


Inline Numbers; Maintain BUY
Est. vs. Actual for Q1FY25: Revenue – **BEAT**; EBITDA – **INLINE**; PAT – **INLINE**
Changes in Estimates post Q1FY25
FY25E/FY26E: Revenue: -1%/-2%; EBITDA: -2%/-3%; PAT: -1%/-2%

Recommendation Rationale

- **Inline Numbers:** The company's Q1FY25 overall results were in line with estimates. This was due to broad performance across segments: Cigarettes (up 6% YoY, ~2-3% volume growth), FMCG (up 6% YoY), and Hotel (up 11% YoY). However, after a subdued performance over the last few quarters, the agri and paperboard businesses grew 22% YoY, driven by value-added agri products, leaf tobacco, and wheat, while the paperboard business continued to be impacted. EBITDA remained flat, up 1%, due to higher tobacco prices and a subdued paperboard business.
- **Long-term growth outlook remains strong:** We believe ITC's long-term growth outlook remains strong as most businesses (excluding Paper) are on track with 1) Growth in cigarette volumes remaining stable, led by differentiated and premium offerings; 2) The FMCG business reaching its inflexion point as EBIT margins continue to increase, driven by the ramp-up in outlet coverage, effective implementation of localization strategy, premiumization, use of demand and supply-side technologies, and moderating raw material input costs; and 3) The demerger of the hotel business, which will strengthen ITC's balance sheet and improve return ratios. Additionally, the reasonable valuations provide a margin of safety.

Sector Outlook: Positive

Company Outlook & Guidance: We have tweaked our FY25/FY26 estimates marginally to account for volatile input costs and continued pressure on the paper and paperboard business. However, we maintain our BUY rating on the stock as we roll our estimates to Jun'26 EPS.

Current Valuation: 27x Jun'26 EPS (Earlier Valuation: 27x Jun'26 EPS).

Current TP: Rs 550/share (Earlier TP: Rs 500/share).

Recommendation With an upside potential of 12% from the CMP, we **maintain** our BUY rating on the stock.

Financial Performance: The company's Q1FY25 overall results were in line with estimates. This was due to broad performance across segments (excluding paperboard). Net revenue grew by 7.5% YoY to Rs 16,858 Cr. Cigarette revenue grew 6% YoY (~2-3% volume growth), FMCG revenue grew ~6% YoY, led by broad-based growth across categories despite subdued demand conditions. The Hotel business maintained its stellar performance, with revenue up by 11% YoY. Additionally, the Agribusiness showed strong growth, up 22% YoY after a subdued performance in the last several quarters, driven by value-added agri products, leaf tobacco, and wheat. Gross margins stood at 57.4%, down 172 bps YoY, while EBITDA remained flat at 1% YoY. EBITDA margins stood at 37.3% (down by 253 bps YoY) due to subdued performance in the paperboard business and higher tobacco leaf prices. The reported PAT was Rs 4,917 Cr (flat YoY).

Cigarettes (~80% of EBIT): ITC's cigarette revenue growth was strong at 6% YoY (2-3% volume growth), while EBIT grew 6.5% YoY. EBIT margins remained flat at 62.6% despite higher tobacco prices, which were mitigated through an improved mix, calibrated price hikes, and strategic cost savings.

Outlook: We believe ITC's long-term growth outlook remains intact. Further, the stock is currently trading at 25x FY26E EPS, and a 3-4% dividend yield provides a margin of safety compared to its peers. Valuations of other larger players (HUL/Nestlé) stand elevated, which makes ITC a better play on a long-term basis.

Valuation & Recommendation: We have tweaked our FY25/FY26 estimates marginally to account for volatile input costs and continued pressure on the paper and paperboard business. However, we maintain our BUY rating on the stock as we roll our estimates to Jun'26 EPS.

Key Financials (Standalone)

(Rs Cr)	Q1FY25	QoQ (%)	YoY (%)	Axis Est.	Variance (%)
Net Sales	16,858	2.8	7.5	16,538	1.9
EBITDA	6,295	2.2	0.7	6,349	-0.8
EBITDA Margin (%)	37.3	-24 bps	-253 bps	38.4	-104 bps
Net Profit	4,917	-2.0	0.3	4,982	-1.3
EPS (Rs)	3.9	-2.0	-0.1	4.0	-1.3

Source: Company, Axis Research

(CMP as of 2nd Aug'24)

CMP (Rs)	493
Upside /Downside (%)	12%
High/Low (Rs)	510/399
Market cap (Cr)	6,17,328
Avg. daily vol. (6m)Shrs.'000	22,395
No. of shares (Cr)	1250

Shareholding (%)

	Dec-23	Mar-24	June-24
Promoter	0.0	0.0	0.0
FIIs	43.3	41.0	40.5
MFs / UTI	9.7	11.6	11.9
Banks / FIs	7.9	7.9	7.9
Others	39.2	39.6	39.7

Financial & Valuations

Y/E Mar (Rs Cr)	FY25E	FY26E	FY27E
Net Sales	70,587	77,317	84,773
EBITDA	26,627	29,257	32,230
Net Profit	22,268	24,517	27,062
EPS (Rs.)	17.8	19.6	21.7
PER (x)	27.6	25.1	22.7
EV/EBITDA (x)	22.3	20.1	18.0
P/BV (x)	8.0	7.3	6.6
ROE (%)	28.9	29.2	28.9

Change in Estimates (%)

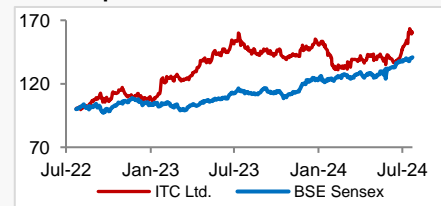
Y/E Mar	FY25E	FY26E
Sales	-1%	-2%
EBITDA	-2%	-3%
PAT	-1%	-2%

ESG disclosure Score**

Environmental Disclosure	61.91
Social Disclosure Score	38.81
Governance Disclosure Score	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(others)** – The company’s FMCG business delivered a resilient performance amidst subdued demand conditions. Segment revenue was up by 6% YoY, led by broad-based growth across categories. Reported EBIT margins stood at 8.7% (EBITDA up 25 bps to 11.3%).
- **Hotels** – The Hotels division maintained strong performance, up 11% YoY despite fewer wedding dates and the impact of extreme heatwaves/elections on domestic travel and out-of-home dining. EBIT grew 12%, while margins improved by 13bps YoY to 29.7%, albeit on a higher base. ITC Ratnadipa (the company’s first international property) opened in Apr’24 in Colombo, Sri Lanka. Currently, 225 rooms are operational with steady occupancy.
- **Agri** – The Agribusiness grew 22% YoY after a subdued performance in the last several quarters, driven by value-added agri products, leaf tobacco, and wheat.
- **Paperboards** – Revenues declined by 7% YoY, owing to subdued domestic demand, an increase in domestic wood prices, and increased competitive intensity from cheaper Chinese players.

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	
	FY25E	FY26E	FY25E	FY26E	FY25E	FY26E
Revenue	71,448	78,903	70,587	77,317	-1%	-2%
EBITDA	27,159	30,274	26,627	29,257	-2%	-3%
PAT	22,586	25,082	22,268	24,517	-1%	-2%
EPS	18.1	20.1	17.8	19.6	-1%	-2%

Source: Company, Axis Securities

Results Review

(Rs Cr)	Q1FY24	Q4FY24	Axis Sec Est.	Q1FY25	YoY growth %	QoQ growth %	Axis Sec Est. Var (%)
Volume growth est. (% yoy)	8.0	1.0	2.0	2.0	-600 bps	100 bps	
Net sales	15,676	16,398	16,538	16,858	7.54	2.80	1.9
Other operating Income	153	181	183	143	(6.59)	(21.34)	(22.1)
Gross Profits	9,260	9,745	9,758	9,669	4.42	(0.78)	(0.9)
Gross Margin (%)	59.1	59.4	59.0	57.4	-172 bps	-207 bps	-164 bps
Staff costs	904	969	994	998	10.40	2.93	0.4
Other operating expenses	2,259	2,794	2,598	2,518	11.49	(9.87)	(3.0)
EBITDA	6,250	6,163	6,349	6,295	0.73	2.16	(0.8)
EBITDA margin (%)	39.9	37.6	38.4	37.3	-253 bps	-24 bps	-104 bps
Other Income	709	799	815	701	(1.05)	(12.19)	(14.0)
Interest	11	12	12	11	3.92	(8.09)	(9.0)
Depreciation	402	415	420	431	7.05	3.73	2.7
PBT	6,546	6,534	6,732	6,555	0.14	0.32	(2.6)
Tax	1,643	1,512	1,750	1,634	(0.52)	8.12	(6.6)
Tax rate (%)	25.1	23.1	26.0	24.9	-17 bps	180 bps	
Reported PAT	4,903	5,020	4,982	4,917	0.30	(2.05)	(1.3)
Reported EPS	3.9	4.0	4.0	3.9	(0.06)	(2.05)	(1.3)

Source: Company, Axis Securities

Segmental Performance

Segment Revenue	Q1FY24	Q4FY24	Q1FY25	YoY%	QoQ (%)
Cigarette	7,465	7,925	7,918	6.1%	-0.1%
Other FMCG	5,166	5,300	5,491	6.3%	3.6%
Hotel	600	898	666	10.9%	-25.9%
AgriBusiness	5,705	3,101	6,973	22.2%	124.9%
Paper Board	2,121	2,073	1,977	-6.8%	-4.6%
Total	21,058	19,297	23,025	9.3%	19.3%

% Revenue Contribution	Q1FY24	Q4FY24	Q1FY25	YoY%	QoQ (%)
Cigarette	35.5%	41.1%	34.4%	-106bps	-668bps
Other FMCG	24.5%	27.5%	23.8%	-68bps	-362bps
Hotel	2.9%	4.7%	2.9%	4bps	-176bps
AgriBusiness	27.1%	16.1%	30.3%	319bps	1422bps
Paper Board	10.1%	10.7%	8.6%	-149bps	-216bps

Segment EBIT	Q1FY24	Q4FY24	Q1FY25	YoY%	QoQ (%)
Cigarette	4,656	4,923	4,960	6.5%	0.7%
Other FMCG	431	477	476	10.4%	-0.3%
Hotel	131	267	146	11.5%	-45.2%
AgriBusiness	356	203	356	0.0%	75.7%
Paper Board	472	293	261	-44.7%	-10.9%

Segment EBIT Margin %	Q1FY24	Q4FY24	Q1FY25	YoY%	QoQ (%)
Cigarette	62.4%	62.1%	62.6%	27bps	51bps
Other FMCG	8.3%	9.0%	8.7%	33bps	-34bps
Hotel	21.9%	29.7%	22.0%	13bps	-775bps
AgriBusiness	6.2%	6.5%	5.1%	-114bps	-143bps
Paper Board	22.3%	14.2%	13.2%	-906bps	-93bps

Source: Company, Axis Securities

Financials (Standalone)

Profit & Loss

(Rs Cr)

Y/E Mar	FY24	FY25E	FY26E	FY27E
Net sales	64,782	70,587	77,317	84,773
Growth, %	(1)	9	10	10
Other operating income	659	725	797	877
Total income	65,441	71,312	78,115	85,650
Raw material expenses	(26,982)	(29,680)	(32,352)	(35,263)
Employee expenses	(3,732)	(4,105)	(4,516)	(4,968)
Other Operating expenses	(10,248)	(10,900)	(11,990)	(13,189)
EBITDA (Core)	24,479	26,627	29,257	32,230
Growth, %	2	9	10	10
Margin, %	38	38	38	38
Depreciation	(1,648)	(1,780)	(1,902)	(2,023)
EBIT	22,831	24,847	27,355	30,207
Growth, %	2	9	10	10
Margin, %	35	35	35	36
Interest paid	(46)	(46)	(47)	(47)
Other Income	3,538	3,892	4,281	4,709
Non-recurring Items	(8)	-	-	-
Pre-tax profit	26,316	28,693	31,590	34,869
Tax provided	(5,894)	(6,424)	(7,073)	(7,807)
Profit after tax	20,422	22,268	24,517	27,062
Others (Minorities, Associates)	-	-	-	-
Unadj. shares (Cr)	1,248	1,248	1,248	1,248
Wtd avg shares (Cr)	1,248	1,248	1,248	1,248

Source: Company, Axis Securities

Balance Sheet

(Rs Cr)

As at 31st Mar,	FY24	FY25E	FY26E	FY27E
Cash & bank	6,218	9,187	14,367	22,089
Marketable securities at cost	11,917	11,917	11,917	11,917
Debtors	3,311	3,608	3,952	4,333
Inventory	12,632	13,764	15,076	16,530
Loans & advances	9	9	9	9
Other current assets	1,984	1,984	1,984	1,984
Total current assets	36,071	40,469	47,305	56,862
Investments	22,822	22,822	22,822	22,822
Gross fixed assets	37,304	39,904	42,504	45,104
Less: Depreciation	(11,561)	(13,340)	(15,242)	(17,265)
Add: Capital WIP	1,087	1,087	1,087	1,087
Net fixed assets	26,830	27,650	28,349	28,926
Non-current assets	1,605	1,605	1,605	1,605
Total assets	87,328	92,546	1,00,081	1,10,214
Current liabilities	11,656	12,064	12,538	13,062
Provisions	981	1,001	1,024	1,050
Total current liabilities	12,637	13,065	13,562	14,112
Non-current liabilities	2,457	2,457	2,457	2,457
Total liabilities	15,094	15,523	16,019	16,569
Paid-up capital	1,248	1,248	1,248	1,248
Reserves & surplus	70,985	75,775	82,813	92,396
Shareholders' equity	72,233	77,023	84,061	93,645
Total equity & liabilities	87,328	92,546	1,00,081	1,10,214

Source: Company, Axis Securities

Cash Flow

(Rs Cr)

Y/E Mar	FY24	FY25E	FY26E	FY27E
Pre-tax profit	26,316	28,693	31,590	34,869
Depreciation	1,648	1,780	1,902	2,023
Chg in working capital	280	(1,000)	(1,160)	(1,285)
Total tax paid	(5,447)	(6,424)	(7,073)	(7,807)
Other operating activities	-	-	-	-
Cash flow from operating activities	22,796	23,048	25,259	27,801
Capital expenditure	(2,607)	(2,600)	(2,600)	(2,600)
Chg in investments	(6,458)	-	-	-
Chg in marketable securities	4,440	-	-	-
Other investing activities	-	-	-	-
Cash flow from investing activities	(4,626)	(2,600)	(2,600)	(2,600)
Free cash flow	18,170	20,448	22,659	25,201
Equity raised/(repaid)	38,327	4,790	7,038	9,584
Debt raised/(repaid)	(2)	-	-	-
Dividend (incl. tax)	(17,163)	(17,479)	(17,479)	(17,479)
Cash flow from financing activities	21,163	(12,689)	(10,440)	(7,895)
Net chg in cash	39,333	7,759	12,219	17,306
Opening cash balance	3,831	6,218	9,187	14,367
Closing cash balance	6,218	9,187	14,367	22,089

Source: Company, Axis Securities

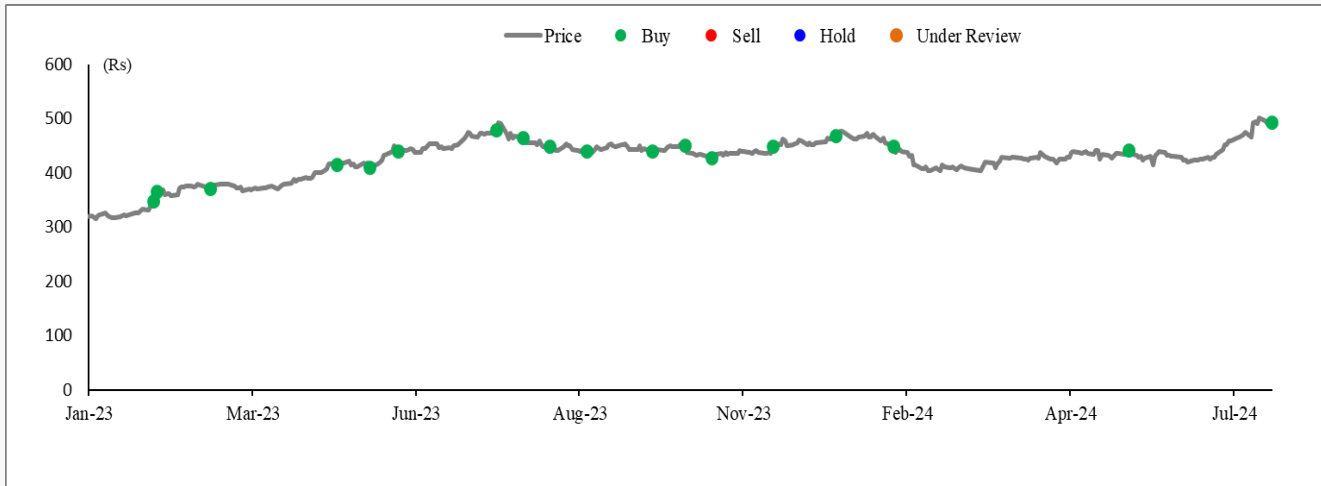
Ratio Analysis

(%)

	FY24	FY25E	FY26E	FY27E
Per Share data				
EPS (INR)	16.4	17.8	19.6	21.7
Growth, %	8.9	9.0	10.1	10.4
Book NAV/share (INR)	57.9	61.7	67.3	75.0
FDEPS (INR)	16.4	17.8	19.6	21.7
CEPS (INR)	17.7	19.3	21.2	23.3
CFPS (INR)	12.8	15.3	16.8	18.5
DPS (INR)	13.7	14.0	14.0	14.0
Return ratios				
Return on assets (%)	24.1	24.8	25.5	25.8
Return on equity (%)	28.3	28.9	29.2	28.9
Return on capital employed (%)	28.3	28.9	29.5	29.6
Turnover ratios				
Asset turnover (x)	2.1	2.1	2.2	2.3
Sales/Total assets (x)	0.8	0.8	0.8	0.8
Sales/Net FA (x)	2.5	2.6	2.8	3.0
Working capital/Sales (x)	0.1	0.1	0.1	0.1
Receivable days	18.7	18.7	18.7	18.7
Inventory days	71.2	71.2	71.2	71.2
Payable days	40.0	40.0	40.0	40.1
Working capital days	31.1	33.8	36.5	38.9
Liquidity ratios				
Current ratio (x)	2.9	3.2	3.6	4.1
Quick ratio (x)	1.9	2.1	2.4	2.9
Valuation				
PER (x)	30.1	27.6	25.1	22.7
PEG (x) - y-o-y growth	3.4	3.1	2.5	2.2
Price/Book (x)	8.5	8.0	7.3	6.6
EV/Net sales (x)	9.2	8.4	7.6	6.9
EV/EBITDA (x)	24.4	22.3	20.1	18.0
EV/EBIT (x)	26.2	23.9	21.5	19.3

Source: Company, Axis Securities

ITC Ltd Price Chart and Recommendation History



Date	Reco	TP	Research
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
01-Sep-23	BUY	540	Top Picks
03-Oct-23	BUY	540	Top Picks
20-Oct-23	BUY	540	Result Update
01-Nov-23	BUY	540	Top Picks
01-Dec-23	BUY	540	Top Picks
01-Jan-24	BUY	540	Top Picks
30-Jan-24	BUY	500	Result Update
24-May-24	BUY	500	Result Update
02-Aug-24	BUY	550	Result Update

Source: Axis Securities

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Ratings	Expected absolute returns over 12 – 18 months
BUY	More than 10%
HOLD	Between 10% and -10%
SELL	Less than -10%
NOT RATED	We have forward looking estimates for the stock, but we refrain from assigning valuation and recommendation.
UNDER REVIEW	We will revisit our recommendation, valuation and estimates on the stock following recent events
NO STANCE	We do not have any forward-looking estimates, valuation or recommendation for the stock

Note: Returns stated in the rating scale are our internal benchmark.

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