

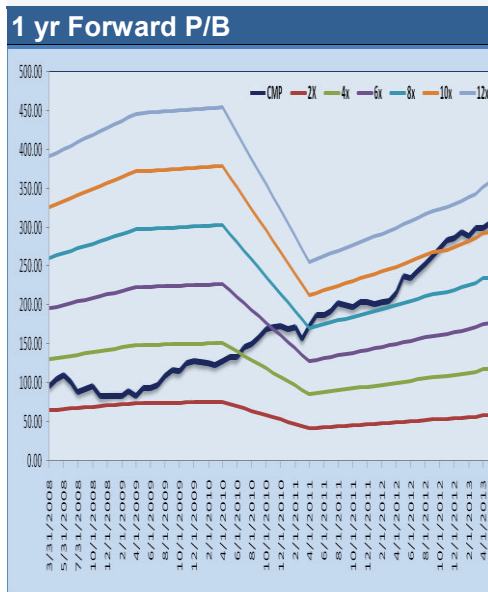
" Still smoking hot"

Result update	BUY
CMP	335
Target Price	400
Previous Target Price	320
Upside	19%
Change from Previous	25%

Market Data	
BSE Code	500875
NSE Symbol	ITC
52wk Range H/L	355/225
Mkt Capital (Rs Cr)	264474
Average Daily Volume	3497040
Nifty	6187

Stock Performance		1M	1yr	YTD
Absolute	8.6	46.8	25.1	
Rel. to Nifty	1.6	19.4	7.3	

Share Holding Pattern-%		Current	4QFY13	3QFY1
Promoters	-	-	-	-
FII	19.7	18.8	18.3	
DII	33.5	33.7	33.8	
Others	46.9	47.5	47.9	



ITC beats street, surprisingly margin pick up in FMCG space.;

India's largest Cigarette maker ITC Ltd reported 4th Quarter numbers better than Street consensus, with 19.2% (YoY) of sales growth led by better growth across all segments and 19.4% of PAT growth.

The better earning of 4th Quarter would help to its current valuations. We believe the success of the 64mm cigarette despite of price hike on 74mm and 69mm categories, combined with ongoing improvement in RoE of non-cigarette business, remains the key positive.

Mixed Segmental performance: ITC reported cigarette revenue growth of 17.8% and volume growth of 3% against the 5% of same quarter last, which has to be viewed in context of sharp price hikes taken to offset 20% increase in taxes for F13. Its other FMCG business turned profitable this quarter. Its EBIT was at Rs 12 cr, compared with a loss of Rs 17 cr(4QFY12) and Rs 24 cr(3QFY13). TC's agri business sales surged 31% to Rs 1,854 cr and paperboards, paper & packaging sales were up 8%.

Margin status: Company's EBITDA Margin was almost flat at 32.8% on YoY basis, . On segmental EBIT Margin, ITC registered 420bps margin growth to 61% on Cigarette, Agri Business and Paper Product Business margin down by 100bps to 22% and 11% respectively.

Products strategy: ITC continues to enjoy dominant market share in cigarette while ban on Gutkha by most of state govt- has provided a strong demand. On segmental revenue, Paper Product and FMCG businesses have achieved self-sustenance levels with regular and ongoing paper business. New launches in Soap, body wash, fairness cream (Vivel Active Fairness) and Noodles(Bingo) have received good response.

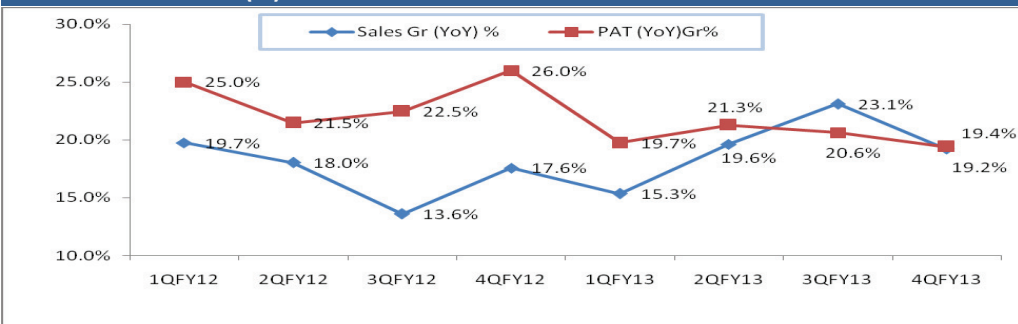
Price increase as a catalyst: We believe the impact of this price hike would be temporal in nature as far as volumes are concerned, as company has in the past recouped volume growth. Consumers are shifting their choice from 74mm to 69mm and 64mm segment due to price hike and ban on Gutkha by different State governments.

We are positive on long-term demand growth in cigarette business due to rising affordability and huge demand potential in small towns and rural areas. The premium valuations enjoyed by ITC, at the CMP of Rs 335, the stock trades at PE of 11.3x FY14E P/BV seems justified from a growth point of view. We maintain " BUY" with a price target of Rs 400 (revised from Rs320).

Financials				Rs, Cr	
	1QCY13	4QCY13	(QoQ)-%	1QCY12	(YoY)-%
Revenue	8257.1	7712	7.1%	6954.6	18.7%
EBITDA	2706	2858	-5.3%	2263.5	19.5%
PAT	1927.7	2051.8	-6.0%	1614.6	19.4%
EBITDA Margin	32.8%	37.1%	(430bps)	32.5%	30bps
PAT Margin	23.3%	26.6%	(320bps)	23.2%	10bps

(Source: Company/Eastwind)

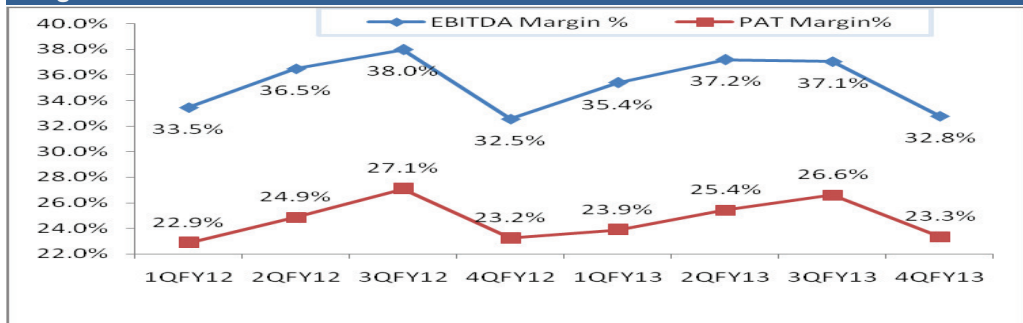
Sales and its Growth(%)



(Source: Company/Eastwind)

Cigarette sales have grown more than 18%. ITC attributed its performance to the strategy of creating multiple drivers of growth.

Margin-%



(Source: Company/Eastwind)

These cost pressures were, however, mitigated through a combination of improvements in product and process efficiencies, smart sourcing and supply chain initiatives.

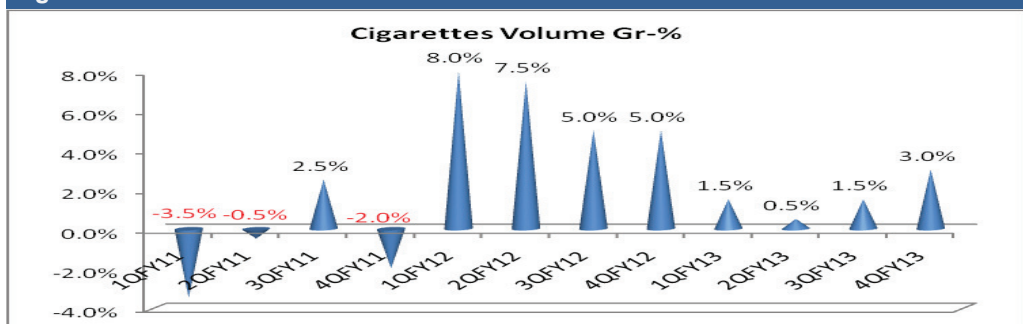
Segment-wise Performance-%

Segments	Sales Contribution	Sales Gr-YoY	EBIT Margin	Margin Change(YoY)
Cigarettes	44%	11.50%	58.3%	420bps
FMCG - Others	25%	26%	1%	100bps
Hotels	4%	10.40%	12.9%	(1610bps)
Agri business	23%	31.10%	6.9%	(60bps)
Paper and packaging	13%	7.90%	17.8%	(220bps)

(Source: Company/Eastwind)

Maiden Profit in FMCG Business but red color on Hotel Business

Cigarette Volume Growth-%



(Source: Company/Eastwind)

ITC clocks 3% volume growth in cigarettes,