

Q4FY24 ITC LTD.



ITC Ltd.

Higher Cigarette volumes and uptick in FMCG demand driving overall business growth

CMP INR 431*	Target INR 517	Potential Upside 20.0%	Market Cap (INR Mn) 53,80,915	Recommendation BUY	Sector Consumer
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Result highlights

- For Q4FY24, ITC reported consolidated gross sales of INR 194,465 Mn, a growth of 2.0% YoY while flat on a sequential basis. Gross sales were in line with our estimate. For FY24, gross sales were marginally lower YoY (-0.4% YoY) at INR 768,405 Mn.
- For Q4FY24 EBITDA was at INR 66,262 Mn. EBITDA was 1.6% lower than our estimate due to higher other expenses.
- PAT at (-1.1% YoY/ -4.0% QoQ) to INR 51,206 Mn due to higher tax and D&A expenses. For FY24, PAT grew by 6.6% YoY to INR 204,588 Mn. Exceptional item for the quarter includes INR 21 Mn related to the demerger of the Hotel business. Adj. PAT for the quarter grew by 0.4% YoY and declined by -4.1% QoQ to INR 51,226 Mn while for FY24, it grew by 7.0% YoY to INR 204,664 Mn.
- **We reduce our FY26 Adj. EPS by 3.6% due to lower Agri and paperboard revenues amidst macro pressures. We apply SOTP approach and maintain our multiples (cigarette business at 15.2x EV/EBITDA, Hotels at 17.3x, Paper business at 4.1x, Agri business at 4.5x, and FMCG at 8.2x EV/Revenue) and arrive at a target price of INR 517/share (previously: INR 533). We maintain our "BUY" rating on ITC Ltd.**

MARKET DATA

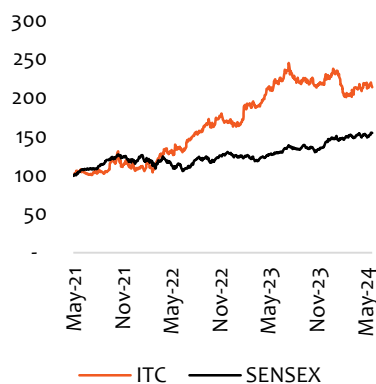
Shares O/S (Mn)	12,485
Mkt Cap (INR Mn)	53,80,915
52 Wk H/L (INR)	500/399
Volume Avg (3m K)	8,249
Face Value (INR)	1
Bloomberg Code	ITC IN

KEY FINANCIALS

Particulars (INR Mn)	FY21	FY22	FY23	FY24	FY25E	FY26E
Net Sales (net of excise)	492,728	606,681	709,369	708,810	746,545	815,122
EBITDA	170,027	206,584	256,649	262,544	278,408	308,094
PAT	131,612	152,427	191,917	204,588	218,281	241,155
Adj PAT	131,612	152,427	191,188	204,664	218,281	241,155
Diluted EPS (INR)	10.7	12.4	15.5	16.3	17.4	19.3
Diluted Adj. EPS (INR)	10.7	12.4	15.4	16.3	17.4	19.3
EBITDA Margin (%)	34.5%	34.1%	36.2%	37.0%	37.3%	37.8%
Adj. NPM (%)	26.7%	25.1%	27.0%	28.9%	29.2%	29.6%

Source: Company, KRChoksey Research

SHARE PRICE PERFORMANCE



MARKET INFO

SENSEX	74,503
NIFTY	22,705

Weakness in Agri and Paperboard businesses persists; Focused businesses continue to drive revenue growth:

- For Q4FY24, ITC reported consolidated Net sales of INR 179,227 Mn, a growth of 1.6% YoY but declined marginally by 0.5% QoQ.
- On a segmental basis, Cigarette revenue grew by 7.5% YoY/ 4.7% QoQ as the business witnessed consolidation of volumes on a high base after a period of sustained growth momentum. The Company's market standing was reinforced through focused portfolio/market interventions and agile execution. The differentiated and premium offerings continued to see a healthy performance during the quarter. The revenue from FMCG- Others witnessed a growth of 7.2% YoY/ 1.7% QoQ, accounting for 25.2% of the overall sales despite a visible weakness in consumption. Staples, biscuits, snacks, dairy, homecare, and agarbatti were the key growth drivers in this segment.
- Hotels revenue growth was at 15.1% YoY/ 6.7% QoQ on a high base of Q4FY23. The Company has a healthy pipeline of management contracts under Mementos, Welcomhotel, Storii, Fortune and WelcomHeritage brands which are expected to see a phased openings over the next few quarters. Agri revenue declined by 13.1% YoY/ 4.2% QoQ impacted by trade restrictions on agri commodities. Geopolitical tensions and climate emergencies have led to concerns over food security and food inflation globally. To ensure India remains food secure, Government has had to impose trade restrictions on agri commodities; consequently, limiting business opportunities for the Agri Business.
- Paperboards, Paper & Packaging remained impacted by low priced Chinese supplies in international markets (including India), muted domestic demand, surge in wood cost and high base effect, resulting in a revenue decline of 6.7% YoY/ 0.4% QoQ.

SHARE HOLDING PATTERN (%)

Particulars	Mar-24	Dec-23	Sep-23
Promoters	0.0	0.0	0.0
FIIIs	41.0	43.3	43.4
DIIIs	43.8	42.0	41.9
Others	15.2	14.7	14.7
Total	100.0	100.0	100.0

*Based on Previous closing

7.3%

Net Revenue CAGR between
FY24 and FY26E

8.5%

Adj. PAT CAGR between FY24
and FY26E

ITC Ltd.

Higher input costs continue to exert pressure on Cigarettes business

- Gross margin for the quarter was improved by 164bps YoY/ 233bps QoQ. EBITDA for the quarter was at INR 66,262 Mn, a growth of 1.9% QoQ while remained flat YoY. EBITDA margin moderated by 88bps QoQ but declined by 59bps to 37.0% on account of higher other operating expenses.
- EBIT margin for Cigarettes segment contracted by 146bps YoY/ 51bps QoQ due to sharp cost escalation in leaf tobacco & certain other inputs and also increase in taxes. EBIT margin for FMCG-Others was higher by 73bps QoQ but lower by 113bps YoY. The YoY decline in margins were attributable to the uptick in the commodity prices and increase in the competitive intensity including from local / regional players in certain categories.
- EBIT margin for the Paperboards, Paper & Packaging segment were lower by 599bps YoY/ 15bps QoQ, due to modest realisations and continued surge in domestic wood prices. The structural advantages of the integrated business model, industry 4.0 initiatives, strategic investments in High Pressure Recovery Boiler and proactive capacity augmentation in Value Added Paperboards has partly aided mitigating pressure on margin.
- Hotels segment EBIT margin remained strong and continued to expand by 304bps YoY/ 162bps QoQ, driven by higher RevPars, structural cost interventions and operating leverage.
- Agri business EBIT margin reported a further fall of 250bps YoY/ 568bps QoQ. The ongoing and steep increase in green leaf prices has resulted in some pressure on margins.

Key Press Release Highlights:

FMCG-Others:

- FMCG businesses leveraged digital tools to gain consumer insights, foster engagement, drive innovation, and enhance brand loyalty.
- FMCG businesses expanded exports to over 70 countries, boosted by the PLI scheme across Biscuits, Cakes, Snacks, Dairy, and Ready-to-Eat categories.
- The Value-added portfolio consisting Multigrain, Select, and Sugar Release Control Atta drive growth, expanded with 'Atta with Millets' launch, which is a superior value proposition.
- 'Sunrise' brand witnessed strength in West Bengal and gains in Northeast and Bihar.
- In FY24 Bingo! and YiPee! partner with Argentine Football Association to enhance fan experience, strengthen consumer connection. Also, Bingo! launched spicy Korean-style chips.
- Beverage's sale down due to weather. However, Fiana grew with branding and distribution investments.

Cigarettes:

- The business continues to counter illicit trade and reinforce market standing. The Company is fortifying the product portfolio through innovation, democratizing premiumization across segments, and enhancing product availability.
- New variants include 'Classic Alphatec', 'Classic Icon', 'Gold Flake Indie Mint', among others.
- High taxes on legal cigarettes led to rapid growth of illicit trade, making India the third largest illicit market globally.
- Stable cigarette taxes helped legal industry regain lost volumes, boost domestic demand for Indian tobacco, and curb revenue loss.

Hotels:

- Strong RevPar growth from retail, MICE, and major events.
- Welcomhotel Chennai reopened (Jan-FY24) after renovation with signature dining and banquets.
- ITC Ratnadipa, the first international property, opened (Apr-FY24) in Colombo, Sri Lanka.
- ITC Hotels App was leveraged for food delivery, reservations, room automation, loyalty benefits.

Paperboards, Paper, and Packaging

- Despite challenges, the business strengthened its leadership in paperboard through innovation and tailored solutions.
- Challenging environment due to subdued demand, liquor industry changes, and price declines.
- Capacity expansion in Gujarat enhanced carton packaging capabilities, with utilization being progressively ramped up.
- Subsidiary launched premium Moulded Fibre Products facility in Madhya Pradesh for diverse industry applications.

Agri:

- Value-added agri products grew, leaf tobacco business remained robust.
- The international business share for Indian Burley tobacco Increased via sustainable programs.
- Strong VAAP (value-added agri products) portfolio growth was fueled by spices, maida, and marine products.

Other highlights

- The Company's Board approved a final dividend of INR 7.5/share for FY24. Combined with the interim dividend of INR 6.25/share paid on February 27, 2024, the total dividend for FY24 is INR 13.75/share.

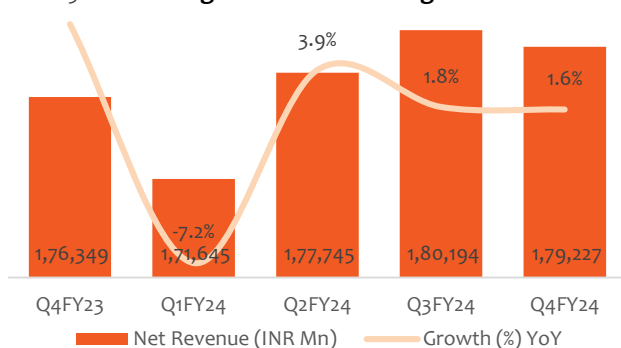
ITC Ltd.

Valuation and view

ITC reported an in-line performance in terms of overall earnings. The paperboard and agri business continued to be laggard during the quarter, but improved volumes for the cigarette business and continued stellar performance from the hotel segment drove the overall business growth for the Company. Going ahead, we believe a stable tax structure will help ITC continue to gain volumes from illicit trade. The FMCG-Others business continues to see stable growth on the back of its continuous focus on new and innovative launches and will see further improvement as consumption sees an uptick. Premiumization and cost optimization will continue to aid profitability for the FMCG-Others business. The pipeline of upcoming properties in the hotel segment will assist in maintaining a robust growth trajectory. We remain cautious about the agri and paperboard businesses and will monitor the growth and margin trend going forward. However, ITC has been striving hard to maintain its margins through various cost initiatives across all the businesses.

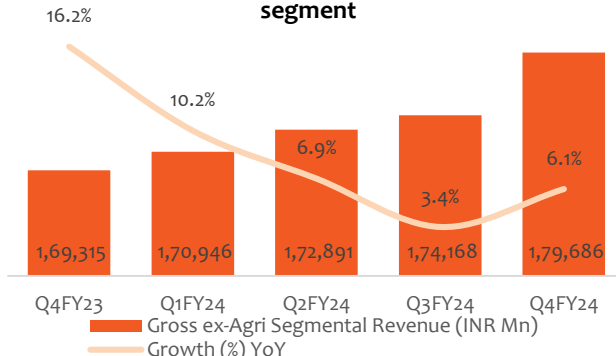
We reduce FY25E/ FY26E Adj. EPS by 3.9%/ 3.6%, respectively, as we reduce our revenues for agri and paperboard businesses on account of the continued macro pressures. We value ITC shares using the SOTP (Sum of the parts) approach applying 15.2x EV/EBITDA (unchanged) on the FY26E EBITDA of the Cigarette business; 17.3x EV/EBITDA (unchanged) on the FY26E EBITDA of the Hotels business; 4.5x EV/EBITDA (unchanged) on FY26E EBITDA of Agri-business; 4.1x EV/EBITDA (unchanged) on FY26E EBITDA of Paper business and 8.2x EV/Revenue (unchanged) on FY26E Revenue of FMCG business – we arrive at the target price to INR 517 per share (earlier INR 533 per share); an upside of 20.0% over the CMP. Accordingly, we maintain our “BUY” rating on ITC Ltd shares.

Revenue growth is primarily fueled by increases in the cigarette and hotel segments



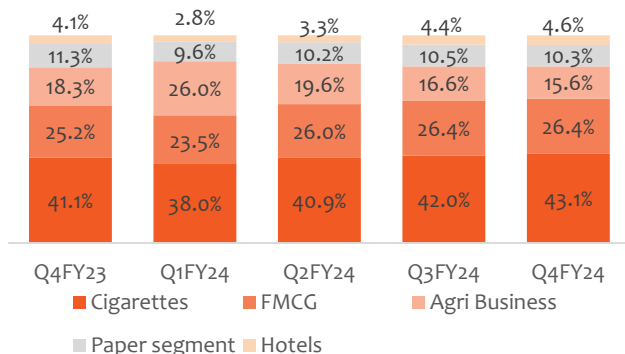
Source: Company, KRChoksey Research

Cigarettes, FMCG, and hotel sales rise, boosting gross revenue, excluding the agri-business segment



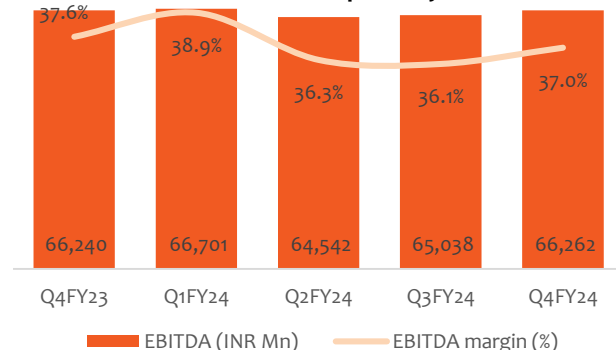
Source: Company, KRChoksey Research

Cigarettes and hotels enhanced product mix %



Source: Company, KRChoksey Research

Growth in margin is a result of cost effectiveness on a quarterly basis



Source: Company, KRChoksey Research

ITC Ltd.

KEY FINANCIALS

Q4 FY24 Results (INR Mn)	Q4FY24	Q3FY24	Q4FY23	QoQ	YoY	FY24	FY23	YoY
Gross Operating Revenue	194,465	194,845	190,583	-0.2%	2.0%	768,405	765,182	0.4%
Net sales	179,227	180,194	176,349	-0.5%	1.6%	708,810	709,369	-0.1%
Total Expenditure	112,965	115,156	110,109	-1.9%	2.6%	446,267	452,719	-1.4%
Cost of Raw Materials	55,503	57,156	51,900	-2.9%	6.9%	217,726	202,760	7.4%
Purchase of Stock	13,754	15,794	18,417	-12.9%	-25.3%	60,633	90,884	-33.3%
Changes in Inventories	-3,387	-2,532	-2,611	33.8%	29.7%	-5,887	-3,586	64.2%
Employee Cost	15,580	15,864	14,428	-1.8%	8.0%	61,344	57,362	6.9%
Other Expenses	31,515	28,873	27,975	9.1%	12.7%	112,451	105,299	6.8%
EBITDA	66,262	65,038	66,240	1.9%	0.0%	262,544	256,649	2.3%
EBITDA Margins (%)	37.0%	36.1%	37.6%	88 bps	-59 bps	37.0%	36.2%	86 bps
Depreciation	4,614	4,595	4,614	0.4%	0.0%	18,164	18,090	0.4%
EBIT	61,648	60,444	61,626	2.0%	0.0%	244,380	238,559	2.4%
Interest Expense	126	136	122	-7.4%	3.6%	460	432	6.4%
Other Income	6,838	6,568	6,097	4.1%	12.2%	27,278	19,805	37.7%
PBT	68,360	66,876	67,601	2.2%	1.1%	271,198	257,932	5.1%
Exceptional Items	-21	-55	729	-62.9%	-102.8%	-76	729	-110.4%
Tax	16,468	12,816	16,080	28.5%	2.4%	63,885	64,384	-0.8%
Share of Profit & MI	-667	-653	-495	2.1%	34.6%	-2,650	-2,360	12.3%
PAT	51,206	53,352	51,755	-4.0%	-1.1%	204,588	191,917	6.6%
PAT Margin	28.6%	29.6%	29.3%	-104 bps	-78 bps	28.9%	27.1%	181 bps
Adjusted PAT	51,226	53,408	51,026	-4.1%	0.4%	204,664	191,188	7.0%
Adj. PAT Margin	28.6%	29.6%	28.9%	-106 bps	-35 bps	28.9%	27.0%	192 bps
Diluted EPS (INR)	4.1	4.3	4.2	-3.8%	-1.2%	16.3	15.5	5.7%
Diluted Adj. EPS (INR)	4.1	4.3	4.1	-4.1%	0.0%	16.3	15.4	6.1%

Income Statement (INR Mn)	FY22	FY23	FY24	FY25E	FY26E
Gross revenue	652,050	765,182	768,405	809,937	883,599
Excise duty	45,369	55,814	59,595	63,171	68,061
Net Revenues	606,681	709,369	708,810	746,766	815,538
COGS	263,851	290,058	272,472	288,770	312,351
Gross profit	342,830	419,311	436,338	457,996	503,187
Employee cost	48,906	57,362	61,344	63,072	69,106
Other expenses	87,341	105,299	112,451	116,442	125,846
EBITDA	206,584	256,649	262,544	278,481	308,235
EBITDA Margin	34.1%	36.2%	37.0%	37.3%	37.8%
Depreciation & amortization	17,324	18,090	18,164	18,429	19,613
EBIT	189,260	238,559	244,380	260,052	288,622
Interest expense	394	432	460	506	506
Exceptional items	0	729	-76	0	0
Other income	18,364	19,805	27,278	28,492	29,389
PBT	207,230	258,661	271,123	288,038	317,505
Tax	52,373	64,384	63,885	66,906	72,902
Share of associates/ Minority interest	-2,430	-2,360	-2,650	-2,803	-3,456
PAT	152,427	191,917	204,588	218,329	241,147
Adj. PAT	152,427	191,188	204,664	218,329	241,147
Diluted EPS (INR)	12.4	15.5	16.3	17.4	19.3
Diluted Adj. EPS	12.4	15.4	16.3	17.4	19.3

Cash Flow Statement (INR Mn)	FY22	FY23	FY24	FY25E	FY26E
Net Cash Generated From Operations	157,755	188,776	171,789	221,871	252,172
Net Cash Flow from/(used in) Investing Activities	(22,385)	(57,323)	15,628	(37,245)	(38,275)
Net Cash Flow from Financing Activities	(135,805)	(130,060)	(185,510)	(185,580)	(204,975)
Net Inc/Dec in cash equivalents	(435)	1,392	1,907	(954)	8,922
Opening Balance	3,102	2,667	4,059	5,966	5,012
Closing Balance Cash and Cash Equivalents	2,667	4,059	5,966	5,012	13,934

Source: Company, KRChoksey Research

ITC Ltd.

Balance Sheet (INR Mn)	FY22	FY23	FY24	FY25E	FY26E
Property, plant and equipment	202,074	211,171	230,823	239,932	248,594
Capital work-in-progress	31,985	29,847	28,511	28,511	28,511
Intangible assets	20,131	27,273	26,781	26,781	26,781
Intangible assets under development	271	186	96	96	96
Right to use assets	8,671	8,749	9,391	9,391	9,391
Investment property	3,642	3,523	3,409	3,409	3,409
Investments	125,767	121,822	181,696	191,696	201,696
Loans	66	55	41	41	41
Other financial assets	15,896	37,398	4,090	4,090	4,090
Deferred tax assets (Net)	635	520	722	722	722
Non-current tax assets (Net)	423	662	449	449	449
Other non-current assets	12,912	13,120	13,799	13,799	13,799
Total non-current assets	430,271	462,121	507,606	526,715	545,377
Inventories	108,642	117,712	141,529	149,995	162,243
Investments	123,737	173,758	130,944	130,944	130,944
Trade receivables	24,619	29,562	40,258	42,434	46,293
Cash and cash equivalents	2,714	4,634	6,259	5,012	13,934
Other Balances with Banks	43,831	44,165	65,921	65,921	65,921
Loans	68	71	98	98	98
Other financial assets	25,654	11,187	11,817	11,817	11,817
Other current assets	13,061	15,618	13,832	13,832	13,832
Total current assets	342,325	396,709	410,655	420,050	445,079
TOTAL ASSETS	772,596	858,830	918,262	946,764	990,456
Equity share capital	12,323	12,428	12,485	12,485	12,485
Other equity	612,232	679,125	732,585	768,435	808,385
Equity attributable to the equity shareholders	624,556	691,553	745,070	780,919	820,869
Non-controlling interests	3,663	3,835	3,830	3,830	3,830
Total equity	628,219	695,388	748,900	784,749	824,699
Borrowings	49	35	18	18	18
Lease liabilities	1,937	2,134	2,306	2,306	2,306
Other financial liabilities	1,445	4,169	4,340	4,340	4,340
Provisions	2,211	2,592	2,883	2,883	2,883
Non-current tax liabilities	16,735	16,290	21,414	21,414	21,414
Other non-current liabilities	364	828	1,497	1,497	1,497
Total non-current liabilities	22,740	26,048	32,458	32,458	32,458
Borrowings	7	353	95	95	95
Trade payables	44,173	46,590	47,978	40,632	44,374
Other financial liabilities	18,129	24,077	21,790	21,790	21,790
Other current liabilities	51,160	55,714	55,947	55,947	55,947
Provisions	796	1,006	1,069	1,069	1,069
Current tax liabilities (Net)	6,871	9,116	9,409	9,409	9,409
Total current liabilities	121,637	137,394	136,904	129,557	133,299
Total liabilities	144,377	163,442	169,362	162,015	165,757
TOTAL EQUITY AND LIABILITIES	772,596	858,830	918,262	946,764	990,456

Key Ratios	FY22	FY23	FY24	FY25E	FY26E
EBITDA Margin (%)	34.1%	36.2%	37.0%	37.3%	37.8%
Tax rate (%)	25.3%	24.9%	23.6%	23.2%	23.0%
Net Profit Margin (%)	25.1%	27.1%	28.9%	29.2%	29.6%
RoE (%)	24.3%	27.6%	27.3%	27.8%	29.2%
RoCE (%)	30.1%	34.3%	32.6%	33.1%	35.0%
Diluted EPS (INR)	12.4	15.5	16.3	17.4	19.3
PE	34.5X	27.7X	26.1X	24.6X	22.3X

Source: Company, KRChoksey Research

ITC Ltd.

ITC Ltd.

Date	CMP (INR)	TP(INR)	Recommendation
30-May-24	431	517	BUY
30-Jan-24	438	533	BUY
23-Oct-23	433	533	BUY
16-Aug-23	449	540	BUY
04-Jul 23	466	540	BUY
19-May 23	420	492	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:

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