

BUY
 TP: Rs 575 | ▲ 16%

ITC

Consumer Staples

02 August 2024

1QFY25 earnings review

- Hotels and Agri segments drove sales with subdued performances in FMCG and cigarettes
- Margins improved in FMCG Others & Cigarettes and Hotels as Agribusiness and Paper continued to face cost pressures
- We assume coverage. Retain BUY with TP of Rs 575. Expect gradual recovery in key segments as consumption improves

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Cigarette volumes likely helped by pre budget stocking: Cigarette segment sales increased 7% on premiumisation and volume gains from illicit trade, while +6% growth in the Others segment was broad based with the three sub segments Staples, Personal Care and Homecare driving sales likely on distribution gains. Hotels were up 11% on new additions. Agri Business segment revenues rose 22% driven by value added agri products, leaf tobacco and wheat. Paper revenues declined 7% with increased competition from lower-priced Chinese supplies as demand conditions remained weak.

Broad-based cost pressures: Cigarette margins improved as leaf tobacco inflation was offset by mix, savings and pricing. FMCG margins improved 25bps as commodities remained stable. However, there is a sequential increase in sugar, potato, choco cream and edible oil. In Agribusiness, sales growth was restricted by stock limits on wheat and restrictions on exports. Inflation in leaf tobacco and other agri commodities, ocean freight, and supply chain disruptions impacted margins.

Our view: In our view, ITC's growth will gather pace as the demand environment improves and strategic initiatives taken by the company yield results. The cigarettes business likely benefited from pre-budget buying but the FMCG others and hotels segments have both registered a healthy performance although inflation might limit results. Given reasonable earnings visibility in the Cigarette, FMCG and Hotels businesses, we maintain BUY on ITC. Our SOTP-based TP stands revised to Rs 575 (change in estimates and increase in peer multiples).

Key changes

Target	Rating
▲	◀ ▶

Ticker/Price	ITC IN/Rs 494
Market cap	US\$ 73.6bn
Free float	71%
3M ADV	US\$ 92.3mn
52wk high/low	Rs 511/Rs 399
Promoter/FPI/DII	0%/43%/57%

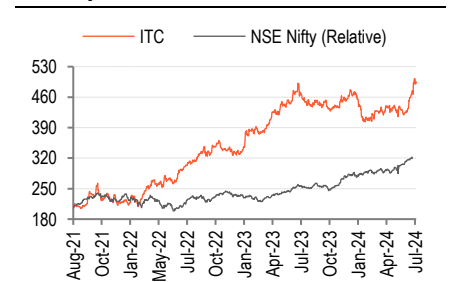
Source: NSE | Price as of 1 Aug 2024

Key financials

Y/E 31 Mar	FY24P	FY25E	FY26E
Total revenue (Rs mn)	708,810	777,298	911,468
EBITDA (Rs mn)	262,544	296,755	323,418
Adj. net profit (Rs mn)	207,589	223,552	242,298
Adj. EPS (Rs)	16.4	17.6	19.1
Consensus EPS (Rs)	15.8	17.8	18.8
Adj. ROAE (%)	27.7	28.5	29.4
Adj. P/E (x)	30.0	28.0	25.8
EV/EBITDA (x)	23.5	20.8	19.0
Adj. EPS growth (%)	6.5	7.3	8.4

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

Stock performance



Source: NSE

ITC 1QFY25 result summary				Reported vs (%)	
	(Rs mn)	Q1FY24	Q1FY25	YoY (%)	BOBCAPS
Sales	171,645	184,573	8	(15)	4
EBITDA	66,701	67,484	1	(14)	(3)
EBITDA margin (%)	38.9	36.6	(230bps)	36bps	(262bps)
Adj. EPS (Rs)	4.12	4.08	(1)	(12)	(2)

Source: Company, Bloomberg, BOBCAPS Research



Earnings and valuation

We forecast gradual recovery in sales and slight increase in margins to drive overall results. Demand environment remains weak but macro is turning favourable with an expected increase in the pace of recovery through FY25.

We value ITC using SOTP for each segment. We summarise our assumptions in the table below.

Fig 1 – ITC Sum-of-the-Parts valuation

	FY26E EBITDA (Rs mn)	Multiple (x)	EV (Rs mn)
Cigarettes	226,605	17.4x	3,942,924
Hotel	13,042	22.3x	290,834
Agri	23,619	14.1x	333,029
Paper	21,020	5.8x	121,918
EV/Revenue	FY26E Revenue	Multiple (x)	EV
FMCG	256,197	9.5x	2,445,401
Enterprise Value			7,134,106
Less: Net debt			(47,833)
Market Value (Rs mn)			7,181,938
No of share (mn)			12,485
Target Price (Rs)			575

Source: Company, BOBCAPS Research

Financials

Income Statement

Y/E 31 Mar (Rs mn)	FY22A	FY23A	FY24P	FY25E	FY26E
Total revenue	606,681	709,369	708,810	777,298	911,468
EBITDA	206,584	256,649	262,544	296,755	323,418
Depreciation	17,324	18,090	18,164	21,934	22,597
EBIT	189,260	238,559	244,380	274,822	300,820
Net interest inc./(exp.)	(394)	(432)	(460)	(492)	(506)
Other inc./(exp.)	18,364	19,805	27,278	24,265	23,089
Exceptional items	0	(729)	(76)	0	0
EBT	207,230	258,661	271,274	298,595	323,403
Income taxes	52,373	64,384	63,885	75,384	81,498
Extraordinary items	0	0	0	0	0
Min. int./Inc. from assoc.	175	490	276	341	392
Reported net profit	155,031	194,767	207,665	223,552	242,298
Adjustments	0	(729)	(76)	0	0
Adjusted net profit	155,031	194,039	207,589	223,552	242,298

Balance Sheet

Y/E 31 Mar (Rs mn)	FY22A	FY23A	FY24P	FY25E	FY26E
Accounts payables	44,173	46,590	47,978	42,144	53,510
Other current liabilities	51,160	55,714	55,947	55,947	55,947
Provisions	3,006	3,598	3,952	3,952	3,952
Debt funds	56	388	113	113	113
Other liabilities	45,982	57,153	61,372	61,372	61,372
Equity capital	12,323	12,428	12,485	12,485	12,485
Reserves & surplus	615,895	682,960	736,415	772,718	811,946
Shareholders' fund	628,219	695,388	748,900	785,202	824,430
Total liab. and equities	772,596	858,830	918,262	948,730	999,324
Cash and cash eq.	2,714	4,634	6,259	(17,972)	(48,979)
Accounts receivables	24,619	29,562	40,258	44,148	51,769
Inventories	108,642	117,712	141,529	155,781	195,877
Other current assets	13,061	15,618	13,832	13,832	13,832
Investments	249,505	295,580	312,640	347,035	375,116
Net fixed assets	202,074	211,171	230,823	232,322	236,285
CWIP	31,985	29,847	28,511	28,511	28,511
Intangible assets	20,402	27,459	26,878	26,878	26,878
Deferred tax assets, net	635	520	722	722	722
Other assets	118,960	126,728	116,810	116,810	118,650
Total assets	772,596	858,830	918,262	948,066	998,660

Cash Flows

Y/E 31 Mar (Rs mn)	FY22A	FY23A	FY24P	FY25E	FY26E
Cash flow from operations	157,755	188,776	171,789	221,803	228,400
Capital expenditures	(21,416)	(27,430)	(35,625)	(24,096)	(28,256)
Change in investments	(18,536)	(94,376)	38,451	(34,395)	(28,081)
Other investing cash flows	17,567	64,482	12,802	0	0
Cash flow from investing	(22,385)	(57,323)	15,628	(58,491)	(56,337)
Equities issued/Others	2,918	24,774	14,508	0	0
Debt raised/repaid	(597)	(598)	(685)	0	0
Interest expenses	(396)	(414)	(463)	0	0
Dividends paid	(137,883)	(153,971)	(198,992)	(187,250)	(203,070)
Other financing cash flows	153	149	121	0	0
Cash flow from financing	(135,805)	(130,060)	(185,510)	(187,250)	(203,070)
Chg in cash & cash eq.	(435)	1,392	1,907	(23,938)	(31,007)
Closing cash & cash eq.	2,714	4,633	6,258	(17,972)	(48,979)

Per Share

Y/E 31 Mar (Rs)	FY22A	FY23A	FY24P	FY25E	FY26E
Reported EPS	12.4	15.5	16.4	17.6	19.1
Adjusted EPS	12.6	15.4	16.4	17.6	19.1
Dividend per share	11.2	12.4	13.9	15.0	16.3
Book value per share	50.7	56.1	60.4	63.3	66.5

Valuations Ratios

Y/E 31 Mar (x)	FY22A	FY23A	FY24P	FY25E	FY26E
EV/Sales	10.2	8.7	8.7	7.9	6.8
EV/EBITDA	29.8	24.0	23.5	20.8	19.0
Adjusted P/E	39.1	32.0	30.0	28.0	25.8
P/BV	9.7	8.8	8.2	7.8	7.4

DuPont Analysis

Y/E 31 Mar (%)	FY22A	FY23A	FY24P	FY25E	FY26E
Tax burden (Net profit/PBT)	74.8	75.0	76.5	74.9	74.9
Interest burden (PBT/EBIT)	109.5	108.4	111.0	108.7	107.5
EBIT margin (EBIT/Revenue)	31.2	33.6	34.5	35.4	33.0
Asset turnover (Rev./Avg TA)	78.5	82.6	77.2	82.0	91.3
Leverage (Avg TA/Avg Equity)	1.2	1.2	1.2	1.2	1.2
Adjusted ROAE	24.7	27.9	27.7	28.5	29.4

Ratio Analysis

Y/E 31 Mar	FY22A	FY23A	FY24P	FY25E	FY26E
YoY growth (%)					
Revenue	23.1	16.9	(0.1)	9.7	17.3
EBITDA	21.5	24.2	2.3	13.0	9.0
Adjusted EPS	15.8	22.4	6.5	7.3	8.4
Profitability & Return ratios (%)					
EBITDA margin	34.1	36.2	37.0	38.2	35.5
EBIT margin	31.2	33.6	34.5	35.4	33.0
Adjusted profit margin	25.6	27.4	29.3	28.8	26.6
Adjusted ROAE	24.7	27.9	27.7	28.5	29.4
ROCE	30.1	34.3	32.6	35.0	36.5
Working capital days (days)					
Receivables	15	15	21	21	21
Inventory	150	148	190	190	190
Payables	61	59	64	64	64
Ratios (x)					
Gross asset turnover	2.1	2.2	2.0	2.1	2.2
Current ratio	2.8	2.9	3.0	3.3	3.4
Net interest coverage ratio	480.8	552.2	531.7	559.0	595.0
Adjusted debt/equity	0.0	0.0	0.0	0.0	0.0

Source: Company, BOBCAPS Research | Note: TA = Total Assets

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BUY – Expected return >+15%

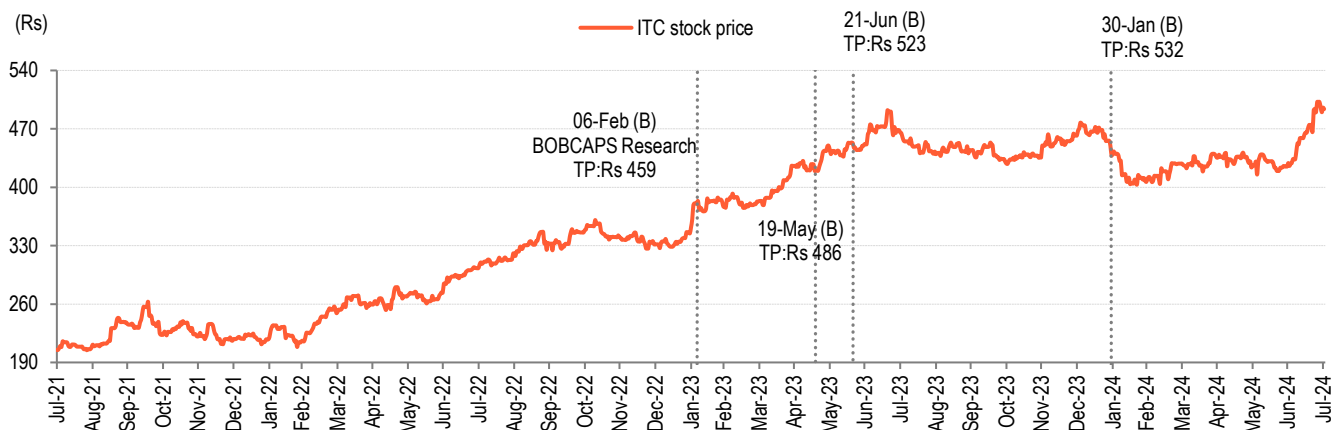
HOLD – Expected return from -6% to +15%

SELL – Expected return <-6%

Note: Recommendation structure changed with effect from 21 June 2021

Our recommendation scale does not factor in short-term stock price volatility related to market fluctuations. Thus, our recommendations may not always be strictly in line with the recommendation scale as shown above.

Ratings and Target Price (3-year history): ITC (ITC IN)



B – Buy, H – Hold, S – Sell, A – Add, R – Reduce

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