

**BUY**  
 TP: Rs 556 | ▲ 18%

ITC

Consumer Staples

25 October 2024

### Managing inflation

- Sales were 12% higher vs consensus likely due to the volatile, pass-through-based Agri Business segment. EBITDA was in line
- Excessive rains impacted 2QFY25 out-of-home category sales while inflation impacted margins across segments including Cigarettes
- While FY25 is inflationary, the prospects from Cigarette volume gains from illicit trade and FMCG scale up remain intact. Retain BUY

Lokesh Gusain

research@bobcaps.in

**Sales trends:** FMCG Cigarette segment sales increased 7% with volume share gains from illicit trade, while +5% growth in the Others segment was broad based with all three sub segments, Staples, Personal Care and Homecare, driving sales. Agri Business Segment sales grew 47% on leaf tobacco and value-added portfolio of coffee, fruits/vegetables and spices. Paper revenues rose only 2% with increased competition from lower-priced Chinese supplies as demand conditions remained weak. Hotel segment sales increased 12% despite a high year-ago comp – 2-year CAGR of 16.5%. Sales growth was driven by F&B, Retail and Wedding segments.

**Broad based cost pressures:** Cigarette margins deteriorated 100bps as leaf tobacco inflation was only partially offset by mix, savings & pricing. FMCG margins were down 40bps due to inflation in edible oil, wheat, flour etc. Paperboards, Paper & Packaging segment margins deteriorated 410bps due to further increase in wood costs on inventory shortage due to excessive rains. Hotels segment was the only exception with margins expanding 70bps on higher RevPAR, operating leverage and strategic cost management initiatives.

**Our view:** The current trend is inflationary, but calibrated pricing will largely offset inflation by FY25E end. We lower margin forecasts for FY25 but model a recovery in FY26. Given reasonable earnings visibility in the cigarette and FMCG businesses, we maintain BUY on ITC. Our SOTP-based TP stands revised from Rs 575 to Rs 556 (change in estimates).

### Key changes

Target	Rating
▼	◀ ▶

Ticker/Price	ITC IN/Rs 472
Market cap	US\$ 70.0bn
Free float	71%
3M ADV	US\$ 72.7mn
52wk high/low	Rs 529/Rs 399
Promoter/FPI/DII	0%/43%/57%

Source: NSE | Price as of 24 Oct 2024

### Key financials

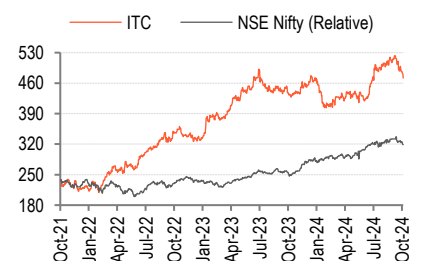
Y/E 31 Mar	FY24P	FY25E	FY26E
Total revenue (Rs mn)	708,810	777,947	870,792
EBITDA (Rs mn)	262,544	284,374	321,602
Adj. net profit (Rs mn)	204,663	211,111	237,556
Adj. EPS (Rs)	16.4	16.9	19.0
Consensus EPS (Rs)	15.8	17.8	18.8
Adj. ROAE (%)	27.7	27.3	29.3
Adj. P/E (x)	28.7	27.9	24.8
EV/EBITDA (x)	22.4	20.7	18.3
Adj. EPS growth (%)	6.5	2.7	12.5

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

ITC 2QFY25 result summary (Rs mn)	Q2FY24	Q2FY25	YoY (%)	Actual vs (%)	
				BoBCaps	Consensus
Sales	177,745	207,359	17	15	12
EBITDA	64,542	67,618	5	8	0
EBITDA margin (%)	36.3	32.6	(370bps)	(215bps)	(399bps)

Source: Company, Bloomberg, BOBCAPS Research

### Stock performance



Source: NSE



## Earnings summary

Our sales forecasts for FY25 are relatively unchanged but lower in FY26 and FY27. Cigarette volumes increased 3% during 2Q (~6% in June quarter) and sales were mainly driven by the Agribusiness segment which is a pass through business. Our EBITDA margin is lower in FY25 as pricing will be gradually passed through to offset inflation.

**Fig 1 – Revised estimates**

(Rs mn)	Actual	New			Old			Change (%)		
	FY24	FY25E	FY26E	FY27E	FY25E	FY26E	FY27E	FY25E	FY26E	FY27E
Sales	708,810	777,947	870,792	924,358	777,298	911,468	954,165	0	(4)	(3)
EBITDA	262,544	284,374	321,602	339,992	296,755	323,418	344,747	(4)	(1)	(1)
% of Revenue	37.0	36.6	36.9	36.8	38.2	35.5	36.1	(162bps)	145bps	65bps
Adjusted NPAT	204,663	211,111	237,556	251,142	223,552	242,298	254,630	(6)	(2)	(1)
Adjusted EPS (Rs)	16.45	16.89	18.99	20.08	17.60	19.10	20.16	(4)	(1)	0

Sources: Company, Bloomberg, BOBCAPS Research

## Valuation

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

**Fig 2 – ITC Sum of the Parts valuation**

EV/EBITDA	FY26E EBITDA	Multiple (x)	EV
Cigarettes	224,897	17.4x	3,913,200
Hotel	12,390	22.3x	276,306
Agri	22,074	14.1x	311,243
Paper	20,463	5.8x	118,687
EV/Revenue	FY26E Revenue	FY26E Revenue	Multiple (x)
FMCG	238,507	9.5x	2,276,547
Enterprise Value			6,895,983
Less: Net debt			(40,089)
Market Value (Rs mn)			6,936,072
No of share (mn)			12,485
<b>Target Price (Rs)</b>			<b>556</b>

Source: Company, BOBCAPS Research

## Key risks

Key downside risks to our estimates are:

- delayed rural recovery,
- a further increase in duty on cigarettes, and
- continued input cost inflation.

## Financials

### Income Statement

Y/E 31 Mar (Rs mn)	FY23A	FY24P	FY25E	FY26E	FY27E
<b>Total revenue</b>	<b>709,369</b>	<b>708,810</b>	<b>777,947</b>	<b>870,792</b>	<b>924,358</b>
EBITDA	256,649	262,544	284,374	321,602	339,992
Depreciation	18,090	18,164	21,489	22,599	22,599
EBIT	238,559	244,380	262,885	299,003	317,393
Net interest inc./(exp.)	(432)	(460)	(529)	(506)	(506)
Other inc./(exp.)	19,805	27,278	24,655	23,094	23,094
Exceptional items	(729)	(76)	(12)	0	0
EBT	258,661	271,274	287,023	321,591	339,982
Income taxes	64,384	63,885	73,161	81,041	85,675
Extraordinary items	0	0	0	0	0
Min. int./Inc. from assoc.	490	276	296	378	401
<b>Reported net profit</b>	<b>194,767</b>	<b>207,665</b>	<b>214,157</b>	<b>240,929</b>	<b>254,708</b>
Adjustments	(729)	(76)	(12)	0	0
<b>Adjusted net profit</b>	<b>194,039</b>	<b>204,663</b>	<b>211,111</b>	<b>237,556</b>	<b>251,142</b>

### Balance Sheet

Y/E 31 Mar (Rs mn)	FY23A	FY24P	FY25E	FY26E	FY27E
Accounts payables	46,590	47,978	41,930	46,752	49,877
Other current liabilities	55,714	55,947	55,947	55,947	55,947
Provisions	3,598	3,952	3,952	3,952	3,952
Debt funds	388	113	113	113	113
Other liabilities	57,153	61,372	61,372	61,372	61,372
Equity capital	12,428	12,485	12,485	12,485	12,485
Reserves & surplus	682,960	736,415	771,118	810,124	851,362
Shareholders' fund	695,388	748,900	783,603	822,609	863,846
<b>Total liab. and equities</b>	<b>858,830</b>	<b>918,262</b>	<b>946,916</b>	<b>990,745</b>	<b>1,035,107</b>
Cash and cash eq.	4,634	6,259	(25,716)	(30,114)	(16,289)
Accounts receivables	29,562	40,258	44,185	49,458	52,501
Inventories	117,712	141,529	161,068	180,172	191,980
Other current assets	15,618	13,832	13,832	13,832	13,832
Investments	295,580	312,640	347,176	366,484	377,852
Net fixed assets	211,171	230,823	232,341	235,117	237,835
CWIP	29,847	28,511	28,511	28,511	28,511
Intangible assets	27,459	26,878	26,878	26,878	26,878
Deferred tax assets, net	520	722	722	722	722
Other assets	126,728	116,810	116,810	118,650	120,490
<b>Total assets</b>	<b>858,830</b>	<b>918,262</b>	<b>945,806</b>	<b>989,710</b>	<b>1,034,310</b>

### Cash Flows

Y/E 31 Mar (Rs mn)	FY23A	FY24P	FY25E	FY26E	FY27E
<b>Cash flow from operations</b>	<b>188,776</b>	<b>171,789</b>	<b>206,425</b>	<b>243,827</b>	<b>267,318</b>
Capital expenditures	(27,430)	(35,625)	(24,116)	(26,995)	(28,655)
Change in investments	(94,376)	38,451	(34,536)	(19,308)	(11,367)
Other investing cash flows	64,482	12,802	0	0	0
<b>Cash flow from investing</b>	<b>(57,323)</b>	<b>15,628</b>	<b>(58,653)</b>	<b>(46,303)</b>	<b>(40,022)</b>
Equities issued/Others	24,774	14,508	0	0	0
Debt raised/repaid	(598)	(685)	0	0	0
Interest expenses	(414)	(463)	0	0	0
Dividends paid	(153,971)	(198,992)	(179,454)	(201,922)	(213,470)
Other financing cash flows	149	121	0	0	0
<b>Cash flow from financing</b>	<b>(130,060)</b>	<b>(185,510)</b>	<b>(179,454)</b>	<b>(201,922)</b>	<b>(213,470)</b>
<b>Chg in cash &amp; cash eq.</b>	<b>1,392</b>	<b>1,907</b>	<b>(31,682)</b>	<b>(4,398)</b>	<b>13,825</b>
<b>Closing cash &amp; cash eq.</b>	<b>4,633</b>	<b>6,258</b>	<b>(25,716)</b>	<b>(30,114)</b>	<b>(16,289)</b>

### Per Share

Y/E 31 Mar (Rs)	FY23A	FY24P	FY25E	FY26E	FY27E
Reported EPS	15.5	16.4	16.9	19.0	20.1
Adjusted EPS	15.4	16.4	16.9	19.0	20.1
Dividend per share	12.4	13.9	14.3	16.1	17.1
Book value per share	56.1	60.4	63.2	66.3	69.7

### Valuations Ratios

Y/E 31 Mar (x)	FY23A	FY24P	FY25E	FY26E	FY27E
EV/Sales	8.3	8.3	7.6	6.8	6.4
EV/EBITDA	22.9	22.4	20.7	18.3	17.3
Adjusted P/E	30.6	28.7	27.9	24.8	23.5
P/BV	8.4	7.8	7.5	7.1	6.8

### DuPont Analysis

Y/E 31 Mar (%)	FY23A	FY24P	FY25E	FY26E	FY27E
Tax burden (Net profit/PBT)	75.0	76.5	74.6	74.9	74.9
Interest burden (PBT/EBIT)	108.4	111.0	109.2	107.6	107.1
EBIT margin (EBIT/Revenue)	33.6	34.5	33.8	34.3	34.3
Asset turnover (Rev./Avg TA)	82.6	77.2	82.3	88.0	89.4
Leverage (Avg TA/Avg Equity)	1.2	1.2	1.2	1.2	1.2
<b>Adjusted ROAE</b>	<b>27.9</b>	<b>27.7</b>	<b>27.3</b>	<b>29.3</b>	<b>29.5</b>

### Ratio Analysis

Y/E 31 Mar	FY23A	FY24P	FY25E	FY26E	FY27E
<b>YoY growth (%)</b>					
Revenue	16.9	(0.1)	9.8	11.9	6.2
EBITDA	24.2	2.3	8.3	13.1	5.7
Adjusted EPS	22.4	6.5	2.7	12.5	5.7
<b>Profitability &amp; Return ratios (%)</b>					
EBITDA margin	36.2	37.0	36.6	36.9	36.8
EBIT margin	33.6	34.5	33.8	34.3	34.3
Adjusted profit margin	27.4	29.3	27.5	27.7	27.6
Adjusted ROAE	27.9	27.7	27.3	29.3	29.5
ROCE	34.3	32.6	33.5	36.3	36.7
<b>Working capital days (days)</b>					
Receivables	15	21	21	21	21
Inventory	148	190	190	190	190
Payables	59	64	64	64	64
<b>Ratios (x)</b>					
Gross asset turnover	2.2	2.0	2.1	2.1	2.1
Current ratio	2.9	3.0	3.3	3.5	3.7
Net interest coverage ratio	552.2	531.7	496.9	591.4	627.8
<b>Adjusted debt/equity</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>

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

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 Registered office Address: **1704, B Wing, Parinee Crescenzo, G Block, BKC, Bandra East, Mumbai 400051**  
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**BUY** – Expected return >+15%

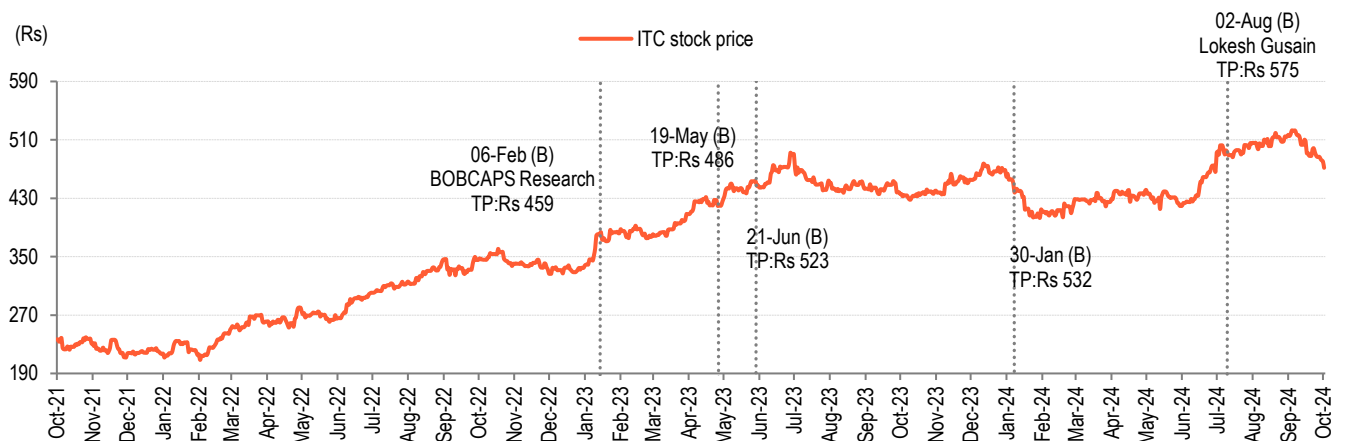
**HOLD** – Expected return from -6% to +15%

**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.

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

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