FMCG Business Underpins Overall Growth; Maintain HOLD

Changes in Estimates post Q3FY26

FY26E/FY27E: Revenue: -4%/-6%; **EBITDA:** -13%/-14%; **PAT:** -12%/-12%

Recommendation Rationale

- **Business Vertical Performance:** ITC reported a 6.2% YoY growth in revenue during Q3FY26, largely driven by double-digit revenue growth in FMCG-Others (+12.6%) and sustained momentum in the Cigarettes business (+8.2%). Moreover, Agri Business' revenue grew by 6.3% YoY, led by value-added Agri products and Leaf Tobacco. In paperboards, paper & packaging, revenue grew 2.7% YoY, with sequential profitability improved 19% QoQ and 11% YoY. The vertical was the impact of the planned shutdown for maintenance of the High Pressure Recovery Boiler & Paper machines. The packaging and printing business witnessed robust growth driven by both flexibles and cartons. The Business remains focused on accelerating new business development, offering innovative and customised solutions.
- **Gross Margins** improved by 70 bps YoY to 54.5%, owing to softening of selected raw material prices. EBITDA grew by 7.6% YoY, and EBITDA margins improved by 46 bpsYoY to 35.1%.
- **Surge in Market Competition:** The unprecedented tax hike brings to an end a five-year period of relative stability during which the legal cigarette market had regained share, leading to market contraction. With legal prices now poised to rise sharply, the price arbitrage between tax-paid and smuggled brands is set to widen significantly. This widening gap is expected to drive meaningful volume migration towards other brands, potentially reversing several years of gains achieved by organised players. However, the company will continue to invest in its powerful trademarks and well-laddered product portfolio, innovation capacity, manufacturing excellence and integrated seed-to-smoke value chain.
- **Near-term Challenges to Remain in Focus:** We believe ITC's long-term growth trajectory remains intact, with non-cigarette business segments maintaining steady progress. Cigarette volumes will be impacted in the medium term due to an increase in the tax rate. The legal cigarette industry continues to engage with policymakers on taxation policies that balance the country's economic imperatives and tobacco control objectives. The government budgetary measures, the recent GST rate reduction, an expanding outlet network, localisation initiatives, and a continued premiumisation focus are expected to further drive overall growth in FY27.

Sector Outlook: Positive

Company Outlook & Guidance: Considering recent tax hikes in the cigarette business and volatility in commodity prices, we cut our growth estimates for FY26/FY27 but remain positive on medium- to long-term growth.

Current Valuation: **22x Dec'27 EPS** (**Earlier Valuation: 22x Sep'27 EPS**).

Current TP: **Rs 340/share** (**Earlier TP: Rs 380/share**).

Recommendation: We maintain our **HOLD** rating on the stock with an upside potential of 7% from the CMP.

Financial Performance: ITC reported a revenue growth of 6.2% YoY during Q3FY26, largely driven by double-digit revenue growth in FMCG-Others (+12.6%) and sustained momentum in the Cigarettes business (+8.2%). Moreover, Agri Business revenue grew by 6.3% YoY, led by value-added Agri products and Leaf Tobacco. In paperboards, paper & packaging, revenue grew 2.7% YoY. Gross Margins improved by 70 bps YoY to 54.5%, owing to softening of selected raw material prices. EBITDA grew by 7.6% YoY, and EBITDA margins improved by 46 bps at 35.1%.

Outlook: We believe ITC's long-term growth outlook remains intact. The stock is currently trading at 20x FY28E EPS.

(CMP as of 29th January, 2026)

CMP (Rs)	319
Upside /Downside (%)	7%
High/Low (Rs)	472/318
Market cap (Cr)	3,99,33
Avg. daily vol. (6m) Shrs.'000	18,492
No. of shares (Cr)	1,254

Shareholding (%)

	Jun-25	Sep-25	Dec-25
Promoter	0.0	0.0	0.0
FIIs	38.0	37.4	36.1
MFs / UTI	13.8	14.3	16.2
Banks / FIs	7.9	7.9	7.9
Others	40.4	40.5	39.9

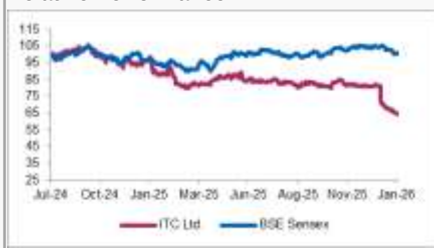
Financial & Valuations

Y/E Mar (Rs Cr)	FY25	FY26E	FY27E
Net Sales	68,552	71,092	74,714
EBITDA	24,025	21,409	22,416
Net Profit	19,564	17,874	18,829
EPS (Rs.)	15.6	14.3	15.0
PER (x)	20.4	22.4	21.2
EV/EBITDA (x)	15.8	17.9	17.1
P/BV (x)	5.9	5.9	5.7
ROE (%)	28.8	26.2	27.1

Change in Estimates (%)

Y/E Mar	FY26E	FY27E
Sales	-4%	-6%
EBITDA	-13%	-14%
PAT	-12%	-12%

Relative Performance



Source: Ace Equity, Axis Securities

Results Gallery

Q2FY26
Q1FY26
Q4FY25
Q3FY25

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Other Key Highlights

Segment-wise Performance

- **Cigarette Business:** Net revenue grew 8% YoY, supported by sustained momentum in premium and differentiated offerings. Focused portfolio interventions and enhanced execution across priority markets aided volume-led growth and helped counter illicit trade pressures. The company continued to strengthen last-mile distribution to reinforce market leadership. Leaf tobacco prices remained elevated, though procurement costs moderated in the ongoing crop cycle. The changes in GST and excise duty rates announced recently have led to an unprecedented increase in tax incidence on cigarettes. Such a steep increase will provide further impetus to illicit trade and cause immense hardship and loss to millions of farmers, MSMEs, retailers, local value chains nurtured by the industry and the Exchequer. The company will continue to invest in its powerful trademarks and well-laddered product portfolio, innovation capacity, manufacturing excellence, and integrated seed-to-smoke value chain.
- **FMCG (Others):** The segment posted 11.1% YoY revenue growth, led by strong traction in Staples, Dairy, Premium Personal Wash, and Agarbatti categories, along with continued acceleration in premium SKUs and NewGen channels. Prices of major commodities (i.e., edible oil, wheat, maida, cocoa, soap noodles, etc.) were largely stable during the quarter, while they remained elevated on a YoY basis. The notebooks category witnessed early signs of recovery amidst continued low-priced paper imports.
- **Agri Business:** Revenue grew 6.3% YoY in Q3FY26, led by value-added Agri products and Leaf Tobacco. This robust growth in value-added Agri products was driven by aqua and coffee; the strategic focus of the business continues to be on accelerating growth by rapidly scaling up its VAAP portfolio, straddling multiple value chains comprising Spices, Coffee, Frozen Marine Products and Processed Fruits, amongst others. The business continues to benefit from strong sourcing capabilities, advanced processing, and widening market access, while also providing key sourcing support to ITC's Branded Packaged Foods and Cigarettes businesses.
- **Paperboards Business:** Revenue grew 2.7% YoY, with sequential profitability improved 19% QoQ and 11% YoY. The industry continued to face pressure from low-priced imports, subdued pricing, and elevated wood costs. Nevertheless, proactive measures by the business over the past few years have led to improved wood availability. However, during the quarter, higher wood availability was partly offset by severe cyclones in the harvesting season, keeping wood prices elevated. Going forward, prices are expected to moderate. The Packaging and Printing Business continued to see robust growth, driven by both the Flexibles and Cartons portfolio. Overall revenue was also impacted by the planned shutdown for maintenance of the High-Pressure Recovery Boiler and Paper machines.

Key Risks to Our Estimates and TP

- Increased competitive intensity in Cigarettes, RM inflation, and the economic slowdown may impact Hotels and other cyclical businesses.

Change in Estimates

	Old		New		% Change	
	FY26E	FY27E	FY26E	FY27E	FY26E	FY27E
Revenue	73,715	79,400	71,092	74,714	-4%	-6%
EBITDA	24,735	25,931	21,409	22,416	-13%	-14%
PAT	20,376	21,474	17,874	18,829	-12%	-12%
EPS	16.3	17.1	14.3	15.0	-12%	-12%

Source: Company, Axis Securities

Results Review

(Rs Cr)	Q3FY25	Q2FY26	Axis Sec Est.	Q3FY26	YoY Growth (%)	QoQ Growth (%)	Axis Sec Est. Var (%)
Net sales	**16,818**	**17,788**	-	**17,858**	**6.2**	**0.4**	-
Other Operating Income	235	234	-	160	(32.0)	(31.7)	-
Gross Profits	**9,048**	**9,602**	-	**9,732**	**7.6**	**1.35**	-
Gross Margin (%)	**53.8**	**54.0**	-	**54.5**	**70 bps**	**51 bps**	-
Staff costs	868	873	-	903	4.0	3.33	-
Other operating expenses	2,587	2,710	-	2,717	5.06	0.26	-
EBITDA	**5,828**	**6,252**	-	**6,271**	**7.6**	**0.31**	-
EBITDA margin (%)	**34.7**	**35.1**	-	**35.1**	**46 bps**	**-3 bps**	-
Other Income	1,087	898	-	1,072	(1.35)	19.37	-
Interest	(8)	(16)	-	(15)	97.62	(5.79)	-
Depreciation	(362)	(371)	-	(369)	2.05	(0.40)	-
PBT	**6,546**	**6,763**	**-**	**6,959**	**6.31**	**2.89**	**-**
Tax	(1,652)	(1,672)	-	(1,596)	(3.39)	(4.51)	-
Tax rate (%)	-25.2	-24.7	-	-22.9	NA	NA	-
Reported PAT	**5,421**	**5,180**	-	**5,089**	**(6.1)**	**(1.76)**	-
Reported EPS	**4.3**	**4.1**	-	**4.3**	**(1.08)**	**3.53**	-

Source: Company, Axis Securities

Financials (Standalone)

Profit & Loss

(Rs Cr)

Y/E Mar	FY25	FY26E	FY27E	FY28E
Net sales	**68,552**	**71,092**	**74,714**	**78,700**
Growth, %	11	4	5	5
Other operating income	772	849	942	1,046
Total income	69,324	71,940	75,656	79,746
Raw material expenses	(31,736)	(35,544)	(37,321)	(39,187)
Employee expenses	(3,417)	(3,827)	(4,018)	(4,219)
Other Operating Expenses	(10,146)	(11,161)	(11,901)	(12,615)
EBITDA (Core)	**24,025**	**21,409**	**22,416**	**23,724**
Growth, %	2	(11)	5	6
Margin, %	35	30	30	30
Depreciation	(1,442)	(1,417)	(1,534)	(1,651)
EBIT	**22,583**	**19,991**	**20,881**	**22,073**
Growth, %	2	(11)	4	6
Margin, %	33	28	28	28
Interest paid	(36)	(37)	(37)	(37)
Other Income	3,454	3,800	4,180	4,598
Non-recurring Items	528	-	-	-
Pre-tax profit	**26,529**	**23,754**	**25,024**	**26,633**
Tax provided	(6,437)	(5,881)	(6,195)	(6,594)
Profit after tax	**20,092**	**17,874**	**18,829**	**20,040**
Others (Minorities, Associates)	-	-	-	-
Unadj. shares (Cr)	1,251	1,252	1,252	1,252
Wtd avg shares (Cr)	1,251	1,252	1,252	1,252

Source: Company, Axis Securities

Balance Sheet

(Rs Cr)

Y/E Mar	FY25	FY26E	FY27E	FY28E
Cash & bank	3,184	1,816	1,296	2,028
Marketable securities at cost	15,286	15,286	15,286	15,286
Debtors	3,911	4,056	4,262	4,490
Inventory	15,061	15,619	16,415	17,291
Loans & advances	9	9	9	9
Other current assets	2,305	2,305	2,305	2,305
Total current assets	39,756	39,091	39,573	41,408
Investments	20,701	20,701	20,701	20,701
Gross fixed assets	30,774	33,374	35,974	38,574
Less: Depreciation	(10,786)	(12,203)	(13,737)	(15,389)
Add: Capital WIP	1,071	1,071	1,071	1,071
Net fixed assets	21,059	22,242	23,307	24,256
Non-current assets	2,493	2,493	2,493	2,493
Total assets	**84,009**	**84,526**	**86,074**	**88,858**
Current liabilities	12,094	12,262	12,502	12,766
Provisions	1,253	1,261	1,273	1,286
Total current liabilities	13,347	13,524	13,775	14,052
Non-current liabilities	2,762	2,762	2,762	2,762
Total liabilities	16,109	16,285	16,537	16,814
Paid-up capital	1,251	1,251	1,251	1,251
Reserves & surplus	66,649	66,990	68,286	70,793
Shareholders’ equity	67,900	68,241	69,537	72,044
Total equity & liabilities	**84,009**	**84,526**	**86,074**	**88,858**

Source: Company, Axis Securities

Cash Flow (Rs Cr)

Y/E Mar	FY25	FY26E	FY27E	FY28E
Pre-tax profit	26,529	23,754	25,024	26,633
Depreciation	1,442	1,417	1,534	1,651
Chg in working capital	(3,962)	(526)	(751)	(826)
Total tax paid	(5,697)	(5,881)	(6,195)	(6,594)
Other operating activities	-	-	-	-
Cash flow from operating activities	**18,313**	**18,765**	**19,612**	**20,865**
Capital expenditure	4,329	(2,600)	(2,600)	(2,600)
Chg in investments	2,121	-	-	-
Chg in marketable securities	(3,369)	-	-	-
Other investing activities	-	-	-	-
Cash flow from investing activities	**3,081**	**(2,600)**	**(2,600)**	**(2,600)**
Free cash flow	21,393	16,165	17,012	18,265
Equity raised/(repaid)	(17,581)	48,077	1,296	2,507
Debt raised/(repaid)	(2)	-	-	-
Dividend (incl. tax)	(17,163)	(17,533)	(17,533)	(17,533)
Cash flow from financing activities	**(34,746)**	**30,544**	**(16,237)**	**(15,026)**
Net chg in cash	(13,352)	46,708	776	3,239
Opening cash balance	6,218	3,184	1,816	1,296
Closing cash balance	3,184	1,816	1,296	2,028

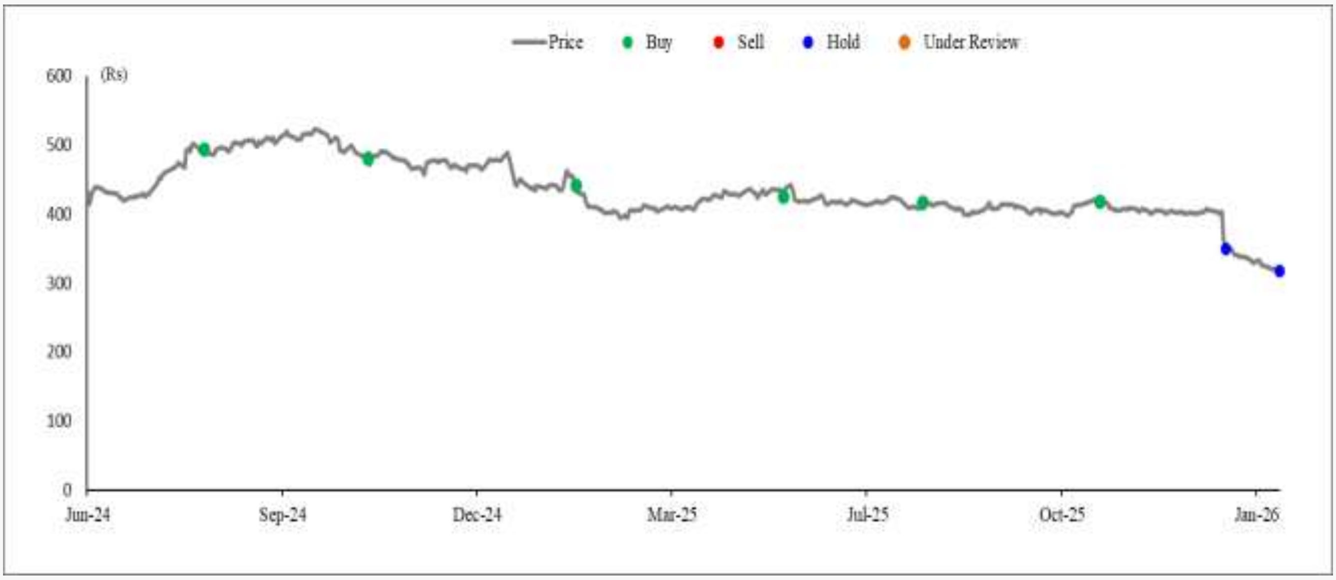
Source: Company, Axis Securities

Ratio Analysis (%)

	FY25	FY26E	FY27E	FY28E
Per Share data				
EPS (Rs)	15.6	14.3	15.0	16.0
Growth, %	(2.0)	(8.7)	5.3	6.4
Book NAV/share (Rs)	54.3	54.5	55.5	57.5
FDEPS (Rs)	15.6	14.3	15.0	16.0
CEPS (Rs)	16.4	15.4	16.3	17.3
CFPS (Rs)	12.6	11.9	12.3	13.0
DPS (Rs)	13.7	14.0	14.0	14.0
Return ratios				
Return on assets (%)	23.5	21.3	22.1	23.0
Return on equity (%)	28.8	26.2	27.1	27.8
Return on capital employed (%)	27.6	25.2	26.2	27.2
Turnover ratios				
Asset turnover (x)	2.2	2.3	2.3	2.3
Sales/Total assets (x)	0.8	0.8	0.9	0.9
Sales/Net FA (x)	2.9	3.3	3.3	3.3
Working capital/Sales (x)	0.1	0.1	0.1	0.1
Receivable days	20.8	20.8	20.8	20.8
Inventory days	80.2	80.2	80.2	80.2
Payable days	36.2	33.6	33.5	33.6
Working capital days	43.5	44.7	46.2	47.8
Liquidity ratios				
Current ratio (x)	3.0	2.9	2.9	3.0
Quick ratio (x)	1.9	1.8	1.7	1.7
Valuation				
PER (x)	20.4	22.4	21.2	19.9
PEG (x) YoY growth	(10.4)	(2.6)	4.0	3.1
Price/Book (x)	5.9	5.9	5.7	5.5
EV/Net sales (x)	5.6	5.4	5.1	4.9
EV/EBITDA (x)	15.8	17.9	17.1	16.1
EV/EBIT (x)	16.9	19.1	18.3	17.3

Source: Company, Axis Securities

ITC Ltd Price Chart and Recommendation History



Date	Reco	TP	Research
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
24-Oct-24	BUY	550	Result Update
07-Feb-25	BUY	510	Result Update
23-May-25	BUY	500	Result Update
04-Aug-25	BUY	490	Result Update
31-Oct-25	BUY	480	Result Update
02-Jan-26	HOLD	380	Company Update
30-Jan-26	HOLD	340	Result Update

Source: Axis Securities

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HOLD	Between 10% and -10%
SELL	Less than -10%
NOT RATED	We have forward-looking estimates for the stock, but we refrain from assigning a 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, valuations or recommendations for the stock.

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