



Firing on All Cylinders; Maintain BUY

Est. Vs. Actual for Q1FY24: Revenue – **MISS**; EBITDA – **BEAT**; PAT – **BEAT**

Changes in Estimates post Q1FY24

FY24E/FY25E – Revenue: 0%/0%; EBITDA: 0%/0%; PAT: 0%/0%

Recommendation Rationale

- The company's Q1FY24 results were robust as it remained strong in all segments. The Cigarettes segment continued its strong momentum with volume growth of 8% vs. our estimates of 7%, led by market share gains from illicit trade, targeted market interventions and new product launches. FMCG/Hotels maintained its strong growth momentum, while Agri/Paper board business declined due to the wheat ban and subdued demand in the paperboard business. Gross revenue (excluding agri-business) grew by 10.6% YoY.
- Demerger of the hotel business – The share entitlement ratio has been set at 1 share for every 10 shares of ITC. The demerger is expected to be completed by Sep'24, while the listing of the shares is expected to take place in Nov'24.**
- We believe that the ITC business continues to strengthen as all businesses are on track: – 1) Growth in cigarette volume is stable, thanks to stable taxation, market share gains and new product launches; 2) FMCG business has reached the inflection point as EBIT margins continue to increase, driven by – the ramp up in the outlet coverage, effective implementation of localization strategy, premiumization, use of demand and supply side technologies, and moderating raw material input cost; 3) Demerger of Hotel's business will strengthen ITC's balance sheet and improve return ratios; 4) Stable and decent performance in paperboard and agribusiness continues. In addition, the reasonable valuation provides a margin of safety.

Sector Outlook: Positive

Company Outlook & Guidance: We have maintained our PAT estimates to factor in strong earnings visibility across business verticals.

Current Valuation: 27x June-25 EPS (Earlier Valuation: Unchanged).

Current TP: Rs 540/share (Earlier TP: Unchanged).

Recommendation With an upside potential of 20% from the CMP, we **maintain** our BUY rating on the stock.

Alternative BUY Ideas from our Sector Coverage: [HUL \(TP – Rs 2,960\)](#); [Nestle \(TP – Rs 24,600\)](#); [VBL \(TP – Rs 920\)](#); [CCL Products \(TP – Rs 750\)](#); [Britannia \(TP – Rs 5110\)](#)

Financial Performance: revenue declined by 8.5% to Rs 16,398 Cr, mainly due to subdued performance in the agriculture and paperboard businesses. However, in terms of margins, the company beat our estimates. Gross margins stood at 59.1%, up 855bps YoY, due to a sequential decline in raw material prices and improved realizations. EBITDA margins were 39.9% (up 691bps YoY), driven by better-than-expected gross margin expansion, cost reduction initiatives and operating leverage benefits in hotels and other business units. Reported revenue from PAT was Rs 4,903 Cr (up 18% YoY).

A) Cigarettes (~77% of EBIT) – The company's cigarette division continued its strong momentum with volume growth of 8% vs. our estimates of 7%, led by market share gains from illicit trade, targeted market interventions, and new product launches. Over the years, discriminatory and punitive taxation on cigarettes has led the entire legal cigarette industry to grapple with the loss in market share and volumes from illicit trade. However, stable taxation in recent years has led to a recovery in market share and volume. We also expect the company's cigarette margins to increase slightly in the future as realisation per stick improves.

Outlook: The stock is currently trading at 23x FY25E EPS and a 3-4% dividend yield provides a margin of safety compared to its peers. Moreover, with a stable outlook for the cigarette volume growth (led by stable taxation, market share gain from illicit trade along with new product launches), the FMCG business reaching the inflexion point with its EBIT margins inching up further, strong and stable growth witnessed in hotels, and steady and decent performance outlook in paperboard and agribusiness, ITC makes a better play in the entire FMCG pack where valuations of other players stand elevated.

Valuation & Recommendation: We estimate the company to post Revenue/EBITDA/PAT growth of 10%/12%/12% CAGR over FY23-26E and maintain a BUY rating on the stock with an unchanged TP of Rs 540/share. We value the company at 27x June-25 EPS. **The TP implies an upside of 20% from the CMP.**

Key Financials (Standalone)

(Rs Cr)	Q1FY24	QoQ (%)	YoY (%)	Axis Est.	Variance (%)
Net Sales	15,676	-2.7	-8.5	17,223	-9.0
EBITDA	6,250	0.7	10.7	6,447	-3.1
EBITDA Margin	39.9	134 bps	691 bps	37.4	244 bps
Net Profit	4,903	-3.6	17.6	4,690	4.5
EPS (Rs)	3.9	-3.6	16.7	3.8	4.5

Source: Company, Axis Research

(CMP as of 14th Aug'23)

CMP (Rs)	449
Upside /Downside (%)	20%
High/Low (Rs)	499/308
Market cap (Cr)	559,608
Avg. daily vol. (6m)Shrs.'000	11485.74
No. of shares (Cr)	1246

Shareholding (%)

	Dec-22	Mar-23	Jun-23
Promoter	0.0	0.0	0.0
FIIs	43.0	43.4	43.6
MFs / UTI	9.7	9.5	9.2
Banks / FIs	7.9	7.9	7.9
Others	39.4	39.3	39.3

Financial & Valuations

Y/E Mar (Rs Cr)	FY24E	FY25E	FY26E
Net Sales	72,161	79,127	86,860
EBITDA	27,413	30,475	33,452
Net Profit	21,488	23,919	26,304
EPS (Rs.)	17.3	19.2	21.2
PER (x)	26.0	23.3	21.2
EV/EBITDA (x)	19.6	17.5	15.7
P/BV (x)	7.7	7.1	6.4
ROE (%)	29.7	30.3	30.0

Change in Estimates (%)

Y/E Mar	FY24E	FY25E
Sales	0%	0%
EBITDA	0%	0%
PAT	0%	0%

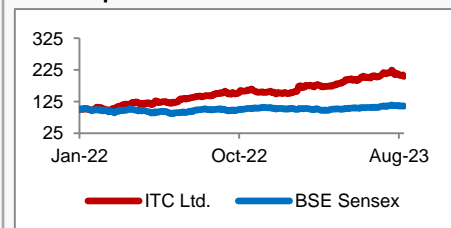
ESG disclosure Score**

Environmental Disclosure	61.91
Social Disclosure Score	38.81
Governance Disclosure	89.86
Total ESG Disclosure Score	63.57
Sector Average	44.87

Source: Bloomberg, Scale: 0.1-100

**Note: This score measures the amount of ESG data a company reports publicly and does not measure the company's performance on any data point. All scores are based on 2022 disclosures

Relative performance



Source: Ace Equity, Axis Securities

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Other Key takeaways

- **FMCG** – The company's FMCG business witnessed a robust 16% YoY growth, which was led by broad-based growth across categories and channels, distribution expansion, and price increase. Rural and Urban growth too stood strong. FMCG EBIT margins stood at 8.3% (up 380bps) despite input cost pressure as it undertook cost savings initiatives – supply chain agility, optimising channel assortments, etc. and driving premiumisation agenda.
 - **The Meri Chakki initiative**, which offers personalised quality atta to consumers in Delhi, was extended to Bengaluru during the quarter under the banner 'Namma Chakki from Aashirvaad'.
 - **UNNATI** now covers over 5.7 lakh outlets, facilitating sharp and direct engagement with retailers, superior analytics, personalised recommendations of hyperlocal baskets based on consumer purchase insights, and deeper brand engagement.
 - **Sunfeast Biscuits and Cakes** recorded strong growth during the quarter, driven by the robust performance of the core portfolio and the scaling up of several differentiated variants launched recently. It launched Sunfeast All Rounder Sweet & Salty, Sunfeast Supermilk and 'Sunfeast Farmlite Super Millets in two variants – Chocochip Millet and Multi Millet cookies.
- **Hotels** – Revenue grew 8% YoY, amidst a high base. ARR was impacted owing to a high base and fewer wedding dates, and pre-planned innovation undertaken. Despite this, EBIT grew 17% YoY (EBIT margins 21.9%, up 170bps YoY on account of higher realisation per room and operating leverage. In Q1FY24, The division added 6 properties.
- **Paperboards** – Revenue declined 7% YoY, and EBIT declined 23% YoY owing to subdued demand conditions, increased competitive intensity from cheap Chinese players, and a steep decline in global pulp prices.
- **Agri** – Agri business de-grew 24% YoY, on account of the ban on exports of wheat. However, adjusting for wheat exports, the Agri business grew 31% YoY.
- **ITC Infotech** – Revenue stood at Rs 838 Cr (up 12% YoY), while EBITDA margins were at 13.6%.

Key Risks to our Estimates and TP

- Increase in competitive intensity in Cigarettes, RM inflation, and the slowdown in the economy impacting Hotels and other cyclical businesses.

Change in Estimates

	Old		New		% change	
	FY24	FY25	FY24	FY25	FY24	FY25
Rev	72,161	79,127	72,161	79,127	0%	0%
EBITDA	27,413	30,475	27,413	30,475	0%	0%
PAT	21,488	23,919	21,488	23,919	0%	0%
EPS	17.3	19.2	17.3	19.2	0%	0%

Source: Company, Axis Securities

Results Review

(Rs cr)	Q1FY23	Q4FY23	Axis Sec Est.	Q1FY24	YoY growth %	QoQ growth %	Axis Sec Est. Var (%)
Volume growth est. (% yoy)	26.0	12.0	7.0	8.0	-1800 bps	-400 bps	
Net sales	17,133	16,116	17,223	15,676	(8.51)	(2.73)	(9.0)
Other operating Income	157	282	141	153	(2.58)	(45.92)	8.2
Gross Profits	8,656	9,322	9,903	9,260	6.98	(0.66)	(6.5)
Gross Margin (%)	50.5	57.8	57.5	59.1	855 bps	123 bps	157 bps
Staff costs	862	894	948	904	4.84	1.10	(4.7)
Other operating expenses	2,303	2,500	2,649	2,259	(1.93)	(9.66)	(14.7)
EBITDA	5,648	6,209	6,447	6,250	10.67	0.65	(3.1)
EBITDA margin (%)	33.0	38.5	37.4	39.9	691 bps	134 bps	244 bps
Other Income	313	746	328	709	126.66	(5.03)	115.9
Interest	9	12	12	11	17.42	(9.38)	(10.3)
Depreciation	412	422	426	402	(2.20)	(4.61)	(5.6)
PBT	5,540	6,522	6,337	6,546	18.16	0.36	3.3
Tax	1,370	1,508	1,648	1,643	19.90	8.95	(0.3)
Tax rate (%)	24.7	23.1	26.0	25.1	36 bps	198 bps	
Reported PAT	4,169	5,087	4,690	4,903	17.59	(3.62)	4.5
Reported EPS	3.4	4.1	3.8	3.9	16.75	(3.62)	4.5

Segmental Performance

Segment Revenue	Q1FY23	Q4FY23	Q1FY24	YoY%	QoQ (%)
Cigarette	6,609	7,356	7,465	13.0%	1.5%
Other FMCG	4,451	4,945	5,166	16.1%	4.5%
Hotel	555	782	600	8.1%	-23.2%
AgriBusiness	7,473	3,579	5,705	-23.7%	59.4%
Paper Board	2,267	2,221	2,121	-6.5%	-4.5%
Total	21,356	18,882	21,058	-1.4%	11.5%
% Revenue Contribution	Q1FY23	Q4FY23	Q1FY24	YoY	QoQ
Cigarette	30.9%	39.0%	35.5%	450bps	-350bps
Other FMCG	20.8%	26.2%	24.5%	369bps	-166bps
Hotel	2.6%	4.1%	2.9%	25bps	-129bps
AgriBusiness	35.0%	19.0%	27.1%	-790bps	814bps
Paper Board	10.6%	11.8%	10.1%	-55bps	-169bps
Segment EBIT	Q1FY23	Q4FY23	Q1FY24	YoY%	QoQ (%)
Cigarette	4,189	4,689	4,656	11.2%	-0.7%
Other FMCG	204	502	431	111.3%	-14.1%
Hotel	112	200	131	17.0%	-34.3%
AgriBusiness	284	307	356	25.3%	15.9%
Paper Board	613	445	472	-22.9%	6.2%
Segment EBIT Margin %	Q1FY23	Q4FY23	Q1FY24	YoY	QoQ
Cigarette	63.4%	63.7%	62.4%	-101bps	-138bps
Other FMCG	4.6%	10.1%	8.3%	376bps	-180bps
Hotel	20.2%	25.5%	21.9%	165bps	-367bps
AgriBusiness	3.8%	8.6%	6.2%	244bps	-234bps
Paper Board	27.0%	20.0%	22.3%	-476bps	224bps

Source: Company, Axis Securities

Financials (Standalone)

Profit & Loss

(Rs Cr)

Y/E Mar	FY23	FY24E	FY25E	FY26E
Net sales	65,273	72,161	79,127	86,860
Growth, %	17	11	10	10
Other operating income	770	847	932	1,025
Total income	66,043	73,009	80,059	87,886
Raw material expenses	-28,880	-31,191	-33,686	-36,886
Employee expenses	-3,569	-3,926	-4,319	-4,751
Other Operating expenses	-9,649	-10,478	-11,579	-12,797
EBITDA (Core)	23,944	27,413	30,475	33,452
Growth, %	26.5	14.5	11.2	9.8
Margin, %	36.7	38.0	38.5	38.5
Depreciation	-1,663	-1,788	-1,918	-2,051
EBIT	22,282	25,626	28,557	31,400
Growth, %	28.9	15.0	11.4	10.0
Margin, %	34.1	35.5	36.1	36.2
Interest paid	-42	-42	-43	-43
Other Income	2,438	2,803	3,084	3,392
Non-recurring Items	73	0	0	0
Pre-tax profit	24,750	28,387	31,598	34,749
Tax provided	-5,997	-6,898	-7,679	-8,445
Profit after tax	18,753	21,488	23,919	26,304
Others (Minorities, Associates)	0	0	0	0
Unadj. shares (Cr)	1,243	1,243	1,243	1,243
Wtd avg shares (Cr)	1,243	1,243	1,243	1,243

Source: Company, Axis Securities

Balance Sheet

(Rs Cr)

As at 31st Mar,	FY23	FY24E	FY25E	FY26E
Cash & bank	3,831	4,577	9,300	16,419
Marketable securities at cost	16,357	16,357	16,357	16,357
Debtors	2,321	4,943	5,420	5,949
Inventory	10,594	11,712	12,842	14,098
Loans & advances	6	6	6	6
Other current assets	2,094	2,094	2,094	2,094
Total current assets	35,203	39,689	46,019	54,923
Investments	16,364	16,364	16,364	16,364
Gross fixed assets	34,261	36,761	39,361	41,961
Less: Depreciation	-10,087	-11,875	-13,793	-15,844
Add: Capital WIP	1,697	1,697	1,697	1,697
Net fixed assets	25,871	26,583	27,265	27,813
Non-current assets	4,824	4,824	4,824	4,824
Total assets	82,262	87,459	94,472	1,03,924
Current liabilities	11,639	12,105	12,577	13,100
Provisions	978	999	1,021	1,045
Total current liabilities	12,617	13,105	13,597	14,144
Non-current liabilities	2,050	2,050	2,050	2,050
Total liabilities	14,668	15,155	15,648	16,195
Paid-up capital	1,243	1,243	1,243	1,243
Reserves & surplus	66,351	71,061	77,581	86,486
Shareholders' equity	67,594	72,304	78,824	87,729
Total equity & liabilities	82,262	87,459	94,472	1,03,924

Source: Company, Axis Securities

Cash Flow

(Rs Cr)

Y/E Mar	FY23	FY24E	FY25E	FY26E
Pre-tax profit	24,750	28,387	31,598	34,749
Depreciation	1,663	1,788	1,918	2,051
Chg in working capital	-796	-3,252	-1,115	-1,238
Total tax paid	-5,818	-6,898	-7,679	-8,445
Other operating activities	0	0	0	0
Cash flow from operating activities	19,799	20,024	24,722	27,118
Capital expenditure	-1,847	-2,500	-2,600	-2,600
Chg in investments	-706	0	0	0
Chg in marketable securities	-4,732	0	0	0
Other investing activities	0	0	0	0
Cash flow from investing activities	-7,285	-2,500	-2,600	-2,600
Free cash flow	12,514	17,524	22,122	24,518
Equity raised/(repaid)	2,567	0	0	0
Debt raised/(repaid)	-1	0	0	0
Dividend (incl. tax)	-19,255	-16,778	-17,399	-17,399
Cash flow from financing activities	-16,689	-16,778	-17,399	-17,399
Net chg in cash	-4,176	746	4,723	7,119
Opening cash balance	3,878	3,831	4,577	9,300
Closing cash balance	3,831	4,577	9,300	16,419

Source: Company, Axis Securities

Ratio Analysis

(%)

	FY23	FY24E	FY25E	FY26E
Per Share data				
EPS (INR)	15.0	17.3	19.2	21.2
Growth, %	23.0	15.0	11.3	10.0
Book NAV/share (INR)	54.4	58.2	63.4	70.6
FDEPS (INR)	15.0	17.3	19.2	21.2
CEPS (INR)	16.3	18.7	20.8	22.8
CFPS (INR)	15.6	13.9	17.4	19.1
DPS (INR)	15.5	13.5	14.0	14.0
Return ratios				
Return on assets (%)	23.9	25.4	26.3	26.6
Return on equity (%)	27.6	29.7	30.3	30.0
Return on capital employed (%)	28.2	29.8	30.8	30.8
Turnover ratios				
Asset turnover (x)	2.2	2.3	2.3	2.4
Sales/Total assets (x)	0.8	0.9	0.9	0.9
Sales/Net FA (x)	2.5	2.8	2.9	3.2
Working capital/Sales (x)	0.0	0.1	0.1	0.1
Receivable days	13.0	25.0	25.0	25.0
Inventory days	59.2	59.2	59.2	59.2
Payable days	37.7	38.5	38.8	38.8
Working capital days	14.5	29.7	32.3	34.8
Liquidity ratios				
Current ratio (x)	2.8	3.1	3.4	4.0
Quick ratio (x)	2.0	2.2	2.5	2.9
Interest cover (x)	532.9	606.8	669.6	728.9
Net debt/Equity (%)	(5.7)	(6.3)	(11.8)	(18.7)
Valuation				
PER (x)	29.9	26.0	23.3	21.2
PEG (x) - y-o-y growth	1.3	1.7	2.1	2.1
Price/Book (x)	8.3	7.7	7.1	6.4
EV/Net sales (x)	8.2	7.4	6.7	6.0
EV/EBITDA (x)	22.5	19.6	17.5	15.7
EV/EBIT (x)	24.1	21.0	18.6	16.7

Source: Company, Axis Securities

ITC Ltd Price Chart and Recommendation History



Date	Reco	TP	Research
04-Feb-22	BUY	280	Result Update
19-May-22	BUY	295	Result Update
02-Aug-22	BUY	340	Result Update
29-Sep-22	BUY	380	AAA
21-Oct-22	BUY	385	Result Update
02-Feb-23	BUY	410	Company Update
06-Feb-23	BUY	460	Result Update
01-Mar-23	BUY	460	Top Picks
01-Apr-23	BUY	460	Top Picks
02-May-23	BUY	470	Top Picks
19-May-23	BUY	480	Result Update
01-Jun-23	BUY	490	Top Picks
01-Jul-23	BUY	495	Top Picks
20-Jul-23	BUY	550	AAA
01-Aug-23	BUY	540	Top Picks
16-Aug-23	BUY	540	Result Update

Source: Axis Securities

About the analyst**Analyst:** Preeyam Tolia**Contact Details:** preeyam.tolia@axissecurities.in**Sector:** FMCG & Retail**Analyst Bio:** Preeyam Tolia is B.com and CFA Level 1 and part of the Axis Securities Research Team.**About the analyst****Analyst:** Suhanee Shome**Contact Details:** suhanee.shome@axissecurities.in**Sector:** FMCG & Retail**Analyst Bio:** Suhanee Shome is MBA and part of the Axis Securities Research Team**Disclosures:**

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