

**RESEARCH**
**ITC | TARGET: Rs 523 | +16% | BUY**

Robust growth and margins

**SUMMARY**
**ITC**

- Cigarettes business delivered sustained volume growth in Q1 at ~10% YoY; innovation remains in focus
- FMCG-others segment registered double-digit growth with further margin expansion
- Hotels business expected to list in ~15 months; maintain BUY with an unchanged SOTP-based TP of Rs 523

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**Daily macro indicators**

Ticker	10-Aug	11-Aug	Chg (%)
US 10Y yield (%)	4.11	4.15	5bps
India 10Y yield (%)	7.15	7.20	5bps
USD/INR	82.72	82.84	(0.1)
Brent Crude (US\$/bbl)	86.4	86.8	0.5
Dow	35,176	35,281	0.3
Hang Seng	19,248	19,075	(0.9)
Sensex	65,688	65,323	(0.6)
India FII (US\$ mn)	09-Aug	10-Aug	Chg (\$ mn)
FII-D	143.9	31.3	(112.6)
FII-E	120.4	247.3	126.9

Source: Bank of Baroda Economics Research

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**BUY**

TP: Rs 523 | ▲ 16%

ITC

| Consumer Staples

| 16 August 2023

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**Strong performance in cigarettes and FMCG-others:** ITC's Q1FY24 revenue declined 7% YoY (up 11% excluding agricultural business) to Rs 171.6bn, largely due to (i) a slowdown in agricultural business (-24% YoY) on account of the ban on wheat exports, and (ii) a subdued performance in the paper and paperboard segment (-6% YoY) owing to poor demand in domestic and global markets and cheap Chinese supply. The cigarettes business continued to do well, growing 12% YoY for the quarter, FMCG-others revenue was up 16% YoY and the hotels segment grew 8% despite a high base of last year.

**Margin expansion continues:** Consolidated gross margin swelled 810bps YoY (20bps QoQ) as input costs moderated. EBITDA margin expanded 800bps YoY (370bps QoQ) to 38.9%, and adj. PAT grew 16% YoY to Rs 51bn with 600bps margin gains. Business-wise, FMCG-others saw the strongest EBITDA margin increase of 325bps YoY (510bps over Q1FY20) to 11%, and hotels posted 140bps YoY expansion to 33.9%. However, profitability in the paper and paperboard segment was dented by lower realisations and a spike in input costs.

**Proposed demerger of hotels business:** ITC has announced the demerger of its hotels business by creating a wholly-owned subsidiary 'ITC Hotels Ltd' that it expects to list on the bourses in ~15 months. ITC shareholders will get 1 share of ITC Hotels for every 10 shares held based on the share entitlement ratio, which is a function of the share capital of the two companies and has no bearing on the market capitalisation of ITC Hotels.

**Maintain BUY:** We expect ITC to sustain its strong growth momentum and retain estimates of a revenue/EBITDA/PAT CAGR of 14%/16%/16% over FY22-FY25. The cigarettes business continues to deliver double-digit volume growth and market share gains in the absence of competition from illicit trade. In addition, the FMCG-others segment has registered a healthy performance across markets and portfolios. Given strong volume growth in cigarettes and earnings visibility in the FMCG and hotels businesses, we maintain BUY for an SOTP-based TP of Rs 523 (unchanged).

### Key changes

Target	Rating
◀ ▶	◀ ▶

Ticker/Price	ITC IN/Rs 449
Market cap	US\$ 67.9bn
Free float	71%
3M ADV	US\$ 62.6mn
52wk high/low	Rs 500/Rs 305
Promoter/FPI/DII	0%/43%/57%

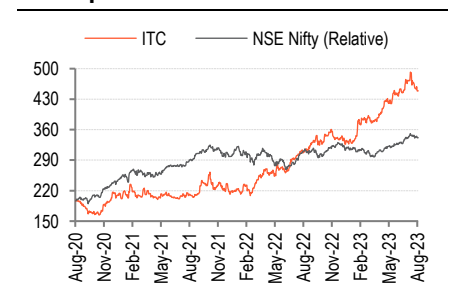
Source: NSE | Price as of 14 Aug 2023

### Key financials

Y/E 31 Mar	FY23P	FY24E	FY25E
Total revenue (Rs mn)	7,09,369	7,94,958	8,97,358
EBITDA (Rs mn)	2,56,649	2,84,518	3,24,844
Adj. net profit (Rs mn)	1,94,039	2,12,995	2,42,377
Adj. EPS (Rs)	15.4	16.9	19.3
Consensus EPS (Rs)	15.4	15.8	17.8
Adj. ROAE (%)	27.9	29.2	31.5
Adj. P/E (x)	29.1	26.5	23.3
EV/EBITDA (x)	21.8	19.6	17.2
Adj. EPS growth (%)	22.4	9.7	13.8

Source: Company, Bloomberg, BOBCAPS Research | P – Provisional

### Stock performance



Source: NSE



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**BUY** – Expected return >+15%

**HOLD** – Expected return from -6% to +15%

**SELL** – Expected return <-6%

**Note:** Recommendation structure changed with effect from 21 June 2021

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