

ITC

Apple Green

Stock Update

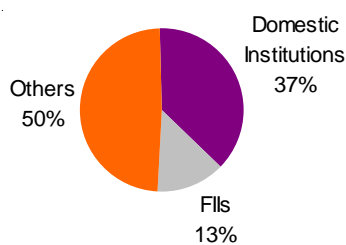
Forays into skincare category

Buy; CMP: Rs294

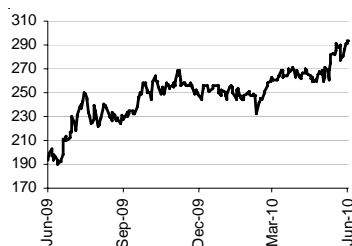
Company details

Price target:	Rs303
Market cap:	Rs112,326 cr
52 week high/low:	Rs300/187
NSE volume: (No of shares)	44.3 lakh
BSE code:	500875
NSE code:	ITC
Sharekhan code:	ITC
Free float: (No of shares)	259.6 cr

Shareholding pattern



Price chart



Price performance

(%)	1m	3m	6m	12m
Absolute	14.4	15.8	22.2	59.9
Relative to Sensex	8.8	14.2	16.2	29.7

ITC forays into fairness cream segment

After achieving a significant presence in the personal wash category, ITC has forayed into the skincare category with the launch of *Vivel Active* fair cream. The product is currently marketed in Kerala and would be extended to the other domestic markets over time. The product is available in three different packs: a 50g tube for Rs70, a 25g tube for Rs38 and 9g sachets for Rs5 only.

The fairness cream market in India is worth Rs1,700 crore and is growing at the rate of 13-15% per annum. The product will be directly competing with Hindustan Unilever Ltd (HUL)'s *Fair & Lovely* fairness cream (in terms of the pricing and the pack size), which holds close to 30% market share in the fairness cream market in India. The other key brands available in the markets are *Fairever* (Cavincare), *Fem Fairness* cream (Dabur India), *L'Oreal* (L'Oreal India) and *Fair & Handsome* (for men; Emami). With ITC's entrance in the category, we expect the competition to heat up in the domestic market.

Personal care segment—marching ahead

ITC's personal care segment (that has a small base) delivered a strong sales growth of around 70% year on year (yoy) in FY2010 with increasing market share in the soap and shampoo categories. The soap and shampoo categories achieved market shares of 5% and 4% respectively (in a short span of time; launched in 2007). This was mainly on account of the higher investments made by the company in the brands. We are of the opinion that ITC has scope to further increase the scale of operations of the personal care segment by launching new products and entering into new categories. Also, the company has adequate resources and high cash on books (generated through the cash cow, the cigarette business) to support its new launches with higher advertisement spends and promotional activities.

We believe ITC's foray into the fairness cream category is the next step towards scaling up its personal care business. Further, the addition of new products/variants, and the increased distribution and higher brand investments towards the existing products/new launches would help the company clock a hefty growth of above 40% in the personal care segment in the coming years.

Valuation table

Particulars	FY2009	FY2010E	FY2011E	FY2012E
Net profit (Rs crore)	3,263.6	4,060.9	4,800.9	5,510.0
EPS (Rs)	8.6	10.6	12.6	14.4
% yoy chg	4.4	23.0	18.2	14.8
PER (x)	34.0	27.7	23.4	20.4
Book value (Rs)	36.4	36.7	43.4	52.0
P/BV (x)	8.1	8.0	6.8	5.7
EV/EBIDTA (x)	21.4	17.2	14.5	12.4
EV/Sales (x)	6.9	5.9	5.1	4.4
RoCE (%)	32.6	37.9	41.3	40.7
RoNW (%)	25.3	29.3	31.4	30.2

Reduction in losses in non-cigarette FMCG business despite higher brand investments

Even though the company is expected to make higher investments in the personal care brands, we expect the profitability of the non-cigarette fast moving consumer goods (FMCG) business to improve on the back of the break-even of the foods segment and an increase in the scale of operations of the other segments. Overall, we expect the losses of the non-cigarette FMCG businesses to further decline by 20-25% in FY2011 (the management of the company has also indicated the same).

Bonus bonanza

After announcing a rich dividend of Rs10 per share for the shareholders in FY2010, the company has announced a bonus issue in the ratio of 1:1, ie one equity share for every one share held by the shareholders, for the current year.

Outlook and valuation

We maintain our preference for ITC over HUL on account of the strong resilience of the former's cigarette business, the sustenance of the above 20% growth in its non-cigarette FMCG business and the revival in its hotel business which will lead to a strong bottom line growth in the coming years. However, the key things to watch out for in the coming quarters are the sales volume growth in the cigarette business and the performance of the new launches in the non-cigarette FMCG business.

At the current market price, the stock trades at 23.4x its FY2011E earnings per share (EPS) of Rs12.6 and 20.4x its FY2012E EPS of Rs14.4. We maintain our positive bias and Buy recommendation on the stock with the price target of Rs303.

The author doesn't hold any investment in any of the companies mentioned in the article.

Sharekhan Stock Ideas

Evergreen

Housing Development Finance Corporation
HDFC Bank
Infosys Technologies
Larsen & Toubro
Reliance Industries
Tata Consultancy Services

Apple Green

Aditya Birla Nuvo
Apollo Tyres
Bajaj Auto
Bajaj Finserv
Bajaj Holdings & Investment
Bank of Baroda
Bank of India
Bharat Electronics
Bharat Heavy Electricals
Bharti Airtel
Corporation Bank
Crompton Greaves
Glenmark Pharmaceuticals
Godrej Consumer Products
Grasim Industries
HCL Technologies
Hindustan Unilever
ICICI Bank
Indian Hotels Company
ITC
Mahindra & Mahindra
Marico
Maruti Suzuki India
Lupin
Piramal Healthcare (Nicholas Piramal India)
Punj Lloyd
Sintex Industries
State Bank of India
Tata Tea
Wipro

Cannonball

Allahabad Bank
Andhra Bank
IDBI Bank
Madras Cements
Phillips Carbon Black
Shree Cement
Tourism Finance Corporation of India

Emerging Star

3i Infotech
Alphageo India
Allied Digital Services
Axis Bank (UTI Bank)
Cadila Healthcare
Emco
Greaves Cotton
Max India
Opto Circuits India
Patels Airtemp India
Thermax
Zydus Wellness

Ugly Duckling

BASF India
Deepak Fertilisers & Petrochemicals Corporation
Federal Bank
Gayatri Projects
India Cements
Ipca Laboratories
ISMT
Jaiprakash Associates
Orbit Corporation
Pratibha Industries
Punjab National Bank
Ratnamani Metals and Tubes
Selan Exploration Technology
Shiv-Vani Oil & Gas Exploration Services
Subros
Sun Pharmaceutical Industries
Sunil Hitech Engineers
Torrent Pharmaceuticals
UltraTech Cement
Union Bank of India
United Phosphorus
Zensar Technologies

Vulture's Pick

Esab India
Mahindra Lifespace Developers
Orient Paper and Industries
Unity Infraprojects
Tata Chemicals

To know more about our [products and services](#) click here.

Disclaimer

"This document has been prepared by Sharekhan Ltd. (SHAREKHAN). This Document is subject to changes without prior notice and is intended only for the person or entity to which it is addressed to and may contain confidential and/or privileged material and is not for any type of circulation. Any review, retransmission, or any other use is prohibited. Kindly note that this document does not constitute an offer or solicitation for the purchase or sale of any financial instrument or as an official confirmation of any transaction.

Though disseminated to all the customers simultaneously, not all customers may receive this report at the same time. SHAREKHAN will not treat recipients as customers by virtue of their receiving this report.

The information contained herein is from publicly available data or other sources believed to be reliable. While we would endeavour to update the information herein on reasonable basis, SHAREKHAN, its subsidiaries and associated companies, their directors and employees ("SHAREKHAN and affiliates") are under no obligation to update or keep the information current. Also, there may be regulatory, compliance, or other reasons that may prevent SHAREKHAN and affiliates from doing so. We do not represent that information contained herein is accurate or complete and it should not be relied upon as such. This document is prepared for assistance only and is not intended to be and must not alone be taken as the basis for an investment decision. The user assumes the entire risk of any use made of this information. Each recipient of this document should make such investigations as it deems necessary to arrive at an independent evaluation of an investment in the securities of companies referred to in this document (including the merits and risks involved), and should consult its own advisors to determine the merits and risks of such an investment. The investment discussed or views expressed may not be suitable for all investors. We do not undertake to advise you as to any change of our views. Affiliates of Sharekhan may have issued other reports that are inconsistent with and reach different conclusion from the information presented in this report.

This report is not directed or intended for distribution to, or use by, any person or entity who is a citizen or resident of or located in any locality, state, country or other jurisdiction, where such distribution, publication, availability or use would be contrary to law, regulation or which would subject SHAREKHAN and affiliates to any registration or licensing requirement within such jurisdiction. The securities described herein may or may not be eligible for sale in all jurisdictions or to certain category of investors. Persons in whose possession this document may come are required to inform themselves of and to observe such restriction.

SHAREKHAN & affiliates may have used the information set forth herein before publication and may have positions in, may from time to time purchase or sell or may be materially interested in any of the securities mentioned or related securities. SHAREKHAN may from time to time solicit from, or perform investment banking, or other services for, any company mentioned herein. Without limiting any of the foregoing, in no event shall SHAREKHAN, any of its affiliates or any third party involved in, or related to, computing or compiling the information have any liability for any damages of any kind. Any comments or statements made herein are those of the analyst and do not necessarily reflect those of SHAREKHAN."