

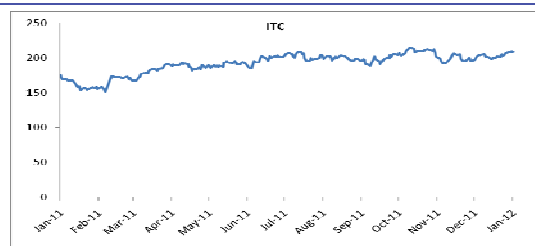
ITC Ltd.

Recommendation	HOLD
CMP (20/01/2012)	Rs. 201
Target Price	Rs. 224
Sector	FMCG

Stock Details

BSE Code	500875
NSE Code	ITC
Bloomberg Code	ITC IN
Market Cap (Rs cr)	156975
Free Float (%)	100%
52- wk HI/Lo (Rs)	216/150
Avg. volume BSE (Quarterly)	82,919
Face Value (Rs)	1.00
Shares o/s (Cr)	779.62

Relative Performance	1Mth	3Mth	1Yr
ITC	5.8%	0.8%	19.0%
Sensex	8.2%	-2.6%	-12.3%



Shareholding Pattern	31 st Dec 11
Foreign Promoters Holding	31.27%
Institutional (Incl. FII)	51.69%
Corporate Bodies	65.97%
Public & others	11.07%

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Result in-line with expectations

ITC's performance for Q3FY12 was broadly in line with estimates. ITC scores high on earning-resilience in these uncertain times -: 1) We feel that ITC can underperform in the near term due to most likely increase in the excise duty in the next budget; 2) the Other FMCG business has started to narrow losses which in our view will attain break even in 2HFY13E.

- Net Sales for Q3FY12 went up by 14.2% to Rs. 6195.43 crores as compared to Rs. 5424.25 crores in Q3FY11 and was marginally up by 3.7% from Rs. 5974.18 crores in Q2FY12. The company posted remarkable revenue primarily driven by a 24.4% growth in non-cigarette FMCG businesses, a 16.6% growth in Cigarette business, 11.6% growth in Paperboard business.
- EBITDA increased by 18% to Rs. 2381.1 crores in Q3FY12 compared to Rs. 2017.87 crores in Q3FY11 and was up by 7.3% from Rs. 2218.99 crores in Q2FY12. This was led by cigarette gross revenue growth of 11% YoY driven by a combination of ~4.5% volume growth and 5-6% price hike. The cigarette volume disappoints though it reported a strong EBIT growth of 20% YoY. Operating margins for the cigarette business increased by 240bps to 31.7%, driven largely by price increases. Non-tobacco FMCG revenues grew by 25% YoY even as segment losses reduced by 37.5%. Hotels business margins improved 350 bps YoY.
- The Company reported an EBITDA margin of 38.4% in Q3FY12, as compared to 37.2% in Q3FY11 and 37.1% in Q2FY12.
- Net Profit for Q3FY12 went up by 22.5% to Rs. 1700.99 crores as compared to Rs. 1389.08 crores in Q3FY11 and increased by 12.3% from Rs. 1514.31 crores in Q2FY12. ITC reported a PAT margin of 27.9% in Q3FY12, as compared to 25.5% in Q3FY11 and 25.3% in Q2FY12. The jump in PAT was attributed to the significant jump in other income by 48% YoY and 57.7% QoQ. PBIT have grown by 18% YoY.

Valuation & Recommendation

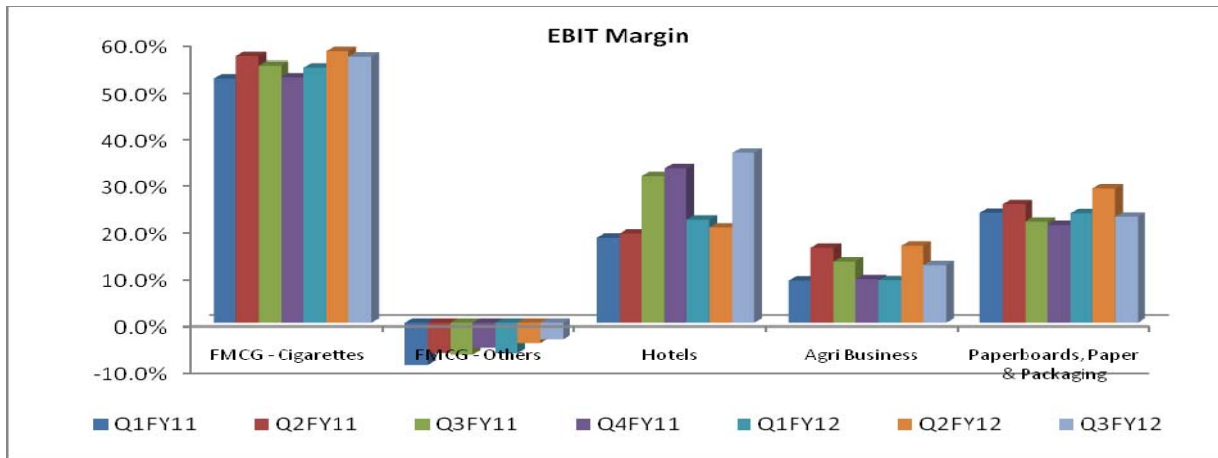
At the CMP of Rs. 201 per share, the stock is currently trading at a PE of 27.3x FY12E & 22.8x FY13E. We are of the view that the chances of rise in excise duty in the next budget is very high as the government has not increased any excise duty in the last budget and the occurrence of the increase in excise duty in the coming budget is likely. We believe ITC has enough pricing power to pass on excise duty hikes that are in the normal course of business without impacting its earnings. We recommend to **Hold** the stock. Our target price is based on SOTP of Rs. 224 per share (FY13E), an upside of 11.3%.

Year	Net Sales (Rs cr)	Growth (%)	EBIDTA	Margin (%)	PAT (Rs cr)	Margin (%)	EPS (Rs.)	P/E (x)	P/BV (x)	RoE
FY 10A	19135.9	15.6%	6943.0	36.3%	4168.2	21.8%	5.4*	18.4	5.3	29.3%
FY 11A	22273.7	16.4%	8184.2	36.7%	5017.9	22.5%	6.5	31.0	9.5	32.5%
FY 12E	25164.2	13.0%	9216.2	36.6%	5757.7	22.9%	7.4	27.3	8.6	33.2%
FY 13E	28750.4	14.3%	10926.1	38.0%	6879.4	23.9%	8.8	22.8	7.7	35.8%

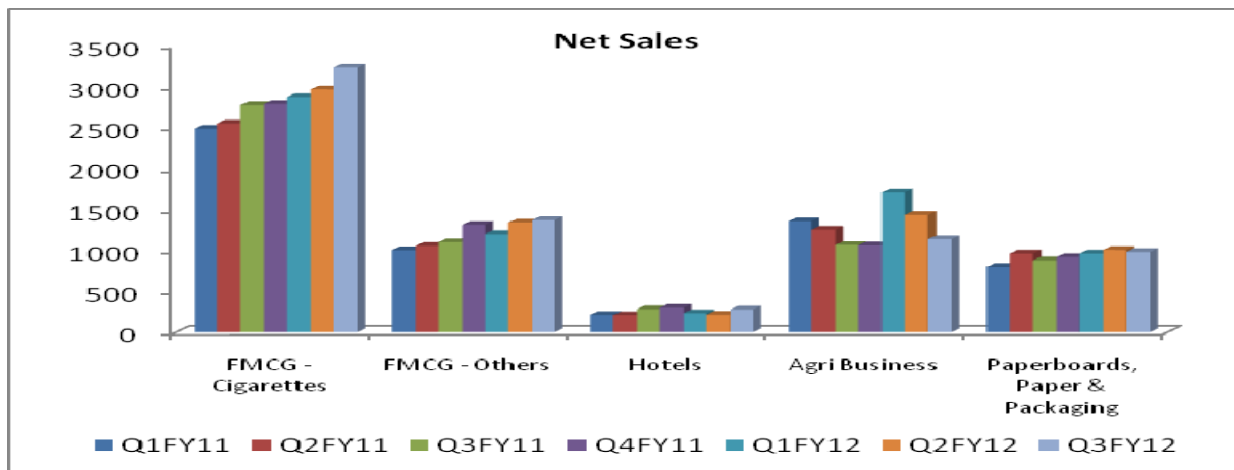
*Adjusted to Bonus Issue

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Annexure:



Source: Company & Nirmal Bang Research



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SOTP Valuation: FY13E

	EV/EBIDTA	EBIDTA FY13E	Contribution to value of ITC	Rs. / share
Cigarettes	16	8984	143737	186
FMCG Others (EV/Sales)	2	5604	11207	14
Hotels	15	527	7906	10
Agri Business	8	665	5318	7
Paper	4	1244	4977	6
			Rs. per Share	224

Source: Nirmal Bang Research

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Q3FY12 Result Analysis

Particulars	Q3FY12	Q3FY11	YoY%	Q2FY12	QoQ%
Net Sales	6,195.43	5,424.25	14.2%	5974.18	3.7%
Other Operating Income	52.41	48.58	7.9%	111.04	-52.8%
Total Income	6247.84	5472.83	14.2%	6085.22	2.7%
Increase / Decrease in Stock	-73.33	-58.72	24.9%	-39.84	84.1%
Consumption of raw material	1,927.71	1,766.57	9.1%	1856.04	3.9%
Purchase of traded goods	318.08	305.58	4.1%	502.94	-36.8%
Employees Cost	298.10	277.34	7.5%	265.04	12.5%
Other Expenditure	1,396.18	1,164.19	19.9%	1282.05	8.9%
Total Expenditure	3866.74	3454.96	11.9%	3866.23	0.0%
PBIDT	2381.1	2017.87	18.0%	2218.99	7.3%
Interest	15.67	11.08	41.4%	14.18	10.5%
Other Income	285.12	192.58	48.1%	180.8	57.7%
PBDT	2650.55	2199.37	20.5%	2385.61	11.1%
Depreciation	173.89	168.1	3.4%	170.13	2.2%
Tax	775.68	642.19	20.8%	701.17	10.6%
Reported Profit After Tax	1700.98	1389.08	22.5%	1514.31	12.3%
EPS (Unit Curr.)	2.19	1.80		1.96	
Equity	775.68	770.59		773.81	
Face Value	1	1		1	
PBIDTM(%)	38.4%	37.2%		37.1%	
PBDTM(%)	42.8%	40.5%		39.9%	
PATM(%)	0.0%	25.6%		25.3%	

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Segment Analysis

Particulars	Q3FY12	Q3FY11	YoY%	Q2FY12	QoQ%
FMCG - Cigarettes	3232.83	2772.6	16.6%	2968.14	8.9%
FMCG - Others	1370.72	1102.13	24.4%	1340.66	2.2%
Hotels	278.72	281.63	-1.0%	211.14	32.0%
Agri Business	1139.41	1066.74	6.8%	1434.54	-20.6%
Paperboards, Paper & Packaging	979.42	877.33	11.6%	1005.42	-2.6%
Others	0	0		0	
Total	7001.1	6100.43	14.8%	6959.9	0.6%
Profit / Loss before Interest & Tax					
FMCG - Cigarettes	1844.2	1532.95	20.3%	1728.9	6.7%
FMCG - Others	-46.03	-73.6	-37.5%	-55.9	-17.7%
Hotels	101.74	88.6	14.8%	43.44	134.2%
Agri Business	141.67	141.08	0.4%	238.78	-40.7%
Paperboards, Paper & Packaging	224.32	191.42	17.2%	289.7	-22.6%
Others	0	0		0	
Total	2265.9	1880.45	20.5%	2244.92	0.9%
Less:					
Interest (Net)	15.67	22.96		14.18	
Other un-allocable income net of un-allocable exp.	-226.43	-173.78		15.26	
Profit before Tax	2476.66	2031.27		2215.48	
Less: Tax Expense	775.68	642.19		701.17	
Profit After Tax	1700.98	1389.08	22.5%	1514.31	12.3%
EBIT Margin					
FMCG - Cigarettes	57.0%	55.3%		58.2%	
FMCG - Others	-3.4%	-6.7%		-4.2%	
Hotels	36.5%	31.5%		20.6%	
Agri Business	12.4%	13.2%		16.6%	
Paperboards, Paper & Packaging	22.9%	21.8%		28.8%	

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Financials

Profitability (Rs. In Cr)	FY10	FY11	FY12E	FY13E
Y/E - March				
Revenues - Net	19135.9	22273.7	25164.2	28750.4
% change	15.6%	16.4%	13.0%	14.3%
EBITDA	6324.1	7407.7	8437.4	10147.2
Interest	53.4	50.2	61.5	66.3
Other Income	618.89	776.51	778.85	778.85
EBDT	6889.6	8134.0	9154.7	10859.8
Depreciation	643.9	699.1	674.7	742.2
Extraordinary/Exceptional	0.0	0.0	0.0	0.0
PBT	6245.7	7434.9	8480.0	10117.6
Tax	2034.9	2365.5	2671.2	3187.0
PAT	4210.8	5069.4	5808.8	6930.5
Share of Profit & loss	6.2	9.6	10.0	10.0
Minority Interest in Income	48.8	61.1	61.1	61.1
Adj PAT	4168.2	5017.9	5757.7	6879.4
Shares o/s (No. in Cr.)*	381.8	773.8	779.6	779.6
EPS	5.4*	6.1	7.4	8.8
Adj EPS*	5.4*	6.1	7.4	8.8
Cash EPS	12.7	7.5	8.3	9.8
DPS (Rs.)	10.0	4.5	5.2	6.2
Quarterly (Rs. In Cr)	Mar.11	Jun.11	Sep.11	Dec.11
Net Revenue including OI	5960.0	5860.2	6085.2	6247.8
EBITDA	1912.7	1976.1	2219.0	2381.1
Interest	14.0	16.5	14.2	15.7
EBDT	1898.7	1959.6	2204.8	2365.4
Dep	164.2	166.5	170.1	173.9
Other Inc.	102.2	143.8	180.8	285.1
Extraordinary	0.0	0.0	0.0	0.0
PBT	1836.7	1937.0	2215.5	2476.7
Tax	555.3	604.3	701.2	775.7
PAT from ordinary activities	1281.4	1332.7	1514.3	1701.0
Minority Interest	0.0	0.0	0.0	0.0
PAT	1281.4	1332.7	1514.3	1701.0
EPS (Rs.)	1.7	1.7	2.0	2.2
Adjusted EPS (Rs.)	1.7	1.7	2.0	2.2
Operational Ratio	FY10	FY11	FY12E	FY13E
EBITDA margin (%)	33.0%	33.3%	33.5%	35.3%
Adj.PAT margin (%)	21.8%	22.5%	22.9%	23.9%
Adj.PAT Growth (%)	25.4%	20.4%	14.7%	19.5%
Price Earnings (x)	18.4	31.0	27.3	22.8
Book Value (Rs.)	37.9	21.3	23.3	26.0
ROCE (%)	43.8%	48.0%	48.9%	52.6%
RONW (%)	29.3%	32.5%	33.2%	35.8%
Debt Equity Ratio	0.0	0.0	0.0	0.0
Price / Book Value (x)	5.3	9.5	8.6	7.7
EV / Sales	2.5	4.5	4.0	3.5
EV / EBITDA	10.2	18.2	16.3	13.5

*Adjusted to Bonus Issue

Financial Health (Rs. In Cr)	FY10	FY11	FY12E	FY13E
Share Capital	381.8	773.8	779.6	779.6
Preference Share Capital	0.0	0.0	0.0	0.0
Reserves & Surplus	14076.5	15688.2	17415.5	19481.6
Net Worth	14458.3	16462.1	18195.2	20261.3
Minority Interest	126.4	140.8	140.8	140.8
Total Loans	110.8	124.6	134.6	144.6
Net Deferred Tax Assets	780.6	798.1	798.1	798.1
Total Liabilities	15476.0	17525.5	19268.6	21344.7
Net Fixed Assets	8774.0	9143.8	10469.1	10726.9
Investments	5000.5	4867.8	4867.8	4867.8
CWIP	1023.6	1368.0	1176.9	1176.9
Other Assets	305.7	366.5	412.8	474.9
Inventories	5092.0	5733.1	6792.9	7761.0
Sundry Debtors	1010.0	1101.7	1240.9	1447.9
Cash & Bank	1348.6	2426.9	2432.5	3451.8
Loans & Advances	1245.3	1334.4	1503.0	1737.5
C A L&A	8695.9	10596.1	11969.2	14398.2
CL & P	8323.9	8816.8	9627.3	10300.1
Working Capital	372.0	1779.3	2342.0	4098.1
Misc Exp	0.2	0.1	0.0	0.0
Total Assets	15476.0	17525.5	19268.6	21344.7
Cash Flow (Rs. In Cr)	FY10	FY11	FY12E	FY13E
Operating				
Profit Before Tax	6245.7	7434.9	8480.0	10117.6
Direct Taxes paid	-2034.9	-2365.5	-2671.2	-3187.0
Depreciation	643.9	699.1	674.7	742.2
Change in WC	2926.2	-389.8	-603.4	-799.0
Interest Expenses	53.4	50.2	61.5	66.3
Other Operating Activities	-698.9	-759.0	-778.9	-778.9
CF from Operation	7135.3	4670.0	5162.8	6161.2
Investment				
Capex	-1442.1	-1000.7	-2000.0	-1000.0
Other Investment	-2493.4	132.6	0.0	0.0
Interest Received	618.9	776.5	778.9	778.9
Total Investment	-3316.7	-91.6	-1221.1	-221.1
Free Cash Flow	3818.6	4578.4	3941.7	5940.0
Financing				
Equity raised/(repaid)	4.4	392.0	5.8	0.0
Inc/Dec in Reserves	154.6	-343.1	140.1	-48.8
Proceeds from Issue of Shares	0.0	0.0	0.0	0.0
Debt raised/(repaid)	-75.9	13.8	10.0	10.0
Dividend (incl. tax) paid	-3818.2	-3512.6	-4030.4	-4815.6
Deferred Revenue Exp.	0.0	0.0	0.0	0.0
Interest Expenses	-53.4	-50.2	-61.5	-66.3
Cash Flow from Financing Activities	-3788.5	-3500.1	-3936.1	-4920.7
Net Cash Flow	30.1	1078.3	5.6	1019.3
Beginning Cash Flow	1318.5	1348.6	2426.9	2432.5
Cash as reported in Balance Sheet	1348.6	2426.9	2432.5	3451.8



ITC Ltd.

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