

BUY
 TP: Rs 551 | ▲ 25%

ITC

Consumer Staples

07 February 2025

Managing inflation

- Sales were 3% higher vs consensus likely reflecting strong cigarette volumes. EBITDA was 5% below expectations due to inflation
- ITC is using a combination of calibrated pricing, savings and mix improvement by driving premiumisation
- While FY25 and part of FY26 is inflationary, the prospects of cigarette volume gains from illicit trade and FMCG scale up remain intact. **BUY**

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Sales trends: FMCG Cigarette segment sales increased 8% with volume +6% to 7% on share gains from illicit trade. FMCG Others segment sales were up 4% driven by food and personal care products partly offset by weakness in notebooks as lower paper prices led to discounting in the category. Agri Business Segment sales grew 10% on leaf tobacco, spices and coffee. Paper revenues rose only 3% with continued competition from lower-priced Chinese supplies as demand conditions remained weak.

Broad based cost pressures: Cigarette margins deteriorated 190bps as leaf tobacco inflation was only partially offset by mix, savings & pricing. FMCG margins were down 240bps due to inflation in edible oil, wheat, flour etc. Paperboards, Paper & Packaging segment margins deteriorated 500bps due to increase in wood costs on inventory shortage due to excessive rains. Agribusiness margins improved 210bps with the rise in commodity costs.

Valuation and our view: The current trend is inflationary, and calibrated pricing is gradually offsetting inflation. We incorporate the Hotels business as discontinued and so now have a slightly lower sales and margin profile across the forecast years. Given reasonable earnings visibility in the cigarette (share gains from illicit trade) and FMCG businesses, we maintain BUY on ITC. Our SOTP-based TP stands revised from Rs 556 to Rs 551.

Fig 1 – ITC 3QFY25 result summary

(Rs mn)	Reported			Actual vs (%)	
	Q3FY24	Q3FY25	YoY (%)	BoB	Consensus
Sales	180,194	187,902	4	(5)	3
EBITDA	65,038	63,619	(2)	(9)	(5)
EBITDA margin (%)	36.1	33.9	(224bps)	(152bps)	(274bps)

Source: Company, Bloomberg, BOBCAPS Research

Key changes

Target	Rating
▼	◀ ▶

Ticker/Price	ITC IN/Rs 441
Market cap	US\$ 62.8bn
Free float	71%
3M ADV	US\$ 75.6mn
52wk high/low	Rs 529/Rs 399
Promoter/FPI/DII	0%/43%/57%

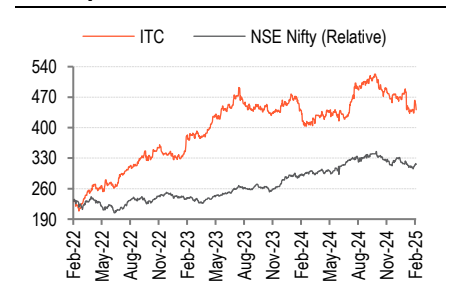
Source: NSE | Price as of 6 Feb 2025

Key financials

Y/E 31 Mar	FY24P	FY25E	FY26E
Total revenue (Rs mn)	708,810	754,803	833,080
EBITDA (Rs mn)	262,544	266,562	296,645
Adj. net profit (Rs mn)	204,663	200,743	223,408
Adj. EPS (Rs)	16.4	16.3	17.9
Consensus EPS (Rs)	15.8	17.8	18.8
Adj. ROAE (%)	27.7	26.1	27.7
Adj. P/E (x)	26.8	27.0	24.7
EV/EBITDA (x)	21.0	20.6	18.6
Adj. EPS growth (%)	6.5	(0.6)	9.2

Source: Company, Bloomberg, BOBCAPS Research

Stock performance



Source: NSE



3QFY25 result review

Earnings revisions

We incorporate the spinoff of ITC's hotels business into our forecasts. Our sales forecasts reflect Hotels listing. Margins are also lower across as (1) ITC Hotels was a higher-than-average margin business, and (2) pricing will only gradually improve as the urban consumer remains financially stressed.

Fig 2 – ITCs earnings review

(Rs mn)	Actual	New	Old	(%)	New	Old	(%)	New	Old	(%)
	FY24	FY25	FY25	Change	FY26	FY26	Change	FY27	FY27	Change
Sales	708,810	754,803	777,947	(3)	833,080	870,792	(4)	901,682	924,358	(2)
EBITDA	262,544	266,562	284,374	(6)	296,645	321,602	(8)	321,072	339,992	(6)
% of Revenue	37.0	35.3	36.6	(124bps)	35.6	36.9	(132bps)	35.6	36.8	(117bps)
Adjusted NPAT	204,663	200,743	211,111	(5)	223,408	237,556	(6)	241,450	251,142	(4)
Adjusted EPS	16.45	16.35	16.89	(3)	17.86	18.99	(6)	19.30	20.08	(4)

Source: Company, Bloomberg, BOBCAPS Research

Valuation

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

Fig 3 – ITC Sum of the Parts valuation

EV/EBITDA	FY26E EBITDA	EV/EBITDA multiple (x)	EV
Cigarettes	240,206	17.4x	4,179,580
Agri	20,886	14.1x	294,499
Paper	19,202	5.8x	111,372
EV/Revenue	FY26E Revenue	Multiple (x)	EV
FMCG	238,543	9.5x	2,276,891
Enterprise Value			6,862,341
Less: Net debt			(37,479)
Market Value (Rs mn)			6,899,820
No of share (mn)			12,512
Target Price (Rs)			551

Source: Company, Bloomberg, BOBCAPS Research

Key risks

Key downside risks to our estimates are:

- Weaker than expected rural/urban 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
Total revenue	709,369	708,810	754,803	833,080	901,682
EBITDA	256,649	262,544	266,562	296,645	321,072
Depreciation	18,090	18,164	16,513	16,639	16,639
EBIT	238,559	244,380	250,049	280,006	304,433
Net interest inc./(exp.)	(432)	(460)	(468)	(468)	(468)
Other inc./(exp.)	19,805	27,278	24,629	22,940	22,940
Exceptional items	(729)	(76)	0	0	0
EBT	258,661	271,274	274,210	302,478	326,905
Income taxes	64,384	63,885	70,599	76,225	82,380
Extraordinary items	0	0	0	0	0
Min. int./Inc. from assoc.	490	276	154	326	353
Reported net profit	194,767	207,665	203,766	226,580	244,878
Adjustments	(729)	(76)	0	0	0
Adjusted net profit	194,039	204,663	200,743	223,408	241,450

Balance Sheet

Y/E 31 Mar (Rs mn)	FY23A	FY24P	FY25E	FY26E	FY27E
Accounts payables	46,590	47,978	41,532	46,570	50,406
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	769,549	806,233	845,878
Shareholders' fund	695,388	748,900	782,034	818,717	858,363
Total liab. and equities	858,830	918,262	944,950	986,671	1,030,152
Cash and cash eq.	4,634	6,259	(28,326)	(35,488)	(35,066)
Accounts receivables	29,562	40,258	42,870	47,316	51,213
Inventories	117,712	141,529	163,152	182,568	197,597
Other current assets	15,618	13,832	13,832	13,832	13,832
Investments	295,580	312,640	342,792	358,482	373,040
Net fixed assets	211,171	230,823	231,667	233,387	235,557
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
Total assets	858,830	918,262	938,907	974,857	1,012,772

Cash Flows

Y/E 31 Mar (Rs mn)	FY23A	FY24P	FY25E	FY26E	FY27E
Cash flow from operations	188,776	171,789	189,891	224,250	248,164
Capital expenditures	(27,430)	(35,625)	(23,399)	(25,825)	(27,952)
Change in investments	(94,376)	38,451	(30,151)	(15,690)	(14,558)
Other investing cash flows	64,482	12,802	0	0	0
Cash flow from investing	(57,323)	15,628	(53,550)	(41,515)	(42,510)
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)	(170,632)	(189,897)	(205,232)
Other financing cash flows	149	121	0	0	0
Cash flow from financing	(130,060)	(185,510)	(170,632)	(189,897)	(205,232)
Chg in cash & cash eq.	1,392	1,907	(34,291)	(7,162)	422
Closing cash & cash eq.	4,633	6,258	(28,326)	(35,488)	(35,066)

Per Share

Y/E 31 Mar (Rs)	FY23A	FY24P	FY25E	FY26E	FY27E
Reported EPS	15.5	16.4	16.3	17.9	19.3
Adjusted EPS	15.4	16.4	16.3	17.9	19.3
Dividend per share	12.4	13.9	13.6	15.2	16.4
Book value per share	56.1	60.4	63.1	66.0	69.2

Valuations Ratios

Y/E 31 Mar (x)	FY23A	FY24P	FY25E	FY26E	FY27E
EV/Sales	7.8	7.8	7.3	6.6	6.1
EV/EBITDA	21.4	21.0	20.6	18.6	17.1
Adjusted P/E	28.6	26.8	27.0	24.7	22.9
P/BV	7.9	7.3	7.0	6.7	6.4

DuPont Analysis

Y/E 31 Mar (%)	FY23A	FY24P	FY25E	FY26E	FY27E
Tax burden (Net profit/PBT)	75.0	76.5	74.3	74.9	74.9
Interest burden (PBT/EBIT)	108.4	111.0	109.7	108.0	107.4
EBIT margin (EBIT/Revenue)	33.6	34.5	33.1	33.6	33.8
Asset turnover (Rev./Avg TA)	82.6	77.2	80.4	85.5	89.0
Leverage (Avg TA/Avg Equity)	1.2	1.2	1.2	1.2	1.2
Adjusted ROAE	27.9	27.7	26.1	27.7	28.5

Ratio Analysis

Y/E 31 Mar	FY23A	FY24P	FY25E	FY26E	FY27E
YoY growth (%)					
Revenue	16.9	(0.1)	6.5	10.4	8.2
EBITDA	24.2	2.3	1.5	11.3	8.2
Adjusted EPS	22.4	6.5	(0.6)	9.2	8.1
Profitability & Return ratios (%)					
EBITDA margin	36.2	37.0	35.3	35.6	35.6
EBIT margin	33.6	34.5	33.1	33.6	33.8
Adjusted profit margin	27.4	29.3	27.0	27.2	27.2
Adjusted ROAE	27.9	27.7	26.1	27.7	28.5
ROCE	34.3	32.6	32.0	34.2	35.5
Working capital days (days)					
Receivables	15	21	21	21	21
Inventory	148	190	190	190	190
Payables	59	64	64	64	64
Ratios (x)					
Gross asset turnover	2.2	2.0	2.0	2.1	2.1
Current ratio	2.9	3.0	3.3	3.4	3.6
Net interest coverage ratio	552.2	531.7	534.4	598.4	650.7
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%

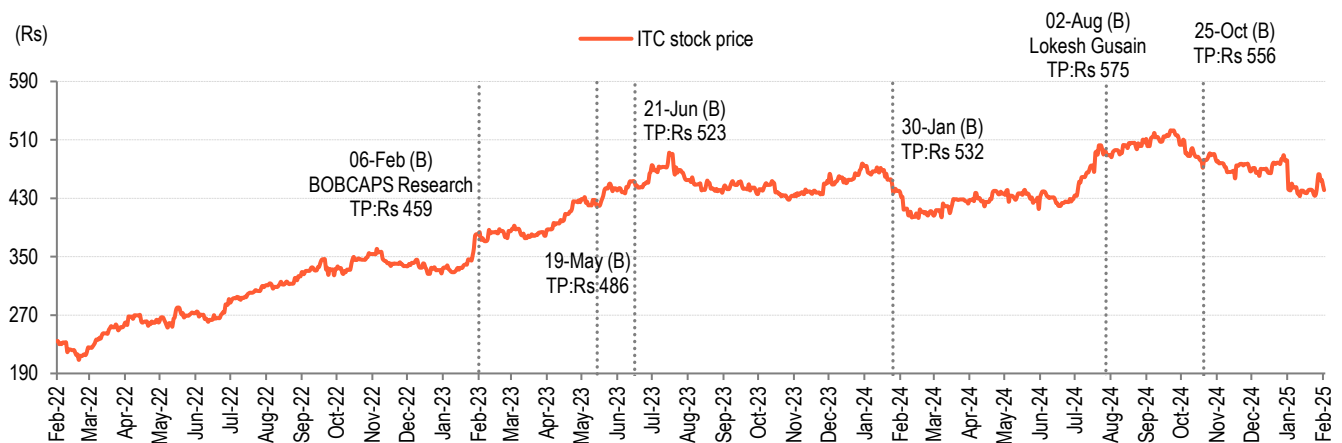
HOLD – Expected return from -6% to +15%

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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