

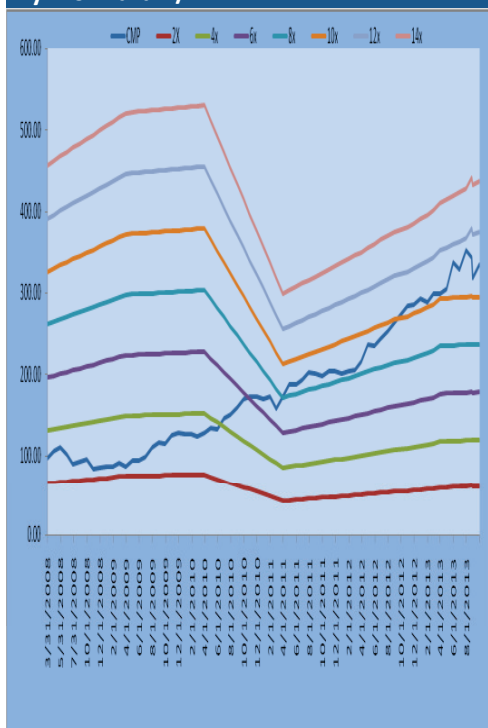
Result update	BUY
CMP	340
Target Price	380
Previous Target Price	320
Upside	12%
Change from Previous	19%

Market Data	
BSE Code	500875
NSE Symbol	ITC
52wk Range H/L	376/249.5
Mkt Capital (Rs Cr)	264474
Average Daily Volume	3497040
Nifty	6144.9

Stock Performance	1M	1yr	YTD
Absolute	-2.6	18.9	35.2
Rel. to Nifty	-7.9	10.4	18.2

Share Holding Pattern-%	Current	1QFY14	4QFY13
Promoters	-	-	-
FII	19.3	19.6	19.3
DII	34.3	33.8	34.3
Others	46.1	46.6	46.1

### 1 yr Forward P/B



**ITC earnings on mixed bag, disappointed the street with decline in cigarette volume and Agri revenue growth pressure;**

Mixed set of numbers, sales grew by 8.8% (YoY) dented by slow volume growth in cigarette business and fall in agri volume. Cigarette volume declined by 5-6%(YoY) because of price hike by 18% in premium brand. PAT up by 21.3%, YoY.

Further, with ITC being the market leader in cigarettes, higher pricing power in Cigarette would continue to maintain higher margins, though volume growth on cigarette would be adversely impacted in near term because of price hike on cigarette (king and 74mm size).

**Mixed Segmental performance:** ITC Segment wise growth (YoY): Cigarettes (48% of Sales) up by 10% , FMCG-others (25.3% of sales up by 16.3%, Hotels (3% of sales) up by 13.8%, Agri business (23% of sales) down by -12.4% and Paper nad packaging (15% of sales) up by 11%. The Company's Branded Packaged Foods businesses posted robust growth in revenues and enhanced market standing across categories leveraging its portfolio of differentiated and innovative products.

**Margin status:** The Company's EBITDA Margin improved by 320bps to 40.4% on YoY basis. On segment wise, Cigarette Margin (EBIT)increased to 69% from 61% (2QFY13), and Agri Business margin up by350bps to 16%. While Paper & Paper Product Business margin down by 900bps to 18.7%, and Agri Business margin remains on negative respectively.

**Volume growth:** This quarter results clearly revealed how volume sales were impacted because of increased prices of cigarette, and volume growth declined by 5-6% YoY. We expect, Volumes will continue to remain under pressure in the next 2 quarters but the latest hike would ensure better margins for the company.

**Products promotion:** During the quarter, the personal care products business expanded with the launch of deodorants, variants of face wash and body lotion.

**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.

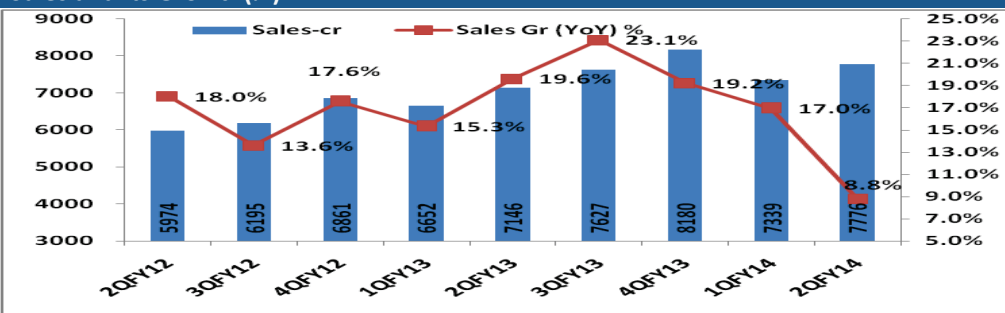
**View and Valuation:** We are positive on long-term demand growth in cigarette business due to rising affordability and huge demand potential in small towns and rural areas. The premium valuations enjoyed by ITC, at the CMP of Rs 340, the stock trades at 10.3x FY14E P/BV seems justified from a growth point of view. We maintain " BUY" with a price target of Rs 380. **In near term there could be some pressure on stock price because of lumpiness on Cigarette volume. However, we can not ignore its dominant market share in Cigarette without any knee jerk of competitive intensity. We recommend buy on decline.**

### Financials

	2QFY14	1QFY14	(QoQ)-%	1QFY13	Rs, Cr (YoY)-%
Revenue	7775.79	7338.52	6.0%	7146	8.8%
EBITDA	3173.3	2791.3	13.7%	2688.27	18.0%
PAT	2227.98	1891.3	17.8%	1836.42	21.3%
EBITDA Margin	40.8%	38.0%	280bps	37.6%	320bps
PAT Margin	28.7%	25.8%	290bps	25.7%	300bs

# ITC

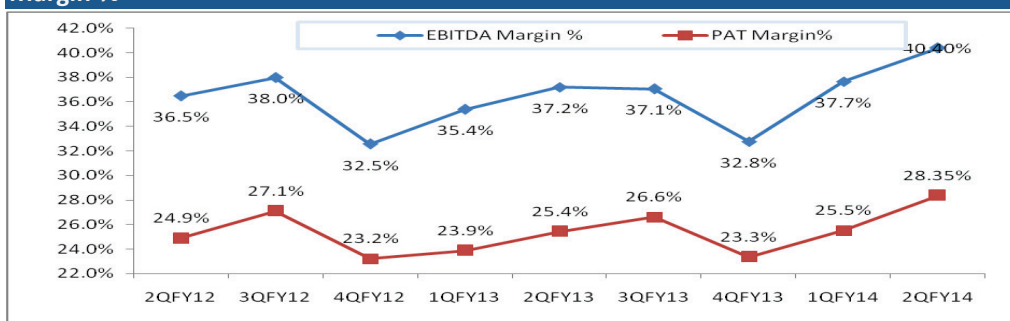
## Sales and its Growth(%)



(Source: Company/Eastwind)

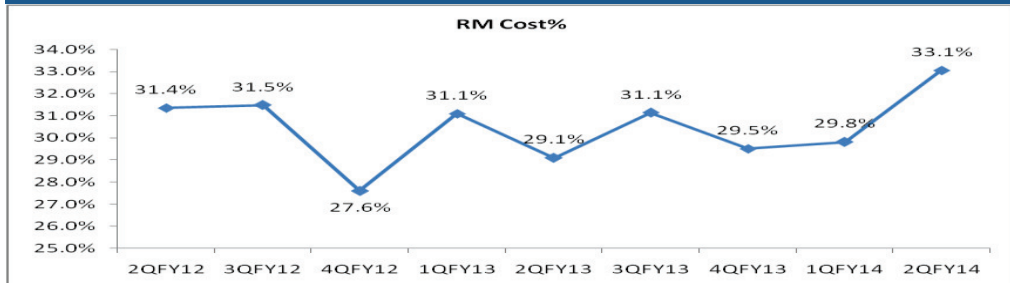
Cigarette sales have grown by 10% YoY. However, ITC attributed its performance to the strategy of creating multiple drivers of growth.

## Margin-%



(Source: Company/Eastwind)

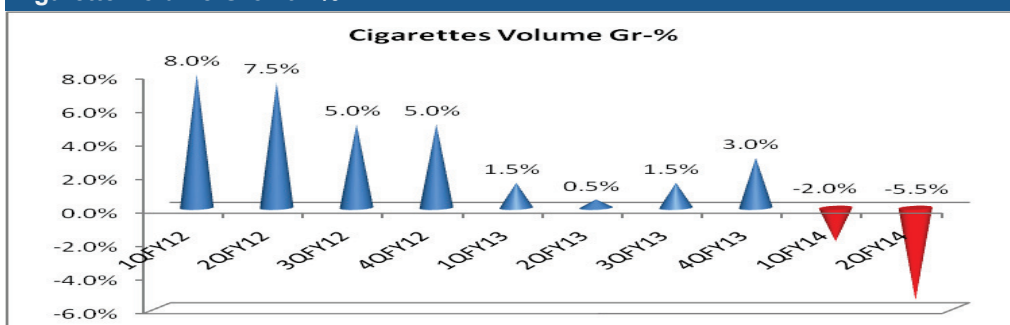
These cost pressures were, however, mitigated through a combination of improvements in product and process efficiencies, smart sourcing and supply chain initiatives.



(Source: Company/Eastwind)

RM Cost improved by 400bps because of higher prices of Cigarette leas and imported paper products

## Cigarette Volume Growth-%



(Source: Company/Eastwind)

ITC clocks 5.5% volume decline in cigarettes,

## Segment-wise Performance-%

Segments	Sales Contribution	Sales Gr-YoY	EBIT Margin	Margin Change(YoY)
Cigarettes	47.9%	10.0%	69.0%	760bps
FMCG - Others	25.3%	16.3%	-0.6%	120bps
Hotels	3.2%	13.8%	3.5%	(360bps)
Agri business	22.8%	-12.4%	16.1%	330bps
Paper and packaging	15.2%	11.3%	18.7%	(800bps)

Double digit growth in Cigarette, FMCG, Hotel and Paper & Packaging, but red color on FMCG margin

## Financials

Rs in Cr,	FY10	FY11	FY12	FY13E	FY14E	FY15E
Sales	19302.1	22575.0	26552.2	31627.5	34980.06	40227.07
RM Cost	6045.5	7136.9	7810.5	9069.8	10144.22	11866.99
Purchases of stock-in-trade	826.0	1296.8	1921.2	3305.2	3655.58	4203.92
WIP	100.5	(273)	(86)	(257)	(280)	(402)
Employee Cost	1464.0	1708.5	1944.3	2145.6	2448.60	3017.03
Ad Spend	544.9	654.6	710.1	834.2	909.48	1086.13
Other expenses	3830.9	4381.9	5042.4	5355.1	6574.48	7560.65
Total expenses	12811.8	14905.9	17342.0	20453.2	23452.52	27332.45
EBITDA	6490.3	7669.1	9210.1	11174.3	11527.53	12894.62
Depreciation and Amortisation	643.9	699.1	745.5	859.1	932.80	965.45
Other Income	452.7	536.1	784.3	877.6	874.50	1206.81
EBIT	6299.1	7506.1	9249.0	11192.8	11469.23	13135.98
Interest	53.4	70.9	80.5	87.2	45.56	63.16
PBT	6245.7	7435.2	9168.5	11105.7	11423.67	13072.82
Tax Exp	2034.9	2365.5	2845.8	3412.1	3541.34	4052.57
PAT	4210.8	5069.7	6322.7	7693.6	7882.33	9020.25
<b>Growth-% (YoY)</b>						
Sales	15.7%	17.0%	17.6%	19.1%	10.6%	15.0%
EBITDA	24.7%	18.2%	20.1%	21.3%	3.2%	11.9%
PAT	25.4%	20.4%	24.7%	21.7%	2.5%	14.4%
<b>Expenses on Sales-%</b>						
RM Cost	31.3%	31.6%	29.4%	28.7%	29.0%	29.5%
Ad Spend	2.8%	2.9%	2.7%	2.6%	2.6%	2.7%
Employee Cost	7.6%	7.6%	7.3%	6.8%	7.0%	7.5%
Other expenses	19.8%	19.4%	19.0%	16.9%	18.8%	18.8%
Tax rate	32.6%	31.8%	31.0%	30.7%	31.0%	31.0%
<b>Margin-%</b>						
EBITDA	33.6%	34.0%	34.7%	35.3%	33.0%	32.1%
EBIT	32.6%	33.2%	34.8%	35.4%	32.8%	32.7%
PAT	21.8%	22.5%	23.8%	24.3%	22.5%	22.4%
<b>Valuation:</b>						
CMP	263.2	181.5	256.5	335.0	340.00	340.00
No of Share	381.8	773.8	779.6	790.2	790.18	790.18
NW	14458.3	16489.9	19458.6	23157.9	26186.88	29891.56
EPS	11.0	6.6	8.1	9.7	9.98	11.42
BVPS	37.9	21.3	25.0	29.3	33.14	37.83
RoE-%	29.1%	30.7%	32.5%	33.2%	30.1%	30.2%
P/BV	6.9	8.5	10.3	11.4	10.26	8.99
P/E	23.9	27.7	31.6	34.4	34.08	29.78

(Source: Company/Eastwind)