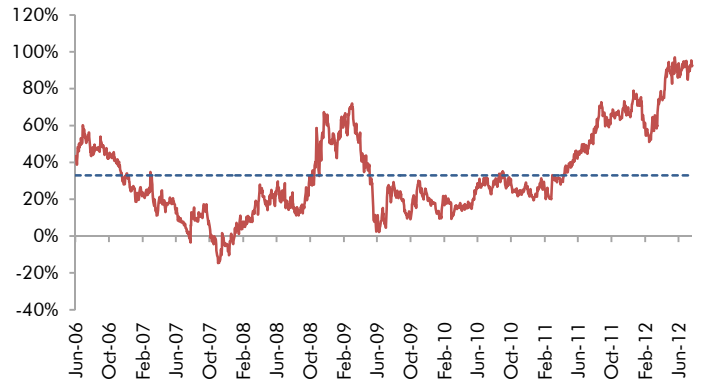
Source: Company, Angel Research

Exhibit 11: One year forward PE



Source: Company, Angel Research (Blue line indicates 5-year Average PE)

Exhibit 12: One year forward premium over Sensex



Source: Company, Angel Research, (Blue line indicates 5-year Avg. premium)

Profit and loss statement (Standalone)

Y/E March (₹ cr)	FY09	FY10	FY11	FY12	FY13E	FY14E
Total operating income	15,612	18,153	21,168	24,798	29,409	34,060
% chg	11.9	16.3	16.6	17.2	18.6	15.8
Total Expenditure	10,753	12,079	14,046	16,318	18,923	21,778
Cost of Materials	5,958	7,007	8,161	9,633	11,056	12,736
Advertising Exp	502	512	624	687	853	988
Personnel	891	1,003	1,140	1,256	1,529	1,771
Others	3,402	3,557	4,122	4,743	5,485	6,284
EBITDA	4,859	6,074	7,121	8,480	10,487	12,281
% chg	10.3	25.0	17.2	19.1	23.7	17.1
(% of Net Sales)	31.1	33.5	33.6	34.2	35.7	36.1
Depreciation & Amortisation	549	609	656	699	770	826
EBIT	4,309	5,465	6,465	7,782	9,716	11,455
% chg	8.7	26.8	18.3	20.4	24.9	17.9
(% of Net Sales)	27.6	30.1	30.5	31.4	33.0	33.6
Interest & other Charges	18	65	68	78	79	79
Other Income	535	615	871	1,201	1,051	1,151
(% of PBT)	11.1	10.2	12.0	13.5	9.8	9.2
Share in profit of Associates	-	-	-	-	-	-
Recurring PBT	4,826	6,015	7,268	8,904	10,688	12,527
% chg	5.6	24.7	20.8	22.5	20.0	17.2
Extraordinary Expense/(Inc.)	0	-	-	-	-	-
PBT (reported)	4,826	6,015	7,268	8,904	10,688	12,527
Tax	1,562	1,954	2,281	2,742	3,399	3,984
(% of PBT)	32.4	32.5	31.4	30.8	31.8	31.8
PAT (reported)	3,264	4,061	4,988	6,162	7,289	8,543
Add: Share of associates	-	-	-	-	-	-
Less: Minority interest (MI)	-	-	-	-	-	-
PAT after MI (reported)	3,264	4,061	4,988	6,162	7,289	8,543
ADJ. PAT	3,264	4,061	4,988	6,162	7,289	8,543
% chg	4.6	24.4	22.8	23.5	18.3	17.2
(% of Net Sales)	20.9	22.4	23.6	24.8	24.8	25.1
Basic EPS (₹)	4.2	5.2	6.4	7.9	9.3	10.9
Fully Diluted EPS (₹)	4.2	5.2	6.4	7.9	9.3	10.9
% chg	4.6	24.4	22.8	23.6	18.3	17.2

Note: Some of the figures from FY2011 onwards are reclassified; hence not comparable with previous year numbers

Balance Sheet (Standalone)

Y/E March (₹ cr)	FY09	FY10	FY11	FY12E	FY13E	FY14E
SOURCES OF FUNDS						
Equity Share Capital	377	382	774	782	782	782
Preference Capital	-	-	-	-	-	-
Reserves & Surplus	13,358	13,683	15,179	18,010	21,193	25,631
Shareholders Funds	13,735	14,064	15,953	18,792	21,975	26,413
Minority Interest	-	-	-	-	-	-
Total Loans	178	108	89	79	79	79
Deferred Tax Liability	867	785	802	873	802	802
Long term Provisions			94	107	107	107
Other long term liabilities			21	16	16	16
Total Liabilities	14,780	14,957	16,958	19,866	22,979	27,416
APPLICATION OF FUNDS						
Gross Block	10,559	11,968	12,601	13,926	16,338	18,922
Less: Acc. Depreciation	3,287	3,825	4,245	4,820	5,590	6,416
Net Block	7,272	8,142	8,356	9,107	10,748	12,506
Capital Work-in-Progress	1,214	1,009	1,323	2,269	1,634	1,892
Goodwill	-	-	-	-	-	-
Investments	2,838	5,727	5,555	6,317	6,948	8,583
Long term loans and adv.			1,146	1,194	1,194	1,194
Current Assets	8,172	8,143	9,054	10,080	11,969	13,089
Cash	1,031	1,126	2,243	2,819	2,535	2,162
Loans & Advances	1,860	1,595	657	637	882	1,022
Other	5,280	5,422	6,154	6,624	8,553	9,905
Current liabilities	4,716	8,064	8,476	9,100	9,515	9,848
Net Current Assets	3,456	79	579	980	2,454	3,241
Mis. Exp. not written off	-	-	-	-	-	-
Total Assets	14,780	14,957	16,958	19,866	22,979	27,416

Note: Some of the figures from FY2011 onwards are reclassified; hence not comparable with previous year numbers

Cash flow statement (Standalone)

Y/E March (₹ cr)	FY09	FY10	FY11	FY12	FY13E	FY14E
Profit before tax	4,826	6,015	7,268	8,905	10,688	12,527
Depreciation	549	609	656	699	770	826
Change in Working Capital	(326)	291	4	(822)	(1,819)	(1,200)
Interest / Dividend (Net)	(276)	(267)	(326)	(516)	(360)	(360)
Direct taxes paid	1,562	1,954	2,281	2,742	3,399	3,984
Others	51	206	(188)	903	(10)	41
Cash Flow from Operations	3,262	4,901	5,133	6,426	5,870	7,850
(Inc.)/ Dec. in Fixed Assets	(1,686)	(1,204)	(947)	(2,272)	(1,777)	(2,842)
(Inc.)/ Dec. in Investments	144	(2,889)	172	(762)	(632)	(1,635)
Cash Flow from Investing	(1,542)	(4,093)	(775)	(3,034)	(2,409)	(4,477)
Issue of Equity	45	721	904	765	-	-
Inc./ (Dec.) in loans	(37)	(70)	(19)	(9)	-	-
Dividend Paid (Incl. Tax)	1,543	1,630	4,452	4,088	4,106	4,106
Interest / Dividend (Net)	(276)	(267)	(326)	(516)	(360)	(360)
Cash Flow from Financing	(1,259)	(712)	(3,241)	(2,816)	(3,746)	(3,746)
Inc./ (Dec.) in Cash	461	95	1,117	576	(284)	(372)
Opening Cash balances	570	1,031	1,126	2,243	2,819	2,533
Closing Cash balances	1,031	1,126	2,243	2,819	2,535	2,162

Note: Some of the figures from FY2011 onwards are reclassified; hence not comparable with previous year numbers

Key ratios

Y/E March	FY09	FY10	FY11	FY12	FY13E	FY14E
Valuation Ratio (x)						
P/E (on FDEPS)	70.4	56.6	46.1	37.3	31.5	26.9
P/CEPS	29.1	24.0	40.3	33.5	28.5	24.5
P/BV	8.1	8.0	14.3	12.2	10.5	8.7
Dividend yield (%)	1.3	3.4	1.5	1.5	1.5	1.5
EV/Sales	14.3	12.2	10.4	8.8	7.4	6.4
EV/EBITDA	46.0	36.3	30.8	25.7	20.8	17.7
EV / Total Assets	15.1	14.7	13.0	11.0	9.5	8.0
Per Share Data (₹)						
EPS (Basic)	4.2	5.2	6.4	7.9	9.3	10.9
EPS (fully diluted)	4.2	5.2	6.4	7.9	9.3	10.9
Cash EPS	10.1	12.2	7.3	8.8	10.3	12.0
DPS	3.7	10.0	4.5	4.5	4.5	4.5
Book Value	36.4	36.8	20.6	24.0	28.1	33.8
Returns (%)						
RoCE	31.2	36.8	40.5	42.3	45.4	45.5
Angel RoIC (Pre-tax)	38.8	50.2	56.7	53.4	55.2	54.3
RoE	25.3	29.2	33.2	35.5	35.8	35.3
Turnover ratios (x)						
Asset Turnover	1.6	1.6	1.7	1.9	1.9	1.9
Inventory / Sales (days)	108	91	91	83	91	91
Receivables (days)	16	18	15	15	15	15
Payables (days)	70	71	77	71	63	57
Net Working capital (days)	57	(21)	(29)	(27)	(1)	12

Note: Some of the figures from FY2011 onwards are reclassified; hence not comparable with previous year numbers

Research Team Tel: 022 - 39357800

 E-mail: research@angelbroking.com

 Website: www.angelbroking.com

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Disclosure of Interest Statement

	ITC
1. Analyst ownership of the stock	No
2. Angel and its Group companies ownership of the stock	No
3. Angel and its Group companies' Directors ownership of the stock	No
4. Broking relationship with company covered	No

Note: We have not considered any Exposure below ₹ 1 lakh for Angel, its Group companies and Directors

Ratings (Returns):

Buy (> 15%)

Reduce (-5% to 15%)

Accumulate (5% to 15%)

Sell (< -15%)

Neutral (-5 to 5%)