**BUY** **ITC**



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# Annual Report analysis: Better execution to aid stock rerating

**Consumer Goods** ▸ Company Update ▸ **July 15, 2023**

**TARGET PRICE (Rs) : 525**

**We maintain our BUY recommendation on ITC with Jun-24E target price of Rs525/share, as we see firm structural prospects. From the core cigarette business perspective, we expect rational tax hikes ahead, given higher share of the ad-valorem component leading to build-up of volumes, which along with improving mix would aid a high-single-digit EBIT growth. In non-cigarette operations, we continue to see profitable growth and improving return profile, where segments are self-sufficient to address their growth needs. Amid the enhanced demand setting in F&B, Agri export and Paper, we see execution to be key. We continue to see ahead-of-time capex as a business moat, which enhances the company's structural prospects. Value unlocking in Hotels operations remains a near-term catalyst.**

**ITC: Financial Snapshot (Standalone)**

| Y/E Mar (Rs mn) | FY22 | FY23 | FY24E | FY25E | FY26E |
|---|---|---|---|---|---|
| Revenue | 563,413 | 660,022 | 731,215 | 802,146 | 880,527 |
| EBITDA | 189,337 | 239,034 | 259,700 | 293,848 | 322,683 |
| Adj. PAT | 150,578 | 186,394 | 201,452 | 223,194 | 247,708 |
| Adj. EPS (Rs) | 12.2 | 15.0 | 16.1 | 17.8 | 19.6 |
| EBITDA margin (%) | 33.6 | 36.2 | 35.5 | 36.6 | 36.6 |
| EBITDA growth (%) | 22.0 | 26.2 | 8.6 | 13.1 | 9.8 |
| Adj. EPS growth (%) | 15.4 | 22.7 | 7.5 | 10.2 | 10.4 |
| RoE (%) | 25.0 | 28.9 | 29.6 | 31.5 | 32.5 |
| RoIC (%) | 24.7 | 28.9 | 29.0 | 31.4 | 32.1 |
| P/E (x) | 38.7 | 31.5 | 29.3 | 26.6 | 24.1 |
| EV/EBITDA (x) | 30.6 | 24.4 | 22.6 | 20.1 | 18.4 |
| P/B (x) | 9.5 | 8.7 | 8.6 | 8.1 | 7.5 |
| FCFF yield (%) | 2.3 | 2.8 | 2.8 | 3.1 | 3.4 |

*Source: Company, Emkay Research*

### Cigarette: EBIT growth momentum crucial for valuation

We see that stock value re-rating has been a factor of faster recovery in the Cigarette business EBIT (~19% CAGR over FY21-23), which has benefitted from the double-digit volume growth momentum (~17% CAGR over FY21-23) on a weak base. Going ahead, we see EBIT growth moderating, albeit remaining relatively better at a high-single-digit over FY23-26E vs 2% CAGR over FY16-21 (industry saw sustained double-digit tax hikesduring FY13-18). We see tailwinds from: i) the higher ad-valorem component in taxation limiting the need for any sharp tax hikes, ii) connect with youth with innovative formats, iii) fortified portfolio driving legal volumes, and iv) improving sales mix with gradual consumer up-trade. Probability of a tax increase remains the key headwind.

### Non-Cigarette businesses self sufficient to fund structural growth

We believe bulk of the investments across non-cigarette segments are in place, except sustained needs in the paper business. Most heartening is the self-sufficiency across segments leading to funding own growth needs. For FY23, all businesses retained the healthy growth, with sales/EBITDA YoY growth at 20%/35% for 'Other FMCG', 19%/25% for Paper, 12%/25% for Agri, and expansion of 2x/11x for Hotels. We see profitable growth ahead, with 11% sales CAGR and 13% EBITDA CAGR over FY23-26E. Structural prospects remain firm in Agri, where inter-segment sales are now at 32% (non-tobacco salience in external sales is 78%). Similarly for the Paper business, sales stand at 20%.

### Healthy business recovery aided a re-rating; we maintain BUY; TP: Rs525/sh

ITC's valuation re-rating has been a factor of the conducive setting in the cigarettes business and profitable growth across other segments. We maintain a positive outlook, and see a K-Shaped recovery in ITC's 'Other FMCG' business. Value unlocking in Hotels operations is a near-term catalyst. We maintain BUY with SoTP-based TP of Rs525. Key risks to our call: a) sharp tax hikes for cigarettes, b) entry into the low-margin/long-gestation categories, c) overhang from the GoI's SUUTI stake sale.

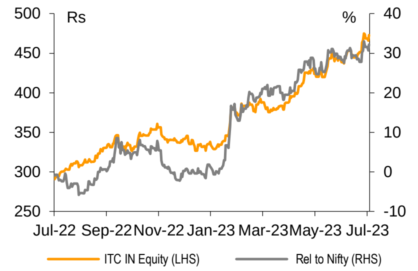
| | |
|---|---|
| Target Price – 12M | Jun-24 |
| **Change in TP (%)** | **NA** |
| Current Reco. | BUY |
| Previous Reco. | BUY |
| Upside/(Downside) (%) | 11.0 |
| CMP (14-Jul-23) (Rs) | 472.9 |

| Stock Data | Ticker |
|---|---|
| 52-week High (Rs) | 481 |
| 52-week Low (Rs) | 287 |
| Shares outstanding (mn) | 12,439.5 |
| Market-cap (Rs bn) | 5,883 |
| Market-cap (USD mn) | 71,591 |
| Net-debt, FY24E (Rs mn) | 0 |
| ADTV-3M (mn shares) | 11 |
| ADTV-3M (Rs mn) | 4,617.7 |
| ADTV-3M (USD mn) | 56.2 |
| Free float (%) | - |
| Nifty-50 | 19,565 |
| INR/USD | 82.2 |
| **Shareholding, Mar-23** | |
| Promoters (%) | - |
| FPIs/MFs (%) | 43.3/42.1 |

**Price Performance**

| (%) | 1M | 3M | 12M |
|---|---|---|---|
| Absolute | 6.4 | 20.3 | 63.6 |
| Rel. to Nifty | 2.0 | 9.6 | 33.3 |

**1-Year share price trend (Rs)**

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# Key anecdotes from the FY23 Annual Report

While key annual financials are available with Q4 reporting, we reviewed the FY23 Annual Report to comprehend the performance of different segments as well as actions undertaken by the company across segments for enhancing structural prospects. In this report, we have presented a detailed review of each segment and our outlook.

Key anecdotes worth highlighting:

*ITC's other FMCG business recorded consumer price revenue of Rs290bn; company has reach to 230mn households in India*

- **'Other FMCG' revenue expanded to ~Rs191bn in FY23 from ~Rs160bn in FY22**. In terms of price to consumer, revenue expanded to ~Rs290bn from ~Rs240bn in FY22.
- In India, **'other FMCG products' reached 230mn households.** The *Aashirvaad* brand has reach to up to 74mn households.
- In the **international market, the company exports to over 60 countries**.
- **In 'other FMCG business', ITC is the leader in** branded *atta* (under the *Aashirvaad* brand), cream biscuits (under *Sunfeast*), the bridge snack segment (under *Bingo*), notebooks (under *Classmate*), and *dhoop* (under *Mangaldeep*). In the Noodles and *Agarbatti* segments, the company is a challenger (holds the #2 position).

*The PLI scheme is likely to be an enabler, where ITC is the only company selected across the key benefit segments*

- **Packaged foods remain bulk of the business**, contributing to 83% of Other FMCG sales.
- From the **production linked incentive** (PLI) scheme perspective, the company is selected under: i) sales-based schemes, in key categories like 'Ready to Eat', processed fruits and vegetables, and marine products; ii) branding and marketing abroad; and iii) sales-based incentives for millet products.
- In line with its purpose of 'Help India Eat Better', ITC has developed an **innovative 'good-for-you' range of millet-based products** for new-age consumers.

*ITC now has the second-widest distribution network in the FMCG sector (after HUL), with outlet reach of up to 7mn*

- ITC distributes its products through 7mn outlets now, of which 1/3rd are in direct reach of the company. Its eB2B app *Unnati* is now being adopted by 0.54mn outlets.
- **Cigarettes volume is expected to have grown ~17.5%** in FY23.
- **ITC's contribution to exchequers expanded 20% YoY to Rs450bn in FY23;** of this, ~87% is routed in the form of indirect taxation.
- In the Agri business, **leaf tobacco sales jumped 49% YoY** in FY23, while other agri-commodities saw a 7% decline.
- **ITC sourced 4.5mt agri-produce across 22 states**; supporting over 20 agri value-chains
- **ITCMAARS has been rolled out in 9 states till date**, with over **1,150 FPOs** encompassing more than 500k farmers.
- ITC has scaled up its **customized crop development program in Madhya Pradesh,** to build deeper expertise in medicinal and aromatic plant extracts (MAPE).

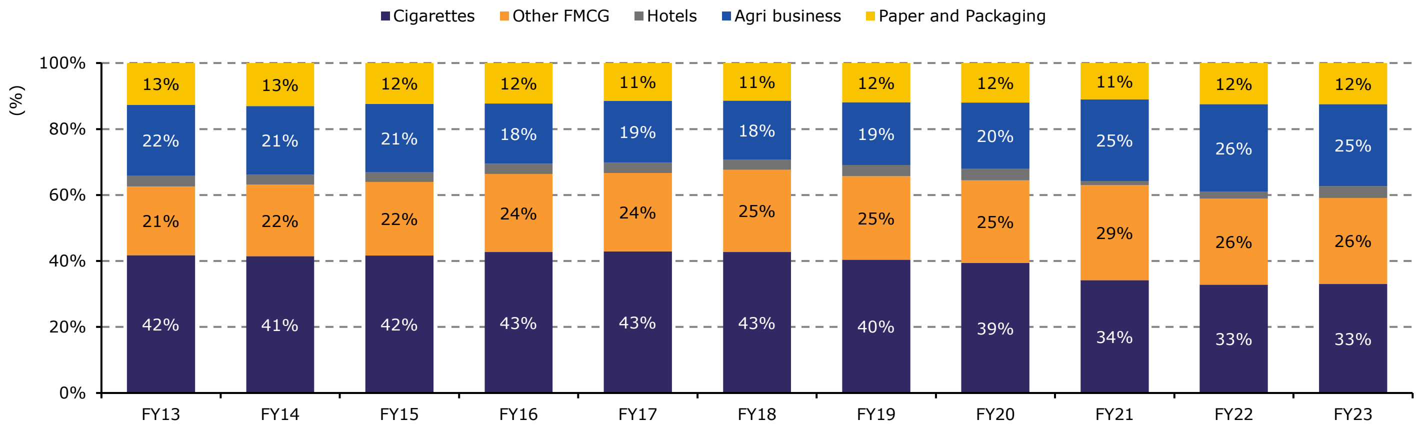
*ITC Hotels now has >120 properties with 11,500 room keys*

- With strong momentum in cigarettes and 'other FMCG', **inter-segmental sales contribution** expanded to 32% for the agri (vs 28% in FY22) and 20% for the paper (vs 18% in FY22) businesses.
- **ITC Hotels now has >120 properties** with 11,500 room keys.
- **During FY23, the company added 12 Hotel properties.**
- Packaging businesses are **placed well to substitute single-use plastics**.
- **Advertisement and promotion spends, as a % of group revenue, stood at 2% and** absolute spend increased ~15% YoY. As a % of 'Other FMCG' revenue, Group A&P spends stood at ~6.9%, down from the historical levels of ~9% (FY17-20).

*Dividend payout for the year stood at 103%*

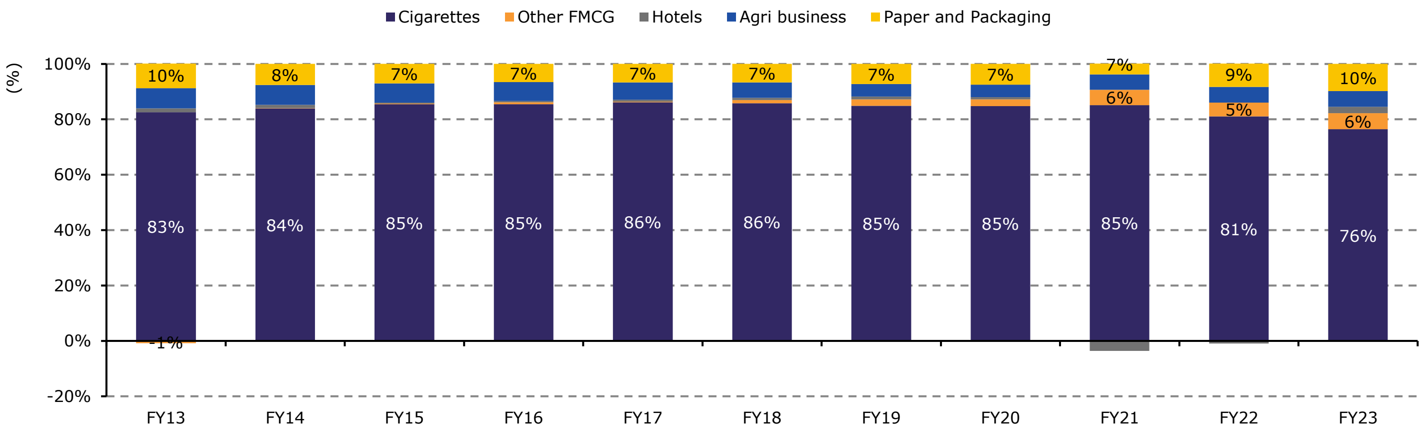
- The company announced special dividend of Rs2.5/share during FY23 which, along with final dividend of Rs6.75/share, takes the **overall FY23 dividend to Rs15.5/share** (vs Rs11.5/share in FY22). Payout for FY23 stood at 103% vs 90% for FY22.
- **Overall capex for the year stood at Rs16.5bn**, of which 45% was allocated to the paper business and ~25% to 'Other FMCG' operations.

**Exhibit 1: Revenue contribution by segment**



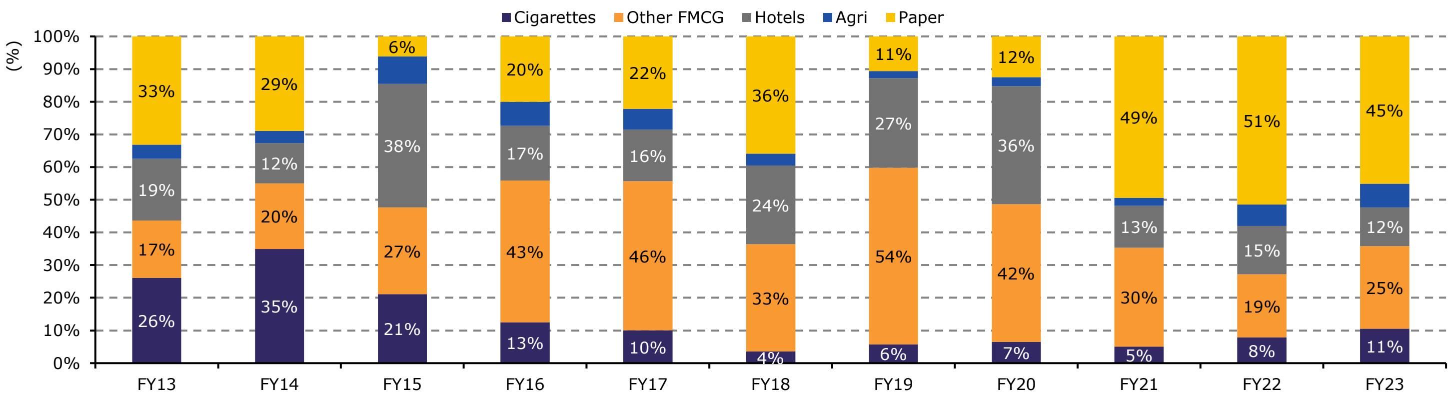

*Source: Company, Emkay Research*

**Exhibit 2: EBIT contribution by segment**




*Source: Company, Emkay Research*

**Exhibit 3: Capex contribution by segment**




*Source: Company, Emkay Research*

# Cigarettes sustained healthy momentum

***Cigarette revenue grew 20%, with 21% EBIT growth***

- **On the back of stable taxation and low base of Covid-19 volumes, the company continued to clock double-digit volume growth in FY23; our FY23E volume growth estimate stands at ~17.5%. Overall revenue for FY23 grew 20% YoY. Segment EBIT saw healthy growth, at ~21% YoY, with ~20bps expansion in EBIT margin to 74.3% (as a % of net sales).**

***Going ahead, we see ~8% sales CAGR and ~9% EBIT CAGR over FY23-26E***

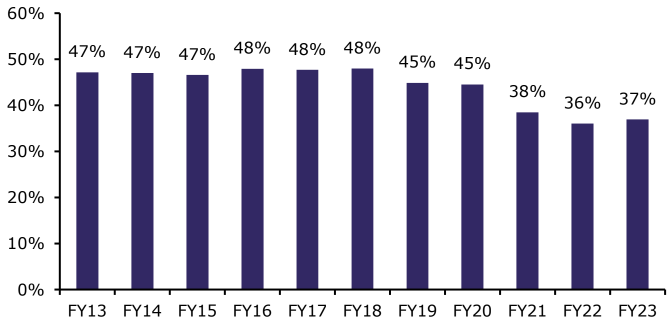
- **Going ahead, we see 6% volume growth for FY23E, post which we see growth at ~3%. Price hike would be a factor of tax hike, wherein ~4% realization CAGR would help the company pass-on the impact of a mid-single-digit taxation. From the margin perspective, amid inflationary leaf tobacco and Acetate Tow, we see flat EBIT margin for FY24E. Margin would see gradual expansion over FY25E-26E, with improving sales mix. We forecast 10% EBIT CAGR in the business.**

**Exhibit 4: Cigarette business — Annual historical financials**

| (Rs mn) | FY13 | FY14 | FY15 | FY16 | FY17 | FY18 | FY19 | FY20 | FY21 | FY22 | FY23 |
|---|---|---|---|---|---|---|---|---|---|---|---|
| Gross Sales | 259,877 | 290,765 | 304,519 | 323,489 | 340,018 | 228,940 | 207,130 | 212,017 | 203,331 | 234,514 | 282,068 |
| - growth | 16.8% | 11.9% | 4.7% | 6.2% | 5.1% | -32.7% | -9.5% | 2.4% | -4.1% | 15.3% | 20.3% |
| Indirect tax | 120,174 | 136,202 | 136,476 | 148,628 | 151,023 | 35,291 | 7,887 | 10,580 | 29,482 | 33,856 | 40,674 |
| - as a % of gross sales | 46.2% | 46.8% | 44.8% | 45.9% | 44.4% | 15.4% | 3.8% | 5.0% | 14.5% | 14.4% | 14.4% |
| **Net sales** | **139,703** | **154,563** | **168,043** | **174,861** | **188,995** | **193,649** | **199,242** | **201,437** | **173,849** | **200,658** | **241,394** |
| - growth | 13.4% | 10.6% | 8.7% | 4.1% | 8.1% | 2.5% | 2.9% | 1.1% | -13.7% | 15.4% | 20.3% |
| - as a % of overall sales | 47% | 47% | 47% | 48% | 48% | 48% | 45% | 45% | 38% | 36% | 37% |
| **EBIT** | **83,259** | **98,580** | **111,963** | **117,524** | **125,139** | **133,408** | **145,511** | **148,526** | **127,204** | **148,691** | **179,271** |
| - growth | 20.5% | 18.4% | 13.6% | 5.0% | 6.5% | 6.6% | 9.1% | 2.1% | (14.4%) | 16.9% | 20.6% |
| - margin | 59.6% | 63.8% | 66.6% | 67.2% | 66.2% | 68.9% | 73.0% | 73.7% | 73.2% | 74.1% | 74.3% |
| - as a % of overall EBIT | 82.6% | 83.9% | 85.4% | 85.5% | 86.2% | 85.9% | 84.9% | 84.7% | 85.2% | 81.1% | 76.4% |
| Depreciation | 2,362 | 2,564 | 2,475 | 2,458 | 2,483 | 2,492 | 2,454 | 2,726 | 2,637 | 2,632 | 2,686 |
| **EBITDA** | **85,622** | **101,144** | **114,438** | **119,983** | **127,623** | **135,901** | **147,965** | **151,251** | **129,842** | **151,323** | **181,957** |
| - growth | 20.4% | 18.1% | 13.1% | 4.8% | 6.4% | 6.5% | 8.9% | 2.2% | (14.2%) | 16.5% | 20.2% |
| - margin | 61% | 65% | 68% | 69% | 68% | 70% | 74% | 75% | 75% | 75% | 75% |
| - as a % of overall EBITDA | 79% | 80% | 82% | 82% | 82% | 82% | 81% | 80% | 79% | 76% | 73% |
| | | | | | | | | | | | |
| Segment assets | 68,376 | 78,120 | 80,050 | 78,935 | 79,945 | 79,569 | 83,152 | 69,039 | 67,370 | 66,546 | 72,907 |
| Segment liabilities | 18,842 | 21,065 | 21,864 | 26,444 | 24,478 | 46,248 | 47,208 | 39,911 | 44,696 | 46,843 | 50,569 |
| **Capital employed** | **49,534** | **57,055** | **58,186** | **52,491** | **55,467** | **33,321** | **35,944** | **29,128** | **22,675** | **19,703** | **22,338** |
| RoCE | 168% | 173% | 192% | 224% | 226% | 400% | 405% | 510% | 561% | 755% | 803% |
| Capex | 5,448 | 7,998 | 5,335 | 2,183 | 2,535 | 901 | 1,408 | 1,299 | 800 | 1,373 | 1,736 |

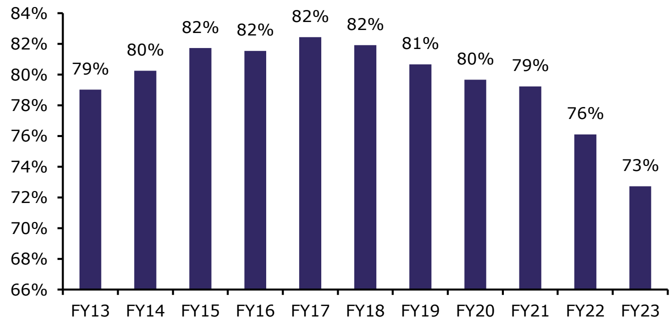
*Source: Company, Emkay Research*

**Exhibit 5: Share of Cigarette revenue contribution to the Group (after adjustment for inter segment revenue)**




*Source: Company, Emkay Research*

**Exhibit 6: Share of Cigarette EBITDA contribution to the Group**



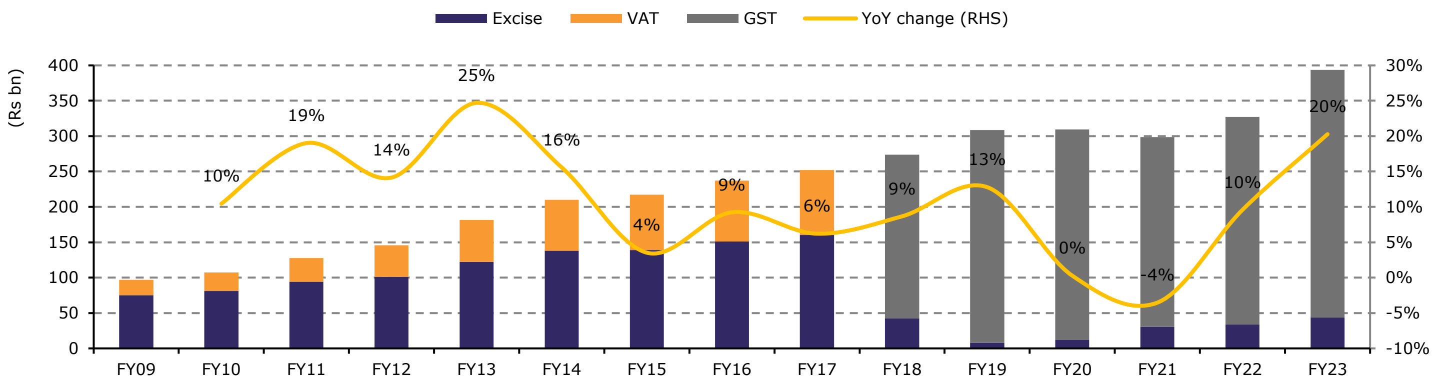

*Source: Company, Emkay Research*

### Key tailwinds for the business

We see tailwinds in the business, which makes a case for volume growth ahead. Factors that will help drive volume growth for ITC are:

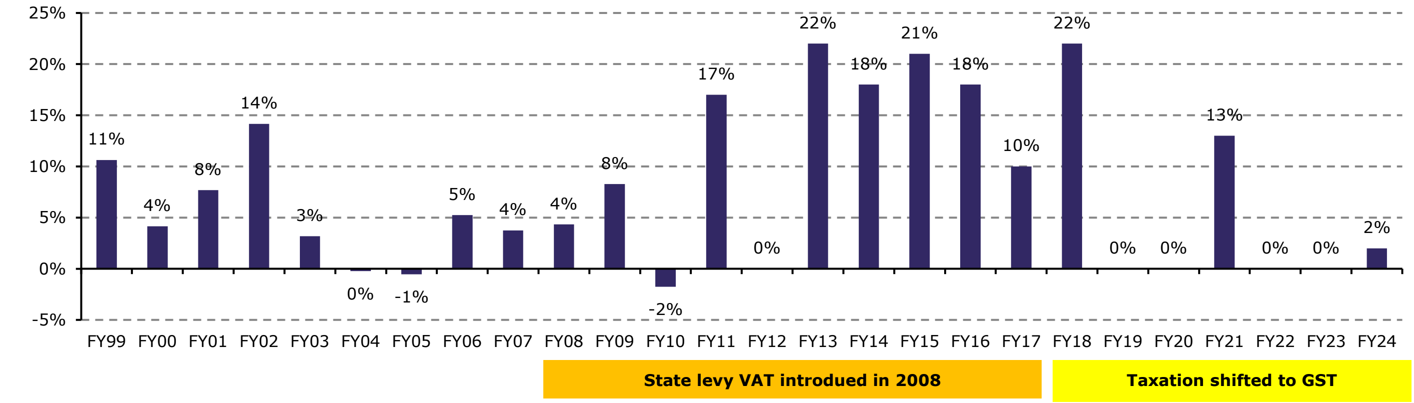
- **Higher ad-valorem component in taxation to limit need for any sharp tax hikes:** While we cannot rule out the possibility of return of double-digit taxation, we see the government being rational in imposing tax hikes. In the last couple of years, when tax remain unchanged, absolute indirect tax from ITC expanded 10% in FY22 and 20% in FY23.

**Exhibit 7: ITC's contribution to exchequers (indirect tax)**



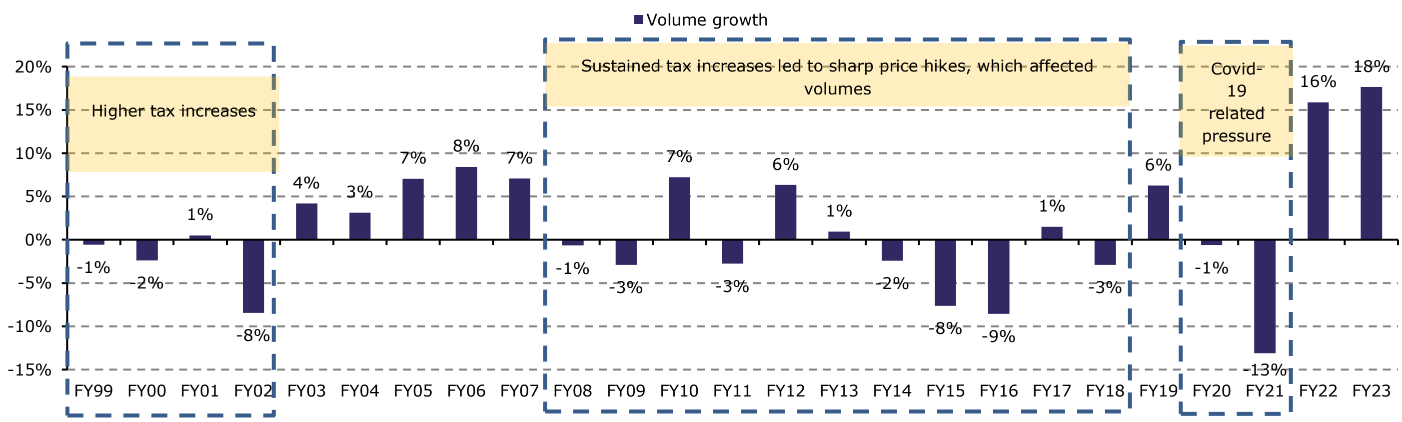

*Source: Company, Emkay Research*

**Exhibit 8: Annual tax increases for Cigarettes**




*Source: Company, Emkay Research*

**Exhibit 9: ITC's annual cigarettes volume growth**

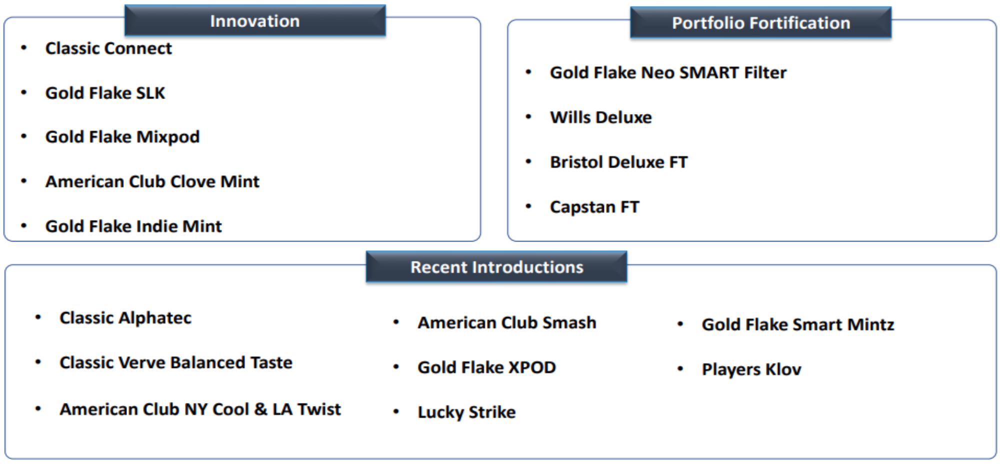



*Source: Company, Emkay Research*

- **Better connect with the youth, with innovative formats**: ITC has expanded its product range, thus addressing needs of the youth — low-smell products, flavor and capsule formats. We note that volume share now recouped to ~80%, on the back of improved execution.

***Several differentiated variants, such as 'Classic Connect', 'Gold Flake Indie Mint', 'Gold Flake Kings Mixpod', 'Classic Alphatec', 'Gold Flake Smart Mintz', 'Wills Fab' and 'Lucky Strike', were recently introduced***

**Exhibit 10: Reinforcing market standing with innovation, portfolio fortification and new launches**

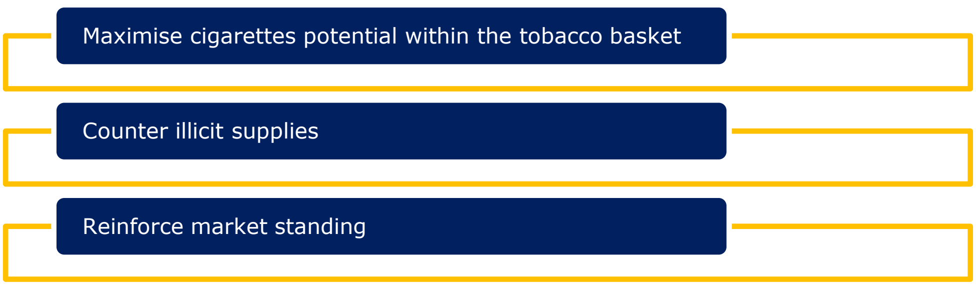



*Source: Company*

- **Fortified portfolio to help drive legal volume**: Extending the traditional offerings, we see share of innovating offerings like capsule-based cigarette in ITC's portfolio seeing good expansion.
- **Competitive strength:** The company has elevated Devraj Lahiri as the CEO of its tobacco division from 1-May-2022 (Mr Lahiri joined ITC in Dec-20 as the COO of the tobacco business). Interestingly, Mr Lahiri in his previous stint with VST Industries (i.e. a key ITC competitor), where he was MD for two decades, was instrumental in gaining share from ITC. Since his coming aboard, ITC has seen sharp execution, which has aided the company to re-build its franchise. The company has improved product availability with superior, on-ground execution. In the last couple of years, we note the company has recouped market share and now holds ~80% volume share in the category.
- **Illegal cigarette contribution surged to ~1/4th in the category:** Of the estimated ~150bn sticks consumption in India, we believe ~37.5bn sticks are cornered by the illegal market. The legal industry entails ~112.5bn sticks where ITC is leading with sales of ~89bn sticks in FY23. As efforts are being made to curb illegal supplies, we see ITC benefitting the most, being the category leader.

***Illicit trade causes an annual revenue loss of ~Rs155bn to the Exchequer***

**Exhibit 11: Key cigarettes business imperatives**




*Source: Company*

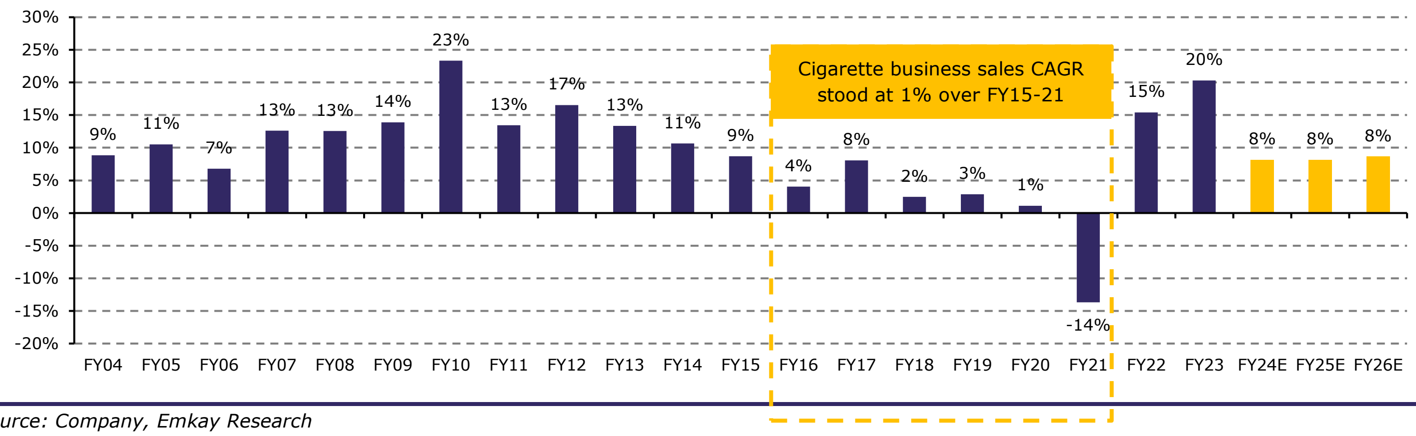
**Exhibit 12: Cigarettes taxation in India**

| Cigarette length | GST Ad-valorem | GST compensation cess Ad-valorem | GST compensation cess Fixed (Rs per 1,000 sticks) | Basic Excise duty Fixed (Rs per 1,000 sticks) | NCCD Fixed (Rs per 1,000 sticks) |
|---|---|---|---|---|---|
| Small (up to 65mm) | 28% | 5% | 2,076 | 5 | 510 |
| Regular (>65mm to 70mm) | 28% | 5% | 2,747 | 5 | 510 |
| Longs (>70mm to 75mm) | 28% | 5% | 3,668 | 5 | 630 |
| Kings (>75mm) | 28% | 36% | 4,170 | 10 | 850 |

*Source: Government of India; Emkay Research*

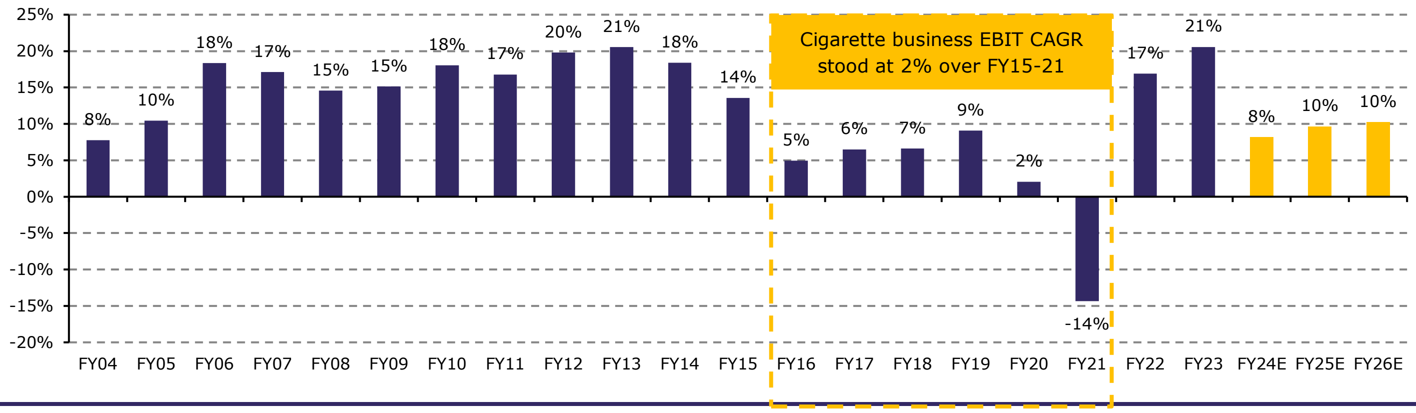
- **Improving sales mix to aid margin**: We see a gradual shift in consumers, from DSFT (deluxe size filter tip) to RSFT (regular size filter tip) and then to KSFT (king size filter tip). This up-trade journey will help the company drive a better mix growth ahead which will also aid margin. With the price brand straddle, we see ITC is well positioned to address the consumer down-trade and up-trade needs.

**Exhibit 13: ITC — Cigarettes net sales growth trend**



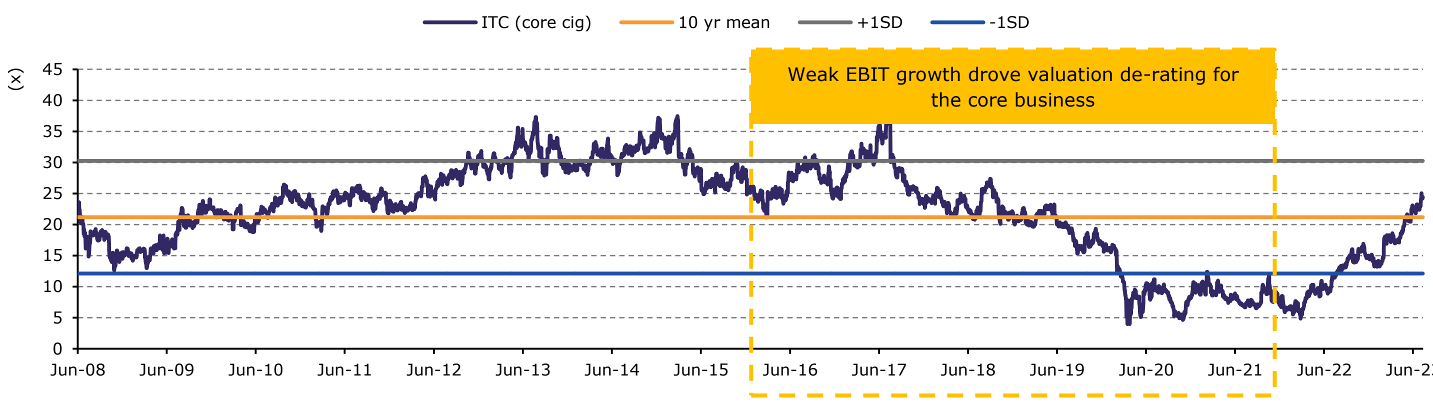

*Source: Company, Emkay Research*

**Exhibit 14: ITC — Cigarettes EBIT growth trend**



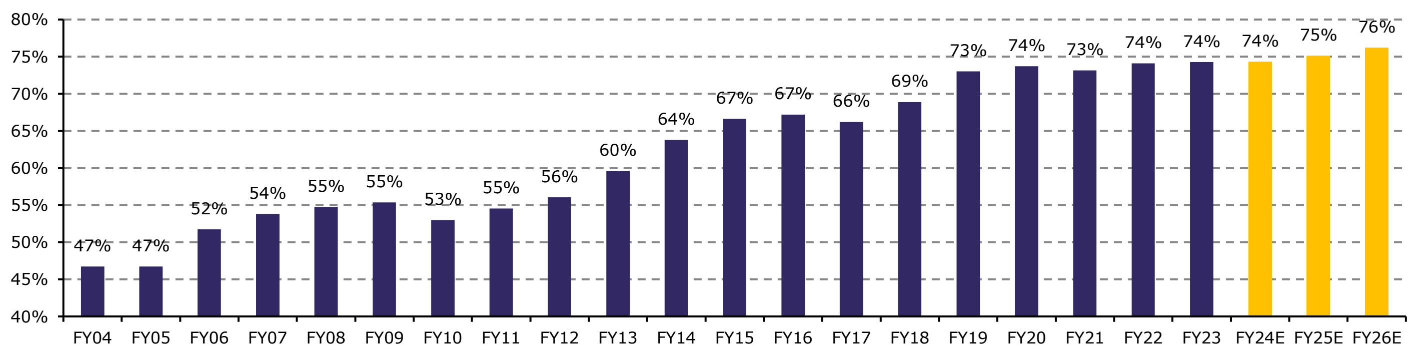

*Source: Company, Emkay Research*

**Exhibit 15: ITC's core business historical forward PER**




*Source: Bloomberg, Emkay Research*

**Exhibit 16: ITC's cigarettes business — EBIT margin**




*Source: Company, Emkay Research*

**Exhibit 17: Estimated Cigarettes segment — Profit and loss statement**

| (Rs mn) | FY19E | FY20E | FY21E | FY22E | FY23E | FY24E | FY25E | FY26E |
|---|---|---|---|---|---|---|---|---|
| **Cigarette volume (mn sticks)** | **75,867** | **75,393** | **65,498** | **75,895** | **89,279** | **94,636** | **97,475** | **100,399** |
| - growth | | -0.6% | -13.1% | 15.9% | 17.6% | 6.0% | 3.0% | 3.0% |
| MRP realization (per stick) | 7.37 | 7.52 | 7.97 | 7.96 | 8.09 | 8.34 | 8.85 | 9.16 |
| - growth | | 2.0% | 6.0% | -0.2% | 1.6% | 3.2% | 6.1% | 3.4% |
| | | | | | | | | |
| **MRP revenue** | **558,890** | **566,634** | **521,969** | **603,900** | **721,844** | **789,703** | **863,121** | **919,617** |
| - growth | | 1.4% | -7.9% | 15.7% | 19.5% | 9.4% | 9.3% | 6.5% |
| Retailers profit | 50,808 | 51,512 | 47,452 | 54,900 | 65,622 | 71,791 | 75,850 | 80,815 |
| *Retailer margin (assumed at 10%)* | 10% | 10% | 10% | 10% | 10% | 10% | 10% | 10% |
| GST | | | | | | | 21,238 | 22,628 |
| GST Cess | | | | | | | 7,531 | 8,024 |
| **Price to retail** | **508,082** | **515,122** | **474,518** | **549,000** | **656,222** | **717,912** | **758,501** | **808,150** |
| Distributor profit | 11,327 | 11,484 | 10,579 | 12,239 | 14,400 | 15,754 | 16,644 | 17,734 |
| *Distributor margin (assumed at 2.3%)* | 2.3% | 2.3% | 2.3% | 2.3% | 2.3% | 2.3% | 2.3% | 2.3% |
| GST | 3,172 | 3,215 | 2,962 | 3,427 | 4,032 | 4,411 | 4,660 | 4,966 |
| GST Cess | 1,100 | 1,135 | 1,035 | 1,198 | 1,423 | 1,564 | 1,653 | 1,761 |
| **Price to distributor** | **492,482** | **499,288** | **459,942** | **532,136** | **636,367** | **696,182** | **735,544** | **783,689** |
| GST | 57,996 | 59,365 | 56,933 | 65,664 | 78,979 | 88,029 | 94,421 | 102,548 |
| GST Cess | 227,357 | 227,905 | 199,678 | 231,959 | 275,319 | 293,763 | 303,906 | 314,900 |
| **Gross sales** | **207,130** | **212,017** | **203,331** | **234,514** | **282,068** | **314,390** | **337,217** | **366,242** |
| Change YoY | | 2.4% | -4.1% | 15.3% | 20.3% | 11.5% | 7.3% | 8.6% |
| Excise + NCCD | 7,887 | 10,580 | 29,482 | 33,856 | 40,674 | 54,450 | 56,084 | 61,810 |
| Change YoY | | 34% | 179% | 15% | 20% | 34% | 3% | 10% |
| as a % of MRP | 1% | 2% | 6% | 6% | 6% | 7% | 6% | 7% |
| **Net sales** | **199,242** | **201,437** | **173,849** | **200,658** | **241,394** | **259,940** | **281,133** | **304,432** |
| Change YoY | | 1.1% | -13.7% | 15.4% | 20.3% | 7.7% | 8.2% | 8.3% |
| **Costs** | **51,277** | **50,186** | **44,008** | **49,335** | **59,438** | **64,193** | **66,761** | **69,431** |
| Change YoY | 2% | -2.1% | -12.3% | 12.1% | 20.5% | 8.0% | 4.0% | 4.0% |
| as a % of net sales | 26% | 24.9% | 25.3% | 24.6% | 24.6% | 24.7% | 23.7% | 22.8% |
| as a % of gross sales | 25% | 23.7% | 21.6% | 21.0% | 21.1% | 20.4% | 19.8% | 19.0% |
| **EBITDA** | **147,965** | **151,251** | **129,842** | **151,323** | **181,957** | **195,747** | **214,373** | **235,000** |
| Change YoY | | 2.2% | -14.2% | 16.5% | 20.2% | 7.6% | 9.5% | 9.6% |
| as a % of net sales | 74.3% | 75.1% | 74.7% | 75.4% | 75.4% | 75.3% | 76.3% | 77.2% |
| as a % of gross sales | 71.4% | 71.3% | 63.9% | 64.5% | 64.5% | 62.3% | 63.6% | 64.2% |
| Depreciation and Amortization | 2,454 | 2,726 | 2,637 | 2,632 | 2,686 | 2,943 | 2,902 | 2,871 |
| as a % of segment assets | 3.1% | 3.28% | 3.82% | 3.91% | 4.04% | 4.04% | 4.04% | 4.04% |
| **EBIT** | **145,511** | **148,526** | **127,204** | **148,691** | **179,271** | **192,804** | **211,471** | **232,129** |
| Change YoY | 9% | 2.1% | -14.4% | 16.9% | 20.6% | 7.5% | 9.7% | 9.8% |
| as a % of net sales | 73.0% | 73.7% | 73.2% | 74.1% | 74.3% | 74.2% | 75.2% | 76.3% |
| as a % of gross sales | 70.3% | 70.1% | 62.6% | 63.4% | 63.6% | 61.3% | 62.7% | 63.4% |
| Other income | -10,267 | -12,243 | -12,272 | -9,412 | -8,915 | -9,954 | -8,179 | -9,774 |
| **PBT** | **135,244** | **136,282** | **114,932** | **139,279** | **170,356** | **182,851** | **203,292** | **222,355** |
| Change YoY | | 0.8% | -15.7% | 21.2% | 22.3% | 7.3% | 11.2% | 9.4% |
| Tax | 43,848 | 28,660 | 27,672 | 33,515 | 41,346 | 46,261 | 51,636 | 56,701 |
| Effective tax rate | 32.4 | 21.0 | 24.1 | 24.1 | 24.3 | 25.3 | 25.4 | 25.5 |
| **PAT** | **91,396** | **107,622** | **87,261** | **105,763** | **129,010** | **136,590** | **151,656** | **165,654** |
| No of shares | 12,259 | 12,292 | 12,309 | 12,323 | 12,428 | 12,493 | 12,558 | 12,623 |
| **EPS (Rs)** | **7.46** | **8.76** | **7.09** | **8.58** | **10.38** | **10.93** | **12.08** | **13.12** |

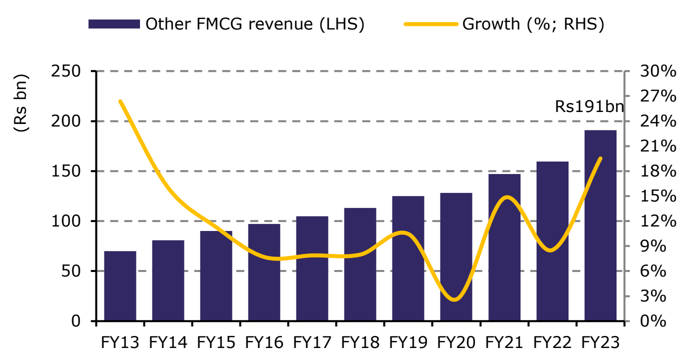
*Source: Emkay Research*

## 'Other FMCG' growing profitably

*On annual consumer spend basis, the company recorded revenue of Rs290bn, growing 21% YoY*

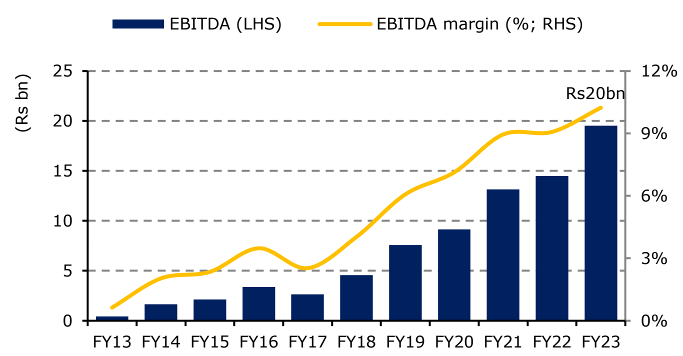
- **During FY23, the company saw accelerated growth across the packaged food and non-food segments which helped segmental growth of 20% YoY. Aided by the PLI scheme benefit, business EBITDA margin expanded by 110bps YoY to 10.2%. Segmental EBITDA and EBIT grew 35% and 49% YoY, respectively, in FY23. Segmental ROCE expanded to ~15% in FY23.**
- **Over FY23-26E, we expect revenue CAGR of 13%. The PLI initiative provides further fillip to the company's category initiatives. We build-in EBITDA margin expansion of ~220bps over FY23-26E to 12.4% in FY26E. We see the return on capital employed expanding to ~30% in FY26E.**

**Exhibit 18: 'Other FMCG' revenue and growth trends**



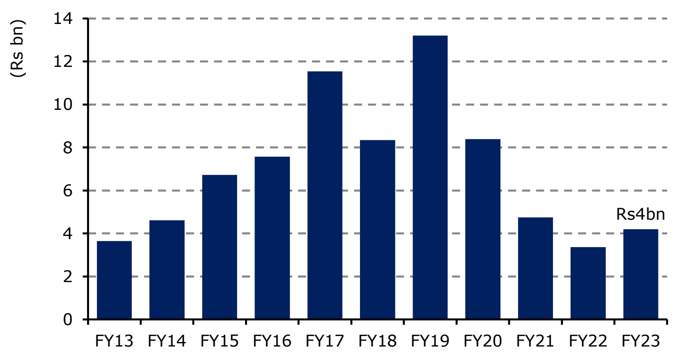

*Source: Company, Emkay Research*

**Exhibit 19: 'Other FMCG' EBITDA and margin trends**



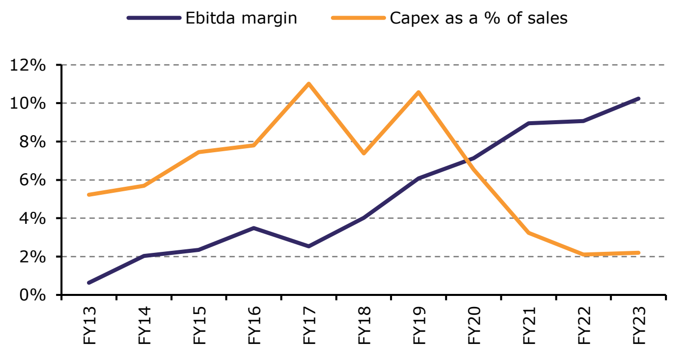

*Source: Company, Emkay Research*

**Exhibit 20: 'Other FMCG' business capex**



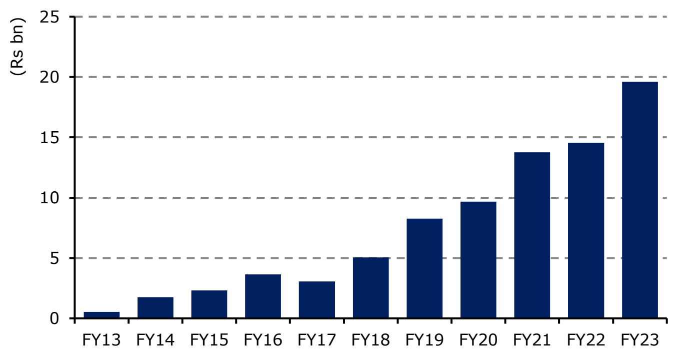

*Source: Company, Emkay Research*

**Exhibit 21: K-shaped business recovery sustained**



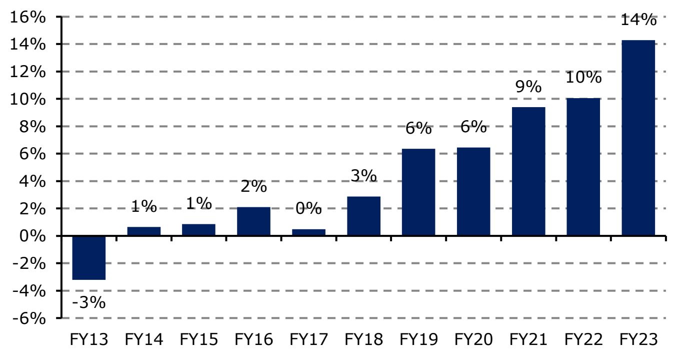

*Source: Company, Emkay Research*

**Exhibit 22: 'Other FMCG' operating cash generation**




*Source: Company, Emkay Research*

**Exhibit 23: 'Other FMCG' RoCE (pre-tax)**




*Source: Company, Emkay Research*

**Exhibit 24: Other FMCG business — Annual historical financials**

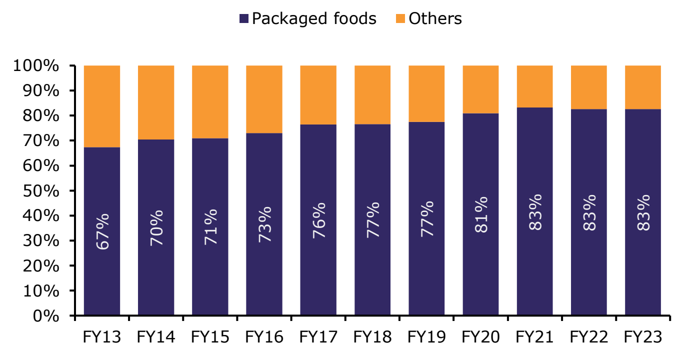
| (Rs mn) | FY13 | FY14 | FY15 | FY16 | FY17 | FY18 | FY19 | FY20 | FY21 | FY22 | FY23 |
|---|---|---|---|---|---|---|---|---|---|---|---|
| Packaged foods | 47,206 | 57,173 | 64,113 | 70,975 | 80,364 | 86,687 | 96,687 | 103,777 | 122,411 | 131,958 | 157,625 |
| - Growth | 27% | 21% | 12% | 11% | 13% | 8% | 12% | 7% | 18% | 8% | 19% |
| - as a % of gross sales | 67% | 70% | 71% | 73% | 76% | 77% | 77% | 81% | 83% | 83% | 83% |
| Others | 22,842 | 23,947 | 26,170 | 26,221 | 24,622 | 26,457 | 28,191 | 24,360 | 24,675 | 27,689 | 33,190 |
| - Growth | 25% | 5% | 9% | 0% | -6% | 7% | 7% | -14% | 1% | 12% | 20% |
| - Inter-segment | 77 | 98 | 97 | 116 | 133 | 142 | | | | | |
| **Gross sales** | **70,124** | **81,218** | **90,380** | **97,312** | **105,118** | **113,286** | **124,878** | **128,137** | **147,086** | **159,648** | **190,815** |
| Excise | 296 | 226 | 268 | 268 | 420 | 227 | | | | | |
| **Net sales** | **69,828** | **80,992** | **90,113** | **97,044** | **104,698** | **113,059** | **124,878** | **128,137** | **147,086** | **159,648** | **190,815** |
| - Growth | 26% | 16% | 11% | 8% | 8% | 8% | 10% | 3% | 15% | 9% | 20% |
| | | | | | | | | | | | |
| Operating costs | 69,386 | 79,342 | 87,996 | 93,665 | 102,051 | 108,504 | 117,291 | 118,997 | 133,918 | 145,158 | 171,275 |
| **EBITDA** | **442** | **1,650** | **2,117** | **3,379** | **2,647** | **4,556** | **7,587** | **9,140** | **13,168** | **14,490** | **19,540** |
| EBITDA margin | 0.6% | 2.0% | 2.3% | 3.5% | 2.5% | 4.0% | 6.1% | 7.1% | 9.0% | 9.1% | 10.2% |
| | | | | | | | | | | | |
| Depreciation | 1,255 | 1,432 | 1,776 | 2,362 | 2,366 | 2,915 | 3,725 | 4,910 | 4,841 | 5,258 | 5,798 |
| - as a % of segment assets | 3.9% | 3.4% | 3.7% | 3.9% | 3.3% | 3.8% | 4.6% | 5.6% | 4.2% | 4.6% | 4.8% |
| **EBIT** | **-813** | **218** | **341** | **1,018** | **281** | **1,641** | **3,862** | **4,231** | **8,327** | **9,232** | **13,742** |
| EBIT margin | -1.2% | 0.3% | 0.4% | 1.0% | 0.3% | 1.5% | 3.1% | 3.3% | 5.7% | 5.8% | 7.2% |

*Source: Company, Emkay Research*

## Packaged foods growth has accelerated in FY23

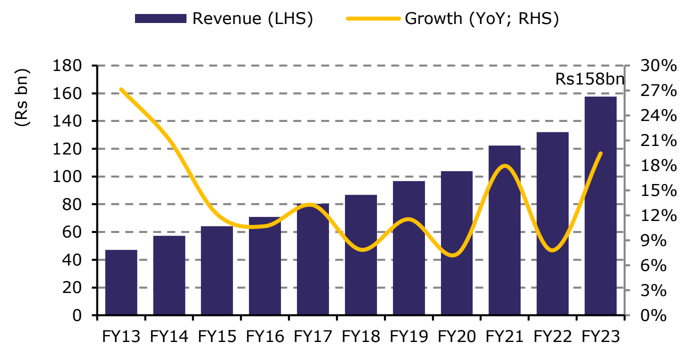
Packaged foods contribution to segment revenue remains consistent at ~Rs83bn. Amid multiple initiatives and accelerated growth in the packaged foods offerings, the company recorded 19% YoY growth. Going ahead, we see the double-digit growth momentum sustaining. We estimate ~13% revenue CAGR over FY23-26.

**Exhibit 25: Other FMCG segment — Revenue mix**




*Source: Company, Emkay Research*

**Exhibit 26: Packaged foods — Revenue and growth trends**




*Source: Company, Emkay Research*

### *Aashirvaad* — Brand equity continues to strengthen

***As per our checks, Aashirvaad has ~40% market share in the wheat flour category (organized segment size is ~Rs145bn)***

*Aashirvaad* witnessed robust growth on an elevated base. The brand fortified its market standing across geographies, while addressing emerging consumer preferences for healthy products and catering to regional tastes. Some initiatives taken by the company in FY23 are:

- **Enhanced differentiated offerings:** A differentiated range of products comprising of 'Gluten Free Flour', '*Ragi* Flour', 'Multi-Millet Mix', 'Organic Atta' and 'Organic Dals' continued to track the strong growth trajectory. *Aashirvaad Vermicelli*, launched last year, gained robust consumer traction; the range was augmented with the launch of *Ragi Vermicelli* during the year.
- **Product portfolio further fortified** with the launch of *Aashirvaad Bansi Rava*, *Aashirvaad Samba Broken Wheat*, *Aashirvaad Double Roasted Suji Rava* and *Aashirvaad Besan*.

- The business also **expanded distribution of frozen Indian flat breads** (*paratha*, *naan* and *chapati*), hitherto offered only in international markets and in select domestic markets. The brand reached 74mn HHs.
- **'Aashirvaad Salt' continued to reinforce leadership in key focus geographies** and posted healthy growth across markets during the year, supported by its distinctive positioning.
- *Aashirvaad Spices* continues to enhance its presence in emerging channels and core markets, to enable a full portfolio play along with expansion of the blended portfolio.

**ITC's Mission Millets initiative being leveraged well**

*ITC products have now reached 230mn households*

Encouraged by the GoI's initiative of promoting millets, a range of millet-based products have been introduced. The company is developing a comprehensive millets-based portfolio under its popular brands and in familiar formats, to enable easier adoption.

- In the Staples business, 'Ragi Flour', 'Gluten Free Flour', and 'Multi-Millet Mix' were recently launched under the *Aashirvaad* brand.
- The Biscuits business augmented its portfolio with the launch of 'Sunfeast Farmlite Super Millets' with two variants: 'Chocochip Millet' and 'Multi Millet' cookies.
- The Confectionery business launched millet-based 'Fantastik Choco Sticks'.

*The company now has 17 food factories across the nation*

**Exhibit 27: Key millet-based offerings from ITC**


*Source: Company*

***Leadership position:***

- ***Aashirvaad is #1 in branded Atta***
- ***Bingo! is #1 in the Bridge Snack segment***
- ***Sunfeast is #1 in the Cream Biscuits segment***
- ***Classmate is #1 in Notebooks***
- ***YiPPee! is #2 in Noodles***
- ***Mangaldeep is #2 in Agarbattis (#1 in the Dhoop segment)***

## Continues to enhance its play in key packaged foods segments

**Exhibit 28: Key category updates**

| Category | FY23 performance |
|---|---|
| Biscuits | ■ The Biscuits category witnessed strong growth, driven by the robust show by the core portfolio, scale up of innovations, and launch of several differentiated variants<br>■ The business augmented its portfolio with the launch of 'Sunfeast Supermilk' and 'Sunfeast Thin Arrowroot' in select markets |
| Snacks | ■ The Snacks business sustained its robust growth trajectory during the year, driven by core variants as well as new launches |
| YiPPee! range | ■ YiPPee!' witnessed strong growth during the year, aided by judicious pricing interventions and focused brand investments<br>■ The product portfolio was augmented with the launch of 'Quik Mealz' in a differentiated 'noodles in a bowl' format |
| Ready-To-Eat (RTE) | ■ The category continued to scale up in the institutional and exports segments<br>■ Growth in exports was led by the 'Kitchens of India' range, to the USA, Canada and other countries, along with introduction of a range of *Aashirvaad* products, to target the Indian diaspora in the USA |
| The Frozen Snacks category | ■ The Frozen Snacks category under the 'ITC Master Chef' brand, which caters to both Retail and Food Service channels, continued to deliver industry-leading growth, powered by a range of innovative and differentiated offerings, as per the company.<br>■ Over 65 high quality and differentiated products distributed across both, the traditional and emerging channels, are rapidly gaining consumer franchise |
| Dairy | ■ *Aashirvaad Svasti,* the company's fresh dairy portfolio comprising of pouch milk, curd, *lassi* and *paneer*, continued to gain consumer traction on the back of best-in-class quality standards, differentiated products and superior taste profile, as per the company<br>■ Such products are currently available in Bihar, West Bengal and Jharkhand |
| Beverages | ■ The Beverages portfolio witnessed a resurgence during FY23<br>■ The Dairy Beverages portfolio leveraged the strong equity of 'Sunfeast' and 'Dark Fantasy', to grow rapidly in target markets as well as in emerging channels |
| Confectionery | ■ The Confectionery category continued to nurture its range of premium portfolio by leveraging Fantastik Choco Sticks and 'Jelimals', and recovered to pre-pandemic levels |
| Coffee | ■ 'Sunbean Beaten Caffe', a unique ready-to-use beaten coffee paste that produces a rich, creamy and frothy cup of coffee, continues to receive a favorable response from discerning consumers, as per the company |
| Spices | ■ During the year, the business grew on the back of distribution expansion in focus states, sharp region-specific communication and an enhanced portfolio with innovative new products<br>■ The 'Sunrise' brand strengthened its market standing in the core market of West Bengal and extended gains in the East/North East markets, to fortify its position as one of the leading Spices brands of the region |

*Source: Company*

### Strategic actions in place for ITC's dairy aspirations

The company has stated that the milk procurement network in Bihar and West Bengal has strengthened during the year, towards meeting the growing requirements of its Fresh Dairy portfolio under the 'Aashirvaad Svasti' brand, and in Punjab for 'Sunfeast' Dairy Beverages.

The business continues to empower farmers by providing infrastructure such as automated milk collection units & chillers and imparting knowhow of best practices for improving operational efficiency, maintaining high quality and ensuring identity preservation and traceability.

The capability to source superior quality milk has enabled the scale-up of 'Aashirvaad Svasti Easy Digest Milk' — West Bengal's first lactose-free milk in the pouch format and 'Sunfeast Protein Shake' in the Fresh Dairy and Beverages categories, respectively.

**Exhibit 29: Assessing ITC's total addressable market**

| | Market size (Rs bn) | Penetration (%) | Organized share (%) | GST rate (%) |
|---|---|---|---|---|
| Pouch Milk | 7,200 | 99 | 15 | 5 |
| Ghee | 2,500 | 99 | 25 | 12 |
| Atta | 1,208 | 99 | 12 | 5 |
| Biscuits | 692 | 99 | 65 | 18 |
| Spices | 675 | 99 | 36 | 5 |
| Salty Snacks | 350 | 95 | 50 | 12 |
| Confectionaries | 260 | 40 | 60 | 18 |
| Chocolate | 150 | 40 | 60 | 18 |
| Instant noodle | 135 | 75 | 70 | 18 |
| Coffee | 135 | 70 | 60 | 5 |
| Juice | 70 | 40 | 75 | 12 |
| Salt | 70 | 99 | 72 | 5 |
| Cake | 55 | 30 | 65 | 18 |
| Pasta | 35 | 20 | 30 | 5 |
| **Total addressable market** | **13,535** | **96** | **24** | **8** |

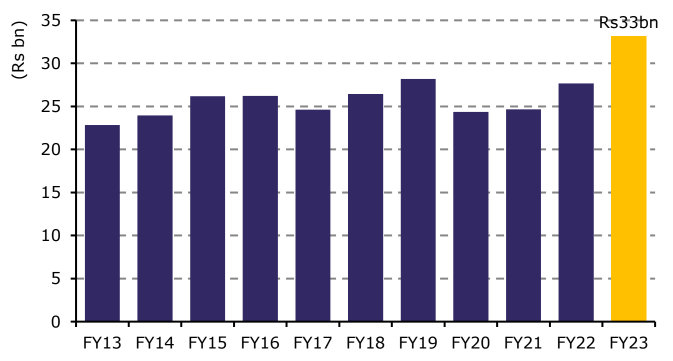
*Source: Emkay Research*

***Of the overall USD225bn foods & beverages market (based on category presence of our coverage companies), ITC has the widest coverage, with 75% of TAM***

## Non-foods revenue accelerated

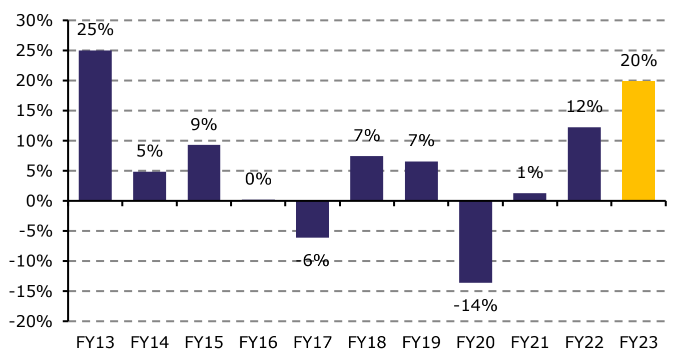
ITC's non-foods businesses gained perspective in the post Covid-19 setting. Business that saw only 1% CAGR over FY13-21 has clocked double-digit growth in FY22 and FY23. Growth in FY22 was a factor of better execution in the personal care segment. In FY23, the business benefitted from the full recovery in the stationary business.

**Exhibit 30: Non-foods revenue trend**




*Source: Company, Emkay Research*

**Exhibit 31: Non-foods revenue growth trend**




*Source: Company, Emkay Research*

### Home and personal care: Healthy growth sustained

The company has strengthened its core strategic levers of building brands with purpose, introducing first-in-category innovations, focusing on categories of the future and accelerating presence in emerging channels. ITC is setting up a state-of-the-art Personal Care and Home Care products manufacturing unit in Uluberia, West Bengal, in line with its strategy of building in-house manufacturing capabilities for products with unique formulations, enhancing supply-chain agility & responsiveness, and reducing distance to market. Some brand-related initiatives by the company in FY23:

***The company has three personal care factories, located in Uttarakhand, Assam and Himachal Pradesh***

- 'Fiama' registered strong growth, fueled by investments in brand building, wider distribution and growth across channels. The *Fiama* gel bar format witnessed significant gains during the year. A new range of 'Happy Naturals' perfume mists and shower gels was launched during the year. The 'Deep Clean Charcoal and Grapefruit' range of gel bathing bars and shower gels was launched exclusively for men.
- The 'Vivel' range of soaps continued to build momentum and posted healthy growth during the year. The premium 'VedVidya' range was launched during FY23.
- The Fragrance category witnessed strong growth across segments, with the premium range of 'Engage' perfumes garnering an encouraging response.

- The 'Savlon' portfolio witnessed moderation in demand with waning of the pandemic, while remaining above pre-pandemic levels.
- Nimyle strengthened its leadership position in core markets, and continue to expand its presence in the Home hygiene segments.
- Strengthening its D2C presence, ITC acquired a minority stake in 'Mylo' — a digital start-up that offers science-backed, expert-led solutions primarily in the mother and baby care segments. In addition, further investments were made during the year in 'Mother Sparsh', a premium ayurvedic and natural personal care start-up

**Education and Stationery Products: Healthy recovery in business; outlook promising**

The overall industry recorded strong recovery, with progressive resumption of physical classes at educational institutions and demand recovering to pre-pandemic levels. However, on the supply front, the industry had to contend with unprecedented inflationary pressures.

With over 250mn school-going students, India has one of the largest education systems in the world. The Indian Education and Stationery Products industry holds immense potential, driven by growing literacy, increasing enrolment ratios, the Government's continued thrust on the education sector and a favorable demographic profile of the country's population

ITC has strengthened its market leadership position in the industry, delivering a competitive performance driven by portfolio premiumization, judicious pricing actions, and continued focus on cost & working-capital management. It has thereby leveraged its institutional strengths such as backward integration in the value chain for supply of paper & paperboard and a multi-channel distribution infrastructure. During FY23, the business expanded its exports footprint to newer geographies and segments, and successfully on-boarded large global retailers, thus leveraging their capabilities.

**Incense sticks (Agarbattis) and Safety Matches saw robust recovery**

The *Agarbatti* industry witnessed robust recovery after two years of pandemic-induced disruptions. ITC's flagship brand *Mangaldeep* leveraged market opportunities and continued to enhance its standing in the Incense Sticks category, as per the company. In the Safety Matches industry, the business strengthened its market leadership position by leveraging brand *Homelites* — built on the differentiated positioning of stronger, longer and karborised sticks. The business continues to focus on scaling up the share of value-added products in its portfolio and enhancing supply-chain efficiency by sourcing products manufactured closer to markets.

## Production linked incentive, a boon for new initiatives

ITC has been included under the PLI scheme towards sales-based incentives in the 'Ready to Eat', Fruits & Vegetables, and Marine categories as well as for incentives towards expenditure incurred for branding and marketing in export markets. The company has been included under the PLI scheme for millet-based products as well.

For FY23, the company received the first tranche of benefits in Q4, which helped it see accelerated EBITDA margin expansion. Going ahead, we see ~50bps margin benefit from the PLI scheme. We believe the PLI initiative will help the company drive business in adjacencies.

## Distribution: Continues to strengthen moat

Total active outlets active for FMCG categories are ~11mn, with ITC's reach being ~7mn of these; the company directly services more than 1/3rd of its outlet reach. The business has seen significant scale-up with the company stepping up market coverage to ~2x of pre-pandemic levels. ITC's product now reaches ~230mn households. Its eB2B app for retailers *Unnati* is now been adopted by 540k retailers.

Sales through the e-Commerce channel have seen rapid growth in recent years and stand at ~5x of FY20 levels; the channel accounts for over 10% of the company's branded packaged foods and personal care product sales.

ITC's e-store D2C platform, which stemmed during pandemic is now active in 24k PIN codes. ITC is also partnering with Open Network for Digital Commerce (ONDC) to help small retailers ride the digitalization wave. As part of this industry-first initiative, ITC is assisting traditional retailers to on-board the ONDC network, thus helping them achieve omni-channel presence. The ITC e-Store has also teamed up with ONDC in its journey of unlocking newer consumer touchpoints and addressing buyer preferences in the burgeoning e-Commerce arena.

**Exhibit 32: Supply-chain overview for FMCG companies**

| | Outlet reach (no. of) | | | Channel-wise revenue breakdown | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | Overall GT | Direct GT | % direct | GT Direct | GT Wholesale | GT total | MT | E-Com | Institutional |
| HUL | 9.0 | 2.1 | 23% | 45% | 30% | 75% | 14% | 9% | 2% |
| ITC | 7.0 | 2.5 | 36% | 38% | 33% | 71% | 18% | 10% | 1% |
| Dabur | 6.9 | 1.3 | 19% | 50% | 29% | 79% | 12% | 9% | 0% |
| Godrej Consumer | 6.0 | 1.0 | 17% | 50% | 32% | 82% | 12% | 6% | 0% |
| Colgate | 6.0 | 1.7 | 28% | 50% | 35% | 85% | 9% | 5% | 1% |
| Britannia | 6.3 | 2.6 | 42% | 52% | 33% | 85% | 10% | 3% | 2% |
| Marico | 5.6 | 1.0 | 18% | 38% | 30% | 68% | 24% | 8% | 0% |
| Nestlé | 5.1 | 1.5 | 29% | 56% | 27% | 83% | 10% | 7% | 1% |
| Emami | 4.9 | 0.9 | 19% | 45% | 35% | 80% | 11% | 8% | 1% |

*Source: Emkay Research*

**Exhibit 33: Other FMCG — Financials and expectations**

| (Rs mn) | FY19 | FY20 | FY21 | FY22 | FY23 | FY24E | FY25E | FY26E |
|---|---|---|---|---|---|---|---|---|
| **Revenue** | **124,878** | **128,137** | **147,086** | **159,648** | **190,815** | **216,865** | **242,889** | **272,036** |
| - growth | 10.5% | 2.6% | 14.8% | 8.5% | 19.5% | 13.7% | 12.0% | 12.0% |
| **EBITDA** | **7,587** | **9,140** | **13,168** | **14,490** | **19,540** | **23,572** | **28,133** | **33,628** |
| - growth | 66.5% | 20.5% | 44.1% | 10.0% | 34.9% | 20.6% | 19.3% | 19.5% |
| **OPM** | **6.1%** | **7.1%** | **9.0%** | **9.1%** | **10.2%** | **10.9%** | **11.6%** | **12.4%** |
| Depreciation | 3,725 | 4,910 | 4,841 | 5,258 | 5,798 | 5,798 | 5,865 | 6,026 |
| **EBIT** | **3,862** | **4,231** | **8,327** | **9,232** | **13,742** | **17,349** | **21,860** | **27,204** |
| - growth | 135.3% | 9.5% | 96.8% | 10.9% | 48.8% | 26.3% | 26.0% | 24.4% |
| EBIT margin | 3.1% | 3.3% | 5.7% | 5.8% | 7.2% | 8.0% | 9.0% | 10.0% |

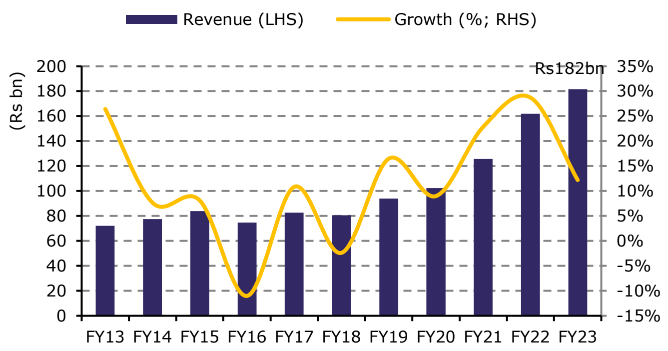
*Source: Company, Emkay Research*

# Agri business thrust on value-added opportunity

***ITC is a leading agri business player in India, supporting 20 value-chain clusters. The company has been sourcing over 4.5 million ton of agri commodities from 22 states and is the largest procurer of wheat in the private sector today***

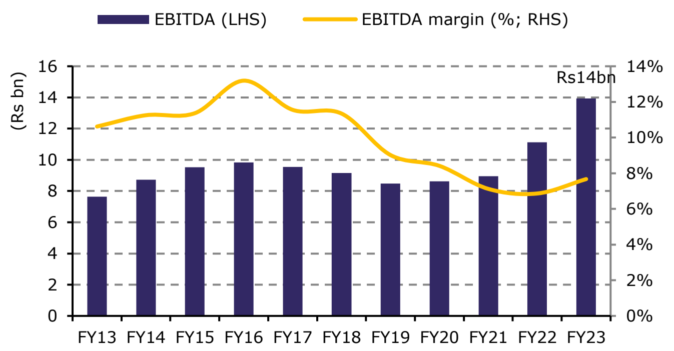
- **Segment revenue grew 12% YoY in FY23, aided by 49% growth in 'unmanufactured' Tobacco. Owing to the ban on wheat export, other Agri products saw revenue decline of ~7% YoY. Segment EBITDA grew 25.4% YoY, with 80bps margin expansion to 7.7%.**
- **While there is no clarity on any easing of the exports ban, we believe growth will improve from Q3FY24E, with the base normalizing. Over FY25-26E, we expect low double-digit growth. From the margin perspective, we expect Company to focus on the value-added opportunity (~1/4th business for the company, with healthy margin) of recouping margin to double digits by FY26E.**

**Exhibit 34: Agri business — Revenue and growth trends**



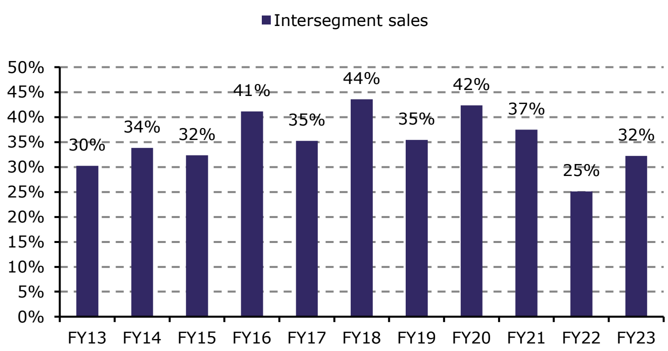

*Source: Company, Emkay Research*

**Exhibit 35: Agri business — EBITDA and margin trend**



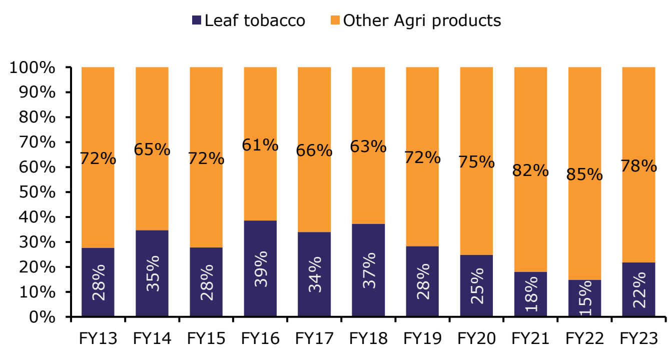

*Source: Company, Emkay Research*

**Exhibit 36: Intersegment sales (as a % of segment sales)**



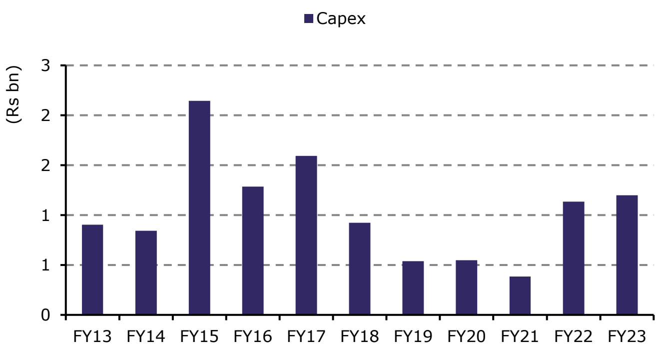

*Source: Company, Emkay Research*

**Exhibit 37: Agri business (external sales) — Revenue contribution**



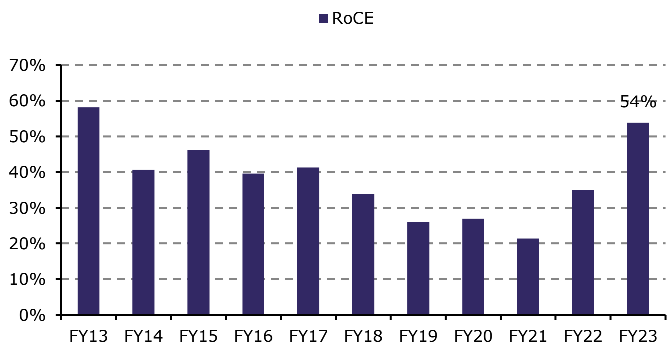

*Source: Company, Emkay Research*

**Exhibit 38: Agri business — Capex spends**




*Source: Company, Emkay Research*

**Exhibit 39: Agri business — Return on capital employed**

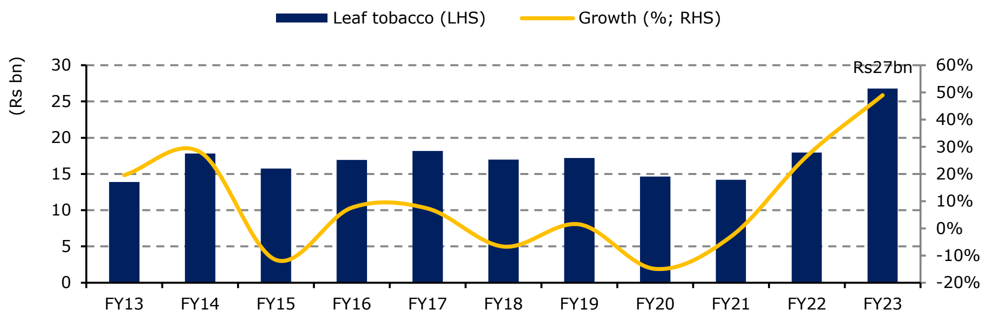



*Source: Company, Emkay Research*

## Leaf tobacco sales lunge forward by 49% YoY in FY23

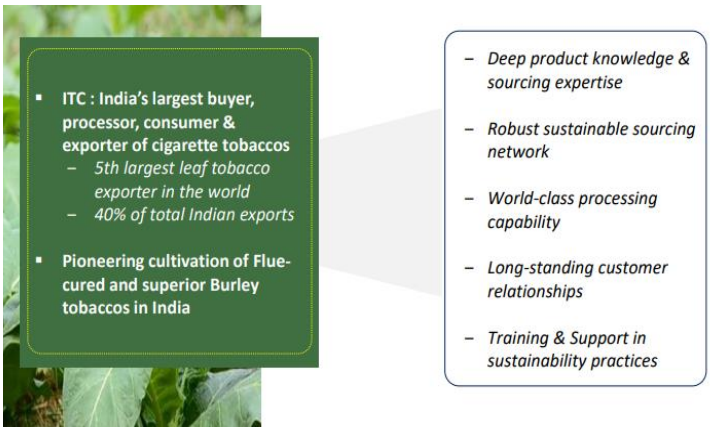
Flue Cured Virginia (FCV) tobacco production in 2022 remained largely at similar levels as previous year, with weather conditions impacting crop output in certain origins. The lower FCV supplies from major supply origins such as Brazil provided an opportunity to enhance share in exports which was effectively leveraged by ITC to register robust growth in exports. Going forward, the business is likely to provide strategic sourcing support to the company's Cigarettes business and consolidate its leadership position as a major exporter of quality Indian tobacco, thereby catalyzing the multiplier impact of increased farmer incomes on the rural economy.

**Exhibit 40: Leaf tobacco — Revenue and growth trends**




*Source: Company, Emkay Research*

**Exhibit 41: ITC is the 5th largest exporter of leaf tobacco**




*Source: Company*

**Exhibit 42: Agri-business — Strategic sourcing support to the foods businesses**

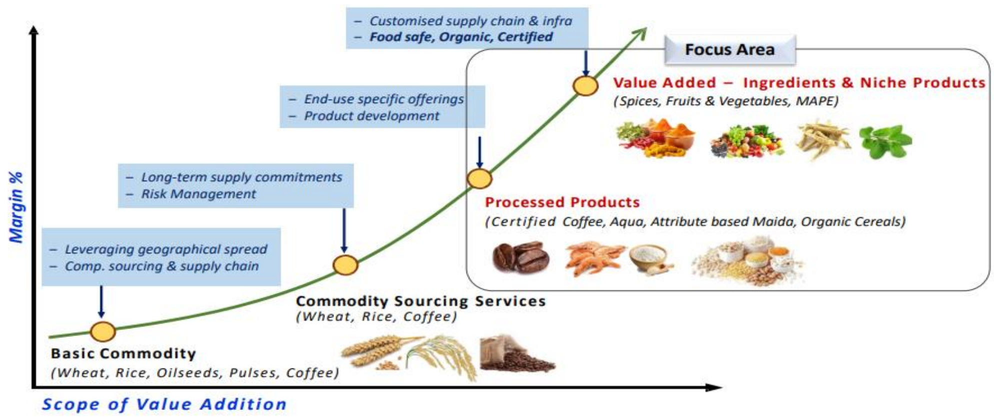

*Source: Company*

***Lower export incentives in India and high import duty levied in several markets, including the USA and Europe, have weighed on the competitiveness of Indian leaf tobacco exports***

## Other agri-product sales decline 7% YoY, on a high base

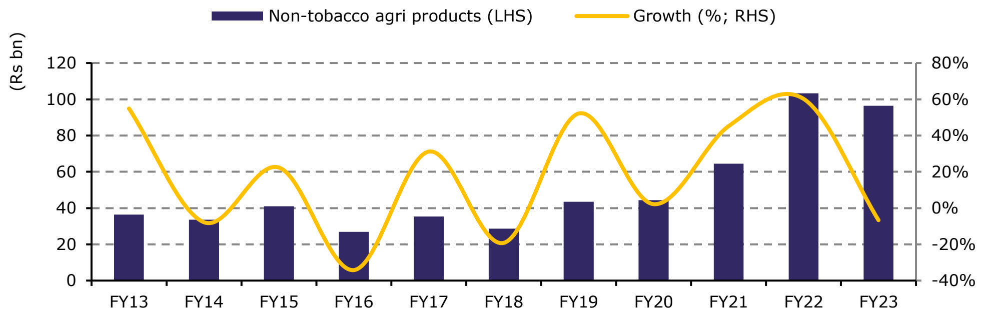
The company's strong farm linkages and sourcing networks, multi-modal logistics capability, agile supply-chain operations, focused scale-up of the value-added agri products (VAAP) portfolio and deep customer relationships helped the FY23 performance.

**Exhibit 43: Thrust on moving up the value chain**




*Source: Company*

**Exhibit 44: Non-tobacco agri products — Revenue and growth**




*Source: Company, Emkay Research*

***Restrictions imposed on wheat & rice exports impacted segmental revenue in FY23***

- **Focus on food safe markets:** ITC is a leading player in whole spices, such as Chilly, Turmeric, Coriander and Cumin. In line with its strategy of enhancing value addition and 'producing the buy', the Business has, in recent years, **scaled up its presence in 'food safe' markets**. During the year, the Business consolidated its position as a preferred supplier in the food safe segment, private labels, steam sterilized and organic products.
- **Coffee saw strong momentum, despite price volatility:** The business registered strong growth leveraging its strategic presence in key coffee-producing regions in India, deep understanding of estate & region-specific varieties, and focus on premium grades of Arabica, Certified Coffees, Specialty and Monsooned Coffee
- **Value-added frozen marine products:** The business expanded its value-added shrimp portfolio to include Aquaculture Stewardship Council (ASC) certified products for EU markets. Leveraging its strong domain knowledge and sourcing expertise, the Business also supports the 'ITC Master Chef' range of 'Super Safe' frozen prawns in the domestic market and supplies high-quality shrimps to the company's Hotels business.
- **Focus on Processed Foods intensifies:** In the Processed Fruits & Vegetables segment, the Business continues to expand its footprint in the categories of fruit pulp and tomato paste, across conventional and certified segments, through a robust collaborative network comprising of a large number of small & marginal farmers across four states.

**Exhibit 45: Agri business — Annual historical financials**

| (Rs mn) | FY13 | FY14 | FY15 | FY16 | FY17 | FY18 | FY19 | FY20 | FY21 | FY22 | FY23 |
|---|---|---|---|---|---|---|---|---|---|---|---|
| Unmanufactured Tobaccos | 13,906 | 17,810 | 15,745 | 16,942 | 18,179 | 16,961 | 17,212 | 14,647 | 14,205 | 17,974 | 26,777 |
| - Growth | 20% | 28% | -12% | 8% | 7% | -7% | 1% | -15% | -3% | 27% | 49% |
| Other Agri Products | 36,324 | 33,491 | 40,976 | 26,952 | 35,350 | 28,559 | 43,458 | 44,397 | 64,456 | 103,286 | 96,372 |
| - Growth | 55% | -8% | 22% | -34% | 31% | -19% | 52% | 2% | 45% | 60% | -7% |
| Inter segment | 21,777 | 26,220 | 27,084 | 30,675 | 29,117 | 35,157 | 33,296 | 43,363 | 47,162 | 40,700 | 58,575 |
| - Growth | 0% | 20% | 3% | 13% | -5% | 21% | -5% | 30% | 9% | -14% | 44% |
| - as a % of net sales | 30% | 34% | 32% | 41% | 35% | 44% | 35% | 42% | 37% | 25% | 32% |
| **Net sales** | **72,007** | **77,521** | **83,805** | **74,569** | **82,646** | **80,677** | **93,965** | **102,407** | **125,822** | **161,961** | **181,723** |
| - Growth | 26% | 8% | 8% | -11% | 11% | -2% | 16% | 9% | 23% | 29% | 12% |
| | | | | | | | | | | | |
| Operating costs | 64,360 | 68,796 | 74,278 | 64,732 | 73,096 | 71,523 | 85,488 | 93,790 | 116,861 | 150,843 | 167,781 |
| **EBITDA** | **7,647** | **8,724** | **9,527** | **9,837** | **9,549** | **9,154** | **8,477** | **8,617** | **8,961** | **11,118** | **13,942** |
| - Growth | 15% | 14% | 9% | 3% | -3% | -4% | -7% | 2% | 4% | 24% | 25% |
| OPM | 10.6% | 11.3% | 11.4% | 13.2% | 11.6% | 11.3% | 9.0% | 8.4% | 7.1% | 6.9% | 7.7% |
| Depreciation | 334 | 376 | 488 | 506 | 491 | 667 | 711 | 728 | 754 | 806 | 665 |
| - as a % of segment assets | 1.8% | 1.3% | 1.8% | 1.7% | 1.6% | 2.0% | 1.8% | 1.8% | 1.5% | 1.7% | 1.6% |
| **EBIT** | **7,313** | **8,348** | **9,039** | **9,330** | **9,058** | **8,486** | **7,766** | **7,889** | **8,207** | **10,312** | **13,277** |
| - Growth | 14% | 14% | 8% | 3% | -3% | -6% | -8% | 2% | 4% | 26% | 29% |
| EBIT margin | 10% | 11% | 11% | 13% | 11% | 11% | 8% | 8% | 7% | 6% | 7% |

*Source: Company, Emkay Research*

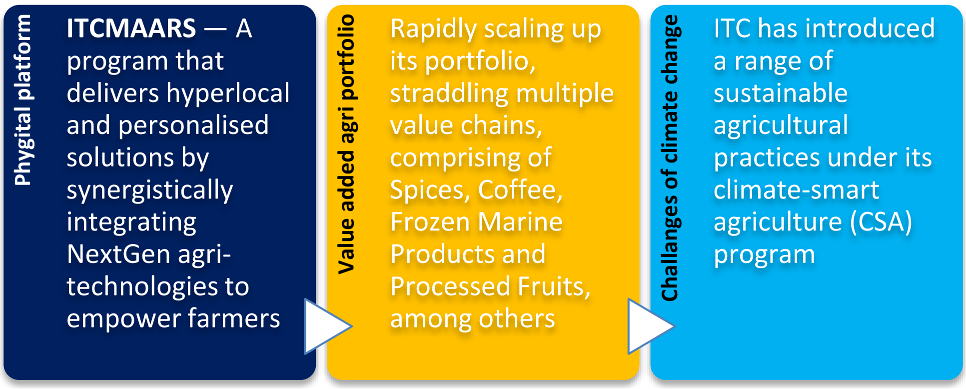
### Key business updates

*Over 1,150 farmer producer organizations (FPOs) encompassing more than 500k farmers have been added to its network within a short time of launch*

- **ITC is an exporter of agri commodities,** including spices, coffee, fruits, rice, wheat, value-added frozen marine products.
- ITC is fortifying its **VAAP** portfolio that comprises of Millets, MAPE, Organic, Spices, Coffee, Frozen Marine Products and Processed Fruits.
- **ITCMAARS has been rolled out in 9 states till date**, with over **1,150 FPOs** encompassing more than 500k farmers. Its flagship e-choupal initiative has empowered 4mn farmers in the last two decades.
- ITC has launched a dedicated initiative — **ITC Mission Millets** — leveraging its enterprise strengths in agriculture, food and hospitality. This initiative is focused on developing a 'good for you' range of products, implementation of sustainable farming systems and enhancing consumer awareness.
- ITC has scaled up its **customized crop development program in Madhya Pradesh** to build deeper expertise in medicinal and aromatic plant extracts (MAPE). Collaborations with farmers are under way, with the Business providing necessary inputs, advisory and on-field support.
- ITC is **focusing on developing unique value-added products** by leveraging the research platforms of its Life Sciences and Technology Centre.

*Margin expansion in FY23 was driven by leaf tobacco exports and value-added agri products*

**Exhibit 46: ITC's three-pronged approach to NextGen agriculture**




*Source: Company, Emkay research*

**Exhibit 47: Agri business — Financials and expectations**

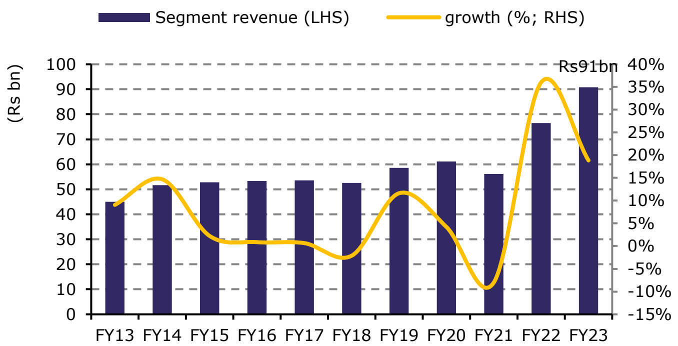
| (Rs mn) | FY19 | FY20 | FY21 | FY22 | FY23 | FY24E | FY25E | FY26E |
|---|---|---|---|---|---|---|---|---|
| **Revenue** | **93,965** | **102,407** | **125,822** | **161,961** | **181,723** | **204,972** | **224,891** | **246,443** |
| growth | | 9.0% | 22.9% | 28.7% | 12.2% | 12.8% | 9.7% | 9.6% |
| **Ebitda** | **8,477** | **8,617** | **8,961** | **11,118** | **13,942** | **15,013** | **18,665** | **22,863** |
| growth | | 1.6% | 4.0% | 24.1% | 25.4% | 7.7% | 24.3% | 22.5% |
| **OPM** | **9.0%** | **8.4%** | **7.1%** | **6.9%** | **7.7%** | **7.3%** | **8.3%** | **9.3%** |
| Depreciation | 711 | 728 | 754 | 806 | 665 | 665 | 674 | 683 |
| **EBIT** | **7,766** | **7,889** | **8,207** | **10,312** | **13,277** | **14,348** | **17,991** | **22,180** |
| growth | | 1.6% | 4.0% | 25.6% | 28.8% | 8.1% | 25.4% | 23.3% |
| EBIT margin | 8.3% | 7.7% | 6.5% | 6.4% | 7.3% | 7.0% | 8.0% | 9.0% |

*Source: Company, Emkay Research*

# Paper, paperboard and packaging

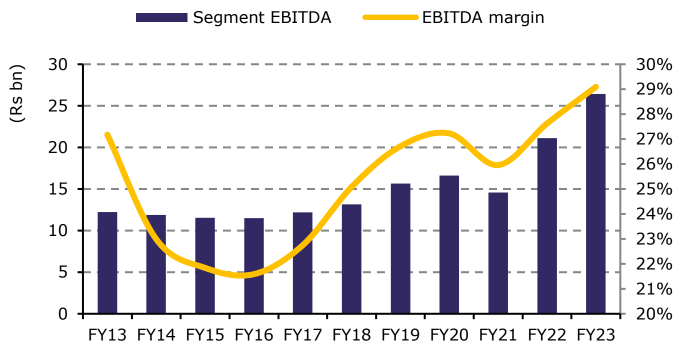
- **Revenue grew ~19% for FY23. EBITDA growth at 25% was healthy, on the back of the ~150bps expansion in segment margin to 29.1%. Improved profitability also aided expansion in the business RoCE, from 23.7% in FY22 to 29% in FY23.**
- **We build-in ~9% topline CAGR over FY23-26E, with EBIT growth at ~6%. Segment margin peaked at 25% in FY23, pushed up by the strong demand cycle. Going ahead, with demand moderation amid enhanced supply owing to reducing pulp prices, we factor-in ~23% EBIT margin for the segment.**

**Exhibit 48: Segmental revenue and growth trends**



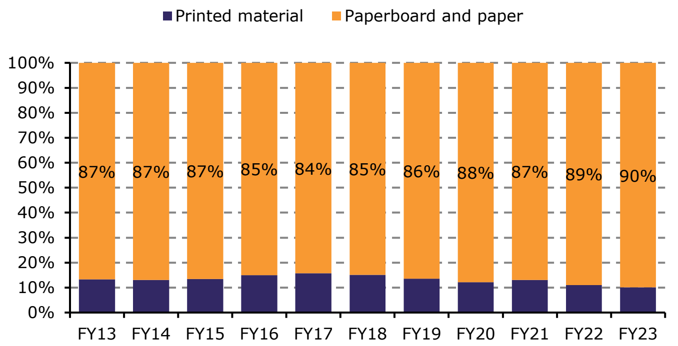

*Source: Company, Emkay Research*

**Exhibit 49: Segmental EBITDA and margin trends**



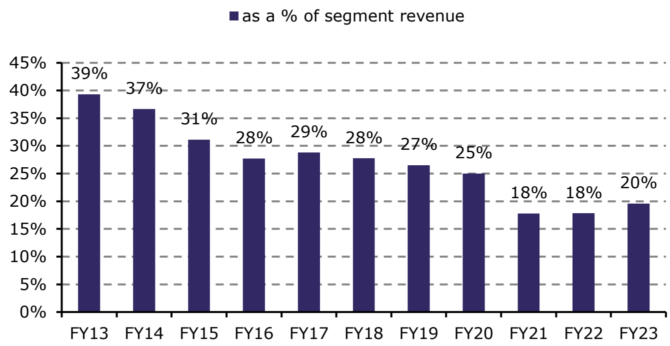

*Source: Company, Emkay Research*

**Exhibit 50: External revenue contribution**



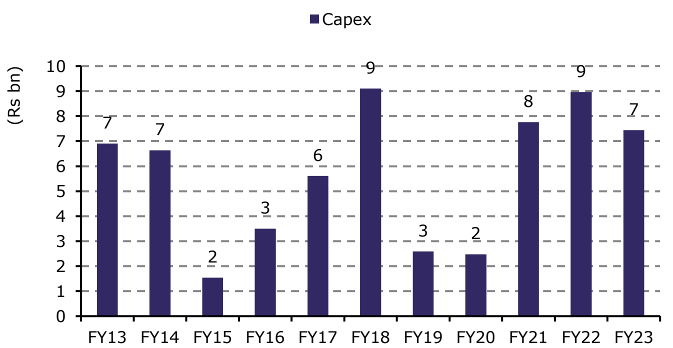

*Source: Company, Emkay Research*

**Exhibit 51: Inter-segmental sales**



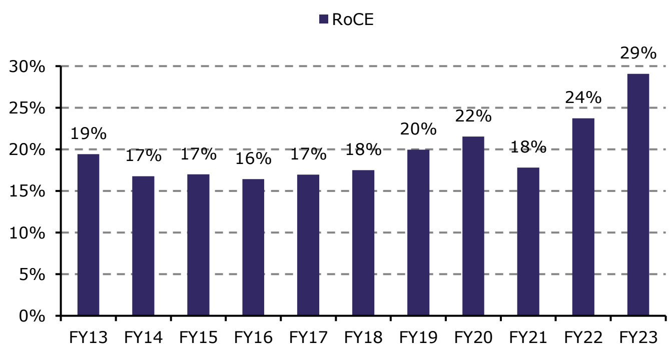

*Source: Company, Emkay Research*

**Exhibit 52: Segmental capex trends**




*Source: Company, Emkay Research*

**Exhibit 53: Segmental RoCE**

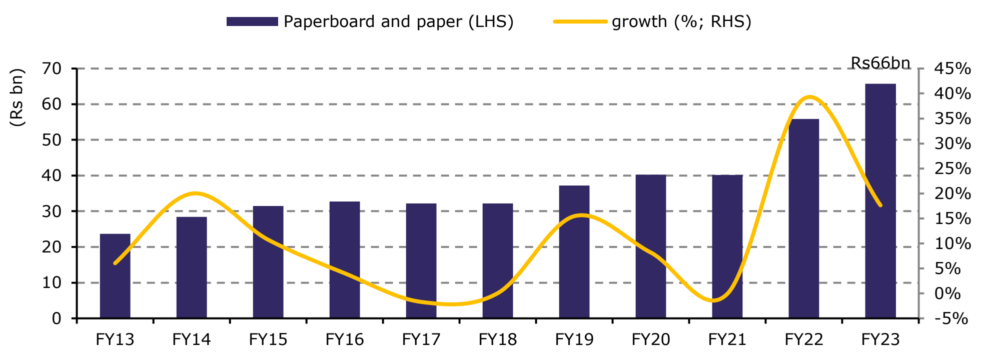



*Source: Company, Emkay Research*

## Paperboard and paper sustained growth momentum

Demand for Paper & Paperboards grew 6-7% in FY23, driven by robust growth across most end-user segments. However, demand moderation was witnessed during the second half of the year, primarily due to inventory pipeline adjustments by export customers and relatively lower offtake by domestic customers towards the end of the year.

**Exhibit 54: Paperboard and paper — Revenue and growth trends**




*Source: Company, Emkay Research*

***The company has four paper & paperboard mills, located at 2 units in Telangana and 1 each in West Bengal and Tamil Nadu***

From the raw-material perspective, global pulp prices witnessed unprecedented highs during the first half of the year on account of global supply-chain disruptions, geopolitical tensions, adverse weather events, higher power and chemical costs. However, pulp prices moderated in the second half of the year due to subdued Chinese demand, recessionary conditions in Europe and progressive normalization in supply-chain operations.

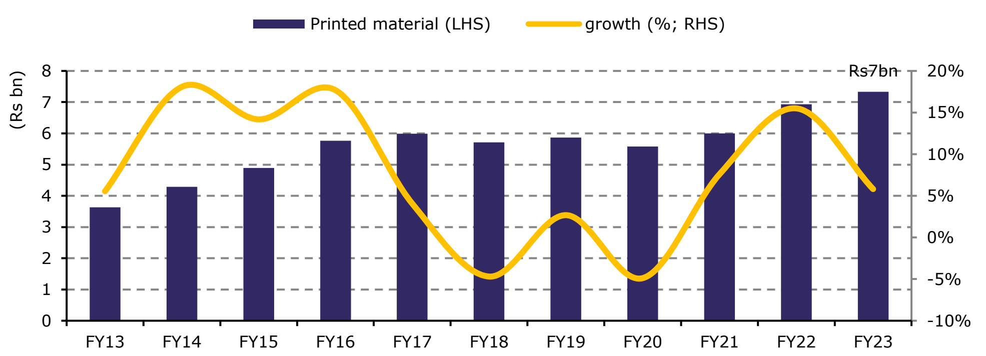
Going ahead, the company sees paperboards demand to be driven by end-user segments such as pharmaceuticals, apparels, FMCG, consumer durables and e-Commerce. Writing & Printing Paper demand is also expected to remain firm on the back of demand from the Publishing and Notebooks industries, driven by the Government's thrust on primary and secondary education.

## Packaging and printing growth slowed, on a high base

ITC's Packaging and Printing business is a leading provider of superior value-added packaging solutions leveraging its comprehensive capability-set, spanning multiple technology platforms coupled with in-house cylinder-making and blown film-manufacturing lines. The Business caters to the packaging requirements of leading players across several industry segments, viz. Food & Beverage, Personal Care, Home Care, Footwear, Consumer Electronics, QSR, Pharma, Liquor and Tobacco.

***The company has four packaging and printing factories — located at Tamil Nadu, Uttarakhand, Bihar and Gujarat***

**Exhibit 55: Printed material — Revenue and growth trends**




*Source: Company, Emkay Research*

The business also provides strategic support to the company's FMCG and Cigarettes businesses, by facilitating faster turnaround for new launches, providing innovative packaging solutions, enabling packaging changes, ensuring security of supplies and delivering benchmarked international quality at competitive cost. Notwithstanding the challenging operating environment, the Business has remained resilient and registered robust growth in domestic and exports businesses in FY23.

***In line with its pursuit of providing sustainable packaging, ITC introduced recyclable barrier board 'Filo' series — a substitute for single-use plastics in the food service segment***

**Exhibit 56: Focus on sustainable solutions**


*Source: Company*

**Exhibit 57: Paper, Paperboard and packaging — Annual historical financials**

| (Rs mn) | FY13 | FY14 | FY15 | FY16 | FY17 | FY18 | FY19 | FY20 | FY21 | FY22 | FY23 |
|---|---|---|---|---|---|---|---|---|---|---|---|
| Printed Materials | 3,630 | 4,287 | 4,894 | 5,760 | 5,994 | 5,713 | 5,866 | 5,580 | 6,003 | 6,934 | 7,337 |
| - Growth | 6% | 18% | 14% | 18% | 4% | -5% | 3% | -5% | 8% | 16% | 6% |
| Paper board and paper | 23,707 | 28,440 | 31,491 | 32,757 | 32,196 | 32,211 | 37,188 | 40,225 | 40,195 | 55,862 | 65,708 |
| - Growth | 6% | 20% | 11% | 4% | -2% | 0% | 15% | 8% | 0% | 39% | 18% |
| Inter Segment | 17,707 | 18,934 | 16,430 | 14,760 | 15,439 | 14,572 | 15,547 | 15,267 | 9,987 | 13,621 | 17,769 |
| - As a % of net sales | 39% | 37% | 31% | 28% | 29% | 28% | 27% | 25% | 18% | 18% | 20% |
| **Net sales** | **45,044** | **51,660** | **52,816** | **53,277** | **53,629** | **52,496** | **58,602** | **61,072** | **56,186** | **76,416** | **90,814** |
| - Growth | 9.1% | 14.7% | 2.2% | 0.9% | 0.7% | -2.1% | 11.6% | 4.2% | -8.0% | 36.0% | 18.8% |
| | | | | | | | | | | | |
| Operating costs | 32,802 | 39,783 | 41,281 | 41,776 | 41,429 | 39,329 | 42,947 | 44,444 | 41,601 | 55,307 | 64,394 |
| **EBITDA** | **12,242** | **11,877** | **11,534** | **11,501** | **12,200** | **13,168** | **15,655** | **16,628** | **14,585** | **21,110** | **26,420** |
| - Growth | 4.3% | -3.0% | -2.9% | -0.3% | 6.1% | 7.9% | 18.9% | 6.2% | -12.3% | 44.7% | 25.2% |
| EBITDA margin | 27.2% | 23.0% | 21.8% | 21.6% | 22.7% | 25.1% | 26.7% | 27.2% | 26.0% | 27.6% | 29.1% |
| | | | | | | | | | | | |
| Depreciation | 2,602 | 2,953 | 2,320 | 2,425 | 2,541 | 2,746 | 3,262 | 3,575 | 3,598 | 4,110 | 3,480 |
| - as a % of segment assets | 4.8% | 5.0% | 3.9% | 4.0% | 4.0% | 4.1% | 4.7% | 5.2% | 5.0% | 4.8% | 3.8% |
| **EBIT** | **9,640** | **8,925** | **9,215** | **9,076** | **9,658** | **10,422** | **12,392** | **13,053** | **10,987** | **17,000** | **22,940** |
| - Growth | 2.9% | -7.4% | 3.3% | -1.5% | 6.4% | 7.9% | 18.9% | 5.3% | -15.8% | 54.7% | 34.9% |
| EBIT margin | 21% | 17% | 17% | 17% | 18% | 20% | 21% | 21% | 20% | 22% | 25% |

*Source: Company, Emkay Research*

**Exhibit 58: Paperboard, paper and packaging — Financials and expectations**

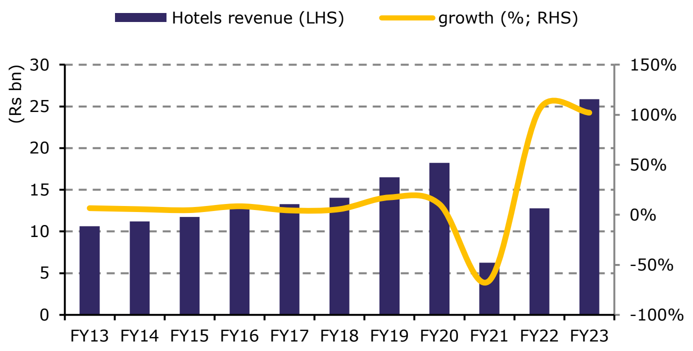
| (Rs mn) | FY19 | FY20 | FY21 | FY22 | FY23 | FY24E | FY25E | FY26E |
|---|---|---|---|---|---|---|---|---|
| **Revenue** | **58,602** | **61,072** | **56,186** | **76,416** | **90,814** | **97,777** | **106,069** | **115,071** |
| - growth | | 4.2% | -8.0% | 36.0% | 18.8% | 7.7% | 8.5% | 8.5% |
| **Ebitda** | **15,655** | **16,628** | **14,585** | **21,110** | **26,420** | **25,480** | **27,509** | **30,283** |
| - growth | | 6.2% | -12.3% | 44.7% | 25.2% | -3.6% | 8.0% | 10.1% |
| **OPM** | **26.7%** | **27.2%** | **26.0%** | **27.6%** | **29.1%** | **26.1%** | **25.9%** | **26.3%** |
| Depreciation | 3,262 | 3,575 | 3,598 | 4,110 | 3,480 | 3,480 | 3,644 | 3,817 |
| **EBIT** | **12,392** | **13,053** | **10,987** | **17,000** | **22,940** | **22,000** | **23,866** | **26,466** |
| - growth | | 5.3% | -15.8% | 54.7% | 34.9% | -4.1% | 8.5% | 10.9% |
| EBIT margin | 21.1% | 21.4% | 19.6% | 22.2% | 25.3% | 22.5% | 22.5% | 23.0% |

*Source: Company, Emkay Research*

## Hotels saw robust delivery

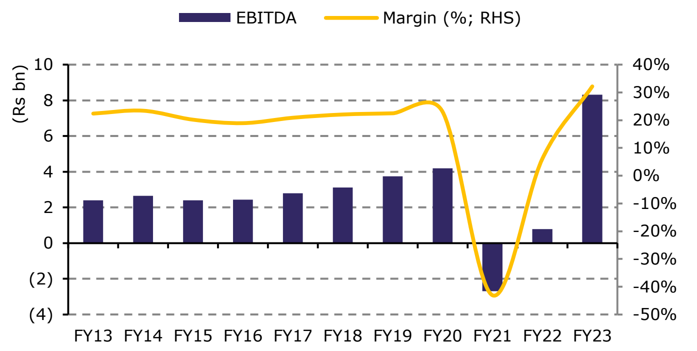
- **Segmental revenue has continued with its two-fold jump for the last couple of years. Revenue CAGR stood at ~12% over FY20-23. On the back of healthy occupancies (~70%) and peak ARR, segmental EBITDA margin expanded to an all-time high of 32.2% in FY23.**
- **We build-in ~13% topline CAGR over FY23-26E, with EBIT growth of ~21%. Segment EBITDA margin saw recovery to 32%, with recovery in topline (post Covid) in FY23. Given the market opening up after the Covid debacle, we factor-in margin expansion of 33.5% by FY26E. Considering the depreciation-related fixed charge, EBIT is likely to see faster growth at 21% over FY23-26E vs 15% EBITDA CAGR, over FY23-26E.**

**Exhibit 59: Hotels — Revenue and growth trends**



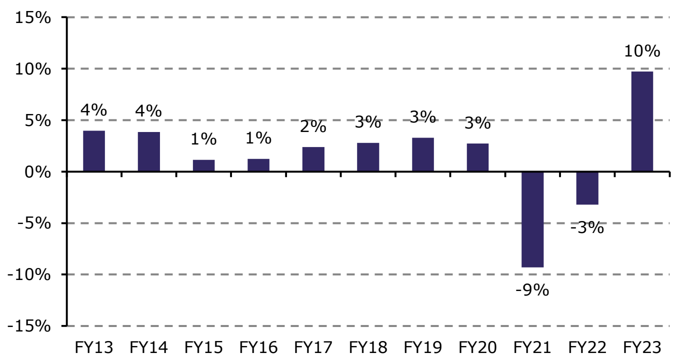

*Source: Company, Emkay Research*

**Exhibit 60: Hotels — EBITDA and margin trends**



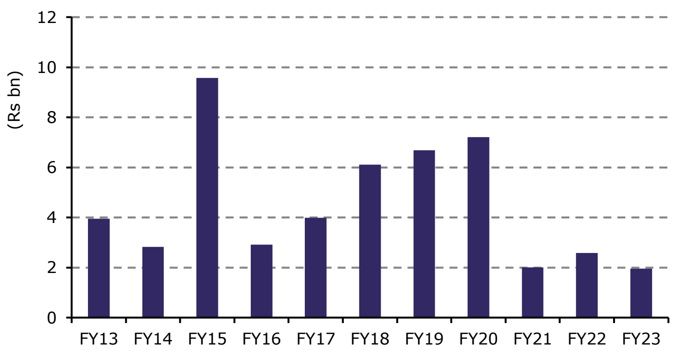

*Source: Company, Emkay Research*

**Exhibit 61: Segmental return on capital employed**




*Source: Company, Emkay Research*

**Exhibit 62: Hotels — Capex spends**




*Source: Company, Emkay Research*

## Revenue base continues to double YoY

***Pre-eminent Hotel chain in India, with over 120 properties, and more than 11,500 rooms***

While global passenger traffic in 2022 has recovered to 68.5% of the 2019 volumes, domestic air travel in India has improved at a faster pace to over 85% of 2019 levels. However, foreign tourist arrivals in India, while better than previous year's, remain significantly below pre-pandemic levels.

***During the year, 12 new properties were added to the Group portfolio***

ITC's Hotels segment witnessed a stellar recovery during the year, clocking robust growth in revenue and profits, buoyed by the weddings, leisure and MICE (Meeting, Incentives, Conferencing, and Exhibition) segments, along with progressive pick-up in business travel. Segmental revenue doubled over FY22, standing at 1.4x of pre-pandemic levels. Segmental EBITDA margin stood at 32.2%, representing an expansion of 920bps over FY20.

## Strong portfolio of hotel properties

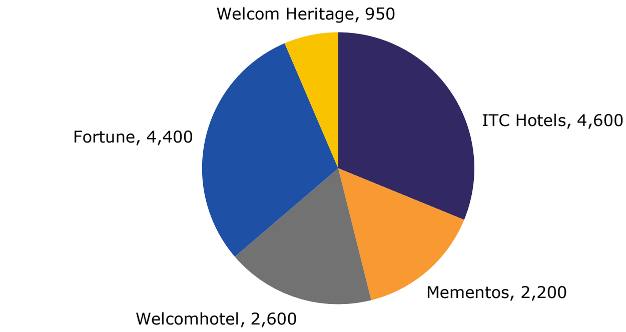
*The company aspires to increase the room-count to~14,000, of which ~8,600 rooms will be via management contract with other hotel chains*

**Exhibit 63: ITC has properties under 6 brands**


*Source: Company*

- **ITC Hotels** has 16 properties, with over 4,600 room keys.
- **Mementos by ITC Hotels** will bring together a collection of unique hotels across various destinations, ranging from modern marvels and hidden retreats to historic treasures. The company has 22 properties with over 2,200 room keys.
- **The Welcomhotel brand** now consists of 24 hotels and over 2,600 keys.
- **Storii** is a collection of handpicked boutique properties, designed to satiate the ever-evolving needs of the global traveler.
- **The 'WelcomHeritage' brand** continues to create best-in-class authentic experiences with an operational inventory of 36 hotels comprising over 950 rooms.
- **The 'Fortune' brand** (part of subsidiary Fortune Park Hotels) maintains its pre-eminent position in the mid-market to upscale segment, with a 'First class, full service hotels – an affordable alternative' positioning, and comprising 57 operating properties and over 4,400 rooms.

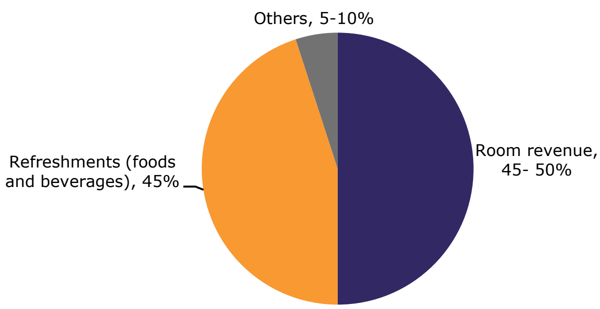
**Exhibit 64: Key hotel brands with room keys**




*Source: Company, Emkay Research*

*The company generate 5-10% revenue from minor operating streams like salon, spa, shops on rental, laundry, etc*

**Exhibit 65: Expected revenue streams in the Hotels business**

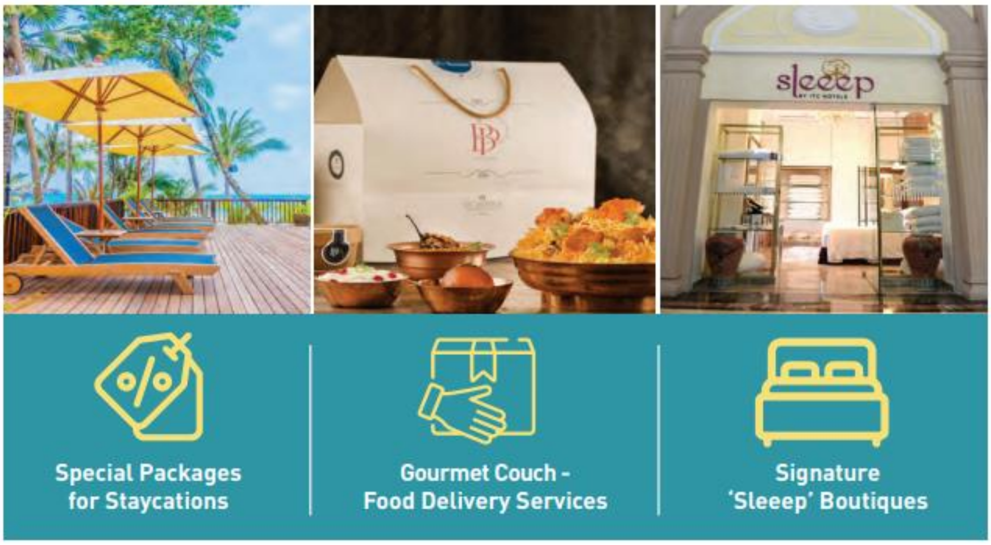



*Source: Emkay Research*

### Focus on adjacencies to drive revenue base

During the year, the Business continued to promote its full stack ITC Hotels App for services like food delivery, room & table reservations, loyalty benefits and exclusive offers. The App has also been enhanced with a room automation and entertainment control module, which has been rolled out in select hotels.

**Exhibit 66: Innovative, curated propositions across accommodation, dining and banqueting**




*Source: Company*

**Exhibit 67: Key strategies for ITC's Hotels operations**


*Source: Company*

**Exhibit 68: Hotels — Annual historical financials**

| (Rs mn) | FY13 | FY14 | FY15 | FY16 | FY17 | FY18 | FY19 | FY20 | FY21 | FY22 | FY23 |
|---|---|---|---|---|---|---|---|---|---|---|---|
| Income from sale of services | 10,621 | 11,215 | 11,736 | 12,735 | 13,293 | 14,041 | 16,482 | 18,234 | 6,236 | 12,793 | 25,850 |
| - Growth | 6.6% | 5.6% | 4.6% | 8.5% | 4.4% | 5.6% | 17.4% | 10.6% | -65.8% | 105.2% | 102.1% |
| Others | 123 | 114 | 135 | 127 | 125 | 134 | 173 | | | | |
| **Gross sales** | **10,744** | **11,329** | **11,870** | **12,862** | **13,417** | **14,175** | **16,655** | **18,234** | **6,236** | **12,793** | **25,850** |
| Excise | 2 | 1 | 2 | 1 | | | | | | | |
| **Net sales** | **10,742** | **11,328** | **11,868** | **12,861** | **13,417** | **14,175** | **16,655** | **18,234** | **6,236** | **12,793** | **25,850** |
| - Growth | 6.8% | 5.5% | 4.8% | 8.4% | 4.3% | 5.6% | 17.5% | 9.5% | -65.8% | 105.2% | 102.1% |
| | | | | | | | | | | | |
| Operating costs | 8,339 | 8,676 | 9,475 | 10,428 | 10,618 | 11,051 | 12,911 | 14,035 | 8,922 | 12,013 | 17,534 |
| **EBITDA** | **2,403** | **2,652** | **2,394** | **2,433** | **2,800** | **3,124** | **3,743** | **4,199** | **-2,686** | **780** | **8,316** |
| - Growth | -33.7% | 10.4% | -9.7% | 1.6% | 15.1% | 11.6% | 19.8% | 12.2% | -164.0% | -129.1% | 965.8% |
| EBITDA Margin | 22.4% | 23.4% | 20.2% | 18.9% | 20.9% | 22.0% | 22.5% | 23.0% | -43.1% | 6.1% | 32.2% |
| | | | | | | | | | | | |
| Depreciation | 1,027 | 1,255 | 1,903 | 1,876 | 1,690 | 1,726 | 1,966 | 2,621 | 2,663 | 2,611 | 2,897 |
| **EBIT** | **1,376** | **1,397** | **491** | **557** | **1,110** | **1,398** | **1,777** | **1,578** | **-5,349** | **-1,831** | **5,419** |
| - Growth | -50.7% | 1.5% | -64.9% | 13.5% | 99.2% | 26.0% | 27.1% | -11.2% | -439.1% | -65.8% | -396.0% |
| EBIT margin | 12.8% | 12.3% | 4.1% | 4.3% | 8.3% | 9.9% | 10.7% | 8.7% | -85.8% | -14.3% | 21.0% |

*Source: Company, Emkay Research*

**Exhibit 69: Hotels segment — Financials and estimates**

| (Rs mn) | FY19 | FY20 | FY21 | FY22 | FY23 | FY24E | FY25E | FY26E |
|---|---|---|---|---|---|---|---|---|
| **Revenue** | **16,655** | **18,234** | **6,236** | **12,793** | **25,850** | **29,728** | **33,295** | **37,291** |
| - growth | | 9.5% | -65.8% | 105.2% | 102.1% | 15.0% | 12.0% | 12.0% |
| **Ebitda** | **3,743** | **4,199** | **(2,686)** | **780** | **8,316** | **9,662** | **10,987** | **12,492** |
| - growth | | 12.2% | -164.0% | -129.1% | 965.8% | 16.2% | 13.7% | 13.7% |
| **OPM** | **22.5%** | **23.0%** | **-43.1%** | **6.1%** | **32.2%** | **32.5%** | **33.0%** | **33.5%** |
| Depreciation | 1,966 | 2,621 | 2,663 | 2,611 | 2,897 | 2,897 | 2,857 | 2,797 |
| **EBIT** | **1,777** | **1,578** | **(5,349)** | **(1,831)** | **5,419** | **6,764** | **8,130** | **9,695** |
| - growth | | -11.2% | -439.1% | -65.8% | -396.0% | 24.8% | 20.2% | 19.3% |
| EBIT margin | 10.7% | 8.7% | -85.8% | -14.3% | 21.0% | 21.5% | 21.5% | 22.0% |

*Source: Company, Emkay Research*

# Valuation re-rating to follow business execution

*We maintain BUY with Jun-24E SoTP-based target price of Rs525/share*

- **We believe that the stock re-rating in the recent past has been a factor of improved delivery across segments, particularly in Cigarette operations (~37% of the Group revenue and ~76% of the Group EBIT), where EBIT CAGR over FY21-23 stood at ~19%. Going ahead, on a normalized base, we see cigarette EBIT growing ~9% over FY23-26E.**
- **For Non-cigarette operations (~63% of group revenue and ~24% of group EBIT), we see 16% EBIT CAGR over FY23-26E (vs 14%/24% EBIT CAGR in the last 10/5 years). We see the better execution and tailwinds in businesses supporting healthy growth momentum.**
- **In most of its businesses, the company has complete d the capex cycle and is now geared well for accelerated growth. Majority of ITC's businesses are self sufficient to fund own growth. Incrementally, we believe the company's profit dependence on its cigarettes business will continue to lessen. We maintain BUY with SoTP-based Jun-24E target price of Rs525/share.**

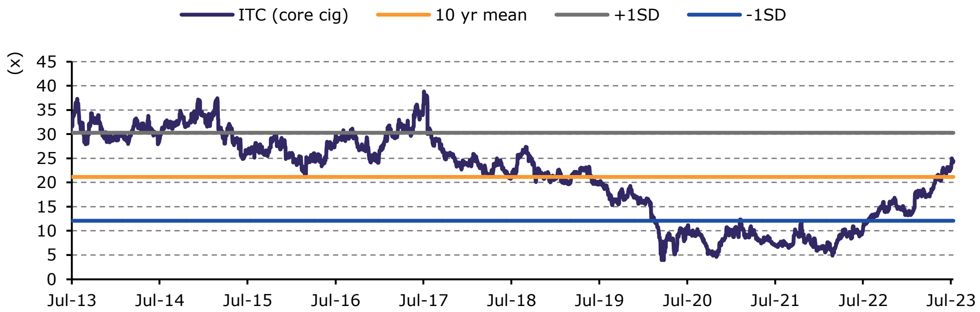
**Exhibit 70: ITC's SoTP-based target price**

| Segment | Valuation methodology | Units | Jun-25E | Multiple (x) | Rs/share |
|---|---|---|---|---|---|
| Cigarettes | PER | EPS (Rs) | 12.33 | 23.0 | 283 |
| Other FMCG | EV/Sales | Sales (Rs mn) | 250,176 | 6.0 | 120 |
| Agri | EV/Sales | Sales (Rs mn) | 230,279 | 2.5 | 46 |
| Paper | EV/EBITDA | EBITDA (Rs mn) | 28,203 | 10.0 | 22 |
| Hotels | EV/EBITDA | EBITDA (Rs mn) | 11,364 | 20.0 | 18 |
| ITC Infotech | PER | EPS (Rs) | 0.50 | 20.0 | 10 |
| Net cash | | Actual (Rs mn) | | 1.0 | 27 |
| **Fair value** | | | | | **526** |
| **Target price** | | **(Rs/share)** | | | **525** |

*Source: Emkay Research*

**Exhibit 71: ITC's one-year forward core Cigarettes PER**

*We ascribe ~10% premium to ITC's historical ten-year average forward PER of ~21.2x*



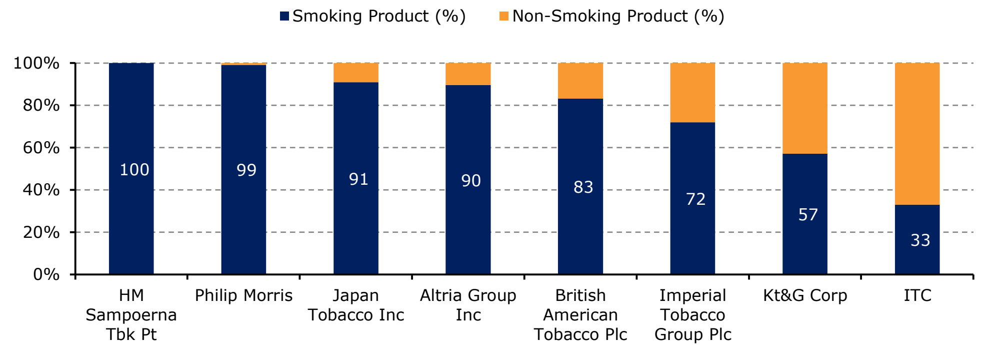

*Source: Company, Bloomberg, Emkay Research*

**Exhibit 72: Global tobacco companies — Valuations**

| | | | P/E (x) | | EV/EBITDA (x) | | EV/sales (x) | | Sales | EPS |
|---|---|---|---|---|---|---|---|---|---|---|
| **Company** | **MCap (USD mn)** | **CMP** | **FY24E** | **FY25E** | **FY24E** | **FY25E** | **FY24E** | **FY25E** | **FY23-25E** | **FY23-25E** |
| Phillip Morris International | 155,980 | USD100.49 | 16.2 | 14.9 | 13.5 | 12.5 | 5.7 | 5.4 | 10% | 10% |
| Altria Group Inc | 81,362 | USD45.58 | 9.2 | 8.8 | 8.4 | 8.2 | 5.0 | 4.9 | 1% | 4% |
| British American Tobacco Plc | 74,807 | GBP2,551.5 | 6.7 | 6.4 | 7.1 | 6.9 | 3.4 | 3.4 | 2% | 6% |
| Japan Tobacco Inc | 43,496 | JPY3,016 | 11.9 | 11.5 | 7.6 | 7.5 | 2.4 | 2.3 | 3% | 4% |
| Imperial Tobacco Group Plc | 21,031 | GBP1,765 | 6.2 | 5.8 | 6.3 | 6.2 | 2.8 | 2.8 | 3% | 9% |
| Kt&G Corp | 8,961 | KRW82,800 | 11.3 | 10.5 | 6.9 | 6.5 | 1.7 | 1.6 | 5% | -4% |
| Gudang Garam Tbk Pt | 3,534 | IDR27,500 | 8.1 | 7.1 | 4.9 | 4.3 | 0.4 | 0.4 | 5% | 47% |
| British American Tobacco Bhd | 648 | MYR10.28 | 11.8 | 11.1 | 9.4 | 8.9 | 1.5 | 1.4 | -1% | 0% |
| HM Sampoerna Tbk Pt | 7,418 | IDR955 | 13.1 | 11.9 | 9.4 | 8.6 | 0.9 | 0.9 | 8% | 18% |
| ITC ^ | 71,606 | INR472.9 | 31.1 | 27.7 | 20.1 | 18.1 | 7.5 | 6.8 | 10% | 15% |

*Source: Bloomberg, Emkay Research; Note: Based on the closing price on 14-Jul-2023; ^Based on Bloomberg consensus*

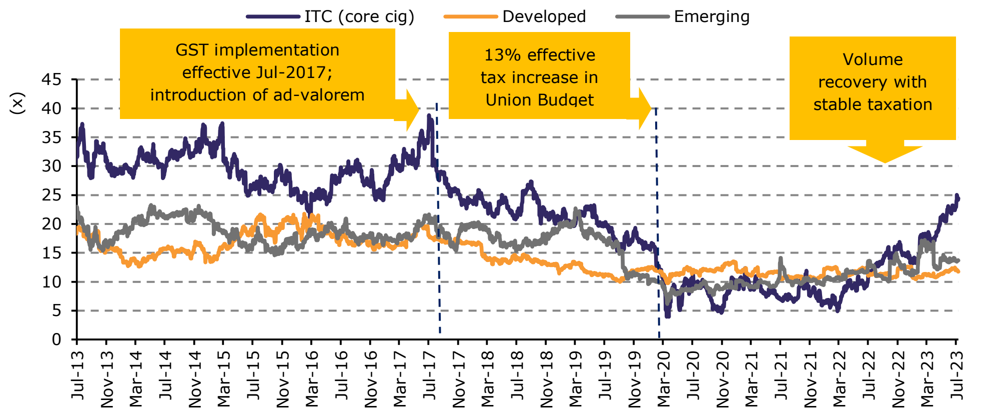
**Exhibit 73: Revenue contribution for global tobacco players**




*Source: Company, Emkay Research*
*Note: For ITC, revenue has been considered before adjusting for inter-segment revenue*

***Valuation premium to emerging and developed market peers' remains low vs historical average***

**Exhibit 74: Core Cigarettes' 1-year forward P/E — ITC vs Cigarettes players in developed and emerging markets**




*Source: Bloomberg, Emkay Research*
*Note 1: Developed markets include Phillip Morris International, BAT, Altria and Japan Tobacco*
*Note 2: Emerging markets includes BAT Malaysia, KT&G and Gudang Garam*

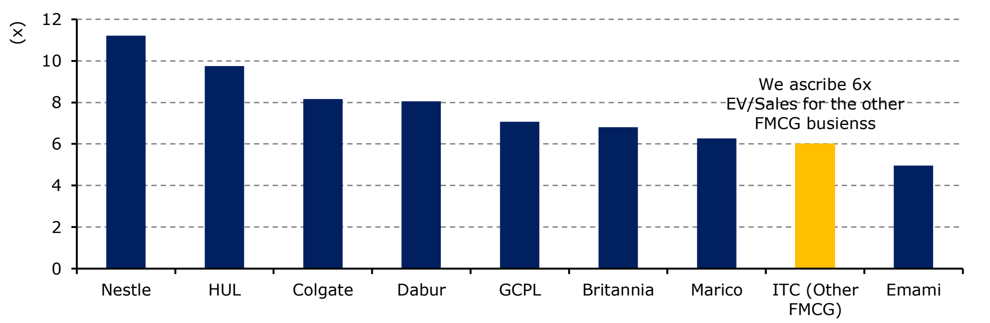
***We ascribe 6x EV/Sales valuation multiple for the 'other FMCG' business which is at ~30% discount to listed peers' (Market cap weighted valuation for FY25)***

**Exhibit 75: FMCG players — Valuation snapshot**

| | EV/sales (x) | | | EV/EBITDA (x) | | |
|---|---|---|---|---|---|---|
| | FY24 | FY25 | FY26 | FY23 | FY24 | FY25 |
| Hindustan Unilever | 9.7 | 8.8 | 8.1 | 40.0 | 35.6 | 31.8 |
| Nestlé India | 11.5 | 10.3 | 9.2 | 49.5 | 42.8 | 38.0 |
| Britannia Industries | 7.0 | 6.3 | 5.6 | 38.7 | 34.2 | 29.8 |
| Godrej Consumer Products | 7.1 | 6.4 | 5.7 | 34.5 | 29.6 | 25.5 |
| Dabur India | 8.2 | 7.4 | 6.7 | 41.5 | 35.8 | 32.3 |
| Marico | 6.4 | 5.8 | 5.2 | 33.1 | 29.5 | 27.5 |
| Colgate-Palmolive India | 8.8 | 8.2 | 7.7 | 28.9 | 26.7 | 25.1 |

*Source: Bloomberg consensus, Emkay Research; Note: Based on closing price on 14-Jul-2023*

**Exhibit 76: FY24E EV/sales valuation for FMCG stocks**




*Source: Bloomberg, Emkay Research; Note: Based on closing price on 14-Jul-2023*

***We ascribe 20x EV/EBITDA valuation multiple for ITC's Hotels operations which is at ~10% discount to listed peers'***

**Exhibit 77: ITC's Hotels business — Valuation snapshot**

| Company | MCap (USD mn) | P/E (x) FY24 | P/E (x) FY25 | EV/EBITDA (x) FY24 | EV/EBITDA (x) FY25 | EV/sales (x) FY24 | EV/sales (x) FY25 |
|---|---|---|---|---|---|---|---|
| Indian Hotels | 6,737 | 44.5 | 37.6 | 27.3 | 24.1 | 8.7 | 8.0 |
| Lemon Tree | 890 | 49.7 | 27.9 | 19.4 | 14.7 | 9.7 | 7.4 |
| Mahindra Holidays | 783 | 44.4 | 34.5 | 20.0 | 16.5 | 4.0 | 3.5 |

*Source: Bloomberg consensus, Emkay Research; Note: Based on closing price on 14-Jul-2023*

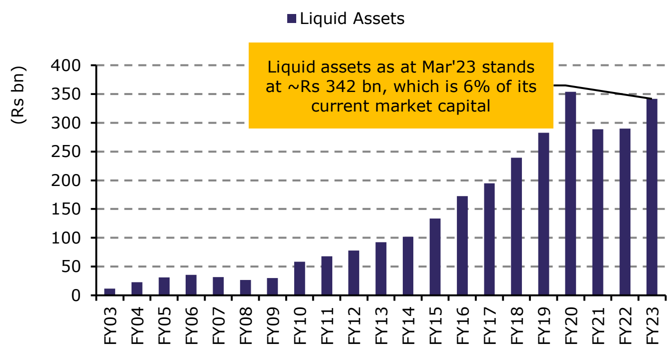
***We ascribe 20x PER valuation multiple for Infotech operations which is at 20% discount to mid-cap IT peers' (market-cap weighted average of 25x for FY25)***

**Exhibit 78: IT players — Valuation snapshot**

| Company | MCap (USD mn) | P/E (x) FY24 | P/E (x) FY25 | EV/EBITDA (x) FY24 | EV/EBITDA (x) FY25 | EV/sales (x) FY24 | EV/sales (x) FY25 |
|---|---|---|---|---|---|---|---|
| LTIMindtree | 18,344 | 29.8 | 25.1 | 20.8 | 17.7 | 3.9 | 3.5 |
| Mphasis | 4,750 | 22.7 | 19.7 | 14.8 | 12.9 | 2.7 | 2.4 |
| L&T Technology Services | 5,267 | 33.1 | 28.7 | 20.9 | 18.4 | 4.2 | 3.7 |
| Birlasoft | 1,273 | 20.1 | 17.0 | 15.5 | 12.5 | 2.0 | 1.8 |
| Coforge | 3,663 | 35.7 | 29.5 | 21.1 | 18.1 | 3.8 | 3.2 |
| Zensar Technologies | 1,176 | 33.3 | 20.8 | 16.7 | 12.2 | 1.8 | 1.7 |
| Mastek | 801 | 23.9 | 19.5 | 15.8 | 12.7 | 2.7 | 2.3 |
| Persistent Systems | 4,611 | 39.3 | 31.9 | 24.6 | 20.6 | 4.5 | 3.8 |
| Sonata Software | 1,798 | 31.4 | 25.5 | 24.8 | 17.4 | 2.0 | 1.6 |

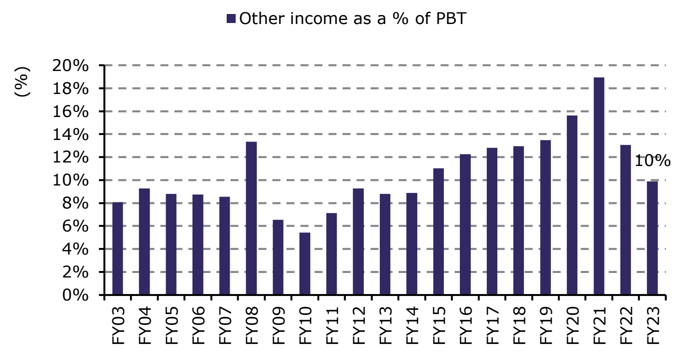
*Source: Bloomberg consensus, Emkay Research; Note: Based on closing price on 14-Jul-2023*

**Exhibit 79: Liquid assets position as at financial year end**



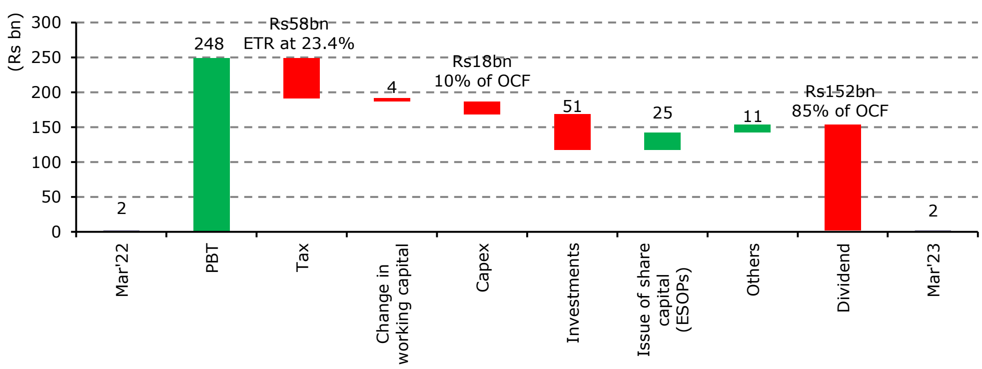

*Source: Company, Emkay Research*

**Exhibit 80: Other income contribution to profit before tax**



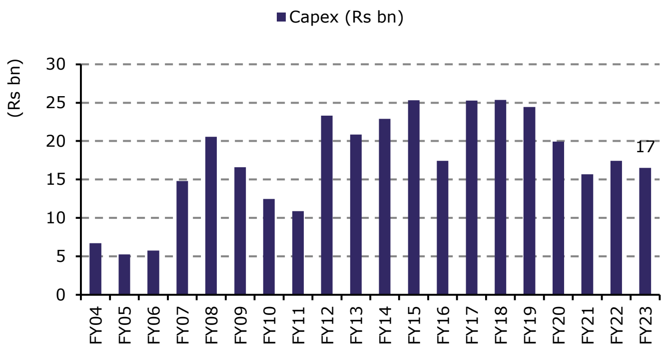

*Source: Company, Emkay Research*

**Exhibit 81: Assessing cash flow for FY23**



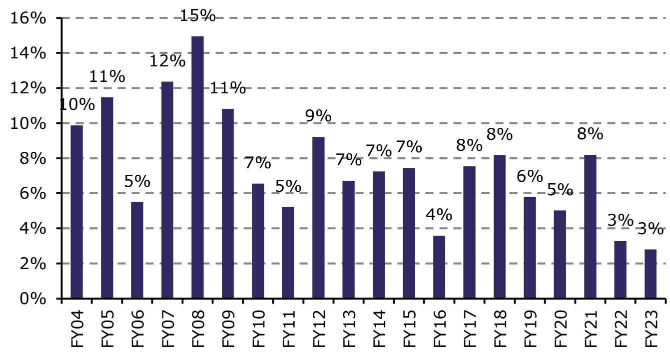

*Source: Company, Emkay Research*

**Exhibit 82: Annual capex spends**



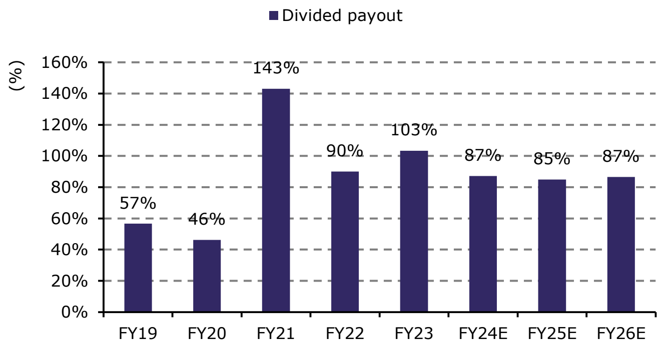

*Source: Company, Emkay Research*

**Exhibit 83: Capex as a % of sales is on a decline**



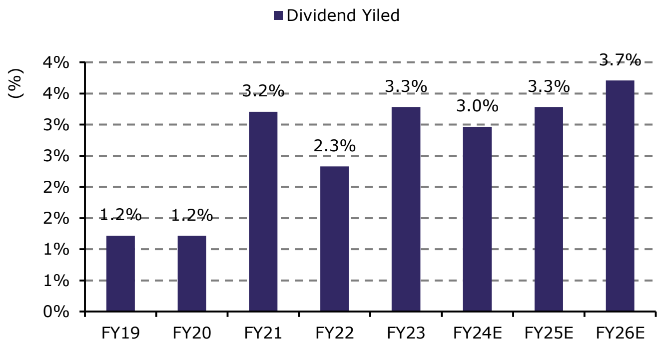

*Source: Company, Emkay Research*

**Exhibit 84: Dividend payout trend and expectations**



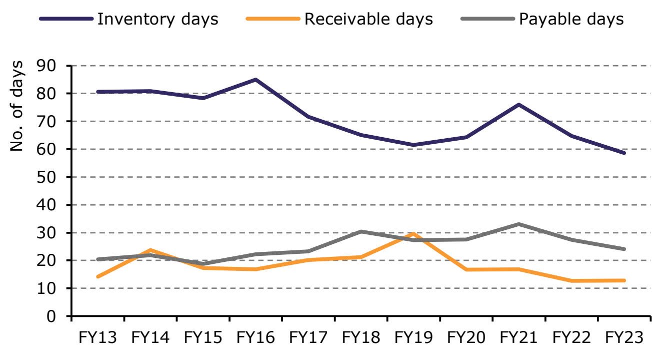

*Source: Company, Emkay Research*

**Exhibit 85: Dividend yield**



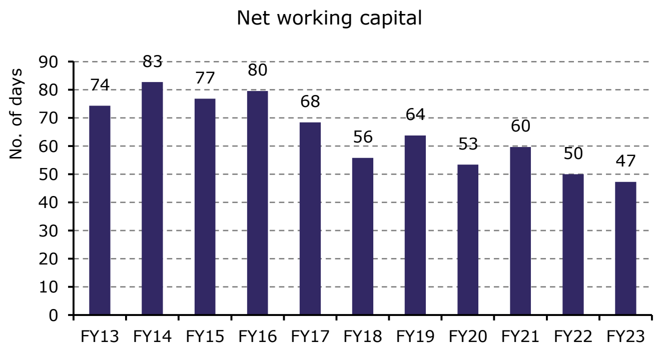

*Source: Company, Emkay Research*

**Exhibit 86: Inventory, receivable and payable days**



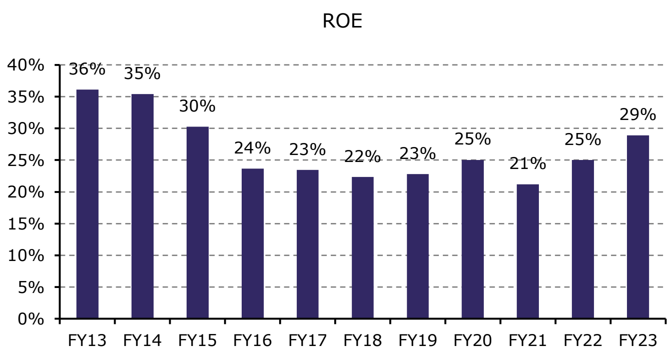

*Source: Company, Emkay Research*

**Exhibit 87: Net working capital requirements**



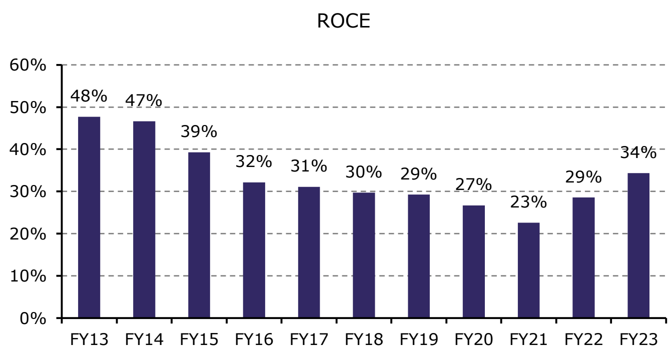

*Source: Company, Emkay Research*

**Exhibit 88: Inventory, receivable and payable days**




*Source: Company, Emkay Research*

**Exhibit 89: Net working capital requirements**




*Source: Company, Emkay Research*

# Appendix 1: Company financials

**Exhibit 90: Standalone Profit and loss statement**

| (Rs mn) | FY19 | FY20 | FY21 | FY22 | FY23 | FY24E | FY25E | FY26E |
|---|---|---|---|---|---|---|---|---|
| **Net sales** | **444,327** | **451,361** | **451,118** | **556,968** | **652,319** | **723,547** | **793,969** | **871,533** |
| - growth | 10.4% | 1.6% | -0.1% | 23.5% | 17.1% | 10.9% | 9.7% | 9.8% |
| Other operating income | 5,630 | 4,836 | 3,733 | 6,445 | 7,704 | 7,668 | 8,176 | 8,994 |
| **Total Revenue** | **449,957** | **456,197** | **454,851** | **563,413** | **660,022** | **731,215** | **802,146** | **880,527** |
| - growth | 10.8% | 1.4% | -0.3% | 23.9% | 17.1% | 10.8% | 9.7% | 9.8% |
| **Gross Profit** | **276,905** | **283,846** | **255,105** | **301,088** | **371,221** | **408,668** | **453,284** | **495,435** |
| as a percentage of net sale | 61.5% | 62.2% | 56.1% | 53.4% | 56.2% | 55.9% | 56.5% | 56.3% |
| Employee Benefits | 27,284 | 26,582 | 28,210 | 30,620 | 35,695 | 38,836 | 42,214 | 45,845 |
| as a percentage of net sale | 6.1% | 5.8% | 6.2% | 5.4% | 5.4% | 5.3% | 5.3% | 5.2% |
| Advertisement & Sales Promotion | 11,101 | 11,231 | 12,055 | 11,422 | 13,091 | 17,365 | 19,055 | 21,788 |
| as a percentage of net sale | 2.5% | 2.5% | 2.7% | 2.0% | 2.0% | 2.4% | 2.4% | 2.5% |
| Other Expenses | 65,465 | 66,990 | 59,616 | 69,709 | 83,401 | 92,767 | 98,166 | 105,119 |
| as a percentage of net sale | 14.5% | 14.7% | 13.1% | 12.4% | 12.6% | 12.7% | 12.2% | 11.9% |
| **EBITDA** | **173,055** | **179,043** | **155,224** | **189,337** | **239,034** | **259,700** | **293,848** | **322,683** |
| - growth | 11.4% | 3.5% | -13.3% | 22.0% | 26.2% | 8.6% | 13.1% | 9.8% |
| as a percentage of net sale | 38.5% | 39.2% | 34.1% | 33.6% | 36.2% | 35.5% | 36.6% | 36.6% |
| Depreciation and Amortization | 13,117 | 15,633 | 15,618 | 16,522 | 16,627 | 17,364 | 17,564 | 17,867 |
| **EBIT** | **159,938** | **163,410** | **139,606** | **172,815** | **222,407** | **242,336** | **276,284** | **304,816** |
| - growth | 11.1% | 2.2% | -14.6% | 23.8% | 28.7% | 9.0% | 14.0% | 10.3% |
| as a percentage of net sale | 35.5% | 35.8% | 30.7% | 30.7% | 33.7% | 33.1% | 34.4% | 34.6% |
| Finance Cost | 342 | 557 | 475 | 420 | 418 | 460 | 506 | 556 |
| Other Income | 24,845 | 30,137 | 32,510 | 25,900 | 24,376 | 27,806 | 23,410 | 28,235 |
| **Profit Before Tax** | **184,442** | **192,989** | **171,641** | **198,295** | **246,365** | **269,682** | **299,188** | **332,494** |
| - growth | 12.2% | 4.6% | -11.1% | 15.5% | 24.2% | 9.5% | 10.9% | 11.1% |
| as a percentage of net sale | 41.0% | 42.3% | 37.7% | 35.2% | 37.3% | 36.9% | 37.3% | 37.8% |
| Tax | 59,798 | 40,308 | 41,325 | 47,717 | 59,971 | 68,230 | 75,994 | 84,786 |
| Effective tax rate | 32.4% | 20.9% | 24.1% | 24.1% | 24.3% | 25.3% | 25.4% | 25.5% |
| Extraordinary gains/(losses) | 0 | (1,321) | 0 | 0 | 729 | 0 | 0 | 0 |
| **Reported PAT** | **124,643** | **151,361** | **130,316** | **150,578** | **187,123** | **201,452** | **223,194** | **247,708** |
| - growth | 11.1% | 21.4% | -13.9% | 15.5% | 24.3% | 7.7% | 10.8% | 11.0% |
| as a percentage of net sale | 27.7% | 33.2% | 28.7% | 26.7% | 28.4% | 27.6% | 27.8% | 28.1% |
| **Adjusted Profit** | **124,643** | **152,682** | **130,316** | **150,578** | **186,394** | **201,452** | **223,194** | **247,708** |
| - growth | 15% | 22% | -15% | 16% | 24% | 8% | 11% | 11% |
| Weighted avg no of shares | 12,259 | 12,292 | 12,309 | 12,323 | 12,428 | 12,493 | 12,558 | 12,623 |
| | | | | | | | | |
| Earnings Per Share (Rs) | 10.2 | 12.3 | 10.6 | 12.2 | 15.1 | 16.1 | 17.8 | 19.6 |
| - growth | 10.6% | 21.1% | -14.0% | 15.4% | 23.2% | 7.1% | 10.2% | 10.4% |
| **Adjusted Earnings Per Share (Rs)** | **10.2** | **12.4** | **10.6** | **12.2** | **15.0** | **16.1** | **17.8** | **19.6** |
| - growth | 14.8% | 22.2% | -14.8% | 15.4% | 22.7% | 7.5% | 10.2% | 10.4% |
| Recurring Cash Earnings per share (Rs) | 11.2 | 13.7 | 11.9 | 13.6 | 16.3 | 17.5 | 19.2 | 21.0 |
| - growth | 14.7% | 21.8% | -13.4% | 14.4% | 20.5% | 7.2% | 9.5% | 9.7% |

*Source: Company, Emkay Research*

**Exhibit 91: Standalone Balance Sheet**

| (Rs mn) | FY19 | FY20 | FY21 | FY22 | FY23 | FY24E | FY25E | FY26E |
|---|---|---|---|---|---|---|---|---|
| Share Capital | 12,259 | 12,292 | 12,309 | 12,323 | 12,428 | 12,493 | 12,558 | 12,623 |
| Reserves and Surplus | 567,239 | 627,999 | 577,737 | 601,672 | 663,510 | 672,328 | 720,621 | 779,959 |
| **Total Shareholders' Funds** | **579,498** | **640,292** | **590,046** | **613,996** | **675,938** | **684,821** | **733,179** | **792,582** |
| Minority Interest | 79 | 56 | 53 | 45 | 33 | 150 | 150 | 150 |
| Long-Term Borrowings | - | - | - | 7 | 13 | - | - | - |
| Short-Term Borrowings | - | 3,241 | 3,237 | 3,059 | 3,201 | 3,361 | 3,529 | 3,706 |
| Lease liabilities and others | 79 | 3,298 | 3,290 | 3,112 | 3,247 | 3,511 | 3,679 | 3,856 |
| **Total borrowings** | **20,441** | **16,177** | **17,277** | **16,671** | **16,211** | 17,508 | 18,909 | 20,422 |
| **Equity and Liabilities** | **600,018** | **659,766** | **610,613** | **633,779** | **695,396** | **705,841** | **755,767** | **816,859** |
| | | | | | | | | |
| Gross Block | 304,248 | 333,390 | 365,114 | 392,234 | 418,365 | 446,365 | 474,365 | 502,365 |
| Accumulated Depreciation (net) | 119,384 | 135,016 | 150,635 | 167,156 | 183,783 | 201,147 | 218,711 | 236,579 |
| **Closing Block** | **184,864** | **198,374** | **214,480** | **225,078** | **234,582** | **245,218** | **255,654** | **265,787** |
| CWIP | 34,014 | 27,802 | 33,335 | 24,662 | 16,966 | 12,966 | 12,966 | 12,966 |
| **Net Fixed Assets** | **218,878** | **226,176** | **247,815** | **249,740** | **251,548** | **258,184** | **268,620** | **278,753** |
| Investments | 20,928 | 20,925 | 21,457 | 21,936 | 23,936 | 23,936 | 23,936 | 23,936 |
| Other Non-Current Assets | - | 6,802 | 7,268 | 7,128 | 7,159 | 7,159 | 7,159 | 7,159 |
| **Total Non-Current Assets** | **239,806** | **253,903** | **276,540** | **278,804** | **282,643** | **289,279** | **299,715** | **309,848** |
| Current Investments | 244,852 | 285,381 | 248,514 | 250,887 | 303,270 | 303,270 | 333,270 | 363,270 |
| Inventories | 75,872 | 80,381 | 94,709 | 99,978 | 105,939 | 118,939 | 130,516 | 143,266 |
| Trade Receivables | 36,462 | 20,920 | 20,904 | 19,525 | 23,213 | 25,770 | 28,278 | 31,041 |
| Cash and Cash Equivalents | 37,687 | 68,433 | 40,015 | 38,779 | 38,313 | 37,756 | 37,444 | 47,480 |
| Short-Term Loans and Advances | 37,520 | 21,212 | 12,747 | 38,712 | 43,241 | 47,963 | 52,631 | 57,772 |
| Other Current Assets | 25,780 | 22,125 | 22,377 | 24,241 | 25,998 | 26,998 | 27,998 | 28,998 |
| **Total Current Assets** | **458,173** | **498,451** | **439,266** | **472,121** | **539,974** | **560,696** | **610,137** | **671,827** |
| Trade Payables | 33,683 | 34,467 | 41,195 | 42,234 | 43,513 | 57,487 | 63,082 | 69,245 |
| Other Current Liabilities | 62,699 | 55,503 | 60,736 | 72,488 | 81,055 | 85,107 | 89,363 | 93,831 |
| Short-Term Provisions | 1,579 | 2,617 | 3,261 | 2,425 | 2,654 | 1,540 | 1,640 | 1,740 |
| **Total Current Liabilities** | **97,961** | **92,588** | **105,192** | **117,146** | **127,221** | **144,134** | **154,085** | **164,816** |
| **Net Current Assets** | **360,212** | **405,863** | **334,074** | **354,975** | **412,753** | **416,562** | **456,052** | **507,011** |
| **Assets** | **600,018** | **659,766** | **610,613** | **633,779** | **695,396** | **705,841** | **755,767** | **816,859** |

*Source: Company, Emkay Research*

**Exhibit 92: Standalone cash flow statement**

| (Rs mn) | FY19 | FY20 | FY21 | FY22 | FY23 | FY24E | FY25E | FY26E |
|---|---|---|---|---|---|---|---|---|
| Net PBT and Extraordinary Items | 184,442 | 191,668 | 171,642 | 198,295 | 247,504 | 269,682 | 299,188 | 332,494 |
| Depreciation & Amortization | 13,117 | 15,633 | 15,618 | 16,522 | 16,627 | 17,364 | 17,564 | 17,867 |
| Interest | (16,243) | (19,343) | (19,013) | (18,201) | (19,496) | (27,346) | (22,904) | (27,678) |
| Loss / (Profit) on sale of Fixed Assets | (6,591) | (8,882) | (10,525) | (5,832) | (4,122) | - | - | - |
| Foreign Exchange Fluctuations | - | - | - | - | | - | - | - |
| Others | 2,621 | 1,307 | 732 | 554 | 1,051 | - | - | - |
| **Operating Profit Before Working Capital Changes** | **177,346** | **180,383** | **158,454** | **191,337** | **241,564** | **259,700** | **293,848** | **322,683** |
| Trade & Other Payables | 5,491 | (6,585) | 10,554 | 9,464 | 7,552 | 18,188 | 10,019 | 10,807 |
| Inventories | (3,501) | (4,508) | (13,509) | (5,269) | (5,961) | (13,000) | (11,576) | (12,750) |
| Trade & Other Receivables | (6,987) | 15,273 | (994) | (2,354) | (6,033) | (7,278) | (7,176) | (7,904) |
| Other assets | - | - | - | - | - | 297 | 401 | 513 |
| **Total Decrease / (Increase) in Working Capital** | **(4,997)** | **4,180** | **(3,948)** | **1,841** | **(4,441)** | **(2,909)** | **(8,233)** | **(9,234)** |
| **Cash Generated from Operations** | **172,349** | **184,563** | **154,506** | **193,178** | **237,123** | **256,791** | **285,615** | **313,449** |
| Direct Taxes Paid | (54,859) | (46,501) | (39,566) | (45,100) | (58,006) | (68,230) | (75,994) | (84,786) |
| **Net Cash Flow from Operating Activities** | **117,491** | **138,062** | **114,940** | **148,078** | **179,117** | **188,562** | **209,621** | **228,663** |
| Purchase of Fixed Assets | (27,595) | (21,136) | (15,794) | (16,748) | (18,095) | (24,000) | (28,000) | (28,000) |
| Purchase of Investments | (38,568) | (53,978) | 61,487 | (16,695) | (51,321) | - | (30,000) | (30,000) |
| Interest Received | 15,288 | 19,884 | 19,233 | 18,204 | 17,732 | 27,806 | 23,410 | 28,235 |
| Others | 57 | 63 | 53 | 69 | 90 | - | - | - |
| **Net Cash Used in Investing Activities** | **(50,818)** | **(55,167)** | **64,979** | **(15,171)** | **(51,594)** | **3,806** | **(34,590)** | **(29,765)** |
| Issue of Equity Share Capital | 9,691 | 6,253 | 2,907 | 2,919 | 24,774 | 65 | 65 | 65 |
| Repayment of Loans (Net) | (69) | (32) | (23) | (4) | (7) | 105 | - | - |
| Interest Paid | (867) | (455) | (435) | (421) | (400) | (460) | (506) | (556) |
| Dividend Paid | (74,869) | (84,222) | (186,153) | (135,471) | (151,504) | (192,634) | (174,902) | (188,370) |
| Others | 108 | (452) | (85) | (393) | (166) | - | - | - |
| **Net Cash Used in Financing Activities** | **(66,006)** | **(78,909)** | **(183,789)** | **(133,370)** | **(127,304)** | **(192,924)** | **(175,343)** | **(188,861)** |
| Extraordinary Items | | | | | | | | |
| **Net Changes in Cash & Cash Equivalents** | **667** | **3,986** | **(3,871)** | **(463)** | **219** | **(557)** | **(312)** | **10,036** |
| | | | | | | | | |
| Cash & Cash Equivalents-Opening Balance | 960 | 1,628 | 5,614 | 2,313 | 1,850 | 2,069 | 1,512 | 1,200 |
| **Cash & Cash Equivalents-Closing Balance** | **1,628** | **5,614** | **1,743** | **1,850** | **2,069** | **1,512** | **1,200** | **11,236** |

*Source: Company, Emkay Research*

**Exhibit 93: Key financial ratios**

| | FY19 | FY20 | FY21 | FY22 | FY23 | FY24E | FY25E | FY26E |
|---|---|---|---|---|---|---|---|---|
| **Growth Ratios (YoY)** | | | | | | | | |
| Net sales growth | 10.8% | 1.4% | -0.3% | 23.9% | 17.1% | 10.8% | 9.7% | 9.8% |
| EBITDA growth | 11.4% | 3.5% | -13.3% | 22.0% | 26.2% | 8.6% | 13.1% | 9.8% |
| EBIT growth | 11.1% | 2.2% | -14.6% | 23.8% | 28.7% | 9.0% | 14.0% | 10.3% |
| PBT growth | 12.2% | 4.6% | -11.1% | 15.5% | 24.2% | 9.5% | 10.9% | 11.1% |
| Adjusted PAT growth | 11.1% | 21.4% | -13.9% | 15.5% | 24.3% | 7.7% | 10.8% | 11.0% |
| EPS growth | 10.6% | 21.1% | -14.0% | 15.4% | 23.2% | 7.1% | 10.2% | 10.4% |
| **Operating Ratios** | | | | | | | | |
| Gross margin | 61.5% | 62.2% | 56.1% | 53.4% | 56.2% | 55.9% | 56.5% | 56.3% |
| Employee costs-to-sales | 6.1% | 5.8% | 6.2% | 5.4% | 5.4% | 5.3% | 5.3% | 5.2% |
| A&P-to-sales | 2.5% | 2.5% | 2.7% | 2.0% | 2.0% | 2.4% | 2.4% | 2.5% |
| Other expenses-to-sales | 14.5% | 14.7% | 13.1% | 12.4% | 12.6% | 12.7% | 12.2% | 11.9% |
| EBITDA margin | 38.5% | 39.2% | 34.1% | 33.6% | 36.2% | 35.5% | 36.6% | 36.6% |
| EBIT margin | 35.5% | 35.8% | 30.7% | 30.7% | 33.7% | 33.1% | 34.4% | 34.6% |
| Other income / PBT | 13.5% | 15.6% | 18.9% | 13.1% | 9.9% | 10.3% | 7.8% | 8.5% |
| PBT margin | 41.0% | 42.3% | 37.7% | 35.2% | 37.3% | 36.9% | 37.3% | 37.8% |
| Effective tax rate | 32.4% | 20.9% | 24.1% | 24.1% | 24.3% | 25.3% | 25.4% | 25.5% |
| Adj PAT margin | 27.7% | 33.5% | 28.7% | 26.7% | 28.2% | 27.6% | 27.8% | 28.1% |
| **Per Share Data (Rs)** | | | | | | | | |
| Recurring EPS | 10.2 | 12.4 | 10.6 | 12.2 | 15.0 | 16.1 | 17.8 | 19.6 |
| Reported EPS | 10.2 | 12.3 | 10.6 | 12.2 | 15.1 | 16.1 | 17.8 | 19.6 |
| Dividend per share | 5.7 | 5.7 | 15.1 | 11.0 | 15.5 | 14.0 | 15.0 | 16.5 |
| Recurring Cash EPS (CEPS) | 11.2 | 13.7 | 11.9 | 13.6 | 16.3 | 17.5 | 19.2 | 21.0 |
| Reported Book Value | 47.3 | 52.1 | 47.9 | 49.8 | 54.4 | 54.8 | 58.4 | 62.8 |
| Operating cash flow per share | 9.6 | 11.2 | 9.3 | 12.0 | 14.4 | 15.1 | 16.7 | 18.1 |
| Free Cashflow per share (FCPS-post capex) | 7.3 | 9.5 | 8.1 | 10.7 | 13.0 | 13.2 | 14.5 | 15.9 |
| **Return/Profitability Ratios** | | | | | | | | |
| Avg ROE | 23% | 25% | 21% | 25% | 29% | 30% | 31% | 32% |
| Avg ROCE | 29% | 27% | 23% | 29% | 34% | 35% | 39% | 40% |
| Avg ROIC | 41% | 47% | 38% | 45% | 54% | 57% | 62% | 65% |
| **Solvency Ratios/Liquidity Ratios (%)** | | | | | | | | |
| Debt Equity Ratio (D/E) | (0.49) | (0.55) | (0.48) | (0.47) | (0.50) | (0.49) | (0.50) | (0.51) |
| Long Term Debt / Total Debt | | | | | | | | |
| Net Working Capital / Total Assets | 0.54 | 0.51 | 0.48 | 0.50 | 0.54 | 0.54 | 0.55 | 0.56 |
| Interest Coverage Ratio-based on EBIT (x) | 467.8 | 293.3 | 294.1 | 412.0 | 531.9 | 526.9 | 546.1 | 547.7 |
| Debt Servicing Capacity Ratio (DSCR; x) | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Current Ratio (x) | 4.3 | 4.6 | 3.8 | 3.7 | 3.9 | 3.6 | 3.7 | 3.8 |
| Cash and cash equivalents / Total Assets (x) | 0.1 | 0.1 | 0.1 | 0.1 | 0.1 | 0.1 | 0.0 | 0.1 |
| **Turnover-related** | | | | | | | | |
| Inventory days (no. of) | 61.5 | 64.3 | 76.0 | 64.8 | 58.6 | 59.4 | 59.4 | 59.4 |
| Receivable days (no. of) | 29.6 | 16.7 | 16.8 | 12.6 | 12.8 | 12.9 | 12.9 | 12.9 |
| Payable days (no. of) | 27.3 | 27.6 | 33.1 | 27.4 | 24.1 | 28.7 | 28.7 | 28.7 |
| Cash conversion cycle (no. of days) | 63.8 | 53.5 | 59.7 | 50.1 | 47.4 | 43.5 | 43.6 | 43.6 |
| Fixed Assets Turnover Ratio (x) | 1.6 | 1.4 | 1.3 | 1.5 | 1.6 | 1.7 | 1.7 | 1.8 |

*Source: Company, Emkay Research*

# ITC : Standalone Financials and Valuations

## Profit & Loss

| Y/E Mar (Rs mn) | FY22 | FY23 | FY24E | FY25E | FY26E |
|---|---|---|---|---|---|
| **Revenue** | **563,413** | **660,022** | **731,215** | **802,146** | **880,527** |
| Revenue growth (%) | 23.9 | 17.1 | 10.8 | 9.7 | 9.8 |
| **EBITDA** | **189,337** | **239,034** | **259,700** | **293,848** | **322,683** |
| EBITDA growth (%) | 22.0 | 26.2 | 8.6 | 13.1 | 9.8 |
| Depreciation & Amortization | 16,522 | 16,627 | 17,364 | 17,564 | 17,867 |
| **EBIT** | **172,815** | **222,407** | **242,336** | **276,284** | **304,816** |
| EBIT growth (%) | 23.8 | 28.7 | 9.0 | 14.0 | 10.3 |
| Other operating income | 6,445 | 7,704 | 7,668 | 8,176 | 8,994 |
| Other income | 25,900 | 24,376 | 27,806 | 23,410 | 28,235 |
| Financial expense | 420 | 418 | 460 | 506 | 556 |
| **PBT** | **198,295** | **246,365** | **269,682** | **299,188** | **332,494** |
| Extraordinary items | 0 | 0 | 0 | 0 | 0 |
| Taxes | 47,717 | 59,971 | 68,230 | 75,994 | 84,786 |
| Minority interest | 0 | 0 | 0 | 0 | 0 |
| Income from JV/Associates | 0 | 0 | 0 | 0 | 0 |
| **Reported PAT** | **150,578** | **187,123** | **201,452** | **223,194** | **247,708** |
| PAT growth (%) | 15.5 | 24.3 | 7.7 | 10.8 | 11.0 |
| **Adjusted PAT** | **150,578** | **186,394** | **201,452** | **223,194** | **247,708** |
| **Diluted EPS (Rs)** | **12.2** | **15.0** | **16.1** | **17.8** | **19.6** |
| Diluted EPS growth (%) | 15.4 | 22.7 | 7.5 | 10.2 | 10.4 |
| **DPS (Rs)** | **11.0** | **15.5** | **14.0** | **15.0** | **16.5** |
| **Dividend payout (%)** | **90.0** | **102.9** | **86.8** | **84.4** | **84.1** |
| EBITDA margin (%) | 33.6 | 36.2 | 35.5 | 36.6 | 36.6 |
| EBIT margin (%) | 30.7 | 33.7 | 33.1 | 34.4 | 34.6 |
| Effective tax rate (%) | 24.1 | 24.3 | 25.3 | 25.4 | 25.5 |
| **NOPLAT (pre-IndAS)** | **131,230** | **168,268** | **181,025** | **206,108** | **227,088** |
| Shares outstanding (mn) | 12,323.3 | 12,428.0 | 12,493.0 | 12,558.0 | 12,623.0 |

*Source: Company, Emkay Research*

## Balance Sheet

| Y/E Mar (Rs mn) | FY22 | FY23 | FY24E | FY25E | FY26E |
|---|---|---|---|---|---|
| Share capital | 12,323 | 12,428 | 12,493 | 12,558 | 12,623 |
| Reserves & Surplus | 601,672 | 663,510 | 672,328 | 720,621 | 779,959 |
| **Net worth** | **613,996** | **675,938** | **684,821** | **733,179** | **792,582** |
| Minority interests | 0 | 0 | 0 | 0 | 0 |
| Deferred tax liability (net) | 16,671 | 16,211 | 17,508 | 18,909 | 20,422 |
| **Total debt** | **3,112** | **3,247** | **3,511** | **3,679** | **3,856** |
| **Total liabilities & equity** | **633,779** | **695,396** | **705,841** | **755,767** | **816,859** |
| Net tangible fixed assets | 237,701 | 234,582 | 245,218 | 255,654 | 265,787 |
| Net intangible assets | 7,128 | 7,159 | 7,159 | 7,159 | 7,159 |
| Net ROU assets | 9,772 | 10,260 | 10,774 | 11,312 | 11,878 |
| Capital WIP | 24,662 | 16,966 | 12,966 | 12,966 | 12,966 |
| Goodwill | 0 | 0 | 0 | 0 | 0 |
| Investments [JV/Associates] | 21,936 | 23,936 | 23,936 | 23,936 | 23,936 |
| **Cash & equivalents** | **38,779** | **38,313** | **37,756** | **37,444** | **47,480** |
| Current assets (ex-cash) | 433,342 | 501,662 | 522,940 | 572,693 | 624,347 |
| Current Liab. & Prov. | 117,146 | 127,221 | 144,134 | 154,085 | 164,816 |
| **NWC (ex-cash)** | **316,195** | **374,440** | **378,806** | **418,608** | **459,532** |
| **Total assets** | **633,779** | **695,396** | **705,841** | **755,767** | **816,859** |
| Net debt | (38,734) | (38,280) | (37,606) | (37,294) | (47,330) |
| Capital employed | 630,713 | 692,182 | 702,480 | 752,237 | 813,153 |
| **Invested capital** | **548,402** | **616,181** | **631,183** | **681,421** | **732,477** |
| BVPS (Rs) | 49.8 | 54.4 | 54.8 | 58.4 | 62.8 |
| Net Debt/Equity (x) | (0.1) | (0.1) | (0.1) | (0.1) | (0.1) |
| Net Debt/EBITDA (x) | (0.2) | (0.2) | (0.1) | (0.1) | (0.1) |
| Interest coverage (x) | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| **RoCE (%)** | **32.1** | **37.3** | **38.7** | **41.2** | **42.6** |

*Source: Company, Emkay Research*

## Cash flows

| Y/E Mar (Rs mn) | FY22 | FY23 | FY24E | FY25E | FY26E |
|---|---|---|---|---|---|
| PBT | 198,295 | 246,365 | 269,682 | 299,188 | 332,494 |
| Others (non-cash items) | 0 | 0 | 0 | 0 | 0 |
| Taxes paid | (45,100) | (58,006) | (68,230) | (75,994) | (84,786) |
| Change in NWC | 1,841 | (4,441) | (2,909) | (8,233) | (9,234) |
| **Operating cash flow** | **148,078** | **179,117** | **188,562** | **209,621** | **228,663** |
| Capital expenditure | (16,748) | (18,095) | (24,000) | (28,000) | (28,000) |
| Acquisition of business | 0 | 0 | 0 | 0 | 0 |
| Interest & dividend income | 18,204 | 17,732 | 27,806 | 23,410 | 28,235 |
| **Investing cash flow** | **(15,171)** | **(51,594)** | **3,806** | **(34,590)** | **(29,765)** |
| Equity raised/(repaid) | 2,919 | 24,774 | 65 | 65 | 65 |
| Debt raised/(repaid) | (4) | (7) | 105 | 0 | 0 |
| Payment of lease liabilities | 590 | 0 | 0 | 0 | 0 |
| Interest paid | (421) | (400) | (460) | (506) | (556) |
| Dividend paid (incl tax) | (135,471) | (151,504) | (192,634) | (174,902) | (188,370) |
| Others | (393) | (166) | 0 | 0 | 0 |
| **Financing cash flow** | **(133,370)** | **(127,304)** | **(192,924)** | **(175,343)** | **(188,861)** |
| Net chg in Cash | (463) | 219 | (557) | (312) | 10,036 |
| OCF | 148,078 | 179,117 | 188,562 | 209,621 | 228,663 |
| Adj. OCF (w/o NWC chg.) | 146,237 | 183,558 | 193,003 | 217,855 | 237,897 |
| FCFF | 131,330 | 161,022 | 164,562 | 181,621 | 200,663 |
| FCFE | 149,115 | 178,336 | 191,908 | 204,525 | 228,341 |
| OCF/EBITDA (%) | 78.2 | 74.9 | 72.6 | 71.3 | 70.9 |
| FCFE/PAT (%) | 99.0 | 95.7 | 95.3 | 91.6 | 92.2 |
| **FCFF/NOPLAT (%)** | **100.1** | **95.7** | **90.9** | **88.1** | **88.4** |

*Source: Company, Emkay Research*

## Valuations and key Ratios

| Y/E Mar | FY22 | FY23 | FY24E | FY25E | FY26E |
|---|---|---|---|---|---|
| P/E (x) | 38.7 | 31.5 | 29.3 | 26.6 | 24.1 |
| P/CE(x) | 34.8 | 28.9 | 26.9 | 24.6 | 22.4 |
| P/B (x) | 9.5 | 8.7 | 8.6 | 8.1 | 7.5 |
| EV/Sales (x) | 10.4 | 9.0 | 8.1 | 7.4 | 6.8 |
| EV/EBITDA (x) | 30.6 | 24.4 | 22.6 | 20.1 | 18.4 |
| EV/EBIT(x) | 33.4 | 26.2 | 24.2 | 21.3 | 19.4 |
| EV/IC (x) | 10.5 | 9.5 | 9.3 | 8.6 | 8.1 |
| FCFF yield (%) | 2.3 | 2.8 | 2.8 | 3.1 | 3.4 |
| FCFE yield (%) | 2.6 | 3.0 | 3.3 | 3.5 | 3.8 |
| Dividend yield (%) | 2.3 | 3.3 | 3.0 | 3.2 | 3.5 |
| **DuPont-RoE split** | | | | | |
| Net profit margin (%) | 26.7 | 28.2 | 27.6 | 27.8 | 28.1 |
| Total asset turnover (x) | 0.9 | 1.0 | 1.0 | 1.1 | 1.1 |
| Assets/Equity (x) | 1.0 | 1.0 | 1.0 | 1.0 | 1.0 |
| **RoE (%)** | **25.0** | **28.9** | **29.6** | **31.5** | **32.5** |
| **DuPont-RoIC** | | | | | |
| NOPLAT margin (%) | 23.3 | 25.5 | 24.8 | 25.7 | 25.8 |
| IC turnover (x) | 1.1 | 1.1 | 1.2 | 1.2 | 1.2 |
| **RoIC (%)** | **24.7** | **28.9** | **29.0** | **31.4** | **32.1** |
| **Operating metrics** | | | | | |
| Core NWC days | 11.1 | 10.7 | 9.0 | 7.1 | 7.1 |
| **Total NWC days** | **204.8** | **207.1** | **189.1** | **190.5** | **190.5** |
| Fixed asset turnover | 1.5 | 1.6 | 1.7 | 1.7 | 1.8 |
| Opex-to-revenue (%) | 19.8 | 20.0 | 20.4 | 19.9 | 19.6 |

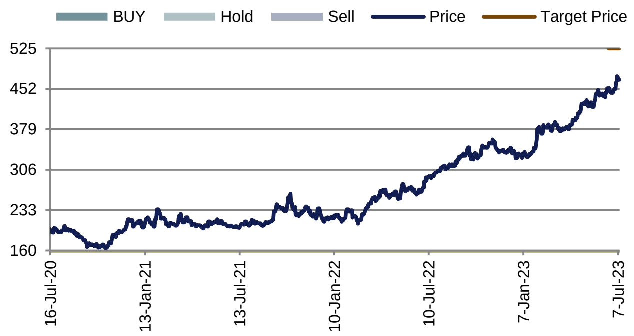
*Source: Company, Emkay Research*

## RECOMMENDATION HISTORY - DETAILS

| Date | Closing Price (INR) | TP (INR) | Rating | Analyst |
|---|---|---|---|---|
| 19-Jun-23 | 454 | 525 | Buy | Nitin Gupta |

*Source: Company, Emkay Research*

## RECOMMENDATION HISTORY - TREND




*Source: Bloomberg, Company, Emkay Research*

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