

**ITC Ltd**

₹ 298

**Still Smoking . . .****Buy**

Nov 30, 2012

**Company Background**

ITC was incorporated on August 24, 1910 under the name Imperial Tobacco Company of India Ltd. As its ownership progressively Indianised, the name was changed to India Tobacco Company Limited in 1970 and then to I.T.C. Limited in 1974. The Company's multi-business portfolio encompasses a wide range of businesses - Fast Moving Consumer Goods comprising Foods, Personal Care, Cigarettes and Cigars, Branded Apparel, Education and Stationery Products, Incense Sticks, Hotels, Paperboards & Specialty Papers, Packaging, Agri-Business and Information Technology. ITC is an associate of BAT (British American Tobacco) controls more than 2/3rd of the cigarette market in India. ITC has emerged as a diversified conglomerate with leading presence in Paperboards, Hotels and Processed foods. E-Choupal, its agri rural initiative has been widely appreciated for its foresight in harnessing the potential in the rural market.

**Key Highlights**

- ➔ Cigarette volumes in 2HFY13 is expected to be healthy. Ahead, the launch of 64mm cigarettes is expected to drive the performance of ITC. No change in excise duty is expected in Feb'13. This would sustain FY14 volume growth.
- ➔ Agri business recorded a robust growth of 41% YoY aided by wheat exports. Operations at the recent state-of-the art green leaf tobacco threshing plant in Mysore were scaled up leading to enhanced quality & supply chain efficiency.
- ➔ Paperboard and Paper segment grew by 5.3% YoY due to improved realizations and product mix enrichment. The business is investing in a state-of-the art paperboard machine at Bhadrachalam and new packaging & printing facilities at Haridwar which are expected to become operational shortly.
- ➔ Packaged Foods posted strong sales growth across categories. Growth was led by Biscuits, Atta and Bingo. The premiumization strategy in biscuits is driving margins for ITC's food products and also garnering higher market share.
- ➔ Personal Care traction remains strong, especially in Soaps. New launches in Skin Care and increase in distribution footprint are creating new growth drivers. ITC launched Exotic Dream Transparent Gel Bar in some markets under the Fiamma Di Wills brand.

**Key Financials**

Year Ended 31 <sup>st</sup>	Mar 09	Mar 10	Mar 11
Revenue (INR mn)	1,92,903.9	2,20,068.5	2,59,531.4
<b>Rev. growth (%)</b>	<b>21.45</b>	<b>14.08</b>	<b>17.93</b>
EBITDA (INR mn)	66,107.6	79,348.4	96,653.3
Net profit (INR mn)	40,616.0	49,882.1	61,629.6
Shares outstanding (mn)	3,818.2	7,738.1	7,818.4
EPS (INR)	10.6	6.4	7.9
<b>EPS growth (%)</b>	<b>22.88</b>	<b>(39.40)</b>	<b>22.28</b>
P/E (x)	12.4	28.1	28.8
RONW (%)	29.2	33.5	35.6
<b>ROCE (%)</b>	<b>28.9</b>	<b>33.2</b>	<b>35.4</b>

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**Info Codes**

Reuters	: ITC.BO
Bloomberg	: ITC@IN
NSE	: ITC
BSE	: 500875

**Market Data**

52 Wk Range (₹)	: 299 / 191
Shares in Issue (mn)	: 3.5
Mkt. Cap (₹ bn)	: 2345.17
BSE 2 Wk Avg Vol	: 248000

**Share Holding Pattern (%)**

Promoters	: 00.00
DII's	: 33.78
FII's	: 18.32
Others	: 47.90

**Investment Theme**

Continuing with ITC's chosen strategy of creating multiple drivers of growth, it is today, the leading FMCG marketer in India, the second largest Hotel chain, the clear market leader in the Indian Paperboard and Packaging industry and the country's foremost Agri business player. Its wholly owned subsidiary, ITC Infotech India Limited, is one of India's fast growing Information Technology companies in the mid-tier segment. Additionally, over the last 16 years, ITC's Gross Revenues and Net Profits recorded an impressive compounded growth of 12.7% and 21.8% p.a. respectively. ITC today is one of India's most admired and valuable corporations with a market capitalisation of nearly Rs 1800 bn and has consistently featured, over the last 16 years, amongst the top 10 private Co's in terms of market cap and profits.

**Some will have Biscuits with Tea  
others will have a cigarette !**

## Financial Statements

### Income Statement

(₹ mn)

Year end	Mar 09	Mar 10	% Chg	Mar 11	% Chg
Total Sales + Excise	263996.3	308192.8	16.74	352472.5	14.37
Other Income	6173.9	5821.9	(5.70)	8379.6	43.93
Change in Stocks	(4494.7)	3464.8	(177.09)	1493.0	(56.91)
Raw Material Con.	59788.1	71852.2	20.18	78986.8	9.93
Employee Exp.	10319.1	11751.9	13.88	13079.7	11.30
Indirect Taxes	80752.6	97532.9	20.78	104698.6	7.35
Other Exp.	48708.1	56994.1	17.01	68926.7	20.94
Operating Exp.	204062.6	234666.3	15.00	264198.8	12.58
Operating Profit	59933.7	73526.5	22.68	88273.7	20.06
Total Interest	902.8	879.8	(2.55)	1367.9	55.48
Gross Profit	65204.8	78468.6	20.34	95285.4	21.43
Net Dep.	4934.5	5709.6	15.71	6285.0	10.08
Total Taxation	19654.3	22876.9	16.40	27370.8	19.64
Net Profit/Loss	40616.0	49882.1	22.81	61629.6	23.55

### 4 Years Balance Sheet

(₹ mn)

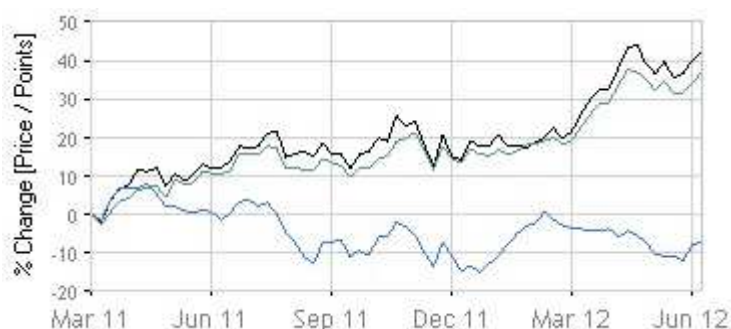
Balance Sheet as on 31 <sup>st</sup>	Mar 09	Mar 10	Mar 11	Mar 12
<b>SOURCES OF FUNDS</b>	<b>1,38,575.4</b>	<b>1,41,177.0</b>	<b>1,59,991.3</b>	<b>1,88,279.6</b>
Equity Share capital	3,774.4	3,818.2	7,738.1	7,818.4
Share Application Money	0.0	0.0	0.0	0.0
Preference Share Capital	0.0	0.0	0.0	0.0
Reserves & Surplus	1,33,025.5	1,36,281.7	1,51,261.2	1,79,570.0
Secured Loans	116.3	0.0	929.3	882.4
Unsecured Loans	1,659.2	1,077.1	62.7	8.8
<b>USES OF FUNDS</b>	<b>1,38,575.4</b>	<b>1,41,177.0</b>	<b>1,59,991.3</b>	<b>1,88,279.6</b>
Gross Block	1,05,586.5	1,19,678.6	1,27,658.6	1,41,443.5
Less : Revaluation Reserves	550.9	543.9	533.4	530.5
Less : Accumulated Depreciation	32,867.4	38,254.6	44,207.5	50,451.6
Net Block	72,168.2	80,880.1	82,917.7	90,461.4
Capital Work in Progress	12,140.6	12,736.8	13,334.0	22,767.5
Investments	28,377.5	57,268.7	55,546.2	63,165.9
Current Assets	84,840.1	82,474.8	1,06,382.7	1,17,225.3
Less : Current Liabilities	58,951.0	92,183.4	98,189.3	1,05,340.5
Total Net Current Assets	25,889.1	(9,708.6)	8,193.4	11,884.8
Misc. Expenses not written	0.0	0.0	0.0	0.0
<b>NOTE</b>				
Bk Val Unquoted Investments	12,229.1	17,163.3	19,238.9	23,628.6
Mkt Val. Quoted Investments	14,531.9	46,862.1	9,448.9	9,575.6
Contingent Liabilities	10,461.3	12,769.4	22,581.9	25,600.1
Dividend (%)	450	550	445	450

## Quarterly Income Sheets

(₹ mn)

Quarter Ended	Jun 11	Sep 11	Dec 11	Mar 12
Net Sales	62,478.40	69,546.40	67,130.70	72,265.80
Cost Of Sales	38,667.40	46,912.90	43,379.10	45,383.10
Operating Profit	23,811.00	22,633.50	23,751.60	26,882.70
Recurring Income	2,851.20	2,078.70	1,699.40	1,849.80
Adjusted PBDIT	26,662.20	24,712.20	25,451.00	28,732.50
Financial Expenses	156.70	148.20	137.60	232.90
Depreciation	1,738.90	1,880.40	1,947.90	1,888.60
Other Write Offs	0.00	0.00	0.00	0.00
Adjusted PBT	24,766.60	22,683.60	23,365.50	26,611.00
Tax Charges	7,756.80	6,540.00	7,344.10	8,246.80
Adjusted PAT	17,009.80	16,143.60	16,021.40	18,364.20
Non Recurring Items	0.00	0.00	0.00	0.00
Other Non Cash Adjust	0.00	0.00	0.00	0.00
Net Profit	17,009.80	16,143.60	16,021.40	18,364.20

## 52 Week Index Relative Percentage Appreciation



## ITC vs SENSEX vs FMCG

## Points to Ponder

The leaf tobacco threshing facility in Mysore is fully operational and ITC has started benefiting in terms of better supply chain and quality. Despite volatility in its profitability due to seasonality, ITC has been able to maintain structural EBIT margins in the Agri business at 11-12%. In Hotel Business the company started operations of its Chennai property, while Kolkata and Gurgaon properties are under construction and are progressing as per plan. ITC is currently expanding its Bhadrachalam plant, and a new carton line at Haridwar is expected to commence by the end of FY13. ITC's flawless performance in Cigarettes, notwithstanding steep excise and VAT duty hikes continue to enhance medium-term earnings visibility. Flat volumes despite 17% price increase reiterate ITC's pricing power in Cigarettes. Volume uptick from the 64mm segment will be a strong catalyst for FY13 volumes.

## Risks Associated

Policy directives from the union government form the biggest risk to ITC. The tobacco sector is highly levered to policy decision from the central and state governments. Any changes in the tax structure could prove to be a negative for the company. Stricter laws against smoking and potential changes to include plain packaging could also have a negative impact on ITC's earnings and thus market price. ITC has a dominant 70% market share by volume in India's cigarette sector, with the cigarette business accounting for over 80% of ITC's profits. Any potential opening up of the sector to foreign companies would increase competition, which could hurt ITC's dominant position in the market. Additionally, continuing losses in the FMCG business is a risk.

**In a Nutshell**

Cigarette consumption still accounts for only 15% of overall tobacco consumption in the country. Over the long term, as consumers migrate to cigarettes from other forms of tobacco, ITC will be the biggest beneficiary. Consumers have been trading up from the regular-size sticks to King size across markets, and this has helped the margins as has been evident over the last couple of years. This is the biggest positive for ITC as the mix improvement part is likely to be a sustainable form of revenue and profitability driver. The King-size sticks are growing at a double-digit percentage, much faster than the regular-sized ones. This is a key long term driver of cigarette business profitability. The competitive landscape remains a positive for ITC as foreign investment in expanding capacities is banned by the government. This is unlikely to change in the medium term as the government has been reluctant to allow foreign participation in tobacco, which means ITC will continue to have a dominant share of the market in the medium to long term. Some of the states have banned use of Pan Masala as well as other forms of tobacco recently. This move is likely to help migrate consumers to cigarettes over the long term, where ITC will likely be the biggest beneficiary, in our view. While we do not expect any short-term benefits from this move, in the longer term, it is a positive for ITC. Within a relatively short span of time, the Company has established several strong consumer brands in the Indian FMCG market. Company's Branded Packaged Foods business grew significantly during the year, recording growth in market shares and enhanced market standing across segments.

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**Rating Interpretation**

<b>Buy</b>	: Expected to appreciate 20% or more over 12-months	<b>Reduce</b>	: Expected to depreciate up to 10% over 12-months
<b>Accumulate</b>	: Expected to appreciate 10% to 20% over 12-months	<b>Sell</b>	: Expected to depreciate 10% or more over 12-months
<b>Trade Buy</b>	: Expected to appreciate more than 10% over 45-days	<b>Trade Sell</b>	: Expected to depreciate more than 10% over 45-days

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