

ITC Ltd. Q3FY25



ITC Ltd.

Cigarette growth supports revenue; Margin challenges persist

CMP* INR 427	Target INR 494	Potential Upside 15.6%	Market Cap (INR Mn) 53,44,699	Recommendation BUY	Sector Consumer
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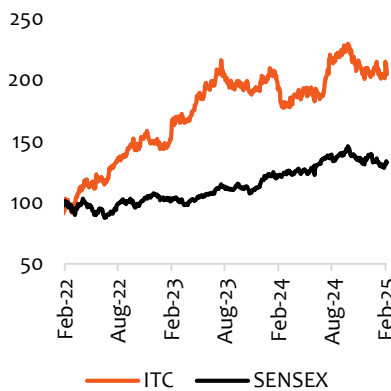
Result highlights

- For Q3FY25, ITC's revenue grew 9.1% YoY (-5.5% QoQ) to INR 203,500 Mn, largely in line with our estimates (-1%). EBITDA increased 2.4% YoY (-2.9% QoQ) to INR 63,619 Mn, missed our estimates due to higher-than-expected operating expenses. EBITDA margin contracted by 226bps YoY (+108bps QoQ) to 33.9%.
- Adj. Net profit declined 8.4% YoY (-3.8% QoQ) to INR 47,314 Mn, missed our estimate primarily due to negative operating leverage and lower-than-expected other income.
- We lower our FY26E/27E EPS estimates by 6.1%/7.5% due to the hotel business demerger, weak Q3FY25 performance, soft demand, and inflationary pressures. However, we remain positive on ITC's long-term outlook, supported by strong cigarette market share, robust FMCG execution, stable taxation, and rural demand recovery. We roll over our valuation to FY27E and adopt the SOTP approach for ITC, applying 13.0x EV/EBITDA to the Cigarette business, 5.0x EV/EBITDA to Agri, 4.0x EV/EBITDA Paper businesses, and 8.0x EV/Revenue to FMCG. Following the ITC Hotels demerger, we shift its valuation from EV/EBITDA to 40% of market capitalization, incorporating a 20% holding discount. Based on this, we revise our target price to INR 494 per share (previously: INR 520) with an upside potential of 15.6% over the CMP. Subsequently, we maintain our BUY rating on ITC Ltd.

MARKET DATA

Shares O/S (Mn)	12,511
Mkt Cap (INR Mn)	53,44,699
52 Wk H/L (INR)	529/399
Volume Avg (3m K)	14,684
Face Value (INR)	1
Bloomberg Code	ITC IN

SHARE PRICE PERFORMANCE



MARKET INFO

SENSEX	77,312
NIFTY	23,382

KEY FINANCIALS

Particulars (INR Mn)	FY23	FY24	FY25E	FY26E	FY27E
Net Sales (net of excise)	7,09,369	7,00,569	7,59,468	8,20,729	8,86,088
EBITDA	2,56,649	2,59,608	2,61,629	2,89,874	3,14,136
PAT	1,91,917	2,02,898	1,98,283	2,19,667	2,38,422
Adj PAT	1,91,188	2,02,919	1,98,313	2,19,667	2,38,422
Diluted EPS (INR)	15.5	16.2	15.9	17.6	19.1
Diluted Adj. EPS (INR)	15.4	16.2	15.9	17.6	19.1
EBITDA Margin (%)	36.2%	37.1%	34.4%	35.3%	35.5%
Adj. NPM (%)	27.0%	29.0%	26.1%	26.8%	26.9%

Source: Company, DevenChoksey Research

Cigarette segment volume improved while weak demand impacted FMCG

- ITC reported consolidated net sales of INR 203,500 Mn, reflecting 9.1% YoY growth (-5.5% QoQ). This growth was primarily driven by Agri and Cigarettes business, while the QoQ decline was due to seasonal weakness and lower discretionary spending.
- Cigarettes (42.1% of revenue):** Grew 7.8% YoY (+0.8% QoQ), supported by strategic market interventions, premium product offerings, volume-led growth (+6.0% YoY), and efforts to counter illicit trade.
- FMCG - Others (25.5% of revenue):** Increased 4.0% YoY, driven by strong demand for atta, snacks, dairy, and premium personal care products, but declined 2.8% QoQ due to seasonal softness, a high base effect in notebooks, and subdued demand. The segment faced severe inflationary pressures on key inputs, including edible oil, wheat, maida, potato, cocoa, and packaging materials.
- Agri Business (17.1% of revenue):** Grew 10.8% YoY, led by strong exports of leaf tobacco and value-added agri products, but declined 38.0% QoQ due to seasonality and lower wheat and rice exports.
- Paperboards, Paper & Packaging (10.1% of revenue):** Increased 3.1% YoY (+1.5% QoQ), driven by strong export demand, though impacted by low-priced Chinese imports, subdued domestic demand, and rising wood costs.
- Hotels:** Revenue grew 14.6% YoY, led by Retail, Wedding, and F&B segments. Following its demerger on 1st Jan'25, the business is now reported as a discontinued operation in the financial results.

SHARE HOLDING PATTERN (%)

Particulars	Dec-24	Sep-24	Jun-24
Promoters	0.0	0.0	0.0
FIIIs	40.2	40.5	40.5
DIIIs	44.9	44.6	44.0
Others	14.9	14.8	15.5
Total	100	100	100

*Based on the previous closing

*Note: All the market data is as of previous closing.

8.1%

Net Revenue CAGR between
FY24 and FY27E

5.5%

Adj. PAT CAGR between FY24
and FY27E

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Rising costs and mixed sector performance put pressure on margins

- Consolidated gross margin declined by 185bps YoY (+297bps QoQ), impacted by high food inflation and rising input costs, particularly leaf tobacco and wood.
- EBITDA stood at INR 63,619 Mn, reflecting 2.4% YoY growth (-2.9% QoQ). EBITDA margin contracted by 226bps YoY due to higher operating expenses, inflationary pressures on key raw materials (edible oil, wheat, maida, potato, cocoa, and packaging), and an unfavorable mix in Paperboards & Packaging. However, margin expanded by 108bps QoQ, supported by operational efficiencies and price optimization.

Segment-Wise EBIT Margin Performance

- **Cigarettes:** EBIT margin declined 183bps YoY (-101bps QoQ), impacted by sharp cost escalations in leaf tobacco.
- **FMCG - Others:** EBIT margin contracted 241bps YoY (-205bps QoQ), affected by inflationary headwinds in input costs.
- **Paperboards, Paper & Packaging:** EBIT margin dropped 500bps YoY (-192bps QoQ), due to subdued realizations and a continued surge in domestic wood prices.
- **Agri Business:** EBIT margin expanded 205bps YoY (+604bps QoQ), driven by strong growth in leaf tobacco and value-added agri exports (coffee, spices, etc.), along with strategic cost management initiatives, despite volatility in commodity prices.

Strategic Acquisition of Prasuma

- **Expansion into Frozen & Ready-to-Cook Foods:** ITC has signed definitive agreements to acquire Ample Foods Pvt. Ltd. and Meat and Spice Pvt. Ltd., owners of the Prasuma and Meatigo brands, expanding its presence in the frozen, chilled, and ready-to-cook food segments.
- **Product & Market Reach:** The acquisition strengthens ITC's Master Chef brand, making it a full-stack player in the category, with offerings including momos, baos, Korean fried chicken, raw meats, marinades, and cheese, available across online, offline, and D2C channels.
- **Phased Ownership Structure:** ITC will acquire 100% stake over three years, starting with a 43.8% stake by May'25, increasing to 62.5% by Apr'27E, and full ownership by Jun'28E, based on pre-agreed valuation terms.
- **Revenue & Market Presence:** AFPL reported revenue of INR 1,160 Mn in FY24, while MSPL posted INR 420 Mn. Prasuma Momo Kitchen, with 40 cloud kitchens across 100+ cities, has reached an annual revenue run rate of INR 2,000 Mn (based on the trailing three months).
- **Leadership Continuity:** CEO Lisa Suwal and COO Siddhant Wangdi will continue to lead operations for three years, with ITC's board representation, ensuring strategic alignment and business integration.

Key Press Release Highlights:

Cigarettes

- **Volume & Revenue Growth:** Cigarette volumes grew ~6.0% YoY, supported by a favorable base effect and steady demand.
- **Premiumization & Market Strategy:** Differentiated and premium offerings like Classic Connect and Gold Flake Social performed well. Strategic interventions in competitive markets and efforts to curb illicit trade reinforced ITC's market position.
- **Tax & Regulatory Developments:** Stable cigarette taxation and strict enforcement against illicit trade helped drive volume recovery, supporting domestic tobacco demand and government revenue. The Union Budget 2025 introduced a Track and Trace mechanism under the Central GST Act to further curb illicit cigarette trade.
- **Operational Efficiencies:** Trade marketing spending was restructured to improve last-mile execution and enhance focus on key markets, ensuring better product availability and market reach.

FMCG-Others

- **Key Growth Drivers:** Strong demand was seen in Atta, Spices, Snacks, Frozen Snacks, Dairy, Premium Personal Wash, Homecare, and Agarbatti, despite market challenges.
- **Inflation & Cost Pressures:** Rising costs of edible oil, wheat, maida, potato, cocoa, and packaging materials impacted margins. Cost management, calibrated pricing, and premiumization helped partially offset these pressures.
- **Competitive Landscape & Market Investments:** Competitive intensity remained high, particularly in Noodles, Snacks, Biscuits, and Popular Soaps, with local brands gaining traction. Despite inflationary headwinds, marketing investments were sustained to protect market share and brand positioning.
- **Emerging Channels & Market Execution:** E-commerce, quick commerce, and modern trade saw strong growth, supported by targeted business strategies and partnerships. ITC focused on product differentiation and premium offerings to counter rising competition.

Paperboards, Paper, and Packaging

- **Market Challenges:** The segment faced headwinds from low-priced Chinese imports, soft domestic demand, higher wood costs due to cyclonic rainfall, and increased competition affecting realizations.
- **Cost & Supply Chain Management:** ITC is addressing rising wood costs through plantation expansion, new area development, and satellite-based monitoring to ensure supply stability.
- **Strategic Focus & Export Growth:** Despite challenges, export growth remains strong, supported by market development and new business acquisitions. ITC reinforced its leadership in the VAP (Value added product) segment, with double-digit growth in the liquid packaging board, driven by competitive product offerings.
- **Mitigation Strategies:** The company is implementing portfolio augmentation, export market expansion, and structural cost management to navigate near-term challenges and sustain long-term growth.

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Agri

- **Key Growth Drivers:** Value-added agri exports saw robust demand, particularly in spices from the Guntur facility and coffee exports, benefiting from supply shortages in key origins.
- **Leaf Tobacco Expansion:** Leaf tobacco exports grew significantly, supported by new business development and agile execution.
- **Regulatory Constraints:** Stock limits and export restrictions on wheat continued to limit growth opportunities, while partial easing of rice export restrictions resulted in a strong order pipeline.
- **Strategic Sourcing & New Initiatives:** ITC's sourcing strategies played a crucial role in supporting its Foods and Cigarettes businesses. Meanwhile, the Nicotine Project is in advanced product trials, with export shipments expected to commence soon.

Hotels

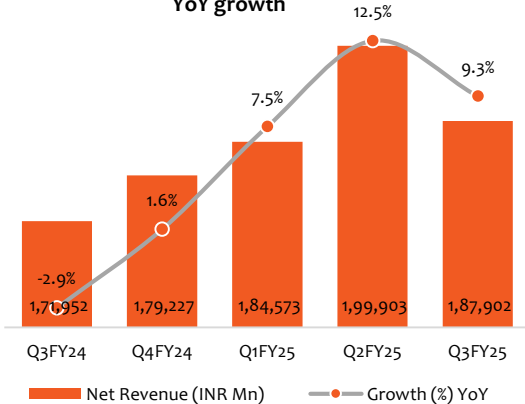
- **Revenue Growth & Demerger Impact:** The Hotels business grew 15.0% YoY to INR 9.2 Bn. Following its demerger on January 1, 2025, it is now reported as a discontinued operation in the financial results.
- **Expansion & New Signings:** ITC Hotels opened five properties with 330 keys during the quarter and signed 29 hotels over the past 12 months (Jan-Dec'24), reinforcing its growth strategy and brand presence.

Valuation and view

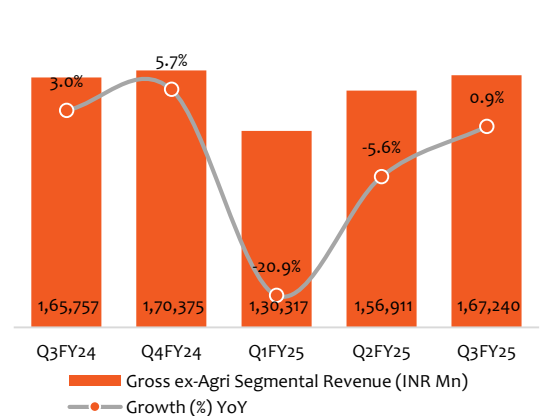
In Q3FY25, ITC delivered steady growth, driven by strong performance in the Cigarettes and Agri Business segments. The company continued to expand its presence in high-growth categories, such as frozen foods, through strategic acquisitions. However, rising input costs, particularly in FMCG and Paperboards, along with subdued domestic demand and pricing pressures, impacted margins. Inflationary headwinds and weak discretionary spending posed near-term challenges. Despite these headwinds, ITC's focus on premiumization, market expansion, and cost management positions it well for long-term sustainable growth.

We lower our FY26E/27E EPS estimates by 6.1%/7.5% due to the hotel business demerger, weak Q3FY25 performance, soft demand, and inflationary pressures. However, we remain positive on ITC's long-term outlook, supported by strong cigarette market share, robust FMCG execution, stable taxation, and rural demand recovery. Gradual urban demand revival, growing nicotine exports, and a low base in FMCG and Paperboards should drive growth in FY26E. We roll over our valuation to FY27E and adopt the SOTP approach for ITC, applying 13.0x EV/EBITDA to the Cigarette business, 5.0x EV/EBITDA to Agri, 4.0x EV/EBITDA Paper businesses, and 8.0x EV/Revenue to FMCG. Following the ITC Hotels demerger, we shift its valuation from EV/EBITDA to 40% of market capitalization, incorporating a 20% holding discount. Based on this, we revise our target price to INR 494 per share (previously: INR 520) with an upside potential of 15.6% over the CMP. Subsequently, we maintain our BUY rating on ITC Ltd.

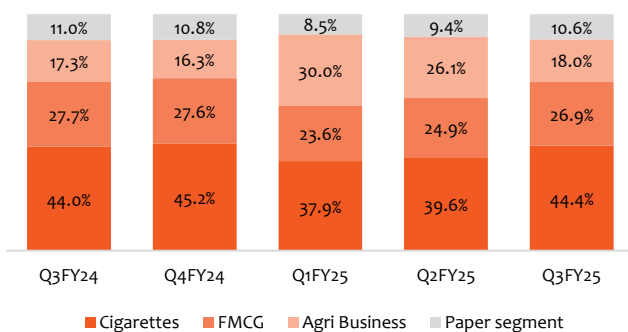
Cigarette and Agri business drove the overall revenue YoY growth



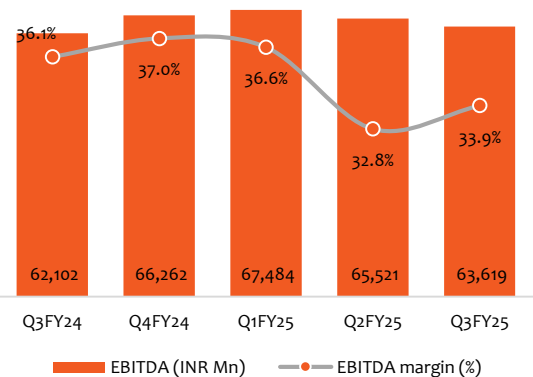
Excl. Agri, gross revenues remained muted YoY



Cigarettes and FMCG business enhanced product mix (%)



EBITDA Margin impacted YoY due to higher input cost



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CONSOLIDATED KEY FINANCIALS

Particulars (INR Mn)	Q3FY25	Q2FY25	Q3FY24	Q-o-Q	Y-o-Y	9MFY25	9MFY24	Y-o-Y
Gross Operating Revenue	2,03,500	2,15,364	1,86,604	(5.5%)	9.1%	6,12,364	5,53,298	10.7%
Net sales	1,87,902	1,99,903	1,71,952	(6.0%)	9.3%	5,65,583	5,08,941	11.1%
Total Expenditure	1,24,283	1,34,383	1,09,850	(7.5%)	13.1%	3,70,995	3,19,465	16.1%
Cost of Raw Materials	60,160	61,228	55,931	(1.7%)	7.6%	1,75,376	1,58,797	10.4%
Purchase of Stock	23,694	15,855	15,782	49.4%	50.1%	70,623	46,855	50.7%
Changes in Inventories	(4,219)	13,577	(2,016)	(131.1%)	109.3%	(3,586)	(961)	273.2%
Employee Cost	15,905	14,649	14,318	8.6%	11.1%	45,729	41,505	10.2%
Other Expenses	28,742	29,074	25,835	(1.1%)	11.3%	82,853	73,270	13.1%
EBITDA	63,619	65,521	62,102	(2.9%)	2.4%	1,94,588	1,89,476	2.7%
EBITDA Margins (%)	33.9%	32.8%	36.1%	108 bps	(226 bps)	34.4%	37.2%	(282 bps)
Depreciation	4,160	4,162	3,840	(0.0%)	8.3%	12,353	11,330	9.0%
EBIT	59,459	61,359	58,262	(3.1%)	2.1%	1,82,235	1,78,146	2.3%
Interest Expense	98	147	119	(33.3%)	(17.8%)	342	284	20.3%
Other Income	5,959	6,109	6,483	(2.5%)	(8.1%)	18,894	20,098	(6.0%)
PBT	65,320	67,320	64,625	(3.0%)	1.1%	2,00,788	1,97,960	1.4%
Exceptional Items	0	0	0	NA	NA	0	0	NA
Tax	17,263	17,571	12,280	(1.7%)	40.6%	52,096	46,259	12.6%
Share of Profit & MI	(743)	(574)	(683)	29.4%	8.8%	(2,333)	(2,079)	12.2%
PAT	47,314	49,176	51,663	(3.8%)	(8.4%)	1,46,359	1,49,623	(2.2%)
PAT Margin	25.2%	24.6%	30.0%	58 bps	(486 bps)	25.9%	29.4%	(352 bps)
Profit from Discontinued operations (Demerged of ITC Hotels)	2,034	753	1,689	170.2%	20.4%	3,834	3,760	2.0%
Adjusted PAT	49,348	49,929	53,352	(1.2%)	(7.5%)	1,50,193	1,53,382	(2.1%)
Adj. PAT Margin	26.3%	25.0%	31.0%	129 bps	(476 bps)	26.6%	30.1%	(358 bps)
EPS	3.8	3.9	4.1	(3.8%)	(8.5%)	11.7	12.0	(2.4%)
Adj. EPS	3.9	4.0	4.3	(1.2%)	(7.5%)	11.7	12.0	(2.3%)

Source: Company, DevenChoksey Research

ITC Ltd.

KEY FINANCIALS

Exhibit 1: Profit & Loss Statement

INR Mn	FY23	FY24	FY25E	FY26E	FY27E
Revenues	7,09,369	7,00,569	7,59,468	8,20,729	8,86,088
COGS	2,90,058	2,71,751	3,21,251	3,34,153	3,58,168
Gross profit	4,19,311	4,28,818	4,38,217	4,86,576	5,27,920
Employee cost	57,362	59,797	63,186	71,481	77,180
Other expenses	1,05,299	1,09,413	1,13,402	1,25,222	1,36,604
EBITDA	2,56,649	2,59,608	2,61,629	2,89,874	3,14,136
EBITDA Margin	36.2%	37.1%	34.4%	35.3%	35.5%
D&A	18,090	17,410	18,371	24,201	28,213
EBIT	2,38,559	2,42,198	2,43,258	2,65,672	2,85,923
Interest expense	432	443	487	487	590
Other income	19,805	27,193	27,956	28,403	29,744
PBT	2,58,661	2,68,927	2,70,696	2,93,588	3,15,077
Tax	64,384	63,349	69,632	71,467	73,991
Minority interest	(2,360)	(2,679)	(2,781)	(2,453)	(2,664)
PAT	1,91,917	2,02,898	1,98,283	2,19,667	2,38,422
Adj. PAT	1,91,188	2,02,919	1,98,313	2,19,667	2,38,422
EPS (INR)	15.5	16.2	15.9	17.6	19.1
Adj. EPS	15.4	16.2	15.9	17.6	19.1

Exhibit 3: Cash Flow Statement

INR Mn	FY23	FY24	FY25E	FY26E	FY27E
CFFO	1,88,776	1,71,789	1,90,497	2,40,298	2,57,417
CFFI	(57,323)	15,628	(27,969)	(38,436)	(50,696)
CFFF	(1,30,060)	(1,85,510)	(1,58,333)	(1,86,717)	(2,02,659)
Net Inc/Dec in cash	1,392	1,907	4,195	15,145	4,063
Opening Cash	2,667	4,059	5,966	10,161	25,306
Closing Cash	4,059	5,966	10,161	25,306	29,369

Exhibit 4: Key Ratios

Key Ratio	FY23	FY24	FY25E	FY26E	FY27E
EBITDA Margin (%)	36.2%	37.1%	34.4%	35.3%	35.5%
Tax rate (%)	24.9%	23.6%	25.7%	24.3%	23.5%
Net Profit Margin (%)	27.1%	29.0%	26.1%	26.8%	26.9%
RoE (%)	27.6%	27.1%	25.1%	26.6%	27.5%
RoCE (%)	34.3%	32.3%	30.7%	32.1%	33.0%
EPS (INR)	15.5	16.2	15.9	17.6	19.1
PE	27.6x	26.2x	26.9x	24.3x	22.4x

Source: Company, DevenChoksey Research

Exhibit 2: Balance Sheet

INR Mn	FY23	FY24	FY25E	FY26E	FY27E
Equity					
Equity Capital	12,428	12,485	12,485	12,485	12,485
Other Equity	6,82,960	7,36,415	7,79,047	8,14,666	8,53,325
Total Equity	6,95,388	7,48,900	7,91,532	8,27,150	8,65,809
Non-Current Liabilities					
Borrowings	35	18	18	18	18
Lease liabilities	2,134	2,306	2,306	2,306	2,306
Other Current Liabilities	23,879	30,134	30,134	30,134	30,134
Total Non-Current Liabilities	26,048	32,458	32,458	32,458	32,458
Current Liabilities					
Borrowings	353	95	95	95	95
Lease liabilities	539	615	615	615	615
Trade Paybles	46,590	47,978	44,935	48,670	52,546
Other current liabilities	89,912	88,215	88,215	88,215	88,215
Total Current Liabilities	1,37,394	1,36,904	1,33,860	1,37,596	1,41,472
Total Liabilities	1,63,442	1,69,362	1,66,318	1,70,054	1,73,930
Non-Current Assets					
PPE	2,11,171	2,30,823	2,40,421	2,44,655	2,47,138
Investments	1,21,822	1,81,696	1,81,696	1,86,696	1,96,696
Other current assets	1,29,129	95,087	95,087	95,087	95,087
Total Non-Current Assets	4,62,121	5,07,606	5,17,204	5,26,438	5,38,921
Current Assets					
Inventories	1,17,712	1,41,529	1,67,309	1,74,028	1,86,535
Trade Receivables	29,562	40,258	40,567	43,822	47,305
Investments	1,73,758	1,30,944	1,30,944	1,35,944	1,45,944
Cash and Bank	4,634	6,259	10,161	25,306	29,369
Other current assets	71,044	91,665	91,665	91,665	91,665
Total Current Assets	3,96,709	4,10,655	4,40,646	4,70,766	5,00,818
Total Assets	8,58,830	9,18,262	9,57,850	9,97,204	10,39,739

KRChoksey Research

is also available on Bloomberg KRCS<GO>
Thomson Reuters, Factset and Capital IQ

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ITC Ltd.

ITC Ltd.

Date	CMP (INR)	TP(INR)	Recommendation
11-Feb-24	427	494	BUY
28-Jan-24	435	520	BUY
25-Oct-24	482	534	BUY
13-Aug-24	495	545	ACCUMULATE
29-May-24	431	517	BUY
30-Jan-24	438	533	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, **Dipak Saha** (MBA, 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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CIN-U67120MH1997PTC108958

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