

ITC Ltd.



ITC Ltd.
Traction continues in Cigarettes, FMCG-Others and Hotels

CMP INR 433	Target INR 533	Potential Upside 23.2%	Market Cap (INR Mn) 53,94,912	Recommendation BUY	Sector Consumer
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Result highlights

- For Q2FY24, ITC reported consolidated Net sales (net of excise) of INR 1,77,745 Mn, recording a growth of 3.9% YoY/ 3.6% QoQ. Gross Revenue ex-Agri Business (before intersegment revenue) grew by 6.9% YoY/ 1.1% QoQ. For H1FY24, Net sales declined by 1.8% YoY to INR 3,49,389 Mn.
- On a segmental basis for Q2FY24, Cigarette business revenue grew by 9.1% YoY but was lower by 0.3% QoQ. FMCG- Others revenue grew by 8.4% YoY/ 2.5% QoQ. Hotel revenue growth was strong at 20.5% YoY/ 8.0% QoQ. Agri-business declined by 1.3% YoY/ 30.4% QoQ. Paperboards, Paper & Packaging revenue declined by 9.5% YoY/ 2.4% QoQ.
- EBITDA for the quarter improved by 3.1% YoY but declined by 3.2% QoQ to INR 64,542 Mn. EBITDA margin contracted by 27 bps YoY/ 255 bps QoQ to 36.3%. Segment EBIT margins declined sequentially for Hotels and Paperboards, Paper & Packaging businesses, with a marginal decline in the FMCG-others segment.
- For H1FY24, EBITDA improved by 6.4% YoY to INR 1,31,243 Mn while EBITDA margin expanded by 291 bps YoY.
- PAT was at INR 48,981 Mn for the quarter, higher by 6.0% YoY but lower by 4.1% QoQ. PAT for H1FY24 grew by 11.0% YoY to INR 1,00,030 Mn.

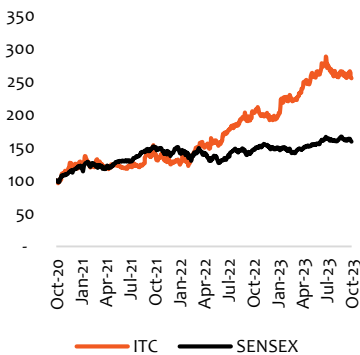
MARKET DATA

Shares O/S (Mn)	12,471
Mkt Cap (INR Mn)	53,94,912
52 Wk H/L (INR)	500/ 325
Volume Avg (3m K)	10,994
Face Value (INR)	1
Bloomberg Code	ITC IN

KEY FINANCIALS

Particulars (INR Mn)	FY20	FY21	FY22	FY23	FY24E	FY25E
Net Sales (net of excise)	4,94,041	4,92,728	6,06,681	7,09,369	7,22,987	8,18,944
EBITDA	1,92,602	1,70,027	2,06,584	2,56,649	2,73,634	3,13,616
PAT	1,53,062	1,31,612	1,52,427	1,91,917	2,04,918	2,30,942
Adj. PAT	1,54,383	1,31,612	1,52,427	1,91,188	2,04,918	2,30,942
EPS	12.5	10.7	12.4	15.5	16.4	18.5
Adj. EPS	12.6	10.7	12.4	15.4	16.4	18.5
EBITDA Margin (%)	39.0%	34.5%	34.1%	36.2%	37.8%	38.3%

Source: Company, KRChoksey Research

SHARE PRICE PERFORMANCE

MARKET INFO

SENSEX	64,049
NIFTY	19,122

Growth led by Hotels, Cigarettes and FMCG-Others

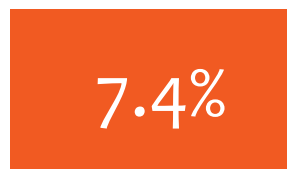
For Q2FY24, ITC reported consolidated Net sales of INR 1,77,745 Mn, recording a growth of 3.9% YoY/ 3.6% QoQ. Gross Revenue (ex-Agri Business) grew by 6.9% YoY/ 1.1% QoQ. On a segmental basis, gross revenue for Cigarettes grew by 9.1% YoY but was lower by 0.3% QoQ. As per our analysis, volume growth is likely to have grown in mid-single digits. FMCG- Others revenue grew by 8.4% YoY/ 2.5% QoQ and 14.5% on a 2-year CAGR basis, aided by strong YoY growth in Atta, Spices, Personal Wash and Agarbatti. Hotels segment revenue growth was strong at 20.5% YoY/ 8.0% QoQ and was ITC's best-ever Q2. Agri revenues declined by 1.3% YoY/ 30.4% QoQ, impacted by stock limits on wheat, ban on non-basmati rice exports and export duty on parboiled rice. Agri revenue growth excluding Wheat and rice exports was 26.4% YoY. Paperboards, Paper & Packaging revenue declined by 9.5% YoY/ 2.4% QoQ, impacted by low-priced Chinese supplies in global markets, lower exports due to a drop in Chinese domestic demand and a slump in EU markets, sharp reduction in global pulp prices and high base effect. For H1FY24, Net sales declined by 1.8% YoY to INR 3,49,389 Mn.

Sequential margin contraction due to lower QoQ segmental margins in Hotels and Paperboards, Paper & Packaging

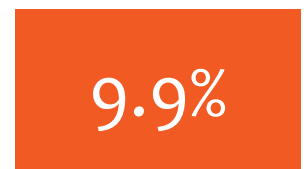
Gross margin for the quarter declined by 9 bps YoY/ 161 bps QoQ and for the half-year improved by 411 bps YoY. EBITDA for the quarter improved by 3.1% YoY but declined by 3.2% QoQ to INR 64,542 Mn. EBITDA margin contracted by 27 bps YoY/ 255 bps QoQ to 36.3%. For H1FY24, EBITDA improved by 6.4% YoY to INR 1,31,243 Mn while the EBITDA margin expanded by 291 bps YoY. EBIT margin for Cigarettes declined by 63 bps YoY but expanded by 90 bps QoQ as cost escalation in Leaf Tobacco and other inputs and increase in taxes was largely mitigated through improved mix, strategic cost management and calibrated pricing. EBIT margin for FMCG-Others improved by 172 bps YoY while contracting by 5 bps QoQ as there was sequential inflation in commodities like wheat, maida, sugar and potato. YoY margin expansion for the segment was backed by premiumisation, supply chain agility, judicious pricing actions, digital initiatives and strategic cost management. EBIT margin for the Hotels segment improved by 420 bps YoY driven by higher RevPAR, curated packages, fine F&B offerings and strategic cost management initiatives but declined by 180 bps QoQ. Agri margins improved by 18 bps YoY/ 284 bps QoQ. Paperboards, Paper & Packaging margins saw a steep decline of 1,232 bps YoY/ 701 bps QoQ, impacted by a sharp drop in realizations and increased cost of inputs, primarily wood and coal).

SHARE HOLDING PATTERN (%)

Particulars	Sep-23	Jun-23	Mar-23
Promoters	0.0	0.0	0.0
FIIs	43.4	43.6	43.4
DIIs	41.9	41.9	42.1
Others	14.7	14.4	14.6
Total	100.0	100.0	100.0



Revenue CAGR between FY23 and FY25E



Adj. PAT CAGR between FY23 and FY25E

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Key Concall Highlights:

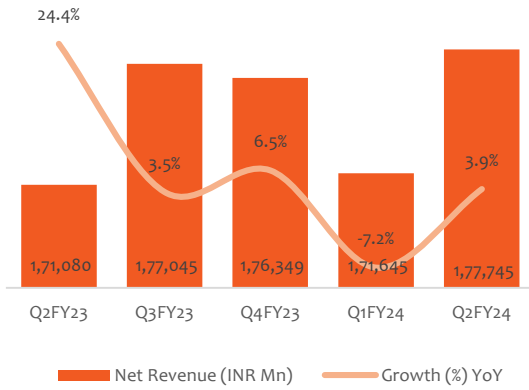
- FMCG-Others:** (1) ITC's FMCG-Others segment saw robust growth in both urban and rural markets despite a high base, driven by enhanced distribution footprint, superior last mile execution, deep consumer insights, purposeful innovation and portfolio premiumization. Growth was driven by Atta, Spices, Personal Wash and Agarbatti amidst a relatively subdued consumer demand environment. (2) Growth was seen across both traditional and emerging channels driven by sharp execution of channel-specific business plans, collaborations, format-based assortments catering to the needs of a diverse set of shoppers and category-specific sell-out strategies. (3) ITC faced a higher competitive intensity from local players, especially in categories such as Biscuits, Snacks, Noodles, and popular Soaps. The increased competition is on account of deflation in commodity prices. ITC has stepped up its marketing spending in response. (4) Overall commodity basket saw price declines on a YoY basis but remained above pre-COVID levels. Commodities such as wheat, maida, sugar, and potato witnessed a sequential uptick in prices. (5) ITC remained focused on driving profitability improvement in the segment through multi-pronged interventions viz. premiumization, supply chain optimization, digital interventions across the value chain, strategic cost management and judicious pricing actions. (6) Aashirvaad Atta posted robust growth and reinforced its leadership position in the Branded Atta industry. Value-added atta range sustained its strong growth momentum. The Aashirvaad portfolio was augmented with the launch of several differentiated variants such as 'Gluten Free Flour', 'Ragi Flour', 'Multi-Millet Mix', Rava ('Aashirvaad Samba Broken Wheat', 'Aashirvaad Bansi Rava' and 'Aashirvaad Double Roasted Suji Rava'), 'Aashirvaad Organic Dals', 'Aashirvaad Besan' and 'Aashirvaad Vermicelli'. (7) 'Sunfeast' Biscuits and Cakes saw a resilient performance on the back of stability in core brands and the scale-up of recent launches. (8) 'Sunrise' Spices posted and the frozen snacks category both saw robust growth. (9) In the Personal Care Products Business, 'Fiama' registered strong growth fuelled by investments in brand building, wider distribution and growth in emerging channels. (10) In the Education and Stationery Products Business, 'Classmate' Notebooks fortified its leadership position with a continued focus on portfolio premiumization, exports and leveraging institutional strengths, with strong traction in the premium portfolio.
- Cigarettes:** (1) ITC's Cigarettes business continued to counter illicit trade and reinforce market standing by fortifying the product portfolio through innovation, democratising premiumization across segments and enhancing product availability backed by superior on-ground execution. (2) The differentiated variants launched recently continue to perform well.
- Hotels:** (1) The Hotels segment saw strong growth in Average Room Rate (ARR) across properties. (2) Occupancy remained flattish YoY mainly due to renovations and relatively fewer wedding dates during the quarter. (3) ITC Hotels was involved in curating and serving India's culinary heritage at the G20 Summit, Bharat Mandapam, New Delhi. ITC Maurya hosted the President of the United States of America and the entire US delegation to the Summit. (4) In line with its 'asset-right' strategy, The Hotels business added three new properties including 'WelcomHeritage Santa Roza, Kasauli', 'Fortune Park Hoshiarpur' and 'Fortune Ranjit Vihar, Amritsar'. (5) ITC continues to strengthen its pipeline of managed properties to be launched in a phased manner over the next few quarters.
- Paperboards, Paper, and Packaging:** (1) The segment suffered in terms of exports due to low-priced Chinese supplies in global markets, a drop in Chinese domestic demand and a slump in EU markets. Domestic consumer demand was also under pressure during the quarter. (2) A sharp drop in net sales realization and global pulp prices are likely to have bottomed out in the quarter. ITC has seen green shoots of revival in demand for value-added products and recycled boards towards the end of the quarter. (3) The inflationary impact of higher input costs was partially mitigated by the integrated business model and strategic interventions in import pulp substitution, High-Pressure Recovery Boiler, digital interventions and cost-competitive fibre chain. (4) ITC completed the augmentation of in-house chemical pulp capacity by an additional 20% which will enable higher import substitution and reduce operating costs. (5) Capacity utilization at the recently commissioned Nadiad unit in Gujarat continues to be ramped up. (6) The sustainable paperboards/packaging solutions portfolio continued to see strong growth at 27.0% YoY and 62.0% on a 2-year CAGR basis.
- Agri:** (1) Capacity utilization of the recently commissioned state-of-the-art value-added Spices processing facility in Guntur ramped up.
- Other highlights:** (1) Consumption demand has been relatively subdued, especially in the value segment and rural markets on the back of sub-par monsoons and a spike in Food inflation in Q2FY24. Green shoots of recovery are visible, with prospects of improved agri output, the onset of the festive season, an increase in rural wages and government spending on infrastructure auguring well for a recovery in rural markets. The pace of economic growth in China and other Advanced Economies, rising geopolitical tensions, crude oil prices, consumer price inflation (especially Food), commodity price volatility and agri output – would be the key monitorable in the near term

Valuation and view

ITC has continued to see strong performance in the key segments of Cigarettes (39.1% of gross revenue in Q2FY24) and FMCG-Others (24.9% of gross revenue in Q2FY24) and from the smaller segment of Hotels (3.2% of gross revenue in Q2FY24). The Cigarette business is seeing good growth due to stability in taxes and is expected to continue the trajectory going ahead. The FMCG-Others business is seeing sustainable growth owing to distribution expansion and premiumization. The Hotels business is benefitting from industry tailwinds, and improved ARR and is expected to see further benefit from ITC's asset-right expansion model. We remain watchful of the Paperboards, Paper & Packaging business which is seeing weakness in domestic as well as export markets. The Agri business is likely to remain under pressure due to several restrictions on the export of grains and other agri commodities due to shortages, the impact of erratic weather patterns, etc. The upcoming quarters are likely to be beneficial for the FMCG-Others segment on account of improvement in rural demand and the festive season and for the Hotels segment due to the festive and wedding seasons and the possibility of higher occupancy due to the Cricket World Cup in India. **We reduce FY24E/ FY25E Adj. EPS by 5.9%/ 3.8%, respectively, as we factor in a slower recovery in the Paperboards, Paper & Packaging business in FY24E and reduce our EBITDA margin expectation for FY25E due to higher competitive intensity. We value ITC shares using the SOTP (Sum of the parts) approach applying 15.8x EV/EBITDA (unchanged) on the FY25E EBITDA of the Cigarette business; 19.3x EV/EBITDA (unchanged) on the FY25E EBITDA of the Hotels business; 5.0x EV/EBITDA (reduced from 7.4x earlier) on FY25E EBITDA of Agri-business; 4.3x EV/EBITDA (reduced from 6.5x earlier) on FY25E EBITDA of Paper business and 9.0x EV/Revenue (unchanged) on FY25E Revenue of FMCG business – we arrive at the target price to INR 533 per share (INR 540 earlier); an upside of 23.2% over the CMP. Accordingly, we maintain our "BUY" rating on ITC Ltd shares.**

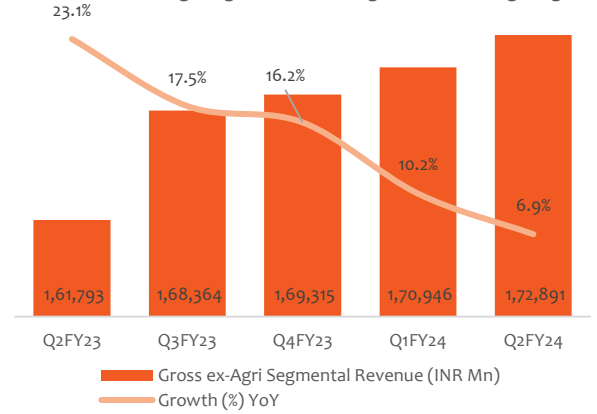
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Revenue growth led by Hotels, Cigarettes and FMCG



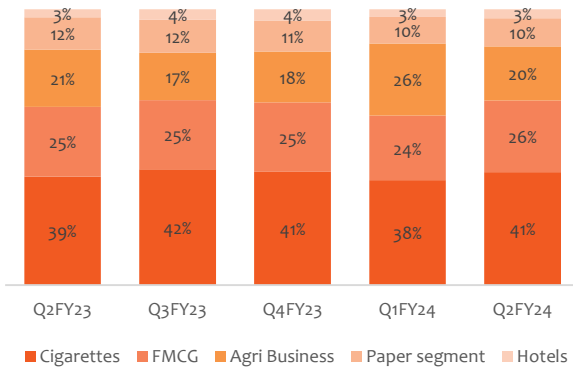
Source: Company, KRChoksey Research

Gross ex-Agri Segmental Revenue growth in mid single digits



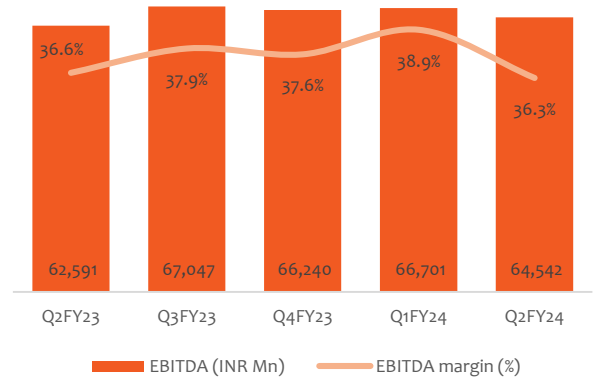
Source: Company, KRChoksey Research

Segment Revenue Mix (%)



Source: Company, KRChoksey Research

Margin sees some pull back QoQ



Source: Company, KRChoksey Research

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KEY FINANCIALS

Particulars (INR Mn)	Q2FY24	Q1FY24	Q2FY23	QoQ	YoY	H1FY24	H1FY23	YoY
Gross Operating Revenue	1,92,700	1,86,395	1,86,080	3.4%	3.6%	3,79,095	3,84,393	-1.4%
Net sales	1,77,745	1,71,645	1,71,080	3.6%	3.9%	3,49,389	3,55,974	-1.8%
Total Expenditure	1,13,202	1,04,944	1,08,489	7.9%	4.3%	2,18,146	2,32,612	-6.2%
Cost of Raw Materials	54,517	50,549	51,979	7.8%	4.9%	1,05,066	1,00,379	4.7%
Purchase of Stock	12,802	18,284	9,884	-30.0%	29.5%	31,085	58,865	-47.2%
Changes in Inventories	3,368	-3,336	6,018	201.0%	-44.0%	32	-5,847	100.5%
Employee Cost	15,079	14,821	14,760	1.7%	2.2%	29,900	28,467	5.0%
Other Expenses	27,437	24,626	25,847	11.4%	6.2%	52,063	50,748	2.6%
EBITDA	64,542	66,701	62,591	-3.2%	3.1%	1,31,243	1,23,362	6.4%
EBITDA Margins (%)	36.3%	38.9%	36.6%	-255 bps	-27 bps	37.6%	34.7%	291 bps
Depreciation	4,530	4,425	4,624	2.4%	-2.0%	8,955	9,005	-0.6%
EBIT	60,012	62,276	57,967	-3.6%	3.5%	1,22,288	1,14,357	6.9%
Interest Expense	99	99	126	-0.3%	-21.6%	198	218	-9.5%
Other Income	6,649	7,223	4,547	-7.9%	46.2%	13,872	7,754	78.9%
PBT	66,562	69,400	62,388	-4.1%	6.7%	1,35,962	1,21,893	11.5%
Exceptional Items	0	0	0	NA	NA	0	0	NA
Tax	17,003	17,599	15,685	-3.4%	8.4%	34,602	30,567	13.2%
Share of Profit & MI	-578	-752	-506	-23.1%	14.4%	-1,330	-1,230	8.1%
PAT	48,981	51,049	46,198	-4.1%	6.0%	1,00,030	90,095	11.0%
PAT Margin	27.6%	29.7%	27.0%	-218 bps	55 bps	28.6%	25.3%	332 bps
Adjusted PAT	48,981	51,049	46,198	-4.1%	6.0%	1,00,030	90,095	11.0%
Adj. PAT Margin	27.6%	29.7%	27.0%	-218 bps	55 bps	28.6%	25.3%	332 bps
EPS	3.9	4.1	3.7	-4.4%	5.4%	8.0	7.3	10.3%
Adj. EPS	3.9	4.1	3.7	-4.3%	5.4%	8.0	7.3	10.3%

Particulars (INR Mn)	FY22	FY23	FY24E	FY25E
Gross revenue	6,52,050	7,65,182	7,84,195	8,84,586
Excise duty	45,369	55,814	61,207	65,641
Net Revenues	6,06,681	7,09,369	7,22,987	8,18,944
COGS	2,63,851	2,90,058	2,79,974	3,13,696
Gross profit	3,42,830	4,19,311	4,43,013	5,05,249
Employee cost	48,906	57,362	61,656	69,610
Other expenses	87,341	1,05,299	1,07,723	1,22,023
EBITDA	2,06,584	2,56,649	2,73,634	3,13,616
EBITDA Margin	34.1%	36.2%	37.8%	38.3%
Depreciation & amortization	17,324	18,090	19,631	21,370
EBIT	1,89,260	2,38,559	2,54,002	2,92,246
Interest expense	394	432	435	523
Exceptional items	0	729	0	0
Other income	18,364	19,805	24,217	20,691
PBT	2,07,230	2,58,661	2,77,784	3,12,414
Tax	52,373	64,384	70,341	78,728
Share of associates/ Minority interest	-2,430	-2,360	-2,525	-2,744
PAT	1,52,427	1,91,917	2,04,918	2,30,942
Adj. PAT	1,52,427	1,91,188	2,04,918	2,30,942
EPS (INR)	12.4	15.5	16.4	18.5
Adj. EPS	12.4	15.4	16.4	18.5

Particulars (INR Mn)	FY22	FY23	FY24E	FY25E
Net Cash Generated From Operations	1,57,755	1,88,776	2,18,831	2,42,056
Net Cash Flow from/(used in) Investing Activities	(22,385)	(57,323)	(26,663)	(30,076)
Net Cash Flow from Financing Activities	(1,35,805)	(1,30,060)	(1,74,180)	(2,07,848)
Net Inc/Dec in cash equivalents	(435)	1,392	17,988	4,132
Opening Balance	3,102	2,667	4,634	22,621
Closing Balance Cash and Cash Equivalents	2,667	4,059	22,621	26,754

Source: Company, KRChoksey Research

ITC Ltd.

Balance Sheet (INR Mn)	FY22	FY23	FY24E	FY25E
Equity share capital	12,323	12,428	12,428	12,428
Other equity	6,12,232	6,79,125	7,12,863	7,39,236
Equity attributable to the equity shareholders	6,24,556	6,91,553	7,25,291	7,51,664
Non-controlling interests	3,663	3,835	3,835	3,835
Total equity	6,28,219	6,95,388	7,29,126	7,55,499
Borrowings	49	35	35	35
Lease liabilities	1,937	2,134	2,134	2,134
Other financial liabilities	1,445	4,169	4,169	4,169
Provisions	2,211	2,592	2,592	2,592
Non current tax liabilities	16,735	16,290	16,290	16,290
Other non-current liabilities	364	828	828	828
Total non-current liabilities	22,740	26,048	26,048	26,048
Borrowings	7	353	353	353
Trade payables	44,173	46,590	34,513	38,542
Other financial liabilities	18,129	24,077	24,077	24,077
Other current liabilities	51,160	55,714	55,714	55,714
Provisions	796	1,006	1,006	1,006
Current tax liabilities (Net)	6,871	9,116	9,116	9,116
Total current liabilities	1,21,637	1,37,394	1,25,317	1,29,346
Total liabilities	1,44,377	1,63,442	1,51,365	1,55,394
TOTAL EQUITY AND LIABILITIES	7,72,596	8,58,830	8,80,491	9,10,893
Property, plant and equipment	2,02,074	2,11,171	2,18,202	2,26,908
Capital work-in-progress	31,985	29,847	29,847	29,847
Intangible assets	20,131	27,273	27,273	27,273
Intangible assets under development	271	186	186	186
Right to use assets	8,671	8,749	8,749	8,749
Investment property	3,642	3,523	3,523	3,523
Investments	1,25,767	1,21,822	1,21,822	1,21,822
Loans	66	55	55	55
Other financial assets	15,896	37,398	37,398	37,398
Deferred tax assets (Net)	635	520	520	520
Non-current tax assets (Net)	423	662	662	662
Other non-current assets	12,912	13,120	13,120	13,120
Total non-current assets	4,30,271	4,62,121	4,69,152	4,77,858
Inventories	1,08,642	1,17,712	1,13,620	1,27,304
Investments	1,23,737	1,73,758	1,73,758	1,73,758
Trade receivables	24,619	29,562	30,296	34,175
Cash and cash equivalents	2,714	4,634	22,621	26,754
Other Balances with Banks	43,831	44,165	44,171	44,171
Loans	68	71	71	71
Other financial assets	25,654	11,187	11,187	11,187
Other current assets	13,061	15,618	15,618	15,618
Total current assets	3,42,325	3,96,709	4,11,339	4,33,035
TOTAL ASSETS	7,72,596	8,58,830	8,80,491	9,10,893

Key Ratio	FY22	FY23	FY24E	FY25E
EBITDA Margin (%)	34.1%	36.2%	37.8%	38.3%
Tax rate (%)	25.3%	24.9%	25.3%	25.2%
Net Profit Margin (%)	25.1%	27.1%	28.3%	28.2%
RoE (%)	24.3%	27.6%	28.1%	30.6%
RoCE (%)	30.1%	34.3%	34.8%	38.7%
EPS (INR)	12.4	15.5	16.4	18.5
PE	35.0x	28.1x	26.4x	23.5x

Source: Company, KRChoksey Research

ITC Ltd.

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Date	CMP (INR)	TP(INR)	Recommendation
26-Oct-22	433	533	BUY
16-Aug-23	449	540	BUY
04-Jul 23	466	540	BUY
19-May 23	420	492	BUY
09-Feb 23	375	442	BUY
25-Oct 22	346	400	BUY

Rating Legend (Expected over a 12-month period)	
Our Rating	Upside
Buy	More than 15%
Accumulate	5% – 15%
Hold	0 – 5%
Reduce	-5% – 0
Sell	Less than – 5%

ANALYST CERTIFICATION:

- *I, Unnati Jadhav (MMS, Finance), Research Analyst, author and the name subscribed to this report, hereby certify that all of the views expressed in this research report accurately reflect my views about the subject issuer(s) or securities. I also certify that no part of our compensation was, is, or will be directly or indirectly related to the specific recommendation(s) or view(s) in this report.
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