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ITC Limited—Strong Buy—168—INR

Sector — FMCG (Cigarettes)
Regd.Off. — Virginia House, J L Nehru Road, Kolkata—700071
Listed — NSE, BSE.

Company Overview—

Company is the largest manufacturer of cigarettes in India. It is a member of BAT Group of UK, which holds 37 per cent stake in ITC, followed by domestic financial institutions and public. ITC, undoubtedly the market leader in the cigarettes market is a leader in both the filter and non-filter segments. It has over 15 brands available at different price points. Filter segment is the largest and main brands in this segment include Wills, Gold Flake, Benson & Hedges, 555, India Kings. Leading brands in the non-filter segment are Scissors, Hero, Bristol, and Capstan. Company also has presence in hotels, paper & packaging, agriculture export and non-tobacco based FMCG business. ITC is one of India's leading private sector companies with a market capitalization of over US \$ 10 billion and a turnover of US \$ 3 billion. Rated among the World's Best Big Companies by Forbes magazine, ITC ranks third in pre-tax profit among India's private sector corporations. Company is an outstanding market leader in its traditional businesses of Cigarettes, Hotels, Paperboards, Packaging and Agri-Exports; it is rapidly gaining market share even in its promising businesses of Packaged Foods & Confectionery, Branded Apparel and Greeting Cards. Through its wholly owned investment subsidiary, Russell Credit Limited, it acquired Wimco Limited from a Swedish company. Wimco dominates the highly fragmented Rs 13 bn matchstick market and has a 13% share.

Products & services—

ITC has a diversified presence in Cigarettes, Hotels, Paperboards & Specialty Papers, Packaging, Agri-Business, packaged Foods & Confectionery, Branded Apparel, Greeting Cards and other FMCG products. Company Businesses can be diversify into various segments—

FMCG—

- 1) Cigarettes—
- 2) Foods
- 3) Lifestyle Retailing
- 4) Greeting, Gifting & stationary
- 5) Safety matches
- 6) Agarbattis

Hotels—

Paperboards & packaging—

- 1) Paper boards
- 2) Speciality Paper
- 3) Packaging

Agri-business—

- 1) Agri-products Exports
- 2) E-choupal
- 3) Leaf Tobacco

Cigarettes—Company is the market leader in cigarettes manufacturing in India. Company provides large range of international quality brands; and has a leadership position in every segment of the market. Its highly popular portfolio of brands includes India Kings, Gold Flake, Navy Cut, Scissors, Capstan, Berkeley and Bristol. Company's leadership is continuously enhancing product values through significant investments in product design, manufacturing technology, quality, marketing and distribution strategies. Company made huge capital expenditure in last few years in its cigarettes business. Company's share of filter cigarettes in the country is more than 70%. Company has launched four brands of international quality standards- Checkers, Hi-Val, Royale Classic and Gold Crest - in the extremely competitive US market. ITC also launched Royale Classic, Gold Cut and Scissors Filter Kings cigarettes in the Middle East. Its manufacturing facilities are located at Bangalore, Munger, Saharanpur and Kolkata.

Foods—Company made its entry into the branded & packaged Foods business in 2001. Company launched "Kitchens of India" brand. Since then, company is launching many brands in the Confectionery, Staples and Snack Foods segments. Packaged foods business is an industry to leverage company's balance sheet in the long-term. Company Foods products available in the market today have been based on consumer insights developed through broad market research. Except current portfolio of products, several new and innovative products are under development in the company's Product Development facility. Foods business is having 4 primary categories, i.e. Ready To Eat Foods, Staples, Confectionery, Snack Foods. Company is having brands in this categories are— Kitchens of India, Aashirvaad, Sunfeast, Mint-O, Candyman.

Lifestyle Retailing—Company's Lifestyle Retailing Business Division has recognized a nationwide presence with its Wills Lifestyle chain of exclusive specialty stores. It has expanded its basket of offerings to the premium consumer with Wills Classic formal wear, Wills Sport, Wills Club life evening wear and eye wear from Valentino of Italy.

Greetings, Gifting & stationary—Company has now become the second largest player in India's greeting cards industry with its 'Expressions' range of Greeting Cards. Company has strategically leveraged its expertise in Paperboards and Packaging, and its unique capability to manufacture environment-friendly Elemental Chlorine-Free pulp and world-class paperboards. ITC's 'Paperkraft' and 'Classmate' ranges of notebooks launch also emerged it as a serious and significant marketer of Stationery brands for school and college students. ITC's extensive India-wide distribution network enables its greeting cards reach over 12000 multi brand outlets in over 700 cities nationally.

Safety Matches—Company brands like iKno, Mangal Deep, VaxLit, Delite and Aim are having good market presence. Aim brand has already become the largest selling brand of Safety Matches in India within just one year of its launch.

Agarbattis—ITC has launched brands like Spriha and Mangaldeep across a range of fragrances like Rose, Jasmine, Bouquet, Sandalwood, Madhur, Sambrani and Nagchampa. These brands have been priced well to cater every level of consumers at various price segments.

Hotels—Company entered the hotels business in 1975 by acquisition of a hotel in Chennai. The ITC-Welcomgroup brand has become synonymous with Indian hospitality. Today amongst India's finest and fastest growing hotel chains, it consists of over 66 hotels across more

than 50 destinations in India. These include super deluxe and five star hotels, heritage palaces, havelis and resorts and full service budget hotels.

Paper Boards, Speciality papers, packaging---Company is one of the world's most modern and contemporary manufacturers of packaging and graphic series of boards. Company's Paperboards business has manufacturing capacity of over 360,000 ton per year and is India's market leader across all carton-consuming segments including cigarettes, foods, beverages, pharma, personal care & toiletries, durables and match shells. Packaging division supplies to the Company's Cigarettes business. Its client list includes national and international companies like British American Tobacco, Surya Nepal Private Limited, VST Industries, GTC, UB Group, Shaw Wallace, Seagrams, Allied Domecq, Whyte & Mackay, Hindustan Lever, Tata Tetley and Nestle, Reckitt Benkiser India Limited, JK Helene Curtis, etc.

Agri-Exports---Company's International Business Division is the country's second largest exporter of agri-products with exports of over Rs. 500 Crores. Its domestic sales of agri-products are also of a similar scale. It currently focuses on exports of Feed Ingredients – Soyameal, Foodgrains - Rice (Basmati & Non Basmati), Wheat, Pulses, Coffee, Black Pepper, Edible Nuts - Sesame Seeds, HPS Groundnuts, Castor oil, Marine Products - Shrimps and Prawns, Processed Fruits - Mango, Papaya and Guava Products.

Tobacco--- From 90 years, company's Indian Leaf Tobacco Development Division has worked closely with farmers to grow quality cigarette tobaccos. It is the largest buyer, processor and exporter of cigarette tobaccos in India. Company buys almost 40 per cent of all cigarette type tobaccos grown in India. Company has large inventory of quality tobaccos for Indian cigarette tobaccos. This strategic policy insulates customers from crop fluctuations.

Financials---

Financials for oct-2006 to Dec2006 (Third Quarter)

Financial Results	Rs. Lakhs
Net Sales	316557.00
Other Income	6979.00
Gross Income	323536.00
Increase/Decrease in Stock	-7736.00
Consumption of Raw Materials	142496.00
Staff Cost	16471.00
Total Expenditure Excluding Other Expenditure	151231.00
Other Expenditure	57046.00
Total Expenditure	208277.00
Interest	-87.00
Profit Before Depreciation & Taxes	115346.00
Depreciation	9210.00
Profit Before Tax	106136.00
Provision for Taxation	34396.00

Net Profit	71740.00
Adjusted Net Profit	71740.00
Face Value of Share (in Rs.)	1.00
Paid-up Equity Share Capital	37602.00
Basic EPS (in Rs.)	1.91
Diluted EPS (in Rs.)	1.90

Valuation—

Company planned huge capital expenditure in coming years to drive its future earnings. Company is investing Rs 5,000 crore in the virtual network, e-Chopal, to give it a physical shape in the form of Choupal Sagars. Company will create a network of 20,000 e-Choupals and over 700 Choupal Sagars extending coverage to 100,000 villages. Company is also planning to invest Rs 2,500 crore during the next 2 years to put up a Greenfield elemental chlorine-free (ECF) paper plant, which would increase its annual paper and paperboard manufacturing capacity to 5.5 lakh ton. Company has decided to manufacture the food products it currently sells. Company is seeking carbon credits for its massive farm forestation program, and expects about Rs 200 crore over the next 10 years.

ITC Stock was major under performer from last 1 year because of VAT and Excise duty fears that is now over. Company diversified its operations and aim to create multiple Earning drivers for future. Strong distribution reach, superior brand-building capabilities, effective supply chain management and acknowledged service skills makes it the one of the Safest investment for future. At the current market price, ITC is trading at attractive valuation of 18.9 X multiple of estimated FY2008 earnings. We recommend “Strong BUY” on ITC with medium to long-term investment horizon.

We invite Readers to send Valuable feedback, stock and subscription queries at E-mail Id- investment_guru1@yahoo.com

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